2009 Year End Review and 2010 Forecast
AIA Research Center

The aerospace industry is still smarting from 2008, a year when the world's financial markets nearly collapsed, sending many industries – including several segments of the aerospace industry – into a tailspin. Yet, aerospace entered this difficult period strong and resilient, and the momentum generated by a remarkable period of growth carried the industry through the last year, and will push aerospace sales to another record year in 2009. AIA estimates that aerospace sales will reach $214.1 billion in 2009, up more than 4 percent from 2008.

Moving forward, the aerospace industry is likely to endure further turbulence before breaking through to clearer skies. At times, rudder control may seem sluggish, as the market conditions that spur aircraft sales are largely exogenous to the aerospace industry, in that they are tied to a rebound of the overall economy. Already though, a few bright spots are appearing, such as indications of stabilization of some aerospace metrics. Just recently, Boeing reported that fewer customers were deferring jet orders, while IATA reported that international scheduled traffic results show moderately improving conditions.

Civil Aircraft Sales

Despite the extremely difficult economic environment, the civil aerospace sector is expected to register moderate growth in 2009, improving by nearly $1.9 billion to $82.5 billion. Sales of large commercial jetliners– the largest segment of civil aircraft sales by value –will have a relatively strong year, although most of the growth is due to recovery from the work stoppage at Boeing last year. Other segments of the civil aircraft sector are not expected to achieve similar gains. General aviation aircraft and civil helicopter shipments were down in 2009. The depressed market has also taken a toll on aftermarket services. However, on balance, the positive growth expected from the market for large jetliners is likely to result in a net positive trend for civil aerospace.

The business jet market was one of the early casualties of the global economic downturn, and is likely to suffer relatively more than most other aerospace sectors. After an unprecedented five-year industry expansion, business jet sales dropped sharply in 2009, and production cuts have been widespread throughout the industry. In the used market, inventories appear to have stabilized, but they remain near record highs while prices continue to fall.

Military Aircraft Sales

Sales of military aircraft are higher in 2009 at $61.7 billion, a year-over-year increase of more than 8 percent. There is across-the board improvement in the sector: fighters and military rotorcraft will have particularly good years; military transports registered strong growth; and, adding to the tally, military aircraft R&D increased more than 15 percent in 2009.

Missile Sales

Sales of missile systems continued their upward trend in 2009, reaching $14.8 billion, an 11 percent improvement. Spending on missile research and development by the U.S. Army, Navy and Air Force increased significantly, while Department of Defense-wide spending by the Missile Defense Agency decreased by nearly 8 percent, resulting in a net decrease of R&D spending for the year.

Space Sales
Sales of space systems, which include military, civil, and commercial programs, will improve modestly in 2009, rising 4.1 percent to $40.4 billion. Research and development in the space sector was fairly flat, while NASA outlays and Defense Department space contracts improved 7 and 4 percent, respectively.

Exports
Exports of U.S. aerospace products will decrease 17 percent to $78.9 billion in 2009. Civil exports will decrease by 16 percent, while a 23 percent drop is expected for total military exports. From 2003 through 2008, Japan was the top purchaser of U.S. aerospace export products, accounting for an annual average of 10 percent. However, the first three quarters of 2009 show France moving into the lead at 10 percent, with the United Kingdom and Japan ranking second and third, respectively.

International demand for U.S. aerospace products and services is becoming both increasingly important and less certain. Several global trends point toward the potential for increased international sales of U.S. aerospace products. For example, improved relations between the U.S. and India may result in a new, high-growth market. A weaker dollar also improves the competitiveness of U.S. aerospace products to international customers. Countering these trends toward higher foreign aerospace sales are factors like the weak global economy and oil price volatility, which could lead some international customers to delay major defense orders.

Imports
Total aerospace imports will decrease by nearly 34 percent to $25.0 billion in 2009. The various product categories dropped fairly uniformly, with the exception of *aircraft and engine parts*, the largest segment as measured by value, which fell by 44 percent to $11.2 billion. The U.S. import market is significantly more concentrated than the export market, with 50 percent of U.S. aerospace imports originating from the top two suppliers, Canada and France.

Trade Balance
International trade of aerospace products stalled in 2008, and slipped further in 2009. So far this year, U.S. imports and exports are both off. In total, U.S. trade in aerospace products generated a net inflow of $53.9 billion, creating a surplus 6 percent lower than the 2008 surplus.

In 2009, the overall U.S. trade deficit will be $514.3 billion, with total imports reaching $1,089.7 billion and exports finishing at $1,604 billion. However, with aerospace exports representing 7.2 percent of total U.S. exports, the industry's trade surplus will make a significant positive impact on the nation's trade balance.

Orders & Backlog
Aerospace orders will continue on a downward trend in 2009, falling by an estimated 33 percent to $154.5 billion. Lackluster airline traffic and the sizable backlog already in place indicate that orders will continue to decline in the near future. Already, falling orders have had a negative effect on the aerospace backlog, which in 2009 will decrease for the first time since 2003. Through the first three quarters of 2009, civil transport aircraft accounted for 73 percent of the backlog, with $269.6 billion in unfilled orders.

Employment
For the first time since 2003, aerospace employment is forecast to fall in 2009, to 641,100 from 657,100 workers. Despite the setback, aerospace employment is faring better than most other industries. For 2008, the most recent year for which complete annual data are available, employment for all manufacturing firms fell by 3.2 percent and employment at durable goods manufacturers fell by 3.8 percent, while aerospace employment increased by 1.5 percent. In addition, the average hourly wage in

the aerospace industry rose by 6 percent in 2008, with the average worker taking home nearly $30 per hour.

Profit

Net profit after taxes for the aerospace industry increased 6.5 percent to $15.6 billion in 2009. The growth is primarily due to profits getting back on track after the work stoppage at Boeing in the third quarter of 2008. Given the overall economic conditions, sales and profit for the aerospace industry are more than holding their own in 2009. Over the same period, profits for the overall manufacturing industry dropped 12 percent on sales that fell 21 percent.

Outlook

Aerospace is well known as a cyclical industry. Overall, recent years have been very prosperous for the industry, as evidenced by the first simultaneous civil and military aerospace upturn in 25 years. While a number of factors are likely to drag on the industry over the coming months, a possible ace or two in the hole may prevent – or at least reduce the severity of – a downcycle similar to those the aerospace industry has experienced in the past. First and foremost are the new programs in the pipeline. Never before has the civil aviation sector had such a game-changer as the 787 ready to enter the market just as it is needed most.

On the military side, the eventual ramp-up of the Joint Strike Fighter is expected to at least partially offset the potential impact of one or two aircraft program reductions or cancellations. Sales of unmanned aircraft systems are also likely to bolster military aerospace sales. Demand for unmanned systems by the U.S. military has increased more than 600 percent since 2004, and is forecast to double again between 2010 and 2015.

Other considerations are the resilient single-aisle market and the fact that replacement demand remains high, and may be driven higher if fuel costs increase. The setbacks suffered by the business aviation industry have been substantial, but they are expected to be short-lived. As the global economy strengthens, net new business aviation orders are expected to begin recovering in 2010, leading to growth of new business aircraft deliveries in 2011/2012.