

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • NOV. 15, 2012

OCTOBER: OVERALL TRANS-ATLANTIC TRAFFIC DOWN 3.8%

SEPTEMBER: U.S. TRAFFIC TO EUROPE UP 1.8%

1. **Overall trans-Atlantic traffic dropped in October**, with the leading carriers reporting an average 3.8-percent decline. A portion of that was blamed on Hurricane Sandy, which forced blanket cancellations to and from New York and the Northeast U.S. for most of three days.
Average capacity was down 5.3 percent, with the U.S. carriers leading the way. Average load factor was 84.3 (compared to 83.1 a year ago. See No. 9 below and the **Trans-Atlantic Traffic Trends** chart.
2. **U.S. traffic to Europe flattened in September**, with the U.S. Dept. of Commerce reporting 1.14 million U.S. visits (a preliminary number) for an increase of only 1.8 percent (compared to +7.6 percent in August).
For the peak season (May-September), Americans made 6.28 million visits to Europe, or 3.8 percent more than in the summer of 2011. That's a good performance considering that overall North Atlantic capacity was down, and fares and fees were up. See No. 12 below and the **Volume of Travel to Europe** chart.

TOTAL U.S. PASSPORTS AT RECORD 113.4 MILLION

3. **The U.S. State Dept. issued 11.8 million first-time passports and renewals in FY2012**, ending Sept. 30. **That brought total valid passports to 113.4 million**—3.3 percent more than a year ago—according to the Bureau of Consular Affairs. We estimate that 3 percent of these are not “in the market” (deaths and disabilities) and that 5.3 million are held by U.S. citizens living abroad.
That would leave **104.7 million passport holders in the 50 states, or about 36 percent of the citizen population**. That does not count holders of Passport Cards, issued since 2008, which are valid only for reentry into the U.S. by land or ship from Canada, Mexico and the Caribbean.
These estimates are more accurate than those we reached a few years ago, which relied on total *applications* and did not take into account the shorter term of passports held by minors.

The number of valid U.S. passports has doubled in only a decade, spurred by post-9/11 concerns over security and documentation. For more data and graphs: http://travel.state.gov/passport/ppi/stats/stats_890.html.

‘FISCAL CLIFF’ MANEUVERING, RECESSION & STRIKES IN EUROPE

4. **President Obama was re-elected for another four years** and Democrats increased their majority in the Senate (including two independents) to 55-45. The Democrats gained in the House, but will be at least 17 votes short of a majority. This will continue the divided government of the past two years, **as negotiations begin to deal with the year-end ‘fiscal cliff’** in which across-the-board tax increases could combine with vast federal spending cuts to snuff out the recovery.
5. **The stock markets are nervous about that cliff**, with the Dow falling 313 points the day after the election to close below 13,000 for the first time since Aug. 3. Since then, the index has dropped another 391 points, closing today at 12,542.
6. Additional economic ups and downs in the U.S.: **Oil prices continued stable at \$85** per barrel. **Gasoline was down, to \$3.44** per gallon of regular (national average). **Foreclosures on homes continued to decline in September**, as refinancing, loan modifications and short sales rose. The 57,000 foreclosures were down from 83,000 a year earlier.
7. **Consumer confidence rose to a new five-year high in the U.S.**, with the Thomson Reuters/Univ. of Michigan index at 84.9 in early November from a revised 82.6 in early October. Previously, the Conference Board also reported a gain, to 72.2 in late October from a revised 68.4 in late September.
8. **Millions of workers went on strike Wednesday to protest austerity programs** in Spain, Portugal, Italy, Greece and other countries. Tens of thousands of people rallied in major squares; violent battles with police broke out in Madrid, Lisbon, Rome, Milan and other cities. Airport and airline workers joined the strikes in Madrid, Lisbon and several other gateways, forcing cancellation of hundreds of intra-European flights. At least two cruise ships turned away from affected ports.
9. **The euro-zone is in recession again**, Eurostat said today. Combined GDP for the 17 countries dropped 0.1 percent in the 3rd Q, following a 0.2 percent drop in the 2nd Q. Germany, the largest and strongest member economy, grew only 0.2 percent, down from 0.3 percent in the 2nd Q. The Netherlands lost 1.1 percent. The European Union as a whole saw GDP rise 0.1 percent; positive effects of the London Olympics were said to have helped.

