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Aerospace & Defence

Global defence orders surge as geopolitical tensions mount

Sustained state spending on weapons drives investor interest in sector



Korea's Hanwha which makes the K-9 self-propelled howitzer tank, has benefited significantly from Ukraine-related orders, in particular from Poland © AFP via Getty Images

Sylvia Pfeifer and **Eri Sugiura** in London 7 HOURS AGO

The order books of the world's biggest defence companies are near record highs after growing by more than 10 per cent in just two years because of rising geopolitical tension, including the conflict in Ukraine.

An analysis by the Financial Times of 15 defence groups, including the largest US contractors, Britain's BAE Systems and South Korea's Hanwha Aerospace, found that at the end of 2022 — the latest for which full-year data is available — their combined order backlogs were \$777.6bn, up from \$701.2bn two years earlier.

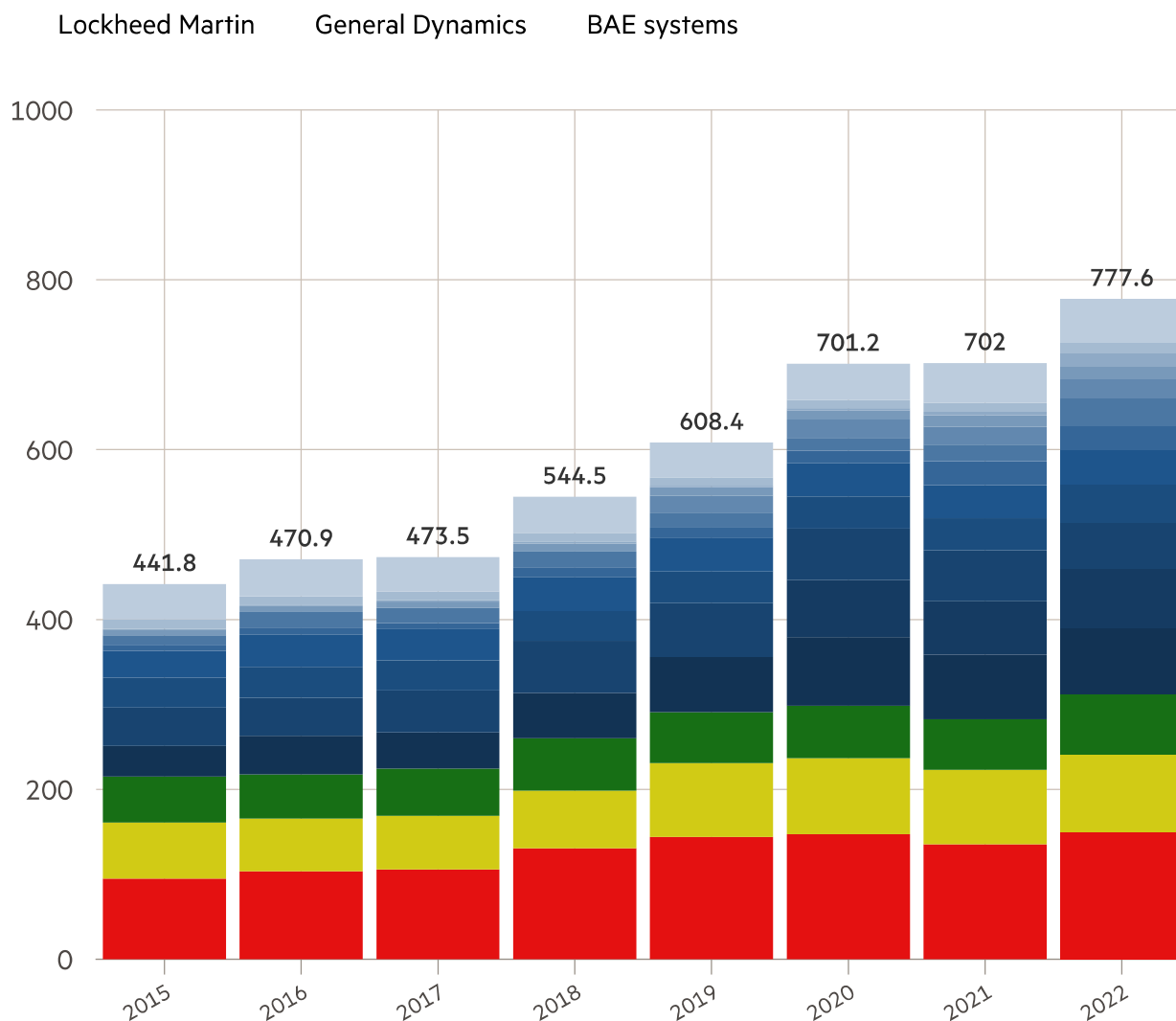
The trend's momentum continued into 2023. In the first six months of this year — the latest comprehensive quarterly data available — combined backlogs at these companies stood at \$764bn, swelling their future pipeline of work as governments kept placing orders.

