Operator

Good morning and welcome to the American Airlines Group Third Quarter 2016 Earnings Call. Today's conference is being recorded.

At this time, all participant lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] And now, I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Dan Cravens

Thanks and good morning, everyone and welcome to the American Airlines Group third quarter 2016 earnings conference call. Joining us on the call today is Doug Parker, our Chairman and CEO; Robert Isom, our President; and Derek Kerr, our Chief Financial Officer. Also in the room for our question-and-answer session is Elise Eberwein, our EVP People and Communications, Bev Goulet, our Chief Integration Officer, Maya Leibman, Chief Information Officer Steve Johnson, our EVP of Corporate Affairs and Don Casey, Senior Vice President of Revenue Management.

As is our normal practice, we are going to start the call today with Doug and he will provide an overview of the third quarter financial results. Derek will then walk us through the details on the quarter and provide some additional information on our guidance for the fourth quarter. Robert will then follow with commentary on the operational performance and revenue environment and then after we hear from these comments, we will open the call for analysts questions and lastly, questions from the media.

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and cost, 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 and our Form 10-Q for the quarter ended September 30, 2016.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as net 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 be found on our website. A webcast of this call also will be archived on our website, the information that we're giving you on the call is as of today's date and we undertake no obligation to update the information subsequently.

So thanks again for joining us this morning. And at this point, I would like to turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thanks, Dan. Thanks everybody for being on. Pretax earnings excluding special items of $1.5 billion that's down from last year's $1.9 million, but both by declining new revenues our total CASM was down 2.2% versus last year.

And increasing unit cost driven primarily by investor synergy but while they're down our still second-best third quarter in history of American Airlines behind only the third quarter of 2015. Also because of our share repurchase activity our adjusted EPS was actually up even though earnings were down from $2.77 up to $2.80 in the quarter. So these results are due to fantastic team in American doing an amazing job for our customary. They were extremely grateful. They have done what they do.

On the revenue front Rob will provide a lot more details and we're encouraged by the trends. Our CASM was down 2.2% in the third quarter, but that's better than we've seen in terms of the decline in recent quarters, as better than our competitors were experiencing.

In fact the month of September CASM was actually improved year-over-year, which was the first month of year-over-year CASM improvement for American Airlines since November of 2014. Now course September was helped by the calendar on a year-over-year basis, which is why we at Americans would like to focus much on monthly revenue numbers, but the trends is good and it appears to be continuing as we'll discuss.

Our unit cost grew in the quarter and Derek will provide more detail on that, but the primary driver of the unit cost increase is our decision to invest in team. We had pay increases and profit-sharing that are by far the largest drivers of the cost increase and we're pleased to be able to provide those improvements to our team members.

We now reached new agreements with all of our workgroups. So the large increases are behind us. Furthermore as we complete more of our integration in 2017, we'll be able to being eliminating some of the redundancy still exist because of the two airlines and that will help us reduce expenses in 2018 and beyond.

As integration we had enormous success earlier this month with the flawless integration of our flight operating system FOS. This is an extremely complicated system integration that's lead to operational disruptions of that airlines as they've gone through mergers and our team executed without a hitch.

While we're doing all that, we continue to invest in our products and improve the product. We had 12 new aircrafts as part of our unprecedented fleet renewal program report. American fleet is now more than 40% younger of large network years and that gap is widening.

We had 10 new destinations to our network including five acumens new service from LA to Hong Kong next monthly we'll begin daily flights to Havana and then you have position as the largest carrier to Cuba. We continue to make enormous improvements to our clubs including in this quarter, the reopening of a renovated Admirals Club in Rio de Janeiro and the refurbishment of our London Heathrow Arrivals Club, which now has 29 shower rooms and business center.

So in summary, the U.S. airline industry has been transformed and American Airlines is well-positioned for success in the new world. We're producing record profits, new record profits despite a soft economic environment and we're using those profits to improve customer service through important investments in both our products and energy and we're returning the excess cash to our shareholders through share repurchases.

So there is much work ahead but the American team continues to further up the challenge. We're extremely pleased with where we are and very bullish on the future of American Airlines. So now I would like to turn over to Derek, who will provide more details on the financial results and then to our recently appointed President, Robert Isom, who will discuss operating performance and revenue environment. Derek?

Derek Kerr

Thanks Doug and good morning, everyone. We filed our 10-Q and earnings press release this morning and in that release, our third quarter 2016 GAAP net profit was $737 million or a $1.40 $1.40 per diluted share. This compares to our third quarter 2015 GAAP net profit of $1.7 billion or $2.49 per diluted share and if we exclude the special charges, we reported a net profit of $933 million in the third quarter of 2016 or $1.76 per diluted share versus the third quarter net profit of $1.9 billion in 2015 or $2.77 per diluted share.

Our GAAP third quarter pretax profit was $1.2 billion, equating to a pretax margin of 11.2%. Excluding special charges, our third quarter pretax profit was $1.5 billion, which resulted in a pretax margin of 14%. Excluding the effects of special charges and the non-cash tax provision of $449 million our third quarter 2016 adjusted fully diluted EPS was $2.80 per share, compared to $2.77 in the third quarter of 2015, reflecting a 22% reduction in our fully diluted average share count during the quarter.

We continue to see sequential improvement in the revenue environment during the quarter, which Robert will talk more about for the quarter. Total operating revenues were $10.6 billion down 1.1% year-over-year. Passenger revenues were $9.1 billion, down 2.2%, driven by a 0.6% decline in yields.

Cargoes revenues were down 5.1% to a $171 million due primarily to a decline in international and domestic yields. Other operating revenues were $1.3 billion up 8.5% versus the same period last year due to the impact of the new credit card deal signed with Barclays U.S. City and MasterCard on July 12, 2016.

Total GAAP operating expenses were $9.2 billion up 5.2% versus the same period last year. This increase was driven by investments in our people through contractual increases and the introduction of profit sharing plan, investments in our product, investment which includes our fleet as Doug talked about and investments in our operation.

These investments were offset in part by lower fuel costs, our average mainline fuel price including taxes for the third quarter of 2016 was down 12.4% year-over-year to $1.46 per gallon. Third quarter mainline cost per ASM was 11.96 up 5.6% year-over-year, excluding special charges and fuel our mainline CASM was 9.32 up 8.9% year-over-year.

Regional operating cost per ASM in the third quarter was 18.85, which was down 5.2% from the quarter in 2015, excluding special charges and fuel, regional CASM was 15.08, a decrease of 4.4% due to the continued shift to more efficient large regional jets.

We ended the third quarter of 2016 with approximately $9.2 billion in total available liquidity comprised of cash and investments of $6.8 billion and $2.4 billion in an undrawn revolver capacity well in the excess -- well in excess of the $6.5 billion minimal liquidity we seek to maintain for this foreseeable future. The company also had 635 million classified as restricted cash during the quarter.

