An Industry Overview

Snapshots:
US Airline Industry 2013

Review Of Key Changes. Challenges. Evolution.

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Introduction

This document represents a brief overview of a only few of the emerging trends in the US airline industry, as analyzed by Boyd Group International. They are demonstrative of the wide changes that airports, airlines, suppliers and financial institutions can expect.

It is noted that any forecasts, regardless of the data involved, are based on subjective conclusions derived from the information available and the interpretation of the forecaster. There is only one certainty in any forecast of this type: there will be variations as the year unfolds. Nevertheless, planning for the future requires making determinations about the business environment and how a hugely-complex range of variables may affect it.

The presence of uncertainty does not relieve any company in any industry of the responsibility to plan for the future. This is the foundation of our firm – and of the work we do for our clients throughout aviation.

We'd point out that we are the only consulting firm that accomplishes independent projections of this type. One reason is that most other consulting firms have no forecasting practice of their own, outside of relying on government data. At our firm, forecasting is the foundation of our data-driven expertise, and the data and forecasts in this document are demonstrative of the consulting and research expertise Boyd group International brings to its clients.

We certainly welcome input and comments – it only can widen and enhance the forum of discussion.

Also, be sure to check out our website – www.AviationPlanning.com for industry updates every Monday, as well as the latest in the consulting and forecasting programs offered by Boyd Group International.

We look forward to working with you in 2013!

THE STAFF OF BOYD GROUP INTERNATIONAL

Note: As a leading industry consulting, research, and forecast firm, the conclusions and predictions herein are entirely independent. The contents of this document are based on data and analyses as of January, 2013. Because of the dynamic nature of the subject matter, the data and conclusions herein are not to be construed as investment advice.

Summary: Basic Forecast Trends

Air Traffic Control: NextGen Is Still NoGen

Fodder for the gullible. Despite slow/no growth in airline flights, anywhere between 15% and 20% of flights still arrive 15 minutes or more off the already ATC-padded carrier schedules. Every month. We can depend on it.

Go back five years. Or ten years. Compare what the FAA was saying then, with what it's saying now about fixing the air traffic control system. It's a time warp with today's glowing projections of progress. Plan on more of the same in 2013.

Airline Capacity: Down

There will be no overall capacity growth in 2013. The few carriers that are adding capacity are doing so in a geographically-focused manner.

Airline Fleets: New Mixes

The pull-down of "regional jets" (defined as CRJ and ERJ aircraft) will accelerate. Of the 1,400 such aircraft in North American fleets in 2012, approximately 1,000 will come out of fleets by 2017. The remainder will almost exclusively be CRJ-700/990 airliners.

Fallout on air service: mostly positive. (Discussed below.)

- **Related:** The pull-down of flight frequencies at RJ-centric hubs at Memphis and Cincinnati/Northern Kentucky is essentially the result of the deteriorating economics of 50-seat jets, and not due to the DL/NW merger, as much of the media conveniently claims.

Air Passenger Traffic – Down

It will track with airline capacity. Plan on between 2.0% - 2.5% down compared to year 2012.

Long Term Traffic Trends

Forget the FAA forecasts. Air passenger traffic is no longer a "fallout" result of economic metrics. Enplanements will increasingly be the result of the capacity airlines offer based on cost/benefit strategies.

- **Data Snapshot:** In 2017, the airports in the United States will experience almost 50 million fewer enplanements than the current FAA forecast predicts. That will affect facility and capacity needs.

Air Service Development

The economics of air service have changed. With the impending merger of American and US Airways, there will be just nine major scheduled airlines, and all have specific route strategies. The options and potential for new service recruitment are shrinking fast. Consultant studies to "find the right airline" will be right up there with ginning up a purchase contract on the Brooklyn Bridge.

- **Draw Your Own Conclusions:** In the future, will it really be necessary for a mid-size US airport to send staff to a speed-date event in China, for a 20-minute meeting with *Southwest*?

The "Regional Airline" Sector

It has been years since this segment of air transportation has been either "regional" or actually "airlines." The reduction in 50-seat jets is concurrently eliminating the *raison-d'etre* for these operators' existence.

Uncertainly: how far new pilot union scope clauses will allow outsourcing of flying to larger, essentially mainline-cabin aircraft such as E-Jets.

