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AAL.OQ - Q2 2022 American Airlines Group Inc Earnings Call

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OVERVIEW:

AAL reported 2Q22 revenue of $13.4b, GAAP net income of $476m and GAAP diluted EPS of $0.68. Expects 3Q22 revenue to be 10-12% higher vs. 3Q19 on 8-10% lower capacity.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Second Quarter 2022 Earnings Conference Call. Today's call is being recorded. (Operator Instructions)

And now I would like to turn the conference over to your moderator, Head of Investor Relations, Mr. Scott Long.

Scott Long

Thank you, Olivia. Good morning, everyone, and welcome to the American Airlines Group Second Quarter 2022 Earnings Conference Call. On the call this morning, we have our CEO, Robert Isom, and our Vice Chair and CFO and President of American Eagle, Derek Kerr. Also on the call for Q&A are David Seymour, Vasu Raja and a number of other senior executives.

Robert will start the call this morning with an overview of the second quarter. Derek will follow with details on the quarter and our operating plans and outlook going forward. After Derek's comments, we'll open the call for analyst questions, followed by questions from the media. (Operator Instructions)

And before we begin today, we must state that today's call contains forward-looking statements, including statements concerning future revenues, costs, forecast of capacity and fleet plans. These statements represent our predictions and expectations of future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release, which was issued this morning, as well as our Form 10-Q for the quarter ended June 30, 2022.

In addition, we'll be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings press release, which can be found on the Investor Relations section of our website.

A webcast of this call will also be archived on our website. The information we're giving you on the call this morning is as of today's date, and we undertake no obligation to update the information subsequently. Thank you for your interest and for joining us this morning.

With that, I'll turn the call over to our CEO, Robert Isom.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Thanks, Scott, and good morning, everyone. Thanks for joining us. I want to start by thanking the American Airlines team, which has done an amazing job of running our airline, especially during very challenging operating conditions in the past few months. They managed significant weather, both thunder storms and extreme heat in many parts of the country.

Customers continue to come back to travel in record numbers, and our team has adapted to one of the busiest summers that we've ever experienced and then done so with grace, professionalism and a level of commitment to our customers and each other. It is second to none. Every single day, I hear from our customers about something incredible that our team has done. We're so proud of their work and grateful for their support.

I also want to thank and acknowledge our key partners in the U.S. government. Secretary Mayorkas, Secretary Buttigieg and their teams at the FAA, TSA, CBP as well as the air traffic controllers at NATCA. They've been right there with us and have worked through these difficult operating conditions. The extraordinary surge in demand for air travel has significantly impacted them as well, and we appreciate their consistency and professionalism.

All of us have to acknowledge that there are challenges in the national airspace, particularly in high traffic locations like Florida and the Northeast, but I'm grateful for the sheer commitment that we have in the public and private sectors and management on the front line to facilitate the efficient return of travel.

American served 53 million customers in the quarter, and we couldn't have done that without everyone pulling together. As we have shared previously, we have 2 primary goals this year: running a reliable operation; and returning to profitability, and that's the entirety of our focus. We've made a lot of progress on running a reliable airline, but we have still some work to do, and I'll touch up on that more in a moment.

The big news is this, we're really pleased to report a quarterly profit for the first time since the start of the pandemic, that's 2.5 years, that's driven by the strong demand environment and the hard work of our team. We're also pleased to have hit our pretax margin guidance, despite a challenging end of the quarter and a significant run-up in oil prices.

American reported second quarter GAAP net income of $476 million. Excluding net special items, we reported a second quarter net income of $533 million. American produced revenues of $13.4 billion in the second quarter, and that's an increase of 12.2% versus 2019 and a record for any quarter in the company's history. And let me repeat that, that's a record for any quarter in our company's history.

These results were achieved while flying 8.5% less capacity than we did in 2019. Importantly, these results are an indication that our actions are producing the expected results.

Early in the pandemic, we made a conscious decision to simplify our fleet network, focusing our flying where we could create outsized customer value and using partnerships to augment that service. In the second quarter, some 70% of our flying was in American's areas of strength, our Sunbelt hubs, Mexico, Caribbean, Latin America and London.

This flying outperformed the industry as we offer customers more options than any other airline. Our domestic partnerships are also producing for our customers and for us. As a matter of fact, our unit revenue performance in JFK and Los Angeles outperformed the system in the second quarter.

Customers are flying in different patterns than they have previously, and that's creating opportunities for us. System business revenue is now fully recovered compared to 2019, with revenue from small and medium businesses and customers exhibiting a blended behaviors that were traditionally associated with both business and leisure continuing to outpace the recovery of our managed corporate revenue. The majority of this revenue growth has come directly through our website, bypassing traditional channels.

Further, leisure demand surpassed 2019 levels in the second quarter, and customers continue to see us through increasing appetite for travel. Enrollments in our loyalty program continue at record levels, and spend on our co-brand cards is growing at a greater rate than ever before.

Looking forward, we will limit capacity to the resources we have and the operating conditions we face. We will continue to orient our flying to create value for our customers. And as always, we will remain nimble to ensure that we are best positioned to capitalize on continued demand strength.

Now turning back to reliability. After running a solid operation in April and May, headlined by a strong Memorial Day, we had challenges in June. June was a difficult month for the entire industry from an operational perspective, with extreme weather impacting every major hub and air traffic control challenges in certain parts of the country.

At American, we encountered significant weather on 27 of the 30 days in June. That weather resulted in ramp closures, ground stops, ground delay programs, airspace flow programs, which had a ripple effect throughout our operations. Despite the challenging operating environment in June, our D0, that's departures on time, made 14 arrivals within 14 minutes. And completion factor for the full quarter were better than the second quarter of 2019. Our team achieved this while flying a second quarter schedule that was more than 25% larger than our closest competitor on a departure basis.

American operated more than 0.5 million flights in the quarter. That's an 8% increase over the second quarter of 2021, with a load factor of 87%, which is 10 points higher than the second quarter of 2021.

While June was challenging, we have seen improvements so far in July, including over the busy Independence Day weekend. American finished the holiday period with a combined D0 A14 in completion factor, all above goal and in line with our pre-pandemic performance, while operating a July 4 holiday schedule that was 30% larger than our competitors as measured by total departures.

Our operational performance for the full quarter and the results we have delivered in the first few weeks of July give us confidence moving forward, but we still aren't where we need to be. And we have a lot of flying ahead of us still in the summer, so we are investing in our operation to ensure we meet our reliability goals and deliver for our customers.

We've taken proactive steps to build additional buffer into our schedule for the rest of the year. As I said a minute ago, we're sizing the airline for the resources we have available and the operating conditions we face, and we will make other changes as needed. Even with these adjustments, American still offers customers the largest network of any U.S. airline with an average of more than 5,400 daily departures.

