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THE U.S. MARKET FOR TRAVEL TO EUROPE • APRIL 4, 2013

U.S. VISITS TO EUROPE DOWN IN FEBRUARY

1. **U.S. visits to Europe declined in February for the second consecutive month**, according to the latest figures from the U.S. Dept. of Commerce. The decrease for the month was 2.7 percent to 480,637, but average per-day visits were actually up slightly—0.8 percent—because February 2012 had an extra day.

See the **Volume of Travel to Europe** chart.

EUROPE'S LATEST VICTIM: CYPRUS

2. **The Cyprus debt crisis was 'resolved' without setting off a run on banks across Europe.** Cypriot banks had invested too much of their vast foreign deposits (mainly from Russia and Britain) into Greek bonds. When those bonds were devalued last year by as much as 75 percent (under the bailout of Greece) the two largest banks were swamped.

The debt-crises troika (the European Central Bank, the European Commission—dominated on this issue by Germany—and the International Monetary Fund) refused to cover those losses, but did agree to send €10 billion to the Cypriot government to avoid a total national financial collapse. Cyprus, in turn, will institute an austerity program

NEXT ISSUE: Overall Trans-Atlantic Traffic in March Will the Decline Continue?

and concentrate "bad" assets into a single bank; depositors will lose 60 percent of their accounts in excess of the €100,000 insurance limit and see an additional 30 percent frozen.

That was deemed better than the original plan sent to Parliament by newly elected President Nicos Anastasiades and the troika, which would have taken 6.5 percent from the insured deposits to reduce the hit to the deposits over €100,000. The outrage and demonstrations that followed set off fears that Italians, Spaniards, Greeks and others would drain *their* banks to avoid similar expropriations in the future.

So far, that hasn't happened, even in Italy, where creation of the next government remains stalemated.

3. Meanwhile, **Cyprus faces the loss of its previously lucrative financial industry, increasing unemployment and tough controls on the movement of capital** out of the country.

Tourism, vital to much of the population (total 1.2 million) is now even more important. Looking ahead, some Cypriots are worried that they will face new European pressure to end the split with the Turkish-speaking Republic of Northern Cyprus. But they have maintained control of offshore natural-gas reserves, discovered three years ago, that could more than cover the troika loan when it comes due in 2018.

U.S. STILL GROWING, BUT LOOK OUT FOR THE SEQUESTER CUTS

4. While Europe sinks deeper in recession, **the U.S. recovery is advancing in fits and starts**, despite the deadlock in Congress over the sequester (now in force for a month and tightening).

The most recent estimate of 4th Q GDP has growth at 0.4 percent, up from the original estimate of -0.1 percent. But this week's manufacturing and service-industry reports indicated less expansion than expected and stock markets fell, the Dow dropping Wednesday to 14,550.

5. **Sequester cuts to air-traffic and airport security will take effect this month** with one- and two-day furloughs of thousands of workers. So far, airlines are reporting little impact on operations or on security check-in lines. But the secretaries of transportation and homeland security say slowdowns and longer lines are coming.
6. Here are a few more U.S. economic positives and negatives: **Oil prices continue to bounce between \$92 and \$97** per barrel. **Gasoline prices are down to \$3.64** per gallon, compared to \$3.74 a month ago and \$3.93 a year ago.

Sales of homes continued to rise in February, with existing-home sales up 10.2 percent over February 2012. The national median price was \$173,600, up 11.6 percent. Sales of new homes were up 12.3 percent over a year ago (but down 4.6 percent compared to January). The median new-home price was \$246,800, up 2.9 percent. **Looming problem:** The nation is rapidly running low on both existing and new homes to sell.

7. **Consumer confidence: Conflicting readings?** The Conference Board index dropped more than eight points in late March to 59.7, a month after rocketing nearly 10 points to a revised 68.0 in late February.

Lynn Franco of the Conference Board said "the recent sequester has created uncertainty." The sequester cuts began to go into effect March 1.

More confusing was the Thomson Reuters/Univ. of Michigan index, which

dropped to 71.8 in early March from a revised 77.6 in early February. **But that March number was revised upward last week to 78.6**, an unusually large move for a revision.

8. **The dollar continued to climb vs. the euro**, to €0.78 as the Cyprus crises flared. That's a 6.4-percent increase since Feb. 4 and a 4½-month high.

MIGHT AIRLINES ACTUALLY MAKE MONEY? NEW 787 BATTERY TESTED

9. **Low fares for New York-London jump 45 percent for the summer**, with competing carriers quoting the same prices. But they are up only slightly compared to last year. The pattern is less clear for the less competitive Chicago-Paris and San Francisco-Frankfurt routes, with July fares actually down compared to last year.

