

The Perfect Balance

Do you remember going to the circus as a kid? "Ladies and Gentlemen!" the ringmaster would shout. "Please cast your eyes on the center ring and the world famous plate spinner!" You know the guy I'm talking about, who could spin 20 plates at the same time on top of tall, thin rods. The trick was to keep them all balanced by spinning them fast.

The plate spinner would run up and down the line of spinning plates, giving them a boost of energy so they would not slow down and fall. The speed of each one was constantly monitored so as to keep it perfectly in balance on top of those thin rods.

Now, jump ahead to today. No, not the circus arena, but the aircraft sales arena. Let's look at a similar perfect balance that is occurring for us all in our industry.

Consider each spinning plate as a segment of our market, and think about the balancing act in play. I think it is important to start at the top of our industry's food chain: the new deliveries from the manufacturers.

As I have mentioned in a previous article, the manufacturers of turbine equipment are enjoying the longest, sustained 24-plus-

is the boost that that plate needs to keep spinning. That is all the good news about manufacturer backlogs. Now, what other force, besides economics, could slow the plate?

The frustration of waiting. I recently had a client take a demonstration flight in a Global 5000. When the flight was over he turned to the new aircraft salesman and said, "I'll take it." "Great," the salesman said. "We can deliver that in three years." That was the end of that. My client reminded everyone that he is 67-years-old. He will not need this kind of lift at 70 and he wants it now.

So the very gift that the manufacturers are enjoying with the backlog is the very curse that could send more people to the like-new, pre-owned market. You see, as one plate starts to slow and the like-new, pre-owned plate picks up momentum, the long lead-time creates a slowing action to the new market. Of course, limited supply of like-new planes means that as the focus shifts from new to like-new, prices remain firm. That is a good thing to owners and sellers in that category.

As a buyer, the firm prices should not scare anyone away. Supply will always be

This 1990 and newer group still enjoy relatively lower time, great manufacturer support, and favorable financing and insurance rates.

Regulatory compliance as well as noise issues are not problems for this group.

The next group of aircraft seems to slow in sales, pricing and market appeal. This group is the 15 to 20 year old group, still enjoying good product support with noise issues not really affecting it, yet beginning to age in the mind of many. Inventories continue to rise in this segment, keeping supply ahead of demand and creating moderate pricing pressures.

The next spinning plate would be the one that needs the greatest attention to keep up momentum. The low-end of aircraft that are passing the 25-year-mark, seem to be the most difficult to sell for many reasons. The International market does not typically buy this group due to excessive costs to import, based on the modification costs for local regulatory requirements. The financing market finds less appeal, and the insurance market does not enthusiastically embrace this segment either.

Having said all that, if you are a buyer with a budget that demands this segment, there are some great buys. Just have reasonable expectations for the condition and enjoy this segment's diamonds in the ruff.

So now, looking back, one can see the need for a perfect balance. If the new aircraft plate starts to fall, the effect will be most noticeable on the like-new aircraft, causing a slow down in demand. This will no doubt affect the next segments as well. For now, all plates seem to be spinning well with a foreseeable bright future. Enjoy the Circus!

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months backlog in their respective histories. This sounds wonderful, but let's look at the sustainability of that first.

In the old days, five or so years ago, backlog sustainability was based solely on the U.S. economy and appetite. Today, that is a significant factor but by no means the only factor. Present day growth of International business is creating some of the biggest demand that all the manufacturers are experiencing. So despite the fact that personal use tax laws are so onerous, and impending use tax fees are still up in the air, there is still a steady increase of interest rates and fuel prices in the U.S.

The growth in International sales and the steady demand in U.S. sales should by all indicators remain firm through 2007. So there

tight and demand should stay good due to U.S. demand as well as the international surge we discussed earlier.

Moving down the line, the older, pre-owned planes are still enjoying steady sales. Prices are remaining fairly constant and demand comes from the emerging International market as well as the U.S. market. As you move into older equipment, the supply increases, as one would expect.

To clarify, when I speak of like-new, I would consider these planes to be five-years-old and newer. From there I might consider the next segment to be aircraft that are six-years-old to 15-years-old. This category would be 1990 and newer. To most, this age bracket does not yet qualify them as aging aircraft.