

# SH&E

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## Winter Winds Blow Cold

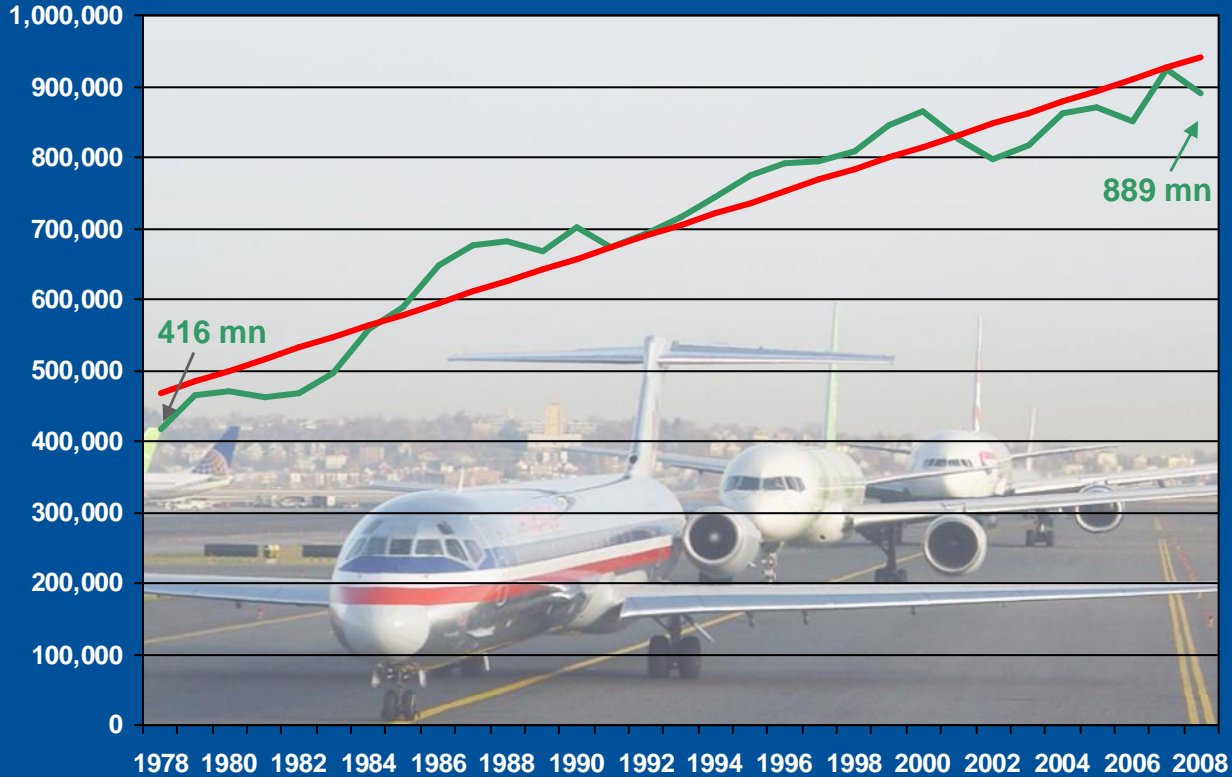
### Near-term Outlook for the U.S. Airline Industry

*Presented By:*  
**Eric Deichmann**  
**SH&E**

August 5, 2009

# Domestic seats offered have grown consistently since 1978 deregulation ...

(domestic seats, thousands)



2.6% CAGR  
(1978-2008)

