THE YEAR OF UNCERTAINTY

2017 GLOBAL OUTLOOK

TRAVEL LEADERS®

2017. The year of uncertainty.

Throughout 2016, we've experienced a general slowing of the global economy. Ongoing issues in Latin American and China, tepid growth in North America, shocking terrorist attacks in Western Europe together with Brexit has resulted in a historically anemic 3.2% global growth rate. The latest projection from the International Monetary Fund for 2017 is an overall global growth rate of approximately 3.5%.

As a result of ongoing uncertainty and macro-economic projections, we believe that while overall 2017 global travel transactions will experience modest growth, that overall travel spend will be flat. Pricing pressure is mounting in many major markets given an excess of supply and reduction in demand. As a result, while business travel activities will continue to expand, prices will remain largely stagnant across air, hotel and car categories. Suppliers will work hard to increase prices but their efforts will be largely unsuccessful with the scale tipped more favorably to buyers. As long as energy prices remain low, modest demand continues and terrorism incidents are low, suppliers will continue to record robust profits from their activities.

Risks:

Geopolitical: The outcome of the US election could play a significant role in the direction of global economy. Major infrastructure investments are planned by both candidates and travel will likely see strong ongoing benefits from planned activities with long overdue improvements at airports, air traffic control systems and highways. We may also experience a hyper polarized political period and a reduction in business confidence. This may dampen 2017 business travel demand.

Brexit: Markets have not yet seen a major fallout from Brexit. The Pound continues to decline against most major currencies which will overtime limit the level of outbound business travel from the UK. A number of airlines have already signaled their intent to reduce services to/from the UK for 2017. However, with Brexit in its infancy stage a lot of uncertainty still exists.

Oil Prices: Oil prices experienced a significant drop in 2016. Major producers continue to resist production limits and we anticipate energy prices continuing to remain at historically low levels through 2017. While this has been wonderfully positive for global airlines and customer airfares, ongoing low energy prices continue to impact travel demand originating from Western Canada, Western Africa, Russia, Middle East, Venezuela and numerous US Regions.

Civil Unrest: In 2016, we experienced widespread terror related incidents throughout the globe. The bombings of airports in Belgium and Turkey, the nightclub massacre in Orlando and ongoing attacks in Western Europe all serve to reduce travel demand as business travelers decide to delay or cancel their plans. While it is impossible to predict the frequency, type and location of travel related terrorist incidents, we are confident that travel demand will be impacted to some degree in 2017.


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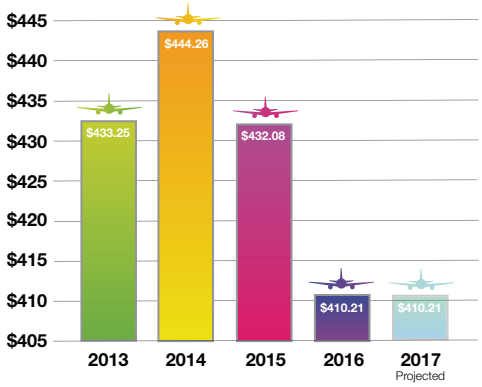
North American Forecast

Air:

Airline supply for the first time since the "big three" emerged from consolidation is outpacing demand. The lower cost energy environment has enabled airlines to still post healthy profits and removed pressure to boost yields. Air carriers experienced a 7% reduction in airfares in 2016 vs. 2015. We believe that airfares will remain largely flat in 2017 as carriers work to reduce capacity. Low cost carriers will continue to thrive and their collective impact will restrict the large network carriers from meaningful price increases.

