

Take off: Revenue will grow as consumer sentiment and disposable income levels rise

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IBISWorld Industry Report 48111b Domestic Airlines in the US

December 2018

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About this Industry

Industry Definition

The industry provides domestic air transportation for passengers and cargo over regular routes and on regular schedules. Network carriers operate a significant portion of their flights using at least one hub where connections are

made for flights on a spoke system. Regional carriers provide service from small cities, mostly using smaller aircraft and jets to support the network carriers' hub and spoke systems. Airlines that transport mail are included in this industry.

Main Activities

The primary activities of this industry are

Scheduling domestic air transport

Scheduling domestic cargo and freight air transport (excluding air couriers)

Transporting commuter domestic passengers

Transporting charter domestic passengers

Scheduling domestic mail air transport

The major products and services in this industry are

Cargo transportation

Passenger transportation: mainline

Passenger transportation: regional

Other

Similar Industries

33641a Aircraft, Engine & Parts Manufacturing in the US

This industry provides factory conversion, overhaul and rebuilding of aircraft.

48111a International Airlines in the US

This industry provides international air transportation of passengers and cargo over regular routes and on regular schedules.

48121 Charter Flights in the US

This industry provides domestic air transportation of passengers and cargo and specialty flying services with no regular routes and regular schedules.

48211 Rail Transportation in the US

The industry comprises companies that operate railroads across the United States. This includes large railroads and regional and local line-haul railroads that carry freight and passengers.

48311 Ocean & Coastal Transportation in the US

This industry provides deep-sea, coastal, Great Lakes and St. Lawrence Seaway water transportation. The deep-sea shipping activity includes US-flagged vessels and nonflagged vessels.

48811 Airport Operations in the US

The industry includes businesses that operate international, national or civil airports or public flying fields.

56151 Travel Agencies in the US

This industry includes businesses that sell, book and arrange travel, tour and accommodation services for the general public and commercial clients.

About this Industry

Similar Industries continued

49222 Couriers & Local Delivery Services in the US

This industry primarily engages in delivery services between urban centers using a network of air and surface transportation systems.

Additional Resources

For additional information on this industry

www.airlines.org

Airlines for America

www.bts.gov

Bureau of Transportation Statistics

www.faa.gov

Federal Aviation Administration

www.transportation.gov

US Department of Transportation

www.ustravel.org

US Travel Association

IBISWorld writes over 1 000 US industry reports, which are updated up to four times a year. To see all reports, go to www.ibisworld.com

Industry at a Glance

Domestic Airlines in 2018

Key Statistics Snapshot

Revenue	Annual Growth 13–18	Annual Growth 18–23
\$142.3bn	2.5%	3.2%
Profit	Wages	Businesses
\$11.5bn	\$26.7bn	299

Market Share

Delta Air Lines Inc.	22.4%
American Airlines Group Inc.	21.3%
United Continental Holdings Inc.	17.5%
Southwest Airlines Co.	14.6%

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Key External Drivers

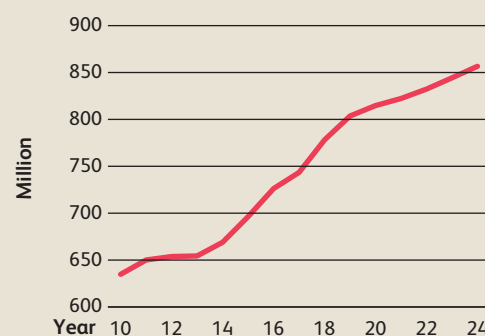
- Domestic trips by US residents
- Corporate profit
- Per capita disposable income
- World price of crude oil
- Trade-weighted index

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Revenue vs. employment growth

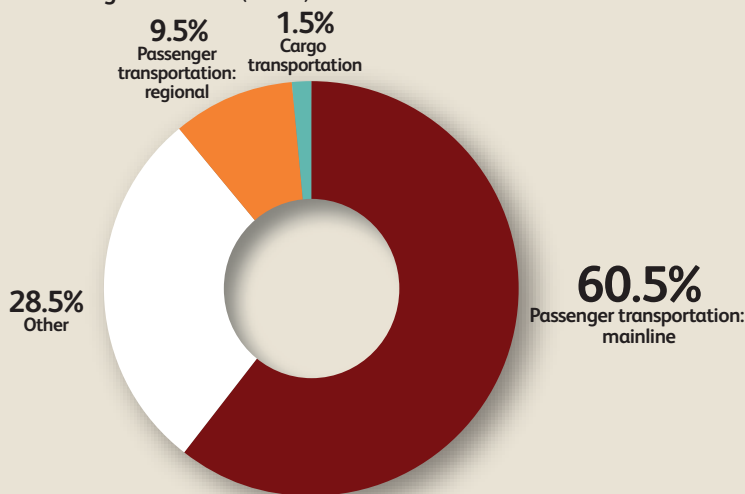


Domestic trips by us residents



SOURCE: WWW.IBISWORLD.COM

Products and services segmentation (2018)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	High
Capital Intensity	Medium	Barriers to Entry	High
Industry Assistance	High	Industry Globalization	Low
Concentration Level	High	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 35

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Domestic Airlines industry has expanded over the five years to 2018. Industry players provide scheduled domestic passenger and cargo flights. During the five-year period, rising levels of per capita disposable income, consumer confidence and total corporate profit have bolstered demand from both business and leisure travelers. Therefore, over the five years to 2018, industry revenue is expected to

have been tempered by strong price competition. In particular, low-cost airlines like Spirit Airlines Inc. and Frontier Airlines have been able to offer ultra-low-cost fares in exchange for no-frills service options. In response, the industry's largest players have begun to offer lower cost tickets in exchange for reduced service options. Moreover, mainline carriers like Delta Airlines Inc. have increased focus on the premium class segment and ancillary services as a way to increase profit and revenue from less price-sensitive customers.

The Domestic Airlines industry is projected to continue growing over the next five years

climb at an annualized rate of 2.5% to \$142.3 billion.

However, in the first half of the five-year period, falling fuel prices reduced fuel surcharge fees, constraining revenue growth. Nevertheless, as fuel prices picked up in recent years, so did surcharges, helping industry revenue grow at an expected 3.0% in 2018. Moreover, fuel prices are still below 2013 levels, helping industry profit grow. Conversely, margins

In line with continually improving economic conditions and an expected increase in demand for air travel, the Domestic Airlines industry is projected to continue growing over the five years to 2023. At the same time, the world price of crude oil is expected to rebound in coming years, bolstering the price of jet fuel and enabling industry operators to supplement revenue through fuel surcharges and higher ticket prices. Ultimately, industry revenue is forecast to grow at an annualized rate of 3.2% to \$166.6 billion over the five years to 2023.

Key External Drivers

Domestic trips by US residents

The total number of domestic trips taken by US residents indicates the level of activity in the Domestic Airlines industry. While not all trips are taken by plane, growth in domestic travel indicates an increasing demand for aviation services. The number of domestic trips taken by US residents is expected to increase in 2018, representing a potential opportunity for industry operators.

Corporate profit

Business customers account for a significant portion of domestic passenger traffic. When corporate profit is high, companies are more likely to pay for business travel and travelers are more

likely to purchase first class tickets and other high-margin industry products. Corporate profit is expected to increase in 2018.

Per capita disposable income

Most revenue earned in this industry comes from discretionary consumer spending on leisure travel. When per capita disposable income rises, consumers can spend more on vacations and other nonessential trips. Per capita disposable income is expected to increase in 2018.

World price of crude oil

Given that jet fuel is refined from crude oil, when global crude oil prices decline,

Industry Performance

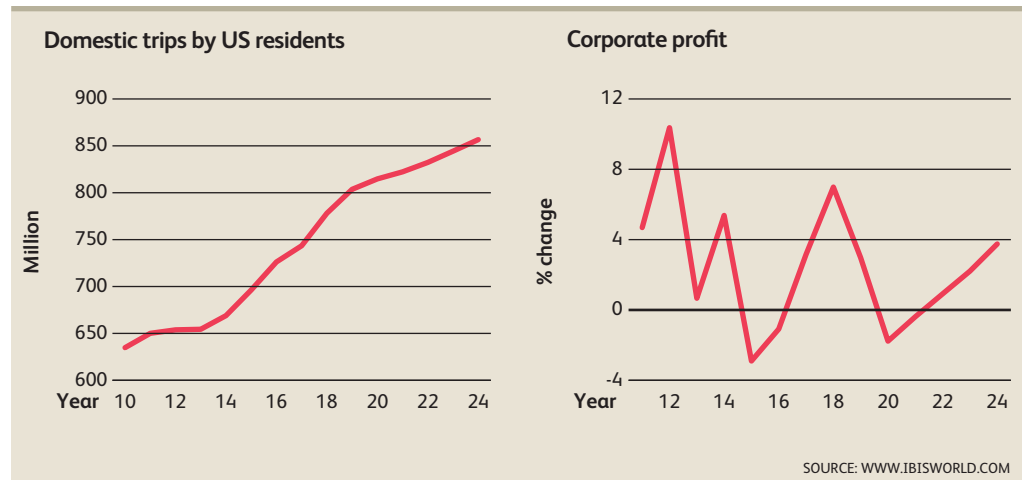
Key External Drivers continued

jet fuel prices tend to decline as well, causing major airlines to remove fuel surcharges and reduce ticket prices to remain competitive. In turn, lower prices limit industry revenue growth. The world price of crude oil is forecast to increase in 2018.

Trade-weighted index

The trade-weighted index (TWI) measures the dollar's value against the

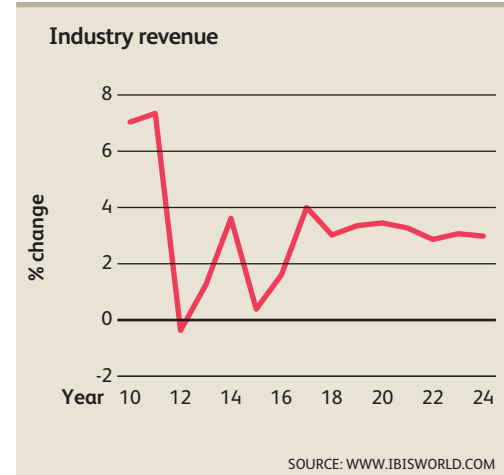
United States' trading partners. When the dollar appreciates, it is less expensive for US residents to travel overseas, making them less likely to fly domestically. When the dollar depreciates, it becomes more expensive to go abroad, increasing domestic airlines' share of travel. The TWI is expected to decrease in 2018, representing a potential threat to the industry.



Industry Performance

Current Performance

The Domestic Airlines industry has experienced modest growth over the five years to 2018. Industry players provide scheduled passenger and cargo flights within the United States. During the five-year period, rising levels of disposable income and improving corporate profit have caused demand from both business and leisure travelers to soar. At the same time, industry revenue growth has been constrained during the five-year period by sudden declines in the world price of crude oil, which caused the market price of jet fuel to decline as well, limiting the ability of operators to generate revenue through fuel surcharges. Ultimately, industry revenue is estimated to increase at an annualized



rate of 2.5% to \$142.3 billion over the five years to 2018, including projected growth of 3.0% in 2018.

