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**We Connect the World**

## **Demand Is Sound, But Constraints Abound**

John Heimlich—Vice President & Chief Economist  
ACH Revenue Accounting Committee Meeting  
May 15, 2024

# In 1Q 2024, U.S. Passenger Airlines Collectively Posted a Pre-Tax Loss Margin of -3.8%

## Maintenance Expenses Rose 16% and Net Interest Expense Rose 27%, Offsetting 7% Lower Fuel

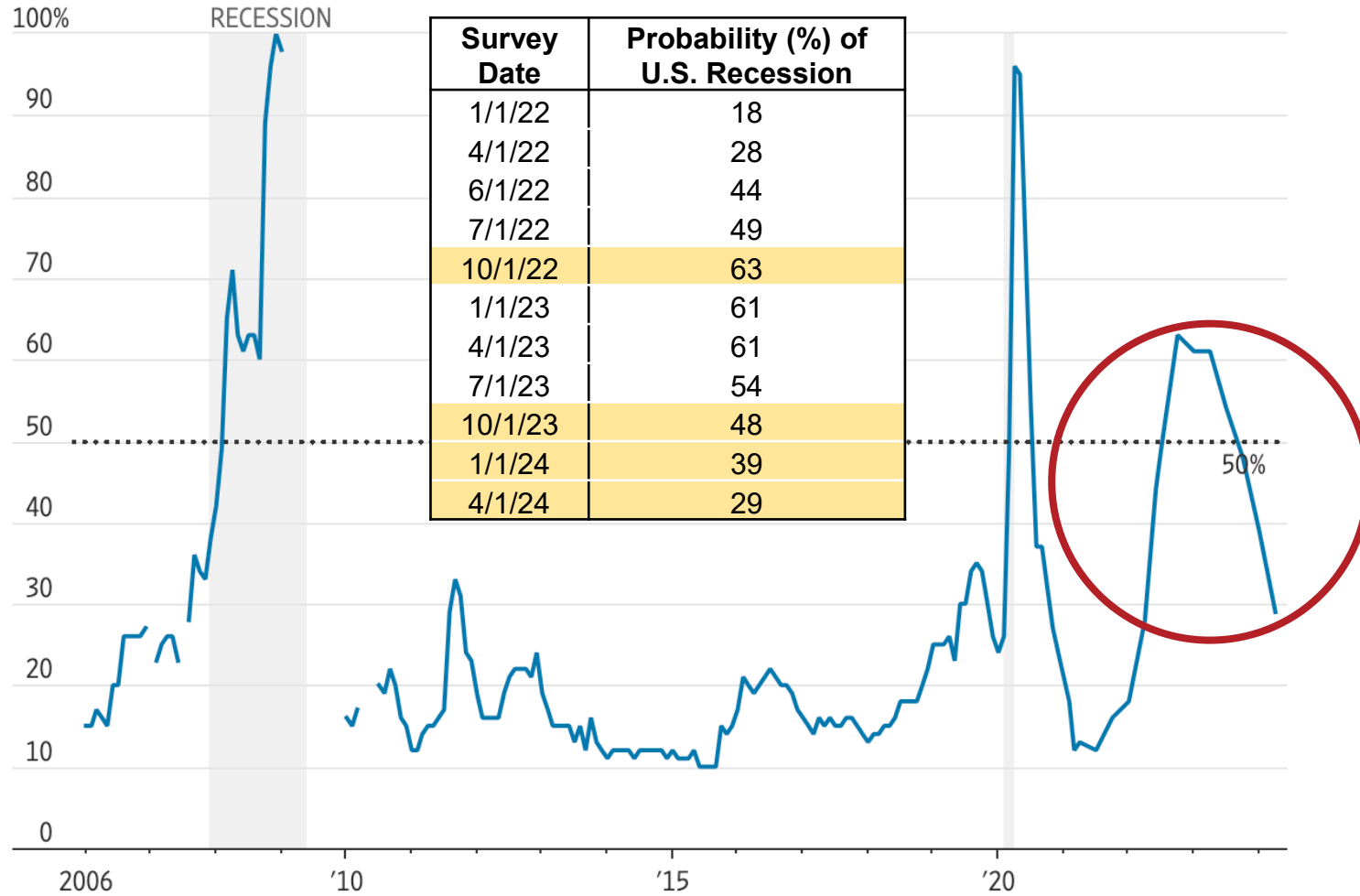
Financial Results: 1Q 2024	\$ Billions	% Chg. YOY	% of Category
Passenger (RPMs +7.7%, yield -1.8%)	46.9	6	88.4
Cargo	0.9	(7)	1.6
Other <sup>1</sup>	5.3	11	9.9
<b>Total operating revenues</b>	<b>53.1</b>	<b>6</b>	<b>100.0</b>
Salaries, wages and benefits	17.5	10	32.4
Aircraft fuel and taxes (consumption +6%, price -12%)	12.3	(7)	22.7
Maintenance materials and repairs	3.2	16	5.8
Landing fees and airport (terminal/hangar) rents	3.5	15	6.5
Depreciation and amortization <sup>2</sup>	2.8	7	5.1
Other <sup>3</sup>	14.8	11	27.4
<b>Total operating expenses</b>	<b>54.0</b>	<b>6</b>	<b>100.0</b>
Interest and other non-op expenses, net	1.1	27	n/a
<b>Pre-tax profit/(loss)</b>	<b>(2.0)</b>	<b>n/a</b>	<b>n/a</b>
<b>Pre-tax margin<sup>4</sup></b>	<b>(3.8%)</b>	<b>(0.6 pts)</b>	<b>n/a</b>

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.
4. Pre-tax profit/(loss) ÷ total operating revenues

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

# Economists Now Deem Chance of a U.S. Recession Within Next 12 Months Far Less Likely

## Probability Most Recently Gauged at 29%, Down From 39% in January and 61% Just One Year Ago



**Jul-2022** — *As Fed Tightens, Economists Worry It Will Go Too Far*

**Oct-2022** — *Economists Now Expect a Recession, Job Losses by Next Year*

**Jan-2023** — *Economists...Still See Recession This Year Despite Easing Inflation*

**Jan-2024** — *It Won't Be a Recession—It Will Just Feel Like One*

**Apr-2024** — *'Envy of the World'—U.S. Economy Expected to Keep Powering Higher*

Source: The Wall Street Journal Economic Forecasting Survey and "Envy of the World"—U.S. Economy Expected to Keep Powering Higher," *The Wall Street Journal* (April 14, 2024)

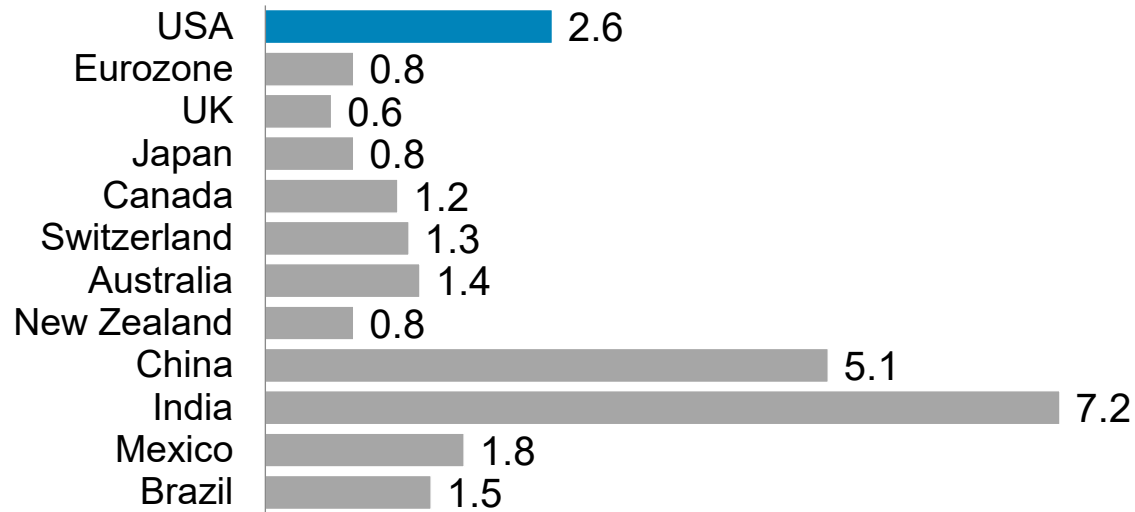
# Wells Fargo and S&P Global Expect the U.S. Economy to Grow at Least 2.5% in 2024

