

Outlook for Business and Meetings Travel

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Outlook for Business and Meetings-Related Travel



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GLOBAL BUSINESS TRAVEL ASSOCIATION

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**ROCKPORT
ANALYTICS**

Agenda

- Business Travel, A Different Animal
- Economic & Market Drivers of Biz Travel
- Global Outlook for Business Travel Spending
 - Setting the Stage: Quick Review of Global Economic Environment
 - Business Travel Spending Performance –Top Markets
 - Managed Travel Pricing Outlook
- U.S. Business Travel Outlook
- Q&A

Business Travel is a Different Animal...



- **Different Motivations, Payers, and Drivers**
 - “T&E” and “TM” view of business travel
 - Transient: Face-to-face meetings for sales, operations, customer service, maintenance & repair, training...
 - Group Meeting: trade show, professional development, training, exhibition, incentive
 - Business priorities set travel budgets, manage travel & negotiate rates
- **Origin & Destination Choice Driven by Business Locations**, not attractions, weather or available activities (exception: Meetings)
- **Higher Avg Spend-per-Trip**: Total@\$540, Group@\$775 vs Leisure@\$305?
- **Lower Price Elasticity**, especially for transient...
- **Greater Trip & Spending Volatility** over time...
 - During expansions –“it is an investment...”
 - During recessions –“it’s a controllable expense...”

A Different Animal: What Makes BT Markets Vary?

Factors Driving Differences Across Business Travel Markets...

Size of Economy –level of economic activity is paramount

Distance from Suppliers or Markets –Countries far from their markets or suppliers will require more business travel to succeed

Infrastructure Development –Is the transportation and hospitality infrastructure sufficient for business travel to flourish?

Environmental, tax, security, and regulatory policy –Do governments help or hinder business travel?

Land Mass and Business

Dispersion –Larger, widely dispersed populations require more travel

Industry Mix –countries with more travel-intense sectors will have greater amounts of business travel relative to jobs, output, population

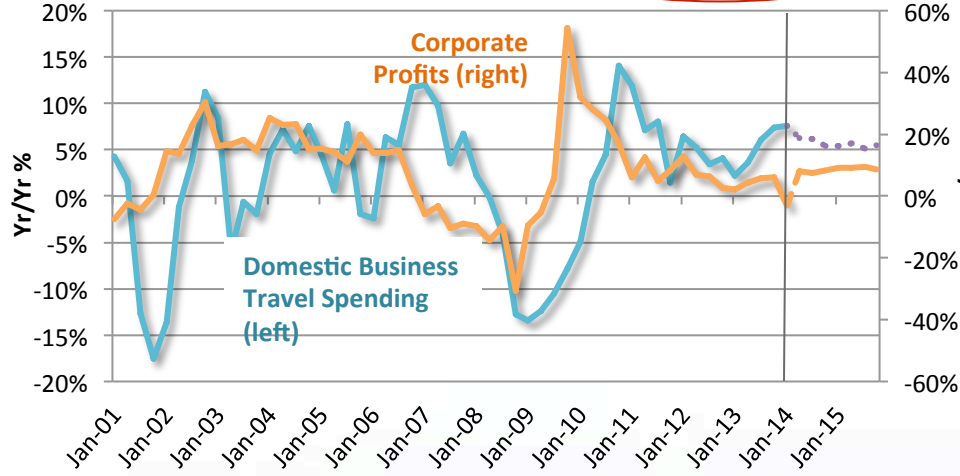
Technology and Travel

Productivity –Business travel is a material/service input to virtually every industry. Like other inputs, it is subject to gains/losses in productivity.

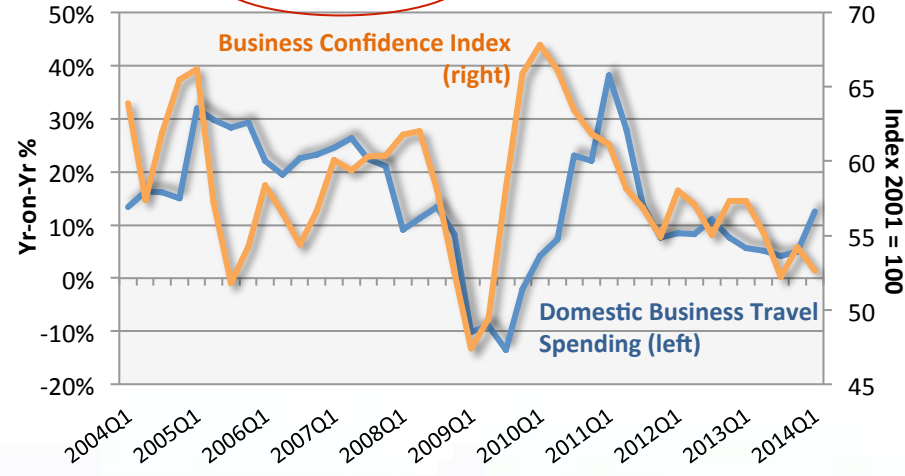
Trade Dominance –large trade sectors (China, Germany, Indonesia) tend to drive more international outbound business travel

Business Travel Driven by Business Indicators

US: Domestic Travel Spending & Corporate Profits

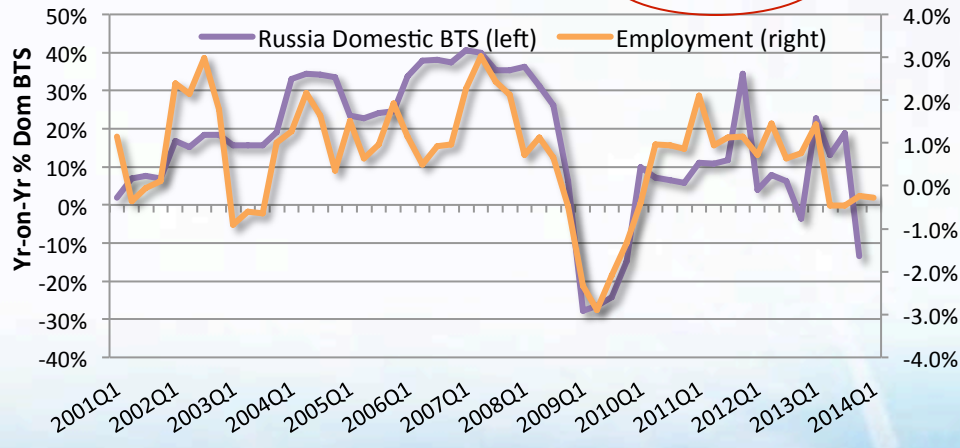


Brazil: Biz Confidence & Domestic Travel Spending

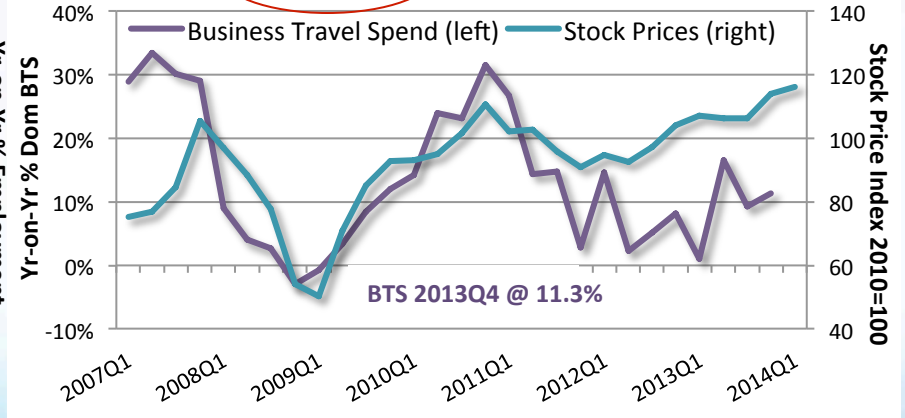


Source: CONFEDERACAO NACIONAL DA INDUSTRIA (CNI), GBTA Foundation, Rockport Analytics

Russia: Domestic Business Travel and Job Growth



India Stock Prices Correlated with Domestic BTS

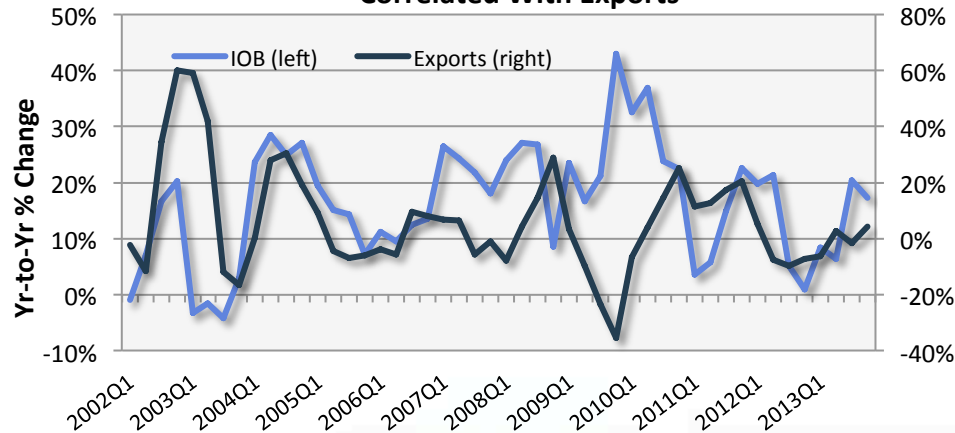


Source: Bombay Stock Exchange, GBTA Foundation, Rockport Analytics

Source: Federal State Statics Service, GBTA Foundation, Rockport Analytics

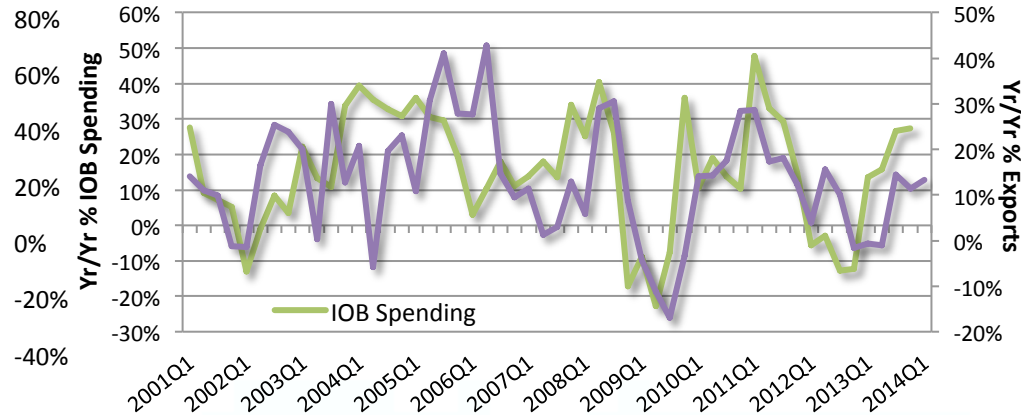
Trade & International Outbound (IOB) Closely Correlated

