

October 2009

Aviation Forecast Summit Issue

"Without a doubt, it's the most efficiently run and informative conference event in aviation...and well worth the price of admission."

Jerry Vickers
Exec Director
Greenville – Pit
Airport

"The Boyd Group International forecast conference is second to none....a "first class event". No other air service conference gets the broad view from so many innovative and diverse speakers. All attendees stay during the sessions because they are so very interesting."

Bruce Carter
Executive Director
Moline-Quad Cities
International Airport

The Premier Aviation Conference

Fewer Passengers, Less RJs, Healthier US Airlines, Outdated Airport Facilities. No Hope For ATC Fix Year 2010 Will Mark Fundamental Changes

The **Annual Boyd Group Aviation Forecast Summit** wrapped up October 6, marking the highest and widest attendance in the event's 14 year history.

Reflecting the growing global nature of aviation, over 250 delegates from the US and internationally participated. We say "participated" because the format of the Summit focused heavily on discussions with industry decision-makers, including Q&A. There were no fatalities from excess PowerPoint presentations, and the attendees were able to see leaders from all areas of aviation and hear their candid views on the future.

First, Let's Look At Forecast Snapshots

US Air Passenger Traffic – Decline Through 2010. Then Slow Rebound

The Airports:USA® Enplanement Forecasts are the only traffic projections accomplished independently in the private sector. Each of 150 airports is reviewed based on population, economics, air service trends and local airline service strategies. The result is a five-year, airport-by-airport forecast based on real analyses, not trend-lined historical data.

	2008	2009	2010	2011	2012	2013	2014	14 v 08
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Hubsites	223,947	211,794	202,847	205,213	209,835	214,478	219,243	-2.1%
Lg Nonhubs	199,468	183,006	177,836	180,677	185,776	191,140	196,597	-1.4%
Regional	139,492	126,783	124,143	125,465	127,737	130,129	132,562	-5.0%
Total Passengers	562,907	521,584	504,826	511,355	523,347	535,746	548,403	-2.6%
Pax Change Y-O-Y		-7.3%	-3.2%	1.3%	2.3%	2.4%	2.4%	
Enplanements	748,914	696,055	674,698	681,279	696,010	711,434	727,219	-2.9%
Enplmt Chg Y-O-Y		-7.1%	-3.1%	1.0%	2.2%	2.2%	2.2%	
Enp/Pax Ratio	1.330	1.335	1.336	1.332	1.330	1.328	1.326	-0.3%

Even if the economy turns upward in 2010 (which is an open question, with continually-increasing unemployment and failing banks), it is a near-certainty that passenger traffic will be down. The reason is that airlines are trimming capacity and are not going to be able to bring back significant amounts of seats in the near-term. That means carriers will see more pricing traction in the coming 18 months, assuming they can continue to anticipate falling demand and adjust capacity on a pro-active, instead of reactive, basis. However, even if the economy does rebound in 2011, the traffic growth, will be slow, resulting in approximately 14 million fewer passengers in 2014 v 2008. Hardest segment hit: regional airports.

Growing Importance of International Traffic

The growing global factor in air transportation is reflected on the international component of the forecast. International traffic represents about 10.2% of US enplanements. But this passenger component is not entirely generated at the gateway city. Analyses by Boyd Group International point to each international passenger being responsible for 1.5 additional domestic enplanements. Business travelers from China, for example, travel on to visit plants and factories, for example.

From The Summit:

International connectivity will be responsible for driving almost 30% of US domestic traffic by 2019.

Airports:USA®
Enplanement Forecasts

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Net Chg
International Component	76,389	72,042	70,506	71,875	74,125	76,479	78,903				3.3%
Int'l-Generated Domestic Enplmts	114,584	108,062	105,759	107,812	111,188	114,719	118,355				
Intl-Driven	190,973	180,104	176,265	179,687	185,313	191,198	197,258				3.3%
Total Intl-Related	25.5%	25.9%	26.1%	26.4%	26.6%	26.9%	27.1%				

© Airports:USA® Boyd Group International, Inc

The current forecast indicates that 25.5% of all domestic enplanements are the direct result of international connectivity, and the percentage will grow closer to 30% in the next five years.

