



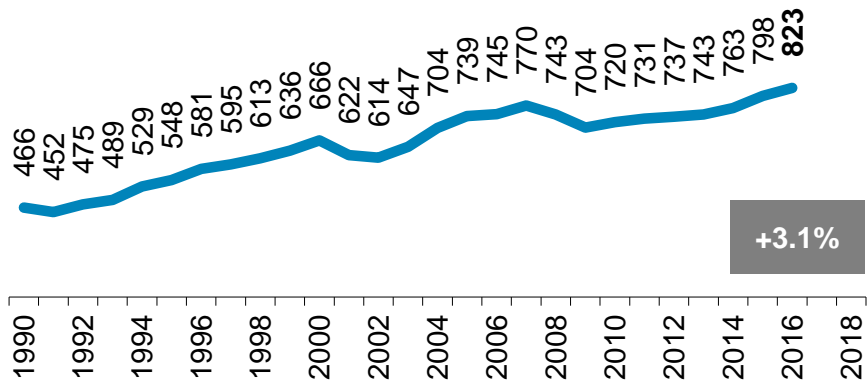
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2016 Highlights & 2017 Survey Findings

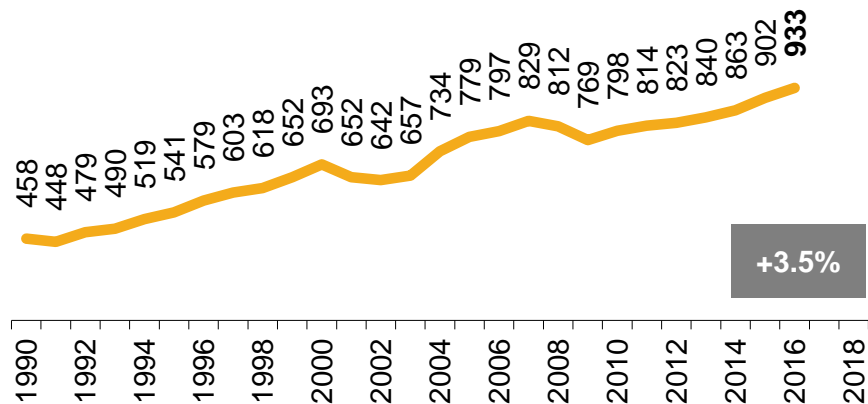
John P. Heimlich
Vice President & Chief Economist
Quarterly Media Briefing
March 20, 2017

U.S. Airlines Set Multiple Traffic and Capacity Records in 2016; Load Factor Fell

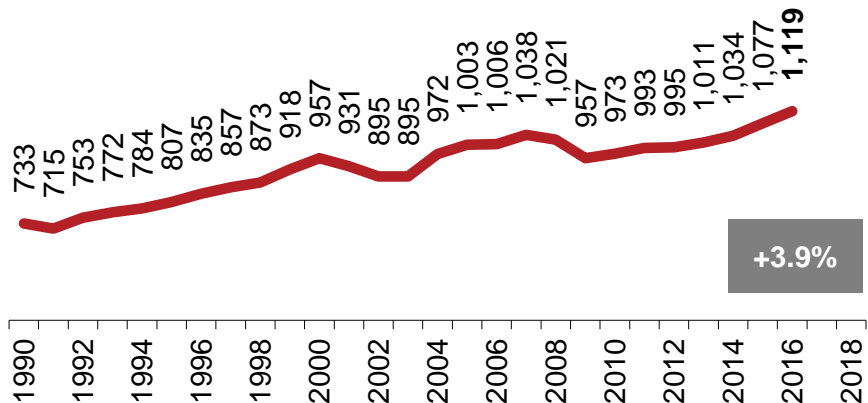
Passengers Enplaned (Millions) – Jan-Dec



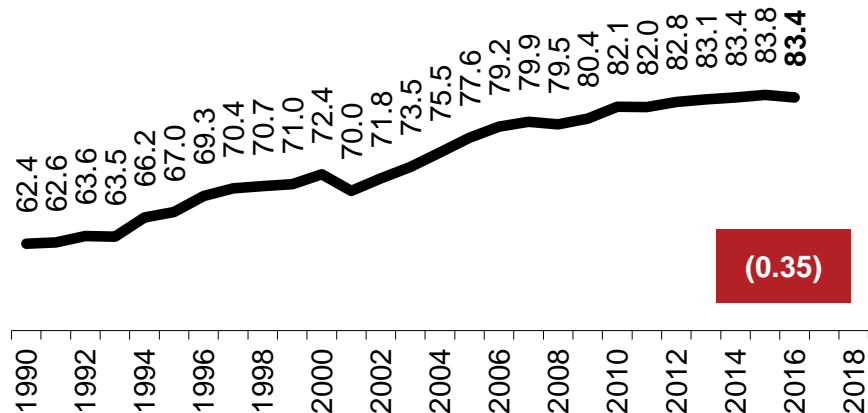
Revenue Passenger Miles (Billions) – Jan-Dec



Available Seat Miles (Billions) – Jan-Dec



Load Factor (Percent) – Jan-Dec

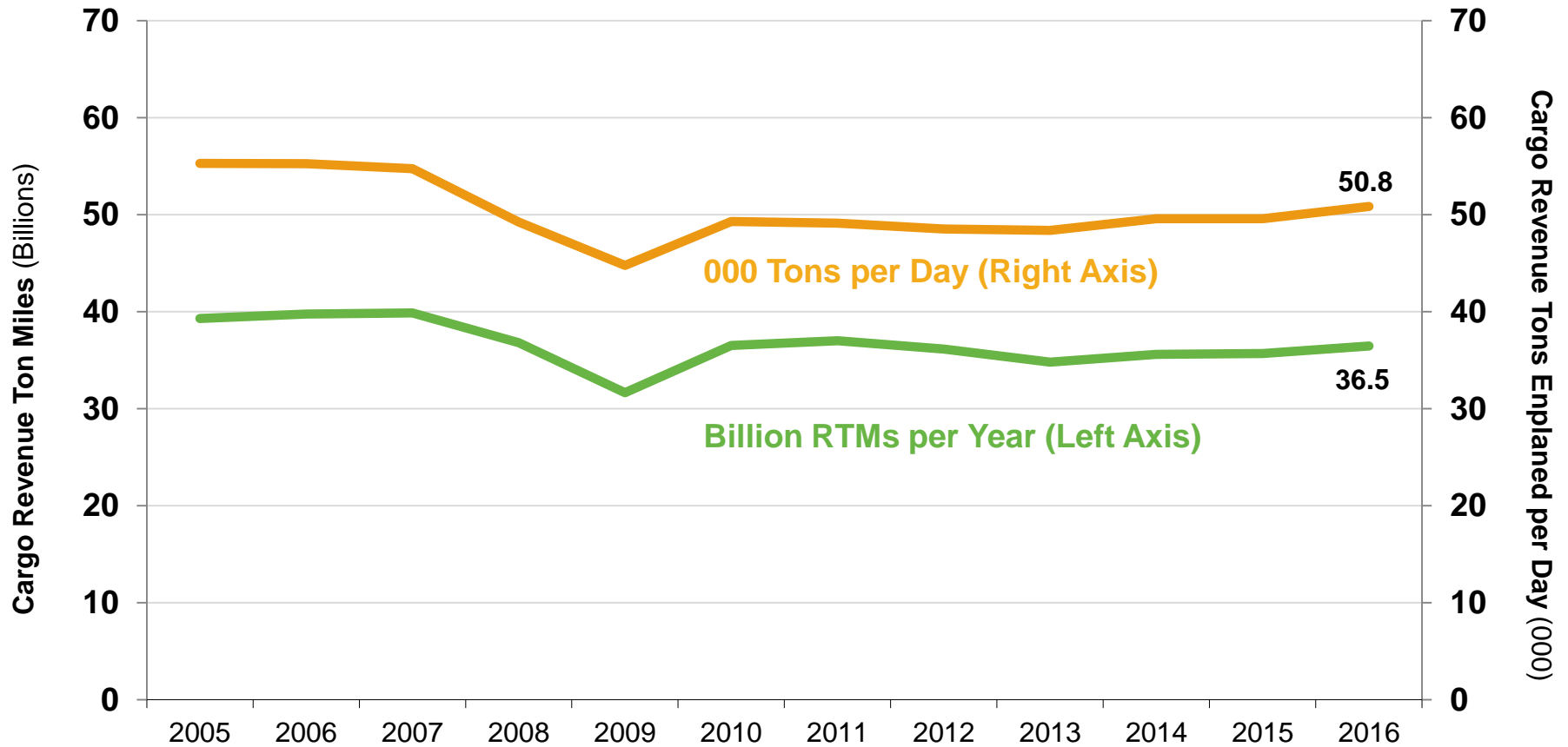


Source: U.S. Bureau of Transportation Statistics T1, systemwide scheduled service on U.S. airlines



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U.S. Airlines Transported More Cargo in 2016; Most Tons Enplaned Since 2007



Source: U.S. Bureau of Transportation Statistics T1 and T100, systemwide, all services on U.S. passenger and cargo airlines



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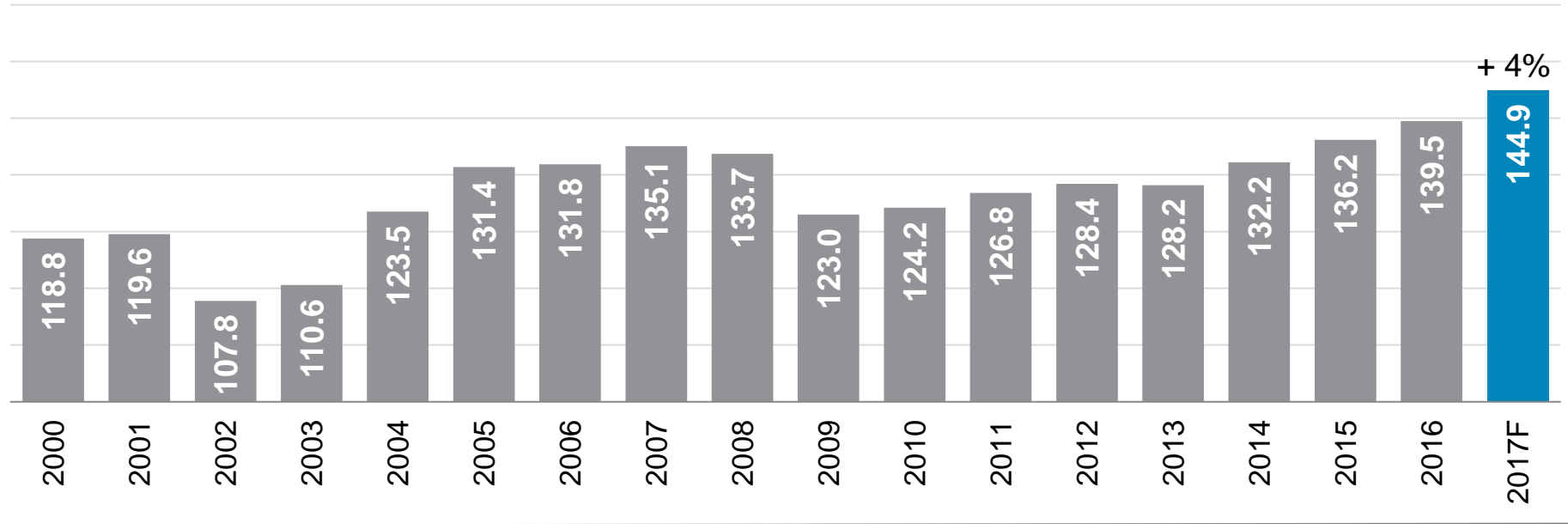
SPRING 2017 AIR TRAVEL: DEMAND FORECAST AND DRIVERS



A4A Projects Spring* 2017 Air Travel to Rise 4 Percent to All-Time High

Airlines Adding 110,000 Seats/Day to Accommodate 89,000 Additional Passengers/Day

U.S. Airline Onboard Passengers (Millions) – All Services, March 1 through April 30



→ 145M passengers (nearly 2.4M/day)

- Includes 18M (296K/day) traveling internationally
- Projected average load factor: low-to-mid-80s
- YOY: passengers up 89K/day, seats up 110K/day

→ Drivers of year-over-year growth

- Rising GDP and employment
- Higher personal incomes, household net worth
- Continued air travel affordability

Source: A4A and BTS T100 segment data – U.S. carriers only; scheduled and nonscheduled services

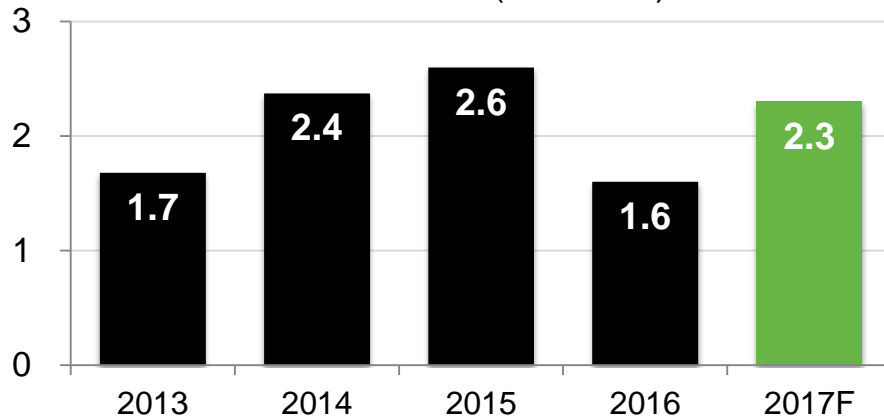
* For this purpose, defined as March 1 through April 30



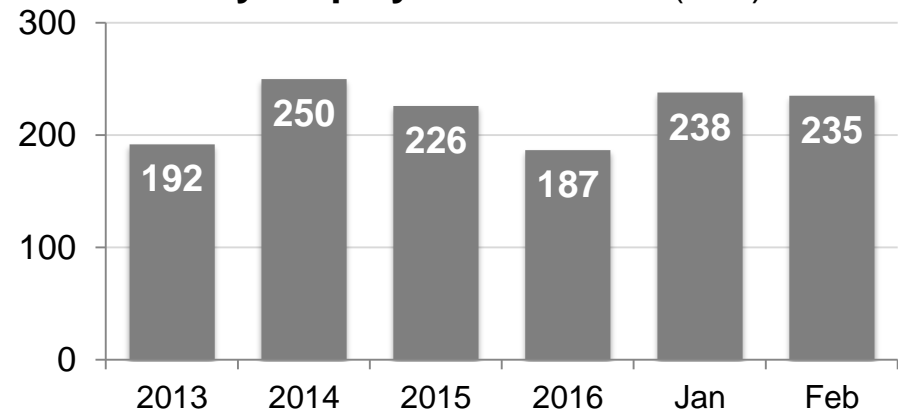
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U.S. Household Net Worth Reached All-Time High in 2016; Job Growth Strong

