

# COVID-19 And Civil Aviation Markets

## A Bit Like Falling Off A Cliff, Only Without the Nice View

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# Aircraft Markets, In Good And Bad Years

<u>World New Deliveries</u> <u>In 2019 (2020 \$)</u>	<u>CAGR</u> <u>'03-'08</u>	<u>CAGR</u> <u>'08-'14</u>	<u>CAGR</u> <u>'14-'18</u>	<u>Change</u> <u>'18-'19</u>
Jetliners-SA (\$46.2 b)	9.7%	6.9%	5.0%	-23.9%
Jetliners-TA (\$55.3 b)	5.0%	13.5%	1.7%	2.0%
Regionals (\$5.8 b)	3.9%	-3.1%	-5.2%	-4.8%
Business Aircraft (\$22.4 b)	16.7%	-2.2%	-5.0%	16.5%
Civil Rotorcraft (\$3.9 b)	18.5%	-2.5%	-7.4%	-0.1%
Military Rotorcraft(\$13.3 b)	10.6%	9.6%	-11.8%	21.7%
Military Transports (\$4.9 b)	3.2%	-0.7%	0.6%	-19.1%
Fighters (\$24 b)	1.6%	0.8%	2.5%	25.5%
<u>All Civil</u> (\$133.8 b)	<u>9.7%</u>	<u>5.6%</u>	<u>1.4%</u>	<u>-7.3%</u>
<u>All Military</u> (\$45.5 b)	<u>3.9%</u>	<u>4.0%</u>	<u>-3.2%</u>	<u>15.3%</u>
<u>Total</u> (\$179.3 b)	<u>8.0%</u>	<u>5.2%</u>	<u>0.3%</u>	<u>-2.4%</u>

# COVID-19 And Aero Markets

## *Issues And Impact*

- **Apparently, these things come in pairs:**
  - The fuel price shock is as important as traffic.
  - Or trios. Recession too.
  - Also, traffic de-link from economics already in play.
  - Oh, and China.
- Traffic probably U. Really a disease question.
- What's different this time:
  - Airlines in better shape.
  - Government more aggressive about response.
  - No more interest rate stimulus; third party finance stimulus also unrepeatable.
  - Growth accelerated after 2008 due to a weird variety of factors, none of which are in play today.
- Aftermarket catastrophe.
  - 40% down ASMs, de-stocking, deferred maintenance/upgrades
- **The enormous state aid question, and strings attached.**
- **Assuming state aid, a “synthetic market” pulls demand forward.**

