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The State of U.S. Commercial Aviation

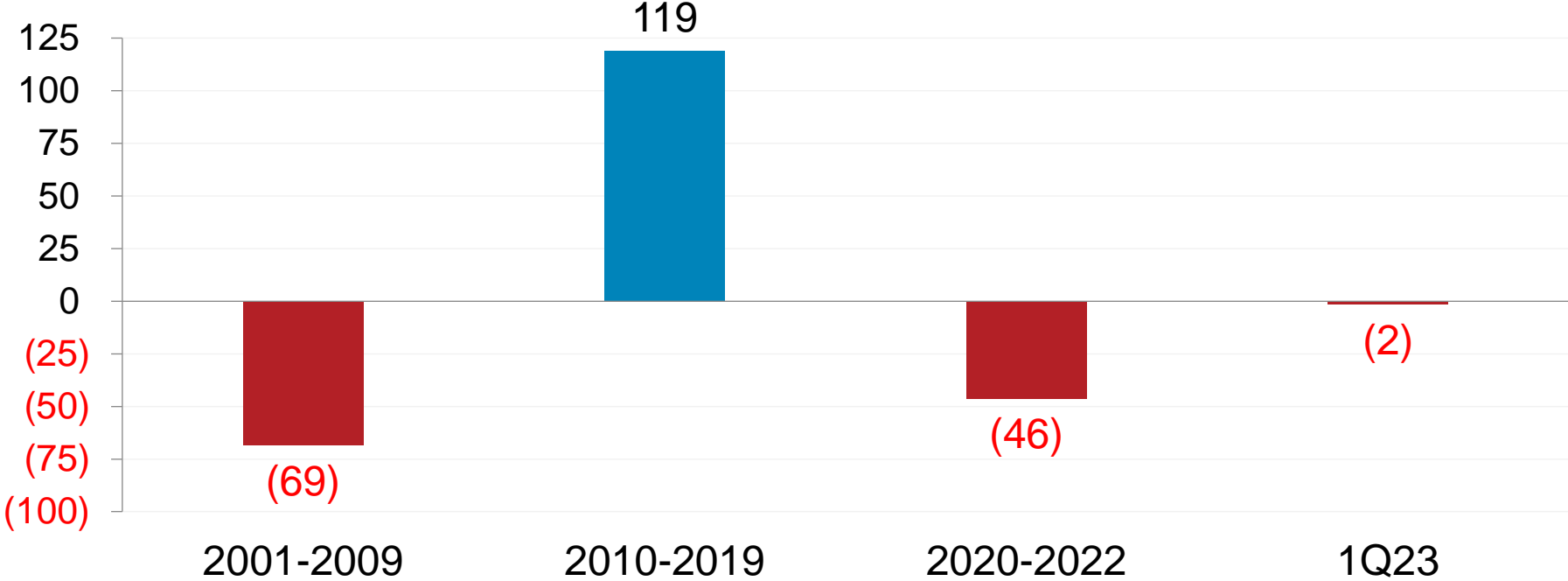
John Heimlich
Vice President & Chief Economist

May 17, 2023

From 2001-1Q23, U.S. Airlines Posted Just \$2.6B in Pretax Earnings — a 0.08% Margin

Analyst Consensus Is for ~5% Pretax Margin in 2023 Despite Cost Headwinds

Pretax Income (\$ Billions), U.S. Passenger Airlines

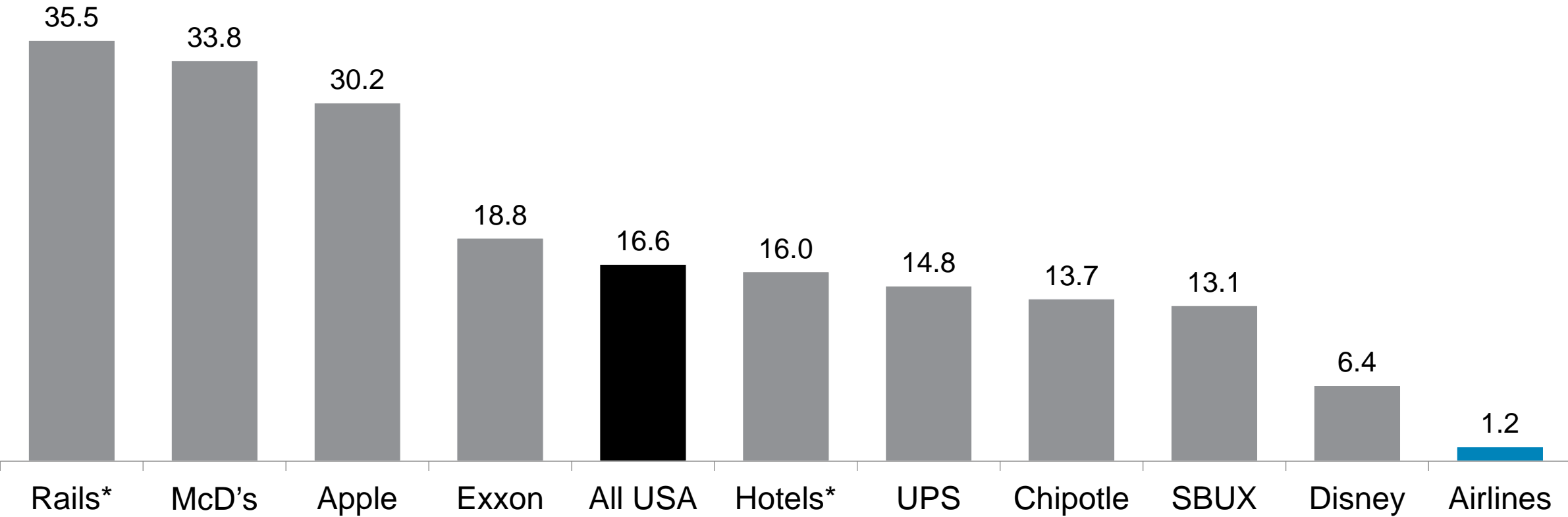


Source: A4A Passenger Airline Cost Index and Bureau of Transportation Statistics

Unlike Many Other Industries, Airline Profitability Remained Depressed in 2022

Pre-Tax Profit Margin (% of Operating Revenues)

