As is the case for firms in any other industry, the price of the product that airlines sell has to reflect the cost they incur in supplying it. Jet fuel is a major expense in our industry and its price has trended upwards since early-2017 in line with the wider trend in the oil market. Jet fuel is currently sitting just above US$90/bbl – around 55% higher than it was a year ago.

Difference in hedging practices, as well as movements in exchange rates, mean that airlines do not feel the impacts of rising US-dollar fuel prices uniformly. Nonetheless, the key point is that there has been little sign of higher costs translating into higher average base airfares: indeed, the global average passenger yield has tracked broadly sideways in seasonally adjusted terms since early-2017, which largely mirrors developments in the economy-class cabin.

As this week’s chart shows, though, yields in the premium cabin have been trending upwards since mid-2017. This reflects the fact that premium-class travelers tend to be less price-sensitive than their economy counterparts, often valuing flight frequencies that allow them to get to their destination as quickly as possible more than the monetary cost of travel. The robust backdrop for economic activity and global trade over the period will also have helped to underpin premium demand, and allowed airlines to pass through higher fuel costs to a greater extent than in economy.

Note that the passenger yield data presented here relate to developments in the ‘base’ airfare only and exclude revenue from surcharges and ancillary services. These additional sources of passenger revenue are helping to offset rising unit costs. Moreover, as we noted in our latest Airlines Financial Monitor, the rising trend in the passenger load factor is another factor helping to support airline unit revenues.