This forecast is buttressed by the increasing importance of airline global alliances – namely, Star, SkyTeam, and oneworld. Anti-trust immunity filings by the member carriers make very clear that in the future, it will be the alliance, and less so the airline, that will have the marketing and brand power.

Fleets: Those RJs Can't Economically Fly As Far. That Will Affect Hub-Reach

The Boyd Group International **Global Fleet Demand & Trend Forecast** projects a demand for almost 13,000 new airliners over the next ten years. But fleet demand within capacity categories tells a very challenging story for US airports.

North America	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Net Chg
Seat Capacity											
180 + Seats	627	604	563	514	473	439	437	424	415	424	-203
126 - 180	3,156	3,227	3,308	3,376	3,415	3,455	3,473	3,492	3,506	3,584	428
101 - 125	464	535	647	758	898	1,074	1,230	1,380	1,533	1,601	1,137
75 - 100	530	657	769	880	950	1,013	1,069	1,123	1,165	1,195	666
61 - 74	98	122	142	166	191	203	214	225	236	246	148
Regional Jets	1,437	1,268	1,145	1,059	991	944	905	868	838	815	-622
Copyright © 2009, Boyd Group International, Inc											
Total	6,311	6,413	6,574	6,753	6,919	7,128	7,328	7,512	7,693	7,865	1,554

The US airline industry will be engaging in substantial fleet renewal over the next ten years. But this means the fleet mixes will change fundamentally. In regard to regional jets (which we properly define not by seats or alleged mission application, but by cabin size, as CRJ and ERJ variants) the fleet will decline by over 600 airplanes. This includes the entry of the projected 315 additional new CRJ-900/1000s that the forecast indicates Bombardier will sell over the ten year period. Factor that in, and of the 1,400 CRJ/ERJs currently flying today in North America, all but about 500 will be out in the desert or scrapped by 2019. (There are some in the airframe industry that are not pleased with this forecast. But we report the facts as we independently see them – and we have a 20-year track record to demonstrate our accuracy.)

The main culprit is fuel costs. At \$25 oil, 50-seat RJs could perform a very wide set of mission applications. At \$50+ oil, the range (literally and figuratively) of these applications is much less. That 600-mile feed from a distant small city made sense at lower fuel coats. But at \$70+ oil, they are money losers. This means hub access at some smaller communities will shrink. That also means that air service enhancement strategies need to change. More on that below.

Of the 1,400 RJs now flying in North America, all but 500 will be retired by 2019.

Add in the estimated 315 new CRJ-900/1000s that Bombardier is forecast to sell, and the net is that there will be 600 fewer RJs in the skies.

From The Summit:

*The Sukhoi and Mitsubishi
airliners may face a
crowded market by the
time they come off the
production line*

Global Fleet Forecast

Mid Is In.

Note that the forecast projects that the 101 -125 seat category will grow in North American by over 50%. This is due to the need for a number of US network carriers to fill in fleet capacity gaps between their leased-in 50-seat RJs and their smallest mainline equipment, which generally is around 140 seats. As a result, the forecast indicates that new-generation mainline jets – mainly the Bombardier CSeries – will join the E-190/195 as prime fleet renewal aircraft. The forecast is uncertain regarding the Mitsubishi and Sukhoi programs, which are generally under 100 seats. The main determinant will be the sector costs. If the geared turbofan powerplants can deliver costs similar to current 50-seater, they may have a role.

Air Service Enhancement – Traditional “Development” Programs Are Obsolete.

At the **Air Service Dynamics™** workshop, the new imperatives for retaining access at small and mid-size airports were reviewed. The airline business is changing, and the traditional ways of addressing air service recruitment are increasingly ineffective. Just a pretty slide presentation dripping with fare comparisons and the perfunctory display of logos from local industries won't work anymore. The hurdles and economic realities facing airlines are too high.

