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2023 travel industry outlook

**Travel moves from a year of return and resurgence
into a period of recalibration and repositioning**



Introduction

Throughout 2021 and most of 2022, the travel industry saw its demand and performance metrics climb steadily. As pandemic conditions improved, hotels and airlines in much of the world rode a wave of pent-up leisure demand back toward healthy business. Hotels have been able to achieve rates and revenue per available room (RevPAR) above 2019 levels.¹ And US air travel volume reached at least 80% of 2019 levels every day from July 5 through November 30, 2022, on the back of constrained capacity and higher fares.²

The COVID-19 pandemic put a mark on travel that the industry is unlikely to soon forget. While travel businesses should continue to account for the possibility of new COVID-19 variants or the rise of other infectious diseases, travelers appear to have begun to move past the pandemic.

As health worries fade, significant challenges are coming to the fore: consumer financial anxiety, a labor shortage affecting all travel segments, climate change quandaries, and the likelihood that corporate travel may never return to pre-pandemic levels. If 2022 was a year of welcomed pent-up demand, 2023 will be a year of coming to grips with some complicated realities facing travel. The year ahead in the travel industry will be defined by the basics—product, performance, and price—in the context of economies and societies reshaping themselves on the way out of a once-in-a-generation crisis.

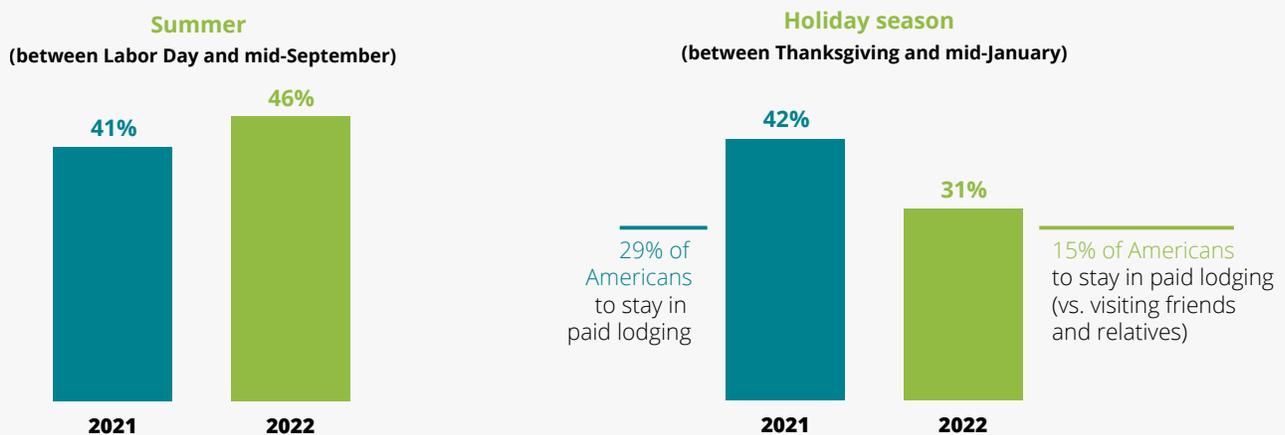
Wanderlust in wallet-wary times: Leisure demand faces murky outlook

When Deloitte launched its [Global State of the Consumer Tracker](#) in April 2020, just 21% of global consumers planned to fly domestically, and 22% planned to stay in hotels. Beginning in 2021, however, each month showed improvement over the prior year as the vaccine rollout boosted safety perceptions. This run finally came to an end in September 2022. For the first time, Deloitte's Consumer Tracker found intent to book travel flat or down across all travel segments, in the United States and globally. Sentiment trends improved somewhat by November, but year-on-year trends remained close to flat, following a summer of big gains.

Americans' intent to travel during the winter holidays declined as well (figure 1), after rising during the summer. This time, no new COVID-19 variant or health scare was to blame. Financial concerns were the No. 1 reason cited among those choosing to stay home.

