

Can Load Factors Continue to Increase?

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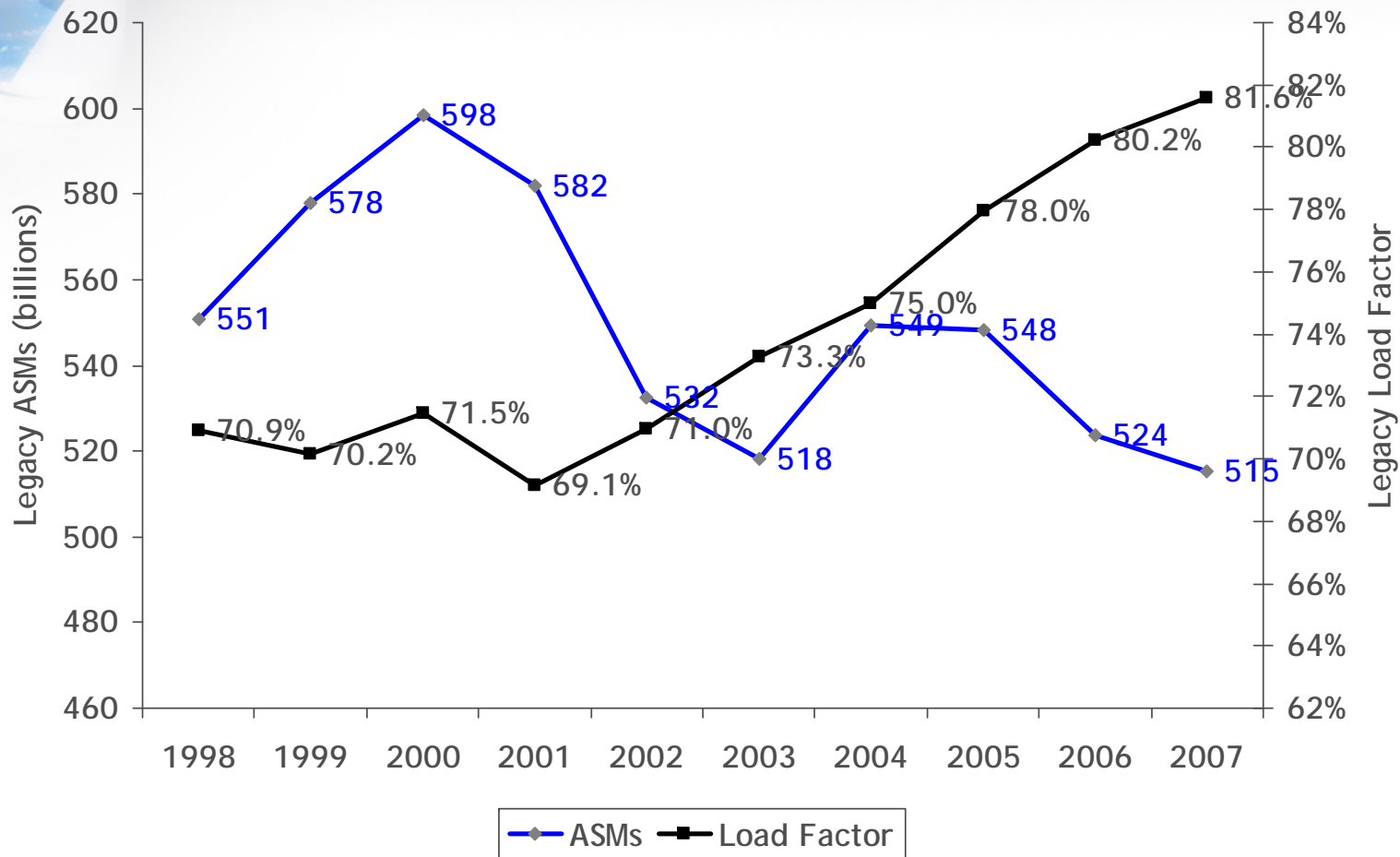




Overview

- Load factors have historically been increasing due to many factors including:
 - improvements in revenue management
 - Development of hub and spoke
 - Improvements in scheduling
 - e.g. "close in" fleetings
- Since 2000, economic factors have further intensified the impetus to hold down capacity growth and increase load factors. Among other factors these include:
 - Increased price competition through growth of LCCs and price transparency
 - Increased fuel prices
- Weakening of scope clauses in bankruptcy have also allowed legacy carriers to better optimize their fleet to meet demand
- More recently, LCCs have also begun to feel pressure on profits
- It is the increase in load factors that have allowed the industry to return to profitability

