2016 Industry Forecast
December Update

Global travel climate

Record year ahead for hotel fees

U.S. hotels will earn close to $2.5 billion from fees and surcharges in 2015.[1] They routinely charge resort and amenity fees, and bill customers for services like early check-in, reservation cancellations, Internet access and automatic gratuities. The fees are a highly profitable source of revenue for hotels. And with occupancy rates so high, hotels are more confident about enforcing these fees. Until there's a guarantee of transparency and full disclosure, check that hotels don't charge your travelers for amenities and services included in your negotiated rate.

[1]New York University's Tisch Center for Hospitality and Tourism

Hotel consolidation ramps up

Hotel chains are changing their business model from owning to managing properties. They're turning to mergers and acquisitions to expand their visibility globally. While Chinese investors have led the way, western hotel chains are now catching up. IHG and AccorHotels are among the bidders for FRHI Hotels & Resorts, owner of Fairmont, Raffles and Swissôtel. IHG may also move for Mövenpick. But Marriott International has outdone these deals with an agreement to buy Starwood Hotels & Resorts, creating the world's largest hotel chain.[2] The much-anticipated shake-up in the hotel landscape has started the process of concentrating global supply.

[2] Reuters, Marriott to buy Starwood to create world's biggest hotel chain

Good news on fuel surcharges

Airlines gradually reduced or removed fuel surcharges (YQ) in response to lower oil prices and pressure from travel buyers and industry commentators. Air France-KLM (AFKL), for example, has removed YQ for medium-haul flights. This will also mean lower YQ on many long-haul routes, except the North Atlantic. This is good news for travel buyers: Medium-haul fares are now simpler, more transparent and aligned with short-haul fares, where AFKL has already removed YQ. It also increases the proportion of the fare to which corporate discounts may apply. We recommend checking for any increase in published fares to offset the airline's loss of YQ revenue. Other airlines may match AFKL's move.

Air

Low oil prices are encouraging airlines to expand capacity in markets where air travel is growing. This will help curb fare increases. In weaker markets, signs that demand is now stabilizing and may soon recover should limit the rate of decline for fares in 2016.

North America

We lowered our regional economy fares forecast from 2% to 0% to reflect the impact of extra capacity from low-cost carriers.

Europe

Europe's economic recuperation is helping to stabilize demand, persuading us to upgrade the forecast for regional economy fares from -2% to -1%.

Latin America

Our forecast of lower intercontinental fares and rising regional fares holds steady.

Middle East

Gulf carrier expansion continues and will drive down most fares.

Asia

New long-haul capacity is coinciding with weaker demand prospects, as China's economic growth slows. We now forecast a drop in intercontinental business fares.

Africa

An improving economic outlook indicates economy fares will not fall by as much as we originally projected. We changed our forecast from -5% to -3%.

SW Pacific

We're maintaining our forecast for lower intercontinental fares and increased regional business fares.

Intercontinental fares will fall in all regions except North America and Europe, where business fares will stay flat or rise slightly. There's more variation in the outlook for regional fares. Business fares will generally be flat, but we expect them to increase in Latin America and Southwest Pacific, and fall in Africa. Regional economy fares will be flat or lower in all markets except Latin America. Globally, this all adds up to a 1% drop in intercontinental fares and stable regional fares.

Indicates revision to previous forecast

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

Hotel

We changed our forecasts for five regions. As demand recovers, we raised our rate expectations for eight European markets. This increases our regional forecast from 1-3% to 2-4%. We also increased our forecasts for Africa and Southwest Pacific because of strengthening demand in key markets. But we lowered our outlook for Latin America from 4-6% to 2-4%, as the economic recession in Brazil makes it harder for hotels to raise rates. We also made a small adjustment to our Asia forecast.

Indicates revision to previous forecast

North America +4% to 6%
Canada +1% to 3%
Mexico +0% to 2%
U.S. +4% to 6%

Europe +2% to 4%
France +1% to 3%
Germany +0% to 2%
U.K. +3% to 6%

Latin America +2% to 4%
Argentina +6% to 8%
Brazil +2% to 4%
Chile +2% to 4%

Middle East -1% to +1%
Qatar +0% to 2%
Saudi Arabia +1% to 3%
U.A.E. -2% to 0%

Asia -1% to 0%
China -3% to -1%
India -3% to -1%
Japan +8% to 10%

Africa +2% to 4%
Nigeria +2% to 4%
South Africa +2% to 4%

SW Pacific +2% to 4%
Australia +0% to 2%
New Zealand +4% to 6%

Economic growth assumptions

World economic GDP growth

2015 → 2016

2.6% → 2.8%

The outlook for the world economy is gradually improving. Advanced economies will contribute more to global growth as U.S. performance strengthens and the Eurozone continues its recuperation. There's encouraging news from emerging markets too, as Latin America returns to growth, but a slowdown in China remains a real concern for the outlook.

Indicates revision to previous assumption

	2014	2015	2016
North America	2.4%	**2.4%**	2.8%
Europe	**1.5%**	1.9%	2.1%
Asia	4.4%	**4.4%**	**4.6%**
Latin America	1.0%	**-0.4%**	**0.8%**
Middle East	**3.1%**	**2.6%**	**2.9%**
Africa	3.9%	**3.6%**	**3.9%**
Southwest Pacific	2.8%	**2.6%**	2.8%
World	**2.7%**	**2.6%**	**2.8%**

Source: Oxford Economics, October 2015

Oil prices have become slightly more volatile as the market struggles to balance supply and demand. Progress will eventually stabilize oil prices, which the U.S. Energy Information Administration (EIA) believes will increase from US$54 per barrel (bbl) in 2015 to almost $59/bbl in 2016. Because we already factored in the EIA's concerns about new Iranian supply and consumption growth, we kept our original assumption of $60/bbl.

Oil price assumption

US$ 60 per barrel

We maintained our assumption

Source: Advito

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