

TRANS•ATLANTIC®

THE U.S. MARKET FOR TRAVEL TO EUROPE • OCT. 31, 2013

U.S. VISITS TO EUROPE NOW AHEAD OF 2012 PACE

1. **U.S. traffic to Europe increased in August**, for the third consecutive month of the peak season. Visits by Americans totaled 1,161,706, up 3.2 percent from August 2012, according to the latest figures from the Dept. of Commerce. That brought U.S. visits for the year to 7.9 million, or 38,700 more than last year. The trend is expected to continue through the fall. See the **Volume of U.S. Travel to Europe** chart.

**NEXT ISSUE: Overall Trans-Atlantic Traffic/ October
U.S. Traffic to Europe/ September**

STOCKS RECOVER FROM SHUTDOWN; WILL CONFIDENCE FOLLOW?

2. The federal government shutdown cost the U.S. economy \$24 billion, according to a Standard & Poor's estimate, but that didn't bother the stock markets for long. **The Dow more than recovered the 901 points lost to the shutdown**, closing at a record 15,637 Wednesday.
Oil, which dropped to \$96 a barrel, its lowest since July, rose to \$97 per barrel as of today. **Gasoline prices continued to fall**, and are now averaging \$3.28 per gallon nationwide, the lowest since January.
3. **Sales of existing homes fell slightly in September from their 6½-year high in August.** They were still up 10.7 percent over September of last year. The national median price was \$199,200, also less than in August, but 11.7 percent more than a year ago, the 19th consecutive month of such price increases. The median number of days on the market was 49, up from 43 in August.
4. **Consumer confidence plunged.** The Conference Board index dropped steeply to 71.2 in late October from a revised 80.2 in late September. That index had been at 80 or more since June. The board's Lynn Franco said, "The federal government shutdown and debt-ceiling crisis took a particularly large toll on consumers' expectations."

Previously, the Thomson Reuters/Univ. of Michigan index reported a drop in early October to 75.2 from a revised 77.5 in early September. The early October number was later revised down to 73.2, the low for the year.

5. **The dollar edged up to €0.73 today, after falling toward €0.72 Monday, a two-year low.** It had been as high as €0.76 seven weeks ago.
6. In Europe, **Spain reported its first growth (+0.1 percent in the 3rd Q) after nine quarters of recession.** It was the latest sign that the euro zone's economic freeze is beginning to break up. Earlier in the summer, Portugal reported 1.1-percent growth in the 2nd Q, better than Germany's +0.7 percent. Spain is still losing jobs, but the "destruction rate" is down to 0.1 percent; the overall unemployment rate was at 26.3 percent at the end of the 2nd Q.

CHEAPER JFK-GATWICK FLIGHTS? NEW SERVICE FROM CHARLOTTE, NEWARK

7. **Off-peak fares have rarely been more stable.** The airlines are slowly adding flights and seats, and holding down all impulses to compete on price, notably on New York-London flights. (Enter Norwegian Air Shuttle, see No. 9 below.)

Here are low fares quoted Friday on Expedia for roundtrip, non-stop, midweek flights on major carriers; taxes, fees and surcharges included:

Travel dates:	Nov. 13-20 (compared to late-Sept. quote)	Dec. 11-18 (compared to late-Sept. quote)	Jan. 15-22 (compared to Oct. '12 quote)	Feb. 12-19 (compared to Oct. '12 quote)
New York–London	\$871 (\$752)	\$871 (\$752)	\$871 (\$894)	\$871 (\$894)
Chicago–Paris	1,004 (929)	1,004 (929)	1,004 (994)	1,004 (994)
San Fran.–Frank.	1,141 (1,066)	1,141 (1,136)	1,043 (1,032)	1,143 (1,032)

8. Not surprisingly, **U.S. airlines reported an increase in trans-Atlantic yields for September** of 4.5 percent. Combined yield has been up every month since last November, with the exception of May (when it dropped only 0.1 percent). And it shows in the profits the carriers are reporting; see No. 12.
9. Next July, **Norwegian Air Shuttle will launch flights to London** from New York, Los Angeles and Fort Lauderdale **with one-way fares from JFK starting as low as \$291.** The new flights, on 787 Dreamliners, will arrive at Gatwick, restoring luster to that periodically disrespected airport.

Rapidly expanding, somewhat low-cost Norwegian stepped beyond Scandinavia

last spring in making Gatwick a base to serve the British market with flights to the continent. Service will be thrice weekly from New York, and twice weekly from Los Angeles and Fort Lauderdale.

However: Norwegian's lowest JFK-London fare quoted for August is considerably higher at \$435 one way. And while the fare covers all taxes and a fuel surcharge, passengers will pay an additional \$7 to use credit cards and \$59 for a package that provides two meals, one bag and a seat reservation. **That brings the low fare for August to \$501 one way.** The low JFK-Heathrow roundtrip quoted last July, on several carriers for departures in August, was \$1,142.