We did generate $1.1 billion during the quarter of cash flow from operations and made $372 million in debt payments. We continue to believe it is important to retain liquidity levels higher than our network peers given our overall leverage and the fact that we have not yet completed our fleet renewal program, which will be substantially complete in 2017.

During the quarter, the company took advantage of favorable market conditions and completed several financing transactions including a re-pricing of the company's 2014 term loan collateralized by our London Heathrow flights which reduced interest by 25 basis points and the issuance of $814 million EETC consisting of both AA and A tranches which priced at a blended rate of just over 3%.

In the third quarter of 2016, the company returned $669 million to its shareholders including quarterly dividend payments of $53 million and the repurchase of $616 million of common stock for 18.2 million shares. Since our capital return program started in mid-2014, the company has returned $9 billion to shareholders through share repurchases and dividends.

Including share repurchases, shares withheld to cover taxes associated with employee equity awards and share distributions and a cash extinguishment of convertible debt, our share count has dropped 31% from $756 million and merger closed in December 2013 to 519.2 million shares on September 30, 2016. At the end of the third quarter 2016, the company had approximately 555 million remaining on its current share repurchase authorization.

Turning to our guidance for the remainder of 2016, we continue to monitor our capacity plans and in our IR update issued last week, we lowered full-year 2016 system capacity guidance by 0.5 point and are forecasting it to be up approximately 1.5%. For the fourth quarter of 2016, we expect our mainline capacity to be 57.5 billion ASMs and our regional capacity to be 7.84 billion ASMs. So our consolidated capacity will be flat year-over-year in the fourth quarter.

On the cost side, we're forecasting year-over-year mainline CASM excluding special items and fuel to be up approximately 5% to 7%, while regional CASM excluding special items and fuel is projected to be down approximately 3% to 5%. For the fourth quarter of 2016, we expect our mainline CASM excluding fuel and special items to be up between 8% and 10%.

This year-over-year increase is driven primarily by investment in our people of about six points, maintenance timing of two points and DNA from new aircraft and to increase CapEx of one point. Regional CASM excluding special items and fuel is expected to be down by approximately 3% to 5% in the same period.

As we look forward for the first time since mid-2014, year-over-year fuel prices are expected to be higher through the remainder of the year. Based on the forward curve as of October 17, our mainline fuel price forecast for the fourth quarter of 2016 is $1.59 to $1.64 per gallon, while our regional fuel forecast for the fourth quarter is $1.65 to $1.70.

Despite these higher fuel prices, we expect the full-year 2016 consolidated fuel expense to decrease by approximately $1.2 billion year-over-year. Using the midpoint of the guidance we just provided along with the revenue guidance that Robert will give, we expect our fourth quarter pretax margin excluding special items to be between 4% and 6%.

For capital expenditures, we still expect total gross CapEx to be approximately $4.4 billion in 2016. We've 20 deliveries worth approximate $1.1 billion, which will occur in the fourth quarter and we expect to invest $300 million in non-aircraft CapEx in the quarter, which is $1.2 billion for the full year, which includes continued integration work and investments to improve our product and operations, some that Doug referred to in his comments.

Looking out to 2017, we are taking a disciplined approach to matching our plan capacity levels with anticipated levels of demand. We're still in the process of developing our operating plan, so our formal capacity guidance will come out when we report fourth-quarter earnings, but we currently expect our year-over-year system capacity be up approximately 1% in 2017.

We expect full year 2017 domestic capacity to be flat while our international capacity is expected to be up approximately 3.5%. Our international growth is driven primarily by our Pacific entity as we annualize the new routes added in 2016.

We'll also know more about our 2017 unit cost projections after we complete our operating plan, but as Doug noted, we now have the bulk of our cost increases behind us. As we look to 2017, we expect the full-year impact of our labor agreements will add approximately two points of CASM, but otherwise our core CASM growth should be around 2% on a very modest 1% growth in ASMs.

And as Doug also noted, with the integration nearing completion, we will be able to begin the process of eliminating some redundancies in 2017, which will help our unit costs in 2018 and beyond.

So in conclusion, we couldn't be more proud of more than 100,000 team members who continue to deliver outstanding results. We continue to make great progress integrating our airlines, most recently with our flight operating system cutover and we've already seen some positive results. We are also excited about the commercial initiatives our team is working on and looking forward to reporting on their continued success on future calls.

Thanks again for your time this morning and with that I'll turn it over to Robert.

Robert Isom

Thanks Derek. Good morning to everyone. I appreciate that you're joining us. I would like to start out by thanking our 100,000 team members for their outstanding work during the quarter and I characterize this quarter as being one of operational and commercial challenges, but I would like to underscore positively that we have executed integration items exceptionally well.

Despite all these challenges, our team's commitment to taking care of our customers and each other has never wavered. Some performance was challenging for both our employees and customers. The primary driver was inclement weather that seemed to settle over a number of our hubs throughout the summer, most notably Dallas or DFW.

In addition we struggled to operate our expanded Los Angeles schedule reliably. primarily due to airport and facility constraints. We're working with [indiscernible] so that we will be better able to meet our customer's demands to fly American from Los Angeles going forward.

I'm happy to report that our reliability has rebounded to new record levels across our system in September as a result of a number of factors and those trends have continued well into October and we expect that they will continue. Again I appreciate the efforts of our front-line team to take care of our customers throughout the summer and especially and most recently during Hurricane Matthew.

We have successfully completed some major integration milestones over the past few months including a single flight operating system for our pilots dispatching aircraft and I am so appreciative of our 15,000 pilots the APA, our IT and flight teams for their efforts to ensure a seamless cutover.

We've also put new uniforms on all of our employees. We have interim agreements with our fleet service and mechanic workgroups. Tentative agreements now with our flight crew training instructors and some engineers and once these tentative agreements have been ratified all American team members will be benefiting from pay increases that resulted from our merger.

So much of what we're striving to accomplish going forward would be difficult to address without having the integration work completed and completed well. As I start to think about our plans for next year, there's good reason to believe that America will improve versus the industry and operations performance. We're taking a fresh look at how we schedule our aircraft reliability.

Our 777 200 reconfigurations will be completed by summer 2017. Our 787 fleet has reached a critical mass allowing for easier recovery from off schedule ops and with a single flight operating system, our aircraft and pilots can now be used interchangeably instead of being managed as separate entities.

We're also making big investments in service recovery and customer notification tools for passengers and employees that we'll continue to roll out next year. On the revenue front, our third quarter TRASM was down 2.2%, while the revenue environment is still challenging in certain areas of the world, we as -- we have observed improvements in many places.

The third quarter was much better than the second quarter, so we continue to see improving trends. As Doug noted, in September we had positive year-over-year TRASM and PRASM and that's the first time this is has occurred since November of 2014 and we're seeing improving trends in cargo as well.

September marked the first time since December 2014 that our monthly year-over-year cargo revenue has improved. Domestically consolidated PRASM was down 1.8%. This was our best result since the first quarter of 2015. We saw strength across the board with all hubs have a second derivative improvement. Los Angeles and DCA were top performers year-over-year.

Internationally, we have lapped the dollar strengthening last year as well as declining international surcharges. Latin was our first entity to turn positive with PRASM up 1.8% for the quarter, driven by 25% year-over-year improvement in Brazil PRASM as capacity rationalized and the Real strengthened.

In addition there was continued strength in Mexico. The Atlantic was our worst-performing international entity down 11.2%. The main drivers of performance are continued capacity increases, specifically for low-cost carriers, the devaluation of the British Pound as a result of the Brexit vote and lingering impacts from recent terrorist attacks.

Across the Pacific, PRASM was down 10.5% on capacity increases of 28.7% with continued weakness in China due to excess capacity and growing into our new services from Los Angeles to Hong Kong, Haneda, Sydney and Auckland. We're pleased to see corporate passenger demand holding up, driven by our domestic entity. In the third quarter, we saw increases in both absolute revenue and revenue share and we see similar trends developing in the fourth quarter.

Looking forward, we see some choppiness in the fourth quarter due to holiday shifts with September and January benefiting from traffic shifting from October and December. We expect November to be the strongest month of the quarter versus 2015.

Regionally, the domestic fourth-quarter looks about the same as the third quarter due to holiday shifts. In Latin America we expect continued sequential improvement and low single-digit increase in PRASM. We expect the Pacific and Atlantic to remain challenging with low double-digit year-over-year PRASM declines

And with that, we expect our fourth-quarter TRASM not PRASM, but the total TRASM to be down 1% to 3% year-over-year. We expect that our fourth quarter decline to be smaller than our third quarter decline, despite a more difficult fourth-quarter year-over-year comparison.

As we look forward to 2017, we expect continued second derivative improvement in year-over-year TRASM performance and look forward to getting to positive TRASM in the first half of the year.

In conclusion, it's an exciting time to be at American Airlines. We made a tremendous amount of progress over this past year with respect to integration, operational improvement and getting back on path to positive TRASM. All these important steps are critical to restoring American Airlines to its rightful industry-leading position. We have a lot of work left to do and we're confident we have the right plans, the right team in place to execute and we look forward to reporting back on future successes.

And with that, I would like to turn the call back over to the operator and begin the question-and-answer session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we'll take our first question from Joseph DeNardi with Stifel

Doug Parker

Hey Joseph.

Joseph DeNardi

Hey Robert just a question on the decision to cut some capacity at our fourth quarter. How much of that was planned versus related to some of the operational challenges you're having at LA and then was that decision seen as an EPS accretive action or is that just kind driven by a focus on improving RASM?

Robert Isom

Thanks Joe I appreciate the question, but the capacity that we're planning for the fourth quarter is really a result of all plans and so there's not much that we would say is attributable to anything operationally.

Joseph DeNardi

Okay. And then was that -- was the idea to reduce capacity relative to their prior plan, just designed to improve RASM or was that seen as also beneficial to earnings, just trying to understand the pressure it put on CASM, are you expecting a better increase on the RASM side?

Robert Isom

Look the capacity we have out there we think best meets demand and ultimately we think that's margin accretive and we think we have the right schedule out there for the flying that we can do.

Joseph DeNardi

Okay. And then Derek, you mentioned again that you're carrying some excess liquidity as you get through this CapEx bubble that wraps up next year. What's normal liquidity for you guys look like once you get through that?

Derek Kerr

Well I think as we've said we can go down, our minimum number is going to be about 6.5. We do have some things coming up in 2018 with the pension payments, we've about $1.4 billion pension payment in '18 as we start going forward. So we need to look out all the way through that time period to make sure that we have cash levels at that point and we're very confident where we're at today and we're levels are at today.

So I think we can take it down a little bit from here, but I want to make sure that we get through all of the aircraft purchases next year and then I think it gets into the -- as we said 6.5 is our minimum that we feel we can go down to and we’re significantly above that today, so we’ve opportunities to continue to return cash to our shareholders.

Doug Parker

And just -- this is Doug, just to add on to Derek, so the minimum is I think below that. It's a target and we’d like to keep that we think is a safe amount little bit more than our competitors. That’s what we do rather than what in exchange for having some higher leverage the way we protect ourselves as making sure we have lot more cash coming.

So we have total cash balances of $6.4 billion. We're higher than that now and we're investing heavily in the airline and our people. We will continue to do so because we're investing for the future to the extent we continue to be well above that number, that's we consider our excess cash and we return to our shareholders.

Joseph DeNardi

Great. Thank you.

Operator

Next we have Hunter Keay with Wolfe Research.

Hunter Keay

Thanks. Good morning.

Doug Parker

Good morning.

Hunter Keay

Hey this is a question for Don Casey. Don, I'm going to ask you a very generic question just to get us, I want to hear you talk and so feel free to go anywhere with this, but I'll just say can you just tell us what you saw on the domestic yield environment as the quarter progressed and may be to understand as you talked about Dallas now that we're lapping the right amendment, what's happening in that market and I'll leave it at that. Just talk about Dallas and overall domestic yield thanks.

Don Casey

On the domestic front as we went through the quarter, we saw improving near term yield. So yields start to improve across the domestic business starting in August and from a RASM perspective we saw improved yearend RASM build going back to April.

As for Dallas in particular, in August the last tranche of the Southwest expansion for Dallas and when we look at the Dallas performance right now, it's really in line with performance across the rest of the system.

Hunter Keay

Good, thanks and then little more on debt Derek, Scott said you don't believe artificial debt targets. Your stock has been doing nicely, your RASM is getting better at a certain point here, people are going to start moving away from it if you're not, I think perceived to be taking a more assertive approach on your balance sheet.

Again next three, six months as RASM gets better, that’s fine, but you’re running the risk of people transitioning to more quality stocks in the space if you will if you're not taking an assertive approach on debt. So, may be talk about rather than just talking about liquidity, let’s talk about debt holistically and is there any thoughts of providing making a slide that shows where you want to be on debt targets over the next, two three, four years because it works for Delta and I think it's a nice story to tell for some of the incremental long lease that might be all put off as everybody’s RASM gets better midpoint in next year. Thanks.

