

# TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • AUG. 16, 2013

## TRANS-ATLANTIC TRAVEL WAS UP AGAIN IN JULY

### 1. **Overall trans-Atlantic traffic increased in July for a third consecutive month.**

Traffic was up 2.7 percent, according to combined figures from the leading carriers.

Combined capacity grew for the fourth consecutive month, by 1.8 percent. The combined load factor for July was a strong 89.6, down from June's 90.5 (but still up from the 88.9 of July '12).

Only American Airlines reported less traffic, -3.1 percent, on reduced capacity, -2.4 percent, which also brought down the total traffic for the Oneworld joint venture, -1.1. See the **Trans-Atlantic Traffic Trends** chart.

### 2. Unexpected: U.S. Attorney General Eric Holder **filed a federal antitrust suit in Washington to block the American-US Airways merger**, reversing policy that found few problems with the mega mergers of Delta-Northwest (under the Bush administration) and United-Continental (under Holder and Pres. Obama). Each, in turn, had created the world's largest airline, and American-US Airways would be just a little larger than United.

Holder, joined by attorney generals from six states and the District of Columbia, said reduced competition would lead to higher fares and less service. Doug Parker, the

## NEXT ISSUE: U.S. VISITS TO EUROPE IN JULY

US Airways CEO who is leading the merger drive, was joined by union leaders and Airlines for America in insisting that the opposite would be the case and that, with no merger, both American and US Airways would be hard-pressed to maintain profits and compete with Delta and United. See Nos. 9 & 10 below.

### 3. **A worldwide travel alert regarding 'the continued potential' for al Qaida attacks remains in effect through Aug. 31.** The alert, issued by the U.S. State Dept., said the danger was focused "particularly in the Middle East and North Africa," and most particularly in or emanating from Yemen. "U.S. citizens are reminded of the potential for terrorists to attack public transportation systems and other tourist

infrastructure," the alert said. U.S. embassies and consulates were closed across much of North Africa and the Mideast.

Americans were **not** warned to avoid trips abroad, but urged, if they plan such travel, to register in the Smart Traveler Enrollment Program at <https://step.state.gov/step/> (to receive email updates for particular countries), or at least to monitor the latest information at [www.travel.state.gov](http://www.travel.state.gov).

## EURO-ZONE RETURNS TO GROWTH, DOW DIVES

4. **The euro-zone recession ended in the 2nd Q, when GDP grew 0.3 percent**, according to Eurostat. Germany and France individually reported growth for the quarter, of 0.7 percent and 0.5 percent respectively. The recession ran six quarters, the longest in the euro's 15-year history. Britain also grew, by 0.6 percent. But Italy and Spain continued to contract. There was no data for Greece.

5. **Hiring in the U.S. slowed in July**, with 162,000 jobs added to the economy, fewer than expected (and 14-percent fewer than in June). Estimates for May and June were revised downward by 26,000 jobs (-6.7 percent). Yet the unemployment rate fell to 7.4 percent, a four-year low. Government jobs (all levels combined) did not show a significant decline.

Then this week, the government reported that **first-time unemployment claims had dropped to a six-year low**, indicating that if employers weren't hiring in very large numbers, they were at least laying off fewer people.

6. That good news was enough to push the **Dow off a small cliff**. It tumbled 225 points Thursday to 15,112, less than two weeks after reaching a new high of 15,658. Easing unemployment renewed investor fear that the Federal Reserve will cut back on bond-buying stimulus.

The price of **oil remained high at \$107** per barrel. **Gasoline continued to be stable at \$3.53** a gallon, national average.

7. **Consumer confidence dropped**. The Thomson Reuters/Univ. of Michigan index fell to 80.0 in early August from a revised 85.1 in early July. Economists were surprised by the drop, announced today, then attributed it to rising home prices and mortgage rates.

Previously, the Conference Board index declined slightly, to 80.3 in late July from a revised 82.1 in late June.

8. **The dollar has been trading between €0.76 and €0.75** for the past month (inter-bank rate).

**BLINDSIDED MERGER, 2nd Q PROFITS FOR LUFTHANSA & IAG**

9. **The mega mergers of Delta-Northwest and United-Continental were approved** by federal regulators not because they reduced fares and improved service (although airlines asserted that passengers did benefit), but **because they stabilized a collapsing air-transport system.**

**Airlines were in crisis for more than a decade**, beginning with the 9/11 plunge in traffic, which was followed by soaring fuel prices, billions of dollars in annual losses, widespread layoffs and massive bankruptcies. Nine airlines became five, beginning with the 2005 US Airways-America West merger (bringing the former out of bankruptcy).

