

# Oil Is Cheap – So Why Aren't Airfares?

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As travelers, we now live in an age of airline fees and surcharges, paying as we go for every remnant shard of customer service imaginable – checked bags and sometimes even carry-on bags, seat selection, seats together, aisle seats, booking by phone, pillows, snacks, meals, even water.

These small amenities don't come cheap. A small snack onboard can set you back \$5 - \$7 or more, the average checked bag is \$25, and booking by phone can cost \$15 - \$40, and forget about changing your flight, which can cost you more than the original airfare itself.

Many airlines were emboldened to introduce – I use the word ironically, as they mostly sneaked them in – the fees and surcharges by their early success in adding fuel surcharges. These charges addressed an issue we were all feeling – high prices at the pump – and while we paid them grudgingly, we understood them at least.

But we understand the current low prices at the pump just as well. We covered the cost when fuel prices were high, so shouldn't we benefit when fuel prices are (almost historically) low?

## Why Haven't Airfares Fallen?

Some analysts believe the reason that airfares went up when oil prices were high but won't come down when they are low is that the airline industry has gone from being an overcrowded, hypercompetitive industry to something much more like an oligopoly that fixes prices, reduces competition and reaps massive profits as a result.

It rings true; the rash of disappearing airlines and mergers has left the U.S. with only four large airlines (American, Delta, Southwest and United) that control 70 percent of the domestic market). Of late these big four do not compete directly very often, and don't seem inclined to expand to do so. The result has been higher airfares for most travelers, and much higher profits for the airlines.

The trend has even earned the attention of legislators, with U.S. Senator Charles Schumer (D-NY) asking the Justice and Transportation Departments to investigate why booming airline profits have not resulted in some relief for travelers.

But it's not just badly behaved airlines that control pricing — as unorthodox as it can be, with some airlines advertising \$9 fares that come with \$250 in fees (Spirit), and prices changing by the second in a way that would be insane if a pizza joint tried it, the airline

industry is still a game of simple supply and demand. And the demand is coming from all of us unrelentingly, so the suppliers have very little incentive to lower prices, even when their costs go down.

## Fares Are Not So High After All

Before we ask why airfares are not coming down, one thing to note is that fares — well, base fares at least — are not actually very high on a historical basis.

As noted in [this article](#) by Joe Brancatelli, editor of JoeSentme.com, a noncommercial website for business travelers, the average domestic airfare in the second quarter of 2014 was \$396 before post-purchase fees such as luggage and seat assignments. Compare that to the average inflation-adjusted fare in the second quarter of 1999, which would be \$472 in 2014 dollars. Figuring that you pay \$50 – \$75 in fees on a typical flight, prices really haven't changed much.

## Fierce Competition vs. Solvent Airlines

Further, some airline executives forthrightly admit that they are not inclined to engage in the uber-competitive practices of years past, where airlines competed almost exclusively on price. As American Airlines President Scott Kirby told investors last year, “In a strong demand environment, we don't plan to go off and just proactively cut fares.”

And as much as we like low fares, the truth is that we are likely better off with solvent, profitable airlines than with shaky, bankrupt (and bailed out) airlines.

“I'd prefer my carriers to be profitable because I look at airlines as suppliers, and I want my suppliers — whether [they] be the staple makers or the airlines — to make money and be stable,” Brancatelli told me last week. “I'm more worried about the lack of airlines than their profitability. About a decade ago, my joke line was that the airlines were too small to be too big to fail. Now the Big Three are too big to fail. They control so much of the market that I think it is dangerous.”

Brancatelli does believe that the sky-high profits may be enough to entice new entries into the space, enabling a potential return to more robust competition.

“I have hopes for some startups because the industry is so profitable now [that] someone is sure to come in and try to get a piece of the pie,” he said. “At least I hope they do.”

## It's Not Just the Price; it's the Experience

For many of us, it is not pricing that is the biggest problem, but what we get for our money that stings most. “Airlines are squeezing more and more seats into planes, cutting personal space AND raising prices,” Brancatelli notes.

And there are other hidden expenses we haven't even addressed. The fact that you can't bring a drink through security means that you are paying exorbitant prices for bottled water on the other side of security. It takes way longer to get through airports now, and time is money. And with the amount of stuff you can't take through security, sometimes checking a bag is unavoidable.

As an aside, if we're not going to get the money back, it wouldn't be terrible to see airlines share some of the windfall with their employees, who made countless concessions when the airlines were struggling. Happier employees would definitely make for happier check-in desks, gate counters and aircraft cabins. Whether this will happen remains to be seen, but as Brancatelli told me, the airlines may have record profits, but they "don't seem particularly interesting in sharing."

Brancatelli isn't sold that happier employees will translate to a better flying experience. "I hope airline employees can get some of their wages and benefits back; they've taken massive cuts in both," he said. "But when you're paying more and getting less, I don't think a smiling flight attendant is going to make your travel experience better."

## Agreed — But When Will Prices Come Down?

Brancatelli again: "The answer is never. Fares will never fall so long as you keep buying tickets at prevailing prices." Unlikely bedfellows they may be, but airline exec Kirby and passenger advocate Brancatelli both agree that it all comes down to demand — which comes from us.

At present, demand and not supply is keeping prices aloft. Sure, the supply has become tighter — the airlines are flying smaller planes, and fewer flights on their routes, resulting in more full planes — but that is just good business practice. Empty planes don't make any money; full planes do.

And there is no question that competition makes for better pricing. In general there is more competition from Washington D.C. to the West Coast than there is from Newark, for example, so I did a search from each for travel 15 days out. The roundtrip direct flight from Newark to San Diego was \$597, while the roundtrip from Dulles to San Diego was a stunning \$353 on the same dates. Add a few upstart airlines to the mix, and you might see fares like this more often.

But lacking a big change in the competitive environment, so long as we will pay the prices offered, the falling cost of fuel will have no effect on the price of a flight.

## What You Can Do About It

You can beat the system if you are smart about it; as Brancatelli told me last week, "Prices are much more dynamic than they were. You can see sharp, sharp differences day to day." This means that the various tactics for saving on airfares are still your best tools. Here are links to some of our favorite tactics: money on the drive to and from the

airport and on fuel for our rental cars — whenever we're pumping gas into our own tanks instead of pumping money into airline banks.

## Airfares and challenges of air service development at IDA

We are continually working towards maintaining our existing air service, as well as pursuing new viable and sustaining routes. To learn more about Airfares and the challenges of air service development at IDA, click on the Whitepapers below:

[IDA Airfare Pricing Analysis](#)

[Air Service Development at IDA](#)

[IDA Eastbound Airline Service Analysis](#)