



The “Great Recession” and Business Travel

How Long, How Deep, and When Do We Recover?

Presented by

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Agenda

- ✓ Global Economic Outlook: “The Great Recession”
- ✓ US Economic Conditions 2009 and Beyond
- ✓ Global and US Travel Implications
- ✓ NBTA Research Initiative: *Measuring the Value of Business Travel & Travel Management*
- ✓ Q&A



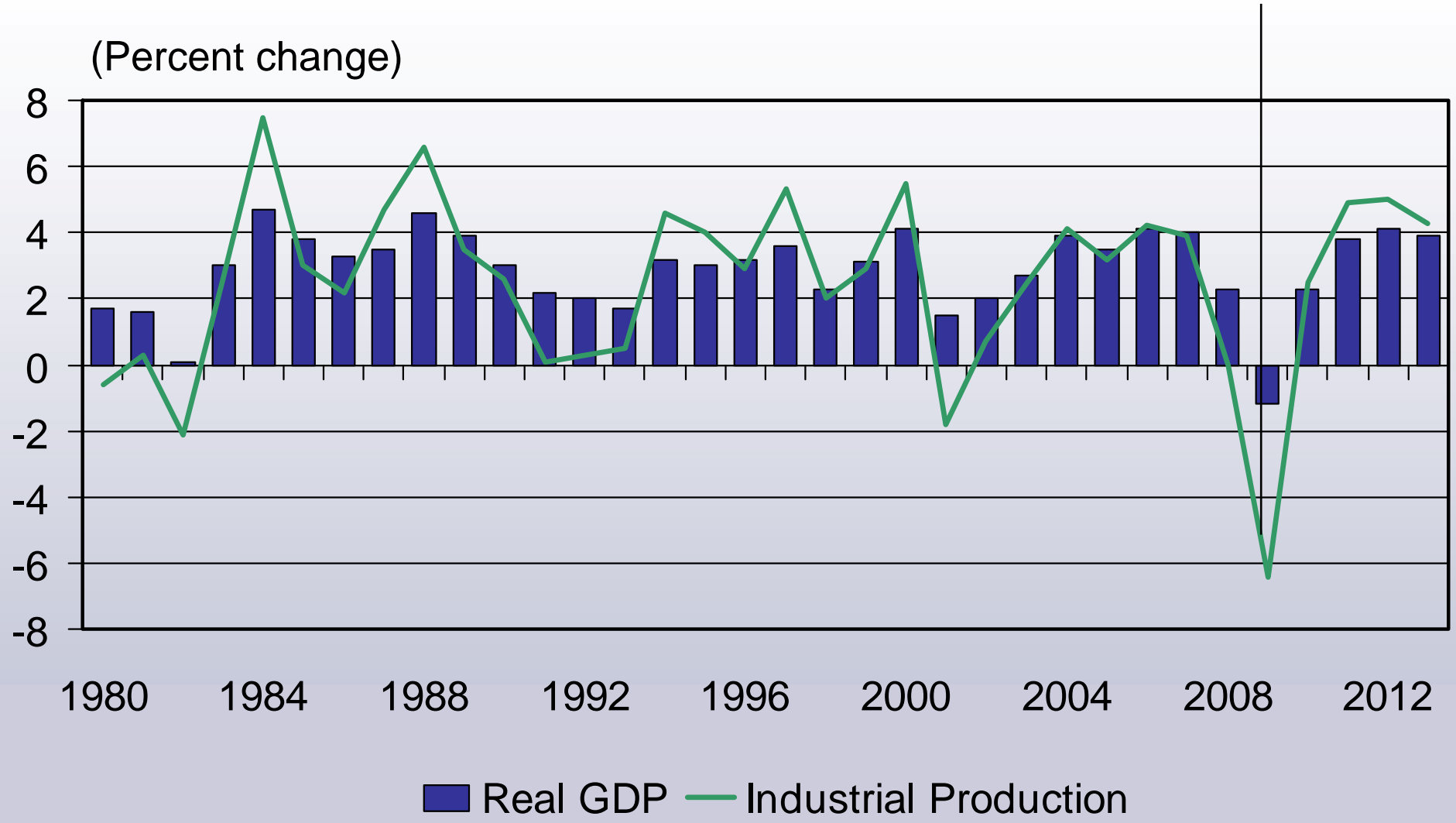


The Worst Global Recession in Six Decades

- Globalization has increased cycle synchronization
- North America, Europe, and Japan are facing severe downturns
- Growth in emerging markets will slow dramatically
- Stabilization of financial markets and aggressive fiscal stimulus will help to spark recovery

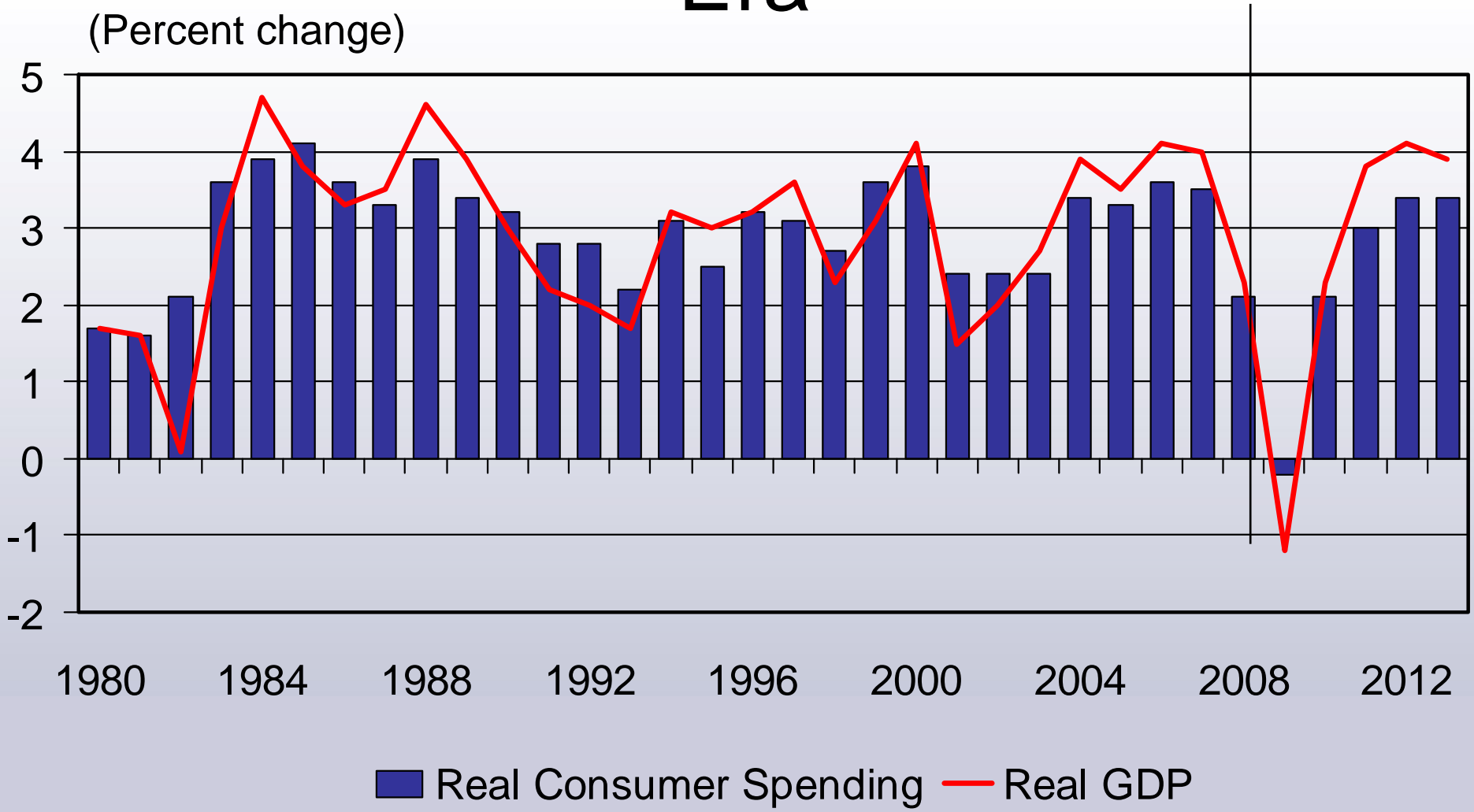


The World Economy Faces the Worst Recession of the Postwar Era





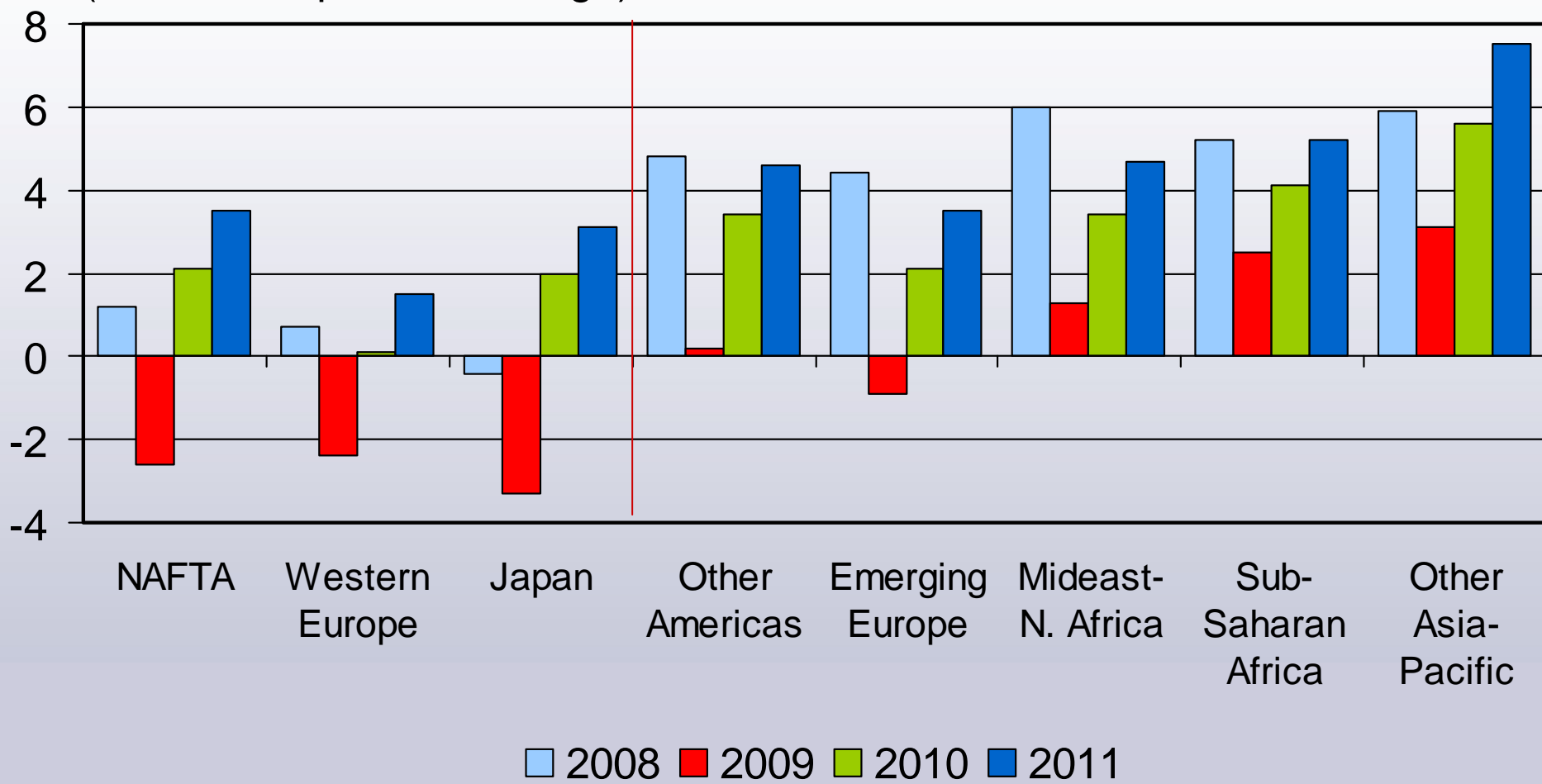
The Global Consumer Market Faces the Worst Recession of the Postwar Era





Economic Growth Weakens Across Regions

(Real GDP, percent change)





A Sharp Retreat in Crude Oil Prices

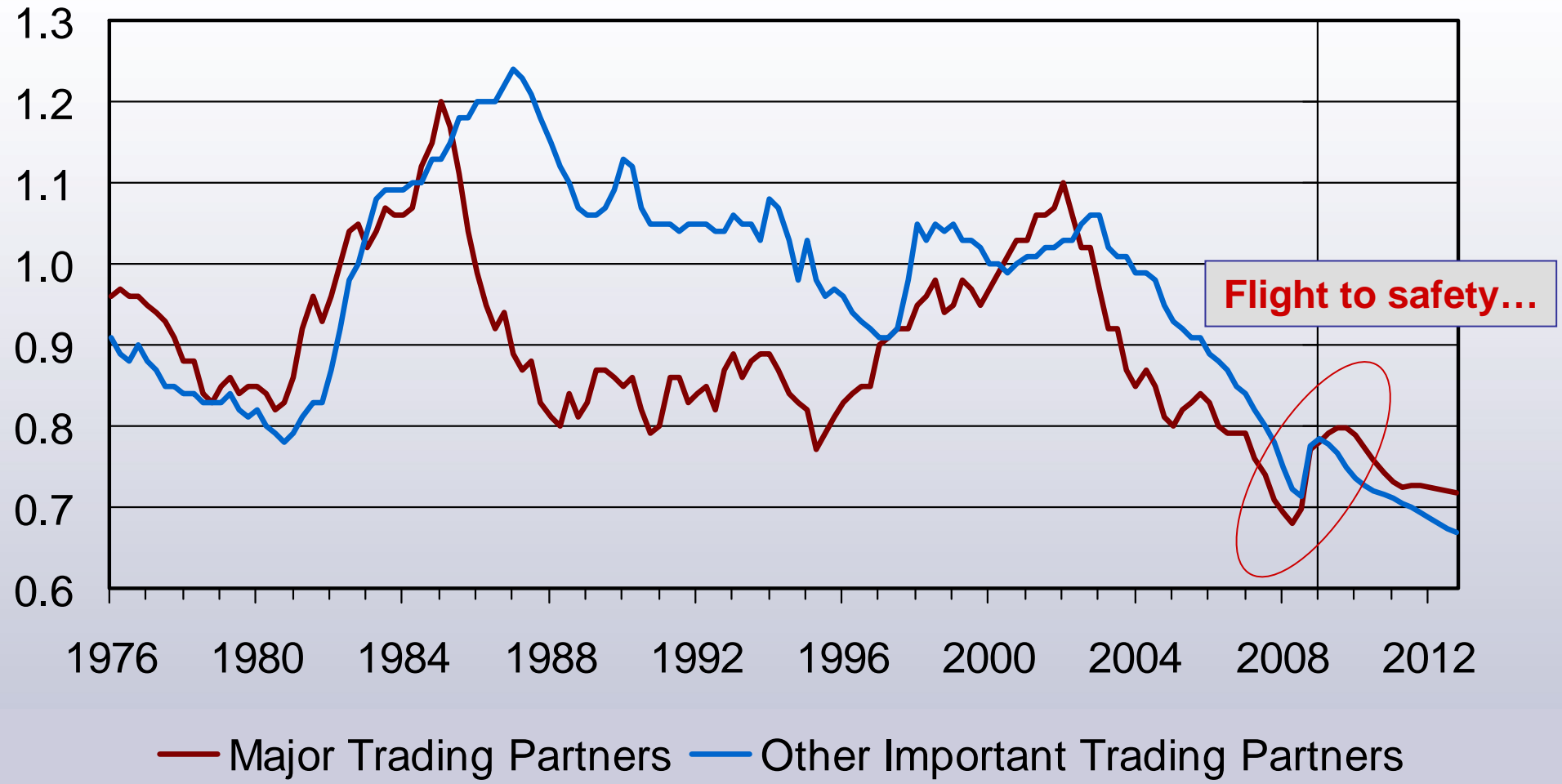
(West Texas Intermediate price, dollars per barrel)