- **Draw Your Own Conclusions:** The trend toward outsourcing smaller airport operations to the cheapest contractor will continue to result in shortfalls in service quality, passenger satisfaction, and in the future - this is a third-rail nobody wants to touch – possibly ground efficiency. Pay rates below those of the airport janitorial staff for people with a zero career path do not attract the best-quality, motivated employees, regardless of counter arguments from airline financial departments.

Key Forecast Factors

Airline System Strategies To Watch

Open and robust take-traffic-from-the-competition strategies are mostly a thing of the past. Alliances and code-sharing between major carrier systems, combined with an increased focus on hub turf, now defines airline strategies.

To be clear, there is competition for traffic flows over various hubs. But frequent flyer programs have materially cornered much of the local O&D from hubsite cities, and within large metro areas. But in 2013, there are a number of airline strategy shifts that bear watching.

American/US Airways

A merger between these two carriers will likely have no effect on traffic flows until at least the fourth quarter of the year. However, assuming that the surviving management is that of US Airways, we can look for the following:

- Revision to Cornerstone Strategy. The AA strategy is the right one, but simply because it is the only one open to the airline. With the traffic flows that US Airways can bring to the mix, we can expect JFK – where there is no room for AA to grow, short of a likely product-disastrous tie-up with JetBlue – to see some international emphasis shifted to PHL.

- Some shift of flow traffic from PHX to DFW is very likely due to the better demographics and geographic location of the DFW Metroplex.

- The merger does not solve two other major problems facing AA: lack of a **one**world Chinese airline partner, and LAX being a geographically-inferior gateway to Asia.

The outcome of the Southwest acquisition of AirTran will be different in scope than originally envisioned.

Its fleet plan at the moment shows little growth. That's not a negative:

No airline ever went out of business by **not** jumping at growth.

Southwest/AirTran

This combination has evolved materially since it was first announced.

- The B-717s, which initially were publically deemed by Southwest as fitting well in their system (which was entirely accurate from a capacity and fleet-mix standpoint) have now been pulled from the future picture.

- Some major-traffic points served by AirTran, such as SRQ, BMI and PHF, were subsequently found to be incompatible with WN costs, and have been deleted. These deleted airports alone accounted for over half a million AirTran passengers.

- The decision not to bank connecting flights at ATL will result in a much smaller eventual Southwest footprint at that airport compared to what AirTran operated. This leaves more traffic opportunities and less competition for Delta. This will also have some positive fallout for CLT, which will benefit the merger between AA and US.

- As of January 2, 2013, the combined WN/FL system will offer 4.3% fewer departures in the first quarter than in the year-before period.

- The carrier is very carefully restructuring its route system, quietly deleting some point-to-point flying in favor of increasing revenues over its hubs (yes, hubs) at MDW and DEN. By the end of 2013, Denver will be Southwest's clear turf, with United and Frontier somewhere behind.

Delta Air Lines

The main focus here for 2013 is the up-gauging of unit capacity as the carrier pulls down 50-seat lift and replaces it with larger CRJs as well as B-717s leased in from the former AirTran fleet.

For airports, the results of this fleet shift will be almost entirely positive. The airline is in the process of deleting markets that are 50-seat centric, including pulling-down flight levels at Memphis and Cincinnati/Northern Kentucky. In others, the load factors on existing 50-seat routes indicate substantial revenue spill. Larger units of capacity will recapture much of this.

Spirit

A unique approach to competition that's apparently working: going head to head with major carriers on their own turf. Expansion at DFW not only takes on American, but has ramifications for Southwest's plans at Dallas/Love, which is just 17 miles and 25 minutes away.

Ditto at MSP and ORD, too. Bears watching in regard to specific segments of traffic capture.

Allegiant

Allegiant makes it clear – correctly – that it is a travel company, not an airline. The difference is not hair-splitting. Allegiant provides a leisure product that competes with other applications of disposable income. An airline fills the travel needs of a community. Allegiant largely creates the passenger demand that fills its aircraft.

Allegiant faces the delicate balance of assuring that its low fares are accompanied by substantial purchase of ancillaries. This can be an occasional problem, particularly at major leisure destinations where local consumers discover the low fares to visit grandma in Cedar Rapids. If there's too many of these reverse-originations, the profit potential gets dicey. Consumers at CID will likely buy hotel, rental car and show packages when they go to Las Vegas. Folks living in LAS don't buy packages (even if they existed) in Cedar Rapids.

Allegiant's flexibility allows it to add, delete, and sometimes re-enter markets quickly.

The Airbus strategy is stellar. There are dozens of A-319s and A-320s coming on the market – cheap – and Allegiant can take the pick of the litter. Factoid: an A-319 fuel burn is over $500 an hour below an MD-83.

Airline Capacity Decisions

Historically, airlines were assumed to be entities that reacted to changes in the economy. As things like GDP, disposable income, population etc., went up, the forecast methodologies followed suit in predicting airlines would add capacity to capture the new demand.

Those days are over. The airline business is now mature.

Where, how and when carriers schedule their aircraft is no longer a primary reaction to economic factors. Airlines are now making the determination of how they match revenue to costs. It's no longer market share, or traffic volume. The goal is to produce levels of capacity that allow maximum return. When we look at the first quarter of 2013, it is very clear that airlines are not adding any extra capacity:

Aviation DataMiner

System	Departures 2012	Departures 2013	Departures Change	Departures % Change	Seats 2012	Seats 2013	Seats Change	Seats % Change
AA	310,575	315,547	4,972	1.6%	34,063,568	34,201,475	137,907	0.4%
DL	466,389	446,230	-20,159	-4.3%	48,443,474	47,887,647	-555,827	-1.1%
UA/CO	490,806	473,777	-17,029	-3.5%	43,702,445	42,604,766	-1,097,679	-2.5%
US	288,980	278,767	-10,213	-3.5%	26,904,956	26,389,256	-515,700	-1.9%
AS	70,337	72,091	1,754	2.5%	7,856,912	8,089,973	233,061	3.0%
B6	63,706	67,669	3,963	6.2%	8,452,550	8,979,000	526,450	6.2%
NK	18,063	20,845	2,782	15.4%	2,759,365	3,189,228	429,863	15.6%
VX	12,831	12,589	-242	-1.9%	1,792,994	1,764,998	-27,996	-1.6%
WN/FL	335,577	321,082	-14,495	-4.3%	44,931,164	43,519,484	-1,411,680	-3.1%
F9	32,613	21,285	-11,328	-34.7%	3,807,952	2,859,417	-948,535	-24.9%
Totals	2,089,877	2,029,882	-59,995	-2.9%	222,715,380	219,485,244	-3,230,136	-1.5%

No Excess Capacity For New Service

The carriers that are adding capacity – Spirit and B6 – are essentially point-to-point carriers (Spirit for the moment, at least), and give-or-take an occasional Latrobe, they focus on big airports. This means for the majority of airports, there is no new capacity being added that will need to find a home.[1]

This also means that any new or increased flying in a market will come at the expense of another.

Forecast point: the approaches that communities take toward "air service development" will need to change. It's no mystery to identify the airlines have potential – or, have no potential – for entering a new market. There isn't a great deal that can be "developed."

[1] The AA increase is due to international flying.

For 2013: Air service levels need to be monitored and managed. Log onto www.AviationPlanning.com for details on **Air Service Management**™ - a program geared for this new environment.

Airline Fleet Decisions

In 1999, Boyd Group International's Global Fleet Trend & Demand forecasts were the first to determine that demand for "regional jets" was essentially already met with the combination of aircraft in operation and then-currently on order.

Other forecast methodologies simply trend-lined airliner demand, "show-horning" each category currently being built into the projected need for ASKs. Our approach was to review airline fleet needs and strategies for specific-mission airliners. The result: there was a finite eventual demand for 50-seat jets. Running counter to ambient wisdom at the time, it was not a projection that found much willing acceptance at the time, but data is data, regardless of "what everybody knows."

Going forward, the combination of accelerated retirement of 50-seat (and smaller) jets, the entry of mainline-cabin small jets such as the MRJ and Embraer E-Jets, and changes in some pilot contracts permitting more outsourcing of flying, will point to major fleet shifts in the next five years.

North America	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Net Chg
180 + Seats	643	621	647	655	663	664	680	690	705	736	769	126
126 - 180	3,175	3,153	3,114	3,144	3,129	3,139	3,178	3,215	3,261	3,325	3,390	215
101 - 125	330	433	587	714	858	1,005	1,030	1,052	1,073	1,093	1,111	781
75 - 100	570	596	590	645	683	706	723	740	747	753	771	201
Regional Jets	1,401	1,308	980	728	583	405	405	405	405	405	405	-996
Total	6,119	6,111	5,918	5,886	5,916	5,919	6,017	6,102	6,191	6,312	6,446	327

In North America, total fleets of jet airliners will actually decline between now and 2015, with slow growth resuming starting the following year.

