Spirit Airlines is no more, but discount plane tickets are here to stay

There's still a place for low-cost carriers, even if it's getting tougher for them to compete

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Published: May 4, 2026 at 5:00 p.m. ET

Spirit is winding down its operations.

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Key Points

About This Summary

- Spirit Airlines ceased operations after two bankruptcies, highlighting issues with the low-cost business model.
- The budget model faces increasing difficulty due to soaring jet-fuel prices and major airlines' basic-fare offerings.
- Big airlines like United and Delta are thriving by catering to customers willing to pay more for comfort and perks.

It's not easy out there for budget airlines, but other low-cost carriers may be able to avoid Spirit Airlines' fate.

The low-cost business model has begun to crack, particularly as the war with Iran has sent jet-fuel prices soaring and pressured discretionary spending among budget-minded passengers. Times are challenging, favoring airlines that can rely on customers willing to pay more for comfort and perks.

But don't count out budget airlines just yet. "There's a place for them," especially for flights in and out of domestic-tourism magnets such as Las Vegas and Orlando, Fla., said Ernest Arvai, president of aviation consultancy AirInsight Group.

While the low-fare model isn't dead, "it's more difficult to win with it than with the full-service market," according to Arvai.

Spirit said Saturday it was winding down operations, ending a saga that included two bankruptcies in less than a year and left about 14,000 employees out of jobs. The airline had been trying to stay afloat with the help of the U.S. government, but a bailout failed to materialize.

Low-cost airlines have plenty of detractors, including United Airlines' ↑ UAL +3.13% CEO Scott Kirby, who declared the model "dead" last year; he recently doubled down on his criticism, saying last month that their business model is "fundamentally flawed."

By Monday, some airlines had moved to fill Spirit's void.

JetBlue Airways ↑ JBLU +1.46% said over the weekend it will "significantly expand" its

ıuderdale, Fla., where Spirit had a large operation. JetBlue said it was

Also see: Your Spirit loyalty points are probably worthless now — but these other airlines may match your rewards

JetBlue is often cited as one of the airlines in peril from the current squeeze of rising fuel costs and potentially reluctant consumers. Citing an internal memo it had viewed, Bloomberg News reported last month that the airline is ruling out a bankruptcy filing this year.

The airline did not immediately return MarketWatch's request for comment.

JetBlue needs to "rebuild their balance sheet, but that's a difficult thing to do when you are losing money," Arvai said.

Remaining budget airlines include Allegiant ↑ ALGT +3.86%, which in January said it planned to buy Sun Country ↑ SNCY +3.08%, as well as Frontier Airlines ↑ ULCC +5.50% and privately held Avelo.

Allegiant said in a statement to MarketWatch that it is "continuously evaluating demand and adjusting capacity" and that it has already added service in cities such as Atlantic City, N.J., "to help address gaps that may emerge following Spirit's departure."

"Allegiant remains committed to delivering low-cost, nonstop service" and keep its focus on "reliable, affordable travel," it said. It did not address questions around the profitability of its model. The airline late last month reported growing year-on-year sales and profit, which also came in above Wall Street's expectations.

Avelo also announced discounted fares for some routes through November in light of Spirit's demise, and a rewards-program match for some of Spirit's loyalty members through the end of the month. It did not offer comments about its balance-sheet health or its budget-airline business model.

A Frontier spokesperson said the airline was holding off on making comments until it reports first-quarter earnings on Tuesday. Analysts at Citi said in a note Monday that Frontier would be a "direct beneficiary" of Spirit's shuttering.

Meanwhile, major U.S. airlines United, Delta ↑ DAL +2.79% and American ↑ AAL +2.24% have placed winning bets on well-heeled passengers.

"Customer expectations are evolving, with experience becoming increasingly important,"

rin, a senior portfolio manager and senior financial adviser at position of strength, while others need the environment to ease before returning to consistent profitability," he said.

The low-cost model hinges largely on the ability to push capacity, outrun costs and drive down fares with a product basically stripped down to a seat, "all while taking small chunks of share from airlines dealing with their own internal problems," Cunningham said.

But then the majors rolled out their own basic fares a few years ago. And after the strong post-pandemic rebound in air travel, costs started to climb, making the budget airlines' growth efforts "difficult," he said.

Low-cost providers also did not catch the tailwind that the majors got from surging demand for international travel, and they found themselves in a domestic market struggling with overcapacity, Cunningham noted.

Some of Spirit's problems were also of its own making. Rather than focus on underserved markets, the company tried to take on the bigger airlines on well-traveled routes.

Read more: Spirit Airlines made this critical mistake that drove its demise

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