REPORT

TRAVEL MARKET REPORT

2024 Outlook

Produced by Research & Intelligence

November 2023

Travel Market Report 2024 Outlook

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

This quarter's Travel Market Report is dedicated to presenting an outlook for 2024. It includes the following content:

- A review of the prospects for the world economy in 2024, including some of the risks and headwinds it may face
- A focus on some of the key risks travel managers and travelers may have to deal with next year
- A look at the current state of air travel, its outlook (including an update on airline distribution) and our global airfare forecasts for 2024
- The outlook for hotel room rates in 2024, starting with a global overview and followed by the numbers for key markets in Africa and the Middle East, Asia Pacific, Europe, Latin America and North America
- Our perspective on ground transportation, largely relating to car rental
- With travel's recovery underpinned by an imperative to do so in a sustainable manner, we finish the report with eight sustainable travel trends to look out for in 2024.

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Economic outlook for 2024

Current situation

Growth in 2023 so far has exceeded expectations, despite persistent high inflation and monetary policy responses. This is particularly true among the advanced economies in Europe and North America. But what we have most likely seen is a delay to, rather than an outright change in the outlook. The transmission into the wider economy of the subduing effects of policy tightening has simply taken longer than economists had expected.

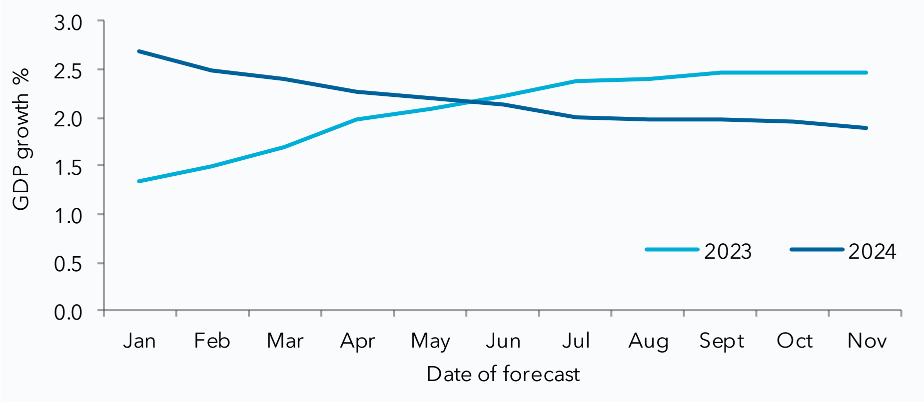
Inflation remains stubbornly high in major markets, but headline inflation should fall sharply, as commodity prices and supply chain issues ease. Recent rises in oil prices caused by tight supply are of some concern, but it would need a more significant rise to delay the normalization of inflation, which is currently expected by the end of 2024.

With inflation now under more control, interest rates are likely to have peaked in most countries, but they're likely to remain higher for longer, in order to curb some demand in the market. This may weigh on economic growth.

Outlook for 2024

Whilst the economic outlook for 2023 improved as the year progressed, the prospects for growth in 2024 became more subdued. Economists have now settled on 1.9%, a modest slowdown on the 2.5% expected for 2023. Prospects for regions vary. In advanced economies, the full effects of policy tightening have yet to be felt. An underperformance from China may spill over into other emerging markets.

Changing outlook for global economic growth



Regional outlook for 2024

Africa - economic growth should pick up from 2.8% to 3.0% in 2024, but conflicts in West Africa will weigh on the region achieving its full potential.

Asia Pacific - among the region's key markets, Japan's economy is expected to lose momentum, while China must contend with challenges in its property sector, which threaten knock-on effects for domestic consumption and investment.

Europe - expected to grow by just 0.8% in 2023, the European economy has virtually stagnated. With no clear drivers of growth and facing multiple headwinds, Europe will do well to grow by 0.9% in 2024.

Latin America - recent strong performances in key economies, such as Brazil, are unlikely to continue into 2024, resulting in a modest weakening in growth from 1.7% this year to 1.2%.

Middle East - while oil production cuts slowed economic growth in 2023, it should rebound above 3.0% in 2024. But, as well as sanctions, currency pressures, inflation and political instability, the shockwaves from the Israel-Gaza conflict will add an extra downside risk for the region's economy to navigate.

North America - having so far been resilient, growth in the U.S. economy is set to falter amid the cumulative impact of interest rate hikes and weakening household finances. A mild recession is a real prospect in the early part of 2024, pushing annual growth down from 2.1% in 2023 to just 0.2%.

Source: Oxford Economics, October 2023

Risk outlook for 2024

Macro risks

The world economy has managed to confound most forecasters during 2023. The U.S. economy delivered a strong third quarter, un employment has not spiraled up, inflation is easing, and central banks may be done with interest rate raises. But the foundations for future growth may not be as stable as they seem. And even if the economy continues to defy such concerns, there are still more specific risks that could undermine or derail it.

Persistent high interest rates

While it appears that interest rates may now have peaked, a rapid retreat is unlikely. As the excess savings used to support recent economic growth are depleted, high interest rates will start to bite more on consumer spending, weighing down heavily on economic growth. Higher financing costs are already beginning to impact businesses, with bankruptcies rising in Europe and the U.S.[1]

Bond market developments

As we head into 2024, the linked threats of rising bond yields and falling bond prices have emerged to darken the outlook.[2] The interest (yield) that governments must pay when issuing new debt (bonds) has been rising. This is driving up borrowing costs for both governments and consumers. Higher interest payments may also hit future government spending on public services and investment.

As rising yields mean better returns for investors, they've been selling the bonds they already own and switching to those with higher yields. As a result, the value of existing bonds has fallen, impacting the finances of anyone owning them. At particular risk are companies and banks holding these normally stable assets as collateral on their balance sheets. Worries are growing that the liquidity issues this raises could spark a new financial crisis, although it is unlikely to be of the same magnitude as the global financial crisis of 2008/2009.

Geopolitical issues

Geopolitical concerns have grown significantly. Respondents to Oxford Economics' *Q3 Global Risk Survey* recently cited them as their top downside economic risk.[3] Russia's invasion of Ukraine has already hit the world's economies with energy price spikes and sharply elevated inflation. With the conflict seemingly in stalemate, efforts by either side to break the deadlock could have new regional or even global consequences. Accusations by Russia's Defense Minister that the West is trying to spread the conflict to Asia Pacific could be an attempt to divert attention away from Ukraine. More alarmingly, his comments may offer China the encouragement it needs, should it want to more actively pursue its interests in Taiwan.

Even in the absence of an outright conflict, a sharp escalation in tensions between the West and China over Taiwan could have a severe impact on the global economy. Oxford Economics believes that reciprocally imposed trade barriers, restrictions on technology transfer and the reaction of financial markets could knock one percentage point from global growth in both 2024 and 2025.

More recently, a new geopolitical headwind has re-emerged, as tensions rise in the Middle East as Israel expands its ground operations in Gaza. Concerns about an intensification of the conflict between Israel and Hamas have grown. Around 60% of the businesses surveyed by Oxford Economics view developments in the Middle East as a very significant risk to the global economy over the next two years.[4] Should this result in substantial market disruption, through, for example, hostilities between Israel and Iran, Oxford Economics believes this could reduce global economic growth from the 1.9% currently forecasted to 1.1%.

Source: (1) Economist, Nov. 2, 2023, (2) BBC, Nov.1 , (3) Oxford Economics, Global 2023 Scenarios, Sept. 2023, (4) Oxford Economics, Research Briefing, Nov. 2, 2023

BCD

Risk outlook for travel in 2024

Travel risks

In addition to the macro risks facing the wider economic and business outlook, BCD Travel's Global Crisis Management team has outlined the key risks it believes travel programs and travelers should look out for in 2024.

Climate change

Extreme weather events have become less rare, increasing the (travel) disruption that often accompanies them. Add to this, travelers face increased health risks from extreme heat, compromised air quality and changing patterns of communicable diseases, all associated with the changing climate.