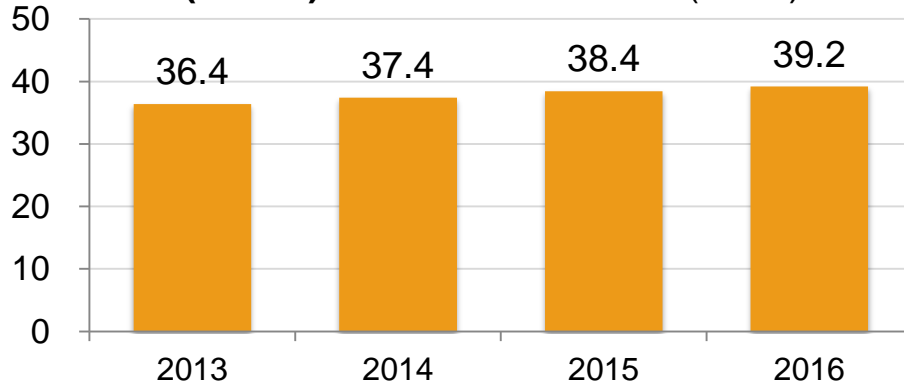
Real GDP Growth Rate (% CAGR)



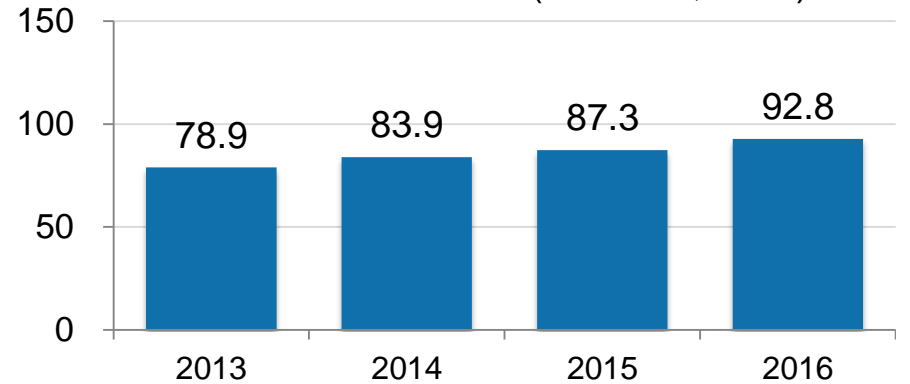
Monthly Employment Growth (000)



Real (\$2009) Personal Incomes (\$000)



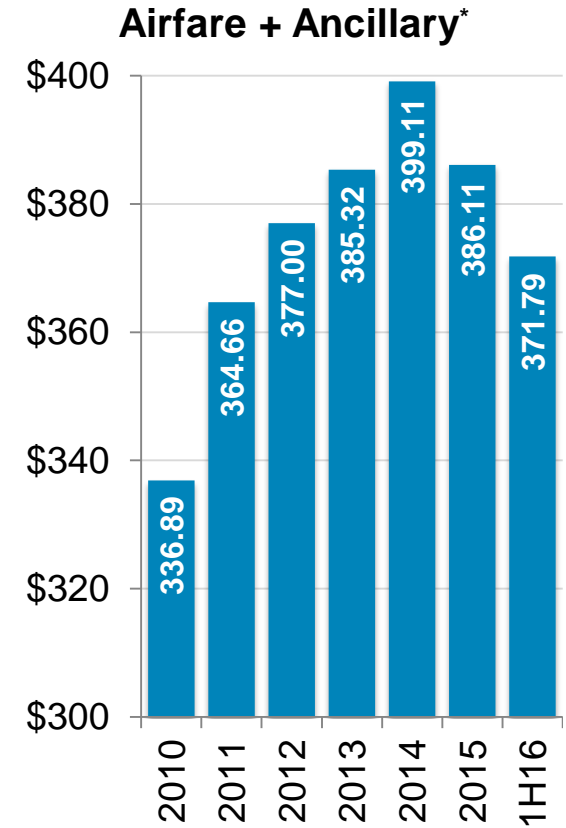
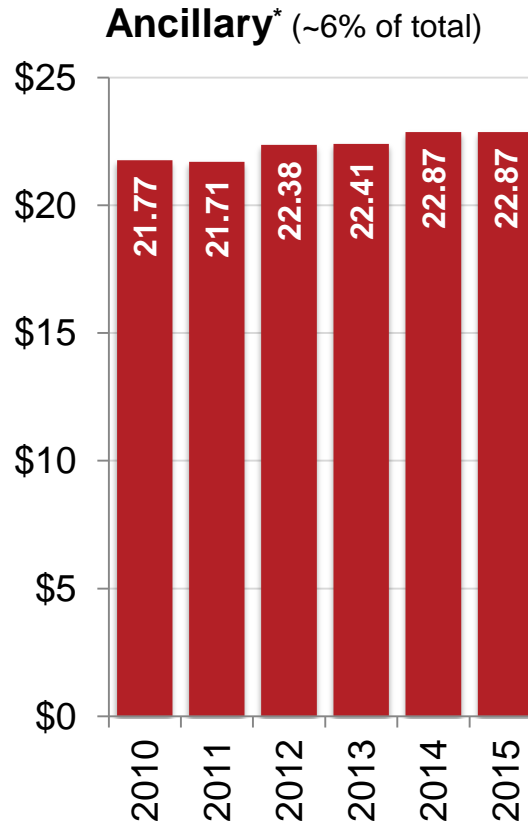
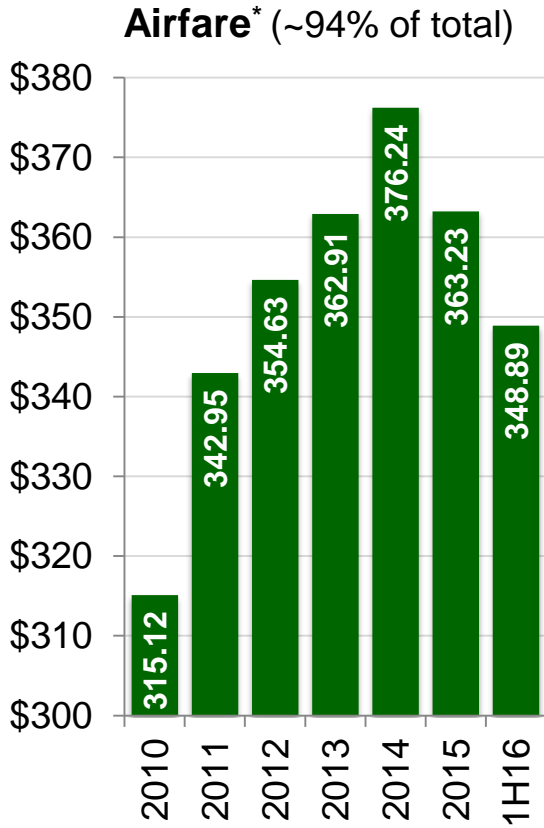
Household Net Worth (\$ Trillion, NSA)



Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted



Average Round-Trip Airfare Down \$27.82 (7%) Since 2014; Fees Up 37¢ (1.6%)
Airfare Has Constituted 94 Percent of Total Ticket Price in Each of the Past Six Years



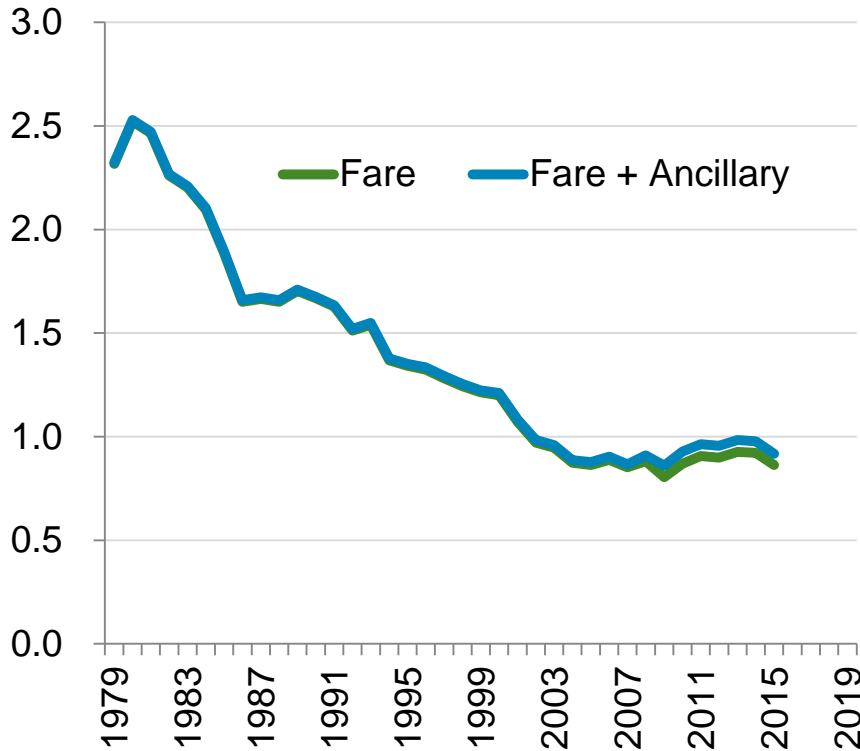
Source: A4A analysis of data from BTS Data Bank 1B (10% sample of tickets: all cabins and fare basis codes) and DOT Form 41

* Domestic round-trip average

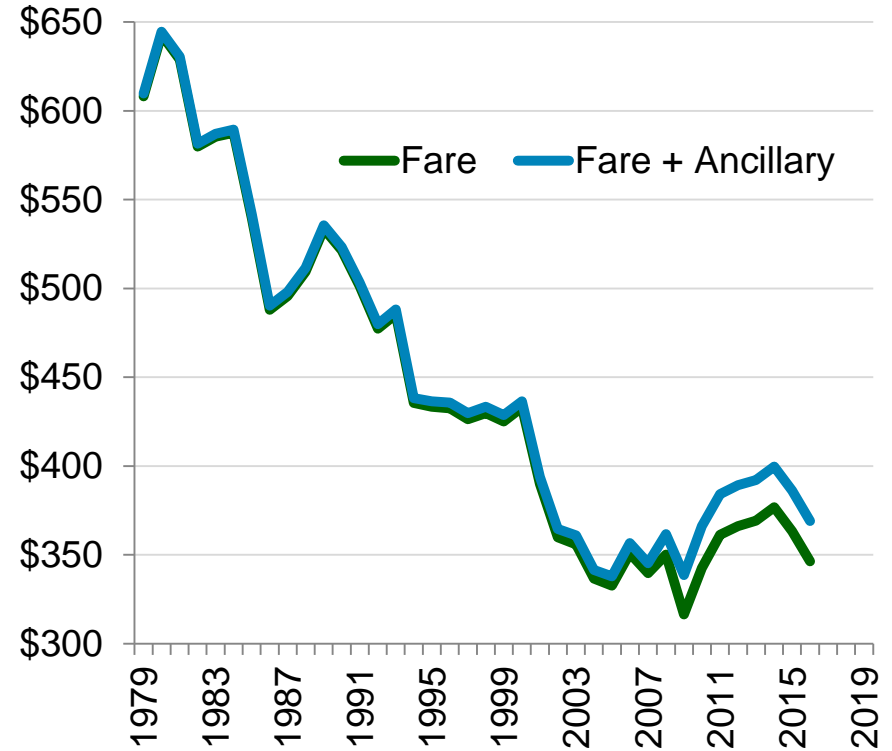


With Personal Incomes Outpacing the Price of Air Travel, Americans Can Purchase ~2.5 Times the Amount of Air Travel They Could at the Outset of Deregulation
 Adjusted for Inflation, Domestic Air Travel Remains 40+ Percent Below 1980 Levels

Domestic R/T Airfare as Share (%) of Per-Capita Disposable Personal Income



Domestic R/T Airfare Adjusted for Inflation (in CY2015 Dollars)



Source: A4A analysis of data from BEA, BLS and BTS Data Bank 1B (10% sample of tickets for all cabins and fare basis codes)

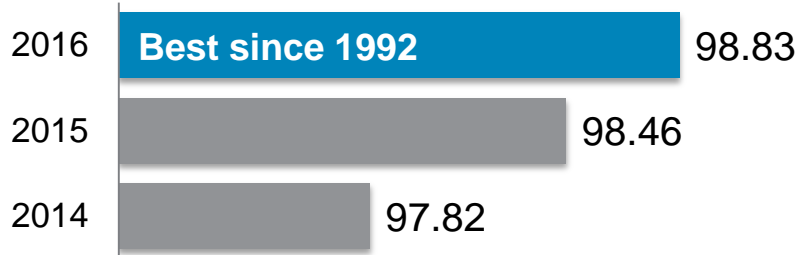


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U.S. Airlines Saw Continued Improvements in DOT Operational Metrics in 2016

Gains Driven by Investments in Aircraft, Systems, Procedures, Staffing

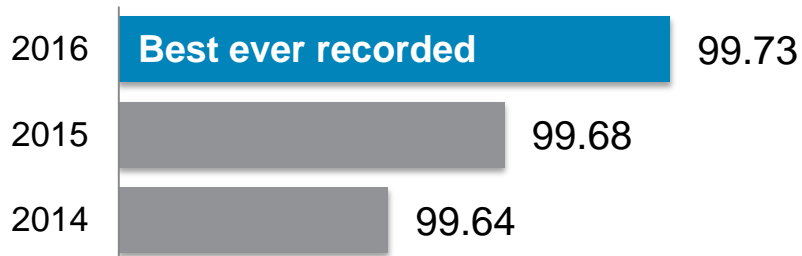
Flight Completion Factor (%) – Jan-Dec



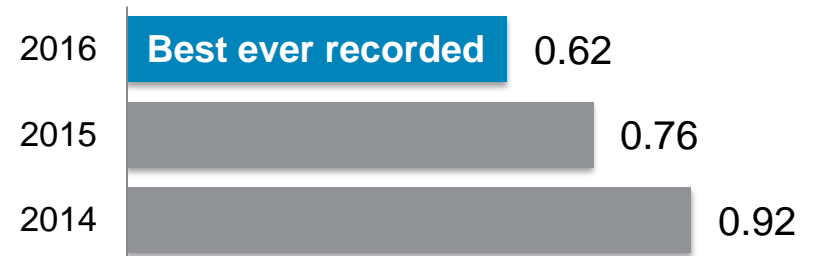
On-Time Arrival Rate (%) – Jan-Dec



Properly Handled Bag Rate (%) – Jan-Dec



Oversales per 10,000 Customers – Jan-Dec



Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)



