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May 2012 Update | Key Findings

- Uncertainty around the Iran situation is sparking new fears of oil price increases. Closure of the Strait of Hormuz could send prices skyrocketing toward US$200 per barrel, with US$115 per barrel the"best-case" alternative.
- Europe's financial crisis is not yet over, but tensions are easing a little following implementation of an early warning mechanism. Rising bond yields in Italy and Spain, however, remain cause for concern.
- U.S. economic indicators have stabilized, and new strength in recent months is sparking an uptick in economic optimism worldwide.
- Air travel demand is set to outpace supply, given ongoing capacity cuts by airlines. The imbalance has already resulted in some price hikes in the U.S. and looks likely to lead to similar hikes in other regions over the course of 2012.
- Changes to hotel rate forecasts are limited to Argentina (high inflation), Switzerland (being less effected by European woes), India (increasing inventory), the Czech Republic (fallout from the Eurozone crisis), and Russia (softened demand).

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Three months on from our previous *Industry Forecast* update, delivered amidst a wave of European credit rating downgrades and the onset of a recession in the UK, the financial situation in Europe has not yet found safe ground.

The world economy is also dominated by concerns around rising oil prices, mainly due to Iran's nuclear program and the fighting between Sudan and South Sudan. Without Western military intervention, the prices should stabilize around US$115/ barrel in the second half of 2012; if it does come to intervention, prices might go up to US$200/barrel according to the *Economist Intelligence Unit* (EIU).

The U.S. is gaining traction and the *International Monetary Fund* (IMF) has raised its GDP forecast for the country by 0.3 percentage points for 2012. China has started an initiative to slow down economic growth to avoid overheating, but GDP forecast remains bullish at 8.2 percent for 2012.

The euro zone
The investment of €1 trillion into financial institutions by the European Central Bank eased tensions and stabilized the market; however, the effects are wearing off and rising bond yields in Spain and Italy are a warning that the debt crisis is not over yet. With bail-out funds still depleted, there are concerns about the region's capacity to absorb another rescue.

With tensions easing a little in Europe, and an overall uptick in optimism around the world, the IMF has now slightly increased the forecasts in their April edition of the *World Economic Outlook* (WEO):

	Industry Forecast 2012	Update January 2012	Update April 2012
World	4.5%	3.3%	3.5%
United States	2.7%	1.8%	2.1%
Euro area	1.7%	-0.5%	-0.3%
European Union	2.1%	-0.1%	0.0%
Emerging and developing countries	6.4%	5.4%	5.7%

Corporate travel demand looking up
Confidence in business travel is returning, according to results of a business confidence survey issued in April by the *International Air Transport Association* (IATA). Demand growth for air passenger travel in 2011 was recorded by 56 percent, and 40 percent believe this growth will continue in 2012.

Advito's analysis of BCD Travel client travel data shows that demand especially in the U.S. is coming back stronger than expected, resulting in growth of the domestic market and acting as business driver for South America as well.

Overall demand in Asia continues to grow in line with Advito's forecast.

The transactional data analyzed in this update covers the period through February 2012; the economic data covers the period through April 2012.

For more detailed information on key trends in travel management for 2012, as well as recommendations for travel buyers, please refer back to the original ***2012 Industry Forecast***, published in Aug. 2011 and available at www.advito.com.

Advito has revised upward its initial 2012 airfare forecasts for Latin America and the Middle East.

In Latin America, stronger than expected domestic demand supplemented by U.S. economic recovery is driving increases of 2 percentage points to regional economy (10 percent) and intercontinental economy (9 percent) forecasts.

Strong demand in the Middle East is also behind the climb in the region's forecast across all categories and classes to between 8 percent and 9 percent (an increase of 4 to 5 percentage points) reflecting the overall growth in the region.

The key assumption behind Advito's original forecast for an overall increase in airfares in 2012 still applies: Demand is outpacing capacity, particularly in the U.S. market, where for the first quarter of this year US Airways and Delta Airlines announced profits instead of losses for the first quarter in 2011.

