

# COVID-19

**Can costs be downsized  
to make the industry  
cash positive?**

Brian Pearce

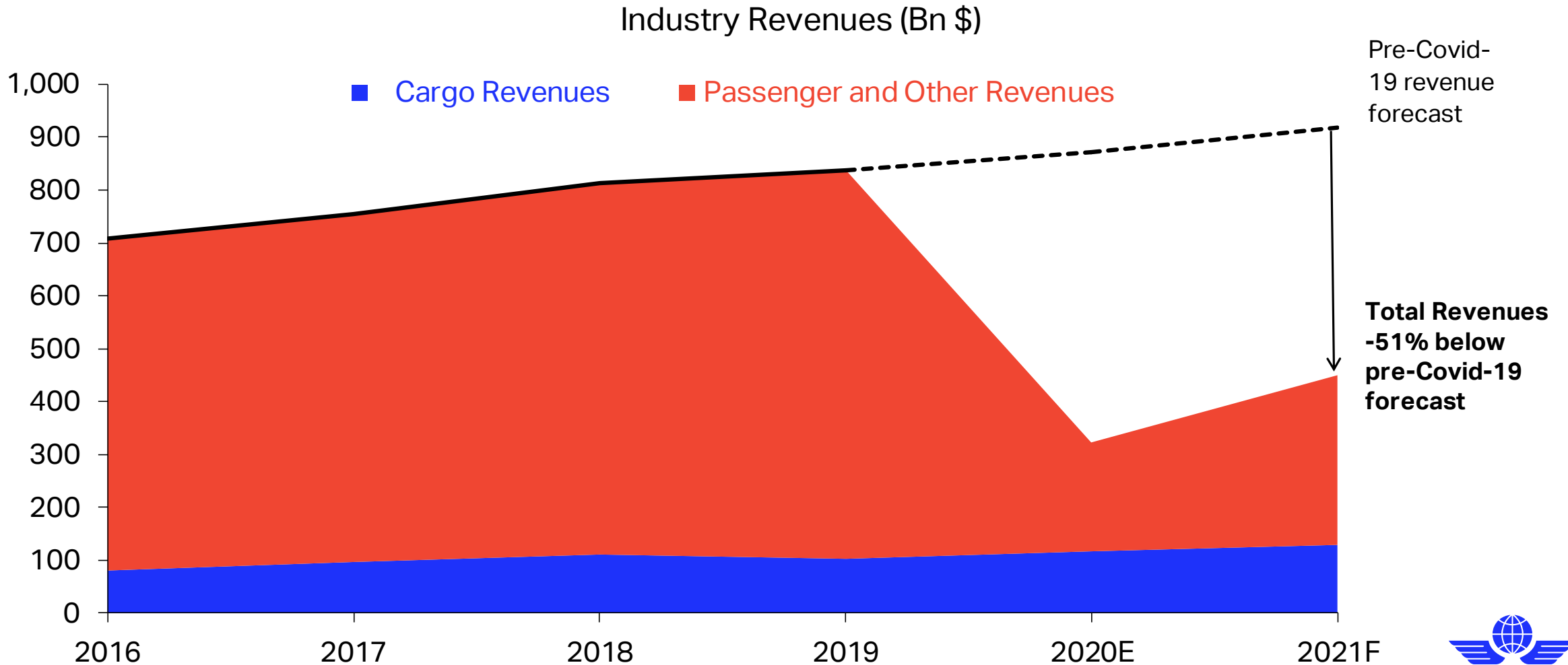
Chief Economist

27<sup>th</sup> October 2020



# Costs need to be downsized to match lower revenues

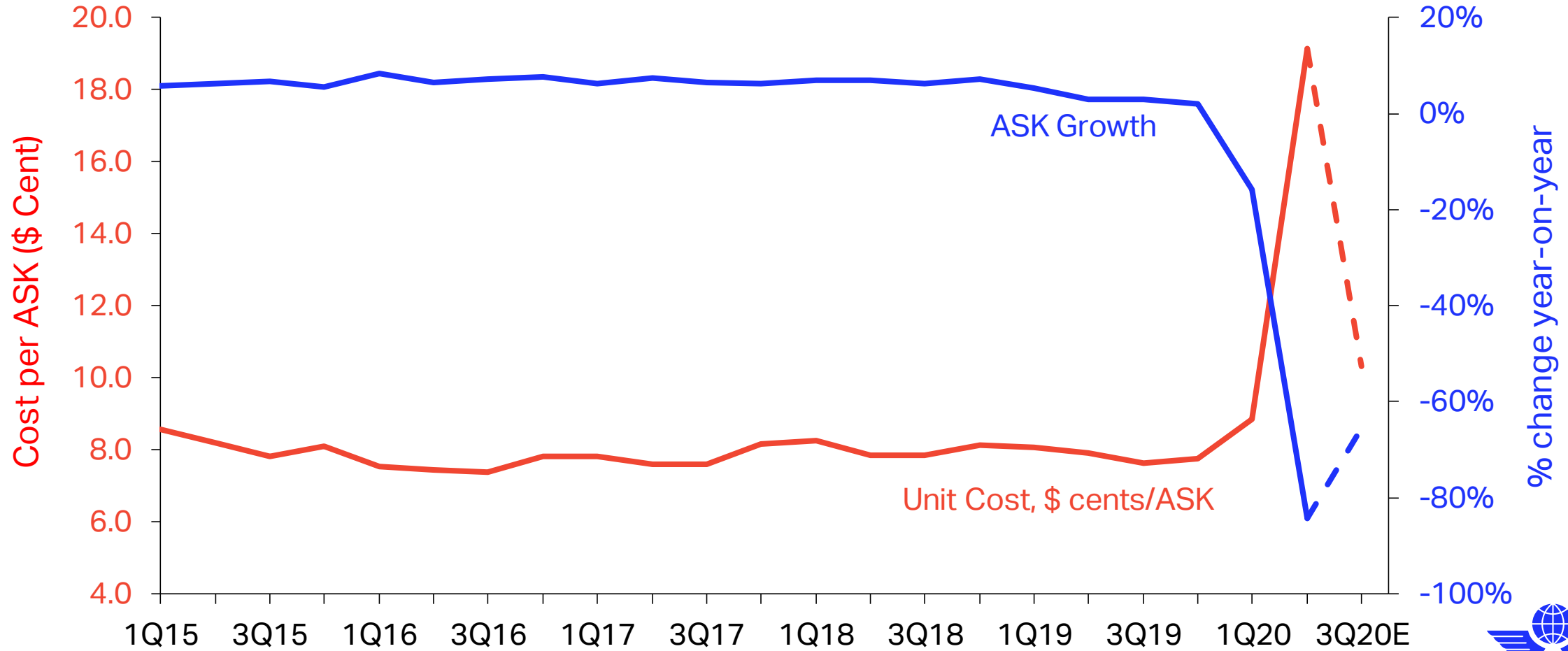
Revenues in 2021 are estimated to be ~50% of pre-crisis expectations



