Air Industry

[Name of the Writer]

[Name of the Institution]

Air Industry

**Introduction**

 Taking into consideration the airline industry, there are a number of major expenses that tend to affect companies. Among such expenses there lie fuel and labor costs. Fuel costs can be seen swinging, and it depends upon the price of oil. On the other hand, when it comes to the labor costs, they are seen to be mainly fixed in the short-term. Due to this, it has been observed that analysts tend to pay an increased consideration to fuel costs in the short-term (Shaw, 2016). As a matter of fact is that the alterations in fuel costs can result in a loss to the airline industry. The reason for which lies in the fact that two-thirds of airplane flying costs are fixed. From early history, The airline business has proved to be brutally competitive. One thing that must be taken into consideration is that the business of flying people around the globe, has become a major part of the 21st-century people. There is no doubt that an increase in the flying cost results in affecting everyone in the advanced era. When it comes to the internet, it has served in creating greater price transparencies, and has undoubtedly reduced margins.

**Cost of Labor**

 Studies and research show that labor accounts for more than 35 percent of operating expenses when it comes to the airline. Considering different examples from the airline industry, operating expenses are seen to account for a minimum of 75 percent of all non-fixed costs. The matter of fact is that management undoubtedly cuts labor costs during downturns (Hamilton et al., 2016). All of this has been done by reducing the benefits or the pay of workers. Apart from this, it can also be done by laying workers off. As increasing the profits is a tough job, organizations are often seen being forced to cut costs with the sole purpose to become more profitable. A few lesser expenses for airlines are marketing, taxes, airport fees, handling luggage, parts and labor, maintenance, and passenger expenses. In a nutshell, all of this comprises to make a minimum of 55 percent of the total operating costs.

**Effects of Fuel Cost**

 Studies and research show that fuel costs are seen to account for 10 percent to 12 percent of operating expenses. A large number of organizations tend to have programs for hedging fuel costs. Such organizations purchase future contracts for locking in their costs for a specific period and later on the organizations turn it into a fixed expense (Bachwich et al., 2017). There is no doubt that several worst times for airlines have occurred at the times when oil prices spiked up. The matter of fact is that organizations having a business in the airline industry can prepare for the little by little increasing prices by reducing the number of flights or by charging more for tickets.

 When it comes to the year 2008, oil was observed to smash a high of $147 per barrel. At that particular time, it was considered to be the highest of all time. The airline index was noted to be 16 at that time which was quite down from the high of 56 during $60 per barrel of oil price in the year 2007. Studies and research show that an increase in fuel costs results in increasing ticket prices a lot. As the ticket prices increase, passengers decrease. The reason is quite simple as no passengers prefer spending more money on an air ticket (Shaw, 2016). One thing that must be taken into consideration is that the already expensive airlines are seen to be more affected than the cheaper ones as their rate which was already higher is increased again.

**References**

Bachwich, A. R., & Wittman, M. D. (2017). The emergence and effects of the ultra-low cost carrier (ULCC) business model in the US airline industry. *Journal of Air Transport Management*, *62*, 155-164.

Hamilton, M., Rackes, A., Gurian, P. L., & Waring, M. S. (2016). Perceptions in the US building industry of the benefits and costs of improving indoor air quality. *Indoor air*, *26*(2), 318-330.

Shaw, S. (2016). *Airline marketing and management*. Routledge.