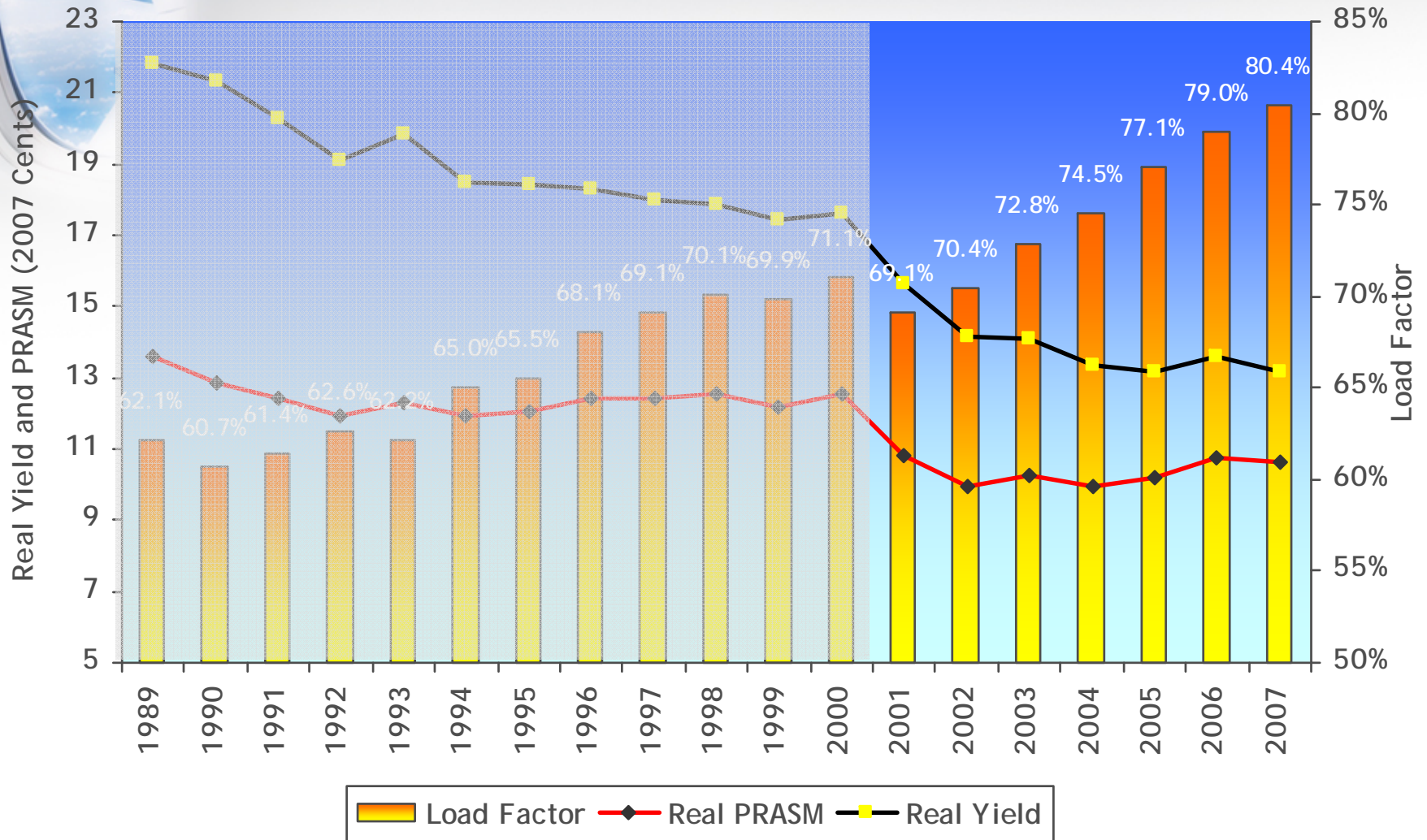
The period since 2000 has been marked by Domestic capacity reduction for the legacy carriers with strong load factor growth



Source: OAG; U.S. DOT T100.

Notes: Domestic. Capacity growth for consolidated legacy carriers. Load Factor mainline only. Legacy carriers include American, America West, Continental, Delta, Northwest, United, and US Airways. 2007 Load Factor full year through October 2007.

In the U.S. Market, Stable PRASM Has Been Driven Almost Entirely By Load Factor Gains

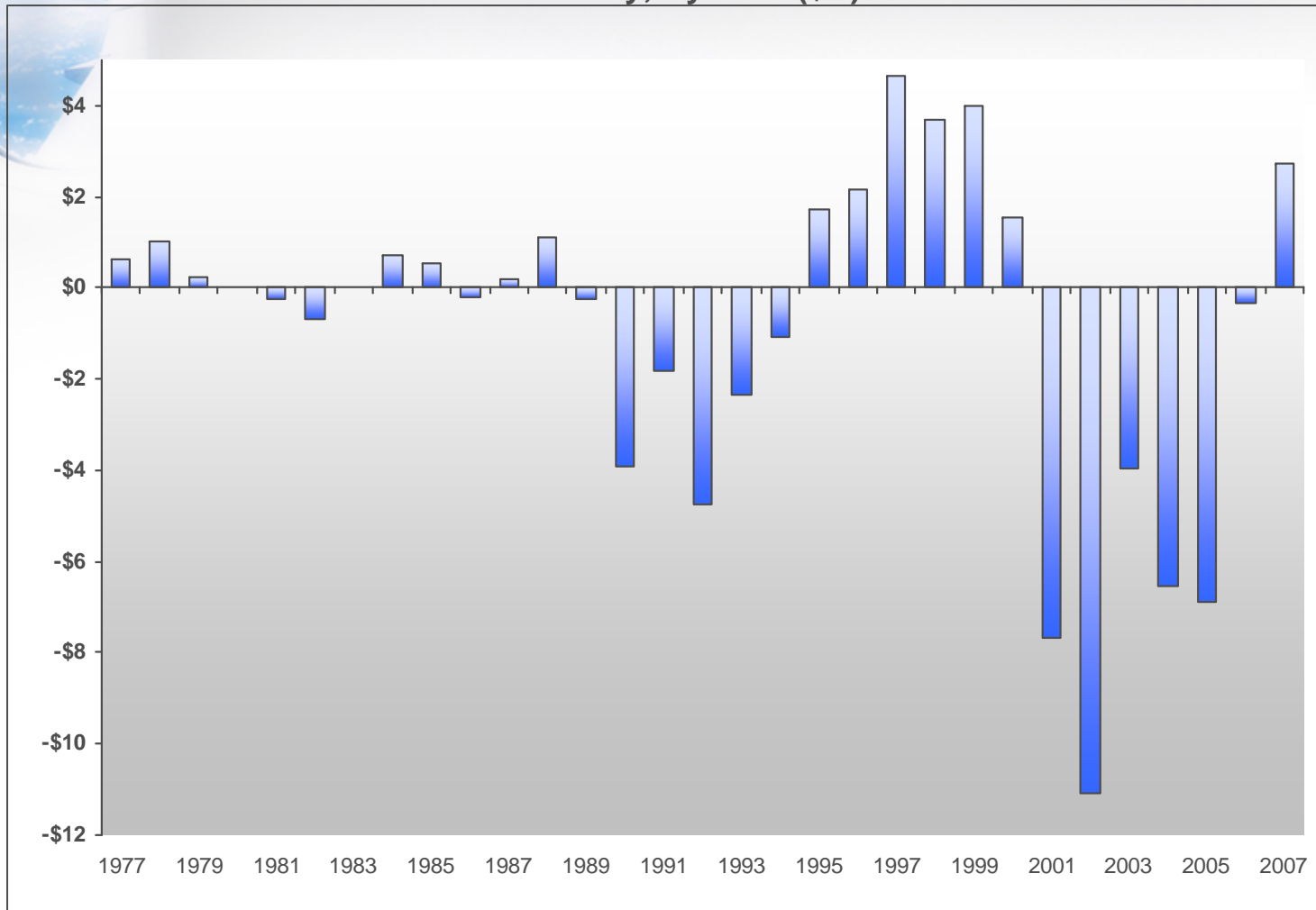


Sources: U.S. DOT Form 41; Bureau of Labor Statistics.

