



**33RD ANNUAL FAA
AVIATION FORECAST CONFERENCE**
COMMENTS OF GARY M. HARIG

March 2008



Overview

- Record Load Factors
 - Cost Issues
 - Discipline
- What's Different ?
- Are They Sustainable?



Overview

- Response to Earnings Pressure
 - Pre 2002 Revenue focus
 - Post 2002 Cost focus
- Issues going forward



Pre-2002

- Focus on improving revenues – network carriers
 - Largest cost categories – labor and ownership costs difficult to reduce
 - Yield management origins
 - Market share focus

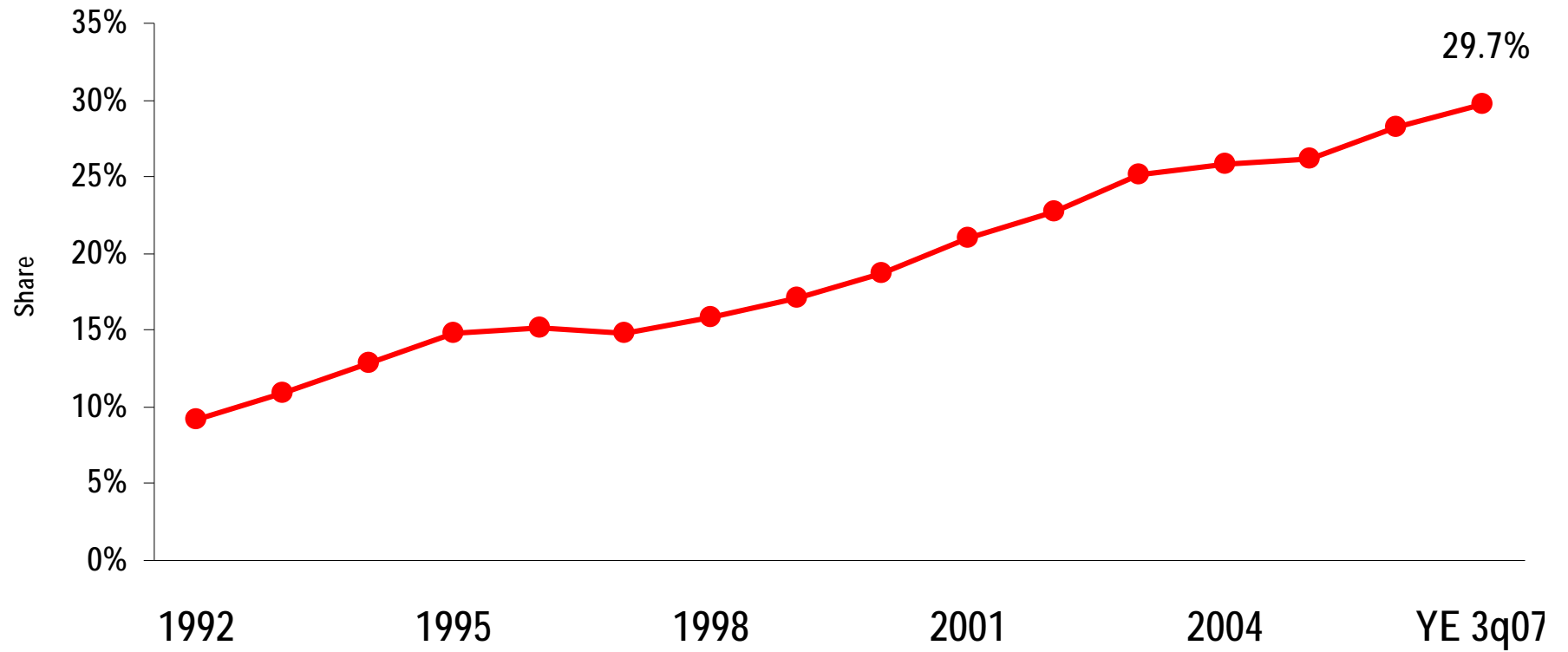


Pre-2002

- Change in environment – late 1990's
 - Rise of LCC's
 - Transparent pricing
 - Business travelers resist fare increases
- Net result – move to lower fares/low cost carriers

