COVID-19

Cost of air travel once restrictions start to lift

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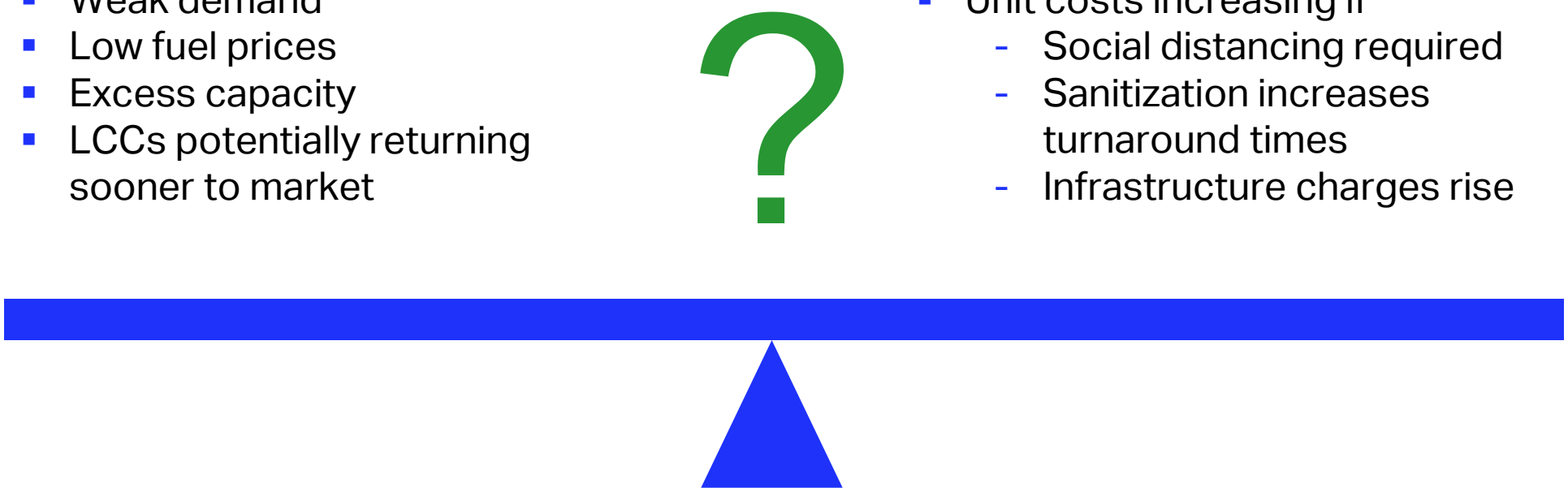
Will air fares be high or low as borders open?

Usually fares set to stimulate demand but restrictions will raise costs

Factors suggesting lower cost of air travel

- Weak demand
- Low fuel prices
- Excess capacity
- LCCs potentially returning sooner to market