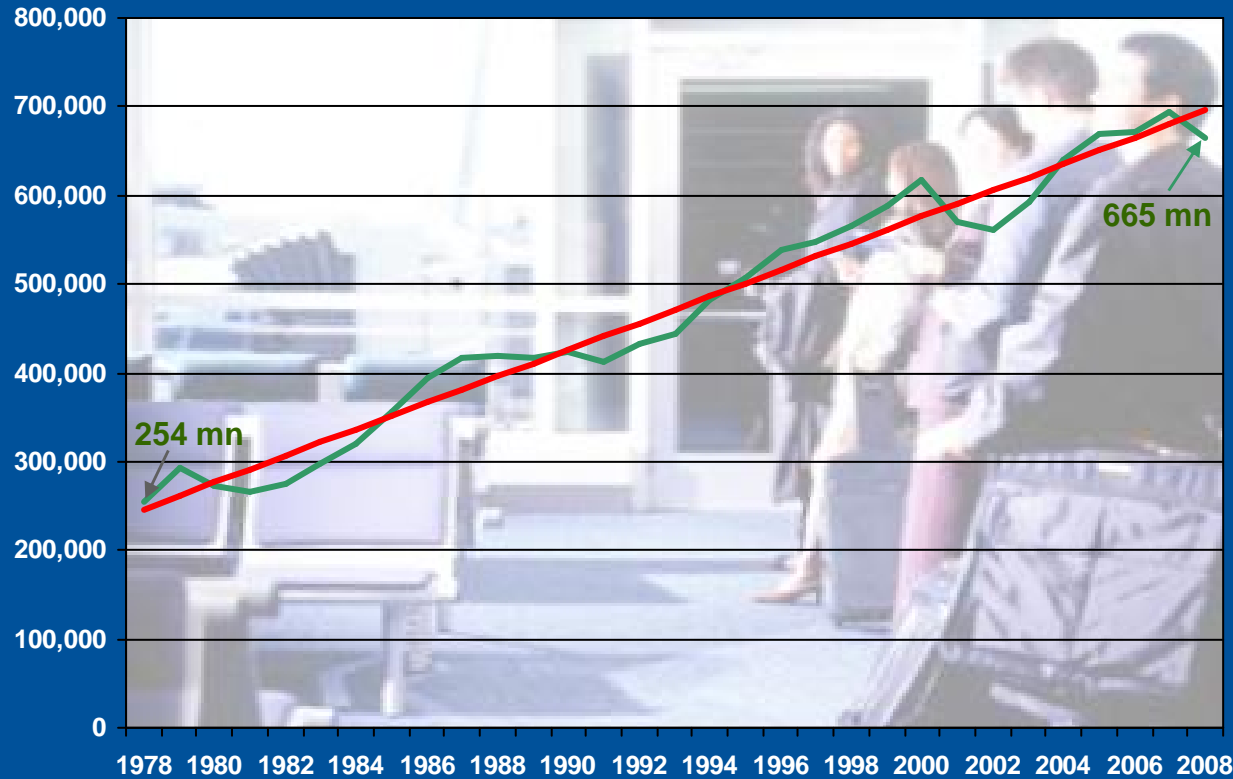
*just over double*

889 mn

416 mn

# ... while passengers enplaned have risen faster ...

(domestic enplanements, thousands)



3.3% CAGR

About 2.6 times

665 mn

254 mn

# ... resulting in an overall increase in load factors

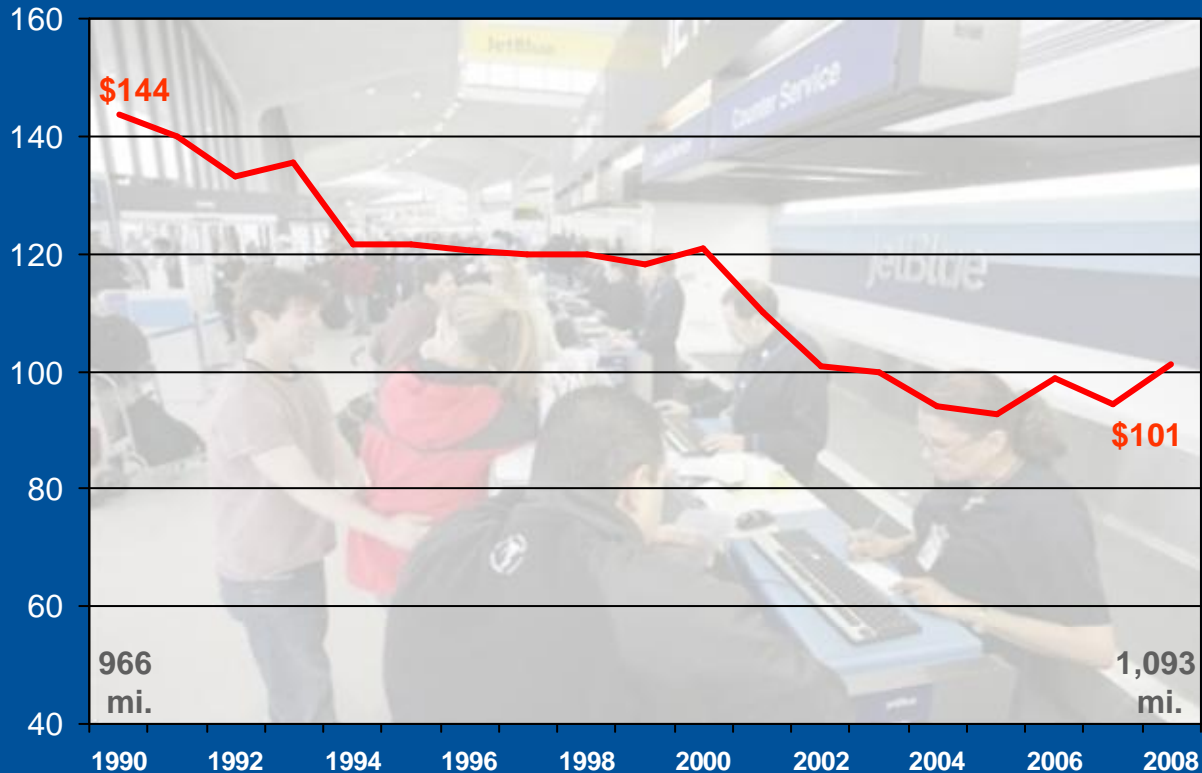
(domestic load factor, %)