So I want to close by reiterating that I'm tremendously excited about what lies ahead for American. We're encouraged by the trends we're seeing across the business, and we've built an airline that can be successful in a number of different demand and economic environments.

Our second quarter results and strong revenue production, despite challenging conditions, demonstrates that our plan to return to profitability and deliver a good operation for our customers is working. We have the strongest assets in the industry, and the work that our team has accomplished to build and deliver the most comprehensive network in the business is paying off.

And with that, I'll turn it over to Derek.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Thanks, Robert, and good morning, everyone. Before I begin, I want to thank the American Airlines team for their continued dedication to our customers during this busy summer travel season.

This morning, we reported a second quarter GAAP net income of $476 million or earnings of $0.68 per diluted share. Excluding net special items, we reported a net income of $533 million or earnings of $0.76 per diluted share.

We talk a lot about our goal of returning the airline to profitability, and our second quarter performance is a result of that focus. Profitability in the quarter was driven by record revenue performance. As Robert noted, our second quarter revenue was $13.4 billion, was 12.2% higher, despite flying 8.5% less capacity than the same period in 2019.

Leisure demand continued to lead the way, but the acceleration of business and long-haul international demand contributed to the strength we saw in the quarter. Operating earnings improved sequentially through the quarter, in line with the growth in revenue, despite rising fuel costs.

We continue to reap the benefit of the past investments in our fleet and are well positioned for the future. In the second quarter, we took delivery of 5 A321neos and reactivated 9 Boeing 737-800s from long-term storage. We continue to work closely with Boeing and the timing of our delayed 788s, and we expect to begin taking delivery of those aircraft this quarter. We now expect to receive 9 788s this quarter and 4 this year and 4 in the first part of 2023.

Lastly, based on our latest guidance from Airbus, we are now expecting our A321XLRs to be delivered starting in the first quarter of 2024, instead of the third quarter of 2023. This will shift planned aircraft capacity out of 2023 into future years. Our 2023 aircraft CapEx is now expected to be $1.9 billion.

We ended the second quarter with $15.6 billion of total available liquidity. During the quarter, we generated operating cash flow of $1.7 billion and free cash flow of more than $800 million.

Total debt reduction remains a top priority. We remain on track with our target of reducing overall debt levels by $15 billion by the end of 2025. In the near term, we will continue to keep up -- keep our liquidity at elevated levels, with a plan to step down to $10 billion to $12 billion when we are confident the recovery has fully taken hold. At that time, any excess liquidity will be prioritized to reduce debt.

During the quarter, we made $1 billion in scheduled debt and finance lease payments, including paying off the remaining outstanding balance of our $750 million unsecured senior notes that matured in June.

To date, we have reduced overall debt levels by $5.2 billion from peak levels in the second quarter of 2021. This means that after only 12 months, we have completed more than 1/3 of our $15 billion total debt reduction target. This progress affords us tremendous flexibility as to when and how we bring down the remaining $10 billion in total debt by the end of 2025.

As we have said previously, moving forward, we will continue to balance our total liquidity with the expected demand recovery, debt reduction opportunities and investment in the business. We expect to make $375 million of scheduled debt payments in the third quarter, which includes the scheduled payoff and unencumbering of 8 CRJ-700 aircraft.

As we look to the remainder of the year, we are making targeted investments to ensure operational reliability. With recent schedule adjustments, we now expect full year 2022 capacity to be recovered to 90.5% of 2019 levels.

Consequently, we now expect our full year CASM, excluding fuel and net special items, to be up between 10% and 12% versus 2019. The increase in unit cost is driven by lower planned capacity and other investments to support the operation, including wage premiums and regional pilot pay. These unit cost increases represent near-term investments that will drive long-term value. We are confident that unit costs will improve as we increase asset utilization to historical levels.

In the third quarter, we expect to be profitable, despite the continuation of elevated fuel prices. Pretax margins are expected to be between 2% and 4% for the quarter based on the current demand trends and our latest fuel price forecast.

We currently expect total revenue to be 10% to 12% higher versus the third quarter of 2019 on 8% to 10% lower capacity. On this revenue strength, we expect total revenue per ASM to be 20% to 24% higher in the third quarter versus the same period in 2019.

We expect our third quarter CASM, excluding fuel and net special items, to be up between 12% and 14% compared to 2019. Lower planned capacity and the investment in the reliability of the operation that I mentioned previously are driving unit costs higher for the quarter.

Our current forecast for the third quarter assumes fuel between $3.73 and $3.78 per gallon, an increase of more than 80% versus the price of fuel in the third quarter of 2019.

In conclusion, demand is strong, and we remain focused on our key objectives of operational reliability and profitability. While we've made investments in our operation that will impact near-term costs, we are confident that we're very well positioned as we move into 2023 because of our network, our fleet, our team and the actions we have taken.

With that, we will open up the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question coming from the line of Michael Linenberg with Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Yes. Good job this quarter and good outlook. I guess, Derek, first to you on the $5.2 billion debt reduction that you've been able to do thus far, presumably, you're not including any sort of reduction in the pension obligation.

And just given the run-up in interest rates and sort of thinking where the discount rate would go, can you just give us a sense of maybe the potential tailwind on that from a deleveraging perspective, sort of where things stand and how you're thinking about that pension obligation?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. Two things. One is that we look at that at the end of the year, so there was some benefit in the pension. The reduction in '21 -- there was a slight reduction in '21 of the pension obligation. As we look at where we're at now as of June 30, the actual pension status or funding ratio has gone up to about 81%. The liabilities have dropped over $3.5 billion due to the interest rate change, and it's a higher interest rate, which has more than offset the asset reduction.

So it's actually in a much better spot than it was before, not the way we want to get there, without a doubt, but it is in a better spot from a pension liability standpoint. But we have not yet added that in for anything in 2022. But if we did, it'd be -- right now, it would be about $1 billion lower from a liability perspective, from a debt perspective than it would be before.

So we are managing it the way we would any other time, staying very conservative in our pension and watching it. But the interest rate has actually driven the liability much, much lower than what the reduction in the asset class has been.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. That's helpful. And then the second question, and this is probably more for Vasu. Derek, you said that you're going to get 9 787s this quarter, and I know that everybody's been -- that, that has slipped multiple times.

And assuming that it does slip again, when I look in the fourth quarter, it does look like you have the 787 scheduled in -- it's in your timetable. If, for some reason, that were to slip again, like how many points of capacity do those airplanes account for in the back part of the year?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. Well, 2 things, Mike. I corrected that, I think, in my comments, but it is 9 for the year. We will have 2 coming in, I think, in early August. The first 2 will come earlier, and we don't have any of them built into the schedule until November time frame.