The U.S. Dollar Recovers Briefly

(Real Trade-Weighted Dollar Index, 2000=1.0)





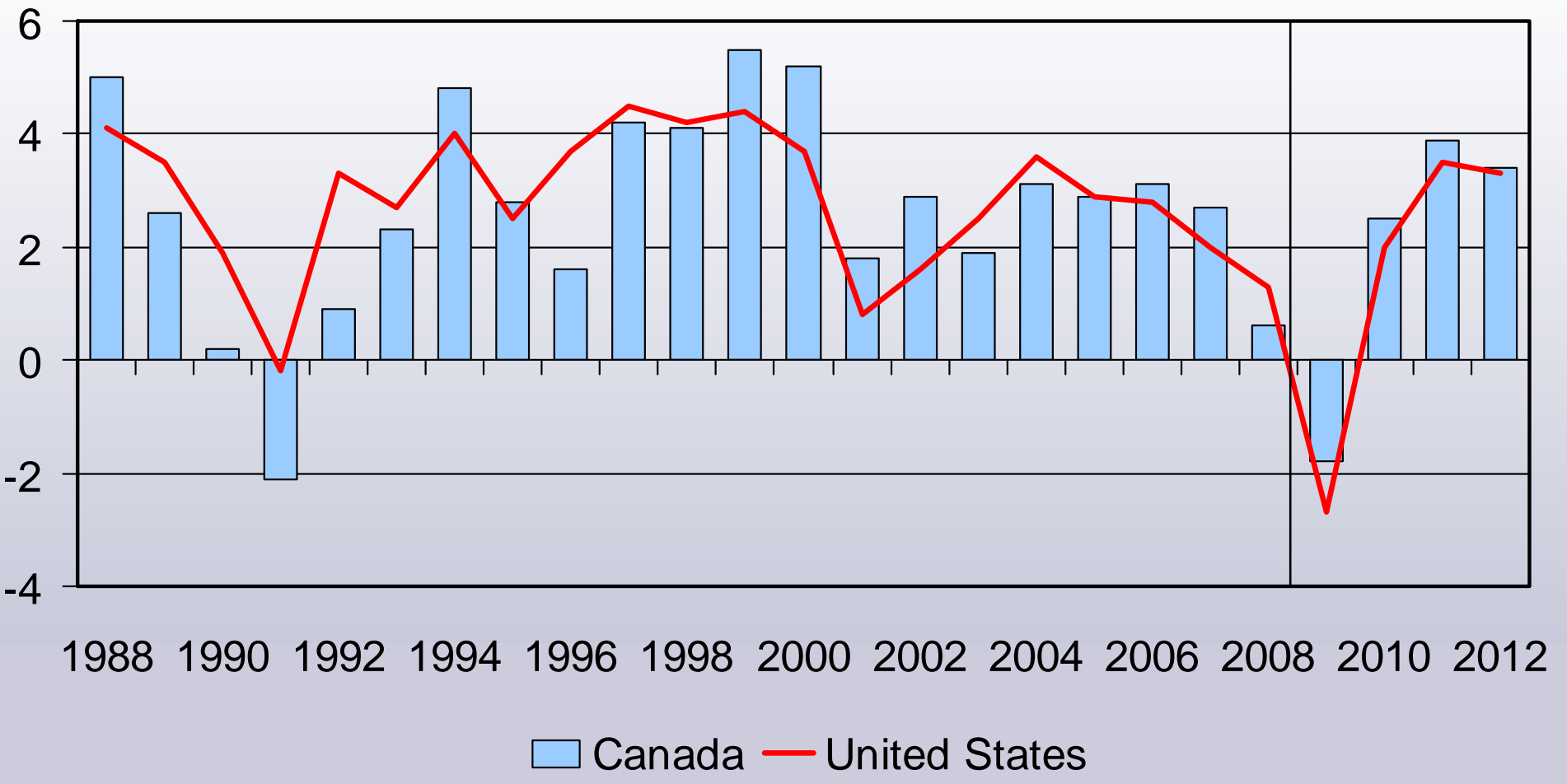
Canada's Economy in Recession

- Exports and investment are declining, while consumer spending has stalled.
- The global financial crisis is reflected in falling commodity prices, stock prices, and house prices
- Sectors that will be hit hard in 2009: forestry, mining, private construction, and transpo equip
- Western provinces will lead Canada's growth; Ontario and Quebec will lag



Canada's Economic Growth Depends on the U.S.

(Real GDP, percent change)



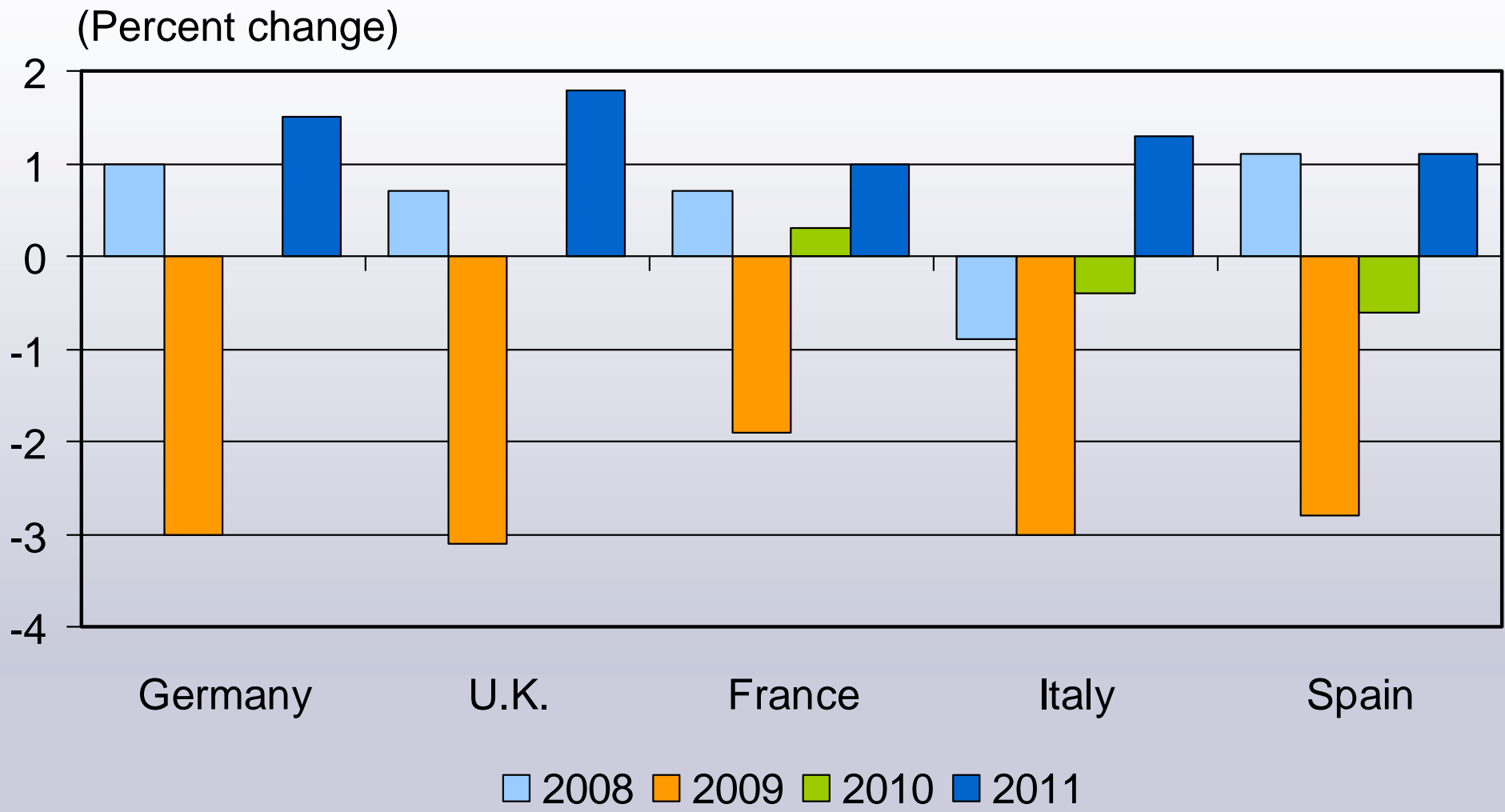


Western Europe Faces a Long Recession

- The global financial crisis has hit Europe hard, reflecting banks' high leverage and exposure to subprime securities
- Housing markets downturns are affecting Spain, U.K., Ireland; to a lesser extent, France, Netherlands, Belgium, Denmark
- Consumer spending and business investment are weakening
- Limits on long-term growth—demographics, policy
- North/South divide in competitiveness and risk



Real GDP Growth in Western Europe





Japan's Economy Still Depends on Exports

- A drop-off in exports has sent Japan into recession
- Consumer and business sentiment are deteriorating
- The yen's appreciation will continue
- Price deflation remains a problem
- Japan's population has entered a long-term decline
- Trend growth will slow from 2% to 1%



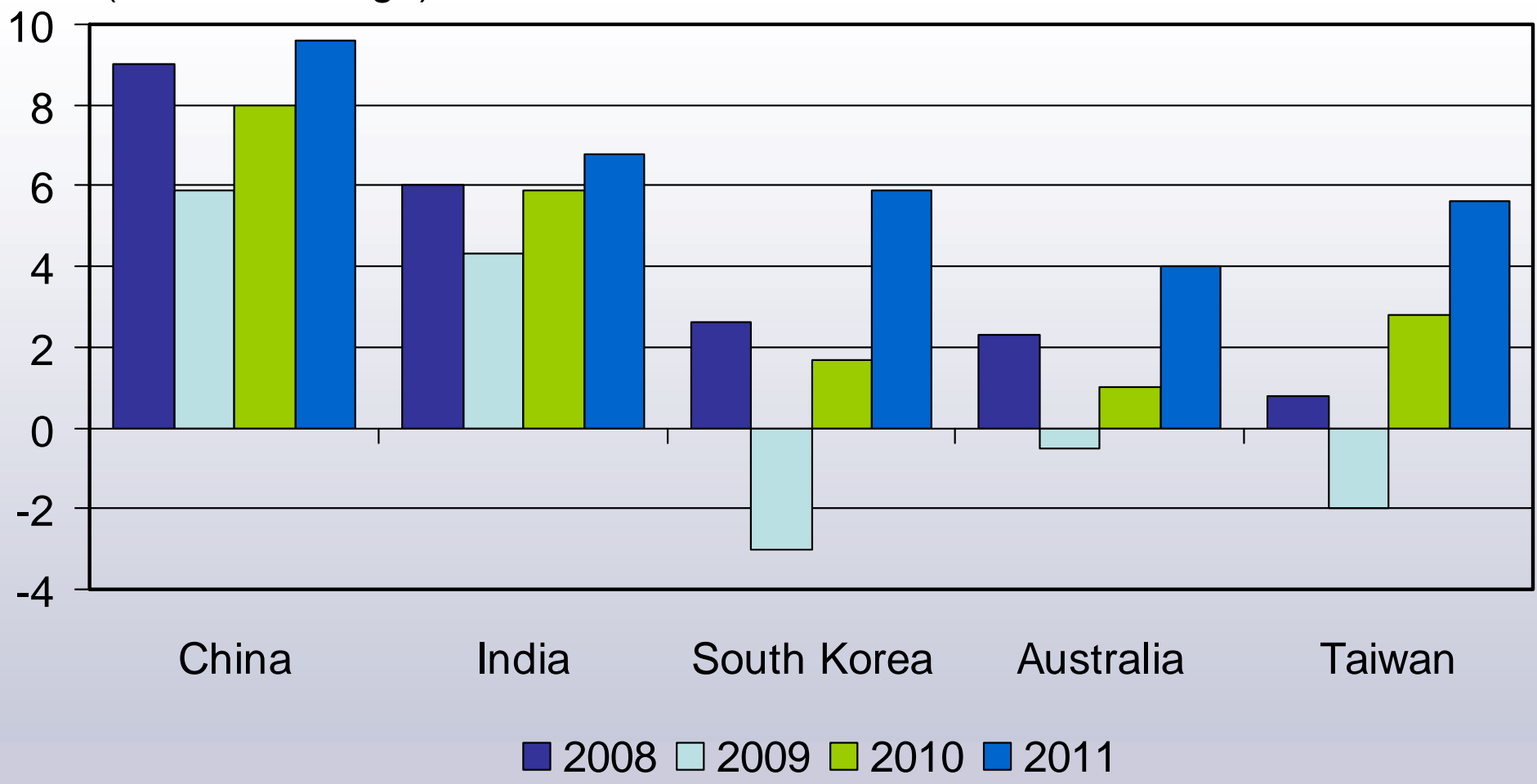
Asia-Pacific Region Leads Global Growth

- While finances are strong, export dependence is a problem
- Capital inflows are diminishing, hurting investment
- Japan, Taiwan, Hong Kong, Singapore, and South Korea are in recession
- Australia, Thailand, Vietnam, and Pakistan are vulnerable
- External and fiscal balances have improved since the 1997-98 crisis, bringing more resilience to shocks



Real GDP Growth in Asia/Pacific Economies

(Percent change)





China's Expansion Has Slowed

- With export demand falling, economic growth has slowed, especially in coastal regions
- Strong foreign exchange reserves and aggressive policy stimulus will help China navigate the global financial crisis
- Infrastructure spending will continue to support growth
- But consumers will become even more cautious
- China's nominal GDP exceeds Germany's and will overtake Japan's in 2011 and the United States' in 2025



US Economy: Recession Quickly Moved From Mild to Deep...

