

TRAVEL MARKET REPORT

Produced by Research & Intelligence

February 2023



Travel Market Report

Welcome to the first edition of the Travel Market Report, brought to you by BCD Travel's Research & Intelligence team.

In each edition, which we aim to publish quarterly, we'll update you on some of the latest developments and trends that we've observed in the travel market. We'll look at the movement of some of the key metrics, including hotel average daily rates and airline average ticket prices. And we'll also revisit some of the content we've recently produced and published in other locations, so that we can share some extra market insights to a wider audience.

This first edition of the Travel Market Report includes content on the following:

- Hotel rates in North America, Asia Pacific and Europe
- Airfares in the U.S. market
- Airline costs in North America
- Air travel - a sustainable future
- The implications of China's return to international travel

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Hotel rates in North America

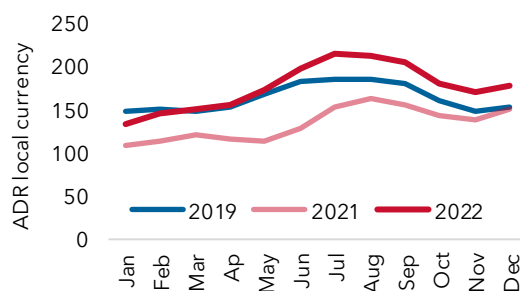
Hotel rates in North America

Among North America's three markets, Mexico was the first to see hotels restore average daily rates (ADRs) to their pre-pandemic levels: By April 2021, they had moved higher than in the same month in 2019. U.S. hotels were not far behind, joining them in July. Rates were much slower to recover in Canada, only moving above 2019 levels in March 2022.

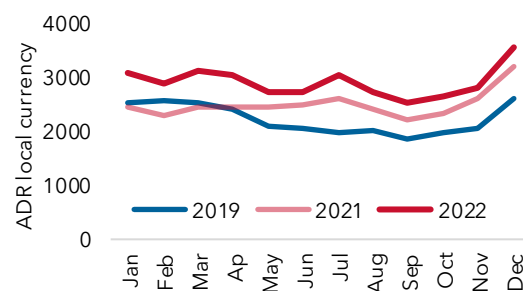
For much of 2022, ADRs were higher than in both 2019 and 2021 in all three countries. Rates in both Mexico and the U.S. averaged **one-fifth** higher year-over-year. By virtue of its later recovery, Canada experienced a much steeper **31%** rise in ADRs during 2022. It ended the year with a **19%** rate rise in December, far higher than Mexico's **11%** and the **8%** recorded in the U.S.

In a recovery, strong year-over-year rate rises might be expected, but ADRs have also moved far above their pre-pandemic levels too.

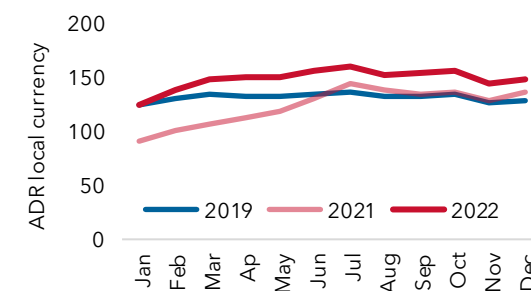
Canada



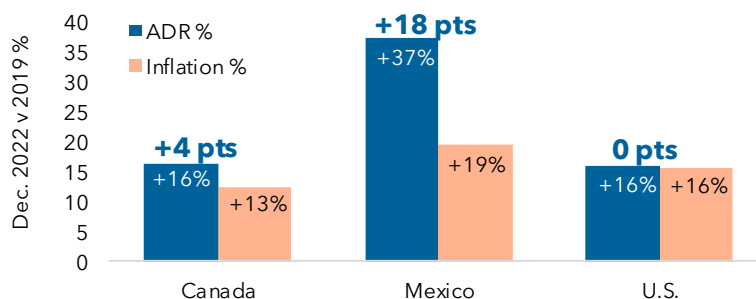
Mexico



U.S.



