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Bigger cuts ahead for US Airways

By [Richard Velotta / Staff Writer](#)

Newly announced cuts by McCarran International Airport's second-busiest airline will result in a double-digit percentage capacity decline to the Las Vegas market and damage an important pipeline of tourism traffic to Southern Nevada.

At their annual shareholders meeting in Phoenix last week, executives with US Airways outlined flight reduction plans starting in the fall and continuing into next year. They cut deeply into the company's Las Vegas operation.

The cuts are in addition to reductions disclosed by In Business Las Vegas last month in which the company denied it was eliminating its "night hub" flights to and from McCarran. Now, the airline concedes that except for a handful of flights to other hub airports in Phoenix, Philadelphia and Charlotte, N.C., the night hub will be gone by September.

Gaming analysts are decrying the capacity cuts as a harbinger of lower profits for the casino industry. And, while analysts say announced cuts by US Airways and other carriers may result in a decrease of 10 percent to 15 percent of the seats coming into the market, the decline shouldn't be as bad as what one aviation watcher said in an appearance in Las Vegas last week.

Holly Hegeman, founder and chief executive of Plane Business, a Web site that monitors the aviation industry, told the **Association of Travel Marketing Executives** last week that capacity cuts to Las Vegas could reach as high as 40 percent. Hegeman did not disclose how she arrived at that number.

Effective Sept. 3, the number of daily US Airways departures to and from McCarran - as high as 141 less than a year ago - will drop to 81. By the end of the year, the airline will cut another seven flights.

In September, US Airways served 55 destinations with nonstop flights from Las Vegas. In two months, that number will fall to 31 with cities such as Albuquerque; Cleveland; Newark, N.J.; Oakland, Calif.; Salt Lake City and Reno falling off the schedule.

US Airways' schedule cuts also will put a dent in Nevada's employment numbers. Of the 1,700 employees the airline plans to cut from its workforce, 600 are at McCarran. The cuts

will reduce the number of US Airways' 1,400 Las Vegas-based employees as of June 1 to 800.

Airline officials say some employees will be transferred to other airports and cuts initially will be done through attrition. But some employees already have been told they would be laid off. Most of the McCarran workers are ramp and ticket-counter employees, but there are some flight attendants, maintenance workers, pilots and management staff based in Las Vegas who will be on the chopping block.

At last week's annual meeting, airline executives blamed the cuts on skyrocketing fuel bills resulting from record-high oil costs.

"Our industry is profoundly challenged by the dramatic increase in fuel prices, and we must write a new playbook for running a profitable airline in this new and challenging environment," US Airways Chief Executive Doug Parker said. "We are taking every action to operate a strong and competitive airline while ensuring that our customers have continued access to competitively priced air travel."

Parker said US Airways' fuel bill would be nearly \$2 billion more in 2008 than it was the previous year. In 2000, 14 percent of the airline's expenses were for fuel; today, it's 39 percent. On average, it costs \$299 in fuel costs to transport one passenger on a round trip, about twice as much as a year ago. In 2000 it cost about \$70.

In addition to cutting capacity and employees, the airline will reduce its fleet, retiring six Boeing 737-300 jets - one of the least fuel-efficient in the fleet - and four Airbus A320 jets. In addition, US Airways is deferring delivery on some jumbo jets the company ordered for flying overseas and it has petitioned the Transportation Department to delay the start-up of its flights to China from Philadelphia planned to begin next year.

Cutting capacity is one way airlines are dealing with the high cost of fuel. Leisure destinations such as Las Vegas are the most vulnerable to capacity cuts because airlines make less money on those passengers who buy cheap tickets in advance. Airlines make more on last-minute ticket sales to businesspeople who are more apt to buy and upgrade to more expensive business-class and first-class seats.

US Airways also joined the list of airlines trying to raise more revenue. Beginning Aug. 1, coach passengers will pay \$2 for nonalcoholic beverages, including juices, sodas, bottled water and coffee. Alcoholic beverages will increase from \$5 to \$7.

