



How our flying habits will change

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If you had said back in December that in 2020 European aviation would grind to almost an entire halt you would have found few allies. And yet in the second quarter of 2020 most European airlines could cut between 95 and 100 per cent of their flight schedules due to covid-19. Much attention has been paid to one part of the recovery story – the airlines' ability to weather the storm (and to what extent government aid might be needed to ensure their survival). But equally important is the question of passenger habits. Once distancing restrictions and travel bans have been lifted will people still want to fly?

In this article we consider a number of factors that will drive our post covid-19 choices when it comes to flying. History would tell us that a two to three year recovery time for passenger numbers to return to pre-crisis levels is typical after such an event, but there are a number of reasons why the recovery could be different, particularly for business travel. We also touch on some potential other implications around booking habits.

The history lesson: there are different types of events that typically stop people flying...

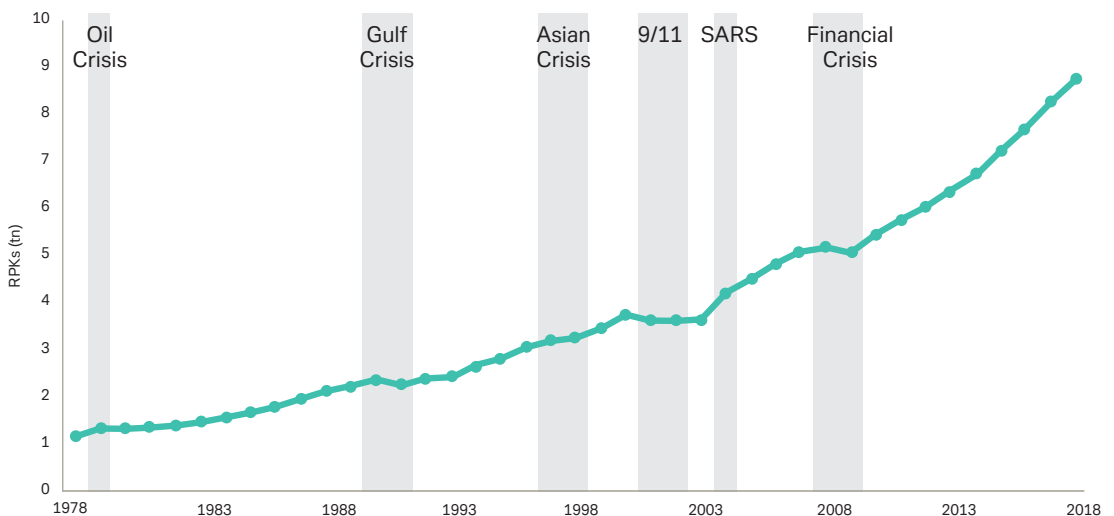
In the history of commercial aviation there are a select number of things that have deterred people from flying en masse. They are generally related to war, terror incidents, natural disasters, financial crises, and significant health pandemics. Covid-19 covers the final two in this list.

Financial crises, like the one we saw in 2008, have a seemingly straightforward connection to lower levels of air travel. In simplistic terms, higher unemployment and financial burdens on households decrease disposable income and the ability to justify leisure travel. Greater general economic uncertainty further adds to this. For business travel the push-and-pull factors are broadly similar and financial downturns typically thwart business travel demand in the near-term.

The impact of global health pandemics on people's reasons for not flying are arguably more focused on safety concerns and the risk of contracting or spreading the illness. Decisions not to travel during these crises can also be influenced/determined by government travel bans and restrictions. Terror attacks have also caused declines in passenger numbers due to fear of further attacks or terror related incidents, the most prominent example being the September 11 terror attacks in the US.

Yet, while the reasons behind significant numbers of people choosing not to travel, or being unable to, are varied, the kind of recovery pattern we see in the aftermath of these events is often relatively similar. History suggests that people revert to the kinds of flying habits they exhibited prior to the event over a two to three year period such that passenger levels usually recover to pre-crisis levels within this timeframe.

People do fly again but it may take some time



Source: (RPKs = Revenue Passenger Kilometers), AirBus GMF 2019, ICAO.

So, do we expect the usual two to three year recovery, or will it be different this time?

Starting with leisure travel... fear will fade; some (manageable) environmental factors to remain

In the main, we think the pent-up demand for exploring the world and holiday-making, as well as visiting friends and relatives, will be the overriding driving force that could lead to a relatively typical recovery in leisure travel.

