Business Travel News
THE NEWSPAPER FOR THE CORPORATE TRAVEL BUYER

U.S. Airfares Rise: 2005 Shows Consecutive Quarterly Hikes After Years Of Declining Prices

By Jay Boehmer

APRIL 03, 2006 -- Huge fuel costs, continued competition amid record load factors and cutbacks in capacity are driving major and low-cost carriers alike to raise U.S. fares.

Average domestic airfares beginning early last year have inched upward each quarter, and the market that is marked by more passengers and less seats puts increased pricing pressure on corporate travel buyers. Although travel managers may dread the prospect of continually climbing airfares—as is anticipated through 2006—averages to date still fall well below those charged earlier this decade.

"There is a ceiling on fares," said Air Transport Association chief economist John Heimlich. "I think right now we're trying to recalibrate pricing to see where those ceilings are and where that threshold is. We don't expect fares to come back to their peak and we don't think we're going to have the bubble we had in the late '90s."

In fact, 2005 as a whole brought a new six-year low in average annual domestic fares. Airfares last year averaged $216, trending downward since 2000, when the average hit $259, according to the quarterly American Express Business Travel Monitor, which analyzes fares booked by corporate clients. However, when fare figures are isolated by quarter, they've been 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. Many in the industry expect domestic fares this year to remain on a skyward approach.

"Despite rising fuel costs, U.S. domestic airfares for business travel settled at a six-year low in 2005, due in part to the introduction of simplified fares and more low-fare competition," said Andrew McGraw, American Express Business Travel senior vice president and general manager of North America. "For 2006, however, the pricing trend lines indicate that corporate travel buyers will face a tough negotiating environment across the board."

While averages are coming up, Prashanth Kuchibhotla, global airline consultant for Eclipse Advisors, said that due to SimpliFares and other market forces in the past year, fares on the high end have come down, while those on the low side moved upward.

"Published fares on the high end—usually unrestricted—came down and discounts came down," Eclipse's Kuchibhotla said. "Although the fare hikes had been kicking through most of last year, they raised a lot of the low-end fares and reduced a lot of the restricted fares."

Figures pulled by the Air Transport Association show yields—"basically fares per mile," said chief economist Heimlich—continue to increase this year. For the first two months compared with those same months in 2005, Heimlich said yields increased 10.6 percent. "However, just to keep it real, if you compare those same to months since 2001, it's down 16 percent," Heimlich said. "We're up from a year ago, but still well below the peak. That's just domestic. Average international fares are definitely doing much better."

Monitoring 160 international citypairs, average fare grew to $1,666, representing a 7 percent jump, American Express data showed. First class increased 4 percent, business class increased 5 percent and discount economy increased 9 percent, compared with the fourth quarter of 2004. Airlines in the past year have bolstered long-haul international service to lap up increased demand (BTN, July 18, 2005).

"International route capacity is being consumed by strong demand," McGraw said. "As demand grows and capacity shrinks, the airlines have grown stricter on sticker prices. However, clients who maintain large preferred supplier volumes will continue to benefit from better deals down the road."

Domestic low-cost carriers also are trying to raise fares. Although domestic yields among such carriers have stayed more consistent year over year since 2002, according to a study of medium-length trips—those between 651 and 1000 miles—from Harrell Associates, they inched up 3 cents in 2004 and 1 cent for the first three months this year over last. Reports said that JetBlue and Southwest last month were seeking up to a $10 increase in one-way fares.

Harrell Associates principal Bob Harrell said growing fares at the low cost carriers gives legacy airlines a chance to raise fares as well in competitive markets—as oil costs linger above $60 per barrel. "Low-cost carriers have been increasing fares in the past year also, because they are not immune to the fuel cost. However, the increases in their fares have been less significant than the increases in the legacy carriers. The degree to which they increase fares creates a higher floor upon which the legacy carriers operate."

U.S.-based corporations spent 7 percent more on domestic flights in the last quarter of 2005 compared with the same period in 2004, while their spend to Europe was up 14 percent and to Asia by 36 percent, according to analysis of more than $500 million of client spend by Solon, Ohio-based consultancy Travel Analytics. The increases resulted from a higher number of segments and a higher average segment price (BTN, March 6).

Meanwhile, capacity is down and load factors are at a six-year high. ATA's Heimlich said capacity this year would be down 1.7 percent over last year, a reflection of better management of aircraft among carriers. Also, bankruptcies at Northwest and Delta take even more seats out of the system.

"More and more airlines are downgrading flights from say narrow bodies to regional jets or maybe wide bodies to narrow bodies on the unprofitable routes," said Kuchibhotla, "and airlines in bankruptcy tend to shrink. It's an opportunity for them to pull out of unprofitable routes where they couldn't pull out before." American Airlines last week said it would restrict capacity growth for the typically busy summer travel season.

Amid shrinking capacity is the higher percentage of seats filled in the domestic market, which has been consistently growing year over year since 2001, according to ATA. "The demand for travel has remained fairly robust and that high demand is in the face of fewer seats," Harrell said.

ATA's Heimlich noted that load factors for the first two months in 2001 stood at 64.3 percent, moving upward and now hitting new highs of 75.2 percent for the first two months this year. "Over the last five years load factors have gone up by 11 points, so for every 100 seats, 11 more are filled," ATA's Heimlich said.

Carriers welcome the fare jumps. "Anything that improves the revenue environment right now is a good thing for my member airlines," said Heimlich. "Are they relieved? Of course. It's particularly true given the high fuel prices, that they're a little bit closer to being able to cover those costs."

"Fares have gone up, that's fair to say," said Continental director of national sales Kelly Hart. "So has the price of oil, in case you hadn't noticed."

"I don't see how they couldn't go up, with just the price of the fuel and the crack spread on the refinement of the fuel. It's a double whammy," said Kevin Iwamoto, global commodity manager for airline, car, corporate card and ground for Hewlett-Packard. "They've been kept in check for the past few years, but we expect them to come back up."

Links referenced within this article

(BTN, July 18, 2005).
http://btnonline.com/businesstravelnews/search/article_display.jsp?vnu_content_id=1000980529
(BTN, March 6).
http://btnonline.com/businesstravelnews/search/article_display.jsp?vnu_content_id=1002116482

Find this article at:
http://www.btnmag.com/businesstravelnews/headlines/frontpage_display.jsp?vnu_content_id=1002275518