



The
voice
of the
world's
airports

Planning for restart: Economic impact and projected recovery

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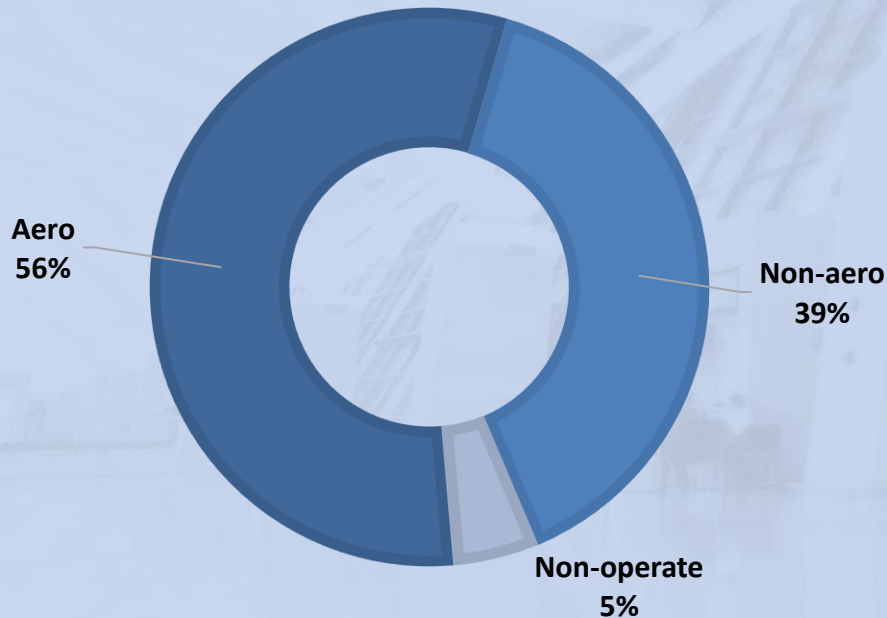
Roadmap

- Pre COVID-19 industry backdrop
- COVID-19 impact on industry/airports
- Consumer sentiment and passenger perceptions
- Predicted shape of the recovery
- Risk and resilience

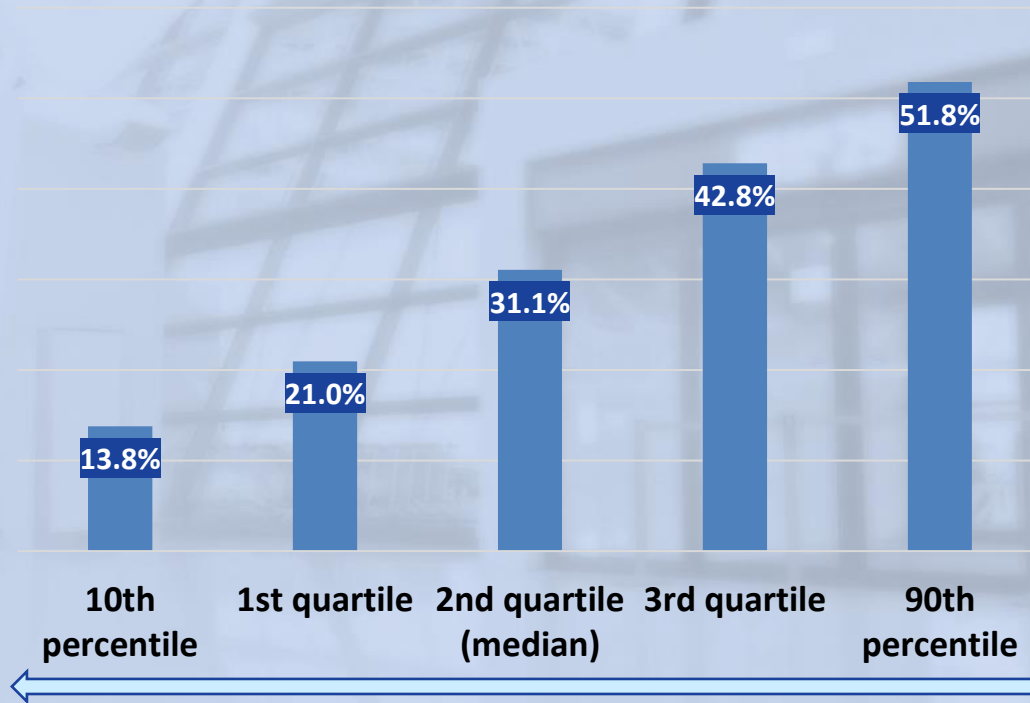
The way we were —

Airport non-aeronautical revenues — Size matters

Non-aero as a % of total revenues (2018)



Non-aero: 4.8% 10-year CAGR
Aero: 5.7% 10-year CAGR



*Small airports
<1 million pax*

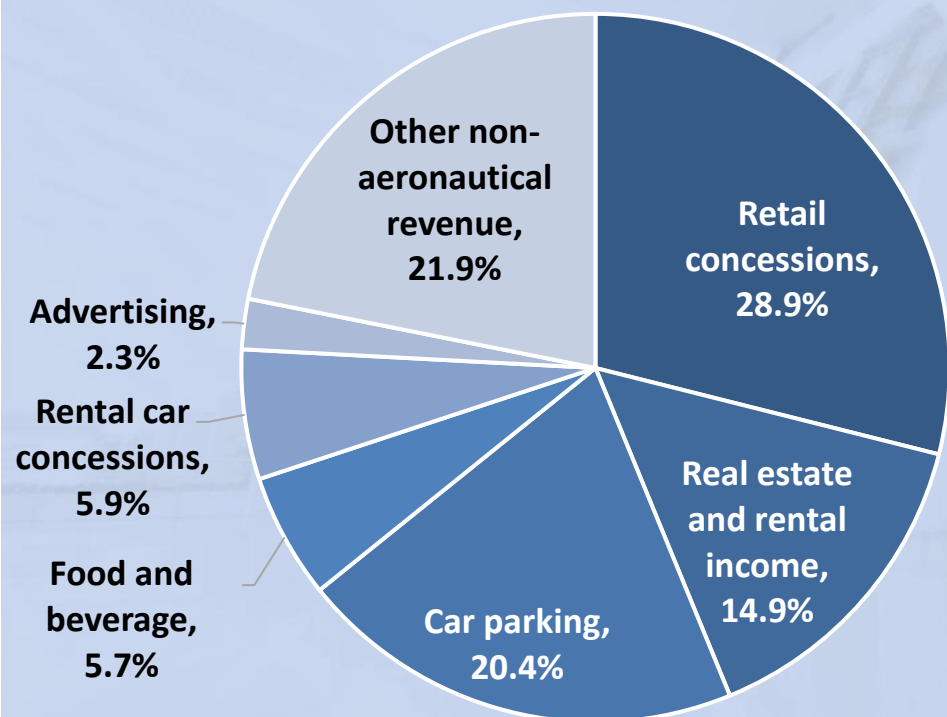
*World's largest hubs
>40 million pax*



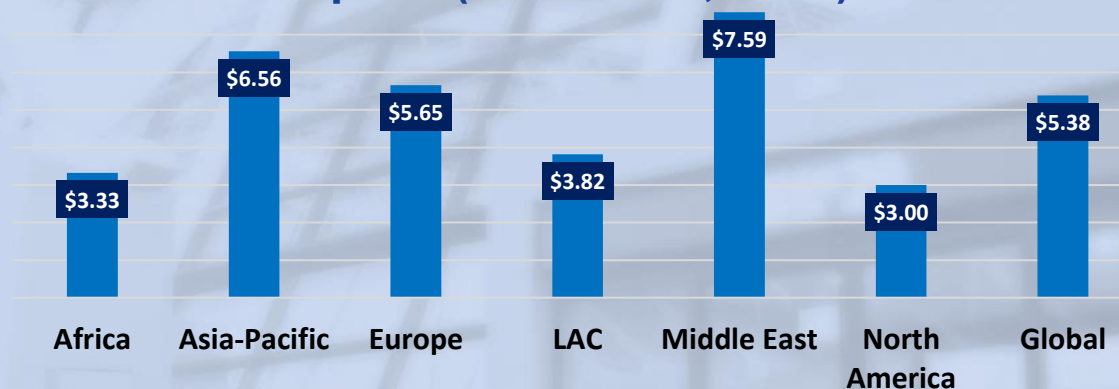
The way we were —

70% of retail concession revenues come from duty free

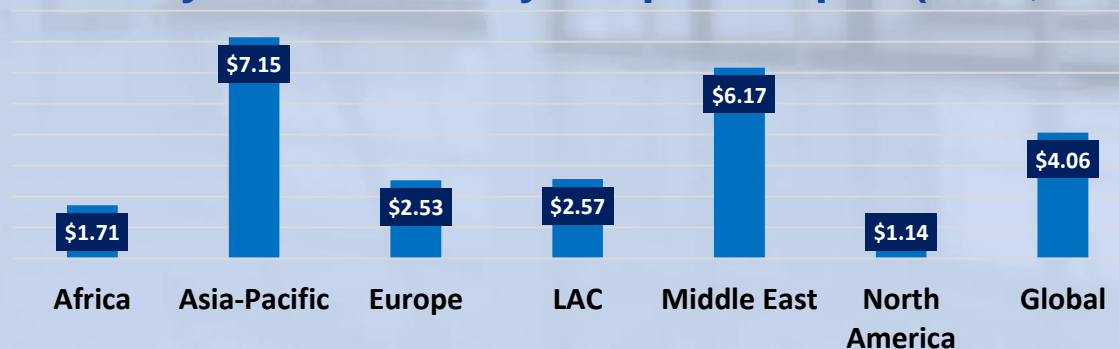
% of non-aero revenues
(2018)



Retail concession revenue per sq. meter of retail space ('000s USD, 2018)



Duty free revenue yield per intl pax (USD, 2018)



