

Air Passenger Fares Rebound from the Recession



Outline

1. Review BLS article: *International air passenger fares shrug off the recession*
2. Update

1. Background of Price Indexes

- BLS publishes price indexes that measure changes in fares for international air passenger travel to and from the U.S. (Exports- PPI)
 - ▶ **Since the late 1980's**
 - ▶ Monthly basis
 - ▶ Airfares by region
- IPP Data Set- <http://www.bls.gov/web/ximpim/srv1.htm>
- Fact sheet- <http://www.bls.gov/mxp/apfact.pdf>

Air Passenger Fares Indexes

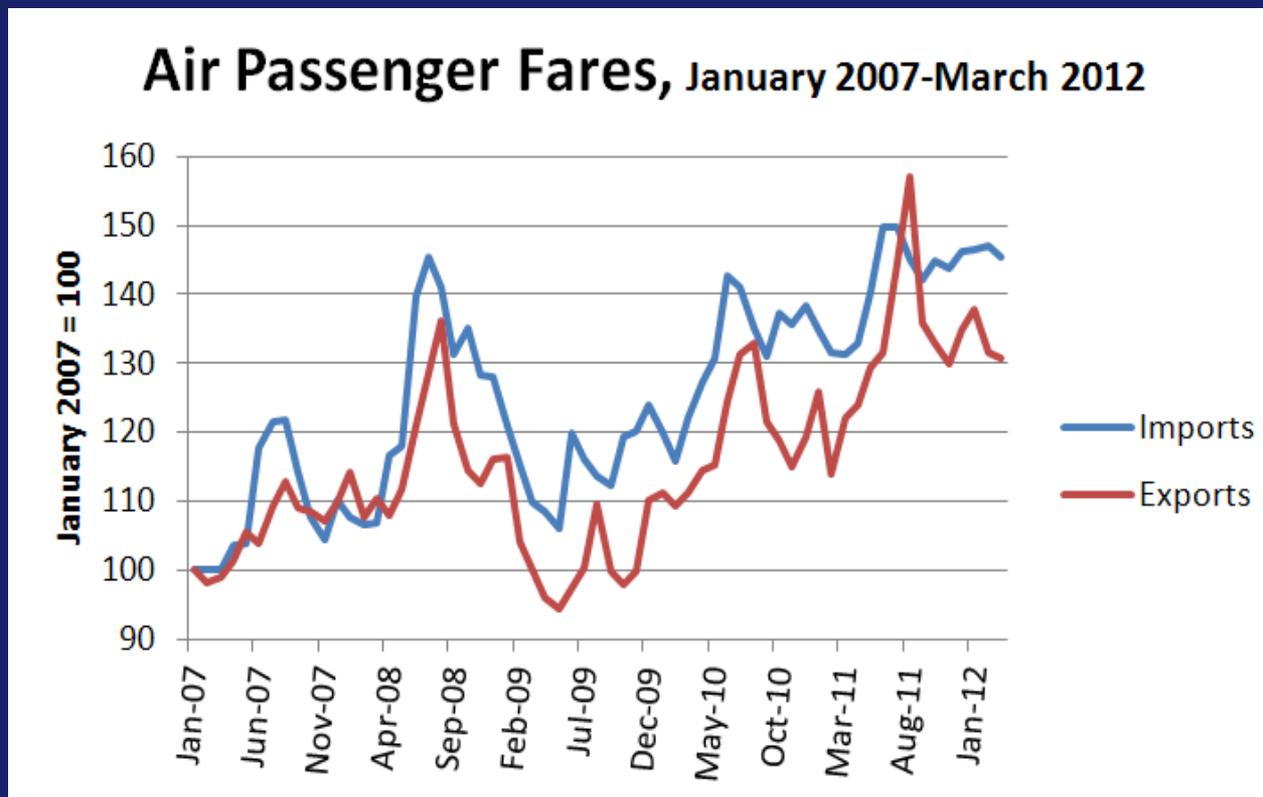
- Import Air Passenger Fares Index measures changes in fares paid to foreign carriers by U.S. residents for international travel.
- Export Air Passenger Fares Index measures changes in fares paid to U.S. carriers by foreign residents for international travel.

U.S. and foreign residents are identified by a flight's point of origin, based on the assumption that most passengers purchase their tickets and begin travel in their country of residence.

International air passenger fares shrug off the recession

- Air Passenger fares for flights to and from the United States recorded large price decreases during the recent global recession, this was followed by strong price increases during the recovery.
- **Article's objective is to recognize some of the factors moving the Air Passenger Fares price indexes.**

