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U.S. Airlines, Air Service & Ongoing Investment in Planes, Products and People

John P. Heimlich
Vice President & Chief Economist
ACH Revenue Accounting Committee Meeting
April 25, 2018

Airlines for America (“A4A”) Member and Associate Member Airlines

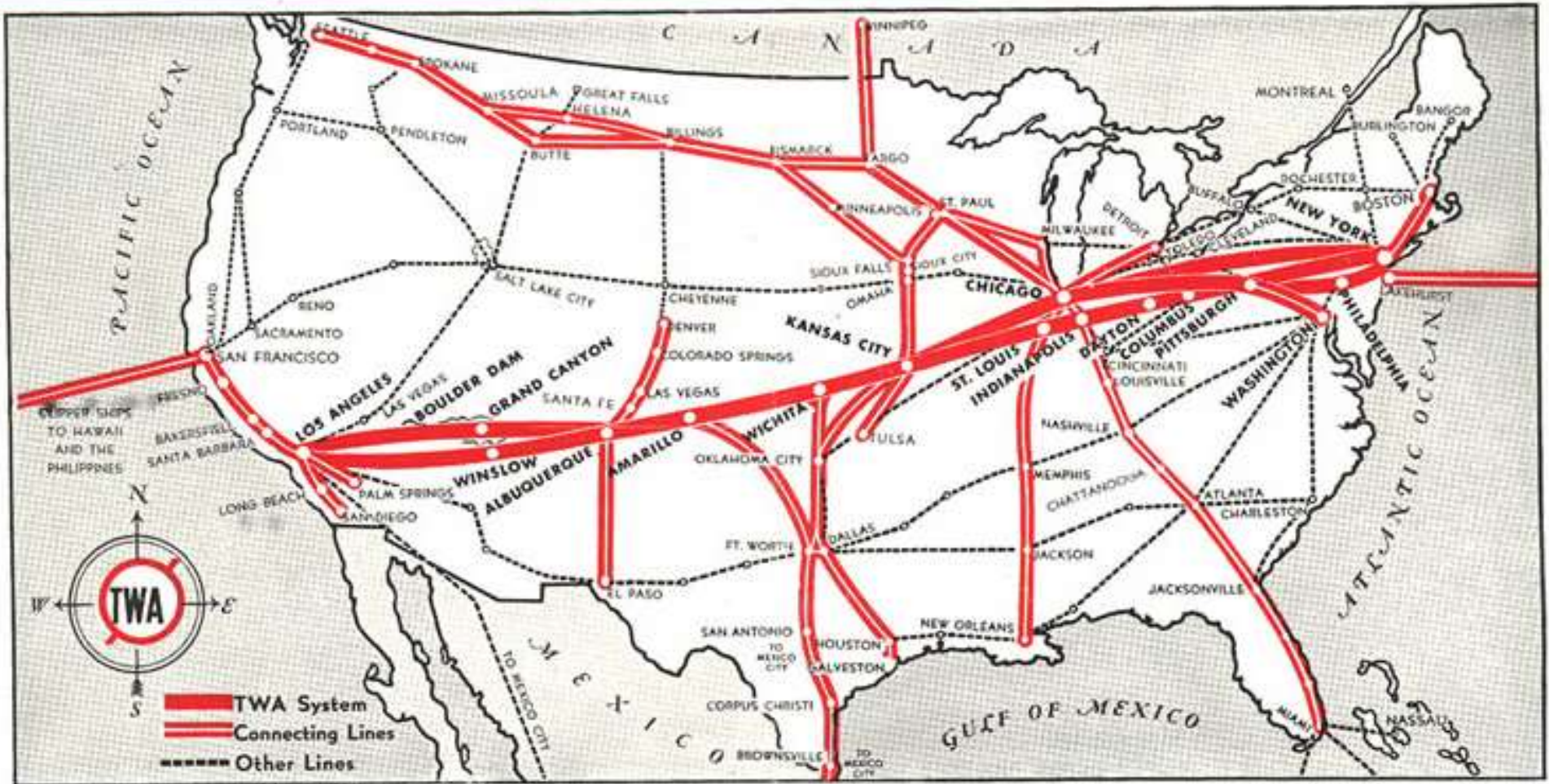
Founded in 1936 as Principal Trade Association for U.S. Passenger and Cargo Airlines



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BOS-LAX Was Not a Simple Journey in the So-Called “Golden Age” of Air Travel

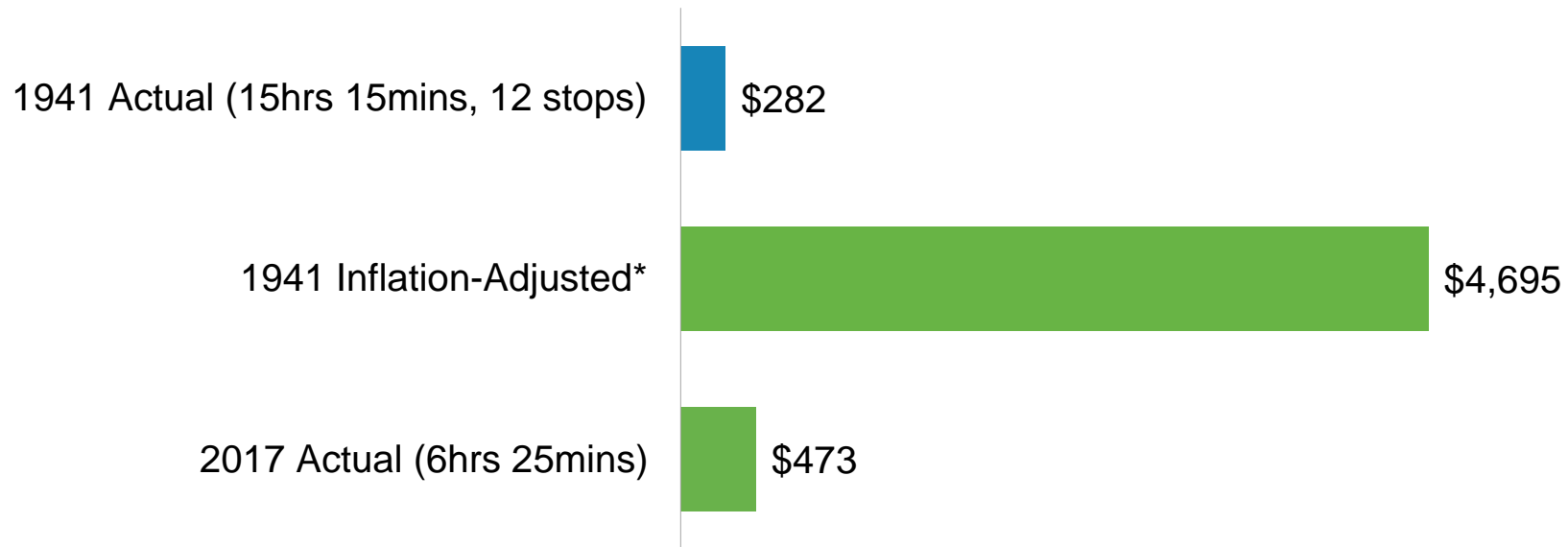
SKYCLUB SERVICE BY DAY... SKYSLEEPERS BY NIGHT



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Boston-Los Angeles Air Travel, 76 Years After the *Evening Post* ~9 Hours Faster, 90% Cheaper (in Real* Terms)

Average *Round-Trip* BOS-LAX Airfare and *One-Way* Block Time



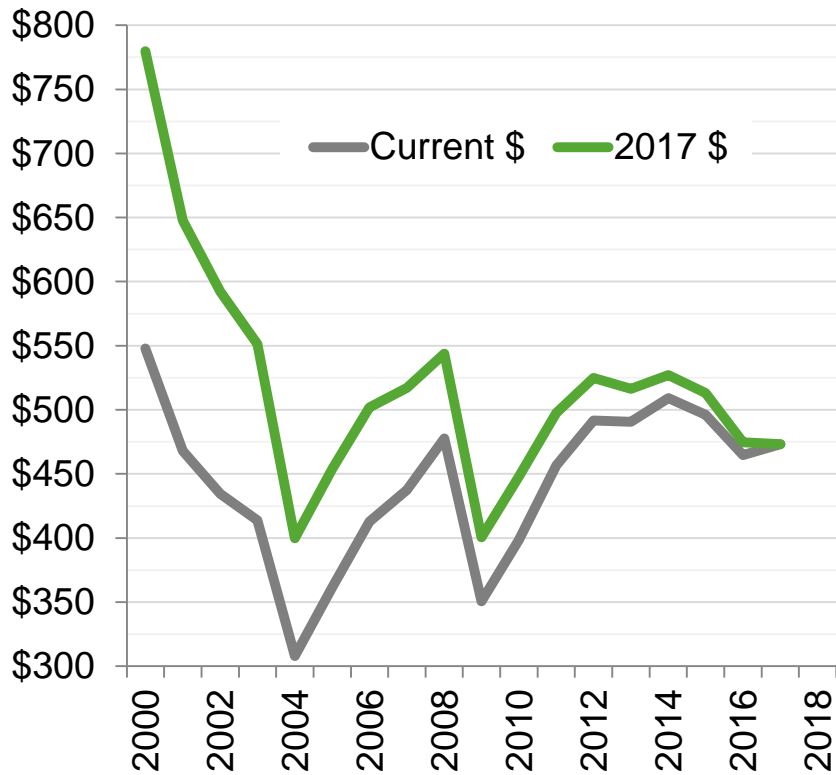
* Adjusted using 2017 constant dollars from the Bureau of Labor Statistics (<http://www.bls.gov/cpi/#tables>)

Source: DOT Data Bank 1B via Diio Mi; "Air Travel Is Not Expensive," *The Saturday Evening Post* (Mar. 22, 1941), p. 59; Campbell-Hill Aviation Group

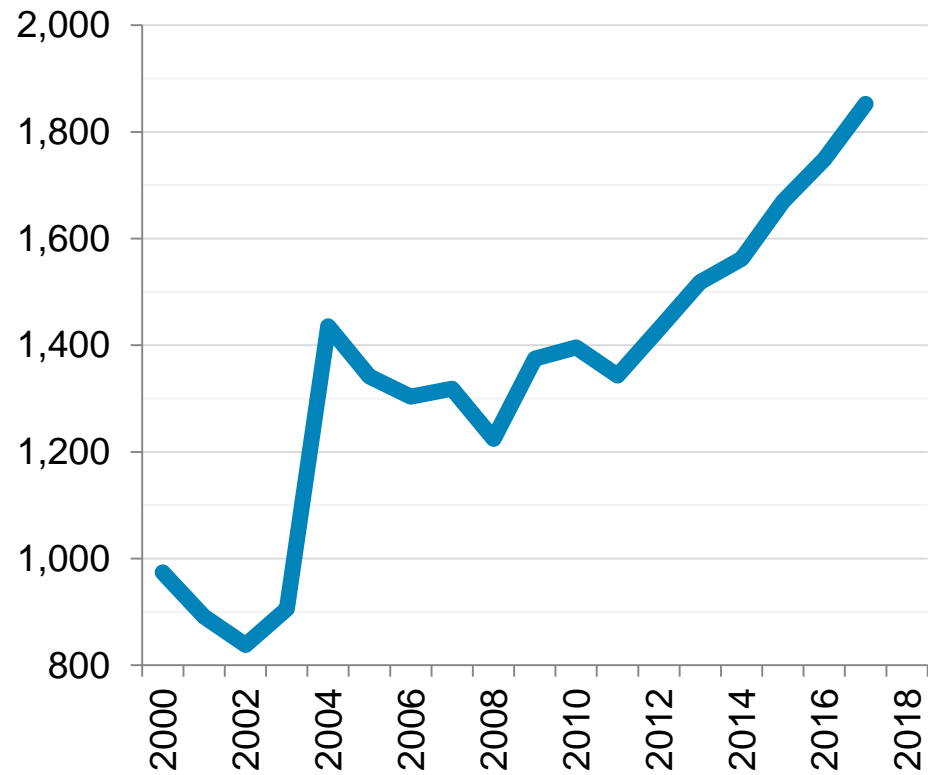
Boston-Los Angeles* Airfare Has Declined Materially

