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ATTENDEES

Presentation

Operator

Good morning, and welcome to the Southwest Airlines Second Quarter 2023 Conference Call. My name is Anthony and will be moderating today's call. [Operator Instructions] This call is being recorded, and a replay will be available on southwest.com in the Investor Relations section. [Operator Instructions].

At this time, I'd like to turn the call over to Ms. Julia Landrum, Vice President of Investor Relations. Please go ahead, ma'am.

Julia Landrum

Thank you, operator, and welcome, everyone, to our second quarter 2023 conference call. In just a moment, we will share our prepared remarks and then jump into Q&A. On the call with me today, we have our President and CEO, Bob Jordan; Executive Vice President and CFO, Tammy Romo; Executive Vice President and Chief Commercial Officer, Ryan Green; and Chief Operating Officer, Andrew Watterson.

A quick reminder that we will make forward-looking statements, which are based on our current expectations of future performance, and our actual results could differ materially from expectations.

Also, we will reference our non-GAAP results, which exclude special items that are called out and reconciled to GAAP results in our press release. So please refer to the disclosures in our press release from this morning and visit our Investor Relations website for more information.

With that, Bob, I'll turn it over to you.

Robert E. Jordan

CEO, President & Director

Thanks, Julia, and good morning, everyone. I appreciate you joining us for our second quarter 2023 earnings call. I am very pleased to report a solid quarter with net income of \$693 million, excluding special items, and all-time record quarterly revenue of just over \$7.0 billion. The demand environment, especially for leisure travel continues to be resilient as we have seen solid bookings throughout the busy summer travel season. Further, we continue to expect \$1 billion to \$1.5 billion of pretax profit contribution in full year 2023 for strategic initiatives that we outlined at our Investor Day last December.

Based on our current outlook, we continue to expect record operating revenue and solid profits in third quarter 2023 and year-over-year margin expansion for full year 2023. I especially want to thank our people for doing such a fantastic job. They helped us get a record number of customers and a record number of bags on a record number of flights successfully to their destinations as we experienced the lowest second quarter flight cancellation rate in the past 10 years. It wasn't without trials. We had a lot going on in the operation related to weather and weather has continued to be a challenge here in July.

Despite that, our employees have continued to deliver a very solid performance. From our network ops control center to the front line, our people have worked together extremely well to minimize cancellations and produce a very reliable operation. And I'm just so proud of them for getting our customers where they need to go despite a challenging operational environment. While the cost outlook has increased for the year, the change is primarily driven by updates to our market wage rate accruals for open collective bargaining agreements. And while fluid, we're making progress. It's obviously very hard work, and I'm just very appreciative of the dedication of everybody involved in the negotiation process.

Now thinking about where we are with the business, since 2018, we have seen very significant swings due to the grounding of the MAX. Demand fall off, of course, from COVID, then the stress from the resurgence of demand disruptions from post pandemic supply chain issues, challenges with employee staffing and most recently, uncertainty with our Boeing aircraft deliveries. The challenges we have faced since 2018 have made planning difficult so smoothing out fluctuations is a must. And the best way to do that is with smooth and predictable capacity growth.

We told you back in April that we were reflowing our order book to allow for orderly and measured growth and we're still finalizing the details of that with Boeing. But we remain confident that we will get the 70 deliveries in 2023 that are assumed for our public schedules and we are working to build a 2024 plan that should be much more stable. We currently are planning to be flying the MAX 7 at some point next year. But if not, we'll take MAX 8 instead just as we are doing now. Where that leaves us for full year 2023 capacity is unchanged for this year at up 14% to 15% year-over-year.

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As we shared this morning in our release, we are revamping our 2024 flight schedules. While our network is largely restored at this point, it is not optimized, especially for post-pandemic shifts and business travel. Those adjustments to the network will be largely complete by the March 2024 flight schedules, and we expect those efforts and the continued maturation of development markets to generate an incremental \$500 million in pretax profit in 2024. The changes will also reduce the percentage of system capacity and development by more than half returning to normal pre-pandemic levels by the end of next year.

We already have our schedule published through March 6, 2024, and currently expect first quarter 2024 capacity to be up in the range of 14% to 16% on a year-over-year basis. Now keep in mind that nearly 90% of that year-over-year growth is carryover from 2023. For the remainder of 2024, we are planning for a sequential deceleration in year-over-year growth in each quarter next year as we work our way back to our long-term goal of mid-single-digit growth year-over-year.

We've made a lot of progress in the first half of 2023, completing several major milestones. We quickly developed and are on track for our winter operations plan. We have the staffing plan in place to fully utilize our fleet by the end of the third quarter and have the network restored by the end of the year. Again, to be clear, it's restored but not yet optimized, and Ryan will share more on how we're going to adjust the network based on post pandemic travel patterns. But we have a lot of exciting things in the works that we believe are going to contribute to our 2024 financial results and help us deliver another year of margin expansion next year.

In closing, our accomplishments in 2023 lay a foundation for us to shift our focus to restoring our industry-leading financial and operational performance, boost our operational resilience and make advances in our industry-leading customer service through a focus on digital hospitality. And I just can't say this enough. I'm just so proud of our people. They are the hardest Southwest Airlines, and they deliver day in and day out for each other and for our customers. And with that, I will turn it over to Tammy.

Tammy Romo
Executive VP & CFO

Thank you, Bob, and hello, everyone. First, I'd like to extend another thanks to our employees for their commendable efforts this quarter, resulting in solid operational and financial performance, a hard-earned improvement from where we began the year. Overall, we had a really solid quarter. Operationally, we had a great completion factor, despite many weather challenges.

Financially, bottom line profits were in line with our expectations despite pressure from market-driven labor accruals. We produced an all-time quarterly operating revenue record. We also generated double-digit operating margins each month during the quarter. All of this was made possible by the drive and hard work of our incredible employees. I just can't thank them enough. Ryan and Andrew will speak to our revenue trends and operational performance, so I will jump right to cost, fleet and then balance sheet.

Beginning with fuel, our second quarter jet fuel price was \$2.60 per gallon, slightly above our previous guidance. Throughout second quarter, crude oil prices stayed within a reasonable range, hovering for the most part, around \$80 per barrel. We are 49% hedged for third quarter and estimate our third quarter fuel price to be similar to our second quarter fuel price, and that includes an estimated \$0.08 of hedging gains.

