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Recovery Quietly Organizing, Foley Says

A year ago, as the industry turned a difficult corner into 2009, general aviation management advisor Brian Foley was already predicting “measurable signs of recovery by mid-2010.” That conviction still stands.

Skeptics questioned Foley’s optimism, just as they did his earlier (Fall 2008) warning that the industry was in for a severe drop and painful, slow recovery. “After six years of unprecedented and seemingly unstoppable growth, it was hard for many of us to face that reality,” Foley said. “But the facts speak for themselves. I wasn’t playing the contrarian; I was being realistically intuitive. And now the psychological pendulum has swung too far the other way, with the industry feeling generally more pessimistic than is warranted. This, too, is understandable. We’ve all been bombarded by negativity for so long, and suffered firsthand the downturns in our own businesses, that it’s hard to visualize an improvement.”

Foley cites key evidence behind the brightening outlook. For example, the US Treasury yield curve is widening to a record, signaling recovery. And the US Gross Domestic Product (GDP) climbed to 2.2% in the third quarter of 2009 (historically, 3% would indicate a favorable aircraft-sales environment), the fastest pace since 2007. Stock markets around the world have rebounded smartly and the dollar value is still low. “With their strong local currencies and faster healing economies, it’s our thesis that non-US buyers will deplete the most desirable pre-owned inventory, forcing still-recovering US buyers to lead the new aircraft recovery later.”

Foley adds that while inflation doesn’t seem to be a problem (yet), he believes some may hedge by buying hard, high-value assets (such as an airplane) at today’s depressed prices and low interest rates. Finally, pent-up demand can’t be overlooked as the sales drought approaches its second anniversary in 2010. “Just as some individual investors regret having sold their stocks at a market low, there’s likely a degree of remorse among one-time buyers who cancelled orders prematurely.”

There's another seemingly forgotten positive suggested by Foley back in February, 2009. While historically the typical general aviation cycle lasts around six years, this downcycle was compressed into a much shorter time frame by a monumental shock forcing it to trough in a matter of months, not years. "With that catastrophic event now largely behind us, we've likely already embarked on what will hopefully be a full six-year upswing."

Foley points out that the recovery will be gradual and stealthy when compared to the abrupt drop that got us here. "Whereas we were whiplashed by the speed and severity of the downturn, we've now begun a six-year upcycle whose pace will seem glacial in comparison. We were also a little spoiled by the robustness of business conditions near the top of the last cycle. The new "normal" will average out somewhere between then and now, and expectations should be recalibrated accordingly."

About Brian Foley Associates (BRiFO)

Brian Foley Associates are recognized thought leaders and management advisors to the general aviation industry. Primary practice areas include industry analysis and forecasting, market research, strategic planning, new product evaluation and transaction support. It was formed in 2006 by industry veteran Brian Foley, a former executive at a major business jet manufacturer for over 20 years. Mr. Foley is also a licensed securities representative who, through an affiliated company, helps find buyers and growth capital for general aviation companies. For more information visit www.BRiFO.com or follow [@BrianFoleyAssoc](https://twitter.com/BrianFoleyAssoc) on Twitter.