Industry Top Trends Update

Transportation

The road to recovery is clearing, could encounter curves

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What's changed?

Airlines see some blue sky–at last. Demand is surging for domestic leisure travel in the U.S. as the COVID-19 pandemic recedes, though Canada lags. Business and international travel, important to big network airlines, will be slower to return.

Freight transportation remains strong. Railroads, trucking, logistics, and parcel carriers weren't hit as hard as the passenger travel industry and are benefiting from federal stimulus to the U.S. economy. Indeed, demand exceeds supply in some markets, boosting pricing (but also labor and fuel costs).

Transportation equipment leasing is less affected than the industries they serve. Car renters were hard hit, especially those that rely on airport business, but they are raising rates and booking gains on used car sales. Aircraft lessor outlooks are mostly back to stable, though ratios will take time to rebound.

How is recovery taking shape?

Airlines are at different altitudes. We revised our outlooks to positive and even raised one rating on low-cost airlines that cater to domestic U.S. leisure travel. The runway to recovery for Air Canada, American, Delta, and United will be longer, but downside risk is easing and liquidity is strong, because of government aid.

Freight transportation approaches pre-pandemic performance. Credit measures are approaching 2019 comps, though further gains will be more gradual. Higher labor and fuel costs (some passed on to customers) and consumer shifts to spending on services as economies reopen will partly offset still solid demand.

Lessor recoveries vary. Equipment leasing companies' lease terms range from very short (car renters) to multiyear (aircraft lessors). The former's revenues and earnings fall sharply but recover faster. The global oversupply of aircraft (particularly widebody aircraft) will take years to work its way out fully, resulting in a shallower but prolonged downturn.

What are the key risks around the baseline?

Higher fuel costs could slow recovery. Airlines are highly exposed, and their ability to pass cost through to customers depends on supply-and-demand balance. Most freight transporters have fuel surcharges in their contracts.

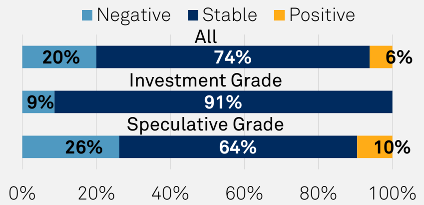
New COVID-19 virus waves could set back progress. Available vaccines appear to protect against new variants, but mutations could change that and trigger another wave of infections. Airlines are most at risk.

Higher labor costs could trim margins. The tight labor market is pushing up labor costs for companies that rely wholly or in part on short-term employees, such as nonunion trucking and sorting for parcel express carriers. Depending on how long this persists, it could affect contracts with unions as well.

Latest Related Research

- Southwest Airlines Co. Outlook Revised To Positive From Negative, 'BBB' Rating Affirmed On Improving Demand, July 7, 2021
- FedEx Corp. Outlook Revised To Stable From Negative On Improving Credit Measures; 'BBB' Rating Affirmed, April 14, 2021
- Avis Budget Group Outlook Revised To Stable From Negative On Expectation For Improving Credit Quality, Ratings Affirmed, Feb. 17, 2021

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	23	44	67
Downgrades	0	2	2
Upgrades	2	4	6

Ratings data as of end-June, 2021

COVID-19 Heat Map

Airlines	
Estimated Recovery To 2019 Credit Metrics	>2023
Potential Negative Long-Term Industry Disruption	Yes

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
25% to 50%	>60%	>25%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
40% to 50%	>50%