# Progress so far this year hampered by semi-fixed costs

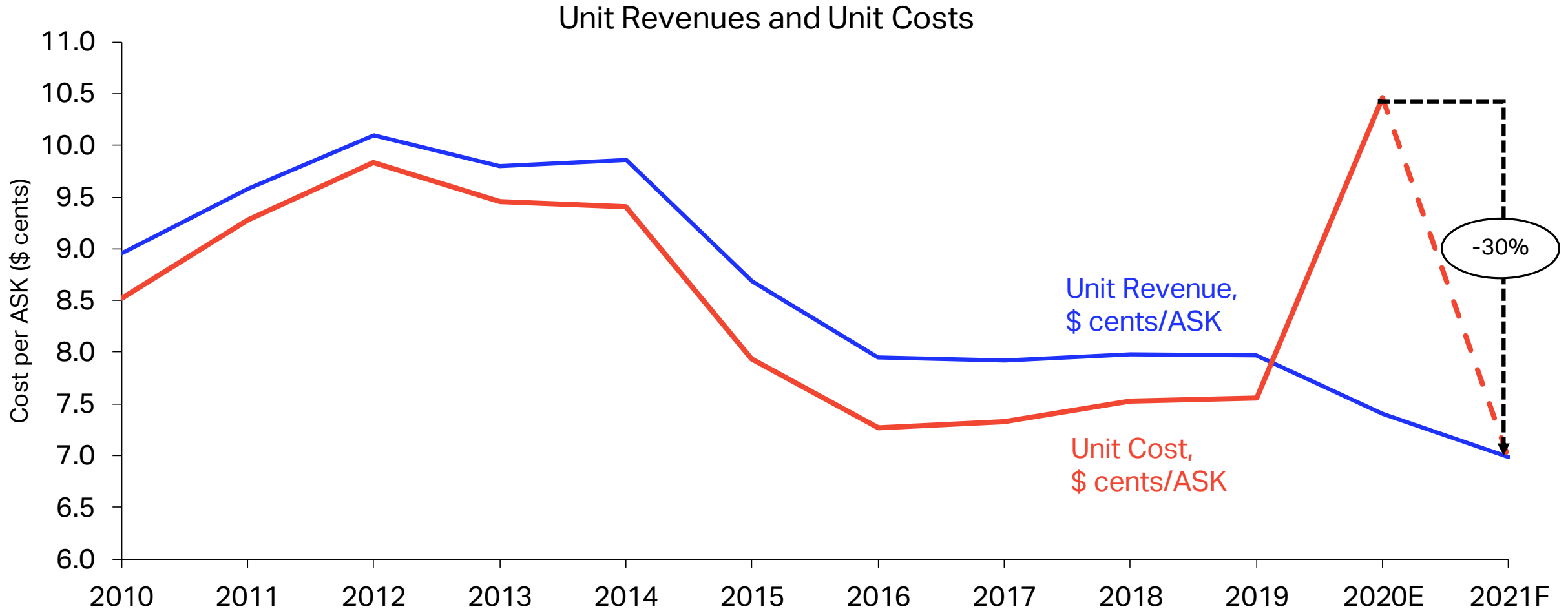
## Capacity collapse and fixed costs meant Q3 unit costs ~40% higher

