



# PREPARING FOR TAKEOFF: AIR TRAVEL TRENDS 2015

A comprehensive review of air travel data,  
and a look at what it might mean for travelers,  
airlines, and more





## Introduction

Many travelers tell us that the air travel industry feels vast and complicated; that it's hard to feel informed, let alone empowered about making the right choice when navigating the open skies. In recent years the industry has seen carriers consolidate, air ticket prices fluctuate widely, and the choices of seat space multiply at a time when legroom has shrunk. All the while, fare unbundling has become the "norm." Against the backdrop of all these changes, a number of interesting trends have emerged—trends that can help travelers better understand when to purchase tickets, what the options include, and what prices they can expect for those tickets. We believe in helping our travelers feel informed and empowered to make great travel decisions for whatever their travel occasion may be.

This report represents Expedia, Inc.'s analysis of data powered by the Airlines Reporting Corporation (ARC); utilizing data from other industry sources such as the International Air Transport Association (IATA), Diio Mi, and the Airline Tariff Publishing Company (ATPCO), the work aims to evaluate the data and report on those trends for the year ahead. We hope this data is helpful for our industry partners as they make plans for their respective businesses, and for our travelers as they leverage this analysis to feel smarter about the travel decisions they make in 2015.

Over the course of three sections, we call upon significant bodies of research to suggest the best time to buy tickets, differentiate value between economy and premium classes, and address potential price changes on the horizon for 2015. Overall, the document will present four key takeaways:

- 1) While it's impossible to guarantee when travelers can find the lowest fares, buying at least two months in advance for domestic travel and six months in advance for international travel puts you in the best position to get a good deal.
- 2) Tuesday appears to remain the best day of the week to find low fares on air travel booked at least three weeks in advance.
- 3) The gap in price between premium- and economy-cabin tickets is shrinking, and, generally speaking, premium-cabin air tickets are not as expensive as many travelers assume. On some routes, prices on these tickets actually make them a good value, considering the perks.
- 4) Overall, increased demand in 2015 is being met with increased capacity in such a way that they cancel each other out. Couple that with a drop in fuel prices, though, and consumers should see slightly lower air-ticket prices to most North American and European destinations in 2015.

## Part 1: When is the best time to buy?

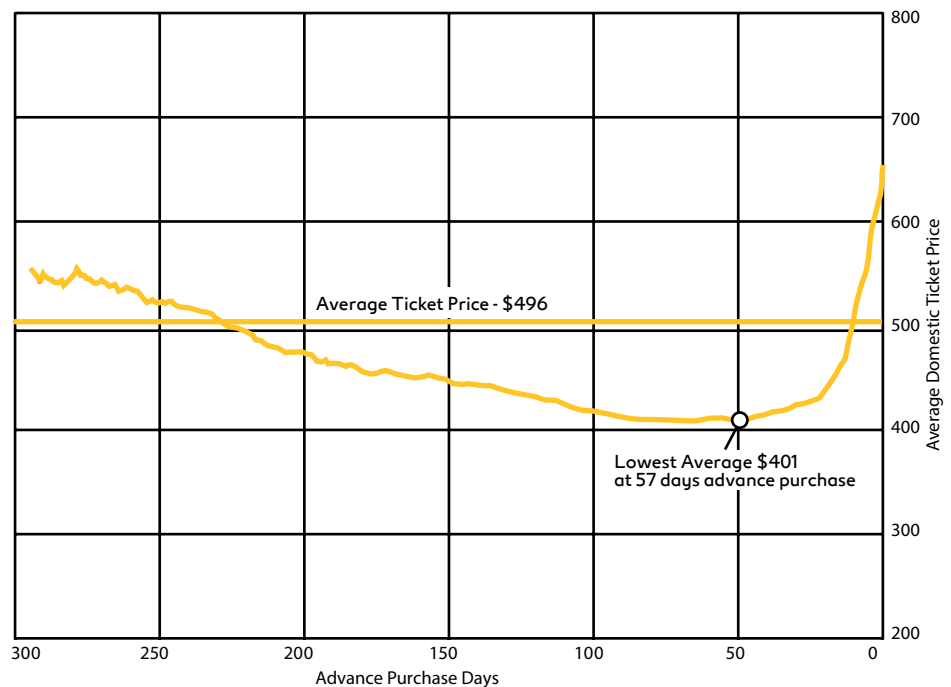
As one of the world's largest online travel companies, Expedia constantly fields questions from travelers about when is the best time to buy a ticket to lock in the lowest fares. The reality is that fares will vary on any given route and any given day, and two recurring questions seem to come up in travelers' minds: "Should I wait or buy now?" and "Are there days of the week when lower prices can be found?" In this section, we will analyze data about traffic originating in the United States, and evaluate the impact of each of these temporal factors on ticket price.

### *Days prior to start of travel*

Conventional wisdom dictates that, generally, the earlier tickets are purchased, the cheaper the ticket. This has been true for decades, and it's still true today. What's really happening behind the scenes is that airlines' revenue-management systems generally increase ticket prices as the departure date nears. Still, the question remains: How early should travelers book?

