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U.S. Airline Industry Summer Air Travel Forecast & First Quarter 2015 Review

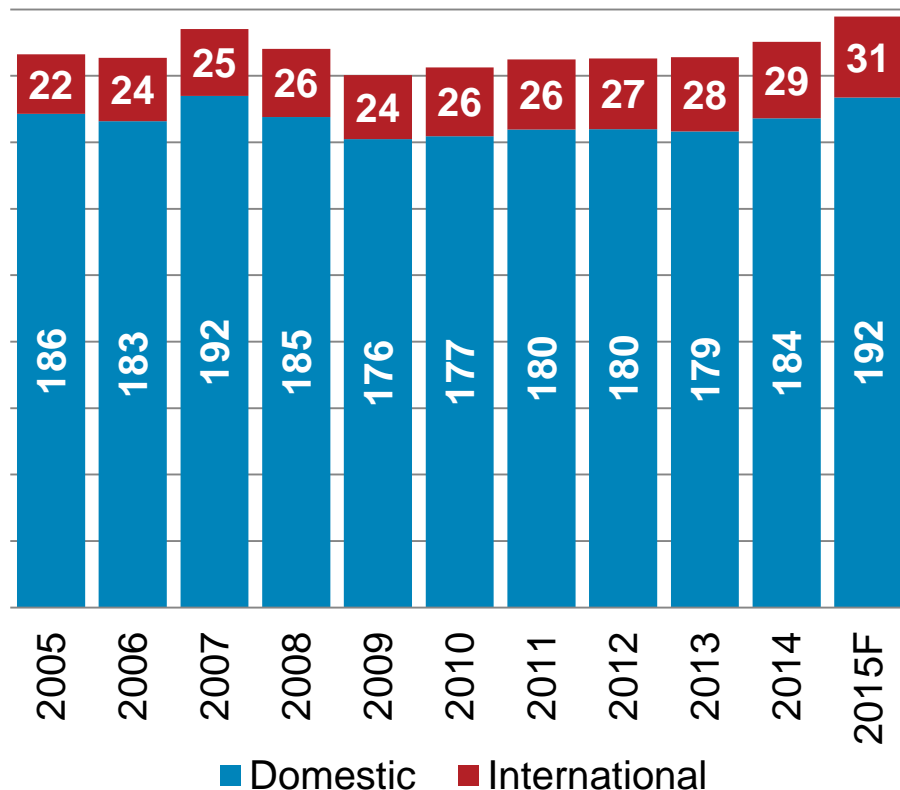
John P. Heimlich
Vice President & Chief Economist
A4A Media Briefing
May 18, 2015

A4A Projects U.S. Airlines to Carry 4.5 Percent More Travelers in Summer 2015

Projected Average of 2.4 Million Passengers per Day Would Constitute an All-Time High

U.S. Airline Onboard Passengers (Millions)

