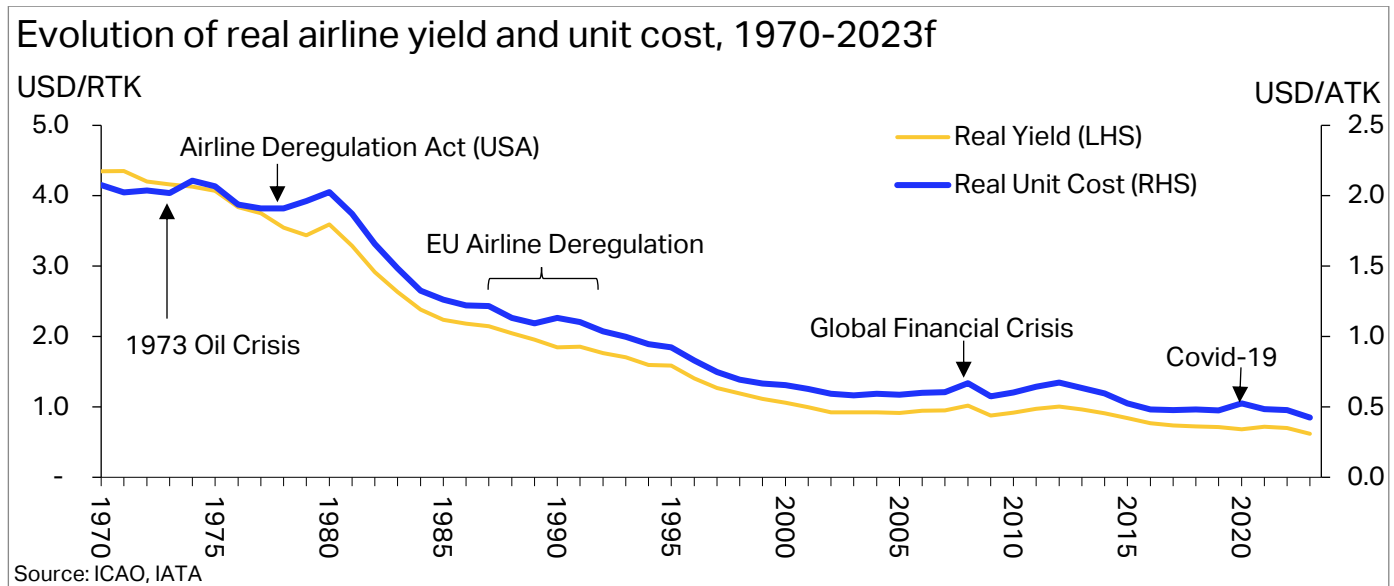




# IATA Economics' Chart of the Week

27 January 2023

## Declines in unit cost and yield expected to continue in 2023



- Over the past five decades, the airline industry has seen a remarkable decrease in real unit costs by over 4 times, and a near 6 times reduction in real yields. This trend, which has been fueled by technological progress as well as significant regulatory changes, remained consistent even through the various global macroeconomic shocks that the industry faced over the years, and it is expected to continue in 2023.
- One important driver of the long-term reduction in real unit costs, closely mirrored by airline yields, is the continuous innovation and improvement of operational efficiency that the industry experienced over the past century (e.g., the introduction of jet engines which revolutionized air travel during the 1950s). Over the past 50 years in particular, mechanical instruments were increasingly replaced by digital systems, and technological advancements allowed a significant reduction of aircraft weight, resulting in higher fuel efficiency (the largest component of airline costs). Widespread industry competition has also contributed to the long run downward pressure on unit costs and yields.
- Another important driver of the reduction in airline yields and unit costs has been the widespread liberalization of the industry towards the end of the 20<sup>th</sup> century. In the US, the Airline Deregulation Act was passed by Congress in 1978. Until then, the Civil Aeronautics Board (CAB) had regulated air fares, awarded routes, and imposed limits on the entry of new airlines in the market. After the establishment of the single European market in 1993, EU regulations also evolved to integrate several national European markets into a single, competitive market for air transport, which effectively liberalized the industry in the region. These two landmark events since have inspired other regions and states to start liberalizing air transport – not only on a domestic front but also at the international level.
- Notwithstanding the challenges of recent years, the airline industry continues to push the frontiers of technological possibilities, working towards the goal of Flying Net Zero by 2050 and making affordable and sustainable travel accessible for all.

IATA Sustainability and Economics  
economics@iata.org

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