Review of 2016

Despite slow economic growth at home and abroad, 2016 was a pretty good year for U.S. aviation. A combination of robust domestic traffic and falling costs offset a decline in revenue caused by lower yields resulting in record profits for the U.S. airline industry. The shift in focus from market share to boosting returns on invested capital has resulted in something the industry has rarely seen – sustained profitability. The U.S. airline industry has become more nimble in adjusting capacity to seize opportunities or minimize losses. U.S. airlines continue to refine strategies for developing additional revenue streams such as charging fees for services that used to be included in airfare (e.g. meal service), as well as for charging for services that were not previously available (e.g. premium boarding and fare lock fees). The impact from these initiatives is evident as the industry (passenger and cargo carriers combined) posted profits for the seventh consecutive year in 2016, despite falling yields.

Demand for air travel in 2016 grew at the fastest pace since 2005 despite modest economic growth in the U.S. In 2016 system revenue passenger miles (RPMs) increased 4.3 percent while enplanements grew 4.2 percent. Domestic RPMs were up 5.5 percent while enplanements were up by 4.3 percent. International RPMs increased by just 1.5 percent despite enplanements growing by 3.6 percent. The system-wide load factor rose 0.2 points to 83.5 percent.

Yields fell for the second consecutive year. In domestic markets, falling oil prices and rapid expansion by ultra-low cost carriers such as Spirit and Allegiant led to a 4.7 percent decline. International yield fell 9.0 percent, impacted by weak demand and currency fluctuations. Despite falling yields U.S. airlines posted record profits in FY 2016 as energy prices continued to decline, allowing profits at lower prices. Data for FY 2016 show that the reporting passenger carriers had a combined operating profit of $26.6 billion (compared to a $24.1 billion operating profit for FY 2015). The network carriers reported combined operating profits of $19.1 billion while the low cost carriers reported combined operating profits of $6.7 billion as all carriers posted profits.

The general aviation industry recorded a small decline in deliveries in 2016, with only the business jet segment seeing a year over year increase. Overall deliveries were down by 4.2 percent in calendar year (CY) 2016; and U.S. billings decreased 11.7 percent to $10.6 billion. General aviation activity at FAA and contract tower airports recorded a 0.2 percent decline in 2016 as local activity fell 0.5 percent, more than offsetting a 0.1 percent increase in itinerant operations.

In 2016 total operations at all 517 FAA and contract towers rose for the second consecutive year, up 0.5 percent, compared to 2015. This marks the first time since FY 1999-2000 that operations at FAA and funded towers have increased for two consecutive years. Air carrier activity increased by 4.8 percent, more than offsetting declines in the air taxi, general aviation, and military categories. Activity at large hubs rose by 1.6 percent, while medium hub activity increased by 2.8 percent. Small/non-hub airport activity was down 0.4 percent in 2016 compared to the prior year.