Over a ten-point  
climb since 2001  
and twenty points  
since 1990

# Meanwhile, real average ticket price has tumbled

(Real dollars per one-way flight)



Real fares are only 70% of what they were in 1990 ...

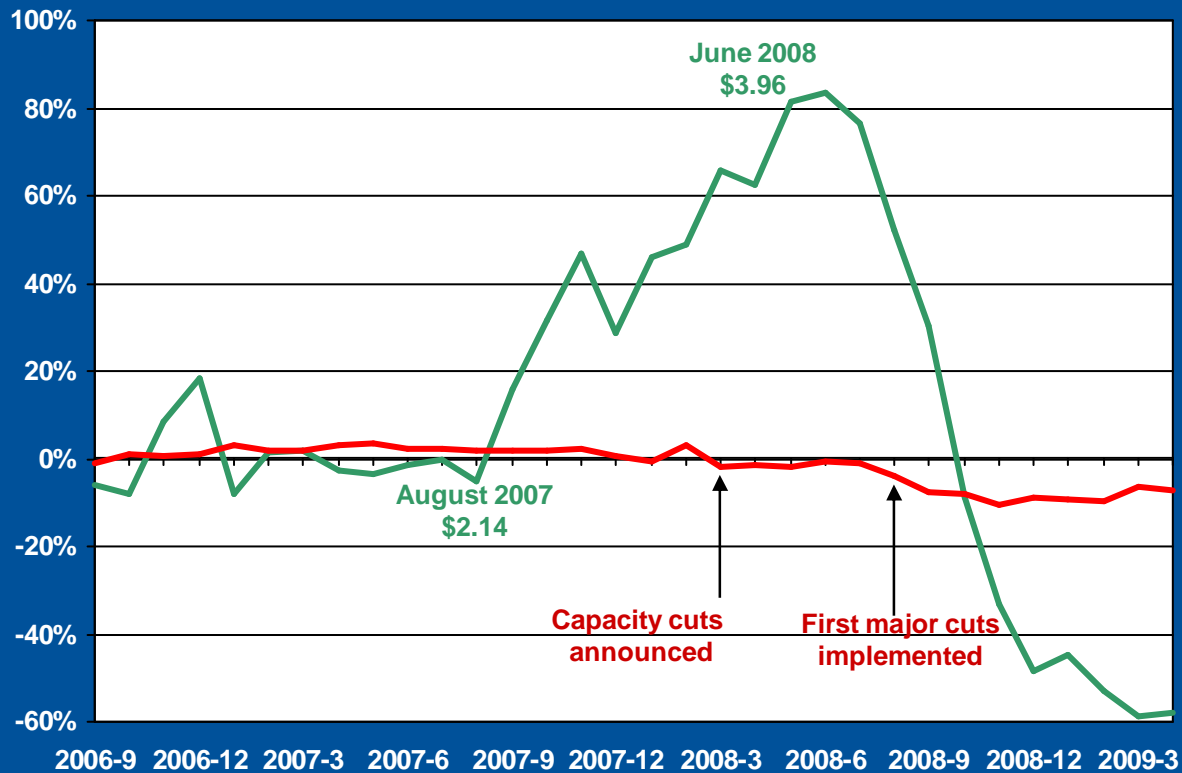
while average trip distance has gone up by 13%

