2015 Industry Forecast
March Update

Global travel climate

Fuel surcharges starting to fall

In our December update we called on airlines to lower or remove fuel surcharges. We're pleased to report that some airlines are at last responding to falling oil prices. AirAsia and Virgin Australia have eliminated their fuel surcharges, while All Nippon Airways and Japan Airlines have lowered their fees in accordance with government regulation. In Europe, British Airways removed its carrier-imposed surcharge on short-haul flights, but lowered it only marginally for long-haul flights, in line with the fees charged by Virgin Atlantic.

IAG consolidates at Heathrow

IAG, parent company of British Airways, Iberia and Vueling, has bid to buy Aer Lingus. While it's promised to keep the Irish airline intact, the deal will further strengthen IAG's position at London Heathrow airport, where it already operates more than half of the flights. Aer Lingus is Heathrow's fourth largest airline and will add 3.2% to IAG's current 51% departure share. The deal may also create an IAG monopoly on flights between Heathrow and Ireland, and make it difficult for a competitor to start short-haul operations from the airport. IAG has also promised to bring Aer Lingus into its transatlantic joint venture, thereby removing one of the remaining independent airlines serving this market.

Looking beyond sourcing for savings

Growing supplier confidence, especially among hotels, means travel buyers are finding it harder to secure savings when sourcing. The challenge: look beyond the immediate sourcing process to find savings. Opportunities include using benchmarking tools and travel policy simulators to predict and assess the savings potential of making policy changes. Examples include switching some hotel stays from upper upscale to upscale, or changing the maximum distance allowed between hotel and meeting location. It is possible to look beyond sourcing to make savings.

Air

Lower oil prices make it difficult for airlines to raise fares, but give them the scope to drop prices, particularly in markets with competition. They'll also encourage airlines to slowly add in new capacity, providing further relief to average fares, especially for economy-class travel.

North America

Capacity growth and lower oil prices will mean cheaper economy fares for both regional and intercontinental travel.

Europe

Growing capacity and falling costs will limit the airlines' ability to raise fares, especially for economy-class travel.

Latin America

As concerns about the economic outlook grow, we've cut our regional economy fares forecast from 2% to 0%.

Middle East

Downward pressure on pricing from capacity expansion will impact all segments, with regional economy the most affected.

Asia

Rapid low-cost carrier expansion, coinciding with a slowdown in the region's economy, will lead to lower fares in most segments.

Africa

There will be lower fares in most market segments, as capacity expansion coincides with growing concerns about demand.

SW Pacific

As demand growth loses some momentum, fare rises will be limited in most segments.

The solid growth in global air travel seen in 2014 should continue in 2015, as lower oil prices provide a boost to economic activity. They should also encourage airlines to grow capacity, which will help keep fares in check even as demand recovers.

	Intercontinental		Regional	
	Business	Economy	Business	Economy
North America	1% ◀	-1% ◀	2%	-1% ◀
Europe	2% ◀	-1%	2% ◀	0% ◀
Asia	0% ◀	-3%	-3%	-5% ◀
Latin America	2%	-2%	2%	0% ◀
Middle East	-1%	-3%	-3%	-5% ◀
Africa	1%	-3%	-3%	-4%
Southwest Pacific	1% ◀	-1%	2%	1%

◀ Indicates revision to previous forecast

Hotel

While we've made some changes to our ADR forecasts for individual countries, we're only making one change to our regional forecasts. A weakening of the economic outlook across Asia will affect demand growth. This has prompted us to lower our rate forecasts for China, India, Singapore, South Korea and Indonesia, resulting in a cut to the regional figure from 2-4% to 1-3%. Elsewhere we continue to expect demand to drive strong rate increases in North and South America. Rate increases will be more subdued in Europe, where demand is still weak, and in the Middle East, where capacity growth makes it difficult for hotels to raise rates.

◀ Indicates revision to previous forecast

North America +6-7%

Canada +3-4%
Mexico +4-6% ◀
U.S. +6-7%

Europe +2-4%

France +1-3%
Germany +1-3%
U.K. +4-6%

Latin America +5-7%

Argentina +5-7%
Brazil +6-8%
Chile +4-6%

Middle East +2-4%

Saudi Arabia +3-5%
U.A.E. +2-4%

Asia +1-3% ◀

China +0-2% ◀
India +1-3% ◀
Japan +3-5%

Africa +7-9%

South Africa +7-9%

SW Pacific +2-4%

Australia +2-4%
New Zealand +3-5%

Economic growth assumptions

World economic GDP growth

2014 → 2015

2.6% → 2.9% ◀

Oil prices have emerged as a key driver of economic fortunes in 2015. Advanced economies will benefit from cheaper oil and see stronger economic growth. But lower oil revenues will hit growth in emerging markets, particularly in the Middle East and Latin America.

◀ Indicates revision to previous assumption

	2013	2014	2015
North America	2.2% ◀	2.4% ◀	3.2% ◀
Europe	0.3%	1.4%	1.9%
Asia	4.8% ◀	4.3% ◀	4.6%
Latin America	2.7%	0.9% ◀	1.3% ◀
Middle East	2.2% ◀	2.7% ◀	2.6% ◀
Africa	3.1% ◀	3.9% ◀	4.0% ◀
Southwest Pacific	2.1% ◀	2.9% ◀	2.9% ◀
World	2.5% ◀	2.6%	2.9% ◀

Source: Oxford Economics, January 2015

Oil prices have fallen further due to weaker global demand and strong supply. The U.S. Energy Information Administration (EIA) now expects an oil price of US$58 per barrel for Brent crude in 2015. We predict that global economic growth and action by Saudi Arabia will provide some support for oil prices, but we have still lowered our assumption from US$95 to US$65.

Oil price assumption

US$ 65 per barrel

We've lowered our assumption

Source: Advito

ADVITO

 |