



**Airlines for America<sup>®</sup>**  
We Connect the World

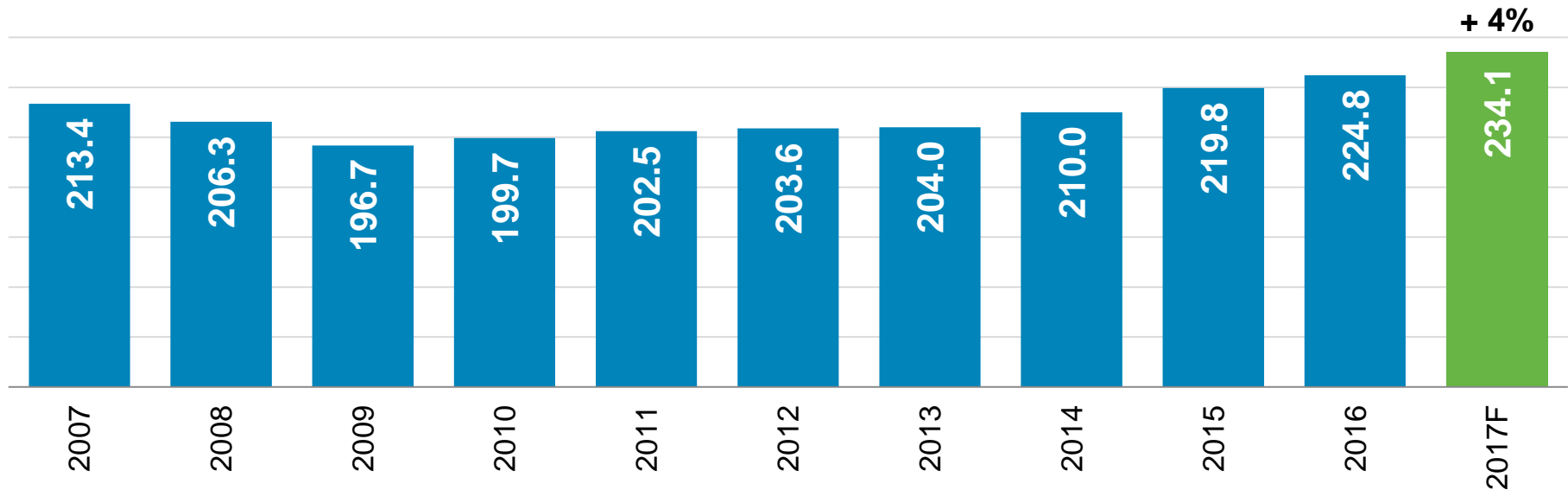
## **A4A Summer 2017 Air Travel Forecast and Operational and Financial Review of 1Q 2017**

John P. Heimlich, Vice President & Chief Economist  
A4A Media Briefing  
May 18, 2017

# A4A Projects Summer\* 2017 Air Travel to Rise 4 Percent to All-Time High

Airlines Adding 123,000 Seats/Day to Accommodate 100,000 Additional Passengers/Day

**U.S. Airline Enplaned Passengers (Millions) – Scheduled Services, June 1 through August 31**



→ 234M passengers (2.54M/day)

- Passengers enplaned up 100K/day
- Available seats up 123K/day

→ Drivers of year-over-year growth

- Rising U.S. GDP, employment and personal incomes
- All-time high household net worth
- Continued air travel affordability

Source: A4A and BTS T1 system enplanements – U.S. carriers only; scheduled service

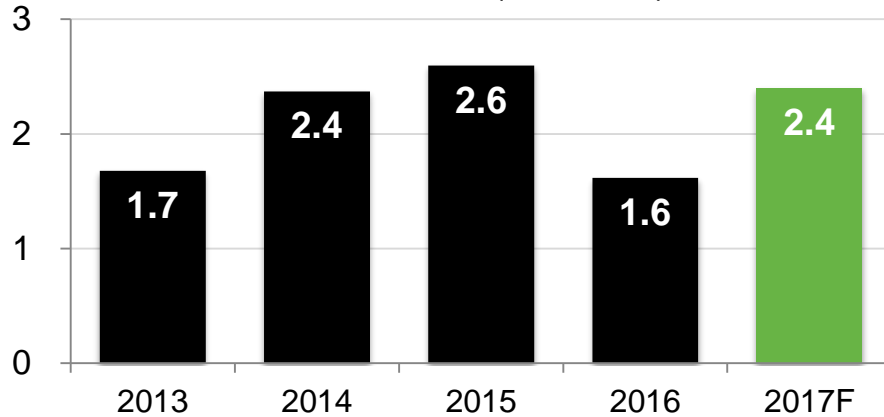
\* For this purpose, defined as June 1 through August 31



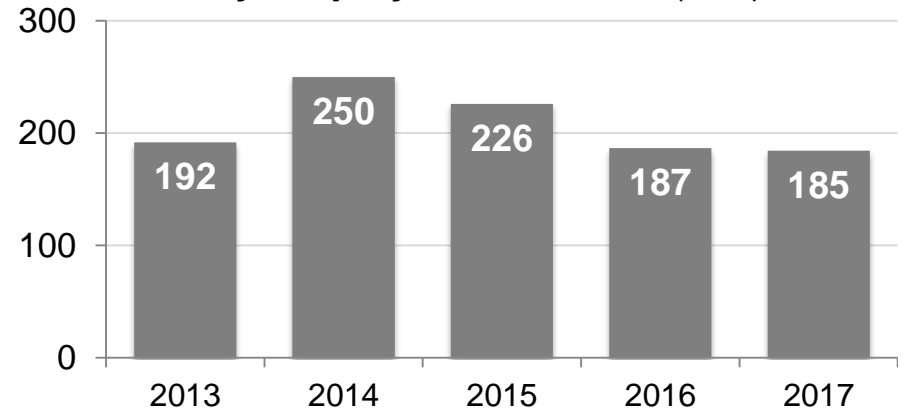
**Airlines for America®**  
We Connect the World

