

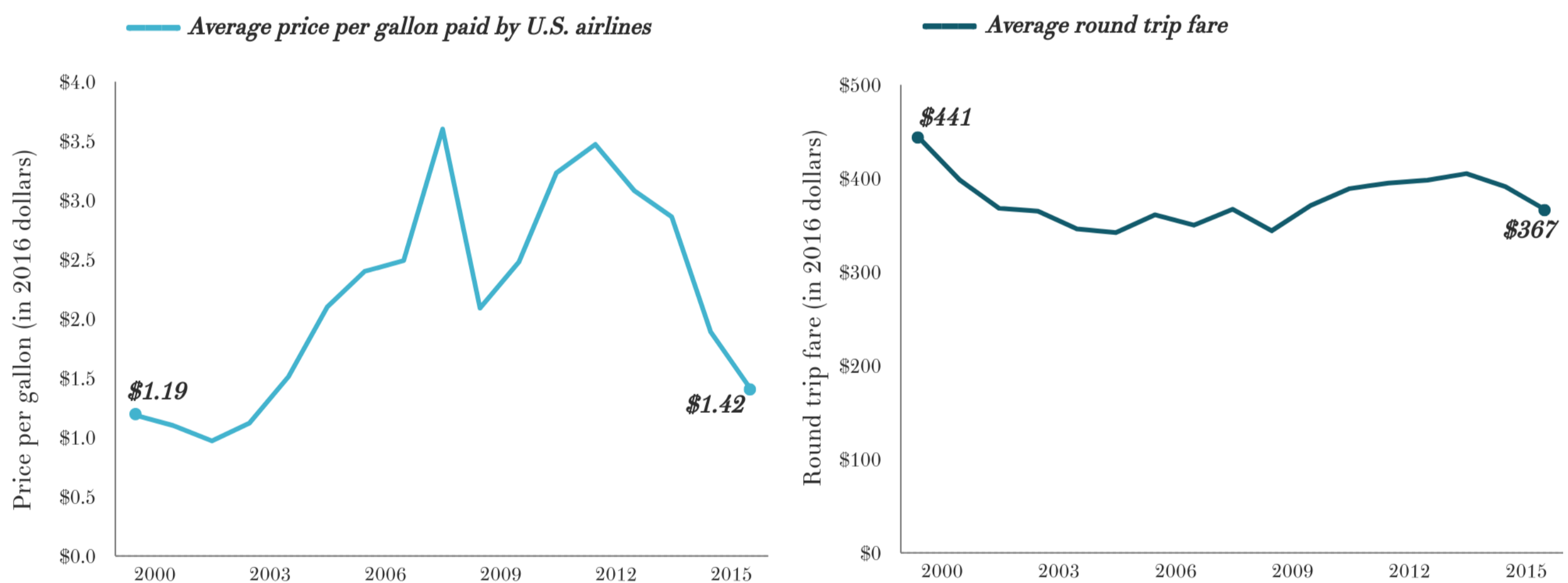
Question: Jet fuel prices have dropped significantly. Why haven't ticket prices?

“Head-Scratcher Alert: Jet Fuel Prices are Falling and Airfares are Rising,” NPR, February 25, 2016.

In 2014, global oil prices suffered their sharpest drops in seven years.¹ This led to similar reductions in the cost of jet fuel, which declined more than 50 percent in the third quarter of 2014.² In fact, Figure 1 shows that by 2016, fuel prices were at the lowest levels in a decade.

This drop has led some to wonder if ticket prices should drop in tandem with fuel costs.³ Air fares did decline over the same two years, just not as significantly, as other cost drivers came into play. The figure also shows that when fuel prices increased, as they did in 2008 and 2012, ticket prices also remained relatively consistent.

Figure 1. Average price per gallon of jet fuel paid by U.S. airlines and average round trip fare



Source: Bureau of Transportation Statistics, “Airline Fuel Cost and Consumption”, U.S. Department of Transportation, 2017
Airlines for America, “Annual Round Trip Fares and Fees”, 2017.

Of course, fuel price is not the sole cost driver for ticket fares. Figure 2 breaks down airline expenses into five main categories and shows how they vary over time.⁴ In 2016, fuel represented only 15 percent of operational expenses.

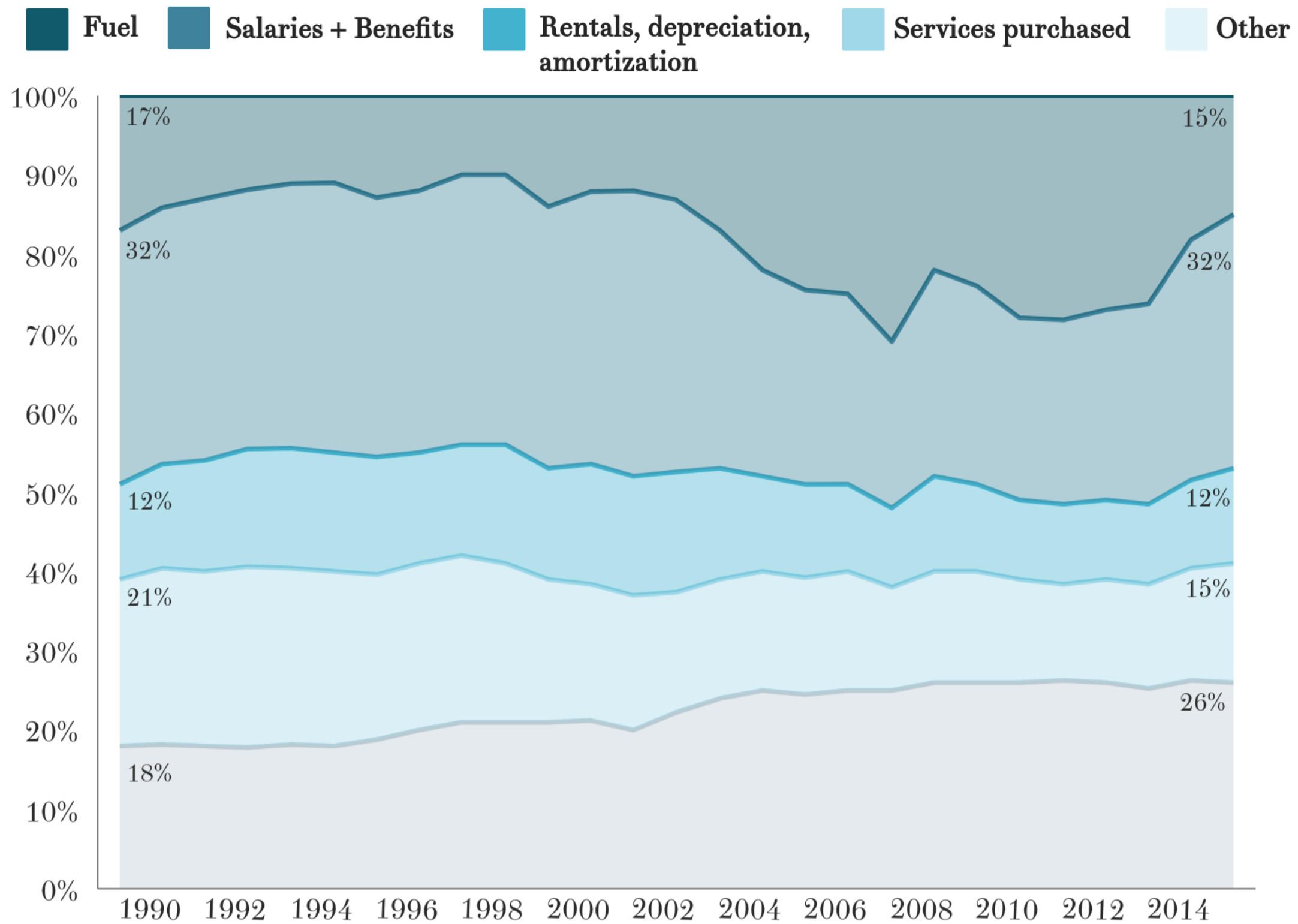
¹ Clifford Krauss, “Oil Prices: What to Make of the Volatility,” *New York Times*, June 14, 2017.

² International Air Transport Association, “Jet Fuel Price Development,” 2017.

³ A Lack of Competition Explains the Flaws in American Aviation, *The Economist*, April 30, 2017.

⁴ The categories are fuel, salaries and benefits, rentals, depreciation and amortization, services purchased (i.e., services contracted out, ranging from cleaning the headquarters to paying regional airlines for routes flown), and other (which U.S. DOT does not breakdown in other categories).