Pre-Tax Profit Margin (%) for Selected U.S. Companies and Industries, 2022



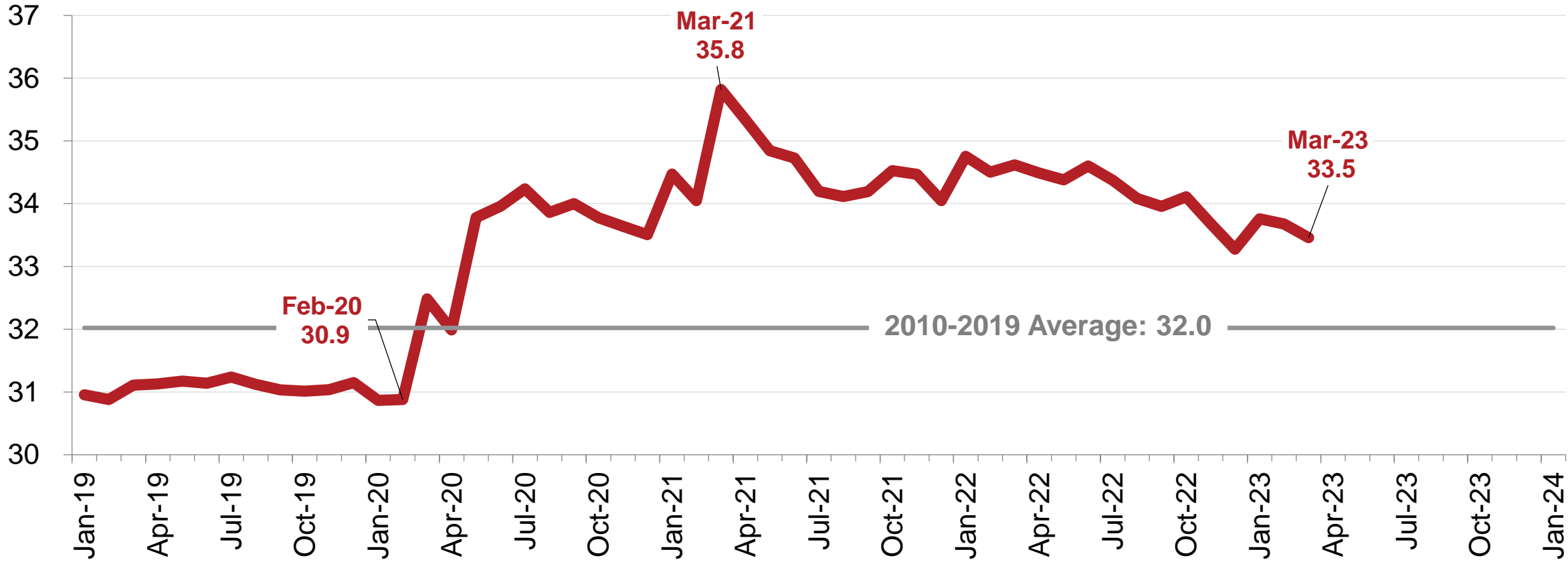
Sources: Bureau of Economic Analysis, A4A Passenger Airline Cost Index and company SEC filings

* Hotels = Choice/Hilton/Hyatt/Marriott/Wyndham; Rails = CSX/Norfolk Southern/Union Pacific

Air Cargo Benefited From the Pandemic Surge in Consumer Spend on Goods vs. Services

Spending on Goods Remains Above Pre-Pandemic Norms, But Has Subsided 2.3 Points

Goods as Share (%) of U.S. Personal Consumption Expenditures



Source: Bureau of Economic Analysis

U.S. Passenger Airlines Recorded \$1.6B in Pre-Tax Losses in 1Q 2023 — a Margin of -3.2%

Narrower Loss Than a Year Ago as Revenues (Up 37%) Outpaced Operating Expenses (Up 29%)

Financial Results: 1Q 2023	\$ Billions	% vs. 1Q22	% of Category
Passenger (RPMs +23%, yield +17%)	44.4	44	88.6
Cargo	1.0	(29)	2.0
Other ¹	4.7	8	9.3
Total operating revenues	50.1	37	100.0
Salaries, wages and benefits	15.9	21	31.3
Aircraft fuel and taxes (consumption +15%, price +19%)	13.2	36	25.9
Maintenance materials and repairs	2.7	26	5.3
Landing fees and airport rentals	3.1	13	6.0
Depreciation and amortization ²	2.5	7	4.9
Other ³	13.5	16	26.5
Total operating expenses	50.8	29	100.0
Interest and other non-op expenses, net	0.9	(42)	n/a
Pre-tax income/(loss)	(1.6)	n/a	n/a
Pre-tax margin	(3.2%)	n/a	n/a

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

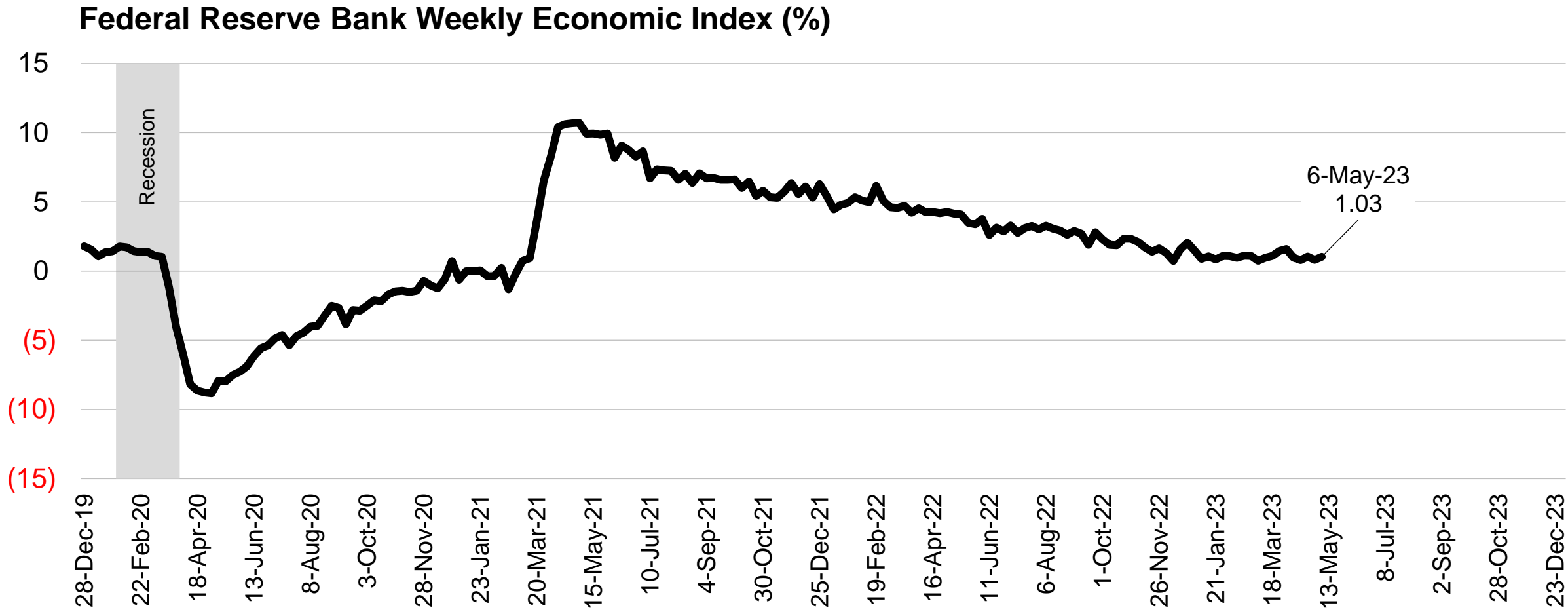
2. Related primarily to ownership of aircraft, ground support equipment, information technology, etc.

