

THE IMPORTANCE OF USAIRWAYS
TO THE PENNSYLVANIA ECONOMY

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USAirways Economic Impact in Pennsylvania

Executive Summary

USAirways has a major presence in Pennsylvania and large impact on the Commonwealth's economy. The company employs over 18,000 people at six jet service airports (Allentown-Bethlehem, Wilkes-Barre-Scranton, Erie, Harrisburg, Pittsburgh and Philadelphia) and spends over \$2 billion on operations in Pennsylvania. Moreover, arriving visitors to the major airports bring an estimated \$1.7 billion in additional outlays to the state. Using a very conservative multiplier of two to take into account the indirect and induced effects of spending and employment, we place the total USAirways impact in Pennsylvania at \$7.5 billion and over 70,000 jobs.

In contrast, Baltimore's BWI airport and La Guardia use a large employment multiplier of seven to gauge economic impact of their facilities. Thus, our estimate for Pennsylvania is indeed very conservative. A modest move in the direction of other airport impact estimates would place USAirways' economic impact in Pennsylvania at \$10 billion and 90,000 jobs.

The presence of USAirways major hubs at Pittsburgh and Philadelphia bring substantial direct economic benefits. We estimate that some 16,000 jobs and \$1.8 billion in spending in the state are attributable to the company's hubbing activity in Pennsylvania's largest cities. Conservatively, the total Pennsylvania impact of these hubs is 32,000 jobs and \$3.6 billion spending.

These calculations do not attempt to evaluate what the wide variety of destination and flight options offered by USAirways in Pennsylvania means to the state's economy in terms of making travel convenient and accessible for the state's business community. Nor do these estimates measure the economic impact of the 10 smaller airports with USAirways Express service but which have no direct USAirways employees.

At the same time, a successful merger creates quite a very positive economic scenario for the state of Pennsylvania. As explained in the "Post-Merger Scenario" section of this report, the likely impact of the merger on Pennsylvania could be as much as \$5 billion in additional annual economic activity, and new job creation at the rate of 9,000 per year.

USAirways Statewide Economic Impact

USAirways has a strong presence in Pennsylvania employing over 18,000 persons (40 percent of USAirways total) across 6 regional airports where they fly mainline jets. These airports include: Erie, Harrisburg, Allentown, Wilkes-Barre, Philadelphia, and Pittsburgh. The airline spends over \$2 billion yearly in salaries and other expenses across the state, which results in over \$4 billion in total annual economic activity. The 18,000 plus USAirways jobs are conservatively responsible for over 36,300 jobs in these six areas. Table 1 provides a breakdown by city.

Table 1 USAirways Presence at its Mainline Airports

City	Employees	Total Annual Expenses (Millions)	Annual Effect on Community* (Millions)	Effect on Local Employment*
Allentown/Beth./Easton	51	\$5.5	\$11.0	102
Erie	32	\$2.7	\$5.5	64
Harrisburg	52	\$6.5	\$13.0	104
Wilkes-Barre/Scranton	43	\$3.9	\$7.7	86
Philadelphia	6,317	\$662.5	\$1,324.9	12,634
Pittsburgh	11,691	\$1,399.4	\$2,798.7	23,382
Sub Totals	18,186	\$2,080.4	\$4,160.8	36,372

Notes: *Using a multiplier of 2.

The airline operates substantial hubbing activity out of both Pittsburgh and Philadelphia. For purposes this analysis, the passengers that it serves out of the other airports are assumed to be all origination and destination (O/D) passengers. Table 2 outlines USAirways activity at these airports.

Table 2 Annual USAirways' Activity

City	Total Enplanements	Number of Employees	Enplanements/Employee
Non-Hub Cities			
Allentown/Bethlehem/Easton	206,760	51	4,054
Wilkes-Barre/Scranton	142,491	43	3,314
Erie	97,035	32	3,032
Harrisburg	276,004	52	5,308
Non-Hub Subtotals	722,290	178	4,058
Hub Cities			
Philadelphia	8,099,843	6,317	1,282
Pittsburgh	8,580,426	11,691	734
Hub Subtotals	16,680,269	18,008	926
Totals	17,402,559	18,186	957

Enplanements represent the number of persons boarding at respective airports. We assume that 30% of these passengers are O/D for Pittsburgh and 40% for Philadelphia. Table 3 breaks out the two hub cities.

Table 3 USAirways Annual Enplanements

USAirways Annual Enplanements	2000	% Hubbed	% O/D	Destination Passengers
Pittsburgh	7,394,544	70%	30%	2,218,363
Philadelphia	7,209,189	60%	40%	2,883,676

Assuming deplanements are roughly the same as enplanements, we estimate final destination deplaning passengers as 2.2 million and 2.8 million respectively for Pittsburgh and Philadelphia. We further assume that half of these deplanements are visitors to the region and estimate the impact of these visitors on the local economy. Table 4 shows the calculations.

