Domestic Carriers' Discipline Bodes Well For Recovery

BY JAY BOEHMER

Leaving behind the billions in losses they racked up over the past two years, major domestic carriers are queuing up not just profits in 2010, but the prospect of longer-term profitability and, perhaps, a structural shift toward financial sustainability. In the past decade, domestic airlines have shed 150,000 jobs and posted losses nearing $60 billion, and dozens of them filed for bankruptcy, some the kind you don't return from. What emerged, carriers and analysts said, is a leaner and smarter, albeit smaller, industry ready to manage through the next decade thanks to lessons learned in the last one.

"What we know with certainty," United Airlines executive vice president and CFO Kathryn Mikells said this month, "is that in our hyper-competitive industry, the future must look significantly different from the past in order for us to break the boom-and-bust cycle that's been the norm."

As airlines learn time and again, however, the industry's outlook changes in real time, bending with each spike in oil costs, each economic downturn, each new entrant, each new presidential administration and each world event.

"We have long struggled to find a healthy equilibrium between supply and demand here in the United States," American Airlines CEO Gerard Arpey said this month. "If we assume the current economic recovery has legs—and perhaps that's a brave assumption—then I think as an industry we are much better positioned to leverage the upturn than we have been in previous recoveries. There are far fewer seats for sale in the marketplace today than there were five years ago. There are also signs that the industry has learned its lesson about keeping capacity growth in line with demand and will continue to apply that lesson even as the economy comes back."

When the International Air Transport Association in March released its annual forecast, the association targeted U.S. carriers to rival 2009 with yet another $1.8 billion in losses. All it took were a few months for IATA to reverse that outlook, and this month the association said it now expects North American carriers to count $1.9 billion in profits this year.

That reversal reflected not just what's going on the economy at large, but also what has taken hold within the airline industry, as companies maintain capacity discipline, bring in new sources of revenue, find new partners and carefully watch every penny that makes its way onto the balance sheet. Morgan Stanley aviation analyst Bill Greene this month said, "The airline industry is firmly in the recovery phase of this upcycle."

JP Morgan aviation analyst Jamie Baker has taken IATA's outlook and Greene's assessment a step further, saying he remains "bullish" on the domestic airline industry as airline managements and economic trends have coalesced to the benefit of the industry for more than just a year. "Manageable fuel, tight supply, incremental revenue streams, disciplined managements and rapidly recovering demand portend a multiyear profit run for U.S. operators," he said in a recent research note.

UBS aviation analyst Kevin Crissey also is anticipating at least one profitable year for U.S. airlines. "If this is a cyclical recovery that lasts multiple years, the airline industry could be in position for the best run in a long time," he said.

US Airways president Scott Kirby this month said he sees the current recovery that is brewing not as just a cyclical, but a structural, change. "The industry appears to be turning

Between The Lines

Continental Airlines and **United Airlines** this year agreed to merge to form the world's largest airline. The carriers this month said they still expect to close the deal by the end of this year, though the merger still requires shareholder approval, expected in September, and regulatory approval, targeted for completion by November or December. If approved, the carriers expect to complete integration in 2013.

Republic Airways Holdings last year purchased **Midwest Airlines** and **Frontier Airlines**, representing a marked change in the holding company's core business of supplying fixed-fee regional operations for legacy carriers. The company this year said it would retire the Midwest brand and integrate the carrier with Frontier. Republic Airways Holdings' financial and operational data for its new "branded flying" division now are not sufficient for the airline brands to be included in this year's Business Travel Survey.

Japan Airlines in January of this year entered the Japanese equivalent of Chapter 11 bankruptcy protection. As such, the carrier, whose financial and traffic figures typically are included in the Business Travel Survey, did not release full-year results for its fiscal year that ended March 31, 2010.

Domestic Carrier Statistics

2009 Passenger Revenue ($000,000)		2009 Net Earnings ($000)	
Delta Air Lines	18,522	Southwest Airlines	143,000
AMR Corp.	15,037	AirTran Holdings	93,600
UAL Corp.	11,910	Alaska Air Group	88,700
Southwest Airlines	9,892	JetBlue Airways	58,000
Continental Airlines	9,244	Continental Airlines	-295,000
US Airways Group	6,752	US Airways Group	-499,000
JetBlue Airways	2,928	Delta Air Lines	-1,068,000
Alaska Air Group	2,439	UAL Corp.	-1,128,000
AirTran Holdings	2,089	AMR Corp.	-1,361,000

a corner and hopefully it really is different this time," he told investors assembled this month at the 2010 Bank of America Merrill Lynch Global Transportation Conference in New York. "One of the things I've become really fond of saying in my meetings with investors recently is you never should say it's different this time, because it very rarely is. But the environment does seem different this time around and for some real structural reasons."

