

## ECONOMIC VIEWPOINT

# Turbulence Ahead?

## The Potential Economic Impacts of a Prolonged Pilot Strike

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### Highlights

- ▶ Air Canada is Canada's leading air cargo carrier and largest airline. Because of its outsized role in the Canadian airline market, a prolonged pilot strike could negatively impact economic activity.
- ▶ The last pilot strike was in 1998 and lasted for two weeks. In August of this year, Air Canada pilots voted overwhelmingly to approve a strike mandate starting as early as September 18. Using our near-term forecasting framework and internal passenger flight forecasts, we estimate that a two-week pilot strike could result in a loss to real GDP of around \$1.4 billion (-0.06% m/m) in September. This would mean daily losses of roughly \$98 million. In addition, the number of passengers could decline by 2.1 million (-29% m/m). A longer strike could have an even greater negative impact on the economy.
- ▶ While economic activity in air transportation would decline in September, we expect that the air transportation industry would recover by around \$1.5 billion in October in the event of a two-week pilot strike similar to that in 1998.

### Context

On August 22, 2024, Air Canada pilots represented by the Air Line Pilots Association held a strike vote, with 98% voting in favour of striking. That means Air Canada pilots could walk off the job as early as September 18, 2024.

Canada's air transportation industry is currently valued at \$6.7 billion and accounts for roughly 0.3% of Canada's real GDP. Beyond the numbers, air transportation is a critical mode of transportation for many Canadians. Airlines are not only essential to economic activity, but also for connecting cities and regions across Canada and connecting them to the rest of the world.

The Canadian airline market is heavily concentrated, dominated by two corporations: Air Canada and WestJet. These airlines make up a [significant majority of air travel](#) in Canada. In 2023, Air Canada accounted for almost half of available seat-kilometres at 47%, while WestJet accounted for 27% of available seat-kilometres. As the largest airline in the country, Air Canada

employs roughly 37,000 workers and is Canada's largest air cargo provider by cargo capacity. While a short strike could have minimal impacts on air transportation and economic activity, a prolonged strike could hurt passengers, businesses and industries that rely heavily on air travel.

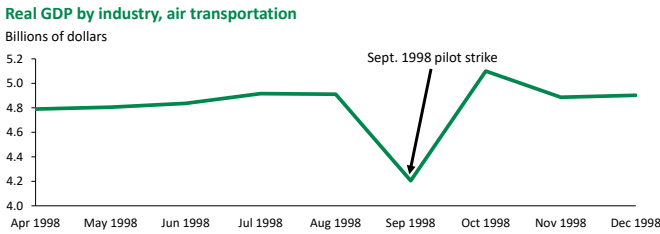
### Some History

The last time Air Canada pilots went on strike was more than 25 years ago, when the air pilot union walked off the job for two weeks in September 1998. During that time, Air Canada's Q3 losses were estimated at \$200 million, or approximately \$355 million in today's prices. This was due in part to the pilot strike. Furthermore, [real economic activity declined](#). The most affected sector was transportation and storage, which declined by \$529 million (-1.6% m/m), or around \$938 million in today's prices (graph 1 on page 2). The losses in the air transportation sector contributed -0.05% to real GDP growth. But losses from the air strike were offset by moderate gains in truck and rail transport, though accommodation and food services declined

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**Graph 1**  
**Long Strikes Are Harmful to the Air Transportation Industry**



Statistics Canada and Desjardins Economic Studies

by \$126 million (-0.7%). Furthermore, in quarterly GDP by expenditure, the strike partially dampened consumer purchases of services due to weak airfare sales. However, after the strike ended, activity in the transportation and storage sector quickly returned to normal, growing 2.8% m/m in October 1998. Activity in the air transportation industry soared by 21.5%, surpassing August’s pre-strike level of output by a wide margin.

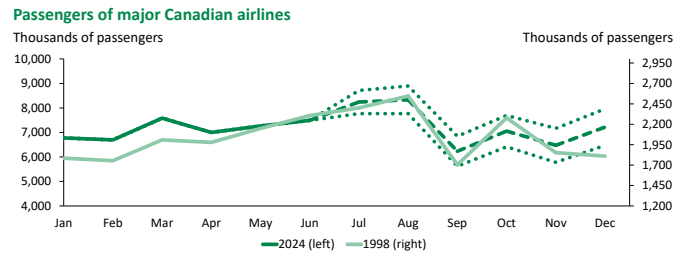
**Scenario**

In this note, we explore the potential impacts of a pilot strike on economic activity. We use our near-term forecasting framework and our projections of airline operations based on data from Statistics Canada. In this study, we impose some key assumptions:

- We assume that a strike would last for two weeks, similar to the last major Air Canada pilot strike in September 1998.
- Other factors are held constant. We focus only on the direct impact of the airline pilot strike on the air transportation subsector of monthly real GDP. Effects in other industries are not fully accounted for due to the difficulties of capturing dynamic effects.
- Given the lack of up-to-date information on major airline operations, we forecast the number of passengers using available seat-kilometres. To fill in missing available seat-kilometres for July and August, we apply July and August 2023 growth rates. Then for September, the month the strike is set to begin, we add a 26.7% m/m decline in passenger seat-kilometres. This decline is based on current information regarding Air Canada’s share of passenger seat-kilometres in 2023 and how a two-week strike could impact available seat-kilometre numbers in a single month (graph 2). Lastly, we assume a rebound in October due to the strike driving pent-up demand for air travel. For available seat-kilometres, we assume they will rebound to 84.7% of their pre-strike level in October 2024 like they did in October 1998.

- We use our near-term forecasting framework projections to account for missing July and August data for the air transportation subsector.

**Graph 2**  
**A Long Strike Can Considerably Reduce Passenger Numbers**



The dotted lines refer to Desjardins’s low, medium and high projections for July to December 2024. Statistics Canada and Desjardins Economic Studies

Using these assumptions, we then estimate the effects of a decline in passengers and passenger seat-kilometres on the air transportation subsector and our real GDP estimates. The table below shows the possible average losses and range of losses in the air transportation subsector given our forecasts for passenger numbers:

**Table 1**  
**Range of Potential Economic Losses from a Prolonged Pilot Strike**

CATEGORY	PROJECTED PASSENGER NUMBERS		
	LOW PROJECTION	MEDIUM PROJECTION	HIGH PROJECTION
Loss in real GDP for September (level)	\$1.367 billion	\$1.369 billion	\$1.374 billion
Loss in real GDP for September (level, daily)	\$97.6 million	\$97.8 million	\$98.1 million
Loss in real GDP for September (m/m)	0.061%	0.061%	0.062%

Statistics Canada and Desjardins Economic Studies

Following a decline in economic activity, output in the air transportation subsector would likely recover by around \$1.5 billion, surpassing our projected August pre-strike levels. This scenario is similar to what followed the September 1998 pilot strike.

## Conclusion

In conclusion, we estimate that a two-week airline pilot strike would result in a decline in real GDP of around \$1.4 billion (-0.06%). Note that this number contains a substantial degree of uncertainty given the existence of potential dynamic responses throughout the economy. Moreover, we don't account for the effects of a prolonged strike on other key economic indicators such as inflation, which would likely put upward pressure on airfares and shipping costs.