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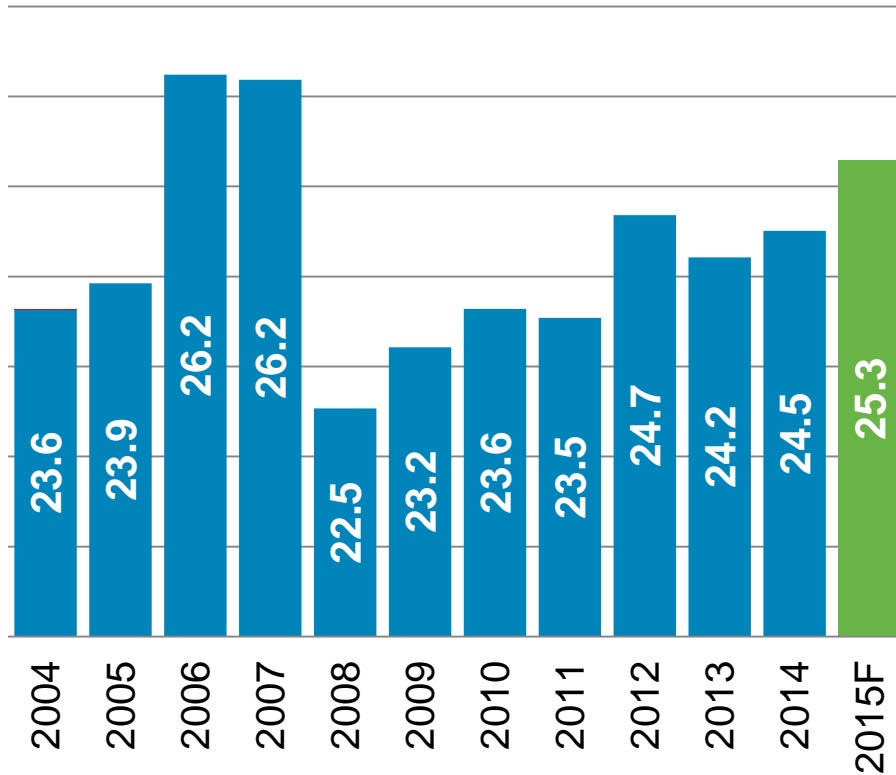
## **U.S. Airline Industry Thanksgiving Period Air Travel Forecast and YTD (January-September) 2015 Review**

John P. Heimlich  
Vice President & Chief Economist  
A4A Media Briefing  
November 5, 2015

# A4A Projects U.S. Airlines to Carry 25.3M Thanksgiving-Period Passengers in 2015

Up ~65,000 Passengers per Day, or 3 Percent, from **Estimated** 2014 Volumes

## U.S. Airline Onboard Passengers (Millions) Scheduled Service, 12-Day Thanksgiving Period



## Forecast Highlights

- 12-Day Period = Fri., 11/20 through Tues., 12/1
- 25.3M passengers (2.1M per day)
  - Up 3% (~65K per day) from 2014
  - Remains ~3.6% below 2006-2007 peak
  - Typically 10% of passengers fly internationally
- Daily volumes to range from 1.4M to 2.7M
  - Sunday return was busiest day of all of 2014
  - Thanksgiving was second lightest day of 2014
- Ten busiest U.S. airports: ATL, LAX, ORD, DFW, JFK, DEN, SFO, CLT, IAH, MIA
- Schedules show that airlines have added seats commensurate with expected demand growth

Source: A4A and BTS T100 segment data; volumes from historical years are estimates

