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Northwest Airlines Corporation Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Gary Chase - Barclays Capital.

Gary Chase - Barclays Capital

On the cost side, I wondered if you could just elaborate a little bit on what's driving the ability to get CASM down and get costs out as capacity comes out? Is it sustainable and is it a function of fleet savings, and obviously fleet is going to save you on fuel, but clearly non-fuel as well? Is there enough there to be driving that process or is it something else?

David M. Davis

I think during the third quarter we were successful in a number of areas at taking operating costs out as we got smaller. On the salary side, on the maintenance front our costs were down significantly. As we get into periods of even greater capacity reduction like in the fourth quarter as our guidance suggests, we will see an uptick in CASM. Right now we're projecting it to be 4% to 5%.

Douglas M. Steenland

I would note we had a number of programs in place to reduce headcount. We had targeted a reduction of 2,500 FTEs and we were successful in reaching those goals and realizing those cost savings concurrently with the headcount reduction, and I think that contributed to the good CASM performance that we saw.

Gary Chase - Barclays Capital

You noted the revenue number on the baggage side. Are the cost savings material there? Are they worth talking about or are they a rounding error? And presumably your driving behavior change with that in addition to revenue?

J. Timothy Griffin

About 40% of second bags have gone away. The cost savings associated with that is material but not nearly large in comparison to the revenue side. We're seeing some of the same customer behavior with respect to the second bag as customers pack more prudently and it's no longer a free good. That 40% reduction will roll through staffing models and the like which will generate cost savings on our end.

Gary Chase - Barclays Capital

Maybe this one for Tim. A number of us have written on this revenue topic and how bad it has to be. Yesterday it happened to be something out of the NBTA, some survey talking about how corporations are really tightening up. I'm wondering if you could just give us some perspective. Whenever there's a recession at least our perception is that's sort of what companies do. I'm wondering if you're seeing any in terms of behavior change that strikes you as different than what you've seen in some of these prior recessions or does it seem consistent with what's happened in the past?

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