As of today, total number of aircraft will increase by only 5.4% through 2022. Seat availability (not shown) will grow slightly faster, due to shifts in fleets and entry of new mainline-cabin airliners, such as the Bombardier C-Series, and the new –NEO and –MAX variants which will be able to profitably operate in wider market missions.

In 2103, led by Delta, we expect to see at least 100 additional RJ-cabin airliners to be retired, and all 50-seat and smaller RJs will be out of service by 2017. The remainder of the "Regional Jet" category will be exclusively CRJ-700/900/1000 variants.[2]

[2] The term "regional jet" essentially has no in-fleet meaning any longer. Therefore, Boyd Group International classifies only the original ERJ and CRJ platforms in this category. Often Embraer E-jets are misclassified as regional jets." The reality is they were designed to fill market gaps left by retirements of airliners such as DC-9-10s and F-100s.

"Regional Jet" Retirements: Market-Positive

Because of the misunderstanding of the term "regional jet," the assumption in the media is often that the retirement of these airliners will hurt "regional" markets, where, it is assumed, these machines are exclusively operated.

But these are "small" jets, and not "regional" in market application. They are used where low capacity is indicated, either based on size of market, or on time-of-day demand. United, for example, schedules 50-seaters at times of the day in the Denver-Phoenix market. Therefore, the retirement of these airliners is not the wholesale disaster for smaller communities that some alleged "analysts" may predict. In fact, for many communities and airlines, there are net-new traffic revenue opportunities that will immediately derive from the up-gauging of capacity.

A review of key airline hubsites (year ending 5/2012) shows that 50-seaters are now mismatched to dozens of feed markets – causing traffic loss for the airport, and missed revenue opportunities for airline systems:

Delta/Detroit	Load Factor
ALB	84.9%
ABE	81.0%
BGR	87.4%
SBN	80.1%
TVC	80.0%

Delta/Salt Lake City	Load Factor
BIL	84.9%
BZN	81.0%
GTF	87.4%
HLN	80.1%
MFR	80.0%
LWS	85.3%

American/DFW	Load Factor
BMI	82.0%
BTR	84.0%
CAE	83.6%
LEX	81.1%
RAP	81.2%
VPS	83.2%

United/Denver	Load Factor
BZN	86.6%
DRO	80.4%
GTF	80.2%
MSO	82.8%
RDM	84.4%

When flights – on average – are in excess of 80%, it means that revenue is being turned away. Regardless of pricing power, net-new revenue is being lost. Adding to the need to replace these 50-seaters is the fact that the operating costs are increasingly not materially higher than new-generation larger aircraft. In fact, in some of these markets, mainline equipment - including new-generation aircraft such as the Bombardier C-Series and the -NEO and –MAX models would easily fill the market.

For 2013, watch for this shift to up-gauge unit capacity to be spearheaded by Delta out of ATL. The reduction in flight operations at that airport resulting from the FL absorption into Southwest will facilitate this shift.

Don't assume the airline "knows" that your airport's a prime candidate for RJ replacement.

Boyd Group International's new

Air Service Management™

program is on-going monitoring of the client airport's "vital signs" – load factors, changes in capacity, fare shifts, and competitive events at other airports. This includes changes in aircraft applications.

