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OVERVIEW:
Co. reported 2018 total operating revenues of $44.5b, net profit (excluding net special items) of $2.1b and diluted EPS (excluding net special items) of $4.55. 4Q18 total operating revenues were $10.9b, net profit (excluding net special items) was $481m and diluted EPS (excluding net special items) was $1.04. Expects 2019 diluted EPS (excluding net special items) to be $5.50-7.50.
CORPORATE PARTICIPANTS

Daniel Cravens  American Airlines Group Inc. - MD of IR
Derek J. Kerr  American Airlines Group Inc. - Executive VP & CFO
Donald B. Casey  American Airlines, Inc. - SVP of Revenue Management
Robert D. Isom  American Airlines Group Inc. - President
William Douglas Parker  American Airlines Group Inc. - Chairman & CEO

CONFERENCE CALL PARTICIPANTS

Brandon Robert Oglenski  Barclays Bank PLC, Research Division - VP & Senior Equity Analyst
Catherine Maureen O'Brien  Goldman Sachs Group Inc., Research Division - Equity Analyst
Duane Thomas Pfennigwerth  Evercore ISI Institutional Equities, Research Division - Senior MD
Helane R. Becker  Cowen and Company, LLC, Research Division - MD & Senior Research Analyst
Hunter Kent Keay  Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense
Jamie Nathaniel Baker  JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst
Joseph William DeNardi  Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst
Kevin William Crissey  Citigroup Inc, Research Division - Director and Senior Analyst
Michael John Linenberg  Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst
Rajeev Lalwani  Morgan Stanley, Research Division - Executive Director
Andrew Tangel
John Biers
Leslie Josephs
Mary Schlangenstein
Robert Silk
Tracy Rucinski

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth Quarter American Airlines Group Earnings Conference Call. (Operator Instructions)

As a reminder, today's conference may be recorded. I would now like to turn the call over to Mr. Dan Cravens, Managing Director, Investor Relations. Sir, you may begin.

Daniel Cravens  American Airlines Group Inc. - MD of IR

Thank you, and good morning, everyone, and welcome to the American Airlines Group's Fourth Quarter 2018 Earnings Conference Call. With us in the room this morning is Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also in the room for our Q&A session are several of our senior execs, including Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management. Like we normally do, Doug will start the call with an overview of our
financial results. Derek will then walk us through the details on the fourth quarter and provide some additional information on our 2019 guidance. Robert will then follow with commentary on the operational performance and revenue environment. And then after we hear from those comments, we will open the call for analyst questions and lastly, questions from the media. (Operator Instructions)

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecasts of capacity traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to 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 issued this morning in our Form 10-Q for the quarter ended September 30, 2018. In addition, we will be discussing certain non-GAAP financial measures this morning, such as pretax profit and CASM, excluding unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings release, and that can also be found on the Investor Relations section of our website. A webcast of this call will be archived on the website, and the information that we're giving you on the call is as of today's date, and we undertake no obligation to update that information subsequently. So thanks again for joining us. At this point, I would like to turn the call over to our Chairman and CEO, Doug Parker.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Thanks, Dan. Thanks, everyone, for being on. We reported fourth quarter and full year 2018 earnings this morning. For 2018, we had a pretax profit, excluding special items, of $2.8 billion for the year. Look, 2018 was a challenging year for us financially. Higher fuel prices per gallon drove an increase in our total fuel expense by $2.2 billion versus 2017, and that led to about a $1.4 billion reduction in our pretax earnings. We also had a difficult operations environment during the summer, but we enter 2019 with great momentum and excitement. Derek and Robert will cover this in a lot more detail, but we are dedicated on improving our operations reliability. And that work has already taken hold, and we're excited about how we'll perform going into -- throughout 2019. We have over $1 billion of revenue and cost initiatives that are well underway, that we know are going to help us to improve our earnings in 2019 versus '18. We're growing where we have a competitive advantage, thanks in large part to our ability to grow at our largest hub in Dallas/Fort Worth, and we are nearing the end of our unprecedented post-merger capital expenditure capital requirements, which Derek will talk a little more about.

So we feel very good about where we're positioned. Our team's doing a great job, and we couldn't be more proud of the work they're doing to take care of our customers, and we are really looking forward to 2019. Consistent with that optimism, we provided some 2019 EPS guidance this morning that has -- that Derek can talk more about. So there's a relatively wide range, but the middle of that range will have our EPS up about a little over 40% higher than what we announced for 2018.

So with that said, I'll turn it over to Derek to give you a lot more detail.

Derek J. Kerr - American Airlines Group Inc. - Executive VP & CFO

Great. Thanks, Doug, and good morning, everybody. I'd like to start by recognizing our team, who did a great job of taking care of our customers during the busy holiday travel period. Despite challenging weather conditions at some of our hubs, the preparation and teamwork of our operations group was evident, and it made a real difference for our customers. So from all of us, I want to thank you all for all your efforts. We filed our fourth quarter and full year 2018 earnings press release this morning. While fuel prices fell during the quarter, our average fuel cost per gallon was 17.5% higher than the same period last year. Excluding net special items, we reported a fourth quarter net profit of $481 million in 2018 versus 2017 fourth quarter net profit of $444 million. For the full year, our net income, excluding net special items, was $2.1 billion, down 18% versus '17 on a 29% increase in average fuel price. Our diluted earnings per share, excluding net special items in the fourth quarter, was $1.04 per share, up from $0.93 per diluted share in the fourth quarter last year. And for the full year of 2018, our earnings per diluted share, excluding net special items, was $4.55.

Our fourth quarter pretax profit, excluding net special items, was $634 million, with a pretax margin of 5.8%. And on a full year basis, also excluding net special items, we earned pretax income of $2.8 billion on a pretax margin of 6.3%. The fourth quarter of 2018 was American Airlines' ninth consecutive quarter of year-over-year total operating revenue growth, which was up 3.1% to $10.9 billion. This represents the highest fourth quarter total operating revenue in American Airlines history.
For the full year, total operating revenues were also a record, up 4.5% to $44.5 billion. On a unit revenue basis, total RASM was up 1.7% for the fourth quarter and up 2.4% for the year. This growth was driven by the continued enhancements of our revenue management system as well as the positive impact of our Basic and Premium Economy products, which helped drive the 2.9% improvement in passenger revenues for the fourth quarter to $10 billion. For the year, total passenger revenue was up 3.9% to $40.7 billion. Our cargo team finished the year with an excellent fourth quarter, increasing revenues by 3% to 2-point -- or for $264 million. This growth was due primarily to higher cargo yields. And for the first time ever, our cargo revenue exceeded $1 billion for the full year. So congratulations to the cargo team. They worked hard to reach this milestone, and we look forward to growing this segment of our business in 2019 and beyond. We’ve seen strength in our loyalty program all year, and that trend continued in the fourth quarter, driving other revenues higher by 6.3% to $712 million for the quarter. Full year 2018 other revenues were $2.9 billion, an increase of 9.7%. Total operating expenses in the fourth quarter of 2018 were $10.4 billion, up 4.2%, due primarily to a 19.6% increase in consolidated fuel expense.