Traffic in the Popular Corridor Has Risen Sharply – Nearly Doubling From 2000-2017

BOS-LAX* Round-Trip Airfare



BOS-LAX* Daily O&D Passengers (Each Way)



Source: DOT Data Bank 1B (Passenger Origin-Destination Survey) via Diio Mi

* BUR/LAX/LGB; 88% of BOS-LAX passengers flew nonstop in 2017

On a Daily Basis, the 706,558 Employees* of U.S. Airlines Offer an Extensive Worldwide Network Facilitating the Safe and Rapid Movement of People and Goods

27,000 **flights** to/from more than 800 airports in nearly 80 countries



2.3 million **passengers**

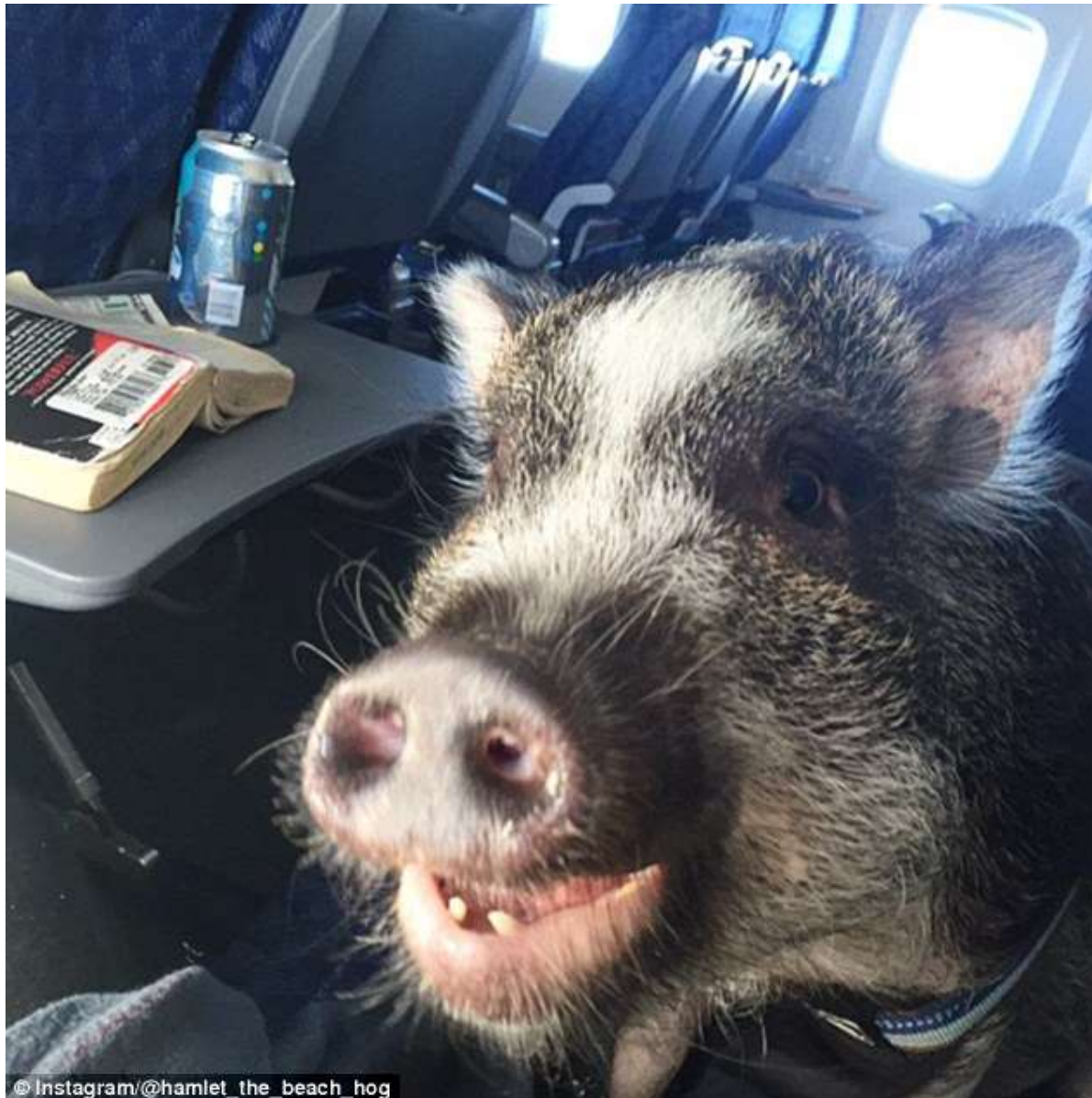


55,000 tons of **cargo**

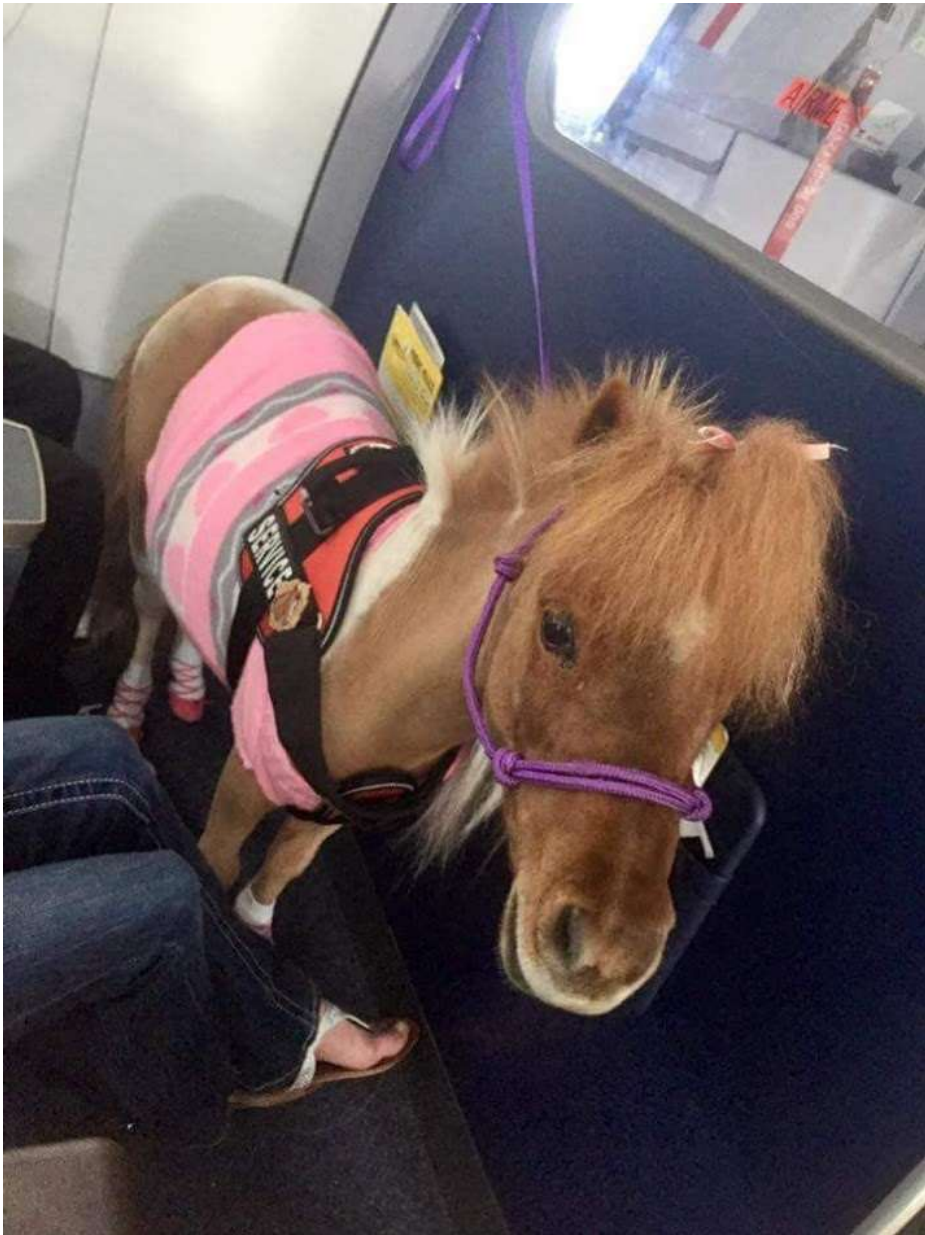


Source: A4A and Bureau of Transportation Statistics for U.S. passenger and cargo airlines

* Headcount as of February 2018



© Instagram/@hamlet_the_beach_hog





When Choosing an Airline, Leisure Travelers Value *Affordability* Above All Else 2017 Rankings Identical to 2016 (Schedule Solidly Second, Followed by Reliability)

When traveling **for personal reasons**, how would you rank the following in terms of choosing **which airline to fly**, with 1 being your first priority and 8 being your last priority?

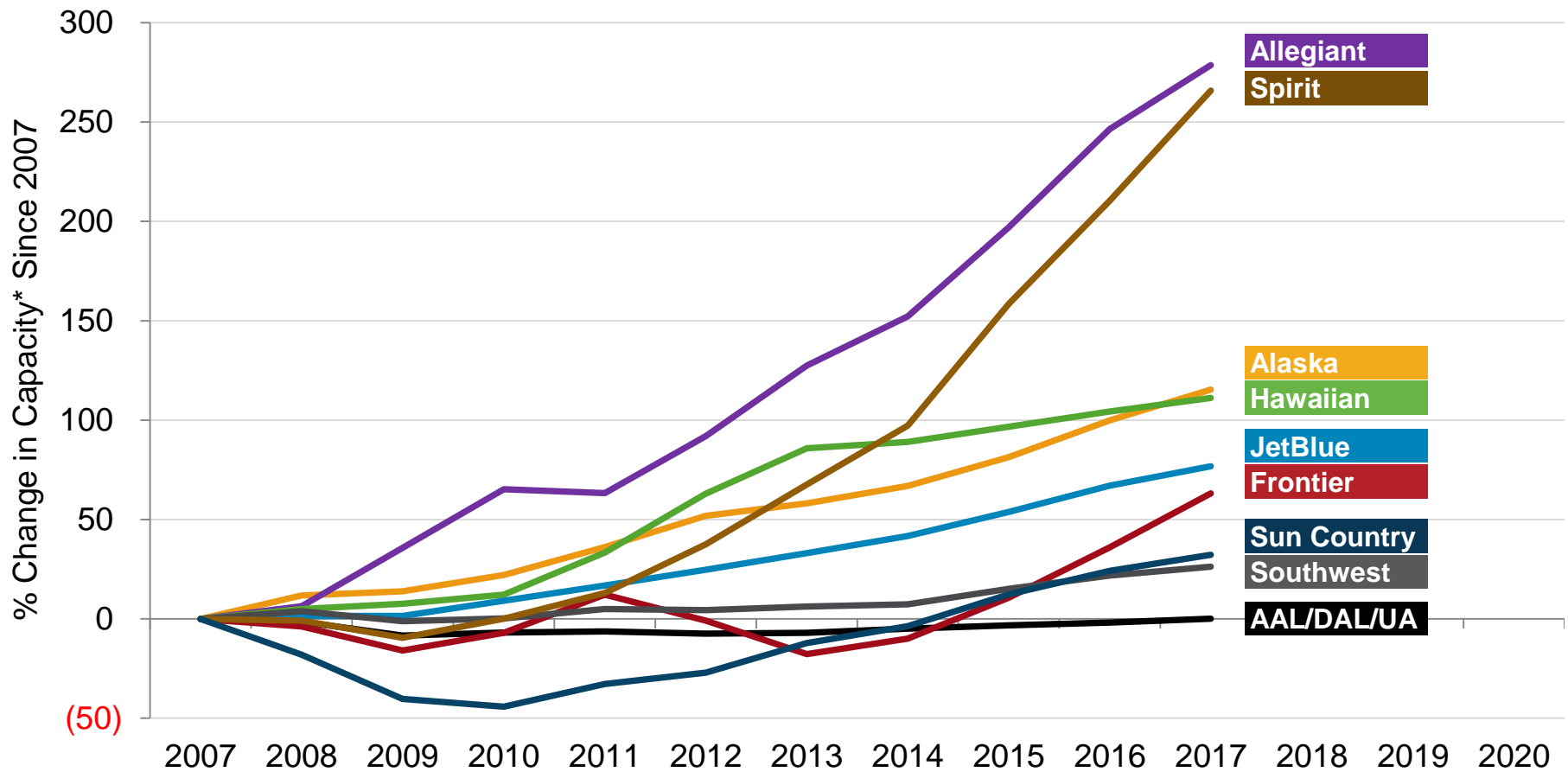
(Base = all 2017 flyers with **at least 1 personal leisure trip**)