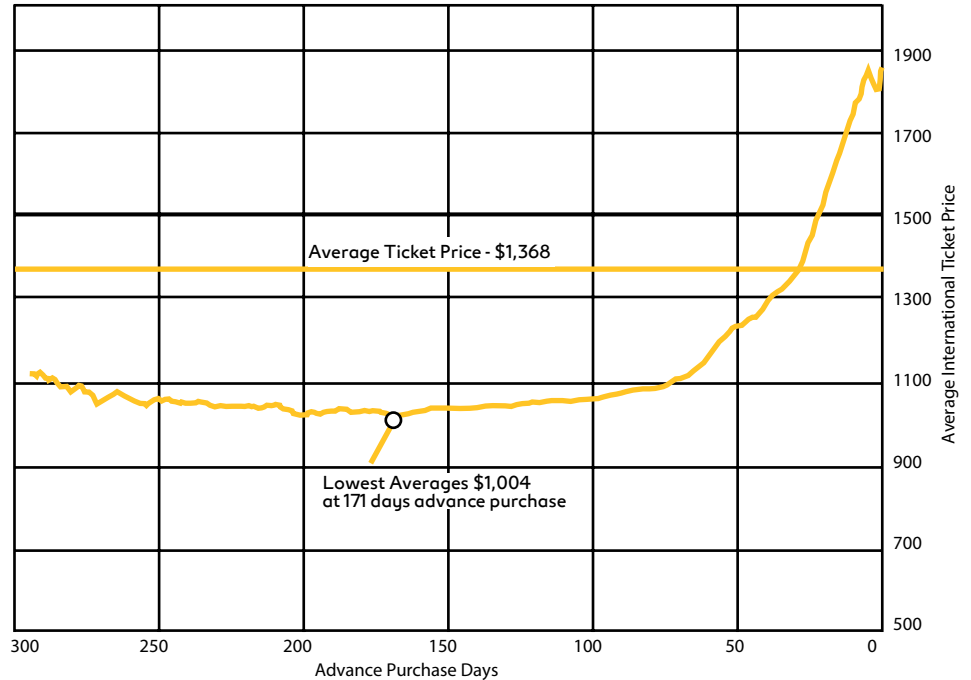
According to ARC data, the lowest ticket prices on most domestic tickets have been seen between 50 and 100 days before departure. What's more, average ticket price (ATP) is relatively flat during this 50–100 day period. Ticket prices sold during this period have averaged approximately US\$85 less than the overall ticket price. Data collected by ARC indicates that the lowest average ticket price, about US\$401, can be found 57 days in advance.

**Average Ticket Price vs. Advance Purchase Days for Domestic Flights**



## Average Ticket Price vs. Advance Purchase Days for International Flights

The same data indicates that for low fares on international travel, travelers should consider booking even earlier. According to ARC research, ticket prices remain relatively low between 150 and 225 days prior to departure. During this window, the average international ticket price was US\$1,035, more than US\$300 less than the overall average. The lowest average international ticket price (US\$1,004) could be found 171 days before departure.

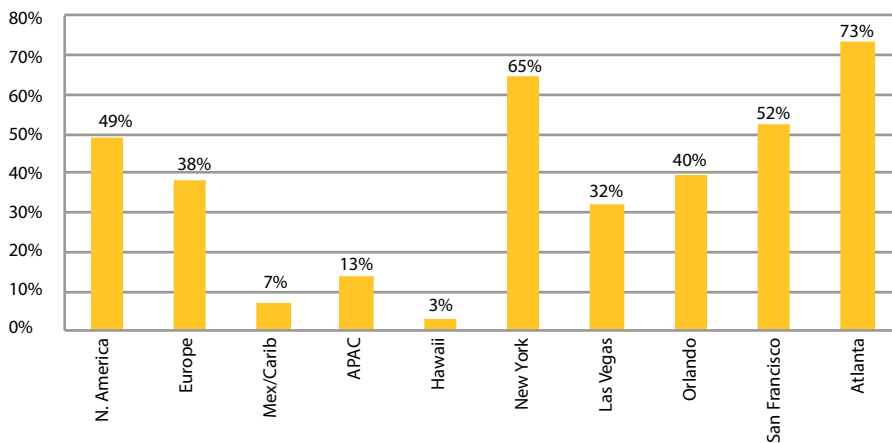


It's worth noting that travelers can purchase tickets up to a year in advance for most domestic or international travel and that sales begin to accelerate around 100 days in advance of departure for domestic flights and 200 days in advance of departure for international trips. ARC data indicates that for domestic flights, the average advance purchase time is approximately one month (32 days) prior to the start of travel, and the median advance purchase time is about 20 days. The same research shows that for international itineraries, the average advance purchase time is approximately two months (59 days) prior to the start of travel, while the final week before departure has the most tickets sold. That said, tickets sold within the final week only account for 12 percent of international ticket sales.

Based on Expedia analysis of the data for intra-North America economy<sup>1</sup> routes, travelers generally saved between US\$195–US\$225 (43–56 percent) by booking trips more than three weeks ahead of departure. Some of these savings were more significant to particular destinations; Atlanta and New York showed the biggest advance purchase savings, while Hawaii, Mexico, and the Caribbean showed the slimmest savings. Hawaii in particular is a notable anomaly; travelers to this destination received the best deals when they booked between one and three weeks in advance. This means Hawaii is a destination to which travelers can find terrific last-minute deals.

<sup>1</sup> For the purposes of this paper, "Economy Cabin" comprises all coach classes, including Premium Economy.

## Advance Purchase Air-Ticket Savings by Destination\*



\*ATPs purchased 3+ weeks in advance vs. 1 week before departure, coach cabin

As the Hawaii itineraries demonstrate, last-minute travel can be a great way to find huge savings. Admittedly, in order to get the best deals, travelers need to be flexible about where they go and when they go. In addition, before clicking or tapping “book,” travelers should consider other risks. While travelers may see a great bargain, delaying confirming it could cause a missed deal, or other expenses, such as hotel and car, could be much higher—dipping into the savings on air travel. A better option for saving money is usually to book flights and hotel or car together, with savings of up to US\$540 across all destinations. Here’s a look at savings in a few select markets.

## Package Savings for Select Markets\*\*

	% Saved	\$ Saved
Las Vegas	19.4%	\$346.97
NYC	24.4%	\$1,031.80
Cancun	22.9%	\$942.23
London	18.5%	\$588.55
Punta Cana, DR	18.4%	\$774.04
Rome	17.2%	\$499.57
Barcelona	11.6%	\$217.55
Riviera Maya	21.9%	\$1,019.24
Miami	19.6%	\$496.51
Paris	20.8%	\$898.91
Oahu	19.5%	\$829.68
Los Cabos	24.6%	\$950.26
Berlin	16.7%	\$205.06
Orlando & Lake Buena Vista, FL	19.7%	\$477.79
Los Angeles	18.4%	\$371.45
Amsterdam	14.8%	\$261.83
Chicago	19.3%	\$332.18
San Francisco	17.3%	\$392.87
San Diego	23.8%	\$529.06
Mallorca Island	15.6%	\$334.89
Istanbul	12.5%	\$245.29
Maui	26.1%	\$1,307.82
San Juan, Puerto Rico	17.1%	\$379.53
New Orleans	16.4%	\$329.88
Prague	12.5%	\$189.44



\*\*Savings based on vacation package bookings in the identified market over the last year, as compared to price of the same components booked separately

## Day of the week

For years, based largely upon data from ticket purchases over time, industry insiders believed that the best day of the week to buy (i.e., the day of the week with the lowest average ticket prices) was Tuesday. A recent study by Expedia of air-ticket price data indicates that for travel booked more than three weeks in advance of departure date, Tuesday still appears, by the slimmest of margins, to be the best day of the week to buy.

