BoydGroup
INTERNATIONAL
Research Review
Bottom-Line Aviation Insight For Clients of Boyd Group International

Going South: 2009 Airline Industry Traffic Prospects

Who're we trying to kid? There is no real "stimulus" package, at least as far as aviation is concerned.

Here are some hard issues to consider: Consumer confidence is going south – fast - along with disposable dollars. Congress's politically-focused stimulus bill won't do much to change that. That means consumers will be keeping their thinning wallets in their pockets.

The view over the horizon: the potential for a major free-fall in air travel demand in 2009 should not be discounted.

Baseline Forecast: 41 Million Fewer Passengers In 2009. Airports:USA® enplanement forecasts accomplished by Boyd Group International indicate that the US airline industry can expect to welcome over 41 million fewer passengers on board in 2009. This equates to over 50 million individual enplanements. Fuel costs, much touted by the media (and some in congress wanting airlines to decrease fares) are still high even at $40 a barrel. (Albeit not lethal, as they were last summer.) Add in the near-certain fall in demand caused by a combination of the recession and consumer uncertainty, and the message is clear: in 2009, the US airline industry may find itself jumping from the fuel-price frying pan into the reduced-demand fire.

Let's stop kidding ourselves. The stimulus plan won't do anything to spark more consumer spending – and air travel is particularly vulnerable in 2009.

New Forecast Metric: The Consumer Confusion Quotient. Boyd Group International has been producing Airports:USA® enplanement forecasts since 1992. Today, it covers 146 of the nation's airports, with individual bottom-up projections of traffic and trends going out five years, covering over 95% of all enplanements. We're proud of the cutting-edge forecast methodologies we've developed over the years, and our track record is the best in the business in anticipating traffic shifts for our subscribers long before they take place.

While our methodologies are proprietary, they include analysis of local and national economics, demographics, airline trends, fleet shifts and competitive factors at each of the airports forecast. This year, we're wrestling with a new and very dangerous dynamic that will fundamentally affect airport traffic and service levels across the nation.

It's something called the Consumer Confusion Quotient.

Or, perhaps less delicately, consumer fear quotient. It is going to be a major factor in how air traffic demand evolves in 2009, and there's no mathematical models to accurately forecast it. But we know the following:

- The media is rife with daily reports of the thousands of jobs being lost. That does two things: it takes discretionary spending out of the economy, and it scares the dickens out of folks who're still getting a paycheck. Result, the propensity to take that air trip in 2009 is going to be a lot lower. How much is uncertain, but plan on it.