Note: Real Fares in 1990 Dollars

Source: US DOT O&D Survey

# Last year, the airlines cut capacity in a delayed reaction to a staggering rise in fuel costs

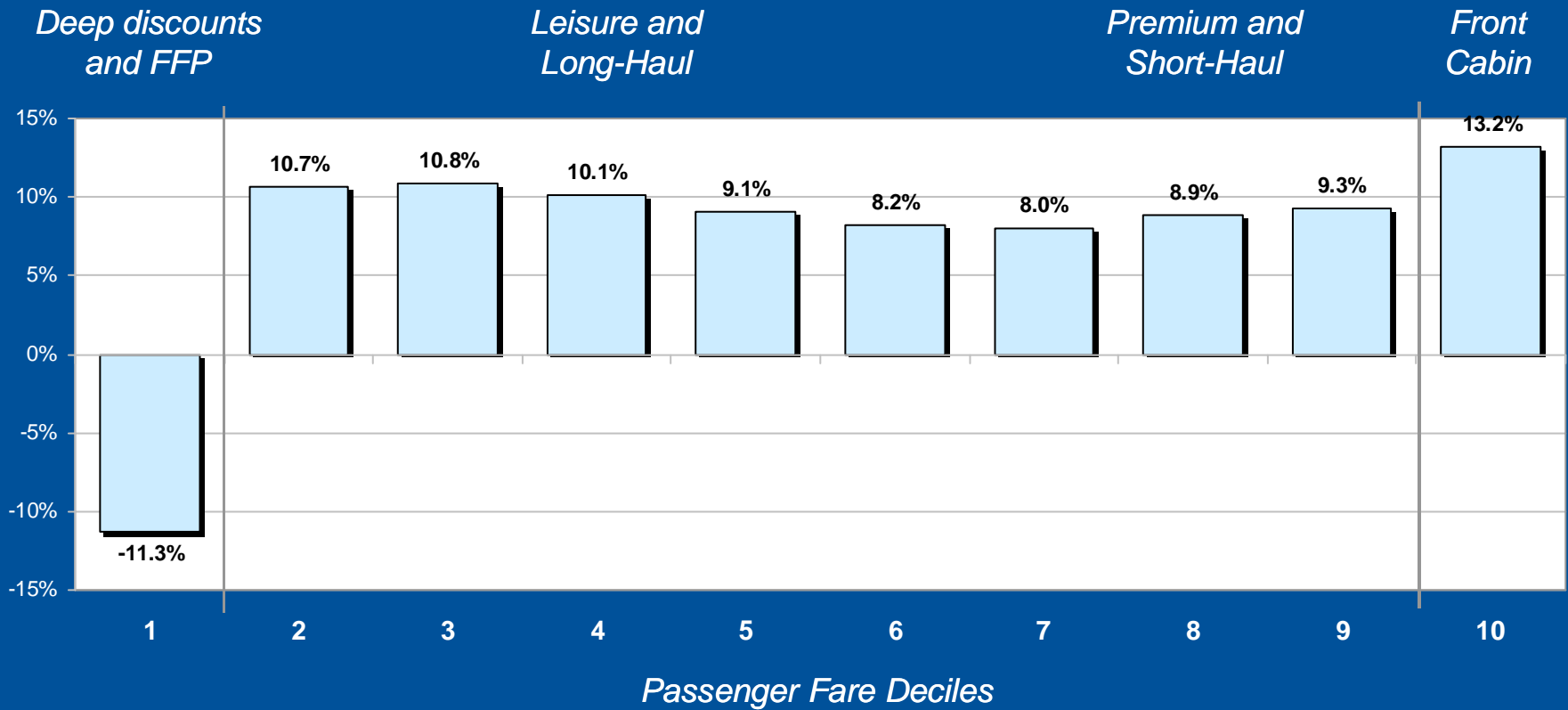
## Change in Fuel Prices and Seat Departures from Prior Year



Source: US Energy Information Administration (Los Angeles jet fuel spot price), US DOT T100