Notes: Figures are expressed in 2007 cents. PRASM is defined as average passenger revenue per available seat mile. Yield is defined as average passenger revenue per revenue passenger mile. 2007 full year through 2007 Q3. .

U.S. Network Passenger Carriers Net Profit 1977-2007 (\$billions)

U.S. Network Carriers Net Profitability, By Year (\$B)

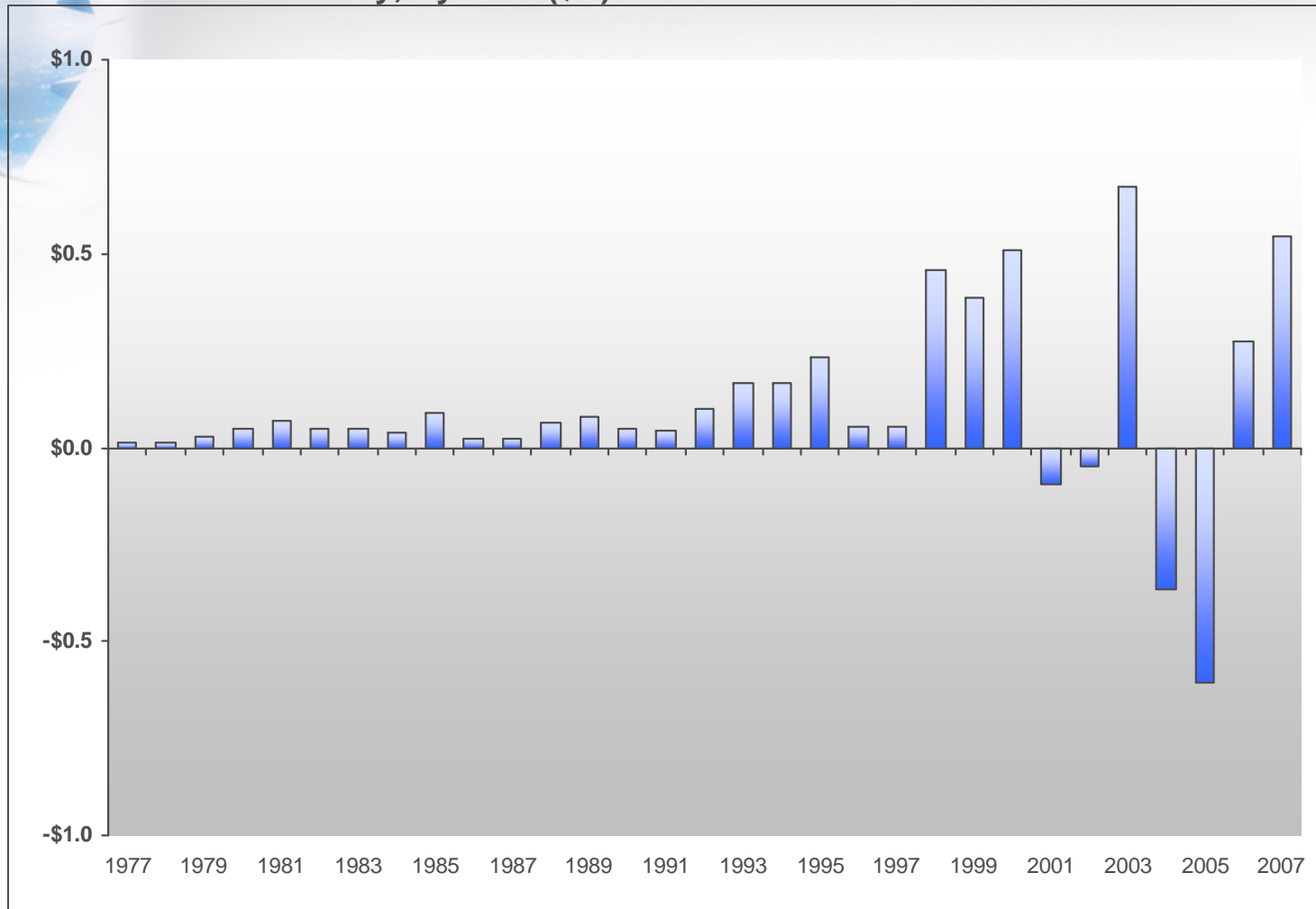


Source: U.S. Air Transport Association; U.S. DOT Form 41; 2007 from company 10-Qs, 10-Ks and press releases.

Notes: 1977-2006 figures reflect total U.S. carrier profits from the U.S. Air Transport Association less U.S. DOT Form 41 dedicated cargo carrier and non-network carrier profits. Network carriers include United, Continental (including Continental Micronesia), Northwest, Delta, US Airways, American, Alaska Airlines, America West, TWA (1977-2001), Eastern (1977-1990), Pan Am (1977-1991), and Braniff (1977-1992). Post-1992 results exclude bankruptcy-related restructuring charges and fresh-start accounting gains. 2001 and 2002 include 9/11/01-related compensation remitted to carriers under P.L. 107-42. 2003

U.S. Low Cost Passenger Carriers Net Profit 1977-2007(Q3) (\$billions)

LCCs' Net Profitability, By Year (\$B)



Source: U.S. DOT Form 41

Notes: 2007 through Q3. LCCs include Southwest, National Airlines, Morris Air Corporation, Accessair, Pro Air, JetBlue, AirTran, Reno Air, Valujet, ATA, Eastwind, Sun Country, Allegiant, Frontier, Vanguard, Skybus, Virgin America, Midway, Kiwi, Western Pacific, Air South, Independence Air (2005). Figures exclude bankruptcy-related restructuring charges and fresh start accounting gains.