International air passenger fares shrug off the recession

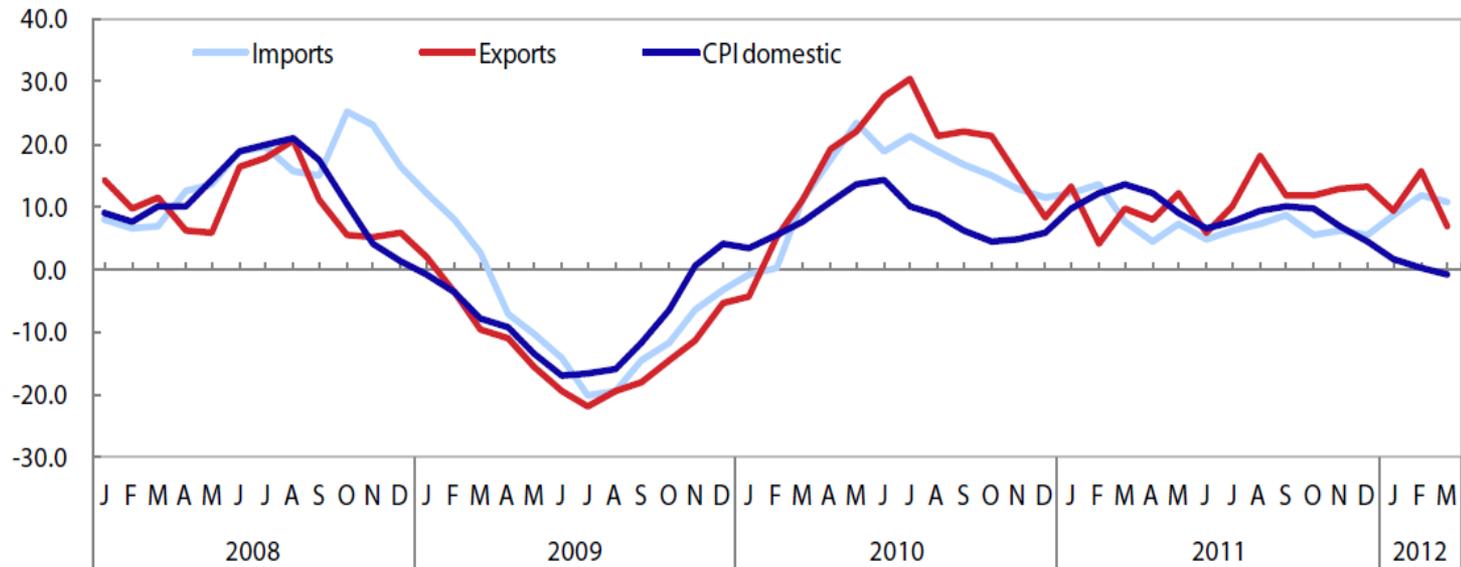


International air passenger fares shrug off the recession

Chart 1

Twelve-month percent changes in air passenger fares, January 2008–March 2012

Percent change



SOURCE: U.S. Bureau of Labor Statistics.

▶ April, 2012

Price factors

There are various.

This article:

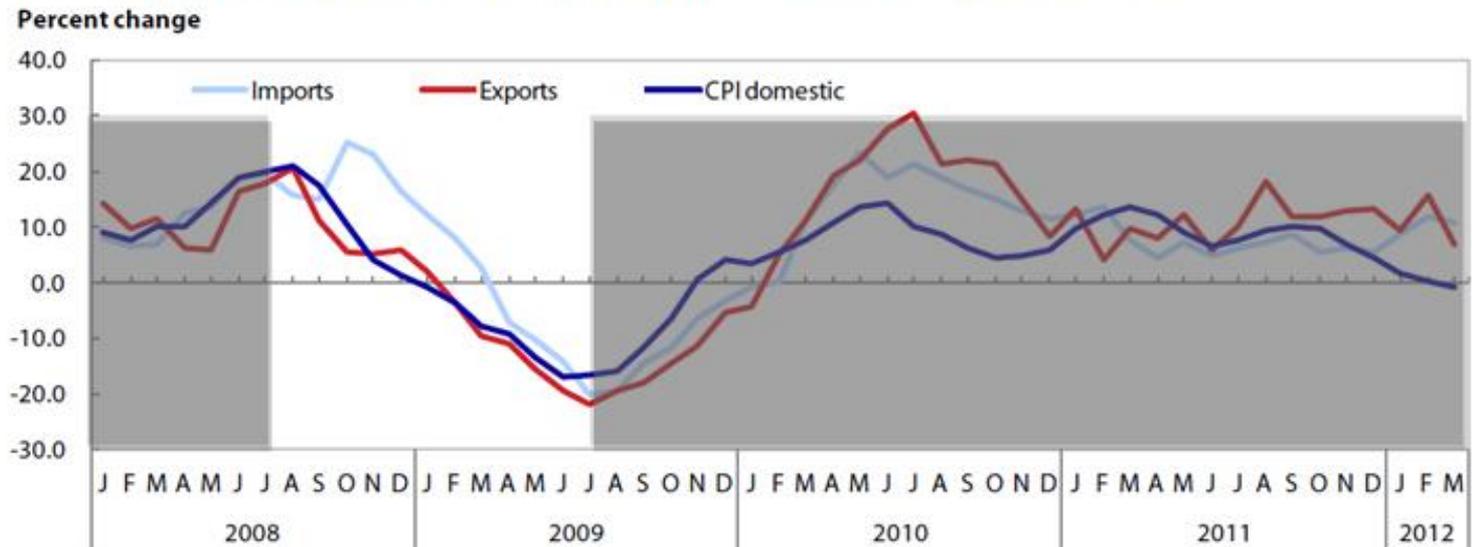
- mentions fuel price movements
(smaller impact than expected)*
- but focuses on airline seat
supply/demand imbalances

Price decline, 2008 through mid-2009

Price decline, 2008 through mid-2009

Chart 1

Twelve-month percent changes in air passenger fares, January 2008–March 2012



SOURCE: U.S. Bureau of Labor Statistics.

- Between July 2008 and July 2009, import and export airfares declined 20.1 percent and 21.8 percent, respectively.

Price decline, 2008 through mid-2009

Jet fuel

- Jet fuel is a volatile but significant cost for the air industry.
- By mid-2008, fuel prices were breaking records and greatly increased the operating costs.
- Spot price of jet fuel decreased 60% between May 2008 and May 2009.

source: U.S. Energy Information Administration

Price decline, 2008 through mid-2009

Global recession, decreased demand

- 2009- largest yearly decline in global air transportation demand since WWII. -3.5%. (source: IATA, International Air Transport Association)
- Fewer international vacations, reduced business travel, etc.
- Air carriers cut prices to stay competitive.

Price decline, 2008 through mid-2009

Imbalance of air travel demand and capacity

- Capacity was not reduced as fast as the economy fell.
 - ▶ Example: flights were scheduled and planes were ordered months/years in the past. So capacity actually grew for much of 2008.
- With excess capacity, prices were pressured downward in an effort to attract buyers.

