



Outlook for the global airline industry

April 2021 update

Overview

1) Financial performance will be worse and more varied this year than we expected in our December forecast, because of difficulties in controlling the virus variants and slower vaccination in some regions:

- Net post-tax losses forecast at \$47.7bn in 2021 (*was \$38bn in the December forecast*). Operating margin -9.4% (*was -7.1%*).
- N American airlines better than previously forecast at \$5bn loss (*was \$11bn*) due to domestic recovery. Europe worse at \$22bn loss (*was \$12bn*) after \$35bn loss in 2020, because of slower vaccination and less relaxation of international travel restrictions. Other regions slightly worse, due to weaker international travel.
- Q4 2020 losses larger than anticipated in December, so 2020 net post-tax losses now \$126.4bn (*was \$118.5bn*).

2) This net loss forecast implies cash burn in 2021 of \$81bn (*in between the 2 scenarios we released earlier of \$75-95bn*):

- Large airlines have raised sufficient cash to cover this already. Many smaller airlines haven't and will need government aid or to raise more cash from the banks or capital markets – adding to the industry's debt burden and balance sheet leverage problem.

3) Weaker start to year for passenger business, due to surge in virus cases and travel restrictions, and vaccination delays has lowered our global RPK forecast to 26% in 2021 vs 2020 or -57% vs 2019 (*was 50% vs 2020*):

- International RPKs started the year at 14% of pre-crisis levels versus 24% average in 2020. With vaccination allowing some European and N American and a few other markets to open in the second half we forecast a rise to 34% of pre-

crisis levels. But the average for 2021 implies zero international air travel growth over 2020.

- Domestic RPKs will be much better, driven by buoyant economic growth (revised up to 5.2% (*from 4.9%*), accumulated savings of consumers, pent-up demand and the lack of travel restrictions within borders. We forecast a 48% year average rise over 2020, taking domestic RPKs in the second half of this year to 96% of pre-crisis levels.
- This produces much better (relatively) financial performance for those airlines and regions with large domestic markets: 66% of N American airline RPKs are domestic, L America 48%, Asia Pacific 45% but for Europe only 11% and Middle East only 3%. Africa 14% (2019 shares).

4) Cargo remains a very strong business for airlines in 2021, the strong economy and restocking driving an increase in share of world trade, with 13.1% growth in CTKs vs the WTO's forecast growth for world trade of 8%. Yields are also expected to remain elevated due to the slow return of hold capacity from the wide body passenger fleet. Cargo revenues are forecast to rise to \$152bn (*was \$140bn*) representing one-third of the industry's revenues. Pre-crisis cargo represented only 10-15% of the typical airline business.

5) Costs remain a challenge to airlines trying to stop cash burn in 2021:

- We now expect much higher fuel prices with jet at 68.9\$/b, oil 64.2\$/b (*was jet at 49.5, oil 45.5*) as the stronger global economy pulls all energy prices higher.
- Non-fuel unit costs rose 17.5% in 2020, as fixed costs had to be spread over a dramatically smaller capacity. This will partially reverse in 2021 as capacity grows, as well as because of the cost-

	2019	2020	2021F
Net post-tax profit, USD bn	26.4	-126.4	-47.7
Operating margin, % revenue	5.2%	-28.2%	-9.4%
RPK growth, %ch year-on-year	4.1%	-65.9%	26%
RPK, as % of 2019 level	100%	34.1%	43%
Passenger numbers, billion	4.5	1.8	2.4
Passenger load factor, % ASK	82.6%	65.1%	67.3%
Passenger yield, %ch year-on-year	-3.7%	-8.7%	-3%
Cargo yield, %ch year-on-year	-8.2%	40%	5%
Fuel price, USD/barrel	77	46.4	68.9
Non-fuel unit costs, %ch year-on-year	0.3%	17.5%	-15%

cutting efforts of airlines, with a forecast 15% decline.

6) Capacity is forecast to return at a slower pace than traffic, as high levels of debt and rising fuel prices force airlines to fly only services expected to cover the cash costs of the operations:

- Global ASKs are forecast to rise 21.9% vs a 26% rise in RPKs, allowing a rise in passenger load factors to 67.3% (still below 2019's 82.6%). Taking cargo into account as well, the overall weight load factor is forecast to rise a little to 60.3%, still a considerable way below the 66% we estimate to be breakeven on profitability in 2021 – even though cash costs of operations are being covered.

