

**AIA Year-End Review and Forecast 2007**  
**Marion Blakey**  
**President and CEO**  
**Aerospace Industries Association**  
**Arlington, Va.**  
**Dec. 6, 2007**

*Remarks as prepared for delivery*

Thank you very much, John, for that introduction and the valuable look back at AIA's multi-year forecast. The accuracy reflected in the forecast shows the value of analyzing these statistics and, really, explains why we have all gathered here today.

I would also like to welcome all of you to the annual AIA Year-End Review and Forecast. As you all know, this is one of my first public presentations in my new post as AIA president and CEO, and I'm pleased to address such a distinguished crowd. I'd like to thank AIA's Communications Council for hosting this event and making it a success year after year.

I have to say it has been an interesting experience making the change from my old position to this new post. Much of the subject matter is very familiar to me, and, of course, I know many of the representatives of AIA member companies here today. I also have worked with many of you here from the press and it's great to see some familiar faces.

It is always inspiring to see the presentation of the colors by an honor guard as we have just witnessed. I'd like to thank the members of the guard and other service members with us today for all the excellent work you do to keep America safe and secure. It is a good reminder of why we do the work we do in the aerospace and defense industry. Ensuring our fighting men and women have the best equipment possible is the cornerstone of our collective corporate responsibility

I also have to make a few comments about my predecessor, John Douglass. You might notice a slight similarity in how John and I speak, both being from considerably south of the Mason-Dixon Line. If you look at a map, you would see that John's hometown of Miami might be farther south, but I know that my birthplace -- Gadsden, Alabama, -- is more southern. I've been told that a southern accent is not an official prerequisite to be AIA's president and CEO, but apparently it helps.

John and I had a great working relationship for years when I was at the FAA, and I'm proud to follow in his footsteps. He has been a great resource during the transition and is staying on to offer even more help in an advisory role through the end of the year. I

would like to take this opportunity to publicly thank you, John, for all you have done for the aerospace and defense industry over the years. And I wish you the best of luck with your future endeavors. Please join me in a round of applause for John Douglass.

Now it's time to once again take a look at the health of the aerospace and defense industry. First I'd like to recognize AIA's Research Director Bill Chadwick and his team for preparing the statistics you see before you today. They have worked extremely hard to put together the information, and burned the figurative midnight oil. They've done an excellent job.

This is the 43rd year AIA has provided statistics and analysis on our industry in this public event. The world was a much different place in 1964. The space race was heating up and the Vietnam conflict was showing the value of new advancements in fighter jets and other defense technologies. Total sales in our industry were about \$20 billion. It is quite remarkable to consider those details as we take a look at where aerospace and defense is today.

Those of you who have been in attendance at this event over the past few years know that the news has been good. Today I am happy to report that the trend will continue in dramatic fashion. 2007 is on pace to reach almost \$199 billion in sales, which would be a record for the fourth straight year. It represents the sixth year of growth in the last seven years, a remarkable run.

When we look at the breakdown within that number you see steady growth in the space, missiles and related products categories. The increase is more substantial for military aircraft, increasing 10 percent to reach \$54.8 billion. Civil aircraft saw a remarkable jump to \$53 billion, a 16 percent increase. As many of you know, trends in all three of our sub-sectors – civil aviation, space and defense – often follow an up-and-down cycle due to any number of different pressures. We are very fortunate to be enjoying a time period when all three are growing.

The next slide I would like to show you is the ten-year forecast that John showed you earlier, except we've plotted our 2007 sales figure and 2008 forecast. As you can see, our figures this year have exceeded our most likely forecast, giving me high expectations that the news through 2010 will be equally good. This shows how resilient our industry has been under very trying circumstances.

In addition to the record figure in overall sales, we are also on pace to see unprecedented levels in aircraft shipments, at \$185 billion; orders, at \$261 billion and backlog remarkably, at \$360 billion. That final category tells an important story. It's almost double the value of shipments and, at a 19 percent increase, marks the third year in a row of huge gains. This suggests an extremely solid footing for our industry for at least the next two or three years. A majority of that backlog is in the civil aviation sector, marking a shift over the past few years from past reliance on hard-to-predict military spending. In fact, today the backlog is about 63 percent civil, with the rest divided up between space and defense. Just four years ago, when the industry was early in its recovery from the

Sept. 11 terrorist attacks, the backlog was 34 percent civil. This change should result in an extremely stable financial base for our industry over the next several years.

Industry profits have followed the trend of the other statistics and should end up at \$17.8 billion, which is an all-time high. Historically, the aerospace industry's profits as a percentage of sales have been generally lower than other manufacturing sectors. This year, projected at 8.1 percent, we are inching closer to the 8.4 percent forecast for all manufacturing sectors. This is good news reflecting our increased productivity and competitive posture.

One of the most important statistical categories we track is foreign trade balance. Once again, aerospace and defense is flexing its muscle in this department, with the total for 2007 expected to reach \$57 billion. Exports should total \$93 billion and imports \$36 billion. While this may seem like a modest increase over last year's total of \$55 billion, you must keep in mind that number was a 38 percent leap over 2005 and more than double the \$27 billion figure in 2003. Another year with such strength in the global marketplace underscores our strong international track record. It also shows our importance to the American economy, as \$57 billion represents the largest single positive trade balance of any U.S. manufacturing sector.

