US Airline Industry Emerging Trends 2006 - 2011

Regional Airline Association
Dallas
May 24, 2006

The Boyd Group
Aviation Consulting & Forecasting

Key Challenges

- Oil: $60 -70 a barrel - the costs have to be offset from other places. Labor was first, now it will be fares

- Incompetent, decaying Air Traffic Control system. It's years behind in upgrades, ineptly managed from Washington, and at some levels, understaffed. An accident waiting to cause more accidents

- Taxes, fees, and other fun. Average: @ 18% - 20% of fare. Want to start a riot? Make passengers pay the taxes & fees at departure

- "Security" - The Transportation Security Administration is a bureaucratic sewer riddled with major failures. No protection from another 9/11 - or even an amateur terrorist

Nobody's Really Making ROI… But

- Legacy carriers: American, Continental, etc. have lowered fundamental costs to a point that they can compete. Take a look at operating profits. Then take a look at route systems
- The challenge for low-cost carriers: too many "big" airplanes chasing a limited number of routes that can support them
- The future: legacy carriers. It's that revenue thing

Why Legacy Carriers Have A Stronger Future

What Do These Cities Have In Common?

Hint: We're in a global economy.

Hint: Investment isn't in major metro markets anymore

Hint: Who's going to, from, and between these places

The New Revenue-Generators

- **They're all mid-size communities**

- **They all have substantial new industrial growth:**
  - **Montgomery: Korean Hyundai factory**
  - **Columbus, Ms: EuroCopter. A new Russian steel mill**
  - **Spartanburg: BMW Factory**
  - **Charleston, SC: #2 US container port**
  - **Shreveport: Major Brazilian-system GM truck factory**
  - **Jackson, MS: Your Infiniti may have been made there**
  - **Erie: Major global exporter of rail equipment**

And so on...

More On The New Revenue Generators

Point: They all have significant international investment. Including Asian investment

Point: They are generating significant new business traffic, both between one another (e.g. Shreveport & Lansing) and to international destinations.

Conclusion:

It's here where the revenue real growth will be.

Low Cost Carriers Can't Easily Access This Traffic.

Inflexible fleets... and LCCs will have trouble capturing the critical international flow component.

The Hub & Spoke Approach: The Shreveport - Shanghai Advantage

American can defend key mainline markets via feed from mid-size airports that are too small to support LCC service.

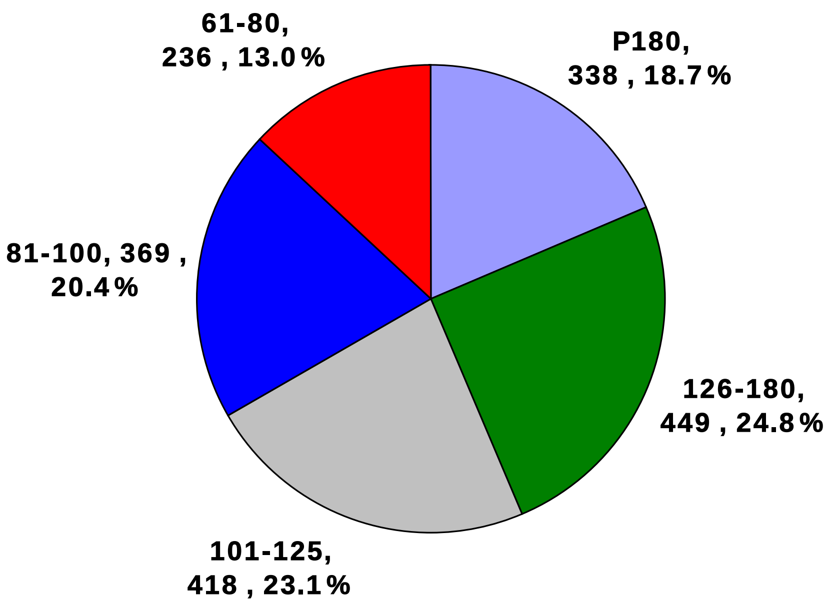
The LCC Shake-Out

- Between just Southwest, AirTran, and jetBlue, there are @ 200 more full-size airliners (100-150 seats) coming on line in the next 3 years
- Low-hanging fruit - high density capable markets - are getting scarce - It will be tough to fare-stim LNK-JFK
- The Hard Truth: Limited fleet mix = limited revenue generation capability. One size doesn't fit all
- Fact: There are TWO sides to the P&L