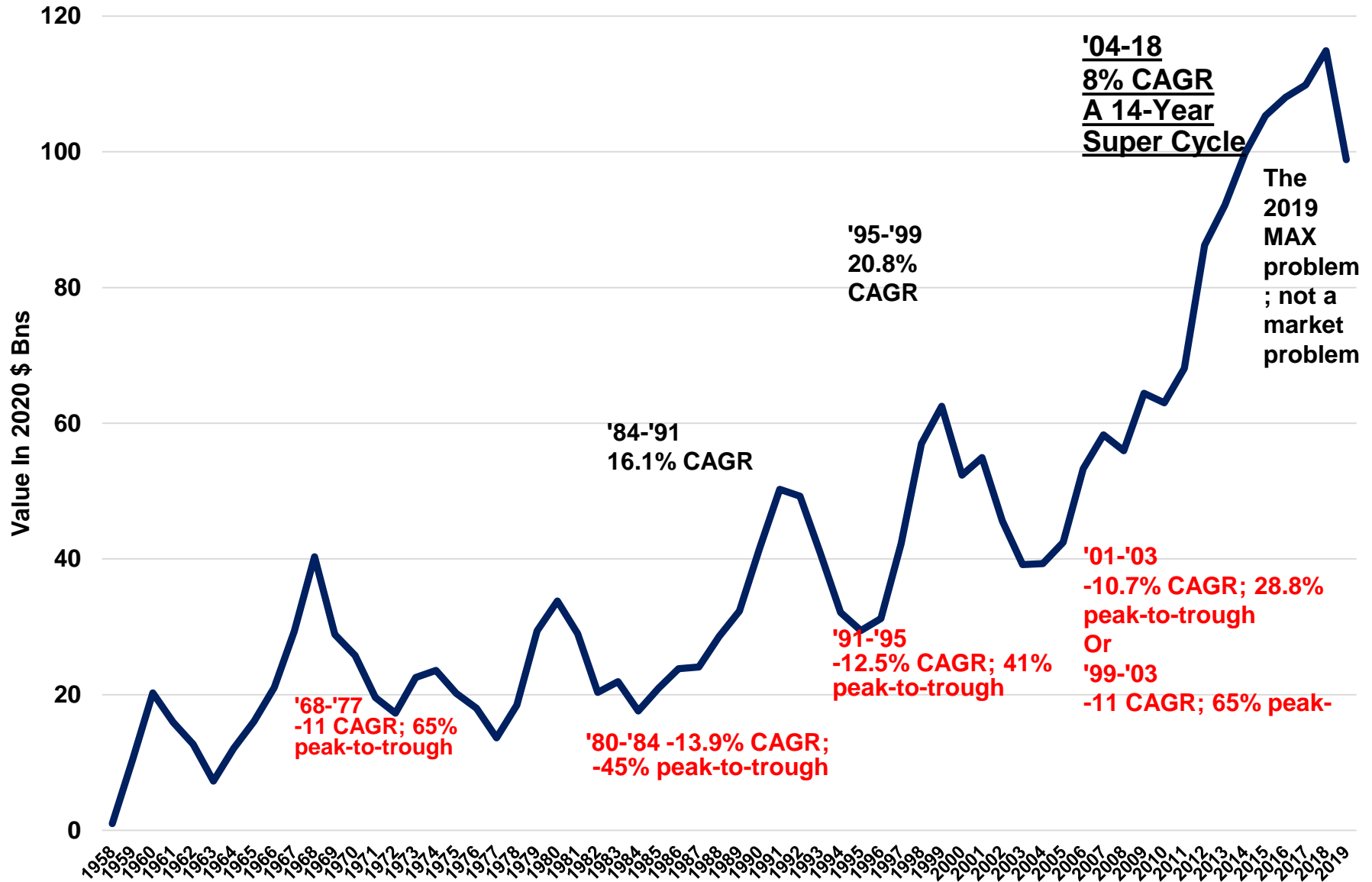


# Aviation Segments By Damage

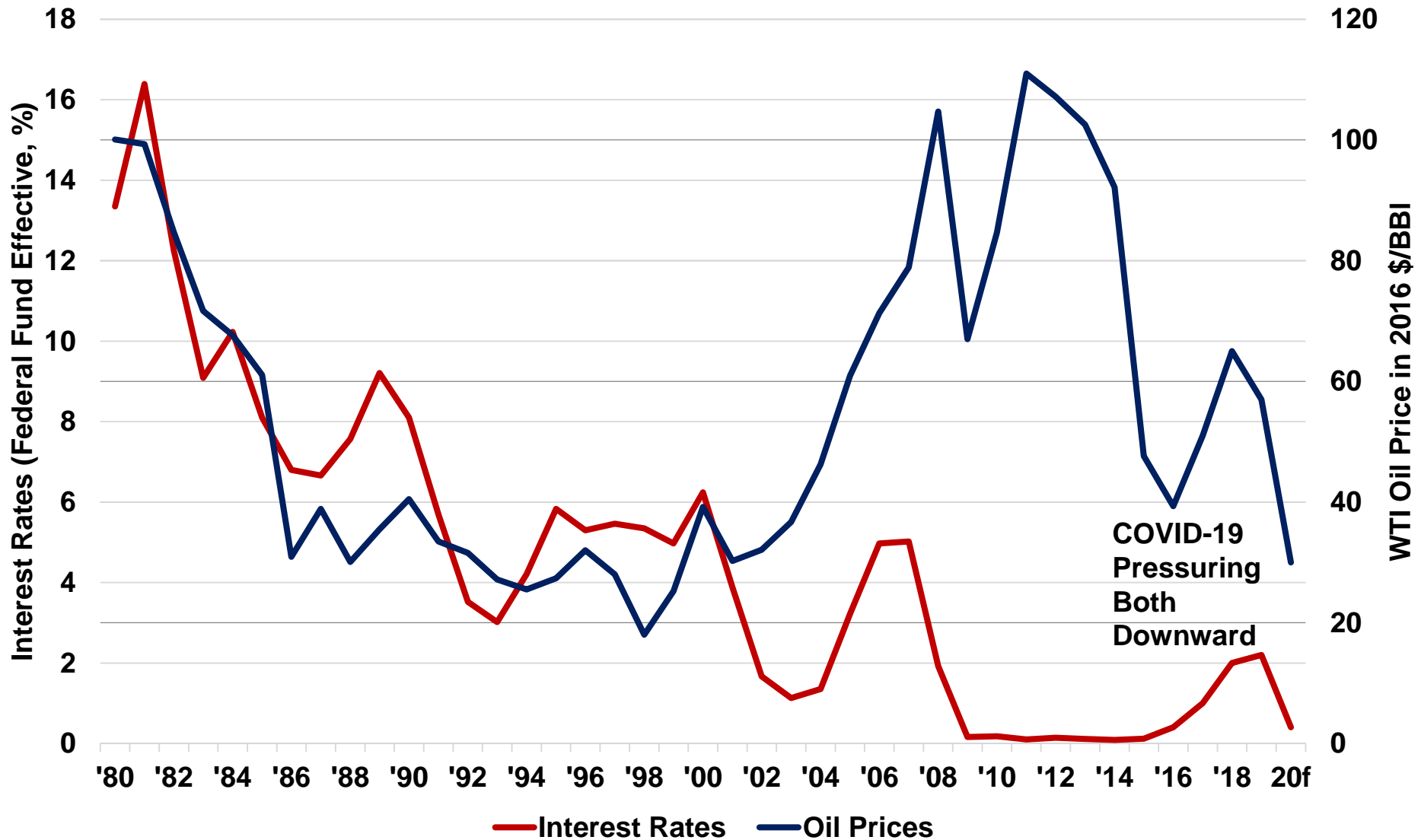
*Most to Least*

<b>Twin aisle jetliners</b>	<b>International traffic hit hardest and longest. Already an overcapacity situation. Secular shift towards single aisles already underway.</b>
<b>Single aisle jetliners</b>	<b>Fuel prices a big problem. China comeback uncertain. Some relief due to deferred Airbus ramp, and MAX stop.</b>
<b>Business Jets</b>	<b>Large cabin strongly correlated with oil prices. Small/medium strongly correlated with corporate profits, equities indices.</b>
<b>Civil Rotorcraft</b>	<b>Oil and gas segment (large) hit again, before recovery even began.</b>
<b>Military Programs</b>	<b>Emphasis on “shovel-ready.” Advance development programs at greater risk.</b>

