2020 Industry Forecast

from BCD Travel Research & Innovation

BCD travel

2020
Industry Forecast

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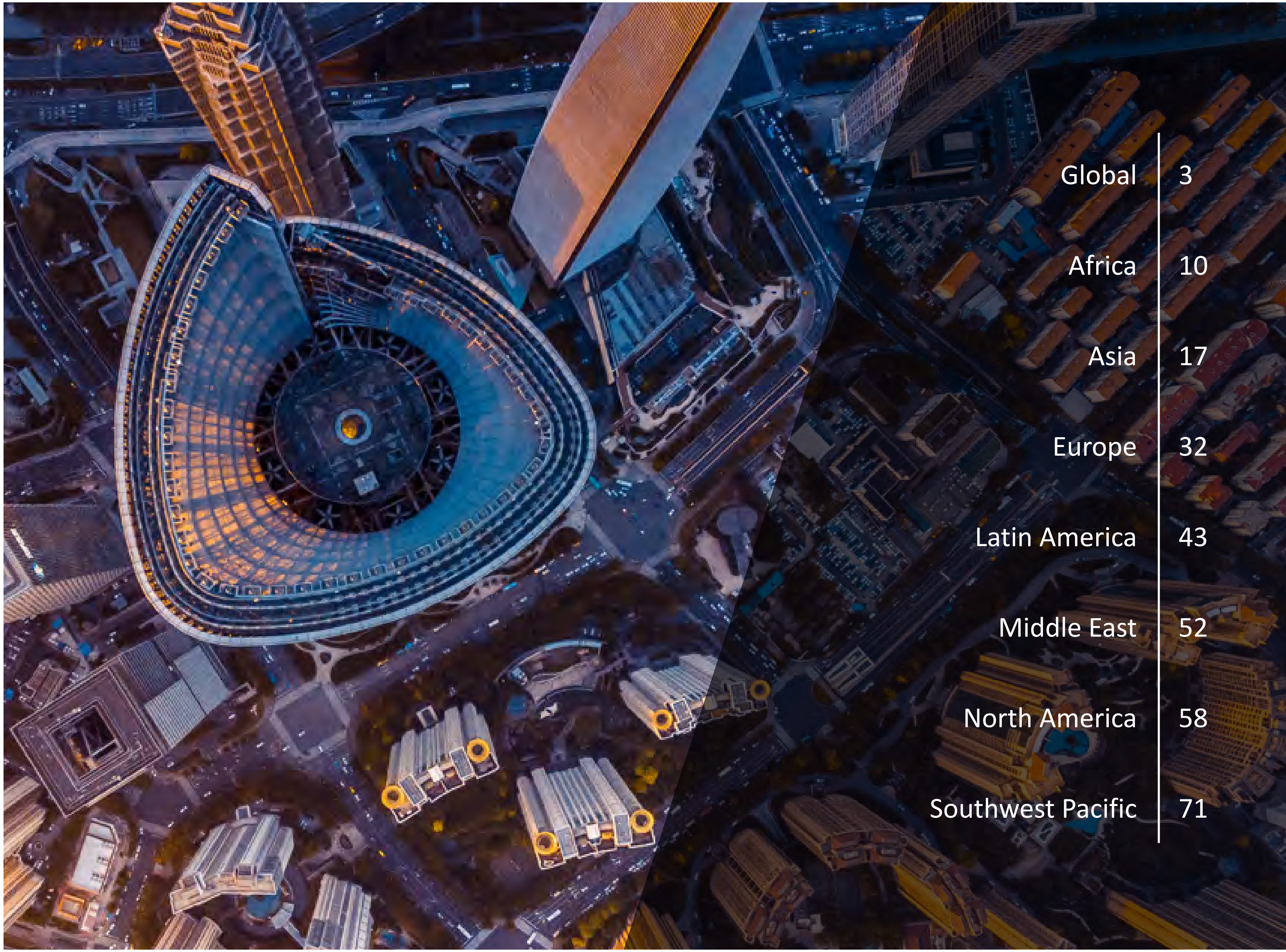

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Global Overview

Airfares

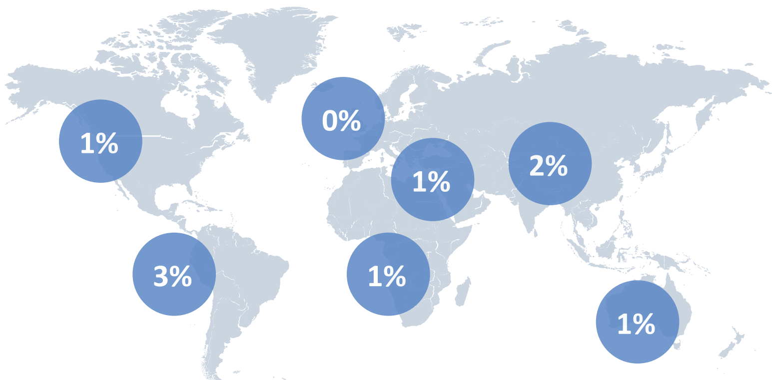
Growth in global air travel demand continues to slow, sliding from 7.8% year over year (YoY) in June 2018 to 4.5% by May 2019.[1] During the first five months of 2019, traffic increased by 4.6%, down from 6.8% the year before. The performance of the global economy has been key to this trend, and it's likely that growth will moderate further this year.

Demand will still be strong enough to allow airlines to increase average fares in most markets to help offset higher fuel and labor costs. The collapse of carriers like Air Berlin, flybmi, Jet Airways and Wow Air has encouraged some airlines to pursue higher yields. But, as capacity continues to expand, it will limit fare increases—with some exceptions. In China and India, strong demand, changes in competition and regulatory developments mean travelers face rapidly rising fares.

Globally, we expect average ticket prices (ATPs) to rise by 1% in 2020. That applies to intercontinental travel in both business and economy class and to regional flights in economy. Regional business class fares will increase by 2%. The airfare outlook differs by region.

Airfare forecasts–regional highlights

Average ticket prices % change year over year



Source: BCD Travel

These aggregated figures mask regional variations in our airfare forecasts for the different travel segments.

Intercontinental business class fares will increase by 1% in most regions, but they will be flat in Latin America and will fall by 1% in Southwest Pacific. Regional business fares will go up in all markets, with ATP increases ranging between 1% and 3%. Travelers flying within Asia and Latin America will face the highest fare inflation at 3%.

Most intercontinental economy fares will stay flat or rise by 1%. We expect them to decrease only in Southwest Pacific due to extra competition on transpacific routes. Most economy fares for regional travel will rise, with increases ranging from 1% to 3%. Latin America will see the biggest jump, as demand within the region recovers. In Europe, the strength of low-cost carriers will ensure regional economy fares remain flat.

Airfare forecasts

Average ticket prices % change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Africa	1%	0%	2%	1%
Asia	1%	1%	3%	2%
Europe	1%	1%	2%	0%
Latin America	0%	0%	3%	3%
Middle East	1%	0%	1%	2%
North America	1%	1%	1%	1%
Southwest Pacific	-1%	-1%	1%	1%
Global	**1%**	**1%**	**2%**	**1%**

Source: BCD Travel

1 IATA, Air Passenger Market Analysis, May 2019

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Hotel rates

Global hotel rates will increase by 1% to 3% in 2020, as solid demand keeps occupancy high. Average daily rates (ADRs) will stay within this range in most regions. Rate increases will be higher in Asia, averaging 2% to 4%, as hotel openings fail to keep up with demand. Expect the highest rate rises in Japan, host of the Olympics Games in 2020, and Vietnam, where both leisure and business travel demand is strong. Latin America will see the lowest rise in ADRs, averaging 0% to 2%, as demand in the region slowly recovers from a period of weakness.

Hotel forecasts

Average daily rates
% change YoY

Africa	1% – 3%
Asia	2% – 4%
Europe	1% – 3%
Latin America	0% – 2%
Middle East	1% – 3%
North America	1% – 3%
Southwest Pacific	1% – 3%
Global	1% – 3%

Source: BCD Travel

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Economic outlook

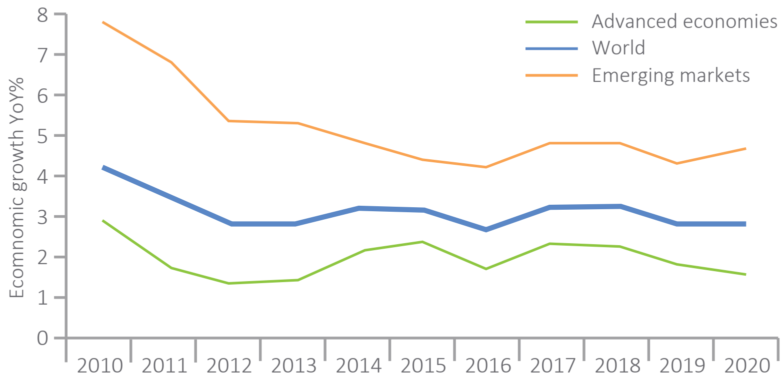
World GDP growth

2018	2019	2020
3.2%	2.7%	2.8%

The world economy has entered its third period of weaker growth since 2010, slowing from 3.2% in 2018 to a forecasted 2.7% in 2019. Expansion should stabilize at this lower level in 2020. The strength of financial markets, an upturn in manufacturing and China's efforts to stabilize its economy will provide some support. But with fiscal assistance fading and international trade relations remaining tense, the world's economic performance is set to remain subdued.

The prospects for advanced economies and emerging markets in 2020 differ (Figure 1). While the performance of advanced economies will weaken further, emerging markets can expect growth to rebound to 5%.

Figure 1: Global economic performance



Source: Oxford Economics, June 2019

Economic outlook

Regional economic growth forecast

	2018	2019	2020
Africa	3.9%	4.1%	4.3%
Asia	5.1%	4.7%	4.5%
Europe	2.0%	1.4%	1.7%
Latin America	1.1%	1.5%	2.6%
Middle East	1.6%	0.6%	2.1%
North America	2.7%	2.4%	1.6%
Southwest Pacific	2.8%	2.3%	2.6%
Global	3.2%	2.7%	2.8%

Source: Oxford Economics, June 2019

Advanced economies[2]

U.S. economic growth will weaken from 2.9% in 2018 to 2.6% in 2019. A solid labor market and resilient confidence among consumers and businesses are supporting spending and investment. But relations with key trading partners remain tense, and stimulus from government measures like the Tax Cuts and Jobs Act and the Bipartisan Budget Act is fading. As a result, the U.S. economy will lose some of its momentum. Oxford Economics believes growth will fall to as low as 1.8% in 2020, which would be the U.S. economy's weakest performance since 2016.

While domestic demand remains solid, challenging conditions for exporters mean that growth in the eurozone will slow from 1.9% to 1.3% in 2019. Trade tensions are likely to persist, so economic growth should remain close to this level in 2020.

2 International Monetary Fund (IMF): based on per capita income, export diversification and integration into the global financial system

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Outside of the eurozone, although the U.K. delayed its European Union (EU) exit by seven months, comments from Prime Minister Boris Johnson suggest an economically damaging "hard" Brexit remains a strong possibility. Leaving the EU without a deal would likely result in the U.K. growing below the 1.6% currently forecast for 2020. The European Commission has warned a no-deal Brexit also would have a negative impact on economies of other member states.[3]

Emerging market economies

Growth in emerging market economies will rebound in 2020, rising from 4.2% to 4.6%. A stronger performance in three regions supports this outlook:

- African economic growth will remain on its recovery path, improving from 4.1% to 4.3%. Egypt will continue its strong growth. Nigeria's economic performance will improve. And expansion will resume in South Africa.
- Latin American growth will advance from 1.5% to 2.6%, as Brazil continues its steady recovery, Argentina emerges from recession and Colombia expands at a faster rate.
- The imposition of sanctions will drive Iran into a deep recession in 2019, weighing down heavily on growth across the Middle East. But as the situation in Iran stabilizes, rebuilding continues in Syria and other markets see modest improvements in their growth, the Middle East economy will strengthen in 2020.

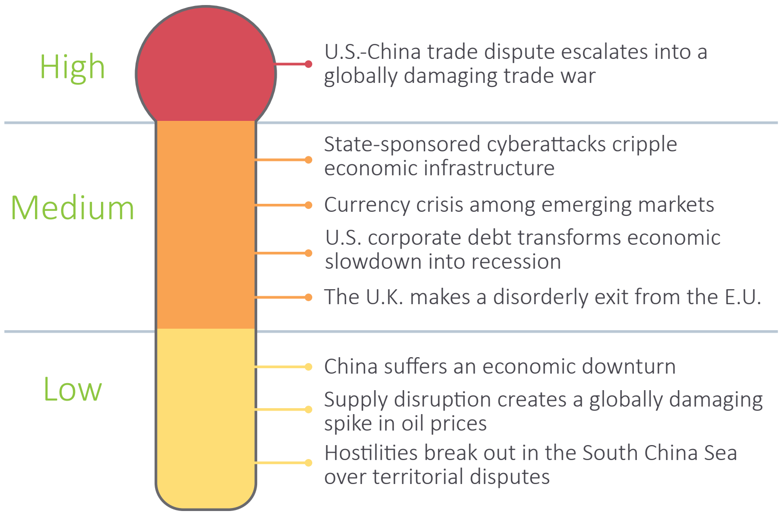
In a counter trend, Asian growth will be slightly weaker for a second year in 2020, slipping from 4.7% to 4.5%. Sluggish import demand from a slowing Chinese economy is hampering expansion in other markets across the region.

Economic risks

A single issue continues to dominate the economic risks: trade. As the ongoing trade dispute between the U.S. and China escalates, it could ignite a globally damaging trade war. In May 2019, the U.S. increased tariffs from 10% to 25% on US$200 billion of Chinese goods. China responded with higher tariffs on US$60 billion worth of imports from the U.S. Both sides stepped back from the brink, after agreeing in June to restart negotiations. But the respite proved to be brief, with the U.S. announcing plans for more tariffs on Chinese goods from September, and China allowing its currency to weaken to offset their effect.

Trade conflicts could emerge elsewhere, forming a pattern of disputes with the power to depress global commerce. This would have knock-on effects for inflation, consumer and business confidence, and, ultimately, global economic growth. India and the EU have their own trade differences with the U.S. to resolve. And, as global economic growth slows, more countries could become increasingly protectionist on trade, making matters worse.

Main risks to the economic outlook



Source: Economist Intelligence Unit Global Forecasting Service, June 2019

3 BBC, July 19, 2019

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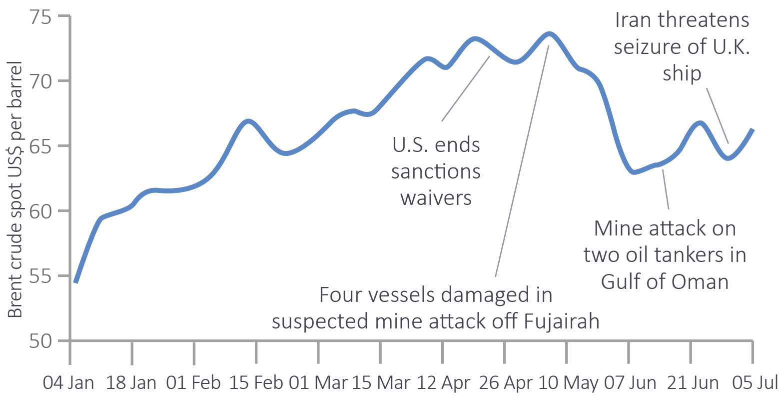
Oil prices

The spot price for a barrel of Brent crude oil has increased by around 20% since the beginning of 2019, as commodity markets priced in the effects of escalating tensions between the U.S. and Iran.[4] In May 2019, the U.S. ended sanctions waivers for nations still buying Iranian oil, requiring countries including China, India, Japan, South Korea and Turkey to seek alternative sources of supply.

The price of oil hit a 2019 peak of US$73.94 per barrel during May. But it has since slipped back below US$70, despite attacks on shipping in the Gulf of Oman (Figure 2).

Global oil prices should remain in a US$60-75 per barrel range during 2019 and 2020.[5] Continued restraint by OPEC, which recently extended voluntary production cuts to the end of March 2020[6], and rising U.S. output, which is helping to offset Iranian losses, will ensure that supply remains essentially stable. In addition, demand will remain weak.

Figure 2: Oil prices during 2019



Source: EIA

Worldwide demand for oil is expected to grow by just 1.2% in 2019 and by 1.4% in 2020, as the global economy stagnates.[7] The U.S.-China trade dispute is fueling concerns about a sharp slowdown in global commerce and economic growth, which would weigh down on oil demand. Policymakers in both the U.S. and China are likely to act to prop up their economies. But they also will be keen for oil producers to play their part in ensuring price stability to avoid stifling any recovery in demand.

If the geopolitical situation in the Middle East does not seriously escalate, oil prices in 2020 should be little different from what forecasters currently predict for 2019. For this reason, we have assumed that the average oil spot price will be US$67 per barrel.

4 U.S. Energy Information Administration
5 Economist Intelligence Unit, June 19, 2019
6 OPEC, July 1, 2019
7 International Energy Agency, Oil Market Report, June 2019

Travel risk and security

Terrorism

Terrorism remains a dynamic global risk, posing a serious threat to employees and companies.[8] Using it to justify investment in travel risk management may overplay its significance as a genuine threat to travelers. The disruption of organized groups like Al Qaeda and the Islamic State means seemingly random attacks by individuals have become the most likely threat in developed countries. However, incidents this year in Nairobi, Kenya, and Sri Lanka are a reminder that some groups are still capable of launching organized attacks in areas frequented by business travelers. European and North American security services' success in thwarting attacks may push terrorists to target other places.

Health

Health risks are always a danger for travelers. According to the World Health Organization, large outbreaks of deadly diseases are becoming the "new normal."[9] Climate change, rainforest depletion, large and highly mobile populations, weak governments and conflict are making outbreaks of diseases like Ebola, cholera and yellow fever more likely and easier to transmit. What's more, low inoculation rates in Europe and North America mean travelers must also contend with diseases such as measles, mumps and rubella that once were considered under control in those areas.

Natural disasters

Whether it's flooding in South Africa or severe hailstorms in Guadalajara, Mexico,[10] travelers are increasingly faced with disruptions caused by extreme natural events. As most are difficult to predict, the best way to reduce risk is for companies to plan standard responses and prepare travelers for potential crises.

Geopolitics

Populist and often right-wing politicians are being elected around the world. Intent on challenging established practices, this new breed of national leader may disrupt the diplomatic traditions that helped defuse international disputes and support the status quo for decades.[11] The political doctrines of some of these new leaders and their backers could threaten travelers targeted because of ethnicity, gender or sexual orientation. In addition, the bureaucratic complexity caused by the U.K.'s muddled exit from the EU means its relations with the rest of Europe in 2020 remain unclear, adding further uncertainty for businesses and travelers. Tensions continue to rise on the Korean Peninsula and, especially, in the Middle East as Iran becomes more isolated.

While terrorist attacks, natural disasters, disease outbreaks and geopolitical events get a lot of attention, and can have a high impact, employers must not forget the daily risks faced by all travelers. They are more likely to suffer from petty crime or illness while on a trip than be involved in a major crisis. Travel managers must plan their response to major events but also provide travelers access to the support they need for these everyday risks.

8 Marsh, 2019 Terrorism Risk Insurance Report
9 BBC, June 7, 2019
10 BBC, July 1, 2019
11 The Guardian, June 25, 2019

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Solutions for mitigating travel risks

- The Traveler Security Program Assessment by BCD Travel gauges whether a company's duty of care practices and policies are effective and comprehensive enough to cover today's travel risks. The assessment explores 11 core aspects of travel risk management, including extreme weather, terrorist attacks, thefts, illnesses, accidents and more.
- All BCD Travel clients have access to Emergency Response, which uses DecisionSource® traveler location information to identify travelers potentially affected by an emergency; send mobile alerts about the situation via the TripSource® traveler platform; and prompt them to check in using the TripSource "I'm Safe" button. Companies can use DecisionSource to monitor affected travelers' locations and then keep communicating with them until the crisis is over or they're safe.
- Through BCD Travel's SolutionSource® platform, companies can partner with third-party risk management providers, including Anvil, International SOS and WorldAware, to expand and tailor corporate travel risk management programs to meet their unique business needs.
- BCD clients can add emergency numbers, details about employee health insurance and more to their My Company page in TripSource to give travelers quick access to important company information in an emergency.

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Africa

Airfares will rise by 1% to 2% on regional routes, with higher increases on flights between Africa’s fastest-growing economies.

Intercontinental fares will rise by 1% in business class but will be flat in economy.

Strong demand supports a 1% to 3% rise in hotel rates, even as many new hotels open.

Africa’s first high-speed rail service opened in Morocco. Egypt plans its own services by 2021.

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Africa

Air

Current situation

Solid economic development, greater political stability and increasing foreign direct investment all point to a boom in African business travel. The African Union wants to boost the continent's prospects by promoting regional travel through increased air services and fewer border controls and visa requirements.

In anticipation, airlines are expanding their fleets, but the surge in demand has yet to materialize. In the first half of 2019, African airline traffic increased by 4.4%, just below the 4.7% growth in global traffic.[12] Demand is being held back by high fares, resistance in some countries to market liberalization and mixed fortunes among the region's carriers.