Improving demand conditions

The Domestic Airlines industry is cyclical and highly sensitive to a variety of external economic factors that affect the number of domestic travelers. Fortunately for industry operators, steady growth in the US economy and improving consumer conditions have substantially bolstered demand for industry services over the past five years. For instance, per capita disposable income is estimated to grow at an annualized rate of 2.3% over the five years to 2018, while total corporate profit is also expected to increase at an annualized rate of 2.2% during the same period. The rise in incomes enabled more

consumers to fly within the United States, while the increase in profit indicated the business community's ability to purchase flights for their staff going on work trips. As a result of these trends, the number of domestic trips taken by US residents has grown at an annualized rate of 3.5% over the past five years. In addition to generating revenue from ticket sales, this influx of passengers and their increased willingness to pay more has enabled domestic airlines to earn significant revenue through amenities and add-ons, such as checked baggage and loyalty programs.

Fuel prices and profit margins

The price of jet fuel, which is derived from crude oil, plays a large role in industry revenue performance because fuel accounts for as much as 20.0% to 40.0% of an airline's purchase costs. When the price of fuel increases, industry carriers are typically able to earn revenue by implementing fuel surcharges and

increasing ticket prices and freight rates, shifting some of the burden of rising fuel costs to consumers. Consequently, when oil prices plunged in the beginning of the five-year period, industry surcharges fell and revenue growth was constrained. For instance, revenue only grew 0.4% in 2015. In more recent years, recovering oil

Industry Performance

Fuel prices and profit margins continued

prices and growing demand have led to a pickup in revenue growth.

Aside from revenue, fuel costs also greatly affect carrier profitability. Airlines for America (an industry association), estimates that for every dollar increase in the price of jet fuel (a derivative product of crude oil), US airlines incur an additional \$445.0 million in fuel expenses. Therefore, when oil price fell, industry operating profit exceeded 15.0%, which is well above historical levels. However, as fuel costs have gone up in recent years, margins are expected to fall to 8.1%, which is still above 2013 levels.

Industry profitability and airlines' ability to pass on fuel costs to customers were also influenced by demand and utilization factors. Higher demand often means airlines can pass higher prices on to passengers without losing market share. Moreover, growing demand permits airlines to fill up their planes with more paying customers, spreading costs out more and improving margins. For instance, the industry load factor, a measure of carrier capacity utilization, is expected to average above 84.0% during

the five-year period, which is far greater than historical figures. This is particularly impressive because the increase in load factor is due to demand growth outpacing capacity growth and not a reduction in capacity, giving carriers more room to maintain prices.

Nevertheless, price competition has increased, especially within the economy class segment, which has made a higher load factor even more important as airlines receive less revenue per seat. Low-cost carriers like Frontier Airlines and Spirit Airlines Inc. have continued to expand operations by offering no-frills fares at low prices. Major airlines have responded by offering basic economy tickets, which offer lower-priced fares, but with reduced service and options. Upgauging, or the practice of adding more seats on aircraft through newer planes or modification, has also enabled operators to expand capacity and revenue at a minimal cost. At the same time, mainline carriers have increasingly tailored to premium class passengers and looked to their ancillary offerings to boost profit from less price sensitive customers.

Industry landscape

Over the five years to 2018, the number of industry enterprises has fallen at an annualized rate of 2.9% to 299 companies. Following a period of significant merger and acquisition activity on the part of the industry's largest players, the industry is now dominated by large-scale operators such as United Continental Holdings Inc. and American Airlines Group Inc. In fact, the industry's six largest players are expected to account for nearly 80.0% of total industry revenue in 2018, which acts as a significant barrier to entry for small-scale players attempting to gain market share and posed a great competitive challenge to some airlines already in the industry. Moreover, the increased market share of mainline carriers has permitted them to negotiate

Small airlines capture market share through tough price competition

lower prices with regional carriers that feed them passengers from less trafficked areas, reducing their profitability.

There have also been reports of airlines being forced out of the industry due to a growing pilot shortage, which has prevented carriers from operating enough flights to stay in business. The shortage and the associated rise in average wages partially explain why overall industry wages are expected to rise at an annualized rate of 6.1% to \$26.7 billion over the five years to

Industry Performance

Industry landscape continued

2018. Wage costs have also been boosted by the overall need to hire more staff to meet growing demand, with industry

employment expected to rise at an annualized rate of 3.3% to 342,533 people over the past five years.

Industry Outlook

The Domestic Airlines industry will continue to grow over the five years to 2023 as economic conditions continue to improve and consumers and businesspeople continue taking trips. The market price of jet fuel is also expected to

grow in the coming years, enabling domestic airlines to generate additional revenue by reinstating fuel surcharges. Overall, industry revenue is projected to increase at an annualized rate of 3.2% to \$166.6 billion over the five years to 2023.

Rising demand

Over the next five years, a greater number of business passengers, rising disposable income levels and increases in services offered will support industry revenue growth. For instance, US per capita disposable income is projected to grow at an annualized rate of 1.4% over the next five years, enabling greater numbers of consumers to purchase air travel and purchase first class seats, as well as extra baggage allowances and other discretionary amenities that many airlines provide. This will lead the number of domestic trips taken by US residents to increase at an annualized rate of 1.6% over the next five years. At the same time, rising levels of corporate profit will lead to larger travel budgets for businesses, especially for senior executives who often purchase first class and business class tickets for business-related air travel. This will primarily benefit the industry's major airlines since low-cost airlines are generally unable to compete with industry leaders in the industry's business class segment.

Industry revenue and profit are also expected to be bolstered by a growing load factor. According to the Federal Aviation Administration, over the five years to 2023, industry available seat miles (a measure of capacity) and

Rising disposable income levels will support revenue growth

revenue passenger miles (a measure of traffic) are forecast to climb at an annualized rate of 1.7% and 1.9%, respectively. Consequently, the load factor will climb to nearly 86.0%. As this indicates traffic outpacing capacity, the industry is expected to be able to exert more pricing power. At the same time, as planes will fly fuller, they can operate more efficiently and achieve higher returns.

However, the industry does experience several headwinds. For instance, as interest rates rise, the cost of financing new planes will increase, potentially hurting expansion plans or making current debt levels less sustainable. Moreover, consumer confidence and business sentiment are both forecast to drastically slow in the coming years. If these sentiments actually lead to reduced spending on flights, demand may come in well below forecast, just as airlines in the United States keep expanding their capacity. The result could lead to decreased profitability and revenue.

Industry Performance

Profitability and consolidation

The combination of a rising load factor, increased traveler spending on ancillary and premium services and the proliferation of more fuel-efficient aircraft are anticipated to help industry profit grow to 8.4% in the five years to 2023. However, margins will remain constrained by the anticipated rise in fuel prices. Additionally, as demand increases, the need for more workers is forecast to cause industry employment to rise at an annualized rate of 1.7% to 372,035 during the five-year period. Combined with a pilot shortage pushing up wages, the rise in employment will cause wage costs to increase. Moreover, the expansion of low-cost carriers like Spirit Airlines Inc. will keep price competition in economy class high. Nevertheless, despite the continued growth of low-cost airlines, the industry will still

Industry profit margins will be constrained due to rising fuel prices

be dominated mainline carriers like American Airlines Group Inc. and Delta Airlines Inc. These carriers are likely to use their market position to negotiate better deals with regional airlines who serve as feeders, thereby causing consolidation in that segment. Other airlines are also likely to get pushed out as larger players expand capacity and enter new routes. Therefore, in the five years to 2023, the number of industry enterprises is forecast to fall at an annualized rate of 1.5% to 277. Strong price competition will also mean that airlines will have to keep their load factors high or exit the industry, making barriers to success higher.

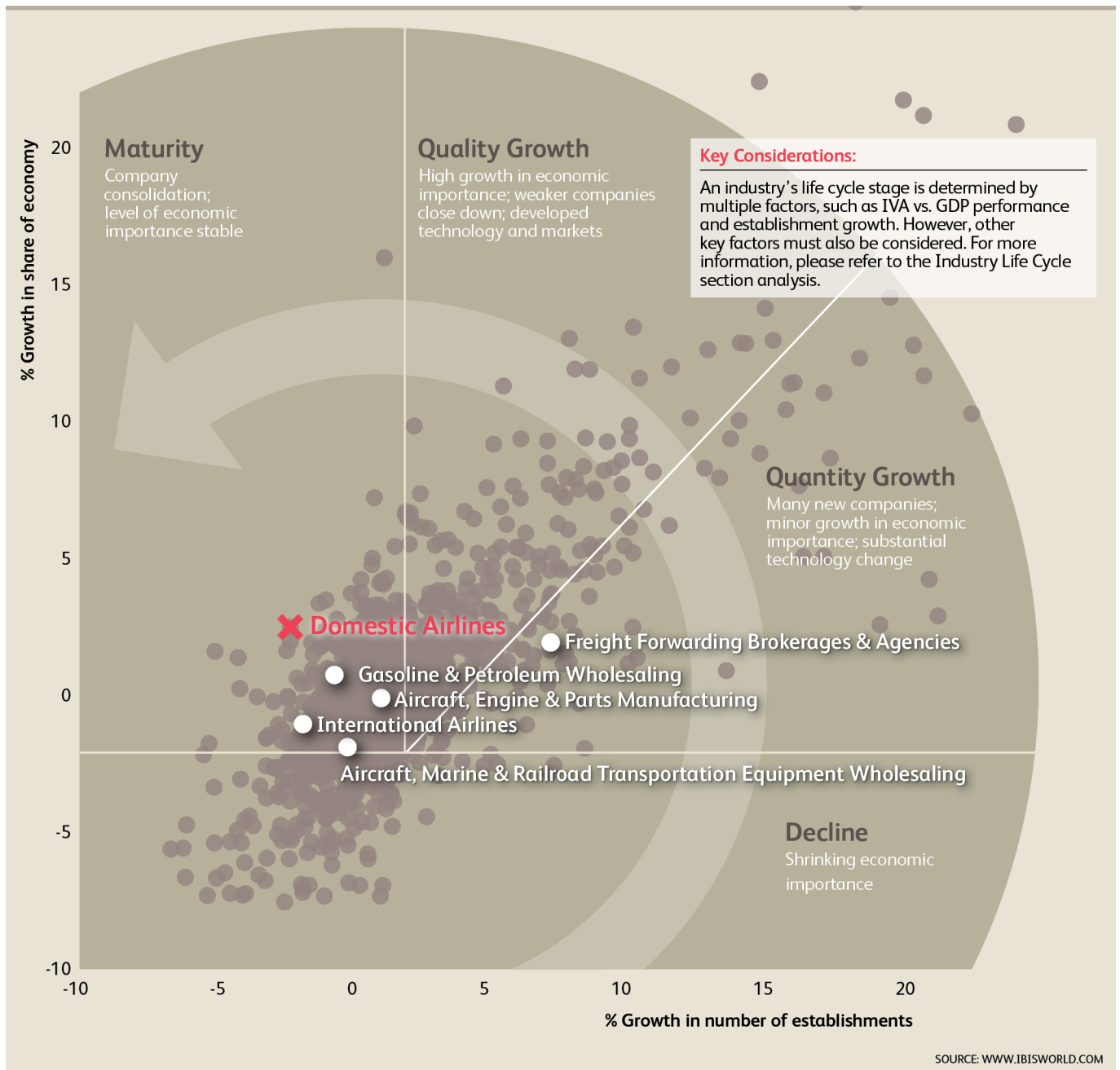
Industry Performance

Life Cycle Stage

Services offered by the industry are clearly segmented and stable

There is wholehearted market acceptance of industry services

Significant consolidation is occurring



Industry Performance

Industry Life Cycle

This industry is **Mature**

The Domestic Airlines industry is in the mature phase of its economic life cycle. Industry value added, or the industry's contribution to the US economy, is expected to grow at an annualized rate of 4.7% over the 10 years to 2023.