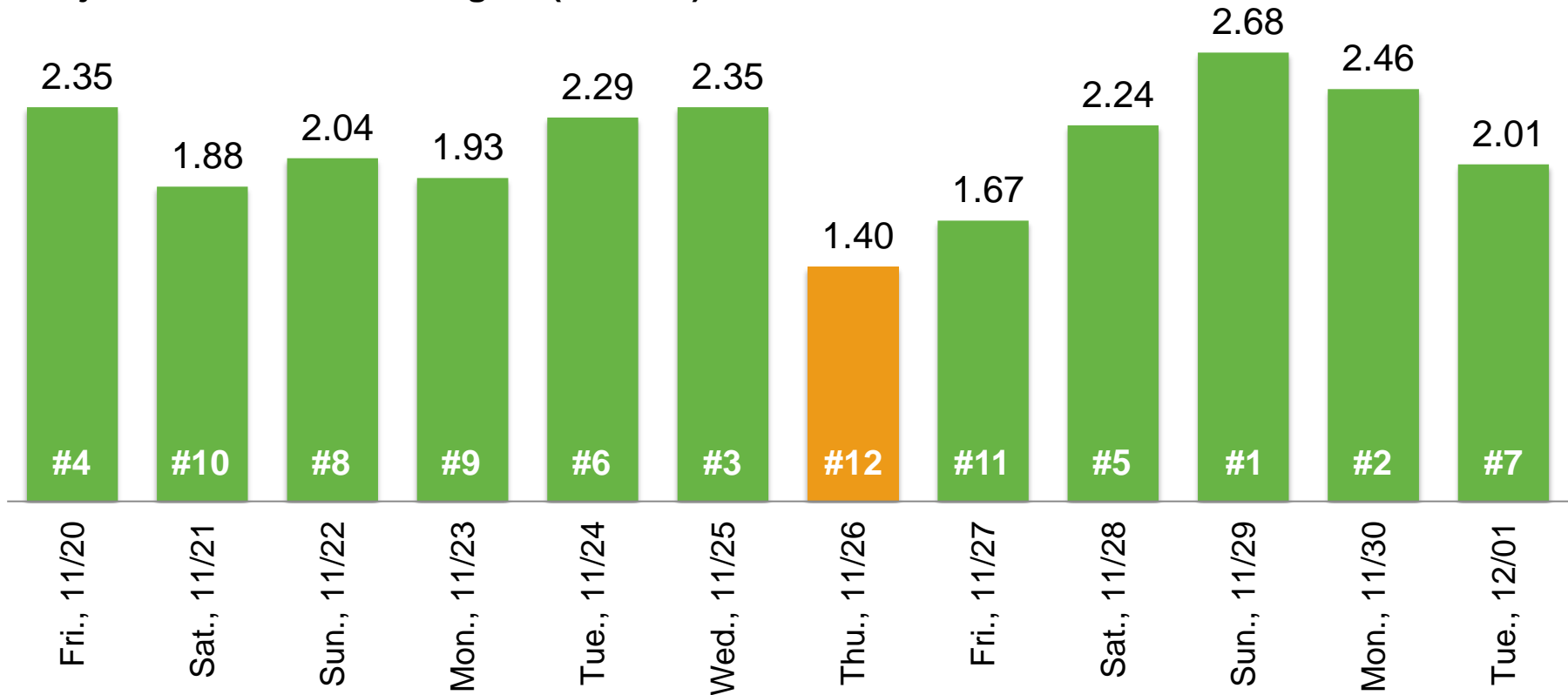


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# A4A Projects Daily Thanksgiving Passenger Volumes to Range from 1.4M to 2.7M

Expected Busiest Days: Sunday Return, Monday Return and Wednesday Preceding

## Projected Onboard Passengers (Millions)



Source: A4A, selected sample carriers and DOT T100 segment data

\* Friday, Nov. 20 through Tuesday, Dec. 1



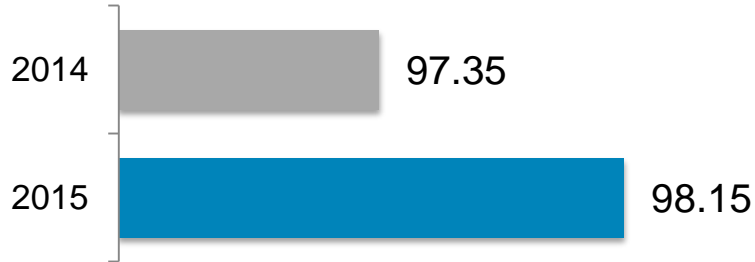
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# U.S. Airlines Seeing Improvements in DOT Core Operational Metrics in YTD\* 2015

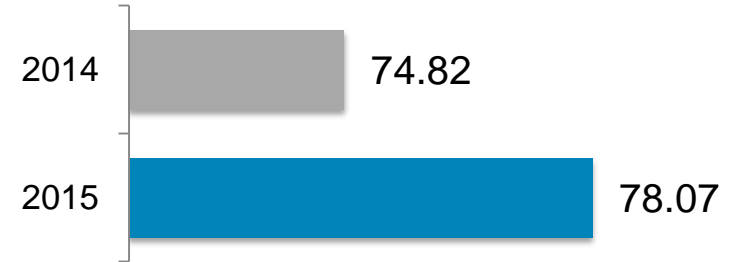
## Gains Driven by More Benign Weather and Investments in Systems, Procedures, Staffing

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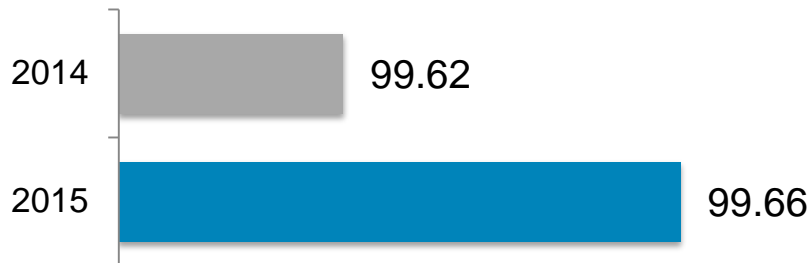
### Flight Completion Factor (%)



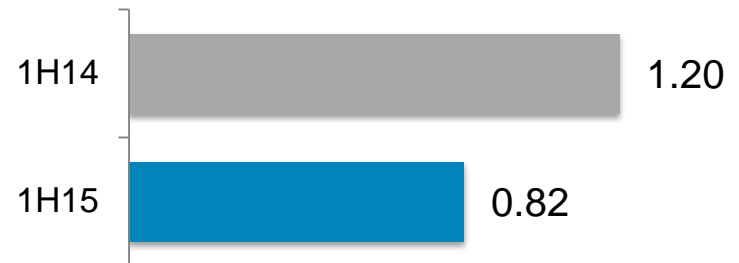
### On-Time Arrival Rate (%)



