Forecast Highlights (2020–2040)

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. Since the end of the recession in 2009, U.S. airlines revamped 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 three major mergers in five years. The results of these efforts have been impressive: 2019 marks the eleventh consecutive year of profitability for the U.S. airline industry. Looking forward, there is confidence that U.S. airlines have finally transformed from a capital intensive, highly cyclical industry to an industry that generates solid returns on capital and sustained profits.

Fundamentally, over the medium and long term, aviation demand is driven by economic activity, and a growing U.S. and world economy provides the basis for aviation to grow over the long run. The 2020 FAA forecast calls for U.S. carrier domestic passenger growth over the next 20 years to average 2.0 percent per year. The uptick in passenger growth since 2014 will continue into 2020 driven by positive economic conditions in the U.S. Oil prices averaged $60 per barrel in 2019 were forecasted to fall to $53 in 2020, and our forecast assumes they will increase beginning in 2022 to reach $104 by the end of the forecast period.

Global economic conditions weakened in 2019 although the experience was considerably different for the U.S. as compared to the rest of the world. GDP growth in the U.S. slowed from the strong rate in 2018 but remained above its estimated long-term trend, while in Europe, Germany and Italy flirted with recession and Asia saw high-growth China and India slow markedly. Political instability and trade wars dampened activity but by the end of the year, those headwinds appeared to be lessening. In their place, however, the January 2020 coronavirus (COVID-19) outbreak in China gained the world’s attention and in February began appearing outside Asia. As of the preparation of this forecast, the virus and its economic impacts were just emergent, and the range of possible outcomes too wide to include meaningfully in the forecast.

Global economic growth accelerates in 2021 after slowing in 2019-20. Trade disputes should be mending, the worst of Brexit uncertainty should be past, Japan’s tax-hike shock should be fading, and oil prices, and inflation generally, should be subdued. Over the early years of the 2020’s, economies are expected to return to their long-run trend rates of growth.

System traffic in revenue passenger miles (RPMs) is projected to increase by 2.5 percent a year between 2020 and 2040. Domestic RPMs are forecast to grow 2.3 percent a year while International RPMs are
forecast to grow significantly faster at 3.0 percent a year. System capacity as measured by available seat miles (ASMs) is forecast to grow in line with the increases in demand. The number of seats per aircraft is growing, especially in the regional jet market, where we expect the number of 50 seat regional jets to fall to just a handful by 2030, replaced by 70-90 seat aircraft.

Although the U.S. economy saw solid growth in 2019, economic activity around the world slowed, and labor costs rose, resulting in profits for U.S. airlines subsiding further from 2016’s record levels. Nevertheless, the FAA expects U.S. carrier profitability to remain steady as solid demand fed by a stable economy offsets rising labor costs. 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 overall inflation, reflecting growing U.S. and global economies.

The long-term outlook for general aviation is relatively stable, as growth at the high-end offsets continuing retirements at the traditional low end of the segment. The active general aviation fleet is forecast to decline slightly by 0.9 percent between 2020 and 2040 (rounding up to an average of 0 percent change annually). While steady growth in both GDP and corporate profits results in continued growth of the turbine and rotorcraft fleets, the largest segment of the fleet – fixed wing piston aircraft continues to shrink over the forecast. Against the marginally declining fleet, the number of general aviation hours flown is projected to increase by 16 percent (an average of 0.7 percent per year) during the same period, as growth in turbine, rotorcraft, and experimental hours more than offset a decline in fixed wing piston hours.

With increasing numbers of regional and business jets in the nation’s skies, fleet mix changes, and carriers consolidating operations in their large hubs, we expect increased activity growth that has the potential to increase controller workload. Operations at FAA and contract towers are forecast to grow 0.9 percent a year over the forecast period with commercial activity growing at approximately four times the rate of non-commercial (general aviation and military) activity. The growth in U.S. airline and business aviation activity is the primary driver. Large and medium hubs will see much faster increases than small and non-hub airports, largely due to the commercial nature of their operations.