So if those do slip from August a little bit, we have put in almost a 2-month pad in those coming in. But we don't think it will impact the fourth quarter a lot. If they slip a lot further, where the impact is going to be into 2023, not a lot into 2022.

Vasu Raja

And Mike, presuming that all 9 do deliver, call that roughly about deploying of capacity in a month.

Operator

Our next question coming from the line of Helane Becker with Cowen.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So just 2 questions. The first question, Robert, I saw you on CNBC this morning, and you talked about the pilot contract. And I know you guys don't like to talk about it, but you did present your pilots with an offer that would increase pay by 17% by 2025, I think. Could you just talk about what happens next and the status of that?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Sure. So Helane, thanks for the questions. Look, it's really important for us to take care of our pilots. You know that throughout the pandemic, we had put an offer on the table that would have made our pilots the most highly paid pilots in the industry.

We never pulled that back, even throughout the pandemic. But United went out and put out a better offer. And we thought it was really important to get to the table and make sure that our pilots know that we were going to take care of them. So we've done that. And now we are negotiating very closely and actively, and my hope is that we make progress over the coming weeks and months.

Now how that bakes into financial forecast, we haven't put anything in yet. We don't know exactly where we'll end up. And then the point I'd just make is that with every contract, not only are there changes to compensation and quality of life, but we think that when we get to a contract, we'll have a contract that is -- that operates very efficiently for the company as well.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Great. That's really helpful. And then just a follow-up question on London. I know Phil asked you about that, too. And I heard Scott say last night that London operations will call him up and tell him a day or 2 in advance they're canceling flights.

I don't think you guys have as many flights to London as they do, but are you seeing the same issues? And is that -- and maybe how does that get fixed? Or is it more a British Air problem and a partner problem?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

No. Let me start with this. First off, we have a really sizable operation in London Heathrow with our Atlantic joint business partner, BA. We offer the largest schedule into London Heathrow, so it's very important to us.

One of the things that we've done is we've been able to isolate American's operations into T3, and so that has allowed us with our team to make sure that we're doing everything possible.

Now all that said, there's so much that you can do with your own team members. There's infrastructure, like bag systems that you're dependent on Heathrow. And then, of course, BA is incredibly dependent on Heathrow as well.

To that end, we're working as a group with our oneworld carriers to make sure that we match our capacity to the resources that are there. That will take some time to work our way through. And to that end, maybe I'll have Nate Gatten, our Head of Government Affairs and Corporate Real Estate add to what's going on and the prognosis for that.

Nathan J. Gatten - *American Airlines Group Inc. - Senior VP of Corporate Affairs & Chief Government Affairs Officer*

Yes. Thanks, Robert. Helane, what we worked for the last week on extremely short notice to cancel departing flights as a way to help manage airport crowding. And as Robert said, we've found that request to be quite disappointing and frustrating on many levels mostly because of the significant burn that would put on our customers under short notice with few options for rebooking given the -- some of those.

What we did then was work with how to limit the capacity on our departing flights by capping loads on certain flights. We've rebooked passengers over other European points departure, did things like limit nonrev travel, et cetera. And as Robert mentioned, we did that in conjunction with our oneworld and JV partners.

It's important to understand that these procedures will be in place until the beginning of next week, at which point a new procedure for limiting passengers at Heathrow is going to be instituted this time by the slot coordinators. And we don't have the full details on how that's going to work yet, but the new arrangement would probably continue to impact all the airlines serving Heathrow through the second week in September.

So I would just say we're very disappointed in the circumstances. We have high load factors this summer. Again, we're told by the airport at the very last minute that they can't handle the passengers and that we need to reduce the capacity.

And just final point, fortunately, we don't see these same kinds of caps on the horizon in the United States, but we do expect to face similar issues and challenges that additional international locations through the summer.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

And Helane, I'll just close with this. Look, we're going to put these measures in place, work with the airport authorities. At the end of the day, we've got to match capacity to the resources that are available, and we're going to push hard to make sure that all of the airports that we work with get the resources they need to serve our operations at the size that it should be. So thanks for the question.

Operator

Our next question coming from the line of Jamie Baker with JPMorgan.

Jamie Nathaniel Baker - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

I guess, since Helane brought up London, I flew back on American yesterday, nothing but positive things to say. I'll take that up with Scott offline.

First question for Vasu. So last quarter, you brought up a phenomenon of corporate travelers combining business with pleasure, extending trips, bringing the spouse, that sort of thing. With another 90 days of corporate recovery under your belt now, I mean, is the trend any different? And to the extent that this is sustainable, is there a way to actually monetize it? Or is it just sort of gravy, if it happens, great; if not, no biggie?

Vasu Raja

Jamie, thanks for the question, and this is a topic which is very frequently on our minds here because, indeed, in the last 90 days and be the 9 months or 12 months before that, the trends have not abated. In fact, they've grown even stronger.

I mentioned in our last call when you asked the question that it used to be as much as 70%, 75% of our revenues could be both identified and would self-classify itself very binary as traveling only for business or only for leisure, and now that's only 50%. And that other 50% that's there indeed is still there.

It tends to be higher yielding. It comes to us directly through our dot-com and mobile. And it's looking for -- and it does that largely because it's looking for travel experiences and journeys and things like that, which the industries haven't been able to make available through the very antiquated technologies and things like that, that we've been prone to using.

So yes, this really has opened our eyes to creating a lot of value for these kinds of customers, who are a growing number. Like all of our advantage enrollments are coming out of that population, they're disproportionately concentrated in places where American has just a lot of natural strength. Think of the Sunbelt, the Midwest, the Southeast.

So we're really encouraged by what we see. And indeed, it's proven through the pandemic to be a very durable source of demand that's both high yielding and wants a lot more in the airline product than just a single transaction. So it is very much on our minds, and it's probably going to shape a lot of view in the months and quarters ahead.

Jamie Nathaniel Baker - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Okay. Great. And then second question, probably for Derek or Robert. But the demand data is obviously super encouraging. You're smaller than you were pre-COVID, but you're generating more revenue.

I mean that's a great strategy for many businesses, I suppose, but your margins aren't recovered, and you weren't satisfied with your pre-COVID margins to begin with. So simple question, what are the drivers of higher margins from here?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Well, Jamie, let me start with just from the top, and then Derek can go into more detail. Look, there's more margin growth at American. We've resourced this airline to fly a larger airline, just plain and simple. We've built in a lot of redundancies. And even in June, those redundancies weren't enough. But over time, we know that we can utilize our assets a lot harder than we have been able to, to this point.