Among those, Kirby pointed to the sustained capacity discipline that started with the legacy carriers a couple years ago, spread to the once growth-happy low-cost carriers and has been maintained on an industrywide basis, even as demand has picked up in recent quarters.

The second major structural change, he said, is the industry's embrace of ancillary pricing, which has lifted passenger revenue at a time when base fares were doing everything but growing. "It's hard for me to overstate the importance of that to the industry and what a structural change that is," Kirby said of the blossoming a la carte pricing options with which airlines continue to experiment.

Domestic Carriers Lap Up Ancillary Revenues

2009 ancillary revenue, in $000,000, including baggage and reservation change fees

Airline	Q1	Q2	Q3	Q4	Change, Q409 vs. Q408	Total 2009
Delta	367.4	407.0	447.5	425.7	47.3%	1,647.6
American	241.4	246.5	261.2	253.3	2.9%	1,002.4
US Airways	221.3	228.2	230.8	231.8	2.1%	912.1
United	146.3	158.5	168.5	146.2	-3.4%	619.5
Southwest	143.0	148.4	155.7	157.2	11.8%	617.1
Continental	144.0	136.0	130.5	129.1	66.6%	539.7
AirTran	55.9	65.7	68.0	61.2	69.1%	249.7
JetBlue	48.9	48.5	48.7	48.1	-2.8%	193.1
Alaska	28.8	28.7	47.3	42.2	39.7%	147.0
Total	**1,875.30**	**1,949.50**	**2,089.80**	**1,911.10**	**18.3%**	**7,825.70**

Source: Bureau of Transportation Statistics

The CFO-Led Industry

While the shift from billions in losses to the prospect of multiyear profits is no doubt a positive development for a dysfunctional industry, a few years in the black hardly is the measure of a sustainable industry, said UBS's Crissey, who for years has peppered his research notes with the warning that "trading airline stocks may be hazardous to your wealth."

By way of an introduction during a presentation at the *Business Travel News*/National Business Travel Association Strategic Travel Symposium in March this year, he said, "This is a bad business." Considering domestic airlines have lost so much in the past decade, Crissey said, "Someone has to be subsidizing these airlines into existence, and that's the investor base."

To Crissey and other investor advocates, that is a troubling reality. "The thing about large losses is the owners of the company aren't happy, labor can't be happy because they can't get the pay increases and the opportunity for growth that they want, and suppliers aren't as happy because they're not selling as many planes," he said.

While profitability is a start, what investors ache for are companies that deliver a return on invested capital, generally a measure of how well a company is at steering investment into returns. Airlines don't even calculate their return on invested capital, Crissey said, as even the most U.S. profitable carrier hasn't gotten that far. "Southwest posts profits every year, but profits aren't the measure by which I measure. I look at everything relative to the return on invested capital relative to the cost of capital." The Air Transport Association, in a report this month, similarly noted, "Even profitable years have been inadequate to cover the cost of capital."

Though he's not changing his "hazardous to your wealth" warning, Crissey said the underlying fundamentals of the industry have improved. He and others, meanwhile, have spoken of yet another change: Major domestic operators largely have gone from marketing-led organizations to CFO-led organizations, making them more investment-minded and focused on earning their cost of capital and returning investments. "In the past, you had so many aircraft coming that airlines had to be marketing machines to fill their planes," he said.

US Airways' Kirby noted a similar shift in how airlines are run. "The industry by and large is led by CEOs who have a different view of the industry than perhaps the CEOs of yesteryear. They're much more focused on returns and financial performance than they are on empire building. Today's crop of CEOs are mostly former CFOs or general counsels—people much

Continued on page 18

"Low-Cost Carriers" Earn The Name In 2009

Cost per available seat mile, in cents, for full-year 2009

JetBlue Airways	8.99
AirTran Holdings	9.29
Southwest Airlines	10.29
Continental Airlines	10.62
UAL Corp.	10.72
Alaska Air Group	10.78
US Airways Group	11.06
Delta Air Lines	11.21
AMR Corp.	12.22

