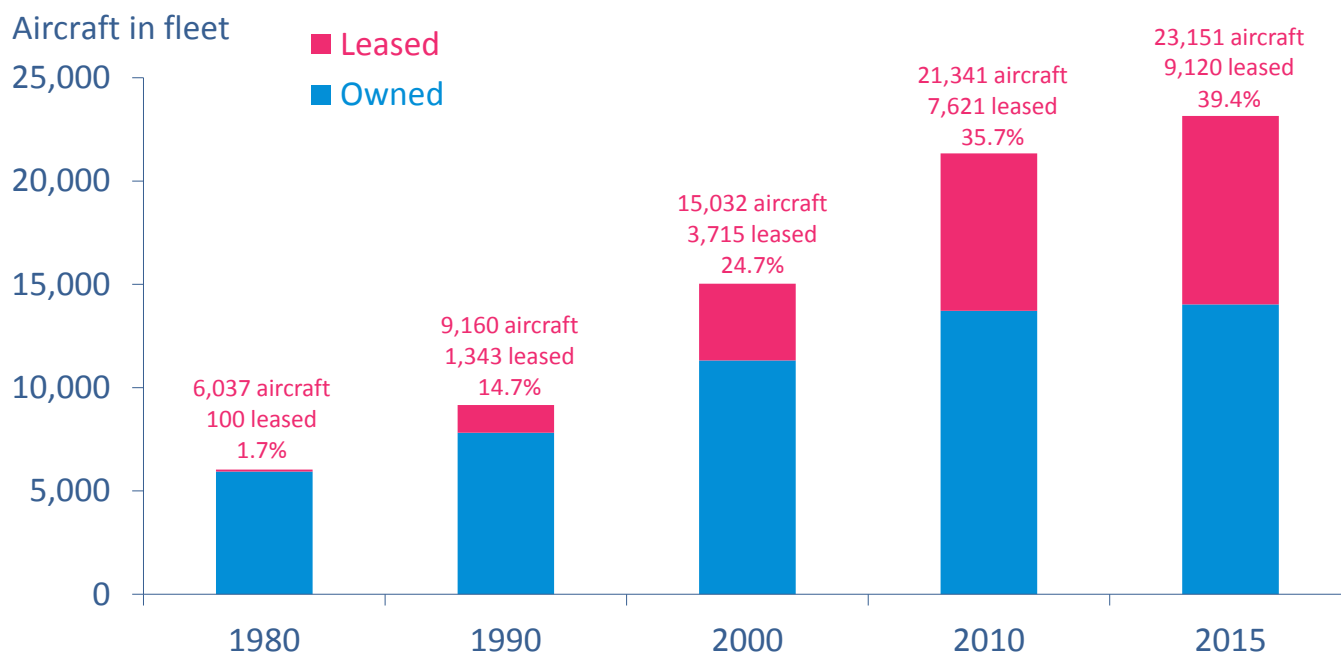




# IATA ECONOMICS' CHART OF THE WEEK

7 OCTOBER 2016

## TO BUY OR NOT TO BUY, THAT IS THE QUESTION...



Source: Boeing, based on Ascend data

- One of the key industry trends over a number of years has been the increase in the proportion of the global aircraft fleet that is being leased rather than owned outright by airlines. This week's chart, based on a graphic prepared by Boeing for IATA's latest annual *Airline Cost Conference*, highlights this trend clearly. From just 100 leased aircraft in 1980 (or less than 2% of the total fleet), there are now more than 9,000 leased aircraft, accounting for around 40% of the worldwide airline fleet today. So what are the key factors that have underpinned this trend?
- The decision to lease or buy is a complex one, impacted by a range of considerations. For example: leasing allows greater flexibility to respond to unanticipated shocks or to renew or upgrade the fleet relatively quickly; it requires a smaller upfront investment; and reduces both operational and residual value risk. Leasing can provide the opportunity for new or small airlines to increase the size of their fleet towards a critical mass, boosting competition and enhancing their odds of survival in a dynamic and fast-paced operating environment. In the case of operating leases, the asset could be carried off-balance sheet which offered various benefits, however the development and forthcoming implementation of IFRS 16 means that this will no longer be the case.
- However, leasing an asset exposes the lessee to fluctuations in the lease rate, applies constraints in terms of the lease conditions and does not confer the same depreciation and taxation advantages. Large buyers can often negotiate more favorable prices and terms to purchase outright rather than lease. And as we noted recently, the range of business models employed in the airline industry may be suited, to a greater or lesser degree, towards either lease or purchase.
- So where to from here? Looking forward, it is unclear how far the share of leased aircraft can go. Current very low global interest rates and a healthy level of industry profits are both factors which support the purchase rather than lease decision. However, the patchy and subdued global economic backdrop, heightened uncertainty regarding the outlook and range of business models and operational strategies mean that the air transport sector is unlikely to turn its back on the aircraft leasing industry any time soon.

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[economics@iata.org](mailto:economics@iata.org)