US Airways has joined American and United airlines in charging \$15 for the first bag checked, effective for tickets booked beginning July 9.

The airline also is raising the service fee for purchasing tickets through its call centers to \$25 for domestic travel and \$35 for international. Previously, the fee was \$15 for either. Fees for purchasing tickets at airport or city ticket offices will climb to \$35 domestic and \$45 international from the existing \$20 fee for either.

US Airways isn't the only carrier that has announced capacity cuts. United and American say their fourth-quarter schedules won't be as busy as last year. But United and American represent a small percentage of the seats coming into Las Vegas. In their May schedules,

United had 6.7 percent of the seats coming into the market and American had 4.5 percent. US Airways had 17.2 percent at the time, and market leader Southwest had 42.1 percent.

The capacity cuts are a concern to gaming analysts who weighed in on the topic in reports to investors.

"With lower capacity and the resulting higher airline ticket prices, we would expect continued pressure on room rates," said Robin Farley, an analyst with UBS.

In addition to the capacity matter, analysts were digesting the latest tourism and gaming statistics released for April.

The state Gaming Control Board reported last week that statewide gaming win was off 5.05 percent from April 2007 to \$1 billion. Clark County's win was off 4.79 percent to \$850 million with the Strip down 1.28 percent to \$524.2 million and downtown Las Vegas off 6.77 percent to \$52.7 million.

Only two of the state's 19 gaming jurisdictions had higher win figures in April than a year ago, with South Lake Tahoe up 12.67 percent to \$24.4 million and Wendover up 0.04 percent to \$15.6 million.

Bill Lerner, the Las Vegas-based gaming analyst for Deutsche Bank, said he wasn't too worried about the April decline in his note to investors.

"On a year-to-date basis, Strip revenues are down only 2.6 percent," Lerner said. "The April calendar was unfavorable in April with one less Sunday ... Importantly, based on channel checks and anecdotal evidence, we think gaming revenues could inflect positively in May (helped by hold) ... Collectively, this data (are) better than the market is implicitly assuming."

The Las Vegas Convention and Visitors Authority's report on visitor volume for April also showed the city holding its own.

Compared with last year, visitor volume was down 1.5 percent in April to 3.3 million people. For the first four months of 2008, volume is down 0.1 percent to 12.9 million people.

Convention traffic was up 3.9 percent to 538,316, thanks to a 28.2 percent increase in the number of shows held. The economic effect of those shows also was up 2.3 percent to \$711.8 million.

Occupancy levels were off 3.8 percentage points from April 2007's record 93.8 percent occupancy. Hotel occupancy fell 3.6 points to 93.6 percent and weekend occupancy was off 3.2 points to 94.5 percent.

The average daily room rate also was off in April, falling 7.4 percent to \$135.67. For the first four months of the year, it was off 4 percent to \$132.74.

Auto traffic statistics compiled by the authority indicate that the price of gasoline is taking its toll.

The average daily car traffic on all major highways in and out of Las Vegas is down 7.2 percent to 83,253 vehicles a day and at the Nevada-California border, it was down 7.8 percent to 36,921 vehicles.

Car traffic to outlying Clark County destinations has been affected even more. The number of vehicles at the Nevada-Arizona border near Mesquite is down 9.7 percent to 22,515 vehicles a day and traffic on Highway 163 near Laughlin was off 9.9 percent to 7,489 a day.

Despite the barrage of negative tourism news, there was one bright spot last week.

Porter Gale, vice president of marketing for San Francisco-based Virgin America Airlines, said at last week's **Association of Travel Marketing Executives** meeting that her airline is catching on with California consumers.

Following the presentation, Virgin America announced 10 percent capacity cuts, slicing into midweek and off-peak flying. But the good news is that the airline also will add flights where numbers are strong, including its San Francisco-Las Vegas schedule.

Gale also said the airline plans a new nonstop flight between McCarran and New York's John F. Kennedy International Airport. Virgin will compete against American, Delta, JetBlue and US Airways in that market.

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