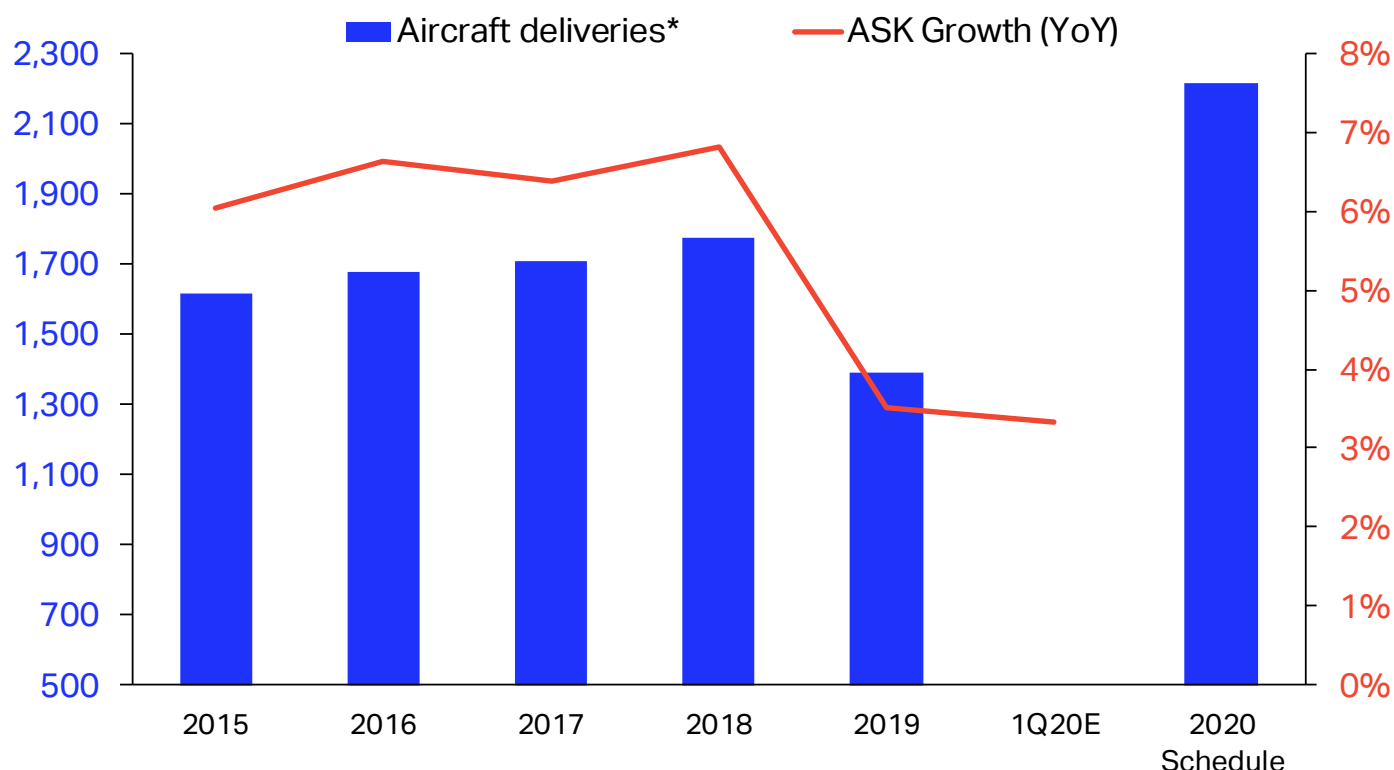


## Heading towards a capacity challenge

### Capacity Development



Source: Ascend, SRS Analyser

\*narrowbody jets, widebody jets, regional jets, regional turboprops

- The grounding of the Boeing 737 MAX fleet contributed to the fall in industry-wide capacity growth (measured by available seat kilometers or ASKs) to 3-4% this year, from 6-7% growth rates in earlier years. Aircraft deliveries scheduled for 2020 are set to reach record levels, as delayed deliveries return. This raises the question whether the scheduled deliveries and return of grounded aircraft will cause overcapacity and put pressure on yields.
- The answer to this question will depend on airlines' response to the spike in capacity on the back of the soft economic backdrop. One option would be to defer some of the planned deliveries. However, it should be noted that the additions to fleet would be close to the level in 2019 only if c. 40% of the scheduled deliveries were to be deferred.
- Another option for airlines would be to park or retire older less efficient aircraft and replace them with new deliveries. However, current relatively low level of oil prices might make this option less attractive for airlines. Historically, annual retirements correspond to 1.3%- 2.3% of the total fleet in service. For 2020, retirements would be expected to increase to the upper-end of this range as Max returns to the fleet. However, even in that case growth of the fleet in service would be double of the growth rate in 2019 according to current estimates.
- The challenge faced by the industry is whether it is feasible to absorb this capacity by retirements and storage at a time when passenger and cargo demand have been slowed by a sluggish global economy.

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