FORECAST HIGHLIGHTS
2014-2034

Since the beginning of the century, 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, debt restructuring in Europe and the United States (U.S.), and a global recession. To manage this period of extreme volatility, air carriers have fine-tuned their business models with the aim of minimizing financial losses by lowering operating costs, eliminating unprofitable routes and grounding older, less fuel efficient aircraft. To increase operating revenues, carriers have initiated new services that customers are willing to purchase. Carriers have also started charging separately for services that were historically bundled in the price of a ticket. The capacity discipline exhibited by carriers and their focus on additional revenue streams bolstered the industry to profitability in 2013 for the fourth consecutive year. Going into the next decade, there is cautious optimism that the industry has been transformed from that of a boom-to-bust cycle to one of sustainable profits.

As the economy recovers from the most serious economic downturn and slow recovery in recent history, aviation will continue to grow over the long run. Fundamentally, demand for aviation is driven by economic activity. As economic growth picks up, so will growth in aviation demand. The 2014 FAA forecast calls for U.S. carrier passenger growth over the next 20 years to average 2.2 percent per year, unchanged from last year's forecast. After another year of slow growth in 2014, growth over the next five years will be higher than the long run rate as we assume U.S. economic growth accelerates. One of the many factors influencing the muted recovery is the uncertainty that surrounds the U.S. and the global economy. The global economy has been hit by a number of headwinds during the past few years, from recession in Europe to a "soft landing" in China and inconsistent performance in other emerging economies. This has not helped the pace of U.S. economic growth given the increasing importance of its trade with Europe and the rest of the world. Despite this and the ambiguity surrounding its own fiscal imbalances, the U.S. economy has managed to avoid a double dip recession and trudges along the path of slow recovery.

System capacity in available seat miles (ASMs) – the overall yardstick for how busy aviation is both domestically and internationally – is projected to increase by 1.5 percent this year after posting a 0.8 percent increase in 2013; it will then grow at an average annual rate of 2.7 percent through 2034. In the domestic market, capacity growth in 2014 is forecast to be 1.0 percent and then grow at an average annual rate of 2.1 percent for the remainder of the forecast period. Domestic mainline carrier capacity is projected to increase 0.8 percent in 2014 after rising 1.3 percent in 2013. For the regional carriers, domestic capacity growth is projected to be 2.2 percent in 2014 after declining 2.8 percent in 2013. Commercial air carrier domestic revenue passenger miles (RPMs) are forecast to increase 0.9 percent in 2014, and then grow at an average of 2.2 percent per year through 2034; domestic enplanements in 2014 will increase 0.6 percent, and then grow at an average annual rate of 1.9 percent for the remainder of the forecast period.

The average size of domestic aircraft is expected to increase by 1.3 seats in FY 2014 to 126.3 seats. Average seats per aircraft for mainline carriers are projected to increase by 1.2 seats 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 2014 by 1.4 seats to 57.5 seats per mile. Passenger trip length in all domestic markets will increase by 2.6 miles during the same period.

The long term outlook for general aviation is favorable even though the slow growth of the U.S. economy, contributed by uncertainties caused by debt ceiling crises, sequestration, government shutdown, and the European recession have affected the near term growth, particularly for the turbo jet sector. While it is slightly lower than predicted last year, the growth in business aviation demand over the long term continues, driven by a growing U.S. and world economy especially in the turbo jet, turboprop, and turbine rotorcraft markets. As the fleet grows, the number of general aviation hours flown is projected to increase an average of 1.4 percent a year through 2034.

After sputtering in the early part of 2013, both the U.S. and global economies began to show improvement in the latter half of 2013 and appear poised to grow faster in 2014. Assuming energy prices remain relatively stable, U.S. carrier profitability should increase as an improving economy in its fifth year of recovery leads to strengthening demand, which coupled with continuing capacity discipline results in higher fares (and increased ancillary revenues). 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. economy.

[1] Alaska Airlines, American Airlines, United Airlines, Delta Airlines, and U.S. Airways.