

The economic impact of airport expansion in the south-east

Briefing | Alex Chapman | January 2025

Air travel occupies an important place in our economy, but further expansion will not deliver the growth the government wants

Air transport has an important footprint in our economy, supporting thousands of jobs across its supply chains. At the same time, it plays a key role facilitating valuable tourism, trade, migration, study and research, family connections and work opportunities. But recognising the current contribution of air transport to the UK is not the same as justifying further growth in air traffic volumes. The UK is one of the best-connected countries in the world, and London regularly tops lists of the best-connected cities in the world. Yet, as with most economic relationships, at some point the UK will experience diminishing returns and addition of new airport capacity will no longer deliver the economic benefits it once did. There is very strong evidence that we have already reached this point.

Academic research, including a report commissioned by the Department for Transport (DfT),¹ identifies two key predeterminants of growth (or as termed in the literature “wider economic impacts”):

1. The generation of net additional air travellers for business purposes
2. The generation of net positive tourism to a country or region (i.e. an increase in tourism that more than compensates for any increase in outbound tourism)

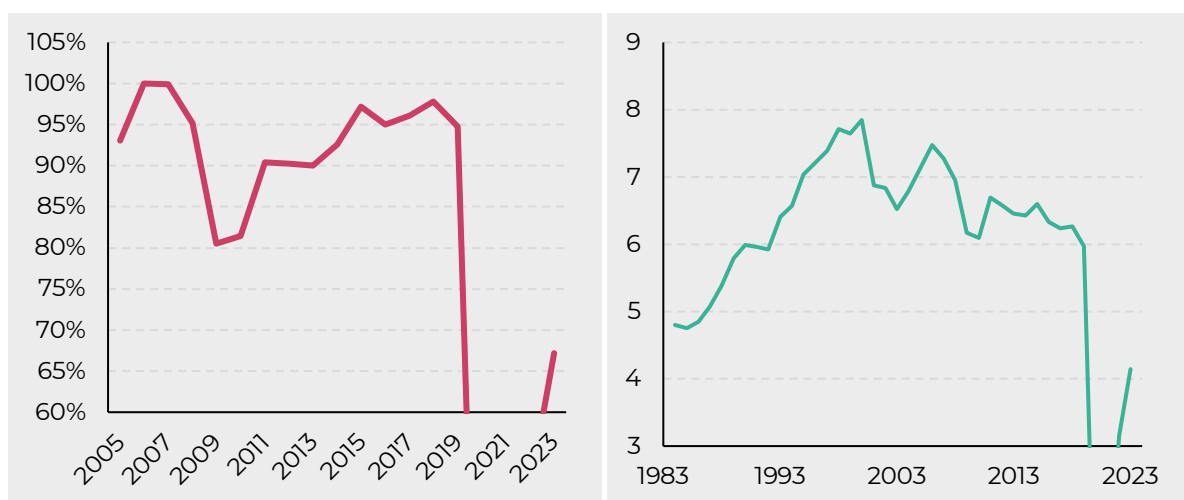
Further expansion simply fails to meet these tests. In addition, experts highlight the importance of considering the impact on flows of spending at the macroeconomic level and their impact on economic stability and regional inequality. In this domain the UK also presents unique vulnerabilities linked to its significant current account deficit and large travel spending deficit.

¹ Peak Economics (2018) Wider Economic Impacts of Regional Air Connectivity. Report to the Department for Transport

Business use of air travel has collapsed

Business use of air travel peaked in 2006. Despite significant growth in overall passenger numbers in the intervening period, numbers have never returned (Figure 1 – left). This trend has accelerated since the pandemic, with business travellers declining by 3.9 million (29%) between 2019 and 2023, despite real GDP making a full recovery. Business spending on international air travel also fell by £2.9 billion (22%) over the same period, as part of a wider trend of “decoupling” of corporate air travel and economic growth. The number of corporate air trips taken per million pounds of real GDP has halved since the early 2000s. (Figure 1 – right).

Figure 1: Business-purposes air trips relative to 2006 (left) and business-purposes air trips per million pounds of GDP, chained volume measure, since 1983 (right)



Source: NEF analysis of ONS Travelpac and ONS National Economic Accounts

While levers are available to government to enhance international business connectivity (such as through slot allocation and tax incentives), air transport capacity growth is not a pre-condition to achieving these improvements. Indeed it is important to note that the DfT’s own models suggest that current and future airport capacity constraints do not materially affect business passenger numbers.² This is because business passengers are willing and able to pay far more for air travel than leisure passengers (they are far less “elastic”)³ and therefore airlines are strongly incentivised to service their needs ahead of leisure passengers when confronted by any capacity constraints.

² p.99, DfT (2017) UK Aviation Forecasts. Department for Transport.

³ p. 16, DfT (2024) DfT Aviation Modelling Suite. Department for Transport.

