

# Travel costs – outlook and market update

## Research Insights

August 2022

For further information,  
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Note: Analysis may be based on data sourced from third parties

# Now may not be the right time to forecast the future

Producing a credible travel pricing forecast in the current environment is incredibly difficult.

The world we live in right now presents additional challenges for forecasters:

The near-term travel outlook is more uncertain than ever.

Volatility has never been so high and seems likely to persist.

There's vast variation in market performance and outlook

Under these conditions, it's unlikely that any pricing forecast will produce **reliable** results.

With uncertainty so high, it's more important to **inform and update** ourselves on the latest market developments and trends, so that suitable responses and plans can be developed.

# The near-term travel outlook is more uncertain than ever

A tipping point in the recovery may lie ahead, but it's unclear when and how this will happen.

## The demand side so far this year

Consumers built up massive levels of excess savings during the pandemic, which gives them significant spending power as economies reopen and travel resumes.

After nearly three years of restrictions, people have a huge desire to travel and are prepared to do so almost at any price.

This is good news for airlines and hotel companies, which want to generate the maximum revenue they can, in order to repair their balance sheets. Many prices are already above 2019 levels.

## The supply response

Airlines were initially reluctant to fully restore their flight schedules. The rebound in demand was uncertain. And in previous "recoveries", airlines had restored capacity, only to see restrictions reimposed with little or no notice, leaving them overstaffed and flying empty aircraft.

The sudden easing of restrictions released a surge in demand with which travel suppliers couldn't cope. The supply response was further constrained by staff shortages.

Together with higher energy prices, staff shortages pushed up costs at airlines and hotels.

The combination of strong demand, constrained supply and increased costs has resulted in airfares and hotel rates far above what had been forecast for 2022.

## How the rest of the year could play out

The leisure travel demand bubble could burst or simply deflate. There are only so many trips people can take, and as inflationary pressures build, household incomes will be diverted away from discretionary spending, such as travel, to mitigate the erosion of real incomes.

As winter approaches in the northern hemisphere, energy supply and pricing issues will be brought into sharper focus, and this may damage confidence. Recession is possible and may have already started in some economies.

While travel demand need not decrease, its rate of growth may slow.



## The supply response

Airlines should have overcome the constraints on their operations, enabling them to offer a full schedule, just as the demand outlook softens.

A potentially weaker revenue environment will coincide with rising costs among travel suppliers, with airlines particularly exposed to rising fuel costs. So far, airlines have offset rising fuel prices with higher fares.

U.S. airline yields and fuel costs



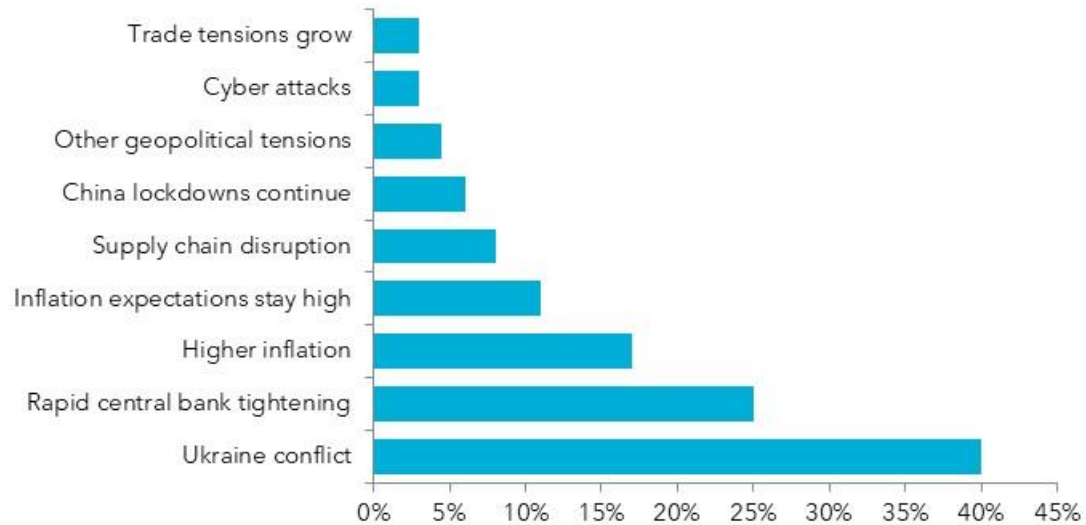
As demand loses momentum, there's a risk of travel over-supply, with airlines losing their leverage to cover rising staff and energy costs. What this means for pricing will depend on local market conditions.

# Multiple risks must be factored into any outlook

An outlook must take account of both downside and upside risks.