Hotel rate increases v inflation



When compared to their December 2019 levels, ADRs in the same month in 2022 were **16%** higher in Canada and the U.S. and **37%** higher in Mexico. But how do these increases compare to the general rise in costs seen in these countries since 2019?

In the U.S., the rise in ADRs has matched general inflation. And in Canada, hotel rate increase have been **four points** higher than inflation. But in Mexico, rates have outpaced inflation by **18 percentage points**. An imbalance between demand and supply may well be giving hotels extra pricing leverage, leading to excessive increases in room rates.

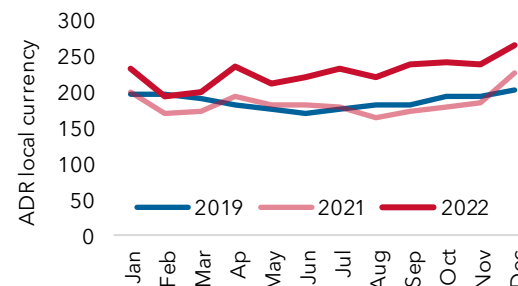
Hotel rates in Asia Pacific

Hotel rates in Asia Pacific

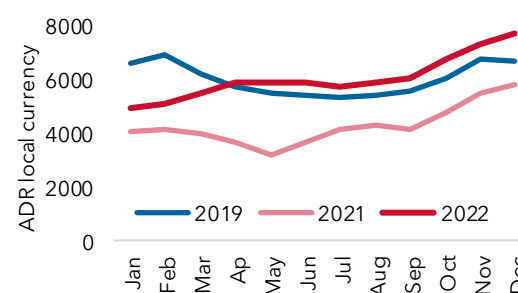
The timing of each market's reopening has been a key factor in the recovery of hotel rates. Average daily rates (ADRs) in Australia were back at pre-pandemic levels in 2021 and posted a **23%** year-over-year (YoY) increase during 2022. Rates in India during 2022 were **2%** higher than in 2019, and by December, they were **15%** above them.

Hotels in China and Japan are much further behind in their recoveries, but that should change now that both countries are reopening. In Japan, ADRs swiftly recovered in December, after an easing of travel restrictions resulted in a **42%** YoY surge in rates. This also pushed them to **11%** above their 2019 level. In China, ADRs in 2022 were still **one-fifth** below 2019 but showed some progress in December. A rapid recovery may already be under way as the country removes its own travel restrictions.