In conducting this in-depth analysis, Expedia looked at all domestic and international flights originating in the United States and controlled for a variety of variables including round-trip tickets, standalone tickets (in other words, tickets that were not part of package deals), and tickets for seats in coach cabin only. In the end, Expedia experts determined that booking on a Tuesday with at least three weeks' notice offers an average savings of just more than 5 percent, or US\$28—a slightly better proposition than booking the same tickets (with the same amount of lead time) on Wednesdays or Thursdays.

Day of Week	Average Ticket Price by Advance Purchase	
	<21 days	21+ days
Sunday	\$549	\$539
Monday	\$562	\$520
Tuesday	\$561	\$515
Wednesday	\$564	\$517
Thursday	\$568	\$518
Friday	\$571	\$522
Saturday	\$561	\$543

It's worth noting that because airfares change minute by minute and day by day, anointing one particular day of the week is not necessarily the best predictor of a "good-deal" fare. In fact, so many factors go into air-ticket prices at any given moment that one could argue there are no foolproof strategies for when to find the best air-ticket price. George Hobica, founder of Airfarewatchdog.com, recently wrote about this subject for *USA Today*<sup>2</sup>. The gist of his piece: One trick to finding low airfares is to search several times a day. "While it's true that if you fly on a Tuesday or Wednesday you'll get the lowest fares, it's false that you can only buy on those days to get the best deals," Hobica wrote. "True, many airlines launch advertised sales on Tuesday but the unadvertised sales are much better and they can pop up route-by-route at any moment."



<sup>2</sup> See <http://www.usatoday.com/story/travel/columnist/hobica/2014/11/25/finding-low-airfare/19490559/>

Our research confirms Hobica’s point of view. While choosing which day to buy may save you 5 percent, choosing which day to fly can have a big impact. For example, for long-haul flights<sup>3</sup>, leaving on a Thursday and returning on a Monday can provide 20 percent savings over the most expensive combination—departing on Friday and returning on Saturday. For short-haul flights<sup>4</sup>, travelers can save up to 25 percent by departing on a Saturday and returning on Tuesday versus the most expensive option—departing on Sunday and returning on Monday.

## Average Ticket Price by Travel Day of Week

Long-Haul Routes		Inbound Flight Day of Week					
Outbound Flight							
Day of Week	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Sunday	\$854	\$994	\$980	\$937	\$930	\$939	\$942
Monday	\$940	\$870	\$966	\$956	\$923	\$916	\$935
Tuesday	\$896	\$922	\$850	\$945	\$946	\$945	\$945
Wednesday	\$843	\$857	\$899	\$858	\$964	\$975	\$960
Thursday	\$842	\$798	\$831	\$899	\$880	\$986	\$988
Friday	\$914	\$819	\$842	\$884	\$945	\$880	\$999
Saturday	\$952	\$947	\$914	\$897	\$926	\$976	\$813

Short-Haul Routes		Inbound Flight Day of Week					
Outbound Flight							
Day of Week	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Sunday	\$466	\$493	\$462	\$440	\$461	\$480	\$465
Monday	\$462	\$443	\$475	\$463	\$455	\$459	\$437
Tuesday	\$441	\$417	\$393	\$447	\$455	\$436	\$411
Wednesday	\$424	\$398	\$380	\$397	\$478	\$463	\$404
Thursday	\$402	\$387	\$385	\$404	\$442	\$487	\$420
Friday	\$396	\$381	\$388	\$405	\$432	\$447	\$446
Saturday	\$445	\$378	\$369	\$388	\$415	\$439	\$424

### Key takeaways

From this temporal data, here are key takeaways for travelers and industry insiders alike:

- Booking early continues to offer great value: for domestic flights, 57 days prior to the start of travel nets the lowest average price; for international flights, booking 171 days out on average is best.
- Booking last-minute travel can lead to significant savings, but only when traveling to certain destinations. The best savings can often be found when booking air travel, hotel, or car together.
- For trips booked more than three weeks from the date of departure, Tuesdays still offer the best opportunity for great deals, with an average savings of US\$28.

<sup>3</sup> For the purposes of this document, “long-haul” means that itinerary origin and destination are in different IATA regions.

<sup>4</sup> For the purposes of this document, “short-haul” means that itinerary origin and destination are within the same IATA region.

## Part 2: Distinguishing value between seating classes

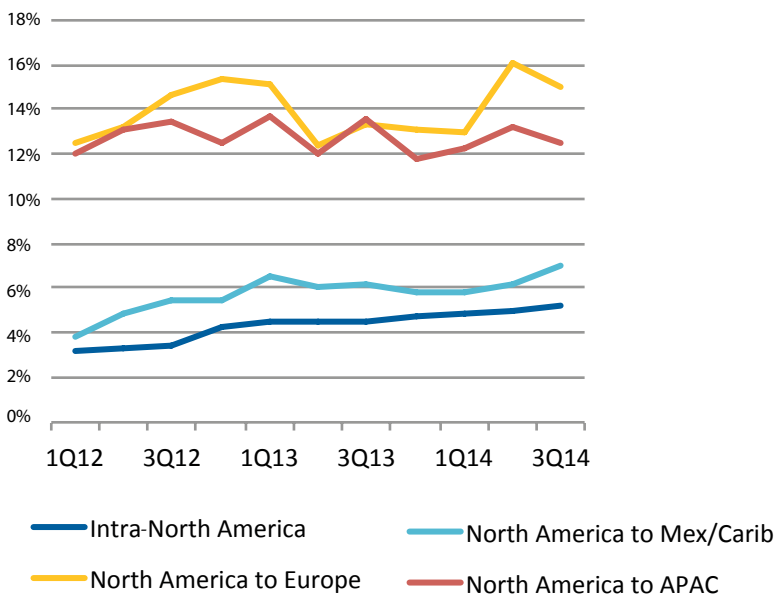
Since the early “Pan Am days” of air travel, sitting in First Class has carried the perception of luxury, exclusivity, and elitism. However, after Expedia’s analysis of air-ticket data, it is clear that, in some cases, the difference in ticket prices for seats in premium<sup>5</sup> and economy cabins—we will call this the “fare gap”—is shrinking. On some routes, the fare gap has become negligible and tickets for seats in premium cabins provide more value than economy tickets. Put simply, first-class experiences may no longer be out of reach for some travelers.