We now estimate our full year 2023 fuel price to be in the \$2.70 to \$2.80 per gallon range, including \$0.09 of hedging gains. This is up a dime from our previous guidance due to higher refining margins. Of course, market oil prices and heating cracks can be volatile, which is why we hedge. We are currently 54% hedged in 2024. And over the last few months, we've added meaningfully to our 2025 portfolio and began building our 2026 portfolio.

The total fair market value of our fuel hedge portfolio for the third quarter through 2026 is \$373 million. We will continue to seek cost-effective opportunities to expand our hedging portfolio with a continued goal to get to roughly 50% hedging protections each year.

Moving to nonfuel cost. Our second quarter year-over-year CASM-X increase of 7.5% was towards the unfavorable end of our guidance range due to incremental adjustments to market weight trade accruals for our open labor agreements. We have said this from the beginning, but our labor accruals are based on market and in this environment, market has obviously been dynamic. We are planning and eager to award our work groups with well-deserved compensation increases.

Looking ahead, our nominal third quarter cost trends remain fairly consistent with second quarter. We currently estimate our third quarter CASM-X to increase in the 3.5% to 6.5% range year-over-year. This increase is, again, largely driven by higher labor costs. We are also continuing to incur additional maintenance expense relative to 2022 for our -800 fleet as more engines come due for heavy maintenance, adding further pressure to our second half cost inflation.

For full year 2023, we now estimate CASM-X to decrease in the range of 1% to 2% year-over-year compared with our previous guidance of down 2% to 4%. The estimated 1.5% increase is due primarily to higher labor cost pressures, as I've already covered.

Turning to our fleet. During the second quarter, we received a total of 21 aircraft deliveries and retired 11-700 aircraft, ending the quarter with over 800 aircraft. We are working to reflow our order book with Boeing. However, for this year, we continue to plan for approximately 70-8 deliveries and 26-700 retirements which takes the fleet to 814 aircraft at year-end. Likewise, our CapEx outlook remains unchanged at approximately \$3.5 billion, which assumes approximately \$2.3 billion in aircraft capital spend.

Our 2023 capacity guidance also remains unchanged. We continue to expect full year 2023 capacity to be up approximately 14% to 15% year-over-year and we have tightened our third quarter capacity guidance to be up approximately 12% year-over-year. As Bob mentioned, we are planning for first quarter 2024 capacity to grow 14% to 16% year-over-year. Now keep in mind, we are growing 14% to 15% in 2023, and that alone drives nearly 90% of that first quarter year-over-year growth. So the primary driver of that first quarter year-over-year growth is annualizing the additional capacity we are adding this year. But our long-term goal remains mid-single-digit year-over-year growth.

Lastly, our balance sheet remains pristine and we remain the only U.S. airline with an investment-grade rating by all 3 rating agencies. We ended second quarter with cash and short-term investments of \$12.2 billion, net of \$67 million in debt repayments for the first half of the year. We continue to be in a net cash position and expect a modest \$16 million in scheduled debt repayments for the remainder of the year. And currently, 2023 interest income is still expected to more than offset 2023 interest expense.

We declared another dividend in second quarter which was paid just a couple of weeks ago. I am proud of what we have accomplished through the first half of the year. That said, we still have work to do to return to industry-leading financial performance which is our priority as we work on our plans for next year.

This includes managing the ongoing inflationary cost pressures, reflowing our order book with Boeing to support orderly measured and profitable growth and rebalancing and optimizing our network. We believe these plans, combined with our existing initiatives and the maturation of our development markets will help us expand both margins and return on invested capital in 2024 as compared with this year.

Let me close by saying my confidence in our ability to achieve our financial and operational goals is anchored by my belief in the people of Southwest Airlines and their ability to create and inspire success. And with that, I will turn it over to Ryan.

Ryan C. Green

Executive VP & Chief Commercial Officer

Thanks, Tammy. I'll walk you through our second quarter revenue results, provide context for our third quarter outlook and update you on some of our commercial priorities. And for additional detail on our revenue performance, I'll point you to this morning's earnings release. Starting with second quarter. Demand continues to be resilient, especially for leisure travel. Overall, trends have remained steady with operating revenue for the first half of 2023, consistently well above 2019 pre-pandemic levels.

Operating revenue for second quarter was an all-time quarterly record of just over \$7 billion. And in fact, we had record operating revenue in every month of the quarter. Second quarter 2023 unit revenue or RASM decreased 8.3% on a year-over-year basis on a capacity increase of 14.1%. And while it's a year-over-year decline, it's still our second highest second quarter RASM to date, which points to the tough comp we were up against from last year. And as a reminder, year-over-year RASM was impacted by a 5-point headwind from approximately \$300 million of higher-than-normal breakage revenue that was recognized in the second quarter of 2022, resulting from flight credits issued during the pandemic that were set to expire prior to our later policy change to eliminate flight credit expiration dates.

Overall, second quarter revenue came in at the favorable end of our expectations as close-in leisure held strong. Second quarter revenue from corporate travel came in largely as expected, as we realized sequential and year-over-year improvement in managed business revenue. And while travelers from some of our largest segments have reduced their frequency of their business trips from pre-pandemic levels, we're very pleased with the gains we continue to make in the managed business space.

Small and medium businesses, government and educations are strong points for us, and we are growing the number of accounts we have under contract. All of this has allowed us to continue to grow our share of the managed business space in the industry and as a result of our revenue initiatives in corporate travel. We gained additional passenger market share in the second quarter and exited the quarter seeing more unique travelers flying for business than we saw pre-pandemic.

Moving to the third quarter, we're seeing leisure booking and yield strength continue throughout the summer travel season with July revenue, which is essentially booked expected to also be a record. Of course, much of the Post Labor Day booking curve comes in closer but we're very encouraged by the response to our June fare sale for off-peak fall travel and what that suggests for continued leisure demand.

We had all-time record bookings the week of our fare sale with three booking days that were top 10 all-time records and included our record day for the most bookings ever taken. In fact, we have more passengers booked for third quarter travel at this point in the curve than we did at the same point in time for second quarter. Of course, on a revenue basis, nominal yields are typically weaker sequentially third quarter versus second quarter but the strength in passengers points to the continued demand for Southwest Airlines.

We currently expect overall corporate travel to have a modest underlying trend improvement, and we expect to continue our gains in industry market share. Overall, however, we expect corporate travel demand will remain lower than leisure for the foreseeable future, particularly compared with pre-pandemic. So with a higher leisure mix, and as the number of business trips taken per traveler remain down for our most frequent customers, it gives us an opportunity to look at our current network design.

