

Friendly Skies Ahead?

An Airline Industry Snapshot and
How Hawaii Might Ensure it Stays in the Picture



2006 Hawaii Tourism Conference

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Are There Friendly Skies Ahead?

One Word for the Current Airline Situation: **FRAGILE**

Good News & Bad News for What's Ahead

What Hawaii Could Do to Steer a Course for Air Service Success



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Before we start, I need to clarify some terms

Network Carriers American, Continental, Delta, Northwest, United & USAirways

Low-Cost Carriers (LCCs) AirTran, America West, Frontier, JetBlue, Southwest/ATA

Revenue Passenger Miles (RPMs) Measure of revenue for a flight

Available Seat Miles (ASMs) Measure of seat capacity in a market
- counting the number of flights was so 15 minutes ago

Origin & Destination Pax (O&D) Number of passengers traveling only between 2 points in both directions



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Airline Industry Fragility

After 5 years and nearly \$40 billion in losses, US domestic airlines are making profits

Two network carriers have emerged from bankruptcy this year

Two network carriers entered into bankruptcy this year

And the other two that haven't been through bankruptcy will be competing with those that have

Network carriers are trying to become low-cost carriers while low-cost carriers are finding themselves with the same fuel & labor problems of network carriers

Airline fuel costs have doubled while fares have only risen modestly in comparison

Foreign Carriers are increasingly competitive in the more profitable international area

Many, Many Threats: terrorism; pandemics; war & political instability; natural disasters...



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What's Ahead: The Good News

Increased Consumer Demand for Air Travel – Particular Foreign Demand

US Airlines are Becoming Profitable

New Longer-Range Aircraft Expand Destination Opportunities

For Hawaii, Southwest/ATA merger and ATA's focus on Hawaii has Potential



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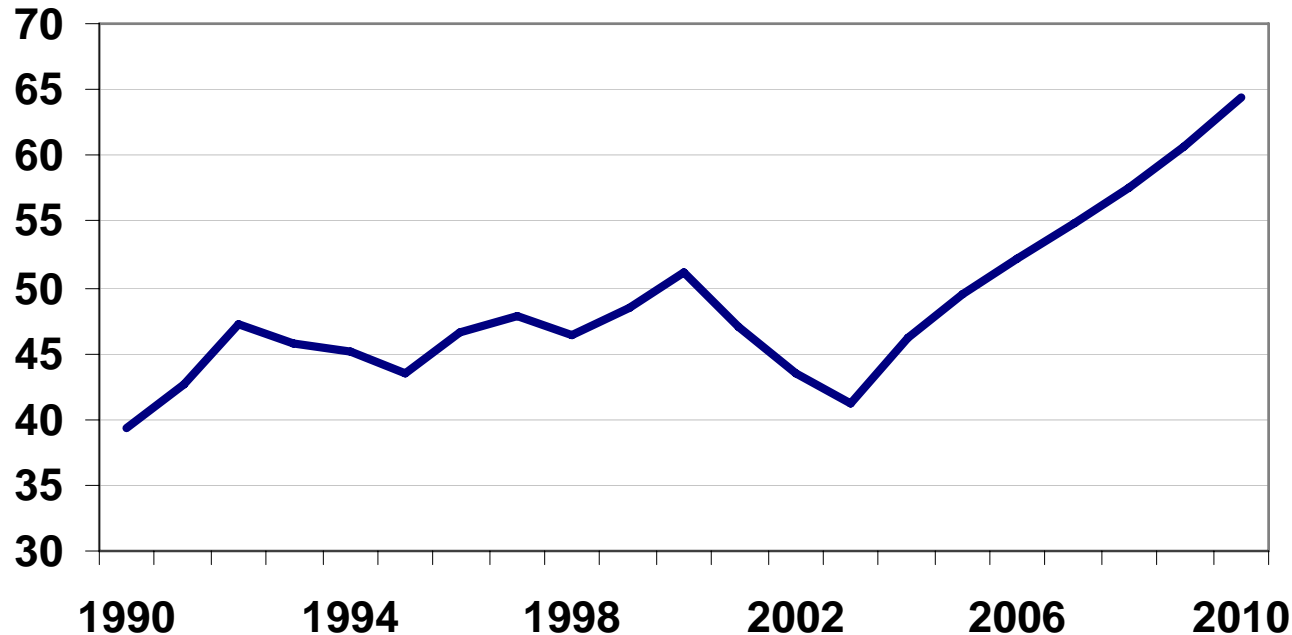
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Foreign Visitor Traffic to the US is Up and Expected to Continue

By 2006, US visitor arrivals should reach pre-9/11 peak

- Tighter security will continue to be a problem for U.S. inbound
- Steady global economic growth and cheap \$ are plusses
- Asian outbound to US is on the rise