Table 4 Visitors Arriving by USAirways

Visitors Arriving by USAirways to:	Annual Visitors	Visitor Revenues (Millions)	Effect on Community* (Millions)
Pittsburgh	1,109,182	\$776.4	\$1,552.9
Philadelphia	1,441,838	\$1,009.3	\$2,018.6
Sub Totals	2,551,019	\$1,786	\$3,571

Assuming that each visitor spends an average of \$700 per visit, this yields a total of \$3.5 billion to the statewide economy (\$1.5 billion to Pittsburgh and \$2 billion to Philadelphia).

Overall, the economic impact of USAirways in Pennsylvania can be summarized in Table 5. The statewide economic impact of USAirways is over \$7.7 billion and 71,000 jobs.

Table 5 Annual Effect on the Pennsylvania Economy

Annual Effect on Pennsylvania* :	
Total USAirways Expenditures	\$4.16 Billion
Visitor Spending attributed to USAirways	\$3.57 Billion
Totals:	\$7.73 Billion
Employees (Projected number)*	71,372
Notes: * Assuming about 35,000 jobs in the hospitality industry per hub city as a result of visitors.	

One effect that has not been discussed thus far is the type of jobs brought about as a result of USAirways presence. In a paper by Kenneth Button and Roger Stough, they theorize that the presence of a hub airport contributes to the growth of a city's high-technology sector.¹ The authors use statistical analysis to take into account outside influences such as national business cycles and local fluctuations in the local economy. Their results confirm that hub airports attract more high-technology employment than a comparable non-hub city. As noted by Button and Stough, "an examination of the U.S. airport network indicates that medium-sized cities that have a hub airport have been more successful in the 1990s in either attracting high-technology employment or in fostering its growth. In quantitative terms, there are over 12,000 more high-technology jobs in regions with hub airports than those without a hub facility."

The benefits from being a hub city are not limited to the increase in high-tech jobs. Having a hub means that residents of that city enjoy: more frequent flights; more direct flights; and services geared to local market needs such as destinations sought by local residents. For the business traveler, hubs save time. Hubs can reduce "generalized costs" which include time spent at layovers and unnecessary overnight stays due to the infrequency of flights.

Although precise estimates of the overall corollary impacts of the hubs are beyond the scope of this report, the Button and Stough work suggests a large economic impact of hubs in Pittsburgh and Philadelphia.

USAirways Presence at the Individual Airports

USAirways has approximately 45,000 employees. Roughly 40% or 18,186 of them work at Pennsylvania's six major airports.² These employees earn almost \$1.41 billion in annual salaries. Although the two largest airports, Philadelphia and Pittsburgh account for 99% (18,000) of these people, the impact on the smaller airports cannot be dismissed. For example, the Allentown/Bethlehem/Easton airport (ABE) and Harrisburg (MDT) have 51 and 52 USAirways employees earning an average wage of about \$49,000 and

¹ Button, Kenneth and Roger Stough. "The Benefits of Being a Hub Airport City: Convenient Travel and High-Tech Job Growth". The Institute of Public Policy at George Mason University. November 1998.

² These airports are: Allentown/Bethlehem/Easton, Erie, Harrisburg, Philadelphia, Pittsburgh and Wilkes-Barre/Scranton.

\$54,600 per year respectively. The employee breakdown of the six airports that handle mainline jets can be seen in Table 6.³

Table 6

Personnel Breakdown by Airport (as of 1/02/01)			
City	# of Employees	Annual Salary (in Millions)	Avg. Annual Salary
Allentown/Bethlehem/Easton	51	\$2.5	\$49,081
Erie	32	\$1.6	\$50,904
Harrisburg	52	\$2.8	\$54,618
Philadelphia	6,317	\$448.5	\$70,994
Pittsburgh	11,691	\$948.1	\$81,096
Wilkes-Barre/Scranton	43	\$2.2	\$50,470
Totals	18,186	\$1,405.7	\$77,296

For the year 2000, USAirways spent approximately \$675 million on non-salary expenses at the 6 airports. This figure includes space rental of \$94 million and landing fees, which total \$26.6 million. The breakdown of expenditures by city is found in table 7.