Under both Bush and Obama, the government went further, allowing all kinds of non-competitive fare-signaling, schedule coordination and territorial understandings that previously would have triggered regulatory action.

Holder's new antitrust chief, William J. Baer, now argues that no further mergers are needed, that American and US Airways can be profitable apart, and that the flying public needs a break.

**The government's focus is on the 1,000-plus routes** on which American and US Airways now compete. That's where passengers will face higher fares, Baer said. American and US Airways say that's where they can generate much of the savings promised by the merger, by replacing two smaller planes and crews, with one larger, packed plane; two lounges with one; two airport ground operations with one, etc. Those savings will THEN allow the carriers to reduce fares.

Complicating the discussion is that fares alone are still not generating enough revenue for U.S. airlines. Recent quarterly profits are due largely to increased baggage, ticketing and other ancillary fees.

The White House disavowed any role in the antitrust action. **Might that leave political room for a settlement** to avoid wasting the months and millions it took to shape the merger as American's escape from bankruptcy?

10. **The merger would make little difference to already highly concentrated trans-Atlantic capacity.** American and US Airways are much smaller players compared to Delta and United. American's trans-Atlantic capacity was 22.3 billion ASMs in 2012 and US Airways' was 13.6 billion. Combined, they would still be well behind Delta and United at 47.5 billion and 47.4 billion each in 2012. The leading European carriers are all in joint-venture partnerships with Delta, United and American, further limiting competition.

US Airways flies to Europe from its hubs in Philadelphia and Charlotte.

11. **Lufthansa reported a 2nd Q profit of €255 million** (-42.6 percent from last year's strong performance) on revenue of €7.8 billion (-0.7 percent). Warning strikes by

unions in Germany took a bite at the beginning of the quarter, but those contracts have since been settled. Lufthansa said it continues to work to restrain costs (and to reduce staff), and to bring Austrian Airlines into the black.

**IAG reported a €182 million profit** for the quarter (compared to a loss of €73 million before taxes a year ago). That was on revenue of €4.77 billion (+3.4 percent) generated mostly by British Airways. The profit would have been €63 million greater but for increased non-operating costs and special items, mainly related to layoffs at Iberia and acquisition of Vueling. Iberia's operating losses declined and Vueling added operating income. IAG said 700 more Iberia job slots will be cut, on top of the 1,700 eliminated so far.

**Air France/KLM said it was moving to reduce its payroll by another 2,600 jobs** by the end of next year, all through attrition and early retirement. The combined airline earlier reported a loss of €163 million for the 2nd Q.

## BRITAIN NEEDS TO 'RE-ENERGIZE' IMAGE IN U.S., MEDIA AT VEMEX

12. **Rome has closed a main arterial skirting the Colosseum and Forum to most traffic**, in an effort to reduce pollution effects on the ancient sites and to open them up to pedestrian traffic.

Specifically, Mayor Ignazio Marino carried out his election promise to extend the longtime Sunday closings of the Via dei Fori Imperiali (between Largo Corrado Ricci and the Colosseum) to seven days a week (buses and taxis still run through, however). Rome has only two Metro lines (with a third long in the works) and a reputation for the most-clogged traffic in Europe.

The via was opened in 1932 by Benito Mussolini; its construction split the Fora area and covered much of the then recently discovered forums of Nerva and Trajan. Marino, a transplant surgeon who was active in both the U.S. and Italy before taking up a political career in 2006, was elected by a wide margin on June 10.

13. **U.S. and North American visits to Britain continued to decline**, with the latter down 2 percent for June, according to preliminary figures from VisitBritain. For the first six months of the year, traffic from North America was down 3 percent and, from the U.S., down 8 percent.

But visits from *all* foreign destinations are up 12 percent for June to a record 2.89 million and up 4 percent for the first six months, VisitBritain said. Overall spending was up 11 percent for the year.

**Conceding problems in the U.S.**, VisitBritain Chairman Christopher Rodrigues said, in a *Travel Weekly UK* interview: "If you want American visitor numbers to stay where they are or improve, we have to re-energize our image, we need to pitch it differently.

