

▶▶▶ FAA AEROSPACE FORECAST FISCAL YEARS 2009 – 2025

Developing forecasts of aviation demand and activity levels continues to be challenging as the aviation industry evolves and prior relationships change. In times of amplified volatility, the process is filled with uncertainty, particularly in the short-term. Even though the highly cyclical U.S. aviation industry moved strongly downward at the end of 2008, history has shown the demand for air travel is resilient and growth will return. With the start of 2009, the lingering questions are 1) how much economic recovery will be required to jumpstart the industry back to a period of growth, and 2) when will the recovery occur?

Carriers responded proactively to two major events in 2008. During the first part of the year, carrier costs rose as fuel prices reached record levels, peaking at \$3.83 a gallon during the summer. To combat rising costs, carriers implemented schedule cutbacks, pared international growth plans, and raised fares. By the latter half of the year, the demand for air travel dropped as economic uncertainty accelerated. Carriers countered the drop in air travel demand with additional schedule cuts. By the start of 2009, carriers had executed the largest reductions in capacity during the period of post-deregulation (1978).

Given the current instability in the global economy, there is much uncertainty as to the timing and strength of a recovery in aviation demand. While there remains large uncertainty in the operating environment, the FAA has developed a set of assumptions and forecasts consistent with the emerging trends and structural changes currently taking place within the aviation industry. The FAA believes these forecasts accurately predict future aviation demand, however due to the large uncertainty of the operating environment the variance around the forecasts is wider than in prior years.

The commercial aviation forecasts and assumptions are developed from econometric models that explain and incorporate emerging trends for the different segments of the industry. In addition the commercial aviation forecasts are considered unconstrained in that they assume there will be sufficient infrastructure to handle the projected levels of activity. These forecasts do not assume further contractions of the industry through bankruptcy, consolidation, or liquidation.

The commercial aviation forecast methodology is a blended one. The starting point for developing the commercial aviation forecasts (air carriers and regionals) is the future schedules published in the Official Airline Guide (OAG). To generate the short-term forecast (one year out) current monthly trends are used in conjunction with published monthly schedules to allow FAA forecasters to develop monthly capacity and demand forecasts for both mainline and regional carriers for fiscal and calendar year 2009. The medium to long-term forecasts (2010-2025) are based on results of econometric models.

The general aviation forecasts rely heavily on the results of the 2007 General Aviation and Part 135 Activity Survey and discussions with industry experts. The assumptions have been updated by FAA analysts to reflect more recent data and developing trends, as well as further information from industry experts.

The FAA also presents the forecasts and assumptions to industry staff and aviation associations, who are asked to comment on the reasonableness of the assumptions and forecasts. Their comments and/or suggestions have been incorporated into the forecasts as appropriate.

ECONOMIC FORECASTS

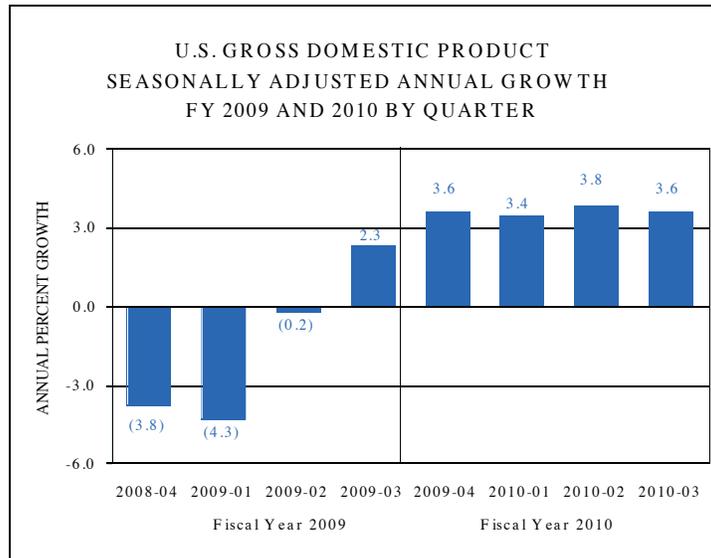
The FAA uses the most recent Administration economic forecasts to project domestic aviation demand. The FAA uses the world and individual country economic projections provided by Global Insight, Inc. to forecast the demand for international aviation services. Annual historical data and economic forecasts are presented in tabular form in Tables 1 through 4. Projections for the U.S. economy are presented on a U.S. government fiscal year (October through September) basis. International forecasts are presented on a calendar year basis.

Recently, the National Bureau of Economic Research (www.nber.org), the official arbiter of business cycle dating, announced that the US economy entered into recession in December 2007. As the number of unemployed workers rose, there was little doubt that the US economy entered into recession together with partner economies from the other side of the Atlantic and around the world. Further confirmation was provided when the Bureau of Economic Analysis (www.bea.gov) reported that U.S. real gross domestic product (GDP) fell at an annual rate of 3.8% in the fourth quarter of CY 2008, the second consecutive quarterly decline in real GDP.

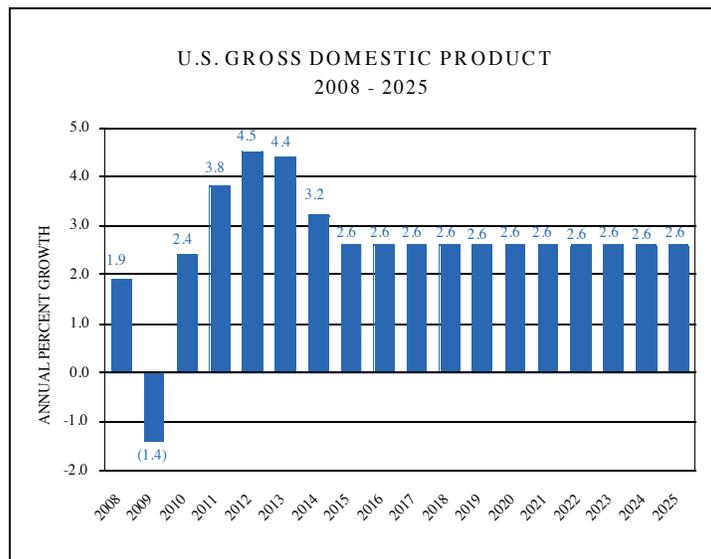
The question now is how long the recession will continue. While history may be a guide, every recession has its own character. On average, the recessions since the end of World War II averaged 10 months in duration. Unlike the recession of 1981-82 the US economy is not facing an inflationary environment and high interest rates. In comparison to recession of 1973-74, today, the economy does not face a high energy cost environment either. The job losses from the beginning of the recession in December 2007 to January 2009 have totaled 3.8 million. Furthermore, job losses have accelerated in the last three months. With a further contraction of the economy projected this year, unemployment is expected to rise above 8 percent, a 3 point increase over the long-term trend. As it stands now, this recession is one of the most severe downturns since the end of World War II.

Against this backdrop, there is great deal of uncertainty as to the future direction of the US and the global economy. Although, the US economy is undergoing significant structural changes, particularly in the housing and banking sectors as the true prices of assets are being revealed, the combination of the nearly \$800 billion fiscal stimulus package and the aggressive monetary policies that have been undertaken, and are expected to continue, is projected to lead the economy out of the recession in the second half of 2009.