China International Outbound Business Travel Correlated With Exports



Source: China National Bureau of Statistics, GBTA Foundation, Rockport Analytics

India's IOB Tends to Lead Exports Over the Business Cycle



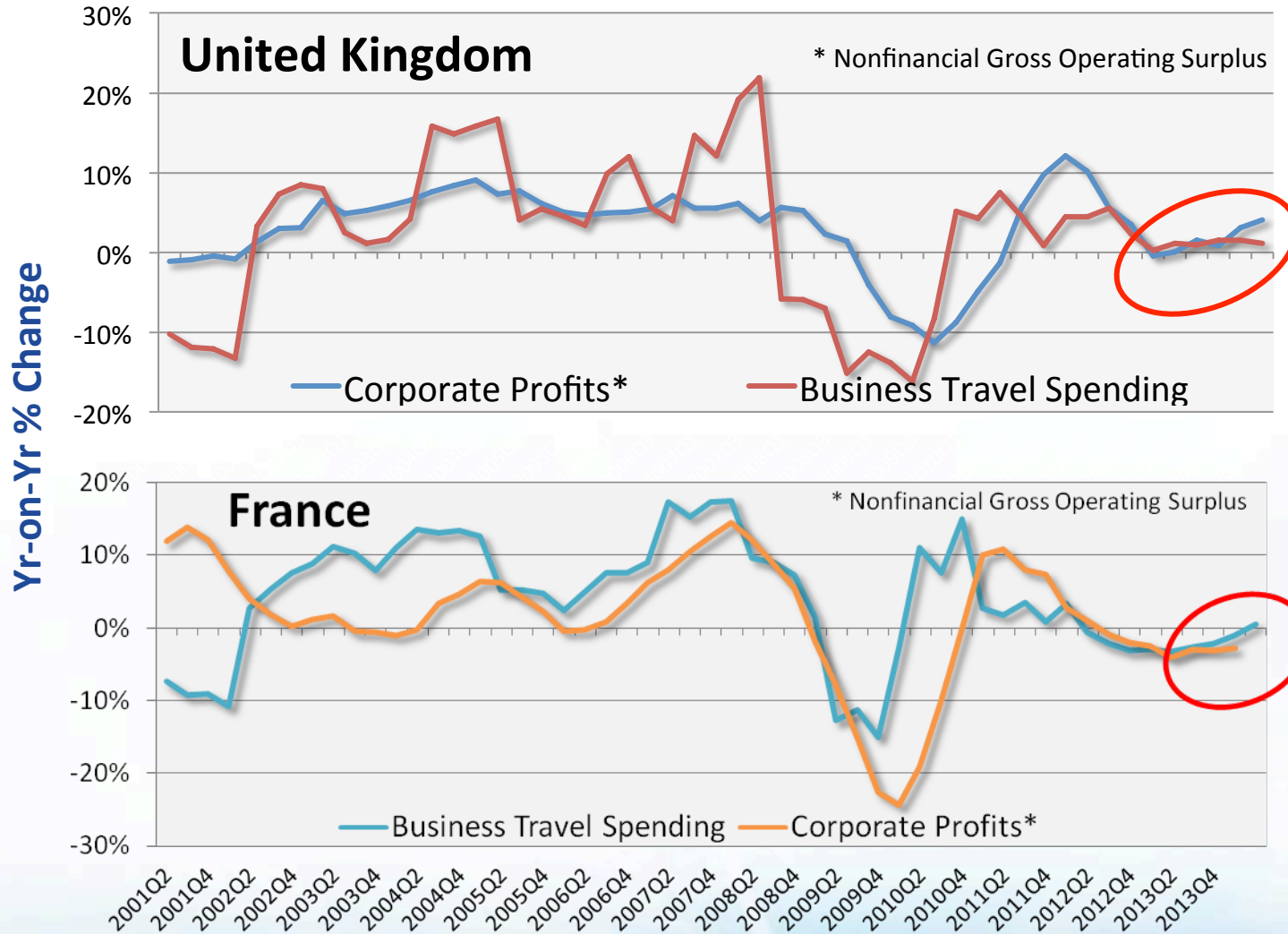
Source: Federal State Stastics Service, GBTA Foundation, Rockport Analytics

US: Outlook for Exports and IOB Brightening...



Source: US Census Bureau, Well Fargo Securities, Moodys Analytics, Rockport Analytics

Profits & Business Travel Tightly Correlated...

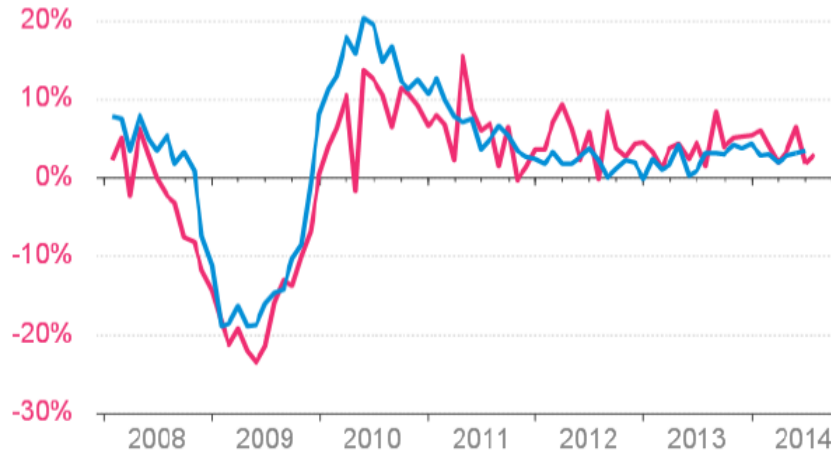


- Business travel spend leading corporate profits in Europe
- UK already above zero and growing
- France crossed zero line 2013Q4

IATA Has Found Similar Relationships

Premium Passengers and World Trade Growth

% Change over year



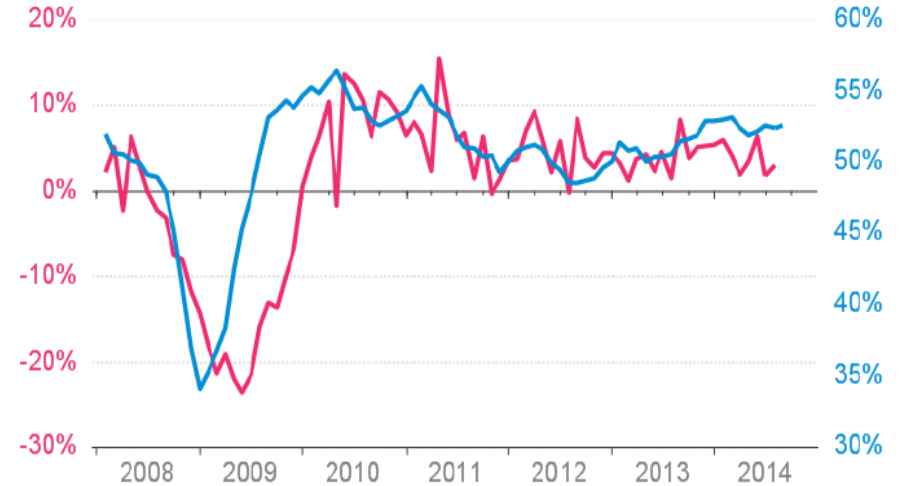
— Premium Passengers Growth
— World Trade Growth

Source: IATA, Netherlands CPB

Premium Travel and Business Confidence

% Change over year

Business Confidence Index



— Premium Passengers Growth
— PMI Index (manufacturing)

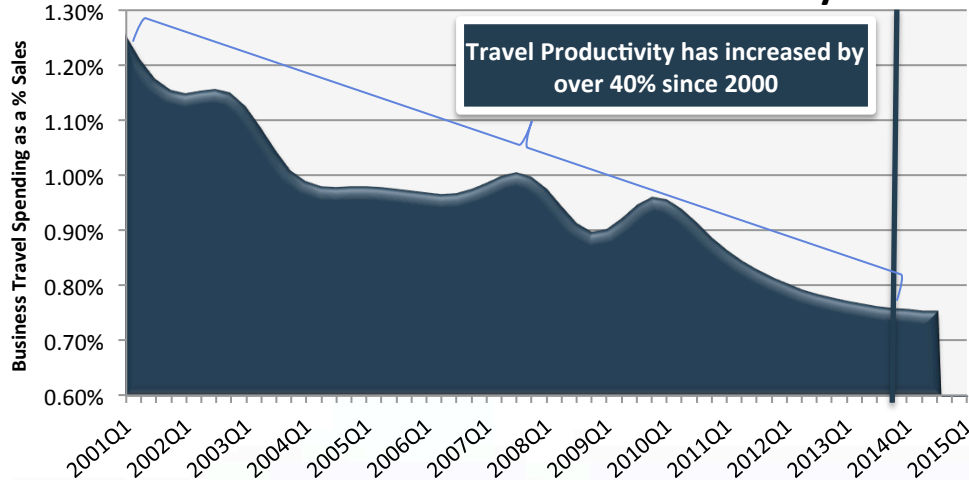
Source: IATA

- Premium travel is 70-80% business
- Premium travel provides airlines with approximately 10% of seats, while generating 30% of revenue and 80% of profit.

Source: Boeing Premium Traveler Study, Rockport Analytics

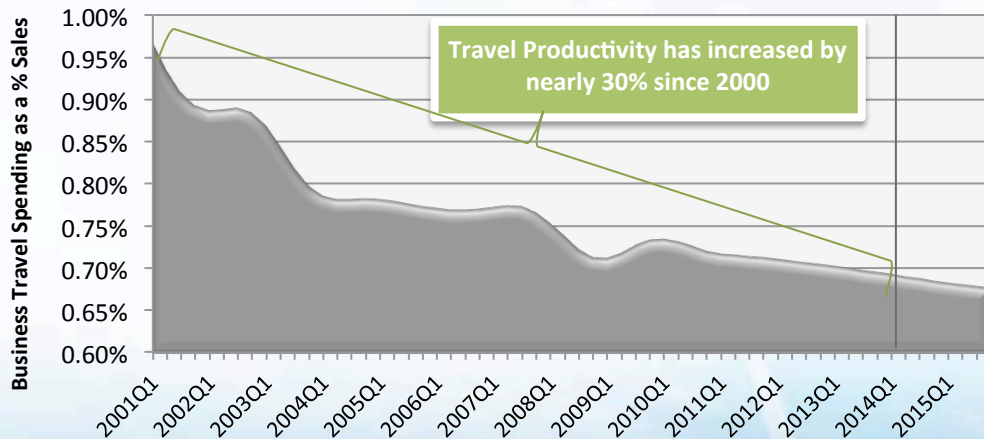
Travel Productivity Is an Underlying Factor..

