

USA: AIRLINES REPORT RECORD PROFITS



U.S. airlines recorded a net income of \$12.2 billion in 2013 and \$7.5 billion in 2014. Moreover, the profits are projected to reach an all-time high in 2015.

During the first quarter of 2015, most major airlines reported more than twice the profits recorded in the first quarter of 2014. According to the International Air Transport Association (IATA), **the profits of U.S. airlines are likely to reach \$25 billion in 2015, an increase of 26% from the previous year.**

The North American airlines have reported the best performance, and their net profits after tax are expected to reach \$13.2 billion in 2015. The airlines' net profit margins are also projected to reach an all-time high, and exceed the record that was reported in the 1990s.

Mergers, Low Fuel Costs and Fees Driving Profits up

According to IATA, the increase in profits can be attributed to mergers of airlines, decreasing fuel costs and an increase in ancillary fees charged on passengers. The fees have especially been very significant in driving the profits up, with the revenues recorded from them increasing by approximately 1200% between 2007 and 2013. Most notable revenues for secondary fees come from priority boarding, meals offered during flights, checked baggage and preferred seating arrangements.

Mergers Causing an Increase in Prices

The U.S. airline industry has experienced a number of mergers of major airlines in the past decade. This has led to a decrease in competition among the airlines, further leading to fewer incentives for reducing prices. The most significant merger in the industry was in 2013 between the American Airlines and US Airways, and it made the company the largest airline in the world. Since its completion, the airline's fares have rapidly increased, especially on routes where there was competition between the two companies.

Before the merger, American Airlines and US Airways services overlapped in 2,616 cities, which had approximately 8 million passengers in 2014. Most of the routes where these two airlines overlapped had only one or two other competitors. The merger significantly reduced competition on these routes, leading to faster increase in air fares.

Low Fuel Prices Are Yet to Bring Air Fares Down

Reducing fuel prices are one of the reasons why U.S. airlines have recorded the peak profits. Despite this decrease, air fares are yet to reduce, and observers in the industry are projecting that the situation might not change any time soon. The mergers experienced in the past couple of years have left the industry highly concentrated, leading to low competition for passengers. As a result, **most airlines have little incentive to reduce the prices due to the falling jet fuel prices.** According to BestFares.com CEO, Tom Parsons, most airlines have no reason to reduce their fares if they are still getting maximum passengers at their current prices.

The jet fuel prices have been on a reducing trend in the past few months, with the most notable decrease recorded in the last quarter of 2014. By the end of 2014, jet fuel prices had dropped by 42% from the prices experienced two years before. This decrease has led to a significant cost margin, leading to an increase in the profit margins for the airlines.

Despite this, data collected from airlines shows that prices are yet to drop. In fact, most airlines have raised the air fares by nearly 0.5% per mile at a time when fuel prices dropped by approximately 24.4% and non-fuel operating costs by 2.9%.

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