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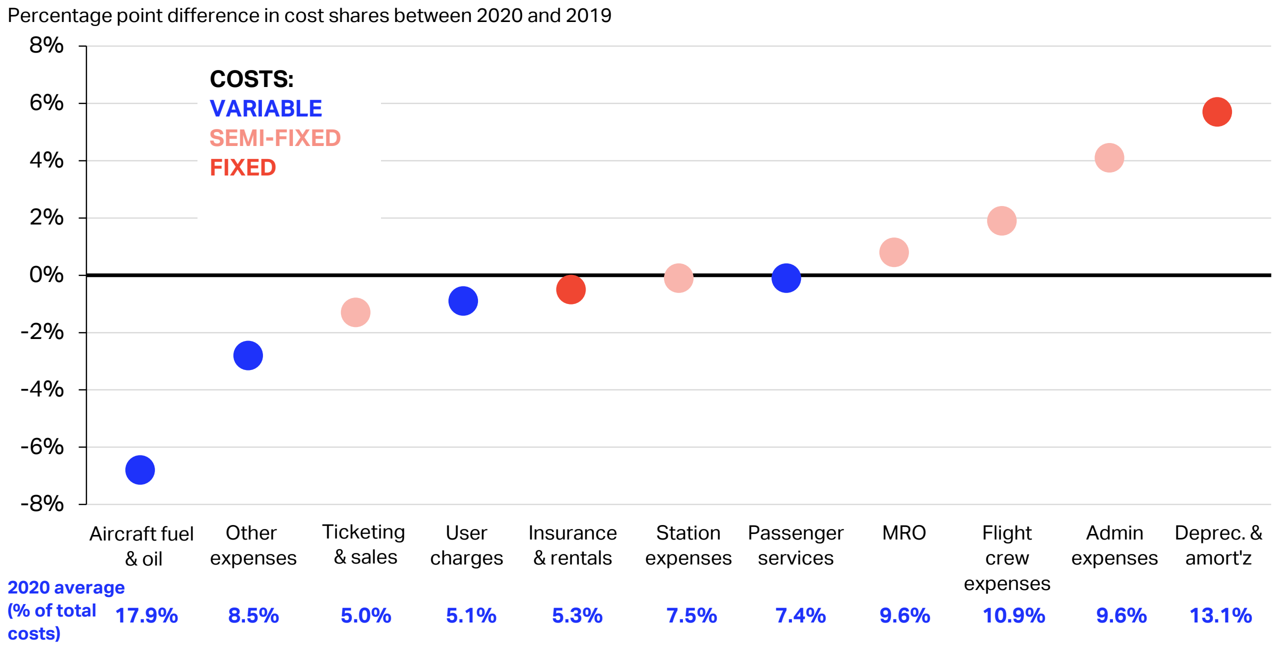
IATA Economics' Chart of the Week

02 July 2021

Shares of key cost items changed during the crisis

Shares of major cost components in total costs, difference between 2020 and 2019 (industry average)



Source: IATA WATS +2021, WATS +2020

- This week's chart uses data from the soon-to-be-released WATS+ 2021 publication to show how shares of airline key operating cost items in total costs changed between 2019 and 2020. For each of the cost component, the 2019 industry average share of total costs is represented by the bold black horizontal line, while the 2020 share is provided in blue at the bottom of the chart. The bubbles show how the 2020 average industry cost shares compare with the same metric in 2019. Note that the trends in unit cost shares might be different and this analysis excludes costs such as certain infrastructure charges that are paid directly by passengers.
- The importance of variable costs fell from 50% to 39% during 2020 as global air traffic activity plummeted. The share of fuel costs – the largest operating cost item – fell the most (down by 6.8 ppts at 17.9% in 2020) reflecting collapsing jet fuel prices and record-low travel volumes. On the other hand, as fixed and part of semi-fixed costs needed to be paid regardless the state of the industry, their share picked up during the pandemic from 50% to 61%. Most significant was the rise in share of amortization and depreciation (from 7.4% to 13.1%) that became the second largest operating cost item in 2020. Given the significant difficulties in limiting fixed and semi fixed costs, airlines were not able to cut total operating expenses enough to match the decline in total revenues in 2020 (-40% vs. -56%).
- The cost structure will continue to evolve as the industry emerges from the crisis. The role of variable costs in total costs will increase again as the passenger traffic recovers. One of the immediate cost challenges for airlines will be rising jet fuel prices (up 39% since the start of the year) that will put upward pressure on previously muted fuels costs. The rising fuel bill would shadow the expected summer rebound in some markets and put potential cashflow generation at risk.

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