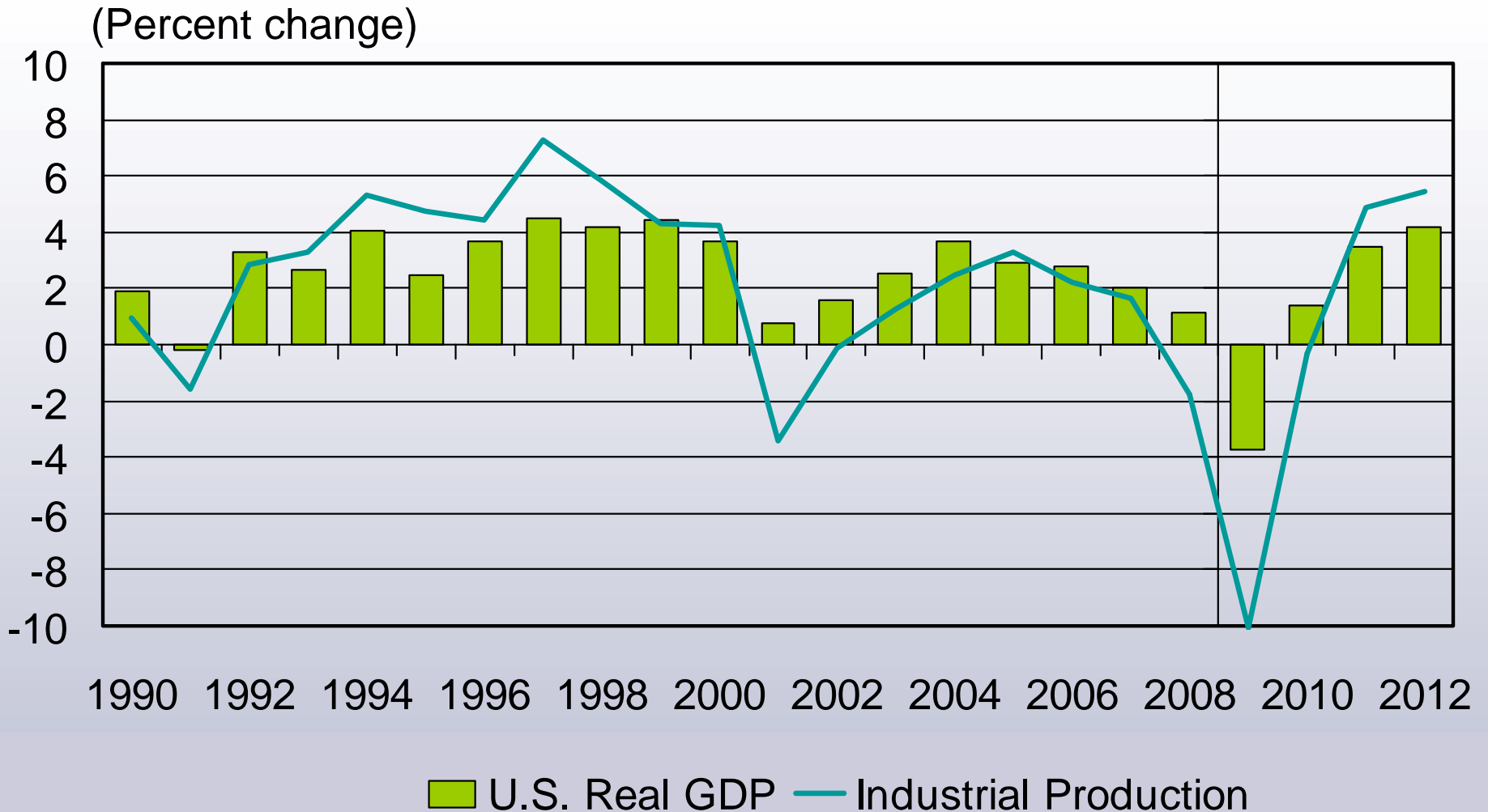


Worst US Recession in the Post-War Era

- Maybe the biggest **global** housing and credit bubble in history has burst
- Households, businesses, governments facing tighter – or shut-off – credit, and massive wealth destruction
- Rest-of-the-world going into severe recession too, undermining exports; “de-coupling” has proved a fantasy
- Lower oil prices offer some cushion
- Fed is doing all it can; and major fiscal stimulus is coming
- But the global recession is proving the worst in the post-war era



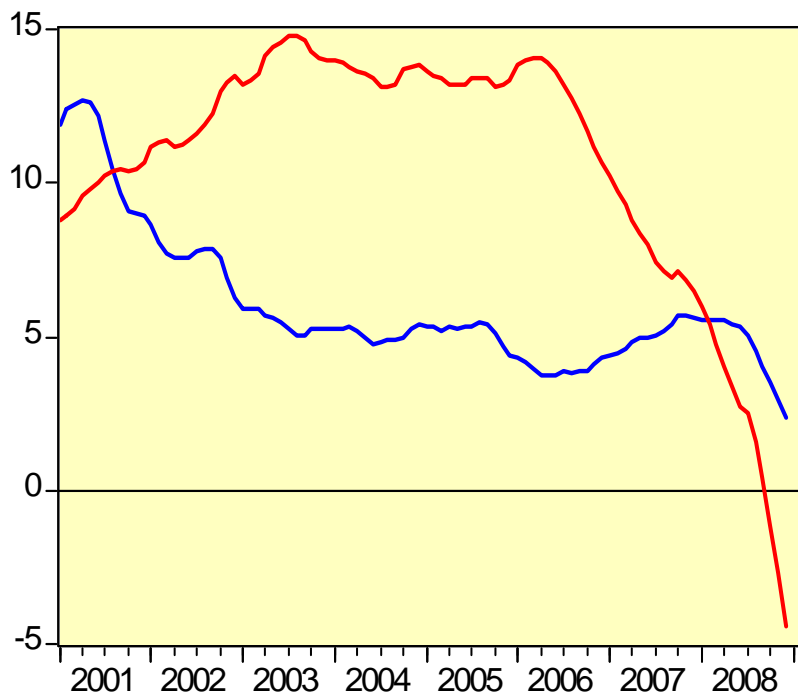
Severe US Recession Is Here





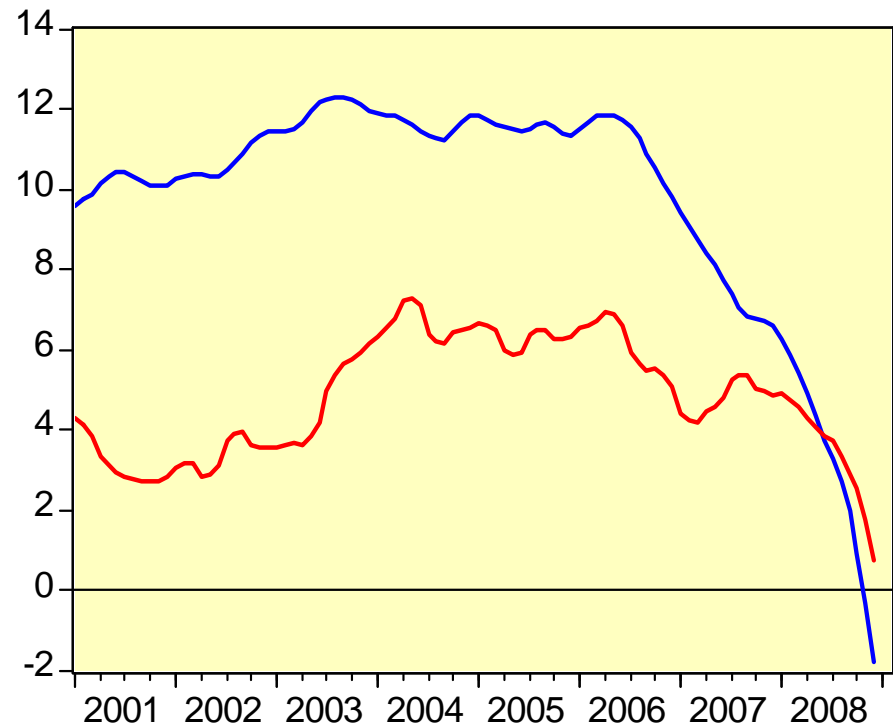
Household Credit Still Under Severe Downward Pressure

Mortgages shrinking – severe downward pressure



— Consumer revolving and installment credit , 3mma, yearly growth
 — Home mortgage credit, yearly growth

Total consumer credit Is shrinking

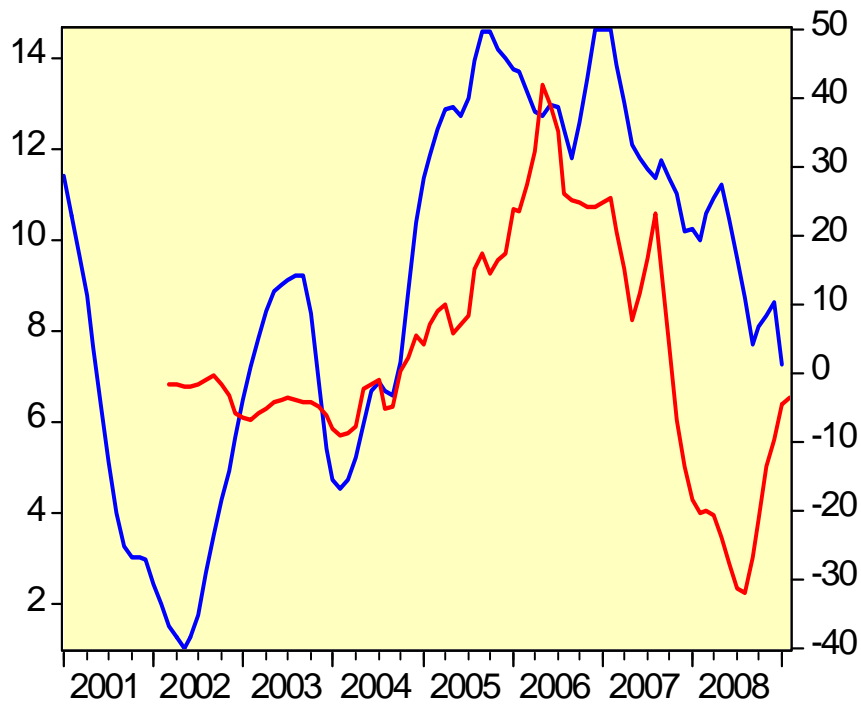


— Total consumer credit, 3 mma, yearly percent change
 — Nominal GDP, yearly percent change



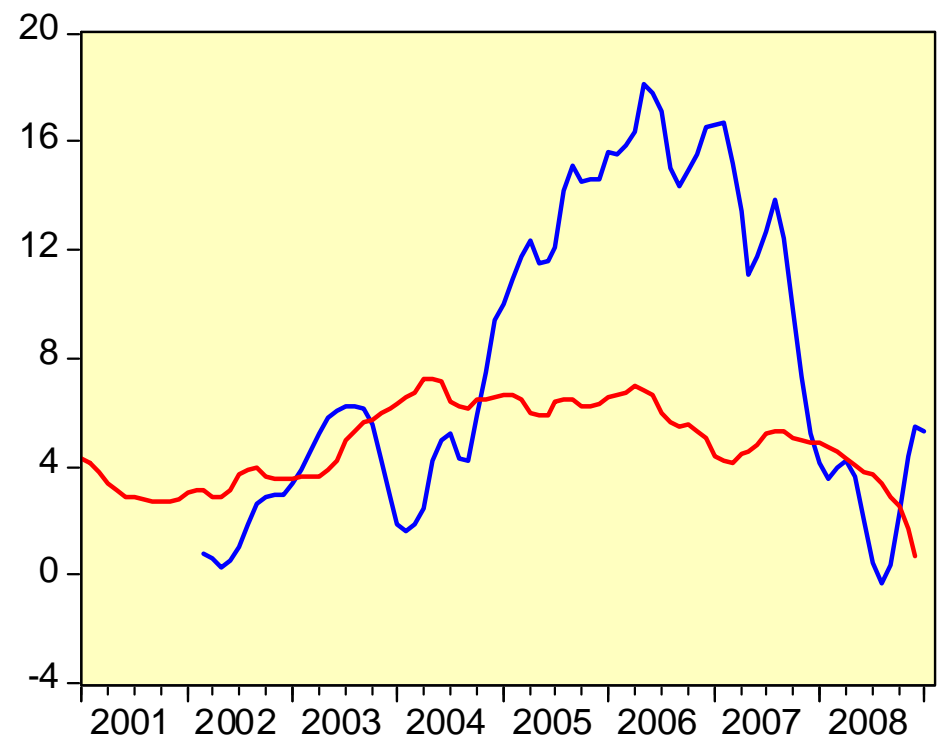
Business Credit Has Bounced Back – With Fed Support for CP Market

**Fed propping up CP market
 - \$259 bn**



— Business bank credit, 3mma, yearly % change
 — Non-financial commercial paper credit, 3 mma, yearly % change (right)

