

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • AUG. 16, 2012

OVERALL TRAFFIC DOWN IN JULY; OLYMPIC RESULTS ARE IN: LONDON WON!

1. **Overall trans-Atlantic traffic was down in July**, with the leading carriers reporting an average decrease of 1.3 percent. That extended the current period of little or negative growth into a fourth month. The carriers reduced capacity by an average 1.7 percent and maintained a high average load factor of 88.9. See the **Trans-Atlantic Traffic Trends** chart.

COMING AUG. 31: Latest statistical profile of the U.S. traveler to Europe

2. **Britain's staging of the London Olympics could not have gone much better.** The Games drew huge TV audiences worldwide, including in the U.S. (a record 41 million for the opening and a nightly average of 31 million). Main complaints in the U.S.: NBC should have broadcast more, broadcast live, and capitalized on social media.

The total for U.S. visitors to Britain during the Olympics is not in yet, but a big increase was reported for June. See No. 8 below.

WORLD ECONOMIES IN THE BALANCE

3. **The euro crisis extended its summer suspension**, excepting, of course, if one lived in Greece or Spain. Even though Mario Draghi could not immediately deliver on his promise "to do whatever it takes," the European Central Bank chief and his allies seemed to be herding leaders—including Angela Merkel—toward acceptance of ECB purchase of billions in Spanish and Italian bonds. That would keep borrowing costs at a sustainable level, and ease the pressure for a bailout of the Spanish government.
4. **The dollar hovered in the €0.81–€0.82 range versus the euro**, just below its recent high 25-month high of €0.83. The pullback reflected the slight relaxation in euro-zone nerves.
5. **The best U.S. jobs report in five months said employers added 163,000 workers to payrolls in July.** But unemployment also rose a tick to 8.3 percent and there was little optimism that the trend would continue upward. Also, the combined total for May and June was revised downward by 6,000 jobs.

All the July job gains were in the private sector; government jobs were down a relatively limited 9,000.

6. Economic positives began to build up: **Retail sales jumped in July for the first time in four months**, by 0.8 percent. **Stock markets remained surprisingly buoyant**, with the Dow floating well above the 13,000 mark. **Housing prices were rising** in most U.S. metro areas.

Will consumer confidence follow? The Thomson Reuters/Univ. of Michigan report for early August is due out Friday. Previously, the Conference Board said its index had finally picked up, from a revised 62.7 in late June to 65.9 in late July.

On the negative side, **oil prices continued to rise, to nearly \$94** on Monday, up \$10 over six weeks. **Gasoline was up to \$3.70** per gallon of regular (national average).

7. **The U.S. presidential campaign went into full swing** with Mitt Romney's selection of conservative House Budget Chairman Paul Ryan as his running mate. The economy (and jobs) and the federal deficit (and health care and taxes) are central issues, with each side taking very different positions; the outcome could have even greater worldwide impact than usual.

President Obama has a small lead in national polls and in most battleground states. The Republican convention runs Aug. 27–30 in Tampa; the Democrats follow Sept. 3–6 in Charlotte. Republicans could take the Senate (but not with a filibuster-proof 60 votes); the House is less likely to switch to Democratic control.

BRITAIN'S STRONG JUNE

8. **U.S. visits to Britain surged even more strongly in June** than they had in May, and were up 7 percent for the year—four weeks before the Olympics opened.

London hoteliers still say that foreign visits dropped below normal levels during the Games (July 27–Aug. 12), but that's now seen as a small price to pay for a great show.

Americans spent \$85.5 million with Visa cards throughout Britain during the first Olympic week, 68 percent more than Japanese visitors, the runnersup.

Looking ahead, **VisitBritain plans new drives in the U.S.** and other markets in partnership with airlines, tour operators and hotels built around promotional deals and good-value offers to London and throughout Britain. Object: Get people booking.

LUFTHANSA IMPROVES, IBERIA HURTS IAG RESULT, AMERICAN PRESSURED

9. **Lufthansa reported a profit of €229 million** for the 2nd Q on revenue of €7.9 billion (+6.0 percent). That was down 24 percent from last year's €301 million profit. For the first six months, Lufthansa is still €160 million in the red thanks to a difficult 1st Q. The long-ailing Austrian Airlines subsidiary turned in an operating profit for the 2nd Q.