Comparatively, US GDP is forecast to increase at an annualized rate of 2.2% during the same period. While the contrast between these two growth rates generally indicates that an industry is in the growth phase of its life cycle, substantial consolidation activity among the industry's largest players and full market acceptance of industry services reinforce the industry's ongoing maturity.

Domestic air transport services have remained relatively unchanged over the past five years. There is very little scope to expand domestic services due to strong competition and a saturated market. This has resulted in deteriorating operating conditions for most airlines, particularly in response to unstable costs with volatile fuel prices. In response, mergers and acquisitions have become more prominent in the industry as major players attempt to expand their market

share. American Airlines and US Airways merged to form the largest airline in the world. Industry operators also frequently form alliances to expand their geographical reach and share the costs associated with transportation. Many of the industry's largest shipping alliances, such as Star Alliance, SkyTeam and Oneworld, were formed in recent decades as companies attempted to improve operations in a highly competitive environment. This trend is indicative of a relatively mature industry.

Additionally, the industry plays a critical role in the US economy and, therefore, passenger and cargo airline services have consistently been fully accepted by downstream consumers. Airlines offer a quick, relatively affordable method for private consumers to travel and cargo airlines remain the most popular mode of transporting high-value, time-sensitive goods. Therefore, as levels of disposable income, domestic travel activity and total manufacturing output continue to increase in coming years, airborne transportation services will continue to be fully accepted by downstream markets.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
 Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

- 48851 **Freight Forwarding Brokerages & Agencies in the US**
 The industry uses domestic airlines to transfer goods across the United States.

- 49222 **Couriers & Local Delivery Services in the US**
 Couriers use domestic airlines to transport parcels and packages across the United States.

- 92 **Public Administration in the US**
 Business travelers account for a significant portion of industry revenue.

- 99 **Consumers in the US**
 Consumers are the primary users of industry services.

KEY SELLING INDUSTRIES

- 33641a **Aircraft, Engine & Parts Manufacturing in the US**
 This industry provides aircraft and associated machinery to domestic airlines.

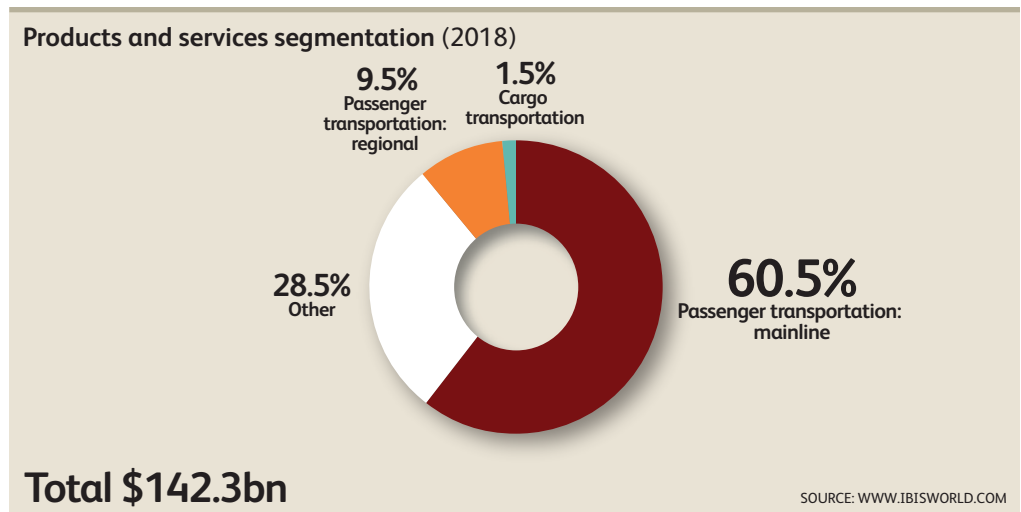
- 42386 **Aircraft, Marine & Railroad Transportation Equipment Wholesaling in the US**
 Domestic airlines purchase aircraft from wholesalers.

- 42472 **Gasoline & Petroleum Wholesaling in the US**
 The industry supplies fuel and lubricants for aircraft.

- 48811 **Airport Operations in the US**
 Airports provide space for domestic scheduled air operators to load and unload passengers and cargo.

- 48819 **Aircraft Maintenance, Repair & Overhaul in the US**
 The industry provides maintenance and support to domestic airlines.

Products & Services



Passenger transportation

Scheduled passenger transport (ticket fares) is the largest Domestic Airlines industry market. Fares are made up of made up of coach-, business- and first-class passengers. Coach-class passengers

account for the greatest share of industry revenue and the majority of passenger seats on scheduled flights. Business-class and first-class passengers, distinguished from other travel classes by the quality of seating, food, drinks and other amenities,

Products & Markets

Products & Services continued

represent a smaller share of total revenue. In the United States, a true business class is usually only offered on transcontinental flights and from the east coast to Hawaii. On shorter routes, the front of the cabin is often designated as first class. Premium classes are not offered by all airlines. For example, Spirit Airlines Inc. and JetBlue Airways Corporation offer some additional features, such as more space and priority seating, for a higher fee, but they do not offer traditional business-class seats. In recent years, rising levels of per capita disposable income and corporate profit have enabled more airline customers to purchase relatively high-end airline services, such as first-class seating.

60.5% of industry revenue is generated from mainline carrier services. Mainline flights are provided by an airline's primary operating units, are typically conducted between major airline airport hubs and use large commercial aircraft. Conversely, an estimated 9.5% of industry revenue comes from regional flight services. These services are operated by subsidiaries of mainline carriers or independent carriers, are serviced by smaller regional aircraft in areas that don't have enough demand to be serviced by larger mainline aircraft and are often used as feeders, transporting passengers from low traffic regions into major hubs for further travel. Overall, passenger transportation segments share of revenue has slightly

declined over the past five years as other service grew faster.

Cargo transportation

The transportation of cargo and mail is estimated to generate an additional 1.5% of industry revenue in 2018. Freight is typically transported in the belly of scheduled passenger planes and acts as an additional source of revenue. Cargo could also be transported onboard specialized cargo planes that have been converted from passenger models. Industry operators transport a wide variety of cargo, such as fresh produce, perishable goods and high-value products. In general, due to the cost of air cargo transport, the goods moved by airlines have to be valuable enough or time-sensitive enough to justify the expense.

Other

Other sources of income for domestic airlines include excess baggage charges, reservation cancellation fees, in-flight foods and drinks, fees from maintenance, repair and overhaul of other airlines aircraft and other miscellaneous services. Combined these services account for an estimated 28.5% of industry revenue. As consumer incomes have increased, more people have been able to afford on-board items like foods and drink. Therefore, this segment's share of revenue has increased over the past five years.

Demand Determinants

Demand for the Domestic Airlines industry is dependent on many factors, most of which are economic influences on consumers, both private and corporate. Air transportation activity increases when the number of passengers grows and demand for freight increases. The main economic factors influencing a consumer's

choice to fly domestically or send to cargo include consumer and business sentiment, corporate profit, disposable income, exchange rates and airfares. Other considerations are consumer preferences, leisure time availability and competition from substitute methods of travel, such as driving cars.

Products & Markets

Demand Determinants continued

Leisure travel

Leisure travel includes air transportation for the purpose of a vacation, visiting friends and family, moving to another city or similar related activities. Demand for these activities is generally closely linked to disposable incomes and leisure time availability. When personal or household disposable income is experiencing favorable growth, more consumers tend to spend money on discretionary items such as vacations and interstate visits. Also, people who have more free time away from work, like retirees, travel more. Airfares also play a role, as less expensive prices tend to attract more potential passengers. However, if prices are increasing at a slower rate than income growth, consumers will generally not be deterred from flying. Exchange rates also play a role, in that they influence consumers' decisions whether to travel abroad or domestically.

Other factors contributing to demand for leisure air transportation include the location of the consumer and population density in the area, as well as consumer preferences. People who live in remote areas tend to fly more out of necessity, and these locations are usually poorly populated. The United States is a large landmass and the most convenient way of transport from one end to the other is flying. Consumer preferences affect demand for air transport in the choice of a mode of transportation and the choice of whether to go on vacation domestically or internationally. When people are more willing to fly rather than drive or catch a train, this increases demand for domestic airlines. A preference for domestic vacations over international vacations helps the industry as well.

Business travel

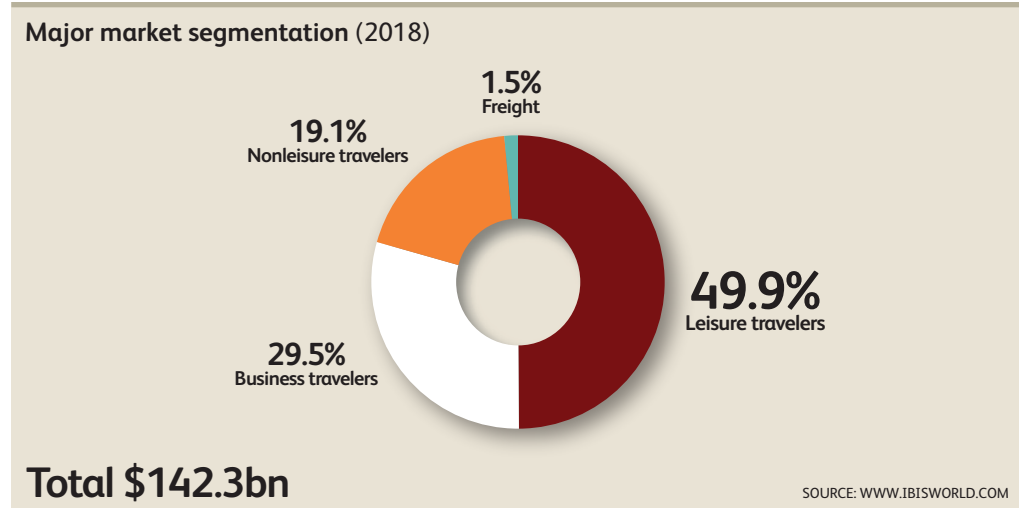
Business travelers are much less responsive to price changes than they are to corporate profit and business sentiment. Demand for business travel tends to rise when corporate activity in the country increases and profit is performing favorably. This generates more need to visit other business locations or to attend conferences. However, when profit is falling and sentiment is down, business travel is usually on the chopping block for companies. Additionally, in an age of technological developments, competition from substitutes, such as video conferencing, is on the rise. As a result, demand for business air travel is affected by developments in the communications industry and the future need for working professionals to physically move from one location to another.

Cargo transportation

Demand determinants of air cargo include: the level of high-value, time-sensitive imports and exports; airfreight rates, which are influenced by operating costs and capacity; and innovation in shipping and packaging technology. It is more profitable to ship time-sensitive products that have a high value-to-weight ratio via air. Electronics and high-end products are usually transported by air to reach the market in a fast and efficient manner. Time to market is important and influences demand for these products. Many carriers are also certified to handle dangerous goods, such as explosives, gases, flammable liquids, toxic and infectious substances and radioactive materials. Consumer sentiment will also affect demand for these time-sensitive products to be transported. When sentiment is down, consumption tends to fall, leading to fewer cargos. Also, if freight rates are increasing, companies and individuals sending packages may choose another method of transportation.

Products & Markets

Major Markets



Leisure and nonleisure travel

Passengers traveling for leisure represent the Domestic Airlines industry's largest market. In 2018, this market is expected to account for 49.9% of the industry's total revenue. Meanwhile, those traveling for personal (nonleisure) reasons, such as family emergencies, studies or relocation, account for 19.1% of revenue. The price of air travel generally has a significant effect on demand from these market segments, and ticket prices are often the primary concern for everyday consumers planning a trip. Over the past decade, the number of available consumer flights has increased considerably, partially due to higher incomes and more route offerings by major airlines and low-cost airlines. Other factors influencing demand from these markets segment include baggage allowances, route of travel and service levels. For example, airlines that route travelers through multiple airports will charge more taxes and fees associated with the total fare. Many airlines also offer

promotions for leisure travelers, especially during off-peak seasons when passenger volume is typically low.

