

**Dominic Gates**

Farnborough Air Show will likely be heavy on strategy, anxiety



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The U.K.'s Brexit vote has added new uncertainty to an already cloudy industry outlook, but for the aerospace industry's leading players, the show must go on.

All the major players in the international aerospace business have gathered for the Farnborough Air Show outside London, a city gripped by economic uncertainty after the U.K.'s shock vote to leave the European Union.

Nonetheless, the show must go on. The industry faces unanswered questions of its own, apart from the impact of Brexit.

With enormous backlogs of orders racked up by Airbus and Boeing in recent years, many fewer jet sales are expected than at past Air Shows.

What to look for from the Farnborough Air Show

- With Britain's post-Brexit economy drooping and signs of overcapacity in the airline world, there'll be much worried discussion of prospects ahead for the industry.
- Boeing's 737 MAX, now in flight test with first delivery expected next year, will make its Air Show debut.
- Boeing will talk up its proposal for a New Mid-market Aircraft. It's also likely to announce design changes to the smallest of its new airplanes, the MAX 7.
- Not many single-aisle jet orders are expected, but there may be some widebody sales, including a boost for the 747. Boeing really needs new sales of its 787 and 777 models.
- Despite the Brexit gloom, the British Royal Air Force is expected to order nine Boeing P-8 anti-submarine planes.
- Airbus will address its A320neo and A350 production issues this year, and try to reassure that it's solving the problems and can catch up on delayed deliveries.

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Boeing's main sales wish is for some significant new orders for its widebody 787s and 777s, without which its current financial squeeze will get tighter.

Beyond that, the focus this year will be how the two rivals are handling record production ramp-ups and how each is positioned strategically for the decade to come.

Boeing, which is celebrating its 100th birthday during the show, can report [smoothly accelerating production at its Seattle-area factories](#).

On the strategy front, Boeing executives are expected to announce a design shift to at least one slow-selling variant of its newest jet, the 737 MAX. And they'll address what they propose as Boeing's next all-new airplane, for now dubbed the New Mid-market Aircraft or NMA.

Airbus leaders will stake their own claim to strategic advantage, certainly in the market for the new generation of single-aisle jets, where the A320neo has opened up a sales gap of more than 1,300 orders over Boeing's MAX.

Yet they'll also have to address Airbus' production stumbles this year. Delays on both the A320neo and the new A350 widebody-jet programs have left Airbus badly lagging its U.S. rival in jet deliveries.

Roaring jets amid unease

Both jet-makers will enlist dramatic props at Farnborough to bolster their stories.

Boeing's 737 MAX 8, now in flight test, will make its Air Show debut in the daily flying displays. Boeing will also fly a Navy P-8 submarine hunter, an F/A-18 Super Hornet fighter and a 787-9 Dreamliner.

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At Moses Lake recently, Boeing test pilots practiced the near-vertical climb on takeoff that wowed the crowd [last year at the Paris Air Show](#).

But after a [fatal accident by a British military jet at a small air show in Britain last](#)

August, new restrictions on aerial displays mean Boeing's test pilots certainly won't be allowed to repeat the [thrilling touch-and-go they performed at Farnborough two years ago](#) — though [they did fly it again in the safe emptiness of Moses Lake](#).

Rival Airbus will fly its slow-selling yet majestic superjumbo A380, as well as the new A350 jet, which competes with the 787 and the 777.

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Another attraction will be Canadian plane-maker Bombardier flying its new CSeries jet. As aerospace analyst Richard Aboulafia of the Teal Group notes, it's "the first all-new player in this market in many, many decades."

Yet in the air there is also a widespread worry, apparent even before the Brexit vote raised anxiety about the world economy, that the industry could be headed for a cyclical downturn.

Emerging markets that once looked strong are faltering. Troubled Latin American airlines have been deferring orders.

Even the big Gulf airlines seem to have eased off on their breakneck growth, as their home region struggles with the fall in the price of oil.

"The great rush to acquire aircraft appears to be over," industry analyst Ernest Arvai wrote this past week in a report from consulting firm AirInsight.

Citing a slowdown in economic growth, low oil prices and an order bubble, Arvai predicted "a drop-off in demand that will result in more limited growth for narrow-body production and flat production of widebody aircraft in the short term."

He doesn't believe either Airbus or Boeing will reach their announced peak production rates for single-aisle jets of 60 per month on the A320 and 57 per month on the 737.

Dinner with Joe

For Boeing, there is an added financial squeeze.

Last month, industry analyst Noah Poponak of Goldman Sachs issued a note to clients warning that without new demand for the 787, Boeing has no chance of

clients warning that without new demand for the 787, Boeing has no chance of recovering the \$32 billion it has spent on the program and classified as “deferred production costs.”

Poponak wrote that unless Boeing wins substantial new 787 orders, “it will have to take a very large write-down of the 787 deferred production balance — potentially more than half of it.”

Added to this pressure is the fact that as 777 production transitions to the 777X, this cash-cow assembly line will slow down — production is set to dip below 84 jets in 2018, from 100 this year.

