

## Airfares aren't expected to drop

Demand stays strong, boosting carriers' profits despite high fuel costs

11:10 PM CDT on Sunday, July 30, 2006

Associated Press

ATLANTA – During five years of heavy losses, major U.S. airlines were reluctant to raise fares, knowing that their discount rivals would undercut them.



DAVID ZALUBOWSKI/AP

Strong demand is keeping lines long at airports like Denver International and allowing airlines to stick with higher fares.

A few months ago, that timidity melted away and airlines big and small have steadily raised fares that are sticking. The result: Profits for some of them – despite persistently high fuel prices – should continue with strong demand for air travel.

"I see no abatement," Calyon Securities airline analyst Ray Neidl said. He added that with planes mostly full, "That's showing there's more demand than supply."

As of a week ago, business fares were up 18 percent year-over-year, and leisure fares were up 9 percent, according to **Harrell Associates**, which tracks ticket prices on 280 routes for seven large airlines.

'Still buying'

Terry Trippler, an industry observer in Minneapolis, said he believes for the most part air travelers will dig deeper to fly rather than not fly at all.

"They can be as ticked off as they want to be, but they're still buying the tickets," Mr. Trippler said.

Because of that, Mr. Trippler said that but for the occasional discount or sale, people shouldn't expect to see any industrywide reduction in fares for the immediate future even if fuel prices fall.

"I think [the airlines have] seen that they can fill their planes without having to give away their seats," Mr. Trippler said. "They're slow learners, but they've gotten there."

The result has been a tide turn for the airlines' balance sheets, with several major carriers posting profits after years of losses. And the discount carriers have been able to widen their profits.

UAL Corp., parent of United Airlines, is expecting to post a second-quarter profit today of \$119 million, its first quarterly profit in six years. The company, based in Elk Grove Village, Ill., cited higher fares and packed planes.

Fort Worth-based AMR Corp., parent of the nation's biggest carrier, American Airlines Inc., posted a sharply higher profit for the second quarter, also citing full airplanes and higher fares at the start of the peak summer travel season. It was only AMR's second profitable quarter – excluding those helped by one-time items – in the past five years.

Discounters Southwest Airlines Co. of Dallas and AirTran Holdings Inc.'s AirTran Airways of Orlando, Fla., also reported wider profits in the second quarter, with Southwest's earnings more than doubling and AirTran's nearly tripling. Higher fares helped both.

Atlanta-based Delta Air Lines Inc., which has been operating under bankruptcy protection since September 2005, plans to release its second-quarter results on Aug. 9.

Standard & Poor's analyst Philip Baggaley said that even the discount airlines are unlikely to give up on the fare increases because they are under pressure from high fuel prices, too.

"I don't see them slipping back unless the economy slows more rapidly than expected," he said.

Making it harder?

Passengers may still be flying, but they have plenty to say about the rising airfares.

Mike Wagar, a 29-year-old computer programmer from Buffalo, N.Y., said he travels only for business because he can't afford to travel for pleasure.

"I think that when prices go up it makes it harder on everyone," he said.

But Brian Kelly, 54, a truck driver from Peoria, Ill., in Atlanta to visit his parents, said he doesn't begrudge the airlines for raising fares.

"I think it's OK because in America we're here to do business," he said. "The only ones I blame this on are the oil companies because they're the ones who are gouging us."

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