Turning to the balance sheet. We ended the quarter with approximately $7.6 billion in total available liquidity.

During the quarter, our treasury team completed several transactions, including upsizing and extending our existing $2.5 billion [revolver] to $2.8 billion, while improving the undrawn economics. We have committed financing for all mainline aircraft deliveries through 2019 -- through June 2019, excuse me, and continue to evaluate financing options for our remaining mainline and regional aircraft deliveries in 2019.

In 2018, we made contributions of $467 million to our defined benefit pension plans. For 2019, we now intend to make contributions of $800 million, up slightly from the $780 million that we projected in our last earnings call. Rising interest rates have helped our pension liability and brought it down by $1.4 billion. However, the selloff in risk assets in the fourth quarter resulted in a negative asset return for the year, driving the increased contribution in order to maintain our desired funding status for all of our plans.

During 2018, we lowered our adjusted debt, including pensions, by approximately $760 million. We anticipate our 2019 year-end adjusted debt will be lower by more than $1 billion compared to year-end 2018. Over the next few years, this trend is planned to continue as we pay down our existing obligations and our new aircraft deliveries slow significantly after 2019.

During the quarter, we did adopt early the new lease accounting standard, which requires leases to be recognized on the balance sheet as liabilities with corresponding right-of-use assets. The early adoption of this standard benefited pretax income, excluding net special items, in the fourth quarter by $54 million, of which a significant portion relates to prior quarters in 2018. We will recast 2018 quarters for the adoption of the new lease accounting standard in our 2018 10-K filing. We did not purchase any stock during the quarter of 2018, leaving our available authorization for stock buybacks unchanged at $1.65 billion. We continue to believe our stock is undervalued. Unfortunately, the fall of oil prices, which improved our liquidity outlook at the end of the year, occurred during a closed trading window. And as a result, we were unable to resume stock repurchases during the fourth quarter despite ending the quarter $600 million above our threshold. However, our plan is still to return excess cash above our $7 billion liquidity threshold to our shareholders, as we have done in the past.

We filed our Investor Relations update this morning, which includes our guidance for the first quarter and full year 2019. We anticipate our capacity will grow approximately 3% during 2019, with growth in approximate -- of approximately 1% in the first quarter. The full year capacity growth will come primarily from incremental flying out of our new gates at DFW, our most profitable hub, to be worth about 2% of that growth as well as our fleet harmonization project, that is adding seats to our existing narrowbody aircraft, that’s about 0.5%, and allows us to grow capacity in an extremely efficient way. Given the timing of these 2 initiatives, we expect that our capacity growth will be weighted more towards the back half of 2019.
For the full year, we expect our cost per ASM, excluding fuel and special items and new labor deals, will grow at the top end of the 1% to 2% range that we gave previously. This is higher than previous guidance due to an increase in sale leaseback transactions on our aircraft and higher-than-expected growth in profit sharing on larger expected earnings improvement.

Overall CASM growth in 2019 is primarily driven by increased maintenance expense from required engine overhauls, increased airport rent expense at our hubs and higher earnings-related salaries and expenses, primarily from increased profit-sharing. Due to the ASM growth weighted in the back half of the year, our annual CASM increase will not be spread evenly throughout the year and will be front-end loaded.

For the first quarter, our CASM is expected to be up approximately 4% year-over-year. This rate of growth is the highest of the year due to the lower ASM growth as well as the timing of aircraft maintenance, salaries and benefits and selling expenses throughout the year. CASM growth is expected to decelerate to approximately 2.5% in the second quarter and further decline to approximately 1% in the third and 0.5% in the fourth for 2019. Fuel prices fell sharply at the end of the fourth quarter 2018, and we anticipate lower fuel expenses during 2019 based on the forward curve as of January 22. We are forecasting a decrease in consolidated fuel expense of 8.4% or approximately $830 million for the full year 2019 as compared to '18. We expect our average fuel price will be between $1.97 and $2.02 per gallon in the first quarter and be around $1.99 to $2.04 for the full year.

We also guided to our first quarter 2019 TRASM increase of flat to up 2%, and Robert will provide more details on our revenue guidance in his remarks. With this revenue and cost guidance, we expect our first quarter 2019 pretax margin, excluding net special items, to be between 2.5% and 4.5%.

Finally, we anticipate that our earnings per diluted share, excluding net special items, will be between $5.50 and $7.50 in 2019, and as Doug said, an increase of approximately 40% at the midpoint over our 2018 adjusted earnings per share. This forecast includes our expectations of an incremental $1 billion in revenue improvement and $300 million in cost reductions from the One Airline initiative I talked about earlier.

We expect total capital expenditures for 2019 of $4.7 billion. This will include $3 billion in aircraft CapEx as we take delivery of 31 new large regional jets to replace 50-seaters, along with 37 narrowbody aircraft to replace our MD-80 fleet that will retire after this summer and also an additional 2 787 aircraft. In line with previous guidance, we continue to expect that our non-aircraft CapEx will be $1.7 billion in 2019. Total CapEx is presently expected to fall to $3.3 billion in 2020 and $2.2 billion in 2021, as our fleet renewal program winds down.

So looking forward, 2019 will be an exciting year for American Airlines. We are executing on more than $1.3 billion of annual revenue improvement and cost revenue initiatives, and when combining that with additional – with the additional of high-margin growth at our most profitable hubs and planned operational improvements, we expect significant earnings growth in 2019. And with that, I will turn it over to Robert.

Robert D. Isom - American Airlines Group Inc. - President

Thanks, Derek, and good morning, everyone. Before I begin, I, too, would like to thank our team. 2018 was a challenging year for our company as we faced rising fuel prices, difficult weather conditions, the uncertainty of trade wars and the early stages of a government shutdown. Despite these challenges, our team did a fantastic job of taking care of customers and each other. These actions most certainly made a difference and demonstrated our resiliency. We're a team that collaborates, adapts and continues to move forward. So from all of us, thank you, again, for a job well done.

Operationally, since the merger, we have been making steady progress in improving our core operating metrics, but we fell short in 2018 of our targets. On our last earnings call, we highlighted some of the initiatives we are undertaking, including making the fleet ready to go each morning, making sure that we resource our team to turn aircraft throughout the day. We also continue to evaluate and fine-tune our planning processes to ensure that we are ready to deliver better service during peak schedule periods. These efforts are starting to pay off.