Pre-pandemic, those travelers had a skew of short-haul travel with more frequent trips and also more midweek travel, and our current network is designed assuming those travel patterns would return.

Moving forward, there is a revenue opportunity to adjust the network to adapt to the new travel patterns we expect to continue to see from our mix of business and leisure customers. Ultimately, this leaves us with third quarter unit revenue expected to be down 3% to 7% year-over-year on capacity up roughly 12% again on a year-over-year basis. The decline in year-over-year unit revenue is driven by capacity growing faster than seasonably typical as we restore the network and normalize the utilization of our fleet as well as tough prior year comparisons from the post-pandemic domestic demand surge. So while there is still room to optimize our unit revenue efficiency, this guide implies a third quarter record for operating revenue.

So again, we are in the process of adjusting our network to support our imperative of industry-leading financial performance. Starting with the January 2024 schedules, we've made changes to the composition of the network such that it supports the customer travel behavior changes I just mentioned.

We made changes that reflect where our customers are traveling and when they're traveling, including time of day and day of week and this optimization will be largely complete in spring of 2024. In addition, we have more than 10% of our markets under development, which will normalize closer to pre-pandemic levels over the next 12 to 18 months. So as we said in the release and as Bob mentioned earlier, the go-forward revenue opportunity from the network is substantial. And of course, we also expect continued revenue contribution growth from our existing and fully implemented revenue initiatives.

Finally, we've always worked hard to consistently deliver the best hospitality and customer service here at Southwest. Our customer service is, of course, legendary, and our customer policies are industry-leading. And we are on track in deploying our onboard product initiatives, including WiFi upgrades, larger overhead bins and in-seat power. We are now focused on widening our customer service advantage through prioritization of a series of initiatives that will improve our digital hospitality and allow our customers to serve themselves in most cases. We aren't ready to provide you all the details there, but the initiatives will help us achieve our goals to deliver the best and most efficient hospitality with next-generation tools, airport layouts and more.

And now with that, I'll turn it to Andrew.

Andrew M. Watterson
Chief Operating Officer

Thank you, Ryan, and hello, everyone. I'm going to provide some additional details on our operational performance and a brief update on our Winter Operations Preparedness Plan. I'll have to start by commending our employees for their warrior spirits and the solid operational performance they delivered in an operationally challenging quarter. As Bob mentioned, we had record flight activity, record customers and record bag counts. But we were ready. We were staffed up and we were prepared.

Our completion factor in the second quarter was really pretty remarkable. We reliably achieved a flight completion factor of more than 99% in the second quarter. It was the highest second quarter performance in the past 10 years. And that is despite the challenging environment, June, in particular, had tough operating conditions. We had issues across the entire system with pretty much continuous weather disruptions.

Safety is always our first priority, so we couldn't avoid some flight delays, but we are really excited in getting customers to the destinations and with their bags. And when we had weather events, we managed to reset and be right back on track the next morning, which is a sign of good management through the regular operations by our people.

Underneath that headline, we saw broad-based improvements in our operating metrics as on-time performance, long delays, early morning originators, turn compliance, flown as booked and trip Net Promoter Score, all showed solid year-over-year improvements. This was against the backdrop of runway closures in Las Vegas and Denver, which are two of our largest operations.

Another drag was our block time hit rate, which dropped over 4 points relative to the second quarter last year as our pilots had to take more circuitous routing because of weather. The broad-based improved performance against these headwinds is a testament to solid execution by our people.

Looking forward, we're also really pleased with our progress on the implementation of our Winter Preparedness Plan. Just a reminder, so the plan is detailed on a micro site, which is available on our website. The plan is on track to be fully implemented in fourth quarter 2023 in advance of our winter storm season. I won't walk you through all the details today since it's on the microsite. But I will say that everything is going really well, and we are already accepting delivery of new equipment and infrastructure as well as completing software implementations. We are conducting summer school to train new ramp agents on de-icing and train all ramp agents on new equipment.

Obviously, the other thing we have going on is labor negotiations, where we continue to work diligently, and we continue to make progress. I do want to thank all the parties on both sides who work hard to negotiate these collective bargain agreements. I'm grateful that we've been able to get so many ratified in the last 9 months but we still have more to do with a couple that have been amenable for a while.

We know the negotiations could be emotional as well as complicated, but we are committed to good faith negotiations to get new agreements in place as quickly as possible and to compensate our employees with market wage rates. So in closing, I'd like to thank all of our employees for their hard work. It's an honor to be part of this team and to have the opportunity to support them. And with that, I'll turn it back over to Julia.

Julia Landrum

Thank you, Andrew. We have analysts queued up for questions. So a quick reminder to please keep your questions to one and a follow-up, if needed. Operator, please go ahead and begin our analyst Q&A.

Question and Answer

Operator

[Operator Instructions]. Our first question will come from Scott Group with Wolfe Research. You may now go ahead.

Scott H. Group
Wolfe Research, LLC

So wondering if you have any color on the pressure on load factors in the quarter? And then guiding to a lot of pressure on RASM in Q3 as capacity accelerates. With Q4 capacity expected to accelerate further, do you think we should expect further RASM pressure? And given that, do you think about maybe moderating some of the capacity growth.

Ryan C. Green
Executive VP & Chief Commercial Officer

Scott, it's Ryan. I think just stepping back and just taking a look at the second quarter overall, I think it was a really good performance. Record operating revenue for the quarter, record operating revenue for each of the months in the quarter. And I think when you think about that relative to the compare period from the prior year, with the pent-up demand in second quarter plus the headwind that we were facing there on the breakage adjustment of about 5 points which, by the way, does not persist going forward. That is -- that comparison is isolated to the second quarter there. I think that the performance is really, really good. The fare environment, second quarter year-over-year. If you adjust because that breakage benefit or breakage comparison from second quarter of 2022 gets booked into passenger revenue, that gets spread out over all of the revenue there in the quarter.

And if you isolate that, average fares in the second quarter are actually up year-over-year at 2%. So we're in an environment here where we're managing -- we're optimizing revenue in a really strong fare environment, which does typically have a little bit of pressure on loads.

And the -- and I think if you look at our domestic load factor compare second quarter, that's in line with the compares -- or the load factor performance that our competitors saw in the second quarter as well. So all of that taken into account on the second -- on the second quarter, I feel really good about that.