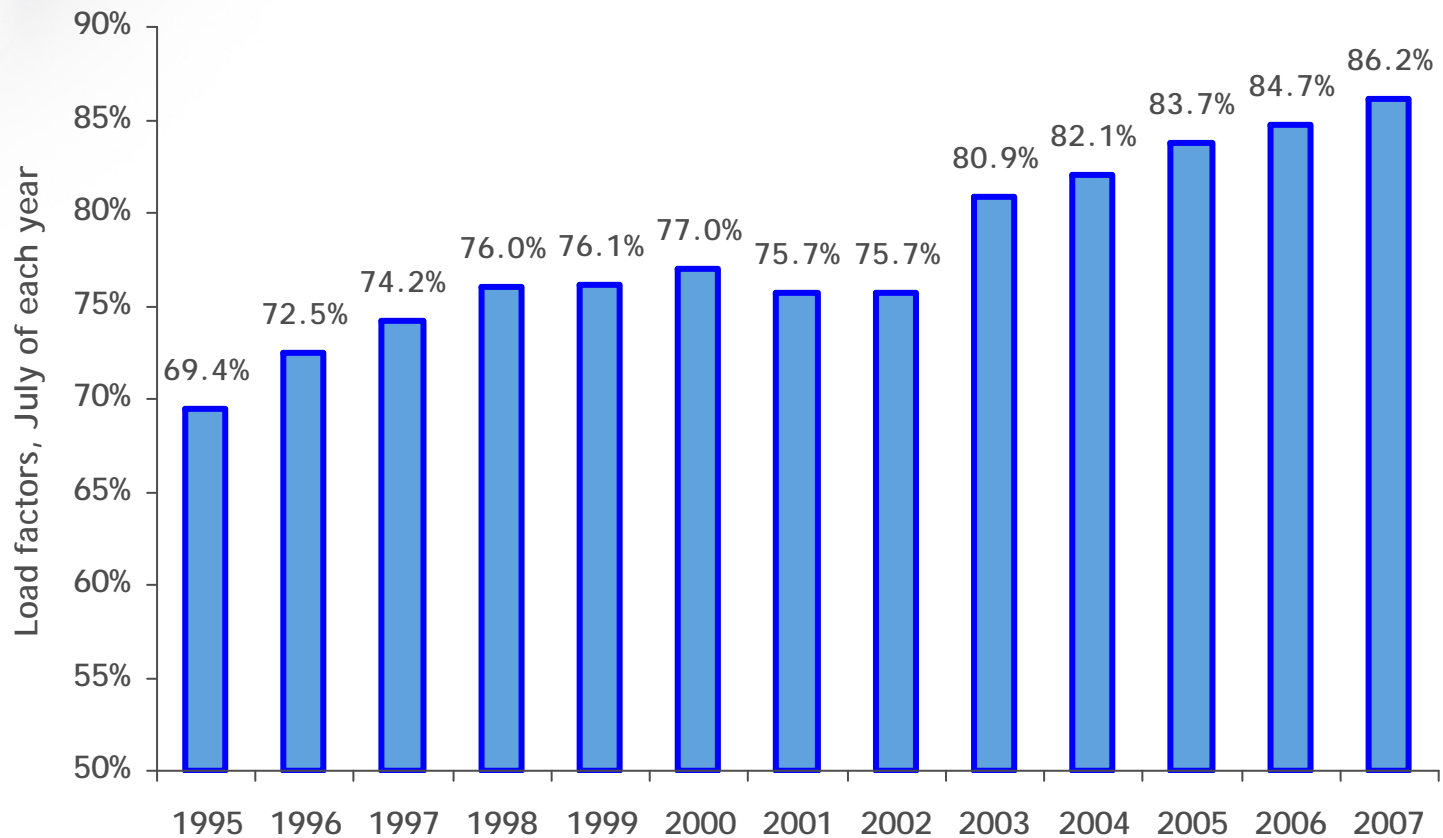
Open Questions

Q1: Have load factors reached their peak?

Q2: Are there differences in expected load factor growth between Legacy carriers and LCCs?

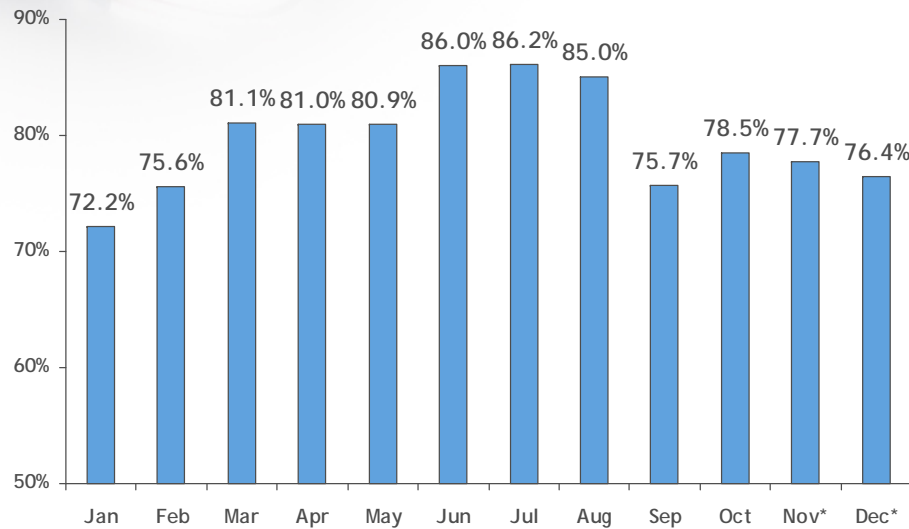
- Will LCCs be able to increase load factor by increasing connecting passengers?

Domestically, even the peak month of July has continued to grow

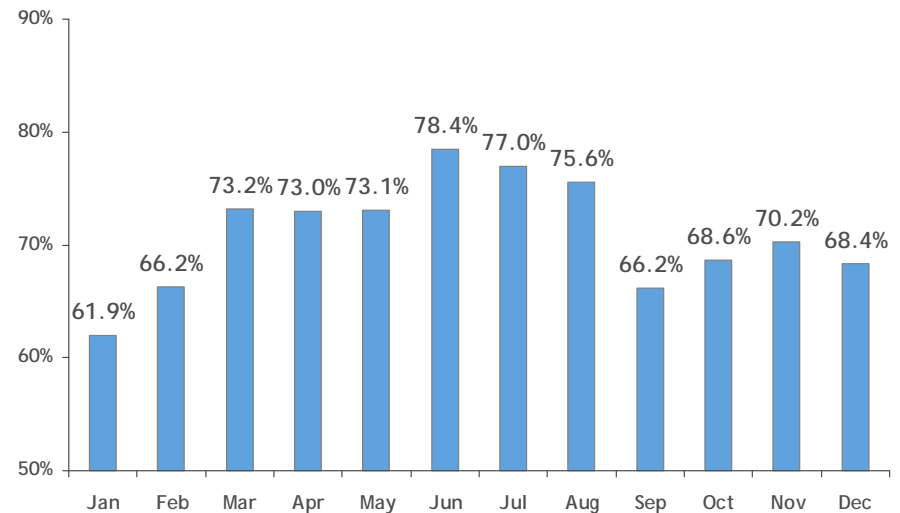



Seasonality has decreased greatly, but there is still room to increase traffic in off peak months