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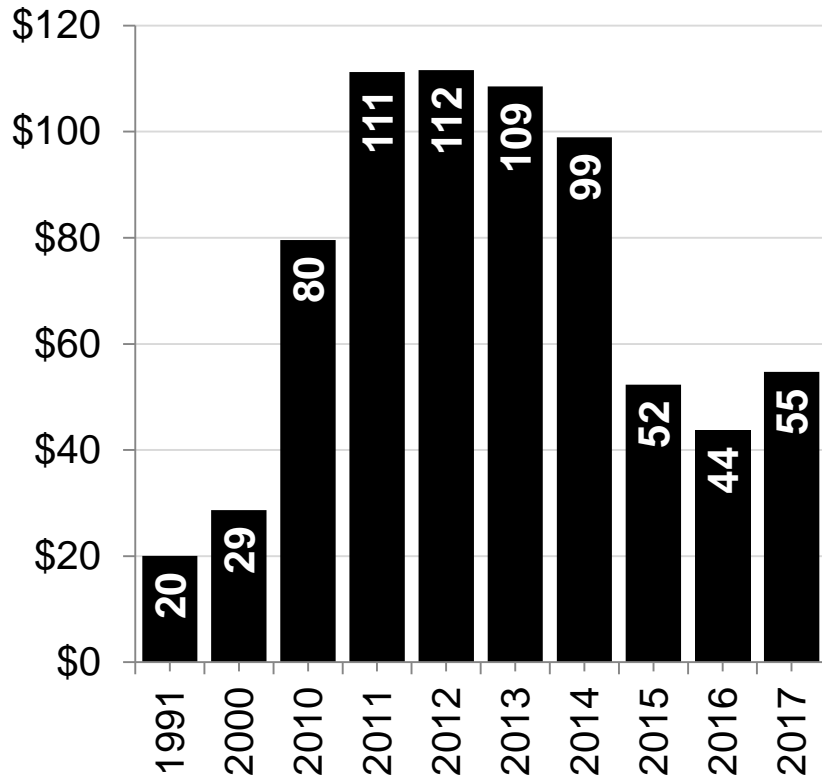
2016 HIGHLIGHTS AND 2017 INSIGHTS



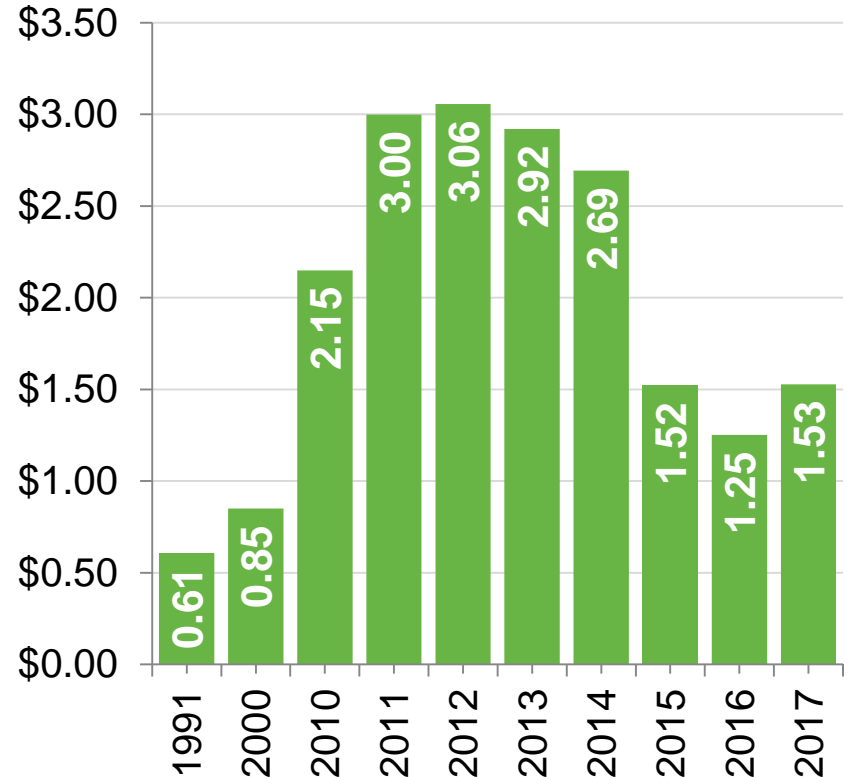
Steadier Oil and Jet-Fuel Prices Boosting Seats, Wages and Reinvestment

Every Penny per Gallon per Year Equates to ~\$190M in U.S. Airline Industry Fuel Expenses

EIA Spot Price* of Crude Oil/Barrel (Brent)



EIA Spot Price* of Jet Fuel/Gallon (U.S. Gulf)



Source: A4A and Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

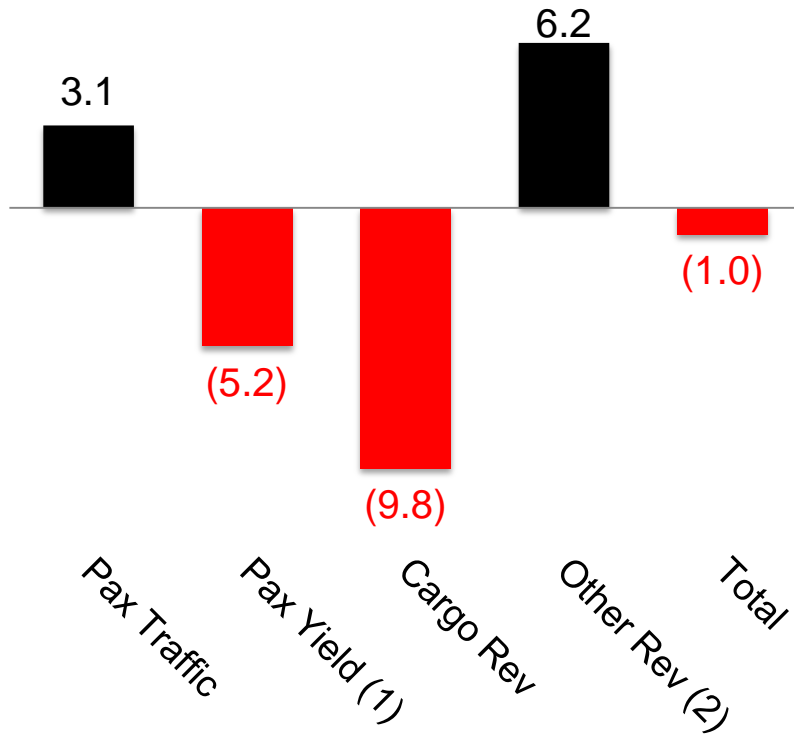
* 2017 reflects year-to-date average



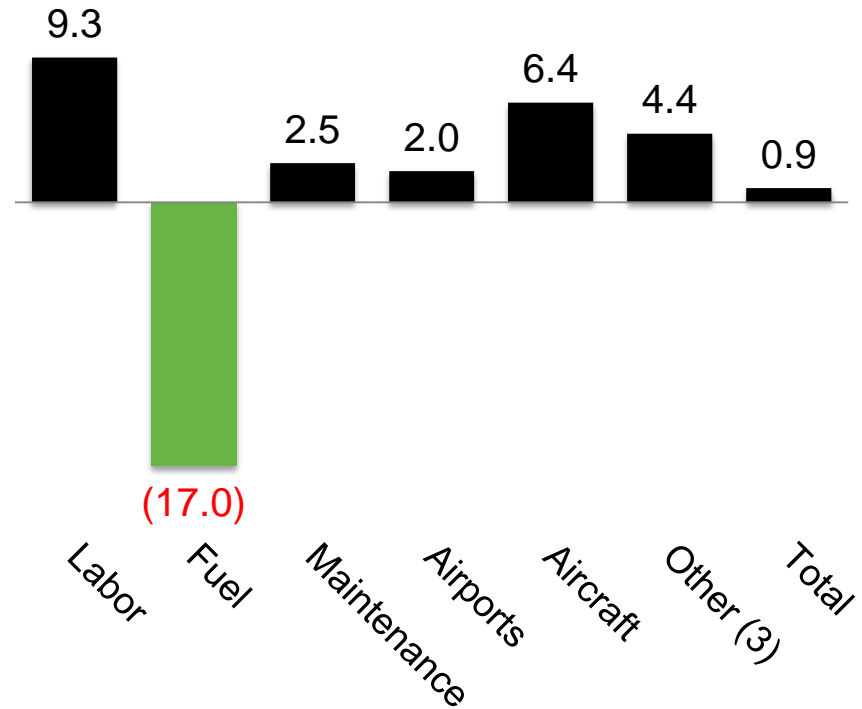
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2016 Revenues Down 1% As 5.2% Lower Fares¹ Offset 3.1% More Passenger Traffic 2016 Expenses Up 0.9% As Higher Labor and Other Expenses Offset Lower Fuel

% Change YOY in Operating Revenues



% Change YOY in Operating Expenses



1. Yield = fare per mile (cents per RPM)

2. Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.

3. Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

Source: A4A analysis of reports by Alaska/Virgin America, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



Faster-Falling Revenues Drove Modest Reduction in 2016 U.S. Airline Profitability

Pre-Tax Profit Margin of 14.2 Percent Remains Below Average for U.S. Companies

Operating Revenues (Billions) – Jan-Dec



Operating Expenses (Billions) – Jan-Dec



Pre-Tax Income (Billions) – Jan-Dec



Pre-Tax Profit Margin (%) – Jan-Dec



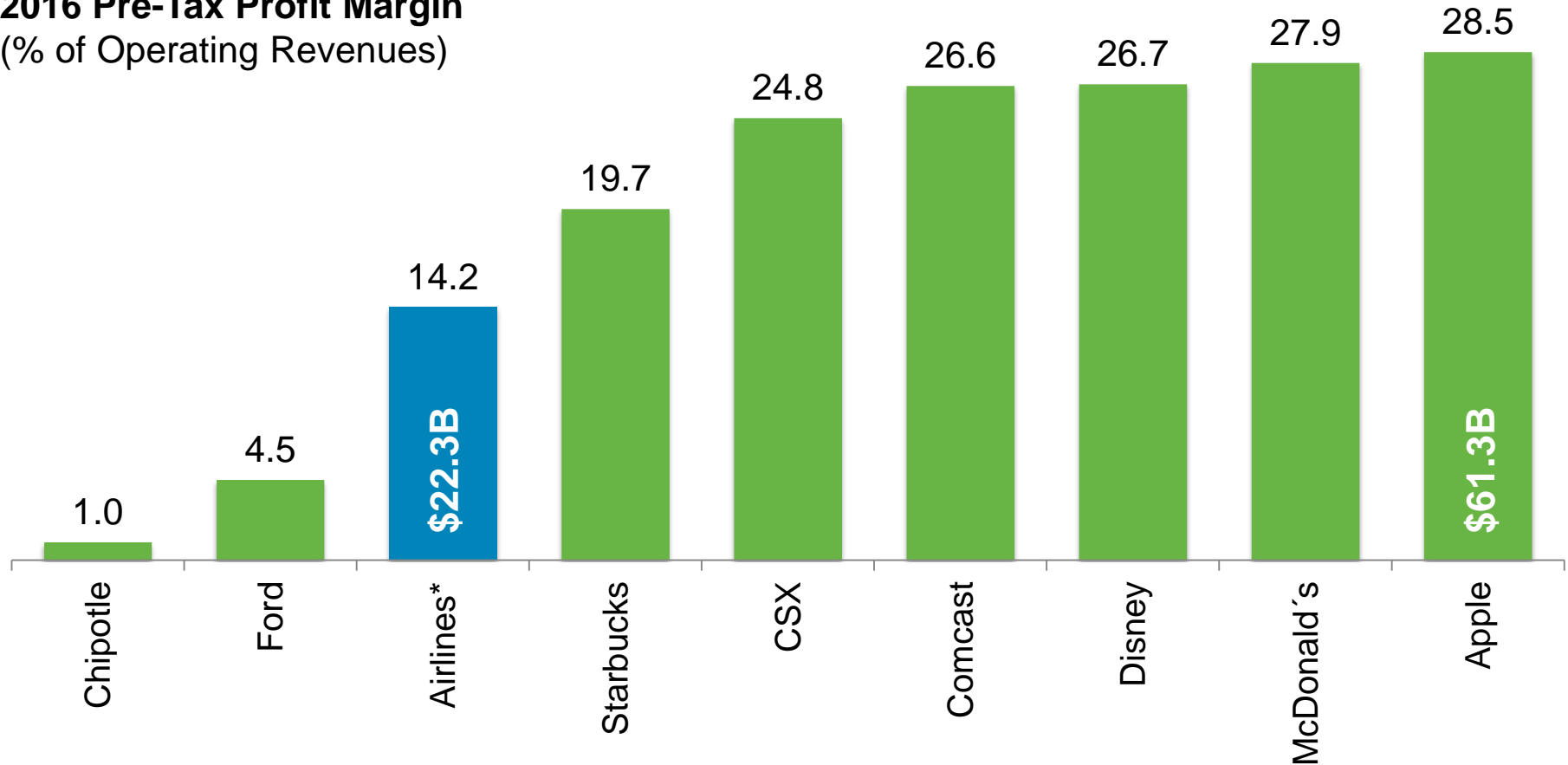
Source: A4A analysis of reports by Alaska/Virgin America, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



In 2016, U.S. Airlines* Posted Respectable Margins, Averaging 14.2% Before Taxes

U.S. Passenger Airline* Profitability Was Substantially Below Starbucks/McDonald's/Apple

2016 Pre-Tax Profit Margin (% of Operating Revenues)

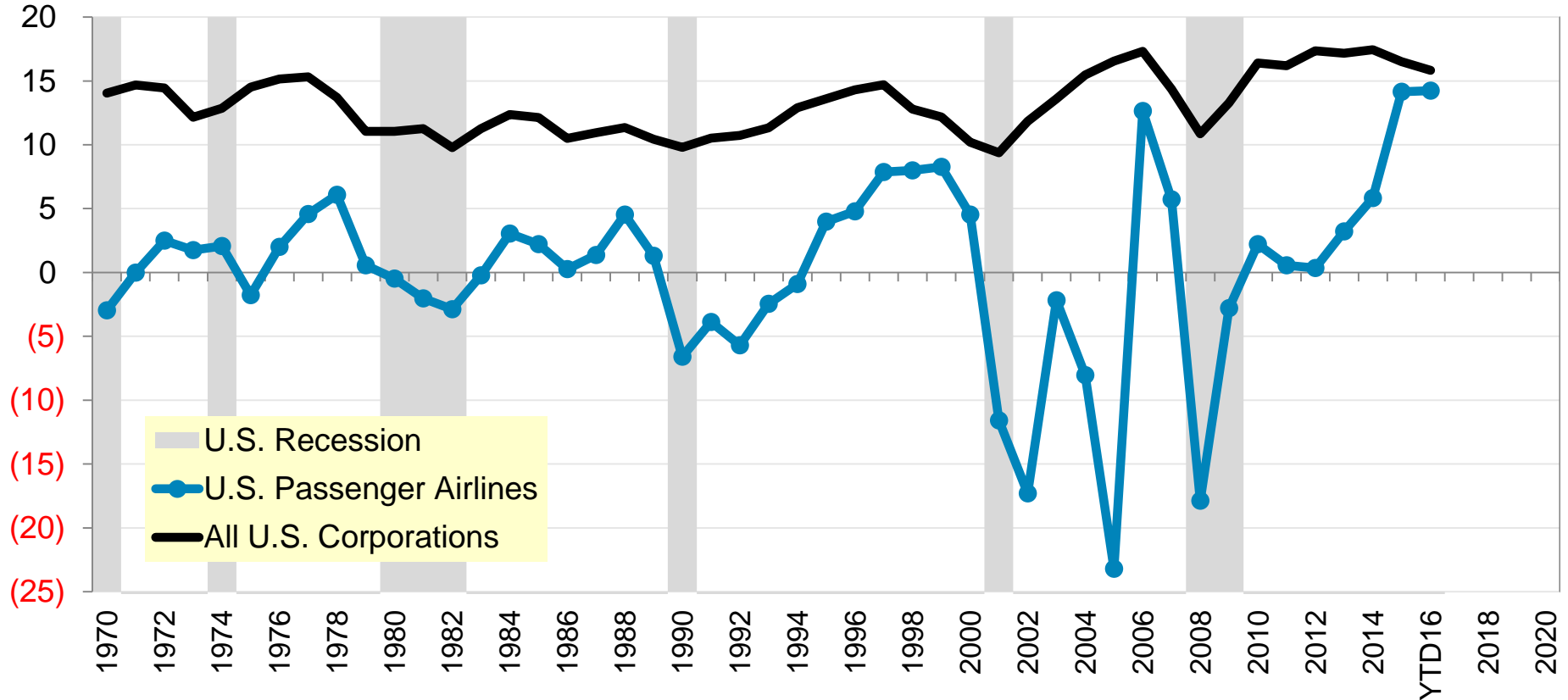


* A4A analysis of reports by Alaska/Virgin America, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