# U.S. Household Net Worth at All-Time High, GDP Accelerating, Jobs/Wages Growing

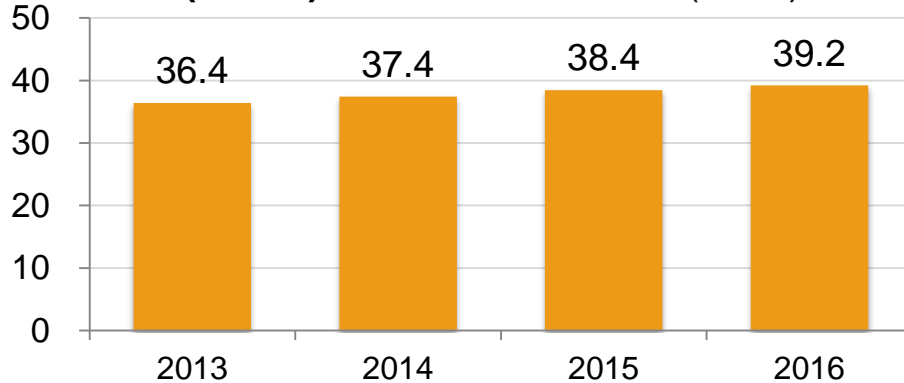
**Real GDP Growth Rate (% CAGR)**



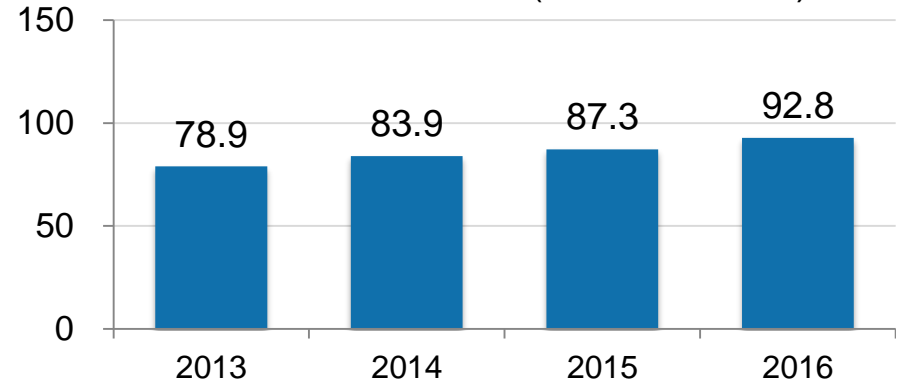
**Monthly Employment Growth (000)**



**Real (\$2009) Personal Incomes (\$000)**



**Household Net Worth (\$ Trillion, NSA)**

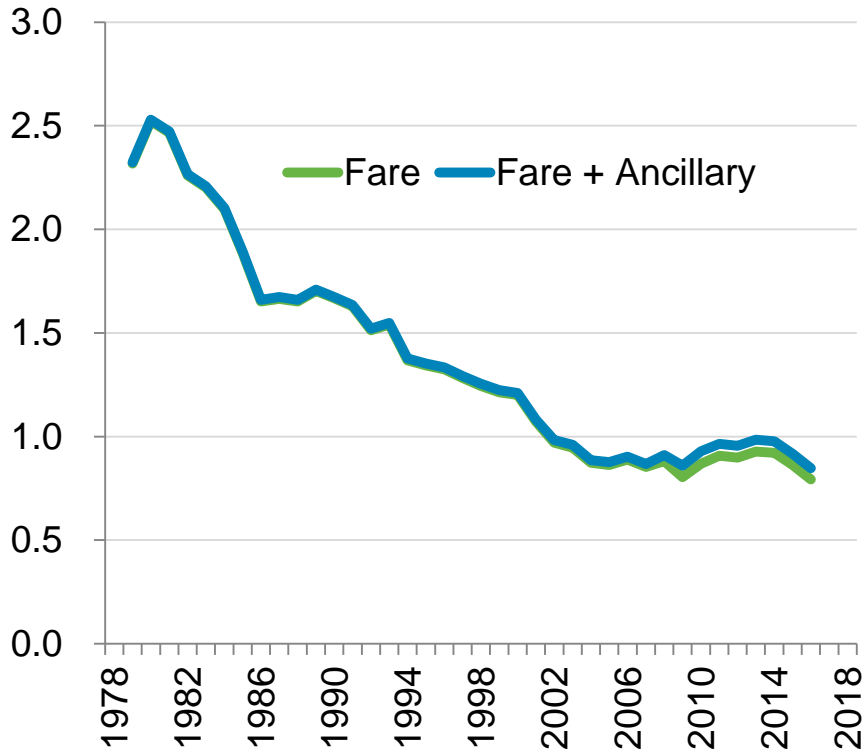


Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted

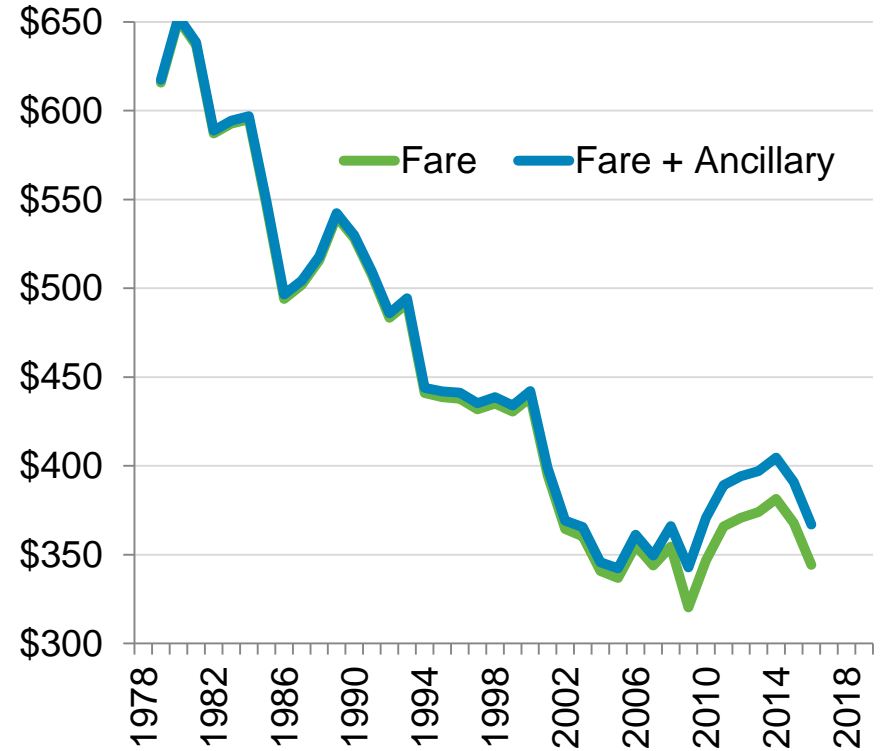


**With Personal Incomes Outpacing the Price of Air Travel, Americans Can Purchase ~2.9 Times the Amount of Air Travel They Could at the Outset of Deregulation**  
 Adjusted for Inflation, Domestic Air Travel Remains 40+ Percent Below 1980 Levels

**Domestic R/T Airfare as Share (%) of Per-Capita Disposable Personal Income**



**Domestic R/T Airfare Adjusted for Inflation (in CY2016 Dollars)**

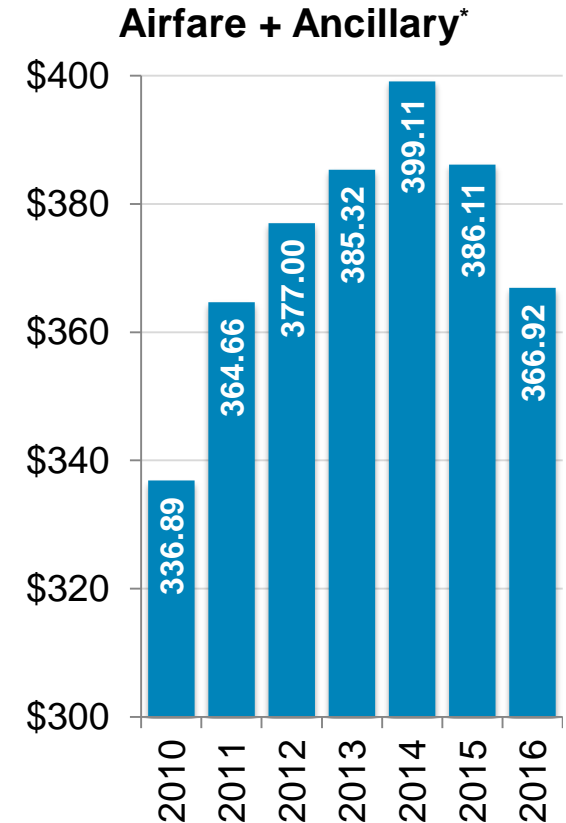
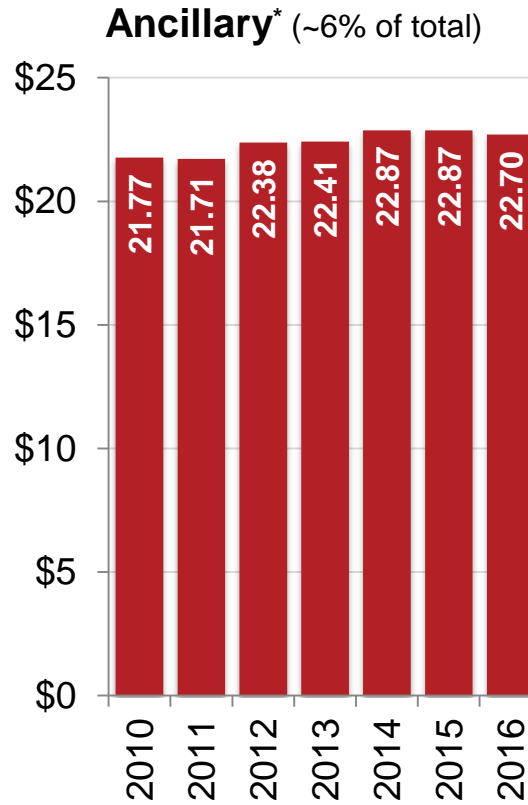
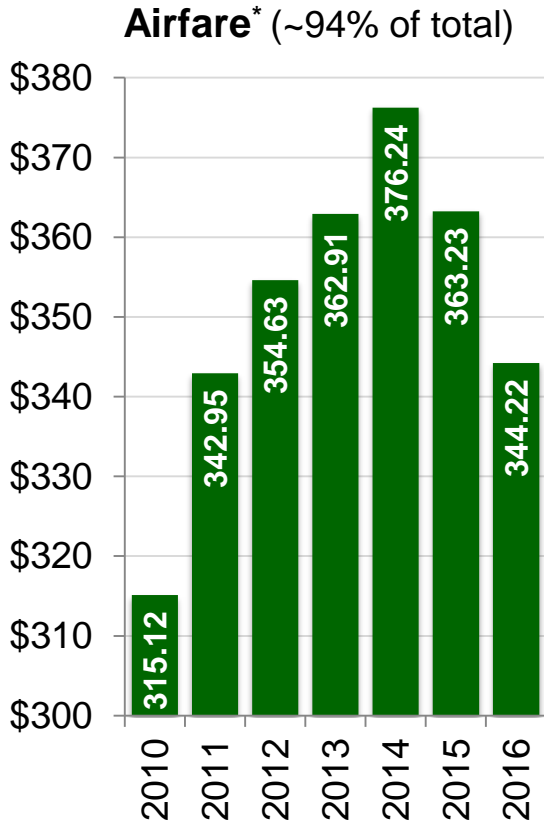


