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## US Airlines | North America

## 2020 Global Corporate Travel Survey: A Modest Deceleration

Through AlphaWise, we conducted a global survey of 200+ corporate travel managers responsible for airline negotiations. Overall, 2020 budget and demand growth are expected to step-up moderately.

## We highlight the following key takeaways:

- Global Corporate Volumes and Pricing are Decelerating for Air Travel.** Respondents in our survey anticipate ~3.4% global passenger volume growth (response-weighted), which is below last year's ~5.1%. And on the airline pricing side of the equation, it is seeing a similar step-down with growth of ~1.3% versus the previous year at ~1.8% (both response-weighted).
- Travel Budgets Should Grow Slower Into 2020.** Over the past year, corporate travel revenues have remained steady despite the volatile backdrop. That said, growth in budget expectations for air and hotel are set to be lower with respondents expecting ~4.0% growth into 2020 compared to last year's forecast of ~5.7%.
- North America Domestic Remains the Leading Region.** Global volume and pricing expectations vary quite a bit across the relevant regional exposures for US airlines. Specifically, North America Domestic is the strongest region again this year given its volume and pricing expectations at ~2.3% and ~1.9%, respectively, followed by LatAm, Transatlantic, then Asia Pacific.
- Premium Policies are Becoming More Stringent, But with Discounts Steady.** Along with lower budget expectations, premium travel policies are becoming more conservative with a ~2x increase in managers pointing to more stringent policies in 2020. And on discounts, they remain steady and within the historical range of 10-15%.
- Delta is Still Best-in-Class.** DAL has consistently screened as the preferred airline amongst corporate travel managers and again held this position based on performance across all polled categories. As such, we expect the airline to hold off any material share shift in the near-term, though note that UAL has made some gains in its relative positioning.
- Declining LCC Corporate Share Reversed.** This year found corporate travel managers reversing the trend of decreasing LCC use with an up-tick YoY. Specifically, the travel budget allocated for low cost carriers increased to ~12% from the prior year's ~9%. Overall, we view this trend as a potential disrupter for the Legacies over the long-term.

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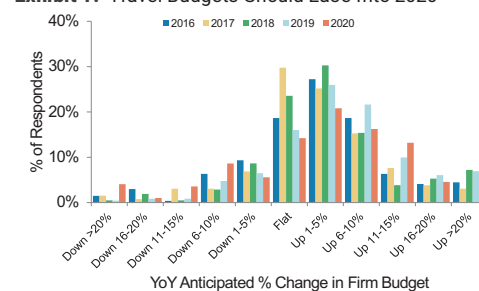
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### Airlines

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Exhibit 1: Travel Budgets Should Ease Into 2020



Source: AlphaWise, Morgan Stanley Research.

## Recent Research:

[Airlines+A&D: Co-Pilot: Services EPS, SPR, BBD, Primes, AC, WJA, and Nov. Traffic \(3 Nov 2019\)](#)

[United Continental Holdings, Inc.: Executing in an Uncertain Environment; Remain OW \(16 Oct 2019\)](#)

[Delta Air Lines, Inc.: Headwinds Ahead; Remain EW \(10 Oct 2019\)](#)

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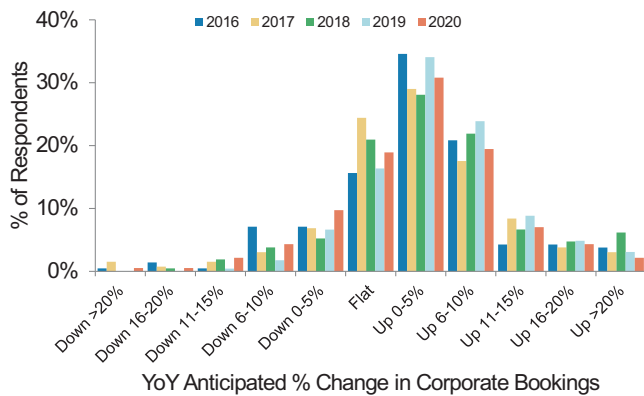
# Global Corporate Volumes and Pricing are Decelerating

**Global passenger volumes are expected to decelerate next year...** Carrier commentary throughout 2019 has indicated that corporate demand has remained steady despite concerns around the broader macro environment. That said, a slowdown does appear to be in motion with respondents in our survey anticipating ~3.4% global volume growth (response-weighted), which is below the prior year that averaged ~5.1%. Worth noting, ~63% of respondents expect volumes to increase (a decrease from the prior year of ~75%), implying a degree of slowing as well.