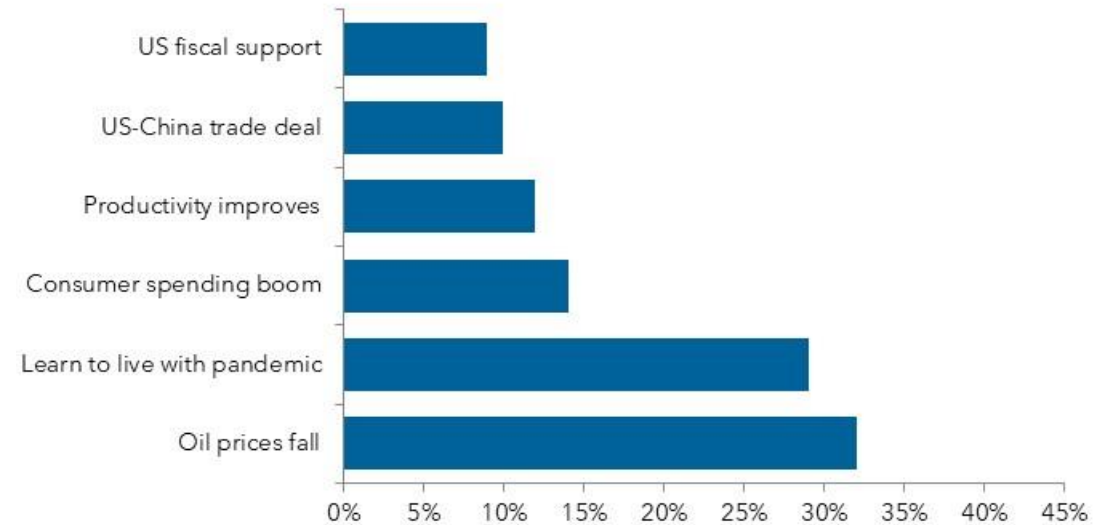
## Downside risks

Top risks cited by survey respondents



## Upside risks

Top risks cited by survey respondents



An added layer of complexity when creating a credible forecast is the need to factor in multiple risks to the outlook. As the charts above show, these may be upside or downside risks, which could boost or weigh down on the outlook. Not only do these risks need to be accommodated in any forecast, but their probability of occurrence needs to be decided upon too. With more assumptions integrated into the forecast, the scope for error inevitably increases.

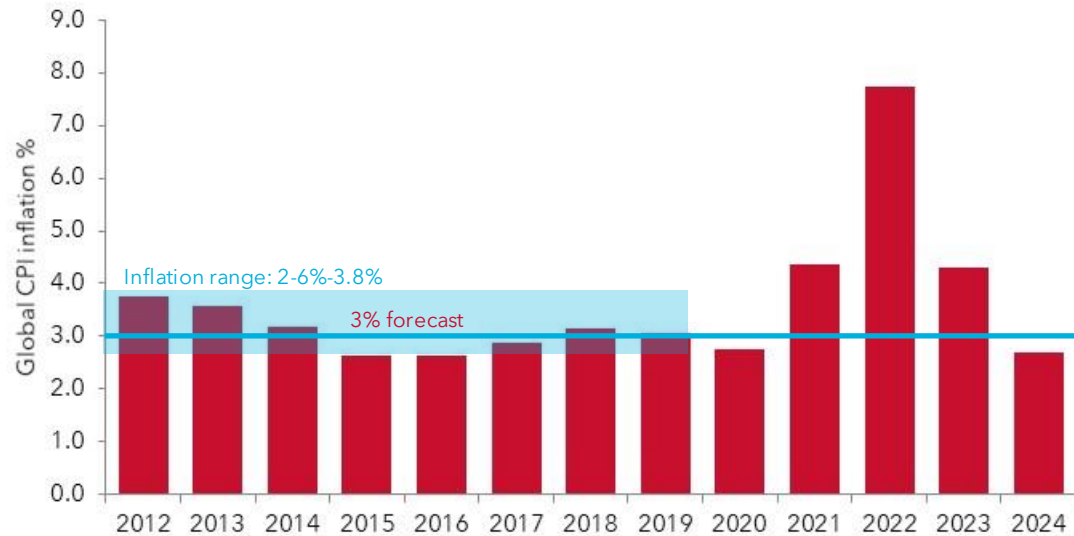
In the current environment, this means deciding what will happen to oil prices and how the conflict in Ukraine will develop, with interdependencies existing between the two issues. Risk evaluation is complex and it's easy to make the wrong assumptions, with clear implications for the validity of any resulting price forecasts.

# Forecasting used to be a low-risk activity

In the past, a stable environment made it possible to forecast price inflation with confidence.

## Forecasting was less risky during stable times

### Consumer price index (CPI) inflation



In most of the 2010s, the business environment was fairly stable. It was much easier to create, what appeared to be, robust forecasts.

Global inflation demonstrates this point. For much of 2012-19, it stayed in a 2.6%-3.8% range. This meant you could propose a 3% forecast, with little fear of being too far wrong. Not so from 2021, as volatility took hold.

Stability made forecasts look far more reliable than the assumptions and models on which they were based.

## Little variation in Advito/BCD forecasts

### Average ticket price forecasts 2015-2020



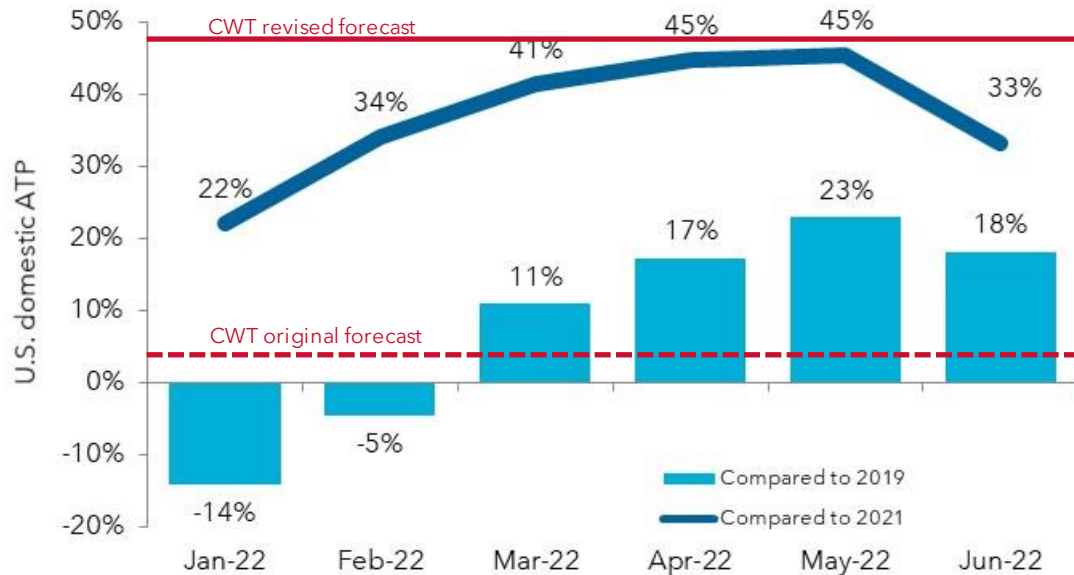
The global airfare forecasts produced by Advito and subsequently BCD Travel reflected the stable inflationary environment, with very little variation over the years.

