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October 8, 2010

Flying Fewer Planes, Airlines Find Stability

By JAD MOUAWAD

VICTORVILLE, Calif. — For the first time since their industry was deregulated in the late 1970s, airlines in the [United States](#) have managed to hold the line on the number of planes they fly.

Evidence of this discipline can be seen at airports around the country, where empty seats are increasingly difficult to find and fares have jumped. It can be seen at a former military base here on the edge of the Mojave Desert, where a record number of airplanes are stored, awaiting better days. And it is reflected in the airlines' bottom line as the industry returns to profitability.

The airlines tried repeatedly in the past to maintain such capacity restraint, but each time, their efforts fell apart as new competitors sprang up and vied for market share. But this time has been different because of a unique set of circumstances — a result of both the weak economy and the repeated shocks the industry has suffered in the last decade.

The steep jump in oil prices, starting three years ago, forced the airlines to slow orders of new planes. Then, as the [recession](#) hit, more than a dozen airlines went out of business, and higher financing costs made it harder to establish new ones. A string of mergers among the big carriers further shrank the number of players. And even low-cost airlines, which once provided the most feisty competition, lately have shown signs of caution.

“It’s a discipline based on fear, and that’s basically what makes it so effective,” said Hunter K. Key, an airline analyst at Stifel Nicolaus, who said he expected that the number of scheduled flights in the United States would remain essentially flat this year compared with last. “It’s the first time airlines have done this voluntarily, outside of bankruptcy proceedings.”

The result has been less a case of anticompetitive behavior and more an instance of self-interest on a broad scale. It also reflects a more timid — and perhaps chastened — industry than in previous decades when aggressive executives competed fiercely with each other.

Airlines trimmed their capacity in recent years by grounding planes, reducing the number of flights they offered between cities and flying smaller planes, said Richard L. Aboulafia, an analyst at the Teal Group, a consulting firm in Fairfax, Va.

At 7 percent, last year's cuts in capacity (measured by the industry in units of one seat flown per mile) were the deepest since 1942, as demand for air travel plummeted in the depths of the recession. And while the airlines have reversed some of the deepest cuts this year, they have not kept up with the growth in demand. According to the International Air Travel Association, demand has risen by 6.1 percent so far this year, yet airlines added just 1.5 percent more seats.

"American carriers have done a stellar job of holding the line on capacity over the past two years, and they show no sign of giving up," Mr. Aboulafia said.

For passengers, the result is pretty obvious: ticket prices have risen, although airline experts point out that the comparison may be skewed because last year's fares were especially low in the depths of the recession.

Still, midweek direct flights can often run up to \$1,000 these days. Round-trip flights between New York and Portland, Ore., now start at \$700. Flights between Chicago and San Francisco over the Thanksgiving weekend will cost at least \$440 round-trip if bought today, and fares are expected to rise even more as the holiday season gets closer.

Instead of adding more planes as demand has risen, the airlines have put more people onto their scheduled flights. Airlines now routinely fill more than 80 percent of their seats — an exceptionally high level for an industry that traditionally sells 70 percent of its seats.

"The idea of 90 percent load was insane 20 years ago," said Andy Golub, an airline expert at Ascend, an aviation consulting firm. "Now, it's a target for the peak season."

The decline in capacity began when oil prices spiked in 2007 and 2008. The airlines grounded many of their least **fuel-efficient** planes, rethought their growth plans and ended up delaying or canceling orders for new planes to save cash.

Airlines in the United States have 167 wide-bodied airplanes on order, including 38 scheduled for delivery by 2015, said Craig Jenks, the president of Airline/Aircraft Projects, a consulting firm in New York. By contrast, the 14 largest foreign carriers expect 627 wide-bodied planes to be delivered in the next five years, many going to the fast-growing airlines in the Middle East.

"There is very little growth in their outlook," said Mr. Jenks, who pointed out that many of the new orders in the United States were aimed at replacing existing aircraft. **American Airlines**, for instance, is planning to replace its entire fleet of older McDonnell Douglas MD-80s over the next

decade with new more fuel-efficient [Boeing 737s](#).

The airlines have also benefited from delays with the new Boeing 787s; American, Continental, Delta and [United](#) all have the planes on order.

At the same time, fewer airlines are competing after bankruptcies culled the field. Now, with the mergers of [Delta and Northwest](#), [United and Continental](#) and Midwest and Frontier, and [Southwest's planned purchase of AirTran](#), the number of existing airlines is shrinking even further.

The low-cost carriers, too, are behaving more like the long-established airlines. While some, including Allegiant Airlines and Virgin America, have added new routes and flights, Southwest and [JetBlue Airways](#) are not growing as aggressively as they were just a few years ago.

Airline executives argue that they need to manage their capacity much more closely now than in the past.

“The marketplace is not seeing a flood of capacity back into the market where demand doesn't warrant it,” said Hank Halter, the chief financial officer of [Delta Air Lines](#). “All the airplanes in the desert indicate the significant capacity restraint that carriers have undertaken.”

At the nation's largest desert storage facility, in Victorville, some 200 airplanes are parked side by side, their wings nearly touching.

Aircraft of all makes and sizes, from Boeing 747 jumbo jets to single-aisle planes like [Airbus A320s](#), are stored here waiting to be called back to action.

“They come here because of the dry air,” said Jeff A. Lynn, the general manager at Southern California Aviation, a subsidiary of Pratt & Whitney that runs the place. He said that planes were particularly susceptible to humidity and corrosion.

Planes stored here are handled with care. Special fluids are pumped into the engine to lubricate internal parts, windows and open gauges on the fuselage are covered to protect them from dust, and the wheels are wrapped in plastic to prevent damage.

On one side of the airport, a few planes, including venerable Lockheed L-1011 TriStars, are scheduled to be cut up, stripped of their equipment and sold as scrap metal. But the vast majority of planes just sit there, a vignette of commercial aviation. Mr. Lynn said that the number of stored aircraft hit a peak of about 250 in February.

Airlines may not be able to hold on to their strategy, however, once the economy regains momentum.

Mr. Lynn has already noticed a rebound in the business. “Most of these planes will come back into service,” he said. “Once the economy turns around, no one wants to store a plane.”