The softening in demand that began in September could be the beginning of a lasting downshift by belt-tightening consumers. But it also could turn out to be a blip, as travelers reacted to the well-publicized flight delays of summer 2022—concern about flight disruption was a prominent concern among Americans forgoing holiday travel, cited by about one in five.³ With intense peak days, it is harder to avoid crowds and high airfares during the holiday travel season. Time will tell the extent to which elevated financial concerns continue to plague travel in 2023. Hospitality research firm STR anticipates an economic slowdown in 2023 but still forecasts slight increases across hotel performance metrics. It projects a 3% bump in RevPAR, which would represent 12% growth over 2019.⁴

Figure 1. Americans planning to travel by season, 2021 vs. 2022



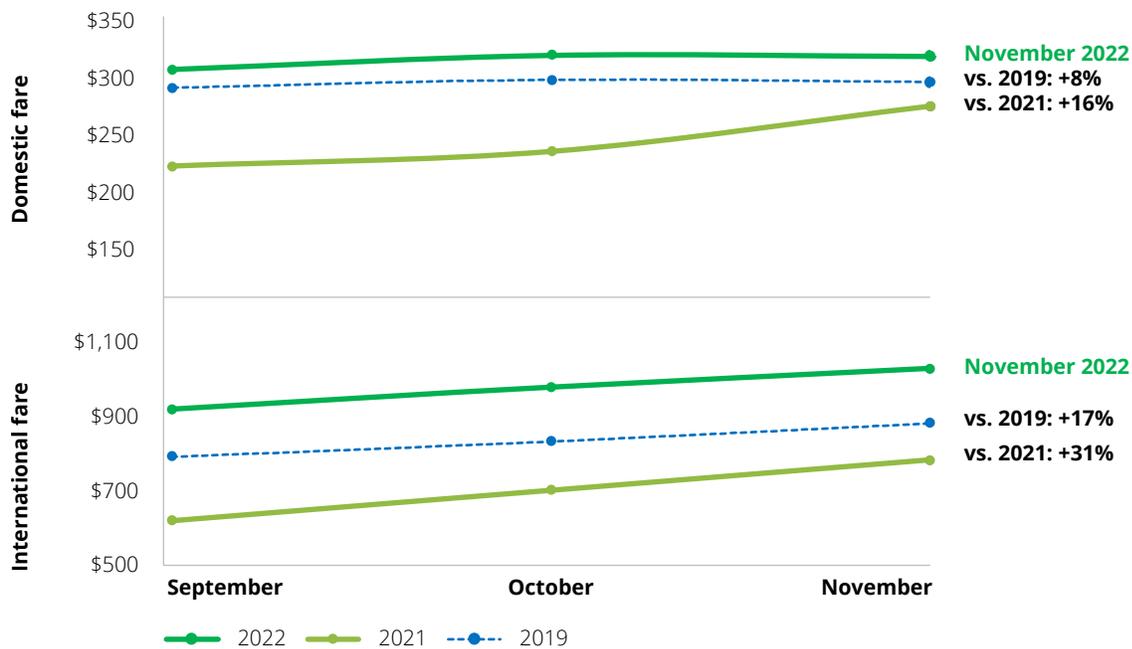
While many returned to travel with enthusiasm in 2022, some had to wait longer than others. China was largely closed to inbound and outbound travel until its government eliminated quarantine-on-arrival requirements as of January 8, 2023. The policy opened a long-awaited pocket of pent-up demand. Prior to the pandemic, the country's outbound travel growth had made it a fixation of destination marketers. Chinese travelers' share of international spend doubled from 6% in 2010 to 12% in 2019, when they were the biggest spenders in the world, according to Tourism Economics analysts. The recent policy shift cleared the way for the return of Chinese outbound travelers, but there are significant barriers to a sudden surge: High airfares, limited airlift, test-on-arrival requirements, and slower GDP growth.