It is worth noting that data for this section of the report pertains to travel originating in three regions of interest: North America, Europe, and Asia-Pacific (APAC).

### Premium cabin mix by region

Overall, according to Expedia’s analysis, Europe has the highest percent of travelers in premium cabins at 11 percent of the total, but that number has been flat over the last two years. Premium-cabin bookings in APAC have grown tremendously in the last few years, practically doubling to about 11 percent of the total since 2013. Interestingly, North America remains at a significant lag in premium cabin bookings, with only 6 percent of overall passengers paying for the top-quality experience. That said, North America has seen a big increase over the last two years, with numbers climbing 50 percent to 6 percent from 4 percent in the first quarter of 2012.

### Premium Cabin Mix in North America by Market



### Premium cabin air-ticket prices

We’re not going to lie: Premium-cabin seats are expensive. Premium ticket prices on long-haul routes hover around three-and-a-half times the economy ticket price on the same routes. At the same time, the gap between premium cabin and economy airfares on short-haul routes has been shrinking significantly over the last two years—the trend has been observed consistently across North America, Europe, and APAC. Some examples of how these fares have been changing over the last two years:

- On North America short-haul routes, the premium fare gap shrunk to 89 percent from 138 percent of the economy seat price.
- In Europe, the premium fare gap shrunk to 53 from 66 percent of the economy seat price.
- In the APAC short-haul market, the premium fare gap shrunk to 55 percent from 120 percent of the economy seat price.

<sup>5</sup>For the purposes of this paper, “Premium Cabin” includes First and Business classes.

Expedia's analysis of air-ticket data suggests that this narrowing of the fare gap between premium and economy seats can be attributed to a number of factors in the marketplace:

- Promotion or increased usage of upgradeable airfares intended to lower the entry price point for premium-cabin seats or improve airline yield for economy-class bookings.
- Frugality on business-travel expenses, which reduces corporate bookings in premium cabins for short haul, and, in turn, opens up more seats for sale.
- Low-cost carriers (LCCs) in Europe and APAC differentiating their product offering and attracting business travelers.
- The basic fact that, generally speaking, prices of economy fares increase faster than prices of seats in premium cabins.

Perhaps airlines are lowering the fare gap between economy and premium cabin seating as part of a marketing move to entice more "average travelers" to experience premium service. In today's age of social media, where many air passengers Facebook or Tweet from 35,000 feet, the strategy might help raise awareness about high-end options on flights.

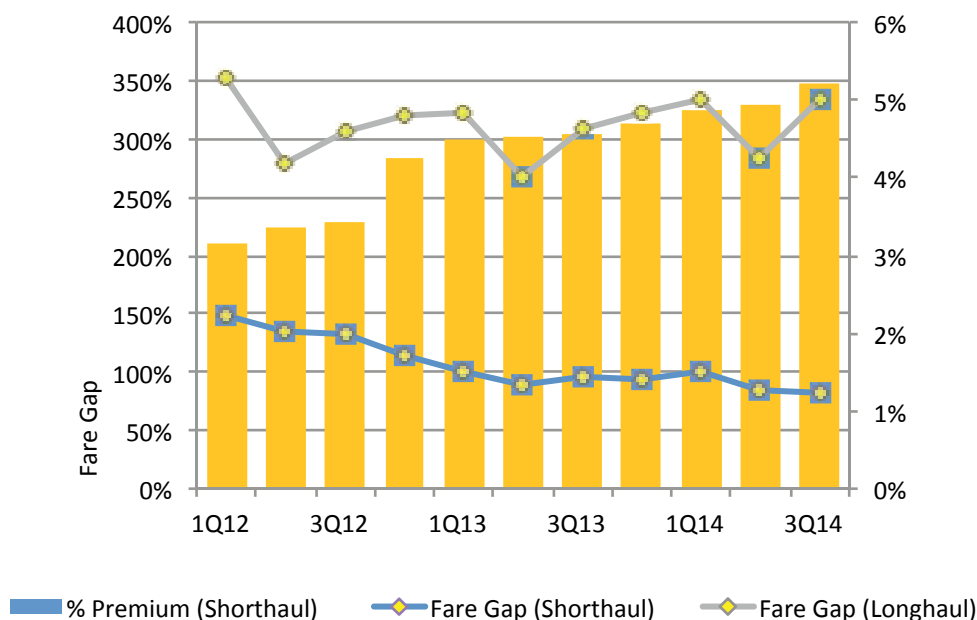


### Premium cabins on North American flights

Premium-cabin seats on flights are more attainable than travelers might think. Overall, these fares comprise 12-15 percent of all North America long-haul tickets, which is to say that roughly three out of every 20 to 25 travelers is purchasing a premium-cabin seat.

According to Expedia's analysis, short-haul premium tickets have shown a steady increase over the last two years, rising to 5 percent of the total volume in the third quarter of 2014 from 3 percent of the total in the first quarter of 2012. Expedia experts believe the frequency with which domestic travelers are purchasing these tickets seems to rise in tandem with the decrease in the fare gap between premium and economy airfares. In other words, the mix of premium tickets is growing as a percentage of all tickets purchased, and we think it is because the fare gap between premium and economy seats is getting smaller.