A weak starting point for financial performance

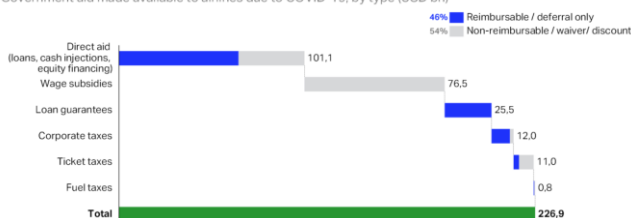
The worst point of the impact of COVID-19 on airline profitability was in the second quarter of last year, when operating losses were more than 70% of revenues. Cost cutting and a strong cargo business helped reduce losses in the second half of 2020. However, many airline costs are fixed over short periods and hard to avoid. As a result, losses were reduced only to around 50% of revenues by the last quarter of 2020.



Source: IATA Economics Airline Industry Financial Forecast update, April 2021. Data is seasonally adjusted.

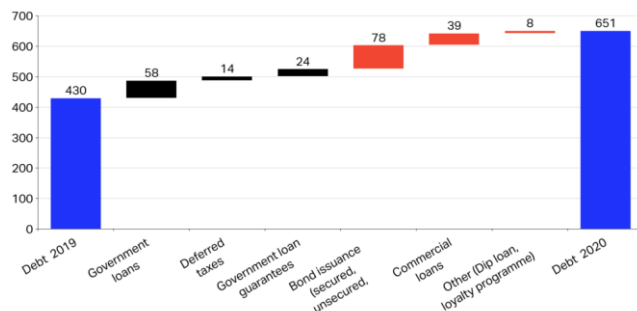
In normal times the scale of this revenue shock and the resulting operating losses would have caused widespread airline bankruptcies. There have been some, but not many. That's because governments have stepped in and provided, as of end-March, almost \$227 billion of aid. This has kept much of the industry alive on life support, despite the scale of cash burn.

Government aid made available to airlines due to COVID-19, by type (USD bn)



Source: IATA Economics analysis using public information and data from SRS Analyser, DDS, FlightRadar 24, TTBS, ACIC, Platts, Airline Analyst, annual reports

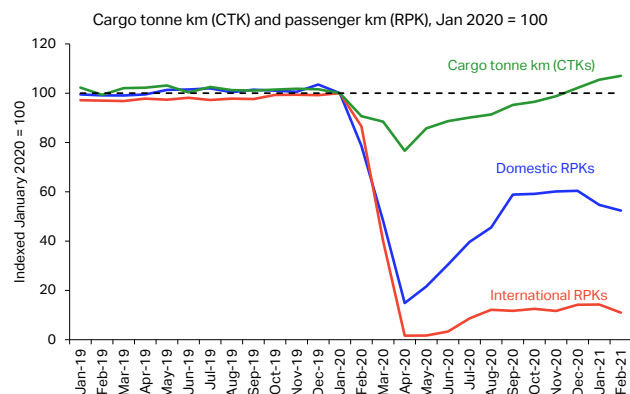
However, the cost of survival for airlines has been a massive increase of debt. The chart above shows that almost half of government aid has been in the form of debt, that needs to be serviced and repaid. Airlines with access to capital markets have also raise cash from issuing debt (as well as equity) on capital markets. The net result has been a \$220 billion rise in airline debt by the end of 2020.



Source: IATA Economics using data from own estimates of Government aid, private debt estimates from Airfinance Journal, November 2020. Debt includes adjustment for operating leases.

Exceptional debt leverage to equity and cash flows will shape the recovery period for airlines, who will be forced to either raise equity, if they can, or use free cash flow to deleverage. There will be limited ability to invest in fleet and product or reward investors in the initial recovery period.

