



Phoenix Air Service Overview

The city of Phoenix owns and operates Phoenix Sky Harbor International Airport and takes very seriously its responsibility, on behalf of the entire community, to provide a desirable facility in which airlines may conduct their business and passengers may travel. Where and when airlines fly is 100% an airline decision. However, there are ways that airports and their surrounding communities can provide a desirable climate for airlines. Note the information in this document is provided as *commentary* by the city of Phoenix Aviation Department only, not by the airlines that serve the airport and is current as of **June 11, 2014**. To follow is an overview of recent impacts of Air Service in Phoenix and some important facts, including:

- Overall seats at Sky Harbor have increased and the 6-month outlook (Apr-Sep) is up since the merger between American Airlines and US Airways
- The executive leadership team of American Airlines has clearly indicated that they plan to keep Phoenix as a hub for the foreseeable future.
- Sky Harbor continues to have a lower average fare than most of the top U.S. airports (fourth lowest in the country).

For additional information, please contact:

Deborah Ostreicher
Deputy Aviation Director, City of Phoenix
Phoenix Sky Harbor International Airport
3400 East Sky Harbor Blvd. Suite 3300
Phoenix, AZ 85034
602-273-3450
deborah.ostreicher@phoenix.gov

Industry Changes in response to the economy

The airline industry has been making capacity adjustments throughout the country since 2008 in response to factors such as high fuel prices and a struggling world economy. Like most airports in the country, Sky Harbor has seen route, capacity and fare changes as the airlines restructure their networks in response to the tough economic conditions over the past six years.

Phoenix is unique, with two dominant air carriers in American Airlines and Southwest Airlines, as well as nearly all other domestic airlines competing for business at Sky Harbor. What's more, Southwest's focus on their cost advantage over other airlines meant that they could offer the same service without additional fees such as checked baggage and ticket change fees. This focus put downward pressure on ticket prices, which affected the profitability of service to and through Phoenix. Despite this, air carriers remained committed to Phoenix and stayed in this very important, metropolitan market.

While the cost gap has narrowed between airline carriers, costs for all airlines have remained relatively high, led by higher fuel costs. Air traffic has increased in 2014, although this increase comes on the heels of low passenger traffic which was the result of the economic downturn starting in 2008. Throughout its history, the airline industry has tracked very closely with economic health and overall GDP. Therefore, airlines have had to fine-tune the number of routes flown, seats offered and prices in each market. Though Sky Harbor has been impacted, the airport is still among the best-served by airlines and among the lowest-priced for tickets in the country. In fact, it is the **fourth-lowest priced ticket market** of the top ten passenger airports (See *Table 2*)

The most noticeable cases of airline restructuring at Sky Harbor, as a result of the economy between 2007 and 2013, are:

- High frequency markets such as Las Vegas, Los Angeles and Burbank have seen some reductions: for example, instead of two flights every hour to Las Vegas, there may now be one flight every hour to Las Vegas.
- Long-haul markets with relatively low demand and a high cost environment have been cut, such as Birmingham, Hartford, Manchester, and Providence.
- Some small, regional markets that have not been cost-effective have been cut, such as Branson, Colorado Springs, Kingman, Prescott, Santa Fe, and Telluride.
- Destinations that were being served as a spoke from another airline's hub such as Cincinnati and Memphis were cut. Phoenix passengers were able to get there nonstop if desired, but the majority of passengers were actually on the plane simply to connect. When the airlines reduced their hubs in those locations, there was no longer a reason to carry passengers there to connect, leaving no opportunity for the few passengers specifically traveling to and from Phoenix.

Added service where demand warrants

While service cuts receive a lot of attention, it's important to note that airlines have also INCREASED service to Sky Harbor over the last several years, where it makes good business sense. Some examples include:

- New service to four Canadian cities on WestJet, including Kelowna, Regina, Saskatoon, and Victoria.
- Increased flights to Miami, Guadalajara, Edmonton, Charlotte, Calgary, San Francisco, Vancouver, Toronto, Cleveland
- Two new airlines joining PHX: Volaris (with service to Guadalajara) and Spirit (with service to Minneapolis, Denver, Chicago and Dallas)

Will flights be gained or lost as a result of the merger between US and AA?

While no one can predict the future, the executive leadership team of American Airlines has clearly and repeatedly indicated that they plan to keep Phoenix as a hub for the foreseeable future. American, now a larger, more competitive airline, plans to maintain its significant footprint in Arizona. The merger of the two airlines creates new opportunities for additional routes and for larger aircraft to fly to domestic and international destinations. Since the merger, the number of seats in the market has been trending upward.

At the time of the merger announcement, flights to Chicago O'Hare, Dallas/Ft. Worth and Los Angeles were rumoured to be dramatically reduced as both US Airways and American served the destinations. This has not been the case. Below are the numbers of departures and seats to these airports before and after the merger.

Table 1

Destination	PRE MERGER (daily)			POST MERGER (daily)		
	Departures	Seats	Total	Departures	Seats	Total
ORD	AA: 5.0 US: 5.5	AA: 720 US: 949	Departs: 10.5 Seats: 1,669	AA: 5.0 US: 5.5	AA: 687 US: 978	Departs: 10.5 Seats: 1,665
DFW	AA: 9.6 US: 5.5	AA: 1,358 US: 764	Departs: 15.1 Seats: 2,122	AA: 9.4 US: 5.4	AA: 1,306 US: 947	Departs 14.8 Seats 2,253
LAX	AA: 4.0 US: 6.5	AA: 232 US: 1,072	Departs: 10.5 Seats: 1,304	AA: 4.0 US: 6.4	AA: 232 US: 1,118	Departs: 10.4 Seats: 1,350

Pre-merger is calculated with March 2013 stats and post-merger with March 2014 stats.

Since the merger, overall seats at Sky Harbor have increased and the 6-month outlook (Apr-Sep) is +4.2% for American Airlines, and +2.3% for Sky Harbor in total. American Airlines has been adjusting frequency and aircraft in many markets to better utilize its equipment and meet customer demand, for example moving from A319's (124 seats) to A321's (187 seats), with the average seats per departure going up. While overall departures may have decreased, overall seats have increased as shown above.

What's more, Sky Harbor has seen passenger increases for five consecutive months (12/13-4/14) and logged the highest numbers on record in March 2014.

Primary Carrier Snapshot: A Year in Review:

- US Airways had 286 daily departures from 54 gates in Terminal 4 pre-merger (March 2013); American had 20 daily departures from 3 gates in Terminal 3 pre-merger (March 2013)
- Today the merged airline, still operating with two names, has a combined 307 average daily departures (March 2014) from 54 gates in Terminal 4.
- Southwest had 169 daily departures in March 2013 and 168 in March 2014

Have airfares gone up?

Yes, airfares have gone up, as have gas prices and most other things. The table below compares domestic fare changes among the top ten U.S. passenger airports. The table illustrates that even with a 28% increase from 2007 to 2013, making the airport more in line with its peers, **Sky Harbor continues to have a lower average fare than most of the top U.S. airports.** Despite having the fourth-lowest ticket prices in the country, Sky Harbor is now a profitable airport for airlines.

Table 2

Top 10 Passenger Airports*	AVERAGE ONE-WAY DOMESTIC FARE		
	2007	2013	% Change
Denver	\$144	\$158	9.2%
Las Vegas	\$137	\$164	19.1%
Atlanta	\$153	\$175	14.0%
Phoenix	\$140	\$180	28.7%
Charlotte	\$158	\$188	18.8%
Chicago, O'Hare	\$148	\$189	27.0%
Dallas/Ft. Worth	\$166	\$199	19.9%
Los Angeles	\$195	\$237	21.1%
San Francisco	\$229	\$250	9.2%
New York, Kennedy	\$199	\$252	26.5%

*Ranked by 2013 stage-length adjusted average fare

Why isn't Sky Harbor likely to suffer like other hubs have after mergers?

The healthiest airport has significant origin and destination (O&D) traffic (the number of travelers coming and going specifically to their city) *and* significant connecting traffic. That way if one is impacted, the airport still has the other.

Sky Harbor has a healthy mix of both local and connecting traffic, unlike some airports that were negatively impacted due to economic downturns and/or mergers in recent years. An over-reliance on connecting traffic and a low number of O&D passengers (under ten million) put those airports at risk at maintaining their facilities at the prior level. Phoenix not only has a very healthy mix, but over twenty million passengers per year are coming and going specifically to the Valley. See table below.

Table 3

Airport	Year of Airline Merger or De-Hub	Connecting Traffic	O&D Traffic	O&D (million)
Phoenix (AA/US)	2013	45.0%	55.0%	20.20
St. Louis (TW/AA)	2002	60.4%	39.6%	9.42
Cincinnati (NW/DL)	2007	70.9%	29.1%	4.42
Memphis (NW/DL)	2007	60.7%	39.3%	4.06
Pittsburgh (US)	2000	53.8%	46.2%	6.69

Will AA leave Arizona or decrease service after 3 years?

As part of the settlement in the litigation brought by the U.S. Department of Justice (DOJ), US Airways and American Airlines agreed to maintain the hub in Phoenix for at least three years. This should not be viewed as a limitation on the airline's plans for the airport or state, but rather a condition of settlement which the airline was happy to agree to. There are no current plans for service reductions outside of the agreed upon settlement terms.

The agreement is also subject to certain qualifiers concerning reduced demand, competitive environment and increased costs at the New American. While unlikely given the importance of PHX to the American Airlines network, if any of these changes occur at any of the airline's hubs, the carrier can petition the DOJ to reduce services. Simply put, if passengers continue to fly in and out of Sky Harbor, American Airlines has every reason to compete for that business, for the three years and well beyond. In the unlikely event American chooses to forfeit any of their passengers here, other carriers will quickly serve the demand. While the city does not control airfares, it is expected that all airlines that currently service Sky Harbor will continue to compete for Phoenix customers.

It's also important to note that American's commitment to the Valley and State reaches far beyond airline passengers. The airline intends to continue a strong corporate presence, working with local charities and partnering with the public sector.

