

ECONOMICS BRIEFING

2nd May 2006

THE IMPACT OF THE 9/11 TERRORIST ATTACKS

- In the past year **several peer-reviewed academic studies** have been published that provide well-founded assessments of the impact of the September 11th terrorist attacks on air travel demand. Not surprisingly they find large transitory reductions in travel. Of more concern is their conclusion that there has been a significant **permanent reduction in the volume of air travel as a result of the terrorist attacks (and subsequent increased security measures)**. If true, this reduction will result in a permanent loss of consumer welfare. There will also be a loss to airline revenues, accentuated by evidence that the level of air fares has also been permanently reduced.

US DOMESTIC PASSENGER TRAVEL

Impact	Travel demand RPKs	Air fares yields	Airline revenues \$ billion p.a.
Temporary	-31.3%	-7.3%	-9.1
Permanent	-7.4%	-10.1%	-10.7

Source: Ito and Lee (2005) Assessing the impact of the September 11 terrorist attacks on US airline demand, **Journal of Economics and Business 57 (2005) 75-95**. Airline revenues are an estimate by IATA based on 2002 and 2003 ATA data.

- There has been a **surge in travel demand over the past two years** and, in some markets, air fares have risen. However, this has been the **result of the cyclical strength of economic growth** which has been the strongest in the past two years since the 1970s, in spite of high oil prices. The conclusion of the studies reported here is that there has been a permanent reduction in air travel from the level it would have reached, notwithstanding the current cyclical recovery;
- In addition to the temporary but complete shut-down of the US commercial aviation system, following the terrorist attacks of September 11, 2001, many travellers reduced or avoided air travel in the face of a newly-perceived risk associated with flying. In addition many businesses put temporary freezes on all but essential air travel. The initial panic driven fear of flying has largely dissipated but **travelling by air has become more time-consuming and hassled at airports**, as a result of the stringent new security requirements put in place. This has raised the cost of flying in a very real sense for passengers;
- This study found that a large part of the movement in travel demand and air fares could be explained by cyclical factors such as economic growth, the price of jet fuel, the impact of low-cost airlines and a number of other events such as the Iraq War and SARS. However, a significant proportion of the **reduction in both travel demand and air fares after 9/11 could not be explained by these factors**;
- In the 4-5 months following 9/11 there was a large temporary impact which reduced travel demand by over 31%. But once this transitory impact had dissipated travel demand (US domestic RPMs) remained 7.4% lower than the level expected given factors such as economic growth and air fares. The study concludes that factors such as the increased 'hassle' of travel due to new security requirements has **permanently reduced the level of travel demand by over 7%**;
- Air fares have also been forced lower. There is a structural downtrend in air fares due to liberalisation and the impact of increasing low-cost competition. But over and above these factors the study finds that **air fares (domestic yields) have been permanent reduced 10%** below where they would otherwise have been as a result of the 9/11 terrorist attacks;
- Using this research to estimate what lower travel demand and air fares implies for **airlines revenues on US domestic markets** suggests they have been **permanently reduced by over \$10 billion a year**;

- Another study has been published recently (Blunk et al (2006) Evaluating the long-run impacts of the 9/11 terrorist attacks on US domestic airline travel, **Applied Economics**, 2006, 38, 363-370) which finds an even larger reduction in the volume of air travel of 12.8-16%.

INTERNATIONAL PASSENGER TRAVEL

- A recent published study (Ito and Lee (2005) Comparing the Impact of the September 11th Terrorist Attacks on International Airline Demand, **Int. J. of the Economics of Business**, Vol. 12, No. 2, July 2005, pp225-249) also finds significant and long-lasting reductions to international passenger traffic on markets connected to and outside the US. Further research though is necessary to throw more light on the impact of this event internationally;
- It is clear that 9/11 led to a large transitory reduction in US passenger travel for the 4-5 months following the terrorist attack. The findings of a smaller but long-lasting adverse impact on travel may be associated with an increase in the perceived risk of air travel, but are also **likely to be a measure of the increased time and inconvenience cost or hassle** due to the subsequent introduction of more rigorous passenger screening and security measures.

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