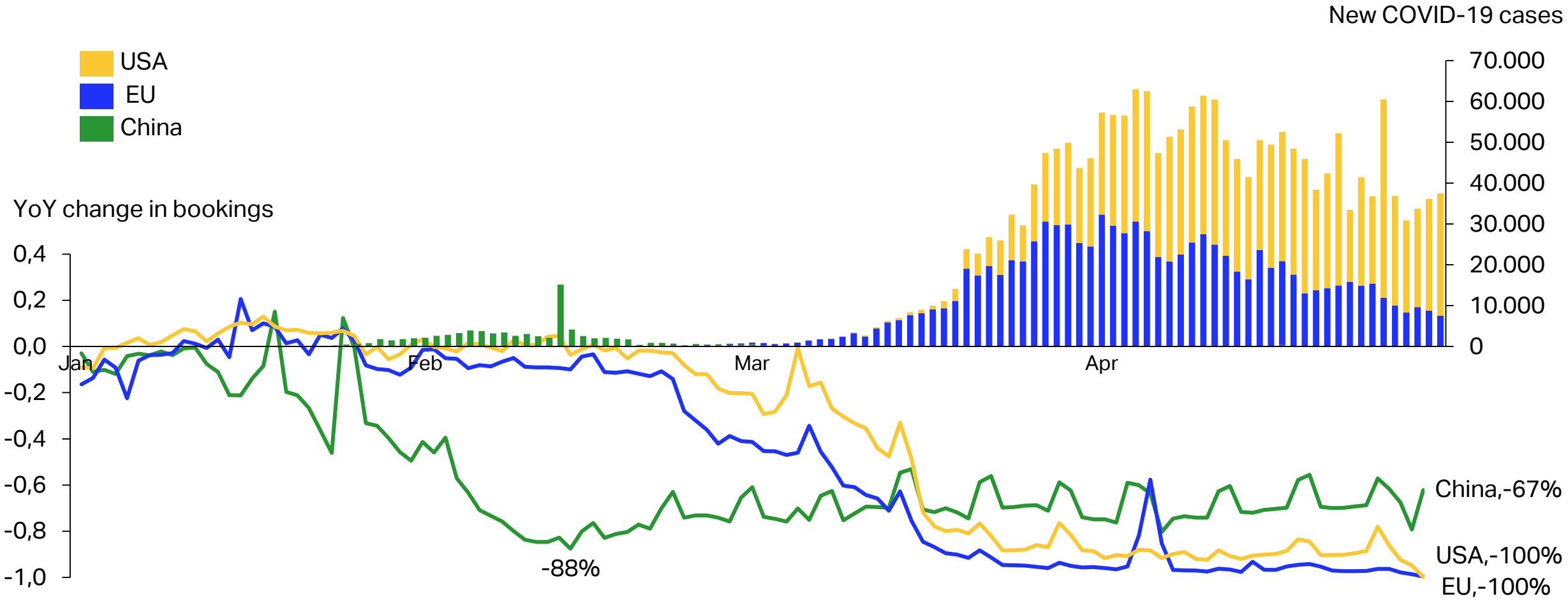


Factors suggesting higher cost of air travel

- Unit costs increasing if
  - Social distancing required
  - Sanitization increases turnaround times
  - Infrastructure charges rise