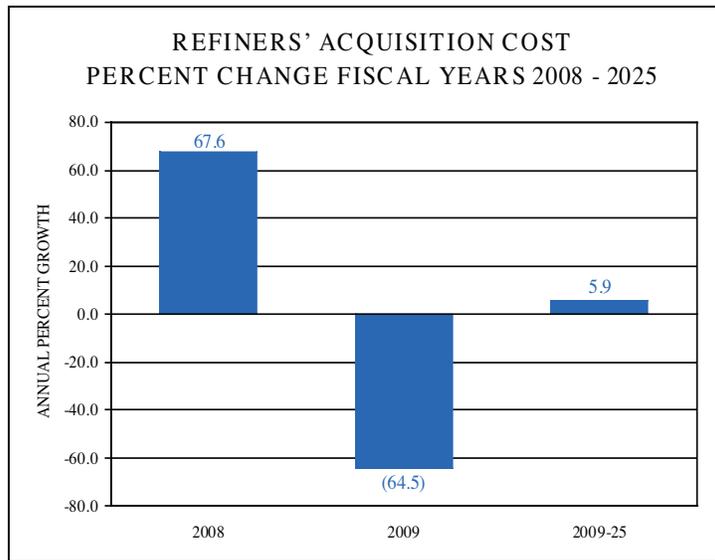
The latest set of economic forecasts from the Administration calls for the U.S. recession to end by the 3Q in FY 2009 followed by a relatively modest recovery over the next six quarters. On a quarter-by-quarter basis U.S. economic growth is projected over the next two years to range from a low of -4.3 percent in 2Q FY 2009 to a high of 3.8 percent in 3Q FY 2010.



Between 2010 and 2013, U.S. economic growth is projected to be above trend (3.8 percent) with rates ranging between 2.4 and 4.5 percent. Beyond 2013 through the balance of the forecast period, U.S. economic growth is projected to slow to around 2.6 percent per year. The major risk is that the financial crisis worsens resulting in further reductions in lending, leading to reduced consumer spending, weaker business investment, and slower worldwide economic growth.



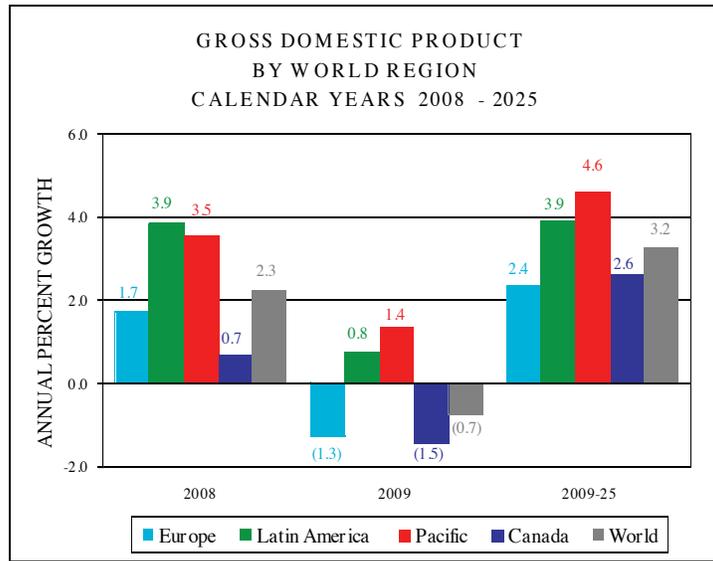
Oil prices, as measured by Refiners' Acquisition Cost, are projected by Global Insight (January 2009 US Economic Outlook) to fall almost 65 percent in 2009 after more than tripling since 2004. Oil prices are then projected to increase steadily to 2014 before falling gradually to 2018 as increased supplies come on line. After 2018 oil prices are assumed increase at the rate of inflation for the balance of the forecast period.



The inflation rate (as measured by the CPI) is expected to fall 0.4 percent in 2009, after rising 4.4 percent in 2008. The fall in the CPI in 2009 is mostly attributed to the decline in energy prices. As the economy recovers and growth resumes, consumer price inflation is expected to rise slowly until 2012 and then level off at 2.1 percent a year for the balance of the forecast.

WORLD ECONOMY

Worldwide economic activity is predicted by Global Insight to shrink by 0.7 percent in 2009, marking the first contraction in global GDP since the Great Depression. The advanced economies (U.S., Canada, Europe, and Japan) are all projected to post declines in output ranging from -1.5 percent to -2.9 percent. The emerging market economies are projected to grow 2.8 percent, 3.0 points below what they grew in 2008. Many emerging market economies will post declines in real GDP including Mexico, Singapore, Taiwan, Hong Kong, Israel, Turkey, and Ukraine. In 2010, growth is projected to resume (2.4 percent) as stimulus plans in the U.S. and in China provide the basis for recovery. Recovery in Europe is projected to be more gradual than in the U.S. as the housing market corrections have come later and policy actions are more cautious. Beyond 2010 through the balance of the forecast period, world real GDP is projected to increase an average of 3.3 percent per year.



The Asia/Pacific and Latin America regions will continue to have the world’s highest economic growth rates. These regions are expected to see their economic activity grow at annual rates of 4.4 and 3.7 percent a year, respectively, over the forecast period. In Asia, China, with a population of 1.3 billion, is forecast to grow 7.7 percent a year, becoming the world’s second largest economy. India, with a population of 1.2 billion, is projected to see its GDP triple in size, growing at an average rate of 6.6 percent a year during the forecast period. Canadian and European GDP growth is anticipated to rise at more moderate rates of 2.4 and 1.8 percent a year, respectively, over the forecast period.

AVIATION TRAFFIC AND ACTIVITY FORECASTS

Total traffic and activity forecasts for commercial air carriers (the sum of mainline and regional carriers) are contained in Tables 5 through 9. These tables contain year-to-year historical data and forecasts.

Mainline air carrier traffic and activity forecasts and the forecast assumptions are contained in Tables 10 through 18, 20, and 22. These tables contain year-to-year historical data and forecasts.

Regional carrier forecasts and assumptions are found in Tables 23 through 26. These tables provide year-to-year historical and forecast data.

Table 19 provides year-to-year historical and forecast data for cargo activity. Table 21 provides year-to-year historical and forecast data for the cargo jet fleet.

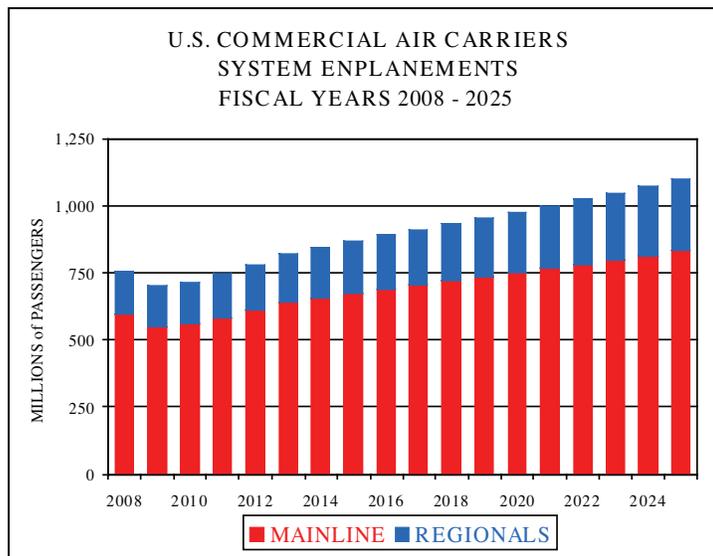
General aviation forecasts are found in Tables 27 through 30. These tables provide year-to-year historical data and forecasts.

Tables 31 through 33 provide forecasts of aircraft activity at FAA and contract facilities.