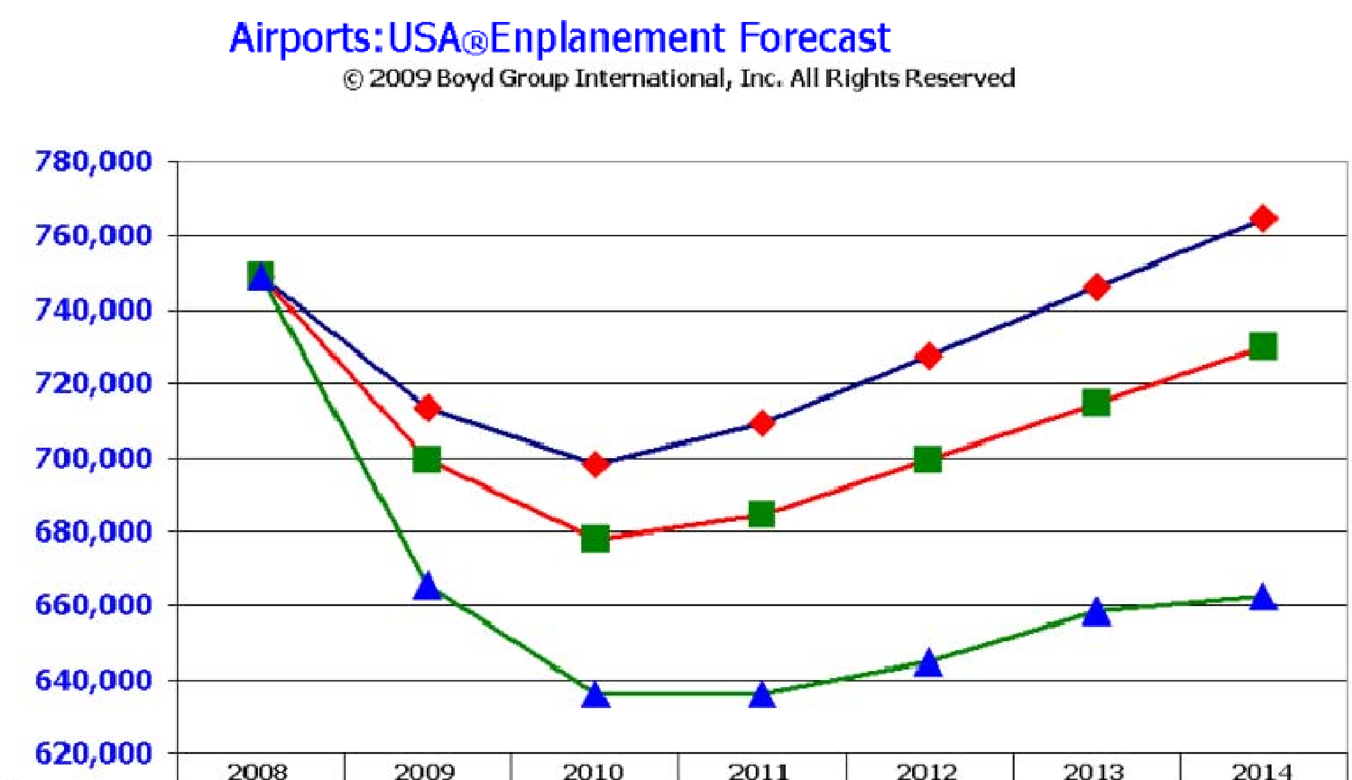
- Business spending is going south, too. Just open up the Wall Street Journal (which in this environment is must-reading), and the pages are filled with reports of businesses cutting back or going 86 all together. That doesn't lead to a bigger travel budget in 2009. In particular, the airline financial neutron bomb we've been warning our clients about - a steep decline in premium-cabin international demand - may be on its way. Result: business travel – and the total revenues from this segment - may nosedive severely. Remember, that business-class passenger to Sao Paulo might represent the dollar equivalent of five or more passengers sitting behind the curtain in economy.

- Fare sales aren't going to have much traction in getting people to travel. When you're fearful of losing your job, a $79 fare to Orlando isn't a big consideration. Businesses are seeing revenues decline, and that means they aren't going to be too thrilled to increase the travel budget, regardless of how much airlines might slash fares. Instead, the airline trends will be to try to increase overall unit revenue.

The Airline Outlook For 2009

Airports:USA® enplanement forecasts for 2009 – 2014 indicate significant traffic demand volatility. But regardless of the potential scenarios – High, Baseline, or Low – there will be fewer passengers in the skies this year. Part of the reason will be that carriers will be trimming capacity in anticipation of evaporating consumer demand. Our baseline forecast currently indicates that the overall decline in scheduled seats will exceed the decline in demand. As of this date, the industry is expected to cut just over 10% capacity over 2008, while baseline decline in demand is expected in the 6.6% to 8.0% range. The result is that at least from an industry-wide load factor perspective, 2009 should be stable. That is, unless the Consumer Confusion Factor keeps more people from flying.

That's "overall" and "industry-wide," but that's not the way either the demand declines nor the capacity cuts will manifest. It's going to be leisure markets that will take the biggest hit. Then there's the capacity shifts as specific carriers restructure some of their connecting hubs (CVG/Delta is an example). The latter can disproportionally affect mid-size and small communities in close proximity – as was demonstrated when US Airways closed down most of their hubbing operations at Pittsburgh.



	2008	2009	2010	2011	2012	2013	2014
High	749,071	713,287	698,132	709,385	727,401	746,165	764,623
Baseline	749,071	699,389	678,083	684,623	699,322	714,569	730,175
Low	749,071	665,345	636,095	635,921	644,740	658,453	662,394

Airports:USA® entails three scenarios. The Baseline is derived from our analyses of economics, airline strategies, and competitive dynamics that will most likely be experienced at each airport. The High and Low forecasts are based on the reasonable potential of several dynamics aligning on the upside or the downside. Note that they express traffic as enplanements, which is not the same as the number of individual passengers making air trips. Note that as of 2008, one passenger trip created 1.21 enplanements.