### Properly Handled Bag Rate (%)



### Oversales\*\* per 10,000 Customers



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

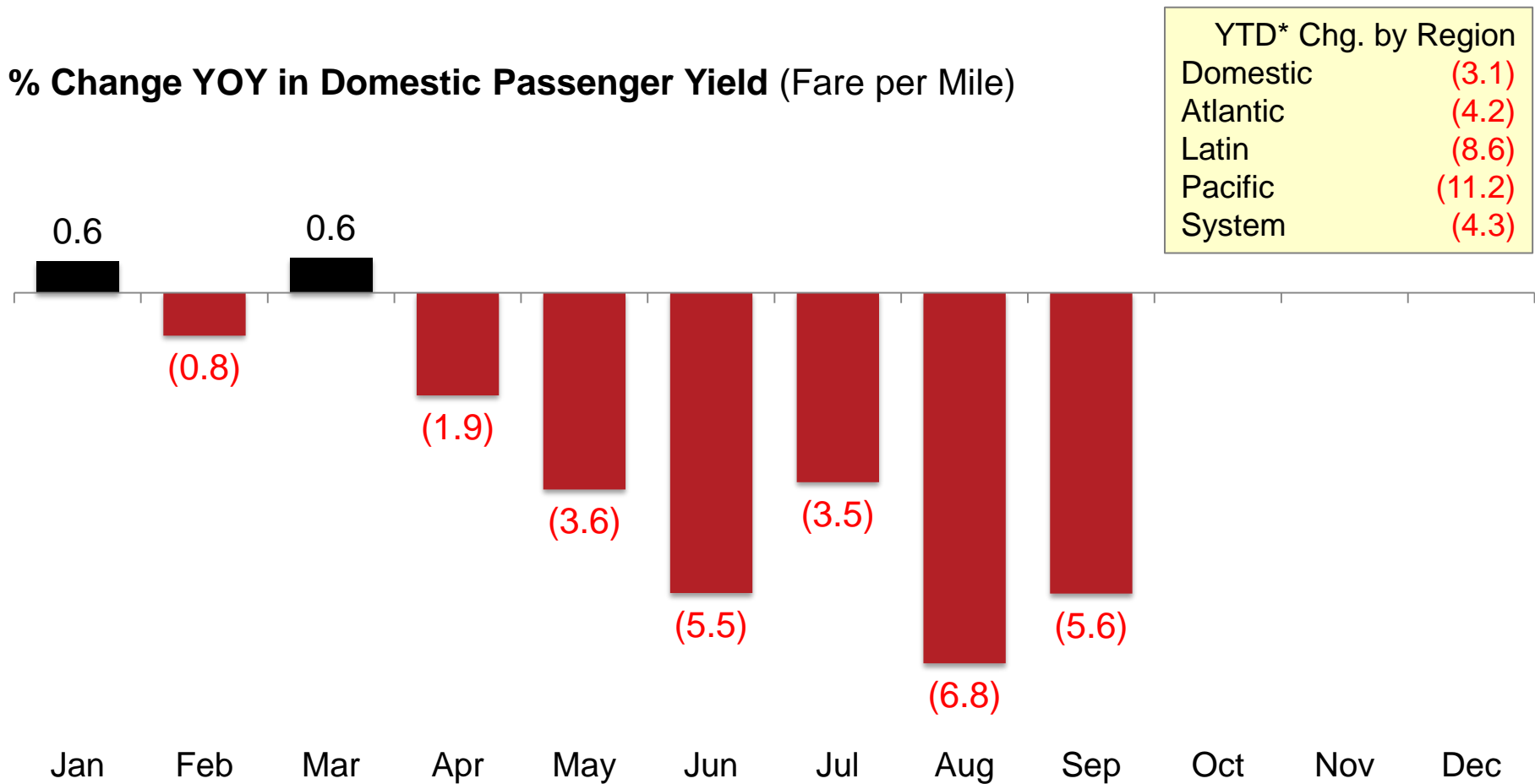
\* January through August  
\*\* Involuntary denied boardings



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# In 2015, Amid Competitive Pressures, Domestic Air Fares Are Falling

Latin and Pacific Markets Seeing Even Larger Declines, in Part Due to Stronger Dollar



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

\* January through September



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# Lower Fuel More Than Offsets Flat Revenues to Drive YTD 3Q15 Airline Profitability\*

## Higher Traffic Matched by Higher Capacity; Lower Fares; Higher Labor Cost, Lower Fuel

	% Change YOY
Operating Revenues (\$120.7B)	0.3
Operating Expenses (\$99.3B)	(8.8)
Wages & Benefits (29% of Op. Expenses)	11.2
Fuel (24%)	(35.8)
Landing Fees & Terminal Rents (6%)	2.1
Maintenance, Materials & Repairs (6%)	(0.5)
Depreciation & Amortization (5%)	7.0
Aircraft Rent (2%)	(4.5)
Other Operating Expenses** (28%)	0.9
Interest & Other Non-Operating Expenses	17.0
Pre-Tax Profit: \$18.8B (15.6% of Revenues)	+7.9 pts.
Net Profit: \$17.9B (14.8% of Revenues)	+9.1 pts.

