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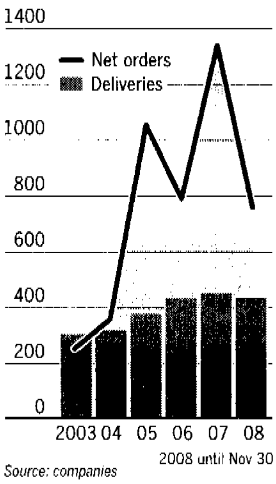
Aircraft industry shocked by view from ground level

Airbus
Number of aircraft



Source: companies

Sales, 2007
€24.7bn

Employees
56,000

EBIT, 9 months 2008
€1,501m

Order backlog, 2008
(number of aircraft)
3,809*

* Until end of Sep 2008

Sales, 2007
$33.4bn

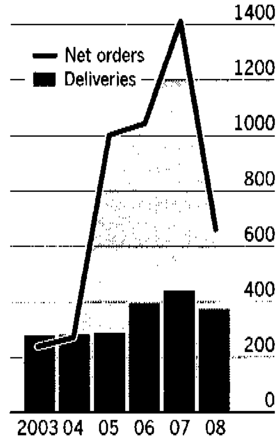
Employees
63,500**

EBIT, 9 months 2008
$2,154m

Order backlog, 2008
(number of aircraft)
3,714

** After redundancies announcement

Boeing (Commercial)
Number of aircraft



Photos: AP

News analysis

Orders plunge as carriers feel the impact of the recession, writes **Kevin Done**

Alarm bells are ringing for aircraft manufacturers.

The rows of parked aircraft around the world have been growing inexorably as airlines have been forced to cut capacity: first in response to surging fuel prices and now to recession.

More have been grounded as a result of carriers being forced out of business.

Orders for new aircraft are plunging from the record levels of the bubble years and there are warnings over the problems of airlines financing aircraft deliveries towards the end of this year and in 2010.

Until recently, Boeing and Airbus, the big commercial jet makers, have continued to make optimistic noises in public about the outlook for production. This positive stance was founded largely on the protective cushion offered by large order backlogs in the three years of exceptionally strong orders from 2005 to 2007.

However, the backlogs are under increasing pressure as many airlines seek to defer deliveries in response to the darkening outlook for air travel demand or, in extremis, to cancel orders – a very expensive step airlines take only as a last resort, as they forfeit the deposits.

The forecasts for both passenger and air cargo demand are grim. "The dire state of the world's economy is the biggest challenge our industry has ever had to face," says Willie Walsh, chief executive of British Airways.

The most recent data from Iata, the international airline association, showed a 4.6 per cent drop year on year in international passenger traffic in November and a 13.5 per cent fall in international cargo.

International capacity fell by 1 per cent, but failed to keep pace with the fall in demand leaving more empty seats.

"The 13.5 per cent drop in international cargo is shocking," says Giovanni Bisignani, Iata director-general. "As air cargo handles 35 per cent of the value of goods traded internationally, it clearly shows the rapid fall in global trade and the broadening impact of the economic slowdown."

It is the biggest fall since 2001, after the September 11 terrorist attacks in the US. "The industry is now shrinking by all measures. It is back in intensive care," says Mr Bisignani.

Airlines are forecast by Iata to make a $2.5bn net loss this year in spite of the large fall in the oil price from the peak last July. Including 2009, the global aviation industry will have been in net loss for eight of the past nine years after making net profits in only 2000 and 2007 during the decade. Net losses from 2001 to 2006 totalled $41.6bn, with further losses of $5bn forecast for last year and $2.5bn for 2009.

The woes at the airlines and in more rarefied reaches of corporate aviation spell growing trouble for aircraft makers. In an initial response to the threat Boeing is cutting 4,500 jobs or about 7 per cent of its commercial aerospace workforce.

Boeing said last week that its commercial aircraft orders had more than halved last year, falling by 53 per cent to 662, from the peak 1,413 achieved in 2007.

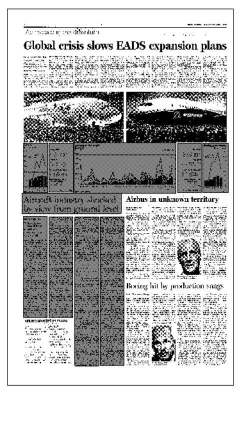
> 'The 13.5 per cent drop in international cargo is shocking'

Giovanni Bisignani, Iata director-general

In the private jet sector, Cessna, part of the Textron group of the US, said this week that it was cutting 2,000 jobs, its second round of workforce cuts in only two months. Further job cuts are expected to be announced soon at rival US private jet maker Hawker Beechcraft.