Since the Great Recession,* U.S. Airlines Have Been Closing the Gap to Average U.S. Corporate Profitability; YTD16 Gap (14.2% vs. 15.8%) Is Narrowest on Record

Pre-Tax Profit Margin (%)



Source: ATA Annual Reports (1970-1976), A4A Passenger Airline Cost Index (1977-present); Bureau of Economic Analysis NIPA Table 1.14

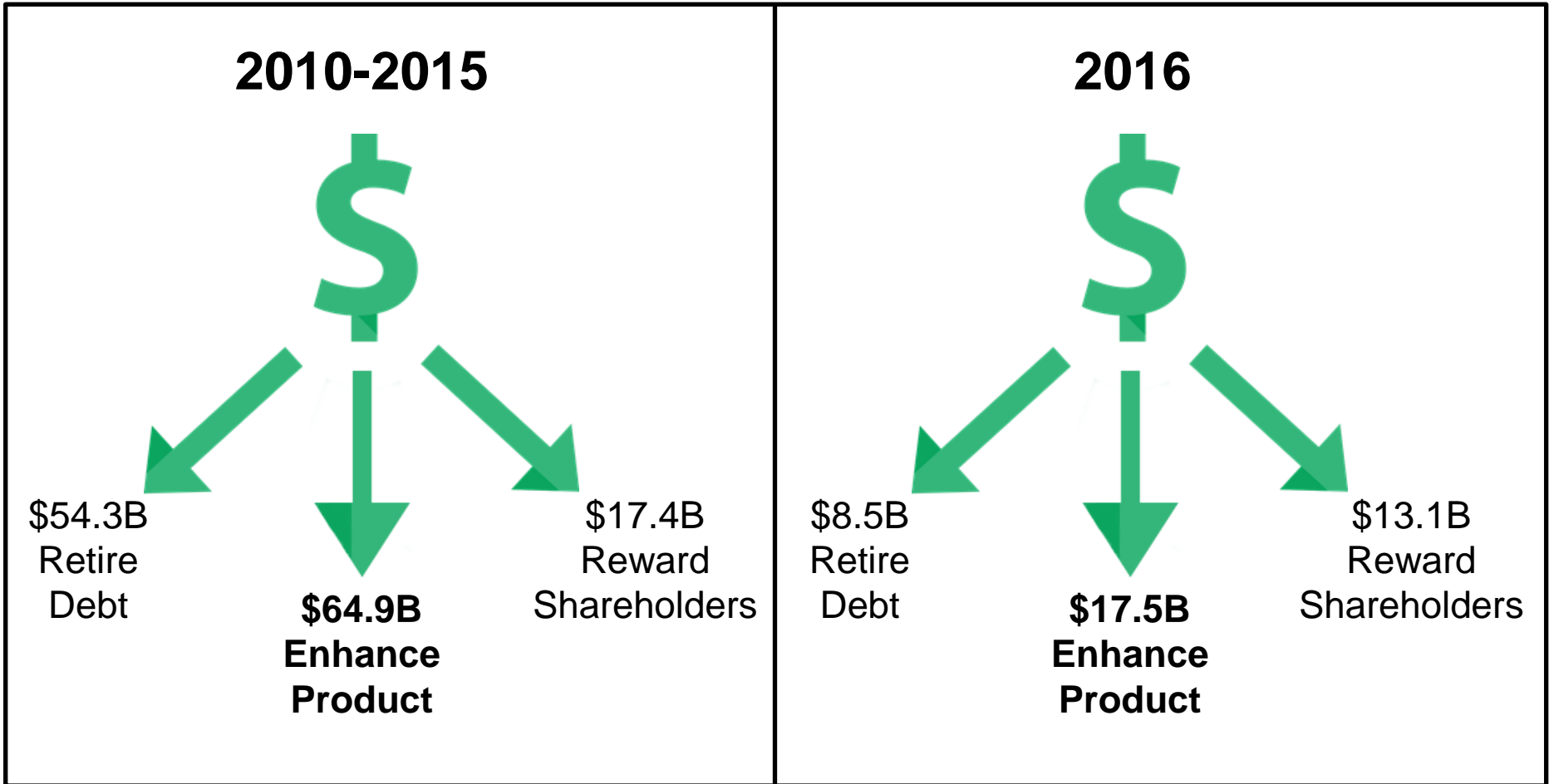
* Dec-2007-Jun-2009



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U.S. Airlines Are Putting More Than \$20 per Passenger* Right Back Into the Product

Use of Operating Cash from 2010-2016 Included \$82B of Capital Reinvestment



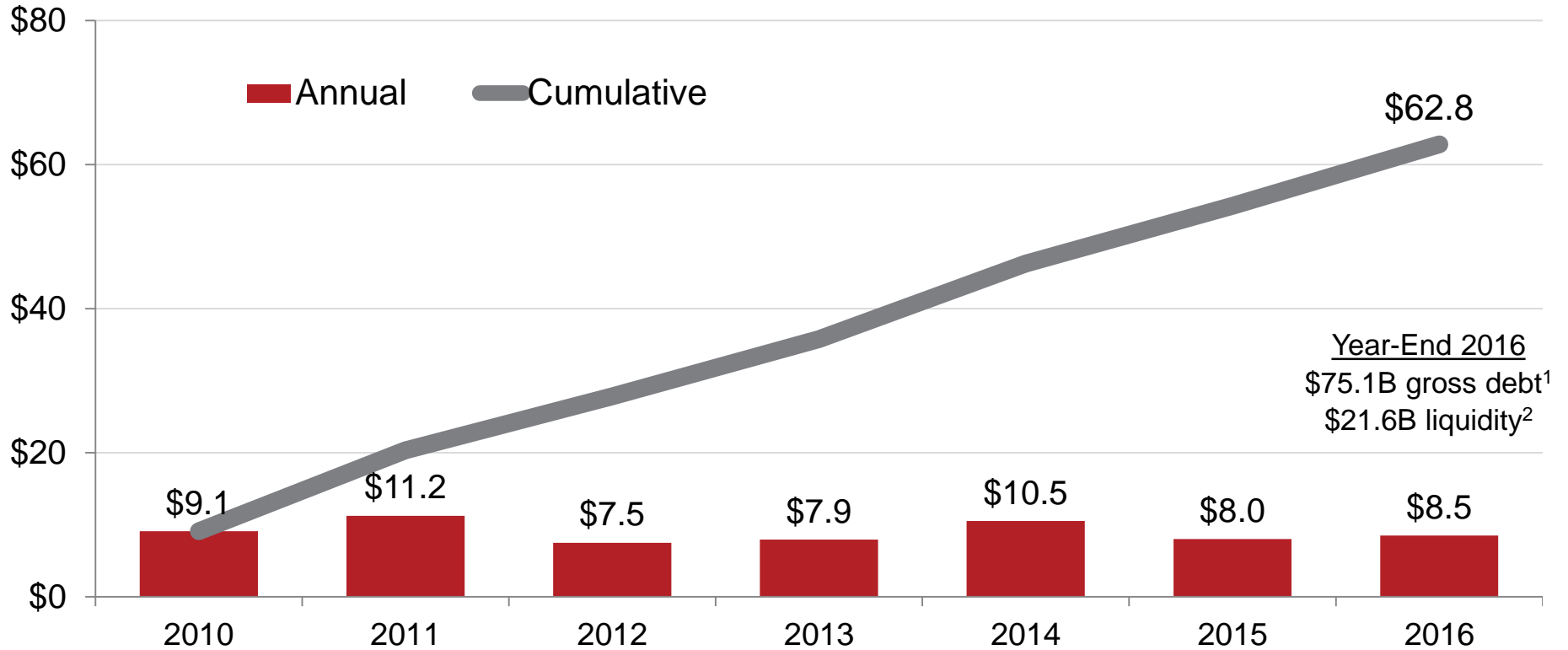
* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United/Virgin America



Following 2001-2009 Financial Hemorrhaging, U.S. Airlines Have Retired \$63B in Debt

Carriers Ended 2016 With \$75B in Gross Debt¹ and \$22B in Liquidity²

Payments on Long-Term Debt and Capital Lease Obligations (Billions)



Source: SEC filings of AAL/ALGT/AAL/DAL/HA/JBLU/LUV/SAVE/UAL/VA

¹ Includes 7x annual aircraft rents (capitalized operating leases)

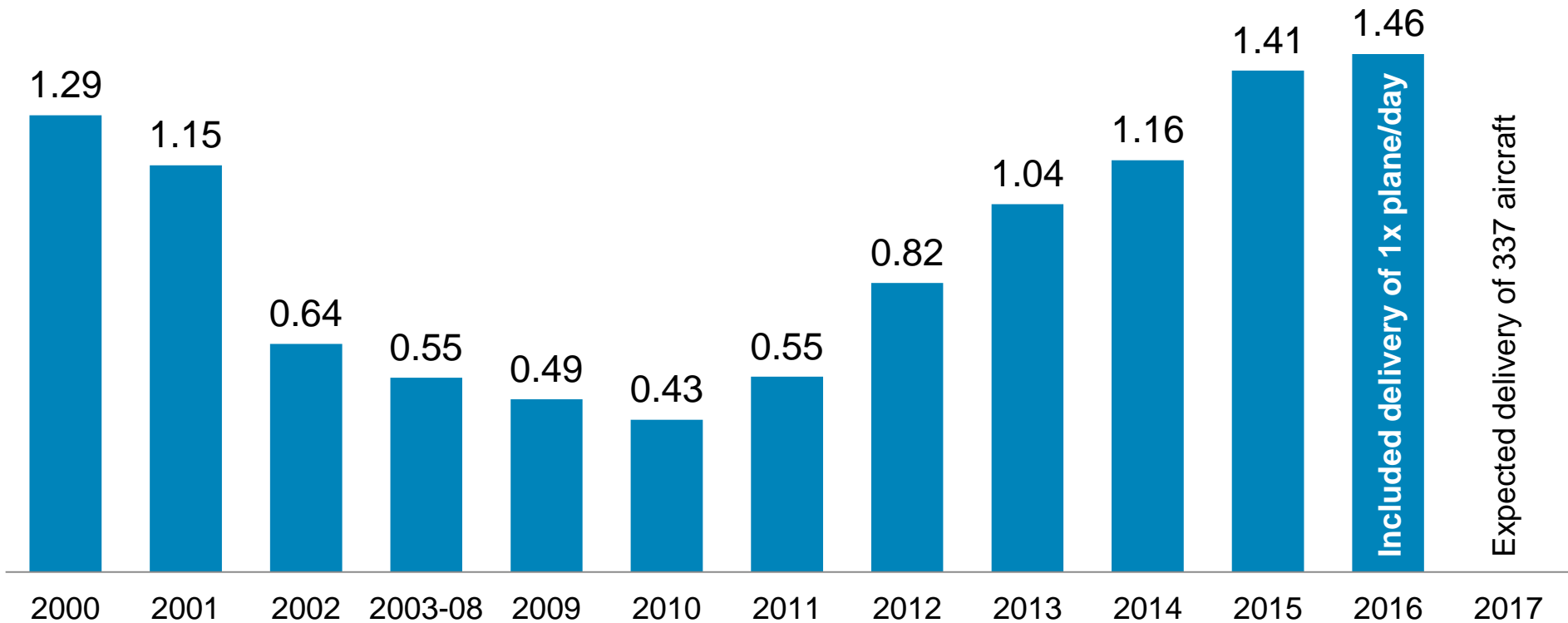
² Cash, cash equivalents and short-term investments



Improving Finances Enabling Significant Reinvestment in Customer Experience

2016 Capital Outlays Averaged Almost \$1.5B per Month, Exceeding 2015 Rate

U.S. Passenger Airline* Capital Expenditures (\$ Billions per Month)



* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



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Improving Finances Enabling Significant Reinvestment in Customer Experience



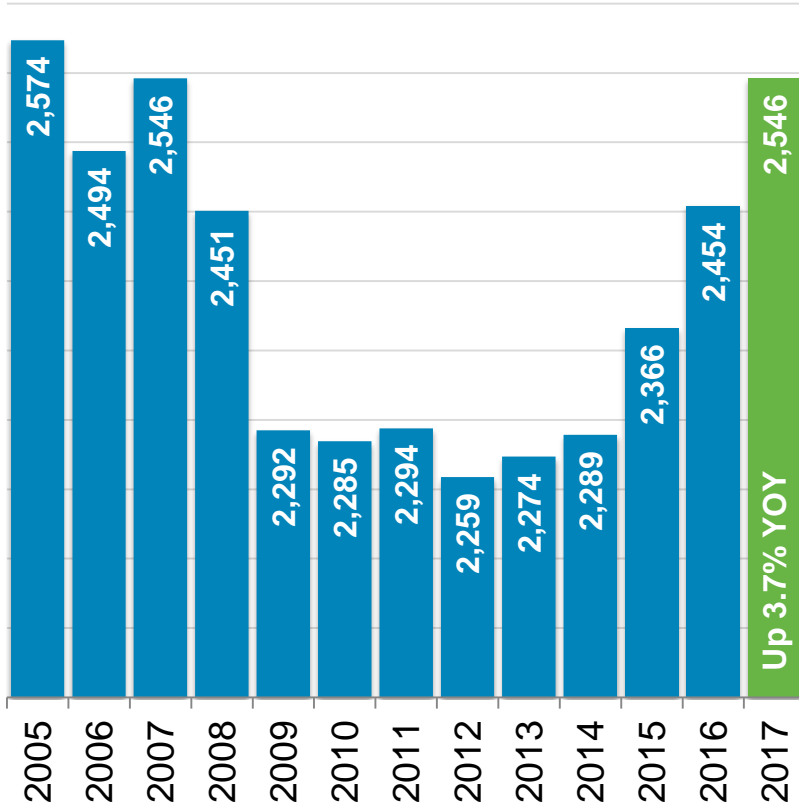
- » New or refurbished aircraft, larger overhead bins for luggage
- » Availability of lie-flat seating with AC power and USB, proliferation of Wi-Fi and inflight entertainment
- » Expanded route networks (scope and frequency) and schedules (seat growth)
- » Improved airport check-in areas, lounges, gate amenities, baggage systems, ground equipment
- » Investments in new automated security screening lanes (including automatic bin returns)
- » Continued development and roll-out of mobile technology and website/kiosk functionality
- » Increasing operational reliability (controlled for weather conditions)
- » Enhanced tools (computers, tablets, software) and training for customer-contact employees