**Premium Fare Gap vs. Usage  
North America**

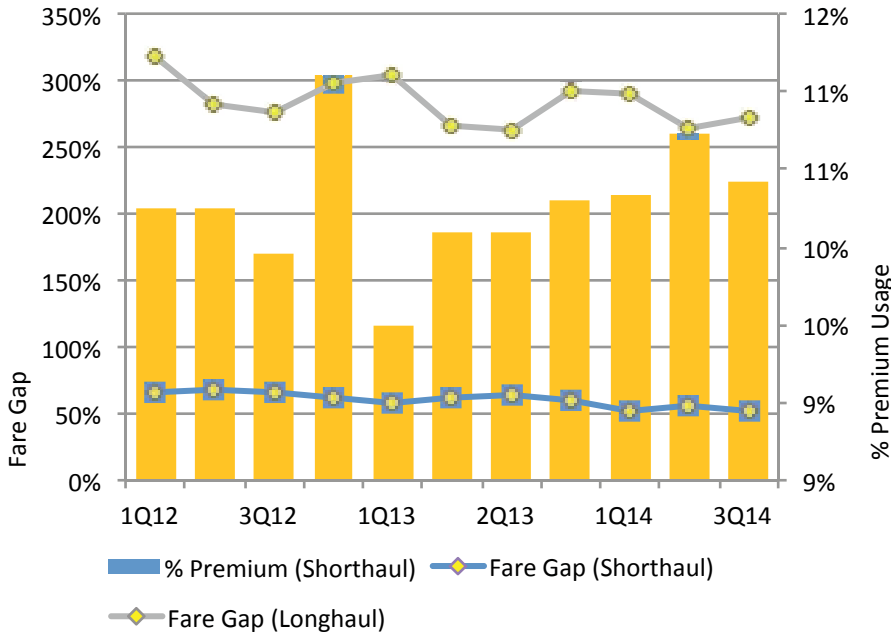


Expedia's analysis also indicates that particular deals can be had in certain domestic markets where the fare gap is significantly lower than the regional average. One of these markets is Orlando, where in the last year, the fare gap has averaged 15 percent for purchases more than 21 days in advance and 30 percent for purchases made 7-21 days early. Another such destination is Atlanta; here the fare gap has averaged 25 percent for purchases more than 21 days in advance.

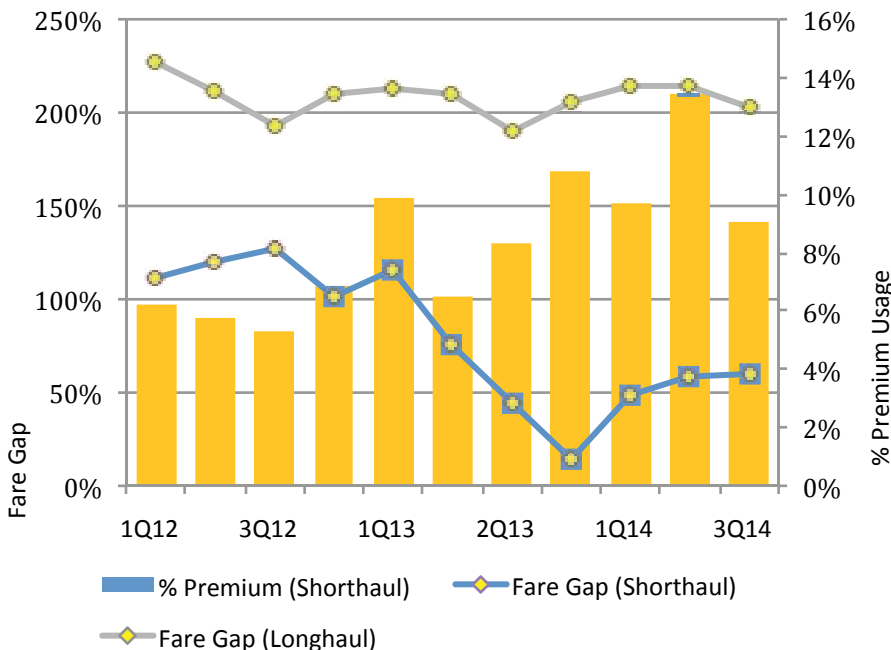
### Premium cabins on international flights

Premium-cabin ticket sales are most common in Europe, where they comprise 10 percent of all intra-Europe short-haul tickets, and 12-14 percent of all long-haul tickets. Overall, Europe has much higher usage of premium cabin fares on short-haul flights than in both North America and APAC.

#### Premium Fare Gap vs. Usage - Europe



#### Premium Fare Gap vs. Usage - Asia Pacific



#### Key takeaways

The Expedia analysis of air-ticket data yielded a number of interesting points about premium versus economy cabin tickets worldwide, and here are some key takeaways for consideration:

- The fare gap between premium and economy cabins appears to be shrinking, making premium-class tickets potentially more valuable on short-haul routes.
- This gap is larger in North America, creating a potential opportunity for airlines in those regions to be more aggressive and attract new paying premium-cabin travelers. By and large, the most expensive premium-cabin tickets are long-haul trans-Atlantic and trans-Pacific flights originating from North America.

## Part 3: Prices to expect in 2015

The third and final section of this report looks at likely 2015 prices for tickets to some of the top travel destinations in the world. Data in this section is not confined to travelers from North America; instead it pertains to travel originating in all three regions of interest: North America, Europe, and APAC.

Though a number of industry reports suggest that air ticket prices will remain stagnant or rise slightly<sup>6</sup>, a thorough analysis of data has led Expedia experts to believe that prices in many of the most popular destinations actually will decline slightly. This is not to say that all ticket prices will decrease across the board—in some markets, especially APAC, average costs likely will rise. Still, Expedia believes that based on data from ARC, IATA, and Diio Mi, as well as economic indicators, tickets for many popular routes will, in fact, become more affordable in 2015.

There are a number of data points to support this statement. First, we look at economic growth. The International Monetary Fund (IMF) forecasts global gross domestic product (GDP) will rise about 3 percent year on year for 2015<sup>7</sup>. While higher demand likely will increase air fares, at the same time many regions will also see growth in capacity, similar to 2014. All airline capacity data within this section has been sourced from Diio Mi<sup>8</sup>. Based on a variety of data sets, Expedia anticipates strong sector growth to continue in 2015 (barring unforeseen circumstances such as political unrest, potential spread of epidemics, or terrorism.)

Another potential factor in prices is the decreasing cost of fuel. Oil prices for Brent crude futures dropped below US\$70/barrel in November 2014, down from more than US\$112 in June 2014<sup>9</sup>. Lower fuel prices translate into lower operating costs for airlines, and, sometimes, air carriers pass along these savings to travelers in the form of lower air-ticket prices. This correlation is neither universal nor consistent, but lower oil costs do allow airlines to be more aggressive with pricing and still maintain profitability.

Because we expect pricing in each market to vary greatly, we have broken down assessments and interpretations by region. The regions we will cover in this report include North America, Europe, and APAC.



