



Highlights of [GAO-09-393](#), a report to congressional requesters

## Why GAO Did This Study

The U.S. passenger airline industry is vital to the U.S. economy. Airlines directly generate billions of dollars in revenues each year and catalyze economic growth. Interest in the airlines' ability to weather volatile fuel prices and the economic recession led to congressional requests for a GAO review. GAO examined how (1) the financial condition of the U.S. passenger airline industry has changed, the principal factors affecting its condition, and its prospects for 2009; (2) airlines have responded to the factors affecting their financial condition; and (3) changes in the industry have affected airports, passengers, and the Airport and Airway Trust Fund (Trust Fund), which funds the Federal Aviation Administration's (FAA) capital programs and most of its operations. To do this, GAO analyzed financial and operating data, reviewed studies, and interviewed airline, airport, and FAA officials and other experts. The Department of Transportation (DOT) provided technical comments, which were incorporated as appropriate.

## What GAO Recommends

In light of the declining uncommitted balance in the Trust Fund, Congress should consider working with FAA to reduce the risk of overcommitting budgetary resources from the Trust Fund so that resources are available to cover all the obligations that FAA has the authority to incur and reduce the risk of disruptions in funds for aviation programs and projects.

To view the full product, including the scope and methodology, click on [GAO-09-393](#). For more information, contact Susan Fleming at (202) 512-2834 or [flemings@gao.gov](mailto:flemings@gao.gov).

## COMMERCIAL AVIATION

### Airline Industry Contraction Due to Volatile Fuel Prices and Falling Demand Affects Airports, Passengers, and Federal Government Revenues

#### What GAO Found

After 2 years of profits, the U.S. passenger airline industry lost \$4.3 billion in the first 3 quarters of 2008—the most currently available financial data—largely due to volatile fuel prices. Losses grew as jet fuel prices increased 60 percent over 2007 levels by midyear, only to tumble rapidly to about one-third of the year's high by year-end. While early 2009 forecasts suggested a return to profitability, largely due to lower fuel prices, the deepening recession has cast doubt on those predictions. The demand for air travel now appears to be weaker than expected—especially among business and international travelers—and revenues appear to be declining. Today, the outlook for the industry's profitability in 2009 is uncertain.

U.S. airlines responded to volatile fuel prices and then a weakening economy by cutting their capacity, reducing their fleets and workforces, and instituting new fees. Collectively, U.S. airlines reduced domestic capacity, as measured by the number of seats flown, by about 9 percent from the fourth quarter of 2007 to the fourth quarter of 2008. Most of these cuts remain in place. To reduce capacity, airlines reduced the overall number of active aircraft in their fleets by 18 percent by eliminating mostly older, less fuel-efficient, and smaller (50 or fewer seats) aircraft. Airlines also collectively reduced their workforces by about 28,000, or nearly 7 percent, from the end of 2007 to the end of 2008, but further downsizing is expected in 2009. In addition to reducing capacity, most airlines instituted new fees, such as those for checked baggage, which resulted in \$635 million during the first 3 quarters of 2008.

The contraction of the U.S. airline industry in 2008 reduced airport revenues, passengers' access to the national aviation system, and revenues for the Trust Fund. Domestic passenger traffic, as measured by enplanements, decreased by 9 percent overall, but by more than 25 percent at some airports, from the fourth quarter of 2007 to the fourth quarter of 2008. With this decrease, airport revenues declined, prompting airports to reduce their operating costs and delay capital improvement projects. Despite the drop in traffic and revenues, airports are generally considered financially sound owing to considerable cash reserves. However, airline capacity reductions are causing some passengers to lose some or all access to commercial air service and contributing to increased fares in some passenger markets. Small airports, which already offer fewer flight options, had the greatest percentage decrease in nonstop destinations (16 percent) as well as a 10 percent reduction in capacity. Additionally, 38 airports lost all service from the fourth quarter of 2007 to the fourth quarter of 2008—roughly twice the number that lost all service for the same periods in 2006 and 2007. With the industry's contraction, Trust Fund revenues fell, contributing to a decline in the fund's uncommitted balance. Appropriations from the Trust Fund are based on FAA's projected revenues, and actual revenues have been less than FAA's forecast, resulting in the uncommitted balance falling from about \$7.3 billion at the end of fiscal year 2001 to about \$1.4 billion at the end of fiscal year 2008, and may fall further. If the uncommitted balance declines close to zero, FAA might have to delay capital programs unless additional funding is made available.