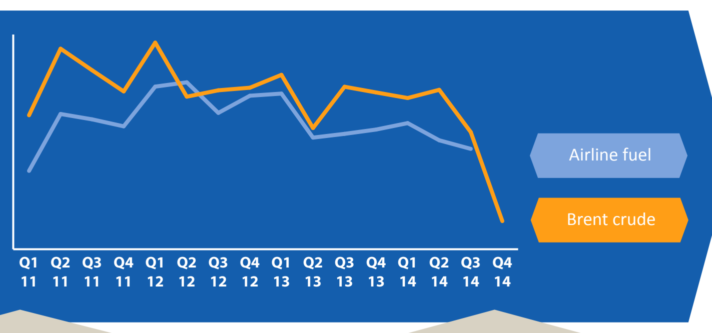
2015 Industry Forecast
December Update

Global travel climate

Falling oil prices point to lower fuel costs for airlines

Don't expect fares to fall - airlines often rely on fuel hedging as a convenient excuse not to bring down prices, even though they're now hedging much less than they used to. Oil prices may have dropped by more than a quarter, but fuel surcharges show no sign of falling and remain as high as ever.



NDC driving channel shift

The big data, we expect IATA's New Distribution Capability (NDC) to generate, should help airlines improve the personalized offers they make to customers. They're doing this to migrate more bookings to direct sales channels. But there's a real risk that this will fragment distribution for corporate buyers. GBTA's "Berlin Charter" wants airlines to acknowledge the needs not just of the traveler, but also of the corporate client, who's paying for the travel.

Push for dynamic pricing

In a new twist on dynamic pricing, hotels are increasingly undercutting negotiated rates by offering business travelers the lower pre-paid rates normally associated with leisure stays. But buyers need to be aware that pre-paid rates are often non-refundable.

When your traveler stops shopping

Travel managers face a growing battle with suppliers to engage with their travelers. Taking a cue from airlines, hotels are increasingly making personalized offers to attract direct bookings. By building customer loyalty, this tactic reduces corporate leverage. Right now travel managers have the upper hand, but they'll need to work hard to drive traveler engagement.

Air

The different economic outlook for advanced economies and emerging markets has an impact on our fares forecasts. Strengthening demand is supporting fare increases in North America and Europe. Concerns about excess capacity will drive down fares in Asia, Africa and the Middle East.

North America
Concerns about the recovery in demand will limit how far consolidation and tight capacity-control can drive up fares in 2015.

Europe
Recovering demand and continued capacity management will drive up business fares in particular.

Latin America
Because of concerns about Brazil's economic performance, we've cut our regional business fares forecast from 3% to 2%.

Middle East
Continued expansion by the Gulf carriers will drive down airfares across all segments.

Asia
We have lowered our regional fares forecasts to reflect the impact of growing low-cost carrier competition.

Africa
Concerns about demand as Gulf and low-cost carriers expand will lead to lower fares in most market segments.

SW Pacific
Business fares will rise as demand strengthens, but we now expect a 1% fall in intercontinental economy fares.

Following solid growth of 5.2% in 2013, the recovery in the global economy has continued to support air travel in 2014. According to IATA, after early signs of a loss of momentum, stronger demand growth in recent months has driven up global air travel demand by 5.8% from January-August 2014.

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

◄ Indicates revision to previous forecast

Hotel

Economic recovery in the U.S. has given hotels the confidence to push for higher rates, and we have raised our North America forecast to 6-7% as a result. We've also lifted our European forecast to 2-4%, as some southern markets recover and demand strengthens in the U.K. In Africa, we've raised our forecast to 7-9%, as improving levels of service push up rates. We've cut our Middle East rate outlook to 2-4% to reflect growing supply in the U.A.E. We've also lowered our rate outlook for Southwest Pacific, where demand looks to be weaker than we originally anticipated.

◄ Indicates revision to previous forecast

North America +6-7% ◄
Canada +3-4%
Mexico +5-7% ◄
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 +2-4%
China +1-3%
India +2-4%
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% → 3.0% ◄

	2013	2014	2015
North America	2.1% ◄	2.2% ◄	3.1%
Europe	0.3% ◄	1.4% ◄	1.9%
Asia	4.7% ◄	4.5% ◄	4.6% ◄
Latin America	2.7%	1.0% ◄	2.2% ◄
Middle East	2.4% ◄	3.2% ◄	4.0% ◄
Africa	3.6% ◄	3.3% ◄	4.1% ◄
Southwest Pacific	2.4%	3.2%	3.0%
World	2.4%	2.6%	3.0% ◄

The prospects for the world economy are slowly improving, as the rates of economic growth delivered by the advanced economies and emerging markets converge. But a sharp change in the fortunes of key emerging markets, like China and Russia, could disrupt the broadly stable global outlook.

◄ Indicates revision to previous assumption

Source: Oxford Economics, October 2014

Oil prices have fallen sharply in response to weakening global demand and improved supply. The U.S. Energy Information (EIA) has cut its forecast for 2015 from US$105 to US$83 per barrel for Brent crude. We've lowered our assumption from US$107-US$112 to US$95.

Oil price assumption

US$ 95 per barrel

We've lowered our assumption

Source: Advito

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