In the first few months of restart demand will be low

Return to work & VFR generate some demand, but consumers cautious

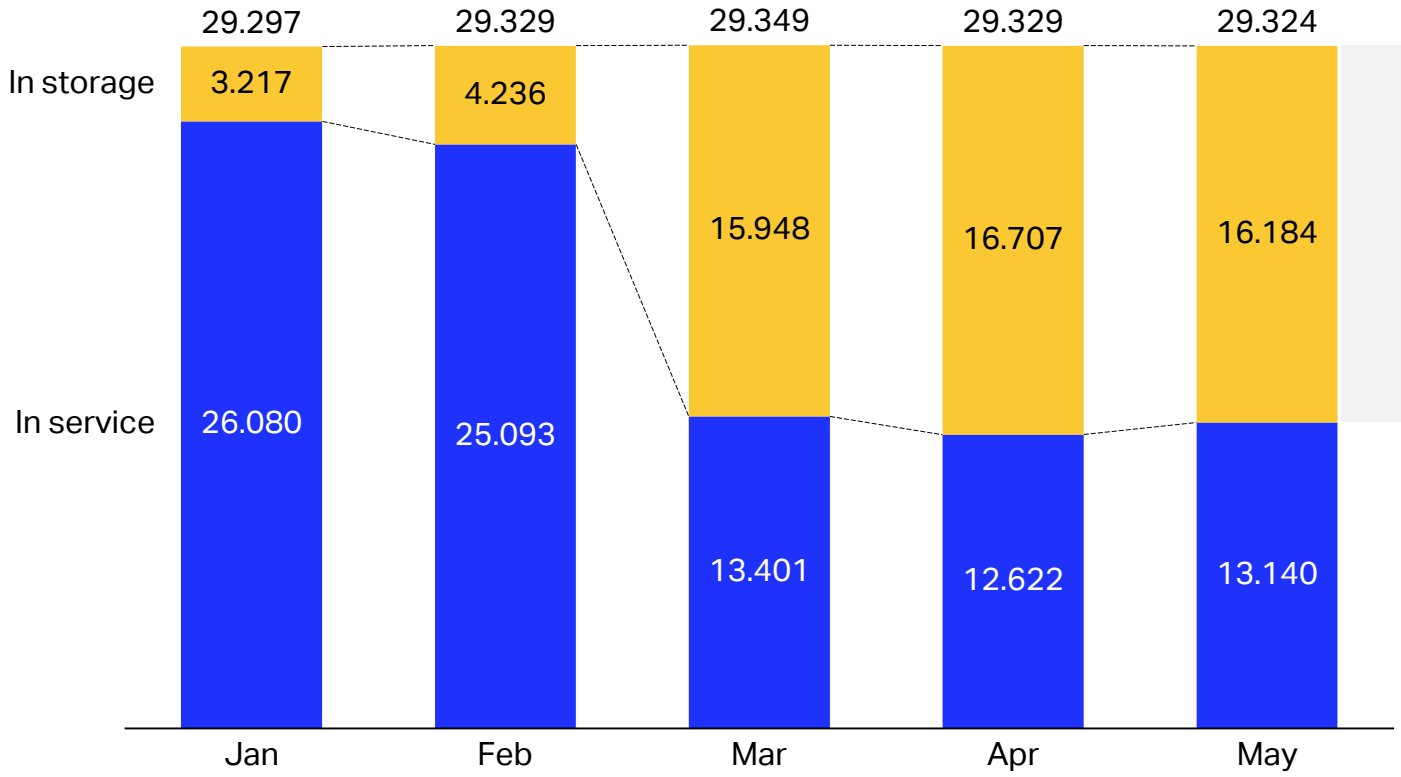


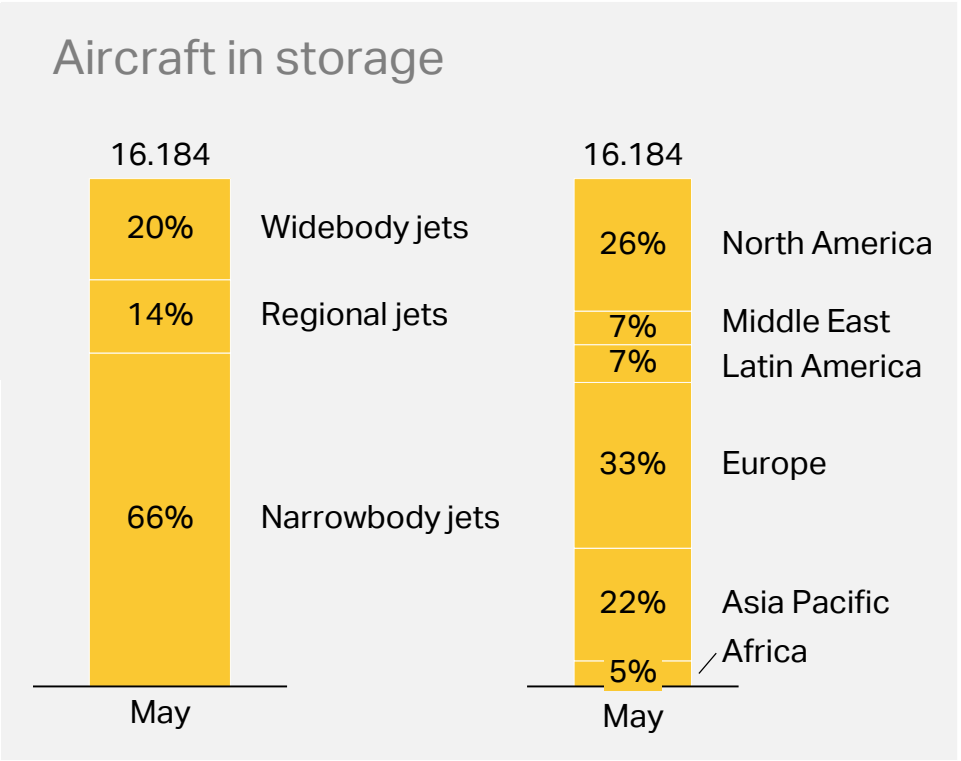
Source: IATA Economics analysis based on DDS, ECDC data