During the December holiday period, our system-level on-time departure performance improved by 4.5 points year-over-year, and our completion factor improved by 1.3 points. At the hub level, we saw double-digit improvements in on-time departures at Reagan National, New York, JFK and LaGuardia and Philadelphia. We also saw a 25% improvement in mainline aircraft out of service during that same period. We're encouraged with the progress we have made thus far and look forward to keeping that going in 2019. We also completed another major integration project in the
Switching gears from integration work to product. Throughout 2018, we made great progress improving the overall experience for our customers. We've invested $25 billion in our team, in our facilities, in our product and fleet since we merged 5 years ago. That $25 billion represents the largest investment of any carrier in the history of commercial aviation in such a short time period. These investments are transforming our product and creating a consistent and reliable airline for this coming year and long into the future. On the product side, we've now activated free live TV on 270 aircraft, and we continue to be the only U.S. carrier to offer live television on international flights. We believe our customers want faster and more consistent connectivity for work and to stream entertainment to their mobile devices. Our installations of high-speed WiFi and in-seat power throughout our long-term domestic fleet are on track, with 570 mainline narrowbody aircraft already complete. All planned narrowbodies will be done by the middle of this year. And if you haven't experienced the ease and speed of this connectivity, you're in for a terrific experience. In addition, we launched new fresh food items from Zoës Kitchen in our main cabin, and the uptake has been extremely positive. We're also growing our network of Flagship First Dining and Flagship Lounges, with DFW opening in the second quarter. Admirals Club network updates are also underway, with facility refresh projects in Boston, Charlotte B Concourse and Pittsburgh in the first half of 2019. For network, we added new international service in 2018 to Reykjavik, Budapest and Prague, which were all very well received by our travel agent and cruise partners. This year, we'll continue to play to our network strengths with high-margin growth planned for Dallas/Fort Worth and Charlotte hubs. At DFW, we're adding 15 new gates and roughly 100 departures per day. These additional departures will begin in April. And importantly, this capacity will be added into a robust and diverse local economy here in Texas, which is one of the fastest U.S. -- growing U.S. markets, both in terms of GDP and wages. We'll also add new Transatlantic service to the Tuscany region of Italy; Berlin, Germany; and Dubrovnik, Croatia out of our hub in Philadelphia. And lastly, in Washington, D.C., construction continues on the new regional terminal in DCA. We're expecting completion of that regional terminal in 2021. It sounds like a far-off date, but it will come quickly and we'll be ready. Our plans include up-gauging aircraft to further grow this important market.

Our global sales and distribution team is executing well on their initiatives, producing overall corporate revenue growth that has outpaced system revenue growth. We continue to build and diversify our portfolio of small business accounts at a historic pace, and we're seeing a record number of these small business accounts graduate into entry-level corporate contracts at a rate that is nearly 10x that of last year. In growing our small business programs, we are not only delivering strong results today, but we are also establishing a foundation for growth in the long term.

In addition, we have launched both TripLink and additional international forms of payment to grow direct bookings. For our loyalty program, 2018 marked another year of revenue growth, which grew by high single digits on a year-over-year basis. We continue to see strong year-over-year growth in AAdvantage program enrollments and co-branded credit card acquisitions. Our 2018 improvements in the Citi/AAdvantage Platinum Select MasterCard and the launch of the no-fee AAdvantage MileUp card provide added value to customers and we're really seeing the benefits of -- the revenue benefits of this expanded portfolio. Our Citi Platinum and Aviator Red Mastercards remain our most popular cards, and the new AAdvantage MileUp card is exceeding our expectations. And our Citi/AAdvantage Executive Card acquisitions saw growth as well, reflecting strength across a range of card segments. With a record number of co-branded AAdvantage MasterCard acquisitions in 2018, we believe our dual issuer model is delivering attractive choices for our customers. We expect these strong results to continue for our program in 2019.

Product segmentation has added another dimension to our business, and our strategy continues to perform very well. In 2018, we added Premium Economy to more than 100 aircraft out of a total of 124 planned aircraft. American has more aircraft with Premium Economy than any other U.S. airline. The average fare for Premium Economy continues to be twice the coach fare. And when we look at the booking profile for this product, it is clear that customers are buying up from the main cabin. Installations remain on track, and we expect them to be complete by this summer.

Looking forward, we will further monetize Premium Economy with new revenue management and merchandising capabilities.

Basic Economy has also been expanding, and we now offer this option across the entire domestic network as well as most of the Atlantic, Caribbean, Mexico and Central America. We've made a number of refinements to the program to ensure that we are competitively considered, including
eliminating the carry-on bag restriction. With this change, we are now able to roll out our full range of fares to more than twice as many customers as before. Since this change, the average up-sell rate continues to be around 60%, which has exceeded our initial expectations. In addition, the sell-up amount has increased by $5 and is now approximately $26. All of this has resulted in record fourth quarter revenue of $10.9 billion, up 3.3% year-over-year. As Derek mentioned, we saw solid growth in other revenues, driven in part by continued strength in co-brand credit card acquisitions and cardholder spend. At our unit revenue basis, total revenue per available seat mile improved 1.7% year-over-year. This marks the ninth consecutive quarter of positive revenue growth for American. When looking across the regions, the Atlantic was the best-performing entity for the third consecutive quarter, as we were able to grow load factors with only a minor impact on yield. Basic Economy is doing well, as is Premium Economy, and we see no impact from Brexit at this point.

Moving to Latin, although slightly negative, we did see quarter-to-quarter improvements in Argentina, Brazil and Mexico, which is encouraging. Foreign exchange had a negative impact on the quarter of 1.6 points.

In the Pacific, the weaker markets got better, while the better markets, Japan and Korea, got a little bit worse. We were negatively impacted by the timing of joint business settlements by approximately 2 points and foreign exchange by 0.5 points.

Despite very difficult comps, we saw improvements during the quarter in domestic yields, in part due to selling Basic Economy higher up the fare ladder and expanding it into more markets. Looking forward, we are ahead on load factor each month as we see strong build further from departure. We’re excited about our planned growth in DFW, which marks our first opportunity for sizable growth at one of our most profitable hubs since the merger. We faced headwinds in the March quarter of 0.5 points due to Easter shift, 0.7 points due to foreign exchange and 0.7 points from our AAdvantage program, which is due to the big investments we have made over the past year in the program, making it much more valuable to our customers. We significantly increased the inventory available for redemptions in 2018, giving our customers more flexibility to use their miles. The net result of this change is that we’ll be deferring more revenue from 2019 for recognition in later years. For the year, we expect a noncash impact of 0.7 points. Even with these headwinds, we expect our first quarter year-over-year system TRASM to be up between 0 and point -- and 2%.

As we look forward into 2019, we are excited about what the future holds for American Airlines. Now that most of the distractions of integration are behind us, we are intently focused on running the best operation in American’s history, improving our product and capitalizing on our network. We have more than $1 billion in revenue initiatives that we’re confident that we will deliver, and we feel really good about how these are shaping up. We’ll continue to expand Premium Economy and fine-tune how we offer Basic Economy across our network. We also expect to continue our fleet harmonization project and continue -- and further optimize how we sell this -- that product. And we expect to become more efficient, with more than $300 million in cost initiatives in our plan. All of these initiatives are on track and expected to be earnings-accrative this year. We’re excited about the future and look forward to sharing these results as the year progresses. And with that, I’d like to turn the call over to the operator to begin our Q&A session. But first, we’re going to give it to Doug.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Just before that, operator, I just want to let everybody know that in addition to me and Derek and Robert and Dan here, we have a number of -- a handful of members of the best leadership team in the world here, which include -- we have Ben Mimmack, Kenji Hashimoto, Elise Eberwein, Maya Leibman, Steve Johnson, Don Casey, Devon May, all here. So fire away.
Michael John Linenberg - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

Two questions here. Robert, just you were talking about Basic Economy and selling it up -- further up the fare ladder, and I'm just curious what that means. I think in the past, it was in the lower, maybe 4 or 5 fare buckets. And the $5 improvement in the sell-up difference to $26, typically, you're dealing with a very price-sensitive customer base at that part of the, call it, passenger segment base. Are you finding that elasticity of demand maybe is less elastic in their willingness to move up because it's a much better product? Your thoughts on those.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Michael...