As you think about the fare environment going forward, July here is almost booked. I think the fare environment as far as we can tell, continues to persist here in July. I think we expect another record revenue in July, again, on a tough compare from prior periods with the pent-up demand last year. So I think we're just in an environment here where we are managing -- where we're optimizing revenue in a very strong fare environment, and that typically comes with a couple of points of load factor adjustment there.

Robert E. Jordan
CEO, President & Director

Scott, it's Bob. The other thing we -- obviously, the new -- we've got -- we're in this new revenue management system as well that we're -- I think we'll be fully taken over the network in terms of pricing this fall. And number one, I'm happy that we've been able to get it in. We got it in on time but it thinks about your whole itinerary. And one of the things that happens, too, is it maximizes close-in demand. So it wouldn't be a surprise doing that, that you might see a little bit of a lower load here, especially as we learn the new system, and again, all that was known as we did testing. Second thing is we know we're in a suboptimal environment. We brought capacity back quickly as we restored our flying. I'm very proud of the team here. We will get all of our aircraft in the air and be unconstrained flying everything here at the end of the third quarter, which is actually ahead of our plan, but it's not optimized.

That's why we're doing all the work in the first quarter of next year around the network to optimize. The last thing, just Ryan talked about this, as you associate this to average fare, we have a large percent of our network in development. It's over 10%. And we added new cities. We had -- we grew Hawaii during the pandemic. We put kind of 100 aircraft or more into those investments, and those are still in development and that will mature across 2024, and I expect that percent of our total system in development to be normal to fall across each quarter next year and to be normal sort of pre-pandemic normal by the end of next year. And I think, Tammy, the just -- if you just think about fares, the average fare drag from that sort of those excessive development markets compared to normal is about \$2 right now. So it just gives you a ballpark in terms of thinking about average fare as well.

Scott H. Group
Wolfe Research, LLC

Helpful. So I guess just a quick follow-up, like to that. Has the network optimization, is that more of a cost opportunity or revenue opportunity? I guess, ultimately, I'm trying to figure out like if capacity is up high single next year, do we think CASM is up or down next year?

Robert E. Jordan
CEO, President & Director

Do you want to take the...

Tammy Romo
Executive VP & CFO

Sorry, no, yes, we'll tag team on that. Now we believe that the network redesign, it will be beneficial to both our revenues as well as on the cost side. And as we look ahead to next year, we are absolutely committed to driving our unit cost down. And certainly, the network and our opportunities there to align our staffing and our fleet to our network -- our network design should be helpful in helping us to achieve that goal.

Robert E. Jordan
CEO, President & Director

Yes. And I think I would just add to, you talked about the large capacity in the first quarter that we've just talked about, 14 to 16. It's still capacity. But just as a reminder, with the restoration getting all the aircraft flying this year, it's going to produce a lot of capacity just doing that because we were so constrained, particularly on the pilot side, which again goes away in the third quarter. So it produces a lot of carryover, especially into early next year. So 90% of that growth in the first quarter is simply carryover from adds back here in 2023.

As you think about the network optimization, yes, as Tammy said, it's a play on both sides. But the travel patterns is clear, the travel patterns post pandemic are not what they were pre-pandemic. Some of that is leisure. A lot of that is that business. I expect business to continue to come back, but I think it's going to trail the restoration of leisure here for a while. So Ryan talked about this, but it seems like a much more aggressive reduction into on a Tuesday and a Wednesday for example. Normally, that schedule would fall about 2 points from a Monday. I think it's going to fall about 8 points with the optimization of the network. We're managing much, much better management of really early and really late flights, which obviously have RASM penalties on those. So anyways, it's definitely a revenue play, but it's really meant to just match the post-pandemic demand and travel patterns to what we're seeing to the network.

Andrew M. Watterson
Chief Operating Officer

Yes. To give some color on this, it's kind of put in the 4 buckets of network changes we're doing. The first is a frequency shift from mostly short-haul business heavy routes to more medium and long-haul routes with a lower business mix. The second is Tuesday, Wednesday reductions, are down 7% to 10% versus Monday, Thursday, Friday, depending on the season. The third is the shoulder of the day. So moving the latest and earliest flights, which are typically our worst performers a little bit in. And then the fourth is we're adjusting the new city in Hawaii markets, as we've understood their seasonality demand patterns, we will be shifting them as a result.

Now to give you some -- a little bit of color on that first one about how we're shifting the frequencies, let's take Midway. In March of '24, we'll have 225 departures. In March of this year, we had 229. So this is down 4 trips. Underneath that, you have 26 city pairs that are changing frequencies. You say Midway to Columbus, down two frequencies from 6x to 4x, Midway to Phoenix up two frequencies and replace it.

And then same thing in Columbus, they're not losing two frequencies. Those frequencies are going from Midway to Sarasota and to Tampa. And so everyone kept their departure, so to speak, for the composition moved a little bit. Now Sarasota is a pure-play leisure, but Tampa and Phoenix is a combination of leisure and business. So it's kind of a mix shift at the margin, not like going to the other guardrail, so to speak. So all these -- you go do this through all of our network, it leads up to a substantial change, but each one itself is modest.

Operator

Our next question will come from Savi Syth with Raymond James.

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

Good afternoon. Can I ask maybe a high-level question kind of tying in all the different things that you're working on? And when do you think you can get back to 2019 level of profitability, not necessarily EPS, but just kind of pretax income type level? Like what does it take to get there? And how long does it take to get there?

Tammy Romo
Executive VP & CFO

Yes. Savi, we are in the midst of working on our detailed 2024 plan and certainly getting back to pre-pandemic levels of profitability is our goal. And as we've shared with you, adjusting our network to the current demand environment and current business environment is a part, a significant part of that plan. We're not ready, obviously, to provide guidance for next year, but certainly getting back to those levels of profitability is the goal. So the first order of priority is to fly all of our fleet and optimize our staffing levels to that flying and to the network adjustments that we've taken you through. And in addition to that, we've got ongoing contributions from our initiatives as we continue to grow the network.

And certainly, we'll continue to get contributions from our ongoing fleet modernization plans. So we've -- certainly a lot of moving parts here as we work to rebuild following the pandemic. It's obviously been a little messy here. But the good news is that we are almost fully restored and will be soon, and we will be certainly pivoting and putting our efforts on producing year-over-year margin expansion for 2024.

