

CONNECTICUT POST (Bridgeport, Conn.)

State's aerospace industry remains a good bet

Published on the Internet, Friday, July 27, and in print on Saturday, July 28, 2012

By Peter Chieco

The airplanes were flying again at Farnborough, showing off their state-of-the-art technology to potential buyers from around the globe. Staged outside London, it is the world's premier biannual aviation event where delegations from dozens of countries, airlines and manufacturers sign contracts, seek business partners and showcase their expertise. At this show two years ago, \$47 billion worth of new orders were announced.

In addition to the major aerospace players from Connecticut, more than a dozen so-called second-tier suppliers, predominately from the Connecticut River Valley, also are highlighting their capabilities under the auspices of Connecticut Department of Economic and Community Development. The concentration of aerospace suppliers in this area is often referred to as "aerospace alley," not unlike Silicon Valley for the computer and semiconductor industries.

Right at the start of this international trade show, several of the major manufacturers announced billions of dollars in new orders for both fixed-wing aircraft and helicopters. As always, the Connecticut companies exhibiting at Farnborough, along with dozens of others throughout the state, stand to benefit from new orders like these as they supply myriad parts and assemblies that will become part of the engines and bodies of new aircraft.

According to an Airbus study, between 26,900 and 33,500 commercial aircraft are likely to be produced over the next 20 years.

Some are suggesting that's a too-conservative forecast. Earlier this month, for example, in its 20-year forecast of the commercial aircraft market, Boeing predicted an increase to 34,000 new aircraft, costing \$4.5 trillion and doubling the global fleet, as a result of both emerging market growth and the need for more fuel-efficient aircraft. That is an increase from its year-earlier forecast of 33,500 new aircraft in the next two decades. The surge in aircraft orders has been supported by accelerated scrapping of older airliners for more fuel-efficient models, and increased purchases by aircraft-leasing companies, which are becoming increasingly important as traditional airlines are finding it more difficult to obtain financing. For companies in Connecticut this is clearly good news -- and a potential opportunity for investors.

News accounts of the Farnborough air show should be a reminder that it may be time for investors to re-evaluate the world's aerospace industry -- suppliers, airlines and the many related companies involved. Some of those companies may very well yield solid investment opportunities. Caution remains key. Careful selection is critical.

Discussions with Connecticut-based suppliers plus an independent study of the industry suggests that there remains a dichotomy in this industry -- the commercial aircraft market is improving somewhat while the defense industry is on the decline. Winding down of U.S. overseas military actions, plus government attempts to reduce overall spending, have taken a bite out of defense spending.

A [Deloitte Touche Tohmatsu](#) Limited (DTTL) Global Manufacturing Industry group 2012 study suggests that the financial performance of the top aerospace and defense companies is likely to be similar to that of 2012 as declining defense revenues are offset by improvement in the commercial sector. The combination of declining

defense spending and rising commercial aerospace orders suggests that overall global aerospace spending should be near flat in the near term, the study says.

Nevertheless, according to a report from the [Aerospace Industries Association](#), there was a \$462 billion order backlog at the end of 2011 for both aircraft and related parts, greater than in either of the previous two years. New orders for aircraft and parts topped \$204 billion, also greater than in the previous two years. These numbers are down from a heady 2007 but still about a third greater than what was recorded a decade ago.

The aerospace industry has been cyclical for some time and that this is not likely to change, at least in the near future. Interestingly, the Deloitte report does point out that "Continued global economic challenges ... may result in margin contraction for some industry players," and this could lead to increased merger activity worldwide.

It has been about 108 years since the first successful flight by the Wright brothers at Kitty Hawk. The change in the industry in a comparatively short period of time is remarkable. Who can predict what dramatic change will be next? Computers flying planes without pilots? Perhaps at some point.

Meanwhile, we can be reasonably assured that the aerospace industry worldwide, and in Connecticut in particular, will remain healthy and strong for some time to come.

Peter Chieco is a senior vice president and financial adviser with the [Global Wealth Management Division of Morgan Stanley Smith Barney](#) in Greenwich.