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Year-End Review and Forecast

**Dec. 10, 2008
Mayflower Hotel
Washington, D.C.**

Remarks as prepared for delivery

Good afternoon. I would like to welcome all of you to the AIA Year-End Review and Forecast. This is the 44th year we have taken this opportunity to take a look at our industry's vital statistics and assess where we are, and where we are going. We're glad that you all could join us today.

I would like to echo Tim's recognition of the color guard and the remarkable job our military men and women are doing all over the world to keep us safe. We greatly appreciate all they do for our nation, and I would like to take this opportunity to thank them publicly.

And no gathering in Washington can begin without mentioning the remarkable presidential election last month.

We have congratulated President-Elect Obama and his staff on their historic victory and their quick work in naming the leadership of his administration. It's a confidence-inspiring team. As many of you know, we have been engaged with the campaign going back to last spring. We have a very good working relationship with the president-elect's staff, and we look forward to working closely with the new administration on important aerospace issues.

As you can see, we have an excellent turnout today – I understand it is considerably more than last year. I think it's safe to say the Year-Ender is one of the few things left that is recession-proof! This event comes as a result of coordination by the AIA Communications Council, so I would like to thank them for all their support.

Now, if you look around the room you will find some materials from our ongoing public outreach campaign on display. Some of you may have seen the advertisements we are running here in Washington D.C., or maybe one of the news articles written recently.

The campaign is newsworthy because it is very rare for AIA to launch such a public effort. But we think it is very important to provide information on the vital role we play in the nation's economy to our newly elected leaders in the administration and Congress.

The outreach campaign focuses on several key facts regarding the aerospace industry:

- It provides more than 2 million middle class jobs

- It consists of more than 30,000 supplier companies located in all 50 states
- It exports \$97 billion worth of products to foreign customers
- It has the largest positive foreign trade balance of any U.S. manufacturing sector.

The effort carries the tag line “Aerospace and Defense: The Strength to Lift America,” and urges elected officials to support the programs and the people that can get America’s economy moving again.

Aerospace and defense should not become a bill-payer for other areas of the federal budget, which would hurt our economy in the long-term for some temporary relief elsewhere.

Our industry provides a strong economic foundation for much of our nation’s advanced technology and innovation, and that would suffer if we don’t make adequate, sustained investment. All this effort is to underscore the message that aerospace is a cornerstone of our economy, and it deserves sustained support from our elected leaders.

Now, obviously, these are extraordinary economic times both here in the United States and around the world. We are in uncharted waters when it comes to the global economy, and we’re not totally sure where we’re headed in the next six months, much less years into the future.

But with that said, the U.S. aerospace industry has a long record of succeeding in the face of adversity. The tales that so colorfully illustrate our history are filled with cases of seemingly insurmountable challenges, and stories of amazing accomplishment. One great example that comes to mind is the legendary B-17 Flying Fortress bomber and its operations during World War II. As many of you know, the bombers became famous for their durability and track record of making it back to their home airfields even after taking heavy enemy fire.

We’ve probably all seen the dramatic black-and-white photographs of the aircraft, with gaping holes in the fuselage or pieces missing from a wing, after successful landings. B-17s inspired the famous song “Comin’ in on a Wing and a Prayer” that came to symbolize not only the aircraft’s resilience, but the very will of the allies to prevail against all odds. So our industry has a track record of literally succeeding under the direst of circumstances.

Now, let’s go from the stuff of song to the stuff of statistics. After all, that’s why you’re here today. To remind everyone, these are preliminary numbers for the 2008 calendar year. Those of you who have been to the last few Year-Enders know we have seen some remarkably strong years in the U.S. aerospace industry. The economic climate, obviously, is very different today. And, as you can imagine, we’ve seen some impact from the financial challenges that took hold in the second half of the year. But, as you will see from the numbers, our industry still had a solid year and is in relatively good position.

I’m happy to report that, despite the challenges to our economy, our industry had a strong year in 2008. Total sales are on pace to reach \$204 billion, a new record for the fifth straight year. It also represents the seventh year of growth in the last eight years, which is even more remarkable when you consider the widespread financial difficulties in our economy. This figure represents an increase of 2.1 percent, which is less growth than we’ve seen in recent years. The main reason for the drop was not the tough economic atmosphere, but the work stoppage at

Boeing that trickled down through the industry. We are more than satisfied that there was continued progress throughout the aerospace industry in 2008.