Visitor Arrivals to the US





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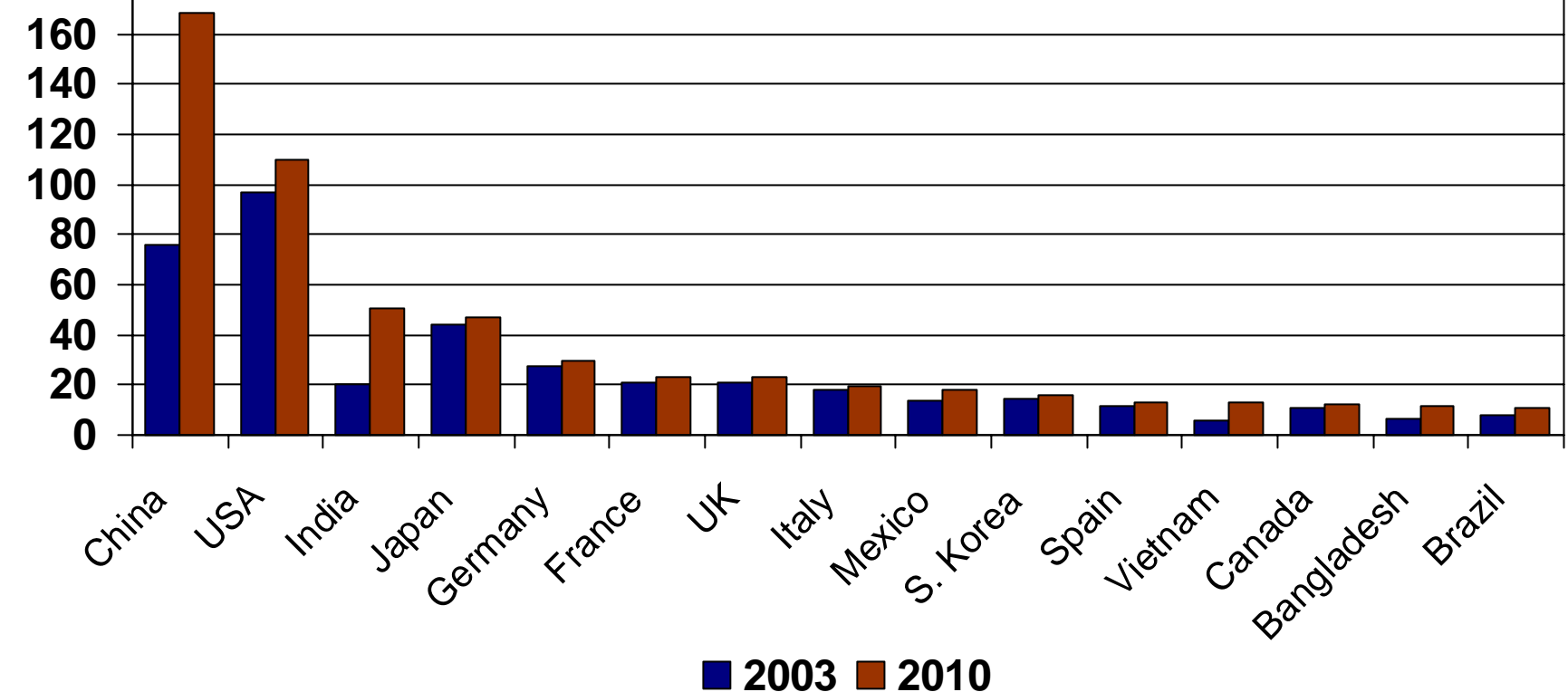
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Incomes are Rising Around the World – Creating Big New Markets

China and India Showing Major Income Growth; Japan, Korea & Europe Slower Growth

Millions of households with income >

US\$10,000





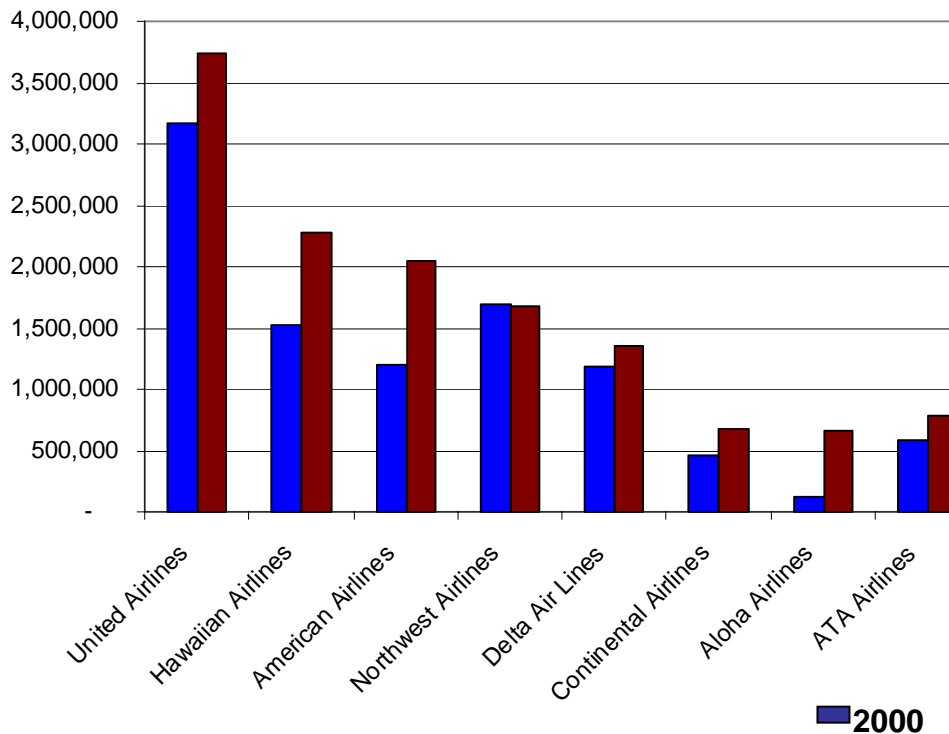
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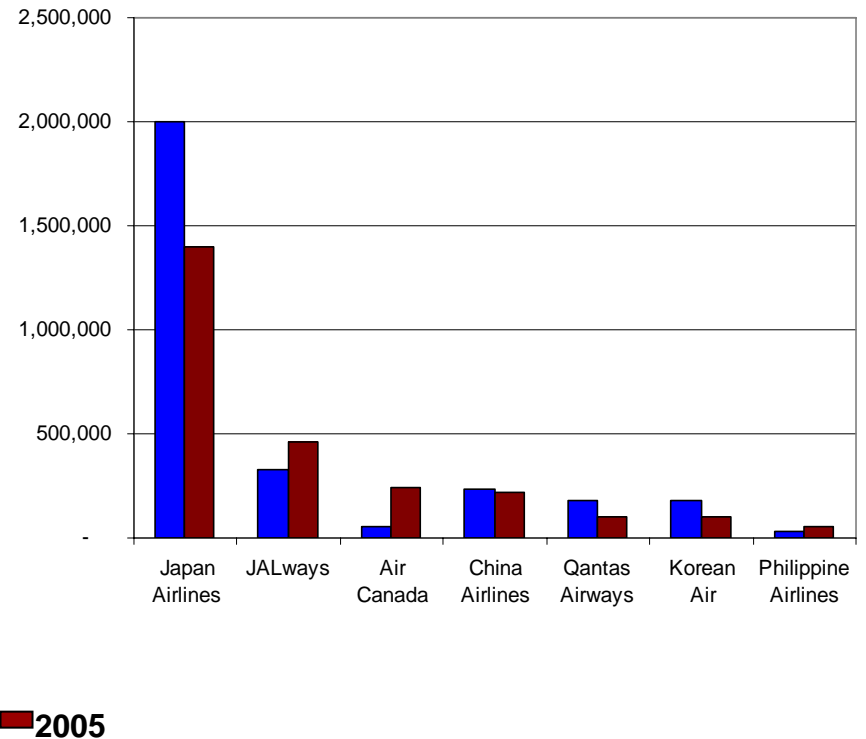
Hawaii Airline Passengers Between 2000 and 2005