Industry Unit Cost vs Ask Growth



# This is the decline required in 2021 for unit costs

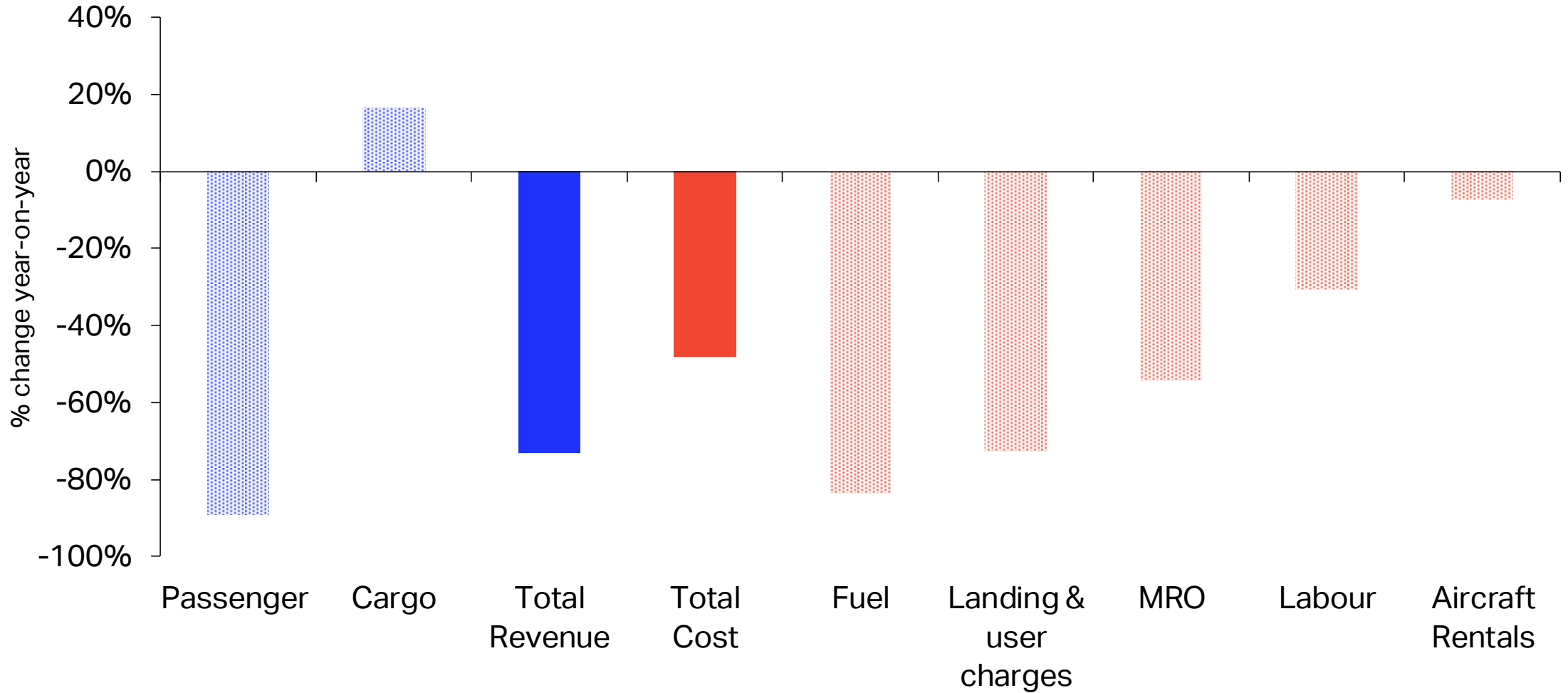
Unit costs need to fall by 30% from 2020 average to break-even in 2021



# Fixed or semi-fixed costs are a major challenge

## Variable costs cut but others are hard to avoid or reduce

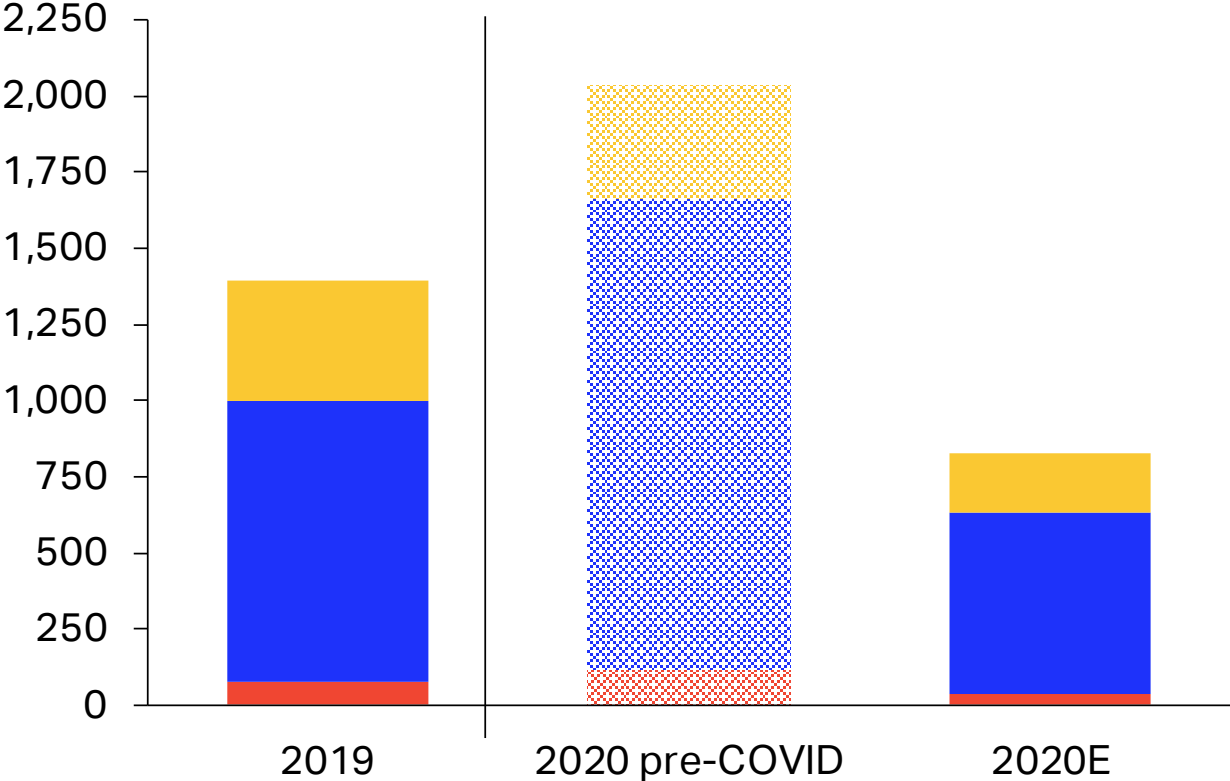
Operating revenues and cost changes in 2020 Q2



