Mixed airline traffic recovery

Airlines in the US have made consistent recoveries each month in their RPM traffic volumes since the terrorist attacks of September 11th 2001. Monthly gains were strong for most carriers, until January 2002 when load factors exceeded levels achieved a year before. This has strengthened unit revenues, but reduced the rate of traffic recovery. A full traffic recovery should be made by most by April-June 2002.

Five months after the terrorist attacks in New York and Washington, systemwide passenger traffic in revenue passenger-miles (RPMs) for North American and European airlines is recovering at mixed rates.

To gauge actual traffic recovery, monthly RPMs for each airline's complete system are compared with the same month the previous year, before the terrorist attacks. A full recovery will be made when monthly RPMs have recovered to the same level as the year before.

September 2001 RPMs for most North American carriers were more than 30% down on September 2000 RPMs, with USAirways and Frontier the worst hit with falls of 33.4% and 39.9% *(see table, this page)*. Airlines less badly hit were Alaska and Southwest, with declines of 18.7% and 21.6% *(see table, this page)*.

All North American airlines, except USAirways, made an immediate initial recovery in the month after the terrorist attacks, with the gap between the previous year's October traffic being smaller than the September difference *(see table, this page)*. Alaska made a fast recovery, with monthly RPMs improving by 11% to a 7.5% gap on the previous year, and Southwest almost completely recovered to a shortfall of just 0.9% in less than 60 days after the attacks *(see table, this page)*.

Most airlines saw steady improvements in their systemwide RPM data during October, November and December 2001. Simple extrapolation pointed to a full recovery by spring 2002.

Rates of recovery in RPMs at the end of 2001 have not continued into January 2002, however. All North American airlines saw a slower rate of recovery in January, while a few, including Southwest, actually experienced a decline in traffic again.

Continental, which suffered a 31% drop in September 2001, had closed the traffic loss to 22.8% in October, 16.7% in November and 10.6% in December *(see table, this page)*. The average rate of RPM recovery in these three months was therefore just less than seven percentage points per month. Continental's January traffic, however, only improved slightly with a shortfall of 9.5% on the year before *(see table, this page)*. Thus, the airline only managed a one percentage point improvement in January 2002.

This initial steady rate of recovery in late 2001, followed by a reduced rate of recovery in January 2002 was repeated by American, Delta, United, USAirways and Air Canada.

Some carriers actually suffered a drop in traffic in January 2002 compared to December 2001. Southwest, as previously mentioned had 0.6% more traffic in December 2001 compared to December 2000. The carrier's January 2002 traffic, however, was 4.9% down on January 2001. Similar falls in January 2002 were experienced by America West, Northwest and AirTran *(see table, this page)*.

Only Alaska and Frontier continued to recover steadily in January 2002. Alaska completed its recovery in January, with RPMs 0.4% higher than in January 2001. Frontier's fastest rate of recovery was in January, with an 11.6 percentage point increase in December, leading to RPMs being just 1.6% lower than the year before in January 2001 *(see table, this page)*.

While there have been wide differences between full-service and no-frills airlines in the US, Air Canada has recovered at a fast and steady rate. Air Canada had almost made a full recovery by January 2002, with RPMs down only 0.9% on the same month a year before, despite Westjet's continued rapid growth rates, which have recently exceeded 50%.

These varying rates of recovery provide only a general picture of each airline's progress. America West has suffered at the expense of Southwest, which made a fast recovery and gained market share. America West only experienced a recovery in October 2001 with an 11.7% shortfall in the previous year's traffic, before Southwest exploited the situation and took market share from America West at Phoenix. America West's RPMs fell back in November by six percentage points to 17.8% lower than the year before.

Southwest had not only returned traffic to normal, but had also added capacity to take advantage of the market share it was gaining. While most US carriers cut available seat-mile (ASM) capacity in the order of 20%, Southwest's ASM capacity was only 3.6% lower in September 2001 compared to the previous year. While most airlines were still making capacity cuts and adjusting to the shock of the terrorist attacks in September, Southwest actually increased capacity in October to 8.9% higher than

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

Month 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001	Jan 1002
Alaska	-18.7	-7.5	-4.7	-5.2	+0.4
American	-33.7	-27.9	-25.0	-17.4	-15.6
America West	-21.0	-11.7	-17.8	-15.0	-16.7
Continental	-31.0	-22.8	-16.7	-10.6	-9.5
Delta	-32.4	-23.7	-20.1	-9.8	-9.8
Northwest	-30.7	-29.0	-21.7	-11.3	-12.6
United	-31.5	-28.7	-23.5	-18.1	-15.9
US Airways	-33.4	-33.6	-24.6	-22.0	-19.5
AirTran	-28.6	-18.6	-4.8	+5.0	-1.4
Frontier	-39.9	-31.5	-23.4	-13.2	-1.6
Southwest	-21.6	-0.9	-1.2	+0.6	-4.9
Air Canada		-17.9	-8.4	-2.5	-0.9
Westjet	+43.8	+42.0	+52.5	+54.7	+53.2

Alaska is the first of full service US carriers to make a full traffic recovery. Most other airlines made good monthly recoveries between October & December 2001, but regained traffic at a slower rate during January 2002. Airlines have maintained capacity levels almost the same since the cutbacks after September 11th, while traffic has climbed back. Load factors have risen as a consequence, with the knock-on effect of improving yield mix. This itself will reduce the rate of traffic recovery.

the same month in 2000, indicating how fast it moved to take advantage of the situation.

