

Raymond Jaworowski: The Market for Business Jet Aircraft 2011-2019



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Stagnant is the best way to describe the current state of the business jet market. The worst of the current market downturn may be over, but a recovery has yet to take hold. The good news, though, is that the wave of cancellations and deferrals appears to be over and manufacturers have some breathing space with which to consolidate their market positions and prepare for a recovery. Jets.ru Editor-in-chief Elena Malova interviewed Raymond Jaworowski, Senior Aerospace Analyst of Forecast International on how OEMs can kickstart a recovery.

How do you assess the future of business aviation?

The demand for business aircraft essentially evaporated in late 2008 and early 2009. Not only did new orders dry up, but customers canceled or deferred existing orders. The once healthy order backlogs, accumulated during the boom years, rapidly shrunk in size. Today some market indicators are looking up. The number of aircraft charters is increasing and the used business jet market is stabilizing, both of which are factors that point toward rising sales of new business jets. Nevertheless, the fundamentals of the market remain sound. A considerable latent demand appears to exist for business aircraft. Corporate profits are growing, a key leading indicator of business jet sales. Corporations are sitting on piles of cash, waiting for a more stable economy and a more certain tax and regulatory environment before making major investments and capital expenditures.

What is Forecast International's methodology for making forecasts?

In developing its forecast of the business jet market, Forecast International takes into consideration all relevant market factors and industry data. These include, but are not limited to, the volume of aircraft orders, letters of intent, and other types of purchase commitments; OEM marketing strategies; changes in the business aircraft customer base (geographic and otherwise); historical and planned production rates; trends in aircraft capacity, performance, and operating efficiency; and the inventories of used

aircraft for sale. More generally, general economic trends are studied, including GDP growth and corporate profitability.

Do fractional programs very much influence the business aviation market recovery?

Fractional ownership programs have been one of the main drivers of business aircraft demand in the past 15 years. They have been responsible for much of the growth in the business jet market over the past several years, and they will continue to be an important part of the market. The market downturn, though, is causing changes in the fractional ownership industry. Though the profitability of fractionals has always been somewhat problematic, the fractional model has tended to work best when conditions allow for rapid fleet growth, enabling ever-increasing amounts of revenue to be generated from the sale of aircraft shares. When such conditions are lacking, as they are at the present time, the fractionals are forced to concentrate on making money from the operational side of their business. Improving flight operations, reducing operating costs, and right-sizing aircraft fleets become the main priorities for most fractional operations.

What is Forecast International's forecast for 2011 - 2019?

The Forecast International business jet production forecast indicates that a total of 11,437 business jets will be built from 2010 through 2019. The value of this production is estimated at 7.5 billion in constant 2010 U.S. dollars. Production is expected to total 701 aircraft in 2010, drop to 661 aircraft in 2011, and rise to 789 aircraft in 2012. The production increase in 2012 is expected to mark the start of a gradual, though long-lasting, recovery in build rates that will extend through the rest of the forecast period.

During the forecast timeframe, the top three manufacturers in unit production are expected to be Cessna, Embraer, and Bombardier. Cessna is projected to capture a 26.2 percent share of the market, based on production of 2,992 business jets.

Second is Embraer, which is forecast to produce 1,854 business jets for a 16.2 percent market share. Bombardier takes third place with production of 1,623 business jets, a 14.2 percent market share. Fourth, fifth, and sixth places are taken by Gulfstream, Hawker Beechcraft, and Dassault, respectively. When the market is calculated in terms of monetary value, the manufacturers of the larger, high-value business jet types rise to the top of the rankings. In terms of dollar value of production, Gulfstream takes the top spot with .1 billion worth of production, a share of 27.1 percent. In second place is Bombardier, with .7 billion worth of production and a 20.1 percent share. Dassault, Cessna, Embraer, Hawker Beechcraft, and Airbus take the next five spots.

Has the economic downturn impacted the light and mid-size business jet sectors more than it has the large-cabin one?

Yes, some parts of the business jet industry are doing better than others. In particular, the large-cabin and long-range segments of the market have outperformed the light and medium sectors nearly throughout the downturn. Build rates of all types of business jets have been slashed since late 2008, but the production cutbacks have been much deeper for light and medium jets than for the larger models. Order cancellations disproportionately affected the light and mid-size segments. And, demand is already starting to recover for large-cabin and long-range jets, while it remains moribund for the

smaller models. This divergence of fortune has much to do with the make-up and the location of the customers that typically buy the different types of aircraft. The larger models are generally bought by very rich individuals and big corporations that are well-insulated from economic vicissitudes, and are also located throughout the world, including economically robust regions such as the Asia/Pacific and the Middle East. Light and medium jets are usually purchased by less-wealthy individuals and small and mid-size companies that are predominantly located in the United States, where the economy remains sluggish. When the business jet market does finally turn upward, the recovery should be long-lasting. The basic fundamentals of the market are sound. The pace of the recovery, though, is likely to be gradual and measured, without the big year-to-year gains seen in the past. We do not expect the 2008 production level of 1,313 business jets to be reached until at least 2016.

How are the OEMs responding to the market recovery?

In preparation for the recovery, business jet manufacturers have not been stinting on product development efforts. Each of the Big Six OEMs has at least one new model in development.

Not willing to let Gulfstream have the top of the market to itself with the new G650, Bombardier launched the new Global 7000 and Global 8000 models in the fall of 2010. The new Global variants feature larger cabins and longer range than the G650, but are slated to enter service some four to five years after the Gulfstream aircraft. Meanwhile, Bombardier is continuing development of the all-composite Learjet 85 for the medium segment of the business jet market. And, Gulfstream will have to determine what to do with the G550, should the G650 steal way much of that model's market.

As for future projects, Bombardier may turn its attention to the large-cabin segment and launch a replacement design for the Challenger 605. In addition, increasing competition in the light and light medium classes might cause the Canadian company to introduce an improved variant of the Learjet 40/45.

Throughout the downturn, Cessna has cut its work force and its production output very deeply. Indeed, one has to wonder whether Cessna has cut too deeply, an over-reaction that could hamper production ramp-up efforts should the market suddenly and dramatically rebound. In Cessna's defense, the indications are that the upcoming market recovery will be gradual, giving the company ample time to make necessary adjustments. But it has not left itself much room for error. Cessna has continued product development efforts, launching the new and improved Citation Ten in October 2010. The Citation Ten will replace the Citation X in the company's product line. Cessna intends that the Citation Ten will wrest the speed crown (fastest in-production civil aircraft) away from the G650, which is expected to soon take it away from the Citation X.

Cessna did, however, terminate development of the Citation Columbus super mid-size model. The Columbus would have been the largest business jet ever built by the company. Eventually, Cessna will have to make another try to extend its product line upward into the super mid-size class or even the large-cabin class. Otherwise, the firm would be risking market attrition, as Cessna customers will increasingly look to other manufacturers for larger and longer-range aircraft.

Dassault's product line is firmly ensconced in the large-cabin and long-range

segments ...

Thus, it is no surprise that the company was much less impacted by the market downturn than many other manufacturers. With the all-new Falcon 7X now in service as Dassault's new top-of-the-line product, the firm is currently engaged in an overall refreshment of the rest of its product line. Dassault is replacing its Falcon 2000EX and Falcon 900EX models with longer-range LX versions. Meanwhile, a new aircraft in the super mid-size class is on the way as Dassault looks to return to a part of the market in which it has not really competed since production of the Falcon 50EX ended several years ago.

Where is Embraer in this chase for the leading position?

Embraer is making an aggressive push into the top ranks of the business jet industry. Our projections show that the Brazilian company will be second in unit production of business jet aircraft over the next 10 years. With the launch of the Legacy 650 in the large-cabin class, Embraer now has a product line of seven business jet models. The 650 is a derivative of Embraer's Legacy 600 super mid-size jet, and could eventually supersede the earlier model in production. For now, though, both aircraft will be marketed and produced, as they are, in fact, positioned in different segments of the market. Both of Embraer's Phenom models, the Phenom 100 VLJ and the Phenom 300 light jet, are now in service, as is the Lineage 1000 corporate-configured airliner. In development are the Legacy 450 light medium jet and the Legacy 500 medium jet. Embraer now has one of the most complete product lines in the business jet industry, and has a presence in seven of the eight segments that make up the market. In its long-term planning, the firm also has an eye on the long-range segment, the only market class in which it does not compete.

How are things with Hawker Beechcraft?

Hawker Beechcraft has a product line that covers the light and mid-size segments of the business jet market. It does not compete in the large-cabin or long-range classes. Thus, it is no surprise that the company has suffered badly during the market downturn, and has significantly reduced its production rates and employment rolls. Hawker Beechcraft is taking steps to revise its cost structure and improve profitability. It is also revamping its product line. The company is replacing its Hawker 850XP medium jet with the Hawker 900XP, and has introduced the Hawker 750 in the light medium class. The Hawker 4000 super mid-size jet is now in service. The Premier II, a derivative of the Premier IA, has been refashioned into the improved Hawker 200, a move that is both a rebranding exercise and recognition of the increased competition in the light jet sector.

The business jet customer base has become more geographically diverse. What does this shift toward a more internationally diverse customer base represent?

It is an important trend, as demand for business jets in other regions has helped to offset stagnant demand in the saturated North American market. In a sharp departure from the recent past, customers outside the U.S. now account for some 45-50 percent of business jet sales. For some manufacturers, such as Bombardier and Gulfstream, non-U.S. buyers account for more than half of all sales. Europe in particular shows considerable promise as an area of future growth for business aviation. The region's growing importance to the business jet industry is underscored by the increased

prominence of the annual European Business Aviation Convention & Exhibition (EBACE). Manufacturers now use EBACE to make important product announcements: the kind of announcements (new model launches, brand name unveilings, etc.) that in past years would have been saved for the NBAA convention in the U.S.

European business aircraft operators do face some serious obstacles that tend to hinder the growth of business aviation in the region. The upcoming emissions trading regime for the European Union is set to get under way in 2012. In addition, numerous technical requirements are imposed on business jet operators in Europe. These requirements can be costly and confusing, and often require aircraft to undergo various modifications. New requirements could appear in coming years.

What are, to your mind, the most promising markets and which will be the first to completely recover (the Middle East, China, India)?

Although North America will remain the largest geographic market for business jets, growth there will be slow due to the current saturated nature of the market and the sluggish U.S. economy. Promising areas for dynamic market growth include China, India, Russia, Latin America (especially Brazil), and the Middle East.

The business jet market may be stagnant at the present time, but it nevertheless holds considerable promise for future growth ...

Yes, the seemingly never-ending list of companies looking to enter the market and capture a share of it is testament to this. Some will fall by the wayside, but some will be successful. Among the newcomers, Diamond, Honda, Piper, and perhaps Cirrus may have the best chances for success. Cautious optimism is the prevailing mood these days within the business jet industry, and such an outlook seems justified. Barring further economic calamity, recovery in the business jet market is on the horizon.

JETS.RU thanks Forecast International and Raymond Jaworowski

<http://www.jets.ru/interview/2011/01/24/Jets>