As can be seen from the chart above, airfares were typically forecast to rise by 1%, almost irrespective of year or travel segment.

# It's currently hard to create a credible price forecast

CWT/GBTA's forecast shows how hard it is to make reliable pricing predictions.

## Airfares in 2022 - U.S. domestic v 2019 and 2021

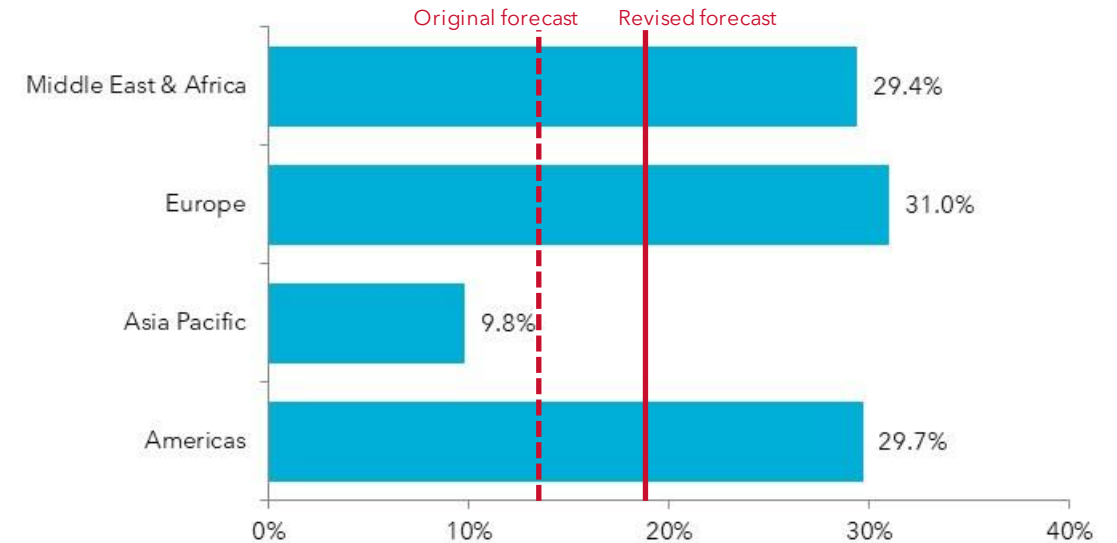


CWT/GBTA originally predicted global airfares would rise by 3.3% in 2022. Its Nov. 2021 report was published before Omicron and the Ukraine conflict.

In the first half of 2022, U.S. domestic airfares increased by 35%; a tenfold error in CWT's outlook. With four months of 2022 remaining, and with airfare pricing losing momentum, CWT has revised up its 2022 forecast to 48.5%, which seems excessive.

CWT now expects business fares in North America to surpass pre-pandemic levels by the end of 2022. But fares are already 18% above them in the U.S.

## Hotel rates - first half 2022 year-over-year



Having originally predicted a 13.1% year-over-year rise in global hotel rates for 2022, CWT has now revised this figure up to 18.5%.

So far in 2022, global rates have increased by approximately 24%. On this basis, CWT must anticipate a slowdown in average daily rate inflation in the second half of 2022. Data for the month of June supports this view, with global rates rising 15% year-over-year. But Asia Pacific has a lot of ground still to make up on other regions. The prospects for a Chinese recovery remain an important unknown at this stage.

# Outlook: cost of living inflation in the Americas

Inflationary pressures are more intense in South American countries.

Cost of living year-over-year %

Consumer price index (CPI) inflation

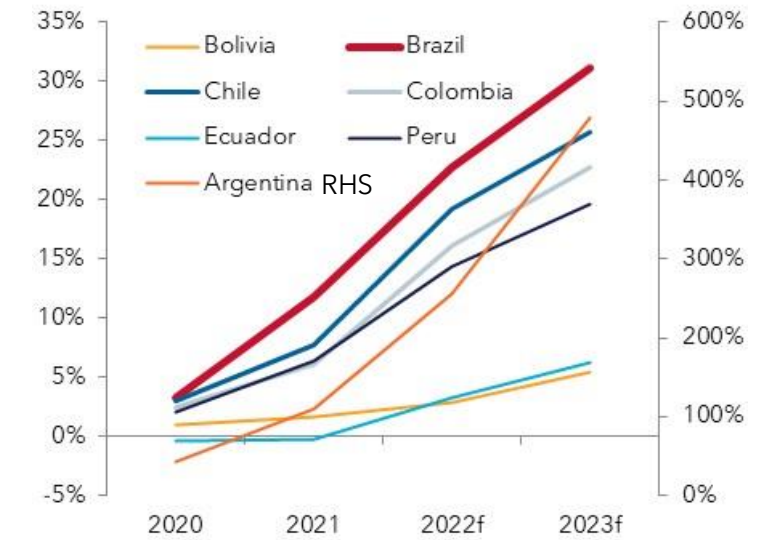
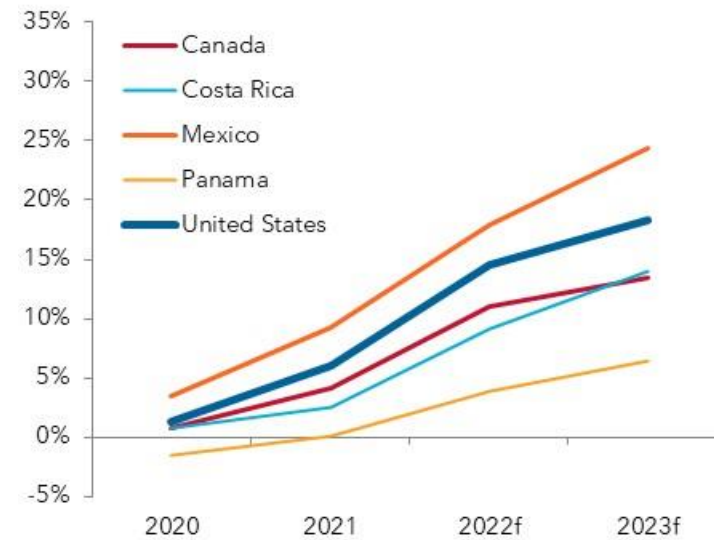
Market	2019	2020	2021	2022f	2023f	Latest inflation
Argentina	54%	42%	48%	69%	62%	71.00% July
Bolivia	2%	1%	1%	1%	2%	2.00% July
Brazil	4%	3%	8%	10%	7%	10.07% July
Canada	2%	1%	3%	7%	2%	8.10% June
Chile	2%	3%	5%	11%	6%	13.10% July
Colombia	4%	3%	3%	9%	6%	10.20% July
Costa Rica	2%	1%	2%	7%	4%	11.48% July
Ecuador	0%	0%	0%	3%	3%	3.90% July
Mexico	4%	3%	6%	8%	5%	8.15% July
Panama	0%	-2%	2%	4%	3%	5.20% June
Peru	2%	2%	4%	7%	5%	6.70% July
United States	2%	1%	5%	8%	3%	8.50% July