For the time being, Advito is maintaining its European airfare forecast (1 percent to 3 percent year-over-year increases), but will monitor the situation closely, as further financial crises in Spain and/or Italy could reduce even these marginal increases.

As a sign of the uncertainty gripping economic markets, the International Air Transport Association (IATA) for the second time is providing two scenarios for its financial forecast, released in March.

In its central forecast, which assumes the Euro crisis is averted throughout 2012, IATA calls for an increase in demand globally of 3.6 percent, up from February's update of 2.9 percent. Latin America (7.2 percent) and the Middle East (8.8 percent) will remain the regions with highest demand; Asia-Pacific (4.5 percent) shows continuous strong demand, while North America (1.7 percent) and Europe (2.6 percent) are forecast to lag behind.

IATA is accompanying its central forecast with an "oil price spike" forecast which sees global demand in 2012 dropping by 0.7 percent year-on-year with Africa hardest hit with a drop in demand of 4.2 percent.

Given current macroeconomic volatility, we caution buyers that the Advito forecast is more subject to change than usual. Outright recession in major markets, a subsequent drop in consumer confidence and a potential credit crunch from banks unwilling to lend could lead to a significant fall-off in demand. If that happens, airlines will have a much harder time sustaining projected fare increases and airfares could fall.

Travel program managers will need to continue to be mindful of a range of factors that affect the total cost of air travel, from fuel surcharges and ancillary fees to card payment fees, which gained ground late in 2011. Expect more carriers to follow suit, and those which have already introduced fees to extend them to more countries.

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Fig 1 – 2012 Airfare Forecasts by Region

Increasing demand, tempered by shaky economic confidence, will result in YOY fare hikes that are less drastic than 2011's YOY jumps.

Global

Traffic (RPK)	
Central Forecast	3.6%
Oil Price Spike	2.9%
Capacity (ASK)	
Central Forecast	3.2%
Oil Price Spike	2.8%

North America[$]

Airfare Predictions	2012
Intercontinental	
Business	+5.0%
Economy	+5.0%
Regional	
Business	+3.0%
Economy	+5.0%

Traffic (RPK)	
Central Forecast	1.7%
Oil Price Spike	1.0%
Capacity (ASK)	
Central Forecast	0.5%
Oil Price Spike	0.0%

Europe[€]

Airfare Predictions	2012
Intercontinental	
Business	+3.0%
Economy	+3.0%
Regional	
Business	+1.0%
Economy	+3.0%

Traffic (RPK)	
Central Forecast	2.6%
Oil Price Spike	1.9%
Capacity (ASK)	
Central Forecast	2.9%
Oil Price Spike	2.5%

Asia-Pacific[$]

Airfare Predictions	2012
Intercontinental	
Business	+4.0%
Economy	+4.0%
Regional	
Business	+4.0%
Economy	+9.0%

Traffic (RPK)	
Central Forecast	4.5%
Oil Price Spike	3.7%
Capacity (ASK)	
Central Forecast	3.9%
Oil Price Spike	3.5%

Middle East[€]

Airfare Predictions	2012	
Intercontinental		
Business	+9.0%	◄
Economy	+9.0%	◄
Regional		
Business	+8.0%	◄
Economy	+9.0%	◄

Traffic (RPK)	
Central Forecast	8.8%
Oil Price Spike	8.1%
Capacity (ASK)	
Central Forecast	8.5%
Oil Price Spike	8.1%

Africa[€]

Airfare Predictions	2012
Intercontinental	
Business	+4.0%
Economy	+3.0%
Regional	
Business	+5.0%
Economy	+3.0%

Traffic (RPK)	
Central Forecast	4.5%
Oil Price Spike	3.8%
Capacity (ASK)	
Central Forecast	3.9%
Oil Price Spike	3.5%

Latin America[$]

Airfare Predictions	2012	
Intercontinental		
Business	+7.0%	
Economy	+9.0%	◄
Regional		
Business	+8.0%	
Economy	+10.0%	◄

Traffic (RPK)	
Central Forecast	7.2%
Oil Price Spike	6.4%
Capacity (ASK)	
Central Forecast	6.7%
Oil Price Spike	6.3%

◄ indicates revision to previous forecast

RPK (Revenue Passenger Kilometers) measures actual passenger traffic
ASK (Available Seat Kilometers) measures available passenger capacity
Source: IATA
Forecast of average development of airfares used by corporate clients 2011 against 2010 (in $ USD or € EUR)
Source: Advito
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While overall regional hotel average daily rate (ADR) forecasts remain unchanged from the February update, Advito is revising forecasts for a handful of individual countries.