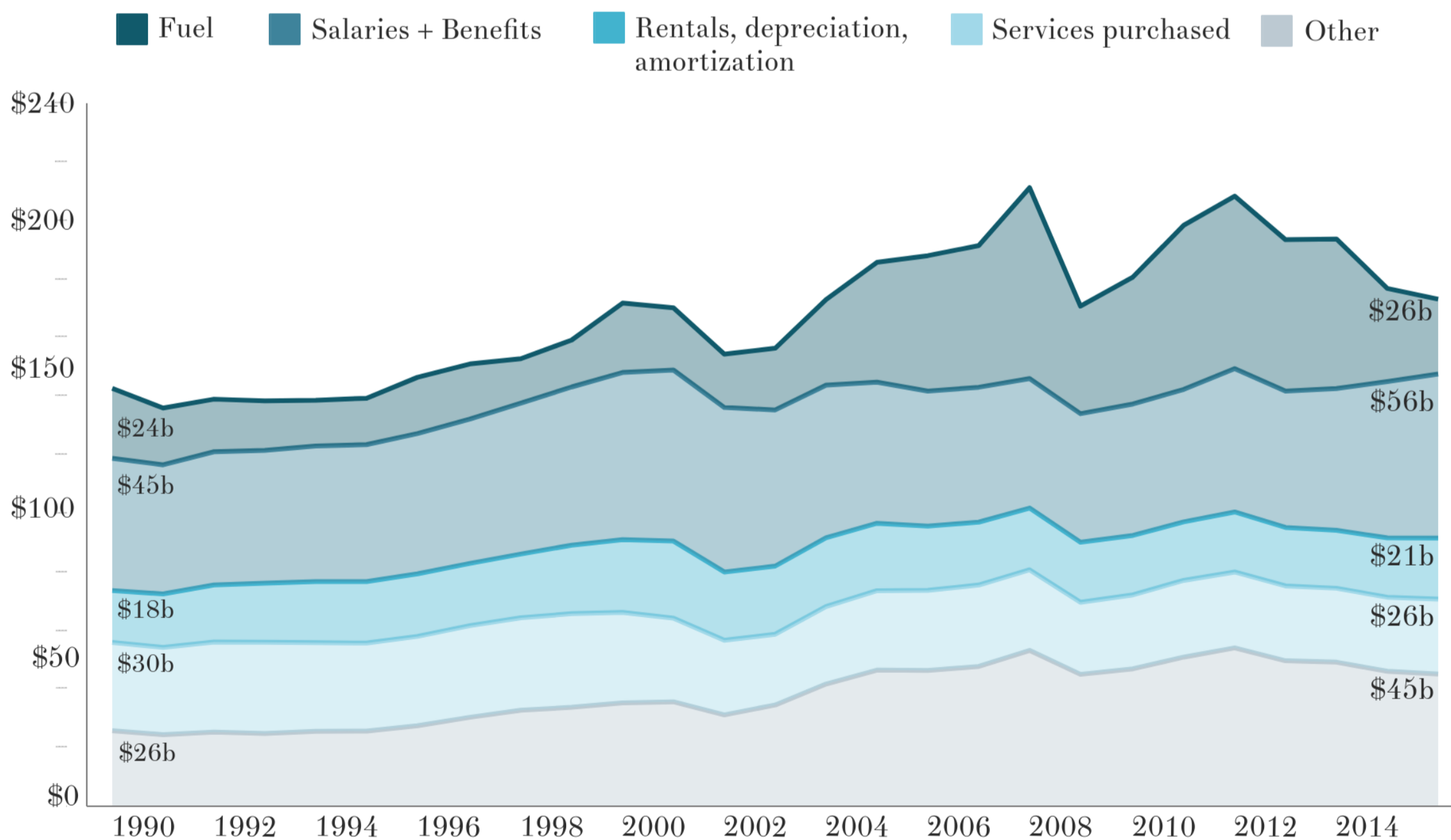
Figure 2. Shares of airlines' total operational expenses



Source: Bureau of Transportation Statistics, "U.S. DOT Form 41, Schedule P6", U.S. Department of Transportation, 2017.

Fuel is also much more variable and unpredictable than other costs. Figure 3 shows that while all of the other cost factors have remained relatively consistent, fuel volatility caused large swings in the overall operating costs of U.S. airlines since 2003. The large swings in expenses, both positive and negative, do not cause similar jumps in ticket prices.⁵

Figure 3. U.S. passenger airlines' operating expenses



Source: Bureau of Transportation Statistics, "U.S. DOT Form 41, Schedule P6", U.S. Department of Transportation, 2017.

⁵ One of the reasons for this is that there is a lag between all cost drivers and their effects on prices.

Airline employment

According to the U.S. Department of Transportation (U.S. DOT), the number of total full time employees at U.S. airlines fell from more than 620,000 in 2000 to around 570,000 in 2016, a decline of 8 percent.⁶ While some of this labor might have been contracted out to other companies, airlines' "services" expense—which includes contracted labor—actually declined over the past 25 years. In other words, airlines are using fewer people to handle more passengers. In terms of average salaries, after many years of stagnation, the last couple of years saw large increases.⁷

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Answers:

- Airlines determine their ticket prices based on complexities beyond variable costs of operating an aircraft. They have to predict demand into the future, thus setting capacity and fares while also fixing their costs during that same period.
- Currently, fuel represents only around 15 percent of operational costs for airlines although the figure has, at times, been as high as 30 percent. Generally, consumers see a small, proportionate break when prices fall.

⁶ Bureau of Transportation Statistics, "Search Airline Employment Data by Month", U.S. Department of Transportation, 2017 and Bureau of Transportation Statistics, "U.S. DOT Form 41, Schedule P6", U.S. Department of Transportation, 2017.

⁷ Chris Isidore, "Airline Employees Are Getting Huge Pay Raises", CNN Money, August 26, 2016.

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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