Demand is growing faster in eastern African countries such as Tanzania, Malawi and oil-rich Mozambique (where most travelers must still fly via South Africa). Fares on indirect flights via Johannesburg and Africa's other major hubs—Addis Ababa, Ethiopia; Lagos, Nigeria; and Nairobi, Kenya—are normally lower than on direct flights.

South Africa remains the region's largest air travel market. The country accounts for 26% of all seats flown to, from and within Africa, reflecting the size of its domestic network. Its influence on the rest of Africa cannot be ignored.

Demand for air travel in South Africa was weak during Jacob Zuma's presidency. The transition of power to Cyril Ramaphosa in 2018 resulted in a modest rise in air travel of 1% to 2%, as confidence returned. However, businesses are still waiting to see what direction the new administration will take before making investment decisions that could fuel an increase in corporate travel.

On the supply side, non-African carriers, including British Airways, TAP Portugal, Qatar Airways and Turkish Airlines, have been largely responsible for the launch of new long-haul services. China's airlines are also expanding their African connections as Chinese investment pours into the continent.

Ethiopian Airlines is the fastest-growing African carrier. It has increased service to Chicago and added new flights to Washington, D.C., via Abidjan, Côte D'Ivoire, and to Houston via Lomé, Togo. It will fly to Bangalore, India, starting in October 2019.

South African Airways (SAA) faces an uncertain future because the government has warned it cannot support the airline indefinitely.

Travelers have a growing choice of airlines when flying within Africa. Air Tanzania and Kenya Airways are expanding; startup carrier Uganda Airlines will reestablish direct links from Entebbe to Kenya, Tanzania and Somalia; and Zambia plans to relaunch its national airline. Yet established supply remains unstable: SAA is restructuring once again to shrink its network; South African low-cost carrier CemAir was grounded over safety concerns; and Air Zimbabwe has reduced operations, although Airlink replaced some of the lost capacity.

SAATM struggles to deliver liberalization and more flights

Since 2014, intra-African flights have increased by more than a third. But with inadequate roads and vast distances to cover, air services still aren't sufficient to help boost the continent's development. Business travelers inside Africa often have to fly via a third airport outside the region, in the Gulf or Istanbul, to reach another destination on the continent because direct flights are so limited.

The Single African Air Transport Market (SAATM) agreement, signed in 2018, aims to boost intra-African air traffic by lifting market access and ownership restrictions. But these goals remain more an aspiration than a reality. In fact, the number of seats available for intra-African flights in summer 2019 was below summer 2018.[13]

Progress on liberalization has been curbed by protectionist resistance to SAATM in some countries, including Nigeria and Zimbabwe. High taxes and airport fees, along with endemic bureaucracy, continue to restrict development of intra-African air services.

12 IATA, Air Passenger Market Analysis, June 2019
13 OAG

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Fares, already some of the highest in the world, have risen by 2% to 4% in 2019 in markets south of Zambia. They have climbed even faster in parts of West Africa, including Nigeria, Côte d'Ivoire and Ghana, where demand is up 6%.

The cost of air travel also is higher on nonstop flights to key European cities, including Amsterdam, Frankfurt and London. But fares are lower on services via the Gulf and, especially when flying with Emirates.

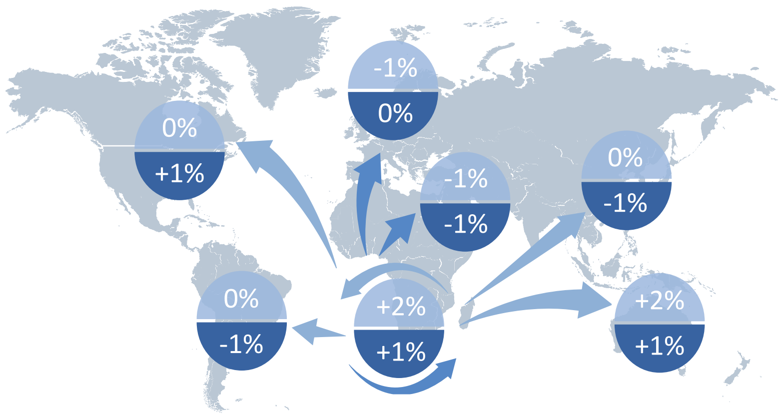
African airlines rarely agree to corporate discounts. But to rebuild its market share, Kenya Airways is enhancing its corporate deals by including more complimentary amenities, such as lounge access.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Africa	1%	0%	2%	1%

Business class
Economy class



Source: BCD Travel

Airlines to watch

Ethiopian Airlines

Its reputation as Africa's strongest airline remains intact, despite the controversy surrounding the loss of one its Boeing 737 Max 8 aircraft. With flights from Addis Ababa to more than 120 destinations, it is already Africa's best-connected airline.

Ethiopian Airlines has grown by 90% in five years; the strong performance of the Ethiopian economy and the prospect of deregulation should ensure that Ethiopian Airlines continues to expand.

RwandAir

RwandAir has benefited from political stability and strong economic growth in its home market. Operating out of Kigali's modern, efficient airport, it has expanded its network, creating a new hub for eastern Africa. Guangzhou, China and Tel Aviv, Israel are among the destinations RwandAir has recently added to its schedule.

Ceiba Intercontinental

Based in Equatorial Guinea, Ceiba Intercontinental already flies to eight other African countries, as well as Madrid.

Outlook for 2020

Demand for business travel will increase as the region's economic growth accelerates. Nigeria, Ghana (currently the world's fastest-growing economy)[14] and Côte d'Ivoire will be among Africa's strongest performers, as the expansion of the mining and resources sector drives growth.

Much depends on the political direction South Africa's new government takes, because its economy influences the fortunes of the whole continent. If investor confidence improves, the return of capital will stimulate business travel.

[14] IMF World Economic Outlook

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Abidjan—West Africa's new hub

Three years of stability have boosted direct investment in Côte D'Ivoire, especially from Europe. Businesses are relocating to the country's commercial capital, Abidjan, from neighboring Francophone countries like Senegal. The city is emerging as both an economic and air transport hub, helping to attract even more investment. Travelers can now fly direct to Abidjan from a number of African countries, including Benin, Burkina Faso, Cameroon, the Democratic Republic of Congo, Guinea, Mali, Niger and Togo.

Local carrier Air Côte D'Ivoire is the largest airline operating at Abidjan's Felix Houphouet-Boigny International Airport, with a 42% share of flight departures. While it serves 22 destinations in West Africa, travelers wishing to fly outside the region have a limited choice of carriers, including Air France, Brussels Airlines, Ethiopian Airlines, Kenya Airways and SAA.

Political events outside Africa may also have an impact. A disruptive U.K. exit (Brexit) from the European Union would affect travel to and from South Africa, as the U.K. is its largest European trading partner. South Africa's neighbors, Botswana, Namibia and Zimbabwe also could feel the effects.

Regional airfares will rise by 1% to 2% in 2020. Expect slightly higher increases for travel between African countries with the fastest-growing economies. Fares for intercontinental travel will rise by 1% in business class but remain flat in economy. Travelers taking indirect routes, especially via the Middle East, may see fares fall.

Our air recommendations

- Flying indirect can reduce airfares, but any savings must be measured against the cost to travelers of long waits for connecting flights.
- If smaller African carriers with growing regional and intercontinental networks—such as RwandAir and Ceiba International—meet the safety demands of your travel program, consider adding them to your carrier mix.
- African carriers are reluctant to offer generous corporate discounts, so focus negotiations on amenities, such as lounge access.

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Africa

Hotel

Current situation

Major hotel chains are in a new scramble for Africa, where demand is growing 7% to 9% annually. Once one chain commits to a market, its competitors usually follow. Abidjan, Addis Ababa, Johannesburg and Lagos are among the cities attracting most new supply. Openings in Accra, Ghana, recently slowed down after a period of strong growth.

An increasingly business-friendly environment on the continent has boosted hoteliers' confidence in investing in new properties. The new hotels give travelers far more choice than they had just five years ago. And the competition is prompting refurbishments and better pricing among existing hotels.

Many of the newer hotels are positioned in service tiers below the top-end properties that have dominated the market. As a result, the average rate is falling, and established hotels are finding it hard to raise their prices in the face of new competition. Corporate buyers are also negotiating extra benefits for their travelers, such as complimentary meals or laundry.

Apartment-style hotels are growing fast because of longer-than-average stays and millennials' desire for more flexibility and better rates than five-star hotels. They're a good alternative to Airbnb because they often must adhere to brand standards.

There remains, however, a limit to the choices companies will offer their travelers. Safety is the main concern, and companies must ensure travelers stay in secure hotels in good locations with wide-ranging amenities that ensure guests rarely need to venture outside. To secure corporate business, hotels are adhering to recognized safety accreditations.

The prioritization of security makes it easier to convince travelers to use preferred hotels in Africa than in some other regions. Yet a relative lack of choice, even allowing for the recent surge in hotel building, makes shopping for a good deal difficult.

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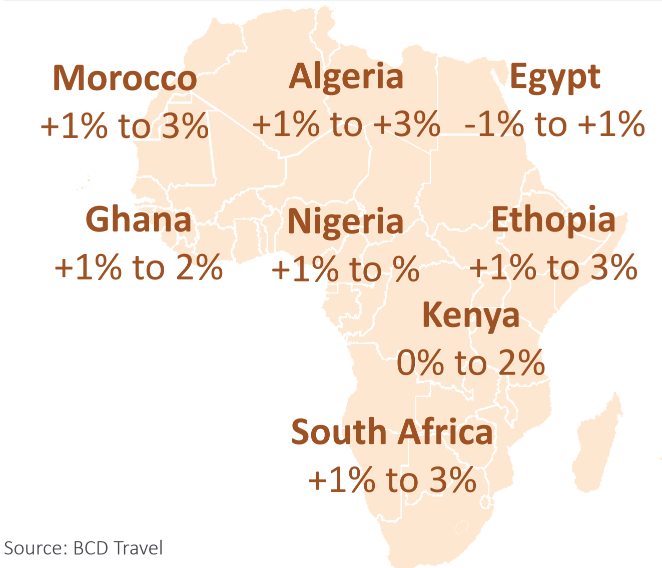
Africa

Hotel forecasts

Average daily rates % change YoY

Africa	1% – 3%



Source: BCD Travel

Outlook for 2020

Hotels will continue to open across the region, with Addis Ababa attracting significant development. Brands scheduled to open in the Ethiopian capital in 2020 include BON Hotel, Hilton, Mercure, Park Inn, Radisson Blu, Wyndham and TRYP By Wyndham.

New supply will help prevent rapid rate rises in 2020. Chains will try to retain existing customers by offering limited or even zero rate increases. Nonetheless, travelers can expect to pay 1% to 3% more for a hotel room than in 2019.

Our hotel recommendations

- Ask hotels to include extras in your hotel agreements, like complimentary food and laundry.
- For safety, insist travelers stay only in approved properties in your preferred hotel program.

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Africa

Ground transportation

Ride-hailing

Technology-based ride-hailing services are travelers' preferred ground transportation choice in Africa. But they're not well-regulated in all markets, so travelers should use them with care.

Uber is Africa's most popular ride-hailing service, although it faces competition from Estonia's Bolt (formerly Taxify) in many cities. Uber already operates across much of sub-Saharan Africa, where it has 36,000 active drivers.[15] With the exception of Nigeria and Ghana, it has yet to establish a similar presence in West Africa. But the company is talking to regulators about expanding to Senegal and Côte d'Ivoire. It's also looking at introducing boat rides in Lagos to alleviate street traffic.

Travelers also have more than 50 smaller operators to choose from, including Safaricom-backed Little Cabs in Kenya. New entrants continue to launch, such as Russian operator inDriver. After launching in Arusha in Tanzania in 2018, it now also operates in Cape Town, Johannesburg and Nairobi and plans to expand to Nigeria, Ghana, Zimbabwe, Uganda and Namibia.[16] It differentiates itself from established players by allowing riders to propose fares up front for their trips.

Uber's deal to acquire rival operator Careem will reduce competition, particularly across North Africa, where the United Arab Emirates-based ride-hailing company is often the first choice for travelers. Authorities in Egypt, a market where ride-hailing already faces a legal challenge from taxi drivers, have promised to block any merger between Careem and Uber, saying it would create a ride-hailing monopoly.[17]

High-speed rail

The Al Boraq, Africa's first high-speed rail line, opened in Morocco in November 2018. An initial phase connects Tangier to Kenitra, with trains operating at speeds up to 320 kilometers per hour (kph). Existing lines from Kenitra to Rabat and Casablanca also were upgraded to speeds of 220 kph. This halves the journey between Tangier and Casablanca to just over two hours. During the first three years of operation, rail company ONCF expects more than 6 million passengers to use its high-speed services.

Egypt has announced its own plans for its first high-speed railway linking Ain Sokhna, the country's new administrative capital, with cities 6th of October, Alexandria and New El Alamein City.

15 Markets Insider, June 27, 2019
16 Quartz Africa, June 18, 2019
17 Medium.com, March 28, 2019

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Asia

Air

Current situation

The low-cost carrier (LCC) revolution that transformed European aviation is now firmly underway in Asia and has driven most of the region's capacity growth in 2019. LCCs already dominate domestic air travel in India, and they are growing in importance across many other domestic and regional markets. In some cases, the strong appeal of LCCs for short-haul trips has so eroded the traffic feeding long-haul services operated by full-service network airlines, that they have cancelled some intercontinental flying.

Business travelers in Asia are more reluctant to use LCCs than travelers in other regions, but this is changing. LCCs already account for more than 80% of domestic air travel in India. In Indonesia, the lower fares and frequent departures on key routes offered by Lion Air and AirAsia Indonesia are winning over business travelers. Loyalty to legacy airlines remains the deciding factor in countries such as Japan and Singapore. But even in these cases, LCC appeal is growing as these airlines become more accessible for corporate travel bookings.

Airline capacity is increasing just as demand is showing signs of softening. Trade within the region is weakening, and businesses are becoming more careful about travel. China is importing less, and India's economic growth has slowed. The trade dispute between China and the U.S. has depressed business confidence across the region. Manufacturers, especially in the automotive sector, are spending less on business trips.

Greater supply and lower demand have not yet resulted in lower prices for air travel. Fares are generally flat, although long-haul fares are up 1% to 3% so far in 2019.

China

After years of double-digit growth, the pace at which Chinese demand for air travel is expanding slowed from 11.7% in 2018 to 8.2% for the first five months of 2019. While this is still much higher than in Europe or North America, it is a clear sign that

Singapore-Kuala Lumpur: LCC or full-service?

This 65-minute flight is a perfect example of differing attitudes towards LCCs. Singapore-based business travelers generally remain loyal to flag carrier Singapore Airlines, even though it is often twice as expensive as low-cost rivals Malindo Air, Jetstar Asia, AirAsia and Scoot. But travelers whose journeys start in the Malaysian capital favor LCCs. For such a short distance, they would typically fly economy on a full-service airline, so switching to a LCC saves money without a noticeable change to service.

The weaponization of Chinese business travel

The number of Chinese visitors to the U.S. fell by 7.9% in 2018, the first decline since 2003's SARS epidemic. Numbers have almost certainly fallen further this year; China's Ministry of Culture and Tourism has advised against travel to the U.S., and employees of the Chinese government or state-owned enterprises may only make officially sanctioned business trips.

The travel restrictions are part of a response to the U.S. tariffs on Chinese imports. Although the U.S. has a goods trade deficit with China, it enjoys a service trade surplus, partly because of Chinese tourist and student visitors. Reducing the flow of Chinese tourists to the U.S. could negatively affect the U.S. economy. This "weaponization" of travel mimics action China has taken in past disputes with South Korea, Japan, the Philippines and Vietnam.

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Asia

Chinese government efforts to stop the economy overheating and uncertainty caused by the trade war with the U.S. are affecting demand.

The slowdown in China's economy has persuaded the country's airlines to reduce domestic capacity growth from 12% during 2018 to 8.4% during the first five months of 2019. The fierce competition to secure route rights has now been replaced by a more cautious approach to network expansion.

Two of China's big three carriers are taking different approaches to their inflight product. China Southern is removing seats from its three premium cabins in favor of a larger economy cabin. China Eastern, on the other hand, hopes to woo more premium travelers by introducing business class suites on its Airbus A350s and Boeing 787s.

A premium cabin by any name

Aircraft operating domestic flights in China usually offer only first class and economy service. Chinese carriers now are rebranding first class as business class to align with government travel policies restricting state officials from flying first class. The name may have changed, but fares haven't fallen.

What Beijing's new airport means for corporate clients

Beijing Daxing International Airport is scheduled to open at the end of September 2019—part of celebrations linked to the 70th anniversary of the founding of the People's Republic of China. Business travelers will then have an alternative to Beijing Capital airport. Here's how the airports differ.

Beijing Capital is 26 kilometers north of downtown, close to most commercial and government offices.

Daxing is 47 kilometers southwest of central Beijing in a less-developed area. It's near Xiong'an New Area, earmarked for development by the government. It's also just 80 kilometers from the major port city of Tianjin. A high-speed rail line will whisk travelers from Daxing to Beijing's city center in 20 minutes.

Travel managers will need to monitor Beijing airline schedules and prepare for changes in air services across the two airports. Daxing will become China's only single check-in airport for passengers arriving via foreign carriers and connecting to domestic carriers.

Some airlines, such as Finnair, will fly to both airports. British Airways will relocate to Daxing to maintain links with codeshare partner China Southern, which is moving to the new airport. Air China will remain at Beijing Capital. China Eastern's position was unclear as of mid-August 2019.

Smaller Chinese carriers will move to Daxing, incentivized by the promise of new route rights.

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More traffic between China and Europe

China's dispute with the U.S. will see it increase trade links with Europe, as Chinese consumers look to Europe for products previously bought from the U.S. China will also do more business with Russia. Watch for new air routes and more capacity on existing routes from China to both Western and Eastern Europe. Fares will rise in 2020, although not as fast as in recent years.

The slowdown in demand growth has yet to affect fares between China's largest cities, such as Beijing, Shanghai and Xi'an, where flights remain full. A liberalization of domestic pricing allowed fares to rise by 20% in 2018, and they are up sharply again this year. Fare hikes are more modest on routes between smaller cities where demand has failed to meet expectation.

India

April's collapse of Jet Airways, India's leading full-service airline, sent shock waves throughout the country. The airline, which had enjoyed a 15% share of the domestic market in 2018, was the highest-profile casualty of a lengthy price war in which only those airlines with the lowest cost structures seem likely to survive. Air India faces similar problems to Jet, but it has been able to rely on financial support from its government owners.

The loss of such a key player sent airfares soaring 15% overnight on domestic routes. Jet Airways had been particularly strong on routes between India's biggest business markets: Mumbai, Bangalore, Chennai, New Delhi and Hyderabad. Fares leaped even higher—by 30% to 40%—on international routes, where Jet Airways had faced little competition from other Indian airlines.

Market leader IndiGo has been the biggest winner from Jet Airways' collapse, increasing its domestic market share from 42% in 2018 to 49% by May 2019.[18] It is actively pursuing the corporate market, which already accounts for 40% of its business.

Full-service Air Vistara and low-cost SpiceJet are also growing rapidly in the void left by Jet Airways and competing for corporate travelers. To this end, SpiceJet has introduced business class on select domestic routes using former Jet Airways aircraft.

After the collapse of Jet Airways, the Indian government relaxed its 5/20 rules governing the start of international services by a domestic airline. This has allowed GoAir and Vistara to bring forward the start of their first international flights. Vistara inaugurated international services in August and already flies to Bangkok, Singapore and Dubai, United Arab Emirates. British Airways, Air France and KLM are also increasing capacity on former intercontinental Jet Airways routes.

The UDAN[19] scheme, which was opening up regional cities to air travel, has taken a back seat, as the government encourages airlines to divert capacity growth to fill the gaps left by Jet Airways and bring prices back down.

The steep rise in the cost of air travel after Jet Airways' collapse has forced many Indian companies to rein in business travel by delaying or cancelling trips. The increased pressure on travel budgets is changing traveler behavior. In a country where last-minute bookings have been the norm, more travelers are now booking in advance to save money.

Aviation was also disrupted in 2019 by Pakistan's closure of its airspace amid elevated tensions with India. This increased the duration of European flights by one to two hours, with the extra costs contributing to a rise in international fares. The impact proved to be temporary, however, and prices fell back once Pakistan fully reopened its airspace in July.

In spite of these problems, and a moderation in India's economic growth, underlying demand for air travel remains strong. May's reelection of Nahendra Modi as India's prime minister boosted investor confidence and will encourage companies to increase travel to secure new business.

18 Indian Directorate General of Civil Aviation

19 Ude Desh Ka Aam Nagrik

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Airport capacity relief ahead

The collapse of Jet Airways reduced flights and eased delays at Mumbai and Delhi, two of India's busiest airports and most important travel markets. However, the relief will be short-lived as other airlines take Jet's airport slots.

Over the next few years, new airport development should address some of the capacity shortages. The construction of Navi Mumbai International is progressing. Hyderabad and Bangalore are also increasing airport capacity. And plans to open more regional airports should also relieve some of the pressure on major airports.