China Business Travel Productivity



Source: GBTA Foundation, Rockport Analytics

Brazilian Business Travel Productivity



- Like labor or capital, business travel productivity is also rising
- Getting more done per travel budget \$. Why?
 - Trips becoming more "dense"
 - Rising adoption and effectiveness of travel management
 - Travel prices have risen more slowly than other inputs
 - On-line meeting substitution?
- BTS will tend to grow more slowly than revenue

Methodology Primer

- **Sixth Annual GBTA Global BTI™ study**, sponsored by **VISA**
- **Demand-side measures of business travel** -all types of trips and all spending, reimbursed and traveler-paid
- Input/output **approach puts T&E on par with labor, material, and other service inputs**
- **Projections driven by global economy, travel productivity, travel supply capacity, travel pricing, and relevant policy issues.**
- **75 countries by 48 industries** Domestic vs. IOB and selected category breakouts
- **For 10 specific markets, Rockport Analytics has developed econometric models to better inform the forecast process.** Models explicitly relates measures of quarterly business travel spending to key economic and market drivers including:
 - Gross Domestic Product (GDP), Employment & Unemployment, Business & Consumer Confidence, International Trade, Foreign Direct Investment, Commodity & Oil Prices
 - Productivity Rates for Business Travel
 - GBTA Travel Manager/Buyer Sentiment
 - International Air Transport Association (IATA) Passenger, Revenue & Capacity
 - Smith Travel Research (STR) Global Hotel Performance
 - Global TMC transactions

Global Business Travel Outlook

Setting the Global Economic Stage...



Setting the Stage: Global Economic Growth Slowly Advances

Global growth is slowly gathering momentum. By 2015–2016, we expect growth to finally reach long-term trend (4%). U.S., APAC (less Japan), and *slowly* improving Europe lead the way.

Monetary policy is beginning to turn neutral and fiscal policy remains mostly contractionary. Advanced Economy policy rates remain near zero while many Emerging Markets have been raising rates. Meanwhile, austerity and some growth have combined to improve fiscal balances.

Oil and other commodity prices are moving sideways –good news for economic growth, travel inflation, and airline profits. Geopolitical issues are always a concern, however.

US: Improved hiring, housing, and consumer spending are driving underlying growth despite weaker 2014H1. Business confidence, profits, and spending are beginning to join the party.

Setting the Stage: Global Economic Growth Slowly Advances (Cont.)

China: Central authorities are closely managing the economy at the 7-7.5% growth while addressing local debt challenges (ST) and continuing to shift towards domestic consumption (LT) and away from investment & export-fueled growth. Exports showing small signs of improvement –good news for other emerging markets.

Europe: EU has emerged from recession and is *slowly* gathering steam. Even the southern periphery has begun to turn around (Italy?) Risks abound, however (e.g. escalating Ukrainian situation, deflation, frozen credit)

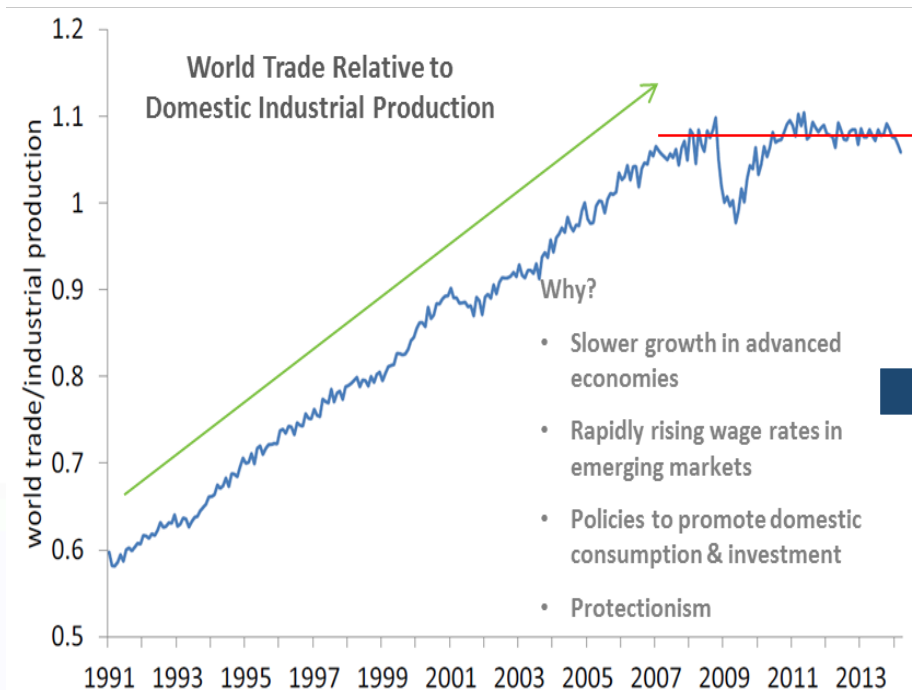
LatAm: A mixed environment for growth and investment with some markets already improving (Peru, Mexico), and others suffering from slower global growth and self-inflicted policy wounds (Brazil, Argentina, Venezuela)

Japan: declining & aging population, huge debt burden, new sales tax weigh on growth. Meanwhile, Abe stimulus and market reforms hope to rekindle growth

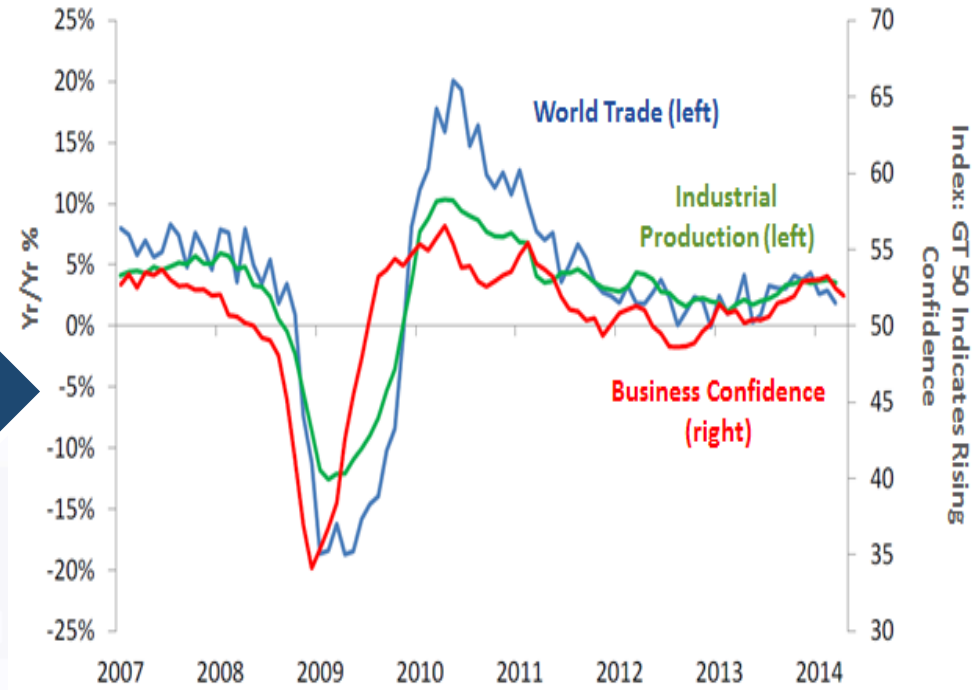
Key risks remain: Escalating Ukraine, European deflation/retrenchment, hard landing in China...

Global Trade Has Shifted Into a Lower Gear...

Economic Growth Has Turned Inward Since Great Recession



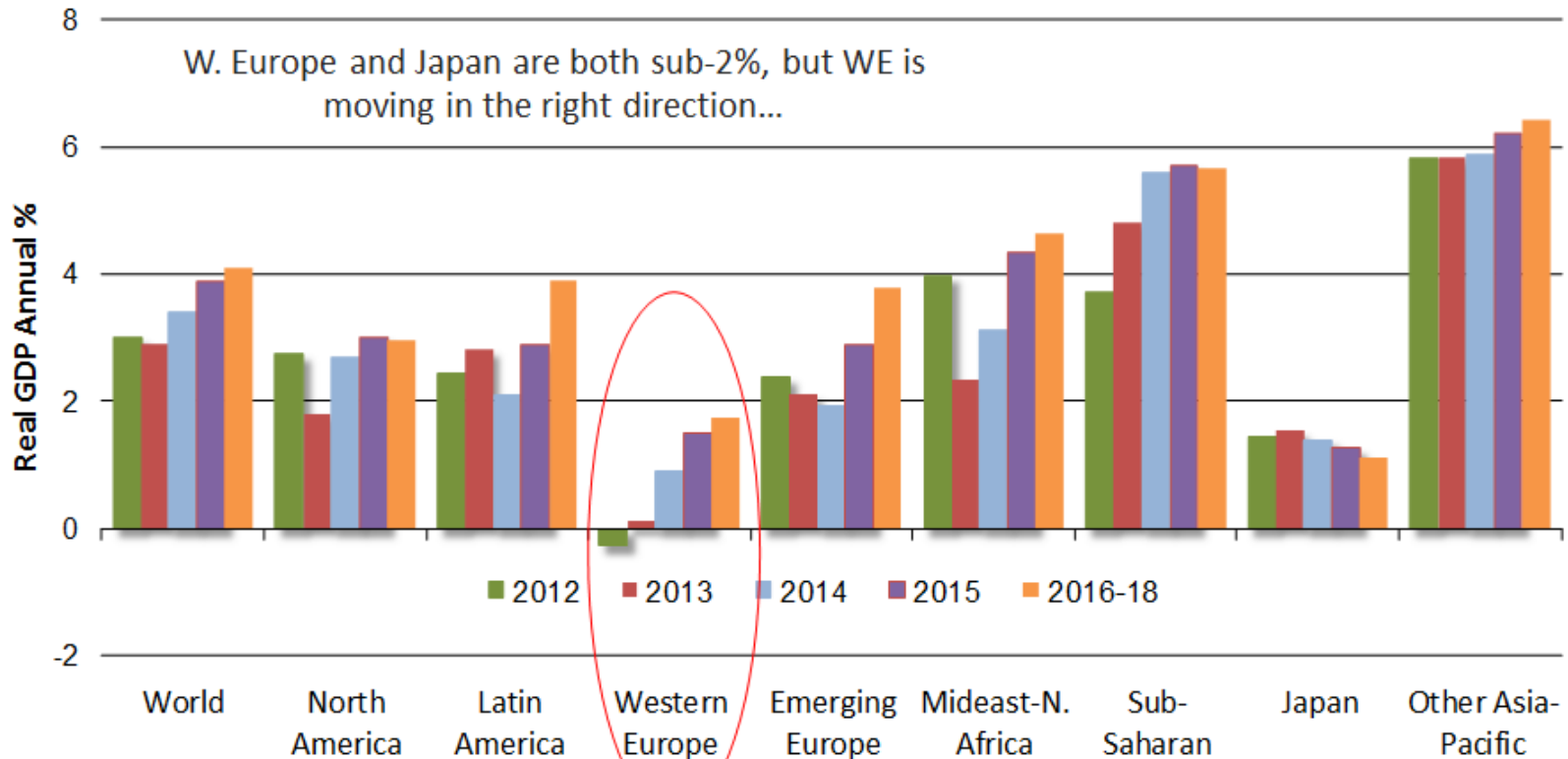
Global Conditions Are Sluggish But Positive



- Particularly challenging for continued Emerging Market growth
- The world needs Europe to recover, protectionism to subside, and commodity prices to firm

World Still Running at Two Speeds but Differential is Narrowing

The World Needs Europe to Recover Sooner Rather Than Later...



