IATA ECONOMIC BRIEFING

DECEMBER 2017

ECONOMIC IMPACT FROM HIKING PASSENGER FACILITY CHARGES IN US

- As outlined in Table 1 below, increasing Passenger Facility Charges (PFCs) on domestic and international passengers by $4 for the first segment (within the US) of each one way trip would increase the cost of traveling to, from and within the United States by 1.9% for domestic and 0.6% for international travelers.

Impact on cost of travel	Domestic	International
Avg. round-trip airfare (incl. surcharges, airport charges and taxes etc.),USD	424	1,108
Avg. increase in PFC per round-trip, USD*	8	6.2
Impact on travel cost, %	1.9%	0.6%

* Average number of segments: per international round-trip is 3.1 of which 1.5 is in the US

Table 1. Sources: DoT (domestic airfare), A4A (charges and taxes), DDS (int. airfare and surcharges).

- An increase in overall cost of air travel for passengers will – all else remaining constant – result in decreased travel. As outlined in Table 2, we estimate that a 1.9% increase in travel cost would drive a decrease in domestic passenger traffic of around 1.6% annually. We also estimate that a 0.6% increase in travel cost would drive a decrease in international passenger traffic of around 0.5% annually. This is equivalent to 8 million fewer domestic and 1 million fewer international passenger movements each year (on arrival or departure), estimated based on 2016 traffic performance.

Impact on passenger volumes (on arrival or departure)	Domestic	International
Impact on travel cost for passengers, %	1.9%	0.6%
Elasticity of demand**	-0.84	-0.81
Impact on international passenger traffic, %	-1.6%	-0.5%

**Oxford Economics modelling based on Intervistas/IATA study "Air Travel Demand", 2006 Available at www.iata.com/economics

Table 2.

- This decreased demand for air transport will negatively impact the airline and airport operators serving the US market. This impact will also ripple out through the broader economy along the air transport supply chain, through the tourism sector and via decreased wage spending from industry employees on goods and services they consume privately.
- Table 3 summarizes the combined damage to the US economy flowing from the decrease in passenger traffic. The industry's and overall annual contribution to GDP would reduce by USD 5.1 billion and about 52 thousand fewer jobs would be supported[1].

Impact on the U.S. economy	Annual impact
Reduced annual contribution to GDP, USD mn	-5,099
Fewer supported employment, jobs	*-52,189*

Note: Supply chain impacts (manuf./OEMs) assessed based on 24% of that activity being directly supported by US air travel market

Table 3. Source: IATA based on FAA study "The Economic Impact of Civil Aviation on the U.S. Economy" 2016.

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[1] Estimating GDP benefits using input-output tables assumes a 'counterfactual' economy with unemployed resources, so all jobs and GDP reduced by increasing airport charges is not redeployed in other parts of the economy. We consider this a valid assumption - despite the historically low level of unemployment (4.1%) - as per the statements of US Federal Reserve Chair from 26 Sep 2017 highlighting that there may be further slack in the economy https://www.federalreserve.gov/newsevents/speech/yellen20171015a.htm