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

That's helpful. And I was just wondering if I could ask a question on the labor accruals. Does that include what has historically been part of the kind of the ratification bonuses. So in your case, anything kind of prior to April 2022 or any catch-up to kind of last year's where you might be lower? Is that also included in kind of this year's labor accrual? Or is it just getting kind of the labor cost to what you think the market rates are?

Tammy Romo
Executive VP & CFO

Savi, it is our best attempt to adjust our market rates to current market rates. And obviously, there's been changes as we've been moving along here and we've been adjusting as we go. And certainly, for the third quarter, we have factored all of that into our third quarter cost guidance as best we can estimate. So -- and I think that's an important point, Savi. So we've got -- we've been accruing all along, as you know here, as you know. And so just keep that in mind as you compare Southwest to maybe some of the other guys in the industry.

Robert E. Jordan
CEO, President & Director

Yes. I mean just in short, though, yes, we are fully accrued for what is the most recent market. And as you know, market's been moving. In fact, the change that we made for full year cost down 2% to 4%, we guided down 1% to 2%. That change was basically entirely updating our accruals across the quarter because the market moved.

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

And that's pilots and that's all labor groups?

Robert E. Jordan
CEO, President & Director

It's all.

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

And I mean the driver of that increase was kind of all labor groups driving it up with this quarter more because of pilot -- we've seen some pilots...

Robert E. Jordan
CEO, President & Director

It's anywhere we saw an increase on. So if you have an open contract that we're still in negotiations, it's anywhere where the market moved, we updated our accruals. So in my mind, we are fully accrued to the market. And just -- I mean, just on that note, just a little side, we just had some good news this morning. we had -- we got a notice that we have ratification of a new agreement with our mechanics and related employees in AMFA. So they just ratified contract extension 4 years through 2027 this morning. So a little bit of good news there. Another one, so I think that makes 7 in the last 9 months.

Operator

Our next question will come from Duane Pfennigwerth with Evercore ISI. You go ahead.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Just on the -- I mean, you noted some of the reasons that you need to kind of tweak the network. But could you comment on maybe geographically, and I don't know how you look at it internally, maybe Hawaii, Midwest, West Coast, East Coast, how much variation is there across the U.S. as we think about that third quarter guidance, what is stronger versus what is weaker? And then just on the network changes broadly, why start in January? If you've identified changes that need to happen, why not start in September or the fourth quarter? What are the practical reasons not to do that?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. Duane, it's Ryan. Just on the geographic element and kind of what's stronger versus what are we seeing that's weaker. The Hawaii franchise itself, now that is -- that's part of our markets that are under development. And so there is the development element of that, but we've been very pleased with the Hawaii franchise overall, especially the main lands of Hawaii element of that franchise, load factors are very high. Yields are improving. So we're very, very happy with how Hawaii is performing.

To your comments on why network changes, we have made some changes to the network in IntraCal and that IntraCal itself, despite the West Coast being a little bit slower to come back in the recovery IntraCal itself is performing well. Leisure-based markets, Florida is performing well, just typically strong leisure markets in this environment continue to perform very well for us in the strong leisure environment. So that kind of gives you a flavor for what's going well. The opportunities, we -- there are markets as we brought back the network and restored the network, there are different geographies that have different levels of capacity kind of as we bring those cities back. And obviously, you have to work to absorb the capacity as it comes into the market.

So we're working on those markets where there's kind of been outsized capacity growth, and we'll continue to focus there. But one of the things that Southwest Airlines benefits from is we have largely a relatively diverse domestic footprint and as different parts of the country respond differently and have go through different economic cycles, we're able to kind of weather that a little bit better maybe than some of our peers. So that's an inherent advantage for us as we go forward.

Andrew M. Watterson
Chief Operating Officer

Duane, it's Andrew. I'd also add that we want to. When you make change to your network, you want to kind of understand before you make fulsome changes. So we have been making adjustments. So in September as the first schedule we have a modified Tuesday, Wednesday capacity versus Monday, Thursday, Friday, it's not as aggressive as we have been starting in January. So we want to have that out there and see how it looked to understand that before we started making changes and then some of the network changes that we're doing. We also stepped into them over the course of September through fourth quarter. We like what we saw on the forward bookings and so we made the kind of full adjustment starting in Q1. So it's essentially done by March, except for the seasonality type adjustments I talked about will obviously happen as that season rolls around.

Robert E. Jordan
CEO, President & Director

well, Duane, also if you think about just more for our customers, just the example of the change on the Tuesday, Wednesday move into an 8% reduction from a typical Monday changing schedules that are already published, especially for the holidays, it's super disruptive to our customers. And so if you're going to go in there and make wholesale changes to the fall, we're committed to not doing that. Obviously, we tweak our schedules now and then. But in terms of wholesale changes, we committed coming out of the pandemic to not do that to our customers. So January really -- obviously, we did some things, as Andrew described, but January was really the first opportunity in a new published schedule to enact a lot of the changes.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Okay. Great. And then just for my follow-up, I wonder if you'd be willing to kind of quantify the excess training investment and I think the reliability investment, which I guess is actually bigger, you would know. But can you give us a sense for the magnitude of those that are unlikely to kind of reoccur or maybe wind down next year?

Tammy Romo

Executive VP & CFO

Duane, I'll take that. In terms of the training, we'll provide more details once we have our plan fully -- fully baked here and solidify our capacity plans, et cetera. But I can help you with regard to costs that we've incurred this year that we believe are onetime related to the ops disruptions, and that's about \$100 million to \$150 million. So that's kind of onetime comps that won't repeat next year. Beyond that, we'll share additional details once we lay out our 2024 plan for you.

Operator

Our next question will come from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

First question is of a modeling variety. So Tammy, if we look at the third quarter ex fuel CASM guide and then the full year guide of down 1% to 2%. And I realize there's some wiggle room here, but it implies a fourth quarter outcome that's pretty similar to the third quarter in terms of absolute ex fuel CASM at least closer than what's usually the sequential case. Fourth quarter is usually higher than third quarter. Just wondering how you'd address that.

Tammy Romo

Executive VP & CFO

Well, keep in mind, Jamie, that capacity is going to be a factor in that as we continue to add back capacity. So I think that's the primary driver.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

Okay. And then second, and this sort of builds off what I asked you about last quarter. You mentioned the stagnant corporate demand, revamping schedules next year to reflect post-pandemic changes to how customers are flying. And I don't dispute that those changes have taken place. Other airlines have spoken to this. I'm just curious, how do you separate changes in travel patterns from the possibility that maybe the Southwest brand was somewhat damaged last December. I mean, you make it sound like it's all the fault of shifting consumer preference and it may very well be but have you at least consider that maybe something about the overall value proposition of Southwest might also be a contributing factor?