	YTD14	YTD15	Chg.
Passenger Traffic <sup>1</sup>	644.2B	669.3B	+3.9
Seating Capacity <sup>2</sup>	767.6B	797.9B	+3.9
Load Factor <sup>3</sup>	83.9	83.9	0.0
Passenger Yield <sup>4</sup>	16.37¢	15.65¢	(4.4)
Fuel Consumption <sup>5</sup>	11,907M	12,169M	+2.2
Fuel Price <sup>6</sup>	\$3.07	\$1.93	(37.1)

1. Revenue passenger miles (RPMs) flown
2. Available seat miles (ASMs) operated
3. Utilization of capacity: RPMs divided by ASMs
4. Average airfare paid per mile flown, excluding taxes
5. Gallons consumed
6. Average price paid per gallon

U.S. Inflation <sup>7</sup>	236.938	236.945	0.0
Personal Income <sup>8</sup>	\$40,287	\$41,427	+2.8

7. U.S. Consumer Price Index (CPI): 1982-84 = 100
8. U.S. disposable personal income per capita, in current dollars

\* 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

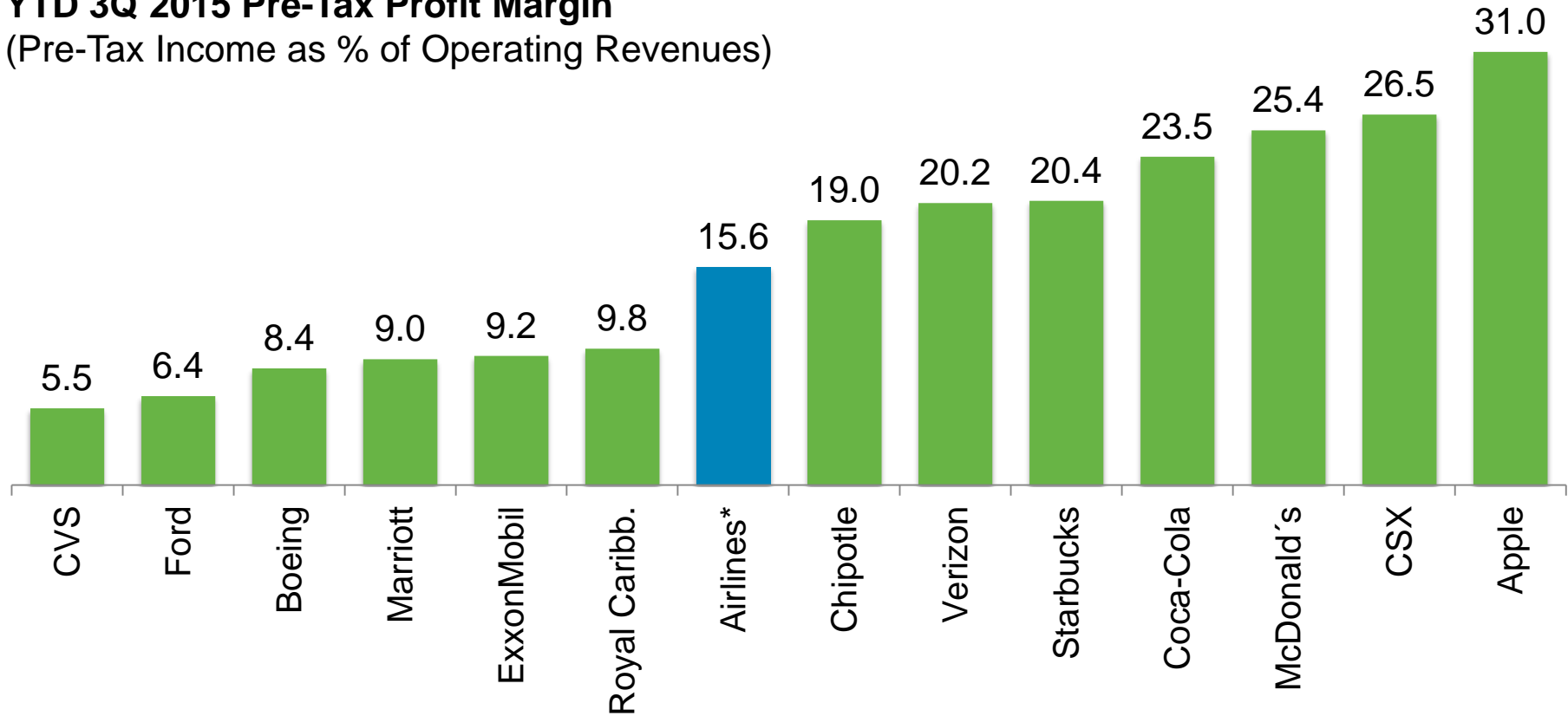


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# For Now, U.S. Airline Profitability is Finally in Line With the Average U.S. Company

For Every Dollar of Revenue Collected, U.S. Airlines Keeping ~15 Cents as Pre-Tax Profit

