

After years of grappling with overcapacity, weak passenger yields and rising fuel costs, all US airlines have achieved stable financial performance. The main contributors to this are a strong control of non-fuel costs, and an overall discipline by the industry to avoid excess capacity.

# US legacy airlines & LCCs attain stable profitable performance

Since *Aircraft Commerce* prepared its last review of US airlines' financial performance (see *US airline costs: have the majors done enough?*, *Aircraft Commerce*, December 2008/January 2009, page 29), US carriers have made substantial strides towards restoring sustainability and profitability. With the exception of American Airlines (AA), operating profits returned to positive territory in 2010 with an industry-wide operating margin exceeding 5%. This compares to a small loss in 2009, and a -5.5% operating loss in 2008.

This improvement is despite the continued existence of a weak, although gradually improving, economic environment and high fuel prices. This all began with the last economic downturn in 2008 after US carriers had only just returned to profitability for 2006 and 2007 post 9/11.

Airlines have responded in a variety of ways. First the consolidation process among major airlines has continued since 2008, and a merger between American and US Airways would continue that process. Some capacity has been removed from the domestic market in response to reduced demand, and carriers have been able to increase fares and yields, while also improving load factors. These factors will be examined below in closer detail.

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*Following its absorption of Northwest Airlines, Delta has achieved one of the highest operating margins of all US airlines.*

## Financial performance

From 2009 US legacy airlines and low-cost carriers (LCCs), including Southwest and jetBlue, were hit by reduced revenues following the financial crisis of 2008.

In 2009 industry revenues declined by \$6 billion from \$126.2 billion in 2008 to \$119 billion.

By the end of 2010, systemwide revenue had almost recovered to 2008 levels, standing at \$125 billion (see *table, page 6*). At the end of 2011 growth from the 2008 base had resumed, reflecting the resumption of slow economic growth both domestically and internationally.

Revenues in 2011 were \$135 billion, surpassing the previous high of \$126 billion in 2008.

This benefited all carriers, although some grew a bit faster than others. Southwest gained a notable benefit, but its figures include the absorption of AirTran from 2010.

During 2008 the world economy suffered not only from a financial shock, but also a spike in fuel costs so that total systemwide costs increased by \$21 billion to \$133.1 billion against a smaller revenue increase (see *table, page 6*).

Aggressive cost-cutting measures were introduced, which led to a \$26 billion reduction of costs to \$119.4 billion in



## US AIRLINE FINANCIAL PERFORMANCE - GROUP RESULTS

	2007	2008	2009	2010	2011	2012 (3Qtrs)
<b>Revenues \$m</b>						
Alaska	3,506	3,663	3,400	3,832	4,318	2,971.8
AMR Corp	22,935	23,766	19,917	22,170	23,973	16,593.9
Continental	14,232	15,241	12,587			
Northwest	12,528					
UAL Corp	20,143	20,194	28,608	34,109	37,110	23,484.7
AM West/ US Airways	11,700	12,118	10,458	11,908	13,055	8,106.9
Southwest	9,861	11,023	10,351	14,724	16,596	12,910.4
Jetblue	2,842	3,388	3,286	3,779	4,504	3,768.8
Airtran	2,310	2,552	2,341	2,619		
Total Revenues-\$	119,211	126,218	119,011	124,896	134,671	91,075
<b>Costs - \$m</b>						
Alaska	3,294	3,835	3,132	3,361	3,869	2,466.3
AMR Corp	21,970	25,655	20,921	21,862	24,367	16,522.3
Continental	13,545	15,555	12,734			
Delta	18,058	35,317	28,387	29,538	33,140	21,176.1
Northwest	11,424					
UAL Corp	19,106	22,355	28,625	32,190	35,288	22,984.9
AM West/ US Airways	11,167	13,918	10,341	11,127	12,629	7,387.6
Southwest	9,072	10,574	10,089	13,584	15,934	12,378.3
Jetblue	2,673	3,279	3,007	3,446	4,182	3,454.5
Airtran	2,172	2,624	2,164	2,491		
Total Costs -\$m	112,481	133,112	119,400	117,599	129,409	86,370
Total Fuel -\$m	28,949	41,913	27,175	29,755	38,207	31,201
<b>Op.Margin-\$m</b>						
Alaska	212	-172	267	472	449	506
AMR Corp	965	-1,889	-1,004	308	-394	72
Continental	687	-314	-147			
Delta	1,096	-1,044	-324	2,217	1,975	2,063
Northwest	1,104					
UAL Corp	1,037	-2,161	-17	1,919	1,822	500
AM West/ US Airways	533	-1,800	117	781	426	719
Southwest	789	449	262	1,140	662	532
Jetblue	169	109	279	333	322	314
Airtran	138	-72	177	128		
Total Op.Margin	6,730	-6,894	-389	7,297	5,262	4,705
<b>Industry Margin</b>	<b>5.6%</b>	<b>-5.5%</b>	<b>-0.3%</b>	<b>5.8%</b>	<b>3.9%</b>	<b>5.2%</b>

