

Southwest Pacific 2020 Industry Forecast

from BCD Travel Research & Innovation

2020
Industry Forecast
Southwest
Pacific



Competition will push intercontinental fares down by 1%, while regional fares will be 1% higher.

Hotel rates will change by 0% to 2% in Australia and will go up by 4% to 6% in New Zealand.

Meetings rates will increase sharply in Sydney and Auckland.

Ride-hailing is popular, and travelers have a growing choice of operators.

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Air

Current situation

Australia

Australia's economy has stalled, with increased fears of recession weighing on consumer and business confidence. This has affected demand for air travel, which fell slightly during the first six months of 2019.¹ Airlines have trimmed capacity in line with reduced demand, enabling them to maintain load factors. The weakness of the Australian dollar has increased inbound travel, while demand for outbound travel to Europe and the U.S. has weakened for the same reason. So far, bookings to Asia have been unaffected.

Sustainability is emerging as a hot topic among consumers, who are putting pressure on airlines to reduce waste and pollution. There is no sign that this has triggered a reduction in business travel.

Fares are flat on domestic routes. Virgin Australia's fares are often AU\$15-20 below Qantas, but the difference isn't enough to win more market share. This may be due to the strength of the Qantas loyalty program. Airline discounting is aimed largely at leisure travelers.

In the trans-Tasman market, both Virgin Australia (which no longer operates a joint venture with Air New Zealand) and Qantas have raised capacity. Qantas has upgraded Sydney-Auckland services with larger aircraft, while Virgin Australia has introduced new routes in both Australia and New Zealand.

More capacity should mean lower fares, but the trans-Tasman situation remains hard to read. Pricing has become more fragmented as airlines offer amenities as optional extras. Understanding the total cost of a flight is becoming both more important and difficult.

Business travelers are most likely to find discounted fares on flights to Europe. Qatar Airways has priced aggressively to recapture substantial market share from Gulf rivals Emirates and Etihad this year.

New Zealand

Demand remains strong for business travel as the economy continues to flourish, albeit at a slightly slower rate than last year. While flights on Air New Zealand are full, the flag carrier has downgraded its revenue forecast twice this year already. It has been hit by rising fuel costs on a weak exchange rate, fewer inbound tourists and problems with the Rolls-Royce engines on its Boeing 787s.

Air New Zealand responded with a network review, which saw it adjust flight frequencies while axing some routes and launching others. New services include Auckland-Chicago, begun in late 2018, and Auckland-Seoul, set to launch later this year. Air New Zealand faces increased competition to the U.S. (and onward to London) from American Airlines, which will soon announce services from New Zealand.

Air New Zealand's financial problems have led to limited fare reductions because the airline continues to command exceptional loyalty through its frequent-flyer program—despite its need for a product refresh.

Australia-U.S. competition increasing

The U.S. Department of Transportation has approved a joint venture between Qantas and American Airlines. Qantas plans to launch Boeing 787-operated services from Brisbane to Chicago and San Francisco by April 2020, adding 170,000 seats a year to the transpacific market. A third route, as yet unnamed, will follow.

Australia-U.S. services are being adjusted as airlines rethink their fleet strategies to address intense competition. They are changing flight frequencies and aircraft types and introducing more premium economy seating as tighter travel budgets persuade some customers to downgrade from business class to economy.

¹ IATA, Air Passenger Market Analysis, June 2019

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New Zealand-based corporate buyers continue to agree to long-haul deals in return for discounts on domestic and trans-Tasman routes. That means they often miss out on attractive tactical fares offered by other carriers in what remains an oversupplied buyers' market for long-haul travel. For example, Emirates flies three Airbus A380s daily to New Zealand, offering low fares to fill seats. On domestic routes, Air New Zealand commands more than 80% of the market. Its main rival, low-cost carrier Jetstar, struggles to win corporate business. Fares remain high.

Outlook for 2020

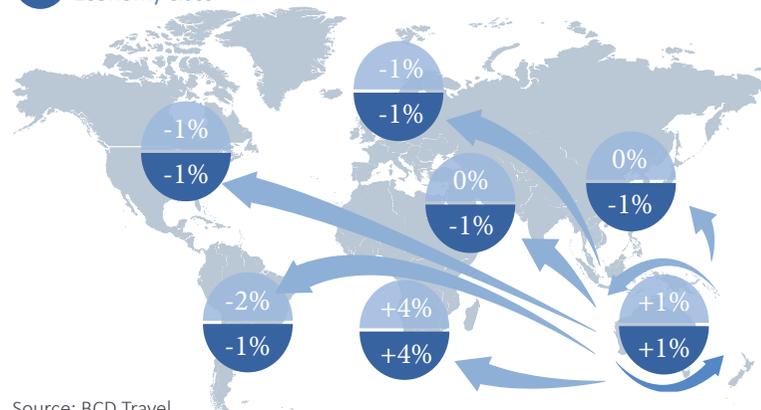
Australia

An uncertain economic outlook means domestic fares will rise by no more than 1%. They could even decrease by 1%.