## Several Major Economies Are Projected to Grow $\leq 1\%$

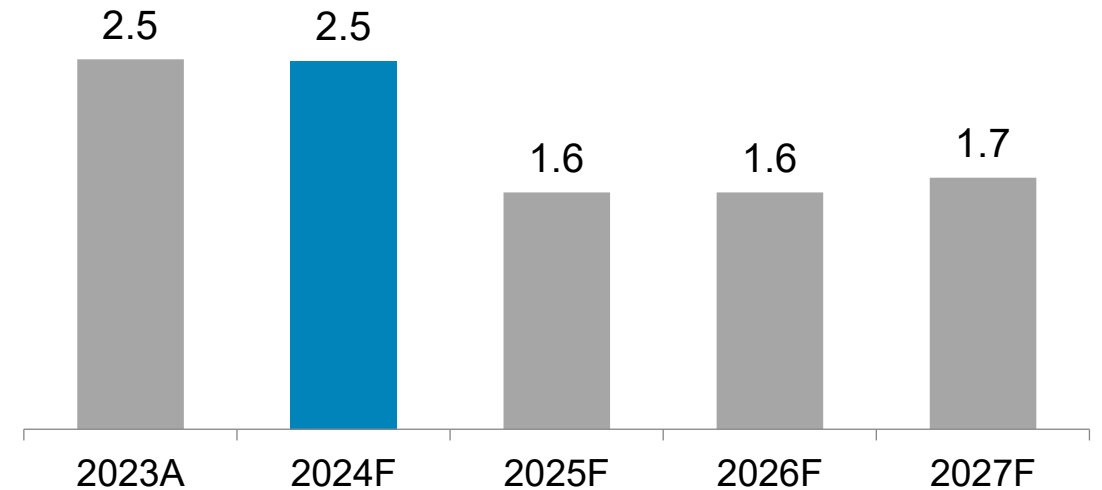
“Economic growth in the United States appears to be in solid shape... [R]eal GDP growth in the second quarter is again setting up to be in the 2%-3% range, and **we continue to see only a modest deceleration in real GDP** in the quarters that follow.”

“S&P Global Market Intelligence **held its forecast of US real GDP growth for 2024 unchanged at 2.5%** but lowered its projections for 2025 and 2026 by 0.1 percentage point each to 1.6%.”

### Wells Fargo: Projected 2024 Real GDP Growth (%)



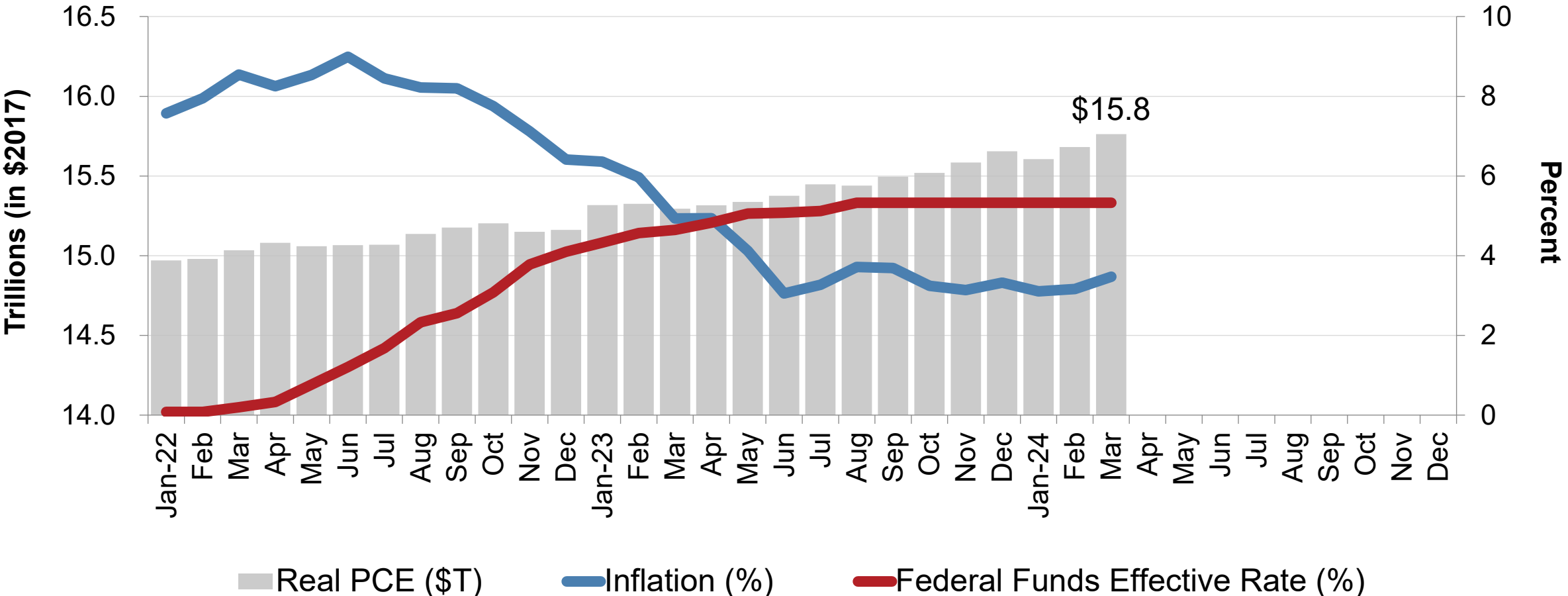
### S&P Global: U.S. Real GDP Growth



Source: Wells Fargo (May 8, 2024) and “Economic Outlook U.S. Q2 2024: Heading For An Encore,” S&P Global Ratings (May 9, 2024)

# Real U.S. Consumer Spending Reached an All-Time High in March 2024

Consumers Have Been Buoyed by Lower Inflation, Undaunted by Elevated Interest Rates