10. **Fears that the sovereign-debt crisis could unravel the euro seem to have eased**, at least for the moment, thanks in large part to the European Central Bank's promise to buy government bonds. That has brought down the cost of rolling over debt, especially critical to Spain, Portugal and Italy.

Greece remains the most likely to drop out of the euro zone. It is saddled with Europe's longest, deepest recession and the highest sovereign debt heading toward 190 percent of GDP next year. The latest bailout payment is due next week, but no one seems to know how to reignite growth when the population is bled of cash and credit.

11. **The dollar has been on the rise versus the euro**, from €0.77 to nearly €0.79 before pulling back slightly Wednesday.

A STRONG PEAK SEASON, BRITAIN'S OLYMPICS PAYOFF, GREECE CUTS PRICES

12. **The 3.8-percent increase in peak-season U.S. visits to Europe contrasts with an increase of only 0.5 percent in overall trans-Atlantic traffic** reported by the carriers. Which indicates that European traffic to the Americas fell or that U.S. traffic (via Europe) to the Mideast and Asia declined, or both. We're awaiting Dept. of Commerce data that might confirm the peak-season pattern.

Overall traffic was held down because airlines reduced peak-season capacity by 1.6 percent, pushing the peak-season load factor to 87.6 (compared to 85.7 a year ago).

13. **Overall visitors to Europe increased more slowly in the 3rd Q**, according to a report produced by Tourism Economics for the European Travel Commission. The U.S. remains the leading long-haul market and U.S. visitors are up this year (confirming the U.S. data). Slovakia (+27 percent), Estonia, Iceland and Croatia scored the largest percentage gains in U.S. visits among ETC member countries; Belgium, Spain, Italy and Cyprus are seeing fewer Americans (Britain is not an ETC member).

For details, go to www.ETC-Corporate.org/market-intelligence/reports-and-studies.html.

14. **U.S. travel to Britain fell again in September**, according to VisitBritain's provisional report for the month. That continued the downward summer trend, despite the Summer Olympics. For the year through September, U.S. visits to Britain are up only 2 percent. Overall visits to Britain are about level with last year's through September at 23.5 million.

The spend figures are much better: September spending by all visitors was £1.9 billion, 17 percent more than a year ago, with spend per visit at a record £607.

Olympics impact: VisitBritain estimates that 470,000 foreign visitors came primarily for the Olympics or the Paralympics during July, August and September. Of these, 66 percent were from Europe, 17 percent from North America and the remainder from "elsewhere." A further

210,000 visitors are estimated to have attended an Olympic event, even if that was not the primary purpose of the trip.

The total of 680,000 Olympics-related visitors spent about £920 million for an average of £1,350 per visit.

Bottom line: The Summer Olympics drew hundreds of thousands of people to Britain who might not have visited otherwise. The Games apparently also *dissuaded* a similar number from visiting for fear of crowds and high prices; thus overall traffic rose very little. But the impressive increase in summer revenue—and that's what it's all about economically—can be credited to the significantly higher spending of Olympics visitors.

15. Are Greece's economic upheavals, protests and media coverage of same hurting tourism?

Unfortunately, yes, according to a report by ITB Berlin and IPK International. Compared to last year (when Greece benefitted from Arab Spring turmoil), overall arrivals in Greece are down 12 percent. Arrivals from Germany and Britain are down 20–30 percent. That was partly offset by increases from Romania and Russia. No numbers were given for U.S. travel to Greece in this report or in the ETC report.

Faring better as destinations for Europeans are Italy (+2 percent), Spain (+3 percent) and Portugal (+3 percent), the report said.

- 16. Separately, Greek hoteliers attending last week's World Travel Market in London said they have slashed rack rates by 10 to 15 percent** to fill rooms. Upmarket Helios Hotels has slashed some prices by as much as 40 percent. George Geogidakis, managing director of John & George Group, was quoted thusly by Travel Mole: "...the situation in Greece, for tourists, is fine and we need people to see for themselves that everything is normal in Greece. But most of all we need an end to the negative stories."

EUROPE BLINKS ON AIRLINES EMISSIONS, BIG CUTBACKS FOR IBERIA

- 17. The European Commission bowed to worldwide pressure and 'stopped the clock' for a year on extending its Emissions Trading Scheme** (carbon emission controls) to international flights to and from Europe. The European Union, which has led the world in dealing with climate change, said it would give the UN's International Civil Aviation Organization time to finalize a scheme that would apply to all countries.