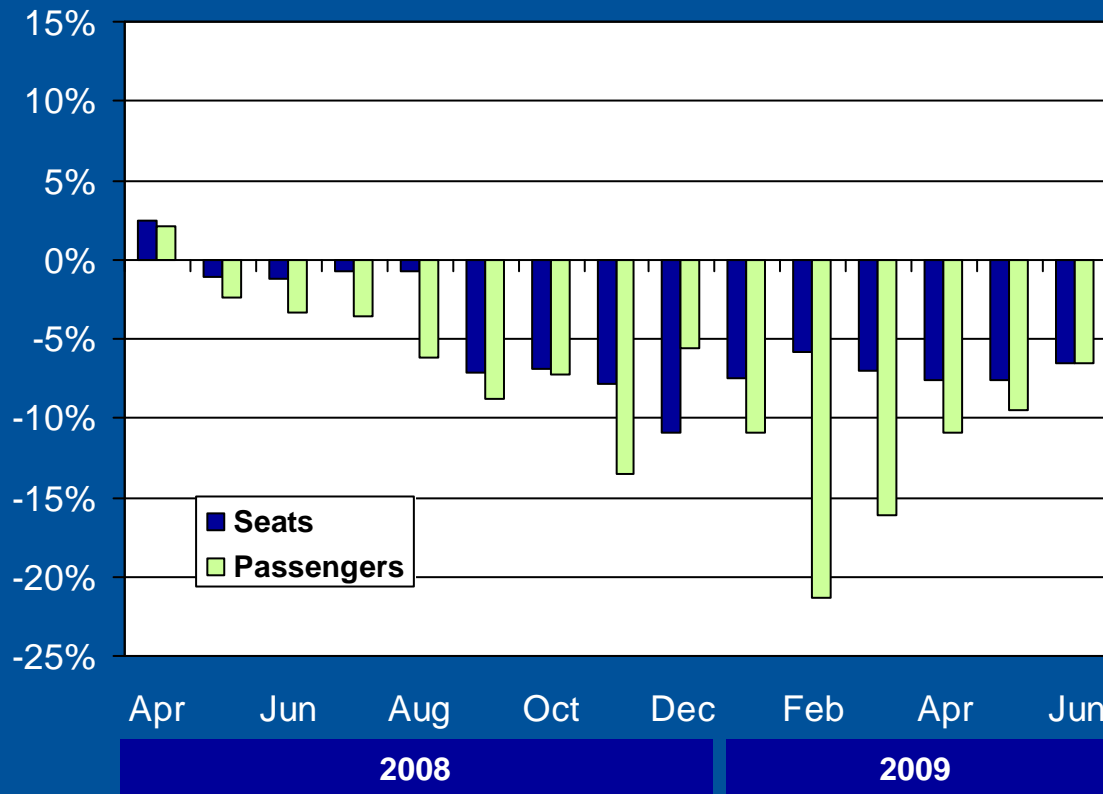
# Airlines succeeded in raising fares across the board as they reduced capacity

Year-Over-Year Change in Average Domestic Yield  
Q3 2007 vs. Q3 2008



# Passenger traffic declines and capacity cuts appear to have leveled off...

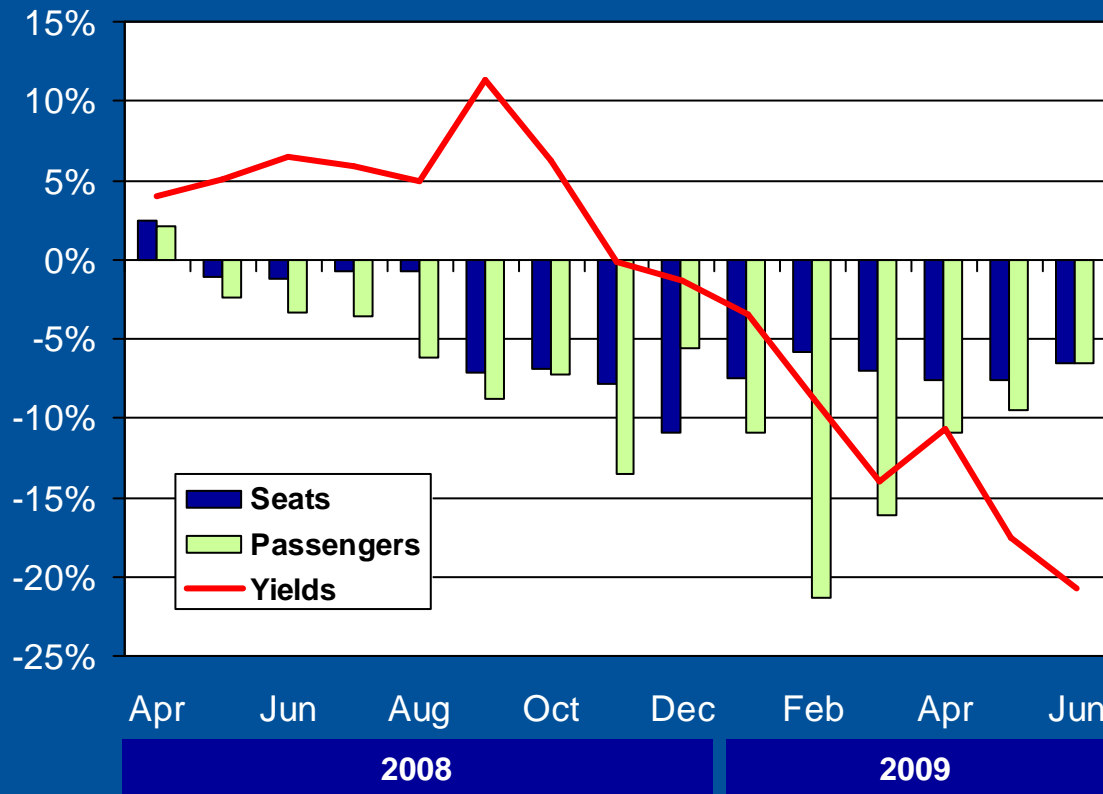
## Year-Over-Year Change in Domestic Seat Departures and Passengers