COMMERCIAL AVIATION FORECASTS

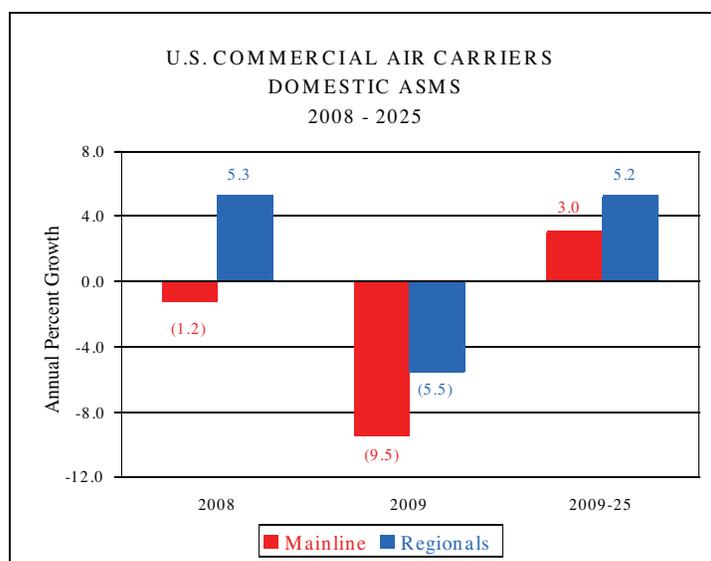
Mainline and regional carrier capacity and demand are forecast to fall sharply in 2009. System capacity is projected to shrink 6.7 percent in 2009, with mainline carrier domestic market capacity declining 9.5 percent, signaling the largest reduction in domestic mainline capacity since deregulation of the industry in 1978. Also shrinking (after a decade of average annual capacity growth in the double digits, but only averaging 3.0 percent growth for the last three years), are the regional carriers. Capacity for this group of carriers falls considerably from 2008 levels, down 5.5 percent domestically. In the international sector, slow to moderate capacity growth is forecast in the Atlantic and Latin market, as growth in the Pacific market shrinks. Mainline carrier system capacity drops 1.0 percent, while regional carrier capacity falls 4.3 percent.

Passenger demand contracts in 2009 with system RPMs forecast to decline 7.1 percent (down 7.2 percent and 5.9 percent for mainline and regional carriers, respectively) as passenger enplanements drop 7.3 percent (down 8.0 percent for mainline carriers and 4.5 percent for regional carriers). Growth is projected to return in 2010 with system RPMs and passengers increasing 2.8 and 2.0 percent, respectively, on a capacity increase of 2.6 percent. For the overall forecast period, system capacity is projected to increase an average of 3.1 percent a year. Supported by a growing U.S. economy and falling real yields, system RPMs are projected to increase 3.1 percent a year, with regional carriers (4.8 percent a year) growing faster than mainline carriers (3.0 percent a year). System passengers are projected to increase an average of 2.2 percent a year, with regional carriers growing faster than mainline carriers (3.2 versus 2.0 percent a year). By 2025, U.S. commercial air carriers are projected to fly 1.7 trillion ASMs and transport 1.1 billion enplaned passengers a total of 1.4 trillion passenger miles. Planes will remain crowded, with load factor projected to peak at 81.1 by 2016, and slowly fall thereafter to land at 79.9 percent in 2025. Passenger trip length is also forecast to increase by more than 180 miles over the forecast to 1,272.7 miles (up 10.6 miles annually). The growth in passenger trip length reflects the faster growth in the relatively longer international and domestic trips as compared to shorter-haul flights.



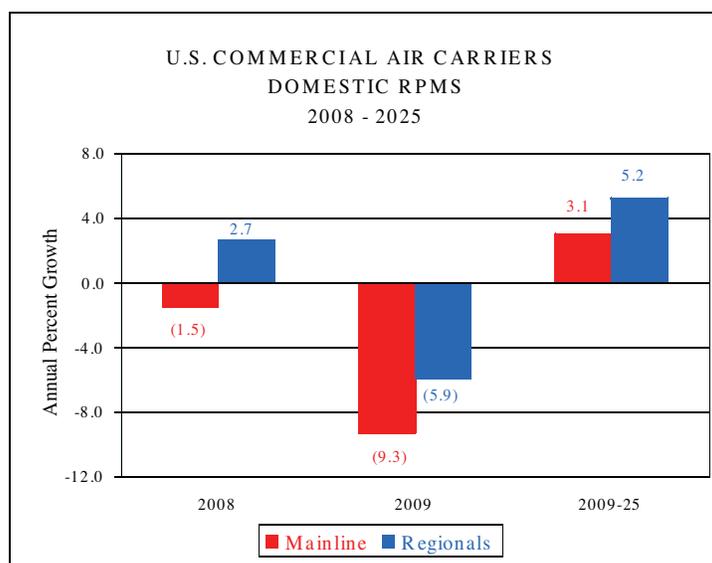
Domestic Markets

After a minimal decline in domestic capacity during FY 2008, capacity in FY 2009 is projected to fall dramatically, down 9.0 percent. Mainline carrier capacity drops 9.5 percent following a decline of 1.2 percent in 2008, as these carriers continue to optimize operations in an environment of uncertainty. An indicator of the harshness of the operating environment for FY 2009 is the 5.5 percent drop in capacity forecast for the regional carriers. FY 2009 marks the first year in the post-9/11 era that regional carriers have cut capacity (in comparison, the mainline carriers have cut capacity four years between 2001 and 2008). Domestic commercial carrier capacity recovers modestly in 2010 (up 2.5 percent) with mainline carriers growing slower than regional carriers, 2.2 percent versus 4.2 percent, respectively, and then increases at an average annual rate of 3.4 percent for the balance of the forecast (2010-2025). For the entire forecast period (2008–2025), domestic capacity is projected to increase at an average annual rate of 2.6 percent, just slightly slower than economic growth, with mainline carriers growing slower (2.2 percent per year) than the regional carriers (4.6 percent per year).



The recession in the U.S. inhibits RPM growth during the first year of the forecast (down 8.9 percent), with the deepest declines in traffic projected to occur in the first half of the year. Mainline carrier RPMs are projected to contract 9.3 percent during 2009, while regional carrier RPMs fall 5.9 percent. By 2010, as the U.S. economy begins to recover, traffic growth returns with RPMs growing 2.7 percent. Driven by continued economic growth and falling real yields, domestic RPM growth for the remainder of the forecast (2010-2025), averages 3.4 percent per year. For the overall forecast period (2008-2025) domestic RPMs are projected to grow an average of 2.6 percent a year, Mainline carriers throughout the forecast period are projected to grow slower than the regional carriers (averaging 2.3 versus 4.6 percent a year, respectively).

Enplanements are forecast to drop 7.8 percent in 2009, following a 1.5 percent decline in 2008. Similar to RPMs, passenger volume is expected to grow in 2010 (up 2.0 percent) with the rebounding economy, and then grow at an average rate of 2.7 percent per year for the period 2010-2025. Over the entire forecast period, domestic enplanements are projected to grow at an average annual rate of 2.0 percent with mainline carriers growing slower than regional carriers (1.7 versus 3.0 percent a year, respectively).



On the heels of a 0.7 percent increase (down 1.6 percent in real terms) in 2007, nominal mainline carrier domestic passenger yield rose 5.2 percent (0.7 percent increase in real terms) in 2008. Decisive capacity cutbacks in the face of rising fuel prices coupled with rapid and widespread incorporation of fuel surcharges helped carriers maintain pricing power during 2008 despite weakening demand. Despite the significant capacity reductions, the decline in demand will spur carriers to lower prices in 2009, resulting in a nominal yield decrease of 1.6 percent (1.4 percent in real terms). For the entire forecast period, increases in nominal yields are projected to grow at a rate of 0.6 percent a year, while in real terms they are projected to decline an average of 1.2 percent a year. The decline in real yields over the forecast period assumes competition between carriers and convergence of cost structures between network carriers and their low-cost counterparts. The convergence arises from gains in productivity as network carriers retire fuel inefficient aircraft and reduce labor costs while low-cost carriers contend with aging fleets, maturing work forces, and unionization.

Domestic commercial carrier activity (departures) at FAA air traffic facilities is projected to grow slower than passenger traffic over the forecast period (1.4 percent per year for departures versus 2.6 percent for RPMs). This reflects increased carrier efficiencies in three operational measures—aircraft size, load factor, and trip length.