Table 7

Non-Salary Expenses (1999 actuals)							
City	Landing Fees	Space Rent	Fuel	Food	Taxes	Other	Totals
Allentown/Beth./East.	\$519,218	\$860,065	\$805,162	\$126,741	\$211,622	\$474,853	\$2,997,661
Erie	\$127,838	\$387,954	\$197,960	\$0	\$121,781	\$269,072	\$1,104,605
Harrisburg	\$353,687	\$1,116,117	\$821,667	\$370,505	\$274,516	\$706,495	\$3,642,987
Philadelphia	\$13,425,415	\$29,383,669	\$94,945,389	\$25,543,138	\$18,561,490	\$32,134,593	\$213,993,694
Pittsburgh	\$12,007,818	\$61,990,265	\$80,821,689	\$27,051,533	\$17,896,904	\$251,507,831	\$451,276,040
Wilkes-Barre/Scranton	\$237,082	\$286,711	\$492,409	\$42,019	\$152,366	\$487,478	\$1,698,065
Totals	\$26,671,058	\$94,024,781	\$178,084,276	\$53,133,936	\$37,218,679	\$285,580,322	\$674,713,052

As can be seen from the above table, 98.6% of these expenditures are made at USAirways' two main hubs, Pittsburgh and Philadelphia. However, USAirways spends almost \$3 million at Allentown/Bethlehem/Easton and \$3.6 million at Harrisburg International. This represents a significant portion of these airports' budgets. Moreover, USAirways paid over \$37 million to state and local governments. This does not include all the income, property and sales taxes paid by USAirways employees or the employees in other companies whose jobs are directly related to the airline's presence in the state.

"Other" expenditures are also significant to local areas. These expenditures are primarily made in the local economy, which means approximately \$500,000 to the Wilkes-Barre and Allentown airports. Likewise, it means over \$286 million to the communities surrounding the six jet service airports. Factoring in the indirect economic impact of

³ There are 16 principal airports in Pennsylvania, but only 6 have mainline jet service. The others, even though served by the commuter arm of USAirways, do not have significant USAirways presence.

these purchases, using a conservative multiplier of two puts the impact on these communities at over \$570 million.

As noted above, USAirways serves 16 communities in Pennsylvania, but only 6 cities have jet service and USAirways employees. This report examines only those airports. Table 8 ranks these cities by number of enplanements.⁴

Table 8

USAirways Passenger Activity	Enplanements
City	2000 Totals
Erie	97,035
Wilkes-Barre/Scranton	142,491
Allentown/Bethlehem/Easton	206,760
Harrisburg	276,004
Philadelphia	8,099,843
Pittsburgh	8,580,426
Totals	17,402,559

Erie International Airport

Erie International Airport is located in northwest Pennsylvania serving not only Northwest Pennsylvania, but also Northeast Ohio, and Southwestern New York. Of all the mainline airports in Pennsylvania, USAirways has the smallest presence in Erie. One contributing factor is that the airport is located between three major cities: Buffalo (105 miles away), Cleveland (110 miles), and Pittsburgh (125 miles). This location puts it in direct competition with the airports of these cities, which offer the consumer more airline choices to more destinations. As a result, Erie is served by only one mainline carrier, USAirways, its commuter USAirways Express and one commuter arm of both Northwest (Mesaba) and Continental (Express) Airlines. Table 9 details average daily domestic flight activity.

Table 9 Average Daily Activity at Erie International Airport

Carrier	Departures	% of Total	Enplanements	% of Total	Avail. Seats	% of Total
USAirways	4	28.6	215	57.2	479	64.6
Mesaba (Northwest)	5	35.7	93	24.7	163	22.0
Continental Express	5	35.7	68	18.1	100	13.5
Total	14	100	376	100.0	742	100.0

Table 9 illustrates that on average, there are 14 daily departures at the airport almost evenly split between the three carriers. However, USAirways has the largest percentage of enplanements (57%) and the largest number of available seats (65%). Continental Express has the smallest percentages at 18% and 14% respectively.⁵ In fact, as of June

⁴ For purposes of ranking, we will combine enplanements for both the mainline and express arm of USAirways.

⁵ Data through May of 2000.

13, 2001, Continental will discontinue service in the Erie market. USAirways will increase its service to offset this loss, but the increase will be limited to only one regional jet. However, if USAirways were to halt or reduce its operations at Erie, it would leave the airport and its service area with Northwest as its principal (only) carrier. This would negatively impact the Erie area in two ways. People would certainly be more inclined to drive to one of the surrounding airports to fly for either business or leisure.⁶ It would also be a detriment to Erie's ability to attract potential businesses that view air travel as essential to their operation.

USAirways employs 32 persons and incurs expenses, including salaries, of over \$2.7 million. Table 10 shows how the USAirways' presence in Erie compares to its overall state presence.

Table 10 USAirways' Expenses at Erie International Airport

Expenses (1999)	Erie	State (Millions)	% of State
Salaries	\$1,628,943	\$1,406	0.12
Landing Fees	\$127,838	\$27	0.48
Space Rent	\$387,954	\$94	0.41
Fuel	\$197,960	\$178	0.11
Food	\$0	\$53	0.00
Taxes	\$121,781	\$37	0.33
Other	\$269,072	\$286	0.09
Total	\$2,733,548	\$2,080	0.13

As shown in the last column, USAirways' expenses in Erie are only 0.13 percent of its total statewide. Since the trips out of Erie are short in duration, the airline doesn't have a food expense.⁷ The largest non-salary expense at the airport is in space rental at almost \$390,000 followed by "other" which accounts for almost \$270,000.

