

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • JULY 31, 2012

U.S. TRAVEL CAUTION FOLLOWS BULGARIAN BOMBING; OLYMPICS OPEN

1. **The U.S. Dept. of State updated its 'Worldwide Caution' to U.S. travelers after the July 18 bombing of a bus carrying young Israeli vacationers at Bulgaria's Burgas Airport.** Five Israelis died as well as the Bulgarian driver and the man who placed the bomb-laden backpack into the luggage compartment; 30 more were injured. See No. 8, below.
2. **A spectacular—and quirky—opening ceremony kicked off the Olympics Friday.** While some aspects puzzled people not recently part of the Empire, the British and their closest friends were delighted, not least by the Queen's sporting participation. Going forward, the show's the thing. See No. 14.

COMING AUG. 16: Overall Trans-Atlantic Traffic/ July U.S. Traffic to Europe/ June

3. **Trans-Atlantic fares appearing to be drifting downward** for both the late summer and the fall. See No. 9.

WORLDWIDE SLOWDOWN?

4. **The U.S. economy grew at a rate of only 1.5 percent in the 2nd Q**, the Dept. of Commerce reported Friday. That was slightly better than many expected, and 1st Q growth was revised upward from 1.9 percent to 2.0 percent. The quarter-to-quarter slowdown was blamed on slower consumer spending (up only 1.5 percent compared to +2.4 percent in the 1st Q), which reflected continuing high unemployment. Lower corporate earnings are one result, and that, in turn, persuades companies to hold off on hiring.
Economists were hard pressed to identify a potential source of stimulus, with Europe stalled, China decelerating quickly and the U.S. deadlocked politically on taxes and spending cuts at least until the Nov. 6 election.
5. **The euro crisis staggered through the vacation season** as borrowing costs rose alarmingly for Spain and Italy, while Greece fell short of its austerity targets. Mario Draghi, the European Central Bank leader, promised "to do whatever it takes to preserve the euro." Does

that mean the bank will buy Spanish and Italian bonds at lower rates? A decision may come Thursday, and may require a shift in thinking by Germany.

Meanwhile, Slovenia was said to be the next likely applicant for financial support from the European Union and the IMF.

6. **The dollar touched a new two-year-plus high of €0.83** (interbank rate) before Draghi's comments provided some lift for euro. The dollar was at €0.81 this morning. See **The Dollar vs. The Euro** graph.

7. Other economic positives and (mostly) negatives: **Oil prices were rising again**, to \$90 Friday, and **gasoline was up to \$3.49** per gallon of regular over the weekend (national average). After several months of gains, **U.S. housing sales fell unexpectedly in June**, by 8.4 percent compared to the previous month (but were still up 15.1 percent compared to the previous June). Home prices also fell.

Consumer confidence finally picked up, from a revised 62.7 in late June to 65.9 in late July, according to the Conference Board index released today. Previously, the Thomson Reuters/ Univ. of Michigan index dropped from a revised 73.2 in early June to 72.0 in early July.

Who's worried? On Friday, **the Dow surged over 13,000 for the first time since May.**

ISRAEL SAYS IT WAS HEZBOLLAH; U.S. CAUTION CITES NO SPECIFICS

8. **Israeli Prime Minister Benjamin Netanyahu assigned blame for the Burgas bombing to Hezbollah** (not al-Qaida) and, by extension, to Iran; but the Bulgarians have held off. News reports said intelligence agencies believe the London Olympics continue to be a possible target. Security remains heavy there.

Investigators studied an airport video of the dead man who carried the bomb in his back-pack, his papers (including a phony Michigan driver's license) and DNA samples in the effort to identify him. One investigator said he might have been tricked into bringing the bomb on the bus.

The State Dept. caution said, in part: "U.S. citizens are reminded to maintain a high level of vigilance and to take appropriate steps to increase their security awareness."

Regarding Europe, the caution said: "Current information suggests that al-Qaida, its affiliated organizations and other terrorist groups continue to plan terrorist attacks against U.S. and Western interests in Europe. European governments have taken action to guard against terrorist attacks, and some have spoken publicly about the heightened threat conditions. In the past several years, attacks have been planned or occurred in various European cities." See the full caution at: http://travel.state.gov/travel/cis_pa_tw/pa/pa_4787.html.

While terror incidents have been frequent in Europe over the past five years, few specifically targeted tourists or sites frequented by tourists. Most were against government facilities and representatives by separatists (Basque, Kurdish, Chechen and Irish in particular—and perhaps also including the one-man Oslo attacks of July 2011, in which 77 died).

A BREAK IN FARES? REBUILDING AIR FRANCE REPORTS BIG LOSS

9. **Fares are trending downward.** The lowest fares quoted this week for August and September flights are lower than those quoted in June for the same dates. The lowest fares for mid-October and mid-November flights are lower than those quoted a year ago—21 percent lower for November in the case of Chicago–Paris.

Lower fuel prices help, and U.S. carriers in particular are focused on building up ancillary revenue.

These are quotes from late last week on Travelocity for non-stop, roundtrip, midweek flights on major carriers; taxes and surcharges included:

travel dates:	Aug. 15-22 (compared to late-June quote)	Sept. 12-19 (compared to late-June quote)	Oct. 17-24 (compared to Aug '11 quote)	Nov. 14-21 (compared to Aug. '11 quote)
New York–London	\$ 971 (998)	\$ 751 (825)	\$ 751 (830)	\$ 701 (790)
Chicago–Paris	1,225 (1,227)	1,052 (1,106)	919 (1,032)	869 (1,099)
San Fran.–Frankfurt	1,452 (1,518)	1,051 (1,175)	1,050 (1,198)	1,000 (1,014)

10. **The average domestic fare went up in the 1st Q, by 4.8 percent,** according to the U.S. Dept. of Transportation. But it's up only 9.6 percent over the 1st Q of 2000. And when adjusted for inflation, the average domestic fare is DOWN 19.2 percent from 1999.