Criteria	2017 (2016)	Score
Affordability (airfare / ancillaries / taxes)	1 (1)	2.50 (2.65)
Flight schedule (routes, timings)	2 (2)	3.12 (3.23)
Reliability of on-time departure and arrival	3 (3)	4.22 (4.28)
Airline seat comfort	4 (4)	4.54 (4.45)
Customer service (reservation/gate agents, flight attendants)	5 (5)	4.82 (4.95)
Airline frequent flyer program (earn / redeem / upgrade / status)	6 (6)	5.19 (5.00)
Quality of inflight amenities (food / entertainment / WiFi)	7 (7)	5.32 (5.17)
Environmental responsibility	8 (8)	6.28 (6.26)

Source: Ipsos survey of American adults (January 2018)

Among 11 U.S. Airline Brands, Smaller Carriers Have Been Growing the Fastest

Different Types of Carriers Market Their Prices and Services Differently



Source: Innovata (via Diio Mi) schedules as of Feb. 9, 2018, for selected marketing airlines including predecessors

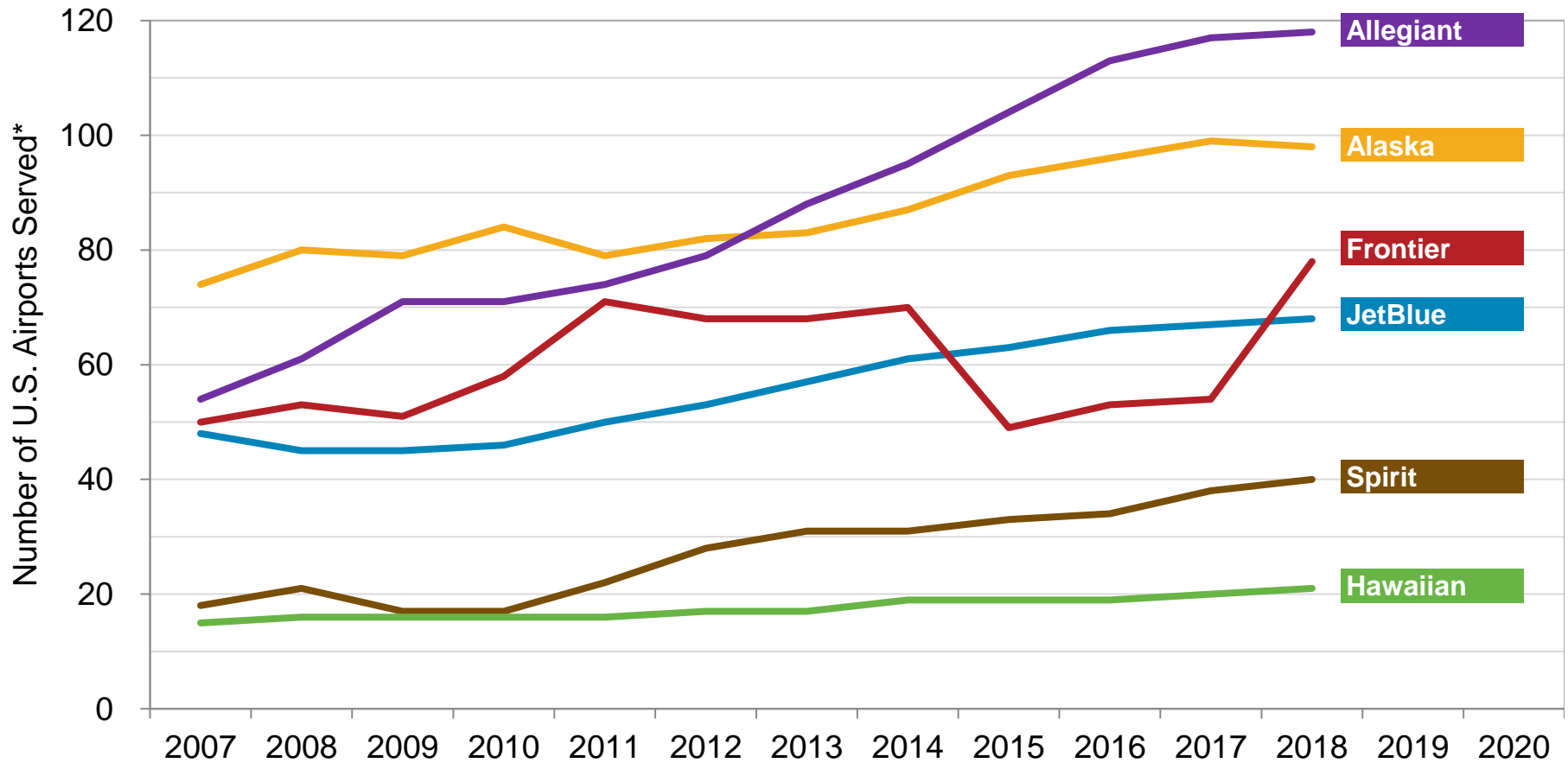
* Systemwide scheduled available seat miles



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Smaller U.S. Carriers Are Serving More and More Domestic Markets

Competitive Presence of Low-Cost and Ultra Low-Cost Carriers Continues to Expand



Source: Innovata (via Diio Mi) schedules as of Feb. 16, 2018, for selected marketing airlines including predecessors

* July 15-21 of each year



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Southwest Airlines Has Become the Largest Domestic U.S. Passenger Carrier

Share (%) of U.S. Domestic Origin-and-Destination Passengers by Airline Business Model

“Global Network” / “Full Service” 53.5%

American	20.1
Delta	19.0
United	14.3

“Hybrid” / “Niche” / “Specialist” 13.2%

Alaska/Virgin	6.3
JetBlue	5.5
Hawaiian	1.5

“The Original LCC”

Southwest 

23.7%

“Ultra Low-Cost (ULCC)” 9.1%

Spirit	3.8
Frontier	2.7
Allegiant	2.2
Sun Country	0.4

Other* 0.6%

Boutique Air	PenAir
Cape Air	Ravn Alaska
Great Lakes Airlines	Seaborne Airlines
Island Air	Silver Airways
Mokulele Airlines	Other

Sources: Aaron Karp, “Surveying the US mainline passenger airline landscape,” *Air Transport World* (Nov. 8, 2017) and DOT Data Bank 1B for year ended 3Q 2017

Competitive Choices for Domestic Flyers Have Continued to *Increase*

Contrary to Some Assertions, Traffic Analysis Shows *More* Competitors on U.S. City Pairs

Average Number of Competitors* on All Reported Domestic U.S. Itineraries



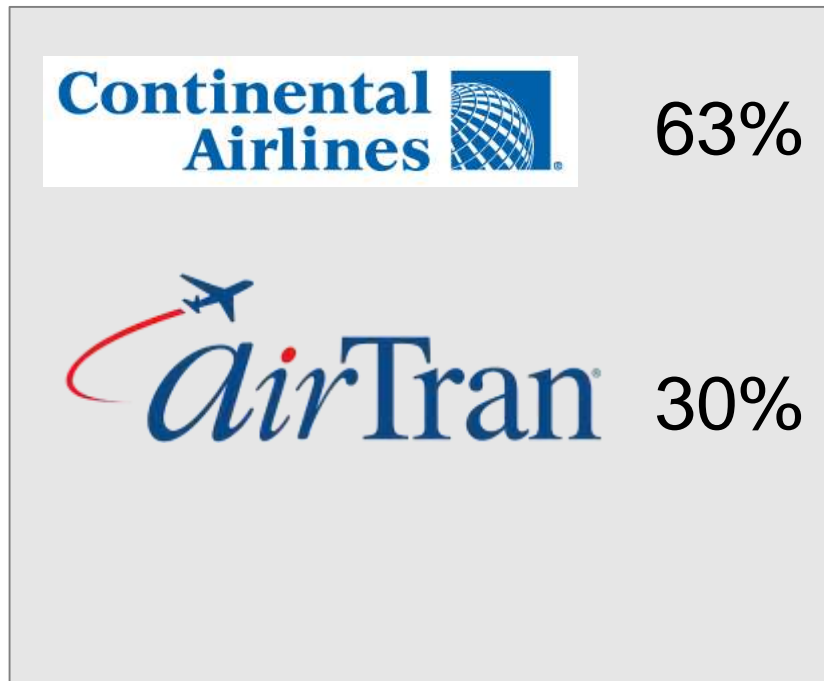
* Carrying at least 5 percent of O&D passengers in the city pair; average number of competitors is passenger-weighted across city pairs

Source: Compass Lexecon analysis of DOT Origin-Destination Survey (Data Bank 1B)

Boston-Akron/Cleveland Is Among Countless Domestic City Pairs on Which Competition* Increased From 2007-2017 (Real Fares *Down* 20%, Passengers *Up* 23%)

