

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • MAY 16, 2012

APRIL: FEWER SEATS AND LESS TRAFFIC

1. **Overall trans-Atlantic traffic slipped in April by an average 0.7 percent** on the leading carriers. That was a return to the pattern of low growth over the past six months (with the exception of March's 5.8-percent increase). Reduced capacity continued to be a factor; it was -3.7 percent in April, pushing the average load factor up to 84.1. See the **Trans-Atlantic Traffic Trends** chart.
2. **Visits by Americans to Europe increased a solid 6.5 percent in March**, according to the latest figures from the U.S. Dept. of Commerce. We think this is a more accurate measure of U.S. traffic trends for the first half than February's +19.0. The later was inflated by the extra day in February and by comparison to a very low total in February 2011. See the **Volume of Travel** chart.

GREECE ON THE BRINK, AUSTERITY LOSES, DOLLAR SURGES

3. **Euro-zone fear is rocketing** as Greece hurtles toward a second election (June 10 or 17) that could bring an anti-austerity coalition to power. If so, the new government would seek to renegotiate bailout terms imposed by the EU and IMF. Would the latter bend? Greece's bankruptcy and departure from the euro zone has moved from unlikely to more than possible.
4. **Supporters of austerity policies suffered elsewhere in Europe.** Nicolas Sarkozy became the first French president to lose re-election since Valéry Giscard d'Estaing in 1981; Britain's coalition government lost 823 seats in local elections; Angela Merkel's CDU was punished by voters in Schleswig-Holstein and North Rhine-Westphalia. Results were less clear-cut in Italy's regional and city elections.
5. **Europe's euro jitters and spreading recession pushed the dollar up to a four-month high of €0.78**, and pushed stock markets down, with the Dow dropping to 12,599 (today) from its post-meltdown peak of 13,279 on May 1.
6. The markets also worried that **the U.S. recovery is slowing, with a gain of only 115,000 new jobs reported for April.** Unemployment ticked down again to 8.1 percent, the lowest since January 2009, but only because hundreds of thousands stopped looking for work. On the

brighter side, total new jobs for February and March were revised upward by 13.5 percent or 47,000 jobs.

7. More economic positives and negatives: **U.S. gasoline prices continued to fall, to \$3.75 per gallon** of regular (national average). Oil prices were down again, to less than \$95 a barrel. Although as well regarded as banks go these days, **JP Morgan Chase reported a \$2 billion trading loss** that further shook markets.

Consumer confidence surged, reversing recent small declines. The Thomson Reuters/Univ. of Michigan index rose to 77.8 in early May—its highest since January 2008—from a revised 76.4 in early April. Previously, the Conference Board said its index had dropped slightly from a revised 69.5 in late March to 69.2 in late April.

UNDERWEAR THREAT

8. **A new, harder-to-detect ‘underwear bomb’ has led to review of airport scanning equipment and techniques.** The bomb was built by al-Qaida in Yemen for detonation on a U.S.-bound flight, according to the original May 7 report by the Associated Press.

It turns out that the man who was to “wear” the bomb was actually a Saudi agent working with both Britain’s MI6 and the CIA. The leak of the story to the AP (and exposure of the agent) is now the subject of considerable upset among intelligence circles in Washington and London.

NUMBER 1 AGAIN

9. **Worldwide, international tourism increased in 2011** with a 4.6-percent rise in arrivals to 982 million, according to the UNWTO’s World Tourism Barometer. Receipts grew 3.8 percent (adjusted for exchange rates and inflation) to \$1,030 billion. Europe accounted for a 45-percent share of receipts or \$463 billion. With so many countries so close together, Europe always scores disproportionately high in share of international travel.

BERLIN AIRPORT ON HOLD, EUROPEAN CARRIERS LOSE IN 1st Q

10. **The opening of Berlin’s big new airport won’t happen before late August.** Berlin Brandenburg Willy Brandt (BER) was to have welcomed its first official flights June 3. One reason given for the delay is that fire-safety inspections and procedures require more time. Both Lufthansa and Air Berlin will have to hold up on their plans to shift operations from Tegel and next-door Schönefeld, and to immediately expand schedules.
11. **American Airlines executives bent to pressure from its unions** and other creditors in agreeing to consider a merger with US Airways as it reorganizes in bankruptcy court. Previously,

American Chief Executive Tom Horton insisted they would consider the merger only after emerging from bankruptcy.