Source: Oxford Economics, August 2022  
2022f/2023f=forecast

Accumulation of inflation since 2019

North and Central America

South America



- Among the countries in North and Central America, Mexico faces the strongest inflation. By 2023, its cost of living is forecast to be almost **one-quarter higher than in 2019**.
- Inflationary pressures are generally more intense in South America. In 2023, most countries can expect prices to be **20-30%** above 2019 levels.
- Argentina is an extreme case. High inflation is set to persist into 2023, when the cost of living is predicted to be **479%** higher than in 2019.

# Outlook: cost of living inflation in Asia Pacific

Inflation is generally low, and this points to little material change in 2023.

Cost of living year-over-year %

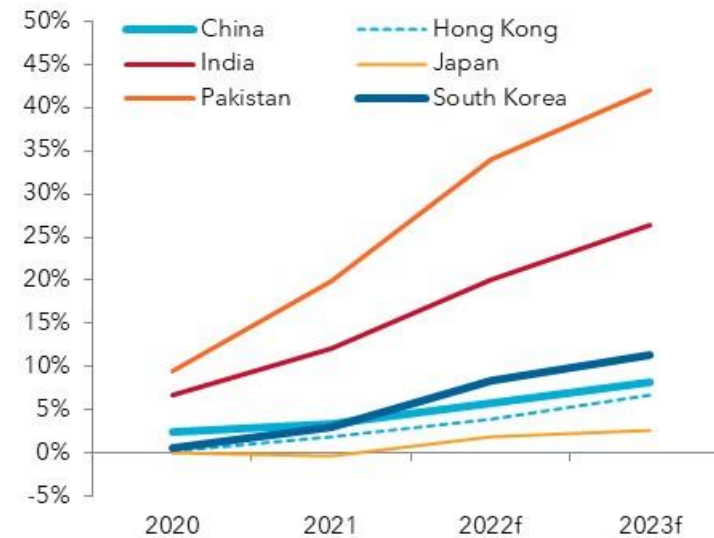
Consumer price index (CPI) inflation

Market	2019	2020	2021	2022f	2023f	Latest inflation
Australia	2%	1%	3%	6%	4%	6.10% Q2
China	3%	2%	1%	2%	2%	2.70% July
Hong Kong	3%	0%	2%	2%	3%	1.80% June
India	4%	7%	5%	7%	5%	6.71% June
Indonesia	3%	2%	2%	4%	3%	4.94% July
Japan	0%	0%	0%	2%	1%	2.40% June
Malaysia	1%	-1%	2%	3%	3%	3.40% June
New Zealand	2%	2%	4%	7%	3%	7.30% June
Pakistan	9%	9%	9%	12%	6%	24.90% July
Philippines	2%	2%	4%	6%	4%	6.40% July
Singapore	1%	0%	2%	6%	3%	4.40% June
South Korea	0%	1%	2%	5%	3%	6.30% July
Thailand	1%	-1%	1%	6%	1%	7.61% July
Vietnam	3%	3%	2%	3%	4%	3.14% July

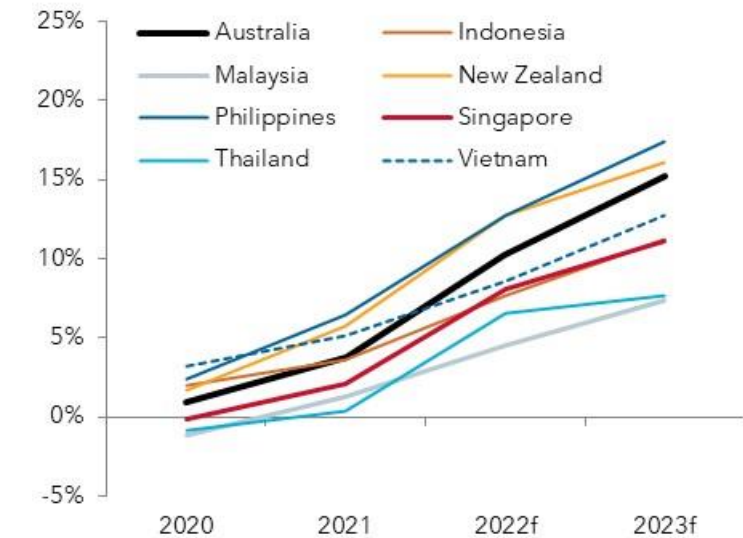
Source: Oxford Economics, August 2022  
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Accumulation of inflation since 2019

Northeast & South Asia



Southeast Asia & Southwest Pacific



- Inflationary pressures are generally **weakest** among countries in Northeast Asia. Japan's cost of living in 2023 is expected to be just **3%** above 2019, Hong Kong's **7%** and China's **8%**.
- Expectations for 2023 for countries in Southeast Asia and Southwest Pacific lie in a 7-17% range, with Australia and New Zealand at the top end.
- Inflationary expectations are strongest for Pakistan, where consumer prices in 2023 may be **42% above** what they were in 2019.



# Outlook: cost of living inflation in Europe

After rising fast in 2022, the pace of inflation should slow rapidly in 2023 in most countries.

Cost of living year-over-year %

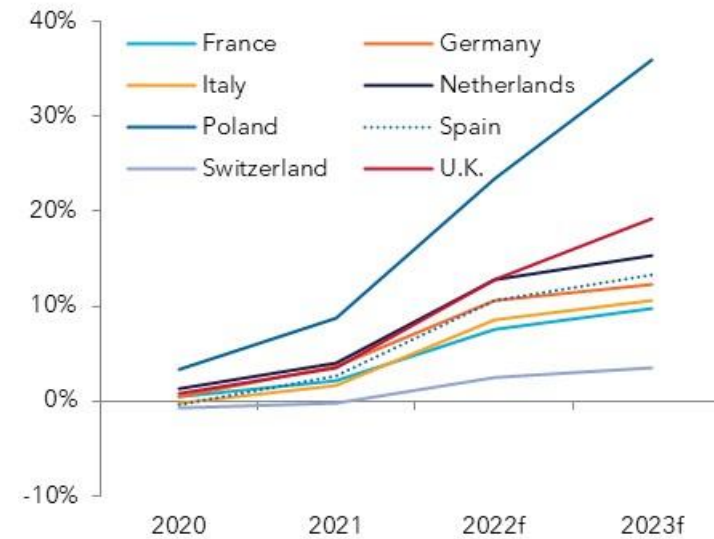
Consumer price index (CPI) inflation

Market	2019	2020	2021	2022f	2023f	Latest inflation
Austria	2%	1%	3%	7%	1%	9.20% July
Belgium	1%	1%	2%	8%	2%	10.40% July
Denmark	1%	0%	2%	7%	2%	8.70% July
Finland	1%	0%	2%	7%	3%	7.80% June
France	1%	0%	2%	5%	2%	6.10% July
Germany	1%	1%	3%	7%	2%	7.60% June
Greece	0%	-1%	1%	10%	1%	11.50% July
Ireland	1%	0%	2%	7%	2%	9.10% July
Italy	1%	0%	2%	7%	2%	8.00% June
Netherlands	3%	1%	3%	9%	2%	10.30% July
Norway	2%	1%	3%	6%	2%	6.30% June
Poland	2%	3%	5%	14%	10%	15.50% June
Spain	1%	0%	3%	8%	2%	10.80% June
Sweden	2%	1%	2%	7%	3%	8.70% June
Switzerland	0%	-1%	1%	3%	1%	3.40% July
U.K.	2%	1%	3%	9%	6%	9.40% June

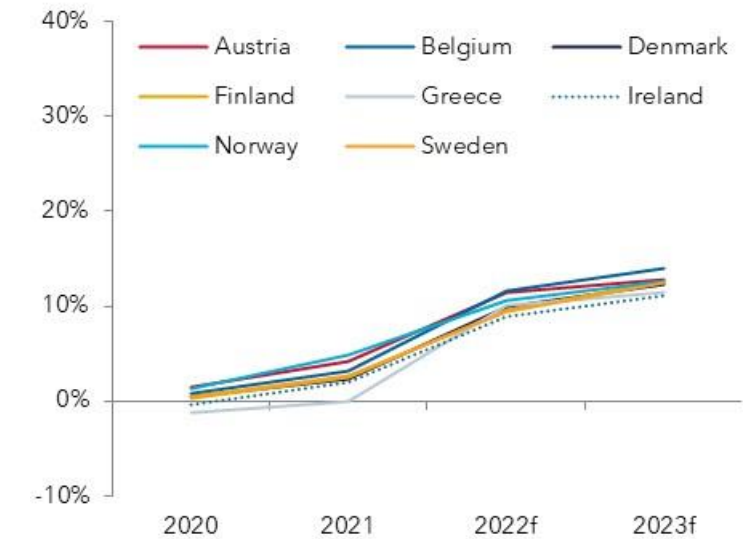
Source: Oxford Economics, August 2022  
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Accumulation of inflation since 2019

