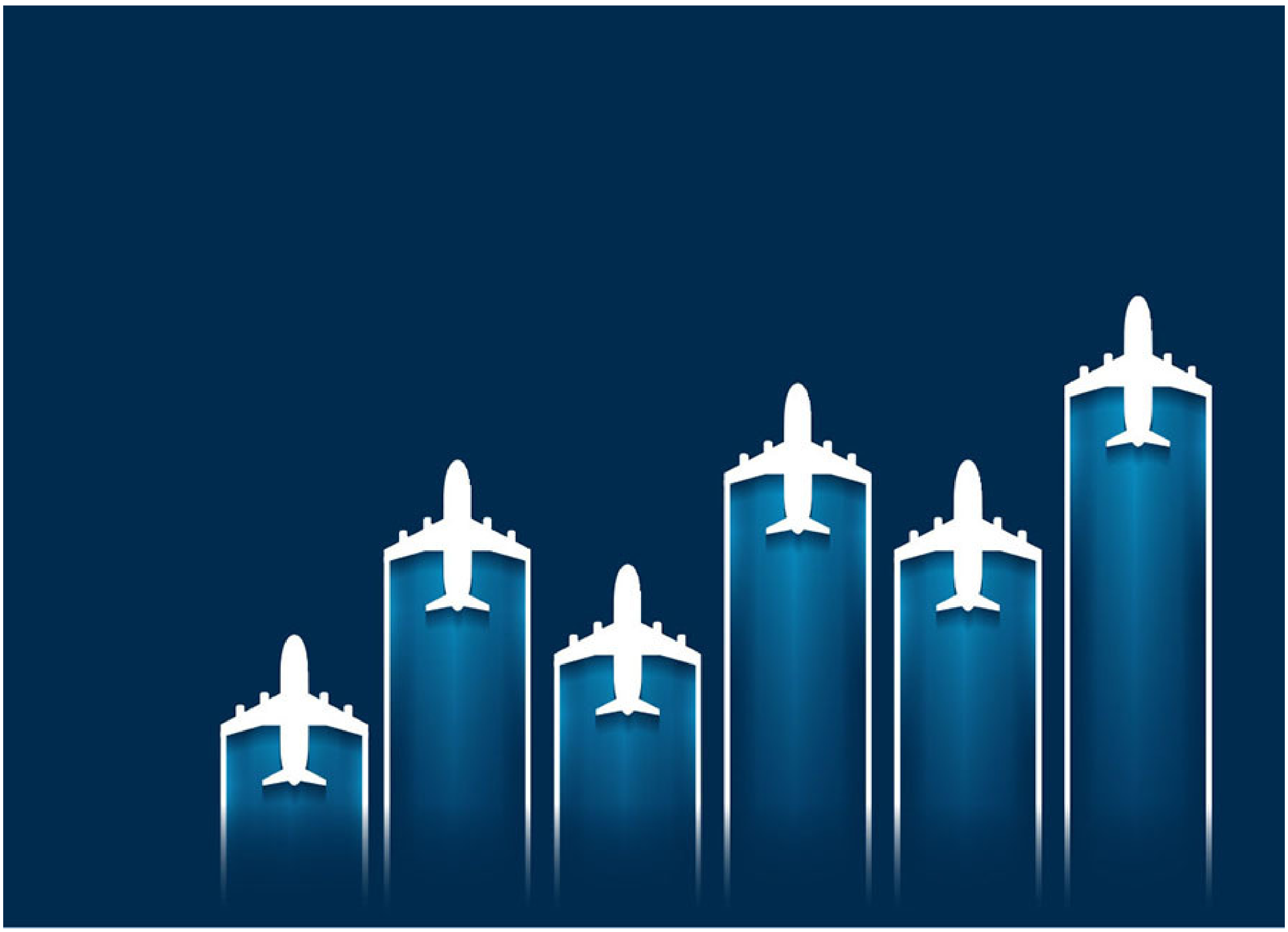
2022: LET IT BE What will this year bring for the aviation sector?

William Swelbar takes a look

BY WILLIAM SWELBAR



One year ago, when writing this very same article anticipating what 2021 might bring, I wrote about the economy and technology and their importance in any economic recovery. I even included accommodative government intervention as an important factor in the recovery from past crises. None of that changes as we look out at 2022.

THEME, CONTEXT AND SYMBOLISM

In a search of a theme for the 2022 outlook I started thinking about lyrics to songs popular when I was growing up. I thought about Tom Petty. Great lyrics like "I'll keep this world from draggin' me down. Gonna stand my ground. And I won't back down." However, the industry does not have enough control over exogenous happenings. Then I thought about the Beatles. Given where this industry has been over the past nearly two years, "Helter Skelter" seemed like the right song until it didn't.