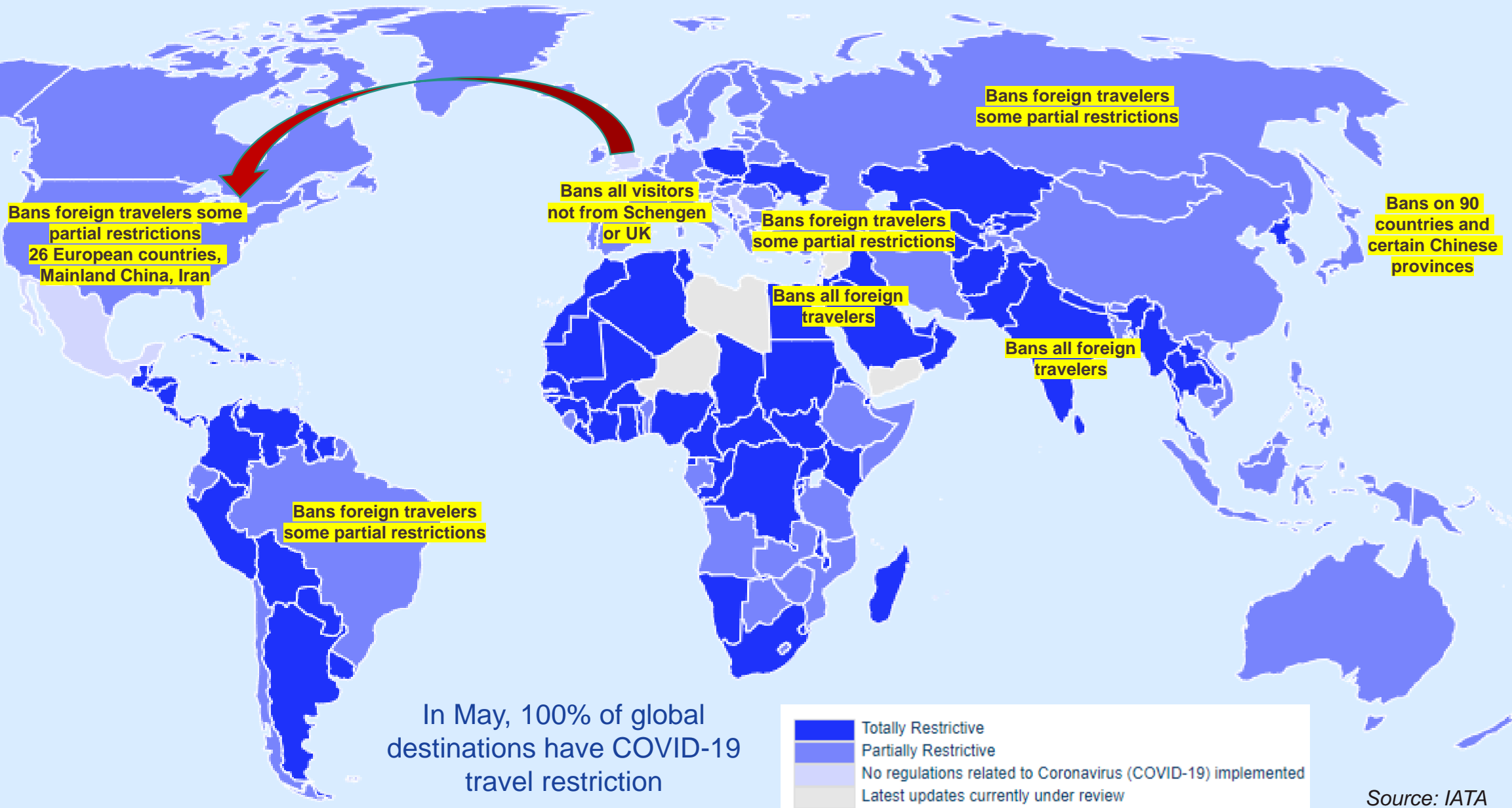
Source: ACI



Where are we now Q2 2020?



Supply side —



In May, 100% of global destinations have COVID-19 travel restriction

Source: IATA

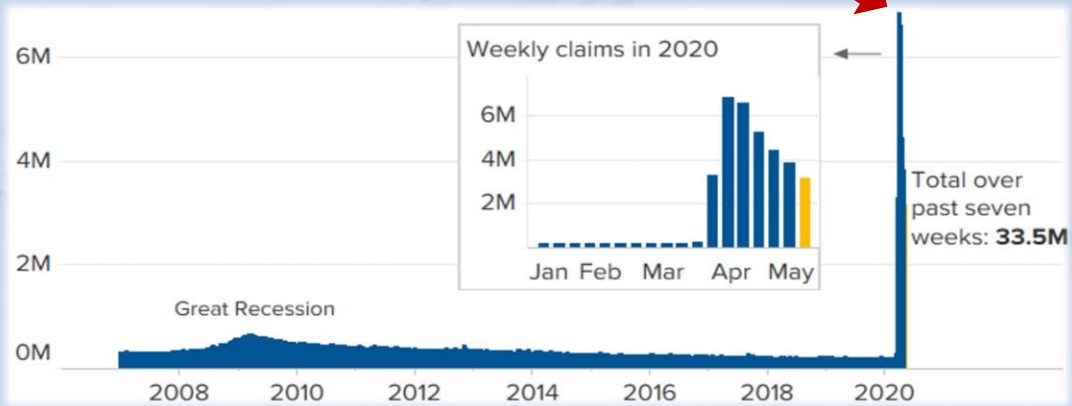
Demand side

Recession has begun...



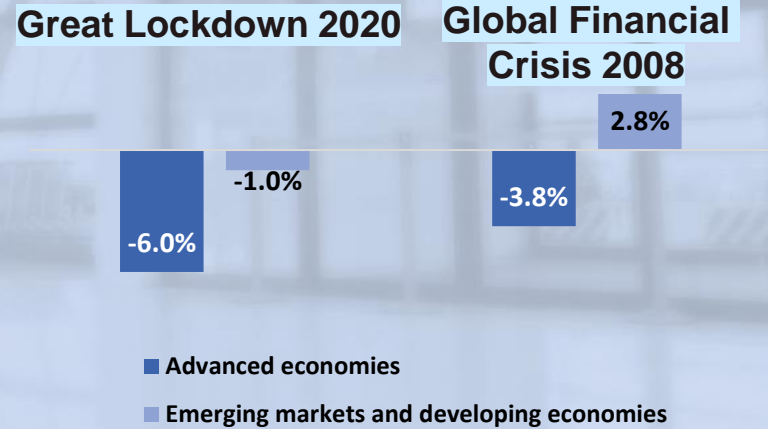
Leading indicator: Jobless claims

6.87 million jobless claims in a week — more than 10x the previous record set in 1982



Source: US Department of Labor

Lagging indicator: GDP —projected output growth



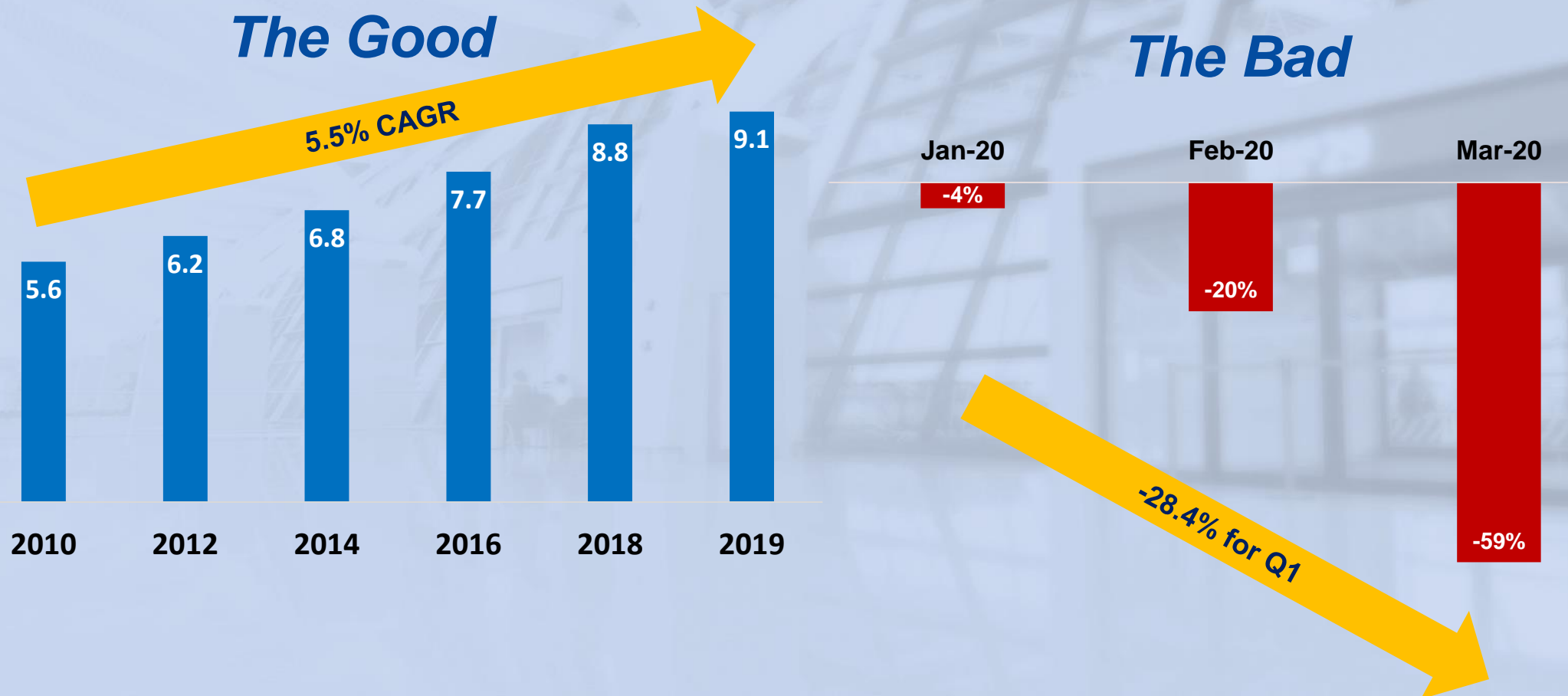
Source: IMF



What is the impact on the airport sector?