**YTD 3Q 2015 Pre-Tax Profit Margin**  
(Pre-Tax Income as % of Operating Revenues)

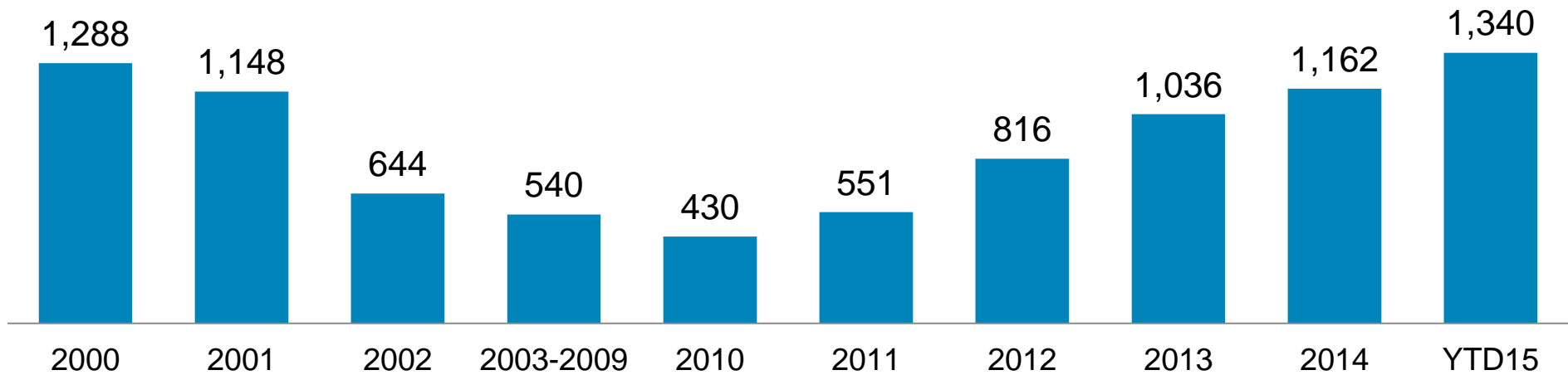


\* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



# Improving Finances Enabling Significant Reinvestment in Customer Experience

## U.S. Airline\* Capital Expenditures (\$ Millions per Month)



- » YTD 3Q 2015 outlays highest in at least 15 years:
  - Averaged \$1.3B per month or ~\$20 per passenger
  - Constituted half of operating cash flow
- » Outlays in part reflect 367 aircraft deliveries in 2015
- » At 12/31/2014, firm orders for 1,800+ aircraft worth \$94B

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

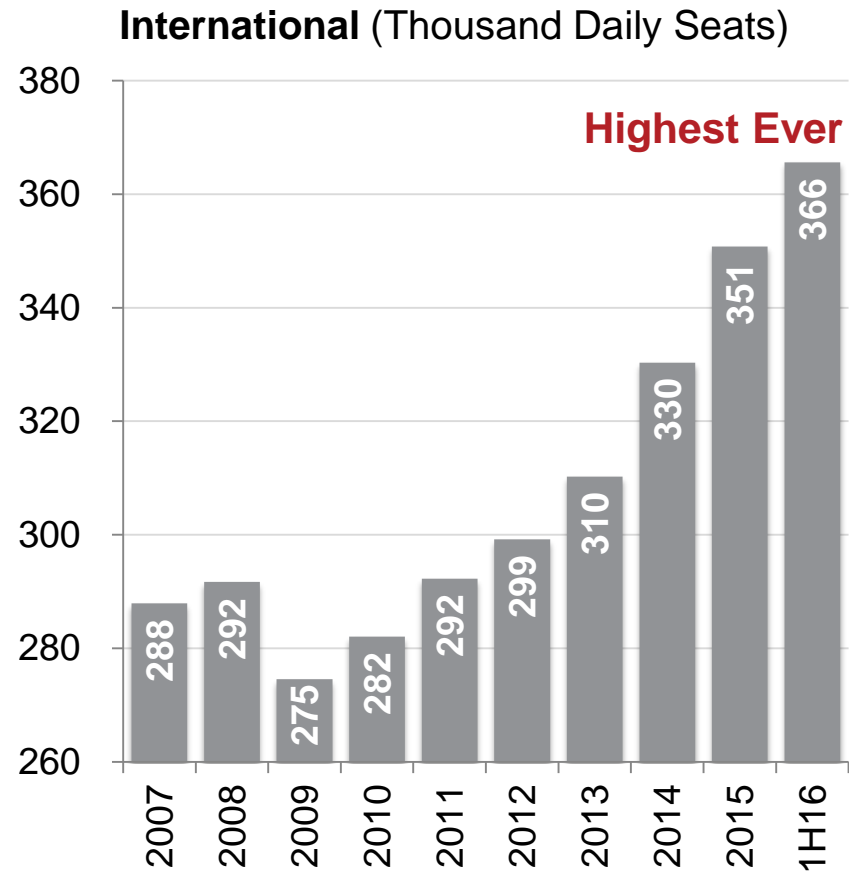
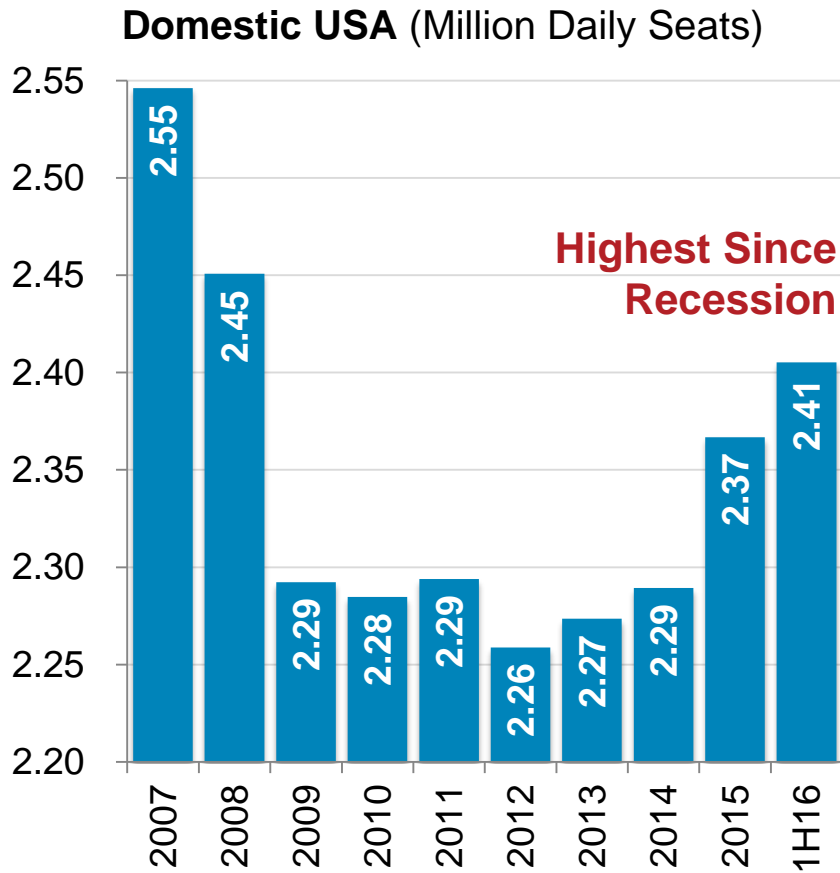


