FORECAST HIGHLIGHTS 2011-2031

Over the past decade the commercial air carrier industry has suffered several major shocks that have led to reduced demand for air travel. These shocks include the terror attacks of September 11, skyrocketing prices for fuel, and a global recession. To manage through this period of extreme volatility, air carriers fine-tuned their business models with the aim of minimizing financial losses. To lower operating costs, carriers eliminated unprofitable routes and grounded older, less fuel efficient aircraft. To increase operating revenues, carriers charged separately for services historically bundled in the price of ticket and initiated new services which customers were willing to purchase. The capacity discipline exhibited by the carriers and their focus on additional revenue streams bolstered the industry to profitability in 2010 (for the first time since 2007). Going into the next decade, there is cautious optimism that the industry has been transformed from one of a boom-to-bust cycle to one of sustainable profits.

As the economy recovers from the most serious economic downturn since the Great Depression, aviation will continue to grow over the long term. The 2011 FAA forecast now calls for one billion passengers to be flown in 2021, two years earlier than projected in last year's forecast. Growth over the next five years will average 3.7 percent per year, with average annual growth of 2.5 percent per year for the remainder of the forecast period. The level of activity and demand is expected to eclipse those published in last year's FAA forecast. One factor influencing the recovery beyond prior forecast levels is stronger than expected traffic results posted during the latter part of 2010. Another factor is the expectation of a more robust economic environment during the mid-years of the forecast than previously assumed. This takes the form of a more rapid and steeper decline in unemployment and stronger economic expansion.

System capacity in available seat miles (ASMs) – the overall yardstick for how busy aviation is both domestically and internationally – will increase 4.5 percent this year after posting a 0.5 percent decrease for 2010, and will then grow at an average annual rate of 3.6 percent through 2031. In the domestic market, capacity grows 2.9 percent in 2011, after declining for the third straight year in 2010 (down 0.4 percent), and then grows at an average annual rate of 3.0 percent for the remainder of the forecast period. Domestic mainline carrier capacity will increase for the first time in three years during 2011, up 2.8 percent from 2010. For the regional carriers, domestic capacity will grow 3.8 percent from 2010 levels – resuming growth for the second straight year after shrinking in 2009 for the first time since deregulation. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to grow 3.5 percent in 2011, and then grow at an average of 3.1 percent per year through 2031; domestic enplanements in 2011 will grow 3.0 percent, and then grow at an average annual rate of 2.5 percent for the remainder of the forecast.

The average size of domestic aircraft is expected to increase by 0.2 seats in FY 2011 to 122.0 seats. Average seats per aircraft for mainline carriers are projected to stay relatively flat as network carriers[1] 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 2011 by 0.4 seats to 56.6 seats per mile. Passenger trip length in domestic markets will increase by 4.6 miles during the same period.

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 until March of 2010).

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 2.2 percent a year through 2031.

The global economy is growing again, reviving the demand for air travel. Profitability for the U.S. carriers will hinge on a stable environment for fuel prices, an increase in demand for corporate air travel, the ability to pass along fare increases to leisure travelers, and the generation of ancillary revenues. 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 airfares growing more slowly than inflation.