Scheduled Service, June 1-August 31



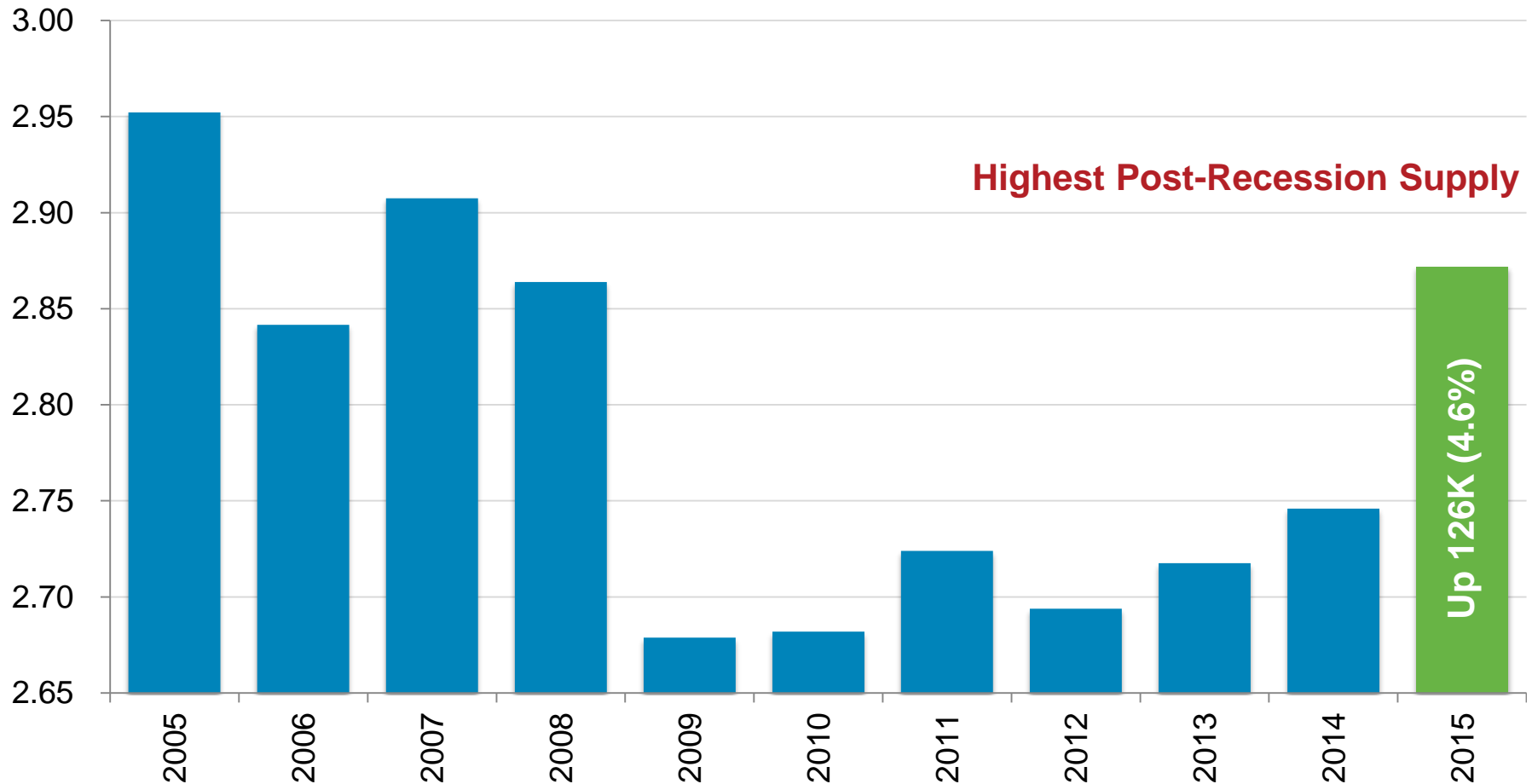
Summer 2015 Forecast Highlights

- 222M passengers (2.4M per day)
 - Up 4.5% (~104K/day) YOY to an all-time high
 - Up ~4 domestic and ~6 international
 - Average load factor: ~86
- 2.09M travelers per day on domestic flights, slightly below 2007 (pre-recession peak)
- 332K travelers per day on international flights, surpassing last year's record of 313K per day
- Contains 13 of the 15 busiest air travel days of the entire year for U.S. airports
 - Busiest day is Sunday following Thanksgiving
 - Third busiest is Friday preceding Memorial Day
 - The rest fall between mid-June and early August, typically on Thursdays or Fridays
- GDP and job growth, rising incomes and U.S. consumer sentiment, air travel affordability

Source: A4A and BTS T100 segment data

2015 Schedules Show Most Summertime Seats Offered Since 2008-2009 Recession

Million Daily Seats Scheduled to Depart U.S. Airports for all Destinations



Source: Innovata (via Diio Mi) as of May 8, 2015 for all airlines providing scheduled passenger service from U.S. airports to all destinations in June 1 – August 31, 2015

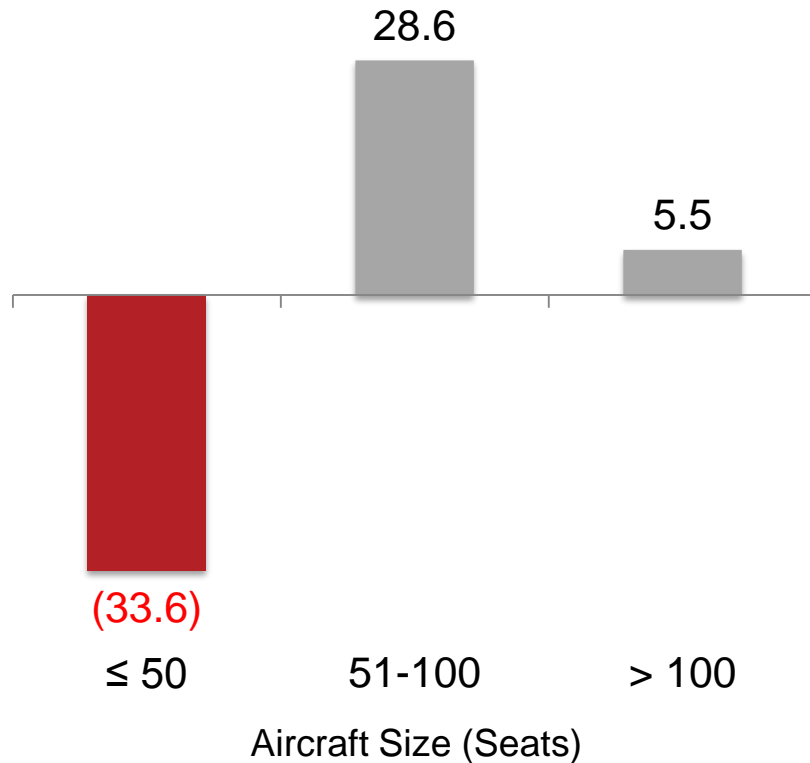


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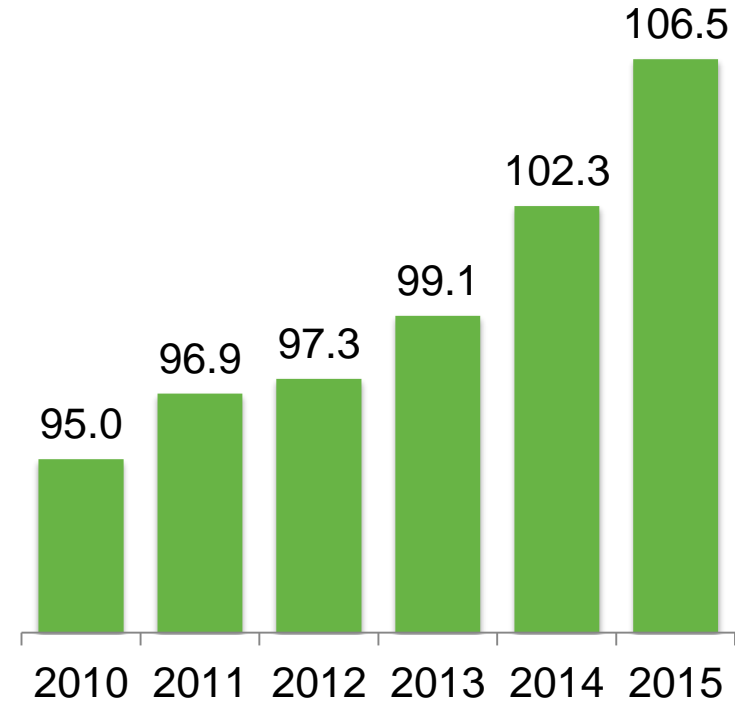
In Addition to Expanding Schedules, Airlines Are Deploying Larger Aircraft

