Signs emerge of a recovery in the US

Most US carriers are experiencing a rise in unit revenues, while some are also making headway in cost reduction plans. Forecasts are now that some airlines will generate profits before the end of 2003.

Indications from most US carriers are that unit revenues are increasing, while cost reduction plans continue to achieve results. Earnings forecasts for many US carriers have been raised as a result, and stock prices of some carriers are have started to rise again from 20-year lows.

Analysts Merrill Lynch have reduced their loss forecast for US carriers for 2003. A main contributor to an improved situation is that capacity has been held tight by airlines and load factors are high. As the summer has approached fares and yields have risen, albeit slowly. Unit revenues for many US carriers increased in May and continued to do so in June. One important factor is business traveller yields, or those which are booked 'close-in'. These have shown improvement in recent months. The overall situation points to the high losses made in the first quarter in 2003.

More specific developments for airlines are that Frontier, for example, has indicated its June quarter would show a break-even performance, or even a small profit. The airline has introduced a simplified fare structure and has also experienced a modest recovery in demand. Moreover, Frontier's unit revenue for June was expected to be about 20% higher than in the same month in 2002.

America West is another carrier to have benefited from a simplified fare structure, and has also achieved a growth rate in unit revenue in June 2003. Merrill Lynch estimates at least a 10% increase. It also predicts America West will be the first network carrier in the US to generate a quarterly operating profit, and this will be sometime in 2003. Estimates are for an operating loss of $59 million on an annual revenue of $2.16 billion for the whole of 2003, which compares to an operating loss of $154 million and annual revenue of $2.05 billion in 2002. Unit revenue is expected to rise from 7.58 cents per available seat-mile (ASM) in 2002 to 7.80 cents in 2003. Meanwhile, unit costs are expected to fall from 8.15 cents per ASM to 8.03 cents per ASM over the same period. A positive difference between unit revenue and cost is forecast for 2004.

AirTran has also indicated an improvement in unit revenues and close-in bookings.

JetBlue has surprised the market with an order for 100 Embraer ERJ-190s. This will allow the carrier, which is not hamstrung by a pilot union scope clause, to enter medium-sized markets, so far untapped by other US majors. The first aircraft will be delivered in 2005. The aircraft are forecast to have a one cent per ASM higher unit cost, but the carrier is confident of achieving higher revenues to compensate for this. The airline's eight-year annual compound growth rate is now put at 24%, implying the airline will have grown by a factor of almost six by 2011. Its current fleet of 42 aircraft is expected to reach about 290 in the same year.

This movement goes in hand with other pilot union and regional aircraft acquisition developments at several US majors. Skywest finalized a contract with United that provides for the flying of 30 70-seat regional jets. United's Chapter 11 reorganisation has also seen the reversal of the pilots' management buyout, with knock-on implications for cost reduction targets.

Several majors have also shown signs of improvement.

Alaska Airlines is focused on cost reduction, and is aiming to reduce annual expenditure by about $100 million. Its annual expenditure in 2002 was $ 2.31 billion, while unit cost was 9.84 cents per ASM.

Continental has achieved the smallest losses of US majors over the past two years, and also managed to maintain a premium unit revenue. The airline is also aiming to make cost savings of $400 million in 2003 and add another $500 million in savings in 2005.

American Airlines has unveiled its turnaround plan, which aims to reduce annual costs by up to $4 billion. Reduction of labour costs by $1.8 billion is part of this plan. Annual costs in 2002 were $20.6 billion, and original estimates for 2003 in January this year were for annual costs of $19.65 billion.

Savings for the June quarter are expected to be about $200 million, and this is forecast to increase to a saving of $400 million for the September quarter.

American, like all other US carriers, started to experience an increase in unit revenues from May and into June, compared to the same months last year. Estimates are that unit revenues rose by 4% in May.

Estimates made in December 2002 for American's performance in 2003 were for an annual revenue of $18.25 billion, costs of $19.65 billion and operating loss of $1.4 billion. Unit revenues and costs were forecast to be 9.83 cents and 10.27 cents per ASM.

Revised forecasts are for annual revenues of $17.34 billion, annual costs of $18.6 billion and an operating loss of $1.29 billion. Unit costs and revenues have been revised to 9.53 and 10.10 cents per ASM. AC

America West is forecast to be one of the first network US carriers to generate an operating profit. The airline has benefited from a simplified fare structure which has resulted in an increase in unit revenues.