Currently significant overcapacity in the market

With fixed costs to pay the incentive will be to bring back into service

Global fleet by usage, by aircraft type, Jan-May 2020



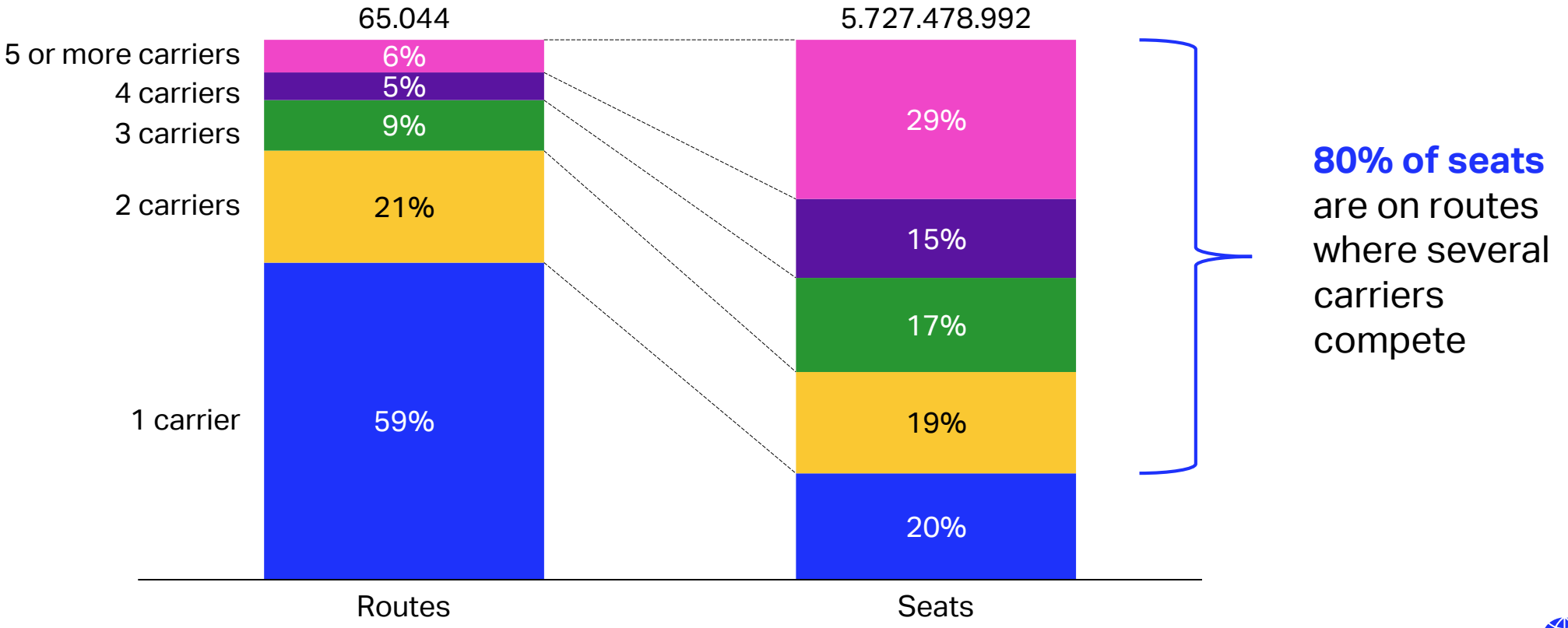


Source: IATA Economics using data from ASCEND

Competition potential to be fierce as markets open up

Despite consolidation 80% seats on routes with 2 or more airlines

Distribution of global routes and seats by number of carriers competing on route, 2019



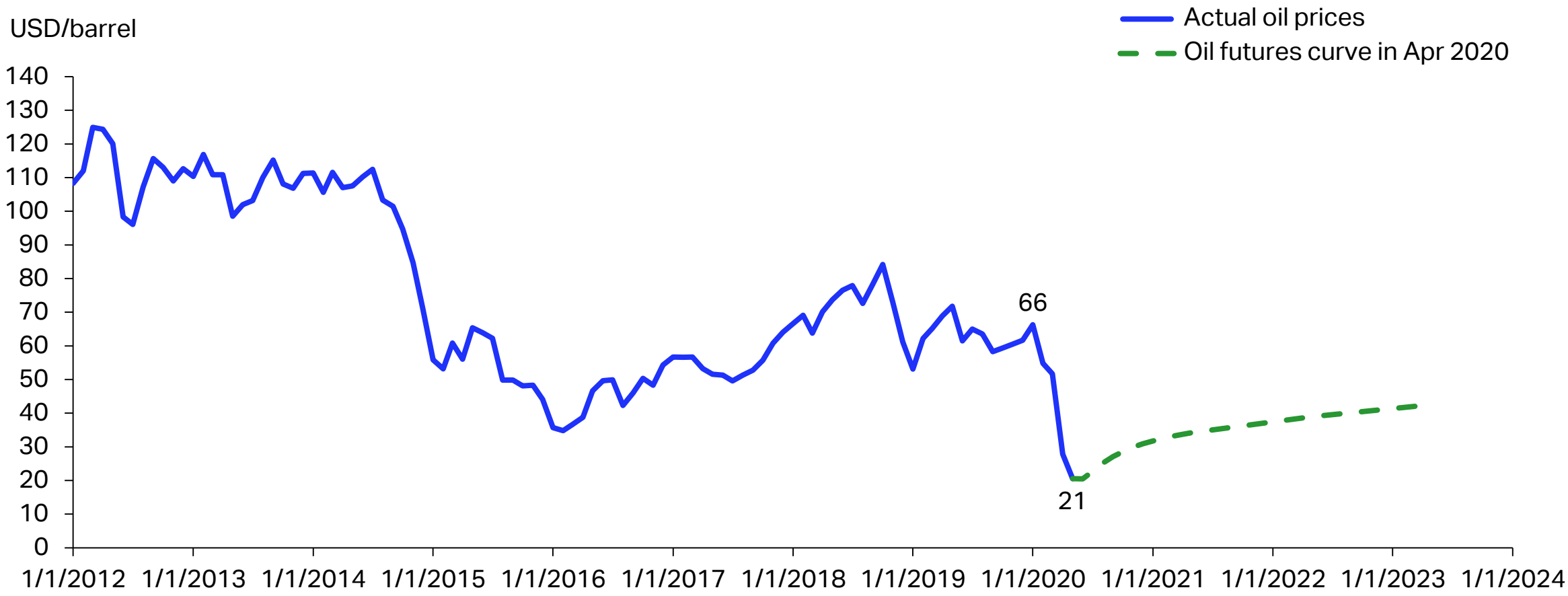
80% of seats are on routes where several carriers compete