**...with pricing also seeing a deceleration from last year.** The pricing side of the equation is seeing a similar step-down to last year's performance with respondents expecting ~1.3% from the prior year's ~1.8% growth (both response-weighted). However, ~45% of respondents anticipate an increase in corporate airfares relative to ~50% last year, reverting to the average of ~45% over the past few years.

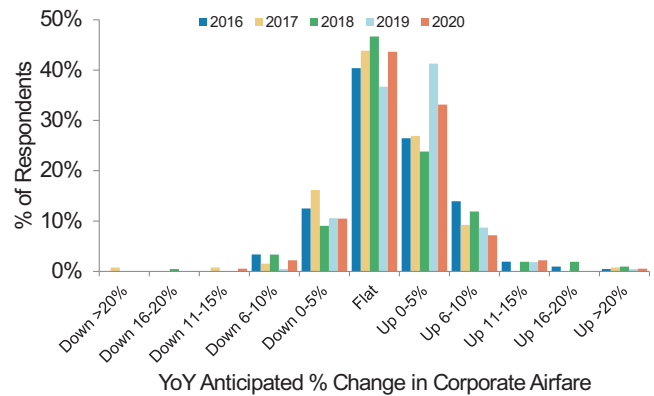
**The growth in the corporate environment appears to be slowing into 2020.** The net of the aforementioned dynamics paint a decelerating unit revenue picture that is below prior years acceleration. This is further supported by the elevated capacity environment in 2020, with Domestic capacity growth of 6%+ upon the return of the MAX. All in all, the net of these effects should bring US airline unit revenues into negative territory in 2020.

**Exhibit 2: Volume Growth Should Decrease Ahead...**



Source: AlphaWise, Morgan Stanley Research.

**Exhibit 3: ...While Pricing Expectations Should also Decelerate**

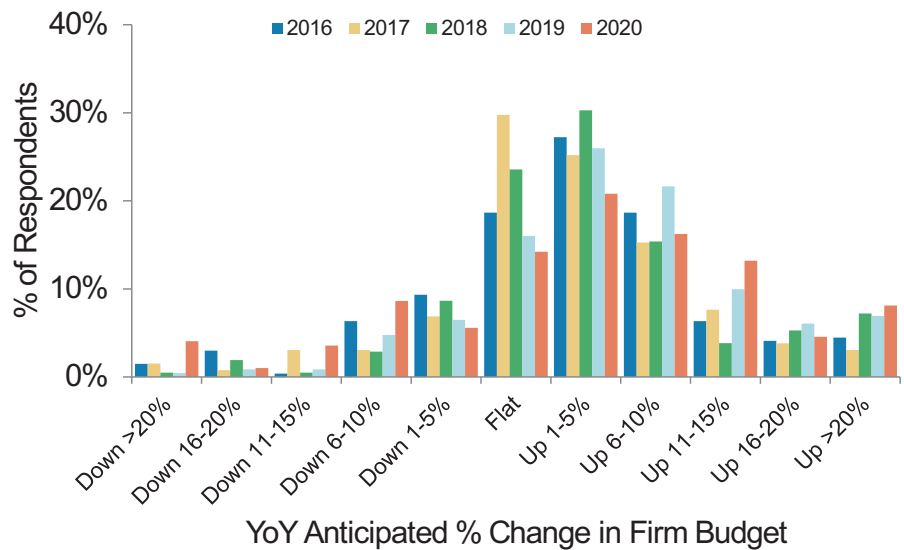


Source: Source: AlphaWise, Morgan Stanley Research.

# Travel Budgets Should Grow Slower into 2020

**Travel budgets should decelerate into 2020.** Over the past few years, corporate travel budgets have accelerated from a period of stronger profits and economic growth. And though the environment has remained solid as of late per company commentary, expectations point to a degree of slowing next year. Specifically, respondents expect ~4.0% growth into 2020 compared to expectations in last year's survey of ~5.7% (response-weighted). All in, the figures suggest that the recent years of budget expansion is beginning to decelerate with ~23% respondents reducing travel budgets from the prior year's ~13.5%. Moreover, this also compares with ~63% of respondents expecting increases versus last year's ~71%.

