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Tightened credit is limiting the market for small jets

These are turbulent times for aircraft manufacturers around the world.

By: [Peter Passi](#) , Duluth News Tribune

These are turbulent times for aircraft manufacturers around the world.

“From the standpoint of someone with experience in the industry, this looks to be the worst and potentially longest-lived downturn that I have ever seen,” said Richard Aboulafia, an analyst with the Teal Group Inc. of Fairfax, Va., who has been following the aerospace industry for more than 20 years.

The market for small jets and propeller-driven planes appears to be particularly soft, with an unusually large number of used aircraft up for sale in addition to new aircraft waiting to be sold, said Paul Nisbet, an aerospace analyst for JSA Research of Malta, N.Y.

“Getting credit is difficult right now, and that has discouraged buyers,” Nisbet said.

He noted that tightened credit markets have affected the product pipeline in another way.

“Many airplanes are sold through dealerships, and even the dealerships have encountered difficulties borrowing money,” he explained.

Aboulafia said manufacturers of airplanes for the general aviation market probably have been hit hardest. The term “general aviation” refers to business or personal aircraft that are not used for regularly scheduled commercial passenger or cargo service.

“The general aviation portion of the industry is the most economically sensitive,” said Aboulafia, explaining that often general aviation purchases represent discretionary spending, and during times of economic uncertainty, this type of spending is usually the first to evaporate.

In the face of slowing sales, Cirrus Design Corp. of Duluth and other airplane-makers have been making painful adjustments.

Cirrus has shrunk its work force by about 15 percent in the past few months, cutting 205 jobs from its payroll in Duluth and Grand Forks, N.D. Even after the cuts, Cirrus remains Duluth’s largest manufacturing employer, with about 900 workers locally, plus 220 in Grand Forks.

Other aviation companies also have been forced to make difficult decisions.

Denver’s Adam Aircraft laid off about 200 people in late October.

In Wichita, Kan., Hawker Beechcraft recently announced it would lop 490 people from its payroll earlier this month.

Then, Cessna revealed plans this week to eliminate 665 positions at its operations in Wichita and Bend, Ore.

Still other airplane manufacturers appear to be in an even more precarious state.

Eclipse Aviation of Albuquerque, N.M., faces the daunting task of trying to attract \$200 million in additional investment in today’s risk-wary market. **If it can’t, Forecast International, a tracker of the aerospace industry,**

projects the company will be forced to discontinue operations by early 2009.

Meanwhile, Grob Aerospace recently sought bankruptcy protection for its German subsidiary, prompting layoffs and putting the future employment of about 500 workers there into question. The company continues to retain a small group of employees working to develop a new business jet — the SPn — while it searches desperately for additional investment.

“Our members are taking this downturn very seriously,” said Katie Pribyl, a spokeswoman for the General Aviation Manufacturers Association, noting that companies must respond swiftly to changes in the market.

Suppliers to the aircraft industry have taken a bruising, as well.

Northstar Aerospace of Duluth has cut its work force from about 115 people to just 45. About 60 workers have been placed on furlough, and 35 are scheduled to return in December in anticipation of renewed demand for parts by the company’s largest customer — Cirrus.

Even those workers who remain on the job at Northstar have seen their earnings diminish. Hourly workers are now working a 36-hour week, instead of 40. Salaried employees also have taken a 10 percent cut in pay, said John Eagleton, Northstar’s CEO.

“We’re looking everywhere we can to reduce our costs so we can survive this financial tsunami,” he said.

Northstar also has been taking steps to diversify its business. Eagleton said the company has recently begun to explore opportunities to make components for the wind power industry in addition to aviation.

For the first nine months of this year, sales of piston-engine airplanes are 11.4 percent lower than they were in 2007, according to the General Aviation Manufacturers Association.

Cirrus has experienced a gentler decline of 7.8 percent — dropping its shipments from 461 airplanes during the first three quarters of last year to 425 in 2008.

But the final quarter of the year is usually the biggest for Cirrus.

Cirrus CEO Alan Klapmeier is hoping for another strong final quarter this year, thanks in part to a federal economic stimulus incentive that allows taxpayers to accelerate the depreciation on any airplane purchased this year.

But for now, Cirrus has cut its production schedule in Duluth from four to three days per week.

“I’ve been in this business for almost 45 years now, and I’ve never seen the economy tank so bad and so fast before,” Eagleton said. “I frankly can’t see the other side of this downturn yet. As far as a recovery is concerned, I think it comes down to when buyers will have the confidence to spend money again.”

PETER PASSI covers business and development. He can be reached weekdays at (218) 279-5526 or by e-mail at ppassi@duluthnews.com.

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