Airlines Have Sharply Reduced Use of 50-Seaters, Steadily Rolling Out Larger RJs

% Change in Scheduled Domestic Departures from July 2010 to July 2015



Average Domestic Aircraft Size*



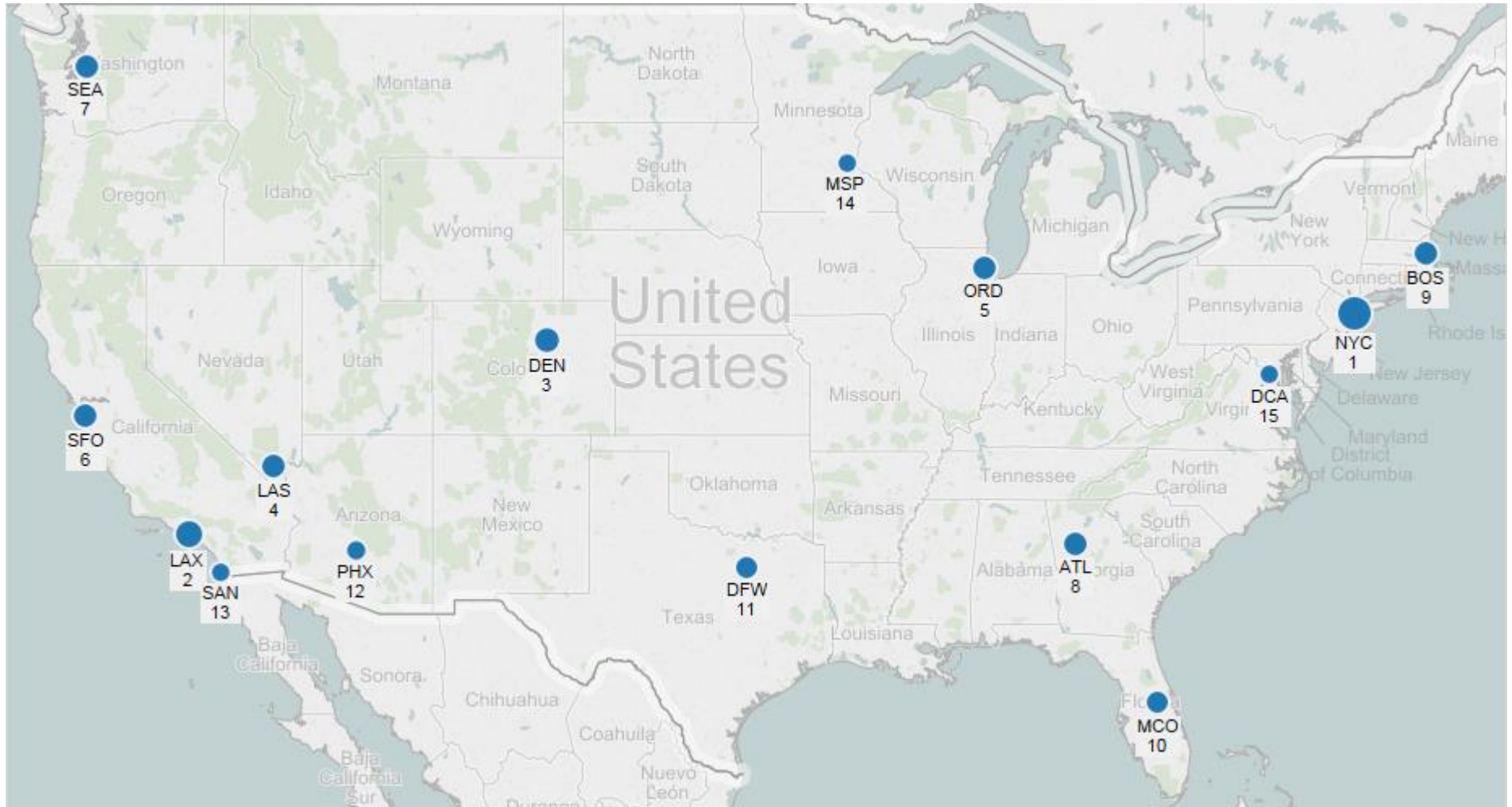
* Seats per scheduled domestic departure in July of each year

Source: Innovata (via Diio Mi) as of May 8, 2015



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In Summer 2014, Top 15 Domestic O&D Markets Were Major Metropolitan Areas

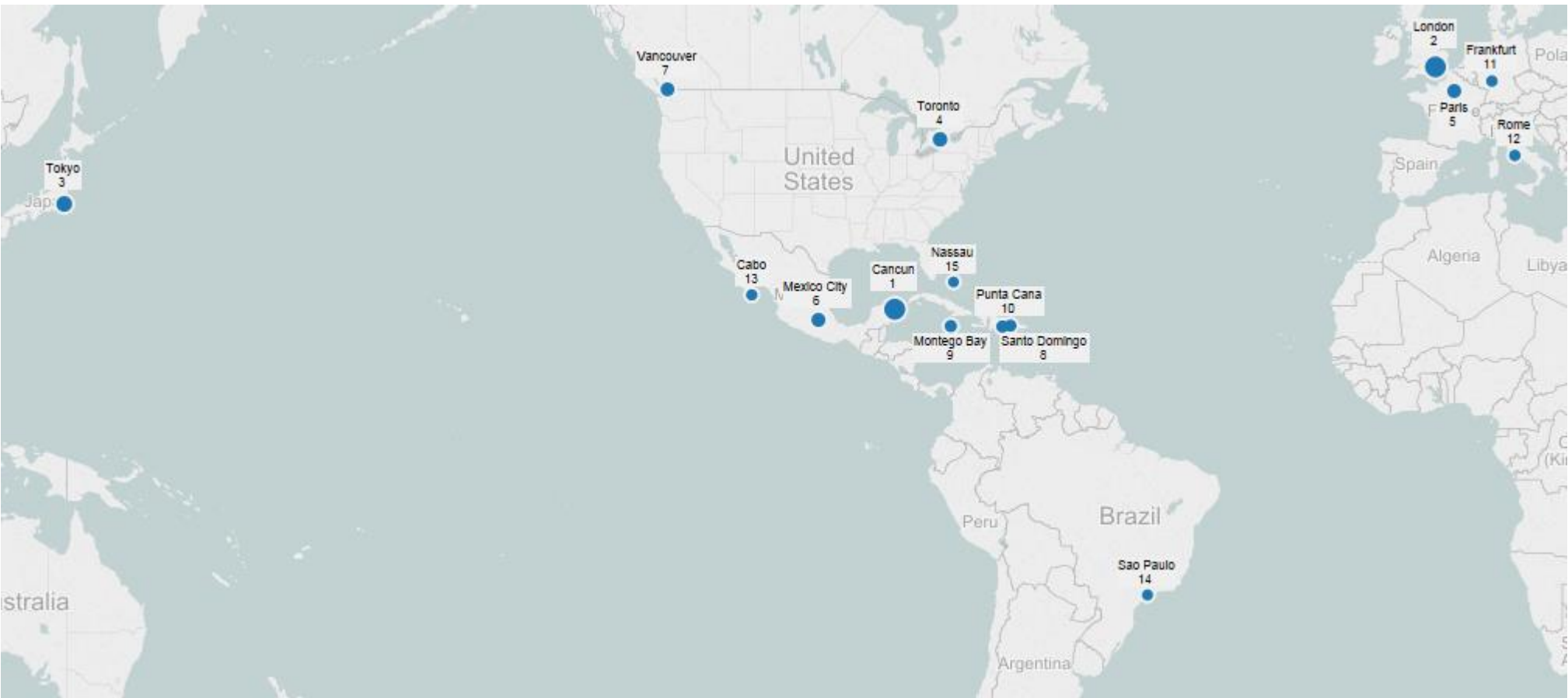


Source: DOT Passenger Origin-Destination Survey, Data Bank 1B, 3Q 2014



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In Summer 2014, Top 15 Int'l O&D Markets for Passengers Spanned 11 Countries