Even among markets that have been open longer, international travelers likely have a backlog of trips in mind. Among US travelers, plans to fly internationally over the holiday season jumped from 10% of travelers in 2021 to 17% in 2022.⁵ Now that many key destinations have been open for months, international trips should continue to increase. Ahead of both the summer and holiday travel seasons, about one in seven non-travelers said they were saving up for a bigger trip. A similar share of travelers whose budgets were smaller than in 2021 said they were holding funds for an international trip.

But if fare trends continue, many could continue to delay ambitious trips. According to data from Hopper, international fares from the United States for September through November 2022 were up a whopping 31% vs. 2021, compared to 16% for domestic fares (figure 2). Challenged by airfares, wallet-wary international travelers will likely put a high emphasis on in-destination costs, seeking out destinations with favorable exchange rates.



Figure 2. Historic US airfare: domestic and international



Source: Hopper.

The quality equation: Challenges in staffing and supply chain, along with high interest rates, undermine the travel experience

As travelers consider the price vs. value proposition of travel, a looming concern of hoteliers and airlines is their ability to deliver the experiences travelers expect. Like the service industry broadly, travel suppliers have struggled to sufficiently staff frontline roles.

In hospitality, the labor force had reached just 84% of 2019 levels by October 2022. And in September, 87% of hoteliers reported staffing shortages in an American Hotel & Lodging Association (AHLA) survey.⁶ At the same time, many hotels have delayed renovations as chains suspended some of their quality reviews during the pandemic. Rising interest rates and persistent supply chain challenges are still making it difficult for some properties to invest in upgrades.⁷

Airlines face staffing challenges as well, for roles from pilots and air traffic controllers to baggage handlers and gate agents. And like hotels, they are experiencing delays in infrastructure updates. Helane Becker, senior research analyst at Cowen, expects labor and equipment challenges to “inform growth” in 2023 and 2024.⁸

If these issues are harming performance for hotels and airlines, the harm is not enough to keep them from growing. October 2022 was the fourth consecutive month that US hotels reached or exceeded 100% of 2019 occupancy, according to STR.⁹ Average daily rates for those months were up an average of 16% over 2021. US daily air travel volume averaged 90% of 2019 levels from May through September 2022, even with domestic fares up an average of 9% and international up 15% over that period, according to Hopper.¹⁰ Still, both of these supplier categories could see travelers begin to demand more value for their money soon. J.D. Power’s annual hotel study reported a drop in guest satisfaction from May 2021 to May 2022, finding that “hotel guests are feeling like they are paying more, but not getting more in return.”¹¹ Airlines also may face more price-sensitive shoppers in the year ahead, especially in the event of a significant economic slowdown.

Solutions to staffing challenges are not simple. According to the AHLA survey, 81% of hoteliers say they have increased pay. But at \$22 an hour in June 2022, average wages across hospitality might not be high enough. Hotels say they have offered other enticements, including better benefits and more flexible hours. Both hotels and airlines must tackle these issues within complex systems. While hotel brands want to see change across their portfolios, owners bear most of the brunt. Airlines are affected by the practices of airports, government agencies, subcontractors, and more, even while trying to stabilize their own workforces.

Travelers will begin to demand more for their dollar

Over the 2022 winter holiday season, one in five Americans choosing not to travel cited concern about delays and cancellations as one of their reasons for staying home.¹² This came after a summer of widely reported air travel disruption. And many of those who did travel Christmas week faced delays and cancellations due to a major winter storm. Travelers may have been giving travel suppliers a pass on the price-versus-experience equation due to the pandemic, general inflation, and what they hear about labor shortages. But this will not last, especially if overall consumer financial anxiety continues to increase.

