Mixed Messages in A Week of Capacity Changes

And United Airlines Make Dramatic Transatlantic Capacity Cuts for Q3

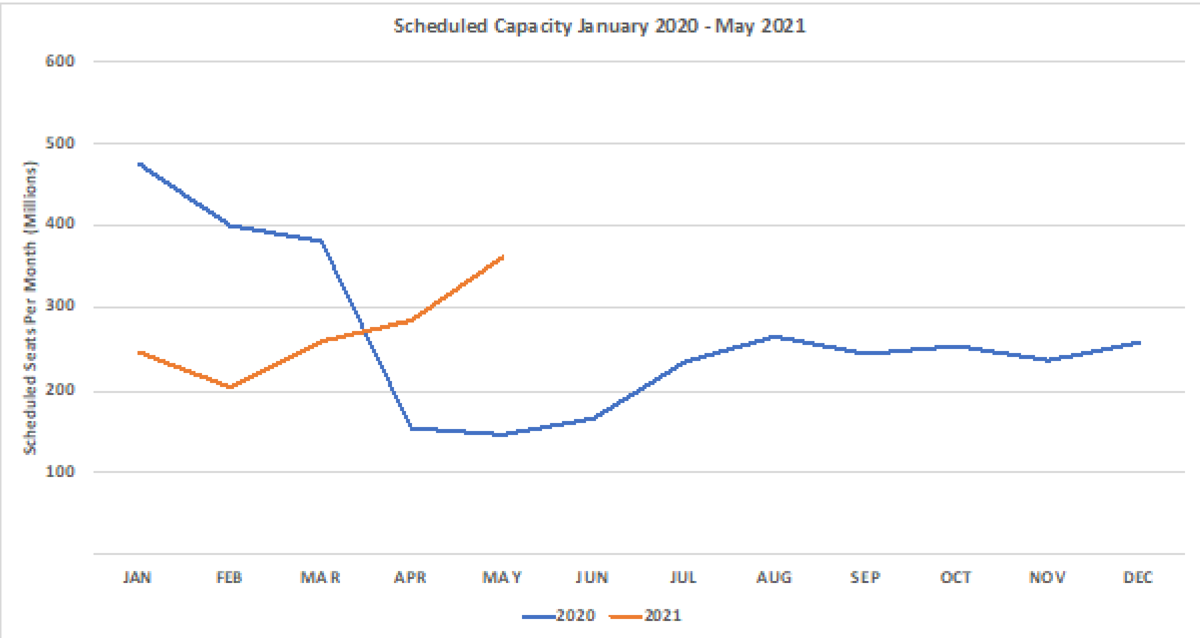
Source: OAG

It feels like it has been a busy week in terms of airline activity. Capacity continues to grow in some markets without there really being any logical explanation, CEO confidence across the US majors continues to grow, rumours of transatlantic corridors for the summer, warnings around extended travel bans in Europe as COVID-19 v3 over the weekend, Japan confirming no international visitors for the Summer Olympics and complete confusion around the vaccine roll out in Europe. It's been a quiet week!

With such a topsy-turvy week of news, scheduled airlines capacity somehow or other continues to creep forward by another 1.4% to 59.8 million; the excitement of potentially breaking through the sixty-million-mark next week will keep me awake all week with anticipation.

Just to keep things in perspective though, some 17 million more seats were removed from sales this week through to the end of May and as we head towards some key deadline dates for lockdowns being eased, airlines are now looking out to the end of April and May making necessary capacity adjustments. **At the beginning of March** scheduled airlines were planning some 309 million seats for April; this week that is 284 million; some 9% of capacity being cut less than eight weeks before the scheduled date of operation

Chart 1 – Scheduled Airline Capacity by Month



Source: OAG

The largest region for capacity growth this week is Western Europe, currently experiencing another COVID-19 spike scheduled airline capacity is up some 13% week on week; I'm not quite sure how the logic of both capacity and COVID growth works but it is a strange world at the moment. Lower South America continues to see weekly capacity reductions, this week another 150,000 seats were removed from sale; in the last three weeks some 25% of all capacity in the region has been cut and clearly in that market at least there is a linkage between **COVID-19 rates and capacity**.

Providing some balance, Upper South America has seen a week-on-week capacity increase of over 8% with an additional 70,000 seats on sale the vast majority of which are in Colombia with both Avianca and Viva Air Colombia adding more capacity, much of which is in the **domestic market**, international capacity remains consistently like a coffee; flat white please!

