Latin America
2020 Industry Forecast
from BCD Travel Research & Innovation

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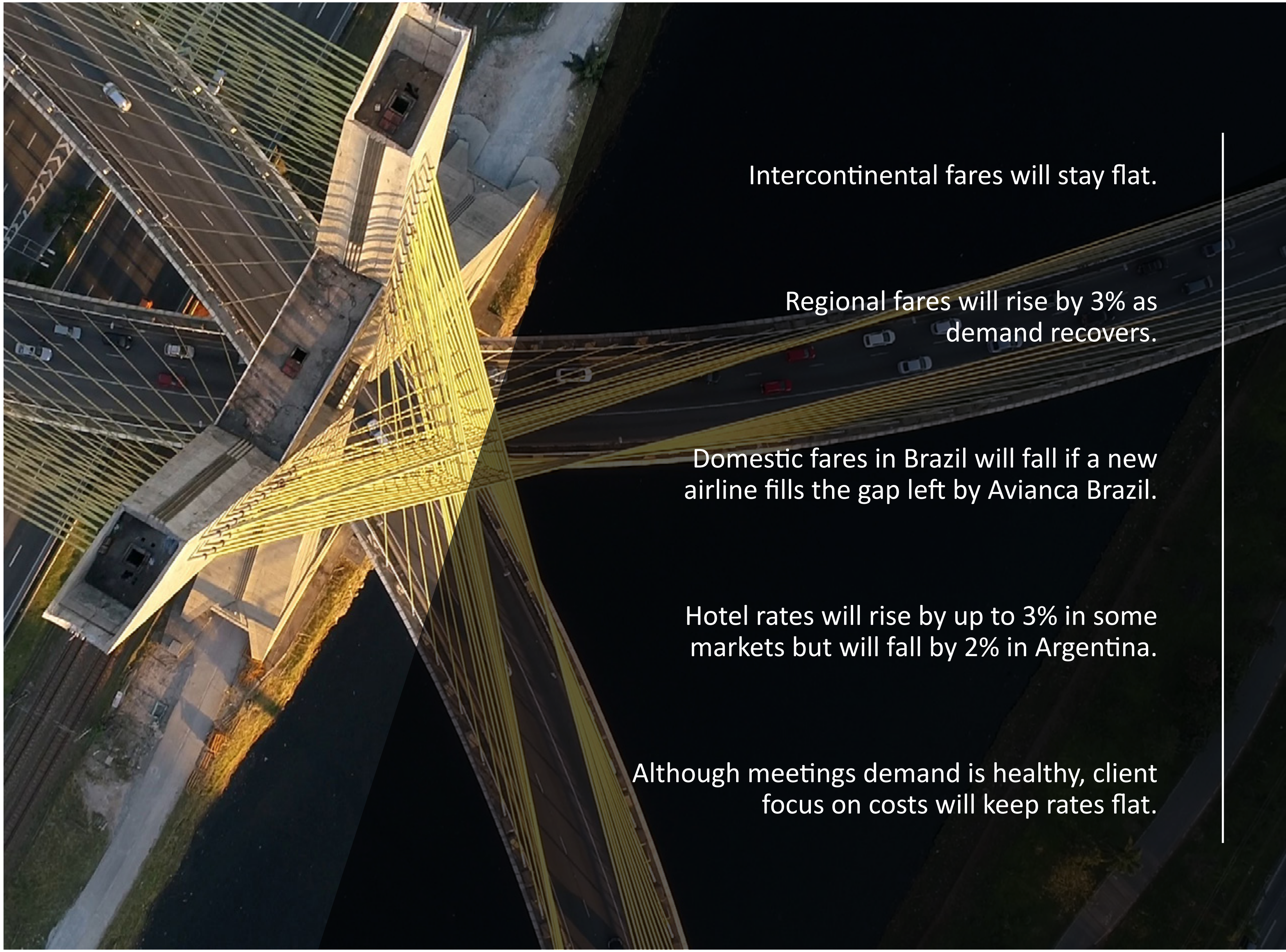

Intercontinental fares will stay flat.

Regional fares will rise by 3% as demand recovers.

Domestic fares in Brazil will fall if a new airline fills the gap left by Avianca Brazil.

Hotel rates will rise by up to 3% in some markets but will fall by 2% in Argentina.

Although meetings demand is healthy, client focus on costs will keep rates flat.

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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.

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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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Chile

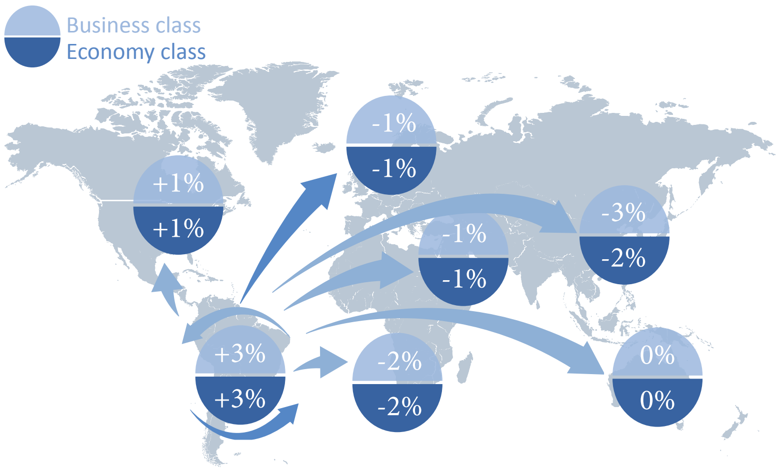
Chile's economy has fared better than others in the region, but its growth has still slowed. Demand for air travel is up only marginally.

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%



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.

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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.

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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.

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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.

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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.

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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.

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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.

Meet the team behind the Industry Forecast

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