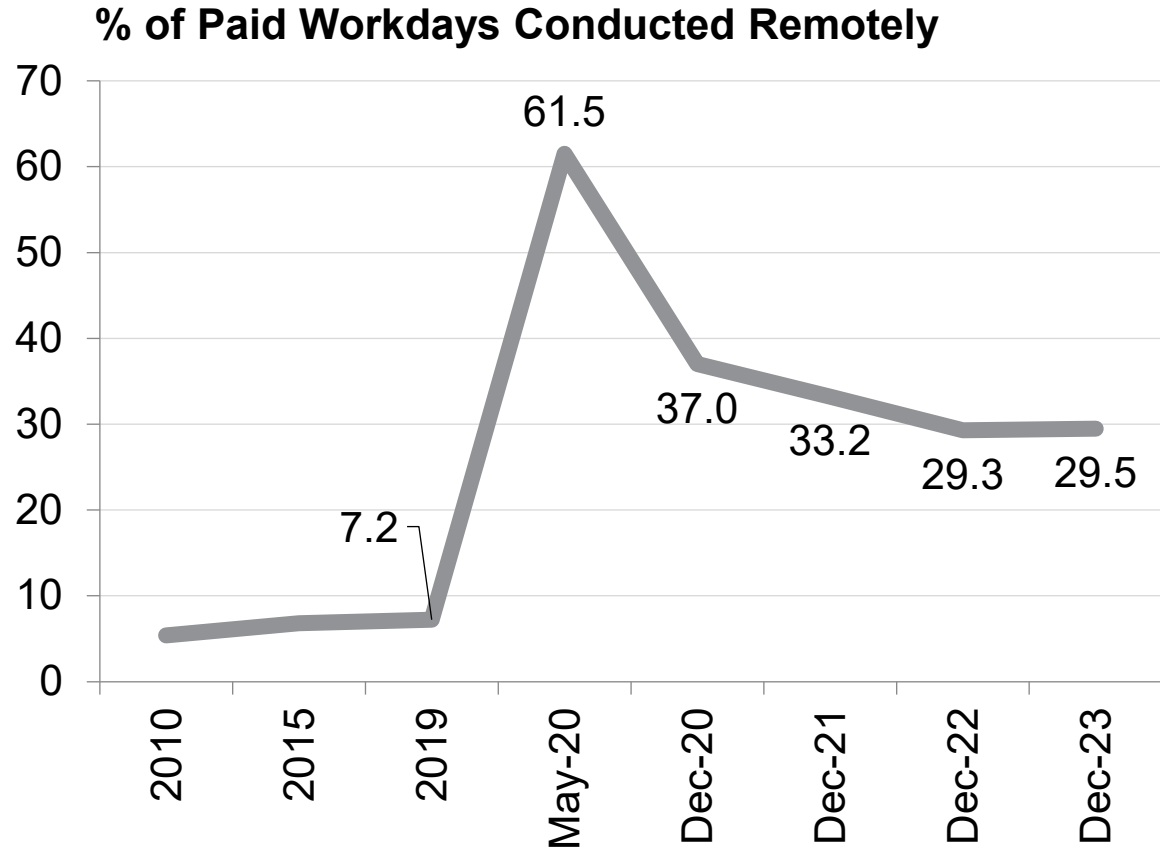


Source: U.S. Bureau of Economic Analysis and Bureau of Labor Statistics via Federal Reserve Bank of St. Louis

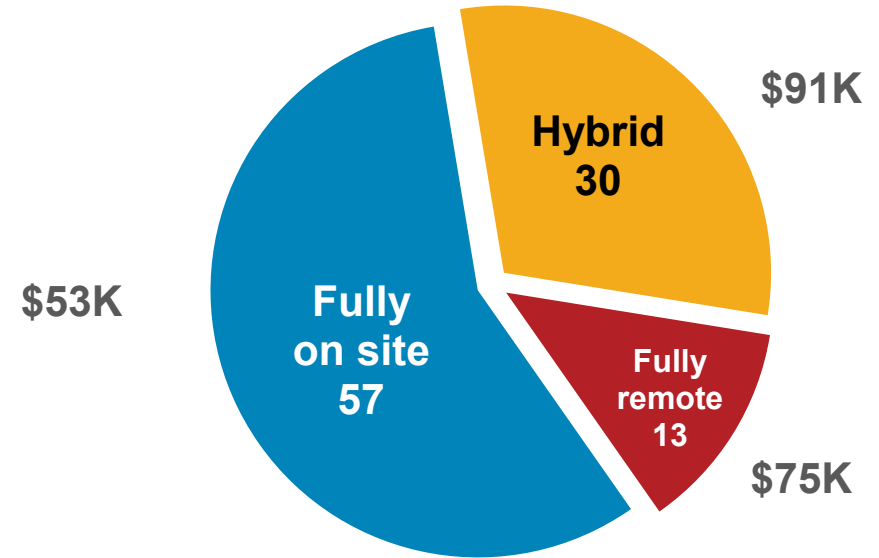
Note: Personal consumption expenditures (PCE) and inflation are seasonally adjusted and annualized

# Share of Remote Work Has Stabilized Well Above Pre-Pandemic Level

## Hybrid Workers, Who Earn the Most, Have Time and Money to Spend on Air Travel



**% of U.S. Resident Full-Time Employees by Working Arrangement (Dec-2023) and Earnings (1H23)**



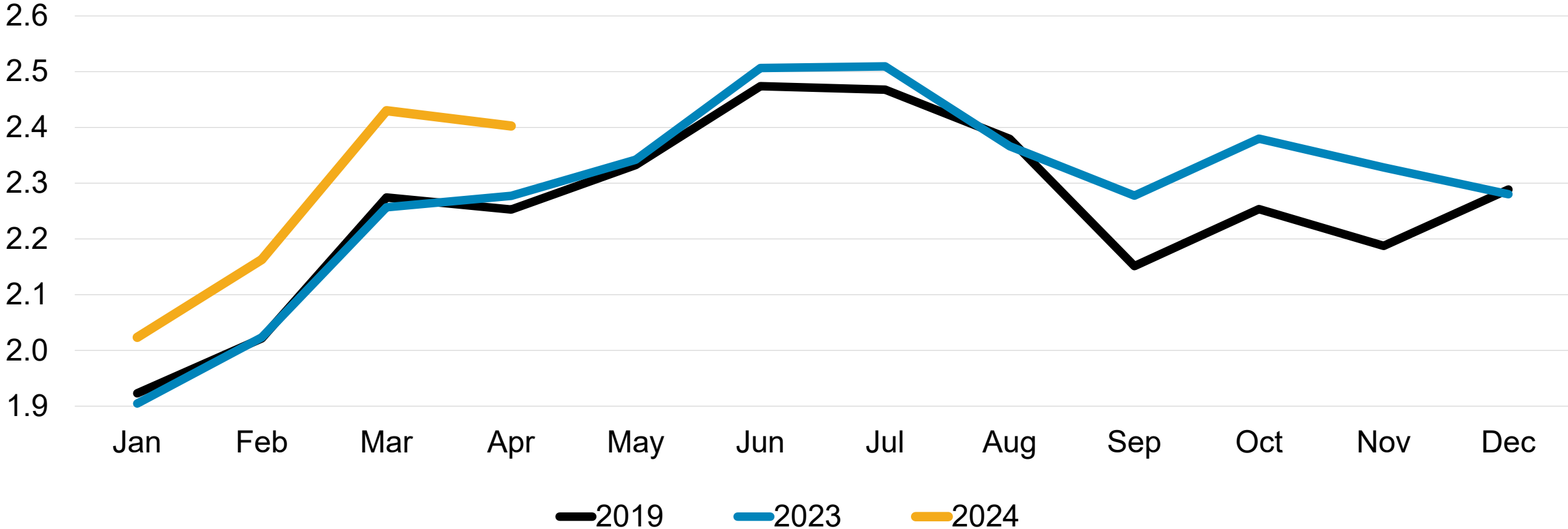
- **Fully in-person** work is most common for **front-line jobs** that require working with equipment or interacting with customers on site.
- **Hybrid** schemes are most common among **professionals and managers**.
- **Fully remote** work is most common for jobs that **require little interaction**, such as IT support, and in the tech industry.

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.

# TSA Checkpoint Volumes Off to a Record Start in 2024

In First Four Months, Daily Average Rose 5.6% From 2023

Daily Average TSA Throughput\* (Millions)



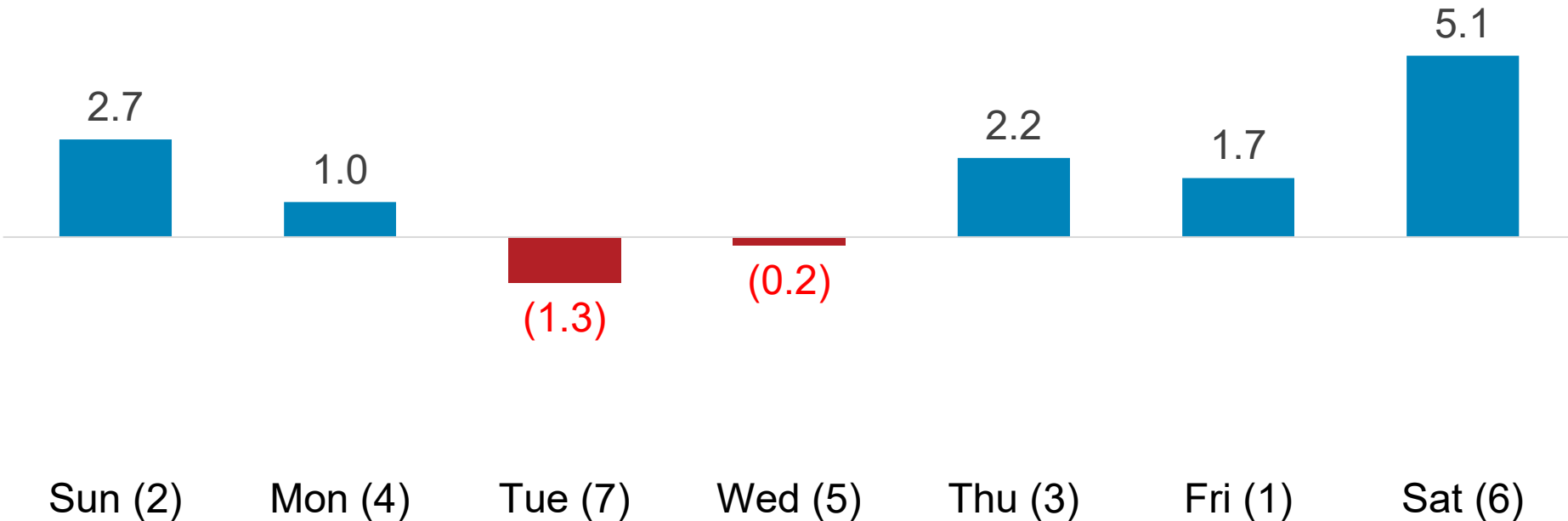
Source: A4A analysis of data from the Transportation Security Administration

\* U.S. and foreign-carrier customers (excludes Known Crewmember® personnel) traversing TSA checkpoints

# Change in Day-of-Week Air-Travel Patterns Provides Evidence of Increased Leisure Mix

Saturday and Sunday, Known for Leisure, Are the Big Winners; Friday Remains the Busiest Day

Change (%) in TSA Checkpoint Volume: 2023 vs. 2019



Day of Week and Rank (by Volume)

Source: A4A analysis of data from the Transportation Security Administration

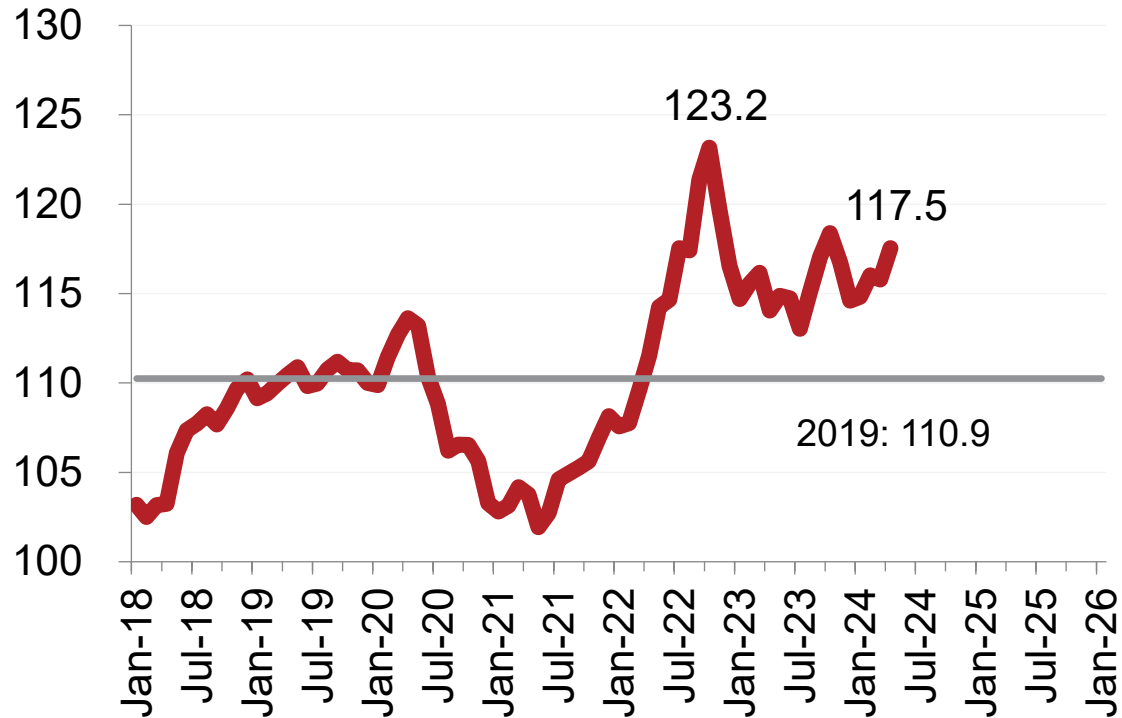
Note: Volume reflects travelers only, not Known Crewmember® personnel.



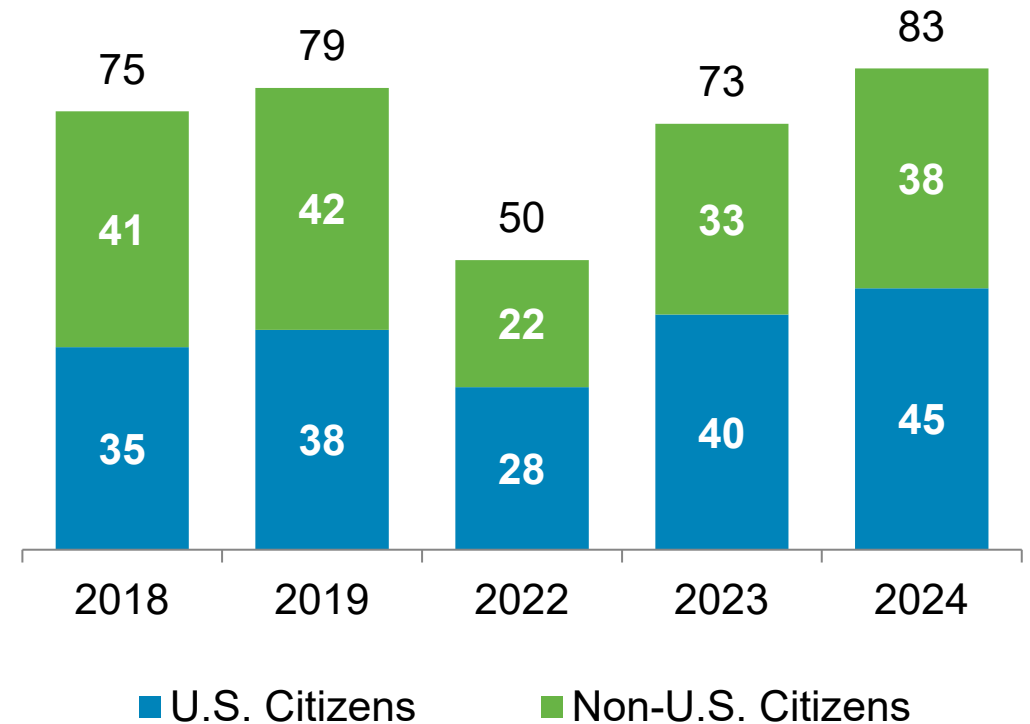
# In the First Four Months of 2024, U.S.-International Air Travel Rose 13% Year Over Year

