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Presentation

Operator

Good day, and welcome to the Southwest Airlines First Quarter 2023 Conference Call. My name is Chad, and I will be moderating today's call. 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 Mr. Ryan Martinez, Vice President of Investor Relations. Please go ahead, sir.

Ryan Martinez

Thank you, operator, and welcome, everyone, to our first 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 our 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*

Thank you, Ryan, and thank you, everyone, for joining us this morning. We incurred a first quarter net loss that was in line with our expectations, driven by a \$380 million pretax negative financial impact related to the December operational disruption, roughly \$325 million of that was from lower revenue in January and February, much of that cancellations of holiday return trips. We saw a strong rebound in revenue trends in March, resulting in record first quarter revenues despite the impact of the December disruption.

Travel demand remained strong thus far, but we remain mindful of the uncertain economic environment. You have to be given all the headlines and trends we are seeing across many industries. We have tough year-over-year revenue comparisons here in the second quarter with last year's domestic revenue environment getting a boost from international closures. Taking that into consideration, demand, particularly leisure continues to show strength as we head into the busy summer travel season.

Our cost outlook is higher this year due to a few moving parts as we are making additional investments in the operation based on our learnings from December. I won't go through all of our key findings and work to shore up our winter preparedness because we've done that a few times now. I am very proud of our people for the operation they have delivered this year and for the relentless focus on executing our plan to fortify the operation in preparation for winter 2023.

Despite the near-term cost pressures, we have not lost focus on our goal to effectively manage the real inflationary cost increases we are seeing and equally as important, maintain our competitive cost position. As we look ahead, we currently expect solid profits here in Q2. We continue to expect solid profits for full year with a goal to grow full year margins and ROIC year-over-year as well as have our route network roughly restored by year-end.

We are reducing our full year 2023 growth plans due to a lower planning assumption for Boeing MAX deliveries this year. This relates to the recent news of further supply chain challenges at Boeing. The outcome is a reduction to our 2023 capacity and CapEx outlook, and we are currently reevaluating our hiring needs relative to our most recent expectation to hire more than 7,000 net new employees this year. We will be moderating our overall hiring plans as we get into the second half of 2023.

In the meantime, we are most focused on revisions to our second half 2023 flight schedules to account for fewer aircraft, which Andrew will cover in more detail. I'm very proud of the progress we are making on our customer experience enhancements.

As a reminder, we are investing in 3 onboard initiatives, enhanced Wi-Fi, in-seat power and larger overhead bands. In early March, our first new aircraft with hardware from our new Wi-Fi provider, ViaSat, entered Revenue Service.

By third quarter, we expect all of our existing aircraft to be flying with upgraded Wi-Fi and Anuvu hardware offering increased speed and reliability. So just great progress on that front. Our new MAX 8 deliveries are coming into service with in-seat power and larger overhead bins. So those are already entering service as well. We're also very focused on mobile and other enhancements on our technology road map to offer more self-service options for our customers to give them more flexibility and ease during their journey.

Highlighting one of our stronghold markets, Southwest is the #1 airline in Kansas City, growing from 6 flights in 1982 to 75 flights today. And I'm proud to say that our service in Kansas City is now fully restored to pre-pandemic levels. We recently celebrated the opening of the new Kansas City Airport in February, and we serve as the Chair of the airport and Airlines Affairs Committee. We really appreciated the opportunity to partner with the airport to deliver a beautiful new terminal that will serve us and the community well for a very long period of time. It was a great partnership all the way around, and it is a beautiful facility.

We continue to work hard on labor agreements for our people and we continue to make progress. We just reached a tentative agreement with TWU 550, which represents our meteorologists, and I want to commend both negotiating committees for the spirit of cooperation that led to that agreement.

We remain focused on negotiations with the union representing our ramp and ops employees and mediation with unions representing our pilots and flight attendants and remain committed to competitive market compensation packages for our people. We are very eager to get new contracts and have a significant amount of wage rate increases that have already been accrued and set aside and we look forward to rewarding those remaining groups soon.

In closing, I'm just so very proud of our people. They are the heart of Southwest Airlines, and they deliver day in and day out for each other and for our customers. And despite the negative impacts in Q1, we believe we still have a solid plan for 2023. We are carefully managing the business in the near term, and we continue to believe in our long-term strategy and set of initiatives.

And with that, I will turn it over to Tammy.

Tammy Romo
Executive VP & CFO

Thank you, Bob, and hello, everyone.

Our first quarter loss is disappointing and not how we hope to start 2023. However, the quarter was not without notable accomplishments. Our on-time performance year-to-date through March was solid. Our operations team navigated through a stream of difficult weather conditions successfully with no material impact to our network performance. And despite the negative revenue impact from the December operational disruption, we still had record first quarter passenger revenues and record other revenue. We also ended the quarter with strong double-digit margins for the month of March despite high fuel prices. All of this was made possible by the drive and hard work of our incredible employees.

Ryan and Andrew will speak to our revenue and operations performance and outlook, so I will jump right in to our cost performance and outlook. Beginning with fuels. Our first quarter jet fuel price was \$3.19 per gallon, which was on the high end of our guidance range. Throughout first quarter, crude oil prices stayed within a reasonable range, while prices dipped to about \$65 per barrel in mid-March, they primarily hovered around \$80 per barrel throughout first quarter.

On the other hand, refining margins remained volatile during first quarter after hitting a 10-year high last year. Thankfully, market prices have fallen over recent weeks, in particular, crack spreads, which is a welcome relief. We are 51% hedged for our second quarter and estimate our second quarter fuel price to be in the \$2.45 to \$2.55 per gallon range, which is roughly \$0.69 lower than our first quarter fuel price. That includes an estimated \$0.13 of hedging gains, which equates to cost savings of roughly \$70 million in second quarter alone.

We now estimate our full year 2023 fuel price to be in the \$2.60 to \$2.70 per gallon range, down a nickel from our previous guidance and still including \$0.10 of hedging gains. Of course, this is a snapshot of our fuel guidance based on the April 19 forward curve and market oil prices and heating cracks can be volatile, which is why we hedge. We recently added to our 2024 fuel hedge portfolio and are now 51% hedged next year as well. We began building our 2025 portfolio and are about 10% hedged.

The total fair market value of our fuel hedge portfolio for second quarter 2023 through 2025 is \$418 million. We will continue to see cost-effective opportunities to expand our hedging portfolio with a continued goal to get to roughly 50% hedging protection each year.

Moving to nonfuel costs. Our first quarter year-over-year CASM-X increase of 5.9% was in line with our guidance range. As expected, we experienced inflationary cost pressures, primarily higher labor costs, including market wage rate accruals for all

employee groups as well as increased technology spending and higher rates for airport and benefit costs. The remainder of the increase was primarily driven by operational disruption related expenses.

Looking ahead, we currently estimate our second quarter CASM-X to increase in the 5% to 8% range year-over-year, largely driven by general inflationary cost pressures that we expect to persist and are not unique to Southwest. In addition to higher labor rates, we continue to accrue for market wage rate increases for the remaining open labor contracts.

And as we further refine our multiyear maintenance planning, we have additional maintenance expense this year for our -800 fleet as more engines come due for heavy maintenance and this is adding further pressure to our second quarter cost inflation.

For full year 2023, we now estimate CASM-X to decrease in the range of 2% to 4% year-over-year compared with our previous guidance of down 3.5% to 5.5%. Approximately 1 point of this year-over-year increase is due to lower capacity as a result of Boeing delivery delays and the remainder of the change in guidance is driven by the timing of maintenance expenses for our -800 fleet, a continuation of what we are experiencing here in the second quarter.

As a reminder, our full year CASM-X guidance continues to include higher labor rates, including market wage rate accruals for the remaining open labor contracts as well as the estimated tens of millions of dollars of additional investments we expect to incur towards our operational resiliency.

Turning to our fleet. We received a total of 30 aircraft deliveries during first quarter as expected ending the quarter with 793 aircraft, which is a net of seven -700 retirements, 2 more than previously planned as we shifted up a couple of retirements from the second half of this year.

Looking at the full year, based on the recent production issues at Boeing, we feel it's prudent to have a more conservative planning assumption and are now planning around 70 -8 aircraft deliveries in 2023 compared with our previous assumption of approximately 90 -8 deliveries.

As a result, we have lowered our full year 2023 capacity guidance by roughly 1 point to up 14% to 15% year-over-year, which impacts our second half capacity assumptions mostly in fourth quarter. As a reminder, we have a surplus of underutilized aircraft and our fleet due to pilot hiring constraints. Therefore, the reduction in our delivery should not impact our summer flight schedule.

We continue to expect our second quarter capacity to be up 14% year-over-year. Our planned deliveries continue to differ from our contractual order book. In addition to the recent aircraft delivery delays, which are not reflected in our contractual order book, we continue to reflect 46 undelivered 2022 contractual aircraft deliveries as 2023 deliveries in the order book, further outlined in our press release. But to be very clear, we are currently planning our published schedules around the delivery of 70 -8 aircraft this year, and we intend to solidify our order book with Boeing soon.

In regards to our current CapEx outlook for this year, we now estimate to spend approximately \$3.5 billion reflecting our updated delivery assumptions of 70 aircraft this year compared with our previous guidance of approximately \$4 billion, which assumed roughly 90 aircraft deliveries.

Lastly, a quick note on our balance sheet. We ended first quarter with cash and short-term investments of \$11.7 billion after paying \$59 million to retire debt and finance lease obligations in first quarter. We continue to expect a modest \$85 million in scheduled debt repayments for full year 2023, including roughly \$10 million in scheduled debt repayments here in second quarter.

We also paid \$214 million in dividends in the first quarter as our pre-pandemic dividend is fully restored. And based on our current expectations, we continue to expect 2023 interest income to more than offset 2023 interest expense. We continue to be in a net cash position, and we continue to be the only U.S. airline with an investment-grade rating by all 3 rating agencies.

In closing, this was not the first quarter performance we had planned back at Investor Day. However, I am immensely proud of our people and their perseverance. There is still work to be done to fully recover, but we are currently forecasting a substantial improvement sequentially to the bottom line with solid profitability this quarter.

We are laser-focused on managing ongoing inflationary cost increases, regaining better operating leverage and maintaining our competitive cost advantage. We have not lost sight of our goals or the warrior spirit of Southwest Airlines, and I'm eager to move forward along our path of success for many years to come.

And with that, I will turn it over to Ryan.

Ryan C. Green

Executive VP & Chief Commercial Officer

Thank you, Tammy. I'll take a minute to expand on the commentary in our press release this morning and provide more color on our first quarter results and second quarter outlook. Our first quarter revenue trends remained steady and within expectations throughout the quarter, with first quarter revenue growth of 21.6% year-over-year. This was right at the midpoint of guidance going back to our January earnings call.

And as a reminder, we had 2 competing storylines in first quarter that played out as we anticipated. First, we incurred an estimated \$325 million negative revenue impact that was isolated to January and February. This was the result of cancellations for return holiday travel and a slowdown in bookings following our operational disruptions in late December.

We believe these negative revenue impacts have subsided and are now behind us. We saw the reverse over the second half of the quarter and witnessed strong revenue trends throughout March. That showed up in terms of overall demand, rapid reward redemptions and yields. And so even with the negative revenue impact at the beginning of the quarter, we had record first quarter operating revenues of \$5.7 billion and record first quarter RASM of \$0.15.

Managed Business revenues also improved significantly throughout the quarter. And by March, we're nearly restored to March 2019 levels, just shy of 100%. That has tremendous progress, and it feels like we're very close to full corporate revenue recovery at Southwest.

Our managed business revenues have trended ahead of the industry due to our revenue initiatives in the corporate space, and this is driving new corporate accounts which of course, opens up access to incremental new pools of corporate passengers. And while the managed business recovery still isn't consistent across traveler sector or size of accounts, we expect further sequential improvement in managed business revenues from first quarter to second quarter. How the demand comes in, may be a bit choppy with more volumes further out in the booking curve, but this doesn't seem to be unique in the industry based on ARC data.

Regardless, we expect to continue making market share gains in the managed business space as we gained another point of market share in first quarter while we expect to grow passenger volume from our initiatives on very solid yields. In terms of the leisure booking curve, it has moved further out from what we saw last summer and fall and seems to have more or less normalized to pre-pandemic levels. Leisure demand and yields, which are well above pre-pandemic levels, continue to be strong heading into summer, and we're currently seeing the sequential improvements in operating revenue and yields that we would expect in the seasonally strong second quarter.

All in all, the overall domestic revenue environment remains strong, and our initiatives are performing in line with our expectations. So in short, we're pleased with what we're currently seeing. O.

Our second quarter RASM guidance range of down 8% to 11% contains a 4.5 point year-over-year headwind. As a reminder, second quarter 2022 operating revenues included approximately \$300 million of additional breakage revenue, a higher-than-normal amount related to flight credits issued during the pandemic that were soon set to expire as well as our later policy change to eliminate flight credit expiration dates. Adjusting for this headwind, our second quarter RASM guidance would be down around 5%, and we're pleased with the core trends we're seeing.

This year-over-year headwind will not persist in the second half of 2023. We're also pleased with the performance of our Rapid Rewards program, co-brand credit card and all ancillary products in first quarter, and we're expecting another strong year-over-year performance in second quarter. We saw a first quarter record of new Rapid Rewards members added to the program and also had a first quarter record of ancillary revenue per passenger. And finally, our portfolio of new cities, including Hawaii, continue to mature.

I'm also proud to announce that we have completed the selection and rollout of our new revenue management system, which is the Amadeus Network revenue management product. Our implementation timing is slightly ahead of our previous timeline of mid-2023 and we're very pleased with the revenue results we saw from Amadeus during the production pilot.

We are encouraged about the future opportunity for incremental revenue, which really starts in earnest in third quarter as the new Amadeus product is now fully implemented and is currently managing all future bookings and departure dates. This is just an excellent job by our revenue management team to skillfully manage multiple revenue management systems as we recovered from the pandemic and which ultimately led to this selection. I'm just very proud of the team.

In closing, I want to mention that we have watched our brand metrics very closely since the disruption and our scores have improved significantly throughout the first quarter. We are very fortunate to have a loyal customer base at Southwest that we do not take for

granted, and we'll continue to communicate to them about our remediation plans and aim to consistently deliver the hospitality, customer service and operational reliability they are accustomed to from us at Southwest.

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

Andrew M. Watterson
Chief Operating Officer

Thank you, Ryan, and hello, everyone. I will provide some color on the operation before we jump into Q&A.

Following our event in late December, I am proud of the quick rebound we had in early January and the strong operational performance that our employees delivered in Q1. While Q1 was tough weather-wise, our people did a tremendous job quickly recovering from irregular operations. In the days following each event, we had no material hangover in our aircraft or crew networks. We maintained solid operational metrics and completion factor. This is evidence that our processes for irregular operations are solid and working as designed.

For the quarter, we finished #2 out of 10 airlines and on-time performance, which reflects well on our people. Most recently, while on April 18, we experienced a double firewall failure that resulted in an unexpected loss of connection to some operational data. While our technology teams worked quickly to resolve the issue that morning, out of abundance of caution, we temporarily ground-stopped the airline. It was a pretty quick fix by the Southwest team and a little more than an hour, we looked at the ground-stop and were back safely operating flights.

While this type of event drives flight delays across the network, we canceled only 22 flights on April 18. We had no material impact on our operations the following day. Even with the delay that day, we ran 75% on time within an hour scheduled departure times and 95% within 2 hours. While we don't like those delays, this represents an admiral recovery by our people, all things considered.

