WIDE-BODIES' LUSTER IS TARNISHED AS AMERICAN DEFERS AIRBUS JETS

News / Manufacturer

American Airlines's decision to postpone delivery of nearly two dozen of Airbus Group SE's sleek, fuel-efficient A350 jetliners amplifies concerns that demand is sagging for international air travel and large new aircraft.

Wide-body sales have stalled this year as inexpensive fuel and a glut of readily available used jets diminishes airlines' need to upgrade their fleets. Airbus and Boeing Co. notched few orders of twin-aisle planes at last week's Farnborough Air Show in the U.K. Boeing's 777 jetliners and Airbus's A380 superjumbo were shut out altogether.

American said Friday it would take 22 of the Airbus planes an average of 26 months later than planned as it reins in capital spending. The world's largest carrier -- with an influence that ripples through the industry -- is the third major U.S. airline this year to delay new aircraft deliveries in favor of older models in an effort to tamp down costs or capacity.

"It's an indication that airlines are almost certainly going into a cyclical downturn," said Sash Tusa, an analyst at Agency Partners who recommends selling shares of Airbus and A350 engine-provider Rolls-Royce Holdings Plc. "U.S. airlines have been by far the most profitable part of the global airline market, and if U.S. airlines are now starting to defer capacity, that doesn't send a positive signal across the rest of the industry."

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Airbus dropped 1.2 percent to 51.40 euros, while Rolls Royce Holdings Plc, the sole engine maker for the A350, slid 3.2 percent to 721 pence. Boeing, which shares a twin-aisle duopoly with Airbus, fell slightly.

Slower Growth

“We look forward to delivering the A350 to American when it will begin providing an excellent platform for the airline to serve its passengers,” Airbus said by e-mail.

Both planemakers have amassed record order backlogs amid the longest-ever aerospace buying spree. But as airlines cautiously evaluate fleet needs amid rising economic and political turmoil that threaten air-travel demand, order deferrals are creeping up.

American, Delta Air Lines Inc. and United Continental Holdings Inc. have announced plans to slow growth on sagging international travel that’s placing pressure on fares. Southwest Airlines Co. last month postponed delivery of 67 Boeing 737 Max 8 aircraft by as many as six years, pushing $1.9 billion in spending on planes into the next decade.

‘Southwest Contagion’

“The problem is, of course, that this type of move tends to become a trend because it’s a reaction to market forces that everybody is feeling,” said Richard Aboulafia, an aerospace analyst at Teal Group. “We were hoping the Southwest contagion wouldn’t spread.”

American’s deferral mirrors a shift earlier this year by Delta. The second-largest U.S. airline said in May it would postpone four A350s to 2019 and 2020 from deliveries originally slated to begin in 2018.

Fleet Flexibility

Airbus has been battling tardy deliveries of cabin equipment as it works to meet a goal of delivering 50 of the aircraft this year. Rolls-Royce Chief Executive Officer Warren East told reporters at Farnborough that the engine maker is managing the ramp up of its Trent XWB turbines to preserve cash in case the European planemaker misses that target.

American’s deal with Airbus to defer receipt of the planes will reduce the carrier’s capital spending by $500 million next year and $700 million in 2018.

“It really gives us flexibility,” Scott Kirby, president of Fort Worth, Texas-based American Airlines Group Inc., said on a conference call. “All these were going to be replacement aircraft for existing aircraft, so we can extend some leases longer to keep our existing planes flying and our growth plans in place. Or, given the weak international environment, we can keep those retirements in place and pull back growth plans.”

American delayed delivery of five Dreamliners last year. The airline told employees in May it would speed the retirement of some of its Boeing 767s and all of its Embraer E190 regional jets. The carrier’s A350s were expected to replace aging Airbus A330-300 aircraft that American had decided to retire.

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Airlines are tightening belts out of concern “that last year’s oil windfall was a one-off” event, Aboulafia said. “Cutting spending and reducing new jet intake is one of the only other levers they control in any kind of downturn.”

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