# Cyclicality, Our Long-Forgotten Nemesis



# Interest Rates And Oil Prices: Less Than 4%, And \$50-85/bbl, Ideally; But The Ratio Matters Most

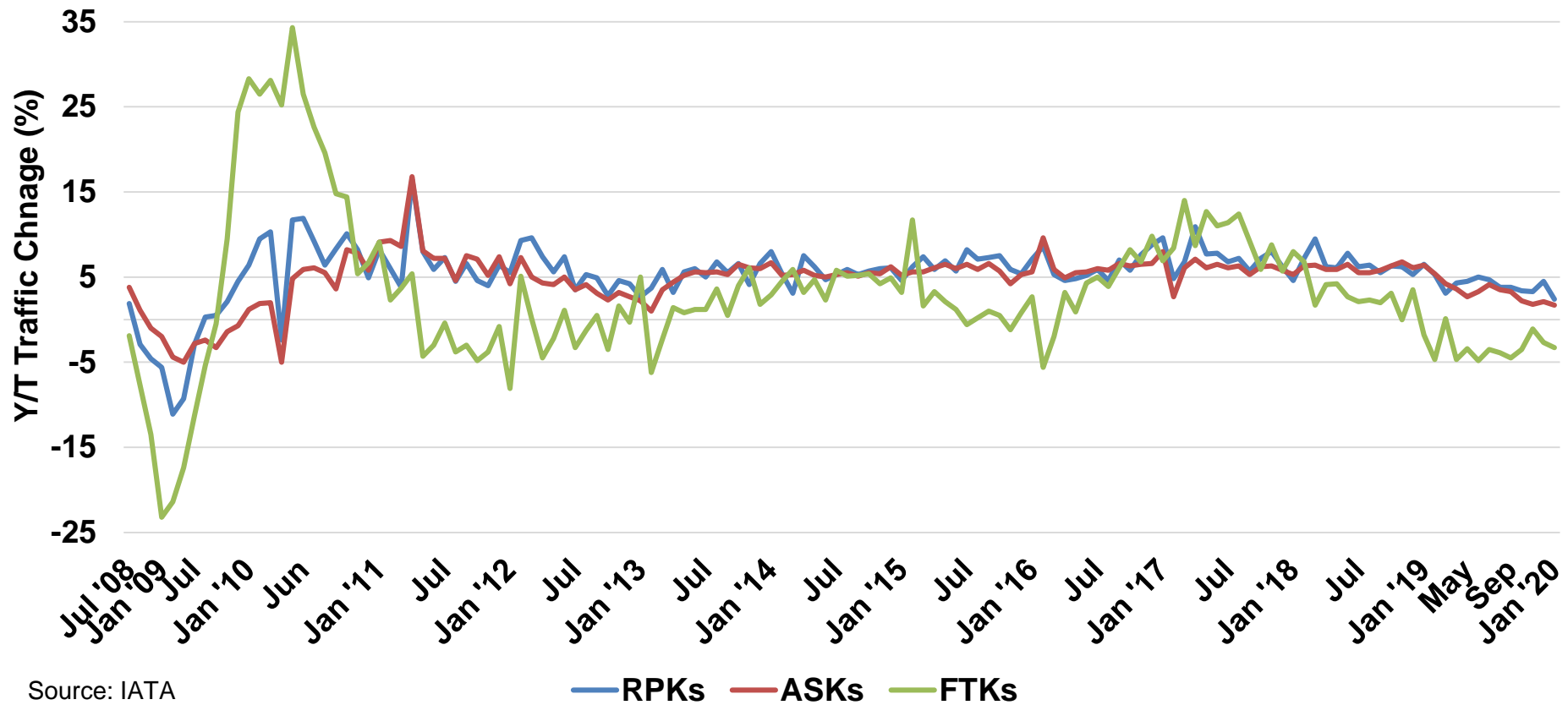


# Traffic: Way Above Trend...Until March 2019

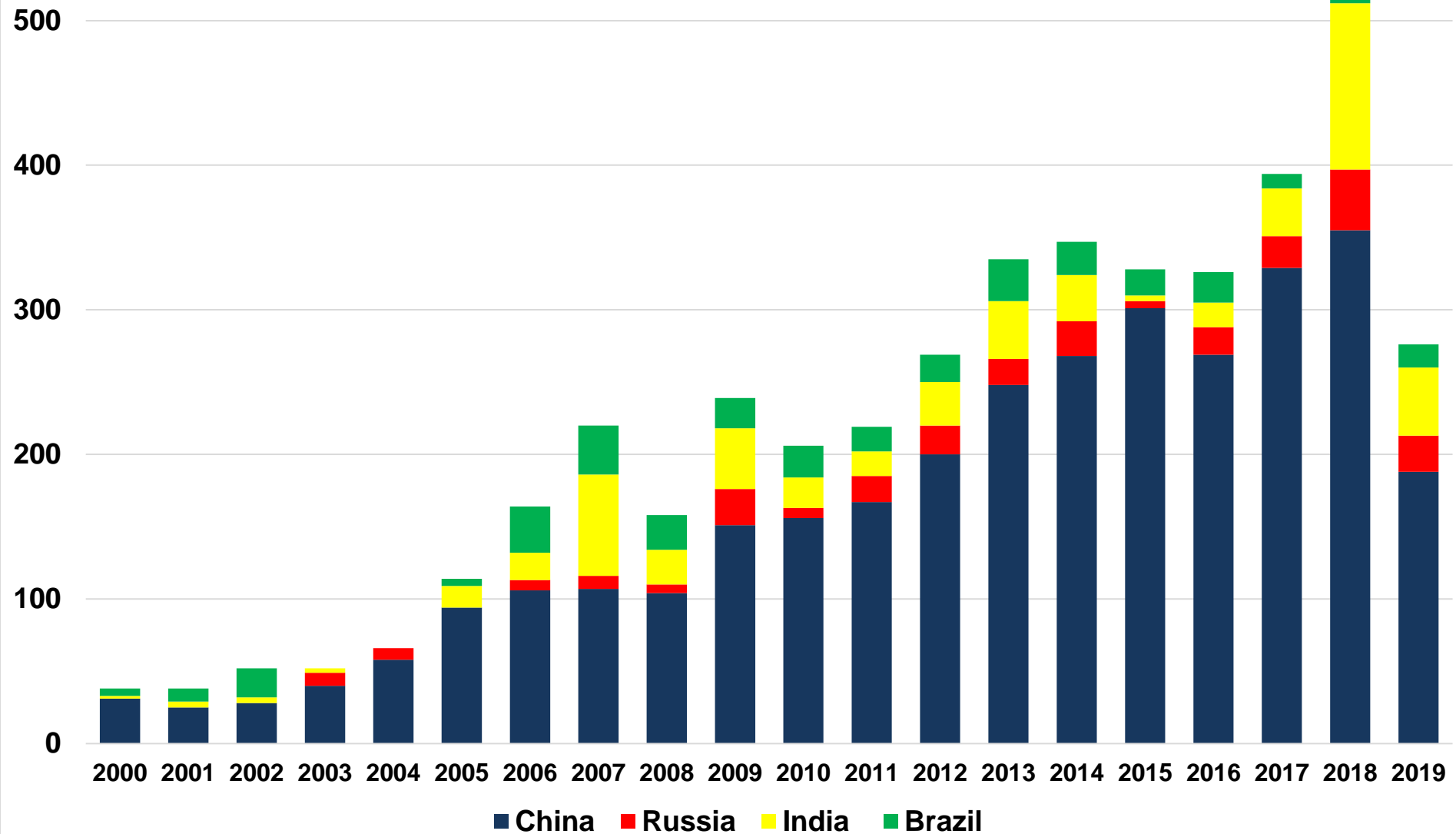
## 40% ASM Decline in 2020?

