Airline/Aircraft Projects **Update & Comment**

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Europe-US Summer 2011 vs. 2010 Non-Stop Route Changes

This summer changes and trends can be summarized as follows:

- ***5.5% capacity growth***
- net addition of about 19 new daily flights = a 4.7% increase in frequencies
- over ½ the new flights are of the ***hub-to-hub*** type, that is alliance-driven and consolidating rather than fragmenting in impact
- the 5.5% capacity growth does not exceed demand growth... to the contrary, price increases are being readily absorbed, with the winter 2010/11 capacity excess no longer an issue
- long-term US-EU visitors trends [negative for the past decade] suggest unrealized upside potential, especially if the security-driven problems of the past decade continue to recede
- pending equipment orders do not suggest large capacity expansion in 2012.

	ENTRY *or EXIT*	**FREQUENCY***	**ROUTE TYPE****	**EQUIPMENT**
American	**ORD-HEL**	**Daily**	**Hub-to-hub**	**767-300**
	JFK-BUD	**Daily**	**Hub-to-hub**	**767-300**
	JFK-BCN	**from 7 to 11 weekly**	**Hub-to-minihub**	**767-300**
	MAD-MIA	**from 7 to 14 weekly**	**Hub-to-hub**	**767-300**
	FRA-ORD	*Daily*	*Hub-to-spoke*	*767-300*
	JFK-LHR	*from 34 to 27 weekly*	*Hub-to-hub*	*767-300*
Delta	**BOS-LHR**	**7 weekly**	**Minihub-to-spoke**	**767-400**
	MIA-LHR	**Daily**	**Point-to-point**	**767-300**
	JFK-LHR	**from 14 to 21 weekly**	**Hub-to-spoke**	**767-400**
	SEA-AMS	**from 10 to 14 weekly**	**Spoke-to-hub**	**767-300**
	JFK-CDG	**Daily**	**Hub-to-hub**	**767-300**
	JFK-KEF	**5 weekly**	**Hub-to-spoke**	**757-200**
	BOS-CDG	**Daily**	**Minihub-to-hub**	**757-200**
	PIT-CDG	**from 5 to 7 weekly**	**Spoke-to-hub**	**757-200**
	ATL-LHR	**from 7 to 11 weekly**	**Hub-to-spoke**	**767-400**
	DTW-LHR	**from 7 to 10 weekly**	**Hub-to-spoke**	**767-400**
	JFK-DUB	**from 7 to 9 weekly**	**Hub-to-spoke**	**757-200**
	ATL-ATH	*from 7 to 2 weekly*	*Hub-to-spoke*	*767-300*
Sun Country	**MSP-YQX-LGW**	**2 weekly*****	**Point-to-point**	**737-800**
United/ Continental	**EWR-STR**	**Daily**	**Hub-to-spoke**	**757-200**
	EWR-LHR	**from 28 to 35 weekly**	**Hub-to-spoke**	**757-200**
	EWR-LIS	**from 7 to 10 weekly**	**Hub-to-hub**	**757-200**
	IAD-LHR	**from 21 to 28 weekly**	**Hub-to-spoke**	**777-200**
	IAD-CDG	**from 7 to 14 weekly**	**Hub-to-spoke**	**757-200**
	EWR-BRS	*Daily*	*Hub-to-spoke*	*757-200*
	EWR-FCO	*from 14 to 7 weekly*	*Hub-to-spoke*	*767-400*
	EWR-OSL	*from 10 to 7 weekly*	*Hub-to-minihub*	*757-200*
	IAD-FCO	*Daily*	*Hub-to-spoke*	*777-200*
	DEN-LHR	*Daily*	*Hub-to-spoke*	*777-200*
US Airways	**CLT-DUB**	**Daily**	**Hub-to-spoke**	**757-200**
	CLT-MAD	**Daily**	**Hub-to-spoke**	**767-200**
	PHL-OSL	*Daily*	*Hub-to-spoke*	*757-200*

