

THE FUTURE OF THE AERONAUTICS SECTOR LOOKS BLEAK



becoming a real challenge.

The Covid-19 crisis has brought the growth of the aeronautics sector to a halt. Between the financial difficulties of the airlines and questions about the recovery of international tourism, manufacturers and equipment suppliers are going to have to face what is one of the biggest challenges in their history. A situation so out of the ordinary that establishing stock market scenarios is

What is obvious, however, is the scale and severity of the phenomenon. The industry is going through one of the most severe crises in 20 years, and we are only at the beginning. **It is a much deeper crisis with a much stronger impact than the one we experienced after September 11, 2001.**

Indeed, in a context where airlines are the main contractors for the aeronautics sector and now find themselves at a standstill, order books are practically non-existent. The industry has had to adapt quickly and considerably reduce its wingspan. Aircraft assembly plants are virtually at a standstill. Airlines find themselves in virtual bankruptcy and many are relying on those that can qualify for government aids.

Uncertainty about the Resumption of Traffic

According to the International Air Transport Association (IATA), which represents 290 airlines accounting for 82% of world air traffic, in early April the number of flights worldwide collapsed by 80% compared to the same period in 2019.

In addition, many studies show that recovery will be slow. The sluggishness will affect the enthusiasm of travelers. The fear of the second wave of Covid-19 contamination will also have an impact. According to IATA, 40% of travelers will wait at least six months before taking the plane again. The BCG cabinet, on its side, is counting on a return to normal air traffic which would not take place before the end of the year.

Airlines, on their side, will also potentially be forced to respect social distancing rules, which would require a relatively low aircraft load factor. Moreover, the scenario of a recession raises fears of an even greater impact.

In turn, the uncertainty generated by this crisis will weigh on orders for new aircraft. A study by Archery Strategy Consulting published in early April notes that demand for new aircraft is expected to fall by 40 to 60% over the next five years. Experts expect demand for new aircraft to fall by at least 20%.

Airbus Better Armed than Boeing

The world's two major aircraft manufacturers, Airbus and Boeing, do not have the same assets to recover from this crisis. The two are not entering the crisis with the same weapons. It can be assumed that Airbus will recover more easily than its competitor. It should be remembered that Boeing already had problems before the crisis in the single-aisle segment with its 737 MAX. In

January, Boeing had indicated that the costs related to the flight ban imposed on its 737 MAX were expected to exceed \$18 billion.

Moreover, in a context where single-aisle aircraft are expected to account for the majority of the fleet (60% in 2019), Airbus has a clear advantage (55% market share for Airbus vs. 40% for Boeing in the single-aisle segment). This is due to its portfolio of much better-calibrated products such as the A 220 and especially the A 321 XLR, which is better suited to the demand for medium-sized aircraft from airlines, which are moving away from large aircraft.

The Sector Supported by Military Orders?

Moreover, it should be noted that the shutdown of the civil aviation segment caused by the cessation of airline activity has not signed the shutdown of the defense side of the aeronautics sector.

Recently, Airbus Executive Chairman Guillaume Faury hinted, in an interview with Der Spiegel magazine, that **the European states might well support the group's activity by placing new orders for the defense equipment.** This had an immediate positive effect on the share price on the stock market.

But it is hard to think that, in a context where public spending is already out of control, European countries will be able to completely counterbalance the decline in civilian demand.

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