# Aircraft are a major 'fixed' cost despite downsizing effort

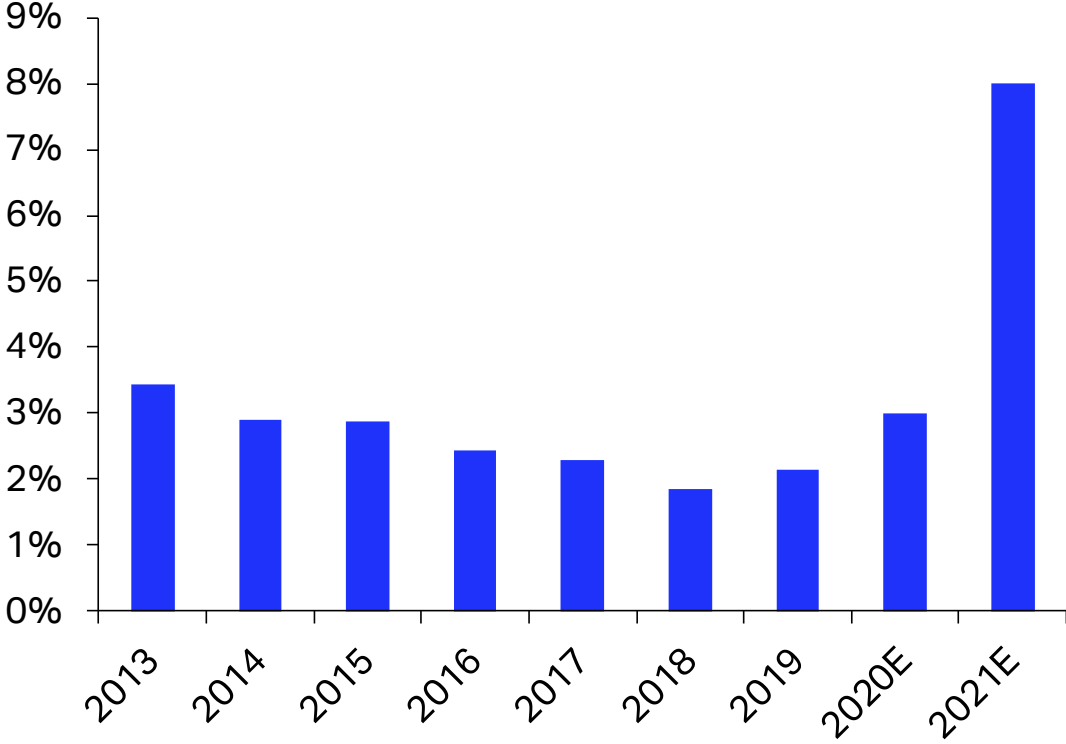
## Deliveries are postponed and retirements will rise sharply

