

Evaluating the hype regarding British Airways' return to PIT

Summary: British Airways' return to Pittsburgh has been hyped as a “win” for PIT. However, concerns about the poor track record of subsidies to carriers provided by the airport and the poor quality of the estimates of economic impact create very serious doubts on the advisability of subsidizing British Airways flights at PIT.

The much-ballyhooed rollout of the British Airways flights between Pittsburgh International (PIT) and London's Heathrow airport is in full flower. A recent newspaper report was awash with gushy comments from British Airways, the county executive and an airline consultant.

From British Airways spokesperson Simon Brooks, the airline's senior vice president of sales in North America, “the Steel City was a really obvious choice for us.” Mr. Brooks expects to see a profitable route — driven by corporate connections, tech and startup businesses, a robust leisure market and student travel to Pittsburgh's universities from London and beyond. This begs the question. If British Airways believes the route will be profitable why does it need a subsidy? Or more directly, would it have come to PIT without the subsidy?

In that regard, the spokesman should have had someone check some startup data for the region. According to the Kauffman Index of Startup Activity that analyzed 40 large metro areas, the seven-county Pittsburgh metropolitan statistical area (MSA) ranked 39th, tied with Milwaukee for last place in 2017.

Whether the Pittsburgh route will be profitable when the \$3 million in subsidies end in two years remains to be seen. Bear in mind the airline left the Pittsburgh market 20 years ago when the airport was still a hub with hundreds of incoming flights every day from all over the country that could provide Europe-bound passengers.

Remember too, that American Airlines offers one-stop travel to London through Philadelphia with flights leaving at 6:40 p.m. and arriving London at 10:20 a.m. while the four-times-per-week British Airways flight leaves at 9:50 p.m. and gets in at 10:25 a.m. And its four weekly return flights depart at 4:00 p.m., England time. Several carriers

offer one-stop travel from PIT to Heathrow at various times through the day and early evening with choices of days per week. All come with comparable fares for roundtrips. Whether the 9:50 p.m. British Airways departure time just four days per week will be a competitive issue will not be known for a while.

For certain, the airline is making heavy bets on U.S.-to-Britain and Britain-to-U.S. air travel. Just in the past few years it has added seven net new destinations in the U.S. In 2013 there were 20 U.S. airports with British Airways overseas flights. Now there are 26. Newark has been dropped.

Oakland was added in March 2017 but dropped in October 2018 because of inadequate travel. At the announcement of starting service, the media center for British Airways reported the comments of Colm Lacy, British Airways' head of commercial service at Gatwick. "We're very excited to open up California to our customers in the Gatwick area and position British Airways as the number one European carrier to the Golden State. And concluded with, "We are confident this route will be a big hit with British tourists."

Joining Pittsburgh in the recent additions list are Austin, New Orleans, Ft. Lauderdale, San Jose, Nashville and Charleston, S.C. Ft. Lauderdale's addition brings the number of Florida destinations served by British Airways to four.

The questions are: will all this new capacity be met with demand and will domestic airlines compete vigorously to keep their market shares?

Furthermore, there are serious concerns about the airline's estimates of the local economic impact in the region. Those estimates were debunked in an earlier *Policy Brief* (Vol. 18, No. 31).

Meanwhile, Allegheny County Executive Fitzgerald was quoted in the article saying, "Pittsburgh is a vastly different city than we were in 1999." Furthermore, he said "there's much more economic growth, much more economic impact. We didn't have Google, all the autonomous vehicle companies, Facebook. ... There are just so many things that are more positive today than there were in 1999."

What the executive conveniently forgets is that the 1990-to-2000 decade was actually a far better period for private employment growth in the Pittsburgh MSA than the 18 years since 2000 have been. From 1990 to 2000, the MSA added 105,500 private sector jobs—an annualized growth rate of 1.1 percent per year. Service sectors lead the way with 98,600 new jobs created. Goods employment rose by 6,800 as manufacturing held steady and construction jobs rose. But as good as the 1990s were for jobs in the Pittsburgh MSA, they grew only half as fast as the nation's average of 2.0 percent per year.