And as you take a look going forward in terms of margins, I know that the third quarter, look, we've pulled out some additional flying, and that's fine that we would rather do. You know that we have regional aircraft that aren't in the air. And while we may not have the pilots, we have the other resources to actually fly those aircraft. So the key to us is ultimately to be able to use our assets at a higher rate.

But Derek, go ahead.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

No, I was going to say the exact same things. And Jamie, as we look at the second quarter, we talked about 100 regional aircraft being out on the ground, and we had probably about 40 mainline aircraft -- equivalent aircraft on the ground. So you're talking about 150 -- 140, 150 aircraft that aren't being utilized.

So 2 things have to happen is the resources come, and we put those aircraft back up in the air. We've got to get out of those aircraft. So we really want to fly all those. We want to get back to the utilization that we were at, and that is where the margin comes because, as Robert said, we are built from a cost perspective to fly those aircraft. And today, we're not.

So that's where it's at, and that's where we believe as we get ourselves back up to ASM levels in the 2019, it comes at a much cheaper cost because the assets are here.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

And Jamie, just to add one other point, just from even a second quarter perspective. The month of June was really hard on the airline. 27 out of 30 days, we had severe weather that resulted in ramp closures, ground staff, ground delay programs, aerospace flow programs. And in some, we flew at least a percentage point or more less than we would have otherwise.

June and the second quarter would have been better had we seen a more normal type close to the quarter. So that gives me optimism that there's not only utilization that we can work our way out of, but also more normal operating conditions are going to benefit us as we go forward as well.

Operator

Our next question coming from the line Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

If I might on -- just a kind of a follow-up to Jamie's question there. So if you look at versus 2019, just how much has kind of inflation been built in? I know you have kind of this regional pilot pay that's kind of built in there.

So how much of these kind of increases are structural versus what could we -- like if I take your either 3Q or your kind of full year unit cost, like how much is structural versus how much could we see kind of go away as you get back to kind of 2019 level capacity?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Well, I would say as we look at the cost structure, the cost tradings we talked about is built to fly another 150 aircraft. So we did add cost in. So if you take the third quarter over the second quarter, the increase is really driven by 3 things, which is mainline salaries due to putting in some of the pilot contract issues. The maintenance is up year-over-year just because of engine overhauls and things that we're seeing throughout the summer and then the regional pilot pay that's put into place.

So the regional pile-up is put into place to get more aircraft up in the air, so that -- hopefully, that is there. It's there to stay. The higher cost to fly regional and the new contract that we put in place regionally is there. That hopefully drives more aircraft back up in the air.

We'll see where that goes. If it doesn't, then that cost doesn't come. So I think those things are built in. They're going to be there as we move forward. So it's important for us to get the utilization back up and get the aircraft in the air.

Savanthi Nipunika Prelis-Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

That makes sense. And if I can ask just a follow-up on that regional pilot pay. The pay was surprising, and I understand that at least part of it is a bonus that supposedly kind of rolls off in 2024.

But given how kind of much the gap versus mainline pay has been narrowed or, in some cases, even higher than mainline pay, just -- is that sustainable from an economic standpoint for those markets because you're flying them with small aircraft, fuel is a bigger impact on those smaller markets?

Is that sustainable long term? Or is it the right move right now because -- maybe because capacity is out of those markets and fares are high or you just need to get this capacity back up? I was just kind of curious as the kind of thinking behind that big of a pay increase.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Savi, let me start and then I know some others might want to jump in. The answer to that is yes. Look, the regional network to American Airlines is incredibly important. And whether it's 50 or 65 or 76-seat aircraft, being able to serve those markets in a way that connects to our hubs and then unleashes the breadth of the rest of our network, that's a really compelling offering that achieves higher yields.

And so even though pilot expense for those regional aircraft will be going up, we're confident that the yields that will be introduced will take that into account. But one thing I want to make clear, though, is as we take a look at regional pilot pay, but it costs quite a bit of money to become a pilot.

And the expectations for a pilot coming out and saying taking that first job, right, they have changed over time. So as we look forward, I do think that as an industry, pilot wages are going to increase. And that's something that the industry as a whole is going to have to digest. And ultimately, that will show up through our cost structure and be a factor in terms of how we try to monetize our product.

Vasu Raja

Yes. This is Vasu. I'll just add that to what Robert said in this, but for our airline in particular, so much of how we create value and drive margins is by creating as many unique O&Ds as we can. And you've seen it through many quarters now where we've flown more capacity in the industry that can produce higher, but there are good nominal PRASM, at least as good, if not better than what our network competitors are, certainly in domestic and short haul. And a major part of that is the regional jet.

In this last quarter, we flew 20% -- we had 20% more O&Ds than what our next largest network competitor did. And in those markets, we are seeing yields that are 25% greater than what happened to the rest of the system. Indeed, that's what's really driving the yield growth that's there.

Many of those markets are where we see the high-value blended demand that Jamie asked about earlier. So indeed, not only is it something sustainable. It's something which is a unique feature of what we do and always will be.

Operator

And our next question coming from the line of Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Maybe we'll start where Savi just left off. So I guess, anybody could do what you're doing on the pay side, so it's hard to see how that's a unique benefit. So historically, on the regional side, that pay arbitrage was one of the reasons that profitability worked.

So why is -- why are pay increases like this the right answer from a profitability perspective? I understand why they might be the right answer from a small market, market share perspective. But why is that a better answer than your peers from a margin perspective?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Duane, let me start. First off, again, the days of being able to go out and attract a pilot for wages that are $40,000 a year, okay, are gone. I don't think that we're going to return to an environment where that is the type of compensation that regional pilots make.

It's a different world. And for pilots coming in, we're still not talking about exorbitant salaries. And I think that, that is something that, no matter the carrier, they're going to face the issues of having to pay higher rates for pilots.

That said, there is a uniqueness about American Airlines network that allows us to use on our regional network and our regional pilots in a fashion that produces outsized yield. That's what will differentiate us. It's not that, hey, we're going to go out and be able to have a slight difference in terms of pilot wages, and that's going to make the difference in terms of the margin we make as a company.

Vasu, do you want to add something?

Vasu Raja

Yes, I'll just add to it very simply, Duane, in an industry that has struggled for a long time to be able to pass its cost into revenue, at least for us, what we've seen time and time again with the regionals is anytime there has been a cost increase, that is the one part of the business where we can most consistently pass it through to revenues. And we do it because of what it does. It creates a unique product for customers that increasingly nobody else but American Airlines can go and do.

And when you look through our system, right, there's many of those markets that you simply couldn't upgauge. And even if you did upgauge it, flying to large cities, Birmingham, Alabama, Wilmington, North Carolina, once a day of a 737 doesn't really create a lot of utility for some of those really big metro areas in the U.S.

