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Fitch: Summer Months Crucial for North American Airports as Possible Recession Looms

Fitch Ratings-Austin-07 June 2023: The summer months could be a catalyst for a return to growth for North American airports before a potential economic downturn takes hold in the latter half of the year, according to Fitch Ratings.

Following a strong start to 2023, passenger traffic has flattened in recent months due to a combination of supply chain constraints, delayed aircraft deliveries, pilot and crew shortages, staffing issues and permanent losses in the business travel segment. Still, U.S. airport ratings remain on solid footing. 'The blended business/leisure traveler will help companies pumping the brakes on corporate travel,' said Senior Director Jeffrey Lack. 'Employers' push to get more workers back to the office could lead to sustained improvement to the business segment.'

Looking ahead, domestic leisure airports are most at risk to see growth soften given the resurgence of international travel with the elimination of COVID-19 restrictions in foreign countries. Conversely, international gateway airports, such as SFO, LAX, JFK and ORD will likely have the most to gain as recovery ensues. Canadian airports also stand to gain given the full border opening and the relatively slower recovery in 2022.

Many airports, including IAH, SEA, and DEN are expecting double-digit growth in traffic this summer from last summer, according to Airlines for America. One impediment to growth at international gateway airports could be the unprecedented surge in demand for travel documents that has created a growing backlog, with passport times now taking nine to 13 weeks. Demand for passports has surged by at least 30% this year, as 500,000 applications come in weekly.

The FAA acknowledged the potential strain on the aviation industry this summer and has relaxed "use it or lose it" policies for takeoff and landing slots from mid-May to mid-September at the three major airports serving NYC and to DCA in Washington, DC. Airlines will likely fly fewer routes this summer, but with larger planes, netting a positive increase in capacity.

Looking past the busy summer travel months, macro headwinds from a potential economic downturn could weaken demand. Airline cost pressures from labor rate increases under new contracts could also cause a softening in demand to the extent there is a full pass through to average ticket prices. With traffic at most airports now close to or exceeding pre-pandemic levels, non-airline revenues have solidly rebounded, led by strong growth in parking and rental cars.

Partially due to the three rounds of federal stimulus, some airports have liquidity balances at or greater than pre-pandemic levels and some airports still retain federal relief funds to utilize over the next year. Debt service coverage ratio levels are normalizing under the cost recovery frameworks and leverage remains consistent with current rating levels.

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