Here are low fares quoted last week on Travelocity for roundtrip, non-stop, midweek flights on major carriers; taxes, fees and surcharges included.

travel dates:	April 17-24 (compared to late-Feb. quote)	May 15-22 (compared to late-Feb. quote)	June 12-19 (compared to March '12 quote)	July 17-24 (compared to March '12 quote)
New York-London	\$881 (\$828)	\$881 (\$832)	\$1,275 (\$1,210)	\$1,275 (\$1,210)
Chicago-Paris	1,098 (1,085)	1,313 (1,115)	1,499 (1,398)	1,399 (1,606)
San Fran.-Frankfurt	1,083 (1,067)	1,083 (1,087)	1,606 (1,550)	1,581 (1,635)

10. **Boeing's bad dream slipped into its 12th week Wednesday**, with investigators and regulators pondering a new design of the Dreamliner's problematic lithium batteries. The cost to Boeing is estimated at \$50 million a week in lost sales and compensation to airlines. Is that a problem? Boeing stock is up 16 percent since the 787 was grounded.

A new, heavier lithium battery has been designed to better insulate cells from each other and to insure that any accidental combustion will be contained. That battery was tested by Boeing—without incident—in flight aboard a Polish LOT 787.

11. On average, **U.S. carriers flew a record 82.8-percent full in 2012**, according to Airlines for America. That was up just slightly from last year. Load factors were fairly even from region to region: All domestic, 83.9; Atlantic, 81.9; Latin, 81.2; Pacific, 82.8. The airlines carried 769.6 million scheduled passengers, still 4.5 percent short of the 2007 record.

12. High load factor was a statistic that Jeffrey Smisek, United's chief executive, cited in declaring that **the mergers of eight major U.S. carriers into four has transformed the industry into one that can finally make money**. "This is the first time that I have

hope for this business," he told an aviation summit hosted by the U.S. Chamber of Commerce. He said the industry continues to be overtaxed and pushed for the Next Gen satellite-based air control system, which he said could reduce fuel needs by 10 percent.

He did warn: "This is a business that remains brutally competitive." Therein lies the problem, past and future. Mergers and joint ventures are designed to reduce that competition, but the pressure to pick up business by lowering fares is always there.

United itself did not make money last year; it's still working through restructuring costs generated by the merger with Continental. And while U.S. carriers collectively made a profit in 2012 for the fourth consecutive year, it amounted to only \$152 million, or just 0.1 percent of combined revenue. Without the relatively recent revenue from baggage and other ancillary fees, it would have been an even tougher year.

13. **American and US Airways can proceed with their merger into the world's largest airline**, said American's bankruptcy judge last week. Next step: Drawing up the detailed restructure plan for approval by both the court and creditors. American's outgoing chief executive, Tom Horton, must still await approval of his \$19.9 million severance package. US Airways CEO Doug Parker, who pushed for the merger while Horton hung back, will become CEO of the combined airline and, after the first shareholder meeting, will replace Horton as chairman.
14. **Air Berlin began flying from Chicago to Berlin** (Tegel) last week. Air Berlin gets access to code-share partner American's big network out of Chicago; American gets access to a big gateway in Germany where the United/ Lufthansa joint venture dominates.

Air Berlin already flies from New York (JFK), Los Angeles and Miami to Berlin, and from New York, Los Angeles, San Francisco, Las Vegas, Miami and Fort Myers to Düsseldorf.
15. **Rapidly expanding Turkish Airlines inaugurated the first non-stop service from Houston to Istanbul** Wednesday. A Boeing 777 will fly from the carrier's fifth U.S. gateway four times weekly. Turkish also flies to Istanbul from New York, Washington, Chicago and Los Angeles.
16. **Norwegian Air Shuttle will begin flying non-stops from Fort Lauderdale to Copenhagen and Stockholm** in November. That's in addition to flights from New York to Oslo and Stockholm beginning at the end of May; the latter will be assigned to an Airbus 340 and shift to a 787 Dreamliner when delivered.

Twenty-year-old Norwegian, second only to SAS in Scandinavia and expanding rapidly in Europe, says it is the first "low-cost" carrier to fly from the U.S. to Scandinavia. A quick look at fares found Norwegian's lowest July roundtrips from New York to Oslo running \$100 less than SAS's, but both were more than \$1,000. Since 2000, efforts to establish true low-fare trans-Atlantic service have not been successful.

