COVID-19
Can costs be downsized to make the industry cash positive?

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Costs need to be downsized to match lower revenues
Revenues in 2021 are estimated to be ~50% of pre-crisis expectations

Source: IATA Economics, Airline Analyst
Progress so far this year hampered by semi-fixed costs. Capacity collapse and fixed costs meant Q3 unit costs ~40% higher.

Source: IATA Economics, Airline Analyst
This is the decline required in 2021 for unit costs
Unit costs need to fall by 30% from 2020 average to break-even in 2021

Source: IATA Economics, Airline Analyst
Fixed or semi-fixed costs are a major challenge. Variable costs cut but others are hard to avoid or reduce.

Operating revenues and cost changes in 2020 Q2

Source: IATA Economics, Airline Analyst
Aircraft are a major ‘fixed’ cost despite downsizing effort. Deliveries are postponed and retirements will rise sharply.

Source: IATA Economics, Cirium Ascend
Switch to short-haul flying limits fleet cuts
Fewer large aircraft but airlines unable to downsize fleet proportionately

Source: IATA Economics, Cirium Ascend

Commercial airlines' fleet of jets and turboprops

- In service fleet
- ASKs

Source: IATA Economics, Cirium Ascend
Lease rental costs are falling but slowly. 60% of fleet leased, lease rental costs usually fixed but some reduction.

Source: IATA Economics, Cirium Ascend
Fuel is usually the largest cost, but it is variable.
Fuel use has fallen parallel to capacity; fuel prices are 42% down on 2019.

Source: IATA Economics, Platts
Infrastructure charges down just because of few flights
Risk of cost increases as airports/ANSPs consider fee increases

Number of Passengers vs Infrastructure Costs

Number of Passengers
Infrastructure Unit Costs

% change year-on-year

Source: IATA Economics, Airline Analyst
Only sizeable option to cut costs sufficiently is labour. With no job cuts from 2019 productivity would decline 40% by 2021.

Source: IATA Economics, ICAO
52% unit labour cost cut would reach historical low point. Both pay and workforce numbers would need to be cut to reach this.

Source: IATA Economics, Airline Analyst
Even with big labour cost cuts, break-even not achieved
Airlines need further support to stop continuing cash burn

Assumptions:
1. Slow rise in fuel price in 2021
2. Unit labour costs cut to previous low (-52%)
3. MRO, infrastructure & other unit costs no price changes. Down due to impact of higher ASKs on fixed cost elements

Source: IATA Economics using data from IATA, Airline Analyst
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