ANALYSIS: BUSINESS AVIATION IS BOUNCING BACK

News / Business aviation



It’s show time again for the **business aviation** industry. The annual NBAA convention, the largest and longest-running event within this niche sector, is returning to the bright lights of Las Vegas – a fitting host for a market that is starting to emerge into the light following a miserable few years.

“There is certainly a climate of optimism in the industry right now,” says Ed Bolen, chief executive of NBAA, the trade association that has been hosting the popular gathering for nearly 70 years.

This sanguine outlook is partly attributable to the strengthening US economy and rising consumer confidence. “The rebound of the US market is a welcome fillip to the industry,” Bolen says. “Its growth is reflected across the all the metrics – new and used aircraft sales, the pre-owned inventory, and hours flown [by charter, corporate, private and fractional ownership operators].”

US DOMINANCE

The significance of the US market to the business aircraft industry is manifested in the size of the country’s business-aircraft inventory. Flightglobal’s Fleets Analyzer database records an installed base of around 18,000 turbine-powered aircraft – nearly 60% of the world’s fleet. The return of the economic hegemon to rude health is particularly good news for the manufacturers of light and midsize business aircraft - the US has traditionally accounted for the vast majority of sales, and when the economic downturn struck, order books dissipated.

And, the introduction of a slew of innovative new designs and upgrades over the past 18 months has also contributed to the lower-end market-rebound by whetting the appetites of discerning buyers. Notable debutantes include the Embraer Legacy 450 and 500, Cessna Citation Latitude, Citation X+ and Bombardier Challenger 350.

In a recent report, Flightglobal’s Ascend consultancy revealed that these new products coupled

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with an improving US market helped to deliver a 16% increase in shipments of midsize aircraft in 2014 to 170 of the types. This compares with 147 the previous year. Light-jet deliveries also shot up by 11% during the same period to 286 aircraft.

For the top-end of the business jet sector, however, the picture is less auspicious. Following a long period of booming orders and unrelenting demand from global buyers, sales of large-cabin, long-range business jets and VIP airliners have stalled.

“After years of being a major, reliable revenue driver in the business aviation industry, sales of large business jets are beginning to show signs of fatigue,” says aerospace analyst Brian Foley.

TOP-END DECLINE

He explains that unlike their low-end stablemates, the market for aircraft with seating for more than 15 passengers and price tags in the $35-75 million range were barely fazed by the 2009 worldwide financial crisis. “Conversely, sales of smaller, more modest jets declined by two-thirds during this period, forcing planemakers in that segment to halve staffing [Cessna, Piper Aircraft], and in one case fold [Hawker Beechcraft] The split personality between big and small is showing objective evidence of change, and is in fact reversing.”

Teal group analyst, Richard Aboulafia, describes the current market as a “funhouse-mirror reflection of 2009-2010 when the US market was dead and it was all about the BRIC nations, and the high-end market”.

Not any longer. A combination of factors are to blame for the waning demand: the economic decline in emerging markets, such as Brazil and China, that geographically have a need for ultra-long-range jets, a strengthening US dollar which has made these aircraft too costly to purchase, and the decline in commodity prices – particularly oil.

Fleets Analyzer shows deliveries of large-cabin, long-range jets and VIP airliners fell from 265 in 2013 to 262 last year, and suffered a 15% decline in shipments between January and June this year compared with the first six months of 2014. Not surprisingly, this sliding demand has hit the high-end aircraft builders hard and the pain is being felt across the board.

Bombardier has slowed production of its super-large Global 5000 and long-range Global 6000 and recently announced a two-year delay to the Global 7000 and 8000 jets development schedules. Dassault reported just five sales of its Falcon business jets in the first half.

While Gulfstream recently accelerated deliveries of two new, large G450s to US fractional ownership company Flexjet, this move, Foley believes, is an attempt by the business-jet goliath to manage their order book “by making unsold delivery positions available sooner to waiting customers.”

He expects the overall shipment tally to climb this year, but the bulk of the deliveries will be in the lower half of the sector. The knock-on-effect of will be a decline in the total value of the annual shipments: “Although more small and midsize jets are being sold you have to sell up to 10 of them just to offset the value of just one big Gulfstream lost sale.”

“The net effect is that over the next couple of years, more units will go out the door without moving the needle on overall industry values. This anomaly won’t rectify itself until 2018 when a slew of new, large, pricey jet models hit the market.”

These new entrants include: the G500/G600 – the latest large cabin-long-range offerings from

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Gulfstream which are scheduled to enter in 2018 and 2019 respectively; the aforementioned Global 7000 and 8000, which Bombardier has pegged for certification around the same timeframe; Dassault's 8X tri-jet and 5X twinjet, which are slated to land in customer's hands in 2016 and 2018 respectively; and the large-cabin Citation Longitude.

The ongoing development of new and upgraded aircraft within this small segment is testament to the airframers' confidence in the market.

Even further down the line, Dassault is likely to launch a longer-range version of the widecabin 5X to rival the sector-busting G650/ER and Bombardier's Global flagships. Embraer, meanwhile, could take a leap into the ultra-long-range sphere, and fill the void at the top of its seven-strong product line.

RECOVERY DRIVERS

For the time being, the recovery will be driven by the small and medium segment where another handful of eagerly anticipated offerings are expected to enter service over the coming 24 months. These include the long-awaited HondaJet. The light twin – which made its first flight in 2003 – received provisional type certification in May, but still has to clear the final certification hurdle.

It could be pipped to the post by Cirrus Aircraft's Vision SF50, which is earmarked for US validation and service entry late this year. This milestone will secure the SF50's position in the aviation history books as the first certificated single-engined personal jet. Meanwhile. Pilatus Aircraft development of the superlight PC-24 is progressing on time, with the Swissairframer targeting 2017 for the entry into service of its first business jet.

Despite the pipeline of strong and appealing new products Aboulafia maintains that market growth will not be rapid. He predicts deliveries of 9,018 business jets between 2015 and 2024 with a value of $277 billion: "It's a very conservative forecast, given the recent history of false starts," he notes.

One thing he is certain of; for at least the next 10 years, the business aircraft industry will not return to the heady days of 2007 – when lengthy backlogs and record orders were the norm.

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