Boyd Group International reviews these data on a continual basis. Most recently, they were adjusted at airports affected by known and expected shifts in Southwest service. (Year over year, WN is cutting flight frequencies at over 75% of the airports they serve.)

Assumptions. This is new territory. Traditional forecasting based on mathematical models never did work accurately for individual airport traffic – there are too may subjective human inputs, such as entry/exit of a carrier (such as Allegiant) or competitive actions – such as Delta's strategy of adding RJs in some AirTran markets from ATL. But now we have other inputs - a recession, fuel uncertainty, very unclear consumer reactions, and what will increasingly be viewed as all-show-and-much-less-go economic planning in Washington. What that means is that there is no guarantee air travel consumer and business spending won't drop a lot more rapidly than currently projected. We can reasonably rely on one assumption: consumer confidence and, hence, propensity to toss dollars at air travel will not see an upward spike in the next two years.

Perhaps over-optimistically, the forecast does assume a return to 2.5% to 3.5% national GDP growth, along with a corresponding return in buying power, starting in 2011. But when reviewing the effects of the 2009 – 2010 decline in demand, even the Baseline scenario represents a very dangerous and uncertain time for the airline industry. It will be even more dangerous if spending is choked, inflation returns, consumer confidence remains shaken, or if fuel prices shoot upward from today's high. (Yes, at $40 a barrel, fuel is still higher than airlines were used to five years ago.)

What We Can Expect

Below are charts showing the expected effects on various metrics in air travel demand over the next three years.

The data are in millions, and show the variance in each year when compared to the traffic levels of 2008. The Cumulative Variance totals the shortfalls, indicating the total traffic/business/revenue lost due to this downturn, under each forecast scenario.

Airport Enplanements

US airports can expect to see almost 50 million fewer boardings this year over 2008, which was already approximately 2.6% down from the year before.

Forecast Metric	Annual Variance From 2008				Cumulative Variance From 2008
	Forecast Scenario	2009	2010	2011	(Millions)
Airport Enplanements	High	-35,784	-50,940	-39,686	-126,410
	Baseline	**-49,683**	**-70,988**	**-64,449**	-185,120
	Low	-83,727	-112,977	-113,150	-309,853

Concession and other airport revenues will also likely be hit in addition to the decline in passengers being processed through terminals. Note again that this decline will affect airports largely on the basis of their local traffic and economic bases. Highly leisure destinations, and airports dependent on one or a few large industries that are cutting back, will be affected the most. In total over 185 million fewer enplanements will be experienced by airports over the next three years, compared to that which would have been expected if 2008 traffic levels were simply maintained – without any growth.

Passengers Traveling

On a national average, each passenger represents about 1.21 enplanements. This means that the airline industry will see over 41 million fewer passengers in 2009.

Forecast Metric	Annual Variance From 2008				Cumulative Variance From 2008
	Forecast Scenario	2009	2010	2011	(Millions)
Passengers	High	-29,574	-42,099	-32,799	-104,471
	Baseline	**-41,060**	**-58,668**	**-53,263**	-152,991
	Low	-69,196	-93,369	-93,512	-256,077

Note that even at the high scenario, passenger traffic barely recovers to year 2008 levels by 2011. The airline industry will see almost 60 million fewer enplanements in 2010, compared to what was experienced in 2008.

Airline Revenues

Assuming that capacity cuts are successful in maintaining high load factors, and match or exceed the decline in consumer demand, the US airline industry will experience a revenue decline – net of taxes and fees – of almost $7 billion in 2009, and over $9 billion in 2010, compared to 2008.

Forecast Metric	Annual Variance From 2008				Cumulative Variance From 2008
	Forecast Scenario	2009	2010	2011	(Millions)
Airline Revenues	High	-$4,876,283	-$6,941,484	-$5,408,040	-$17,225,807
	Baseline	**-$6,770,201**	**-$9,673,506**	**-$8,782,377**	-$25,226,084
	Low	-$11,409,360	-$15,395,205	-$15,418,851	-$42,223,416

This assumes a national gross fare per passenger of $201.08, which tracks with historical averages through 2008. It does not contemplate any increases in average fares, not does it take into account any additional ancillary revenues for add-on fees.