2007 Load Factors

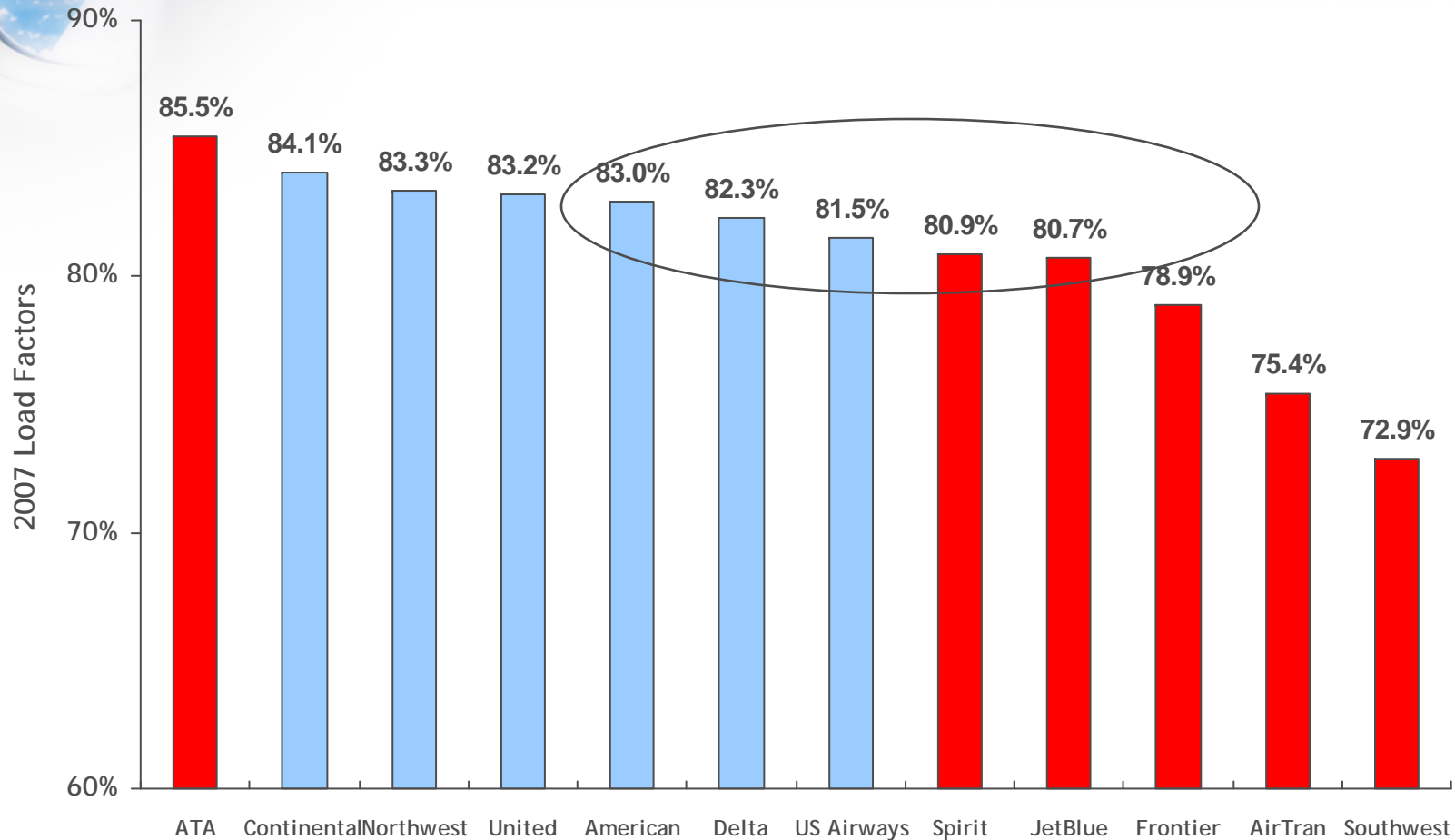


2000 Load Factors

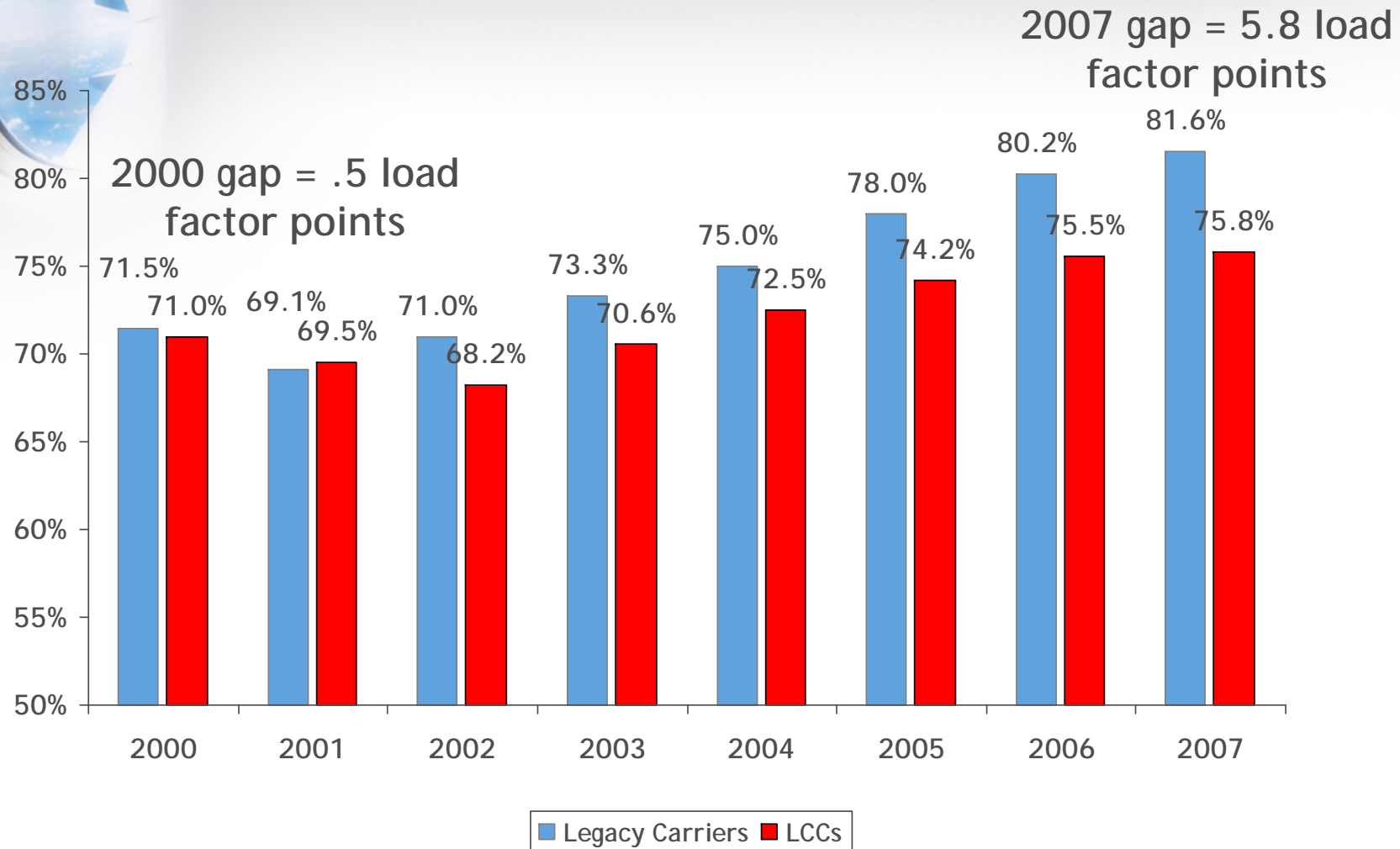




Legacy Load Factors are higher than LCCs, although there is little difference in the middle



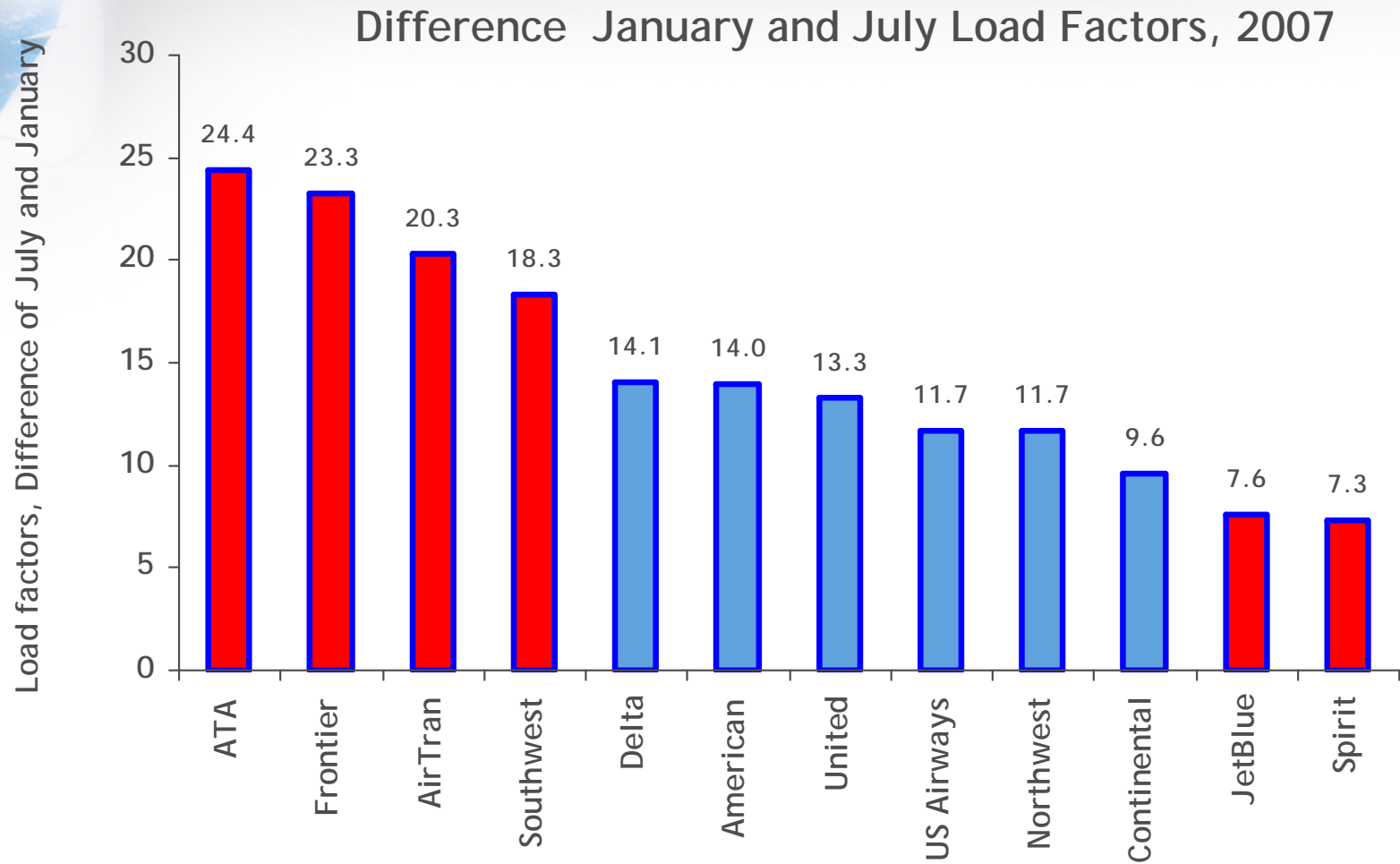
Legacy carrier load factors have increased more than LCCs since 2000



Source: U.S. DOT T100.

Notes: Network carrier consolidated flying. LCCs mainline flying. Legacy carriers include American, America West, Continental, Delta, Northwest, United, and US Airways. LCCs include Southwest, Airtran, jetBlue, Frontier, ATA, Spirit, Skybus and Virgin America. LCCs 2007 load factor through October.