2019 Totals: RPKs 4.2%, ASKs 3.4%, FTKs -3.3%

2018 Totals: RPKs 6.5%, FTKs 5.4%; 2017: RPKs 7.6%, FTKs 9%

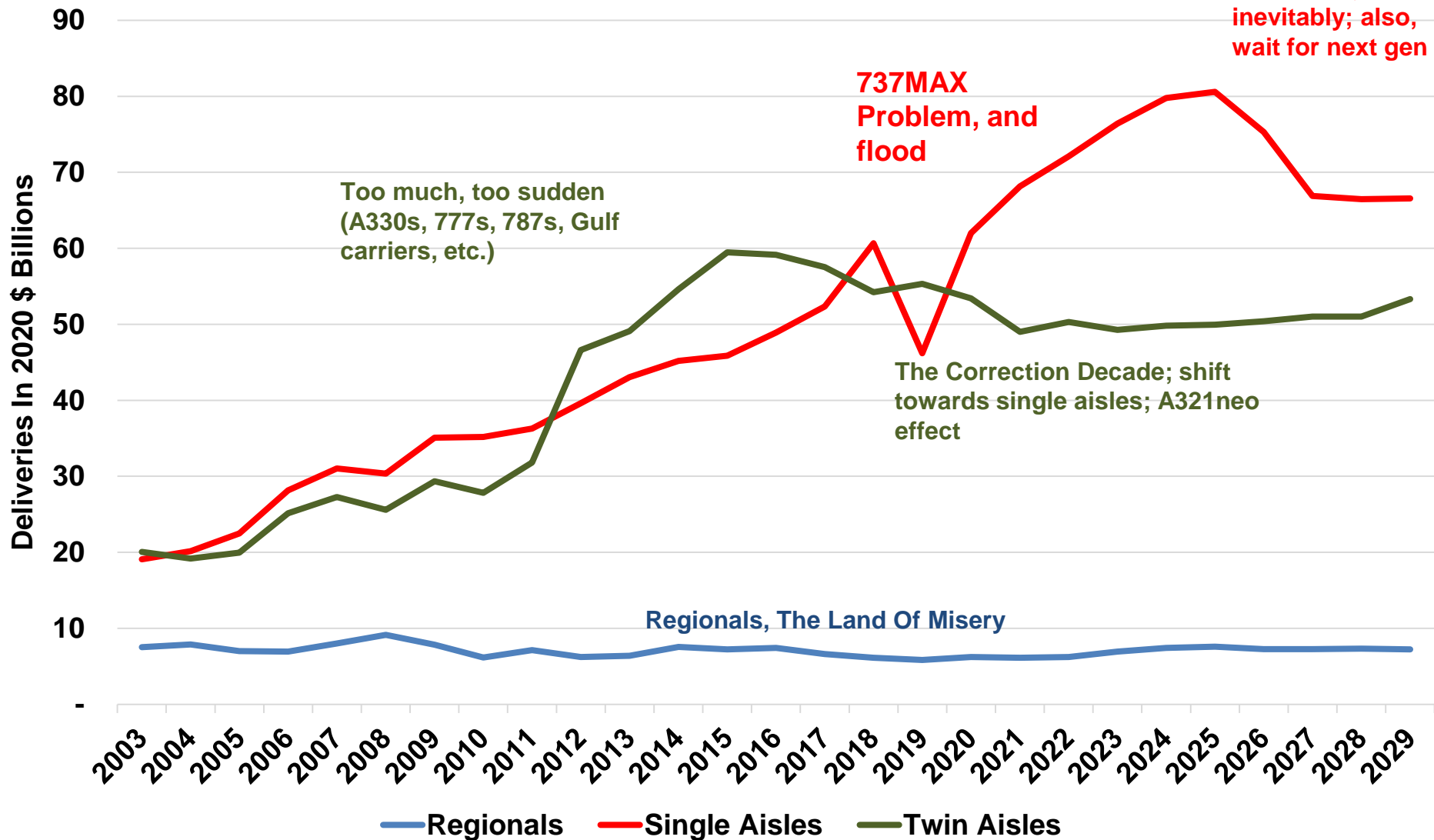


