

# TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • MARCH 15, 2013

## OVERALL CAPACITY AND TRAFFIC CONTINUE TO DROP

1. **Overall trans-Atlantic traffic continued to slide in February** for the fifth consecutive month. While the combined drop for the leading carriers was only 0.2 percent when last year's leap-year surplus is taken into account, the trend in both capacity (-2.9 percent) and traffic is clearly down. The U.S. carriers continued to lead the way in slashing seats and flights, and accounted for 35 percent fewer RPMs than their European partners for the month. The American carriers still reap their share of revenue under the joint-venture agreements.

One question: Why is Air France/KLM, with a leading trans-Atlantic load factor of 83.8 for the month (and 88.3 for all of 2012), doing so poorly?

See the **Trans-Atlantic Traffic Trends** chart and No. 12 below.

## U.S. MARKETS BOOM DESPITE SEQUESTER CUTS AND ITALY STALEMATE

2. **Catholic cardinals selected the first pope ever from the Americas**, albeit one who has spoken Italian since childhood. The conclave in the Sistine Chapel required only two days to make white smoke.

**In comparison, Italian parties have not yet cobbled together a government** 19 days after their election (but fears of an immediate debt meltdown that would undermine the entire euro zone did not materialize).

**And in the U.S., the sequester cuts have served to widen the divide** between Pres. Obama and the Democrats on one hand and the Republicans on the other. Obama points out that the deficit is already coming down rather quickly and

**NEXT ISSUE: U.S. Travel to Europe in February  
The Outlook for Summer Fares**

asserts that more should be spent on supporting the recovery in jobs. The Republicans insist that drastic cuts are needed in health-care programs and that closing tax loopholes to generate more revenue cannot be part of the answer. Neither side feels much pressure to give in.

3. Meanwhile, the stock markets set new highs, with **the Dow opening today at a record 14,539**; the S&P is up 9 percent for the year and within two points of its all-time record.
4. Plenty of good news drives the optimism. **Most important are strong earnings** reported by corporation after corporation. And, last week **the U.S. Labor Dept. said the economy added another 236,000 jobs in February** and that unemployment dipped to 7.7 percent, the lowest since 2008. On the cautionary side, the economy has still regained only about two thirds of the jobs lost in the recession.  
**The accelerating recovery in housing** was reflected in the increase of construction jobs by 48,000.
5. More positives and negatives: **The price of oil was down to \$92** per barrel from \$98 several weeks ago. But it remained volatile and **gasoline prices are still high at \$3.70** a gallon (national average). **Retail sales were up 1.1 percent in February**, more than forecast.
6. **An energy revolution is kicking in:** Big U.S. gains in oil and natural-gas production—thanks to rapidly expanding hydraulic fracking in North Dakota and elsewhere—have already led to reductions in oil imports to the U.S., which by 2020 could produce more crude and natural gas than Saudi Arabia. So far, however, there has been little impact on prices.
7. **But consumer confidence took a surprise tumble.** The Thomson Reuters/Univ. of Michigan index plunged today to 71.8 in early March from a revised 77.6.8 in February. The survey director said respondents were frustrated by the deadlock in Washington.  
 That reversed the earlier Conference Board report that its index had rocketed 11 points to 69.6 in late February from a revised 58.4 in late January.
8. **The dollar rose above €0.77**, a three-month high against the euro. **It is rising more strongly versus the pound**, to £0.67, a 33-month high.

### **VOLCANO ASH WARNING, IRELAND SCORES 1 MILLION**

9. Three years after Iceland's Eyjafjallajökull eruption, **the European Aviation Safety Agency has recommended that airlines avoid 'avoid operation in visible volcanic ash.'**  
 That was the standard that led in April 2010 to the most complete shutdown of European air space since World War II. Airline executives complained bitterly as losses mounted, but national regulators insisted the ash was too great a danger to jet engines.

If anything, the EASA warning is tougher now after considerably study and discussion: Don't fly into ash even if conditions otherwise seem favorable. It's not a mandatory standard; the final decision is still up to the national air-control regulators.

But what real choice would they have? When the next volcano sends ash high into trans-Atlantic and European routes, thousands of flights will once more be grounded.