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Don, you want to go ahead?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes, it's Don Casey. Higher up the fare ladder just means we're getting -- again, we're just going to go up the fare ladder higher, right? So it does vary from market, but we're up about 2, on average, about 2 inventories from where we were about 4 months ago. As for elasticity, a $5 fare increase, that's what we have in market right now, with that $5 fare increase, we've actually seen the sell-up rate remain quite constant, right? So we don't think we've hit a point where the sell-up amount is deterring people from buying up.

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

Okay, great. And then just a second question on costs. When you talk about your cost outlook for 2019, you call out that it doesn't include any sort of labor agreements. Where -- what is it? Are we down -- what is it, one other labor group that has to get done? Is that -- I just want an update on that.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Sure. We have -- well, there's the -- our IAM TWU negotiations, which represent a number of workers, and the largest of those are mechanics and fleet service clerks. Those are with the NMB right now, in the media, in conversations, that's the only joint collective bargaining agreement still to be done, Mike. We -- it's been long enough into the merger that we're getting close to amendable dates on our pilots and flight attendants. Both of those become amendable toward -- well, one of them in December of this year and the other in January of 2020.

Operator

Our next question comes from the line of Joseph DeNardi with Stifel.

Joseph William DeNardi - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst

Robert, you mentioned kind of the growth strategy focus in DFW, and that's your highest margin hub. Wondering if you guys could maybe quantify that a little bit more. You've quantified it before by kind of lumping it in with DCA and Charlotte, but can you get more granular and just tell us what the operating margin at DFW was or pretax margin was in 2018? I think that would help investors kind of better appreciate why your growth is doing what it's doing.
Robert D. Isom - American Airlines Group Inc. - President

Well, just first off, in terms of a little bit more granularity, of our planned growth for this next year, 3% -- roughly 3% growth year-over-year, DFW represents about 2/3 of that. And so we're really pleased with that. And when you take a look at hub profitability, DFW, Charlotte, DCA, those are all our most profitable hubs. And so we see ourselves growing into incredible strength and really look forward to be able to take this opportunity. And I mentioned that this is really our first chance to grow one of our most profitable hubs. It's solely keyed on having these additional gates. So we're really happy to get to this point, and it's going to mean big things for the company.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

And Joe, it's Doug. So anyway, we don't make a habit of disclosing profitability by hub. Mainly, one is we haven't done that historically, but also it varies a lot, by time of year. But nonetheless, what Robert said is where we are, it's certainly one of our more profitable hubs, certainly in terms of size and also, the margins are well above system average. We did at one point put a slide together, which I know most of our investors have seen. I talked about the -- showed the margins of those 3 hubs versus the rest of the system. And anyway, it's -- we'll probably going to keep doing that.

Robert D. Isom - American Airlines Group Inc. - President

DFW's twice the system average.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Yes. So anyway, that's -- it is definitely above system average. And the good news is, we, like other airlines, when you add flights into those type of hubs, they tend to come on at above-system average margins as opposed to at marginal profitability.

Joseph William DeNardi - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst

Okay. Yes, that's very helpful. And then, Derek, I don't want to beat you up too much on this, but I do feel like on the last call, there was some commentary that CapEx in 2020 wouldn't exceed 3% and wouldn't exceed 2%, and now it seems like it is going to be higher. Can you just talk about what's driving some of that, and whether this current CapEx outlook is firm at this point and investors can assume that what you guys have guided to is actually going to materialize?

Derek J. Kerr - American Airlines Group Inc. - Executive VP & CFO

No, no, yes, it's a fair question. We did, right after the call last -- our last call, we had an option on 15 large RJs that we had not completed at that point in time, and we didn't talk about it. So the real increase in 2020 is the 15 large RJs. That will pretty close to max out our large RJ scope. So we don't expect anymore. They will replace 50-seaters that are out there, so it's not for growth, because we have a number of regional aircraft that we can have. So that is the only one item that is out there that we have left for us. So I think we're pretty firm on 2020, 2021, where we're at from a CapEx number. But that was, it was an increase from where we said before, and it was 15 regional jets coming in 2020 time frame.

Operator

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

First one for Robert or Don, the comment about outperforming your network competitors on RASM this year. I don't want to get into a modeling exercise here, but since the first quarter guide is in fact no different than Delta or United, can you give us some color on sort of what period you do expect to start overtaking the competition? I understand the $1 billion figure. I guess, I just don't understand what buckets phase in and when. For example, how much is the credit card step-up contributing to that? Any additional color?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

We have -- we're very confident about the revenue initiatives, right, that we have and how that revenue flows in during the course of the year. We're also going to benefit in 2019 from either comps year-over-year, which kind of were a drag on our performance this year. And so I think that goes back to -- and our investment in Dallas, I think, is going to be one of the big drivers of improvement for us, and that doesn't start until we get into the summer.


Okay, that's helpful. And then for Derek or possibly Doug, can you give us a little bit more color as to how the full year capacity plan emerged? Specifically, were you meaningfully above or below the 3% number at any point? What influenced the 3% outcome? Or put differently, did the marketing department or fleet planning potentially wield more influence on that? Just any sort of genesis as to how the 3% came about would be useful.

Robert D. Isom - American Airlines Group Inc. - President

No, I can step in on that. Look, we grow when we take advantage of opportunities that we think are beneficial for the airline overall. As I said before, we're going to take advantage of opportunities, both in DFW and in Charlotte. In DFW, 2/3 of the overall growth. As you break down the rest of the growth, it's departures into places we think make a lot of sense. We've got some gauge that fits into that as well. And the reallocation of international flying, as we talked about, the restructuring of our international network, is what results in the level that we're projecting for this coming year. So we're really confident that this is the right plan for American, taking advantage of the assets that we have and well within our ability to execute on.


Well, just humor me then, if we were to roll back fuel prices and -- or roll back your thought process to that of, let's call it the first week of October and where jet fuel was then, was 3% still what you were thinking for 2019 at that point?

Derek J. Kerr - American Airlines Group Inc. - Executive VP & CFO

Yes, this is Derek. The level of ops was put together in October -- September-October time frame and has not changed since the fuel prices changed. So yes, that did not impact where we are from a capacity perspective.

