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Airliner Manufacturers Face Crucial Product Decisions

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NEWTOWN, Conn. -- A new study released by Forecast International projects that a total of 11,844 large commercial jet transports will be produced during the 10-year period from 2010 through 2019. The Connecticut-based market research firm estimates the value of this production at \$1.41 trillion in constant 2010 U.S. dollars.

While it is no surprise that Airbus and Boeing account for over 98 percent of the forecast production, the study also indicates that emerging competitors from China and Russia may begin to make small inroads into the market by the end of the 10-year timeframe. In addition, Canadian manufacturer Bombardier's new CSeries family of 100-145 seat airliners will straddle the regional jet and large airliner markets, directly competing with Airbus and Boeing products.

Meanwhile, the world's airlines are struggling to return to profitability after economic recession and collapsing air traffic in late 2008 caused the airline industry to sink into a sea of red ink. The good news is that air traffic, especially in the cargo market, has been picking up since late 2009. This recovery has not been uniform throughout the globe, though, as the European and North American markets are lagging well behind such regions as the Asia/Pacific and the Middle East.

Against this backdrop of continuing economic weakness and a still-struggling airline industry, Airbus and Boeing are facing two big issues. Says Forecast International senior aerospace analyst Raymond Jaworowski, "First, Airbus and Boeing have to determine how best to adjust production rates in response to market conditions. Second, they must decide on the scope and timing of new product development efforts in the face of competition from each other and new contenders such as the Bombardier CSeries."

Throughout the market downturn, both Airbus and Boeing have been fairly aggressive in keeping production rates high. While each made some early adjustments to build rates, they have largely declined to implement the deep production cuts, especially in narrowbody production, that many observers have claimed are necessary. Indeed, both companies recently announced upcoming increases in narrowbody production.

At the same time, Airbus and Boeing have critical decisions to make regarding how best to reshape and refashion their product lines to meet the needs of the future market. In response to competition from the CSeries and others, Airbus and Boeing are considering marketing their current narrowbody families with new engines. Airbus appears more intent on this approach than does Boeing, and Boeing has indicated that it might instead launch an all-new narrowbody should Airbus re-engine its A320 single-aisle series.

Boeing also has a decision to make as to how best to respond to Airbus' new A350 XWB. The XWB itself was a response to Boeing's new 787 Dreamliner. But rather than simply introduce a direct 787 competitor, Airbus ambitiously positioned the XWB to cover much of the payload/range spectrum that Boeing covers with both the 787 and the 777. Thus, Boeing has been mulling whether it needs to upgrade or replace the 777 in order to stave off competition from the XWB.

These product development decisions will have long-term consequences. As Jaworowski notes, "The product decisions that Airbus and Boeing make over the next few months will have reverberations for years to come."

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