Economic and Travel Outlook for Key Regions

In early June, the World Bank reported that it expected global economic growth to hold steady at 3.1% in 2018, before slowing down gradually the next two years. Another research organization, the Organization for Economic Co-operation and Development (OECD), shows global GDP for the 2018-19 period hovering near 4% growth, higher than it has been for many years.

Growth is expected to be driven by rising consumer and business confidence, as well as a recovery in manufacturing, investment and trade. While trade has begun to recover around the world after five years of slow growth, there is concern about protectionist trade rhetoric; if it becomes policy, any recovery is likely to be short-lived (see Article: Tariff Situation Update on page 14).

The Travel Effect

Strong economic growth is a key driver in the travel and hospitality industry. With improving economic indicators, the global hotel market is expected to remain healthy into 2019. The United Nations World Tourism Organization (UNWTO) shows long-term strong momentum, with international arrivals worldwide expected to increase an average of 3.8% per year through 2030.

Global GDP growth plus strong travel and tourism trends set the stage for a continued extended cycle of positive hotel operating performance. As reported in Deloitte’s 2018 Travel and Hospitality Industry Outlook, over the past 20 years, the number of international travel departures has more than doubled from 500 million to 1.3 billion. Factoring in indirect economic contributions, travel and tourism now accounts for 10.2% of global GDP.

“Growth appears poised to continue, lifting the industry to new heights in 2018 and beyond.”
BELOW IS AN OVERVIEW OF ECONOMIC AND TRAVEL METRICS IN AVENDRA’S KEY REGIONS.

**United States  I  Economy**

The U.S. economy is heating up as 2018 progresses. CNBC’s Rapid Update, which looks at readings from top economists, sees the second quarter tracking at a healthy 3.7%, well above the 2.3% growth in 2017.

As explained by the OECD, the current U.S. expansion is one of the longest on record. Job growth, coupled with strong consumer confidence and the effects of the tax reforms, are supporting strong consumption growth.

With unemployment at a dramatically low 3.8%, inflation still hovering at or below 2% and business and consumer confidence strong, the U.S. economy appears to be robust.

**United States  I  Travel Forecast**

Deloitte cites several key growth drivers for the U.S. in its 2018 Travel and Hospitality Industry Outlook: a robust economy, intense airline competition and healthy corporate travel demand, expected to surge to a 6.1% growth rate.

PwC, in its Hospitality Directions U.S. for 2018, also shows growth predictions:

- With occupancy levels at record highs, an expected uptick in commercial transient demand mid-week should bode well for stronger increases in room rates.
- Looking ahead to 2019, there is an expectation of gradual strengthening in occupancy and room rate growth as we move through the year.

STR and Tourism Economic research projects record-breaking performance levels through 2019, fueled by “strong underlying economic indicators and upgraded GDP forecasts.” For 2019, this group projects the U.S. to report a 0.1% increase in occupancy, a 2.3% lift in ADR and a 2.4% rise in RevPAR.
Canada I Economy

The OECD predicts that the slow growth in Canada since the second half of 2017 will grow to over 2% by mid-2018. The uplift will be export-led, reflecting gradual restoration of oil pipeline capacity and strong U.S. growth. Unemployment should decline further to record lows. The Bank of Canada is projected to gradually withdraw monetary stimulus, and the inflation rate is set to remain slightly above 2%.

The Royal Bank of Canada (RBC) expects Canada’s GDP to grow in the 1.9% range in 2018, followed by 1.6% in 2019. The RBC cites uncertainty about the Canadian dollar, rising interest rates and lower oil prices/revenues as dampening factors. Meanwhile, the IMF foresees growth in Canada at 2.1% this year and 2.0% in 2019.

Canada I Travel Forecast

CRBE Canada’s Hotel Outlook Report shows exceptionally strong industry fundamentals, including accommodation demand growth of 4.1% and an increase in RevPAR of more than 8% to $102. The increasing demand, in turn, has supported rising profits, increasing almost 16% in 2017 to $14,300 per available room.

According to CRBE predictions, each Canadian region will experience positive operating fundamentals in 2018. Central Canada will lead the country in RevPAR growth, with an increase of 4.6% to $115 in 2018, followed by Western Canada—increasing 4.2% to $100. Atlantic Canada will see a modest uptick in RevPAR as well, rising 2.3% to $88. In terms of profits, Western Canada will lead the pack with an increase of 7.3% to $16,100 per room, followed by Central Canada with an increase of 9% to $15,700, and Atlantic Canada, with an increase of 4.9% to $10,800.

The Global Business Travel Forecast for 2018 published by American Express cites the combination of a strengthening Canadian economy and the relatively weak Canadian dollar as drivers for 5% growth predictions.

Carlson Wagonlit Travel’s 2018 Global Travel Forecast predicts that Alberta will struggle until oil prices further improve, while Toronto, Vancouver and Montreal are expected to maintain good pricing power amid a weak Canadian dollar.

According to CRBE predictions, each Canadian region will experience positive operating fundamentals in 2018.
Central America and the Caribbean I Economy

Preliminary estimates suggest the economy of Central America and the Caribbean were holding steady at 2.7% through Q1 2018, with the Dominican Republic expanding at a breakneck speed of 6.4%, according to an article by FocusEconomics (FE).

Puerto Rico remains a drag on the regional figure, amid a struggling power grid and ongoing net emigration following double hurricanes in 2017. Political unrest in Nicaragua is another worrisome factor.

The regional economy should be supported this year by fiscal stimulus in the U.S. – by far Central America’s and the Caribbean’s largest trading partner – which should in turn continue to boost remittances, exports and tourist arrivals. However, the flipside of this fiscal boost is the potential for faster-than-expected monetary tightening by the U.S. Federal Reserve, which would tighten financial conditions in the region.