**Exhibit 4:** Travel Budget Growth Should Ease Into 2020, a Reversal from Prior Years



Source: AlphaWise, Morgan Stanley Research

# North America Domestic Remains the Leading Region

**Amongst regional exposures, North America Domestic is the standout, followed by LatAm, Transatlantic, then Asia Pacific.** The aforementioned global volume and pricing expectations vary quite a bit across the relevant regional exposures for US airlines, though all reflect a general deceleration in pricing and volumes.

- **North America Domestic:** Volumes should be the strongest at up ~2.3% vs. last year's ~2.9% and pricing expectations are roughly steady at up ~1.9% vs. the prior survey's ~1.9%. Stable GDP expectations (even if decelerated) and stable demand are supporting the outlook for now, in our view.
- **LatAm:** Overall, volume expectations remain unchanged from last year's survey with growth up ~1.2%. Moreover, pricing is unchanged from last year at up ~1.5% YoY. That said, these stable trends are generally in-line with recent carrier commentary highlighting recovery in the region albeit with pockets of on-going pressure.
- **Transatlantic:** Corporate volumes are decelerating YoY with expectations of ~1.1% vs. last year's ~2.3%. Additionally, pricing growth is expected to slow relative to last year's expectations (~1.5% vs. ~2.0%).
- **Asia Pacific:** Volumes and pricing are up ~0.9% and ~1.4%, respectively. These numbers are a decrease from last years results of ~1.4% and ~1.6%, respectively.

Overall, volume growth and pricing expectations are anticipated to tick down to varying degrees. Netting this, the performance ranking is as follows: **1) North America Domestic; 2) LatAm; 3) Transatlantic; and 4) Asia Pacific.**

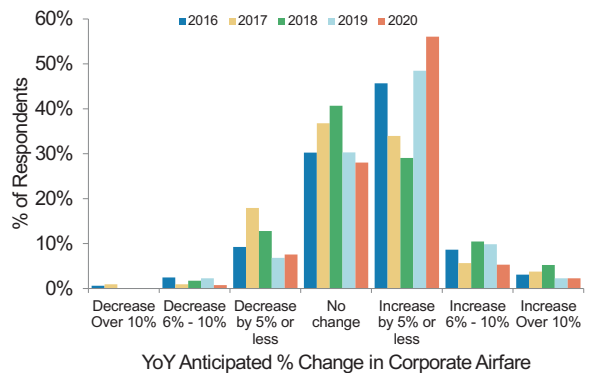
## North America Domestic

**Exhibit 5: Strongest Volumes Across Regions...**



Source: AlphaWise, Morgan Stanley Research.

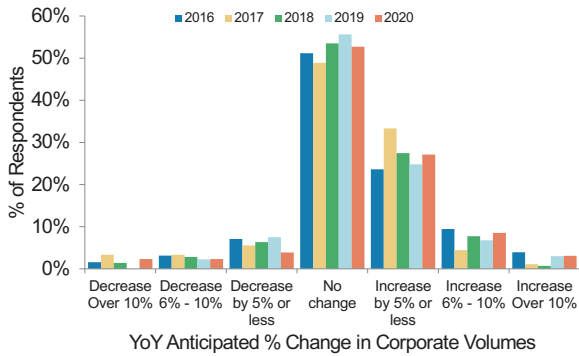
**Exhibit 6: ... And Pricing Expectations Remain Firm**



Source: AlphaWise, Morgan Stanley Research.

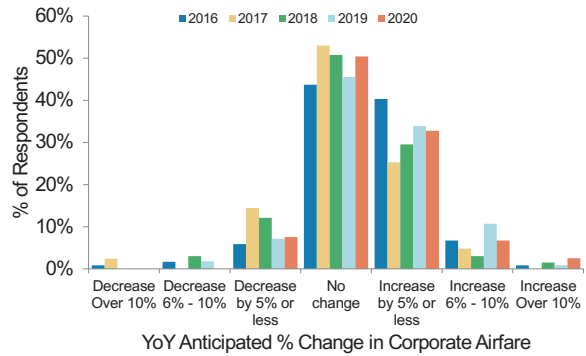
LatAm

**Exhibit 7:** Bookings are Firm...



Source: AlphaWise, Morgan Stanley Research.