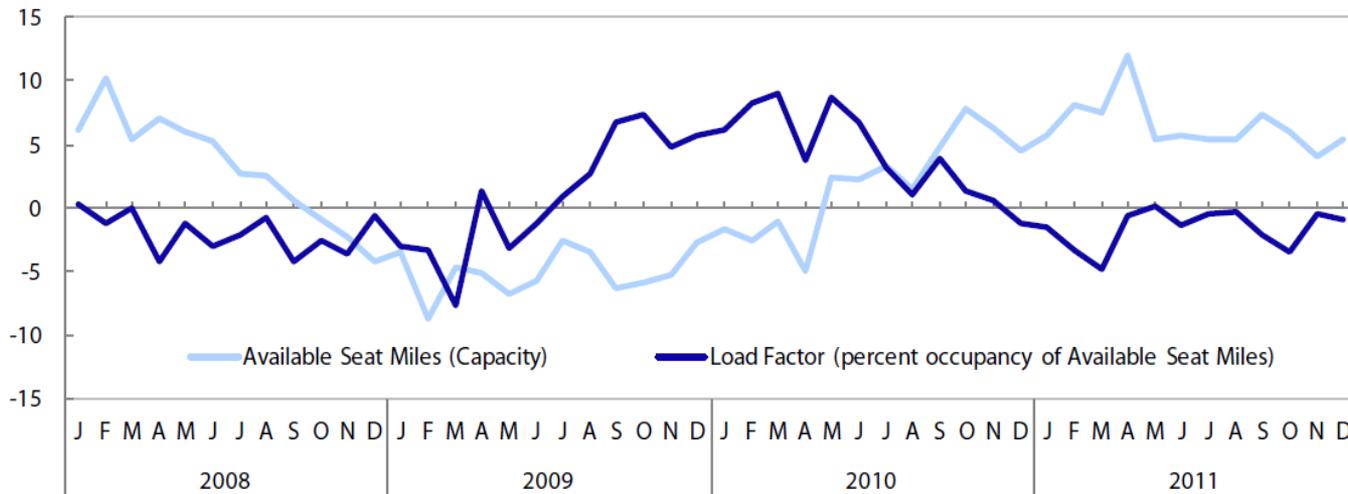
Capacity and percent occupancy

Industry Standard Measurements:

Chart 2

Capacity and percent occupancy, January 2008–December 2011

12-month percent change



SOURCE: U.S. Department of Transportation.

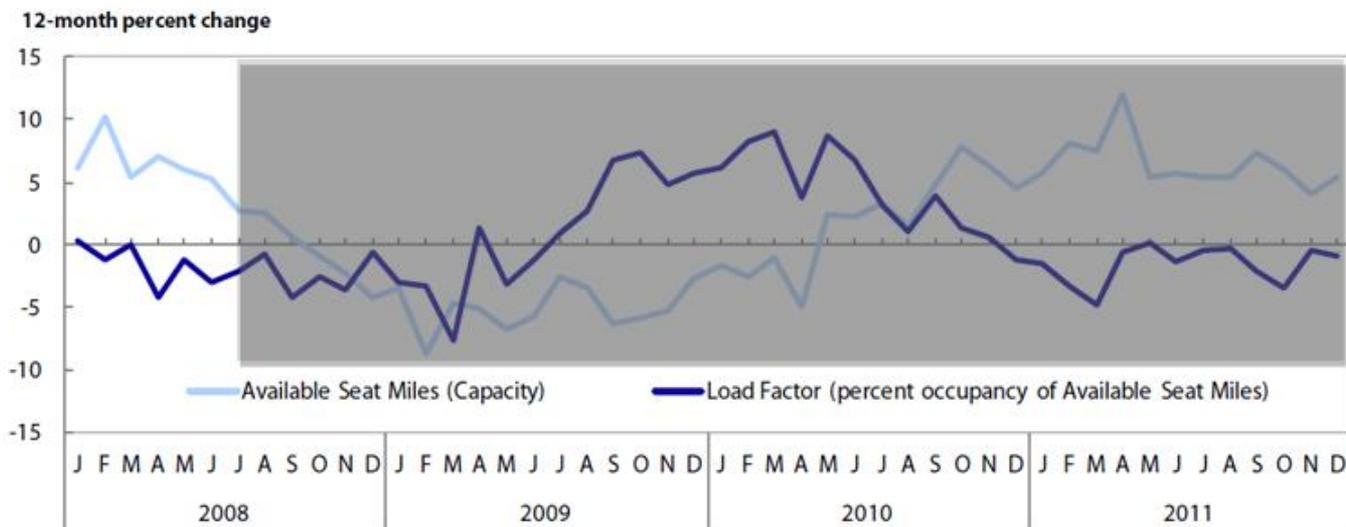
International Available Seat Miles is a measure of the number of seats available multiplied by the number of miles flown. The International Load Factor is the percentage of the available seats that are occupied.

Source: Bureau of Transportation Statistics

Capacity and percent occupancy-imbalance in early 2008

Chart 2

Capacity and percent occupancy, January 2008–December 2011



SOURCE: U.S. Department of Transportation.

Over the first 6 months of 2008, the 12-month change in the monthly Available Seat Miles increased an average of 6.7 percent, while the 12-month change in the monthly Load Factor decreased an average of 1.5%. Supply increased while demand decreased.