Source: IATA Economics based on SRS Analyser data

The largest variable cost, fuel, will be lower than before

Excess supply of oil should keep fuel unit costs low as restart begins

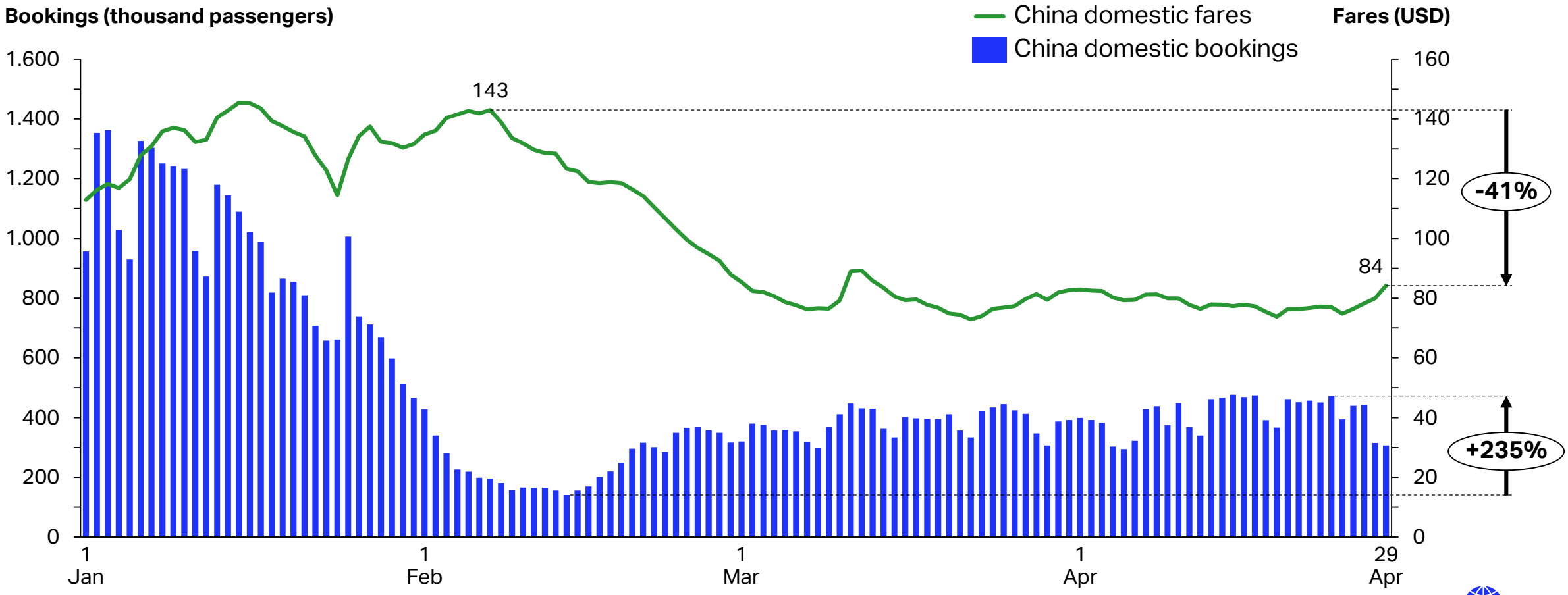
Actual oil prices up to 29 Apr 2020, oil futures afterwards