2009, mainly because fuel prices eased considerably in that year.

From 2010 onwards, costs continued to creep upwards, but that increase was smaller than the corresponding change in revenues. This suggests that the industry was achieving some success in reducing those non-fuel costs that can be controlled.

From a profitability perspective, all carriers, except the two largest LCCs, were in negative territory by the end of 2008, with a combined systemwide operating loss of \$6.9 billion, or a negative operating margin of 5.5% (see table, this page). Domestic operations accounted for \$4.9 billion of this loss for all major US airlines in 2008. This is in sharp contrast to the systemwide airline group profits of \$6.73 billion in 2007.

By 2010 the loss from 2008 had recovered from close to break-even in 2009, to a \$7.3 billion operating margin

in 2010. This included an operating profit of \$4.3 billion for all major airlines' performance on domestic operations.

Industry performance declined again in 2011 to a systemwide profit of \$5.3 billion, which was largely due to a resurgence in fuel prices. This is because over the year industry revenues actually grew by \$10 billion, but costs grew faster. Fuel costs increased by \$8.5 billion, and non-fuel costs grew by \$3.4 billion. This result, however, included an operating profit of \$3 billion for domestic operations (see table, page 8).

Based on preliminary indications for the first three quarters of 2012, full-year profitability should improve.

A notable exception is AMR Group, which continued to have a negative operating margin in 2011 and is now under Chapter 11 bankruptcy protection. Its domestic operations have been persistently unprofitable, with losses of

\$1.6 billion in 2008, \$980 million in 2009, and \$610 million in 2011 (see table, page 8). Only in 2010 did it make a modest operating margin of \$156 million, equal to 1.3% of revenue.

It is perhaps surprising that the LCCs are now not performing any more strongly than some of the legacy carriers; a shift from the patterns of past performance. Alaska and Delta were the leaders in 2011, along with jetBlue.

Given the volume of international operations, which varies considerably between the carriers concerned with some airlines, particularly LCCs, operating few services outside the US, a closer look at domestic financial performance provides a more balanced assessment of each carrier's relative performance.

On a domestic systemwide basis, 2008 was also the worst year in terms of operating profit (see table, page 8), with losses of \$4.9 billion. International operations added a further 50% to those losses to take the total loss to \$6.9 billion (see table, this page).

The 2009 loss of \$389 million included a \$1.46 billion loss from domestic operations that year, while international traffic and operations recovered to generate an operating margin of \$1.08 billion.

By 2010 there was a more dramatic reversal of fortune, with domestic operations generating a \$4.3 billion operating profit, while international profitability also climbed to more than double the previous year's performance to generate an industry systemwide margin of \$7.3 billion (see table, this page), the best year for the industry.

In terms of the difference between LCCs and legacy carriers, the former operate more predominantly in the domestic arena so that their operating profits are stronger on this basis. Southwest generated an operating profit of \$1.14 billion in 2010.

Alaska and Delta, however, were strong performers among the legacy carriers in 2011.

International operations have always been lucrative for the US carriers that have the traffic rights. The period since 2009 has been no exception, although the financial crisis of 2008 saw international revenues decline, particularly on transatlantic routes.

Profits from domestic operations have always been far more challenging to achieve, especially since the events of 9/11 in 2001.

The six majors recorded losses during 2008 from domestic operations of \$5.4 billion. All majors, with the exception of Delta, made a systemwide loss.

