

# Airline industry review – year 2008

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## AIRLINE INDUSTRY – 2008 REVIEW

Over the next few weeks airlines will publish their Q4 and 2008 annual financial reports. Significant losses for the year will be common but with a great sigh of relief as the year ended considerably more positive than the mid-year predictions.

My top three most significant events affecting the airline industry in 2008 were:

- The price of jet fuel- 2008 started with jet fuel costing approximately \$2.70/gallon increasing to a historical high of over \$4.25/gallon by mid-July followed by a rapid decrease ending the year at close to \$1.35/gallon. (*Note: The spot price of jet fuel has been above \$1.50/gallon since early 2005*).
- Ala carte pricing- In an effort to make up for some of the large cost increase from fuel, most airlines created a new source for revenue. In addition to a fuel surcharge, it is now common to pay for service and amenities that not long ago, came with the price of your airline ticket. Checking baggage, on board food & beverages, booking/changing your ticket through airline reservations is now added to the cost of your flight with most airlines.
- The on again off again marriage of Delta and Northwest Airlines- The 3<sup>rd</sup> and 5<sup>th</sup> largest airlines (as measured by revenues) finally made it to the altar and officially merged in October. Delta is now the world's largest airline moving American to the number two ranking.

Honorable mention for importance to the airline industry in 2008 would include major capacity cuts, historically high air fares, fuel hedging strategies and the failure of several smaller US and International carriers.

Below are my updated revenue/income estimates:

*The airlines below carry just over 75% of the US domestic capacity.*

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(amounts in millions)	Q4 2008		Year 2008	
	Revenue	Net Income (Loss)	Revenue	Net Income (Loss)
Delta [1] **	\$8,375	(\$299)	\$34,860	(\$462)
American	\$5,718	(\$143)	\$24,015	(\$1,114)
United **	\$4,725	(\$530)	\$20,372	(\$1,470)
Continental *	\$3,548	(\$181)	\$15,318	(\$409)
Southwest **	\$2,637	\$16	\$10,927	\$314
Usairways *	\$2,855	(\$226)	\$12,213	(\$805)
JetBlue	\$817	(\$7)	\$3,394	(\$26)
<b>Total</b>	<b>\$28,675</b>	<b>(\$1,370)</b>	<b>\$121,099</b>	<b>(\$3,972)</b>
* [1/13/2008 update] In order to be compatible with the method used to account for fuel hedging derivatives in Q1-Q3, year 2008 Net Income/(Loss) has been adjusted.				
** [1/13/2008] Q4 & 2008 estimates has been updated.				
[1] Delta includes Northwest pro forma. Amounts may not reconcile with merged carrier reconciliations.				
Amounts exclude reorganization, impairment and special charges.				

Looking forward into 2009, the three issues I see having the most affect on the airline industry will be-

- Labor/contract issues
- Fuel cost instability
- Consumer demand

*Disclosure- At the time of this writing, the author or and family members held long and derivative positions in AMR.*

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