Doug Parker

Hey let me start. This is Doug, so -- and then Derek can provide details, but first off I would just, frankly we don’t agree with the premise and shareholders can make their own decisions obviously based upon what we do, but our view is the best thing for our shareholders is to ensure that we have sufficient amount of liquidity to withstand any sort of downturn, but the cost of getting to or worrying about credit ratings is in a business where we're borrowing against aircraft as 3% doesn’t necessarily -- actually doesn’t seem to be that go in and of itself, doesn’t seem to be in our shareholder's best interest.

So somewhat -- it somewhat surprised with shareholder with the people like you would push back on this, because we think we’re doing what’s best for our shareholders. At the end of the day, we're producing -- we are producing profits at levels this industry has never seen but consistent with what other industries do.

We’re very bullish on our ability to continue doing that over time. As we do so, the first thing we do is invest back in our company. This company needs a good bit of investment. We are investing at levels that no airlines ever invested before. The aircraft monetization I talked about has now at aircraft levels that are at age levels that are well below our competitors something like around 10 years and falling for 16, 17 years and increasing for them and then investing on top of that something as Derek said $1.5 billion next year on improvements in the airline.

Those are good investments and we’re excited about those and those will provide returns for our shareholders. Those are long lived assets that we're not off spending it on ancillary businesses or trying to do something we're not, we're doing what we think is right and we feel very good about that. That investment will now return for shareholders. Once we do that then we look to make sure we've paid down any high cost that we done that.

Derek and his team has done a phenomenal job of getting to while we have a larger amount of debt in the balance sheet and appear the cost that debt is low and as we look to each -- the incremental decision by the way comes down to that. We're adding airplanes as we do this monetization.

Should we use our cash balance to pay for those aircrafts or should we avail ourselves of 3% debt and we think the best thing for our shareholders is to avail ourselves of the 3% debt. That leaves us with cash balances that are in excess of the target and we think the right thing to do with that is to return it to our shareholders, but the way we protect ourselves is having a much higher liquidity balance then others.

That's the cost of it, but it's a much, much costly thing then paying -- then not availing yourself of low cost debt and the other point I want to make is even if we did those things, even if we started paying cash per aircraft we still have higher debt. It's going to be better assets.

When you have airplanes that are nine years old but somebody else with 17 years old, you're going to have higher debt because you have much better assets and they're going to be here for a long time as are we and that's what why we're doing this. So you're right. This is -- we believe we're in the right spot. We're very comfortable with our leverage. We're very comfortable with the balance sheet and we're doing the right thing for our shareholders.

Hunter Keay

Okay. Thank you.

Operator

Our next question comes from Jamie Baker with JPMorgan.

Jamie Baker

Hey, good morning everybody. Doug your pretax margins at now the lowest in the business, dropping below those of United for the first time in a long time, do you expect to remain the worst in the business?

Doug Parker

And that’s seasonal -- no is the answer, but I expect which you'll see in '17 is to do better than our competitors in terms of certainly year-over-year margins. You've seen it already in the RASM and that will continue into '17.

You'll see on the cost front as Derek noted the reason the margins declined even though we’re having better RASM now of course is because our CASM is up more, that’s because we’ve gone and taken care of our people faster and gotten ourselves to a point where we have in every workgroup, less than three years since the merger we now have everyone on new pays scale that reflect the they're doing for us and that’s increased our cost but they're well below.

We had to do that. We're happy we did that. Our shareholders should be happy we did that but it's behind us now. We have one of those that was done midyear which is the TWI Derek talked about so that will have a year-over-year impact, but it's in the current cost structure and beyond that we haven't seen any sort of other cost increase, certainly over and above inflationary rates in the airline. So, I think what you’ll see as we go through '17 is better revenue PRASM improvement on a year-over-year basis and better cost performance as well.

Jamie Baker

Okay. I appreciated it and Robert I continue to purchase the absolute lowest fares that American intends to publish because I can. As I noted on Delta’s call I’m prohibited from doing so, when flying them because economy basic is rolled off.

Can you give us an update on the timing and any potential earnings magnitude that you would associate with rolling out a similar ULCC matching de-contented product however you refereed to internally.

Robert Isom

Thanks Jamie so, basically we’ve been working on for some time and we’re on track. We’re prepared to launch at the end of this year, but right now our game plan is going to be hold off on that and to go and to start to roll out in January. This comes a little bit from my operations background when avoid the holidays and disruption to our folks and so we’re on track and ready to go, but any details on that and you’re going to have until we roll out and we're not at this time making any projections on revenue performance associated with the product.

Jamie Baker

In light of the no answer, can I just ask the inevitable question if you aggregate November, December and January on a domestic basis. will RASM be positive or negative?

Don Casey

This is Don I will answer that.

Jamie Baker

Hi Don.

Don Casey

But when we looked at the entire system, so not just domestic, but look at the entire system from November through January we would expect our overall TRASM performance to be flat to slightly positive.

Jamie Baker

Excellent, thank you everybody.

Doug Parker

Thanks Jamie.

Operator

Our next question comes from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani

Hi, thanks for the time first question just in terms of the guide for 4Q how conservative is it just given what we saw the last quarter what are you assuming on the closing side and then any other assumptions that you can share with us would be great.

Don Casey

This is Don again when we do the forecast we try and pick the midpoint and we did that again this quarter.

Derek Kerr

Yeah, anyway Raj, I would just point out I mean there is improvement if we had 2.2% PRASM in the third quarter and we giving you 1 to 3 in -- midpoint is to then that’s improvement, slight improvement for us but fact in the fourth quarter year-over-year comp as far as in the third quarter, year-over-year comp is always calendar and having even this same performance third quarter, fourth quarter on year-over-year basis is improvement, it's we believe our forecast highlights an improving trends is what we're experiencing.

Doug Parker

At that due to the holiday shifts, specific of the Christmas holiday shift we expect the impact of that on Q4 PRASM to be one point.

Derek Kerr

Which is moves into the first quarter.

Doug Parker

It moves in the first quarter so, at a mid point or two absent the holiday shift there would be base business improvement point.

Rajeev Lalwani

Great and then in terms of the capacity growth for next year can you talk about just cadence through next year and then some color on the brick down by region I think you provided some color on Asia which is looking at maybe other parts of the world and then also how did you arrive at flat and domestic grows next year with underpinning that.

Derek Kerr

Yeah, this is Derek but I think we're going to have to hold up on that until we get to the we're still working through it I mean that's our projection right now as we're doing our plan so when we get down to the fourth quarter call we'll give regional and cadence by quarter by as of right now, we just have a full year number and we're working through the plan so, we just have to wait till the next quarter for that.

Rajeev Lalwani

Okay, may be just one question and I think you talked about growing a good amount in Asia can you may be just highlight why you are growing so much there is just give some of the process and figures that we saw and that relates to that.