US Airlines' Passengers (Domestic & International) Have Been Increasing
Foreign-Flag Airlines' Passengers Have Seen Decreases – Japan Carrier Traffic Down 34%

US Carriers



Foreign-Flag Carriers



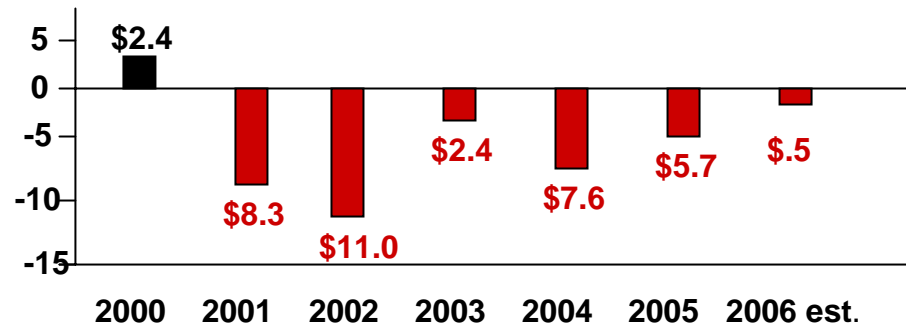


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US Airline Industry Is Still Not Profitable, But Getting Closer

Total US Airline Profit/Loss (US\$ billions)



Source: Air Transport Association



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Important to Understand 3 Key Measures of Airline Performance

Load Factor, otherwise known as “butts in seats”

Total seats filled ÷ Total seats on planes

Yield, or how much money they make per passenger, per mile traveled

Total Revenues ÷ (#Passengers x Miles Flown)

Unit Cost, or how much it costs to fly each seat per mile

Total Costs ÷ (#Seats x Miles Flown)



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So Comparing Load Factors, Unit Costs and Yields...

	First Quarter 2006				
	Actual Load	Breakeven Load	Unit Cost	Yield	
Avg. Network	78.4	80.9	12.4	11.1	
American	77.2	76.5	12.3	12.8	
Continental	78.4	78.5	13.2	12.0	
Delta	76.4	86.2	14.4	11.1	
Northwest		83.4	83.6	14.2	11.8
United	79.6	82.6	13.4	11.2	Red = Bad
Avg. LCC		73.9	71.5	9.2	Green = Good
America West	78.6	71.2	11.1	11.5	11.5
JetBlue	84.2	88.5	7.8	8.4	
Southwest		69.2	65.8	8.7	12.3
Aloha	75.8	79.2	17.9	18.0	
Hawaiian	87.6	88.2	11.1	11.4	



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Load Factors Are Increasing for Most Airlines

Higher Loads Usually Leads to More Flights

	January – July		Point Change	
	<u>2006</u>	<u>2005</u>		
American	81.0	78.7	2.3	
Continental	81.5	79.9	1.6	
Delta	79.5	78.6	0.9	
Northwest		85.9	82.9	3.0
United	83.2	81.7	1.5	
USAirways		79.7	76.4	3.3
Southwest		74.5	70.8	3.7
JetBlue	83.3	87.5	-4.2	
Hawaiian	87.6	85.9	1.7	



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Hawaii Load Factors Also Mostly Increasing

	CY Load Factors		Point Change
	2005	2004	
United	84.2	83.3	0.9
American	84.0	84.9	-0.9
Northwest	86.7	86.1	0.6
Delta	75.7	77.2	-1.5
Continental	80.9	83.0	-2.1
Am. West	NA	76.6	
ATA	74.3	77.0	-2.7
Hawaiian	88.7	87.1	1.6
Aloha	75.6	74.9	0.7
JALways	75.7	73.5	2.2
JAL	81.6	80.9	0.7
Air Canada	75.1	74.1	1.0
China Air	79.6	78.6	1.0
Qantas	76.3	73.4	2.9
Korean	71.2	69.1	2.1



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Revenues Improving for Most Airlines

Airlines More Willing to Make Investments

	January-July			
	<u>Rev. Passenger Miles (billions)</u>			
	2006	2005	% Change	
American	83.1	81.6	1.8	
Continental	46.4	41.2	12.6	
Delta	58.2	62.3	-6.5	
Northwest		42.5	45.7	-6.8
United	69.2	66.5	4.1	
USAirways		21.8	24.2	-9.8
Southwest		39.4	34.7	13.8
JetBlue	13.6	11.5	18.4	
Hawaiian	3.97	3.81	4.3	



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New Longer-Range Aircraft Expand Hawaii's Opportunities

Boeing	Range	Could Reach	Seats*
777-200LR	9,420	Dubai	310
787-800	8,500	Mumbai	223
777-300ER	7,880	Frankfurt	365
777-200ER	7,730	London	301
747-400	7,260	Bangkok	416
767-200ER	6,600	Beijing	181
777-300	5,955	Hong Kong	365
Airbus	Range	Could Reach	Seats
350-800	8,500	Sao Paulo	241
340-200	8,000	Paris	261
380-		8,000 Frankfurt	555
340-200	8,000	Frankfurt	261
340-300	7,900	London	295
330-200	6,750	Bangkok	253
310-		5,200 Sydney	220

Aircraft with greater seat capacity better for Hawaii given generally lower yields.

