Traffic data highlights shift to regionals & low-cost carriers

Analysis of traffic RPM traffic levels of US carriers reveals the shift from majors to regionals and low-cost airlines. The majors, however, have nearly the same domestic traffic volumes they did two years ago.

Revenue passenger miles (RPMs) data reported by US carriers for December 2002 shows that total traffic volume is actually higher for all the US carriers analysed compared to two years before. A two year comparison is made to illustrate how traffic compares to pre-September 11th 2001 levels.

The overall analysis, however, indicates a shift in traffic from the major carriers to regional and low-cost airlines.

The major carriers have almost regained traffic, with RPMs for December 2002 being 4.1% lower than December 2000 *(see table, this page)*. The rate at which these airlines have regained traffic has been slow, however. The airlines which have actually increased traffic are Alaska Airlines, by 15.5%; America West, by 7.5%; Delta, by 1.0%; and Northwest, by 0.8%.

American and Continental's domestic traffic is only about 5% down, although all major carriers are suffering from weak unit revenues. Perhaps surprisingly is United, which also has a traffic volume that is just 3.3% lower than December 2000.

The only carrier to have suffered a large reduction in RPMs is US Airways, which now has about two thirds the traffic it did two years ago *(see table, this page)*. If the effects of USAirways's situation was removed, domestic RPMs for the majors would only be 1.2% less than two years ago. This indicates that for most carriers the first stage required for a recovery is almost complete; that is a full traffic recovery. The second stage will be a strengthening of unit revenues, or at least a significant improvement in unit costs.

Overall, the majors have seen gradual increases in unit revenues, but reports from Merrill Lynch indicate that domestic unit revenues are actually at their lowest since 1995. This is perhaps an indication that lower average fares may become a more permanent feature as competition from low-cost carriers increases.

Since 9/11 traffic volumes have been passed from majors to the regionals. This is illustrated by the 79% increase in RPMs that nine US regionals have experienced *(see table, this page)*. Skywest and Atlantic Coast Airlines have made the largest gains, but all others have seen large increases in volume compared to overall US and global traffic growth for the past two years. The smallest gain, made by American Eagle, was 31.8%. Despite these large gains, regionals have deferred further orders for regional jets.

These figures disguise several factors. First, traffic growth for regionals has come about because major airlines have offloaded routes for the regionals to carry the passengers. Some of this growth has been accommodated by increased load factors from normal levels. Regional airline load factors have historically been at the 50-55% level. Skywest, for example, has seen as its load factor increase from 56% to 73.6% in the past two years.

The regional carriers are also flying longer average sectors with regional jets. This would boost both RPMs and available seat miles (ASMs) capacity without any increase in passenger numbers.

Regional carriers have nevertheless experienced large increases in passenger numbers over the same period. Using the same example, Skywest's monthly passenger numbers were 452,000 in December 2000 and increased by 76% to 800,000 in December 2002. The regionals have increased their fleets in the past two years, as well as swapping smaller turboprops for larger jets, to accommodate this. There are limits to this continued growth, since airline Scope clauses will limit the quantity of aircraft, and therefore traffic, that the regional carriers can operate.

Besides the regionals, low-cost airlines have also made large gains. Taking the four prominent airlines of AirTran, Frontier, Jetblue and Southwest to examine this shows their traffic has increased by 28.5% *(see table, this page)*. Southwest has made a more modest gain, but is a mature carrier. Others have made large inroads into major airline traffic, with Jetblue attracting the most attention with a near quadrupling of traffic.

The traffic volumes of these four airlines is now about 18% of the majors'; which illustrates the danger low-cost airlines pose to majors. Low-cost airlines are able to take advantage of the current situation, since majors making losses find it hard to compete in a low fare environment. Lower fares will become a long-term feature, which highlights the need by majors to make long-term reductions in their costs. AC

US AIRLINE DECEMBER 2000 Vs DECEMBER 2002 DOMESTIC TRAFFIC (RPMS)

Airline	December 2000	December 2002	Difference %
Traffic volume-Domestic RPM millions			
Alaska Airlines	1,044	1,206	15.5%
American Airlines	7,744	7,387	-4.6%
America West	1,582	1,700	7.5%
Continental	3,212	3,052	-5.0%
Delta	6,130	6,193	1.0%
Northwest	3,445	3,474	0.8%
United	6,114	5,910	-3.3%
US Airways	3,307	2,324	-29.7%
Total	**32,578**	**31,246**	**-4.1%**
Horizon Air	108	145	34.3%
American Eagle	286	377	31.8%
ASA	171	307	79.5%
ACA	116	262	125.9%
Comair	228	374	64.0%
Continental Express	252	384	52.4%
Mesa	145	205	41.4%
Pinnacle	*	165	N/A
Skywest	107	310	189.7%
Total	**1,413**	**2,529**	**79.0%**
AirTran	357	542	51.8%
Frontier	228	353	54.6%
Jetblue	200	751	275.5%
Southwest	3,525	3,891	10.4%
Total	**4,310**	**5,537**	**28.5%**
US Total	**38,301**	**39,312**	**2.6%**

Was included in Northwest Airline's December 2000 traffic