Domestic aircraft size¹² increased in 2008 by 0.4 seats to 120.8 seats. The increase was partly driven by an unprecedented jump in aircraft size by the regional carriers (up 2.9 seats) and the grounding of older, fuel inefficient aircraft (i.e. MD-80's and 737-300/400/500) by the mainline carriers. The increase in regional aircraft size was caused by the retirement of 50-seat jet aircraft as larger 70-90 seat jet aircraft entered the fleet. Domestic seats per aircraft falls in 2009 (down 0.7 seats) as mainline carriers shrink capacity faster than their regional counterparts and then gradually increases over the balance of the forecast to 122.1 seats by 2025. For the entire forecast period, domestic seats increase an average 0.1 seats per year.

The FAA's projection of domestic carrier average aircraft size is greatly influenced by carrier fleet plans, publicly known aircraft order books and FAA's expectations of the changing domestic competitive landscape. In the near-term (through 2012), the forecast incorporates several carrier assumptions:

¹² Defined as seats per mile flown and computed by dividing ASMs by miles flown.

1) mainline carriers desire to constrain ASM capacity growth; 2) network carrier “own metal” service on longer-haul routes; 3) the retirement of older inefficient aircraft (many of which are narrow-body); 4) the shifting of wide-body and larger narrow-body aircraft to international services, and 5) growing use of 70-90 seat regional jet aircraft.

In the longer-term, network carriers will replace their wide-body and larger narrow-body aircraft in their domestic route networks with smaller, next generation, narrow-body aircraft. In addition, some carriers, such as JetBlue and US Airways, are turning to smaller aircraft, like the 100-seat Embraer 190, to supplement their route structure. The use of smaller narrow-body aircraft allows mainline carriers to better serve their customers by boosting frequency, as well as improve profitability by more closely matching supply (the number of seats) with demand (the number of passengers).

Mainline carrier domestic aircraft size decreased in 2008 by 0.6 seats to 150.0 seats, and is projected to fall an additional 0.8 seats in 2009. Domestic aircraft size for mainline carriers is projected to fall to 148.4 seats by 2014 and then gradually increase thereafter for the balance of the forecast. Overall, average aircraft size for the mainline group will increase by only one seat between 2008 and 2025, going from 150.0 to 151.0 seats.

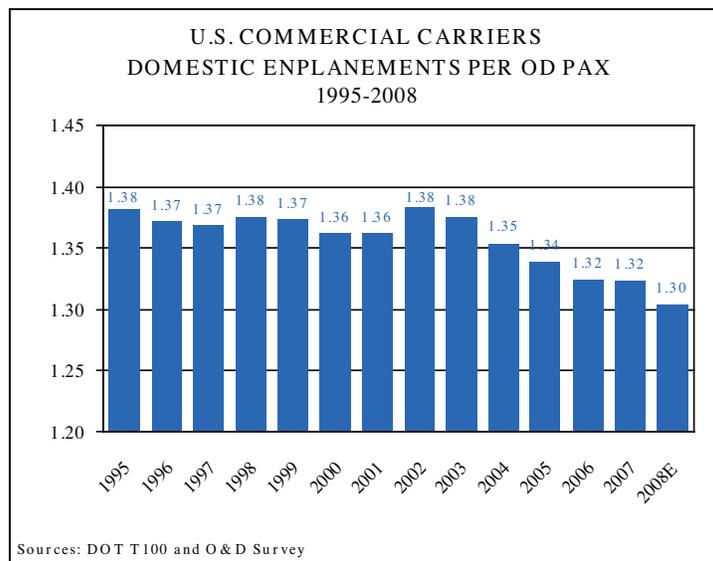
While mainline carriers have been reducing the size of aircraft flown domestically, regional carriers have been increasing their aircraft size. The most visible example of this trend is the wave of 70-90 seat regional jet aircraft that are entering the fleet. Regional carriers are better equipped to support operations of their mainline partners by providing capacity that complements market demand. The greater number of the larger 70- and 90-seat regional jets in the fleet coupled with significant 50-seat jet retirements over the next few years increases the average seating capacity of the regional fleet from 52.8 seats in 2008 to 54.6 seats by 2010. Over the course of the forecast, average seats per aircraft for the regional carriers increases by 0.8 seats per year to 65.6 seats in 2025. The changing aircraft fleet mix is narrowing the gap between the size and aircraft types operated by the mainline and regional carriers.

Commercial carrier domestic load factor fell 0.5 points from the all-time high posted in 2007 to 79.3 percent in 2008. The load factor for mainline and regional carriers fell 0.2 and 1.8 points, respectively. In 2009, domestic load factor is forecast to increase 0.1 points to 79.4 percent as mainline load factor rises 0.1 points and regional load factor falls 0.3 points. Thereafter, domestic load factor rises, peaking in 2017 at 81.7 percent, and then declines gradually for the remainder of the forecast to 80.1 percent in 2025.

In 2008 domestic passenger trip length increased 4.4 miles to 874.6 miles, after falling 1.2 miles in 2007. Domestic passenger trip length is forecast to decline in 2009 by 10.5 miles as carriers continue to restructure their networks and realign capacity. After 2009, trip length is projected to steadily increase for the balance of the forecast, reaching 970.2 miles by 2025. The increase in trip length reflects increases in both mainline and regional carrier trip length. Mainline carrier trip length increases due to the transfer of shorter haul routes to regional partners and increased flying of longer domestic trips. Regional carrier trip length increases with the larger 70 and 90-seat regional jets allowing these carriers to service longer haul markets.

Another key factor in predicting aviation activity relative to passenger demand is the level of connecting versus non-stop (origin-destination) traffic. However, as the current cycle of U.S. airline industry restructuring unfolds and hub structures change, the impact on local communities and airport activity levels can vary significantly.

The FAA analyzes the ratio of passenger enplanements to origin-destination (O&D) passengers over time to identify changes in connecting versus non-stop traffic. This ratio is an indicator of the tendency of the average passenger to connect during a typical journey. The closer the ratio is to 1.0, the more passengers fly on a point-to-point routing. As the chart below shows, the overall ratio for the U.S. domestic industry varied within a narrow band between 1995 and 2002, but has been decreasing since then. The decline in the ratio since 2002 has been due to a decline in the network carrier connectivity coupled with the increasing passenger share of the low-cost carriers during this time. In general, the low cost carriers have lower connectivity ratios than do the network carriers, however since 2004 the low-cost carrier connectivity ratio has been increasing. In FY 2008, the respective connectivity ratios of the network and low-cost carriers were the closest to each other since FY 1999. The FAA’s forecast recognizes the changing pattern of domestic traffic connectivity and the relative mix of network versus low-cost carrier traffic volumes. These trends are captured in the forecast’s passenger enplanement totals.



International Markets

U.S. and Foreign Flag Carriers

FAA provides forecasts of total international passenger demand (the sum of U.S. and foreign flag carriers) for travel between the United States and three world travel areas--Atlantic, Latin America (including Mexico and the Caribbean), and Asia/Pacific--as well as for U.S./Canadian transborder traffic. These forecasts are based on historical passenger statistics from the United States Immigration and Naturalization Services (INS) and Transport Canada, and on regional world historical data and economic projections from Global Insight, Inc.

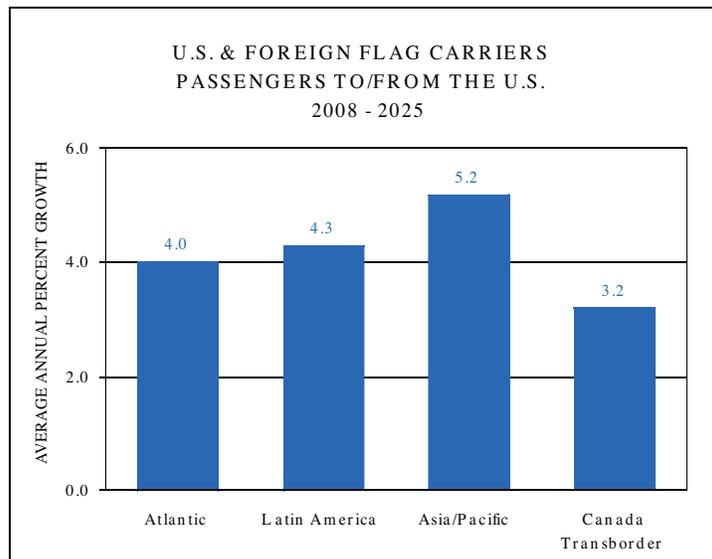
Total passenger traffic between the United States and the rest of the world is estimated to total 153.9 million in CY 2008, 2.8 percent higher than in 2007. The worldwide recession drives international passengers down 0.9 percent in 2009 but a rebound in economic growth leads to a 4.2 percent growth in passengers in 2010. For the balance of the forecast period, stable worldwide economic growth leads to international passenger growth averaging 4.6 percent a year, and totaling 310.0 million in 2025.