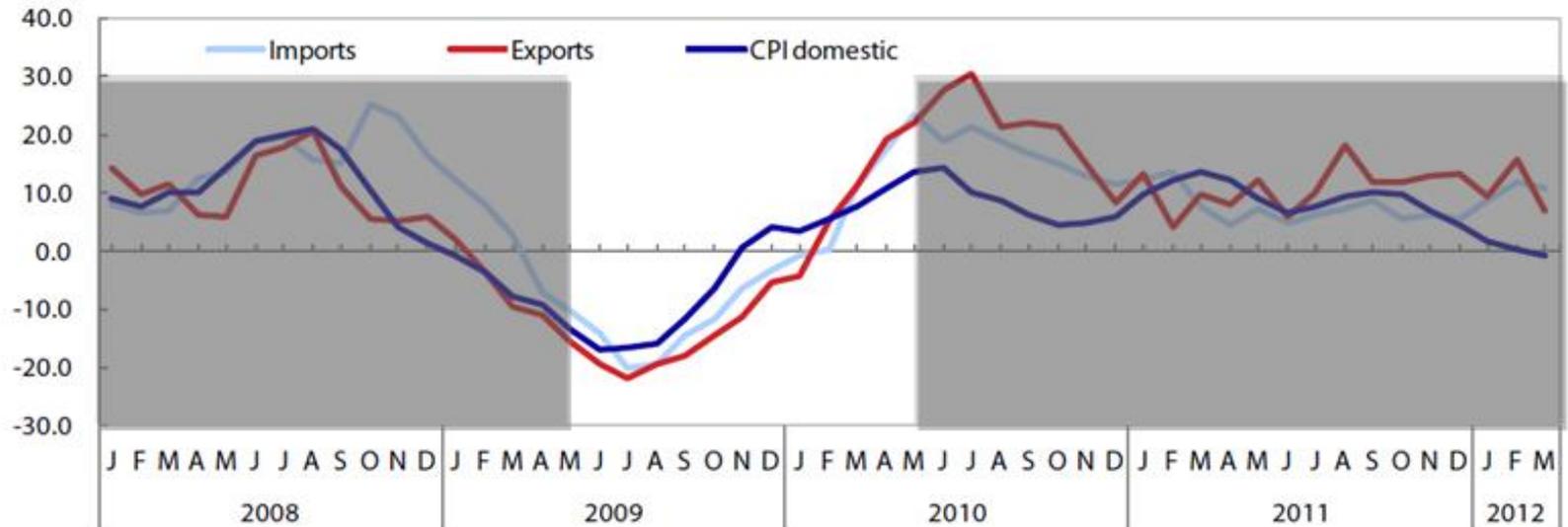
Price recovery, late 2009 through 2010

Price recovery, late 2009 through 2010

Chart 1

Twelve-month percent changes in air passenger fares, January 2008–March 2012

Percent change



SOURCE: U.S. Bureau of Labor Statistics.

From May 2009 to May 2010, import air fares increased 23.3 percent, while export air fares rose 22.0 percent.

Price recovery, late 2009 through 2010

Jet fuel

- Average price of jet fuel in 2010 was 29 percent higher than the average price in 2009.
- Some months saw changes that were more extreme; jet fuel in March 2010 was 66 percent more expensive than jet fuel in March 2009.

source: U.S. Energy Information Administration

Price recovery, late 2009 through 2010

Global recovery, increased demand

- Global air passenger traffic increased 8.2 percent in 2010. (IATA)
- By December 2010, air travel volumes were higher than the prerecession highs.

Price recovery, late 2009 through 2010

Imbalance of air travel demand and capacity

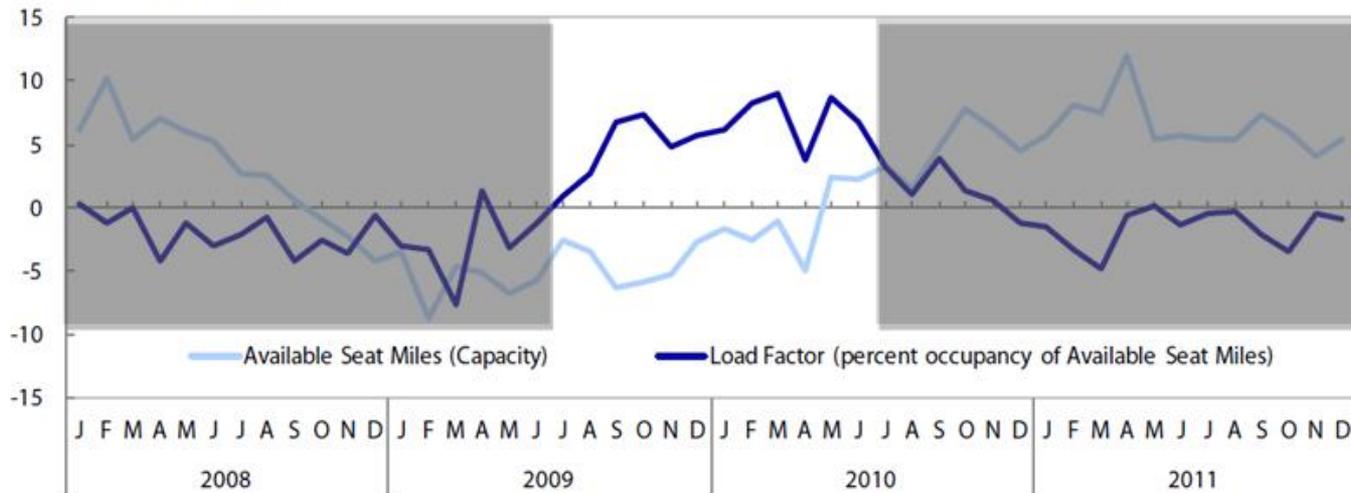
- In response to the surplus capacity of 2008, Available Seat Miles in the international air passenger market decreased 5.1% on average in 2009.
 - ▶ Reduction in scheduled flights, grounded planes, delayed orders of new planes
- Capacity (ASM) declined even though demand started to rise in 2009.

Capacity and percent occupancy-imbalance in 2009-10 recovery

Chart 2

Capacity and percent occupancy, January 2008–December 2011

12-month percent change



SOURCE: U.S. Department of Transportation.

- The year-over-year monthly Load Factor started growing as early as July 2009, signaling that planes were flying more full.
- But May 2010 was the first month with a year-over-year monthly capacity (ASM) increase since September 2008.