While some may choose to travel less, or not at all, more will likely adjust their trips, making compromises to control the budget. In Deloitte’s [Global State of the Consumer Tracker](#), the percentage of global travelers leaning toward the cheapest flight itineraries, instead of the most convenient, climbed from 21% in October to 35% in November.¹³

The staffing and infrastructure issues facing travel are complex, and the road to solving them will be littered with frustrated customers who may opt to spend their money on other things.

In corporate's new normal, events will play a starring role

Deloitte's [2022 report on the state of corporate travel](#) projected that business travel spend would reach two-thirds of 2019 levels by the end of 2023, after more than doubling over the course of 2022. In recent months, there have been signs of this recovery, as airline and hotel performance finished the year strong in the face of flagging leisure intent.

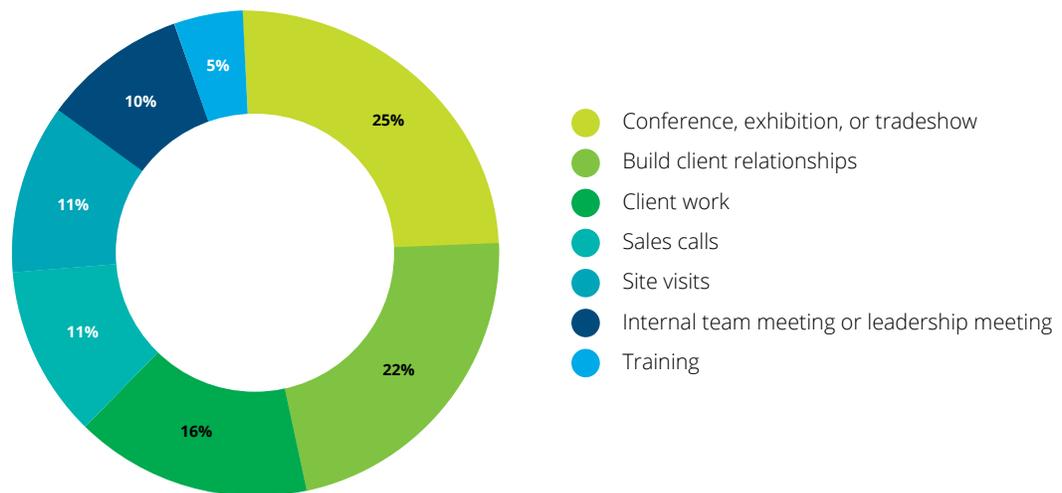
When Deloitte surveys travel managers this month, we expect to find that COVID-19's direct influence on corporate travel has plummeted, as it has with leisure. But conditions do not indicate that corporate travel volume will snap back to pre-pandemic levels. In a December interview, United CEO Scott Kirby suggested it may have "plateaued."¹⁴

Like leisure travel, corporate will face cost-related challenges. With airfares high, and many businesses finding growth harder to come by, some expense-related curbing of trips can be expected. Among travel managers responding to the Business Travel News 2022 Airline Survey, 85% said their organizations' willingness to travel has been impacted by high airfares, with 27% characterizing the impact as significant.¹⁵ And compared to leisure travel, air travel disruption might have an even bigger effect on the corporate side. Half of respondents to an Egencia survey said they would rather cancel a trip than contend with flight disruption.¹⁵

Still, we expect corporate to continue to make significant gains. And a big contributor to that could be a strong year for corporate and industry events. These were major pandemic casualties—nearly all cancelled in 2020, with limited returns and spotty attendance in 2021. But by 2022, attending conferences and industry events was the top impetus for business trips, followed by trips to build client relationships (figure 3). While travel use cases such as trainings and client project work have been somewhat replaced by technology, conferencing software has proven an inadequate substitute for the networking that goes on at industry events.

These events also have a large role to play in supporting two other use cases that business leaders consider key to business goals and not easily executed virtually: client acquisition and relationship building. It appears that much of what used to be office work will continue to be done at home. With work-from-home likely to continue complicating trips to call on clients at their offices (for more on this, see "[Free to roam](#)" in this report), catching up with them at conferences should hold its appeal. Well-executed, marquee events should have a strong year and play a big role in corporate travel going forward. With less time spent in-office, the conference's role in connecting people and creating face-to-face opportunities will likely become more critical.