Source: IATA Economics using data from Refinitive Datastream

As markets open, airlines will try to stimulate demand

Air fares were cut 40% as China's domestic market re-opened

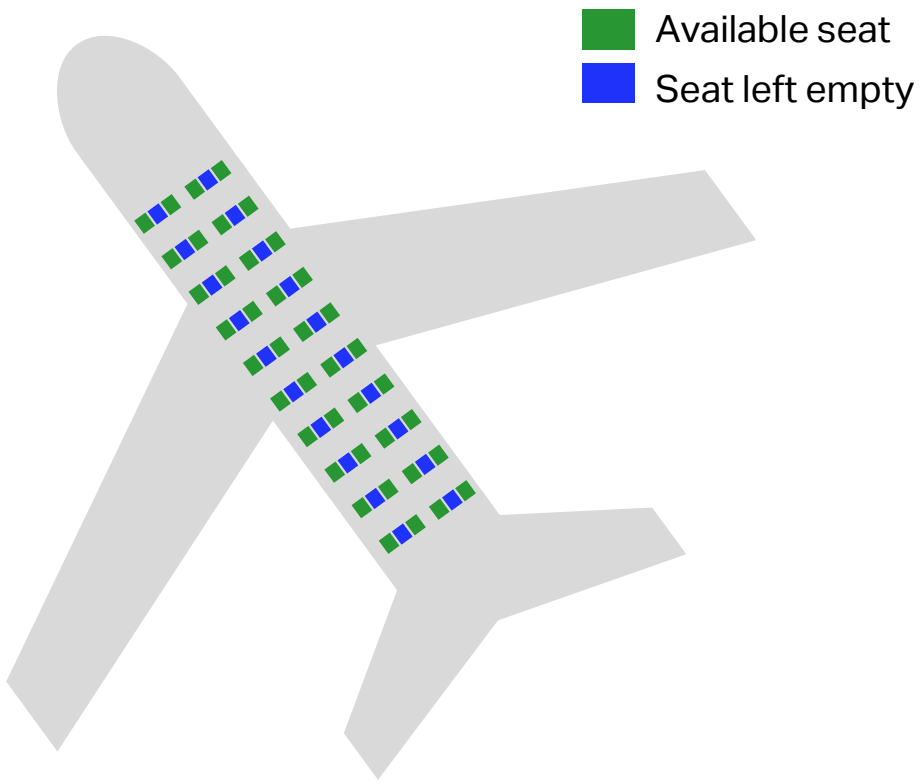


Source: IATA Economics using data from DDS

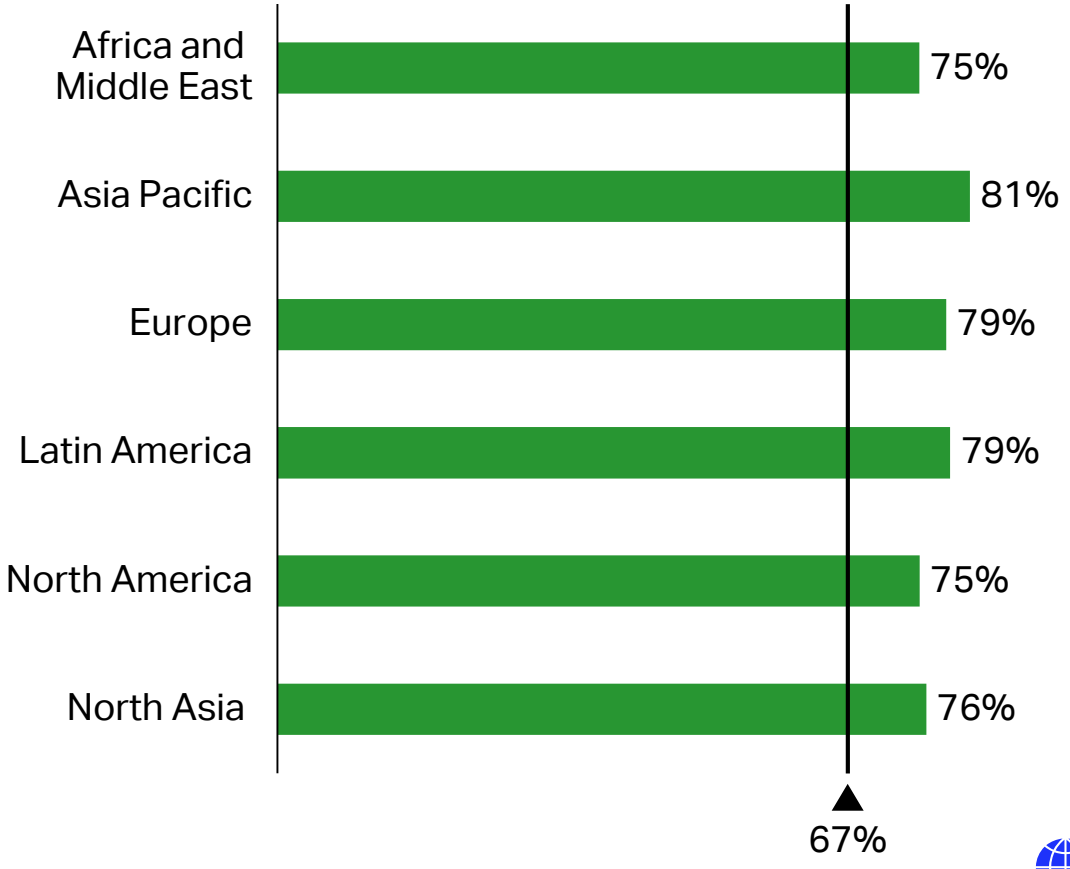
Social distancing on aircraft would challenge viability