Global Aircraft Deliveries



■ Regional Turboprops   ■ Narrowbody Jets  
■ Widebody Jets

Retirements % of fleet

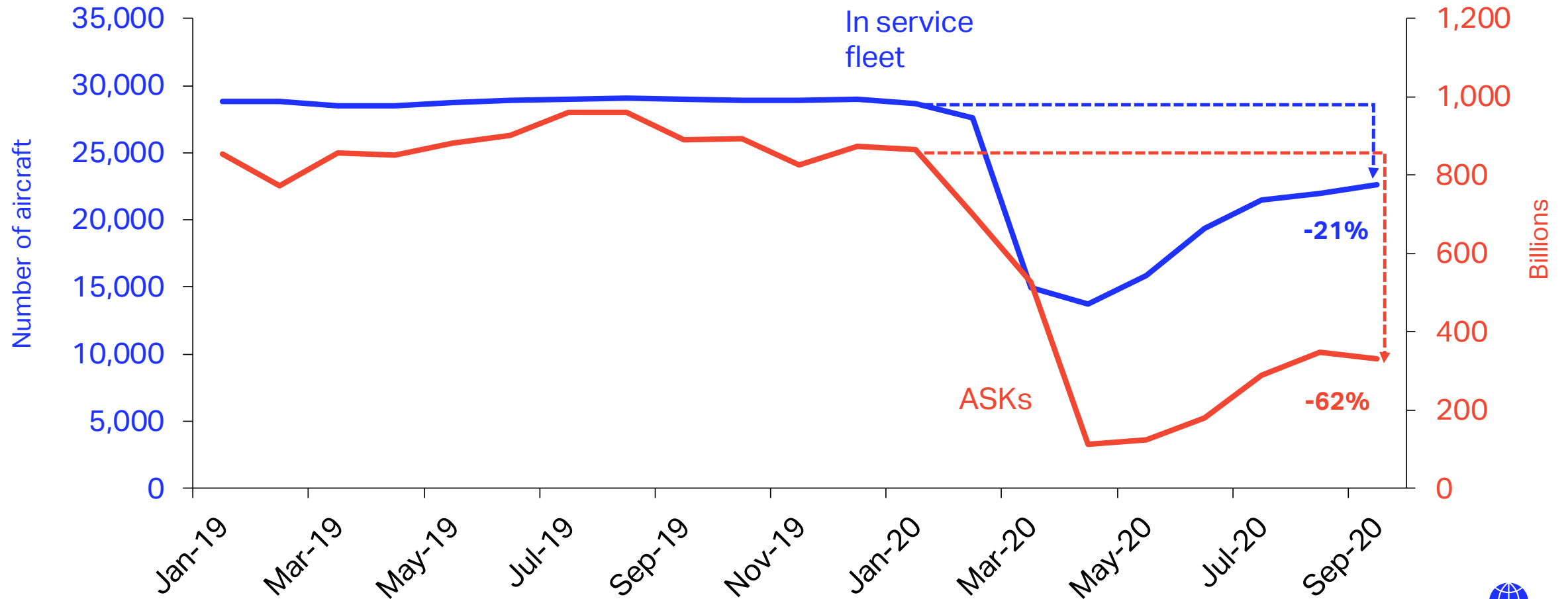


Source: IATA Economics, Cirium Ascend

# Switch to short-haul flying limits fleet cuts

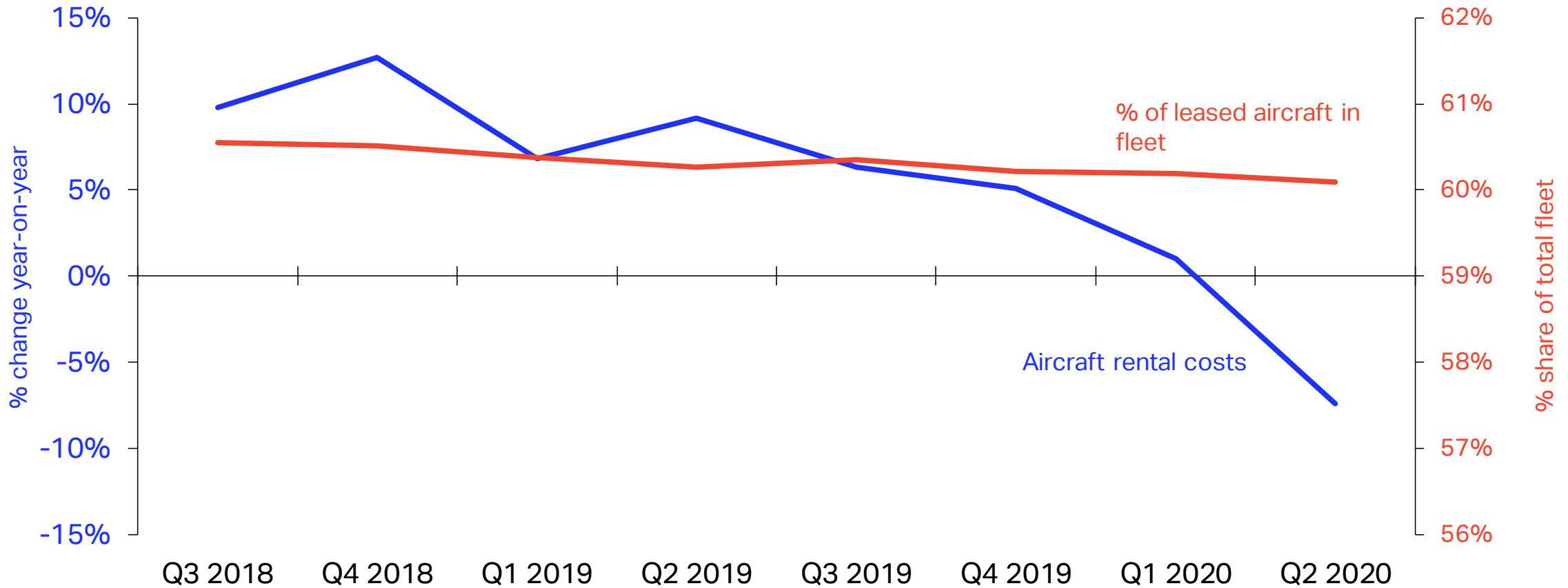
Fewer large aircraft but airlines unable to downsize fleet proportionately