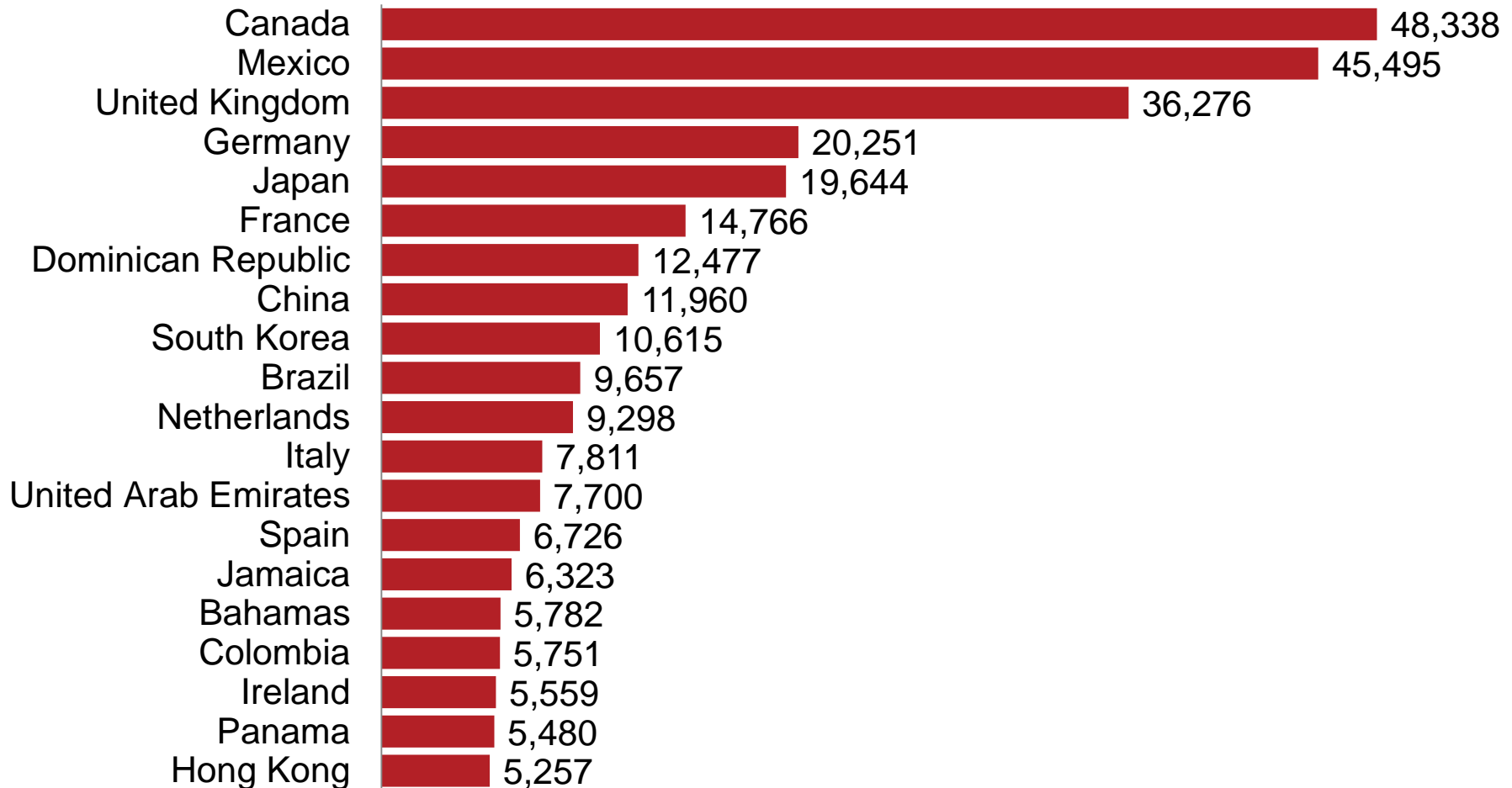
Source: DOT Passenger Origin-Destination Survey, Data Bank 1B, 3Q 2014



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Canada, Mexico and the UK Are Best Served Nonstop USA-Int'l Destinations

Top 15 U.S. International Nonstop Destinations by Total Scheduled Seats per Day



Source: Innovata (via Diio Mi) as of May 8, 2015 for all airlines providing scheduled passenger service from U.S. airports to all destinations in June 1 – August 31, 2015



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Mexico, the UK and China Are Seeing the Biggest Increase in Seats Departing USA

Top 15 U.S. Int'l Nonstop Destinations by Increase in Scheduled Seats per Day

	<u>USA-Destination Country</u>	<u>Additional Daily Seats YOY</u>	<u>% Change YOY</u>
1	Mexico	5,767	14.5
2	United Kingdom	3,046	9.2
3	China	2,489	26.3
4	United Arab Emirates	1,883	32.4
5	South Korea	876	9.0
6	France	843	6.1
7	Ireland	819	17.3
8	Italy	795	11.3
9	Canada	710	1.5
10	Australia	621	13.7
11	Iceland	620	31.5
12	Colombia	562	10.8
13	Panama	530	10.7
14	Turkey	435	16.3
15	Chile	377	28.2

Source: Innovata (via Diio Mi) as of May 1, 2015 for all airlines providing scheduled passenger service from U.S. airports to all destinations in June 1 – August 31, 2015



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United States Seeing Air Travel Gains Among U.S. and Non-U.S. Citizens

Increases in Foreign Visitor Arrivals Despite Recent Strengthening of U.S. Dollar

% Change 1Q15 vs. 1Q14 in Nonstop Passengers to/from USA

	U.S. Citizens	Non-U.S. Citizens
Overseas	4.9	4.4
Canada	11.7	3.8
Mexico	7.9	8.8
Total International	6.0	4.6