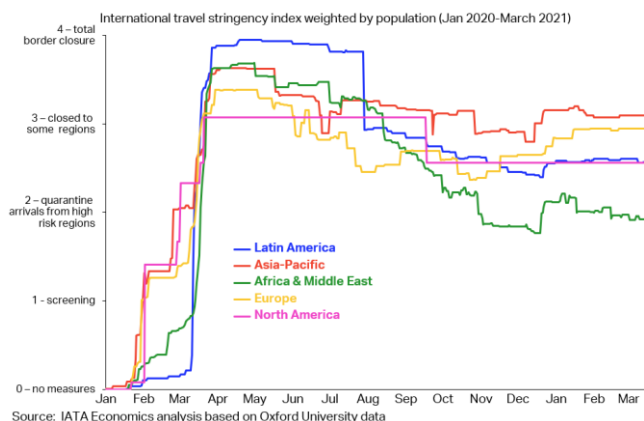
To stop cash burn and to get into a position where cash flows are positive and deleveraging can start airlines need international passenger revenues to begin recovering. Pre-crisis around two-thirds of revenues were generated by international markets which, today, still remain effectively closed. The start the this year was discouraging, despite the ongoing strength of cargo. Both domestic and international RPKs fell in January and February, in response to the resurgence of virus cases and government travel restrictions.



Source: IATA Economics using data from IATA Monthly Statistics. Data is adjusted for seasonality.

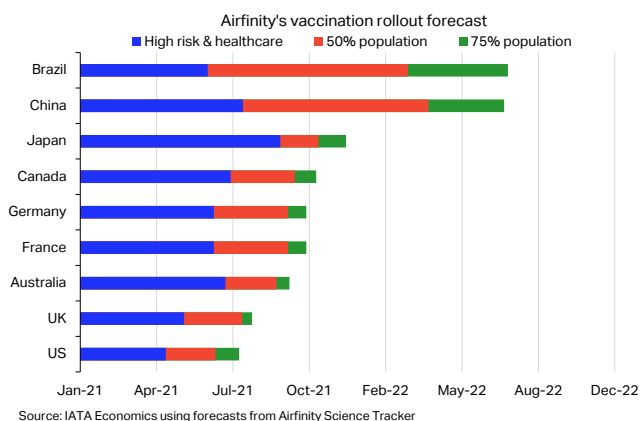
Government restrictions on international travel remain very high as shown in the chart below. Restrictions were tightened across all regions in January, in response to the surge of new cases caused by the emergence of virus variants. In

addition, travel slumped on the important Chinese domestic market as the government instructed citizens to remain at home during the Chinese New Year in response to a rise in new cases.

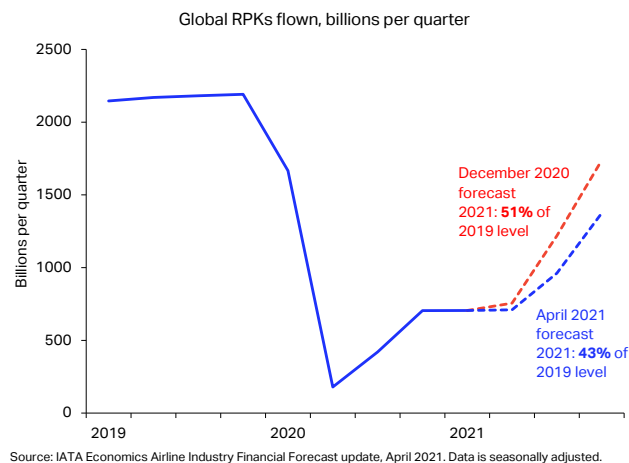


The traffic outlook is for growth, but not as much as we expected in December

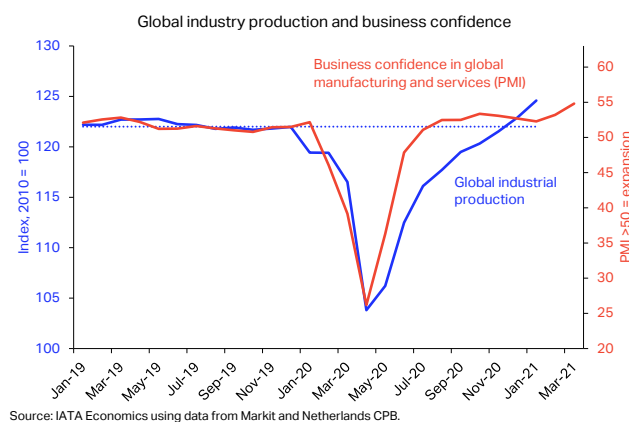
The outlook for international air travel depends critically on the vaccination rollout. In some countries that is positive, but the pace of the rollout is very slow in others, particularly in developing economies. The forecast by Airfinity shows that, in Europe and North America, the high risk and healthcare population will have all been vaccinated by July. In principle that should allow markets between these countries to be opened for international travel. In practice, it is not clear whether governments will do that, or wait for a larger proportion of the population to be vaccinated. By October 75% of the population in these countries will have been vaccinated. If governments wait until that point then the key summer period for generating cash from holiday flights will have been missed.



