

Delta Air Lines CEO Proclaims Travel Is ‘Countercyclical’

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Skift Take

Could it be that people will keep traveling even if the U.S. and Europe fall into recession? Delta thinks so.

— *Edward Russell*

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People have more than two years of that pandemic cliché, “pent-up demand,” to get out of their system. That’s driving continued robust travel demand at Delta Air Lines, which sees no slowdown even as the economic outlook sours on both sides of the Atlantic.

“While we are mindful of macroeconomic headwinds, the travel industry is experiencing a countercyclical recovery,” Delta CEO Ed Bastian said during the carrier’s third quarter-earnings call Thursday, always the first of the major U.S. airlines to report. “Global demand is continuing to ramp as consumers shift spend to experiences, businesses return to travel and international markets continue to reopen.”

Bastian added that, from Delta’s view, travel demand did not “come close to being quenched” during what was a busy, and often chaotic, summer.

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Economic outlooks widely predict recessions in both the U.S. and Europe. Rating agency S&P Global has forecasts a contraction beginning in Europe this fall, and in the U.S. in the first half of 2023. High inflation, the energy crisis, a strong U.S. dollar, and other factors are contributing to the weak economic outlooks.

But even as S&P and others have released their bearish outlooks, airlines and other travel industry companies have repeatedly said they were seeing little or no falloff in demand or bookings. At the Skift Global Forum in September, Marriott International CEO Anthony Capuano said that the hotel company was “just not seeing the impact yet in the data,” referring to the economic uncertainty.

Delta, for its part, continues to see strong demand both in the U.S. domestic market, and across the Atlantic for the fall, said President Glen Hauenstein. This is driven, in part, from high levels of leisure demand continuing after Labor Day when the segment normally slows down, and from improving corporate demand. Corporate bookings at Delta recovered to roughly 80 percent of 2019 levels at the end of September, and are expected to rise to the “low to mid-80s” during the fourth quarter.

And the airline continues to see more blended trips, or those that include both leisure and work components, and is adjusting its flight schedule accordingly. Even Hauenstein admitted to changing his travel patterns since the pandemic: “I went to Paris last week for meetings, and I spent the weekend for leisure. Before I probably would have just come back.”

“I can’t imagine as we get to spring and summer next year that we don’t see robust demand” for international travel, Hauenstein said. Delta plans to fly 8 percent more seats across the Atlantic in summer 2023 than it did this year.

United Airlines executives made similar comments on Wednesday when they unveiled plans for three new destinations, and seven new routes across the Atlantic next year.

High Airfares Remain

Anyone who flew this summer knows: Flights were expensive. And while many hoped that prices would come down after Labor Day, the symbolic end of summer in the U.S., that has proven the case. New data from the U.S. Bureau of Labor Statistics released Thursday show airfares were up 42.9 percent in September compared to last year.

Delta executives dashed any optimism that fares could drop meaningfully in the fourth quarter. With strong travel demand expected to continue, the airline forecasts a “mid-teens” percentage increase in unit revenues compared to 2019. Rising unit revenues, which measure the amount an airline earns per passenger per mile, equate directly to higher airfares.

“Industry supply is constrained by aircraft availability, regional pilot shortages, and hiring and training needs,” Bastian said.

The issues he cited have slowed the airlines industry's recovery. This summer, U.S. carriers flew roughly 15 percent less than they had planned at the beginning of the year, according to trade group Airlines for America (A4A). Add to that high fuel prices and interest rates, and the cost of operating a single flight has gone up dramatically since 2019.

Regional capacity at Delta is not forecast expected to fully recover from the U.S. pilot shortage until 2024 or 2025, Bastian said. However, the airline's fleet of small Airbus A220s and Boeing 717s will allow it to make up some of that lost capacity in the interim, he added.

Delta's capacity will be down roughly 8-9 percent compared to three years ago in the December quarter. However, that represents an at least 9 point improvement from the 17 percent decline in the September quarter.

Taking Back the Southeast

Delta does not plan to keep capacity depressed for much longer. The airline plans to fully restore its network — if not capacity — by next summer. That recovery will come in two parts: international, particularly to Asia, more of which will come back this winter; and U.S. domestic, particularly at Delta's core Atlanta, Detroit, Minneapolis-St. Paul, and Salt Lake City connecting hubs.

"We choked off what I would say is more of our traditional flow in very key markets where Delta has historically been the leading carrier, particularly in the Southeast," Hauenstein said. "As we head into 2023, our task that we've assigned our team is to get those historical high-yield flow customers back on Delta."

While Hauenstein did not name names, there is only one other carrier with a hub in the Southeast that competes for the same passengers: American Airlines. The Fort Worth, Texas-based carrier is the most recovered major U.S. airline in terms of capacity, and has found particular success in domestic flying and providing the most connectivity to small- and medium-sized U.S. cities — something that, at least in the Southeast, Delta excelled at pre-pandemic. American recently signed a new agreement with affiliate Air Wisconsin to further expand its regional feed in Chicago, which competes directly with Delta's Detroit and Minneapolis hubs for passengers.

Roughly 75 percent of Delta's planned capacity growth in 2023 will be focused on resuming flights at its four core hubs, Hauenstein said.

But recovering domestic connectivity is not Delta's only challenge to American next year. It will also implement its long-planned joint venture with Chile's Latam Airlines Group. U.S. authorities signed off on the pact in September, allowing the carriers to move forward with the partnership that allows them to coordinate commercial activities on flights between the U.S. and South America. The deal will make Delta and Latam together a much more formidable competitor to American, the dominant airline on U.S.-South America routes.

Asked about timing of the Delta-Latam partnership, Bastian said meetings on implementation were "beginning literally as we speak."

And the Numbers

Delta reported a \$695 million net profit in the third quarter. Revenues were up 11 percent compared to 2019 to nearly \$14 billion. Key for the airline are its total unit revenue and unit costs excluding fuel performance, which were up 34 percent and 22.5 percent, respectively. Delta flew 18 percent less passenger traffic during the period.

Raymond James analyst Savanthi Syth described the results as "mostly in line with expectations," with few surprises. She noted that, while Delta management repeatedly cited 2023 plans, they did not provide specific guidance for next year.

For the fourth quarter, Delta expects revenues 5-9 percent above 2019 levels, and an operating margin of 9-11 percent.