**Total business credit
 growing again**

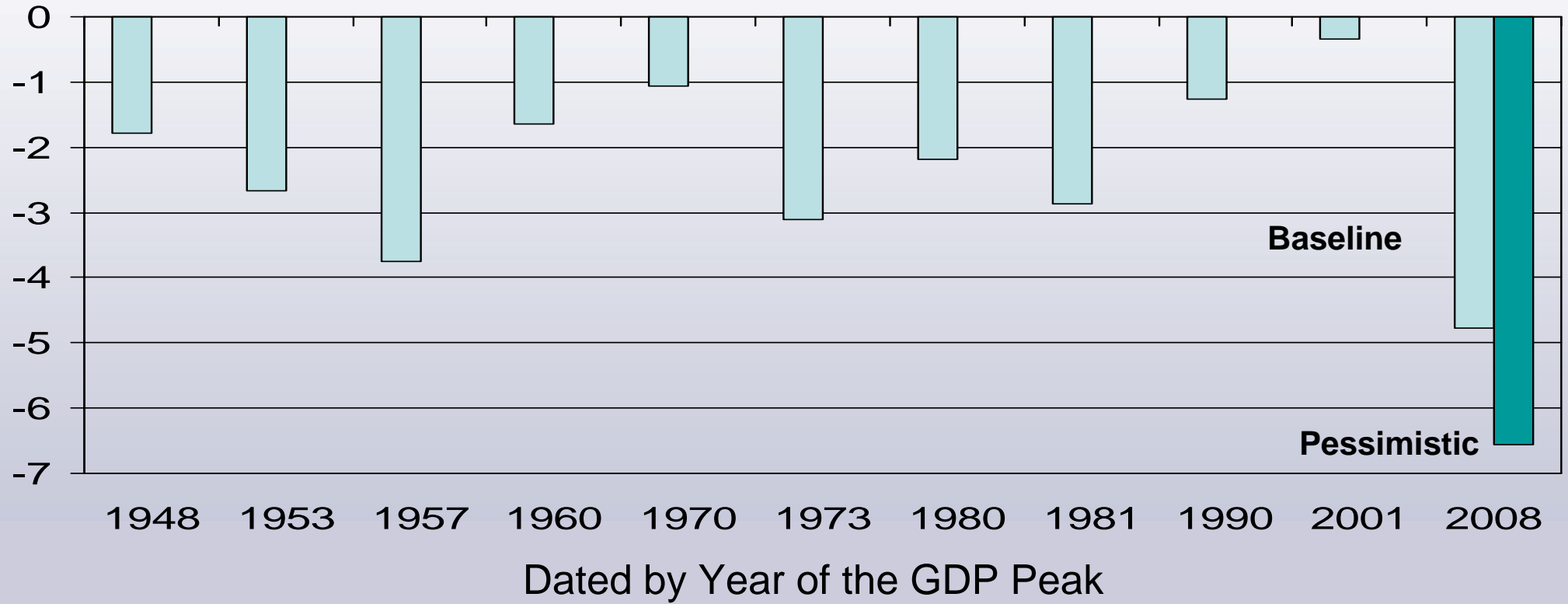


— Total business credit, 3mma, yearly % change
 — Nominal GDP, yearly % change



GDP Declines in Post-War Recessions

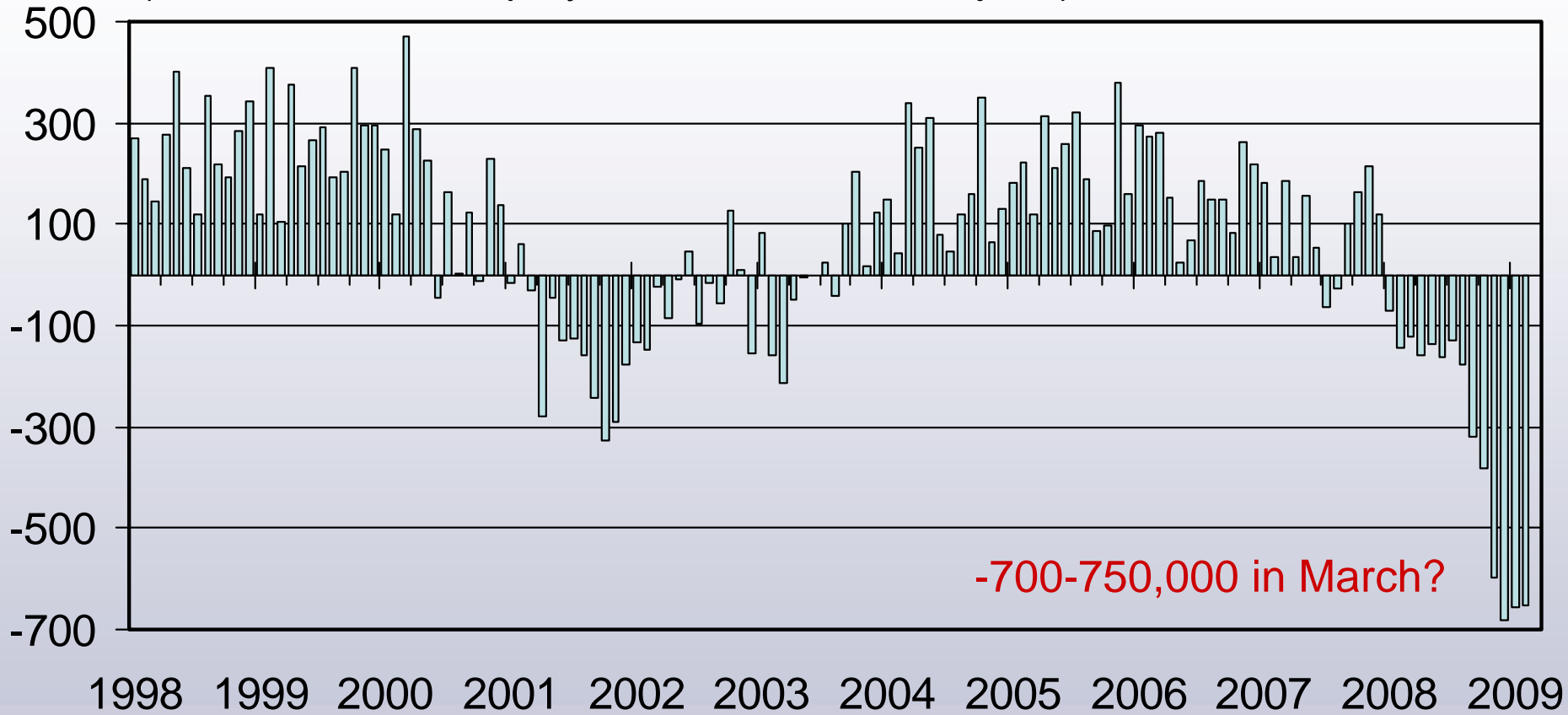
Peak-to-Trough Percent Change in Real GDP





Employment Falling Sharply

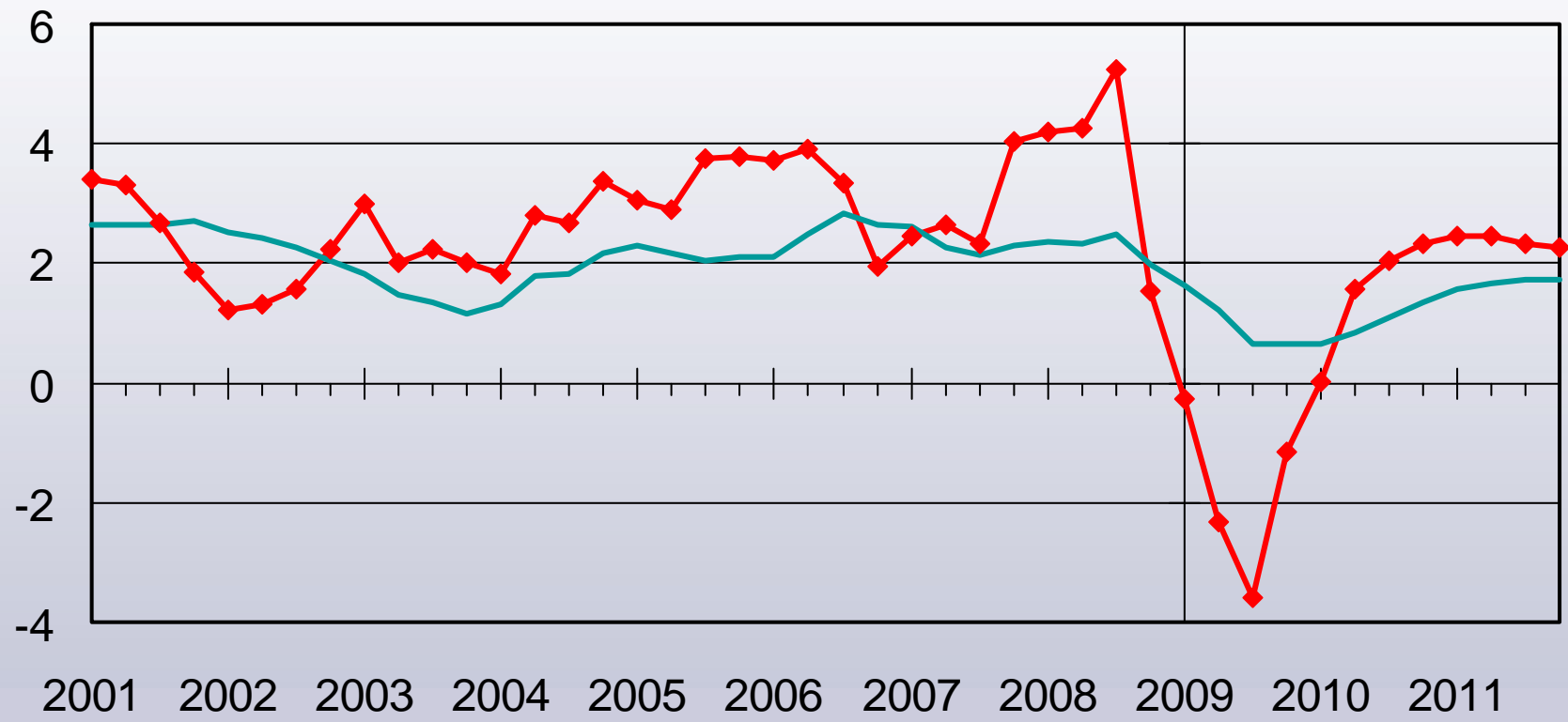
(Establishment employment, thousands of jobs)





Good News: Headline CPI Will Decline; Core Inflation Will Ease

(Percent change from a year earlier)

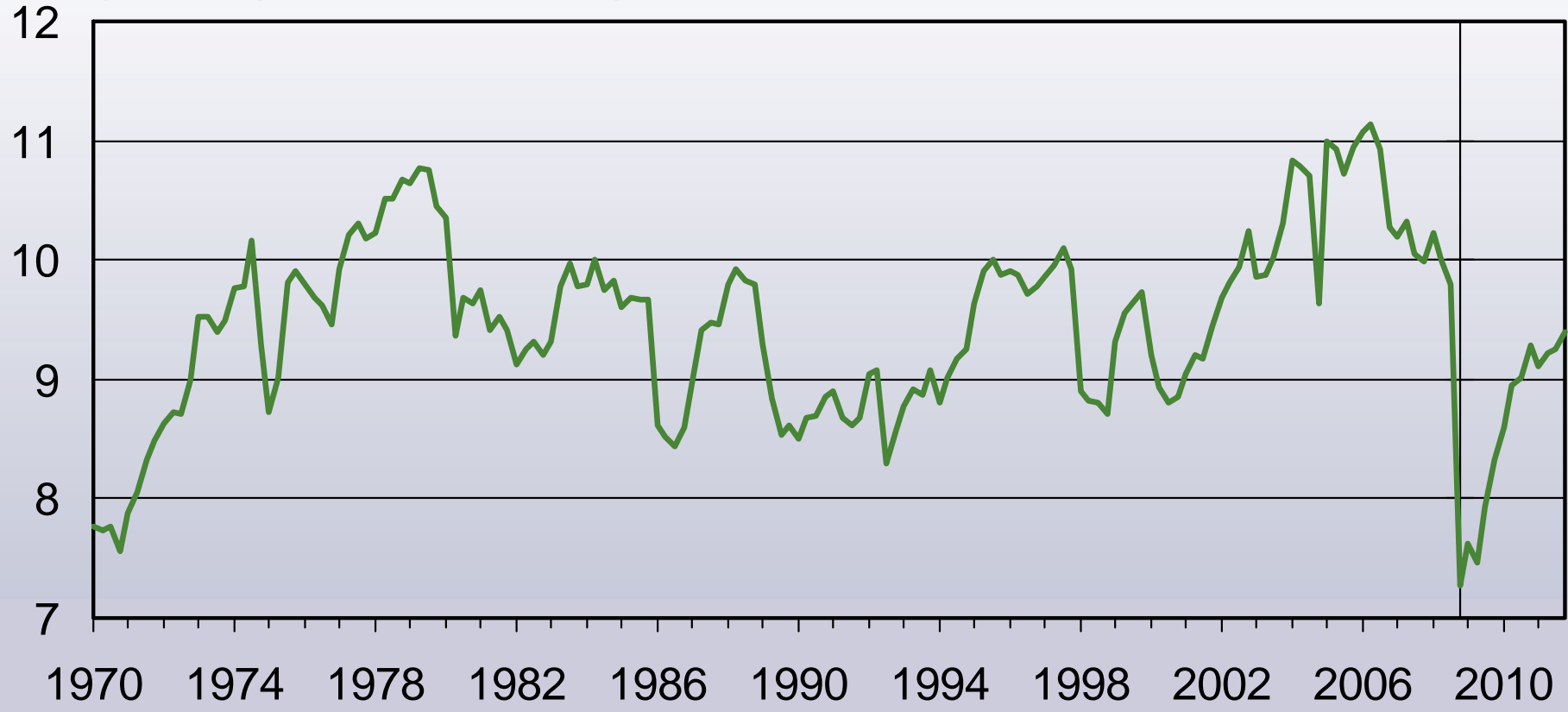


◆ All-Urban CPI — Core Consumption Price Index



Corporate Cash Flow Hit Record Levels; Levels; But Now Weakening

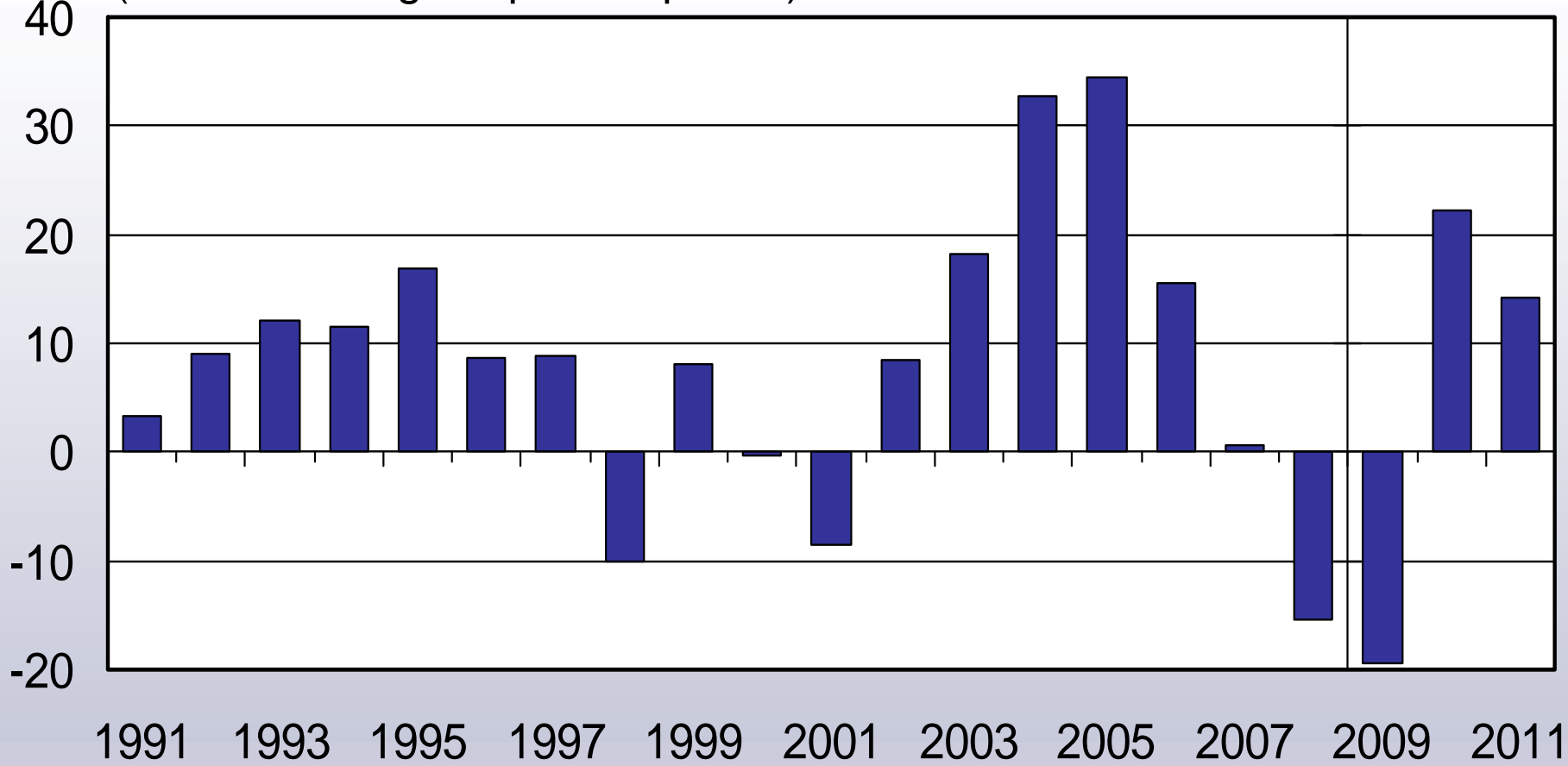
(Net corporate cash flow, percent of GDP)