Green indicates aircraft not yet in service

*Standard 3-Class configuration



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What's Ahead: Bad News

- US Economy Overall is moderating
- US Airlines Cutting Domestic Capacity & Increasing on International
- Fares are Higher and Should Continue Increasing
- High Fuel Costs Impacting Long-Haul Flights in Particular

And then there's always terrorism, pandemics and pestilence to worry about...



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US Airline Capacity Shifting to International *Shift Accelerating Even More Rapidly in 2006*

US Network Carriers Available Seat Miles (ASMs)

	Domestic ASMs % Change	International ASMs % Change
American	8.7	6.7
Continental	2.0	10.5
Delta	-2.6	13.2
Northwest	-3.5	2.6
United	-19.6	2.1
USAirways	-29.4	-7.0

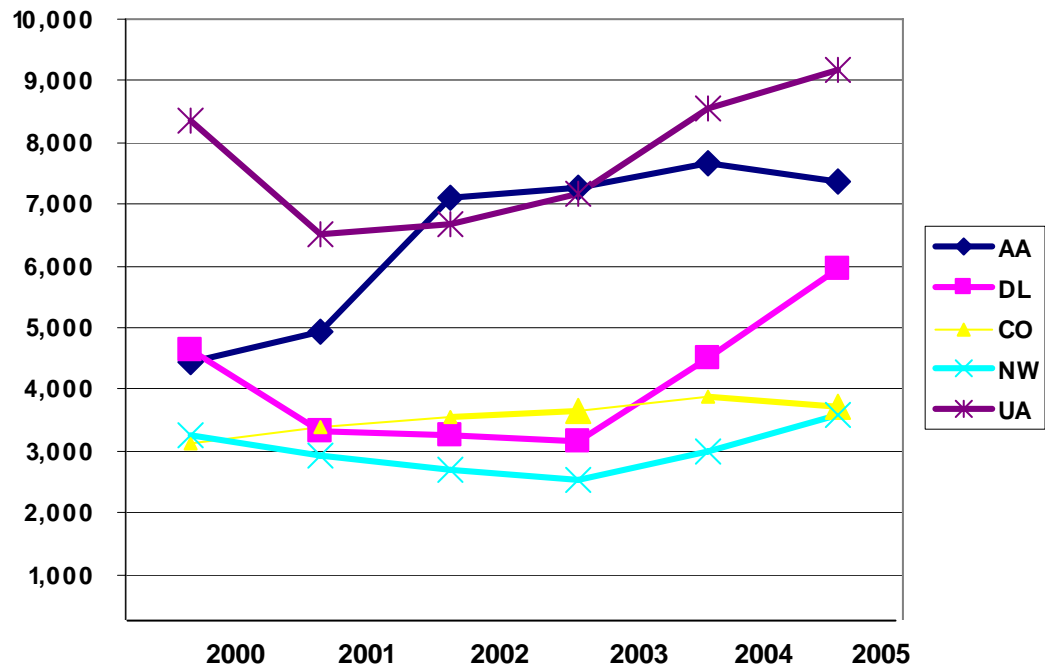


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Domestic Seat Capacity to Hawaii

UA, DL & NW Seat Capacity Increasing - CO & AA Declining in Last Year

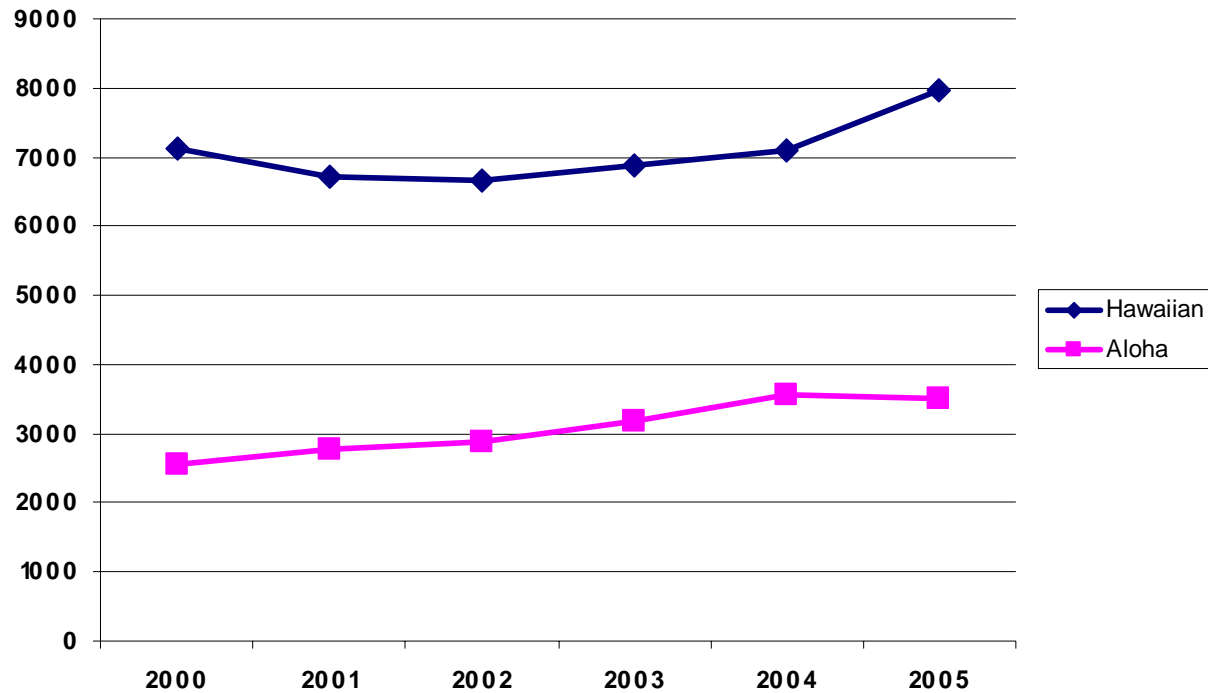




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Hawaiian and Aloha Mainland US Seat Capacity