By November 2001 Southwest had nearly made a complete recovery, with ASMs just 1.2% lower a year before, but had 6.9% higher ASMs than a year before; indicating its readiness to take further market share. The same month America West's traffic fell back, but recovered again in December. This appeared to slow Southwest's recovery in the same month. Southwest continued with increased capacity in January, but actually suffered a subsequent drop in traffic of 4.9%.

AirTran made a similar recovery in RPMs to Southwest, its RPMs exceeding the previous year's total in December 2001, but then falling back in January 2002. The airline also added capacity quickly, and was offering 10% more in December 2001 than the year before, indicating that it was expecting to increase its market share by more than it actually achieved.

Most other carriers continued to improve in January 2002, but at a slower rate than in December. High demand during the Christmas season led to strong recovery in December 2001 RPMs for most airlines; the best rate of recovery for most US carriers since the terrorist attacks. Although recovery in January was therefore weaker, traffic recovery rates could rise again in February and March 2002.

Although overall recovery rates in systemwide RPMs are similar each month for many carriers, and the differences with the previous year's traffic may also be close, different airlines are experiencing different rates of recovery in particular sectors of their networks compared to other carriers. The two worst affected networks for US carriers are their domestic and transatlantic systems. Continental, for example, suffered a 35.8% drop in its transatlantic business and 32.3% fall in domestic traffic in September. By January, the airline's domestic RPMs were down just 11.1% on the year before and transatlantic traffic was almost at the same level, while system total traffic was 9.5% lower than a year before.

In contrast, American's domestic and transatlantic RPMs were 36.0% and 29.0% lower in September 2001 than the year before. While system traffic was down 15.6% in January, domestic traffic had recovered well to 13.0% lower than the same period in 2001, but transatlantic traffic was still 27.8% lower.

By January Delta's traffic had recovered to 9.4% lower than the previous year, and its transatlantic system had made one of the strongest recoveries of all US carriers, being 7.2% lower than a year before.

Also by January, both Northwest's and United's transatlantic traffic had recovered better than their trans-Pacific RPMs.

In addition to a recovery in RPMs, North American airlines have also added back ASM capacity. The rates at which airlines have added back capacity follow a similar pattern to the return in traffic volumes. Alaska, AirTran, Frontier and Southwest made the smallest cuts in ASM capacity, with Southwest making the smallest reduction of just 3.6% in September. In January Alaska was still operating with less capacity than in the same month a year before, but AirTran, Frontier and Southwest had all increased capacity to more than the previous year's. Despite this, they did not experience the same levels of traffic increase and suffered reductions in load factor in the region of five to seven percentage points, indicating that these carriers overestimated their ability to take market share from competitors.

Most full service US airlines have added back capacity since the terrorist attacks, but only by a few percentage points from September 2001 to January 2002. American, United and USAirways made the deepest cuts; in the region of a 21-23% reduction in systemwide ASM capacity in the immediate aftermath of September 11th. The reductions in capacity made by these airlines have hardly changed since.

Northwest made a smaller initial cut of 16.9%, and January capacity was still 14.8% lower than the year before.

Continental and Delta have added back the most capacity second to the no-frills and low-cost carriers. In September 2001, Continental made an 18.6% reduction and Delta a 17.6% reduction in ASM capacity in the same month the previous year. By January these reductions had reduced to 13.3% and 12.1% compared to January 2001.

The general trend for most US carriers has been for RPM traffic to recover at a higher rate than the reinstatement of capacity, with the consequence of increased load factors between September 2001 and January 2002.

Besides the no-frills/low-cost airlines, which have increased capacity faster than traffic, all US carriers, with the exception of USAirways, had higher load factors in January 2002 than a year before. Some carriers' load factors were more than three percentage points higher than they were in January 2001.

After the terrorist attacks most airlines suffered a fall in load factor of 9-13 percentage points, as a result of the fall in RPMs being deeper than the cuts in

ASM capacity. Airlines have therefore been successful in allowing traffic to recover without adding back much capacity, resulting in strong load factors. This policy should result in stronger yield mixes through smaller fare discounts, and may also partially explain why the rate of traffic recovery was slower in January than in previous months. A higher yield mix will increase unit revenues, but may also slow the rate of traffic recovery.

While North American carriers have experienced immediate and deep falls in traffic and subsequent steady recoveries, European carriers have had shallower but longer falls in traffic. The largest reductions in traffic did not occur until October and November *(see table, this page)* for most major European airlines. Like the US airlines, the European carriers saw their transatlantic networks worst hit. British Airways (BA), KLM and Lufthansa experienced the largest reductions, with falls in traffic reaching their peak in October and November.