'13 Business Travel Spending

27%

5%

24%

5%

2%

6%

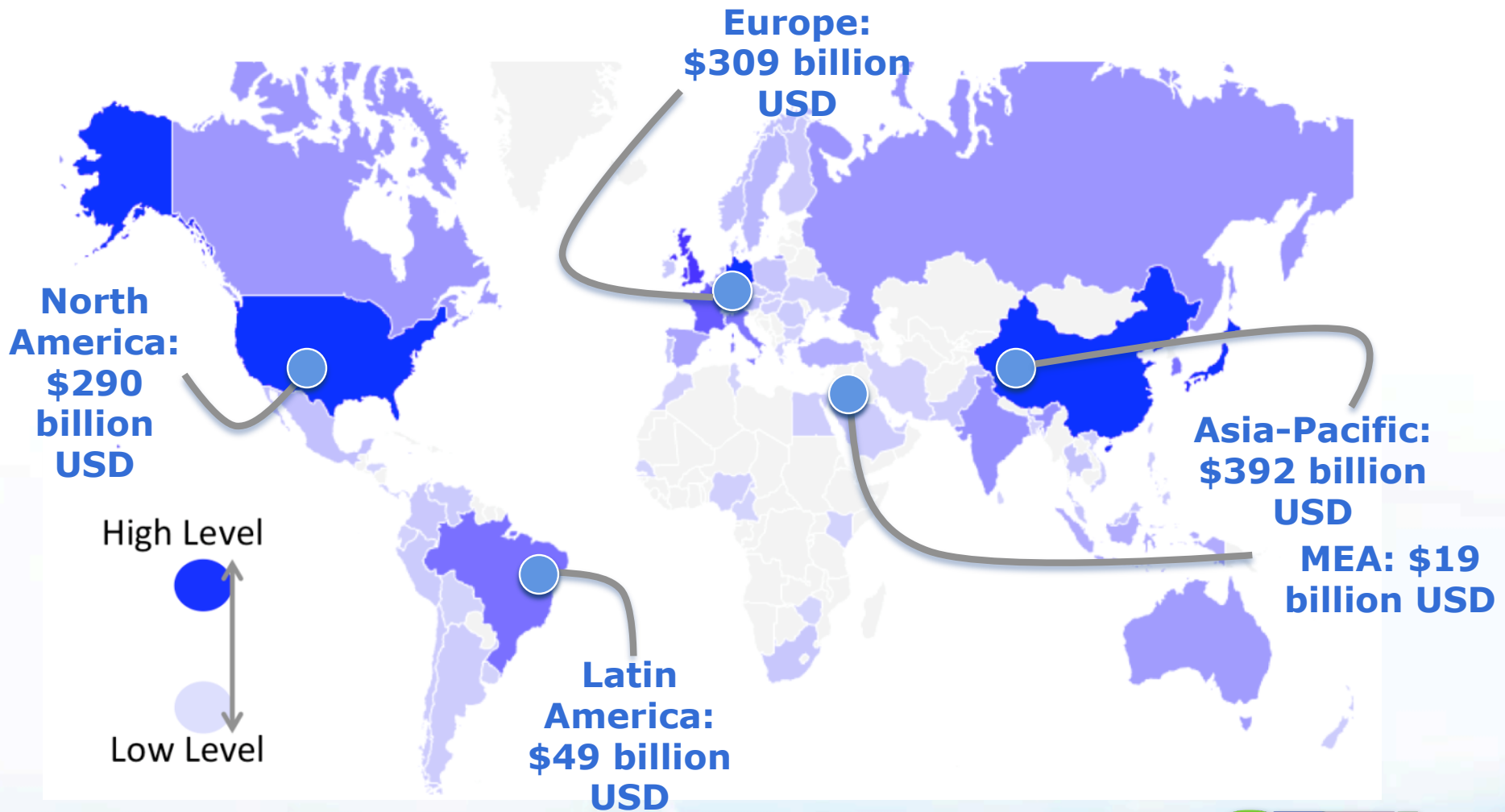
32%

Global Business Travel Outlook

Resulting Prospects for Business Travel Spending...



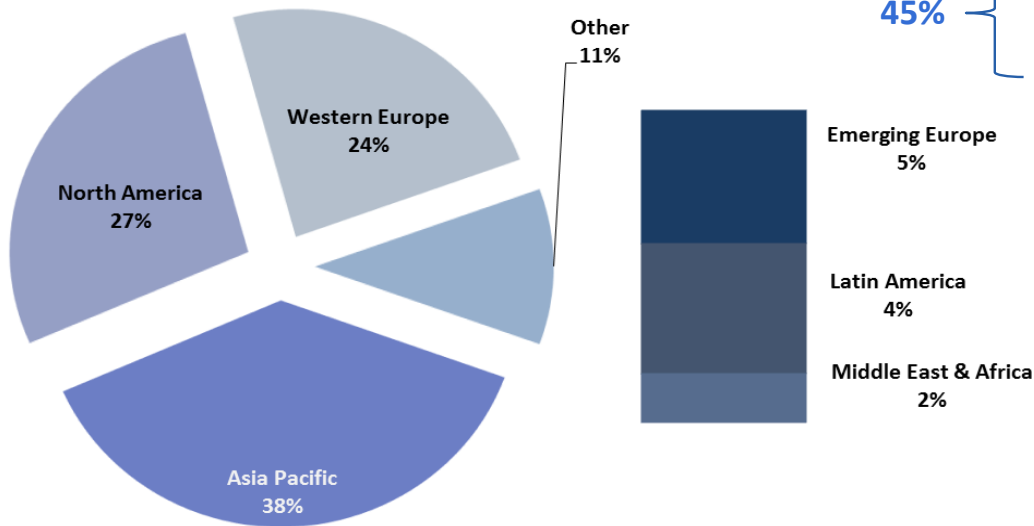
2013 Global Biz Travel Spend = \$1.1 Trillion



80% of Global Spending is in the Top 15 Markets...

2013 Business Travel Spending By Region

Domestic plus Outbound International

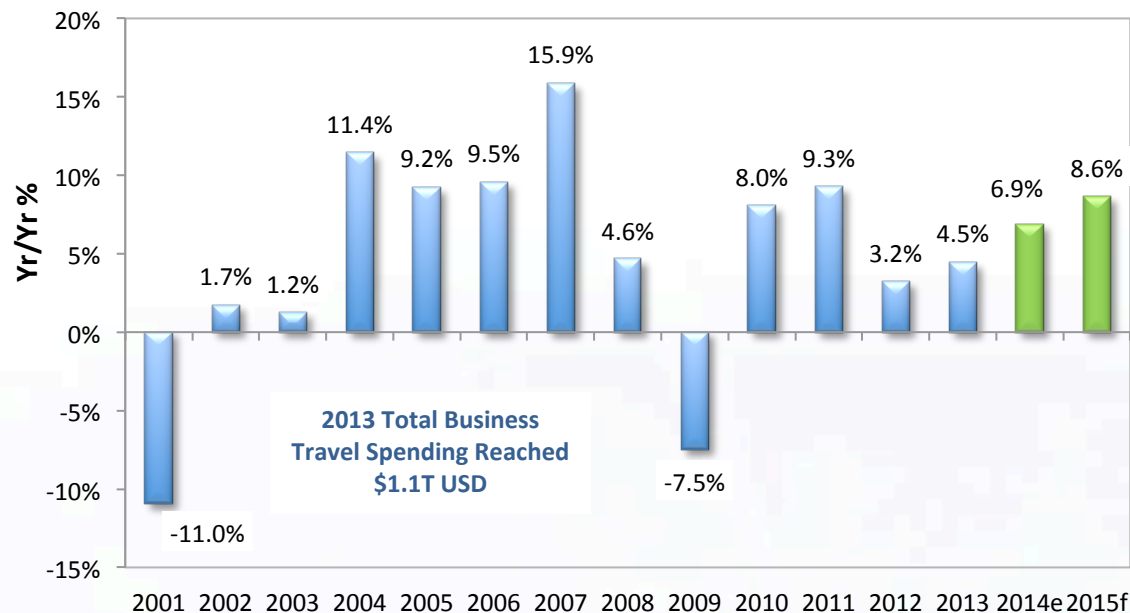


Total Business Travel Spending: Top 15 Markets - 2013

	2013 Total BTS (\$ Billions USD)	Annual Growth in BTS (vs. 2012)
United States	\$274	4.5%
China	\$225	15.1%
Japan	\$61	-6.6%
Germany	\$54	6.0%
UK	\$41	1.9%
France	\$35	-0.2%
Brazil	\$31	4.3%
South Korea	\$31	1.5%
Italy	\$30	-4.1%
India	\$24	10.4%
Russia	\$22	8.7%
Canada	\$22	-1.3%
Australia	\$20	-4.2%
Netherlands	\$18	1.6%
Spain	\$17	-5.0%
Grand Total	\$1,106	4.5%