Most countries, including all of Europe's leading tourism markets, opposed the ETS for aviation, as did virtually all airlines, including European airlines.

- 18. International Airlines Group (British Airways and Iberia) reported a profit of €202 million** on total revenue of €5.06 billion for the 3rd Q. That compares to a €267 million profit a year ago. The bottom line would have been better were it not for an operating loss on the part of Iberia, down €262 million for the year through September.

Fixing Iberia is therefore job one. "Iberia is in a fight for survival," said IAG Chief Executive Willie Walsh in announcing this prescription: Cut five long-haul aircraft and 20 smaller planes, reduce the network by 15 percent, and eliminate 4,500 of the 20,000 total jobs.

Iberia Chief Executive Rafael Sánchez-Lozano added: "(Iberia's) problems are systemic and pre-date current difficulties (of Spain and Europe). The company is burning €1.7 million every day. Iberia has to modernize and adapt to the new competitive environment, as its cost base is significantly higher than its main competitors in Spain and Latin America."

As part of righting operations in Spain, IAG wants to buy the 54 percent of low-cost Vueling that Iberia does not already own, for €113 million.

Even though IAG is in the black for the year through September, it forecasts a final annual loss of €120 million, and that doesn't count Iberia restructuring costs.

19. **Air France/KLM reported its first profitable quarter in a year**, with €306 million net income on total revenue of €7.18 billion (+5.8 percent). But the first two quarters were so rough that Air France is still down €957 million through September (compared to -€550 million through September of last year.

We reported Lufthansa's 3rd Q profit of €645 million in the last issue, which put the group into the black by €474 million for the year.

These results compare with Delta's remarkable \$1 billion profit for the quarter, United's slight \$6 million profit and American's \$238 million loss amid restructuring.

20. **Last chance for SAS?** Scandinavian Airlines' chief executive, Rickard Gustafson, is asking workers for further and deeper sacrifices to keep the carrier aloft.

Although SAS reported a 3rd Q net income of \$64 million (+51 percent) on revenue of \$1.6 billion (+5 percent), Gustafson said the airline hasn't made an annual profit in four years despite sales of assets and givebacks from employees, and that drastic restructuring is "our final call."

The plan: Sell the Wideroe regional airline and ground-handling services, which would shave the payroll by 5,000 jobs; then eliminate another 800 jobs, and lower salaries and pensions for the remaining 9,000 SAS workers. If the unions agree to these savings, worth about \$440 million a year, SAS would then seek \$520 million from the governments of Sweden, Norway and Denmark (who together own 50 percent of the airline) and from banks.

Slowing European economies, high fuel costs and competition from low-fare carriers have hurt. Rival Norwegian Air Shuttle has announced it will begin its first trans-Atlantic flights May 30 from JFK, on with a Boeing 787 (on order) flying to Oslo and Stockholm on alternate days.

21. **American has negotiated a new contract with its pilots union** whose final counterproposal broke a stalemate. The contract (no details released) will be sent to the membership for a vote to be counted next month.

American has been operating under bankruptcy protection for nearly a year and sought nearly \$1 billion in annual savings from its unions. Flight attendants and transport workers

previously approved new contracts. The pilots rejected the first contract presented to them in August. American then sought to impose new rules and compensation with the approval of the bankruptcy judge; that was met with soaring delays and flight-canceling reports of mechanical problems. American then agreed to resume talks toward a more acceptable contract.

22. **LOT Polish Airlines received the first of eight 787s** ordered from Boeing. LOT will be the first European airline to fly the Dreamliner, to be assigned early next year to routes from New York, Chicago and Toronto. In New York, LOT has just consolidated all operations at Terminal 1 at JFK, ending service from Newark.

VENICE AWASH, EURO DISNEY'S ATTENDANCE RECORD, KAYAK PAYS OFF

23. **Wind-driven high tides flooded most of Venice Sunday.** The surge reached 4.9 feet, sixth highest recorded since 1872. Comparisons: Normal spring high tide for Venice is 3.3 feet/ the 1966 record surge was 6.4 feet. Normal spring high tide at the Battery in New York is 5.5 feet/ the Oct. 30 Hurricane Sandy surge touched 13.9 feet.