Derek Kerr

The growth that you see is really as a result of additions that we made this past year. This is we take a look into the next year it's going to be, going into the services that we've put that we think that our network is well suited to support those routes and our customers demand the service there for serving the region in the long run and we're in the right phase.

Rajeev Lalwani

Thank you.

Operator

Our next question comes from Mike Linenberg with Deutsche Bank.

Mike Linenberg

Hi, hey good morning everybody just a couple here. On the credit card deal with the Master Card explicatively Derek I guess I miss that when the original press release came out I just, I know you had really long term relationship with Visa is there any sort of incremental benefit or with the numbers that you gave us and that was announced that also include moving over to MasterCard from Visa.

Derek Kerr

That includes moving over to MasterCard.

Mike Linenberg

Okay. Great and then just my second question on for Bob, Robert we talked about basic economy and rolling that out in early 2017 I guess can you talk about the international premium economy which I believe is actually rolling out this week and how long it's going to take to ramp up across your international system and what should think about the potential revenue upside from putting this product out across your fleet and by the when do you get it fully up in running.

Derek Kerr

For international premium economy the great news is that we're seeing as come out of on our 787, 900 deliveries which is a fantastic news and those ramp and we'll have critical master to start selling right now you can buy into those seats which is good news as we get to the point of being able to offer consistently next year will be able to start selling the premium economy cap.

Doug Parker

Yeah, mike it's a that we are doing the modifications we have to go through on all of our white body aircraft the ones that aren't delivered with it. The one that of the biggest portion of them will start coming in '18 so, we'll have all of those aircraft going through mod in '17.

So, we will monetized those seats through probably MCE, the main cabin extra product that we have today until we get to the critical mass and then we'll be able to put up roll out the premium economy so I think that it's more of an '18 impact that is '17 impact due to having modify all of our white body aircraft for that product.

Don Casey

This is Don. I just add that we've also we've to actually create the infrastructure and say but sell the fourth cabin and that's a big IT project that's underway right now and then we're expected to have that completed in early next year and we'll start selling the fourth cabin in mid February for flights beginning of April.

Mike Linenberg

When we think about the magnitude kind of the run rate on this, this is like a [$1.750 billion] type program on its up and running is that or to might just we had of the ballpark on that.

Derek Kerr

Mike, we've given those numbers hundreds of millions of dollars, I think quite comfortable to seeing that, it's a great product for our customers in addition we see correctly why we saw this is being able to look at our partners information be doing the similar planning as we -- and getting higher RASM because of this product it helps the number of ways we excited about it's certainly as, it's a meaningful impact to our customers and to our revenues.

Mike Linenberg

And I'm looking for to it for as well. Thanks Doug.

Derek Kerr

Thanks Mike.

Operator

And our next question comes from Helane Becker with Cowen and Company.

Helane Becker

Thank you, operator. Hi guys thank you for the time here so, I have just a couple of questions. The first is do you have to make any changes in IT to accommodate the both the DoT issued yesterday with respect to on time performance specifically.

Derek Kerr

Perhaps we don't know yet -- it is not material versus all the other stuff we have IT group doing in terms of integration otherwise there maybe something that, that's not large as…

Helane Becker

Okay. And then my second question is when you think about your headcount I know you guys have talked about at being over stocked as you work through all the integration so as we look ahead to may be 2018 and there is I assume we're going to reduce to -- and what's like the normalize level we should be thinking about?

Derek Kerr

Let's work through and give you the numbers overtime I'm not sure we know that number yet but we know is we do indeed have, because we're still not fully integrated number of areas around the company where we not just more people with resources that we need in all sources of areas so, we will make sure, we do it in a way that's as quickly as we can and also in way that's takes care about employee is really important to us so.

That's a big project for us through 2017 I wouldn't expect it would be able to yield major cost savings in 2017 because we still to be run, we are on good part of 2017 that's a big focus of the teams efforts to move forwards to be sure but we are indeed and -- and team to make sure we don't get to have one airline and still have the infrastructure of two.

So we work through it as we know more let you know but that it's not significantly we've talked about it. It's something is going to be able to yield some nice cost improvements and it should part of why our cost are where they are right now because we're running through separate airlines in a lot of areas and we'll work through that as we go through 2017.

Helane Becker

Okay, and then just -- the other question I just had was with the Atlantic and your joint venture with BA and Iberia and the other carriers have you been able to think through what the right level of capacity has given the huge increase in capacity from what I would call low fare in other airlines on the North Atlantic this past summer and what it's likely to be next summer? Maybe too far away, but I'm sure you're giving it some thought.

Derek Kerr

I am going to try and then Don can chime in if I am not, but we haven't cared for a lot of our capacity of course, capacity plans based upon others. What we know is while those other carriers are having an impact what we fly is incredibly important to American Airlines and don't have any material plans to do anything other than what we're doing right now and plan to continue to do so. It's a huge part of our network and important part of our network and important to our customers and the relationship with BAs, Iberia is a very important one.

So as capacity comes on from others of course, yields solve and we work through those things, but I don't expect you'll see us just decide to we're the ones that you should be looking to impaired our capacity going. Don?

Don Casey

Yeah, I'll just add in the upcoming winter season, we're actually reducing our capacity by 6% and so we are taking some action and those capacity reductions are focused on markets what are -- we face with structural challenges but where we have partners and we continued to maintain at capacity going forward.

Helane Becker

Great, thank you for your help.

Derek Kerr

Thanks, Helane

Operator

And our next question comes from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

Hey, good morning. Nice to speak with you on a Thursday for changes it's a good format. I just wanted a follow up to actually where Joe started the conversation on capacity if we look at this year I think you started out about 3% and we're finishing up about a 140 basis points of that.

Could you quantify how much of that was due to regional supply constrains and I wonder if you would willing to get specific on Republics restructuring. What were the aircraft you expected to be flying in the original plan that went away.

Don Casey

Yeah, Duane I think it would be hard for us to pick that out right now, but it's our reductions really result of not only a little bit due to regional supportability due to pilot concerns but also south American concerns and then adjustment throughout the system so, I think where we stand right now is what we need to be and we got the fleet and that network that's meeting the demand we think that's out there.

Derek Kerr

In the reduction of course we're still increasing, it's not increasing our rate but at one point in the future, we forecast we would be -- so it's not because of aircraft numbers, it's because of utilization of aircraft and we respond to demand.

So that's really what's going on here going for the most part. We look out a few quarters and think where we may be based on the aircraft we have and what we have comment and then as we get closer and see what's happening with demand, we may make schedule changes and that's what's happened here.

Duane Pfennigwerth

Okay. I may follow up on -- I thought you had mentioned some impact from Republic previously but I can follow-up…

Don Casey

Duane this is overall of the shortfall about a third of that comes from total regional issues some of that is of course republic, some of it is usually associated with pilots who fly it, other partner regional and our wholly owned as well.