Source: AirlineFinancials.com

Domestic Airlines

	2009 Sales Rank	2009 Passenger Revenue ($000,000)	2008 Passenger Revenue ($000,000)	2009 Net Earnings ($000)	2008 Net Earnings ($000)	2009 RPM (000,000)	2009 ASM (000,000)	2009 Load Factor (%)	Number Of Aircraft In Fleet	Number Of Airports Served	Major Hubs
Alaska Air Group	8	2,439	3,355 [1]	88,700	-135,900	18,362	23,144	79.3	115	93	Anchorage, Portland, Seattle, Los Angeles
AMR Corp.	2	15,037	18,234	-1,361,000	-2,071,000	122,418	151,774	80.7	608	248	Chicago O'Hare, Dallas/Fort Worth, Miami
Continental Airlines	5	9,244	11,382	-295,000	-585,000	79,824	97,407	81.9	337	267	Cleveland, Houston, Newark
Delta Air Lines	1	18,522	15,137 [2]	-1,068,000	-8,922,000	163,706	197,723	82.8	740	289	Atlanta, Cincinnati, Detroit, New York JFK, Memphis, Minneapolis, Salt Lake City
JetBlue Airways	7	2,928	3,056	58,000	-76,000	25,955	32,558	79.7	151	59	Boston, Long Beach, New York JFK
Southwest Airlines	4	9,892	10,549	143,000	178,000	74,457	98,002	76.0	537	68	Baltimore/Washington, Dallas, Chicago Midway, Las Vegas, Phoenix
UAL Corp.	3	11,910	15,337	-1,128,000	-5,348,000	100,475	122,737	81.9	360	224	Chicago O'Hare, Denver, San Francisco, Washington Dulles
US Airways Group	6	6,752	8,183	-499,000	-2,210,000	57,889	70,725	81.9	349	199	Charlotte, Philadelphia, Phoenix

[1] Includes Alaska Airlines and Horizon Air
[2] Delta's 2008 figures include Northwest figures only after the merger closed, representing the period from Oct. 30 to Dec. 31, 2008.

Sources: Company reports, AirlineFinancials.com, OAG

Airlines Relish Rise In Fares, Ancillary Revenue Gains

BY JAY BOEHMER

Every month last year, major U.S. airlines saw a year-over-year decline in average fare. So far this year, the opposite has held true. Couple that with a growing appetite for ancillary revenues—from baggage fees and change fees to lounge passes and whatever the revenue management department's fancy—and domestic airlines are in a better position to generate revenue than they've been in quite some time.

"Pricing is still below where it was in 2008, though it's bounced way off the nadir that it hit in 2009," US Airways president Scott Kirby said this month.

Coming off the lowest fares in a decade, airfare analyst and FareCompare.com CEO Rick Seaney said there is hardly anywhere for airfares to go but up, and signs of prices firming continue to build. Whereas yields declined about 12 percent for the full year of 2009, through April this year yield has grown about 8 percent year over year, with the momentum building with each month, suggesting even further pricing power in the airline's hands for months to come.

Even though carriers have been unable to pass through major systemwide fare increases, Seaney said the mix of business has moved steadily to favor higher yield travelers as the airfare fire sale that lured so many leisure travelers to the skies last year has made way for heightened airline pricing power.

"The industry really aggressively discounted last year," Kirby said. "What we've seen this year is the industry is not discounting as aggressively. There haven't yet been large fare increases across the industry. They don't get headline press reports, but there have been some more tactical fare increases across the industry in recent weeks. I'm optimistic that, given the strong revenue environment that we and others are seeing, that we'll start to get some pricing traction."

Seaney said many airlines this year "are closing out all of their cheapest inventory classes for the summer" and, even if fare hikes haven't been met with widespread success, "Southwest hasn't had a systemwide, marketed published sale since November of last year, and last year they were doing at least one a week. That tells you how firm it is for the summer."

As fares themselves firm, airlines also continue to diversify their sources of revenue through a la carte fees, new service charges and other ancillary fees. What started a couple of years ago as a charge to check a second bag has snowballed into a fundamental shift in how airlines price their products and generate revenues. The trend toward unbundling, upselling and other euphemisms for charging more shows few signs of letting up.

"We've recognized the need to transform the revenue model, and we've taken calculated risks as we try to create new streams and revenue," said Kathryn Mikells, CFO at United Airlines, which alone expects revenue generated from ancillary revenues to top $1.2 billion this year.

The ancillary revenue revolution took hold with checked bags, introduced by United more than two years ago, but carriers continue to experiment and build revenue, while giving customers a service option or a new source of frustration, depending on the perspective.

