APPENDIX B: FAA FORECAST ACCURACY

Forecasts, by their nature, have a degree of uncertainty incorporated in them. They involve not only statistical analyses and various scientific methods, but also judgment and reliance on industry knowledge and the forecaster’s experience to incorporate industry trends not yet reflected in recent results. The FAA’s annual Aerospace Forecast is no exception. Given the volatile nature of the U.S. airline industry, it is not surprising that each year’s forecast would contain a certain degree of forecast variance. Therefore, FAA forecasters have tried to build forecast models that give a consistent and predictable pattern of results. Analysts relying on the forecasts produced by the models would then be able to adjust for the predictable variance from actual results.

The table below presents an analysis of the variance from historical results for a primary forecast assumption along with five key forecast metrics during the FY 2005-2014 forecast period. Although this period has experienced industry upheaval, the FAA’s forecast methodology remained consistent during this time. For this reason, inclusion of prior periods in an analysis of forecast variance might lead to inconclusive or inaccurate implications about the accuracy of FAA’s current forecast methodology.

The table below contains the mean absolute percent errors for the projected values versus the actual results for U.S. carriers’ domestic operations along with the projected values versus actual results for U.S. GDP. Each metric has five values showing the relative forecast variance by the number of years in advance the preparation of the forecast took place. For example, the “3 Years” column for ASMs shows that the mean absolute percent error was 8.2 percent for ASM forecasts prepared 3 years in advance. For the period under examination, preparation of the forecasts for FY 2005 through FY 2014 occurred in FY 2004, FY 2005, FY 2006, FY 2007, FY 2008, FY 2009, FY 2010, FY 2011, FY 2012, and FY 2013 respectively.23

23 It should be noted that the first forecasted year for each respective fiscal year is that very same year. Therefore, FY 2003’s first forecasted year is FY 2003, and the third forecasted year is FY 2005.
Presenting forecast variances from actual data in such a manner simplifies a review of longer-term trends. Typically, one would expect the variances to decrease as the forecast year is closer to the year the forecast is prepared. Presenting forecast variances in this way allows an examination of changes in the relative variances by time horizon, signaling when dramatic shifts in accuracy occur.

Examination of the forecast variances reveals several items. First, the forecast variances for GDP, a key exogenous variable, are similar to the variances of the key traffic measures, Passenger Enplanements and RPMs. This suggests that a substantial amount of the forecast variance for the traffic variables may be attributed to the forecast error in the exogenous variables. Second, all the metrics examined show increasing variances as the forecast time horizon lengthens. Third, the ASM forecast variance being larger than the RPM forecast variance indicates a consistent underestimation of load factors which is an important factor in translating passenger demand into aviation activity. All other things being equal, large variances in forecasts of load factor can lead to large variances in the forecasts of ASMs which in turn will typically result in variances of aviation activity, as can been seen in the variances of the IFR aircraft handled forecasts.

Furthermore, ASMs and aircraft handled are difficult to forecast beyond a relatively short time horizon, as carriers often react to changing market conditions not always tied to the general economic trends that have long term impacts. The relatively large variances in these forecasts beyond two years suggest that carriers have been permanently removing capacity by reducing flights and by changing the mix of aircraft to satisfy demand. In the short term, such capacity reductions can be identified by using advance schedule information. However, the FAA’s longer-term forecasts rely on anticipated aircraft deliveries and retirements as well as historic relationships between economic activity and capacity deployed. Given the volatile nature of
many of the factors that may influence longer term ASM and aircraft handled forecasts, a simpler approach to projecting ASMs, such as RPMs divided by load factors, may improve the long run accuracy of the ASM and aircraft handled forecasts.