Also endangering Venice is gradually subsiding land (-2 mm a year) and a rising sea level (+2 mm a year). To protect Venice, **€4.7 billion worth of floodgates and navigational locks are under construction** at the three inlets to the lagoon. When finished in 2014, these MOSE Project gates will rise when surges of 3.6 feet (110 cm) or more are forecast, and will be able to contain a surge as great as 9.5 feet.

24. **Euro Disney, which is celebrating Disneyland Paris's 20th anniversary, welcomed a record 16 million visitors** in the fiscal year ending Sept. 30. That's an increase of 3 percent over the previous year. But the group ran at a net loss of €100.2 million, 57 percent more than the previous year, on revenues of €1.3 billion (+2.3 percent).

Most of the increase in net loss was attributed to the upfront cost on refinancing of €1.3 billion in debt that will significantly lower interest payments in coming years.

25. **Priceline is buying Kayak for \$1.8 billion.** According to Carroll Rheem of PhoCusWright, that's \$800 million more than Kayak was valued in its IPO in July. Kayak.com is the leading "metasearch" site for air travel. Priceline is the leading online travel agency by volume of sales and enjoys worldwide standing (which would help Kayak expand beyond the U.S. market).

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Trans-Atlantic Traffic Trends, October '12

Compared to previous year, +/- percent

RPMs	Nov. '11	Dec. '11	Jan. '12	Feb. '12	March '12	April '12	May '12	June '12	July '12	Aug. '12	Sept. '12	Oct. '12 **	ASMs (Oct. '12)	load factor
Delta (Sky)	- 11.0	- 7.3	- 4.2	+ 3.1	- 0.4	- 6.1	- 4.4	- 5.5	- 6.7	- 5.1	- 0.3	- 3.0	- 6.9	86.0
Air France/ KLM (Sky)	+ 6.2	+ 9.0	+ 8.3	+13.1	+ 9.7	+ 2.3	- 1.8	+ 5.6	+ 2.0	+ 0.0	+ 1.1	- 3.3	- 3.4	88.8
United (Star)	- 4.1	- 1.1	- 1.9	+ 0.8	+ 1.4	- 6.0	- 1.7	- 1.4	- 5.8	- 2.4	- 5.3	- 9.6	- 8.8	78.7
Lufthansa/ Swiss/ Aus. (Star)	+ 4.2	+ 2.9	- 0.3	+ 0.8	+ 6.0	+ 1.5	+ 2.0	+ 3.8	+ 2.1	+ 4.2	+ 0.4	- 1.0	- 4.6	84.9
American (One)	- 2.8	+ 4.8	+ 3.1	+ 8.0	+ 2.0	- 2.7	- 9.6	- 5.5	- 3.3	- 0.6	- 0.7	- 8.5	- 9.5	82.9
British Airways/ Iberia (One)	+ 14.0	+23.3	+ 8.5	+11.1	+16.3	+ 6.8	+ 6.9	+ 6.0	+ 4.1	+ 6.2	+ 6.9	+ 2.4	+ 1.4	84.6
Leading-carriers average	+ 1.1	+ 5.3	+ 2.3	+6.2/+2.5 *	+ 5.8	- 0.7	- 1.4	+ 0.5	- 1.3	+ 0.4	+ 0.4	- 3.8	- 5.3	84.3
All carriers (Airlines for America + Association of European Airlines)	+ 0.0	+ 2.8	+ 0.6	+4.3/+0.7	+ 5.4	+ 0.0	- 1.5	- 1.3	- 0.5	+ 1.9	+ 1.4			
U.S.-citizen traffic to Europe, Dept. of Commerce	+ 0.7	+ 5.9	+ 2.1	+19.0/+14.9	+ 6.5	+ 3.2	+ 4.8	+ 4.7	+ 0.8	+ 7.6	+ 1.8			

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

** Hurricane Sandy reduced flights and traffic to and from U.S. Northeast Oct. 30-Nov. 3.

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 SEPTEMBER 2012 (pre)

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
April	769,269	679,570	929,359	944,616	990,345	998,978	968,486	940,279	761,418	806,302	832,117	+ 3.2
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	1,213,377	+ 4.8
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	1,498,656	+ 4.7
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	1,299,502	+ 0.8
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	1,126,098	+ 7.6
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	1,138,691	+ 1.8
										8,607,973	9,005,988	+ 4.6
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.