USAirways importance to Erie International Airport cannot be overstated. In addition to providing 33% of the activity (soon to be over 50% with the departure of Continental) at the airport, USAirways provides a significant amount of the revenues to this publicly owned airport. The added benefit of having air travel access is very important to the future of the Erie area economy. Any major reductions in service by USAirways would be very problematic to the community.

Wilkes-Barre/Scranton Airport

Wilkes-Barre/Scranton Airport is located in northeast Pennsylvania and is owned and operated by Luzerne and Lackawanna counties. It lies within close proximity to Newark, New York, and Philadelphia airports. Based on overall enplanements, Wilkes-Barre/Scranton (AVP) has the second smallest level of USAirways activity with

⁶ Currently, all Northwest flights go to Detroit first before connecting to other destinations. This would add more time to any trip with an eastern destination.

⁷ In an average day, USAirways flies 5 jets out of ERI. They all fly to PIT where they connect to other destinations. The average flight time is about 55 minutes. www.flightbase.com.

approximately 142,500-boarded passengers in 2000. AVP is served by only one mainline carrier, USAirways, as well as by three commuter airlines: USAirways Express, Comair (Delta), and Continental Express. Table 11 details average daily domestic flight activity.⁸

Table 11 Average Daily Activity at Wilkes-Barre/Scranton Airport

Carrier	Departures	% of Total	Enplanements	% of Total	Avail. Seats	% of Total
USAirways	4	50.0	219	76.8	537	82.4
Comair (Delta)	1	12.5	37	13.0	59	9.0
Continental Express	3	37.5	29	10.2	56	8.6
Total	8	100	285	100.0	652	100.0

Table 11 illustrates that on average, there are 8 daily departures. USAirways is responsible for 50%, Continental 37.5% and Comair, 12.5%. Of the 285 total daily enplanements, USAirways has almost 77% while Comair and Continental have 13% and 10% respectively. Therefore, it can be concluded that USAirways is the dominant carrier out of AVP.⁹

USAirways expenses at AVP can be seen in Table 12. The airline employs 43 persons each earning an average annual salary of \$50,500. Total expenses reach almost \$4 million per year.

Table 12 USAirways' Expenses at Wilkes-Barre/Scranton Airport

Expenses (1999)	City	State (Millions)	% of State
Salaries	2,170,210	\$1,406	0.15
Landing Fees	237,082	\$27	0.89
Space Rent	286,711	\$94	0.30
Fuel	492,409	\$178	0.28
Food	42,019	\$53	0.08
Taxes	152,366	\$37	0.41
Other	487,478	\$286	0.17
Total	3,868,275	\$2,080	0.19

As seen from the last column, USAirways' expenses, over \$3.8 million, at Wilkes-Barre/Scranton are only 0.19% of its statewide expenditures. The largest non-salary fee paid to the airport is in fuel expense (almost \$492,500). The "other" component is again quite large at almost \$487,500.

USAirways plays a vital role to the Wilkes-Barre/Scranton airport. It is the largest and most active carrier supplying the airport with a substantial amount of revenues. The direct economic impact is over \$3.8 million, but using a conservative multiplier of 1.5, the economic impact to the area is approximately \$5.8 million.

⁸ Data is through May of 2000. As of March 2001, AVP has added United Express.

⁹ As of March 2001, Continental Express no longer flies out of AVP. United Express has filled that void and Comair has added 2. USAirways has also increased its departures, thus giving it 60% of AVP's daily departures.

Allentown/Bethlehem/Easton

The Lehigh Valley International Airport (ABE) serves eastern Pennsylvania and western New Jersey. 5 mainline carriers and 6 commuter airlines currently serve the airport. USAirways enjoyed a slight edge in departures and enplanements, but does not have the overwhelming majority. Table 13 lists the airlines and their average daily domestic flight statistics.¹⁰

Table 13 Average Daily Activity at Lehigh Valley International Airport

Carrier	Departures	% of Total	Enplanements	% of Total	Avail. Seats	% of Total
USAirways	6	25.0	392	34.1	644	30.7
Delta	5	20.8	350	30.4	623	29.7
United Airlines	4	16.7	179	15.6	378	18.0
Northwest	2	8.3	101	8.8	223	10.6
Mesaba	2	8.3	52	4.5	99	4.7
Comair	2	8.3	47	4.1	74	3.5
Continental Express	3	12.5	30	2.6	59	2.8
Total	24	100	1151	100.0	2100	100.0

As can be seen from Table 13, USAirways on the average has 25% of the daily departures and 34% of the enplanements. Delta ranks second with 21% of the departures and 30% of the enplanements.

USAirways employees 51 persons at the Lehigh Valley International Airport and pays an average salary of \$49,000 per year. Table 14 shows how the airline's presence in Allentown compares to its overall state presence.