Japan

Airfares have increased steadily this year in anticipation of the Rugby World Cup (Sept. 20-Nov. 2, 2019) and the 2020 Summer Olympics (July 24-Aug. 9, 2020). The revival of Japan's economy is driving increased inbound travel from Europe, North America and Singapore, yet outbound bookings by Japanese business travelers are weak. Domestic bookings on mainstream airlines ANA and JAL have also stagnated.

This counterintuitive trend can be traced to a couple of key factors:

- A shift by Japanese companies towards Skype and other forms of virtual conferencing.
- Air travel's continued loss of market share on domestic routes to Japan's high-speed bullet trains, as airline delays worsen.

Higher fares are forcing some companies to drop their long-standing resistance to using low-cost carriers. They are revising policy to recommend LCCs, even if this means some inconvenience for travelers. LCCs often depart from more remote gates in primary airports or fly from different airports altogether, such as Kobe instead of Itami or Kansai airport when visiting Osaka. LCCs are also gaining popularity by becoming easier to book on metasearch engines.

Outlook for 2020

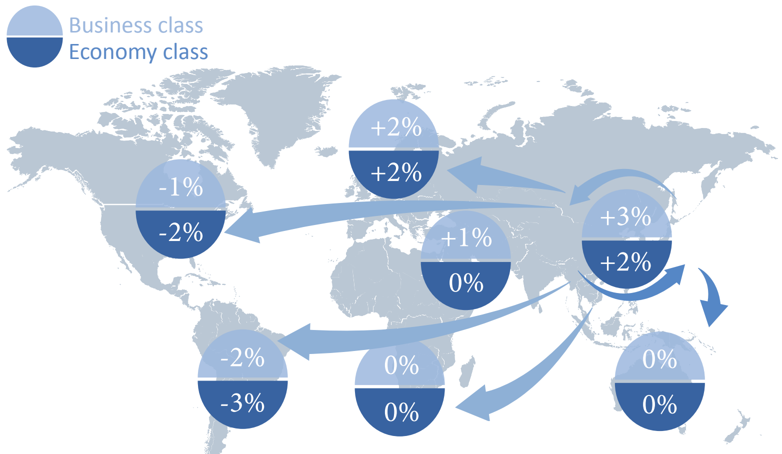
Geopolitics may begin to redraw Asia's air network and business travel patterns in 2020. Some U.S. companies will respond to the trade war with China by relocating business to other Asian countries, rather than repatriating it to the U.S. Indonesia, the Philippines and Vietnam are the most likely destinations for this investment.

Travel could also grow within Asia if the Regional Comprehensive Economic Partnership (RCEP), designed to lower trade barriers among member countries, makes progress. It is backed heavily by India's Prime Minister Modi. China could look closer to home, too, developing ties with neighbors through its Belt and Road global infrastructure initiative.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Asia	1%	1%	3%	2%



Source: BCD Travel

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These developments could boost business travel outside the region's powerhouse economies of China, India and Japan. Vietnam, for example, has seen huge low-cost carrier growth in recent years, helping to reduce average fares. But its transport infrastructure urgently needs improvement to accommodate a surge in business visitors.

LCC development across the region will help offset the impact of steep fare rises expected for domestic travel in some of Asia's largest markets.

Companies in Asia will also have an excellent opportunity to turn global pressures into a reason to tighten control over travel spend. The shadow cast by the U.S.-China trade war and slowing economic growth in China and India will make it easier to drive corporate adoption of money-saving measures such as virtual conferencing, earlier flight bookings and the use of low-cost carriers.

Overall, fares will rise by 1% on intercontinental routes, while stronger demand will push regional fares up by 2% or 3%.

China

Demand will continue to grow, especially on domestic routes. High-speed rail is gaining popularity as a more convenient alternative, but as trains are regularly full, late-booking business travelers often have no choice but to fly. Many of China's main airports are operating close to capacity. This will help push fares up 3% to 5% on average, with double-digit increases likely on the busiest routes.

Demand will also exceed capacity on short-haul flights as regional ties within Asia deepen—especially on routes to India, Malaysia and Indonesia. As a result, fares will rise on these routes, too. However, fares on saturated Southwest Pacific routes will remain flat, and they will fall to the U.S. given Chinese government efforts to discourage travel there.

India

Demand will strengthen as Modi's landslide reelection accelerates reforms promoting economic growth. Airline capacity should return to the levels seen before the collapse of Jet Airways, reducing fares. But airlines are unlikely to allow fares to fully fall back to unsustainably low levels. Travelers must get used to paying more for flights than in the past.

Expect fares to rise by 7% to 8% compared to prices before Jet Airways' demise. They'll go up as much as 10% if carriers cannot fully replace the lost capacity. The grounding of the Boeing 737 Max 8 may limit SpiceJet's ability to expand. It has parked 13 of the aircraft and based future growth on orders for a further 151 Max 8 jets.

Vistara, owned by Singapore Airlines and Tata, and AirAsia India are likely to expand fast in 2020.

Japan

Both Japanese and foreign airlines will want to increase flights to match accelerating demand, especially at Haneda Airport, which is closer to downtown Tokyo than Narita.

But demand will be so strong, especially in the run-up to the Olympics, that fares will inevitably rise sharply in 2020. Competition from high-speed rail will limit domestic fare increases to 3% to 5%. International fares could rise by as much as 10%, especially on some routes to North America and Europe. Corporate clients could see average ticket prices climb even higher as airlines look to reduce negotiated discounts.

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Our air recommendations

- Persuade travel arrangers to book with low-cost carriers. Millennial travelers are less conscious than older employees about the impact on their personal status.
- Encourage travelers to think about the total cost of a ticket, not just the base fare. In India, low-cost carriers may be no cheaper than traditional airlines once all the extras are included.
- Avoid overpromising on market share. Airlines carefully monitor which corporate clients deliver volume and value.
- Incentivize travelers to book lower fares by trading down to economy. Asian millennials are responding well to this approach.
- Exploit rising airfares in countries like China and India to instill more discipline in buying practices, such as booking earlier.
- Encourage travelers to book off-peak flights, avoiding Monday morning and Friday evening.
- In China, consider carriers like Hainan Airlines and Xiamen Airlines, which offer competitive fares.
- For westbound long-haul flights, look at whether Middle East connections will lower costs.

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Hotel

Current situation

Asia is experiencing an unprecedented hotel development boom. Business travelers can choose from more Western and local hotel brands, book more independent properties within their corporate programs and access a greater range of prices. China and India are leading the way, but hotel development is also strong in Vietnam and in key cities such as Kuala Lumpur.

Global groups like Marriott and Hilton are racing to expand in a region where chain penetration is just 10% of the total market. Their growth presents new negotiating opportunities for travel buyers looking to leverage even more of their total global spend with properties that offer familiar booking processes and service standards. But Western travel managers shouldn't overlook the many excellent locally branded and independent options, which may be more convenient or offer better prices. Ask local offices to help identify which properties deserve to be in preferred programs.

While international visitors to Asia continue to favor upmarket brands, the development boom means many more midprice and economy options are on offer. There are also more lifestyle properties aimed at younger guests wanting an informal ambience at lower prices. Travel managers now need to offer a diverse selection of Asian hotels that suit many travelers' tastes and budgets, while taking care not to spread their buying power too thinly.

So many hotels have opened in Asia that corporate demand, while growing steadily, has not kept pace, except in India and Japan. However, the supply boom has not lowered rates. Instead, hoteliers are choosing to maintain or even push them up and accept filling fewer rooms. Robust growth in the high-paying leisure market, largely driven by Chinese tourists, is also helping hoteliers manage their room inventory. They're less willing to offer corporate discounts, although negotiating has become a little easier in Singapore and Hong Kong.

The rise and rise of OYO

OYO (On Your Own) Rooms has developed quickly from a relatively unknown brand to the world's fastest-growing hotel group. Today, it is the world's fastest-growing hotel group, with 23,000 hotels in 18 countries, mostly in Asia. It welcomes 500,000 guests per night[20] and is adding hundreds of new hotels every month. Launched in 2013, OYO Rooms is now the world's sixth-largest hotel chain, backed by more than $1 billion in funding from investors including Airbnb.

Founder Ritesh Agarwal originally identified an enormous gap in his home Indian market for comfortable but reasonably priced accommodation, especially outside major cities. The company contracts with independent one- or two-star hotels, rebranding either some or all rooms as an OYO experience. OYO also provides rapid property refurbishments (14 days) and extensive property management apps for hotel owners.

OYO has made rapid inroads into China, too. Just 18 months after entering the market, it has become the country's second-largest chain, with 450,000 franchised and leased rooms in 10,000 hotels across 320 cities. Yet there is potential for OYO to grow much more; it has only a 2% share of the Chinese market, which contains a total of 35 million rooms.

China

Hotel development in Beijing and Shanghai has slowed as both markets are saturated. But vast numbers of new properties are opening across the rest of China. Demand is growing—albeit slower than in previous years—as the Chinese government prioritizes domestic business over exports.

Domestic business travelers are choosing higher-quality hotels as Chinese companies ease policies and allow them to trade up from economy to midrange accommodation. The additional cost starts at about US$20 per night, with some employees paying this premium themselves.

Such upgrading has pushed up corporate average room rates, but like-for-like rates are rising no faster than the general rate of

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OYO and the corporate market

OYO offers budget accommodation to a reliably good standard, although facilities and furnishings are below the level expected by most international corporate travelers. However, OYO is an excellent option for domestic business travelers at junior levels. It provides a single point for searching and booking independent accommodation in tier two, three and even tier four cities. OYO may also be the best option for international travelers visiting destinations where a guesthouse may be the only alternative.

Some travel management companies can connect clients to OYO corporate rates. BCD Travel includes OYO in options offered through the TripSource® inventory of hotels.

Other hotel companies have adopted a similar model. In China, Huazhu launched H Hotel in February, enabling it to offer standardized service across independent hotels. It aims to sign up 3,500 properties by the end of 2019 and 20,000 by 2022.[21]

inflation. Hotels in Beijing and Shanghai business districts have leveraged their locations to push through steeper increases; companies are willing to pay more to keep travelers from wasting time in traffic-clogged journeys from lower-cost hotels in other parts of the city.

Chinese hotels are analyzing their data more rigorously and negotiating corporate rates only with clients who firmly commit to and deliver on agreed volumes.

As suppliers use data to raise their game, corporate travel buyers must manage their hotel programs more closely, too. But collating booking data isn't easy. Chinese travelers have even more ways to book hotels than in the West, with super-apps like Fliggy offering payment processes that don't even require a credit card.

On average, only 25% of air bookings made through TMCs in Asia are accompanied by hotel reservations—even less than in the

Introducing Huazhu

Fast-growing Huazhu Group is one of China's most important accommodation suppliers. In addition to recently launching H Hotels, it added nearly 600 hotels in the 12 months ending March 2019, taking its portfolio to 4,400 properties under brands such as Hi Inn, Elan, Starway and Madison. Huazhu also distributes Accor brands Grand Mercure, Mercure and Novotel in China. The group offers separate corporate deals for the different brands in its portfolio.

Chinese travelers self-upgrade

As living standards rise, more Chinese business travelers are upgrading their accommodation to higher-standard hotels. Many companies only apply policy rules when employees submit their expense receipts, allowing travelers to book where they like. If the hotel they choose is over budget, the employer only reimburses up to the permitted amount.

West. The hotel-to-trip-night situation is improving as companies capitalize on new TMC strategies to improve control over hotel spend and support duty of care.

India

Demand for accommodation has surged by 7% to 9% this year. Hotels in the biggest business markets—Mumbai, Delhi and Bangalore—are almost always full. It's a situation that's also becoming apparent in the next tier of cities, including Ahmedabad, Indore and Chennai. Momentum is building behind demand in Tier II and Tier III cities, such as Amritsar, Pune, Nashik, Varanasi, Jaipur and Vijayawada.

Hotel companies are responding with an unprecedented rate of property openings, especially midmarket hotels in secondary cities. For example, IHG is opening Holiday Inn and Holiday Inn

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Express properties across the country. But Indian chains are driving much of the growth. These include Lemontree Hotels and Indian Hotels Company Limited's economy brand, Ginger. OYO, which is taking a less conventional approach, is expanding rapidly by signing up independent hotels to its virtual chain.

Yet new supply cannot keep up with demand. As a result, rates, which had been unsustainably low, have soared this year by 10% in metro cities and by 5% to 6% in smaller locations. However, the availability of more midrange options allows companies to limit the rise in their program's average daily rate.

Japan

The strength of demand has sent hotel rates 10% to 20% higher in the Tokyo Bay area. While the major chains aren't adding new hotels, so-called "business hotels" are expanding. These tiny rooms cost US$80-$90 per night and are used almost exclusively by travelers from Japan and elsewhere in East Asia. They're unlikely to suit Western travelers.

Negotiating corporate deals is becoming increasingly difficult. Hotels in central locations are reluctant to discount and are no longer guaranteeing rate availability. Buyers have had to raise their Japanese rate caps; increase choice so travelers can shop around; and look at alternative accommodation options such as Airbnb or *minpaku* private lodging, even though they may be in less convenient locations.

Outlook for 2020

Supply will continue to increase not only in China and India, but also across Southeast Asia, as manufacturers move out of China and invest in Cambodia, the Philippines and Vietnam. As it will take new hotel openings some time to catch up with the sudden influx of demand, travelers should prepare for higher rates and less availability in these markets.

Goods & Services Tax update

India's Good and Services Tax (GST), introduced in 2017, can be as much as 28% for stays in luxury hotels. Companies are allowed to recover GST, but this was initially difficult to achieve in practice. The process has been simplified, and companies can now recover GST relatively easily if hotel bookings are processed through their travel management company.

Airbnb's mixed fortunes

Airbnb has had limited success with Asia's corporate market. It must overcome entrenched corporate views about accommodation choices. Buyers are concerned about liability issues and the risk of opening up yet another accommodation distribution channel. Airbnb is also heavily restricted in some markets, including Japan and Singapore. Still, Airbnb for Work can be a useful alternative in cities where hotel supply is limited, and its appeal is growing among technology-sector businesses.

In Japan, Airbnb faces competition from local *minpaku* providers whose businesses were bolstered by a new private-rental law that took effect in 2018. The law expanded the traditional practice of renting out spare rooms to include whole-property rentals.

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Demand will outpace new supply across Asia. Expect a 2% to 4% average rise in hotel rates.

China

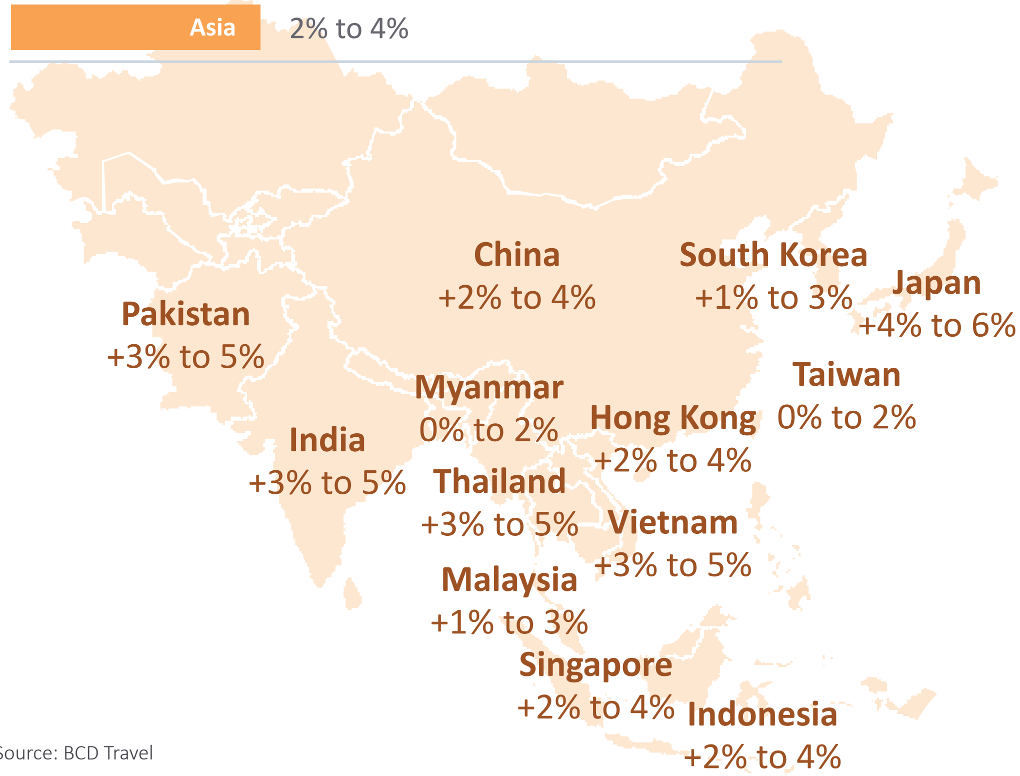
New supply will slow in Beijing, Shanghai, Guangzhou and Shenzhen but continue to grow fast in Chengdu, Xi'an, Qingdao and other second- and third-tier cities. As demand will be weaker than in the past, average rates are unlikely to rise by more than 2% to 4%. But rate increases will be higher than this outside tier one cities.

Hotspot cities

In Chengdu, a flourishing tourism destination and business center, hotel rates are going up fast. It's a similar story in Xi'an, at the eastern end of the Silk Road and home to the Terracotta Army, where supply has yet to catch up with demand.

Hotel forecasts

Average daily rates % change YoY



Source: BCD Travel

Asia

India

Hotels will continue to open at a fast pace, especially outside the metro cities. But supply will not expand fast enough to satisfy the demand of India's rapidly expanding population of business and leisure travelers. Rates will rise by 3% to 5%, and companies will find it increasingly hard to book rooms at any price at the last minute.

Japan

Demand will outpace supply right up to the end of the Olympic Games in early August 2020, with rates rising by 4% to 6%. Prices may then drop. Hoteliers, who learned from the post-Games oversupply in previous host cities like Sydney, are considering converting some hotels into apartments to rebalance supply when demand drops.

Our hotel recommendations

- Using cheaper hotels farther away from meeting locations in major cities may save money, but traffic congestion means travelers can waste a lot of time even on short-distance journeys by road.
- Seek a balance between global deals and arrangements with essential local properties.
- Add midrange properties to your program while retaining high-end choices for senior executives.
- Reduce negotiated rates by excluding amenities your travelers don't use. By making your preferred rates more competitive, you'll keep more travelers within the corporate program and away from the no-frills prices offered online.
- Your TMC now may be able to book Asian hotel brands, even if they aren't included in a global distribution system. Work with your TMC to research which available brands would fit your hotel program.

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Meetings

Current situation

Demand for conferences and meetings is booming in Asia, and companies are growing their budgets. Meetings rates have jumped by 4% to 5%, especially as the construction of new meeting space tails off. Hong Kong remains the region's No. 1 meetings destination, followed by Singapore. Other destinations are growing in popularity, including Shenzhen, China, and the coastal Thai city of Pattaya. Thailand's popularity as a meetings destination waned during a period of political uncertainty, but it is once again becoming a preferred location.

Companies increasingly prefer to hold several smaller meetings across a country—or even the whole of Asia— instead of one mega-event. As a result, hotels are becoming more flexible, dividing their meeting space to accommodate smaller events.

The April 2019 terrorist attack in Sri Lanka made security a top priority again for corporate programs with travelers in the region. Bookings to Sri Lanka have not yet recovered. Hotels in Jakarta, Indonesia, and major Indian cities have improved their security following incidents in previous years and are now well regarded by meeting planners. Singapore continues to benefit from its reputation as a safe destination for meetings and events.

Many companies still take a relationship-driven, event-by-event approach to meetings, instead of managing their needs strategically. Lead times for booking events also remain very short.

Outlook for 2020

Limited increase in supply coupled with strong demand should send meetings rates up by another 4% to 5%. As with transient hotel rates, Japan will be very expensive as the Olympic Games approaches. But prices could fall sharply afterward. Some Olympic facilities might be converted into meeting spaces. Until then, Japan's high rates may persuade international meetings organizers to look at alternative destinations like Thailand and South Korea. These countries offer interesting experiences and high-quality venues at good prices.

Macao is a destination to watch thanks to improved accessibility following the opening of a bridge connecting it to Hong Kong and the Chinese mainland. But it, too, has been affected by geopolitical events. In August 2019, the Association of Corporate Travel Executives (ACTE), citing duty of care concerns, canceled a summit in Macao following weeks of protests in Hong Kong that disrupted travel.

Our meetings recommendations

- Look beyond the obvious cities. Alternative destinations, such as Chiang Mai in Thailand, can provide better value for money and a wow factor for your event.

 | |

Ground transportation

Ride-hailing

Uber is not Asia's leading ride-hailing company. Didi Chuxing dominates the Chinese market, where its main rival is Ucar. Grab is the No. 1 option in most of Southeast Asia after buying out Uber in the region. Indonesia's Gojek is also doing well in Singapore, Thailand and Vietnam and is considering entering Malaysia.

Ride-hailing is not yet widely included in corporate travel policies, but it continues to attract business travelers away from traditional taxis. The main exception is Japan, where taxis are supported by the government.

Rail

China

High-speed rail network expansion continues to attract airline passengers away from delay-prone flights. The new Beijing-Qingdao line has reduced rail journey times from five to three hours, comparing favorably with a 90-minute flying time. Traveling by rail can also be much cheaper, encouraging many business travelers to make the switch.