Cybersecurity

Traveling for work exposes employees to unique cybersecurity risks, as they access corporate data and systems remotely. The risks of lost mobile devices and attacks via unsecured Wi-Fi networks are especially acute for remote workers. Cybercriminals' use of emerging technologies, such as deep fakes and generative AI, require heightened vigilance and robust protective measures to safeguard sensitive information during travel.

Geopolitics

Governments decide who can travel, how often and under what conditions. With the geopolitical landscape rapidly changing and becoming more complex, rules governing travel are more likely to change, sometimes with little or no notice.

Health

The World Health Organization has yet to declare an end to the COVID-19 pandemic, as new variants, such as EG.5 Eris, emerge. Renewed restrictions, while unlikely, cannot be ruled out completely in some countries. Beyond COVID-19, vaccine hesitancy and strains on medical systems have seen a resurgence in diseases once considered under control, such as measles, mumps and rubella.

Polarized politics

Increased political polarization may give a voice to extreme elements, particularly during election periods. This may translate into increased risks for some travelers, and possibly even restrictions. As well as monitoring the situation, travel managers must stay abreast of any changes to legislation that might directly impact their travelers.

Rising crime

The cost-of-living crisis, combined with the prospect of a general economic slowdown, will have wider socioeconomic consequences. This could result in rising crime rates, social unrest and potentially violence, to which business travelers might find themselves exposed, particularly when visiting unfamiliar destinations.

Source: BCD Travel, Global Crisis Management, November 2023

The current state of air travel

Progress towards recovery

Since May 2023, the recovery in global air travel has experienced a loss of upward momentum, with traffic remaining between 3% and 6% from a full recovery.[5] Driven largely by a strong rebound in the Chinese and Indian markets, and more recently from the U.S. market, domestic air travel has remained above pre-pandemic levels for the last six months. However, recent weakness in the Brazilian market undermined the domestic segment's contribution to the global recovery in September. Globally, domestic air travel is now 5% higher than in 2019.

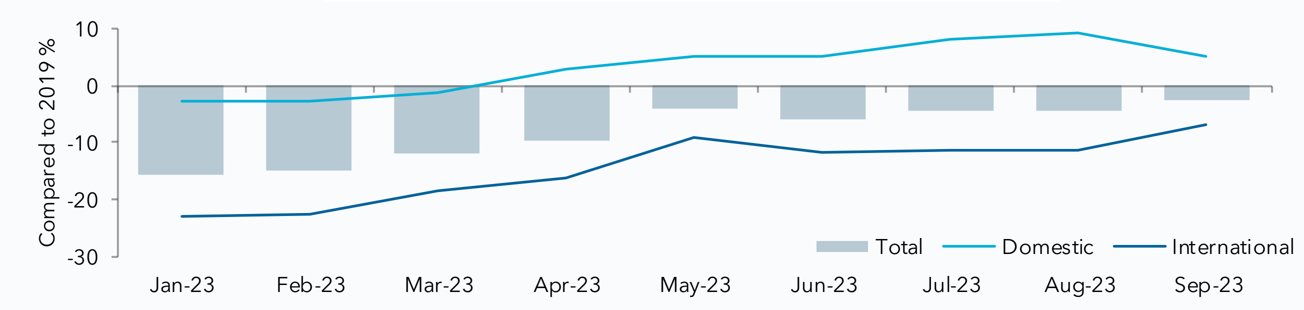
Having stalled for three months, the recovery in international air travel resumed in September. Even though it climbed by almost one-third year-over-year, traffic was still 7% lower than in 2019.

A full recovery in total traffic is largely being held back by Asia Pacific, where travel is still down by 10%. But demand in this region is growing rapidly year-over-year. Africa and Europe, which began their recoveries much earlier, have yet to see airline traffic fully restored. And while the Middle East has recently joined Latin and North America with traffic above 2019 levels, this progress could be undermined by events in Israel and Gaza.

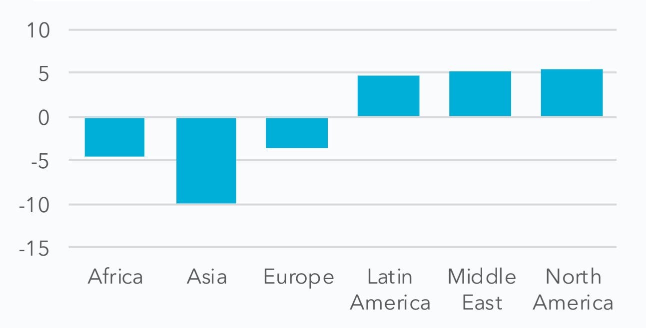
Even now, it's clear that markets are at different stages in their recoveries. Unlike past disruptive events, the post-pandemic recovery has not been globally synchronized and has faced interruptions and reversals. The earliest recovering regions are already seeing a noticeable slowdown in year-over-year growth, as they cycle over last year's surge in demand. Asia, which only really reopened at the start of 2023, is still recording growth in air travel of close to 90%.

This adds up to a complex market situation, which both airlines and their customers will need to navigate. The residual effects from the pandemic on both demand and capacity look set to continue well into 2024.

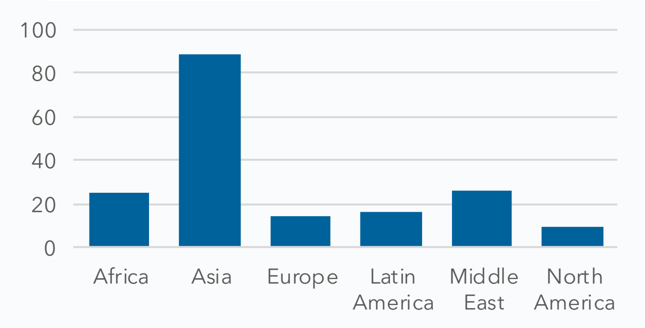
Recovery in global airline traffic



Traffic recovery v 2019 %



Traffic recovery year-over-year %



Source: (5) IATA, Air Passenger Market Analysis, Sept. 2023

Air outlook for 2024

The outlook is complex

The broad-based uncertainty that characterizes the general outlook will have direct implications for air travel and pricing in 2024. Geopolitical developments are impacting where airlines can fly, and, in the case of Europe-Asia air services, they're increasing flight times and airlines' operating costs. Supply chain issues have constrained the return of capacity at some carriers, as they contend with crew and aircraft shortages. High fuel and rising labor costs are increasing pressure on airline profit margins. And the economic outlook is weighing on travel demand in a number of markets.

Airlines will do all they can to shield themselves from such uncertainties and challenges. Thanks to the sophistication of their revenue management systems, they possess the power to manage their inventory and pricing like at no other time in their history. And by continuing to exercise capacity restraint and doing all they can to avoid operating lossmaking services, airlines should be able to limit the extent of any retreat from current pricing levels. Some airlines already plan to slow capacity growth in order to protect their pricing power.

If demand for air travel continues to grow in 2024, airlines are likely only to add capacity into markets and on routes that make financial and operational sense. New aircraft deliveries will replace older, less efficient equipment, helping to lower costs and environmental impact. They'll only be used to increase capacity where demand truly warrants it, and where the returns are almost guaranteed. The risks of overcapacity, which would weigh on pricing, should be low. That said, after recent rises in fares, we should expect a modest price correction in some markets in 2024, although underlying pricing should generally remain strong.

As they continue to rebuild their operations, airlines will increasingly find it difficult to maintain a balance between supply and demand. In those markets where price increases do happen, airline concerns about damaging demand and creating an oversupply will limit such increases to very low percentages.

Corporate contracts

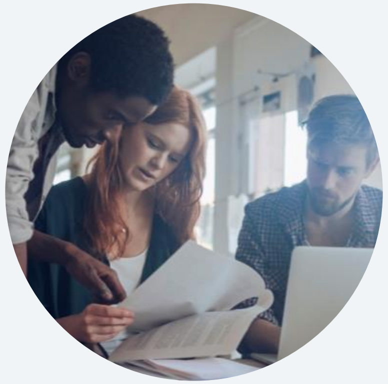
A growing number of airlines are reducing the value of corporate contracts by lowering discounts, declining to engage with market share targeting or removing fixed fares from any deals.

