

US Airline Industry Trend Forecast

The Uncharted Environment

Business Travel Financial Forum

New York City

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NBTA USA

BoydGroup
INTERNATIONAL

Air Transportation: Under Financial Siege



The Squeeze: Declining Demand. Increasing Costs

Costs: At \$50+ oil – the fuel boogymen is back... Toss that in with collapsing demand, and things are getting cloudy

Going or Gone: Hit Already: Air cargo... Charter airlines... Tour airlines... Aloha (literally)...Entry-level general aviation...etc.

Airline Strategies: Again re-structuring in 2009-2010. Watch for increased focus on revenue streams, not just capacity cuts

New Fleet Mixes... More RJs are coming out. That means some of the markets they used to fly will, too

General & Business Aviation: It's official. Congress has declared you to be evil.

Overall Airline Trends



- **Comprehensive Network Carriers**

Contraction in 2009 – 2010 – Expecting capacity reductions of up to 10% year over year. Differing strategies – in some cases, non strategies

Trimming Capacity – not abandoning major markets

- **“Low Cost” Carriers**

The thrill is gone... the term LCC is a misnomer, now. Most expansion is now on hold, and most are in reverse capacity gear. There are no large and ready opportunities. No gaps left by CNCs

- **Small Jet Providers (“Regional Airlines”)**

Fuel prices over \$3 materially affected the number of 50-seaters needed and viable in the system.

Year 2009: Expected Black Ink Turning Purple

Danger Signs Already



Trans-Atlantic sector revenue – appears to be collapsing – down @ 15% over 2008

Domestic demand may be in a free-fall

Fare incentives not as effective, particularly when consumers are worried about future employment

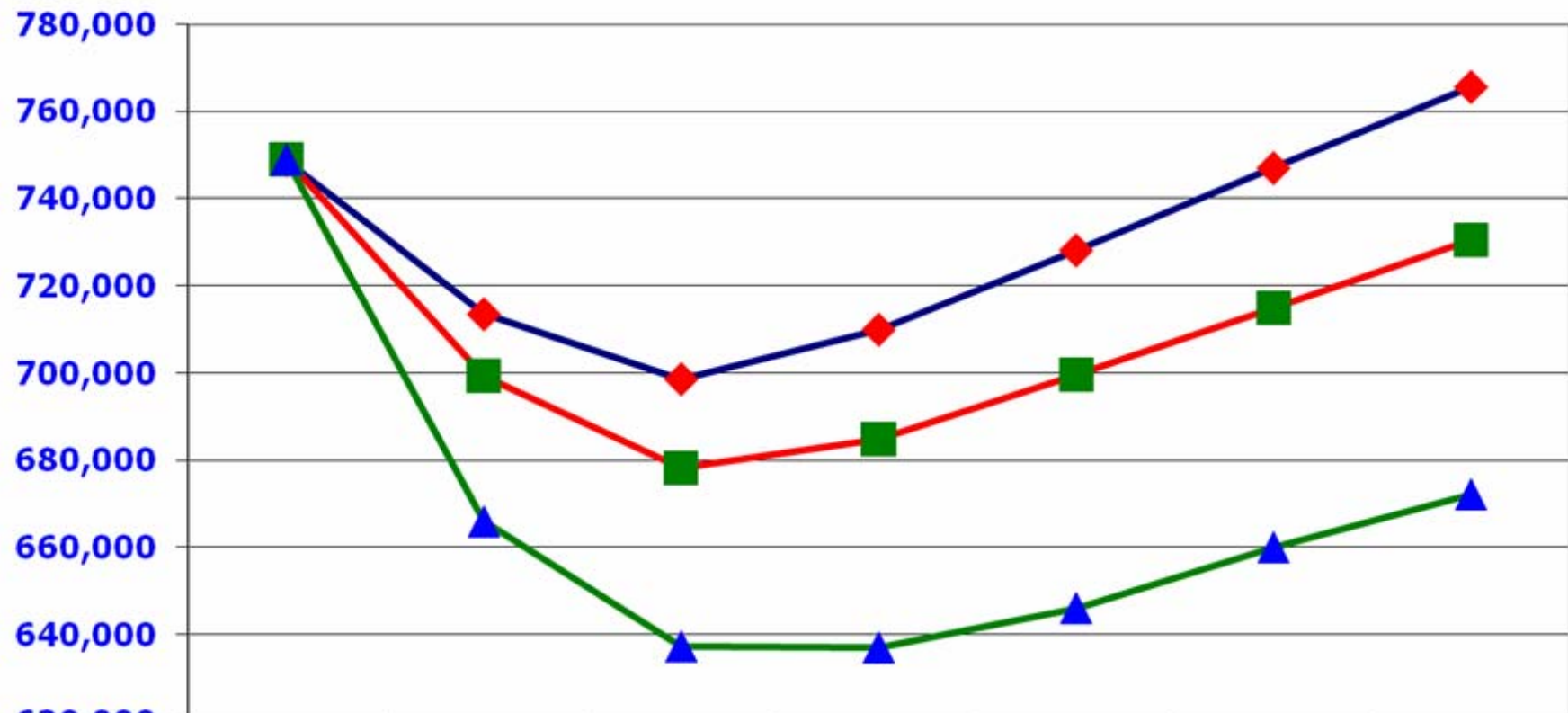
Jet-A prices are uncertain. Oil up. One logistical threat, and up again