So for us, this is actually a place where by doing it, and frankly, by doing it through our wholly owned regional jets, which themselves are very massive airlines, it creates a lot of unique value for our customers, which turns into revenue for us.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Appreciate that perspective. And then just one thing that's a little confusing to me. Can you clear up the difference in characterization on corporate? A couple of your peers call it sort of 80% recovered.

Perhaps, you carried kind of less of that premium traffic going in. Maybe differences in hub geography explains it. But why do you see it as sort of fully recovered versus the 80%? And if much more of it is coming through your own distribution, how do you know it's corporate?

Vasu Raja

Yes. Thanks, Duane, and I think this is an important clarification because I think that, maybe throughout the industry, people use a lot of different words or the same words to mean different things.

Let me be really specific about what we do. When we talk about business, we talk about a trip type that is business. And this is Jamie's question. We're able to go and calibrate it on -- we ask customers, did you actually buy for business, and we can actually go and look at it. Was it a single person in the itinerary? They didn't check a bag. They did a day trip, likely business, right?

And so business revenue is that. And for us, historically, that business revenue has been 40% to 45%. Of that, a component of it, historically, there is a 60-40 split between what we consider unmanaged or small businesses and really managed businesses. These are large corporations that contract travel globally typically, right? They use large travel agencies to help them manage the program.

And so for us, what we see is that business revenue is indeed 40% to 45% recovered. The nature of it has changed materially, though, where that unmanaged business is 125% to 130% recovered. And that managed or contracted corporate business is indeed about 75% to 80% recovered, maybe consistent with other things that you've heard.

That, of course -- and that's the thing that we've been seeing for some time. This seems to be a relatively durable trend and one that will continue, which is that there's going to be more and more unmanaged businesses out there. And indeed, we see even with those accounts that are contracted corporate accounts, as we emerge from the pandemic, fewer and fewer of them are enforcing travel policies, are doing a lot of the things that they contracted to begin with anyway. So that's a trend, which we anticipate will continue. And hopefully, that clarifies the point, too.

Operator

And our next question coming from the line of David Vernon with Bernstein.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

So Robert and Derek, I want to talk a little bit about the rate of recovery in sort of either pretax or operating margins. You were down on pretax sort of 390 bps closer to ['19] in the second quarter. It looks the same on a September level.

And I'm just trying to get a sense for when we should start to expect to see those pretax margins kind of recover. And is that all 100% driven by volume recovery? Or is there something to do on the revenue side or the cost side to kind of accelerate the rate of change in the profit margin?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Well, I'll just start, David. Look, this gets back to the question that's asked earlier. We have a lot of redundancy built into the business. Utilization Isn't where we need it. I think that as we take a look to the future, we're depending on a couple of things.

One is, fortunately, we're in a really strong revenue environment. And as we're looking to the third quarter, anticipating

(technical difficulty)

a good revenue environment. And as we're looking to the third quarter, anticipating 20% to 24% increases in TRASM versus 2019.

From a cost perspective, that's where we would like to see unit cost come in lower. And the big driver to that is making sure that we fly a more fulsome schedule and take out the redundancy that we have built in. And it gets back again to how quickly we can get these jets back up, from a regional perspective, get the 787s back in.

And my view is that, that's the name of the game for us as we go forward. And as we take a look into the rest of 2022 and 2023, our goal is to make sure that we're utilizing our assets as hard and fast as we can.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And if I'm going to play devil's advocate and say this isn't necessarily the case that we're thinking about, but in a world where we don't get that capacity recovery, the conversation within the company or the Board around maybe restructuring that asset level, that resource level to some new level of lower.

Not saying that's the base case, but I'm just wondering, as you guys think about managing the organization through the next couple of years here, if we end up in a world where that next 10% of ASM, the demand just isn't there. What are the levers that you could pull to maybe get the resource level down?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

David, I mean, you've nailed it. We will size the airline for the demand that's out there. So right now, there's more demand than we'd like to be servicing. We have the capacity to be able to do it. But as time goes forward, if that demand doesn't materialize, what we will do is we will size the airline appropriately.

We have flexibility within our fleet to be able to take out, I believe, everything that we would need to in terms of matching demand going forward. And on top of that, then we would size the resources around it, including all of the people resources.

Now on that front, we have great flexibility because we're hiring so many folks just to make sure that we can run the airline as we need to. So whether it's a people perspective, whether it's a fleet perspective, we have the ability to size the airline for the demand that's out there.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. And I'll add some numbers there, David. In 2023, we've got 95 lease renewals; 2024, 72 lease renewals. We have unencumbered aircraft of over 200 aircraft. We have deliveries coming in, in 2023. We have 31. In 2024, 47.

So that is exactly right. What you said is what we would do. We're not there yet because we believe that the demand is there to get more of these aircraft up. But if we see that, then that is what we would do is not renew leases, push deliveries like we have in the past.

You saw us last quarter push out some deliveries on the 789s and make sure that we rightsize those. And then we would take some of the unencumbered assets, and we would move those and sell those and not put them back up in the air. So that's where we would go. You're exactly right.

Operator

And our next question coming from the line of Daniel McKenzie with Seaport Co.

Daniel J. McKenzie - *Seaport Research Partners - Research Analyst*

Going back to the commentary of more margin growth over time, setting aside market expectations for a recession and just putting a finer point on a prior commentary, all else equal, based on what you see today, are the initiatives in place to offset the structurally higher costs in this next cycle?

So just putting a finer point on getting back to margins in the last cycle or actually exceeding those because, in the past, the commentary seemed pretty bullish for doing a little bit better than what you've done on your historical margins.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Daniel, thanks for the question, and others might chime in here, too. I'll bring us back a little bit because I think the -- what we're focusing on right now is getting back to sustained profitability. So we've reported within guide this quarter, despite really challenging operating conditions, we're expecting profitability as we go into the third quarter. And our intent is to stay in the black, okay?

That's job #1. As we go out, it's still a murky environment out there, right? We're recovering from the pandemic, and we're doing so well. We know that demand now is back and back strong. There are so many constraints out there in terms of aircraft deliveries, in terms of just people and pilots that, look, we think that we're going to be in a position where we have the ability to improve revenue performance and get higher utilization out in the assets that we have.

That bodes well for the future, but I'm reluctant to look too far out into 2023,and say that there are certain margins that we will or will not hit. And I'll leave it at that, unless anybody else wants to chime in.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

No. But I would say, yes, that is our goal and that we know where we were in 2019. We know what those pretax EBITDA margins are. Getting the asset utilization back up where the demand environment is would get us back to those levels.

So it is all about moving forward, getting the asset utilization where it needs to be, get the aircraft back up in the air, and we can reach those levels for sure.

