

Annex B



For richer and poorer?

Who really benefits from cheap flights?

Stop Stansted Expansion
August 2011
www.stopstanstedexpansion.com



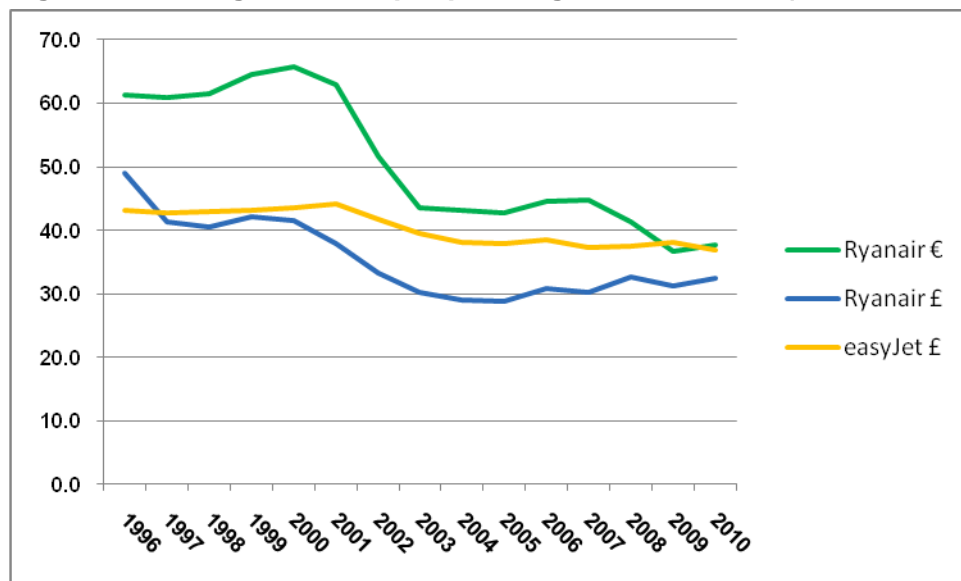
1. Introduction

1.1 One of the oft-claimed benefits of cheap flights is that they have ‘democratised’ air travel by allowing the poor to fly, and to fly more often. This brief paper examines that claim by reviewing a range of evidence over the period from the mid-1990s – the start of the cheap flights revolution – to the present day.

1.2 Although Ryanair claims that it began to adopt the Southwest Airlines low cost carrier (‘LCC’) model in the early 1990s, it was – at least symbolically – the first easyJet flight on 12th November 1995 which marked the beginning of the cheap flights revolution in the UK, and indeed, across Europe. By a stroke of good fortune – from the point of view of the LCCs – it was around that same time that another revolution got underway, namely, the development of home internet use. Southwest Airlines may have given birth to the LCC model but it was the internet which allowed the model to really take off.

1.3 Figure 1 below shows that not only did the LCCs enter the market in the mid-1990s with low cost fares but also that they have continued to drive down the cost of flying, in real terms. This is despite the oil price being far higher today than in the mid-1990s and the average sector distance having increased for both Ryanair and easyJet. It should also be noted that using the measure of ‘average revenue per passenger’ (as below) removes potential distortions that could arise by simply tracking fares, i.e. as a result of the increasing tendency for the LCCs to levy ancillary charges. Air passenger duty (‘APD’) is not however included.

Figure 1: Average revenue per passenger in real terms (CPI deflator¹)



Source: Ryanair & easyJet annual accounts.