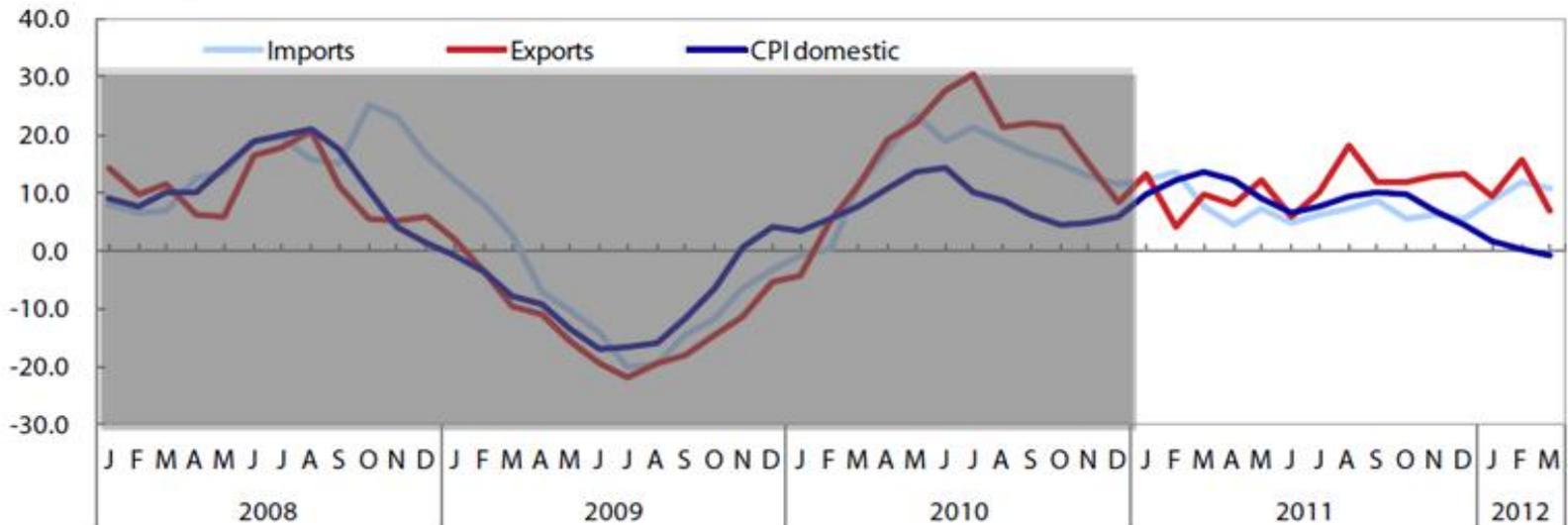
Price stabilization, 2011 through first quarter 2012

Price stabilization, 2011 through first quarter 2012

Chart 1

Twelve-month percent changes in air passenger fares, January 2008–March 2012

Percent change



SOURCE: U.S. Bureau of Labor Statistics.

Air passenger fares rose an average (12 month % change) of 7.8% for imports and 10.9% for exports from January 2011 through March 2012. Comparatively stable next to the 20%+ price swings observed earlier.

Price stabilization, 2011 through first quarter 2012

Jet fuel

- The average price of jet fuel in 2011 was 39% higher than in 2010.
- As 2011 came to a close, jet fuel prices were only about 26% lower than the record high reached in July 2008.

Price stabilization, 2011 through first quarter 2012

- In 2011, air travel demand continued to rise, increasing at a rate of 5.9 percent over the year. (8.2% in 2010)

Source: IATA

Price stabilization, 2011 through first quarter 2012

Imbalance of air travel demand and capacity

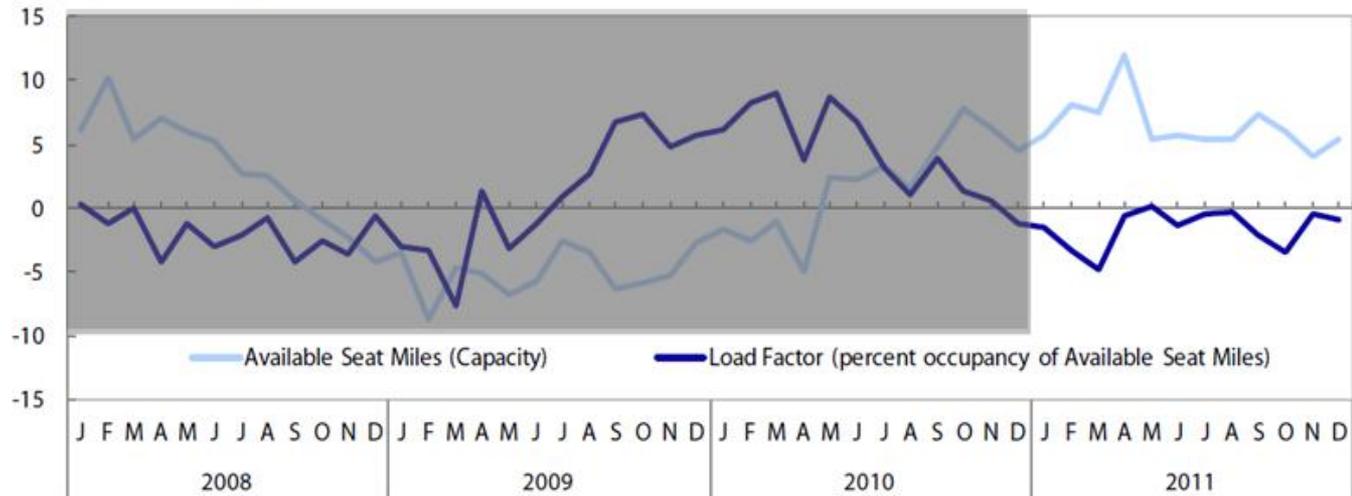
- Observed responses to capacity/demand imbalances:
 - ▶ Grounding planes for capacity management.
 - ▶ Leasing planes on an as-needed basis.