The Profits Boom Is Out of Steam

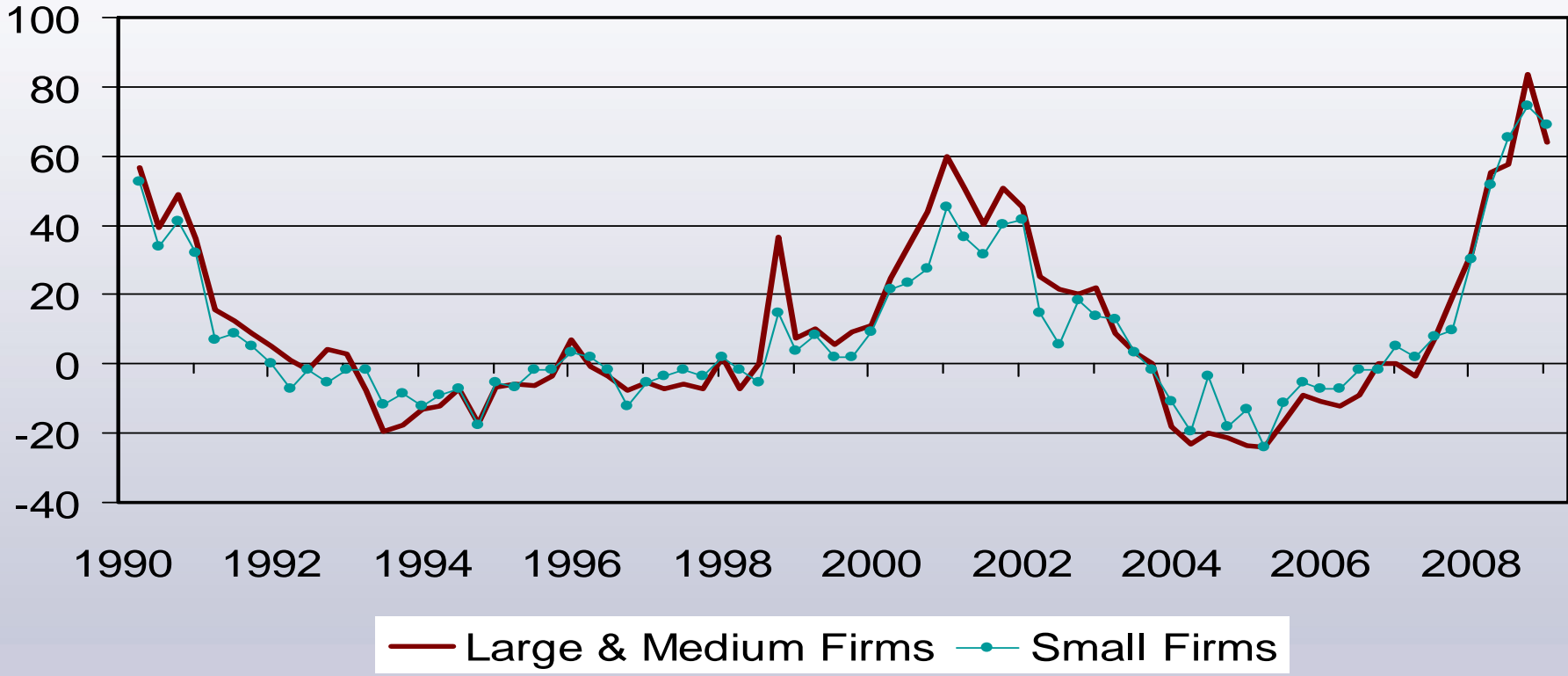
(Percent change in pre-tax profits)





Commercial and Industrial Loan Standards Tightening

(Net percent tightening standards for commercial and industrial loans)



Source: Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices



U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

	2008	2009	2010	2011
Real GDP	1.1	-3.7	1.4	3.5
Domestic Demand	-0.2	-4.0	2.3	3.4
Consumption	0.2	-1.2	2.0	2.2
Light Vehicle Sales (Millions)	13.1	9.5	11.6	13.8
Residential Investment	-20.7	-25.0	8.1	28.5
Housing Starts (Millions)	0.90	0.51	0.82	1.24
Business Fixed Investment	1.7	-18.8	-0.5	13.1
Government	6.0	5.1	1.1	-3.5
Exports	6.2	-14.7	-1.9	9.7
Imports	-3.4	-13.8	5.6	7.1

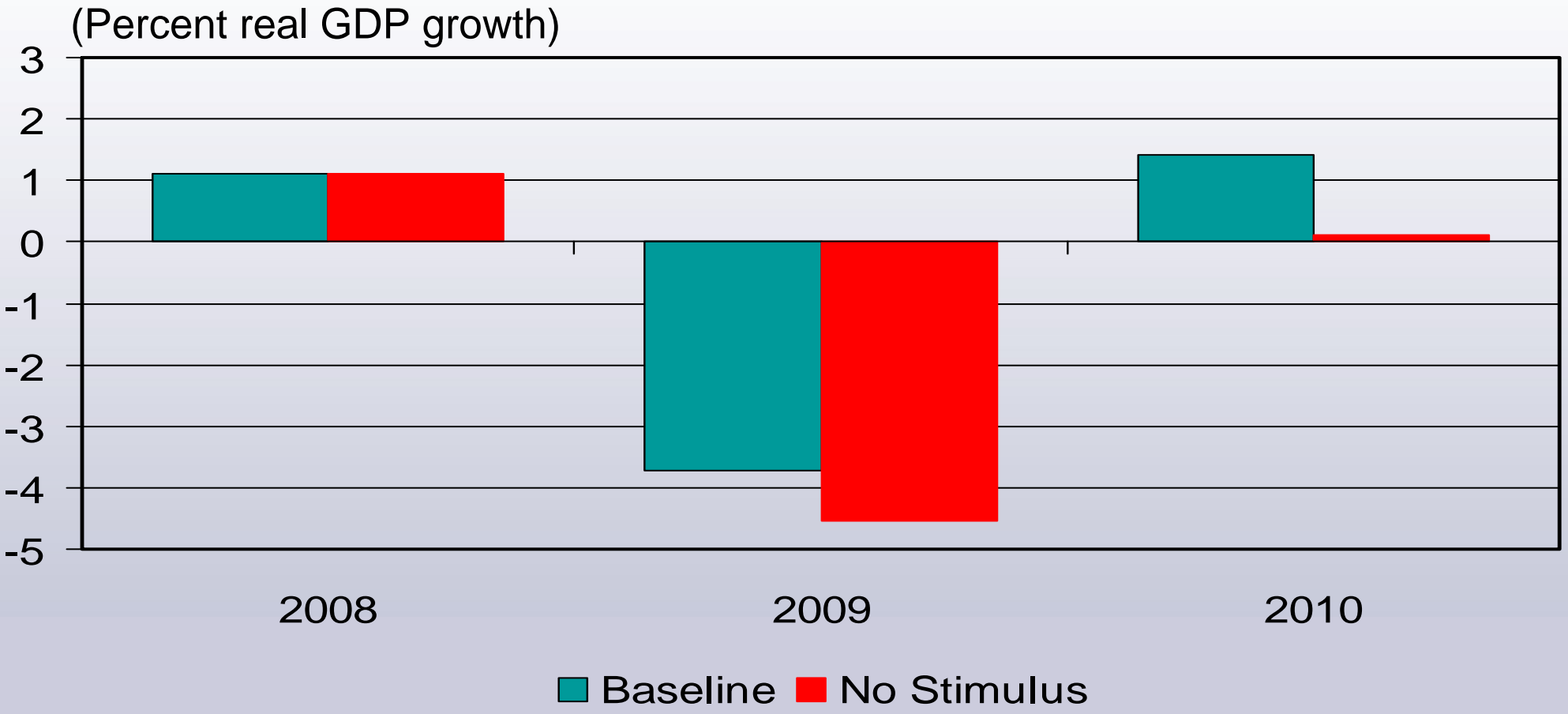


Even Worse w/o the Fiscal Stimulus

- The Final Compromise - \$787 billion (10 year)
- Our assumptions:
- Total – \$561 billion over two calendar years
 - Personal “Tax Cuts” – \$143 billion
 - Personal Transfers (e.g., extended UI) – \$97 billion
 - Corporate Tax Cuts - \$88 billion
 - State and Local Transfers (incl. Medicaid)– \$149 billion
 - Infrastructure & Other– \$82 billion
- Time Path:
 - 2009: \$252 billion



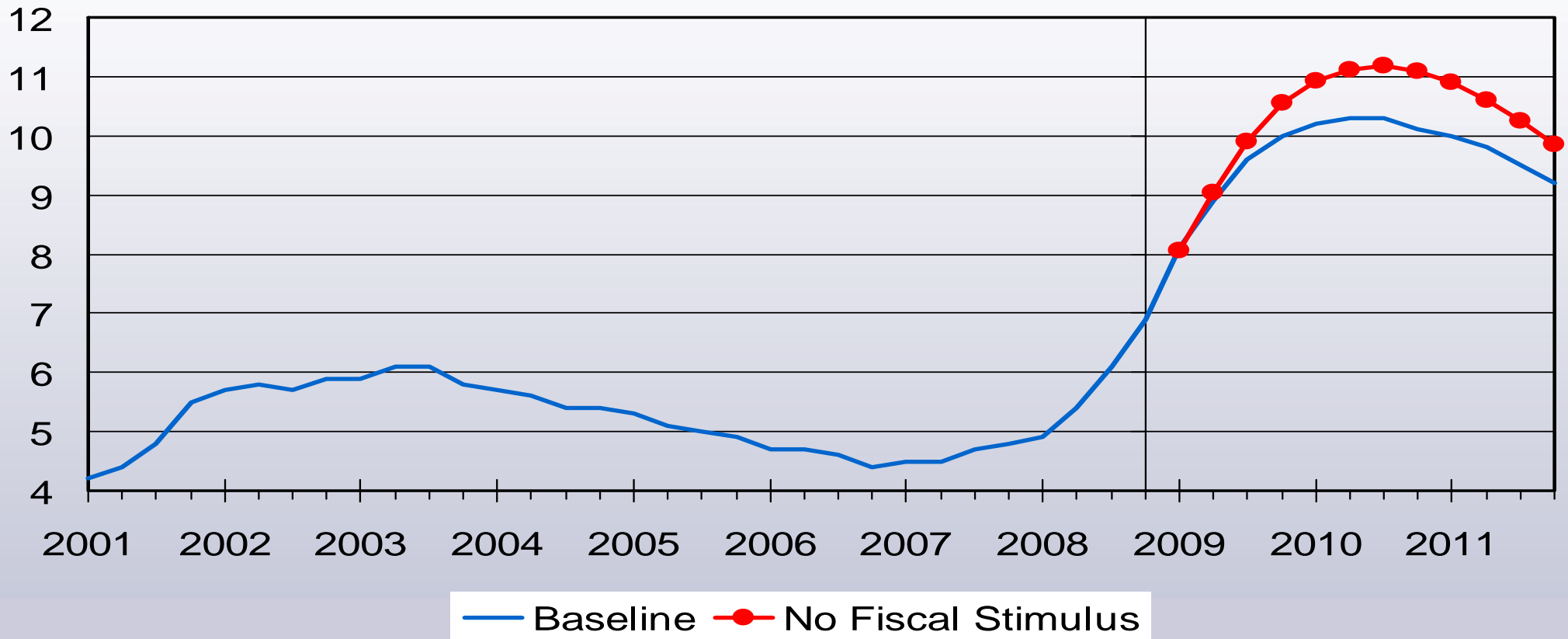
Fiscal Stimulus Impacts





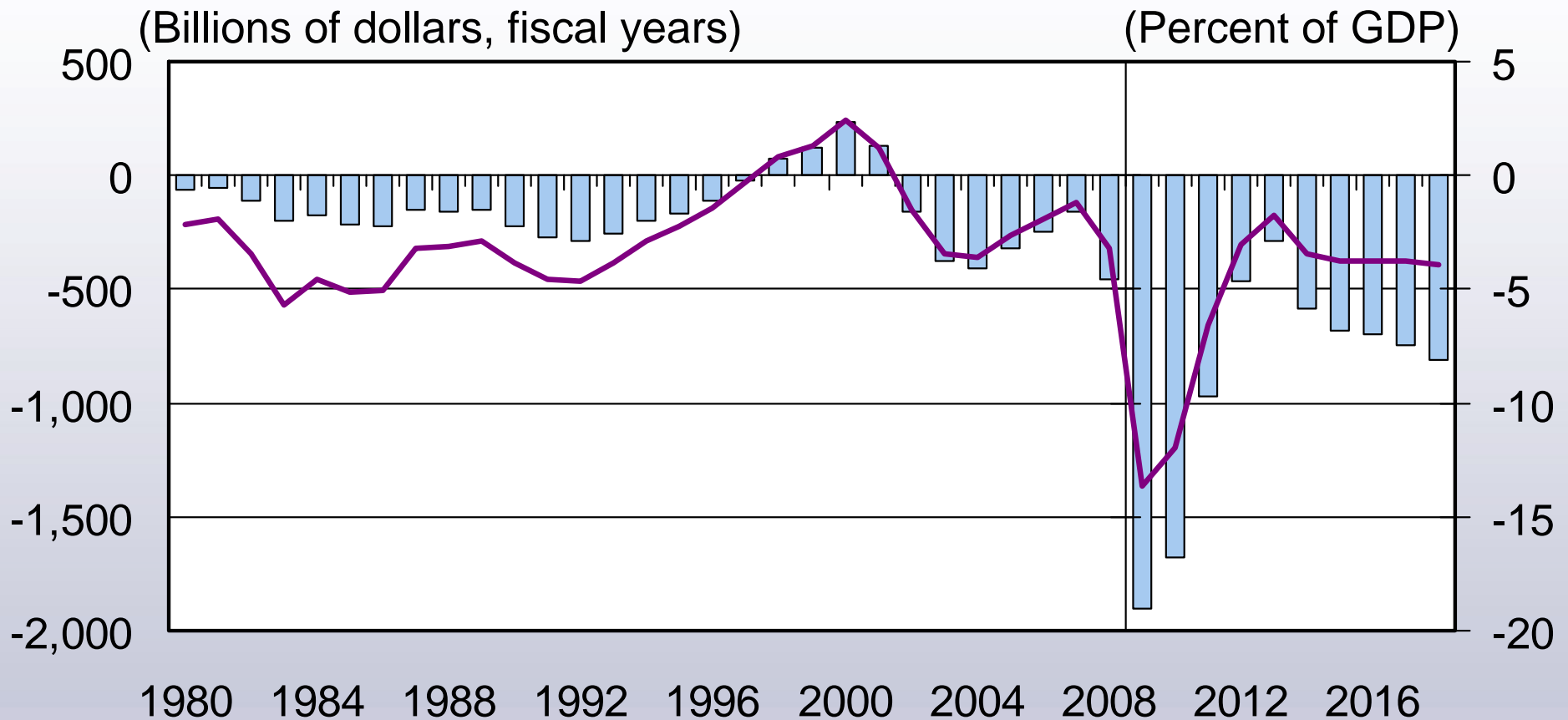
Unemployment Outlook: Stimulus Shaves a Full Point...

(Percent)





Comes At A Cost: A Record U.S. Federal Budget Deficit in Fiscal 2009



■ Unified Budget Deficit (Left scale) — Deficit as % of GDP (Right scale)



US Economy Bottom Line

- Economy in free-fall right now – recession long and deep
- More fiscal action on the way – more public capital injections into financial institutions and a major stimulus package
- Fed has cut to zero – but impact limited; unconventional measures will be extended
- Housing markets are showing signs of a bottom but there is abundant inventory yet to be absorbed.
- Upside Risk: Government intervention stabilizes credit markets, fiscal stimulus kick-starts rapid upswing
- Downside Risk: Vicious spiral between economy and credit markets worsens



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Travel Situation is Mostly a Bad News Story...For Now

Negative Forces

- Falling Employment
- Falling Real Wages
- Falling Corp Profit & Cash Flow
- Declining Housing Wealth
- Declining Stock Market
- Tightening Credit Conditions
- Mounting Debt Burdens
- Public scrutiny & vilification of business travel spending?