# BRIC Deliveries: Peaked; Watch China

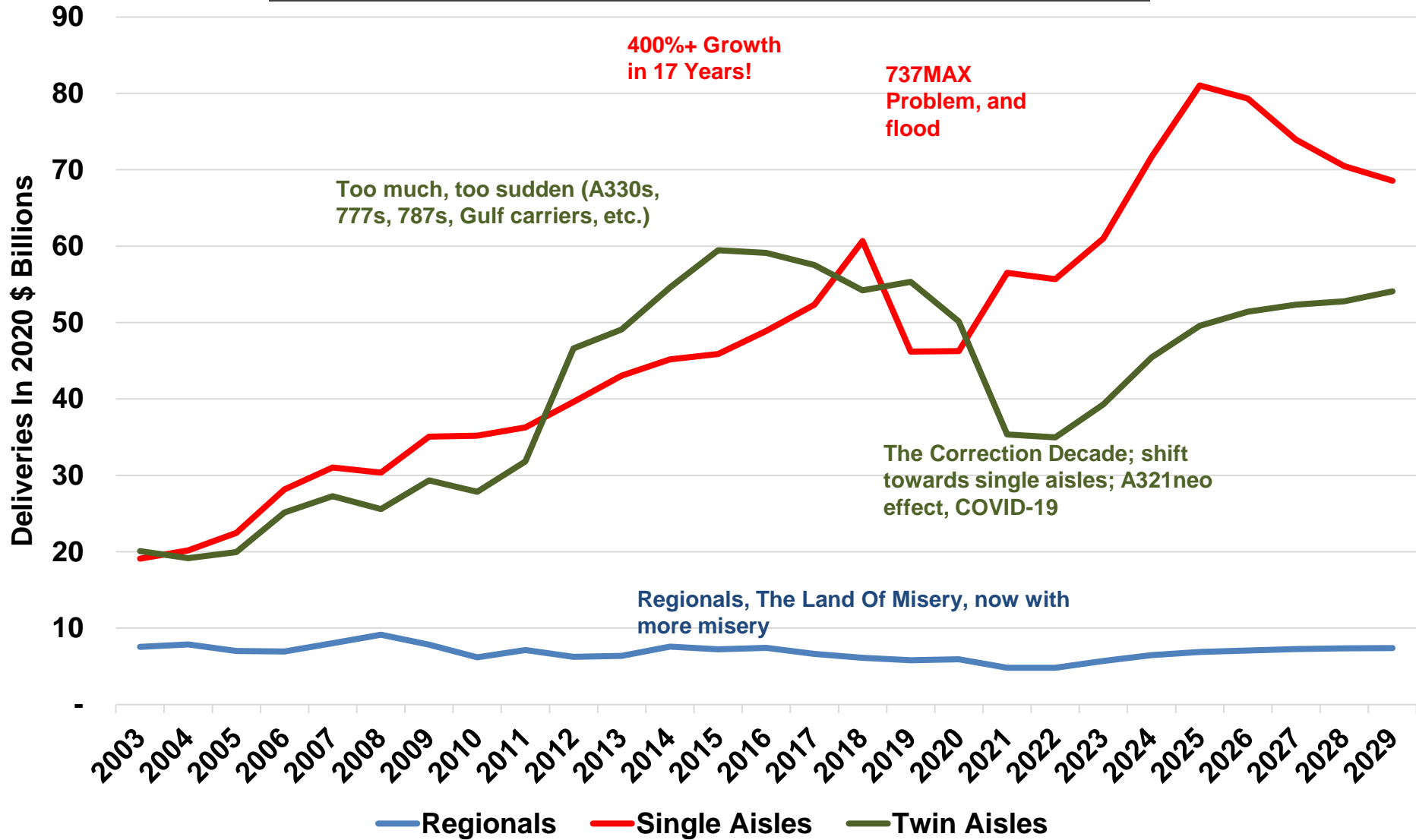




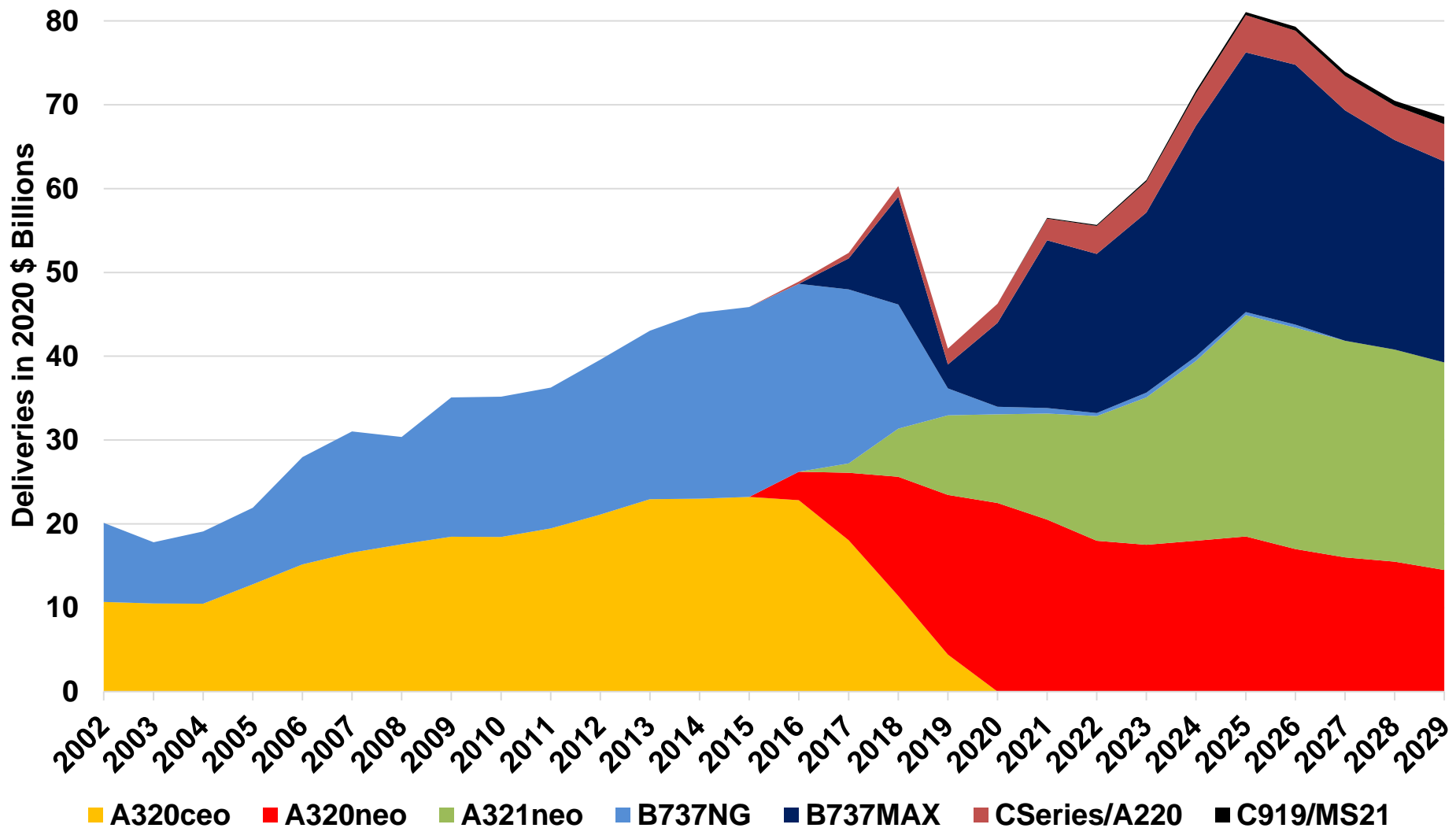
# The Air Transport Market By Segment (As of January)



