

BizJet Deliveries Soar!

...But What's the Real Impact?

We're reading numerous articles about the projected growth in deliveries by aircraft OEMs in 2015. But what will this double-digit increase mean to the used aircraft market? Jay Mesinger explores the impact on multiple levels.

Will demand keep up with supply? Will we find ourselves with an out-of-balance marketplace just as we started to feel the winds of recovery blowing? Just as we're ready to take a collective sigh of relief, have the winds picked up, or died down? Actually, the winds have both picked up and died down. The market segmentation along with global locations are creating these high and low winds.

Perhaps that sounds like a lot of mumbo-jumbo, to you. Not really - in fact, if we keep this discussion logical it will become clearer.

The Low Winds

The plummeting price of oil has sent the oil-producing countries as well as the oil-producing companies into a holding pattern with respect to major expenditures. The collateral companies that supply or provide ancillary products and services to these sectors are also reining in their capital expenditures, at least so far in 2015. So now we know the sectors of business that have pulled back, let's explore which products and manufacturers are most impacted.

Most large corporations involved in the oil (and related) sectors have been buying and flying the longer range, large cabin jets - so Gulfstream, Bombardier, Falcon and Embraer will all feel the immediate effects of this slowing.

In the last several years, although the US has been steadily returning towards accounting for a more balanced new aircraft delivery percentage, the OEMs have continued to build airplanes with the expectation of making International sales. This is an area in which they are going to see some dramatic shifts.

- China's slowing economy has all but halted that area's buying frenzy.
- Sanctions imposed on Russia for its alleged involvement in Ukraine, coupled with tumbling oil prices have dramatically affected that region's buying power.
- The Middle East is obviously impacted, and Europe is dealing with its own instability.
- The strong dollar and weakening Euro have not been good for the world's economic recovery.

The High Winds

Now let's shift tack to the stronger winds, and the segment of the market that should enjoy smoother sailing based on new aircraft deliveries. The light and medium jets that are characteristically sold in the US should do very well this year. That's not to say that the long-range, large cabin jets are not going to sell. The primary buying sector will shift noticeably, and the buyers will be more US-based HNWIs rather than the corporate groups that were buying with such vigor before the falling oil prices.

It is very important to be clear that the falling price of oil is unstable. The oil will not go away; it just will not be extracted or refined for a period. The price of oil will bounce back - hopefully to a more balanced and proper price, maybe in the \$70.00/barrel range. Priced fairly, spending should be stimulated again in the sectors that have been challenged lately. Thus, my forecast for 2015 is as follows...

2015 Used Inventory Impact

Though pre-owned inventory is not the primary topic of this article it's still important to discuss considering its supply in the market. The bottom line is that sales in the US should do well, transactions should remain robust, but pricing will remain elusive due to the supply globally.

The high serial-number, newer pre-owned airplanes in all categories should elicit the best deals, with the buyer potentially paying more for the best airplanes as they realize supply in this arena is limited and condition is king.

Essentially, I'm looking forward to a year of hard work. No sale will come easy, but I believe we can match the great year we had in 2014. Our industry in general will continue to provide important tools for business growth and positive changes for those companies that understand the value of Business Aviation! ■

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