Positive Forces

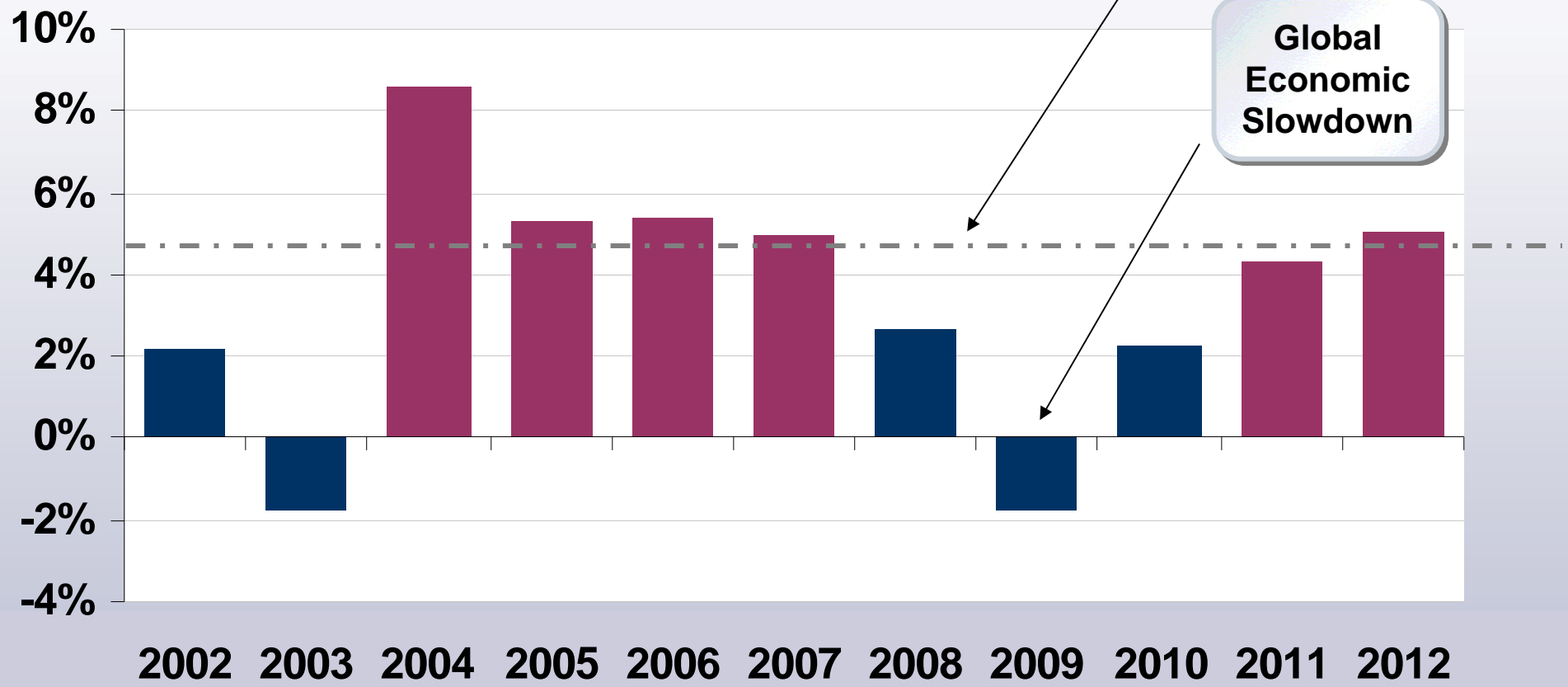
- Gasoline prices are well below their peak
- ADR inflation is beginning to slow
- Modest airfare relief is on the way
- Exchange rate improvement helps outbound picture
- Fiscal Stimulus will spur some business & consumer spending
- Hotel, rental car, some air routes are being heavily discounted



Global Travel Growth Will Retreat

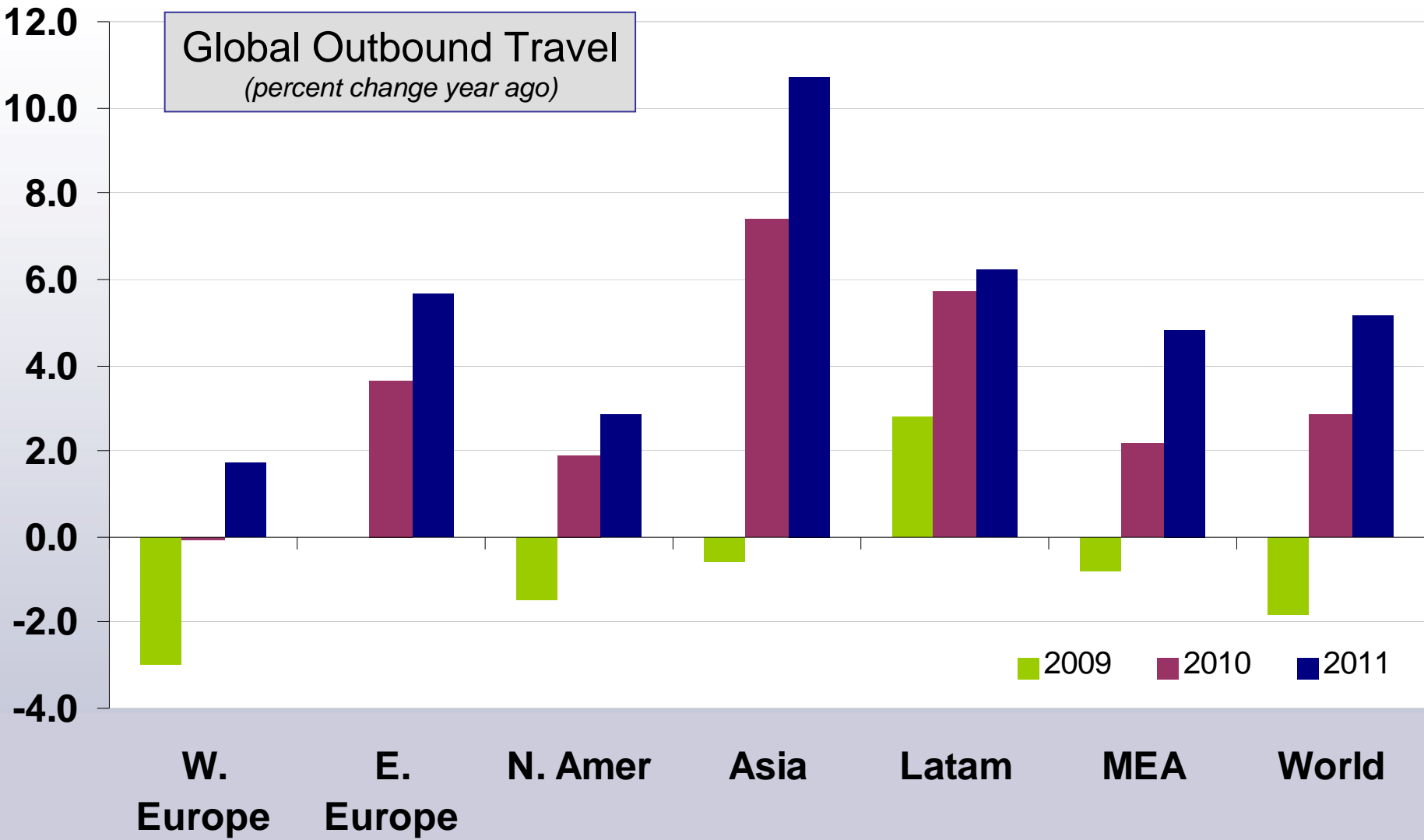
Global Arrivals Growth Drops Below 4.5% Historical Trend

(Percent Change)



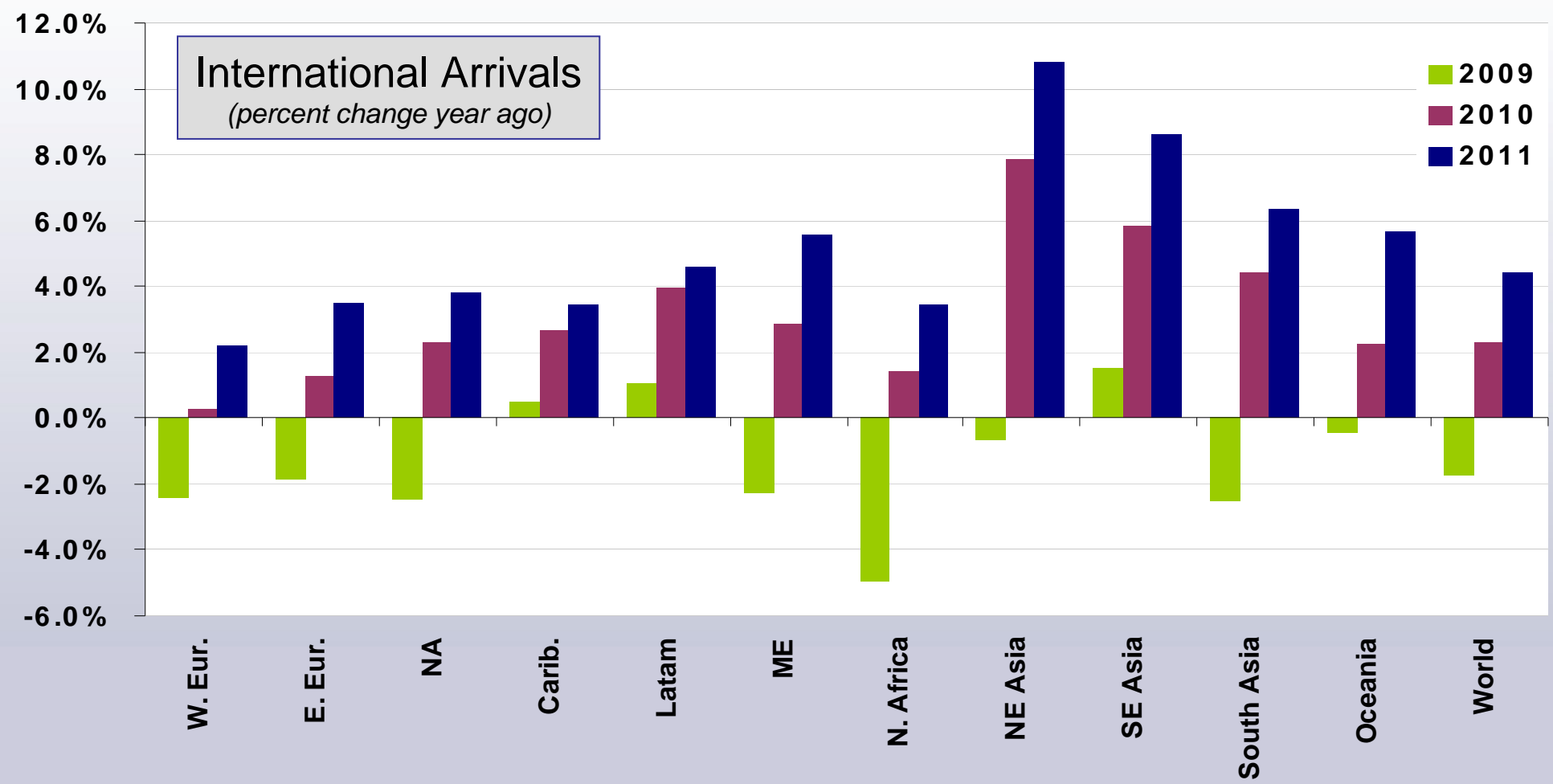


Broad-Based Declines in Global Outbound in 2009...