“But with our budget, we cannot do it alone. We need to do it with our public-diplomacy partners, including the UK travel industry.” He indicated that VisitBritain needs more support from the industry before it can get more from the Cameron government, which has reduced the office’s worldwide budget for 2015-16 to less than £20 million.

14. **The first ceremonial train ran Aug. 4 through Istanbul’s new Bosphorus tunnel** with Prime Minister Recep Tayyip Erdoğan at the controls. The two-track tunnel is the first rail link between the European and Asian shores and central to the huge Marmaray Project to move tens of thousands of daily commuters from cars and busses to new trains and stations. The 47-mile commuter line will be inaugurated Oct. 29, Republic Day.

At the same time, Turkey expects to inaugurate high-speed train service from Istanbul all the way to Ankara; the final section, between Eskişehir and Istanbul has been years in the building.

15. **Las Vegas is back, but not Las Vegas gambling**, according to a *New York Times* story that said the change may be fundamental. The city saw a record 39.7 million visitors last year (1.3 percent more than the previous high of 2007). But spending per visit, including gambling, was down 22.5 percent to \$1,021.

Clark County said total gambling revenue was \$9.4 billion in 2012, well short of the 2007 record of \$10.8 billion, and that gambling accounted for only 39 percent of total revenue, compared to 59 percent in 1984.

High-end dining and entertainment, including clubs for young people, are accounting for more share in the wake of the recession. People are more careful with their money, Las Vegas expects that to be a long-term trend.

16. **Media registration begins this month for the Visit Europe Media Exchange.** VEMEX will open in **Toronto** on Friday, Nov. 15; then go to **New York** on Monday, Nov. 18; and to **San Francisco** on Wednesday, Nov. 20. For information and registration, for both exhibitors and media, go to **VisitEuropeMediaExchange.com**.

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### Trans-Atlantic Traffic Trends, July '13

Compared to previous year, +/- percent

RPMs	Aug. '12	Sept. '12	Oct. '12 **	Nov. '12 **	Dec. '12	Jan. '13	Feb. '13 ***	March '13	April '13	May '13	June '13	July '13	ASMs (June '13)	load factor
Delta (Sky)	- 5.1	- 0.3	- 3.0	- 3.1	- 4.3	- 6.4	- 8.8	- 5.7	- 3.2	+ 2.0	+ 4.8	+ 5.2	+ 4.5	90.0
Air France/ KLM (Sky)	+ 0.0	+ 1.1	- 3.3	+ 1.0	- 0.1	- 0.7	- 1.8	+ 0.5	+ 3.2	+ 4.5	+ 2.4	+ 2.4	+ 1.6	91.3
United (Star)	- 2.4	- 5.3	- 9.6	- 7.2	- 4.6	- 4.7	- 9.1	- 6.8	- 4.1	- 1.3	+ 1.0	+ 2.5	- 0.7	88.4
Lufthansa/ Swiss/ Aus. (Star)	+ 4.2	+ 0.4	- 1.0	+ 3.4	- 0.8	+ 2.2	+ 4.6	+ 9.8	+ 4.3	+ 8.4	+ 7.7	+ 4.2	+ 4.4	90.5
American (One)	- 0.6	- 0.7	- 8.5	- 7.8	- 4.9	- 6.8	- 11.0	+ 5.0	- 4.8	- 0.1	- 0.8	- 3.1	- 2.4	87.3
British Airways/ Iberia (One)	+ 6.2	+ 6.9	+ 2.4	+ 3.1	- 1.9	+ 1.2	- 1.4	- 1.0	- 0.4	+ 3.5	+ 4.8	+ 0.1	+ 0.6	88.2
Leading-carriers combined *	+ 0.4	+ 0.4	- 3.8	- 1.8	- 2.8	- 2.5	- 3.7/- 0.2	0.0	- 0.3	+ 3.2	+ 3.6	+ 2.7	+ 1.8	89.6

All carriers (Airlines for America + Association of European Airlines)

U.S.-citizen departures to Europe, Dept. of Commerce

\* Beginning with February '13, "Leading-carriers combined" gives percent +/- in combined total RPMs. Previously given is an average of the percent +/- reported by each of the six carriers. \*\* Hurricane Sandy reduced flights and traffic to and from U.S. Northeast Oct. 29-Nov. 3. \*\*\* February '13 had one day less than February '12, thus average DAILY combined RPMs were down only 0.2 percent.

**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 and South America; Air France/ KLM figures include the same, minus 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 our best immediate trend indicators. Capacity is measured in Available-Seat Miles.