FORECAST HIGHLIGHTS

2015-2035

Since its deregulation in 1978, the U.S. commercial air carrier industry has been characterized by boom-to-bust cycles. The volatility that was associated with these cycles was thought by many to be a structural feature of an industry that was capital intensive but cash poor. However the great recession of 2007-09 marked a fundamental change in the operations and finances of U.S Airlines. Air carriers fine-tuned their business models to minimize losses by lowering operating costs, eliminating unprofitable routes, and grounding older, less fuel efficient aircraft. To increase operating revenues, carriers initiated new services that customers were willing to purchase and started charging separately for services that were historically bundled in the price of a ticket. The industry experienced an unprecedented period of consolidation with four major mergers in five years. These changes along with capacity discipline exhibited by carriers have resulted in a fifth consecutive year of profitability for the industry in 2014. Looking ahead there is optimism that the industry has been transformed from that of a boom-to-bust cycle to one of sustainable profits.

As the economy recovers from the most serious economic downturn since World War II and the slowest expansion in recent history, aviation will continue to grow over the long run. Fundamentally, over the medium and long term, demand for aviation is driven by economic activity. The 2015 FAA forecast calls for U.S. carrier passenger growth over the next 20 years to average 2.0 percent per year, slightly lower than last year’s forecast. The sharp decline in the price of oil in 2015 is a catalyst for a short lived uptick in passenger growth. Although oil prices are projected to fall to around $60 per barrel in 2015, our forecast assumes that they will rise over the next five years to exceed $100 by 2021, keeping a lid on U.S. economic growth during the same period. One of the many factors influencing the muted recovery is the uncertainty that surrounds the U.S. and the global economy. The global economy has been hit by a number of headwinds during the past few years, from recession in Europe to a “soft landing” in China and inconsistent performance in other emerging economies. The uncertainty over the future course of oil prices is just one more item on the list. Although the U.S. economy has managed to avoid a double dip recession, a prolonged period of faster economic growth (e.g. > 3%) may not be forthcoming.

System capacity in available seat miles (ASMs) — the overall yardstick for how busy aviation is both domestically and internationally – is projected to increase by 2.4 percent this year after posting a 2.2 percent increase in 2014; it will then grow at an average annual rate of 2.5 percent through 2035. In the domestic market, capacity growth in 2015 is forecast to be 2.8 percent and then grow at an average annual rate of 1.8 percent for the remainder of the forecast period. Domestic mainline carrier capacity is projected to increase 2.6 percent in 2014 after rising 1.8 percent in 2014. For the regional carriers, domestic capacity growth is projected to be 4.0 percent in 2015 after falling in each of the past three years, including a 1.5 percent decline in 2014. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to increase 2.8 percent in 2015, and then grow at an average of 1.9 percent per year through 2035; domestic enplanements in 2015 will increase 2.6 percent, and then grow at an average annual rate 1.6 percent for the remainder of the forecast period.
The average size of domestic aircraft is expected to increase by 1.1 seats in FY 2015 to 128.2 seats. Average seats per aircraft for mainline carriers are projected to increase by 1.2 seats as network carriers continue to reconfigure their domestic fleets. While demand for 70-90 seat aircraft continues to increase, we expect the number of 50 seat regional jets in service to fall, increasing the average regional aircraft size in 2015 by 0.8 seats to 57.8 seats per mile. Passenger trip length in all domestic markets will increase by 2.8 miles during the same period.

General aviation market continues its recovery. In 2014, the turbo jet sector recorded its first increase in deliveries by U.S. manufacturers since 2008. For a third year in a row, single engine piston deliveries have increased. The long term outlook for general aviation is favorable, and near term also looks promising especially for piston aircraft activity which is sensitive to fuel price movements. While it is slightly lower than predicted last year, the growth in business aviation demand over the long term continues. As the fleet grows, the number of general aviation hours flown is projected to increase an average of 1.4 percent per year through 2035.

After sputtering in the early part of 2014, the U.S. economy began to show improvement in the latter half of 2014 while the economies in the rest of the world showed mixed results. With lower energy prices, U.S. carrier profitability should remain steady or increase as an economy in its sixth year of recovery leads to strengthening demand and increased revenues, while operating costs are falling or stable. Over the long term, we see a competitive and profitable aviation industry characterized by increasing demand for air travel and airfares growing more slowly than inflation, reflecting over the long term a growing U.S. economy.

1 Alaska Airlines, American Airlines, United Airlines, Delta Airlines, and U.S. Airways.