Amid a boom in leisure travel and the slower recovery of business bookings in the wake of the COVID-19 pandemic, airlines have shifted their priorities. Some have even questioned the value of corporate contracting, particularly as demand among leisure travelers, who may be prepared to pay full-fare tickets or trade up into premium cabins, holds up. That said, should leisure demand ease and coincide with the return of more capacity, airlines may become more amenable to corporate contracting once again.

Shift from savings to cost avoidance

As the market has recovered, there have been some steep airfare increases in the last two years. This has made it almost impossible for travel buyers to use savings as a measure of their performance. The focus must and is changing.

Instead, companies are increasingly trying to achieve some cost avoidance, by closely re-examining their travel policies and the booking behaviors of their travelers, to reduce the overall cost of their travel programs.



NDC gains ground in distribution

The distribution of airline content using IATA's new distribution capability (NDC) is gaining momentum. Travel buyers need to assess its potential impact and choose the content strategy that best meets the needs of their program. Find out more about NDC and airline distribution on the next page of this report.

Source: BCD and Advito analysis

Airline distribution

NDC adoption picks up pace

This year, as they recover from three years of disruption, airlines have begun to ramp up their adoption of the International Air Transport Association's (IATA) new distribution capability (NDC). American Airlines has been one notable example, making many of its fares exclusive to NDC channels from last April. Other airlines around the world have been progressing NDC, among them Air France-KLM, Finnair, Qantas, Scandinavian Airlines (SAS) and United Airlines. They're doing this for a variety of reasons.

How NDC can benefit airlines

Control

NDC can support airlines' efforts to increase control over their distribution strategy. It can help them make differentiated product offerings to the market and can reduce their reliance on third parties, like the global distribution systems (GDS), to distribute their content.

New revenue

Airlines can use NDC to expand their offer to customers, including ancillary products and services, such as extra baggage or seat selection. The richer content that NDC allows also means airlines can introduce far more differentiation, way beyond simple text descriptions and offers sorted solely on their price.

Savings

Airlines believe they can reduce their distribution costs by leveraging NDC to shift more content to direct distribution channels. At the same time, they can exploit such capabilities to extract extra revenue by applying surcharges to GDS bookings and secure better commercial terms in their negotiations with the GDS companies.

Increased engagement

By providing insights into traveler behaviors and their shopping preferences, which will enable them to deliver personalized offers to their passengers, airlines will be able to increase their direct engagement with all their customers.

How NDC developed in 2023

The introduction of NDC-based solutions gathered pace during 2023. This saw a number of airlines remove certain low fares from the traditional GDS channels, whilst making some content unique to their NDC channels. Use of continuous pricing also increased.

In response, BCD Travel has partnered with GDS companies Amadeus (NDC [X]) and Sabre (Beyond NDC). Such partnerships are a natural evolution in our longstanding collaborative relationships with the GDSs. They're also part of our broader vision for further digital transformation of the booking environment. Having launched our first GDS-based NDC solutions in 2023, we're currently working with multiple airlines including Air France-KLM, American Airlines, British Airways, Qantas, Singapore Airlines and United Airlines.

What 2024 holds for NDC

We maintain our view that the scale and functionality required by the airline industry, and also by travel management companies, means GDS companies will be best-placed to deliver the full breadth of NDC solutions, systemwide. This will require further investment and system evolution on their part. But we strongly believe that GDSs will continue to play a vital role in enabling transparent price comparisons.

Going forward, all participants, including IATA and airlines adopting NDC, must ensure comparison shopping is enhanced, and not diluted. Airlines' NDC solutions should continue to grow. During 2024, we expect them to remove more content from the GDSs and increase the content available exclusively in their NDC channels. BCD Travel will respond by releasing solutions for more airlines.

Global airfare forecasts for 2024

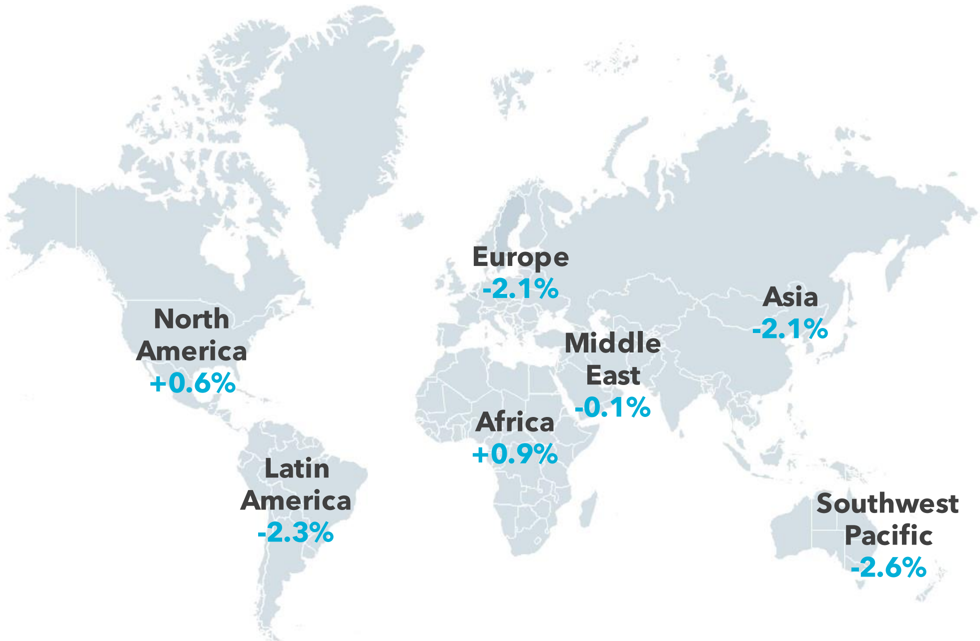
Global airfare outlook

The timing of the recovery in air travel has not been synchronized around the world. As a result, the factors driving changes to airfares in 2024 will vary by market. In some cases, demand and/or capacity may not yet have returned to pre-pandemic levels; in others the initial rebound may have ended, allowing more normal market conditions to resurface.

Globally, we expect average ticket prices (ATPs) to decrease by 0.8% in 2024. Regional fares should fall by 0.9% and intercontinental fares by 0.5%. At 1.2%, the forecasted fall in global business fares should be steeper than the 0.8% easing we expect for economy tickets.

Asia, Europe, Latin America and Southwest Pacific can expect to see ATPs fall by more than 2%. Higher average airfares are only likely in Africa and North America, but the increase in ATPs in these two markets looks set to be less than 1%.

Average ticket prices in 2024



Source: BCD analysis

Our airfare forecasts for 2024

In 2024, we expect average ticket prices (ATPs) to fall year-over-year in most market segments. But there'll be variation between regional and intercontinental ATPs and between business and economy class tickets.

Globally, regional business fares are the most likely to decrease. Only a single region, Africa, should see higher ATPs. This is largely a function of limited air service options in this region.

Asia can anticipate some of the biggest falls in ATP, particularly on intercontinental routes, with the recovery in demand so far proving to be weaker than hoped.

The 0.6% rise in ATPs we expect for North America will be driven by higher economy fares for both regional and intercontinental travel.

Other than Africa, only Europe may see higher intercontinental business fares in 2024.