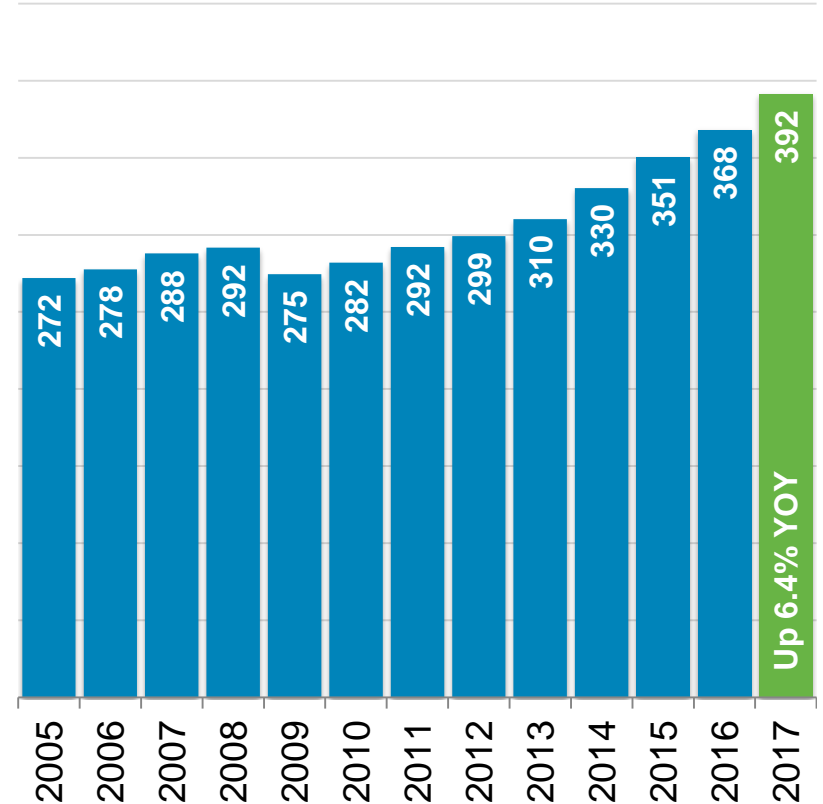
As Airlines See Higher Returns on Capital, Customers Are Seeing More Seats

Domestic Supply at Highest Level Since 2005; International Supply at All-Time High

Domestic USA (Thousand Daily Seats)



International (Thousand Daily Seats)



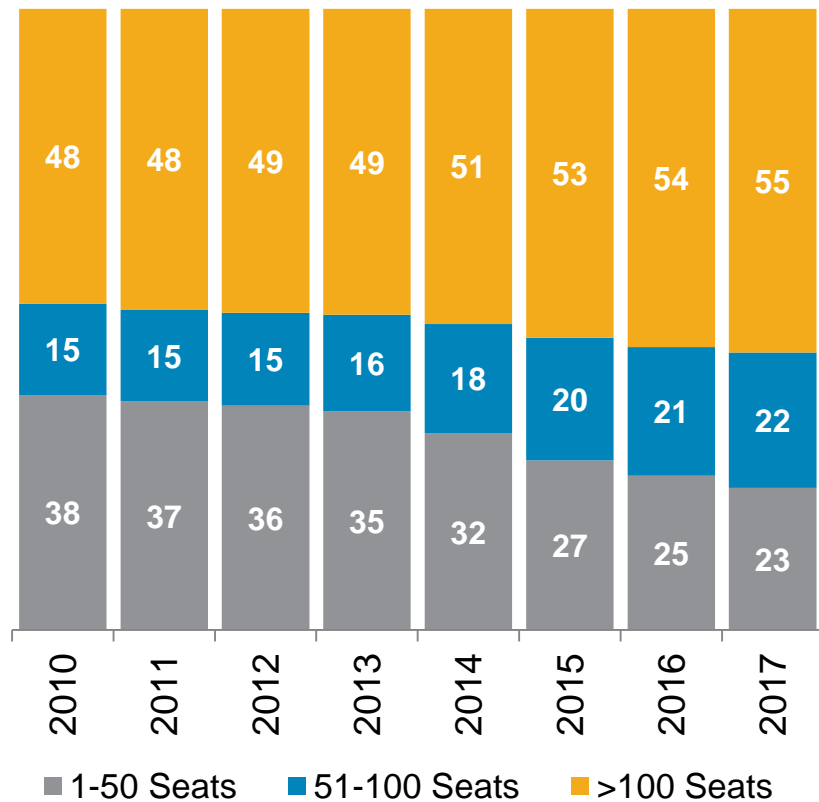
Source: Innovata (via Diio Mi) published schedules as of Mar. 10, 2017, for all airlines providing scheduled passenger service from U.S. airports to all destinations



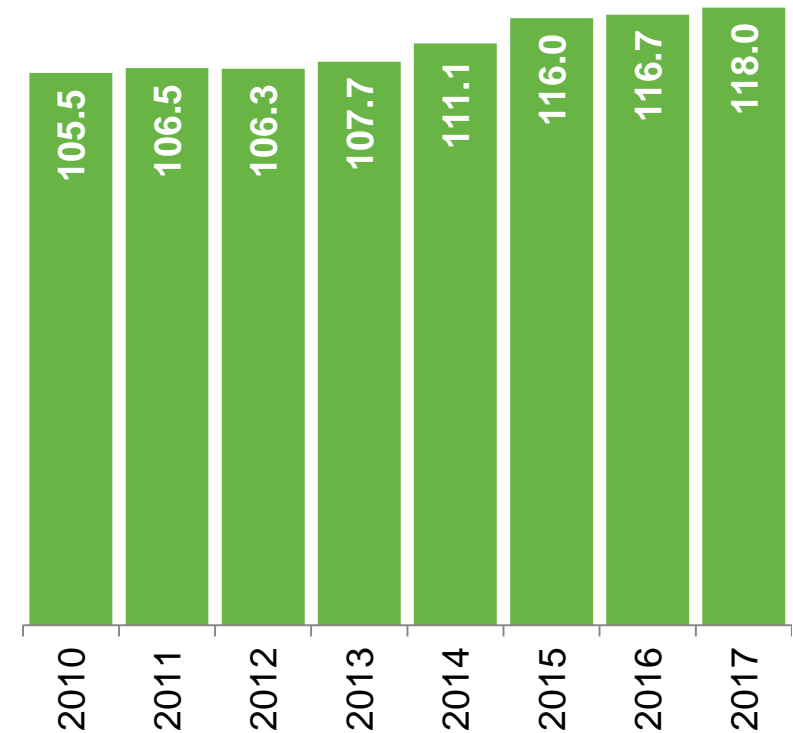
In Addition to Expanding Schedules, Airlines Are Deploying Larger Aircraft

Replacement of 50-Seaters With Larger Regional Jets Is Biggest Driver of Jump

% of Domestic Departures by Aircraft Size¹



Average Seats per Domestic Departure²



1. All carriers

2. AAL, ALGT, ALK, DAL, HA, JBLU, LUV, SAVE, UAL networks

Source: Innovata (via Diio Mi) published schedules as of Jan. 27, 2017



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Use of Larger RJs and Mainline Replacement of RJs Boosting Avg. Seats per Flight

Selected Examples of Airline Deployment of Larger Aircraft on Domestic Routes

Airline	Hub	Spoke	Mar-2015	Mar-2017
Alaska	Seattle	Omaha	RJ-70	B737
American	Dallas/Ft. Worth	Greensboro	RJ-50	RJ-76
	Dallas/Ft. Worth	Madison	RJ-50	RJ-76
	Dallas/Ft. Worth	Mobile	RJ-50	RJ-76
	Dallas/Ft. Worth	Tallahassee	RJ-50	RJ-76
	Los Angeles	Albuquerque	RJ-50	RJ-76
	Los Angeles	El Paso	RJ-50	RJ-76
	Los Angeles	Phoenix	RJ-76	A321/B757
Delta	Atlanta	Scranton	RJ-76	B717
	Atlanta	Sioux Falls	RJ-76	B717
	Cincinnati	Hartford	RJ-50	RJ-76
	Cincinnati	Raleigh-Durham	RJ-50	RJ-76
United	Chicago	Rochester	4x RJ-50, 2x A319	2x RJ-50, 4x A319
	Denver	Des Moines	RJ-50/70	A319/B737
	Newark	Cincinnati	RJ-50	RJ-70/76
	Newark	Jacksonville	RJ-50/70	RJ-50/A320
	San Francisco	Eugene	RJ-50	A319/A320
	San Francisco	Reno	RJ-50/70	RJ/B737
	Wash. Dulles	New York LGA	RJ-50	RJ-70
	Wash. Dulles	Philadelphia	RJ-50	RJ-70

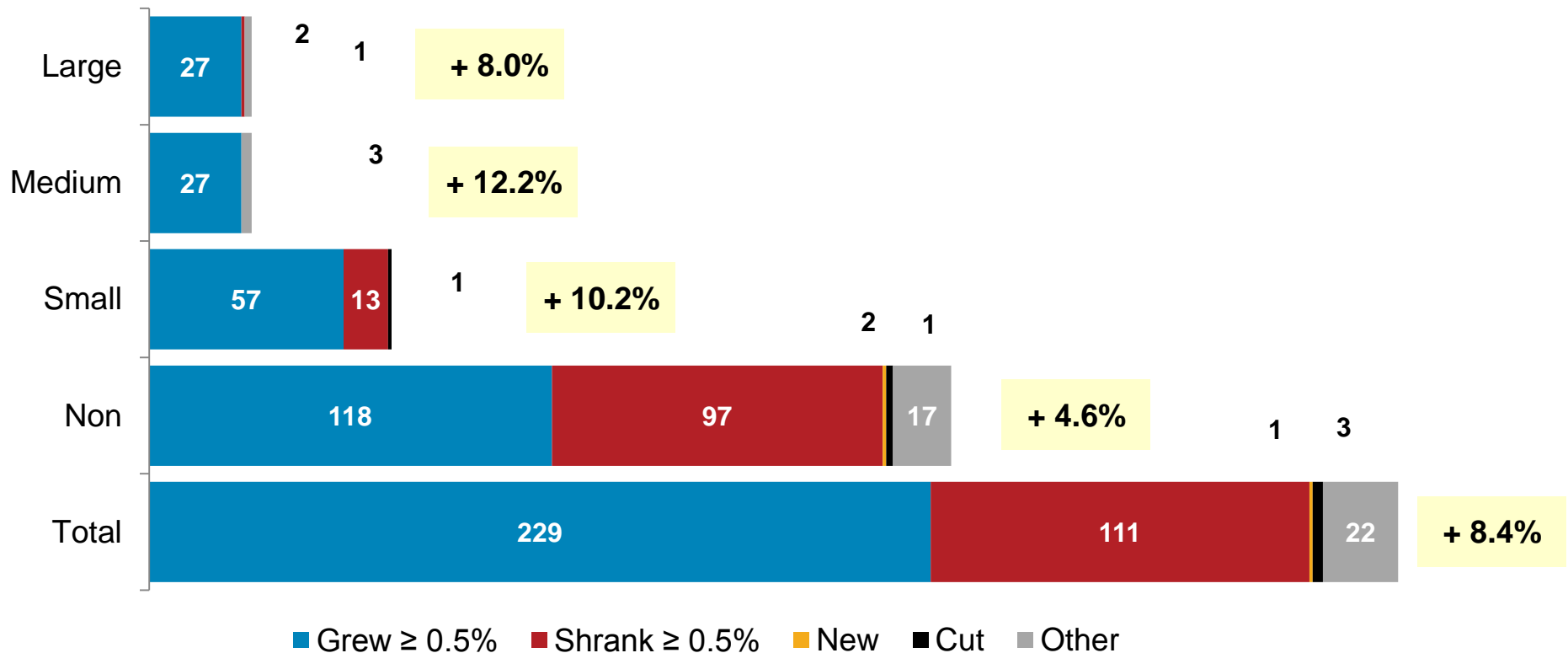
Source: Innovata (via Diio Mi) published schedules as of Mar. 3, 2017, comparing 3/6/2017 to 3/9/2015



U.S. Airports of All Sizes Have Realized Air Service Gains Over Past Two Years

176 Small and Non-Hub Markets Saw Seats Grow at Least Half a Percent

Number of U.S. Airports by Change in Scheduled Seats from 3Q15 to 3Q17 by DOT “Hub” Size



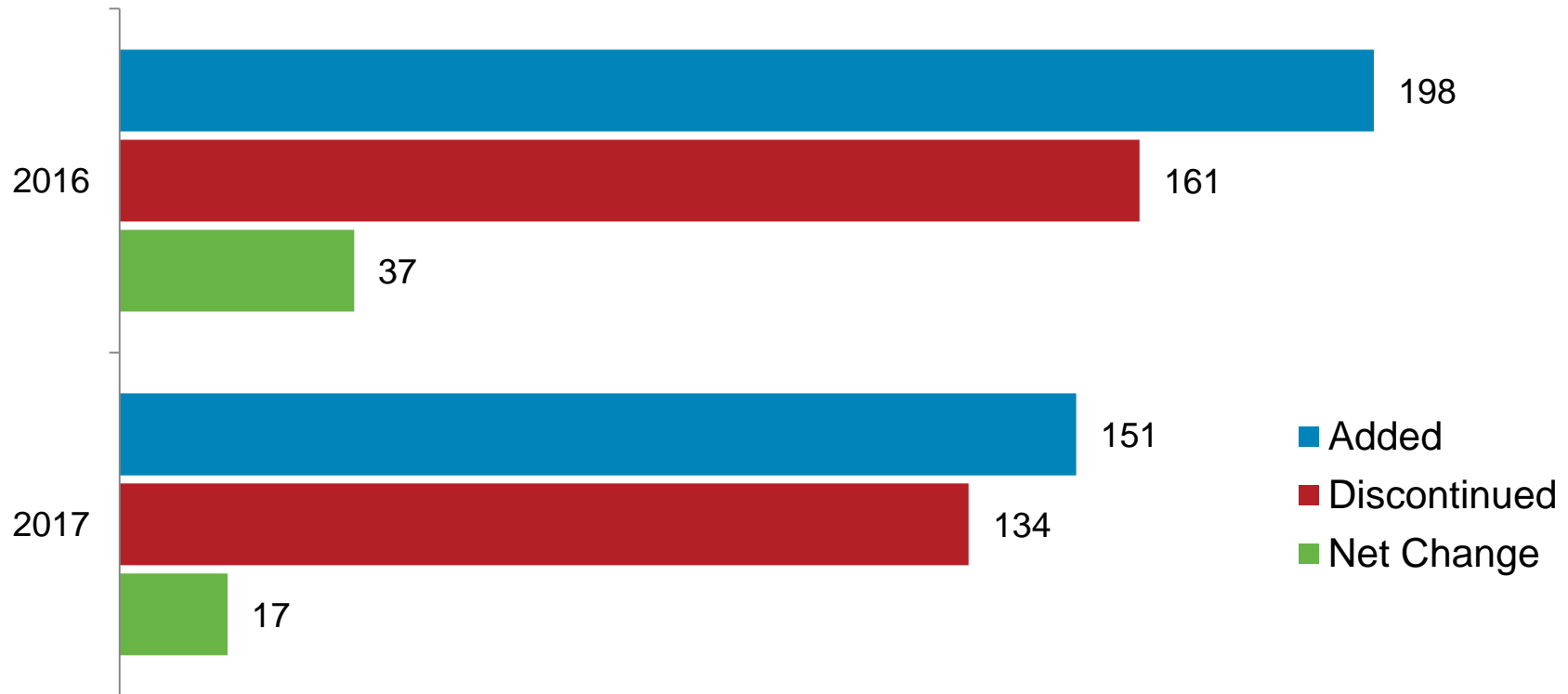
Source: Innovata (via Diio Mi) published schedules as of Mar. 10, 2017, for all airlines providing scheduled passenger service from U.S. airports to all destinations