Tourism spending flows are dampening economic growth

At the national level the UK operates a tourism spending deficit. Significantly more flows out than comes in. In 2023, UK residents spent £41bn more overseas than foreign residents spent in the UK.⁴ Expansion of airports in the south-east will increase this deficit. While economists vary in their level of concern regarding the UK's wider current account deficit, the regional and equity dimensions are not given sufficient attention. London operated a travel spending surplus in 2023 (£1.3bn), while the rest of the UK was in a significant deficit (-£43bn). While some overseas spending then returns to the UK through foreign direct investment (FDI), it mostly heads to London. The travel and tourism spending dynamic ultimately funnels cash from the UK's wider regions to London.

Government interventions such as airport expansion, and the generous low-tax environment enjoyed by air travel, reduce the price of air travel and encourage UK households to spend their disposable income overseas. This is not inevitable: between 25% and 50% of travellers cite the cost of their trip as a key determinant in their choice of whether to holiday domestically or travel abroad.⁵ As the economics have increasingly favoured overseas travel, households are spending a larger and larger share of their disposable income on overseas holidays (Figure 2). It is vital that decision makers consider the wider implications of this trend. In a stagnant economy, showing no real-terms change in overall household expenditure, growth in the overseas travel domain can only come at the expense of other domestic sectors. The sectors which lose out, such as retail and accommodation services in the UK's wider regions, support significantly more jobs in the UK on a per-pound of spending basis.

The biggest loser is the UK domestic tourism industry. Domestic tourism is biased towards the UK's wider regions and lower income areas.⁶ Pre-pandemic domestic tourism was stagnant, and declining as a share of the economy.⁷ Following a brief boost during the pandemic, the sector has returned to decline, falling 11% in real terms in the first half of 2024.⁸ These trends will only worsen with airport expansion and the travel spending deficit will continue to expand.

Stepping back, the UK's current account deficit leaves us, as Mark Carney put it, "reliant on the kindness of strangers".⁹ The deficit requires that foreign companies and residents purchase UK assets to balance the books and leaves the UK highly vulnerable to loss of confidence by foreign investors and currency shocks.¹⁰

⁴ ONS (2024) Travel Trends: 2023. Office for National Statistics

⁵ VisitBritain (2025) Domestic Sentiment Tracker.

⁶ Cominetti, N. (2021) Football went to Rome, holidays came home. Resolution Foundation.

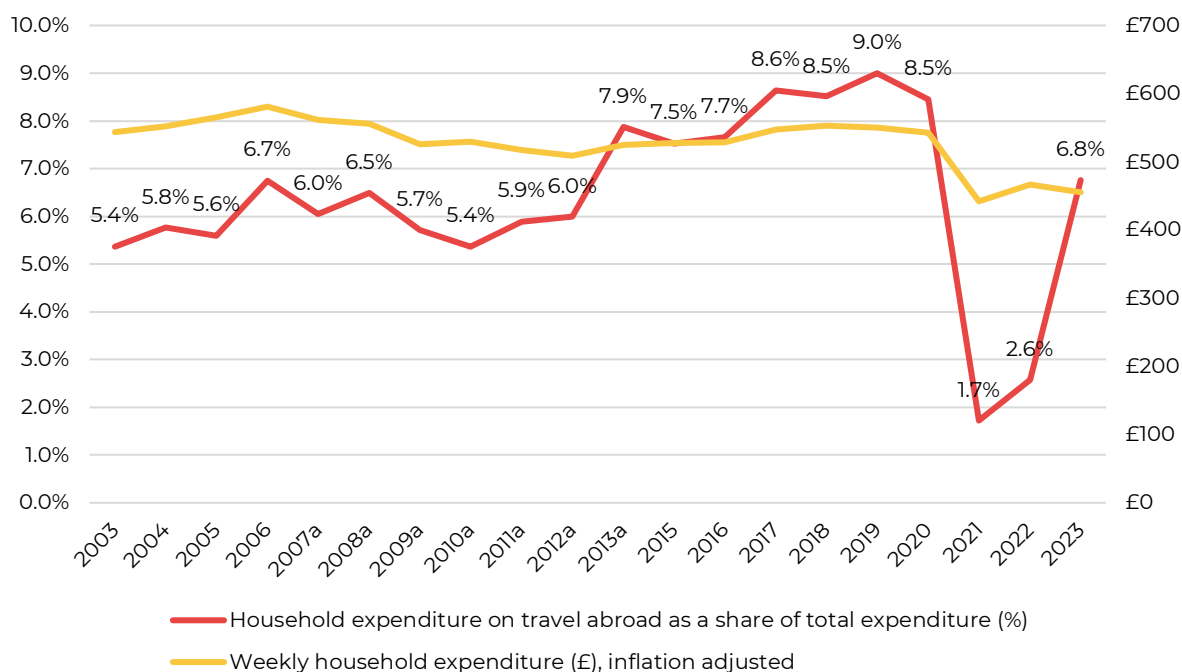
⁷ Chapman, A. (2023) Losing Altitude: The Economics of Air Transport in Great Britain. New Economics Foundation.

