

# Are We Standing On The Bottom?

**O**ne recent morning as I was driving to the office, the news reporter on my radio was trying to make lemonade out of lemons during his reporting of the April jobless numbers. The report was that unemployment was at a 25-year high, but with job loss tracking at a slower pace. Not a bad way to begin looking at the glass as being half full rather than half empty. After all, many people would say that it is the news media and the reporting companies that have flamed the downward spiral of our economy. There are those that believe that the times would not be as tough if the reporting had not been as critical and downbeat.

I am not sure how much of this current economic mess we are in can be blamed on reporting, but I do believe that accuracy in reporting is critical, not just in focusing us on recovery, but also focusing us on surviving the downturn.

This month's article is not going to be about lemonade but about accuracy and setting up some milestones to watch for to predict the bottom of our downward spiraling aircraft prices. There are many factors that created the spiral, and there are equally as many factors that will slow, stop and reverse this downward trend. Let's examine them one at a time.

First, we should look at the causes of the previous upward trend. In fact, 'trend' may be too gentle a word. A rocket-like rise in prices might better describe the phenomenon that began in late 2004. As an industry, we were finally coming out of the downturn that started in 1999, aided by tremendous demand due to economic growth in the international markets. Our supply of aircraft, both new and used, was getting stretched thinner than we had experienced for many years. This emerging growth, coupled with the resurgence in the US economy, sent manufacturer backlogs into the five-year range, and sent pricing for like-new aircraft sky-rocketing.

Then in January of 2008 it all started to

slow-down. We as an economy and as an industry thought we had a small annoyance called sub-prime mortgages to deal with. We were sure "this too would pass". In fact, by mid-summer of 2008 we had started to see some life again and figured we had dodged a bullet. Then in September we had the beginnings of a global meltdown. Credit facilities were all but completely pulled back on lending, which immediately effected aircraft loans. There was not a newspaper or news channel to turn to and see anything but sobering terrible news being reported.

Next came the optics of having or flying corporate jets - what a terrible blow to us all. To this day we are all still combating the idea that fat cats fly in these planes using tax payers' money with no regard for right and wrong. In the mean time, jobs were being lost daily in our industry and recovery getting more difficult at every turn.

Companies and individuals were scrambling worldwide to decide what to do with their future aircraft orders. Buyers were unwinding and re-trading the aircraft deals they were in the middle of with great speed. The wheels were coming off and inventories of available aircraft were rising to historic levels. These were not just pre-owned planes but recent and future deliveries as well.

Sellers were grappling with how to price their aircraft in a vacuum and buyers seemed all but gone. If you look at transactions that took place from October 2008 through the end of the year, you could probably count them with your fingers.

Finally, after the first of the year, many sellers who had been hoping for a quick economic recovery realized that the worst was not in sight. Inventories continued to rise, while prices started to move down in greater degrees. A few transactions arose spurred by what seemed like bargain basement pricing, creating some activity that had not existed in the last quarter of 2008. To this day, lower than ever pricing is still not driving buyers to the table in large numbers. Sellers continue to

struggle with pricing, while buyers struggle with finding the confidence to act based on feeling that they are standing on the pricing bottom.

So here is the big question. Are we standing on the bottom? From aircraft sales all time highs, prices in all categories have dropped between 35% and 60%. Is that enough? Will they go down further? When might they go back up?

Absent of a crystal ball and wanting to paint an accurate picture of the bottom, I am reluctant to shout out that we are at the bottom. However, I am willing to say that if we are not at the bottom, we are close enough for a buyer to make an offer on a plane that demonstrates to a seller that they are credible and capable of closing a deal.

If a seller can feel confident in the buyer's ability to close a transaction, thoughtful negotiations between the two will probably bridge the gap between the seller's current pricing and the buyer's view of the floor of the market.

I do want to caution the buyers who think that there is a great delta remaining, for there is not. I believe that we are within 5% to 15% at the most from an absolute bottom. In fact some sellers are already there without the nudge.

The bottom line is, even if we are not at the bottom, the difference is so close that a fall from that height would not hurt when you land.

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