How Canada’s Aviation Sector Is Placed Amid the Pandemic

Description

It’s been more than six months now that Canadian airlines are operating with trivial capacities amid the virus outbreak. As aviation is a capital-intensive business, all airline companies worldwide are burning a sizable amount of cash every day. It will be important to see how Canadian airlines emerge from the crisis given some of the world’s stringent travel restrictions.

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Canadian aviation sector and stringent travel restrictions

The aviation sector in Canada supports more than 600,000 jobs and contributes approximately 3% to the GDP. Despite collective voices from the Canadian airlines to ease travel curbs, authorities have continued to extend them. It is expected that these travel restrictions could result in around $20 billion of lost revenues in 2020. This will likely leave the industry with fewer players after the crisis.

The pandemic has dented the global air travel demand by multiple times compared to that of the 2008 financial crisis. Canadian airlines, in particular, have not received any sector-specific federal financial aid so far. However, their U.S. counterparts and some air carriers in Europe as well have received sizable support from the respective governments. Many Canadian airlines fear of cutting more than half of the workforce in the absence of government aid.

The country’s biggest airline **Air Canada** (TSX:AC) carried just 5% of passengers in the second quarter of 2020 compared to Q2 2019. It has lost nearly $3 billion so far in the first half of 2020. Notably, Air Canada has the scale and comparatively more avenues to raise capital than what smaller airlines like **Transat AT** (TSX:TRZ) has. A prolonged crisis will make such smaller carriers more vulnerable. Transat reported a 99% decline in Q2 revenues amid the pandemic-driven travel curbs.

What airlines could do amid the pandemic

It is going to be important for airlines to keep operating amid the outbreak until the vaccine reaches a large portion of the global population. Air Canada has started with testing at the airports and offers insurance packages specially dedicated to COVID. An unlimited flight pass at a fixed fee from Air

Canada is a welcome move. How flyers respond to it remains to be seen. We might get to see more of such schemes to woo flyers.

Also, passenger carriers can consider lowering airfares to encourage flyers when travel restrictions ease. It will not be easy, particularly for smaller and more vulnerable players, given the steep revenue loss already. However, attractive pricing could play a vital role if airlines want to see pent-up demand in the holiday season.

The shares of the Canadian airline companies are still notably down this year. While Canadian broader markets are up more than 40% since March, airline stocks have sported no signs of a concrete recovery. Stocks like Air Canada and Transat are still trading 70% lower to their pre-pandemic levels.

In terms of recovery in the Canadian aviation sector, easing travel restrictions will play a key role. It is even more challenging for airlines to gauge the returning demand amid the ongoing travel restrictions. As Air Canada and peer airlines are demanding, there should be a science-based approach instead of an outright travel ban and mandatory quarantine. Once airlines start operations, even if they remain low at first, it will lower the cash burn rate and significantly ease their financial burden.

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