

U.S. Municipal Bond Market

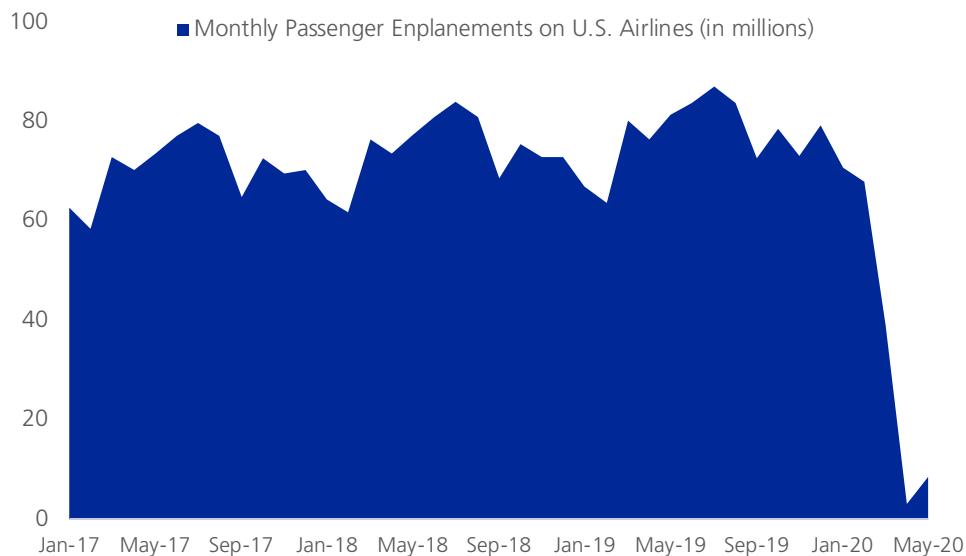
Passenger Volumes Still Muted, Air Cargo Volume Supports Select U.S. Airports

Enplanements Still Significantly Lag Pre-COVID-19 Levels

Passenger enplanements continue to lag (see more below), and the White House announced this week it could release executive actions to prevent furloughs and to support the airline industry.¹ Both Delta and American Airlines have announced layoffs are looming, with American eyeing a potential 19,000 layoffs and Delta 2,000 layoffs.² The White House Chief of Staff, however, said this week that if Congress cannot come to a compromise that the “President will get to work and solve some problems.”³ So, the White House may be in a position to build on the positive momentum it first created on Aug. 8 with the initial round of executive actions after Congress failed to come to an agreement on a fifth phase of COVID-19 relief. Among municipal market sectors, transportation has the highest number of “Negative” and “CreditWatch Negative” rating assignments currently according to S&P Global Ratings.⁴

The response to the COVID-19 pandemic has significantly hit airline travel. Passenger enplanement data is still running well under pre-COVID-19 numbers. The Bureau of Transportation Statistics (BTS) shows monthly activity plummeted in April 2020 to only 3 million monthly passenger enplanements in the U.S. This data point more than doubled in May, increasing to 8.4 million, but the release of the June and July data is being delayed according to the BTS.⁵ Overall, we have seen enplanements tick up slightly since May, airport to airport. We are still seeing that passenger enplanement activity overall is still running at about 70-80% of pre-COVID levels, depending upon the individual location.

Passenger Enplanement Activity Still Remains Challenged Overall



Source: Bureau of Transportation Statistics and HilltopSecurities.

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Air Cargo Volumes Support Select U.S. Airports

A positive observation for airports has to do with air cargo volumes, which have been more supportive to the bottom line in recent months compared to passenger volume. So much so that American Airlines, for example, has increased its cargo-only flights in order to put its unused and underutilized aircraft to work.⁶

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The relationship of this cargo-related data was highlighted in a Fitch Ratings report published just yesterday. At the highest level, Fitch noted there is a correlation between the annual change of the U.S. GDP and the annual change of air cargo volumes. "Historically, air cargo trends have exhibited a strong correlation with GDP growth, suggesting that volumes are susceptible to declines in the event of prolonged economic downturns," wrote Fitch.⁷ The rating agency warns that even though, "Stay-at-home orders and increased ecommerce and online purchases have bolstered cargo volumes in the short-term...Fitch believes volumes could soften over the medium term due to global economic uncertainties."

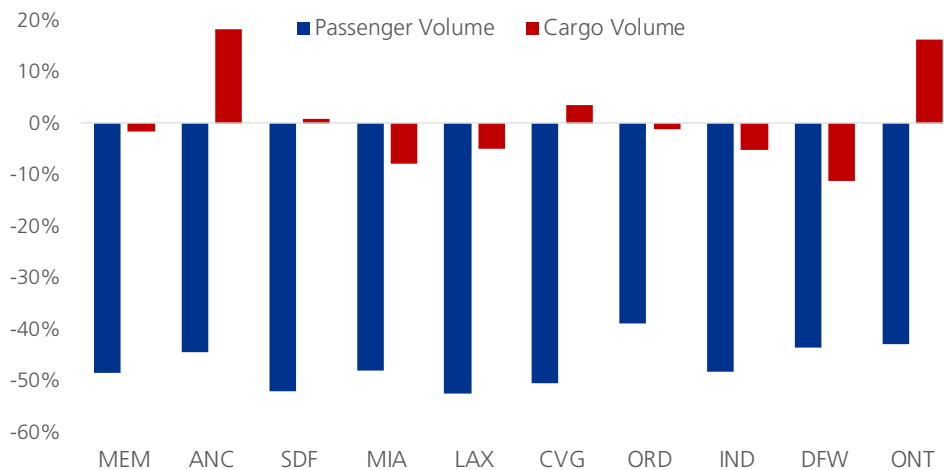
Cargo volume has not yet fallen to the extent of passenger activity, relatively speaking. Fitch Ratings notes that, "Air cargo volumes have been more resilient to coronavirus pandemic-related effects than passenger traffic activity, but the overall effect on stabilizing airport revenues is mostly limited to the largest cargo hubs, given smaller cargo revenue contributions at the majority of US airports. At the 10-largest US cargo airports, passenger volumes were down 80%-90% in the initial period of peak declines after March 2020, while cargo volumes have seen more mild declines or, in a few cases, significant growth." A comparison of the passenger and cargo volume from the Fitch report featuring the 10 largest cargo airports is below.

A key takeaway is that even though cargo volumes have not declined as much as passenger volumes to date, cargo activity could soften if economic growth consistently declines from here.

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Cargo Volumes Performing Better Than Passenger Volume

At 10 Largest Cargo Airports by Volume (Jan.-May 2019-2020)



Source: Fitch Ratings per airport reporting and HilltopSecurities.

¹ Werner, Erica; Lori Aratani and Jeff Stein; White House chief of staff says additional executive actions are in the works as airline furloughs loom; *The Washington Post*; Aug 26, 2020.

² *Ibid.*

³ *Ibid.*

⁴ Please see S&P data on page 3: Kozlik, Tom; [Public Finance Downgrades to Outpace Upgrades, Probably for Years](#); HilltopSecurities; August 13, 2020.

⁵ [May 2020 U.S. Airline Traffic Data](#); Bureau of Transportation Statistics; Aug 13, 2020.

⁶ Arnold, Kyle; [American Airlines adds hundreds of cargo-only flights in September to make up for lost revenue during pandemic](#); *Dallas Morning News*; Aug 18, 2020.

⁷ [Resilient Air Cargo Volumes Benefit Some Airports Amid Pandemic](#); Fitch Ratings; August 26, 2020.

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