



AIA 45<sup>th</sup> Annual Year-end Review and Forecast Luncheon  
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*As prepared for delivery*

Good afternoon. I'd like to welcome you to the Aerospace Industry Association's Year-End Review and Forecast. Not only is this AIA's 90<sup>th</sup> anniversary but it is also the 45<sup>th</sup> year we've taken the opportunity to check our industry's vital signs and assess where we are and where we are going. We're very glad that you all could join us today.

This is also a historic moment, barely 24 hours after the maiden flight of Boeing's 787 Dreamliner. What a reality show! Weren't you glued to your TV or computer screen? We at AIA want to congratulate the entire team at Boeing for an amazing achievement – and for what we believe will mark a milestone in the evolution of flight.

Before we begin, I'd like to take a moment to recognize the service of our military men and women all over the world. We greatly appreciate all they do to keep us safe and, on behalf of all of us at AIA, I'd like to say thank you.

What a great turnout! I'd like to think that it's not the nice lunch but rather our "food for thought" that makes the Year-Ender a perennial favorite. As you may know, a significant amount of work goes into this effort, and I would like to thank the Communications Council for all their support and Alexis Allen and Bill Chadwick and all the AIA team for all their hard work.

So now let's turn to the main event.

The aerospace industry is a cornerstone of our economy, as well as a wellspring for much of the technology and innovation that gives the United States its global lead ... It's also an industry that's been remarkably resilient in the face of economic adversity, and I'm confident that it will remain that way.

Those of you who've visited AIA's offices may recall that we look out on Fort Myer, which is a stone's throw away. It was there, 100 years ago this year, that the Army formally accepted Signal Corps Airplane No. 1 as the world's first military airplane. The plane was built by the Wright

Brothers ... and flown by Orville back and forth over a 10-mile course from Fort Myer to Alexandria at a speed of nearly 43 miles per hour. I know ... breathtaking!

However, the Wright brothers' first flights at Fort Myer actually occurred a year earlier. At that time, they set several world records for endurance, until a crash seriously injured Orville and killed his passenger. When the Wrights returned to Virginia in June, they were confident in their redesigned Army Flyer. Even after experiencing initial problems with lift, they knew ... This time it would be different.

And it was. They overcame their challenges, and the era of military aviation was born.

Now, why am I telling you this? Other than it being a good story and a milestone in our nation's history, what are the messages in this Myer tale?

Persistence and resilience.

Today, the aerospace industry is again facing serious challenges .... But if we abide by the conviction exemplified by the early pioneers of flight those many summers ago, then I believe this time it will be different.

As I take you through the figures and the forecast, you will see that there is turbulence on the horizon. Everyone knows that aerospace sales are cyclical ... but whatever downturn may occur in the next 18 months is expected to be far less severe than other downcycles. We've talked to the experts ... we've looked at the numbers ... we've even done some crystal-ball gazing ... and it simply does not appear that we're headed for the same severe and sustained downturn that we saw in the 90s.

This time it will be different.

Now let's talk about why we believe this to be the case.

[Slide 1-Sales]

To remind everyone, the facts and figures we are about to discuss are based on preliminary numbers for the 2009 calendar year. Despite national and global economic troubles that triggered large-scale government bailouts for other business sectors, I'm pleased to report that the U.S. aerospace industry more than held its own in 2009. Total aerospace sales, according to our preliminary figures, will be slightly more than \$214 billion -- a new record for the sixth straight year, as well as the eighth year of growth in the last nine. This figure represents an increase of almost four percent over sales of \$205.7 billion in 2008, when sales were impacted by the Boeing work stoppage and related trickle down effects.

[Slide2 Sales by sector]

We see nearly uniform growth across all sectors. Civil aircraft, military aircraft, missiles and space sales all improved, with the largest increase delivered by military aircraft. Civil aircraft

sales are expected to register moderate growth, with sales improving by nearly \$1.9 billion to \$82.5 billion. This growth was led by sales of large commercial jetliners, which offset a steep falloff in shipments of general aviation aircraft and helicopters.

Sales of military aircraft were up this year to \$61.7 billion, a year-over-year increase of more than eight percent. Missile systems outdid this performance, rising 11 percent to \$14.8 billion. Sales of space systems – including military, civil and commercial programs, will improve modestly by 4.1 percent to \$40.4 billion.