2. Who's flying – then and now?

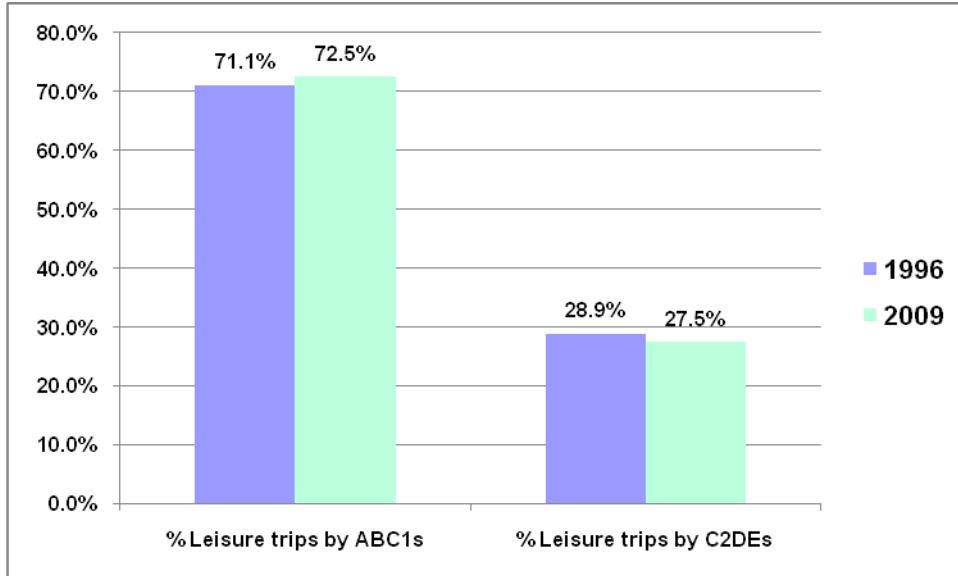
2.1 The CAA conducts surveys of passengers travelling through the UK's airports and gathers information on a range of air passenger characteristics such as journey purpose, country of residence, origins/destinations, household income and socio-economic group. On average about eight UK airports are surveyed by the CAA every year and the UK's five largest airports, namely, Heathrow, Gatwick, Stansted, Manchester and Luton have been surveyed every year since 2000. They were also surveyed by the CAA in 1996 which enables a baseline to be established at the start of the LCC revolution. These five airports accounted for 75% of air passengers at UK airports in 1996 and 67% in 2009.

¹ In 1996 £s after adjusting for inflation as measured by the Consumer Price Index.

Socio-economic group

2.2 In 1996 the UK population divided almost equally between the more affluent ABC1s and the less affluent C2DEs. In terms of leisure air travel, however, 71.1% of UK air passengers trips were by ABC1s in 1996 and this had increased to 72.5% by 2009.

Figure 2: UK leisure passenger trips by socio-economic group

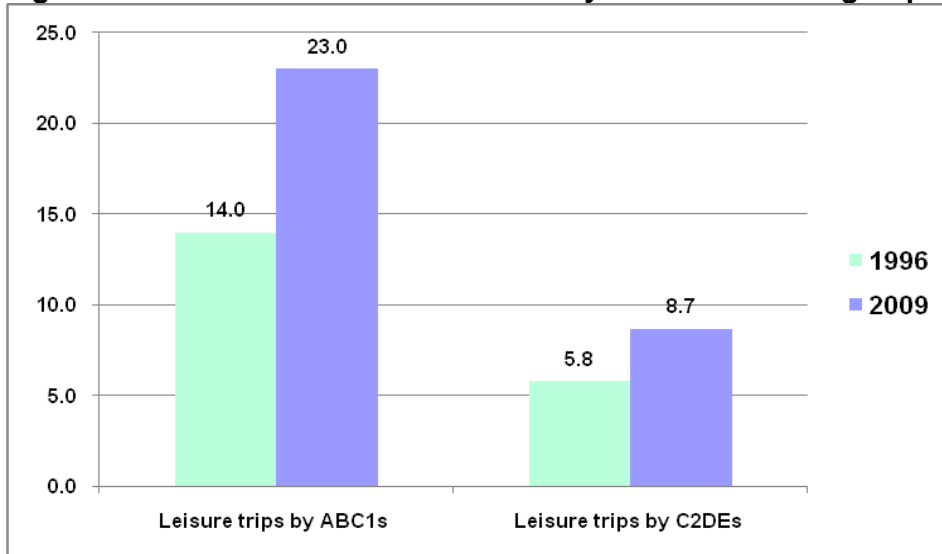


Source: CAA annual passenger surveys 1996 & 2009.

2.3 A degree of caution must however be applied before drawing conclusions from the fact that ABC1s accounted for a larger share of leisure travel in 2009 compared to 1996. Importantly, the UK population as a whole became more affluent over this period with ABC1s accounting for 55.7% of the population in 2009 compared to 49.1% in 1996.²

2.4 It is also important to note that the total number of leisure trips by UK residents at the UK's five largest airports increased by 58% between 1996 and 2009 from 20.1m to 31.7m. Within these totals, the number of leisure trips by ABC1s increased by 61% (from 14.3m to 23.0m) whereas the number taken by C2DEs increased by 50% (from 5.8m to 8.7m).

