Forecast Highlights (2017–2037)

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 recession, U.S. airlines have 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 three major mergers in five years. These changes along with capacity discipline exhibited by carriers have resulted in a seventh consecutive year of profitability for the industry in 2016. Looking ahead there is confidence that the industry has been transformed from that of a boom-to-bust cycle to one of sustainable profits.

Fundamentally, over the medium and long term, demand for aviation 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 2017 FAA forecast calls for U.S. carrier passenger growth over the next 20 years to average 1.9 percent per year, slightly slower than last year’s forecast. The sharp decline in the price of oil in 2015-16 was a catalyst for an uptick in passenger growth in 2016 that will continue into 2017. The price of oil is projected to rise from around $39 per barrel in 2016 to $47 in 2017, and our forecast assumes that it will rise thereafter to exceed $100 by 2026 and approach $132 by the end of the forecast period. There are a number of headwinds that are buffeting the global economy – uncertainty surrounding "Brexit", recession in Russia and Brazil and inconsistent performance in other emerging economies, a “hard landing” in China, and lack of further stimulus in the advanced economies. Although the U.S. economy has managed to avoid a recession, there is uncertainty regarding the impact of the new U.S. administration’s policies on economic growth.

System traffic in revenue passenger miles (RPMs) is projected to increase by 2.4 percent a year between 2017 and 2037. Domestic RPMs are forecast to grow 2.0 percent a year while International RPMs are forecast to grow significantly faster at 3.4 percent a year. U.S. carrier system capacity measured in available seat miles (ASMs) is forecast to grow in line with the increases in demand. The number of seats per aircraft is getting bigger, especially in the regional jet market, where we expect the number of 50 seat regional jets to fall to just a handful by 2023, replaced by 70-90 seat aircraft.

Although the U.S. and global economy continued post disappointing growth in 2016, a combination of robust demand and continued low energy prices resulted in record profits for U.S. airlines. U.S. carrier profitability may fall in the near term as rising energy prices and higher labor costs offset higher revenues fed by solid demand. 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. and global economy.

The long term outlook for general aviation is stable to optimistic, 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 increase 0.1 percent a year between 2016 and 2037, resulting in an increase in the fleet of about 3,400 units. 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. Although fleet growth is minimal, the number of general aviation hours flown is projected to increase an average of 0.9 percent per year through 2037, 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 which has the potential to increase controller workload. Operations at FAA and contract towers are forecast to increase 0.8 percent a year over the forecast period with commercial activity growing at five times the rate of non-commercial 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.