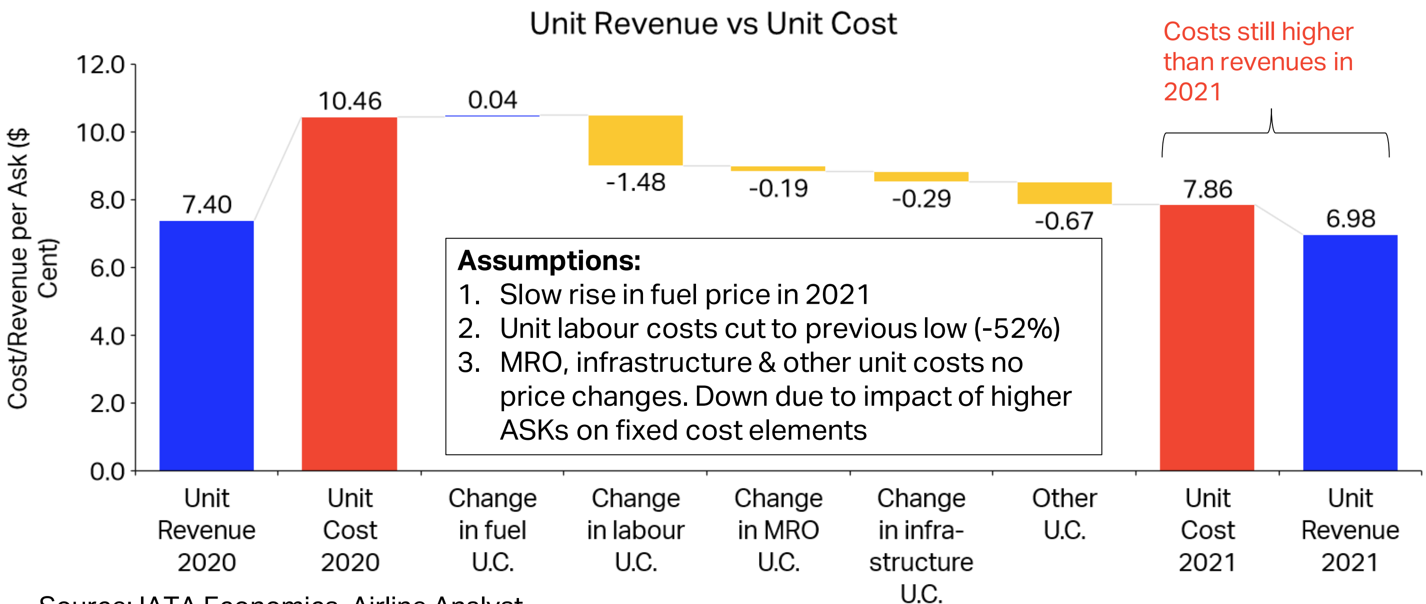
IATA Economics' Chart of the Week

30 October 2020

Is cash break-even "even" possible in 2021?



Source: IATA Economics, Airline Analyst

- The obvious near-term goal for the airline industry is achieving cash break-even. While airlines continue to make progress on cutting their daily cash burn, it is not an easy task to achieve as second-wave fears start to dampen travel demand. Moreover, airlines have a significant proportion of unavoidable costs which limits the possibility to adjust costs to low revenues. Today's chart presents the results of analysis based on a scenario in which unit labour costs are reduced to a historical minimum, and explores the possibility of cash break-even in 2021 under this scenario.
- On the revenue side, we expect to see a gradual recovery in travel demand from the low point in 2020. However, even with a vaccine we are cautious about the extent of the travel revival and yields will be low, with very limited premium-paying business travel. As a result, unit revenues are expected to decline from 7.40 cents in 2020 to 6.98 cents in 2021. Hence, in order to cash break-even, carriers will need to achieve a 30% fall in unit costs in 2021 (from 10.46 cents in 2020 to 6.98 cents in 2021).
- In the above chart, we explore whether this 30% fall in unit costs is likely to be achievable or not. Our main assumptions are: 1) Fuel costs will rise slowly and will cause a minor increase in unit costs, 2) Unit labour costs will be cut to the lowest level in the past five years, i.e. 52% lower than 2Q 2020 3) For other cost items, such as maintenance, infrastructure, etc., prices are assumed to be constant and higher capacity will result in minor reductions in unit costs *(note that the yellow bars in the chart show the changes in various cost components from 2020 to 2021).*
- Under these assumptions, there is still a 12% gap needs to be closed to match unit costs with unit revenues in 2021. Moreover, achieving 52% in unit labour costs is not a simple task and might require both employment and salary cuts. Also, there are upside price risks to costs such as airport and ANSP charges. Hence, reaching cash break-even at the aggregate level does not look plausible in 2021.

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