2020

Industry Forecast

from BCD Travel Research & Innovation

BCD travel

2020
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Global Overview

Airfares

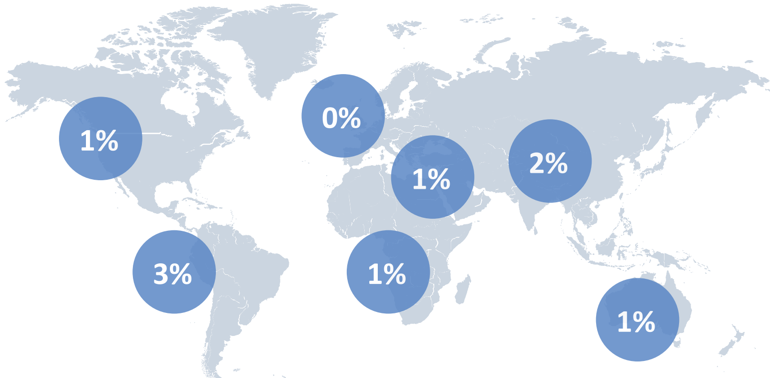
Growth in global air travel demand continues to slow, sliding from 7.8% year over year (YoY) in June 2018 to 4.5% by May 2019.[1] During the first five months of 2019, traffic increased by 4.6%, down from 6.8% the year before. The performance of the global economy has been key to this trend, and it's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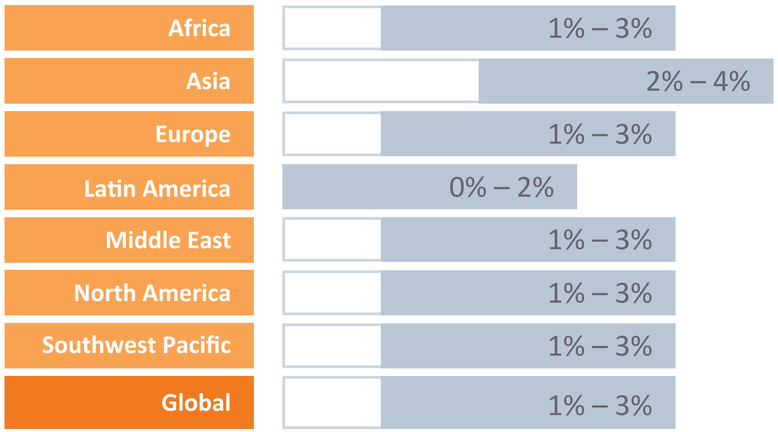
Hotel rates

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



Source: BCD Travel

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Economic outlook

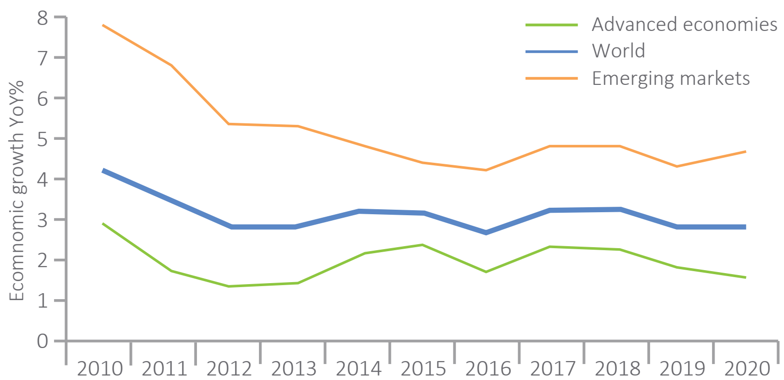
World GDP growth

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.

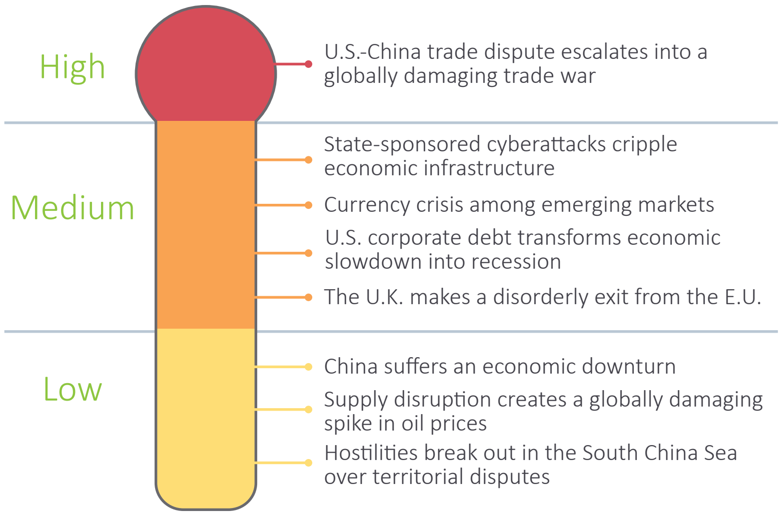
In a counter trend, Asian growth will be slightly weaker for a second year in 2020, slipping from 4.7% to 4.5%. Sluggish import demand from a slowing Chinese economy is hampering expansion in other markets across the region.

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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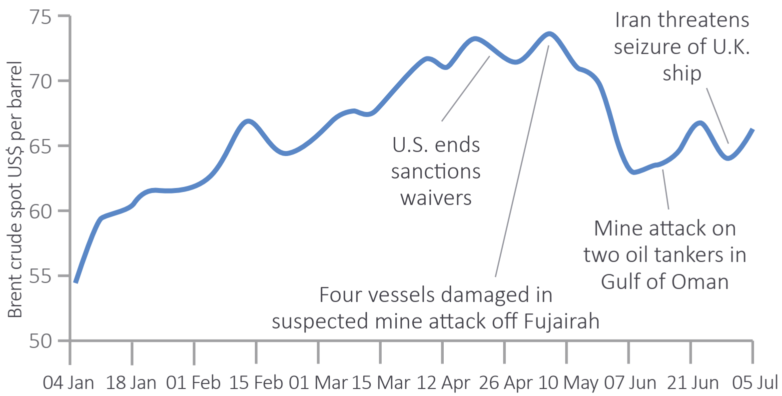
Oil prices

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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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.

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Meet the team behind the Industry Forecast

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With thanks to our subject matter experts around the world