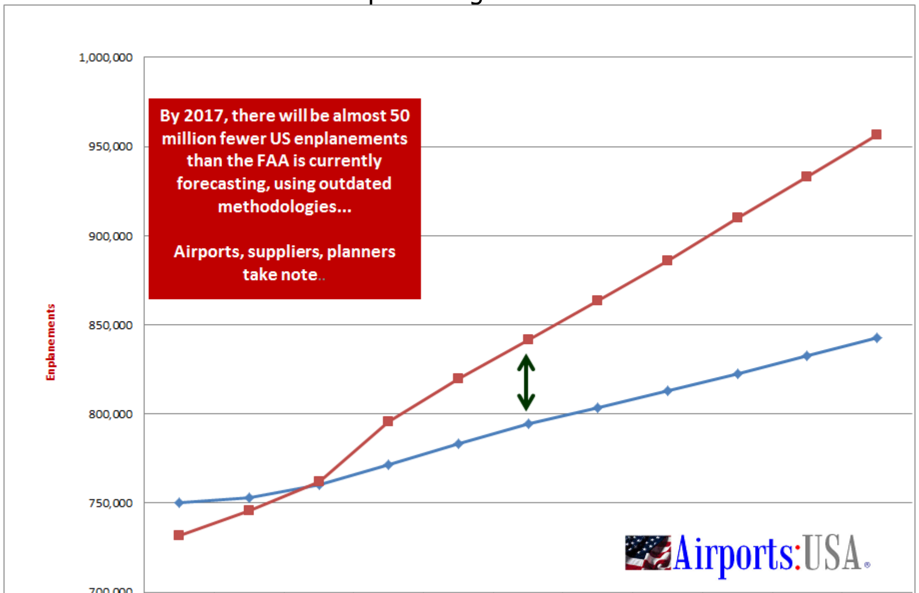
Basic Enplanement Forecast

Accurate identification of future traffic opportunities is part of the airport forecasts accomplished for our clients…

This includes opportunities for drawing traffic from competing airports in the region…

Nothing personal. It's strictly business.

The fact that airlines are adding neither seats nor aircraft in the coming year is not a temporary phenomenon. It is a result of fundamentally-different strategic and traffic metrics. This has severe ramifications for airports, suppliers, concessionaires and master planners: there won't be anywhere near the traffic that the FAA is predicting for the future.[3]



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Airports:USA	750,340	752,839	760,288	771,643	783,177	794,270	803,581	813,045	822,740	832,664	842,821
FAA	731,800	745,600	762,200	795,700	820,000	841,600	863,500	886,100	910,100	932,900	956,300

The point is that "traditional" methodologies that assume airline growth will track with various economic indicators have never worked very well. Today, with the new airline economics, they don't work at all. We can track this. In the early 1990s, the FAA was forecasting a billion enplanements by year 2000. Now, 12 years after that date the FAA is predicting that figure to be reached sometime after 2023 – nearly a quarter-century later than what they predicted in the early 1990s.

Planning for 2013 and beyond should encompass these realities. Data for 2012 is still estimated as of this time. However, the Airports:USA™ 2012 estimate is based on actual airline filings, not a mathematic formula.

Industry-Leading Forecast Expertise. Boyd Group International forecast expertise is often used within teams revising FAA Airport Master Plans. When the actual forecast varies substantially from the FAA Terminal Area Forecast, our professionals are expert at demonstrating the data successfully to the FAA. If your airport is looking at a Master Plan update, give us a call. We'll make sure you'll be focused on data that reflects the future.

[3] (Note that the Airports:USA figures shown represent the best case traffic scenario for 2013, with virtually flat traffic. The Baseline forecast indicates approximately 746 million enplanements.)

Reserve your space now for the New Year's rate…

[Before January 22, registration is just $945.](#)
[Click Here](#)

Compare that to the costs of other aviation events.

We're pleased to announce that the Baltimore-Washington Thurgood Marshall International Airport is the host for the 18th Annual Boyd Group International Aviation Forecast Summit.

This is the aviation forecast event – data and insights that are clear, focused, and real-world. Presentations from the decision-makers. No rambling panels. Hard questions and hard answers.

We're planning an exciting event this November, and more information will be posted at www.AviationForecastSummit.com in the weeks ahead. In the meantime, we are offering special early registration rates, so log on and check it out.

Here are some basic snapshots from the presentations made by airline and industry CEOs at the 2012 Summit at DFW.

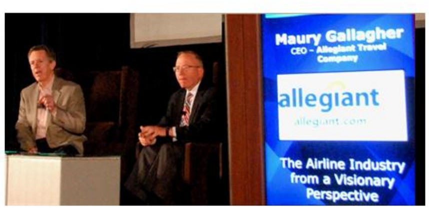
The Summit featured discussions with CEOs from Southwest, Allegiant, Spirit, JetBlue, US Airways, Virgin America and Azul.

Another great quote from the Summit... Regarding current approaches often taken by airports to get new service, Maury Gallagher of Allegiant described them as:

"Your dream. My money."

Ben Baldanza - Spirit David Cush - Virgin America Dave Barger - JetBlue

Gary Kelly of Southwest discusses future strategy with Jeff Potter of Boyd Group Intl.



Allegiant's Maury Gallagher brought up a range of insightful concepts in a open discussion & attendee Q&A with Mike Boyd of Boyd Group International.

The AA mergier issue was off the table for legal reasons.. but nothing else was in a lively interchange with Scott Kirby, President of US Airways.

The 400+ attendees at the 2012 event received insights into 2013 that no other event provides. We're planning the 2013 Summit to be even more comprehensive. Make plans now to join us.