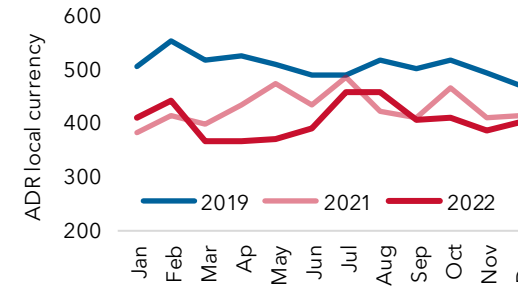
Australia



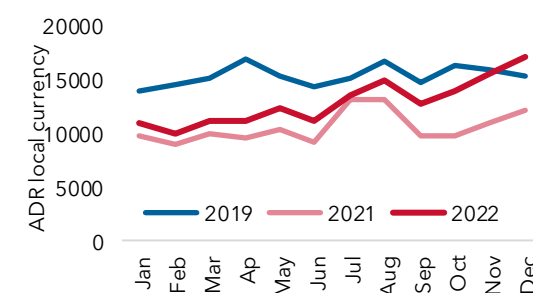
India



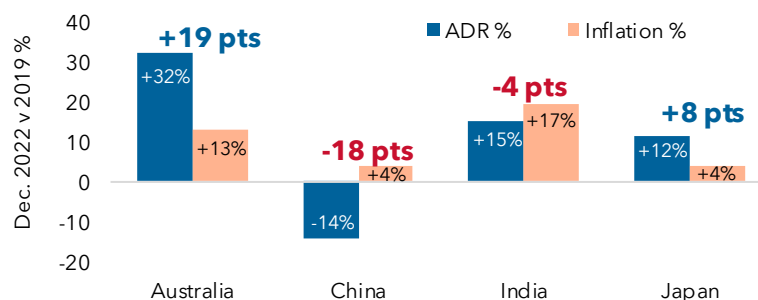
China



Japan



Hotel rate increases v inflation



The differences between consume price inflation and movements in hotel room rates vary considerably across Asia Pacific. And in some cases, it's hard to see the rationale for them. Take the two markets that have made the most progress toward recovery. In Australia, the increase in hotel rates since 2019 is **19 points** above inflation; in India it's **four points** below it.

It's easier to understand the contrast between China and Japan. Almost overnight, Japan's recent reopening pushed ADR movements **eight points** above inflation. It's a sign of what could soon happen in China, where rate increases in December 2022 were still **18 points** below inflation.

Hotel rates in Europe

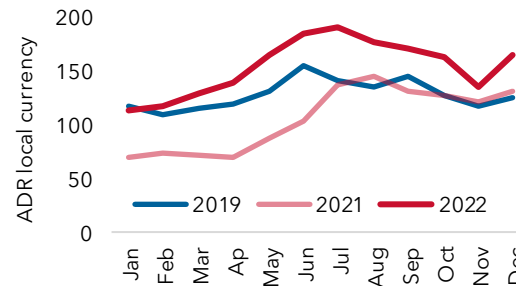
Hotel rates in Europe

Average daily rates (ADRs) in some of Europe's largest markets had returned close to their pre-pandemic levels by **mid-2021**. Since the first quarter of 2022, ADRs have remained higher than in 2019, although the level of increase has varied by country.

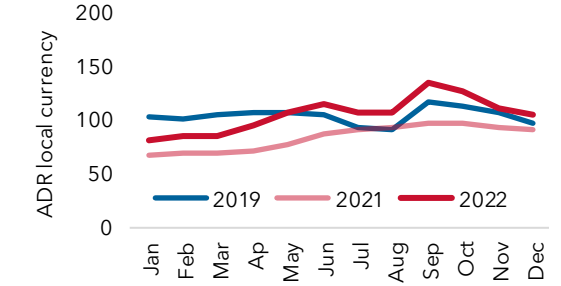
France has seen the biggest rise in ADRs: In 2022 they were on average **20%** higher than in 2019. The U.K. is not too far behind, posting a **16%** increase, followed by Spain with **12%**.

Germany's rate recovery has been the weakest. On average, rates in 2022 were just **4%** higher than in 2019, although the year ended with a **9%** increase in December. But this was far below December's **32%** rise in France and **24%** in U.K., where rate inflation (compared to 2019) remains at high levels.

