IATA Economics’ Chart of the Week

Cash may run out for some airlines during tough winter season

2020 Q2 cash + cash equivalents / 2020 Q2 cash burn

- This week we look at the cash position of the airlines reporting their second quarter 2020 financial results (those in the chart represent 42% of global RPKs), to see how long their balances of cash and near cash assets would last if the rate of cash burn they faced in that quarter persisted. The answer, for the median airline, is just over 6 months.

- Many airlines, though not in all regions, have survived so far and had their cash balances boosted by Government aid, which totaled $161 billion worldwide by early September. Of course, airlines have also slashed costs to reduce cash burn. A smaller number of airlines also raised cash on the capital markets by issuing debt or equity and selling assets. Consequently, there is a group of airlines who have large cash balances that would last a long time, even at the 2020Q2 rate of cash burn. However, most airlines do not have this buffer.

- This second quarter measurement is a very stringent test of airline industry financial resilience (see latest Airlines Financial Monitor). Cash burn was probably at its worst in Q2 as the COVID-19 crisis hit hardest, but Q4 and Q1 next year are typically quarters of weak cash flows, even without 2nd waves of the virus. Existing cash balances are also not the only source of liquidity. Airlines can also raise cash from capital markets and by selling or borrowing against assets. But not all airlines are able to do this.

- Even after taking this into account, since Government aid is starting to be withdrawn (e.g. wage subsidies), many airlines in the industry remain in a fragile financial state and will struggle to survive the weak winter months, unless we see a faster pace of recovery in air travel than we have today.

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