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SKIFT TAKE

Southwest Airlines is raising alarm bells about the cost of mandatory Covid-19 tests for domestic travel after its first annual loss in 48 years. But with containing the virus top of mind for the new administration, the industry may have few legs to stand on.

— Edward Russell

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Richard Nixon was president, Don McLean's American Pie was on top of the charts, and "stewardesses" wore hot pants the last time Southwest Airlines posted an annual loss shortly after its launch.

The \$3.1 billion net loss in 2020 was "no surprise" during a year dominated by the coronavirus pandemic, the Dallas-based carrier's chairman and CEO Gary Kelly told investors Thursday. Southwest is ready to "weather this continuing storm," he added.

And that storm only appears to grow. Despite optimism surrounding Covid-19 vaccines, airlines face weak demand and a nearly lifeless business travel market – Southwest executives said corporate flyer numbers are down about 87 percent from 2019 – through at least the first three months of 2021. And potential new testing rules for domestic air travel could put even more of a damper on the recovery until vaccines are more widely available.

"I think it would be a mistake," Southwest president Tom Nealon said in response to questions on the possible testing rules. Implementation would be "very costly" for the industry and could distract from the distribution of vaccines.

His comments echoed those of American Airlines CEO Doug Parker earlier on Thursday. Parker said testing requirements for domestic flights would be "difficult" to implement but added that he was not necessarily against such the move.

U.S. airlines have a vested interest in keeping Americans flying. Domestic travel is among the few bright spots for them during the worst crisis in the industry's history. And since the U.S. added Covid testing rules for international arrivals, bookings have fallen – particularly for shorter flights like many of the ones flown domestically.

However, the Biden administration has made it a top priority to get the pandemic under control and reopen the economy. And testing, in the few examples available, has been proven to slow the spread of the virus while allowing travel to continue.

On the international front, large organizations like the trade group the International Air Transport Association (IATA) are pushing for testing regimes to replace mandatory quarantines. They argue that this would allow long-haul air travel, which quarantines and border closures has decimated, to resume.

"I just think with the millions of customers who fly or ride bus
whatever, it's just unrealistic to expect that we can efficiently
testing on a large scale," said Nealon.

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Concerns about difficulties testing all air travelers are not limited to airlines. In a report Thursday, Raymond James analyst Savanthi Syth cited the existing supply of tests an “impediment” to a broad mandate. She added that such rules are more likely once vaccines are widely available – something she expects by the summer – with exemptions available for those who have received their jabs.

GROWING OUT OF CRISIS

In the meantime, Southwest is doing what it does best during downturns: growing. The carrier is bullish on the opportunities opened up by the crisis. It has added or unveiled 12 new destinations and counting for its route map since the pandemic began.

“This is the bread and butter [for] Southwest,” said Nealon on the expansion. “The question of why now is very, very easy to answer. First, we have the aircraft, we have the people that do it. And second, we’re going after new revenue pools.”

The markets are broadly split into two categories: large airports in big cities that complement existing service – think O’Hare and Midway airports in Chicago – and small airports that add diversity to the carrier’s already broad domestic map.

The former category includes Chicago O’Hare, Houston Bush Intercontinental and Miami. While Colorado Springs, Montrose and Steamboat Springs, Colo.; Fresno, Palm Springs and Santa Barbara, Calif.; Jackson, Miss.; Sarasota/Bradenton, Fla.; and Savannah, Ga., fall into the latter. Flights to all of the new destinations are due to begin by June.

This is an old playbook for Southwest. Time and time again, it has used downturns to expand. The airline shouldered into the intra-California market and pushed out American Airlines and USAir (later US Airways) in a few short years during the recession of the early 1990s. It repeated this again after the Great Recession with its acquisition of AirTran and expansion to big city airports like New York LaGuardia and Washington Reagan National.

And with schedules still thin amid coronavirus cuts, Southwest has planes available to embark on a broad expansion. It will further buoy its fleet with the re-introduction of the Boeing 737 Max on March 11. Initially, the jet will be isolated to just 10 routes for the first month before it is scheduled across the Southwest network from mid-April. The airline plans to fly 6⁶ end.

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Southwest will be the fourth, and last, U.S. carrier to reintroduce the Max since the aircraft was re-certified in November. American returned the plane to the skies in December with United Airlines scheduled to follow February 11, and Alaska Airlines on March 1. Alaska took delivery of its first Max to replace its Airbus A320 jets earlier in January.

A HISTORIC LOSS

Southwest revenues plummeted 65 percent to \$2 billion on a 37 percent drop in expenses to \$3.2 billion in the fourth quarter. This left the airline with a \$908 million net loss for period. Cash burn averaged \$12 million a day.

The loss, and those in prior quarters, pushed the airline to the historic net loss for 2020 – its first in 48 years. For the full year, revenues dropped 60 percent to a little over \$9 billion and expenses were down 34 percent to \$12.9 billion. Passenger traffic fell 59 percent on a 34 percent capacity cut.

The outlook is not much better for the first quarter. Southwest expects cash burn to climb to about \$17 million a day even as it slashes capacity by 35 percent compared to 2020.

“Our rallying cry for our people this year is really simple,” said Kelly. “It is win more customers and stop the bleeding. That’s what we’ve got to do.”

Tags: boeing 737 max, coronavirus recovery, coronavirus testing, southwest airlines

Photo Credit: Southwest will re-introduce the 737 Max in March even as it faces an uncertain recovery outlook. John Crowley / Wikimedia

