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Fitch: U.S. Gateway Airports to Benefit from Lifting of China Travel Restrictions

Fitch Ratings-Austin/New York-12 January 2023: The lifting of China's Covid-19 travel restrictions will boost international air travel, accelerating air traffic recovery and buttressing revenues at select U.S. major-hub international gateway airports such as Los Angeles, San Francisco and New York that have established operations across Asian markets, Fitch Ratings says.

In a sharp policy reversal, China announced at the end of December that it was eliminating almost all international travel restrictions and quarantine requirements put in place to contain Covid-19 outbreaks. China's reopening in January follows similar relaxing of travel restrictions in other Asian countries in late 2022 and essentially ends the last Covid-related restriction on a major global travel market. Before the pandemic, China travel typically represented just a low to mid-single-digit percent of gateway airports' respective total passenger levels. Still, the growth potential is strong given the building economic ties and leisure-oriented demand.

China's underlying travel demand is diverse, and the reopening underway is expected to benefit both business and leisure travel. This combined demand should be a growth catalyst to large hub airports with sizable business and international travel segments and whose air traffic recovery has previously lagged domestic-focused, regional airports reliant on leisure travel. Increased China travel will add to airports' operating revenue base through greater gate and landing fee revenue and concession spending, solidifying international gateway airports' finances and supporting credit at current rating levels. International airlines usually pay considerably higher fees to airports than domestic airlines.

Full China air traffic recovery to the U.S. will likely take one to two years before the resumption of normal organic growth, consistent with recovery timeframes for other global regions when travel restrictions eased following Covid-19 lockdowns. In most cases, international markets that reopened in early 2021 have nearly recovered to pre-pandemic levels heading into 2023. News reports indicate that the Civil Aviation Administration of China would like passenger traffic to grow to 75% of pre-pandemic levels this year.

Prior to the pandemic, the trend in Asia travel growth was positive, with the leading U.S. gateway airports gaining Asian destinations and flight frequencies. U.S. domestic and foreign-flag operators increased scheduled services. Specific to China, U.S. gateway airports typically supported service from three to five Chinese-based carriers, with operations on a daily or several times per week basis.

China, along with other Asian countries such as Japan, South Korea and Taiwan, are key sources of international traffic for several U.S. international gateway airports, particularly Los Angeles International (LAX; AA/AA-/Stable), San Francisco International (SFO; A+/Stable), and John F. Kennedy's (JFK) privately operated international terminals, which have the largest share of Asia traffic of all U.S. airports.

For SFO, one of the largest North American gateways to Asia, international traffic is traditionally around 25% of its total traffic, of which Asia is 40%. Asia-region traffic at SFO had only recovered to

22% of 2019 levels in FY22 (ending June 30), but is expected to roughly triple in FY23. In FY19, Hong Kong, China accounted for 3.7% of SFO's international origination and destination passenger bookings, second only to the greater London region airports with 5.5%.

Based on TSA screenings, overall air traffic in the U.S. recovered to 90% of 2019 levels for calendar year 2022. We have a neutral sector outlook on U.S. airports for 2023 based on our expectation of mild volume growth, with full recovery to 2019 levels expected by 2024.

For more information, please attend Fitch's 2023 Outlook - US Transportation discussion. Registration information can be found at events.fitchratings.com/2023outlookustransportation.