Source: A4A analysis of data from BEA, BLS and BTS Data Bank 1B (10% sample of tickets for all cabins and fare basis codes)



**Airlines for America®**  
 We Connect the World

**Average Round-Trip Airfare Down \$32 (8.5%) Since 2014; Fees Down 17¢ (0.8%)**  
**Airfare Has Constituted 94 Percent of Total Ticket Price in Each of the Past Six Years**



Source: A4A analysis of data from BTS Data Bank 1B (10% sample of tickets: all cabins and fare basis codes) and DOT Form 41

\* Domestic round-trip average

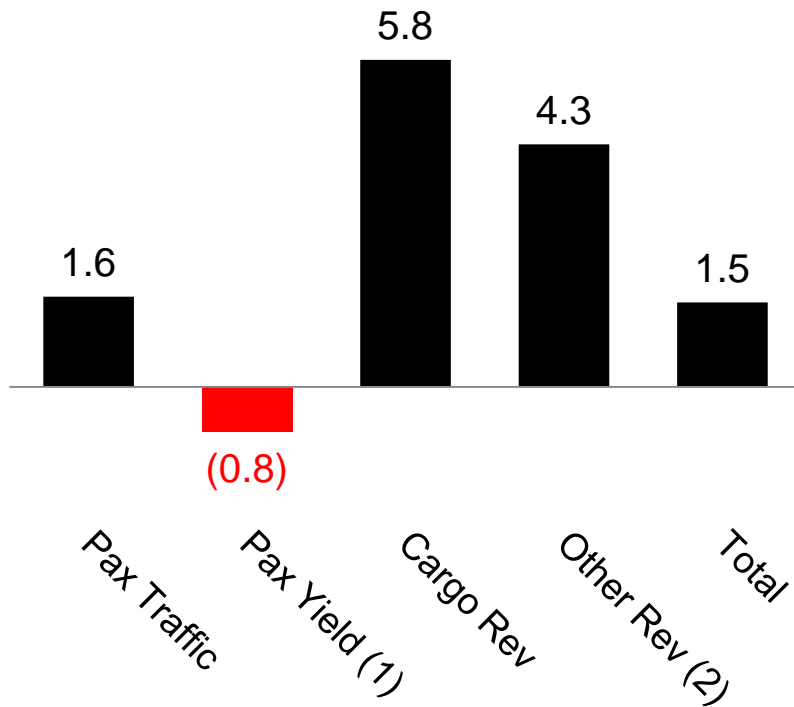


**Airlines for America®**  
 We Connect the World

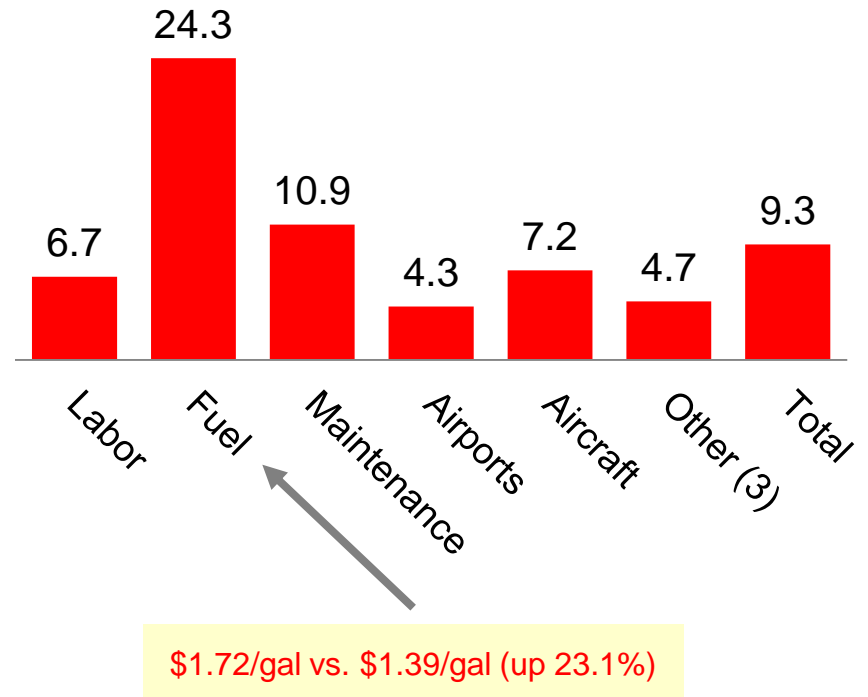
# 1Q17 Revenues Up 1.5% As Higher Passenger Traffic Offsets Lower Fares<sup>1</sup>

## 1Q17 Expenses Up 9.3%, Led by Fuel, Maintenance and Labor

% Change YOY in Operating Revenues



% Change YOY in Operating Expenses



1. Yield = fare per mile (cents per RPM)

2. Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.

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

Source: A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

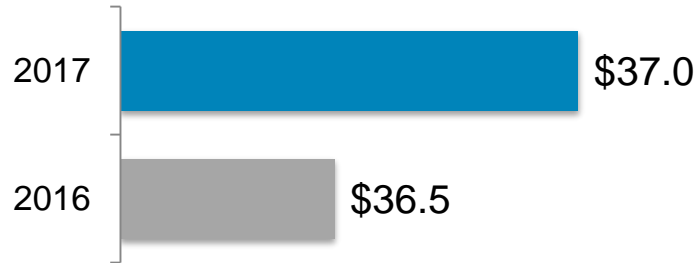


# First-Quarter U.S. Airline Profitability Cut in Half on Higher Expenses

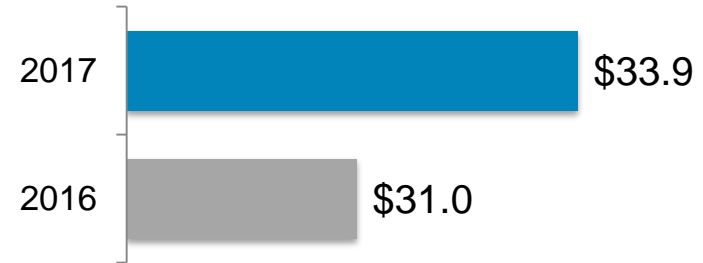
1Q17 Pre-Tax Profit Margin of 6.6 Percent Down Sharply From 13.2 Percent in 1Q16

---

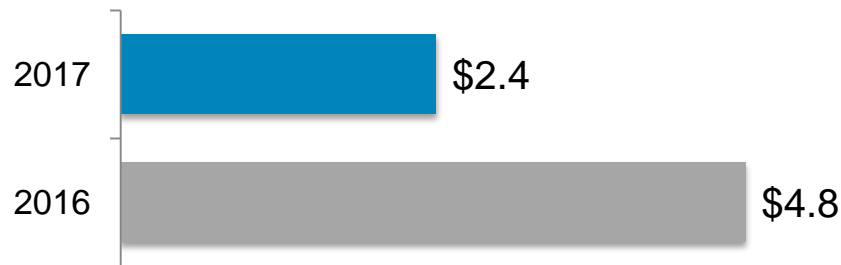
### Operating Revenues (Billions) – Jan-Mar