Vasu Raja

And Dan, let me pick up where Derek left off, too. In this way, if you think about American Airlines prior to the pandemic, we flew more capacity than many of our competitors, but we've produced certainly lower nominal PRASM than what many of our -- certainly, what the industry leader at the time was.

And through the pandemic, we've done a lot. In fact, this is Robert's commentary really. We didn't just simplify the fleet. We also concentrated the network where 70% to 75% of it is flying in places where we can create really outsized consumer value, Sunbelt, NC, L.A., Heathrow.

And we've really leaned hard into partnerships to create value where we couldn't organically. And now we're in a place where, really for a couple of quarters, we can fly 5% to 15% more capacity than the 2019 PRASM leader, but produced PRASMs that are pretty comparable to that.

So that's when we say getting asset utilization up and running, it's a meaningful thing, but the thing not to be lost is that doesn't mean we're putting back 2019. Like there's not a world where we're going to go back into flying money and losing flights for strategic purposes or things like that.

There's not a world where we go and complicate it. But there is one where we've really realized the more unique O&Ds we create, the more that turns into real revenue production for the airline. And that's the basis to go build off of and, from that, a lot more as possible and will be.

Daniel J. McKenzie - *Seaport Research Partners - Research Analyst*

Yes. Understood. A question on the regional operation. What does it look like 1 to 3 years from now, same size, smaller? And as you look at the percent of the regional network that's competing against mainline aircraft, where is that today? And is -- where would you like to see it? And is that an opportunity for helping to drive margin expansion? .

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Daniel, it's absolutely been an opportunity to drive margin expansion. First goal is to just get all the aircraft that we have back up and flying. And so our fleet is -- our regional aircraft is roughly 600 aircraft. Love to get those back up.

And over time, there will be changes in terms of mix to that fleet, but it will be based on how effective it supports our hubs and the rest of the mainline operation, too. So first goal and one that I think will take the next couple of years for sure is to get to all 600 back up and flying.

Operator

Our next question coming from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

I echo Jamie's comments. I don't know if you guys were screening for airline analysts going into Heathrow, but my experience of American was pretty good.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

All right. That's what I'd like to hear.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Maybe just talking to your other large hubs. If you could talk about unit revenue in JFK and LAX, you mentioned in your prepared remarks it's outperforming the total system. Can you maybe provide some color on that? Is that relative to 2019 or on an absolute unit revenue basis across the system?

Vasu Raja

Thanks for the question. This is Vasu, and the answer is both. To Robert's specific point, that is compared to our system in absolute, but let me provide a little bit of context behind the point.

For us, historically, in New York, especially New York Kennedy and L.A., American Airlines typically produce unit revenues that were, let's call it, 90% of what the industry produce to its domestic system. And now those are starting to get -- both in New York Kennedy and in Los Angeles, we're starting to produce unit revenues that are much more in line with the domestic system.

This is material for us because our largest hubs where our capacity concentration is still great are able to produce unit revenues at a real advantage to what our competitors are able to do. So we were able to go and serve these markets with higher unit revenues as it bleeds through. It's something that we tend to look at really, really closely.

But what we're really most encouraged about in New York and L.A. is this isn't just a function of going in there and cutting a bunch of flights or growing RASM. We've improved the consumer proposition that's there. In New York, certainly, we -- between American Airlines and JetBlue, our Northeast Alliance has put back more capacity sooner than anybody else.

We've launched new routes. We've taken the American Airlines metal in the market like Doha and India that 2 or 3 years ago would have been relatively unthinkable, and our consumers are responding. We're seeing originating market share, both in that partnership and also our West Coast partnership with Alaska. And that's coming directly away from our large network competitors.

So we're encouraged by the whole thing. And really, the context for it is this consumer proposition is starting to bleed its way into the unit revenue results, and that's most encouraging of all.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then maybe just following up on the regional questions. Is there any way to think about the current impact of subdued regional operations on the mainline operation and the traffic you're missing out on?

Vasu Raja

I'm sorry. Could you repeat the question, Sheila? We missed a part of it.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Sorry. Can you -- just talking about the regional operations, is there any way to quantify how much you're missing out on traffic because of subdued regional operations?

Vasu Raja

Because of subdued regional operations, got it. It's really difficult to do, and we've actually taken a couple of cuts at it because the reality is that this is such a sort of unprecedented time of the industry where there are so many constraints on the infrastructure, so many issues with aircraft deliveries, resources, things like that, that it's hard to really isolate what affected it .

In fact, when we look at it, what we find is through the pandemic, we've been able to sustain a lot more of the connectivity of our system through the regional jets. And those places where we've sustained the connectivity are really what's driving our yield growth. And it's bringing in new customers that are not in necessarily large coastal metro areas.

So it's hard to kind of isolate it just because there are so many variables at play, but from Robert and Derek's commentary, the regional jet, especially the wholly owned regional jet, is really key to helping our mainline fleet grow and recover its utilization.

Operator

And our next question coming from the line of Andrew Didora with Bank of America.

Andrew George Didora - *BofA Securities, Research Division - Director*

Vasu, just a question on your 3Q revenue guide. When I look at other airlines, I think you guys are now the one that's not pointing to a sequential acceleration in total revenue growth 2Q to 3Q. Why do you think that is? And are you just trying to be a little bit more conservative given what's going on out there in the macro environment right now?

Vasu Raja

Well, let me start by saying we're actually really encouraged by demand. I mean, the demand for our products has been high in like a historical way. That continues. And indeed, the way demand is coming back is both really encouraging and somewhat different than what was there before from my earlier commentary.

But really, when you see when you go from 2Q to 3Q it is, first of all, just a change in capacity production. We're taking a more conservative view of just how we size the airlines and the resources we have, per Robert's comments, and that impacts a lot of it.

And then beyond that, really, there's a wide range that we have in unit revenue production because we're really encouraged by the trends that we see. But if we've learned anything over the last couple of quarters, things could go change a lot. But right now, our optimism -- we see nothing really materially that would dilute our optimism in any way.

Andrew George Didora - *BofA Securities, Research Division - Director*

Okay. Understood. And then I've just been thinking, given the operational challenges across the entire industry, do you think that all -- that's going to influence the way maybe corporate's willingness to travel come the fall? Have you or Robert have had any conversations with kind of your big managed corporate clients that have maybe expressed concerns over this operational reliability? Just curious your thoughts on that.

Vasu Raja

Look, I'll start and then others can pick up, too. Part of it -- and this kind of goes to some of my earlier commentary. One of the things that we're seeing is that like large corporate -- large contracted corporations are starting to just use different tools than what they had before. Prior to the pandemic, if corporations wanted to go and manage travel behavior, they could create more elaborate travel policies and hire a range of consultants and other firms to help manage that.