Robert E. Jordan

CEO, President & Director

I'll let Ryan talk to the specifics. As you think about markets and trying to tease that apart. But I just start at the top, and you mentioned a lot of this early on. I mean we are just -- obviously, we track customer trust and all those things, preferences and they're all heading in the right direction and look really good. To me, the top line factor is thinking about demand for the brand, is there any hangover effect. I mean the -- we had tremendous strength in the quarter. We had, again, record operating revenues, record passengers, record flights, all those things. We had our fall sale, and I believe each of those days was a record in terms of our highest booking day in our history.

We haven't talked a lot about, Ryan can talk more about demand on the business side. We're seeing, I would say, significant market share gains in terms of our piece of the business. We talked about that at Investor Day in December. And since that time, we're seeing really meaningful shifts in market share our way on the business side. So as you think about demand for the brand, demand for the product that shows up, obviously, in bookings. We're just not seeing any sign of weakness. Ryan?

Ryan C. Green

Executive VP & Chief Commercial Officer

I think we mentioned last quarter, of course, following the event, we have brand tracking research in place where we're tracking sentiment on a weekly basis. Those scores in terms of trust in Southwest Airlines, their confidence in our ability to get them where they want to go. All of those have rebounded past post disruption. And I would say we're -- those are back to normal ranges, certainly. I'd echo what Bob said, the biggest single indicator is demand for Southwest Airlines overall. I think as you look forward to the third quarter, expecting another record revenue in third quarter just came off a record revenue performance in second quarter.

We had record Rapid Reward acquisitions in the second quarter, record co-brand spend, which is an indication of customer engagement in the second quarter. So I think all of that points to the fact that there is continued strong demand for Southwest Airlines and the disruption is in our past. I will also just point to the fact the travel patterns changing. If you look at an individual customer basis and you look at the frequency of their travel, especially for business trips, that began to plateau prior to last December. So there's been no stepdown in terms of frequency of travel on Southwest Airlines post disruption event.

Those trends were beginning to emerge last year and prior to the event overall. Now on the whole, as Bob mentioned, we're continuing to pick up market share in the managed business space. So we're winning more business and we're winning -- we're earning the business of incremental passengers. So we're going out and adding more accounts under contract. We're winning more of their business as we move forward. It's just the structural impact of the pandemic on the frequency of business trips on an individual traveler that again persists or that was taking place prior to the disruption in December.

Operator

Our next question will come from Conor Cunningham with Melius Research.

Conor T. Cunningham
Melius Research LLC

10 years ago, you guys established a plan that was centered around minimal capacity growth until your return on invested capital at like 15%. During that time frame, slow growth, your earnings exploded. I realize today is not exactly the same. You have a large order book, open labor contracts, all that stuff. But you do have a lot of planes that you could retire. I'm just trying to understand why you're not taking a step back and slowing capacity into '24 accelerating your fleet plan? Like why is mid-single-digit growth the right number for Southwest right now?

Tammy Romo
Executive VP & CFO

I'll start. And well, first of all, we do believe we have growth opportunities. And I'll just remind you again that we did make investments during the pandemic to grow our route network. And as we've reported, we have a larger-than-normal amount of our capacity in development markets. But those are progressing and they're trending in line, if not higher than our expectations. So we're pleased with that growth. And based on what we've seen so far, we have no plans to pull back on the development of those markets because we believe those are really good markets for Southwest over the long term.

And we believe we have additional opportunities in our strong hold market. So now that said, based on our assessment of our growth opportunities, we believe that supports mid-single-digit ASM growth. Now as always, and I remember that plan very well. At the end of the day, we are determined to drive the returns on invested capital that we can all be very proud of. And as always, one of the wonderful things about Southwest Airlines as we build our plans with ample opportunity.

So to your point, we have a flexible order book and flexible fleet plans. And you're exactly right. If we -- if we're not -- we don't have -- we've given you our plans. But should we need to adjust, we've got the levers that we could do so. But at this point, based on everything that we've seen, we believe with these network changes that we can drive the revenue performance next year that we all desire. So a lot of moving parts here, and we're busy at work on our 2024 plan. But again, as we look ahead to next year, we are very focused on delivering a 2024 plan that will deliver margin expansion and as well as expansion in return on invested capital.

Robert E. Jordan
CEO, President & Director

Conor, you're just in a period here where we're not optimized to. I'm really proud of the fact that we got all the aircraft open flying here in the third quarter, and we'll have our network restored by the end of the year. But again, it doesn't mean optimal. And it's not just the network, it's not optimal in terms of how we think about our resource usage in our efficiency. And so we'll attack that very aggressively, just like we're attacking the network here in the first quarter of 2024. Past that, to me, the biggest question would be, do you have opportunities for the aircraft that we're talking about, the mid-single-digit growth supporting.

And we have significant opportunities in just name a place, Denver and Austin and Nashville and on and on and on, where there's huge demand for the Southwest product. We have [gates] coming online. I would be worried if you're sitting here going, I don't know where to put the next aircraft. That's not the case. We have tremendous demand for the brand. We have tremendous demand in our focused cities, in our large cities and others and a lot of brand strength here.

And again, yes, absolutely, there's work to do to optimize the airline wring out cost continue to boost revenues to things like the network actions and then obviously boost our returns. And as Tammy said, we have a lot of flexibility.

Conor T. Cunningham
Melius Research LLC

Okay. That's helpful. And then maybe just to put a finer point on 2024 or as we just think about what you've added so far, the implications for '24. If you just pull fourth quarter capacity through '24. I think it's -- the implied capacity growth is like 6% year-over-year. So is that the low watermark that we should expect next year? I'm just -- again, just trying to understand the context of this measured in orderly and all these other moving parts you have that's going on with your network right now.

Tammy Romo
Executive VP & CFO

So the impact of just the carryover to next year is probably, I would say, 7 points.

Operator

We have time for one more question. We'll take our last question from Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Thank you, everyone. So just lots of moving pieces on RASM and obviously a very hot topic. As we look out to 2024, you gave us a lot of moving pieces. How do we think about earnings growth for 2024, given you have \$500 million benefit from network optimization, but RASM will be down almost likely and CASM-X could be up. So is there a possibility for flat earnings or revenue EBIT growth next year?