[Slide3 Orders, shipments, backlog]

Our industry will show strength in shipments, but the weakened economy and an uncertain market hurt orders and backlog. Aerospace orders were down for a second straight year, falling by about 33 percent to \$155 billion. The aerospace backlog will fall for the first time since 2003, dropping to an estimated \$356 billion from a record \$402 billion in 2008.

[Slide4 Trade]

Historically, our industry is strong when it comes to foreign trade, and this position has improved in recent years as the U.S. aerospace industry actively sought to become more globally diversified. However, this year's trade numbers truly reflect the far-reaching, global nature of the current economic downturn. The United States exported nearly \$79 billion worth of aerospace products, a 17 percent decrease from last year. Imports tumbled a bit further, declining nearly 34 percent to \$25 billion. The net result is that our foreign trade balance will be about \$54 billion in the black, a drop from last year's surplus of about \$58 billion. Still, we think this is a very positive measure of the vitality of our industry, and certainly in comparison to other manufacturing sectors.

[Slide5 Employment]

Jobs and employment remain on everyone's mind. As we all know, aerospace employment has already been trimmed. After a series of precipitous drops in previous downcycles, aerospace employment did not ramp up in tandem with the production increase we've seen in recent years. Consequently, we are already operating at almost peak efficiency, which makes downsizing all the more problematic. But when production falls, employment cuts inevitably follow, and for the first time since 2003, aerospace employment is expected to fall to 641,100 for the year from 657,100 in 2008.

The good news, if you want to see the glass as half-full, is that aerospace job losses are much lower than other industries have experienced. Aerospace employment fell by four percent from last year to the third quarter of 2009, while all manufacturing reported job losses in the same period of nearly 12 percent!

[FORECAST]

Now let's turn to next year. Our forecast for 2010 indicates that growth in our industry is slowing, as we all have known for some time. AIA expects sales to reach \$214.4 billion next

year, a very modest increase. Now keep in mind ... forecasting is an imprecise science that depends on a little bit of luck. As time has shown, the number of folks who accurately predicted the severity of the global downturn could fit in the lavatory of a 737. Even Ben Bernanke admits he missed it.

I mentioned earlier that the aerospace industry is hanging in there – especially when compared to other manufacturing industries. Military-related products will give a boost to overall aerospace sales in 2010, offsetting any slip in civil sales. However, the aerospace industry is likely to run short of momentum in 2011. Overall civil aviation sales are expected to suffer as conditions continue to worsen for helicopters and business and regional aircraft. Additionally, by this time, the moderate improvements in defense procurement will not be enough to compensate for the declines in aerospace sectors.

However, this time will be different ... Considering all the factors, we do not anticipate a particularly protracted downturn. In a cyclical industry such as ours, there are peaks and valleys – whether for orders, shipments or production. We believe the valley at the bottom of this cycle will be relatively shallow. Why? The pipeline is primed. Never before has civil aviation had such a game-changer like the 787 ready to enter the market right when it is needed most. Other considerations are the resilient single-aisle market and the considerable amount of pent-up replacement demand, which could be driven higher if fuel costs surge.

On the defense side, we expect a large-scale recapitalization of existing military systems that are wearing out. Moreover, pressure to maintain our aerospace dominance requires a substantial amount of modernization. Together, these factors lay a valley “floor,” if you will.

There are other bright spots. Airline passenger traffic shows signs of recovery after a disastrous early 2009. The International Air Transport Association predicts an increase of slightly over 3 percent in passenger traffic in 2010 ... and once the airlines return to profitability, they will resume purchasing aircraft. In another sign of optimism, Aviation Week reported that automotive suppliers are looking to our industry for fresh opportunities in precision engineering.

Bottom line ... the aerospace industry is sound and able to absorb some punishment from the tough economy. Even so, its recovery could be accelerated. Right now, there are initiatives before Congress that could quickly generate significant growth. If we can move forward on these initiatives, the aerospace downturn would not only be shortened, but the industry – as well as the overall U.S. economy – would reap the benefits for years to come. This is not blue-sky thinking but an expectation of realistic outcomes based on comprehensive analysis.

With all the talk about creating jobs, we believe our industry is being overlooked as a job generator. In fact, aerospace is a job multiplier ... we are our own stimulus package. Unlike railroads and highways, moreover, our benefits don't end at the water's edge. They are global and they are shovel ready.

