

Pittsburgh's airport woes continue as junket visits England

Introduction and background: A contingent of Pittsburgh International Airport (PIT) officials, local business and community leaders are in London this week visiting British Airways (BA) to discuss the airline's activity at PIT. As per the Sept. 23 Pittsburgh Post-Gazette:

“The Allegheny County Airport Authority and tourism group VisitPittsburgh organized the jaunt to Great Britain to showcase the value of [BA's four-times-weekly] flight and make the case for its expansion.”

Further quoting the P-G story: “[Authority CEO Christina] Cassotis is hoping the local delegates can convince their overseas audience that the region can support additional international service and destinations beyond London. The purpose is to demonstrate that we have a great business and leisure market, she said.”

To put it as kindly as possible, making a convincing case for expansion and to demonstrate credibly the vitality of the business climate will be very difficult. British Airways has plenty of its own experts to investigate the viability of markets where it operates and potential markets to enter or where to expand service.

The Pittsburgh region's economy and population fall far short of being dynamic or exhibiting strong economic gains. Moreover, passenger counts—both domestic and international—at PIT lag well behind pre-pandemic levels.

Population and employment

As reported in Allegheny Institute *Policy Brief* (Vol. 22, No.18) the population of the seven-county Pittsburgh Metropolitan Statistical Area (MSA) in 2020 was 2.6 percent below the U.S. Census count of 2000—two decades earlier. Allegheny County, by far the largest in terms of the metro's population and home of PIT, lost roughly 42,000 residents from 2000 to 2021, according to the latest Census annual estimate. Gains in Butler and Washington counties were not large enough to offset losses in the other counties.

Numbers for private-sector employment (a key measure of economic vitality) in the Pittsburgh MSA do not paint a picture of strong positive momentum in the economy. Indeed, unfortunately, the picture since 2000 is one of long-term weakness with a couple of periods of respectable gains, notably in 2017, 2018 and 2019 with a combined increase of 32,000 jobs. This was the best sustained three-year gain except for the recovery from the deep recession of 2009-2010. Unfortunately, the MSA's 3 percent increase from 2016 through 2019 was slower than the national gain of 5 percent.

Even more disturbing, the Pittsburgh MSA private jobs count through August (latest available data) was 37,700 or 3.5 percent below the August 2019 reading. Indeed, the latest count of 1.046 million was the lowest posting since 2013 and stood an incredibly paltry 1.9 percent above the August 2000, 22 year-earlier figure.

Nationally, jobs had fully recovered from the pandemic in August, standing 1.4 percent above the August 2019 level and over the period since 2000 rose 16.7 percent. It is important to note that even if the 2019 levels were reached, that is not a sufficient interpretation of job strength. Given that national employment had posted a 5 percent gain from 2016 through 2019, if growth had been just 4 percent from August 2019 through 2022, private employment would have been 2.25 million greater than the actual reading.

But to get a more instructive picture of the weakness of the Pittsburgh MSA employment situation, it is useful to look at an MSA that reflects what a region can do with good economic policies in place. That is to say, a region that does not impose a regulatory environment inimical to economic expansion. Those inimical policies were discussed in several earlier *Policy Briefs* (Vol. 22, Nos. 8, 17 and 32).

For a stark comparison, the Nashville MSA will be used. By July 2021, Nashville had fully recovered all the jobs lost in the pandemic and began adding net gains above the 2019 monthly readings. In August 2022, private employment was 66,800 (7.2 percent) above August 2019 to stand in sharp contrast to the 3.5 percent shortfall in Pittsburgh. Moreover, employment in Nashville climbed 55 percent from 2000 to 2022, enormously outpacing the barely positive 1.9 percent gain posted over the 22-year period in the Pittsburgh MSA.

PIT passenger counts

Presumably, any carrier, with or without international destinations, that is looking to possibly start or increase service from an airport will want to see data not only related to the economic conditions and population trends in the airport "catchment area" but passenger count statistics as well. Thus, it is almost a certainty that British Airways is already well aware of the lagging performance at PIT.

Total passengers

Just-released passenger counts at PIT continue to show a very weak picture. Total passengers in August remained 16.3 percent below the August 2019 figure. (Note that month to same month comparisons are used because of large seasonal variations in travel). This followed shortfalls of 18.5 percent in June and 17.3 percent in July, with a three-month (June, July, and August) average deficit of 17.4 percent.

By way of comparison, Transportation Security Administration (TSA) checkpoint data showed national passenger count to be down an average of 10.5 percent for the three months—an average of 6.9 percentage points lower than PIT's shortfall. TSA checkpoint statistics are valid comparison for airports that have little or no hubbing activity but would not be for a major hub. Since PIT is no longer a hub, the TSA numbers are useful in contrasting the degree of recovery. Importantly, the September TSA count was only 5.9 percent below the 2019 number following the 8.6 percent shortfall in August.

