



CIT 5 MINUTE CAPITAL PODCAST SERIES

EPISODE SEVEN: Rising Fuel Costs and the Impact on Airlines

with Anthony Diaz, Executive Vice President of CIT Aerospace, Commercial Airlines

Elliott Forrest: Welcome to Five Minute Capital, CIT's executive insight series which takes on financial issues in about five minutes. Today's episode, we'll be talking with Anthony Diaz, Executive Vice President of CIT Aerospace, Commercial Airlines. Thank you so much for joining me.

Anthony Diaz: Thank you very much. Appreciate being here.

Elliott Forrest: I guess the big issue is rising fuel costs. How is that affecting the commercial airline industry?

Anthony Diaz: Fuel certainly is the number one issue out there today. It's affecting the airlines directly given the price of aviation fuel and it's also affecting the airlines because it's hurting the consumers as well. So the consumer is spending more money putting gas in their tank and less money to fly, to pay for airline tickets. So, you have, in the United States, for example, you have American Airlines said they're cutting capacity by 20 percent. Continental, United - similar numbers. So I think the number one result of the high price of fuel is you're going to have less flights to less cities and eventually that is going to translate into higher fares for the consumer.

Elliott Forrest: Are you surprised by this? Did you see oil going so high and the effect on the airline industry?

Anthony Diaz: Well, obviously oil has been trending higher. I think where the surprise is, is that it's doubled in a relatively short period of time. If you asked two years ago, "Could airlines survive with oil at \$80 a barrel?" The answer was probably, "Oh, no way." But they were able to make adjustments, make their fleets more fuel-efficient and the like, and they actually could survive in that \$60 to \$80 a barrel [range]. But fuel spiked, it's close to \$140 a barrel now and that has really put a crimp on the airlines. There are some airplanes that even at full capacity the airlines can't charge enough to make money.

Elliott Forrest: I could see it going either way - that airlines are either wanting smaller airplanes because they might be more fuel efficient or they might be wanting bigger ones because you can carry more people. Which way are we going?

Anthony Diaz: Yeah, and that's a good question because it really depends on the airline and it depends on their business strategy. I think what you're going to see is the smaller, like the 50 seat regional airplanes - they really are getting just too expensive to operate. You can't carry enough people and charge enough to make those aircraft efficient. So there is going to be a trend toward larger aircraft. Having said that, you can only put larger airplanes on routes where you can fill them. You go back to the A380 today, which is the largest commercial aircraft - and the 747 was for years the largest aircraft. There's not an airplane around that will make money faster than a 747, and presumably an A380, if it's full. But, conversely there's not an airplane around that will lose money faster than a 747 or an A380 if it's empty. So, the airlines have to be very, very careful which routes they put these aircraft and make sure they have the right number.

Elliott Forrest: Let's talk about niche airlines. Some of them have worked and some of them have not. What's the formula?

Anthony Diaz: A lot of airlines, obviously, have tried to attack a certain niche - you've had airlines, for example, all business air between New York and London, or New York and Paris. That hasn't worked out so much. You've had recent failures with Max Jet, and Silver Air and Eos. Part of that is it's so difficult to go head-to-head with British Airways and Air France because they have a very good premium product already. We do have a customer down in Miami called Miami Air. We've been doing business with them for ten years. They've been very, very successful. They're a small airline, they operate a fuel-efficient fleet. They stay below the radar. They do charters for sports teams, they fly cruise ship passengers in and out of Florida, they'll do military charters. So they stick to their niche, they don't try to go head to head, for example, in scheduled service against American Airlines. So, if you can get a niche that is successful and stick to it, then you have an opportunity to be successful. We often see airlines that try to emulate Southwest. Southwest is probably the most successful niche airline out there. They've been profitable every quarter for the last 20 years. They just stick to a very simple formula - high frequency, low fares, really no frills. No meals, no movies and because they keep their cost low, they're able to charge low fares.

Elliott Forrest: The Farnborough air show is coming up. For a lot of people, it's just a time to ooh and ah as the planes go by overhead. What does it mean to you?

Anthony Diaz: It's really the one opportunity for all the manufacturers - the commercial and the defence manufacturers - to come, they have their booths and chalets and bring their products, their flight demonstrations and the like - and really what makes it valuable for a lessor like ourselves is it brings all our customers into the same part of the world for about a week and we have multiple meetings with both the manufacturers and the airlines themselves. Normally, you'll see a lot of new aircraft

orders that are announced at the air show. And what will be interesting this year, I think, is given the price of fuel – we talked about earlier how that has impacted this industry so much - it will be interesting to see if there are a lot of new aircraft orders. If the growth that we've seen over the last two or three years continues, or whether the airlines are going to pull back some.

Elliott Forrest: Anthony Diaz, Executive Vice President of CIT Aerospace, Commercial Airlines, thanks for spending some time with us today

Anthony Diaz: Thank you.

Elliott Forrest: And thank you for listening to Five Minute Capital. Please log on to fiveminutecapital.com for more. I'm Elliott Forrest. This has been a production of CIT. Capital Redefined.