Robert Isom

And Joe, this is Derek, we did put in our Q that we have reached agreement with Republic on our go-forward plan which did take out about 20-25 aircrafts out of the contract and so we reach that agreement with them obviously they still have a process to go through to get out of bankruptcy but our deal moving forward has reduced aircraft in we're in pretty good job and was in where we're at with the republic.

Duane Pfennigwerth

Okay, that's great and then Robert I wanted to ask you a question kind of old or structure versus new or structure what were some of the less than optimal aspect of getting a network plan from the other side of the house and then you having deliver that from an operational perspective and I guess more importantly what are the implications of an engineer and that in a very flattering way of an engineer and now owning both of the network plan and ops.

Don Casey

Duane, thanks look, our company has been so focused on integration merger huge initiatives, that the adjustments that we made in terms of worst structure really design now that we're getting past somebody of major integration milestones to start looking at how we can really optimize the running the company day-to-day and to do that we know that we got to collaborate and we all have to be focus on the same goals.

And I think we gotten odd structure and fantastic people running each of the operating goods and they're committed to doing that and so you know any difficulties we've had, I think we're just going to be more well suited to collaborate, communicate and make sure that were all line going forward.

Duane Pfennigwerth

Okay. I think you answered half of that but I appreciate the talking.

Operator

And our next question comes from Jack Atkins with Stephens.

Jack Atkins

Good morning. Thanks for the time so, I guess just following up on that last question for moment Robert now that your new role has the strategy at all changed with the as far as the competition with you ULCCs and your markets and then as you look at your network today are there any specific items or projects now that you are in you new role that you look to sort of undertake over the next 12 months.

Derek Kerr

So thanks for the question. Hey look I've been part of this management team since the -- go so, in terms of how we go to market and strategies that we're intending to pursue I feel like I've done part of those and the direction that were isn't going to change we're going to be incredibly competitive with all commerce especially in our Hut and so you won't see much of a change in terms of philosophy as we go to the marketplace and compete.

Yeah, in terms of going forward there is things we wanted to do, we wanted to certainly excel that one of them is running a fantastic airline one that is best in the business on all levels and that's operational as well as revenue performance and certainly from the perspective of meeting customers' expectations that's going to require that we really engage all of our people in a way that we haven't before and I do view going forward that one of the that primary point of emphasis that we're going to make is involving all of our people and making sure that they are equipped and well trained and treated in a fashion where, they help us outperform the industry.

So from there is a lot of other things that we have going on, certainly we want to make sure that we have all of our forward looking's strategies as alliance partners our network in the best fashion but it all leads to the same place which is having the best network to best people and best product for our customers.

Jack Atkins

Okay. Great.

Doug Parker

Hey, Jack, its Doug that's a great answer but also as well as much timing a little bit on the specifically on the ULCC where we said there is absolutely no change and we need we have to compete aggressively on price against here is like that and when they add place to our hub and we actually have a competitive advantage because we have so much connecting activity and the one game changer, may be a big -- but actually a certainly an improvement and how we can do that and still not, and still be as good for American Airlines is can be -- is basic economy and so that product we have in place we'll allow us to do just that but not have the same amount of dilution we have to American Airlines. So the impact to the spirits of the frontiers will be the same.

We've aggressively matched our prices, but since -- as we put that product in place it will have some attributes that some of our customers would rather don't care the purchase or want to purchase other attributes for more and right now as we match pretty much, we're not able to do that.

So that will allow us to do what we’re doing today, continue to do what we’re doing today which as Robert says what we’re going to do, but also do it in a way that allows us to provide another more utility to our customers and give them a product in addition to the one with absolutely lowest fare.

Jack Atkins

Okay. Great. Thank you, Doug and Robert and I guess just as a follow-up question, it seems as though with whether it's cabin segmentation or international revenue opportunities or reducing redundancies in the organization over the next couple of years there is a huge revenue and cost opportunity at American which should drive significant profitability.

And I’m just curious as you guys think about how to communicate that going forward, is there going to be may be an opportunity for us get from you guys detailed financial targets long term because I think that would really help folks to understand the earnings power here.

Doug Parker

Okay, thanks for the comment. We’ll take it under advisement I understand the value that could provide, just know that I’ve been doing this way long and I’m often reluctant to do depends on how we define the targets, but what I don’t like doing is suggesting that we can predict the future in this business.

It is in incredibly volatile. It will be volatile. I think it will be profitable. I think its dramatically changed the volatility hasn’t changed. So we sometimes are less comfortable than others trying to set things like margin targets, when we know that something effect those margins are outside of our control primarily the economy in fuel prices so, I tell you this.

We couldn’t feel better about American Airlines' future and its financial future and what I also will tell you that based on what we think about the future and we this were extremely bullish on the American stock which is why we continue to purchase at level we do and because as we look out targets or no targets our projections are even in the difficult economic environments have this company be a nice profitable.

And it doesn’t feel like our stock reflects that. So, we we’re happy to give you that guidance and let you go set your own numbers but what we do we’re management company is make sure we’re optimizing for the long term and we’re doing all those things but we’re remiss to trying to tell you that when we had those up it looks like to us and therefore here is what we will produce because we know there is a lot of volatility and what we’re able to produce and our job is to make sure that we can manage around that volatility.

We can we’re excited about that but we're to see we can give you some more guidance we have in the past about longer term but just understand that’s our concern.

Jack Atkins

Okay, great. Thanks again for the time.

Doug Parker

Sure.

Operator

And our next question comes from Julie Yates with Credit Suisse.

Julie Yates

Thanks for taking my question.

Derek Kerr

Hi, Julie.

Julie Yates

Derek can you talk about the opportunities on the cost side now that the integration is largely behind you we seen structural cost reduction programs a few years after the other mergers then, when do you think American could announce something similar and where more specifically or some of the opportunities.

Don Casey

Yeah, I think as we, we talked about on the call we’re going to be going through '17 from -- we have talked about having excess headcount in certain areas just duplication of work just because we're running two different airlines. That’s the primary area that we'll work on as we move forward.

As we said in the call I think we’re going to look at stuff starting in '17 and it will start to affect us in '18. So, I think what we want to do is we’re going to go through the budget in '17, we going to see where everything is and then try to work with each one of the teams to figure out how we take that over the time period into '18, but I think it's more as we talked about in '18 issue than it is a '17 issue.

Mostly in efficiencies of trying to run through different airlines, all throughout the company is not just one point, it's all throughout the company as we've tried to get ourselves where we want to be from an airline and running the best airline we can.

Julie Yates

Okay and then just a question on capacity in Latin America you guys have obviously taken a lot of capacity and you certainly seen the benefits of that today how are you thinking about presuming growth now that entity has turned and you worried about late in capacity coming back in next year.

