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Airfares stay low despite oil prices

Average is down from a year ago

By Dan Reed
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Oil prices are skyrocketing, and the USA's beleaguered airlines are in a near state of panic. Nonetheless, airfares in general appear unlikely to budge much from rock-bottom levels.

Bob Harrell of Harrell Associates in New York, who **Airlines** tracks price changes in the USA's 300 top air markets, says he expects no dramatic upward movement as a result of recent announcements of fare increases by major U.S. airlines.

Average fares are down from a year ago, largely because of a Delta-led restructuring in January that slashed some of the highest last-minute prices. The recent round of \$5, \$10 and \$20 fare increases are making up for only some of the fare cuts by airlines reacting to the Delta restructuring.

Harrell's report, for example, shows the average fare for business travel in the Midwest is \$366 this week vs. \$615 a year ago. But this week's price is up just \$6 from last week. In the Northeast, South and West, Harrell measured little or no change in average business-fare prices this week vs. last week.

"Airlines are almost desperate to get their fares up and their revenues up right now," Harrell says.

Twice in the past month, Northwest Airlines has led in increasing prices by \$10 and \$20 round trip. Northwest traditionally has proved to be the spoiler of industrywide increases, refusing to go along and forcing competitors to pare back newly imposed price increases.

Last weekend, Continental added \$5 more to prices. After initially matching the Continental price jump, Delta on Monday rescinded that increase. Delta, the No. 3 carrier, didn't explain why. J.P. Morgan analyst Jamie Baker, in a report to clients, suggested that Delta erred by reacting instinctively.

American, Northwest and even Continental then backed off the \$5 fare increase, too. Then Delta corrected itself and reimposed the \$5 fare increase late Monday night. By Tuesday afternoon, all of the big carriers were back on board.

Discount king Southwest added \$1 to \$3 to its fares two weeks ago, while JetBlue added \$5 each way to many of its fares this week.

The current fuel-price spike is turning what started out to be another bad year into a nightmare. Industry economist Dave Swierenga of AeroEcon predicted earlier this month that U.S. carriers would post a net loss this year of \$2 billion to \$2.5 billion. But that assumed average crude oil prices of \$40 to \$50 a barrel.

Gerard Arpey, CEO at American, told investors at a Goldman Sachs conference on Tuesday that if oil stays above \$50 a barrel for the rest of the year, the world's largest airline will have to spend \$1.4 billion more on fuel than in 2004.