10. **US Airways is launching new service next spring from its Charlotte hub to Manchester, Brussels, Lisbon and Barcelona.** The carrier already flies to all four from Philadelphia and serves six other European gateways from Charlotte. The new flights will operate into the fall. Presumably the flights will go forward in the event of an American-US Airways merger.

11. **That merger seemed more likely this week** when American, US Airways and the U.S. Dept. of Justice agreed to sit down with a mediator recommended by U.S. District Judge Colleen Kollar-Kotelly. The Dept. of Justice antitrust suit to block the merger is scheduled to go to trial Nov. 25.

12. **Austrian Airlines will expand summer capacity to Vienna by more than 60 percent from its three U.S. gateways.**

Austrian will add five weekly flights from Newark in addition to its daily flights from JFK. Austrian's daily flights from Dulles will be assigned to a larger 777 (adding 90 seats per flight). Service from Chicago will expand from five flights weekly to daily flights. Unchanged is the daily schedule from Toronto.

All three gateways are big hubs for United, fed by hundreds of domestic routes. Austrian is part of the United-Lufthansa joint venture, which basically operates as a single airline for pricing, scheduling and marketing trans-Atlantic service.

AIR FRANCE-ALITALIA DRAMA, DELTA'S BIG QUARTER

13. **Air France-KLM wrote off its investment in Alitalia,** with a €119 million impairment charge listed in its 3rd Q report, released today. That helped to shrink €634 million in operating income (+29.1 percent)—on revenue of €7.2 billion (+0.4 percent)—to quarterly net income of only €144 million (–51.4 percent). Restructuring charges and income taxes each drained away even more than the Alitalia write-off.

14. **Alitalia and the Italian government have been seeking more investment from**

Air France-KLM, the largest shareholder at 25 percent, to help stave off a shutdown, which could happen early next year. Air France-KLM has indicated that it might be willing to reinvest, but only under "strict conditions," perhaps including clear authority for Air France-KLM to direct major management and financial reforms at Alitalia.

15. The year's big winner among trans-Atlantic carriers, **Delta, reported a 3rd Q profit of \$1.4 billion (+31 percent)** on revenue of \$10.5 billion (+5.7 percent). That included a \$440 million *gain* on fuel hedging and other special items. The overall cost of fuel declined 5.4 percent, and the Trainor oil refinery, bought last year, finally delivered a small profit. Traffic rose 2 percent, while passengers paid 5.6 percent more per mile flown.

United reported a net \$379 million profit for the quarter on revenue of \$10.2 billion (+3 percent); income would have been considerably higher but for \$211 million in special charges related to its merger, including payouts totaling \$127 million under a new contract with the machinists. But the result was much better than its \$6 million profit a year ago. Most of United's revenue gains were on Atlantic routes, up 11 percent for the quarter. United, still leading Delta as the world's No. 1 carrier in terms of traffic, said revenue should have been greater but that too many seats were sold too cheaply under revenue-management programs that are being revised.

American reported net income of \$289 million on total revenue of \$6.8 billion (+6.2 percent). That compares to a loss of \$238 million a year ago. The profit would have been a quarterly record were it not for \$166 million in special charges and merger-related expenses. "We're particularly pleased with our strength across the Atlantic, reflecting the success of our joint business with British Airways, Iberia and Finnair," said Virasb Vahidi, the chief commercial officer.

American's proposed merger partner, **US Airways, reported a \$216 million profit** (-12 percent compared to last year) on revenue of \$3.9 billion (+9.1 percent). While the carrier flew more seats, and achieved a higher load factor and yield, its tax bill shot up from \$1 million to \$120 million (allowances for previous years of losses were exhausted).

TURKEY OPENS BOSPORUS TUNNEL, SPAIN CONSIDERS TIME CHANGE

16. On Tuesday, **Turkey opened the new Marmaray rail tunnel beneath the Bosphorus**; Prime Minister Recep Yayıp Erdoğan presided at the ceremony held on the National Day anniversary of the establishment of the Turkish republic 90 years ago.

Initially, trains will run only 8.4 miles between the Kazlıçeşme station on the European side and the Ayrılıkçeşme station on the Anatolian side. A new Sirkeci Street underground station serves the old city near Topkapi Palace. Eventually (2015 perhaps), the Marmaray trains (similar to Germany's S-Bahns) will run 47 miles and

carry 1 million passengers daily, taking pressure off the two motor bridges and myriad ferries that cross the strait.

The \$2.8 billion Marmaray project is just part of Erdoğan's massive program of transportation projects, including a third Bosphorus bridge, a third Istanbul airport, new metro lines and a new canal through the western section of the city that would route much of the vast container and oil-tanker traffic away from the strait. All are necessary, he says, to serve Istanbul's 15 million people.