Robert E. Jordan
CEO, President & Director

Well, Sheila, obviously we have the -- as we talked about at the Investor Day, we've got the contribution from our initiatives that we described there, which is \$1 billion to \$1.5 billion in EBIT. You got on top of that. The \$500 million that we've described in the value of the network changes that occurred during the first quarter and are in place again by March. We have some other things that we're talking about here relative to opportunities. So all that is obviously a desire to lead you to margin expansion again here in 2024. But we're working on our plan. We don't have a plan to share with you yet. That's coming later, obviously, in the fall. But yes, margin expansion is absolutely the goal. Tammy, if you want to add anything?

Tammy Romo
Executive VP & CFO

No, you covered it.

Julia Landrum

Okay. That concludes the analyst portion of our call. I appreciate everyone joining. Have a great day.

Operator

Ladies and gentlemen, we will now begin our media portion of today's call. I'd like to first introduce Ms. Linda Rutherford, Chief Administration and Communications Officer.

Linda Burke Rutherford
Chief Administration & Communications Officer

Thank you, Anthony, and welcome to the members of our media on our call today. We'll go ahead and get started with our media Q&A. So Anthony, if you would queue folks up to begin asking questions.

Operator

[Operator Instructions]. Our first question will go from Alexandra Skores with Dallas Morning News. You may now go ahead.

Alexandra Skores

Thank you so much for the time today. I wanted to revisit the conversation earlier about the pilot contract because obviously, we saw United come out with their tentative agreement, and that ultimately brought American back to the negotiating table to try and meet those pay standards and benefits. I wanted to ask if there's an update there and if SWAPA is committed to kind of meeting those new pay standards and benefits and where you all are at with that.

Robert E. Jordan
CEO, President & Director

Thanks for the question, Andrew, you chime in. So obviously, we are -- when negotiations are complex, we are eager to reach agreements with all of our groups that are open -- have opened contracts right now. We're meeting very regularly with SWAPA and very hopeful for progress there but nothing new to report. You've heard about the strike authorization vote. Obviously, that is a NMB defined process, mediation is a defined process.

So it's I'd say there is no strike or an imminent strike. There are a lot of steps that would lead up to that. And obviously, we want to make progress well ahead of any of those, but there's no threat of an imminent strike or anything like that. There are many, many steps that would have to occur first. No, we have a desire to get all of our contracts closed up obviously including that with our pilots to get them taken care of. They do a fantastic job, and we certainly want progress there.

Andrew M. Watterson
Chief Operating Officer

I'd say that if you look -- it's a strong pilots market. So it's a great time to be a pilot. And you see that reflected in the wage rates, which often gets the headlines. But I think what's characterized by all the agreements I've seen so far is it's not so much to wage rates. It's the other the non-wage portions of the scheduling rules and such, which increases the quality of life so the pilots can also increase costs for the company.

And so those rules can be complex and difficult. So you spend lots of time then to go through it. Wage rates is defined as a defined matter you know that, but the scheduling rules and implications take longer to write out and to model out and to agree upon it. So in my opinion, that's what makes the time line longer than I would like with regards to our current negotiations.

Operator

Our next question will come from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I just wanted to clarify, when will you have everything under your winter plan, everything that was planned as a result of the disruption. When will you have all of that in place and the \$100 million to \$150 million cost you mentioned earlier, that was for everything post disruption. Is that right?

Andrew M. Watterson
Chief Operating Officer

Also, for the -- I'll handle the time line. So we have -- October is the deadline we've given ourselves to get everything ready. We expect winter storms to actually be after that, but our internal deadline is October. And so that will be when we report our third quarter earnings, it will be later in October, and we'll make sure to go through and have a comprehensive review and status update where we are on that. But so far, things are on track, and we're taking delivery and encouraged by the results.

Tammy Romo
Executive VP & CFO

And Mary, your question on the \$100 million to \$150 million, would you mind repeating that?

Mary Schlangenstein

Yes. I was asking if that's the cost for everything that you've put in place as a result of the disruptions or if that was just related earlier to the mention of additional training costs for ramp workers.

Tammy Romo
Executive VP & CFO

No, it didn't. It's our best estimate right now of what our onetime cost. There may -- some of those costs that we -- some of the investments that we made this year may prove to be somewhat sticky into next year, including some of our in some of our technology investments. But so that's just our best guess of what the onetime costs are.

Robert E. Jordan
CEO, President & Director

And Tammy, I think it also includes things like we did gratitude. And we did -- we had some incremental customer reimbursements this year and things like that, that are really a onetime related to the disruption that don't show up again in '24.

Tammy Romo
Executive VP & CFO

Mary, just one more thing. I just want to remind you that we even be for the event, we had plans to modernize our operations. So those are some of the investments that I was referring to earlier, those were already in place and obviously, those will continue and all that's been contemplated in our guidance.

Operator

Our next question will come from Dawn Gilbertson with The Wall Street Journal.

Dawn Gilbertson

A quick question here. Your competitors for more than a year now have been talking over and over again about how the leisure travel surge have everybody paying up for premium seats and so forth. You guys don't have anything really to upsell to. But I'm curious, how has this manifested itself, if it has, at Southwest? I mean can you share any details on demand for upgraded boarding, early bird boarding, even leisure travel purchase of Business Select. And one related question to that. I noticed a lot of -- you're making a lot of pitches now to buy A-List status. I could be wrong, but I don't recall that in the past. So I'm curious about the strategy there, too.

Ryan C. Green
Executive VP & Chief Commercial Officer

Dawn, it's Ryan. Good to talk to you. Yes, you're right. Some of our competitors for a while now, have been talking about premium revenue and that being a tailwind to their RASM performance. And I think that it probably has a material impact on their RASM performance that our business model and just we don't participate in that premium revenue stream to any of the same degree that they do. However, having said that, our ancillary revenue in the second quarter as an example was a record. It was a very good quarter for Early Bird. Early Bird had been lagging a little bit through the pandemic recovery, but Early Bird, it performed very well in the second quarter.

Upgraded boarding. We added the ability in the third quarter of last year to purchase upgraded boarding on digital on your mobile device, take rates have tripled since that point. And so we've had very strong upgraded boarding revenue over the course of the last year. And we've been able to maintain the price and grow the price actually some on upgraded boarding and Early Bird as well. So ancillary revenue is definitely a high point for us in the quarter. It's just we don't participate at the same level from a premium revenue standpoint as some of our competitors do.