3. Aircraft rents, professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, payments to regionals, etc.

Source: Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United

Weekly U.S. Economic Activity Has Generally Decelerated Since Spring 2021

Indicator Is Closely Correlated with Real GDP Growth



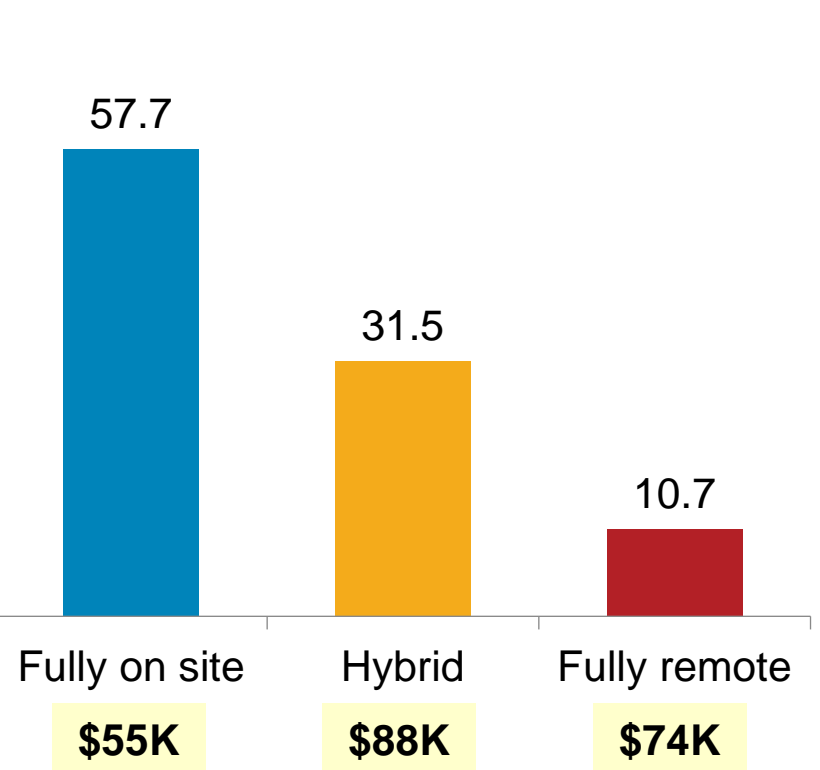
Source: Lewis, Daniel J., Mertens, Karel, and Stock, James H., Weekly Economic Index.

Note: The WEI is an index of ten indicators of real economic activity, scaled to align with the four-quarter GDP growth rate.

Share of Remote Work Has Stabilized at ~24 Points Above Pre-Pandemic Level

On Average, Hybrid and Fully Remote Workers Out-earn Those Fully on Site

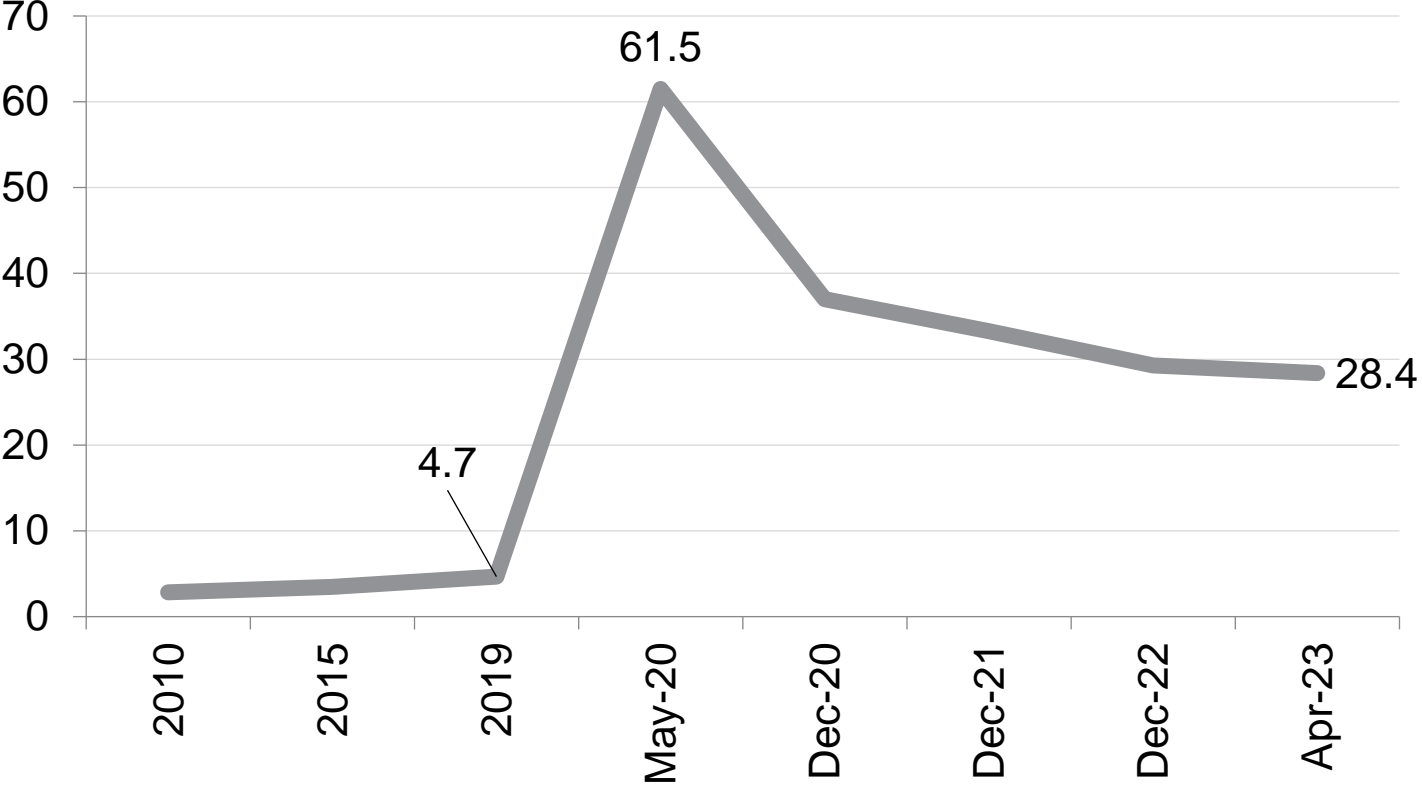
% of U.S. Resident Full-Time Employees by Working Arrangement, April 2023



Working Arrangement and Average 2021 Earnings



% of Days Worked Remotely

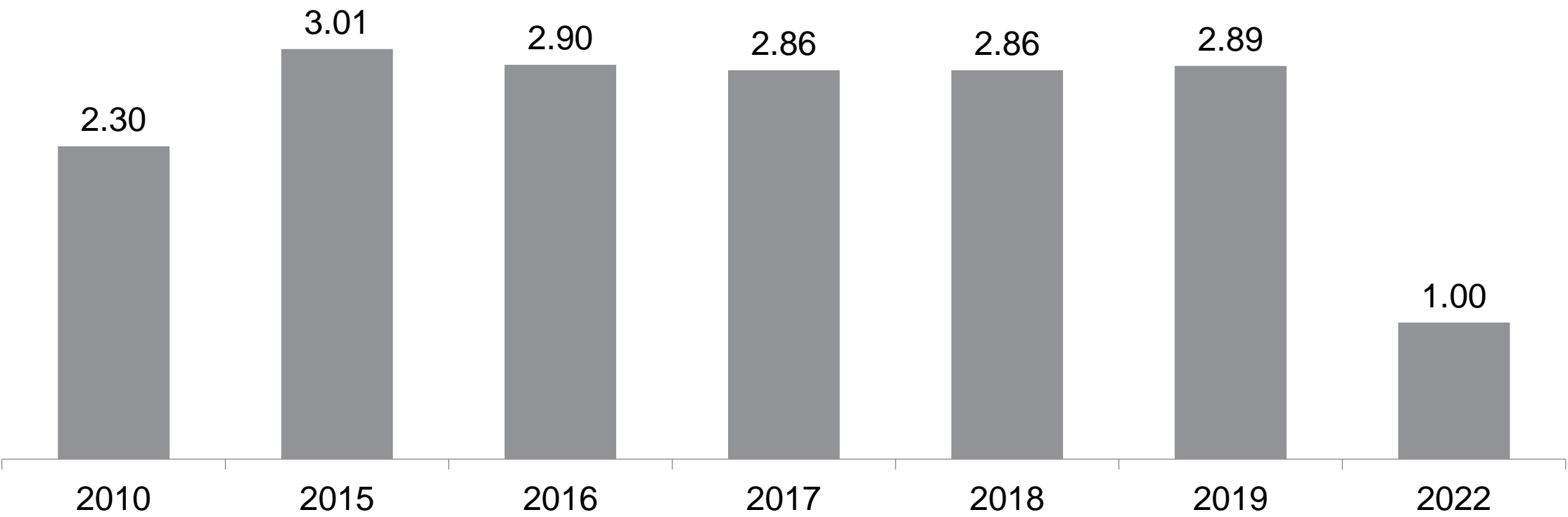


Source: Survey of Working Arrangements and Attitudes (SWAA), Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Revenues From Reservation Change Fees Have Fallen Sharply as Carriers Relaxed Restrictions