Airport passenger traffic

Pre-2020 and 2020 Q1
(compared to forecasted baseline)

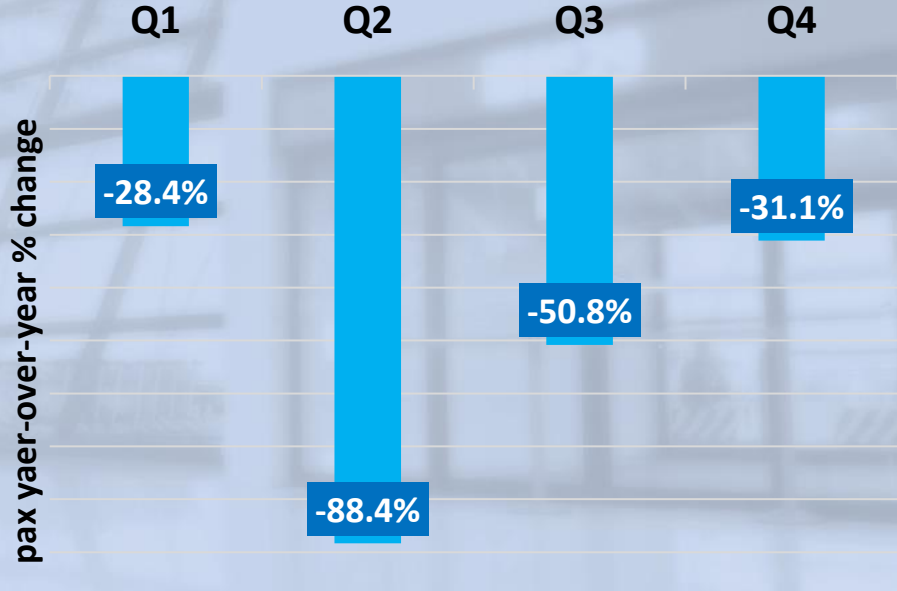
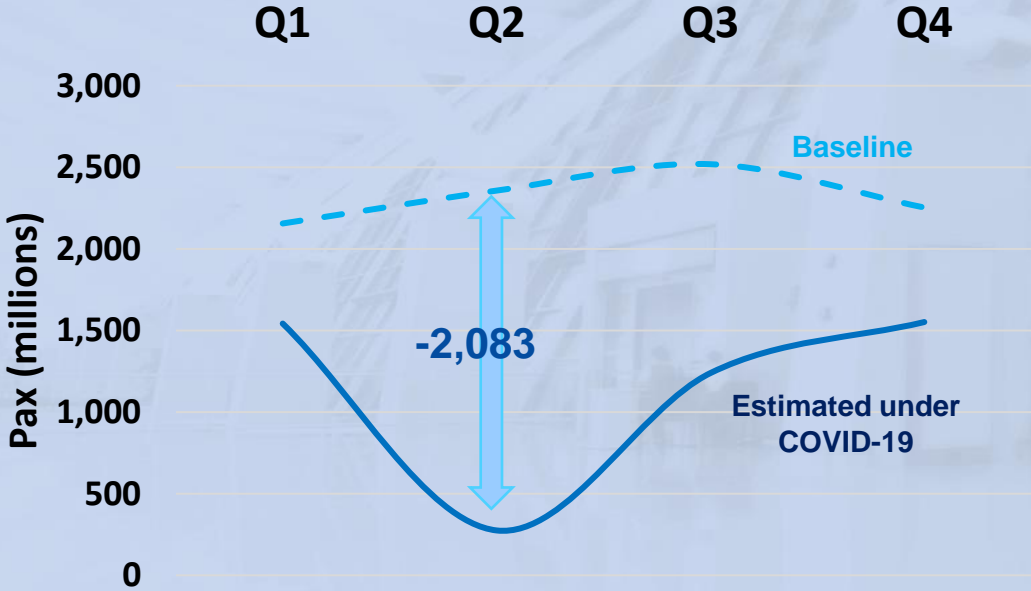


Source: ACI

Passenger traffic in 2020

50.4% decline projected as compared to the projected baseline

The Ugly



Estimated airport losses for 2020

Revenue losses (billions USD) compared to projected baseline



- Huge proportion of non-aeronautical revenues is directly passenger-related (>70%)
- Chinese traveler higher spending propensity especially in the travel retail space (unrealized expenditures)

Total airport industry losses
97.4 billion USD

57% decline in industry revenues



Source: ACI World, OAG

What does
97.4 billion
USD in
losses look
like?



Typical hub airport with over 40 million pax generates **1.3 billion USD per annum**

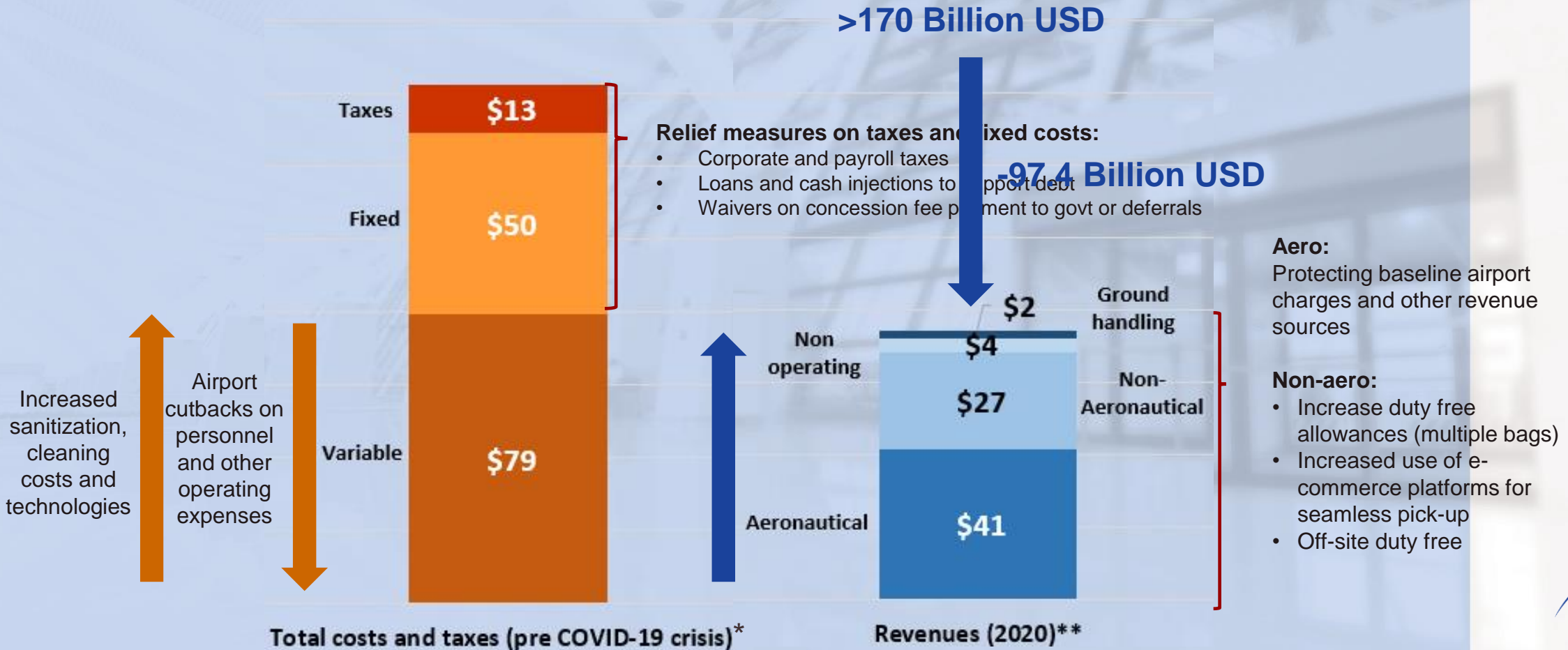


Revenues of the 75 busiest hubs in the world completely wiped out



Projected airport revenue shortfall (billion USD)

-56.7% decline in 2020



*Estimated airport industry costs in 2018 (Airport Economics Survey 2019)

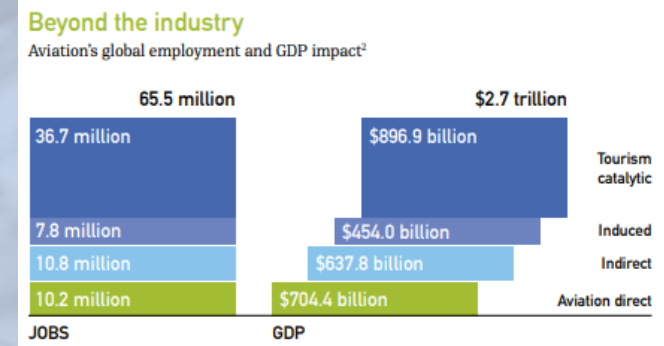
**Projected airport industry revenues in 2020

Source: ACI



Protecting jobs – airports are engines of growth and generate employment

Relief measures to support livelihoods



DIRECT JOBS



525,000

Airport operators³
(operations, planning, engineering)

5.6 million

Other on-airport⁴
(retail, car rental, government agencies such as customs and immigration, freight forwarders, some catering)

2.7 million

Airlines⁵
(flight and cabin crews, executives, ground services, check-in, training and maintenance staff)

1.2 million

Civil aerospace⁶
(engineers and designers of civil aircraft, engines and components)

233,000

Air navigation service providers⁷
(air traffic controllers, executives)

- Employment from airport operators and on airport site employment -retail, car rental, govt customs, etc.” accounts for over **6.1 million jobs globally**.
- The entire aviation sector makes up 10.2 million jobs. Therefore, **“on the ground at airports”, we are talking about 60% of employment in the aviation sector is somehow related to airports**
- Aviation’s direct, indirect, induced and tourism catalytic employment – **66 million** – comparable to the populations of France or the United Kingdom.
- Aviation has a role to play in **15 of the 17 United Nations’ Sustainable Development Goals**. Airports, more specifically, have been major supporters of Goals 8, 9 and 10 concerning work and economic growth, industry, innovation and infrastructure, and reduced inequalities