However, rail's success brings its own problems. The nonstop Beijing-Shanghai service is so popular, especially during the summer typhoon season when flights are often disrupted, that travelers booking less than two weeks ahead are unlikely to secure a seat. A second line between the two cities is under consideration.

The Chinese government controls rail fares. It has kept prices unchanged in economy class but raised them for first class and business class (confusingly, the highest travel class). Fares are likely to rise faster to finance the heavy debt from network expansion.

Electronic ticketing will soon make rail easier for business travelers. Currently, they must print tickets to submit as *fapiao*

Mapping apps offer more ride-hailing options

Chinese travelers are increasingly using mapping apps such as Gaode Maps to give themselves a choice of ride-hailing services. Gaode consolidates different ride-hailing services on a single platform, giving travelers easy access to ride-hailing options and eliminating the need for multiple apps.

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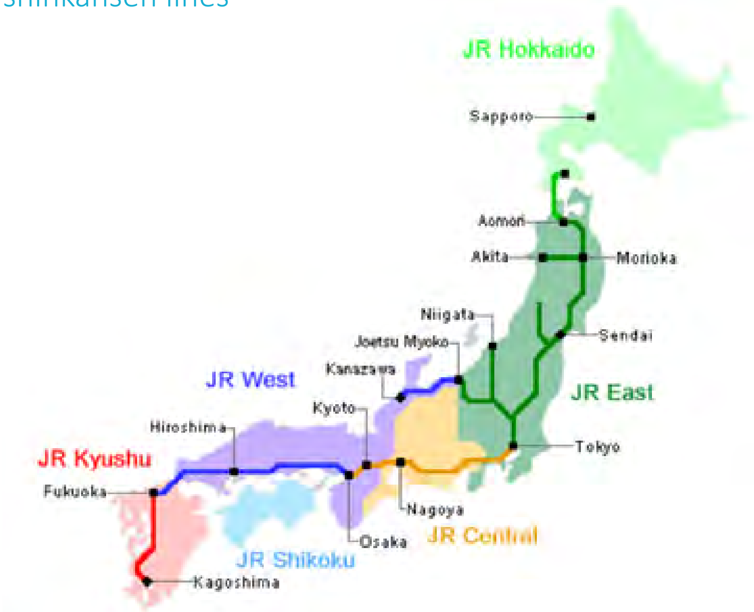
receipts required for reclaiming business expenses. In future, a digital *fapiao* for the ticket will be sent electronically to a company e-wallet.

Japan

Rail travel already accounts for 65% to 70% of domestic business trips. The most popular route is the Tokaido Shinkansen, a high-speed service operated by Japan Rail Central, connecting Tokyo, Osaka and Nagoya.

The operation areas of the regional JR companies and shinkansen lines



High-speed rail fares have remained flat. While no new routes have opened for some time, Japan Rail plans to introduce magnetic levitation—or maglev—trains from 2027. Their speeds will greatly exceed the roughly 500 kilometer-per-hour speeds of existing high-speed trains and could halve journey times.

Thailand

Thailand has plans for two high-speed lines backed by Chinese technology and perhaps financed as part of China's Belt and Road strategy. One line will run from Bangkok to Thailand's northern border with Laos. The other will connect three airports in the Bangkok area: Don Mueang, Suvarnabhumi and U-Tapao.

Our rail recommendations

- Review travel policy as new rail routes are added.
- Consider mandating rail when fares and total journey times are comparable to or better than air.

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Europe

Intercontinental airfares will rise by 1%, with regional business fares up 2%.

Low-cost competition will keep regional economy fares flat.

Hotel rates will increase by 1% to 3%, with higher rises in Ireland and Spain.

Strong demand will push meetings costs up by 3% to 4%.

High-speed rail is expanding in Germany and Spain.

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Europe

Air

Current situation

Europe's air travel market would appear to be in good shape. Flights are full, and the region's economies are generally performing well. During the first six months of 2019, airline traffic increased by 6.1%, faster than in any other region.[22] By matching capacity to demand growth, airlines are keeping load factors high and stable and maintaining fares.

Nonetheless, some airlines have struggled. Wow Air, Primera and Flybmi are among the recent casualties. Some second-tier airlines are still at risk. And even some of the larger carriers have reported reduced earnings or losses, including Lufthansa Group and Air France-KLM.

The causes? Fuel prices have risen sharply, and labor expenses also are increasing as employees seek their share of profits in some of the better performing airlines. Airlines are offsetting some extra costs by raising fares, but not on routes where competition is intense. This has harmed carriers that have expanded too aggressively. Global political uncertainty is not helping either.

Together, these factors mean that return on capital employed—the key indicator tracked by shareholders—risks falling below 7.5%, the level considered healthy for the airline industry. Should this happen, the impact on investor sentiment could result in more airline failures in 2020.

The time may be right for further consolidation. Europe's three largest network airline groups—Air France-KLM, IAG and Lufthansa Group—together account for around 50% of the market. This is much lower than the 80% share held by American Airlines, Delta Air Lines and United Airlines in the U.S. A new round of consolidation would likely result in higher fares.

The case for dynamic performance management

Companies control their air spend through an annual request for proposal process, negotiating with airlines to secure the best possible discounts for the year ahead.

That approach is becoming increasingly outdated. More accurate, real-time data is enabling a shift toward dynamic performance management. It lets travel buyers adjust their air program to shifting market conditions and changes in their own travel patterns and policy. Automated alerts help buyers to identify and manage issues and opportunities as they arise. In this way, they'll know straight away about a sharp price rise on a particular route.

With dynamic performance management, it's possible to constantly track spend and understand any changes. If costs increase on a particular route, the travel buyer can immediately investigate whether the cause is a straight fare increase, a fuel surcharge or the airline's attempt to limit access to lower-fare bookings.

Then it's time for action: Demand a better discount if travelers are being pushed to higher fare classes. Persuade them to book earlier to secure lower fares. Even explore contracting with an alternative carrier. Dynamic performance management constantly reveals fresh opportunities to bring spend under control.

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Europe

Current pricing is complex. Business fares are rising on long-haul routes, where network airlines make most of their profits. Even Middle Eastern carriers, once seen as a low-cost, one-stop option for flights to Africa and Asia, are increasing fares to repair their finances.

Negotiated deals are reducing long-haul prices for corporate clients, as long as they can deliver substantial business class bookings. On short-haul routes, discounts are small or nonexistent as strong low-cost carrier competition means fares and margins are already low.

Regional fares have increased by 4% to 5%, largely due to the stronger position Lufthansa has enjoyed on a number of routes since the collapse of Air Berlin. In some cases, fares have risen by double digits. However, fares are staying low where there is low-cost carrier competition. These airlines have traditionally avoided competing on one another's routes, but this is changing. Full-service airlines will find it difficult to maintain a presence in markets where more than one low-cost carrier operates, even if they deploy their own low-cost divisions, such as IAG's Vueling or Level.

Boeing's 737 Max crisis could push up airfares in Europe

Europe may be the market most exposed to the grounding of the Boeing 737 Max. The expansion plans of Norwegian and Turkish Airlines have been derailed, with a key part of their fleets grounded and future aircraft deliveries disrupted. Ryanair doesn't have any parked 737 Max aircraft, but its future is intrinsically linked to the model, as it has orders for 135 Max aircraft.

Airline	Legacy Boeing 737s	Parked Boeing 737 Max	737 Max on order
Air Italy	8	5	5
Icelandair	0	6	3
LOT Polish Airlines	11	5	7
Norwegian	78	15	88
Ryanair	429	0	135
Turkish Airlines	78	12	63

Ryanair was scheduled to take delivery of 58 of the aircraft by summer 2020. It's unclear when the first will now arrive. The impact has been dramatic. Ryanair blamed the problems with the Boeing 737 Max for reducing its summer 2020 growth rate from 7% to 3%. The airline also plans to close airport bases and cease routes starting in November.[23] In addition, Ryanair's fuel costs will be higher than expected as the Max is 10-15% more fuel efficient than older Boeing 737s in its fleet.

Lower margins will make it harder for Ryanair to keep fares low. And its withdrawal from some routes could enable competitors to increase their fares.

23 Travelmole, July 16, 2019

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Outlook for 2020

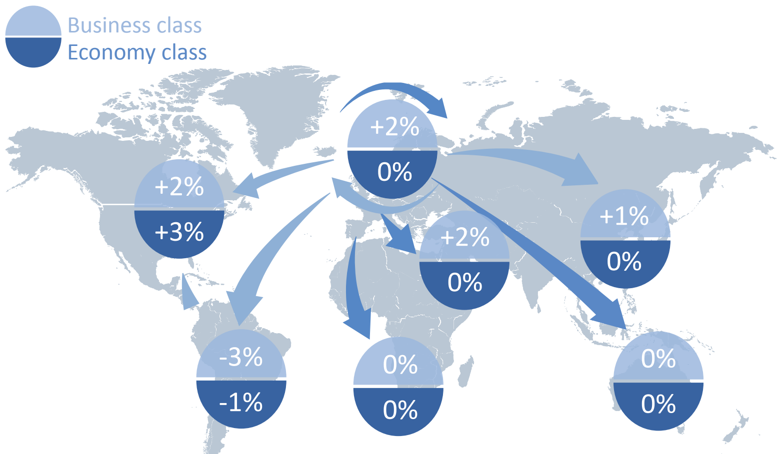
Geopolitical developments may weaken demand in 2020. The threats include Brexit, growing tensions with Iran and an escalation of the U.S.-China trade dispute into a globally damaging trade war.

In the United Kingdom, Boris Johnson’s succession as prime minister has increased the likelihood of the country departing the European Union with no political or trade agreement in place. Both the U.K. and EU seem anxious to avoid the worst-case scenario for travel: the disruption of flying rights. But a disorganized Brexit could cause an economic downturn that depresses travel demand. The U.K.’s Office for Budget Responsibility and the Bank of England both forecast the country would enter a recession in the event of a no-deal Brexit.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Europe	1%	1%	2%	0%



Source: BCD Travel

Transatlantic in focus

Flights between Europe and North America remain a key travel cost for companies on either side of the Atlantic. Large companies may have contracts with all three of the joint ventures that account for most capacity on transatlantic routes. While it would help to concentrate spend with just two groups, gaps in their networks and schedules (and traveler preference for certain airlines) make this hard to achieve.

This year a more aggressive pricing strategy has helped United Airlines and Lufthansa win corporate business and recover lost market share. However, Delta Air Lines/Air France-KLM has also made gains by simplifying its contracting process and replacing Alitalia with Virgin Atlantic in the joint venture. In 2020, it could be the turn of American Airlines/British Airways/Iberia to respond with more competitive offers.

Travelers have other options. So far, low-cost services between Europe and North America have attracted few corporate bookings. Corporate clients are more interested in the large joint ventures’ new transatlantic services to secondary U.S. cities, such as Charleston, South Carolina, and Austin, Texas.

Low-cost carrier JetBlue, which plans to start flying from New York to London in 2021, could make more headway. As it’s already popular with U.S. business travelers, it may be able to leverage this goodwill to secure corporate contracts for its transatlantic flights. But it faces several hurdles. It’s not so well-known in Europe, and it’s unclear how business travelers will respond to longer flights on the airline’s narrow-bodied Airbus A321s. JetBlue also may struggle to match the same frequent schedules offered by the joint ventures that are so popular with corporate customers. Even so, JetBlue should make the U.S.-U.K. market more competitive, and buyers are likely to benefit.

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Whatever happens, uncertainty is bad for business. Companies are less inclined to invest, and that means they travel less, too. It's not clear how airlines would adapt to the economic turbulence ahead. At best they are likely to slow capacity growth in 2020. If bookings fall, fares will remain stable or even rise slightly should carriers trim capacity to align with demand. If airlines are slow to react, there could be some localized, short-term price wars, but large-scale fare decreases are unlikely. On balance, average fares should rise 1% on intercontinental routes next year and by 2% in business class on regional services. Competition from low-cost carriers should ensure regional economy fares stay flat.

Fares could rise faster in Russia. Demand has stabilized following a period of weakness when relations with Western countries deteriorated. Western airlines have been slow to restore services, so flights are full, and fares are rising.

Our air recommendations

- Encourage travelers to book earlier. With aircraft in Europe flying fuller, booking late will mean higher fares.
- Save money and time by adopting dynamic performance management for your air program.
- Use data that emerges from dynamic performance management to persuade travelers to book smarter. Use data visualization and customized predictive analytics to make the case for why they can drive savings if they change certain behaviors.

What to do about airline distribution

As more airlines roll out distribution channels enabled by IATA's New Distribution Capability (NDC), 2020 could be the year that adoption of the new standard really takes off. Travel managers, buyers and travelers need to be prepared.

- Follow the big changes and work out what they mean for you and your travelers. Far more seats could be booked via NDC by the end of 2020, potentially changing what you can and can't negotiate with airlines.
- Understand, in particular, how NDC will be adopted by booking tools. Above all, make sure your travelers can see and book the best possible fares, regardless of the distribution channels behind the technology they are using.
- Discuss with your booking tool provider the order in which it will display NDC and non-NDC fares.
- Watch out for airlines pushing personalized packages directly to your travelers. These packages will include additional services you may or may not want travelers to have (lounge access for example). Revise policy to clarify what's allowed.
- Review with your travel management company (and perhaps with its global distribution system partners) whether the fees it charges will be affected.
- Watch out for airlines removing their lowest fares from GDSs, as Lufthansa has done.
- Follow NDC developments at bcdtravel.com/ndc.

Hotel

Current situation

Demand for hotel accommodation has remained strong in most European countries. High occupancy has persuaded developers to build more hotels, mainly under the management of four chains: Accor, Marriott, Hilton and IHG. London and Paris, two of Europe's most expensive cities, have been major hotspots for hotel openings, as have German cities Frankfurt and Düsseldorf; Warsaw, Poland; and Lisbon, Portugal.

Hotel chains are adding more budget, midscale and boutique/lifestyle properties. Business travelers have been shifting down from more expensive upscale properties. Not only do midscale hotels offer lower average daily rates (ADRs), but their quality also has improved significantly. Younger business travelers, in particular, prefer their relaxed ambience, especially in public areas.

This trend of downshifting is good news for travel buyers. It has lowered ADRs, even though hotels are full. Buyers also are benefiting from access to more hotel options. Travel management companies are working with aggregators to offer a wider range of properties—especially independent hotels—through corporate booking channels. As a result, travelers are more likely to stay inside the company program, which lowers costs, improves program data collection and makes it easier for companies to fulfill duty of care requirements to locate and assist travelers in need.

The evolution in booking and buying also makes negotiating corporate deals with hotels more challenging. Powerful revenue management systems now tell hoteliers how much they can earn from a room. As leisure demand is strong, hotels are less interested in reducing prices for corporate clients.

When they do make corporate deals, hotel chains expect companies to pledge more market share because they now offer brands meeting almost every accommodation need. But that same variety makes it hard for clients to meet suppliers' requirements because travelers have so many hotels to choose from.

Only companies that can deliver substantial volume to a hotel chain across its entire range of brands should expect discounts in the growing midrange and economy segments. Hoteliers believe these properties are already well priced for the quality they offer.

Accommodating bleisure travel

One factor driving the popularity of midscale properties is the increase in bleisure: extending a business trip for leisure purposes. Bleisure travel is especially popular among younger, child-free employees who are still relatively junior in their careers. They prefer hotels where the private room nights they pay for won't cost too much.

Companies should be more responsive to bleisure in their travel programs and policies. Accommodating this sought-after employee perk can drive down ADRs and improve duty of care. Travelers staying at one hotel for both the business and leisure elements of their trip are easier to track in an emergency.

Hotspot cities

European cities where rates have risen more than 5% in 2019 include:

- Amsterdam
- Geneva
- Istanbul
- Moscow
- Vienna
- St. Petersburg, Russia
- Bratislava, Slovakia
- Tallinn, Estonia

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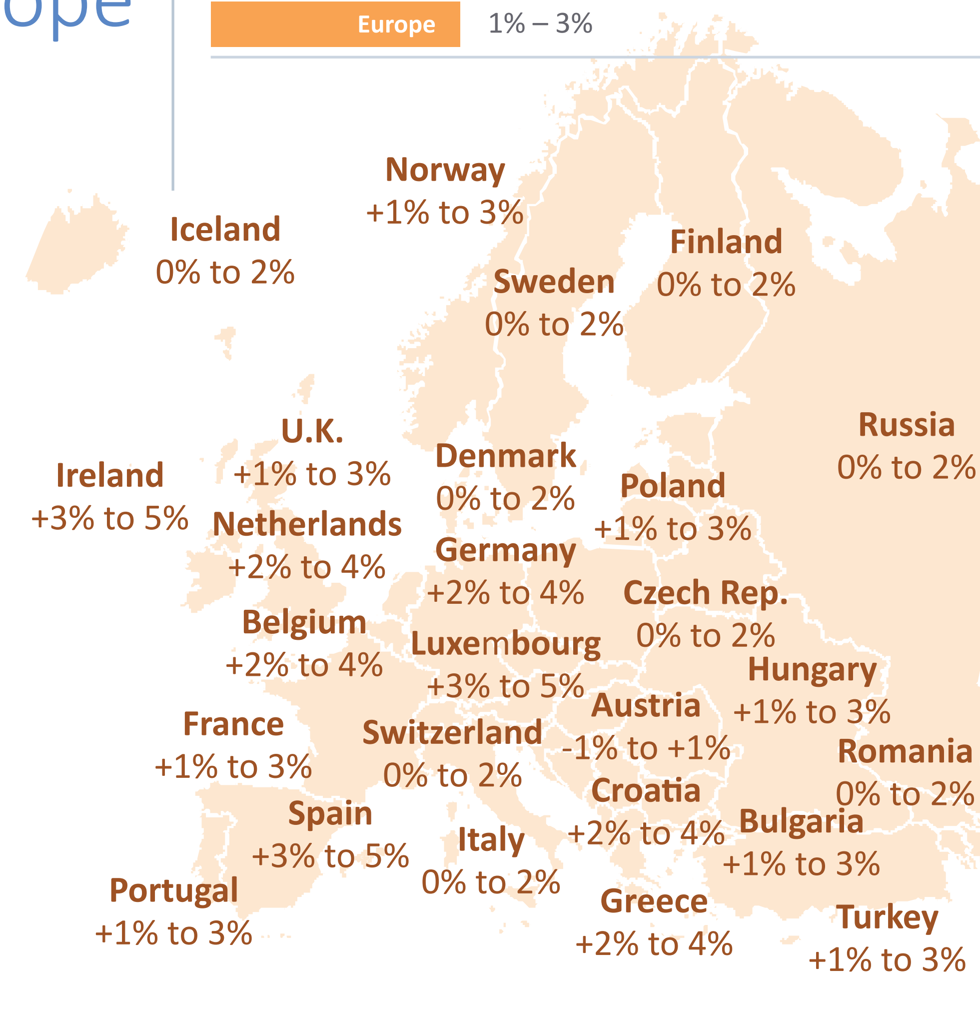
Europe

Hotel forecasts

Average daily rates % change YoY

Europe 1% – 3%



Source: BCD Travel

Outlook for 2020

The recent surge in hotel openings will continue into 2020. Demand should also stay strong, as long as European economies maintain their growth. However, geopolitical developments could depress demand across the region.

If Brexit or some other event does not disrupt the market, expect rates to rise by 1% to 3%, on average. Hotels in Spain, Ireland and Luxembourg will see the highest increases, with ADRs rising by 3% to 5%.

Among the region's largest business travel markets, Germany will see a 2% to 4% rate rise, while both France and the U.K. will have increases of between 1% and 3%. Rates will rise faster for Parisian hotels.

Our hotel recommendations

- Ensure you have access to the most detailed booking data available. It will help determine when to go with negotiated rates for a city and when to rely instead on dynamic market rates.
- Adopt a hybrid strategy. Most programs are best suited to negotiated rates for cities where you consistently have heavy spend. Take advantage of dynamic pricing for all other locations.
- Monitor rate availability to ensure hotels are offering the negotiated deals they committed to. They will normally fix the problem if a corporate customer brings it to their attention.

Post-Brexit double trouble for U.K. hotels

London's strength as both a business and leisure destination helps it ride out most travel downturns. But even it could suffer a drop in demand if the U.K. leaves the EU as scheduled on Oct. 31, particularly if it does so without a deal.

Under normal circumstances, falling demand would persuade hotels to cut their rates. But U.K. hotels face a second Brexit-related problem. They rely heavily on labor from EU countries, which may be in short supply once the U.K. leaves. An employee shortage would push up hoteliers' costs. Hotels then would need to decide whether to raise rates to cover their higher costs or lower them to win back more business.

Avoid an accommodation own-goal during Euro 2020

Major sporting tournaments usually lead to high hotel rates and availability nightmares in the host country—or two countries if the event is shared. But next summer's Euro 2020 football tournament—running from June 12 to July 12—could disrupt business travel on an unprecedented scale.

Euro 2020 will be hosted across 12 countries. The affected cities are Amsterdam; Baku, Azerbaijan; Bilbao, Spain; Bucharest, Romania; Budapest, Hungary; Copenhagen, Denmark; Dublin; Glasgow; London; Munich; Rome; and St. Petersburg, Russia. London will see the most action, hosting the semifinals and final.