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Airport PFC Revenues

An average of $3.75 per passenger was used to get a general overview of the reduction in Passenger Facility Charge revenues. Since this is a critical vehicle for airport upgrades, a reduction of $150+ million in 2009 and over $220 million in 2010 is not inconsequential to the nation's infrastructure.

Forecast Metric	Annual Variance From 2008				Cumulative Variance From 2008
	Forecast Scenario	2009	2010	2011	(Millions)
PFCs	High	-$110,902	-$157,870	-$122,995	**-$391,767**
	Baseline	**-$153,975**	**-$220,005**	**-$199,738**	**-$573,718**
	Low	-$259,484	-$350,134	-$350,672	**-$960,289**

This is one more indicator of the importance of raising the PFC cap to $7.00. The airline industry has proven beyond doubt that this would not in itself deter air travel. If passengers will calmly pay $2 just to get a drink of water on a 4-hour flight, an additional $2.50 in PFC charges won't be noticed.

Economic Impact On Federal Revenues

The downturn will result in the federal government collecting almost $5 billion dollars less in taxes and fees over the next three years, compared to the dollars that would have been put into the federal till if traffic levels remained steady with 2008.

Forecast Metric	Annual Variance From 2008				Cumulative Variance From 2008
	Forecast Scenario	2009	2010	2011	(Millions)
Fed Take	High	-$959,502	-$1,365,870	-$1,064,136	**-$3,389,508**
	Baseline	**-$1,332,167**	**-$1,903,448**	**-$1,728,101**	**-$4,963,715**
	Low	-$2,245,010	-$3,029,301	-$3,033,954	**-$8,308,266**

At a time when additional revenues for infrastructure are needed, the downturn will result in $4.9 billion less going to the federal government through 2011. The consolation here is that the feds largely aren't using the money for aviation, anyway. Note that there is a possibility that congress and the administration may pursue new fees on air travel such as lame-brained schemes like "carbon taxes" or "pollution offsets" that could be imposed over the next four years. These, aside from doing nothing to make the air cleaner, only would further deter growth of commerce and air travel.

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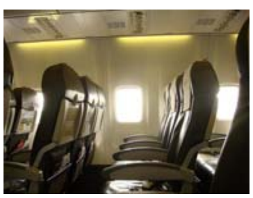
The Washington "Stimulus" Plan Is A Net Detriment

Relating the three-year tax revenue loss of $4.96 billion to what's in the "stimulus package" – it is about $600 million less than the reported amount that the bill intends to lavish on politically-focused "community organizations," at least one of which that's already been mentioned in vote-rigging. These lost aviation-related taxes and fees, assuming that they would actually be used for their intended purpose of building runways and viable ATC upgrades, would have far more impact on creating jobs than throwing money at political activists who aren't even elected. It is one more indication that this "stimulus" is essentially a financial cookie-jar for congressional pipedreams that have little to do with building the nation's long-term economy.

Really Bad Signals From Washington. Take it to 'Vegas and make book on it. As far as generating air traffic demand, this stimulus bill is big-dollar bupkus. Indeed, the way the politicians are talking makes the situation worse - attaching dire warnings of doom if it isn't passed quickly and without too much scrutiny, so that their buddies can get their booty.

Less than two weeks into the new congress and the new administration, the danger signs became clear: in dealing with this financial crisis, the august leadership in Washington largely assumed the role of the proverbial monkeys who just discovered a roomful of footballs – lots of confusion, screeching, and posturing. But not much in the way of intelligent planning.

Inside the Beltway, "stimulus" consists of tossing billions at politically-connected special interests, and at all sorts of little friends of key congresspeople. Not at targets that will restore consumer confidence and availability of credit to buy things. This is going to affect air passenger traffic much more than what's being parroted by most of the me-too talking heads in the media and a lot of Wall Street aviation analysts.



With consumers spooked by forecasts of more job losses and business cutbacks, carriers that can most effectively trim capacity and access emerging revenue streams will be best postured.