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# As Airlines Generate Normal Returns on Capital, Customers Are Seeing More Seats

Domestic Supply at Highest Point in Eight Years; International Supply at All-Time High



Source: Innovata (via Diio Mi) published schedules as of Oct. 30, 2015, for all airlines providing scheduled passenger service from U.S. airports to all destinations



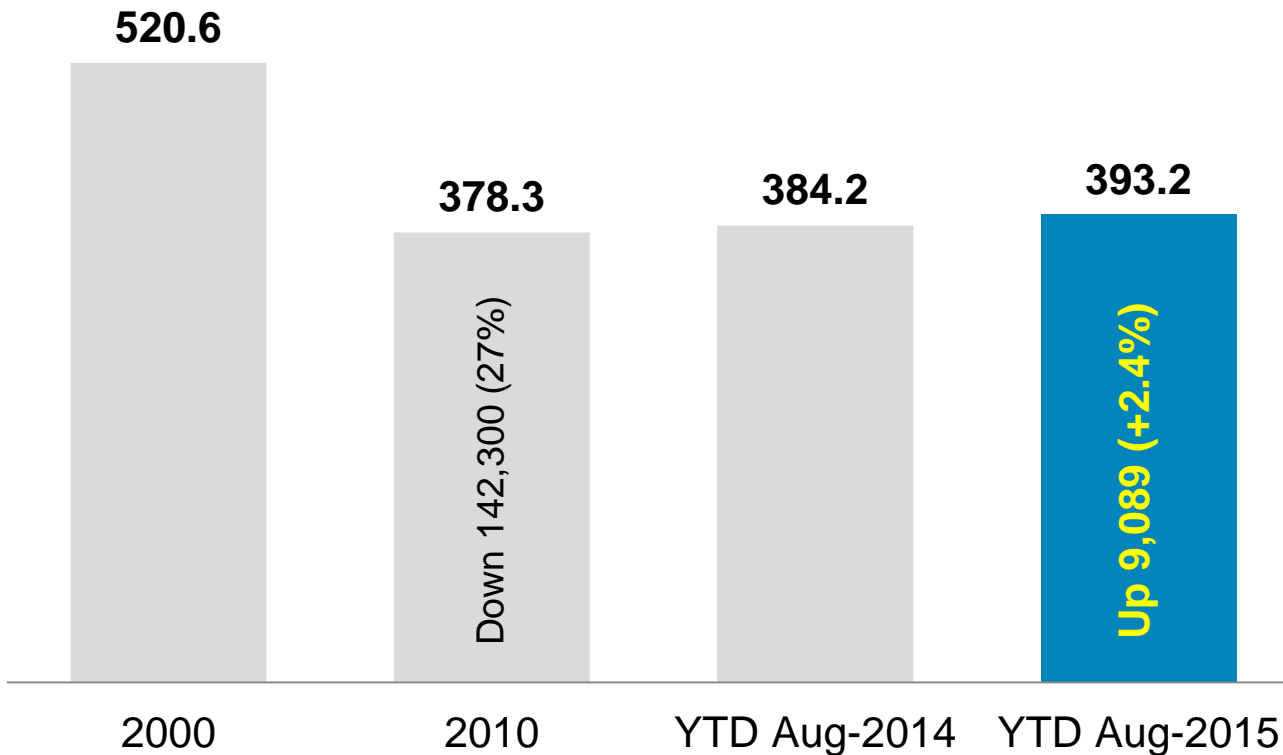
# After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again