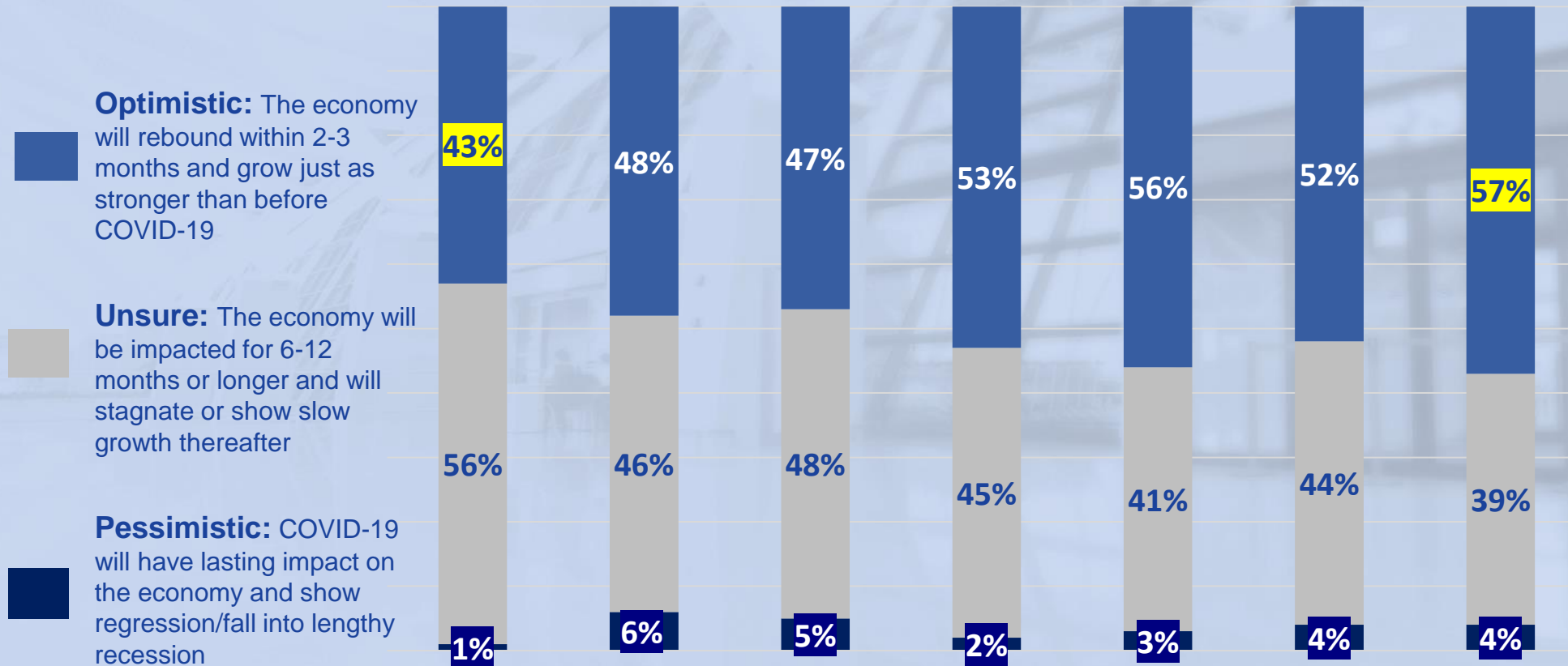
Consumer confidence and propensity to fly?



Chinese consumers' optimism

Confidence in own country's economic recovery after COVID-19 (% of respondents)

Feb 21-24 Mar 20-23 Mar 25-30 Apr 1-6 Apr 8-13 Apr 15-19 May 5-11



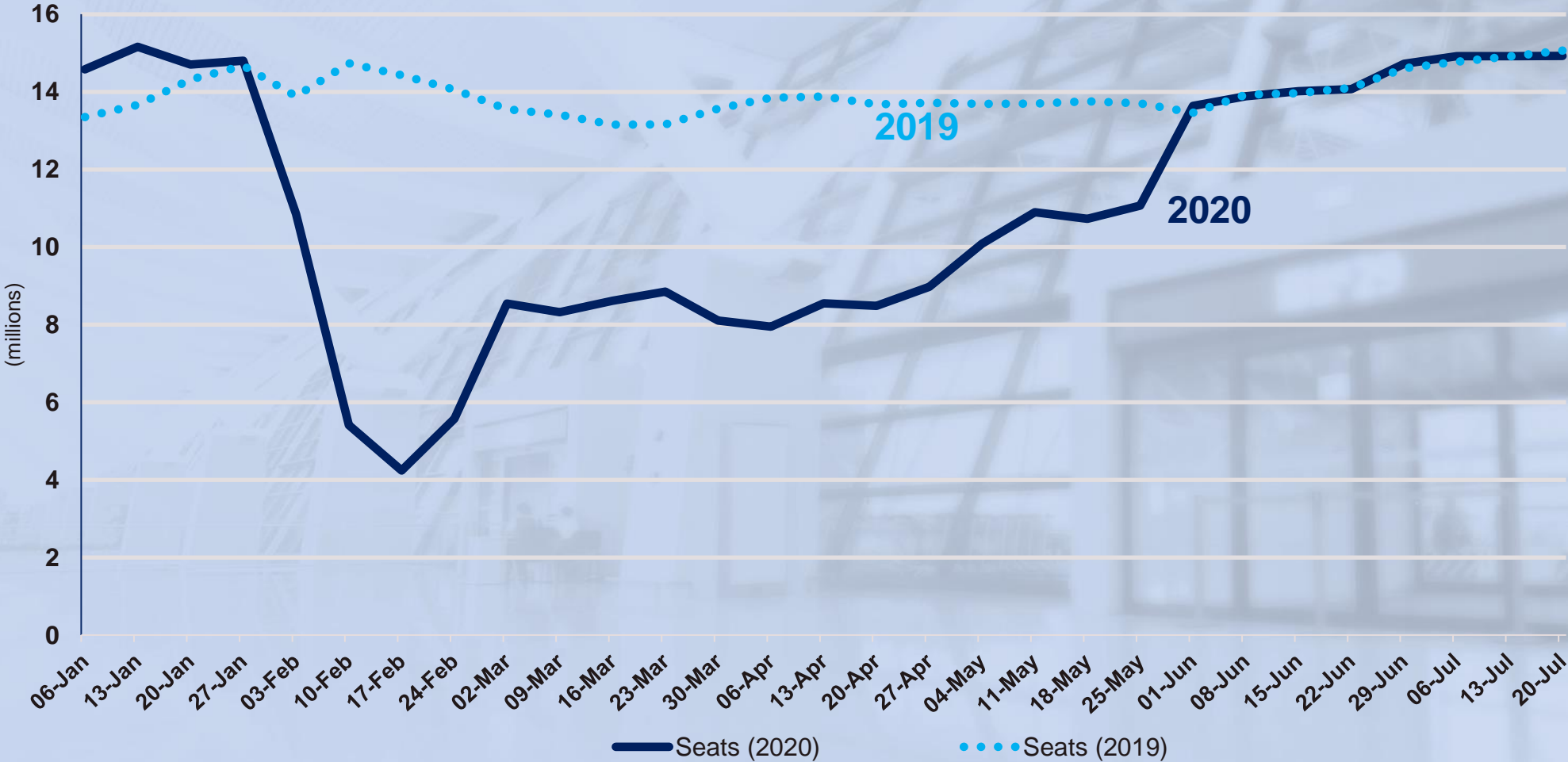
n=1,257

Source: adapted from McKinsey & Company



Chinese recovery*

Domestic Scheduled Seats



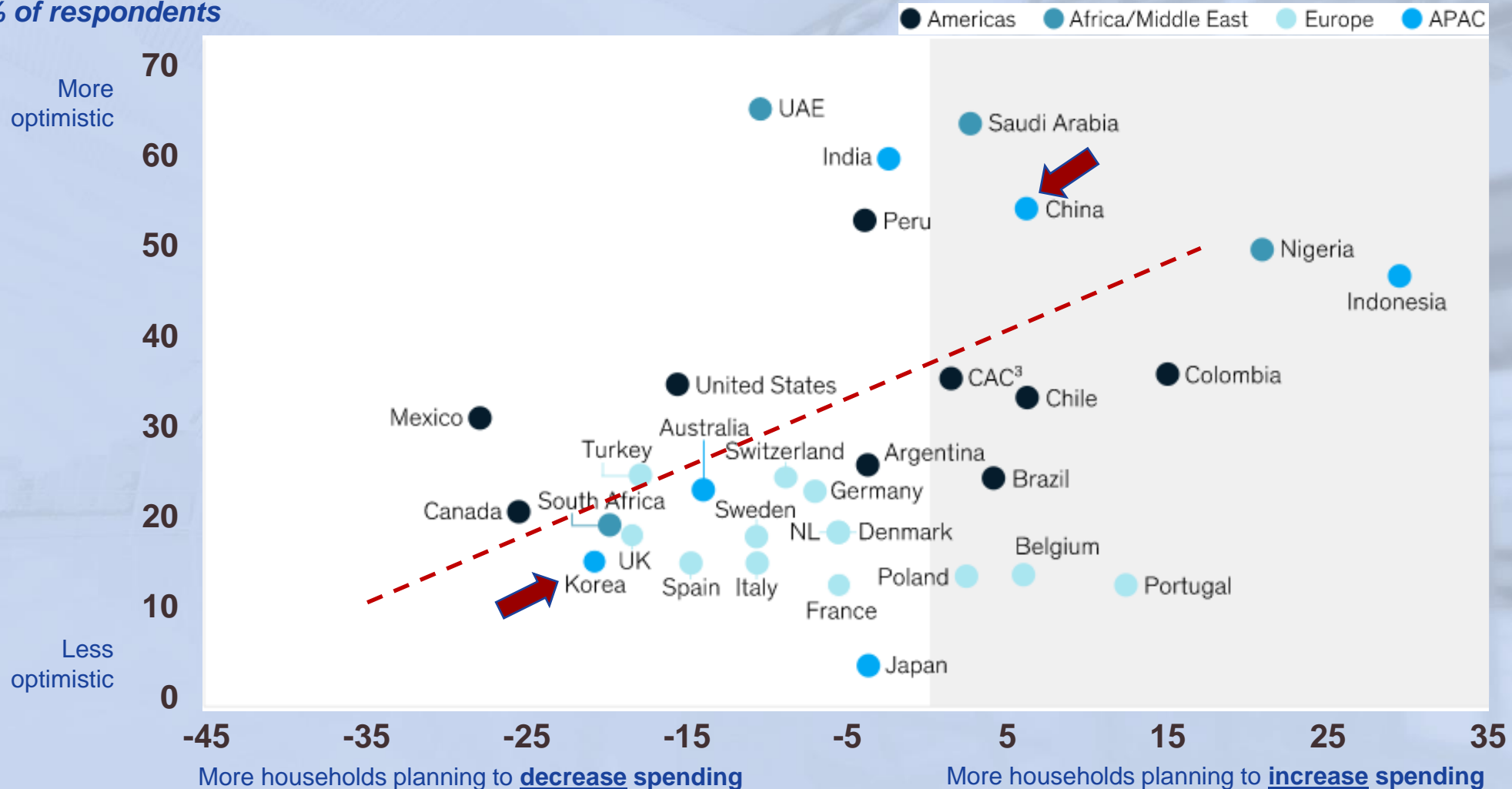
* Mainland China, May 25th, planned actuals (Jan – May) and planned schedule (June – July)
Planned schedules are subject to change based on the actual demand
Source: OAG