Widespread Elimination of Change Fees Has Boosted Traveler Flexibility

U.S. Airline Revenues (in Billions USD) From Reservation Change Fees

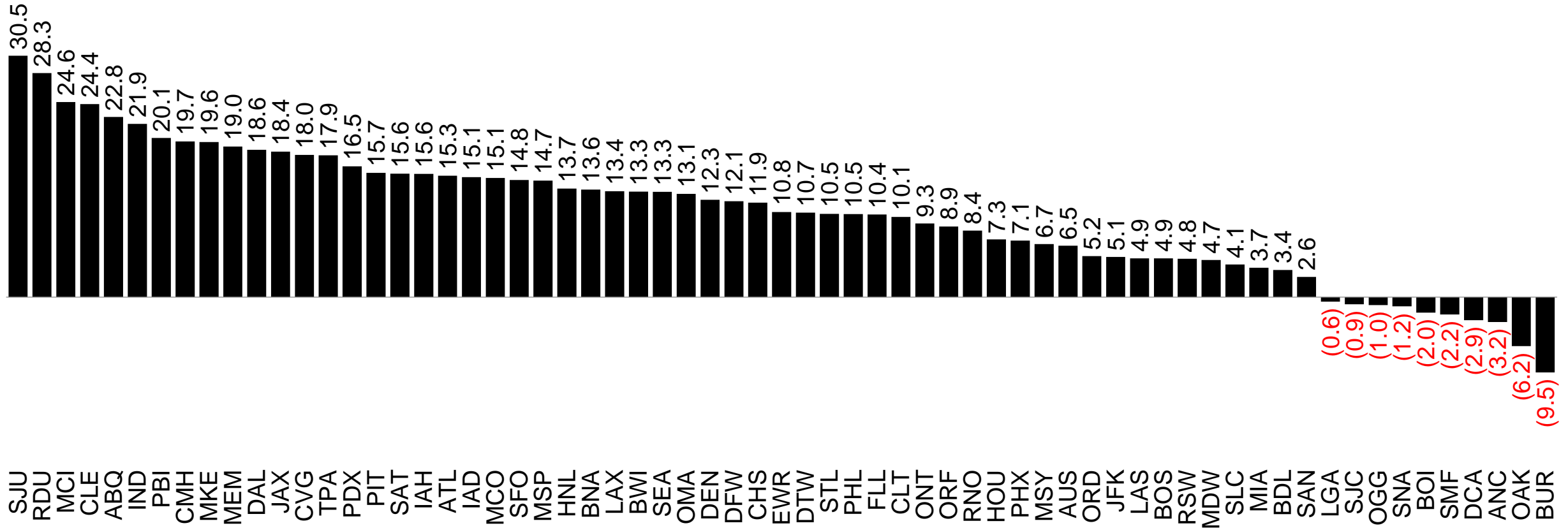


Source: Bureau of Transportation Statistics Form 41

This Summer, 38 Large/Medium U.S. Airports Are Expecting *Double-Digit* YOY Seat Growth

55 of the 65 Locations Are Showing Growth

Change (%) in Systemwide Scheduled Seats: Summer 2023 vs. Summer 2022



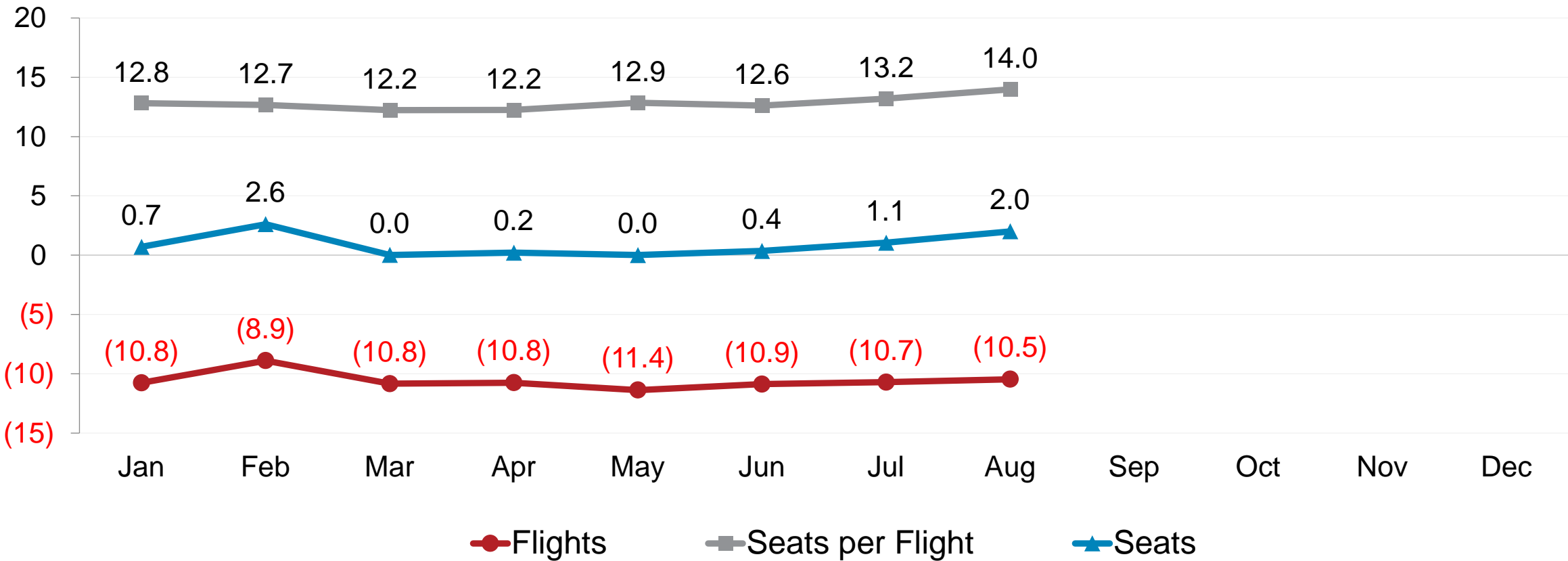
Source: Diio by Cirium published schedules (May 12, 2023) for all U.S. and non-U.S. airlines providing scheduled service to all U.S. and non-U.S. destinations

Summer = June 1 through August 31

Compared to 2019, U.S. Airports Are Seeing 10-11% Fewer Scheduled Flights

But U.S. and Foreign-Flag Carriers Are Offering More Seats Thanks to 12-14% Larger Aircraft