Europe's largest economies



Europe's other economies



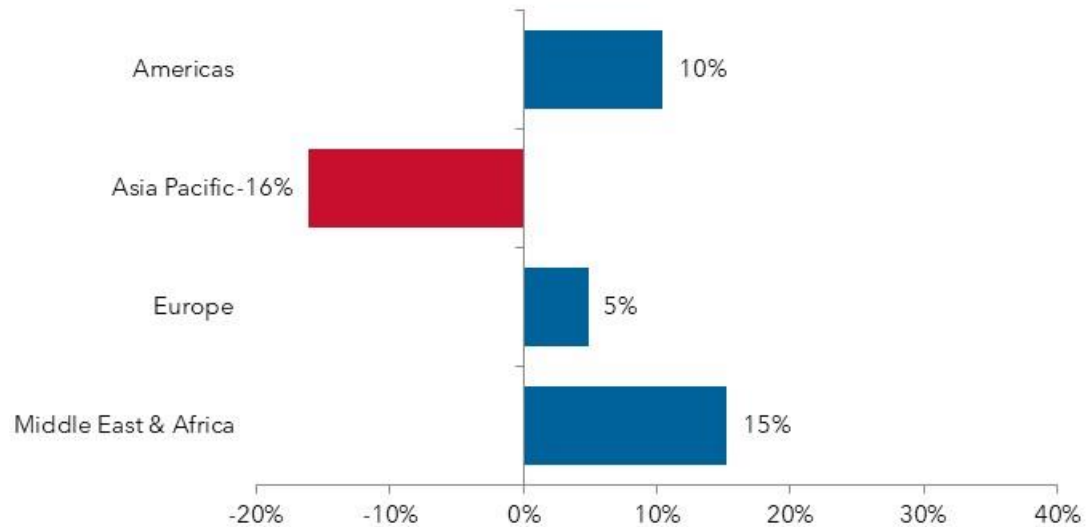
- By 2023, Poland's cost of living is set to be more than one-third higher than in 2019. At 19% and 15% respectively, the U.K. and the Netherlands will see the strongest inflation among the remaining major European economies.
- The inflationary prospects for the other smaller European economies for the 2019-2023 period lie in a much narrower range of 11% to 14%.

# Market update: global hotel costs

The rise in average daily rates compared to 2019 varies significantly by region.

## Year-to-date

Hotel rates: year-to-date 2022 v YTD 2019

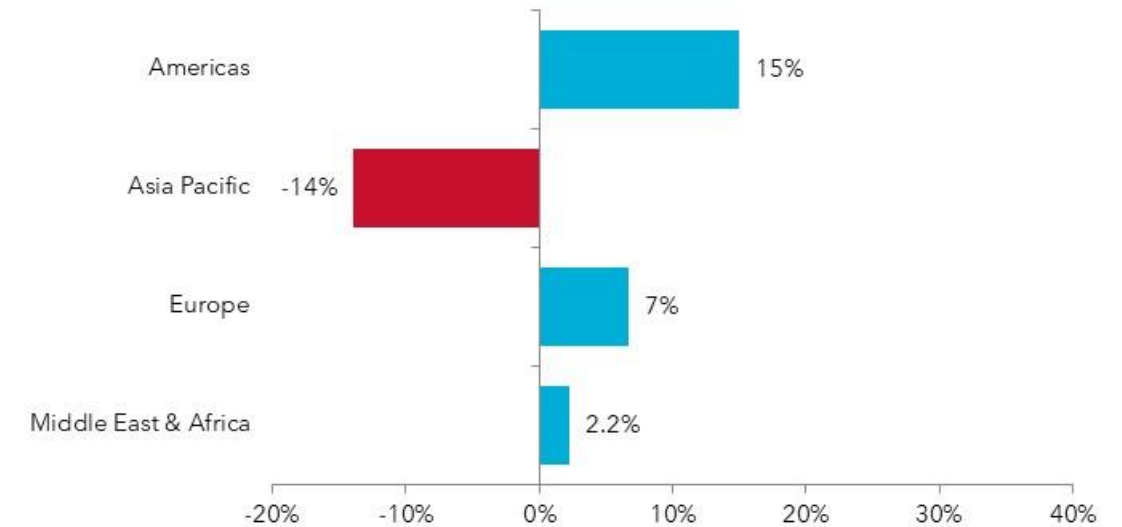


During the **first six months** of 2022, global hotel rates advanced to **1% above their pre-pandemic levels**. But this low figure is the result of rate weakness persisting in Asia Pacific, where ADRs are still **16% below** their 2019 levels.

In other regions, rates are much stronger, averaging **15%** above 2019 in the Middle East & Africa and **10%** higher in the Americas.

## Latest month

Hotel rates: June 2022 v June 2019



June's performance is quite different to the year-to-date average.

Globally, rates were **3%** higher than in June 2019. Rate improvement has strengthened in the Americas, while a comparison to the year-to-date average suggests a loss of momentum in the Middle East & Africa.

# Market update: hotel costs in Asia Pacific

Rates in June were above 2019 in most countries but remain lower in some major markets.