Warning: Recognize Economic Realities... And Don't Buy-In To Snake Oil. Worse, the decline in effectiveness of traditional methods of increasing air service (due to reduced fleets, retirement of large numbers of small jets, airline reticence to take risks, etc.) have given rise to any number of slick schemes, some of which may be pushed by consulting companies whose staff are essentially peddling projects on commission. In one very sorry episode, some communities were convinced to spend thousands of dollars promoting an “airline” that had no planes, a shifting operating plan, and loads of other red flags, before the scheme completely collapsed. Some airports are being urged to consider buying their own airplane time (to operate routes where even large airlines couldn't make money) – but only after, of course, the airport shells out for an expensive feasibility “study” that, surprise! just happens to conclude the program will attract thousands of passengers where there are none today. Outside the box thinking is great. Fantasies outside of economic reality waste time and money.

At the **Air Service Dynamics™** workshop several key new elements were reviewed – elements that are now essential to keeping air service and building on it. One particular dynamic is the international component – ability to access global hub gateway so businesses from other parts of the world can get in to do site visits, etc. (Want an example of how important? Ask Montgomery.)

*Airline strategies are
constantly changing. Air
service enhancement
efforts must anticipate
and mirror those
changes.*

*In particular, it's gearing
efforts to better attract
access from the rest of
the globe, and not just
the needs of the local
community.*



**Meeting their needs is now just part
of the air service picture...**

**... He needs to get into town to do
business, look for plant sites, and
create jobs. How's his access?**



Connecting Hub Access: It's What Determines Potential. Another dynamic is the need to focus on the fact that hub access is the future for small and mid-size airports. Typically, nonstops to O&D non-leisure points simply cannot be supported at today's fuel costs. Air access at many smaller airports is today determined entirely by the strength of the connecting hubs it can economically access

This means that small communities must concentrate on gaining more service to identified connecting hubs. That eliminates the need for expensive, unscientific consumer “surveys” that always seem to conclude that there's huge local passenger potential. In the future, it will be determining traffic demands into the airport from other points that is the most important to build on. Surveying random opinions from John Q. Public is useless in this regard. Furthermore, airlines planners are not moved by silly findings like, “More than 85% of local residents really like the local airport!”

From The Summit:

“Catchment area,” defined as a geographic map, is now obsolete. The new metric is “areas of influence” – each defined by consumer/fare segments in the region .

**Air Service Dynamics™
Workshop**

New Dynamic: Passengers Do Not Equate To Air Service. Another new dynamic is the fact that “enplanements” are not always an indicator of an airport’s true levels of air service access. It’s the concept of “impulse” traffic – passengers that are created by the sudden availability of low-cost, high-value vacation packages to Florida or other leisure spots. Rather than filling a traffic void, this creates net-new passenger traffic. Typically this is the result of Allegiant service, and can be incredibly valuable in widening the airport’s consumer reach as well as bringing PFC dollars to the bottom line. But it is additive to the need for having access from business centers both domestic and international.

New Dynamic: Geography Is Not The Catchment Metric. Also no longer valid as a metric in itself, is the concept of a static geographic airport “catchment area.” The new dynamic is “areas of air service influence.” Today, traffic capture is by passenger segment. Some segments are so price-sensitive that there is no catchment area whatsoever. Other business segments are based on fare levels, nonstop service, and brand loyalty. Carefully identifying the real geographical areas for traffic capture for each segment is critical to successful targeting of air service enhancement efforts.

Summit Insights & Discussions With Industry Decision-Makers

The **Boyd Group International Aviation Forecast Summit** covers more information, more data, and more intellectual territory than any other aviation event. This year, we had probing discussion sessions encompassing all the hot buttons in the aviation industry.

From Marian Boyd: Conference Chair, & Boyd Group International COO: The Summit was opened with a review of the scope of this year's delegates, which underscores the stature of the event as aviation's most prestigious annual forecast conference. Over 250 attendees, including: 21 airlines from the US and internationally, 40 airports, four global aircraft manufacturers, four major OEM suppliers, six major financial institutions, six major aviation media outlets, four convention & tourist bureaus, and even two ski areas involved in air service enhancement programs. But, - as planned – there were zero Federal agencies. The last number is because none were invited. This is a facts and information Summit, and folks from federal agencies are limited to repeating the official line. The Boyd Group International Aviation Forecast Summit is all about the bottom line.