10. **North Americans accounted for 1.02 million visitors to Ireland last year**, an increase of 3 percent and the best result since the fiscal meltdown in 2008. That number doesn't include people who might have visited only Northern Ireland. The U.S. and Canadian traffic helped make up for a drop off in British visitors. Ireland has invested steadily in tourism promotion and the U.S. market, despite austerity cutbacks in many other government programs.

### LUFTHANSA IN THE BLACK; NOT SO AIR FRANCE/KLM AND VIRGIN

11. **Lufthansa reported a profit of €990 million for the full year in 2012** on revenue of €30.1 billion (+4.9 percent). That compares to a loss of €13 million in 2011. The Swiss and Austrian Airlines subsidiaries made money, but Lufthansa Passenger did not and most of the profit was attributed to a €623 million gain from the airline's sale of its share in Amadeus.

The operating results were blamed on an 18-percent increase in fuel spending, unfavorable currency fluctuations and costs of the SCORE restructuring program. Looking ahead, Lufthansa still plans to eliminate 3,500 jobs under SCORE and buy new aircraft, including two more A380 jumbos. No numbers were broken out for the 4th Q.

12. Earlier, **Air France/KLM reported a crushing €1.19 billion loss for the full year** on revenue of €25.6 billion (+5.2 percent). That compared to a loss of €809 million in 2011. For the 4th Q, the loss was €235 million on revenue of €6.3 billion (+4.6 percent). Rising fuel costs were a big factor, amplified by upward swings of the dollar vs. the euro; also, a restructuring charge of €471 million was incurred under the Transform plan.

**Empty seats are not the problem.** Systemwide, the Air France/KLM load factor for the year was 83.1 and an industry-leading 88.3 across the Atlantic. But fares were apparently discounted to fill many of those seats.

**Thus, in 2012, four of the six leading trans-Atlantic carriers lost heavily**, IAG (British Airways/Iberia), Air France/KLM, United and American, with restructuring costs playing a large part except in the case of IAG (see No. 14 below).

13. **Hard-pressed Virgin Atlantic ended its fiscal year Feb. 28 with perhaps its biggest loss ever**, reported Britain's *Telegraph*. The loss could touch £135 million on revenue not likely to exceed £3 billion when numbers are issued.

14. **The Iberia strike is off but TAP Air Portugal's is on.** A mediator won agreement between Iberia unions and the International Airline Group that forestalled a third week of crippling strikes. IAG, whose bottom line is reeling from losses at recession-hammered Iberia, will reduce the number of layoffs from 3,807 to 3,141 (-17 percent) and provide more support to those losing jobs. The unions have accepted the proposal.
- Pilots and other workers will strike TAP next week** (March 21-23), joining rail unions and other labor groups in protesting 10-percent government pay cuts. TAP operates as a private company, but the government is the ultimate owner, covering revenue shortfalls. Passenger operations have generated profits in recent years, TAP says, but large debts still remain.
15. **British Airways will fly its first A380 super-jumbo from Los Angeles**, beginning in October. The A380 will take over from one of the two 747-400s now flying the route each day to Heathrow. The new plane will have 469 seats (compared to 526 on Lufthansa's A380s). Fares start at £499 for economy; tickets are on sale now. A second BA A380, due this year, will go into service in November between Hong Kong and Heathrow.
16. **Finnair is joining the American-British Airways/Iberia trans-Atlantic joint venture.** While Finnair flies to Helsinki only from JFK and Toronto in North America (and the latter only in summer), it offers a network of 40-plus cities in Europe and is particularly strong in northern Europe. Most important, from Finnair's point of view, it can now offer European customers smooth access to American's network in the U.S.
- Finnair was already a member of the oneWorld alliance dominated by BA and American.
17. **Scandinavian Airlines is returning to the West Coast in April** with six flights weekly from San Francisco to Copenhagen. The airline expects that a significant amount of business will be generated by Californians bound for Copenhagen to board Baltic cruises.
- Scandinavian flew many years from Seattle before giving up that route in July 2009; the airline currently flies from New York; Washington, DC; and Chicago.
18. **The FAA has decided to freeze hiring of new air controllers before it furloughs current controllers** under the federal budget sequester. A freeze is not risk-free, as the FAA needs to train new personnel to step in for the 3,000 current controllers eligible for retirement (20 percent of the total). Unless Congress acts to relive the sequester, the FAA expects to begin furloughs—as many as two days a month—that would cut into operations and lead to significant delays and flight cancellations.
- It takes up to 18 months to train a controller for a small facility, according to a

detailed story by Politico; up to four years for a major regional center.