Related to your last question on the ability to buy A-List status. We have historically -- we run campaigns, we call those tier qualifying points, the ability to kind of top off -- pay a little bit and top off your tier qualifying points to get to A-List, A-List preferred. That's nothing new. We've recently run some of those campaigns, but we've done those historically in the past as well.

Dawn Gilbertson

Can you add -- one follow-up. Can you give any -- it's been years, I think, since you guys have put any dollar figures on Early Bird revenue and/or now that you have upgraded boarding revenue. Can you quantify that at all, please?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, we generate hundreds of millions of dollars from those boarding products on an annual basis. And like I said, we just had a record here in the second quarter. So those revenues continue to grow.

Tammy Romo
Executive VP & CFO

Yes. And just for second quarter, just to give you a little Early Bird alone was in excess of \$100 million.

Operator

Our next question will come from Leslie Josephs with CNBC.

Leslie Josephs

Just curious on the RASM decline for Q3, is that just kind of like a return to seasonality and capacity going up? And are you seeing any sharp drop off after, say, like mid-August, and how does that compare with 2022 and maybe more people were flying off season?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. Leslie, it's Ryan. The -- so certainly, there is a RASM headwind with the capacity growth that's a little bit -- or that's above seasonal norms in the third quarter. So there's definitely a headwind there. But if you take third quarter on balance and just look at the demand in place, I'm very encouraged by with where the third quarter sits today. We are anticipating a record third quarter revenue here over the next couple of months. We have more bookings in place actually at this point in the curve for third quarter than we had at the same time -- same point in time in the curve for second quarter.

We had an all-time record fare sale in June for our fall travel. We had top 10 booking days during that fare sale and including our all-time record for bookings taken in a single day. And that compares to -- even when we open up schedules for the summer or for the holidays, we took more bookings for the fall during the fare sale than we have any other day in our history. So we've got a tremendous base of bookings in place for the fall.

I think that, that shows a lot of demand for the Southwest Airlines product, like we've talked about on the call. And from a fare standpoint, July is roughly booked at this point and the strong fare environment from the second quarter has persisted here into July. So I think that while RASM is decelerating here in the third quarter, we do have the capacity headwinds. But when you compare that to some of the domestic RASM of our peers, I think the way we're shaping up looks favorable.

Operator

Our next question will come from Alison Sider with Wall Street Journal.

Alison Sider

I guess the pilots have been talking a lot about attrition in the last couple of months. I'm curious if that's something you're seeing in your data, if it's at a level that's unusual or concerning? And then, I guess if so, like do you have a sense of when in their careers are pilot leaving or a sense of why?

Andrew M. Watterson
Chief Operating Officer

It's definitely a hot pilot market. And so you -- I guess, hot employee market as well. You have to work extra to hire people and to keep people. And so it's a record year from our pilot hiring. It's also a record year for pilot attrition, but it's a modest number that is not sufficient to actually change our plan. So we -- our amount of flying we have this year and the next is not at all affected by this, kind of, a little bit uptick in attrition this year. We do see pilots as a kind of a job hop around the industry, trying to maximize their personal game, what airline appeals in the best. And I don't begrudge that to them because it's -- once you start with the main line, it becomes there for a little while it's kind of lifelong commitment of bigger seniority system. And so we do see some people who come and leave right away, but -- it's -- I think it kind of spiked here in the second quarter and now it's kind of even starting to tail off a little bit.

Robert E. Jordan
CEO, President & Director

Yes. I mean it's definitely higher than normal. And again, as Andrew said, completely makes sense in the context of the hottest pilot market in history. But I think where that impacts the business. I mean we -- our plan was to hire 17 -- the next 1,700 pilots net this

year. We're still on that plan. And that, of course, was intended to fly the whole fleet, get all of our aircraft back up of the year. And in the air, we'll do that in the third quarter -- by the end of the third quarter, actually ahead of our original plan, which was the fourth quarter. So I feel good about all of this. And yes, I think the fact that the attrition is up a bit is not a surprise given this is the hottest market for pilots, I believe, in history.

Operator

We have time for one more question. We'll take our last question from David Slotnick with TPG.

David Slotnick

Following up a little bit on what Leslie asked. It's -- I understand where the RASM headwind would be. But just considering that -- considering the capacity growth, do you think that fares are going to stay similar or come down, you think pricing power is going to fall a little bit in the fall? And then just secondary at that, are you expecting to see really any kind of return to the shoulder season seasonality that we had pre pandemic? Or are you really seeing just leisure travel staying at steady levels into the fall?

Ryan C. Green

Executive VP & Chief Commercial Officer

David, yes, I think the demand environment, I'd just characterize the demand environment, especially for leisure as strong and that it continues to be that way. We don't have a ton of visibility into the fourth quarter at this point. So I wouldn't comment really too much for the fourth quarter. But certainly, as you look ahead at the third quarter, as I mentioned, we've got a very strong base of bookings in place. And the fare environment, as I look at what we're taking here in July, and admittedly, we're still in the summer travel season here in July. But that strong fare environment continues.

As you look third quarter to second quarter, yields normally give are weaker quarter-over-quarter, and I expect that to be the case as we go -- as we look at third quarter versus second quarter, but that's normal. But all of this is setting up for another record revenue quarter for us in the third quarter.

Robert E. Jordan

CEO, President & Director

And I think we probably mentioned this several times, but if you look at our fare performance in the second quarter and sort of run that through, you just have to be aware of this breakage change from last year, about \$300 million impact that impacted year-over-year the fare calculation. So if you just look at average fares year-over-year, I think it looks like they're down 2.7%. If you normalize that for the breakage impact last year, they're actually up this year, 2.2%. They're actually up. So I just -- as you think about our fares and extrapolating that, just want to make sure you know that because they are actually up year-over-year.

David Slotnick

And then just from what visibility you do have. Do you think that a shoulder season is going to come back for this fall? Or is that sort of the thing in the past?

Ryan C. Green

Executive VP & Chief Commercial Officer

I think I just would characterize what we're seeing in terms of demand and the bookings that we have in place for the fall that would -- that tells me that we've got a strong third quarter ahead of us here.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Rutherford for any closing remarks.

Linda Burke Rutherford

Chief Administration & Communications Officer

Thank you, Anthony. If you all have any other follow-up questions, you can reach our communications team at (214) 792-4847 or through our media website portal at www.swamedia.com. Thank you all so much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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