Average ticket price inflation in 2024 by region and segment

	Regional		Intercontinental	
	Business	Economy	Business	Economy
Africa	0.4%	0.8%	1.0%	1.2%
Asia	-1.0%	-2.0%	-3.0%	-3.7%
Europe	-1.2%	-2.5%	0.5%	-1.0%
Latin America	-1.1%	-2.5%	-1.5%	-1.0%
Middle East	-0.5%	0.0%	-1.0%	0.5%
North America	-2.1%	0.8%	-1.2%	2.5%
Southwest Pacific	-1.8%	-2.7%	-2.6%	-2.0%
World	**-1.6%**	**-0.8%**	**-0.8%**	**-0.2%**

Global hotel rate forecasts for 2024

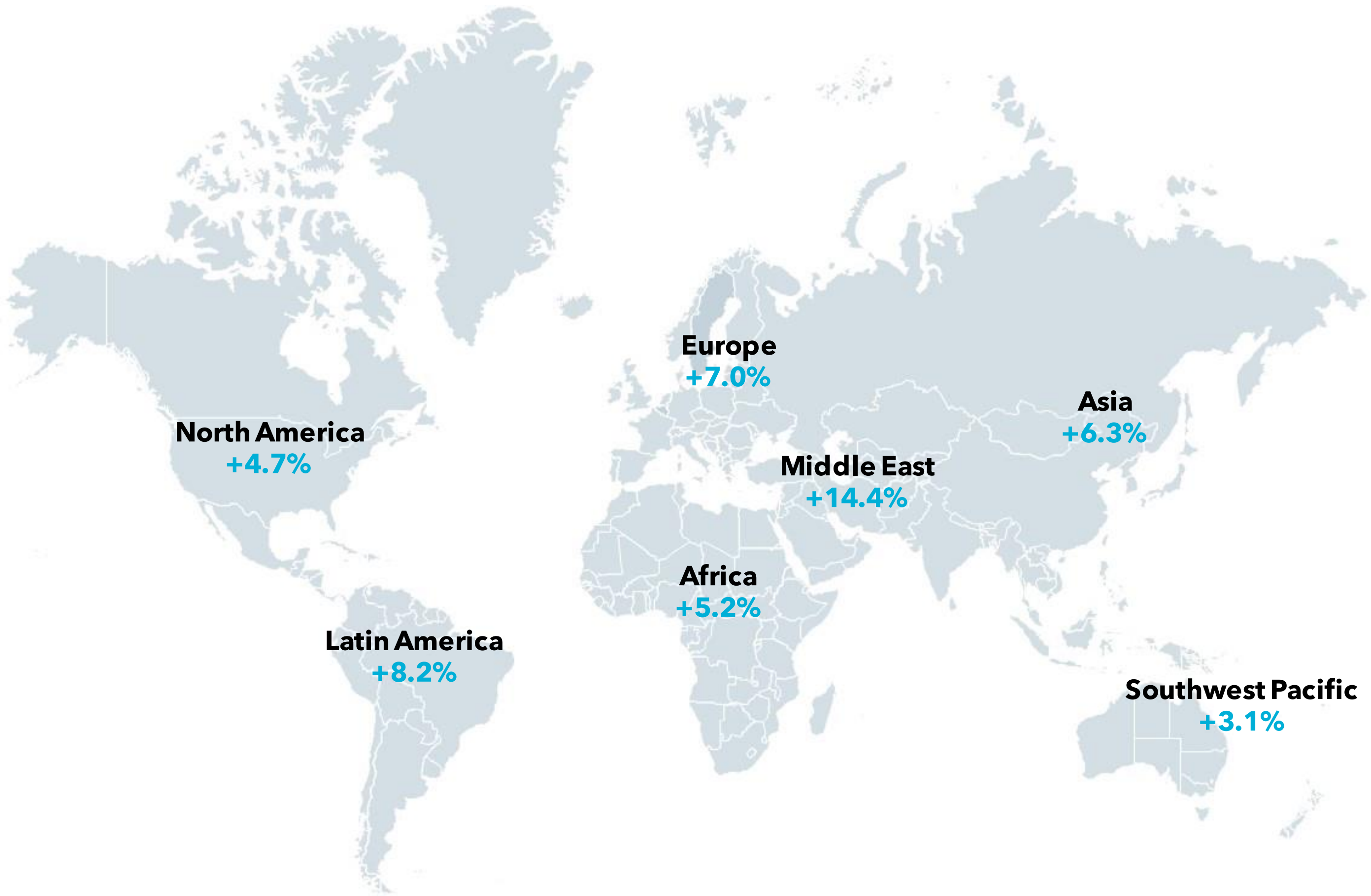
Summary

We expect global hotel rates to increase on average by 6.8% in 2024. Even as the pace of the recovery shows some signs of slowing, demand should continue to outpace available supply in many markets. While there are numerous projects underway to increase hotel room numbers, these will take time to come online, and development will vary greatly by market. What's more, hoteliers' preoccupation with occupancy has given way to a sharper focus on average daily rates (ADR) and revenue per available room (RevPAR). Instead of trying to fill every room, hotels seem more prepared to accept lower occupancy, limiting availability and then holding out for higher rates. With inflation running so high in many countries, this change in priorities has the added advantage of lowering hotels' operating costs. Lower occupancy should make it possible to reduce housekeeping costs, for example.

In markets where demand is more rapidly losing momentum or where it has not recovered as quickly as expected, hotels may still seek higher rates to offset the effects of high inflation on their running costs. That said, concerns about higher prices undermining demand should moderate how far ADRs can rise.

In recent years, hotels have been following airlines in adopting more sophisticated revenue and yield management techniques. Not only has this helped them improve their ADRs and RevPAR, but it may also make it more difficult for business travelers to find rooms available at preferred rates. While it's important for travel buyers to negotiate good rates, it's equally important for those rates to be available when needed. Having to pay market rates for hotel accommodation is just another way for the cost of hotel programs to increase in 2024.

Hotel average daily rates in 2024



Source: BCD analysis

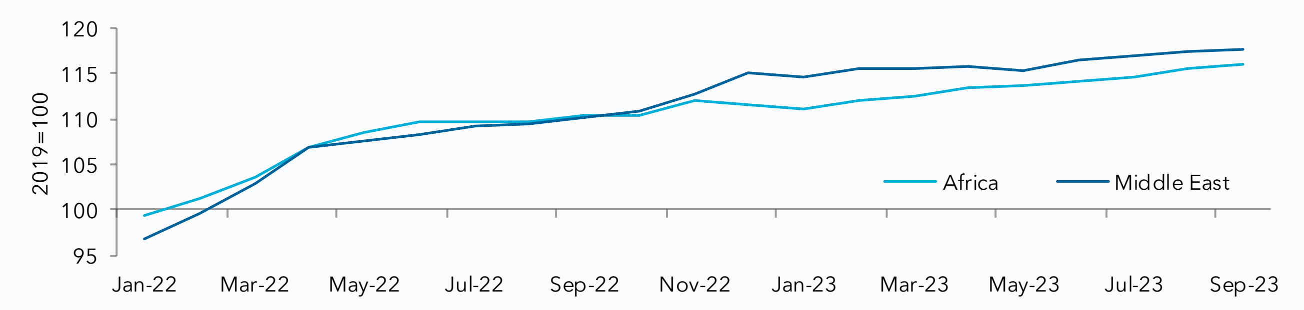
Hotel rate forecasts for Africa and the Middle East

Current situation

Across the Middle East, average daily rates (ADRs) increased by close to 5% year-over-year during the first nine months of 2023.[6] But this only resulted in pricing around 1% above its pre-pandemic level. Over the last 12 months, the pace of ADR inflation has certainly become more stable (chart below).

At 7.2%, Africa's average ADR inflation this year has been a little stronger than in the Middle East, but it has already delivered prices 18% higher than in 2019. The region's ADR index has displayed signs of stronger pricing in 2023. Momentum has come largely from North African markets, particularly Egypt, with hotel rates rising by more than 80% so far this year.