Capacity and passenger declines have leveled off around -7%

# ... but by end-2008 fares had slipped into negative growth, paring earlier gains

## Year-Over-Year Change in Domestic Seat Departures, Passengers and Yields

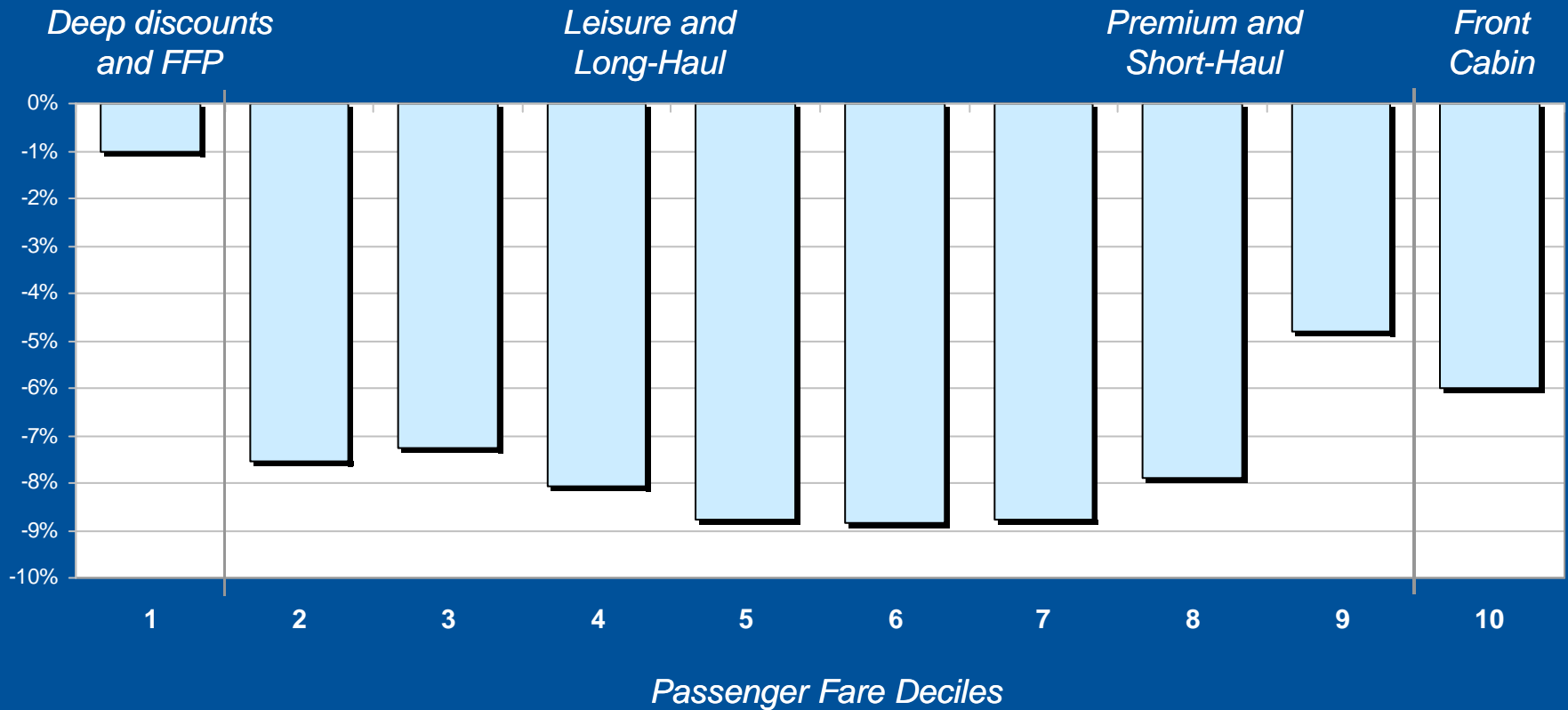