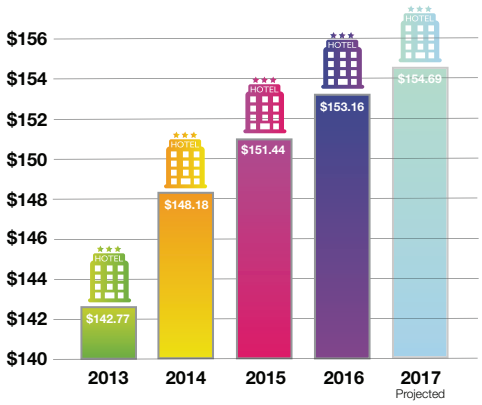
DOMESTIC AVERAGE TICKET PRICE – AIR



Hotel:

Hotels have been reaping the benefits of low supply and high demand for the past 6-7 years. Major cities such as Chicago, San Francisco, Minneapolis, New York City, Philadelphia, Miami and Boston, have added a lot of new room capacity over the last two years and it will take time for the market to digest and adjust. We predict rate increases in a number of cities, such as Orlando, Seattle, Dallas, Atlanta, and Denver and potential rate reductions in Houston, Washington DC, Charlotte and Los Angeles. The impact of AirBnB is yet to be fully analyzed, but clearly the addition of millions of alternative accommodation options will have a deflationary impact on traditional hotel providers. Overall, we predict a slight rate increase of 1%-2% for hotels after many years of aggressive rate increases.

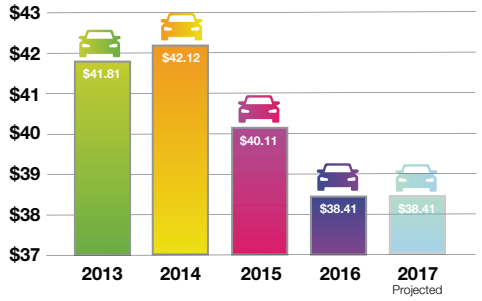
DOMESTIC AVERAGE DAILY RATE – HOTEL



Car Rental:

Rental car companies are experiencing pressure from new ride sharing alternatives. Uber and Lyft have entered most US markets with many local municipalities allowing airport pick up. Rental cars will see further modest declines in days rented, and daily rates will remain largely flat. A major factor influencing car rental rates is manufacturer pricing and the state of second hand market resell values. The new car market is experiencing positive purchase trends and the second hand market has experienced less demand in the last 12-18 months. As a result, rental car companies are being squeezed by flat overall demand and lower margins from reselling fleets. Rental Car companies will explore alternative sources of revenue by increasing fuel surcharges, one way fees and introducing new fees in an attempt to offset stagnant revenues.

DOMESTIC AVERAGE DAILY RATE – CAR



International Forecast

Air:

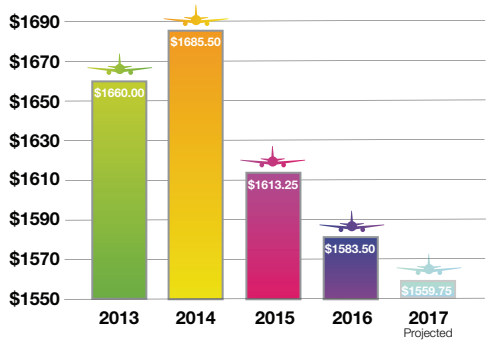
Western Europe:
Low Cost Carriers (LCCs) are not new to EMEA, however Ultra/Long haul Low Cost Carriers are. Carriers such as Norwegian Air and WOW Air are bringing super low airfares to Transatlantic and Intra-European markets. Long haul LCCs coupled with tepid economic expansion and the fallout from Brexit will result in airfares that are slightly lower than 2016 levels. We expect a 1%-3% decrease in 2017.

Middle East and Africa:
The economies of The Middle East and many regions of Africa are being impacted by ongoing low energy prices. This coupled with significant capacity increases by predominantly new, well financed Middle Eastern Carriers has resulted in lower overall airfare pricing. We see this trend continuing into 2017 as energy prices stay low. We expect no increases in airfares for 2017.