Airlines Added 198 New U.S.-Based Routes in 2016, Have Added 151 More in 2017

Over Two Years, Fliers See Net Expansion of 54 Nonstop Routes to/from U.S. Airports

Year-Over-Year Change in Number of Scheduled-Service Routes to/from U.S. Airports



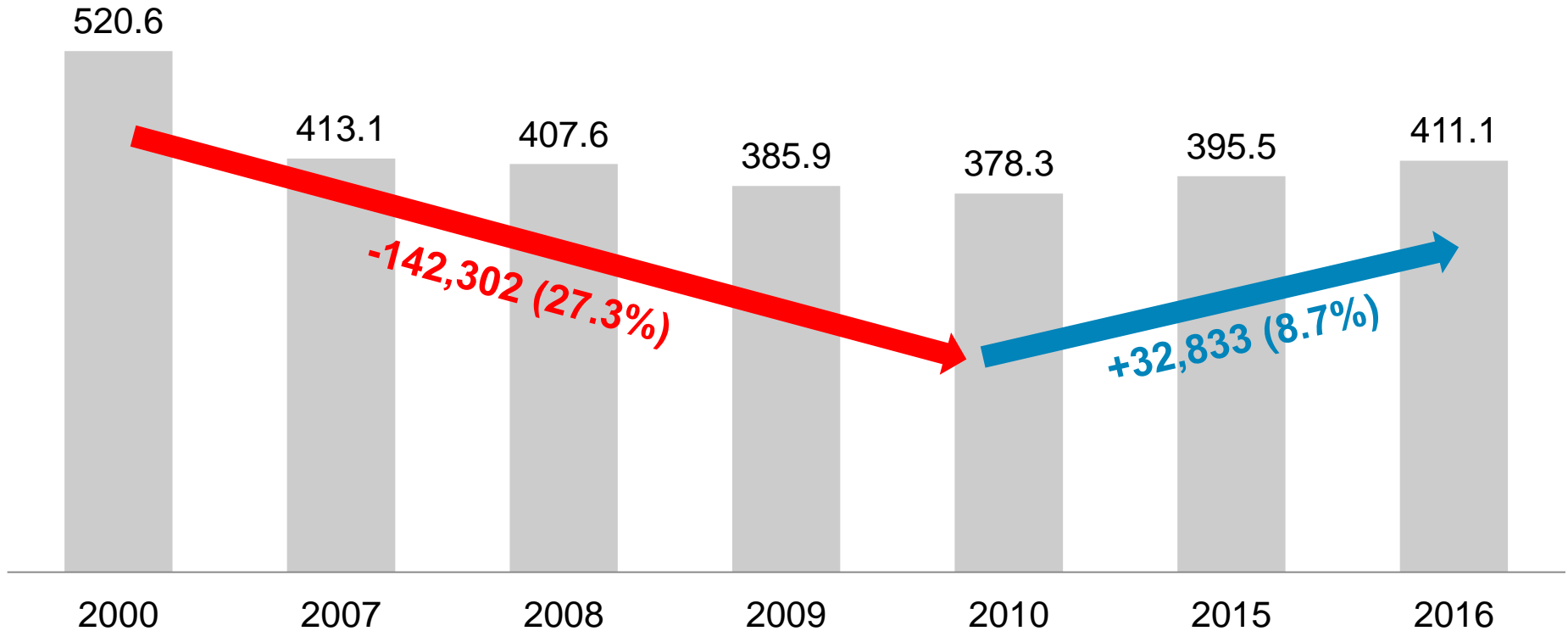
Source: Innovata (via Diio Mi) published schedules from March 2017 and July 2016 for all airlines providing scheduled service from U.S. airports to all destinations



In 2016, U.S. Passenger Airline Jobs Averaged Highest Level Since 2007

December 2016 Was 38th Consecutive Month of YOY Gains

Full-Time Equivalent (FTE) U.S. Scheduled Passenger Airline Employees (000s)



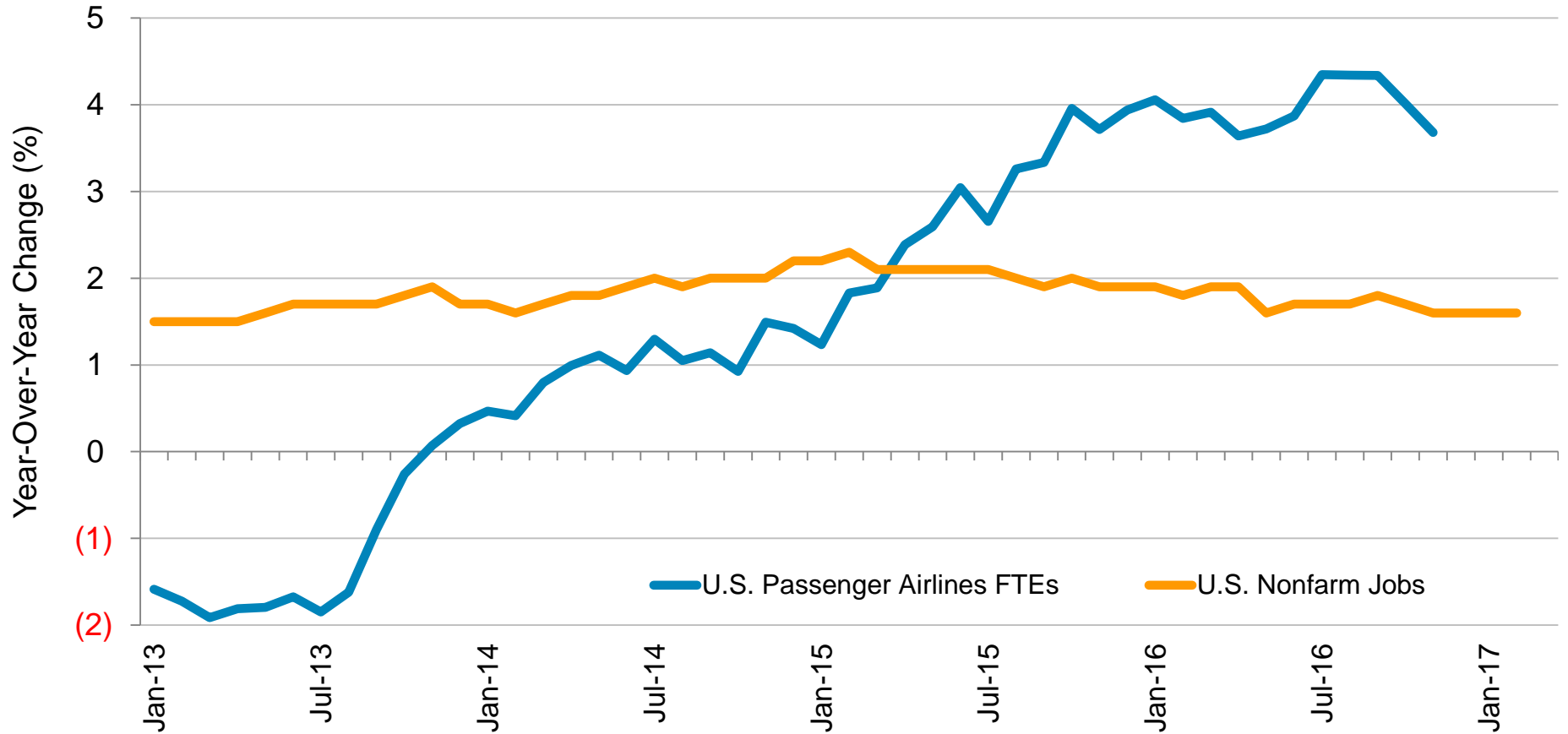
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines



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Since April 2015, U.S. Airline Job Growth Has Exceeded Overall U.S. Job Growth

Airline Employment Growing at 4% – More Than Double the Rate of Overall U.S. Jobs



Source: Bureau of Labor Statistics and Bureau of Transportation Statistics

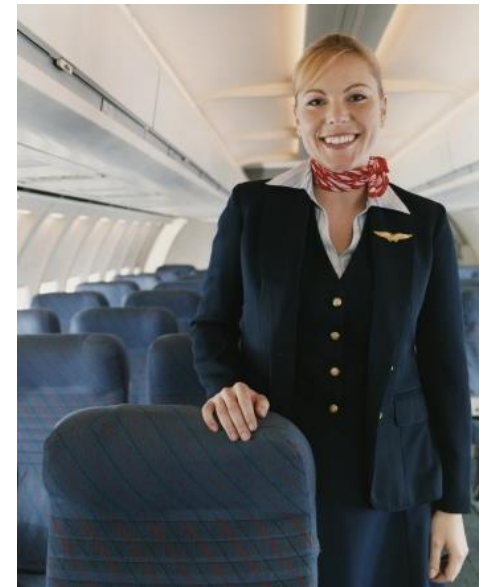
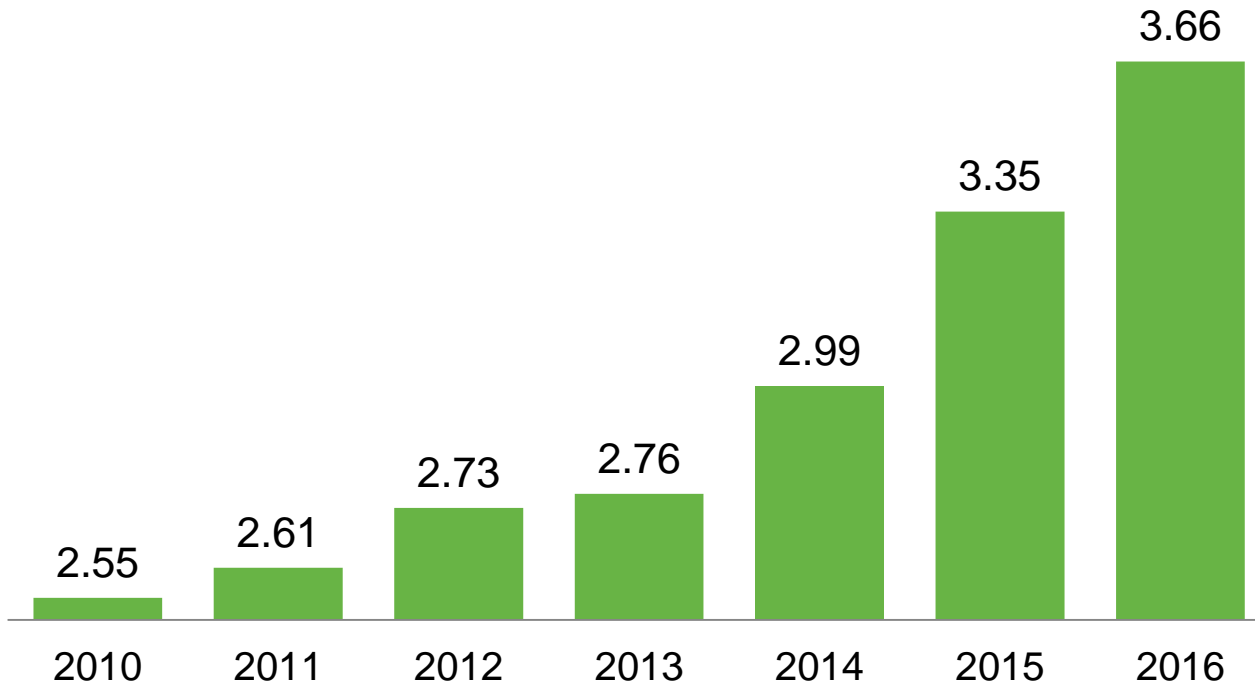


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U.S. Airlines* Continue to Pump More Wages and Benefits into the Economy

Airlines* Spent **\$3.7 Billion/Month** on the Workforce in 2016 – Up 44 Percent from 2010

Total Employee Wages and Benefits*
(\$ Billions per Month)

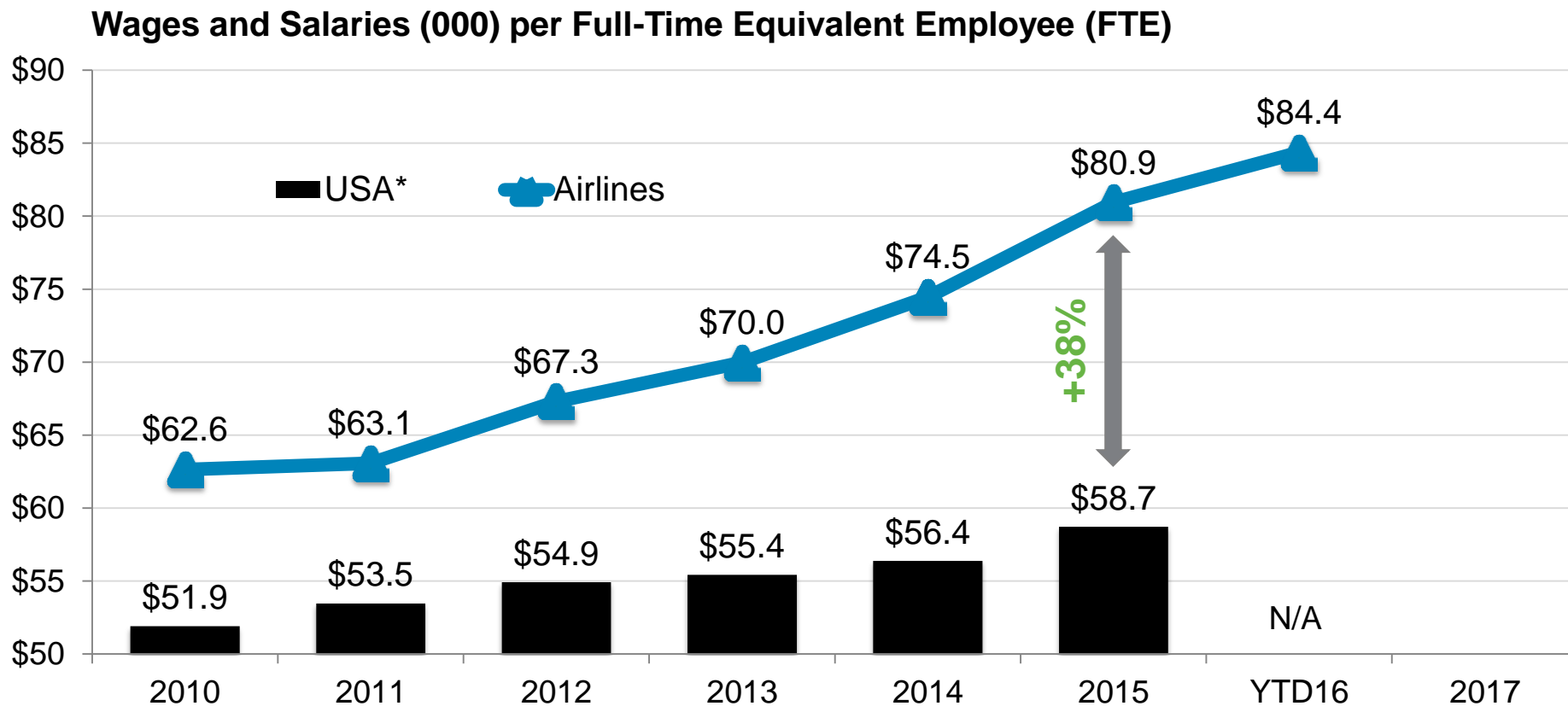


* SEC filings of Alaska/Virgin America, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United