Figure 3. Primary reasons for business travel, 2022



Source: Deloitte Global State of the Consumer Tracker.

Sustainability's imperative: Awareness is growing, but clarity about climate-friendly options remains elusive

As awareness of humans' contribution to climate change grows, so does the need for more sustainable travel options. Consumer concern is evident: 68% of respondents to Deloitte's [Global State of the Consumer Survey](#) consider climate change an emergency. It's difficult to gauge the effect that has on travel purchases. According to a recent Booking.com survey,¹⁶ more than half (53%) of travelers globally say that they are more determined to travel sustainably than they were a year ago. But the extent to which these intentions translate into travel decisions is unclear, as is the appetite to pay more for greener options, especially when prices are already high.

Corporations' intentions are more likely to come to fruition. Many have made public commitments to lower their emissions. [Deloitte is among these companies](#), aiming for 50% reduction of its business travel emissions per FTE by 2030. Some of this reduction will come from collaboration with suppliers to enable more sustainable travel. In addition to sustainable aviation fuel purchases, Deloitte is also working to move its peers and partners forward via initiatives promoting greater transparency and more clear, consistent standards—including the Sustainable Aviation Buyers Alliance and the CDP Supply Chain Network.

A large amount of the reduction in corporate emissions will come from reduction in corporate travel. The days of essential-only trips at the peak of the pandemic, followed by gradual return, have taught business leaders more about what truly impacts business performance, as well as where technology can adequately replace travel.

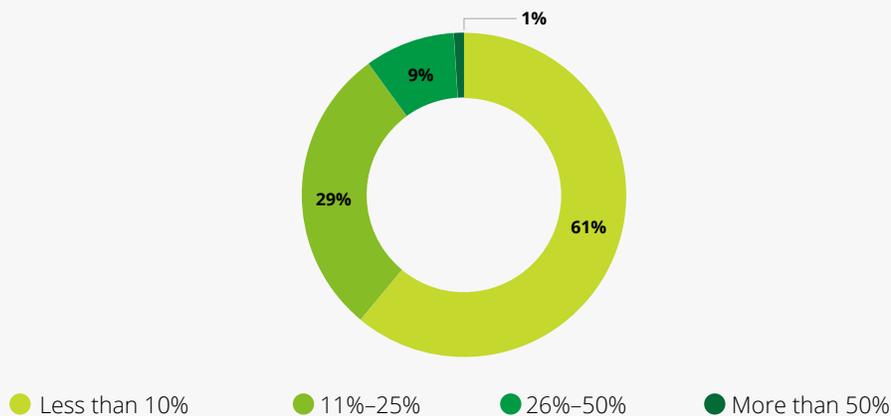
Ultimately, 62% of corporate travel managers say they expect their companies' green initiatives to result in a reduction in travel of more than 25% by 2025 (figure 4). As hotels, airlines, and car rental companies seek to win their share of a smaller corporate travel pie, demonstrating more climate-friendly practices could strengthen their position. But ultimately, the industry should expect a long-term reduction in trips compared to pre-pandemic.

For the leisure and corporate markets alike, would-be travelers' demand for clearer and more streamlined and consistent reporting will grow. But a recession would make it more difficult to move environmental initiatives forward, as suppliers would be much more concerned with staffing, interest rates, and the overall economic environment.

Still, leading hotel companies, airlines, and rental car providers have sustainability much higher on their agendas than they did a few years ago. Most suppliers have some kind of emissions abatement program in place, and travel aggregators have made efforts to make climate impact visible in the shopping path. Brands' efforts to offer travelers more sustainable options will likely become more prominent, though massive strides and breakthroughs are unlikely in the coming year.

