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Low-Cost Airlines Raise Fares

Rising Fuel Costs and Overexpansion Bring Discounters in Line With Old-Line Rivals

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Facing new financial pressures, low-cost airlines are raising their prices -- in some cases, making their fares higher than those offered by traditional carriers.

Discount carriers including **JetBlue Airways**, **Southwest Airlines**, Spirit Airlines and **AirTran Holdings** Inc., citing rising fuel costs and the introduction of more high-end perks, have been steadily boosting prices in recent months. Traditional airlines, meanwhile, have been increasingly moving into the low-cost carriers' routes and copying their simplified fare structures.

The result on a growing number of routes is that the low-cost carriers' fares are no longer always the cheapest. One example is the fares between Northeastern cities and Florida, a big focus of the low-cost carriers' expansion. Spirit Airlines' cheapest round-trip fare (before taxes and fees) between New York's La Guardia Airport and Fort Lauderdale, Fla., now tops US Airways' -- a $148 sale fare compared with $138. The same pattern is playing out with Southwest and **AMR** Corp's American Airlines on flights between the Washington, D.C., area and Chicago, where American has a fare of $197 (including taxes) compared to $232 for Southwest (that's for round-trip travel between May 12 and May 17).

CHANGING THE MATH

For travelers, beyond having to compare fares more carefully, there is another reality: As the high and low ends of the fare spectrum converge, the lowest fares are increasingly disappearing. A study by BACK Aviation Solutions, an industry consultancy, found that last year the percentage of domestic fares that were under $200 fell to 11.6% from about 17.3% in 2001.

Fare increases leading up to summer are a ritual, and many traditional carriers this year have also reinstated fuel surcharges to deal with higher costs, particularly on longer-haul international flights. Still, the fare changes are the latest window onto the shifting fortunes of many of the low-cost carriers. Once hugely popular among travelers for their easy-to-understand fare structure and on-time performance, some of the airlines have run into the same pitfalls that their larger rivals have been struggling with for years, from increased delays to malfunctioning seat-back TVs. JetBlue, in particular, has been susceptible to these problems, but others, such as the now-defunct Independence Air, have run into trouble as well.

Indeed, low-cost carriers are starting to run up against economic troubles at the same time that many traditional carriers are finally expected to return to profitability. In the fourth quarter of 2005, JetBlue posted a wider-than-expected loss of $42.4 million, citing oil costs and cancellations. Its latest earnings numbers are due out today, and analysts expect JetBlue to announce a loss of about $33 million, or 20 cents a share. Southwest last week reported in its first-quarter earnings that its fuel costs had risen 62% year over year.

The low-cost carriers have long been reluctant to raise prices across the board for fear of denting their consumer-friendly image, but they are beginning to cave in. Last month, JetBlue raised transcontinental fares by $10 each way. Also last month, Southwest Airlines raised its cap on fares for the first time in four years, pushing its highest prices to $309 one way from $299. It replaced its lowest-priced fare bucket of $39 with $49. Spirit last week increased prices on Caribbean and Bahamian legs by $20.

While traditional carriers are still pricier in a majority of cases, the gap is narrowing. Two years ago, traditional carriers charged almost quadruple the rates of low-cost carriers, compared to two to three times for this year, says Bob Harrell, president of Harrell Associates, an industry consultancy. And increasingly, there are exceptions. Between New York and Tampa, Fla., for a search conducted on Kayak.com yesterday for leaving May 12 and returning May 17, Delta came in at $179 compared to $219 on JetBlue. (Both fares include tax and are for non-stop flights.) BACK Aviation Solutions found that in the third-quarter of last year, JetBlue flights in major markets were consistently higher than Delta tickets.

To find the best fares, consumers should look on highly traveled routes where discounters have recently moved in. Southwest and **Frontier Airlines Holdings** Inc., for instance, now make Denver a good place to look for deals, and not just on the discounters but also on UAL Corp.'s United Airlines. Low-cost carriers do a lot of seasonal expansion to warm-weather destinations, lowering rates to places in the Caribbean and Cancún, Mexico.

Many low-cost carriers are pushing prices up in part because their premium products and hip-themed marketing make their seats worth more. Spirit, for example, now has a two-class system, and competes with the traditional airlines for business travelers, while JetBlue and Frontier offer direct in-flight television.

While some customers agree -- and have become loyal to the low-cost carriers -- others say they are being driven away by the higher prices and service lapses. Justin Sulsky, 19-year-old college student in the Boston area, flew JetBlue five times over the past year and says three of the flights between Boston and New York were delayed by at least an hour. On one of the other flights, his bag didn't make it, and on the fifth, the XM radio, one of the airline's perks, didn't work. "If they were a lot cheaper I would fly them again, but the only reason to is if the fares were as low as they used to be, and now it's not worth it." The airline has been using a new type of aircraft on that route, and a JetBlue spokesman says the airline has been working to get rid of "teething problems."

For the low-cost carriers, the rapid expansion that long characterized their strategy is now beginning to slow across the board. AirTran is adding just two new cities this year, down from four in previous years. Jamie Baker, an airline analyst at J.P. Morgan, wrote in an April 17 report that he expects JetBlue to tell investors in its first-quarter earnings call tomorrow that it is delaying the deliveries of new Airbus A320 aircraft or selling some of its older aircraft.

JetBlue had the worst on-time rating of all reported airlines in February, according to the Department of Transportation's most recent statistics. A JetBlue spokesman says the delays were caused by a large number of cancellations due to a blizzard, and strong upper-level winds on westbound transcontinental flights. AirTran's on-time performance, meanwhile, dropped to 71.3% in 2005 from 77.7% in 2004, according to the Airline Quality Rating.

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Redoing the Math

Some of the routes where traditional carriers are now underpricing low-cost airlines

ROUTE	NON-STOP SERVICE	LOWEST PRICE
Boston to Miami	American, Delta and JetBlue	American at $239. JetBlue, at $269, has a direct flight to Ft. Lauderdale.
Washington to Chicago	American, ATA, Southwest, US Airways	American at $197 for flights in and out of different Washington area airports. ATA was $227 and Southwest was $232.
Cleveland to Las Vegas	Continental, Southwest, US Airways	Continental at $330. Southwest is $350 and US Airways is $390.
New York to San Juan, PR	American, Continental, Delta, JetBlue	American at $241. JetBlue comes in at $301.

Note: All fares are round-trip and include tax and fees. Fares were valid at the time of printing; some prices may reflect that fact that lower fare buckets had already sold out. Searches were conducted on April 24 for non-stop flights departing on May 12 and returning May 17.

Source: WSJ Research.