Table 1– Scheduled Airline Capacity by Region

Reigon	20-Jan	08-Mar-21	15-Mar-21	22-Mar-21	% Change Week on Week	% Change V's 20th Jan 2020
Asia : North East Asia	25,178,594	19,423,517	19,735,100	19,791,150	0.3%	-21.4%
North America	22,644,121	14,810,255	15,381,730	15,465,762	0.5%	-31.7%
Europe : Western Europe	18,606,424	4,112,361	4,198,929	4,738,744	12.9%	-74.5%
Asia : South East Asia	10,866,623	4,240,888	4,381,339	4,334,270	-1.1%	-60.1%
Asia : South Asia	5,160,958	3,635,072	3,668,630	3,755,380	2.4%	-27.2%
Middle East	4,930,030	2,189,133	2,196,818	2,197,368	0.0%	-55.4%
Europe : Eastern/Central Europe	3,701,241	1,677,784	1,701,312	1,769,960	4.0%	-52.2%
Latin America : Central America	2,444,383	1,471,273	1,537,978	1,607,732	4.5%	-34.2%
Southwest Pacific	2,835,574	1,433,664	1,480,130	1,504,592	1.7%	-46.9%
Latin America : Lower South America	4,033,676	1,899,506	1,605,607	1,451,946	-9.6%	-64.0%
Latin America : Upper South America	1,737,713	826,113	823,071	891,600	8.3%	-48.7%
Latin America : Caribbean	987,106	530,821	532,119	545,452	2.5%	-44.7%
Africa : Eastern Africa	767,645	443,140	439,978	433,030	-1.6%	-43.6%
Africa : North Africa	1,055,486	372,384	392,618	402,687	2.6%	-61.8%
Africa : Central/Western Africa	663,429	373,951	375,711	378,077	0.6%	-43.0%
Africa : Southern Africa	755,348	333,445	322,709	341,412	5.8%	-54.8%
Asia : Central Asia	344,740	189,503	197,283	204,210	3.5%	-40.8%
Grand Total	**106,713,091**	**57,962,810**	**58,971,062**	**59,813,372**	**1.4%**	**-43.9%**

Source: OAG

There is considerable capacity growth in a number of European markets this week, partly ahead of the Easter Holiday season and also perhaps a false hope of recovery before the latest outbreaks of COVID across the continent. An incredible 32% increase in capacity to and from Spain is based around a doubling of capacity this week from Vueling with Iberia also adding back some 15% more capacity, it's either a brave move ahead of the wider market sentiment or subject to rapid change in the next few weeks.

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Germany's 26% week on week capacity growth is driven by locally based airlines with Lufthansa adding 16% more capacity and Eurowings 43% more seats. Such capacity growth just feels out of line with the current news stories coming from Europe around increased infection rates; it feels like capacity will have to be cut in the short-term or airlines will be operating with very low load factors in the next few weeks. Can airlines afford to burn more cash with flights not covering operating costs in the next few weeks; probably not.

Table 2- Scheduled Capacity, Top 20 Country Markets

Country	20-Jan	08-Mar-21	15-Mar-21	22-Mar-21	% Change Week on Week	% Change V's 20th Jan 2020
China	16,882,726	16,160,394	16,294,154	16,254,139	-0.2%	-3.7%
USA	20,749,829	14,467,850	15,038,965	15,127,696	0.6%	-27.1%
India	4,255,510	3,046,408	3,068,599	3,150,228	2.7%	-26.0%
Indonesia	3,144,407	1,990,243	2,000,910	1,926,647	-3.7%	-38.7%
Japan	4,121,355	1,646,147	1,812,177	1,882,302	3.9%	-54.3%
Russian Federation	2,158,058	1,531,962	1,543,943	1,558,951	1.0%	-27.8%
Mexico	1,920,941	1,229,305	1,292,834	1,354,538	4.8%	-29.5%
Turkey	1,924,284	1,058,129	1,055,162	1,111,285	5.3%	-42.2%
Australia	2,058,708	1,036,202	1,073,722	1,098,106	2.3%	-46.7%
Viet Nam	1,564,476	955,860	1,072,977	1,064,065	-0.8%	-32.0%
Brazil	2,842,645	1,463,796	1,176,867	1,042,475	-11.4%	-63.3%
Korea Republic of	1,823,750	942,553	945,402	966,654	2.2%	-47.0%
Thailand	2,097,513	657,074	661,171	679,184	2.7%	-67.6%
Spain	2,226,308	490,614	514,359	678,995	32.0%	-69.5%
Saudi Arabia	1,344,926	626,361	631,011	627,114	-0.6%	-53.4%
United Arab Emirates	1,476,244	600,539	603,637	600,224	-0.6%	-59.3%
Colombia	895,513	504,622	481,768	540,131	12.1%	-39.7%
France	1,842,023	493,693	499,321	517,988	3.7%	-71.9%
Germany	2,519,489	376,301	403,363	508,158	26.0%	-79.8%
Italy	1,775,401	302,394	311,320	346,866	11.4%	-80.5%

Source: OAG

The recent growth in capacity that we have seen in the United States appears to have plateaued with just under 100,000 more seats added this week. In the last week airline CEO's in the US have been making really positive noises around the domestic market recovery as vaccine rates increase and the spring break season reaches its peak; bar tenders on Miami Beach would probably confirm how strong demand has been in the last week!

Looking at capacity by departing state in the US reveals just how strong domestic capacity has bounced back, particularly in Florida and to a lesser degree Colorado where supply is now back above pre-pandemic levels. However, some major states such as New York, California and Illinois remain between 50% and 30% below January 2020 levels, partly through tighter travel restrictions and also by a function of their domestic capacity linkages to feeding international flights.

