▷▷▷ FORECAST HIGHLIGHTS 2009-2025

The FAA continues to forecast long term aviation growth, despite global economic conditions. Since 2000, U.S. airlines have dealt with the impacts of 9/11, heightened concerns about pandemics, the bankruptcy of four network carriers, record high fuel prices, and the most serious economic downturn since the Great Depression. In spite of these challenges, the number of passengers traveling continues to grow over the long term, demonstrating the value of air transportation to the public. In last year's forecast the FAA predicted for the U.S. commercial aviation industry to carry one billion passengers by 2016. We now believe the industry will reach this mark in 2021.

The 2009 forecast for commercial aviation calls for a sharp decline in activity in the near term, with a return to growth over the long term. The level of activity and demand in the long term, however, is not expected to snap back to levels published in the previous FAA forecast. The most significant factor preventing recovery to prior forecast levels is the state of the economy, both domestic and worldwide. In the U.S., the National Bureau of Economic Research reports the U.S. economy has been in recession since December 2007, with economists speculating this may be the deepest recession since the end of World War II. Indications are the global economy is not fairing any better. With 8 of the world's top 10 economies[1] in recession as of January 2009, the global economy is poised to perform worse than any other period during the past 60 years.

System capacity in available seat miles (ASMs) – the overall yardstick for how busy aviation is both domestically and internationally – will drop 6.7 percent this year, after posting a 1.2 percent increase during 2008, and then grow at an average of 3.8 percent per year through 2025. In the domestic market, capacity drops 9.0 percent in 2009 to mark the largest percentage decline in available seat miles since deregulation of the industry in 1978. Mainline carrier capacity will decline 9.5 percent (in comparison, mainline carriers reduced capacity by 8.3 percent in the aftermath of 9/11) as both low-cost carriers[2] and network carriers[3] become smaller. For the regional carriers, domestic capacity will drop 5.5 percent from 2008 levels - a turnaround from recent periods of reduced air travel demand which saw regional capacity expand as mainline carriers transferred capacity to their lower-cost regional code-share partners. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to fall 8.9 percent in 2009, and then grow at an average of 3.4 percent per year through 2025; enplanements will fall 7.8 percent for the year, and then grow at an average annual rate of 2.7 percent for the remainder of the forecast.

Air traffic will not rise to prior forecast levels even when the economy recovers because of the absence of significant price cuts as measured by real yield[4] in the near term. Following previous downturns (e.g. the recessions in 1991 and 2001) carriers stimulated passenger demand by reducing fares sharply. The industry's response to the current economic downturn is to better match supply (seats) and demand (passengers) by modestly cutting fares and dramatically reducing capacity. With no evidence of pent up demand, we do not anticipate a return to previously forecasted passenger levels even when recovery takes hold.

1 Ranked by Gross Domestic Product for Calendar Year 2008 (United States, Japan, Germany, United Kingdom, France, Italy, Spain, Canada).

2 Allegiant Air, American Trans Air, America West Airlines, AirTran Airways, Frontier Airlines, JetBlue Airways, Skybus Airlines, Southwest Airlines, Spirit Airlines, USA3000, and Virgin America Airlines.

3 Alaska Airlines, American Airlines, Continental Airlines, Delta Air Lines, Northwest Airlines, United Airlines, and US Airways.

4 Calculated by dividing passenger revenues by revenue passenger miles and adjusted for inflation using the Consumer Price Index. Yield is the revenue an airline receives for every passenger mile travelled and is often used as a proxy for airfare.

The average size of domestic aircraft is expected to decline by 0.7 seats in FY 2009 to 120.1 seats. Average seats per aircraft for mainline carriers are projected to fall by 0.8 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 2009 by 0.9 seats to 53.7 seats per mile. Passenger trip length in domestic markets will decrease by 10.5 miles this year, largely due to the impact of capacity realignment.

The downturn in the economy has also dampened the near-term prospects for the general aviation industry. Longer-term, we see growth in business aviation demand driven by a growing U.S. and world economy. As the fleet grows, the number of general aviation hours flown is projected to increase an average of 1.8 percent a year through 2025.

The shaky global economy that took hold in the latter part of 2008 is expected to put a squeeze on air travel demand through 2009, although falling oil prices will offset some of the decline in demand, allowing U.S. carriers to be profitable in 2009. To navigate the volatile operating environment, carriers are attempting to increase revenues per customer (through increased fares and/or additional fees) while driving down their costs by implementing capacity cutbacks (by reducing flights and/or gauge of aircraft, delaying deliveries of newer aircraft, and/or grounding older aircraft). Over the long term, we see a competitive and profitable industry characterized by increasing demand for air travel and air fares growing more slowly than inflation.