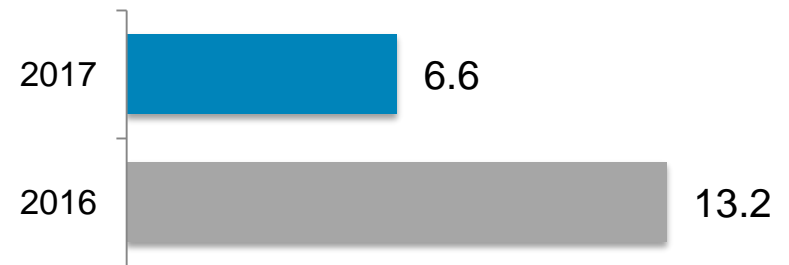
### Operating Expenses (Billions) – Jan-Mar



### Pre-Tax Income (Billions) – Jan-Mar



### Pre-Tax Profit Margin (%) – Jan-Mar



Source: A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

---

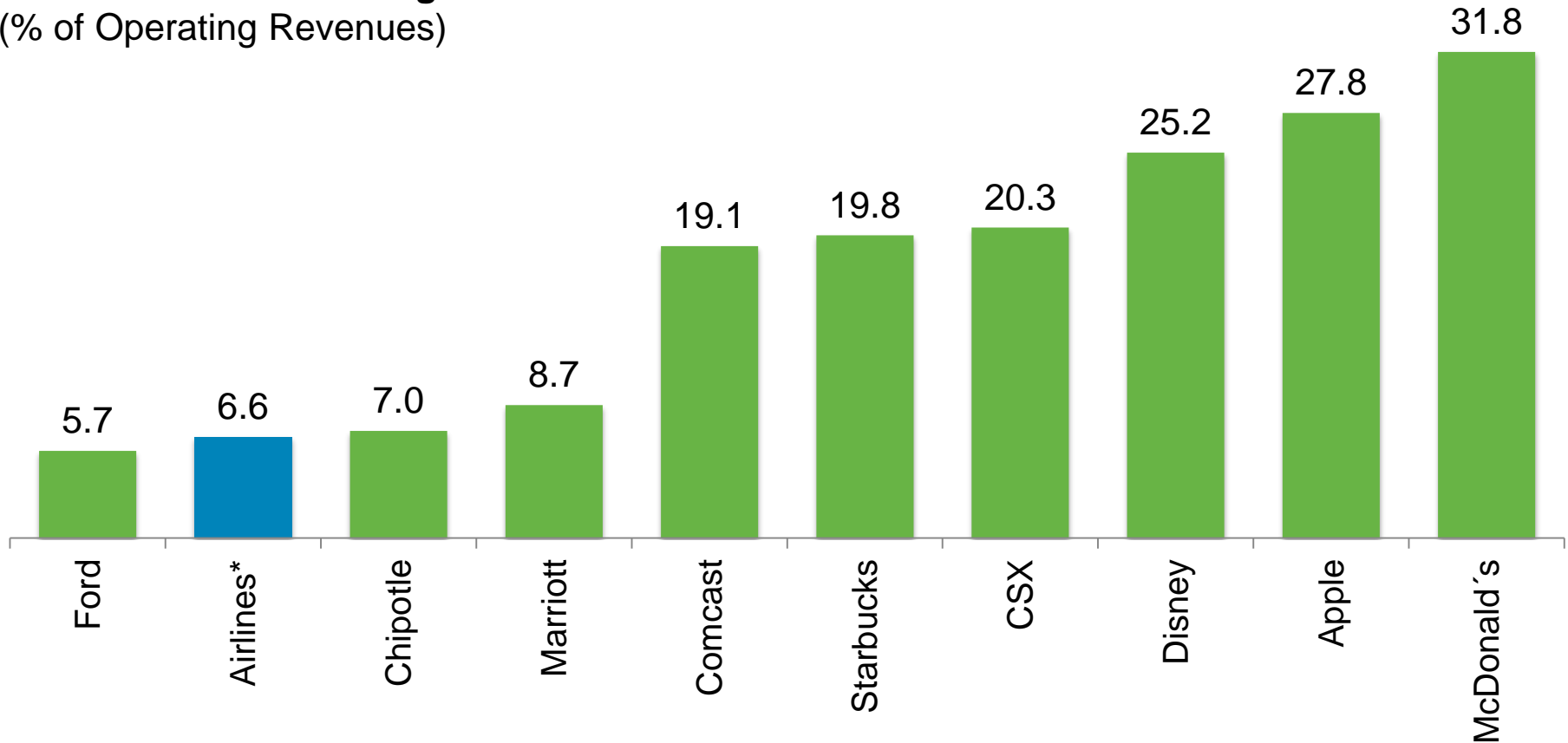


**Airlines for America**<sup>®</sup>  
We Connect the World

# In 1Q17, U.S. Airlines\* Posted Modest Profit Margins, Averaging 6.6% Before Taxes

## U.S. Passenger Airline\* Profitability Was Substantially Below Starbucks/Apple/McDonald's

### 1Q17 Pre-Tax Profit Margin (% of Operating Revenues)



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



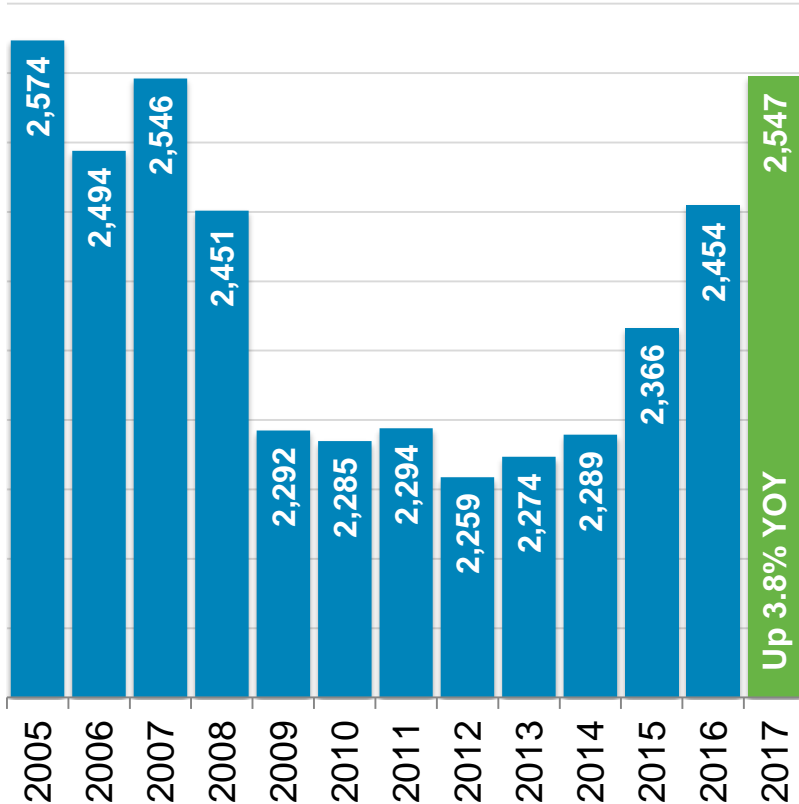
**Airlines for America**<sup>®</sup>  
We Connect the World



