

# US regionals make fast traffic recovery

Following the terrorist attacks of September 11th 2001, US regional airlines have made a faster recovery in reported RPMs than their mainline affiliates. Some regional carriers have had the added bonus of their mainline affiliates passing their thinner routes to them.

In contrast to major airlines, many of their regional subsidiaries have made a strong traffic recovery since the terrorist attacks of September 11th 2001. The rate at which the regional airlines have regained traffic in terms of revenue passenger miles (RPMs) has exceeded the major airlines. This is demonstrated by the percentage differences between monthly RPMs of each airline compared to the equivalent percentage differences in monthly RPMs of major carriers. A full recovery will be made when the percentage difference in monthly traffic volumes, or RPMs, compared to a year before will be zero.

Most regional carriers had a smaller percentage difference in its January 2002 RPMs compared with the same month a year before than its major airline affiliate. Some of the results of US regional carriers have to be put in perspective, however. Many have been passed routes from their major affiliates, and the regional carriers now operate these with regional jets. This has resulted in a steep increase in both RPMs and available seat-miles (ASMs). Atlantic Coast Airlines, Continental Express and Skywest Airlines are examples (*see table, this page*).

A closer examination of individual cases reveals, however, differing rates of recovery by the regional carriers.

Most major US carriers suffered falls of 29-33% in RPMs during September 2001 (*see table, page 3*) compared to September 2000. Exceptions were Alaska and America West, which saw smaller falls of 19% and 21% during September 2001 compared to the same month a year before. By January 2002 Alaska has fully recovered compared to a year before and most other carriers' RPMs were down 10-15% (*see table, page 3*). Exceptions were America and United, still down about 16%, and US Airways, down 20%.

The fall in RPMs experienced by regional carriers in September 2001 was similar to their major affiliates. The difference between the regionals' January 2002 RPMs and the same month a year before had closed to between a shortfall of 16% for the worst hit carriers up to an increase of more than 5%, not including the regionals which have had routes and traffic passed to them from the majors.

Horizon Air, Alaska's regional feeder, had not recovered as well as its major affiliate and was still down 8.4% in January 2002 (*see table, this page*). This compares to a 0.4% increase for Alaska.

The Mesa Air Group had made a full recovery by January 2002, and in fact was carrying 1.6% more traffic than a year before (*see table, this page*). The Mesa Air Group provides feeder services for America West at Las Vegas and Phoenix and also for US Airways at Boston, Charlotte, La Guardia, Washington and Philadelphia. By comparison America West's traffic was still down by 17% in January 2002 and US Airways' traffic was still 20% lower than a year before.

The RPMs for the four regional carriers which comprise US Airways express; Allegheny Airlines, Piedmont Airlines, Potomac Air and PSA Airlines; were down 6.5% in January 2002 compared to a year before.

Air Wisconsin, serving United at Chicago and Denver, had made a full recovery by January 2002 with its RPMs 5% higher than the same month a year

before. United, by comparison was still down 16% in January 2002.

Atlantic Coast Airlines, operating as United Express at Chicago and Washington and as Delta Connection at Boston, Atlanta, Dallas and La Guardia; and Skywest Airlines operating as United Express at Los Angeles, Portland and San Francisco and as Delta Connection at Boston, JFK and Salt Lake City; had doubled its RPMs over the year before. It had rapidly increased its traffic volumes since the terrorist attacks of September 11th as a result of being passed routes from its major affiliate.

American Eagle is another example of an airline which has made a faster recovery than its major affiliate.

American Eagle had already made a full recovery by December 2001, with RPMs that month being 5.3% higher than a year before. This continued into January 2002 (*see table, this page*). This compares with American's performance, where its December 2001 traffic was down 17.4% a year before and January traffic was still 15.6% lower on the year.

Like Horizon Air, Northwest's feeder Mesaba is an exception in the regional recovery story. Northwest's traffic recovered faster than most major carriers. In December 2001 its RPMs were down 11.3% on the year before, which was a rapid improvement from a fall of 31% in September 2001. Northwest's recovery slipped slightly in January 2002 to a 12.6% shortfall on the year. By comparison Mesaba had recovered to a shortfall of 6.5% by December 2001, but then slipped back to a 16% drop in January 2002.