Capacity and passenger declines have leveled off around -7%

*But fares declines accelerated through June*

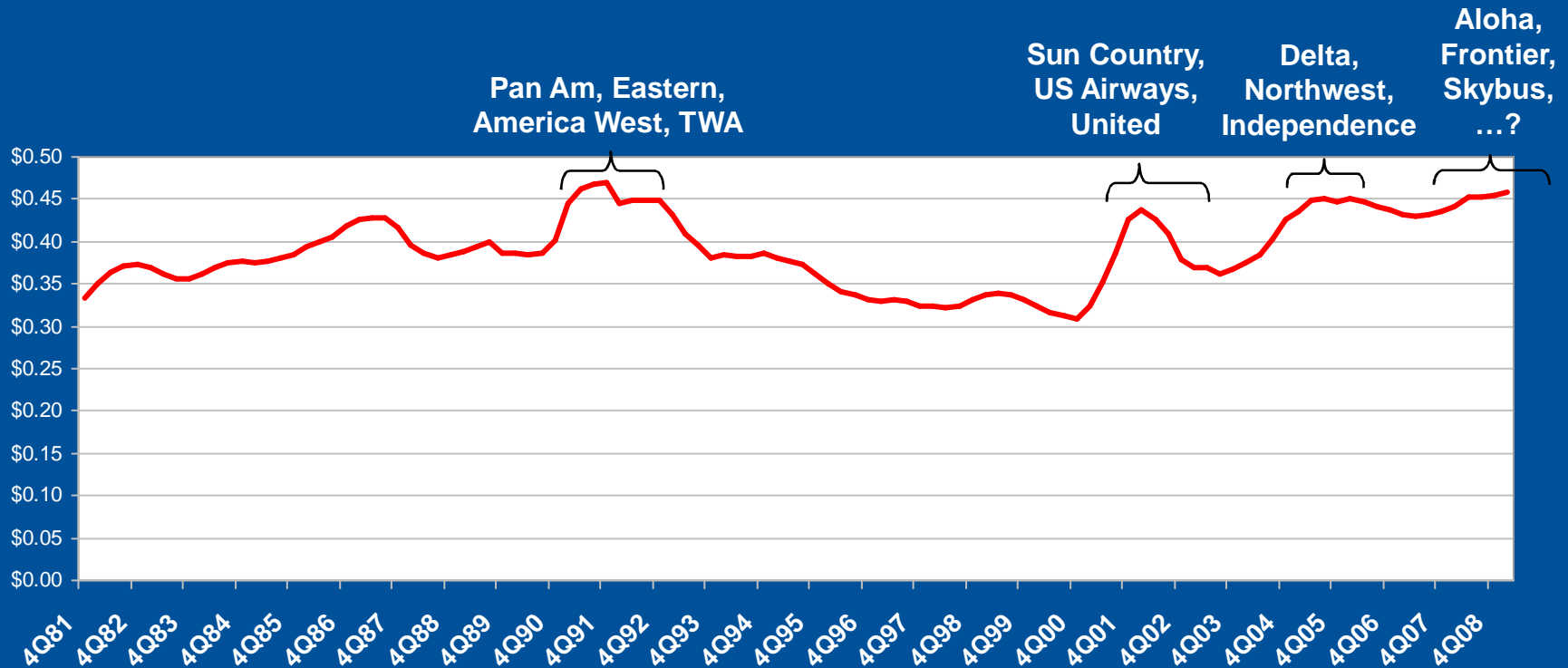
# Yield declines have hit throughout the entire aircraft