Business travelers

Companies often pay for flights for general business purposes, such as consulting, client service and meetings. According to the Travel Industry Association of America, one in five business trips are taken for the primary purpose of attending a convention, conference or seminar. Business travelers usually pay a premium for their tickets, because payment is usually made under the company's account or as last-minute bookings that attract a higher price. This type of travel has grown in recent years as companies have become increasingly global in terms of their investments, supply chains and customers. Overall, trips taken for professional purposes are expected to generate 29.5% of the industry's total revenue in 2018.

Freight

Sales to shippers of freight and mail are expected to account for the remaining 1.5% of industry revenue.

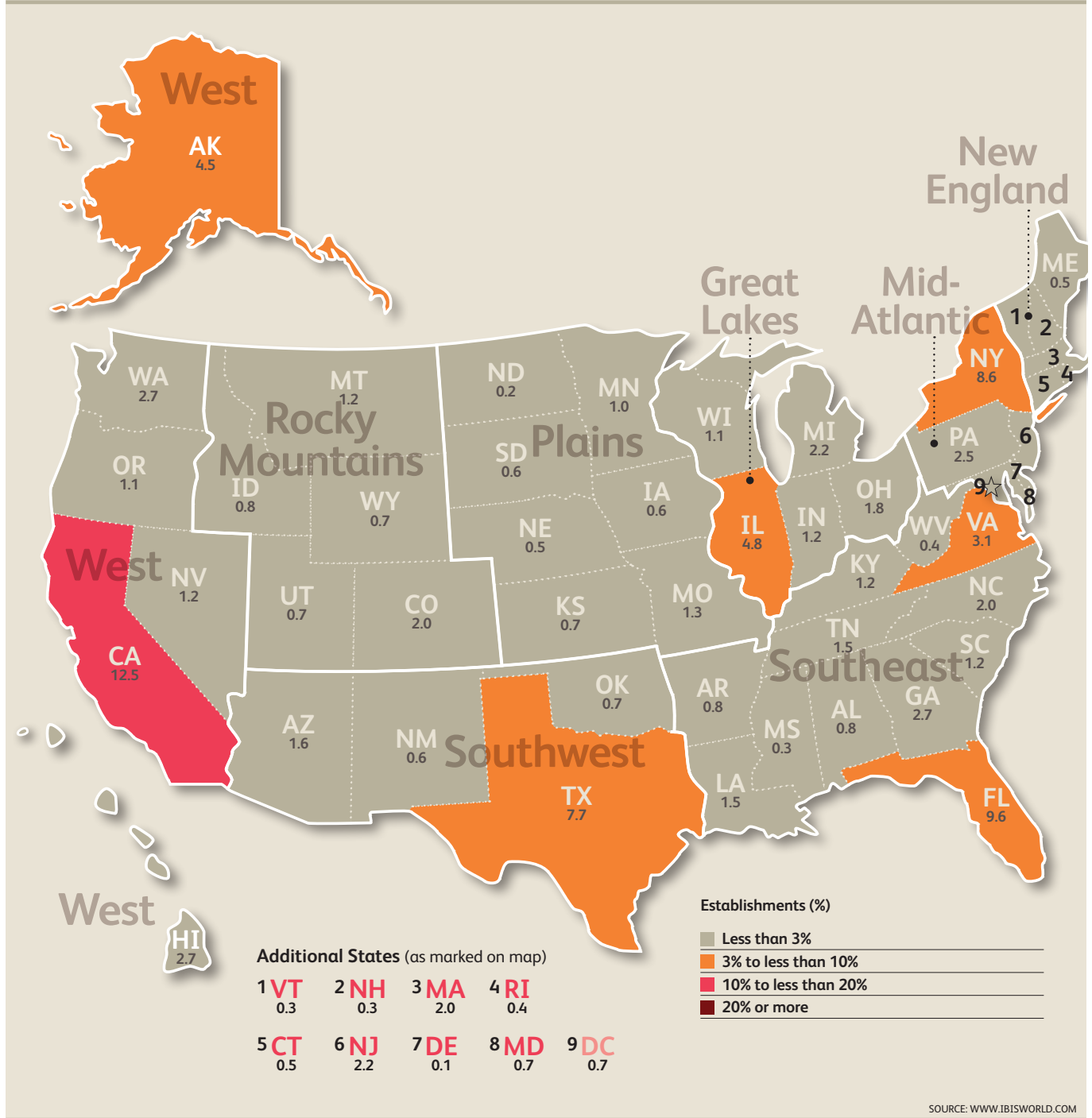
Products & Markets

International Trade

International trade does not occur in the Domestic Airlines industry due to the service-based nature of industry services. However, the industry generates revenue through sales to foreign customers that travel within the United States. Trips to and from international locations are included in the International Airlines industry (IBISWorld report 48111a).

Products & Markets

Business Locations 2018



Products & Markets

Business Locations

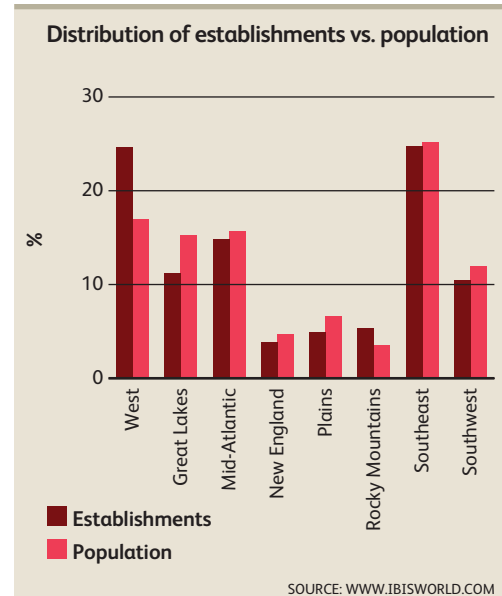
Airline establishments tend to be located in regions with large populations and significant economic activity, though government regulations and aircraft noise concerns often cause the Domestic Airlines industry’s establishments to be located at a distance away from heavily urbanized areas.

Southeast

The Southeast is the most populous region in the United States, accounting for 25.7% of the total US population. As a result, airline companies in this region benefit from a steady stream of consumers who require industry services for both personal and professional travel. Moreover, the region is home to the Hartsfield-Jackson Atlanta International Airport, which handles more passengers than any other airport in the world. Overall, the Southeast is the most popular region for industry operators, accounting for an estimated 24.8% of all domestic airline establishments in 2018. Airlines in the Southeast employ small workforces, while also offering relatively low wages.

West

The West also contains a substantial share of the US population, generating significant demand for airline passenger and cargo transportation services. Consequently, this region is expected to contain a large share of the industry’s total establishments, accounting for an estimated 24.6% of all airline establishments in 2018. The state of California is largely responsible for this heavy concentration of establishments, as the



state contains an estimated 12.5% of all airline locations.

Mid-Atlantic

The Mid-Atlantic region is characterized by a relatively low concentration of airline operators, as the region accounts for 15.2% of the total US population and just 14.8% of total industry establishments. New York is the most popular location for carriers within the region, containing an estimated 8.6% of all domestic airline establishments. Major airports in the Mid-Atlantic include John F. Kennedy International Airport, LaGuardia Airport and the Newark Liberty International Airport. Establishments within this region operate with large workforces, and employees in the Mid-Atlantic benefit from relatively high wages.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **High**

The Domestic Airlines industry has a high level of concentration, with the top four industry players estimated to hold a combined market share of over 75.8% in 2018. In general, the share of the largest US airlines has slightly decreased over the past five years as low-cost carriers like JetBlue Airways Corporation and Spirit Airlines Inc. enticed budget-conscious travelers. Nevertheless, overall concentration has kept on increasing. For example, American Airlines and US Airways merged, creating a contender for the largest industry carrier in terms of revenue. However, the level of concentration is not expected to increase

significantly over the next five years, since any proposed merger between airlines is likely to garner significant attention from the Department of Justice and unlikely to be approved given the current level of concentration.

Industry concentration is further bolstered by high barriers to entry such as capital costs, regulatory barriers, limited capacity within existing networks, and incumbent player competition. Possible entries include companies servicing niche markets and airlines that aim to compete with major companies by offering low-cost, no-frills flights.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Optimum capacity utilization

Airlines need to have the ability to match certain aircraft with certain routes for better utilization. The use of code-sharing agreements is also valuable to the operation of domestic airlines.

Prompt delivery to market

Competition is fierce in this industry. The inability to deliver services on time may result in the loss of customers to a competitor.

Well developed internal processes

Domestic airlines require reservation systems and e-commerce products that provide good access for clients to the services provided.

Effective cost controls

Good cost control systems can help manage yields better and increase earnings. This is particularly important in times of operational uncertainty (e.g. volatile fuel prices).

Ability to expand and curtail operations rapidly in line with market demand

Having flexible capacity to meet troughs and peaks in demand is vital to profitability in the industry. Airlines must be able to service markets precisely or risk operating losses on a given route.

Access to the latest available and most efficient technology and techniques

The use of up-to-date technology and new aircraft can improve operating efficiencies.

Cost Structure Benchmarks

Profit

Industry profit is measured as earnings before interest and taxes and is expected to account for 8.1% of revenue in 2018. Profit margins in the Domestic Airlines industry are highly volatile and dependent on aircraft utilization and

variable costs like fuel. Over the past five years, industry profit has increased due to declining fuel costs and increased utilization caused by increased demand. However, after reaching a high in 2015, margins have shifted downwards as fuel prices recovered.

Competitive Landscape

Cost Structure Benchmarks continued

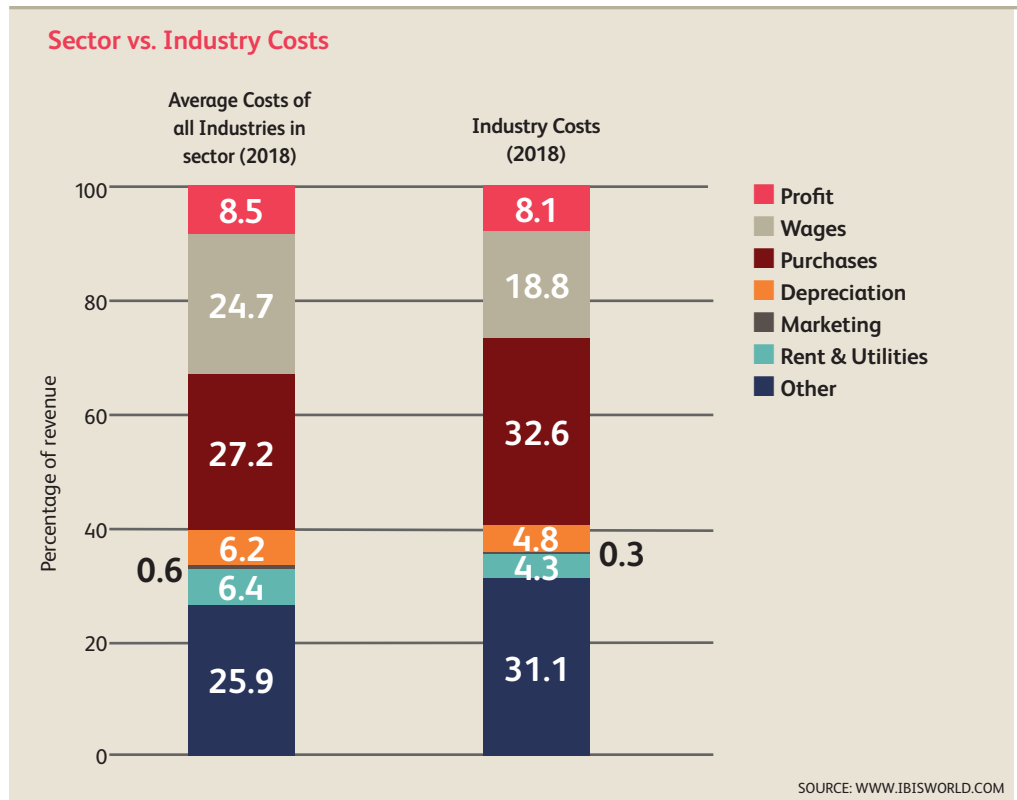
Purchases

Purchases, which include the acquisition of materials (fuel, food, uniforms and similar items) and transportation-related services (aircraft maintenance and lease, landing fees) account for an estimated 32.6% of industry revenue. Jet fuel is one of the most significant expenses for an airline, often accounting for between 25.0% and 40.0% of total purchase expenses for companies in this industry. As a result, airlines are vulnerable to fluctuations in oil prices, with many operators investing in financial derivatives and using fuel surcharges to mitigate the effects of fuel price volatility. Maintenance expenses include the cost of expendable aircraft spare parts, maintenance to repairable aircraft components, contract labor for maintenance activities and other noncapitalized direct costs related to fleet maintenance. Another major purchase

