S&P Global Ratings

Transportation

Airline growth normalizes, freight remains subdued

This report does not constitute a rating action.

What's changed?

A tempered outlook for airlines. Passenger air travel demand remains solid and capacity expansion is likely to be subdued this year, but labor and maintenance expenses are appreciably higher and jet fuel prices remain elevated. The network carriers are best positioned to mitigate cost headwinds and pockets of market overcapacity, led by higher-margin premium and loyalty revenues and positive free cash flow generation. However, earnings growth will prove challenging. Smaller domestic airlines have endured negative rating actions, and pressure on cash flows and liquidity is mounting.

Logistics and trucking ratings are under pressure. Persistent freight market weakness has underpinned several negative rating actions. Demand remains subdued and excess truckload capacity has yet to be resolved, culminating in near-trough prices. Acquisitions within these sectors have not led to credit profile improvement.

Railroad financial policies have been tested. Certain Class 1 railroads scaled back or ceased share repurchases to preserve credit metrics amid a weaker outlook for cash flow. Doing so has provided credence to long-held financial policies and rating support.

What to look out for?

Potential downside to airline fares. Average ticket prices have remained relatively stable (albeit well above pre-pandemic levels) despite strong demand fundamentals and unprecedented supply constraints. We assume this will continue through this year, as airlines limit growth in capacity (in some cases by necessity due to aircraft delivery delays and engine issues) and travel demand remains robust. However, a modest decline in average prices could impact cash flow generation and credit measures.

Signs of a freight market recovery. We continue to wait for clear signs of improving freight demand, which has lagged services sector growth. Carriers continuing to exit the market and higher goods demand would presumably stimulate higher trucking prices. We continue to expect low growth in rail shipment volumes this year.

Fuel price volatility. Fuel prices are typically passed on to customers (with a lag), but this could pose a challenge for those without well-established surcharge programs.

What are the key risks around the baseline?

Macroeconomic softening. Slower U.S. economic growth in 2025 could weigh on consumer spending as household savings are eroded. Cash flows within the highly cyclical airline and trucking sectors are most at risk.

Stalled freight market recovery. Intermodal volumes would presumably remain near weak levels, and limit growth in our currently tepid shipment volume expectations.

Geopolitical risk. Further turmoil could lead to economic and financial market instability and weaken credit profiles (particularly lower-rated issuers dependent on capital and facing higher interest costs).

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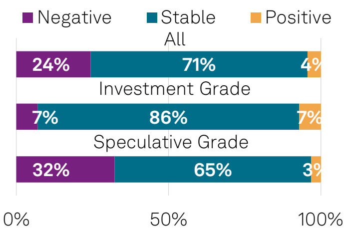
Rating Trends

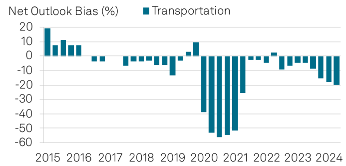
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	14	31	45
Downgrades	1	4	5
Upgrades	1	2	3

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.7	6.2
EBITDA growth (Y/Y%)	3.3	10.0
EBITDA margin (%)	17.8	13.9
Capex growth (Y/Y%)	6.3	-6.1
Debt/EBITDA (x)	2.2	5.3
FFO/Debt (%)	31.5	10.6
FOCF/Debt (%)	17.3	2.7

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

American Airlines Group Inc. 'B+' Rating Affirmed, May 31, 2024

United Airlines Holdings, Inc. Rating Affirmed at 'BB-', April 25, 2024

Global Airlines Outlook: Clear Skies, For Now, April 30, 2024