Expect rates to be high and availability tight for the 30 days of the tournament—and probably before and after it, too.

Meetings

Current situation

Despite the many new meetings venues on offer across Europe, there is not enough supply. Demand is strongest among German and U.K. companies, with solid demand also apparent in Belgium, Denmark and Sweden.

Meeting venue availability is especially tight in key cities, and most notably in Berlin, Paris and London, as well as in the Spanish cities of Barcelona and Madrid.

Booking late makes matters worse. In primary markets, buyers who don't book well in advance must be willing to pay high rates or make compromises—or both. It helps to be flexible about days of the week; meeting space size and layout; and the number of breakout rooms. Even better: Choose another location. Secondary locations, including Seville and Valencia in Spain; Lyon, France; and Manchester and the London Home Counties in the U.K., are becoming more popular.

The strength of demand has supported a 3% to 5% rise in rates across most of the region, with even steeper increases in primary markets.

Budgeting is a problem, especially when companies stage related meetings in several countries. Venues want upfront deposits or guarantees, but companies struggle to agree on the allocation of costs across the countries and internal departments involved. Creating a virtual card to cover all event costs, including the deposit, will simplify payments and spend management.

Europe's meetings revolution

Europe is one of the world's most dynamic meetings markets. Companies are demanding more creative, experiential and memorable events. If hotels cannot provide them, companies are switching to venues that can—ranging from restaurants to movie studios to former industrial buildings.

Most businesses that are adding these new venues to their supply chain still maintain partnerships with hotels. Hotel chains are responding to this new competition by renovating existing meeting spaces, although it will take some time to upgrade their entire portfolios. They're prioritizing certain brands within the chain, refurbishing them first.

Hotels are also making greater use of their public spaces, such as lobbies, for smaller meetings. While it's not the norm in Europe for hotels to charge for using this space, they will earn revenue from the food and beverages served to meeting attendees.

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Outlook for 2020

Demand for meetings will remain robust in 2020 in Europe, where face-to-face contact drives business culture. The big hotel brands are all looking to increase meeting capacity, especially in Nordic countries where they are underrepresented. However, new supply will fail to keep pace with demand, resulting in a 3% to 4% rate rise, unless Brexit or another development causes an economic shock.

Higher rates will persuade buyers to look farther afield for quality venues at a lower cost. Lisbon is already selling very well for this reason. Destinations in Poland and other parts of Eastern Europe will become more popular in 2020, as will Istanbul, where security fears have receded.

Our meetings recommendations

- Negotiate better rates by contracting multiple events with the same venue or hotel chain. However, this will require longer lead times, which means getting all stakeholders onboard early.
- Make sure meeting organizers are checking smaller cities. The venue options can be very good.
- Allow more time to plan meetings so you can deliver a top-class production.

Meeting planners get the Brexit jitters

Demand for meetings in the U.K. is high, especially because the value of the pound has been low ever since a 2016 referendum set the stage for severing ties with the European Union. This has made meetings cheaper for bookers from outside the U.K., while going overseas has become more expensive for U.K. organizers. Uncertainty over Brexit is making meeting planners cautious, and many are delaying bookings. Even large meetings are being booked with only two- or three-months' notice.

Hotels worried about Brexit's impact on revenue have become less selective about bookings. Many now accept the first meeting proposal, even if it's for a one-day event. That may rule out accepting more lucrative extended meetings. As a result, booking the ideal venue for the ideal date is becoming even harder.

Supply is about to get a bit more plentiful in London, which is desperately short of larger meeting spaces right now. The Londoner Leicester Square is scheduled to open in 2020 with a 1,000-person ballroom.

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Ground transportation

Ride-hailing

Competition to Uber is emerging in a number of European countries. Bolt (formerly Taxify) believes its local operating model will win out over a global business like Uber in the long term.[24] Customers may also be looking for alternatives to the Uber model.[25] For example, Xoox, a new entrant in the London market, allows licensed taxi drivers and passengers to strike their own deal, taking decision-making control back from the algorithms that companies like Uber rely on. Some of these alternatives also appeal to travelers who care about their environmental impact: Rides can be chosen based on vehicle emissions.

Despite strong resistance from governments and local taxi firms, Uber continues to expand its European footprint. It recently launched in Hamburg, its sixth city in Germany. Uber faces competition in the country from Free Now, a taxi app backed by a €1 billion investment from Daimler AG and BMW.[26]

High-speed rail

High-speed rail services are reshaping travel options in some parts of Europe. For example, air services were discontinued on the Berlin-Nuremberg route after the start of high-speed rail services between the two German cities in November 2017.

Since its launch in April 2018, Eurostar's direct service from London to Dutch cities Rotterdam and Amsterdam has proved so popular with travelers that the rail company added a third daily service in June 2019.[27] The expansion brings Eurostar's seat capacity on the route to the equivalent of 12 flights per day. It now takes just over three hours to travel from London to Rotterdam by rail—and just under four hours to get to Amsterdam. More than 200 daily flights still take passengers from London to Amsterdam; three daily flights go to Rotterdam.

Direct rail services between London and Bordeaux, France, are now under consideration.[28] The new service would take under five hours, with models suggesting up to 20% of airline passengers would switch to rail.

Europe's most intensive high-speed rail development is happening in Spain. A Madrid-Granada service launched earlier this year. Other projects in the pipeline include a line from Madrid to the north coast and an upgrade of the Barcelona-Valencia line, which is currently only partially high-speed.

Spanish national rail operator RENFE has also bid to run services on France's high-speed network, which is opening up to competition from 2021.

A choice of high-speed rail service will inevitably lead to lower fares, which could boost demand.[29] The speed itself is a major selling point. European business travelers are reluctant to take rail trips much longer than three hours; high-speed trains shorten the journey.

Another driver: *Flygskam* (flight shaming), a trend with Swedish origins, is encouraging more travelers to shift from air to rail to reduce travel's environmental impact. Travelers in Sweden, influenced by teenage climate activist Greta Thunberg, already appear to be reducing flights. For example, air passenger numbers between Stockholm and Copenhagen fell 7% year over year in June 2019.

24 Techcrunch, Nov. 29, 2018
25 Techworld, April 30, 2019
26 Reuters, July 16, 2019
27 Breaking Travel News, Jan.4, 2019
28 Breaking Travel News, Oct. 16, 2018
29 CityLab, July 5, 2019

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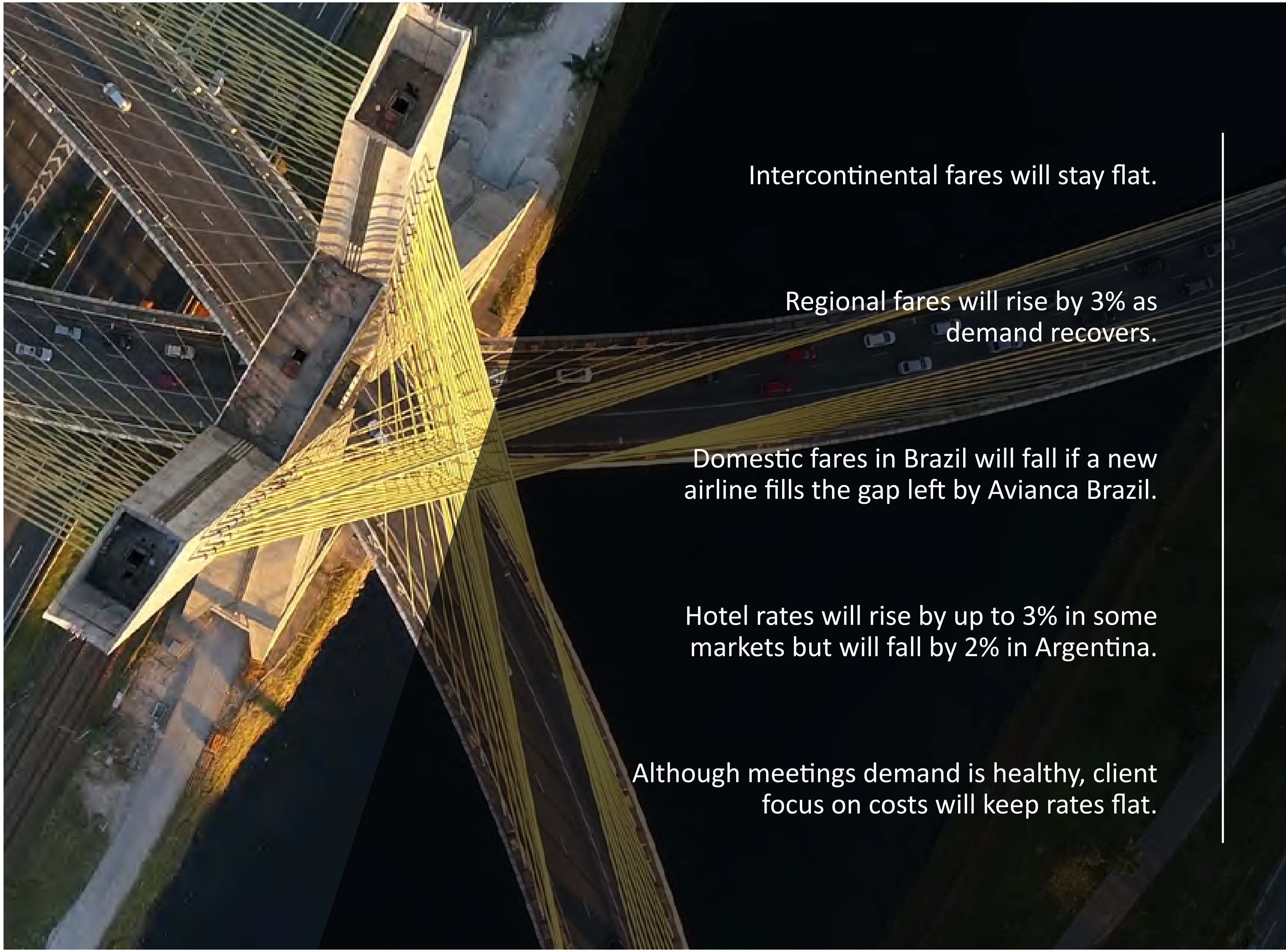

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Latin America

Air

Current situation

The poor performance of some of Latin America's larger economies means corporate demand for air travel is showing signs of weakness, especially in Argentina. This is combining with rapid expansion by low-cost carriers across Latin America to push down average ticket prices in many markets. Brazil, the region's largest business travel market, is the exception.

Brazil

Demand for business travel was strong when President Jair Bolsonaro took office at the beginning of the year. But investor confidence in his administration waned quickly, especially as market liberalization stalled. Brazilian companies are tightening budgets as they wait to see what happens next.

Airfares are rising despite soft demand. On domestic routes, fares are up sharply because the bankruptcy of Avianca Brazil in late 2018 reduced the major carriers in the market from four to three. Fares have increased by 20% on the key São Paulo-Rio de Janeiro route. Prices on other routes have soared as much as 60%, as airlines returned to profitable pricing after a lengthy fare war.

On international routes, the devaluation of the Brazilian real has increased fares. Airlines are reducing their U.S. dollar-denominated fares, but not fast enough to keep pace with devaluation. European routes are the exception, with overcapacity triggering some aggressive discounting.

Higher fares in a depressed market are tempting some business travelers to search for flights independently. As a result, companies are facing higher rates of leakage from their corporate programs, making it harder to control total air spend. Worse still, travelers are turning to mileage websites, which buy unwanted loyalty miles from travelers and then use them to book and sell cheap tickets. These sites are unauthorized.

Buying air travel in Brazil

Brazil's four domestic airlines approach the market in different ways, so each requires a different strategy from corporate travel buyers.

Avianca Brazil collapsed after expanding too fast. Its exit from the market has encouraged the remaining airlines to push up fares.

Azul charges above-average fares because it enjoys a monopoly on some routes to secondary airports in Brazil. Azul is reluctant to offer discounts to corporate customers. However, it is now offering competitive fares on some new routes launched from São Paulo's Congonhas Airport and from its main base at Campinas Viracopas, also in São Paulo state.

GOL has evolved from a low-fare airline into one with more appeal to business travelers. It now offers Wi-Fi, USB ports and seats with extra legroom.

LATAM has discounted aggressively to defend market share and recapture business lost to Azul and GOL. Once it improves amenities to match the offerings from rivals, such discounting may end.

Argentina

Business travel spend in Argentina has fallen by around one-third this year because of the country's economic problems and uncertainty over the outcome of the general election scheduled for October. Airlines have responded by reducing frequencies or axing routes completely. LATAM is pulling out of Argentina after racking up major losses and struggling to repatriate revenues. That will leave the market to Aerolineas Argentinas, which already attracts 90% of business travel spend.

Inflation has pushed up domestic fares paid using Argentina's currency, the peso. International fares are quoted in U.S. dollars, and have been falling. But when converted into pesos, those prices are rising, too.

Business customers have responded by flying less or downgrading their class of travel. Some carriers are trying to stimulate demand by making tickets payable in interest-free monthly installments over a year. High inflation means this approach offers significant savings.

Venezuela—a country in crisis

Business travel in Venezuela is in crisis because the country itself is in crisis. Production of oil, which drove the country's boom a decade ago, has shrunk from 3.1 million barrels to 0.7 million barrels per day. The economy is contracting by double-digit percentages each year, and hyperinflation is rampant: A gallon of milk now costs roughly a month's salary. An estimated 5 million to 6 million of the country's 31 million residents have fled.

Air

Air supply and demand has plummeted. There used to be 15 domestic flights daily between Caracas and Maracaibo; now there are two or three. The 20-minute flight from Caracas to the industrial city of Valencia now costs US$20 or less. But with little certainty that any flight will actually depart, the few business travelers still making the trip prefer a six-hour, US$200 round-trip journey by car—preferably a bulletproof one.

Air tickets sold through travel agents fell to 520,000 in 2018 from 4.7 million in 2014—an 89% decline.

U.S. carriers have withdrawn from the market, leaving passengers without direct service between Caracas and Miami. Travelers can still book flights to Europe operated by Venezuelan airlines Plus Ultra and Estelar, as well as by Iberia, Air Europa, Air France and TAP Air Portugal.

Hotel

Hotel demand has actually increased. Domestic air service is so infrequent and volatile that an overnight stay has become almost unavoidable for anyone making a business trip. Agencies typically sell three nights of accommodation to accompany every domestic flight.

Rooms have to be confirmed and paid for immediately because the volatile exchange rate means prices can change quickly. Only the country's few four-star hotels and some mid-range hotels have managed to maintain service standards. Occupancy rates are generally 20%, rising to 40% in the top hotels. They can easily climb to 100% during power outages, as many hotels have their own power supplies.

Outlook for 2020

There is little prospect of Venezuela's economy, or the business travel situation, improving until the political crisis is resolved. Talks between the government and opposition brokered by the Norway may pave a way forward.

Our recommendations

- Expect volatility every day. Any flight offered today may be unavailable tomorrow without warning.
- Planning is essential. It's easier to change a confirmed ticket than to find a last-minute flight.
- Seek expert local knowledge on which hotels to use.
- To secure hotel bookings, pay promptly in U.S. dollars.
- Think about safety and security at all times. Arrange airport transfers and other assistance before arrival.

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Latin America

Chile

Chile's economy has fared better than others in the region, but its growth has still slowed. Demand for air travel is up only marginally.

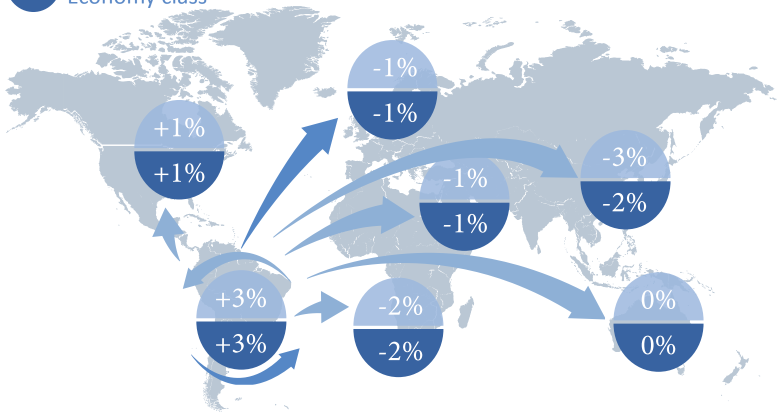
Leading airline LATAM has reduced fares to win more passengers in Chile, its home market, to compensate for business lost in Argentina.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Latin America	0%	0%	3%	3%

Business class
Economy class



Source: BCD Travel

LATAM is facing increased competition domestically from low-cost carriers, especially Jetsmart, which has built a market share of 15%. Budget airlines now have 45% of the market, but corporate travelers still prefer LATAM. That said, the competition has helped keep fares flat.

Outlook for 2020

Other than Argentina and Venezuela, most Latin American economies should improve in 2020. This will lead to a small increase in business travel. Supply will also increase, largely through low-cost carrier growth. Watch for the launch of more regional air services. Expect regional fares to rise by up to 3%. But intercontinental fares will stay flat.

Brazil

Two issues will determine what happens to Brazilian air travel in 2020. The first is President Bolsonaro. His administration will need to demonstrate genuine progress on economic reforms or risk frightening away investors.

The second issue is whether a new domestic airline will fill the gap left by Avianca Brazil and restore competitiveness to the market. Airline ownership rules have been relaxed, removing foreign ownership limits, but companies will be reluctant to invest unless they are confident the economy is set to improve. Globalia, parent company of Spanish airline Air Europa, is a candidate to become the first foreign company to set up a Brazilian airline.

If no successor to Avianca Brazil emerges, the three surviving airlines will keep fares high, especially on Ponte Aeréa flights (the Rio de Janeiro-Sao Paulo airbridge where GOL and LATAM operate a duopoly) and on services from Belo Horizonte and Brasilia.

On international routes, fares will rise if the Brazilian currency continues to devalue.

 | |

Latin America

Tax reduction to boost service for São Paulo

Expect more air services to launch in São Paulo state, now that it has reduced aviation taxes. The state was already attractive to airlines because it's one of Brazil's strongest performing economies—home to business hub São Paulo city. But any new services in São Paulo could mean the withdrawal of services elsewhere; airlines are cautious about increasing fleet numbers in the current economic and political climate.

Argentina

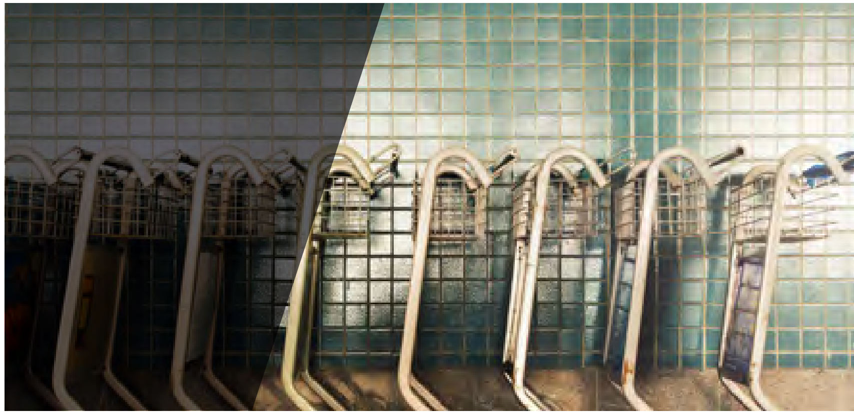
Much depends on the outcome of October's general election, which is currently too close to call. The economy has performed poorly under center-right President Mauricio Macri, but most businesses fear the Venezuela-style interventionist politics of the opposition party led by Cristina Fernández de Kirchner could cause even more damage. If presidential opposition candidate Alberto Fernandez wins, expect investment and business travel to stall as companies wait to see what the new government does.

If Macri is reelected, the economy should improve marginally, meaning air demand and fares would pick up a little.

Chile

The prospects for air travel demand depend on Chile's ability to reverse 2019's economic slowdown. Its performance relies heavily on the country's key export, copper, which has fallen in price this year because of lower demand from China. Chile's currency has lost value as a result.

If the economy improves, air travel demand and fares will rise, but only moderately. The growing presence of low-cost carriers and LATAM's aggressive response to the competition will limit fare increases.



Fares also could be kept in check if LATAM surrenders airport slots to competitors to secure approval for its second attempt to form a joint venture with American Airlines. Chilean competition authorities blocked the airlines' first JV proposal.

Our air recommendations

- Stay informed about partnerships developing between Latin American and U.S. carriers. They will change the dynamics of corporate contracts in the region.
- Make sure travelers understand the consequences of booking outside the corporate program.
- In Brazil, consider shifting volume from Azul to GOL and LATAM, which are more willing to negotiate corporate discounts.
- Analyze data to understand the routes on which advance booking will have the biggest impact for your program. Travel between Santiago, Chile, and São Paulo is a good example: The economy fare can be as little as US$300 if booked early but can rise to US$2,000 the day before travel.

Hotel

Current situation

Both global and regional chains are opening hotels in Latin America, but the capacity is coming online just as economic difficulties reduce demand in some markets. Occupancy across the region is only 50-60%. Many of the newly opened hotels are lower-priced, less luxurious properties, often preferred by millennial travelers. As a result, the average room rate is falling.