Continental CEO Jeff Smisek this month presented selling exit row seating as a case study in how airlines are finding new revenue in old places. "We have other products to come, but exit row seats have been a homerun for us," Smisek said this month. "In the old days—that is, a few months ago—we used to give away exit row seats."

Though Smisek said Continental's elite status frequent flyers still would get priority, Continental in some cases would have given away such a perk—on a free, first-come basis. "Aunt Erma, who bought on Orbitz and doesn't know she's flying Continental, who gets on board and looks around and says, 'gee this one's blue and gray,' and paid $69, she gets the exit row seat," Smisek said. Now, Continental sells those at varying prices, depending on length of haul—but still maintains it as a free perk to the most frequent flyers. "We are now generating on average $120,000 a day from this one product," Smisek said this month. "You do the math."

Continental and United are hardly alone, and new optional services and fees continue to expand in the industry. Just this month, American Airlines introduced what it calls its Boarding and Flexibility Package, part of a suite of ancillary services called Your Choice, which AA director of merchandising strategy Cory Garner described as "our umbrella brand for our optional services." The suite also includes such previously available optional services as inflight Internet access, Admirals Club day passes and confirmed flight changes, among others. Garner said AA plans to add many more Your Choice offerings. "This is another step in an evolution that's been taking place for years now, and something we see as giving the customer more choice, more control, more visibility, more ways to personalize their travel," he said. "This is a point along an upward trend."

Airline Passenger Traffic Hits Three-Year Low In 2009

Traffic on all service to, from and within the United States

	2004	2005	2006	2007	2008	2009
Passengers (in millions)	703.7	738.6	744.4	838.4	812.3	769.6

Source: AirlineFinancials.com

AirTran CEO Bob Fornaro this month said he sees a law of diminishing returns already at play when it comes to ancillary airline revenues, noting that, at least for his carrier, the biggest moneymakers already have been introduced. "Certainly, it's a good revenue source," Fornaro said on the topic of ancillary revenues. "There are opportunities, but the biggest ones I think are in our numbers now: change fee, cancel fee, the upgrade program and the first bag. Going forward, most of the changes will be modest. You can debate some of the other things—whether to charge for carry-on bags—but I just don't see that happening right now," he said, referring to a Spirit Airlines proposal to charge passengers to carry on luggage.

The industry may be slow to adopt such a move, but there is evidence that consumers have grown to accept the new pricing models. J.D. Power and Associates this month released its annual consumer satisfaction survey for the U.S. airline business, and found that not only did overall satisfaction improve in the past year, but that passengers may have grown to accept the proliferation of ancillary fees levied by carriers. "The fact that overall satisfaction with airlines has improved is particularly notable in light of a difficult economic year, in which add-on fees have continued to proliferate and two major airlines have merged," said Stuart Greif, vice president and general manager of the global travel and hospitality practice at J.D. Power. Among the criteria on which it rates carriers, the costs and fees category saw an increase in satisfaction in the past year. ■

About These Charts

The accompanying charts list domestic and international airlines with more than $1 billion in annual passenger revenue and that are certified by the U.S. Department of Transportation. Cargo and charter-only airlines are excluded, as are those that do not report financial results or have not yet reported 2009 financial or operational data. Regional carriers that primarily feed larger airlines and other smaller carriers also are excluded. The 2009 sales rank is based on passenger revenues for 2009, excluding charter operations. Net earnings include all one-time and exceptional items and are after tax, except where noted. Charts are based on year-end Dec. 31, 2009, data except where noted. All figures were converted from local currencies to U.S. dollars, using Dec. 31, 2009, conversion rates, except where noted. The number of aircraft represents the fleet size as of Dec. 31, 2009.

Business Travel News collected information from company officials, company financial reports, Securities and Exchange Commission filings, airline alliance reports, the International Air Transport Association and analyst reports.

