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The fog lifts on a new year as industry recovers slowly

By: Kirby J. Harrison

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A shell-shocked business aviation industry is peeking out from behind the bulwarks and wondering if the lull in gunfire signals the beginning of an end to the battle.

"Flying has picked up again in a meaningful way, which is a good sign for everybody," said Steve O'Neill, CEO of CitationAir, which announced last month it would be recalling 16 furloughed pilots and accepting its first two Citation Xs by the end of the year.

At Gulfstream Aerospace, senior v-p of sales and marketing Larry Flynn described the previous three months as an "awakening" for both new aircraft sales and services. "In the past two quarters," said Flynn, "we have seen net positive orders versus cancellations." He also noted that large-aircraft sales have definitely been stronger, and that the midsize market "has hit the bottom."

Flynn acknowledged that there remain in the marketplace a lot of white tails and pre-owned aircraft that have to be cleared before a real recovery begins. He added, however, "We are not interested in lowering prices."

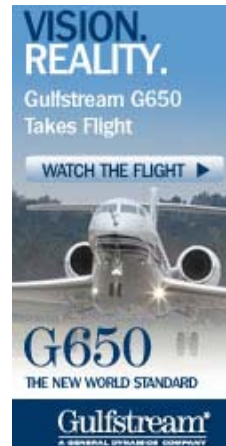
Looking forward to a recovery with more enthusiasm than at any time since the bottom fell out of the economy in November 2008, Gulfstream has two new aircraft that will be in a good position to take advantage of a healthier market. Both the super-midsize G250 and large-cabin G650 are now in certification flight test. Both are expected to enter service by 2012, which industry observers and analysts seem to agree is the year in which the recovery will begin in earnest. Meanwhile, Gulfstream is moving ahead with plans for a "grand opening" of its new service center in Savannah, Ga., early this year.

Good news from Boeing: the 787 made [its long-delayed first flight](#) on December 15. Also good news is that the company now has firm orders for more than a dozen executive versions of the ultra-long-range twinjet, with the first scheduled for delivery in 2012. In fact, three of the six aircraft that will be involved in certification testing are destined for service in an executive role.

A number of analysts are indicating that the recovery has begun.

The UBS Business Jet Update released December 3 forecasts 8- to 10-percent growth in business jet flight activity this year, with a 12- to 14-percent increase in movements for the first half, based on recent trends.

According to the report, while all three range classes of jet are slowly recovering, the short-range class—most affected during the downturn—has shown the greatest signs of improvement, with flight activity up 20 percent since the bottom of the March trough. The report further noted a 7-percent increase in overall business



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Market Update

21-Jan-10	Close
B/E Aerospace	23.56
Boeing	59.20
Bombardier 'B'	4.98
Embraer-Emp.	22.12

1/22/2010

General Dyn.	68.14
General Electric	16.02
Goodrich Corp	62.69
Honeywell Intl	40.73
L-3 Comm.	86.61
Lockheed Martin	76.98
Northrop Grum.	56.68
Raytheon	53.64
Rockwell Collins	54.47
Textron Inc	21.43
United Tech.	70.13

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cycles in September.

The company's monthly business jet report—released on December 8—was a shade more cautious. While it showed a stabilization of business condition indicators, it also noted that the index had not crossed the threshold indicating actual improvement in market conditions. Otherwise, the report described some decline in used-aircraft inventories. It also pointed out that while business jet activity in October was down 4 percent from the previous year, UBS expects business jet activity to grow 8 to 10 percent this year.

JPMorgan Global Equity Research, in its December Business Jet Monthly report, also noted a "modest" decline of the used-aircraft inventory for the fourth straight month. Good news, even though some 13 percent of the jet fleet remains on the market and the number of available light jets remained relatively unchanged from the previous month.

Most recently, ARG/US TraqPak data on business aircraft activity released on December 16 reflected "a continued trend toward recovery." Activity was up 22.7 percent from November 2008 to November 2009, said the report. "The large-cabin sector led the improvement at 28.1 percent, with the Part 135 market segment showing the strongest overall results at 34.1 percent above November 2008."

