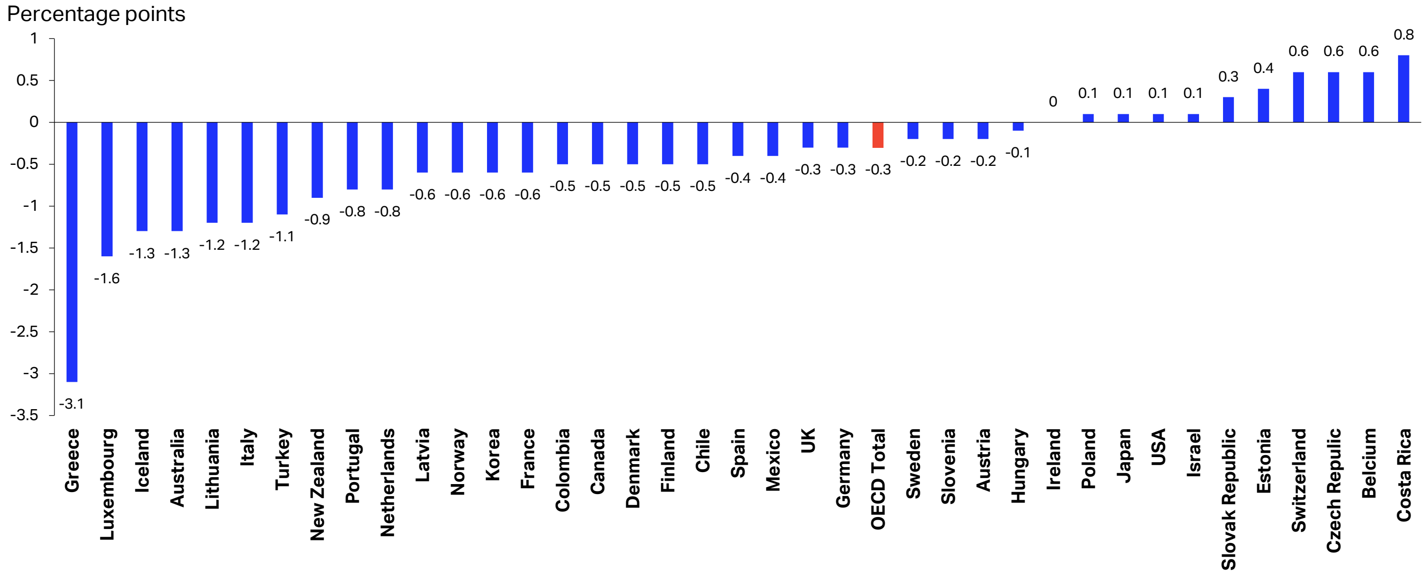
IATA Economics' Chart of the Week

17 June 2022

Low unemployment rates provide buffer against inflation

Change in unemployment rate for selected OECD countries* between Feb and Apr 2022



Source: OECD

- While the COVID-19-induced recession was the sharpest since the Second World War, it has certainly surprised many in terms of how favorably unemployment has evolved since 2020. In OECD countries, unemployment rates have fallen for 12 consecutive months, to 5% in April 2022. In fact, the unemployment rate was equal to or below the pre-pandemic rate in three out of four OECD countries in April (see chart above). Moreover, the number of unemployed workers in the OECD also continued to fall, reaching 34.0 million, 0.5 million below the pre-pandemic level.
- More recent data show that in May 2022, the unemployment rate remained stable at 3.6% for the third consecutive month in the United States. This is rather remarkable, given that the rate touched a high of 14.8% in April 2020. While the euro area posted a 6.8% unemployment rate in April 2022, this is down from a peak of 8.6% in 2020 which in turn was an impressively low number given that the unemployment rate exceeded 12% in 2013. Additionally, several OECD countries have lower unemployment rates than the US, including the Czech Republic at 2.4%, Germany at 3%, and Japan at 2.5%, just to mention a few. Hence, the strong jobs growth is not limited to the US.
- Nevertheless, the fact that more people are earning an income now than prior to the pandemic is very helpful to all households who struggle with the global increase in inflation. Of course, the real purchasing power of earned income diminishes with inflation but it remains equally true, that as long as more people are earning, overall consumption will be protected to some extent. We also note the high rate of precautionary savings accumulated during the COVID-19 pandemic. Low unemployment and high savings, coupled with the observed strong desire to make up for the lack of travel over the past two years, are likely to lead to buoyant air traffic growth this year, in spite of the elevated rates of inflation. The risk is greater that unemployment might rise in 2023, and that consequently precautionary savings will dry up, pointing to a potentially slower pace of growth in air transport demand next year.
- On the other hand, the low unemployment rate also spells some trouble for the air transport industry. With already significant labor shortages and the lack of highly skilled workers, this puts further pressures on airlines to attract new talent in an already highly competitive labor market.

IATA Economics
economics@iata.org