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For The Airline Industry The Bad News Is Far From Over

Third quarter reports from US airlines confirm that the industry is in deep trouble. It is impossible to argue with any credibility that airlines need not make additional, immediate and significant cuts to their cost structures and capacity in the face of a steep fall off in passenger traffic and declining airfares that will extend well into 2002.

The following scorecard for the quarter ended September 30, 2001, ranks airlines from worst to best net result:

Airline ($ in millions)	Reported Net Income	Federal Grant	Other Charges	Net Result	October (%) Load Factor 2001	2000
United	$ -1,160	391	865	- 686	63.4	71.1
American	- 414	508	397	- 525	59.6	69.9
USAirways	- 766	331	712	- 385	61.7	70.1
Delta	- 259	104	68	- 295	60.5	69.0
Northwest	19	249	61	- 169	66.3	75.2
Continental	3	243	85	- 155	66.1	71.0
America West	- 31.7	60	NA	- 91.7	68.2	67.9
AirTran	- 10.6	30.3	34.8	- 6.1	59.9	69.6
Alaska	25.3	29.1	NA	- 3.8	63.6	61.4
Southwest	151	169	58	40	63.7	70.0

Only Southwest Airlines was profitable during perhaps the worst quarter in airline history. The largest airlines are still losing money at rates running to tens of millions of dollars daily, and load factors remain far below breakeven despite significant capacity reductions.

Many in the airline industry seem either unaware of or in total denial of reality. Witness the reaction of employees and the Board of Directors of UAL, parent of United Airlines, to the suggestion by Jim Goodwin, then CEO of United, that the enterprise faced its demise in 2002 unless costs were further reduced. United's unions immediately lobbied for his dismissal, blaming him for a drop in the airline's stock price to $17 per share. Goodwin was fired, yet the stock price still continues to fall, below $11 as this was written. Wishful thinking, grandstanding or posturing won't alter this fact: only those airlines able to make more tough choices and implement difficult decisions will survive to see 2003.

There are simply not enough customers currently to support existing airlines at their present size. The evidence would seem sufficient to convince everyone that the survival of each airline now requires two warring camps—management and labor—to declare peace and work together to save the enterprise. The truth is that more employees will lose jobs than will managers, as the former outnumber the latter by 10 to one; while clamoring for and occasionally getting management scalps may make some feel better, there are few such scalps versus the roughly 100,000 airline employees who lost their jobs shortly after September 11.

We would like to be encouraged by the claim of Roy Freundlich, Communications Chairman of the USAirways unit of the Air Line Pilots Association's Master Executive Council, that his union has been working since September 17 to devise means to assist management efforts to place the airline on a permanent, sustainable course of profitability. But our enthusiasm is dimmed by the union's reports to membership, wherein the rhetoric sounds less hopeful: *"Management has failed to explain how their actions cannot be seen by USAirways pilots as acts of corporate terror, complete with threats, victims and negotiating objectives. Management has no clue of what passenger demand will be in the months to come and is acting in a rash and offensive manner. ALPA is committed to pursuing reasonable solutions and alternatives to management's knee-jerk and unsophisticated plan to harm thousands of employees."*

The situation is now so dire that replacing the "let's contest and negotiate every point" attitude with a "let's get the job done" stance is absolutely necessary. We estimate that USAirways lost more than $200 million in October, as passenger traffic was almost 35% below last year. And, despite management's game-faced assurances that the airline will finish 2001 with $800 million in cash, we believe the situation to be much more critical. USAirways' third quarter passenger revenues were down a remarkable 21 percent year to year, indicating that a substantial portion of that decline is unrelated to travel reductions post September 11 and instead represents an ongoing trend.

Fourth quarter operating losses may well be worse than the recently released bloodbath of red ink as Northwest and other major airlines continue to aggressively cut fares, driving revenues down faster than costs. Next year, 2002, will be very difficult as the "war on terrorism" continues and Americans remain tentative about flying as part of travel plans likely to be far reduced from 2000 levels. With a recession maintaining downward pressure on business travel, continued revenue declines seem assured. Unless USAirways can make substantial additional cost reductions, failure would appear fairly inevitable. Everyone involved must digest this and get on with the hard work of restructuring.

It is still not too late for management and employees to develop a new relationship—one that substitutes action for words and will allow progress to occur.

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