17. **US Airways has redirected its daily Charlotte-London service from Gatwick to Heathrow.** US Airways also flies from Philadelphia to Heathrow.
18. **Eurostar trains carried 9.9 million passengers in 2012**, up 2 percent overall, with non-EU passengers—many of them Americans—up 8 percent. Eurostar, the high speed service through the Channel Tunnel, credited Queen Elizabeth II's Jubilee and the Summer Olympics in London for boosting leisure demand. Operating profits more than doubled to £52.3 million on sales of £799 million, which were actually £4 million less than last year; fluctuations in exchange rates had a major positive impact. Eurostar is investing £700 million on new and refurbished trains.
19. **Thomas Cook Group sold its entire North American business to Red Label Vacations.** Red Label paid £3.4 million for operations that lost Thomas Cook £40 million in 2012. It was the first divestiture under the "transformation" plan announced earlier by Harriet Green, the Thomas Cook chief. Included in the deal, for which several conditions must still be met, are ABC Corporate Services and D-FW Travel Arrangements in the U.S.
20. **Viking River Cruises christened 10 'Longships'** March 20, four in Amsterdam and six still in the Rostock shipyard. The Longships carry 190 passengers who have a variety of cabins and prices to choose from. Another 12 Longships are to be christened in 2014. All will sail European rivers.
- Viking River Chairman Tor Hagen is expected to back up the expansion with another well-funded marketing drive; Viking has spent \$400 million over 10 years to keep occupancy rates at an average 94 percent, according to a *TravelPulse* interview. That includes sponsorship of the "Downton Abbey" Masterpiece series on PBS.
21. **Registration for the Visit Europe Media Exchange is now open.** VEMEX will start in **Toronto** on Friday, Nov. 15, at the Toronto Board of Trade, then go to **New York** on Monday, Nov. 18, at the Harvard Club; and to **San Francisco** on Wednesday, Nov. 20, at the Sheraton Fisherman's Wharf. Go to the 2013 website at **VisitEuropeMediaExchange.com** for information and registration.

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Neil S. Martin**TransAtlanticReport.com****Donald N. Martin & Company****Email: TransAtlantic@dnmartinco.com****646/ 250-8704**

VOLUME OF TRAVEL TO EUROPE BY U.S. CITIZENS FEBRUARY 2013

From monthly air-travel reports issued by the U.S. Dept. of Commerce, Office of Travel and Tourism Industries. Totals are for U.S. citizens departing U.S. gateways on flights with first arrival in Europe (including the Russian federation).

Since July 2010, data has been collected from airlines before departure by the Dept. of Homeland Security via the new Advance Passenger Information System (APIS). This more accurate system has revealed that U.S.-citizen departures were previously overcounted, by as much as 20 percent per month. Thus the significant minus figures reported for July 2010 through June 2011 do not reflect actual decreases of that magnitude. Indeed, independent data indicates that traffic increased through much of that period.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	% change from 2012
January	671,177	713,703	748,042	734,184	739,893	753,241	668,221	664,807	568,471	580,304	563,169	- 2.9
February	591,131	655,434	649,274	638,319	626,434	668,385	568,968	544,768	414,958	493,931	480,637 *	- 2.7/ + 0.8
March	808,794	982,275	992,917	1,025,478	1,041,834	982,679	847,090	852,371	773,308	823,312		
April	679,570	929,359	944,616	990,345	998,978	968,486	940,279	761,418	806,302	832,117		
May	979,655	1,229,897	1,280,025	1,368,704	1,386,300	1,318,802	1,241,375	1,232,279	1,157,885	1,213,377		
June	1,205,280	1,432,810	1,463,636	1,585,248	1,607,434	1,521,619	1,397,017	1,545,950	1,431,960	1,498,656		
July	1,209,944	1,293,447	1,383,904	1,450,854	1,467,596	1,334,096	1,383,704	1,239,156	1,288,805	1,299,502		
August	1,049,258	1,106,643	1,096,385	1,159,246	1,235,953	1,122,497	1,204,945	969,046	1,047,001	1,126,098		
September	1,055,536	1,169,280	1,208,755	1,245,357	1,297,046	1,180,564	1,163,697	1,122,203	1,119,104	1,138,691		
October	872,409	897,683	941,909	980,856	1,038,804	916,328	920,191	831,219	844,142	852,344		
November	785,206	821,219	811,118	816,098	856,815	765,079	748,994	640,639	644,948	646,447		
December	888,149	900,717	902,504	913,995	954,698	888,886	845,496	688,213	729,039	739,858		
Final **	10,796,109	12,132,467	12,423,085	12,908,684	13,251,785	12,420,662	11,929,977	11,092,069	10,825,923	11,244,637		
	10,992,891	12,243,834	12,552,629	12,995,893	13,329,777	12,505,627	11,979,018	11,103,708	10,825,923	11,244,637		

** Final totals through 2010 adjusted upward by the U.S. Dept. of Commerce, Travel and Tourism Industries, in annual report as late filings were received from carriers. Beginning with 2011, December total is final.

* Because February '12 had 29 days, average DAILY increase for February '13 was 0.8 percent.