<sup>6</sup>See <http://www.businesstravelnews.com/More-News/Amex-Forecasts-Flat-To-Modest-Growth-In-2015-Travel-Pricing/?a=proc&cid=eltrDaily>

<sup>7</sup>See <http://www.businessweek.com/articles/2014-11-06/2015-global-economic-outlook-better-than-2014-but-not-by-much>

<sup>8</sup>See <https://mi.diio.net/>

<sup>9</sup>See <http://www.investing.com/commodities/brent-oil-historical-data>

## North America

After careful consideration of data from a variety of sources, Expedia expects most air ticket prices to drop slightly overall for flights originating in North America and heading to more than 20 top destinations worldwide.

	2015	2015 Jan-Apr
Destination	YoY ATP Forecast	YoY Capacity
Las Vegas	-4.4%	5.6%
New York	-1.7%	6.6%
Orlando	-1.8%	7.4%
Los Angeles	1.3%	5.9%
Chicago	-1.9%	5.1%
San Francisco	2.2%	3.7%
Cancun	-1.3%	15.2%
Washington	-6.7%	5.3%
Boston	1.6%	2.1%
Miami	-1.0%	7.9%
Denver	-4.8%	-0.1%
Phoenix	-1.9%	5.0%
Seattle	-2.1%	13.8%
Dallas	-11.2%	14.0%
Atlanta	0.3%	1.0%
Fort Lauderdale	-3.1%	5.9%
Tampa	-5.9%	9.0%
San Diego	-4.6%	5.3%
Newark	0.0%	2.8%
Houston	-4.5%	0.9%
London	4.5%	4.9%
Paris	0.4%	2.4%
Rome	6.0%	-5.8%


Sources: Expedia Internal Analysis, based on data from ARC, Diiio Mi, and Expedia. Top city destinations based on tickets booked. ATP predictions are based on round-trip economy fares and inclusive of package tickets.

Most of these changes will be a result of striking a balance between increases in both demand and supply. Increased demand will be a result of economic growth and a drop in unemployment. According to the IMF, United States GDP is expected to grow at a moderate rate of about 3 percent in 2015<sup>10</sup>. At the same time, the Bureau of Labor Statistics indicates that the unemployment rate dropped to approximately 6 percent in September 2014, down from a high of 10 percent in October 2009<sup>11</sup>. Job gains have picked up considerably in the United States, and consumer confidence continues to improve. Though a slight rise in interest rates is expected at some point in 2015, all signs point to a greater number of Americans having money to spend on air travel, and more of them spending it.

We expect increased supply from the United States and Canada to most destinations, especially those in North America; overall seat capacity originating from North America is expected to increase 5 percent in the first half of 2015. Expedia expects that capacity on North America-to-the-Caribbean routes will increase by double-digits through the first quarter of 2015, and that a prolonged growth spurt on capacity for North America-to-APAC routes should continue at least through the end of the first half of 2015. Also, overall Latin America capacity from North America appears primed to rise by 7 percent in the first half of 2015, including a likely 11 percent spike in capacity between North America and Mexico. At the same time, Expedia expects that capacity growth on North America-to-Europe routes likely will decelerate by anywhere from 3 percent to 5 percent in 2015.

<sup>10</sup> See <http://www.businessweek.com/articles/2014-11-06/2015-global-economic-outlook-better-than-2014-but-not-by-much>

<sup>11</sup> See <http://data.bls.gov/timeseries/LNS14000000>




As 2015 progresses, a number of additional situations could impact capacity even more. In particular, we will be monitoring the impacts of a few specific moves:

- Delta Airlines' strong expansion into Seattle and other West Coast markets translates into significantly lower airfares out of Seattle, Portland (Oregon), and California. Delta's seat share out of Seattle is expected to hit 18 percent in the first half of 2015, up approximately 8 percentage points from the first half of 2013. Total seats from Seattle will be up 12 percent year over year in the first half of 2015, including additions from Alaska Airlines as it mounts a fierce defense of its home turf. All in all, this will translate to about 6,000 or 7,000 more seats each way into and out of Seattle as compared to the first half of 2014.

- The capacity outlook from New York for the first half of 2015 is a bit more modest, with only 4-percent seat growth across all three major airports, primarily John F. Kennedy International and LaGuardia International. Growth to the Middle East and Asia will account for about 1,100 new seats per day in the first quarter of 2015, from increases to Dubai, Abu Dhabi, and Taipei, as well as new nonstop service to Baku, Azerbaijan and Guangzhou, China. Seats to Caribbean destinations are expected to be up about 3 percent year over year, netting about 700 new seats per day from increases to the Dominican Republic, Trinidad & Tobago, and Turks & Caicos. Most of the new seats out of this market—more than 5,500 incremental seats over the first quarter of 2015 in all—likely will come from increases to domestic destinations such as Cleveland; Chicago; Los Angeles; Miami; Ft. Lauderdale; West Palm Beach, Florida; Boston; Dallas; Ft. Meyers, Florida; and Orlando. All in all this amounts to about 7,000 new seats per day each way.

- New York is expected to handle almost 1,650 flight departures per day across its three major airports in the first half of 2015, which is only about 70 daily flights more than the airports handled in the first half of 2012. Other major metro areas are expected to report experiencing growth during the same time period: Dallas departures up 81 flights per day, Seattle up 73, and Cincinnati up 35. However, many secondary cities—and a few big metro areas—likely will report losing considerable capacity during this same time period. Among them: Cleveland (-88 flights per day), Denver (-87 flights per day), Detroit (-55 flights per day), and Atlanta (-73 flights per day). Interestingly, the average number of seats per flight (also known as “gauge”) has increased by at least 10 percent in almost all of these shrinking markets since 2012, compared with an increase of only 7.5 percent across all domestic airports as a whole. This means that today in North America there is a shift away from regional jet flying in favor of larger aircraft.

- Total seats from Canada are expected to grow by 3 percent in the first half of 2015, with domestic Canada growing at 1 percent and international destinations increasing by more than 6 percent. Air Canada, which grew its seats by 5 percent year over year in 2014 appears to be increasing capacity growth slightly to just over 6 percent in early 2015. WestJet—a stellar seat grower at 7-8 percent growth since 2013—is pulling back to 3-4 percent growth in early 2015.