Operator

And our next question comes from the line of Rajeev Lalwani with Morgan Stanley.
Doug, a question for you, just on the ’19 earnings guide. How do we get comfortable that you're not sort of capturing the best of all worlds in the guide? I mean, you've got lower fuel, but then you've got relatively steady RASM going forward, CASM continuing to get better. So I guess, overall, I mean, I think history has shown us that lower fuel leads to much weaker unit revenues as time evolves, but you're not showing that. So just trying to get comfortable with what you're putting out there, I guess.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Sure. Look, first off, it's forecasting airline earnings a year out, we all know, and we've certainly learned, is -- has a lot of variability on it. So we've put some variability in the numbers. What we did is provide what we believe is, for our investors, our best guess at this point about where we're going to come in. And we feel quite comfortable with it. We wouldn't have done it otherwise. As it relates to the point about fuel prices falling, that when fuel prices falls, so do revenues, I would just note, again, kind of what Derek just said, we haven't changed any of our capacity plans because fuel prices are lower. This -- I think it's important to kind of replay what drives airline changes in capacity driven by fuel prices, and this doesn't feel anything like what maybe you've experienced in recent terms, at least to us. We all know that back in 2015, that's where oil prices have been over $100 for 5 years, they fell down to $45, $50. And yes, when they stayed there for a while, when you see that kind of a change in fuel price, you're going to see capacity come in, as you should. If the cost of production drops that much, profitability goes up, and production goes up. So that doesn't seem irrational. It never seemed irrational at the time. What's happened here is having stayed at that level for whatever it was, 2,5, 3 years, in the $45 to $50 range, oil prices ran up pretty quickly. Through 2017 and ’18, we got levels around $80 a barrel per Brent and above, and the industry was somewhat getting itself well at those levels, but not all the way. And now it's corrected some of it, but not nearly all of it. So I'm not suggesting it is going to correct all the way. What I'm pointing is simply this fall from -- I know I'm using rounded numbers here -- but from $80 a barrel Brent to $60 a barrel Brent, I don't think makes -- I know for American Airlines, it doesn't a whit of difference on how much where we're going to fly. I don't it makes a whit of difference for the industry, frankly, because we haven’t gotten ourselves adjusted to the run-up to $80 and it falls back to $60, I think, I don’t think it makes sense to make huge adjustments in revenues, but we'll see, but that's our view.

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

Okay, and then a quick follow-up on the capacity side. And I think Jamie was asking about this earlier. So previously, you had talked about sub-GDP sort of capacity growth. I think most of us were assuming sort of 1%, 2%, and now you're coming in at 3%, which, I guess, is GDP plus. Maybe my general assumptions are incorrect, but can you just walk me through what changed, if something did in fact change?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

I think Derek just said nothing's changed, and there are GDP estimates out there that's certainly 3% and higher. So to the extent we -- anyway, I don't know that we produced a number other than what we announced today, and this is right in line with what we've been thinking all along. And again, I would note, given where we're growing, we feel really comfortable with this level of growth.

Operator

Our next question comes from the line of Hunter Keay with Wolfe Research.

Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense

I do want to continue on this line a little bit that Jamie brought up as well. And Doug, before, you guys used to say you're going to grow less than competitors, and now you're saying you're going to grow RASM more than competitors, and I appreciate that shift, and that is a change. I'm -- holding fuel prices aside for a second, is there any change to how you guys are thinking about capacity in the context of market share? And maybe that you've got a line of sight on better ops, you feel better about maybe, I don’t want to say sticking up for yourself, but maybe being a little bit
more tactically aggressive in keeping some share where it does make sense to do it. Because, again, that change, that drop of growing less than and now growing RASM more than, is a change, and I'm wondering kind of what drove that language difference.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
You said RASM, you mean ASMs?

Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense
Yes, I'm sorry. Yes, you said you were going to grow ASMs less. Now you're saying you're going to grow RASM more. So it's a change, and I'm just kind of curious to know what drove that language.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
Okay, fair enough. Yes, I don't think that's a -- anyway, I don't think that's a change, but anyway, I'll try again. So we have, I believe, consistently said that we believe where American Airlines is, is we have a largely mature network, and that you should expect to see us grow at, certainly domestically, kind of in line with GDP growth. And that's what we've been doing. And this 3% number is not, I don't think, dramatically different than that. To the extent you assumed it was something different than that, then -- anyway, we didn't mean to suggest anything other than that. We have not changed that number from the time we started producing level of ops, as Derek said, 6, 9 months ago. So that hasn't been a change. And indeed, I think it's entirely consistent with what we've said, which is we expect to grow somewhat in line with U.S. GDP growth and otherwise -- and also, we did say, we think that's lower than we're seeing at competitors. And that's certainly the case. There may be a competitor that may be a little bit lower than us, I don't even know if that's the case, but if we're not the lowest, we're the second-lowest at this number. So all that seems entirely consistent, to me, with what we said in the past. We haven't made any changes to our capacity growth based upon anything other than where we see growth capabilities. And I can't stress enough the fact that when you get 10 gates at your -- at a hub -- I'm sorry, 15 gates at Dallas/Fort Worth, that's a huge growth opportunity. But despite that, we're still growing in line with -- or maybe modestly higher, depending on what your GDP estimates are, in line with GDP.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management
Yes, and I'll just add that our growth is it's being funded by improved density from up-gauges and improved aircraft utilization.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
Yes, and then the piece I was a little confused on, Hunter, is this RASM growing faster. I don't think -- the fact that our -- again, at those levels of capacity growth, we do believe that our unit revenues will still grow faster than the industry's, because of the initiatives we have in place. Those are -- I don't think that's inconsistent, Hunter.

Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense
No, it's not. Again, I didn't mean for the question to be negative or make you feel defensive.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
I didn't take it that way.
Hunter Kent Keay - Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense

Okay, good. Because, again, and this is just my -- I guess, I'll just ask a true follow-up. Again, I'm just -- I'm wondering if there's been sort of a change in philosophy about how you're thinking about growth in the context of what's happening in the industry. I'm not saying your plan changed with fuel or whatever. Are you just going to say like we're going to sort of start punching a little bit harder here and fight for what's ours and fight for share that we think we deserve, and philosophically, how you're thinking about that in the context of what's going on in the broader competitive industry? It's not that anything's changed with the plan, just sort of philosophically, how you're thinking about capacity growth going forward?

Robert D. Isom - American Airlines Group Inc. - President

Hunter, look, we go back to -- look, we're a global hub-and-spoke airline. Our greatest assets are our hubs, and you will see us take advantage of opportunities in our hubs, and we're going to be incredibly competitive everywhere. The one thing I will say as well is I think we're being smart with how we deploy capacity as well and taking advantage of the dynamics of our hubs as well. So some of the things that you may see going forward is that from a seasonal perspective, some of the hubs, Phoenix, Chicago, performed better at certain points of the year than otherwise. And so you will see us flex to take maximum advantage of those opportunities. And the good news is that we've -- as we push for fleet commonality, as we rationalize our regional partners and reduce sub-fleets, as we've gotten through integration and now can make full use of our team, you're going to be able -- you're going to see us be very smart about making sure we take advantage of opportunities throughout the year.