How can this community maintain and increase air service?

The City of Phoenix Aviation Department is responsible for providing a clean and safe facility in which airlines may operate and passengers may travel. Where and when airlines fly and what they charge passengers is a business decision by the airlines. That said, there are some things that can be done to encourage air service at Sky Harbor.

What can the airport team do to help?

- Aggressively market to the largest airline in the world, American Airlines, now with a hub at Sky Harbor. Given the Phoenix hub, AA and its OneWorld alliance partners have new opportunities in the market.
- Be supportive of existing airlines and routes, and recruit new routes and airlines. Educate airlines about the generous marketing support package offered by the airport for new and increased service.
- Monitor changes and respond accordingly. The air service team monitors all airline route and frequency changes and visits with airlines on a regular basis about opportunities in Phoenix.
- Keep costs to airlines competitive. Airlines value airports with a low cost in which to operate. While one of the largest airports in the country, Sky Harbor is among the lowest cost environments of its peer airports. For example the cost per enplaned passenger (CPE) to airlines at PHX is \$5, while the cost at LAX is \$12 and Chicago O'Hare is \$15.
- Continue strategic growth planning and spending (including remarkable bond ratings) so that unnecessary cost impacts to the airlines are minimized.
- Maintain open line of communication with the community. Continue to be available to meet with interested parties across the Valley and State.

What can the community do to help?

- Create a reputation around the world that Arizona welcomes visitors.
- Build business in the Valley and in the region. Where there is healthy business, there is healthy air service.
- Welcome the New American Airlines. The largest airline in the world now has a focus in Arizona, providing countless new and easy flights and connections for Phoenix passengers. A supportive environment can only enhance that focus and the resulting opportunities moving forward. Remember American was US Airways, which was America West - a home grown, Arizona company. When we think of all the jobs created by this airline, the choice to move the US Airways headquarters here and now keep Phoenix as a hub of the world's largest airline, we should be very proud. How many companies might take another look at Phoenix now because we have a hub of the world's largest airline?
- Support *all* of the airlines at Sky Harbor, especially our "hometown" airlines, including American and Southwest. These airlines have made the Valley a focal point in their networks and deserve our community support.

What can the community do to help? continued...

- Provide hard data to support Valley anecdotes regarding international travel. For example, it is said that there are lots of engineering companies flying to Taipei every week. It's possible that these passengers are flying to Asia on two tickets: one to the west coast and another to their destination. They may not be recorded in official data as Phoenix passengers. The name of the company and the contact will assist the airport in providing information to the airlines so they may recognize that there is more demand in Arizona than their official data reflects.
- Attract high-income visitors, who buy full-fare, business and first class airline tickets.
- Work to improve the income levels and quality of life of all Arizonans. Regions with higher disposable income levels demand more air service. While Arizona has among the nation's highest populations, the average income level is lower than in competing regions. According to 2012 ACS data, the Arizona household median income is 47,826. It is 2.8 to 22% lower than most Mountain West states, with the exception of New Mexico.

Table 8

Household and Families Median Income								
AZ	CA	CO	NV	NM	OR	TX	UT	WA
47,826	58,328	56,765	49,760	42,558	49,161	50,740	57,049	57,573

Per Greater Phoenix Economic Council

OPPORTUNITIES FOR INCREASED AIR SERVICE AT SKY HARBOR

The greatest number of US passengers to Phoenix are currently from:

Table 4.

Market	2013 PDEW
Los Angeles area airports	2,428
San Francisco bay area	1,730
Denver	1,478
Chicago area airports	1,365
Seattle	1,048
Las Vegas	909
Minn/St. Paul	837
San Diego	763
Salt Lake City	626

PDEW=Passengers daily each way

The markets with highest potential for new or additional air service:

Table 5

DOMESTIC	
Market	2013 PDEW
Boston	493
Nashville	222
Cleveland	209
Raleigh/Durham	158
New Orleans	149
Buffalo	142
Washington, Dulles	125
<i>Hartford</i>	<i>104</i>
<i>Providence</i>	<i>77</i>
<i>Jacksonville</i>	<i>76</i>

Includes all nonstop and connecting passengers
Italics= no existing nonstop service from PHX

Table 6

INTERNATIONAL	
Country	2013 PDEW
Canada	1,008
Mexico	329
U.K.	159
<i>Germany</i>	<i>101</i>
<i>France</i>	<i>83</i>
<i>China</i>	<i>74</i>
<i>India</i>	<i>73</i>
<i>Japan</i>	<i>64</i>
<i>Spain</i>	<i>58</i>
<i>Netherlands</i>	<i>43</i>

Same references as Table 5.

Passengers as they relate to trading partners: Largest AZ export markets 2013:

Table 7. Per Arizona Commerce Authority

Country/Region	Export (US\$)	2013 PDEW
Mexico	7 Billion	329
Canada	2.2 Billion	1,008
China	1 Billion	74
Japan	855 Million	64
United Kingdom	807 Million	159
Germany	740 Million	101
Hong Kong	567 Million	17
Thailand	464 Million	12
France	457 Million	83
Singapore	432 Million	15