Commercial airlines' fleet of jets and turboprops



# Lease rental costs are falling but slowly

60% of fleet leased, lease rental costs usually fixed but some reduction

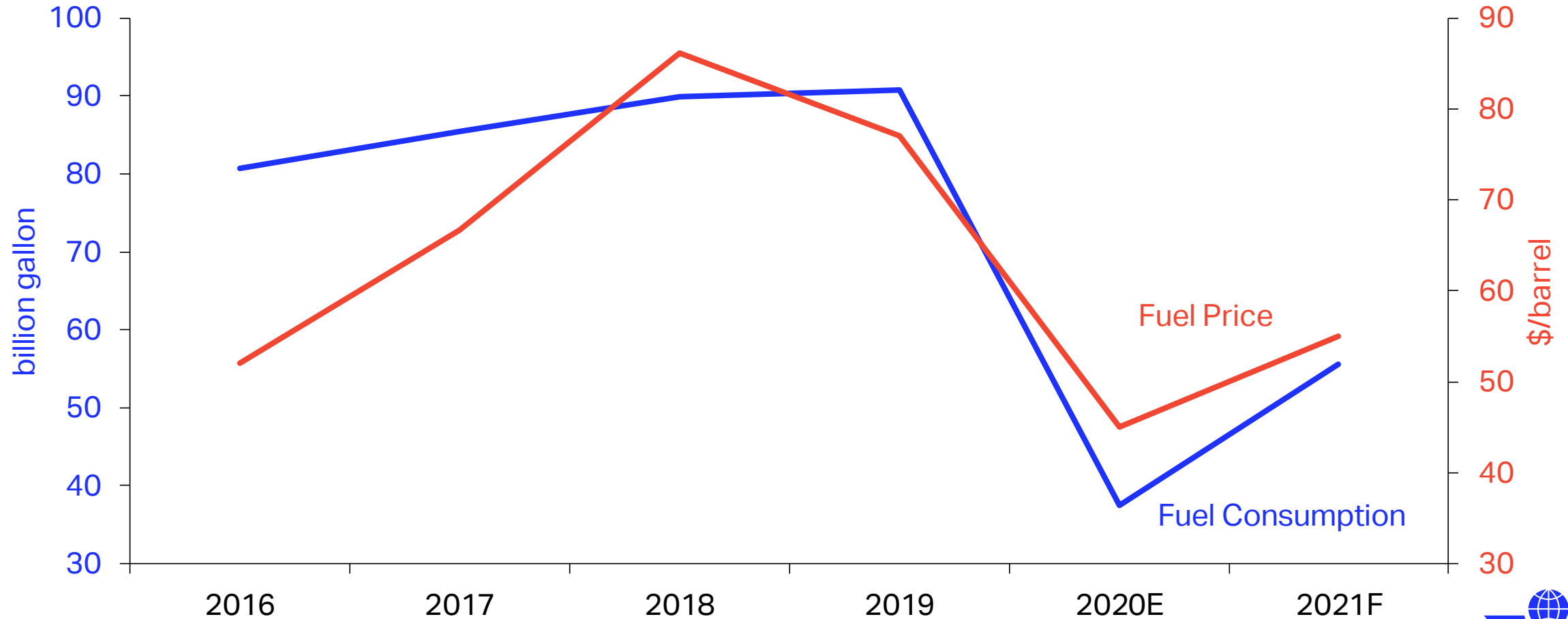




# Fuel is usually the largest cost, but it is variable

Fuel use fallen parallel to capacity; fuel prices are 42% down on 2019

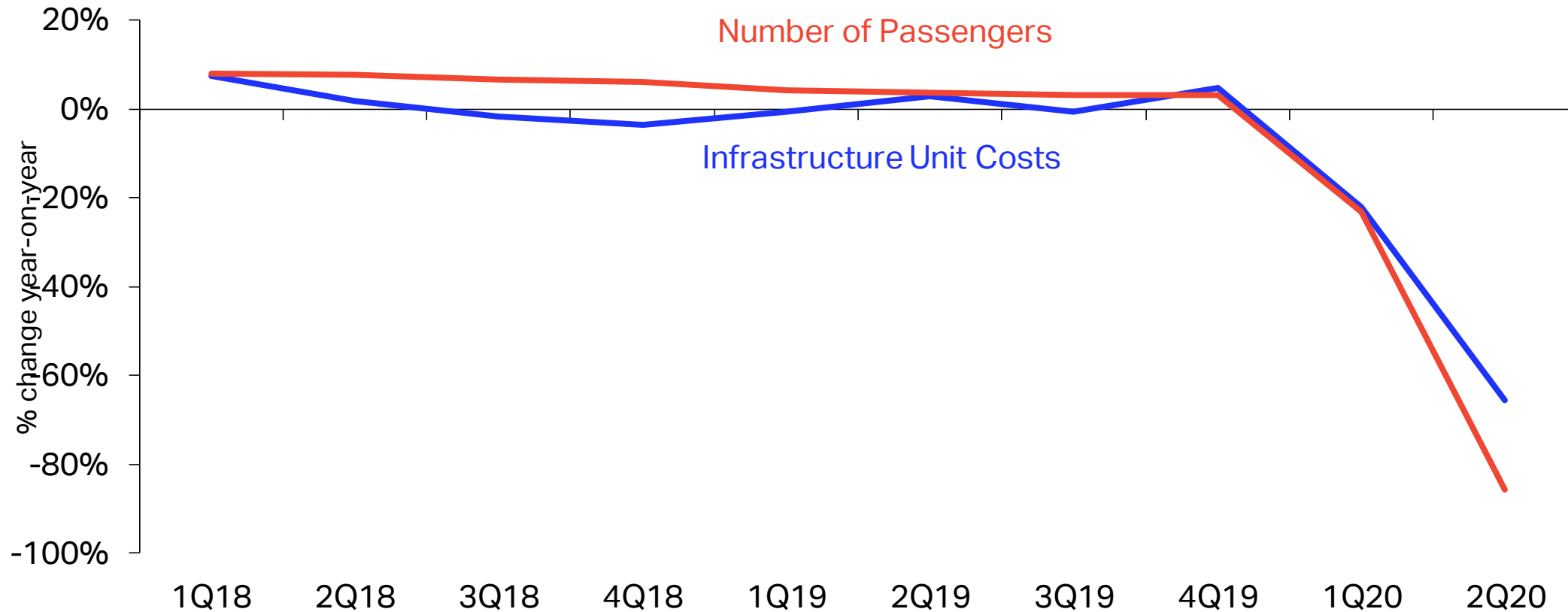
