

▶▶▶ FORECAST HIGHLIGHTS 2010-2030

Aviation will continue to grow over the long term, despite current global economic conditions. Since 2000, U.S. airlines have dealt with the impacts of 9/11, the bankruptcy of four network carriers, record high fuel prices, the most serious economic downturn since the Great Depression, and heightened concerns about a pandemic that turned into reality in 2009. 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. There has been a slowdown in air travel growth, and the FAA now calls for one billion passengers to be flown in 2023, pushed back from last year's 2021.

The 2010 forecast for commercial aviation calls for lackluster 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 blow to the economy from the Great Recession. The recession led to an erosion of wealth, double-digit unemployment, declining corporate travel budgets, and close-fisted consumers, all of which contributed to a softening of demand for air travel. A bright spot is on the horizon, though. After four straight quarters of decline, the U.S. economy resumed growth in the fourth quarter of 2009, albeit driven by government stimulus packages that are winding down.

System capacity in available seat miles (ASMs) – the overall yardstick for how busy aviation is both domestically and internationally – will drop 1.6 percent this year, after posting a 7.4 percent decrease during 2009, and then grow at an average of 3.6 percent per year through 2030. In the domestic market, capacity drops 1.1 percent in 2010, after posting the largest percentage decline in ASMs (down 8.9 percent in FY 2009) since deregulation of the industry. Domestic mainline carrier capacity will decline 1.6 percent (marking the third straight year of declines). For the regional carriers, domestic capacity will grow 1.9 percent from 2009 levels – resuming growth after shrinking in 2009 for the first time since deregulation. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to grow 0.4 percent in 2010, and then grow at an average of 3.2 percent per year through 2030; enplanements in 2010 will grow 0.4 percent for the year, and then grow at an average annual rate of 2.5 percent for the remainder of the forecast.

Following previous downturns (e.g. the recessions in 1991 and 2001) carriers stimulated passenger demand by reducing fares sharply. The industry's initial response to the current economic downturn was to modestly cut fares and to better match supply (seats) and demand (passengers). It quickly became apparent that dramatic (not modest) cuts in fares would be the only way to stimulate passenger demand, and carriers responded with multiple sales throughout the year. In addition, to help minimize losses, carriers also reduced flying to hold the line on costs. With no evidence of pent up demand, we do not anticipate a return to previously forecasted passenger levels even when recovery takes hold.

The average size of domestic aircraft is expected to decline by 0.3 seats in FY 2010 to 121.6 seats. Average seats per aircraft for mainline carriers are projected to fall by 0.8 seats as network carriers¹

¹ Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines, and US Airways (although Delta Airlines and Northwest Airlines merged, the carriers continued to report separate operating results through 2009 since they held separate operating certificates).

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 2010 by 1.2 seats to 56.2 seats per mile. Passenger trip length in domestic markets will remain relatively flat, decreasing by 0.7 miles.

The downturn in the economy has dampened the near-term prospects for the general aviation industry, but the long-term outlook remains favorable. We see growth in business aviation demand over the long term 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 2.5 percent a year through 2030.

The shaky global economy that took hold in the latter part of 2008 is expected to continue its squeeze on air travel demand through 2010. Profitability for U.S. carriers will hinge on the return of demand for corporate air travel, the ability to pass along fare increases to leisure travelers, and a stable environment for fuel prices. To navigate the volatile operating environment, mainline carriers will continue to drive down their costs by better matching flight frequencies and/or aircraft gauge with demand, delaying deliveries of newer aircraft and/or grounding older aircraft, and pressuring regional affiliates to accept lower fees for contract flying. 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.