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S&P: U.S. Airport Sector Well-Positioned While U.S. Ports Prepare For Volume Declines Under Our Baseline Coronavirus Scenario.

NEW YORK (S&P Global Ratings) Feb. 12, 2020–Based on our initial sample survey of U.S. airport operators, most are well-positioned to manage the operational and financial implications associated with our baseline economic assumptions related to the 2019 new coronavirus (COVID-19) outbreak. However, U.S. ports with exposure to China are preparing for a likely decline in container volume and further softening in trade, as cancelled shipping calls and trade in goods in both directions will be substantially affected by supply outages and disruptions to logistics networks. (For the most current overview, see "Global Credit Conditions: Coronavirus Casts Shadow Over Credit Outlook" published Feb. 11, 2020.)

S&P Global Ratings' baseline assumption is that COVID-19 will be contained globally in March 2020, allowing travel and other restrictions to be unwound by the middle of the second quarter. We estimate that the virus could lower China's GDP growth by 70 basis points (bps), to 5.0%, this year, with a peak effect in the first quarter before a rebound begins in the third quarter, and lost output largely recovers by the end of 2021. In turn, it would trim 30 bps from global GDP growth this year. However, if the outbreak is not brought under control in March, the economic impact could be much larger.

To assess what effect, if any, COVID-19 will have on U.S. airport sector, S&P Global Ratings surveyed a select group of airports mostly where U.S. health officials are conducting enhanced screening of passengers. Airports included in our sample are:

- Chicago's O'Hare International Airport
- Dallas-Fort Worth International Airport
- Guam International Airport
- Honolulu International Airport
- John F. Kennedy International
- Los Angeles International Airport
- Newark Liberty International Airport
- San Francisco International Airport
- Washington Dulles International Airport

Our findings are as follows:

- Most of the airports we surveyed have limited exposure to flights from China;
- None of the airports have revised current enplanement forecasts for 2020 as yet, although we anticipate those with greater exposure will see some softening; and
- The cost recovery financial structure of airports mitigates the financial impact of lower-tha--expected activity levels.

We anticipate the generally favorable overall enplanement forecasts for this year will mitigate any potential weakening in air travel demand related to this health emergency under our baseline scenario.

For the U.S. port sector, we see the COVID-19 outbreak as an additional risk–on top of weakness due to the ongoing trade and tariff dispute–if it becomes a drag on the overall Chinese economy, dampening GDP growth that, in turn, will cause lower-than-forecast levels of goods imported to or exported from China. The demand shock is larger for China than for its trading partners, so all else being equal, this should mean that the decline in imports of goods and services (including tourism) will be larger than that for global exports. At the same time, trade in goods in both directions will be substantially affected by supply outages and disruptions to logistics networks. Overall, it seems likely that imports will be hardest hit and this will provide an offsetting, but moderate, positive contribution to growth that will unwind later in 2020. (Continue to check our website for an update on the port sector at https://www.spglobal.com/ratings/en/sector/u-s-public-finance/transportation)

We consider this latest health emergency an evolving one that we believe is still in its early stages. Therefore, it is difficult to say if it will have a material impact on those U.S. airport and port credits we rate. Consequently, this potential risk does not change the positive and negative 2020 sector outlooks we have for the airport and port sectors, respectively. During past outbreaks, we took no negative rating actions, since their impact was temporary. For example, the SARS coronavirus outbreak in 2003 led to a 14% reduction in total passengers for San Francisco International Airport's Asia traffic for the year, followed by a 19.5% rebound in Asia traffic the following year. However, should this outbreak create a persistent, durable, and material drag on air travel demand or trade flows, we would consider it a major credit risk, potentially leading us to lower the ratings on some issuers.

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