Calendar Year 2007

Share of BOS-CAK/CLE Passengers



Calendar Year 2017

Share of BOS-CAK/CLE Passengers

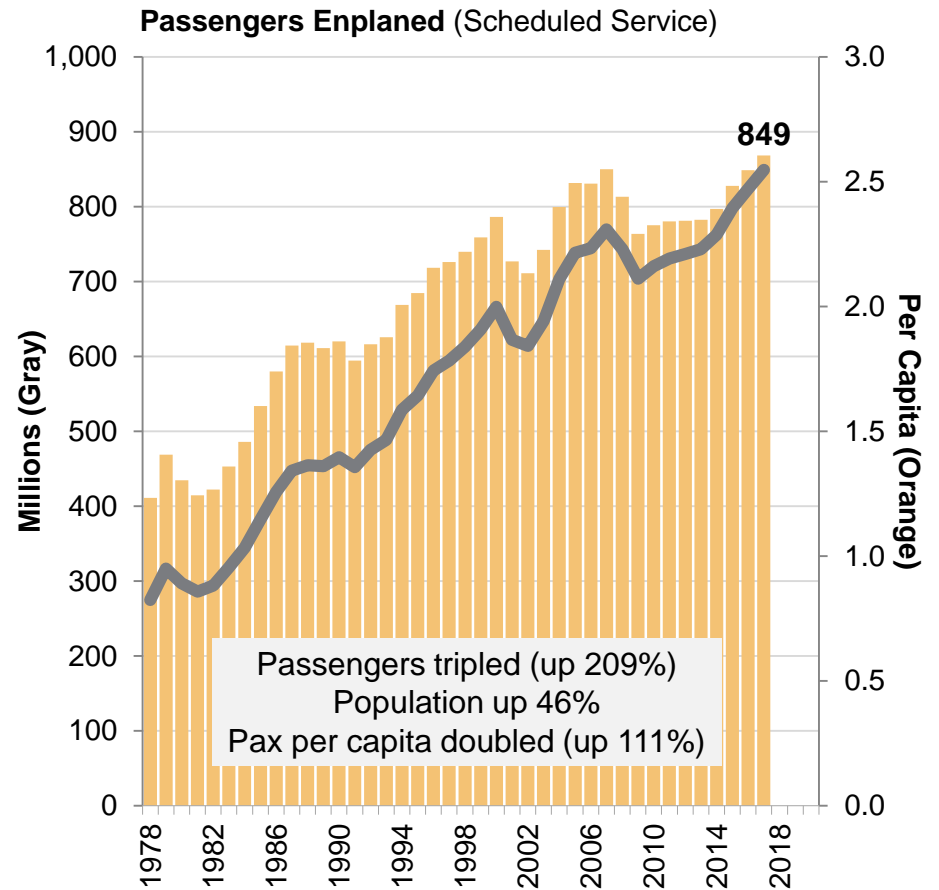
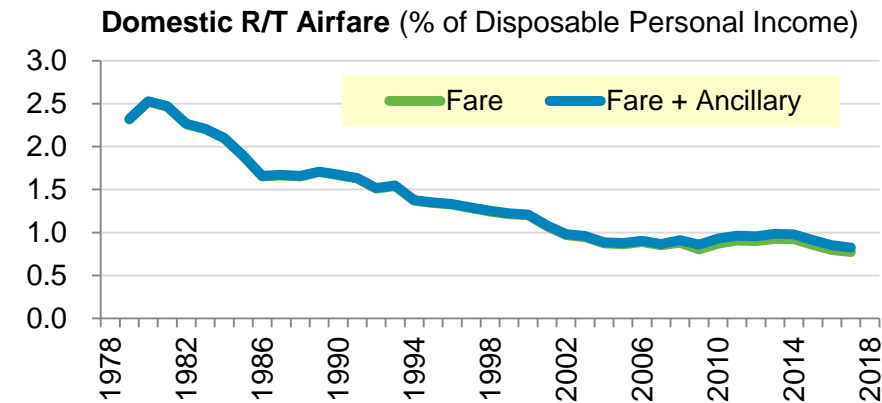
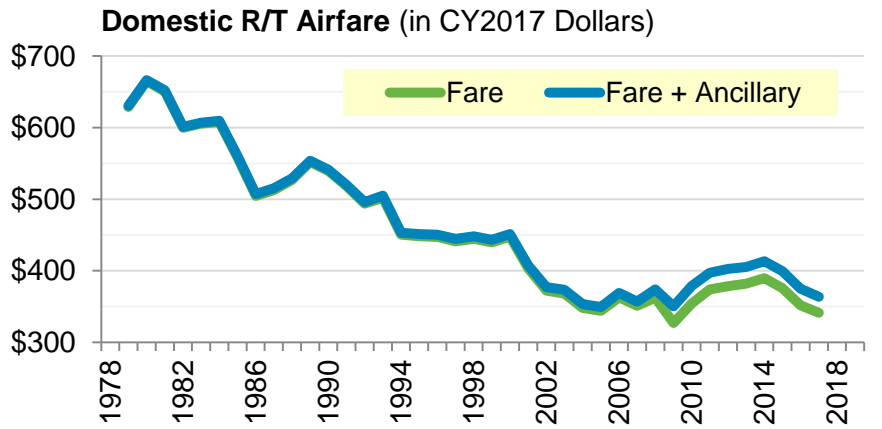


Source: DOT Data Bank 1B and Innovata published schedules via Diio Mi

* Defined as carrying at least 5 percent of O&D passengers in the city pair

As Real Airfares Have Plunged, Growth in Flyers = 4.5x Growth in U.S. Population

Ancillary Services Included, 2017 Domestic Air Travel Was ~42% Cheaper Than in 1980

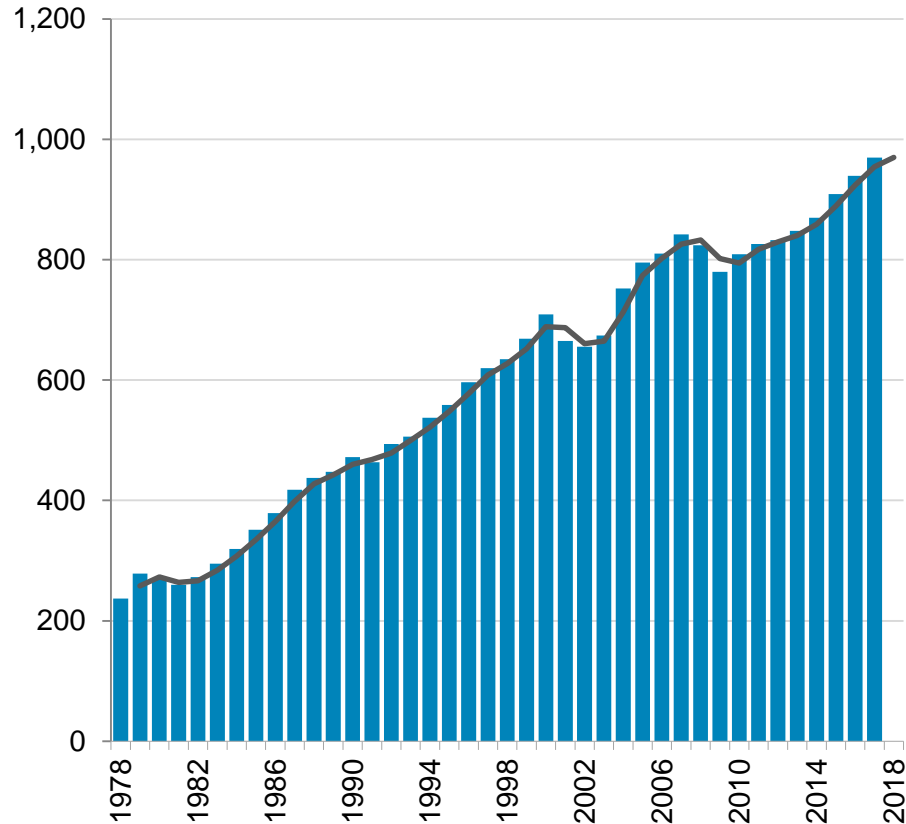


Source: Bureau of Economic Analysis, Bureau of Labor Statistics and Bureau of Transportation Statistics (Data Bank 1B via Airline Data Inc. and T1 for U.S. airlines)

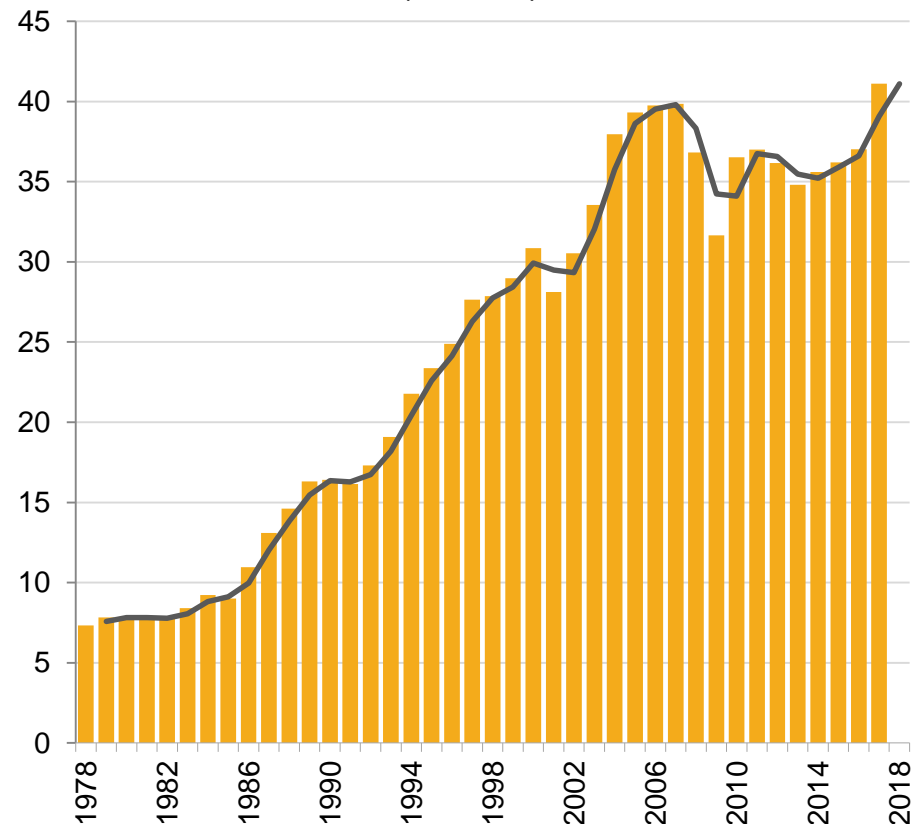
U.S. Airlines Are Moving More People and More Goods Over Longer Distances

Significant Growth of Demand for Air Transportation Services in the Deregulated Era

Passenger Traffic Up 4.1x
Revenue Passenger Miles (Billions)



Cargo Traffic Up 5.6x
Revenue Ton Miles (Billions)