Airfare forecasts

Average ticket prices
% change YoY

	Intercontinental		Regional	
	Business	Economy	Business	Economy
Southwest Pacific	-1%	-1%	1%	1%



Source: BCD Travel



The bleisure principle

Bleisure travel is increasingly affecting average ticket prices. The amount of time it takes to fly internationally makes New Zealanders and Australians the world's most enthusiastic bleisure practitioners. They often trade down a cabin in return for being allowed to add leisure time to a business trip.

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Fares are likely to remain flat to Asia but could be slightly lower to Europe and North America because of intensifying competition. Average ticket prices are likely to drop faster as business travelers trade down cabins, mainly from business class to premium economy. Qantas will offer more exclusive fares directly to travelers based on their frequent-flyer status. This could make finding the best fares more complicated.

New Zealand

Economic headwinds are increasing. Assuming there is no downturn, demand for business travel will, however, remain high. Long-haul routes, in particular, will continue to offer extremely competitive fares for passengers willing to be flexible on choice of airline and routing. Options will increase to the U.S. as American Airlines adds more services and Air New Zealand responds.

Fares will stay high on domestic and some trans-Tasman routes.

Our air recommendations

- Economic conditions mean it's time to review your travel policy and enforce it more strictly.
- Don't overpromise market share to Qantas and Virgin Australia, as both airlines closely track corporate volumes.
- Encourage travelers to book annual trips a year ahead. Most international trips require a long-haul flight, so advance booking can make a big price difference.
- Carefully analyze your spend data to determine whether it's worth trading long-haul commitments to Air New Zealand for discounts on domestic and trans-Tasman routes. Depending on your route mix, best-on-the-day prices may be cheaper, even if you lose the discounts.
- Make sure your corporate policy covers bleisure trips common among business travelers from Australia and New Zealand.

BCD Travel-Qantas sign distribution agreement

In July 2019, BCD Travel signed an agreement with Qantas Airways to participate in the Qantas Channel. The channel provides participating travel agents with access to a wider range of fares and content sourced from the Qantas Distribution Platform. The agreement lets BCD clients book reservations on Qantas without paying the airline's new channel booking fee, imposed Aug. 1.

The BCD-Qantas agreement applies to all individual global distribution system (GDS) bookings. Qantas is using the International Air Transport Association's (IATA's) new distribution capability (NDC) to connect to GDSs and online booking tools.

BCD previously struck channel booking deals with Air France/KLM and British Airways/Iberia. BCD also has signed NDC agreements with Lufthansa Group, the Amadeus NDC-X program, Sabre Beyond NDC and Travelport's NDC program. Learn more about NDC at bcdtravel.com/ndc.



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Hotel

Current situation

Australia

Although more hotels have opened—with an emphasis on higher-end properties—supply lags well behind demand in Australia. As a result, rates have increased by at least 3% nationwide, and double that figure in Sydney. Melbourne is not far behind; demand is fueled by sporting and other events, as well as increased air capacity to the city. Rates are also strong in Canberra, again because of increased flight links.

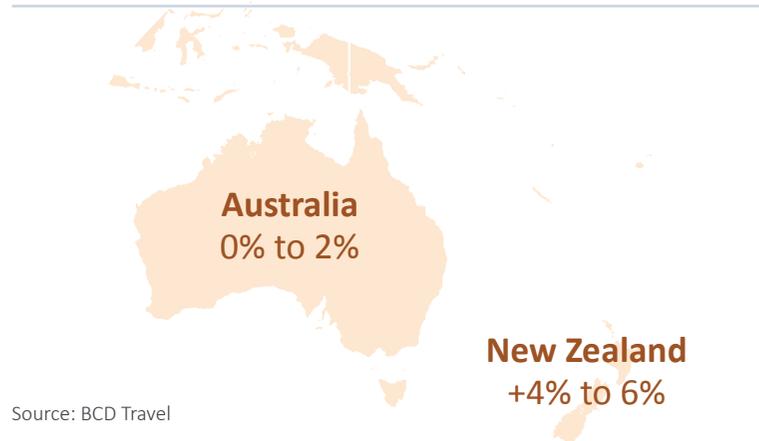
Perth is the main exception to the upward rate trend. Hotel projects commissioned during the mining boom a few years ago are now opening, even though demand is no longer as strong. Rates have fallen because of oversupply.

Accor remains one of the few chains where negotiating opportunities remain, as it has yet to complete the integration of the Mantra chain it acquired in May 2018.

Hotel forecasts

Average daily rates % change YoY

Southwest Pacific	1% – 3%
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Source: BCD Travel

Lights, cameras, accommodation...

One reason occupancy is high in New Zealand’s hotels is the extraordinary success of the country’s film and television industry. At least five major productions are underway; enough to make a big difference in a small market. Passengers’ constant shuttling to and from Hollywood is one of the main reasons American Airlines is increasing service to New Zealand.