Like last year, our industry saw modest growth in every sector – civil aircraft, military aircraft, missiles, space and related products. This is noteworthy because over the years these sectors were often on different, distinct cycles. When civil aviation was up, military was usually down, and vice-versa. To see this balanced growth across the sectors again is a good sign for our industry.

Our industry will show strength in shipments, orders and backlog, as we did last year. Total shipments will total an estimated \$197 billion, up from \$184 billion. The backlog is also extremely strong, totaling \$404 billion, an increase from \$368 billion in 2007. Both shipments and backlog should end up at all-time record levels. We saw some of the effects of the economy in orders. That number should total \$234 billion for the year, down from \$271 billion in 2007. That change is partially reflective of the number of orders for civil aircraft in 2007, which was by far a record. Even with the decrease, 2008 will be the third-highest year ever for orders in our industry by value. Like last year, the lion's share of that backlog is in civil aviation – about three quarters.

As you know, our industry is extremely strong when it comes to foreign trade, and this year was no exception. We exported a total \$99 billion worth of products, while importing \$38 billion. This means our positive foreign trade balance will be \$61 billion. That figure is very close to 2007's foreign trade surplus total. And it continues to represent the largest positive foreign trade balance of any U.S. manufacturing sector.

The aerospace industry saw continued improvement on the employment front, especially when considered in the context of the overall economy. The total workforce averaged 655,500 for the year, up from an average of 645,600 last year. The figure totaled 657,700 in September.

Obviously, in a year that saw thousands of Americans lose their jobs, we consider ourselves fortunate at this point. We are also watching this statistic very carefully since our industry has not been totally spared bad employment news in the last few months.

Now, as many of you know, we usually take a look into the crystal ball during the Year-ender to see what we might expect for the coming year. Previously, that was a pretty straightforward task, but it's a little more difficult this time. That said, we have put together our usual short-term outlook.

As it stands, the aerospace industry is in good position to weather the financial storm. There are several reasons for this. One is that funding levels for two of our three sub-sectors – defense and space – are largely set for the next fiscal year. The defense appropriations bill for fiscal 2009 was part of the continuing resolution that passed in October. The same bill also provides funding for NASA through March at largely the same levels as fiscal 2008.

While ideally we would like to see increased investment in space exploration, it at least keeps a stable base for NASA funding. Much of the groundwork for the fiscal 2010 budget is being laid right now.

And the long lead times on federal budgets mean that we anticipate funding levels to remain steady –without any major adjustments – for the next 18 months, or even longer.

Now, I think we all know the third area of our industry – civil aviation – is more susceptible to market trends. But there is reason for confidence in this sub-sector as well. The extraordinary, record-breaking orders for commercial airliners over the last four years have created very large backlogs for airframers. To date, we have not seen many order deferrals or cancelations – in fact, some airlines are still ordering new planes. It looks like the backlogs will provide a buffer should the financial situation lead airlines to further defer or cancel orders.

Another positive sign is that aviation infrastructure and scientific research and development are part of the new administration’s recently announced proposal to invest in infrastructure to jump-start the economy. I was disappointed that President-elect Obama’s speech on Saturday talked about roads and bridges with no emphasis on aviation infrastructure. NextGen, airports, a new satellite-based air traffic system create jobs all are part of 21st century solutions to our infrastructure needs. We’ll be redoubling our efforts with the transition team to stress this. I was glad to see his plan calls for doubling federal funding for basic scientific research and making the R&D tax credit permanent. These would be very positive steps, and are right in line with the message in our outreach campaign, that our industry has the “Strength to Lift America.”

This is not to say we are immune to the economic situation. There is some speculation out there that the defense budget will be a source for cutbacks in future years to pay for other needs.

Defense R&D funding is expected to decrease, and supplemental budgets are poised to go down. In civil aviation, orders have decreased, passenger traffic is down and the contracting credit market makes aircraft financing deals more difficult. On top of that, anticipated fleet recapitalization by U.S. airlines does not look like it will materialize in the near-term. And, of course, the bad economic environment has traveled around the globe, and the bulk of existing aircraft customers are foreign airlines.