## Despite the Strong U.S. Dollar, Non-U.S. Citizen Volumes Rose 15%

**Nominal Advanced Foreign Economies U.S. Dollar Index**  
Jan 2006=100, NSA



**U.S.-International Air Passengers\* (Millions)**  
January through April



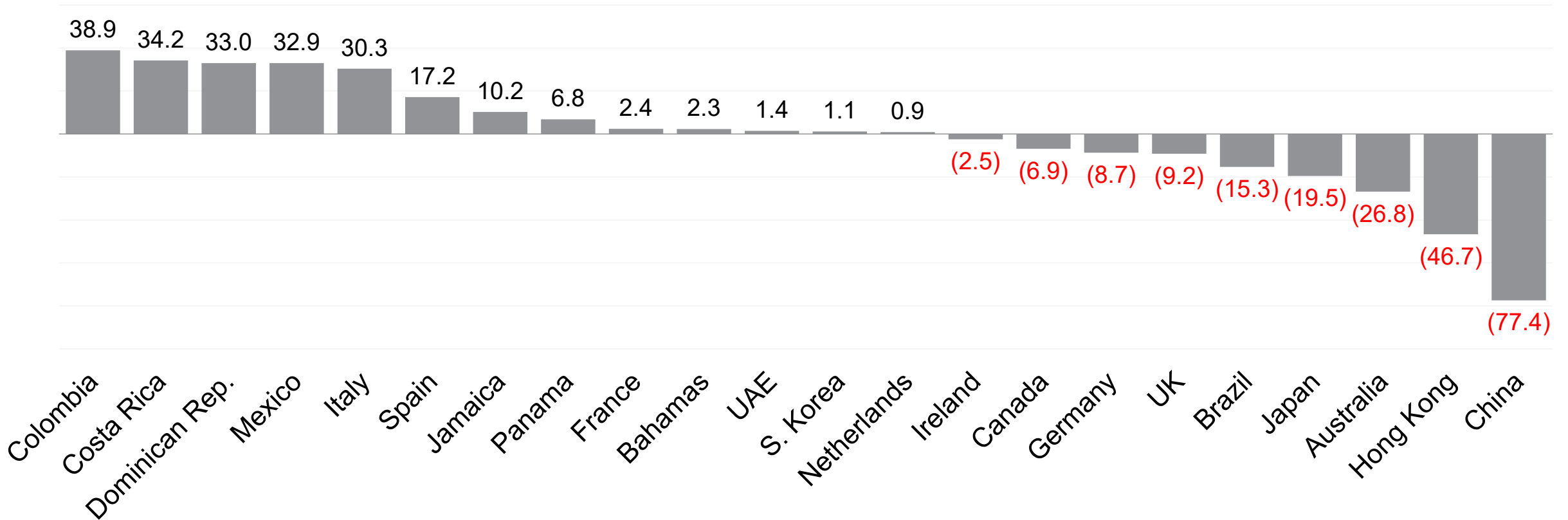
Source: Federal Reserve Bank of St. Louis and U.S. Department of Commerce using DHS I-92 / APIS data

\* Outbound and inbound gateway-to-gateway passengers on U.S. and non-U.S. airlines; 2024 includes Feb. 29

# In the First Four Months of 2024, Many U.S.-International Markets Saw More Pax Than in 2019

## U.S.-Colombia/Costa Rica/Dominican Republic/Mexico Are Up More Than 30%

Change (%) in Passengers\* in Top U.S. Country Pairs — Jan-Apr 2024 vs. Jan-Apr 2019



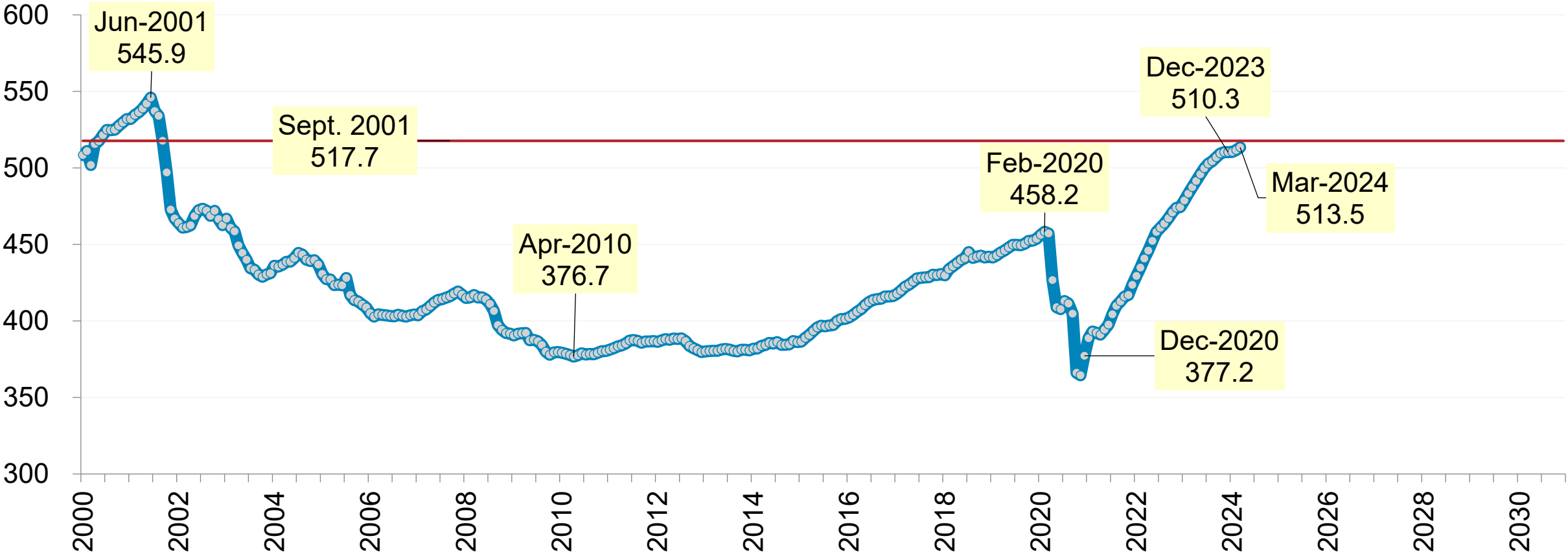
Source: DHS I-92 / APIS data compiled by U.S. Department of Commerce National Travel and Tourism Office

