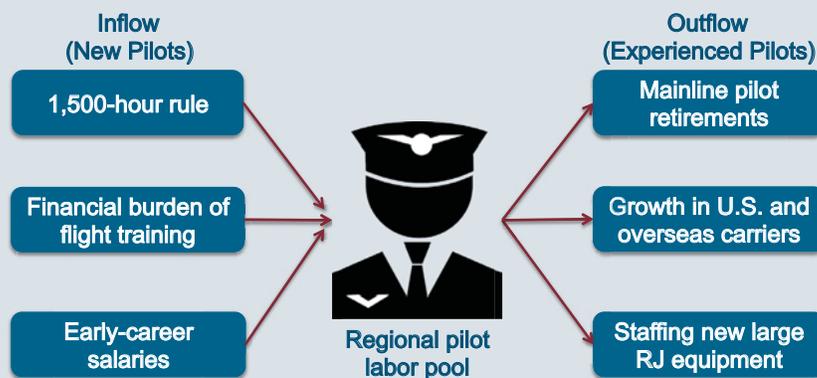


THE PILOT SUPPLY ISSUE:

# THIS TIME IS DIFFERENT

BY WILLIAM SWELBAR



Since deregulation of the airline industry, small community air service has faced a virtuous circle of challenges and opportunities. In particular, the 50-seat jet, with its ability to fly to hubs and points outside the limitations of turboprop aircraft, represented perhaps the greatest opportunity for small communities to grow their access to the air transportation network.

Now it is that very aircraft that poses among the greatest challenges to small community air service in recent history. Not only are the 50-seat jets being phased out for any number of economic and financial reasons, there also looms a shortage of regional pilots to fly them.

Today, over 250 U.S. airports rely exclusively on 50-seat and fewer aircraft for their scheduled domestic air service. And 150+ U.S. airports rely exclusively on aircraft with 19 seats and fewer for their access to the U.S. domestic air service grid. Just how many of these airport markets can support the U.S. airline industry trend toward larger and larger aircraft? This structural issue has been presenting itself for the past few years. While the deregulated industry largely was built on jet fuel costs that averaged 69 cents per gallon, jet fuel costs have averaged \$2.10 over the last decade. This structural factor input increase alone explains the trend toward larger aircraft. Yet, a pilot shortage is also playing a role.

## SHORTAGE OF PILOTS

This is not the first time in deregulated history that we have heard that a pilot shortage is looming. So what makes this time different? In the past, a slowdown in the macro-economy bailed out the industry as airlines cut capacity in response to decreasing demand. Depending on whom you talk to, we are either in the middle or close to the end of the business cycle that began in the fourth quarter of 2009. Nothing suggests that a macro-economic bailout will present itself this time.

What this shortage portends is an acceleration of small aircraft being parked in order to fly the more economic larger aircraft being deployed by each of the three U.S. network carriers.

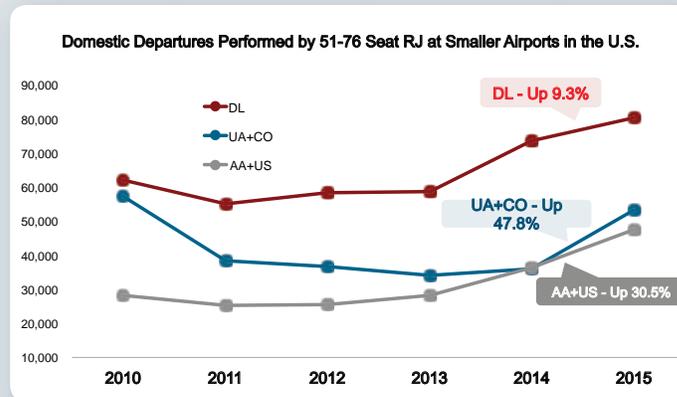
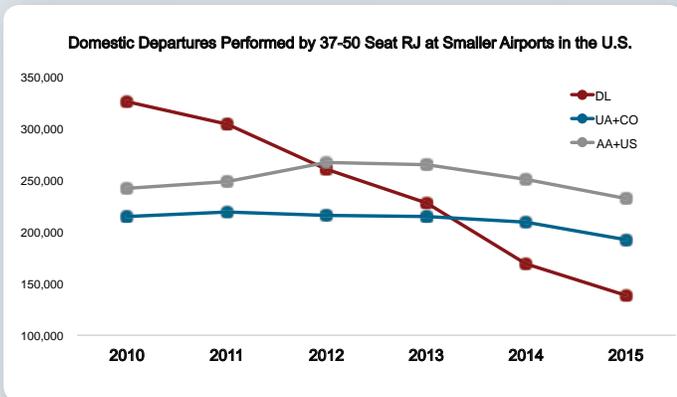
The pool of available regional jet pilots is affected by both demand-side and supply-side pressures. On the demand side, the three biggest catalysts are retirements of pilots at the large mainline airlines, the growth of carriers overseas who are recruiting U.S. pilots, and the fact that new and larger regional aircraft need to be staffed as they are delivered. The trip cost of a 50-seat jet is comparable to the same cost of a 76-seat jet, yet the larger platform derives 50 percent more revenue. This suggests that the upgauging trend we have seen in the past five years will continue.