Brazil

Hotel chains are expanding rapidly. Accor is leading the way among global chains, but local suppliers such as Nobile, Allia Hotels, Transamerica Hospitality, Blue Tree and Bourbon Hotels are growing fast, too. The fragmented supply leaves corporate buyers with little choice but to negotiate discounts at the property level.

Despite the country's political and economic uncertainty, hotel demand remains strong, and rates are rising. That's particularly true in prosperous São Paulo, where transient business travelers are competing with meeting participants for room availability. Demand is also holding up well in Rio de Janeiro, Belo Horizonte and Salvador.

Argentina

Severe economic volatility—especially sharp fluctuations in the value of the peso against the U.S. dollar—has made businesses more cautious about hotel spend. They're keeping expenses under close control early in each budget cycle and then spending more heavily immediately before the next cycle begins.

Unlike some other Latin American countries, supply in Argentina is not growing. New properties have opened, but a few existing ones also have closed. Most new hotels are midscale or economy, partly because few Argentinians can afford higher service levels.

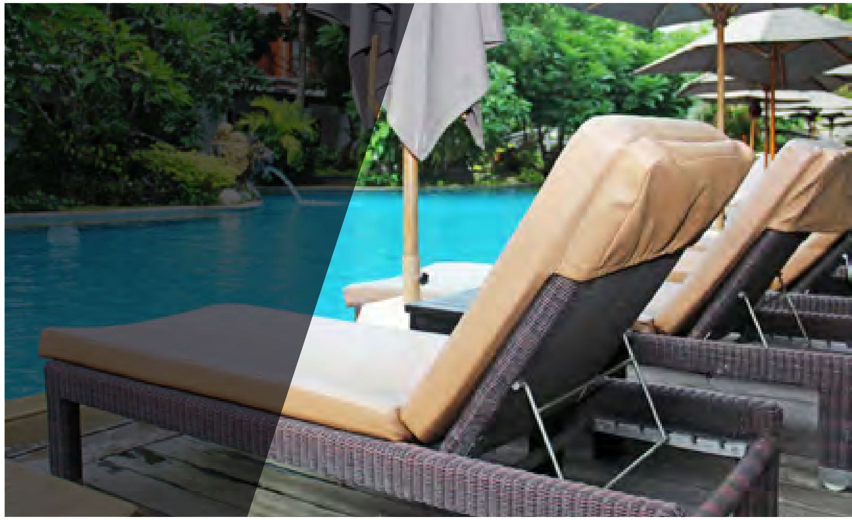
Hotels in Buenos Aires generally quote rates in U.S. dollars; pricing is in pesos elsewhere. The plummeting exchange rate has led many properties to cut prices in dollars, sometimes by as much as 25%. As a result, accommodation has become cheaper for international guests but not for locally based business travelers whose peso-based prices are sharply higher.

Argentina's rate hotspots

In spite of some new hotel openings, accommodation is very expensive in cities associated with the oil and gas industries, such as Neuquén, Río Gallegos and Comodoro Rivadavia. Rates in these cities are on par with Buenos Aires.

Chile

Chile's stable economy has encouraged investors to open more hotels. However, economic growth has slowed, resulting in falling demand and lower rates. The number of Argentine visitors—who usually comprise 60% of all visitors to Chile—has slumped because the devaluation of their currency has made Chile a very expensive destination.



Latin America

Outlook for 2020

Brazil

Although it's far from certain, an improvement in Brazil's economy would support a 0% to 2% movement in hotel rates in 2020. In addition, Brazilian hotels are becoming smarter at managing their pricing, looking for customers prepared to pay top rates. That might make them less willing to offer big discounts to corporate clients to ensure rooms are full.

Hotel forecasts

Average daily rates % change YoY

Latin America	0%–2%

Source: BCD Travel

Argentina

Everything depends on the result of the October 2019 election and what policies the government pursues. Stability is more likely if Macri is reelected. That would create a foundation for economic improvement, leading to increased demand for hotels and higher rates. A government controlled by Kirchner is likely to raise taxes, which could stifle demand for hotels and send rates lower. On balance, rates are likely to drop by as much as 2%.

Chile

Like the economy, the performance of Chile's hotels will depend largely on factors beyond their control: Chinese demand for copper and the economic performance of Chile's larger neighbor Argentina. However, Chile's own strong economic fundamentals should drive modest domestic demand and rate growth of 1% to 3%.

Our hotel recommendations

- Understand the composition of your traveler population. Different demographic groups, such as millennials, prefer different kinds of hotel. The preferred supplier program must meet the needs of all groups.
- Ensure your travel management company and booking tool can source all the properties you want—and at the best rates.
- Incorporate updated sourcing approaches like Stay by BCD Travel™.
- Work with BCD Travel's hotel booking via TripSource to get the best room and rate options.
- Don't forget that advance booking usually means better rates for hotels, as well as for flights.
- Change from prepaid rates to payment by credit card so that travelers can book lower rates available through dynamic pricing.

Meetings

Current situation

Meetings demand is steady in most of Latin America, but a difficult economic and political climate is changing buying behavior. Uncertainty, especially about budgets and costs, is persuading companies to book events at very short notice. Meanwhile, the devaluation of local currencies against the U.S. dollar means companies are booking far fewer events outside their home countries. At the same time, Latin America has become a lower-cost destination for meetings bookers in North America. Bookings are up by more than 40%.

Businesses are looking for more favorable payment terms with both venues and their meetings agencies—extending 30- to 60-day terms to 60 to 90 days, or even longer. Hotels are resisting this move as it harms their cash flow.

Economic pressures are driving more multinational buyers to consolidate their spend across the region, but the pricing situation varies by country. In Brazil, demand has stayed healthy, while supply has contracted a little. Some hotels with substantial meeting space have closed. Newly opened hotels generally have little or no meeting space.

Brazil’s limited hotel availability has made hotels less willing to negotiate. Buyers should expect meeting room rental charges on top of accommodation and food and beverage fees. These higher costs coupled with rising airfares mean meeting costs are rising in Brazil.

Elsewhere, hotels are generally becoming more competitive, either offering lower rates or other concessions to win business.

Outlook for 2020

Clients will continue to hold meetings closer to home. This will lower travel costs and free funds for spending on the meetings themselves. In Brazil, rates could rise modestly again. In other countries, hotels know clients are focused on savings and won’t risk pushing up rates.

Our meetings recommendations

- Encourage meeting organizers to book earlier to improve availability, rates and the opportunity to negotiate with venues.

2020
Industry Forecast

Latin
America

Ground transportation

Ride-hailing

The Brazilian government is considering tighter regulation of ride-hailing services, especially as drivers have complained about working conditions.

Uber dominates the Brazilian market, and it has been building relationships with corporate clients. It faces growing competition from Didi Chuxing-owned app 99 (formerly 99 Taxi). The Chinese ride-hailing company plans to take on Uber in Chile, Colombia and Peru, where it is now recruiting drivers.

2020
Industry Forecast

Middle East

Steadily growing demand and rising costs will push up regional airfares by 1% to 2%, as long as the geopolitical situation does not deteriorate.

Changes in intercontinental fares will be limited to 0% to 1% as expansion by the big three Gulf carriers slows.

Hotel rates will rise by 1% to 3%, mainly in higher service properties. They will stay flat in the increasingly competitive mid-market sector.

Uber's deal to buy Careem will create a dominant ride-hailing force in the Middle East.

2020
Industry Forecast

Middle East

Air

Current situation

The days of relentless expansion by the Middle East's three mega carriers—Emirates, Etihad Airways and Qatar Airways—appear to be over. Capacity was flat among the region's airlines during the first five months of 2019. And in May, the Middle East was the only region where capacity declined, as average seat kilometers (ASKs) fell 5.9% year over year.

The reductions are partly a natural correction following years of unrestrained expansion. They are also the result of airline restructuring and financial damage caused by a series of ill-fated investments in carriers outside the region, including Air Berlin, Alitalia and Jet Airways. Rising geopolitical tensions are also playing a role: Qatar's dispute with its Gulf neighbors is unresolved; the killing of journalist Jamal Ahmad Khashoggi has damaged relations between Saudi Arabia and Turkey; and Iran is becoming more assertive.

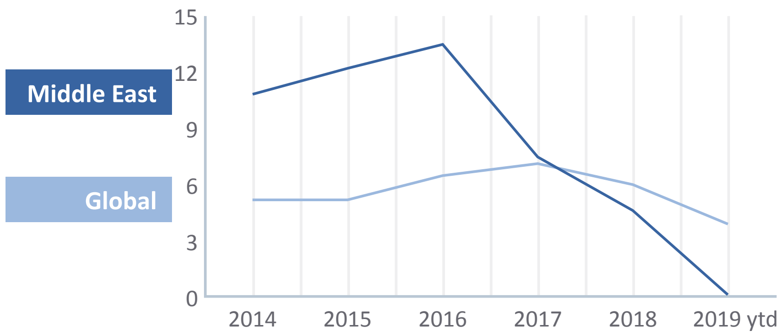
The Middle East is rarely free of political tensions, and its airlines have developed a resilience to the problems around them. For example, Qatar Airways is operating almost as usual, despite Qatar's regional isolation, which has led to the suspension of the busy Doha-Dubai route and the rerouting of many of the airline's flights. It continues to expand, with Isfahan, Iran, and Rabat, Morocco, among the recent additions to its network.

Similarly, although the Khashoggi affair has caused a sharp fall in air travel between Turkey and Saudi Arabia, overall demand in the Saudi market is down only slightly.

Across the Middle East, air travel demand was weak; expanding by just 1.2% in the first half of 2019. Dubai International Airport—the world's third-busiest—recorded a 2.2% drop in passengers during the first quarter, although the grounding of the Boeing 737 Max 8 and the later timing of Easter may have affected demand.[30]

One likely explanation for the stagnation of demand is the growth of direct services between Europe and Asia. More fuel-efficient aircraft, such as the Boeing 787 and Airbus A350, are making "thinner" routes to smaller markets viable. Travelers are switching from slower, indirect journeys through airports in the Middle East to these direct routes.

Global and Middle East airline capacity growth



Source: IATA

30 Gulf Business, May 5, 2019

The rise of Flydubai

Sister carrier to Emirates, Flydubai is becoming an increasingly important option for business travelers. Launched in 2009 as a low-cost carrier, it increased its appeal to the corporate market in 2013 by including a business-class cabin. Its flights are also bookable through global distribution systems, the reservations channel of choice for the corporate travel industry.

Flydubai offers frequent service to 27 points within the Middle East. It is also developing connections to mid-haul niche destinations. These include Asmara, Eritrea; Juba, South Sudan; Djibouti; and Hargeisa, as well as seven destinations in Central Asia and cities in Eastern Europe. It serves 83 destinations in total.

Flydubai's future growth could be impeded by the grounding of the Boeing 737 Max 8. It has 14 of the aircraft in its fleet, with orders for a further 237 for future development.

Middle East

India is a major exception to this trend. Demand is growing fast, and airlines are quickly filling the gap in supply left by the collapse of Jet Airways. Emirates has agreed a new alliance with Indian low-cost carrier SpiceJet to maintain its presence in the Indian market. However, the loss of Jet Airways has still reduced competition, leading to a rise in fares on these routes.

The intra-Gulf market (other than Doha-Dubai) has also stayed healthy. Such is the strength of demand that Emirates has replaced smaller aircraft with Airbus A380s on flights from Dubai to Muscat, Oman, and Riyadh, Saudi Arabia.

Apart from India, fares are generally flat, as carriers have so far been successful in adjusting capacity to slower demand. The big three Gulf carriers are keen to secure more business from corporate clients and are offering improved discounts to customers they believe will deliver significant market share. They are, however, increasingly negotiating with clients route by route, rather than offering blanket network discounts.

Outlook for 2020

Much depends on the development of the Iranian situation. If the crisis deepens, air traffic to the Middle East could be affected severely, although that would be only one of many challenges for aviation. Potential disruption to oil supply would drive higher fuel prices, increasing airline costs and, ultimately, airfares.

Even if the Iran situation does not deteriorate, air capacity is likely to remain flat into 2020. Demand will increase slightly. With airline costs likely to rise, fares will rise marginally—on average by 1% for business class travel and by 2% in economy on better-performing routes within the region.

Emirates plans to launch a premium economy service in 2020. Unlike many of its rivals, the Emirates' product is likely to be situated in a fully segregated cabin, separate from regular economy.[31] The service could tempt some corporate customers to increase their spend by upgrading from economy; but others

31 Condé Nast Traveler, July 19, 2019

Israel—market deregulation leads to lower fares

A booming economy has supported a 4% to 5% rise in demand for corporate travel in Israel. Growth in demand for leisure travel is into double digits. However, supply has grown even faster as Israel has pursued an open-skies policy of market deregulation. Carriers from around the world—both traditional and low-cost—have launched flights to Tel Aviv for the first time, fostering competition. For example, over the last two years flag carrier El Al has lost a virtual monopoly to Asia, as Air India, Cathay Pacific, Hainan Airlines, Sichuan Airlines and Korean Air started Israeli services. Singapore Airlines and two more Chinese carriers are considering launching flights, too.

A switch by some airlines to smaller aircraft has barely affected the overall increase in seat numbers. As a result, fares have fallen, especially to Europe, with major low-fare carriers easyJet, Wizz Air and Ryanair all launching Israeli routes.

The competition has made El Al more willing to negotiate corporate deals. But few Israeli companies offer enough volume to justify a negotiation process; most rely on prices negotiated by their travel management companies.

Expect the fare drops to continue in 2020 and for another two to three years as demand catches up with supply.

Our recommendations:

- Encourage travelers to consider using low-cost carriers. But remember most flights to and from Israel take well over two hours.
- Make sure your TMC and booking tool are set up to offer all flight options—not only traditional and low-cost carriers but charter airlines, too, as they are an important source of supply in the Israeli market.

2020
Industry Forecast

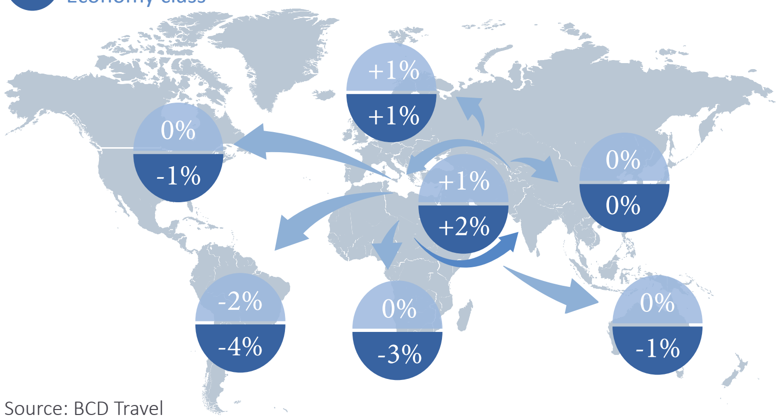
Middle East

Airfare forecasts

Average ticket prices
% change YoY

Middle East	Intercontinental Business	Intercontinental Economy	Regional Business	Regional Economy
	1%	0%	1%	2%

Business class
Economy class



Source: BCD Travel

might lower spend by downgrading from business class. Emirates is already targeting this latter group with new basic business fares.

The United Arab Emirates and India are expected to begin discussions later this year to liberalize their bilateral air agreement.[32] A new agreement could increase services and reduce fares in this busy market.

Our air recommendations

- Take advantage of promotional discounts offered by the three Gulf carriers trying to fill their aircraft.
- Gain administrative efficiencies and improve data by shifting payments from invoicing (still the norm in this region) to card.

Emirates offers basic business fares

Emirates has started selling no-frills business class fares offered on an ad hoc basis, depending on route performance. That makes it difficult to assess their suitability for inclusion within corporate programs. The potential savings is as high as 30% on these basic business fares, but they come with a number of restrictions, compared to standard business class service:

- No limousine/transfer
- No lounge access for passengers without elite loyalty program status
- No advance seat reservation
- Nonrefundable or higher change/cancellation fees
- Reduced frequent flyer mileage accrual

These fares are also not subject to corporate discounts.

Look out for Dubai Expo 2020

Dubai's airfares and hotel rates could rise when the emirate hosts Expo 2020 for six months, starting Oct. 20, 2020. If flights to Dubai are full or very expensive, Abu Dhabi may be a good alternative; it's roughly 90 minutes away by road.

32 Gulf News, June 15, 2019

2020
Industry Forecast

Middle East

Hotel

Current situation

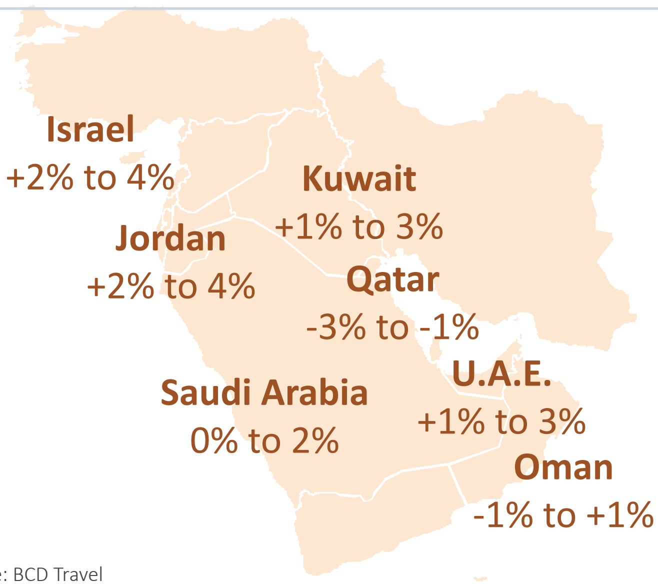
Hotels continue to open across the region, especially in Dubai, where a new wave of construction is bringing properties online to meet the anticipated surge in demand from Expo 2020. The rise in occupancy has brought rates down marginally, especially because the new hotels are generally in lower price brackets. Prices are also dropping in Qatar, where political isolation has depressed demand and lowered rates 10%.

But rates are on the rise in Bahrain and Abu Dhabi. And in Israel, demand outpaces supply, even though Israeli business travelers prefer day trips and rarely use hotels, and technology has made it easier for travelers to search and book independent hotels. However, a shortage of accommodation, especially in Tel Aviv, has pushed rates very high, and they continue to climb.

Hotel forecasts

Average daily rates % change YoY

Middle East	1% – 3%



Source: BCD Travel

Outlook for 2020

Supply will grow substantially. Demand will grow modestly, as long as the Iran crisis does not escalate. Hotel rates will climb by 1% to 3% on average, although they will decrease by this range in Qatar if political differences with its neighbors continue.

Rates in upscale hotels are more likely to rise but will be unchanged for the midscale tier, where competition is increasing.

New hotels are under construction in Tel Aviv. The added supply will not match growth in demand, especially as the Israeli government vigorously promotes inbound tourism. The city will once again see some of the region's strongest rate rises, up 2% to 4%.

Our hotel recommendations

- Investigate the new lower-tier options in a region known mainly for its luxury hotels.
- In major cities, consider hotels in the suburbs as an alternative to central locations. Rates can be significantly lower, and journey times to downtown may only take 30-40 minutes.

2020
Industry Forecast

Middle East

Ground transportation

Ride-hailing

Uber has agreed to acquire local provider Careem.[33] The Careem brand and app will be retained, at least initially. The deal, which should be completed in the first quarter of 2020, could lead to ride-hailing becoming more popular in the Gulf, but will also significantly reduce competition. The acquisition must be approved by regulators in the countries where Careem operates.

In Israel, ride-hailing is often preferred to taxis because pricing is more transparent. Uber and GetTaxi are the two most popular apps in this market.