So we have some positive things going for us, and we have some areas of concern. For the reporters here today, I’ve been reading a lot of your articles about how the economic situation will affect our industry. It seems for every one that says we’re on relatively solid footing, there’s another that concludes we’ve got some pretty choppy air ahead. In the collective defense, I think there is good reason for the uncertainty.

Our analysis and other research tells us we’re somewhere in the middle. The gangbuster trends of the last few years for our industry are almost certainly over for a while. But we don’t anticipate a downturn in the near term either.

There's another factor at work, and that's the forward-thinking planning of many of our companies. In recent years, aerospace companies have paid down a lot of debt and increased their solvency, putting themselves on a better financial foundation. These strategies are allowing companies to meet their financial obligations and continue production in spite of the economic hardship.

So our forecast for 2009 is continued growth in the industry, albeit more modest than the last few years. We expect sales to reach \$214 billion, an increase of 4.8 percent. Now, that growth needs a little explanation. Had the Boeing work stoppage not occurred and we reached the anticipated level of sales for this year, the increase for next year would be much more modest – 2.2 percent.

That would be more reflective of the economic situation and other uncertainties. But, once again, we are happy to see continued growth in the forecast. And I would reiterate that we all acknowledge we're in some very volatile times.

Now, I've focused on statistics and economic trends because they are so important in today's atmosphere. But I wanted to mention some of the important policy issues AIA is focused on.

As I mentioned earlier, we have been engaged with the Obama campaign working with his defense, civil aviation and space policy teams. We continue that relationship with the transition team.

In defense, we are pressing the need for modernization and recapitalization, even in the face of tough economic times. We need a stable and predictable procurement budget of between \$120 and \$150 billion each year to ensure our fighting men and women have the best equipment possible on the battlefield. We also are working to improve the DoD acquisition system to make it more efficient and capable, which would help us achieve that stable and predictable procurement level.

In civil aviation, we are strong advocates for NextGen, the ongoing modernization of the air transportation system. Two weeks ago we heard the FAA announce that NextGen is now officially deployed after the president made moves to expedite implementation. The technological backbone of NextGen – Automatic Dependent Surveillance-Broadcast – will first come into use in Florida after 11 ground stations are deployed. Plans call for nationwide implementation of the technology by 2013.

These are very good steps, but we need to accelerate the FAA's effort with an increasingly defined program – one that has specific goals and objectives for operational changes, a timeline for meeting those objectives and metrics to measure progress. Most critically, we need an adequate and stable budget to support it.

And in space, we are making some specific recommendations to the new administration to keep our leadership in exploration and scientific research. These include establishing an

interagency national space management and coordination body, a non-partisan advisory board and to provide adequate and stable funding.

We are at a critical time in the history of space exploration and we face more international competition than ever before. So the implications of falling behind are very serious.

AIA has released a number of reports covering these and other important issues over the last year, and we have more on the way. These include detailed looks at acquisition, defense modernization and budgeting, workforce and space priorities. So I would invite all of you to take a look at those reports for more in-depth descriptions of our positions.

Underlying all these statistics and policies is an important lesson – that aerospace is a bright spot in a bleak economic landscape. The new administration and Congress can look to our industry to help get our nation’s economy back on its feet, provided we are not caught in the downdraft of others.

If you look at past economic downturns, inevitably it is technological innovation and advancement – specifically in transportation and defense – that have gone a long way toward turning things around. Some of these were under less-than-optimal circumstances, like the lead-up to wars.

But other innovations were under peacetime conditions, like the growth of civil aviation in the U.S. during the 1920s and 30s. It was in the midst of that very challenging economic outlook that we saw the introduction of the Ford Tri-Motor, the Boeing 247 and the Douglas DC-3. This led to increases in both domestic and international passenger service – and airlines even turned profits in the middle of the Great Depression. This proves how important industries that feature advanced technologies – like aerospace – can be to economic recovery.

I mentioned the Flying Fortress earlier. Our industry is a lot like that aircraft. We are resilient and durable in the face of the worst of hardships. And, most importantly, we can provide a vital lift at the most opportune time to help get our nation back on its economic feet.

With that, I’d like to thank you once again for attending the Year-Ender, and I’m happy to take a few questions ...

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