## NORTH AMERICAN MAJOR AIRLINE REGIONAL SUBSIDIARY % DIFFERENCE IN MONTHLY RPM TRAFFIC COMPARED TO SAME MONTH IN PREVIOUS YEAR

Month	Sep 2001	Oct 2001	Nov 2001	Dec 2001	Jan 2002
Airline					
Air Wisconsin	-20.2	-13.6	-7.9	-2.8	5.0
American Eagle	-26.9	-7.2	-3.0	5.3	5.5
Atlantic Coast Airlines	5.4	35.7	60.5	73.3	87.9
Atlantic Southeast	-14.5	7.1	13.2	23.4	24.8
Comair	-36.5	-11.6	-7.1	-2.1	-4.1
Continental Express	-21.7	4.6	6.3	11.3	14.1
Horizon Air	-31.7	-18.5	-17.8	-10.7	-8.4
Mesa Air Group	-27.0	-15.8	-5.9	-3.4	1.6
Mesaba Airlines	-34.8	-20.7	-19.3	-6.5	-15.8
Skywest Airlines	9.4	43.5	65.8	84.4	101.9
US Airways Express	-35.0	-24.6	-19.4	-8.2	-6.5



## Jets for US Airways Express

Following an announcement in December 2001 that US Airways had asked its Airline Pilots Association (ALPA) leadership to change the scope clause between US Airways and US Airways Express to allow more jets, it appears an agreement may be reached that would allow up to 420 50-seat jets to be operated. Furthermore, an agreement that would allow the operation of larger 70-seat jets may also be reached.

US Airways pilot contract currently only allows 70 50-seat jets to be operated, but the carrier has complained that this is small in proportion to the number that regional affiliates of other carriers are permitted to use under their scope clauses. Delta's feeders, for example, are permitted up to 843 regional jets. US Airways has complained that the current scope clause is seriously limiting its ability to effectively compete with other major carriers.

After four years of rejections by ALPA to permit an increase in the number of jets permitted under the scope clause, it appears it may now be ready to accept a larger number.

ALPA has first indicated it may be willing to allow an increase in the number of 50-seat jets from 70 to 245. The airline is negotiating for an increase to 420. This would be in proportion to the ratio of mainline jets to regional jets that other major carriers have in relation to their regional affiliates.

Although the increase to 420 may be hard to achieve first, it will take two or three years for the airline to order and take delivery of a further 115 50-seat aircraft. Once this has been done the airline can then renegotiate a further increase of 175 to 420 aircraft.

US Airways is also negotiating the introduction of 70-seat aircraft into the scope clause. The airline wants a fleet of up to 115 aircraft in this size category for use on the US Airways Express network. This will be more difficult for the airline to achieve, since the aircraft size is getting close to the jets used on the mainline network.

The possibility of a breakthrough for US Airways comes as a result of 1,000 pilots being furloughed by the carrier in the aftermath of the terrorist attacks of September 11th 2001 and subsequent cutbacks in capacity and operations. These furloughed pilots would thus be the first to obtain new work in the event of an increase in the regional jet fleet. US Airways traffic was still down 20% in January 2002, and a slow traffic recovery would keep these pilots out of work.

## RJs for Finnair ?

In a fleet plan and strategy move that could be seen to be similar to US majors passing routes and traffic to regional affiliates, Finnair is considering acquiring regional jets in the 70-100 seat class to replace ATR72s. It may also acquire regional jets to replace DC-9s and MD-80s.

Finnair operates nine ATR72s, eight DC-9-50s and 18 MD-80s. Although it

Negotiations between US Airways and ALPA could see US Airways Express' fleet of 50-seat regional jets increase from 70 to as many as 420. US Airways is also negotiating to allow the introduction of 70-seat jets.

has A320s on order, these are not definitely in place to substitute MD-80s.

Finnair is currently evaluating 70-100 seat aircraft for its network. Although Finnair does not face the same pilot scope clause issue that US major carriers do, the move by Finnair and US Airways to consider large regional jets suggests resistance to these aircraft is waning. With the long-term trend towards lower business traffic and passenger yields and a portion of leisure traffic being eroded by low-cost airlines, incumbent carriers may be forced into changing their strategies to using smaller mainline jets operated with lower cost labour rates.

## 728Jet development

Following indications from potential customers, Fairchild Dornier is accelerating development of the 728-200. It plans to have the aircraft available for delivery by the end of 2003. This will be about six months after the delivery of the first 728-100 to Lufthansa CityLine.

This is in response to airlines requiring an extended range version of the 728-100 for the use on non-stop operations within Europe and the US, as well as for airlines in the Asia Pacific operating new routes with initially thin traffic volumes. The 728-200 will have a non-stop range capability of 1,800nm.

Fairchild Dornier is also accelerating development of the 928-200, but it is not clear when the aircraft will be available. Fairchild Dornier has secured \$900 million of funding in equity and bank loans for the development of the 728-200 and 928-800. 