Regarding our operational disruption remediation plan, Bob covered that in detail at the JPMorgan conference in mid-March, and that presentation is available on the Investor Relations website.

Since then, we also provide greater detail on the microsite and e-mailed our customers with a readout of the key findings and remediation items we want in place by winter 2023. Therefore, I'm not going to walk through it again today. I just want to reiterate that we have a solid plan and our work is on track.

Turning to capacity. Our lower aircraft delivery expectations this year is driving lower capacity expectations in second half 2023. As a result, our full year 2023 capacity growth is now expected to be in the range of 14% to 15% year-over-year. We're in the process of refining our published flight schedules post summer as we are reevaluating our flight schedule plans for our yet to be published November-December flight schedules. We expect to have those schedules published in the next month or so, but our current estimates are that we will trim planned capacity from September through December in the post summer travel period. This now puts us roughly 2 points lower than our original capacity plan for this year, with Q3 being 1 point lower and Q4 being 6 to 7 points lower on a year-over-year basis.

Despite the lower capacity growth, nearly all of the capacity growth is still going back into key Southwest markets and adding market depth. There was no material change in our capacity allocation approach this year and we continue to expect to have our route network roughly restored by the end of this year.

I want to wrap up by commending the negotiating team of TWU 550, who represents our meteorologists and it just reached a tentative agreement that will be voted on by our employees soon. We have now come to agreement with 9 of 12 work groups covered by collective bargaining agreements.

We'll continue negotiations with the unions representing our other work groups, and we are eager to get these deals wrapped up, so the remainder of our employees can begin receiving the increased compensation we are eager to pay them. We continue to accrue market and competitive wage rates for our employees, which means our financial results and guidance already reflect their estimated raises.

And with that, I will turn it back over to Ryan Martinez.

Ryan Martinez

Thank you, Andrew. We have analysts queued up for questions. So a quick reminder to please keep your questions to 1 and a follow-up if needed. Operator, please go ahead and begin our analyst Q&A.

Question and Answer

Operator

[Operator Instructions] And the first question will come from Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Just on costs, I totally appreciate you have a business to run and there's moving pieces. But the slow drip of these CASM revisions has been painful for your investors. And so my question is, do you feel like the Band-Aid is finally being ripped off today? And what are the circumstances that would cause you to raise your CASM expectations again this year?

Robert E. Jordan

CEO, President & Director

Yes, I'll start and Tammy can clean up here. But most of what you've seen are revisions. I mean, there's real inflation out there. Some of it is that. A lot of it is continuing to revise for labor accruals as the market changes. If you take our pilots, for example, the best marker out there is delta in terms of rates and benefits and so you can assume that we're fully accrued for all open contracts to those rates. We've got a little more inflation here that showed up around maintenance on our 800s.

Some of that is just timing pulling some 24 into 23 around engine visits, for example. It's hard to know on the inflation front. But yes, I think you could expect that for the most part, we're pretty clean at this point. I don't expect -- I mean the other driver, obviously, would be if we had a further change in our capacity expectation for 2023, I don't expect that.

I think this move from 90 down to 70 will help us get a real clean view on our capacity set. And therefore, any impact on the 1 point impact on CASM for the year. But now, Tammy, what else would you add?

Tammy Romo

Executive VP & CFO

Yes. No, I think you covered it, Bob. Yes, the primary cost pressure is salary wages and benefits, and that's clearly driven by inflationary pressures here. So certainly not unique to us and capacity, as always, is going to have an impact on our CASM-X at the end of the day. But we -- our second quarter cost here, at least the profile should be pretty fully loaded, so to speak.

That said, we're always going to look for opportunities to improve. We have our ongoing operations modernization plan. So we've incorporated that best we can. And of course, as we move forward, we have opportunities as we gain operating leverage with the network. So understand the question. But when we have capacity changes, that typically does drive some change in CASM-X. So that's the primary culprit here as we look at 2023.

Robert E. Jordan

CEO, President & Director

Duane, I think the other thing that's helpful, too, is we've been pretty forthcoming that we're -- especially on the hiring front, we're hiring ahead to prepare for growth. A lot of that -- this year coming in '24, I think this further revision with Boeing from 90 down to 70 is going to help us go back through, look at our hiring plans, moderate our hiring plans at this point between the 46 aircraft that were undelivered from last year, now you got an additional 20 than 66.

We -- that are stacked up forward. We're not taking 152 aircraft next year. So we have the opportunity to go back, work with Boeing, reflow the order book. I mean we want all of the aircraft in the book here because we got a good deal, but reflow the order book in a way that is smooth, it is orderly growth, and I think that will help us with wring out this pre-hiring, advanced hiring to prepare for growth as well and regain efficiencies as we move through the rest of the year.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Appreciate those thoughts. And then maybe just a quick follow-up on breakage. I hope this is the last quarter we hear about it. But given the dynamics in 2Q, do you think the June quarter will be your weakest year-over-year RASM -- down RASM quarter? And what RASM outcome are you managing in the back half of the year to?

Tammy Romo
Executive VP & CFO

Yes, sure. Thanks, Duane. Yes, obviously, we had challenging comparisons here in the second quarter given breakage last year. So we do expect that to be the last quarter with that headwind.

And aside from that we also had, I would say, difficult compares here. As you're aware, Duane, last year, the domestic revenue environment was a very robust benefited just not specific to Southwest, but just in general, benefited from international closures last year, making comparisons here in the second quarter challenging. But as Ryan covered very thoroughly in his remarks, we're seeing demand strength here in the second quarter and at this point, trends look strong.

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. The only thing I'll add there, Duane, is that it'd be tough. I think clearly, the financial headlines and the macro environment, we've got to be mindful of that and what's happening around this year. But so far, we've seen no impact on air travel, the revenue looks good here for the second quarter and what we can see.

It's probably tough to speculate beyond second quarter and into the second half of the year. We'll just have to -- as we get kind of mid-July timeframe and get a view into mid-August and into the fall, we'll have a better idea of how things are shaping up beyond the sequentially strong second quarter. But yes, nothing but strong trends here as we look forward and out into the summer.

Operator

And the next question is from Scott Group from Wolfe Research.

Scott H. Group
Wolfe Research, LLC

Andrew, I want to follow up on the capacity cuts. When you were talking through the point of capacity, you said some -- maybe I misheard, but I thought you said a point out of Q3 and then like 6 points or something out of Q4. I didn't really understand it. And then more importantly, what does this mean for capacity next year? Is there now more growth next year to catch up? Is there less growth because we're just going to continue this? How do I think about that?

Andrew M. Watterson
Chief Operating Officer

Well, I'll start off, and then Tam and Bob can chime in. But the impact the delivery book from the Boeing Quality Escape means that the -- effectively, it's the kind of fourth quarter where you'll be short of the aircraft. And then for those schedules will bear the brunt right from September through December, those schedules will be less than originally projected. So we will modify those schedules to make sure we reflect the lower aircraft count.

September and October will be modest revisions to what was already published. We actually publish those schedules with some easily removable aircraft to hedge our bet in case something did happen, so that will be fairly clean. And then we were about to publish November December, now we're going to go back and redevelop November, December with a lower aircraft count to reflect this. So that's what's going to drive the capacity lower during that period of time versus the original plan.

And then for next year, I think Bob touched on when we talked about reflowing the order book because these aircraft that were not delivered last year, not delivered this year, you can't just assume they're bunching up and they're all coming one slug next year because that would be -- we're looking for an orderly growth, as Bob said. So as we reflow that order book, then we can look to how that -- what that means for '24, '25.

Robert E. Jordan
CEO, President & Director

Yes. I think the other thing just to point out is maybe related is the -- we talked a lot about what's constraining the airline. And right now, that is pilot hiring. So we have aircraft effectively that we are not producing capacity out of today because the constraint is just pilots. A lot of -- a lot of carriers are dealing with this, and that was going to true up roughly at the end of the year.

