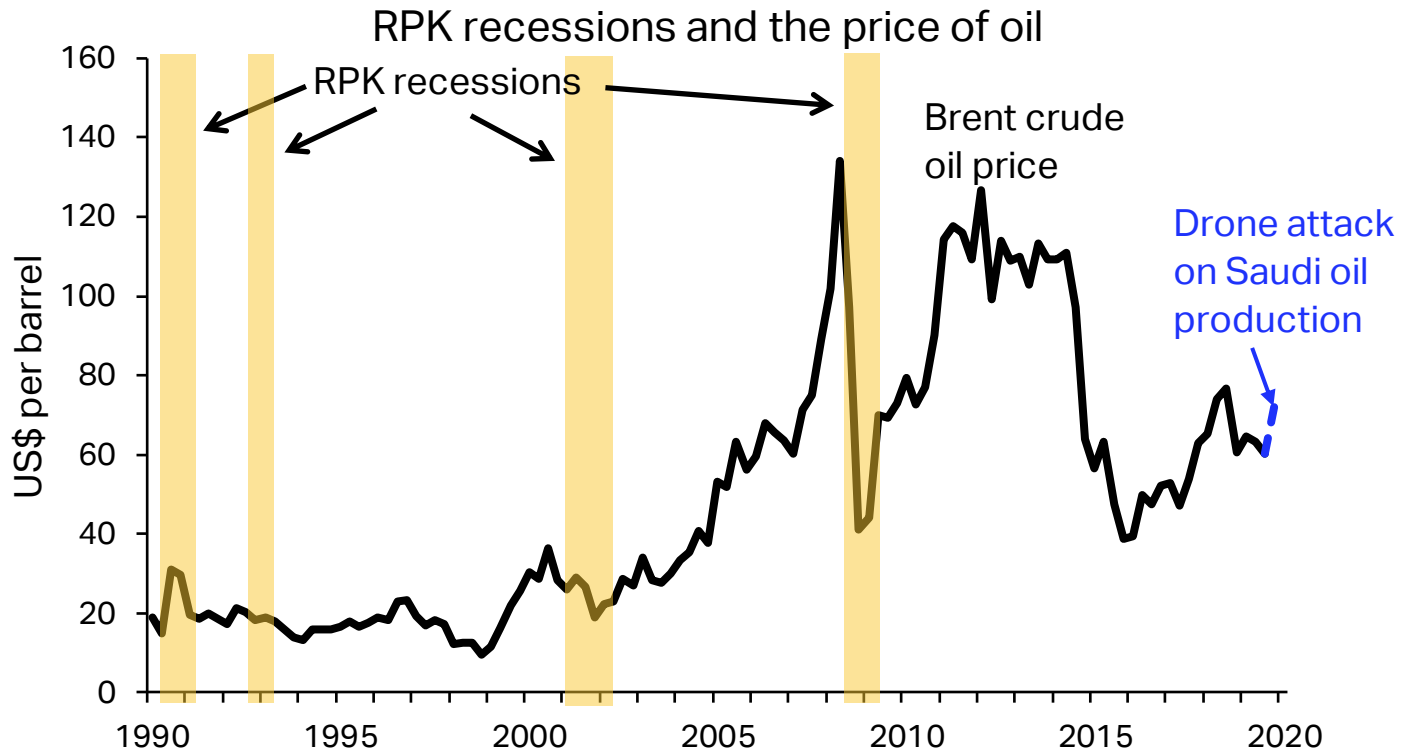


Oil price not likely to trigger recession this time



Source: IATA Economics using data from IATA Statistics, Markit and Thompson Reuters Datastream

- Oil and jet fuel prices rose sharply this week following the closure of the Saudi Aramco facilities at the Abqaiq oil field in Saudi Arabia, which stopped the supply of 5.7 million barrels of crude oil a day, representing some 5% of world oil supply. The scale of the oil supply disruption was the biggest ever, larger than the impacts of the 1990 invasion of Kuwait or the 1979 Iranian revolution. This has led to a flurry of research notes on the exposure of airlines to higher fuel prices (recall that fuel accounts for ~25% of airline operating costs, on average) and the potential that this is a trigger for recession.
- Sharply rising oil prices have in the past been associated with recessions. In fact, the major downturns in the airline industry since 1990 were preceded by significant oil price increases (the shorter 1993 RPK recession did not involve the US economy, and the 2003 RPK recession not shown in the chart was caused by SARS and not an economic event). However, apart from the 1990 recession, which was precipitated by a central bank response to oil-price-induced inflation, there were other major factors that precipitated recession – the bursting of the dot.com bubble and the global financial crisis.
- Today we have an economic shock in the form of a trade war, but crucially the reaction of oil prices to the loss of 5% of world oil supply has been remarkably muted. Oil prices are now only 5 \$ a barrel higher than before last weekend's drone attack and are still lower than they were at this time last year. That seems to be because energy markets have been transformed over the past decade by the development of tight oil reserves in the US. In addition, the IEA countries have 1.5 billion barrels of oil available for release from emergence stocks, and inventories in the OECD are at 2-year highs. With the availability of oil being so much higher today, the price impact of last weekend's supply shock has been much smaller – as is the risk that this will trigger a recession.