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Tourism-destination airports resurge as domestic travel gains

By

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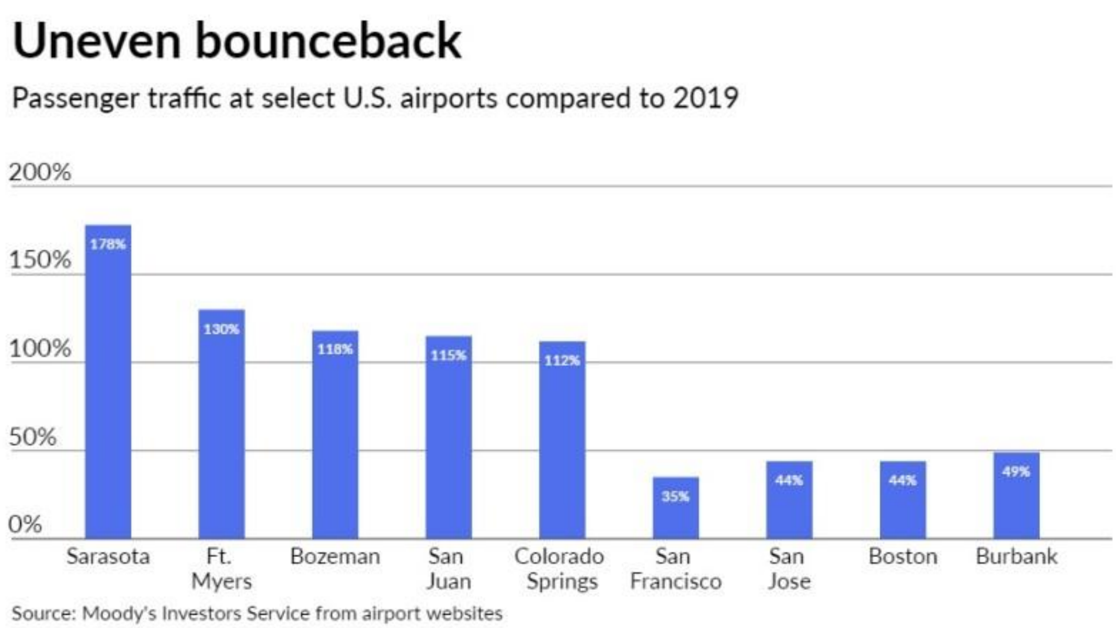
As the coronavirus pandemic continues to impede international travel, domestic flights have become more important to the economic health of airports in the U.S.

Even domestically, all destinations are not created equal. Tourism and recreational travel is driving the domestic air traffic resurgence with business travel falling behind as international traffic remains depressed. According to a Moody's report released July 19, travel volume to some tourist destinations this spring exceeded levels last seen in pre-pandemic 2019.

"There's a wide range of recovery among U.S. airports. While on a national level, if you use TSA screenings as a proxy, we're at about 80% and we've been riding that 80% line now for about two to three weeks," Earl Heffintrayer, a vice president at Moody's, told The Bond Buyer.



“The key thing is the difference between the best performing airports and the worst performing is very stark,” Heffintrayer said. “We see that mountain locations and beach locations are really benefiting from the U.S. traveler for the most part not being able to go abroad and so those people are replacing their international trips domestically.”

He said that while international business travel is slowly trickling back, Moody’s is seeing large international gateway cities still performing far below normal.

He noted that Miami was still down on overall numbers because, even though travel to Latin America and the Caribbean was the best performing international travel, the rest of Miami’s international travel volume was lower.

“We’re seeing that recovery in Florida is well spread around,” he said. “Sarasota has been the biggest recipient of the increased service during the pandemic. But it extends wider, with Charlotte remaining the best-performing large hub airport in the U.S., followed by Tampa. Orlando is also above average.”

The data shows that airports in Sarasota and Fort Myers as of May 21 had some of the highest recovery rates in the U.S. compared to 2019 levels along with airports in Myrtle Beach, South Carolina; Charlotte, North Carolina; Colorado Springs, Bozeman, Montana; and San Juan; Puerto Rico.

In contrast, airports in California such as San Francisco, Burbank, San Jose and Los Angeles had some of the lowest recovery rates alongside Boston Chicago-O’Hare, Philadelphia and Portland, Oregon.

