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Emerging Markets Weigh on Bizjet Sales

They were the heroes of the 2009 financial crisis, keeping the faltering business jet industry afloat as mature economies reeled. But a decade later emerging markets are themselves struggling. "Without them, the rout in worldwide business jet unit deliveries, which roughly halved between 2008 and 2012, would have been far worse, if that's even imaginable" notes market analyst Brian Foley of BRiFO. "Today however, these regions have their own set of challenges that will dampen business jet sales activity outside of the more mature economies."

While initially off to a good start in 2018, emerging market stock market indices have since taken a turn for the worse. The MSCI Emerging Markets Index, which is designed to measure the combined stock performance of 24 emerging market countries, is currently flirting with a 20% loss since its January peak, a correction defined as a bear market.

Within this MSCI Index, key business jet markets such as China (-21%), Brazil (-25%) and Argentina (-48%) were already in bear territory in mid-August. Others like Russia (-15%) and Mexico (-6%) had not yet fallen as far. "When local stock markets decline, it's typically accompanied by less buyer willingness to spend on a multimillion-dollar aircraft asset."

Another headwind for aircraft sales in emerging markets has been local currency devaluation. The perceived safe haven of the U.S. dollar has caused it to rise against most emerging market currencies. As examples the Indonesian rupiah slid to its lowest value since 1998 and the Indian rupee is at a fresh record low. In August alone, Turkey's currency fell 27% against the dollar. "Since business jets are priced in dollars, it now takes a lot more local currency to buy one which has a negative impact on sales."

Heightened trade tensions, areas of political and economic turmoil, tepid commodities prices, debt coupled with the end of the cheap money era and a recession in South Africa have all added to the vulnerability of emerging markets.

According to the general aviation trade association GAMA, 35.1% of total business jet deliveries back in 2010 went to emerging market stronghold regions of Asia-Pacific, Latin America, Middle East and Africa. In 2017, that percentage had dwindled to just 19.2%. "That's nearly a halving of emerging market business jet uptake. I would expect that percentage to go even lower in 2018 and not see a meaningful uptick for a few years."

Fortunately for the industry the world's largest market is North America, where 65% of the world's business jet fleet is based according to market data provider AMSTAT. Some business jet manufacturers now report a positive book-to-bill ratio, which means that the sales in mature markets are offsetting the delivery drop off in emerging markets.

Today's business jet market is now more globally diversified than ever. As worldwide economies are cyclical and not always synchronized, this allows pockets of strength to support the industry while giving areas of weakness time to regroup. As evidence, nearly a decade ago strong emerging markets helped to avoid a larger manufacturing catastrophe while established markets were faltering. Today, that dynamic has gone full circle and it's now the traditional markets that are again powering the industry.

"While difficult to imagine now, it's just a matter of time before emerging markets will again be a major contributor to private aircraft sales. With developed economies in an upswing, the industry has the luxury of waiting for at least a while."

About Brian Foley Associates (BRiFO)

Since 2006 Brian Foley Associates (BRiFO) has provided aviation investors and companies with advice, research and diligence. www.BRiFO.com