

From everything being awesome to **changing times**

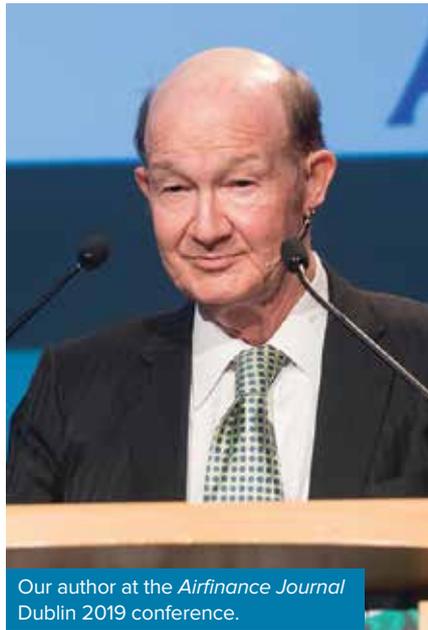
The world is in a volatile state, leaving aviation exposed, writes Adam Pilarski, senior vice president at Avitas.

A fairly short time ago I believed that the situation in aviation was expressed by a catchy and kitschy tune from *The Lego Movie* called *Everything is Awesome*. The world economy was humming along fine with the economic expansion approaching the longest timespan ever in recorded history. Airlines were making very respectable profits – actually raking the highest profits since the beginning of time. Airlines were purchasing aircraft at unprecedented levels – hence, deliveries of seats were the highest ever and backlogs were in the stratosphere. Anybody interested in adding capacity could order new deliveries but would have to wait for more than a decade.

The cyclicity of the industry, well documented throughout its history, seemed to be suspended and no longer relevant. Average annual traffic growth for the decade 2009-18 was 6.2%, well above the optimistic forecasts published by manufacturers for years of below 5%. Everything was indeed awesome for the industry and it appeared that the cyclicity we all dreaded seemed to have been replaced with a new, much happier reality.

Not everybody bought in to the idea that life had transformed dramatically and from now on everything would continue being awesome. The evidence though was very compelling. Everything was indeed awesome. Looking at the value of aircraft deliveries, it was obvious that things were different. Historical patterns showed that from the beginning of the jet era we have experienced cycles of seven to 10 years, including both the up and down part of the cycle. From 2004 to 2018, we witnessed a 14-year period of continuous growth with no sign of a downward part coming.

Some people, including yours truly, were concerned by certain factors. The tremendous growth was accompanied by clouds on the horizon. Part of the growth was coming from new players in the market in the Middle East and in China. There was nothing negative about this but worrying nonetheless because they did not appear to be driven by a pure profit motive and standard economic analysis but rather by government desire to develop the aviation leasing sector.



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Also, there were anecdotal stories from traditional lessors and airlines bemoaning the unreasonably low yields and their own inability to compete. I heard from many significant players that they could not understand how some airlines could make money with the existing ticket prices and from lessors the same with existing yields. There was speculation that there were simply too many aircraft produced, which then had to be leased out at very low rates and utilised by airlines using the added capacity to increase traffic via low ticket prices.

Some adjustments are already happening. The Middle East carriers are restructuring their fleets, replacing existing equipment

with smaller units. A number of lessors were sold or are on the market. There are indications that some lessors, including the Chinese ones, are drastically reducing their growth. The bubble bursting did not happen as fast as I was predicting, partially because of manufacturing problems with aircraft and engine production. The unfortunate case of the Max grounding also slowed down the anticipated increase in supply and helped airlines retain higher yields than could be expected.

Brian Pearce, the chief economist of the International Air Transport Association stated that “clearly the environment today is very different from that expansion that we worked through over the past 10 years” with passenger traffic growing only marginally and cargo still falling. Airline profitability, which reached historically high levels, is dropping substantially. The US long expansion may enter recession, China is slowing down continuously and Europe may be on the brink of a recession. Trade wars continue, which not only hurts cargo but also passenger traffic. The world is more divided than ever before. In a recent election in Kentucky, the winning candidate won by less than 5,000 out of more than 1.4 million votes showing how polarised society is.

People do not see good options, not just in the USA but worldwide. Israel had two elections in a year and is getting ready for a third because its citizens are evenly split and do not like any choices. A similar situation happened in Bolivia where people seem to be polarised. In the UK, there were no outcomes that a large part of the population would embrace. The times when we voted for leaders who inspired us are gone. Today, the world goes for what is the least bad outcome.

There are dark clouds on the horizon, none conducive to trade, travel and cooperation. I am ready to replace the upbeat song of *Everything is Awesome* with the old classic *The Times They Are A-Changin'* by Nobel prize-winning poet Bob Dylan.

All this, of course, does not mean that aviation is a bad business. All the positives still exist with many good years awaiting us. But right now, indeed, the times they are a-changin'. ▲