The sustained spending has spurred investors' interest in the [sector](#). MSCI's global benchmark for the industry's stocks is up 25 per cent over the past 12 months. Europe's Stoxx aerospace and defence stocks index has risen by more than 50 per cent over the same period.

The war in Ukraine and other geopolitical tensions are driving orders for defence companies

Order backlogs of 15 large defence companies (in \$bn)

Other companies include: Northrop Grumman, RTX, Boeing (Defense, Space & Security), Thales, Leonardo, Rheinmetall, Dassault Aviation (Defense), L3Harris, Elbit Systems, Hanwha Aerospace, Saab and Airbus (Defense and Space).



Source: FT analysis of companies' data.

Chart note: Reported currencies other than the US\$ are converted using rates on Dec. 15. RTX and L3Harris figures are included from 2020 and 2019, respectively, due to mergers. Thales figures include civil businesses in avionics & space, and exclude disposed transport business from 2021. Rheinmetall figures from 2021 include orders & other agreements. Hanwha figures are for land forces. Airbus does

not disclose H1 backlogs.

The gains reflect conviction among investors that higher defence spending by governments is here to stay.

Total global military expenditure increased by 3.7 per cent in real terms in 2022 to a new high of \$2,240bn, according to the Stockholm International Peace Research Institute.

Military expenditure in Europe had its steepest year-on-year increase in at least 30 years as governments in the region announced new orders for ammunition and tanks to replenish national stockpiles depleted by donations sent to [Ukraine](#).

Hanwha Aerospace recorded the biggest rise in new orders, with its backlog soaring from \$2.4bn in 2020 to \$15.2bn at the end of 2022, according to the FT analysis.

The company, the country's biggest arms producer, which makes the K-9 self-propelled howitzer tank, has benefited significantly from Ukraine-related orders, in particular from Poland.

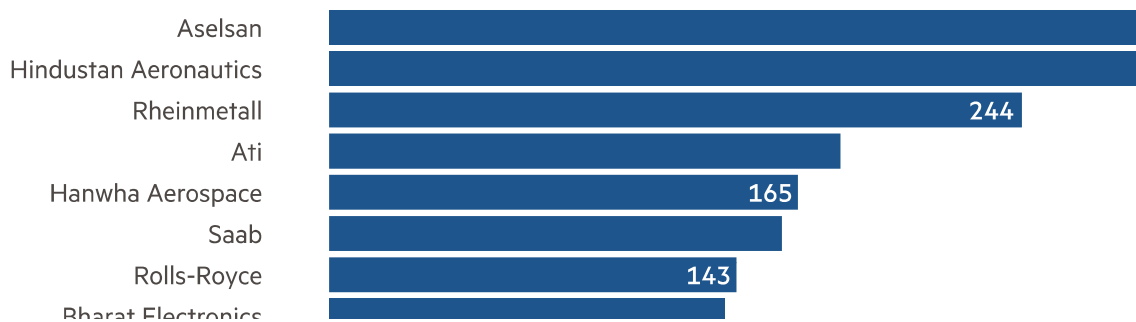
South Korea has [catapulted up the ranks](#) of arms sellers over the past two years because of significant export orders, particularly from eastern European countries. It was the world's ninth-largest seller of arms in 2022, up from 31st place in 2000, according to Sipri.

