

Airlines test pricing power despite slow demand

By Chris Reiter

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NEW YORK (Reuters) - U.S. airfares are holding steady despite flagging demand, as the airline industry seeks to consolidate its fledgling recovery after a 6-year slump, experts said.

Unlike the broad fare sales offered after the September 11, 2001 attacks, U.S. airlines are resisting the temptation for across-the-board fare cuts. And instead of giving up the pricing power they've won over the last year, they are reducing the number of seats for sale. The usual fall discounts are not making a big dent on overall fare levels.

The restraint comes as tighter security restrictions imposed in August have dampened interest in flying, exacerbating the seasonal drop-off in demand after the summer travel season.

"The discipline that they (airlines) are showing ... is really good news for the industry," said airline analyst Terry Trippler of travel club myvacationpassport.com. "In the past, even the hint of a downturn would have been immediately followed by a systemwide sale."

This newfound discipline in an industry often marked by reckless capacity increases and fare wars suggests that the recent recovery in airline profitability is on track for now.

The industry finally showed a profit last quarter after racking up \$35 billion in losses between 2001 and 2005.

But the discipline is fragile, and if one airline cuts fares, others will likely follow suit, said Trippler.

CARRIERS TESTING PRICING POWER

Since August 10, when security restrictions were tightened after a foiled bomb plot, the only large-scale pricing move was an effort led by United Airlines (UAUA.O) to raise fares. Although that attempt failed, it showed that the airlines were willing to test their pricing power.

Recent business airfares are running 17 percent higher on average than a year ago, according to Harrell Associates, a research firm that tracks air fares. But fall sales are making an impact on leisure tickets, which are down 5 percent from a year ago.

[Southwest Airlines Co.](#) (LUV.N) on Tuesday announced a fare sale, offering discounts of up to 56 percent on 14-day advanced purchase tickets bought through its Web site.

"It's always nice to spur more traffic and the best way to do that of course is to get people's attention by lowering fares," said Southwest spokesman Ed Stewart.

But such fare sales, which are generally for a limited number of seats, are part of the fall season and aren't indicative of broader pricing trends, said Roger King, an airline analyst with research firm CreditSights.

But there are concerns that if the downturn in demand persists, airlines will be forced to fly emptier planes or lower prices more aggressively.

It's "too early to say whether this slowdown is temporary and driven by August security concerns, or permanent and reflects slowing consumer demand," said [HSBC](#) analyst Adam Hylan in a note. "(But) we believe the balance of risk is on the downside."

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