Forecast International, in its November issue of "The Market for Business Jet Aircraft," offered a more negative forecast. "Production is expected to total approximately 825 units in 2009, followed by 739 units in 2010 and 716 in 2011," it read. The good news will come only in 2012, it said, with an increase in production that will "continue improving through the remainder of the [decade] forecast time frame."

More on the downside, Forecast International senior aerospace analyst Raymond Jaworowski pointed out that "Market saturation remains a problem, especially in the North American market, where large numbers of relatively new business jets reside in operators' fleets." He continued, "In addition, buyer hesitation is exacerbated by concerns about fuel and insurance costs and governmental regulations."

The market intelligence and analysis firm offered some reason for optimism on the part of established OEMs that have new models in development. These include Cessna's CJ4, Bombardier's Learjet 85, Dassault Falcon's 900LX, Embraer's Legacy 450 and 500, Hawker Beechcraft's Premier II and Gulfstream's G250 and G650. The report projected that in terms of unit production, the leaders over the next decade will be Cessna, Embraer and Bombardier. In terms of production value, the likely leaders it said are Gulfstream, Bombardier and Dassault Falcon.

More Bad News from the OEMs

Bombardier's third-quarter numbers released in late October rang with something of a dull thud, although the company said it is seeing "signs of stabilization." Net orders for the third quarter ending October 31 returned a positive position for the first time since the third quarter 2008.

However, Bombardier delivered 33 business jets in the third quarter, compared with 57 in the same period in 2008. The drop in orders for new business jets was more dramatic still: two in the third quarter 2009 compared with 48 for the same period in 2008.

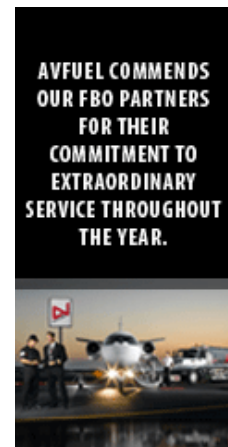
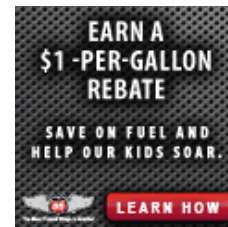
The news among other OEMs was also dismal. Cessna Aircraft announced last month that it will close three component-production plants in Columbus, Ga., over the following six to 24 months. Further, it will move the work to its facilities in Independence, Kan., and Chihuahua, Mexico.

Cessna said it made the moves "to get in front of increased global competition and the effects of the economic downturn." Business aviation industry consultant and analyst Brian Foley told **AIN** that he views these steps as more of a "natural progression" for general aviation manufacturers to become the designers, integrators and final assemblers of aircraft.

Bad news came for Hawker Beechcraft with the announcement that fractional operator NetJets cancelled orders for "a significant number" of aircraft from the Wichita-based OEM. Valued at about \$2.6 billion, the aircraft had been scheduled for delivery next year.

Hawker Beechcraft was predicting a \$3.5 billion backlog as of the end of last month and expected to post losses of between \$725 million and \$740 million for the year. Hawker Beechcraft said it continues to expect "depressed demand" for general aviation aircraft in the near term.

Dassault Falcon laid off 150 full-time employees and another 55 contract workers at its completion center in Little Rock, Ark., effective December 4. Another nine



jobs were cut at the Dassault Falcon headquarters at Teterboro Airport in New Jersey. This brings to about 400 the number of job cuts by Dassault Falcon since the economic downturn began.

"The challenges of the global economy continue to force us to make difficult decisions," said president and CEO John Rosanvallon. "While we see signs that the business aviation market may be stabilizing, it's too early to predict when sustained growth will return to our industry."

While somewhat optimistic, the UBS report of December 3 also interjected a note of caution, saying that the risk of an extended downturn remains, due to market factors such as significant oversupply, fractional weakness and tight financing.

The JPMorgan report also sounded a cautionary note, concluding, "The return of substantial new jet demand is still well into the future."

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