Leaving seats empty raises unit costs and could reduce unit revenues

Aircraft with a 3-3 seat configuration, if middle seats have to be left empty



Average break-even load factors by region



Source: IATA Economics using data from The Airline Analyst

Maximum load factor falls to 62% with other aircraft

Social distancing removes higher proportion of seats vs narrow-body

Available seat
Seat left empty

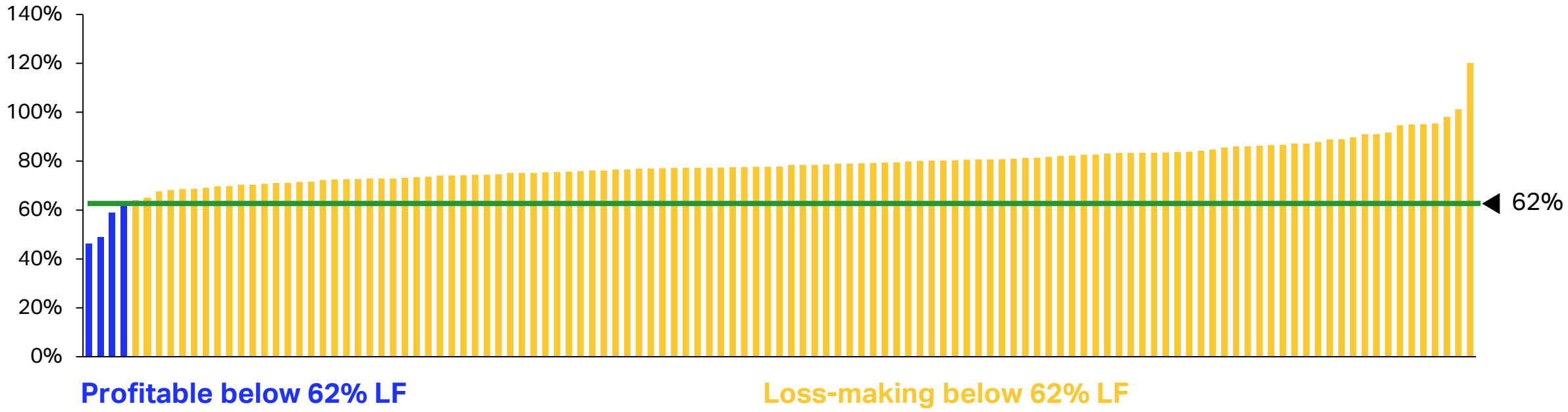
	Narrow-body	Wide-body	Regional jet	Turboprop
				
Equipment name	**A320**	**B777-300 Passenger**	**E-190**	**DHC-8-400**
Number of seats (avg.)	168	373	101	77
Per-pax cost with 80% load	$86	$202	$87	$61
Seat configuration if social distancing				
Max. load factor if social distancing	Weighted average: 62% 67% Empty	60% Empty	50% Empty	50% Empty
Per-pax cost with social distancing and 80% load	$129	$337	$176	$123
Increase in per-pax cost	+50%	+67%	+101%	+102%

Source: IATA Economics based on data from SRS Analyser and IATA's 2018 ACMG benchmarking report

With social distancing on aircraft few airlines break even

In 2019 only 4 airlines had breakeven load factors less than 62%

EBIT Break-even load factors (LFs) of 122 airlines, most recent year available (%)