...But Growth is Largely Driven by Emerging Markets

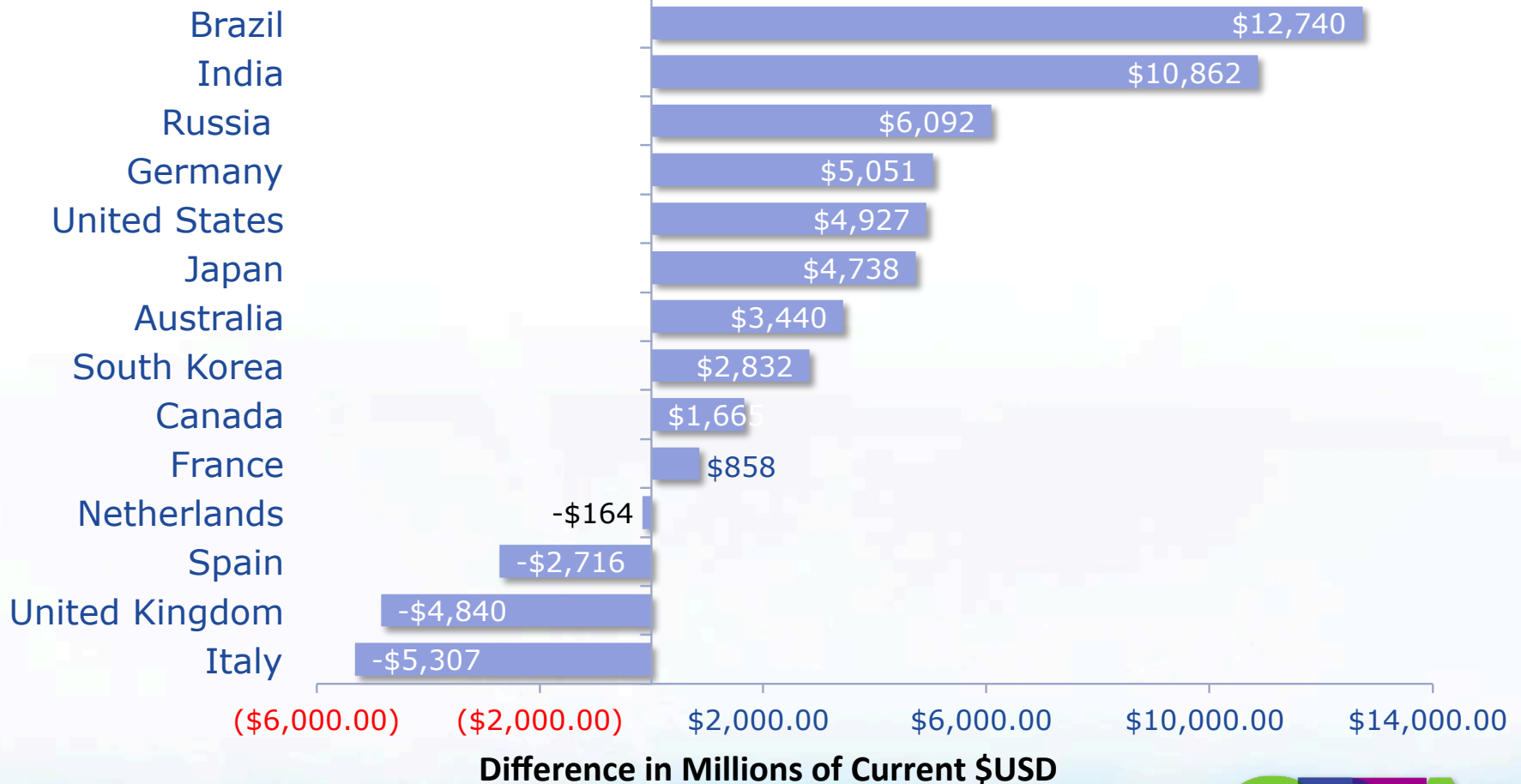
Business Travel Spending Returning to Stride After a Difficult 2012



Yr/Yr %	2013	2014	2015
United States	4.9%	6.3%	5.4%
China	15.1%	16.5%	17.8%
Japan	-6.6%	-1.8%	1.8%
Germany	6.0%	7.0%	10.6%
UK	1.9%	4.4%	5.1%
France	-0.2%	5.4%	5.5%
Brazil	4.3%	12.5%	5.9%
South Korea	1.5%	5.8%	5.9%
Italy	-4.1%	2.8%	2.8%
India	10.4%	2.1%	7.6%
Russia	8.7%	-5.4%	13.6%
Canada	-1.3%	2.5%	5.3%
Australia	-4.2%	1.1%	5.4%
Netherlands	1.6%	1.6%	4.5%
Spain	-5.0%	4.0%	5.0%
World	4.5%	6.9%	8.6%

BRICs Lead Business Travel Recovery...

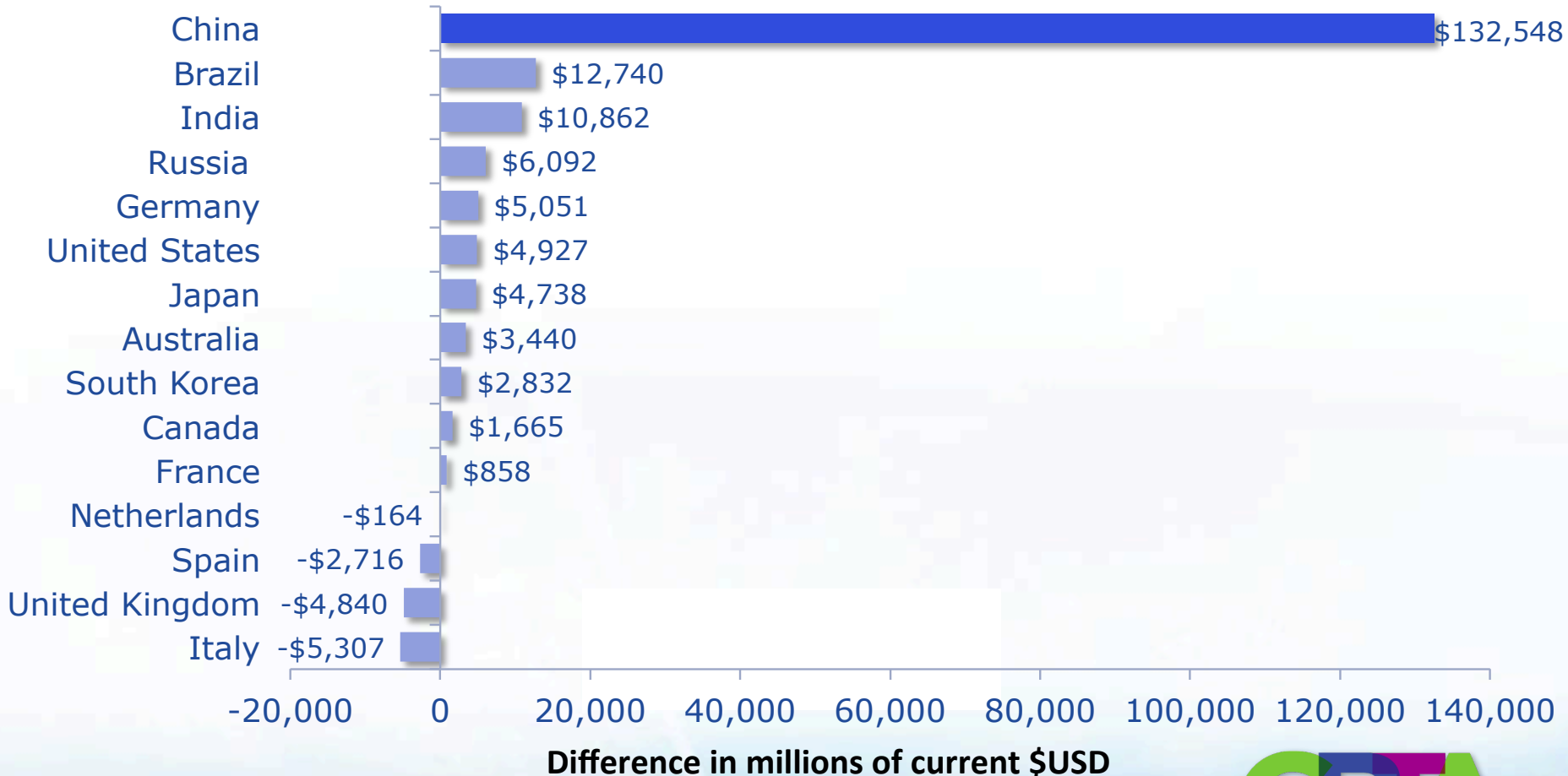
Annual Business Travel Spend Net Difference From 2007 to 2013



Source: GBTA Foundation, Rockport Analytics

China Growing Biz Travel by Leaps & Bounds

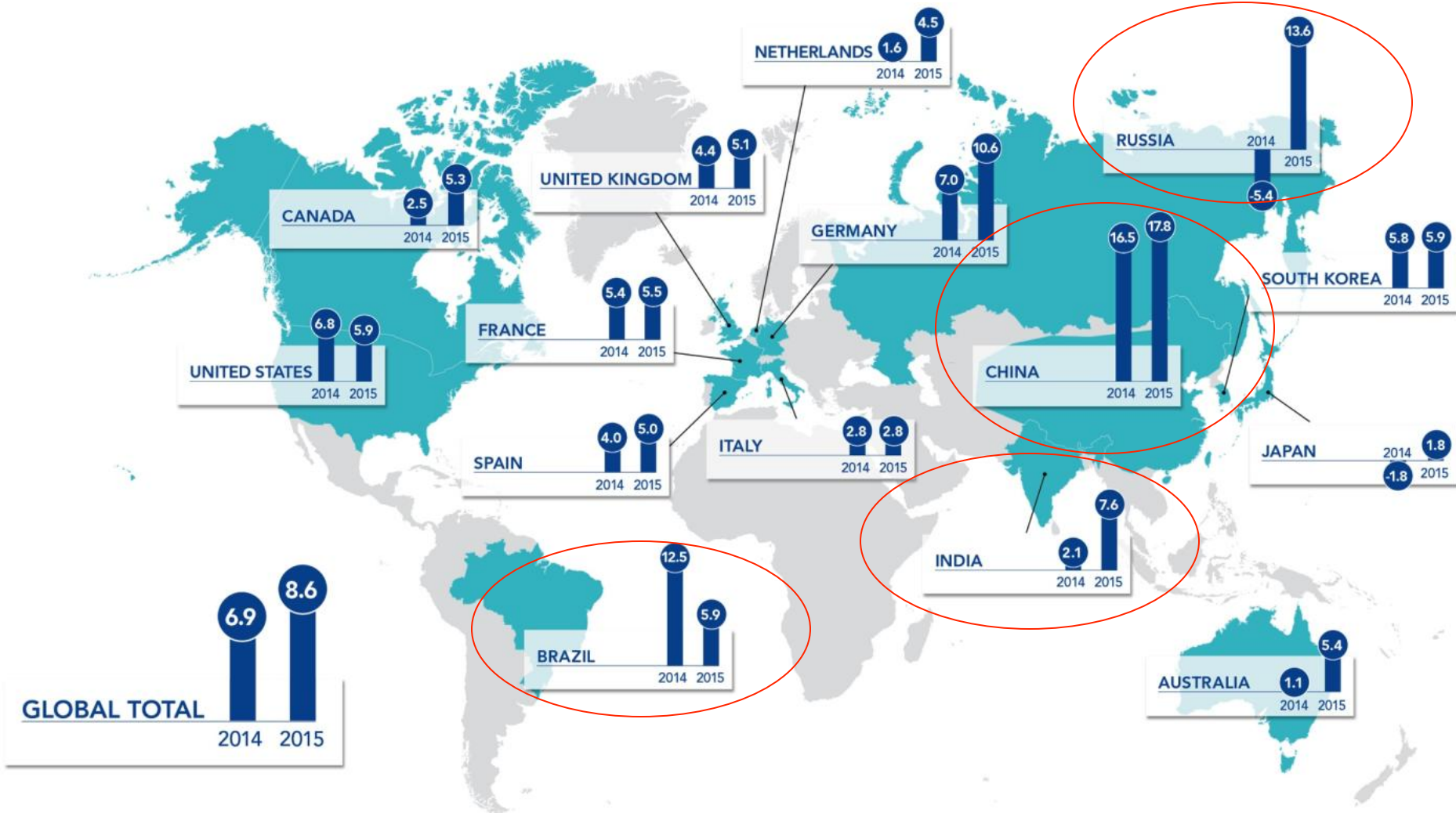
Annual Business Travel Spend Net Difference From 2007 to 2013