Fuel Consumption and Fuel Prices



# Infrastructure charges down just because of few flights

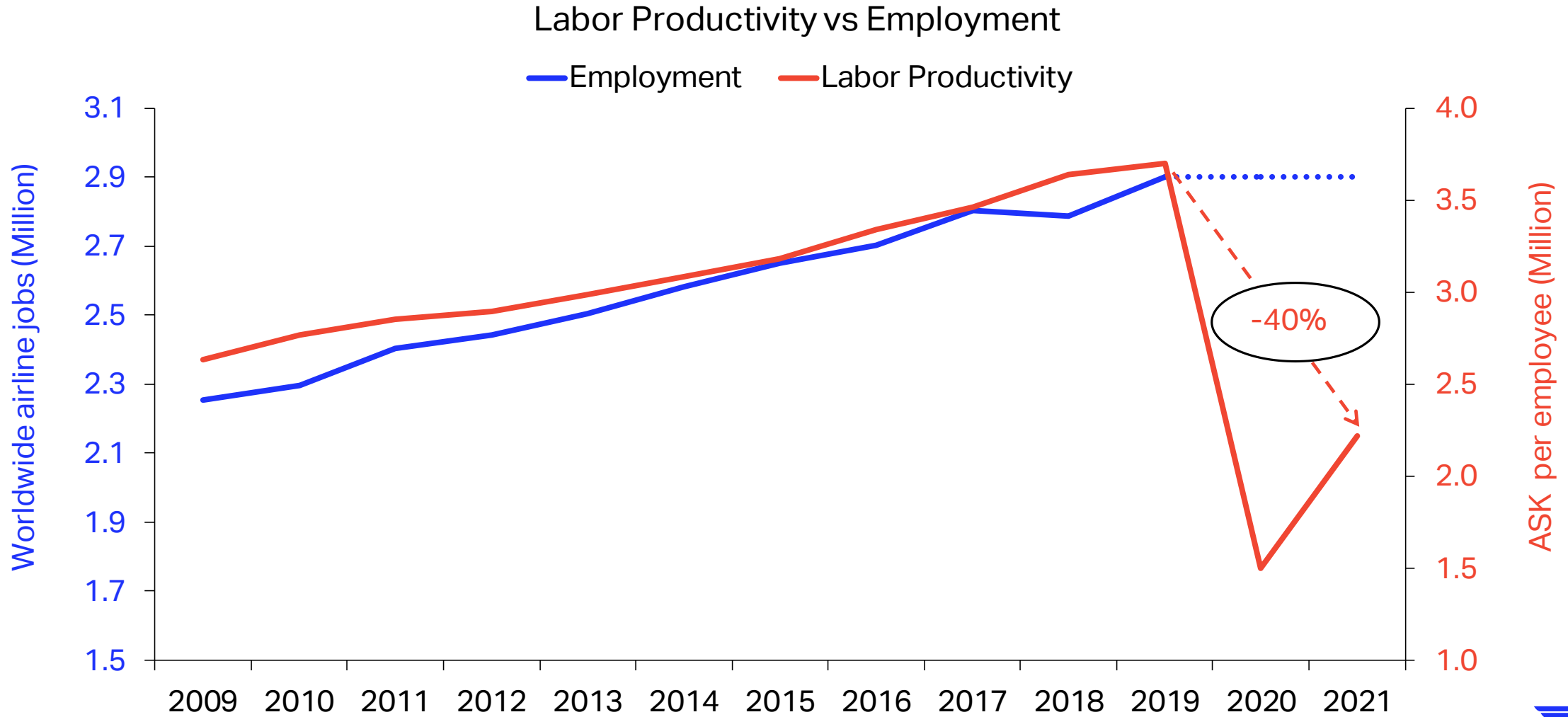
## Risk of cost increases as airports/ANSPs consider fee increases

Number of Passengers vs Infrastructure Costs



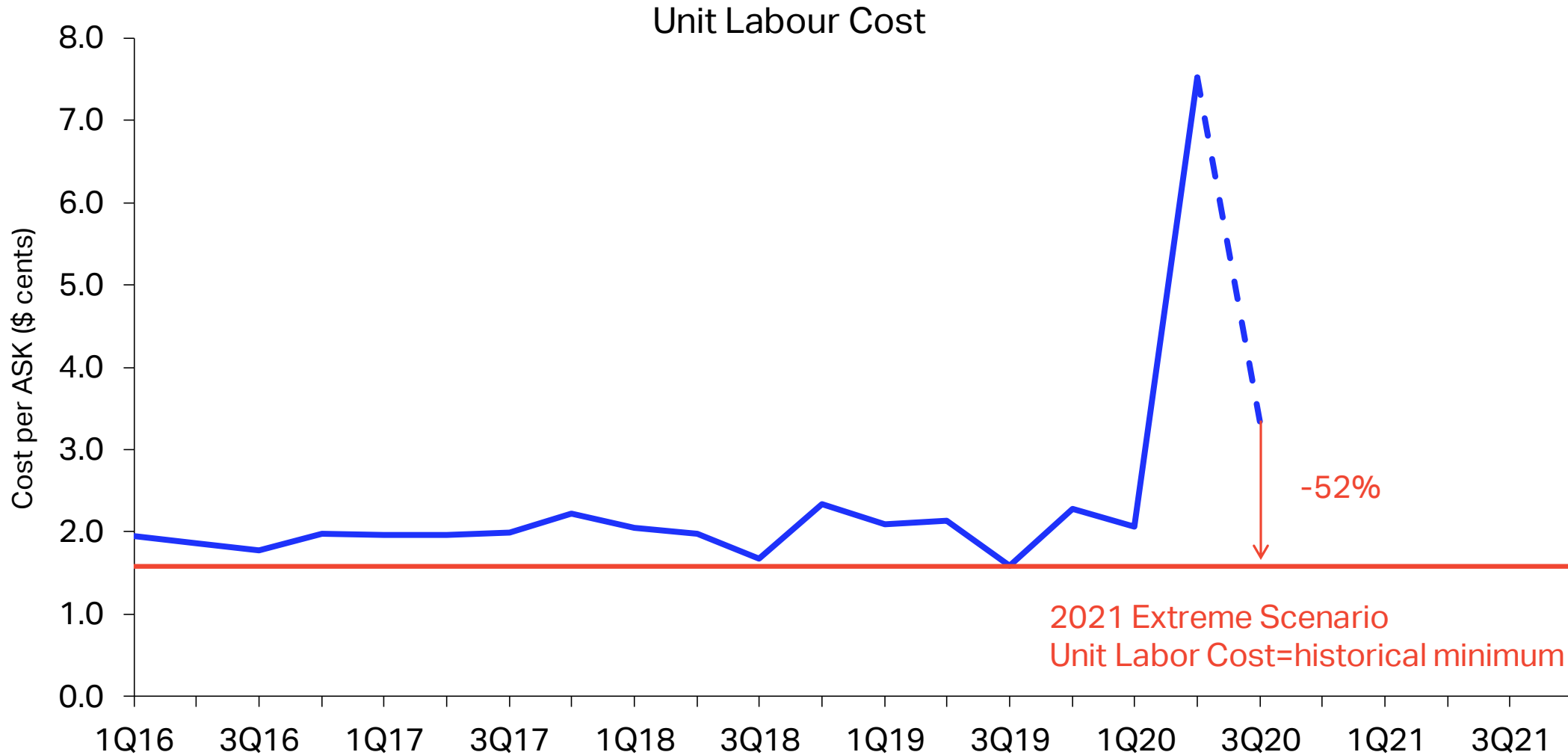
# Only sizeable option to cut costs sufficiently is labour