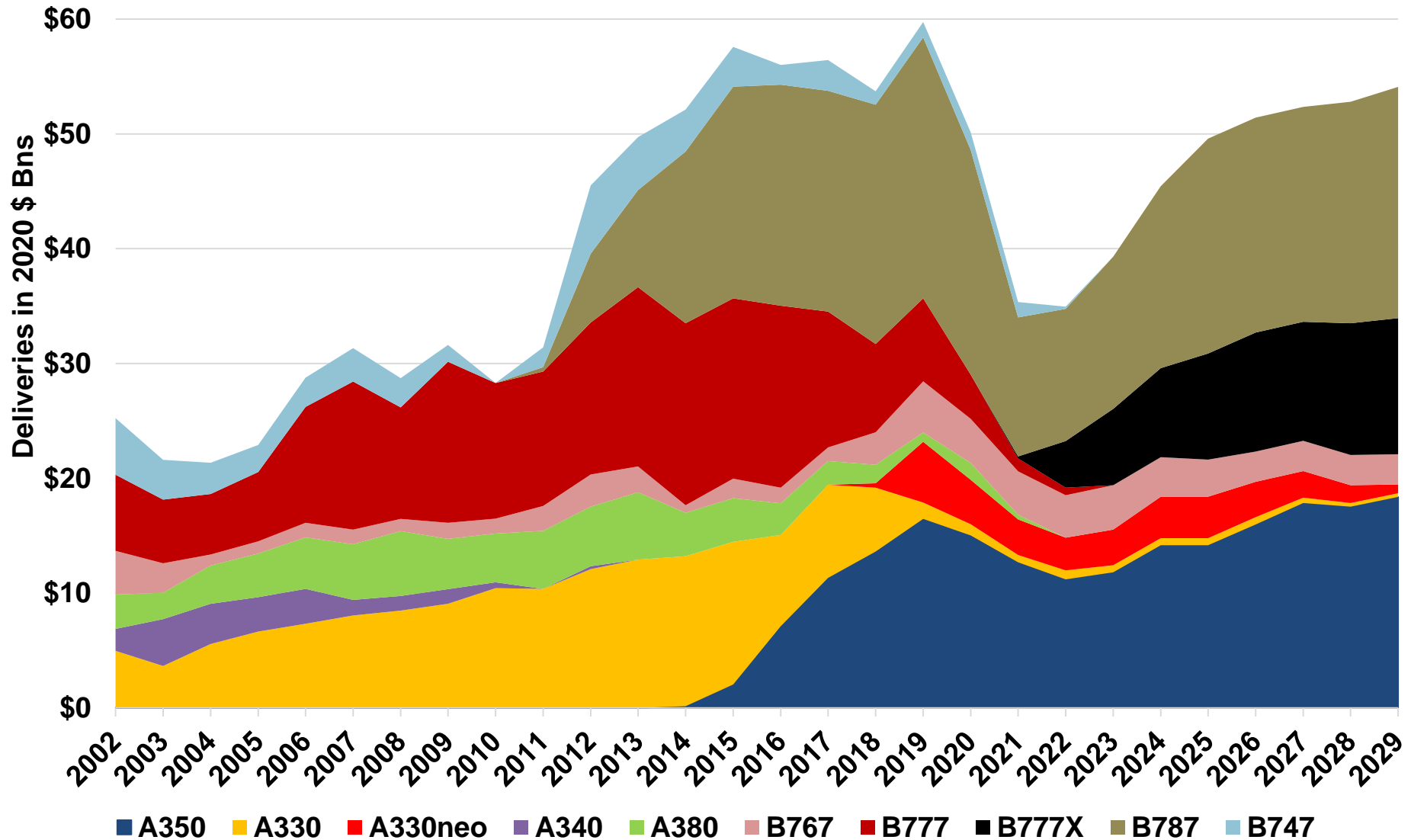
# The Air Transport Market By Segment (As of March 27)