Advito now expects ADR in Argentina to climb by another 8 to 10 percentage points, for a year-over-year increase of 16 percent to 20 percent, due to high inflation. This significant increase, however, is still in line with Advito's overall forecast for Latin America, so that the figures for the region remain as originally set.

In Europe, ADR development in the Czech Republic has been revised downwards by 2 percentage points to a range of 0 percent to 2 percent, due to having been hit harder by the economic crisis than previously envisioned. Advito is also revising Russia's ADR forecast down by 2 percentage points to a year-over-year increase ranging from 1 percent to 3 percent due to softened demand.

The ADR forecast for Switzerland, on the contrary, is climbing by 2 percentage points to a 2 percent to 4 percent range, on the assumption that the country's growth as a non-Eurozone and non-European Union member will be less affected by the ongoing European crisis.

Advito is revising its ADR forecast downward by 2 percentage points to the 0 percent to 2 percent range for India, following a surge in new capacity becoming available. This, however, has no implication on the overall forecast for Asia which Advito has set at 8 percent to 10 percent ADR growth for the region.

Fig 2 – 2012 Hotel Average Daily Rate (ADR) Predictions by Region
In 2012, ADR will grow gently in the major regions, but more substantially in the developing regions.
Figures represent YOY changes based on booked ADR

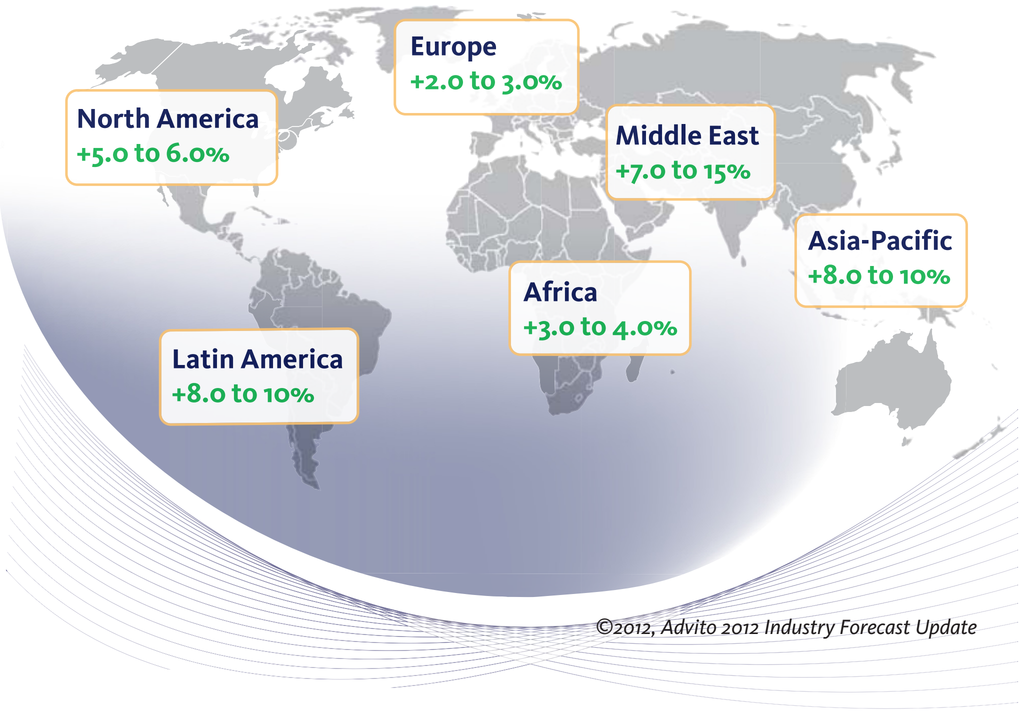
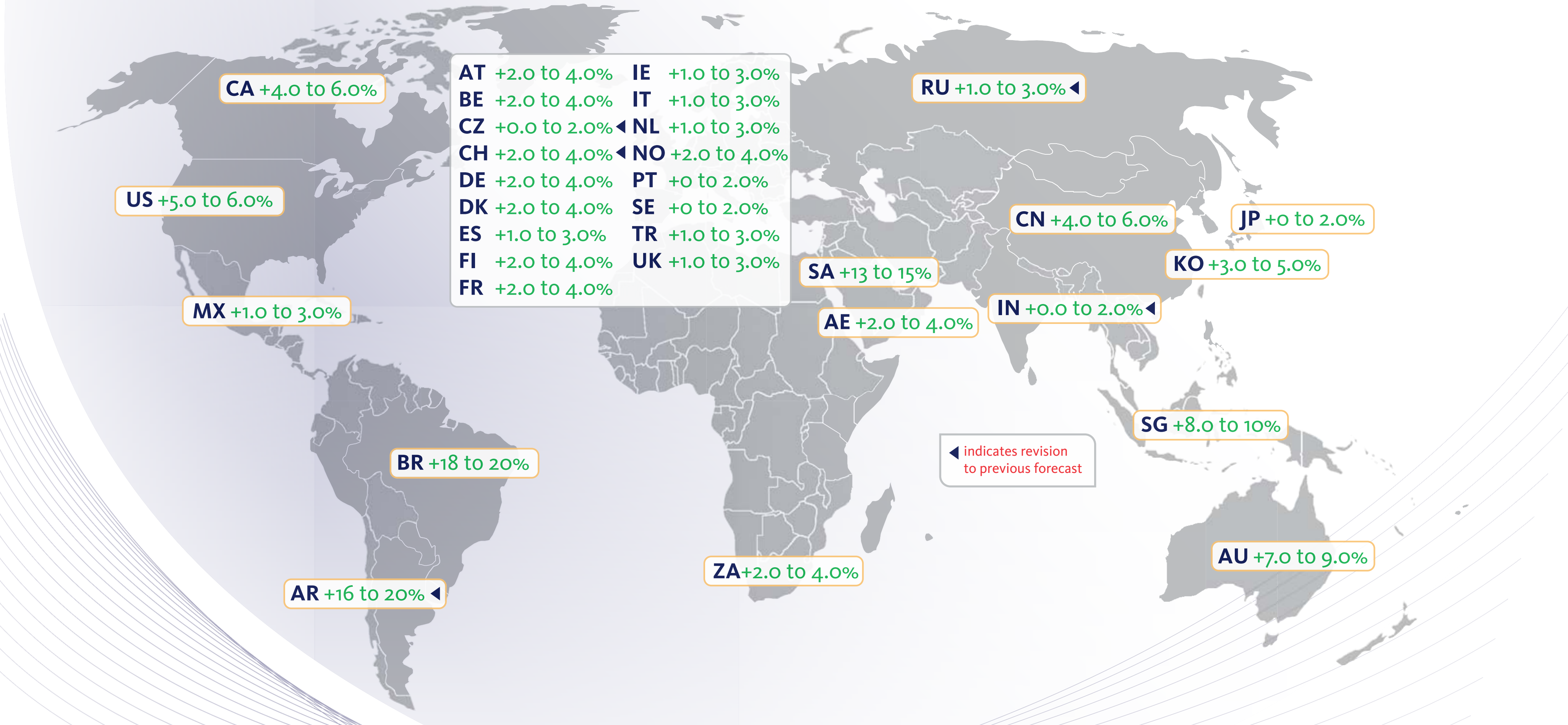


Fig 3 – 2012 Hotel Average Daily Rate (ADR) Predictions by Key Market
Corporate travel buyers will struggle to hold down rate increases in 2012, with Latin America showing the highest YOY jumps.