Optimism versus spend propensity

(near term-expectations over next 2 weeks)

Optimism about country's economic recovery after COVID-19
% of respondents

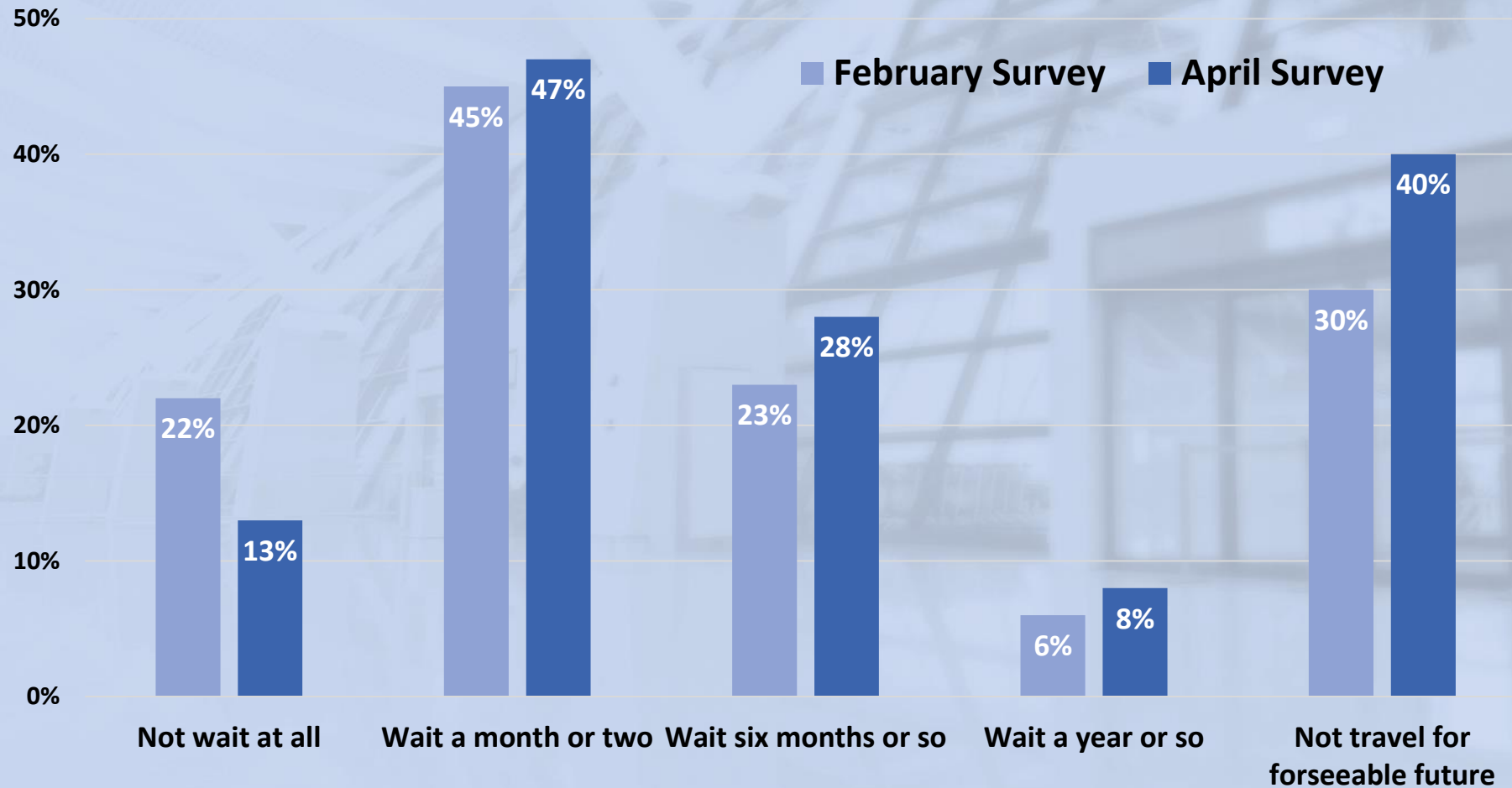


Source: adapted from McKinsey & Company, COVID-19 Consumer Pulse Surveys Mar. 15 – May 3 2020



Passenger confidence to post-COVID-19 recovery in air travel

Returning to travel after containment announcement



Majority of passenger will likely wait slightly longer than before to return to travel after the containment orders are lifted.

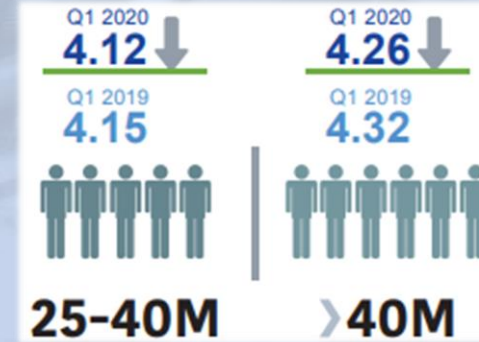
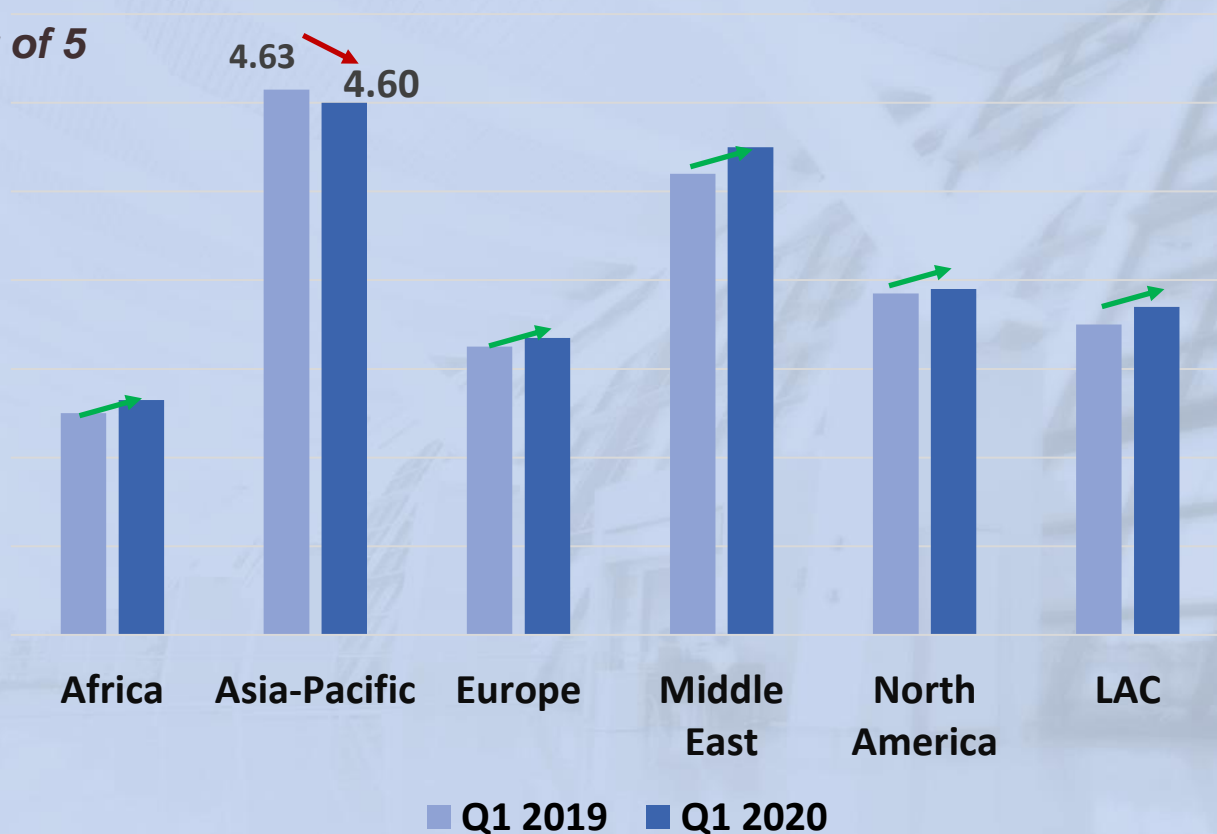
Survey conducted in 11 countries.



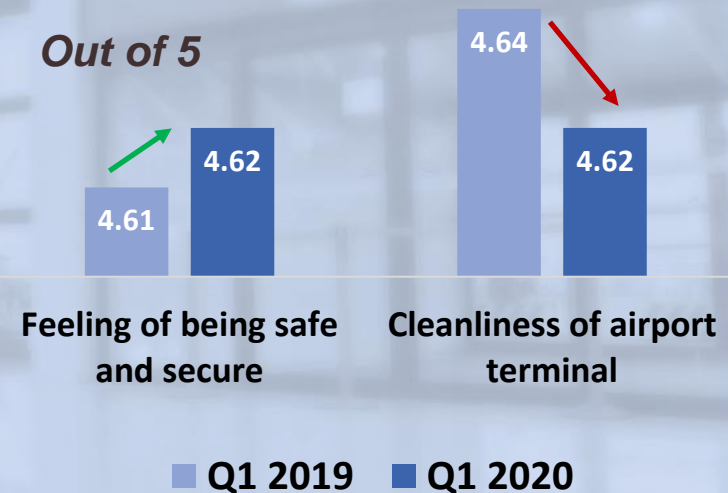
Customer experience

Passenger satisfaction scores in Q1 2020

Out of 5



Out of 5



- Comparing with Q1 2019, only Asia-Pacific had a slight decrease in passenger satisfaction in Q1 2020
- Slight decrease among major hubs as well as a slight decrease on perceived cleanliness of airport terminal



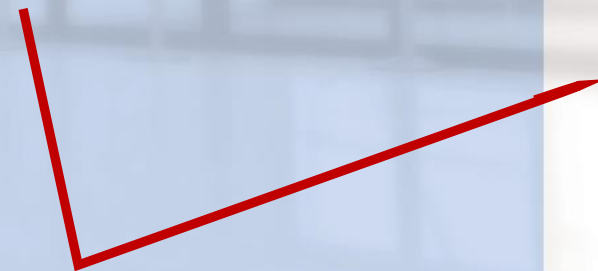
What are we expecting in terms of pax recovery path?



