

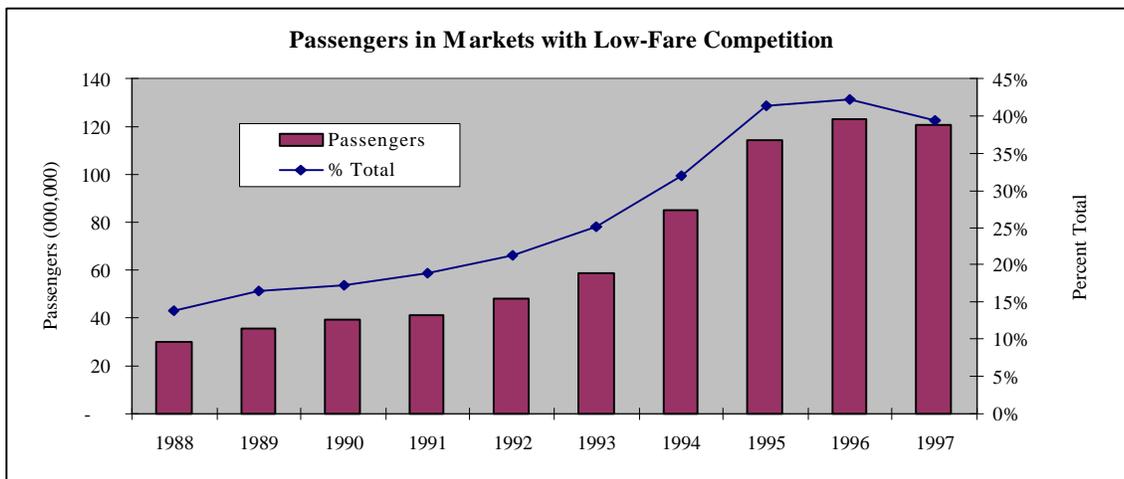
## Special Feature

### State of Low-Fare Competition in the U.S. Domestic Airline Industry, 1997

This Special Feature provides a brief examination of the state of low-fare competition since the publication of the April 1996 study, *The Low Cost Airline Service Revolution*.

#### Passengers

In 1997, approximately 120 million passengers, or 39.4 percent of passengers in U.S. domestic markets, flew in markets that receive low-fare competitive service.<sup>1</sup> Approximately half of those passengers were transported by a low-fare carrier. The absolute number of passengers in low-fare markets has declined since its peak in 1996. As a percent of total passengers, the low-fare market passenger figure in 1997 was below 1995 levels.



#### Markets

In spite of the smaller number of passengers in low-fare markets, low-fare carriers have continued to make inroads into a greater number of markets. In 1997, there were 18,717 domestic origin & destination markets.<sup>2</sup> Six percent of those markets, or 1,115, received competitive service from a low-fare carrier. This number is up from 1996, when only 984 markets had low-fare competition. The increasing number of markets with low-fare competition was largely due to new low-fare entry into markets that are traveled by 50 or fewer passengers each day. Conversely, the number of very dense markets receiving competitive low-fare service dropped back toward 1995 levels. These two factors combined have resulted in fewer passengers in a greater number of markets with low-fare competition.

<sup>1</sup> Low-fare carriers considered include: ProAir, Air South, AirTran, American Trans Air, Carnival, Frontier, Kiwi, Morris Air, Nationsair Express, People's Express, Reno, Southwest, Spirit, Tower Air, ValuJet, Vanguard, and Western Pacific. Competitive service is defined as at least ten percent of market share.

<sup>2</sup> An origin and destination market is defined as any city-pair market in which at least one passenger flew per day.

### Number of Markets with Low-Fare Competition, By Market Density

Date	0-20 Pax/Day	21-50 Pax/Day	51-100 Pax/Day	101-200 Pax/Day	201-500 Pax/Day	Over 500 Pax/Day	Total
1993	67	87	83	84	76	101	498
1994	144	112	118	101	101	148	724
1995	196	141	153	151	160	189	990
1996	175	132	135	153	168	221	984
1997	273	157	146	162	174	203	1,115

### Average Fares

Markets with competitive low-fare service continue to experience substantially lower fares, on average, than markets that don't have such competition. The average fare differential is most significant in short-haul markets, where low-fare carriers have historically tended to concentrate service. In city-pair markets between 251 and 500 miles, for instance, average fares in markets without low-fare competition are 121 percent higher than fares in markets with such competition.

### Average Fares in Markets with and without Low-Fare Competition, 1997

Market Type	Mileage Block						
	0-250	251-500	501-750	751-1000	1001-1500	1501-2000	Over 2000
Without Low-Fare Competition	\$ 142	\$ 165	\$ 171	\$ 167	\$ 179	\$ 198	\$ 223
With Low-Fare Competition	\$ 67	\$ 75	\$ 101	\$ 121	\$ 133	\$ 163	\$ 176
% Difference	111%	121%	70%	38%	35%	22%	27%

Average fares in markets with and without low-fare competition increased between 1996 and 1997. Average fares in markets without low-fare competitive service rose 1.7 percent compared to an increase of almost 10 percent in markets with such competition. In spite of accelerated average fare increases in markets with low-fare competition, average fares in markets without such competition were still 80 percent higher than the average fares in markets with low-fare competition.

### Average Fares in Markets with and without Low-Fare Competition

Market Type	1994	1995	1996	1997
Without Low-Fare Competition	\$ 168	\$ 183	\$ 177	\$ 180
With Low-Fare Competition	\$ 86	\$ 95	\$ 91	\$ 100
% Difference	97%	92%	93%	80%

## Carrier Code Identifier and Footnotes

<u>Code</u>	<u>Name</u>	<u>Code</u>	<u>Name</u>
9N	Trans States Airlines	QQ	Reno Air
AA	American Airlines	QX	Horizon Air
AS	Alaska Airlines	RU	Continental Express
CO	Continental Airlines	TB	US Airways Shuttle
DL	Delta Airlines	TW	Trans World Airlines
EV	Atlantic Southeast	TZ	American Trans Air
F9	Frontier Airlines	UA	United Airlines
FF	Tower Air	US	US Airways
FL	AirTran Airways	W7	Western Pacific Airlines
HP	America West Airlines	W9	Eastwind Airlines
J7	Air Tran	WN	Southwest Airlines
JI	Midway Airlines	WV	Air South
KW	Carnival Air Lines	XJ	Mesaba Airlines
NJ	Vanguard Airlines	YV	Mesa Airlines
NK	Spirit Airlines	YX	Midwest Express Airlines
NW	Northwest Airlines	ZW	Air Wisconsin Airlines
OE	Westair Airlines		
OP 4/	Pan American Airways		
PA 4/	Pan American Airways		

### Data Source:

Origin and Destination Survey of Airline Passengers submitted by certificated airlines. A ten percent sample of passenger tickets. Information in this report extracted from DB1A, using directional components of domestic itineraries (fares passengers only).

1/ Limited to carriers with a 10 percent or greater share of the market. In markets where only a single carrier has a 10 percent or greater share we have shown the lowest fare for any carrier that accounts for one percent or more of total traffic.

2/ Airlines tend to offer a wide variety of fares in any given market. Carriers with higher average prices may offer some seats at prices as low as, or even lower, than carriers with much lower average prices.

3/ Average fare per mile computed by dividing the average fare by the average passenger trip length.

4/ Pan American Airways has recently changed its official code from OP to PA. The code used in the tables of this report is the code under which the data was reported.