Source: U.S. Department of Commerce National Travel and Tourism Office (May 8, 2015)



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Healthy Air-Travel Demand and Lower Fuel Drove Airline Profitability* in 1Q 2015

Wages and Benefits Rose 10.5%, Re-Taking Top Spot Among Industry Operating Costs

	% Change YOY		1Q14	1Q15	Change	
Operating Revenues (\$36.7B)	3.1	{	Passenger Yield ¹	16.21¢	16.02¢	(1.2)
Operating Expenses (\$31.8B)	(6.7)		Passenger Traffic ²	190.4B	197.9B	+3.9
Wages & Benefits (29% of Op. Expenses)	10.5					
Fuel (24%)	(32.9)					
Landing Fees & Terminal Rents (6%)	3.2					
Maintenance, Materials & Repairs (6%)	(1.3)					
Depreciation & Amortization (5%)	8.3					
Aircraft Rent (3%)	0.6					
Other Operating Expenses** (27%)	4.8					
Interest & Other Non-Operating Expenses	5.6					
Pre-Tax Profit: \$4.1B (11.1% of Revenues)	+9.1 pts.					
Net Profit: \$3.1B (8.4% of Revenues)	+7.3 pts.					

1. Average airfare paid per mile flown, excluding taxes

2. Revenue passenger miles (RPMs) flown

	1Q14	1Q15	Change
Enplanements	169.0M	175.5M	+3.9
U.S. Inflation ³	234.997	234.849	(0.1)
Personal Income ⁴	\$40,130	\$41,469	+3.3

3. U.S. Consumer Price Index (1982-84 = 100)

4. U.S. disposable personal income per capita, current dollars

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* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

** Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

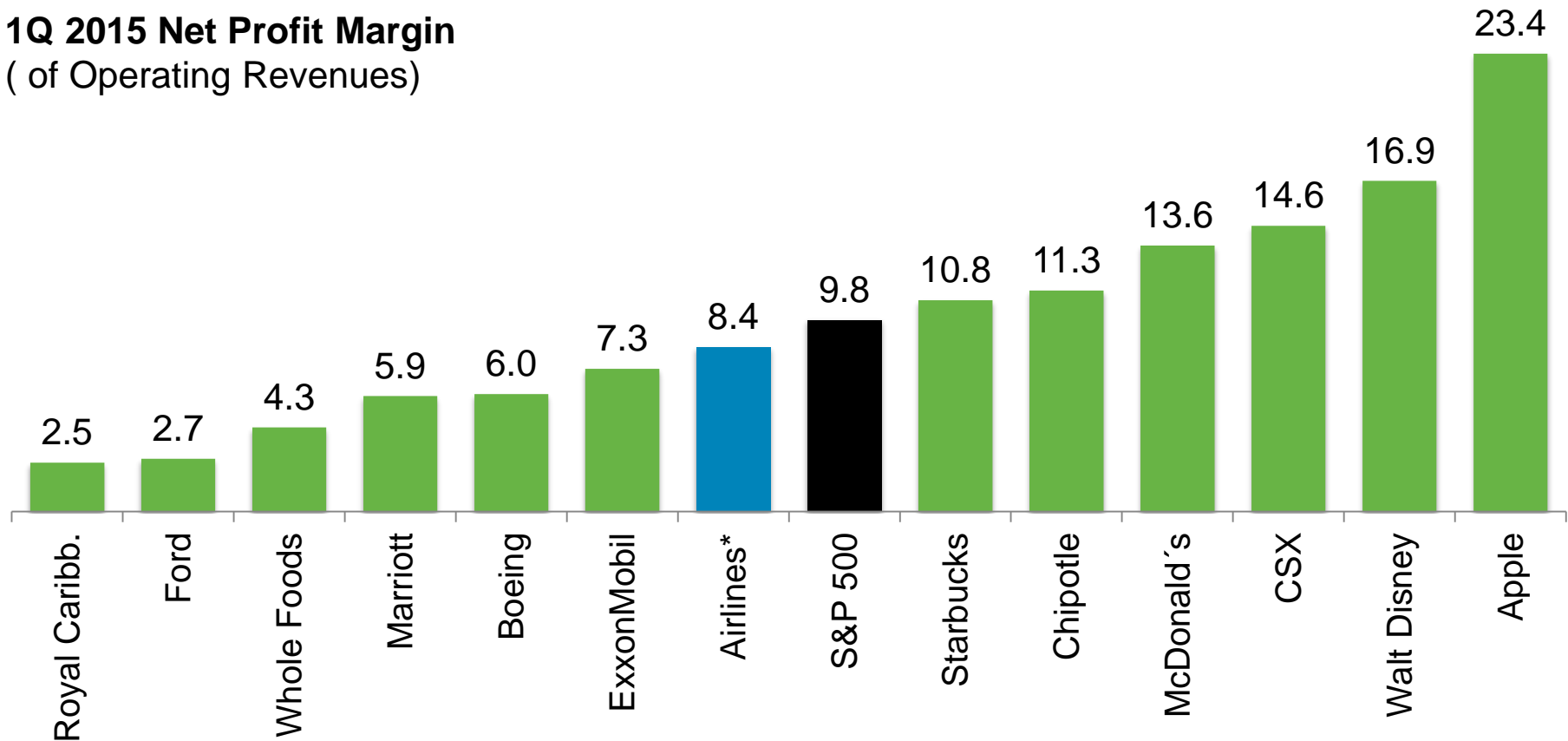


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U.S. Airline Industry Is Closing the Gap to Average U.S. (S&P 500) Profitability

For Every Dollar of Revenue Collected, U.S. Airlines Keeping ~8 Cents as Profit

1Q 2015 Net Profit Margin (of Operating Revenues)