John Kirby, AirTran Airways

“This is the one industry where people will fight for things they didn’t want in the first place.”

*- John Kirby
Sr. Director, AirTran.*



Boyd Group International
COO Marian Boyd
Opening The Summit

From John Kirby, Sr. Director, AirTran: The name of the game is maximizing existing resources. Aircraft applications will follow that dictum. When/if new opportunities open, the carrier will move resources as necessary. He went on to observe, "This is the one industry where people will fight to defend things they didn't even want in the first place."



Bob Jordan, EVP Strategy & Planning, Southwest Airlines

From Narjess Teyssier – Chief of Economic Analysis, ICAO: The global airline industry is simply not making back the cost of capital. While US carriers appear to be doing comparatively better than some colleague airlines elsewhere in the world, the airline business is still expected to struggle over next five years.

From Bob Jordan, Executive VP, Southwest Airlines: watch for new cities being opened in 2010. Look for wider inflight entertainment systems. As for fees charged by the competition, the jury is still out as to what the level of consumer push-back may ultimately be.

From Jim Compton, EVP, Continental Airlines: International alliances are the key to future competition and consumer access. The strength of the SkyTeam Alliance facilitates seamless global air service to the entire United States.

From The Summit:

The outdated structure of the EAS program is well beyond broken. It is now becoming a reason some small communities are being relegated to single-engine service that generally is a waste of fuel.

Rural Air Service Session

Andrew Nocella of US Airways pointed out that many US airports represent legacy facilities for an airline industry that no longer exists.

For example, what do you do with 100 feet of linear ticket counter space now that there are no more tickets?

From The Rural Air Service Discussion Session: Chuck Howell, CEO - Great Lakes, Roger Cohen - President- Regional Airline Association, and Don Bornhorst, Sr. Vice President - Delta Connection, Delta Air Lines all agreed that the Essential Air Service (EAS) program is broken. Mr. Howell noted that it's risky to bid on a 2-year EAS contract, when aircraft leases are for five years. Mr. Bornhorst commented that it is very dicey to bid on EAS contracts where there is not firm mechanisms to address spikes in fuel costs. Tim Sieber - VP - Boyd Group International pointed out that establishing an airport operation today is not like the old days when it meant just ordering ticket stock and bag tags, hanging a sign, and installing a phone/computer line. What incentive, he noted, is there for Delta to invest in the extensive airline-specific equipment (kiosks, etc) when in two years another carrier might bid them out of the contract.



Don Bornhorst, SVP Delta Connection, Roger Cohen, Pres. Regional Airline Assn, Chuck Howell, CEO Great Lakes Airlines discuss rural air service issues with Tim Sieber of Boyd Group International.

From Captain Dan Wolf, CEO Cape Air: Reliability and frequency are trump cards for rural air service. While having a major network brand may be desirable, in smaller communities having more access and reliable service that can connect to the air transportation system are more critical to market success. Also, there is a huge need for new-generation small aircraft (with small operating costs) - the problem is whether there's a manufacturer that's willing to take the risk.



Capt. Dan Wolf, CEO Cape Air

From Captain Michael Baiada, CEO ATH Associates: The US airline industry is operating at between 35% and 40% defect rates, based on flights arriving more than schedule plus 5 minutes. For the airline industry to take pride in claiming that 80% of flights arrived within 15 minutes of schedule is to accept failure.

From Bill Swelbar, Aviation Research Engineer, MIT: It's positive to have Captain Randy Babbit at the helm of the FAA. He's understands the challenges aviation faces. But it's unfair to expect him to turn the agency around quickly or painlessly.



Bill Swelbar, MIT (right) discusses ATC issue with Jim May, President Air Transport Assn and Capt Mike Baiada, CEO ATH Group.

