

TRANS•ATLANTIC®

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

A YEAR AFTER SANDY, OCTOBER IS UP; SUMMER TRAFFIC ROSE 4%

1. **In October, overall trans-Atlantic traffic jumped 5.7 percent**, as reported by leading carriers. The increase is partly explained by the fact that Hurricane Sandy suppressed traffic into and out of Northeast U.S. airports a year earlier. United, for instance, is up 11.4 percent for the month, but a year earlier was down 9.6 percent when Sandy closed JFK, Newark and Dulles, among others. American shows its first increase in traffic since February, but the +5.9 percent comes a year after traffic dropped 8.5 percent.

Overall capacity was up 5.0 percent for the month, leading to a load factor of 84.6, up slightly from a year earlier. See the **Trans-Atlantic Traffic Trends** chart.

2. **The 2013 peak season saw overall trans-Atlantic traffic on all carriers grow 4.0 percent**, according to the latest data from Airlines for America and the Association of European Airlines, confirming our monthly reports from the leading carriers.

Combined capacity for the five peak months, May-September, was also up for all carriers, but by only 2.4 percent, which pushed up the combined peak-season load factor to 88.4, perhaps the highest ever, compared to 87.6 a year ago and 86.7 in 2011.

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U.S. PASSPORTS: 37% HAVE THEM

3. **The U.S. State Dept. issued 12.1 million first-time passports and renewals** in FY2013, ending Sept. 30. That was 2.5 percent more than in the previous year and brought total valid passports to about 118 million. We estimate that 3 percent of these are not "in the market" (deaths and disabilities) and that 5.5 million are held by U.S. citizens living abroad.

That would leave about 109 million passport holders in the 50 states, or nearly 37 percent of the citizen population. That does not count holders of Passport

Cards, issued since 2008, which are valid only for reentry into the U.S. by land or ship from Canada, Mexico and the Caribbean.

These estimates are more accurate than those we reached before 2012, which relied on total *applications* and did not take into account the shorter term of passports held by minors.

The number of valid U.S. passports is setting records each year and has doubled in only a decade, spurred by post-9/11 concerns over security and documentation. The 2013 data will be posted soon at http://travel.state.gov/passport/ppi/stats/stats_890.html.

GDP: UP. JOBS: UP. STOCKS: UP... CONFIDENCE: DOWN.

4. **The U.S. economy rose 2.8 percent in the 3rd Q**, up from 2.5 percent in the 2nd Q, the Dept. of Commerce said in its first estimate. Most economists had expected a decline and many are projecting a weaker 4th Q. A drop in imports and increased investment in inventory were positive factors. Not so was consumer spending on services, up only 0.1 percent.

5. **The U.S. economy gained 204,000 jobs in October**, many more than expected, considering the federal government shutdown. However, the furlough of 850,000 federal workers pushed the unemployment rate up slightly to 7.3 percent. All are back at work (and were paid for the furlough period).

The combined total for August and September was revised upward by 60,000 jobs or 17.6 percent.

6. **The Dow closed at 15,876 Thursday, and was rising toward another record today.** It helped that Janet Yellen, nominated to succeed Ben S. Bernanke as Federal Reserve chief, told Congress that stimulus bond-buying should continue.

The price of **oil slipped to \$94** per barrel. **Gasoline is down, touching \$3.18** a gallon this week (national average), near the 33-month low. AAA said it could be as low as \$3.00 by year's end.

7. Despite all of the above, **consumer confidence continued to slide.** The Thomson Reuters/Univ. of Michigan index dropped to 72.0 in early November—a 23-month low—from a revised 73.2 in early October.

Previously, the Conference Board index dropped more steeply, to 71.2 in late October from a revised 80.2 in late September.

8. After falling to nearly €0.72, a two-year low, in late October, **the dollar has since risen above €0.74** (bank rate).

9. Political battling is likely to shape U.S. economic performance going forward. **So who's ahead?**

In October, Democrats appeared to benefit heavily from public anger at the Republican shutdown of the government. But the tremendous difficulties in launching the Obamacare health-insurance plan have heartened Republicans since.

Elections Nov. 5 in New Jersey (a big non-Tea Party Republican win), in Virginia (a close Tea-Party Republican loss) and in New York City (a 49-point victory by the most liberal Democrat to run in many years) threw cold water on predictions that either party could break up the Washington logjam in the 2014 elections.

GOVERNMENT-APPROVED: THE NEW, MUCH BIGGER, AMERICAN AIRLINES

10. **American and US Airways will complete their merger into the world's largest carrier** (by traffic), perhaps by Christmas. They received the go-ahead Tuesday from the U.S. Dept. of Justice in exchange for giving up scores of landing and takeoff slots at National and LaGuardia, as well as gates at five other busy U.S. airports.

American's trans-Atlantic joint-venture with British Airways/Iberia will be strengthened by the addition of US Airways' routes to Europe from Philadelphia and Charlotte, with expansion from Charlotte scheduled next spring. That's on top of the combined domestic route map feeding all American-BA U.S. gateways to Europe.

The merger was approved previously as an acceptable exit on the part of American from bankruptcy-protection. The new airline expects to reduce operating expenses by hundreds of millions of dollars once past the significant merger costs, including that of folding two booking systems into one.

The Dept. of Justice's Bill Baer said the released slots would be auctioned off, with low-cost U.S. carriers the likely buyers. The new carrier also must maintain "historic levels of service" from all the current hubs: American's JFK, O'Hare, Dallas-Fort Worth, Los Angeles and Miami, and US Airways' Philadelphia, Charlotte and Phoenix. Justice will drop its antitrust suit, which was to go to trial Nov. 25 in U.S. District Court in Washington.

If increased competition was the goal of the suit, that battle was lost three mergers ago. The government has actually presided over a drive for stability in a naturally volatile industry, and that has been achieved.

11. **The American-US Airways merger will complete an extraordinary period of billion-dollar losses, bankruptcy and combination** of U.S. airlines, dating back to the 9/11 attacks. Europe carriers have been going through similar upheaval, which continues with the latest Alitalia drama. See No. 12.

Nowhere has consolidation been greater than on trans-Atlantic routes. Between the U.S. and Europe, the three mega-joint ventures will control nearly 90

percent of capacity: Delta-Air France/KLM (which includes Alitalia, Finnair and, effectively, beginning next summer, Virgin Atlantic); United-Lufthansa/Swiss/Austrian, and American-British Airways/Iberia.

US Airways will have been the last U.S. trans-Atlantic carrier of any size not in a joint venture. A scattering of still-independent European airlines will continue to fly from the U.S., including Aer Lingus, Scandinavian, Icelandair, Norwegian, Polish-LOT, TAP Portugal, AirBerlin, Brussels, Turkish and Aeroflot, but their combined lift from the U.S. is small.

Competition is greater within the U.S. and Europe, where low costs like Southwest and Ryanair have taken large chunks of the domestic market. Past attempts by low-costs to go trans-Atlantic have failed. Norwegian launched the latest effort this summer with flights from JFK to Oslo and Stockholm, and plans more next year from JFK, Los Angeles and Fort Lauderdale to London's Gatwick. See No. 15 for more on Norwegian.

ALITALIA LOOKS FOR HELP, OLYMPIC BOUGHT BY AEGEAN

12. Apparently, **Alitalia will have to find another airline partner to replace Air France-KLM.** The latter declined to join in a €300 million infusion of cash that would have maintained its share of Alitalia at 25 percent (and has actually written off that share from its own books).

Italian investors and banks have put up enough of cash to keep Alitalia going for a few months, according to Reuters. It might then fall under government administration that could lead to a restructuring of the €813 million debt. Ultimately, Alitalia's board wants to drop medium-range aircraft in favor of bigger planes for longer routes. Jobs would be cut, but no one is saying how many.

Alitalia had reached out to Etihad and Aeroflot as possible replacement partners; both declined. Reuters said a hookup with either might require a €200 million payment to Alitalia's current SkyTeam partners, which include Air France-KLM.

13. **Olympic Air will become a subsidiary of Aegean Airlines** at a cost to Aegean of €72 million. Aegean has managed to survive in the turbulence of Greece's crushing recession and evaporating demand for air travel. The focus will continue to be on bringing in more international visitors; 205 of the combined airlines' 250-plus total routes serve Greece from non-Greek gateways. Neither carrier flies from the U.S., although Olympic has a code share on Delta's peak-season nonstops from JFK to Athens.
14. **Air France will assign an A380 jumbo jet to its San Francisco-Paris route** beginning March 30 and throughout the summer. The 516-seat Airbus (to replace a Boeing 777) will offer six bars in four classes and an art gallery. The eastbound flight takes a scheduled 11 hours and 20 minutes.

15. **Norwegian Air Shuttle will expand operations next summer from Madrid**, where it now offers three weekly flights to Copenhagen. New direct flights will begin in early June to Oslo, Stockholm and Helsinki. More interesting, Norwegian will also fly from Madrid to London (daily), Hamburg (four times weekly) and Warsaw (twice weekly).

Low-cost Norwegian ventured beyond Scandinavia last year in opening a base at Gatwick with flights to other European cities.

European Union carriers are free to operate between any two cities in the EU. That liberalization opened up Europe for low-costs like Ryanair, EasyJet and Norwegian.