BofA Securities research analysts took note.

“Airports with the highest May 2021 recoveries tended to be those serving beach, mountain and national park tourism,” BofA said in a report issued last week. “Florida airports are approaching or are above pre-pandemic levels, with Sarasota's and Fort Myers' recoveries at 178% and 130%, respectively.”

Meanwhile, airports in the Northeast and California were seeing a slower recovery.

“San Francisco recovered just 35% while Boston sits at 44%,” BofA said.

Crowds at an Atlanta Hartsfield International Airport check-in counter. Domestic air travel is rebounding from the COVID-19 pandemic. ***Bloomberg News***

Moody’s isn’t alone in seeing how some U.S. airports are bouncing back from one of the worst health crises in recent history.

On July 12, Fitch Ratings revised its forward-looking U.S. air traffic assumptions higher “due to the strong rebound in domestic air travel driven by increased U.S. vaccinations and a surge in U.S. leisure air traffic since March 2020.”

The count of passengers passing through Transportation Security Administration security checkpoints tells a story; this month through Tuesday, the TSA screened more than 54.9 million passengers; that's more than triple its July 2020 numbers, and about 79% of July 2019 traffic. But on July 1 and July 2, ahead of the Independence Day weekend, checkpoint traffic exceeded 2019 numbers.

Fitch said travel is expected to see additional growth in the second half of the year.

“Risks remain for the industry, primarily uncertainties around the pace and timing of air traffic recovery, the potential impact of virus variants and lagging business and international travel,” Fitch said. “However, the financial risk to airports that are on negative outlook has considerably diminished due to improving passenger volumes, effective management oversight of budgets and the three rounds of federal aid that appear to be sufficient to cover revenue losses."

Still, Fitch said it continues to hold negative outlooks on most U.S. airlines because the pandemic had a greater impact on airlines' balance sheets compared with airports.

"While most airlines have negative outlooks, there have been a few stabilizations and we believe that domestic- and leisure-focused carriers are poised to benefit from stronger U.S. domestic traffic in [the second half]," Fitch said.

In March, S&P Global Ratings revised its view on airports to stable from negative when it released its report on the U.S. not-for-profit transportation infrastructure sector.

"We have updated our forward-looking sector view on the U.S. airport, mass transit, and toll road asset classes to stable from negative due to improving health and safety conditions, higher economic growth forecasts, encouraging demand trends, and, in particular, more than $38 billion in additional direct federal grants authorized for transit and airport operators under the $1.9 trillion American Rescue Plan (ARP)," S&P said

S&P noted the high level of federal grants provide flexibility for transit and airport management teams to achieve sustainable and balanced financial operations as activity levels recover.

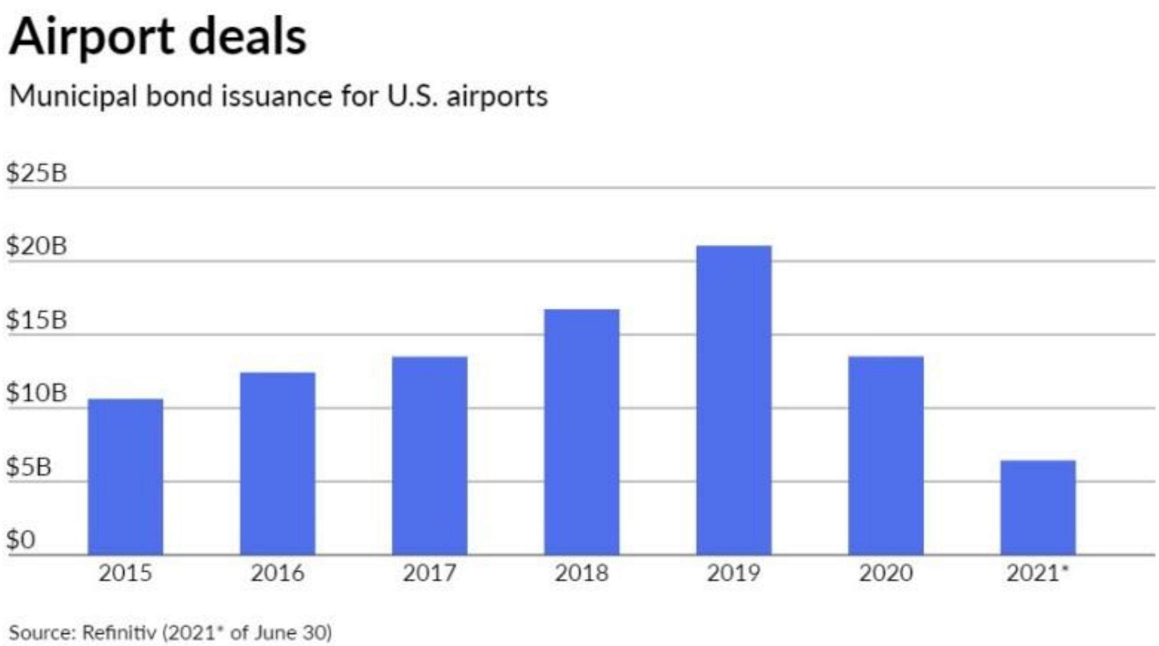
In May, Kroll Bond Rating Agency affirmed the ratings on the general airport revenue bonds of 11 airports it rates and revised their outlooks to stable from negative.