International passengers

International passenger counts at PIT remain woefully behind the levels reached in 2018 and 2019. After trailing 2019 levels by an average 61.8 percent in the five months January through May, the June-through-August period saw the shortfall decline to 44.3 percent.

No doubt the resumption of the British Airways flights boosted the June-through-August monthly international passenger average to 16,900, nearly double the April-May average of 8,800. The same pattern existed in 2017 and 2018 when the June-to-August count more than doubled the March-to-May count. However, in 2019 the rise between the two periods was only 50 percent. It is likely the loss of the Delta Air Lines flight to Paris was a major factor in that decline.

Delta announced they would suspend the flight shortly after the Airport Authority granted British Airways a \$3 million subsidy to be paid in two installments, the second of which to be paid this year. It had been delayed because BA pulled its flights during the pandemic.

It appears likely the renewal of British Airways flights in June 2022 has had a positive effect on international travel numbers. But in the absence of publicly available information on carrier-specific data the exact amount of the boost is unavailable to the public.

Note, too, that there was an unusual occurrence in the May to June domestic passenger totals this year. For the preceding several years, domestic passenger counts have increased, and fairly substantially from May to June. It is surprising that in 2022, the PIT domestic passenger count in June fell by more than 20,000 from the May posting. This happened as the international count rose significantly. A possible explanation is that passengers who were, prior to June, taking a domestic flight from PIT to JFK, Charlotte

or another airport and then boarded an international flight to Europe are now choosing the nonstop British Airways flight.

It is important to note that 2019 months are not the best comparison to see just how really weak the August 2022 international passenger count was. In August 2019, international passengers totaled 25,951. In August 2022, the count was 14,415—a drop of 44.5 percent. However, in August 2018, the international count was 41,384, making the August 2022 count a drop of 65.2 percent. And almost as bad, the decline from the August 2017 reading—five years ago—was 59.5 percent. The 2016 statistics are not available.

In short, the international passenger count at PIT is far short of recovery to the 2019 level and much further still from 2017 and 2018 counts. Bear in mind, too, that the British Airways flights are publicly subsidized. Indeed, many international carriers have been subsidized in one form or another in the past. Delta, WOW and Condor were all receiving some assistance to get them to fly out of PIT to international destinations.

British Airways

British Airways has returned to Pittsburgh International after a 27-month hiatus. The carrier had received a \$3 million subsidy from the airport for two years of operating a four-flight per week schedule. After almost 12 months of service, from April 2019 to March 2020, only one half of the agreement had been completed. To date, there has been no announcement as to whether the subsidy will be renewed after next June.

Thus, it is not clear whether BA is setting fares lower than they would be without the subsidy or whether the \$3 million is basically a bonus payment for operating the flight. Does it prevent losses on the route or increase profitability? Based on a thorough web search, it appears the only other U.S. airport that has subsidized BA is BWI in Baltimore. That appears to be the case in light of the absence of any reporting of a subsidy in the news media or otherwise made public.

BA currently serves 27 U.S. markets and appears to be looking at several other, mostly second-tier markets. They might be negotiating subsidies as well. All the major markets—several are large hubs—have BA service already and there is no reporting of any subsidy. Presumably those markets are profitable enough to keep BA service.

The original announcement of the subsidy was accompanied by an economic impact study that contained logical flaws and was seriously over optimistic.

Which begs several questions: What is the junket to London about? The putative reason is to convince BA to start a daily service. But what will be the offer? More subsidies? BA has publicly stated that it is having trouble finding adequate personnel. Committing to more Pittsburgh flights would likely necessitate shifting personnel from other flights. There might be weakly performing markets where flights could be cutback and personnel

moved but that is problematic because if they're unprofitable markets they would already be seeing cuts in flights.

In that environment, a large enough subsidy might obtain the desired result. But as we have written many times, subsidizing area residents to fly to London is a huge mistake. The fares paid go immediately to BA coffers. Moreover, traveling in England or other points in Europe and spending tourist money is of no benefit to the Pittsburgh region. If there is no subsidy, the free market will determine if this route will be undertaken.

Conclusion

It is likely the effort to maintain the direct flight to England is more about image and bragging rights. The hard reality is that Pittsburgh International is currently struggling with seriously reduced passenger counts (domestic and international) compared to the pre-pandemic levels while it builds an expensive new terminal. But as was noted above, the Pittsburgh area is not demonstrating economic vitality in terms of job gains and is experiencing population stagnation.

More subsidized international flights are not the answer to the Pittsburgh region's economic woes. Strong growth in the economy in terms of jobs, income and population would create market-driven demand for international flights. The focus of political leaders needs to be on policies that are inhibiting growth.

Non-hub airports such as PIT are not principal economic drivers. They are part of the infrastructure that facilitates the service area's travel and cargo needs and, in doing so, helps the economy. These airports need to operate efficiently and at the lowest cost possible while ensuring adequate capacity. By being cost-efficient, existing carriers can be induced to offer more flights and new carriers attracted to add service. Offering subsidies to some carriers is market-distorting and creates unfairness for the unsubsidized.

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