cost is aircraft leasing. Over the years, many airlines have shifted from outright ownership of planes to leasing. By leasing an aircraft, carriers can scale up operations quicker and put more of the ownership risk on third parties.

Wages

Wages are another major expense for industry operators, accounting for an additional 18.8% of total industry revenue in 2018. Employees in this industry include aircraft and freight handling crews, maintenance and repair workers and administrative staff. Wages can vary significantly depending on an airline's location and the position of the employee. Additionally, employee travel expenses often reflect the cost of air transportation, hotels and reimbursements to cockpit and cabin crew members incurred when crews operate away from home. High union



Competitive Landscape

Cost Structure Benchmarks continued

participation rates among airline staff continue to keep industry labor costs high, and wages have increased as a share of total industry revenue over the past five years. This trend has been further bolstered by a growing pilot shortage, which has further increased wages.

Rent and utilities

Rent and utilities are expected to account for 4.3% of industry revenue in 2018. These costs are typically related to airport hubs, where operators store planes, handle freight and deliver passengers. Airlines must pay airports for the use of real estate, terminals and other facilities (these costs do not relate to landing fees unless those fees include terminal services). Rent and utility costs have increased slightly as a portion of total industry revenue in recent years, as rising demand from airlines has placed a premium on land in many of the country's major metropolitan areas.

Other

Industry operators are also subject to depreciation costs, which include the depreciation of aircraft, aircraft parts, loading and unloading equipment, communication equipment, office supplies, technology and software. Depreciation costs have remained high over the five years to 2018 due to the replacement of older aircraft with newer, more fuel-efficient models. In 2018, expenses on depreciation are estimated to represent 4.8% of industry revenue. Expenses on marketing are projected to represent an additional 0.3% of industry revenue. Other common costs for operators include insurance premiums, legal fees, cleaning costs and a variety of administrative fees. In particular, interest expenses account for a large portion of airline costs, with carriers often financing their aircraft fleets. Collectively, these other expenses are estimated to account for the remaining 31.1% of total industry revenue.

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

The Domestic Airlines industry is highly competitive. Airlines compete for customers on price, frequency and capacity, route offerings, loyalty programs, promotions, rewards and service quality. Industry operators must also attract customers from substitute modes of transportation such as cars, trains and buses. The level of competition is different among particular segments of the industry. For example, low-cost airlines are price competitive and therefore may not offer the same number of routes as other airlines, while competition from substitutes is the strongest among regional and short-distance service providers.

Internal competition

Competition among domestic airlines has intensified over the past five years. Providers of less expensive air transportation have increased the level of

price competition in the industry, raising the focus on quantity over quality. While quality is still an important measure of success for an airline, this type of competition is more prevalent at the higher end of the market. Price competition is the most important tool in attracting customers in times of poor economic conditions when unemployment is increasing and incomes are falling. During stable economic times, airlines may offer additional services and higher-quality services to avoid having to cut prices.

To attract more full-fee customers, airlines have introduced new features such as internet booking and online check-in, a wide range of in-flight entertainment, seats that pull out into beds, among other features. Some airlines also permit small pets on board for a fee. Additional services that may

Competitive Landscape

Basis of Competition continued

attract long-term customers include participation in loyalty rewards programs, special promotions on additional reward points, use of airport lounges, participation in alliances with other airlines and contracts with travel agencies. Customers may also feel loyalty toward airlines that sponsor local businesses and sporting events, or airlines that they have had a good experience with in previous trips.

The strongest competitive advantage an airline can have is exclusive coverage of a route. Additionally, to improve access to each other's markets, various US and foreign air carriers have established marketing relationships. Alliances link the networks of the

member carriers to enhance customer service and smooth connections to the destinations served by the alliance, including linking carriers' frequent flyer programs and access to the carriers' airport lounge facilities.

External competition

Competition from ground and sea transportation poses a weak threat to the industry. Consumer preferences for different forms of passenger and freight transportation are generally determined by differences in price, travel time and destinations served. Fortunately for industry operators, the convenience and the competitive price of air travel limits competition from these substitutes.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **High and Steady**

The Domestic Airlines industry is characterized by high barriers to entry. Start-up costs, which include initial expenses on hangar and airfield space, skilled labor, highly specialized machinery and adherence to stringent safety requirements, are extremely high for operators in this industry. For instance, purchasing aircraft may cost millions of dollars, which may be hard to secure given the competitive nature of the industry. Complying with government requirements is also costly and timely, making it harder to enter the industry. Skilled labor may also be difficult to find in times of pilot shortage, considering the extensive training required to be able to work in the industry.

Additionally, once a new company enters the industry, it will likely encounter significant barriers to success. Incumbent companies may already have network alliances, a wide network of industry contacts, a proven safety record and the evidenced ability to deliver projects on time. As a result, new entrants could struggle to win business even after massive initial capital outlays. Existing

Barriers to Entry checklist

Competition	High
Concentration	High
Life Cycle Stage	Mature
Capital Intensity	Medium
Technology Change	High
Regulation and Policy	Heavy
Industry Assistance	High

SOURCE: WWW.IBISWORLD.COM

major players can also use economies of scale to win business by consistently undercutting smaller players on price and speed of delivery.

Many major passenger airlines also rely on aircraft management, promotions and open skies agreements to increase revenue and market share in this industry. For instance, code-sharing and fare discounting are important tools for airlines to minimize operating costs. By selling seats on a flight operated by another carrier, code-sharing enables an airline to make direct cost savings by rationalizing services or establishing a market presence on a route without

Competitive Landscape

Barriers to Entry continued

actually operating on it. Thus, both airlines may be able to save on fuel, labor and other variable costs, as well as making more effective use of aircraft and other overheads. Low-cost business models operated by no-frills airlines have proven to

be an effective model for new players, however, the market for new low-cost airlines is slowly becoming saturated due to the number of players already in existence. Moreover, low-cost operators are also more susceptible to swings in fuel costs.

Industry Globalization

Level & Trend

Globalization in this industry is **Low** and the trend is **Steady**

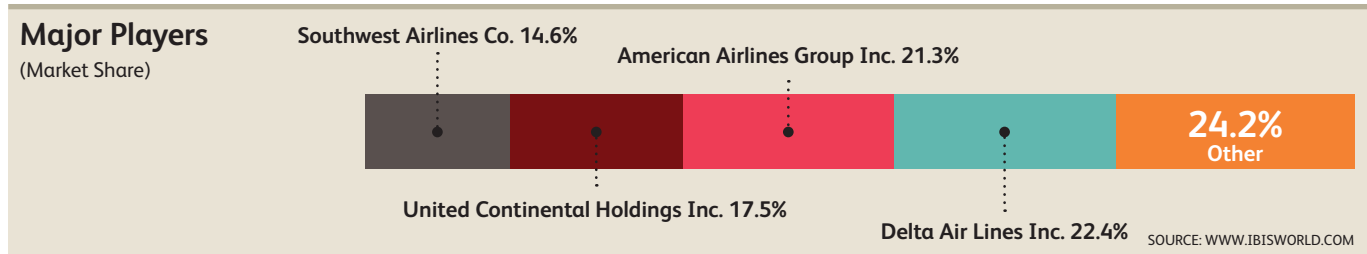
The Domestic Airlines industry has a low level of globalization. Since access to domestic routes is strictly controlled for domestic airlines, foreign ownership is discouraged. US laws prevent foreign airlines from flying between points within the United States unless they are midpoints on an international journey. Moreover, US domestic airlines have to be at least

75.0% owned by US citizens. However, many airlines form global partnerships, such as SkyTeam, Star Alliance and Oneworld, to tap into additional routes through code-sharing agreements. Additionally, demand for air travel within the United States is also affected by a variety of global factors, including fuel prices, currency exchange rates and geopolitical affairs.

Major Companies

Delta Air Lines Inc. | American Airlines Group Inc.

United Continental Holdings Inc. | Southwest Airlines Co. | Other Companies



Player Performance

Delta Air Lines Inc.
Market Share: 22.4 %

Delta Air Lines Inc. (Delta) is one of the world's largest airlines. The company operates a system of hubs, international gateways and key airports in Atlanta, Boston, Detroit, Los Angeles, Minneapolis, New York City, Salt Lake City, Seattle, Amsterdam, London, Paris and Tokyo. Collectively, Delta and its subsidiaries offer service to 325 destinations in 60 countries through more than 15,000 daily flights. In 2017, Delta earned global revenue of \$41.2 billion and employed 80,000 full-time-equivalent staff.

Delta's operations have traditionally focused on the United States' domestic market, where it has become one of the fastest-growing carriers. International flights account for less than one-third of the company's annual revenue. Delta has codeshare agreements with various

airlines and is part of the SkyTeam Airline Alliance. These agreements provide for the sharing of revenue and costs on transatlantic routes. The airlines in this alliance also cooperate on routes between North America and Africa, the Middle East and India, and on flights between Europe and several countries in Latin America. In 2013, Delta acquired a 49.0% stake in British carrier Virgin Atlantic, giving Delta access to the lucrative New York City-to-London route. This is one of the world's busiest transatlantic routes and is heavily used by business travelers.

Financial performance

Delta's domestic revenue is expected to increase at an annualized rate of 5.2% to \$31.9 billion over the five years to 2018. Despite strong price competition, the

Delta Air Lines Inc. (US industry-specific segment) - financial performance*

Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2013	24,720.9	N/C	2,075.7	N/C
2014	26,773.1	8.3	1,976.5	-4.8
2015	27,795.1	3.8	5,238.6	165.0
2016	28,206.3	1.5	4,746.9	-9.4
2017	29,692.8	5.3	4,232.0	-10.8
2018	31,917.9	7.5	3,100.7	-26.7

*Estimates

SOURCE: US DEPARTMENT OF TRANSPORTATION

Major Companies

Player Performance continued

company has slightly increased its market share over the past five years, making it the industry's largest player. In

particular, its revenue suffered less from the decline in fuel prices during the early part of the five-year period.