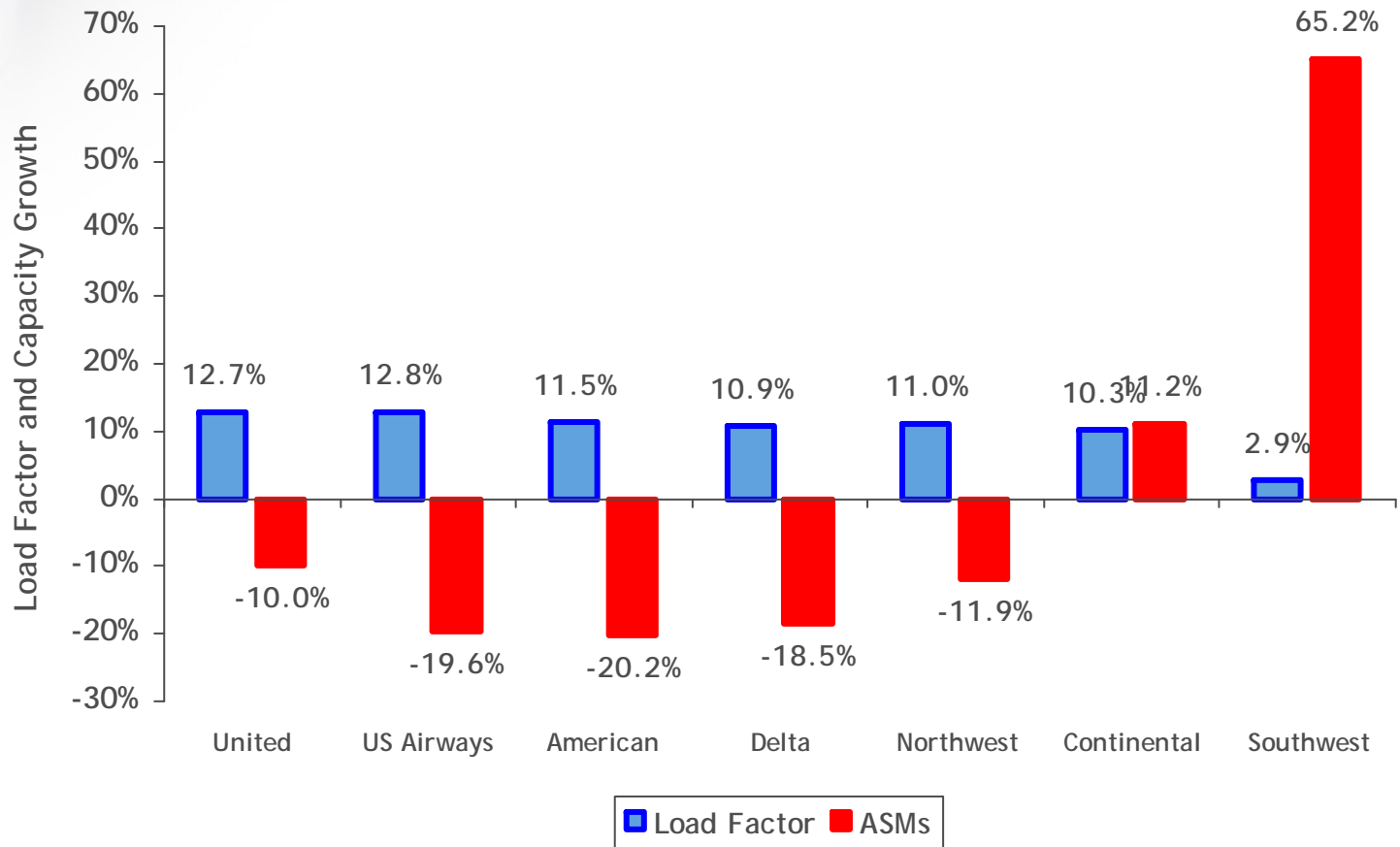
Some of the LCCs show the least seasonality



Source: U.S. DOT T100.
Notes: Domestic, mainline operations .



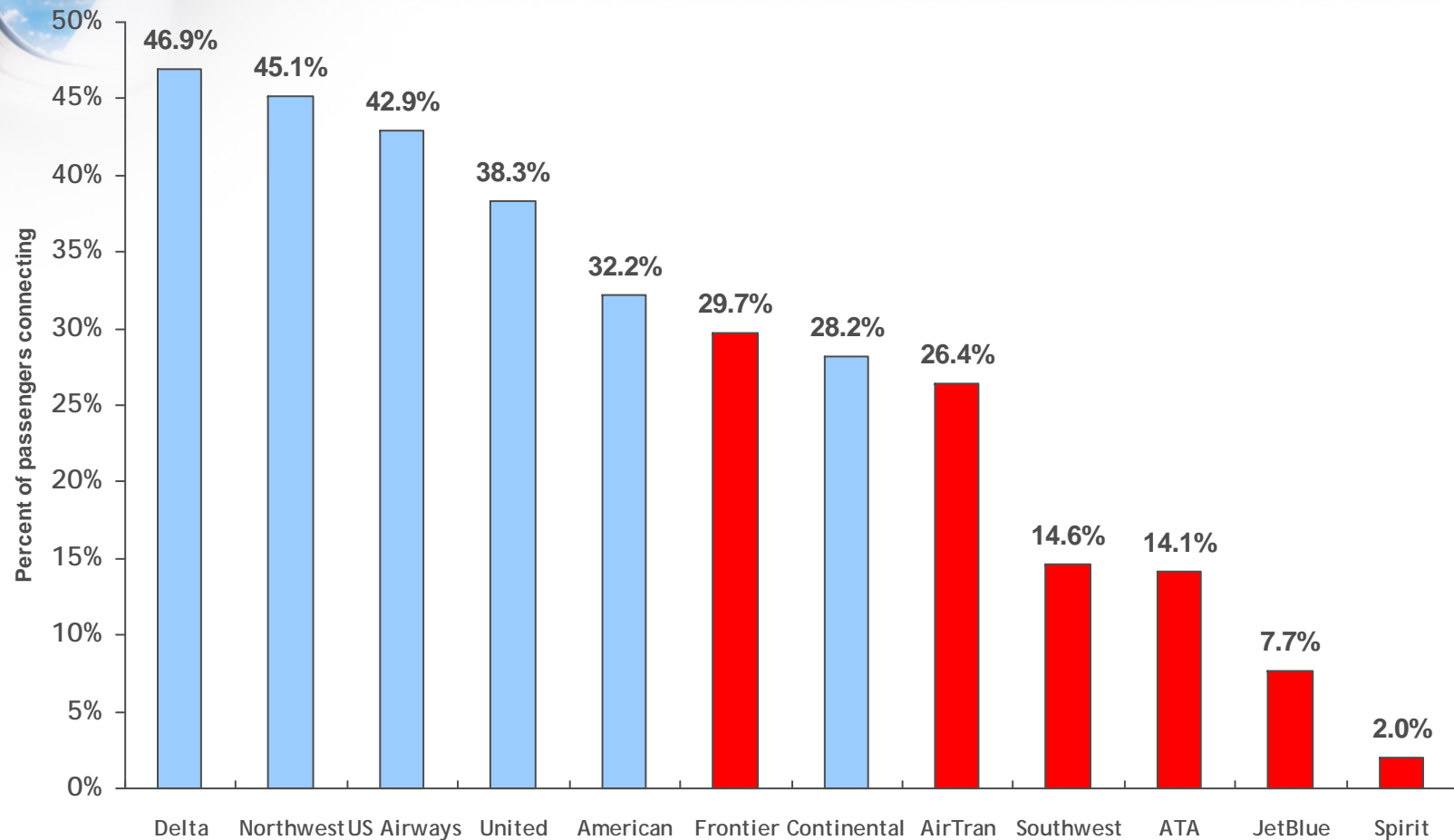
There is not a strong relation between capacity reduction and load factor growth among the legacies



