



U.S. Airfares To Climb On Wings Of Demand

By Jay Boehmer

SEPTEMBER 11, 2006 -- Following increases in airfares that persisted throughout much of last year and continued quarter over quarter in 2006, corporate travel buyers can look forward to continued growth in airline expenses for the rest of the year and into next.

While the approaching fall travel lull in leisure travel likely will offer some temporary relief to corporate travel buyers, the long-term outlook, said analysts, heavily favors the airlines.

In a report to clients, BCD Travel Consulting vice president Bob Brindley warned of airfares rising by as much as 6 percent to 10 percent this year, "a trend that will continue for the remainder of 2006 and 2007."

Calyon Securities airline analyst Ray Neidl in a research note issued last month said the industry outlook for the short term—namely the fall travel season—has become more conservative, yet he remains bullish for next year. According to Neidl, short-term fare increases should abate, but in the long term, buyers will continue to face a rising fare environment.

"Even though load factors are very high, we believe that fare hikes might be over for the short term, as airlines examine how the fall (shoulder season) traffic is holding up and examine the aftereffects of the London terrorist scheme," Neidl said.

American Express Advisory Services senior practice manager for air Mitch Cwanger said the fall travel season would bring temporary relief in published fares, but in the longer term, pricing favors suppliers over buyers.

"There was a wide fare sale announced for fall travel," he said. "A number of airlines did it, but they were all geared toward advance purchase, leisure-type fares. The business fares, which a majority of our clients are buying, have continued to see increases. When the summer travel season comes to a close, you'll see some reduction in fares, but it won't be long-term, because the airlines can't sustain the profitability they saw in the second quarter, with fuel prices the way they are. Demand's going to come down a little bit, but even if it comes down a little bit, they're still operating at very high capacity. As long as the economy stays the way it is and doesn't completely drop off, I don't think fares are going to come down any time soon."

In data collected last month by airfare consultancy **Harrell Associates**, one-way domestic business fares were up 20 percent year over year for the first week of August, while leisure fares were up 24 percent for the same week in 2006 over 2005.

Air Transport Association data show average domestic fares, represented by airline yields, this year through July were up 11.3 percent from 2005.

Average domestic airfares beginning early last year have inched upward each quarter, and more passengers and fewer seats has put increased pricing pressure on corporate travel buyers. Although travel managers may dread the prospect of continually climbing airfares, averages to date still fall well below those charged earlier this decade.

According to American Express, 2005 actually brought a new six-year low in average annual domestic fares. One-way average domestic airfares booked by last year averaged \$216, trending downward since 2000, when the average hit \$259, according to a quarterly American Express Business Travel Monitor, which analyzes fares booked by corporate clients.

However, when fare figures are isolated by quarter, they were on the rise last year—from \$202 in the first and \$218 in the second quarters to \$219 and \$223 in the third and fourth. Since then, fares have continued their steady growth.

According to data provided to BTN by 70 of the largest spenders on U.S. airfares, domestic discounts were down last year over 2004. Those companies on average saw a slip of 27 percent discounts to 24 percent discounts on domestic routes from airline partners. International fares, however, remained flat between 2004 and 2005.

Buyers have noted an even more difficult pricing environment for this year, noting more pressure and stricter contracting terms offered by carriers.