



**The
Airline Monitor**

Navigating From Turbulent Times To Clearer Skies

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Who We Are

The Airline Monitor

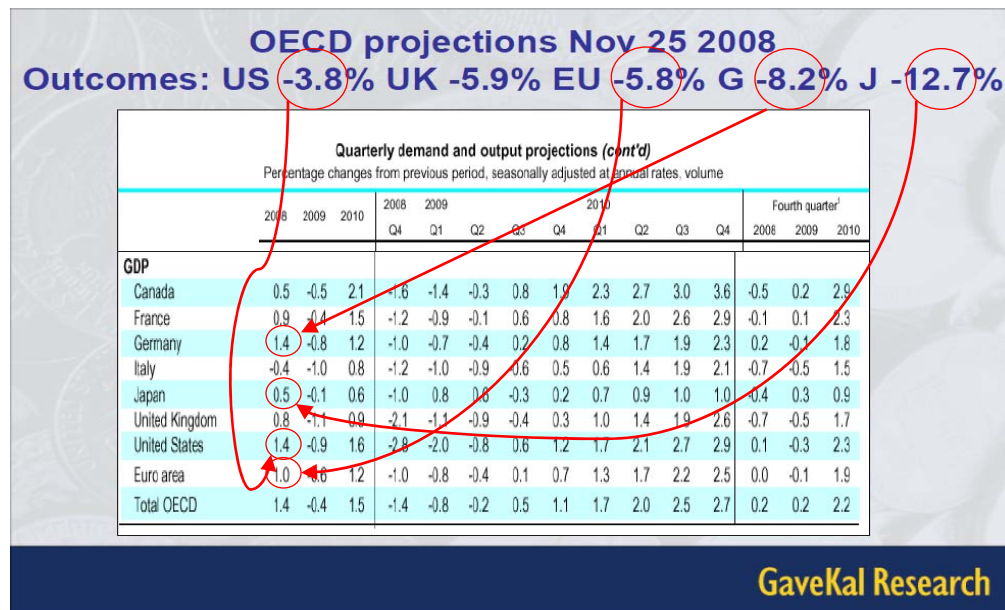
- **ACA Associates, Inc.** is the new name for Airline Capital Associates, an international aviation consulting and financial advisory firm with principal offices in New York City and associates positioned around the United States and overseas.

What we do

- Operational, policy, and financial solutions for airlines, airports, manufacturers, service companies, and government agencies
- Strategic planning
- Economic analysis and demand forecasts for passengers, air cargo, and commercial aircraft and engines.
- ACA's associated monthly publication, **The Airline Monitor**, is widely recognized as the leading independent industry source for forecasting worldwide and regional market trends for airlines and commercial aircraft.

The Airline Monitor

- The financial crisis has expanded into an economic crisis
- World trade is collapsing – Japanese & German exports down 30%-40%
- Economists now forecasting 2009 decline in global GDP – led by Japan, US, and Europe
- History is no guide – we are in uncharted territory



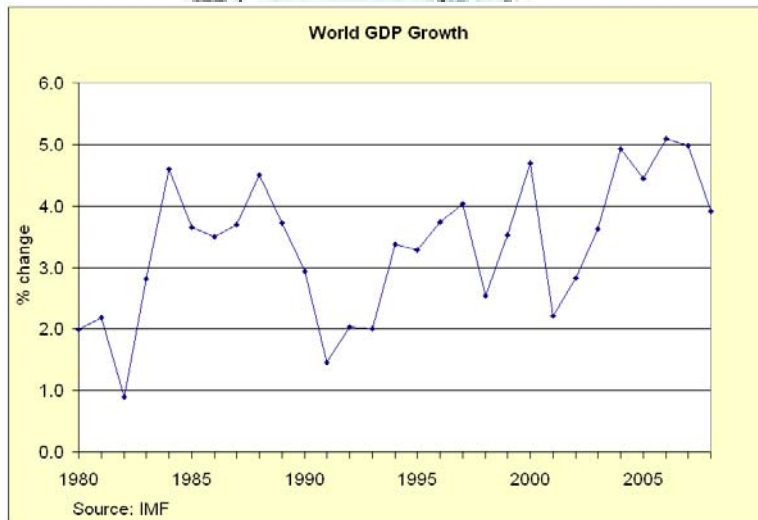
The Airline Monitor

American Consumption



Fueled by

- Chinese savings
- “Hot Air” financial engineering



Real World

- U.S. consumers happy
 - They enjoyed what they could not afford
- Emerging market production workers happy
 - Record #s new jobs created
- Emerging market commodities suppliers happy
 - Record prices for oil, steel, gold



Financial World

- Asset inflation supports higher leverage
 - Bigger deals, larger fees, huge profits
- Stock prices reach record highs

Aviation World

- Manufacturers happy
 - Record aircraft order backlogs
- Air carriers happy
 - Record passengers