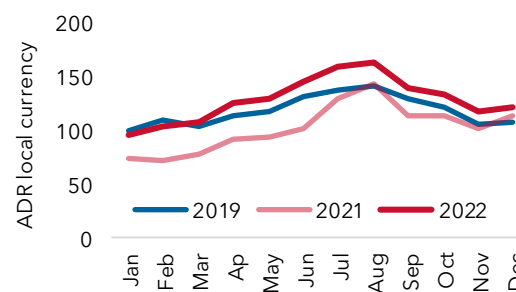
France



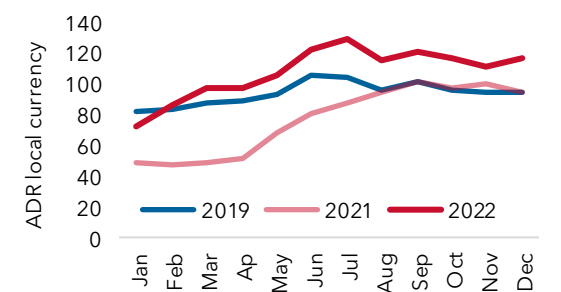
Germany



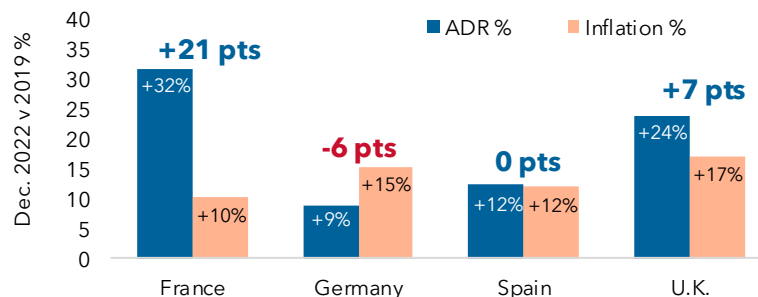
Spain



U.K.



Hotel rate increases v inflation



How does such a broad range of ADR inflation in December 2022 compare to the underlying movement of costs since 2019? It varies.

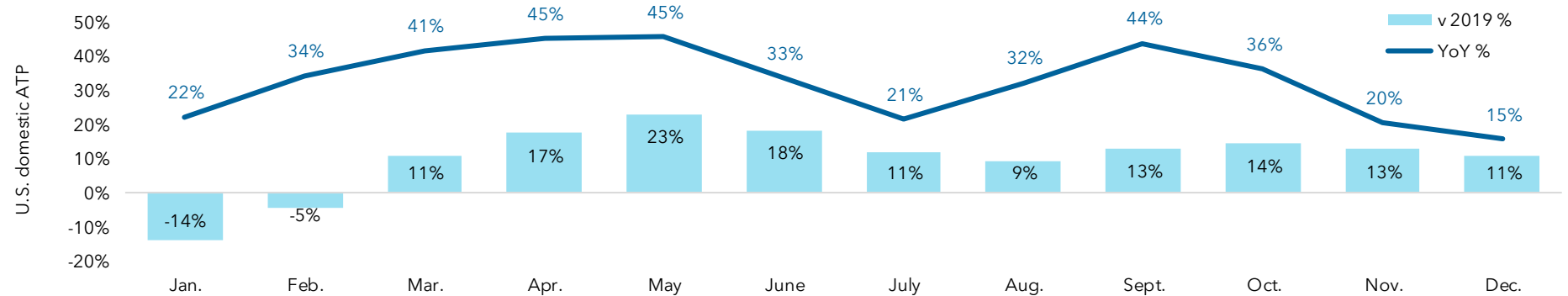
In Spain, ADRs have risen at the same rate as consumer prices. In Germany, the modest rise in ADRs is some **six-points** below consumer price inflation of **15%**. But hotels in both France and the U.K. have been able to increase their room rates by percentages far above inflation. The **21-point** excess in ADR movement in France is partially a result of the country's lower rate of inflation, but hotel rate rises are still high.

Airfares in the U.S.

Domestic airfare increases slow down

Domestic airfares in the U.S. market have been subject to some steep year-over-year increases during 2022, according to data from ARC. In some months, average ticket prices (ATPs) were up by more than 40%. The pace of inflation has slowed in recent months, easing to 15% by December. Across the year, ATPs were on average 32% higher than in 2021. And they were also more than 10% above their pre-pandemic, 2019 level. That amounts to a 10.3% rise over three years, which is equivalent to 3.3% per year. This doesn't sound like a lot, but it is significantly higher than the average 0.4% annual fare increase airlines managed between 2016 and 2019.