- LCCs such as Frontier and Spirit expect to increase market share in North America, with expansion into legacy carrier strongholds such as Washington, D.C.; Houston; Dallas; Detroit; and Cleveland. Frontier also is beefing up its presence in Las Vegas and is entering the Miami and West Palm Beach, Florida, markets. Overall the airline's capacity is expected to rise by 14 percent in the first half of 2015. Spirit, on the other hand, has plans to enter the market in Kansas City and expand capacity in Los Angeles and Oakland, California. Overall this airline's capacity is up 26 percent year over year the first half of 2015 and now ranks in the top 10 in seat capacity in the United States and Canada. LCC seat share in the United States and Canada is on track to rise to 31 percent in 2015 from 29 percent in 2010, and on intra-Mexico routes to 61 percent from 34 percent over the same period. Even on routes from the United States and Canada to Mexico, the LCC seat share will approach 26 percent in the first half of 2015, up 3 percentage points from 2014, and up 13 points from 2010.

- The repeal of the Wright Amendment, which previously limited flying out of Love Field in Dallas to the rest of Texas or neighboring states, could result in a significant capacity increase into and out of that region. New service from Love Field to 17 cities in the Central, Southwest, and Eastern states already has been announced; more announcements are expected as 2015 gets underway.

- Total seats from Orlando are expected to rise by 6 to 7 percent in the first half of 2015. Seats from Orlando to Mexico are expected to jump by more than 50 percent in the first half of 2015, netting about 250 seats per day from increases to Mexico City and Cancun, as well as new nonstop service to Guadalajara. Domestic increases to Cincinnati; Washington, D.C.; Chicago; Cleveland; Philadelphia; Salt Lake City; and Dallas, among other cities, should bring in the majority of new seats year over year, which are estimated at more than 4,000 per day each way.

- Air seats to Cancun are expected to rise by 11 percent for the first half of 2015, due in large part to capacity increases from Salt Lake City, Seattle, and Washington, D.C. Total United States-to-Mexico seats are expected to be up 10 percent in the first half of 2015.

- Finally, air seats to London from the United States and Canada are expected to rise by 4 percent for the first half of 2015. The biggest capacity growth drivers for this trend are increases from Charlotte, North Carolina; Austin, Texas; and Fort Lauderdale, Florida.

## Europe

Of the three regions highlighted in this report, air-ticket pricing in Europe is the most uncertain for 2015.

Most of this uncertainty is connected to demand; though *The Economist* predicted Euro-area GDP growth at around 1 percent in 2015<sup>12</sup>, the overall economy remains a major question mark, showing signs of a possible “triple dip” recession. Inflation rates reported by *The Economist* in October 2014 were just 0.4 percent<sup>13</sup>, well below the ECB’s target of almost 2 percent—this signals a possibility of deflation. Add in the unpredictable nature of political and civil unrest in Russia, Ukraine, Syria, Egypt, and Tunisia, as well as the outbreaks of Ebola in West Africa, and it is very difficult to say what might happen to the travel economy in this region. Despite these numbers, European capacity is still expected to grow by 6-7 percent in the first quarter of 2015. This means that most ticket prices should decline at least slightly. Here’s a look at some of the top destinations.

	2015	2015 Jan–Apr
Destination	YoY ATP Forecast	YoY Capacity
London	-4.6%	5.2%
Paris	-1.5%	4.8%
Munich	-2.7%	2.0%
Berlin	-4.4%	6.7%
Rome	-12.8%	10.5%
Istanbul	-0.6%	10.2%
Barcelona	-3.0%	4.7%
Copenhagen	-1.5%	2.5%
Madrid	-5.8%	12.9%
Amsterdam	-4.8%	9.1%
New York	3.3%	1.9%
Las Vegas	12.6%	-9.3%
Miami	5.9%	12.7%

Sources: Expedia Internal Analysis, based on data from ARC, Dii Mi, and Expedia. Top city destinations based on tickets booked. ATP predictions are based on round-trip economy fares and inclusive of package tickets.

<sup>12</sup> See <http://www.economist.com/blogs/graphicdetail/2014/11/european-economy-guide?zid=295&ah=0bca374e65f2354d553956ea65f756e0>

<sup>13</sup> Ibid.

A number of factors will drive increased capacity in Europe in 2015. Number 1 on the list: LCCs. These carriers continue to be the leading agent behind capacity growth, especially on short-haul destinations, with Ryanair, easyJet, Norwegian, Vueling, and Wizzair leading the charge. A number of these airlines (Ryanair and easyJet among them) also recently have focused on improving customer services and unbundling fares to create a product more suited for business travelers. Data indicates these trends will continue into 2015.

Unbundling also likely will be a trend among legacy carriers. Many of the legacy airlines feel they have been forced to do this in order to compete with LCCs. Perhaps the best example of a legacy carrier unbundling fares is British Airways, which rolled out “handbag only fares” in select markets starting in February 2013<sup>14</sup>. Finally, Middle Eastern carriers will continue to expand capacity to Dubai, Abu Dhabi, and Doha, with significant investments in new aircraft. These remain some of the hottest tickets in the industry today; a recent *Departures* magazine article noted that some of the tickets on these routes sell for upward of US\$10,000 apiece<sup>15</sup>.

In addition to these trends, Expedia will monitor and track capacity changes in a number of individual markets:

- In Barcelona, where data indicates a likely 4 percent increase in capacity in the first half of 2015, due in large part to Vueling (an LCC) and Iberia (a legacy carrier) increasing capacity, respectively, by 9 percent and 47 percent.
- In Istanbul, where a 5 percent capacity increase in 2015 is expected, thanks in part to more seats into the destination from Turkish and Aegean airlines (both legacy carriers).
- In Palma de Mallorca, where capacity cuts from Ryanair and Jet2 are expected to shrink overall capacity by almost 10 percent in 2015.
- In London, where London Heathrow is expected to experience a slight reduction (0.4 percent) in capacity driven by fewer seats into the destination from Aer Lingus and Lufthansa.



<sup>14</sup> See <http://loyaltylobby.com/2013/02/21/british-airways-introduces-fares-without-checked-bag-becoming-no-frills-airline/>

<sup>15</sup> For more, see <http://www.departures.com/travel/travel/emirates-worlds-best-airline/>

## APAC

Unlike North America and Europe, which likely will experience decreases in average ticket prices in 2015, Expedia's assessment of industry data indicates that APAC likely will experience flat air-ticket prices or slight increases in prices in the New Year. Here's a look at predictions for a handful of top destinations.