Operator

Our next question comes from the line of Duane Pfennigwerth with Evercore.

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

So just this EPS guidance is a relatively new experience for airlines. And I wonder if you could reflect on 2018, the execution versus that guidance. What are the lessons learned? And how did that impact your guidance and your plans for 2019?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Sure, I'll try. This is Doug, I'll try. Anyway, we -- I don't think it's any secret we reluctantly -- anyway, we were reluctant participants in this exercise. I feel really strongly that we can -- the best thing for us to do for our shareholders is not to try and project what the earnings are going to be, but rather go run our business as best as we can and tell you what our plans are and let you do that, but also understand that it's important to a number of our shareholders that we at least give them more guidance than that. And as other airlines went and started giving full year EPS guidance, we chose to do it as well. So we, like you, are somewhat -- yes, as you said, are somewhat new to this. Our experience last year was -- anyway, we ended up having to adjust it downward a couple of times, which, of course, we don't like to do. That was every -- each time there was a reason given that made -- again, made -- seems logical at the time. Had we known it, we wouldn't have had the numbers as high as they were. So anyway, that's -- I don't know how other to explain it other than to say we're doing our best. Given the experience, I'll tell you this. We certainly worked to make sure that we have a wide enough range that we feel comfortable because we don't want to actually adjust it again and hope that we don't need to. So we've come up with a pretty wide range, but also done our best to give you a number that we feel really confident. And certainly, last year's experience weighed on where we decided to set that guidance, because we don't want to have that experience again. No guarantee we won't, but we don't want to.

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

And then just for my follow-up, one of your peers has started to break out percent of revenue generated from premium products and basically revenue away from the main cabin and the implied higher growth embedded in those initiatives. Have you studied that disclosure at all? And would it make sense for American also?
Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management
Yes, I mean, we have looked at it. We -- in the fourth quarter, this is probably a different metric, just looking at premium cabin performance, premium cabin performance actually drove about 1/3 of our overall revenue growth in the fourth quarter.

Derek J. Kerr - American Airlines Group Inc. - Executive VP & CFO
And Duane, this is Derek. I mean, we looked at it. As we go into 2019, it may be something that we break out further. It's not easy to put things in all of these buckets, but we'll look at it more in 2019 to determine whether we want to break out the P&L a little bit farther.

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

Helane R. Becker - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst
So here's my -- so 2 questions. One, can you say what the biggest bucket is in terms of the $1 billion in incremental revenue this year? And my second question is, if you polled your customers, what would be their #1 complaint be about the airline? And how are you addressing that?

Robert D. Isom - American Airlines Group Inc. - President
Yes, okay. So the biggest bucket is really what we're doing in terms of segmentation. So Basic and Premium Economy are the 2 largest drivers. And as we take a look in that $1 billion, we've talked about big opportunities within segmentation. We've talked about big opportunities within merchandising. Those, we hope, are really going to start kicking in later in the year. And the final bucket that we see a lot of opportunities is network, and we've talked about DFW and getting to 900 departures. But as well, that involves restructuring the network and making sure that we're putting aircraft where they want to go. In terms of the customer feedback, we know what the biggest point of concern and issue with our customers, and that is, look, they want a reliable airline. They want to be certain that they're getting what they paid for. And so from that perspective, as we take a look at our goals for the coming year, that is top of mind everywhere. And so we have -- and for us, it's upside. We didn't perform as well as we wanted to in 2018. We expect to reverse that very quickly, and we're pleased with the kind of things that we're seeing, especially over the holiday season and as we get into January.

Helane R. Becker - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst
So can you say, Robert, if your Net Promoter Score like improved, let's say, if you did it in January of '19 versus maybe July of '18?

Robert D. Isom - American Airlines Group Inc. - President
No, so we have a lot of internal metrics, and we have likelihood to recommend scores. And we weren't pleased with our likelihood to recommend scores. As a matter of fact, our own internal measures show they fell year-over-year for the first time in a number of years. And when you trace that back, it's certainly not due to the product that we've -- the investment that we've made in the product. People are very pleased with what they're getting in terms of service and in terms of the amenities and fleet and airports. But if you're not as reliable as you should be, as you want to be, that has a negative impact overall. And so the good news on that and what we have seen is that when you do get back to the kind of reliability that we aspire to, things turn really quickly. And we'll take it, and we'll be able to take advantage of all those investments that we've made.
And our next question comes from the line of Catherine O’Brien with Goldman Sachs.

Catherine Maureen O’Brien - Goldman Sachs Group Inc., Research Division - Equity Analyst

Maybe just one more on your comments about outperforming your peers on RASM this year. Could you talk about maybe like the 1 or 2 biggest drivers of that, help us size them, help us think about how they ramped through the year? Is a lot of that Dallas? Are we thinking more about Premium Economy? Just any color there would be really helpful.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

This is Don. I mean, the 2 big things that are going to drive -- 3, I'll go to 3, really, is DFW, right, and the investment we're going to make in DFW in terms of incremental flying and the relative revenue performance of DFW versus the rest of the system. The second one is just the merchandising capabilities which we're going to be bringing online during the course of the year, which is one of our kind of big revenue initiatives for 2019. And the reality is we're going to be helped a little bit this year on comps, right? They were a headwind in 2018. They'll be a bit of a tailwind in 2019.

Catherine Maureen O’Brien - Goldman Sachs Group Inc., Research Division - Equity Analyst

Understood. So it sounds like maybe we'll start to see that outperformance pick up starting second quarter on?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

That's correct.

Catherine Maureen O’Brien - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. And then maybe just one more. So some of your peers know they were incorporating weakness across the Atlantic into their March quarter guides? Are you seeing the same thing? Are you incorporating that guidance? And then how should we think about the ranking of your RASM by geography going forward?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Sure. So look at the Atlantic. We expect -- Atlantic has been very strong. We had a -- it was our best-performing entity in the fourth quarter. We expect really a modest deceleration in our Atlantic performance in the first quarter, driven in large part to an additional point of headwind related to currency. Domestic, we've had very strong yield growth, in large part to the expansion of Basic Economy to more markets as well as other price increases. We've seen strong corporate demand. Our negotiated corporate revenue domestically is up 10%, led by our professional services, and we're expecting kind of similar performance in 1Q '19, and that includes the impact we've seen to date of the government shutdown and the impact of the Easter shift. In Latin, we ended the quarter with kind of modestly negative unit revenue growth, driven by our long-haul operations, although we did see in the quarter that Brazil and Argentina did improve on a quarter-to-quarter basis. And we're pleased with this given the currency and capacity environments in those markets. Mexico also improved quarter-to-quarter and had positive unit revenue in the fourth quarter. We saw demand recover, but the pricing environment in Mexico overall is still a bit soft. Caribbean was positive, had positive unit revenue growth, but we've experienced very, very strong unit revenue growth the last 7 quarters. So although positive, not quite as positive on a quarter-to-quarter basis. That is still expected to be positive going forward. And Latin overall, we had -- in the fourth quarter, we had 1.6 points of headwind with currency. As we look forward to Latin, we expect sort of similar trends going forward, with currency being on additional 0.5 points of headwind as we head into 2019. Encouraging for us is capacity in Brazil. We'll benefit from our own capacity reductions in Brazil in the first quarter. And as we head into the second quarter, the industry has taken out a material amount of seats. Pacific unit revenue was slightly negative, with Hong Kong,
Japan and Korea all positive, although not quite as strong quarter-to-quarter. Compared to third quarter of ’18, China and South Pacific, although negative, were improving, and we expect Pacific to be the strongest-performing quarter-to-quarter entity in first quarter of ’19.