Overall, BA was the worst hit with traffic down 24.7% in October *(see table, this page)*. Although BA was vulnerable to its transatlantic market, all sectors of its network were badly affected. While transatlantic revenue passenger kilometres (RPKs) were down 28.8%, Asia Pacific RPKs were also down 30.3%.

KLM was the second worst hit European carrier, with Lufthansa closely behind. Most European carriers have recovered well. KLM, with the largest reduction in traffic in January 2002, was 7.5% down on RPKs compared to a year before. KLM reported that most sectors of its network were recovering strongly, but its transatlantic system was still weak.

BA had actually recovered better than KLM. Although BA's October 2001 traffic was down 24.7% on the year before, the reduction had closed to 6.9% by January, a 17.8 percentage point improvement in three months. This compares to a 10.2 percentage point improvement by KLM over the same period.

Closer analysis shows that BA's transatlantic traffic was down only 7.9% in January 2002, compared to the largest fall of 32.2% in September 2001 and has recovered well. It was actually weaker on its UK domestic and European network in the same month. This is perhaps reflected by the continued high growth in RPMs that Ryanair and easyJet have experienced since the September 11th terrorist attacks. Ryanair and easyJet are gaining large portions of market share between the UK and Europe, which is causing BA its biggest problems.

Other European airlines had either completely or almost recovered from the terrorist attacks by January 2002. Iberia reported December 2001 traffic slightly higher than a year before, while Air France made a similar report in January. Air France's strongest recovery had actually been on its long-haul network, and it had benefited from the collapse of Sabena at Brussels in the immediate aftermath of the terrorist attacks. Air France's medium-haul and domestic January traffic was still lower than in the previous year.

EUROPEAN MAJOR AIRLINE MONTHLY RPM TRAFFIC COMPARED TO SAME MONTH IN PREVIOUS YEAR

Month	Sep 2001	Oct 2001	Nov 2001	Dec 2001	Jan 2002
Airline					
Air France	-7.0	-10.1	-7.2	-2.2	0.4
British Airways	-22.0	-24.7	-17.8	-10.4	-6.9
Iberia	2.1	-7.5	-2.7	0.6	
KLM	-7.9	-17.7	-18.0	-9.8	-7.5
Lufthansa	-9.5	-16.2	-16.8	-12.4	-7.6
SAS	-4.2	-9.3	-8.4	-3.1	-4.9

Swiss reborn

The end of Swissair seemed impossible less than a decade ago, when the mountain of cash held by the national airline totalled more than 5 billion Swiss francs ($8.55 billion). So what went wrong in 2001? Senior Swiss airline people say that Swissair missed the emergence and growth of world airline alliances, which lifted the strong from national to global stature. Realising its mistake, the SAir Group decided to build its own alliance by buying substantial stakes in Sabena, two French airlines and the German carrier LTU.

Swissair continued to make good money, and slowly its quality standards began to be noticed in the other carriers. But Sabena had never been a commercial airline, and had always served Belgium's interests more than those of its customers, while its cost structure was unenviable. The time was not right to take on French partners in a market dominated by Air France. And LTU, an excellent holiday airline, was not an obvious partner for Swissair. So the cash mountain evaporated.

Swissair looked at the options, but realised the game was over. With a massive injection by Swiss banks and commercial interests Crossair, an airline with its own style and approach, although nominally under the SAir banner, took on the Swissair mantle, even to the point of adopting the old company name of four decades ago, Swiss Air Lines Ltd.

Crossair has historically been cost conscious. Although Swissair staff were invited to join the new company, not all have done so, partly because there are immense cultural differences, but also because the salaries at the new airline are about 30-35% lower than the equivalent posts at Swissair.

Although the 52 aircraft that Crossair 'inherited' from Swissair were technically returned to their financiers, the new airline received a bonus in renegotiating their lease rates down by approximately 35%. The aircraft include 26 A320s, 13 A330s and 13 MD-11s, allowing a wide spread of services throughout the traditional Swissair markets.

Crossair's CEO, Andre Dose, who will become chief executive officer of the new airline, says, "This will give the new company a three-year cost advantage. We will use that time to seek ways to maintain this advantage, and to build up our team and staff relations.

"We are leaving our Alliance position open. We feel that any of the three major Alliances would be happy to welcome us, and we expect to decide which we should join by the end of this year.

"The changeover will cost between SFrs70-80 million ($120-137 million), excluding marketing costs," he says. "The airline will become live at the end of March. In the meantime, Swissair and Crossair will continue to provide services to the destinations now being served."

MTU correction

The article entitled 'Mature CF6-80C2 provides steady maintenance costs across wide applications', on page 23 of the December 2001/January 2002 issue of *Aircraft Commerce* incorrectly quoted Lutz Winkler as being an employee of GE engines. The correct title for Lutz Winkler is manager engineering of GE engines at MTU Maintenance.