From 2000 through 2018, Pittsburgh MSA private employment rose by 52,100 jobs, an average annualized gain of 0.3 percent while the national rate was 0.7 percent. The service sector added 87,900 jobs over the 18 years while goods-producing employment plunged by 35,800, led by a 44,200 loss of manufacturing jobs. Modest gains in

construction and mining partially offset the huge manufacturing loss. Manufacturing was hard hit nationally as well over the period losing 5.6 million jobs, despite a recent rebound that added 450,000 jobs between December 2016 and December 2018. Unfortunately, the rebound did not include the Pittsburgh MSA where there has been little sign of renewed growth, although the long slide appears to have ended with employment holding around 85,000.

Moreover, the region's population continues to decline falling by over 36,000 from 2,394,880 in 1990 to 2,358,695 in 2000, then slightly further to 2,357,043 in 2010 and was estimated to have dropped to 2,333,367 in 2017. Meanwhile, the City of Pittsburgh has seen population drop from 369,879 in 1990 to 334,563 in 2000 and for 2017 was estimated to have 302,500 residents.

Household employment—the number of persons reporting they are working whether for a company or themselves—rose 53,755 from 1990 to 2000 (a 5 percent gain). But from 2000 to 2018 the number of people in the region reporting as working climbed a very meager 5,754, about a tenth of the 1990-to-2000-decade number. Of course, there was a recession in 2009 and 2010 that caused a drop in employment but through 2018 the recovery barely returned the worker count to the pre-recession level.

By way of comparison, U.S. household employment climbed 15 percent between 1990 and 2000, three times faster than the Pittsburgh MSA. And between 2000 and 2018 U.S. workers rose 13.7 percent and have been growing steadily since 2014 when after seven years the employment level returned to its pre-recession peak.

In short, the Pittsburgh area economy is quite anemic in comparison to the national economy and, what's worse, population is not growing. The labor force is nearly stagnant and job gains have slowed from the 1990s performance. Startups are very weak compared to other metro areas.

Then came the quote to top all the others. To wit: "You've had a lot of air service wins in Pittsburgh. They all pale in comparison to this one," said William Swelbar, chief industry strategist for Richmond, Va.-based Delta Airport Consultants. "... It opens up the world to the Pittsburgh community."

It seems almost comical to say Pittsburgh has had a lot of air service wins. British Airways left in 1999. USAirways went bankrupt twice in the early 2000s and PIT ceased to be a hub, despite its relatively new terminal. More recently, OneJet and WOW airlines have ceased operations, while Delta's flight to Paris was eliminated. Quite a lot of money was spent subsidizing all three. Qatar Air's freight service, also being subsidized, has been a frightful disappointment. And Delta's announcement came soon after the British Airways deal was struck. Coincidence? Hardly seems likely since Delta had not mentioned it was planning to abandon the Paris flight before the British Airways announcement.

For some reason, the so-called gurus apparently do not understand that air travel demand depends on the size of the population and its income in the collection area that are disposed to fly—especially overseas. In a region with little or no population growth and slow employment gains with those heavily concentrated in lower income jobs, overseas air travel demand is not likely to be growing rapidly, if at all. Artificially stimulating demand by subsidizing travel is a dreadful misuse of tax dollars since much of the benefit will go to people who would have traveled without the subsidized fares, as well as to the carrier. And once the subsidy starts for one carrier, others will want subsidies as well.

Unless the British Airways flights to PIT are carrying a much higher percentage of passengers from outside the country than local passengers, the taxpayers are actually ponying up to send more tourist dollars out of the region than are coming in from abroad. And that is definitely the expectation of British Airways. It forecasts approximately 70 percent of travelers on its Pittsburgh flight will be U.S. citizens, primarily from the Pittsburgh area. Thus, British Airways gets the fare revenue of the passengers that leave the country immediately and then they go to England or Europe to spend lots of money.

Compare that to the planes flying from London to Miami, Orlando, Tampa, Las Vegas, New York and Phoenix for example. They are no doubt carrying a large percentage of foreign tourists to the U.S. rather than the other way around.

Indeed, it seems very unlikely that British Airways would ever think of asking for a subsidy for its New York or Los Angeles flights.

As *Policy Brief Vol. 18, No. 31* concluded, “the most probable effects of the subsidy will be to damage competitors while increasing the net outflow of resources from the region, it is hard to see any upside to handing over tax dollars to the airline.”

Jake Haulk, Ph.D., President Emeritus

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<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: aipp@alleghenyinstitute.org</p>
