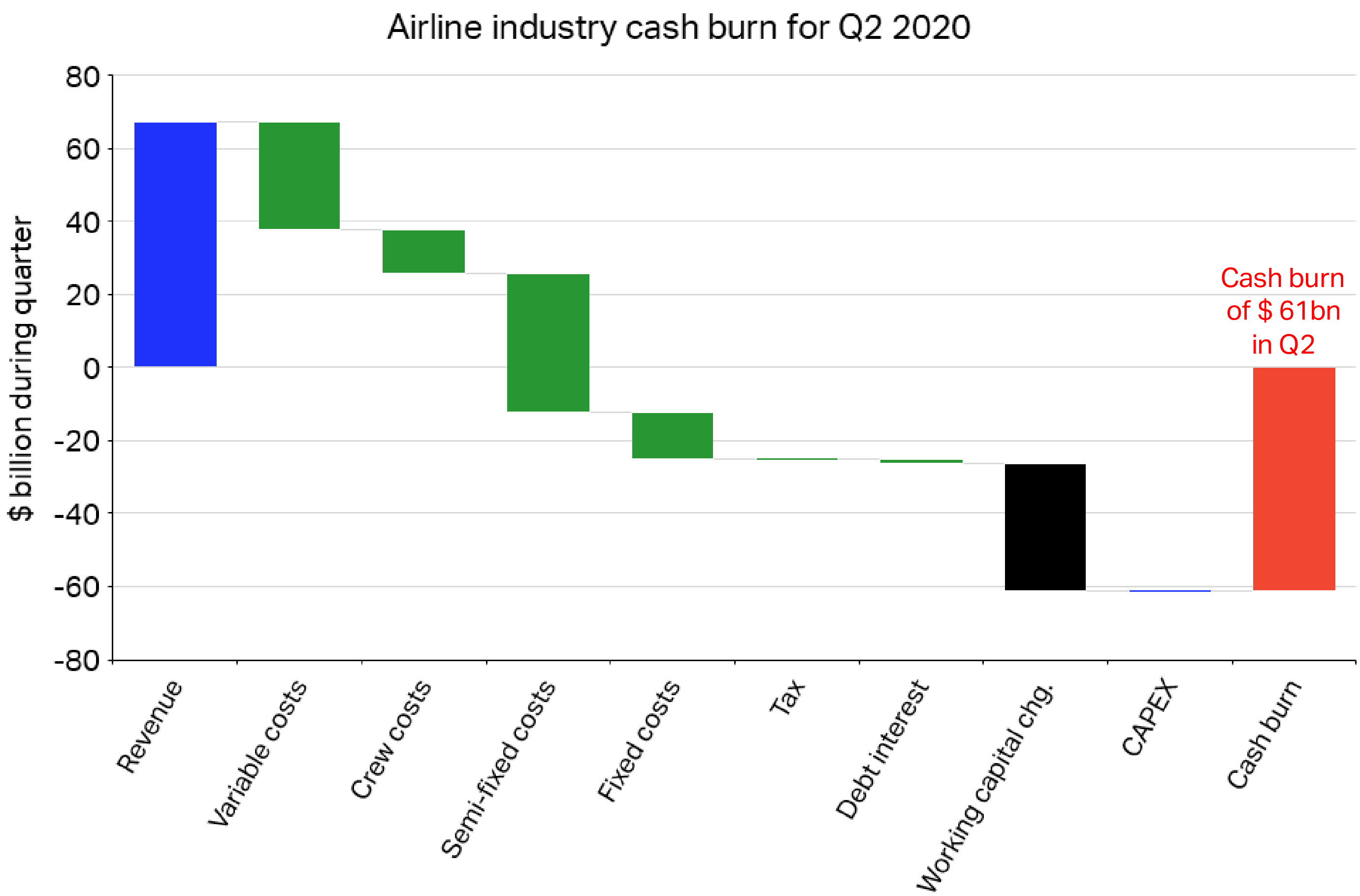
IATA Economics' Chart of the Week

03 April 2020

Airline liquidity crunch – a $61 billion drain on cash reserves in Q2



- Today's chart looks at the rate airlines are expected to burn through their existing cash reserves. You will recall that in our latest impact assessment we estimate that passenger revenues will be $252 billion lower this year compared to 2019. Of this, the most severe impact will be felt in the current quarter (Q2), mainly because of the widespread lock-down of air travel; revenues will be a massive 68% lower in 2Q20 compared to the prior year.
- Against this backdrop, airlines have taken swift and drastic action to preserve as much cash as they can. More than 50% of the global passenger fleet has now been grounded which has helped airlines to reduce their variable costs (ie those directly related to operations). Depending on hedging practices, the significantly lower oil price has also contributed. However, these variable costs constitute only 51% of the average airline's total costs.
- The remainder are either fixed or semi-fixed costs, including crew costs. While there is scope to reduce some of these costs, a proportion are unavoidable in the short-term. In addition, airlines have significant liabilities accumulated from sold but not flown tickets. According to our estimates, airlines have $35 billion of tickets due for refund in the second quarter. This would significantly impact the average airline's liquidity position if immediate refund is required.
- Putting all of this together, we estimate that the industry will burn through a total of $61 billion of cash in 2Q20. As we have noted previously, the typical airline has cash to cover around two months of revenue loss. The immediate challenge is managing costs in order to survive with this limited cash reserve until travel demand recovers.

IATA Economics
economics@iata.org