19. **Thomas Cook is closing 18 percent of its British shops and laying off 16 percent of its 15,500 workers** in the latest effort to restore profitability to Britain's leading travel seller.

Chief Executive Harriet Green is also selling "non-core" brands and may ask shareholders to put up more cash as the venerable firm seeks to reduce debt and push into the black. Target: A 5-percent profit margin by 2015.

20. **Travelocity and its Roaming Gnome have launched TV advertising on major U.S. networks.** The company is trying to expand its share of the still-vast online-agency revenue, with five "Go & Smell the Roses" spots. Two are set in Europe, with the Gnome dropping into the running of the bulls in Pamplona and riding a ski lift in the Alps.

Travelocity, wholly owned by Sabre, doesn't report financial results, but is believed to draw more than 15 percent of total online agency web visitors. Priceline is the leader, drawing from 35 to 40 percent, and reporting a \$1.42 billion profit last month.

21. **Big changes are proposed in airport Security by the Transportation Security Administration.** TSA Director Jim Pistole wants to triple the number of passengers qualifying for expedited screening by the end of the year, and to reduce the banned items (pocket knives again OK after 11 years).

These moves would let screening agents concentrate on people with relatively little documentation and on the hunt for explosives. "If we have to find a needle in a haystack, we need to make the haystack smaller," said Janet Napolitano, secretary of homeland security, of the transition to risk-based, intelligence-driven operations.

**But letting small knives aboard is opposed by flight attendants, pilots and airlines** and will be scrutinized in upcoming congressional hearings.

22. **The Visit Europe Media Exchange is scheduled for November.** VEMEX will open 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.

The 2013 website—**VisitEuropeMediaExchange.com**—will go up this month.

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## Trans-Atlantic Traffic Trends, February '13

Compared to previous year, +/- percent

RPMs	March '12	April '12	May '12	June '12	July '12	Aug. '12	Sept. '12	Oct. '12 **	Nov. '12 **	Dec. '12	Jan. '13	Feb. '13 ***	ASMs (Feb. '13)	load factor
Delta (Sky)	- 0.4	- 6.1	- 4.4	- 5.5	- 6.7	- 5.1	- 0.3	- 3.0	- 3.1	- 4.3	- 6.4	- 8.8	-12.0	69.9
Air France/ KLM (Sky)	+ 9.7	+ 2.3	- 1.8	+ 5.6	+ 2.0	+ 0.0	+ 1.1	- 3.3	+ 1.0	- 0.1	- 0.7	- 1.8	- 0.9	83.8
United (Star)	+ 1.4	- 6.0	- 1.7	- 1.4	- 5.8	- 2.4	- 5.3	- 9.6	- 7.2	- 4.6	- 4.7	- 9.1	-11.6	65.4
Lufthansa/ Swiss/ Aus. (Star)	+ 6.0	+ 1.5	+ 2.0	+ 3.8	+ 2.1	+ 4.2	+ 0.4	- 1.0	+ 3.4	- 0.8	+ 2.2	+ 4.6	+ 3.2	76.1
American (One)	+ 2.0	- 2.7	- 9.6	- 5.5	- 3.3	- 0.6	- 0.7	- 8.5	- 7.8	- 4.9	- 6.8	- 11.0	-14.1	68.0
British Airways/ Iberia (One)	+16.3	+ 6.8	+ 6.9	+ 6.0	+ 4.1	+ 6.2	+ 6.9	+ 2.4	+ 3.1	- 1.9	+ 1.2	- 1.4	- 6.7	73.6
Leading-carriers combined *	+ 5.8	- 0.7	- 1.4	+ 0.5	- 1.3	+ 0.4	+ 0.4	- 3.8	- 1.8	- 2.8	- 2.5	- 3.7/- 0.2	- 6.3/- 2.9	73.6

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 and South America; Air France/ 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.