Capacity and percent occupancy-imbalance in 2011

Chart 2

Capacity and percent occupancy, January 2008–December 2011

12-month percent change

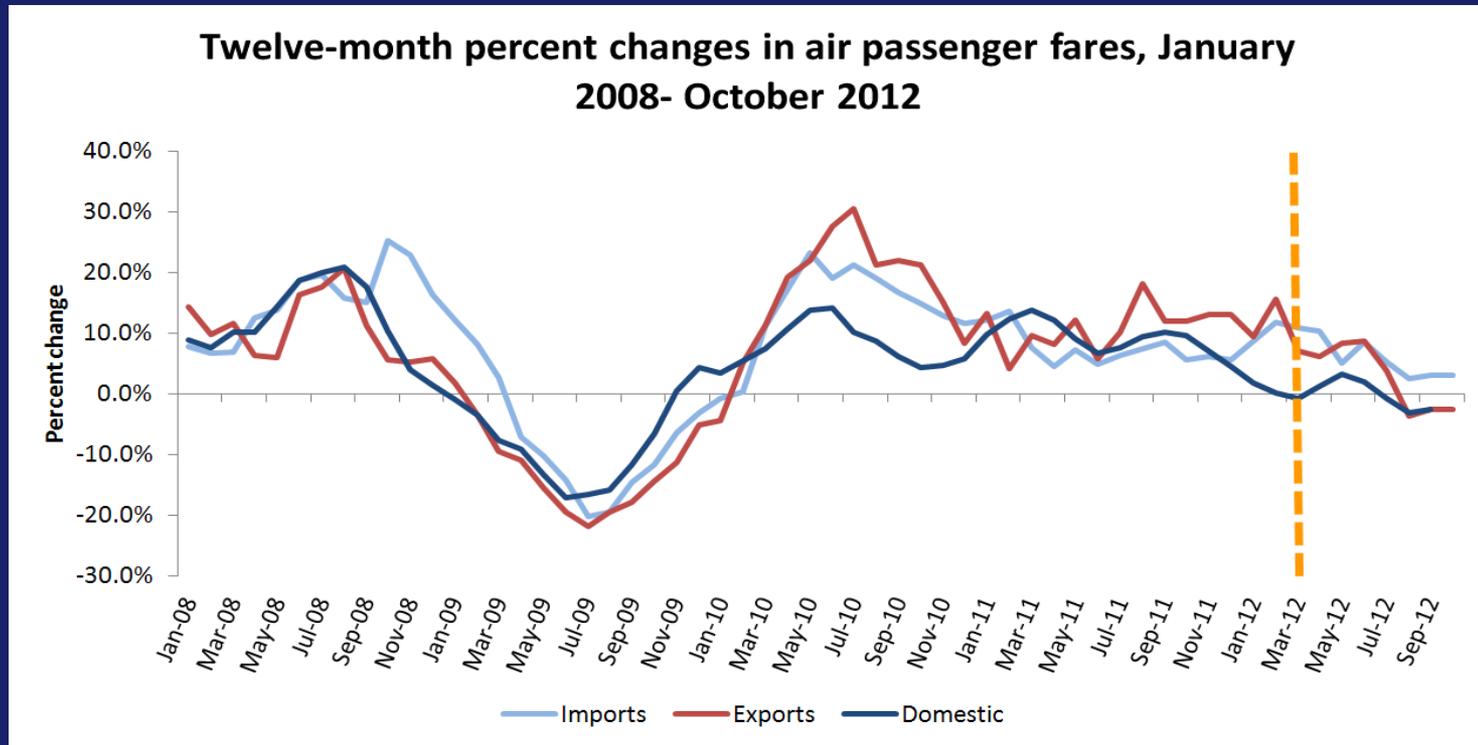


SOURCE: U.S. Department of Transportation.

- 2011 capacity growth again appeared to outpace percent occupancy.
- International Available Seat Miles increased more than 6 percent on average while the Load Factor had small declines. A combination that could dampen future price increases...

2. Update

2. Update



Air passenger fares rose an average (12 month % change) of 5.4% for imports and 2.6% for exports from April 2012 through October 2012. Trending lower than recent past.

Update

Jet fuel

- The average price of jet fuel has been slightly higher in 2012 (through October) with the average monthly price being 2.7% higher than in 2011.

Update

Demand

- IATA reported in November that year-on-year comparisons of growth in the passenger market are now starting to show slower rates of growth. September international passenger demand rose 4.9% compared to the year-ago period.

2. Update

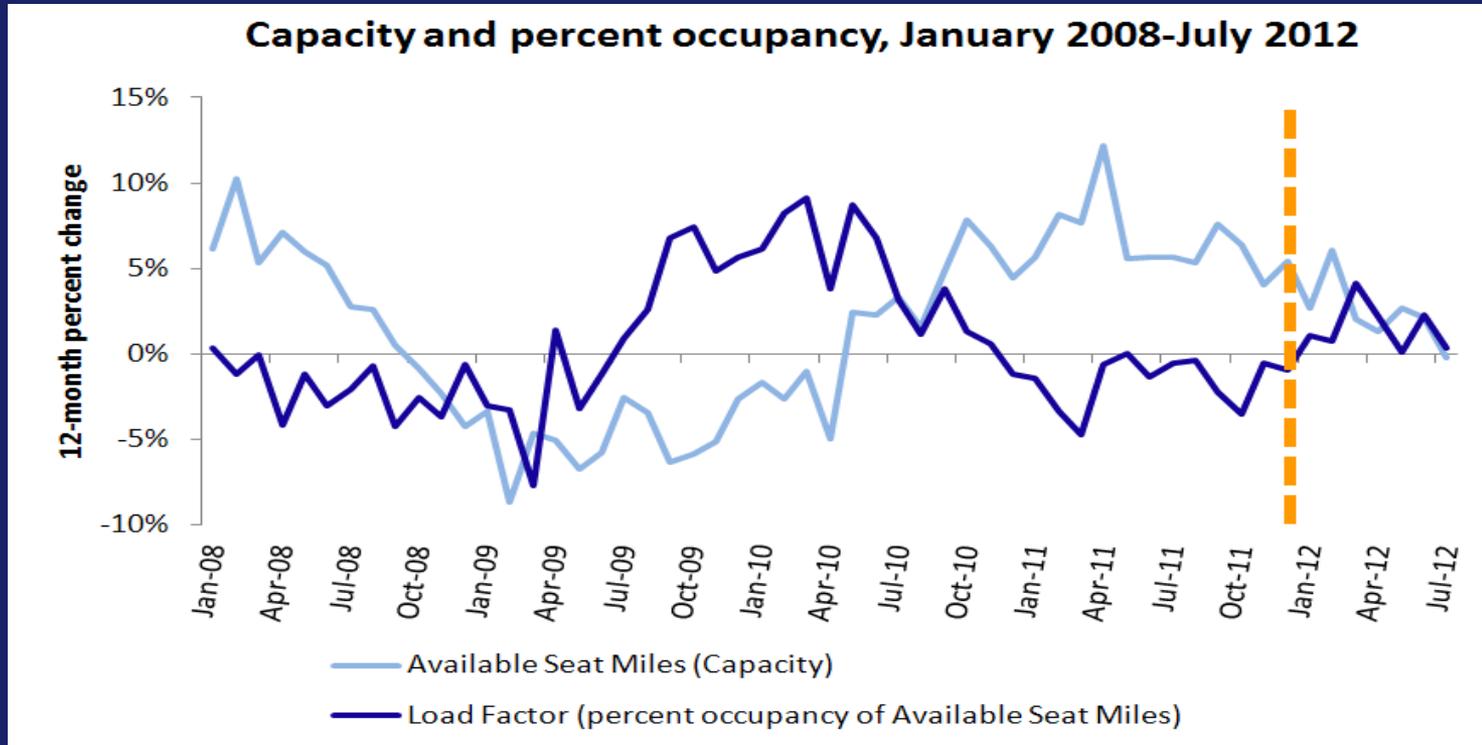
“Sluggish growth in the US, the continuing sovereign debt crisis in Europe and concerns over the slowdown in the Chinese economy are taking their toll on both business and consumer confidence. Airlines have responded with, among other things, careful capacity management.”

