

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • SEPT. 30, 2013

A SELF-INFLICTED CRISIS IN THE WORKS?

1. **Trends favor continued growth of U.S. travel to Europe** into the off-peak season. Fares (and fuel prices) have stabilized, and the leading airlines are adding trans-Atlantic capacity. Most importantly, the U.S. economy is growing, albeit slowly.

Threats? The looming partial shutdown of the U.S. federal government and/or the failure to raise the U.S. debt ceiling; either could torpedo growth. The political impasse between the Republican House and the Democratic Senate could inaugurate a shutdown beginning at midnight.

NEXT ISSUE: Overall Trans-Atlantic Traffic/ September U.S. Traffic to Europe/ August

2. **The U.S. State Dept. issued a new 'Worldwide Caution'** last week in the wake of the bloody Shabab attack on a Nairobi shopping mall, urging U.S. travelers to remain vigilant abroad. Those bound for Europe were told specifically: "Current information suggests that al-Qaida, its affiliated organizations and other terrorist groups continue to plan attacks against U.S. and Western interests in Europe. Additionally, there is a continuing threat in Europe from unaffiliated persons planning attacks inspired by major terrorist organizations but conducted on an individual basis."

The new caution is little changed in tone or detail from the previous alert issued in August, when U.S. embassies and consulates were closed for a time in North Africa and the Middle East in response to a threat said to be developing in Yemen.

DOW AND CONFIDENCE SINK ON SHUTDOWN WORRY

3. **After cresting to a new high of 15,677 on Sept. 18** (following the Federal Reserve vote to further delay "tapering" of stimulus) **the Dow lurched downward again**, opening at 15,250 this morning. Worries are now focused on the government shutdown/debt-ceiling crisis.

Oil dropped to \$103 a barrel, its lowest since early August. **Gasoline prices are dropping more quickly**, and are now averaging to \$3.40 per gallon nationwide.

4. **Sales of existing homes rose again in August to reach a 6½-year high.** They were up 1.7 percent over July and up 13.2 percent over August of last year. The national median price was \$212,100, 14.7 percent more than a year ago, the 18th consecutive month of such price increases. The median number of days on the market was 43, up from a recent low of 37 in June, but down from 70 a year ago.

Sales of new homes rebounded. After dropping 13.4 percent in July, they rose 7.9 percent in August, with the median price at \$254,600, down 0.7 percent from July but well ahead of August '12.

5. **Consumer confidence falls.** The Conference Board index dropped slightly to 79.7 in late September from a revised 81.8 in late August.

Previously, the Thomson Reuters/Univ. of Michigan index dropped more steeply to 76.8 in early September from a revised 82.1 in early August.

6. **The dollar has been hovering at 0.74 since Sept. 20,** a 7½-month low.

FIRST-Q EUROPEAN TRAVEL TO U.S. WAS FLAT

7. **European traffic to the U.S. rose only 0.8 percent in the 1st Q** of this year, according to data released this month by the Dept. of Commerce. That compares to an 8.7-percent increase for the 1st Q of 2012. U.S. traffic to Europe declined in the 1st Q by 3.0 percent, as reported here in May.

Details: Britain, 756,000 (-0.5%); Germany, 365,000 (-0.5%); France, 256,000 (-2.5%); Italy, 145,000 (-1.0%); Spain, 117,000 (+3.1%); Sweden, 101,000 (+5.3%); Switzerland, 80,000 (+6.0%). Total overseas arrivals to the U.S. were 6,582,000, up 8.9 percent. Other regions generating more than a million 1st Q visitors were Asia, +10.5 percent and South America, +25.6 percent.

See: <http://tinet.ita.doc.gov/view/m-2013-I-001/index.html>.

8. **It doesn't help that arriving international visitors are trapped for up to 4½ hours in passport and customs lines at U.S. gateway airports.** The U.S. Travel Association proposed 20 policy moves to reduce peak wait times by 50 percent and process each traveler within 30 minutes. These include:

Hire 3,500 additional Customs and Border Protection (CBP) officers for airports, implement more automated control procedures, expand and improve the Global Entry Program, help CBP better coordinate with airports and airlines, rationalize collection of fees into a single fee, and redirect Electronic System for Travel Authorization fee revenue (including that for Brand USA) to relieve the budget pressure on CBP.

The USTA proposal was issued in an open letter signed by 70 industry leaders.