	2015	2015 Jan-Apr
Destination	YoY ATP Forecast	YoY Capacity
Hong Kong	0.0%	3.0%
Seoul	3.7%	7.1%
Bangkok	-0.2%	5.1%
London	1.5%	-1.6%
Tokyo	3.3%	6.5%
Honolulu	-0.2%	0.0%
Los Angeles	-3.4%	6.6%
Paris	2.3%	6.7%
New York	6.2%	11.7%
San Francisco	0.6%	4.6%

Sources: Expedia Internal Analysis, based on data from ARC, Diio Mi, and Expedia. Top city destinations based on tickets booked. ATP predictions are based on round-trip economy fares and inclusive of package tickets.

A number of conflicting factors likely will contribute to this scenario. First on this list: Slowing demand. Japan is in the midst of a recession, with GDP growth expected at 0.8 percent in 2015, and China's slowing approximate 7 percent forecasted growth would be the country's lowest in 15 years<sup>16</sup>. At the same time, growth of LCCs in this region has been explosive over the past few years, which may have some bearing on the increased usage of premium tickets as legacy carriers attempt to differentiate their products with competing products on one end and higher service levels to compete better with LCC "no frills" options.

Specifically, Expedia's assessment of industry data for the APAC region suggests the following changes to the air travel landscape in 2015 (and beyond):

- In Japan, a combination of new LCCs and the expansion of Narita International and Haneda airports in Tokyo likely will drive prices down.
- In Hong Kong, recent growth in the overall air travel industry should slow in 2015, prompting stagnant or rising average ticket prices.

- In Korea, where all LCCs have plans to increase capacity in 2015, prices for short-haul flights likely will drop slightly. At the same time, with very few changes to legacy carriers in the country, data suggests that ticket prices for the medium- and long-haul markets likely will not change.

- In Singapore, a number of LCCs are looking into ceasing certain routes due to high capacity but low demand. This likely would cut into overall supply, raising fares.

- In Malaysia, an LCC-dominant market with a high share of domestic travel, lower air-ticket prices are likely as a way for carriers to establish a competitive advantage and gain market share.

- In Thailand, although new LCCs have appeared in the market and increased capacity across the board, ticket prices likely will not change that much.

- In Australia, moderate growth in international and domestic travel likely will result in airfares dropping at lower rates when compared with previous years. LCCs in this island nation appear to be focusing on key Southeast Asia holiday destinations, while domestic carriers—particularly Virgin Australia—likely will continue focusing on capturing market share through lower yields, new service offerings, and strategic industry partnerships.

<sup>16</sup> See <http://www.businessweek.com/articles/2014-11-06/2015-global-economic-outlook-better-than-2014-but-not-by-much>

Moving forward, Expedia is eager to see how key reforms in the aviation sector in India affect ticket prices in that nation. Among the measures expected to materialize in the coming year:

- Rationalization of the tax on aviation fuel. Currently taxes on fuel for air travel are as high as 40 percent in some Indian states. The central government is looking to influence states to reduce this tax burden; if the effort is successful, a lower burden could mean significant increases in capacity over time.
- Abolishment of the 5/20 rule. Currently Indian air carriers have to have a minimum of 20 aircraft and need to be in operation for five years to start flying international routes. This plan is under discussion to be scrapped or diluted under the new Indian leadership<sup>17</sup>. If it is abolished, the move should open up the Indian market to international LCCs (and therefore drive prices down).
- Allowance of more foreign investment. For decades, foreign investments into Indian carriers was limited significantly. In 2014, the Indian government changed the law, agreeing to allow up to 49 percent equity from foreign carriers. This has created the launch of one airline—Air Asia India—as a domestic carrier, and the establishment of another (Vistara). Ultimately, increased foreign investment could increase capacity and concomitantly lower air-ticket prices.

### *Key takeaways*

A comprehensive analysis of industry data indicates that 2015 will be a good year for travelers to fly. Here are some key takeaways for consideration:

- Overall, slight increases in demand and larger increases in supply, combined with declining fuel prices should lead to lower prices in North America and Europe in 2015.
- Increased demand and limited supply will see ticket prices rise slightly in APAC.
- Increased capacity should contribute to growth in a variety of markets worldwide, such as Dallas, Istanbul, and Korea.
- Internationally, especially in Europe, LCCs continue to drive prices lower, due in part to unbundling services and prompting legacy carriers to do the same.

<sup>17</sup> For more, see <http://firstbiz.firstpost.com/corporate/airline-lobby-succeeds-520-rule-may-abolished-entirely-107333.html>

## Conclusion

Between carrier consolidation, price fluctuation, seat-space shrinkage, and the reduction of free amenities, the air industry certainly has seen its fair share of changes over the last few years. Against the backdrop of all these changes, Expedia analysis of industry data indicates that 2015 could be a year of lower prices, premium value, and a different strategy regarding when to book. Of course, many events could influence these insights in real time, but the bottom line is this: Air travel will be exciting in 2015, and largely will afford passengers more opportunities to visit more destinations by spending less.





## Advice for Travelers

All of this data means nothing without the proper roadmap to interpret it and make purchasing decisions accordingly. Based upon the findings in this report, Expedia suggests the following strategies for travelers to save time, money, and aggravation in booking their next flight:

- **Book early to save big.** Our analysis of industry data indicates that the earlier you book for both domestic and international travel, the bigger your per-ticket savings could be.
- **Be sure to check fares on Tuesday.** Expedia data indicates that when buying an air ticket more than 21 days before the date of departure, Tuesday still offers travelers the greatest likelihood of finding a good deal.
- **Consider premium cabins.** Over the last few years, the fare gap between ticket prices for premium and economy classes has dropped precipitously. This means tickets for the best seats on the airplane may be more attainable than you might think. (At the very least, check it out.)
- **Book as a package.** Just like cable and internet service are cheaper when consumers purchase them together, travel is cheaper when air tickets are purchased as part of a vacation package that includes a hotel and other travel services (such as a rental car and/or activities).
- **And, finally, enjoy your trip!**

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