“...disciplined capacity management has kept load factors high.”

“For North American airlines the focus is on tightly managing capacity in order to optimize profits in a slow to no-growth environment.”

Tony Tyler, CEO IATA.

2. Update



*Bureau of Transportation Statistics revised some numbers in the data sets since the article was published

Dollar Values

- Yearly dollar values trended in a similar way as prices

BEA U.S. international cross-border trade in services

Passenger Fare Receipts and Payments

[Millions of dollars]

2008 2009 2010 2011

	2008	2009	2010	2011
Passenger fare receipts (all countries)	30,957	26,103	30,983	36,631
Receipts by country:				
Total receipts for the five largest countries	14,403	12,622	15,643	17,618
Japan	3,770	3,554	4,307	4,614
Canada	3,484	3,221	4,283	4,598
United Kingdom	3,561	2,545	2,684	3,006
Mexico	2,416	2,055	2,612	2,825
Brazil	1,172	1,247	1,757	2,575
Other countries	16,554	13,481	15,340	19,013
Passenger fare payments (all countries)	31,841	25,117	27,256	31,109
Payments by country:				
Total payments for the five largest countries	13,521	10,192	11,269	12,780
United Kingdom	4,794	3,417	3,705	4,132
Germany	3,346	2,258	2,562	2,919
Korea, Republic of	1,696	1,820	2,053	2,355
Taiwan	1,750	1,313	1,476	1,695
France	1,935	1,384	1,473	1,679
Other countries	18,320	14,925	15,987	18,329

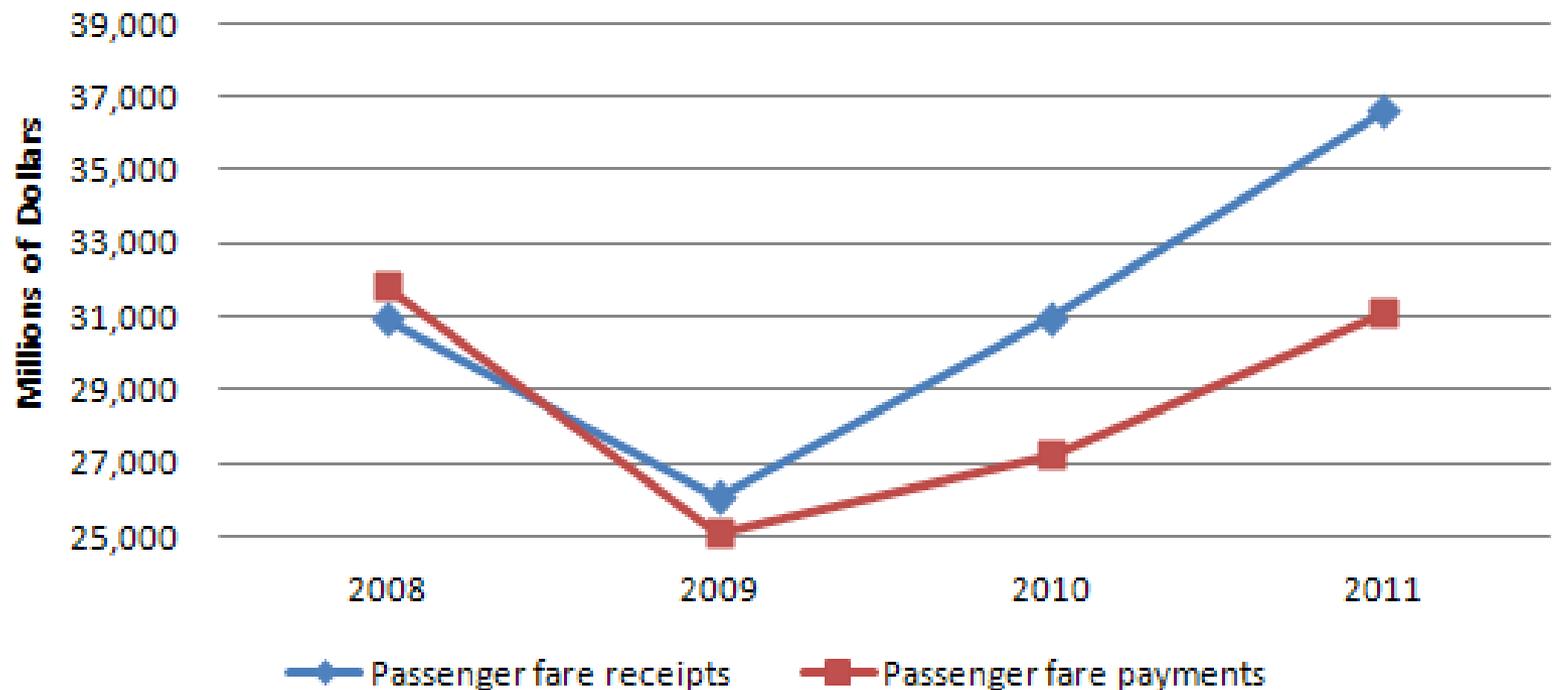
Receipts- Dollars flowing into the U.S. because of Exports