Asia Pacific:
Asia Pacific has seen rapid supply expansion (>7%) in the last 12 months with many new aircraft operating from and within China, India, Indonesia and Vietnam. Due to ongoing economic uncertainty in China and stubbornly slow growth in Japan & Australia combined with ongoing excess supply, we project flat airfares for the region in 2017.

Latin America:
Latin America has been facing challenges that range from political, economic and environmental in 2016. Despite these conditions, travel demand has been remarkably robust. However, artificial events like the Olympic Games has helped to boost regional demand. We believe 2017 will be a far more challenging year and as such we predict a -2% decrease to 0% rise in airfares within Latin America. The worst performance will be seen in Brazil and Venezuela, with Argentina and Chile seeing far better results.

INTERNATIONAL AVERAGE TICKET PRICE – AIR



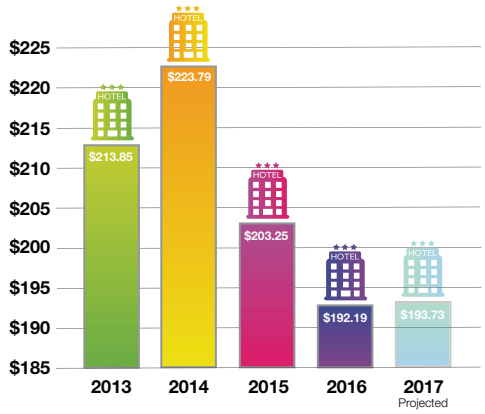
Hotel:

Western Europe:
Hoteliers such as Accor and IHG have added new supply in the early part of 2016. Brexit, civil unrest and ongoing economic challenges have resulted in difficult trading environments across the continent. We expect no more than a 1%-2% increase throughout EMEA.

Asia Pacific:
2016 saw lots of new supply throughout Asia Pacific; especially in China. Healthier markets will include India, Vietnam and Japan. Markets that will experience rate pressure include China, Singapore, Australia, Taiwan and New Zealand. Our predictions show APAC will experience flat overall hotel rates in 2017.

Latin America:
Higher rates in 2015 came back down to earth in 2016. The same conditions impacting air travel will impact hotels in 2017. We are predicting a 1% - 2% decreases in average daily rates in markets across Latin America with 4% - 6% reductions in Brazil. Markets such as Venezuela will experience significant reductions in demand and double digit rate contraction. Chile and Argentina will see improvements in business conditions and favorable conditions for hotels

INTERNATIONAL AVERAGE DAILY RATE – HOTEL



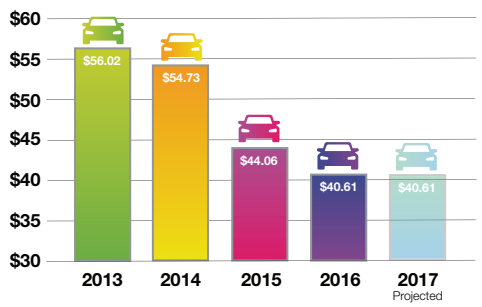
International Forecast

Car:

Western Europe:
Enterprise Holdings is blazing an expansion trail throughout Europe. Prior to 2016, they operated in only three countries. (UK, Ireland and Germany). Overall slow economic growth and subsequent low car rental demand with numerous ride sharing and convenient high speed rail options, means that car rental pricing will not experience rate increases in 2017.

Latin America:
The Enterprise Group is expanding in LATAM as a part of their aggressive global expansion growth. Latin America has never been and is not likely to be a region with a high demand for car rental solutions. We predict no increases in year over year average daily rate in 2017.

INTERNATIONAL AVERAGE DAILY RATE – CAR



Methodology

Our projections for the 2017 Global Travel forecast is based on:

- Travel Leaders Group historical and advanced booking data
- ARC transactional Data
- Global knowledge and expertise of the travel industry from the Business Center of Excellence
- Macroeconomic information provided from International Monetary Fund (IMF)

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