While fares accounted for 87.6 percent of airline revenue in the 1st Q of 1990, according to the DOT, they accounted for only 69.5 percent this year. Increased ancillary fees are making up the difference.

11. **Fuel surcharges have a diminishing relationship to the cost of fuel,** according to a report issued by Carlson Wagonlit Travel. Most airlines have not dropped fuel surcharges since 2009, despite up-and-down fluctuations in oil prices. The highest surcharges are now on international flights, with trans-Atlantic carriers adding \$104 to \$372 on flights to Europe.

Between the 2nd Q of last year and this, fuel prices increased 24 percent, while surcharges rose 53 percent.

12. **Air France/KLM lost a staggering €895 million in the 2nd Q.** That includes €372 in fuel-hedge losses and €368 million to cover costs of elimination of 5,000-plus jobs (virtually all at Air France). Revenue was €6.5 billion (+4.5 percent). For the year so far, Europe's largest carrier has lost €1.26 billion.

Chief Executive Jean-Cyril Spinetta emphasized that operating losses actually were cut by more than half for the quarter to €66 million; he credits the Transform 2015 restructuring

program. Air France/KLM also reduced debt by nearly 5 percent to about €6.2 billion. The target is to get debt down to €4.5 billion by 2015.

13. Second Q results were mixed for U.S. carriers: **United reported a \$339 million profit** on revenue of \$9.9 billion (+1.3 percent). It would have been more but for \$206 million in merger costs and other special items. A year ago, United reported a \$538-million profit.

Delta lost \$168 million in the quarter, despite a 6-percent increase in revenue to \$9.73 billion. The loss was attributed to a \$561-million charge on fuel hedges undone by the drop in oil prices, and on merger-related severance costs. A year ago, Delta reported a \$198-million profit.

American lost \$241 million, attributed to \$336 million in restructuring costs; this on record revenue of \$6.5 billion (+5.5 percent). **US Airways, in pursuit of a merger with American, reported a record profit of \$306 million** for the quarter, up 233 percent over last year, on revenue of \$3.75 billion (+7.2 percent); US Airways made no hedge bets on fuel.

TOUR OPERATORS: OLYMPICS LONDON IS DOING BETTER THAN BEIJING

14. **London may be down in overall visitors for the Olympics weeks—as previous Summer Olympic hosts have been—but the city is exceeding expectations**, according to Tom Jenkins of the European Tour Operators Association.

The drop-off is huge. Jenkins said that London usually sees 300,000 foreign visitors stay in its hotels each August night. But through the two Olympics weeks, only 60,000-plus foreign visitors are booked in London hotels each night (in more than 45,000 rooms). Jenkins also said that more than 40 percent of the foreign visitors are of the “Olympic family”—government representatives, sponsors and their guests, media, and relatives of athletes. It helps that they qualify for special, low rates negotiated by the London Olympic committee.

Additional British guests presumably are making up part of the difference. And the 60,000 total for foreign visitors looks good when compared to 25,000 foreign visitors per night in Sydney, 13,000 in Athens and 27,000 in Beijing. Jenkins, who was stinging critical of Britain’s push to get the Olympics, is emphasizing the positive: “Judged against previous Olympics, this is a major achievement.”

15. **Royal Caribbean lost \$3.6 million in the 2nd Q, mostly on price discounting for European cruises and on fuel hedges.** That compares to a \$93.5-million profit a year ago when total revenue was \$1.77 billion, or 2.7-percent less. Demand for European cruises slumped in both the U.S. and European markets on Royal Caribbean, and on its Celebrity and Azamara lines. The economic downturn was cited, as well as the *Costa Concordia* accident.

Earlier this month, Royal Caribbean, Celebrity and Silversea reported success in bundling

airfare from the U.S. with European cruises, with overall discounts in some cases, according to a *Travel Weekly* story by Kate Rice.

Previously, **Carnival Corp. reported a 93-percent drop in 2nd Q profit**, to \$14 million on revenue of \$3.5 billion, also attributed to difficulties in selling European cruises.

16. **Viking River Cruises will launch two more Longships next year**, on top of the six previously announced, bringing the total to 14 ships by the end of 2013. The first four of the 190-passenger boats began operating this spring. All are assigned to European rivers; the newly announced *Viking Jarl* and *Viking Atla* will sail the Rhine between Amsterdam and Basel.

VEMEX: JOURNALIST REGISTRATION TO OPEN

17. **Now it's the media's turn to register for VEMEX.** Beginning next week, editors and bloggers can sign up at VisitEuropeMediaExchange.com.

Among the new exhibitors registering for VEMEX are the Catalan Tourist Board, Perillo Tours, the American Georgian Travel Group and Badrutt's Palace Hotel in St. Moritz.

VEMEX opens this fall in **New York** on Monday, Oct. 22, at the Harvard Club. It then goes to **Chicago**—for the first time—taking place at the Hilton on Thursday, Oct. 25.

VEMEX will bring together more than 140 pre-approved journalists with representatives of national, regional and city tourist offices, rail and other transport services, and major European attractions. For information, go to the website—VisitEuropeMediaExchange.com—then to the city of your choice and to links for direct e-mails to VEMEX staff.

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One dollar equals:
Interbank rate/Monday closings

THE DOLLAR VS. THE EURO 2012

Value of the U.S. dollar against the euro, the single currency of 17 European Union nations: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

EU members Britain, Denmark and Sweden have so far opted out of the euro.
Of the 12 nations that acceded to the EU in 2004 and 2007, Estonia was the most recent to join the euro zone, on Jan. 1, 2011.