Source: OAG; U.S. DOT T100.

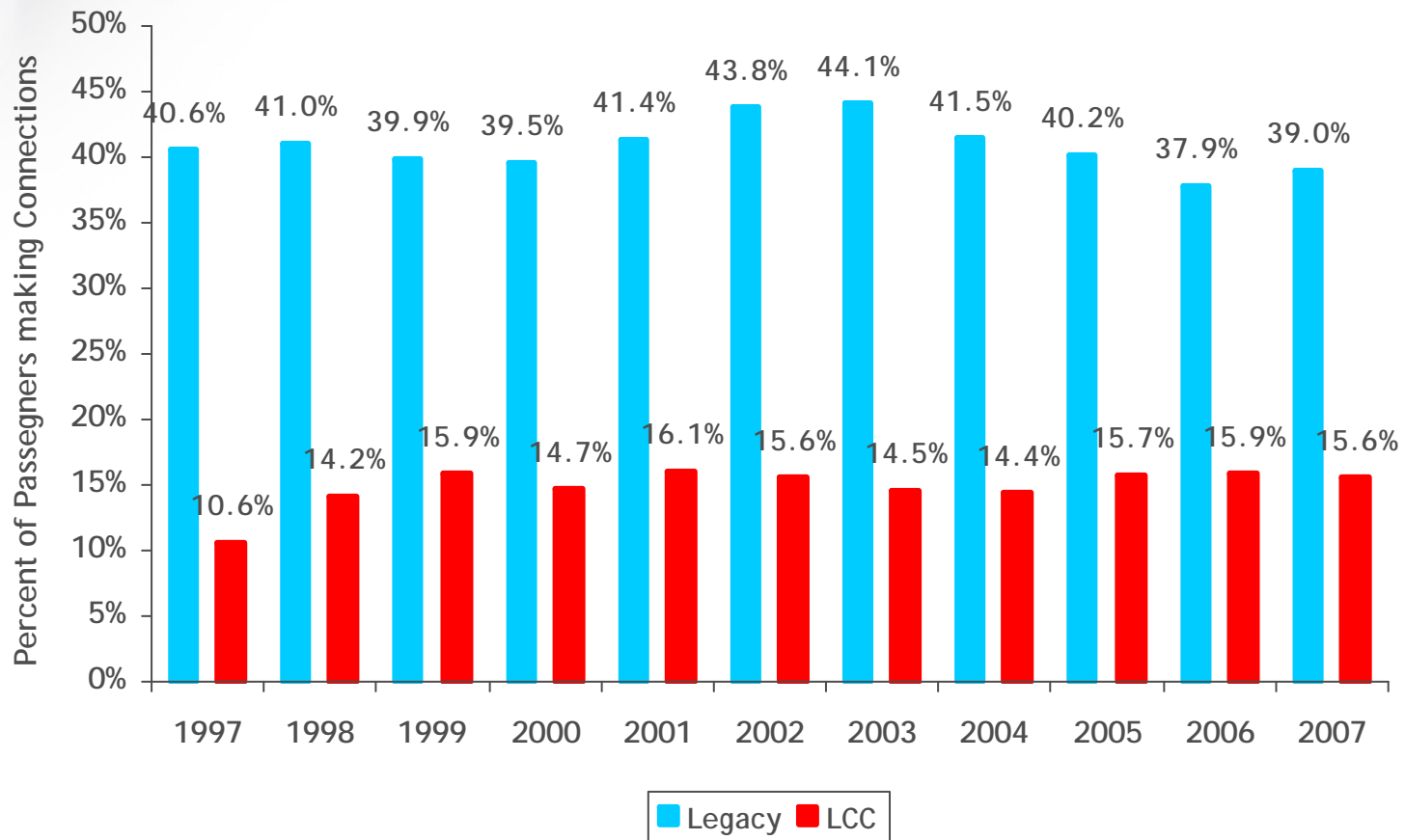
Notes: Domestic. Capacity growth for consolidated carriers. Load Factor mainline only. Load Factor growth in percentage points of growth. American includes TWA for 2000. US Airways includes America West.

Network carriers connect more passengers than LCCs





Although neither Legacies nor LCCs have shown much growth in connecting passengers as load factors have grown



Source: US DOT O&D Survey.

Notes: Domestic. Legacy carriers include American, America West, Continental, Delta, Northwest, United, and US Airways. LCCs include Southwest, Airtran, jetBlue, Frontier, ATA, Spirit, Skybus and Virgin America.

A photograph of an airplane window looking out at a bright blue sky with white clouds. The window frame is white and the view is slightly blurred, suggesting motion.

Conclusion Open Question 1

Q1: Have load factors reached their peak?

Although load factor growth has declined, incentives continue strong to increase load factor

- Even in the peak months, load factors have continued to increase - and there is room in off peak months
- However, there has been slowing of the growth in load factors
- Consolidation could lead to further load factor increases
- A recession would have short term negative impact on load factors

A circular airplane window showing a view of the sky and clouds from above.

Conclusion Open Question 2

Q2: Are there differences in expected load factor growth between Legacy carriers and LCCs?

- LCCs did not feel the same economic pressure as legacies
- However, recently margins have been pressured
- Since LCCs' Load Factors did not increase at the rate of legacies since 2000, upside is greater
 - Diversifying fleet size further with smaller aircraft such as jetBlue's recent acquisition of EMBRAER 190s
 - Ability to increase connections
 - Decreasing planned capacity increases
- Therefore, likely that LCC load factors will increase faster than Legacy load factors