From Jim May, President, Air Transport Association: Airline CEOs are becoming more active, meeting with lawmakers and demanding congress fund ATC upgrades to reduce delays.

From Michael Boyd, President, Boyd Group International: It's great that airline CEOs are pounding on congressional doors. But are they just asking that the FAA's discredited "NexGen" be given more money, or are they demanding the FAA start producing results? There's a huge difference. ATC is costing the airline industry at least \$10 billion in wasted costs annually. Every year at the Summit we review the ATC issue, and regardless of the FAA hype, there really is no substantive progress to report.

From Bryan Bedford, CEO Republic Airways Holdings: The acquisition of "branded" airline operators, Frontier and Midwest, is certainly an expansion beyond Republic's core business in the past of being a regional jet lift provider. The replacement of Midwest 717s with E-190s was a cost-based decision that reduces operating expense while bringing more comfort to the customer. The ability to match lift and aircraft between the two brands can bring strong revenue efficiencies.



Bryan Bedford, CEO of Republic, discusses the company's visionary plans for Frontier & Midwest.

From The Summit:

There's a new FAA Administrator. But it is patently unfair to assume he can turn the FAA around easily or quickly.

Washington Issues Session

From The Aircraft Manufacturers Session: Airbus, Boeing, and Bombardier outlined each of their basic 20-year forecasts. The potential game-changing economics of the A-350XWB, the 787, and the Bombardier CSeries were reviewed. With near-certain higher fuel costs and emissions standards being considered, it is not a matter of whether there will be a strong demand for next-generation airliners, but how will their new economics affect replacement categories. The A-350XWB, for example, may have sector-cost economics that makes it well-suited for missions today flown by smaller jets. Extra seats are not a cost in themselves, anymore.



Drew McGill, Boeing, Brent McBratney, Airbus and Chuck Evans, Bombardier discuss effects of new-generation airliners

From The New Aviation Economics Session: The old metrics no longer define the future. Andrew Chuang of General Electric reviewed the various new powerplant technologies that can be expected and which may change the way airline cost metrics are measured. Bill Swelbar of MIT discussed the economics of small airliners and noted that even with the advances in technology over the past 20 years, the industry has not seen viable replacements for even the Cessna 402, leaving much of the nation at risk of being air service blighted. The session noted that with new carbon-fiber technology, it is not impossible to imagine a demand for hundreds of sub-50 seat turboprops that have the economics to re-open much rural air service. The stumbling block: the risks and the enormous cost of developing a clean sheet airliner that would need a price tag in the under \$20 million range.

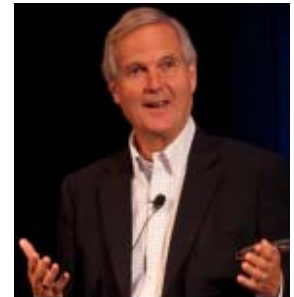


Bill Swelbar - MIT, and Andrew Chuang of General Electric discuss new technologies.

From Andrew Nocella, Sr. VP Planning/Scheduling, US Airways: Many US airport facilities represent legacies built for an airline industry that no longer exists. Example: linear ticketing counter space - not much ticketing is done at airports anymore. Example: the facilities are more and more there for baggage handling. Hence, it's reasonable that those consumers that use it should pay, instead of all consumers.

From Ben Brockwell, Oil Price Information Systems: Speaking of the bottom line, the recession can be measured by consumption of diesel fuel. It's what the nation's commerce runs on. When use of diesel starts to go up, that means business is turning. And consumption is still dropping.

From Will Ris, VP - Government, American Airlines: Skillfully implicating Warren G. Harding as a being partially responsible for today's air traffic control system mess, Mr. Ris noted the current approach to ATC is the conceptual successor to the bonfires that were lit to guide mail planes in the 1920s. The major difference is that now it's done by radar or satellite, and the planes fly much higher. He noted that his daughter's cell phone GPS was more advanced than the system we're using today. She can know where her friends are from her own phone. Airliners need to ask ATC where other planes are.