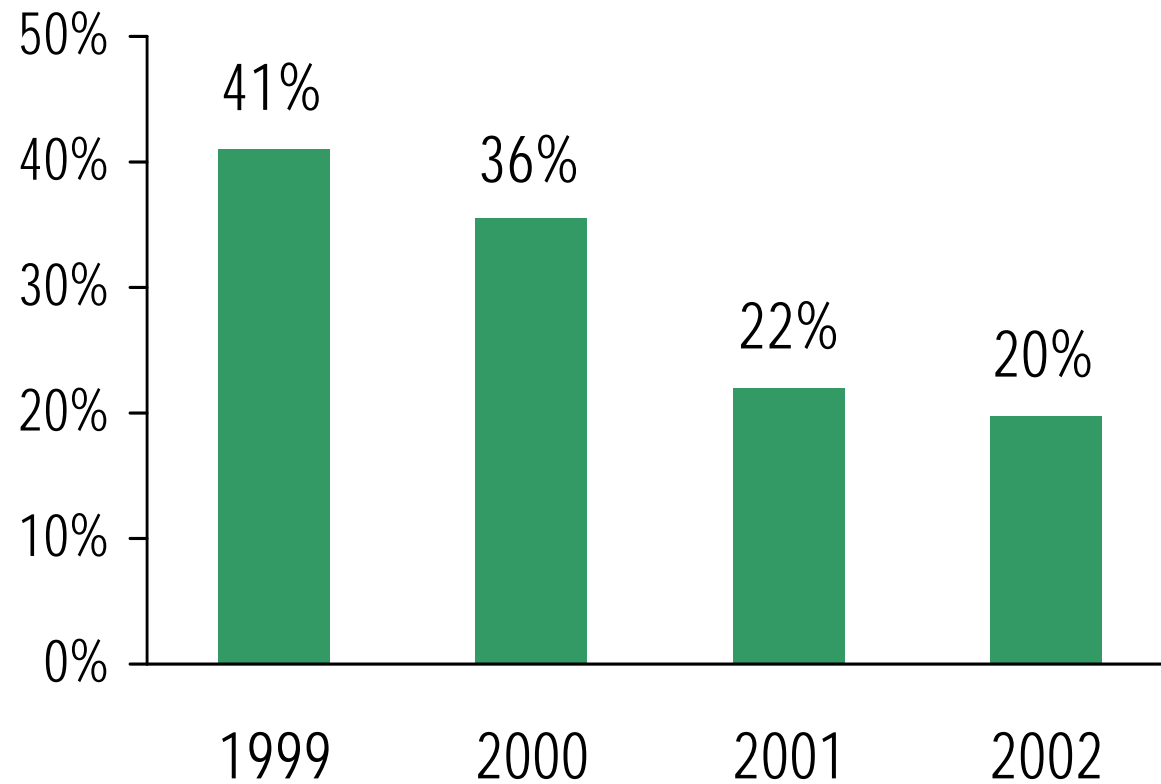


LCC Share





UA Premium Passenger Revenue Share





Post-2002

- Focus on containing costs – network and low cost carriers
- 4 of 6 network carriers go through bankruptcy – US Airways twice
- Labor rates and ownership costs lowered - Fuel is now the largest cost category. Total costs rise.



Unit Cost % Change 3Q00 vs. 3Q07

■ Total	+9.6%
– Ex Fuel	(11.5)
■ Fuel	+131.4
■ Labor	(17.8)
■ Ownership	(14.4)



Post-2002

- Difficult to raise fares – revenue increases through better yield management
- Less flying to reduce costs – fewer seats -fewer low fare passengers- higher load factors



Domestic Capacity Growth

	Jun-07	Feb-08
American	-2.0%	-2.2%
Continental	2.0%	-2.7%
Delta	-3.0%	-3.8%
Northwest	-0.2%	-4.5%
United	-2.0%	-5.3%
US Airways	-2.0%	-4.8%
AirTran	19.0%	11.6%
Jetblue	11.0%	8.0%
Southwest	7.0%	5.2%



Key Issues

- Cost of fuel
- Demand – bookings – will they remain strong?
- Mergers – How many, and what effect on existing service?
- Market share
- Hub efficiency