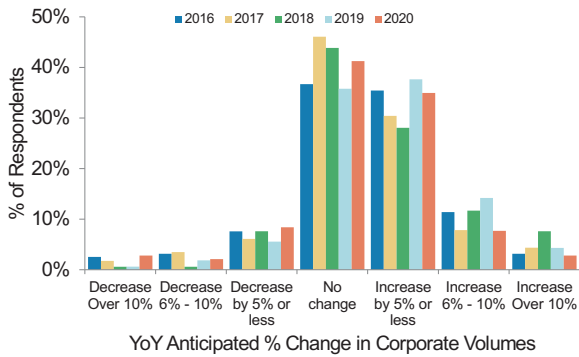
**Exhibit 8:** ...With Pricing Expectations also Steady



Source: AlphaWise, Morgan Stanley Research.

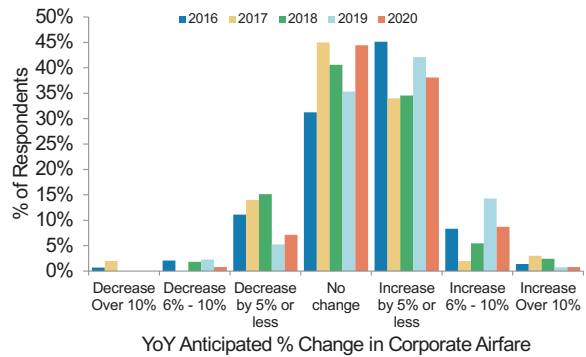
Transatlantic

**Exhibit 9:** Demand is Showing Signs of Deceleration...



Source: AlphaWise, Morgan Stanley Research.

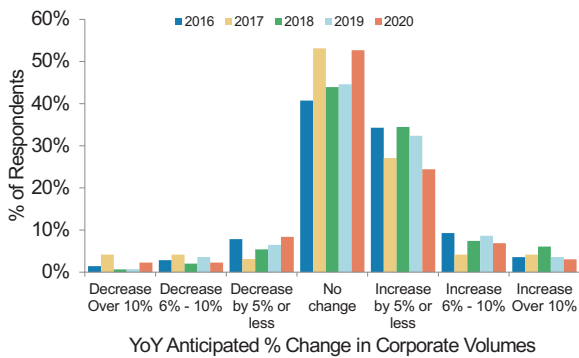
**Exhibit 10:** ...Along with Slower Pricing Growth



Source: AlphaWise, Morgan Stanley Research.

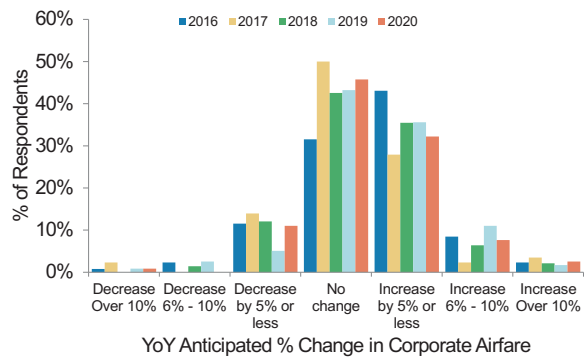
Asia Pacific

**Exhibit 11:** Volume Expectations are Lower from Last Year...



Source: AlphaWise, Morgan Stanley Research.

**Exhibit 12:** ...While Pricing is also Slightly Worse

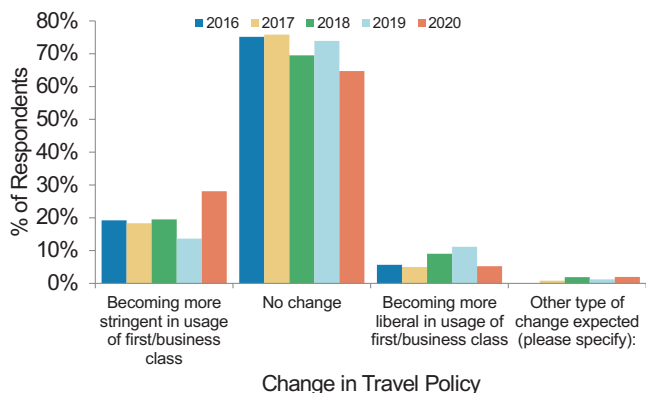


Source: AlphaWise, Morgan Stanley Research.