# Single Aisle Deliveries: Not As Bad, Since Recent History Was Bad Too

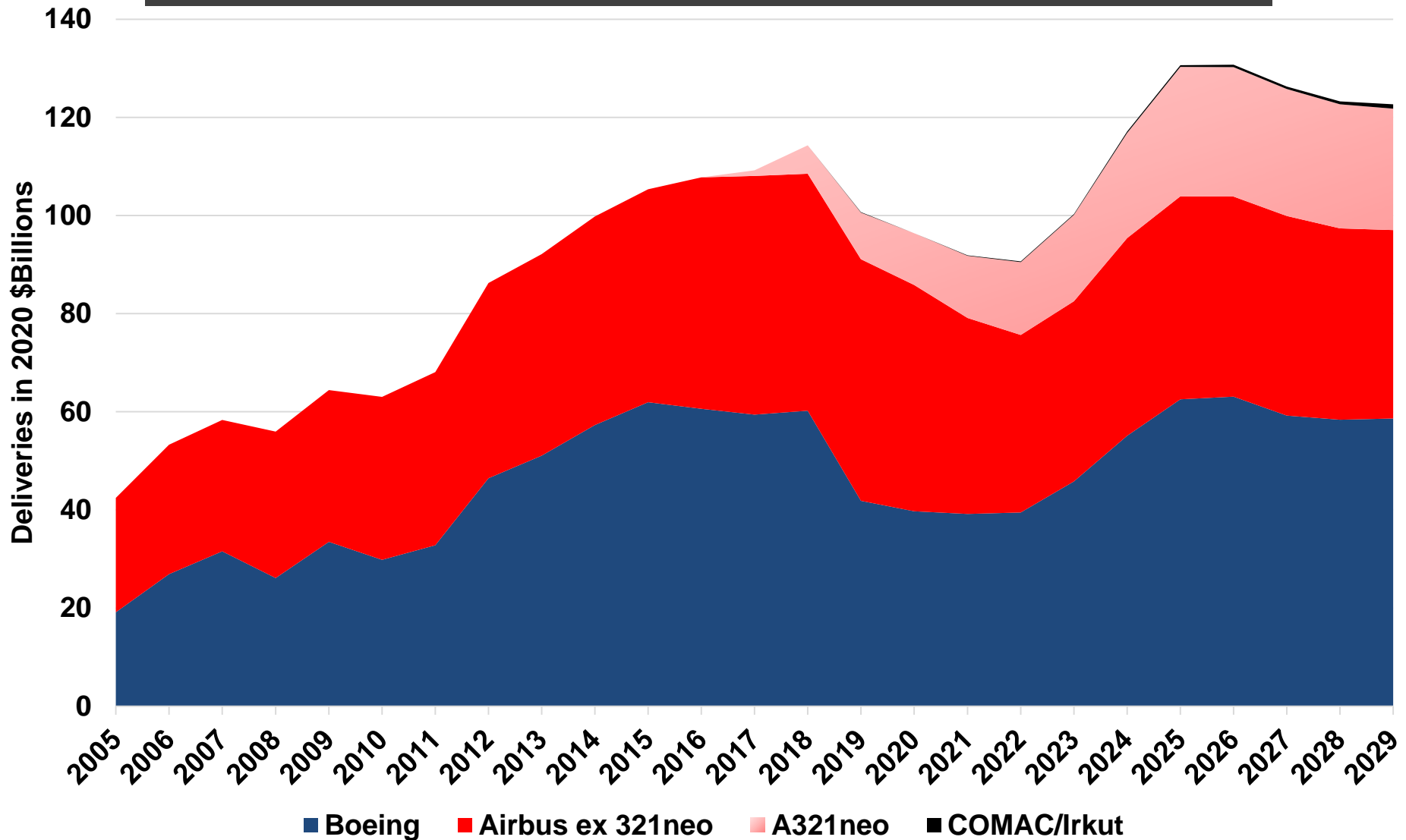


# Twin Aisles: Formerly Hot; Now Flat And Crowded

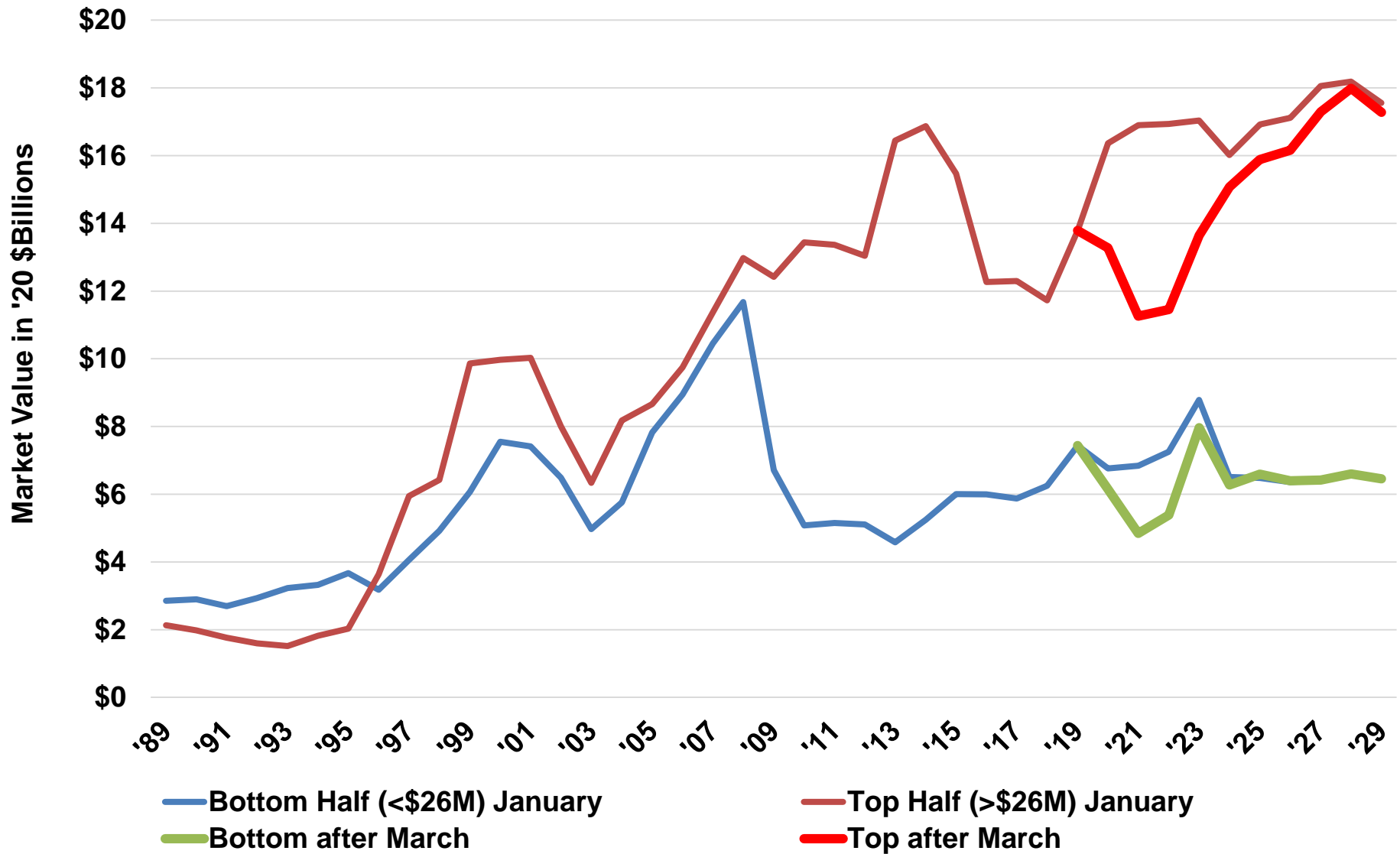


# Jetliner Market Shares By Deliveries

## Airbus Seizes The Middle Market and First Place



# Bottom Half Bizjet Segment vs. Top Half



# Summary: Where We're At

## (And What's Changed)

### • Tailwinds

- Interest rates. Ratio with fuel still holding. (Watch fuel closely)
- Investor cash for jetliners. (Now a risk)
- Traffic (long-term, until last March). (Much worse)
- Defense spending, and combat aircraft in particular. (Still good)
- State aid (but again this just pulls demand forward).