Istanbul will be linked to Ankara by high-speed rail; the last section of the line is to be completed next year. Those trains could also use the Marmaray tunnel, although it's more likely they will terminate at the traditional Haydarpasa Terminal (closed during the Marmaray work) on the Anatolian side.

The tunnel project also led to the discovery of a Byzantine harbor and the remains of 30 ancient ships. More than 40,000 archaeological objects were excavated, delaying the project for years.

17. **Spain is considering shifting to Greenwich Mean Time from Central European Time, to which it has set clocks since 1940.** A report to parliament said the change to Greenwich Mean Time would help people establish a more rational daily routine for work and sleep, and boost productivity.

Most of Spain lies within the basic borders of the Greenwich Zone (between 7.5° east and 7.5° west). But most of western and central Europe, from Norway and France to Poland and Albania, places itself in the Central Zone. The only European countries now using Greenwich Time are Britain, Ireland, Portugal and Iceland. Morocco, south of Spain, also subscribes to Greenwich Time.

Portugal switched from Greenwich Time to Central Time in 1992 to be uniform with Spain and the rest of Europe, but reversed itself in 1996 as people complained bitterly of working all morning in the dark and of difficulty sleeping while summer skies were lit well past 11 pm. In 2010, Britain rejected a proposal to turn its clocks to Central Time.

Separately, most of Europe went back to standard time last Sunday (across all zones); daylight-saving time will return Sunday March 30.

THE CUBAN COMPETITION

18. **Cuba is rising as a destination for Americans.** While more than 75 percent of the estimated 450,000 who traveled from the U.S. to the Caribbean's largest island last year were Cuban-Americans with special rights to see relatives, the non-Cuban contingent increased 33 percent in a year to 98,000. The jump was reported by Robin Amster at TravelMarketReport.com.

Although the 53-year-old U.S. trade embargo is still in place, Americans have been allowed to travel directly to Cuba in "people-to-people" programs renewed by the

Obama administration in 2011. These are organized by college groups, international friendship organizations and tour operators (including Tauck, General Tours, Collette, Grand Circle, Globus and Gate 1), all licensed by the U.S. Treasury Dept.

Cuba, only 94 miles from the Florida Keys, was a major destination for Americans before the Castro revolution. Besides being close and affordable, Cuba offered great beaches, a large and scenic hinterland, and a cosmopolitan Havana with plenty of good food, music and (then) casinos. When the flow of Americans was cut off, Cuba found plenty of new tourists in Canada and Europe.

Americans still can't go just for the beaches and the clubs; trips must be educational under the rules. But as the people-to-people programs expand, the pressure to drop all restrictions should grow. Then, Cubans foresee, U.S. traffic could soon exceed the 1 million Canadian visits they expect this year.

19. **Exhibitor registration for the Visit Europe Media Exchange continues.** VEMEX will open in **Toronto** on Friday, Nov. 15; then go to **New York** on Monday, Nov. 18; and to **San Francisco** on Wednesday, Nov. 20. For information and registration, go to **VisitEuropeMediaExchange.com**.

TRANS-ATLANTIC IS GOING SUBSCRIPTION

20. **This newsletter will be distributed on a subscription basis beginning in December.** The cost will be \$150 for 24 issues over 12 months. To subscribe, just send an e-mail with your name, company and receiving email address to **TransAtlantic@dnmartinco.com**. We'll send an invoice.

#

Neil S. Martin

TransAtlanticReport.com

Donald N. Martin & Company

Email: TransAtlantic@dnmartinco.com

646/ 250-8704

VOLUME OF TRAVEL TO EUROPE BY U.S. CITIZENS

AUGUST 2013

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.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	% change from 2012
January	671,177	713,703	748,042	734,184	739,893	753,241	668,221	664,807	568,471	580,304	563,169	- 2.9
February	591,131	655,434	649,274	638,319	626,434	668,385	568,968	544,768	414,958	493,931	480,637 *	- 2.7/ + 0.8
March	808,794	982,275	992,917	1,025,478	1,041,834	982,679	847,090	852,371	773,308	823,312	797,405	- 3.1
April	679,570	929,359	944,616	990,345	998,978	968,486	940,279	761,418	806,302	832,117	815,393	- 2.0
May	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	1,206,206	- 0.6
June	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	1,549,743	+ 3.4
July	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	1,331,766	+ 2.5
August	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	1,161,706	+ 3.2
										7,867,297	7,906,025	+ 0.5
September	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		
October	872,409	897,683	941,909	980,856	1,038,804	916,328	920,191	831,219	844,142	852,344		
November	785,206	821,219	811,118	816,098	856,815	765,079	748,994	640,639	644,948	646,447		
December	888,149	900,717	902,504	913,995	954,698	888,886	845,496	688,213	729,039	739,858		
	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	11,244,637		
Final **	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	11,244,637		

** 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.

* Because February '12 had 29 days, average DAILY increase for February '13 was 0.8 percent.

10/18/13