



# ANALYST VIEWPOINT

**FEBRUARY 2010**

## **BOEING MARKET OUTLOOK A REVIEW OF 2009 AND A LOOK TO THE FUTURE**

**RANDY TINSETH, VICE PRESIDENT, MARKETING  
BOEING COMMERCIAL AIRPLANES**

### **The experience of 2009**

Without question, 2009 was one of the most challenging years our industry has ever seen. The world economy was in a deep recession, passenger and cargo traffic were in decline, yields were weak, fuel prices high and volatile, and as a result, the world's airlines lost an estimated \$11 billion.

At the same time, the world's aircraft manufacturers delivered more than 1,000 new jet aircraft including 481 from Boeing Commercial Airplanes (BCA). In fact, Boeing had record deliveries for the Next-Generation 737 and the 777, with 372 and 88 airplanes respectively.

Many have been surprised by our ability to deliver so many aircraft in such a challenging time. In our opinion, we were able to deliver so many aircraft due to 1) good planning and 2) robust demand worldwide.

There is no question that aircraft production has, historically, experienced cyclical swings. This has not benefited airplane manufacturers or our customers. During the last downturn, we took a thoughtful and measured approach in setting our production rates. With the Lean-based, Boeing Production System, Boeing Commercial Airplanes neither ramps up nor decreases production too aggressively. This measured approach enables airplane programs to maintain a more consistent rate of production, allowing us to better balance demand with long-term stability within our industry. Managing the dynamics of our production skyline is another key part of our planning process.

Diversification of airplane placement in our production skyline -- by geographic region, airline business model and airplane model -- is a deliberate and calculated action inherent in our planning. This helps to maintain steady and consistent production even if particular regions are affected by slumping economies or an exogenous shock. It also allows Boeing to more effectively work with our customers if they wish to adjust their build schedule. This is vital, considering that production slots are sold out well into 2011, with more than 3,000 airplanes in backlog.

Demand, especially for Next-Generation 737, was robust in 2009 and remains strong as we begin to move into the next upturn. For example, airlines continued to replace older less fuel efficient aircraft such as MD-80s with 737s. We also saw Low Cost Carriers (LCCs) continue to grow during the down cycle. And, finally, airlines in emerging markets thrived by serving the growing air transportation requirements of regions with large populations and fast growing economies.

## 2010 and Beyond

Now that 2010 is well underway, we look forward, as an industry, to better times ahead. Boeing Commercial Airplanes believes the economic downturn has hit bottom and recovery has begun. However, recovery is a relative term. In reality, many airlines have yet to feel recovery by any tangible measure. However, there is reason for optimism. Through prudent and responsible management, BCA and carriers worldwide continue to adapt to the realities of the market and prepare for recovery.

Recognizing the challenges of the market, we plan to deliver between 460 and 465 aircraft in 2010. While 737 production will be unchanged, we are reducing production rates on the 777 in June and previous rate increases for the 767 and 747 have been delayed. These rate adjustments reflect the current weakness in the cargo market and long haul travel.

As the recovery gains momentum, we expect:

- The economy to strengthen through the year and return to long-term growth rates by 2011
- 2010 passenger traffic will grow about 5% and Cargo growing close to 8%
- In 2011, airlines should return to profitability
- 2012 as a year of increased demand for new airplanes

It's up to each of us – manufacturers, operators and industry leaders – to take the necessary steps that allow recovery and growth. Airlines have certainly done their part, by taking such tough steps as cutting discretionary costs where possible, and by looking for additional sources of revenue. Of course, the primary tactic for airlines is to adjust for capacity to match demand and improve profitability.

## Air Travel Remains a Growth Industry

We must not forget that this is a growth industry. Boeing forecasts that air travel will grow at 4.9 percent per year over the next two decades. In order to meet this growth, Boeing and the industry continue to invest in new and innovative products and services to meet the demands of the market.

At the same time we prepare for growth, we also have an obligation to be environmentally progressive in our approach. Seventy-five percent of Boeing Commercial Airplanes research and development spending is on projects that benefits environmental performance. Research and investment in innovative technologies to advance airplane economy, environmental performance and the passenger experience led to our development of the Boeing 787 – an airplane that profoundly influences what is expected from airplane manufactures from this point forward.

With the first flight of the 787 Dreamliner in December 2009, Boeing ushered in a new era of efficiency and passenger comfort by which all future aircraft will be measured. Harnessing advancements in aerodynamics, propulsion, composite materials and airplane systems, the 787 has fundamentally changed commercial travel – change at a level that hasn't been seen in air travel since the introduction of the 707. Clearly, due to a series of schedule slides, we have disappointed our customers and ourselves on this program. However, flight testing of the aircraft is going well and the program is on-track to make its first delivery to ANA by years end.

In summary, the market in 2010 will be better than 2009 but still challenging. Long-term, this continues to be a growth industry and better times are ahead. And finally, at Boeing, we continue to invest in products, technologies, and services that will help our customers succeed in any market condition.

***The views expressed in this article are the author's and not necessarily those of IATA.***