On the supply side, the replenishment of the regional pilot labor pool is being hindered by the new 1,500-hour rule and by the new flight time/duty time rules that were enacted; the financial burden of flight training, especially now that the number of hours required to fly the right seat of a regional aircraft has increased six-fold; and the fact that the U.S. regional pilot career historically has paid and continues to pay low early-career salaries despite regional airline attempts to raise them either through increasing pay rates or by paying bonuses to increase a decimated pilot pool.

## SOME COMMUNITIES LEFT BEHIND

Between 2015 and 2022, 14,200 mainline pilots will reach the mandatory retirement age of 65 at American, Delta, United and Southwest. Additionally, the industry has 225 70-seat and larger regional aircraft on order to be delivered by 2020. While on its face that sounds like good news, the history over the past few years has suggested that the regional industry is being forced to park nearly two smaller aircraft for each larger aircraft delivered to staff the new equipment. Based on the number of larger regional jets scheduled to be delivered in the next five years, the industry would need to park nearly 50 percent of remaining small jet aircraft in service.

Today there are 1,877 regional aircraft being flown for mainline partners. This compares to 2,415 in 2007 — the year before the fuel spike. In 2007, there were 615 turboprop aircraft being flown for the mainline carriers; today, there are 162. In 2007 there were 1,354 50-seat and smaller jet aircraft being flown for the mainline carriers; today, there are just 838.



While the number of smaller regional aircraft has declined, the number of large regional aircraft being flown nearly doubled, from 446 in 2007 to 877 today. In fact, there are actually more large regional jets being flown today than small regional jets. The trend is clear — smaller aircraft are being parked to pool pilots to fly the more economic larger regional jets.

Delta is the network carrier most aggressively cutting domestic departures performed by 37-50 seat jet aircraft at the smallest U.S. airports. Since 2010, Delta has cut nearly 200,000 annual departures. American and United have been slower to cut, but each accelerated the reduction in small jet departures in 2015. In fact, the Big 3 U.S. network carriers reduced 37-50 seat aircraft departures by an additional 18 percent in 2015 versus what was flown in 2014.

The clear and pronounced trend in reducing small regional jet departures at small U.S. airports has been complemented by an increase in 51-76 seat aircraft. Delta, by far, is the most aggressive among the Big 3 network carriers in its use of larger regional jets in smaller U.S. markets, followed by United and American. The use of the larger aircraft has masked the reduction in departures, as seats have largely been replaced. This trend cannot go on forever. That is, and should be, the fear for the smaller U.S. airport markets, as 2015 showed the largest year-over-year decline in city pairs flown by regional aircraft since 2004.

## WINNERS AND LOSERS

Simply put, not all airports can support the larger regional equipment being deployed today. Large airports will feel only an indirect effect; virtually all large hub, medium hub and small hub airports have 70-seat plus service today. The fear is what happens to domestic air service in the 296 non-hub and Essential Air Service (EAS) airports in the contiguous 48 states. Can they support and retain what they have today? In some cases, the answer is most likely yes. Yet many of the smallest airports in the U.S. do not have the traffic to support larger regional jet service.

Today, only 97 of the 296 non-hub and EAS airports in the contiguous 48 states receive daily service from at least one carrier using a large regional jet aircraft.

However, only 22 of these airports have O&D traffic per capita below the average of their peers — this means that 187 small markets likely do not have the population or traffic base to support the trend toward larger aircraft. All signals point to a smaller network tomorrow than what is being flown today. The average airport market that can support larger regional aircraft has at least 500 passengers per day each way.

## CONCLUSIONS

As InterVISTAS has followed this issue, we said in March that 2015 would be the first year in which it will be difficult for the industry to replace seats at the same rate it is reducing departures. That prediction is playing out. It was confirmed on July 27, 2015, when Republic Airways informed the stock market that it was in discussions with American, Delta and United to possibly reduce flying the rest of the year and into 2016. Republic cited that it is suffering from a dearth of pilots “after the FAA boosted the required flight experience for first officers by six fold to 1,500 hours and set new limits on duty times.”

Some say that it is a pay issue. That is partially true. Some say that it is the working conditions at the regional level. And that is partially true. Some say that it is the 1,500-hour rule. And that is partially true as well. Two things are total truisms: 1) labor has to change the way they compensate pilots and without leveraging regional pilots, so that mainline pilots can make more; and 2) airports are the losers in this battle.

Many say that this issue is an airline issue and not an airport issue. The learned will say that it is the airports that have the most to lose — access to the air transportation grid. Airlines will find a way to fly a smaller network. Lost service will only mean that the highway will be the first access point to the air transportation where regional service for many is today.

The issue is real, and it will prove severe for many. 

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