The situation improved in 2009 with half the majors generating smaller positive margins, but the losses incurred by American, Continental and United

## US AIRLINE FINANCIAL PERFORMANCE - DOMESTIC OPERATIONS

	2007	2008	2009	2010	2011
<b>Alaska Airlines</b>					
Tot Revenue	2,790	2,773	2,566	2,963	3,354
Tot Costs	2,707	2,780	2,353	2,493	2,886
Op Profit	83	-47	213	469	468
<b>AMR Corp</b>					
Tot Revenue	12,448.1	12,453	10,637	11,724	12,188
Tot Costs	12,525	14,076	11,615	11,568	12,798
Op Profit	-77	-1,624	-978	156	-610
<b>Delta Airlines</b>					
Tot Revenue	17,080	16,847	15,106	16,797	18,267
Tot Costs	15,174	16,437	14,551	14,520	15,561
Op Profit	1,905	410	555	2,276	2,706
<b>UAL Corp</b>					
Tot Revenue	9,758	9,456	12,678	14,156	15,183
Tot Costs	9,626	10,777	13,681	14,511	15,760
Op Profit	132	-1,321	-1,002	-356	-577
<b>Continental Airlines</b>					
Tot Revenue	6,066	5,981	4,979	6,879	7,430
Tot Costs	6,750	7,318	6,027	6,444	7,170
Op Profit	-685	-1,337	-1,048	436	260
<b>US Airways</b>					
Tot Revenue	7,344	7,252	6,239	6,879	7,430
Tot Costs	6,939	8,706	6,108	6,444	7,170
Op Profit	405	-1,453	130	436	260
<b>Total major airlines</b>					
Tot Revenue	55,486	54,722	52,206	52,519	56,423
Tot Costs	53,722	60,094	54,336	49,537	54,174
Op Profit	1,764	-5,372	-2,130	2,982	2,248
<b>Southwest</b>					
Tot Revenue	9,486	11,007	10,334	12,093	16,512
Tot Costs	9,056	10,558	10,072	11,105	15,876
Op Profit	790	449	262	988	635
<b>AirTran</b>					
Tot Revenue	2,310.4	2,553	2,341	2,619	3,704
Tot Costs	2,172.1	2,625	2,164	2,491	3,583
Op Profit	138	-72	177	128	120
<b>jetBlue</b>					
Tot Revenue	2,820	3,351	2,981	3,156	3,704
Tot Costs	2,654	3,267	2,755	2,957	3,583
Op Profit	166	85	226	199	120
<b>Total LCCs</b>					
Tot Revenue	14,976	16,911	15,567	17,868	20,216
Tot Costs	13,881	16,449	14,991	16,553	19,460
Op Profit	1,095	462	665	1,315	756
<b>Total All Airlines</b>					
Tot Revenue	70,462	71,633	67,863	70,387	76,638
Tot Costs	67,603	76,543	69,327	66,090	73,634
Op Profit	2,859	-4,910	-1,464	4,297	3,004

Source: The Airline Monitor

exceeded these, and the majors collectively made a loss of \$2.1 billion from domestic operations (see table, this page).

The situation more than reversed in 2010, with all airlines, except United, which had recently absorbed Continental, reporting strong operating margins. Delta and Alaska had the best performances.

Domestic operating performance was almost as strong in 2011. Despite the majors' overall improvement, American

and United have persistently reported losses and weak performance.

Fourth quarter 2012 and annual results have just been released by many of the US majors. Delta was up to \$2.8 billion, while USAirways doubled its 2011 performance with an operating margin of \$856 million. This would have been even better, but for the negative impact of Hurricane Sandy in the final quarter, which caused Delta to show a net loss of \$63 million.

At Delta, full year revenue rose 4% to \$36.7 billion, while expenses rose to \$34.5 billion. At US Airways revenues rose 5.9% to \$13.8 billion, while expenses rose by 2.7% to \$13.0 billion.

American reported a 2012 net loss of \$1.8 billion for 2012, which was only marginally better than 2011, most of this relates to Chapter 11 reorganisation costs of \$2.2 billion. Revenue increased by 3.7% to \$24.9 billion, while expenses reduced by 1.1% to \$24.7 billion.

In contrast, United reported a massive reduction in operating profit to a mere \$39 million from \$1.8 billion in 2011. This reflects a poorer revenue and costs performance, during which revenue remained flat at \$37.2 billion but expenses rose by 5.2% to \$37.1 billion. Non-recurring expenses, however, related to the integration of Continental and United also increased by \$830 million.

## RASM & CASM

Another useful tool for examining airline profitability is the difference between unit revenue per available seat mile (RASM) and unit cost per available seat mile (CASM). This has been made for domestic operations, as shown (see table, page 9).