American also announced that it intends to shift more planes to international service. The percentage of seats on international routes would be increased from 38 to 44 by the end of 2017. While American leads U.S. carriers in lift to Latin America, it is far behind Delta and United on both trans-Atlantic and trans-Pacific routes, relying heavily on joint-ventures with British Airways and Japan Airlines.

12. **Air France/KLM lost €368 million in the 1st Q**, about the same as in the 1st Q of 2011; revenue rose 6 percent to €5.6 billion. **Lufthansa lost more, €397 million**, on a 5.6-percent increase in revenue to \$6.6 billion. But that was less than the €507 million loss a year ago. Fuel hedges limited the red ink for both airlines; in Lufthansa's case, by about €114 million.

International Airlines Group reported a €146 million loss (compared to a €33 million profit last year). Total revenue was up 7.8 percent to €3.9 billion for the parent of British Airways and Iberia. The loss would have been significantly greater, but for €117 million in tax breaks.

1st Q results for U.S. carriers were reported here April 30; the highlight was American's \$1.7 billion loss.

13. **Delta is spending \$150 million—the list price of a Boeing 767-200—to buy the Phillips 66 refinery** in Trainer, PA. Delta said the refinery, south of Philadelphia, could cut its fuel bill by about \$300 million a year, once it is refitted to produce more kerosene.
14. **Eurostar plans to run its high-speed trains from London to 10 more cities** on the Continent by 2017, specifically citing Amsterdam, Cologne, Frankfurt, Lyon, Marseille and Geneva. Eurostar says it will compete with airlines now serving those cities from London in terms of both time and price. Eurostars already carry more than 80 percent of the traffic between London, and Paris and Brussels.
15. **Thomas Cook says shareholders must approve the sale or leaseback of 17 aircraft and a handful of Spanish hotels** when they meet May 29. The company lost £262 million in the half-year to March 2012 (compared to -£165.8 million a year earlier).
Management says it needs the £239 million from the sales to meet expenses over the next 12 months, despite lenders' approval of extension of its \$1.4 billion debt by two additional years (to May 2015).
16. **The Obama Administration wants to create a National Travel & Tourism Office** within the Dept. of Commerce, which would work with Brand USA toward the goal of drawing 100 million foreign visitors to the U.S. by 2021 (62.3 million came last year). The new office would be "the central driving force" for the national tourism strategy announced earlier, according to Commerce Secty. John Bryson.

The office would support action to speed foreign visitors through customs and passport controls, and work closely with the industry in collecting and analyzing data.

The Dept. of Commerce cooperated with U.S. Travel, the industry umbrella group, to establish and fund Brand USA, which launched its first multi-million marketing campaign this month in Britain, Japan and Canada.

Congress first created a national tourist office in 1961. That was shrunk in 1996 to the present Office of Travel & Tourism Industries. Now focused on statistics and analysis, that unit would presumably be the kernel of the new tourist office.

17. **The next edition of the Visit Europe Media Exchange** opens in **New York** on Monday, Oct. 22, and in **Chicago** on Thursday, Oct. 25.

The Media Exchange will again be an essential opening event for trans-Atlantic travel interests, leading into what is projected to be a year of strong growth in 2013.

VEMEX will bring together more than 140 pre-approved journalists with representatives of national, regional and city tourist offices, rail and other transport services, and major European attractions. For information send an email to: VEMEX@dnmartinco.com.

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Trans-Atlantic Traffic Trends, April '12

Compared to previous year, +/- percent

RPMs	May '11	June '11	July '11	Aug. '11	Sept. '11	Oct. '11	Nov. '11	Dec. '11	Jan. '12	Feb. '12 *	March '12	April '12	ASMs (April '12) Load Factor
Delta (Sky)	+ 0.8	- 1.1	- 1.1	- 2.4	- 7.6	- 10.3	- 11.0	- 7.3	- 4.2	+ 3.1	- 0.4	- 6.1	- 6.8
Air France/ KLM (Sky)	+ 7.8	+ 6.4	+ 9.6	+ 10.7	+ 12.2	+ 8.6	+ 6.2	+ 9.0	+ 8.3	+ 13.1	+ 9.7	+ 2.3	+ 0.0
United (Star)	+ 1.4	- 2.0	- 2.4	- 5.8	- 2.1	- 7.9	- 4.1	- 1.1	- 1.9	+ 0.8	+ 1.4	- 6.0	- 9.7
Lufthansa/ Swiss/ Aus. (Star)	+ 5.7	+ 4.0	+ 7.5	+ 6.1	+ 3.9	+ 2.3	+ 4.2	+ 2.9	- 0.3	+ 0.8	+ 6.0	+ 1.5	- 1.7
American (One)	+ 2.3	+ 1.5	+ 2.1	+ 2.5	+ 0.5	- 0.6	- 2.8	+ 4.8	+ 3.1	+ 8.0	+ 2.0	- 2.7	- 8.9
British Airways/ Iberia (One)	+ 23.4	+ 16.3	+ 7.6	+ 6.5	+ 7.3	+ 8.7	+ 14.0	+ 23.3	+ 8.5	+ 11.1	+ 16.3	+ 6.8	+ 4.9
Leading-carriers average	+ 6.9	+ 4.2	+ 3.9	+ 2.9	+ 2.4	+ 0.1	+ 1.1	+ 5.3	+ 2.3	+ 6.2/+2.5	+ 5.8	- 0.7	- 3.7
ALL CARRIERS (Airlines for America + Assoc. of European Airlines)	+ 6.4	+ 3.6	+ 3.5	+ 2.8	+ 2.5	+ 0.0	+ 0.0	+ 2.8	+ 0.6	+ 4.3/+0.7	+ 5.4		