Hotel average daily rate index[6]



Outlook for 2024

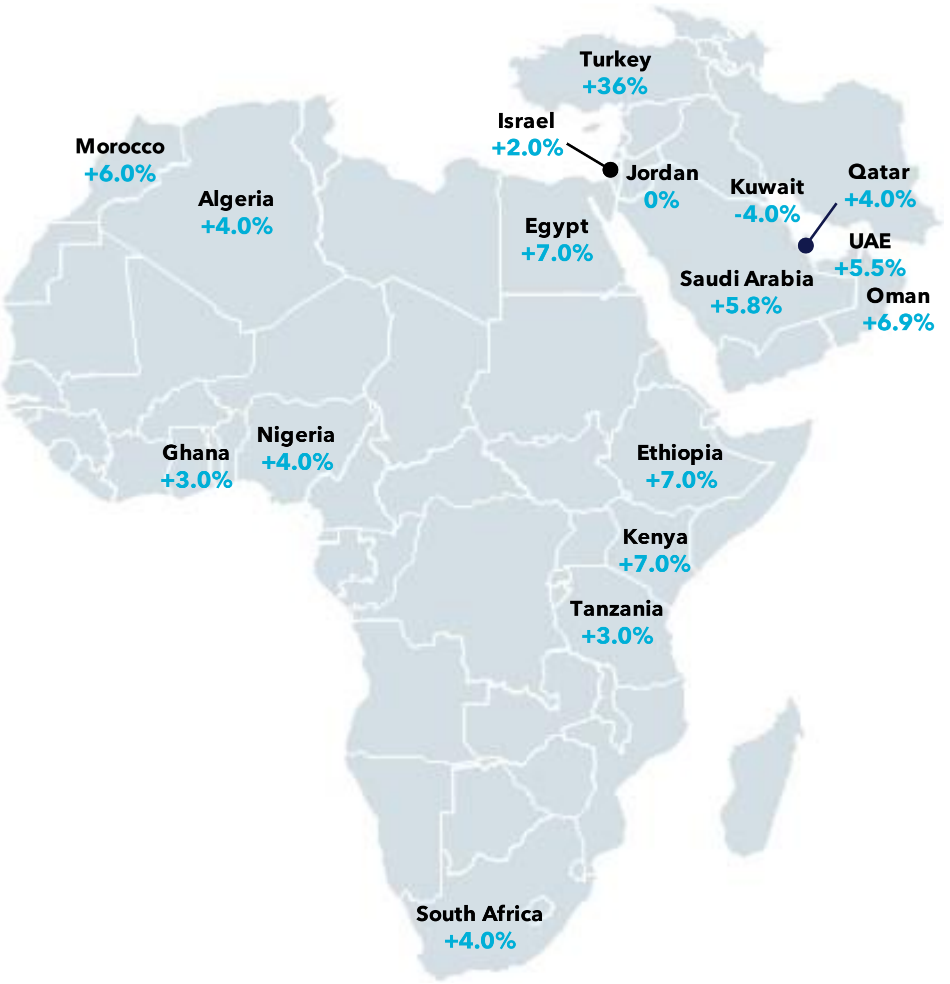
On average, we expect room rates in Africa to increase by 5.2% in 2024. Across individual markets, ADRs could increase by between 3.0% and 7.0%.

The regional forecast for the Middle East is much higher at 14.4%, but this figure has been inflated by the large increase expected in Turkey. Exclude this market, and the average figure drops to 5.2%.

Clearly events unfolding in the Middle East could impact travel, demand for hotel accommodation and inevitably room rates in 2024. But it's still too early to tell. Jordan is a prime example. Its hotels had been looking for a 5-7% increase in 2024. They'll now be lucky to maintain rates and may even seem them fall. The risks of overspill extend to Egypt, where the high levels of occupancy that have driven a sharp rate rise in ADRs in 2023 may rapidly ease amid concerns about the situation in Israel and Gaza.

At 5.8%, Saudi Arabia may see one of the Middle East's stronger ADR rises in 2024, as its *Vision 2030* strategy brings in visitors faster than it can add the hotel capacity needed to accommodate them.

Hotel average daily rate forecasts for 2024 [7]



Source: (6) Historic data: STR; (7) Forecasts: BCD analysis

BCD

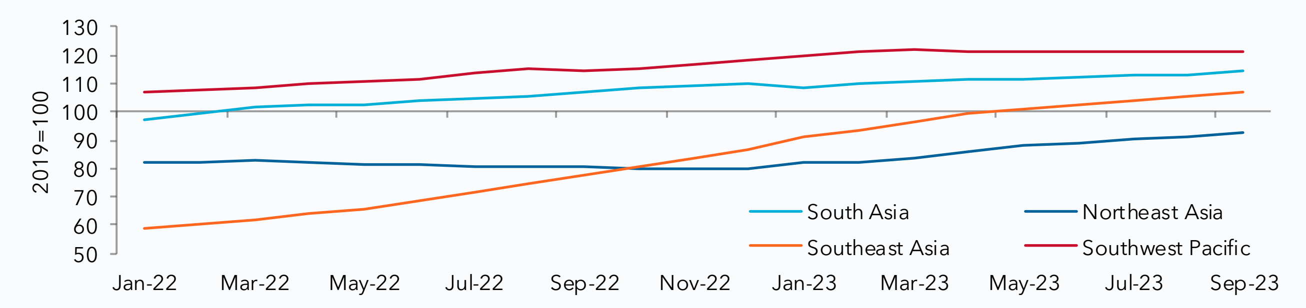
Hotel rate forecasts for Asia Pacific

Current situation

Pricing across Asia's main regions has followed very different trajectories.[8] While average daily rates (ADRs) in Southwest Pacific have risen by only 2.5% so far in 2023, in Southeast Asia, they've increased by more than 30%. The pace at which rates are rising is now starting to ease, however.

In Northeast Asia, ADRs have risen by close to 20%. The delayed reopening of China and Japan means prices for hotel accommodation have yet to return to their pre-pandemic levels. This may leave scope for further increases in the year ahead. The return of Chinese travelers will also be fundamental to ADR movements in key destination markets across the rest of Asia in 2024.

Hotel average daily rate index[8]



Outlook for 2024

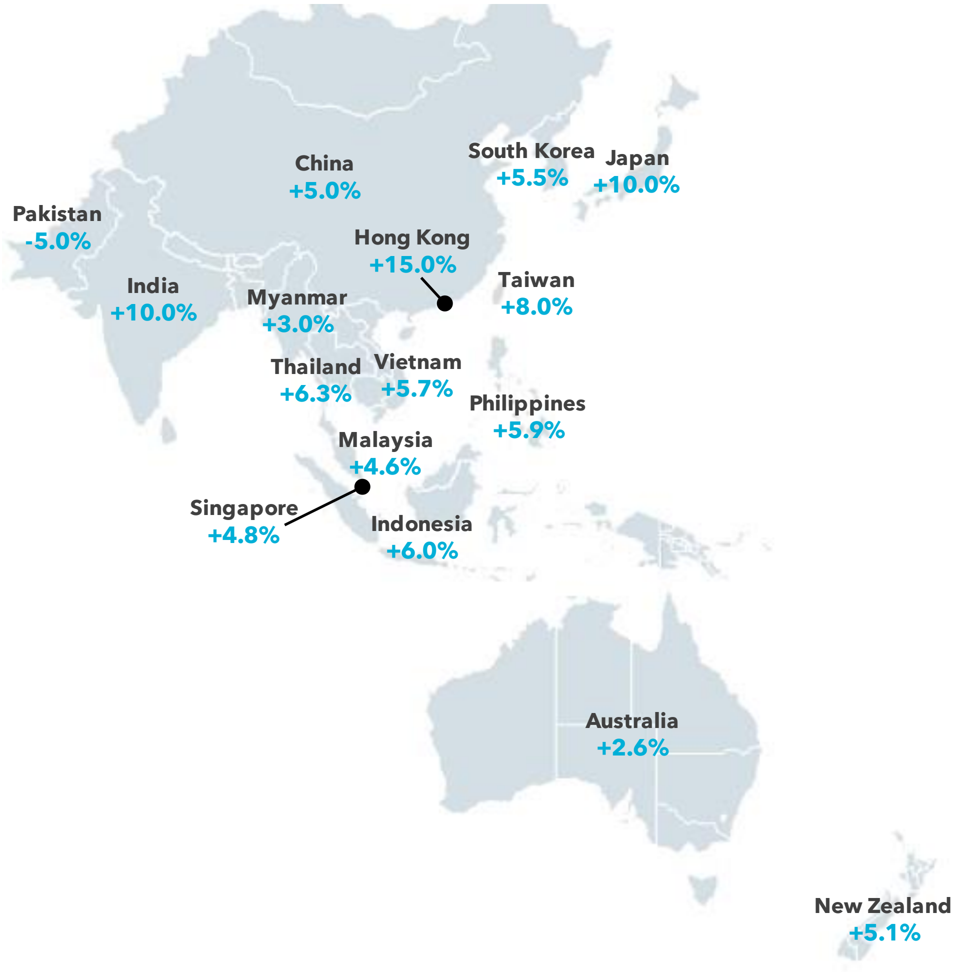
On average, we expect ADRs in Asia to increase by 6.3% in 2024. Our expectations for price movements in Southwest Pacific are much lower, averaging 3.1%.