Player Performance

American Airlines Group Inc.
Market Share: 21.3 %
Industry Brand Names
American Airlines
US Airways
American Eagle

Formed in December 2013 following the merger of American Airlines and US Airways, American Airlines Group Inc. is the holding company for AMR Corporation. This merger was negotiated with the Department of Justice, which required the company to give up landing slots in seven major airports. Collectively, the company's airlines operate an average of 6,700 flights each day to nearly 350 destinations in more than 50 countries. The company also employs over 122,000 pilots, flight attendants, maintenance personnel and other staff members.

AMR Corporation, founded in 1934 and based in Fort Worth, TX, had previously been under Chapter 11 Bankruptcy Protection, having filed a voluntary petition for relief before the period began. At the time, the company had \$29.6 billion in debt and \$24.7 billion in assets. The US Airways Group was formed in 1982 with origins traceable to the formation of All American Aviation in 1939. This subsidiary is based in

Delaware and employs 31,200 full-time-equivalent staff, including over 4,000 pilots and 7,000 flight attendants. AMR Corporation and US Airways earned combined global revenue of \$42.2 billion in 2017, making the combined entity the largest airline company in the world in terms of revenue.

Financial performance

Revenue related to the company's domestic segment is expected to increase at an annualized rate of 3.3% to \$30.3 billion over the five years to 2018. The company accounts for a significant share of the domestic airline market and, as a result, typically performs in line with the rest of the industry. In particular, the company benefited from the overall increase in demand but experienced declines in revenue when fuel prices fell. Moreover, strong competition has meant that the carrier's margins remained below the industry average for much of the five-year period.

American Airlines Group Inc. (US industry-specific segment) - financial performance*

Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2013	25,720.9	N/C	1,224.1	N/C
2014	27,570.6	7.2	3,158.1	158.0
2015	26,532.5	-3.8	4,584.8	45.2
2016	27,123.1	2.2	3,696.4	-19.4
2017	29,607.4	9.2	3,761.1	1.8
2018	30,317.9	2.4	2,115.1	-43.8

*Estimates

SOURCE: US DEPARTMENT OF TRANSPORTATION

Major Companies

Player Performance

United Continental Holdings Inc.
Market Share: 17.5 %
Industry Brand Names
United Airlines

United Continental Holdings Inc. (UCH) is a holding company for two wholly owned subsidiaries: United Air Lines and Continental Airlines. The combined entity is based in Chicago and is the result of a previous merger between the two airlines. Since this merger, UCH has slowly integrated its products, services, policies and information technology systems into its combined operations. The company is now one legal entity and has a single reservation system, loyalty program and departure control system. According to the company, the merger delivers more than \$1.0 billion in net annual synergies.

UCH has grown to become one of the highest-revenue-earning airlines in the world and operates more than 4,500 flights per day to 338 airports across the globe. UCH mainly provides transportation services for people and property throughout the United States and abroad. It serves almost every major

market in the world, either directly or through its participation in the Star Alliance network. UCH operates from hubs in Chicago, Denver, Houston, Los Angeles, San Francisco and Washington, DC. In 2017, UCH employed over 88,000 staff and earned \$37.7 billion in global revenue.

Financial performance

UCH's industry-relevant revenue is expected to increase at a modest annualized rate of 2.4% to \$24.9 billion over the five years to 2018. Despite UCH's newfound size and scale, the company's total revenue suffered from substantial declines in the price of jet fuel, which have forced industry operators to eliminate fuel surcharges. Moreover, strong competition has kept its revenue from climbing at the same rate as its competitors, causing its market share to shrink.

United Continental Holdings Inc. (US industry-specific segment) - financial performance*

Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2013	22,100.0	N/C	480.5	N/C
2014	22,320.0	1.0	1,000.2	108.2
2015	21,931.2	-1.7	2,853.8	185.3
2016	22,201.7	1.2	3,231.2	13.2
2017	23,132.3	4.2	2,659.0	-17.7
2018	24,915.7	7.7	1,845.3	-30.6

*Estimates

SOURCE: US DEPARTMENT OF TRANSPORTATION

Major Companies

Player Performance

Southwest Airlines Co.
 Market Share: 14.6 %
Industry Brand Names
 Southwest
 AirTran

Southwest Airlines Co. (Southwest) is the largest low-cost carrier in the United States. The company, which operates under the Southwest Airlines and AirTran Airways brands, is the largest domestic US airline by number of passengers enplaned and scheduled domestic departures, according to the Bureau of Transportation Statistics. Based at Love Field in Dallas, the company has 57,000 employees and has expanded its low-cost, no-frills, open-seating approach to air travel throughout the United States to serve 100 destinations in the United States and ten additional countries.

As of March 2018, Southwest operated more than 700 Boeing 737 aircraft. This single aircraft type strategy contributes to the company's low-cost business structure, enabling Southwest to simplify scheduling, maintenance and training. The company's ability to keep costs down is also due to the use of smaller, less congested airports. Southwest mainly provides point-to-point service, rather than hub-and-spoke service like most of its competitors. This means that aircraft can be scheduled to minimize the amount of time they spend on the ground, thereby reducing the number of aircraft, gate facilities and employees per aircraft. The company also runs its own reservation

system and sells a significant proportion of its seats through its website.

Southwest purchased fellow low-cost airline AirTran Airlines (AirTran) for \$1.4 billion just before the period began. The purchase has expanded Southwest's international reach to AirTran's nine destinations in six near-international countries including Mexico, Jamaica, the Bahamas, Aruba, the Dominican Republic and Bermuda. Despite this expansion, revenue relevant to Southwest's international operations is expected to account for less than 10.0% of the company's total revenue in 2018.

Financial performance

Demand for low-cost services has surged over the five years to 2018, particularly as a substitute for standard mainline services. As a result, Southwest's domestic revenue is expected to increase at an annualized rate of 3.4% to \$20.7 billion over the past five years. However, the company's operations have been somewhat constrained in recent years by substantial declines in the world price of crude oil that have lowered fuel purchase costs. These declines have forced many industry operators to eliminate fuel surcharges and reduce passenger ticket prices to remain competitive. At the same

Southwest Airlines Co. (US industry-specific segment) - financial performance*

Year	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2013	17,487.6	N/C	1,263.0	N/C
2014	18,379.0	5.1	2,198.9	74.1
2015	19,533.1	6.3	4,056.9	84.5
2016	20,042.3	2.6	3,689.2	-9.1
2017	20,681.4	3.2	3,433.0	-6.9
2018	20,718.0	0.2	2,847.6	-17.1

*Estimate

SOURCE: US DEPARTMENT OF TRANSPORTATION

Major Companies

Player Performance continued

time, declining fuel costs have substantially bolstered the company's profit margins, and Southwest's low-cost business model has caused it to be one of the country's most profitable

airlines during the five-year period. In fact, the company's industry-relevant operating margin is expected to be almost 70.0% greater than the industry average.

Other Company Performance

JetBlue Airways Corporation
Market Share: 4.1 %

JetBlue Airways Corporation (JetBlue) is a low-cost airline based in Long Island City, NY. The company was founded in 1998 and gained formal approval to undertake flights to Buffalo, NY and Ft. Lauderdale, FL from John F. Kennedy International Airport in New York City in 2000. Currently, the company makes 1,000 daily trips, primarily serving domestic locations from John F. Kennedy International Airport. JetBlue makes trips to 102 destinations; the company has expanded its international operations in recent years to serve the Bahamas, Bermuda, Barbados, Colombia, Costa

Rica and the Dominican Republic. The company operates 130 owned or leased Airbus A320 aircraft, 55 Airbus A321 aircraft and 60 Embraer E190 aircraft. JetBlue's aircraft fleet is one of the youngest and most fuel-efficient fleets of all major US airlines. The company's domestic operations accounted for the majority of the company's total revenue in 2017, a share that has shrunk over the five years to 2018 as the company continues to expand its international operations. JetBlue's industry-relevant revenue is projected to grow to reach \$5.8 billion over the five years to 2018.

Other Company Performance

Spirit Airlines Inc.
Market Share: 2.0 %

Spirit Airlines Inc. (Spirit) is a low-cost carrier based in Miramar, FL that operates scheduled flights throughout the United States, as well as in the Caribbean, Mexico and Latin America. Most of the company's 175 daily flights depart or arrive in Fort Lauderdale, FL. Spirit was founded in 1964 as a charter tour company providing travel packages before branching out into scheduled services in 1990. Spirit transitioned to a low-cost, low-fare carrier in 2007 and began charging for optional extras, such as checked and carry-on bags, drinks and advance seat selection. Spirit employs more than 6,500 people, including over 1,700 pilots and has a fleet of 112 aircraft. The airline plans to triple its fleet by

2021. Spirit caters mainly to price-conscious customers and charges extra for services that have traditionally been included in base fares, such as baggage, advance seat selection and drinks. This business model has led to a high number of customer complaints over the past five years. According to a report by the US Public Interest Research Group Education Fund, the rate of complaints made against Spirit to the Department of Transportation was three times the number made against any other airline over the past five years. Nevertheless, Spirit has experienced substantial growth during the five-year period, with the company estimated to generate \$2.8 billion in industry-relevant revenue in 2018.

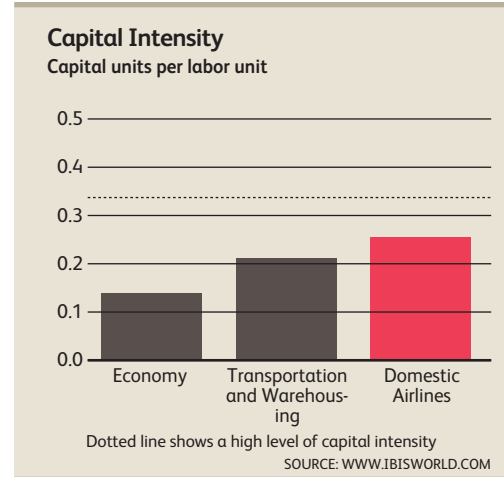
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
 Regulation & Policy | Industry Assistance