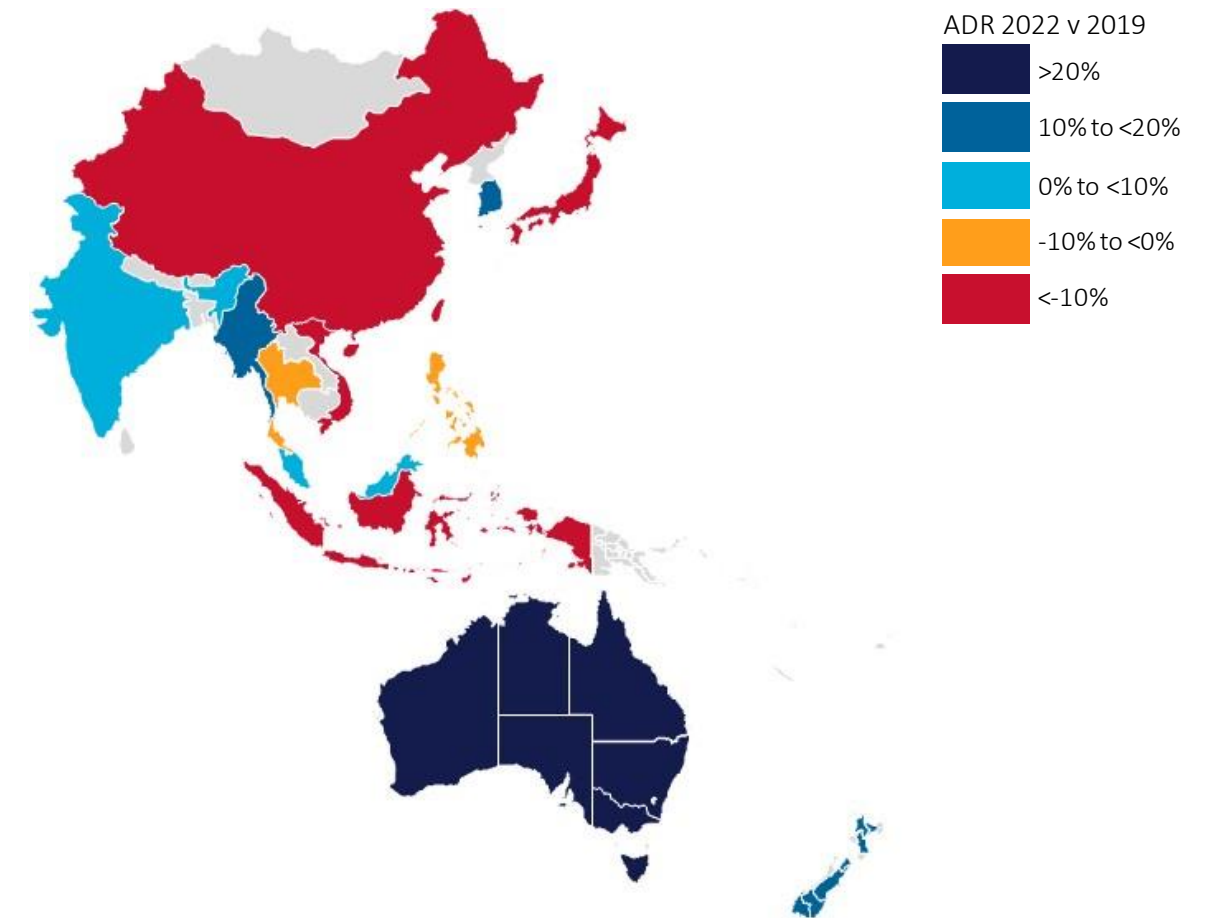
## Average daily rates

June 2022 v June 2019

Australia	28.7%	New Zealand	15.4%
China	-20.2%	Philippines	-9.3%
Hong Kong	-7.2%	Singapore	0.4%
India	8.9%	South Korea	14.2%
Indonesia	-27.2%	Taiwan	-21.9%
Japan	-21.1%	Thailand	-1.3%
Malaysia	4.8%	Vietnam	-12.8%
Myanmar	17.0%		

## Variation in rate performance

June 2022 v June 2019



# Market update: hotel costs in Europe

Rates in June were above 2019 in most countries, except in those close to Ukraine or Russia