Hedges never were the magic some claimed

January – February enplanements – down 10.5%+

Demand: Down. But How Far?

Airports:USA®Enplanement Forecast 2009 - 2104
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	2008	2009	2010	2011	2012	2013	2014
◆ High	748,914	713,654	698,762	710,082	728,261	747,120	765,686
■ Baseline	748,914	699,344	678,247	684,777	699,576	714,831	730,444
▲ Low	748,914	666,025	637,416	637,162	646,219	660,158	672,260

This Isn't A Cycle

It's Uncharted Territory

- **Goal: Shrink fleets & systems to the new economic size of the market**
- **But, what is that size?
How much service is now "cost-impossible?"**
- **Chicken & Egg Issue Coming: Will airline industry reductions in capacity stay ahead of what has now become a decline – or maybe, a collapse – in air travel demand?**
- **The utility and ability of travel by air has changed – it has shrunk due to costs.
Airplanes cannot economically do what they did five years ago**

Airline Industry: Well Positioned Right Now

The Keys: Fleet Flexibility & Revenue Diversity

Comprehensive Network (“legacy”) carriers have ability to pull more capacity quickly and relatively cheaply...

American – MD-80s. Delta/NW – DC-9s, plus a plethora of excess leased-in RJs... just two examples

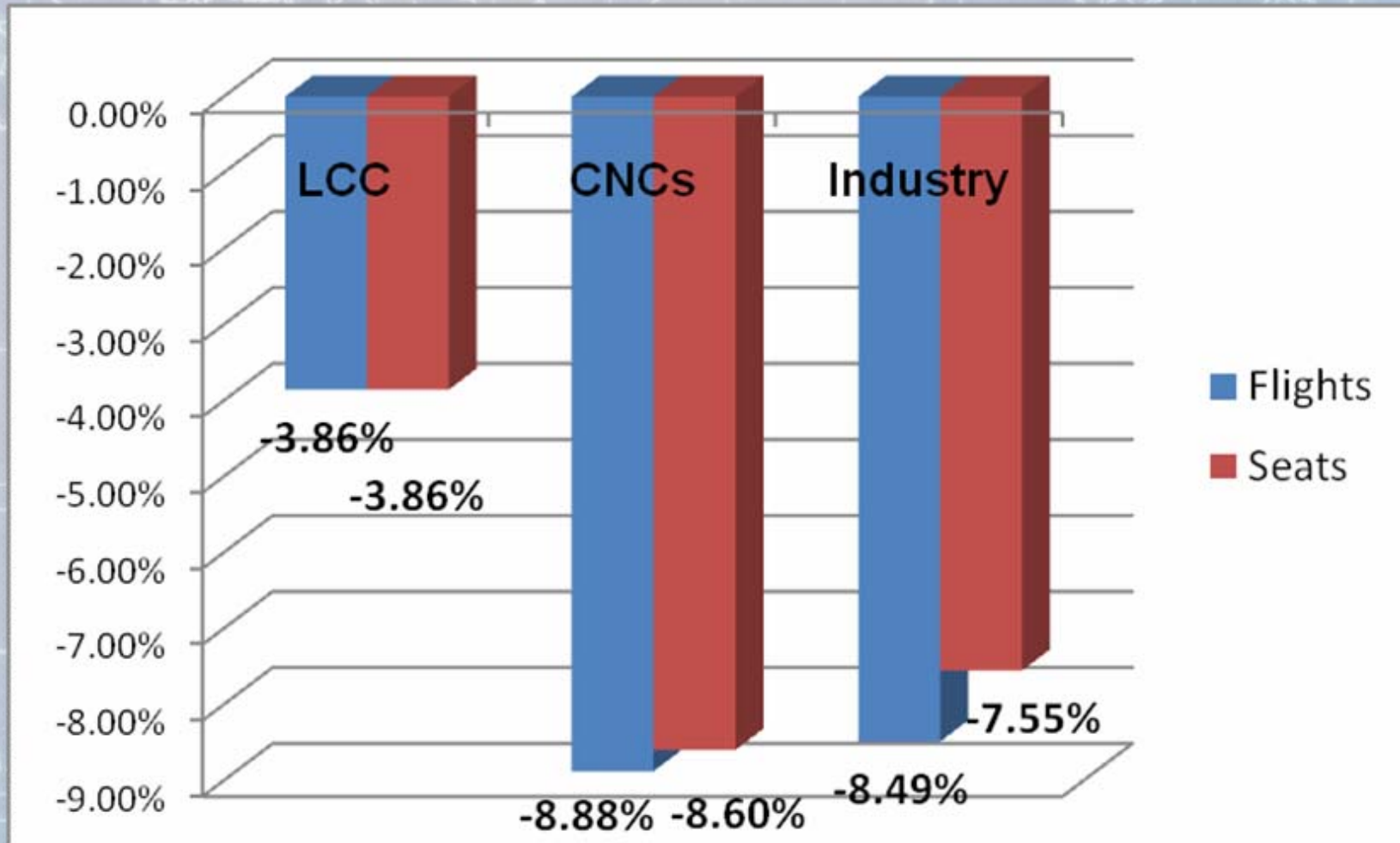
American, Delta, Continental – hub systems can be adjusted.

Diverse fleets = diverse revenue streams. The Shreveport-Shanghai advantage over “LCCs”

Carriers in cross-hairs – fleet-inflexible “LCCs”

Fewer Seats. Fewer Flights

June 08 v June 09



Near-Term, Fewer Airplanes

Between 2008 and 2012, the US passenger aircraft fleets will decline...

