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Economy clouds jet market

BY MOLLY MCMILLIN

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Wichita planemakers are closely watching developments in the U.S. financial markets but say it's too soon to tell what their impact might be on the sale of business aircraft.

"It's definitely going to hit," said Teal Group analyst Richard Aboulafia. "It's just a question of how painful."

The issue will be on the minds of officials at Cessna Aircraft, Bombardier Learjet, Hawker Beechcraft and others in the aviation industry as they head to Orlando this weekend for the world's largest business jet show.

The National Business Aviation Association's 61st annual convention runs Monday through Wednesday and is expected to draw 1,200 exhibitors and 33,000 attendees.

"Even though you're kind of going into it with the sky overcast, it's always a great venue," said Brad Hatt, president of commercial aircraft at Hawker Beechcraft. "We're excited."

Bombardier spokesman Leo Knaapen said he expects the mood to be optimistic yet a "bit more somber perhaps" than in recent years.

The United States and parts of Europe are experiencing an economic slowdown, U.S. corporate profits are down, fuel costs are up, and the inventory of used business jets for sale has been growing in recent months, often a sign of a weakening market.

On the flip side, the market has had robust growth and jetmakers have a record backlogs of orders. Customers have longer waits for delivery, and planemakers are hitting capacity limits.

International sales now make up about half of business jet sales. That will help insulate the industry, said Forecast International senior analyst Raymond Jaworowski.

He said the industry is in good shape and should be able to ride out what's going on in the markets.

"A slowing U.S. market will still have a big impact on the business jet market, but it won't be the huge crushing factor it would have been," he said.

Forecast International's annual business jet forecast, released this week, said the market is still growing but is nearing its peak. It predicts annual business jet production will exceed 1,600 planes in 2009, followed by a three-year "shallow" decline.

Growth is expected to resume in 2013, with production reaching more than 1,700 planes by 2017, the study said.

In all, the study predicts that 15,936 business jets worth \$223 billion will be produced from 2008 through 2017.

Teal Group's Aboulafia said the business jet segment is the most vulnerable of all the aviation markets.

"They're far more user-specific," Aboulafia said. "They're tougher to remarket -- (and they're) a luxury good rather than a day-to-day commodity."

And while there is cause for serious concern, the size and growth of the industry should be put in perspective, he said.

A dozen years ago, the business aviation market was at \$4 billion, Aboulafia said. Now, it's \$20 billion.

Bombardier's Knaapen said the company is concerned about possible repercussions from the financial crisis.

However, it hasn't seen any yet, he said.

"The industry is still marching forward," Knaapen said. "We have a lot of planes that we have to deliver."

Hawker Beechcraft's Hatt said the company is watching the financial situation closely.

"I'd be lying to you if I didn't say it wasn't going to impact us," Hatt said. "We just don't know how much."

While the long-term effect is unknown, there may be a short-term psychological impact. Potential buyers might wait to do anything, he said.

And deals may take longer to go through as lenders tighten credit.

The company has had some cancellations or postponements of orders.

"But it hasn't been widescale by any means," he said. "We've been able to resell any positions... as fast as they come available."

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