This shows that in 2008, on a domestic systemwide basis a CASM of 13.0 cents exceeded a RASM of 12.17 cents, a difference of almost a cent in 2008 (see table, page 9), which reflects the worst performance of the period and resulted in the operating loss of \$4.9 billion.

By 2010 this position had been almost reversed with RASM exceeding CASM by 0.79 cents. This was a particularly strong performance, equal to an industry-wide domestic operating profit of \$4.3 billion and an operating margin of 6.1%.

This gap reduced to a positive of 0.55 cents in 2011 (see table, page 9). This was still equivalent to an industry-wide operating profit of \$3 billion, equal to an operating margin of 3.9%.

On an individual airline basis, this comparison is more revealing than absolute numbers. While this shows that in 2011 many of the legacy carriers had comparable costs, American's difference between RASM and CASM meant that it was the only carrier to remain in negative territory. In fact, American's cost base was better than many of its peers including those of United and Delta, but its RASM performance was poor (see table, page 9).

This is consistent with its poorer yield performance against the same carriers, and suggests that American's revenue management has performed poorly compared to its peers.

In contrast, Delta and Alaska have had impressive performances, with

RASM exceeding CASM by more than 2.0 cents in Delta's case in 2010 and 2011.

## Revenue analysis

Due to high fuel costs and lower demand, airlines have cut capacity. This was particularly marked in 2010 immediately following the financial crisis and Continental's merger with United (*see table, this page*). Systemwide domestic available seat miles (ASM) were down by 11% compared to the year before, and domestic capacity has not since been restored to previous levels.

In fact, domestic capacity provided by United in 2010, having absorbed Continental that year, was the same as United's own capacity in 2009 (*see table, this page*). In 2009, Continental's and United's combined domestic capacity was 168 billion ASMs. This was 52 billion ASMs lower in 2010, a reduction of 30%. Capacity declined even further in 2011 by another 3%.

Total US domestic capacity in 2010 was about 46 billion ASMs lower than in 2009. This reduction is almost equal to the domestic capacity that resulted from the merger between Continental and United. Total ASMs in 2011 were about 43 billion less compared to 2009; again the reduction was close to United's capacity in 2011 versus United's and Continental's combined capacity in 2009.

Overall domestic capacity provided by the other four majors and the three main LCCs changed little in the period from 2008 to 2012. Delta and American have reduced their ASMs, but USAirways has changed little, while Alaska Airlines has increased.

United's absorption of Continental, with the rationalisation of its domestic network, is therefore almost solely responsible for the reduction in US domestic capacity since 2007.

The number of flights operated in 2009/10 was reduced even further by 14%, and much of this capacity has not been restored. This is not reflected as much in ASMs, however, because most service cuts were short-haul flights with fewer seats, so that ASMs have increased again from 2010 onwards.

Apart from a largely short-haul based reduction in systemwide capacity, airlines have also reduced service at certain hubs. According to Federal Aviation Authority (FAA) figures, there have been substantial cuts at secondary hubs, particularly in the Midwest region.

This includes large reductions in capacity and operations at Delta's hubs in Cincinnati and Memphis by more than 60% and 40%. American has cut services at St. Louis by 25%, and US Airways has cut services at Pittsburgh by 40%. Delta and American have reduced domestic