## August 2015 Was 21<sup>st</sup> Consecutive Month of YOY Employment Gains at U.S. Airlines



### Employment at U.S. Passenger Airlines

Thousand Full-Time Equivalents



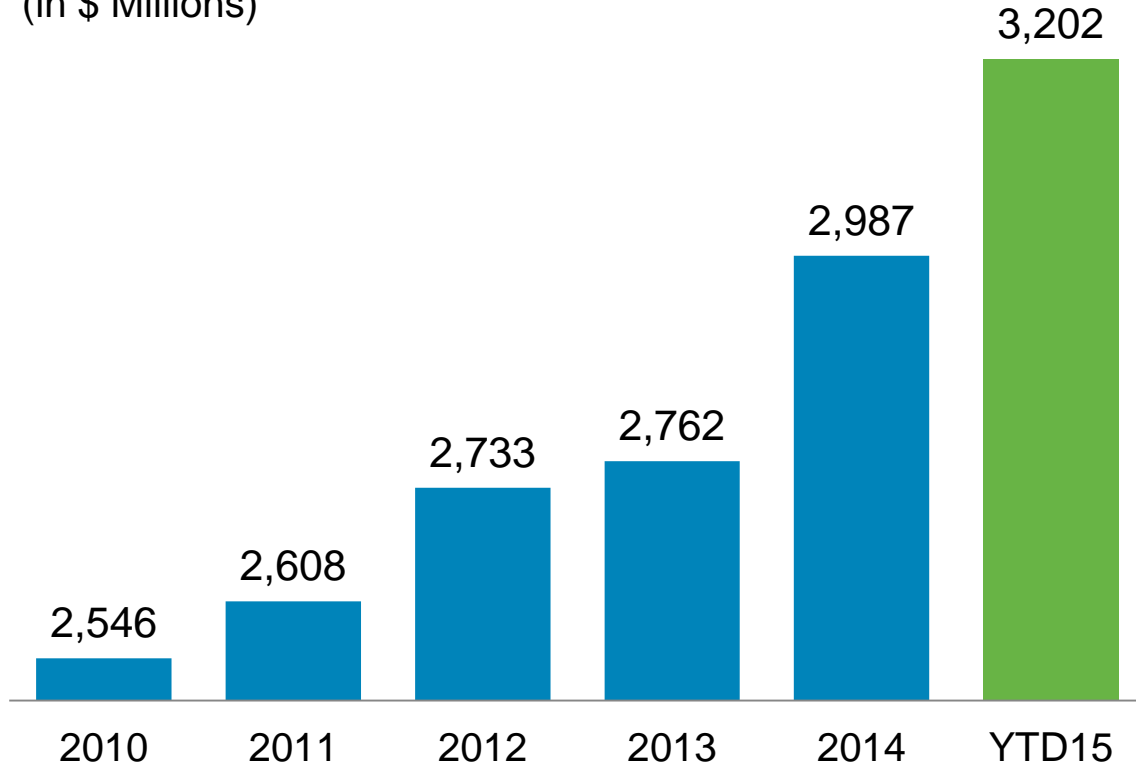
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines



# U.S. Airlines\* Are Pumping More Wages and Benefits into the Economy

Airlines\* Spending ~\$3.2 Billion per Month on the Workforce

Employee Wages and Benefits\* per Month  
(in \$ Millions)