It could go lower if Boeing fails to win more orders for the current 777-300ER to bridge the gap until production of the 777X ramps up after 2020.

Randy Tinseth, Boeing vice president of marketing, said the 777 is only 80 to 85 percent sold out for next year. And while Boeing has said it needs 40 to 60 annual sales of current 777s to bridge the gap, so far this year it’s falling short.

With orders for four 777s canceled in June, Boeing has a net order total for the first half of the year of just eight 777s.

“We have to do better than that,” Tinseth said before the Air Show.

At least one bright sales moment for Boeing is almost certain at the Air Show.

The president of Russian air cargo company Volga-Dnepr, Alexey Isaikin, visited Seattle in late May and made a point of having dinner with Joe Sutter, the legendary engineer who led 747 development in the 1960s — still at 95 a willing salesman for the giant airplane he created.

As a result of that trip, Volga Dnepr is likely at Farnborough to firm up part of a commitment announced a year ago at the Paris Air Show for as many as ten 747-8 freighter jets.

Adam Pilarski, senior vice president with industry consulting firm Avitas, said Boeing should also enjoy a positive response to its proposal for a new NMA plane, a 200-260 seat, midrange airplane that would enter service around 2025.

Though it will almost certainly be a twin-aisle airplane, Boeing believes it needs to be much cheaper than the 787, closer to the pricing of its single-aisle jets.

“If you could have new technology for a plane that has the comfort and longer range of a small widebody at a cost similar to what narrowbodies are today, then you have a winner,” Pilarski said.

That’s a very big “if.” But Boeing is projecting optimism for Farnborough.

Airbus teething problems

While for Boeing the sometimes-difficult task of successfully introducing into service its two new airplanes — the MAX and the 777X — still lies ahead, Airbus at least has its new A320neo and A350 jets in production.

But their introduction has been rocky.

Airbus set a target of delivering 50 of the widebody A350s this year, but through June had delivered 12.

And though the first A320neo was delivered to German flag carrier Lufthansa in January, since then Airbus has delivered just seven more.

The net result is that Airbus in the first half of the year delivered 298 commercial airplanes while Boeing delivered 375.

Still, teething problems are typical in new programs.

Pilarski points out that the A350 and the A320neo delivery issues are minor in comparison to Boeing’s experience on the 787.

“They are a little delayed,” Pilarski said, but “compared to what Boeing had, it’s nothing.”

Airbus attributed the A350 holdups to choke points in the supply of interior elements such as seats and lavatories and the A320neo delays to an engine issue.

Barry Eccleston, chief executive of Airbus Americas, said he’s “confident the A320neo ramp-up issue is behind us and, on A350, we still think we have a good shot of doing 50 airplanes this year; that’s still our target.”

In orders, Airbus holds an advantage in the single-aisle market, where the A320neo jet family has 4,583 orders through June, compared to 3,216 orders for

Boeing's rival 737 MAX family.

In the widebody jet market, Boeing is perceived to have an advantage with its 787 and 777X going up against the A350 family.

Looking at the entire jet market, Pilarski said Airbus is "in good shape."

"They outsold Boeing on the neo versus the MAX. As for the A350, they delivered it; they fly it; people like it; it seems to be doing fine," Pilarski said. "Overall, it's 50/50 with Boeing."

Boeing design tweaks

To address the Airbus single-aisle advantage, Boeing is expected at Farnborough to announce some changes to its 737 MAX lineup.

The MAX 8 variant that will fly at the Air Show has sold well. But the two variants yet to fly — the smaller MAX 7 and the larger MAX 9 — have not, and so Boeing has been studying changes to the designs of both.

At Farnborough, Boeing is likely to announce a new plan for the MAX 7 that is a larger version with about 12 extra seats that uses the wing of the larger MAX 8 with a shrunken body.

Mike Delaney, the vice president in charge of new-airplane development, said before the Air Show that Boeing is "working with our customers to see what airplane they really want. We're studying growing it."

Boeing is also considering stretching the MAX 9 to make it bigger, but that's a more substantial engineering change requiring a bigger engine and design changes to the landing gear, so that may come later.

Single-aisle jets

Even as the neo and the MAX are introduced, both jet-makers have big plans to accelerate single-aisle jet production by 2019.

Farnborough attendees will wonder whether the economic gloom that has descended on London since the British vote may stymie that ambition.

The International Air Transport Association, representing the world's airlines, has already projected that the Brexit vote may reduce U.K. air traffic by up to 5 percent by 2020.

Low-cost airlines easyJet and Ryanair — the latter a top Boeing customer — rely on carrying low-budget travelers to European destinations from the U.K. and could see that traffic fall with the decline of the British pound.

Analyst Aboulafia warns that any broader retrenchment in free trade — consider a Trump presidency — would have deeply negative implications for the aviation industry’s global sales reach and international supply chain.

“This is an industry predicated on globalization,” Aboulafia said. “Any trend toward economic nationalism is not good.”

Dominic Gates: 206-464-2963 or dgates@seattletimes.com

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