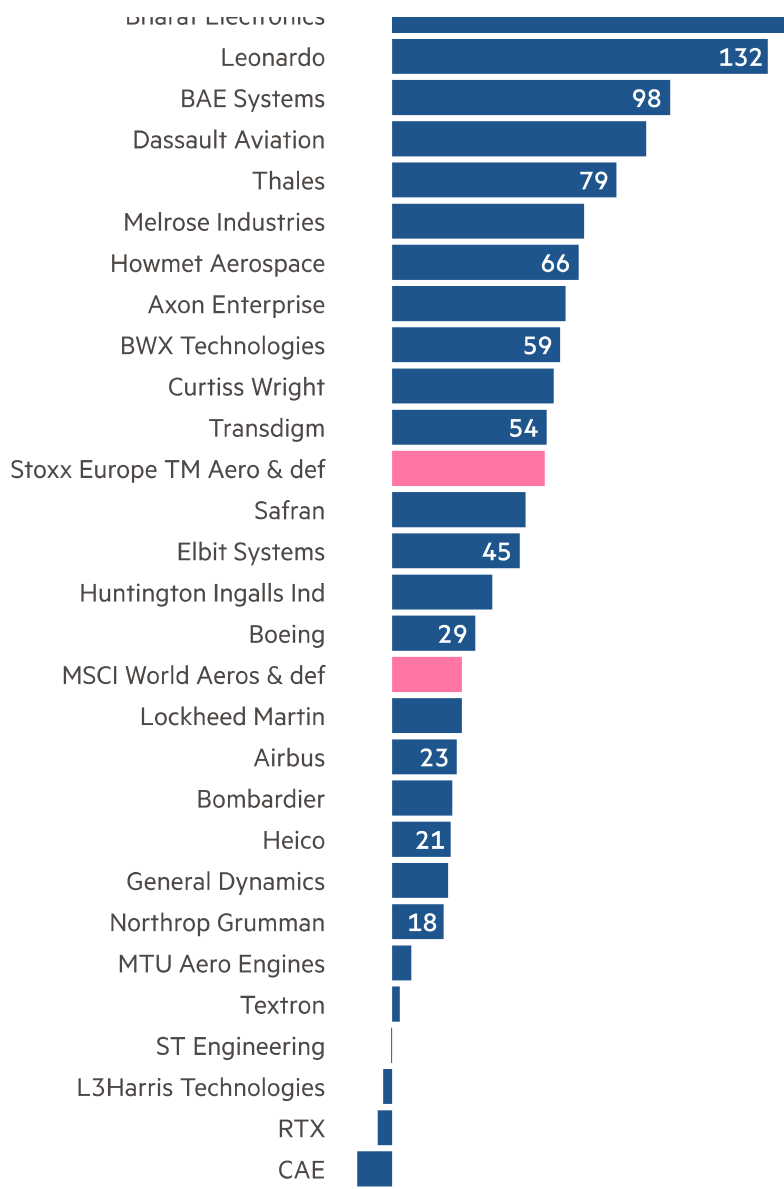
German tank maker Rheinmetall has been another beneficiary of higher spending in the wake of the war in Ukraine, with its order backlog rising from \$14.8bn in 2020 to \$27.9bn in 2022. Its backlog stood at \$32.5bn at the half-year.



Defence stocks have been a boon for investors since the war on Ukraine began

Share price change since Jan 2022 (%)





FINANCIAL TIMES

Source: Refinitiv

Not all of the higher spending is related to Ukraine. BAE Systems’ order backlog, for example, has risen from \$61.8bn to \$70.8bn in 2022 thanks to new orders for existing programmes, including submarines, frigates and fighter aircraft. Its order backlog hit a record \$84.2bn in the first six months of 2023.

Some of the causes of higher backlogs predate Russia’s full-scale invasion of Ukraine, according to Nick Cunningham, analyst at Agency Partners.

“The reality is lead times for policymaking, budgets and placing orders are so long that the invasion of almost two years ago is only just appearing in orders and barely in revenues, except for a few shorter-cycle specialists such as Rheinmetall,” he said.

Despite receiving new orders, many European and US defence companies have

struggled to significantly increase production capacity amid persistent supply chain disruptions and labour shortages.

Analysis by Sipri of the 100 largest companies found that revenues from sales of arms and military services totalled \$597bn in 2022, 3.5 per cent less than 2021 in real terms, even as demand rose sharply.

Cunningham said the order pipeline “looks really strong, so we expect more to come in”. He expects the “book to bill ratio” — the ratio of orders to deliveries — to stay above one, meaning backlogs should “increase for some time to come”.

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