But the "Long and Winding Road" and "Let It Be" did. Ironically, both songs appeared on the Beatles last studio album and were released after the band had broken up. The iconic group began to fissure during the five months they spent producing the White Album that preceded "Let It Be." After Covid-19 and its mutations have wreaked havoc on decadeslong ways of doing business, the commercial aviation system, just like the band, will likely break up into pieces of different dimension too.

One interpretation of the meaning of the song "Let It Be" might be to try to accept, for the time, a difficult situation.

The commercial aviation community has been forced to do that. "Let It Be" to others might be to let it happen — let some new world become a reality. Or it just might mean that the song is a message to find light in the darkness.

For the last nearly two years, the direction of the industry did not make sense much of the time. However, that long and winding road is the path that leads to recovery's door and it will begin in earnest in 2022. This year will be the one that the industry begins to break up with Covid-19 and turn its focus towards the future, when a less choppy and more predictable world will emerge.

McCartney's "Let It Be" was his attempt at catharsis and it worked. All of us should probably purge our mindsets about the way it used to be as well. After struggling to hold everything together for too long, one finally realizes that one has no control over a pandemic's influence in reshaping an industry and that you just must "Let It Be."

THE 2022 ECONOMY MIGHT BE GREAT...

Last year I wrote that this is not the first pandemic and will not be the last. Since 1900, the first was the Spanish Flu (1918-1919). The Spanish Flu was preceded by World War I and was followed by the Roaring ‘20s economy comprised of mass production, media, entertainment and consumerism. Sound familiar?

As crazy as it might sound, on December 9, 2021, Jim Cramer, host of Mad Money on CNBC, called the economy a "juggernaut." Cramer asked his audience, "Did you see that number this morning, that unemployment number? It’s the best in 60 years! Best since ‘69!"

Cramer went on, the consumer "is spending more than I’ve ever seen but they’re doing it with cash, not with credit. They’re doing so in a Roaring ‘20s style!" On the same day, U.S. inflation hit a 39-year high.

If you are not a Cramer fan, then maybe JPMorgan Chase & Co. has more weight. The bank sees a full worldwide opening in 2022. Chief Global Markets Strategist and Co-Head of Global Research Marko Kolanovic thinks that there will be a "return to normal economic and market conditions we had prior to the Covid-19 outbreak."

His foundational thinking is "this [outlook] is warranted by achieving broad population immunity [to Covid-19] and with the help of human ingenuity, such as new therapeutics expected to be broadly available in 2022."

The news from the JPMorgan note gets even better even though inflationary pressures are expected to persist in the short-term. "Over the medium term, we expect the global economy will work to solve the problems that emerged in 2021," the report said. "As the pandemic fades, consumers should redirect spending from goods and toward service." Meanwhile, the bank added that supply-chain bottlenecks will alleviate and that globalization will keep the price of goods in check, as it has for the past two decades.

Whether it is Covid fatigue or the acceptance that a vaccine inequity can be embraced or a hope that there is such a thing as herd immunity, the numbers do line up for an economy where the crosswinds of the last two years just might become tailwinds.

HOWEVER, IMPEDIMENTS ARE PRESENT...

Skilled labor availability; the price of oil; the reparation of the many broken links in the supply chains; the consumer's confidence in the safety of air travel from a virus perspective; the consumer's acceptance that a vaccine inequity among rich and poor nations will be present for years; and the consumer's buying power in an inflationary environment all will make for a choppy 2022. Each of these factors are present and will have much to say about how airlines place air service back into the system.

The relationship of the commercial aviation industry and the economy is well-documented. My firm admits our current forecast for 2022 is not a juggernaut because of many of the factors listed above standing in the way of a complete return to the way it was. This is something we would be more than happy to adjust.

It seems that the consensus view is that the price of oil will trade in the $80-to-$90 a barrel range. After all, if the global economy is expected to grow, the price of a barrel of oil should increase. The industry can cope unless incessant volatility in the price of oil presents itself particularly as the seating configurations get larger and larger.

A Long And Winding Road

This chart represents some factors that likely had some impact on the industry beginning in January 2020. It is not intended to be exhaustive.

To give the news some context, the percentage next to each item represents that days TSA passenger traffic as a percent of the same day in 2019.

