2017 Industry Forecast

AI in travel

Artificial intelligence (AI) has enabled a range of apps, bots and software, which make it easier to interact with travelers at every step of a trip. AI automates computer processes to work in the same way as the human brain. Natural language processing (NLP) helps computers understand human speech or typing, and AI then applies machine learning to provide a useful response. The travel industry is well positioned to embrace AI, as it has a wealth of information well suited to machine learning. The technology has shown its earliest potential working together with travel agents. Some startups have begun using AI to prompt agents with relevant choices during bookings. The wider travel industry is also adopting AI, with KLM passengers now able to use Facebook Messenger to confirm bookings, get boarding passes and flight status updates. Hilton, Starwood, InterContinental and Marriott hotels are trying out robots to better serve their guests. AI is still in its infancy, but it is in our immediate future. As it develops, it will help simplify complex travel decisions, shorten the buying process and deliver a more personalized offering.

Spotlights

Alternative accommodations in the mainstream

The sharing economy offers new, innovative accommodation options for travelers. Companies like Airbnb are already well-established in the leisure segment and have set their sights on becoming a mainstream source of supply for business travel. Travel managers can now use tools like BCD Travel's DecisionSource© business intelligence and security solution to get a more comprehensive view of their travel programs and keep track of travelers staying in Airbnb accommodation. They can also capture and analyze spend data for Airbnb bookings to enable better, more confident program decisions. Even as demand for alternative accommodation grows, it will not be for every traveler or client. But, it is a great option when hotel rooms are sold out, or in markets where staying in a home is a safer option than hotels. In such situations, TMC integration means travelers can use alternative accommodation with confidence that they're remaining within the managed travel environment.

Hotel direct booking

Hotels have ramped up their efforts to increase direct bookings. Chains like Hilton, IHG and Marriott offer a discounted rate for loyalty members who book direct. They want to divert bookings away from online travel agencies to reduce distribution costs and capture more data about customers. But using loyalty in this way may encourage some travelers to book outside their programs. And as TMCs may not always be able to identify travelers by their loyalty status, they may not be able to access preferential rates. Also, these special prices aren't always as good as they seem and have limited availability. Corporate negotiated rates can be lower, and often include additional amenities and benefits. Travel managers must work even harder to engage employees and keep them within the program, particularly as traveler safety & security increasingly trumps price in accommodation decisions.

Air

The low oil prices, which airlines have enjoyed since the start of 2015, continue to give them confidence to add or maintain capacity. Lower fuel costs mean airlines can still expand and be profitable, even if it means lower load factors. This extra capacity means fares won't rise in most cases, and they'll fall where competition is the most intense. And it will limit price increases in any markets where demand is strengthening.

North America

Business fares will rise, but economy fares will stay flat or fall a little.

Europe

Intercontinental fares will increase. Low-cost carrier expansion will ensure regional fares do not rise.

Asia

Competition will keep most fares in check, but demand will drive up regional business fares.

Middle East

While most fares will stay flat or fall, regional business fares will rise.

Africa

Business fares will rise, but there will be no change to economy fares.

Latin America

There will be no change to business fares. However, expect economy fares to fall.

Southwest Pacific

Solid demand and capacity discipline will push up regional fares, while competition will ensure intercontinental fares stay flat.

We expect global business fares to rise slightly, while economy fares will be flat. There will be some variation in regional business fares, ranging from no increases in Europe and Latin America to 3% in Asia and Southwest Pacific. There'll be less variability in intercontinental business fares, which will rise by 1% in North America, Europe and Africa, but will remain the same in all other regions. Economy fares will only rise for intercontinental travel from Europe and for regional flights within Southwest Pacific.

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

Hotel

Global hotel rates will increase by 1% to 3% in 2017, with the strongest growth in three regions. In North America and Southwest Pacific, rates will rise due to insufficient supply, while strong demand will drive up rates in the Middle East. Africa and Europe will see the weakest rate growth, reflecting softer demand in these regions.

North America +3% to 5%
Canada +2% to 4%
Mexico +1% to 3%
U.S. +3% to 5%

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

Latin America 0% to 3%
Argentina +3% to 5%
Brazil +2% to 4%
Chile +1% to 3%

Middle East +2% to 4%
Qatar +1% to 3%
Saudi Arabia +2% to 4%
U.A.E. +1% to 3%

Asia +1% to 3%
China-1% to +1%
India +1% to 3%
Japan +6% to 8%

Africa 0% to 2%
Egypt 0% to 2%
Nigeria 0% to 2%
South Africa +5% to 7%

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

Global +1% to 3%

Economic growth assumptions

World GDP growth

2016	2017
2.3%	**2.6%**

After slowing in 2016, the world economy will regain momentum in 2017. The outlook in advanced economies will remain steady, as a stronger U.S. performance offsets lower European growth. The impact of Brexit is an uncertainty. Emerging markets will make a bigger contribution, as Latin America emerges from two years of contraction.

Regional economic growth forecasts 2015-2017

	2015	2016	2017
North America	2.3%	2.0%	2.3%
Europe	1.4%	1.9%	2.1%
Asia	4.4%	4.2%	4.3%
Latin America	-1.0%	-0.9%	1.4%
Middle East	2.1%	2.2%	2.7%
Africa	3.4%	2.9%	3.7%
Southwest Pacific	2.6%	2.9%	2.8%
Global	2.5%	2.3%	2.6%

Source: Oxford Economics, July 2016

Oil price assumption
US$
50
per barrel

Oil prices

Supply disruption and signs of improving demand have lifted oil prices. The U.S. Energy Information Administration (EIA) expects them to rise 19% in 2017, averaging US$52 per barrel (pb). But this only returns them to 2015 levels. As most forecasts largely agree with the EIA, we assume oil prices will be US$50 pb in 2017.

Source: Advito

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Good advice travels far