International Airlines

	2009 Sales Rank	2009 Passenger Revenue ($000,000)	2008 Passenger Revenue ($000,000)	2009 Net Earnings ($000)	2008 Net Earnings ($000)	2009 RPM (000,000)	2009 ASM (000,000)	2009 Load Factor (%)	Number Of Aircraft In Fleet	Number Of Airports Served	Major Hubs
Air Canada	7	8,099	7,948	-22,870	-838,789	47,884	59,343	80.7	332	177	Toronto, Montreal, Vancouver
Air China	10	6,245	6,359	702,488	-1,374,000	46,897	61,283	76.5	274	137	Beijing, Chengdu, Shanghai
Air France-KLM*	1	23,314	24,873	-2,097,000	-1,075,100	125,799	155,971	80.7	594	187	Amsterdam, Paris
ANA Group*	5	9,117	12,517	-619,079	-42,800	34,559	52,089	66.3	210	80	Tokyo, Osaka, Nagoya
British Airways*	3	10,548	11,138	-640,390	-508,843	68,879	87,723	78.5	238	165	London
Cathay Pacific Group	11	5,921	7,490	263,182	-1,104,320	55,575	69,075	80.5	126	90	Hong Kong
China Southern	9	7,322	7,395	77,078	-702,036	57,788	76,702	75.3	378	192	Guangzhou, Beijing
EasyJet [1]	16	3,423	3,177	113,346	132,449	31,420	36,142	85.5	181	114	London Gatwick, Stansted, Luton
Emirates*	6	8,981	8,978	964,000	405,750	78,498	100,510	78.1	142	100	Dubai
Iberia	13	4,765	5,946	-391,269	45,111	30,827	38,623	79.8	109	124	Madrid
Korean Air	14	4,686	4,730	-52,750	-1,555,550	34,254	46,566	73.4	127	107	Seoul, Busan, Jeju
LAN	17	2,624	2,859	231,000	335,700	18,535	24,094	76.9	99	65	Santiago
Lufthansa*[2]	2	22,598	22,260	-150,674	791,135	99,821	128,169	77.9	722	206	Frankfurt, Munich, Zurich
Qantas [3]	4	9,336	12,207	98,957	932,655	61,625	77,419	79.6	229	76	Brisbane, Melbourne, Sydney
SAS Group	15	3,980	4,912	-409,934	-814,905	14,441	20,157	71.6	122	92	Copenhagen, Oslo, Stockholm
Singapore Airlines*	8	7,633	9,950	154,376	698,597	51,501	65,662	78.4	108	63	Singapore
Thai Airways	12	5,599	4,789	219,530	-623,087	32,679	44,757	73.0	91	76	Bangkok, Chiang Mai, Phuket, Hat Yai

* Fiscal year ended March 31, 2010
[1] Fiscal year ended Sept. 30, 2009
[2] Lufthansa group includes Swiss, Austrian, Bmi
[3] Fiscal year ended June 30, 2009

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more focused on finances and on return than they are on, 'How big is my airline? How big is my marketshare? How many cities do I fly to?' " That, investor advocates said, is a good start toward long-term financial health.

Delta president Ed Bastian agreed. "You've got managements across the industry that I believe are much more focused on shareholder return," he said this month. "You've got companies that have gone throughout the bankruptcy process and are highly sensitized to delivering and generating the level of return that's required."

What The Airlines Can't Control

There are many things these new investment-minded CEOs can control. They get to determine what cities they fly to, what their capacity levels will be, when they initiate a fare sale or, conversely, when to raise the price to check a bag. However, airline management controls only a portion of their fate.

As such, they remain wary as ever of a spike in fuel, a second dip into recession or some other, unforeseen exogenous event. Such a thing is all it takes to upend their steps toward profitability. As summed up by airfare analyst and CEO of FareCompare.com Rick Seaney, the airlines are rightfully suspicious of seemingly good times.

"Airlines are like the whack-a-mole game," he said. "Every time they stick their heads out, they get smacked with a mallet—whether that's $145 barrel of oil or a recession." ■

Carriers Continue To Make The Most Of Capacity Control

BY JAY BOEHMER

If forecasts come to pass, domestic airlines should add no more than 2.2 percent capacity this year over last and, according to American Airlines CEO Gerard Arpey, that bodes well for the industry since such a growth rate would track below the roughly 3 percent U.S. gross domestic product growth anticipated this year.

"Responsible growth means growth that is consistent with GDP," Arpey said this month during the 2010 Bank of America Merrill Lynch Global Transportation Conference in New York, recounting a rule of thumb espoused by other executives and industry analysts. "If GDP is growing in a region at 2 or 3 percent, then generally carriers can grow responsibly inside that number and remain healthy."

Arpey is hardly alone. Airline executives and industry analysts have pointed to capacity discipline as the linchpin to the financial health of U.S. airlines.

Ever since domestic carriers in 2008, spurred by a fuel crisis with which they could barely cope, took a dramatic 9 percent of the available seat miles out of the system—roughly the size of a large, legacy airline—the industry has continued to constrain capacity.

