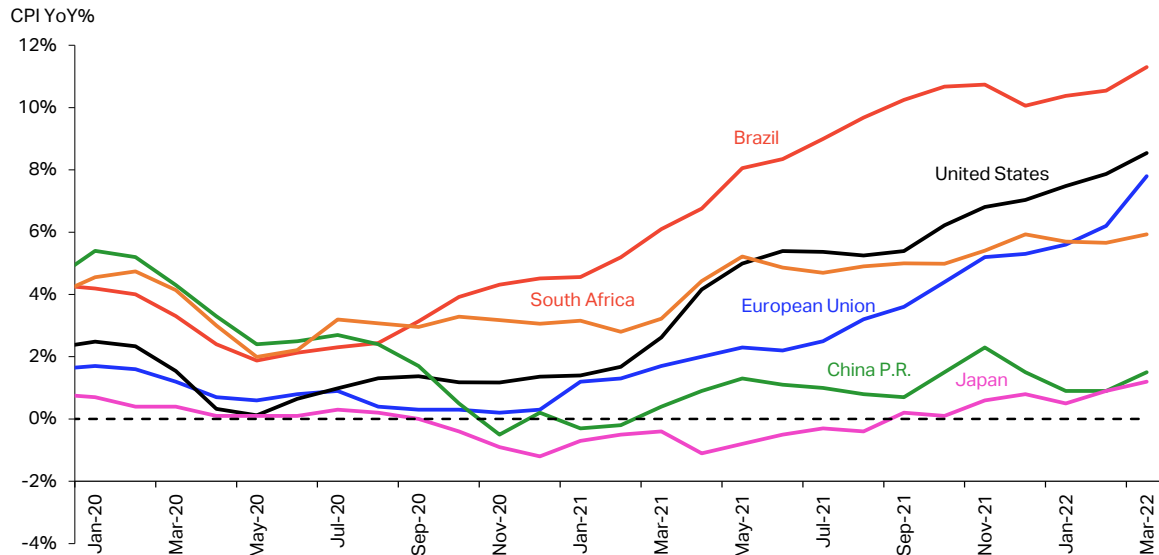




IATA Economics' Chart of the Week

6 May 2022

The global rise in consumer prices eludes China and Japan



Source: IATA Economics using Refinitiv Eikon

- Inflation has risen to levels not seen for decades, and this in a rather synchronized and global fashion, pushed up notably by higher energy and food prices. The result is a widespread tightening of monetary policy with central banks taking action largely in unison. Consumers face the double whammy of weakening purchasing power and higher interest payments on mortgages and credit cards, which could spell trouble for aviation.
- The US' Federal Reserve added half a percentage point to its federal funds rate on Wednesday 4 May – the largest increase in this rate in 22 years – lifting it to a still modest 1%. India's Reserve Bank increased its interest rate on the same day, by 40 basis points to 4.4%. A day earlier, Australia's Reserve Bank announced a hike of 25 basis points, bringing the cash rate to 0.35%, and the Bank of England added 25 basis points to its policy rate, taking it to 1%, on Thursday.
- In Asia, the situation is more heterogeneous. Singapore, South Korea, and several other Asian countries do see higher inflation. This prompted, for instance, the Monetary Authority of Singapore to both lift its policy rate and allow the currency to appreciate by more at their April meeting.
- In contrast, China and Japan stand out as laggards in this global inflation surge. In March, China's CPI rose by 1.5%, up from 0.9% in February. Japan's CPI rose to 1.2% YoY in March, also from 0.9% the month prior. These countries' central banks refrained from taking any monetary policy action at their April meetings.
- It so happens that these two countries also maintain some of the most severe travel restrictions and lockdowns still in place in response to the COVID-19 pandemic. However, once these restrictions are eased, Chinese and Japanese travelers will likely emerge with their purchasing power largely intact. This could produce a relatively stronger surge in travel demand compared to other markets where inflation is taking a greater toll on household budgets. Elsewhere, the erosion of purchasing power could start to dampen growth in travel demand once the "travel deficit" has been filled, potentially in 2023.

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