airline fleet rationalization

IN THE TIME OF COVID-19 AND THE IMPLICATION FOR AIRPORTS

Part 2: Shaping the Post-Pandemic Fleet

Aircraft retirements are outpacing aircraft deliveries, and fleets will likely be smaller than they were before the pandemic for the next several years. In addition to shedding existing aircraft, airlines and aircraft leasing companies alike have used the pandemic to renegotiate delivery of future aircraft.

Delivery deferments are helping to slow fleet growth

Southwest is currently the largest operator of both the Boeing 737 and grounded 737 MAX aircraft. While not retiring aircraft to the extent of its peers in North America, Southwest was scheduled to take delivery of more than 120 737 MAX aircraft through the end of 2021. They recently negotiated with Boeing to reduce the delivery rate to less than half of the original delivery order during this period.

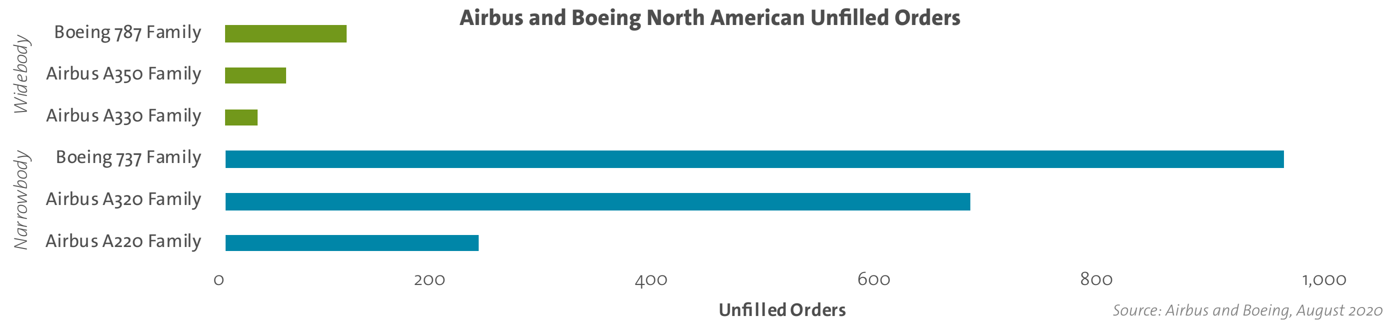
jetBlue has also cut their deliveries significantly over the next two years. Originally slated to take delivery of over 60 A321neo aircraft through 2022, the airline is now taking delivery of 24, with half of them representing the longer-range -LR variety. These numbers are further reduced from the production delayed schedule which jetBlue worked out with Airbus at the beginning of 2020. Near-term delivery plans for the A220, which will replace the E190 in a one-for-one swap, have not changed.

AerCap,the largest independent aircraft leasing company in the world (customers include Air Canada, Alaska, American, Frontier, Southwest, Spirit and United), rescheduled the delivery of 37 aircraft that were previously scheduled for delivery in 2021 and 2022. These aircraft are now expected to arrive beginning in 2023. AerCap also rescheduled the delivery of over 100 aircraft that were originally planned for arrival between 2020 and 2022. Specific details on the deferments have not been provided.

North American aircraft fleets may not return to 2019 levels until 2023

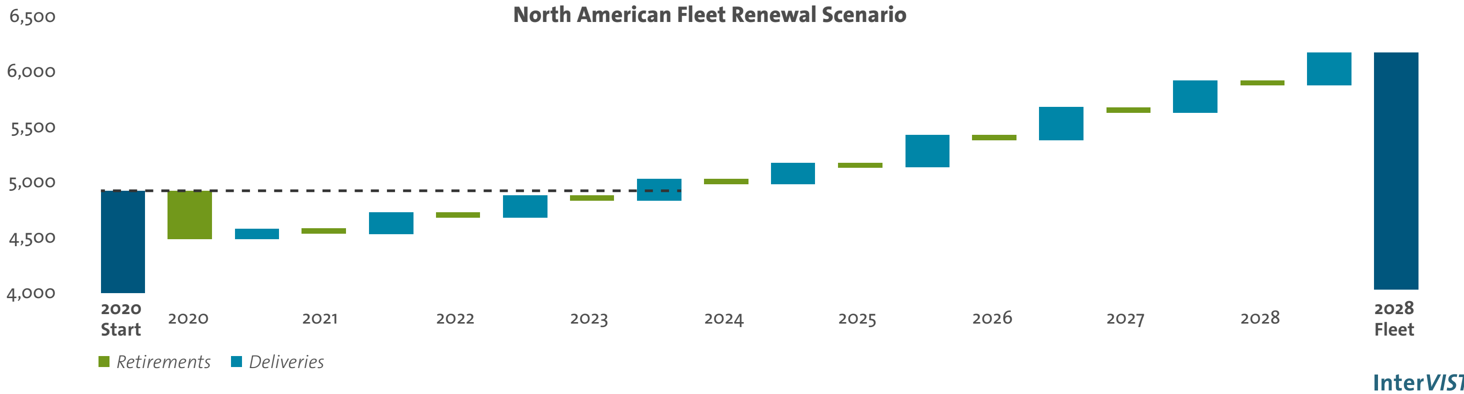
Over 400 aircraft in North America are planning to be retired by the end of 2020, accounting for roughly 10% of the fleet from the largest 15 airlines. According to data published by Airbus and Boeing in June 2020, there are approximately 1,000 Airbus and 1,070 Boeing unfilled orders from North American commercial airlines and lessors. Approximately 90% the unfilled orders are for narowbody aircraft, dominated by the 737 MAX and A320 family neos.

Based on current production schedules and estimates provided by Airbus and Boeing, production rates of more than 800 aircraft per year (as experienced in 2017 and 2018) may not return for several years. Through June 2020, Airbus delivered just under 200 aircraft while Boeing delivered 70. Airbus estimates operating at 60% of pre-COVID production rates for the next two years, with cuts across both their narrowbody and widebody fleets.



If 20% of aircraft deliveries are made to North American customers, based on the recent share of worldwide aircraft demand for both manufacturers, then the current backlog of deliveries could potentially take eight years to be fulfilled.

In summary, the retirement of 10% of the 2020 North American fleet, coupled with production slowdowns and other scheduled aircraft retirements, show that the fleet may not return to pre-COVID levels until around 2023. This estimate is in line with an evolving industry consensus which predicts demand recovery to pre-pandemic levels in the next three to four years. Flexibility in deferring aircraft deliveries is expected to ensure that the supply of aircraft does not outpace demand recovery.



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