There is no simple solution to this problem. Hotels with high occupancy rates are reluctant to discount for the corporate market. Buyers are being forced to look at alternative properties, either by turning to out-of-town hotels or moving to lower service tiers.



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New Zealand

It's been another challenging year for travel buyers. Demand drastically exceeds supply, pushing already high rates sharply up again in all three major cities: Auckland, Christchurch and Wellington. More hotels will come online in 2020, but few have opened this year. The rare exception has been Wellington's first airport hotel.

Outlook for 2020

Australia

More hotel openings will help slow rate growth in 2020. But in the middle market, where business travel demand is increasing fastest, supply is still scarce. Overall, rates will change by 0% to 2%. They could fall in Perth, while Sydney will once again see stronger rate increases than the rest of the market.

New Zealand

Supply will start to increase, especially in Auckland, where pressure on availability is greatest. A couple of properties will open in 2020, including EVEN Hotel Auckland and QT Auckland, but travelers will have to wait until at least 2021 for most new hotels.

Unless the economy suffers an unexpected setback, rates are likely to rise by another 4% to 6% in 2020. Watch for significant price spikes during sold-out music or sporting events.

Our hotel recommendations

- Work around high hotel rates, instead of fighting them. Encourage day trips where possible. If an overnight stay is required, encourage travelers to stay one night, rather than two.



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Meetings



Meetings space is in as short supply as quality hotel accommodation. In New Zealand, bookings in Christchurch, where the convention center is being rebuilt, were briefly hit by this year's terrorist attack. But they have since recovered. Rates in both Australia and New Zealand are rising fast.

Rates will continue to increase sharply next year, especially in Sydney and Auckland, where the opening of the New Zealand International Convention Centre will put even more pressure on accommodation. The only way to avoid high rates in these two cities is to look elsewhere. In Australia, for example, Adelaide is emerging as a better-priced alternative, although this will mean significantly longer air journeys for many attendees.

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Ground transportation

Ride-hailing

Ride-hailing continues to gain in popularity because fares are so competitive. In a typical three-month period, almost 21% of Australians travel by Uber. However, few companies have made Uber for Business part of their official travel program because of lingering concerns about duty of care.

Uber's success in the Australian market has drawn in other companies, including Estonia's Bolt (formerly Taxify), India's Ola and China's DiDi Chuxing. Local companies like GoCatch and Muve are also increasing ride-hailing competition.

High-speed rail

Australia's coalition government has committed to creating fast-rail corridors to surrounding towns from Sydney, Melbourne and Brisbane. The opposition Labor party has promised to do more—pledging to spend AU\$1 billion on a land corridor for an east coast high-speed rail line connecting Melbourne and Brisbane via Canberra and Sydney. But it would have to win control of the government first, and the next election isn't due until 2022. So, the plan is far from certain.



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Methodology

Assumptions

We have assumed, as working hypotheses, that:

- The price of oil (Brent crude) per barrel will average US\$67 in 2020.
- World economic growth will be 2.7% in 2019, holding steady at 2.8% in 2020.

Approach to analysis

Our ongoing research and in-depth interviews with experts in corporate travel and meetings management form the basis for our discussion of broader industry developments and trends.

We base our category-specific predictions on our analysis of aggregated transaction data for BCD Travel's corporate clients worldwide.

We analyze and forecast on dynamic baskets using actual air segments, room nights and car rental bookings to reflect potential shifts in travel patterns and booking behavior. The level of aggregation for each measure is determined by the validity of the relevant pool of data.

We weight monthly averages by category transactions for each unit. Regional averages for hotels are calculated using total room nights to weight the forecasts for all countries in that region. Quarterly averages are weighted averages of the months in that quarter. Unless stated differently, we base price developments on local currencies; these developments are therefore subject to foreign exchange fluctuations. We normalize local currency transaction data into leading world currencies, using the daily average conversion rate on the date of travel.

Hotel market tier assignments follow our proprietary classification scheme. We designate luxury and upper upscale hotels as upper tier and all other hotels as lower tier. Air cabin classes are based on our master table of airline booking classes.

When applying economic growth in our regional forecasts, we use figures aggregated at market exchange rates rather

than at purchasing power parity (PPP). The PPP approach risks overstating the contribution of emerging markets.

Sources

In addition to aggregated BCD Travel client data, we use the following sources:

- International Air Transport Association (IATA) for airline capacity and traffic
- Oxford Economics for historic and forecast macroeconomic data
- Tourism Economics for room nights by region
- International Monetary Fund (IMF) for macroeconomic projections
- Economist Intelligence Unit (EIU) for macroeconomic projections and oil prices
- Oanda Currency Converter for foreign currency exchange rates
- Official Airline Guide (OAG) for airline capacity
- U.S. Energy Information Administration (EIA) for historic and forecasted oil prices
- Flightglobal.com for airline industry news and analysis

The estimates and projections are based on data available through March and April 2019, respectively, for air and hotel transactions, and through July 2019 for macroeconomic and industry indicators.

Meet the team behind the Industry Forecast



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