Source: GBTA Foundation, Rockport Analytics

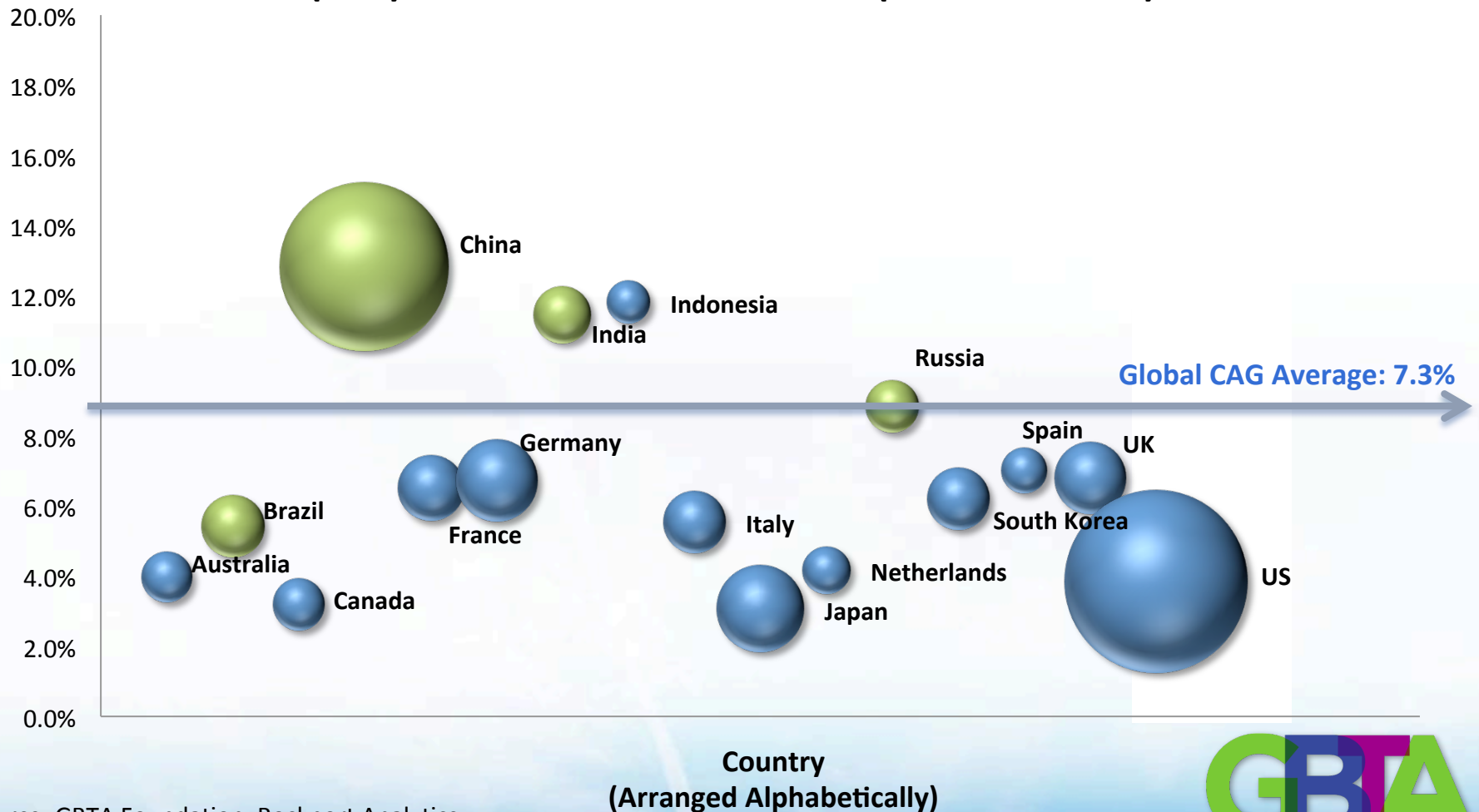
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Business Travel Spending Growth Still Led by Emerging Markets... Top 15 Markets



Longer-Term View: High Growth Economies Gaining BTS Mass

Expected Growth (2014 - 2018 CAGR) in Business Travel Spend (BTS) and Current Level of BTS (size of bubble)

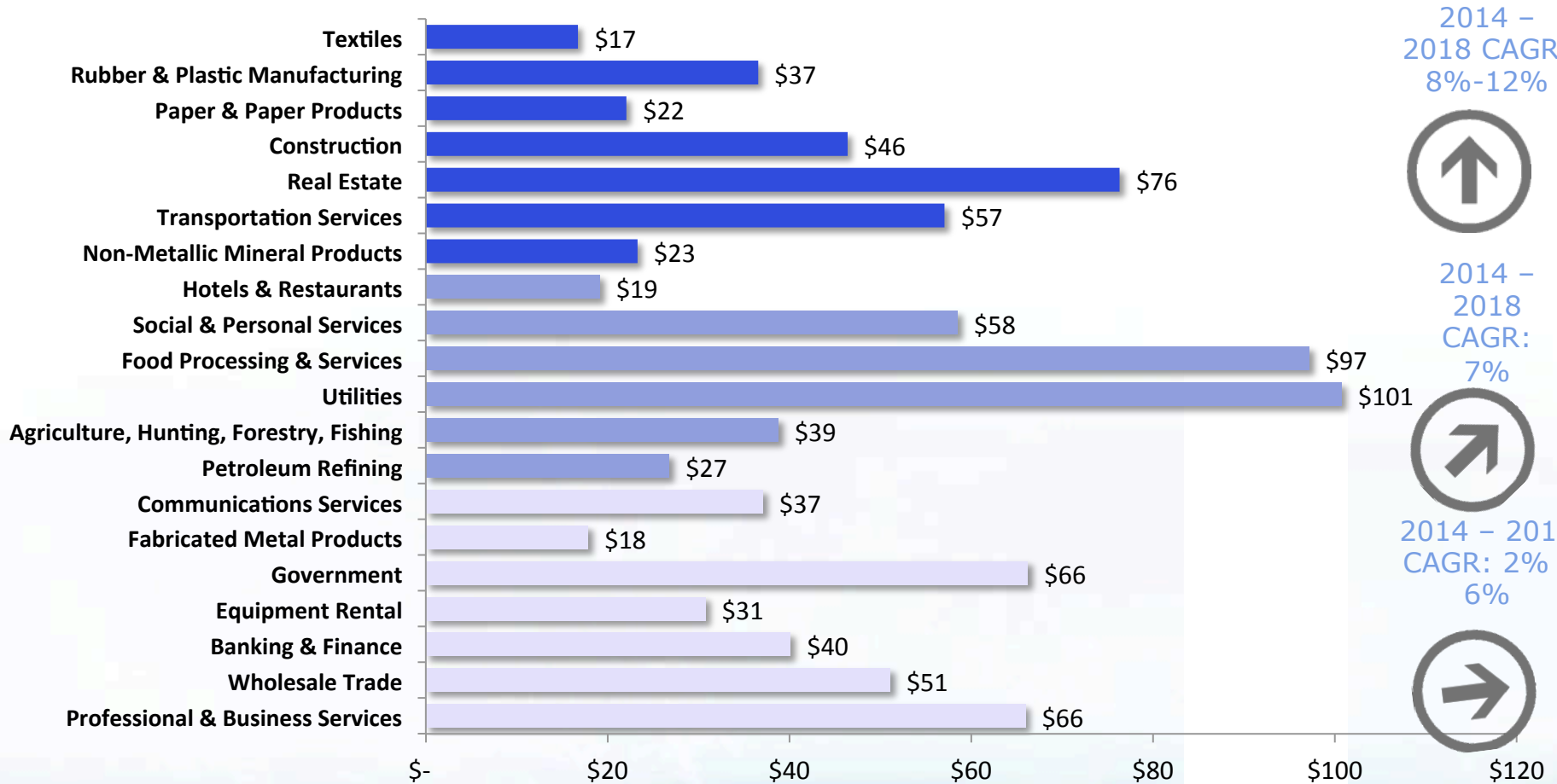


Business Travel Movers & Shakers...