\* Gateway-to-gateway passengers on U.S. and foreign scheduled and charter airlines and general aviation

# U.S. Passenger Airlines Added ~136K FTEs From the End of 2020 to March 2024

## Largest Workforce Since September 2001

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



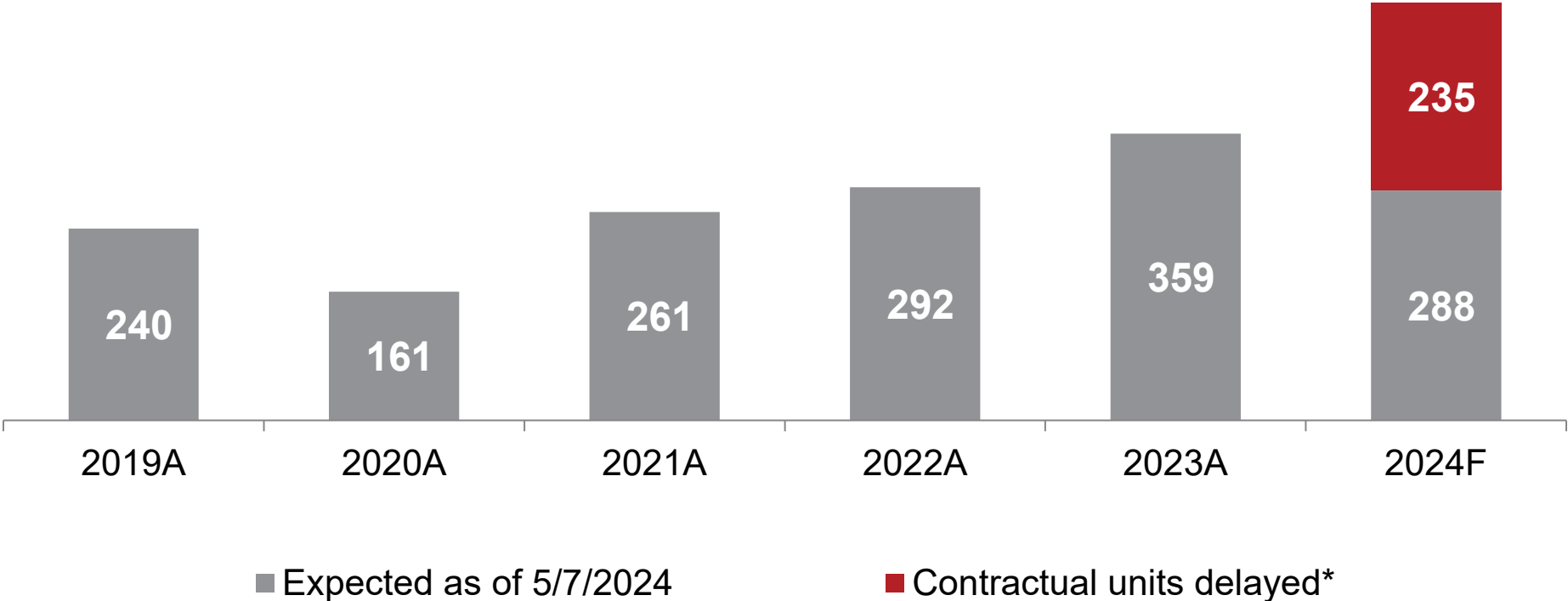
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines (i.e., all that report scheduled passenger revenue)

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

# Aircraft Delivery Expectations in 2024 Reduced Materially by Production/Certification Delays

## U.S. Passenger Airlines Now Expect 45% Fewer Deliveries Than Contractually Stipulated

### Expected New-Aircraft Deliveries for 11 U.S. Passenger Airlines



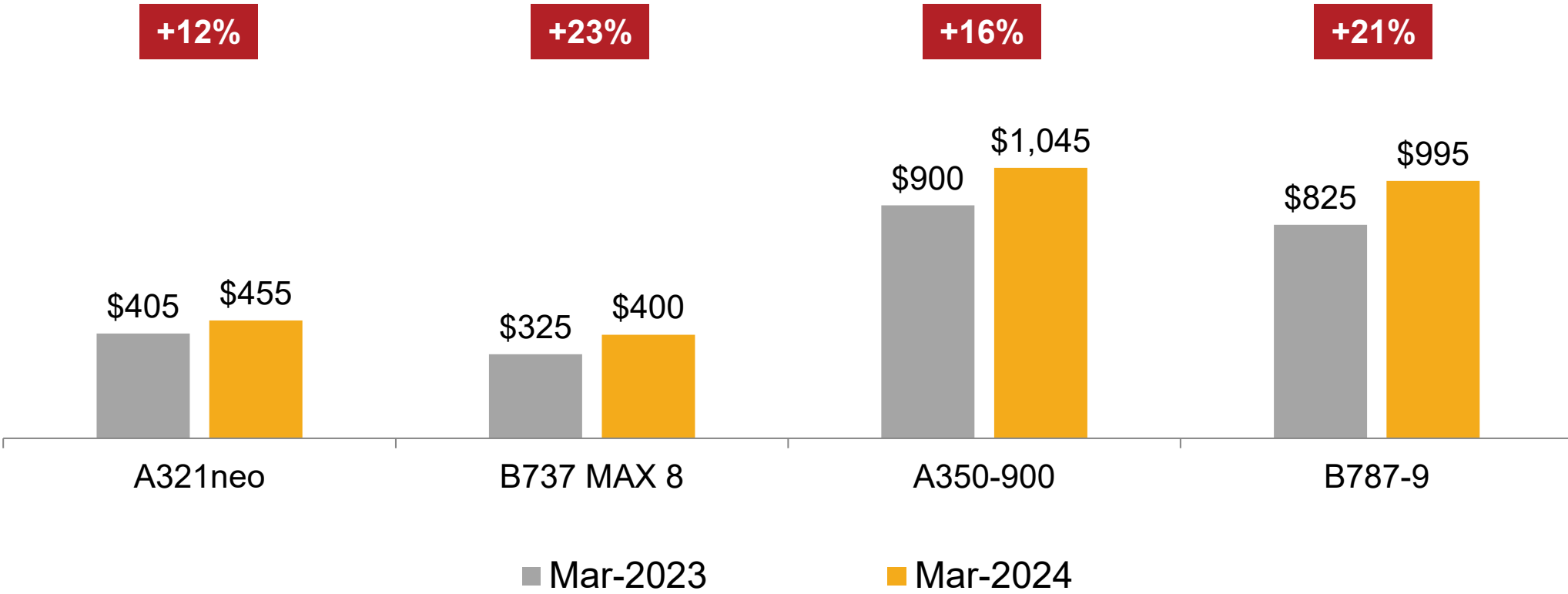
Source: Alaska, Allegiant, American, Breeze, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United

