

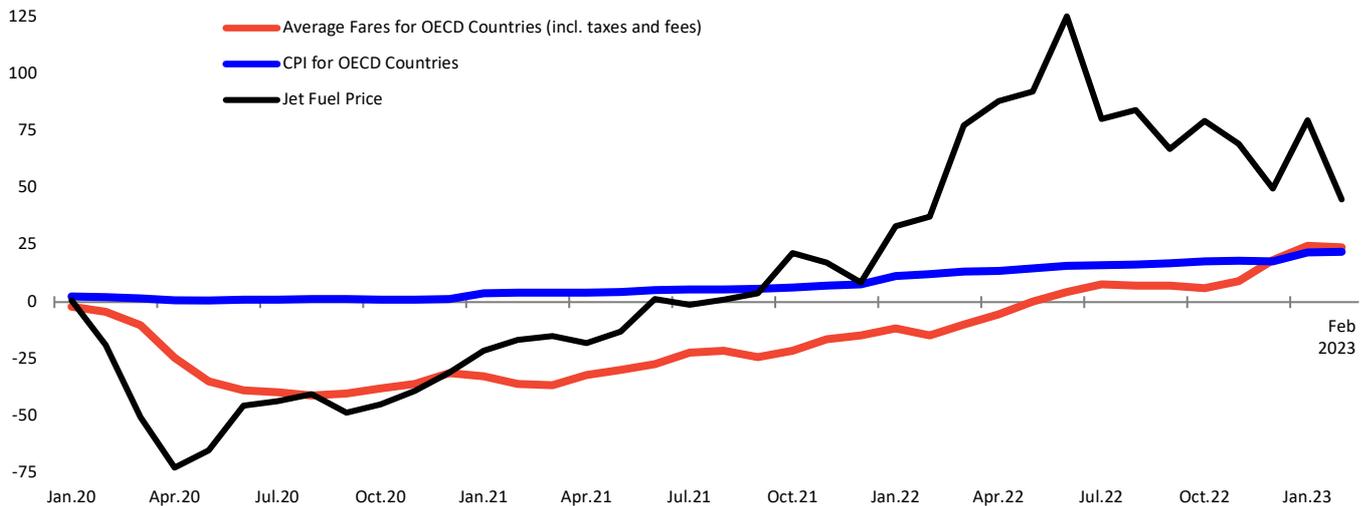


## Chart of the Week

21 April 2023

### Airfares recover amid soaring jet fuel costs and inflation

% change vs. same month in 2019



Source: OECD Data, S&P Global, DDS, and authors calculations.

- There has been much media coverage of the perceived acceleration in air ticket prices compared to the general rise in consumer price inflation (CPI). Here we provide some perspective on these evolutions.
- Firstly, all such analyses are sensitive to the period of comparison, also called the base effect. Assessing these evolutions versus pre-pandemic levels, it is clear that airline ticket prices have only just caught up with the average inflation rate in the OECD, and remain significantly below the inflation seen in jet fuel prices. This is especially challenging for airlines considering that the cost of jet fuel accounts for 25% to 30% of their operating costs.
- As air travel ground to a halt in the earliest days of the pandemic, ticket prices fell steeply and remained low for much of 2020 and the first quarter of 2021. Over the 12-month period ending March 2021, global air fares fell 53% over the same period in the previous year, while they declined 36% for OECD countries.
- The average air ticket price recovered to pre-pandemic levels in May 2022. In that month, OECD CPI was 15% higher compared to May 2019, while the jet fuel price was up 92% on the same basis -- almost doubling its price.
- The recovery of airfares was, in part, in response to this sharp increase in jet fuel prices. Driven by Russia's invasion of Ukraine, jet fuel prices reached a record-high of USD 172 per barrel in June 2022. Capacity constraints, including supply chain disruptions, aircraft delivery delays, flight crew shortages, and high labor costs, are also contributing factors to the rising costs faced by airlines, as well as additional operational challenges.
- In the meantime, pent-up demand following the easing of travel restrictions continues to unwind. As a result, the increase in airline ticket prices has been outpacing overall inflation globally only recently and matched OECD CPI compared to pre-pandemic levels at the end of February.
- Looking forward, airlines are expected to face relatively lower fuel prices in 2023 compared to last year, alleviating some of the pressure on their operating costs.

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