Of the six leading trans-Atlantic carriers, only Star Alliance partners United and Lufthansa reported profits for the 2nd Q. Air France/KLM, Delta and American reported losses last month.

10. **IAG (British Airways, Iberia and BMI) lost €95 million in the 2nd Q** on revenue of €4.6 billion (+11.5 percent). Last year, IAG ran a profit of €38 million for the quarter. IAG said the big losses—over six months—included –€72 million in currency fluctuations; –€40 million in the takeover of BMI in April and –€263 million in Iberia operations. Iberia’s traffic and yields are down because of Spain’s recession and Iberia’s “deep and structural” problems. IAG promised a “restructuring” of Iberia, including reduction of jobs.

11. **Is American Airlines bending to pressure in favor of a merger with US Airways?**

The latest blow came from the pilots union, which voted 3-2 to reject a proposed contract, even though American promised to ask the bankruptcy judge to aside labor agreements if it failed. The union, among the creditors, favors the merger.

Then IAG CEO Willie Walsh said he regarded the merger favorably; IAG’s British Airways and Iberia are vital joint-venture partners with American on Atlantic routes. Walsh also said IAG is considering an investment in American (limited to 25 percent).

American CEO Tom Horton has backed off on anti-merger comments and recently said American’s decision on the proposal could be announced “in a matter of weeks;” American’s reorganization plan is due in court Dec. 28.

12. **Worldwide, scheduled flights will total 2.79 million in August** (the record for the month), or an average of 89,982 each day, averaging 129 seats per flight, reports OAG. That’s despite a reduction in North American flights to their lowest level in 10 years, down an average 690 flights each day for the month. Low-cost carriers will account for a record 26 percent of total August seats worldwide, despite lack of low-cost growth in Europe and North America.

Overall capacity from the U.S. and Canada to/from Western Europe will be up only 1 percent (confirming trends we’ve reported), compared to +4 percent to/from Central & Latin America. The greatest increase is +10 for Western Europe to/from the Middle East, fed by the rapid expansion of Qatar, Etihad and Emirates airlines, with the latter flying 20 A380 jumbos.

Beijing Capital (9.27 million outbound seats) is catching up to Atlanta Hartsfield-Jackson (9.84 million). London Heathrow was third, with 8.17 million, OAG said. OAGAviation.com/OAG-FACTS/2012/August-Executive-Summary.

TRAIN WARS, GOOGLE BUYS FROMMER’S, RUSHING TO VEMEX

13. **Lufthansa is now flying an A380 jumbo daily from Houston to Frankfurt**, increasing capacity on the route by 53 percent. Beginning Aug. 1, the 526-seat A380 replaced a Boeing 747-400 and an A330-300 that split the route.

14. **The great Italian train rivalry is underway** on the central high-speed line between Milan and Naples. New, scarlet, privately financed Italo trains are running daily against the silver-and-red Freccie of Trenitalia, the state railway. It's the biggest experiment yet in private vs. public rail transportation.

Leading the Italos' parent NTV company is Ferrari Chairman Luca Cordero di Montezemolo, who persuaded investors to put €1 billion into the latest Alstom train sets (new top speed: 223 mph). Targeted are business people and upscale travelers who are provided great design, movies, free Sky TV and Wi-Fi, and a Mario Batali menu. So far, the competition has generated better service for all travelers, but not significantly lower ticket prices.

Since 2009, when the Italian government opened the dedicated high-speed line (years of tunneling through the Apennines were required to reduce the Rome-Milan trip to three hours), Trenitalia has increased its share of traffic from 32 percent to 55 percent, leaving airlines with 32 percent (down 20 points), and highway transit with 13 percent (down 3 points).

Planning to add trains and to extend its routes to Turin, Venice and Salerno by year's end, NTV's goal is to win over 20 percent of the market and break even by 2014. See www.ItaloTreno.it/EN. Also, Trenitalia.com.

15. **Google is buying Frommer's travel books, website and brand** from John Wiley & Sons. The price was not revealed. The online giant will combine Frommer's staff and content with that of the Zagat Survey, which Google bought last September for \$151 million. Presumably that will in turn be integrated with Google Flights and Google Maps.