But now through the pandemic, video conferencing has become normalized. There's a lot more flexibility in the workplace and things like that. And so what we see actually is, in a lot of cases, corporations, though they may be -- they may not be enforcing travel policies as much as there was before, there is a lot more latitude.

And so we'll see customers who will often just fly out of their travel policy, will pay more for a service that might have been there before, but they might be traveling less if they're worried about, for example, issues at London Heathrow.

So at large, we're really encouraged by what we see. But the way corporations are probably going to go and manage as a practical matter, it's probably going to be very different than what was there. And we see that in the data, right? There's fewer people who are very unconforming to a travel policy. It's hard to see how that changes. But that's not necessarily a bad thing because we continue to see demand come in, and we're encouraged about where it may go, even if it goes to -- if it comes back differently.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

And Andrew, I'll just add one other point, and it's just this. Look, travel is coming back in record numbers, which is fantastic. And we have set really, really high standards for ourselves in terms of operational reliability. We, look, start out every day doing everything we can to get every single passenger, every flight to where it used to go on time.

But if you take a look at really what's going on in the second quarter, okay, we're not that far in terms of overall operating performance from where we have been historically. As a matter of fact, in the second quarter, American did better than it did in 2019. And if you take a look back at prior quarters of history, we're not that far off from other points as well.

The fact of the matter is, is that, look, we have operating conditions that we have to be sensitive, too. I can't nor can anyone else do anything about 27 out of 30 days of really severe weather in a number of our hubs that just ultimately result in flight canceling and that rolling from day to day.

And when we talk about weather, please understand this. It's not weather, it's safety, okay? When there are air traffic control programs, when there's weather, when there's -- we're doing -- we're taking access to make sure that we ensure the safety of our folks, of not just our customers, but also the people on the ground.

When ramps close, it's due to widening strikes. And so those kind of things are things that we're always going to take into account. And you know what? There will be seasonal variability to what we do.

Everybody is working very hard. I know that our government partners are working very hard. The airlines are working very hard, and I know that the rest of the world will get to where the United States is, which, in the scheme of things, United States is doing very well compared to the rest of the world.

Operator

And our next question coming from the line of Stephen Trent from Citi.

Stephen Trent - *Citigroup Inc., Research Division - Director*

I just wanted to go back to something you mentioned earlier about investments that you've been making that have affected your near-term cost. I think people are pretty aware that you guys are making a big effort on the pilot side, and that makes sense. But could you elaborate maybe outside of crew whether you're making digital-type investments or other processes that can improve your throughput?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Yes. Let me ask Maya Leibman, our Chief Information Officer, to step in here.

Maya Leibman - *American Airlines Group Inc. - Executive VP & Chief Information Officer*

We're super excited about a lot of the digital enhancements that we've been making. I'll separate them, as Robert said, into our main goals of operational reliability and profitability.

On the reliability side, we've done so much to really shore up how we're responding in irregular operation to bring our crews back together. We've also really enhanced some focus on how we do gating at some of our larger airports, like Dallas and Charlotte. And when we get better at that, what happens is we reduce the taxi times. So we save fuel. We dedicate more time to the turn, and we better utilize our assets.

We've also done some interesting work in creating algorithms that help us, especially in markets like Charlotte, where we get these pop-up thunderstorms, where we can actually slow down the operation a little bit rather than use sort of a blunt force instrument, like canceling an entire bank. So while flights may get a little bit delayed, at least they arrive as opposed to what we were doing previously.

On the profitability side, we've done so much in terms of putting new products in the market like the ability to upsell to a higher cabin, which gives us -- we'd have more flexibility in how we price that product and the channels that can be purchased in. We've done a lot of improvements in overbooking technology. In a world where there's no change fee, there's a lot more volatility when it comes to cancels, closing cancels and no-shows, and we have to have a better overbooking strategy for that.

You've heard Vasu mention how important our partnerships are and how we rely on them for revenue generation, where we need to create a much more seamless experience for our customers when they're traveling on us and for example, JetBlue or Alaska.

And finally, you also heard Vasu talk about the loyalty program and how we have used it to really grow. Our co-brand spend, our enrollments are up, and engagement with the program is really up. So those are just a few of the things that we're doing.

Operator

And I will now turn the call back over to Mr. Isom for any closing remarks.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Well, I'll just -- I'll close with -- pardon me. We're going to go to media next. Okay. Great. Media next.

Operator

(Operator Instructions) First question coming from Alison Sider.

Alison Sider

Just curious if you could share anything if you're seeing any delay or disruptions that are tied to not having enough spare parts or engines, if there's any kind of supply chain types of issues you're seeing there.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Thanks, Ali. I'll have our Chief Operating Officer, David Seymour, take that one.

David Seymour - *American Airlines Group Inc. - Senior VP & COO*

Yes. Ali, appreciate the question there. Yes, that's something throughout the pandemic that we've been monitoring very closely working with our large OEM partners throughout to stay ahead of that. And so we've been doing a lot to provide forward look at what our requirements are.

So while we know the supply chain systems are tight, we've taken a lot of steps throughout the pandemic to stay ahead of that. And so right now, we're not experiencing those. But again, we know that they're not far away, and we're going to continue to monitor the coast.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Yes. And Ali, I'll just say the biggest supply chain issue has been the aircraft manufacturers themselves. We haven't had the kind of delivery certainty that we'd like. So we know that our friends at Boeing and Airbus are working hard to get that back on track.

Alison Sider

And then I guess, just on hiring, do you still have a lot of hiring left to do? Or has it shifted more towards just training and getting everyone up to speed and sort of up to the level of experience?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

So Ali, I'll start on this. Look, at American Airlines, I know we have 12,000 more team members in position, but that resulted -- is a result of 20,000 team members that we've had to bring on board and get up to speed. We're behind 2,200 pilots, both this year and next year. We've done a great job, I think, in just about every other rank within our team to get the right people on board.

So from an American Airlines perspective, we're doing a good job. Of course, we'd like for the regionals to have more supply of new pilots, but we're working hard on that. Over the long run, though, coming to American Airlines is -- it's not only a great career, great competition, great benefits. The time to get here is now because if you ever want to get in and build seniority or take on a new role and lead, it's a good time to come to America.

Operator

Our next question coming from the line of Mary Schlangenstein with Bloomberg.

Mary Schlangenstein

Derek, I wanted to see if you could clarify one thing. You said you have 140 to 150 planes on the ground, but you referred to mainline equivalent aircraft. So can you be a little more specific? You've got 100 regional jets. And then what makes up the rest of that number?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. The mainline equivalent, our mainline aircraft, but what we've done is, instead of pulling aircraft out of the schedule, we lowered the utilization on those aircraft. So if you normally fly 10 hours a day, we now fly 9 hours a day. And if you take that hour across the entire fleet, it's equivalent to about 44, 45 aircraft. So we haven't really pulled anything out of the schedule. We've floated.