U.S. Passenger Airline Wages Averaged 38% More Than U.S. Private Sector in 2015

From 2010 to 2015, Airline Wages Rose 29% (More Than Double 13% for Overall USA)



Source: BEA NIPA Table 6.6D and A4A Passenger Airline Cost Index

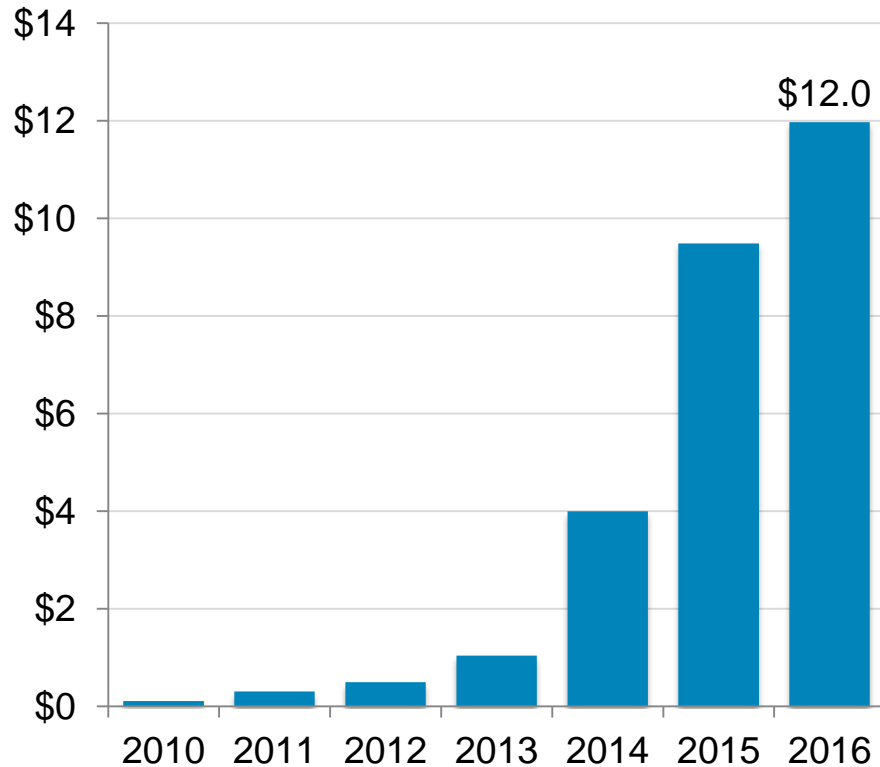
* For all private industries



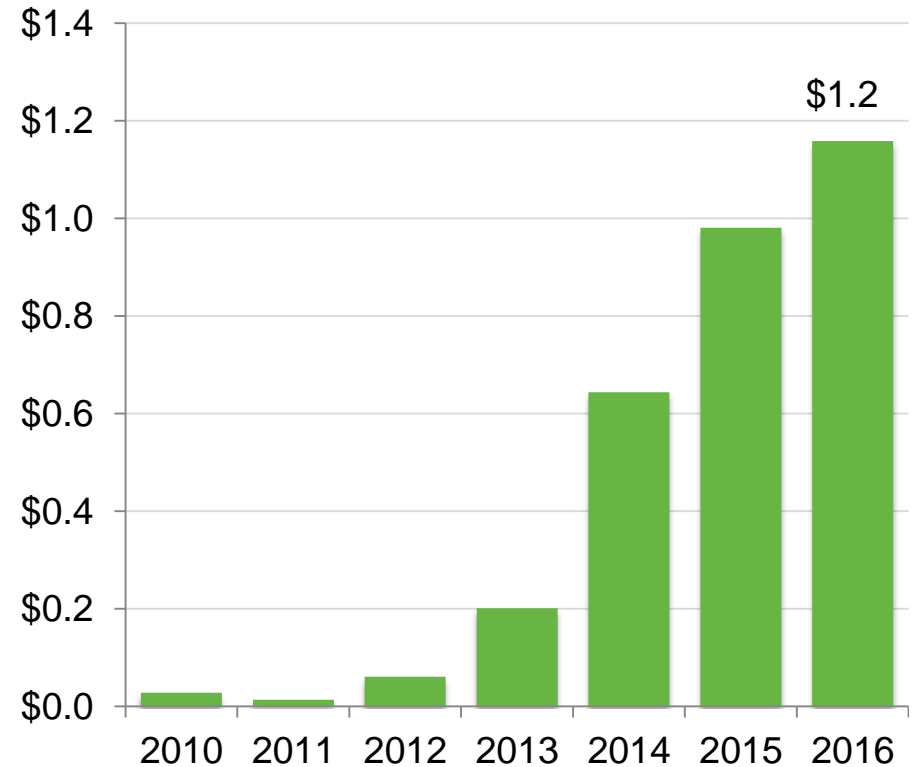
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In 2016, U.S. Airlines Continued Efforts to Retain and Lure New Equity Investors, Returning \$13B to Shareholders Via Stock Buybacks (\$12B) and Dividends (\$1B)

Stock Repurchases (Billions)



Dividends (Billions)



* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



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JANUARY 2017 AIR TRAVEL SURVEY FINDINGS



Ipsos Research Approach

- » A4A again selected [Ipsos Public Affairs](#) (“Ipsos”), one of the [top polling firms](#)¹ in the country.
- » Ipsos conducted a [poll](#)² January 6-13, 2017 on behalf of Airlines for America ([A4A](#)). For the survey, a sample of 5,047 adults age 18+ from the continental U.S., Alaska and Hawaii was interviewed online in English.
- » The sample for this study was randomly drawn from Ipsos’s online [panel](#),³ partner online panel sources, and “river” [sampling](#)⁴ and does not rely on a population frame in the traditional sense. Ipsos uses fixed sample targets, unique to each study, in drawing sample.
- » After a sample has been obtained from the Ipsos panel, Ipsos calibrates respondent characteristics to be representative of the U.S. population using standard procedures such as raking-ratio adjustments. The source of these population targets is U.S. Census 2015 American Community Survey data. The sample drawn for this study reflects fixed sample targets on demographics. Post-hoc weights were made to the population characteristics on gender, age, region, race/ethnicity and income.

1. <https://projects.fivethirtyeight.com/pollster-ratings/>

2. <http://www.ipsos-na.com/news-polls/pressrelease.aspx?id=7585>

3. http://www.ipsos-na.com/dl/pdf/research/public-affairs/ipsos_IIS_NAAccessPanelsRecruitment_.pdf

4. http://www.ipsos-na.com/dl/pdf/research/public-affairs/ipsos_IIS_AmparioOverview.pdf

Source: Ipsos survey of American adults (January 2017)



Ipsos Poll Accuracy

- » Statistical margins of error are not applicable to online polls. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error. Where figures do not sum to 100, this is due to the effects of rounding.
- » The precision of Ipsos online polls is measured using a [credibility interval](#).¹ In this case, the poll has a credibility interval of plus or minus 1.6 percentage points for all respondents.
- » Ipsos calculates a design effect (DEFF) for each study based on the variation of the weights, following the formula of Kish (1965). This study had a credibility interval adjusted for design effect of the following (n=5,047, DEFF=1.5, adjusted Confidence Interval=3.1).

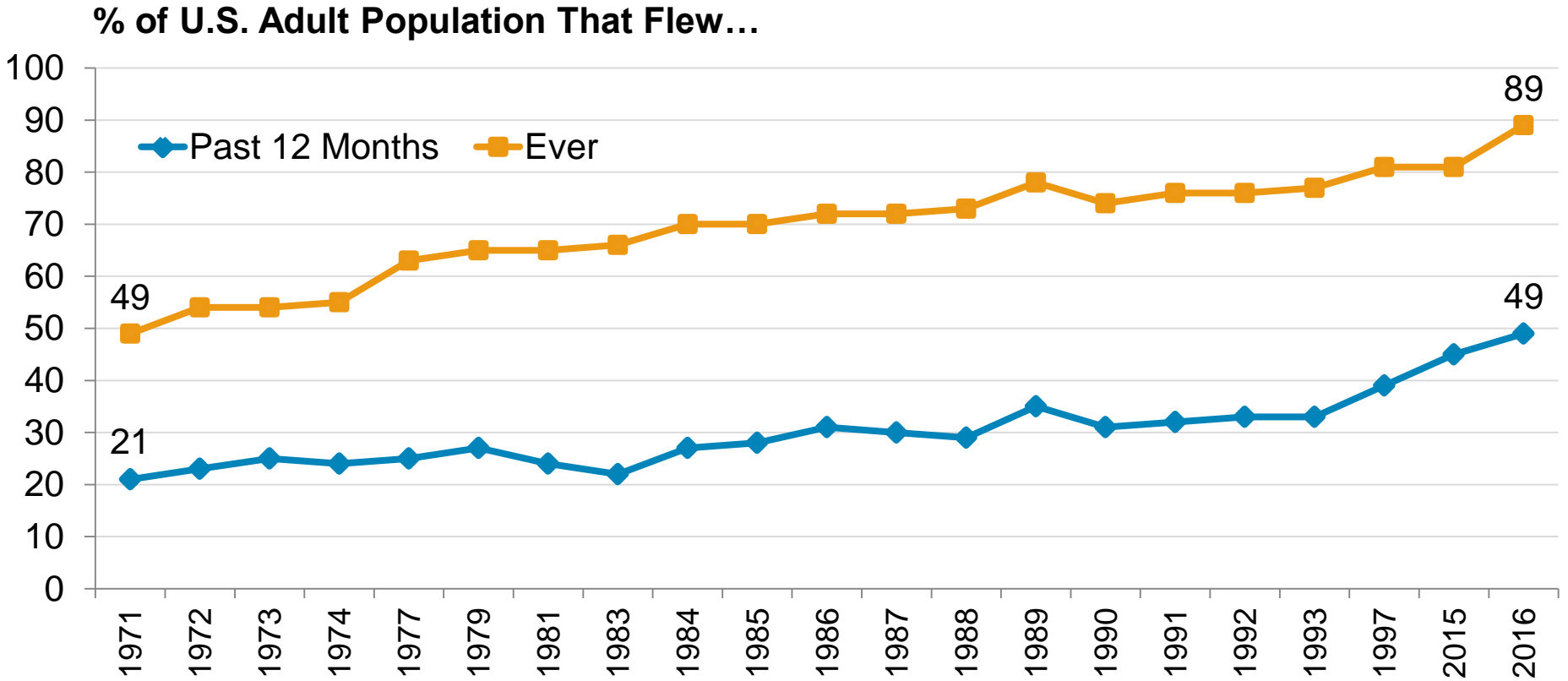
1. http://www.ipsos-na.com/dl/pdf/research/public-affairs/IpsosPA_CredibilityIntervals.pdf

Source: Ipsos survey of American adults (January 2017)



About Half the American Population Traveled by Airline in 2016

Almost 90 Percent of Americans Have Traveled by Airline in Their Lifetimes



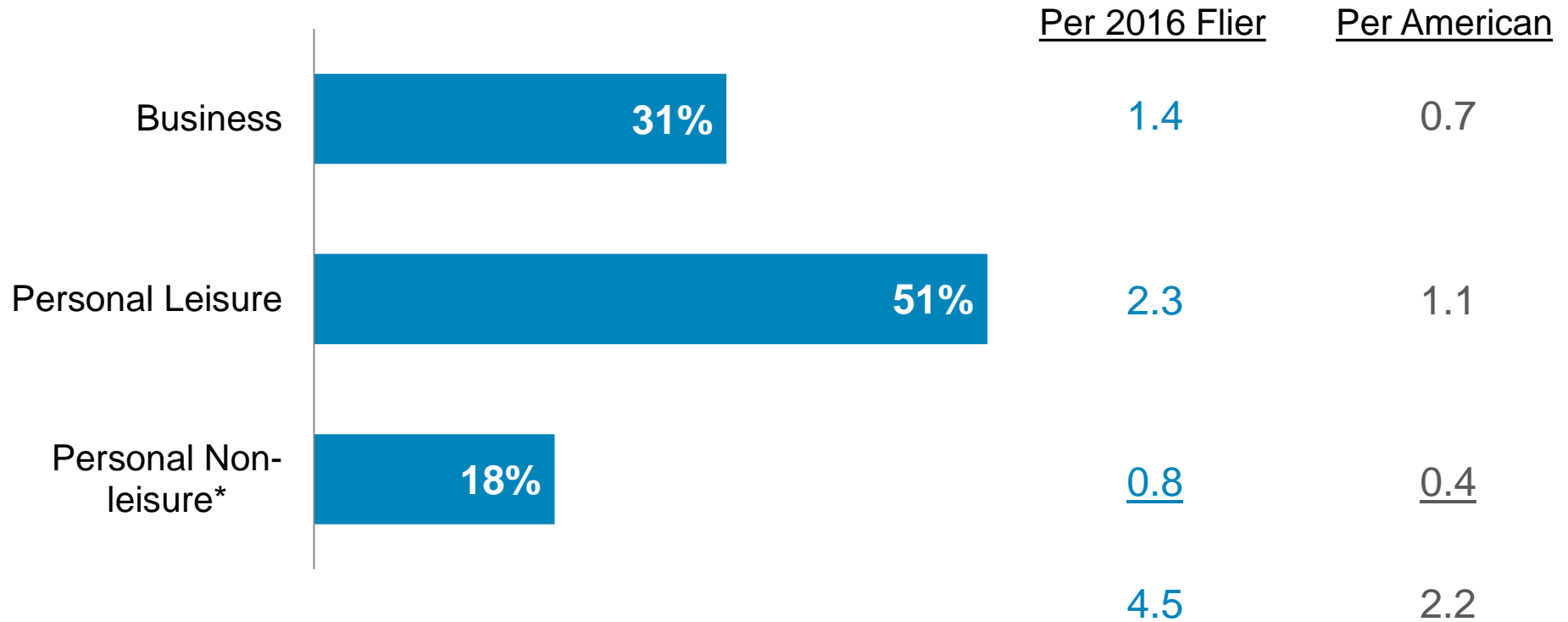
Source: Gallup and Ipsos Public Affairs



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Half of 2016 Airline Trips Were Taken Primarily for Leisure; 31 Percent for Business

