

# **Crisis – What Crisis? An International Perspective**

## **Airlines Association Of Southern Africa**

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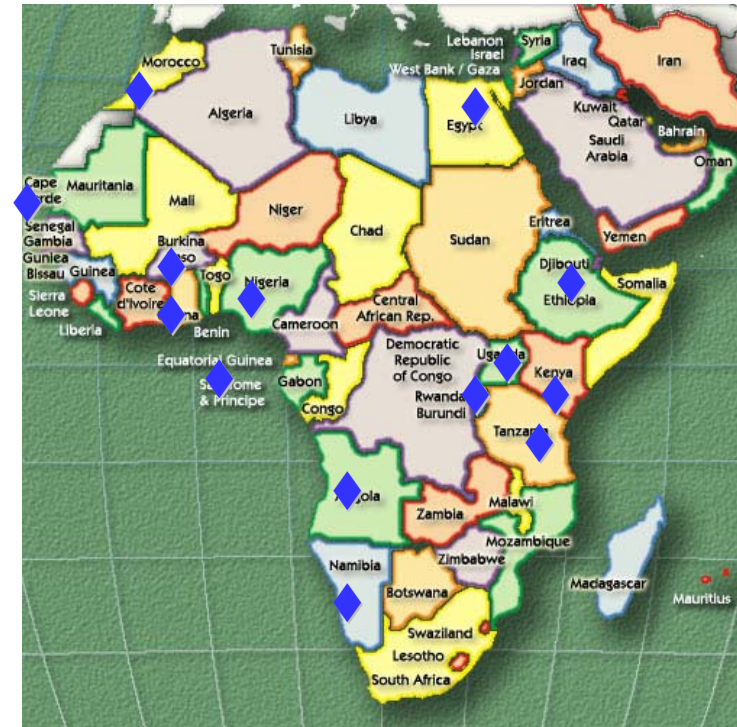




A review of trends  
in the airline and  
commercial jet  
aircraft industries.



- Fourteen countries
- Infrastructure initiatives
  - Airport development
  - Cargo handling
  - ATC
  - Mgt Training
  - Meteorology



## **International Perspective**

- Economic cycle positives
- Risks to standard cycle
- Global Implications

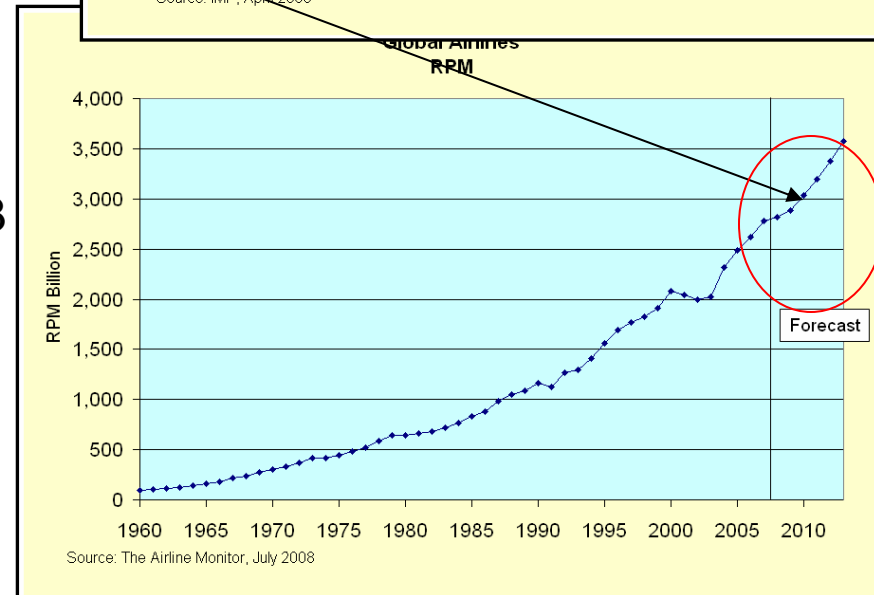
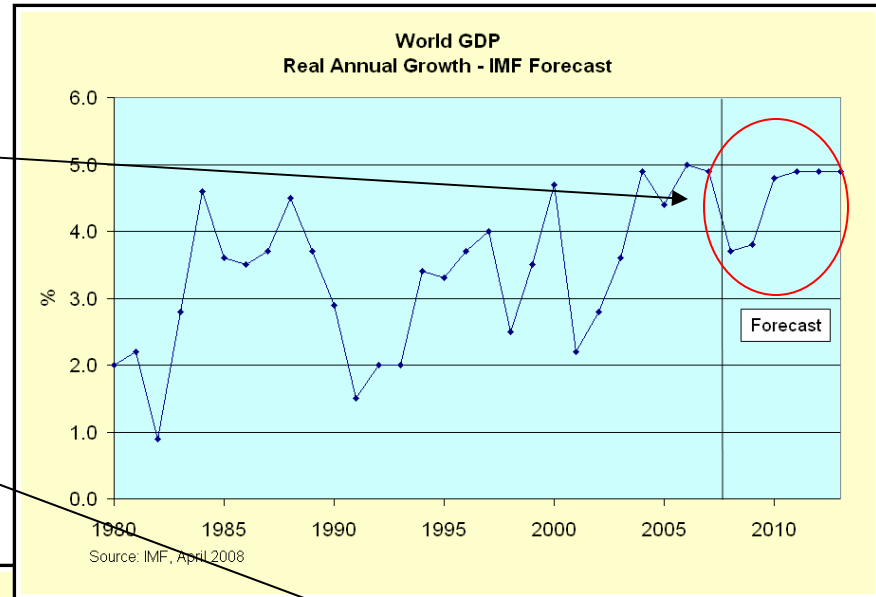
## **Africa Implications**

- Strengths
- Challenges



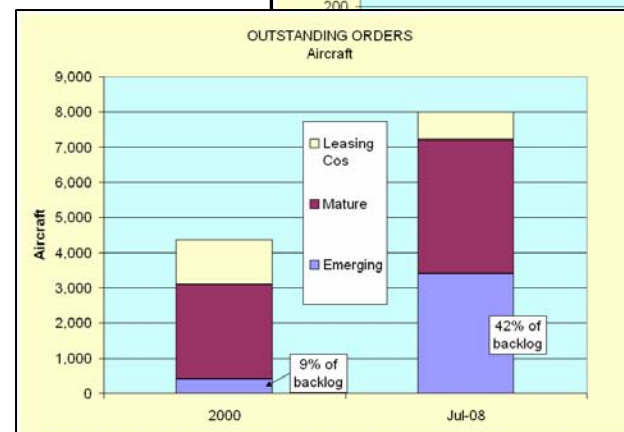
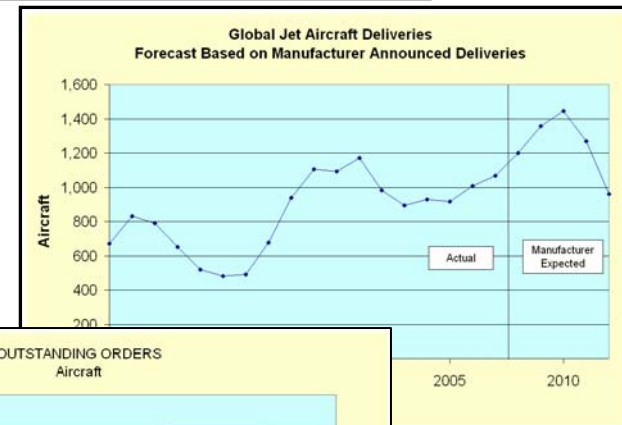
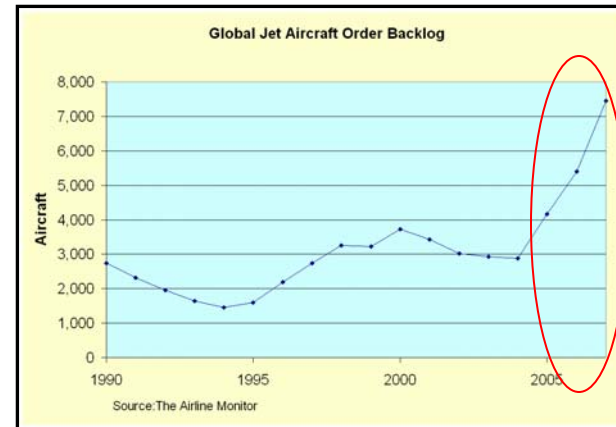
## Positive Fundamentals