## US AIRLINE DOMESTIC TRAFFIC & CAPACITY, UNIT REVENUE & COSTS

	2007	2008	2009	2010	2011
<b>Alaska Airlines</b>					
RPM	16,353	16,726	16,757	18,718	20,637
ASM	21,503	21,777	21,166	22,553	24,268
Yield	13.87	14.05	12.92	13.06	13.48
RASM	12.98	12.55	12.13	13.14	13.82
CASM	12.59	12.76	11.12	11.06	11.89
<b>AMR Corp</b>					
RPM	89,864	83,289	76,726	77,242	76,254
ASM	108,525	101,818	92,929	93,140	91,600
Yield	12.64	13.31	11.95	13.02	13.79
RASM	11.47	12.23	11.45	12.59	13.31
CASM	11.54	13.83	12.50	12.42	13.97
<b>Delta Airlines</b>					
RPM	105,706	99,350	91,273	92,426	91,685
ASM	127,776	117,340	107,838	109,486	108,044
Yield	13.08	13.45	11.41	12.63	13.93
RASM	13.37	14.36	14.01	15.34	16.91
CASM	11.88	14.01	13.49	13.26	14.40
<b>UAL Corp</b>					
RPM	69,856	63,869	99,982	98,650	96,096
ASM	83,922	77,331	118,684	116,180	112,847
Yield	12.54	13.33	11.20	12.40	13.82
RASM	11.63	12.23	10.68	12.18	13.45
CASM	11.47	13.94	11.53	12.49	13.97
<b>Continental Airlines</b>					
RPM	46,541	44,186	41,964		
ASM	55,464	52,939	49,394		
Yield	12.60	13.06	11.21		
RASM	10.94	11.30	10.08		
CASM	12.17	13.82	12.20		
<b>US Airways</b>					
RPM	49,354	47,879	44,281	43,837	45,056
ASM	60,502	58,042	53,214	52,669	53,120
Yield	13.18	13.33	11.69	12.96	14.05
RASM	12.14	12.49	11.72	13.06	13.99
CASM	11.47	15.00	11.48	12.23	13.50
<b>Total major airlines</b>					
RPM	377,674	355,300	370,982	330,873	329,729
ASM	457,692	429,247	443,224	394,027	389,878
Yield	12.86	13.36	10.27	12.72	13.85
RASM	12.12	12.75	11.78	13.33	14.47
CASM	11,74	14.00	12.26	12.57	13.90
<b>Southwest</b>					
RPM	72,320	73,493	74,459	78,049	102,819
ASM	99,636	103,274	98,004	98,440	127,218
Yield	12.68	13.91	12.84	14.25	14.71
RASM	9.88	10.66	10.54	12.28	12.98
CASM	9.09	10.22	10.28	11.28	12.48
<b>AirTran</b>					
RPM	17,229	18,725	18,480	19,331	
ASM	22,673	23,729	23,257	23,775	
Yield	12.73	12.79	11.26	12.13	
RASM	10.19	10.76	10.07	11.02	
CASM	9.58	11.06	9.31	10.48	
<b>jetBlue</b>					
RPM	25,720	26,069	22,587	24,211	26,195
ASM	32,148	32,436	28,056	29,570	31,541
Yield	10.24	11.72	11.89	11.85	12.92
RASM	8.77	10.33	10.63	10.67	11.74
CASM	8.25	10.07	9.82	10.00	11.36
<b>Total LCCs</b>					
RPM	115,269	118,287	115,525	121,592	129,014
ASM	154,457	159,439	149,317	151,784	158,759
Yield	12.14	13.25	12.40	13.44	14.34
RASM	9.70	10.61	10.49	11.77	12.73
CASM	8.99	10.32	10.04	10.91	12.26
<b>Total All Airlines</b>					
RPM	492,942	473,587	486,508	452,465	458,743
ASM	612,149	588,685	592,541	545,811	548,637
Yield	12.69	13.33	10.78	12.91	13.99
RASM	11.51	12.17	11.45	12.90	13.97
CASM	11.04	13.00	11.70	12.11	13.42

Source: The Airline Monitor

## US AIRLINE SYSTEMWIDE UNIT COSTS

Year	Alaska	AA	Majors Delta	UAL	Cont	USAir	AVG	S.West	Low Cost Airtran	J.Blue	AVG
2008											
NonFuel ASM	8.05	9.22	7.69	8.30	7.78	9.89	8.49	6.81	6.31	5.90	6.34
Fuel ASM	4.35	4.87	5.40	5.33	4.73	4.74	4.90	3.41	4.75	4.17	4.11
Total ASM	12.40	14.09	13.09	13.63	12.51	14.63	13.39	10.22	11.06	10.07	10.45
2009											
Non-Fuel ASM	8.55	9.25	8.18	7.91	7.99	8.54	8.40	7.32	6.54	6.38	6.75
Fuel ASM	2.35	3.20	3.60	2.66	2.77	2.52	2.85	2.96	2.77	2.80	2.84
Total ASM	10.90	12.45	11.78	10.57	10.76	11.06	11.25	10.28	9.31	9.18	9.59
2010											
Non-Fuel ASM	7.95	9.21	8.14	8.41		8.49	8.44	7.77	7.03	6.68	7.16
Fuel ASM	2.97	3.64	3.76	3.39		3.25	3.40	3.51	3.45	3.10	3.35
Total ASM	10.92	12.85	11.90	11.80		11.74	11.84	11.28	10.48	9.78	10.51
2011											
Non-Fuel ASM	7.75	9.81	8.32	8.63		8.55	8.61	7.90		6.78	7.34
Fuel ASM	4.06	4.63	4.81	4.35		4.56	4.48	4.53		4.34	4.44
Total ASM	11.81	14.44	13.13	12.98		13.11	13.09	12.43		11.12	11.78

ASMs by about 8% and 11% since 2008.