Will Ris, Sr VP Govt American Airlines

Stand by for details... The 2010
International Aviation Forecast Summit
 Dates & Venue To Be Announced

And Our Thanks To Our Host & Our Sponsors

From The Summit:

"Kudos to Boyd Group International. This year's Summit was over the top."

Mark Sapp
VP - AirIT

We want to express our heartfelt appreciation to our hosts, **Lexington Blue Grass Airport**. Eric Frankl, Interim Executive Director and his staff, and particularly Brian Ellestad, who made the event one to remember. The Monday night reception, held at the Woodford Reserve Distillery, was an incredible highlight.

In the 14 years of holding this event, it has evolved into the industry's number one forecast event, and is now emerging into a global focus. Airlines and suppliers came from all over the globe, including Asia, Africa, and the EU.



Hosting an event such as this is a challenge. Mr. Frankl and his team handled it in style. The World Equestrian Games will be held in the US for the first time next year. There's no doubt they made the right decision with Lexington as the site.



Our thanks to Airbus for providing an A-350XWB model for each Summit attendee.



The #1 Aviation Forecast Event... Over 20 airlines from around the globe... 40 airports of all sizes... four global aircraft manufacturers, four OEM suppliers, six major financial houses, four CVBs, and two ski areas.

Thanks, too, to Airbus, which supplied a special Summit-schemed A-350XWB model for all attendees. We want to thank Delta Air Lines, which put on a tremendous Monday lunch for the Summit. And we recognize and thank all of our sponsors for making the Summit a success.



Our Sponsors:



Community Team Building™



Local consumers a bit upset because you haven't recruited Southwest?

Our Community Team Building™ program can help.

For nearly a decade, airports have called on Boyd Group International to deliver its exclusive Community Team Building™ service.

The reason is simple: it works.

“How come fares are so high?” “Why don't we have a low fare carrier?” “Why do I have to drive over two hours to another airport to get a good fare?” “Why isn't the airport doing anything to fix this?”

It's a rare and lucky airport director who hasn't heard these types of questions.

Sometimes they aren't questions. They're accusations. The hard realities of air service – particularly at mid-size and smaller communities – are often difficult for consumers to understand. They see all the news about low fare carriers and wonder why fares at the local airport are “so high” and service levels are “so low.” The result is community confusion and often civic anger aimed squarely at the airport.

Responding to this, Boyd Group International developed a product we named and marketed as **Community Team Building™**. It's an airport-specific program that cities across the nation have found successful in not only dealing with this situation, but in turning these civic energies into positive efforts for their airport. **Community Team Building™** was first marketed nearly a decade ago as part of Boyd Group International's comprehensive services it offers to airport clients, and today, clients know it to be part of the unique firepower Boyd Group International can bring to bear in assisting in air service development.

Community Team Building™ is an informational program delivered on-site at your community by air service experts from Boyd Group International. In a compelling and often entertaining presentation, it relates the *specific challenges your airport faces* in regard to emerging trends in air service. We review the new economics of air service, changes in airline fleets, competitive strategies at specific carriers, and what the community can expect in the future.

CTB candidly outlines what can be achieved, and what cannot and why. The program reviews the economics of air service, the value of connectivity, and illuminates the potential improvements that can be possible when the community gets behind the airport. It demonstrates how the airport is part of the solution, not part of the problem.

Typically, a **Community Team Building™** program is structured to make two to three presentations to various civic groups, plus presentations to the local media. The program itself is about 40 to 45 minutes, plus ample time to field and answer questions.

Community Team Building™ has a real track record and has become a resource airports have relied upon. It's been presented successfully at airports from Saginaw to Fresno, from Jackson to Lynchburg, and a lot of points in between. A community united behind its airport is one with a better chance or retaining and recruiting the air service it needs for the future. CTB covers all the bases and answers the tough questions. When we're done, your community has a clear view of what can be done, what can't, and how citizens can rally behind their local airport.

So join the many airports that over the years have turned to Boyd Group International's **Community Team Building™**. Give us a call or e-mail bill@AviationPlanning.com and we'll discuss your specific airport's issues and how a tailored CTB can turn criticism into enthusiastic support.



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