⁸ VisitBritain (2025) Great Britain Tourism Survey, Domestic Overnight Trips.

⁹ Mark Carney, Mansion House speech, 20th June 2017

¹⁰ White, S. (2022) Dismal Deficit Means UK Needs Foreign Investors More Than Ever. Bloomberg, 30th June 2022

Figure 2: Weekly household expenditure (right axis), inflation adjusted, and the share of household expenditure spent on travel abroad (left axis) between FYE 2003 and FYE 2023



Source: NEF analysis of the ONS Living Costs and Food Survey

Jobs and GDP impacts across the UK

Airport expansion in the south-east is often argued for on the basis of significant job creation directly in air transport services and airports, and in their supply chains. The air transport sector is actually a very poor job creator. The Office for National Statistics (ONS) ranks “Air Transport Services” near the bottom (90th out of 104 sub-sectors) for the level of employee compensation per pound of turnover.

NEF analysis in 2023 showed that increasing air capacity has been generating fewer and fewer jobs over time, and that real-terms wages in air transport have been falling faster than any other sector of the UK economy. The value generated by recent growth in air passengers has primarily accrued in the form of airline and airport profits (outside of the pandemic period these businesses are typically highly profitable) which are then passed on as dividends to owners.

While Luton airport is owned by Luton Council, Heathrow and Gatwick are currently owned by foreign-domiciled companies and private equity firms as well as the state investment funds of nations such as China, Qatar, and Saudi Arabia.

An aspect which is less discussed in relation to airport expansion job creation is that the majority of the jobs that are created locally are displaced from other regions and sectors. NEF analysis published in 2020 used Freedom of Information requests to reveal that DfT modelling suggests the proposed expansion of Heathrow Airport could see up to 27,000 jobs and £43bn in GDP (net

present value) displaced from the UK's wider regions to London and the South East.¹¹ The proposals further destabilise the UK's regional economies.

Displacement will also take place between places and sectors locally. Much of the job creation in and around the airport is in other sectors such as retail, hospitality and accommodation. Jobs in these sectors are highly likely to be displaced from elsewhere and not newly created, i.e. a coffee or box of chocolates bought at the airport would likely be bought elsewhere if not at Heathrow airport.

Timing and impact on government's missions

The three proposed expansions are not likely to begin operation until the 2030s at the earliest. Their impact within the current parliament will predominantly arise in any related construction works. The UK has limited construction capacity for major infrastructure projects, particularly of the complexity of the proposed Heathrow scheme, and it is highly likely that the scheme would divert capacity away from other schemes with shorter-term benefits and less climate impact.

Once the schemes are in operation, they will produce sufficient greenhouse gas emissions to cancel out the savings made by Labour's Clean Power Plan (i.e. a net zero grid by 2030) within five years of expanded operation. Longer-term, the climate impact of the expansions will put significant strain on the wider UK economy. The UK must cut its emissions, as such, overspend of the government's limited carbon budgets by the aviation industry means other sectors must cut their emissions further and faster, at greater cost. The proposed use of alternative jet fuels is not a sustainable solution, but critically, it would also come with very significant costs in the form of land requirement (for biofuels) and energy requirement (for e-fuels).

The Treasury should publish any new analysis on the growth impacts of airport expansion

Recent media reports suggest that the government believes that expanding airport capacity in the south-east will deliver a net improvement in growth. The government should present the public with its analysis supporting this claim. The last time government comprehensively reviewed the economic dynamics of air travel was in 2014-15, using data from 2012 and earlier. Since then, business use of air travel has crashed, flows of leisure spending out of the UK have surged, the domestic tourism industry has stagnated, and the climate cost, in economic terms, has tripled. Air passenger numbers surged in the intervening period, but the UK economy stagnated nevertheless. It is clear therefore that the case in favour of expansion has diminished significantly since the DfT completed its last assessment process.

¹¹ Chapman et al. (2020) *Baggage Claim: The Regional Impact of Heathrow's Third Runway*. New Economics Foundation.

Conclusion

Ahead of the parliamentary vote on Heathrow Airport's expansion in 2018 the DfT had a great deal of difficulty assembling a robust economic rationale for the project. That analysis is now out of date, and all of the key indicators, from business passengers to climate, have moved against expansion. Indeed, the pandemic, a once-in-a-generation realignment of travel behaviours, should be reason enough for the government to conduct a re-analysis of its assumptions. The proposed expansion could be deeply damaging to the balance of the UK's regional economies, taking both direct air transport jobs and wider leisure and tourism spending out of the UK's nations and regions and into London and the South East. The government risks a major misstep in assuming that airport expansion approved in 2025 will be beneficial to growth and stability in the UK economy.

Further reading:

Chapman, A. (2023) *Losing Altitude: The Economics of Air Transport in Great Britain*. New Economics Foundation.

Chapman, A et al. (2020) *Baggage Claim: The Regional Impact of Heathrow's Third Runway*. New Economics Foundation

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