# Premium Policies are Becoming More Stringent, But with Discounts Steady

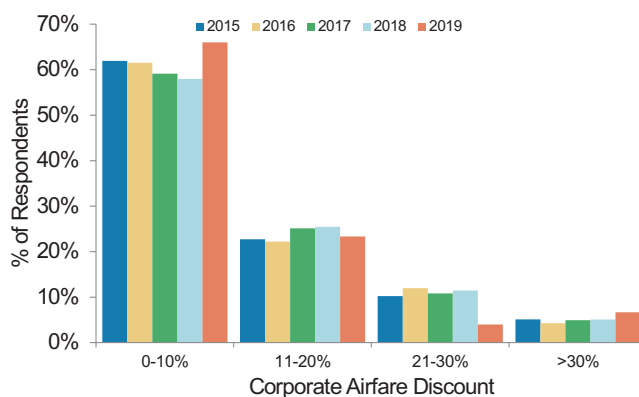
**Premium travel programs and the associated policies are showing some pressures, with offered discounts largely stable.** To start, a large majority of respondents (~65%) expect limited changes to policies around first / business class. This comes off of a steady demand environment which has been supportive throughout the year. Moreover, cabin segmentation from basic economy to enhanced premium offerings have also continued to expand, offering customers more choice. That said, respondents pointed to more stringent policies ahead with ~28% becoming more strict versus ~14% the prior year. In addition, only ~5% of respondents pointed to more liberal policies compared to ~11% last year. And on corporate discounts, they have ticked down by ~100bps YoY to ~10.3%, though they have historically been in the ~12% range per our prior surveys.

**Exhibit 13:** Premium Travel Policies are Becoming Slightly more Stringent...



Source: AlphaWise, Morgan Stanley Research.

**Exhibit 14:** ... With Average Corporate Discounts Largely Steady



Source: AlphaWise, Morgan Stanley Research.

# Delta is Still Best-in-Class

**Exhibit 15:** Delta is Still the Best-in-Class Corporate Airline

Rank	Overall
1	Delta
2	United
3	American
4	Southwest

Source: AlphaWise, Morgan Stanley Research.

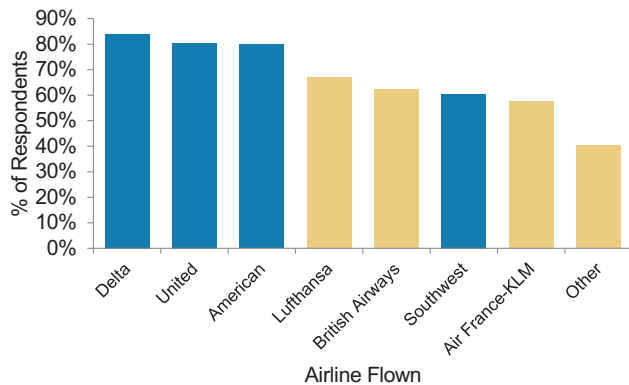
**Delta remains the leading corporate airline again this year, regaining its top position in all categories.** Over past iterations of our survey, Delta has consistently screened as the preferred airline amongst corporate travel managers. Delta once again claimed the top position, sweeping all of the following categories: **1)** Footprint (Route Network); **2)** Lift (Capacity and Frequency of Flights); **3)** Quality of Product (Seat / Meal Quality and Frequent Flyer Program); **4)** Reliability (Frequency of Late Flights or Dropped Bags); and **5)** Price of Package. That said, United has been making improvements particularly in lift and price of package, thus it has increased its rank from last year.

**Exhibit 16:** Delta Sits at the Top Across All Categories

Rank	Footprint	Lift	Quality of Product	Reliability	Price of Package	Overall
1	Delta	Delta	Delta	Delta	Delta	Delta
2	United	United	United	Southwest	Southwest	United
3	American	American	American	United	American	American
4	Southwest	Southwest	Southwest	American	United	Southwest

Source: AlphaWise, Morgan Stanley Research.