Figure 4. Expected impact of sustainability on 2025's travel spend, according to travel managers

Expected to reduce by:



Source: Deloitte Corporate Travel Survey 2022, N=150 executives with oversight of business travel policy, spend, and strategy. Question: How much do you think sustainability considerations will impact (reduce) your company's travel in 2025?

Free to roam: Laptop lugging will grow as more suppliers cater to it

The shift in work patterns precipitated by the pandemic has given many people more flexibility. About half of employed Americans can do their jobs remotely, and both the average number of days they did so (3.2 days per week) and the number they prefer (3.9 days per week) increased about 5% from November 2021 to November 2022, according to Deloitte's [Global State of the Consumer Tracker](#).

Untethered from offices, some are choosing to add trips to the calendar and add days to their trips. For many, this means bringing their work with them. This laptop lugging behavior is prominent and expected to grow as consumer habits solidify and travel suppliers increasingly shape their products and marketing around laptop luggers' interests.

Deloitte's [2022 summer travel survey](#) captured one in five travelers saying they intended to work at least partially on their longest summer trip, similar to intent in 2021. These travelers were relatively younger (five times as many 18-to-34-year-olds vs. 55 years and older) and higher income (twice as many earning \$100,000 or more vs those earning less than \$50,000). One third said they intended to add three to six days to their longest trip of the season.

With flexibility here to stay, laptop lugging will likely continue to contribute to higher-frequency travel and longer stays. Those privileged to exercise this option also could use it to cope with higher prices, by organizing trips to avoid peak days and to make the most of available deals and discounts. The ability to work remotely is also increasingly factored in travel decision-making, especially when travelers select their destination and lodging (figure 5).

Figure 5. Travelers considering ability to work remotely in destination and lodging selection

		Change in influence (vs. 2021)
Destination selection	37%	+5%
Lodging selection		
Hotels	51%	+12%
Private rentals	54%	+19%

Source: Deloitte's 2022 summer travel survey.

And this consideration is not restricted to those working on their trips. Others are favoring a functional working environment in their decisions as well, likely accommodating those working in their travel party or preparing for the potential need to work, just in case.

Many travel providers have recognized the ascent of this trend and are tailoring their offerings to meet the new needs of this group. Some airlines are rethinking their route maps to accommodate growing hybrid business models and leisure travel.¹⁷ Hotel brands that predominantly catered to corporate travelers are investing in better remote-work infrastructure, changing room layouts for more in-room workspace, offering a wider range of services and activities, and so on, to lure the leisure traveler.¹⁸ Private rentals are anticipating longer stays and more international demand going forward and attribute it to rising remote and hybrid work.

Laptop luggers present a lucrative opportunity for travel. And this pattern could lead to a positive feedback loop, as more providers mold their offerings to attract this traveler, giving travelers more incentive to take advantage.



The US economy ended 2022 on mixed footing. Unemployment stood at just 3.7% in November, but the month also saw a big wave of layoffs. Tech was especially affected, with 51,125 employees laid off during the month across 203 companies, according to Layoffs.fyi.¹⁹ Third-quarter earnings calls highlighted macroeconomic uncertainty and rising interest rates. Inflation finished the year in the high single digits, though slightly off its summer peak. Anxiety about the near future increased among Americans—about two-thirds surveyed in October do not expect their financial situation to improve within the next year.²⁰

This weakening of financial confidence seemed to threaten travel growth in the final months of 2022. After a year and a half of steady improvement, intent to travel began to wobble in September.

Still, performance indicators in the airline and hotel industries remained strong, likely due in part to much more corporate demand compared to the year before. Travel seems to still hold sway over consumers' discretionary spend, but high prices in a softening economy could begin to strain that position. Opportunities exist to attract new travel cohorts, but workplace flexibility can only offset so much financial anxiety, especially when travel suppliers face pressure on their own income statements. Overall, the travel industry is moving from a year defined by return and resurgence into one that will require recalibration and repositioning.

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