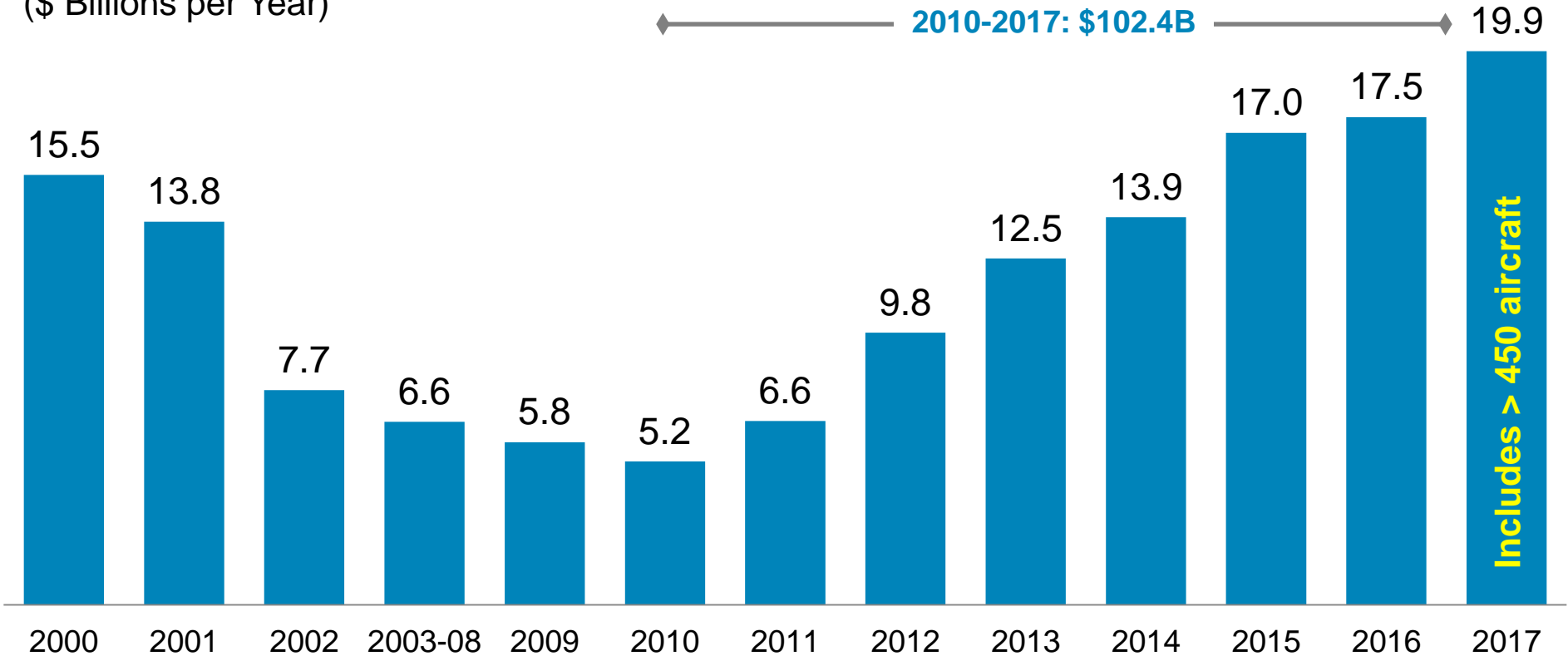


Source: U.S. Bureau of Transportation Statistics (T1 systemwide for U.S. airlines)

Improving Finances Enabling Significant Reinvestment in Customer Experience

In 2017 Alone, Airlines Directly Invested ~\$20B in Flight/Ground Equipment, Facilities, IT

U.S. Passenger Airline Capital Expenditures (\$ Billions per Year)

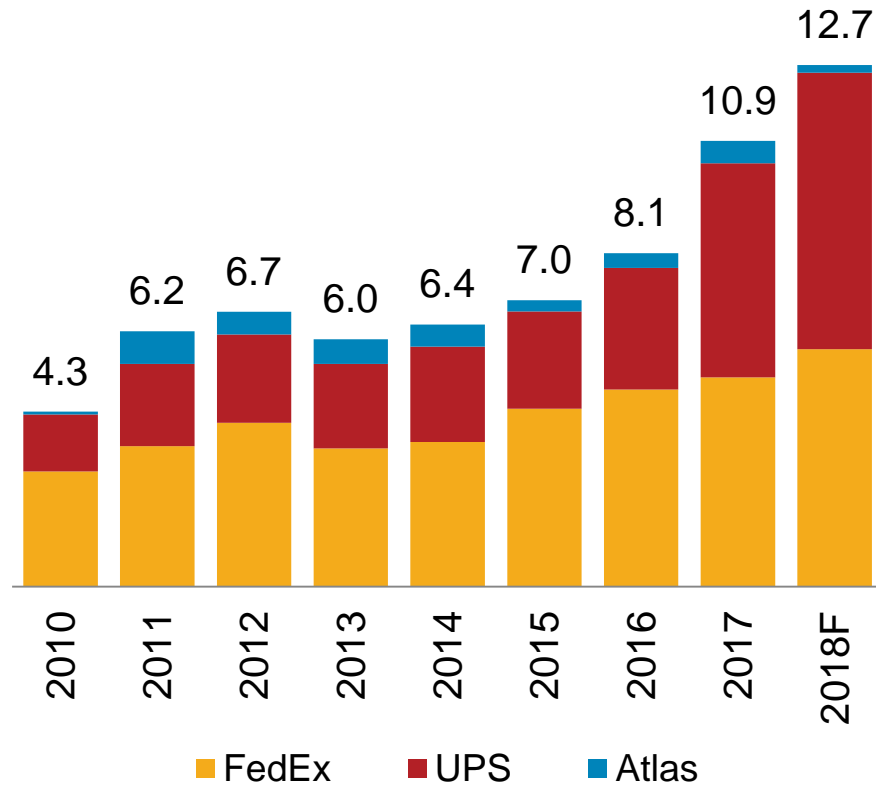


* Includes payments made for aircraft and other flight equipment, ground and other property and equipment, airport and other facility construction and information technology
Source: SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and merged/acquired predecessors

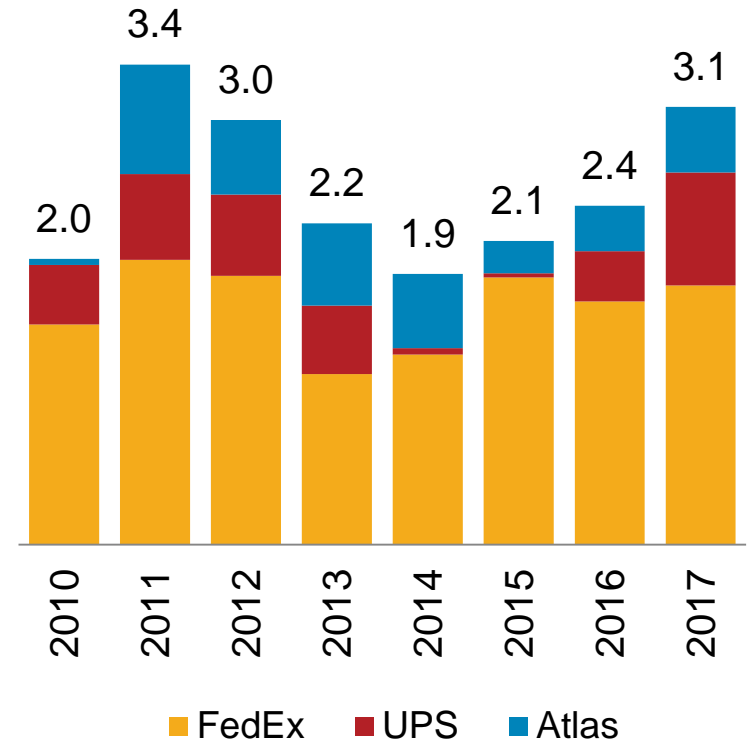
Capital Expenditures on the Rise for U.S. Cargo Airlines

\$ Billions by Fiscal Year

Total Enterprise



Aircraft & Related Equipment Only

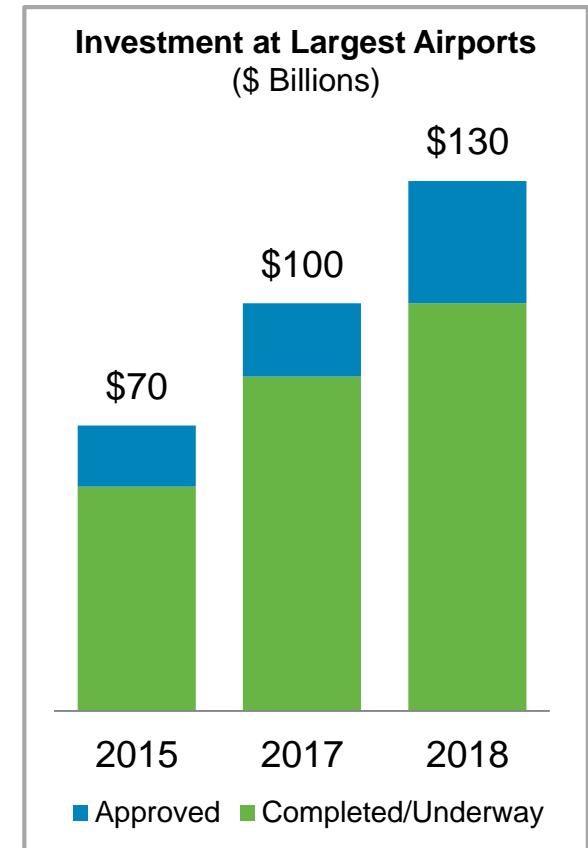


Source: SEC filings of Atlas, FedEx and UPS

Airline-Airport Collaboration Has Paved Way for Widespread Infrastructure Investment

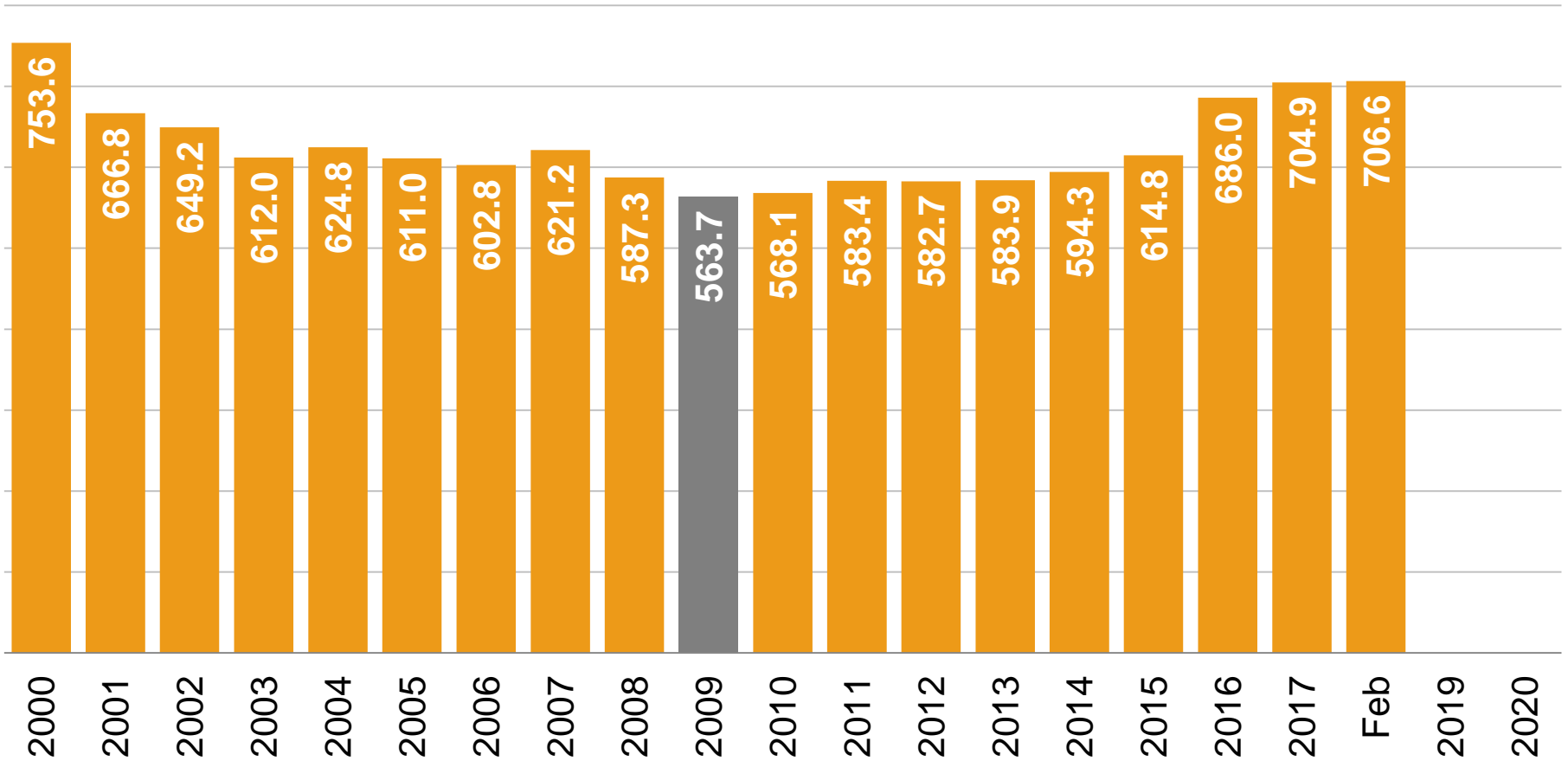
Capital Projects Have Grown 86% Since 2015 at the 30 Largest U.S. Airports

