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 are 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

In storage
- Jan: 3.217
- Feb: 4.236
- Mar: 15.948
- Apr: 16.707
- May: 16.184

In service
- Jan: 26.080
- Feb: 25.093
- Mar: 13.401
- Apr: 12.622
- May: 13.140

Aircraft in storage
- Regional jets: 14%
- Narrowbody jets: 66%
- Widebody jets: 20%
- North America: 26%
- Middle East: 7%
- Latin America: 7%
- Europe: 33%
- Asia Pacific: 22%
- Africa: 5%
Competition potential to be fierce as markets open up. Despite consolidation, 80% of seats on routes with 2 or more airlines. 

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

- 1 carrier: 59% of routes, 20% of seats
- 2 carriers: 21% of routes, 15% of seats
- 3 carriers: 9% of routes, 17% of seats
- 4 carriers: 5% of routes, 19% of seats
- 5 or more carriers: 6% of routes, 29% of seats

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Load Factor</th>
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</thead>
<tbody>
<tr>
<td>Africa and Middle East</td>
<td>75%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>81%</td>
</tr>
<tr>
<td>Europe</td>
<td>79%</td>
</tr>
<tr>
<td>Latin America</td>
<td>79%</td>
</tr>
<tr>
<td>North America</td>
<td>75%</td>
</tr>
<tr>
<td>North Asia</td>
<td>76%</td>
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Source: IATA Economics using data from The Airline Analyst.
Maximum load factor falls to 62% with other aircraft. Social distancing removes a higher proportion of seats compared to narrow-body aircraft.

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 break even 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

**Downward pressure on fares**

- **Fuel prices**
  - Short run: Fuel prices very low
  - Long run: Economy and fuel prices recovered

- **Excess capacity**
  - Short run: Most of fleet grounded
  - Long run: Capacity matches demand

- **Weak demand**
  - Short run: Low passenger confidence and lower discretionary income
  - Long run: Capacity matches demand

**Upward pressure on fares**

- **Lower utilization**
  - Short run: Cap on load factors prevents optimal utilization of aircraft
  - Long run: Significant constraint on capacity utilization

- **Increase in operating costs**
  - Short run: Increased unit cost, e.g. crew time
  - Long run: Increase in costs may be passed on in fares
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