Profitability expected in 2009

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It's not all dark for the U.S. airline industry.

Despite high fuel prices, a sputtering economy, a travel market that's losing altitude and reduced capacity, the airlines are positioned to be profitable in 2009, some industry analysts believe.

"Reduced capacity plus higher fares plus new fees equals an airline that's suddenly profitable again after a long, long fuel-cost-induced drought," said Rick Seaney, CEO of FareCompare.com, an Internet-based budget travel company.

"You add up all the fees imposed by the airlines, 21 attempted fare hikes in the first half of 2008, 15 of which were successful, and tack on the higher price point, the prospects that fuel will go down to $80 a barrel in the next year and a half, and it could make the legacy carriers profitable in 2009.

"They could even be profitable in the fourth quarter."

After more than $40 billion in losses in the five years following the terrorist attacks of Sept. 11, 2001, airlines slashed costs and capacity. Some U.S. airlines made money in 2006 and 2007.

But crude oil prices north of $120 a barrel were a financial earthquake equivalent to the 2001 shock to the industry, executives and analysts said.

"The bad news, of course, is that fuel prices have erased what we have accomplished on the cost side," said Beverly Goulet, vice president of corporate development at AMR Corp., parent of American Airlines.

Speaking at the Calyon Transportation conference in New York City last week, Goulet said AMR's cost reduction has allowed it to rebuild its fuel hedging program. Fuel hedging, which allows a company to lock in future fuel purchases at a set price, contributes to Southwest Airlines' unprecedented string of 69 straight profitable quarters.

"As it stands today, we are 39 percent hedged at $3.11 per gallon for our anticipated third quarter fuel consumption, and we are currently 38 percent hedged at $3.33 per gallon for our anticipated consumption in the fourth quarter," Goulet said. "But make no mistake, $100 per barrel fuel is no panacea. In fact, it is far from it, particularly given the concern over the health of the economy in the U.S., the growing uncertainty about economies abroad and the turmoil in the financial markets."

John Pincavage, who follows the airline industry for Pincavage & Associates in Westport, Conn., said he could see some U.S. airlines being profitable next year.

But there are a lot of unanswered questions, he said.

"If you can tell me what fuel prices will be, how much the economy will be growing and how deep the recession will be next year, I'll tell you whether the airlines will be profitable," Pincavage said.

"Everything is up in the air. Business is slowing down, unemployment is going up — none of those are good indications for vacation or business travel. But if you have $75 a barrel oil and 3 percent GDP (gross domestic product), these carriers will be going to the bank."

Seaney, the Internet travel company executive, said the airlines can overcome moderately high fuel prices and reduced capacity with a series of recently imposed fees and fare increases.

"Northwest Airlines expects to collect $150 million to $200 million a year on its bag fees alone; by mid-September, they were collecting bag fees to the tune of almost $500,000 a day," Seaney said. "And United estimates its bag fees will bring in as much as $300 million a year."

Mike Boyd, president of Boyd Group International, an airline consultant in Evergreen, Colo., said U.S. carriers are cutting seating capacity 9.5 percent in 2009. The seats that remain will be 20 percent more expensive, he said.

"They're pulling capacity out faster than demand is falling," Boyd said. "American Airlines, which has a fine route system, is moving in the right direction and could be profitable next year. Another one that could be profitable is Continental. A merged Northwest-Delta (Air Lines), maybe."

Chris Mainz, spokesman for Southwest Airlines, said the company expects it will be profitable next year — its 36th straight year without a loss.

"While other carriers have cut capacity 15 percent to 18 percent, we are on pace to grow capacity 4 percent in 2008," Mainz said. "In 2009, we don't know yet, but we haven't announced reductions in overall capacity."

Raphael Bejar, a travel consultant with AirSavings in Paris, France, said Southwest, JetBlue and Allegiant Air will be profitable among the discounters, and American, United and US Airways could be making money next year among the legacy carriers.

"International routes are much more profitable than domestic routes," Bejar said, "and international routes feed domestic routes."

Alex Eaton, president of World Travel Service in Tulsa, said airline passenger traffic will be down 2.9 percent in the next nine months while ticket prices in the same period will rise 6 percent to 9 percent.

Eaton said the average domestic fare today is $465. Adding all the recently imposed fees for fuel surcharges, baggage, curbside check-in, reservation changes, preferred seating, snacks, drinks, blanket and pillow could increase the average fare to $776 — a 67 percent increase, he said.

"There is a real possibility the airlines could get back to profitability in 2009," Eaton said, "which means most of the airlines will make money."

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