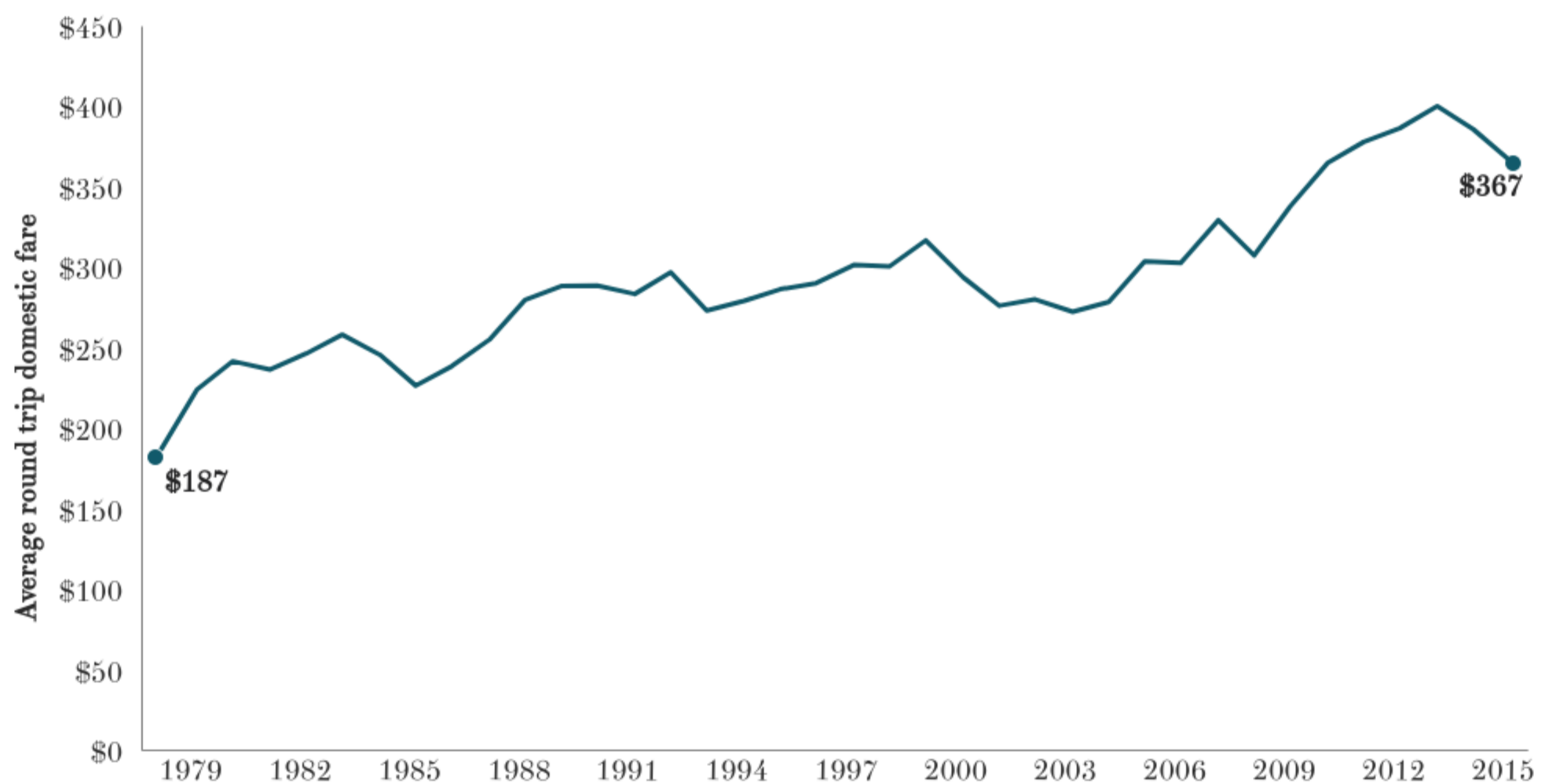


Question: Is air travel becoming pricier for travelers?

“Your plane tickets just got more expensive,” Fortune, January 6, 2016.

Cost is the most important factor for travelers when they choose to purchase an airline ticket. For this reason, both the media and the general public pay close attention to airfares with the general perception that they keep rising.¹ Figure 1 illustrates this gradual increase in nominal ticket prices over the last four decades with a clear drop in recent years.²

Figure 1: Average domestic round trip ticket prices (1979-2016)



Source: Airlines for America, “Annual Round Trip Fares and Fees,” 2017. (Figures in nominal dollars)

However, adjusted for inflation, average airline ticket prices have actually declined over 40 percent in real terms since 1979 (See Figure 2). That year is important as a baseline since it is the first year after the federal government deregulated the industry and allowed airlines to set their own fares and routes.³ In 1979, it took about 30 hours of work for the “average American” to buy a round trip airline ticket. By 2016 the same person only had to work 17 hours.⁴ Focusing on just the last decade – before the major airline mergers began – the figure shows a slight decrease in the A4A Base Fare and the U.S. DOT figures, with a slight increase in the A4A Total Fare figures.

