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Hopes fade for early start to recovery

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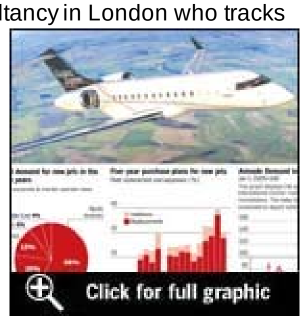
Shrinking revenues, more job cuts and gloomy forecasts. Such is the state of much of the business jet industry on the eve of one of the sector's biggest annual gatherings.

Two years on from the Lehman Brothers investment bank collapse that preceded the industry's savage swing from boom to bust, any hope of a recovery next year looks misplaced.

"Now it's looking very much like 2011 will be more of the same and 2012 will be when things start picking up," says Gary Crichlow, an analyst at the Ascend aviation consultancy in London who tracks business aviation trends.



The industry has spent 2010 "convalescing", says Richard Aboulafia, vice-president for analysis at the Teal Group consultancy in Virginia, who has long predicted there is unlikely to be a recovery until 2012.

The reason is simple enough given the business's sensitivity to a global economy that has continued to show weakness; fears of a double-dip recession and concerns about the impact of government austerity programmes and the availability of financing.

The industry managed to deliver about 830 business jets last year, by Ascend's count, slightly more by some others. This year, the consultancy has counted only 445 shipments in the first three quarters, suggesting it will struggle to reach even 600 over the full year.

In the third quarter alone, there were only 125 deliveries, 39 per cent fewer than in the same quarter last year.

This is all a long way from where the corporate aviation sector was only three years ago. On the back of record corporate profits and robust economic growth, business jet deliveries surged to more than 1,000 for the first time in 2007 and jumped again in 2008, thanks to huge backlogs prompted by mounting orders.

But the gloomy forecasts for this year need putting into perspective, says Rob Wilson, president of business and general aviation at **Honeywell** Aerospace, recalling the industry was "very joyous" about delivering 600 or 700 jets a year as recently as 2004-05.

This is true, but of little comfort to the people hit hardest in this downturn, such as the thousands of workers laid off by US aircraft manufacturer, Cessna. In September, it announced that a further 700 jobs would be cut, on top of the 8,000 it has shed since late 2008.

Its total workforce has been cut in half, with most of the losses at its Wichita plant, where a workforce of 12,400 has been reduced to 6,200 and will only number around 5,500 in December, after the latest layoffs.

Clearly it is going to be some time before the industry returns to its earlier peaks.

There are some signs of improvement, though. Flight activity is edging up, as are sales of used aircraft. But both indicators are far from what they used to be.

The proportion of the global business jet fleet up for sale has fallen from its record highs of 16 per cent, or more than 2,000 jets, in May 2009, says Mr Aboulafia.

But it has failed to dip below 14 per cent since the start of 2010, indicating "a severe oversupply problem".

Honeywell's latest annual business aviation outlook, published on Sunday, also suggests a recovery will not be seen until 2012, after disappointing rates of global economic recovery forestalled order rates and softened hopes of an uptick in 2011.

It is predicting deliveries of 675-700 aircraft in 2010 and expects shipments to be below 700 next year.

Longer term, Honeywell's forecasts have changed little from last year's prediction that 11,000 new jets worth $200bn would be delivered between 2009 and 2019.

It still thinks 11,000 jets will be delivered between 2010 and 2020, but says they will be worth slightly more, at $225bn.

Mr Wilson says the jump in value is partly due to price escalation and partly a result of a phenomenon that has become increasingly evident in this downturn – a shift in demand for larger business jets.

Past recessions have not revealed such a trend, says Mr Aboulafia, adding: "We're moving towards an industry that favours larger planes."

Historically, he says, the business jet market could be divided in half by value, with the top consisting of jets costing $25m or more (in 2010 dollars) and the bottom of those costing less than $25m.

These halves have risen and fallen in tandem for most of the past 20 years. But in this downturn, deliveries in the bottom half plummeted in 2009 by a huge 42.8 per cent – the worst decline of any aerospace market in this recession.

Yet deliveries at the top end stayed almost constant, falling by only 4.1 per cent by value.

The split has been evident among leading manufacturers, with companies that focus on the top end, such as **Dassault** of France, doing better than those more reliant on smaller aircraft, such as Cessna.

Mr Aboulafia says the most obvious explanation for this divide in the market is that sales of the cheaper aircraft are more dependent on small and midsized businesses that are more sensitive to an economic downturn.

They are also more likely to be dependent on getting credit and since this downturn has been marked by a credit crunch, that may explain why they are hit harder than the top half customers.

Another reason could lie in continuing woes of fractional jet operators who are big customers for bottom-half planes.

According to Honeywell, deliveries of new jets to fractional fleet operators were down 80 per cent in 2009. Only three new jets were shipped to customers in this part of the market in the first half of 2010.

Looking further forward, Honeywell, which bases its outlook on a survey of 1,200 corporate flight departments around the world, says purchase expectations in North America remain largely unchanged.

But expectations in other parts of the world have softened, most noticeably in Europe and the Middle East, and to a lesser extent in Latin America and Asia.

Asian purchase plans revealed an 18-point decline compared with last year's survey, but remain high compared with other regions and historically, says Honeywell.

"The slower recovery of major trading partner economies and some concerns regarding export-fuelled growth and Chinese real estate markets has increased the caution level operators displayed in the 2010 survey."

When all the regions are counted together, Honeywell says operators plan to replace 30 per cent of the global fleet over the next five years.

That is still a relatively high figure, says Honeywell's Mr Wilson.

In addition, Honeywell says despite cancellations and deferrals, there are several thousand aircraft on order, many new models for delivery after 2011.

"Assuming economic recovery progresses, it is still likely delivery of these aircraft will be taken, proving a boost to shipment levels as we move into the 2012-2013 period," it says.

So how would Mr Wilson sum up his views on the industry? “Guarded,” he said. “Cautious.”

It is likely to be some time before that impression changes.