Almost three-quarters of hotels in Asia Pacific expect ADRs to rise in 2024.[10] Those operating in Southeast Asia are most optimistic, due to the strong growth in tourist arrivals they've already seen. We forecast a 5.7% rate rise in this region in 2024. China's expansion of visas for group tours should add renewed momentum to the recovery in demand. This should also help to push rates 6.4% higher in Northeast Asia.

India can expect one of the biggest rate increases in 2024. With robust demand outpacing the expansion of supply, ADRs could increase by as much as 10%.

Hotels must contend with rising costs, which have yet to be offset by recovering revenue. Employee shortages continue to drive up labor costs, particularly in the higher service tier hotels frequented by business travelers. This will be a key factor behind above-inflation ADR increases in some markets.

Hotel average daily rate forecasts for 2024 [9]



Source: (8) Historic data: STR; (9) Forecasts: BCD analysis, (10) JLL, Hotel Operators' Sentiment, Sept. 2023

Hotel rate outlook for Europe

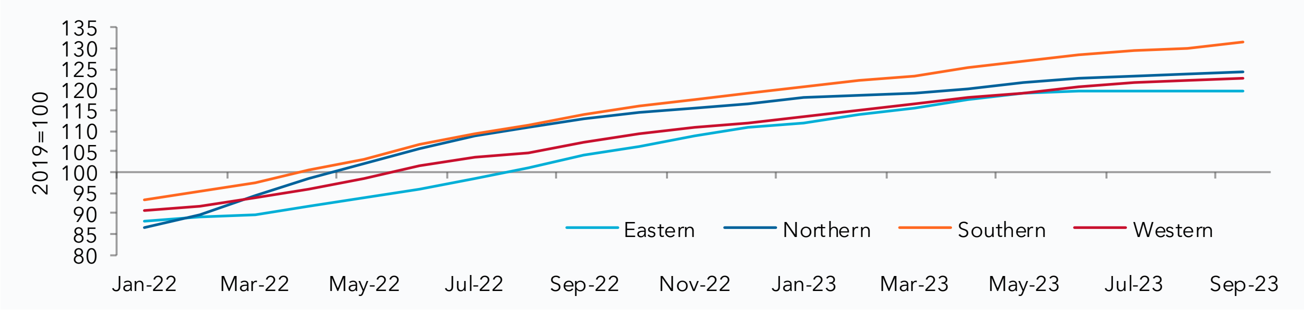
Summary

So far this year, average daily rates (ADRs) for hotel accommodation across Europe have risen by more than 9% year-over-year.[11] Variation across its main regions has been small, with aggregated price movements located in a narrow 7.5%-10% range. Price inflation has been at the upper end of this range in Southern and Western Europe and lowest in Northern Europe.

Individual markets with some of the strongest numbers this year are spread across Europe and include Belgium, Bulgaria, France and Poland. This highlights the importance of local factors in driving rates.

Upward momentum has been strongest in Southern Europe and shows no signs of abating. After pausing in recent months, Eastern Europe may be ready to match the pricing recovery in other regions.

Hotel average daily rate index[11]



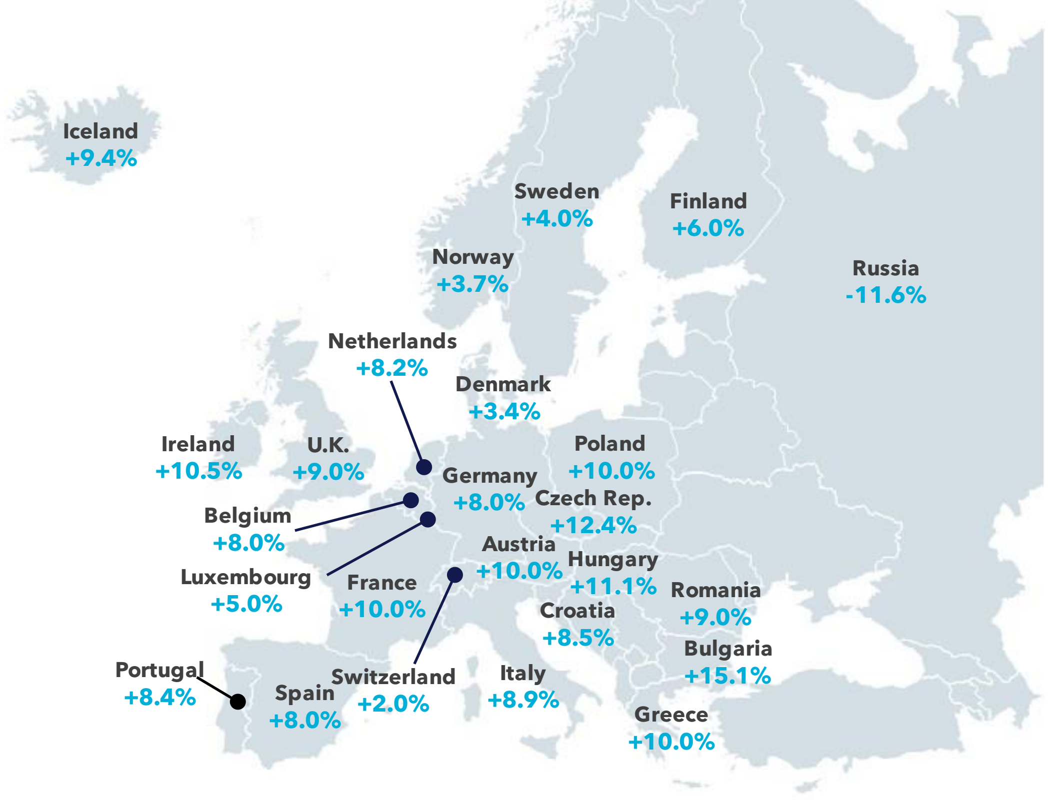
Outlook for 2024

Across Europe, we expect average daily rates to increase by 7.0% in 2024.[11] The trend seen so far in 2023 is likely to continue, with the strongest rises in ADR next year most likely in Europe's Southern and Western regions: 8.6% and 8.7%, respectively. However, if Russia is excluded from the forecast, the remaining markets could lift Eastern Europe's number to 11.3%, making it the region with the strongest ADR outlook. Likewise, Russia's exclusion would lift the aggregated figure for Europe to 8.7%.

Rate inflation should continue to be the weakest in Northern Europe, averaging only 4.5% in 2024.

In some markets, hotels' inclination to use the latest rates of general inflation as the benchmark for setting 2024 pricing may result in some higher-than-expected ADR movements.

Hotel average daily rate forecasts for 2024 [12]



Source: (11) Historic data: STR; (12) Forecasts: BCD analysis

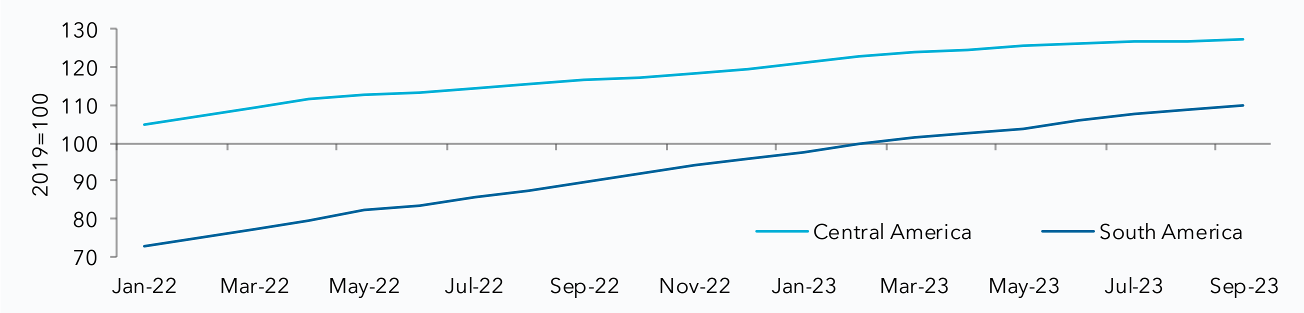
Hotel rate outlook for **Latin America**

Current situation

During the first nine months of 2023, average daily rates (ADRs) in local currency rose on average by 19% across Latin America.[13] Having staged the earlier rate recovery (according to indexed ADR), hotels in Central America have seen price increases moderate recently, averaging 9% so far in 2023.