Now with the order book dropping, the deliveries issue dropping from 90 to 70. That's the point at which the pilot constraint turns into an aircraft constraint is -- will definitely be earlier. It will be post summer, late third quarter, early fourth quarter. We'll flip to aircraft

constrained from pilot constrained. And we'll just take that into account as we -- again, as we think about hiring and planning for this year and then planning again for next year. Because again, a lot of the hiring is planning for growth next year.

So number one, the constraint will flip to aircraft constrained. And then second, we want -- again, as Andrew said, we want orderly growth. We don't want 152 aircraft next year. We want to grow -- we have a lot of opportunities, but we want that growth to be orderly and measured and as consistent as we can be year to year to year.

So hopefully, that helps. We're just thinking about capacity next year and how that relates to the order book. We have work to do with Boeing, obviously. The news is still pretty fresh about 10 days or so old. We have work to do to -- with Boeing to just think about how to reflow the order book here, and we'll get through that and keep you informed as we do that.

Scott H. Group
Wolfe Research, LLC

Okay. And then just more near-term question. When I look at the second quarter RASM guide, if I add back the \$325 million book away from back to Q1. It implies a pretty meaningful deceleration in RASM, at least like versus 2019 levels or maybe less of a sequential uptick in RASM than we typically see 1Q to 2Q. Any thoughts on why we're seeing that trend show?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, Scott. I think if you look here, we've looked at this a lot of different ways and you think about what the guide and what revenue performance is looking like here as we go into the second quarter. The first quarter has got a lot of noise in there, whether you've got Omicron last year or you've got -- or disruption this year. And also, in addition to that, there is a lot of international tailwinds out there in the industry that while international is strong for us, we just -- obviously, we don't have as much exposure to that as some of our peers in the industry.

And so when you isolate to the domestic performance and you go back to pre-pandemic, whether you're looking at 2018, 2019, and kind of projecting that forward in terms of growth and revenue performance. When we look at fourth quarter, no matter really how you cut it, fourth quarter to second quarter, first quarter to second quarter, we're pleased with how that ends up what that comparison looks like. And it looks to us like it's relatively in line with what else is out there. I think the other thing just...

Robert E. Jordan
CEO, President & Director

The other thing I think I would add is just we are seeing, as Ryan pointed out in his remarks, we're seeing strong business demand here. We were just right at restored to 2019 levels in March, which I think is a remarkable accomplishment. And I think industry-leading in terms of our ability to get there that quickly. It's going to be choppy a little bit here in the second quarter, but we do expect sequential improvement from the first quarter to the second quarter in terms of business bookings and managed business.

And I'm just really proud of that. But on top of that, you've got obviously the investments we've made in business, GDS, those are showing up. We've got -- and Ryan can talk to this. We've got -- we made our selection around a new revenue management system with Amadeus, actually made that selection earlier than we talked about at Investor Day. That system is now managing all forward bookings, all forward travel periods, and we expect good revenue results from the system as well. So a lot of other positives that will come on here as you move forward across the year.

Operator

The next question is from Jamie Baker from JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

So if we adjust for the January and February book away and then take the midpoint of your second quarter demand guide, it looks like sequential revenue from the first to the second quarter is pretty much in line with ordinary pre-COVID seasonality. So is the takeaway that the book away had fully ceased and the brand is intact?

Robert E. Jordan
CEO, President & Director

Yes. I think the -- I think that's a really good way to summarize how we're thinking about it as well. Just in terms of sequential -- I think about the sequential trend there. But yes, we feel like the revenue impact from the ops disruption, most of it was holiday return travel that obviously was canceled because the outbounds weren't there. And we had some book away. It feels like it was isolated to January and February. March was really strong.

We had double-digit margins in March, very strong demand as Ryan pointed out, we had record additions in terms of rapid reward members in the first quarter. So there's a lot of evidence of strength. As you look into the second quarter, we don't see any evidence of book-away at this point. The trends are strong. Now we have work to do. Let me just acknowledge that when you look at just -- we do a lot of brand surveys. And as we look at all of that, there is work to do across the year to continue to restore some of our brand health has completely expected following what happened in December.

The numbers are improved tremendously from December through April here. We're seeing that moves up very, very quickly, but we need to run a reliable operation for our customers. We're doing that. We were #2 in the first quarter and had completion factors that were up 2 points year-over-year on-time performance that I think was up 3 points quarter-over-quarter. We are focused on delivering a wonderful product with great hospitality, hospitality from our employees. We need to execute. But no, there's no evidence at this point that the book away is continuing. Trends are strong, but we do have work to do on the brand front.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Yes. The only thing I'd add on to that, Jamie, is that we have confidence in that because we have really good visibility. Not only are we watching the scores in confidence and trust and consideration for Southwest for their next trip. And like Bob said, those scores have improved dramatically over the first -- or significantly over the first -- the course of the first quarter here.

And when you look into the second quarter, we've got really good visibility. About 75% of the quarter is booked at this point. We got 50% of June booked at this point. And so all signs look really good and strong for the second quarter. Leisure demand is strong. Managed business is going to sequentially improve here. Looks like in the second quarter from where we were in the first. And assuming we continue on plan here and what we're forecasting, we're set to turn in another record revenue performance in the second quarter.

So like Bob said, we have work to do. We just need to continue to execute and be the Southwest Airlines that customers have grown to know and love. But in terms of bookings, no evidence of any sort of hangover.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

So that's kind of a good segue, I guess, into my next question. So from a passenger perspective, or let's say, a new passenger. So somebody that's just starting to fly, they've reached that economic level or they're just entering the workforce, whatever. Somebody that's not already loyal, what's the value proposition for flying Southwest these days? I mean I get it in a point-to-point -- for point-to-point operations, many instances where you're going to be up, your only competitors are connecting flights. So that's a no-brainer, but in truly competitive markets, if the price is equal and if a passenger isn't already wed to your brand or your credit card ecosystem, what does Southwest do to attract that first-time buyer?

Robert E. Jordan

CEO, President & Director

I think the brand strengths that have been in place for almost -- for 52 years are still there. You have -- we have a -- and even better, we have a tremendous network again, far more nonstop direct flights, we have terrific service, on-time performance, all those things are improving as well. We're continuing to work on the customer experience.

We have new deliveries that are coming now with power on the aircraft. We have larger -- the larger overhead bins. We have improved Wi-Fi. We have our terrific employees and service. And of course, we have really good everyday low fares. So those brand strengths have not changed.

If you look at something like the larger overhead bins and again, it's a small sample size. We have it on a relatively small number of aircraft at this point, but we're watching the data, it's reducing in what we -- Andrew check me, but in what we've seen so far, it's reducing gate check bags by 60%, that's a huge win for our customers. It's a big win for us as well. It certainly helps with cost. It's, again, a modest amount of data, but it's reducing turn times as well on our aircraft.

But back to your question, I mean, the value proposition that has always existed for Southwest Airlines for over 50 years is still true today. When you look at -- one of the things we look at constantly before the ops disruption and after is consideration, where do we sit in the consideration set, both for customers of Southwest and customers that are, for the first time, considering Southwest Airlines. And those numbers are really strong. They dipped of course, during the disruption, but they've come back quickly and tells me that we don't have a hangover from the ops disruption.

Ryan C. Green

Executive VP & Chief Commercial Officer

No. I largely would say the same exact thing. The things that have made Southwest Airlines great historically. In my mind, are only better today, and I think customers understand that. And despite what happened in December, and Bob said many times that, that's not going to define us going forward. And it doesn't.

When you look at our brand scores, customers new and existing give us a whole lot of credit were, by far, the most customer-friendly and business-friendly airline in terms of great service at a great price with the most rewarding frequent flyer program. We win time and time again, more seats are redemption seats on Southwest Airlines than any of our competitors, not even close. So we're by far the most rewarding airline.

And when you look at our stable of customer-friendly policies with bags fly free, no change fees forever regardless of the fare that you fly and we're even making it more flexible with flight credits that don't expire. I think the value proposition is only getting better.

Andrew M. Watterson

Chief Operating Officer

If you look, Jamie, at the use case you talked about a new flyer, the entry-level product is where we shine. So we have -- I would have served the highest-quality economy product. Others offer a basic economy or other type of product, which is stripped down penalizing whereas you fly us, you're flying a regular economy that's got ample legroom. 50% of our aircraft now are 800s or MAXs, which has a 32-inch pitch. So you have a much better physical product, you have much better policies and procedures, our people are joy to deal with rather than the opposite.

So a new flyer would come aboard us and go, "Oh, wow, this is great. This is so much better than the other airlines." And that's where then they say, "Well, I'll fly them again." So our level of repeat purchase is really high. We don't disclose it, but other airlines disclose theirs, and we know that our repeat purchase is much higher. So we get that first experience, and they come back.

Operator

And the next question will come from Savi Syth from Raymond James.

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

This is Matt on for Savi. If I could just follow up on Duane's question earlier regarding the CASM-X guidance increases. Could you elaborate on how much of these costs are fixed and expected to carry through to 2024 and also given that the capacity cuts are weighted sort of late in 2023, I think there's more of a variable cost component helping to offset that. So why is that not the case? Or any additional color there would be great.

Tammy Romo

Executive VP & CFO

Yes. Sure, Matt. And just hearing a few thoughts. We're -- so again, first of all, the cost pressures are not unique to Southwest. But even with those inflationary pressures, we are bending our CASM-X down this year and we still feel good about our competitive position. So we've got the labor contracts accrued. We've got those accrued in our long term -- or reflected in our long-term targets, and we are very focused on bending our cost down again in 2024.

Specific to your question, we do have some onetime costs here this year related to the operations disruptions, and that's probably in the \$100 million to \$150 million range, and that shouldn't repeat next year. So as Bob covered very thoroughly, what we need to focus on now is solidifying our fleet plan and our capacity plan for next year. But as we look ahead, driving our unit cost down is certainly our goal. And as we get further in our planning, obviously, we'll provide more guidance there.

Robert E. Jordan

CEO, President & Director

As you think about to related to where -- how we are thinking about growth and where flights are going, we've been very upfront that this year is about restoring the network and despite the reduction in aircraft deliveries, we will still get back to getting back to right at fully restored by the end of this year. So the revenues that come on are into more mature markets. And so it should contribute at a much faster rate.

As you think about 2024, where I was going with cost related to that is it's our intent to really push, as we talked about at Investor Day, push on operating leverage. That is put a majority of our new capacity in flights into stations where we have gaps during the day. And so the costs are there. We have people -- we're paying for gates for other airport costs, and put flights into points of the day where we know we have demand, and we already have the cost. And so those will come online -- that revenue comes online at a significantly lower cost profile. So that is -- the development of additional operating leverage really is the focus for '24. And Andrew, I would say -- Ryan, I would say '25 growth as well.

Matthew Burke Roberts

Raymond James & Associates, Inc., Research Division

That's very helpful. And then sorry to elaborate on 1 question that was asked earlier as well. But in terms of the capacity plan, at the Investor Day in December, it seemed like it was not dependent on aircraft deliveries and that the initial bid provided then was firm despite any delivery delays. So what's the difference now? Is that based on the current environment and outlook that you feel the need to scale back? Or is there something else?

Andrew M. Watterson

Chief Operating Officer

This is Andrew, for the last year, we've had like 3 elements that constrain our potential growth as we look at the back half of this year. They were flight instructors, pilots and aircraft. And so at the time we spoke at Investor Day, at that moment in time, we were pilot constrained and knew that sometime towards the back half of this year, we would flip from pilot constraint to aircraft constraints.

And so we're on our pilot trajectory of hiring and training the number of pilots we forecast. And so we knew that would flip over some time at the end of the year; with the Boeing reductions now pulls it forward. So kind of what changed is this reduction, which is, I think, the second reduction we've made to our assumptions for deliveries next year, has pushed us from pilot to aircraft constrained now, and that now is roughly the post-summer period, which is why you'll see us adjusting schedules post-summer through the end of the year.

Operator

And the next question will be from Helane Becker from TD Cowen.

Helane Renee Becker

TD Cowen, Research Division

Just on a follow-up question on Net Promoter Score. Is that something that you focus on? Can you share with us how that's looking sort of now versus where it was maybe in January?

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes, Helane, it's Ryan. We measure Net Promoter Score and focus on it on a weekly basis, if not on a daily basis. And there's really -- we track actually 2 types of Net Promoter Scores. One is more as a brand overall and is a longer-term measure. And then the other is based on the customers' trip that they just took based on the trip you just took would you recommend Southwest Airlines.

And on the longer-term brand measures, we've got trackers in place and like we said, some of those -- those scores have improved as we've gone through throughout the quarter here. Bob mentioned, overall, we're going to have to continue to focus on those longer-term measures and just continue to execute to see continued upward momentum on the brand Net Promoter Score.

When it gets to the actual trip Net Promoter Score, which is a little bit more near term in terms of how are we performing today, those scores have improved over the course of the first quarter. It really is a function of how well we have been operating over the course of the first quarter. So we continue to operate well. Those scores should continue to improve over time as well, in addition to the enhancements that we're making in the product, and you see those show up in Net Promoter Scores.

As an example, on the aircraft that we have -- where we have improved and enhanced WiFi, the investments are paying off. Net Promoter Scores are up. The scores on the aircraft where we have the larger overhead bins, those Net Promoter Scores on those

aircraft are also up. So as we make improvements and enhancements to the product. And as we continue to execute and operate reliably, those scores should come up -- continue to come up over time.

Helene Renee Becker
TD Cowen, Research Division

Okay. That's really helpful. And just to follow up briefly, -- earlier today, one of the other airlines that reported talked about runway construction at Las Vegas and the issues that they're experiencing in terms of delays. And Bob, you didn't mention that. And yet you have a pretty big operation there -- [indiscernible]. So I'm just kind of wondering how you're seeing those issues kind of around your network contribute to any delays or disruption?

Robert E. Jordan
CEO, President & Director

Yes. And I'll let -- Helene, thank you so much for the question. I'll let Andrew weigh in, in detail, but yes, I didn't call it out specifically because I mean we have a large and complex network. And of course, there -- we work issues every single day. So we've talked about Florida before. Obviously, you are very aware of the issues that have been discussed for carriers that serve New York, but yes, we're experiencing issues in Vegas with the reduction in available runway capacity, and we're working with the FAA and the ATC to deal with that. But it's one component of things that happen every single day, but no that's absolutely impacting certain days are on-time performance. But Andrew, you want to give any detail.

Andrew M. Watterson
Chief Operating Officer

So there is a kind of longer-term air field construction program in Las Vegas from now through -- in August, they've shut down -- shut down the north-south. There's 2 north-south runways, one left in '19 and right. So they will shut those down for periods of time. And so when we are in a north and south flow, that reduces capacity. So about 20% of the time when the winds are such that you drive primarily on those 2 runways, 1 of them being out, we will reduce our -- the throughput rate, which means you'll have delays and cancellations to cover that.

80% of the time during this time of the year, you don't rely on that configuration in which case you should be able to operate roughly the schedule that our airlines are scheduled. This started up, and we've been in more north flow than usual, if you will or north winds somewhat than usual. And so there has been -- over the last few days, there has been a spike in cancellations from the industry and from ourselves and delays in Las Vegas.

