

ARSA Business Conditions Survey Analysis:

Repair Stations Hit Hard by Economic Downturn in '09, Guardedly Optimistic About '10, and Concerned About Access to International Customers

The aviation maintenance industry has a significant and positive impact on the U.S. economy and our nation's balance of trade. According to the Federal Aviation Administration (FAA), there are 4,122 FAA-certificated repair stations in the United States that collectively employ 196,355 people. A recent economic study conducted for the Aeronautical Repair Station Association¹ (ARSA) by AeroStrategy found that the North American aviation maintenance, repair, and overhaul (MRO) market exceeds \$19 billion per year and that when induced and related economic effects are considered, the MRO industry's impact on the U.S. economy is \$39 billion per year. The same study found that North America is a major net exporter of aviation maintenance services, enjoying a \$2.4 billion positive balance of trade in this arena.

During the week of Nov. 9, 2009, ARSA conducted a member survey about aviation maintenance industry business conditions and the industry's economic outlook for 2010.² Ninety-four percent of the survey respondents were headquartered in the United States. While respondents represented a wide range of business sizes, consistent with the makeup of the repair station industry, the vast majority were small companies. Seventy-four percent of respondents had less than \$10.5 million in revenues in 2008 and 72 percent had fewer than 50 employees. Based on an *extremely* conservative estimate, the survey respondents collectively had more than \$1 billion in annual revenues in 2008 and more than 15,000 employees. The overwhelming majority (92 percent) were non-union companies.

By far, the most important markets for the respondents were commercial air carrier and business aircraft. Reflecting the international nature of the repair station industry, 68 percent of the U.S.-based companies reported that in addition to their FAA part 145 certificate they had a European Aviation Safety Agency (EASA) approval allowing them to work on European-registered aircraft and products installed thereon.

The survey's key findings were as follows:

- **Business conditions have deteriorated for ARSA members over the past year.** Sixty-two percent of respondents reported that their 2009 revenues fell below 2008 levels and only 21 percent reported increased revenues this year.
- **The economic downturn has taken a toll on industry employment.** More than half of respondents (53 percent) reported laying off workers in the past year because of poor business conditions. On average, companies reporting layoffs had eliminated nine percent of their workforces.
- **ARSA members are guardedly optimistic about the future.** Forty-six percent of survey respondents believe their companies' revenues will increase in 2010 and only 14 percent are anticipating a decrease.

¹ ARSA is an Alexandria, Virginia-based international trade association that represents aviation maintenance, design, and manufacturing companies.

² The survey was conducted on Nov. 12 and 13. Over the course of two days, a single key contact at each ARSA repair station and corporate member received three emails and a phone call requesting participation in the survey. Ultimately, 144 companies completed the survey, representing approximately 41 percent of ARSA's repair station and corporate members. Based upon approximately 350 eligible ARSA members eligible for participation and approximately 4,500 FAA part 145 certificate holders, the survey margin of error was 6.3 percent for ARSA members and eight percent for the entire population of FAA part 145 repair stations.

- **The industry employment outlook is relatively stable.** Only six percent of respondents planned to eliminate positions in the coming year and 63 percent said they expected to hold their workforce at current levels.
- **Despite poor business conditions, ARSA members are continuing to invest in their companies.** Fifty-one percent of respondents have made substantial capital investments in 2009 and 47 percent plan to do so next year. Capital investment in the coming year might be improved by extension of the economic stimulus bill's depreciation bonus and increased Sec. 179 expensing levels.
- **Despite poor industry economic conditions, ARSA members continued to struggle to find qualified technical workers.** Sixty-five percent of respondents reported that they had difficulty finding skilled workers for technical positions in the past two years. This reinforces the need to reauthorize and expand the Workforce Investment Act to strengthen America's base of skilled technical workers.
- **Inadequate FAA resources have taken a toll on the industry's profitability and efficiency.** One third of respondents (33 percent) said that delays resulting from inadequate FAA staffing (e.g., delays in processing an application for a new certificate, changes in operations specifications or capabilities, obtaining data approval) had caused them to lose a customer or otherwise forego a business opportunity in the past two years. This reinforces the need to increase the FAA's oversight resources.
- **Business from foreign customers is critical to the health of the U.S. repair station industry.** The U.S. aviation maintenance industry is clearly concerned about the impact of provisions in the House-passed FAA reauthorization bill targeting foreign repair stations and the likely consequent collapse of the U.S.-European Union Bilateral Aviation Safety Agreement (BASA). Close to two-thirds (65 percent) said that the collapse of the BASA would have a "major" or "devastating" impact on their companies, with 20 percent saying that it would threaten their ability to stay in business.
- **Weak airline industry, collapse of BASA cited as biggest threats to aviation maintenance industry.** In an open-ended question, survey takers were asked to identify the single biggest threat to their company's continued survival. The continued poor economic health of the U.S. airline industry was cited most frequently (16 mentions) with the collapse of the U.S.-EU BASA a close second (15 mentions). Other frequently cited threats: the weak overall economy (12 mentions), failure by manufacturers to comply with FAA rules requiring sharing of maintenance manuals (i.e., Instructions for Continued Airworthiness) (11 mentions), over-regulation in general (11 mentions), and the decline in corporate aviation resulting from political/media pressure and the poor economy (nine mentions).

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APPENDIX A: FAA Repair Stations by State (Including Territories)

Prepared by the Aeronautical Repair Station Association (ARSA) Based on FAA Air Agency Data Dated 11/09/09

State	Number of Repair Stations	Number of Employees
AK	52	482
AL	57	5,760
AR	45	3,334
AZ	143	5,460
CA	651	30,597
CO	69	1,136
CT	99	7,330
DC	1	6
DE	7	952
FL	508	16,290
GA	118	10,599
GU	1	6
HI	13	141
IA	35	3,006
ID	29	484
IL	104	4,057
IN	67	2,976
KS	111	6,372
KY	37	728
LA	37	2,096
MA	56	1,743
MD	25	1,445
ME	13	864
MI	113	4,044
MN	55	2,091
MO	52	2,022
MS	20	834
MT	22	315
NC	70	2,930
ND	13	199
NE	13	1,365
NH	23	569
NJ	65	2,763
NM	20	465
NV	28	689
NY	121	5,781
OH	129	4,774
OK	140	12,989
OR	49	1,536
PA	93	2,702
PR	14	121
RI	7	294
SC	36	2,331
SD	15	66
TN	55	2,018
TX	419	25,688
UT	28	331
VA	45	1,191
VI	1	1
VT	11	154
WA	114	9,038
WI	48	1,648
WV	15	1,460
WY	10	82
Total	4,122	196,355