

C. Jeffrey Knittel, President
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Commercial Aviation Industry Outlook

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Q: As one of the top aircraft lessors in the market, what do you consider before acquiring aircraft?

A: We’re looking for fuel efficient and technologically advanced aircraft that will deliver operational flexibility to our customers. Our experience has been that aircraft that are attractive to a broad customer base and that have good operating economics prove to be the aircraft with the best returns.

Q: How important is it to have a young fleet?

A: Airlines like younger aircraft—the average age of our fleet is six years—and we find it easier to place these newer, more fuel efficient aircraft and to keep them on lease. Over the years, we’ve developed an efficient and effective new aircraft acquisition and leasing platform. This helps us manage our business better by providing us with a strong order book rather than relying entirely on the secondary market for our growth.

Recently, we placed orders for 38 new Boeing 737 Next-Generation (NG) family aircraft, 50 Airbus A320 NEOs, and up to 30 Embraer 190 and/or Embraer 195 jets. We expect that current operators of these aircraft will be strong customers given their superior economics and great operating performance. Ideally we’d like to see the aircraft distributed evenly around the world.

We’ve also been able to keep the average age of our fleet down by selling our older aircraft. For example, in 2010 we sold almost as many aircraft as we acquired.

Q: Your Aerospace Outlook study indicated that emerging markets have the greatest opportunity for growth. How are you capitalizing on this opportunity?

A: We’ve been committed to emerging markets for quite some time. Since 2005, we’ve nearly doubled the number of aircraft in the emerging market regions. In addition to aircraft leasing, we’re also pursuing opportunities to work with partners in these markets on aircraft finance structures that optimize regional benefits.

Q: How do you view the Bombardier C Series and the COMAC (Commercial Aircraft Corporation of China) 919?

A: We believe these aircraft and their variants could have the characteristics and backing needed to make them successful in the future. Boeing estimates that there will be a requirement for 23,370 narrowbody aircraft—including 3,550 in China alone—over the next 20 years to accommodate growth and replacement.¹ So I believe there is likely to be plenty of room for other manufacturers in the narrowbody space.

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Q: What's your viewpoint on the Latin American market?

A: We've been impressed with the development of the airline industry in Latin America over the past several years and view the growth opportunities in this market to be promising. We have aircraft leased to 12 airlines in Latin America and expect to deploy additional aircraft in the region later this year. Carriers in the region are recognized as some of the best in the world and we're pleased that many of them are our customers.

Q: What's your view of the future of the Low Cost Carrier (LCC) model and how will the sector's evolution affect lessors?

A: We think the LCC model will continue to evolve into a more ancillary revenue model. Most LCCs operate on short hauls and generate a lot of passengers per aircraft per day. With lots of short haul passengers, airlines can sell an array of unbundled services to a much larger pool of potential passengers than long haul operators.

Similar to full service carriers, the sector will always be looking for ways to conserve capital, and this really is where lessors bring real value to airlines.

Q: In light of Airbus's launch of the A320neo and Boeing's announcement of the 737 MAX, what impact will this have on current aircraft values?

A: The interest in the current A320 and 737NG fleets remain strong. Since Airbus launched the A320neo last year, they've had quite a bit of success with their sales efforts resulting in large orders for the aircraft, and we are seeing the same level of interest for the 737 MAX. However, these new aircraft won't be available in substantial numbers until the end of the decade and continued traffic growth will need to be accommodated by current standard models.

Q: What's your outlook for the commercial aviation industry in 2012?

A: Generally, we see the market improving. While in recent months, fuel prices have moderated, we expect that they will continue rising over the long-term, and fuel efficient, technologically advanced aircraft will continue to be a key driver of airline growth.

So far, the European sovereign debt crisis does not appear to be significantly affecting overall passenger traffic in Europe, although we've heard of some weakness in internal traffic of the most affected countries. We expect this to remain the same in 2012.

While events in North Africa and global economic conditions are exerting a level of uncertainty, and we may see some short-term effects, we don't expect these events to have a major effect on core economic growth and resulting air traffic and demand over the long-term. And while the industry will continue to be influenced by market-driven events, it will manage through these inflection points as it has in the past.



C. Jeffrey Knittel is President of **Transportation Finance** at CIT. He is responsible for the management of four groups: Commercial Airlines; Business Aircraft; Leveraged Finance, Transportation (collectively CIT Aerospace); and CIT Rail. CIT Aerospace provides financing solutions to a broad spectrum of the global aerospace value chain, ranging from operators of commercial and business aircraft to manufacturers and suppliers in the aerospace and defense industries, as well as financial institutions. CIT owns or finances a fleet of approximately 300 commercial aircraft.

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