**Operator**

Our next question comes from the line of Kevin Crissey with Citigroup.

**Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst**

If we could step back and talk about costs over time and the kind of big picture, I've been a bit disappointed not seeing a better cost trajectory post-merger. I know there were certainly some labor contract catch-up, and that adds -- inflation, but I would have thought that there would be (technical difficulty) pulled out post-merger considering. I think a couple of percent CASM actually increase on 3% capacity growth is kind of normal inflation for an airline. Maybe it's slightly low, but not as low as I would expect post a merger. Can you talk about why there hasn't been more opportunity on the cost side yet?

**William Douglas Parker - American Airlines Group Inc. - Chairman & CEO**

Yes, this is Doug, and Derek can chime in. Again, I encourage you to look at the details and go through the details with Derek. Some of this is just depreciation expense and things like that, that are driving these costs and timing of maintenance and other issues. But to your larger point, look, first off, on the labor issues is -- you already noted it, but can't ignore it. I mean, we came out of a merger with the world's largest airline and a phenomenal group of team members who are working for less than their peers at other airlines. And that's -- we can't run an airline that way, nor should we, nor should we ask our people to. So we certainly had some increases in labor cost. We've largely closed those gaps versus our competitor airlines, but that drove very large expense increases at American Airlines. And again, the expense increases we actually feel good about because we needed to do that in order to produce -- to build the airline we want to build. Otherwise, our costs, again, it's hard to address a qualitative response like that without a detailed response. But in general, we -- what we know is we've gone through an effort, led by Derek, to go pull out expenses. And that's been really successful. We had a relatively painful reduction in the management team around here in the prior -- in the last year. And we'll continue to do those things. It's -- what we know is, if we weren't doing those things, while that number may not seem exciting to you, it would be about $300 million higher than it would have been otherwise without this work. So we continue to work at it, and we will continue to work at it, but we feel really good about the cost discipline that we've instilled in American Airlines, once we get to the point that we have our team being compensated in line with our peers.

**Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst**

And maybe for Robert, you talk about the growth in the most profitable hubs. Can you talk about the actions you're taking in your less profitable hubs?

**Robert D. Isom - American Airlines Group Inc. - President**

Well, sure. So that goes back to one of the comments made a little bit earlier. We're trying to be really smart about how we deploy capacity. So when we take a look at a hub perspective, we can, now that we've got a lot of the integration behind us, and certainly, a lot more fleet commonality, we can take a look at Chicago during the summer and it being really healthy for us at that point in time, and then at other points of the season, take a look at Phoenix and Miami, which can perform better. We've mentioned things about what we're doing with our international network. So from a China perspective, we've made some adjustments in our network there and have been redeploying assets to where they're most profitable. We have been taking a look at making sure that we're maximizing our opportunities with our joint business partners as well. So from a whole
perspective, we're incredibly competitive in each of our hubs, but we're making sure that we use them for what they do best for American. You see that with the growth that's coming in DFW. You'll see it with the growth that's coming next year in Charlotte, and you'll see it when we get the regional terminal done in DCA the following year and our ability to up-gauge there. The plans that we have in place, I think, for this coming year in Phoenix, Philly, Chicago, Los Angeles, Miami, they are all well tuned to what we can do best at this year.

Operator

We have time for one more question from our analysts before moving on to media, and our last analyst question will come from Brandon Oglenski with Barclays.

Brandon Robert Oglenski - Barclays Bank PLC, Research Division - VP & Senior Equity Analyst

I guess, Doug or Robert, I think the market wants to leave here, I mean, your stock's trading at a 5 PE. If you can start to show some relative margin traction, I think people would be pretty impressed. But if we look at 2018, I mean, you guys lagged your network competitors that you want to benchmark against capacity and RASM here pretty significantly. And if I go back to the 2017 Analyst Meeting, I mean, we had pretty big revenue initiatives plotted for 2018, I think which were above $1 billion, too. So I guess, what sense of urgency does the organization have this year to really deliver on that $1 billion revenue target? Or is this just something where circumstances are going to dictate that maybe it gets pushed out again?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Okay, yes. Thanks, Brandon. We didn't push them out. We -- those initiatives we delivered primarily almost all on the -- the Basic Economy actually didn't, as it sorted out competitively, didn't deliver the level of value that we had expected that would be. But the urgency has been high, remains high, and we remain excited that there would be -- the fact that our revenues didn't perform as well as some of our peers in 2018 is a combination of largely the fact where we fly. I’d point out again that when the performance in Latin America, particularly South America, where we are much larger than our competitors versus where they fly, had a big impact to that number. And then in relation to one of them, of course, their -- they did a really nice job of getting an airline that wasn't performing particularly well performing well. But if you look on 2 years over 2 years, against that airline, we're still -- our RASM's still up more than theirs is. So the issue becomes more of, and an issue of some concern to us, is when you look to the fact that a RASM versus Delta that was -- that had been closing every year since the merger, widened in 2018. Again, a lot of that's Latin America. But also as we look at it, the initiatives that Robert and Don described are some areas that they've done -- that they're a little bit ahead of us. They merged well ahead of us. They've done a nice job. But things like the ability to get sell-up into more channels and to more customers is something that we will be doing before too long, allowed -- has allowed them to widen that gap. So we're running full force, have been running full force, will continue to do an amazing job. But because of all those things, and as we head into 2018, we remain confident in saying that we believe that in 2018, our unit revenue will outpace our competitors. But again, that's a forecast, and it’s dependent also upon what they do. So -- but we said that last 3 quarters now because we feel really good about where we are positioned, not less -- more of a comment on where we are versus where they are, to the extent that they're doing things we don't know about, that may or may not be the case. But I did want to let our investors know that what we saw in '18, as our RASM declining versus our competitors for the first time in a few years, wasn't something that we expect to continue.

Operator

This concludes our analyst question-and-answer session. We will now take questions from the media. (Operator Instructions) And our first question will come from the line of Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

Can you guys talk about any financial impact from the government shutdown? Southwest and Delta have both put a number on that, at least for the month of January. Can you talk about what you're seeing?
Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management
This is Don. We have seen some impact, but there is a lot of uncertainty as to kind of what the -- what's going to happen going forward. And so we have not yet put a dollar value on it. But what we've seen to date is included in our guidance for the first quarter.