Our forecast in December had assumed intra-Europe and N Atlantic markets would be fully open. This forecast takes a more cautious view on travel restrictions and assumes a smaller subset of markets to open and a more subdued return to international travel than we had anticipated.

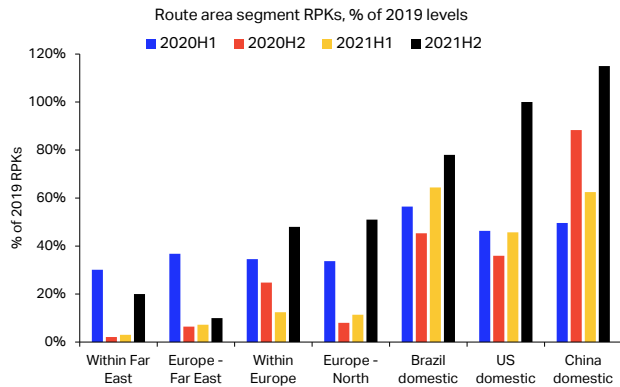


We now expect much more limited summer flying, as shown in the chart above by the reduction in the forecast for the third quarter, relative to expectations in December. At this stage we have not written off 2021, as the vaccination forecasts suggests some advanced economy markets should be able to open and anticipate a strong fourth quarter as a result. Overall, we forecast this will take global RPKs from a level in the first half of this year of 29% to 56% of 2019 levels in the second half. On average in 2021 we now expect RPKs to be just 43% of pre-crisis 2019 levels, down from the 51% we had forecast in December.



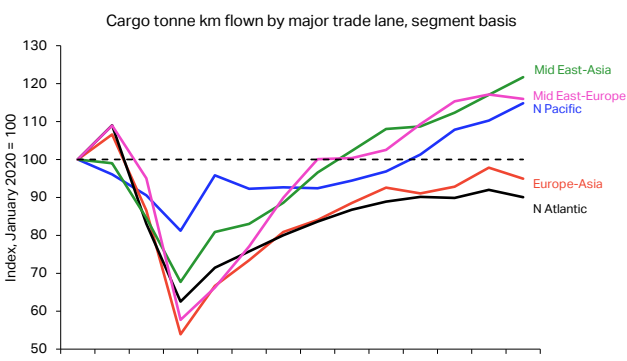
The economy outside of travel and tourism has had a very different experience, with global industry production and business confidence showing a sharp 'V-shaped' recovery. This strong rebound in economic activity has been positive for airlines. It has generated strong demand for air cargo services. Unfortunately, this is not a large enough business for most airlines to offset the collapse of international air passenger revenues. But the strong rebound of incomes together with the restrictions has, for those in work, led to a large accumulation of savings. We have also seen strong evidence of pent-up leisure and VFR travel demand whenever governments relax travel restrictions. This all suggests that, in the absence of internal travel restrictions, domestic travel should rebound strongly. In the second half of this

year we forecast domestic RPKs should be at 96% of pre-crisis 2019 levels. This also suggests that, once international travel restrictions are lowered, a strong rebound of travel should be expected.



Source: IATA Economics Airline Industry Financial Forecast update, April 2021

The chart above shows our forecasts for strong domestic air travel growth in the US and China domestic markets. Brazil should see growth, but we have taken a more cautious view of this market given the impact of the more infectious variant of the virus and the relatively slow rollout of vaccination. We do expect some reopening of within Europe and North Atlantic markets, but we do not anticipate that travel on these markets will get beyond 50% of 2019 levels by the second half of this year. Far East or Asian economies have been taking a very risk averse approach to opening international borders to air travel and so little recovery is anticipated this year. Those airlines with large domestic markets will be in a much stronger position, relative to those reliant more on international markets for their revenues.