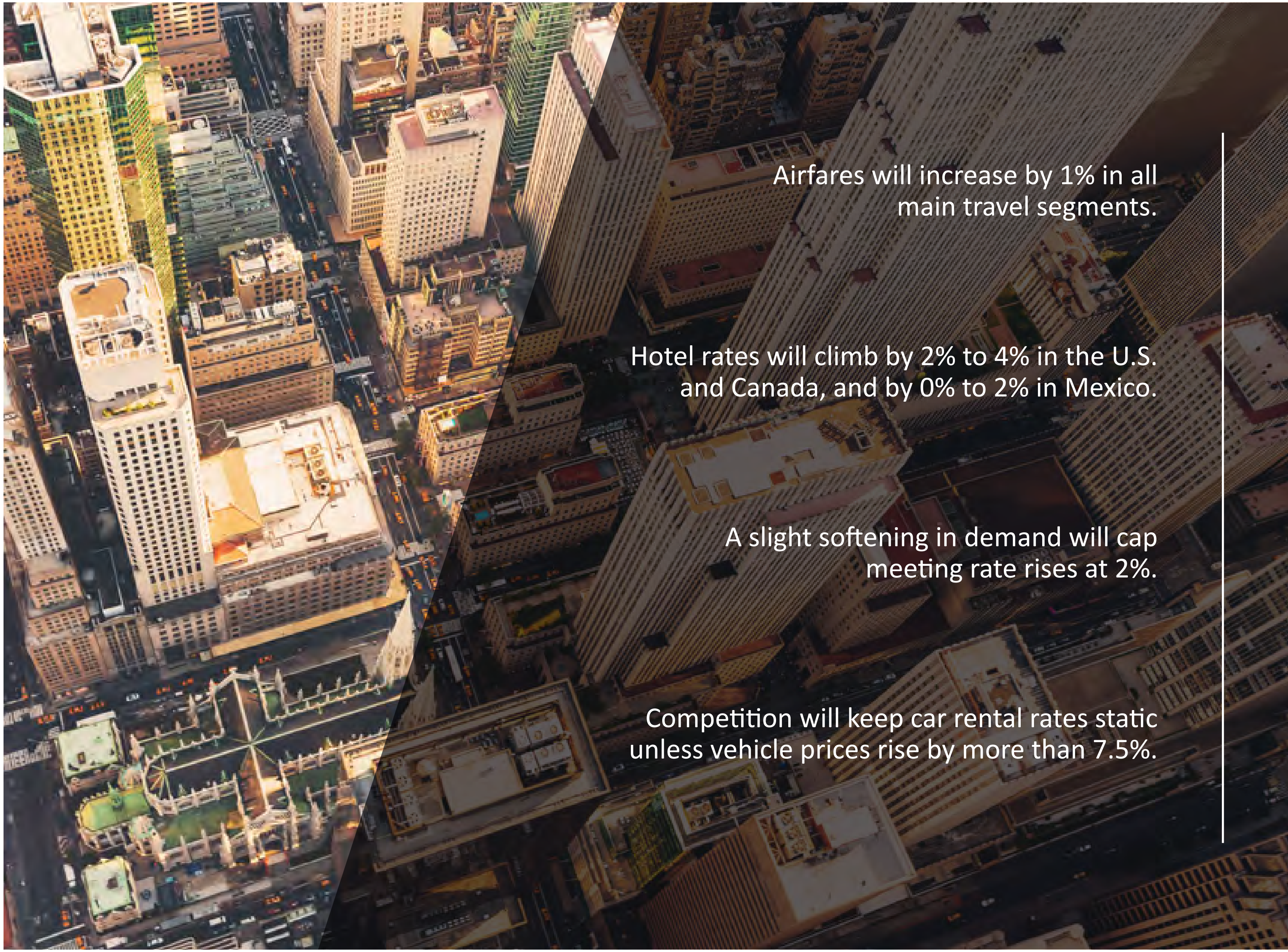
High-speed rail

The Middle East's first high-speed line, running 453 kilometers across Saudi Arabia from Medina to Mecca, opened in September 2018.[34] It is hoped the new service will stimulate the growth of King Abdullah Economic City. The line will eventually link to a new terminal at the airport in Jeddah. Further expansion could include an east-west service between Riyadh and Jeddah.

33 Reuters, March 26, 2019
34 The Guardian, Sept. 25, 2018

2020
Industry Forecast

North America



2020
Industry Forecast

North America

Air

Current situation

U.S.

The buoyancy of the U.S. economy has kept demand for business air travel strong throughout 2019. This has encouraged airlines to launch new routes and increase the frequency of existing routes or use larger aircraft.

Among the big three network carriers—American Airlines, Delta Air Lines and United Airlines—United expanded the most in 2018, growing systemwide capacity by 4.9% in an attempt to regain lost market share. During the first half of 2019, it expanded by a further 4.7%. Although Delta matched it with growth of 4.9%, American has not grown this year and risks losing share.

In the domestic market, the big three are developing their secondary hubs, especially in the West. United has grown short-haul services at Denver and San Francisco to feed its international routes, while Delta has expanded in Seattle, Salt Lake City and Los Angeles. American has expanded its Charlotte, North Carolina, and Philadelphia operations.

To develop secondary hubs, airlines are upgrading regional services with larger jets. In addition, United has also reentered some small markets from which it withdrew five years ago, such as Ogdensburg, New York, improving convenience for some travelers.

Legacy international carriers have also stepped up service to the U.S. The availability of more fuel-efficient long-haul aircraft like the Boeing 787 and Airbus A350 has enabled European airlines to launch direct services to a number of secondary cities: British Airways (BA) now flies from London to Austin; Nashville; San Jose, California; Charleston, South Carolina; and Pittsburgh. KLM this year added Amsterdam to Las Vegas.

But other airlines have struggled. Among the long-haul low-cost carriers (LCCs) serving North America, Wow Air went out of business and Norwegian has withdrawn services. And full-service Gulf carriers Emirates and Etihad Airways have reduced transatlantic flights.

Boeing 737 Max grounding hits Southwest and American

The grounding of the Boeing 737 Max due to safety concerns has been a factor limiting Southwest Airlines' expansion. It has removed 34 aircraft from its schedule until January 2020 and could feel longer-term effects because it has 262 more of the Max aircraft on order.

Southwest had planned to expand by 5% in 2019 but most likely will shrink capacity by 1% to 2% compared to 2018. Its withdrawal from Newark Liberty International Airport[35] reduces competition to Austin, Texas; Chicago Midway; Denver; Nashville, Tennessee; Orlando, Florida; Phoenix and St. Louis, potentially leading to higher fares. The airline's costs will also rise as it delays the retirement of the older, less fuel-efficient aircraft the Boeing 737 Max was intended to replace.

American Airlines is affected, too. It has parked 24 Max aircraft, with orders delayed for 76 more. The disruption has forced it to almost halve 2019 capacity growth to 1.5%.

35 Businesss Travel News, July 25, 2019

2020
Industry Forecast

North America

Strong demand has enabled airlines to increase average fares by around 3% on domestic routes and by a little more on international services. In addition, product differentiation is driving incremental revenue. Many corporate travel policies direct employees to the lowest-logical fare, which might be a basic economy fare. But the lack of flexibility and amenities accompanying these low fares means business passengers must trade up to a higher fare class for the comfort and convenience they expect. For some travelers, frequent flyer status is the only route to cabin upgrades or amenities that were once part of the standard service they received. This makes carrier choice increasingly important to them, limiting their options when shopping for the best deal.

Mexico

Low-cost carriers continue to grow in Mexico. Interjet has financial problems but is still expanding domestically and internationally. Corporate customers favor the airline because it offers a flat, bundled price, while rival LCCs VivaAerobus and Volaris apply ancillary charges for almost everything outside the fare.

Legacy carrier Aeroméxico has focused on expanding international routes, although its transborder joint venture with Delta faces stiff competition from both American and United.

Demand has been close to flat as businesses tightly manage travel budgets while waiting to see how the policies of new Mexican President Andrés Manuel López Obrador (called “AMLO”) affect the economy. This caution, coupled with an increase in supply, pushed down fares this year.

One decision by AMLO is already affecting travel directly: the cancelation of plans for a new airport for Mexico City. An alternative airport development has been suspended. The existing airport has a 35 million passenger capacity but currently handles 48 million. Flight delays are a common problem for travelers.

Competition intensifies for corporate agreements

With a choice of three large network airlines, travel buyers enjoy a strong negotiating position in the U.S. domestic market. There always seems to be one airline discounting to take share from its rivals or defend existing business. A prime example: Delta had offered deep discounts to secure its market leadership. But now it’s withdrawing some incentives, and United and American are discounting aggressively to win back corporate travel market share lost to Delta.

These strategies don’t always work as well on international routes where they may conflict with the approaches adopted by joint venture partners. British Airways’ reluctance to discount fares has created some friction with its JV partner American. Lufthansa and United have faced similar problems over the German carrier’s drive to limit the channels through which it offers certain fares—a path not followed by its U.S. partner.

Competition between the transatlantic joint ventures remains fierce, and these differences between partners present an opportunity to negotiate better deals. It may make sense to divide domestic and transatlantic business between different airlines.

2020
Industry Forecast

North America

Canada

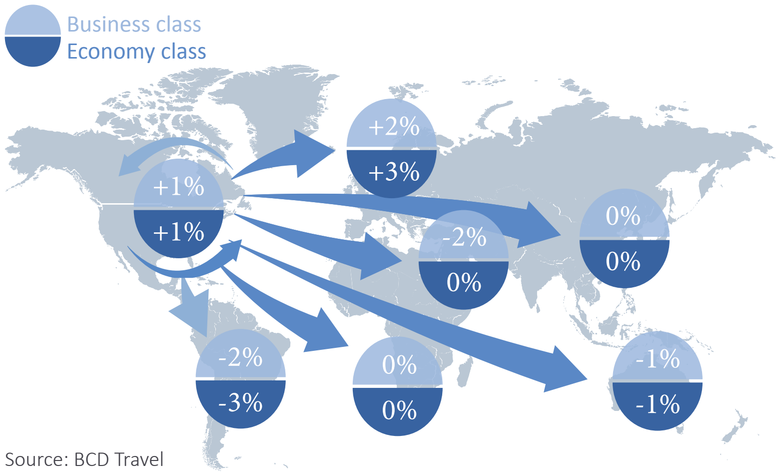
The expansion of LCC WestJet has made Canada's domestic market more competitive. It is also adding international services. However, WestJet's planned acquisition by private equity firm Onex Corp. makes its future plans unclear.

Air Canada has significantly increased its international operations in recent years. The airline has built Toronto into an international hub, drawing in connecting passengers from the U.S. But there's little chance of further expansion because current routes already connect to most viable destinations.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
North America	1%	1%	1%	1%



Source: BCD Travel

Transborder joint-venture takes flight

The joint venture between Aeroméxico and Delta is now fully-operational. An integrated salesforce is engaging with corporate clients and offering competitive discounts to defend business from American and United. The joint venture still has work to do ensuring that travelers booking with either airline receive the same support when problems occur.

Low-cost carriers can be taxing

Unreliable invoicing by Mexican LCCs is driving up costs for corporate customers. In Mexico, invoices must be submitted electronically to comply with tax. Otherwise, airfares count as non-deductible expenses. It's also not possible to reclaim value-added tax (VAT) on paper invoices. This means companies could miss out on offsetting as much as 56% of the fare paid. Incorrect invoicing increases the total cost of travel, something to be considered before booking a low-cost carrier.

Despite competition from WestJet, the dominance of Air Canada, especially in eastern markets, makes it hard for corporate buyers to gain traction in negotiations. Buyers generally need to combine international and domestic spending to gain any concessions from the airline.

Outlook for 2020

U.S.

The presidential election in late 2020 is unlikely to impact demand for air travel. However, growth could be derailed if the U.S. trade dispute harms the wider economy. Airlines would be able to respond quickly, retiring older aircraft to adjust supply in line with demand.

Airlines remain confident about growth and are investing in new products. They hope new premium cabins will persuade

North America

Virgin joins transatlantic joint venture

Virgin Atlantic has replaced Alitalia in a transatlantic joint venture that includes Delta and Air France-KLM. The change will allow the joint venture to build a true hub at London Heathrow as an entry point to Europe. It also opens many more connecting points to feed transatlantic flights.

A stronger Delta joint venture opens up some new negotiation opportunities for travel buyers. Watch out, too, for JetBlue entering the transatlantic market in 2021. JetBlue won't need to win a lot of business from rivals to fill its limited number of aircraft. Many of those passengers will be leisure travelers, but the arrival of a new competitor could persuade established carriers to offer more generous discounts to corporate travelers.

customers to upgrade, but this would, of course, push up corporate air spend. The big three network airlines aim to continue expanding their networks, although American may be constrained by the availability of the Boeing 737 Max. This will also make it more difficult for Southwest Airlines to grow.

Fares will soften if a slowing economy affects demand, but an increase of 1% on both domestic and international routes seems most likely. Despite a sharp rise over the past year, oil prices are still at a level where airlines feel confident about turning a profit. Efforts to keep demand and supply in balance should keep oil prices from rising further in 2020.

Should U.S. relations with China improve, demand to Asia would recover in 2020—reversing a couple of soft years—and leading to higher fares.

Mexico

Everything depends on the performance of AMLO's economic policies. So far, his presidency—which began in December 2018—has featured more rhetoric than substantive action.

Caution among Mexico's business community, as well as concerns about transborder relations with the U.S., will continue to stifle demand into 2020.

If the situation remains stable, the domestic price war between Aeroméxico and its three major low-cost rivals will continue to keep fares low. However, that could change quickly if struggling Interjet loses the support of its financial backers.

International fares are likely to rise if the Mexican peso devalues against the U.S. dollar.

Canada

Strong demand should ensure fares rise faster than in the U.S.

Our air recommendations

- Know your network so you understand where to make your buying power count.
- Use a secondary and even a tertiary preferred supplier for your U.S. domestic program if your spend is substantial.
- Closely monitor total trip cost, including both ancillary purchases and airfare. It can affect your choice of supplier.
- Use ancillary spend data in negotiations to get extras included in the contract.
- Word policy clearly so travelers know exactly what they can and can't add when buying a ticket. Issue policy alerts during the booking process.
- Follow market trends to identify which carriers are discounting most aggressively. Prepare travelers when changing preferred suppliers.
- Before booking a Mexican LCC, make sure the airline can issue electronic invoices.
- Use data-centered tools like Advito's Air Fare Predictor to make air prices more transparent.

Hotel

Current situation

U.S.

Rates have not increased as fast as the strength of demand would suggest. With annual economic growth slowing from 3.1% in the first quarter of 2019 to 2.1% in the second quarter, concerns about the future performance of the U.S. economy have helped limit price increases.[36] Other contributing factors could include international trade disputes; signs that the beneficial effects of tax cuts are fading; and fears that a downward correction in the stock market is long overdue.

An injection of new supply into the market for the second consecutive year has also taken some of the inflationary heat out of high demand. New York heads the list of cities with plentiful new supply, which has helped restrict rate rises to low single figures instead of the double-digit increases of recent years. Dallas, Los Angeles, Chicago, Nashville, Miami, Boston, Detroit and Seattle are among other markets with rapid growth in supply. Many of the new properties are midscale.

Rate rises aren't moderate across the board. In San Francisco, prices are up by 4% to 5% again this year. With the exception of New York, prices keep climbing faster in most large cities.

Demand is becoming stronger, especially for stays in midscale hotels, but some business travelers are upgrading to upper upscale brands like Marriott, Radisson Blu and W Hotels. Improvements in price comparison mean companies can book these higher-grade hotels at lower rates than in the past.

Rate inconsistency across different booking channels—hotel websites, online travel agencies and the global distribution systems used by travel management companies—is creating both an opportunity and a challenge for corporate clients and their travelers. Shopping around can lead to better rates, but it's time-consuming to compare prices and terms and conditions across so many channels.

Nashville hits the right note for business travelers

Both supply and demand are rocketing in Nashville, where 25 hotels have opened this year. While its music industry association draws leisure visitors, the city is also booming as a meetings venue and popular destination for regular business travel.

Despite a 3% rise in rates so far this year, Nashville remains less expensive than the largest U.S. cities. The recent surge in new hotels could push rates down slightly in 2020.

To reduce the risk of overpaying when faced with such a selection of accommodation choices, clients are increasingly turning to rate assurance tools such as Hotel Price Assurance, which automatically searches for lower rates and rebooks a room if a lower rate becomes available. Hotel revenue managers are wary of these tools; this may be why they are introducing stricter cancellation rules.

Corporate clients are changing the way they manage their hotel programs, slowly reducing the number of cities in which they negotiate discounted rates through the request for proposal (RFP) process. The sourcing experts behind Stay by BCD Travel™ recommend initiating an RFP with hotels likely to receive at least 200 room nights per year. In other markets, it makes more sense to rely on dynamic rates or TMC-negotiated rates.

36 U.S. Bureau of Economic Analysis, July 26, 2019

North America

The downside of chainwide discounts

Large hotel groups are aggressively promoting a fixed discount across their brands, which may amount to tens of thousands of hotels. A guaranteed discount across so many properties may sound attractive, but this may not necessarily be the case. Here's why.

Chainwide discounts are fairly small: usually 4% to 6%, but sometimes as low as 3%. In return, hotel groups expect corporate clients to list all their properties as preferred hotels. This places the hotels at the top of the company's online booking tool display, effectively dominating what's offered in any given destination. The hotels may not be the most conveniently located nor offer the most attractive rates, even with the discount.

To avoid this situation, we recommend either avoiding chainwide deals altogether or striking them carefully:

- Specify which properties you will accept in the deal.
- Apply the discount only to a selection of the group's brands.
- If your TMC agreement includes commission sharing, be aware that hotels often don't pay commission on chainwide deals, and this could increase the total cost of purchase.
- Avoid chainwide deals with all groups.

Hotspot cities

Cities where rates are likely to rise fastest in 2020 include:

Washington, D.C.—New supply here lags behind most other major cities, yet demand remains strong and occupancy is usually higher during an election year.

San Francisco—The U.S. technology boom creates steady demand in a city with a chronic undersupply of hotels. Rates will rocket yet again.

Atlanta—Supply is growing, but not fast enough to keep pace with demand from large corporations opening major offices in the city.

Mexico

Much-needed hotel building is continuing in Mexico. Local chains CityExpress and Posadas have been particularly active, with the latter due to open another 21 properties in 2019 after opening 17 in 2018 and 11 in 2017. Capacity has grown in the "golden triangle" of Mexico City, Monterrey and Guadalajara and also in secondary cities where branded budget accommodation is appearing for the first time.

Despite the new supply, there is still a shortage of hotel accommodation in Mexico, so rates have continued to rise.

Airbnb is trying to grow in Mexico but remains a difficult option for business travelers because of the challenge of providing the electronic invoices that companies need to comply with Mexican tax laws.

Canada

New room supply has grown by 2% in 2019, the highest rate of hotel openings in Canada since the 2008 economic downturn. While demand has risen slightly faster at 2.2%, it's weaker than the uptick in demand in 2017 and 2018. Even so, rates have risen this year.[37]

37 CBRE Canadian Hotels 2019 Outlook

2020
Industry Forecast

North America

Outlook for 2020

U.S.

Supply is set to grow at a strong pace for a third and final year before tapering off in 2021. Demand is unlikely to expand much as economic concerns mount. Rates will rise by 2% to 4% if the economy remains resilient; they will not change if the economy deteriorates.

Mexico

New supply will slow in 2020, as local chains Posadas and CityExpress shift much of their attention to other markets in the Americas. It is not yet clear how much AMLO's presidency will affect the economy. Rate increases will range between 0% and 2%.

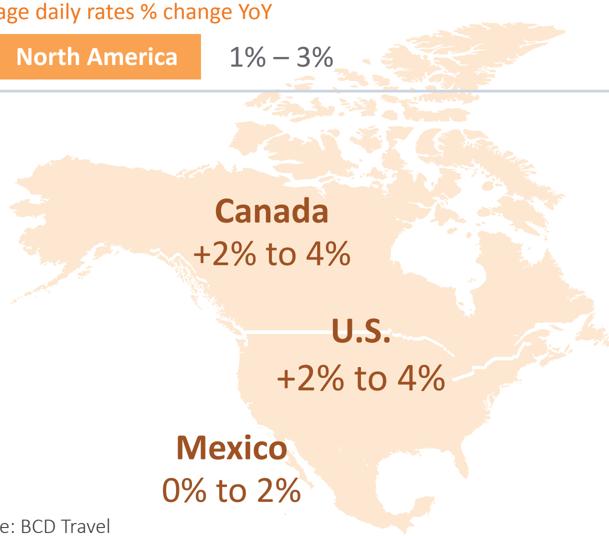
Canada

Strong demand should push up rates once again. Expect rises of between 2% and 4%. Watch for higher increases in Montreal and Vancouver, cities with fewer hotel openings than Toronto.

Hotel forecasts

Average daily rates % change YoY

North America 1% – 3%



Source: BCD Travel

Keep up the fight for preferred rate availability

The performance of negotiated hotel programs continues to be undermined by hotels failing to make agreed-upon rates available in reservation systems, even with guaranteed last-room availability.

TMCs are getting better at auditing rate availability and alerting hotels when they spot a problem. Hotels now know they could be called out, but so far this hasn't encouraged them to proactively fix the problem.

Non availability of a negotiated rate often means travelers must book the same hotel at a public rate. Not only is this rate higher, but hotels don't recognize it as a corporate booking, so it doesn't count toward a travel program's buying commitments to that supplier.

That's why reliable TMC data is vital. TMCs can collect data recognizing all stays with a hotel, regardless of rate type. And companies can use this data when discussing rate availability with hotels. Make sure your TMC is providing this information.

Airbnb limits hotel rate rises

The supply of alternative accommodation options from companies like Airbnb continues to grow and is another important reason hotel rates have risen more slowly than expected in 2019. This effect has been most apparent in New York City.

Although Airbnb is helping restrict rate rises, hotels are not losing large numbers of corporate travelers to alternative accommodation. Buyers are making sure Airbnb can be booked through managed programs to avoid independent bookings, which cannot be tracked. But they are not actively promoting or mandating it, and they remain cautious about liability issues when home rentals go wrong.

There are signs of supply convergence, which could make the alternative accommodation sector more interesting for managed travel in years to come. Airbnb is starting to offer hotel rooms, while groups like Accor and Marriott are building their own alternative accommodation services and opening hotels with a focus on social space to appeal to millennial travelers.

Will Marriott flex its pricing power?

Many buyers feared 2016's combination of Marriott and Starwood would push up hotel rates. Three years later, there's no sign of a sharp increase in rates. But it could happen.

Integration of the two businesses has taken longer than expected, and the company has had to deal with the fallout from a major customer data breach. Marriott has also focused more on reducing commission payouts to intermediaries and luring travelers to book directly than on resetting rates.

