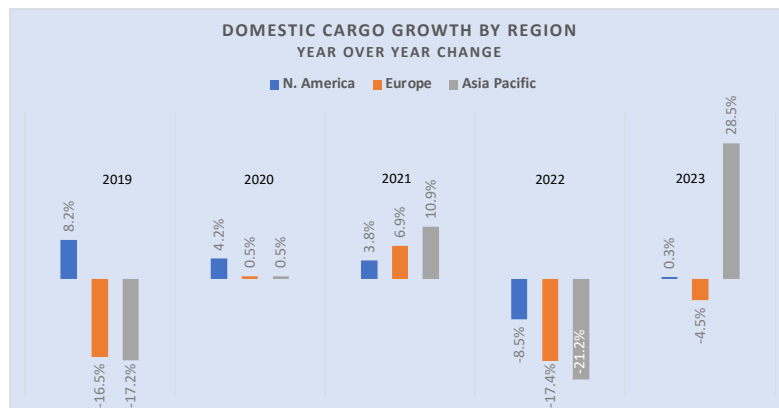


Has the narrowbody freighter conversion market reached a “crunch point”?

As many of you know I have written about this subject several times over the last few years. A recent headline caught my attention. It stated in part – “*Narrowbody conversion redeliveries to reach “crunch point”*”. Without providing the proper context this statement may lead the reader to an erroneous conclusion on the state of the 737-800P2F market.

Let’s start with a few facts

1. Domestic and regional air freight which is the principal market served by narrowbody freighters has, except for Asia/Pacific, experienced modest or negative growth over the last five years as evidenced in the chart below.



2. Over the last four years there have been two hundred and seventeen 737-800 freighter conversions. At the beginning of the pandemic many investors and lessors saw an opportunity in air freight and made the decision to order conversions on-spec. The volume of conversions, many of which ended up going to small start-up operators, far



exceeded demand. The number of 737-800 conversions peaked in 2023 at seventy-two and the fleet has now grown to 238 units.

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3. As we enter 2024, there are 46 737-800PFs in storage (19% of the fleet) with 28 of the stored freighters converted in the previous 12 months. Furthermore, 18 out of 28 of the stored aircraft converted in the last 12 months or 64% have never gone into service and are being stored by the owner.
4. The 2024 outlook for markets served by narrowbody freighters include the UK with 0.25% projected growth, Japan which is in recession and the European zone which is expecting GDP growth of only 0.9%.

Based on these facts it is difficult to understand how “Narrowbody conversion redeliveries” will reach a “crunch point”. The supply of converted 737-800s far outstrips existing demand and it will take time for the market to absorb this excess capacity

The article goes on to say - “the production side of the conversion facilities, they’re sort of curtailing their conversions. They have issues with their supply chain, MROs, and I think the lead times, turnaround times on conversions are exceedingly long.” While conversion facilities are reducing conversions, this is reaction to a lack of new orders and deferrals of existing orders, not supply chain and MROs issues.

If there is in fact a “crunch” in the market it is the lack of feedstock at attractive prices due to a rebound in the passenger demand resulting from the 737 MAX and GTF engine problems. The lack of feedstock could be described as a “crunch”, however given the number of idle narrowbody freighters and limited market demand, this crunch will in fact allow the market to eventually absorb excess capacity while not adding to the surplus of unemployed freighters.

Freighter conversion markets are cyclical, and the pandemic resulted in the latest cycle producing unusually high, but short-term market demand. Conditions are slowly returning to normal, and the excess capacity will eventually be absorbed by which time the companies who made uninformed and risky conversion investments will no longer be active. This leaves the conversion investment space to well capitalized experienced companies with a solid track record.

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Fortune Aviation Services has been providing guidance to investors in the freighter market for more than 25 years. The company has been successful in identifying profitable investments for its clients through economic analysis and thoughtful market forecasts. If you would like to “look before you leap” on a freighter investment, please let us know.

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