This stimulus plan - well meaning or not - is little more than an opportunity for politicians to fund pet schemes. Let's see, there's the $400 million to "study" global warming, and you can bet just how objective that one will be. One version of the bill had millions earmarked for dealing with sexually-transmitted diseases. There's a real jobs-builder. How about the $5 plus billion - yes, billion - planned to be splattered all over Democrat-favored "community activist" organizations – again, one of which has already been mentioned in relation to voter registration irregularities. And these folks don't fly much, either.

Get a load of the plan for tax-free checks to illegal aliens. Plan on it, that money won't go for airfares. But think about it - US citizens are suffering from a recession, and this deal gives their money to people who've broken the law. (So what? One Cabinet appointee dropped out on a pay-to-play scandal. Another – appointed to Health & Human Services - was a well-paid lobbyist for healthcare companies. Just a little bit of conflict there. Two Cabinet appointees were found to have not paid huge amounts of taxes. For them, they were exonerated, with the administration calling it just "a mistake." For us mere mortals out in the provinces, it would be called something different. Like, "a felony." Doesn't sound like much change is taking place.)

The stimulus bill is hundreds of pages of political largesse, where special interests get plenty, but according to news reports, less than 10% of the nearly trillion dollar "stimulus" will go to infrastructure. And at last word, only $5 billion is going to aviation - and there's no telling how much of that will be squandered on the FAA's going-nowhere NextGen ATC program.

Then we have President Obama. Maybe a sincere, well-meaning guy. But, surrounded and advised by tax-scofflaws, connected former industry lobbyists, and some of the very politicians and financial scoundrels who let this mess develop, his lack of experience is really starting to show. Instead of engendering "hope" he sounds more like a funeral director who's misplaced late Aunt Ethel's *corpus delecti*. Not, "we're gonna fix this mess" but "it'll be years of pain." Judging by this "stimulus" package and who the money's going to, he's probably right. When people are told to expect "pain" they don't tend to take a lot of air trips, printed-money stimulus checks notwithstanding.

None of this will create jobs or a rebound in consumer confidence. And that means, the airline industry may want to consider having a full-metal-jacket, red-alert plan on the shelf for 2009. Fuel may be down, but it still isn't cheap. Now the airline industry's main challenge has shifted from operating costs, to the specter of fewer folks wanting to spend money on air travel.

Where From Here

There is going to be a painful contraction in the air transportation industry – one that will affect airports, airlines, suppliers, and financial institutions.

Boyd Group International's Airports:USA® Baseline enplanement forecast represents a scenario that most of the US airline industry can adjust to for the near-term. Our fleet demand forecasts concurrently indicate extensive flexibility in the ability to cull fleets and trim capacity, particularly among Comprehensive Network Carriers (a.k.a. "legacy airlines.")

However, there are no guarantees, nor data anywhere, that can forecast how the consumer may react to the on-going media reports of economic failure. If traffic demand begins to soften toward Boyd Group International's Low forecast, there likely will be major contraction in the airline industry – read: failures. The LCC category, as noted in other studies and reports by Boyd Group International, has the revenue streams most vulnerable to major economic downturn, and, generally, the least flexible fleets.

The critical harbingers will be full first quarter results. If traffic is in a free-fall, we can assume that the Low forecast scenario may be closer to reality than we had hoped.

About Boyd Group International, Inc.

Founded in 1984, Boyd Group International is a multi-dimensional aviation planning and strategic solutions firm, working with clients in all areas of the industry, including airlines, airports, labor organizations, suppliers and law firms. In addition, Boyd Group International is the leader in independent aviation forecasting, including Airports:USA® Forecasts and its Annual Global Fleet Demand Forecasts. Clients across the industry spectrum also subscribe to Airports:USA® DataMiner™, the most accurate and advanced source of comprehensive aviation statistics, including traffic, airline performance, schedules and a range of other information necessary for successful planning for the future. The firm is headquartered in Evergreen, Colorado. More information on Boyd Group International can be found at www AviationPlanning.com. Airports:USA is a subscription service at www AirportsUSA.com.

Additional Boyd Group International aviation insight is posted each Monday morning at www.AviationPlanning.com

BoydGroup
INTERNATIONAL
78 Beaver Brook Canyon Road   Evergreen, Colorado 80439 (303)674-2000
Info@AviationPlanning.com