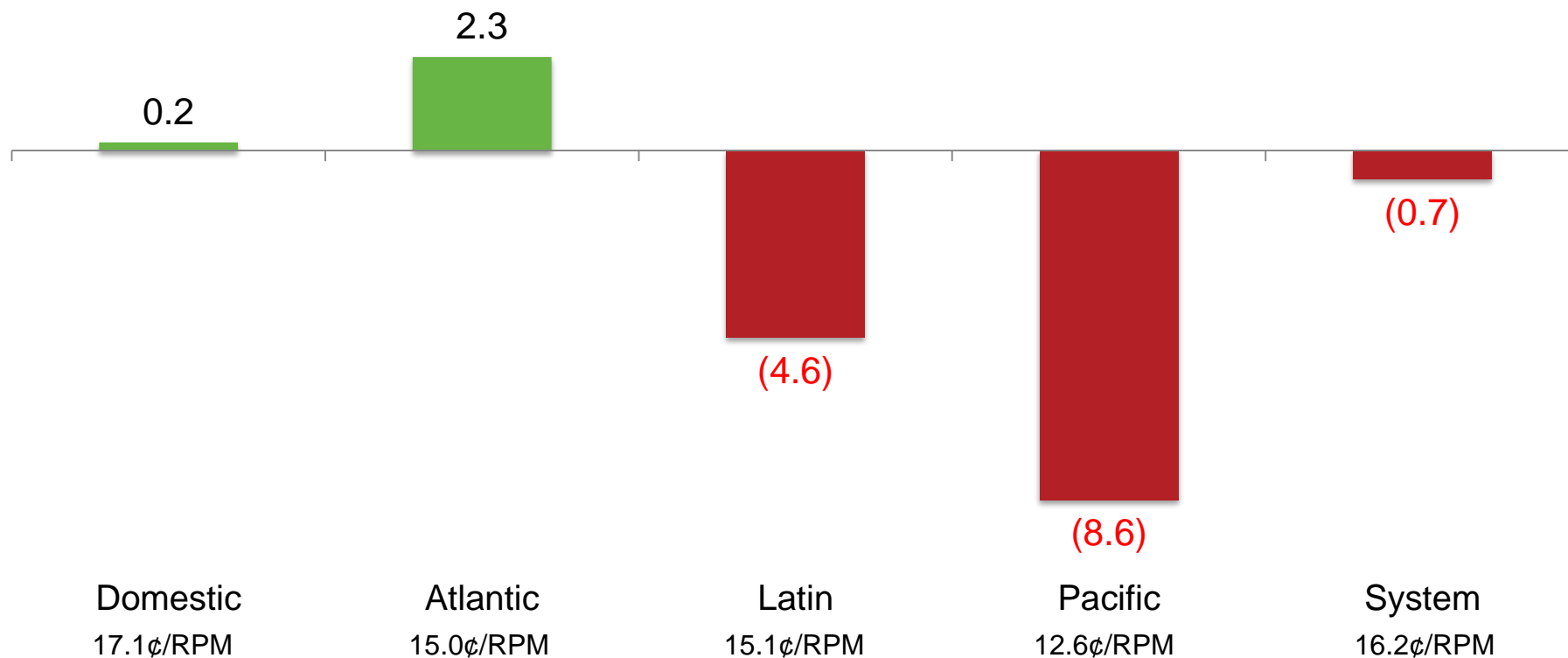
* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America
Sources: Standard & Poor's and company SEC filings



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In 2015 to Date, Domestic Fares Holding Steady; Latin and Pacific Seeing Declines

% Change YOY in Passenger Yield (Fare per Mile Flown) by Region



Source: A4A revenue report, containing data from Alaska, American, Delta, JetBlue, Southwest and United



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With More and More Seats Entering the Market, Some – Including Many U.S. Travel Agencies – Are Seeing Signs of Softening Pricing in Air Travel

“**Airlines Reporting Corp.** (ARC) **announced** today that after researching more than four million airline tickets purchased for **travel between the upcoming Memorial and Labor Day holidays**, **average ticket prices paid, compared to 2014, ranged from flat for flights to U.S. domestic destinations to a reduction in ticket prices for flights to Europe** from the U.S...”

‘**We’re seeing fares fall to Europe** from the U.S. this summer chiefly because there’s been a 6 percent rise in available seats, and **airlines are competing to fill those additional seats**,’ said Chuck Thackston, managing director of enterprise information management at ARC.”

-- “ARC Finds Summer Domestic Airline Fares Remain Stable while European Fares Drop” (April 20, 2015)

