Airlines show promise

European & North American airlines are bucking the trend of high fuel prices and a sluggish economy by demonstrating improved operating performance.

British Airways

British Airways (BA) has been experiencing a strong rebound in total traffic, but particularly in premium traffic, following the setbacks caused early last year by the Iraq war and SARS epidemic in the Asia Pacific.

BA's revenue-passenger kilometres (RPKs) were up 12.7% in March over a year before and up 16.1% in April. Load factor has also increased over the year by about six percentage points up to 75.5%.

At a more detailed level, premium traffic increased by 28.1% in April over the year, although a comparison with April 2003 is distorted because of the Iraq war and SARS. On a less distorted basis, April premium traffic was 1.7% higher than April 2002 premium traffic.

BA has also had a rebound in non-premium traffic, which was up 14.5% in April compared to April 2003 but also 13.8% up on April 2002.

BA has also managed to make large cost reductions since 2001. It made a reduction of £760 million ($1.25 billion) from 2002 to 2003, and was aiming to make a further reduction of another £300 million ($495 million) from 2003 to 2004, with an overall objective of bringing annual costs down to £7 billion.

Lufthansa

Europe's other largest carrier, Lufthansa, is also making headway in revenue gains. Analysts Merrill Lynch estimate traffic and revenue for 2004 will be up on 2003, which was down on 2002. Lufthansa was hit by the Iraq war and SARS.

The Lufthansa Group just managed to generate an operating profit of 36 million Euros in 2003, with revenues of 17.11 billion and operating costs of 17.078 billion. Revenue was down 6.6%, but costs also fell by 3.3%.

Passenger load factor dropped slightly to 73.3%, but the Lufthansa Group airlines' biggest problems were weak passenger yields. Merrill Lynch forecasts passenger yields will remain flat for 2004. Traffic volumes and yield mixes have, however, been better so far this year than the same period a year ago. Lufthansa faces risks, however, which include the entry of easyJet into the German market later this year. Lufthansa also faces stiff competition from Air Berlin. Lufthansa is still expected to experience an 8% growth in passenger revenues during 2004. Forecasts are also positive for other Group companies, including a forecast rise of 18.7% in IT services. Overall group revenue is expected to increase by 7.6% for the year, while costs are only forecast to rise by 4.4%, resulting in an operating profit of 595 Euros.

Actual performance for the first quarter of 2004 was slightly worse than forecast, due to the weaker dollar and rise in fuel prices. The operating loss of 116 million Euros was an improvement on a loss of 415 million Euros for the same period in 2003.

Passenger load factor was up by two percentage points to 72.6%, with RPKs increasing by 10.8%. Mainline passenger yields increased by 2.4%, but an improvement of 4.0% was expected. The poorer than expected gain was due to the weakness of the dollar. Removing the effects of dollar weakness, yield was up 7.2%. All main areas of the carrier's network saw a rise in yield.

The main contribution to the improved performance was a fall of 8.2% in unit costs.

The forecast for the full year sees RPK growth of 8.0%, but a zero increase overall for passenger yield.

The general pattern in North America of which airlines are generating profits and those which are making losses is unchanged, but most loss making airlines made headway in the first quarter of 2004 compared to the same first three months of 2003.

JetBlue

Not surprisingly JetBlue was the top performer, with an operating profit margin of 11.3%. This compares to a margin of 15.9% a year ago, but the airline's revenues and traffic volumes have increased by 33.1% and 42.0% over the year. Capacity increased slightly faster than traffic with load factor slipping by 1.4 percentage points. The main culprit for JetBlue's slip in performance was a 6.2% drop in yield and 7.9% decrease in

Following years of declining profits, British Airways has made large reductions in operating costs and is improving its operating margins.

American has made the best improvement in operating performance of all American carriers. In the first quarter of 2003 it made an operating loss of $869 million, and has since increased revenues by $392 million and reduced costs by $519 million, widening its margin by $911 million to an operating profit of $42 million.

overall revenue. Unit costs also decreased by 2.9%. The airline is nevertheless forecast to make an operating margin of 14.3% for the year.