Now as we look forward, I think the right answer is we pulled down capacity in the third and fourth quarter, is to probably take some of those aircraft out and utilize them for spares and for maintenance lines and utilize them to make the reliability better in the airline.

So I think as we go forward, we'll do it a little bit differently than we have and not -- and we'll raise the utilization on the rest of the fleet, but take some aircraft out to provide relief for David and his operating team to have more aircraft for maintenance and more aircraft for spares.

Mary Schlangenstein

Okay. Great. And how long do you expect that conditions in the industry are going to require American to limit its capacity?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Well, look, Mary, if I knew the answer to that one, we're getting really good in position. But look, I think it's dependent on the supply chains, aircraft manufacturers and, ultimately, pilot supply to get all back in sync.

We're doing our part. And as we've talked, we look at, from a mainline perspective, kind of getting everything back fully utilized over the course of this next year or so. And then from a regional perspective, it's just going to take a little bit longer than that, maybe 2 or 3 years, to kind of get the supply chain for pilots back to where we need it to be. So that's the way I look at it.

Overall, I am confident that everybody is getting back to work, and the variability will hopefully be reduced. And the kind of operating performance will improve from where it was even pre pandemic.

Mary Schlangenstein

Right. And when you refer to supply chains, are you actually talking about physical, like assets, like supplies that Ali asked about? Or are you talking more and predominantly about pilots alone?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

So well, pilots are one piece. But what I'm speaking of is, Mary, there's not a day that goes by where we don't have issues with provisioning our aircraft with pillows, blankets, plastic cups, food. At various times, we have issues with fueling. It's just -- the concessionaires at the airport. It's just a myriad of things that have to -- that all have to come together to put an aircraft in the air.

And yes, the supply chain for aircraft parts is one thing that we monitor closely. But it's all these other things that we really are dependent on so many other parts of the system. And then, again, I mentioned our government partners, it's our airport partners, and it's so many others. We -- aviation touches just a broad swath of the economy. And we need it all to get back to working really well.

Operator

And our next question coming from the line of Kyle Arnold with Dallas Morning News.

Kyle Arnold

You mentioned the capacity trim in the third and the fourth quarter. Considering that July is almost over and the summer travel season, you have about a month left in it, where are you looking at making those costs? Are they going to be coming after the peak summer demand is over? And what kind of demand, I guess, are you seeing for the fall? And does that play into these capacity cut decisions?

Vasu Raja

Yes. Kyle, thanks. This is Vasu. So first, a number of the cuts that we talked about have already been loaded into our published schedules that are there. And then as we go into fall, effectively, we're going to take capacity in places where it can create the most operational benefit, which means, one, it can go and turn into the best quality -- the best level of reliability for our customers and also where we can reaccommodate people the best. So we've minimized any passenger disruption.

And then as we go forward into later September, October and deeper into the winter, we have time yet to go and figure out how that goes. There's still a number of things that we're looking at before we make that determination.

Operator

Our next question is coming from the line of Holden Wilen with Dallas Business Journal.

Holden Wilen

I just wanted to, I guess, get your thoughts on elasticity and if you have any concerns about that going forward. We're seeing fares continue to go up. Do you have any concerns about as shares go up, what effect that might have on elasticity going forward?

Vasu Raja

Thanks for the question. This is Vasu. And no, we don't spend a lot of time worrying about it just for one simple reason that what we try to do is create the most value for our customers. And when they like it, they pay us for it.

And so a lot of what you see out there is so much demand that's surging back into travel. As people went through the pandemic, the -- you see in tons of data that consumers create experiences, and there's no experience like the experience of travel. And it's bringing a lot of people back. And a lot of people are coming back and doing things for very different reasons than before. And so that's what's really driving things as much as anything.

And concepts such as the elasticity of our demand, while it's probably intellectually satisfying to talk about it, the reality of it is that consumers really like what they're getting, being able to go and travel the world again, and they're taking advantage of it. And that's turning into relatively higher fares.

Holden Wilen

And then just a second -- my other question. You talked earlier about the issues at Heathrow. Just curious about maybe if you could talk about where you're sort of at overall from a recovery standpoint within international travel.

Vasu Raja

Yes. I can pick that up, too. So look, this -- the second quarter was very robust. Even though we didn't have all of our -- the wide-bodies that we had planned to take, nonetheless, those that we had performed extremely well.

We have -- there's a lot of pent-up demand for people going internationally, wherever that might be, transpacific, transatlantic and long-haul South America. And we anticipate that, that will continue through the year.

Now in the summer, the international testing requirement was dropped. And while we saw some benefit of that, it was dropped pretty deep into the booking curve. We anticipate there will be -- that they'll have a much more significant impact on travel demand as we go into the fall. And already, we're seeing indications of it.

And last but not least, short-haul international, Mexico, Central America, the Caribbean, has been and remains extremely strong for American Airlines, and we anticipate that will be the case going forward.

Operator

Our next question coming from the line of Lori Aratani with Washington Post.

Lori Aratani

I wondered if you could go over the hiring numbers again, how many folks you've brought on, how close that gets you to where you want to be. And as a question on that, how much of the staffing issues are hiring versus training?

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Thanks for that question. Look, our staffing issues are really making sure that we can cover the variability that's in the operations today. We have more people per flight hour per flight than we have ever had in our company's history on duty. What we're dealing with right now is just a lot of variability in the operating environment.

To get to the point where we are now, we've added 12,000 positions, gone out and hired 20,000 people to actually fill those and cover for other attrition. The only shortfall that we have right now is really among our regional pilots.

Of course, we're going to do things to make sure that we run the airline as reliably as possible and also take into account more extreme variability in operating conditions. We're doing that by pulling the schedule down a little bit as we go into the third quarter. But we hope that all the work that we've done puts us in a position where we can restore service, get back up to speed as quickly as possible.

Operator

And that does conclude the media Q&A. I will now turn it back to Mr. Robert Isom for closing remarks.

Robert D. Isom - *American Airlines Group Inc. - CEO & Director*

Thank you so much. And I'll just close with this. I am so proud of our team after fighting through this global pandemic for the last 2.5 years, battling every step of the way, persevering, caring for customers and each other every single day.

We set a couple of goals. One is to return to profitability and to run the most reliable airline we could. And I am so pleased to report that we have returned to profitability. We intend to stay that way. And I know that our team is intent on making sure that we produce the kind of products that we're all proud of and that our customers want to fly.

So thanks for listening in, and we'll talk to you next quarter.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect. Good day.