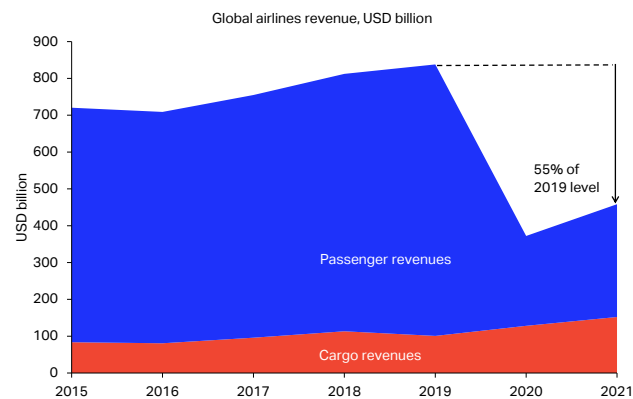
Source: IATA Economics using data from IATA Monthly Statistics. Data is seasonally adjusted.

Cargo demand has been strong, but there have been significant differences in the strength of different trade lanes. The strongest have been those connecting the strong US and Chinese economies, either directly or via the Gulf superconnector hubs. Major European trade lanes have been weaker, reflecting the impact of further lockdowns in many European economies. This pattern of relative cargo

strength has also impacted our forecasts for regional financial performance.

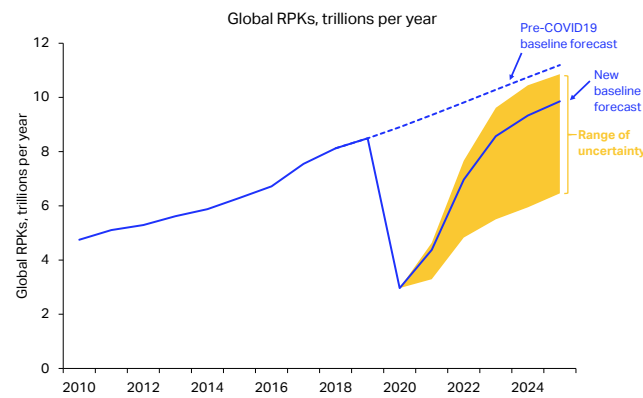
Revenues rise this year but only to a level 55% of 2019

Cargo revenues are forecast to strength further this year, as demand is strong and yields remain elevated as capacity on wide-body passenger aircraft remains limited. In fact, record cargo revenues we expect to represent one-third of airline revenues, compared to their pre-crisis 10-15%. However, cargo strength will be insufficient to offset passenger market weakness. Overall, airline operating revenues will rise this year by 23%. But that's only 55% of 2019 adding to the challenges for the industry which needs to stop cash burn.



Source: IATA Economics Airline Industry Financial Forecast update, April 2021

The more positive aspect to the analysis is that air travel demand and passenger revenues should rebound very strongly once travel restrictions allow. We know there is pent-up leisure and VFR demand, and that a strong economy and accumulated savings should lead to a rapid rise of global RPKs. Indeed, we forecast such a sharp rise in 2022 as can be seen below.

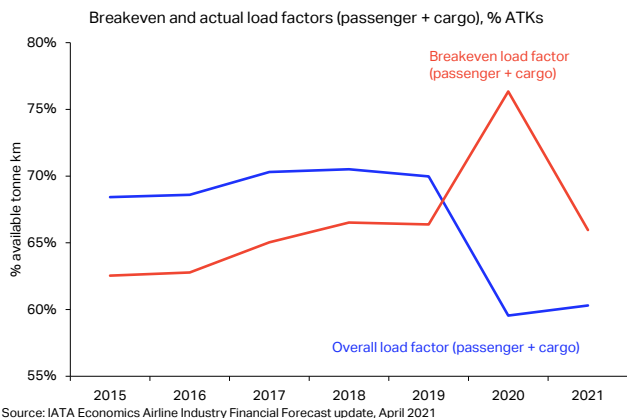


Source: IATA/Tourism Economics 'Air Passenger Forecasts' January 2021

Getting to that recovery of international passenger revenues will take time. Meanwhile, for much of 2021, the airline industry will face a further period of weak demand and weak revenues. One way of looking at the

impact of this on airline losses is the gap between load factors (in this case cargo and passengers) and the breakeven point, which depends on the ratio of unit costs to yields. Overall load factors (cargo and passengers) had reached 70% before the crisis. Last year, the impact of fixed costs on unit costs and the collapse of business travel on passenger yields, airlines would have had to boost loads to more than 75% to breakeven. Instead, COVID-19 caused a collapse to less than 60% and unprecedented losses. This year unit costs are expected to fall as capacity grows and airlines restructure, so the breakeven point will fall. But we don't expect load factors to be able to rise significantly in most markets, so losses will continue, albeit at a lower level.

