

## Special Feature New Entry in the Northeastern United States

Airline industry observers have often noted large differences in fare levels between West Coast and East Coast markets. For many years, markets along the West Coast have benefited from a large presence of low-fare carriers. By contrast, passengers along the East Coast have paid a substantial premium for air service, despite population densities conducive to low-fare carrier business strategies. Further examination of new entry of low-fare carriers in the Northeast provides insight into how the introduction of low-fare service changes airline markets and the importance of low-fare competition in traffic growth and, by extension, in economic growth.

Five years ago, US Airways largely dominated the Northeast<sup>1</sup> on smaller network routes. Today, low-fare carriers have moved into the Northeast with both regional nonstop service and connecting service to destinations throughout the country. Notably, Southwest Airlines now serves numerous destinations from Islip, Buffalo, and Albany, NY, as well as Providence, RI and Manchester, NH. JetBlue's entry into JFK airport has benefited passengers traveling to and from New York City as well as passengers traveling to and from other New York cities such as Buffalo, Rochester, and Syracuse. From its Atlanta hub, AirTran serves both Pittsburgh and Buffalo, providing connecting opportunities for passengers traveling in those city-pair markets.

The following table demonstrates the increased presence of low-fare carriers in northeastern markets over the past five years:

	Low-Fare Carrier O&D Market Share		Average Daily Departures
	1996/q2	2001/q2	Low-Fare Carriers, 2001/q2
ALB	2%	23%	WN-10
BOS	4%	3%	F9-2; FL-5; SY-1; TZ-3
BUF	1%	30%	B6-5; FL-3; NJ-1; WN-10
EWR	7%	4%	FL-5; N7-2; NK-6
ISP	33%	65%	WN-21
JFK	13%	30%	B6-35; N7-5; SY-1
LGA	0%	10%	F9-2; FL-10; NJ-3; NK-9; TZ-6
MHT	0%	36%	WN-16
PHL	4%	6%	FL-8; N7-2; TZ-3
PIT	1%	7%	FL-10; NJ-1
PVD	2%	34%	WN-27
ROC	2%	14%	B6-5
SYR	3%	5%	B6-2

Five of the airports examined have less than a 10% low-fare presence. Those five include three network hubs: Newark (Continental Airlines), Philadelphia, and Pittsburgh (both US Airways). Boston's local traffic is split between a number of network carriers, but has attracted limited low-

<sup>1</sup> States examined include Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Low-fare carriers listed include: B6-JetBlue; FL-AirTran; F9-Frontier; NJ-Vanguard; NK-Spirit; N7-National; TZ-American Trans Air; SY-Sun Country; and WN-Southwest.

fare service. US Airways is the largest carrier in the remaining city, Syracuse. Since the time period examined, Sun Country has pulled service to its Northeastern destinations, and AirTran no longer provides service between La Guardia and Pittsburgh.

As a result of improved competitive conditions, fares in the Northeast compared to the rest of the country have dropped. Five years ago, passengers flying into or within the Northeast on short-haul flights paid 57 percent more than passengers in comparable markets nationwide. The fare premium in the Northeast has now dropped to 41 percent.

It should come as no surprise that the cities with the most new entry have shown the most dramatic decrease in average fares. Albany, Buffalo, Islip, Manchester, and Providence have all experienced declines in average fares of more than 20 percent. Passenger levels have taken off in these cities as well. Manchester saw the greatest increase – a quadrupling of passengers from five years before.

	<u>1996/2nd Quarter</u>		<u>2001/2nd Quarter</u>		<u>% Change</u>	
	<u>Passengers</u>	<u>Avg Fare</u>	<u>Passengers</u>	<u>Avg Fare</u>	<u>Passengers</u>	<u>Avg Fare</u>
ALB	410,580	\$ 217	736,990	\$ 166	79%	-24%
BOS	4,762,390	\$ 195	4,874,350	\$ 211	2%	8%
BUF	653,870	\$ 182	1,118,390	\$ 138	71%	-24%
EWR	4,691,210	\$ 192	5,082,110	\$ 230	8%	20%
ISP	239,380	\$ 157	573,040	\$ 124	139%	-21%
JFK	1,805,760	\$ 234	2,493,900	\$ 233	38%	-1%
LGA	4,312,510	\$ 192	5,710,980	\$ 187	32%	-3%
MHT	211,940	\$ 209	853,470	\$ 158	303%	-25%
PHL	2,979,010	\$ 203	3,449,940	\$ 224	16%	10%
PIT	1,521,170	\$ 195	1,741,460	\$ 196	14%	0%
PVD	498,860	\$ 213	1,463,650	\$ 155	193%	-27%
ROC	502,530	\$ 209	571,800	\$ 179	14%	-14%
SYR	405,040	\$ 208	452,510	\$ 200	12%	-4%

An examination of intra-Northeast airport pairs illustrates the magnitude of fare premiums in the region. Passengers flying between two points in the Northeast five years ago paid 126% more on average than short-haul counterparts nationwide. In the intervening years, the fare premium in those markets has dropped 16 percentage points to 110%. In contrast, passengers flying in dense, short-haul intra-California markets paid a discount of 26% when compared to counterparts nationwide, due to vigorous competition between Southwest and Shuttle by United. It should be noted that since the time period covered in this report, United has decided to discontinue the Shuttle by United brand. Some services operated by Shuttle by United will be cancelled, others will be replaced by either mainline or United Express flights. We intend to explore the consequences of this change in a future Special Feature.

A more pronounced drop in fare premiums might have been expected from the introduction of new low-fare service within the Northeast. However, expansion of low-fare service on the East Coast is just beginning. Furthermore, fare premiums represent a weighted calculation. Since the largest cities in the Northeast lack low-fare competition, continued high fares in those cities

outweigh fare reductions in smaller cities that have enjoyed the benefits of new entry. In fact, a handful of the largest markets without significant low-fare competition experienced fare increases large enough to mitigate the positive impact of new entry on regional averages. For example, the Philadelphia-Pittsburgh average fare increased 66%, from \$137 each way to \$226; Boston-Philadelphia's average fare increased 51%, from \$141 to \$213; and the Pittsburgh-LaGuardia average fare increased 46%, from \$97 to \$142. The intra-Northeast airport pairs with the highest fares involve the cities with the least low-fare presence: Philadelphia, Pittsburgh, Boston, and Newark.

City-Pair		Passengers	Fare
PHL	PVD	18,540	\$ 295
BOS	PIT	55,920	\$ 239
PHL	PIT	69,700	\$ 226
EWR	PIT	47,530	\$ 219
BOS	PHL	145,380	\$ 213
BOS	EWR	135,410	\$ 199

This analysis of the introduction of low-fare service in the Northeast shows that there are many markets with pent-up demand for such service in the region. It also demonstrates how much traffic growth is stimulated by the addition of low-fare services. There are clearly many growth opportunities for carriers in the region. As airlines seize these opportunities, West Coast and East Coast fare differentials may be significantly reduced over time. We will examine other developments in this regard in further Special Features.