Source: <https://www.arccorp.com/news/pr20150420.jsp>

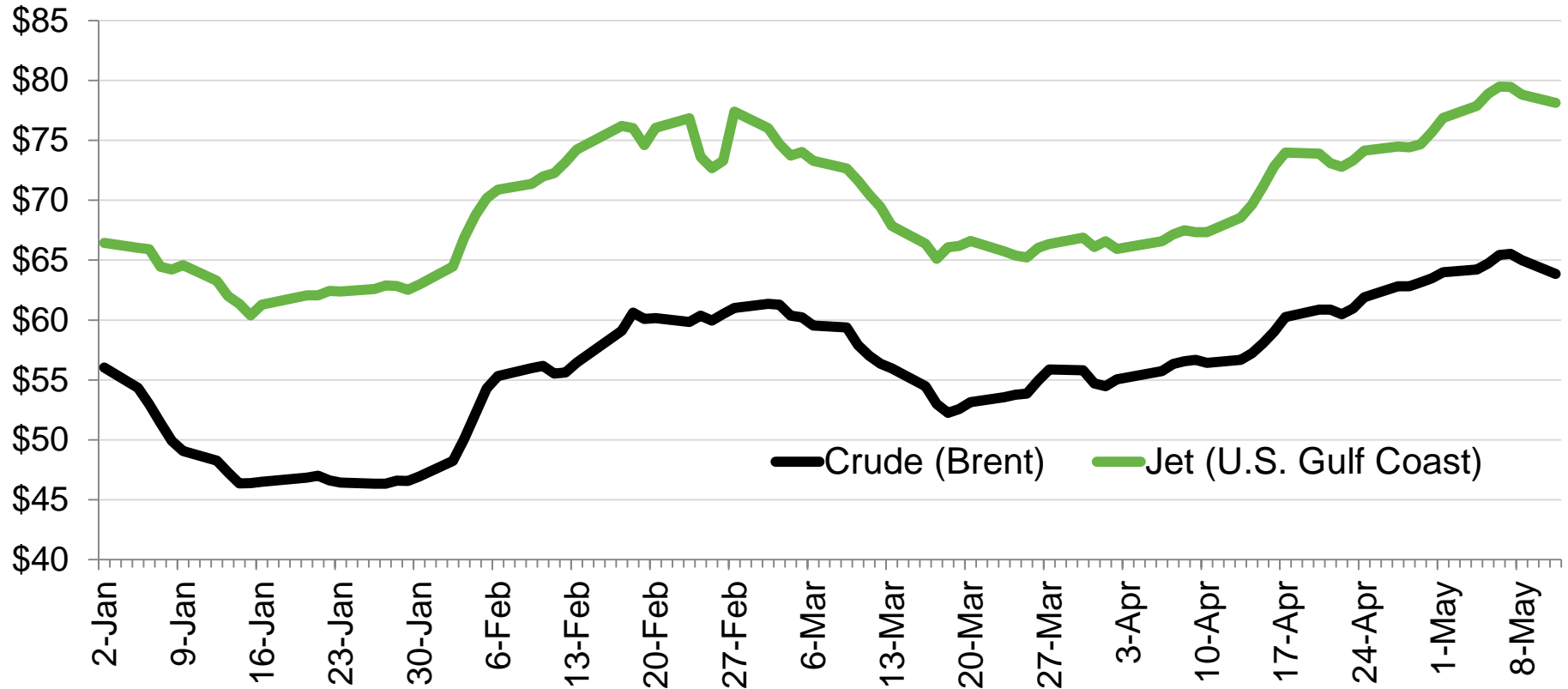


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Jet-Fuel Prices Have Enabled Greater Levels of Reinvestment But Remain Volatile

Every Penny per Gallon per Year Equates to \$190M in Annual Fuel Expenses

Spot Price per Barrel (5-Day Moving Average)



Source: A4A and Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)



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After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again

February 2015 Was 15th Consecutive Month of YOY Employment Gains at U.S. Airlines



Employment at U.S. Passenger Airlines – Thousand Full-Time Equivalents (FTEs)

2000		520.6
2010	Down ~142,300 (-27.3%) from 2000	378.3
2014	Up ~6,300 (+1.7%) from 2010	384.6
2015	YTD through February	387.8

Source: Bureau of Transportation Statistics



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Year Over Year, Airlines Saw Improvements in Four DOT Core Operational Metrics

Gains Driven by More Benign Weather and Investments in Systems, Procedures, Staffing

Flight Completion Factor (%)



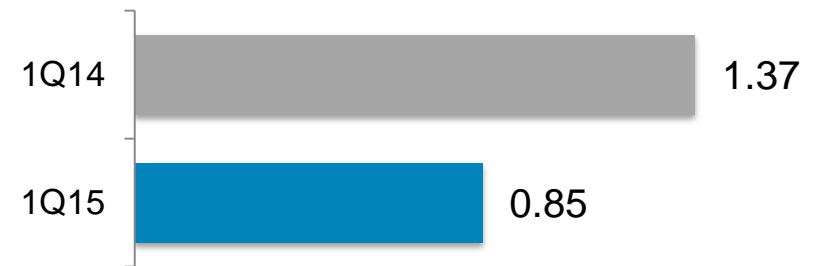
On-Time Arrival Rate (%)



Mishandled Bags per 1,000 Customers



Involuntary DBs per 10,000 Customers



Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)

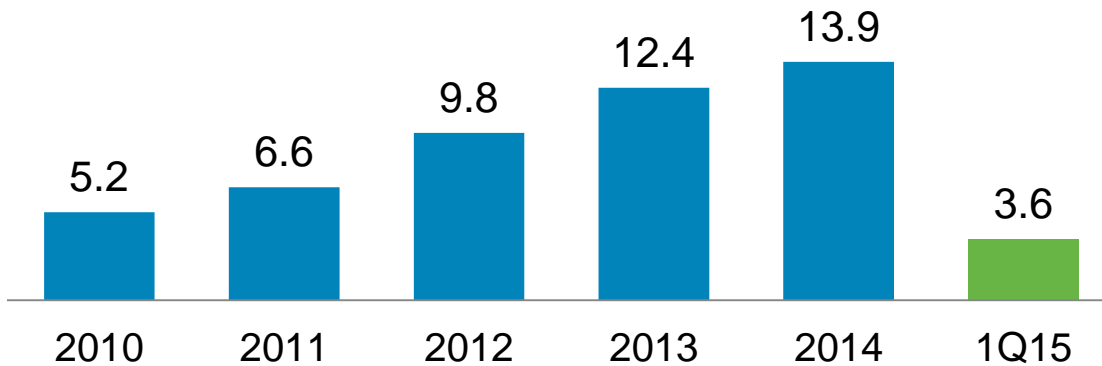


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Improving Finances Enabling Significant Reinvestment in Customer Experience

Airline Capital Spending Exceeding \$1 Billion per Month – Highest in 15 Years

U.S. Airline* Capital Expenditures (\$ Billions)



- » 2014 outlays exceeded \$1.1B per month
 - Included delivery of 317 aircraft
 - At 12/31, firm orders for 1,800+ aircraft worth \$94B
- » 2015 outlays thus far @ \$1.2B per month
 - Exceeding \$20 per passenger
 - 10 carriers taking delivery of 367 aircraft

* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



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Recap

- » An expanding U.S. economy, employment growth, rising personal incomes and the highest U.S. consumer sentiment in a decade driving increased demand for air travel
 - » Strong demand has supported pricing, which has enabled airlines to inch closer to average U.S. profitability (i.e., as measured by the S&P 500) and, in turn:
 - boost staffing and wages
 - acquire new aircraft and ground equipment
 - launch new routes and enhance airport and inflight amenities
 - reduce debt and return cash to shareholders
 - » Airlines are offering the U.S. public the highest number of seats since the Great Recession and are consistently deploying larger aircraft on domestic routes
 - » First quarter (2015) capital expenditures totaled \$3.6 billion, or more than \$20 per enplaned passenger, largely reflecting the arrival of one new aircraft per day
 - » This type of reinvestment is expected to continue throughout the year
-



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Beltway Influencer Campaign



We fly 2.1 million people daily. Because you can't own the room if you're not in the room.