Table 14 USAirways' Expenses at Lehigh Valley International Airport

Expenses (1999)	ABE	State (Millions)	% of State
Salaries	2,503,123	\$1,406	0.18
Landing Fees	519,218	\$27	1.95
Space Rent	860,065	\$94	0.91
Fuel	805,162	\$178	0.45
Food	126,741	\$53	0.24
Taxes	211,622	\$37	0.57
Other	474,853	\$286	0.17
Total	5,500,784	\$2,080	0.26

USAirways pays 1.5% (or \$519,000) of its statewide landing fees to ABE and pay over \$860,000 to the airport in rent. Overall, the airline directly spends over \$5.5 million in salary and expenses to the airport and the Allentown/Bethlehem/Easton area.

¹⁰ Data as of May 2000. Since this data was compiled Pan American has begun service to ABE. Only includes mainline flights.

Even though Lehigh Valley Airport activity is not completely dominated by USAirways, its importance to the airport and the region cannot be overstated. Total enplanements for USAirways' mainline and express arm was approximately 207,000 in 2000. When looking at economic impact of the airline, using the multiplier of 2 the estimated total produces an \$11 million effect on the economy.

Harrisburg International Airport

Harrisburg International serves almost 2 million residents of central Pennsylvania. It is the third largest airport in Pennsylvania behind Philadelphia and Pittsburgh. The airport is currently served by 7 major airlines and 4 commuter airlines. Table 15 outlines the average daily domestic flight activity of the mainline carriers.

Table 15 Average Daily Activity at Harrisburg International Airport

Carrier	Departures	% of Total	Enplanements	% of Total	Avail. Seats	% of Total
USAirways	6	21.4	432	32.4	733	29.7
Delta	4	14.3	257	19.3	504	20.4
United Airlines	4	14.3	211	15.8	396	16.0
American Airlines	3	10.7	158	11.9	272	11.0
Northwest	3	10.7	119	8.9	252	10.2
Mesaba	2	7.1	50	3.8	90	3.6
Comair	1	3.6	48	3.6	64	2.6
Continental Express	4	14.3	47	3.5	76	3.1
Trans World	1	3.6	11	0.8	84	3.4
Total	28	100	1,333	100	2,471	100.0

Even though passengers have more choices among major carriers, USAirways has the majority of departures and enplanements at 21% and 32% respectively. Delta and United are second in departures with 14%, while Delta has a slim edge in enplanements (19% to 16%).

USAirways employs 52 persons and pays out \$2.8 million in annual salaries. Overall the airline pays over \$6.4 million in total expenses to the airport. Table 16 breaks down these expenses by category.

Table 16 USAirways' Expenses at Harrisburg International Airport

Expenses (1999)	Harrisburg	State (Millions)	% of State
Salaries	2,840,131	\$1,406	0.20
Landing Fees	353,687	\$27	1.33
Space Rent	1,116,117	\$94	1.19
Fuel	821,667	\$178	0.46
Food	370,505	\$53	0.70
Taxes	274,516	\$37	0.74
Other	706,495	\$286	0.25
Total	6,483,118	\$2,080	0.31

As can be seen from table 16, the largest non-salary expenditure is space rental at over \$1.1 million. However, this only represents a little over 1% of USAirways' statewide total. Total expenditures are Harrisburg International Airport represent the direct impact USAirways has on the airport, but using the multiplier, it can be inferred that the airline has an almost \$13 million impact on the Harrisburg area.

Hubbing Activity at Pittsburgh and Philadelphia

To accurately assess the value of USAirways to the Pittsburgh and Philadelphia economies, we must look at what would happen if they were to "de-hub". In order to do so, we must revisit table 2.

Table 2 Annual USAirways' Activity

City	Total Enplanements	Number of Employees	Enplanements/Employee
Non-Hub Cities			
Allentown/Bethlehem/Easton	206,760	51	4,054
Wilkes-Barre/Scranton	142,491	43	3,314
Erie	97,035	32	3,032
Harrisburg	276,004	52	5,308
Non-Hub Subtotals	722,290	178	4,058
Hub Cities			
Philadelphia	8,099,843	6,317	1,282
Pittsburgh	8,580,426	11,691	734
Hub Subtotals	16,680,269	18,008	926
Totals	17,402,559	18,186	957

The final column of table 2 shows the number of employees needed per enplanements. The range shows a high water mark of 5,300 enplaned passengers per employee at Harrisburg to a low water mark of just over 3,000 enplaned passengers per employee at Erie International. The overall total for the non-hub airports is just over 4,000 enplaned passengers per employee. However, at the hub airports, there is one employee for every 1,300 and 730 enplaned passengers at Philadelphia and Pittsburgh respectively. The fact that these two airports serve as hubs keeps employment well above non-hub levels.

If USAirways were to de-hub at these airports and lower employment to a ratio of 3,000 yearly enplanements per worker, what would be the effect on employment and spending?