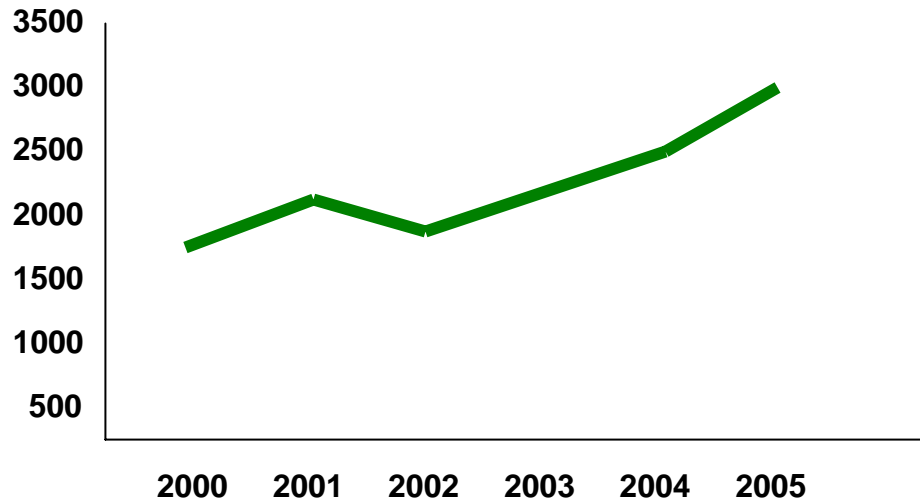
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Southwest/ATA Merger Has Great Potential for Hawaii

- Southwest offers a strong new source of passengers to Hawaii via ATA
- ATA has cut Florida and other leisure service to focus on Hawaii
- ATA Load Factor went from 63.8 to 68.7 from 2005 to 2006 (Jan-July) – largest increase among LCCs

Seat Capacity





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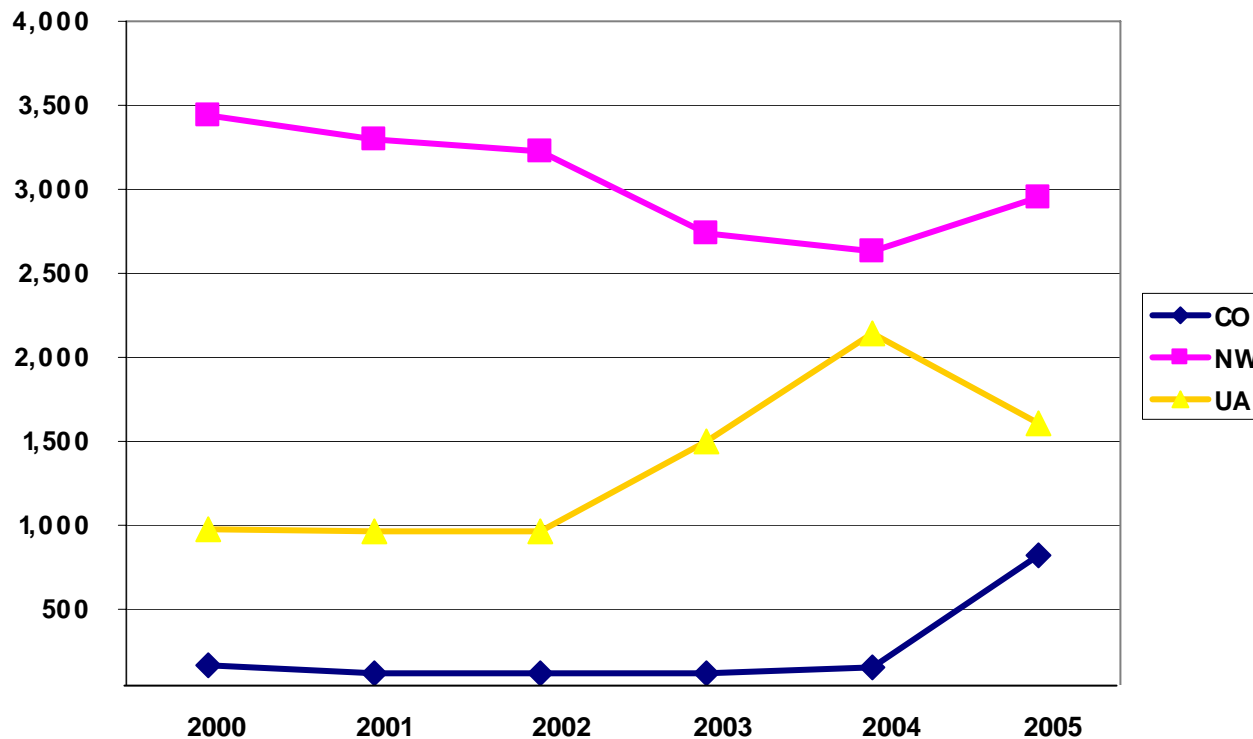
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International Seat Capacity by US Carriers to Hawaii

UA Increased Seats almost 40% since 2000, but Cut them almost a third between 2004 & 2005