- IMF forecasts solid growth (April 2008)
- Post WWII, global economy been resilient & strong
- Solid World economic growth translates to solid RPM growth
  - The Airline Monitor July 2008 forecast
  - Similar to Airbus, Boeing
- Current environment similar to early 1980's rather than 2002/2003
  - Weak economy with high fuel prices
  - Traffic grew



## Positive Fundamentals

- Largest aircraft order book ever
  - “Sold Out” through 2012
- GE Capital dubbed this the “Goldilocks” environment last year
- Record deliveries planned through 2012
- Emerging markets provide geographic balance



## Positive Fundamentals

- Importance of emerging markets
- Growing availability of low cost air transportation opened new routes & stimulated new demand
- Falling oil prices
- Airline losses driven by high fuel prices
- Strong aircraft order backlog & its geographic diversity



## Overview

- Global economy slips into recession
- Oil prices remain high & unstable
- Global financial crisis
- Consumers cut back spending
- Extreme environmental regulation



## Global financial crisis

### Most Serious Crisis in 70 Years

- Pre-September global bank write offs ~ \$500B
- Potential additional write offs \$1 T
- EU institutions affected
- Risk of nations defaulting

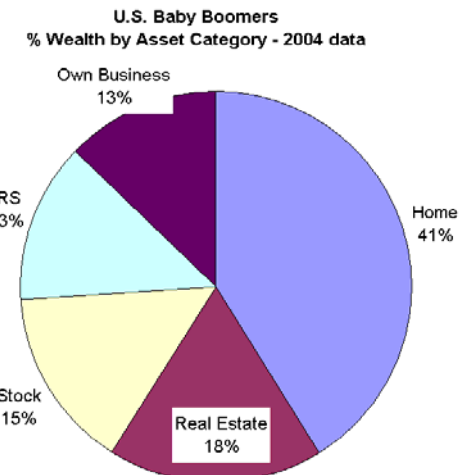
### Credit Conditions

- Global credit markets froze Sep 17.
- US government/Fed is primary source of global liquidity
- Private sector lending largely limited
- Global central banks struggling to contain crisis

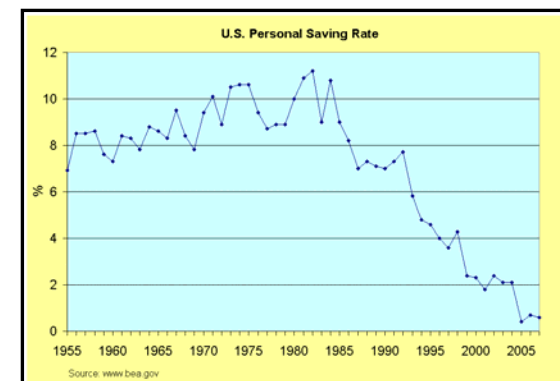


## Consumers cut back spending

- U.S. consumer requires a protracted period to reduce debt & save enough to retire
  - Majority of wealth in home and real estate – now reduced in value by unknown amount
  - Stock markets also hit
  - Health care costs unpredictable
  - Need to save rather than spend
- Global economies are still linked, lower U.S. consumer goods imports impacts global economy
- Result is significant reduction in consumer spending, including air travel