Kroll said its improved outlook "reflects a pattern of recovering airport passenger activity, as the national economic re-opening proceeds, vaccination distribution increases, and travelling public confidence levels grow. The stable outlook is also underpinned by the continuing strength of airport liquidity, which has been further buoyed by substantial federal stimulus through three separate programs, providing additional support for the post-pandemic recovery period."

Since 2015, over $94 billion of municipal bonds have been sold for airports with the most issuance occurring in 2019 when $21 billion of debt was offered to investors.

Moody's found that new debt issuance this year picked up substantially in May and June, with most bonds being issued for new money construction funding.

Most refundings were completed as current refundings and not taxable advanced refundings, Moody’s noted.



“Almost complete financial information from airports in fiscal 2020 shows that airline cost recovery is holding firm,” Moody's said in its report. “Passenger-dependent revenues have recorded the greatest decline and unrestricted cash balances have shown no correlation to enplanement losses so far.”

The fall in parking and ground transportation revenue was the biggest in any revenue category, Moody's said. In contrast, rental car revenue declined less than enplanements. Many airports have recovered rental car revenue this year because a shortage of vehicles has driven average daily rates higher. Airports usually get a percentage of the total car rental fees.

Moody's said that the longer the pandemic went on, the better airports became at lowering their operating costs. Several airports with fiscal years ending in December were able to cut costs by more than 20%, Moody's noted. However, the rating agency said these reductions are likely to be temporary since those airports approaching full recovery are already reversing some cuts.

One wild card that may hamper or slow a return to full operation is the growing threat of coronavirus variants.

On Monday, the White House said it will keep the existing restrictions on international travelers to the United States because of worries about the spread of the highly contagious Delta variant of the COVID-19 virus.

“We will maintain existing travel restrictions at this point,” White House Press Secretary Jen Psaki said. “The more transmissible Delta variant is spreading both here and around the world. Driven by the Delta variant, cases are rising here at home, particularly among those who are unvaccinated, and appear likely to continue in the weeks ahead.”

According to Reuters, the decision means the rules put in place in 2020 barring much of the world from traveling to the U.S. won’t be suspended in the short term. The White House’s announcement is seen as scuttling a bid by the airlines and the tourism industry to salvage this summer's travel season by snagging some European visitors.

National Public Radio reported on July 22 that based on predictions from the COVID-19 Scenario Modeling Hub, the recent surge in COVID cases will accelerate through the summer and fall before peaking in October.

The Hub is a consortium of researchers working in consultation with the Centers for Disease Control and Prevention to help track the course of the pandemic.

At a mid-October peak, the HUB’s model predicts 60,000 cases with 850 deaths a day. But by January 2022, it forecasts deaths to fall to about 300 per day, the current level nationally.

The message is that the pandemic isn't over yet and “we're not going to be able to land the plane without turbulence,” William Hanage, an epidemiologist at the Harvard T.H. Chan School of Public Health, was quoted by NPR as saying. “How much turbulence will track with how many people are vaccinated in a given community.”

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