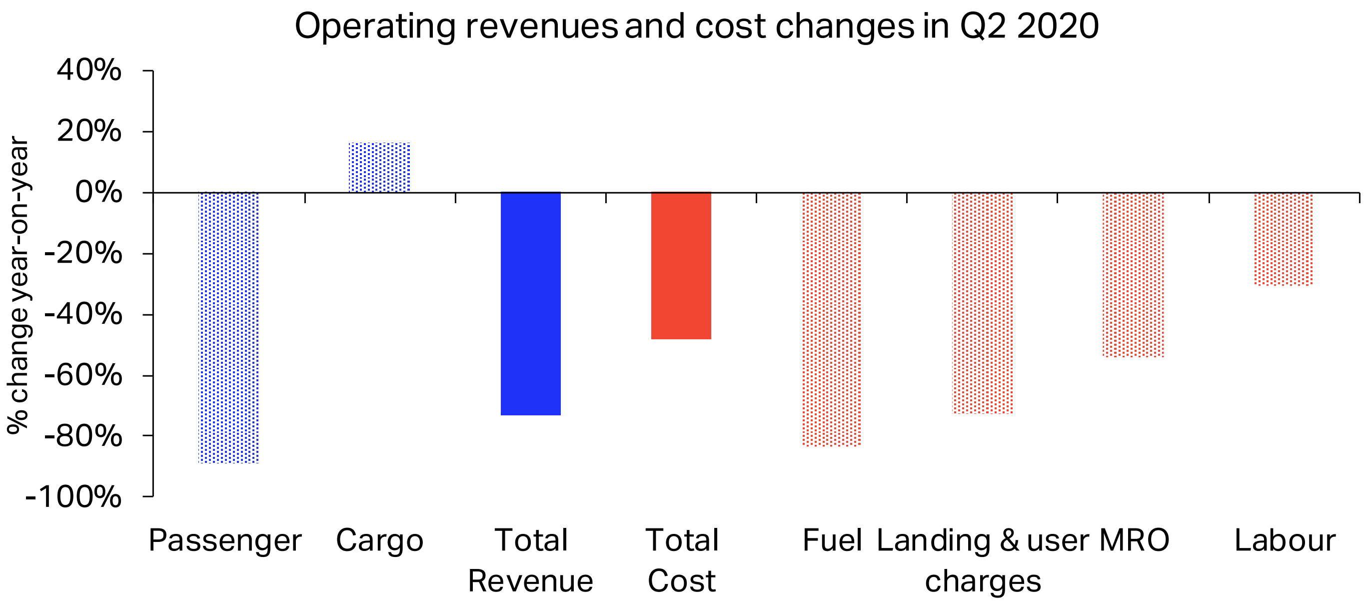
IATA Economics' Chart of the Week

23 October 2020

Downsizing costs will be a priority in the era of curtailed demand



Source: IATA Economics using data from the Airline Analyst

- Today's chart looks at the developments of operating revenues and costs during Q2 2020, based on the sample published in our latest [financial monitor](). On the revenue side, passenger revenues declined more than 80% in Q2 2020 compared to the same period of the previous year with the almost full grounding of the industry. On the other hand, cargo revenues have been a bright spot. Although cargo demand went down by 21% year-on-year in Q2, cargo revenues improved by 17% over the same period with the support of lucrative cargo yields. However, this was not enough to offset the loss on the passenger side since the share of cargo is relatively small (12% before Covid-19) in overall revenues.
- Airlines have focused on cost savings in order to offset the revenue pressure. However, they have not been able to reduce their cost proportionally to match the overall reduction in revenues, since c. 50% of airline costs were fixed and semi-fixed costs. Fuel costs, the largest cost item, declined in parallel to the revenue loss with the fleet groundings and supportive jet fuel price. While infrastructure costs have decreased through reduced operations, the reduction has been less than proportional relative to the contraction in passenger volumes. In addition, some infrastructure providers may seek to recover losses by increasing charges in future years. The reductions in labour costs and maintenance costs were also not enough to compensate the loss of revenues. As a result, total operating costs were only able to be reduced in Q2 by 48% compared to the previous year.
- Looking forward, restoration of profitability or ending cash burn will depend on adjusting their cost base in line with shrunken revenues. As the damage from the pandemic and uncertainties regarding air travel growth will likely persist in the near term, airlines' focus will be on cutting costs in order to minimize cash burn. Structural changes in operations and cost structures are starting to look necessary.

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