- » **\$130B** of capital projects have been completed, are underway or approved at the **30 largest U.S. airports** since 2008, including, for example:
 - Multiple new runways at Chicago O’Hare and new runways at Fort Lauderdale, Washington Dulles, Seattle and Charlotte
 - New/expanded/modernized terminal facilities at New York, Miami, Las Vegas, Orlando, Honolulu, Houston, Denver, Seattle, Salt Lake City and San Francisco as well as international facilities at Atlanta, Boston and Los Angeles
- » Development is also robust at **smaller airports**, including:
 - Runway projects at Columbus, Des Moines, Erie, Nashville, Providence and Sioux Falls
 - Terminal projects at New Orleans, Eugene, Grand Rapids, Greenville-Spartanburg, Oakland, Dallas Love Field, San Luis Obispo, Portland (Maine), Pasco, Reno-Tahoe and Wichita
- » Investment is also occurring in **cargo** facilities and related infrastructure at Louisville, Newark, Lafayette (Louisiana), Indianapolis, Rockford, Memphis and elsewhere



U.S. Airline Industry Headcount at Highest Level Since 2000

Year-End Full-Time + Part-Time Employees at U.S. Passenger and Cargo Airlines (000s)



Source: Bureau of Transportation Statistics

Note: 2016 includes FedEx acquisition of TNT on May 25, 2016, which increased headcount by approximately 55,000

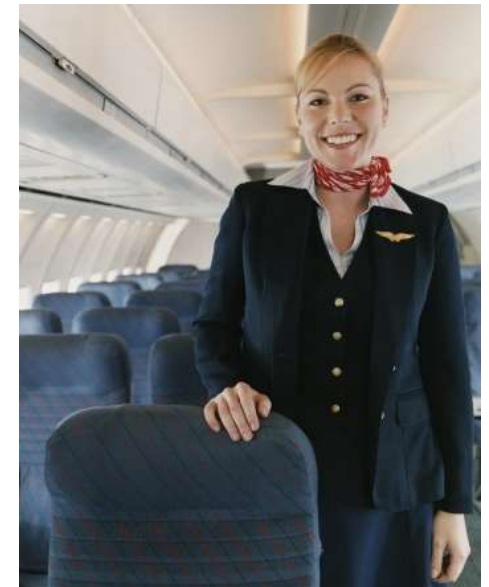
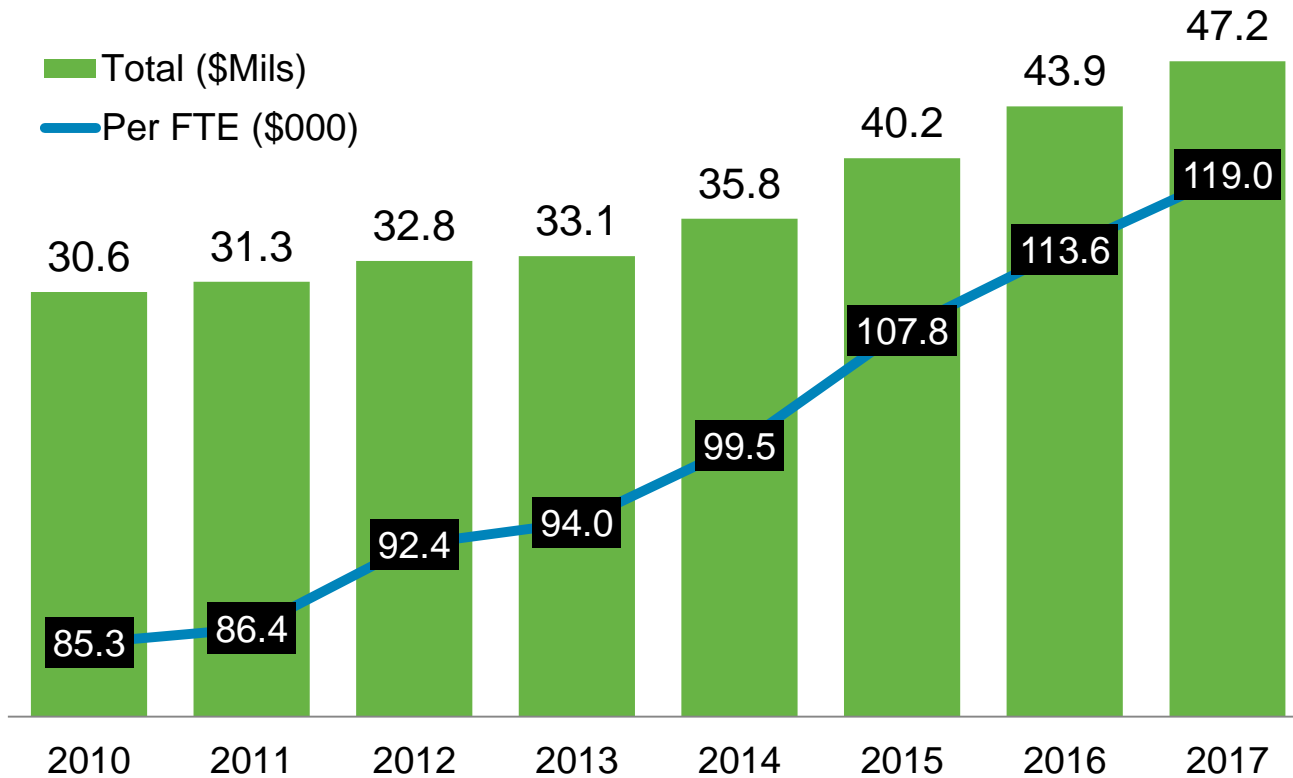


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U.S. Airlines* Spent \$47B on Wages & Benefits in 2017 (\$295B in 2010-2017)

Average Compensation per Employee Rose Approximately \$34,000 – Up 39% From 2010

Employee Wages and Benefits*



* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United and A4A Cost Index

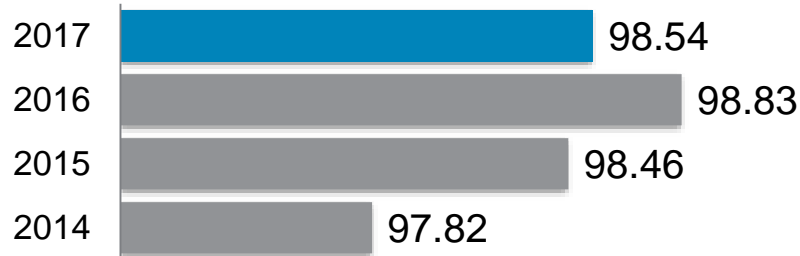


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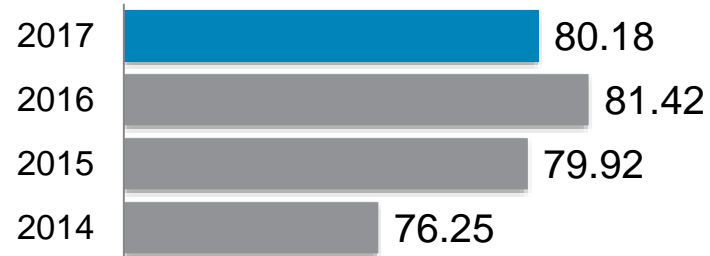
2017 U.S. Airline Flight Ops Impacted by Hurricanes, Airport and CBP Power Outages

Best Ever Recorded Performance for Baggage Handling and Involuntary Denied Boardings

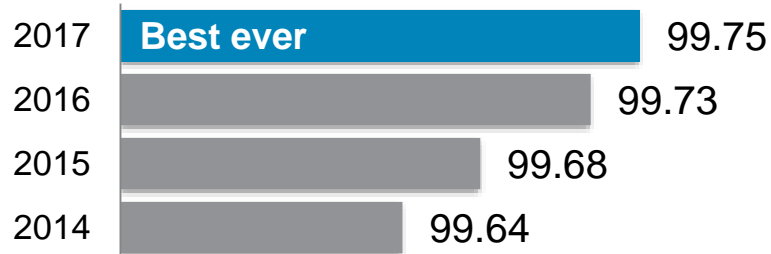
Flight Completion Factor (%)



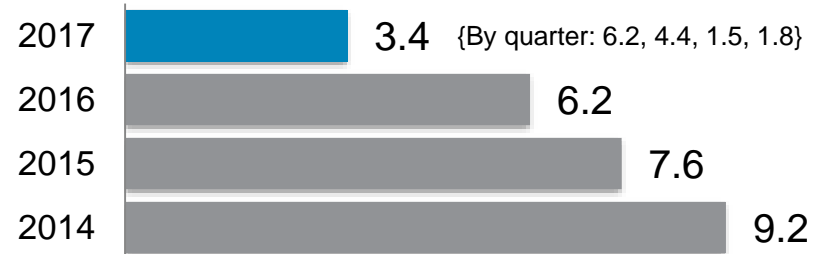
On-Time Arrival Rate (%)



Properly Handled Bag Rate (%)



