



GLOBAL AVIATION TRAFFIC TO REACH PRE-PANDEMIC LEVELS BY JUNE – AVOLON 2023 CLIMB TO CRUISE OUTLOOK

News / Airlines



The aviation sector is set to thrive in 2023 with global traffic to reach pre-pandemic levels by June, according to a paper published today by international aircraft leasing company Avolon. After a 70% recovery in passenger traffic last year led by recovery in Europe and North America, Asia will drive growth in 2023, helped by the recent reopening in China. For every two seats of airline capacity added in the world today one is in Asia. The traffic recovery brought the sector back to the brink of profitability in 2022, after combined sector losses of \$180bn in 2020 and 2021. A profit of c.\$4.7bn is forecast for 2023 as recovery continues.

Avolon's *2023 Outlook: Climb to Cruise* paper, available [here](#) reviews trends in the sector for airlines, manufacturers, and lessors. Key findings include:

- **Airlines:** Airlines' financial recovery is ahead of their capacity recovery: while air traffic is still

25% below 2019 levels, revenues are just 13% lower as airlines flex their pricing power and raise fares. Demand for travel is no longer the constraint to recovery, but airlines' capacity to put planes in the air.

- **Manufacturers:** Delivery delays have become endemic and an aircraft shortage is emerging given the lost production of 2,400 planes that had been planned but were not built due to the pandemic. As traffic flows rebound, the absence of new aircraft is increasing supply tension, supporting long-term residual values.
- **Lessors:** Airlines have shrunk their owned fleets by 3% since 2019, whereas lessors have grown theirs by 17% and now manage 53% of the global passenger fleet by value. Aviation markets are adjusting to higher interest rates, and lease rates are increasing, creating opportunities for well capitalized investment grade lessors.
- **Sustainability:** Aviation needs to make greater progress addressing concerns about its long-term environmental impact. Sustainable Aviation Fuel (SAF) production tripled in 2022 but still represents only 1% of the amount hoped to be produced in 2030. Lifting SAF production to 10% of jet fuels will require \$250 billion in investment and collaboration between all industry stakeholders.

Andy Cronin, CEO of Avolon commented: "Aviation has demonstrated its resilience and is ready to thrive having come through a pandemic-driven two-thirds drop in traffic. Airlines, manufacturers, and lessors share an ecosystem that creates opportunities for all but requires collaboration to overcome key challenges including a higher interest rate environment, limited aircraft availability and the need to make further progress on decarbonisation goals. The rebound in 2022 is set to continue in 2023, with China's reopening helping to drive global traffic levels to pre-pandemic levels by June. Airlines are enjoying higher fares and load factors, and manufacturers are under pressure to ramp up production quicker. Whilst geopolitical and macroeconomic risks remain, this is a positive environment for lessors as supply constraints drive higher lease rates and increase the value of order books."



The paper - co-authored by Avolon's Chief Risk Officer, Jim Morrison, and Head of Counterparty Risk & Sustainability, Rosemarie O'Leary – makes seven forecasts:

Fearless Forecasts 2023

1. **China drives global passenger traffic to 2019 levels by June:** Reopening of the world's second largest aviation market will drive a rapid uptick in air travel.
2. **Manufacturers delay delivery rate targets by a year:** Airbus and Boeing are targeting producing a combined 140 single-aisle and 24 twin-aisle aircraft per month by 2025. These targets will be delayed a year to focus on delivering to schedule and quality versus aspiration.
3. **A330ceo market lease rates increase by 35%:** Used widebodies will be back in demand as international markets fully reopen, new aircraft are in short supply, and a pressing need for additional capacity emerges.
4. **Airline consolidation to accelerate as new airline start-ups slow:** 100 new airlines started operations in the past three years, capitalizing on available aircraft and crews. Consolidation will replace fragmentation in 2023 and start-ups without competitive niches will be forced to exit.
5. **Two investment grade lessors will receive rating upgrades:** Aviation has weathered the most severe downturn imaginable and yet lessor credit metrics all point positive. Ratings agencies will acknowledge the strength of the business model with upgrades.
6. **Two electric aircraft manufacturers are acquired:** Start-up aerospace firms have built valuable intellectual property but require additional funding to finish the job. Larger firms will seize the opportunity to buy the most promising concepts.
7. **The volume of Sustainable Aviation Fuel (SAF) under offtake agreements doubles:** Offtake agreements de-risk project financing by locking-in future revenues. ICAO tracks 40 billion litres of SAF under agreements today. This will increase to 80 billion, but more is needed.

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