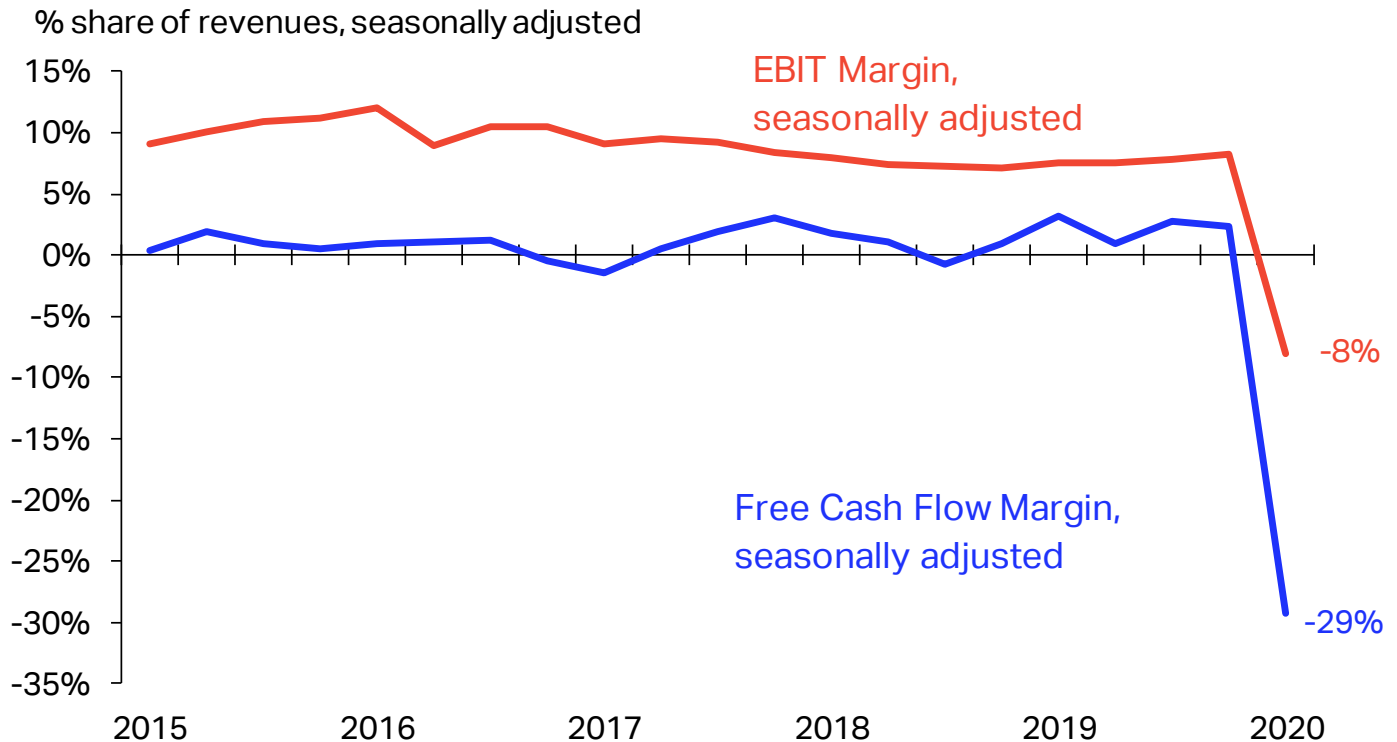




IATA Economics' Chart of the Week

24 July 2020

Cost of pandemic for airlines becomes more visible



Source: Airline Analyst

- This week, we released our [airlines financial monitor](#) with the latest available sample of Q1 2020 results, which confirms the sharp deterioration in industry-wide operating profitability. This week's chart depicts the extent of weakening in operating profitability following the Covid-19 together with the cash crunch that the airline industry experienced.
- As Covid-19 evolved to become a global pandemic, airlines immediately implemented strict cost cutting measures and capacity adjustments to manage this historic downturn. However, as fixed and semi-fixed costs constitute nearly half of airline total costs, revenues plummeted faster than the costs, resulting in a negative EBIT margin in Q1 2020.
- During this sharp and unexpected downturn, cash preservation became one of the main targets of airlines, given that, prior to the crisis, the typical airline had [cash liquidity](#) to absorb only 2-3 months of revenue losses. Airlines sought to preserve cash by reducing planned capital expenditures, negotiating with suppliers for payment terms and implementing initiatives to lower working capital requirements. Nevertheless, despite these efforts the free cash flow margin deteriorated much sharper than EBIT margin in Q1 2020. Airlines survived through this crisis in Q1 by raising liquidity from capital markets and receiving [governmental support](#).
- The initial Q2 2020 financials show that airlines continue to burn cash. Looking forward, travel demand has started to improve modestly in May, but the recovery is expected to be only gradual. Therefore, we expect that airlines will continue to focus on minimizing cash burn and preserving available liquidity.

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