

Airlines Trim Capacity Over Coronavirus Spread; Some Executives Take Pay Cuts; Carriers face the most severe downturn in decades as businesses, tourists reduce travel

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FULL TEXT

Airlines detailed the growing impact of the coronavirus by cutting more flights in domestic and international markets, parking planes, freezing hiring and reducing executive pay.

American Airlines Group Inc. and Delta Air Lines Inc. joined United Airlines Holdings Inc. on Tuesday in slashing the number of flights across their networks, with some cuts extending through the summer, as cancellations overtake new bookings in some markets because of passenger fears about traveling.

The virus's rapid impact on demand has sent airlines reeling. Most carriers in the U.S. have withdrawn their financial guidance for the year and suspended share buyback programs, among other measures. Airlines are now preparing for the prospect that recovery could take months, rather than the quick bounceback many had initially anticipated.

The Latest on the Coronavirus

- * China reports 19 new cases.

- * Chinese President Xi Jinping makes his first trip to Wuhan since the crisis erupted.

- * Globally, the total number of confirmed coronavirus cases across 115 countries and regions climb to 114,544.

- * South Korea reports 131 new cases, many of them linked to a call center.

"This is a fear event," Delta CEO Ed Bastian said Tuesday at an industry conference that was webcast, rather than being held live. He said he expects demand will continue to erode in the near term.

To cope, Delta will park some planes, cut international capacity as much as 25% and domestic capacity as much as 15%, and also defer \$500 million in capital expenditures. It may consider retiring some planes early.

American said it plans to cut domestic flying by 7.5% by decreasing frequencies in markets where it operates many flights. It will reduce international flying by 10% for the summer peak travel season.

Airline shares have fallen more than 30% in the past two weeks, but they rose sharply Tuesday after carriers outlined planned cuts and cash-raising options. American shares closed up 15%, United rose 12% and Delta gained 4.5%.

President Donald Trump said Tuesday that the administration plans to offer assistance to the airline and cruise industries. He didn't offer details. Industry leaders who met with the president at the White House last week said they hadn't sought aid. "Not one CEO asked for government financial relief," said Doug Parker, American's chief executive.

To reduce costs, airlines have frozen hiring and have started offering voluntary unpaid leave to employees. United CEO Oscar Munoz and President Sco said they would forgo their base salaries until at least June 30. Southwest Airlines Co. CEO Gary Kelly is taking a 10% pay cut. American's Mr. Parker has been paid only in stock since 2015. Overseas, the European Commission said it would propose legislation to suspend airport-slot rules, allowing airlines to cut back capacity without risking the loss of lucrative takeoff and landing rights. The rule changes, disclosed Tuesday, could provide significant relief for domestic and international carriers operating in Europe.

Some have been flying near-empty flights in and out of congested hubs, like London's Heathrow, to retain the slots due to "use it or lose it" airport slot rules.

Mr. Kelly told Southwest employees that the virus has created a challenge more serious than any the industry has faced since 9/11, "and it may be worse."

"The velocity and the severity of the decline is breathtaking," Mr. Kelly said in a video message Monday that was viewed by The Wall Street Journal. "There is no question this is a severe recession for our industry and for us, and it's a financial crisis."

The virus is testing airlines' ability to weather the kind of economic crisis they have promised investors they could withstand following a decadelong run of industry profits. While a sharp drop in fuel prices is likely to relieve some pressure, carriers are facing a global-demand shock.

United said it was being proactive after seeing a sharp drop in bookings once the virus spread to Italy in late February. It said it now expects to incur a first-quarter loss, rather than the profits it had anticipated. The airline said it raised \$2 billion from a group of banks, which will bring its total liquidity to \$8 billion. The airline is also slashing capital spending by \$2.5 billion.

"Hope is not a strategy," said Mr. Kirby, who is due to take over as United chief executive in May. United is making plans based on revenue dropping 70% in April and May and remaining depressed through the rest of the year—a dire scenario the company hopes won't come to pass, he said. Demand fell about 40% for two months after 9/11, he added.

United expects to cut capacity across its network by at least 20% in May, and to continue rolling those cuts forward until the airline starts to see demand recover. "While we expect the duration to be relatively short, we're planning for it to be deep," he said.

American's reduction in domestic flights will include cancellation of routes where customers can be easily rerouted. Some domestic routes will get a boost, though, with bigger planes that would have been used for international flying.

Internationally, the airline will hold off on flying to mainland China until late October, and will extend cancellations to Hong Kong and Singapore for months. It is temporarily suspending or cutting back on service to European destinations including Barcelona, Madrid, Rome and Paris. Latin America, which had been the one relative haven for U.S. airlines' international operations, will also see cuts, including American's flights to Chile, Uruguay, and Brazil.

European carriers stepped up their own cancellations after Italy shut down travel in and out of the country. Ryanair Holdings PLC cut its traffic plans for this year by three million passengers to 151 million, while Norwegian Air Shuttle ASA said it would cut 3,000 flights from its schedule.

Qantas Airways Ltd. said CEO Alan Joyce will take no salary for the remainder of the fiscal year 2020 and scrapped management bonuses, while outlining plans to cut capacity at its main airline and low-cost subsidiary Jetstar by as much as 23% through mid-September.

Mr. Parker, of American, signed off from Tuesday's webcast with an entreaty that has become an airline mantra in recent weeks. "Please, fly!" he said.

Benjamin Katz and Doug Cameron contributed to this article.

Credit: By Alison Sider

DETAILS

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