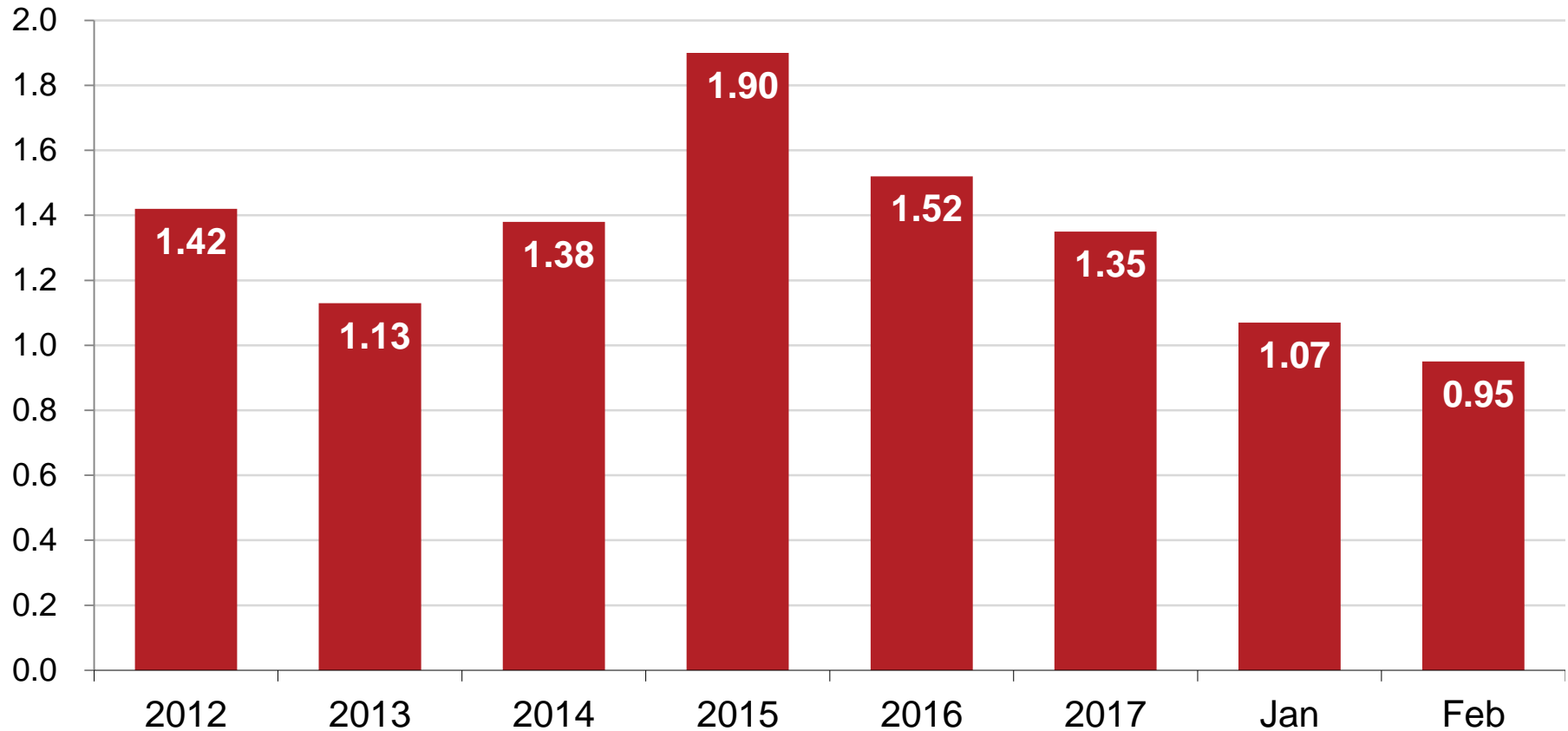
Involuntary Denied Boardings per 100K Psgrs.



Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)

In 2017, Customer Complaints Fell Again, Reaching Lowest Rate Since 2013

Customer Complaints to DOT per 100,000 Passengers



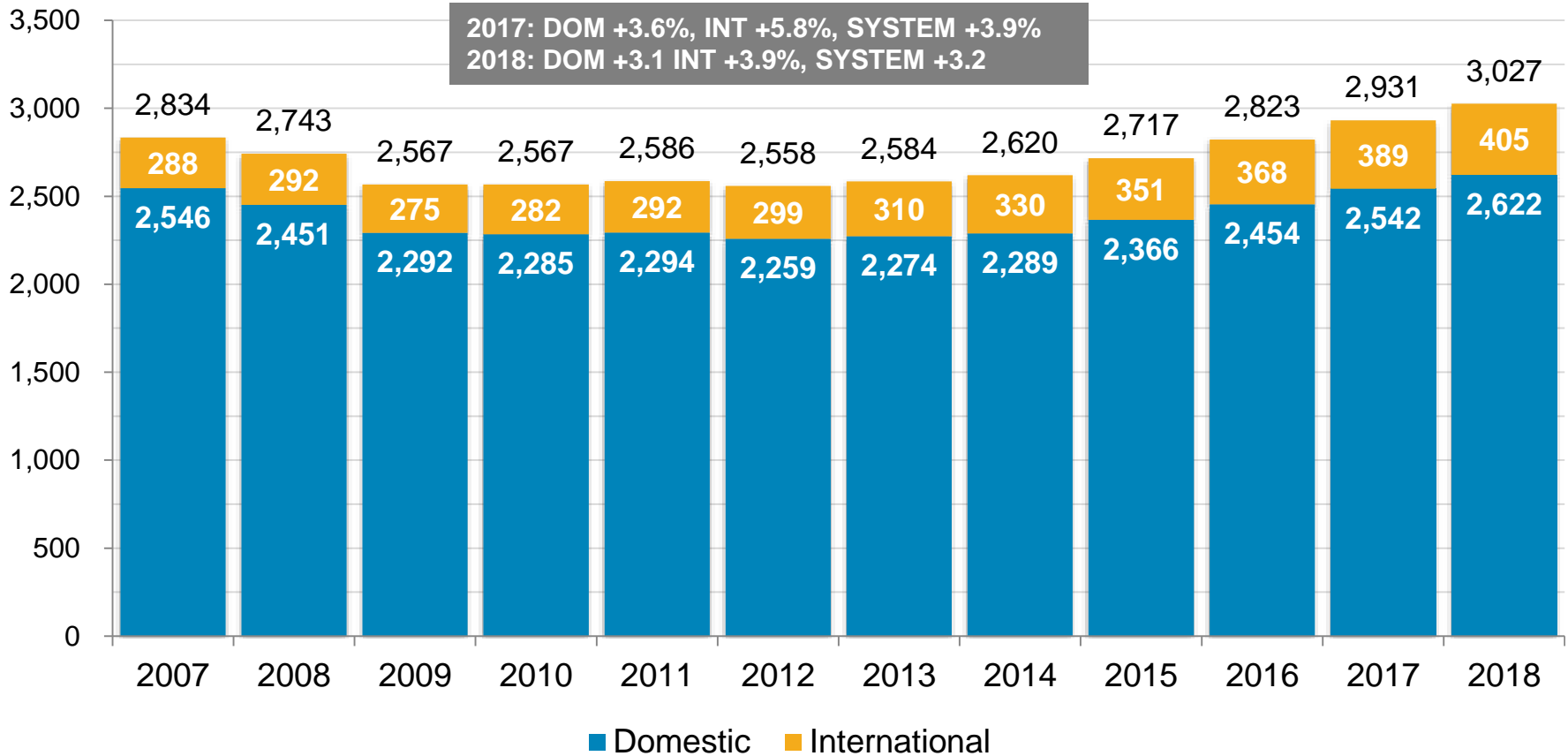
Sources: DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)



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Customers Are Seeing All-Time High of 3M+ Daily Seats Departing U.S. Airports

Daily Seats (000) Departing U.S. Airports in Scheduled Service: Up 18% Since 2010



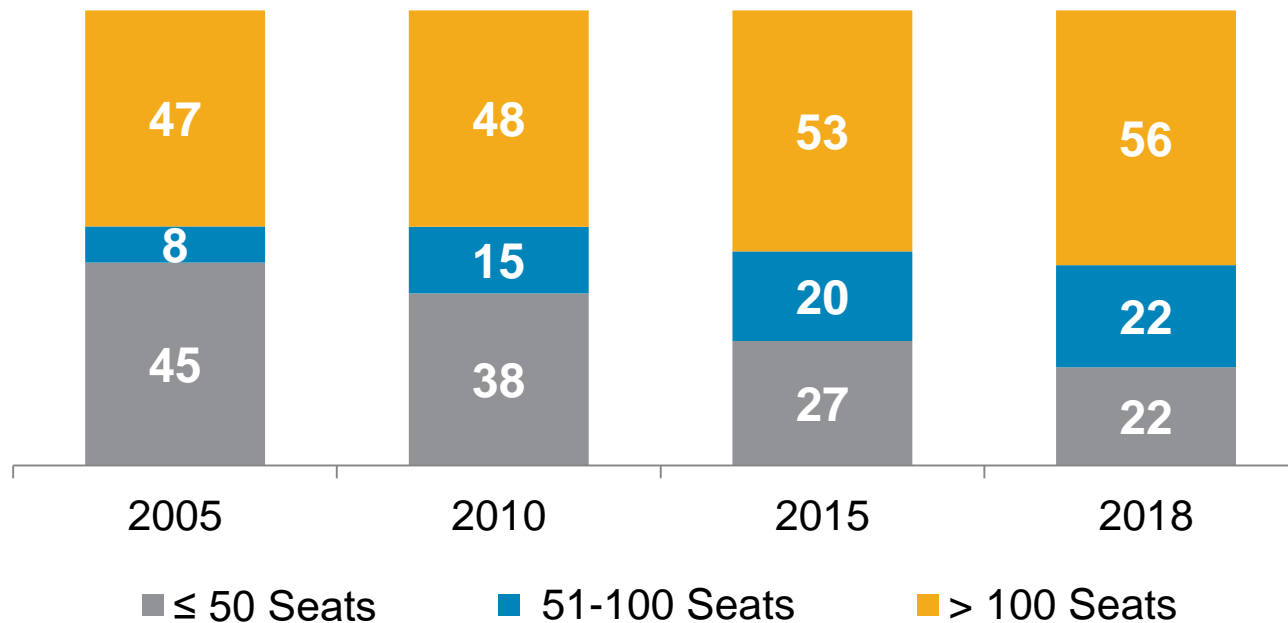
Source: Innovata (via Diio Mi) published schedules as of Apr. 20, 2018, for all airlines providing scheduled passenger service from U.S. airports to all destinations

In Addition to Expanding Schedules, Airlines Are Deploying Larger Aircraft

Replacement of 50-Seaters With Larger Regional Jets Is Primary Driver

- Factors include availability of pilots, fuel efficiency, congested airspace/airfields, improving economics of large regional jets, lack of new-generation in-production small aircraft

% of Domestic U.S. Departures by Aircraft Size



Source: Innovata (via Diio Mi) published schedules as of Dec. 29, 2017



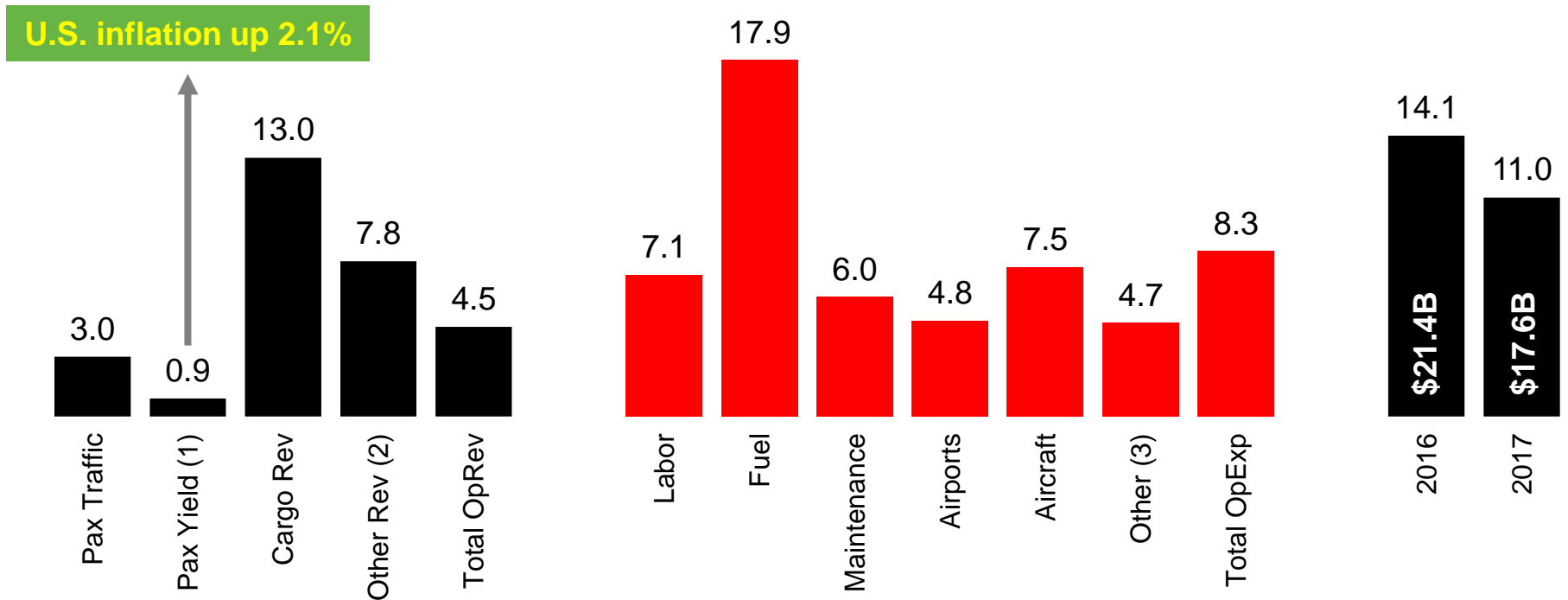
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2017 Revenues Rose 4.5%, But All Major Expenses Rose Faster – Up 8.3%