Global Trade

- Foundation for global growth

Everyone Benefitted - The Good Times Last

- **Politicians**
 - Balanced budgets old think
 - Let lower skilled jobs flow to emerging markets
 - “Chimerica” is the future
 - Good times will last forever
- **Industrialists**
 - Shift manufacturing to emerging markets
 - Focus on financial engineering
 - Rising stock markets & plenty of options made them rich
- **Bankers**
 - Credit risk an asset, not something to be avoided
 - Derivatives are the future
 - Masters of the Universe came into their own
- **Electorate**
 - Lived for today



Denial Clouded Judgment

- Eight years of systemic and growing deficits
- HBOS failed in 2008
 - Seen as a one-off event
 - Failed to recognize UK real estate bubble
- Oil hits \$150 per barrel summer 2008
- DJIA peaked October 2007
- Sub-prime mortgage defaults
 - Failed to recognize systemic problem

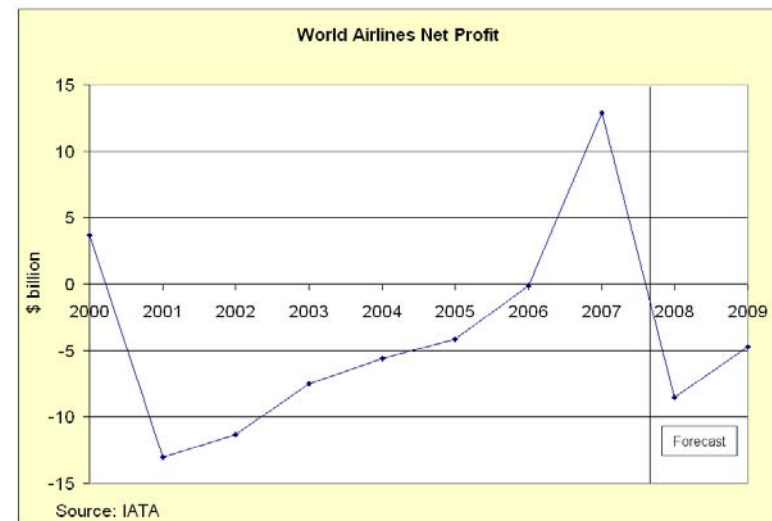
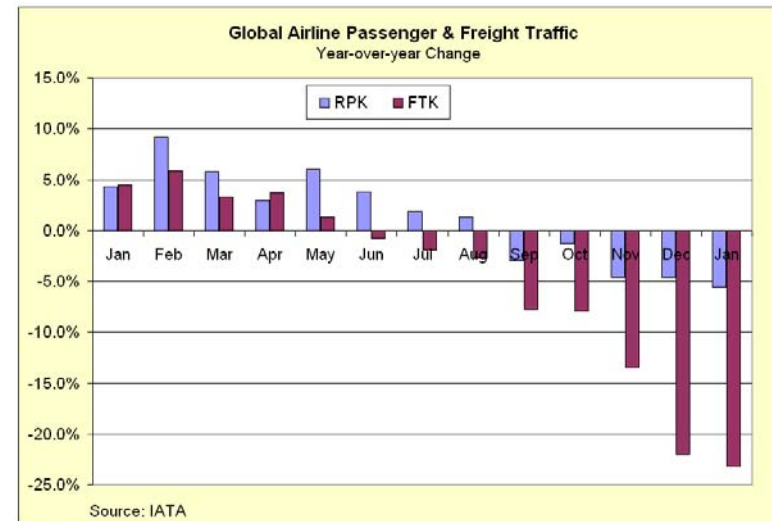


- Global banking froze Sept 18, 2008
- Cash is king
- Credit ratings meaningless
 - AIG, Citibank, Fannie Mae, etc. all rated high investment grades, would have failed without Uncle Sam's support
- U.S. government became the world's banker
- U.S. \$ appreciated 30%
- Global trade fell off a cliff



The Fall From Grace

- Limited impact on global economy until 4th Qtr. 2008
- Weakening passenger traffic from mid year
 - Middle East only growth region
 - Unprecedented capacity cuts in U.S. may limit earnings impact here
 - Sharp premium class decline impacts profitability
- Extraordinary cargo declines
- IATA (Mar 09) forecast net loss \$4.7 billion for 2009 (follows loss of \$8.5 billion for 2008)
 - Revenue down 12%
 - Cargo traffic down 13%, passenger down 5.7%



- Manufacturers in denial
 - Record backlog
 - Record production

- Airlines
 - 2008 swing from record profits to huge loss
 - Hope that “low” fuel prices will offset decline in demand
 - Unprecedented cuts in U.S. domestic capacity
 - European, Mid East, and Asian Airlines reacting with growing concern
 - Record 2009 deliveries committed

- Leasing Companies
 - Access to credit problems like everyone else

The Big Issue - Duration of the Decline

One to Two Years

Alliances Strengthened

- Leadership shifts to financially strongest airlines
- Serious efforts made to realize benefits
- Anti-trust immunities broadened

Capacity Reduced

- Aircraft grounded
- More bankruptcies
- Some acquisitions

Three to Five Years

Airline Nationalizations

- Growing re-regulation
- Focus on jobs
- Politics trumps economics

Alliances

- Role less clear

Global Trade

- Increased political constraints

To Clearer Skies?