**Exhibit 17:** Travel Rankings are Reflective of Airline Usage



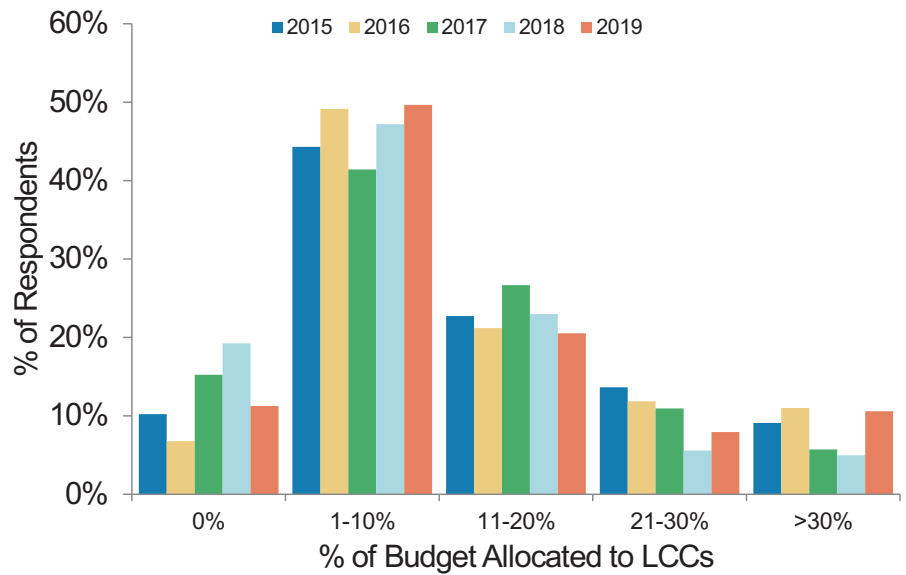
Source: AlphaWise, Morgan Stanley Research.

**Delta seems to be holding off any material share shift in the near-term.** It appears that Delta's current offerings are holding off the competition. And it continues to hold a pricing and margin premium to other Legacies, likely due to the superior position indicated above. Having said that, a material share shift can occur in the longer-term amongst the Big Four particularly with LUV's recent efforts and UAL's general execution. This dynamic comes in light of competitors expanding their product offerings, retooling schedules, and increasing operational performance. A good example is United, which is executing well on its natural share strategy.

## Declining LCC Corporate Share Reversed

**LCC corporate share has reversed and is up this year.** This year found corporate travel managers reversing the trend of declining use of LCCs. Regarding LCC business, respondents showed an increased predisposition towards booking on LCC carriers from past iterations of our survey. In fact, the response-weighted average budget allocation to LCCs increased to ~11.6% from last year's ~9.3% and ~12.2% the prior year. Though they remain small relative to Legacy carriers, these levels still represent a threat to existing Legacy corporate travel. This can be seen recently with LUV's plans of offering corporate customers more offerings via GDS.

**Exhibit 18:** LCCs Reversed the Past Years Trend and Took a Step Up in Corporate Share...



Source: AlphaWise, Morgan Stanley Research



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AlphaWise

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
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**INDUSTRY COVERAGE: Airlines**

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/04/2019)
<b>Rajeev Lalwani, CFA</b>		
Air Canada (AC.TO)	++	C\$47.28
Alaska Air Group Inc (ALK.N)	O (06/23/2015)	\$70.63
Alegiant Travel (ALGT.O)	E (06/23/2015)	\$167.88
American Airlines Group Inc (AAL.O)	U (05/19/2019)	\$30.95
Delta Air Lines, Inc. (DAL.N)	E (05/19/2019)	\$56.88
Hawaiian Holdings Inc (HA.O)	U (06/23/2015)	\$29.26
JetBlue Airways (JBLU.O)	E (06/23/2015)	\$19.44
Southwest Airlines (LUV.N)	O (01/05/2017)	\$56.98
Spirit Airlines Inc. (SAVE.N)	E (10/16/2015)	\$38.48
United Airlines Holdings, Inc. (UAL.O)	O (05/19/2019)	\$92.39
WestJet Airlines Ltd (WJA.TO)	++	C\$30.70

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\* Historical prices are not split adjusted.