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# FBM INSIGHTS

UNIVERSITI TEKNOLOGI MARA CAWANGAN KEDAH

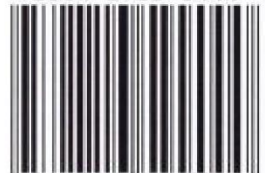
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# IMPACT OF COVID-19 ON AIRLINES INDUSTRY

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## INTRODUCTION

Corona virus (COVID-19) is an infectious disease which is caused by a newly discovered corona virus. People who are infected with this corona virus will have mild to moderate respiratory disease and will recover quickly, even without the need for special care. Essentially, the droplets of saliva or discharge from the nose of the infected person spread through coughs or sneezes that caused the corona virus to develop (World Health Organization, 2020). The corona virus pandemic (COVID-19) has disrupted business operations in various industries especially the airline industry. The disease is easily transmitted to people around the world. It has affected both, domestic and international travelling activities in the airline industry.

This external force (COVID-19) tends to have significant and rapid effect on air traffic figures, with abrupt rises in flight cancellations, aircraft grounding, travel bans and border closures that are rapidly expressed in lower load factors and yields for airlines, whereas airports are losing non-aeronautical revenues. Before COVID-19 pandemic, the most critical outbreak of air traffic-related disease was SARS in 2003 (Suau-Sanchez, Voltés-Dorta, & Cugueró-Escofet, 2020). However, it is still manageable as compared to the COVID-19 crisis, which has been spread speedily globally.

Due to the pandemic, the business operation or travelling through the airlines services are also restricted. The COVID-19 restrictions have shut down both domestic and international air travelling. According to the Airports Council International (ACI), they have predicted that COVID-19 can wipe out two-fifths of passenger traffic and half of airport revenues in 2020 (Airport Council International, 2020) as the virus COVID-19 continuously keeps spreading around the world. Around 58% of all tourists arrive at their destination by air and the stoppages in air traffic activities have created a massive negative effect on the tourism industry. Over \$630 billion in reduced GDP benefits from air travel-related tourism will be matched with 26.4 million jobs lost (IATA, 2020). The report also cited that aviation-supported jobs potentially fall by 46 million to 41.7 million (-52.5%) from the previous year, while direct aviation jobs (at airlines, airports, manufacturers and air traffic management) fall by 4.8 million (a 43% reduction compared with pre-COVID situation).

## ANALYSIS OF ISSUES

### Drastic Mobility Restrictions.

The crisis of COVID-19 has had a certain effect on the global traffic of the airline industry, which relates to the extreme restrictions on mobility. By the middle of March 2020, most countries went into lockdown and airlines have been stopped from running the regular schedule as they used to be (Airport Council International, 2020). This led to a sudden drop in flight operation numbers when lockdowns and border closures began to comply with the world's dominant policy response. There are many flight delays and cancellations resulted by the drastic mobility restrictions.

On the other hand, during drastic mobility restrictions, lesser promotion being held and thus resulted in less people talking about the airline industry. So, people will tend to forget about their services as it has been not operating for months due to the drastic mobility restrictions, thus further decrease the demand for commercial airlines.

### **Declining Sales and Looming Uncertainty.**

The airline workforce is facing the major brunt with the declining in sales and looming uncertainty. The International Civil Aviation Organization (ICAO, 2021) reported the industry has recorded a significant job loss of nearly 7 to 13 percent for 2020. The airlines are not operating at the normal scales, thus their sales have been decreased drastically. The operators of airline industry do not have the ability or could not afford to pay for their workforce salaries due to low revenues generated during that period. Some of the operators even need to lay off their workers as they could no longer afford the increasing overheads. The latest estimates indicate that the possible COVID-19 impact on world scheduled passenger traffic compared to Baseline (business as usual, originally-planned) would be: For the Full year 2020 (Jan – Dec), an overall reduction of 51% of seats offered by airlines; Overall reduction of 2,851 million passengers; and approximately USD 391 billion potential loss of gross passenger operating revenues of airlines (ICAO, 2021).

Globally, some 400,000 airline employees have been discharged, furloughed or warned that they might lose their jobs due to ongoing disruption. Almost all major airlines such as British Airways, Deutsche Lufthansa AG, American Airlines, Delta Airlines, Emirates Airlines and Qantas Airways Ltd have confirmed job cuts and unpaid leave schemes (Belhadi, 2020). In Malaysia, the Transport Minister Datuk Seri Wee Ka Siong, has reported that Malaysia's aviation industry is forecasted to lose RM13 billion this year as air travel continues to face travel restrictions. This includes RM10.9 billion losses for Malaysian airlines—Malaysia Airlines Bhd, AirAsia Group Bhd and Malindo Airways Sdn Bhd, and another RM2.1 billion losses from airport operators, including Malaysia Airports Holdings Bhd (MAHB) and Senai Airport Terminal Services Sdn Bhd (Yahya, 2020).

### **Declining Number of Passengers.**

The number of passengers will decline and decrease as the passengers are instructed to stay at home to comply with the government rules and regulations and also the restrictions on travelling domestically and internationally to stop the spreading of the pandemic of COVID-19. The dramatic drop in demand for air transport (and freight, to a lesser extent) due to the COVID-19 pandemic and containment measures is threatening the survival of many firms in the air transportation sector and the rest of the aviation industry, with many jobs are at stake (OECD, 2020). The demand for the airlines' services keeps on declining as passengers heed the need to control the spread of the virus by staying at home.

## **CONCLUSION**

The COVID-19 has impacted the airline industry drastically, which caused mobility limitations; declining of sales and looming uncertainty; government restrictions of air travelling as well government rulings to stay at home where fines are imposed on those who do not comply with the Movement Control Order (MCO) and Ministry of Health instructions in order to avoid the spreading the corona virus. The airline industry on the other hand, has faced many threats throughout history, but none appears as severe as the present one posed by the spread of COVID-19. Experts believe that the airline sector's recovery to normal levels would take at least six more years.

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