



# BOEING 737 AND AIRBUS A320 PRODUCTION INCREASES ARE COMING -- EVEN WITH SLOWING ORDERS

News / Manufacturer



**Historically, commercial jet orders have been sharply cyclical, with boom times followed by big busts. In the past year or two, order activity has slowed significantly at Boeing (NYSE: BA) and Airbus (NASDAQOTH: EADSY), indicating that the current cycle is past its peak.**

**Order activity for the Boeing 737 has slowed in the past two years. Image source: The Motley Fool.**

**This order slowdown has made many analysts skeptical that Boeing and Airbus will be able to implement planned production increases for their 737 and A320 narrowbody jet families. This isn't a very realistic concern. With unprecedented narrowbody order backlogs, Boeing and Airbus remain well positioned to go ahead with plans to raise production aggressively in the next few years.**

**ORDER ACTIVITY SLOWS, BUT BACKLOGS REMAIN MASSIVE**

Motley Fool Founders Issue New Stock Buy Alert

Forget GE! Heres how to play the largest growth opportunity in history

Forget Apple! Heres a Better Stock to Buy

He Made 21,078% Buying Amazon. Heres His New Pick

Between 2011 and 2015, Airbus averaged more than 1,000 net orders per year for its popular A320-series planes. During that period, it was building less than half that number on an annual basis. Order activity declined in 2016, but Airbus still managed to secure more than 600 net orders for the A320 family (including the new A320neo series).

As a result, Airbus ended 2016 with a record backlog of 5,645 A320-family jets. That represents more than 10 years of output at last year's rate.

Boeing had a briefer order peak, with more than 1,000 net orders for the 737 every year from 2012 to 2014. It then added on 588 net orders in 2015 and another 550 in 2016. Even with the 737 falling behind the A320 in the order race lately, Boeing ended last year with an impressive backlog of 4,452 unfilled orders for 737-family jets.

Boeing ended 2016 with a backlog of 4,452 orders for the 737. Image source: Boeing.



## CAN AIRBUS AND BOEING RAMP UP PRODUCTION?

In response to strong demand, Airbus and Boeing are in the midst of dramatically increasing narrowbody output. Last year, Airbus increased the A320 production rate from 42 per month to 46 per month. It plans to continue this production growth in the coming years, with output topping out at 60 per month in mid-2019.

Boeing is not far behind. It is currently building 42 737s each month, but plans to boost output in each of the next three years, reaching a production rate of 57 per month sometime in 2019.

If all of these production increases occur as planned, Boeing and Airbus will each be churning out about 675-700 narrowbody jets annually by the end of the decade. Annual order activity has already fallen below this level and could decline further in 2017. Furthermore, some airlines are deferring orders to later years. This doesn't impact the backlog, but it does reduce near-term demand.

Not surprisingly, some analysts see this as a bad time to increase production. AirInsight founder Addison Schonland recently stated that he doesn't expect Boeing and Airbus to go ahead with

their planned production increases because the order backlog has already peaked. Furthermore, he thinks that low fuel prices will encourage airlines to defer more orders.

## WE HAVEN'T SEEN THIS BEFORE

During many previous industry cycles, declining order activity was followed relatively quickly by production cuts. However, aircraft manufacturers rarely had more than three or four years' worth of production in their backlogs until very recently. Furthermore, Boeing and Airbus have more diverse customer bases today than they did even a decade ago.

Aircraft order backlogs are at unprecedented levels right now. Image source: Airbus.

In short, the backlogs for the Boeing 737 and Airbus A320 are truly unprecedented in terms of size. Additionally, both manufacturers have liberally overbooked their production capacity, building in flexibility to accommodate order deferrals and cancellations.

The risk of low fuel prices driving massive order deferrals is also overstated. Fuel efficiency is one reason for replacing older airplanes, but it's not the only reason. As airplanes get older, they become more and more expensive to maintain. Reliability also tends to decrease. This limits the extent to which airlines can keep older planes flying in lieu of ordering new jets.

Furthermore, replacement needs represent a relatively small proportion of narrowbody demand right now. For the next five years, Boeing expects an average of about 200 single-aisle airplanes per year to reach the standard retirement age of 25 years. Most of the airplanes on order are needed for growth.

If the world tips into recession, it's possible that numerous airlines could cancel their growth plans, driving a wave of order deferrals and cancellations. That would undermine the case for raising production of the Boeing 737 and Airbus A320. But a sluggish order environment alone doesn't threaten the scheduled production increases at Boeing and Airbus.

## 10 stocks we like better than Boeing

When investing geniuses David and Tom Gardner have a stock tip, it can pay to listen. After all, the newsletter they have run for over a decade, Motley Fool Stock Advisor, has tripled the market.\*

David and Tom just revealed what they believe are the 10 best stocks for investors to buy right now... and Boeing wasn't one of them! That's right -- they think these 10 stocks are even better buys.

22 JANUARY 2017

### ARTICLE LINK:

<https://50skyshades.com/index.php/news/manufacturer/boeing-737-and-airbus-a320-production-increases-are-coming-even-with-slowing-orders>