Over the entire forecast period (2008-2025), high economic growth in the Asia-Pacific market drives passenger growth averaging 5.2 percent a year for this region. China, India, and Taiwan (passenger growth of 11.8, 7.9, and 7.6 percent a year, respectively) are forecast to be the fastest growing markets in the region. Growth in the Japan market (the largest and most mature in the region) is projected to be well below the regional average at 2.0 percent a year.

In the Atlantic region, open skies between the European Union and the United States and increasing non-stop service to Africa and the Middle East helps to fuel passenger growth of 4.0 percent a year over the forecast period, however the global recession tempers growth during the early years of the forecast period. Over the 17-year forecast horizon, average annual passenger growth in the top three Atlantic markets, the United Kingdom, Germany, and France, is 3.7, 3.1, and 3.7 percent, respectively.

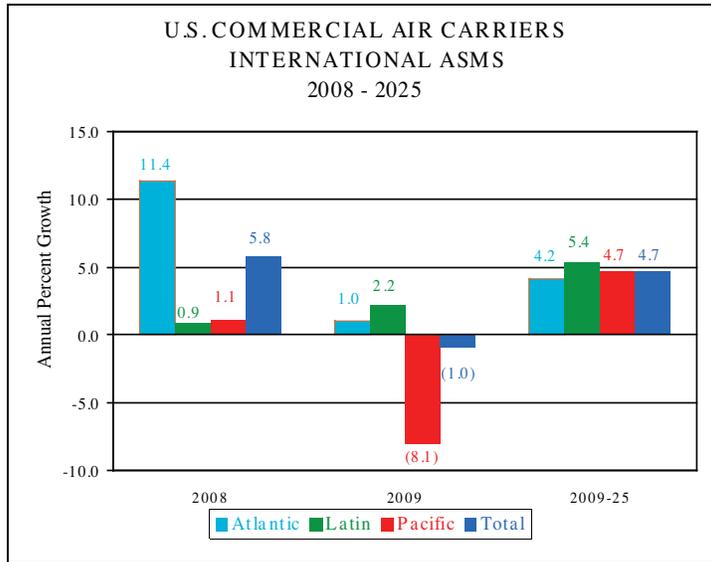
In the Latin America region, passenger growth between 2008 and 2025 is forecast to average 4.3 percent a year. The highest growth is projected for Brazil (average annual growth of 5.5 percent) while the largest market in the region, Mexico, grows at an average of 4.3 percent a year. The slowest rates of growth are projected to occur in the Bahamian and Jamaica markets (averaging growth of 0.1 and 2.3 percent a year, respectively).

Growth in the Canadian transborder market is forecast to be higher than that of the domestic U.S. market (2.0 percent), averaging 3.2 percent a year over the forecast period.

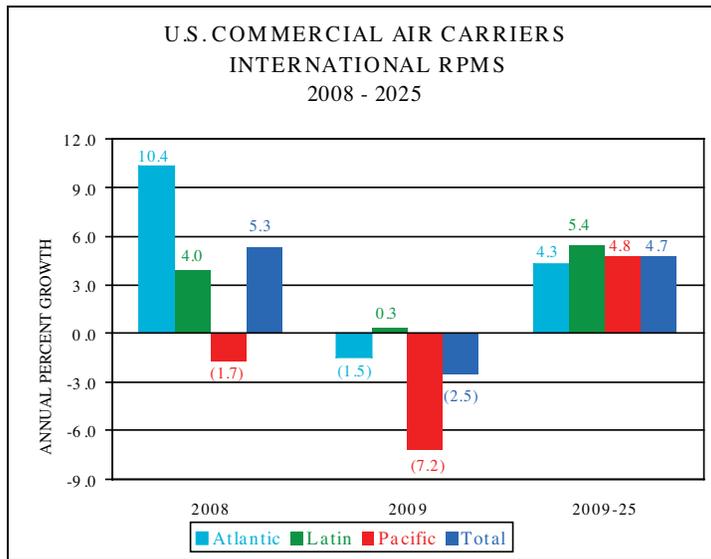


U.S. Flag Air Carriers

In 2008, international U.S. commercial air carrier capacity grew 5.8 percent. In 2009, capacity contracts (down 1.0 percent) as the global economic slowdown enters its second year. Despite the first full year of “open skies” between the United States and the European Union, capacity in the Atlantic market increases only 1.0 percent, due to the recessions in the U.S. and Europe. During the same period, capacity in the Latin region grows 2.4 percent, while declining 8.1 percent in the Pacific region. With a slow recovery in the global economies expected during 2010, international capacity grows modestly at 2.9 percent, and averages 4.8 percent a year for the remainder of the forecast period. Strong growth in the medium to long-term portion of the forecast reflects favorable U.S. and world economic activity.



U.S. commercial air carrier international RPMs increased 5.3 percent in 2008 and enplanements increased 3.3 percent. RPMs are projected to shrink in 2009 (down 2.5 percent), reflecting the slow down in the global economy. In 2010, U.S. carrier international RPMs increase 3.0 percent led by growth in the Atlantic (up 5.0 percent) and Latin markets (up 1.9 percent). For the balance of the forecast, RPMs increase an average 4.9 percent a year with the fastest growth in the Latin region. A similar pattern is forecast for enplanement growth. International enplanements are projected to drop 2.5 percent in 2009, and then grow 2.4 percent in 2010. Over the balance of the forecast period, enplanements are forecast to increase an average of 4.4 percent a year with the fastest growth in Pacific and Latin markets (up 4.9 and 4.6 percent a year, respectively).



The slower growth in U.S. carrier international passengers over the period 2008-2025 (3.9 percent a year) compared to total international passengers (4.2 percent a year) reflects a small decline in market share for U.S. airlines over the forecast period. Forecasts of international demand assume U.S. and foreign flag carriers will benefit from the favorable economic activity in both the United States and world markets.

International load factor for U.S. commercial carriers was 79.9 percent in 2008. Load factor is expected to fall to 78.7 percent in 2009 as capacity growth exceeds growth of traffic in the Atlantic and Latin markets. International load factor is projected to be flat in 2010, and then slowly rise for the remainder of the forecast to be 79.7 percent in 2025.

International passenger real yields for mainline carriers were up 2.8 percent in 2008. The largest increase was in the Pacific market (up 5.0 percent), and followed by the Atlantic (up 2.1 percent) and Latin market (up 1.6 percent), reflecting pricing power U.S. carriers command for travel in the international region. International real yields are projected to decline by 0.9 percent in 2009 and decrease an average 1.0 percent a year over the balance of the forecast. In nominal terms, international yields are forecast to decrease 1.1 percent in 2009, and then increase at an annual rate of 1.1 percent over the forecast. The decline in real yields assumes competitive pressures will continue to exert pressure on carriers to hold the line on fare increases. In international markets, this takes the form of expanded open sky agreements and new and existing global alliances.