The entire civil aviation industry is urging Congress to allocate much needed funds for accelerating implementation of the Next Generation Air Transportation System. NextGen airborne infrastructure could be manufactured today and quickly put into place. Accelerating

NextGen will not only bring immediate economic and environmental benefits to all Americans, it will also create jobs in our sector. A \$6.4 billion federal investment in NextGen equipment is projected to create 156,000 new jobs, directly and indirectly.

While Secretary Ray LaHood and Administrator Babbitt have expressed their unequivocal support for accelerating NextGen implementation, Congress still needs to pass the FAA reauthorization bill, which will provide stable funding and help expedite implementation. With the appropriate funding by the government and the proper incentives for operators to equip, NextGen could be implemented seven to 10 years earlier than planned.

With our urging, Congress and the administration are starting to think along those lines. For example, the President recommended and the House adopted language in its transportation appropriations bill to establish a transportation infrastructure bank. AIA is working with others to provide a more detailed plan. We're busy making the case with lawmakers that NextGen funding – in the air or on the ground – is an excellent candidate for infrastructure bank funds.

In another important area, our work with the administration is beginning to pay dividends. The Pentagon has expressed a willingness to engage in a strong and continuing dialogue with industry.

To be more specific, Deputy Secretary Lynn and Undersecretary Ash Carter separately met with the AIA Executive Committee and the Board of Governors to discuss strategic interests.

Of particular note is that AIA's report on the Defense Industrial Base has been well received by Undersecretary Carter and his staff. At our November Board of Governors meeting, Carter spoke about our recent study, which points out that the Defense Department – up until now – has not had a viable industrial base strategy. Our industry is not an enormous warehouse with an inexhaustible inventory. Too often, the government fails to comprehend the time and money it takes for our industry to produce the items that DoD requests – the massive investments in research and development, design, manufacturing and our complex supply chains.

Remember that the cutting-edge technology of which we are rightly proud does not come off a shelf, and cannot be easily or quickly assembled. This is not World War II where a Singer sewing machine factory can shut one day and reopen the next to produce machine guns. Modern weapons systems are different and the capability to produce them is hard to sustain.

We are pleased that the Department understands our concerns and is engaging with industry.

On other issues, we are pushing hard for increased funding for NASA. And I'll be frank ... I am very concerned about the current funding levels. The Norm Augustine-led commission laid out the options for the manned space program and they are bleak. Unless we increase NASA's budget, we will be relying on the Russians for a ride to the International Space Station. This is not an exaggeration. We are working on a proposal for a new strategy to shore up support for NASA, and ultimately our long-term leadership in space.

In the wake of the administration’s announced review of the export control regime, AIA suggested a number of initiatives to modernize the system in a letter to President Obama signed by more than 100 CEOs in our industry. Also, in November, the member companies of our Executive Committee signed on to the Global Principles of Business Ethics for the Aerospace and Defense Industry. We anticipate many other companies across the industry will join.

I also want to thank everyone involved in creating the first annual National Aerospace Day. It was a tremendous success and provided a wonderful opportunity to remind lawmakers and the administration of the important role our industry plays in the local, national and international economy. Next year, the event will last a full week to extend our outreach and amplify its impact. The House and Senate each passed resolutions supporting National Aerospace Day, and President Obama sent a statement. He said, in part:

“American-led research in applied science and technology landed men on the moon and inspired generations to believe that, if we set our minds to it, we can achieve anything. This inspiration has fueled the aerospace industry’s contributions to our nation, spurring innovation and the development of cutting-edge technology ... As we continue to reach for the stars, let us recommit ourselves to excellence so that our children can realize what we only dreamt was possible.”

Aerospace is very much about reaching for the stars. Innovation is the stuff of dreams, but also the backbone of our industry. The innovation of pioneers like the Wright Brothers runs like a strand of DNA down through history to our present-day aerospace trailblazers. Through their persistence and resilience, they launched the era of military aviation a century ago. And when I look outside my office at Fort Myer, I’m reminded of that fact ... As with the Wright team, I firmly believe that this time will be different ... I have confidence we will prevail and that our long-term outlook is bright.

Thank you all for coming, and I’d be happy to try to answer a few of your questions...

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