

Perspectives on Travel & Expenses

2019 – What will happen to the cost of business travel?



Robust economic growth is likely to push air fares and hotel rates upwards next year, but forecasters dispute how far risks like the US-China trade war could affect the market.

The cost of business travel will rise in 2019. On this point there is complete agreement between the annual forecasts released by two of the world's largest travel management companies: BCD Travel and Carlson Wagonlit Travel (in association with the Global Business Travel Association).

Both forecasts also agree that the price of oil, one of the key factors determining air fares, will change little next year after having risen 40 per cent since production cartel OPEC reduced supply in December 2016.

And BCD and CWT say that although global economic growth has kept demand for business travel strong, some dark storm clouds are gathering, including the trade conflict President Trump has started with China, and Brexit. But that's where the similarities end. Balancing these factors against each other, CWT takes a more optimistic view that political problems probably won't dampen demand. As a result, CWT consistently predicts higher price increases than BCD. CWT expects, for example, air fares in Western Europe to jump 4.8 per cent and hotel rates 5.6 per cent.

In contrast, BCD forecasts only a 1-2 per cent air fare increase for the whole of Europe and a 1-3 per cent rise in hotel rates. BCD's view is that, partly because of the political issues, growth in demand is already weakening slightly. It also says airlines are earning such good profits at current fare levels that they don't wish to damage demand by raising fares too fast.

As always, there are many variations for each region of the world. Here is what the two forecasts think will happen in Asia, Europe and the USA.

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Asia outlook

Hotel rates in India, currently the world's fastest-growing major business travel market, will soar 6-8 per cent, according to BCD. In the major business cities of New Delhi, Mumbai and Bangalore, rates will accelerate even faster – up around 10 per cent. But, with the exception of a couple of hotspots like Shenzhen and Hong Kong, a massive wave of new room supply will ensure rates rise only modestly in China.

CWT disagrees. It believes rates will increase sharply throughout Asia because of the vast number of new business travellers in the region, especially from China, now the world's largest business travel market. It warns that finding a room at any price is becoming a challenge in Asia.

CWT says availability will also become an increasing problem for air travel in Asia in 2019, where it expects fares to rise fast. BCD takes a more nuanced view. In India, for example, it says that although domestic demand will sky-rocket again next year, so too will supply, with the ultra-competitive market making it very difficult for airlines to raise fares. Some of those carriers could even go bust, BCD says.

In China, BCD points to the recent deregulation of fares on many domestic routes as a key event. It says deregulation will lead to higher fares at peak times but lower fares off-peak, making it much more important to advise Chinese travellers to book in advance. BCD says deregulation will also make discounted fare negotiations with Chinese carriers more meaningful than in the past.

Europe outlook

CWT believes robust economic performance in the eurozone will accelerate demand for business travel beyond the high levels achieved in 2018 (aircraft in Europe flew 85 per cent full in January-August, according to the International Air Transport Association). CWT warns that hotel occupancy will remain sky-high in leading cities like Amsterdam and Paris, pushing rates up significantly.

BCD predicts that airlines in Europe will be more cautious next year about adding capacity. However, although it expects fare increases to be modest, BCD warns travel buyers to watch out for total ticket price rising in other ways, including fewer seats in the lowest fare classes and potentially additional fuel surcharges.

Another problem for buyers, according to BCD, will be airlines reducing the number of corporate clients with which they are prepared to negotiate discounts. It says carriers will focus on clients which fly long-haul in premium cabins or on full-fare economy tickets; or discounted economy on routes where the carrier wants to gain or defend market share. BCD also thinks there could be more consolidation among European carriers.

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USA outlook

An unpredictable president is making the USA particularly unpredictable for 2019. The outlook is only likely to become clearer once the consequences of the trade dispute with China are better understood. However, CWT forecasts the euro to appreciate 4.8 per cent against the US dollar, which will make visiting the USA cheaper for European business travellers.

BCD warns that hotel rates will rise steeply in booming business destinations on the West Coast, most notably San Francisco and Seattle.

Five tips for controlling your travel spend in 2019

Beware hidden costs

Suppliers continue to find new ways to increase total cost to their customers without putting up their base price. A good example in 2018 has been the introduction in EU countries by many airlines of a surcharge for payment by corporate card. The withdrawal by Lufthansa of its lowest fares from global distribution systems, which could be followed by other carriers in 2019, is also pushing up processing costs. And watch out for potentially more fuel surcharges too.

Manage your air spend more dynamically

Don't think only in terms of annual supplier negotiations and quarterly reviews. Monitor fares continuously and take fast action where opportunities arise.

Find alternative cities

Popular cities like Amsterdam and Paris are regularly full and very expensive, so persuade employees to meet elsewhere if travelling on internal business.

Redouble efforts to promote advance purchasing

Airlines are likely to restrict the number of seats available in lower fare classes even more in 2019, which makes early booking more important than ever.

Focus on changing traveller behaviour

As the alternative cities and advance booking examples above show, how you manage traveller behaviour will ultimately affect total travel costs far more than price adjustments by suppliers. Use tools such as policy compliance monitoring to drive your travellers towards booking smarter.

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2018 Pricing Forecasts

Air

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

Hotel

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

1 Source: 2019 Industry Forecast, BCD Travel

Air

North America	1.8%
Western Europe	4.8%
Eastern Europe	-2.3%
Asia Pacific	3.2%
Latin America	-2.0%
Middle East & Africa	-2.0%

Hotel

North America	2.1%
Western Europe	5.6%
Eastern Europe	-1.9%
Asia Pacific	5.1%
Latin America	-1.3%
Middle East & Africa	-1.5%

2 Source: 2019 Global Travel Forecast, Carlson Wagonlit Travel/Global Business Travel Association