Growth in U.S. domestic airfares

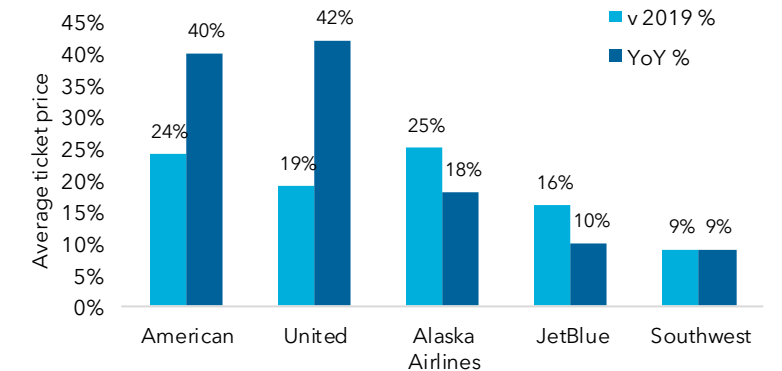


Return of international flying drives up average ticket prices

During the fourth quarter of 2022, systemwide average ticket prices (ATP) continued to trend much higher when compared to the same period in both 2019 and 2021 (year-over-year).

Increases have been more modest among the low-cost carriers, including JetBlue and Southwest. Among the full-service airlines, both American and United recorded substantially higher year-over-year increases in ATP than against 2019. This largely reflects the accelerated return of long-haul flying during 2022, with the typically higher fares associated with this segment helping to provide an additional boost to the year-over-year uplift in ATPs.

Growth in Q4 2022 average ticket prices

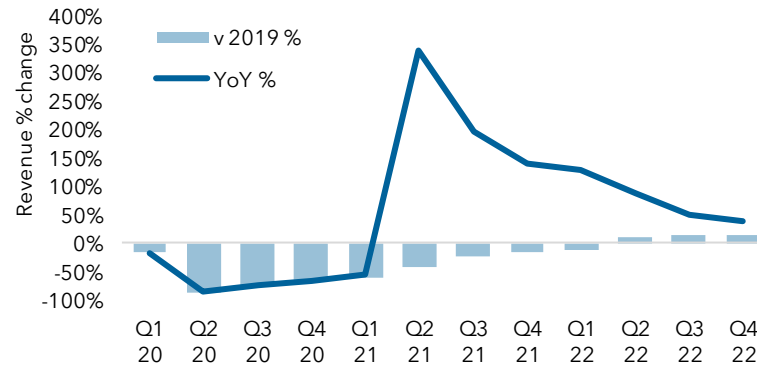


Airline costs in North America

Revenues are rising, but so too are costs

For the last three quarters, revenues among the largest U.S. airlines have been higher than in the same period in 2019. In the final quarter of 2022, with revenues **15% above** their pre-pandemic levels, airlines were still growing sales by **40%** year-over-year. One factor driving such strong growth has been higher airfares (average ticket prices - ATPs), which have helped airlines offset higher fuel costs. In the second half of 2022, ATPs were on average almost **20%** higher than in 2019. As fuel prices start to ease, airlines may have less need to keep ATPs so high. Or will they?

Recovery in U.S. airline revenues

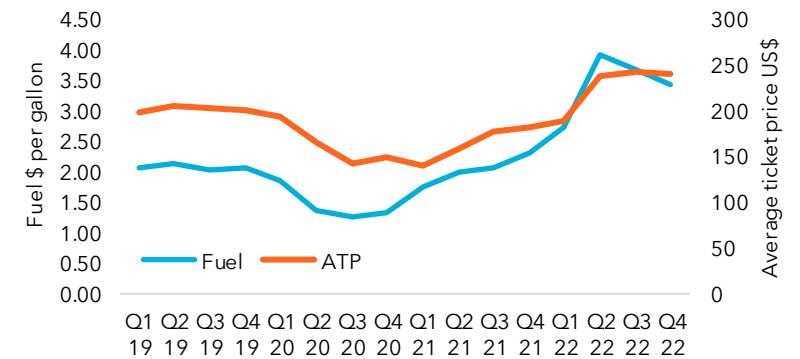


During 2022, the focus was on rising fuel costs, with movements in labor costs distorted by U.S. government support and furloughs.