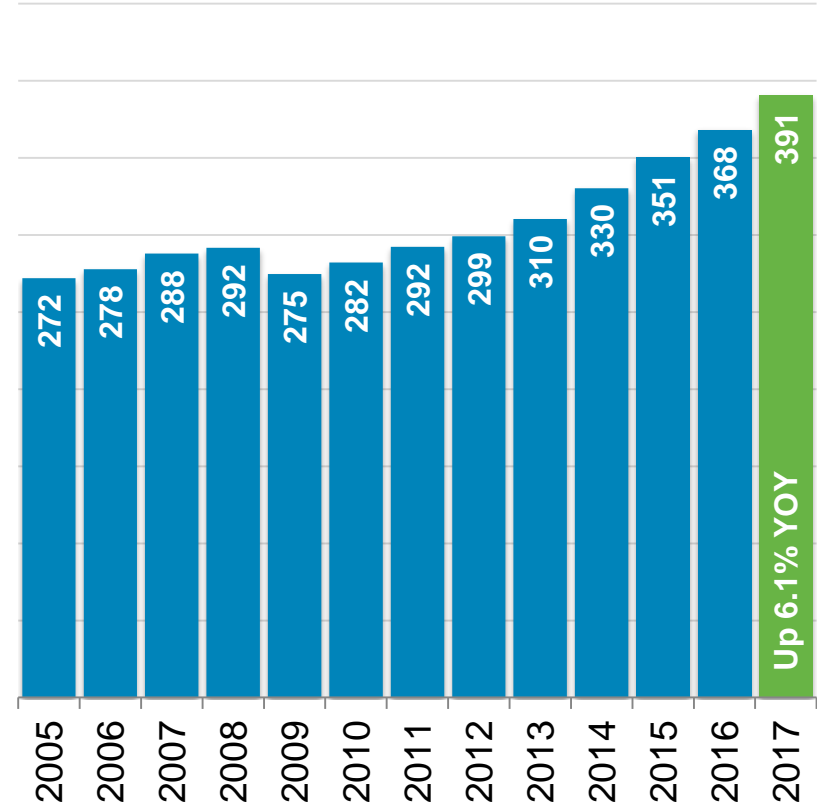
# As Airlines Generate Economic Profits, Customers Are Seeing More Seats

Domestic Supply on par with 2007; International Supply at All-Time High

### Domestic USA (Thousand Daily Seats)



### International (Thousand Daily Seats)



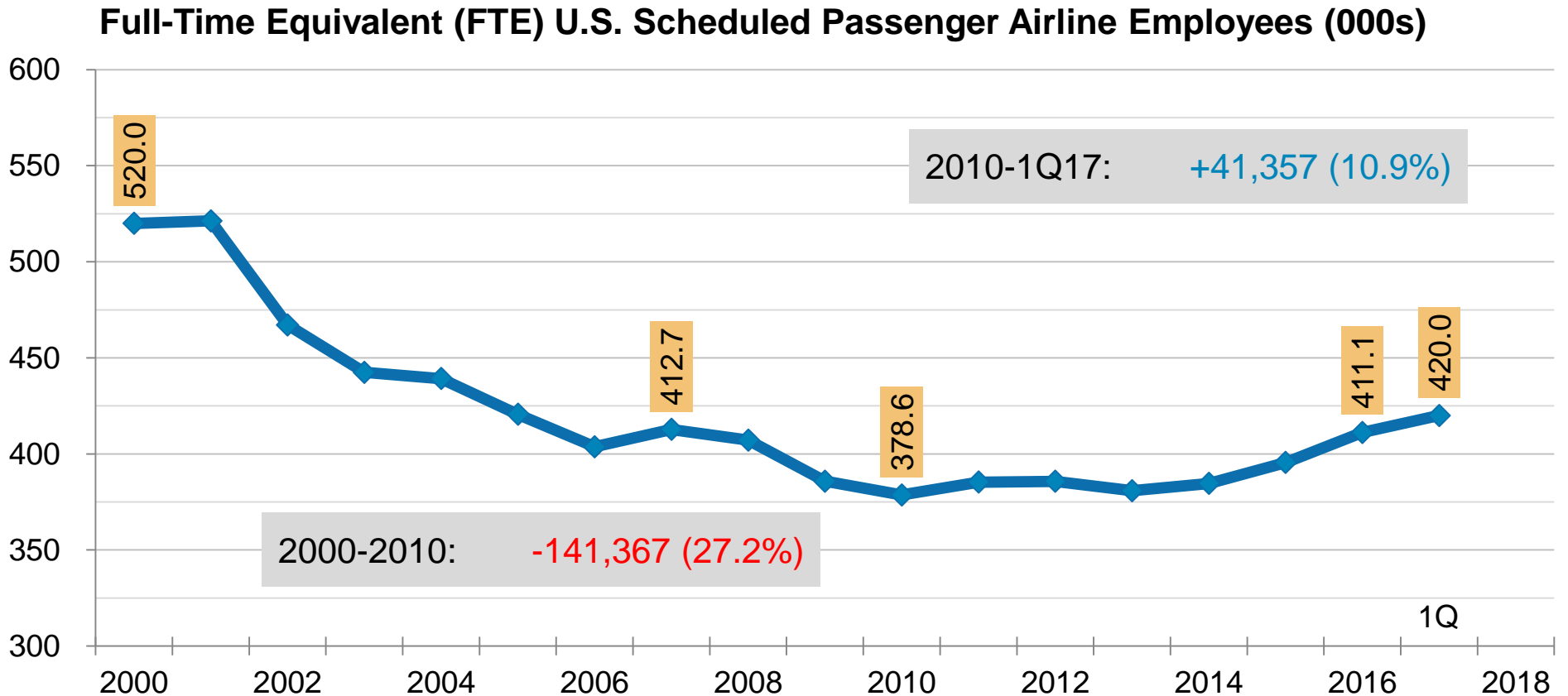
Source: Innovata (via Diio Mi) published schedules as of May 12, 2017, for all airlines providing scheduled passenger service from U.S. airports to all destinations



**Airlines for America**<sup>®</sup>  
We Connect the World

# U.S. Passenger Airline Jobs Averaging Highest Level Since 2005

March 2017 Was **41<sup>st</sup> Consecutive Month of YOY Gains**



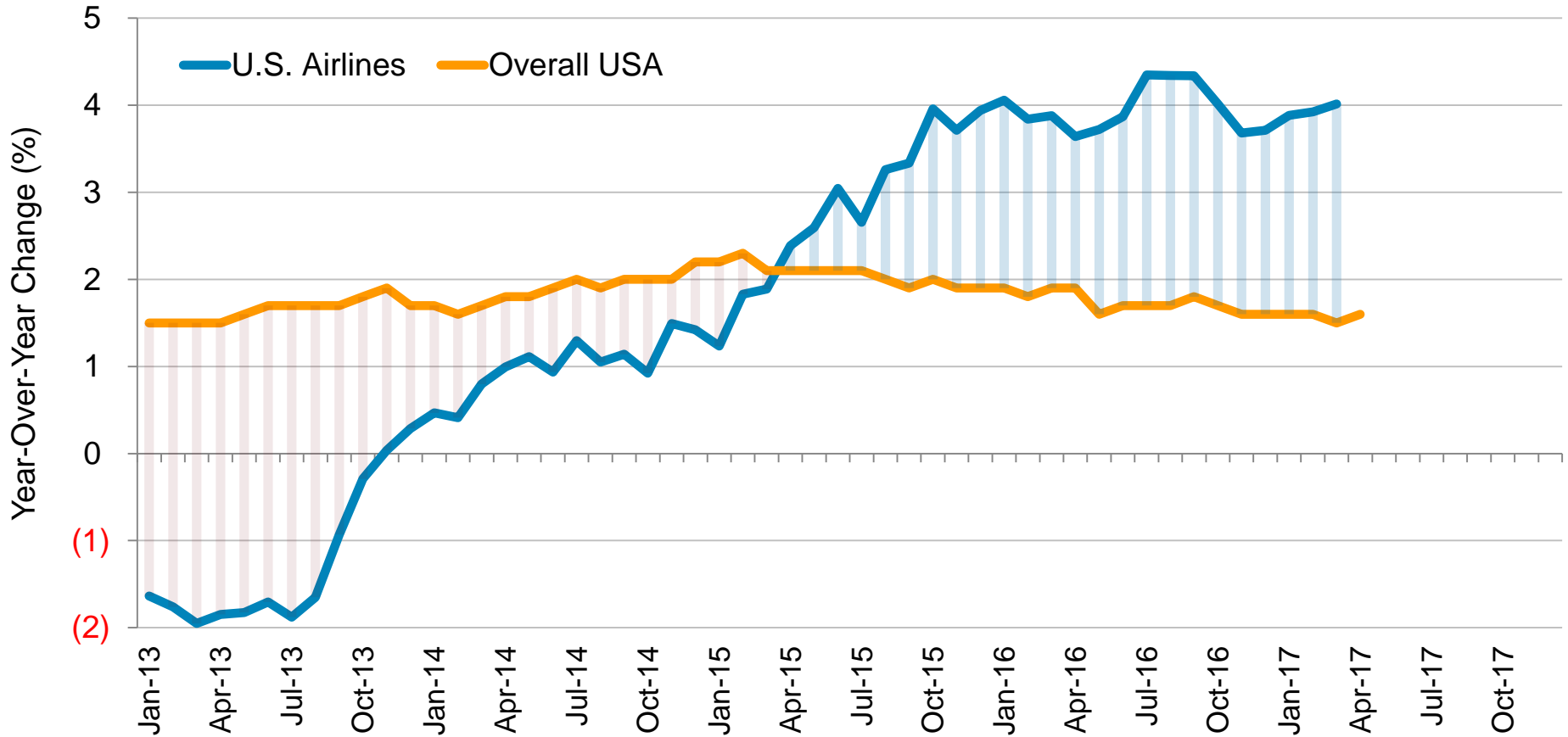
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines



**Airlines for America**<sup>®</sup>  
We Connect the World

# Since April 2015, U.S. Airline Job Growth Has Exceeded Overall U.S. Job Growth

## Airline Employment Growing at 4% – More Than Double the Rate of Overall U.S. Jobs



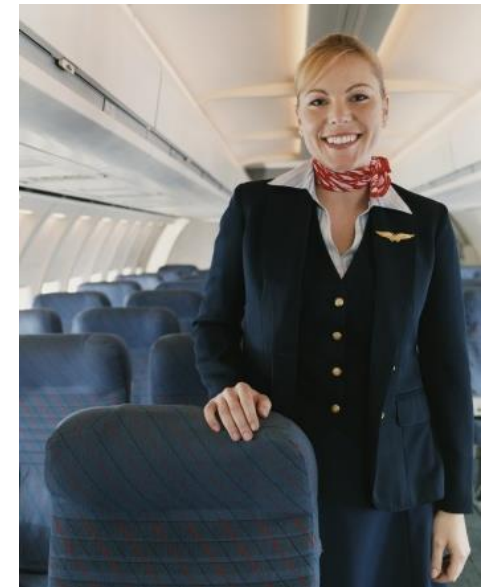
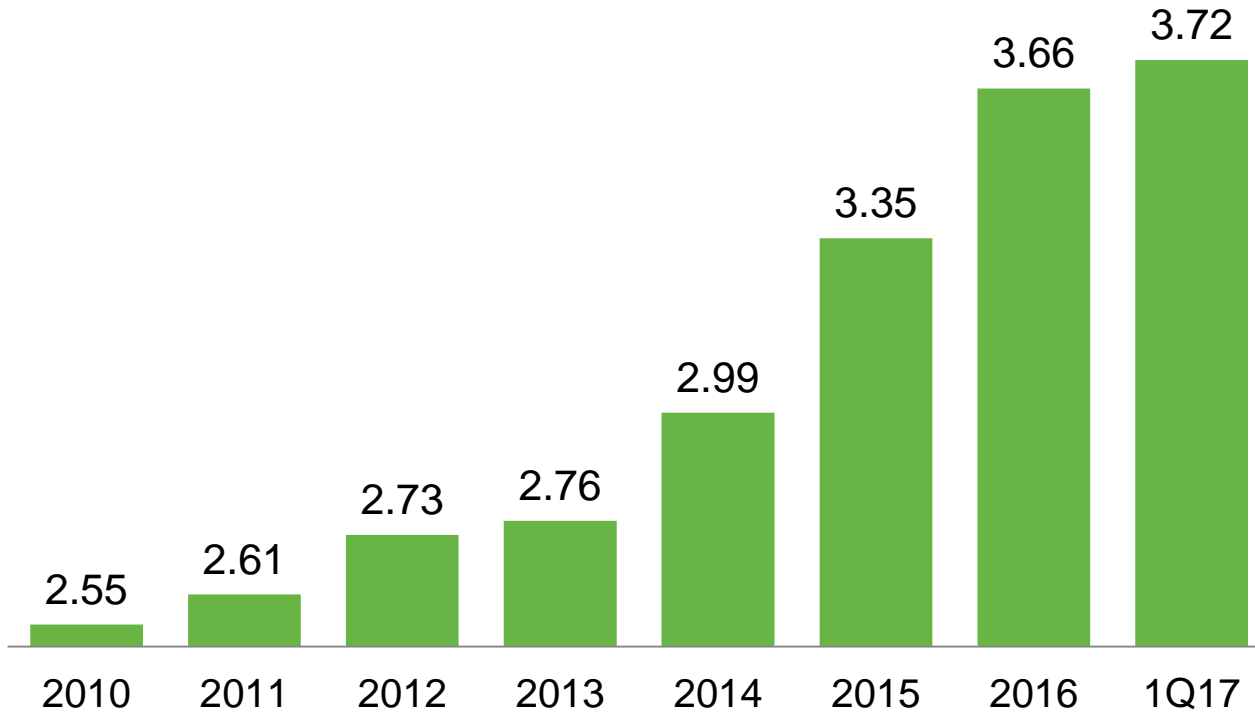
Source: Bureau of Labor Statistics (U.S. nonfarm employment, CES0000000001) and Bureau of Transportation Statistics (U.S. scheduled passenger airline FTEs)



# U.S. Airlines\* Continue to Pump More Wages and Benefits into the Economy

Airlines\* Spent **\$3.72 Billion/Month** on the Workforce in 1Q17 – Up 46 Percent from 2010

**Total Employee Wages and Benefits\***  
(\$ Billions per Month)



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



## Airlines Faced Some Difficult Operating Conditions in First Three Months of 2017

---

- » Jan 6 – security incident Fort Lauderdale-Hollywood International Airport (FLL)
- » Jan 6-8 – storm affecting southeastern U.S. and then moving into Mid-Atlantic and the Northeast
- » Jan 8 – storm affecting the Pacific Northwest and northern California (PDX, SFO, SEA)
- » Jan 10 – storms with strong winds affecting northern California and the Chicago area
- » Jan 22-23 – storms, low ceilings affecting major airports (ATL, DTW, ORD, California, LAS, NE USA)
- » Feb 9 – storms affecting DC-Boston corridor and NoCal and PacNW with strong winds, heavy rain
- » Feb 12-13 – snow/ice and strong winds in the Northeast
- » Feb 17 – storm brought rain, strong winds and low visibility to Californian airports
- » Mar 13-15 – winter storm affected airports throughout the Great Lakes and Eastern U.S.

masFlight

Source: masFlight (<http://www.geemedia.com/products/operations-solutions/masflight>)

---



**Airlines for America**<sup>®</sup>  
We Connect the World

# On-Time Arrival Rate Declined in 1Q17 But Baggage Handling Improved

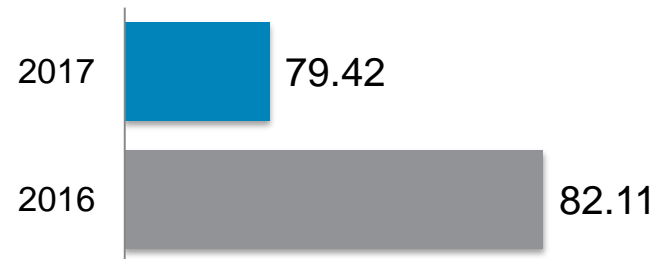
## Rate of Involuntary Denied Boardings Fell to 61.6 per Million Passengers Enplaned