Economic recoveries 101

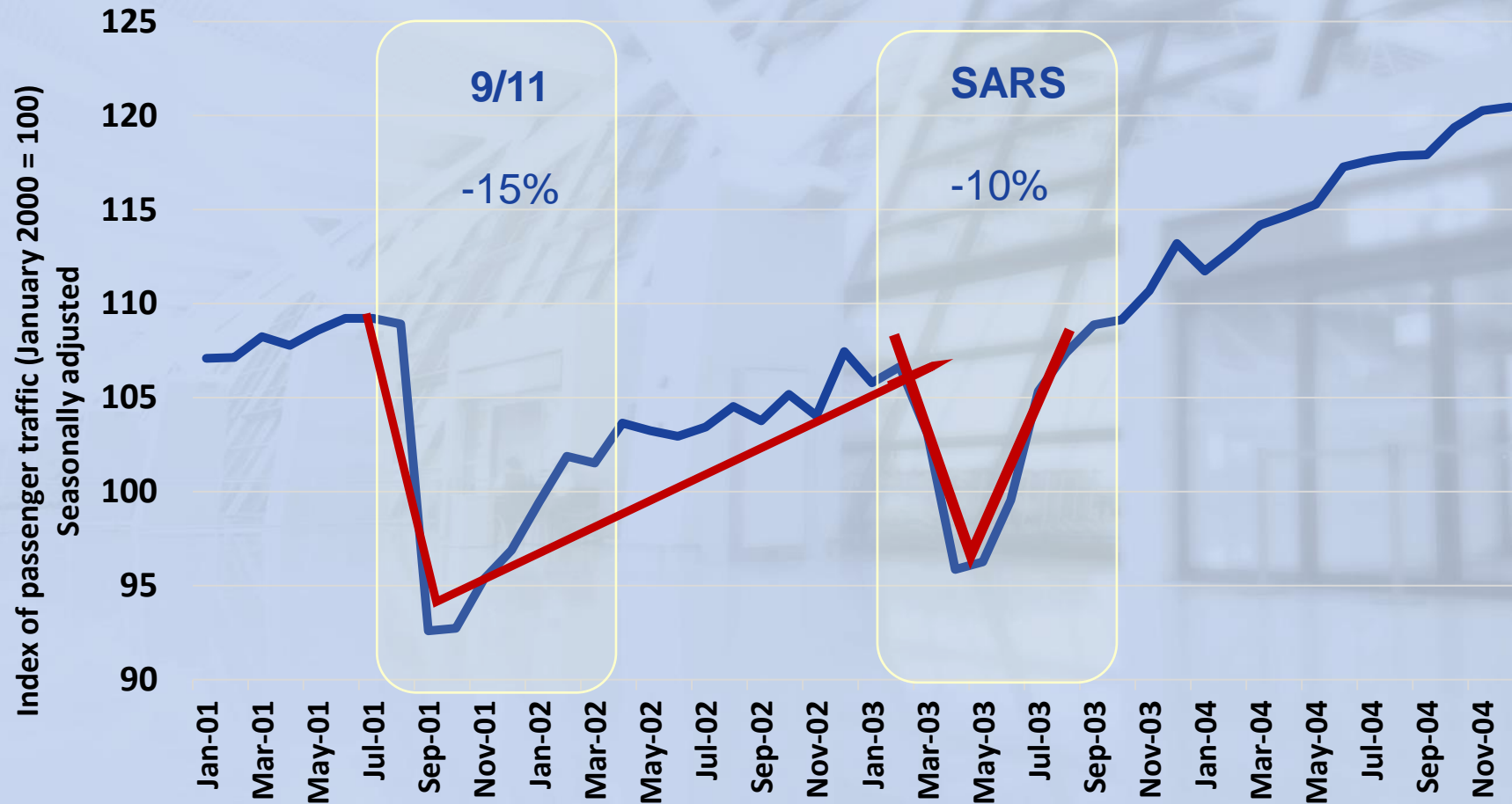
recession and recovery

- **V shaped**
 - Sharp downturn and **quick** recovery
- **U shaped**
 - Downturn and **prolonged** recession
- **L shaped**
 - Sharp downturn with **lengthy recovery period** (years)



Passenger traffic recoveries

9/11 and SARS global impact and recovery



9/11

26 months (>2 years) to pre-9/11 levels

- Structural shift with L-shaped properties

SARS:

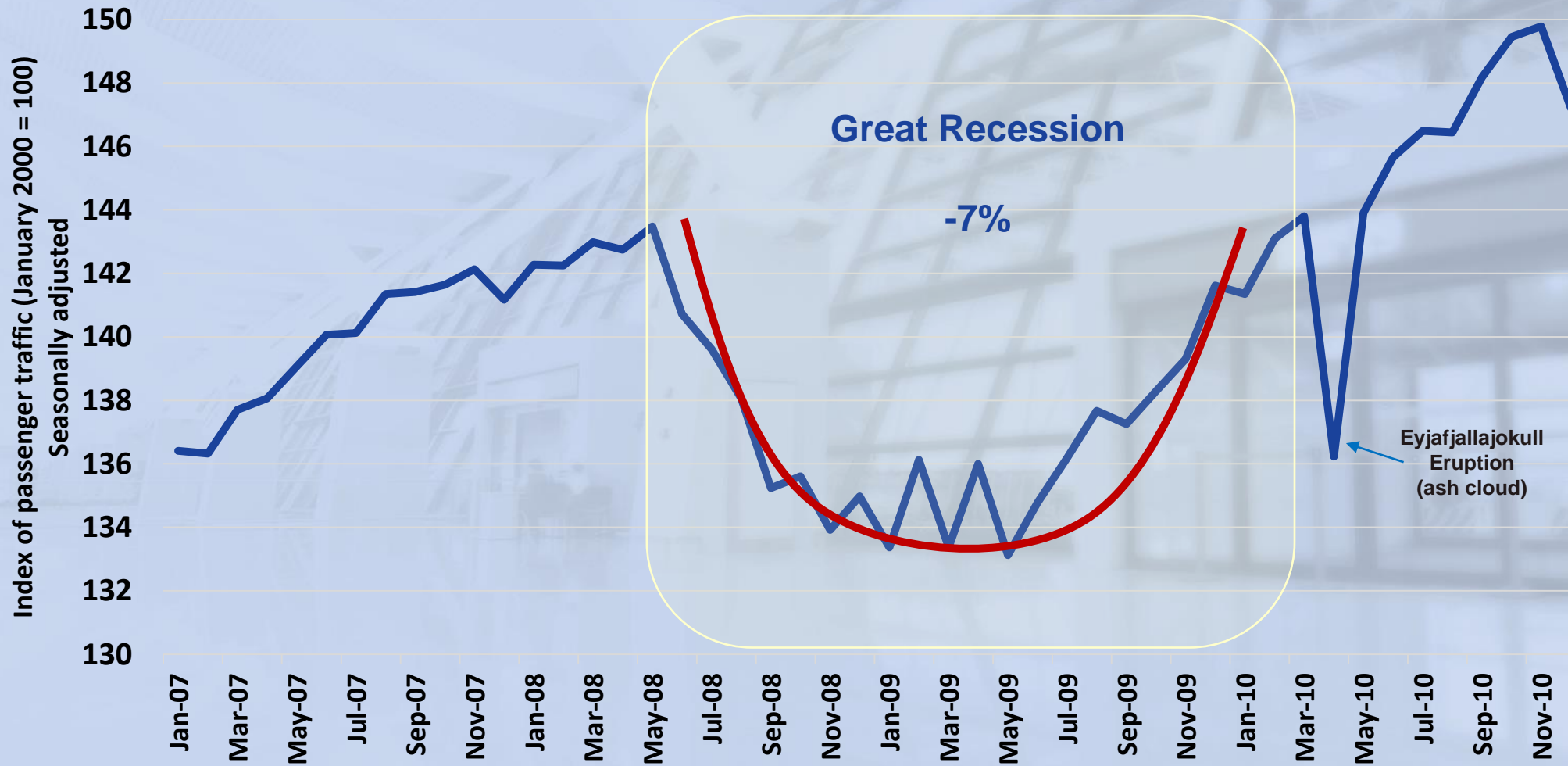
6 months to pre-SARS levels

- Classical V-shaped recovery



Passenger traffic recoveries cntd

Great Recession global impact and recovery



Great Recession:
22 months to pre-recession levels (<2 years)

- U-Shaped recovery



Potential scenario...for pax under COVID-19 Outbreak

(2020 and beyond)

Quasi-

U Shaped (near term)

L Shaped (long term)

International
travel bans
relaxed

Expectation:
3 year recovery or
more to get back to
2019 levels

2019

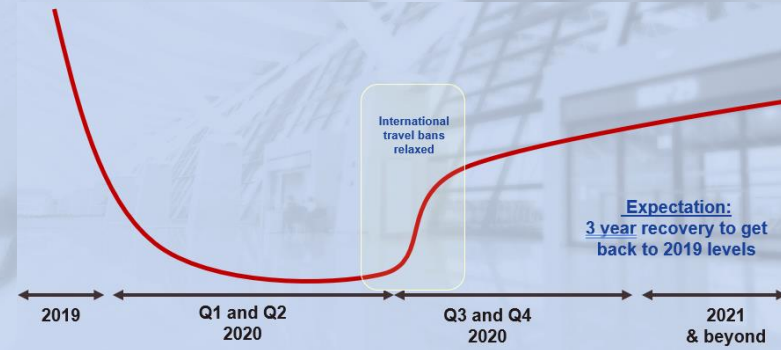
Q1 and Q2
2020

Q3 and Q4
2020

2021
& beyond



Reasons for quasi U-shaped L-shaped recovery



- **We are presently in a recession**

- Loss of income and rapid rise in unemployment



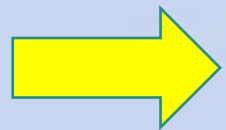
- **Time to regain consumer confidence (safe to fly):**