2020	January 31	HHS declares SARS-COV-2 a public health emergency. Travel to China restricted.	111.0%
	February 23	Italy becomes a Covid hotspot and the government effectively locks the country down.	124.8%
	February 29	U.S. reports a death connected to Covid-19.	81.7%
	March 11	WHO declares Covid-19 a pandemic.	74.0%
	March 13	Nationwide emergency declared in the U.S.	81.1%
	March 26	U.S. Senate passes CARES Act. Payroll Support Plan (PSP) for the airlines through Sept. 30, 2020.	9.8%
	April 2	10 million Americans are out of work and 6.6 million filed for unemployment benefits, the most since 1982.	6.4%
	April 3	The Centers Disease Control and Prevention (CDC) recommends mask wearing outside of the home.	6.2%
	April 30	Airlines announce rules requiring face masks.	7.6%
	May 9	20.5 million Americans are out of work and the unemployment rate is at 14.7 percent — the worst rate since the Great Depression.	6.9%
	May 17	Japan and Germany enter a recession.	9.8%
	June 30	The European Union says it will reopen borders from 15 countries.	19.6%
	July 15	Tokyo raises pandemic alert.	23.3%
	October 11	World records 1 million new cases in three days.	37.7%
	December 2	The United Kingdom approves Pfizer's coronavirus vaccine.	25.2%
	December 8	The United Kingdom begins vaccinations.	22.0%
	December 11	Food and Drug Administration (FDA) approves Pfizer's vaccine in the U.S.	39.1%
	December 18	FDA approves Moderna's vaccine in the U.S.	48.1%
	December 20	London enters severe lockdown.	40.8%
	December 21	PSP II passed to extend to March 31, 2021.	38.5%
2021	January 27	U.S. announces plan to purchase 200 million doses of the vaccine.	26.6%
	February 21	Deaths in the U.S. reach 500,000.	47.2%
	February 26	50 million vaccine doses administered in the U.S.	56.3%
	March 8	CDC says fully vaccinated can gather outdoors.	43.3%
	March 11	PSP III passed to extend to Sept. 30, 2021.	53.6%
	April 21	U.S. surpasses 200 million vaccinations administered.	49.0%
	June 1	Employers can require Covid vaccine.	80.0%
	June 3	Covid-19 cases drop to lowest level since March 2020.	72.8%
	June 23	Delta variant concerns mount.	68.3%
	July 28	Fully vaccinated individuals can travel to the United Kingdom.	71.7%
	July 29	Biden calls for federal workers to be vaccinated.	81.8%
	August 3	Announced that delta variant accounted for 93.4 percent of cases in last two weeks of July.	76.3%
	August 3	70 percent of U.S. is vaccinated.	76.3%
	August 25	Delta variant's effect on the efficacy of the vaccine is meaningful.	61.5%
	October 15	U.S. to open borders from select countries to vaccinated travelers.	91.5%
	November 2	Children ages 5-11 can be vaccinated.	80.8%
	November 19	FDA authorizes boosters.	119.2%
	[illegible]	The first reporting of what is now the omicron variant reported to the	[illegible]

	November 24	World Health Organization.	102.6%

The consumer and the associated confidence that air travel is virus- safe, as well as accepting that Covid will likely be an everyday presence in their lives will be critical.

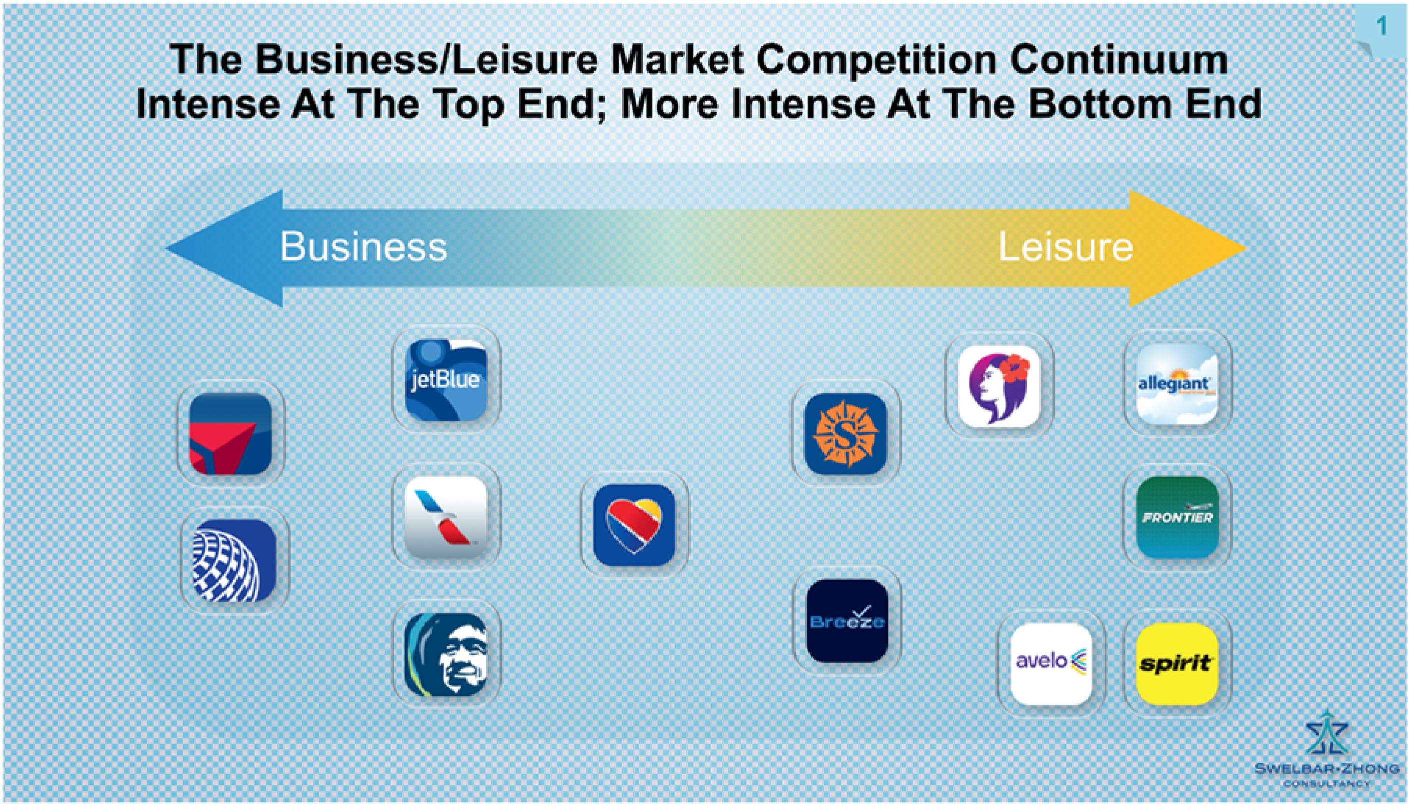
The consumer accounts for 70 percent of the nation's economy. A question has presented itself during the pandemic era regarding the service and product the consumer will seek. It has been reported that 3 million baby boomers left their jobs during the pandemic, some early. Might this be the consumer that is ready to travel, maybe not in first class — but in premium economy?

