

2nd quarter 2009 industry review and outlook

August 1, 2009

Airline Industry 2nd Quarter Review and 2009 Outlook

As an industry, the airlines just can't seem to fly very high or very far. Last fall when oil prices dropped rapidly it looked promising on the cost side, but revenues soon began falling even faster than the price of fuel and the optimistic outlook, once again, turned negative.

The "industry", for this analysis, considers the largest 9 US airlines: Delta (DAL), American (AMR), United (UAUA), Continental (CAL), Southwest (LUV), USAir (LCC), JetBlue (JBLU), Alaska (ALK) and Air Tran (AAI).

Collectively these airlines and their affiliate partners carry over 88% of the US domestic market share.

For the recent 2nd quarter, excluding special charges, the airlines noted above lost \$959 million on \$26.56 billion in revenue. Including special charges, the loss increased to \$1.55 billion.

Historically, the 2nd quarter is one of the best for generating revenue and profits for airlines. Considering load factors were at or near record highs, losing this amount of income shows how low yields/fares impact the overall profitability of the industry.

While economic down cycles typically see a drop in high yield business travel, this recession has turned every airline into a low fare carrier with little choice but to offer seats to the highest bidders or leave the gate empty.

Outlook going forward:

Early estimates for the current 3rd quarter show year-over-year (y/y) revenues down by over 20% with another quarter of losses projected for all but the 3 smallest airlines noted above. *When looking at y/y comparisons, it is important to recognize the 3rd quarter of 2008 had both record high revenues and record high fuel costs.*

AirlineFinancials.com estimates the industry needs to increase revenues and/or decrease costs by at least 15% in order to be minimally profitable and replace an aging fuel inefficient fleet.

Since most airlines recently restructured either out of or through the bankruptcy process, it is difficult to see any way to further reduce costs.

Based on current industry capacity, there is simply not enough demand at high – enough— fares to support the fixed and variable costs of the industry.

Until the global economy returns to solid growth, it will be a challenge for some airlines to achieve –enough— yield/revenue to support their costs.

####

Property of: AirlineFinancials.com