- The diagnostic criteria for COVID-19 Testing (Have you traveled by air?);
- Air travel has been unfortunately associated with the spread of COVID-19;
- Combatting the “economics of fear”



- **Behavioral changes:**

- Potential declining trend in business travel exacerbated;
- Growth of virtual meetings;



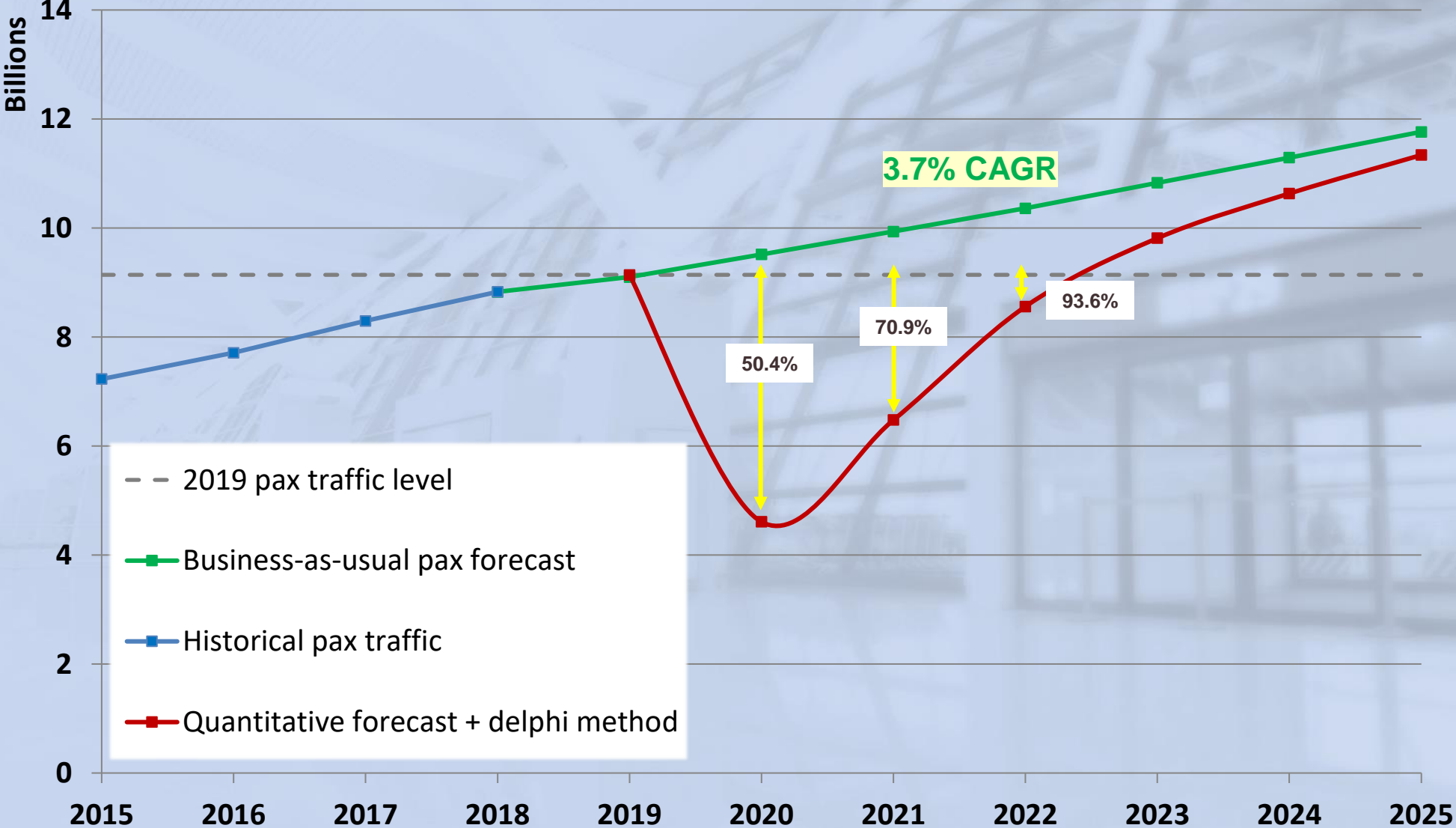
However, we will likely see a substitution effect away from international travel to domestic travel in the recovery phase



- This was the case with 9/11 and SARS in the recovery phase

From short term to long term recovery

Passenger traffic beyond 2020

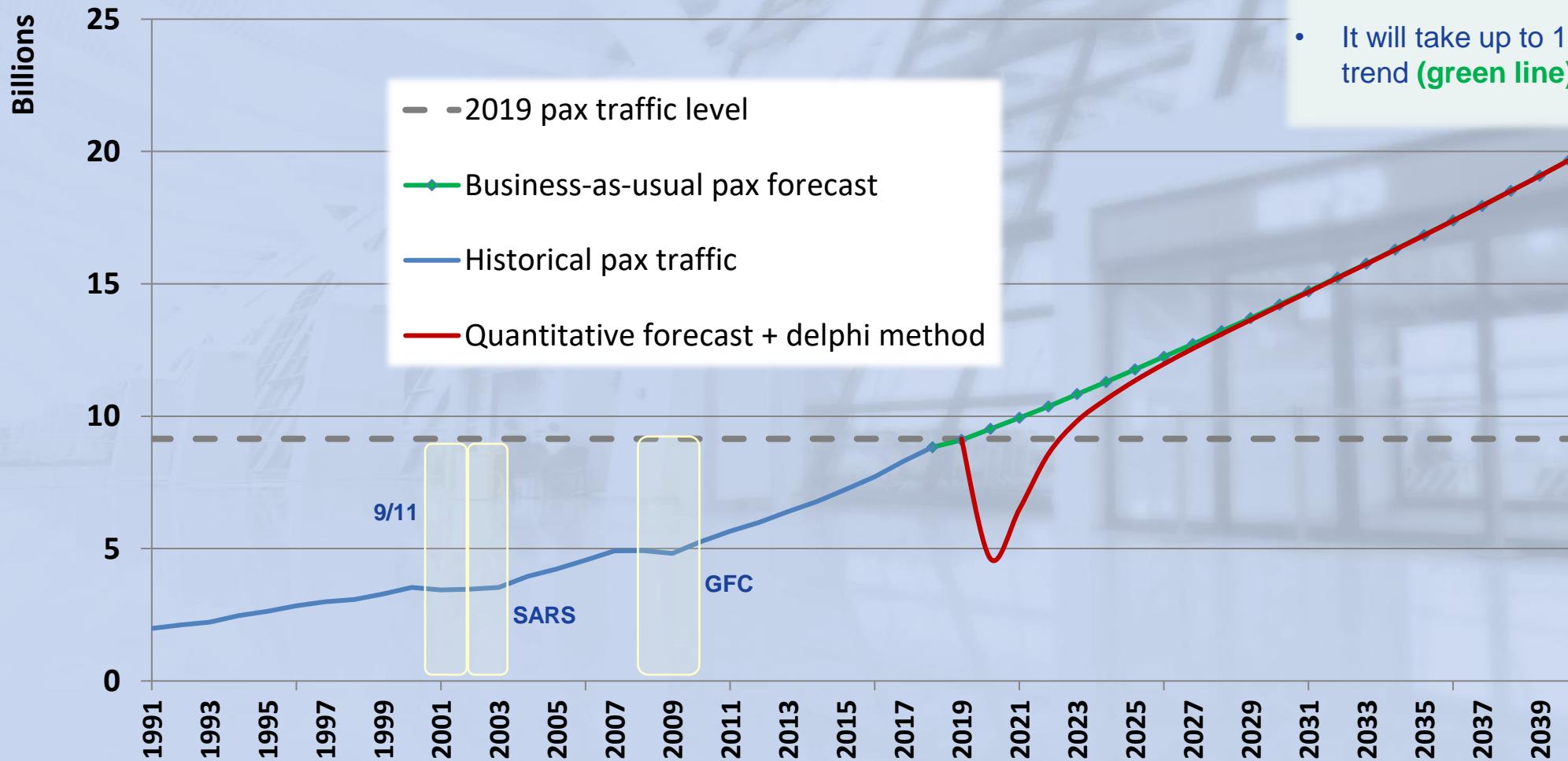


Source: ACI World



That was then. This is now.

Passenger traffic over the long term



Great Lockdown:

- Pax in 2021 will amount to about ~70% of the 2019 volumes (**dashed line**)
- Pax expected to recover to 2019 levels in 2023 (**red line**)
- It will take up to 10 years to get back to trend (**green line**)



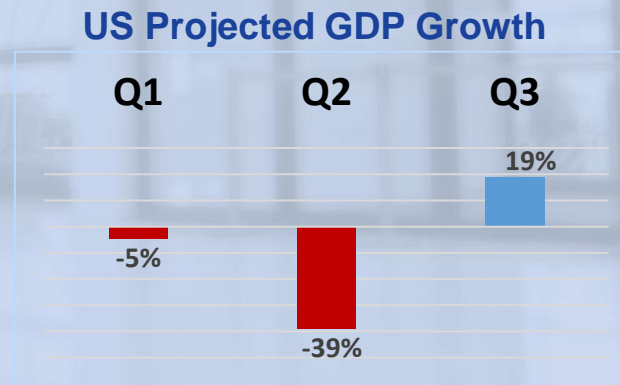
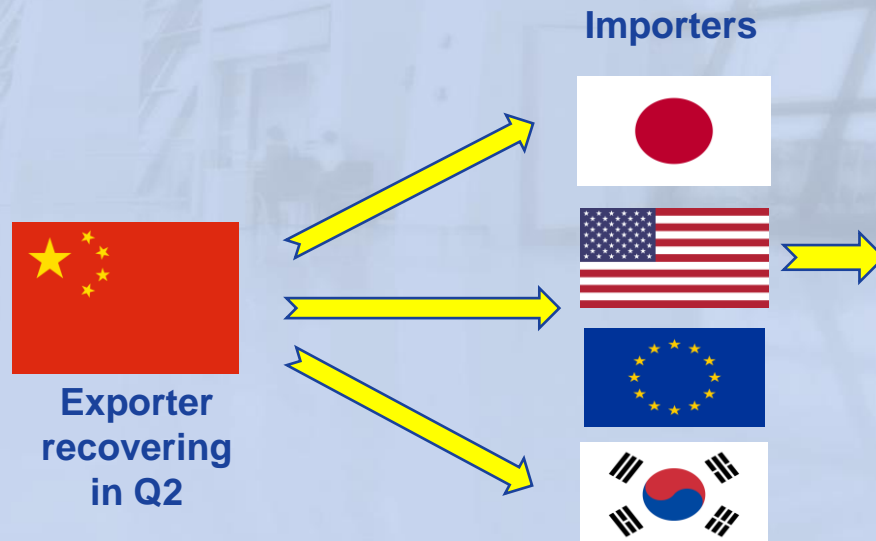
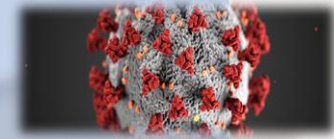
From short term risks to long term fundamentals



