



Analyzing the 2018 Farnborough Airshow

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Published: August 2, 2018

Brief:

In this edition of Morten Beyer & Agnew's Insight Series, our REDBOOK team took a look into the results from the 2018 Farnborough Airshow. Airbus and Boeing certainly demonstrated their strong presence in the market with increased orders and commitments to add to their aircraft backlog, however both manufacturers face challenges down the road from increased demands and tariffs.

Key Concepts:

- *The 2018 Farnborough Airshow proved that demand in the aviation market is still strong.*
- *By the end of the Airshow, Boeing edged out Airbus in total orders and commitments, but still trails in aircraft backlog.*
- *Increased market demand will force Boeing and Airbus to increase their productivity rate.*
- *Recent trade wars and imposed tariffs between the US and China will be a looming threat for aircraft manufacturer profitability.*

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2018 Farnborough Airshow

The 2018 Farnborough Airshow generated impressive results for the commercial sector as both major manufacturers Boeing and Airbus announced a healthy number of new orders and commitments. At the end of the week, Boeing has a slight edge over Airbus with a total of 673 orders and commitments compared with Airbus' 431. While both the aviation rivals had their share of successes at Farnborough, they will continue to face challenges to keep up with market demand, including engine productivity and overlying trade wars between the United States and China.

An Aviation Rivalry in Flux

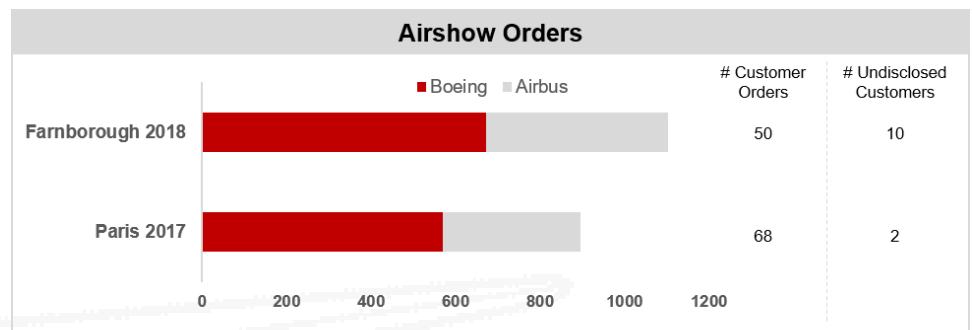
Ten years ago, Airbus and Boeing were regularly neck and neck when it came to the backlog of firm orders. However, for the last five years, Airbus has managed to receive more firm orders than its rival, with an aircraft backlog reaching a surplus of 7,000 compared with Boeing's 6,000 aircraft backlog, at the end of last year. Despite having the backlog advantage, Boeing is slowly increasing its numbers and threatening to bump Airbus from the leading backlog position.

With high hopes for the future, both manufacturers have stated that they intend to reach a set monthly production rate for their leading narrowbody aircraft by the end of next year. Airbus hopes for 63 aircraft monthly for their A320 Family, while Boeing plans to produce 57 per month for their 737. The planned increase in output was announced after both companies recognized the necessity for higher production rates in order to avoid losing their current orders. The biggest challenge for both entities will be making sure the engine manufacturers are able to fulfill their own production goals. Through all of this, the influx of orders and commitments prove that the market is still craving narrowbody aircraft, just as long as Boeing and Airbus can keep up with the demand.

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Farnborough Orders & Results

Airbus began the week leading up to the Farnborough Airshow with a year to date total of 321 orders. Before the week closed, the European manufacturer added 93 firm orders and 338 memorandums of understanding (MoUs), increasing total orders and commitments to 431; by comparison, 105 more than the Paris Air Show the previous year. Forty-two of the commitments are for both models of the new A330neo. Another notable agreement came from JetBlue Founder, David Neeleman, who also signed an MoU for 60 A220-300s which he plans to add to a new U.S. carrier. Neeleman's agreement came shortly after JetBlue placed the exact same order. Through the success of orders flowing in, Airbus Chief Commercial Officer Eric Schulz believes the results show a "strong market appetite for all [their] leading aircraft product families..." covering all models except for their A380, which Schulz believes is now breaking into the second-hand market.