Table 3- Scheduled Capacity, United States

US State	20-Jan	08-Mar-21	15-Mar-21	22-Mar-21	% Change Week on Week	% Change V's 20th Jan 2020
Florida	1,830,078	1,775,672	1,860,542	1,868,225	0.4%	2.1%
Texas	1,810,546	1,446,347	1,501,156	1,502,108	0.1%	-17.0%
California	2,176,162	1,257,039	1,342,528	1,360,803	1.4%	-37.5%
Georgia	1,053,244	840,006	859,533	860,754	0.1%	-18.3%
Colorado	723,054	702,595	734,624	728,072	-0.9%	0.7%
Illinois	928,055	609,479	637,379	646,577	1.4%	-30.3%
North Carolina	758,582	600,884	606,296	606,071	0.0%	-20.1%
New York	1,201,414	570,810	582,914	593,627	1.8%	-50.6%
Arizona	578,646	513,687	541,662	541,436	0.0%	-6.4%
Washington	539,915	449,803	459,379	466,302	1.5%	-13.6%

Source: OAG

Sadly, confidence around international capacity is not quite so strong. A look forward to the third quarter of this year reveals that airlines have in the last three weeks dropped over half a million seats from their transatlantic schedules. United Airlines account for the majority of those capacity cuts and they have been in recent times amongst the earliest carriers to adjust capacity cutting nearly 30% of their transatlantic capacity for the traditional peak third quarter period. It may be an “early call” but it’s also a reflection of the general market confidence around international recoveries this year; more and more airlines are now saying 2024 is the best hope for a full recovery; even that may prove to be optimistic.

With the top airline list showing as much change as the bottom of the premier league, Fulham are still in the bottom three if anyone is interested, rather than confirm that **American Airlines** are still the largest carrier in the world and that Iran Air are no longer one of the top twenty largest carriers (replaced by ANA) we have taken a look at those carriers that remain virtually stranded. Applying a minimum capacity of 100,000 seats being operated this week we have identified the “top” capacity losers this week compared to January 2020. Ten of the carriers listed are operating less than 25% of their normal pre-COVID capacity levels and in some cases such as Air Canada, Cathay Pacific and Singapore Airlines continue to have no real visibility around when services could be relaunched.

Such a list of global brands and market leaders stranded, just highlights how far many airlines still have to go before seeing a recovery.

Table 4- Top 20 Airlines Capacity Cuts. W/C 20th Jan'2020 V's W/C 22nd March 2021

Airline	20-Jan	08-Mar-21	15-Mar-21	22-Mar-21	% Change W/C 22nd Mar V's 20th Jan'20
Ryanair	2,439,612	120,420	120,798	169,659	-93.0%
Easyjet	1,363,034	138,780	145,158	177,555	-87.0%
Air Canada	1,171,019	155,429	155,080	154,898	-86.8%
British Airways	1,089,286	136,180	147,336	163,173	-85.0%
Cathay Pacific Airways	602,963	98,067	109,539	108,965	-81.9%
Alitalia - Societa Aerea Italiana S.p.A	523,812	106,788	106,244	108,432	-79.3%
Lufthansa German Airlines	1,576,378	257,131	291,367	335,916	-78.7%
Singapore Airlines	547,028	120,503	123,447	123,125	-77.5%
Korean Air	653,026	156,154	154,856	160,458	-75.4%
GOL Linhas Aereas S.A.	1,009,662	422,256	269,772	255,216	-74.7%
Vueling Airlines	511,500	59,004	59,016	134,874	-73.6%
SAS Scandinavian Airlines	735,644	179,915	175,881	196,930	-73.2%
Wizz Air	696,706	144,198	146,766	189,003	-72.9%
Emirates	1,481,849	486,598	481,633	478,039	-67.7%
Avianca	695,066	214,883	213,391	225,123	-67.6%
Aerolineas Argentinas	324,839	112,072	106,396	106,638	-67.2%
LATAM Airlines Group	1,870,132	799,564	740,053	627,375	-66.5%
Asiana Airlines	472,066	146,756	143,509	160,974	-65.9%
Copa Airlines	330,060	110,660	113,108	118,442	-64.1%
Air France	1,163,127	414,664	413,469	422,489	-63.7%

It does seem that those countries with higher levels of vaccine take up are looking to create travel corridors, combining travel passports with those high rates of coverage. If that is the case then a US – UK travel corridor may be possible sooner rather than later which based upon current trends will see Florida sink under the weight of visitors! Or perhaps an Israel – UAE corridor, who would have thought that twelve months ago or even more bizarrely a travel bubble from Chile to the United Kingdom; it's a strange world!

The airline industry has always been irrational which perhaps makes it such a fascinating and exciting industry. In just seven days we have rocked and rolled from positive messages, accelerated vaccine recoveries to new lockdowns, vaccine rollouts being suspended and extremely positive comments around future demand. Any guesses at what this week will bring?

Stay safe everyone.