9. While average airport wait times are often 30 minutes or less, **the worst peak wait times were 4.5 hours at JFK and 4.7 hours at Miami**, last December and April respectively, according to USTA's analysis of CBP data. The wait at O'Hare peaked at 3.8 hours in November; at Los Angeles, 3.3 hours in March; and at Dulles, 2.9 hours in April.

STABLE FARES, DELTA-VIRGIN MOVES, AIRLINE-EMISSION TALKS

10. **Delta and Virgin Atlantic are shifting their combined New York-London flights to better compete with the British Airways/American joint venture**, which dominates the busiest trans-Atlantic route.

Beginning March 30, Delta and Virgin will launch seven evening flights from JFK and two from Newark, with the JFK flights to Heathrow spaced 30 to 60 minutes apart.

Delta and Virgin won final Dept. of Transportation approval Sept. 23 of their joint-venture between the U.S. and Britain. They can now coordinate schedules, fares and marketing on these routes, and share route costs and profits as if they were a single airline.

British Airways/American will still dominate JFK-Heathrow with 63 percent of the seats, versus 35 percent for Delta/Virgin. United offers no JFK-Heathrow flights, but is strong from its Newark hub to Heathrow with four flights daily, compared to two flights each for BA and Virgin (off-peak schedule).

Delta and Virgin will operate another 21 flights from other North American gateways to Heathrow, including Washington, DC; Atlanta; Los Angeles and San Francisco. At Heathrow, Delta will move from Terminal 4 to Terminal 3, where Virgin operates.

11. **Fares continue to be stable** on the leading routes we track. Low fares are slightly lower for the same flight dates than they were last month and, in most cases, lower than they were a year ago.

Here are low fares quoted Friday on Expedia for roundtrip, non-stop, midweek flights on major carriers; taxes, fees and surcharges included:

| Travel dates: | Oct. 16-23 compared to late-Aug. quote) | Nov. 13-20 compared to late- Aug. quote) | Dec. 11-18 compared to Sept. '12 quote) | Jan. 15-22 compared to Sept. '12 quote) |
|----------------------------|---|--|---|---|
| New York-London | \$838 (\$880) | \$752 (\$838) | \$752 (\$896) | \$752 (\$896) |
| Chicago-Paris | 952 (1,017) | 929 (967) | 929 (993) | 929 (993) |
| San Fran.-Frankfurt | 1,167 (1,200) | 1,066 (1,099) | 1,136 (1,091) | 1,066 (1,091) |

12. **U.S. airlines reported another increase in trans-Atlantic yields for August** of 7.8 percent. Combined yield has been up every month since last November, with the exception of May (when it dropped only 0.1 percent).
The accumulated gain for the 12 months ending in August was 4.1 percent. In contrast, U.S.-carrier yields for Latin America and Pacific routes are -2.1 percent and -3.4 percent, respectively, over 12 months.
13. **The world's airlines should still generate about \$11.7 billion in profits** on \$708 billion in revenue this year, according to the International Air Transport Association. That's a downward revision from the \$12.7 billion forecast in June, blamed on recent high fuel prices, lack of growth in cargo, and decelerating growth in emerging markets.
That compares to the \$7.4 billion achieved worldwide in 2012 and the \$16.4 billion IATA forecasts for 2014. The record is the \$19.2 billion total profit scored in 2010.
Projected profits for North American carriers were revised upward to \$4.9 billion from \$4.4 billion, thanks to "better industry structure" (i.e. mergers and joint-ventures). European carriers could post \$1.7 billion in profits, IATA said, also revised upward.
14. **Lufthansa ordered 34 Boeing 777-9X aircraft and 25 Airbus A350-900s** in one of the larger buys of long-range aircraft recently, totaling \$19 billion. Lufthansa said the new planes would allow it to reduce fuel consumption and save 20 percent on overall costs. Noted was Lufthansa's decision to skip a large-version Boeing 787 Dreamliner in favor of the Airbus 350-900, which will have a greater range.
The purchase was announced by Lufthansa CEO Cristoph Franz just days after Franz said he will leave Lufthansa next year for Roche, the big Swiss biotech firm. Franz spent 23 years with the Lufthansa group (interrupted with a 10-year stint at Deutsch Bahn), the last two as chief executive.
15. **Jetairfly will begin twice-weekly flights from Miami to Brussels** on April 4. The Brussels-based carrier, a 10-year-old, low-cost division of TUI, now flies to Belgium from five Caribbean gateways.
16. **Talks are underway to curb aviation-generated greenhouse emissions worldwide** beginning in 2020. Airlines account for 2 percent of all carbon emissions; two thirds of that on international flights.
Meeting in Montreal are negotiators from 190 countries. They began with a proposal for a cap-and-trade system proposed by the UN's International Civil Aviation Organization, which is the host.
The focus of the discussion is on interim national and regional measures (such as that developed by the European Union) that could be enforced before 2020.
One difference is whether 160 countries (most of them poorer and hard-pressed to