Key Fleet Demand Trends

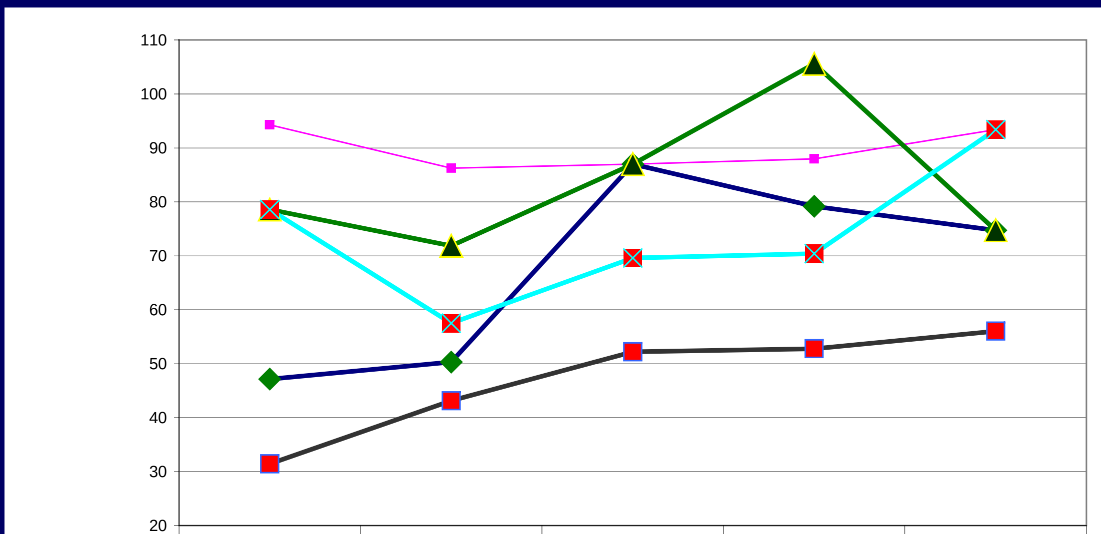
- **Under 70 Seat Jets**. Low demand for new units. Glut of existing ones. No large, discernable secondary market
- **Over 250 Seats**. 747-8 = mostly partial 747-400 replacement
- **A-380 WhaleJet**. The spirit of the Concorde returns to Europe
- **Main Battlefield:** 75 - 150 seats
- **Watch For:** Order evaporation in China and/or India

North America Fleet Demand 2007 - 2011



- Total: 1,810 units
- 81- 125 seats + nearly half the market.
- Units under 80 seats @ 13%
- Low Demand for RJ-cabined airliners, regardless of number of seats
- Near zero demand for A-380s

North America Fleet Demand 2007 - 2011



	2007	2008	2009	2010	2011
P180	47	50	87	79	75
126-180	94	86	87	88	93
101-125	79	72	87	106	75
81-100	79	58	70	70	93
61-80	31	43	52	53	56

Key Points To Watch

- Retirements of early 50-seat jets
- Re-fleeting at Northwest (DC-9s)
- Gap-fleeting at American (between 50 and 140 seats, they only have 25 70-seat RJs)
- 787 - Disruptive entry

Summary Points

- Shake-out in small jet supplier segment ("regional airlines") - too many operators, too many "regional jets," big squeeze on revenues
- Low-Cost Carriers - such as jetBlue, Frontier, Southwest - inter-segment battle now in full swing. Too much capacity coming, limited LCC-compatible markets
- The real growth areas: mid-size markets in Midwest and Deep South
- Real growth revenues: the above, including flows to/from China
- Airlines best postured for major long-term growth: Northwest, American, Continental
- Fleet shifts: 2007 - 2011, E-Jets 70-110 seats. Next major re-fleeting: @ 2012, with dawn of additional "plastic" aircraft, - 787 the first example

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