

# Fuel costs force low-cost airlines to raise prices

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JetBlue Airways Corp., the carrier that had \$29 one-way fares on some routes when it began flying in 2000, said today that its average \$107 fare will have to rise.

The company, based in New York, increased its maximum one-way fare by \$50 to \$399, after boosting most fares by \$5 last week. Chief Executive Officer David Neeleman said the airline's average price "wasn't good enough."

"The trends in this industry are to have higher average fares all around," Neeleman said on a conference call with analysts and investors.

Discount U.S. carriers such as JetBlue, Southwest Airlines Co., AirTran Airways, Spirit Airlines and Frontier Airlines are boosting fares along with major rivals because of fuel prices that have risen 38 percent over the past year. While the lower-cost, smaller airlines still have lower prices than the major carriers, they will be relying on higher fares to make money.

Major U.S. airlines, including AMR Corp.'s American Airlines and UAL Corp.'s United Airlines, have boosted prices four times this year, with low-cost carriers matching most of the increases. In prior years, the low-cost carriers typically didn't follow price increases by the larger rivals.

Southwest increased ticket prices at least twice in the first quarter, boosting its average fare per mile 5.4 percent, to help cover fuel costs. In March, the airline raised its highest one-way fare by \$10 to \$309, and its average one-way ticket price in the quarter climbed 11 percent to \$100.94.

"We've used modest fare increases historically, and that's what we'd like to continue to do," Chief Executive Officer Gary Kelly said last week.

JetBlue plans to increase revenue by selling fewer discounted tickets on each flight and boosting average prices, Neeleman said today after the company reported a \$32 million first-quarter loss. He wouldn't say exactly how much JetBlue might increase fares.

Spirit Airlines Chief Marketing Officer Barry Baffle said he moved to raise fares as soon as he got a

weekly fuel report on the morning of April 17 that showed a 10 percent price increase from the prior week.

Spirit, based in Fort Lauderdale, Florida, boosted ticket prices by \$5 to \$20 each way on April 20. The closely held company's average fare rose to about \$111 each way this year, from about \$95 in 2000.

Larger fare increases at the major carriers, including Delta Air Lines Inc. and Northwest Airlines Corp., are still widening the gap between the average ticket prices of the biggest carriers and their low-cost competitors.

The average U.S. fare at the six biggest U.S. airlines was about two-and-a-half times higher than at the low-cost airlines this month, compared with about two times higher in April 2005, according to New York-based **Harrell Associates**.

The statistics apply to flights between 651 and 1,000 miles. **Harrell** said the trends were similar for other flight lengths.

"The legacy carriers are raising fares much faster than the low-cost carriers," said **Bob Harrell**, who leads the price analysis firm.

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