So that is a drag. It had been bigger than it was originally forecasted when the construction plan was created, which did sort of catch the industry, I guess off guard in the sense of who is -- you're so closed in, it's hard to adjust. We've made some adjustments. We've -- as a result of the last couple of weeks, we've changed our minimum connect times at Las Vegas while we were looking at changing in December our crew bid to make sure our crew connections are lower.

We've changed how we set up our spares in Las Vegas to have different -- how we use our spares. We've broken our through trips, which means the aircraft that kind of is supposed to continue through with passengers on board. That creates a bit more rigidity. We've taken those out as well.

So we've made a lot of changes to what we do that we can do in the short term, and then we're also working with the FAA -- regional FAA in Washington, to how we can best collaborate to see what the tolerances are for crosswinds so we can use a better configuration more of the time. And so I guess good collaboration there between the FAA and the airlines on that. So it will be a drag through August if you have more north winds than expected, but it's a normal process for airports to have to rehabilitate the runways and taxiways.

Operator

The next question is from Conor Cunningham from Melius Research.

Conor T. Cunningham
Melius Research LLC

Just on the adjustments you're making for the full year. I realize a lot of this is out of your control, but I think you mentioned that you're still on track for network restoration. And if that's the case, I'm just curious on where that capacity is actually coming out. Is it all new markets? Or have you just changed how you think about capacity deployment in general?

Andrew M. Watterson
Chief Operating Officer

So within restoration, you have -- restoration would be like what we flew before. And that's 1 bucket and say, okay, we want to restore our cities to the level of activity and the roughly the route network they had before COVID. So that's when we say restoration we're doing that. We had the 18 new cities and the Hawaii expansion we did and we modified that at the margin. And there's airports where we currently operate and they've had expansions with dates and infrastructure. So we've added more growth into there.

So as that -- that third bucket, so at Denver, Phoenix, where we had new gates and we're putting additional growth in, they're above what they were in pre-COVID. So they're more than restored. And so that kind of places where we were growing above restoration because we had additional infrastructure. Those will be less than they would have been if we had all these aircraft.

I'd not say it will be Phoenix and Denver, but I'll use those examples. So I put in 3 buckets. The COVID expansions and the 18 new cities in Hawaii, the second bucket being restoring what we flew before. And the third being this newer stuff and the cities we already have a big customer base that's where you'll see the flex then so that we can simultaneously keep the COVID stuff and restore our network.

Conor T. Cunningham
Melius Research LLC

Okay. Okay. That's helpful. And then how do you think about '24. I'm just trying to parse out like how the growth may play out for you next year. So how much of the growth in '24 is dependent on Boeing. And then what is Southwest dependent. And in the context of like a high single-digit growth rate, is the assumption going forward that a lot of these transitory costs are actually going to allow you to have CASM-X decline next year? I'm just trying to level set where we're at in terms of all that. I'm not asking for a number more directionally, kind of how you're thinking about it?

Andrew M. Watterson
Chief Operating Officer

On the growth, there will be carryover. There's stuff that we will start in the back half of the year with the aircraft that are coming, and that will be a carryover growth into next year. So that will be -- you'll quickly be able to calculate that. But then the additional growth next year, that's really depending on what Bob was talking about with reflowing the aircraft. You get the 152 mathematically that could come that would be too much to ingest. We want an orderly growth. And so that, in addition to the carryout, but that's something that's yet to be determined, but we -- it involves negotiating with Boeing on how the aircraft would flow in.

Tammy Romo
Executive VP & CFO

And just at the end of the day is -- I mean we're going to work on a plan that allows us to achieve our objectives, our financial objectives and our financial objectives as well. So we're going to take all the inputs as usual and work with Boeing to come up with a fleet plan that allows for orderly growth. But just a reminder, we do have a lot of flexibility with the aircraft.

We are -- we have ongoing efforts to renew our fleet and there's value in those fleet modernization efforts. So we'll come up with a plan that works for Southwest as we solidify our delivery schedule with Boeing.

Robert E. Jordan
CEO, President & Director

Yes. And we're early -- obviously, it's really early to be talking about 2024. And it's early to be talking about the result of the discussion with Boeing because we're just now beginning the discussion because the impact is new. I think the argument is a couple of things, is one we -- the COVID, we all dealt with COVID within the capacity bounced up and down and up.

And so it doesn't help to move around so much up and down year-to-year year because it's just -- it's hard to manage that lumpiness or choppiness with the -- you've seen our hiring numbers for last year and the planned hiring numbers initially for this year. That level of growth and hiring in advance for the level of deliveries we had originally planned. It just adds cost because you're constantly hiring ahead for anticipation of what's coming in the next year.

So moving to something that is much more predictable. Again, we want to grow. We've got a lot of opportunities. We want to grow. We just want that growth to be measured and orderly. And working with Boeing to come to a point where it's much more predictable year to year to year as we reflow the order book, I think, will be very, very helpful.

It will be helpful in terms of how we manage ourselves here. It will be helpful in terms of how we plan and manage our costs. It will give us time to wring out efficiencies. Again, I was talking about the advanced hiring is just one example, an example to prepare for high levels of growth. It would give us time to settle that out, bring that out. It will give us time to work on operating leverage where we can add capacity into places where we have gaps, we can add that capacity at much lower cost.

So I think still good growth, but managed, measured repeatable growth is much better for the company. And that's the intent -- is to just take the plan, reflow and be much more predictable and less choppy year-to-year-to-year.

Operator

We will take our last question from David Vernon from Bernstein.

David Scott Vernon

Sanford C. Bernstein & Co., LLC., Research Division

Ryan, can you talk a little bit about what kind of load factors embedded in the 2Q guide? It just seems like when looking across the other airlines, they're more than 300, 400 basis points ahead of where Southwest finished first quarter in load factor. And maybe as a follow-up to that, Bob and Andrew, we're talking about restoring the network and getting back to where we were.

I mean if the demand isn't there and load factors under pressure, why wouldn't we rethink that a little bit, especially if we're constrained in getting resources and having difficulty kind of getting the operation up to that level. If there's a little bit of a sign of demand weakness, wouldn't we want to back away from that restoration plan a little bit?

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. So I'll take the load factor question. I think first quarter here, obviously, we had some -- we had the disruption that played a role here. And all of -- I think it's been widely you talked about throughout earnings season here that the booking curve is moving out a bit and we're more normalizing -- more or less normalizing to pre-pandemic trends. And so -- and that's -- while there is more close-in leisure strength today than there was pre-pandemic, it is certainly less than what it was kind of last summer and last fall.

And a lot of that became evident as we worked our way through the first quarter here and we had to adjust our revenue management techniques to kind of adapt for that. And so when you look at their stronger demand kind of 45 days and out, there's more volume there. The good news is that the fares further out in the curve are healthy, and we're getting a better mix of fares at that point in the curve than what we received -- what we were getting pre-pandemic.

And so it's a manage for -- you're always managing for volume and yield there. Yields are very strong, which may have -- that will have a downward pressure on loads, and so you're just kind of managing both of those things together. But as you look into the second quarter, I think loads and yields are strong. And so that's what's rolled out there into our guide.

Andrew M. Watterson

Chief Operating Officer

I'd also add to you there's a comp here. If you think about this time last year, what we did is we -- as we were in COVID, we would republish our schedules because demand was so vacillatory. And so what that means is you sell, sell, sell and then you republish and you consolidate the custom who already purchased on to a fewer number of flights, which kind of artificially pushes up your load factor. That is a poor customer experience.

We committed to stop doing that about a year ago, and so we have not done that. And so that's going to make a load factor like-for-like more difficult. So our competitors largely have continued that practice, but back to kind of Jamie's question about why people choose us, we want a good customer experience. That means not changing the flight that we've already sold them.

Secondly, I would say that Ryan talked about, they put in a new revenue management system. So -- and it's been managing things for a while. I would not necessarily assume that the load factor would have been the right choice, so to say, for the RASM performance. And so it may make different decisions with regards to load factor compared to our old system, and therefore, that element may be a little different.