"One of the most important things that happened in the industry is capacity discipline," US Airways president Scott Kirby said. "In 2009, you saw all airlines reduce capacity, following the spike in fuel and the bad revenue environment. What was unique about 2008 and 2009 capacity is that not only the legacy carriers reduced capacity, but for the first time in history of the industry the low-cost carriers by and large reduced capacity, with one exception—but even JetBlue reduced capacity in 2008."

According to an analysis of company reports and executive declarations by the firm Stifel Nicolaus, the total U.S. industry will add between 1.5 percent and 2.2. percent capacity, with the legacy airlines growing by no more than .5 percent and the low-cost carriers adding up to 5.7 percent capacity this year. Stifel Nicolaus airline analyst Hunter Keay in a research note this month said, "Capacity discipline remains the key to unit revenue acceleration, and we have heard nothing from most U.S. airlines indicating much appetite for incremental growth."

Once a key driver of industry growth, Southwest Airlines for the first time in its history last year cut capacity as it reduced full year available seat miles by about 5 percent. The carrier has maintained a commitment to holding that steady this year.

Even those so-called low-cost carriers who are adding capacity this year claim to be doing so in a responsible manner. "We think we've successfully repositioned the company from a hyper-growth company four or five years ago to a company that's much more disciplined," AirTran CEO Bob Fornaro said this month. "We think there are growth opportunities, and we think we can participate in those growth opportunities, but also, ultimately, we think discipline is important."

This year, AirTran expects to grow capacity by up to 4 percent, concentrated in Milwaukee, the Caribbean and, perhaps, some modest growth in its hub in Atlanta, Fornaro said. "If we keep our costs down and keep our quality high, I think we can continue to grow at a 4 to 5 percent rate—not a double-digit rate—but a reasonable rate," he said.

Carriers Maintain Capacity Discipline In 2010

Carrier	Capacity Change, 2010 vs 2009
JetBlue	+6% to +8%
Alaska	+4% to +5%
AirTran	+3% to +4%
Continental	+0.5% to +1.5%
American	1%
US Airways	1%
Southwest	"roughly flat"
Delta	no change
United	-2.1% to -1.1%
Legacy Airlines	flat to +0.5%
Low-Cost Carriers	+3% to +5.7%
Industry Average	+1.5% to +2.2%

Source: Company reports, Stifel Nicolaus

JetBlue CEO Dave Barger recounted a similar period of hyper-growth that has made way for more calculated capacity moves. "In 2006, we were taking a new airplane every 10 days," Barger told investors in New York this month. "Fast-forward, and we've slowed that growth down," noting that JetBlue in that time has deferred more than 100 aircraft, while selling and leasing other aircraft. Still, JetBlue this year is posting the highest growth rate, as it expects to increase full-year capacity between 6 percent and 8 percent, compared with 2009. That upswing is driven by growth in both the Boston and Caribbean markets, while capacity throughout the rest of its network is on pace to decrease, the carrier said.

Still, legacies see the furious pace of growth by low-cost or new entrant carriers as abating. "The low-cost carriers have not been growing at the pace that they were growing in the past, which was one of the other obstacles that we faced," Delta's Bastian said. "It's tough with fuel prices—even at today's $75 level, which may seem cheap compared to the past—to be a low-cost provider and be able to generate growth the way they've done in the past. That's adding another level of discipline to the marketplace."

Bastian cited another reason carriers won't start adding more seats than the market can consume. "We all have burnished in our minds that $147 oil price that we experienced two summers ago," Bastian said. "That has caused us all to think hard about not expanding and not over-investing in terms of fleet and capacity, for fear that oil prices could rocket on us."

The dramatic cuts in capacity have done more than reduce the number of seats in the market and reduce service to smaller communities. As carriers cut capacity, their networks are changing, Stifel Nicolaus' Keay said. "Legacy airlines have been increasingly retreating to their own hubs, where pricing power is best due to strong market share, and future international growth opportunities will likely exist." Such moves are exemplified by American Airlines' Cornerstone Strategy, which focuses on its hubs, and US Airways' U.S. network realignment that focuses almost exclusively on service to and from its Charlotte, Philadelphia and Phoenix hubs and three other cities, which combined will represent 99 percent of the airline's capacity by year-end.

"It's good to see the industry recognize we are in a mature industry," Kirby said. "This isn't a growth industry anymore." ■