

Bizav forecast doesn't see turnaround until '06

by Stephen Pope

After experiencing a meteoric rise lasting almost a full decade, business jet production this year is anticipated to decline for the third year in a row. Those looking for a silver lining will be disappointed to learn that next year isn't expected to be much better—nor is the year after that.

For an industry that has been battered by stock-market losses and ongoing economic malaise, the notion that the current doldrums should continue through at least 2006 comes as most unwelcome information.

Yet that is precisely what the prognosticators at Newtown, Conn.-based Forecast International predict will be business aviation's fortune as a weak economy tries to find its footing and corporate profits remain tenuous. (No two forecasters' crystal balls produce the same picture of the future. In last month's issue of *AIN* [page 1], we published Teal's predictions.) Cost-cutting measures at many companies and greater scrutiny of corporate accounting practices are resulting in further belt tightening at the same time that higher fuel prices and new regulations are squeezing operators. As one industry observer put it recently, business aviation has never in its history experienced a downturn that has cut a trough as deep as this one.

Good thing, then, that never before in its history had business aviation seen an upturn as vigorous as the one just past. The truth is, production continues at a rate well above the rates that prevailed before the public began embracing business jets as tools for increased productivity and before airliners became cramped conveyances for the throngs of vacationing families and corporate middle managers.

As anyone who has flown aboard an opulently appointed business jet can attest, it's a far superior way to travel, and it's awfully hard going

back to coach—or even first class—afterward. As frustration with commercial airline travel grows, more companies are turning to business aircraft as a way of getting their top people from place to place without relying on the major airlines and their hubs and spokes.

Ray Jaworowski, Forecast International senior aerospace analyst, said this trend should reap rewards for the industry in the next several years.

"A number of statistical surveys, as well as considerable anecdotal evidence, reveal that many corporate executives resent time spent waiting for commercial flights at airports, seeing it as lost productivity," he said.

Fractional ownership has opened a new market for potential customers, a phenomenon that, coupled with charter, has introduced many people to business aviation who could otherwise not afford to own a business jet or break away from airline travel. Yet despite the recent, widely publicized success of fractional programs, they are not necessarily very profitable for the companies that operate them, noted Forecast International's aerospace analysts in the most recent business aviation industry overview. The public perception of fractionals, in fact, belies the reality, they said.

"The general perception of many is that the fractionals are wildly successful," wrote the forecast's authors. "Indeed, they have experienced considerable growth in the past few years. Overall, though, the fractional industry lost a significant amount of money in 2002, and looks set to do so again this year."

One of the problems confronting the fractional industry is that the rate of growth and the total number of shareowners declined last year. This, said Forecast International, was exacerbated by a trend among shareowners to underutilize their shares, even to the point of selling

back all or part of their share to the fractional provider.

But in spite of current difficulties, Forecast International is strongly bullish about the long-term prospects for fractionals. The potential market is considerable, it said, as illustrated by a recent NBAA survey that found more than 70 percent of U.S. companies with annual sales of more than \$50 million have never formally evaluated the possibility of purchasing a business aircraft.

Forecast International also anticipates strong demand for low-price personal jets such as the Cessna Citation Mustang and Eclipse 500, which could be used by air-taxi operations or as air limousines. More than 330 copies of the \$2.6 million Mustang are on order, and the million-dollar Eclipse 500 has an order book for about 2,100 aircraft, including options. Forecast International anticipates a large market for these airplanes and predicts they will eat into sales of light jets such as the Premier I and Cessna CJ1.

Perhaps a harbinger of the optimism ahead, this year appears to signal a bottoming-out for the business aviation industry.

From 2003 through 2012, Forecast International expects a total of 9,769 business jets worth an estimated \$135.4 billion will be produced. This compares with 4,999 business jets produced during the previous 10 years (1993 to 2002). The market leader in terms of dollars will be Gulfstream, with production worth \$36.6 billion, or 27.2 percent of the market. Following in second place will be Bombardier, which will produce \$29.9 billion worth of business jets, for 22.2 percent of the market. Next will be Cessna (\$21.9 billion; 16.3 percent), Dassault (\$20.8 billion; 15.5 percent), Raytheon (\$9.6 billion; 7.2 percent) and Boeing Business Jets (\$6.4 billion; 4.7 percent).

In terms of units, the market leader will be Cessna, with 3,101 aircraft built, said Forecast International. Next will be Bombardier with 1,732 aircraft; Eclipse with 1,376; Gulfstream with 1,171; Raytheon with 960; and Dassault with 728. □