Risks to swift a global recovery

The Chinese Case

- “Re-ignition” or “Re-importation” of the virus
- Asynchronous recoveries:



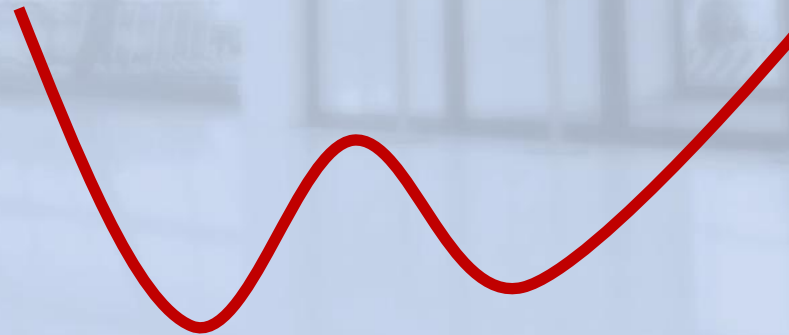
Source: Goldman Sachs

Economic recoveries 101

The double-dip and double jeopardy

- **W shaped recovery**

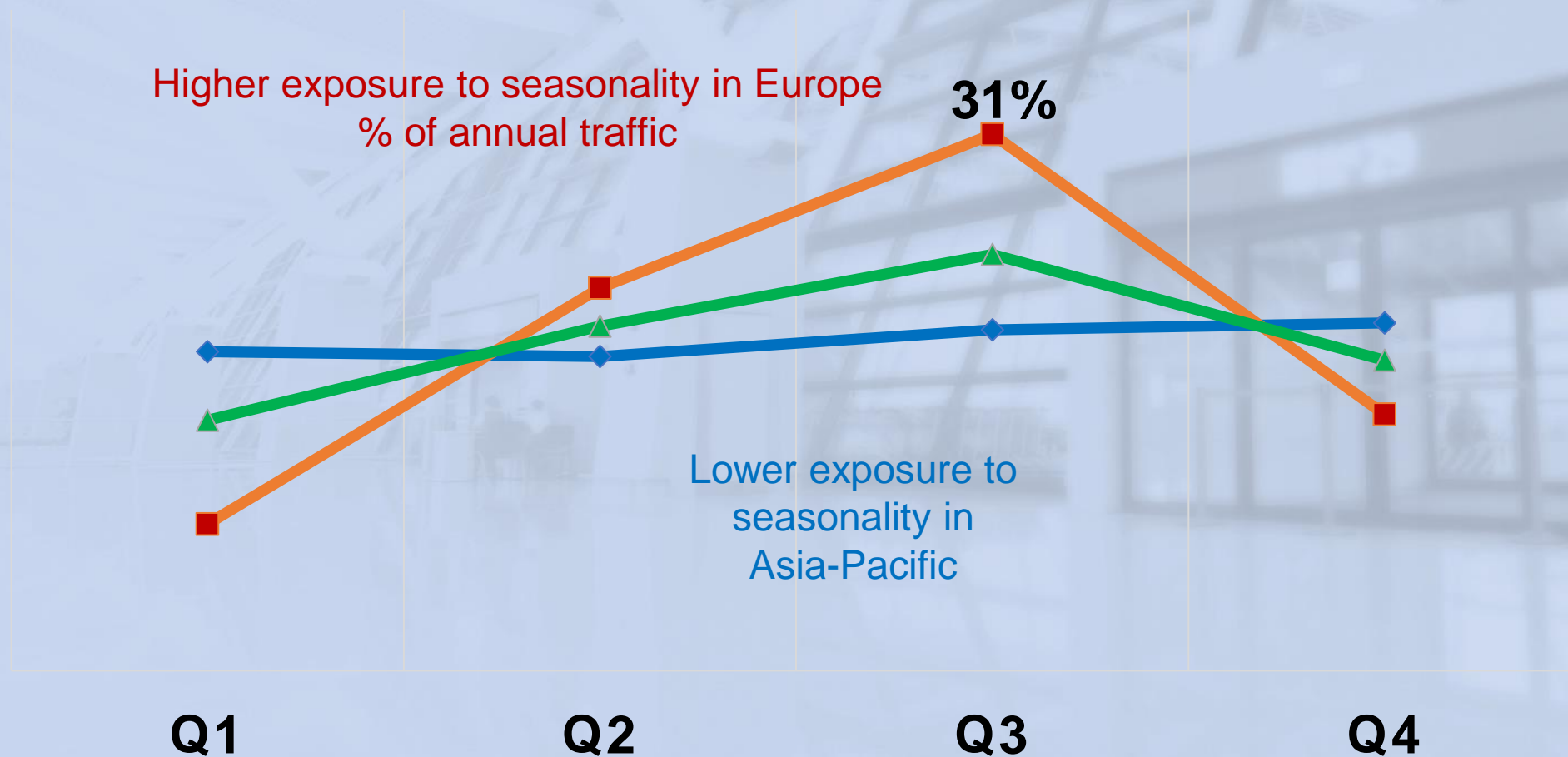
- Risk of volatile recovery as economies open up
- Pandemic “re-ignition” or 2nd wave of outbreak with prolonged recession



Cruel summer?

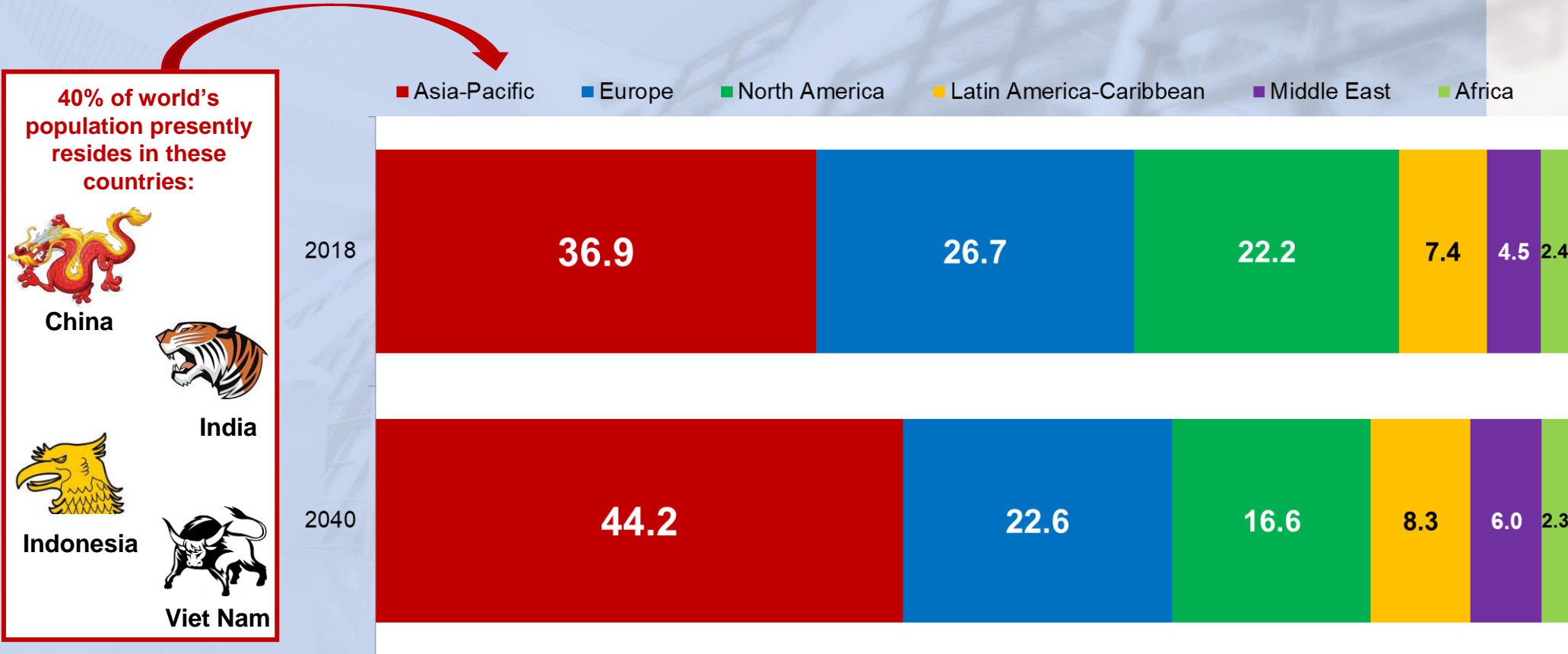
Risks to seasonal markets for pax traffic (Q3)

◆ Asia-Pacific ■ Europe ▲ World



Resilience –Long term fundamentals still apply

Forecasted evolution of global passenger market shares (%)



India's working age population is expected to peak in 2040



Summary –

- **Huge losses in traffic and revenues**
 - Especially pronounced in Q1 and Q2
 - Uptick later in summer but below baseline
- **Consumer confidence**
 - Heterogeneous markets – Chinese market rebounding but some consumers still not ready for the “re-opening” in other markets (spending reductions)
- **Recovery path faces a challenge**
 - Embedded U-shaped within an L-shaped recovery – >3 years to get to pre-COVID levels
 - COVID-19 and a faltered economy (several compounding factors)
 - “Economics of fear” – Regaining consumer confidence
 - Risk of a double-dip
- **Policy measures for all stakeholders**
 - No measure or relief package should benefit one actor at the expense of another one
- **Resilience – Long term fundamentals still apply** (population, income and market dynamics)

I truly hope we are wrong...

Thank you

Airports are points of connectivity

Aviation continues to be the hallmark that connects people, places, culture and commerce



**TOGETHER
WE WILL
GET
THROUGH**

