

Southwest leads US majors in recovery

While November traffic volumes of most US majors are still 20-25% lower than a year ago, Southwest has already made a full recovery. Extrapolating traffic recovery rates, US majors may return to full traffic volumes by Spring 2002.

After three months since the attacks terrorist in the US, there are indications of how traffic is recovering with major US and European airlines.

US majors had their worst two months in September and October 2001, but showed the first real signs of a traffic recovery the following month.

To illustrate the dramatic affect of the terrorist attacks, the table (see, *this page*) shows how traffic declined in September compared to the same month the previous year. To put this in perspective, the decline or increase in August traffic for these five carriers is shown.

Traffic, except Southwest, fell by about a third in September, as shown, after the terrorist attacks. The response to this was sharp, with airlines making deep unprecedented cuts in capacity.

Analysts Merrill Lynch have commented that US major airline strategy has been to cope with this crisis by making an immediate capacity cut in the region of 20%. This was achieved by reduced aircraft utilisation and the parking of other aircraft. Airlines will have to wait for traffic to return. US

domestic load factor for all carriers was 56.1%, and the table shows the airlines included achieving load factors in this region. The table also shows Northwest Airlines as being one of the least affected full-service carriers. It has some of the smallest traffic reductions and highest total system load factors since September.

Southwest was an exception, and did not make any cuts in capacity. As a consequence its load factor dropped more than 20 percentage points from August to 53.4% September, but has climbed back steeply to 65.3% in November.

In parallel to capacity cuts, airlines also slashed fares to stimulate a traffic recovery. This diluted yield mix. Despite the unprecedented cuts in capacity, airlines have been unable to avoid almost record losses. This is because many costs are long-term overheads and cannot be reduced, while revenues have plummeted.

As load factors increase, airlines will have to wait until strength returns to demand and airlines can reduce the percentage of higher discounted fare and increase their yield mix, before adding back capacity.

Despite this being the preferable

recovery plan, airlines will probably have to increase capacity before yield mixes improve, since competitors will add capacity at the expense of others. Merrill Lynch does not expect a full rebound in traffic until some time in 2003, and expects revenues not to return to 2000 levels until even later, in 2004.

At the expense of other US majors, Southwest has made the strongest recovery (see *table, this page*).

Southwest's traffic has almost returned to normal, with November traffic being just 1.2% less than the same month in 2000. Moreover, Southwest had record traffic in November 2000, suggesting the airline has made a full recovery. Merrill Lynch's reports add that Southwest's share of US domestic traffic has gained by 2.5 percentage points to 12.5%, at the expense of other airlines.

Merrill Lynch makes the point that financially weak airlines will suffer at the expense of the weaker carriers. Also, Southwest's recovery shows passengers are price sensitive. In fact, Southwest had increased capacity in November 2001 over the same month a year before.

Second to Southwest, of the airlines shown in the table, Northwest has made one of the best recoveries. Delta also made a good recovery during November 2001. Both carriers' traffic is now down just over 20% compared to the same month a year before.

Despite the losses incurred by US airlines, Merrill Lynch points out that these are not unprecedented. Quarterly losses were as deep in the period following the Gulf War in 1991. After this traffic recovered in 6-12 months to pre-war levels, which as faster than expected at the time. Merrill Lynch's forecast of a full traffic recovery not being realised until 2003 is a therefore conservative one. Load factors achieved by US majors in November 2001 are 16-18 percentage points lower than in September, showing that for the capacity available at least, traffic is steadily returning. October traffic made an improvement in the region of one to nine percentage points over September, depending on the airline. US Airways and Northwest, for example, hardly recovered in October. American improved by nearly six percentage points, while Delta improved by more than eight percentage points. Stronger gains were made in November, indicating the initial shock experienced by passengers had begun to wane. US Airways caught up with its slow October recovery, with a full nine percentage point traffic recovery, the largest of all airlines shown here. Northwest made a 7.3 percentage point recovery, and Delta a 3.6 percentage point increase. US Airways' initial slow recovery illustrates how traffic and airlines operating in the eastern US were

US MAJOR AIRLINE TRAFFIC AND LOAD FACTOR TRENDS

Month	August	September	October	November
System RPM traffic compared to 2000-% changes				
Airline				
American	-0.6	-33.7	-27.9	-25.0
Delta	-2.3	-32.4	-23.7	-20.1
Northwest	-0.6	-30.7	-29.0	-21.7
US Airways	+6.0	-33.4	-33.6	-24.6
Southwest	+15.7	-21.6	-0.9	-1.2
System load factor				
American	76.6	59.6	59.6	69.4
Delta	76.8	56.2	60.5	64.3
Northwest	80.6	63.8	66.3	69.9
US Airways	76.1	56.1	61.7	63.7
Southwest	75.8	53.4	63.7	65.3

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worst affected by the terrorist attacks.

