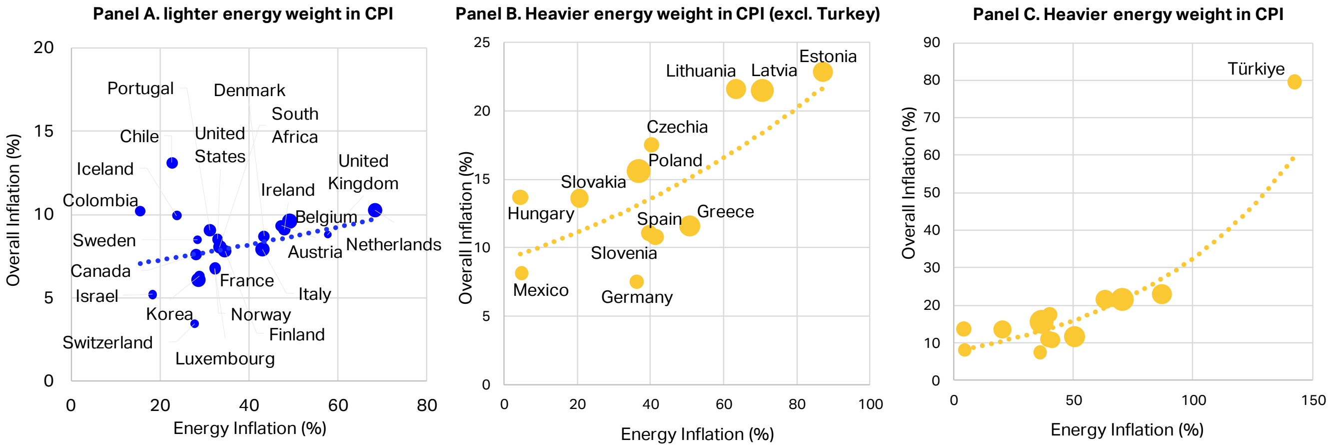
IATA Economics' Chart of the Week 16 September 2022

Not all countries are affected equally by energy prices

Overall and energy inflation in selected OECD countries



Source: OECD Statistics.
Note: The bubbles represent overall and energy price year-on-year inflation in July 2022. The size of the bubble represents the weight of energy in the national CPI total. Countries are displayed in two groups according to their energy weight. Panel A shows countries with an energy weight below 10%, Panel B includes countries with an energy weight higher than 10%, excluding Türkiye, and Panel C consists of all countries with energy weight more than 10% including Türkiye.

- Although crude oil prices retreated from their peak in June, world energy prices on average continued to rise in August, reaching the highest level since 2008. This rise is mainly led by rocketing prices in natural gas, especially in Europe, which increased 36% in August from the previous month, and is now more than four times higher than in August last year.
- Higher energy prices feed into overall inflation of consumer prices through energy consumption. However, not all countries are affected equally.
- Generally speaking, energy weighs less in mature economies' CPI consumption baskets than in emerging economies. Given mature economies' lower share of energy in total consumption, energy-price inflation will have a lesser impact on headline inflation in these countries (Panel A). This includes, among the OECD countries in our sample, some countries in Northern and Western Europe, the Americas, Africa, and Eastern Asia. Although their energy inflation ranges from 16% in Columbia to 68% in the Netherlands, the overall inflation rates are broadly below or in close to 10%. The only exception is Chile, which country's energy imports accounted for 65% of total energy use as of 2015, pushing overall inflation to 13% year-on-year (YoY) in July, despite a relatively low weight of energy in the CPI basket.
- Lower-income households spend a larger share of their income on basic goods, and energy thus features more prominently in the CPI basket. In these countries, the impact of the global energy-price increases on the headline inflation rates is greater. Overall inflation in this group ranges from 7.5% in Germany to 23% in Estonia (Panel B). Germany is clearly a mature economy, but energy does have a higher weight in its CPI basket than most other mature European economies, at 10.5%. Still, GDP per capita in this group (Panel B) is on average less than half of that in the countries in Panel A. The countries in panel B are mostly located in Eastern and Southern Europe and Latin America. Türkiye stands out with an 80% YoY inflation rate in August, shown here in Panel C with the countries from Panel B, (note the change in scale), driven in part by an energy inflation of 143% YoY.
- The lower-income countries are not only hit harder by the higher energy prices, but also tend to experience currency depreciation as a result of the elevated CPI inflation. Currency depreciation leads to higher import prices which in turn feeds into yet higher inflation and can generate an inflation-depreciation spiral which in the extreme can provoke balance-of-payments crises. The risk of such events is clearly rising in certain countries.