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Joseph C. Anselmo/Morristown, N.J. and Graham Warwick/Washington

The turmoil gripping financial markets will have little long-term impact on demand for business jets, according to a forecast widely viewed as a barometer of the industry's health. But critics question whether a market where demand is driven by corporate profits can really fly around the economic storm.

Honeywell Aerospace's 17th annual Business Aviation Outlook predicts that hefty backlogs for new models and robust demand from new markets outside the U.S. will push worldwide deliveries to a record 1,400 aircraft in 2009, valued at \$25 billion, extending a rebound that began in 2004.

Deliveries should dip 9% between 2009 and 2011 as customers wait for new aircraft models to come to market - much milder than the 34% drop-off the industry saw in the two years after the 9-11 terrorist attacks, according to the forecast released at this week's National Business Aviation Assn. (NBAA) convention in Orlando, Fla. **A separate projection released by Forecast International last week reaches a nearly identical conclusion.**

"What's really selling are the longer-range airplanes to big corporations," Honeywell Aerospace President/CEO Rob Gillette said in an interview at Honeywell's corporate headquarters in Morristown, N.J. "With the world being as global as it is, they just keep flying. We're talking about 1,400 deliveries next year, another record."

While Honeywell's global survey of 1,866 corporate flight departments was conducted before the credit market meltdown in the U.S. became critical, company officials say they have seen no sign of widespread order cancellations since then. Most manufacturers are sold out into 2010, with some models not available until 2011, and backlogs have reached nearly three years of production.

"Look at the paid orders that Gulfstream has for the G650 -- it's almost triple what they expected," says Gillette. "These [customers] have \$3 million down on a non-refundable, one-way trip to get in line."

Honeywell's forecast brings a dose of optimism to the NBAA show at a time when many in the industry are worried. Corporate flight departments were recently disbanded at Bristol-Meyers Squibb and bankrupt Lehman Brothers. And there are serious questions about the futures of aviation operations at Wachovia and Merrill Lynch, which have been sold off, and American International Group, which had to be rescued by the U.S. government (AW&ST, Sept. 22, p. 15).

"Commercial purchasers of aircraft, and particularly corporate aircraft, are not immune to any sort of slowdown," says Wolfgang Demisch, principal of New York financial consultancy Demisch Associates. "There would seem to be a real risk of deferrals and cancellations over the next several quarters."

UBS Investment Research analyst David Strauss says a lot of delivery slots are being put up for sale, and his bi-monthly survey of the industry shows a sharp drop-off in customer interest in business jets over the past two to three months. But so far he has heard of no large-scale cancellations. "The big question is how resilient these backlogs will be."

JPMorgan analyst Joseph B. Nadol, who delivered a bullish assessment of the corporate aircraft market at last year's NBAA show, has grown much more cautious. He notes prices for used business jets are declining while inventories have risen to their highest level in five years. "The used business jet market is rapidly falling apart, which should lead to a deteriorating market for new aircraft in short order," Nadol said last week. "The most relevant question remains not whether the market is going to shift, but how well the original equipment manufacturers with their record backlogs are able to weather the storm."

Honeywell's answer to that question is that the pain will be mild. An industry that rose and fell with the U.S. economy as recently as five years ago is much more balanced today, with roughly half of demand projected to come from other regions. The forecast sees orders moderating in the second half of 2008 and into 2009, leading to a decline in deliveries in 2010-11. But even at the trough of the downturn, deliveries are still projected to exceed 2008's record level of 1,180. To put that in context, the industry never delivered more than 1,000 jets in a year before 2007 and barely managed 500 in 2003.

Charles Park, director of market analysis at Honeywell Aerospace and author of the forecast, says North American

respondents to the survey have actually increased their five-year purchase expectations since last year. "Most of the data we look at calls for a resumption of economic growth in 2010 pretty much worldwide," he says. Park believes the impact from the U.S. credit crisis will be "a short-term blip" for the industry.

A similar conclusion is reached by Forecast International, which predicts business jet production will climb through 2009 before experiencing a 7% decline over the following three years. Senior aerospace analyst Raymond Jaworowski says international demand, high backlogs and new access to private jet travel through fractional ownership and pay-as-you-go jet card programs will help cushion the industry from turmoil on Wall Street. "More than half of business jets sales now come from customers outside the United States," he says. "That geographic diversity helps insulate the industry to some extent from what's going on in the U.S. economy."

Park says Honeywell did make a late change to the forecast to moderate projected demand from customers whose access to capital could be most impaired by the financial turmoil. These include charter start-ups that have announced potentially large orders for business jets. This lowered forecast deliveries to 2018 from 17,000-18,000 to "up to 17,000".

One reason behind Honeywell's staunch defense of its forecast is the high backlog levels for new models that will not enter service until 2012 or beyond, by which time any downturn is expected to be over. These new models include the G650, which Park says has created a new very high speed segment of the ultra long range aircraft market that alone accounts for 500-plus deliveries added to this year's forecast.

Park also says that, while used aircraft inventories have risen sharply in recent weeks, most are smaller and older jets. "We don't like to see the number of aircraft for sale that are less than 10 years old get up to more than 8-10% of the fleet, because that's they become more of a substitute for new aircraft. We're not there yet," he says.

Overall, Honeywell's survey found operator's purchase plans for the next five years to be largely unchanged over 2007, although business-jet flights are down in the U.S. and growth is slowing in Europe. Park says most of the reduction in flying has been among lighter jets. The company forecasts demand for 5,200 aircraft between 2009 and 2013: 55% in North America, 20% in Europe and 12% in Latin America.

Regionally, five-year purchase expectations in the Asia-Pacific declined sharply from last year's survey. The region is expected to account for just 10% of industry demand over the next five years, down from a forecast 15% last year. Park says such volatility is expected in a small market, and adds "The Chinese market will probably take 10 years or perhaps more to really become a significant consumer" of corporate aircraft.

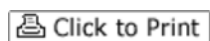
Over the 11-year period from 2008 to 2018, Honeywell forecasts deliveries of at least 16,700 business jets. The largest sectors will be the medium/medium-large jets at 4,500 aircraft, light/light-medium at 4,000 and very light at 4,000, followed by long/ultra-long range and very high speed at 2,800 and large at 1,400 aircraft. These numbers exclude aircraft below \$2.5 million list price or above 1000,000-lb. take-off weight.

Gillette stands behind the forecast when pressed on how the outlook could be so robust in a time of such economic turmoil. "There's huge momentum going on," he says. "Based on everything we know the forecast will come true. We questioned it from every angle. Believe me, I ask the same things you do."

With William C. Garvey in Ridgefield, Conn.

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