NW Decreased Seats almost 17% since 2000, but up 318 seats between 2004-2005

CO Bumped Seats Up 666 After Years of Holding Seats Constant





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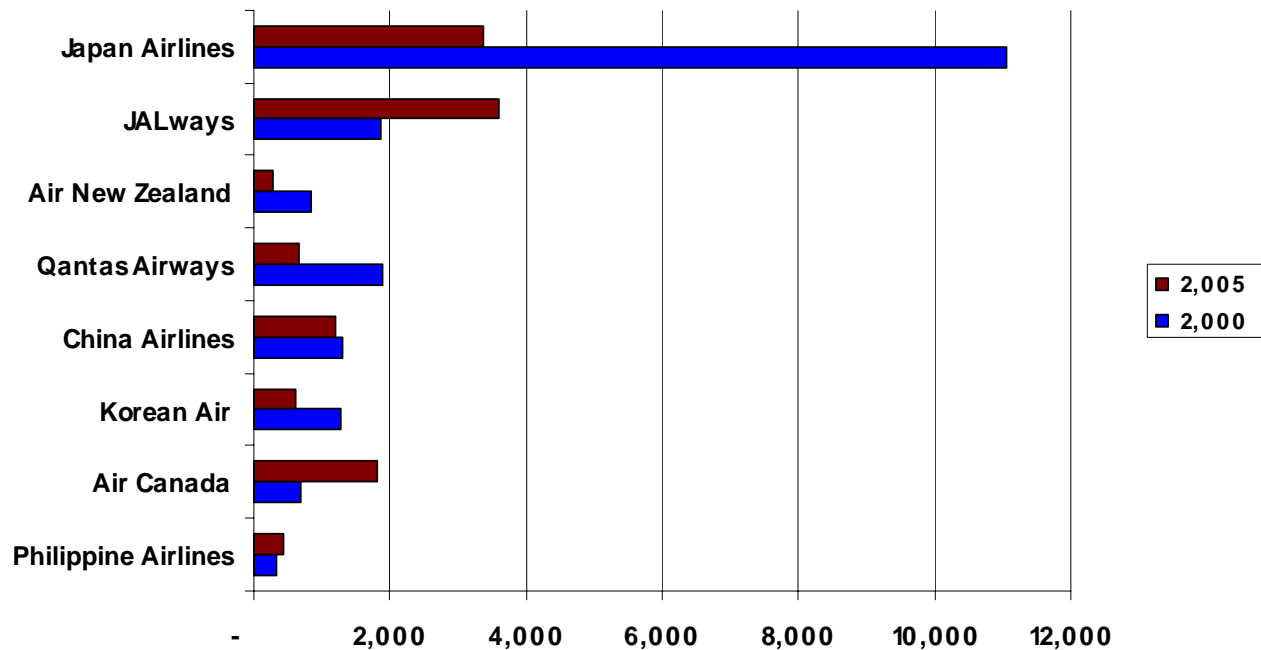
International Seat Capacity by Foreign Flag Carriers to Hawaii

48% Drop in Seat Capacity to Japan by Japanese Carriers, if add United & Northwest Down 37% in Japan

50% Drop in Seat Capacity to Korean by Korean Airlines

Air Canada almost Doubled Seat Capacity, but if factor in Canadian & Canada 3000 in 2000 Down 19%

Seat Mile Capacity in 2005 vs. 2000





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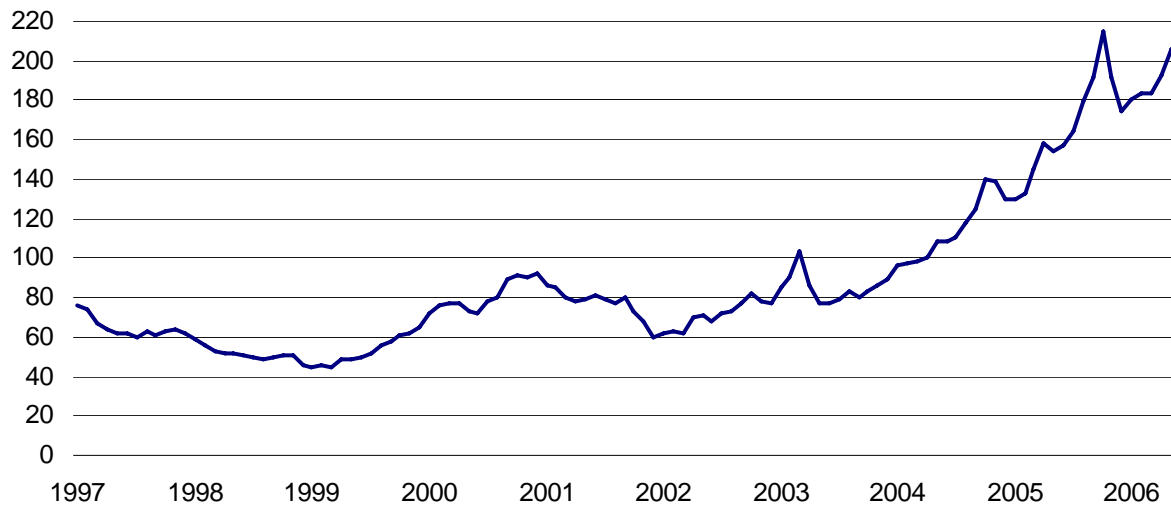
Fuel Cost Increases Are Impacting Air Service Around the Globe

Avg. Fuel per gallon cost in 2000: \$0.82

Avg. Fuel per gallon cost in 2006: \$2.00

Every 1¢ increase = \$195 million in additional annual fuel costs to US airlines

Price of Fuel
in Cents/Gallon



Source: Air Transport Association 2006



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For Hawaii Fuel Costs are a Serious Issue

Higher fuel costs require higher yields = higher fares and/or more passengers

	Max. Fuel Capacity	Range	Fuel Burn Per Gallon	
Boeing 777-200ER	45,220	7,730	5.85	Avg. Price Per Gallon June 2006 = \$2.08
Boeing 777-200	31,000	5,210	5.95	
Boeing 757-200	11,489	3,900	2.94	

Nautical Miles & Cost of Fuel from Honolulu

Tokyo-3,819
777-200: \$47,264
757: \$23,54

HNL

LAX-2,556
757: \$15,630

Newark-4,986
777-200: \$61,706

Atlanta-4,502
777-200: \$55,716

London-7,237
777-200ER: \$83,995

Frankfurt-7,450
777-200ER: \$90,651

Seoul-4,557
777-200: \$56,397

DFW-3,789
757: \$23,170

Sydney- 5,066
777-200: \$62,697



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So How is Hawaii Air Service Doing?