Aer Lingus	**DUB-BOS**	**from 7 to 10 weekly**	**Hub-to-spoke**	**330-200**
Air Berlin	**TXL-JFK**	**4 weekly**	**Hub-to-hub**	**330-200**
	TXL-MIA	**3weekly**	**Hub-to-hub**	**330-200**
	DUS-MIA	*from 6 to 4 weekly*	*Hub-to-spoke*	*330-200*
Air France	**CDG-MCO**	**3 weekly**	**Hub-to-spoke**	**777-200**
	CDG-ATL	**from 7 to 14 weekly**	**Hub-to-hub**	**777-200**
	CDG-IAD	*from 21 to 14 weekly*	*Hub-to-spoke*	*330-200*
Alitalia	**FCO-EWR**	**from 5 to 7 weekly**	**Hub-to-hub**	**777-200**
Air-India	*FRA-EWR*	*Daily*	*5th freedom*	*777-200*
	FRA-ORD	*Daily*	*5th freedom*	*777-200*
Arkefly	**AMS-SFB**	**2 weekly**	**Hub-to-spoke**	**767-300**
	AMS-MIA	**2 weekly**	**Hub-to-spoke**	**767-300**
British	**LHR-SAN**	**Daily**	**Hub-to-spoke**	**777-200**
	LHR-JFK	**from 42 to 49 weekly**	**Hub-to-hub**	**777-200**
	LGW-TPA	**from 5 to 7 weekly**	**Hub-to-spoke**	**777-200**
	LGW-MCO	*from 9 to 7 weekly*	*Hub-to-spoke*	*777-200*
Condor	**FRA-SEA**	**2 weekly**	**Hub-to-spoke**	**767-300**
FlexAir	**KEF-EWR**	**from 4 to 7 weekly**	**Hub-to-spoke**	**757-200**
	KEF-BOS	**4 weekly**	**Hub-to-spoke**	**757-200**
Iberia	**BCN-MIA**	**3 weekly**	**Minihub-to-hub**	**340-300**
	MAD-LAX	**4 weekly**	**Hub-to-spoke**	**340-300**
	MAD-JFK	**from 14 to 17 weekly**	**Hub-to-hub**	**340-300**
	MAD-IAD	*4 weekly*	*Hub-to-spoke*	*340-300*
	MAD-MIA	*from 10 to 7 weekly*	*Hub-to-spoke*	*340-300*
Icelandair	**KEF-IAD**	**5 weekly**	**Hub-to-spoke**	**757-200**
	KEF-BOS	**from 10 to 14 weekly**	**Hub-to-spoke**	**757-200**
	KEF-JFK	**from 11 to 14 weekly**	**Hub-to-spoke**	**757-200**
KLM	**AMS-MIA**	**4 weekly**	**Hub-to-spoke**	**MD-11**
LOT	*WAW-JFK*	*from 9 to 6 weekly*	*Hub-to-spoke*	*767-300*
	WAW-EWR	*from 6 to 4 weekly*	*Hub-to-hub*	*767-300*
	KRK-ORD	*4 weekly*	*Spoke-to-hub*	*767-300*
Lufthansa	**FRA-EWR**	**from 7 to 14 weekly**	**Hub-to-hub**	**340-300**
	MUC-MIA	*3 weekly*	*Hub-to-spoke*	*330-300*
Martinair	*AMS-MCO*	*4 weekly*	*Hub-to-spoke*	*767-300*
SAS	**OSL-EWR**	**Daily**	**Minihub-to-hub**	**330-300**
TAP	**LIS-MIA**	**5 weekly**	**Hub-to-spoke**	**330-200**
Virgin Atlantic	**MAN-LAS**	**2 weekly**	**Point-to-point**	**747-400**
	MAN-MCO	**from 9 to 11 weekly**	**Point-to-point**	**330-300**

* Change of **at least 2 weekly** vs. July 2010. ** Evaluation **specific** to these airlines/routes. *** moved from STN

Based on July 2011 schedules provided by OAG [Official Airline Guide] valid as of May 7 2011.