¹Roger Dow, “Comments of the U.S. Travel Association: Transparency of Airline Ancillary Fees and Other Consumer Protection Issues,” Docket OST-2014-0056, September 29, 2014.

²Another way to examine the data is to use 2005 as the baseline year before the major airline mergers began.

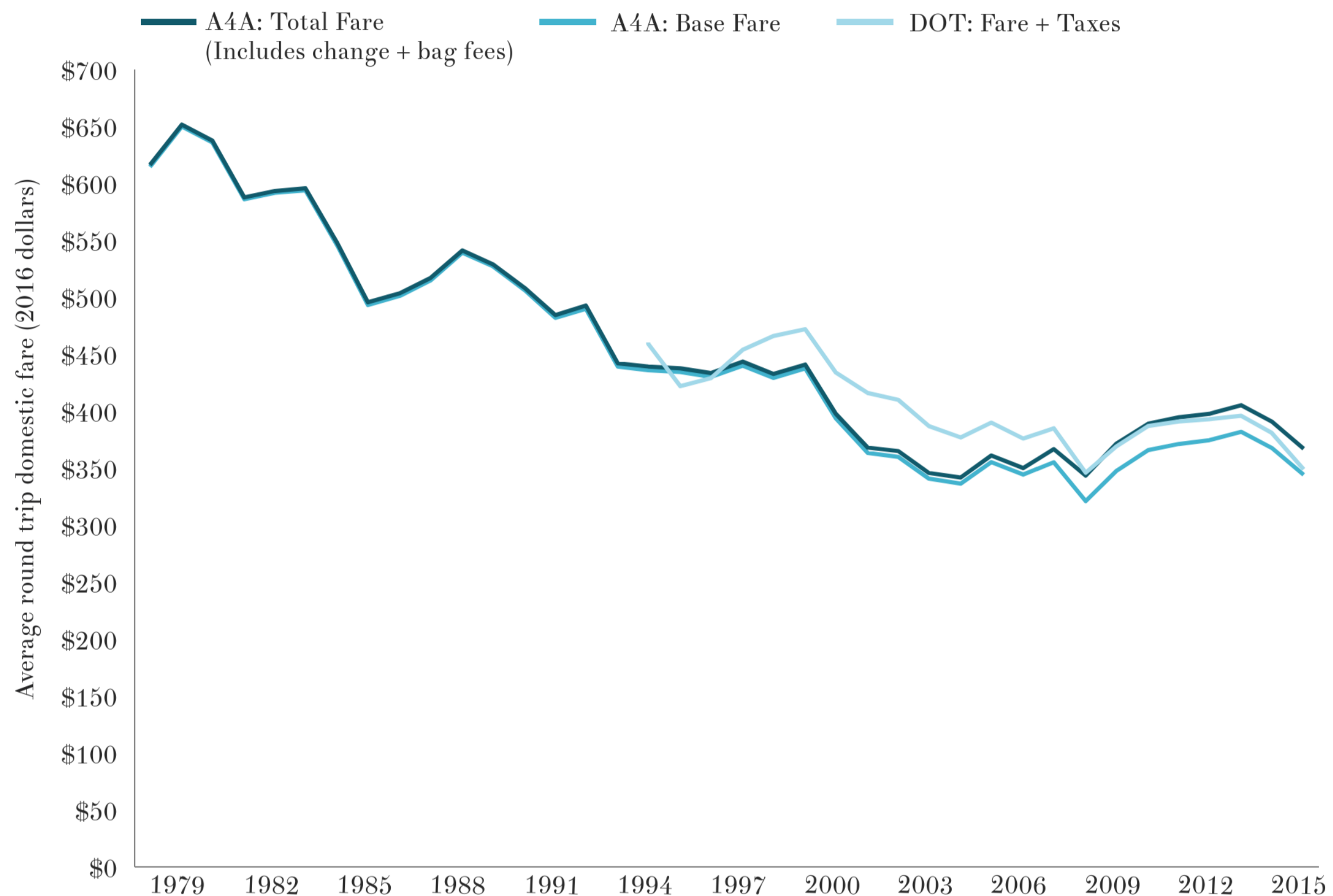
³Madhu Unnikrishnan, “A Law That Changed the Airline Industry Beyond Recognition,” Aviation Week, June 4, 2015.

⁴Bureau of Labor Statistics, “Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private”, United States Department of Labor, 2017.