Marriott could turn its attention to corporate pricing in 2020. It has already eliminated many of the agreements Starwood used to offer to small and medium clients and is encouraging hotel owners not to discount individually with corporate customers. Signs point to the merger forcing up rates in the meetings market, where there is less choice of venue.

Our hotel recommendations

- Switch from RFPs to dynamic pricing where you can't deliver more than 200 room nights annually.
- Be ready to adopt dynamic rates if the market weakens and hotels start reducing prices, as savings will be greater than those offered by a discounted fixed rate.
- Don't abandon the RFP completely. It's still the best route to lower prices where you have substantial spending power. Work with your TMC on whether an RFP or dynamic pricing is the best strategy.
- Apply market caps to guide travelers in cities where you have dynamic pricing—but adjust them regularly.
- In Mexico, always negotiate in the local currency. If negotiation is only possible in U.S. dollars, ensure a fixed exchange rate is applied.

Meetings

Current situation

U.S.

The U.S. remains firmly a seller's market. Demand for meetings has stayed strong. New hotel supply is also strong, but too many of these properties have either limited or no meeting space. That said, hotels with good meetings facilities have opened in Austin, Nashville, Dallas, Boston, St. Louis, Los Angeles and Kansas City, Missouri, but this does little to redress the national imbalance between demand and supply, especially in the largest cities.

Surprisingly, a seller's market has not resulted in large rate increases. The average rise in 2019 has been 2% to 3%. Hotels are maximizing their revenue by carefully selecting which bookings they accept. They are using existing space for more events and prioritizing customers who don't occupy too many rooms.

Hotels are also evaluating which clients will provide the greatest overall spend—not just on beds, but also on food and beverages and other amenities and services. They are also being stricter with contracts and are more reluctant to hold space while prospective customers decide whether to confirm a booking. They're tightening terms and conditions, including payment schedules and cancellation periods. And they're insisting on using their own contracts, rather than customers' templates.

Companies have not lost their appetite for staging meetings, but economic and political uncertainties are keeping budgets in check. To control costs, some buyers are holding shorter meetings or booking large-scale conventions further in advance. They're also looking at multiyear contracts to lock in space and rates.

The pressure on space is making non-hotel meeting venues more attractive. Online marketplaces selling non-hotel venues are promoting rooftop areas, golf clubs, museums and restaurants for events.

Small(er) is beautiful

Rising rates and lower availability are persuading buyers to look at smaller destinations. Selecting second-tier cities like Nashville and Austin has been a trend for a while. Now even third-tier cities offering attractive new spaces are being considered, including Kansas City, Oklahoma City and Louisville, Kentucky.

Rising demand means rates are moving up in smaller cities but are still much lower than in the largest destinations.

Mexico

Budgets are tightening as businesses cautiously watch for which direction the new government will take. Companies are booking as many events as before but are reducing attendee numbers in some cases. They are also generating savings by holding several smaller events around the country, instead of flying everyone to one large event. Although new hotels are opening fast in Mexico, most don't offer significant meeting space. However, a new convention center in Mérida is attracting plenty of business.

Outlook for 2020

U.S.

The U.S. meetings market may finally soften a little in 2020. Politics and trade are making companies nervous. If tariffs hit corporations' sales and increase costs, budgets for meetings could be among the early cost-cutting casualties. At best, companies would delay meetings decisions until the last minute. Financial services firms are already holding off for this reason. The presidential election is another pressure point: Meetings bookings normally dip in the runup to the vote, so even without effects of the tariffs, demand could be weaker in the second half of 2020.

2020
Industry Forecast

North America

Despite these concerns and some new meeting space opening next year, demand is still likely to outstrip supply. That makes rate rises likely—but probably by no more than 2%.

Mexico

Travel warnings have reduced demand from international conference organizers. But the domestic market is holding up, so expect modest rate rises in 2020.

Our meetings recommendations

- Closely analyze spend data to show how you can make your business more attractive to hotels. Look at program history and average spend, including on food and beverage, ancillaries and activities.
- Be flexible on how much space you need for an event.
- Look at multiple event deals with the same hotel or chain.
- Negotiate a cap on rate increases for deals longer than one year.
- Consider reducing air travel costs by holding a series of smaller meetings around the country or region instead of one mega event.

Ground transportation

Car rental

Current situation

A strong economy means car rental demand has stayed robust, even though business travelers are increasingly using ride-hailing services for some city journeys.

Rental companies continue to excel at matching supply to demand to ensure they don't have unnecessarily full parking lots. Despite this careful balance, a decade-long trend of flat corporate rates has continued because of intense competition between the big three: Avis, Hertz and National. At any one time, at least one of these companies has priced aggressively to gain market share. Currently, Hertz is leading the way.

Static rates are even more surprising given rising costs. The proliferation of electronic features in cars has led to significantly higher repair and maintenance costs.

To maintain profitability, rental companies are raising rates for leisure customers and also increasing bills to corporate customers without raising the headline rate. For example, they are pushing up weekly rental rates from typically 5-5.5 times the daily rate to 6 times. Likewise, monthly rates are being pushed up above 4 times the weekly rental.

Outlook for 2020

Demand will continue to grow modestly if the U.S. economy stays strong, while supply will remain about the same. A rise in corporate rates seems overdue, but as long as one major supplier fights for market share, rates will not rise.

However, suppliers may feel able to justify higher rental rates if U.S. tariffs on steel and automotive imports force up vehicle purchase prices by 7.5% or more. If that happens, car rental companies will seek to renegotiate agreements with corporate clients.

Beware of intermediate cars

Intermediate-sized vehicles are a common rental category in corporate contracts in North America. Typical examples include the Honda Civic, Nissan Sentra and Toyota Corolla. However, rental companies are reducing in their intermediate-sized fleets in favor of small sports utility vehicles, which are popular with leisure customers and rent at a higher rate.

With a shortage of intermediate cars, suppliers are trying to persuade corporate buyers to move their contracts up to higher categories. Where travelers succeed in booking an intermediate car, the supplier will honor the rate while providing a larger car. But more often, suppliers close out the intermediate category at time of booking, forcing travelers to choose a larger or smaller vehicle.

The solution to this problem is to address it in contract negotiations. Get a commitment from the supplier not to close out the intermediate category, even if it is sold out. One major supplier does this automatically. The other two will agree if asked.

Our car rental recommendations

- When renegotiating with an existing preferred supplier, check every line of the proposed new contract against the previous one to see what changes were introduced.
- Negotiate changes out of the contract. You stand a good chance of succeeding.
- Look out, especially, for new surcharges, such as fees imposed in specified cities or for one-day rentals.
- Create a global rental program even if you don't have all the data you need.
- Choose primary and secondary global suppliers, and fill any gaps with local vendors.

2020
Industry Forecast

North America

Ground transportation

Ride-hailing

Uber and Lyft dominate the U.S. market and are used by many business travelers. But they're still not mentioned in many travel policies.

Uber leads the market in Mexico but has been losing share to Chinese ride-hailing app Didi Chuxing, which launched in April 2018.[38] The Mexican government has asked ride-hailing companies to collect income tax and VAT from its drivers and remit the money directly to the tax authorities.[39] This could push up fares, although Didi Chuxing is refusing to participate.

Black cars

The market continues to consolidate with some suppliers now claiming to offer a national or even global service.

38 Technode, May 8, 2019
39 Reuters, May 20, 2019

2020 Industry Forecast

Southwest Pacific

Southwest Pacific

Air

Current situation

Australia

Australia's economy has stalled, with increased fears of recession weighing on consumer and business confidence. This has affected demand for air travel, which fell slightly during the first six months of 2019.[40] Airlines have trimmed capacity in line with reduced demand, enabling them to maintain load factors. The weakness of the Australian dollar has increased inbound travel, while demand for outbound travel to Europe and the U.S. has weakened for the same reason. So far, bookings to Asia have been unaffected.

Sustainability is emerging as a hot topic among consumers, who are putting pressure on airlines to reduce waste and pollution. There is no sign that this has triggered a reduction in business travel.

Fares are flat on domestic routes. Virgin Australia's fares are often AU$15-20 below Qantas, but the difference isn't enough to win more market share. This may be due to the strength of the Qantas loyalty program. Airline discounting is aimed largely at leisure travelers.

In the trans-Tasman market, both Virgin Australia (which no longer operates a joint venture with Air New Zealand) and Qantas have raised capacity. Qantas has upgraded Sydney-Auckland services with larger aircraft, while Virgin Australia has introduced new routes in both Australia and New Zealand.

More capacity should mean lower fares, but the trans-Tasman situation remains hard to read. Pricing has become more fragmented as airlines offer amenities as optional extras. Understanding the total cost of a flight is becoming both more important and difficult.

Business travelers are most likely to find discounted fares on flights to Europe. Qatar Airways has priced aggressively to recapture substantial market share from Gulf rivals Emirates and Etihad this year.

New Zealand

Demand remains strong for business travel as the economy continues to flourish, albeit at a slightly slower rate than last year. While flights on Air New Zealand are full, the flag carrier has downgraded its revenue forecast twice this year already. It has been hit by rising fuel costs on a weak exchange rate, fewer inbound tourists and problems with the Rolls-Royce engines on its Boeing 787s.

Air New Zealand responded with a network review, which saw it adjust flight frequencies while axing some routes and launching others. New services include Auckland-Chicago, begun in late 2018, and Auckland-Seoul, set to launch later this year. Air New Zealand faces increased competition to the U.S. (and onward to London) from American Airlines, which will soon announce services from New Zealand.

Air New Zealand's financial problems have led to limited fare reductions because the airline continues to command exceptional loyalty through its frequent-flyer program—despite its need for a product refresh.

Australia-U.S. competition increasing

The U.S. Department of Transportation has approved a joint venture between Qantas and American Airlines. Qantas plans to launch Boeing 787-operated services from Brisbane to Chicago and San Francisco by April 2020, adding 170,000 seats a year to the transpacific market. A third route, as yet unnamed, will follow.

Australia-U.S. services are being adjusted as airlines rethink their fleet strategies to address intense competition. They are changing flight frequencies and aircraft types and introducing more premium economy seating as tighter travel budgets persuade some customers to downgrade from business class to economy.

40 IATA, Air Passenger Market Analysis, June 2019

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Industry Forecast

Southwest Pacific

New Zealand-based corporate buyers continue to agree to long-haul deals in return for discounts on domestic and trans-Tasman routes. That means they often miss out on attractive tactical fares offered by other carriers in what remains an oversupplied buyers' market for long-haul travel. For example, Emirates flies three Airbus A380s daily to New Zealand, offering low fares to fill seats.

On domestic routes, Air New Zealand commands more than 80% of the market. Its main rival, low-cost carrier Jetstar, struggles to win corporate business. Fares remain high.

Outlook for 2020

Australia

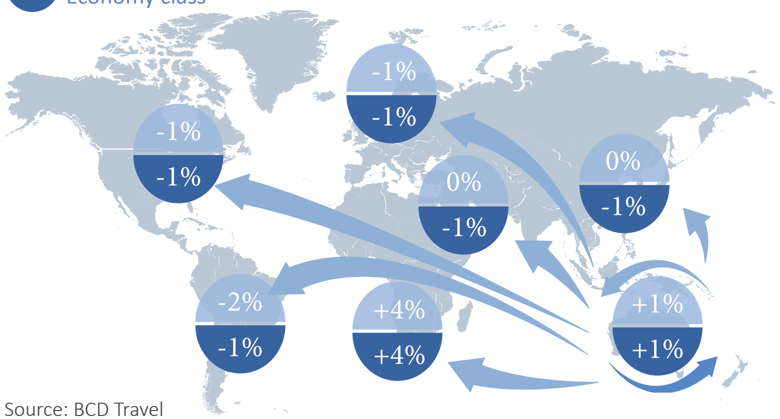
An uncertain economic outlook means domestic fares will rise by no more than 1%. They could even decrease by 1%.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Southwest Pacific	-1%	-1%	1%	1%

Business class
Economy class



Source: BCD Travel

The bleisure principle

Bleisure travel is increasingly affecting average ticket prices. The amount of time it takes to fly internationally makes New Zealanders and Australians the world's most enthusiastic bleisure practitioners. They often trade down a cabin in return for being allowed to add leisure time to a business trip.

2020
Industry Forecast

Southwest Pacific

Fares are likely to remain flat to Asia but could be slightly lower to Europe and North America because of intensifying competition. Average ticket prices are likely to drop faster as business travelers trade down cabins, mainly from business class to premium economy.

Qantas will offer more exclusive fares directly to travelers based on their frequent-flyer status. This could make finding the best fares more complicated.

New Zealand

Economic headwinds are increasing. Assuming there is no downturn, demand for business travel will, however, remain high. Long-haul routes, in particular, will continue to offer extremely competitive fares for passengers willing to be flexible on choice of airline and routing. Options will increase to the U.S. as American Airlines adds more services and Air New Zealand responds.

Fares will stay high on domestic and some trans-Tasman routes.

Our air recommendations

- Economic conditions mean it's time to review your travel policy and enforce it more strictly.
- Don't overpromise market share to Qantas and Virgin Australia, as both airlines closely track corporate volumes.
- Encourage travelers to book annual trips a year ahead. Most international trips require a long-haul flight, so advance booking can make a big price difference.
- Carefully analyze your spend data to determine whether it's worth trading long-haul commitments to Air New Zealand for discounts on domestic and trans-Tasman routes. Depending on your route mix, best-on-the-day prices may be cheaper, even if you lose the discounts.
- Make sure your corporate policy covers bleisure trips common among business travelers from Australia and New Zealand.

BCD Travel-Qantas sign distribution agreement

In July 2019, BCD Travel signed an agreement with Qantas Airways to participate in the Qantas Channel. The channel provides participating travel agents with access to a wider range of fares and content sourced from the Qantas Distribution Platform. The agreement lets BCD clients book reservations on Qantas without paying the airline's new channel booking fee, imposed Aug. 1.

The BCD-Qantas agreement applies to all individual global distribution system (GDS) bookings. Qantas is using the International Air Transport Association's (IATA's) new distribution capability (NDC) to connect to GDSs and online booking tools.

BCD previously struck channel booking deals with Air France/KLM and British Airways/Iberia. BCD also has signed NDC agreements with Lufthansa Group, the Amadeus NDC-X program, Sabre Beyond NDC and Travelport's NDC program. Learn more about NDC at bcdtravel.com/ndc.

Southwest Pacific

Hotel

Current situation

Australia

Although more hotels have opened—with an emphasis on higher-end properties—supply lags well behind demand in Australia. As a result, rates have increased by at least 3% nationwide, and double that figure in Sydney. Melbourne is not far behind; demand is fueled by sporting and other events, as well as increased air capacity to the city. Rates are also strong in Canberra, again because of increased flight links.

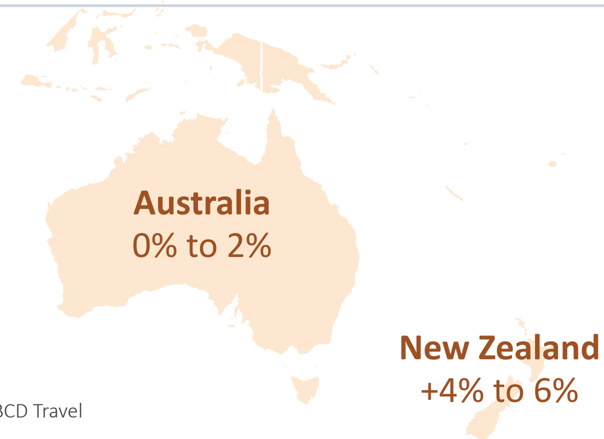
Perth is the main exception to the upward rate trend. Hotel projects commissioned during the mining boom a few years ago are now opening, even though demand is no longer as strong. Rates have fallen because of oversupply.

Accor remains one of the few chains where negotiating opportunities remain, as it has yet to complete the integration of the Mantra chain it acquired in May 2018.

Hotel forecasts

Average daily rates % change YoY

Southwest Pacific	1% – 3%



Source: BCD Travel

Lights, cameras, accommodation...

One reason occupancy is high in New Zealand's hotels is the extraordinary success of the country's film and television industry. At least five major productions are underway; enough to make a big difference in a small market. Passengers' constant shuttling to and from Hollywood is one of the main reasons American Airlines is increasing service to New Zealand.

There is no simple solution to this problem. Hotels with high occupancy rates are reluctant to discount for the corporate market. Buyers are being forced to look at alternative properties, either by turning to out-of-town hotels or moving to lower service tiers.

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Industry Forecast

Southwest Pacific

New Zealand

It's been another challenging year for travel buyers. Demand drastically exceeds supply, pushing already high rates sharply up again in all three major cities: Auckland, Christchurch and Wellington. More hotels will come online in 2020, but few have opened this year. The rare exception has been Wellington's first airport hotel.

Outlook for 2020

Australia

More hotel openings will help slow rate growth in 2020. But in the middle market, where business travel demand is increasing fastest, supply is still scarce. Overall, rates will change by 0% to 2%. They could fall in Perth, while Sydney will once again see stronger rate increases than the rest of the market.

New Zealand

Supply will start to increase, especially in Auckland, where pressure on availability is greatest. A couple of properties will open in 2020, including EVEN Hotel Auckland and QT Auckland, but travelers will have to wait until at least 2021 for most new hotels.

Unless the economy suffers an unexpected setback, rates are likely to rise by another 4% to 6% in 2020. Watch for significant price spikes during sold-out music or sporting events.

Our hotel recommendations

- Work around high hotel rates, instead of fighting them. Encourage day trips where possible. If an overnight stay is required, encourage travelers to stay one night, rather than two.

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Industry Forecast

Southwest Pacific

Meetings

Meetings space is in as short supply as quality hotel accommodation. In New Zealand, bookings in Christchurch, where the convention center is being rebuilt, were briefly hit by this year’s terrorist attack. But they have since recovered. Rates in both Australia and New Zealand are rising fast.

Rates will continue to increase sharply next year, especially in Sydney and Auckland, where the opening of the New Zealand International Convention Centre will put even more pressure on accommodation. The only way to avoid high rates in these two cities is to look elsewhere. In Australia, for example, Adelaide is emerging as a better-priced alternative, although this will mean significantly longer air journeys for many attendees.

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Industry Forecast

Southwest Pacific

Ground transportation

Ride-hailing

Ride-hailing continues to gain in popularity because fares are so competitive. In a typical three-month period, almost 21% of Australians travel by Uber. However, few companies have made Uber for Business part of their official travel program because of lingering concerns about duty of care.

Uber's success in the Australian market has drawn in other companies, including Estonia's Bolt (formerly Taxify), India's Ola and China's DiDi Chuxing. Local companies like GoCatch and Muve are also increasing ride-hailing competition.

High-speed rail

Australia's coalition government has committed to creating fast-rail corridors to surrounding towns from Sydney, Melbourne and Brisbane. The opposition Labor party has promised to do more—pledging to spend AU$1 billion on a land corridor for an east coast high-speed rail line connecting Melbourne and Brisbane via Canberra and Sydney. But it would have to win control of the government first, and the next election isn't due until 2022. So, the plan is far from certain.

Methodology

Assumptions

We have assumed, as working hypotheses, that:

- The price of oil (Brent crude) per barrel will average US$67 in 2020.
- World economic growth will be 2.7% in 2019, holding steady at 2.8% in 2020.

Approach to analysis

Our ongoing research and in-depth interviews with experts in corporate travel and meetings management form the basis for our discussion of broader industry developments and trends.

We base our category-specific predictions on our analysis of aggregated transaction data for BCD Travel's corporate clients worldwide.

We analyze and forecast on dynamic baskets using actual air segments, room nights and car rental bookings to reflect potential shifts in travel patterns and booking behavior. The level of aggregation for each measure is determined by the validity of the relevant pool of data.

We weight monthly averages by category transactions for each unit. Regional averages for hotels are calculated using total room nights to weight the forecasts for all countries in that region. Quarterly averages are weighted averages of the months in that quarter. Unless stated differently, we base price developments on local currencies; these developments are therefore subject to foreign exchange fluctuations. We normalize local currency transaction data into leading world currencies, using the daily average conversion rate on the date of travel.

Hotel market tier assignments follow our proprietary classification scheme. We designate luxury and upper upscale hotels as upper tier and all other hotels as lower tier. Air cabin classes are based on our master table of airline booking classes.

When applying economic growth in our regional forecasts, we use figures aggregated at market exchange rates rather than at purchasing power parity (PPP). The PPP approach risks overstating the contribution of emerging markets.

Sources

In addition to aggregated BCD Travel client data, we use the following sources:

- International Air Transport Association (IATA) for airline capacity and traffic
- Oxford Economics for historic and forecast macroeconomic data
- Tourism Economics for room nights by region
- International Monetary Fund (IMF) for macroeconomic projections
- Economist Intelligence Unit (EIU) for macroeconomic projections and oil prices
- Oanda Currency Converter for foreign currency exchange rates
- Official Airline Guide (OAG) for airline capacity
- U.S. Energy Information Administration (EIA) for historic and forecasted oil prices
- Flightglobal.com for airline industry news and analysis

The estimates and projections are based on data available through March and April 2019, respectively, for air and hotel transactions, and through July 2019 for macroeconomic and industry indicators.

2020
Industry Forecast

Global Overview

Meet the team behind the Industry Forecast

Mike Eggleton
Director, Research and Intelligence, primary author

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With thanks to our subject matter experts around the world