HOW SEASONALITY AFFECTS THE AIRCRAFT LEASING MARKET?

News / Finance

Fuelled by growing passenger numbers worldwide, commercial aviation industry is rapidly expanding, presupposing a drastic rise of global airline fleet in the years to come. Notwithstanding the potential, even this growth trend remains subject to inevitable year-on-year fluctuations in the market due to seasonality. Just like airlines constantly open and close new routes depending on seasonal passengers' demand, the order books of the biggest aircraft manufacturers and leasing firms also respond to the peaks and lows in the industry. So when is the next window for aircraft lessors to ride the wave of their ever-growing order books?

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If we were to discount seasonality, we could assume that aircraft manufacturers and lessors can secure an increasing flow of orders anytime, balancing their activities to meet the industry's growth trend. That is because aircraft selling and leasing business goes hand-in-hand with rising air travel demand. Already, Airbus Global Market Forecast predicts that 35,000 new aircraft will be needed globally over the next 20 years. Boeing projects commercial jet fleet to double in size, requiring more than 41,000 new aircraft. Similarly, Avolon's World Fleet Forecast indicates up to 42,000 passenger aircraft will be delivered by 2036. But is it that simple?

Businesses that understand the seasonality of their market can time their strategies to coincide with the expected effects of seasonality. Wet leasing is a perfect example of how the aviation industry is able to adjust to anticipated highs and lows in the market. Wet leasing companies (ACMI) offer airlines aircraft with crew in accordance to passenger demand, in effect, mirroring the fluctuations of the seasons. "Increase demand for wet lease happens during high season such as summer holiday season, Hajj period and so on," says James Stewart Kim, Group Managing Director of AvCon Worldwide, aviation consulting and aircraft trade company. Kim emphasizes, however, that this example does not apply for dry leasing (aircraft-only).

When it comes to sales and leases of aircraft only, other factors, such as maintenance cycles, aircraft retirement and fleet replacement, come to the forefront. "The dry lease is not affected by seasonal change. Impact of dry lease change happens usually [in] 12-year cycle – most of the major carriers retire 12 years old aircraft as 12-year maintenance is due," Kim explains.

Although seasonal passenger travel habits do not directly affect timing when newly brought or dry-leased planes enter airlines' fleets, particular timing and events do play a role as well. Take, for instance, the crucial spring-summer season, reaching its peak in June, as acknowledged by lessors. "The number of purchases done are more or less the same every month of the year, however, there are some spikes or lows during the year that suggests seasons of the year have an impact for sales. For example – in our experience the highest number of purchases are always done during June. And it goes year by year," says Tadas Goberis, CEO of AviaAM Leasing.

To illustrate this tendency by numbers, let's take an order book of the leasing company AerCap. In 2017, they reported leasing a total of 230 and selling 114 aircraft. During the first quarter of the year, the company leased 69 and sold 25 planes. During the second quarter the amount of sales increased – to 65 and 32 accordingly – before starting to steadily decrease towards the end of the year (dropping to just over 40 leased and 28 sold aircraft by 4th quarter).

A slightly different tendency is demonstrated by aircraft manufacturers. Boeing reports adding a total of 1,024 orders to its books in 2017. In the U.S. manufacturer's order book, two months stand out in particular: of the 212 planes booked in the second quarter, the vast majority (184) were ordered in June, topped only by the 265 aircraft ordered in December.