The green agenda (does anyone remember flight shaming?!) had already posed the risk of some structural change here, and we acknowledge that marginal decisions about whether and where to go on holiday will not have been helped by covid-19. But ultimately, we think the aforementioned desires coupled with actions by governments, airlines and passengers themselves around carbon offsets, will mean that healthy demand for leisure travel returns.

Probably the bigger risk near-term will be the fear-factor. This is particularly the case for people of a certain age or health as they consider where to go that might be more or less risky. However, we expect all of the governments and industries for whom a recovery in tourism is important to do everything within their powers to stimulate travel again and make people feel safe. This could be via pricing or via some initial social distancing. Already we have seen some airlines and hotels announce details of significant increases in cleaning measures. There is also the ongoing debate on the 'middle seat' measure airlines could implement to increase passenger distancing during flights. As a result, we expect the fear factor to fade over time, especially if we see the development of an effective vaccine or cure.

Turning to business travel... there could be some more serious lasting implications

At every major technological development or financial crisis people have declared the death of business travel in favour of lower-cost, technologically savvy virtual interactions. So far, this has not materialised at the scale many have predicted. However with covid-19 sparking the world's largest ever working from home experiment, almost complete reliance on virtual interaction in our work and personal lives must surely have some impact on the way workers and businesses think about business travel.

There are a few things that could make covid-19's impact on business travel unique:

1. Workers have increased dependence on virtual connectivity in all aspects of their lives. This will likely have increased the level of familiarity with such technologies for many people and perhaps their willingness to more actively adopt virtual communication in place of business travel in their working lives.
2. Business enlightenment to technological capabilities. Most businesses have been forced to find alternative means of communication to face-to-face interactions, and this forced integration, further investment, or in some cases initial investment in virtual communication will likely better position many businesses post covid-19 to make more efficient use of travel-replacing technologies should they choose to.
3. Economic pressures – not unique to covid-19 but important nonetheless. The severe economic impact that covid-19 has wrought is something we typically expect to suppress business travel demand in the near-term, similar to experience seen in prior financial downturns. Typically this impact would be shorter-term but it could certainly further contribute to changes in longer-term business travel habits when coupled with the technological factors listed above.

So are we declaring the death of business travel? No, that has been done before and it has never materialised. Despite the above factors it is also important to acknowledge that for some businesses travel will remain essential. Auditing, sales/buying, infrastructure/oil rig workers, and engineers among others will continue to have travel-critical aspects to their roles. Beyond this it is important to remember that not all virtual experiences will have been positive, or quite the same – really a two-pronged point. Firstly, not all businesses will have found the quality of their technology platforms or their ease of use a positive experience and this could deter some from long-term adoption. Secondly, and more related to 'soft skills', some workers and businesses may conclude that the ability to properly interact (body language recognition, lasting impression of an interaction, ease of communication) cannot currently be truly

replicated virtually. These kinds of factors will continue to prevent the death of business travel. However, it is abundantly clear that there is potential for covid-19 to impact habits in this travel segment beyond a shorter-term cyclical decline.

What else might change?

The coronavirus lockdown and all the cancelled travel plans that came with it might not deter people from travelling in the medium-term, but it could change how they book. In recent years we have seen the introduction of a broader suite of ticket types available including 'flexible tickets'. This fare typically includes on-board perks and, crucially in a post covid-19 world, greater ability to change your flights at late notice for little or no charge. Given the level of disruption covid-19 has caused to travel plans, the ability to buy guaranteed flexibility could be increasingly appealing to passengers. Currently, the level of promotion of these fares from airlines has been limited but they could pose an interesting addition to the post-covid air travel dynamic.

Another aspect to consider is the timeline with which people book travel. Business travel lead-times are typically short (a few weeks) but for leisure they can be much longer. If people retain a level of caution around future possible lockdowns or virus outbreaks the average lead-time with which people book holidays could decrease, particularly in the first few years post covid-19. Current pricing trends for flights usually sees fares increase as the date of travel approaches so for airlines this could have good implications for yield trends.

Bottom line

History tells us that people normally go back to travelling within two to three years of a crisis. We continue to think that pent-up demand for leisure travel will aid the post covid-19 recovery as the virus is unlikely to have fundamentally thwarted people's desire to visit family and friends, and take regular vacations. However covid-19 could well lead to a different kind of recovery timeline because of its unprecedented impact on society and social interaction, particularly when it comes to business travel.

