

Airlines Are Raising Fares Ever So Gingerly

By MICHELINE MAYNARD

Major airlines rushed to join **Delta Air Lines** when it cut ticket prices by as much as half in early January. The actions ignited a strong demand that shows no signs of letting up as the busy spring and summer travel season approaches.

But the costs for airlines are soaring, especially their jet fuel expense, which airlines expect will be billions of dollars higher this year. With fuel prices up 35 percent through January from last year's record levels, big airlines have decided they cannot afford to keep those bargain fares in place.

In the last four weeks, major airlines have instituted three rounds of fare increases, after trying unsuccessfully for more than two years to raise prices to cover rising fuel costs.

The latest increases were put in place this week, when **American, Continental, Northwest** and even Delta all raised one-way fares by \$5. Even low-fare airlines like **Southwest** and **JetBlue** have raised fares, although Southwest's increases have been as little as \$1.

As a result of the collective increases, the average one-way coach fare was \$98 this week, according to Harrell Associates, an industry consulting firm that tracks air fares.

That compares with \$89 during the week of Jan. 10, after Delta rolled out its SimpliFares program. Under the plan, Delta cut fares by up to 50 percent, eliminated the need for a Saturday night stay and set limits of \$499 one-way in coach and \$599 one-way in business class. At the time, many airlines matched its fares and eliminated restrictions, but stopped short of similar fare limits, giving themselves some wiggle room.

Big airlines have made sporadic attempts to raise fares since fall 2002, only to see the efforts fail when one company or another, usually Northwest or Continental, refused to go along.

Even though there seems to be solidarity this time, the cuts are still making the companies nervous. Over the last week, the airlines have played something like a game of chicken, putting the increases on, taking them off, until finally deciding to leave them intact.

One reason for their nervousness is the clear excitement of consumers over paying less for plane tickets. In February, the first full month after the Delta-driven fare cuts took effect, domestic passenger traffic rose 7.7 percent, during what is usually the slowest travel period of the year, according to the Air Transport Association, the industry's trade group.

At the same time, passenger revenue per available seat mile, which

PAPER TICKETS? HOW OLD-FASHIONED

Paper airline tickets can be a quaint and occasionally annoying reminder of a largely bygone era. Page G5.

translates as one paying passenger traveling one mile, fell by 3.7 percent, the group's figures showed — proof that while more people were on planes, the airlines were taking in less money per passenger.

Collectively, fare cuts since January have cost the airlines the equivalent of \$1.5 billion in revenue, said Raymond E. Neidl, an analyst with Calyon Securities USA.

In a research report yesterday, Mr. Neidl said the fare cuts would eventually help the big airlines in their quest to compete with low-fare airlines like Southwest and JetBlue, which limit their price to \$299 each way and usually charge much less than that.

Robert Harrell, the president of Harrell Associates, said the latest increases reflect efforts by the major airlines to adjust fares after the swift cuts they made in Delta's wake.

"With a large carrier such as Delta, they really had no choice; everyone had to fall in line" or suffer an immediate loss of business, Mr. Harrell said yesterday. But even with the increases, he continued, "They're not retreating to where they were a year ago, that's clear."

Indeed, the average price of a one-way coach fare at this time last year was \$107, or \$9 more than the current cost, Mr. Harrell's data showed. Moreover, business-class fares, which travelers have long complained were too high, continue to fall. The average one-way business-class ticket was \$605 last year, then \$411 after Delta instituted its cuts in January, and is now \$401, Mr. Harrell's data showed.

Still, airlines are warning that they will have to make further cuts in spending. Yesterday, Delta's chief executive, Gerald R. Grinstein, told

an investment conference that the airline would be forced to go beyond the \$5 billion in savings it planned to put in place by next year.

Delta expects to spend \$900 million to \$1 billion more on fuel this year, Mr. Grinstein said, or as much as Delta pilots granted in concessions last October, when Delta barely avoided seeking Chapter 11 bankruptcy protection.

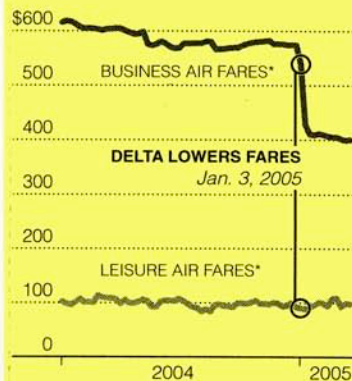
He said Delta's fare increases had covered only about a quarter of the higher price of jet fuel, now about \$1.60 a gallon, up 35 percent from a year ago, and nearly \$1 a gallon more than airlines paid in 2003.

"It is very clear to me that with the fuel price where it is, we have got to get additional cuts, and we are going to do that," Mr. Grinstein said, referring to cost cuts.

Mr. Grinstein said Delta, which warned last month that it faced the continued possibility of bankruptcy, expected to encounter liquidity problems in 2005 and 2006, until its cost-cutting efforts take effect. But Mr. Grinstein said he expected Delta to stay out of Chapter 11 protection. "I hope," he added.

The Delta Effect

Airlines, which followed Delta in cutting business fares sharply, are now trying to raise them a bit, but with little success.



*Average one-way fares for the top 40 routes at American, Continental, Delta, Northwest, United, US Airways and America West. Business fares are for refundable tickets with an advance purchase of no more than three days.

Source: Harrell Associates

The New York Times