Change (%) vs. 2019 in Scheduled Passenger Service Departing U.S. Airports

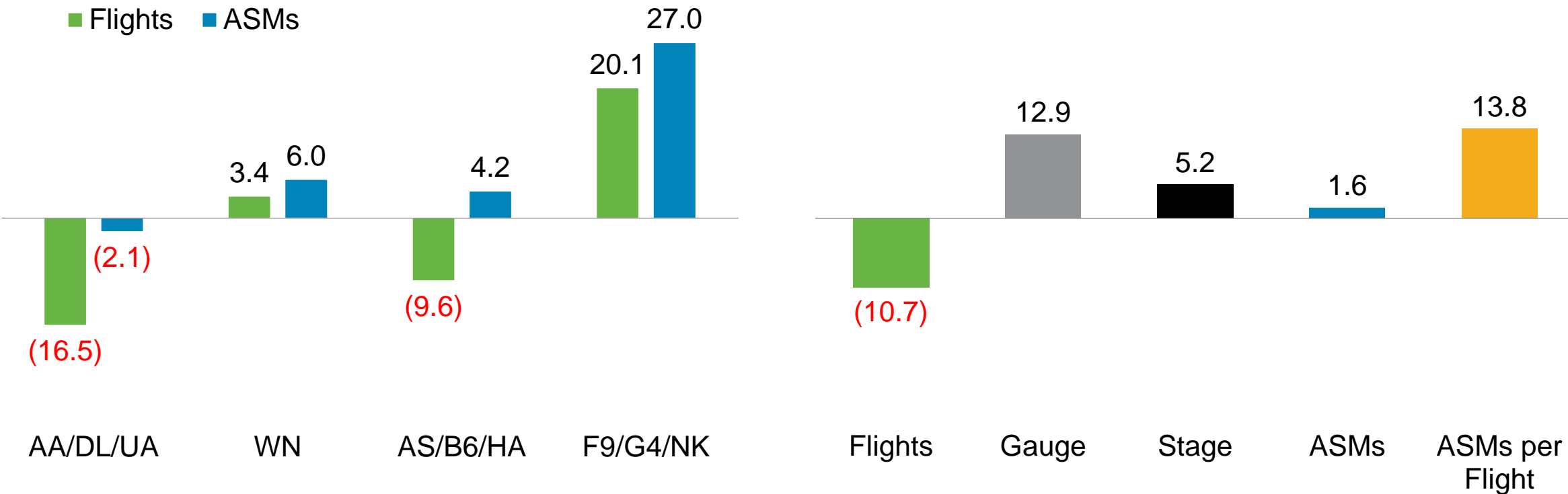


Source: Cirium published schedules (May 12, 2023) for all U.S. and foreign-flag airlines departing U.S. airports for all destinations

Published Schedules Show That U.S. Carriers Are Producing ~14% More ASMs per Flight

Rates of Growth Vary Widely by Industry Segment

Change (%) in Systemwide Schedules for U.S. Passenger Airlines: June 2023 vs. June 2019



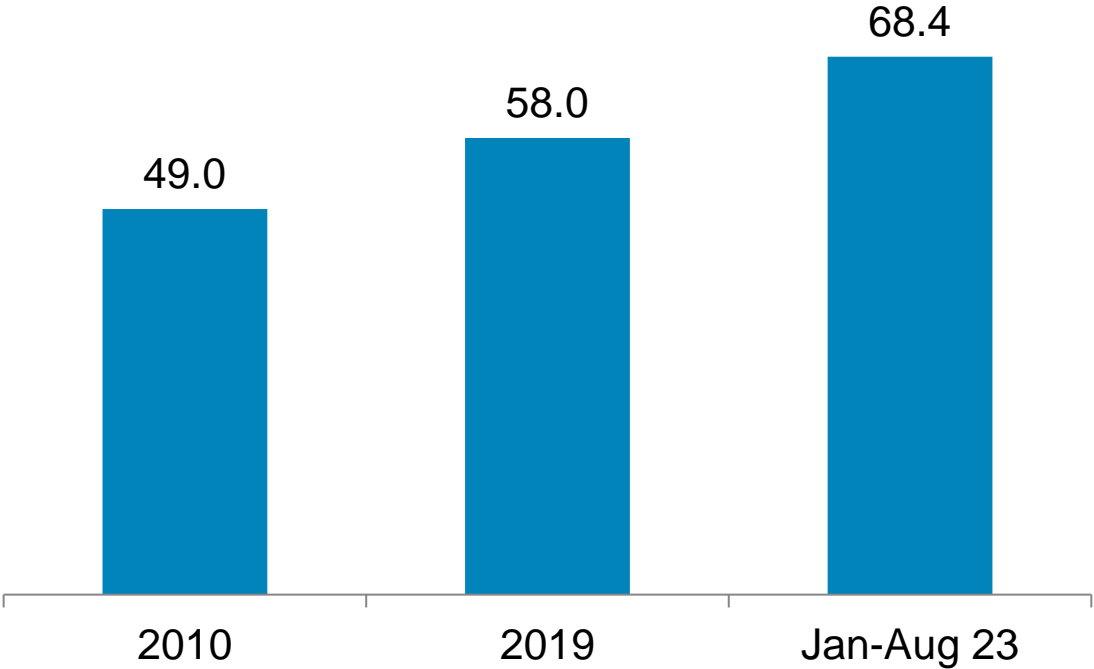
Source: Cirium published schedules (May 12, 2023) for selected marketing airlines on a consolidated basis

Note: ULCC = ultra low-cost carrier; gauge = seats/flight; stage = miles/flight; ASMs = available seat miles

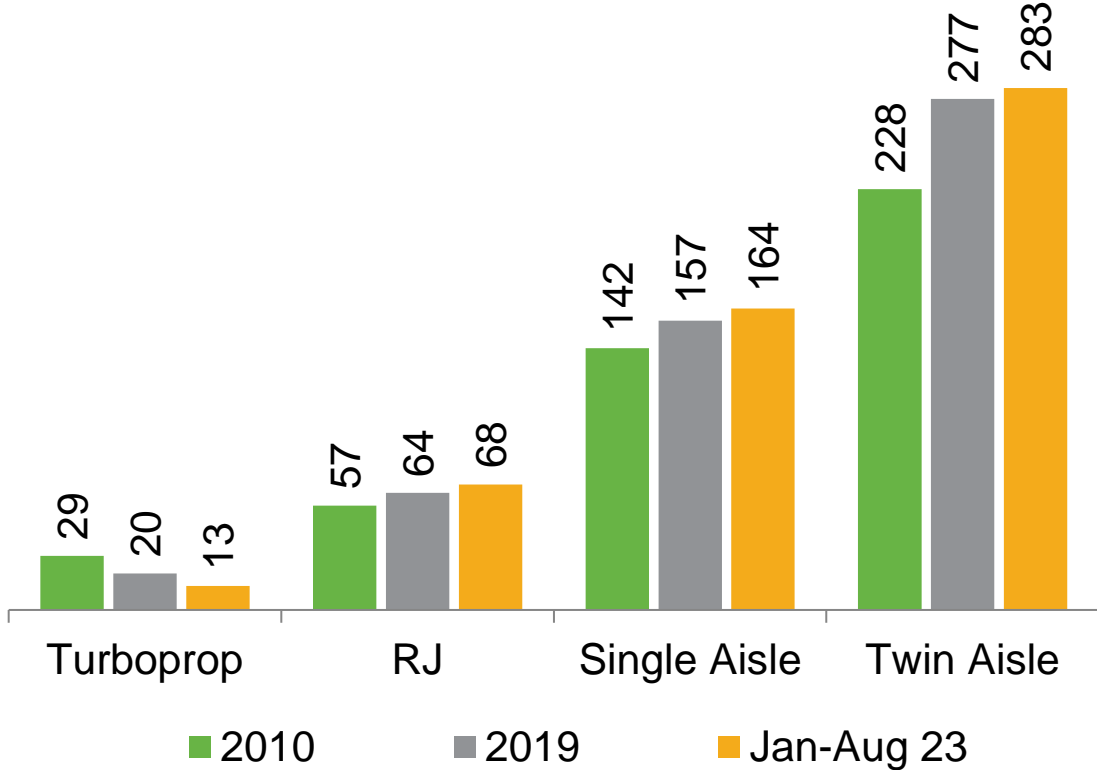
Increases in Mainline Flying *and* in Aircraft Size Have Fueled Domestic Upgauging