Commercial aerospace and aviation are notorious for exaggerated trading cycles but the retrenchment could be made more vicious this time by the credit squeeze.

"The big difference from previous recessions is the credit crunch – aircraft deliveries are almost all financed, but there is little finance in place from mid-2009 onwards," says Nick Cunningham, aerospace analyst at Evolution


Global crisis slows EADS expansion plans
Aircraft industry shocked by view from ground level
Airbus in unknown territory
Boeing hit by production snags

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Securities. "This could threaten an earlier, steeper decline in deliveries."

Mr Walsh says: "With access to funding increasingly difficult, we can also expect to see airlines cancelling or delaying orders for new aircraft.

"Many airlines were forced to take similar action after 9/11, but at that time banks were prepared to make funds available to stronger airlines. Now airlines will have to dig deep to find the funds to pay for aircraft."

According to Mr Cunningham, deliveries in the first half of this year from Boeing and Airbus are largely financed but there are some gaps in the second half and 2010 deliveries are hardly financed at all.

"This implies the potential for a delivery collapse in 2010 that could exceed the experience of recent cycles," he says.

He is forecasting a peak-to-trough decline in deliveries of 46 per cent at Airbus from the high this year of 500 to a low of only 272 in 2013.

EasyJet of the UK, one of the world's most successful low-cost carriers, is seeking to slow as many as possible of its more than 100 orders for Airbus A320 short-haul jets, while Hong Kong's Cathay Pacific, a leading Asian long-haul carrier, is on a similar mission at Boeing over its orders for 10 747-8 freighters and 20 777-300ER wide-body passenger jets.

"We are trying to move all the orders to the right by a couple of years or so," says Tony Tyler, Cathay Pacific chief executive. "But we don't have much flexibility."

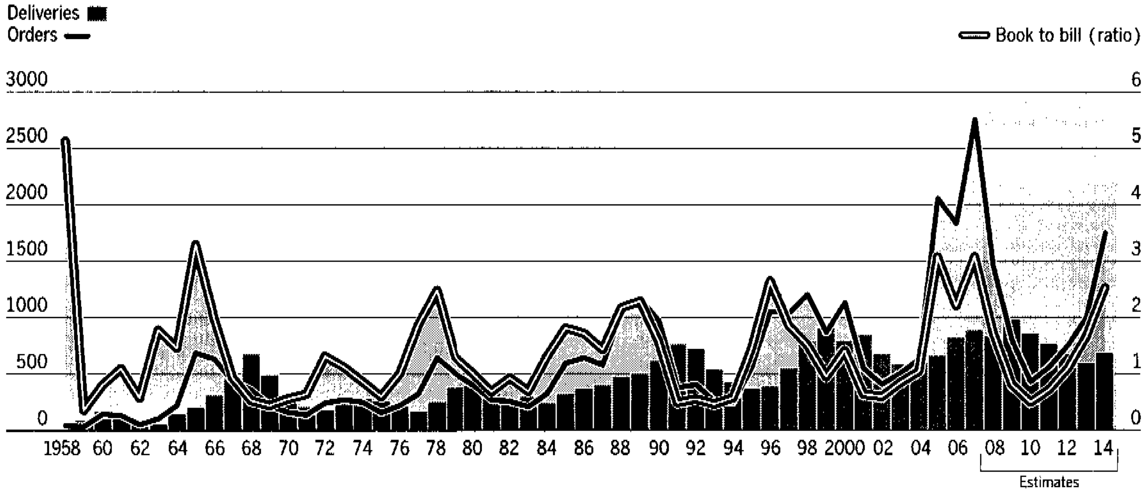
The airline has been helped, however, by the strike at Boeing last autumn and delays of nearly a year in the development of the 747-8. "We are entitled to compensations in some areas and are looking for favours in others," says Mr Tyler.

For a minority of carriers such woes are an opportunity, however.

Bahrain-based Gulf Air, held back by its own restructuring, was late in placing orders for new aircraft urgently needed to replace an ageing fleet. Gaps opening up in the Airbus production schedule mean it has been able to pull forward first deliveries of Airbus A320 short-haul jets.

"Six to seven months ago we were fighting to get them earlier but there were no production slots available. The first were 2011," says Björn Näf, chief executive. "Now the first will come this year, we have advanced them by two years."

Commercial aircraft



Source: Evolution Securities