



## The Star-Ledger

### Things are looking up again for major airlines

Bottom lines no longer rock bottom as fare hikes don't deter flyers

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Things are looking up for the airlines.

After passing a series of fare increases this year -- something that proved nearly impossible last summer -- major U.S. carriers are showing profits and, at least for now, consumers aren't flinching over the rising costs of flying.

It was a very different story last summer when excess capacity prevented the airlines from successfully raising their ticket prices. Once the airlines started cutting back on their flights -- thus, the number of seats available -- everything changed.

"They're not cheap," Frances Seth of Evanston, Ill., said as she and her husband, Kam, waited to board a Chicago-bound flight at Newark Liberty International Airport's Terminal A last week. "But in general, the prices aren't horrible," she said.

The airlines have managed to pass along seven fare increases since the start of the year. Those higher fares -- coupled with fewer flights -- have helped some of the long ailing U.S. carriers fill their planes and produce modest profits. Continental Airlines, the leading carrier at Newark, nearly doubled its profit for the second quarter compared with the same period last year. Earlier this week, United Airlines reported making \$119 million -- its first quarterly profit in six years.

As the peak air travel season begins to wane, some airlines -- JetBlue Airways, for one -- have already begun holding fare sales in hopes of sustaining revenues through September and October. Even so, most experts believe prices will stay where they are or continue inching upward over the coming months.

"They're going to continue to push up into next year," said Roger King, a senior airline analyst at CreditSights in New York City, "unless something happens to scare the airlines into thinking demand isn't going to be there."

For the moment, consumers' desire to fly -- in economics, this is demand -- doesn't seem to be fading. In 2005, the U.S. airlines transported a record volume of 739 million passengers. The Air Transport Association of America, a major industry trade group, predicts 207 million people will fly on U.S. carriers this summer alone.

Meanwhile, leisure fares are up 9 percent over last year, climbing from an average of \$106 in 2005 to an average of \$116 this year, according to **New York City-based Harrell Associates**, a consulting company which tracks fares. Business fares have climbed steadily since last summer: The average fare for a business class seat rose 18 percent, from an average fare of \$430 last July to \$507 last month, according to the company's data.

Consultant **Bob Harrell** said business fares showed sharper increases in early July when they showed a nearly 30 percent hike, climbing to \$505 from an average of \$396 at the start of last July.

Frequent flier Seymour Liao said he's noticed cross-country fares are approaching nearly \$500. "When you hit those price points, it starts to seem expensive," Liao said as he prepared to fly back to California after visiting a friend in New York City last weekend.

Case in point: Liao said he booked a flight from Los Angeles to Boston in May for nearly \$500 -- much more than he wanted to pay for a college reunion weekend. "I couldn't find a better deal," he said.

While Liao said he thought he overpaid for the flight, he still booked it. And the long-ailing airlines are counting on more passengers doing the same.

"Airlines have been fairly clever. There hasn't been a major hike. Prices are slowly creeping up," said Mo Bulbrook, a senior vice president at Cheapflights.com, a fare-finding search engine.

"I'm not even sure people are noticing," she said.

Ah, but they are. They're just taking it in stride -- for now.

"They're up a little," said Robert Martin, a money manager from Montclair who flies from Newark to Chicago every week for business. Martin attributes the fare increases to the airline industry's cost of jet fuel, forcing him to book ahead in hopes of getting better prices.

The price of flying, he said, "is just one of the costs of doing business."

Which is not to say there isn't a certain point when even businesses start cutting back on travel. Martin said he already feels a certain responsibility to secure "decent" fares. More hikes could result in fewer flights.

"There's always a certain break point," he said.

Joan Skibell said round-trip tickets between Dallas and New York City are up \$50 over last year, which she and her husband paid to make an annual trip to see their daughter. "Do we have a choice?," she said.

"It's probably all fuel-related," her husband Jerry reasoned.

Last month, Wall Street analysts peppered airline executives with questions about demand elasticity -- when the prices will reach a point when they start impacting consumers' willingness to fly. (American reported none, but Southwest, the low-fare carrier, said it has started seeing some slight demand elasticity in certain markets.)

That leads Helene Becker, a transportation analyst with The Benchmark Co., a New York City brokerage firm, to believe fares will not continue climbing. "They're already seeing some push back from customers not wanting to pay higher fares," she said.

"It's a concern," Becker said, "the airlines are just making this tenuous profit."

Peter Capelli, a management professor at the University of Pennsylvania's Wharton School of Business, said it's only a matter of time before market conditions change.

"At some point, the carriers will start adding capacity again, demand will slacken and the carriers will cut fares to fill the empty seats," he said, "and (the airlines) will once again lose money like crazy."

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