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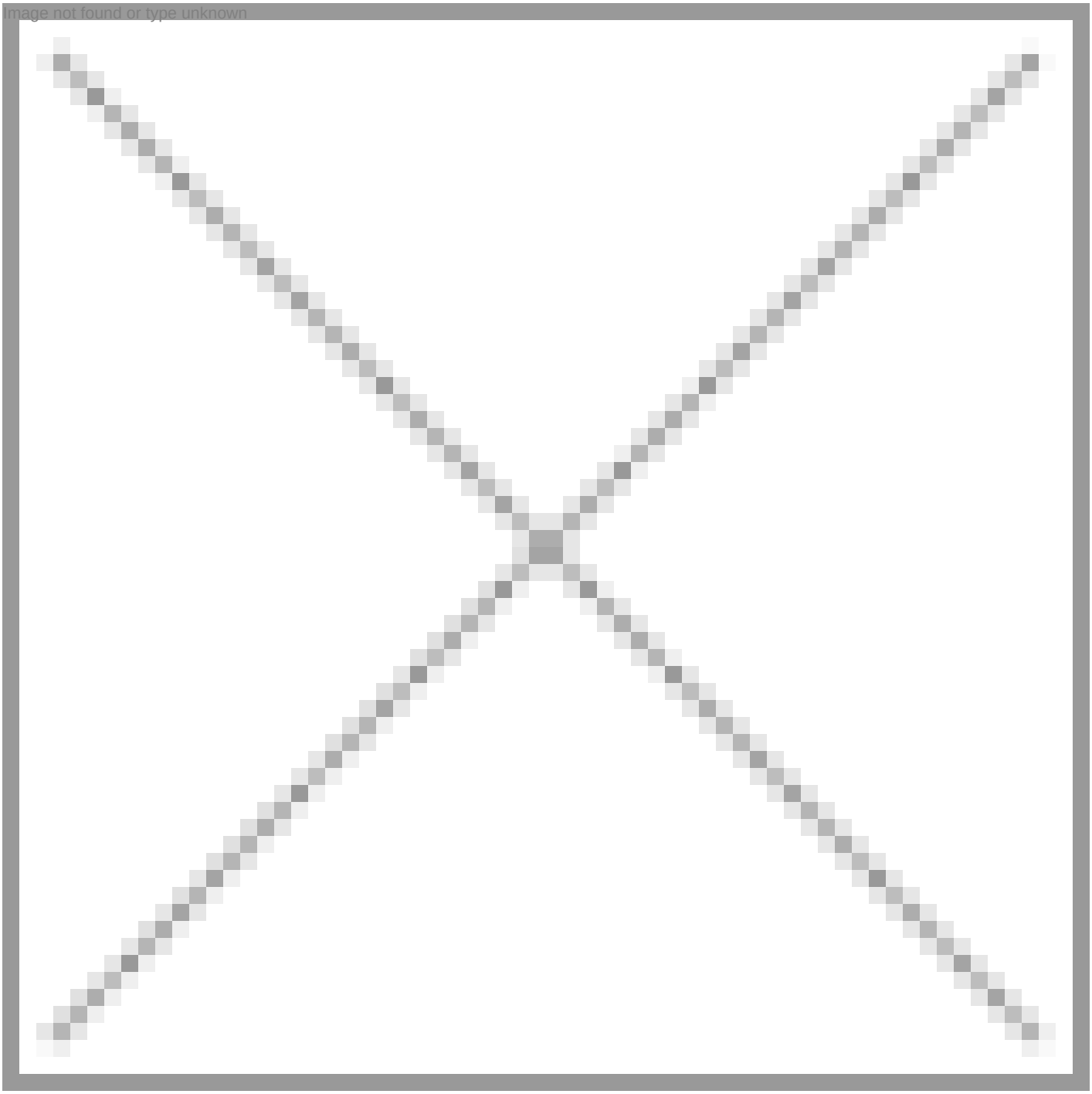

Boeing's order book reflects a prominent practice in aviation industry: large deals – although pre-debated months and months in advance - are commonly announced during major air shows. For instance, in 2017, the Paris Air Show took place in the 'peak' month of June, while the Dubai Air Show – in November. During the latter, Boeing announced a major deal with the UAE carrier Fly Dubai for 225 aircraft of the 737 MAX family – a deal that is acknowledged in the order book in December as an order for 175 aircraft.

Boeing's main rival Airbus, similarly, took advantage of the Dubai Air Show to boost its end-of-the-year sales by revealing an even bigger deal. In its "largest ever single announcement", the French plane maker disclosed that Indigo Partners agreed to purchase 430 A320neo family aircraft. To put it into perspective, Airbus reported a total of 1,109 orders in 2017.

That being said, not all events, nor specific timing, or even a sought-after region can guarantee an upsurge in plane deals, just as the Singapore Air Show 2018 has demonstrated. Asia Pacific is at

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the forefront of the aviation market expansion as it is forecasted by IATA to constitute more than half of this growth in the next 20 years. Despite of all that, this year's biggest aviation show in Asia topped the headlines for being "surprisingly low on deals", an issue mainly attributed to lower oil prices, resulting in a lessened need for airlines to keep stacking up on more fuel-efficient aircraft.

Therefore, the issue of seasonality affects aviation leasing market revealing different patterns. Wet leasing industry is catching the waves in accordance to passenger demands, responding to common trends. The industry-oriented dry leasing sector, however, might see the peaks on the same time as its counterpart - wet leasing - but the trends respond to divergent underwater currents, deriving from the industry itself.

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