Domestic US seat capacity is generally up, but trend in load factors and especially yields bear watching.

Load factors over 80% usually suggest more capacity (flights) are warranted but low yields may dampen increases.

Foreign Flag seats and passenger counts suffered significant losses in last 5 years and have not been made up by US carriers, especially to key markets like Japan.

What Should Hawaii Be Concerned About?

US carriers are pulling capacity from US domestic routes to put on more lucrative international routes – fewer planes may be coming Hawaii's way.

Expansion of Southwest/ATA, America West/US Airways and other LCC's) into Hawaii will increase passengers but could lower yields further to detriment of network carriers.

International traffic is exploding generally, Hawaii isn't seeing significant growth.



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So how can Hawaii steer a course for success
in obtaining new air service from airlines
In this fragile environment?

By asking itself one simple question.....



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How can airlines make MONEY by serving Hawaii?

Here are Airline Route Planners' Perceptions of Hawaii

Hawaii is a leisure market and people only want to pay low fares or use frequent flyer miles to go on vacation

Hawaii is so far away that it costs so too much money (labor and fuel) to serve relative to the fares we can charge

Hawaii's distance requires expensive widebody aircraft which could be used more profitably elsewhere (FYI, a Boeing 777 costs about \$240 million)

Long stage length reduces number of aircraft operations to one or two per day
More Flights Per Aircraft = More Revenue per Aircraft

Hawaii is a seasonal market so we have to pull flights during off-season or take losses

Are these perceptions true and how can they be addressed?



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Where does Hawaii Stand Compared to Other Major US Leisure Destinations?

	2005 O&D PAX	%Change 2000-2005	Avg. Seg. Fare	Ag. Stage Length	Avg. Yield	
Honolulu	11,498,740	-7.8%	\$162	2,031	\$.08	
Las Vegas		31,857,840	+23.8%	\$116	1,264	\$.09
Orlando	28,013,680	+19.4%	\$112	1,112	\$.10	
Washington (Dulles Only)	13,116,950	40.5%	\$141	1,170	\$.12	

Warning Signs:

Negative passenger growth

Higher segment fare but still lower yield

Avg. stage length almost twice as long as other destinations

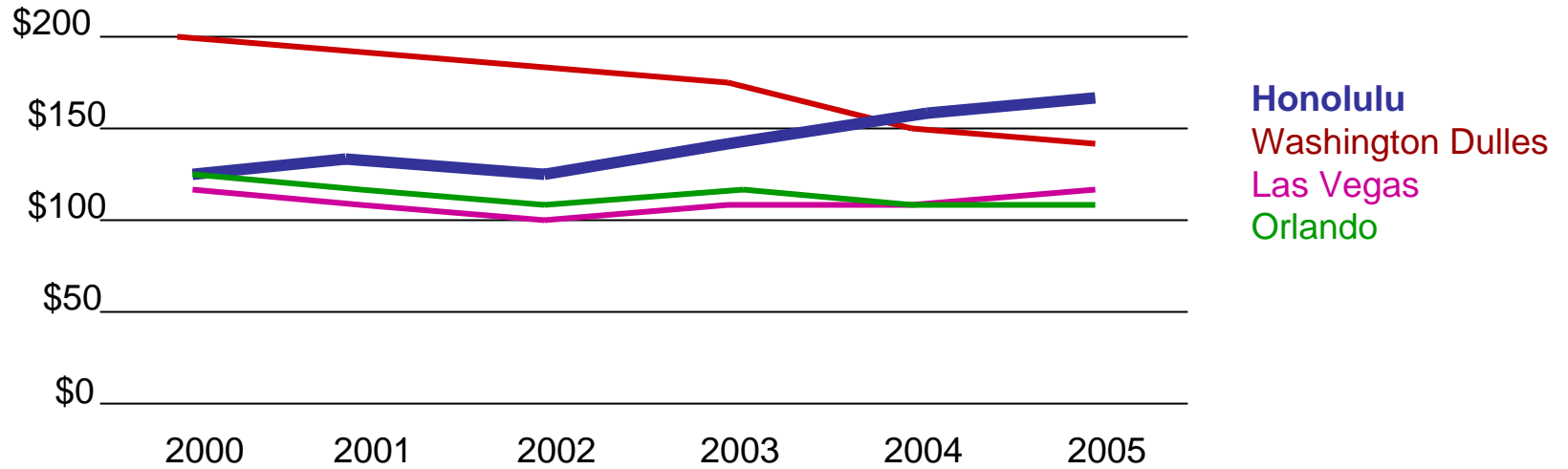


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Honolulu Fares are Rising Which is Good for Airlines