Robert Isom

Hey Julie its Robert its -- its wait and see we're pleased with that the science of growth and we're going to hold on to that for while and see where things go.

Julie Yates

Okay and one final one Robert, when would you expect the trends at Atlantic PRASM 2 tends to flatten out.

Derek Kerr

We do not see it in the foreseeable future, capacity in the first quarter, industry capacity is going to be a 7% and we don't see signs of that abating and until that abates it's going to be hard to see a positive trajectory in the Atlantic.

Julie Yates

Okay. Thanks very much.

Doug Parker

Thank you.

Operator

Our next question comes from Dan McKenzie with Buckingham Research.

Doug Parker

Hello Dan.

Dan McKenzie

Good morning guys. Thanks for squeezing me in here. I guess just to be for Robert or Don, does the revenue guide factory in the potential loss of a coach here with Alaskan and how material could that impact be if it's lost?

Robert Isom

Revenue guidance does not and I don't think if we didn't change and so wouldn't be - impact doing that…

Dan McKenzie

Okay. And then I guess Doug or Derek my question was on debt as well. So we all know absolute debt levels are higher than they have been historically but with respect to the underlying business I wondered if you could just help investors understand the leverage metrics relative to where they have been historically may be on an American standalone basis.

So leverage metrics today relative to some average over some carried of time that make sense and as you look at those metrics as you feel comfortable about those metrics is that you expect profits to continue growing faster than the debt and wondered if you could just help us understand, what are those metrics look like under your stress test.

Doug Parker

Sure, thanks for bringing it back to because now when I said -- comfortable. What I meant was we're comfortable where it is at this time because looking in the future what we expect to just see those metrics continue to improve and I want to suggest we comfortable keeping with there. Although will may be and but the reason we're comfortable with them at this time is because what you say we have very good line of sight as to what our capital requirements are going forward.

We have a very, we feel good about our certainly even on a very on in difficult economic times, stress testing against the recession about what our earnings would do and as we go forward. So, those that gives us comfort that we're in a good spot right now and when things come up like 2% interest it seems to be an absolute brainer to us, the right thing to do is to take those debt on rather than using cash to pay airplanes and use that cash were appropriate.

So that's what we are comfortable about. What happens overtime I would expect and again without giving him targets and use you will see certainly that the metrics that are tied and coverage ratios for example that tie earnings to that levels you could see those better overtime, earnings better and then as their earnings get better and then debt get's lower.

We are also I should note while we are well head of everyone in terms of modernizing our fleet and it will kind of time that we gotten that done and that's to some future and you won't see the decade and continued to so debt get's lower overtime and earnings continued to even to our margins center stay where they are. You will see those numbers get better that's why we're comfortable where we are today.

And we think we are today we because of the reason I said and we have the right structure in place. We too as a insurance material lot more cash than others but we think that's a better way to do this for our shareholders and able to pay cash 3%.

Dan McKenzie

Thanks for the time.

Operator

Our next question comes from Darryl Genovesi with UBS.

Darryl Genovesi

Thanks for the time and Doug just two follow up on some of your comments around aircraft age and I know you inherited a significant majority of your order book from your predecessor but if the long term plan to maintain the same relative age advantage over your competitors you have today because I think you doing so would imply much different longer term CapEx profile then allowing if lead edge…

Doug Parker

Yes, aircraft age is not a metric that we look at to measure versus our competitors I just point out where it is and but we don't have goal to say we need to be below the other aircraft age but its noteworthy.

But I think we will get to conversations about relative debt levels to point out how much stronger asset base is mine and the best way to communicate to point out how much younger our fleet is, it look it is a is absolutely customer advantage when you get one - new airplanes - there is no doubt and that is much better in flight product and you can tell the difference.

And so we feel good about that and that you are right, the orders were in place and they're coming and we're taking them and but the bigger point that they trying to make here is these are if you look in the very near term, you may say 'Oh my gosh, they have always debt, these are 25 years assets and those airlines have 17 year old airplanes won't be able to have 42 year old airplanes, 25 years from now.

So at some point my point is were ahead of them and suggesting they need to go spending almost not a capital very near term and but they'll need to do something and we won't have to at the point, the way that's worked.

So anyway our goal is to make sure we have the absolute young as its nice when you are in the position but to the extent you want to look at relative debt levels, you need to look at the asset base. Our asset base is just tremendously more.

Darryl Genovesi

Great, thanks for that. And then I guess if I just ask you on or maybe Robert or whoever wants to comment, can you just give us some sense of how your view on your Phoenix hub is evolving given your recent emphasis on Los Angeles and the existing presence in Dallas?

Robert Isom

Thanks. Appreciate it. Phoenix hub does well for us. It serves the same purpose that we did it as over - since the start of the merger and it's a great connecting half, it's got a growing metro area and its serving our network very well.

Darryl Genovesi

Great, thank you.

Doug Parker

International gateway that we -- and I'm looking to expand but they're complimentary not…

Operator

And our next question comes from Andrew Didora with Bank of America.

Andrew Didora

Hi, good morning everyone. Just one question for Robert, I guess when I look at your on time performance they really start to lag both your network appear starting about six months ago or so. Is there a reason for this is anything going on with the integration that would have caused and I can imagine that it's all the LA issues that you mentioned in your prepared remarks.

And I know you mentioned solid corporate share earlier but have you heard anything from your corporate customers on this performance. Thanks.

Robert Isom

The answer in terms of corporate customers, the answer is no. We haven't heard anything we're performing very well as I said in my remarks with our corporate business. So in terms of the summer and the fall up, that's really where I look at things and associated with the schedule were I think we just quite frankly we were pretty aggressive in terms of the schedule that we put out this summer, we had issues in Los Angeles, we definitely had I think in order in amount of weather issues associated with the DFW and then Chevrolet in Miami and that was problematic.

So it seem like we're in a recovery phase a lot of during the summer. As I said before we have a lot of integration tools that we didn't have that we will in the future and that is on building airline back after disruption and making sure our customers and their baggage is taking care of.

One of the things you will note though is we continued to be really strong in terms of our departing on time performance these your performance that's something that we continued to see and I think that will translate into more competitive arrivals within 14 performance and you'll us as well that our completion factor as we move from operating two systems and really three systems in regard to our pilots down to one that we got a chance to much, much better.

So I'm optimistic of where we headed and if you take a look at where we at right now schedule reductions associated with the fall season with the changes to our Los Angeles operation. We are operating back at new record levels and that should continue and again as I said before all efforts are focused on making sure that we worked together to put out a schedule in 2017 that we can operate lively and competitively with the best in business.

Andrew Didora

Great, thank you.

Operator

And that ends the analyst questions. We will now take the questions from media. [Operator Instructions] We'll take our next question from Andrea Ahles with Fort Worth Star-Telegram.