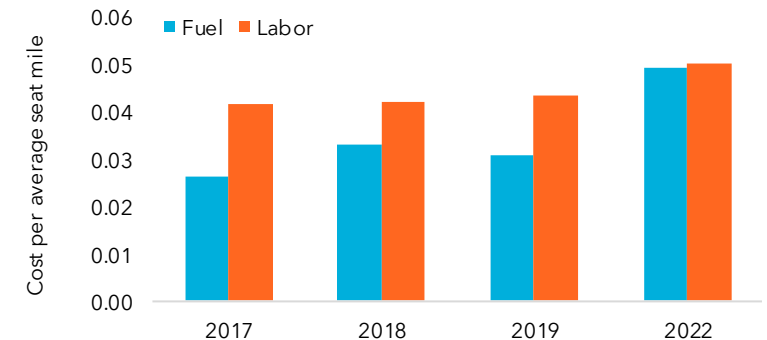
Fuel prices now appear to be falling, but they remain at an elevated level, all the same. What's more, airlines must now deal with the specter of rising labor costs. Having been broadly stable, unit labor costs in 2022 were **15%** higher than in 2019.

Labor costs are likely to increase further. Pilots at JetBlue Airways are due a 21.5% pay rise over 18 months. Engineers at United Airlines have agreed a 16-23% wage hike over two years. These are just two examples of the growing labor cost pressures airlines are now facing, which may increase their resistance to lower fares.

Airline fuel costs and ticket prices



Unit fuel and labor costs

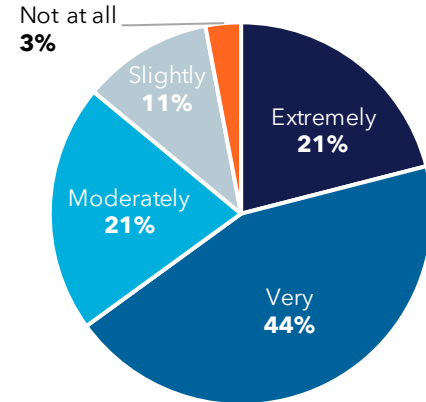


Air travel - a sustainable future

New report on sustainable air travel

In February, we published the first report in a two-part series on the future of air travel. You can read the full report [here](#). After laying out the foundations for the future, we explore the path towards sustainable air travel and consider what this could mean for travel programs and business travelers. Here's a summary of some of the key findings.

61% of travel managers rate environmentally sustainable travel as extremely/very important



Airlines are taking other actions on sustainable flying

Airlines aren't just waiting for new, more sustainable fuels. They're also making changes to the way they operate today.

More efficient flight descents, single engine taxiing, advance weather warnings, engine washing, and even fleet renewal can help reduce emissions.

Sustainable aviation fuel (SAF) is only a start

SAF is a practical, immediate solution to reduce air travel's CO₂ emissions by up to 80%. But production is likely to fall far short of aviation's future fuel needs. And currently, it can cost anywhere between two to eight times more than crude oil-based jet fuel.

Other forms of power may be a better long-term bet

Hybrid-electric aircraft, such as Heart Aerospace's ES-30, could be in service by 2028. By this time, smaller, fully-electric aircraft like Eviation's Alice could already be flying. Progress doesn't end there. Some aviation companies see green hydrogen power as the sustainable future. But there are still a number of challenges to overcome.



Rail has a role to play as an alternative to some flights

Rail's green credentials are clear: A Eurostar passenger traveling from London to Paris will use 93% less CO₂ than flying. Airlines have taken note, and some already connect passengers onto train services for the final leg of their journey. But rail's potential as an alternative is limited, and it has yet to really resonate with travel managers.