Composition of Airline Trips Taken by Primary Purpose in 2016



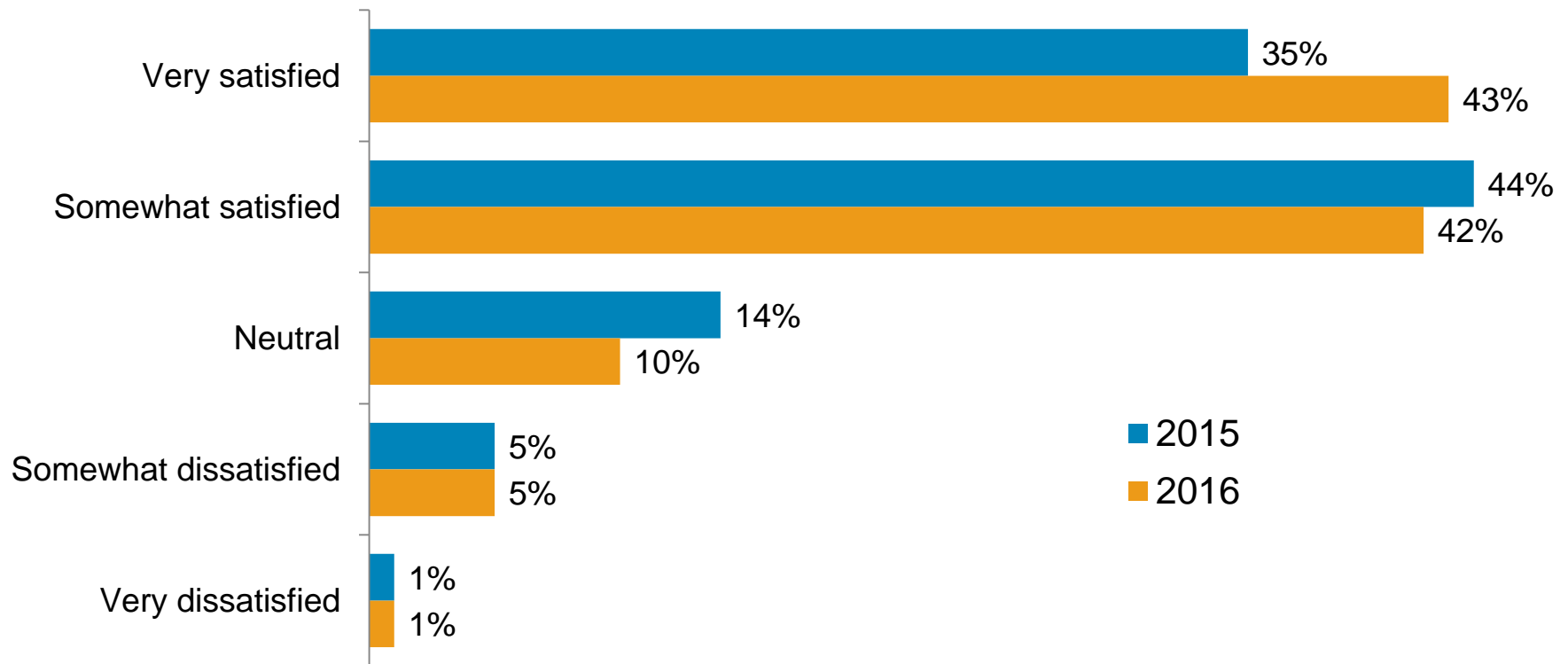
* Includes traveling to/from college, family event, job interview, funeral, medical matters



85 Percent of 2016 Fliers Reported Being Somewhat or Very Satisfied

Satisfaction Up From 2015; Those Who Were “Very Dissatisfied” Unchanged at 1 Percent

Satisfaction with “Overall Experience With Air Travel” in 2016



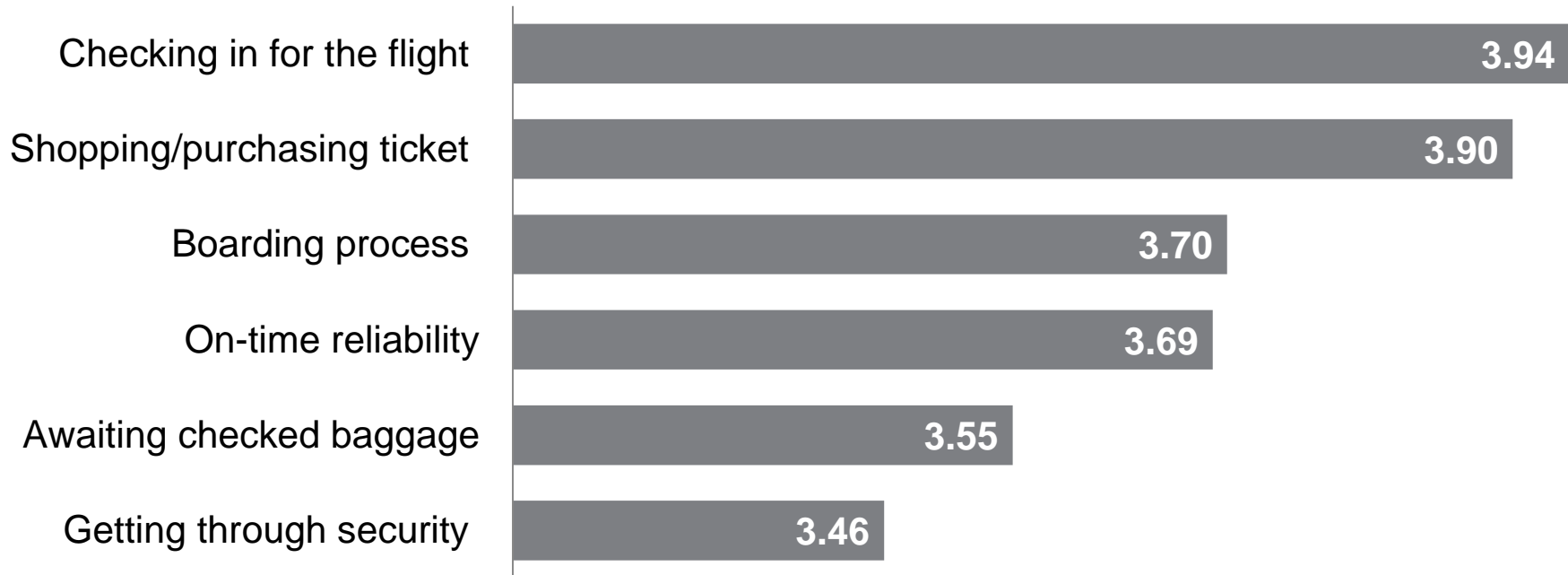
Source: Ipsos surveys of American adults (December 2015 and January 2017)



2016 Fliers Most Satisfied With Checking In, Followed by Shopping/Booking Flights

Fliers Gave All Six Categories an Average Score Exceeding 3

In 2016, on a scale of 1 (lowest) to 5 (highest), how would you rate your overall satisfaction with each of the following?



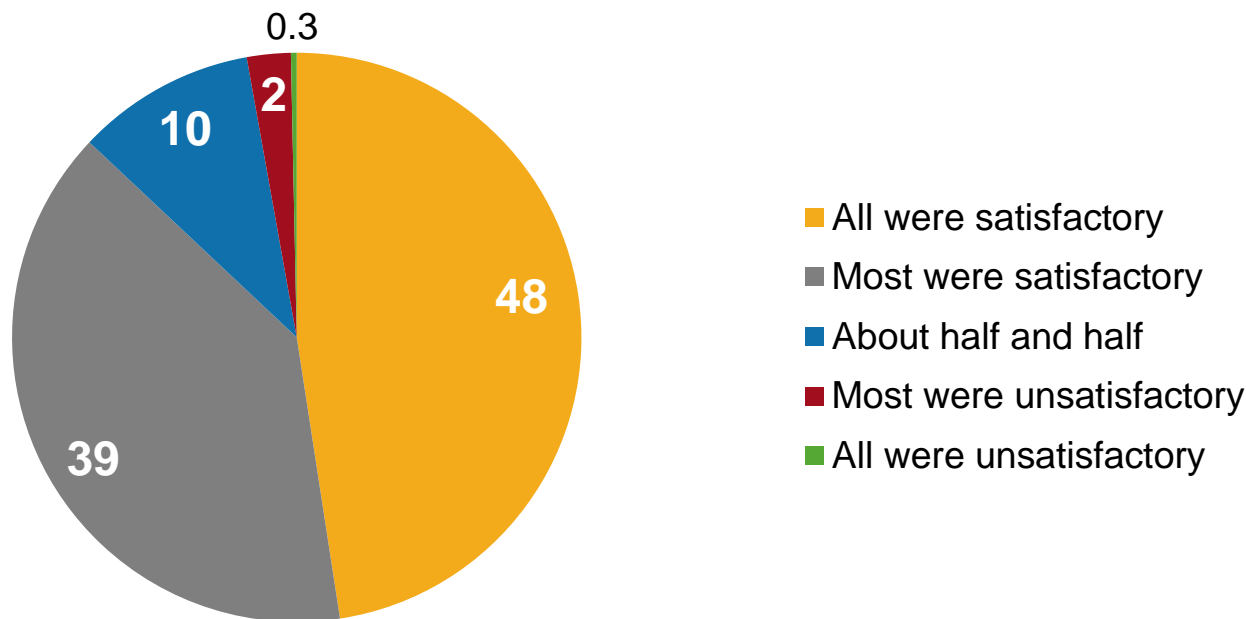
Source: Ipsos survey of American adults (January 2017)



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48% of 2016 Fliers Said All Flights Satisfactory; 39% Said Most Were Satisfactory

Of all the flights you took in 2016, what amount were satisfactory to you?



Source: Ipsos survey of American adults (January 2017)

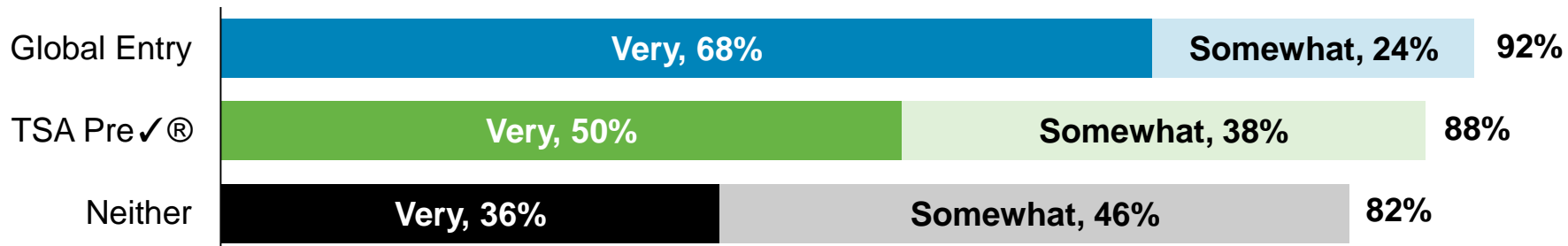


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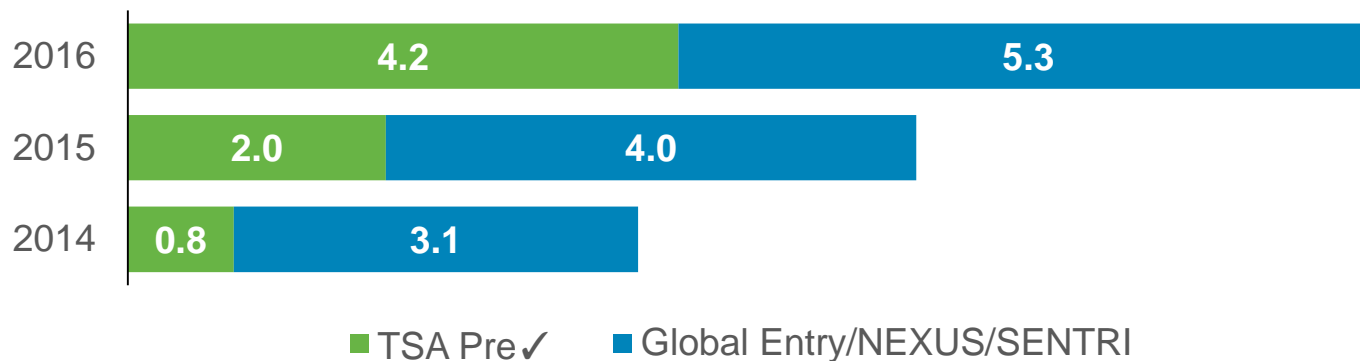
Flier Satisfaction Rises Markedly With Enrollment in Expedited Screening Programs

Airline/Government Collaboration Boosting Participation in DHS Trusted Traveler Programs

% of 2016 Fliers Indicating “Very Satisfied” With Overall Air Travel Experience



Millions of Persons Enrolled in DHS Trusted Traveler Programs (Dec. 31)

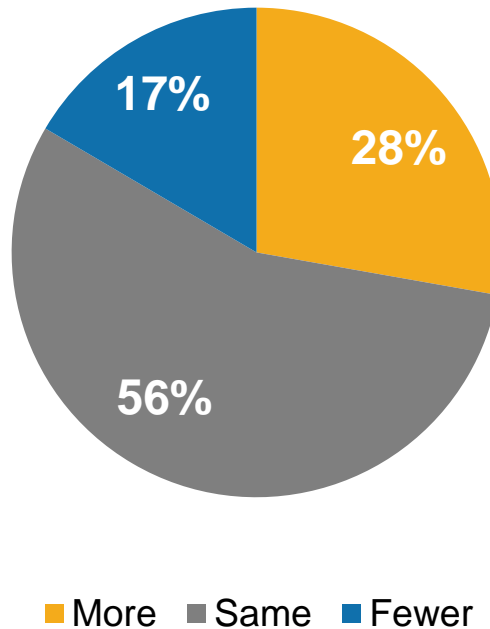


Sources: Ipsos survey of American adults (January 2017), Transportation Security Administration, Customs and Border Protection



Most Americans Will Fly as Much or More in 2017 as They Did in 2016

Including both business travel and personal travel, do you think you will take more or fewer airline trips in 2017 than you did in 2016?



Source: Ipsos survey of American adults (January 2017)



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2016 Operational and Financial Recap: U.S. Passenger Airlines

- » In 2016, airlines:
 - ❖ Achieved the seventh consecutive year of consummate safety performance
 - ❖ Posted gains or high-water marks on multiple operational fronts
 - ❖ Carried a record level of traffic and operated a record level of capacity, with the highest two-year growth in capacity since 2003-2005 contributing to lower average fares and load factors
 - ❖ Recorded a modest reduction in profits, as lower operating revenues (lower fares offset higher traffic) were met with higher operating expenses (increases in labor/airport/aircraft/other offset lower fuel)
 - ❖ Saw profitability (14% pre-tax margin) continue to lag the U.S. corporate average (16% margin)
- » Cash flow generated allowed U.S. airlines to retire expensive debt, acquire new aircraft, upgrade facilities, expand inflight entertainment options, boost inflight Wi-Fi speeds, deploy more seats in the marketplace, increase staffing and wages, reward investors
- » Airlines continue to add seats at airports large and small, as competition intensified across the United States and consumers benefited from expanding route maps
- » Satisfaction rose from 2015, and market research affirms that participation in expedited screening programs markedly improves the air travel experience; enrollment rising



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