

New aircraft orders for airlines and leasing companies face tougher financing in 2009

October 22, 2008: 04:09 PM EST

NEW YORK (Associated Press) - Some airlines and aircraft leasing companies may find it hard to get financing to buy aircraft by the beginning of next year, and a number of orders may be canceled or put off, industry executives attending an aviation finance conference said this week.

While many international airlines and leasing companies have credit agreements with banks in place that predate the current credit freeze, others could have trouble getting financing for aircraft purchases as soon as the first quarter of 2009 with lenders more cautious as the global economy sags.

Boeing and Airbus have about 7,000 orders for aircraft on their books from airlines and leasing companies around the world, according to Robert Agnew, president and CEO of the consulting firm Morton Beyer & Agnew. He noted that customers in the Middle East make up about 25 percent of the Boeing and Airbus order books for wide-body jets.

Drawing comparisons with another period of serious downturn for the industry, Agnew said about 20 percent of Boeing and Airbus orders were canceled in 2002, following the 9/11 terrorist attacks.

Beyer and others at the Aviation Finance Summit conference in New York Tuesday suggested that aircraft manufacturers might be willing to finance some orders themselves. On Wednesday, Boeing said it may need to finance some planes next year, but did not specify how many or for whom.

In a recent note to investors, JPMorgan analyst Joseph P. Nadol III said Boeing financed about \$3 billion of aircraft purchases in 2001 and 2002. Nadol said leasing companies and banks, which represent about 60 percent of the aircraft finance market this year, are likely to pull back substantially, resulting in a \$10 billion to \$20 billion funding gap next year for about \$65 billion worth of aircraft scheduled for delivery from Boeing and Airbus.

Klaus Heinemann, chief executive of aircraft leasing company AerCap Holdings NV told the gathering that deliveries of aircraft from Boeing and Airbus will peak in 2009 and 2010, and customers will have to finance those deliveries or cancel orders if they are unable to get financing.

Heinemann said actions by the Fed and central banks in other countries to unfreeze credit markets could be effective. But if not, "This winter will be ugly," he said.

Heinemann said the current strike by machinists against Boeing helped slow orders at a time when cancellations and delays loomed.

"You are going to see the manufacturers deferring order positions. You are going to see some people canceling order positions if they can," said John McMahon, CEO of Genesis Lease Ltd. "What you need to remember is there is an ongoing need to deliver aircraft into the system."

McMahon said airline fleets in emerging markets such as India are only just beginning to expand as the economies of those countries grow, allowing more people to travel by air.

"Fundamentally what you're looking at is a long-term growth track that has extended back over 40 years and is expected to extend out the next 20 years," McMahon said.