Payments- Dollars flowing out of the U.S. because of Imports

*Canada data includes some modes of transport aside from air passenger fares

Dollar values

BEA U.S. international cross-border trade in services Passenger Fare Receipts and Payments



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- **“Even six years ago, generating a profit with oil at \$110/barrel (Brent) would have been unthinkable. The industry has re-shaped itself to cope by investing in new fleets, adopting more efficient processes, carefully managing capacity and consolidating.”**

Tony Tyler, CEO IATA.
Nov. 2012

Conclusion

Among other price factors, imbalances of capacity management play a role in the price movements of air passenger fares.

Infomercial

Build your own indexes-
IPP website:

www.bls.gov/mxp/

MXP Databases

MXP Databases

Database Name	Special Notice	Top Picks	One Screen	Multi-Screen	Tables	Text Files
Import/Export Price Indexes (International Price Program - IPP)		 TOP PICKS	 ONE-SCREEN DATA SEARCH	 MULTI-SCREEN DATA SEARCH	 TABLES	 TEXT FILES

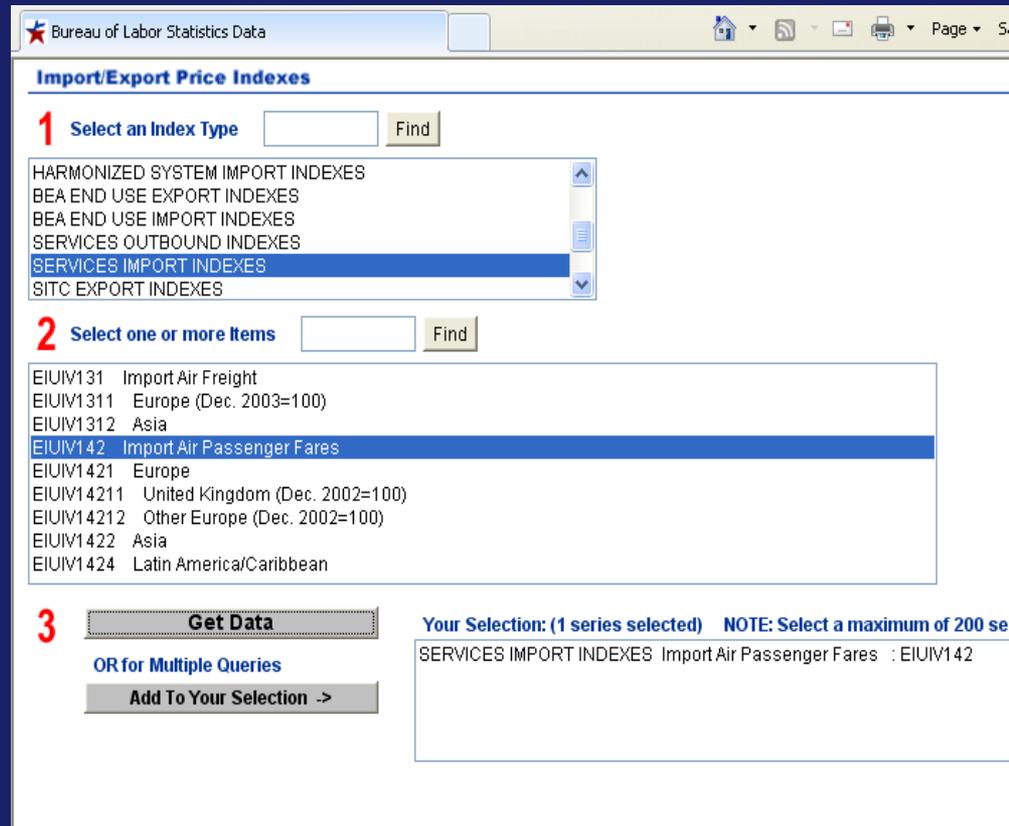
More Tools

- [Series Report](#)—Already know the series identifier for the statistic you want? Use this shortcut to retrieve your data.
- Text files (FTP) - For those who want it all. Download a flat file of the entire database or large subset of the database.
 - [Import/Export Price Indexes](#)

MXP Tables

MXP Tables

- [History Tables](#): Complete historical index information
- [Index and Percent Change Tables](#): Indexes and percent changes for the four most recent months
- [Percent Change Analysis Tables](#): Historical percent changes for one-month, three-month, and five separate 12-month periods
- [U.S. Import Price Indexes](#): All Imports and All Imports Excluding Petroleum, 12-month changes



Bureau of Labor Statistics Data

Import/Export Price Indexes

1 Select an Index Type Find

HARMONIZED SYSTEM IMPORT INDEXES
BEA END USE EXPORT INDEXES
BEA END USE IMPORT INDEXES
SERVICES OUTBOUND INDEXES
SERVICES IMPORT INDEXES
SITC EXPORT INDEXES

2 Select one or more items Find

EIUM131 Import Air Freight
EIUM1311 Europe (Dec. 2003=100)
EIUM1312 Asia
EIUM142 Import Air Passenger Fares
EIUM1421 Europe
EIUM14211 United Kingdom (Dec. 2002=100)
EIUM14212 Other Europe (Dec. 2002=100)
EIUM1422 Asia
EIUM1424 Latin America/Caribbean

3

Your Selection: (1 series selected) NOTE: Select a maximum of 200 series
SERVICES IMPORT INDEXES Import Air Passenger Fares : EIUM142



Contact Information

IPP website:

www.bls.gov/mxp/

IPP Data Set:

<http://www.bls.gov/web/ximpim/srv1.htm>

Air Passenger Fares Fact sheet:

<http://www.bls.gov/mxp/apfact.pdf>



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