

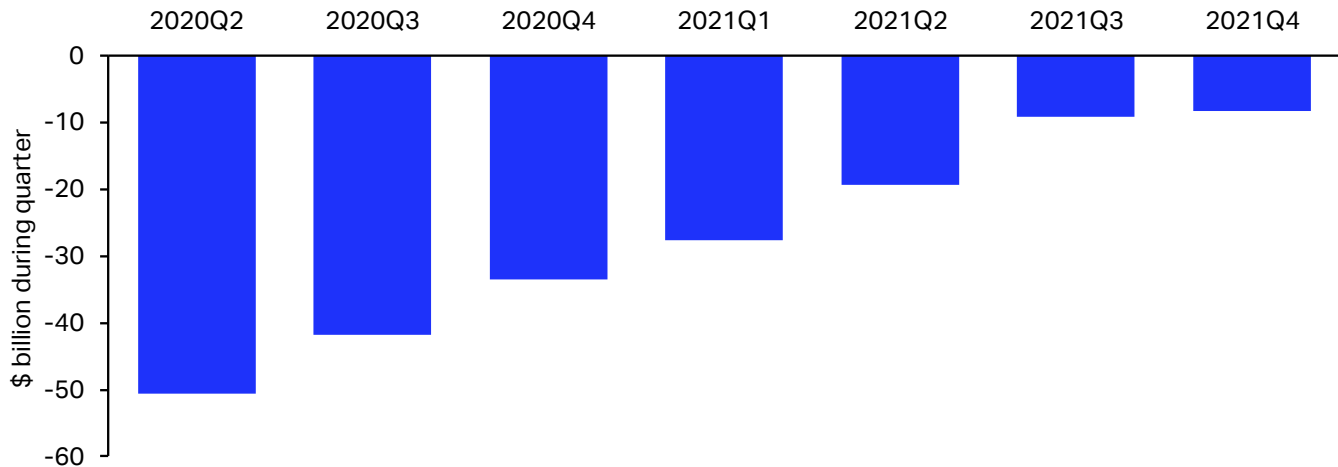


IATA Economics' Chart of the Week

09 October 2020

Airline industry will continue to burn through cash until 2022

Airline industry quarterly cash burn forecast



Source: IATA Economics analysis

- One of the main challenges of the COVID-19 crisis for airlines has been controlling their cash burn in order to survive until air travel demand recovers. This week's chart looks at the rate of cash burn for airlines in the second quarter of this year and going forward.
- Q2 2020 had been the worst quarter for the airlines as the industry faced unprecedented loss of revenues (circa 80% compared to the same period of the previous year), with almost full grounding of the passenger fleet despite strong cargo revenues. Airlines turned their focus on cutting expenses during this period. However, operating costs were brought down by only c. 50% year-on-year due to unavoidable semi-fixed costs such as labor and maintenance costs ([see for details](#)). As a result, we estimate that the industry burned \$51 billion of its cash reserves in Q2 2020.
- Airlines generally reported improving daily cash burn towards the end of Q2 2020 as operations restarted. Nevertheless, cash burn continues as the recovery in demand is much slower than expected in 3Q20 and second wave fears have been weighing on travel demand. Last week, we revised our year-end 2020 passenger forecasts to reflect new travel restrictions and the weakness in forward bookings. The winter season is typically a weak period and revenues will be suppressed even more, as airlines will try to revive demand by price stimulation. The pressure on the cost side will be persistent as well since airlines have unavoidable fixed costs. In addition to that, airlines are bringing back their fleet capacity at a faster rate than the revenue recovery to meet the short-haul traffic demand.
- Hence, we expect the industry to burn through \$77 billion in cash during the second half of 2020. This corresponds to \$13 billion/month, lower than the rate of \$17 billion/month in 2Q20. Nevertheless, the slow recovery in air travel will extend into 2021, resulting in the airline industry burning through cash, but at a lower rate, around \$5 to \$6 billion/month in 2021.

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