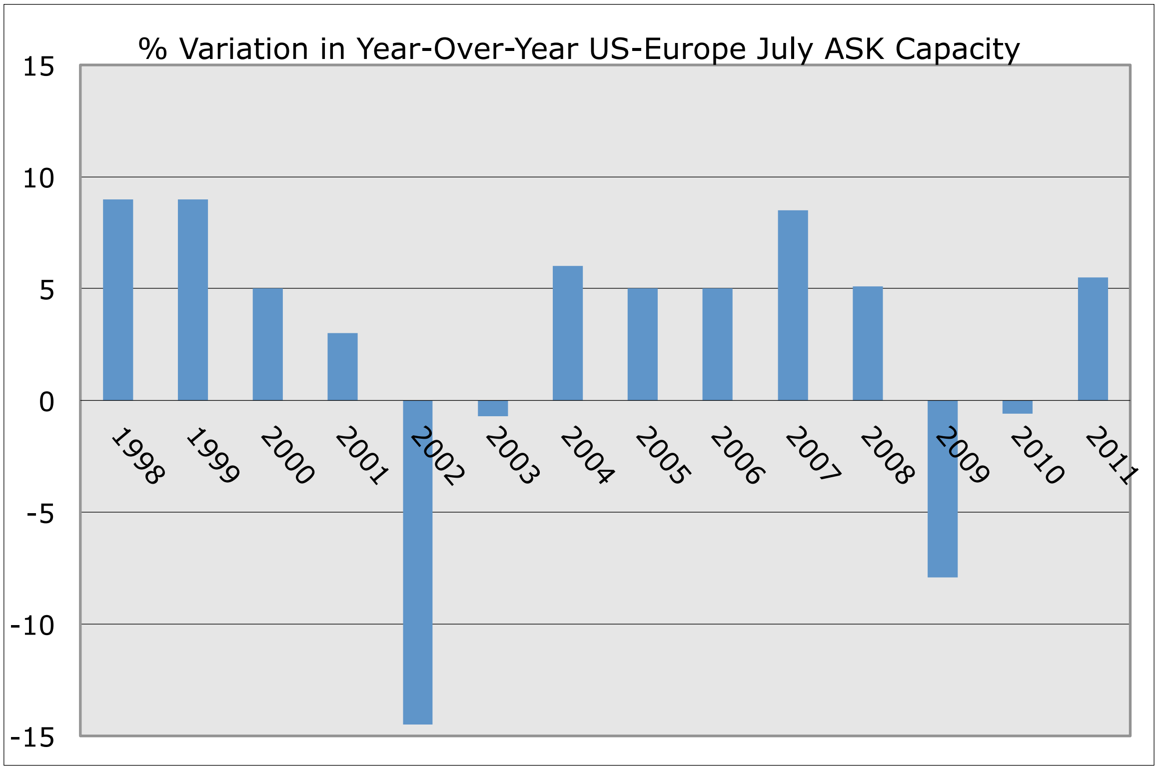
Summary

Summer 2011 versus 2010	Daily flights eliminated	Daily flights introduced	Daily flights net change	Frequency change	ASK total change [preliminary estimate]
US carriers	- 7.8	+ 18.3	+ 10.5	+ 5.2%	+ 4.9%
European + other	- 7.2	+ 15.3	+ 8.1	+ 3.9%	+ 5.9%
Total	**- 15.0**	**+ 33.6**	**+ 18.6**	**+ 4.7%**	**+ 5.5%**

Route Types

	Summer 2010 vs. 2009			***Summer 2011 vs. 2010***		
	Deleted	**Added**	**Net**	**Deleted**	**Added**	**Net**
Hub-to-hub or mini-hub	5.5	7.5	+ 2	2	11.5	+ 9.5
Hub-to-spoke or point-to-point	24.7	20	- 4.7	13	22	+ 9
Total	**30.2**	**27.5**	**- 2.7**	**15**	**33.5**	**+ 18.5**

where is the market in the cycle?



New equipment orders are limited [following the '09 downturn] and competing uses for long-haul capacity in Asian markets are substantial, so growth next year is not likely to be very large.

A series of key questions suggested by the page route changes revolve around the ***consolidation-versus-fragmentation*** axis: airlines, airports, regulators, manufacturers and investors all ask variants of this question, and so should we…..

are alliances now surging ahead against independents?

They are growing strongly, but the point can be exaggerated. Consider this summer's % of new routes that are exploiting alliance hub-to-hub synergies:

	2011	**average for 2003-2011**
Net Total	+ 18.5	**+ 99.8**
hub-to-hub or mini-hub	+ 9.5	**+ 32.3**
hub-to-spoke or point-to-point	+ 9	**+ 67.5**
% of net new routes that are hub-to-hub/mini-hub	**51.3%**	**32.4%**

So yes it is more than usual, but no, it is not a stampede! In fact looking at the historical data, hub-to-hub has tended to outperform in early upturn years.

This relates to another question: is there any sign of life from the independent sector? The answer is that some European charter and other unaffiliated carriers are adding capacity, but almost no US ones. Can new entry be viable? It is certainly very hard to execute profitably, and more new entrants will fail than not. But this doesn't mean there will never again be successful new entry!

summer versus winter

Alliances have made no real difference to the transatlantic dilemma how to be profitable in winter as well as summer. This past winter had 11% capacity growth led by Delta at 16%... way too high.

However all available evidence is that the 5.5% capacity increase this summer, together with fare increases at least compensating for [if not exceeding] higher fuel costs, will be easily absorbed by demand. Next winter the alliances [again led by DL] will try to reverse last winter's overcapacity.

An interesting alternative view of what happened last winter [expressed recently in *Aviation Week*] is that anti-trust immunized alliances have an in-built propensity to boost capacity, because they share risk over multiple carriers. But we believe the Delta 16% boost last winter was more of a special case. The tendency over time is for alliances to prioritize profitability over growth.

average aircraft size

After several years of reduction in aircraft size, the average seat count is being boosted by A380s:

2011	255.8
2010	252.4
2008	254.8
2006	258.1

New A380 routes: CDG-IAD/SFO added by Air France [CDG-JFK already op. in summer '10]
FRA-JFK/MIA/SFO added by Lufthansa
= total of 5 new A380 daily frequencies this summer.

However we don't see this upsizing effect going beyond the further addition of comparably small numbers of A380s in the next few years.

marginal routes

Routes that are an airport's only non-stop scheduled transatlantic service are being net subtracted:

- Bristol [BRS] & Krakow [KRK] will lose their only non-stop scheduled service.
- there are no airports *vice versa* receiving first-ever transatlantic service.

An interesting trend this summer is that EU carriers [now with US partners] with long histories of shunning transatlantic service from secondary cities in their own country, now see opportunities precisely there:

Virgin Atlantic are adding in Manchester
United/Continental in partnership with Lufthansa are entering Stuttgart from Newark
Barcelona receives 3 weekly IB/AA Miami services and additional AA/IB JFK flights
SAS re-enters Oslo-Newark.

visitor trends

It continues to be the case that transatlantic tourism has barely recovered from its previous highs back in 2000. EU visitors to the US only just exceeded the 2000 number in 2010. US visitors to Europe are still well under 2000 levels. This suggests a degree of future upside.

Update & Comment is an occasional report produced by *Airline/Aircraft Projects Inc.* for clients and colleagues in the industry. Data for this report was supplied by OAG.