RPMs have held steady since 2010, meaning that load factors gradually increased to a high of 84.6% in 2011. This in turn had the effect of increasing revenue for each flight, while at the same time discouraging fare discounting as there were fewer empty seats. Passenger yields consequently improved.

## Passenger yields

Yield that is defined as passenger revenue divided by RPMs (unit revenue per occupied seat) is also showing a marked improvement. On a domestic systemwide basis, this increased to almost 14 cents per RPM from 13.4 cents in 2008 (see table, this page).

Not surprisingly, yields reached a low of 10.78 cents in 2009 when passenger revenue had declined to its lowest level in recent years following the financial crisis of 2008. This yield pattern showed a broadly similar trend across all legacy carriers and LCCs.

Consolidation of domestic networks from 2010, mainly due to the absorption of Continental into United, and an improvement in the economy following the shock of the 2008 financial crisis resulted in improved yields in 2010. Yields then improved substantially in 2011.

As well as the effect of total domestic capacity, the change in the number of airlines also has to be considered. In addition to the merger between United and Continental, Southwest has absorbed its smaller rival, AirTran, since 2008.

This means that from a competitive perspective, there were five legacy carriers and just two LCCs remaining by the end of 2011. If the issue of Alaska Airlines not operating nationwide is considered, most of the US market is served by just four majors. This could be reduced to three if US Airways is permitted to merge with American. This consolidation process clearly makes it easier for airlines to maintain or increase fares.

Improving load factors and yields also suggest that there has been an increase in fares. Indeed by reducing the number of flights and improving loads, carriers have been able to sustain fare increases.

According to the Bureau of Transportation, such fare increases were most significant in short-haul fares where most flights were cut and average fares increased from about \$135 per sector to almost \$165. Airlines have also increased passenger revenue through the unbundling of fares by implementing additional fees for services that were previously included in the ticket price. This includes add-ons, such as baggage fees and seat selection. It is also likely that the increasing sophistication and improvements in yield management systems have allowed fares and loads to be optimised on a route-by-route basis.

## Costs

Given the volatility of oil prices in recent years, it is not surprising that fuel costs have become the biggest factor in determining overall airline costs. About 10 years ago fuel represented less than

15% of total operating costs. By the end of 2008 this had hit a high of 40%, although the average for the year stood at 37.2% for all legacy airlines and LCCs, including their regional subsidiaries or partners (see table, this page).

Average annual fuel price per US gallon (USG) stood at \$3.06 in 2008, although it peaked at about \$4 in the middle of the year.

Average prices tumbled back to \$1.90 in 2009, but have risen steadily since that time and were back at the 2008 average for 2011. For the first three quarters of 2012 they stood at an average of \$3.24 per USG, so that fuel now represents about 36% of total costs of major legacy operators and LCCs, excluding their regional partners.

The picture is not consistent between different US carriers, however. In 2011 fuel costs represented about 29% of total costs for American and Delta, and 27% and 28% for UAL and Alaska respectively. This percentage was greater for the LCCs, however, with 36% for Southwest and 39% for jetBlue. This could reflect a combination of factors.

A partial explanation could be that LCCs are less burdened by legacy carrier cost structures. Fuel will therefore account for a higher percentage of total costs for the LCCs compared to the majors.

The cost of fuel should to some extent be counter-balanced, however, by the LCCs' younger and more fuel-efficient fleets.

The difference is also likely to reflect the greater predominance of short-haul



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flights at LCCs, which consume more fuel per hour and per ASM than long-haul flights. It would also reflect a smaller average aircraft size for the LCCs.

From a non-fuel cost perspective, the major/legacy airlines have successfully maintained non-fuel costs closer to previous levels. The data (*see table, page 10*) illustrate the systemwide industry trend on a unit cost per ASM.

Fuel unit costs per ASM declined from an average of 4.90 cents in 2008 to 2.85 cents in 2009. This parallels a drop in the average price per USG from about \$3.06 in 2008 to about \$2.85 in 2009.