Yields Lagged U.S. Inflation; Profitability (Average Pre-Tax Profit Margin) Fell to 11%

Year-over-Year Change (%) in Operating Revenues and Expenses

Pre-Tax Profits and Margin (%)



1. Yield = passenger revenue per passenger-mile flown (cents per RPM)

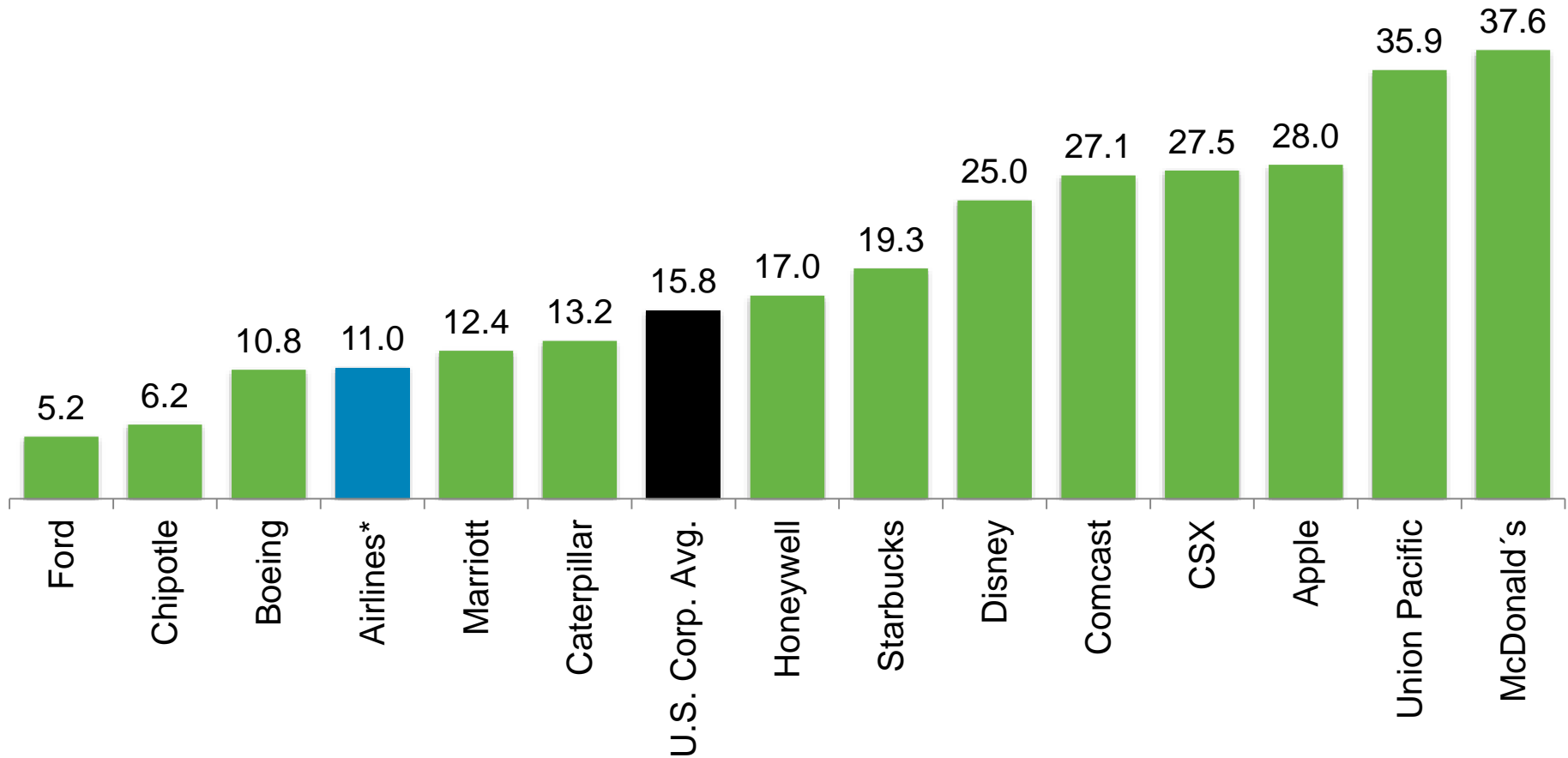
2. Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.

3. Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

Source: A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

In 2017, U.S. Passenger Airline* Profitability Respectable But Below Average

Pre-Tax Profit Margin (% of Operating Revenues)



* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

Source: Company SEC filings

Airlines Are Now Operated As Businesses – for the Betterment of All Stakeholders

“If Pan Am started a funeral parlor, no one would die.”

Martin Shugrue, vice chairman, Pan Am, January 1987

“I think historically, the airline business has not been run as a real business. That is, a business designed to achieve a return on capital that is then passed on to shareholders. It has...been run as an extremely elaborate version of a model railroad, that is, one in which you try to make enough money to buy new equipment.”

Michael Levine, executive vice president of Northwest Airlines, 1996

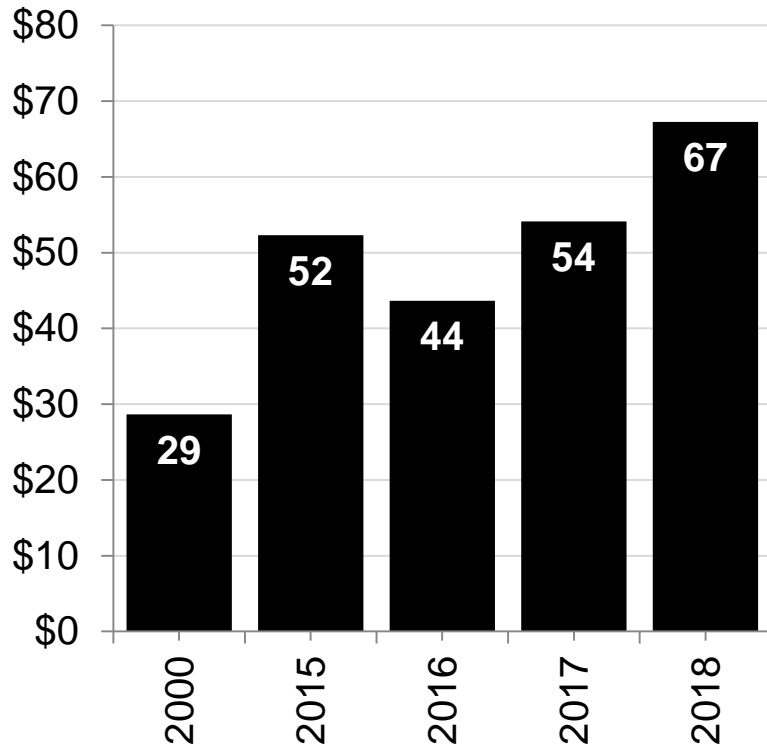
“Our industry has been fundamentally and structurally changed. Things are different now. When down cycles come, you won’t see losses. The bad years won’t be cataclysmic. They will just be less good than the good years.”

Doug Parker, chief executive officer, American Airlines, June 2016

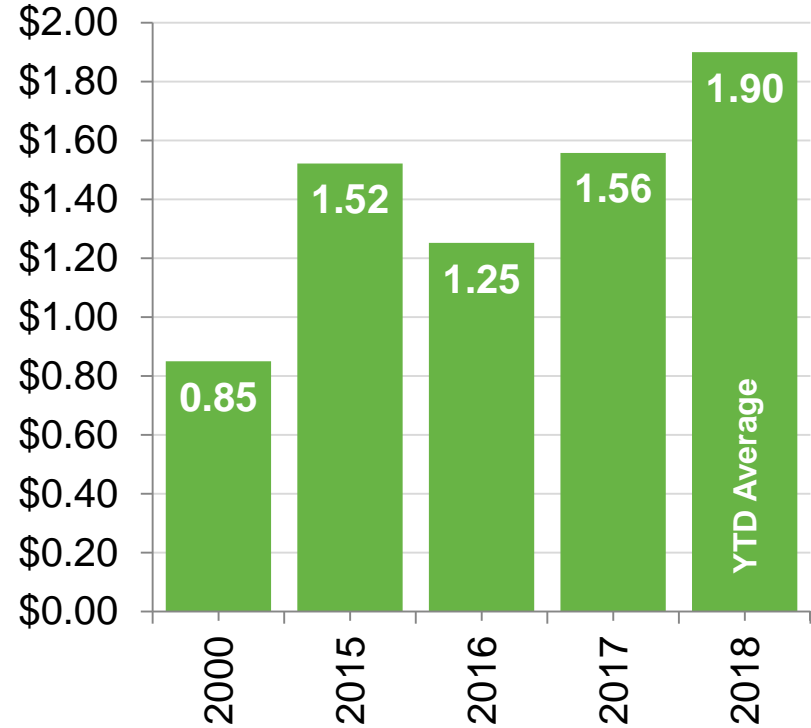
Jet-Fuel Prices Creeping Up Again

A Penny per Gallon per Year Equates to ~\$200M in U.S. Airline Industry Fuel Expenses

EIA Spot Price* of Crude Oil/Barrel (Brent)



EIA Spot Price of Jet Fuel/Gallon (U.S. Gulf)



Source: A4A and Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

Federal Reporting and Disclosure Requirements Are Far More Onerous on Airlines Than on Other Commercial, Interstate Modes of Transportation



	Amtrak	Bus	Ship	Airplane
“Full-Fare” Advertising w/Taxes	X	X	X	✓
Operations and Capacity by Route	X	X	X	✓
Passengers and Miles by Route	X	X	X	✓
Freight and Mail Carried by Route	X	X	X	✓
Fare Paid by Origin-Destination	X	X	X	✓
Expenses by Region/Vehicle Type	X	X	X	✓
Cancellations/Diversions/Delays	X	X	X	✓
Mishandled Baggage	X	X	X	✓
Oversales	X	X	X	✓
Complaints to U.S. Government	✓	✓	✓	✓
Animal Injuries/Deaths	X	X	X	✓

“Making the movement of people and goods easier, and stimulating economies”

“The combination of creative freedom and new-generation aircraft has led to another hugely significant development in recent years: the hundreds of new city pairs that airlines have launched and continue to add to their networks. These **directly link communities by air as they’ve never before been connected**, **making the movement of people and goods easier**, and **stimulating economies.**”

-- Karen Walker, Editor-in-Chief, Air Transport World (April 2018)

Source: “Celebrating an industry,” Air Transport World (April 2018)





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