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Spotlight on meetings

As with corporate travel, the global economic situation continues to have an effect on the meeting industry. Even though the need to meet is on the rise as companies expand their business efforts, meetings are becoming smaller and shorter. Additionally, companies are still on edge from the amount of rash cancellations in past years due to the financial downturn and are playing it safe by not booking meetings too far in advance, which is keeping industry lead times short. BCD M&I predicts that the lead times will begin to lengthen as hotel inventories continue to tighten over the coming years.

Globally, tight hotel inventory accompanied by strong meeting demand will continue to drive cost higher, especially in Latin America and Asia Pacific. According to the *Meeting Professionals International* (MPI) Business Barometer issued in February 2012, rising costs are pushing companies to become more strategic with their meeting program as the need to justify the value of meetings is on the increase. All regions report growing need for meeting spend and process control as well as increasing meeting policy compliance.

Companies are harnessing technology to meet these needs and enhance the value of face-to-face meetings. Many are exploring virtual and hybrid (a combination of face-to-face and tele-, video- or web-conference presence) meetings, which are particularly valuable when attendees are located across the globe.

A growing number of events are also using social media networks or mobile app solutions designed for iPads and smartphones to assist with onsite registration or as standalone products. As within the transient travel environment, mobile can drive lower costs, increased attendee participation and “green” benefits.

Technology, traveler behavior and secondary expenditure

Kevin May, editor and co-founder, Tnooz

Mobile is now a critical element in the lives of business travelers—not only in the way they communicate on the road but often how their itineraries are put together and managed.

App or web-based travel management tools give users instant access to their travel plans and, increasingly, the ability to alter bookings, as well as handle various functions of the day-job (email, expenses, etc).

But while the primary elements of a trip, such as flights and accommodation, are still—and are likely to remain—"managed," the concept of the always connected traveler is changing the way secondary spend is handled.

U.S. travelers on international trips in 2011 typically spent around 12.5 percent of their total trip cost ($311) on items such as food, taxis, calls and associated mobile roaming fees.

Consolidating some of those items into a managed program of costs is becoming increasingly easy—tools such as Skype and wifi hotspot providers, for example, allow travelers to have a suite of services which companies can have as part of the overall financial package for staff.

Mobile, once again, plays a pivotal role.

Ground transportation is another aspect which is increasingly tied into the life of the traveler and his or her smartphone.

The 2012 Travel Technology Trends content is provided by Tnooz. Any views or opinions expressed are solely those of Tnooz and do not necessarily reflect those of either Advito or BCD Travel.

Groundlink, Zipcar and Uber are just three of a growing number of car rental, taxi or person-to-person sharing systems which have mobile at their heart—services are typically booked and managed via a handset, often as late in the booking cycle as the moment the traveler picks up his or her luggage from the carousel.

These companies are now fighting for the attention of the business traveler not only at the destination (say goodbye to taxi queues, is the mantra they all preach) but also by muscling in on the managed travel programs at corporations.

The chances are that they will succeed, thanks to the efficiency of access and management of services via mobiles, as well as the reporting tools built with the corporate traveler in mind.

But perhaps the biggest challenge in the area of secondary spend is in dining and other peripheral items which are still part of a client's travel plans and will no doubt feature on the expense report of the traveler.

Mobile is inevitably driving this evolution, but equally is now an intrinsic part of the solution.

These new, so-called web marketplaces are showering both corporate and leisure travelers with more services and functionality than ever before.

Travelers now have the ability to pick and choose deals at the touch of a button, and even to register ahead of time for offers to be sent to them at destination. It is time to use these new capabilities to the travelers' and the travel program's advantage.

At first glance it may seem that while purchasing quickly via a mobile may be more convenient for the traveler on the ground, program compliance will suffer. The contrary, however, is true: mobile, and mobile apps, represent a sterling opportunity to influence travelers to make good decisions precisely at the time they are most inclined to act, and to capture data on secondary spend.

Clearly some elements of secondary spend by the corporate traveler, like ground transportation and telecommunications, are ripe for inclusion into existing managed programs. Others, around food and other sundries, may need a little more time to reach their full potential – but even here, the possibilities are exciting.