Mary Schlangenstein
Okay. And can you talk about what you are seeing? Is it just basically a decline in government business travel, government contractors traveling?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management
It's a bit of softness in the 0- to 14-day travel.

Mary Schlangenstein
Okay, great. And Don, can you also talk a little bit about what your yields on close-in business travel are looking like this first quarter? Are they higher than a year ago? Are they staying strong?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management
We saw in the fourth quarter quite strong yields, actually, the last 2 quarters, in our 0- to 6- and 7- to 13-day booking windows. We would expect that to continue going forward.

Operator
Our next question comes from the line of Andrew Tangel with Wall Street Journal.

Andrew Tangel
Question on the shutdown as well. This week, unions for aircraft controllers, pilots and flight attendants sounded the alarm over the shutdown's effects on the U.S. aviation system and raised questions about safety, that the entire system could, at some point break. How concerned are you about that right now? And are you all seeing any signs of stress or worry or any operational issues at this point?

Robert D. Isom - American Airlines Group Inc. - President
Look, we -- this is Robert. First off, our team, in conjunction with our partners, both at the FAA and from a security perspective, TSA, we're always going to make the right decision for the safety and security of our team members and our customers. So there's no doubt, no lack of confidence in what we have in front of us. That said, we don't need distractions. We need people to be at work and confident and taken care of. And we do that at American with our team, and we need to get our partners in a situation where they feel similarly confident in being taken care of.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO
And Andrew, I'll just add on a little bit. To Robert's point, our business is so focused on safety that to the extent there are fewer TSA people or fewer air traffic controllers, what tends to happen is you get long lines at TSA, but still, the same level of scrutiny. You get larger separation of aircraft, so you have delayed airspace, things that's really concerning to us. So -- and that's why -- that's what we fear may happen. We want to thank all the
people at TSA and all of our aircraft controllers who are showing up without actually getting paychecks and taking care of our team, taking care of the flying public. It’s phenomenal what they’re doing. We appreciate what they’re doing, and we would encourage our government to get them to a position where these hard-working people can be paid for what they’re doing.

Andrew Tangel

And as a follow-up on something Don said a minute ago with reference to the quarter 1 outlook. He tied the potential for 0 growth in the first quarter unit revenue to the government shutdown. Overall, are you all – I mean, the shutdown aside or potentially including the shutdown, are you all seeing any signs of an economic slowdown or any early signs of a recession? Any difficulty raising fares in the main cabin or premium seats or anything of that nature?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

No, I mean, just to clarify, I guess, I'm not sure what your comment just about 0 growth related to that government shutdown, what we -- we haven't really put a number on the government shutdown. And it is included in our guidance, which is, as you heard, at 2%, right? So we're expecting positive unit revenue growth in the first quarter. As for looking at the rest of the business and seeing whether we're seeing any slowdown in bookings anywhere in the system, we are not. Corporate demand continues to be strong, and our kind of how the load factor position going forward is up materially on a year-over-year basis.

Operator

And our next question comes from the line of Leslie Josephs with CNBC.

Leslie Josephs

On the corporate demand, just to clarify, you said that it's higher this year than last year at the same point for January? I'm just trying to gauge the shutdown impact and what that was. I didn't catch that. And my other question is are you still committed to flying to Venezuela?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

This is Don again. Yes, corporate revenues so far this year have been up month-to-date. As far as Venezuela goes, we fly 3 times a day there, and we intend to continue our service. It's a relatively small part of our business. It's 0.2% of our overall system revenue.

Leslie Josephs

Okay. And on the shutdown, the impact, you said a bit of softness in the 0- to 14-day yields?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

That is correct.

Leslie Josephs

Okay. But no dollar impact that you're seeing so far?
Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

We are not going to disclose a dollar impact. We'll look at it after the government gets back to work to figure out how impactful that was.

Operator

Our next question comes from the line of Tracy Rucinski with Reuters.

Tracy Rucinski

I wanted to ask about China. I've seen some data out of China that shows a 20% decline in outbound traffic to the United States in the third quarter of 2018. Have you seen any decline in inbound traffic from China, particularly for shorter stays?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

This is Don again. We have not. Now, we did take some capacity action in China, and we ended up suspending service from Chicago to Shanghai and Beijing, which probably helps us a bit more. But our advanced book load factor in China looks fine.

Tracy Rucinski

Okay. So no sort of impacts from the ongoing trade dispute?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

We don’t see any impact right now in our business.

Operator

Our next question comes from the line of John Biers with AFP.

John Biers

Are you worried that there could be a hit related to the shutdown, either from people who are worried about safety because of things like what the unions are saying about air traffic controllers and so forth? Or because they are worried about the delays to the system, the extra hassle of traveling? Is this -- looking forward, is this something that could really hit demand in 2019?

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

Well, again, we would just encourage the government to get reopened so that people can get paid and that our customers can rest assured that they won't be waiting in long lines or face delays at the airport because of air traffic controllers that can't afford to show up for work. That's what needs to happen. Demand remains strong. This is certainly not a long-term demand issue. Our government presumably will reopen again one day and hopefully, not before too long. So it’s certainly been long enough. We’re putting a strain on people who have been working without a -- missing a couple of paychecks. And that will, at some point, result in people not being at work. And when we don’t have enough TSA agents, you'll see longer lines. When we don’t have enough ATC controllers, you’ll see more delays in airspace. Those would be bad things. So far, everybody’s been phenomenal about doing it. We’re concerned, but we haven’t seen any sort of drop-off in demand, other than the moderate softness Don talked
about inside 14 days, because of travel during the shutdown itself. But demand for air travel remains strong. People are flying, and I suspect they will continue to want to fly as we get the government opened up again.

Robert D. Isom - American Airlines Group Inc. - President

And remarkably, people are doing a fantastic job of keeping the aircraft and the airports moving. And so we're really confident in what we've seen so far in terms of operations, and thankful to all those that are doing their jobs.

Operator

And we have time for one more question. Our last question comes from Robert Silk with Travel Weekly.

Robert Silk

Can you tell me if you all have any plans -- NDC initiatives planned in the coming year and what those might be if you do?

Robert D. Isom - American Airlines Group Inc. - President

NDC.

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes, yes, no, we do have plans. We've announced them to the marketplace, and we continue to plan to expand our NDC offering. Now our approach to this is to improve the product offering that we're able to deliver through NDC, so that our agency partners are able to service customers more effectively. And that's the -- our focus going forward.

Robert Silk

Will you work in other -- increase for the channels that you work through NDC, more direct connects, or more going through any of these exchanges, I should say, any of these approaches?

Donald B. Casey - American Airlines, Inc. - SVP of Revenue Management

Yes, I mean, again, our plan is to continue to expand use of NDC with everyone that is interested, as we think we're going to be able to deliver more product and better products to their customers.

William Douglas Parker - American Airlines Group Inc. - Chairman & CEO

All right, thanks. Okay, I think that's everyone. Thanks, operator. Thanks, everyone, for your interest, and thanks in particular to the American Airlines team for taking care of each other and our customers. We're excited for 2019. We appreciate your interest. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.