Most of the decline will be in the middle of the capacity spectrum

Conclusions can be drawn – less air service

	2009	2010	2011	2012	2013
Africa	1,365	1,364	1,382	1,410	1,438
Asia	2,497	2,532	2,585	2,650	2,715
China	1,731	1,926	2,137	2,375	2,613
Europe	5,141	5,209	5,277	5,363	5,450
North America	6,233	6,011	6,108	6,262	6,416
Latin America	975	1,012	1,051	1,100	1,149
Total Fleet	17,944	18,054	18,541	19,161	19,879

“Consolidation” – It’s So Yesterday

Other than for investment reasons, no compelling market reasons – remaining carriers have highly incompatible systems & major overlap.
Plan on resistance from inside the Beltway



Consolidation is already in the works.
It’s called *capacity reductions*

Delta-Northwest have been an “item” for years, via code-sharing – the combination does not represent much more of a threat to competitors or a hit to consumers

America West - US Airways – the deal saved thousands of jobs, and significant air service that would NOT have been replaced without the deal with America West

Domestic Alliances – almost zero downsides for all concerned, based on the history of CO/NW/DL

Re-Thinking The Process



\$10, please.

Or you'll be in
a middle seat
between this
guy and his
brother.

- **The system is now dysfunctional. Every airliner flying is obsolete in this system with \$50 oil...**
- **Just flying less, and parking airplanes will only turn a large dysfunctional system into a smaller dysfunctional system**
- **Fees help – but they don't fix the problem**
- **Only solution – restructure how airlines toss planes across the sky.**

“But, We’ve Always Done It This Way”

No, Not Everything’s Been Squeezed Out



How long did it wait before he showed up?