With no job cuts from 2019 productivity would decline 40% by 2021



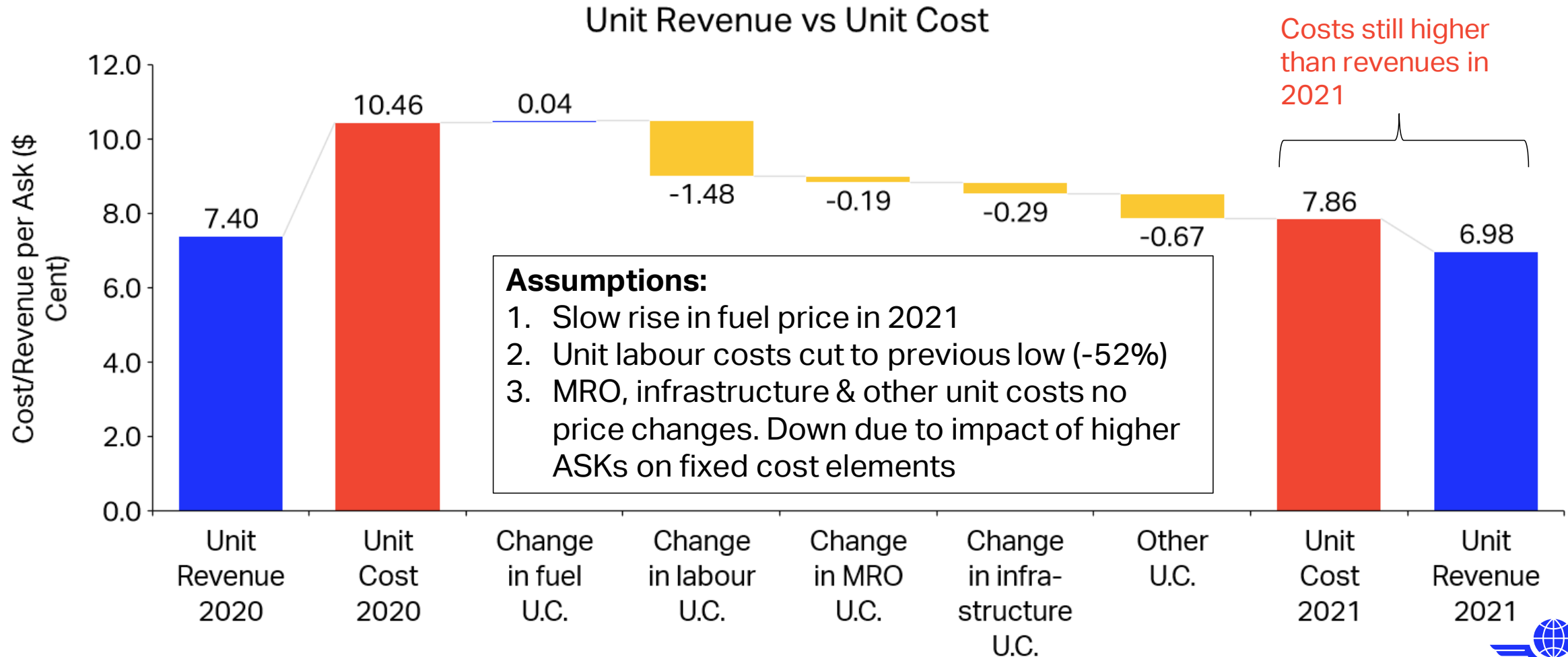
# 52% unit labour cost cut would reach historical low point

Both pay and workforce numbers would need to be cut to reach this



# Even with big labour cost cuts, break-even not achieved

## Airlines need further support to stop continuing cash burn



# Contacts

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