Airline losses expected to continue through 2021

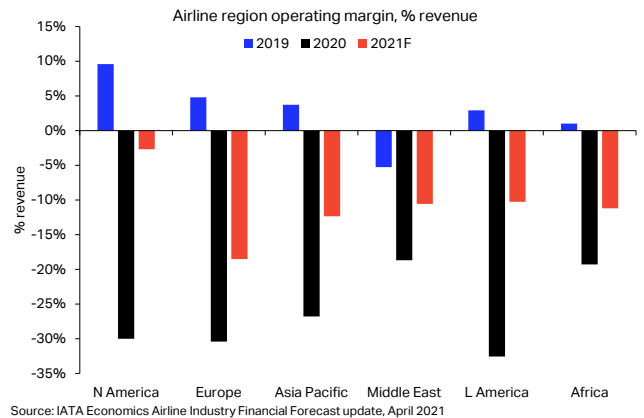


In fact, we have had to revised upwards net losses for 2020, as the fourth quarter turned out worse than we had expected. The industry made net losses of more than \$126 billion last year. We continue to expect a significant reduction in those losses, largely as a result of cost cuts but some revenue growth, but we forecast larger 2021 losses than we did in December at \$47.7 billion, some 2-3x smaller than last year but large enough to require further support.

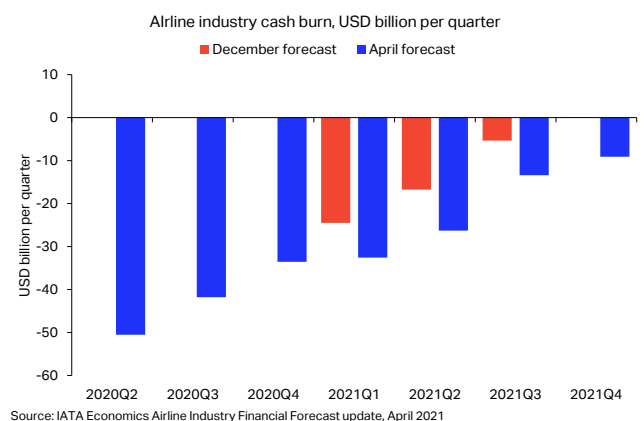


Every region made substantial losses last year, in excess of 20% of revenues at an operating level. This year we expect much more differentiation between

regions. North American airlines, in particular the US, benefit from a rapid vaccination rollout and a very large home market – so losses in this region are reduced to low levels for 2021 and these losses are smaller than we forecast in December. Europe provides a contrast, due to its reliance on international passenger revenues, with a sharp deterioration from what we had expected in December and the worse performance in terms of operating losses of all regions.



Asia Pacific remains a very mixed region, with airlines in China and Australia benefiting from good virus control and large home markets. But a very risk averse approach to travel restrictions means very little recovery of international passenger revenues are expected. Middle East airlines benefit from widespread vaccination on key home markets but suffer from a slow opening of the long-haul international markets that connect through the Gulf hubs. Latin American airlines should benefit from large home markets, but the outlook is clouded by the challenge of controlling a more infectious variant of the virus and a relatively slow rollout of vaccination. Africa has relaxed international travel restrictions by more than other regions, but vaccination is very slow, which is likely to restrict the rebound of international markets. Only a slow fall in losses is expected in this region.



Ahead of a much stronger revenue environment in 2022, the airline industry faces continued cash burn throughout this year. The first half of 2021 is expected to see cash burn on a similar scale to the fourth quarter of last year, as a result of the weakness of passenger markets. The second half will be better, as some international markets open between advanced economies in Europe and N America and a few in other regions. But, whereas in December we were expecting breakeven at a cash level to be reached by Q4, we now think that has been delayed until 2022.

Major airlines have raised substantial cash balances from the capital markets and government aid. But many smaller airlines haven't. There will be the ongoing need for airlines to raise cash to finance the losses from cash burn if airline failures are to be avoided this year.

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