Do you really need this, when all you’re serving is soda?



Yup. That customer service call center in Karachi might be cheap.

But do they any idea where Omaha is?



Set up for the next arrival?



It’s a 30-minute connection time.

10 wasted waiting for “carry-on”



ATC system:
@ \$9 billion in wasted airline costs



Sequenced off the bank based on revenue generation?

The New Feed Equation

How far & how much fuel to get that feed revenue?
Distance v through yield v load factor

Looking at Fargo...

MSP pays off like a slot machine... SLC was likely red ink

Hubsite	Airline System	Connecting Pax Yield	Miles Flown To Get It	Load Factor
Minneapolis/St.Paul	NW	20.3	222	72.3%
Chicago/O'Hare	UA	20.5	555	65.9%
Denver	UA	16.6	626	80.6%
Salt Lake City	DL	15.3	863	66.1%

Source: Airports:USA® DataMiner

The Future: Global Airline Connectivity

It's the US connecting hub concept, except on global steroids

Inter-connecting midsize communities between global regions

Watch for: strengthened alliances between Chinese carriers and Western carriers.

Chung Hua Airlines collects passengers at its Nanjing hub. Nonstop to D/FW, connecting on to points in Central & Latin America from American's hub. Most traffic & goods not US-bound. But huge advantages for US access

Indications: Domestic, non global-centric US carriers may be out in the revenue cold, without strong international cross-connectivity

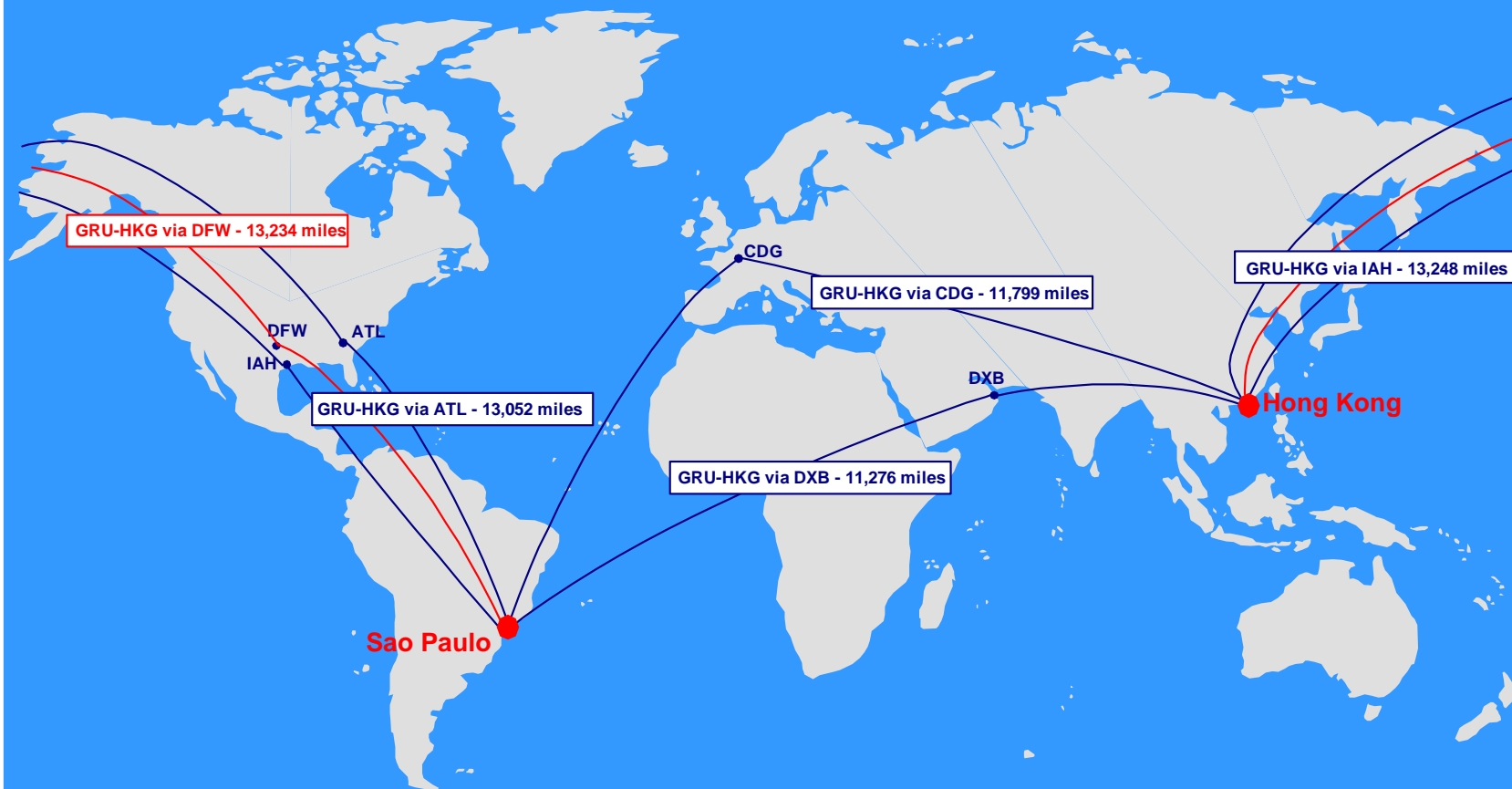
Current example (maybe) – Emirates flows 22 million over Dubai, which has less population than Buffalo