During the pandemic, more than 1 million business applications were filed every month. Not every business will survive, but those that do will likely not have travel budgets that can afford high-priced first-class travel. Might this be the group that finds a low-cost carrier or ultra low-cost carrier (ULCC) the product they find sufficient for their travel? Or is basic service from one of the other ULCCs the right product because the price is right?

Throw domestic issues and geopolitical concerns into the beaker and most of the impediments standing in the way of the industry achieving its full potential are present and accounted for. Except….

IN THE SHORT-TERM, IT'S ALL ABOUT THE WORKFORCE

A story is playing out in real time about a shortage of skilled personnel, including pilots and licensed mechanics and dispatchers. As is typical, it will be the smallest market denominator that will suffer. Small community air service will assuredly be permanently impacted. In a 30-day period in late 2021/early 2022, both United and Delta announced a list of small markets that will lose service. Some of the loss may be temporary, however most of the cuts are said to be permanent all the while citing a shortage of personnel.



The bottom line is that most of the small jet operators are being raided by those airlines operating larger equipment that promises a career path to a qualified pilot with more compensation and a better quality of life. There is going to be change in the small community space.

It is time to accept that and help those airports that might become displaced from the system to re-purpose themselves. This new economy offers opportunities that were not imagined ten years ago. It might even be that re-purposing results in a higher economic- generating facility than three flights a day.

But it is not just the skilled workforce. Maybe the most concerning impediment to the U.S. commercial aviation sector maximizing itself in a post-Covid world will be the availability — at an affordable price — of those that work under the wing, in the bag room, attend to the maintenance of the airport and so on. The competition for these workers will be keen. Their price will go up. It is a sellers' market. In the short-term, the outlook for containing costs at either the airline or the airport will be a difficult task.

Another concern: Can the airport's administration compete for professionals in finance, operations and information technology when established businesses and start-ups are competing for the same skillsets? They have variable compensation tools available that airports do not have because of their governance structures and their inherent limitations.

Might it not make sense to consider a workforce investment by the airport community? In my humble opinion there is no bigger concern facing airlines, airports, concessionaires and the multiple links down the supply chain that provide the necessary inputs to make the industry's output the best it can be.

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A FINAL VERSE

Writing this article has become an annual challenge that I relish. As my career begins to wane, I too have had my world impacted by Covid. The need to remake my thinking was put under a klieg light on March 11, 2020, just like many others reading this. I lost a job for the first time in 40 years. The nice part for me I guess, is that I am closer to the last exit on the long and winding road than others are.

It is nice to be able to write some words of encouragement for a change. Many in the commercial airline and airport space have been winners over the last nearly two years. Others have not. As 2022 plays out, there will be more winners and more losers. The airline network will likely have fewer nodes, at least in the short-term, for the reasons cited.

The last nearly two years have taught us to accept what is unknown. A new world will be a reality for some. For others, there will be light given the technology and innovation that has made this industry resilient over the past 40 plus years since it was deregulated. "Let It Be" does not mean laissez-faire as the new economy is present.

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