---

### Flight Completion Factor (%) – Jan-Mar



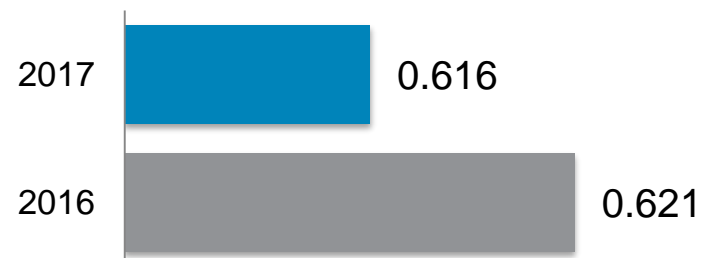
### On-Time Arrival Rate (%) – Jan-Mar



### Properly Handled Bag Rate (%) – Jan-Mar



### Involuntary Denied Boardings\* – Jan-Mar



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

\* Per 10,000 enplaned passengers

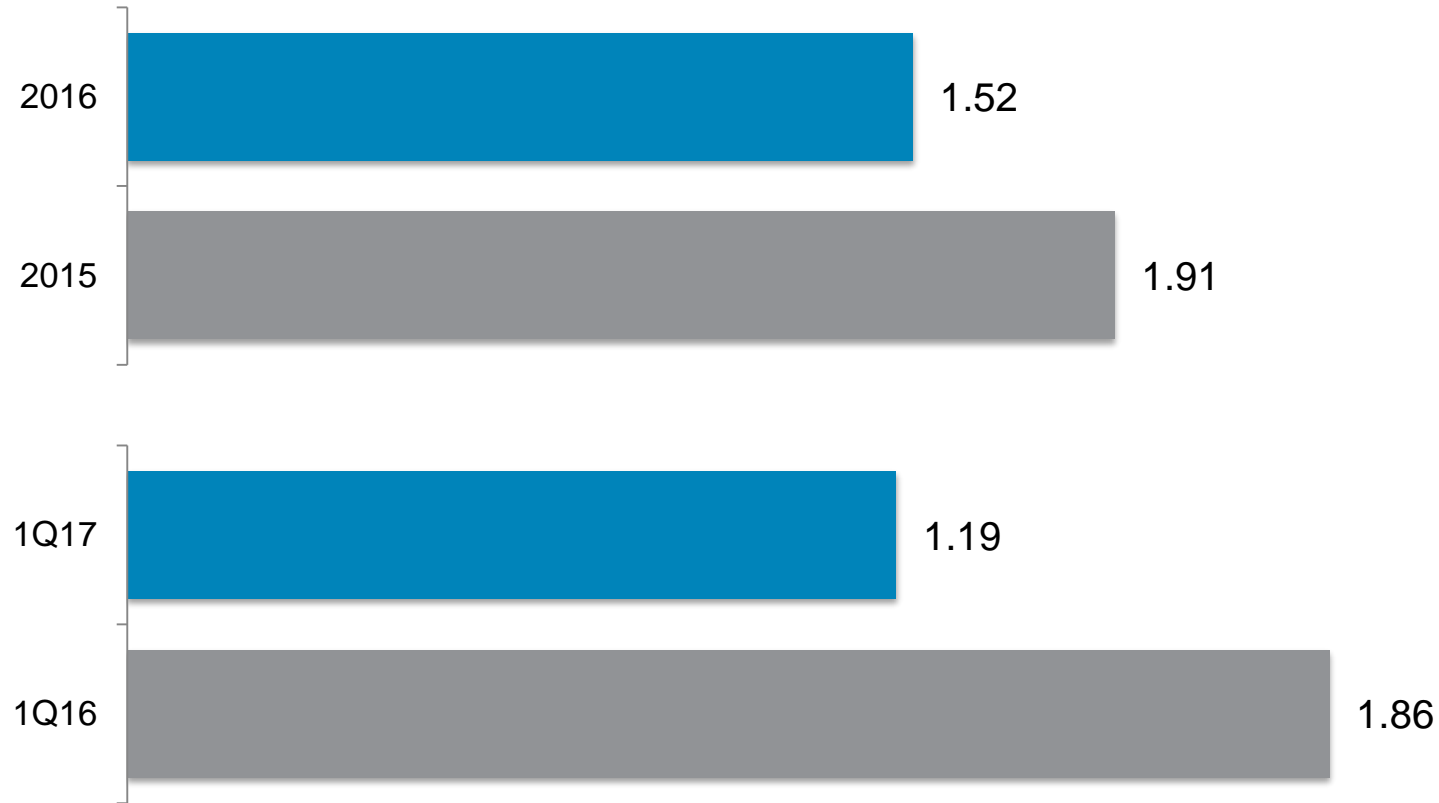


**Airlines for America**<sup>®</sup>  
We Connect the World

# Customer Complaints Continued to Fall in First Three Months of 2017

Complaints to DOT per 100,000 Passengers Enplaned on U.S. Airlines

---



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

---



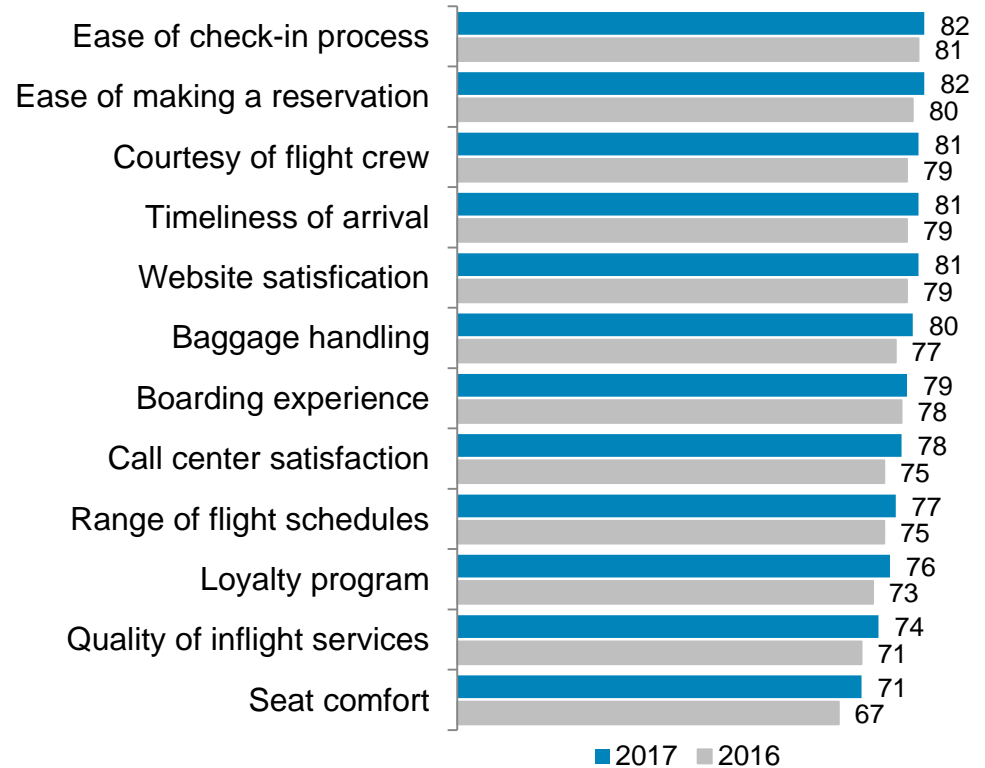
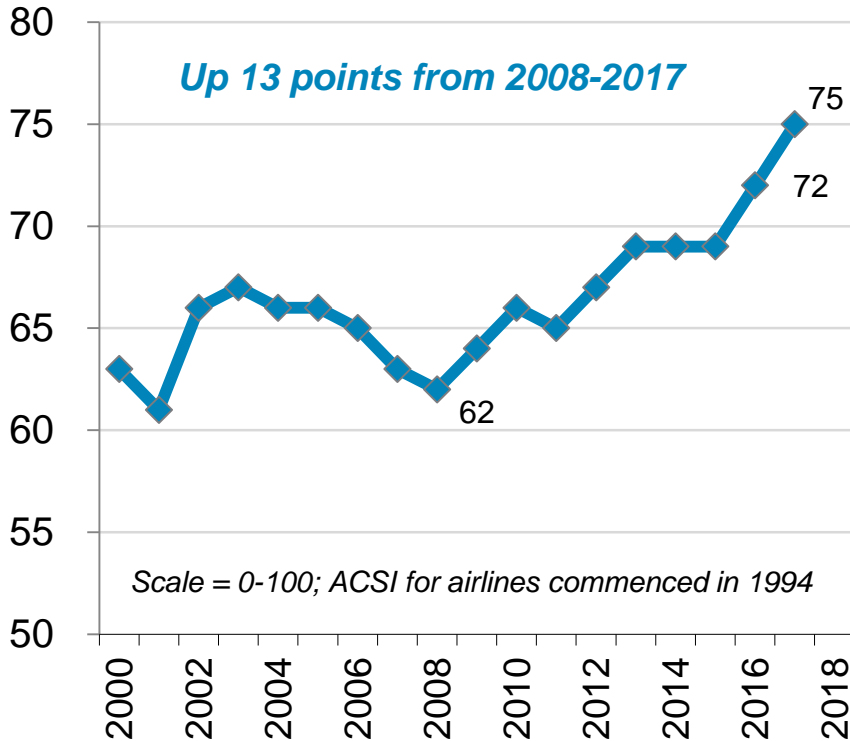
**Airlines for America**<sup>®</sup>  
We Connect the World

