

Unusual Economics: Jet Fuel Prices Nose Dive while Airfares Sky Rocket

Transport industry economics is widely affected by fuel prices. A reduction in the cost of jet fuel should therefore be followed by lower air fares. Associated Press' air travel analysts however note that this isn't the case as the cost of boarding a plane in the U.S. has gone up by 10.7 percent in the last five years regardless of the downward swing of jet fuel prices.



This means that U.S. airlines obtain additional millions of dollars on a weekly basis since jet fuel form the biggest chunk of their expenses. Some analysts note that the airlines aren't talking of cushioning their passengers' pockets by lowering the fares because it's a liberal market and they are not compelled to do so by the law. If anything, planes are always nearly fully booked and the carriers have newly ordered planes to pay for besides harboring the urge to please the industry's investors.

By the close of the industry's financial year in September 2014, the airlines' savings on jet fuel totaled USD 1.6 billion. As a result, they obtained a profit margin of 5.7 percent in the first three quarters alone. These results may have not been possible if the airlines didn't manipulate flight schedules to create demand for air travel with an aim of forcing the passengers to pay premium fares. Airlines that may want to play it clean and cut fares are on the other hand restricted by the industry's dynamics which are controlled by four companies that own the lion's share of the U.S. air travel market.



The data from Associated Press indicate that domestic air ticket prices went up by 3.5 percent in the last financial year to settle at USD 372.21. The price is exclusive of USD 56 tax that's passed on to the passengers. In the same period, the airlines used 16.2 billion gallons of jet fuel which they bought at USD 2.97 per gallon and not at the previous year's price of USD 3.07. The 10 cents difference helped the industry's players to save USD 1.6 billion which translates to USD 31 million a week. This means

that the airlines save an average of USD 2.15 per passenger on a single trip as round trip bookings save them an average of USD 4.30 per passenger. They further save USD 8.60 per passenger when it comes to round-trips with connection arrangements.



Fuel takes up 34 percent of the industry's total cost of operation which is bigger compared to non-fuel expenses such as salaries, airplane maintenance and lease payments. The reduced cost of operation made possible by lower jet fuel prices enables the airlines to embark jet-buying sprees that haven't been witnessed in the history of America's aviation industry. Airbus and Boeing have for instance received 10,000 orders in the last five years. The new orders are part of a plan to obtain fuel efficient planes, revamp airport terminals and acquire state-of-the-art computers to boost efficiency.

The industry's lobby group notes that the U.S. carriers spend over a billion dollars a month in capital improvement ventures. Part of the money is on the other hand used to reward investors as American Airlines paid its first dividends, in a span of 34 years, this year. Delta Airlines reverted to dividend payouts last year as Southwest Airlines increased its payouts by 50 percent this year.

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