The Real Globalization

Connecting Hubs – Interconnecting Regions, Not Cities

Illustrative Example: Asia-Latin America via Global Portal Alternatives



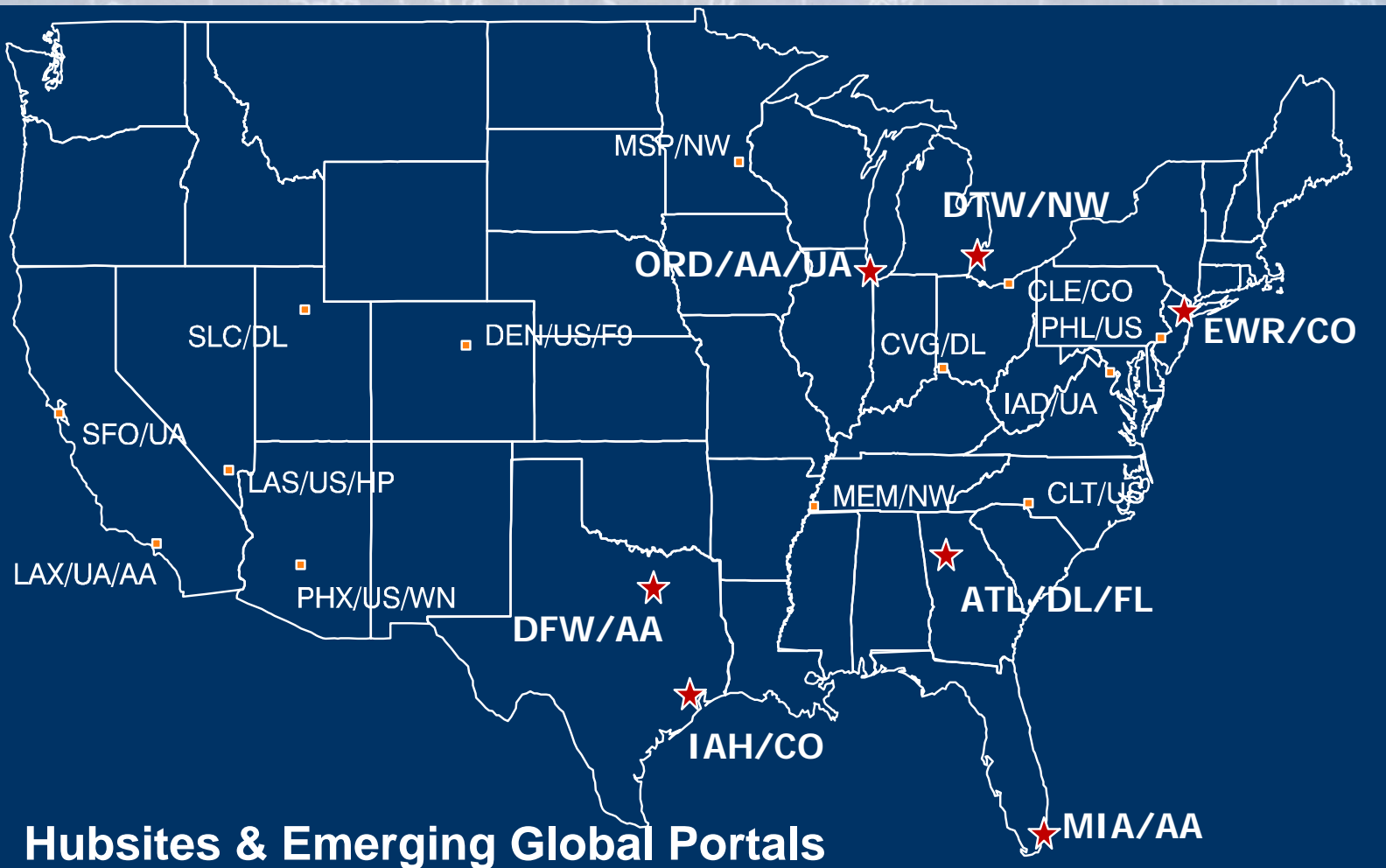
Single largest intra-regional growth potential is Asia-Latin America...