Among the majors, Lufthansa notably attempted an operation beyond its home hubs. Lufthansa Italia flew for 2½ years from Malpensa to London, Paris, Madrid and other non-German cities, as well as to several Italian cities. Lufthansa Italia was shut down in October 2011 under pressure from EasyJet and Alitalia's Air One; the Lufthansa subsidiary could not compete on fares.

CRACKDOWN ON CRUISE SHIPS IN VENICE

16. **Overseas visits to Britain rose again in September** compared to a year ago, although not from the U.S., according to the latest data from VisitBritain.

Total overseas visits were up 6 percent for the month and also for the year through September, equaling the record-setting pace of 2007. But the shortfall from the U.S. through September remains 4 percent, the same as in August. The data is preliminary. See www.VisitBritain.org.

17. **The largest cruise ships will be diverted from the center of Venice** under a plan announced by the Italian government. As of Jan. 1, visits by ships of 40,000 tons-plus will be reduced by 20 percent, and no more than five will be permitted to berth at one time. As of Nov. 1, ships of 96,000 tons (and carrying 3,000-plus passengers) will be banned.

The main shipping channel enters the lagoon just 3½ miles east of Piazza San Marco and then follows the Canal Giudecca between San Marco and the islands of San Giorgio Maggiore and Giudecca. It winds around to the cruise and ferry port, just south of the rail terminal.

Last year, cruise ships made 650 stops in Venice, their No. 1 Mediterranean port of call. They brought 1.8 million passengers (compared to 100,000 in 1999), as they passed in and out within 300 yards of the Doge's Palace.

Opponents say the mega ships are literally swamping the city and undermining foundations with prop vibrations. The *Costa Concordia* accident energized them; thousands protested in September when a dozen cruise ships steamed through in a single day.

The government is not banning the mega ships forever. It has promised to

cut a new passage into the lagoon below the Lido and dredge an alternative channel, away from the historic center, to the cruise port. That could open within two years, although opposition is building quickly.

18. **Priceline had another huge quarter.** Net income was up 40 percent to \$833 million on total revenue of \$2.3 billion (+33 percent). Gross bookings totaled \$10.8 billion (+37 percent). Much of the growth in revenue was again from international hotel bookings, a Priceline strength.

Expedia reported adjusted net income of \$200.1 million (+7 percent) on revenue of \$1.4 billion (+17 percent). Gross bookings were \$10.4 billion (+15 percent).

VEMEX IS UNDERWAY

19. **The Visit Europe Media Exchange opened today at the Toronto Board of Trade.** The show will go Monday to the Harvard Club in **New York** and close Wednesday at the Sheraton Fisherman's Wharf in **San Francisco**.

For details, see VisitEuropeMediaExchange.com.

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20. **This newsletter will be distributed on a subscription basis beginning in December.** The cost will be \$150 for 24 issues over 12 months. To subscribe, just send an e-mail with your name, company and receiving email address to **TransAtlantic@dnmartinco.com**. We'll send an invoice.

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Trans-Atlantic Traffic Trends, October '13

Compared to previous year, +/- percent

RPMs	Nov. '12 **	Dec. '12	Jan. '13	Feb. '13 ***	March '13	April '13	May '13	June '13	July '13	Aug. '13	Sept. '13	Oct. '13 **	ASMs (Oct. '13)	load factor
Delta (Sky)	-3.1	-4.3	-6.4	-8.8	-5.7	-3.2	+2.0	+4.8	+5.2	+6.0	+2.2	+2.3	+2.5	85.8
Air France/ KLM (Sky)	+1.0	-0.1	-0.7	-1.8	+0.5	+3.2	+4.5	+2.4	+2.4	+5.3	+1.4	+2.4	+2.9	88.4
United (Star)	-7.2	-4.6	-4.7	-9.1	-6.8	-4.1	-1.3	+1.0	+2.5	+7.2	+5.9	+11.4	+10.1	79.7
Lufthansa/ Swiss/ Aus. (Star)	+3.4	-0.8	+2.2	+4.6	+9.8	+4.3	+8.4	+7.7	+4.2	+5.1	+9.0	+7.5	+6.9	85.3
American (One)	-7.8	-4.9	-6.8	-11.0	+5.0	-4.8	-0.1	-0.8	-3.1	-1.1	-0.2	+5.9	+1.4	86.5
British Airways/ Iberia (One)	+3.1	-1.9	+1.2	-1.4	-1.0	-0.4	+3.5	+4.8	+0.1	0.0	+2.8	+5.8	+4.5	85.6
Leading-carriers combined *	-1.8	-2.8	-2.5	-3.7/-0.2	0.0	-0.3	+3.2	+3.6	+2.7	+4.4	+3.8	+5.7	+5.0	85.2

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, 2012, partly explaining large increases in October of 2013. *** 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.