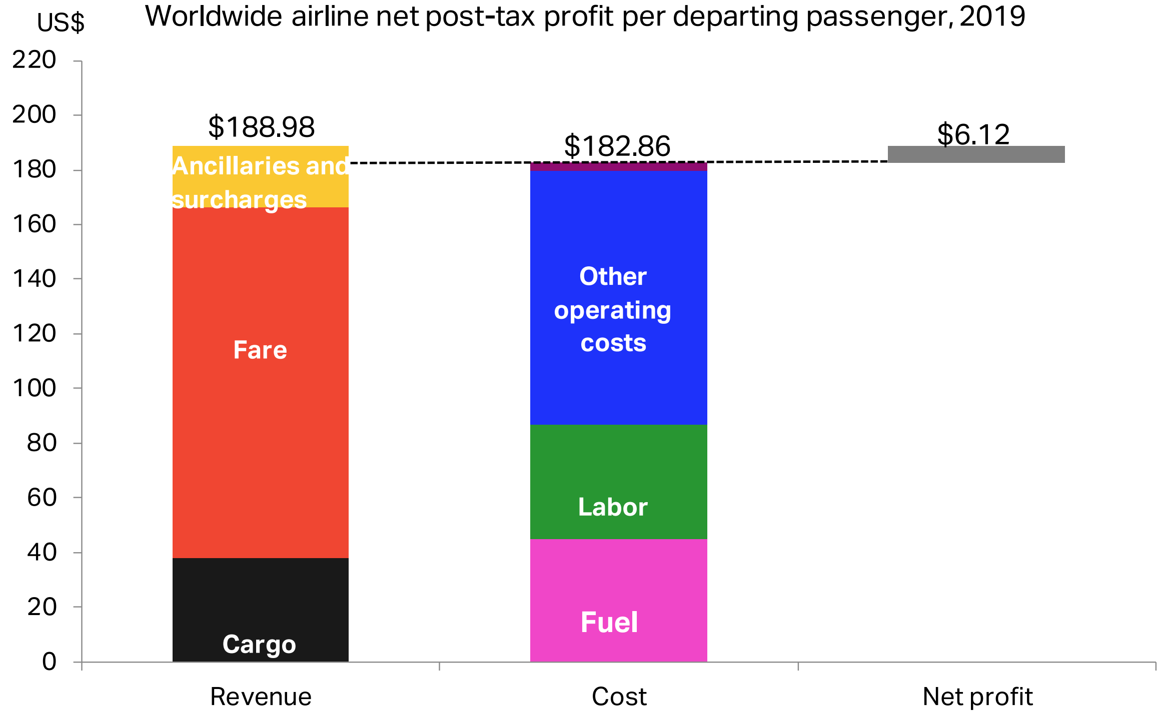
IATA Economics Chart of the Week

7 June 2019

Airline profit per passenger not enough to buy a Big Mac in Switzerland



Source: IATA Economics - Economic Performance of the Airline Industry, Mid-Year 2019

- IATA downgraded its forecast for airline industry net post-tax profits for 2019 to $28 billion, in its latest Economic Performance of the Airline Industry report. $28 billion still seems a lot of money. Indeed, it would be the 5th largest profit that the industry has ever made. But one single company, Google, made $30 billion last year. Airlines will fly more than 4.5 billion passengers this year to generate that $28 billion. That's an average of just over $6 of profit a passenger. According to The Economist that's not even enough to buy a Big Mac in Switzerland.
- Airlines get an average of just under $189 of revenue for each passenger they fly, which include the base fare, ancillaries such as bag fees, fuel surcharges, and revenue for any cargo carried. But it costs the average airline almost $183 to fly each passenger; to pay for fuel, labor, aircraft and other costs such as landing fees. The $6.12 difference – net profit - is just enough this year to pay investors a normal return on their invested capital.
- It only takes just over a 3% swing in costs or revenues, all other things being equal, to eliminate the $6.12 net profit. That's equivalent to a 9 $/barrel rise in oil prices. We've already seen oil prices rise by almost 20 $/b this year. Moreover, many airline costs, such as aircraft, are fixed. If a route suddenly becomes unprofitable the lease cost or the debt interest on the aircraft still must be paid, which is why we've seen a number of airline bankruptcies recently.
- That's why airlines must charge for services the way they do. As the chart shows, the base fare only covers part of costs and cargo revenues don't even cover the cost of fuel. Bag fees, charging for meals, a premium for seats with extra leg-room, car hire (ancillary revenues in the chart above) are all ways in which fixed costs can be recovered, while fares for the core seat product are competed down towards marginal cost. Airlines are getting increasingly innovative, in new services offered to their passengers, out of necessity. This is commonplace in other industries with fixed costs to recover: restaurants, cinemas and sports events for example. The upside for consumers is increased choice and an industry that has proved to be much more stable where unbundling has developed most.

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