US hubsites are right in the middle... can provide enormous connectivity

Benefit is huge additional access for US markets

Sao Paulo, Brasil - Hong Kong, China

US Potential Global Portals



Major potential for global portals...

- AA/DFW
- CO/IAH
- DL/DTW
- DL/ATL

Regulatory Festivities & Lunacies From Washington

Challenges



The welcome mat is out for any number of crackpot schemes.

Leadership is completely missing

FAA Re-authorization: Nobody wants to step up to the plate. Nobody

Air Traffic Control system: no plan is in play that's going to do anything... "Nobody knows" according to the new Secretary of Transportation

Airlines: The fun, trendy new environmental target...

"Environmentally Sustainable Alternatives" to air travel? Gobbledy-gook trend-speak.

Watch for: punitive taxes "Carbon offset fees" and

Open Skies – Much Ado About Not Much

Open Skies – any EU carrier can fly to any US point, and vice-versa.



Common Belief: A boon for competition! Lots more trans-Atlantic flying! Lower fares!

Problem: What EU points are now underserved from the US? What US points represent a huge market opportunity for EU carriers?

Fact: Markets that can be served economically, are now served. Also, there aren't many trans-pond markets that can stand on local O&D without feed. Or even with feed – DEN/LHR

Trojan Horse: use of EU carriers to replace US carriers under international alliances

Conclusion: No Big Deal

Foreign Ownership



The 25% limit on foreign control won't likely be lifted.
But it's become lore that it would be great for the US

Contention: It'll open new channels of capital to US carriers.
Really?

Contention: It'll allow US carriers to compete globally, better.
OK. Other than perhaps being a way of reducing competition and capacity, it's not going to help AA or UA compete better

Contention: It will open new competition in the US.
Get real. Lufthansa is going to add more capacity where nobody's making much money now?

Related Issue: Cabotage. EU carriers allowed to fly US domestic markets
Super! Then they could lose lots of money, too!

Ownership is a sideshow issue.
It's alliances that count – regardless of who owns what stock

DOT Progress (Or, Lack of Same)



The new DOT Secretary and top staff pose for department photo

Policy-wise, completely adrift in la-la land

Air traffic control re-building is a joke – little or no progress over the decade... other than talk

FAA re-authorization: just an argument over who's going to pay for continued non-results in ATC

Crackpot ideas seem to be welcome...

"environmentally-sustainable"

let's all take the train – the ones that don't exist and don't meet the nation's needs

Trains are more favored than airplanes...

And Amtrak has such a future, too

Conclusions

The Next 12 Months

US passenger demand 2010 v 2008: down between 41 million and 92 million. Wild card is the economy

Growth is not in the picture. Period

US Airline Y-O-Y capacity reductions may accelerate if demand is still in a free-fall in early 3Q 2009

**Airline goals will be to trim capacity to match decline in demand.
Objective: retain/regain fare traction**

Problematic: "LCC" sector

"Secondary" nonstop international markets will be reduced

Prepare for unheard-of and unprecedented regulatory nonsense from Washington



By The Way...

Join your colleagues this fall...



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