



# GROUND SUPPORT EQUIPMENT

## CURRENT TRENDS

- Cargo remains a strong business for airlines in 2021 with the rebounding economy and restocking demand driving an increase in the world trade share with 13.1% growth in cargo tonne kilometers (CTK) over 2020.
- Industry analysts expect airline operating revenues to increase by 23% in 2021; however, this represents only 55% of 2019 revenues.
- The overall U.S. market for new and used ground support equipment is still weak with little activity because of the airline industry's slow recovery from the COVID-19 pandemic.
- The global economic recovery and early bookings for the period from June to July are raising hope for future travel demand despite a resurging pandemic and the uneven pace of vaccine rollout in some regions.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## GORDON BROTHERS BY THE NUMBERS

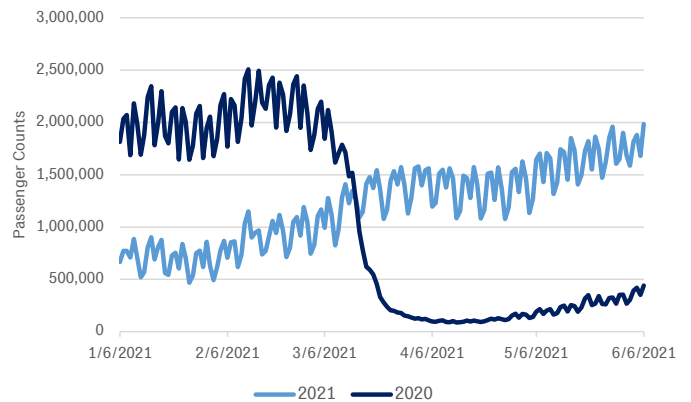
**\$9B**

aerospace and related assets appraised & disposed

**300+**

aerospace and related industry appraisals completed

## TRANSPORTATION SECURITY ADMINISTRATION CHECKPOINT TRAVELER COUNTS (2020-2021)



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**GROUND SUPPORT EQUIPMENT KEY DRIVERS:** The ground support equipment industry's key drivers are typically tied to the airline industry's recovery and performance, and to the factors affecting the airline industry both domestically and internationally. When the airline industry's health is poor, the ground support industry experiences lack of demand and decrease in new and used equipment sales.

However, there is some speculation the ground support market will rebound at a slower rate than the airline industry as a whole, and values for both new and used equipment will remain depressed for a longer period of time. Corresponding demand for certain types and ages of equipment used more often may vary by country or region.

**GLOBAL AIRLINE INDUSTRY OUTLOOK:** Financial performance will be more varied, and potentially worse, in 2021, than the International Air Transport Association (IATA) expected in its 2021 forecast published in December 2020. Forecasts have dampened because of difficulties controlling coronavirus variants and slower vaccination rates in some regions. Therefore, IATA forecasts a \$47.7 billion net post-tax loss in 2021, an increase from the December forecast's prediction of a \$38 billion loss and an operating margin of negative 9.4% compared to the negative 7.1% from the December forecast.

International revenue passenger kilometers (RPK) began 2021 at 14% of pre-pandemic levels versus an average of 24% in 2020. Because vaccination rollouts are allowing some European, North American and other markets to open more fully in the second half of the year, the IATA forecasts an increase to 34% of pre-pandemic levels by the end of 2021. However, the 2021 average implies zero international air travel growth over 2020.

Analysts expect domestic RPKs to be more positive because of buoyant economic growth revised up to 5.2% from 4.9%, consumer spending, pent-up demand and lack of travel restrictions within borders. The IATA forecasts a 48% average increase over 2020, which would take domestic RPKs to 96% of pre-pandemic levels by the end of 2021.

This outlook indicates a stronger financial performance for those airlines and regions with large domestic markets. This includes North America, where 66% of RPKs are domestic; Latin America, where 48% are domestic; and the Asia Pacific region, which is 45% domestic. The outlooks for Europe and the Middle East are not as robust, because they operate more international routes; only 11% and 3% of their routes are domestic, respectively.