<i>In Millions of US \$</i>					
Country	BTS 2013	BTS 2018	2013 Ranking	2018 Ranking	Change in Rank
China	\$225,052	\$424,722	2	1	+1 ↑
United States	\$273,684	\$340,097	1	2	-1 ↓
Germany	\$53,923	\$74,856	4	3	+1 ↑
Japan	\$60,858	\$67,444	3	4	-1 ↓
United Kingdom	\$41,184	\$55,944	5	5	-
France	\$35,102	\$47,626	6	6	-
Brazil	\$31,156	\$43,276	7	7	-
South Korea	\$30,922	\$41,624	8	8	-
Italy	\$30,437	\$38,843	9	9	-
India	\$24,358	\$38,361	10	10	-
Russia	\$22,200	\$29,472	11	11	-
Canada	\$21,709	\$25,237	12	12	-
Australia	\$20,193	\$23,859	13	13	-
Indonesia	\$14,433	\$23,493	16	14	+2 ↑
Spain	\$16,806	\$22,925	15	15	-

Size & Growth of Biz Travel by Global Industry

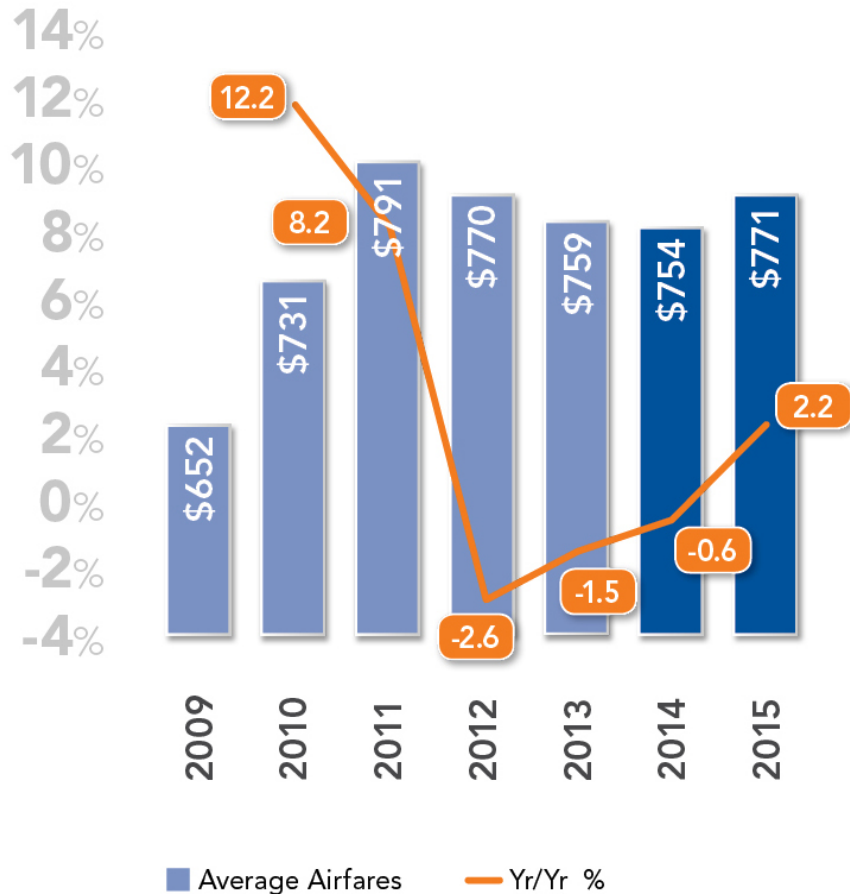
Total Business Travel Spend by Industry (\$ Billions)



Source: GBTA Foundation, Rockport Analytics

Managed Travel: Global Airfares On the Rise

GLOBAL AIRFARES TO RISE GRADUALLY THROUGH 2015

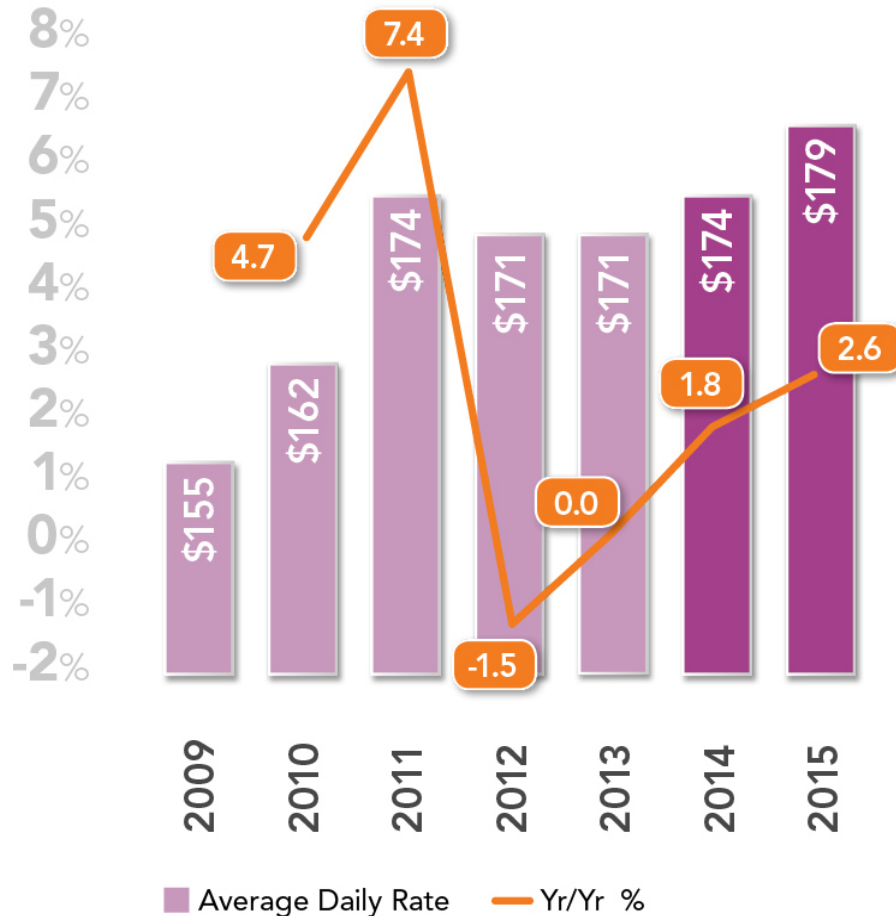


Source: CWT Solutions Group, GBTA Foundation, Rockport Analytics

- Oil prices remain stable
- Consolidation is giving pricing power to carriers in some markets; low cost carriers keeping prices in check in others
- Ancillary fees continue to rise

Managed Travel: Steady Climb in Global Hotel Rates

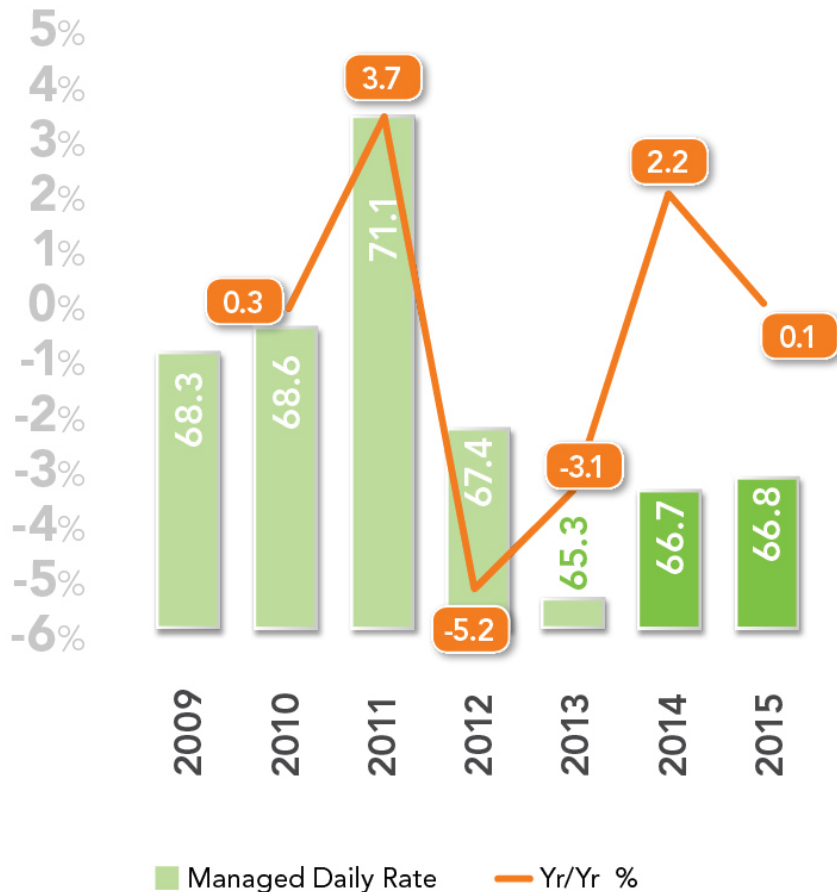
GLOBAL HOTEL RATES TO DRIFT UPWARD THROUGH 2015



- Demand outpacing supply
- Global development pipeline remains constrained
- Midscale & upscale outperforming economy segments

Managed Travel: Global Rental Car Prices Beginning to Firm

GLOBAL RENTAL CAR PRICES FLAT FOR 2015



Source: CWT Solutions Group, GBTA Foundation, Rockport Analytics

- Lion's share of car rental market in N. America, Western Europe
- Consolidation
- Glut of supply remains
- Price of key inputs remain in check

U.S. Business Travel-Initiated Spending

U.S. Business Travel-Initiated Category	2013 Spending (in billions USD)	2012 Spending (in billions USD)	%
Domestic Trip Spending	\$241.0	\$229.9	4.8%
Transient	\$121.8	\$118.6	2.7%
Group Meeting	\$119.2	\$111.3	7.1%
International Inbound Trip Spending	\$21.0 / \$9.0*	\$19.4 / \$8.3*	8.2%
International Outbound Trip Spending*	\$32.7 / \$6.6*	\$32.1 / \$6.2*	1.8%/6.4%*
Meetings Operations Expenditures	\$150.0	\$140.0	7.1%
Total*	\$406.5	\$384.3	5.7%
Total U.S.-Originated Business Trips Taken (millions)	475.7	454.4	4.6%

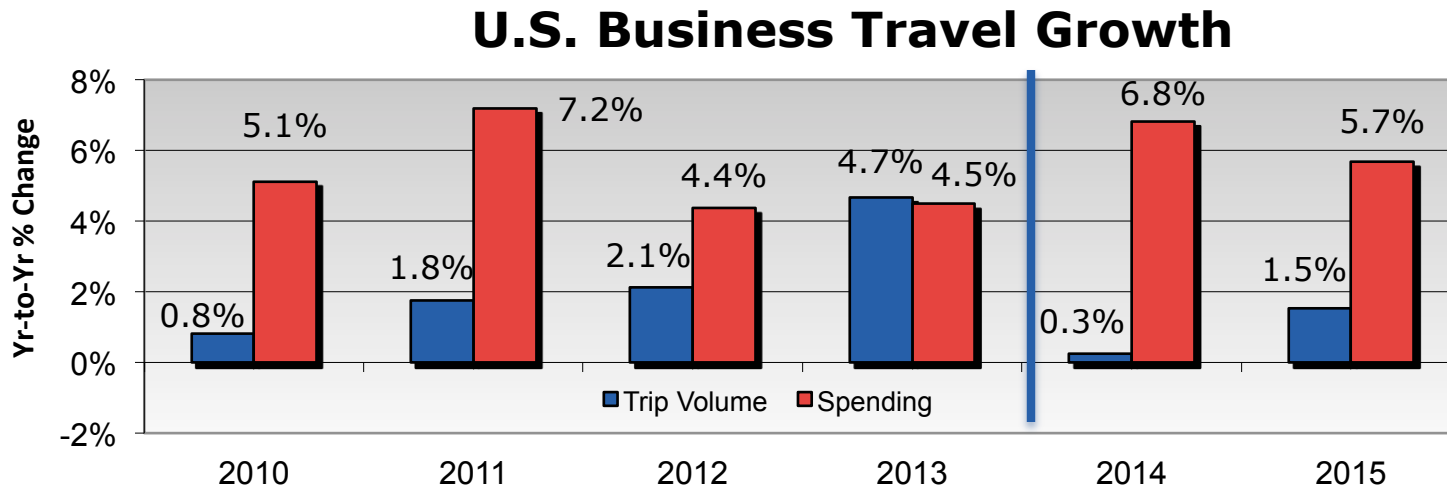
* Includes only portion spent within the United States