Figure 3: Growth in UK leisure air travel by socio-economic group

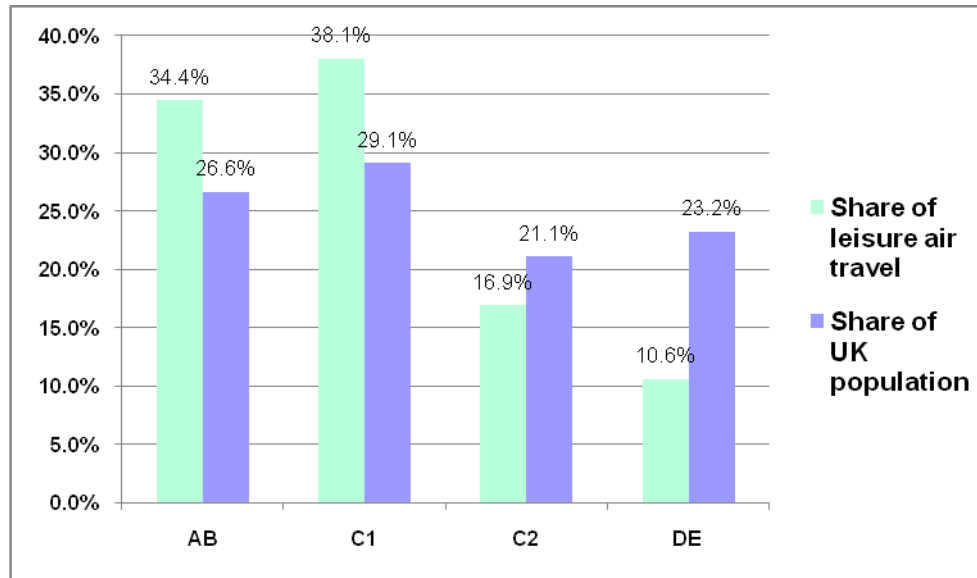


Source: CAA annual passenger surveys 1996 & 2009.

² Based on NRS classifications. Data provided by Ipsos MORI.

2.5 Therefore, although it can reasonably be argued that cheap flights have allowed more C2DEs to fly, the main beneficiaries have undoubtedly been the more affluent ABC1s. And the extent to which the more affluent socio-economic groups continue to dominate leisure air travel can clearly be seen in Figure 4 below.

Figure 4: Leisure air trips abroad by socio-economic group 2009



Source: CAA and Ipsos MORI data

Household income

2.6 Over the period 1996 -2009, UK average household income increased from £20,701 to £35,614 – an increase of 72%.³ Over the same period the average household income of UK leisure passengers at the UK’s five largest airports increased from £34,441 to £52,199 – an increase of 52%.⁴

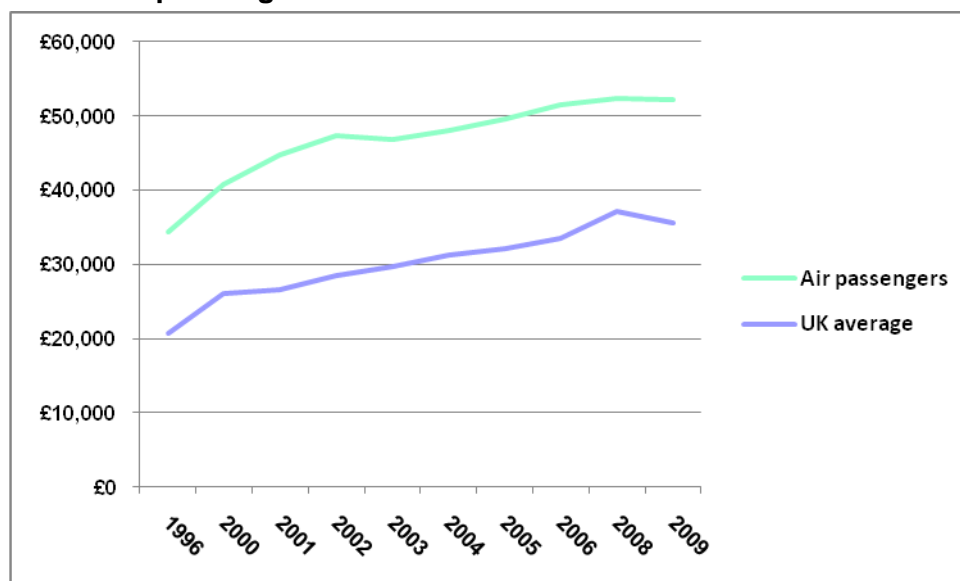
2.7 On the face of it this may seem to indicate some democratisation of leisure air travel since 1996 but there is a major caveat. The four London airports in our sample accounted for 64% of total UK air travel in 1996 but only 58% in 2009 and household income in the London area is higher than the UK average. Thus the fact that the average household income of air passengers increased by less than average UK household income may simply be due to the reduced London share in 2009.

2.8 However, even without adjusting the figures for this inconsistency in the 1996 and 2009 samples, it is clear by looking at Figure 5 below that there has been no major shift towards democratisation. The gap between the two lines has reduced in percentage terms but has increased in absolute terms.

³ ‘Family Spending: A Report on the Living Costs and Food Survey’, annual reports 1996-2010, ONS. Note that the household income figures are not adjusted for inflation.

⁴ CAA annual passenger surveys 1996-2009. Again, the household income figures are not adjusted for inflation.

Figure 5: UK household income vs average household income for leisure air passengers



Source: CAA annual passenger surveys 1996-2009 and 'Family Spending: A Report on the Living Costs and Food Survey', annual reports 1996-2010, ONS.

2.9 Closer examination of the 2009 CAA passenger survey shows that individuals with household income over £115,000 or with an overseas property, take an average of 3.4 leisure trips per year and those who have income of over £115,000 a year and an overseas property take an average of over five leisure trips per year.

2.10 A 2005 CAA study⁵, found that 15% of all passengers travelling from Stansted owned property abroad, prompting the CAA to conclude:

'Given that only 1% of households own property abroad this suggests that those who do have a very high propensity to fly.'

and to comment:

'One carrier noted that the number of UK citizens owning properties abroad had increased substantially in the past few years. As another airline pointed out, property ownership abroad boosts demand for air travel: in buying abroad, people often incur substantial fixed costs, and therefore want to use these properties as much as possible, thereby stimulating demand.'

2.11 The above may help explain why the average household income of UK leisure passengers travelling from Stansted in 2009 was £47,452 and a quarter of them had household income of £80,500 or more.⁶ This is despite the fact that Stansted is dominated by LCCs: Ryanair alone accounted for 68.8% of Stansted's passengers in 2009 and easyJet accounted for 19.2%.⁷

Department for Transport ('DfT') survey data

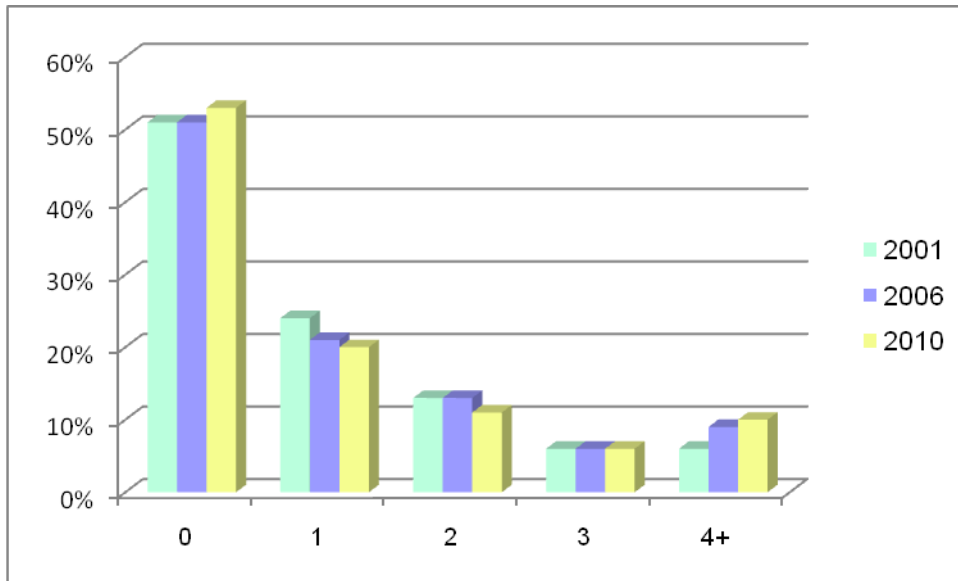
2.12 Since 2001 the DfT has also been collecting data on UK air travellers, and public attitudes towards air travel, by commissioning a module of questions in an Office of National Statistics ('ONS') Omnibus Survey every two- three years. DfT publishes the results in a report entitled 'Public experiences of and attitudes towards air travel' and the data in Figure 6 below are taken from these DfT reports.

