

How To Detect A Breeze In The Air

I have a host of old clients and new prospects calling me saying, “We’re in a recession, call me with deals.” Then they go on to say there is no way they would buy now, because they’re sure prices will tumble.

There is no question that economic changes are taking place. Significant ones. Changes that are rocking certain segments of our economy. Taking heed to these changes and paying attention to evidence of such is of course vital for any industry segment, and no different in ours. In response to this, I want to point out some obvious indicators in our industry to watch for, and some not so obvious. I also want to point out one way that certain segments of our market can broaden the appeal of their aircraft, and some things to think about in order to provide a possible hedge to future and current values.

Many of the indicators that any market would use to judge change also exist in the aircraft industry. Supply and demand comes to mind first and foremost, but I’m not seeing large shifts in supply. I do, however, see a few extra planes in certain categories being added to the ‘for sale’ supply side. You can look at the sellers of these added planes and see that they are following the segments of the industry that are being most affected by the overall economy. So there are no surprises or startling trends being developed there.

Another example of change in the market is the amount of time an aircraft is on the market. Again, in changing times, buyers might say they’re not going to pay “that kind of retail number,” and correspondingly sellers say there is no way they’re going to drop the price “that far” just to have a sale. Hence the number of days that it takes to sell a plane increases.

I have likened this in past articles to a high school dance. Girls are on one side of the gym and the boys on the other, and no one has the courage to step to the other side to ask a partner to dance. But I’m not seeing this shift occur either, and have seen a fairly constant sales lead time. Keep in mind that the lead times are always lengthened or

shortened by the actual offering. The new or like-new aircraft sell very quickly and the older aircraft with less international appeal take longer.

Lastly, prices are a key indicator. In times of real change the sellers will ultimately start to cross the gym floor to ask a buyer to dance. This comes from sellers finally needing to sell and creating the demand by lowering prices, yet I’m not seeing this occur either. So supply does not seem to be changing, selling lead time is not changing, and hence prices are not being used to create demand.

In terms of some of the less visible indicators, the pace with which manufacturers are taking future orders can be evidence of a market shift. Yet, as I speak to them, I am not hearing the backlog change in any direction except longer! I also continue to hear the manufacturers’ backlogs and current deliveries being 60% international. In fact, the migration of our fleet to other countries is really a more threatening problem than the US economy, one we as a group should consider when weighing the issues.

Once the fleet leaves us, will it bring a return of high prices due to shrinking supplies? Not an immediate problem, but one of which we must continue to be aware. On the other hand, with this new and astounding international growth and appetite, who would say no to a high price offer from an international buyer?

So how do we hedge our value bets? One way is to have your newly purchased aircraft JAR Ops Certified. It may cost slightly more today in options, but without this certification it will cost you considerably more in the future in lost opportunity for global appeal in resale.

In a sense, we will create this self-fulfilling prophecy by equipping our new planes to meet global standards while planning an exit strategy that includes selling it abroad. Interesting competing priorities.

To sum this all up, the sky is not falling. The breeze everyone might feel actually has some appeal compared to the stifling hot, still air we have been experiencing, and the

change in the air is not hurricane season. We always hear that when the US sneezes the rest of the world catches a cold.

We can wake up every day and watch the world market results from the night before, then watch the economic pundits predict a wild ride on our market today. No doubt the economic connection has global reach. The sheer size of these emerging markets, however, compared to the number of planes that are in our universe, do create a greater market to absorb these aircraft than ever before in our collective history.

The sheer size of our market should keep the winds to a minimum and our values better than in previous market shifts. I’m not planning on making a mantra out of change, but I do plan on watching and reporting on the areas of the market that I pointed out in this article.

When I sense a need to report on these important segments based on occurrences that feel or look like trends, I will. Having been a participant in this industry for 34 years, I have seen and can identify these changes as they come about.

I want to be very careful not to misinterpret occurrences that are normal fleet aging and transitory change as people take deliveries of new aircraft and put the old ones on the market. I will carefully watch the activity and report accurately. Thank you in advance for your confidence to report these important indicators.

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