And the third element is we fly 2 different aircraft sizes, the 700 sizes and 800s, and we've been taking 800s because of 700s have not been delivered yet. And so that will, in many markets or some markets mean we have too big of an aircraft at the current level, if you will.

As we get our network completely restored, you can fill those extra seats with extra connections, but to do the extra connections, you need that restoration. So a short haul today may not be as full because there's not an opportunity to connect to a longer haul that was there before. So as the network gets restored, that will help close some of that load factor gap on those shorter flights that are missing connectivity.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes, I'll just put a finer point on that relative to the revenue management system. Our legacy system, the 1 that we just moved away from was a load factor biased system admittedly. And the new system makes better trade-offs in terms of yield and load. And so that will be playing out here as we kind of move forward.

Ryan Martinez

Okay. Dave, I'll assume you're done there. Thanks, everybody, for joining. That wraps up the analyst portion of our call today, and I will turn it back over to the operator.

Operator

Thank you. And ladies and gentlemen, we will now begin with 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, Chad, and I'd like to welcome members of the media to our call today. We can go ahead and get started with the Q&A portion if you will give them instructions for queue up.

Operator

[Operator Instructions]

And the first question will come from Alexandra Skores from the Dallas Morning News.

Alexandra Skores

I'm wondering, we talked a little bit -- a lot about growth in demand over this call. I'm wondering if you could talk in relation to how that's affecting airfares. And how you're looking at that going into the summer travel season?

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Yields, I think, in general, this is a high yield environment. And I think airfares are strong. But if you look at Airfares kind of going back to pre-pandemic or even earlier than that and look at them on an adjusted basis, adjusting for inflation. Airfares in the industry are actually down. And so I think both of those things are in play here. When we look at kind of how demand is coming in here into the second quarter and beyond, we are taking more volume further out in the booking curve.

And of course, those fares further out in the booking curve are lower nominally than taking a lot of volume close in where the fares are higher nominally. And it's really about getting a good mix of fares across the entire booking curve, which is what's really driving our yield story here as we go forward.

The other thing too is we're driving a higher average fare by offering customers things that they are happy to pay for. So an example of that is our Wanna Get Away Plus fare that we introduced last year. That fair has a bundle of benefits that customers are choosing to pay for. It adds additional flexibility in terms of transferability, flexibility during the day of travel.

And the more customers choose to buy things that are -- that they value, that drives fares overall higher without us kind of going in and filing higher fares across the board.

Robert E. Jordan

CEO, President & Director

Ryan, as you -- I'm just looking for the fact my memory is in the first quarter, fares were up roughly 5%. 5%, 6% or I think it's the number I've got in my head. And again, this is kind of direct correlation -- but you -- but costs are up materially. We talked a lot about

just regular inflation. You see it every day, everywhere. There's a lot of labor and wage inflation. We've talked a lot about our costs and accruing for labor contracts.

We're happy to pay our people. We want to pay our people great, but there is real wage and supply chain and other inflation year-over-year, first quarter '22 to first quarter '23. Our operating revenues were up 21.6%, which is awesome on 10% capacity. But fuel was up 54%. So just the other -- the flip side of fares is the -- you raise fares to manage your cost and there are real cost increases there. So I just want to point that out as well.

Operator

And the next question will come from Alison Sider from Wall Street Journal.

Alison Sider

I guess on Boeing on this latest delivery issue. I guess how has your experience been dealing with Boeing on this one? It seems kind of -- it's not the first time you've dealt with an issue like this and just curious to know with Boeing if their communication, their ability to deliver, if those things have improved.

Robert E. Jordan
CEO, President & Director

Yes. There have been a number of things. Obviously, the world has dealt with supply chain issues and continues to deal with supply chain issues. All companies have and Boeing is not immune from that. We have had a number of items. Yes, again, this is the latest. Boeing has been proactive. So Boeing was early in working with its suppliers, multiple tiers down to shore up supply chain issues. They've been in front of the planning. Obviously, we produce schedules far in advance. And so modifying those is difficult.

Close down is difficult on our customers. We've been able to work with Boeing on this one too, for the most part, isolate the changes to future schedules. We talked about primarily, this is affecting the fourth quarter. So that's very helpful compared to something that would affect next month or the month after. So our work with -- the cooperation with Boeing has been really good. Boeing has been forthcoming and transparent about the impacts and what it's going to take to correct the issues.

Obviously, all of this is difficult. We don't want interruptions to planned delivery schedules, and we'll continue to work with Boeing on that as well. But they -- I mean, Boeing is a great partner. The MAX aircraft is a great aircraft. We want our aircraft, but no, they've worked very proactively with us on issues we've seen before and on this issue as well.

Alison Sider

And I guess turning to the sort of the state of near misses or runway incursions the last couple of months across the industry. Given that there doesn't seem to be a real clear single cause or single common denominator in all of these incidents, does that -- what is that -- are there things that you can do or you have been doing to kind of try and address those or prevent future incidents sort of given that they're not -- they haven't all been the same?

Andrew M. Watterson
Chief Operating Officer

The aviation and safety has gotten so good that you don't really see repeat occurrences. And so therefore, the approach the FAA took a while back because everyone develops safety management systems. And so you will have safety procedures, policies and regulations that you adhere to. So you maintain safety by being compliant to those rules, regulations and standards.

So our approach then for safety is through compliance and so we have a safety day actually going on right now, safety week. Our ground operations will be above the wing and below the wing the next week. And so we will continue all the activities outlined in our SMS as our way of making sure that we are safe. We're also participating when the FAA forums. The runway incursion rate looks to be not necessarily up but the severity or potential severity does look to be up.

So it is worthy of attention from the FAA and worthy of the attention from us and so the last thing we want to do is everyone do kind of go off in their own direction. We think it's best if we follow and participate in the FAA's lead of how the airspace overall becomes more safe, and so they have a blue ribbon panel, they've just announced to help lead this effort. We will participate with enthusiasm on that and do our part to make this even safer.

Operator

The next question will be from Dawn Gilbertson from the Wall Street Journal.

Dawn Gilbertson

I think this question is for Ryan. I know you guys are saying as our other airlines are not seeing any signs of demand weakness. But as you're looking at summer travel bookings so far, do you see anything -- any trends in the bookings that might indicate that people are choosing different destinations since ticket prices are high, hotel prices are high, car rentals and Airbnbs are high. And anything you can share there that maybe some destinations that you're like, well, why are the bookings so strong there? I'd appreciate any color you might have on that.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Dawn, I think it's really what you would expect in terms of where customers want to go this summer. International is -- demand is smoking hot for international destinations. I mean obviously, we participate in that to a lesser degree than what some of our competitors do. But international is really strong. And then it's really the typical summer destinations that you would expect, Florida -- into the Southwest Hawaii Mainland. Our Hawaii franchise is performing very well. So there's no real huge surprises in the data when you kind of double-click as to where customers want to go. It's kind of per normal.

Robert E. Jordan

CEO, President & Director

And there's -- and the flip of that, there isn't anything that you're sticking out as weak. So I think our customers just want to travel. They want to -- it's not as strong as '22. When you really saw this revenge travel come back especially on the leisure side, but the demand is very strong, and it's strong across the board. Yes. So I just...

Ryan C. Green

Executive VP & Chief Commercial Officer

Wish I could give you a surprise there but...

Robert E. Jordan

CEO, President & Director

Yes, something to hang on to, but we don't have one.

Dawn Gilbertson

What about in vacations? I know that, that's done by an outside company, but are you seeing -- is there a shift to vacation packages more or even on your own website? Anything you've noticed in the appetite for vacation packages.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Actually, our vacation business is doing well. And I think that over time, we've actually got a lot of opportunity in the vacation space relative to where our network sits and kind of how we participate in that -- that market. Today, we participate in a large part through vacations with travel agencies. And I think over time, there's an opportunity to do more merchandise vacation packages to the hundreds of millions of customers that are on our digital platforms every day.