Capital Intensity

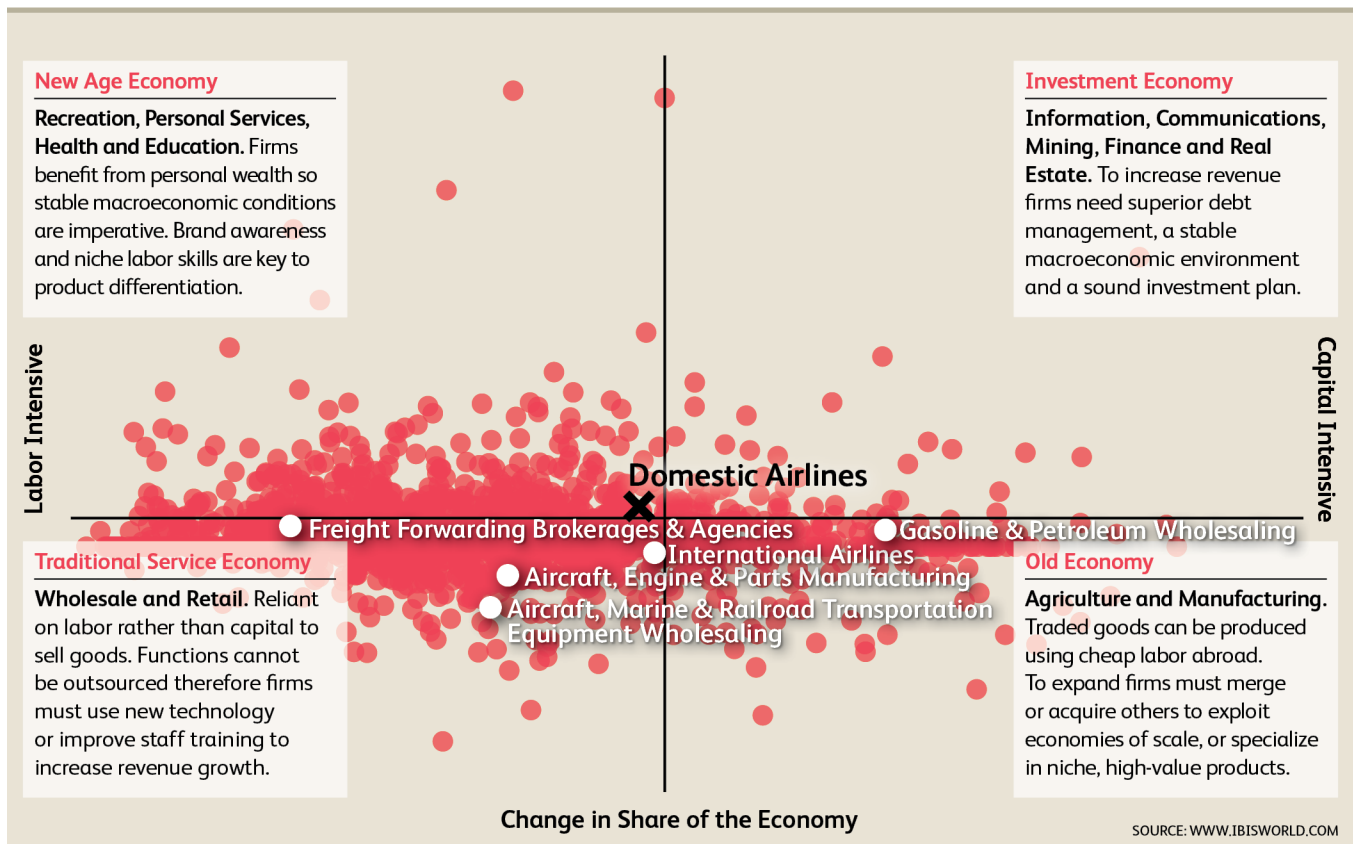
Level
 The level of capital intensity is **Medium**

The Domestic Airlines industry has a moderate to high level of capital intensity, as operators are highly reliant on both capital investment and labor inputs. Industry operators are expected to spend \$0.25 on capital investments for every dollar spent on wages in 2018. Common labor expenses in this industry include the wages and salaries paid to pilots, crew members, ground staff and administrative staff. At the same time, acquiring and maintaining aircraft requires substantial investment. Moreover, many large-scale players operate hundreds of planes, in addition to massive airport hubs where cargo and passengers are loaded and unloaded from aircraft, all of which contributes to the industry's capital costs. Airplanes can be



often leased to ease capital requirements. Additionally, efficient communications equipment, computer-assisted booking,

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

flexible packing equipment and route planning facilities can reduce the need for nonflying and maintenance labor.

Over the five years to 2018, industry capital intensity has increased as airlines have sought to replace their older planes with new, more fuel-efficient aircraft. Moreover, increased demand has led carriers to expand their fleets.

Nevertheless, capital intensity has been partially subdued by rising labor costs. Increasing demand for air travel caused airlines to hire more staff, while a pilot shortage has pushed average wages up. In 2018, the average industry wage is expected to be \$77,938. This relatively high wage reflects long working hours and the industry's strong union representation.

Technology & Systems

Level

The level of technology change is **High**

The Domestic Airlines industry has experienced a variety of major technological changes over the past decade. In general, technology enables airlines to enhance the guest experience, increase operating efficiencies, lower costs and safeguard information.

One of the greatest technological changes has come from a new generation of aircraft. Planes such as Boeing's 787 and 737 Max can fit more people and cargo, fly longer distances, burn less fuel and cost less to maintain. Consequently, the acquisition of such aircraft has become a priority of airlines and will account for substantial operational cost savings in the years to come. Aircraft improvements have come from the increased use of composites materials, more fuel-efficient engines, newer avionics (i.e. an aircraft's onboard computer systems) and improved aerodynamic designs.

Improved avionics have largely been focused on enabling aircraft computer systems to determine the most efficient route and altitude for an aircraft to fly given load factors and meteorological conditions. Moreover, avionics are enabling further automation, reducing

the burden on pilots. Additionally, GPS satellite navigation systems and onboard meteorological radars are now found in most planes to enhance navigation. Virtually all jet planes are also equipped with Traffic Collision Avoidance Systems and terrain warning systems, which improve flight safety. New aircraft sensors are also collecting more data on various plane subsystems, improving crew situational awareness and helping schedule maintenance.

Industry operators also rely on technological innovations in computerized reservation systems, flight operations systems, telecommunications systems, websites, check-in kiosks and in-flight entertainment systems to enhance their operational efficiency. For example, online booking, payment, scheduling and check-in systems have eliminated many paper costs and administrative expenses associated with air travel. Additionally, the proliferation of smartphones has enabled consumers to search, book and manage flights remotely. The use of mobile internet devices has also led to the increased installation of wireless internet equipment on planes.

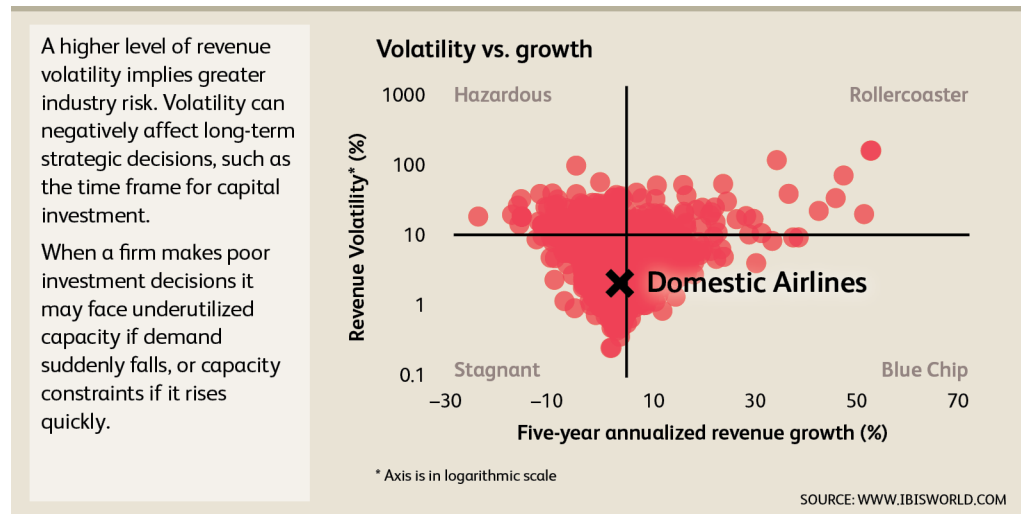
Operating Conditions

Revenue Volatility

Level
The level of volatility is **Low**

Over the five years to 2018, the Domestic Airlines industry has exhibited a low level of revenue volatility, with year-to-year revenue growth rates ranging from growth of 3.6% in 2014 to 0.4% in 2015. General economic activity and the level of disposable income available to consumers primarily affect the industry's performance. Stable economic growth generally fosters steady growth in industry revenue. Jet fuel prices can also have a strong impact on industry

revenue; airlines generally respond to high jet fuel prices by implementing fuel surcharges that increase ticket prices for passengers. Additionally, the emergence of budget carriers has contributed to industry revenue volatility by diversifying flight prices. Industry revenue is also affected by a variety of noneconomic factors, such as the popularity of specific tourist destinations, weather conditions and outbreaks of panic concerning terrorism or disease.



Regulation & Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Steady**

The Domestic Airlines industry is subject to a high level of regulation from both governmental and nongovernmental bodies. For example, the US Department of Justice has jurisdiction over airline antitrust matters, and this department is primarily responsible for ensuring that there is workable competition in the domestic aviation market. Additionally, the Federal Aviation Administration (FAA) has primary responsibility for matters relating to air carrier flight operations, including airline operating certificates, control of navigable airspace, flight personnel, aircraft certification and maintenance and other matters affecting air safety. Similarly, the US

Environmental Protection Agency is authorized to regulate aircraft emissions and noise reductions. Companies are also subject to the Occupational Health and Safety Act concerning employee safety and health matters. There are also various laws to restrict foreign airline operations in the United States and employee ability to strike (see industry assistance section).

The Airport Noise and Capacity Act of 1990 attempts to reconcile the rights of airport operators with noise problems and implement local noise abatement programs so long as these programs do not interfere unreasonably with the national air transportation system. On

Operating Conditions

Regulation & Policy continued

December 1, 2003, the FAA published a Notice of Proposed Rulemaking to adopt the International Civil Aviation Organization's Chapter 4 noise standard, which is known as the Stage 4 standard in the United States. This standard required that all new commercial jet aircraft designs certificated on or after January 1, 2006 be at least 10 decibels quieter than the existing Stage 3 noise standard requirements. The standard is currently in force.

In November 2001, the Aviation and Transportation Security Act was enacted in the United States, which created the Transportation Security Administration (TSA). The TSA is responsible for aviation security. As divisions of the US Department of Homeland Security, the

TSA and US Customs and Border Protection are responsible for certain civil aviation security matters, including passenger and baggage screening at US airports.

The industry also has numerous trade associations that set minimum standards for operators, including the International Air Transport Association (IATA), which represents some 265 airlines. The association aims to foster understanding of the air transport industry among decision makers and increase awareness of the benefits that aviation brings to national and global economies. In addition, the IATA provides professional support to industry operators through publications, training and consulting.

Industry Assistance

Level & Trend
The level of Industry Assistance is **High** and the trend is **Steady**

The Federal Aviation Administration assists airlines in solving congestion problems caused by air traffic control systems. Over the past few decades, industry assistance has been provided through the reduction of many trade tariffs and the overall liberalization of the aviation market, as well as government assistance to expand airports. For example, the Airline Deregulation Act of 1978 eliminated most controls on entry, exit and pricing for US domestic airlines, which led to extensive structural changes within the industry.

Currently, the biggest form of government assistance for the industry comes in the form of restrictions on foreign carriers. The United States currently prohibits foreign carriers from operating routes between two points within the United States, unless the passengers are being transported onto another destination outside the country. Moreover, US carriers have to be at least 75.0% owned by US citizens. These requirements effectively insulate domestic airlines from foreign

competition within the United States. Conversely, this has restricted foreign investment into the industry, reducing available capital.

Additionally, open skies agreements have become increasingly prominent in the air transportation sector. These policies are usually negotiated at the federal level, and they often provide direct assistance to the industry by reducing the government's role in the commercial decisions of air carriers regarding routes, capacity and pricing, which enables carriers to provide more affordable and efficient services for consumers. Some of the most important parts of these laws enable airlines to fly to any point in a signatory's state. However, restrictions on intercountry routes, which mostly affect this industry, remain in place.

Under the Railway Labor Act airline employees have to essentially gain permission from the government to go on strike and even if permission is granted, the president can convene a board to look into the parties' complaints. As a result, it

Operating Conditions

Industry Assistance continued

is far more difficult for industry employees to walk out on work, restriction union power.

The industry also benefits from the assistance of industry trade associations and other private organizations. For example, Airlines for America, formerly the Air Transport Association of America, has played a major role in several government decisions regarding aviation in recent years, including the creation of the Civil Aeronautics Board, the creation

of the air traffic control system and airline deregulation. Similarly, the International Air Transport Association (IATA) is an international organization of airlines that involves itself in all aspects of airline operations. In fact, most nongovernment discussions within the industry take place under IATA auspices, though the association's primary function is to clear inter-airline debts and provide general guidelines for fare setting in the industry.

