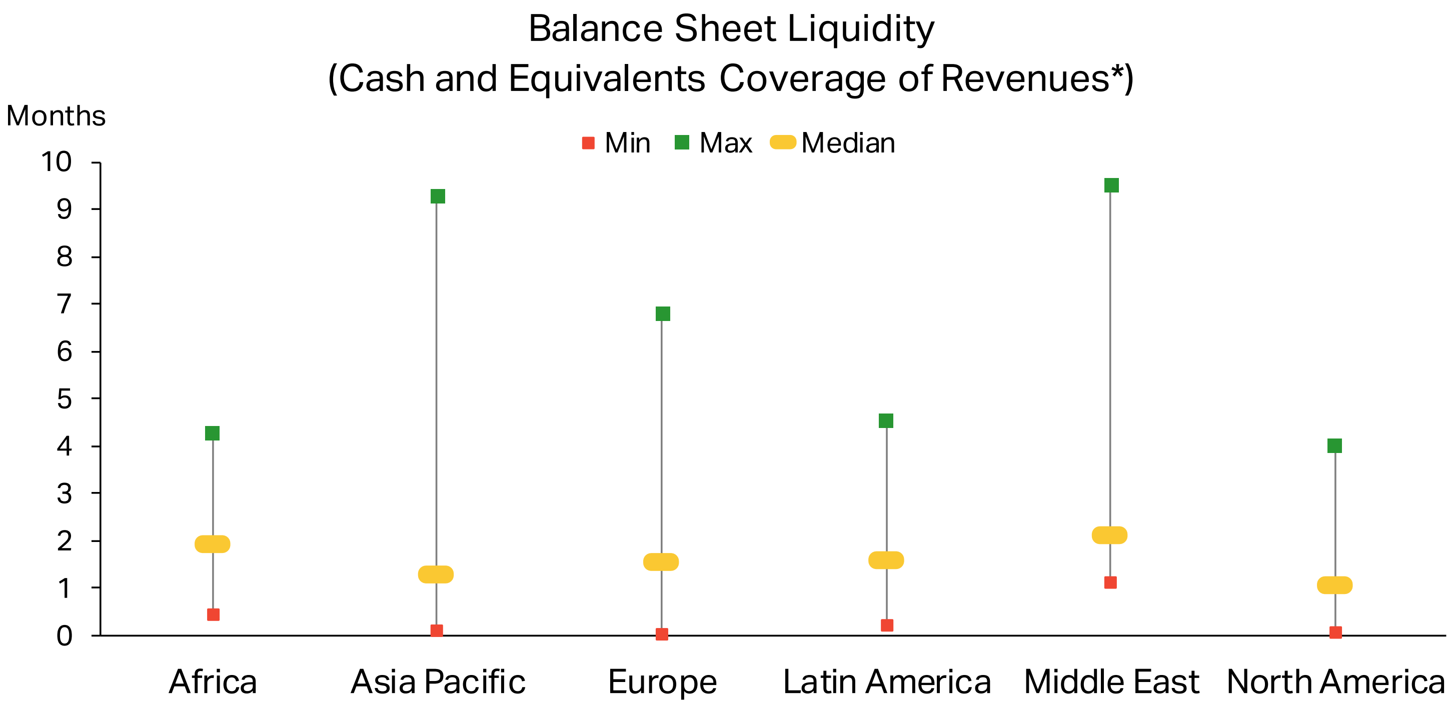
IATA

IATA Economics' Chart of the Week

13 March 2020

Liquidity is crucial for airlines to overcome COVID-19 pandemic



**Latest available 12 months cumulative revenues*
Africa, Latin America and the Middle East might not be representative due to small sample size.

Source: IATA Economics using Airline Analyst

- As the airline industry faces a dramatic drop in travel demand amid the spread of the coronavirus globally, this week's chart of the week focusses on whether airlines have enough cash in their balance sheets to absorb this cash flow shock. The chart depicts how many months of revenue loss could be covered by the cash and equivalents that airlines have in their balance sheets. It is important to note that balance sheet cash and equivalents are not the only source of liquidity. For example, access to credit lines could provide an additional source of liquidity during the crisis.
- We already knew that many airlines were in a fragile financial situation before COVID-19 hit. The improvement over the past 5-10 years has been due to a relatively small number of airlines, with a long tail of low profit/loss making airlines (See our note on airline returns). In normal times, having cash equal to three months of average revenues could be considered a reasonable buffer. However, these are far from normal times and moreover the median of the airlines in all regions in our sample are below this level (the spread shows that some airlines do have substantial cash balances).
- The significance of low median cash balances varies by region. Today many airlines in the US and Europe are under severe cash flow pressure, as a result of extraordinary travel restrictions, corporate travel bans and the collapse of consumer confidence. This is a liquidity, rather than a solvency, crisis as many were generating substantial investor returns and had strengthened balance sheets before COVID-19. The limited extent of cash balances will mean the industry will need to draw on credit lines or find other means of support during this crisis period.

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