WestJet

WestJet grew faster than any other North American carrier in the first three months of 2004, with a rise in revenue passenger miles (RPMs) of 42.3%, but also suffered the highest drop in yield as a result. Load factor nevertheless increased by 3.4 percentage points.

Costs increased almost in line with revenues, with an operating margin of 3.7% that was a slight improvement on the same quarter in 2003. While WestJet's rapid expansion has seen yields and unit revenues fall, it has also realised economies of scale and costs per available seat-mile (ASM) are down 8.5%.

AirTran

AirTran also grew fast in the first three months of 2004; increasing RPMs by 22.4%. ASM capacity increased by almost the same rate at 21.1%. Yield declined by 5.5% and overall unit revenue by 4.1%. Unit costs fell almost in line as the carrier gained economies of scale in line with capacity growth. The net result was an operating profit of $10 million, equal to a margin of 4.3%. This compares to 4.0% for the same period in 2003.

America West

America West made one of the best improvements in operating margin, with a change in operating performance from a 8.7% loss for the first three months of 2003 to a 3.1% positive margin in the first quarter of this year.

America West was bouyed by a traffic growth of 8.9% and increase in revenues of 10.2%. This was the main cause behind America West's impressive improvement, allowing an operating profit of $18 million. Unit costs declined 8.0%. Yield declined, but less than most other carriers at 1.4%.

Southwest

Southwest made a stable performance, with an operating margin of 3.1% which compares to 3.4% for the same period a year before. Revenues and costs were up by similar levels, resulting in small changes to unit revenue and costs.

American

Of the loss making carriers of a year ago, American Airlines has made the most impressive turnaround. It made an operating loss of $869 million in the first three months of 2003; the largest of all reported carriers in North America. Small profits were made in the two subsequent quarters. The airline has made gains in traffic and revenues of 8.8% and 9.5% for the first three months of 2004 over the same period a year ago. It also managed to reduce costs by 10.4% over the same period.

The $392 million rise in revenues and $519 fall in costs widened operating performance over the year by $911 million to generate an operating margin of $42 million. The forecast for 2004 is an operating profit of $598 million, which compares to a loss of $844 million for 2003.

American also managed to virtually stop the decline in yields that other airlines in North America have suffered, with a drop of only 0.4%. This actually helped to increase unit revenue by 2.0%. Unit cost fell by 16.7%, being the main contributor the American's turnaround. Against a 10.8% higher fuel expenditure, American has acheived its stated cost reductions by reducing labour cost by 22.8%; having reduced its fleet.

Northwest

Although still loss making, Northwest Airlines has managed to increase revenues and traffic while maintaining costs and improving operating performance as a result. Traffic has changed little over the year, but yields have increased by 8.2%; the best performance of all North American carriers. Load factor was also up by three percentage points and unit revenues up by an impressive 15.2%.

Capacity was lower, although high fuel prices meant total costs were little changed, resulting a 10.4% rise in unit cost and causing the loss. Forecasts for the rest of the year are positive, despite high fuel prices, with positive margins expected for the next nine months and the year.

Continental

Continental has also made an improvement with reduced losses, and a forecast for, positive margins for the remainder of 2004. Revenues and traffic were both up 11% on the same period in 2003, while capacity and costs also rose at a similar rate of 6%.

The higher rate of increase of traffic and revenues over costs is the main contributor to Continental's performance, with operating losses reduced from $224 million to $135 million. Continental made an operating profit of $204 million for 2003, and is forecast to make a smaller margin of $110 million for 2004.

The airline with the most serious problems is Delta. The carrier made an operating loss of $388 million in the first three months of the year; equal to 11.8% of revenue. The airline is also forecast to continue generating losses for the remainder of 2004. Although traffic and unit revenue has recovered, the gains are small. Unit cost has also decreased, but only marginally by 2.5% and is still one of the highest of all North American carriers. AC