Mainline Now Accounts for 68% of Domestic Flights, Up From 49% in 2010

Mainline % of Domestic U.S. Scheduled Flights



Seats per Domestic U.S. Scheduled Departure

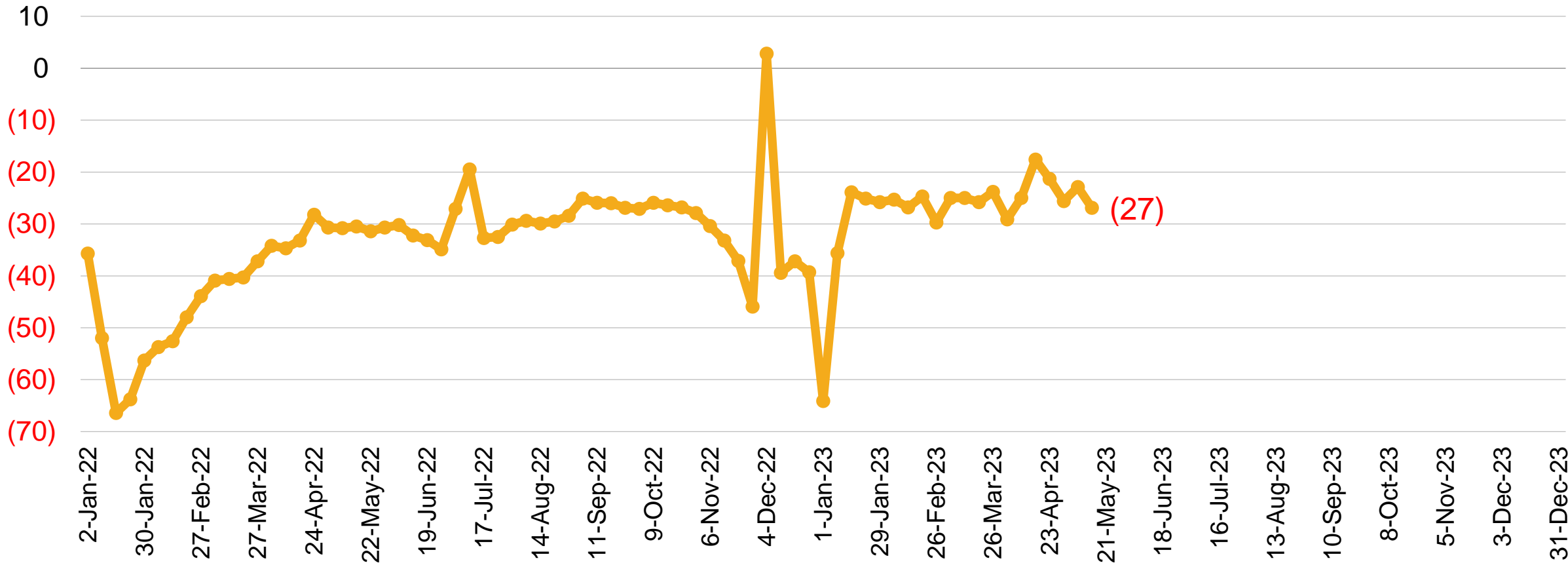


Source: Cirium published schedules (May 12, 2023)

Note: Mainline = operated by the marketing airline itself rather than a regional airline codeshare partner

Volume of Corporate Ticket Sales Remains Well Below 2019 Levels

Change (%) vs. 2019 in Corporate-Segment Weekly Tickets Sold* by U.S. Travel Agencies

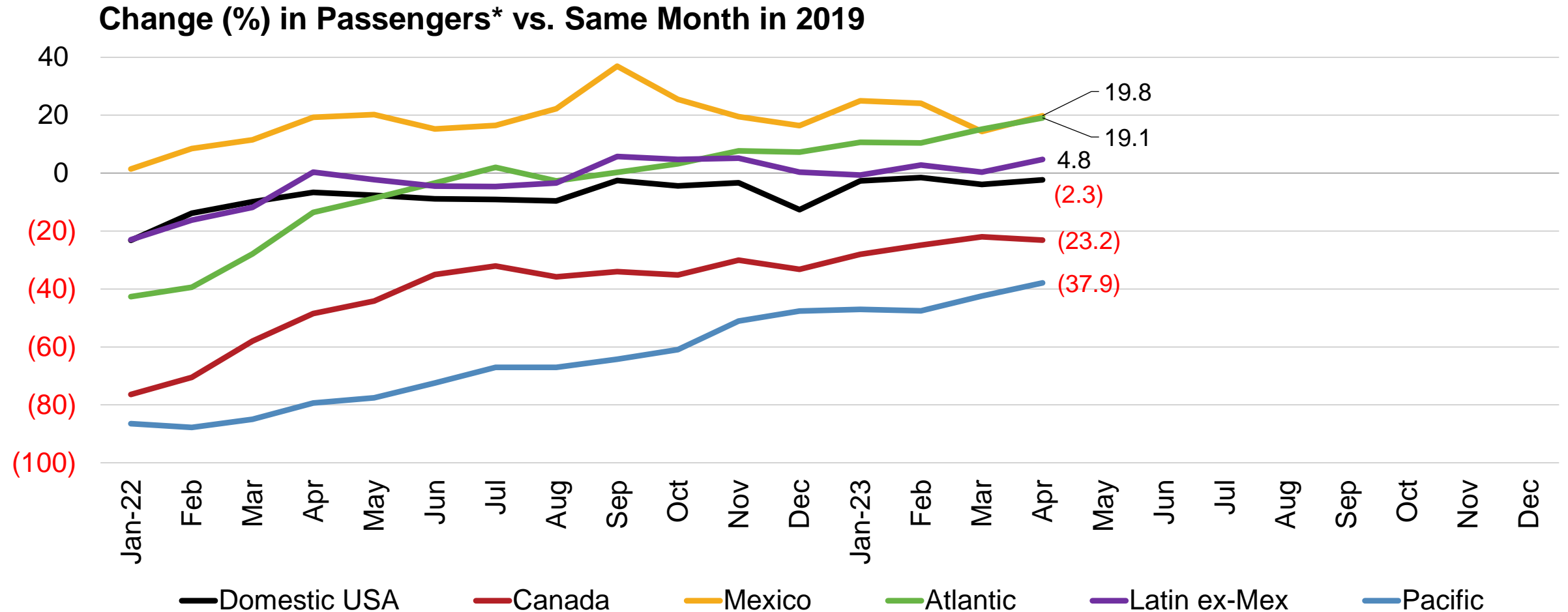


Source: Airlines Reporting Corporation (ARC)

* Results are not net of refunds or exchanges; "corporate" = agencies that primarily help companies organize travel arrangements for their employees.