### • Headwinds

- Traffic (short-term, we hope; why de-linked from GDP?). (Worse)
- Commodification: pricing pressure everywhere; fewer new models, even major derivatives. (Worse)
- Geopolitics/trade. (Worse)
- The large twin aisles that nobody seems to want. (Worse)
- Boeing MAX response – discounting, aftermarket deals, etc.
- China: market, politics/trade, FX, traffic. (Much worse)

### • Other Winds

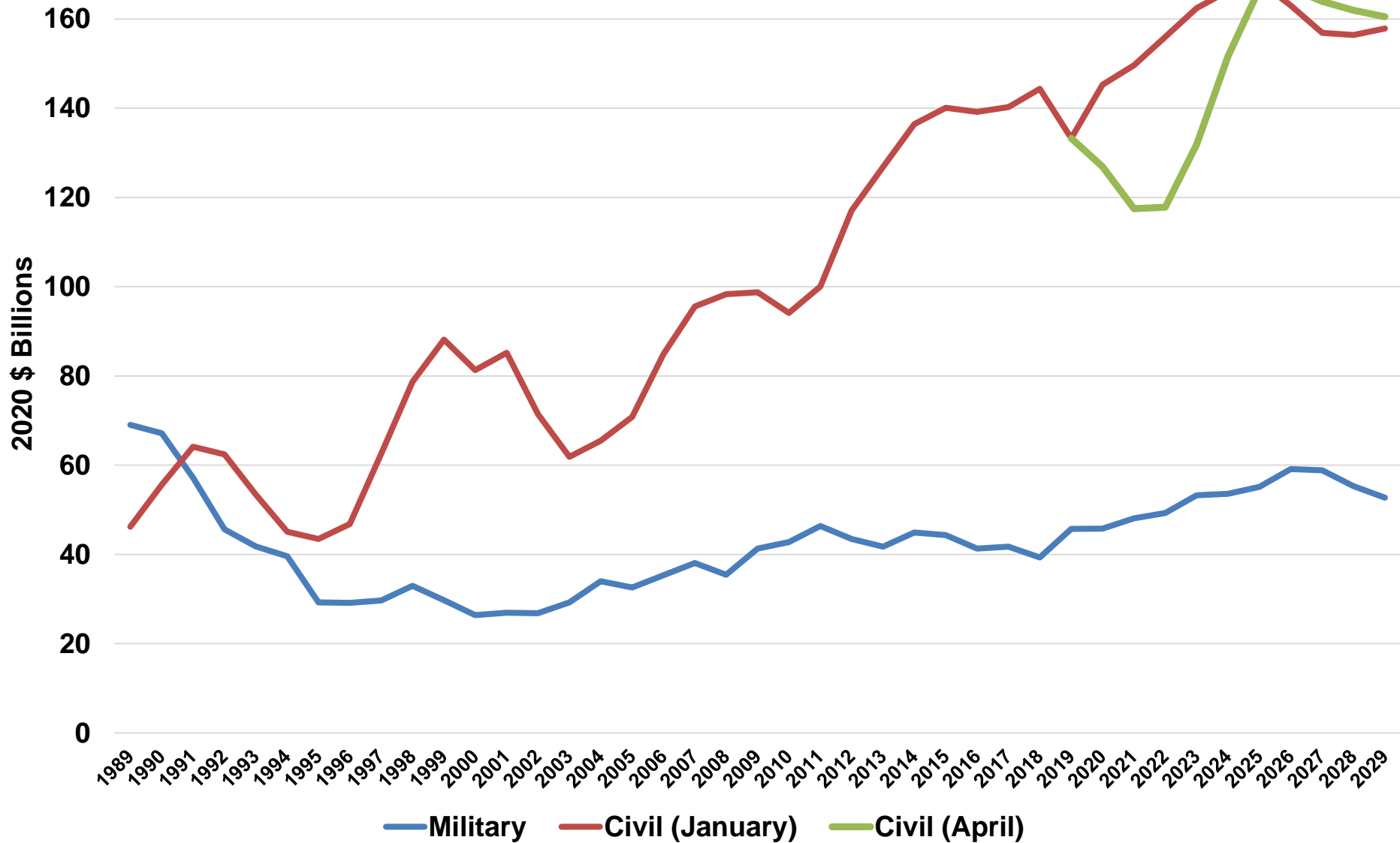
- Responses to RayTech: Re-thinking pure-play defense? (And thinking again).
- Supremacy of A321neo/XLR, Boeing's response. (Boeing stuck)

# Global Aircraft Market Outlook In One Page

<u>Segment</u>	<u>2020</u>	<u>Risk</u>	<u>Elevator Comment</u>
<b>Jetliners-SA</b>	0.1%		Includes some already-built MAXs. Watch China, fuel, traffic.
<b>Jetliners-TA</b>	-9.4%		Overcapacity an issue. Watch traffic, China. A330neo, A350-1000, 777X, 787 orders a concern
<b>Regionals</b>	2.1%		Waiting for Boeing supply chain effect on E-2; Scope clause de-risked, but little growth.
<b>Business Aircraft</b>	-6.4%		Another hit after many false starts over a disappointing decade.
<b>Civil Rotorcraft</b>	1.7%		Large civil hit again. Too many new models aimed at a weak segment (oil/gas).
<b>Military Rotorcraft</b>	-1.2%		AH-64 bounce ends; Programs end/slow; no risk of accelerated downturn; FVL beyond forecast, ex FARA.
<b>Military Transports</b>	-26.1%		A seriously underperforming market.
<b>Fighters</b>	2.9%		I like this market. F-35, plus strong Gen 4.5
<b><u>All Civil</u></b>	<b><u>-4.7%</u></b>		SAJetliner snapback due to MAX, weakness in other segments; more overcapacity risk.
<b><u>All Military</u></b>	<b><u>0.0%</u></b>		Global insecurity, Tension, Malice. Special mission also boosts topline.
<b><u>Total Industry</u></b>	<b><u>-3.5%</u></b>		<b><u>Just the start of a serious downturn</u></b>



# World Aircraft Deliveries By Value, 1989-2029



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