Commercial Air Carriers — Air Cargo

Historically, air cargo activity tracks with GDP. Additional factors that have affected the growth in air cargo traffic include declining real yields, improved productivity, and globalization. Significant structural changes have occurred in the air cargo industry. Among these changes are the following: air cargo security regulations by the FAA and TSA; market maturation of the domestic express market; modal shift from air to other modes (especially truck); increases in air fuel surcharges; growth in international trade from open skies agreements; use of all-cargo carriers (e.g., FedEx) by the U.S. Postal Service to transport mail; and increased use of mail substitutes (e.g., e-mail).

The forecasts of Revenue Ton Miles (RTMs) are based on several assumptions specific to the cargo industry. First, security restrictions on air cargo transportation will remain in place. Second, most of the shift from air to ground transportation has occurred. Finally, long-term cargo activity will be tied to economic growth.

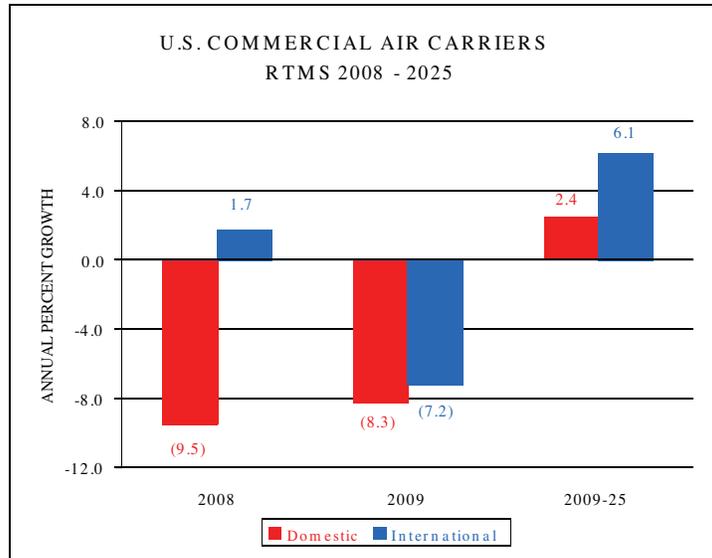
The forecasts of RTMs were based mainly on models that link cargo activity to GDP. Forecasts of domestic cargo RTMs were developed with real U.S. GDP as the primary driver. Projections of international cargo RTMs were based on growth in world GDP, adjusted for inflation. The distribution of RTMs between passenger carriers and all-cargo carriers was forecast based on an analysis of historic trends in shares, changes in industry structure and market assumptions.

Total RTMs are forecast to go down 7.6 percent in 2009 and grow 4.1 percent in 2010. For the balance of the forecast period, driven by steady economic growth, total RTMs are forecast to increase at an average annual rate of 5.1 percent. The forecast of 78.6 billion RTMs in 2025 represents an average annual increase of 4.2 percent over the entire forecast period.

Domestic cargo RTMs are forecast to drop 8.3 percent in 2009 and then grow slowly in 2010, 2.5 percent, driven by growth in the U.S. economy. Between 2010 and 2025, domestic cargo RTMs are forecast to increase at an average annual rate of 2.4 percent. The forecast of 19.3 billion RTMs in 2025 represents an average annual increase of 1.8 percent over the entire forecast period.

The freight/express segment of domestic air cargo is highly correlated with capital spending. Thus, the growth of this segment in the future will be tied to growth in the economy. The mail segment of domestic air cargo will be affected by price and substitution (electronic mail).

The all-cargo carriers have increased their share of domestic cargo RTMs flown from 65.4 percent in 1997 to 85.0 percent in 2008. This is because of significant growth in express service by FedEx and United Parcel Service coupled with a lack of growth of domestic freight/express business for passenger carriers. The all-cargo share is forecast to increase to 88.4 percent by 2025 based on increases in wide-body capacity for all-cargo carriers and security considerations.

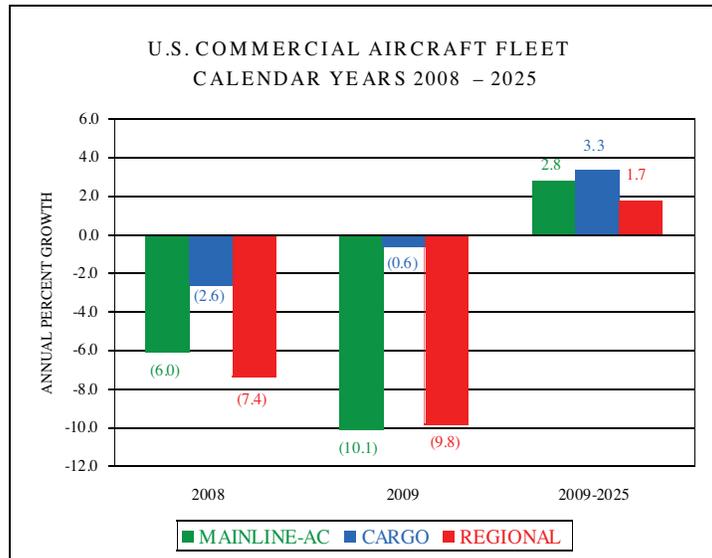


International cargo RTMs are forecast to fall 7.2 percent in 2009 reflecting the impact of the global economic downturn and grow 5.0 percent in 2010 as world economic growth rebounds and trade expands. For the balance of the forecast period, international cargo RTMs are forecast to increase an average of 6.2 percent a year based on projected growth in world GDP. The forecast 59.3 billion RTMs in 2025 represents an average annual increase of 5.3 percent over the entire forecast period.

All-cargo carriers share of international cargo RTMs flown decreased from 66.8 percent in 2007 to 63.3 percent in 2008. The decrease is due to the reduction in capacity resulting from the bankruptcy of three all-cargo carriers. Beyond 2009, the all-cargo share of RTMs flown is forecast to increase to 68.4 percent by 2025.

COMMERCIAL AIRCRAFT FLEET

The number of commercial aircraft is forecast to grow from 7,274 in 2008 to 9,840 in 2025, an average annual growth rate of 1.8 percent or 151 aircraft annually. The commercial fleet is projected to shrink by a net 637 aircraft in 2009 after shrinking by 470 aircraft in 2008 as record high fuel prices compelled carriers to prune their fleets. In comparison, the US commercial fleet shrank by 262 aircraft between 2000 and 2003 during the last downturn in aviation.



The number of passenger jets in the mainline carrier fleet decreased by 240 aircraft in 2008 and is expected to fall another 378 aircraft in 2009 before increasing in 2010 by 222 aircraft. For the period 2009-2025, the mainline air carrier passenger fleet increases an average of 116 aircraft a year, totaling 5,223 aircraft in 2025. The narrow-body fleet (including E-190's at JetBlue and US Airways) is projected to grow by 86 aircraft annually over the period 2009-2025; the wide-body fleet grows by 30 aircraft a year as the Boeing 787 and Airbus A350's enter the fleet.

The regional carrier passenger fleet is forecast to decrease by 253 aircraft in 2009. After 2009, the regional carrier fleet is expected to increase by an average of 44 aircraft (1.7 percent) over the remaining years of the forecast period, totaling 3,033 aircraft in 2025. The number of regional jets (90 seats or fewer) at regional carriers is projected to grow from 1,655 in 2008 to 2,249 in 2025, an average annual increase of 1.8 percent. All the growth in regional jets over the forecast period occurs in the larger 70 and 90-seat aircraft. During the forecast period, 1,160 regional jets of 50 or less seats are removed from the fleet, reflecting the relaxation of scope clauses. The turboprop/piston fleet is expected to decline from 927 in 2008 to 784 in 2025. Turboprop/piston aircraft are expected to account for just 25.8 percent of the regional fleet in 2025, down from a 35.9 percent share in 2008.

Cargo large jet aircraft are forecast to increase by just 6 aircraft over the next 2 years (from 949 to 955 aircraft in 2010), and total 1,584 aircraft in 2025. The narrow-body jet fleet is projected to increase by 11 aircraft a year over the 16-year forecast period as older 757's and 737's are converted to cargo service. The wide-body jet fleet is projected to increase by 29 aircraft yearly.

