



November 8, 2010

Sticker Shock for Travelers as Airfares Climb

By **NICOLA CLARK**

In the 10 years they have been together, Charissa Benjamin and her Serbian husband have always flown from their home in Washington to spend the winter holidays in the warmth of her native Antigua.

But with the lowest economy-class fare this year advertised at about \$1,500 — more than twice the \$700 she paid in 2009 — Ms. Benjamin is considering ringing in 2011 with her husband's family in decidedly chillier Belgrade. Flights there cost half as much as those to the Caribbean.

"It's hard for me to bite the bullet when it's only 1,700 miles," from Washington to Antigua, she said. "That's just under 90 cents per mile."

As Ms. Benjamin and others have been discovering in recent months, airfares in most of the world are on the rise as the global economy picks up and demand for air travel climbs, particularly for business trips. Airlines, meanwhile, have been reluctant to add more flights to meet that growing demand. That is increasing pressure on ticket prices and making for packed planes and longer standby lines as the year-end travel season approaches.

This has been a boon, of course, for an industry that is expected to roar back into profit this year, to the tune of \$8.9 billion. That comes after airlines collectively lost nearly \$26 billion during the previous two years, according to the International Air Transport Association, an airline industry group. Many of the world's leading airlines are reporting that the three-month period ended Sept. 30 was one of their most profitable quarters in years.

The degree of sticker shock varies significantly by region and by class of seat, with fares on some routes still at or below those of a year ago, despite some large increases in traffic.

Average domestic and international fares worldwide are up by less than 4 percent from a year ago, according to figures from the transport association. And while fares may continue rising for some time, industry executives say the increases next year are likely to be smaller.

Travelers in North America have experienced the steepest price gains, particularly for **business**

travel. Average one-way fares for business- and first-class travel within North America have soared this year. They were up a staggering 140 percent from a year earlier, to \$676 in August, a peak travel month and the most recent for which the transport association has data available. Economy fares rose 3.6 percent.

Fares between the United States and Europe also rose sharply, especially for economy-class seats. The average one-way fare in August was \$455, a rise of 20 percent from a year earlier, while the average premium-class fare was \$2,087, an increase of 11 percent.

“It’s really hard to find the \$600 tickets anymore,” said Philip Guarino, 40, an American who runs a consulting business in Milan and Boston. “The basic fare from the [East Coast](#) to Europe is closer to \$1,000, and most likely closer to \$1,200.”

A business-class ticket to Milan costs about \$3,400, he said, compared with about \$2,400 four years ago. “The pricing now in business is at my upper limit,” he said.

Elsewhere, economy-class fares between Europe and Asia have risen 10 percent from 2009, according to the transport association, while those between North and South America have increased about 13 percent.

“All of the airlines have done a good job, as demand has picked up, of not adding very many more seats,” said Christa Degan Manning, head of research at [American Express Business Travel](#). “I expect them to continue to manage that very closely.”

Dan Hodgdon, 44, said he had given up trying to fly between the Bangkok offices of his [spa-supply](#) business, which is based in Los Angeles, and his vacation home in southern France because fares on the route had become “ridiculously” high.

Referring to the Los Angeles airport, he said, “It is far less expensive now to fly from LAX to anywhere in Europe than from Bangkok.”

“This was not always the case in early 2009,” he added.

Travelers in other parts of the world can still find good deals. Within the Asia-Pacific region, for example, the average one-way economy-class fare was \$318 in August, a decrease of 0.4 percent from August 2009, while premium-class tickets were nearly 2 percent less expensive, despite a 26 percent jump in traffic on those routes.

But some of the biggest fare declines this year have been in Europe, where economic activity remains sluggish and consumer confidence is weak. Economy-class fares on European routes fell nearly 11 percent in August despite an 8 percent increase in demand. Business-class fares fell

even further, dropping 16 percent as the bigger carriers scrambled to keep customers from defecting to low-cost rivals and high-speed trains.

“An awful lot of passengers are trading down from the big carriers like [British Airways](#) and [Air France](#) to fly with us,” said Michael O’Leary, chief executive of [Ryanair](#), the largest European low-cost airline. “All across Europe, fares are still falling, and we are one of the main reasons for that.”

Ryanair has taken advantage of that trend to raise its average one-way fare to 44 euros, or \$62, in the April-September period, up 12 percent from a year earlier, the carrier, based in Dublin, said.

Ms. Manning, of American Express Business Travel, said that in Europe, overall expenses for business travel, including hotels and car rentals, had fallen by about 1 percent in 2010 from a year earlier. But American Express predicted this month that this figure would jump 16 percent in 2011, as travel providers sought to recoup some of their losses of the last two years. Domestic and short-haul European economy-class airfares are likely to rise 4 to 9 percent next year, American Express said, with countries like Britain and Sweden in line for the biggest increases.

Spain, with its economy still deep in crisis, was the only European market where continued declines in ticket prices were expected next year, of 1 to 3 percent.

In other parts of the world, fares are expected to rise as well in 2011, but at a much slower pace than this year.

Because of the increases experienced in 2010, North America is likely to have the smallest fare increases, in the range of 2 to 7 percent, according to American Express, while Latin American fares are likely to rise 3 to 8 percent. In the Middle East, fares should also climb 2 to 9 percent, American Express said.

Fare increases in the fast-growing economies of Asia, meanwhile, are likely to accelerate, especially for premium travel. American Express predicted economy-class ticket prices would rise as much as 13 percent in 2011 in markets including China, India and Singapore, while business-class fares could rise as much as 15 percent. In Japan, where economic growth remains sluggish, prices are likely to be more stable, with increases expected in the low single digits.

Still, many airline executives are expecting this year’s growth in yield — the price paid by one passenger to fly one mile — to slacken in 2011 as slowing economies combine with accelerating deliveries of new planes to increase the supply of available seats.

A quarterly survey of airline chief financial officers that the transport association published this month showed that while nearly 60 percent expected their carriers to see continued improvements to their profitability during the next 12 months, only 26 percent said they expected yields to increase over the same period — down from nearly 75 percent from the previous survey in July.

Barring another sharp economic downturn, analysts said, the longer-term trend toward rising fares is likely to continue apace. A wave of recent industry consolidation has given airlines greater visibility over a broader swath of the market, making it easier for them to manage the supply — and the prices — of available seats.

“The degree of consolidation that is occurring — partly through alliances and partly through takeovers — has to start influencing the balance between supply and demand,” said Peter Morris, chief economist at Ascend, an airline consulting firm in London.