

Aircraft industry at all-time high while air transport encounters some turbulence

Sector analysis by credit insurer Euler Hermes

- Aircraft¹ deliveries are expected to increase by 14% in 2012 and by 10% in 2013, reaching all-time highs for the aircraft industry
- Net orders declined approx. 25% in 2012, down from exceptional levels in 2011
- 2012 saw a decoupling of air transport trends:
 - Traffic and prices: increasing in the passenger segment, declining in cargo
 - Average net margins for traditional airlines: increasing in the U.S., declining in Europe, Asia
- The traditional European air transport industry - loss-making in 2012 - could return to break-even in 2013 following major restructuring now underway.

PARIS – DECEMBER 13, 2012 – For the second consecutive year, the global aircraft industry should record solid growth, with a 14% rise in aircraft delivered. [Euler Hermes](#) expects this positive trend to continue into 2013 (deliveries +10%), fuelled again by virtually across-the-board increases in production rates.

“Solid order books give the aircraft sector good forward visibility because they represent seven to eight years of production,” says [Ludovic Subran, chief economist](#) at Euler Hermes. “The aircraft manufacturers have more than one ace up their sleeve to ensure longevity: the broad geographic diversity of their customer portfolio; strong demand from companies in Asia Pacific and the Middle East; and growth in the low-cost segment. Additionally, a new growth opportunity has emerged: the renewal of fleets with more fuel-efficient aircraft.”

Overall air transport sales are expected to rise by 6.4% this year, driven by a strong 7.9% increase in the passenger segment that offsets a 2% drop in cargo business. Cargo, already affected by the slowdown in trade routes with Europe, faces deteriorating load factors due to stable capacity in a shrinking market. The result: price erosion of approx. 2%.

In a sector where fuel is the main operating cost item (on average one-third of total operating costs), high oil prices like those seen in 2012 often translate into a decline in profits. For the global air transport industry, profits fell by approx. 50% in 2012.

Clear skies ahead for aircraft manufacturers

The outlook for the aircraft industry remains encouraging. After 1,011 aircraft delivered in 2011, deliveries could set new records with 1,155 units in 2012 and, according to Euler Hermes estimates, 1,270 deliveries scheduled for 2013. Order statistics in 2011 were boosted by the success of the Airbus A320 Neo. The Boeing B737 which came on the market in late 2011 was the best-selling model in 2012, which was a more “normal” commercial year with 1,700 orders expected (versus 2,224 in 2011). For 2013, Euler Hermes forecasts 1,200 new orders, still above the 2010 level.

Air transport: a variable climate worldwide

In 2012, total air transport sales – passenger and cargo combined – are expected to reach USD 636 billion (EUR 491 billion), up 6.4% compared with the previous year. There is, however, a decoupling between the passenger and cargo activities. The passenger segment is expected to grow rapidly at +7.9% to USD 505 billion (EUR 390 billion), while cargo contracts will increase by 2% to USD 68 billion (EUR 53 billion).

“Since 2011, passenger transport – driven by both domestic and international flights – continued to grow, while cargo traffic declined due particularly to the slowdown in trade routes with Europe. We expect the latter to at least stabilize in 2013 with a gradual improvement in international trade; it

¹ Aircraft of above 100 seats



therefore stands to reason that cargo would benefit,” explains Bruno Goutard, sector analyst at Euler Hermes.

The traditional air transport sector is still very much regionally structured:

- United States: The 6% price hike, related to strict capacity controls by traditional American airlines facing sluggish demand, contributed to the solid net margin of 2.2%* achieved in 2012. In 2013 those margins should hover near 3.5%*.
- Europe: Traditional air transport, which was loss-making in 2012 (-0.5%*) as a result of weaker traffic and high fuel prices, is in the midst of a restructuring that should start to bear fruit in 2013. We therefore expect it to return to break-even in 2013.
- Asia excl. China: A buoyant market but low-cost competition is intensifying and weighing on prices. After being halved to 2% this year, net margin should strengthen to 3%* in 2013, due in particular to a more robust cargo segment.
- China: Growth remains very profitable for the Chinese airlines, which should achieve net margins of 4.5%* in 2012 and 4.7%* in 2013.
- Middle East: The sector continues to win business with a double-digit increase in capacity each year. Net margin should stabilize at 4%* in 2012 and 2013.

* Average net margin for Euler Hermes's samples

2013 – towards global consolidation in air transport?

The economic models were redefined in 2012 to take current market conditions into account.

“With the recent combinations between Gulf airlines and traditional transporters such as the Qatar Airways-oneworld alliance and the Etihad Airways-Air France-KLM partnership, we are seeing a real shift in strategy,” says Subran.

Other major trends among traditional airlines that could transform the sector include the establishment or strengthening of low-cost subsidiaries, such as Lufthansa's Germanwings and Air France-KLM's Transavia.

“Building on the events of 2012, the time has come for air transport, which symbolizes globalization, to become truly international. The year 2013 could pave the way for the consolidation of the sector at the global level,” adds Goutard.

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