GENERAL AVIATION

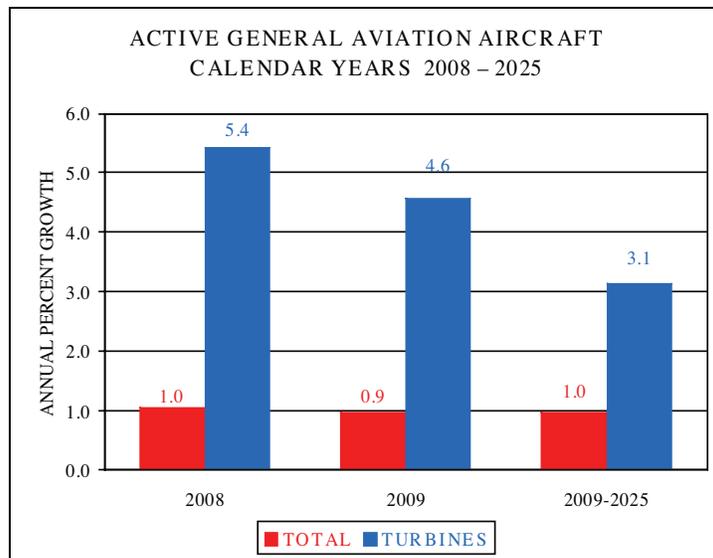
The FAA forecasts the fleet and hours flown for single-engine piston aircraft, multi-engine piston, turboprops, turbojets, rotorcraft (piston, turbine), sport, experiment and other (glider, balloon). The FAA forecasts "active aircraft,"¹³ not total aircraft. The FAA uses estimates of fleet size, hours flown, and utilization from the General Aviation and Air Taxi Activity and Avionics Survey (GA Survey) as baseline

¹³ An active aircraft is one that flies at least one hour during the year.

figures upon which assumed growth rates can be applied. Beginning with the 2004 GA Survey there were significant improvements to the survey methodology. At the same time the survey methodology changed, large changes in both the number of aircraft and hours in many categories occurred. The results of the 2007 Survey are consistent with the results of the surveys since 2004 reinforcing our belief that the methodological improvements have resulted in superior estimates relative to those in the past. Thus, they are used as the basis for our forecast. Because the Survey is on a calendar year basis, the 2007 statistics are the latest available. Figures for 2008 are estimated based on other activity indicators and the forecasts of activity begin in 2009 and continue through 2025.

As the demand for business jets has grown over the past several years, the current forecast assumes that business use of general aviation aircraft will expand at a more rapid pace than that for personal/sport use. In addition, corporate safety/security concerns for corporate staff, combined with increasing flight delays at some U.S. airports have made fractional, corporate, and on-demand charter flights practical alternatives to travel on commercial flights.

The active general aviation fleet is projected to increase at an average annual rate of 1.0 percent over the 17-year forecast period, growing from an estimated 234,015 in 2008 to 275,230 aircraft by 2025. The more expensive and sophisticated turbine-powered fleet (including rotorcraft) is projected to grow at an average of 3.2 percent a year over the forecast period with the turbine jet fleet increasing at 4.8 percent a year.



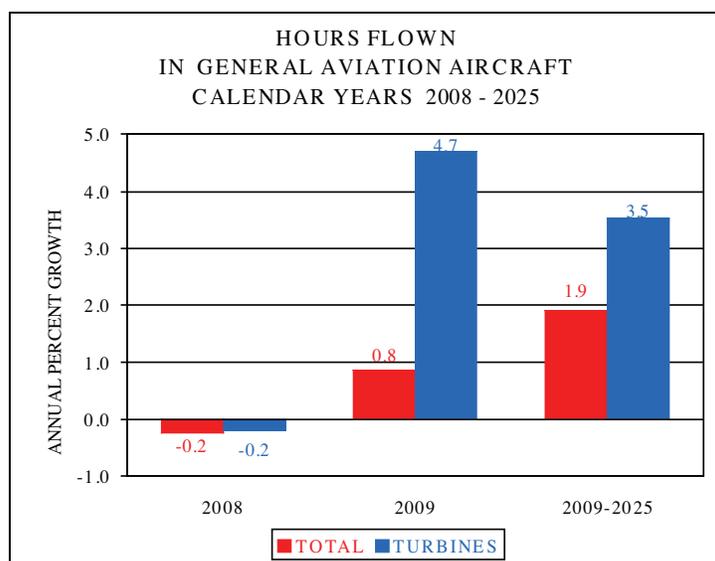
As recently as 2007, industry experts suggested the market for new Very Light Jets (VLJs) could add 500 aircraft a year to the active fleet by 2010. The relatively inexpensive twin-engine VLJs (priced between \$1 and \$2 million) were believed by many to have the potential to redefine the business jet segment by expanding business jet flying and offering performance that could support a true on-demand air-taxi business service. However events since that time have dampened expectations for a rapid penetration of VLJs into the market, most notably the bankruptcy of Eclipse and the demise of DayJet. In 2008, VLJ deliveries fell short of our assumption (262 vs. 400). Despite the challenging economy and the uncertainty surrounding the future of Eclipse, the forecast assumes that about 200 VLJs will enter the active fleet in U.S. over the next 2 years and then increase to a rate of 270 to 300 aircraft a year for the balance of the forecast, totaling 4,875 aircraft by 2025.

The number of active piston-powered aircraft (including rotorcraft) is projected to decrease from the 2007 total of 169,675 through 2013 as declines in both single and multi-engine aircraft are forecast. Beyond 2013 active piston-powered aircraft are forecast to increase gradually to 170,475 by 2025. Over the forecast period, the average annual increase in piston-powered aircraft is 0.1 percent. Although piston rotorcraft are projected to increase rapidly (3.9 percent a year) they are a relatively small part of this segment of general aviation aircraft. Single-engine fixed-wing piston aircraft, which are much more numerous, are projected to grow at much slower rates (0.1 percent respectively) while multi-engine fixed wing piston aircraft are projected to decline 1.0 percent a year. In addition, it is assumed that VLJs and new light sport aircraft could erode the replacement market for traditional piston aircraft at the high and low ends of the market respectively.

Starting in 2005, a new category of aircraft (previously not included in the FAA's aircraft registry counts) was created: "light sport" aircraft. At the end of 2007 a total of 6,066 aircraft were estimated to be in this category. The forecast assumes the fleet will increase approximately 930 aircraft per year until 2013 including both newly built aircraft and conversions from ultralight trainers. Thereafter the rate of increase in the fleet tapers considerably to about 300 per year. By 2025 a total of 15,865 light sport aircraft are projected to be in the fleet.

The number of general aviation hours flown is projected to increase by 1.8 percent yearly over the forecast period. Much of the increase reflects increased flying by business and corporate aircraft as well as steady if relatively small annual percentage increases in utilization rates for piston aircraft. Hours flown by turbine aircraft (including rotorcraft) are forecast to increase 3.6 percent yearly over the forecast period, compared with 0.4 percent for piston-powered aircraft. Jet aircraft are forecast to account for most of the increase, with hours flown expanding at an average annual rate of 5.2 percent over the forecast period. The large increases in jet hours result mainly from the increasing size of the business jet fleet, including increases in the fractional ownership fleet and its activity levels. Fractional ownership aircraft fly about 800 hours annually compared to approximately 380 hours for all business jets in all applications.

Previous forecasts of very light jets (VLJs) activity had assumed that a thriving on demand air taxi industry would occur over the course of the forecast. Because it was expected that VLJs would be used much differently than traditional turbojets, the FAA made separate assumptions for traditional turbojets and VLJs. In light of the events of the past year for VLJs and the on-demand air taxi market (bankruptcy of Eclipse and DayJet), FAA has revised its expectations downward about the size and scope of an on-demand air taxi industry using VLJs. VLJ aircraft that are used in an air taxi or shared ownership are expected to average approximately 470 hours per year while private use operators will average approximately 385. By 2025 the annual utilization rate for all VLJs is forecast to be 432 hours. Traditional (non-VLJ) turbojets are expected to average approximately 368 hours per year by 2025, as VLJs are expected to have a greater share of their use in on-demand air taxi and shared ownership than the traditional turbojets.