Online travel agencies, like Expedia and Travelocity, regard the burgeoning Google travel ventures as huge competition, as Google dominates in online search.

Arthur Frommer, who launched the guides in 1957 with his publication of *Europe on \$5 a Day*, continues to blog for Frommers.com. He sold the brand and business to Simon & Schuster in 1977. Other travel guide series with major coverage of Europe include Fodor's, now owned by Random House and its parent, Bertelsmann; Lonely Planet, owned by BBC; Rick Steves' Europe Through the Back Door, distributed by Avalon; and Rough Guides, owned by Pearson.

16. **More than 75 pre-qualified journalists signed up for the Visit Europe Media Exchange in New York in the first week of registration.** More than half will be attending their first VEMEX.

Registration for exhibitors and media continues at VisitEuropeMediaExchange.com, where you can find full details and contact links. The Media Exchange takes place this fall at the Harvard Club in **New York**, Oct. 22, and at the Hilton in **Chicago**, Oct. 25.

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Trans-Atlantic Traffic Trends, July '12

Compared to previous year, +/- percent

RPMs	Aug. '11	Sept. '11	Oct. '11	Nov. '11	Dec. '11	Jan. '12	Feb. '12	March '12	April '12	May '12	June '12	July '12	ASMs (July '12)	load factor
Delta (Sky)	- 2.4	- 7.6	- 10.3	- 11.0	- 7.3	- 4.2	+ 3.1	- 0.4	- 6.1	- 4.4	- 5.5	- 6.7	- 7.6	89.4
Air France/ KLM (Sky)	+ 10.7	+ 12.2	+ 8.6	+ 6.2	+ 9.0	+ 8.3	+ 13.1	+ 9.7	+ 2.3	- 1.8	+ 5.6	+ 2.0	+ 1.5	90.7
United (Star)	- 5.8	- 2.1	- 7.9	- 4.1	- 1.1	- 1.9	+ 0.8	+ 1.4	- 6.0	- 1.7	- 1.4	- 5.8	- 4.6	85.6
Lufthansa/ Swiss/ Aus. (Star)	+ 6.1	+ 3.9	+ 2.3	+ 4.2	+ 2.9	- 0.3	+ 0.8	+ 6.0	+ 1.5	+ 2.0	+ 3.8	+ 2.1	- 0.4	91.0
American (One)	+ 2.5	+ 0.5	- 0.6	- 2.8	+ 4.8	+ 3.1	+ 8.0	+ 2.0	- 2.7	- 9.6	- 5.5	- 3.3	- 2.9	87.9
British Airways/ Iberia (One)	+ 6.5	+ 7.3	+ 8.7	+ 14.0	+ 23.3	+ 8.5	+ 11.1	+ 16.3	+ 6.8	+ 6.9	+ 6.0	+ 4.1	+ 3.6	88.6
Leading-carriers average	+ 2.9	+ 2.4	+ 0.1	+ 1.1	+ 5.3	+ 2.3	+ 6.2/+2.5*	+ 5.8	- 0.7	- 1.4	+ 0.5	- 1.3	- 1.7	88.9
All carriers (Airlines for America + Association of European Airlines)	+ 2.8	+ 2.5	+ 0.0	+ 0.0	+ 2.8	+ 0.6	+ 4.3/+0.7	+ 5.4	+ 0.0	- 1.5	- 1.3			
U.S.-citizen traffic to Europe, Dept. of Commerce	+ 8.0	- 0.3	+ 1.6	+ 0.7	+ 5.9	+ 2.1	+ 19.0/+14.9	+ 6.5	+ 3.2	+ 4.8				

* February '12 had 29 days/ average DAILY increase in RPMs was 2.5% for leading carriers, and only 0.7% for all carriers.

Note: Figures include traffic (Revenue-Passenger Miles) generated on both sides of the ocean. Lufthansa figures include traffic between Europe, and Canada, Mexico, the Caribbean; British Airways/ Iberia figures are for North America only. U.S.-carrier figures include trans-Atlantic traffic beyond Europe. Despite these caveats, they remain the Caribbean and South America; Air France/ KLM figures include the same, minus our best immediate trend indicators. Capacity is measured in Available-Seat Miles.