Extrapolating these gains may seem optimistic, but if recovery continues at the same pace, the US majors could make a full recovery by March of 2002, since average monthly recovery rates have been about five percentage points per month. This will coincide with the rise in traffic normally experienced in the spring. As *Aircraft Commerce* was going to press, the war in Afghanistan had progressed almost to the point of the final surrender of the Al-Qaeda terrorists. In the event of this happening, passenger confidence could be further boosted, and a traffic recovery could be stronger than so far experienced, leading to a full recovery by early 2002. In the event of a full traffic recovery, yield mixes will have to be strengthened.

In contrast to the US, major European airlines experienced a shallower fall in traffic in September 2001, and so have consequently also had a smaller fall in traffic in October 2001.

Air France's September traffic, for example, was only 6.8% lower than the previous year. KLM and SAS also had similarly smaller falls in traffic volume (see table, this page). Lufthansa and British Airways were worst hit.

Lufthansa's September traffic was down 10.3%, while BA was one of the worst hit airlines in Europe with a 22.8% fall. This has to be taken in contrast to BA's August traffic, which was 11.3% lower than the previous year. BA's August traffic had been lowered by a strategy to reduce capacity and traffic during the year, to concentrate on higher yield origin and destination traffic, and avoid interlining passengers on its network.

BA still had the largest fall, however, and this was due to Britain being the second most likely terrorist target and BA having the largest trans-Atlantic network. The immediate affect on US passengers was to avoid travel, in particular long-haul flights to Britain.

Only KLM and BA followed the US majors in the same strategy of reducing capacity as a result of the terrorist attacks. Air France, Lufthansa, Iberia and SAS all had higher capacities in October 2001 compared to October 2000.

Another contrast to US majors, is that traffic for the large European carriers continued to fall in October 2001. BA's October traffic was 25% lower than the previous year, more than a two percentage point fall from September.

All other European majors listed had a decline in October 2001 traffic that was larger than the September 2001 fall.

KLM was the second worst hit, with traffic declining a full 10 percentage points, and Lufthansa had nearly a further seven percentage point drop in its traffic. Even SAS and Iberia, some of the European carriers least affected by the

EUROPEAN MAJOR AIRLINE TRAFFIC AND LOAD FACTOR TRENDS

Month	August	September	October
System RPK traffic compared to 2000-% changes			
Airline			
Air France	+5.6	-6.8	-9.3
British Airways	-11.5	-22.8	-25.3
Iberia	6.5	0.9	-9.1
KLM	1.0	-7.7	-17.6
Lufthansa	1.3	-10.3	-17.2
SAS	9.3	-3.5	-9.1
System load factor compared to 2000			
Air France	79.5	75.3	69.6
British Airways	76.0	69.6	63.6
Iberia	75.7	72.6	65.1
KLM	83.5	79.2	73.4
Lufthansa	77.9	73.4	66.0
SAS	69.8	65.3	60.0

terrorist attacks had larger traffic declines in October 2001 compared to the previous month. These were all mainly due to the fall in trans-Atlantic traffic, but also intra-European passenger volumes.

Air France also suffered continuing falls in October. Its two worst affected networks were the trans-Atlantic and routes to the Middle East and Africa.

BA therefore took the lead in traffic decline in September, and showed signs of being the first airline to experience a slowdown in traffic reduction.

As *Aircraft Commerce* was going to press, few European majors had published their November 2001 traffic results. BA, however, reported that its systemwide traffic was down 17.8% in the same month a year before. This was a 7.5 percentage point smaller decline than October 2001 traffic, showing that BA's traffic has begun to recover. Of the divisions in its network, BA's biggest reduction is traffic to the Americas. Traffic to the Asia Pacific and within Europe is still substantially down, while the African/Middle East network is the least affected.

While the European airlines suffered a shallower loss than US majors, traffic on Europe's flag carriers took longer to fall and could subsequently take longer to recover. BA, for example, relies heavily on trans-Atlantic traffic for profits, and so could take longer to return to profitability than some of its US counterparts.

Airbus comments

Airbus Industrie has made some comments to the analysis of the A330/340 family against the 777-200/-300 (see *Head to head: A330/340 versus the 777-200/-300*, *Aircraft Commerce*, June/July 2001, page 16).

Airbus contests the 777 will have lower engine-related maintenance costs than the A340-500/-600, on the basis that the GE90 has appreciably higher costs associated with spare parts. According to its data, *Aircraft Commerce* maintains the 777-200/-300 will have lower engine-related maintenance costs.

Airbus concedes the point that the A330-300 is payload limited on the longest trans-Atlantic routes, but makes the point that so is the 767-400ER.

The analysis said, in Boeing's argument, for the same numbers of first and business class seats, the A330-200 would have less total seats than the 767-400. Airbus makes the point the A330-200 has one more lavatory, five more stowages and a 2-inch larger seat pitch than the 767-400. With identical parameters, Airbus claims the A330-200 and 767-400 would have almost identical seat counts. Airbus also states the same is true for the A330-300 and 777-200.

Aircraft Commerce concedes the A340-600 has two Asia Pacific customers; Cathay Pacific and China Eastern. 