Aerospace and defense employment continues its steady climb. The average for the year should be about 637,000. That would represent the fourth straight year of growth since 2003, when the industry hit a historic low of 587,000 workers. The number decreased after the huge wave of industry consolidation in the mid-1990s, when employment peaked at more than 1 million. It is good news indeed that our employee ranks continue to increase and we are adding jobs to the U.S. economy.

That takes us to the forecast for next year. With the huge backlog, mostly in civil aviation, and likely steady growth in defense and space, we expect sales to total \$211 billion, another likely record. In fact, there are several indicators that suggest we will enjoy another several years of growth. The vast majority of the commercial airliners in the huge backlog are for foreign companies, and U.S. carriers are at a point where we expect they will need to start ordering new equipment. U.S. companies, both large and small, have diversified themselves and are extremely competitive in the global marketplace.

The forecast does not include some defense spending categories like replacements and repairs, which promise to be in high demand over the next couple of years.

One thing you may find of particular interest, we recently conducted an informal survey of some of the CEOs of AIA member companies, and the results reflected an overwhelming optimism. Asked about sales growth in 2008 and 2009, 90 percent or more said they expect the same or better than 2007. The timing of this survey is important. Going into an election year, the levels of spending for both defense and space are very much a question mark. That the leaders of these companies are almost unanimously

expecting strong growth in 2009 when they don't know election outcomes or who will be president shows remarkable confidence in our industry.

These statistics show the important role our industry plays in our nation's economy as well as our defense and national security. It is in recognition of this role that. So AIA has identified a set of election priorities that we are already in the process of presenting to the various campaigns within both parties.

We have received positive feedback from candidates and have already seen some statements and position papers reflecting some of these issues, which is a good sign at this stage of the campaign. I can think of nothing better than a candidate building their aerospace and defense policy portfolio around these priorities, so if any of our friends in the campaigns are present, feel free to borrow enthusiastically!

We have developed these priorities within the context of the three industry sub-sectors – civil aviation, national security and space. We have copies of these available today, and you can also find them on WWW-dot-AIA-dash-AEROSPACE-dot-ORG, so I will not recite them for you today. But I'd like to hit a few highlights.

In national security, our theme is stark in its simplicity, and importance – keeping America safe. Our industry is on the forefront of keeping our military strong enough to address a wide range of still-developing threats from around the world. We also play an important role in keeping our brave fighting men and women safe on the battlefield.

Our military personnel are the finest and best-trained in the world, but their success depends on having the most effective weapons and equipment available. That's where we come in. We have spelled out challenges the next administration needs to address. One is to foster a national consensus to adequately fund national defense to ensure sufficient investment in research and development of long-range, next-generation equipment. Another is to modernize the export control system to maximize defense cooperation with our friends and allies. And yet another priority is to create a military acquisition process that will give our warfighters the best equipment at the best possible value to the taxpayer.

In space, our overarching theme is that America's future depends upon maintaining space leadership. I think the public tends to take space-based technology, which provides vital services like ATM transactions and weather prediction, for granted. Space-derived technology has an equally important impact, generating important medical advances as well as more mundane conveniences like cordless tools. But our position as the world's space exploration leader is facing its greatest challenge in decades, with China joining the roster of space-faring nations and vowing to visit the moon.

We must make space a priority in the next administration. Campaigns have to understand that the only viable policy is ensuring the Constellation Program continues with even greater investment. There is already a five-year gap in U.S. access to manned space travel between the time when the shuttle program is retired and new efforts begin. Any

suggestion that that gap could be even greater should be a non-starter – five years is already too much time to depend on Russia or any country other than our own for space access. Additionally, space exploration should also be recognized as a valuable educational tool that inspires our young people and often leads them to careers in aerospace. Space also plays a key role in our national security, and we need to ensure we have sufficient investment in those programs.

And finally, in an area with which I'm somewhat familiar, we have our priorities for civil aviation. Our theme is that air transportation is essential to America's economy and our way of life. Now, that's a statement no one argues with. Civil aviation contributes more than \$640 billion to our economy each year, which represents about 5 percent of our gross domestic product.

A strong and secure air transportation system offers Americans the freedom to travel for business or pleasure while also moving billions of dollars worth of goods around the country -- and the world -- each year.

Perhaps the single most important goal is transforming the national air transportation system. AIA will push for the candidates to recognize how vital NextGen is to our nation while stressing the importance of adequate funding for its ongoing development. Our white papers in this area also discuss the need to continue to advance civil aviation environmental performance.

Another broad priority addresses the fact that we must attract a new generation of science-, math- and engineering-minded students to our industry. The industrial heroes who won the Cold War are retiring in droves, and we are not seeing sufficient numbers of students in the disciplines we need. This makes the defense industrial base more fragile than the robust forecast we've heard today indicates. We believe the candidates would be very wise to make safeguarding our workforce a prominent part of their platforms. All these issues affect civil aviation, space and national defense equally, and we need to address them head-on as we move forward.

The information we have gone over here today shows an industry with both strengths and challenges. I look forward to working with decision-makers in our government and the presidential candidates to make sure aerospace and defense remains a vital and vigorous industry as we go forward. With that, thank you and despite my few days on the job, I'll be happy to try to answer any questions. And believe me, since there are some real experts in the audience today, I look forward to any advice or comments you might have.

-AIA-