Are the Feds About to Give Canada's Airline Industry a Lift?

Description

A new report from the Montreal Economic Institute suggests that Canada's government should be doing more to help ease the pain of Canadian airlines and its passengers.

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The research points out the additional taxes and fees that Canadian airline passengers are required to pay as a key pain point and one that could be addressed to boost demand for air travel.

In particular, Canada's airport rents and security charges rank among the highest of its peer nations.

According to the study, Canada ranked 31 out of the 32 countries that make up the Organization for Economic Co-operation and Development (OECD).

Other OCED counties include Australia, Germany, Mexico, Sweden, the United States, Denmark and Estonia.

Part of the problem is that travelling costs for Canadians will almost always be among the most expensive in the world because of the massive geography that is covered by Canada's borders coupled with a lower-than-average population density.

But maybe the low-hanging fruit that the Canadian government ought to be looking at is the security charges it collects from passengers.

The latest study suggested that over the past five years, the federal government collected over $404 million more in security fees than it actually spent on security-related expenses.

That's important because the same study also suggested that airline travellers are especially price sensitive.

The Montreal Economic Institute's research showed that for a one percent decrease in the price of an airline ticket, it would typically lead to up to a two percent increase in the quantity demanded by passengers.

This means that if the government could do something to curb the fees that airline passengers are paying, it could provide a valuable boost to airlines like **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA).

It could be argued that a move like this couldn't come at a better time.

That's because airlines are seeing their stocks struggle in recent months in the wake of higher oil prices.

Air Canada stock has fallen more than 25% since March, and WestJet's stock has fallen by more than 31% since last December, while the price of oil has risen over 60% since last July.

As fuel costs are one of an airline's largest expenses, perhaps the latest development shouldn't come as all that much of a surprise, either.

Bottom line

Keep in mind that airline stocks have certainly enjoyed a great run over the past five years, having been the beneficiaries of that same relationship while benefitting from historically low oil prices.

But airline stocks are also notoriously cyclical.

Unless Canada's carriers are able to get a helping hand from the feds, the latest ride could turn out to be one that's about to come to an end.

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