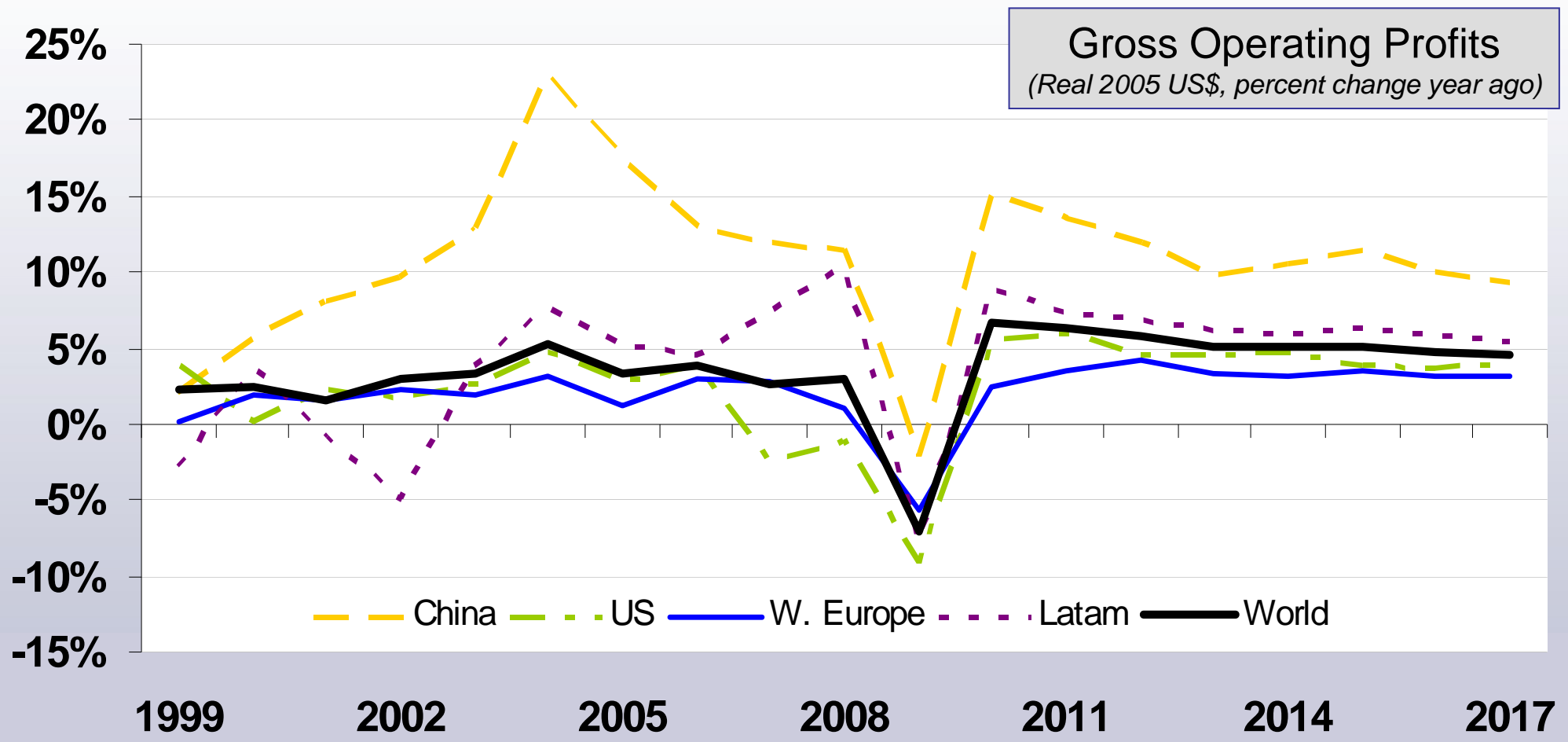


...Arrivals Growth Dips But Returns to Trend by 2011



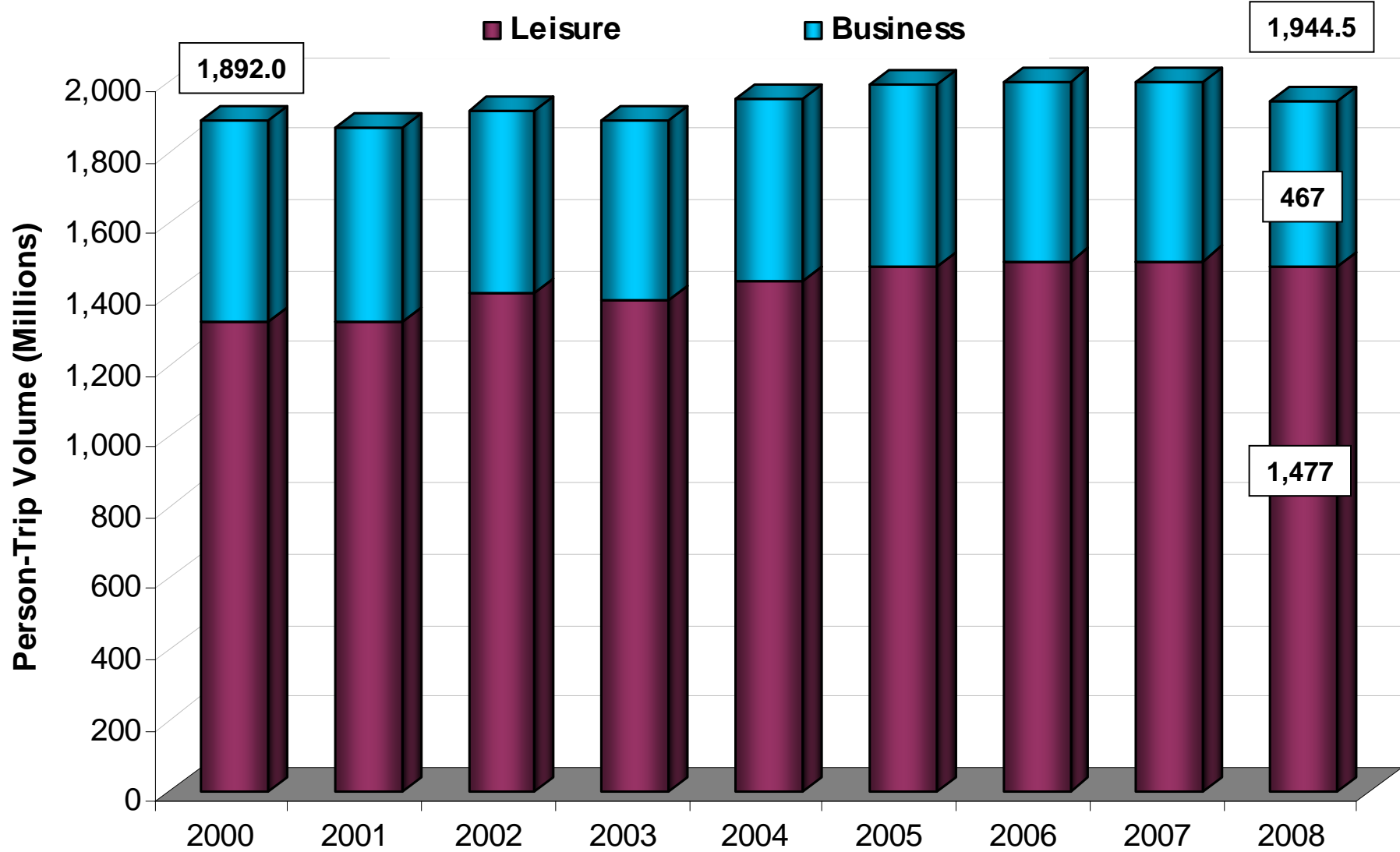


Corporate Profits Dip Around the World, Limiting Upside for Business Travel





US Domestic Travel Has Weakened Considerably ...Especially Business Trips



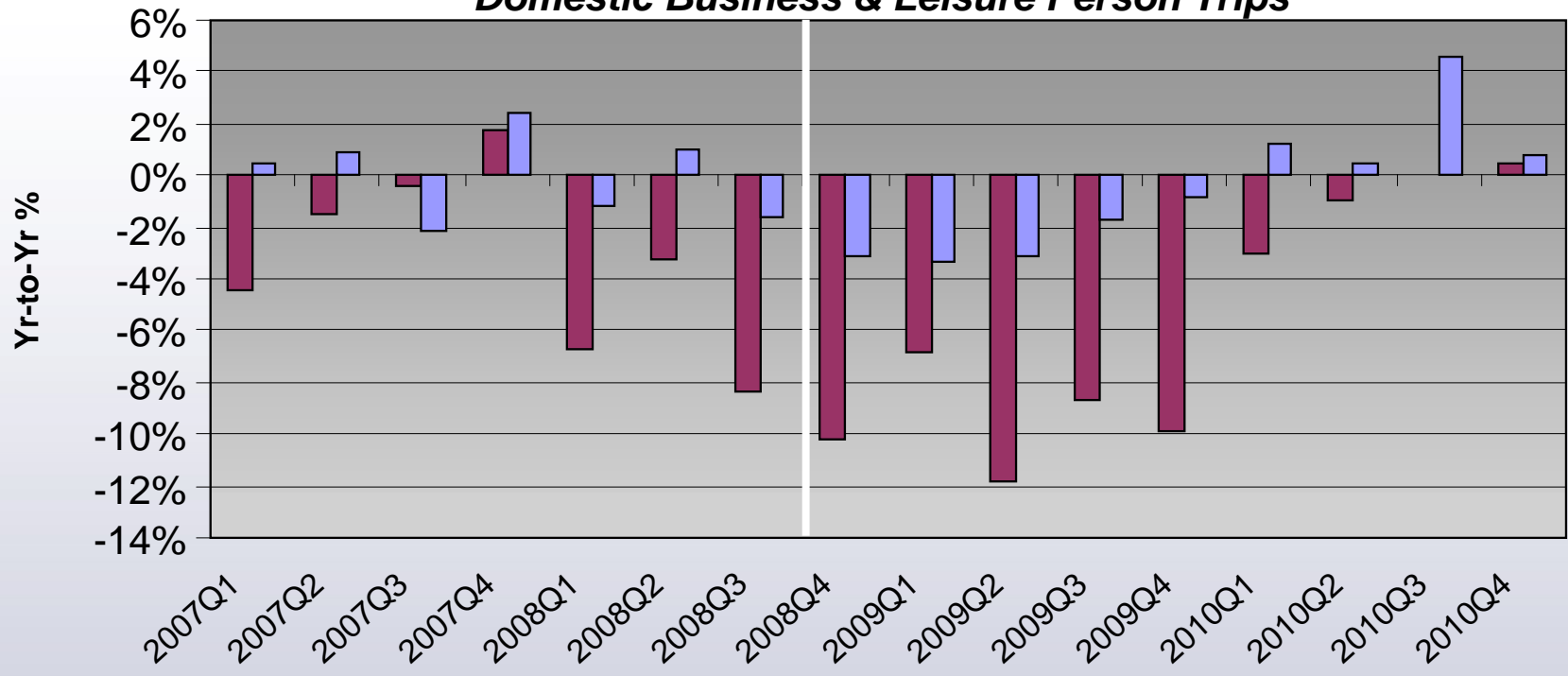
Source: DKSA Destination PERFORMANCE/MonitorSM



US Travel Resilience is Tested

Travel picture has worsened...

Domestic Business & Leisure Person Trips



- Declining HH income, high consumer debt , and falling housing wealth -a perfect storm for domestic leisure travel in the US
- Business travel will continue to decline for now - falling corporate profits, tight credit markets, a weak labor market, and “AIG” effect.
- International arrivals remain the most positive story. 2008: +4.8% 2009: 0.4% 2010: +4.6%



Business: Slower Recovery from Weak 08-09 Leisure: Quicker Rebound & Return to Trend

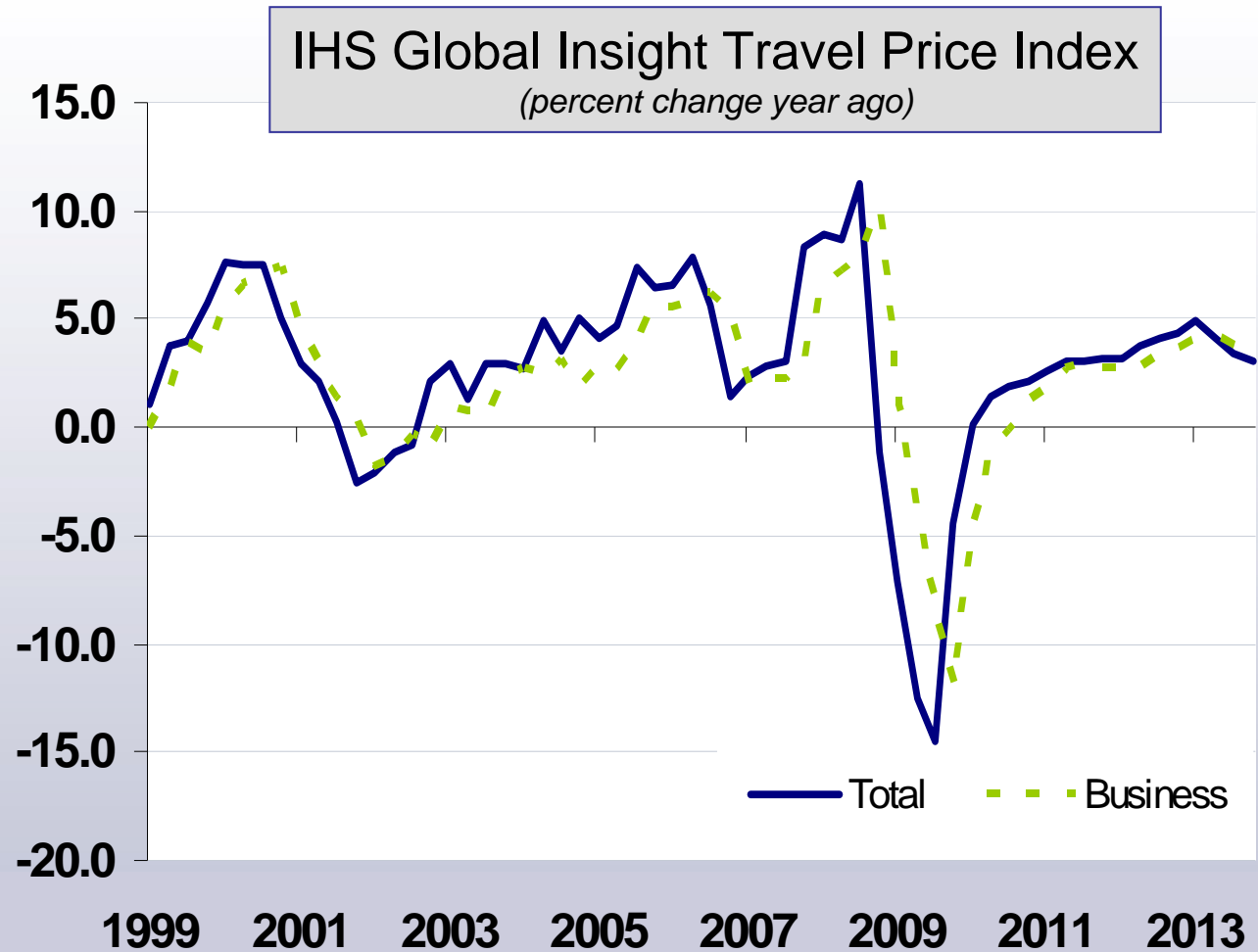
	2007	2008	2009	2010	2011	2012
Total Person-Trips (mn)	1,999	1,944	1,868	1,892	1,907	1,932
Business	503	467	424	420	419	420
Leisure	1,496	1,477	1,445	1,472	1,488	1,512
Total Spending (mn\$)	\$ 770,853	\$ 794,420	\$ 728,173	\$ 743,357	\$ 775,746	\$ 804,210
Business	\$ 231,396	\$ 229,560	\$ 203,938	\$ 208,360	\$ 215,484	\$ 220,631
Leisure	\$ 539,458	\$ 564,860	\$ 524,236	\$ 534,997	\$ 560,261	\$ 583,579
(Percent)						
Total Person-Trips	-0.1%	-2.7%	-3.9%	1.3%	0.8%	1.3%
Business	-1.1%	-7.1%	-9.3%	-0.9%	-0.2%	0.1%
Leisure	0.3%	-1.3%	-2.2%	1.9%	1.1%	1.6%
Total Spending	5.9%	3.1%	-8.3%	2.1%	4.4%	3.7%
Business	8.0%	-0.8%	-11.2%	2.2%	3.4%	2.4%
Leisure	5.1%	4.7%	-7.2%	2.1%	4.7%	4.2%
Travel Prices	4.6%	5.8%	-6.2%	2.8%	3.6%	2.4%

- Business trips will see 4 consecutive years of a decline but trip spending will recover quickly along with travel prices
- 2009 Travel Spending falls due to declining visits and falling prices. Things rebound rather quickly on both fronts.
- Falling gasoline prices create a year of travel *deflation* in 2009