\* Based on contractual fleet plans as of 10/31/2023

# In Just One Year, Airplanes Have Gotten Significantly More Expensive

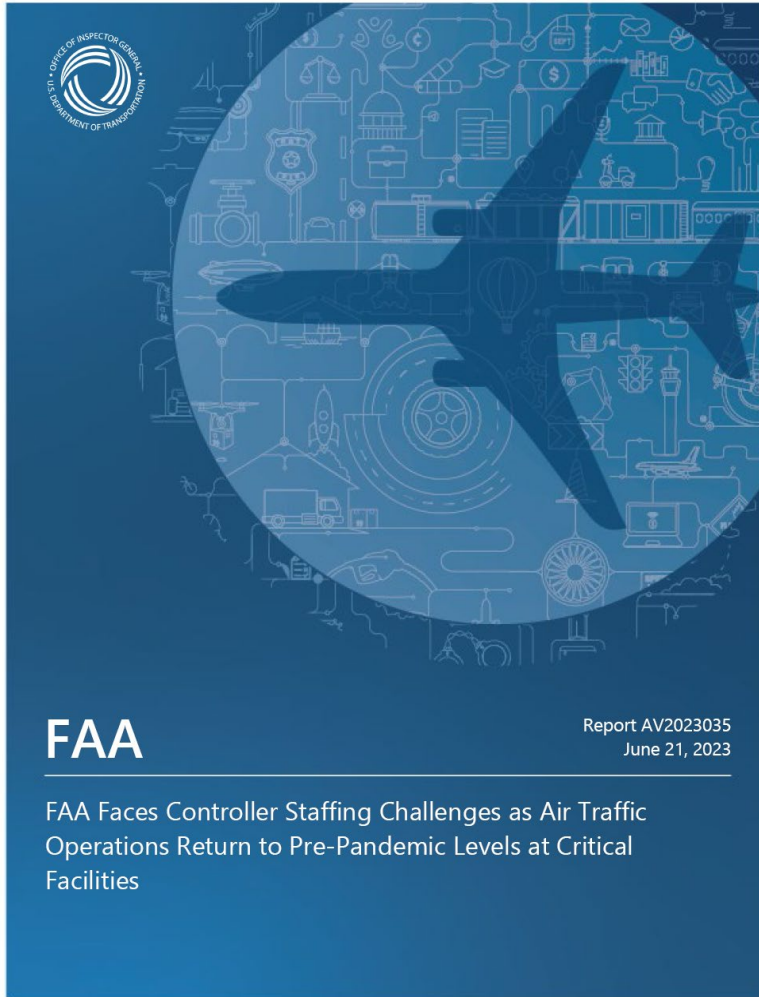
## Monthly Lease Rates on New Builds Reflect Supply Chain Tightness for Single- and Twin-Aisle Units

Monthly Market Lease Rates (000)



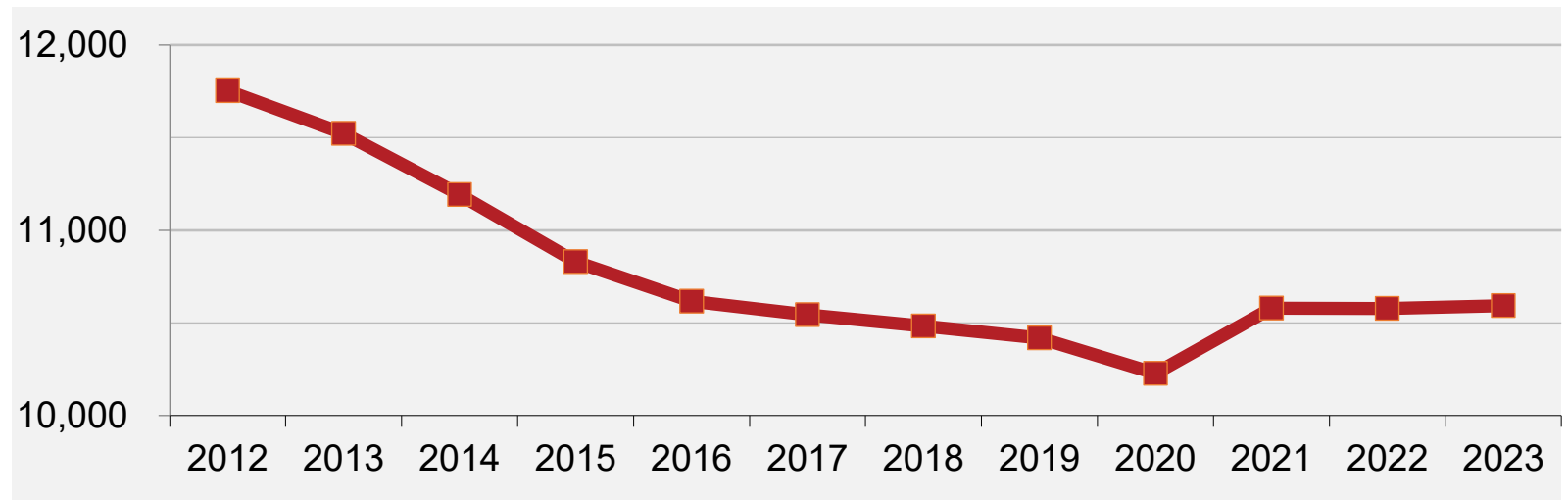
Source: Cirium and Deutsche Bank (April 29, 2024)

# DOT Inspector General: FAA Faces Controller Staffing Challenges as Air Traffic Operations Return to Pre-Pandemic Levels at Critical Facilities



“FAA has made **limited efforts to ensure adequate controller staffing at critical air traffic control facilities**. The Agency also has **yet to implement a standardized scheduling tool** to optimize controller scheduling practices at these facilities... As a result, **FAA continues to face staffing challenges and lacks a plan to address them**, which in turn poses a risk to the continuity of air traffic operations.”

**FAA Certified Professional Controller Staffing by Fiscal Year**

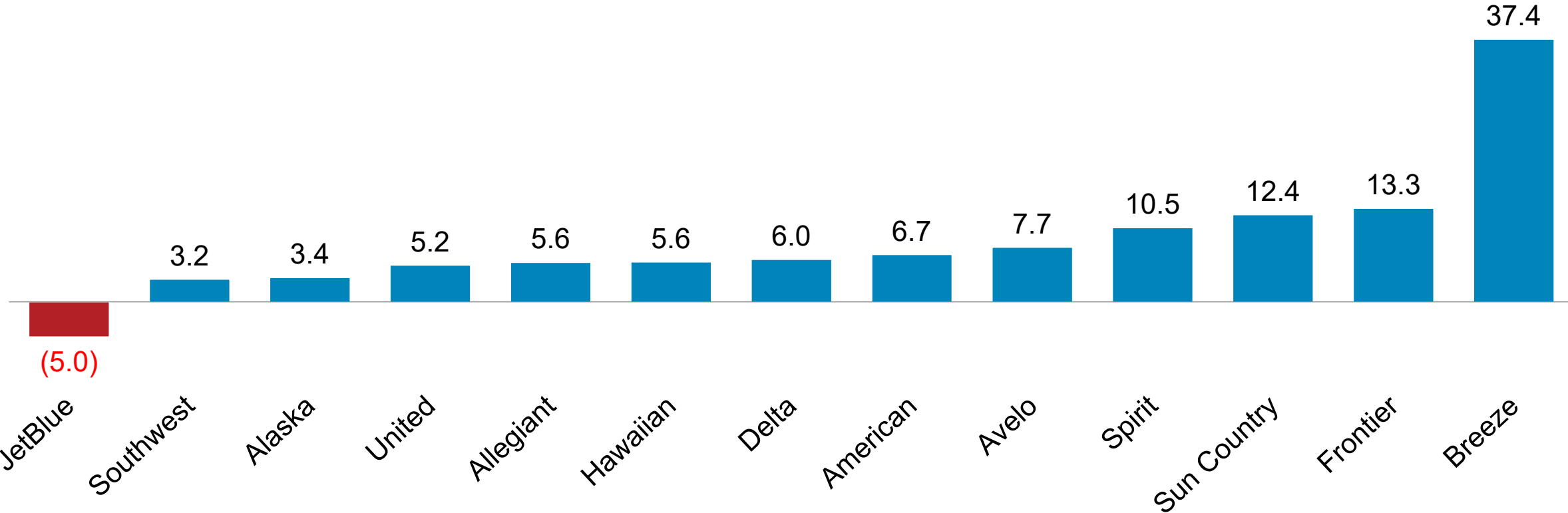


Source: DOT Office of Inspector General, Report AV2023035 (June 21, 2023) and FAA Air Traffic Controller Workforce Plan (May 10, 2024)