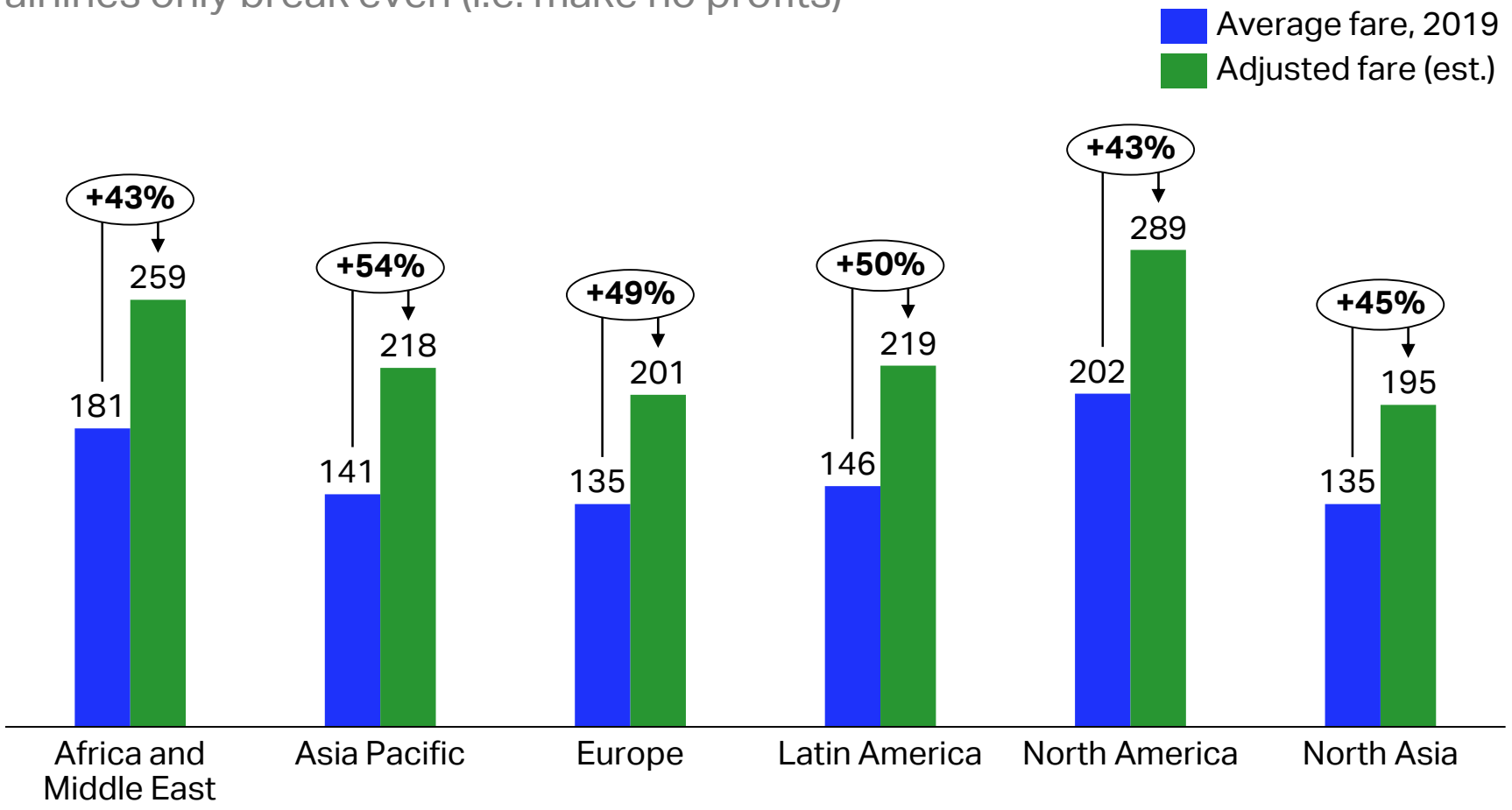
- Of a sample of 122 airlines, only **4 could break even at load factors below 62%**
- **The other 118 airlines**, with their current pricing policies, **would become loss-making** at load factors below 62%

Source: IATA Economics using data from the Airline Analyst and SRS Analyser

Fares 43-54% higher to get breakeven if 62% seats limit

Unit costs would rise sharply with fewer seats. Zero profits assumed.

2019 average base fares vs. estimated minimum average base fares if max. 62% of seats can be filled and airlines only break even (i.e. make no profits)



- **To break even** while selling fewer seats, airlines would need to increase fares
- Depending on the region and its baseline average achieved load factor, we expect **the fare increase to be between 43-54%**
- This is based on estimated achieved **load factors of 53%** (62% weighted average cap on seats times 85% assumed load factor, to account for benefits of capacity optimization with current oversupply in market)

Source: IATA Economics based on data from the Airline Analyst, DDS and SRS Analyser

Fares low initially, but air travel could become costly

Restrictions on seats and aircraft utilization will increase unit costs

		Short run		Long run	
Downward pressure on fares	Fuel prices	↓↓	Fuel prices very low	–	Economy and fuel prices recovered
	Excess capacity	↓↓	Most of fleet grounded	–	Capacity matches demand
	Weak demand	↓↓	Low passenger confidence and lower discretionary income	–	Capacity matches demand
Upward pressure on fares	Lower utilization	↑	Cap on load factors prevents optimal utilization of aircraft	↑↑	Significant constraint on capacity utilization
	Increase in operating costs	↑	Increased unit cost, e.g. crew time	↑	Increase in costs may be passed on in fares

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