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Leasing most important form of finance: CIT research report

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Airline executives believe operating leasing remains the most important form of financing, according to an exclusive global aerospace study released today by operating lessor, CIT Aerospace.

The research report, prepared in association with Forbes Insights, gathered the views of more than 130 senior airline executives from around the world with fleets of 25 or more jet aircraft. The survey took place during November and December 2010.

Fifty-four percent (54%) of survey respondents indicated that more than half of their fleets are leased, and respondents expect this to remain fairly consistent over the next five years.

The research also indicates airline executive continue to express concern about rising fuel costs, yet despite these concerns, many continue to take a wait-and-see approach towards new aircraft technology.

"Faced with fierce competition and steep fuel prices, airline executives are taking a close look at how they operate," says Jeffrey Knittel, president of transportation finance at CIT. "In response, airlines are optimising their fleets, looking for cost savings, exploring new forms of revenue growth, considering mergers and strategic alliances, and focusing on the business traveller."

The research also indicates growth in mergers & acquisitions and other forms of consolidation are being set in motion by a need to optimise costs and capacity.

A significant majority (81%) of airline executives expect to see consolidation significantly increase (14%) or increase (67%) in the next five years. This will be driven by marketing synergies through more routes and a stronger brand (54%), the need to optimize labour efficiency and cost (43%) and opportunities to optimise fleet capacity (42%).

Regional consolidation is expected to be most prevalent (30%), followed by alliance (25%), global (24%) and emerging markets (21%).

Emerging markets promise the greatest opportunity for growth, according to the research. More than half (55%) of carriers in emerging markets-such as China, India, Russia and Latin America-increased their fleet size, their number of routes and their number of flights over the past two years and present areas of growth going forward.

When it comes to fleet building, regulatory concerns are an issue for airline executives. Sixty-two percent (62%) of respondents are extremely (21%) or very concerned (41%) about current or anticipated regulations to curb carbon emissions. As a result, 83% of respondents said their companies are likely to acquire or lease "energy efficient aircraft" in the next five years.

Business travellers remain the main source for revenue growth: Going forward, airlines expect revenue growth to come from a range of sources.

Over the next two years business travellers will be the most likely source (40%), followed by increased international traffic (38%), ancillary revenues (36%) and fare increases (32%). Nearly four in ten airlines now charge passengers for food (41%) and their first checked bag (38%) - though this trend is significantly more common among U.S. carriers (75%) than among European carriers (17%) and other regions (19%).