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International Travel Comeback Grounded By Pandemic Realities

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IdeaWorksCompany contributed information to this article - - see italics.

When British Airways Flight BA1 left London and touched down at New York's John F. Kennedy airport on Nov. 8, it was supposed to mark a return to normalcy for the entire travel industry after the widespread disruption caused by Covid-19.

As the world has discovered repeatedly during this pandemic, even a transatlantic flight can't span the distance between this moment and "normal."

It had been 20 months since foreign travelers were allowed into the United States. British Airways counted all 604 days with good reason: The U.S. travel ban and other pandemic-related issues have held passenger capacity at parent company International Airlines Group (IAG) to just 43.4% of what it was in September 2019. IAG's third-quarter earnings report predicts that even with the return of international travel to the U.S., the company may not reach pre-pandemic demand until 2023.

"Major global airlines like IAG, Lufthansa, United, Delta and American all need long haul international travel to restore profitability to pre-pandemic levels," says Peter McNally, global lead for industrials, materials and energy at investment firm Third Bridge. "The domestic U.S. and continental European markets cannot support those carriers alone."

However, there are several obstacles that airlines, the broader international travel economy and the marketers selling all of these services still need to clear. Fickle leisure travel, waning business travel, lingering pandemic debt and virus variants all provide ample reason to approach the return of international travel to the U.S. with caution.

The good news

When President Joe Biden announced an end to the U.S. ban on vaccinated foreign visitors on Sept. 20, the travel industry got its first hint of pent-up international demand. Hotel and airline data firm Travelport found that, in the first 24 hours after Biden's announcement, there were more than 1.4 million searches for London-to-New York flights. U.S.-bound flights from the United Kingdom were searched more than U.S. flights from all other European countries combined.

After Biden followed up that announcement on Oct. 15 with rules for vaccinated travelers and a Nov. 8 end date for the U.S. travel ban, Travelport found that U.S.-bound flight bookings for Thanksgiving weekend increased by 2,200%. New York, Miami, Los Angeles, Orlando and San Francisco were the top five destinations for international travelers.

Henry Harteveldt, a longtime travel-industry analyst who now runs Atmosphere Research, said that opening more than 30 international markets to U.S. travel caught some airlines shorthanded.

“The established airlines are very careful about preserving cash,” Harteveldt said. “They are still bringing furloughed employees back, namely pilots and flight attendants and getting them back on the lines, and it takes time to get everybody retrained and re-certified according to FAA safety standards.”

Travelport notes that flight bookings to the U.S. reached 70% of pre-pandemic levels within the last month alone. While Third Bridge’s McNally noted that the transatlantic market could get back to 80% of its 2019 strength by next year—bringing most airlines along those routes back to profitability—he warned that the initial surge stems from visiting friends and relatives or “revenge travel” that exceed pre-Covid-19 habits.

In Europe, for example, low-cost airlines Ryanair and Wizz each returned to profitability this year, only to cut fares and earnings forecasts once demand waned.

“Our experts think that a more cautious approach to international air travel has been warranted, and the experience could lead to a smoother recovery in profitability for the sector than what we have seen to date,” he said.

None of your business

That discretion should include reasonable expectations for the future of business travel. According to the U.S. Travel Association, business travel spending dropped 76% domestically in 2020. That took $97 billion out of the travel economy, and it may not be coming back: Six months into 2021, just 35% of U.S. companies were engaging in any business-related travel.

“If you’re British Airways or Air France or Singapore Airlines, it has been a terrible two years,” said Jay Sorensen, president of international travel consulting firm IdeaWorksCompany. “There’s a double whammy: Your international cross-border traffic has been absolutely fried by border closures, and your premium cabins are empty because there’s no business travelers.”

According to Third Bridge's McNally, his company's experts view the shift in business travel as a structural change in corporate behavior. He said companies have realized that physical attendance isn't always necessary, and that frequent air travel runs counter to their sustainability initiatives. According to the Global Business Travel Association (GSTA), just 42% of companies are allowing non-essential business travel. The GSTA doesn't expect full international business travel recovery until 2025, at the earliest.

"Business travelers are far more profitable for airlines, and so their absence is keenly felt," Harteveldt said. "And while the premium leisure traveler who will buy the more expensive airfares and who will pay for the extra legroom seats and other premium services are helping the airlines, at some point the larger carriers may need to be more aggressive because they have all this debt to pay down."

The cost of normal

During the first nine months of 2021, IAG's passenger revenue declined 35% from the same period in 2020. Meanwhile, the amount of cash it borrowed increased by 27%. That borrowed cash is currently six times what IAG is bringing in from fares.

But it isn't alone. The entire airline industry is staring down more than $300 million in debt that's increased nearly 25% since 2020. U.S. airlines received relief through CARES Act loans that they eventually need to pay back, and some carriers required even larger sums through private loans and bonds.

With "too many carriers chasing too few customers" to get back to even, McNally said airlines may be overextending themselves. Even without international travel, Southwest and Spirit canceled hundreds of flights this summer during peak demand. Meanwhile, going into the holiday travel season, nations including Germany, France, Greece, Russia and the Ukraine are seeing Covid-19 cases spike as the World Health Organization considers Europe "back at the epicenter of the pandemic."

As long as business travel remains dormant and the industry relies on leisure passengers to drive demand in the middle of a pandemic, McNally says long-haul international carriers will struggle with low capacity. While that may lead to fare wars similar to those seen in domestic markets, it may also force more carriers like Norwegian Air Shuttle out of transatlantic travel entirely. U.S. airlines, and their marketing teams, will be watching closely.

"They will face difficulties in 2022 because they won't be able to spring back and realize the full force of their international markets or cross-border routes," Sorensen said. "But on the other hand, those roles have always been secondary to the U.S. domestic market."