Table 17 USAirways Employees Needed to Handle Enplanements

USAirways Annual Enplanements	2000	Originating Passengers	Employees needed
Pittsburgh	7,394,544	2,218,363	739
Philadelphia	7,209,189	2,883,676	961

Our estimates show USAirways would only need about 740 employees in Pittsburgh and 960 in Philadelphia.

The reductions in jobs from the hubbing levels are shown in Table 18.

Table 18 Reductions in Employment and Compensation at the Hub Airports

	Current Employees	Employees needed	Employees No Longer Needed	Average Salary	Lost Total Compensation
Pittsburgh	11,691	739	10,952	\$81,096	\$888,127,219
Philadelphia	6,317	961	5,356	\$70,994	\$380,228,103

At Pittsburgh, job cuts of almost 11,000 persons would cause a loss of almost \$890 million (loss of 94%) in compensation. At Philadelphia, over 5,300 persons would lose their jobs, resulting in over \$380 million in lost compensation (loss of 85%). Along with the reduction in jobs, other airline expenditures would also fall. Table 19 shows the reductions in total USAirways spending.

Table 19 Reductions in USAirways Spending at It's Hub Airports

	Total Annual Expenses (Millions)	Ratio	Lost Annual Expenses (Millions)	Annual Loss to Community (Millions)
Pittsburgh	\$1,399	0.94	\$1,310.9	\$2,621.7
Philadelphia	\$662	0.85	\$561.7	\$1,123.3
Totals	\$2,062		\$1,873	\$3,745

Applying the employment loss ratio to expenditure we estimate that the Pittsburgh area would lose about \$2.6 billion in economic activity from direct and multiplier indirect effects. Philadelphia would lose over \$1.1 billion in economic activity. The total loss to these two areas, if USAirways no longer used them as hubs, would be about \$3.7 billion and 16,300 jobs.

The Post-Merger Scenario: The Likely Impacts of a Successful USAirways - United Airlines Combination

The economic analysis outlined on the pages preceding this section details the economic impacts state wide of current USAirways operations. By inference, it is clear that if forced to "fly alone" without the support of a healthy merger partner such as United Airlines, USAirways will severely cut back operations within the state of Pennsylvania. The resulting economic loss to Pennsylvania will likely reach \$4 billion per year, and perhaps significantly exceed that amount.

No 'Plan B' Available to Pennsylvania

What's more, there would be little to mitigate the aforementioned consequences. That is, the demise of USAirways as a viable independent airline will create a void that is unlikely to be filled by the remaining competitors in the domestic US airline industry. Simply put, operations at Pittsburgh and Philadelphia airports will shrink dramatically with little hope of revival. This is due to the plain fact that Pittsburgh especially, and Philadelphia to a significant extent, owe their current volumes to hubbing operations by USAirways. As there is no other airline that would utilize either Philadelphia or Pittsburgh as a hub anywhere near the extent that USAirways does, employment, operations and other activity will decline precipitously.

It is interesting to note that Philadelphia has displayed a seemingly cavalier attitude toward the merger, apparently confident that significant demand for its facilities exists, especially among discount airlines. However, an influx of discount flights at Philadelphia will not produce anywhere near the economic activity or employment generated by current USAirways operations because of the nature of discount airlines. Relatively speaking, discounters are remarkably labor and capital un-intensive. If the same level of passenger traffic at Philadelphia were to be served by the typical discount airlines, they would do so with as few as one third of the employees currently utilized by USAirways. Such a transformation would truly be jarring in economic terms. Some might argue that such a transformation of the domestic US airline industry is inevitable. However, the resulting economic dislocations of such a transformation will prove to be quite jarring to Pennsylvania.

On the other hand, the outlook for Pennsylvania's economy given a successful merger of USAirways and United Airlines is considerably different.

Airline Industry Poised for Dramatic Growth

Demand for domestic and international air travel, given current trends in pricing of airfares and substitute methods of travel, is expected to grow at an annual rate of between 5% and 6% over the next decade. In order to meet this growth in passenger traffic--domestic passengers alone are estimated to reach 1.2 billion yearly by 2012 according to the Federal Aviation Administration (FAA)--airlines must undergo a dramatic strategic restructuring. The so-called "major airlines" in particular (American, Continental, Delta, Northwest, and United are the remaining viable major airlines) recognize the need to

streamline and reorganize as truly national network carriers. This means a redistribution of their traffic systems in order to move passengers more efficiently along "destination driven" networks that allow the airline to complete the passenger's trip in the shortest amount of time possible. More importantly, the FAA estimates that takeoffs and landings will increase nearly 40%--from 26 million in 2000 to at least 36 million in 2012. Essentially, the major airlines have discovered that hubbing, while an essential component of operations, cannot continue to be the tail wagging the dog. Instead, hubbing must be used to integrate passengers into the network while facilitating a more speedy and seamless flow of traffic in the customers' intended direction of travel.¹¹ Unless the airline industry--including FAA controlled operations--can increase its efficiency by a minimum of 50%, it will be unable to meet the rising demand for its services.