While Airbus had a strong showing in Farnborough this year, Boeing's time at the airshow was also well spent. Coming in with year to date orders reaching 460 aircraft, they wrapped up their week with a total of 673 orders and commitments, which was 242 more than their main competitor and 102 more than their own numbers at the Paris Air Show in 2017. Seventy-three of those orders and commitments were for their freighter aircraft. These total results cash in at \$100 billion, \$2.1 billion of which is dedicated to commercial and defense services, while the remaining account is for commercial aircraft.

The success of the week, according to Boeing, shows “resurgence in demand for freighters and strong order activity for the 737 MAX and 787 passenger airlines.” Two new customers signed on for the MAX 10 and the 787 alone will soon reach more than 1,400 orders once the commitments from this air show are solidified.

2018 Farnborough Airshow Orders & Commitments	Boeing							Airbus					Total
	737 Family	737-800BCF	767-300BCF	787 Family	777F	777	747-8F	A220 Family	A320 Family	A330-300P2F	A330 Family	A350	
Air Lease	75			3									78
AirAsia X											34		34
ACG	20												20
British Airways						3							3
DHL					14								14
GECAS		20											20
GOL	45												45
Goshawk Aviation	20								20				40
Hawaiian Airlines				10									10
JSA	30												30
Jet Airways	75												75
Macquarie AirFinance									20				20
David Neelman Start-Up								60					60
Novus Aviation Capital						4							4
Qatar Airways					5								5
Sichuan Airlines									10				10
Starlux												17	17
Tarom	5												5
Undisclosed	183			15					179		6	8	391
United Airlines				4									4
VietJet Air	100								50				150
Vistara				10									10
Viva Aerobus									25				25
Volga-Dnepr Group					29		5						34
Total	553	20	0	42	48	7	5	60	304	0	40	25	1104

Source: Cargo Facts

Evidence of Trade War Impact

An important item to note as the 2018 Farnborough Airshow came to a close is that of the total 1,104 orders and commitments, just over 29% of them were placed by unidentified customers. The first two days alone saw undisclosed customers signing for 180 A320neo Family aircraft, starting the show off on a high note for Airbus. According to Cargo Facts, it is believed that a good portion of those orders were placed by Chinese companies intentionally to mask their moves due to the growing trade war between their country and the United States.

The trade war began after the US tariffed \$34 billion worth of items from China, with the looming threat of \$500 billion in tariffs. Firing back, China placed tariffs aimed at specific regions throughout the States, especially hitting the Midwest. According to the Washington Post, the country at risk for more economic loss is China, as 20% of their exports are sent to the US. However, China has the ability to withstand more in the coming year due to their political system having an immensely different chain of command compared to the US. This ongoing trade war seems to be the primary reason for an uptick in unidentified customers at the Farnborough Airshow.

The implications of this trade war threaten the aviation industry in the States as well. For example, the 25% tariff on aircraft weighing anywhere between 33,000-99,000lbs greatly affects Boeing's 737s, which is the most common aircraft in that spectrum. Additionally, 20% of Boeing's order book is comprised of orders from Chinese organizations, which is where the anonymity of this year's airshow comes into play. If the trade war continues, the industry could see a noticeable hit to aircraft manufacturer's profitability, particularly in Boeing's case.

Future Outlook

Overall, the increase in orders and commitments at this year's Farnborough Airshow demonstrates the strength of the manufacturers and the positive outlook organizations have for the coming years. While Airbus and Boeing both had strong showings at the event to increase their aircraft backlog, their potential to reach their own productivity goals and fulfill orders remains tied to the engine manufacturers' ability to meet the demand. Lastly, both organizations must look to overcome the market challenges presented by the US-China trade war.



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