But back to your original question on kind of are there new patterns in terms of destinations that are emerging from a vacation standpoint, Cancun is very strong. Hawaii is strong. But those are places that customers like to go in the summer.

Operator

And the next question is from Wesley Joseph from CNBC.

Unknown Attendee

On the moderation of hiring for this year, is that mostly pilots, flight attendants or any other work groups. And do you know by how many jobs you're going to change your target? And then just broadly, with your strategy, are you ruling out ever having a differentiated product in the cabin, either like a larger seat or extra legroom or something like that just to drum up revenue in the future?

Robert E. Jordan
CEO, President & Director

Those are 2 very different questions. So on the hiring, I would just tell you, again, we're really early in this process with Boeing to understand the impacts specifically, and we pick the 70 in terms of planning for deliveries for 2023, but in terms of understanding exactly where are they and then a lot of your hiring again is in advance. So we need to understand what 2024 looks like.

I just want to acknowledge today that it's a significant enough change to the delivery schedule and then therefore, the capacity as well that we are going to go back through our hiring plans, and they will be moderated. I can't tell you exactly where that is. Obviously, because we were pilot constrained for the year, and now we're still likely pilot constrained through, call it, early fourth quarter is my best guess.

It's the group that we probably continue to press to keep the hiring on at least in the near term here until we flip to aircraft constrained. But no, I don't have any specifics other than just acknowledging that -- as the capacity is coming down, we're going to go back and look at our headcount needs. I mean, it's prudent to do that. It's the right thing to do for cost. It's the right thing to do for efficiency. We're known for our efficiency, and we'll go back and do that and we'll do that quickly. What was your second question?

Ryan C. Green
Executive VP & Chief Commercial Officer

Premium -- Premium revenue.

Robert E. Jordan
CEO, President & Director

Premium. I forgot. Apologies. We are always -- I think we talked about things like assigned seating before. It's just as an example that we periodically -- we regularly study and survey our customers to understand what's important to them. What do they want in our products, that includes potential changes. And so we -- and that we periodically do deeper studies on things like assigned seating.

And so far, historically, that's always told us that our customers love our product. And you've seen us -- you have seen us add things now like power and then the larger bins and enhancing the WiFi, and that comes from our customers telling us that's what they want.

Now flipping to, well, what work is underway. I'll just tell you, there isn't -- there is no work underway to think about assigned seating, to think about Premium in the cabin. It doesn't mean we won't do that at some point. We are working -- we do work regularly on things like ancillary. So the upgraded boarding product that we -- a few quarters ago, now allow you to buy on the mobile device, and it's worked really, really well.

Those are enhancements that we're looking at and continue to look at service to our customers. But no, there's no work underway around premium cabin, assigned seating, those kinds of things. Our customers love our product. It's all about being reliable. It's all about providing terrific service and hospitality. It's all about putting into place the things that we've already committed to, like power, larger bins, enhanced WiFi, continuing to push on digital self-service and then really wring out efficiency here.

We've grown quickly. We've added a lot of people, and we want to work very hard to regain our efficiency, increased margins and ROIC returns year-over-year and get back, in some cases, to the -- work towards the goals that we laid out at Investor Day but there's no work underway in the Premium side.

Operator

The next question is from Holden Wilen from Dallas Business Journal.

Holden Wilen

I believe it was investor day where you guys said that you've added like more than 8,000 new corporate accounts last year. I'm just wondering, as you continue to see the Managed Business travel recovery in the first quarter, how many more accounts you were able to add during that period? And if you can point to any specific factors as to why you think Managed Business travel is continuing to recover for you guys?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. I think largely, the reason that Managed Business continues to recover for us is because of the initiatives that we've put in place. I think if you look at Managed Business travel, sitting here today and kind of where it sits structurally relative to kind of where it's been historically. There's a couple of things at play that have reduced Managed travel kind of for the industry.

The first of those is health scares of traveling. And I think that is well behind us. And I think any tailwinds from that just are unrealistic at this point. And so then the other structural component that I think has kind of depressed, managed business travel for the industry, not for us, necessarily, but for the industry is some of these -- just the way consumers work today, their home versus office patterns versus remote and some of the digital tools.

And I think that kind of is what it is at this point. There may be marginal improvements in different parts of the country, but it largely is what it is. And when you look at who -- how that manifests itself is that the unique number of travelers who are traveling for -- in corporate travel are actually, it's restored to where it was kind of pre-pandemic. What's down is the frequency of those travelers.

And so -- and that is largely -- or I guess, it's disproportionately impacts global and national accounts. And so we are after backfilling that volume by going out and acquiring new mid-market and small and medium business accounts and back opening up access to new pools of corporate travelers, and that's what we're seeing.

I think in March, we had a record number of mid-market accounts active for us. I think if you look at April, we may have another record here in April. And so we're going to be after the market share gain. We're going out to win new accounts, open up access to new pools of travelers. We gained a point of market share in the managed travel space over the last quarter. And so that's where we'll be focused going forward, and that's where the sales team is focused and our efforts seem to be paying off.

Robert E. Jordan
CEO, President & Director

Well, we put a lot of emphasis on building the team over years now, adding technology like the GDS access. And it's -- I mean it will pay off over time. I think as Ryan said, I think that's the reason you've seen us restore or nearly restore ourselves in [indiscernible] to pre-pandemic, first airline to do that. And Ryan, check me, but I think we've had 9 of our 10 best Managed Business booking days in the last 2 weeks in our history.

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, in the month of April, yes.

Robert E. Jordan
CEO, President & Director

So we're just -- so you're seeing that strength is continuing. And I do think it's because of our investments and winning share.

Ryan C. Green
Executive VP & Chief Commercial Officer

And we're focused on removing -- continuing to remove friction and being easier to do business within the managed travel space. And there's some trends across the industry where others are making it harder to do business in the managed travel space. And so I think that you couple that -- couple of all of this that we've just been talking about with our business-friendly network, business-friendly policies, industry-leading frequent flyer program, I like our chances going forward.

Operator

And ladies and gentlemen, we have time for 1 more question, and we'll take our last question from David Slotnick from TPG.

David Slotnick

Thanks for the question. I was just wondering, one of your competitors talked about with the current macroenvironment, especially then with added flexibility to airlines about it. They've been taking a new look at their overbooking policies where they over book to what levels that could effect. I wondered if that was something that Southwest will be doing as well, especially considering the Wanna Get Away Plus fares and if you've seen any recognizable patterns you have?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, David, I'm not sure that I caught all of the question there, you were breaking up a bit, but I think the question was others are maybe changing their overbooking policies and kind of what are we doing in that regard. We do not overbook our aircraft. We haven't overbooked. We have not done any of that since 2017. So we're going on 5 or 6 years here of not overbooking.

It does happen occasionally when we have to downgrade an aircraft from an aircraft with more seats to fewer seats or for weight-restricted, things like that, we may have an oversell that we have to deal with. But those are few and far between. And so we're not -- going forward, we're not looking at dealing with any sort of materialization rates or any change in the booking curve by changing our overbooking policy.

Robert E. Jordan
CEO, President & Director

We're going the other way. I mean, we're adding -- we're standing firm on the things that our customers want. Yes, we're not overbooking. It's a bad experience for our customer. That's why we stopped it, we've added travel credits that never expire just like our growth points that never expire. So yes, we're leaning to the customer here.

Operator

Thank you. And 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

Thanks, Chad, and I would appreciate you all joining us today. If you all have any follow-up questions, you know our communications team is standing by at (214) 792-4847 or you can visit our media website at www.swamedia.com. Thanks so much for your time today.

Operator

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

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