Key Statistics

Industry Data

	Revenue (\$m)	Industry Value Added (\$m)	Establishments	Enterprises	Employment	Exports	Imports	Wages (\$m)	Domestic Demand	Domestic trips by US residents (Mil)
2009	108,442.9	23,900.5	2,194	375	311,715	--	--	18,572.2	N/A	620.8
2010	116,071.7	29,045.4	2,045	360	298,978	--	--	18,644.9	N/A	634.8
2011	124,596.4	27,236.2	2,061	354	299,971	--	--	19,515.9	N/A	650.1
2012	124,136.5	27,609.1	1,989	344	301,876	--	--	19,121.8	N/A	653.8
2013	125,679.5	32,163.5	1,891	346	291,140	--	--	19,896.0	N/A	654.4
2014	130,223.5	37,544.9	1,907	351	306,555	--	--	21,431.8	N/A	669.0
2015	130,724.9	50,571.4	1,905	347	316,985	--	--	23,568.1	N/A	696.3
2016	132,827.7	51,513.3	1,689	310	329,049	--	--	25,551.4	N/A	726.2
2017	138,143.7	50,694.9	1,680	309	335,522	--	--	26,410.9	N/A	743.5
2018	142,319.7	45,071.1	1,630	299	342,533	--	--	26,696.3	N/A	778.1
2019	147,092.6	45,818.5	1,621	297	347,885	--	--	27,298.6	N/A	803.6
2020	152,169.9	47,348.3	1,578	289	354,186	--	--	27,976.8	N/A	814.8
2021	157,146.3	48,500.7	1,567	287	359,615	--	--	28,594.3	N/A	822.3
2022	161,647.5	49,517.7	1,521	278	364,809	--	--	29,170.5	N/A	832.3
2023	166,605.3	50,897.6	1,518	277	372,035	--	--	29,901.1	N/A	844.3
Sector Rank	2/37	6/37	26/37	30/37	8/37	N/A	N/A	5/37	N/A	N/A
Economy Rank	74/693	70/693	504/693	617/693	98/693	N/A	N/A	62/693	N/A	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Domestic trips by US residents (%)
2010	7.0	21.5	-6.8	-4.0	-4.1	N/A	N/A	0.4	N/A	2.3
2011	7.3	-6.2	0.8	-1.7	0.3	N/A	N/A	4.7	N/A	2.4
2012	-0.4	1.4	-3.5	-2.8	0.6	N/A	N/A	-2.0	N/A	0.6
2013	1.2	16.5	-4.9	0.6	-3.6	N/A	N/A	4.0	N/A	0.1
2014	3.6	16.7	0.8	1.4	5.3	N/A	N/A	7.7	N/A	2.2
2015	0.4	34.7	-0.1	-1.1	3.4	N/A	N/A	10.0	N/A	4.1
2016	1.6	1.9	-11.3	-10.7	3.8	N/A	N/A	8.4	N/A	4.3
2017	4.0	-1.6	-0.5	-0.3	2.0	N/A	N/A	3.4	N/A	2.4
2018	3.0	-11.1	-3.0	-3.2	2.1	N/A	N/A	1.1	N/A	4.7
2019	3.4	1.7	-0.6	-0.7	1.6	N/A	N/A	2.3	N/A	3.3
2020	3.5	3.3	-2.7	-2.7	1.8	N/A	N/A	2.5	N/A	1.4
2021	3.3	2.4	-0.7	-0.7	1.5	N/A	N/A	2.2	N/A	0.9
2022	2.9	2.1	-2.9	-3.1	1.4	N/A	N/A	2.0	N/A	1.2
2023	3.1	2.8	-0.2	-0.4	2.0	N/A	N/A	2.5	N/A	1.4
Sector Rank	21/37	37/37	36/37	37/37	23/37	N/A	N/A	30/37	N/A	N/A
Economy Rank	232/693	691/693	662/693	661/693	279/693	N/A	N/A	459/693	N/A	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (\$'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (\$)	Share of the Economy (%)
2009	22.04	N/A	N/A	347.89	17.13	142.08	59,580.71	0.16
2010	25.02	N/A	N/A	388.23	16.06	146.20	62,362.11	0.19
2011	21.86	N/A	N/A	415.36	15.66	145.55	65,059.29	0.17
2012	22.24	N/A	N/A	411.22	15.40	151.77	63,343.23	0.17
2013	25.59	N/A	N/A	431.68	15.83	153.96	68,338.26	0.19
2014	28.83	N/A	N/A	424.80	16.46	160.75	69,911.76	0.22
2015	38.69	N/A	N/A	412.40	18.03	166.40	74,350.84	0.29
2016	38.78	N/A	N/A	403.67	19.24	194.82	77,652.26	0.29
2017	36.70	N/A	N/A	411.73	19.12	199.72	78,715.85	0.28
2018	31.67	N/A	N/A	415.49	18.76	210.14	77,937.89	0.24
2019	31.15	N/A	N/A	422.82	18.56	214.61	78,470.18	0.24
2020	31.12	N/A	N/A	429.63	18.39	224.45	78,989.01	0.24
2021	30.86	N/A	N/A	436.98	18.20	229.49	79,513.65	0.25
2022	30.63	N/A	N/A	443.10	18.05	239.85	79,961.02	0.25
2023	30.55	N/A	N/A	447.82	17.95	245.08	80,371.74	0.25
Sector Rank	33/37	N/A	N/A	9/37	28/37	1/37	8/37	6/37
Economy Rank	311/693	N/A	N/A	247/693	314/693	25/693	123/693	70/693

Figures are in inflation-adjusted 2018 dollars. Rank refers to 2018 data.

SOURCE: WWW.IBISWORLD.COM

Industry Financial Ratios

	Apr 2013 - Mar 2014	Apr 2014 - Mar 2015	Apr 2015 - Mar 2016	Apr 2016 - Mar 2017	Apr 2016 - Mar 2017 by company revenue		
					Small (<\$10m)	Medium (\$10-50m)	Large (>\$50m)
Liquidity Ratios							
Current Ratio	1.5	1.4	1.0	1.6	3.4	1.2	1.1
Quick Ratio	1.1	1.0	0.8	1.0	2.4	0.7	1.0
Sales / Receivables (Trade Receivables Turnover)	12.0	12.9	11.1	12.9	12.9	14.1	12.8
<i>Days' Receivables</i>	30.4	28.3	32.9	28.3	28.3	25.9	28.5
Cost of Sales / Inventory (Inventory Turnover)	29.4	167.7	71.8	37.5	23.6	13.5	53.7
<i>Days' Inventory</i>	12.4	2.2	5.1	9.7	15.5	27.0	6.8
Cost of Sales / Payables (Payables Turnover)	16.7	14.5	11.9	14.3	14.8	13.2	14.9
<i>Days' Payables</i>	21.9	25.2	30.7	25.5	24.7	27.7	24.5
Sales / Working Capital	15.5	21.7	-303.2	16.5	7.5	30.9	72.4
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	6.4	4.8	3.2	6.5	n/a	6.5	9.9
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	n/a	n/a	3.5	n/a	n/a	n/a	n/a
Leverage Ratios							
Fixed Assets / Net Worth	1.2	1.5	1.6	1.0	0.8	1.1	1.1
Debt / Net Worth	1.3	2.1	3.8	2.2	1.9	1.5	3.5
Tangible Net Worth	28.4	24.9	11.7	32.9	44.0	36.5	20.2
Operating Ratios							
Profit before Taxes / Net Worth, %	24.2	28.6	20.6	28.1	n/a	22.0	n/a
Profit before Taxes / Total Assets, %	10.3	5.7	4.5	8.9	8.9	11.2	7.1
Sales / Net Fixed Assets	6.1	2.8	3.9	3.0	2.4	2.9	20.6
Sales / Total Assets (Asset Turnover)	1.9	1.8	1.7	1.8	1.6	1.7	2.9
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	40.1	47.5	36.1	35.4	n/a	36.8	24.3
Cash after Operations	9.0	9.3	2.4	6.7	n/a	9.3	1.3
Net Cash after Operations	11.2	10.0	3.0	8.0	n/a	9.6	1.5
Cash after Debt Amortization	2.7	3.7	1.2	3.2	n/a	6.9	-0.3
Debt Service P&I Coverage	2.1	3.9	1.7	3.6	n/a	7.5	n/a
Interest Coverage (Operating Cash)	6.7	10.5	2.7	9.3	n/a	13.8	n/a
Assets, %							
Cash & Equivalents	13.5	13.4	14.6	11.3	21.0	3.7	10.9
Trade Receivables (net)	25.7	20.6	19.6	17.9	13.2	13.1	26.5
Inventory	11.7	6.5	6.6	7.4	6.4	11.7	3.9
All Other Current Assets	3.4	4.8	3.6	2.5	1.3	0.8	5.2
Total Current Assets	54.3	45.3	44.4	39.1	41.9	29.3	46.5
Fixed Assets (net)	36.4	44.5	38.1	41.8	43.7	49.9	32.1
Intangibles (net)	4.8	3.7	7.1	5.9	0.9	5.4	10.5
All Other Non-Current Assets	4.5	6.5	10.4	13.2	13.4	15.4	10.9
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets (\$m)	596.0	781.2	1,527.2	1,244.5	58.5	224.5	961.4
Liabilities, %							
Notes Payable-Short Term	6.8	5.2	8.9	4.4	2.1	5.2	5.4
Current Maturities L/T/D	2.7	2.9	5.1	3.0	3.7	2.5	3.0
Trade Payables	13.7	20.6	18.3	9.9	3.1	11.2	14.4
Income Taxes Payable	0.1	n/a	0.1	0.3	0.6	n/a	0.5
All Other Current Liabilities	17.0	12.2	13.2	9.0	3.9	6.1	16.2
Total Current Liabilities	40.3	40.8	45.6	26.7	13.4	24.9	39.5
Long Term Debt	20.5	23.5	25.3	30.3	34.2	28.2	29.0
Deferred Taxes	1.3	2.2	1.6	0.2	n/a	n/a	0.5
All Other Non-Current Liabilities	4.6	4.9	8.7	4.1	7.6	5.0	0.2
Net Worth	33.2	28.6	18.8	38.8	44.9	41.9	30.7
Total Liabilities & Net Worth (\$m)	596.0	781.2	1,527.2	1,244.5	58.5	224.5	961.4
Maximum Number of Statements Used	33	38	43	34	10	12	12

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institutions' borrowers and prospects.

Note: For a full description of the ratios refer to the Key Statistics chapter online.



Jargon & Glossary

Industry Jargon

CODE-SHARING Code-sharing involves one or more airlines using their designator codes to process bookings and sell tickets on flights operated by another carrier.

HUB An airport that an airline uses as a transfer point to get passengers to their intended destination.

REVENUE PASSENGER MILES A measure calculated using the total number of revenue-paying passengers aboard a vehicle by the distance traveled measured in miles.

REVENUE TON MILES A measure of freight traffic onboard an aircraft, calculated using the total weight of the cargo aboard the vehicle by the distance traveled measured in miles.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than \$0.333 of capital to \$1 of labor; medium is \$0.125 to \$0.333 of capital to \$1 of labor; low is less than \$0.125 of capital for every \$1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

Jargon & Glossary

IBISWorld Glossary continued

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than $\pm 20\%$; high volatility is $\pm 10\%$ to $\pm 20\%$; moderate volatility is $\pm 3\%$ to $\pm 10\%$; and low volatility is less than $\pm 3\%$.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

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