

Forecasting the unpredictable

How many times in your working experience have you heard that a forecast is already outdated before even releasing the results. Needless to say, under the current environment, what the situation is. More than ever, taking critical decisions based on "gut feelings" or on standard methodologies more appropriate for periods of stability, could put business at risk.

In this article we are breathing through some of the variables we are evaluating in our scenario planning models and which play and will play a critical role in the recovery path in the short, medium and long term.

“World aviation traffic was showing a steady and resilient growth in 2019 despite the presence of global threats (Brexit, Trade War or the Greta Effect)”

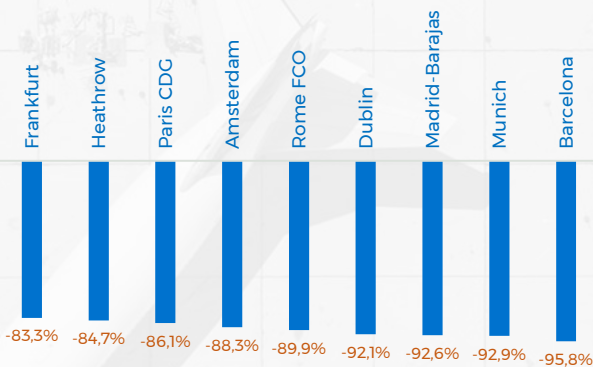
The first key challenge is trying to identify the end of the fall, and that means understanding the pre-crisis background as the starting point. Broadly speaking, world aviation traffic was showing a **steady and resilient growth** in 2019 despite of the global presence of certain threats and uncertainties, namely:

- **Political and economical instability** - Brexit, US-China Trade War or the economic indicators showing the likeliness of a potential upcoming recession in 2020
- **“Greta Effect”** - Sectors of public opinion becoming concerned about the negative effects of aviation in the climate change

World aviation traffic proved resilience to these threats and performed well during 2019 in major markets.

Secondly, as anticipated, a landmark to identify will be the bottom end of the traffic fall before the recovery period. Travel bans and restrictions have caused so far, an **overall double digit decline** in traffic during Q1 2020, leaving a remarkable proportion of the global aircraft fleet on ground.

Daily variation of traffic in the main European hubs (April 2020)



Source: EUROCONTROL

“The COVID-19 crisis in aviation is more serious than SARS, 9/11 or the global financial crisis outbreak”

Alex Cruz, Chairman and CEO of British Airways

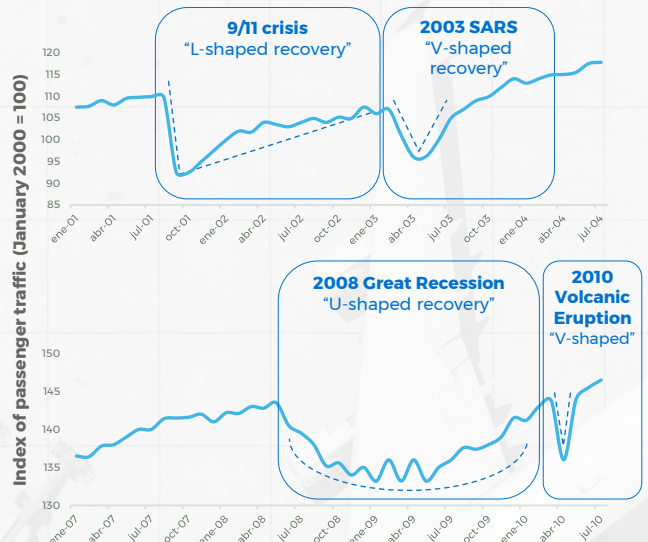
The apparent positive effect of the global confinement measures on the virus spread control and the re-start plans being deployed by the governments, lead us to think that Q2 2020 will most probably show the monthly minimum of the year.

“Everything seems to point to a long-term and progressive L-shaped recovery (worst-case scenario)”

The following step will be estimating the recovery period. Looking back, aviation’s response to global crisis could be summarized in three different recovery models:

- **“V-shaped recovery”** - Sharp decline and short-term recovery e.g. 2003 SARS outbreak and 2010 eruptions of Eyjafjallajökull
- **“U-shaped recovery”** - Sharp decline and medium-term recovery e.g. 2008 Great Recession
- **“L-shaped recovery”** - Sharp decline and long-term recovery e.g. 9/11 attacks in New York City, Washington D.C and Pennsylvania

Unfortunately, given the destructive consequences of the confinement’s measures, everything seems to point a long-term and progressive “L-shaped recovery”.



Some of the factors which will lead the recovery slope and even the long-term growth, will be:

- **Depth of financial crisis:** COVID-19 has caused an unprecedented and rapid loss of employment and partial destruction of the business fabric
- **Passenger loss of confidence:** Air travel has been related to the international spread of COVID-19 since its early start and it is expected that this psychological factor, will cause an overall loss of confidence in air transportation, especially for international and connecting flights
- **Behavioural changes:** Tourism focused on domestic destinations or using virtual meetings instead of business travels could become major behavioural changes that could potentially affect negatively air transportation
- **Social distancing measures on air transportation:** It is currently under discussion the option to consider onboard distancing measures such as keeping empty the central seat. In a typical A320 configuration, this measure would reduce up to 30% the overall load factor of the aircraft with the obvious consequences either on ticket prices or directly resulting on the non-feasibility of such flight.

A320 configuration
Low-Cost Carrier
(Pre-COVID)

A320 configuration
Low-Cost Carrier
(Social distancing measures on)

171 passengers
Load factor = 0.95

120 passengers
Load factor = 0.67

On the ongoing context, forecasting the recovery in aviation has become more complex, but, on the other side, more necessary than ever. Most experts agree that the recovery will commence with DOM traffic recovering progressively as passengers start their travels in their home countries. INT traffic would follow once passengers commence to gain confidence again in air transportation. The period of recovery could take as long as 3-5 years, depending on the source.

“Forecasting the recovery in aviation has become more complex, but on the other side, more necessary than ever”

The truth is that nobody can assure how the recovery will look alike and therefore the scenario modelling and the continuous update of the forecast (nowcasting rather than forecasting) will be of the essence in the aviation market as a key source for planning, business modelling and re-plan of Capital Investments.

“Nowcasting rather than forecasting will be of the essence in the aviation market as a key source for planning, business modelling and re-plan of the operation”

In Leadin Aviation Consulting, we are evolving our solid methodologies to capture today's uncertainties and complexities with the goal of forecasting (or nowcasting) the unpredictable and to help our clients to get ready and be better positioned for the new panorama of the aviation industry.

David Castro

Airport Planner

Leadin Aviation Consulting