**DOMESTIC AIR TRAVEL IS DRIVER OF RECOVERY:** Passenger traffic improved in March 2021, but remained below pre-pandemic levels, according to IATA data. Industry-wide RPKs were 67.2% lower, compared to the pre-pandemic level in March 2019. A rebound in domestic travel drove the March improvement, which was only 32.3% lower than March 2019, particularly in China. On the other hand, international travel was more subdued at 87.8% lower than March 2019, due to strict travel restrictions.

Booking levels in May 2021 indicate a domestic recovery stabilization amid a resurging pandemic and uneven pace of vaccine rollout in some regions. Nevertheless, the global economic recovery's strength and early bookings for the period from June to July are raising hope for future travel demand.

The domestic market recovery has relied on the varying pace of vaccinations and levels of lockdown measures. Domestic travel in China was the key reason for an increase in domestic traffic rates after government officials relaxed travel restrictions in February 2021. Among key domestic markets, Russia remained well above pre-pandemic levels as COVID-19 cases stabilized, while the U.S. trended upward in the face of a rapid vaccine rollout. Domestic Australia and Japan have shown steep recovery rates. Conversely, the recovery in Brazil reversed as authorities tightened restrictions amid rising COVID-19 cases and hospitalization rates.

**CARGO BUSINESS IS HEALTHY:** Based on IATA data, the cargo business has been very strong for airlines in 2021. A strong economy and restocking demand are driving an increase in the world trade share with 13.1% growth in CTK over 2020, and 2.8% over 2019, which is outpacing the World Trade Organization's growth forecast. Additionally, analysts expect yields to remain elevated because hold capacity from the wide-body passenger fleet is returning so slowly. Forecasters expect cargo revenues to rise to \$152 billion in 2021 representing one-third of the industry's revenues, compared with pre-pandemic cargo revenues that represented only 10% to 15% of the typical airline business.

Global air cargo volumes reached an all-time high in March 2021 amid an improving macroeconomic economy. Industry-wide CTKs picked up by 4.4% over March 2019, and by 0.4% over February 2021. Although this represents a slower rate of expansion than February 2021, which increased 9.2% over 2019 and 1.8% over January, it marks a robust improvement over 2020 rates.

**SECONDARY MARKET FOR GROUND SUPPORT EQUIPMENT IS WEAK:** Despite a stable market prior to the COVID-19 outbreak, the overall U.S. market for new and used ground support equipment (GSE) continues to be low because of the pandemic and resulting economic crisis. Most commercial airlines parked and idled a majority of their equipment because there was little air travel. Currently, commercial airline companies are in a slow recovery period in which flights and passenger travel are starting to increase but remain well below 2019 pre-pandemic levels.

Despite the cargo business surge in 2021, increased air travel with private airline companies and the beginnings of a recovery for the commercial airline industry, airlines still are underusing ground support equipment. Therefore, levels do not support stability within the GSE industry or the secondary market for used equipment. Further, industry outlook remains uncertain with the ongoing potential for future shutdowns or changes in travel guidelines that could affect supply and demand.

Overall, the market for ground support equipment will remain closely correlated to the airline industry. As travel restrictions and pandemic-related effects begin to fall out of data forecasts, the market will begin a slow rebound, and as capacities and flights continue to increase through 2022, there will be an increase in demand in the ground support equipment market.

However, the lack of demand for ground support equipment will likely continue for some time. While the secondary market may transition from stagnant to busy, values will continue to be depressed. There are too many unknowns to make a more specific forecast.

## The Expert: Kreg Guran



Kreg Guran is an expert in the field of machinery and equipment valuation. He has directed hundreds of commercial and industrial valuation projects across a wide range of industries during his 20+ year career. Prior to joining the firm, he was a senior manager at AccuVal-LiquiTec, which was acquired by Gordon Brothers in 2015. Read his full bio [here](#).



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