

Airlines defy high fuel prices

Despite fuel prices having reached levels normally associated with recession and downturn, many US majors are still making operating profits and enjoy continued growth in traffic.

The price airlines are paying for fuel has on average increased by 61% in the past year to 75-89 cents a US gallon. This fuel price increase equated to a \$1.2 billion increase in costs for US majors in the first quarter of 2000 over the same period in 1999.

Operating profits were down for most carriers, but still positive. Overall, airlines managed to maintain a positive difference between unit revenue and unit cost, although some did generate losses.

Southwest, American, America West, Delta, Northwest, Continental and United all made an operating profit. Alaska and USAirways made losses.

High fuel price rises – and one high as the current 75-90 cents level – are normally associated with general economic and airline recessions. Besides increasing unit costs, economic recessions that fall on the back of fuel price hikes damage traffic to the point that it has even declined. Examples are the oil crises of the 1970s and 1980s and the Gulf War.

The current fuel price hike is not accompanied by a general recession and the US economy is enjoying high growth and shows no signs of being tempered by high oil and fuel costs.

This economic strength continues to generate strong traffic growth and yields

for airlines. Compared to the first quarter in 1999, revenue was strong and grew.

The US majors all experienced growth in passenger revenues of 7.7-13.5%. These rates are high by normal standards, and current fuel prices puts an even brighter gloss on them.

The exceptions were Alaska and USAirways, which had lower passenger revenue growth rates of 6.0% and 1.4%. The reason behind Alaska's problems may be partially explained by the MD-80 crash it suffered earlier in the year.

This strong traffic growth has been in line with well matched capacity growth. In fact, capacity growth has been slightly behind traffic, and load factors have risen by up to two percentage points in some cases.

Capacity growth was 5% over the year, but this is forecast to slow. Orders for passenger jets peaked in 1999 and the peak in deliveries should follow this year. This will be followed by a reduction in capacity growth in 2001 and 2002. This will have to alter if traffic growth continues at its current rate. The worst of the Asian 'flu is past, and (so far) there are no signs of recession in north America or Europe.

Higher load factors have been accompanied by an increase in passenger

yields and so also unit revenues. The revenue line for US majors has therefore been strong in the past year, and this is the explanation behind the profitability.

High revenue growth applies to international and domestic traffic, indicating that the whole industry is experiencing good operating conditions. The highest growth in revenue came from the trans-Pacific market.

The cost base is the other side of the equation. Excluding fuel costs, unit costs rose by just 0.6% over the year. This has been accomplished by several factors.

The first has been that the airlines are continuing to reduce travel agent and sales commissions, while also increasing sales through the Internet and so reducing distribution costs overall. On the whole, commission expenses declined 12% over the year.

The one cost area to have experienced high growth is aircraft depreciation. This will rise because new deliveries and average age of aircraft are reducing. The US majors have now begun to retire and replace the last of their Stage 2 fleets, with Delta, TWA and Continental being some of the carriers to dispose of the last of their 727s. These airlines have taken delivery of new 737s and other narrowbodies.

The last of the first-generation widebodies have also been retired and replaced with 767s and 777s.

New fleets will offset their high finance charges for the first few years with a honeymoon period for maintenance costs. They are also more fuel efficient and so have been able to partially offset high fuel prices. 

SUMMARY OF US MAJORS OPERATING PERFORMANCE 1ST QUARTER 2000

Airline	American		Continental		Delta		Northwest	
	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00
Passenger load factor %	67.1%	67.5%	71.5%	71.6%	69.9%	68.8%	70.9%	72.2%
Yield C	13.13	13.95	13.0	13.03	13.16	14.04	11.38	11.85
Unit revenue C/ASM	10.52	10.59	10.62	10.87	10.06	10.66	8.88	9.32
Unit cost C/ASM	9.71	10.51	9.17	9.78	9.04	9.70	8.95	9.27
Airline	America West		Southwest		United		USAirways	
	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00	1st Qtr '99	1st Qtr '00
Passenger load factor %	64.0%	66.7%	64.9%	66.8%	69.0%	68.2%	67.7%	64.2%
Yield C	11.88	11.91	12.85	12.69	12.63	13.67	17.39	17.43
Unit revenue C/ASM	8.04	8.40	8.68	8.78	9.85	10.69	11.77	11.20
Unit cost C/ASM	7.28	8.23	7.33	7.68	9.50	10.00	12.74	13.38