Average One-Way Fares

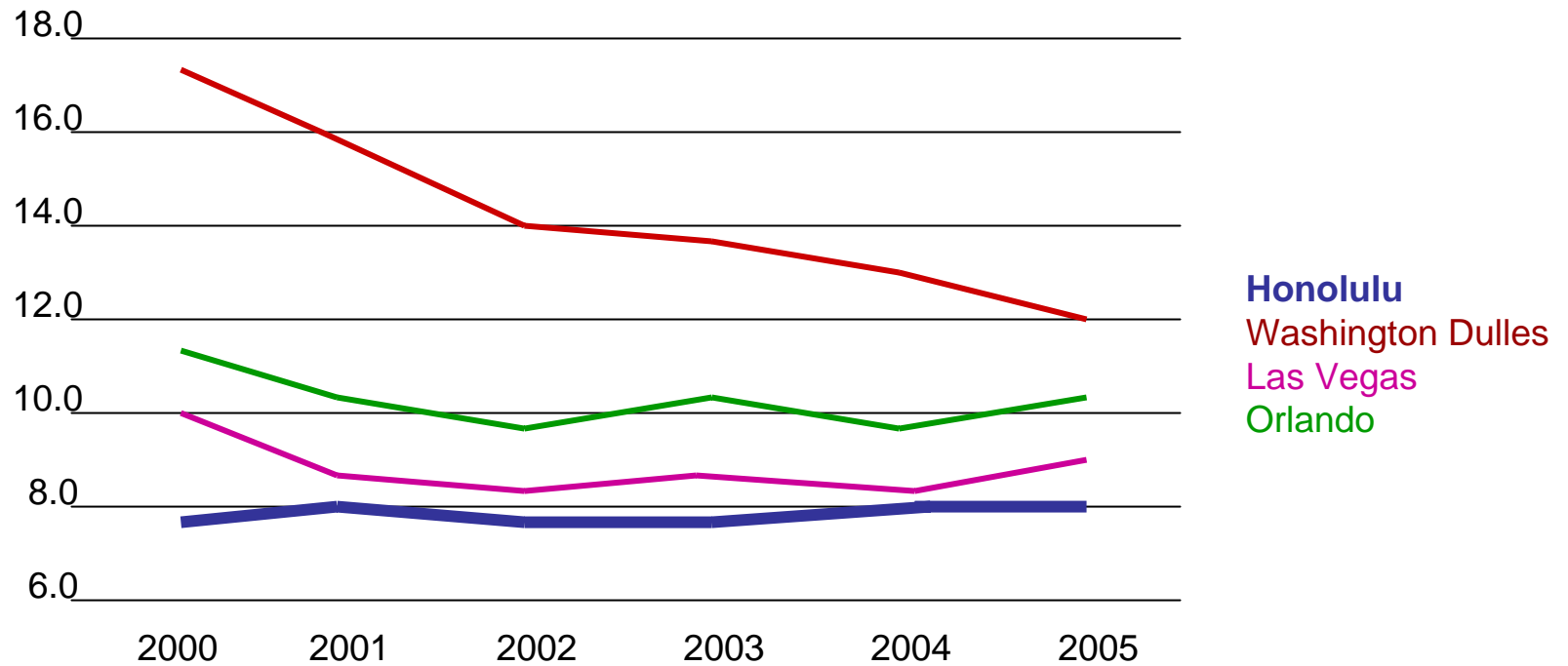




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But Average Yield for Honolulu is Not Improving Significantly





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What Hawaii Should be Doing to **Increase Service to Existing Markets**

First, recognize airlines have a world of opportunities and are being aggressively pursued

Hawaii yields are always going to be low, so..

Recognize higher fares are necessary – promote the greater value of Hawaii

Work with airlines to increase their passenger numbers – higher load factors = more profit

Find ways to increase airline incremental revenue - partnering, joint programs, etc.

The distance to Hawaii is never going to get shorter and it will never get cheaper to serve, so...

Reduce airlines' costs of operations as much as possible – at airport, labor costs, crew costs

Push for use of newer, more fuel efficient aircraft

Push for higher seat capacity per aircraft - higher revenue and lower unit costs

Hawaii is viewed as a seasonal market, so...

Develop more programs for off-season

You may be doing all these things – but do the airlines know & are they are a part of it



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What Hawaii Should be Doing to **Get Air Service to New Markets**

Consider Focusing on New Markets like China, India and Brazil – *and the East Coast US*

Hawaii would be new and exotic to them. Expanding middle classes & very wealthy classes.

Target Airline(s), and find the “right” contact

How will Hawaii fit in the airline’s network? Don’t always start at the top.

Collect Data, Perform Analyses and Prepare a Route Forecast

Airline decisions are based on numbers. Data & analysis are expensive - make the investment!

Aviation is a Global Business but a Small World– Hawaii Should Be Out There & Known

Airline people all know each other. Take Advantage of ROUTES, Network, JumpStart for speed-dating.

Patience and Persistence

It usually takes 3-5 years to convince an airline to begin new service
- a B777 represents a \$240 million aircraft investment in your market.



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And Most Important

Clearly Identify a **Focal Point** as Responsible for Air Service Development and Give Them the **Resources to Compete** for Air Service

Because Hawaii Is Already Perceived by Airlines as Less Profitable

& There Are Far Too Many People Like Me at Airports Around the World Steering Them to Our Airports



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And in that regard....



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Washington is the 8th Largest Market to Hawaii and 8th Largest City-Pair

20 Largest City Pairs to Hawaii Destinations

City Pair	Origin & Destination
LAX - HNL	1,176,300
SFO - HNL	633,690
LAX - OGG	513,150
LAS - HNL	383,260
SEA - HNL	367,840
SFO - OGG	325,920
LAX - LIH	218,680
WAS - HNL	217,630
SAN - HNL	210,860
PDX - HNL	204,470
LAX - KOA	199,050
SEA - OGG	167,940
PHX - HNL	165,860
EWR - HNL	161,450
SFO - KOA	146,460
SFO - LIH	146,000
ORD - HNL	139,610
DEN - HNL	121,560
SMF - HNL	119,750
SAN - OGG	114,790

20 Largest Passenger Markets to Hawaii

Market	Origin & Destination
LAX	2,129,370
SFO	1,265,560
SEA	690,540
LAS	530,670
SAN	413,560
PDX	386,010
PHX	329,680
WAS	300,480
ORD	289,900
SMF	284,320
SNA	254,040
DEN	248,480
EWR	223,760
OAK	222,200
DFW	179,560
SLC	179,220
MSP	169,270
ATL	152,540
IAH	124,390
SJC	120,800



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Mahalo