⁵'Demand for Outbound Leisure Air Travel and its Key Drivers', CAA, Dec 2005.

⁶ CAA annual passenger survey report 2009.

⁷ http://www.baa.com/assets/Internet/BAA%20Airports/Downloads/Static%20files/Top_Airlines_2009.pdf.

Figure 6: Frequency of air travel in previous 12 months



Source: 'Public experiences of and attitudes towards air travel', 2001, 2006 & 2010, DfT.

2.13 The above chart shows the distribution of (return) flights taken by UK residents for 2001, 2006 and 2010. It can be seen that the distribution has not changed greatly and, to the extent that it has changed, it has become more polarised with a higher proportion of frequent flyers (10% of people taking four or more flights per year in 2010 compared with 6% in 2001) and a higher proportion of non-flyers (53% in 2010 compared with 51% in 2001).

2.14 The fact that more than half the population do not fly at all – and that this proportion is increasing – is also evidence of the lack of democratisation of air travel because the non-flyers are predominantly the less affluent. Indeed The DfT survey data for 2010 shows that 67% of those with annual gross income of under £8,320 had not flown during the previous 12 months. Similar results emerge from the British Social Attitudes Survey which found that only a quarter of households in the lowest income quartile had flown in the previous year compared to 85% of households in the highest income quartile.⁸

2.15 Thus the evidence from the 'Public experiences of and attitudes towards air travel' surveys indicates that there has been no democratisation of air travel over the period. Indeed, the above survey data indicates that frequent flyers have become more profligate whilst others have been tightening their belts.

Other evidence

2.16 Referring to the rapid growth in air travel, the London Mayor's 2007 Climate Change Action Plan had this to say:

*'This historic and projected growth is driven largely by dramatic growth in leisure trips, which have accounted for over 85 per cent of air travel growth in the UK. The majority of these trips are accounted for by a small percentage of the population, **with 10 per cent of people (mostly better off) accounting for fully half of all flights.**'⁹ [our emphasis]*

The source of the above statistic (in bold) is not provided but it is consistent with the evidence from the CAA and DfT surveys and the British Social Attitudes Survey.

⁸ Cited in 'Air Transport Statistics', House of Commons Library Paper, July 2011.

⁹ 'Action Today to Protect Tomorrow: The Mayor's Climate Change Action Plan', Greater London Authority, Feb 2007.

3. Conclusions

3.1 The various sources of evidence on the distribution of flights across UK socio-economic groups and income brackets are remarkably consistent. Simply expressed, air travel continues to be dominated by the affluent. And whilst cheap flights have enabled more people overall to fly – across all socio-economic groups and income brackets – it is clear that the main effect has been to enable – indeed, encourage – the affluent to fly more often. Cheap flights also appear to have encouraged a growth in the ownership of second homes abroad.

3.2 The fact that the affluent have been the main beneficiaries of cheap flights should perhaps not be surprising because the cost of air fares cannot be considered in isolation. The 2005 CAA study referred to earlier found that UK residents on leisure trips to Europe in 1998 spent an average of about £560 of which £220 was spent on air fares. By 2004, whilst the total cost of the trip was almost the same, at £554, the component costs had changed significantly. The cost of the air fare had fallen by 32% to £150 whilst spending on other elements of the trip increased by 18% to £404.¹⁰ Thus the cost of the air fare element of the trip decreased from 40% to 27% between 1998 and 2004.

3.3 All the indications are that this trend will have continued to the present day – noting, for example, the data shown in Figure 1 and the fact that the euro has appreciated 22% against £Sterling since 2004 – and so the air fare element is now almost certainly less than a quarter of the total cost of the average leisure trip to Europe.

3.4 The key inference that can be drawn from all of the above is that cheap flights alone will never be enough to democratise air travel and that is why, some 15 years after the start of the cheap flights revolution, the socio-economic and income characteristics of UK leisure travellers has barely changed.

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¹⁰ 'Demand for Outbound Leisure Air Travel and its Key Drivers', CAA, Dec 2005. Note that the costs and air fares figures are not adjusted for inflation.