In April 2023, A4A Airline Passenger Volumes Fell 1.6% Below April 2019

Domestic Remains Below 2019; Transatlantic Rose 19%



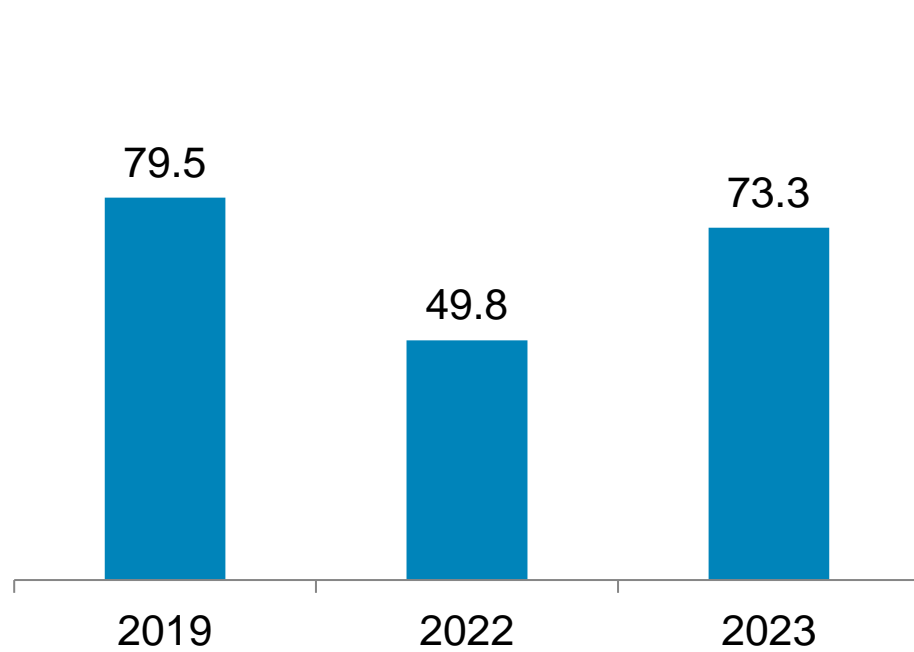
Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

* Onboard ("segment") passengers

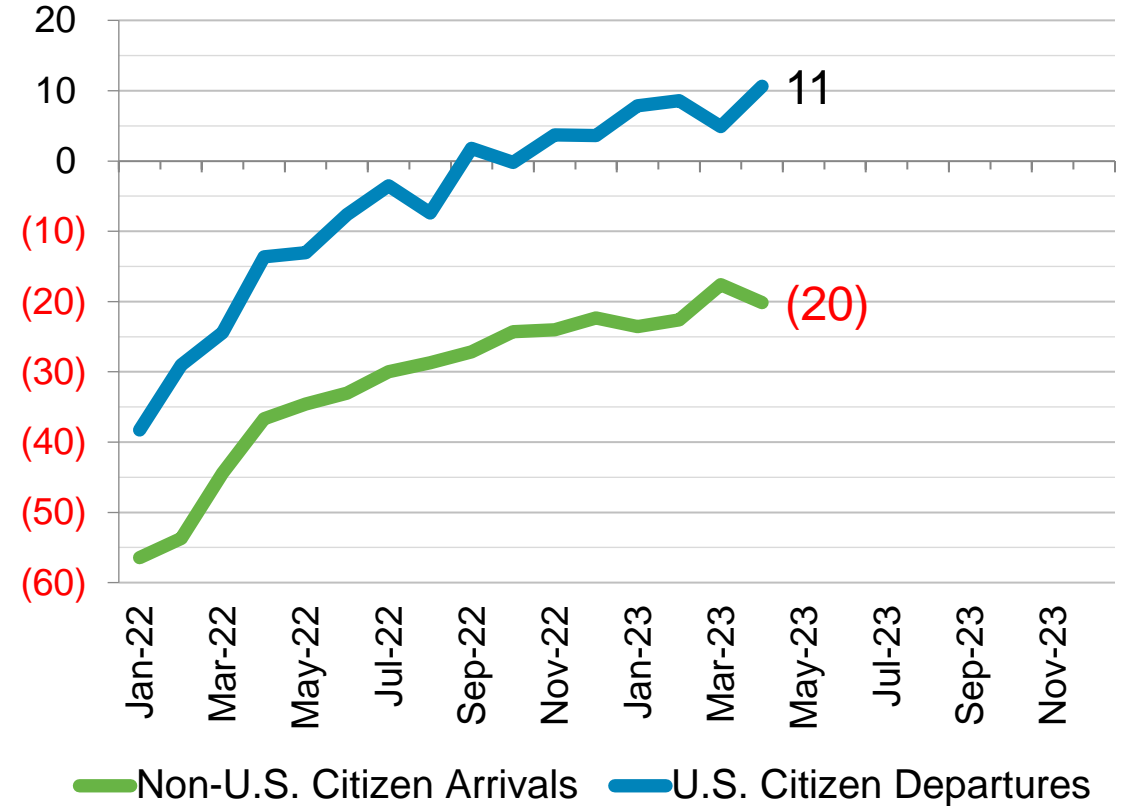
In the First Four Months of 2023, U.S.-International Air Travel Fell 7.8% Below 2019 Levels

U.S. Citizen Departures Continue to Outperform Foreign Citizen Arrivals by a Very Large Margin

U.S.-International Air Pax* (Millions) — Jan-Apr



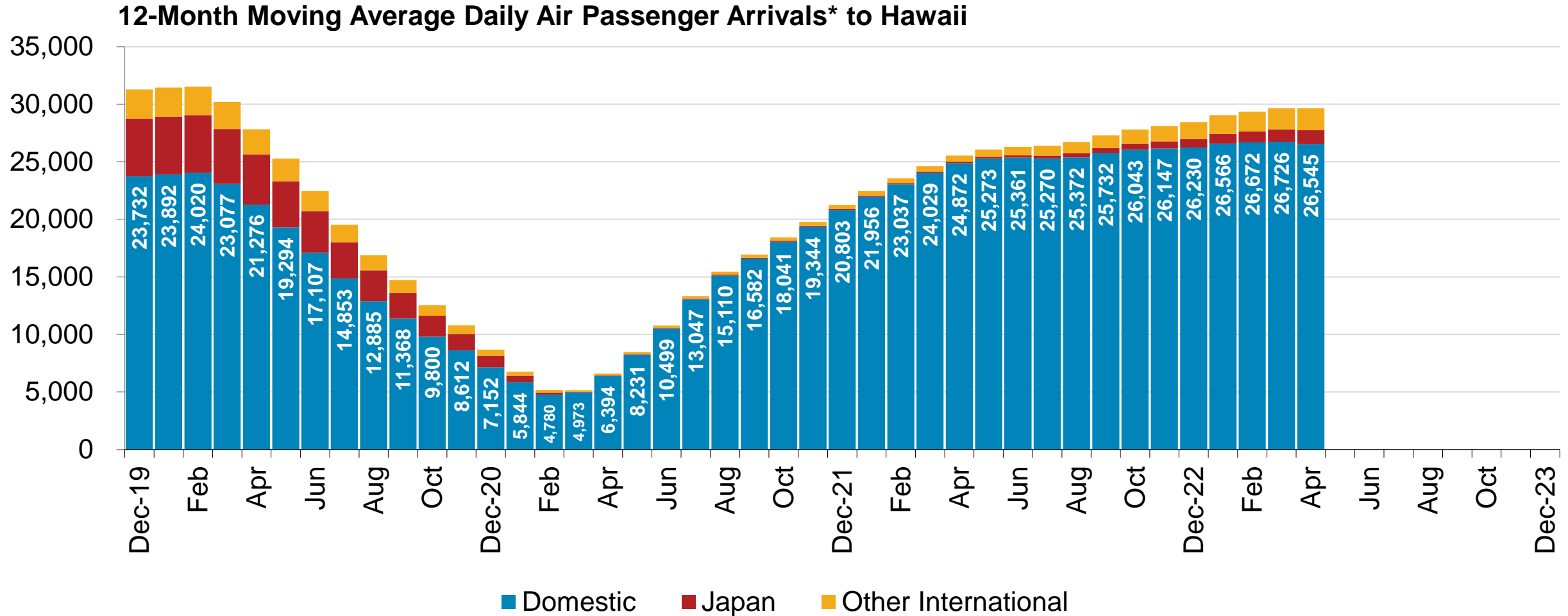
Change (%) vs. 2019 in U.S.-International Air Pax*