The number of active general aviation pilots (excluding air transport pilots) is projected to be 509,900 in 2025, an increase of almost 42,000 (up 0.5 percent yearly) over the forecast period. Commercial pilots are projected to increase from 124,746 in 2008 to 138,700 in 2025, an average annual increase of 0.6 percent. The number of student pilots is forecast to increase at an average annual rate of 0.4 percent over the forecast period, growing from 80,989 in 2008 to 86,600 in 2025. In addition, FAA is projecting that by the end of the forecast period a total of 20,600 sport pilots will be certified. As of December 31, 2008, the number of sport pilot certificates issued was 2,623 reflecting a growing interest in this new “entry level” pilot certificate that was only created in 2005. The number of private pilots is projected to remain steady over the forecast period to total 223,400 in 2025.

FAA WORKLOAD FORECASTS

FAA and Contract Towers

Activity at the 264 FAA and 239 contract tower airports (a total of 503) totaled 58.5 million operations in 2008, down 4.3 percent from 2007. Activity is projected to decrease 5.7 percent in 2009, with declines in both commercial and non-commercial operations. Growth in activity returns in 2010 (0.9 percent) as commercial activity rises 2.2 percent. For the balance of the forecast activity growth varies between 1.3 and 1.9 percent per year, reaching 69.6 million operations in 2025.

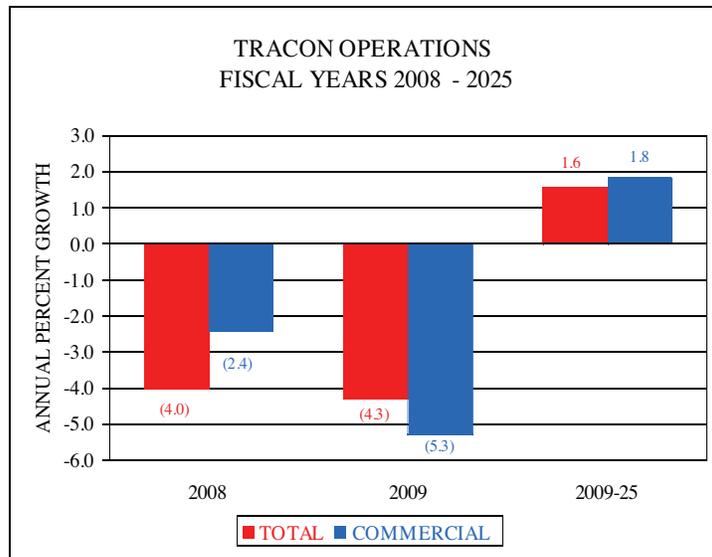
Most of the growth over the forecast period results from increased commercial aircraft activity (up 1.6 percent annually). Air carrier activity is projected to shrink 5.0 percent in 2009 as carriers cut capacity in a recessionary environment. In 2010, air carrier activity is projected to increase 3.3 percent as airline capacity increases, and grows an average of 2.1 percent a year over the forecast period. Commuter/air taxi operations are forecast to fall 6.4 percent in 2009 then grow slowly in 2010 (up 0.7 percent). For the balance of the forecast period, commuter/air taxi operations are projected increase 1.4 percent a year.

General aviation activity fell 5.6 percent in 2008 with steep declines in both itinerant (down 6.5 percent) and local (down 4.4 percent) activity. Activity is projected to fall again in 2009 (down 6.2 percent) reflecting the impact of the poor economy and then rise slightly in 2010 (up 0.1 percent) and 2011 (up 0.6 percent) as rising oil prices cut into the growth of flight hours and operations. For the entire forecast period, general

aviation activity at towered airports is projected to increase an average of 0.6 percent a year, to 34.6 million operations in 2025. General aviation activity at combined FAA/contract towers grows in line with the modest increase forecast for general aviation piston hours already cited. Most operations at the smaller towers are piston in nature, while those at the largest airports tend to be turbine operations.

Military activity, which fell 8.4 percent in 2008, is forecast to fall 0.8 percent in 2009. We do not forecast military operations but instead assume a constant level of activity over the forecast period.

Operations¹⁴ at FAA TRACONs (Terminal Radar Approach Control) fell 4.0 percent in 2008, the fourth year in a row. They are projected to decline again in 2009 (down 4.3 percent) as the recession leads to decreases in both commercial and non-commercial activity. TRACON operations are forecast to rise slightly (up 0.1 percent) in 2010 before increasing at an average annual rate of 1.7 percent for the balance of the forecast. For the entire forecast period, TRACON operations grow an average of 1.2 percent a year, totaling 53.4 million in 2025.



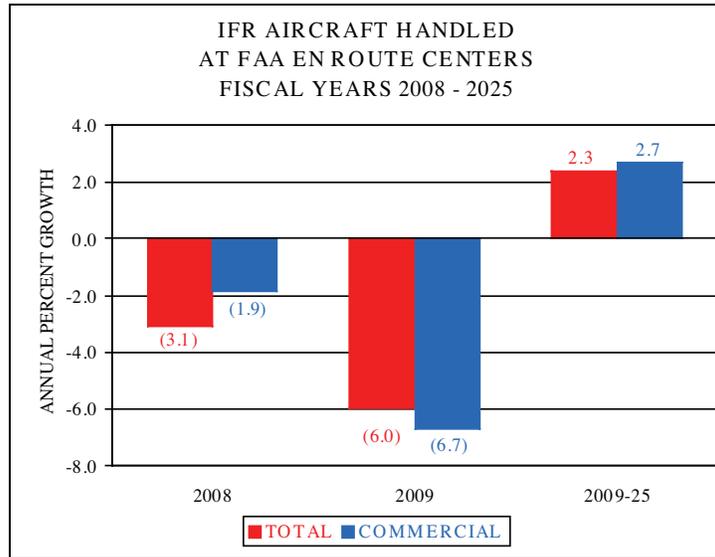
Over the forecast period, commercial aircraft operations at FAA TRACONs are forecast to increase at 1.4 percent per year with increases in air carrier activity surpassing commuter/air taxi activity. General aviation operations at FAA TRACONs are projected to grow 1.0 percent a year, reflecting the relatively slow growth in the general aviation fleet and hours. Military activity is expected to remain at its 2008 level (2.4 million) of activity throughout the forecast period.

En Route Centers

The number of IFR aircraft handled at FAA en route traffic control centers decreased 3.1 percent to 45.3 million in 2008, as all user groups except commuter/air taxi posted declines in activity. Activity at en route centers is forecast to decrease by 6.0 percent in 2009 mirroring the downturn in commercial and general aviation activity. Growth in en-route activity resumes in 2010 (up 2.1 percent) led by increases in air carrier activity. After 2010 through the balance of the forecast period, en route activity increases 2.4 percent

¹⁴ TRACON operations consist of itinerant IFR and VFR arrivals and departures at all airports in the domain of the TRACON as well as IFR and VFR overflights.

annually, reaching 61.8 million aircraft handled in 2025. Over the entire forecast period, commercial activity is projected to increase at an average annual rate of 2.1 percent, reflecting increases in the commercial fleet and aircraft stage lengths. During the same period, general aviation activity is projected to grow 1.3 percent a year, reflecting the expected impact of additional business aviation activity. Military activity is held constant at the 2008 activity level throughout the forecast period.



Activity at FAA en route centers is growing faster than at FAA towered airports because more of the activity in en route centers is from the faster growing commercial sector and high-end (mainly turbine) general aviation flying. Much of general aviation activity at FAA towered airports, which is growing more slowly, is local in nature, and does not impact the centers.