Fare Data

Figure 2 presents two different sets of fare data. U.S. DOT data includes taxes on the estimates but excludes zero-fare tickets (including frequent flyer miles redemptions) as well as a few abnormally high reported fares. Airlines for America (A4A) data includes all tickets but excludes taxes; “base fare” represents the round trip ticket price, while “total fare” includes the “base fare” plus ancillary fees.

Figure 2: Inflation-adjusted average domestic round trip and fees (1979-2016)



Source: Airlines for America, “Annual Round Trip Fares and Fees”, 2017 and Bureau of Transportation Statistics, “Annual U.S. Domestic Average Itinerary Fare in Current and Constant Dollars”, U.S. Department of Transportation, 2017.

Taxes and Government Fees

The A4A base fare data in Figure 2 do not include ticket taxes and other government fees, which add approximately 16 percent to the base fare.⁵ Domestic travelers would expect to pay about \$59 in taxes and government fees to the average \$367 ticket cost. With the average cost of bag and change fees at \$23, the total cost of an average round trip air travel to the consumer in 2016 was \$449.

- Passenger Ticket Tax 7.5%⁶
- Flight Segment Fee \$8.20 for round trip (Indexed to inflation)
- Commercial Jet Fuel Tax \$0.043 per gallon
- Passenger Facility Charge Up to \$9.00 for round trip
- September 11 Fee \$11.20 for round trip

⁵ U.S. GAO. “Aviation Taxes and Fees,” GAO-04-406R, 2004; The 2004 GAO study estimated that government fees and taxes added 15.5 percent to the cost of a ticket. Eno independently updated this number to include changes to the September 11 Fee and Flight Segment Fee, with an approximate estimate of 16 percent. The 16 percent estimate has remained relatively consistent over the past 40 years. Note that bag and change fees are not subject to federal ticket taxes.

⁶ Federal Aviation Administration, “Current Aviation Excise Tax Structure and Rates,” 2017. Does not include fees for travel outside the continental U.S.

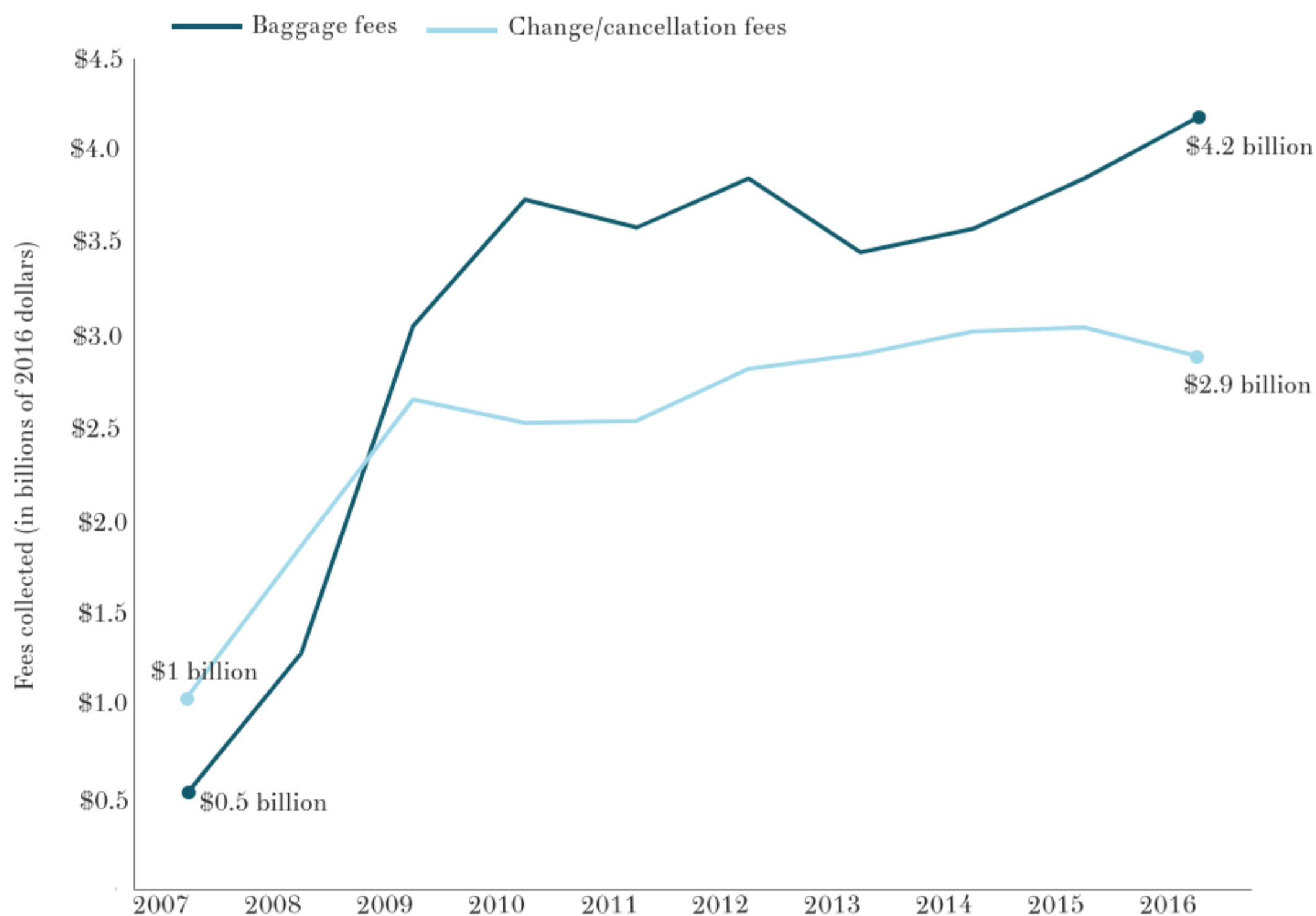
Prior to 2005 a listed airline ticket price was essentially equal to the total cost a passenger would spend on their travel. But since then, airlines have begun to unbundle charges for things like checked bags, seat selection, meals, and drinks from the total ticket price. However, some analysts speculate that these a-la carte, or ancillary, fees are new charges and function as “hidden” price increases.⁷ A recent study by the U.S. Government Accountability Office found that while the decoupling of bag fees and fares may have resulted in a decrease in overall fares, travelers might be paying more in total. This is because the new checked bag fee may be more than the decrease from the decoupling.⁸