According to the World Bank, post-hurricane-related reconstruction in the Caribbean should allow growth in the sub-region to recover to 3.5% in 2018.

Focus Economics sees inflation coming in at 3.3% in 2018, which is down 0.1 percentage point from last month’s estimate. In 2019, the consensus forecast expects inflation to remain broadly stable at 3.4%.

Central America and the Caribbean I Travel Outlook

Battered by major hurricanes, Central America and the Caribbean saw anemic growth of 1–2% in 2017; that downswing is expected to continue through 2018, according to the Caribbean Tourism Organization (CTO).

News of the devastation triggered a slowdown in travel to many regional destinations. Among the worst hit were Puerto Rico (frequency of flights decreased by 25.1%), Dominica by 13.7%, St. Maarten by 12% and the British Virgin Islands by 11.2%, according to the CTO.
Mexico | The Economy

According to the OECD, growth is set to pick up in Mexico, underpinned by private consumption and exports. Investment will be deterred by uncertainty in politics and trade, but will accelerate if the NAFTA negotiations end favorably. The OECD shows GDP growth at 2.5% in 2018 and 2.8% in 2019.

The IMF believes that Mexico’s economy will benefit from strong growth in the U.S., even amid uncertainty about NAFTA's outcome and July’s presidential election. The World Bank shows growth in Mexico at 2.1% in 2018 and 2.6% 2019, due to a recovery in investment – again, amid uncertainty around the future of NAFTA and the outcome of July’s presidential elections.

Inflation has receded from its high levels in 2017 and is expected to hold, thanks to reformed fiscal policy.
Mexico | Travel Outlook

As reported in Hotel News Now in April 2018, the World Travel and Tourism Council expects Mexico’s tourism industry to contribute nearly 16% to the country’s GDP.

The Mexican Ministry of Tourism reported that international tourist arrivals solidly increased by 10% from 35.1 million in 2016 to 39.3 million in 2017, and now Mexico ranks as the eighth most visited country in the world by foreigners, according to the World Tourism Organization. Over 70% of international travelers visit from the U.S. and Canada, indicating a need to diversify.

STR stated that hotels in Mexico reported occupancy rates rose 0.5% to 63.9% in 2017, while ADR increased 6% to 2,323.31 Mexican pesos ($124.77) and RevPAR jumped 6.4% to 1,484.81 Mexican pesos ($79.74).

Despite a number of political and economic headwinds, the International Monetary Fund expects Mexico’s hotel demand to rise ahead of positive GDP growth estimates of 2.3%—due to increased government spending, political campaigning, domestic investment and the emergence of new industry sectors like technology-focused businesses and life sciences.

According to the American Express Global Business Travel Outlook, despite the weaker peso, leisure travel remains depressed as security concerns continue to weigh on U.S. tourists. By contrast, a stronger manufacturing sector should help drive business travel – provided there are no adverse changes to NAFTA. Overall, slowing demand increases and a strong pipeline of new hotel rooms will limit rate increases to around 2–3%.
South America  I  The Economy

According to the IMF, the upswing in global growth and trade are benefiting South America. Recessions in a few countries (Brazil and Argentina) have come to an end, and higher commodity prices are helping the recovery.

Based on improved global conditions, the IMF now estimates regional growth at 1.3%, up from 1.2% in its October projections; activity is projected to accelerate further, to 1.9% in 2018 and 2.6% in 2019.

The World Bank shows growth in this region accelerating at a downwardly revised pace of 1.7% in 2018 and 2.3% in 2019, spurred by private consumption and investment. The cyclical recovery underway in Brazil is projected to continue, with growth forecast to be above 2% this year and in 2019. Growth in Argentina is anticipated to slow to 1.7% this year due to monetary and fiscal tightening and the effects of a drought, and growth is expected to remain subdued next year, at 1.8%.

Focus Economics estimates that inflation in South America (excluding Venezuela) will come in at 5.7% in 2018; in 2019, at 4.1%.

South America  I  Travel Outlook

The Global Business Travel Forecast 2018, published by American Express, offers a country-by-country forecast for travel trends:

ARGENTINA - After years of poor economic results and sociopolitical upheaval, Argentina finally seems firmly on the path to growth in tourism. Occupancy rates should grow at a significantly faster pace due to double-digit inflation.

BRAZIL - With stronger business travel demand, the Brazilian economy rebounded back into positive growth territory in 2017. For 2018, room rates should continue to fall as oversupply in key cities is being compounded by rapid development of new supply; Brazil still represents over 25% of the rooms in construction for South/Central America.

COLOMBIA - Growth is projected to strengthen in 2018, in the context of stronger external demand, although relatively low oil prices dampen economic prospects. A historic peace deal with revolutionary groups will make Colombia a more appealing destination for travelers. However, significant new inventory in Bogota will offset increased demand and keep prices flat.

PERU - Despite setbacks in 2017, Peru’s economy should be among the top performers in South America for 2018. At the same time, limited inventory growth will help to push room rates up.
Hotel room rates should also see low to moderate increases globally as improved economic performance generates greater demand for travel. In 2018, hotels will further look to drive profitability through increased use of ancillary fees, stricter cancellation policies, and a continued focus on direct bookings. In North America, rate growth will be strongest in Canada, where a rebounding economy and weak dollar should stoke demand from U.S. visitors, particularly in Canada’s largest cities. In the U.S., hotel rates will continue to rise, but at a slower pace than in years past as demand flattens against a backdrop of rapidly growing supply. In Latin America, economic conditions are improving but vary considerably by country. Rate increases are likely for a few countries, like Argentina and Mexico, but much of the region will stay relatively flat.

-An excerpt from the Executive Summary of Global Business Travel Forecast 2018, published by American Express

sources: