



Increased Air Fares

Businesses May Feel the Pressure from Rising Oil Costs

Businesses may face higher costs for their traveling associates in 2018 as the price of air fare will likely increase to counter the rising cost of oil. With rising costs and increased competition, airlines are remaining positive due to the projected strength of economy and optimism among consumers.

Over the past two years, airlines had record-setting profits of new revenue in ancillary services coupled with the drop of oil to \$30 per barrel in 2016. However, just this week, the cost of a barrel of oil has spiked to \$70, and will undoubtedly impact fares given it is the single largest expenses that airlines face.

American Airlines' CFO reported that fuel expenses rose 23.5% last year, and they are expecting another increase of 24.1% this year. United's president projected the same amount of increase, working out to \$1.6 billion. Delta reported a \$349 million increase just in the final three months of 2017. The biggest questions for carriers is how they will recoup these costs, and how much of this will be passed on to the consumer.

The executives of the three major airlines – American, Delta, and United – all agree that they were able to be profitable even when oil reached \$100 per barrel. They see no reason they can't be profitable again. However, they note, there is a lag on when those costs are recouped. The goal is to see whether spiked prices are temporary or not, and not to make quick decisions on price increases on a week-to-week basis. This means travelers may still be feeling the higher costs after the price of oil levels out or even drops again.

International Flights

Delta has indicated that with a strong economy and a solid market for international flights, they will be able to handle the increased fuel costs. For international flights, however, air fare costs were already expected to increase prior to, and without any relationship to, the increasing cost of oil.

The travel industry is experiencing a boom right now, and with increased demand comes higher prices. Long distance business class fares to and from North America are expected to rise 3-5%, and pricing for ancillary products is expected to increase, as well, putting pressure on travel budgets.