



Executive Jets Grounded as Recession Pummels Corporate Fleets

By Hugo Miller and Courtney Dentch



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Oct. 3 (Bloomberg) -- **Alcatel-Lucent SA** executives had better get used to flying in commercial aircraft. The world's biggest provider of fixed-line networks will ground its three business jets based at New Jersey's **Morristown Municipal Airport** when leases on two of them expire at the end of October.

"It is our plan to wind down corporate aviation," said **Mary Lourdes Ambrus**, a spokeswoman for Paris-based Lucent in Murray Hill, New Jersey. Even before the credit crunch intensified last month, the jet fleet was "identified as an area we could make some cuts."

About 30 miles (48.3 km) away at **Teterboro Airport**, business flights serving the New York area's corporate-aviation hub are down 5.6 percent through the first seven months of the year, according to the Port Authority of New York and New Jersey.

U.S. executive-jet traffic fell 18 percent in August alone, JPMorgan Securities Inc. analyst **Joseph Nadol** wrote in an Oct. 1 report. The decline may be a sign that even strong orders from Russia and the Mideast may not prop up growth in the \$20 billion industry.

"A slowdown in traffic is a sign that demand will eventually be slowing as well," said aerospace analyst **Raymond Jaworowski** of **Forecast International** in Newtown, Connecticut. "The business-jet market tracks very closely to U.S. economic growth and corporate profits."

Weaker U.S. earnings this year will lead to declining growth in global business-jet deliveries in 2009 and 2010, as shipments typically lag earnings trends by about two years, Nadol said. Deliveries reached a record 1,117 in 2007, topping Honeywell International Inc.'s forecast of 1,000.

Market Descends

Executive-jet deliveries may fall to 1,515 planes in 2012, from the 1,629 Jaworowski projects for next year. Profits of companies in the Standard & Poor's 500 Index will decline by an estimated 3.2 percent in 2008, according to data compiled by Bloomberg.

Avaya Inc., the closely held networking-equipment maker based in Basking Ridge, New Jersey, also grounded its two-jet fleet earlier in 2008.

The business-aircraft market is descending after four years of growth just as **General Dynamics Corp.**'s Gulfstream and **Empresa Brasileira de Aeronautica SA** are developing new models. The companies will be among those attending as **Honeywell** releases an annual corporate-jet forecast this weekend at the **National Business Aviation Association**'s trade show in Orlando, Florida.

"We're seeing the declines in the short-hauls, the continental flights," **Rob Gillette**, chief executive officer of Honeywell's aerospace division, said in a Sept. 29 interview. The Morris Township, New Jersey-based company is the world's largest maker of cockpit displays.

U.S. Falls

The U.S. share of the global business-jet market dropped to about 58 percent last year from 75 percent in 2005, according to the **General Aviation Manufacturers' Association**, which represents corporate jet makers.

Bombardier Inc. counts on the U.S. for 30 percent of new corporate-aircraft orders, down from 70 percent five years ago, said **Bob Horner**, senior vice president for sales of the Montreal-based company's business-jet unit.

A three-year order backlog and a global order book will help Bombardier, the world's No. 2 business-jet maker, fight any slowdown, according to the company.

"The demand has extended outside of the U.S.," Chief Financial Officer **Pierre Alary** said at a Sept. 24 investor conference in Montreal.

Priced In

Surging oil profits are creating a new upper class in Russia and the Middle East and driving business jet sales in those regions. Honeywell's 2007 forecast found 51 percent of those surveyed in the Middle East and 47 percent of European and Russian participants plan to expand their fleets in the next five years.

The growth is expected to continue even as Russia's **Micex Index** has fallen 48 percent this year, and the **Dubai Financial Market General Index** has lost 30 percent on concerns of a U.S. recession.

Investors already priced cooling growth into the share prices of business-jet makers such as Bombardier, according to **Cameron Doerksen**, an analyst with Versant Partners in Montreal.

With **Bombardier** down 40 percent since the beginning of last month in Toronto Stock Exchange trading, "the increased risks related to the business-jet market are largely reflected in the share price," Doerksen wrote in a Sept. 30 report. While he recommends buying the shares, "it would be naive to believe that business-jet deliveries won't eventually be negatively impacted" by financial turmoil, he said.

'Critical' Financing

While executive-aircraft buyers can still get financing, Embraer CEO **Frederico Fleury Curado** said tightening credit markets are making plane purchases more difficult.

"Financing is likely to get increasingly expensive as the events of the last two weeks continue to wind their way through the market," said JPMorgan's Nadol.

Air-taxi operator DayJet Services LLC of Boca Raton, Florida, grounded its planes on Sept. 19 after it couldn't get "critical" financing, the company said.

Sao Jose dos Campos, Brazil-based Embraer, the world's fourth-largest aircraft maker, may struggle as its new Phenom jet, priced as high as \$7.4 million for a nine-seat model, relies on air-taxi operators' orders, according to aviation consultant **Brian Foley** in Sparta, New Jersey.

"We haven't seen any impact on our business," Curado said in a Sept. 29 interview.

Staying Home

Embraer announced earlier this year it will invest \$750 million to develop the MSJ and MSL corporate planes. Gulfstream plans to begin delivering its \$58.5 million G650, the fastest civilian jet, in 2012.

The new models may "stimulate sales" in four years as economic growth resumes and customers look to trade up, Jaworowski said.

"People are waiting to see if the economy picks back up," said Patrick Sniffen, vice-president of marketing for Jet Aviation Management AG, which maintains and refurbishes business jets and facilities at Teterboro Airport. "Until then, they're staying home."

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