* February '12 had 29 days/ average DAILY increase in RPMs was 2.5% for leading carriers, and only 0.7% for all carriers.

Note: Figures include traffic (Revenue-Passenger Miles) generated on both sides of the Caribbean; British Airways/ Iberia figures are for North America only. U.S.-carrier figures include trans-Atlantic traffic beyond Europe. Despite these caveats, they remain the Caribbean and South America; Air France/ KLM figures include the same, minus our best immediate trend indicators. Capacity is measured in Available-Seat Miles.

VOLUME OF TRAVEL TO EUROPE BY U.S. CITIZENS MARCH 2012

From monthly air-travel reports issued by the U.S. Dept. of Commerce, Office of Travel and Tourism Industries. Totals are for U.S. citizens departing U.S. gateways on flights with first arrival in Europe (including the Russian federation).

Since July 2010, data has been collected from airlines before departure by the Dept. of Homeland Security via the new Advance Passenger Information System (APIS). This more accurate system has revealed that U.S.-citizen departures were previously overcounted, by as much as 20 percent per month. Thus the significant minus figures reported for July 2010 through June 2011 do not reflect actual decreases of that magnitude. Indeed, independent data indicates that traffic increased through much of that period.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	% change from 2011
January	590,697	671,177	713,703	748,042	734,184	739,893	753,241	668,221	664,807	568,471	580,304	+ 2.1
February	598,234	591,131	655,434	649,274	638,319	626,434	668,385	568,968	544,768	414,958	493,931 *	+19.0/+14.9
March	910,848	808,794	982,275	992,917	1,025,478	1,041,834	982,679	847,090	852,371	773,308	823,312	+ 6.5
										1,756,737	1,897,547	+ 8.0
April	769,269	679,570	929,359	944,616	990,345	998,978	968,486	940,279	761,418	806,302		
May	1,080,818	979,655	1,229,897	1,280,025	1,368,704	1,386,300	1,318,802	1,241,375	1,232,279	1,157,885		
June	1,305,355	1,205,280	1,432,810	1,463,636	1,585,248	1,607,434	1,521,619	1,397,017	1,545,950	1,431,960		
July	1,012,332	1,209,944	1,293,447	1,383,904	1,450,854	1,467,596	1,334,096	1,383,704	1,239,156	1,288,805		
August	867,279	1,049,258	1,106,643	1,096,385	1,159,246	1,235,953	1,122,497	1,204,945	969,046	1,047,001		
September	980,829	1,055,536	1,169,280	1,208,755	1,245,357	1,297,046	1,180,564	1,163,697	1,122,203	1,119,104		
October	805,403	872,409	897,683	941,909	980,856	1,038,804	916,328	920,191	831,219	844,142		
November	745,117	785,206	821,219	811,118	816,098	856,815	765,079	748,994	640,639	644,948		
December	830,737	888,149	900,717	902,504	913,995	954,698	888,886	845,496	688,213	729,039		
	10,496,918	10,796,109	12,132,467	12,423,085	12,908,684	13,251,785	12,420,662	11,929,977	11,092,069	10,825,923		
Final **	10,677,881	10,992,891	12,243,834	12,552,629	12,995,893	13,329,777	12,505,627	11,979,018	11,103,708	10,825,923		

** Final totals through 2010 adjusted upward by the U.S. Dept. of Commerce, Travel and Tourism Industries, in annual report as late filings were received from carriers. Beginning with 2011, December total is final.

* February '12 had 29 days, average DAILY increase was 14.9 percent.