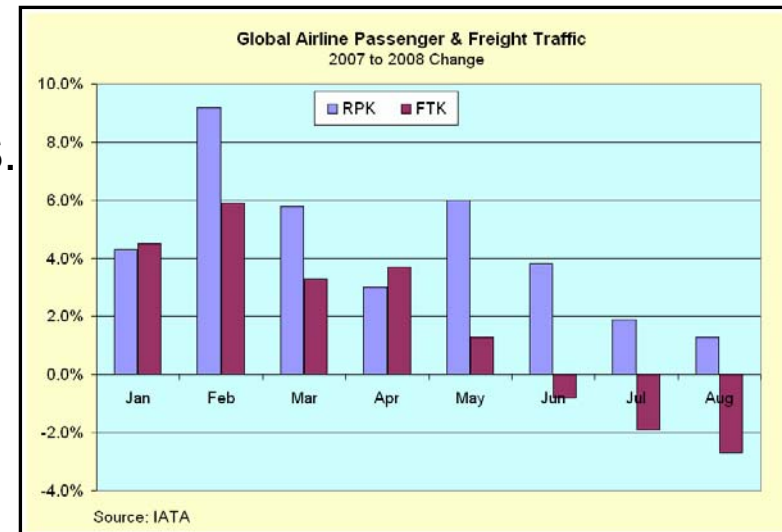


Source: Journal of Monetary Economics, Baby Boomer Retirement Security, Lusadia & Mitc



## Airlines

- Weakening passenger traffic
  - Unprecedented capacity cuts in U.S.
  - Soft demand in India & China
  - Weaker business class
- Cargo declines June - August
- Credit markets largely closed



## Manufacturers

- Reassign order slots
- Airbus & Boeing evaluating production plans
- Credit markets largely closed



## Airlines

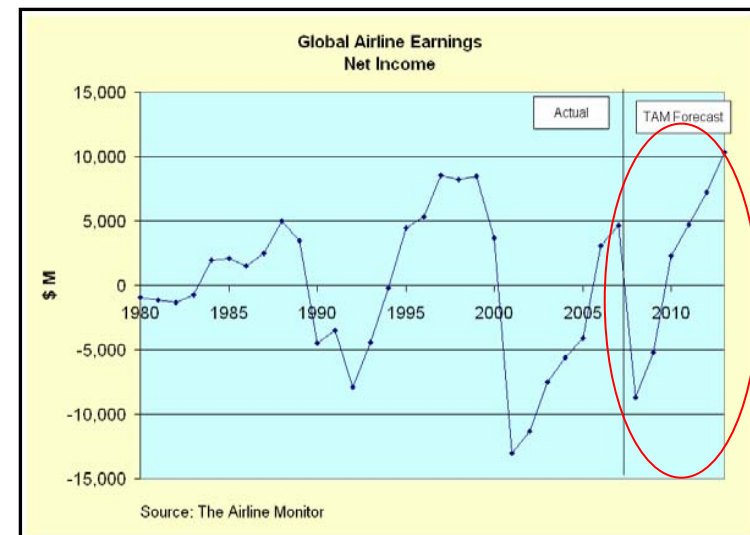
- Losses deepen – but falling oil prices could help
- Liquidity strained by losses & aircraft deliveries
- Growing list of bankruptcies & liquidations
- LCC influence reduced
- Growth plans scrapped to match evolving reality

## Manufacturers

- Aircraft demand falls as “firm” orders evaporate
- Aircraft surplus grows & lease rates fall
- Leasing companies unable to provide meaningful cushion
- Financing limited to ECAs & manufacturers

## Airline losses are a concern

- **The Airline Monitor** July forecast :
  - Fuel cost driven losses 2008/9
  - Recovery 2010 & beyond
  - Oil ~ \$100 bbl assumed
  - **Key assumption - no global recession**



## Safe Haven in Global Storm?

- Regional traffic resilient
  - Intra Africa market potential growth
- Economies strong
  - Solid resource-driven growth
- Unique ability to grow during crisis
- Growing regional cooperation on regulatory needs & infrastructure improvements
  - e.g. EAC, UEMOA
  - Able to adopt latest technologies
- Improving investment climate
  - Increasing deregulation
  - Local investors
  - Foreign investors
- Limited aircraft order backlog

## Challenges

- Strong global competition on intercontinental routes
- Loss of human capital
- Need to adjust quickly to uncertain future
- Capital availability



## Africa may be a safe haven this time

- Global problems provide opportunities for Africa
- Weak global economies reduce fuel prices
- Use soft aircraft prices and lease rates to lock in good deals
- Work with trusted advisors to acquire critical management skills
- Work with governments to be protected if global problems worsen.



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