New Operating Methodologies Are Required

A look at the operating methodology of Southwest Airlines--regarded by most experts as one of the world's most efficient airlines--in terms of the way it directs passenger flow reveals that it uses hubs, however not in the manner that had become traditional with the major airlines that employed the "hub and spoke" methodology popularized in the 1980s. Southwest's hubs are numerous, deployed strategically throughout its entire network system, and serve as "collectors and redirectors" rather than "consolidators and misdirectors." In other words, though it occurs, it is rare for a passenger to first fly east to a hub in order to catch a westbound flight toward his or her original destination (misdirection). And, it is Southwest's intention to eliminate all such "misdirection" entirely as it fills out its national network system.

Likewise, the other major airlines, including discounters and "traditional" network airlines as well, are attempting to build complete systems that avoid misdirection, and thereby keep planes and passengers flying, rather than waiting to fly. It is simple arithmetic. Shorter times to complete passenger trips mean greater profits to airlines. Delays, slow aircraft turnarounds, cancelled flights all reduce an airline's profitability and, when they translate into loss of customers, can call into question an airline's viability as well.

UAL Corporation's acquisition of USAirways is part of a restructuring that will position the combined airline as a true national network with a system of hubs that stretches from coast to coast. This system will provide the possibility of seamless point-to-point travel for the airline's passengers and reduce the airline's reliance on Chicago's O'Hare airport which now impacts as much as 85 percent of passenger traffic in the United System. By integrating USAirways' principal hubs at Charlotte, Philadelphia and Pittsburgh, as well as secondary hubs at LaGuardia, Reagan National, Boston and Baltimore (BWI) the new airline can successfully "stretch" its operating network to accommodate more passenger traffic while improving service quality and eliminating significant delays.

¹¹ A more sophisticated analysis of hubbing vs. point-to-point airline operations is found in the Allegheny Institute Report entitled: "A Report on the Acquisition of USAirways by UAL Corporation, Parent of United Airlines, December 2000

Pennsylvania Faced With a Great Opportunity

What this represents for Pennsylvania specifically is an opportunity to capture a share of the growth that is forecast in air travel services over the next decade. Let's examine two scenarios. The first assumes that UAL will indeed maintain status quo operations of USAirways as currently configured, and immediately shift a minimum of 10 percent of passenger traffic from Chicago's O'Hare airport through the USAirways system. Following the successful integration of USAirways operations we then assume that the new airline is capable of capturing its share of air traffic growth, and that will translate into an even distribution of activity (growth) throughout the system, including Pennsylvania's two major airports. This first scenario is a moderate growth scenario for Pennsylvania.

A Moderate Growth Scenario

Under the moderate growth scenario, over the first five years following the merger, airline-related employment in Pennsylvania could increase between 15,000 to 25,000 jobs. This would translate into economic growth between \$1.6 billion to \$2.7 billion in annual terms. These numbers are derived simply, by estimating an annual growth rate of between four and five percent in employment and related airline economic outlays.

It is important to note that, absent a successful merger, it is extremely unlikely that the economic growth mentioned above will be achieved by Pennsylvania's airline industry. Instead, as has been explained, it is much more likely that USAirways would suffer a fate similar to TWA, and either be sold in pieces to an array of bidders, or absorbed by another acquirer on terms much less favorable to employees and communities in Pennsylvania. It is also critical to understand that Pennsylvania's opportunity arises from two "accidents." The first is the historical anomaly that is Pittsburgh International Airport (PIT). PIT owes its existence to the agreement reached between the Allegheny County Commissioners and USAir that allowed the new airport to be constructed as virtually a subsidiary of USAir. As events have transpired, extreme overcapacity was the result, but that overcapacity is exactly what has attracted United Airlines to USAirways. It also provides PIT with the luxury of being ideally suited to handle remarkable growth over the next decade as the US airline industry is reconfigured. Also not to be ignored is the fact that Pennsylvania and PIT are in direct competition with other states and airports such as North Carolina and Charlotte's Douglas International Airport, also part of the USAirways system. Other sophisticated airport operators and authorities such as those in Minneapolis and Phoenix have already recognized the opportunity and are rushing to add capacity. These factors only serve to increase the urgency with which Pennsylvania's business, labor and civic leaders need to get behind and support UAL's acquisition of USAirways. The second "accident" is the current configuration of United Airlines--captive to its principal congested hub in Chicago and weakly represented in markets where USAirways is well established. It is the perfect partnership, where weaknesses at one airline are offset by strengths at the other.

Not included in the above scenario is the economic impact of the promised new maintenance facility at Pittsburgh International Airport, with an initial cost of nearly \$200 million that could ultimately reach \$400 million with expansion and generate as many as 2,000 new jobs upon its complete integration into the United system. This facility almost certainly will not be built absent the merger, a failure that would mean the loss of as much as \$100 million in additional wages to the Pittsburgh economy and Pennsylvania.