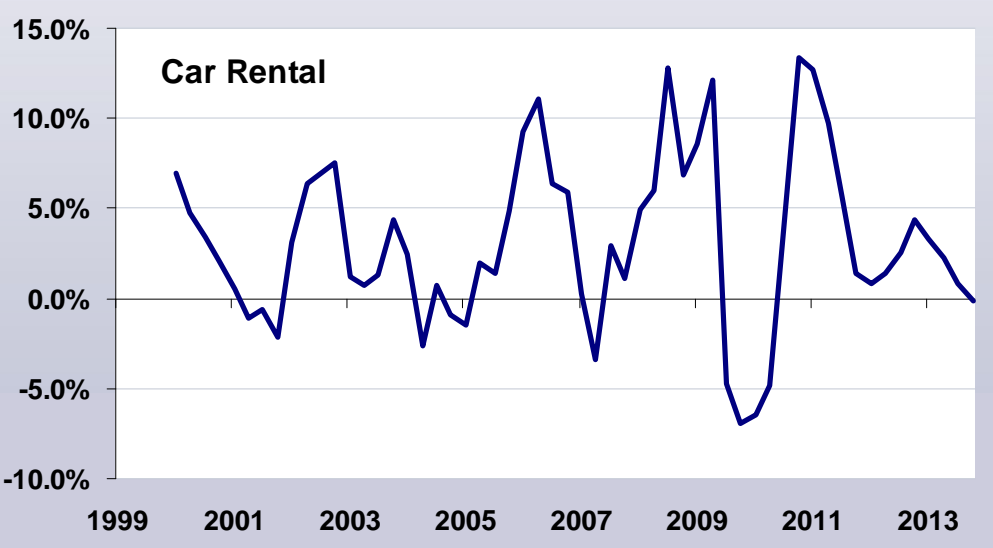
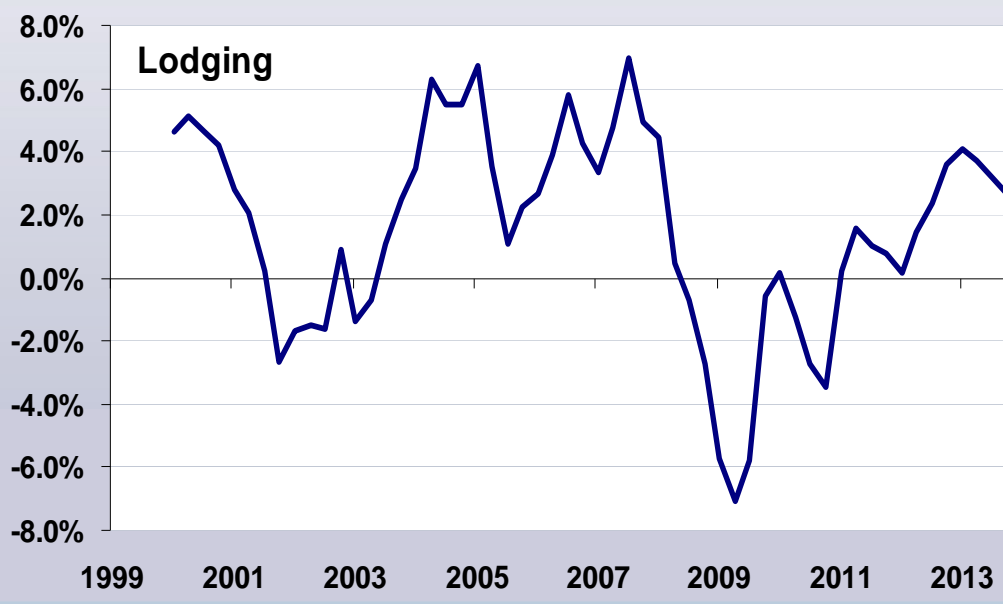
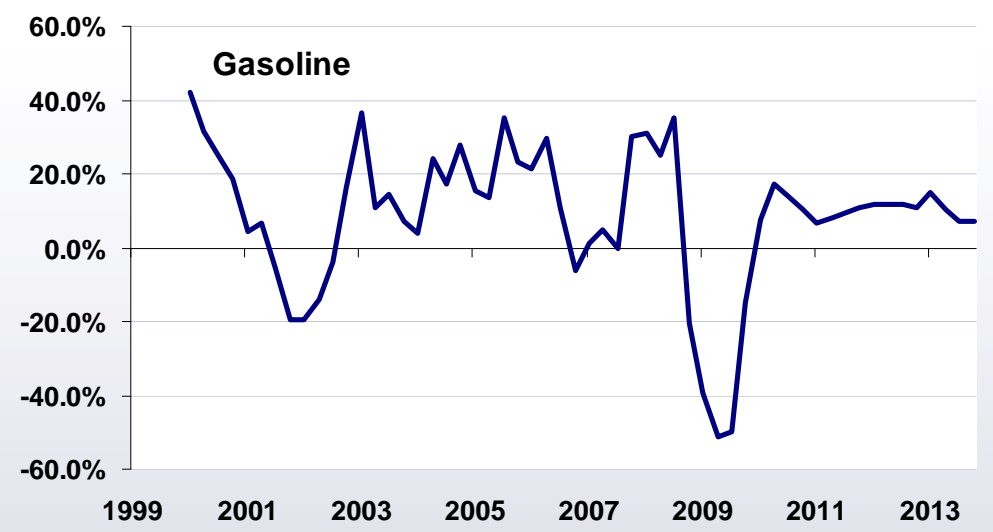
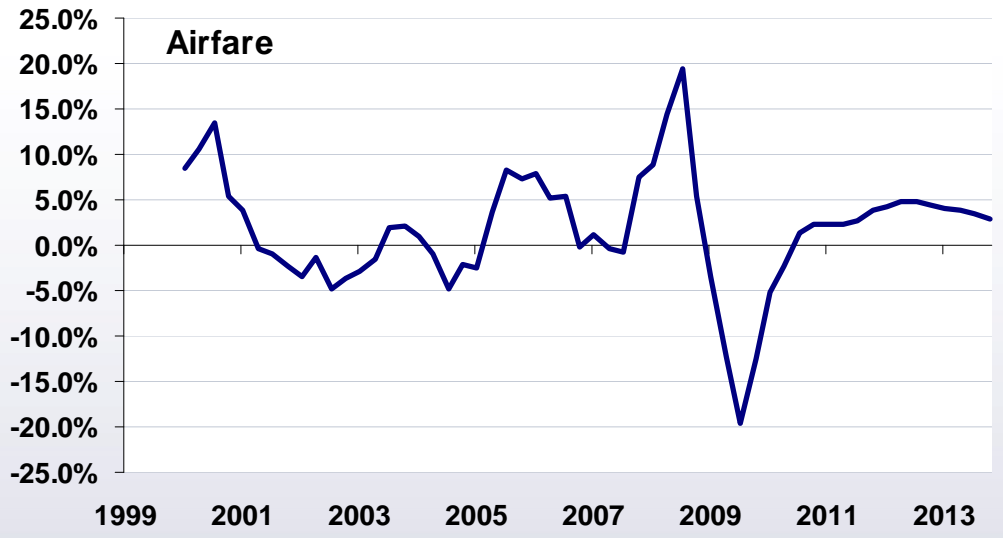
Travel Prices Bottom Out Mid-2010

- Falling prices will more likely result in a shift in spending rather than additional spending or trips.
- All categories with the exception of food and beverage will see declines through mid-2009.
- Falling gasoline prices push the total TPI down lower and





Travel Price Components All Contributing to the Current Price Declines





Travel Bottom Line: *Looking Across the Valley*



- The global recession now underway will be the most severe of the postwar era. Travel around the globe will feel the pain
- Demand weakness, falling oil prices, and capacity overhang (hotels & airlines) will put downward pressure on travel prices...and real spending.
- Business travel is hurting and will remain weak for the near-term. Cost containment and public perception fears are weighing heavily on both group and transient activity.
-
- Do your best to weather the 2008-2009 storm. Things will begin to improve in early 2010. Look across the divide and prepare for the next expansion.



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NBTA Research Initiative

Measuring the Value of Business Travel & Travel Management

“Create defensible measures of business travel activity and quantify its many contributions to businesses, governments, and households...”



NBTA Research Initiative: **Creating Measures in Five Key Areas**

- ✓ Quantify the Size & Growth of Business Travel Activity –US & International and by Travel by Industry Sector
- ✓ Profile The Business Traveler –Who are They and How Do They Behave?
- ✓ Measure Business Travel’s Contribution to the Economy – spending, job & wage creation, tax contributions
- ✓ Business Travel’s Contribution to the Bottom Line
- ✓ Quantify the Contribution of Travel Management

CAUTION: Work in Progress -all figures and formats are preliminary

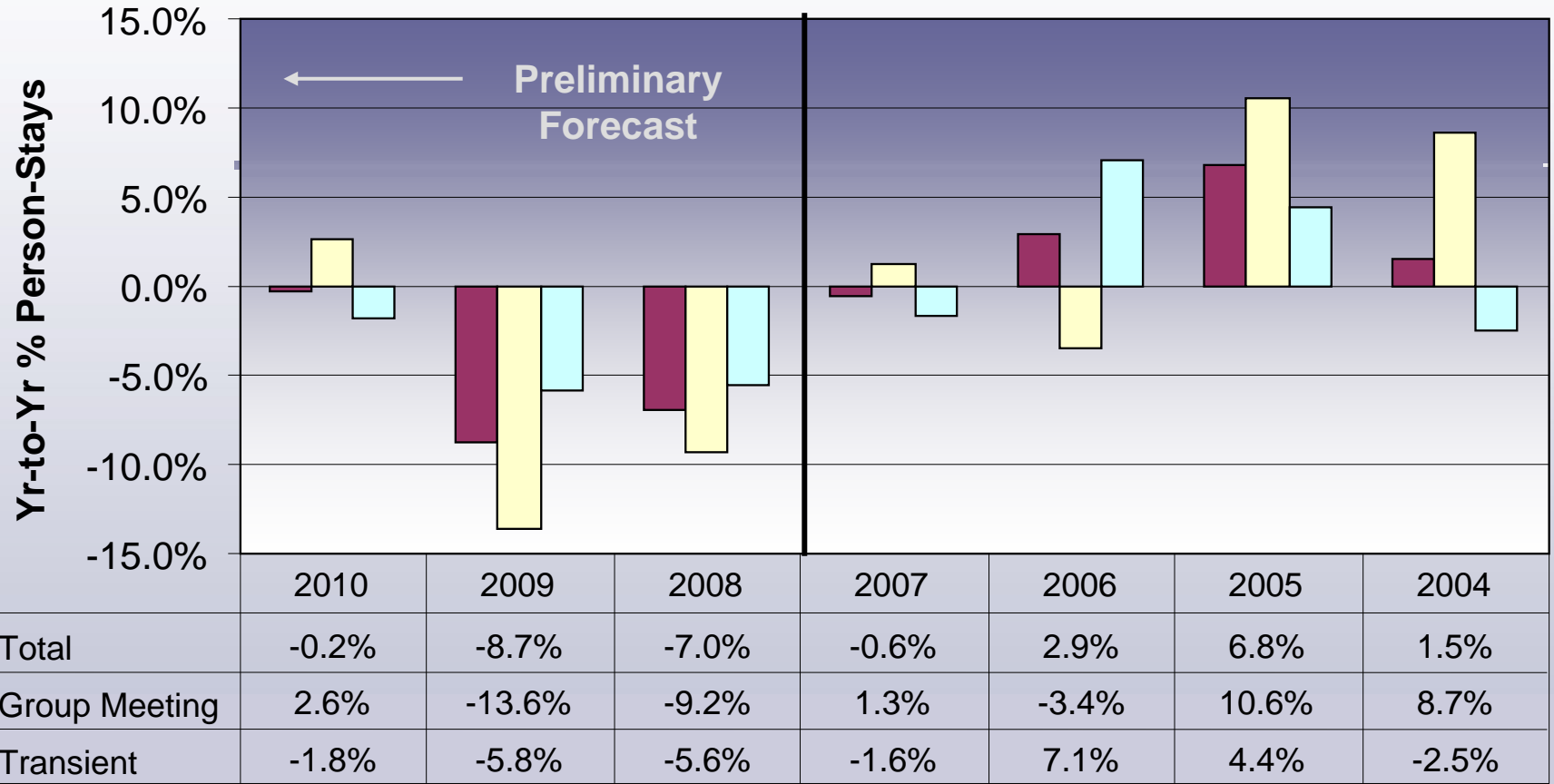


NBTA Research Initiative:

Measuring & Forecasting Business Travel

Business Trip Volume

Group/Convention vs Transient



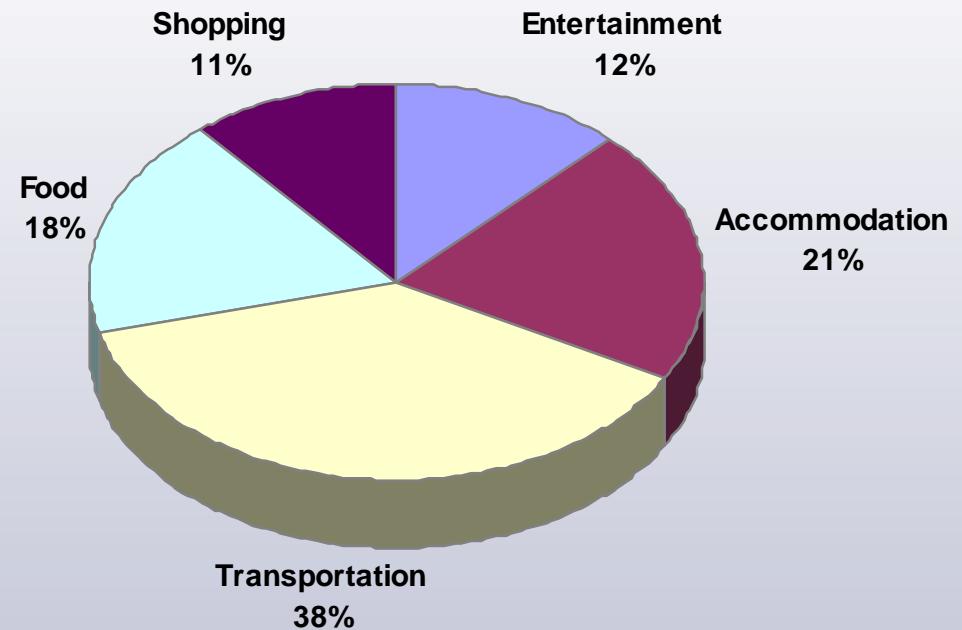
Source: D.K. Shifflet & Associates, IHS Global Insight



Profiling the Business Traveler...

- Average One-Way Group Meeting Air Trip = 913 miles
- Top US Business Travel Destination = Los Angeles
- Average Spend-per-Sales-Trip = \$324
- Avg # of Business Hotel Nights per Year per Traveler = 12.5
- % Hotels Booked Via Corporate Travel = 20%
- Who Spends the Most Per Trip? = Those who hail from DC (\$575)

**2007
Business Travel Trip Budget**



Source: D.K. Shifflet & Associates, IHS Global Insight



Business Travel's Contribution to the US Economy is Significant...

Measurement	2007	2006	%	Did You Know?
US Business Travel Volume	800.9	805.5	-0.6%	<ul style="list-style-type: none"> Overseas international inbound was up nearly 26%
US Business Travel Expenditures	\$263.8 B	\$241.7 B	9.1%	<ul style="list-style-type: none"> Much of this growth was driven by travel inflation
Business Travel GDP Impact	\$207.9 B	\$186.5 B	11.5%	<ul style="list-style-type: none"> Business travel impact dramatically outpaced 4.8% overall GDP growth
Business Travel-Initiated Jobs (M)	3.30	3.08	7.2%	<ul style="list-style-type: none"> Total US Employment grew only 1.1% Business travel supports 1 in 42 Americans jobs
Business Travel-Initiated Wages	\$132.3B	\$118.9B	11.3%	<ul style="list-style-type: none"> Avg. Annual Wage is nearly \$34,000
Business Travel-Initiated Taxes	\$81.5B	\$74.3B	9.7%	<ul style="list-style-type: none"> Equals \$687 per US household
Business Travel % of US Economy				
– Jobs	2.4%	2.2%	6.0%	<ul style="list-style-type: none"> Even as the economy was beginning to weaken, business travel was adding jobs and value
– GDP	1.5%	1.4%	6.4%	



Business Travel's Utilization and Contribution Varies Significantly by Industry...

Business Travel Spending

For Selected Major Industry Sectors

Industry	2007 (Millions)	% of total industry sales (Percentage)	2007 Industry Employment (thousands)	2007 Business Travel per Employee
Professional & Business Services	61,156.7	2.24%	17,869.7	\$3,422
Other Services	6,948.1	1.16%	5,450.2	\$1,275
Information	15,486.5	1.12%	3,038.1	\$5,097
US Total	231,395.7	0.90%	137,341.5	\$1,685
Manufacturing	43,562.1	0.87%	13,852.9	\$3,145
Leisure & Hospitality	7,097.0	0.77%	13,331.7	\$532
Construction	5,430.3	0.44%	7,593.0	\$715
Education & Health Services	275.8	0.02%	18,321.0	\$15

- Businesses spends slightly less than 1¢ of every sales dollar on business travel
- Business Services company's spend about \$3,400 per employee per year
- In 2007, Construction firms spent \$5.4B on business travel

CAUTION: Work in Progress -all figures and formats are preliminary



What Does Business Travel Contribute to the Bottom Line?

Sample Proforma Industry Profit & Loss Analysis *US Manufacturing Sector*

(Millions of \$)				2006	2007	%
Sales				\$ 5,219,823	\$ 5,336,946	2.2%
Cost of Goods Sold						
Labor Cost				\$ 1,007,960	\$ 1,027,766	2.0%
Material & Service Purchases				\$ 3,552,489	\$ 3,622,794	2.0%
Business Travel				\$ 40,372	\$ 43,968	8.9%
Other Costs & Expenses				\$ 57,871	\$ 60,620	4.8%
Total Cost				\$ 4,618,319	\$ 4,711,180	2.0%
Gross Operating Profit				\$ 601,504	\$ 625,766	4.0%
Gross Margin%				11.5%	11.7%	
Business Travel as a Percentage of Sales				0.77%	0.82%	
B-Travel as a Percentage of Material & Service Costs				1.14%	1.21%	
Business Travel as a Percentage of Profits				6.71%	7.03%	

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NBTA Research Initiative: **Measuring the Contribution of Travel Management**

- ✓ Quantify the Size & Typify the Structure of Travel Management

- ✓ Measure the \$\$ Contribution of Travel Management
 - Cost Savings –Negotiated Vs Retail Rates
 - Productivity Gains to Traveling Employees
 - Comparing/Contrasting Company Performance for Those That Utilize Travel Management with Those That Do Not



Thank You!



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