# Schedules for 3Q 2024 Show Five ULCCs Dominating Year-Over-Year Capacity Growth

## Breeze and Frontier Showing Highest YOY Growth, JetBlue Showing Contraction

Change (%) in Systemwide Capacity (ASMs): 3Q 2024 vs. 3Q 2023



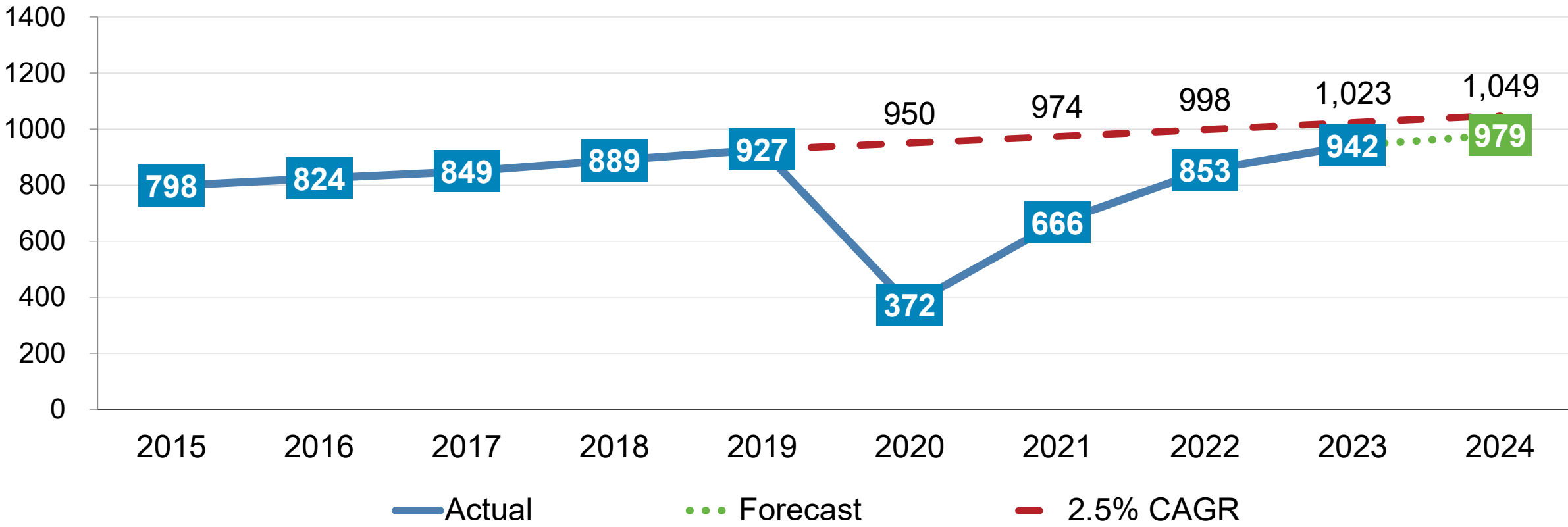
Source: Cirium published schedules (May 10, 2024) for selected marketing airlines on a consolidated basis

Note: ASMs = available seat miles

# U.S. Airline Scheduled-Service Passenger Volumes Projected to Reach All-Time High in 2024

Forecast Assumes Continued U.S. Job Growth and Disinflation

U.S. Airline Scheduled-Service Passengers Enplaned (Millions)



Source: A4A and U.S. Bureau of Transportation Statistics (Form 41 Schedule T-1)

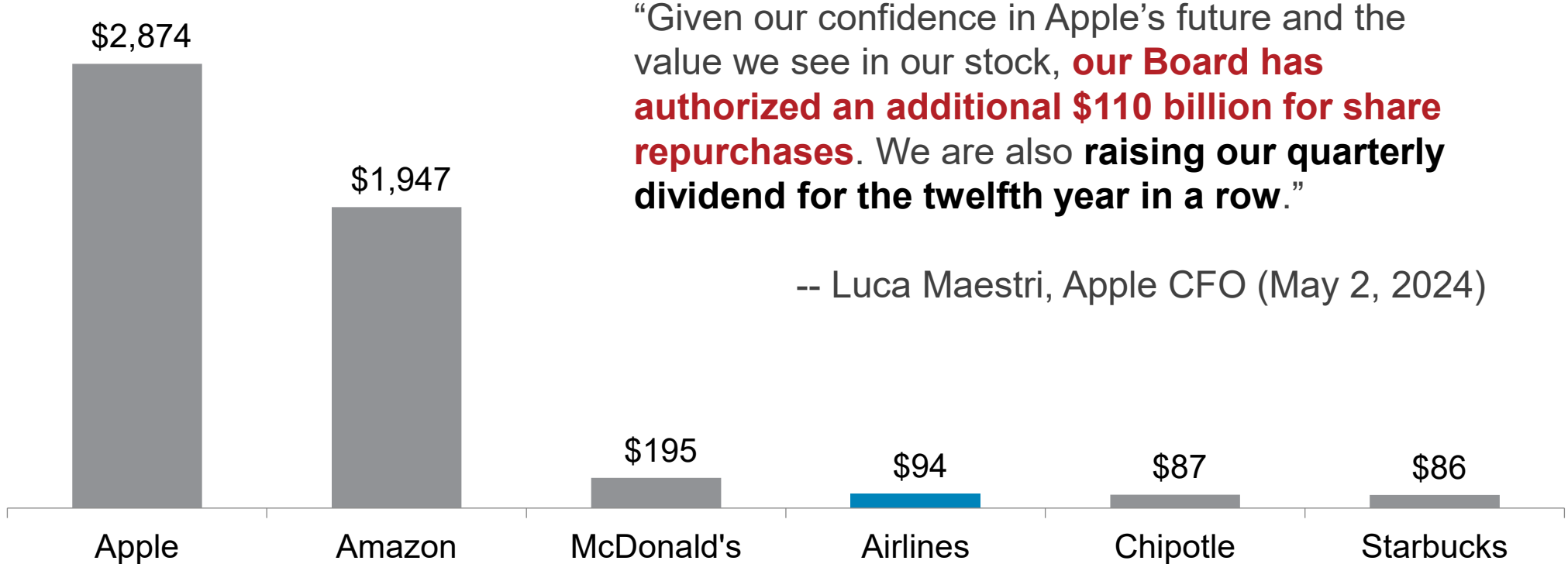
Note: F= forecast; 2024 projection assumes 4% year-over-year growth



# Apple Is Worth 31 Times the 12 Largest U.S. Passenger Airlines Combined

## Apple's Recently Announced Share Buyback Itself Equates to 1.2 Times the Airline Industry

Market Capitalization (Billions) for Selected U.S. Companies and Industries (May 14, 2024)



“Given our confidence in Apple’s future and the value we see in our stock, **our Board has authorized an additional \$110 billion for share repurchases**. We are also **raising our quarterly dividend for the twelfth year in a row.**”

-- Luca Maestri, Apple CFO (May 2, 2024)

Sources: Refinitiv (via Microsoft Office) and Apple.com

Note: Airlines = Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, SkyWest, Southwest, Spirit, Sun Country and United



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