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**We transport 49,000 tons of cargo daily,
making overnight shipping an everyday reality.**

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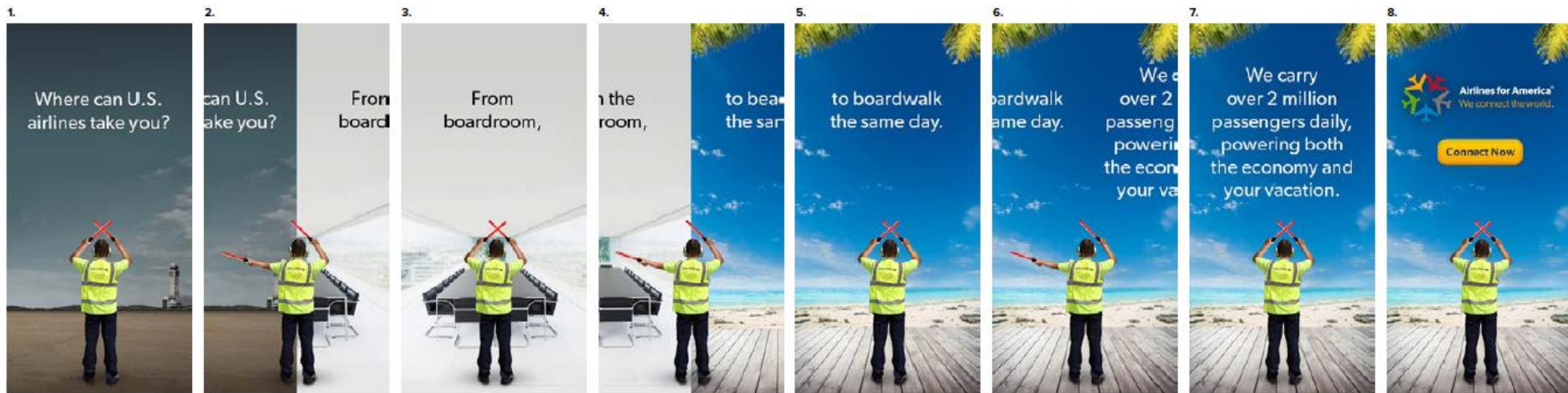


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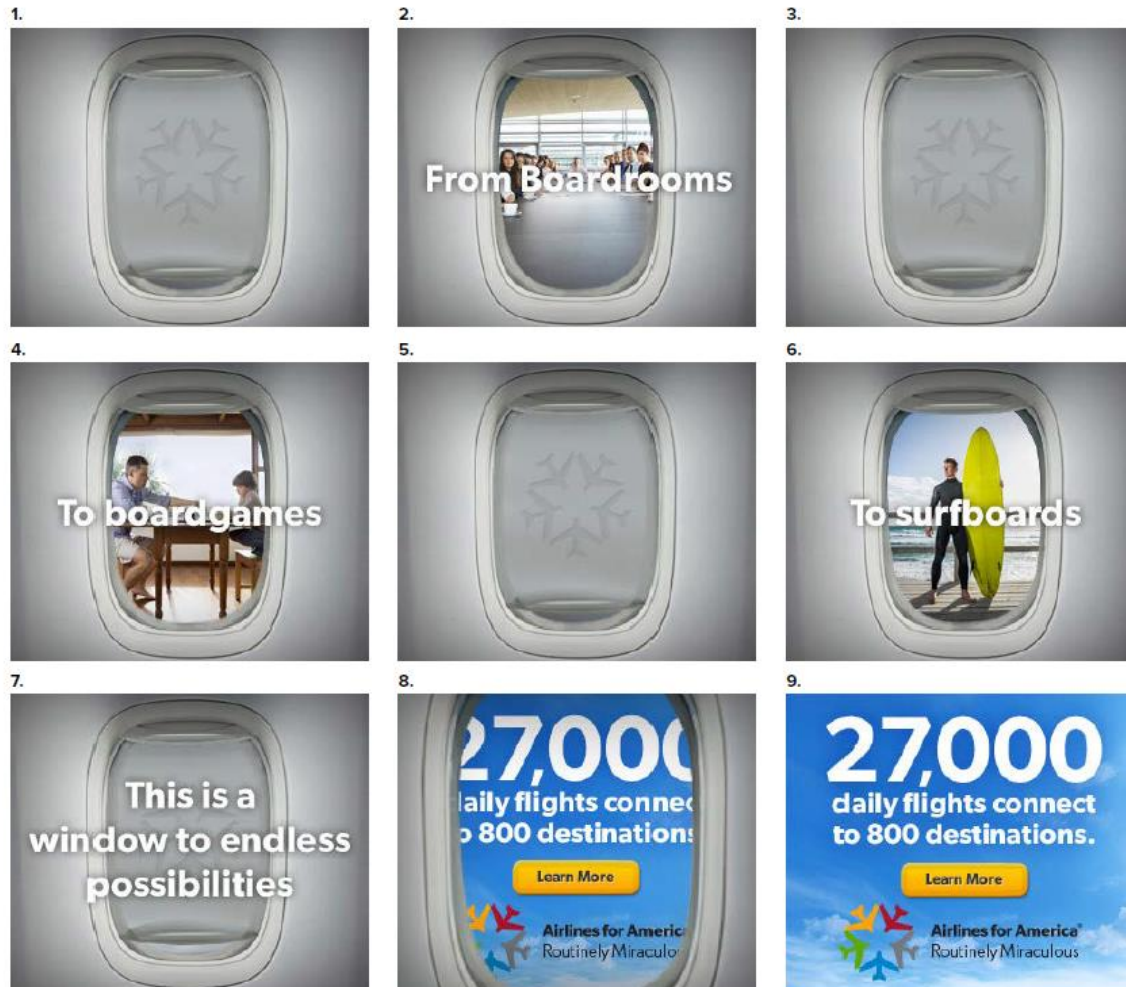
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A mile of highway will only take you that far.

Open on a road surface scrolling through frame as if the camera is traveling over it. Approx. 0-2 seconds.

A mile of highway will only take you that far.

Headline slowly enters from right and centers in frame as if we have caught up with it. Approx. 2-6 seconds.

A mile of runway will only take you that far.

Plane enters from left accelerating over headline wiping it to new text. Approx. 6-7 seconds.

A mile of runway can take you anywhere.

Plane begins to take off, we see that the road was actually a long runway. Approx. 8-9 seconds.

A mile of runway can take you anywhere.

Plane takes off and leaves frame. Approx. 9-10 seconds.

U.S. Airlines operate 27,000 flights daily, making any runway anywhere.

Largers plane crasses frame and wipes the runway graphics to reveal a title card. Approx. 10-11 seconds.

U.S. Airlines operate 27,000 flights daily, making anywhere accessible. Airlines for America® We Connect the World airlines.org

Hold on title card. Approx. 11-12 seconds.



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