Source: U.S. Department of Commerce National Travel and Tourism Office using DHS I-92 / APIS data

* Gateway-to-gateway passengers on U.S. and non-U.S. airlines, outbound plus inbound

International Air Arrivals (Especially From Japan) to Hawaii Remain Depressed But Domestic Air Arrivals Have Overtaken Pre-pandemic Highs



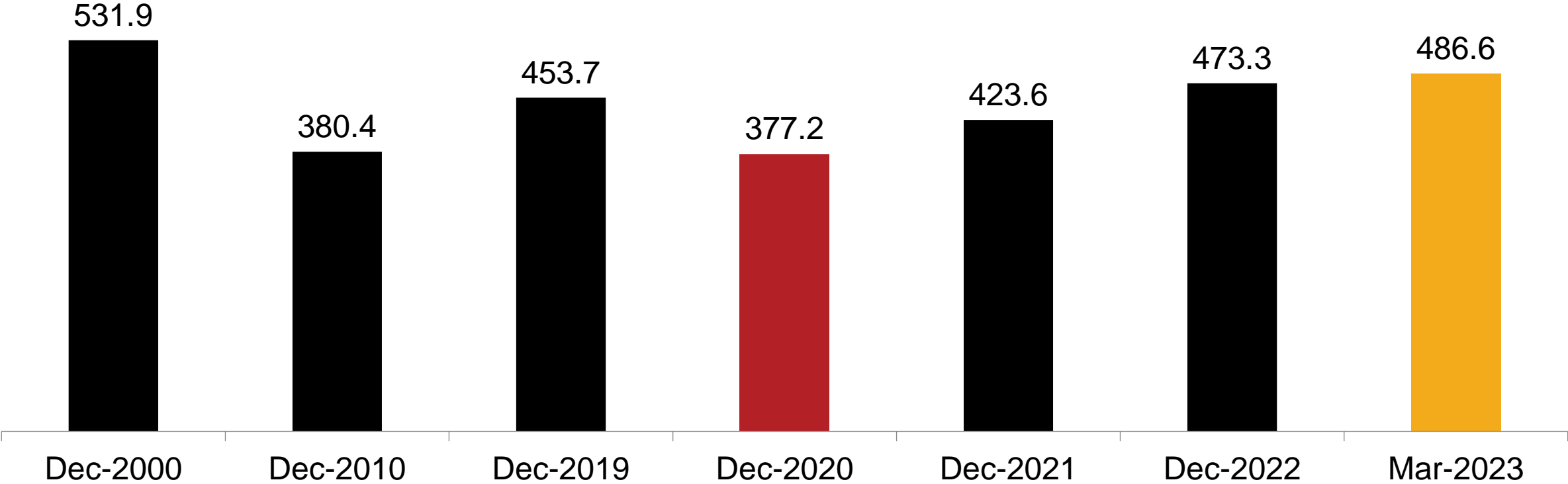
Source: Hawaii Department of Business, Economic Development & Tourism

* Daily passenger counts include returning residents, intended residents and visitors but exclude interisland and Canada passengers

U.S. Passenger Airlines Added ~109K Jobs From December 2020 to March 2023

Largest Workforce Since October 2001

U.S. Passenger Airline Full-Time Equivalent* Employees (000s)



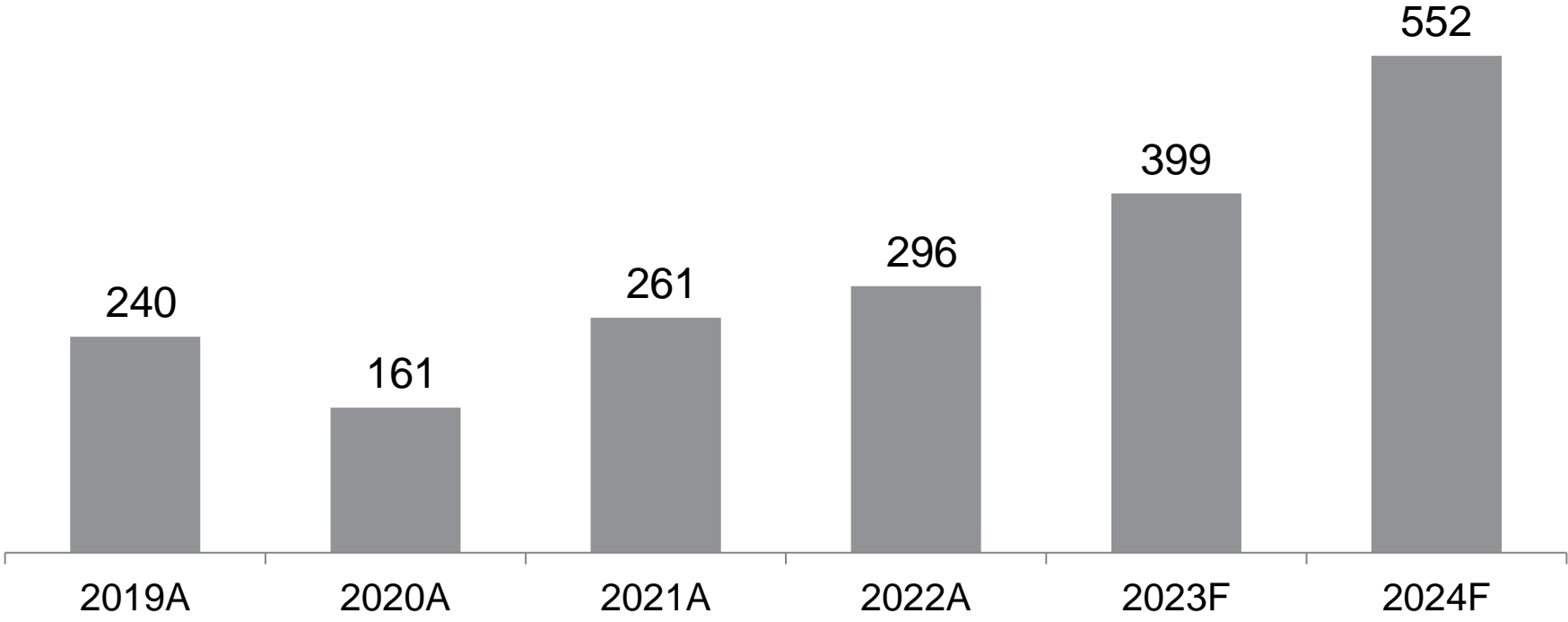
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines (i.e., all that report scheduled passenger revenue)

* Full-time equivalents (FTE) = full-time workers plus 0.5 * part-time workers

U.S. Airlines Expecting Significant Ramp-Up in Aircraft Deliveries

Order Books Imply Intake of More Than Nine New Aircraft per Week in 2023-2024

Scheduled New-Aircraft Deliveries for Selected U.S. Passenger Airlines



Source: Alaska, Allegiant, American, Breeze, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United as of April 27, 2023

“Controllable” or “Uncontrollable” — What’s All the Buzz About???

“Bees on a plane: Delta flight delayed after massive swarm of bees latches onto plane’s wing for hours”





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