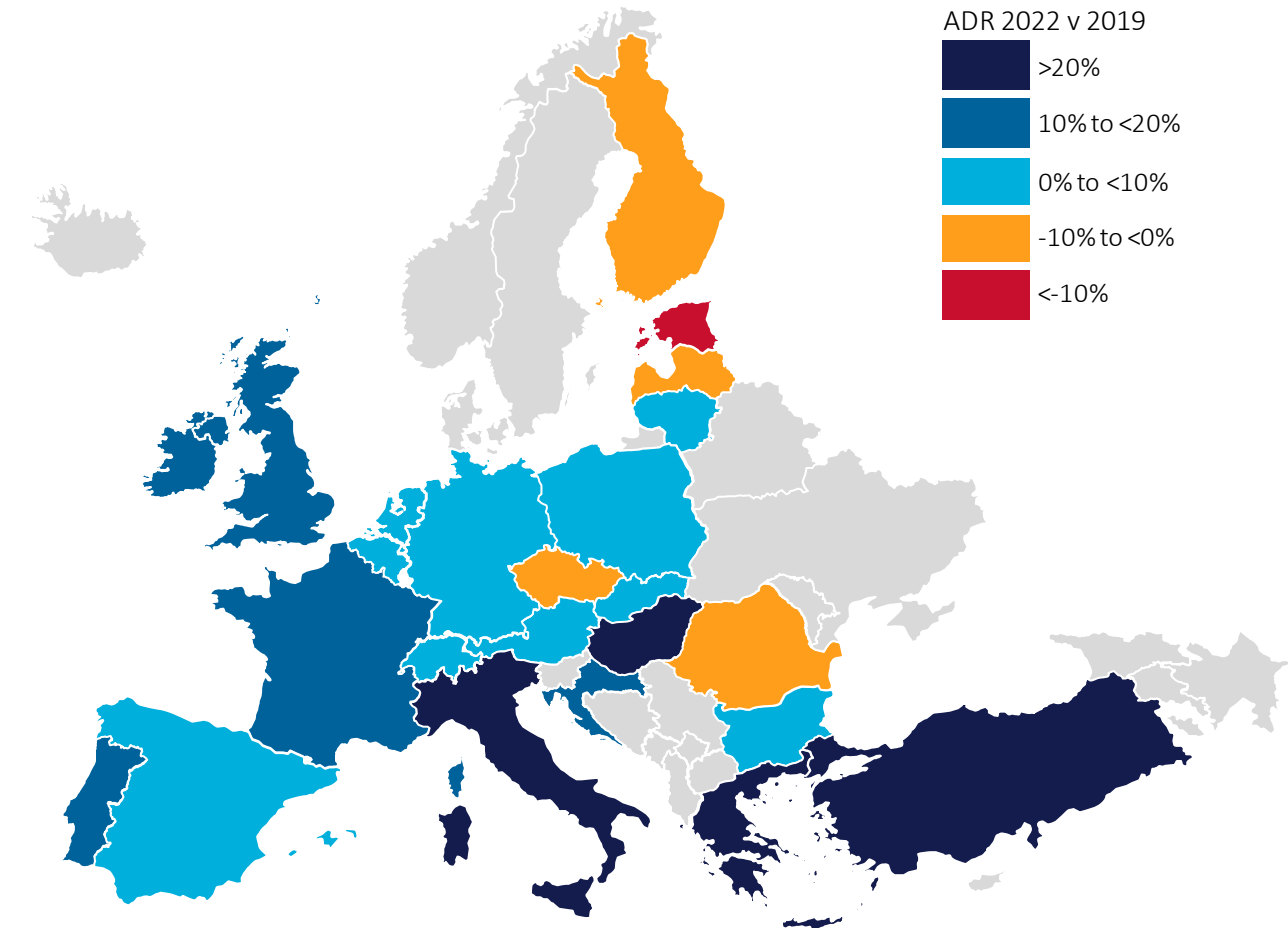
## Average daily rates

June 2022 v June 2019

Austria	6.0%	Latvia	-3.2%
Belgium	6.0%	Lithuania	5.2%
Bulgaria	1.0%	Malta	11.8%
Croatia	16.8%	Netherlands	7.4%
Czech Rep.	-2.2%	Poland	9.2%
Estonia	-24.9%	Portugal	16.6%
Finland	-4.3%	Romania	-4.1%
France	19.2%	Slovakia	7.0%
Germany	9.3%	Spain	9.4%
Greece	38.2%	Switzerland	2.1%
Hungary	33.3%	Turkey	288.6%
Ireland	17.8%	United Kingdom	15.6%
Italy	29.2%		

## Variation in rate performance

June 2022 v June 2019



# Market update: hotel costs in North America

Rates are above 2019 in all three countries; few cities are below pre-pandemic levels.

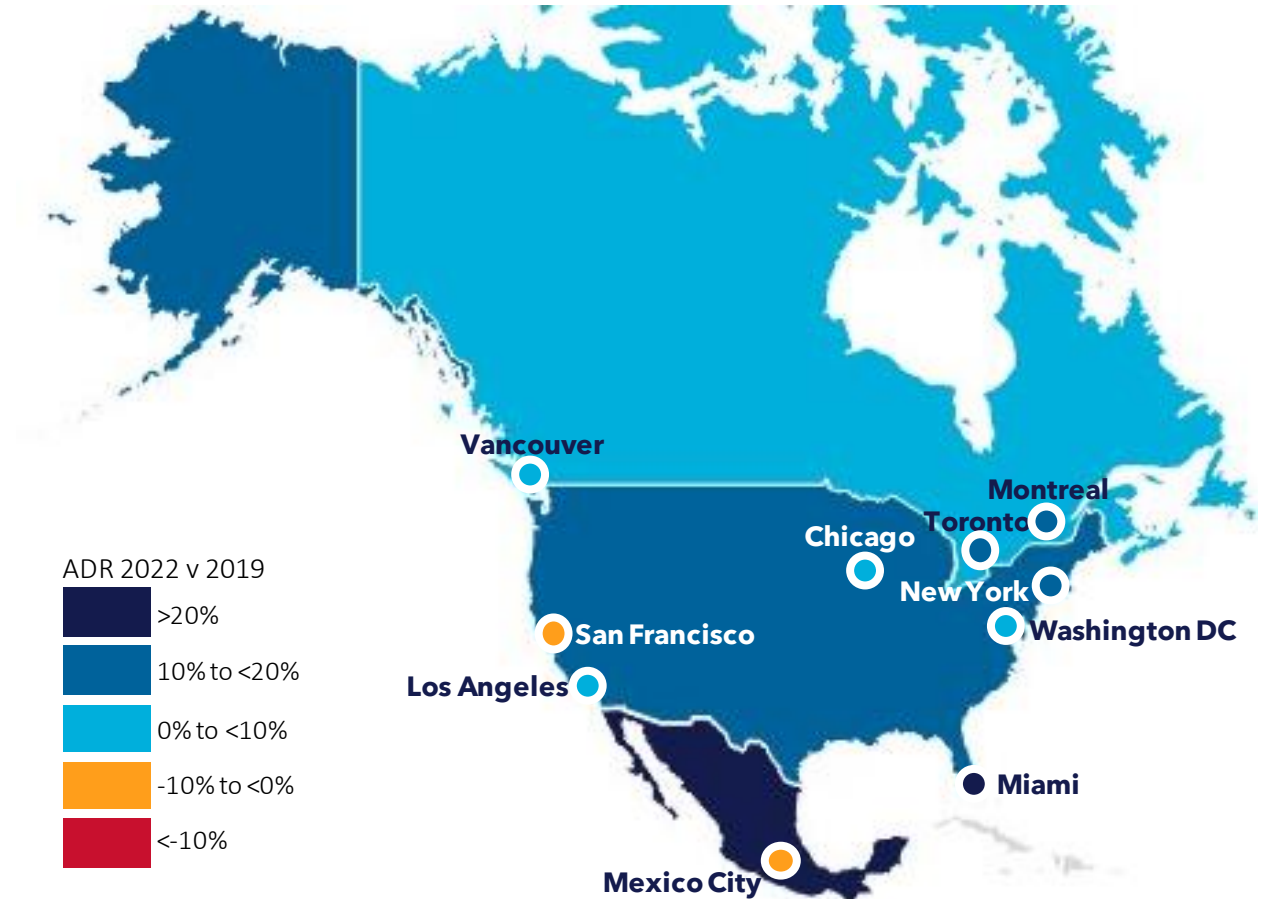
## Average daily rates

June 2022 v June 2019

Boston	5.6%
Chicago	7.6%
Los Angeles	9.2%
Mexico City	-1.6%
Miami	31.9%
Montreal	16.7%
New York	10.9%
San Francisco	-1.4%
Toronto	19.2%
Vancouver	1.4%
Washington DC	2.2%

## Variation in rate performance

June 2022 v June 2019



# End

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