The price of crude oil and fuel climbed again in 2010, and average unit cost was 3.40 cents per ASM in 2010, 0.55 cents and 19% higher than the year before.

The average unit cost continued to climb in 2011, and reached 4.48 cents, a jump of 108 cents and 32%.

These fluctuations in fuel costs contrast with non-fuel unit costs. The legacy operators show a fairly consistent pattern from 2008 to 2011, with USAirways having marginally higher costs than the other majors. Alaska has the lowest non-fuel costs of the legacy carriers. The five or six legacy airlines, however, have all maintained non-fuel unit costs at a steady level. Moreover, they are all relatively close to the average. Average unit non-fuel cost for 2008 was 8.49 cents per ASM, and had increased to 8.61 cents by 2011, a 4% increase in three years.

USAirways has made the best effort in bringing its costs under control. Non-fuel unit cost was 9.89 cents in 2008 and was brought down to 8.54 cents in 2009; it has remained at this level since.

American has persistently had the

highest costs of all majors, being 9.22 cents in 2008 and climbing rapidly from 9.21 cents in 2010 to 9.81 cents in 2011. The carrier entered Chapter 11 bankruptcy protection in November 2011.

As would be expected, the LCCs have lower non-fuel unit costs, with a favourable difference of a CASM in the order of 1.30 cents to more than 2.00 cents lower than the major/legacy airlines. Unlike the major airlines, the LCCs have actually failed to keep non-fuel costs under control, and they have steadily crept up since 2008. Average unit cost for Southwest, AirTran and jetBlue in 2008 was 6.34 cents. This rose to 6.75 cents in 2009 and climbed again to 7.16 cents in 2010. By 2011, with Southwest's absorption of AirTran, the average with jetBlue was 7.34 cents. Southwest has had consistently higher costs than jetBlue by the order of 0.45-0.60 cents per ASM.

Perhaps surprisingly, Southwest's non-fuel unit costs climbed from 2009 to 2011 to reach and even exceed Alaska Airline's unit cost. In 2011, Southwest's unit non-fuel cost was just 0.40 cents less than Delta's.

Finally, a brief assessment of the number of employees reveals that the continuing, long-term process of reducing staff numbers to reduce costs has had some limited success.

All airlines combined shed a total of just under 16,000 employees in 2009. This process has been on-going since the start of the decade, but in 2010 and 2011 the employee headcount started to rise again in line with the increase in ASMs.

This picture is not consistent between all airlines, however. The number of employees for the legacy carriers has stabilised, while almost all of the increase

*United's absorption of Continental resulted in a drop of ASM capacity in 2010 that was actually greater than Continental's ASM capacity in 2009. This reduction of about 50 billion ASMs has been maintained by the whole industry since 2010, and has contributed to higher load factors and improved passenger yields.*

is accounted for by the growth of LCCs.

The ability of majors/legacy airlines to control non-fuel costs can therefore be credited to other cost categories, such as maintenance, flight and cabin crew, and sales-related costs.

The pattern of total unit costs has been for them to decline and climb again in parallel with the changes in the price of oil and fuel. The average total unit cost for the majors climbed from 11.84 cents in 2010 to 13.09 cents in 2011, in parallel with the 1.08 cents rise in unit fuel cost.

## Concluding remarks


Despite the continued challenging economic environment in the US, the airline industry has had a significant amount of success in restoring profitability since 2009.

From a legacy carrier perspective, this achievement is partially due to United's absorption of Continental and the reduction in total system domestic capacity that followed, plus the fact that there were fewer airlines to choose between.

This reduction then led to higher load factors and improved passenger yields, and so consequently much improved unit RASM. Legacy airlines' unit revenues increased by 23% from 11.78 cents to 14.47 cents from 2009 to 2011. While 2011's total domestic capacity and RPMs were 7.4% and 5.7% lower than 2009's, passenger revenues increased by \$11.75 billion over the same period.

Success has also come from the airlines' ability to keep non-fuel unit costs under control.

LCCs, meanwhile, have also consolidated capacity to a degree, since this was temporarily reduced in 2009 and 2010. The LCCs have done particularly well in improving load factors and net passenger yields. The LCCs' net passenger yields have actually been higher than the majors' yields since 2009.

With the possibility of there being little scope to reduce non-fuel costs and limited or no ability to control fuel costs, the only option for airlines is to continue to maintain discipline with capacity to keep load factors and yields high. 

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