Andrea Ahles

Hello good morning. I would like to follow up a little bit on Helane Becker's question regarding the possibility reducing headcount and how that might be done in 2017. Are you looking at actually doing sort of any lay off reduction in force particularly headquarters where you may have overlapping function as you operate, as you go from operating two lines down into one can you give a little more color or detail on that.

Doug Parker

Sure, absolutely not, but glad you asked. We made it sound that way. We have through pockets of the airline in different groups we will have, we have because we're running two airlines people that are -- where we have more people we elevate other one. But we will manage that over time through attrition. If it makes sense, if it's a labor group or layouts whatever works for our people to make sure we do that.

We don't have any intention nor do we care to go through like you described, we'll do this in a way that works for our team.

Andrea Ahles

All right. Thank you.

Operator

And our next question comes from Mary Schlangenstein with Bloomberg News

Mary Schlangenstein

Hi. So I want to follow-up on Andrew's question, do you guys have some sense of the number of physicians that you're talking about that you have redundancy across your workforce.

Doug Parker

Nothing we can talk about yet. Again this is more of a beyond 2017 initiative. We're going to do the work through 2017. We still do have two airlines to our customers we know, but we still have two fleets. So it's not integrated. While we have that going on, we can't do any of this work what we never did in 2017 to figure out where it is and as we know more, we'll let people know.

The good news in this is we have regular attrition rights and we have ways to -- we let people look to retire early and we'll work through those things as it becomes an issue. Right now we're just -- the reason we mentioned it is simply because it's important to the analyst community to understand that that will be something that comes beyond 2017.

Mary Schlangenstein

Right. So you will only consider things like early retirements, buyouts to know involuntary furloughs is what you're saying.

Doug Parker

Yes. As we sit here today that's what I speak it's correct. Conditions can change and also I want to make this sound like some enormous number of people. So we have pockets of people throughout the organization and as I said and we will work through to make sure this works out for those who are either looking to leave or want to leave on their own as they -- as we have natural attrition with more places.

Mary Schlangenstein

Yes.

Doug Parker

So this is nothing about furloughs and layoffs, all about the fact that as you move from two airlines to truly one airline, we will be able to get some cost efficiencies.

Mary Schlangenstein

Great. Thank you very much.

Operator

Next we have Edward Russell with Flightglobal.

Edward Russell

Hi thank you for taking my question. I wanted to ask a bit more about the premium economy roll out on the rest of the wide body fleet. You outlined target of getting it done in 2017. I wanted to with the business class roll out that ended up being delayed. How do you plan to achieve the roll out in 2017?

Robert Isom

So Edward the premium economy is actually going to go on our A330 200 fleet, the 777-200s, 777-300s and then our 787 fleet, and as we have said

787-9s are starting now and as Don mentioned, we should have for sale in terms of a different class of service next year, but reconfigurations are going to take place over the course of the next really 18 months, 24 months. So we're not going to be ready along all those fleets until June of 2018.

Edward Russell

Okay. Got it thank you and how many roughly, how many do you forecast the reduction in number of economies seats on these aircrafts as you make the modifications or you assume they're going to be neutral?

Robert Isom

I think we're talking about a row generally. I think so that will vary on different aircraft types, but that should be about the way it rolls out.

Edward Russell

About the economy, thank you very much.

Operator

Our next question comes from Conor Shine with Dallas Morning News.

Doug Parker

Hi Conor.

Conor Shine

Thanks for taking the question. I was just wondering if you could talk a little bit more about the improving TRASM trend. What are the kind of the factors that are driving that improvement? Is it just the reduction in capacity growth going forward or are there other elements to that?

Doug Parker

Don do you want to take?

Don Casey

Sure, there are two areas that really kind of driving the growth. One is Latin American and Latin American both Brazil where we've seen 25% increase in the revenue year-over-year, Mexico is performing strongly and we got positive revenue growth in Mexico and Venezuela is contributing to overall unit revenue growth as well.

Domestic business the trend there really has been positive. As I mentioned earlier, we've seen close in yields strength. We've also seen a stabilized pricing environment that's been pretty tumultuous this year but as of late July I can even doubt that when we look at the domestic business from O&D perspective we're seeing kind of the best and strongest yield performance in connecting in oil markets and domestic business which ties a little bit back my earlier comments on pricing.

And also we're seeing the benefits now of the credit card deal that we did in the second quarter as well.

Conor Shine

Good. Thank you.

Operator

Our last question comes from Ted Reed with The Street.

Ted Reed

Thank you. I just had a couple questions about Latin America, some just answered, but are these gains in Latin America are they sustainable? How much of an edge did they give you over your competitors with less presence in Latin America and also when are you going to be able to make money in Cuba and will this be a factor in improving PRASM in Latin America or will it be will be less valuable there.

Don Casey

This is Don again, when we look at the trends in Latin America, we would expect Brazil is a big factor obviously in the overall result and we're expecting our performance in Brazil in the fourth quarter to be better materially better than the performance in the third quarter. So we think our performance in Latin America overall is going to continue to get that.

Now for Cuba, I think everything is struggling a little bit in terms of selling in Cuba, there are a lot of restrictions that are still in place that made it difficult to sell. Right now we're seeing greatest strength in terms of forward-booking in the Havana markets where we've had our long presence with our charter operation. But I think Cuba is going to be a bit of a long road I think.

Doug Parker

We're in for the long haul. It's not something we didn't expect. This is really a new market and so at any rate we're excited to be the largest carrier there. We're committed to Cuba and making it work and we'll work through the startup to get into the point where eventually where we all expect we'll be. Excited about the start of Havana on November 30.

Ted Reed

All right. Quickly most I assume the vast majority of sales are in the U.S. in Miami.

Doug Parker

Yes they are.

Ted Reed

All right. Thank you.

Operator

And that concludes today's question-and-answer session. At this time I will turn the conference back over to Mr. Dan Cravens for any additional or closing remarks.

Doug Parker

This is Doug. Thanks everybody. Again look the story to this from my perspective listening to all this is you know is the team when we did this merger less than three years ago the biggest questions we get on this call was concerns about our ability to manage the integration and I couldn’t be more pleased with the work the team has done to get through flawlessly things like PSS and this is now five. So the delays here has helped us has managed us as a full team effort which is why it's so hard.

It takes cross functional work when people are trying to actually do their full jobs there. So we're elided that that concern we've been able to take off your list of concerns and that's important but what is more important about is it shows what a great team we have here and the things we can do and now with much of that work behind not all of it but much of it behind us, we are extremely excited about everything that we have going on particularly the investments we are making in our people and our product that will accrue to our customers and the upside that provides us but we're in this for the long-term, we're excited about the long term and we appreciate your support thanks.