



Air Canada (TSX:AC): Just How Big a Risk Is the Delta Variant?

Description

Air Canada ([TSX:AC](#)) stock has been really tanking lately. Since hitting a high of \$29.80 in March, it has fallen to \$23.74 — a 21% decline. While AC is still holding ground above \$20, the current trend (if it persists) risks taking the stock back to its 2020 lows.

Many commentators have attributed the selloff to the rise of the COVID-19 Delta variant. The Delta variant, and other new variants, have been described as “more contagious” than the original strain of COVID-19. As a result, many regions that have been hit with the new variant — such as Australia and New Zealand — have started re-implementing lockdowns.

It goes without saying that that’s bad news for airlines. People under lockdown can’t travel, at least not easily. With lockdowns usually come 14-day self-isolation orders for travellers, which kills demand for flights. If public health measures become widespread in Canada again, then Air Canada’s revenue will be lower than expected.

The Delta variant caused a lot of problems in Australia and New Zealand

The Delta variant is not some distant threat; it is already leading to lockdowns in many parts of the world. Principally, Oceania (Australia and New Zealand). In those countries, [politicians have taken the following measures](#):

- Shutting down work sites
- Closing schools
- Implementing curfews
- Banning work-related travel outside the “local government area”

Most of these measures are similar to what we saw in Canada in the first wave of COVID-19, when pretty much the entire country was under lockdown. However, the last item on the list is a little different. Even under Canada’s most strict lockdowns, people could travel as long as they stayed within

their province. In New South Wales, citizens aren't allowed to go five kilometres outside their "local government area" (this appears to be an Australian term referring to an area under one city government). Work does not provide an exemption to this rule, unless the job is healthcare related or otherwise essential.

Under such measures, demand for even local flights is suppressed. So, such measures would be a risk to Air Canada if they were to be implemented in Canada.

Canada looks unlikely to take the same approach

All of the above being said, it looks like Canada is unlikely to follow the same approach that Australia is currently following. Parts of Canada are seeing over a thousand new cases a day, yet the measures that have been implemented haven't been as extreme as those seen in Australia and New Zealand. Alberta, for example, had 1,246 new cases on Tuesday but still allows travel within the province. If Canada continues to pursue these kinds of policies, then the airlines will still be able to do at least some business. But as long as 14-day self isolation orders persist, then [Air Canada's recovery](#) is forestalled.

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