The 'Second Shoe': Growth in International Activity

Philadelphia specifically is slated to see increased international flight activity as United shifts some of its flights to that airport and fuels the growth of existing USAirways business to Europe. This is another case of a happy accident. United, like other major international competitors, is currently constrained by capacity restrictions at its major international hubs--Dulles International in Washington, DC, and the aforementioned O'Hare in Chicago. Philadelphia represents a major opportunity for United to increase its successful penetration of overseas markets. The topic of increased competition internationally continues to be broached both in Congressional hearings, and in hearings overseas by various foreign regulatory bodies. It is a safe bet that within the next decade markets here and abroad will be increasingly opened to foreign competition. The combined USAirways and United Airlines will most likely be a major beneficiary of the increasingly open overseas markets, and so will Philadelphia and, potentially Pittsburgh. International travel is a "naturally hubbed" enterprise, and, with United's strong presence in the Western United States, it is virtually certain that Pittsburgh and Philadelphia will see dramatically increased utilization as international facilities. Over the five years following consolidation, it is likely that increased international business at the new airline will contribute between 2 to 4 percent annual growth in employment and economic activity above and beyond the domestically produced growth already mentioned.

This translates into between 7,000 to 20,000 potential new jobs, and another \$780 million to perhaps as much as \$2 billion in increased economic activity by the fifth year following the merger. Including the potential growth in international activity provides a second, more optimistic growth scenario post-merger. This second scenario indicates increased economic activity within Pennsylvania of between \$2.5 billion to \$5 billion annually by the end of the fifth year following a successful merger of USAirways and United Airlines. Most importantly to Pennsylvania's citizens, new job creation could reach as high as 9,000 per year over that same period.

Ancillary Benefits of the Consolidation

Another positive of the merger that is somewhat harder to estimate is the ancillary effect it will have on reducing the cost of air travel within the state of Pennsylvania. Since the combined airlines will effectively produce a more cost efficient operation than the old USAirways, it is reasonable to expect that at least a portion of these cost savings will be passed through to the customer. Increasing the likelihood of this scenario is the fact that, post-merger, throughout the old United and USAirways systems, gates and landing slots

will be opened up to new competitors, particularly low-cost airlines such as Southwest Airlines, Air Tran and American Trans Air. The impact of this new competition will most certainly lead to overall price reductions at Pennsylvania's major airports, and spur growth in passenger levels as has occurred elsewhere throughout the US as discounters represented an increased share of air travel providers.

Inevitably, as air travel increases throughout the state, that is, as the perceived size of the market for air travel and related services increases in Pennsylvania, more competitors will be attracted to all markets, including mid-sized airports at Harrisburg and Allentown/Bethlehem/Easton, for example, and costs will continue to decline as supply increases. One need only look at the history of Baltimore-Washington International Airport (BWI) to see a case study of this scenario. Once largely ignored by airlines and travelers alike, BWI now represents one of the fastest-growing and least expensive airports from which to travel in the nation. This dynamic situation occurred, interestingly, in large part due to the competition between Piedmont Airlines (now USAirways) and Southwest Airlines. Increased activity generated by these two airlines led to decreasing costs, and spurred a demand-driven expansion of the airport facilities that is ongoing today. There is no reason to believe that a similar scenario cannot be played out at those Pennsylvania airports with catchment areas from which aggressive airlines can draw a significant new customer base by offering attractive, affordable air travel services.

Summary

A successful merger of United Airlines and USAirways holds terrific potential for the state of Pennsylvania in terms of both increased employment opportunities and economic growth. Numerous analysts have stressed the importance of a thriving air transportation industry to a state interested if not eager to participate in increasingly global markets. Pennsylvania has often stated that it wishes to be a player in the emerging global economies, and it is facing a watershed event in that regard.

If this state's business, labor and civic leaders demonstrate their overwhelming support for the combination of United and USAirways, they can play a vital part in assuring the success of that merger. That, in turn, can help guarantee that the air travel industry in Pennsylvania is itself competitive and thriving, both domestically and internationally. It is also critical to realize that this state's citizens have made considerable investment in air travel infrastructure both in Pittsburgh and in Philadelphia. More than \$3 billion dollars have been invested in capital improvement at the state's two major airports, and it is likely that more billions of dollars will be required over the next decade to keep these facilities competitive. Absent the continued presence of the combined United-USAirways enterprise, certainly the competitive stature if not the viability of both airports, will be severely questioned.

Stated in the most blunt terms possible, success or failure of the proposed merger is the "five billion dollar question." That figure is our best estimate of the annual positive additional economic contribution likely to occur within the state of Pennsylvania

following the successful merger. Should the merger not occur, it is equally likely that the state could lose that much or more in economic benefits.