On average, ancillary fees now account for \$23 of the total fare of a round trip ticket or around six percent of total ticket price.⁹ Despite their relatively recent introduction, ancillary fees are now quite common especially on low-cost carriers. They now represent about 4 percent of airline revenue.¹⁰ Figure 3 shows a dramatic ramp-up in both baggage and change/cancellation fees between 2007 and 2010. While baggage fees have increased recently, change/cancellation fees have leveled off.

Ancillary Fees

Ancillary fees are for services that airlines charge but are not part of the “basic” ticket price. Examples include fees charged by some airlines to check a bag (typically \$25 for the first bag) or fees to change a ticket to another date (up to \$200). The U.S. DOT does not collect data on fees for seat upgrades or priority boarding.

Figure 3: Ancillary fees collected by airlines (2007-2016)



Source: Bureau of Transportation Statistics, “U.S. Air Carrier Traffic Statistics/Baggage Fees by Airline/Reservation Cancellation/Change Fees by Airline”, U.S. Department of Transportation, 2017.

⁷ Tanya Powley, “Airlines Look to Take Flight with Lucrative Extras,” *Financial Times*, September 18, 2017.

⁸ U.S. GAO, “Information on Airline Fees for Optional Services,” GAO-17-756, 2017.

⁹ The difference between the \$23 per round trip figure and the numbers in Figure 3 (which add up to around \$10 per passenger), stem from the fact that the numbers in Figure 2 are calculated on a per-flight basis, while the \$23 figure is calculated on a round trip basis, which includes at least two flights, but sometimes more than that. Bureau of Transportation Statistics, “2016 Annual and 4th Quarter Airline Financial Data”, U.S. Department of Transportation, 2017.

¹⁰ The introduction of bags fees also correlated with a decline of more than 60 percent in the number of lost bags between 2007 and 2016. Of course, it should be expected that the number of bags checked declined after those fees were introduced but U.S. DOT data does not show the total number of bags checked, just the number of mishandled bags. This will change in 2018: U.S. DOT issued new rules mandating that airlines report both the total number of mishandled bags and the total number of bags checked. See: U.S. Department of Transportation, “U.S. Department of Transportation Announces Enhanced Protections for Air Travelers, Actions to Promote Airline Competition,” 2016.

Is air travel becoming pricier for travelers?

Answers:

- The cost of domestic air travel, including bag fees, taxes, and other charges, has increased since 1979. However, adjusting for inflation shows that air travel costs have declined over time and have ranged between \$395 and \$457 for an average round trip since 2001.
- Passenger complaints about travel costs may be due in part to the emergence of ancillary fees for items like checked bags and seat assignments.
- In some markets ticket prices have increased in real terms, as a later *Eno Aviation Insights* brief will illustrate.

Eno wishes to acknowledge its Aviation Working Group, a standing advisory body that provides Eno staff with guidance and expertise on all matters related to aviation policy. The opinions expressed are those of Eno and do not necessarily reflect the views of our supporters.

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