Year-Over-Year Change in Average Domestic Yield  
Q1 2008 vs. Q1 2009



# The industry's financial position is deteriorating (again)

**Short-Term Fixed Costs and Obligations Per Dollar of Revenue**  
*Four-quarter moving average*

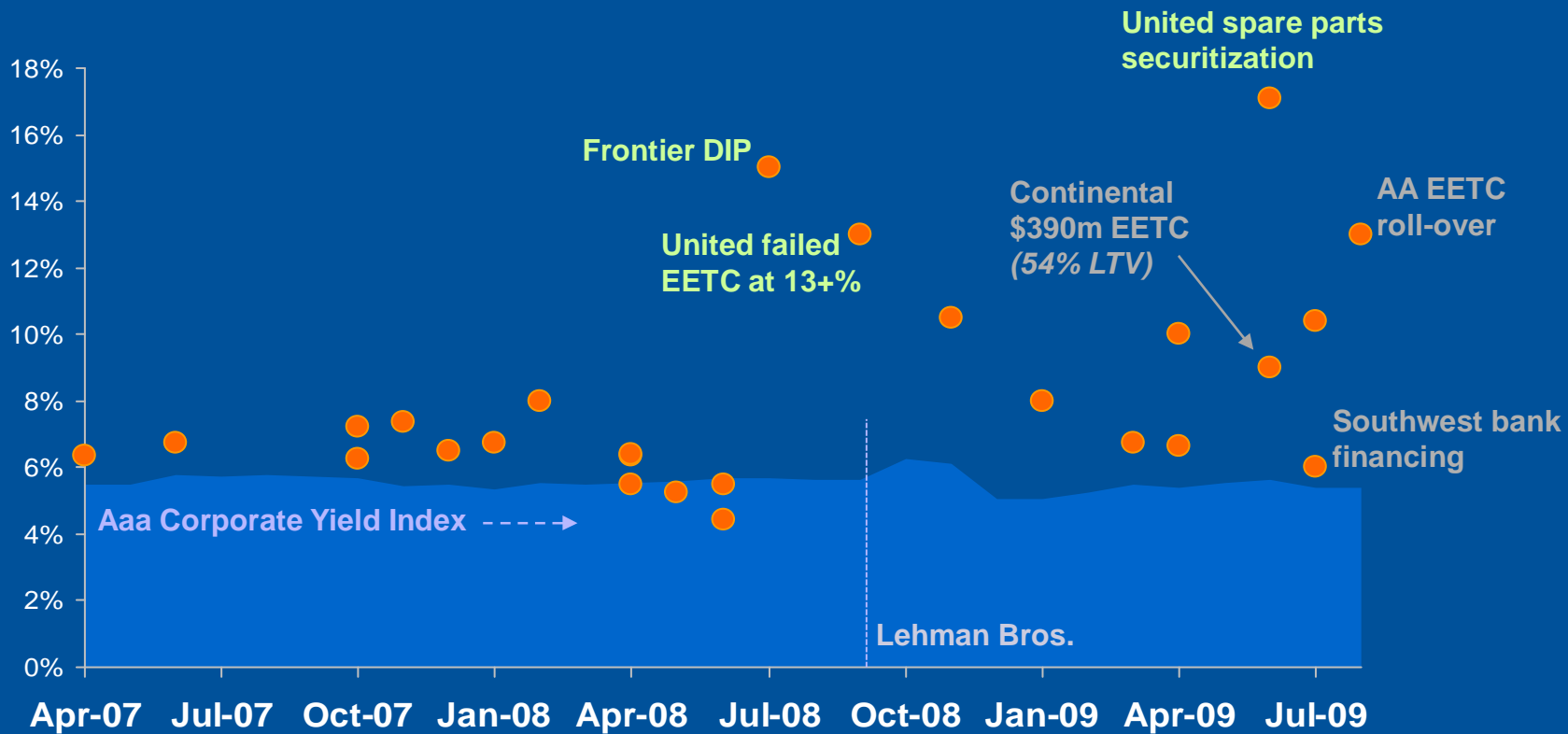


Fixed costs and obligations include interest payments, SG&A, aircraft rent, current obligations on capital leases, notes payable, and 90% of transport-related costs

Source: US DOT Form 41

# Credit markets are likewise skeptical of the airlines' prospects

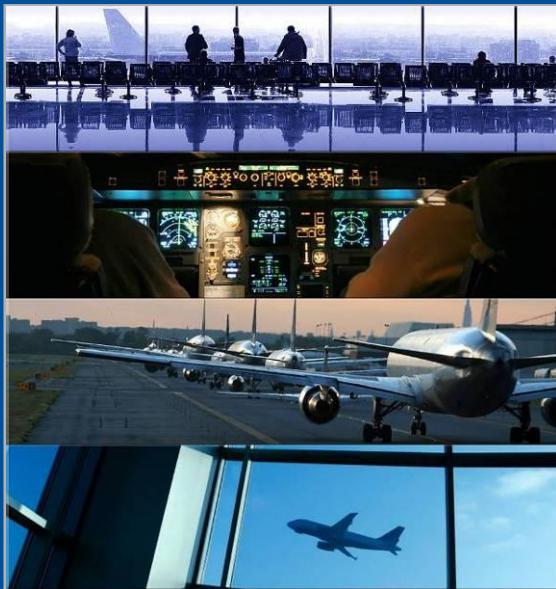
## Airline Debt Coupon Rates vs. Moody's Aaa Corporate Yield Index



# Late-summer takeaways

- ◆ **Fares are still falling (fast) despite capacity cuts, and traffic is not recovering**
  - Airline unit revenue reports in recent months reflect STR's RevPAR – down ~20% year-over-year
  - International premium traffic (tracked by IATA) continues to show double-digit year-over-year declines
- ◆ **Can you cut your way to profitability?**
  - Yes, you can in an operating cost spike
  - No, you can't in a demand shortfall
  - (And watch out for fixed costs!)
- ◆ **Early indications point to a cold, bleak winter for the airline industry**

*Thank You.*



Eric Deichmann  
*Manager*

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