If, for example, a customer is heading to City X, use messaging systems on the handset to notify them of food and beverage deals, or perhaps include links on the travel management application to recommended in-destination providers of services; this allows travel managers to recommend particular services to a client, giving them the ability to keep expenses within an overall framework when the traveler opts to use a product.

Mobile has come to stay, and it is time to expand the use of the traditional mobile and to embrace smartphones to better compliance and traveler satisfaction.

It has been assumed (as working hypotheses rather than predictions) that:

- The price of oil per barrel will be within the range of US$115 and US$125 over a three month period in 2012;
- World economic output will expand by about 3.5 percent in 2012, with a sluggish start followed by slightly accelerating growth in the second half of the year; growth will continue in 2013, with world economic output rising between 0.2 and 0.6 percent year over year.
- Impact of the long-term structural reduction of travel intensity for most sectors will be insignificant in 2012 (i.e., organizations will not further reduce their number of trips in relation to their business volume).

Broader industry developments and trends have been identified based on Advito research throughout 2011 and an analysis of in-depth interviews of experts in international corporate travel and meetings management with additional insight by the respective Advito practice leaders.

The category-specific predictions are based on an Advito analysis of aggregated transaction data of BCD Travel's corporate clients worldwide.

The analysis and forecast are based on dynamic baskets using the actual number of room nights, car rental bookings and air segments for the period in question to reflect potential shifts in travel pattern and booking behavior. The level of aggregation used for the trend analysis was determined based on the validity of the data pool in question with a minimum threshold for year-to-date and historical number of transaction for each unit.

Averages per month are weighted by category transactions for each of the unit in question—the exception is the area/region average for hotel which is a simple average across all countries in that area/ region. Quarterly averages are simple averages of months in the quarter. Unless stated differently, price developments are based on local currencies and are therefore subject to foreign exchange fluctuations. Local currency transaction data has been normalized into leading world currencies using the daily average conversion rate on the date of travel (for air and rental car) or planned checkout date (for hotel).

Hotel market tiers assignments are following Advito's proprietary classification scheme. Air cabin classes are based on the Advito master table of booking classes for airlines.

In addition to the BCD Travel client data the following sources have been used as parameter input to the trend analysis and forecasting:

- International Air Transport Association (IATA) for airline capacity and traffic;
- International Monetary Fund (IMF) for macroeconomic predictions and oil price;
- Economist Intelligence Unit (EIU) for macroeconomic predictions and oil price;
- Lodging Econometrics for hotel construction pipeline;
- OANDA for foreign currency exchange rates;
- Official Airline Guide (OAG) for airline capacity;
- Organisation for Economic Co-operation and Development (OECD) for historic macroeconomic indicators;
- Smith Travel Research (STR) for hotel occupancy level.

The estimates and predictions are based on data available through February 2012 for air and hotel transactional data and through April 2012 for macroeconomic and industry indicators.

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About Advito
Advito provides travel-management advisory, procurement and outsourcing services that guide clients through a complex travel environment. Advito's focus on consulting delivers proven value, unbiased counsel and a customized approach for every client and every engagement, together with industry expertise and access to data to drive quantifiable decision-making. Advito is headquartered in Atlanta and London and operates in key business markets around the world. Advito is an independent operating unit of BCD Travel, the world's third-largest travel-management company, owned by BCD Holdings N.V.

About BCD Holdings N.V.
BCD Holdings N.V., a Dutch family-owned company founded in 1975 by John Fentener van Vlissingen, is a market leader in the travel industry. The BCD Holdings companies are BCD Travel (global corporate travel management), BCD OTA, new name soon to be announced, (online travel: CheapTickets, Vliegwinkel and Vayama), Park 'N Fly (off-airport parking), TRX (travel transaction processing and data integration), Airtrade (consolidating), VakantieXperts (leisure) and Parkmobile International (mobile parking and traffic applications). BCD Holdings employs approximately 13,000 people and operates in more than 90 countries with total sales, including franchising, of U.S.$ 17.7 billion. For more information, visit www.bcd-nv.com.