# ACSI Airline Customer Satisfaction Index Up Again in 2017

ACSI Travel Report 2017 (April 25, 2017)



“[T]here is a **notable improvement this year in customer satisfaction for several airlines**... Much of the increase...appears to be driven by price... In addition, airlines have made strides to improve on-time arrivals and in-flight meals, plus lost baggage is down... **[E]very aspect of flying is better than it was a year ago.**”



Note: ACSI and its logo are Registered Marks of the University of Michigan; see <http://www.theacsi.org/the-american-customer-satisfaction-index>

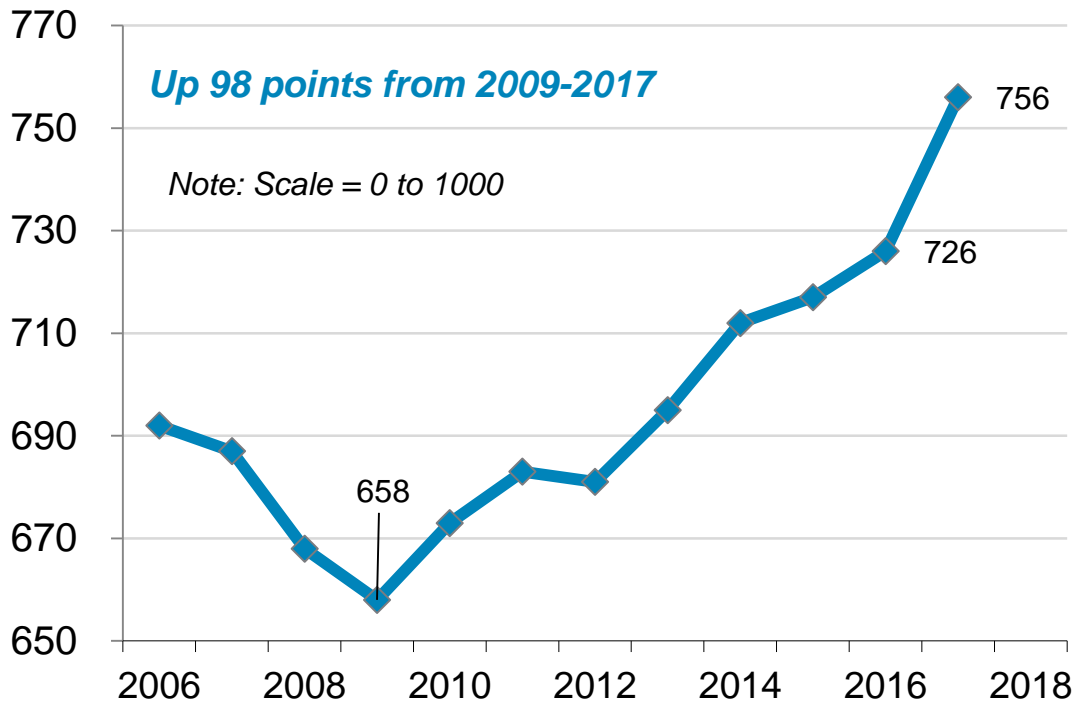






## J.D. Power: North American Airline Satisfaction Climbs to Record High

“Lower fares, better on-time performance, fewer lost bags and the lowest bump rate ever recorded have contributed to steady improvement in customer satisfaction with North American airlines. According to the J.D. Power 2017 North America Airline Satisfaction Study,<sup>SM</sup> released today, overall customer satisfaction with airlines has reached its highest level ever, continuing a trend that now stretches five consecutive years.” (May 10, 2017)



“Scores are higher this year than one year ago in all of the study factors that measure customer satisfaction.”

### Seven factors (in order of importance):

- Cost & fees
- In-flight services
- Aircraft
- Boarding/deplaning/baggage
- Flight crew
- Check-in
- Reservation

Notes: The study is based on responses from 11,015 passengers who flew on a major North American airline between March 2016 and March 2017.

Source: J.D. Power 2017 North America Airline Satisfaction Study (<http://www.jdpower.com/press-releases/jd-power-2017-north-america-airline-satisfaction-study>)



**Airlines for America**<sup>®</sup>  
We Connect the World

## 1Q 2017 Operational and Financial Recap: U.S. Passenger Airlines

---

- » U.S. airlines projected to carry record number of passengers in 2017 on steadily improving economy and continued air-travel affordability
- » Profits were cut in half, as surging expenses outpaced modest growth in revenues, placing the industry's margin behind Chipotle, Marriott, Starbucks, Apple and McDonald's
- » Airlines continue to increase supply at airports, with domestic levels at their highest level in a decade and international levels at an all-time high
- » The number of works employed by U.S. passenger airlines stands at its highest level since 2005 and is growing at twice the rate of overall U.S. employment
- » Airlines are spending 46 percent more on wages and benefits than they were at the beginning of the decade
- » Overall, a combination of data from DOT and independent entities shows a decline in customer complaints and an increase in customer satisfaction



# How's the Weather Affecting U.S. Airport Operations?

<http://airlines.org/dataset/current-operation-status-for-us-airports>

NOVEMBER

1

12:02 EDT

U.S. Airport Flight Operations

21,667

Daily Scheduled

7,041

Departed

29

Canceled

99.9%

Completion Factor

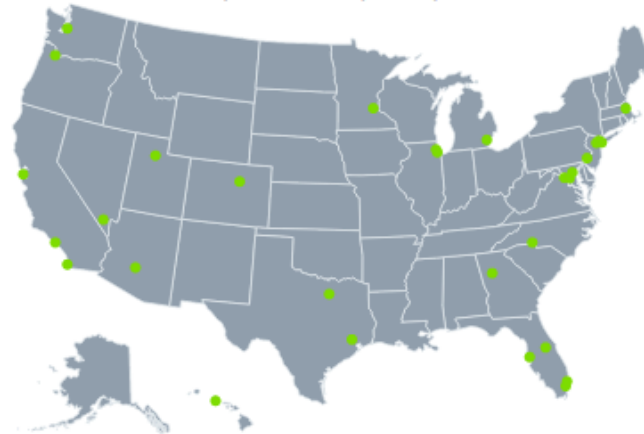
95.3%

OTP (A14)

Top 30 U.S. Airports by Passenger Volume: Performance as of 12:02 EDT on November 1

Airport  Weather

Click on Airport to see current operational performance.



% of Flights Operating On Time (A14)

● 100-80 ● 79-60 ● 59-0 ○ Pending

Recent Daily U.S. Airport Performance

Completion Factor: 98.8% (Average)



Canceled Flights: 8,227 (Total)



Hover for specific date; Modify date ranges by highlighting.



Descriptions and definitions: All data provided by GEE Operations Solutions – masFlight (geemedia.com), Domestic and International flight departures for U.S. airlines (mainline and regional) from U.S. DOT large-hub airports. Non-U.S. Airlines are not included. Today's flight performance is cumulative throughout the day. DO = Departed on or before schedule. A14 = Arrived within 15 minutes of schedule. OTP = On-Time (A14) Performance (Arrivals). Completion Factor (CF) = Percent of scheduled departures. Pending = departed, currently in flight.

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



**Airlines for America<sup>®</sup>**

We Connect the World