Pricing in South American markets was much slower to recover. ADRs have retained upward momentum this year, rising by more than one-fifth already. With little sign of a slowdown in South America's price recovery, it seems likely that this momentum will carry over into next year.

Hotel average daily rate index[13]



Outlook for 2024

Across Latin America, we expect ADR movements to average 8.2% in 2024, largely reflecting rate increases of 5-10% in most markets.

Brazil and Colombia are likely to see the largest ADR increases. Following 2023's 20% rise, there should be some normalization of room rates in Brazil in 2024, but to offset the impact of higher costs and general inflation, hotels will look for a 10% increase in ADR. Inflation will also be the driver of a 10% increase in Colombia too, although travel buyers may see some variation between cities and individual properties.

After rising by more than 12% so far this year, ADR increases in Chile should ease to 5% in 2024. We make a similar forecast for U.S. dollar-based rates in Argentina, but this assumes the outcome of the country's presidential election will result in little immediate change in economic policy. With occupancy yet to return to 2019 levels, Peru's hotels will struggle to secure any rise in rates in 2024.

In Central America, boosted by expanding demand, hoteliers in Costa Rica may pursue a 6% ADR increase to cover rising payroll and other costs.

Hotel average daily rate forecasts for 2024 [14]

Source: (13) Historic data: STR; (14) Forecasts: BCD analysis, local currency (except Argentina)

Hotel rate outlook for **North America**

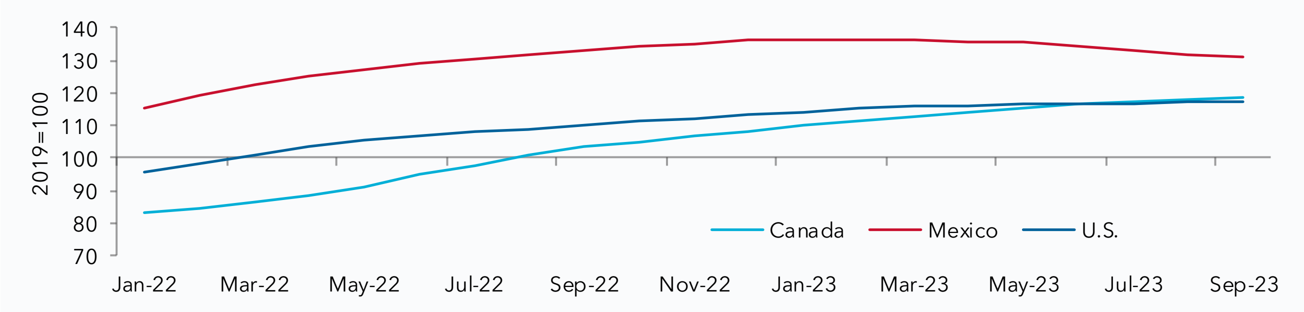
Current situation

So far in 2023, year-over-year movements in hotel room rates have been mixed across the three markets.[15] Canada's hotels have posted the strongest performance, with average daily rates (ADRs) up by 11%. A more modest 5% increase has been recorded in the U.S.

In Mexico, ADRs have decreased on average by 2%, after falling in every month since March. However, this largely reflects overcapacity in the leisure segment, disguising some strong upward movements seen in corporate rates.

Latest pricing trends point to a more stable position emerging in Mexico and the U.S. but provide a sense of rates continuing to push higher in Canada.

Hotel average daily rate index[15]

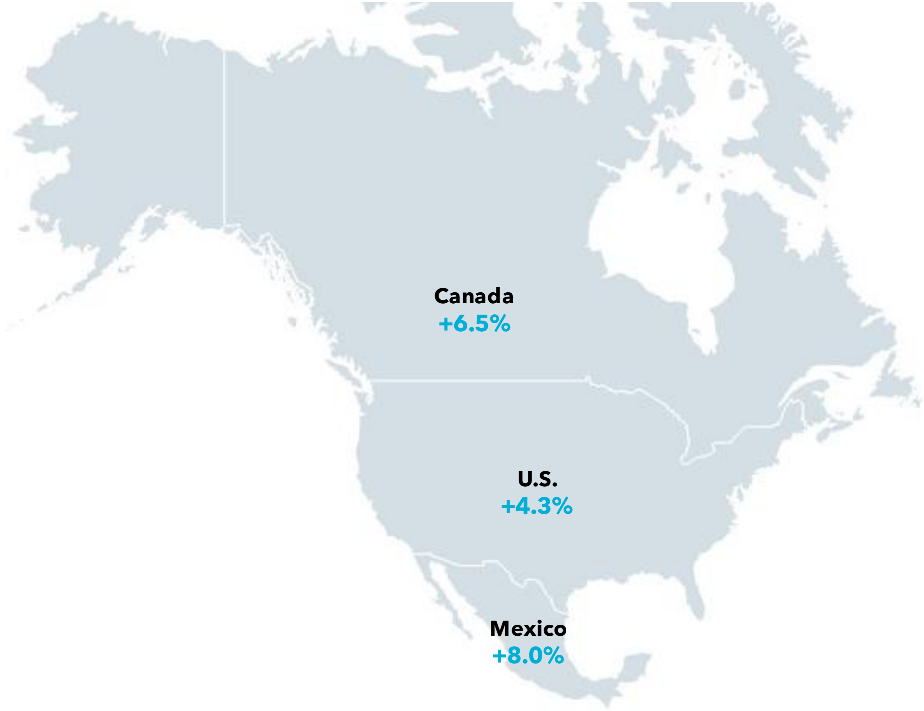


Outlook for 2024

Across North America as a whole, we expect the cost of hotel accommodation to increase on average by 4.7% in 2024. Rate movements should be the most restrained in the U.S. market, where we forecast a 4.3% rise in ADRs. We expect the current pricing momentum among Canada's hotels to continue into 2024, when ADRs could rise by a further 6.5%.

Travel managers should anticipate the strongest rise in ADRs in Mexico. The high levels of corporate rate inflation seen in 2023 will ease, as demand begins to normalize, and new hotels are opened by chains including Hilton and Hyatt. But, with little material change in inflation forecasted for 2024 and next year's presidential elections adding extra uncertainty, rising costs should still see hotels push ADRs 8.0% higher.

Hotel average daily rate forecasts for 2024[16]



Source: (15) Historic data: STR; (16) Forecasts: BCD analysis, local currency

Ground transportation in 2024

Car rental

Global car rental rates at major suppliers eased in the third quarter of 2023. This is likely to have been a correction on last year's highly elevated pricing, which had resulted from an acute supply/demand imbalance in the wake of the pandemic. Even after this adjustment, prices remain 30% higher than in 2019.

These headline numbers relate to rentals across all customer segments: corporate and leisure. In the corporate segment, in recent years, car rental companies have become more determined in their pursuit of higher rates and have resisted requests to roll over existing contracts into subsequent years. Many corporate clients have already seen their pricing increase by 7-10%. With the major car rental companies seemingly aligned on their pricing strategies, customers have found it almost impossible to avoid higher rates. Depending on the renewal date, most travel managers have seen or will experience an uplift of this magnitude in their car rental costs.

Where rental agreements have already been renewed and cover multiple years, travel buyers should not expect to see any increase in contracted rates; at least not until renewal is due. But they should anticipate higher prices for rentals made with companies that are not their preferred suppliers. This means it's more important than ever for companies with high levels of car rental spend to have at least one secondary provider in their program. This should help to limit the number of rentals not covered by a corporate agreement.

Pricing outside the terms of corporate agreements is likely to continue to increase. We expect open market pricing rises in the 5-7% range in 2024. The car rental companies are becoming more creative in their pursuit of higher prices. Customers may, for example, face fees for services previously included in the rental price.