establish their own airlines) should be exempt from these interim rules, as the ICAO has proposed.

The U.S. is doubtful and says exemptions should be granted to individual airlines, not countries. The EU, anxious to put its system into action, is willing to go along with the exemptions because the richer countries account for the vast majority of flights. Their airlines would be subject to EU rules for operations within EU airspace. The meeting opened last Tuesday and closes this Friday.

See www.icao.int/Newsroom/Pages/COM29.aspx.

17. **United Airlines has launched its biggest advertising campaign in nearly 20 years**—worth \$30 million with plenty of television. It combines the familiar Gershwin “Rhapsody in Blue” music with a resurrected “fly the friendly skies” theme and narration by Matt Damon. In addition to network, cable and spot TV, ads will be placed on radio, in magazines and newspapers, and on outdoor locations. The online investment will be considerable as well. McGarryBowen is the creative agency; Horizon Media is buying the media.

So far, the focus is on the brand rather than destinations served. The United campaign follows an ambitious and ongoing Delta branding campaign.

CARNIVAL WORKS ITS WAY BACK, BLOOMBERG & BORIS EXTEND PACT

18. **Carnival Corp. reported net income of \$934 million for the 3rd Q**, or 28 percent less than a year ago on total revenue of \$4.7 billion (up very slightly from last year).

The world’s leading cruise operator is spending \$300 million to provide back-up power and other improvements on the 24 Carnival-brand ships, and also wrote off \$203 million on the value of two older Costa ships and on Ibero Cruises (whose market in Spain has been undercut by recession).

Carnival also reported that while prices on most of its 10 lines were back to normal, **both Costa and Carnival Cruises are still discounting to fill berths**. Costa is trying to recover in the wake of the *Concordia* foundering, while Carnival Cruises is suffering from a series of on-board power failures on this side of the ocean, and resulting scenes of ships, loaded with consternated passengers, being towed long distances to port.

19. To rebuild business, **Carnival Cruises last week opened a \$25-million ‘Moments that Matter’ advertising effort** with thousands of photos and videos submitted by happy passengers. The prime-time television, digital and direct-mail campaign is out to reassure past passengers and to persuade more people to take their first cruise, said CEO Arnold Donald.

Carnival will also work harder to put those first-timers into ships that match their

expectations. Donald said that as many as a third of first-time cruisers never cruise again because they “go on the wrong product.” Carnival’s 10 brands offer widely diverse experiences from two-day Cruises to Nowhere to ‘round-the-world voyages aboard Cunard’s *Queen Mary 2*.

And Carnival has turned again to travel agents as the best way to match customers and ships; the ads urge viewers to call their “travel professional.” The company also said it was looking to Asia for new business, assigning a fifth ship to the region.

20. **Cyprus is the most recent European country to close its tourist office in the U.S.** The closing was announced two weeks ago by Director Tasoula Manaridis “as the result of the current financial crisis in Cyprus” and restructuring of overseas marketing. The Cyprus Tourism Organization had supported a representative in New York since the 1980s.
21. **New York and London have renewed their partnership to promote tourism** between the two cities. New York and London are each other’s largest international metro markets, and the air corridor between them is the world’s busiest. New York Mayor Michael Bloomberg signed the agreement Friday with Mayor Boris Johnson in London’s City Hall.
- As in their original 2009 agreement, NYC & Company and London Partners will exchange outdoor media space and online opportunities with a total value for each city of \$320,000.
- In 2012, New York welcomed 1,033,000 British visitors; while London received 1.8 million Americans, according to the tourism-promotion offices.
22. **Exhibitor and media registration for the Visit Europe Media Exchange continues.** 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, go to **VisitEuropeMediaExchange.com**.

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