The future of aviation lies in purposeful travel that maximizes value and minimizes impact

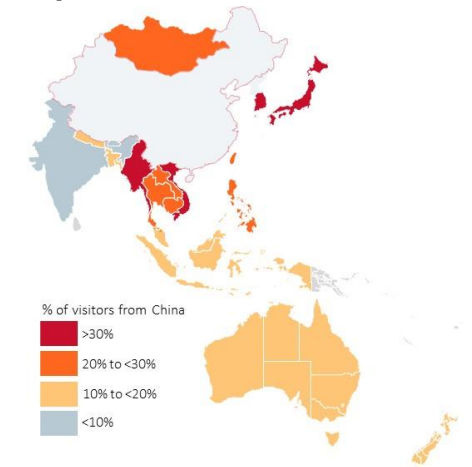
China's return to international travel

Asian destinations may expect an influx of visitors from China

China's ending of COVID-19 restrictions saw it reopen its borders to international travel. With many controls on travel eased from January 8, 2023, a surge in outbound travel was delayed by a sharp rise in COVID-19 cases within China. As concerns about COVID-19 ease, a number of destinations anticipate an influx of Chinese visitors.

Chinese tourists matter most to destinations across Asia. Some countries rely quite heavily on Chinese tourism, and their travel industries should receive a major boost from China's reopening. Pre-pandemic, **more than one-third** of visitors to Myanmar and South Korea arrived from China, with Japan and Vietnam reliant on China for more than **30%** of visitors. Cambodia, Laos, Mongolia, the Philippines and Thailand are among the countries, where Chinese travelers had accounted for more than **one-fifth** of tourist arrivals.

Importance of Chinese visitors



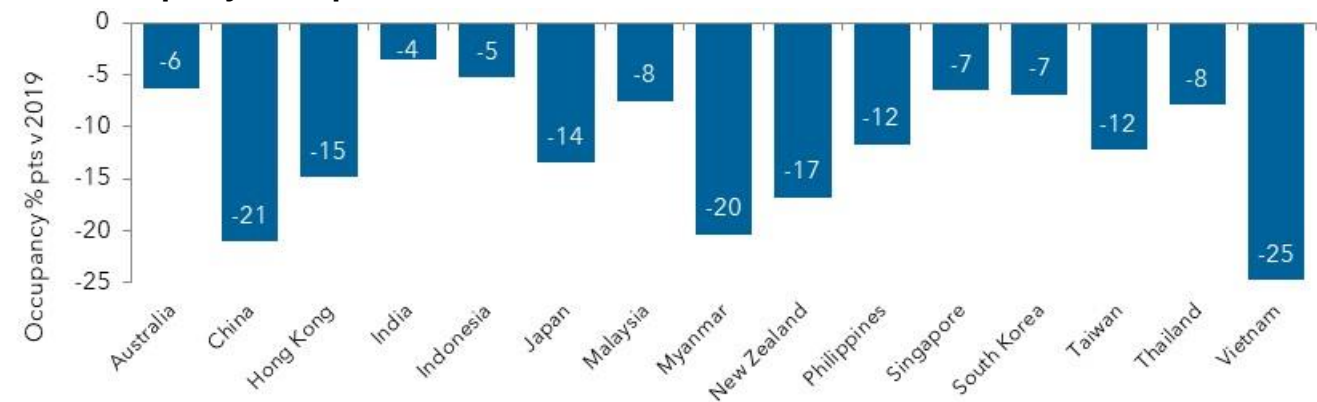
Extra demand could impact room availability and pricing

Once concerns about importing COVID-19 cases from China start to fade, many Asian markets can expect a sudden surge in Chinese arrivals. This could increase pressure on hotel room availability and pricing.

By comparing hotel occupancy to its pre-pandemic level in 2019, it's clear that some markets have more capacity spare than others to absorb this extra demand.

Those markets most reliant on China seem to have rooms to spare, but there could be shortages in South Korea and Thailand.

Hotel occupancy% compared to 2019



Share your thoughts

Do you have any questions or comments regarding this report?
Please email [Mike Eggleton](mailto:Mike.Eggleton@bcdtravel.com) to share your thoughts.

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