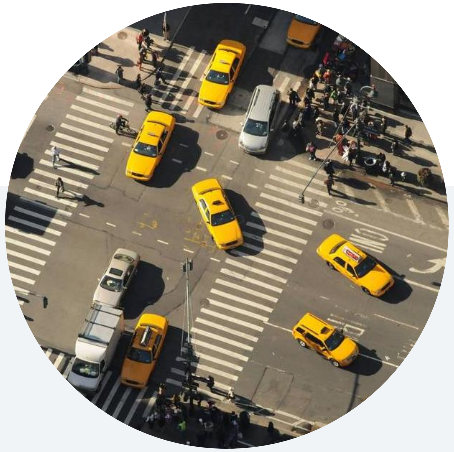
Car rental companies have changed the way they're managing their fleets. Ensuring availability for their most important corporate customers has become less of a priority. Instead, to boost income, they're doing more to ensure there is availability for uncontracted customers, who are willing to pay (higher) market rates.

Supply chain overhangs have been compounded by recent industrial action among some U.S. automakers, and so rental companies may find it difficult to replenish car inventories. Travelers may have to accept higher mileage cars and can expect to face availability issues, which may be mitigated by reserving car rentals well in advance.

Other ground transportation options

Pricing for trips with ride-hailing services, such as Uber and Lyft, will continue to increase alongside taxi rates in 2024. Elevated fuel prices and a shortage of available drivers are concerns. It is important that policies covering ground transportation encourage the shopping of ride-hailing as well as taxi rates.

Black car rates will also continue to increase. Labor shortages in this sector, as well as the loss of some companies during the pandemic, have resulted in increased pricing. Corporate policies need to clearly define those travelers eligible to use these services and at what cost.



Source: BCD analysis

Sustainable travel in 2024

Travel managers and travelers have engaged with sustainability

Two-thirds of travel buyers consider environmentally sustainable travel to be very or extremely important. And 45% now have formal goals in place to make corporate travel more sustainable. They seem to be doing a good job, with 60% of travelers satisfied with their sustainability efforts ranging from emissions reporting to sustainable travel options. But travel managers will need to do more, particularly in light of some of the sustainability developments we anticipate for 2024.

What to look out for in 2024

More regulation, more reporting, more data

The EU's Corporate Sustainability Reporting Directive (CSRD) will come into effect in 2024, expanding on existing corporate sustainability disclosures. With the U.K., Australia and possibly the U.S. likely to follow, travel suppliers and their corporate clients can expect greater demands for data and transparency around their emissions.

Backlash against "greenwashing"

As standards and regulations become clearer, more companies will see their green credentials come under scrutiny. Carbon neutral, climate neutral and green will become terms to be avoided. Any claims about sustainability will need to be specific and supported by data. While travel programs and suppliers will have to clearly demonstrate their progress, any claims made about carbon-neutral travel will be met with skepticism.

Sustainable procurement

As we approach 2030, pressure will grow on customers to encourage their suppliers to adopt sustainable practices, including measurement and reporting. In travel, the GBTA is helping companies ask the right questions of their travel suppliers and analyze their responses.

Think biodiversity, not just climate

Climate change is integral to an emerging biodiversity crisis. Travel must think beyond carbon to consider the wider impact of flights and hotel stays on nature in general. Such nature-based principles should also extend to the solutions for compensating for emissions.

Sustainable aviation fuel (SAF) takes off

As they ramp up their commitments to net zero, airlines are focusing heavily on SAF. Companies are increasingly investing in it to reduce the impact of their travel programs. But SAF's potential will remain limited, reflecting supply constraints and the amount of energy required to produce it.

More disruption, more resilience

As climate change results in more frequent floods, wildfires, extreme heat, etc., travel will become more unpredictable, intensifying pressure on both suppliers and travelers to act. TMCs will be increasingly called on to build travel program resilience and provide traveler support when needed.

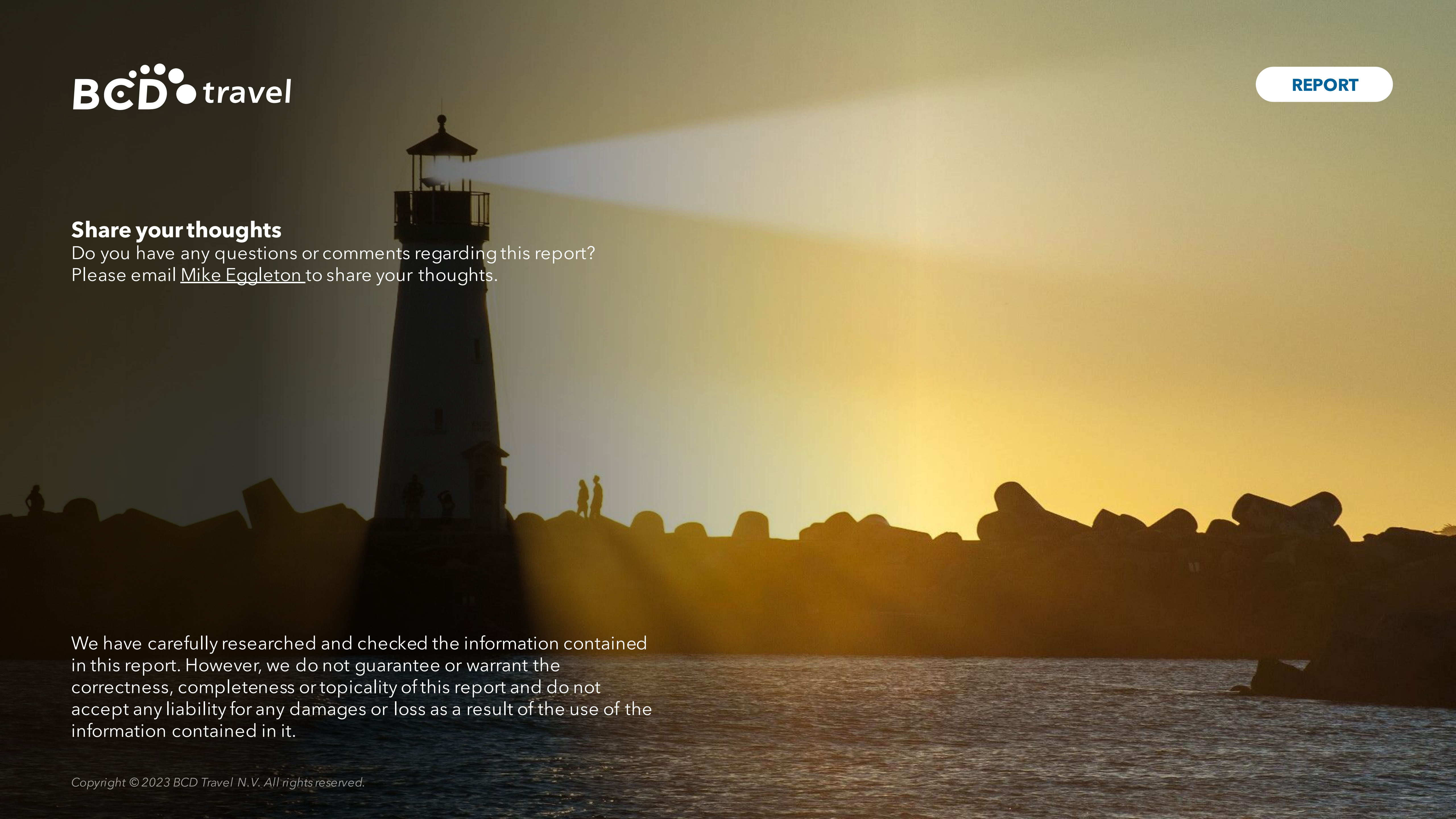
Sustainable hotel choices

Global hotel chains will increasingly strive to have their sustainability credentials certified by the likes of GreenKey, Green Globe and ISO. These schemes are starting to find common ground, and this will make it easier to compare hotels for their progress on sustainability.

Meaningful travel

After such a strong post-pandemic rebound, the value of travel will come increasingly under scrutiny. Business travel will need to prove not only its economic benefits but be convincing about the force for good it represents for the wider community.

Source: BCD Travel, travel buyer and business traveler surveys (July 2023)



REPORT

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Please email Mike Eggleton to share your thoughts.

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