



Aerospace industry to rebound modestly in 2010

BY FRANCOIS SHALOM, CANWEST NEWS SERVICE JANUARY 9, 2010

MONTREAL - Gingerly but almost unanimously, aerospace watchers say the industry has more or less stabilized and is headed for a modest recovery this year. A tepid recovery at best, although even tepid is good these days for an industry - small, medium and large firms - still dazed from the sector's freefall for most of the last two years.

All four Montreal mainframers, Bombardier Inc., Bell Helicopter Textron, CAE Inc. and Pratt & Whitney Canada, have been buffeted, cutting production and laying off waves of employees, as have many other, smaller companies. A flurry of airline bankruptcies and mergers, aircraft order cancellations and deferrals, had a cascading effect on sales of regional and business jets, simulators, flight-simulator training, choppers, plane engines and on literally thousands of parts and components made by more than 200 small and medium-sized Montreal aerospace suppliers.

But the consensus is that business is returning little by little to a semblance of normalcy and that the near-term outlook for Montreal's large aerospace industry, while hardly luminous, is definitely perking up.

"I think we're seeing a bottoming-out process," said David Tyerman, an analyst with Toronto's Genuity Capital Markets. "Many indications are looking better, but it's too soon to tell where it's headed." Or when, precisely.

Nor is the industry monolithic. A company's performance can even vary widely internally according to the businesses it's in. CAE's commercial business, for instance, has felt the same turbulence as everyone else as airlines required fewer simulators and less training for their pilots.

But governments are spending massively on military projects as part of their stimulus packages to jolt their economies back to life, boosting companies like CAE, whose military side has been and will keep booming, and which now accounts for about half of the firm's revenues.

CAE spokeswoman Nathalie Bourque expressed the "hope that the civil market will recover soon. But one of the things we're looking at most is the military side. We believe it will have a good year."

Claude Lajeunesse, president of the lobby group Aerospace Industries Association of Canada, urged Ottawa to fast-track five major military programs under the government's so-called Canada First Defence Policy that are in various stages of being handed out: contracts for C130 transport planes from Lockheed Martin, Chinook helicopters from Boeing, fixed-wing search-and-rescue aircraft, patrol planes for Canada's Arctic region and the replacement contract for the CF-18, probably by the U.S. Joint Strike Fighter.

Those carry a value of about \$10 billion over 15 years and would be a huge boost to the industry, said Lajeunesse.

But Montreal companies are overwhelmingly in civil aviation, where things remain shaky. And Tyerman said that while he expects this year to be an improvement, the real recovery likely won't begin in earnest until sometime in 2011.

Of all segments, business aircraft was the most pummelled, clobbering Bombardier and engine-maker Pratt & Whitney most directly.

But even there, things are levelling off as the economy rebounds and returning profits are expected to prod companies to buy corporate jets again, despite the bad press they got during the depth of the crisis.

In its most recent market outlook, Bombardier sounded extremely bullish for the recovery. "The business jet market should continue to experience strong growth over the 2009-2018 period, with . . . deliveries of 11,500 aircraft worth \$256 billion of revenues."

Nancy German of Pratt & Whitney was more subdued - and reticent to make any sort of forecast.

Last year "was a challenging year for the aerospace industry and Pratt & Whitney Canada," she said in an e-mail. "This included making difficult restructuring decisions to align our workforce with customer demand. We continue to monitor the situation."

Raymond Jaworowski of consultant group Forecast International in Newton, Conn., said that Europe's aviation sector appears to be coming out of its economic lethargy ahead of North America, "which is still a little bit sluggish. That will continue as demand until air travel picks up."

And even when it does, there will be a lag between increased travel and an increase in demand for new planes.

"By the end of 2010, we see some pick-up," said Jaworowski. "But it won't be a boom."

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