Source: DKSA, NTOO, CIC, GBTA Foundation, Rockport Analytics

U.S.-Originated Business Travel Level & Growth



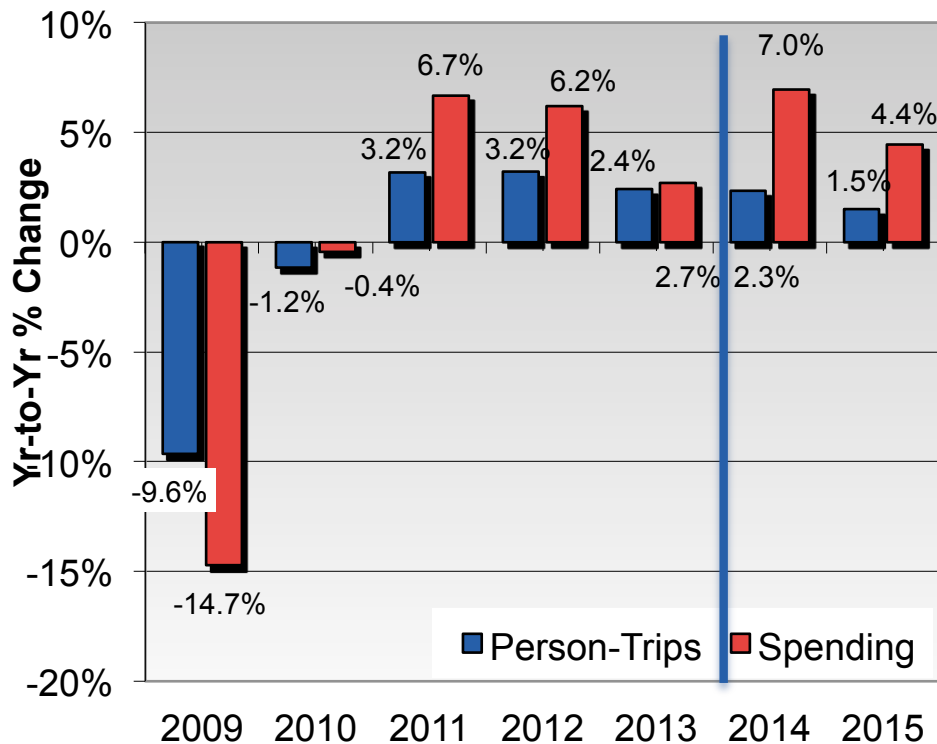
Source: GBTA Foundation, Rockport Analytics



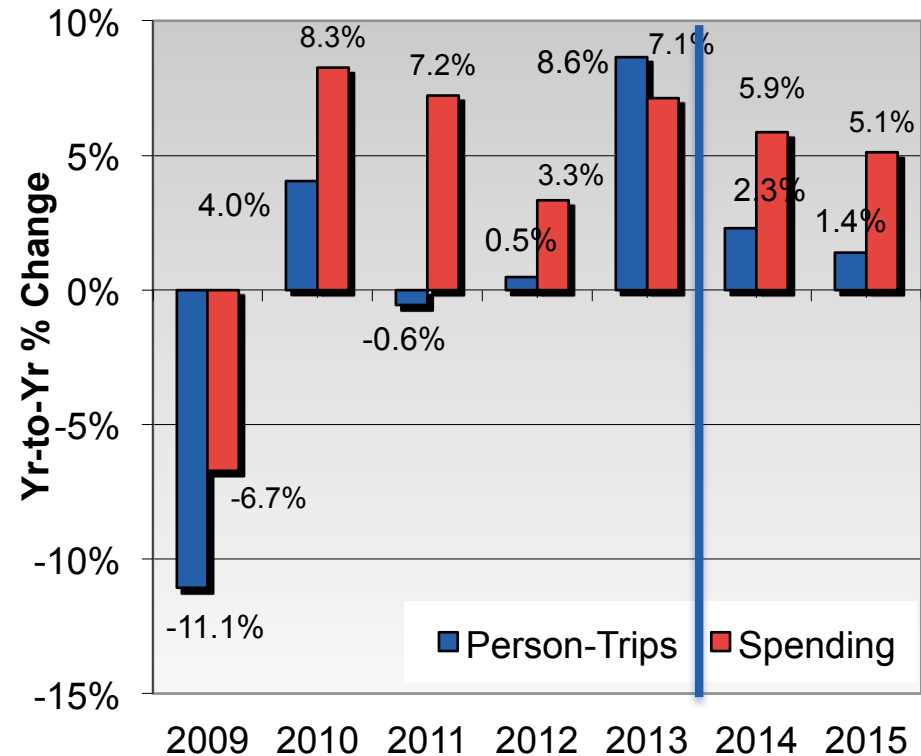
U.S. Business Travel by Trip Purpose

- **Transient:** 2014 snap-back from slower 2013, plus both rising spend-per-trip and travel inflation
- **Group Meeting:** 2013 trips way up after two years of pent-up demand. 2014 trips down on cyclical snap-back but spending is up on a per trip basis and via higher travel inflation

GBTA U.S. Transient Trips & Spending

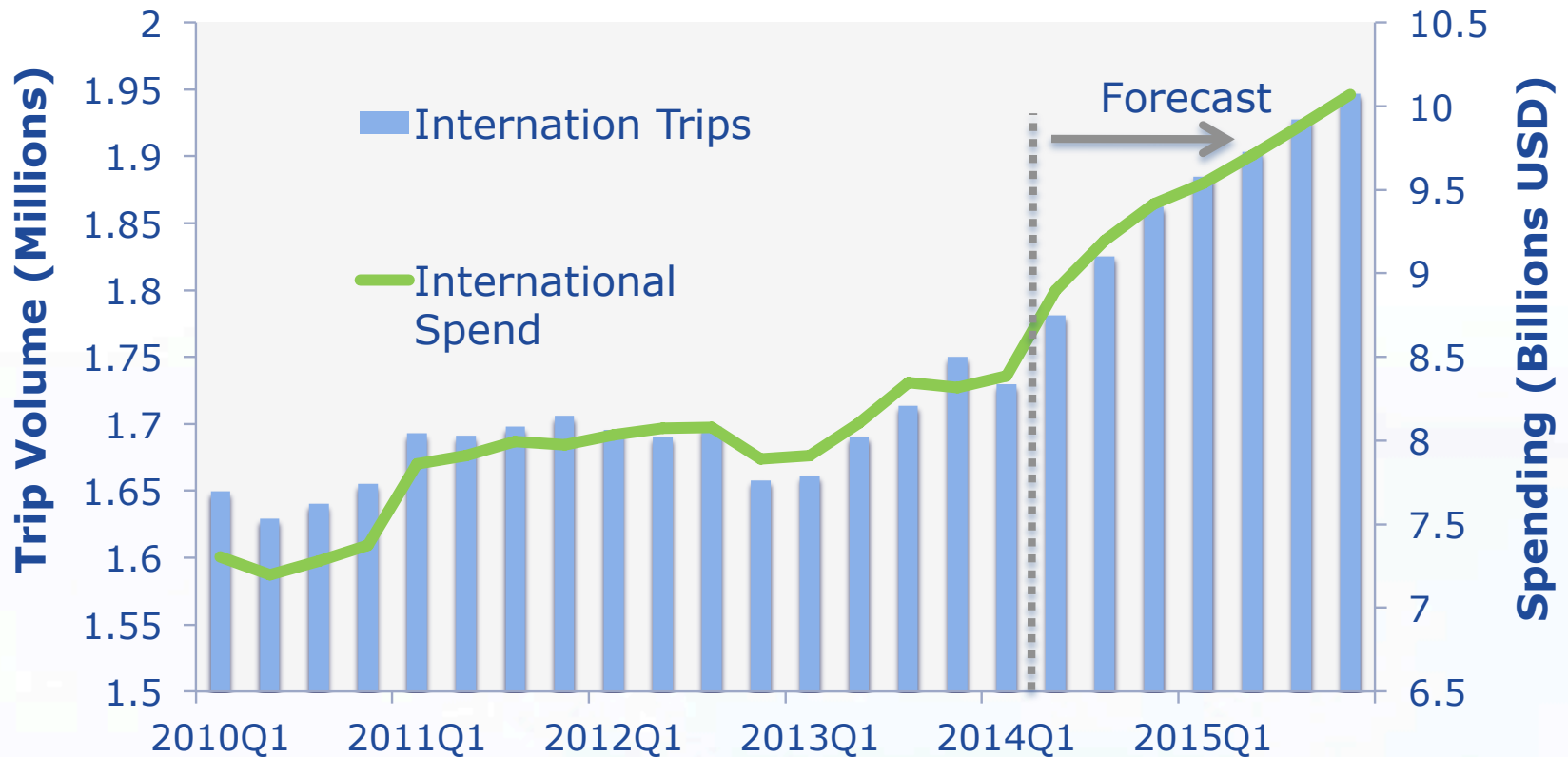


GBTA U.S. Group Trips & Spending



U.S. IOB Up on Improving Trade & Pent-up Demand

International Business Travel from The U.S.



Source: U.S. Department of Commerce (NTTO), GBTA Foundation, Rockport Analytics

Key Takeaways: Where is Global Biz Travel Headed?

- The global business travel market dominated by NorAm, WE & APAC (2013 @ \$1.1 trillion USD)
- China to pass the US as the #1 business travel market by 2016
- Global growth remains driven by Emerging Markets, but differential is shrinking
- Managed air and hotel rates are climbing again. Rental car has finally bottomed but excess supply will continue to moderate rates.
- U.S. business travel growth is rising in step with improving business confidence, hiring, and profits. Group growth outlook is brighter. IOB growth to get back on track with improving trade.

