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22-Oct-08	Close
B/E Aerospace	10.33
Boeing	42.91
Bombardier 'B'	3.46
Embraer-Emp.	17.10
General Dyn.	56.49
General Electric	18.96
Goodrich Corp	32.03
Honeywell Intl	27.85
L-3 Comm.	79.84
Lockheed Martin	79.77
Northrop Grum.	45.91
Raytheon	44.15
Rockwell Collins	34.16
Textron Inc	13.03
United Tech.	48.60

Airlines brace for a bumpy ride

By Julian Moxon

July 15, 2008

Air Transport and Cargo

After regaining profitability for the first time since 2000, the world's airlines are heading for another downturn, predicts U.S.-based analyst Forecast International in its latest long-term outlook for the industry.

"To say the least, the next few years will be a challenging time for airlines," says the report, released just before the air show. From a high point reached in 2007, when airline profits reached an estimated \$5.6 billion, the industry will likely post a net financial loss this year. "If the industry does manage to achieve a net profit in 2008 it will be significantly lower than in 2007," according to Forecast International.

Furthermore, after having suffered six years of losses that resulted in an overall debt of around \$190 billion, airlines "do not have much of a financial cushion to soften the impact of a new downturn," the report states.

The main reason for the expected reverse in profitability involves massive increases in fuel costs, although Forecast International reckons that some airlines have already become more disciplined and have reduced capacity. In the U.S., where the recession has begun to bite hard, it notes that passenger demand has slowed in the first quarter of 2008 and is likely to continue doing so.

For Airbus and Boeing, the slowdown could prove "particularly worrisome," according to the report, "as it comes at a time when both manufacturers are still increasing delivery rates for their large commercial transport aircraft." Any downturn in the industry could expose the current record backlogs to a risk of significant order cancellations and/or deferrals, it adds.

Forecast International predicts that the two manufacturers will produce 10,128 large commercial transports worth an estimated \$1.197 trillion over the ten-year period of the report. Of that number, it believes Boeing will build 5,444 airliners and Airbus 4,684, as the two companies split the light/medium transport segment and Boeing takes an edge on the production of heavy transports, securing 58.2 percent of the total.

The Airbus A350XWB is "smartly positioned as more than just a direct Boeing 787 competitor, also taking on various models in the Boeing 777 range," says Forecast International. "This is causing Boeing certain product match-up difficulties."

Any slackening of production rates will probably reverse in 2013 thanks to rising production of the A350XWB and Boeing 787. "The growth will be very uneven, though," says the report, "as it will be balanced by declining annual output of narrowbodies."

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