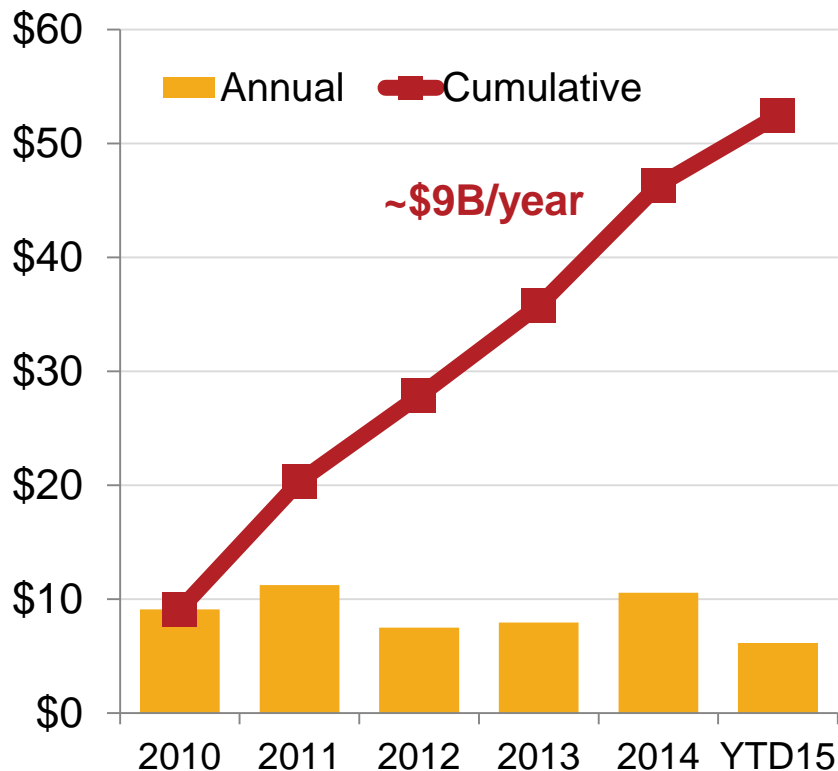


\* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

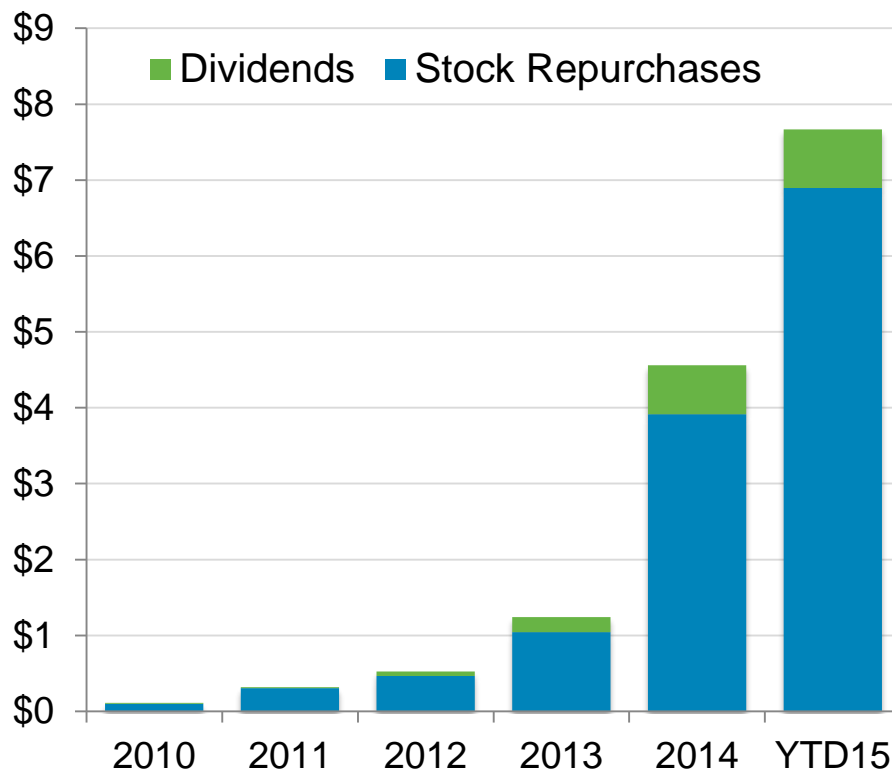


# Following Enormous Losses of 2001-2009, U.S. Airlines\* Have Retired \$52.5B in Debt and Returned \$24.5B in Cash to Shareholders, Helping Lure New Equity Investors

## Payments on Debt\* (Billions)



## Returns to Shareholders\* (Billions)



\* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United/Virgin America; payments on long-term debt and capital lease obligations



## Recap

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- » With operations improving, airfares falling and new aircraft entering the fleet at a steady pace, 2015 has translated to an improving experience for airline customers
- » Despite flattish operating revenues, employees and investors, too, are benefiting as falling operating expenses steadily improve the industry's financial wherewithal
- » Six years post-recession, deep into the business cycle, U.S. airlines are finally achieving profitability in line with the overall U.S. corporate average and, in turn:
  - boosting staffing and wages
  - acquiring new aircraft and ground equipment
  - launching new routes and enhancing airport and inflight amenities
  - offering domestic flyers the highest number of seats since the Great Recession
  - reducing debt and returning cash to shareholders
  - working their way toward investment-grade creditworthiness



# The American air traffic control system needs complete transformation in order to modernize to meet the demands of the future; the time for that transformation is now.

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## Safety First

Under any and all scenarios, first and foremost, FAA must remain and retain the role as a world-class safety regulator.

## What is the problem we are trying to solve?

The problem is not the leadership or the workforce: it's the funding and governance structure that we must fix. Too often, politics and budget uncertainty end up being the major influencers of how the system operates, which means all the users of the system are beholden to decisions not necessarily in the best interest of the system.

## Why is ATC reform important to passengers and other stakeholders?

Passenger, users and the environment will be the biggest beneficiaries of ATC reform through reduced delays, time saved and reduced fuel burn. In addition, a new funding model will free the system from sequester, ensuring that controllers are not furloughed.

## What is the solution?

- Stakeholder governance
- Reliable funding
- Modern technology

A4A supports adopting a **federally chartered, non-profit organization**, similar to those utilized by other countries.

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[www.airlines.org](http://www.airlines.org)



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