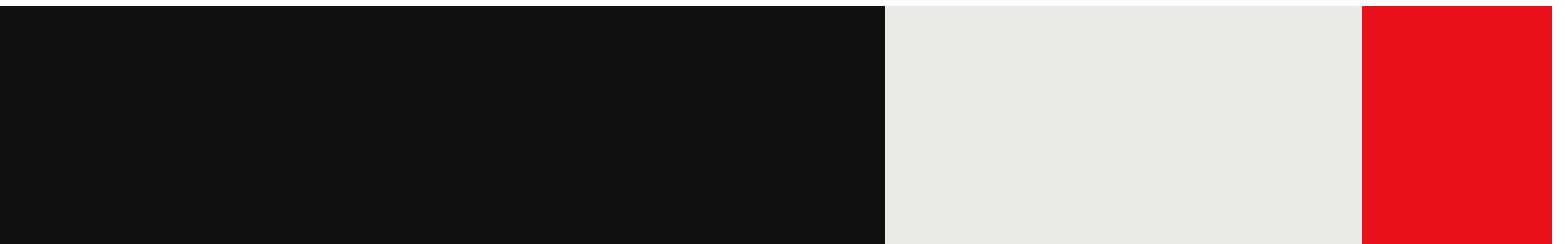


The Daily: How travel is changing—Has it actually fully recovered, how budget airlines are pivoting, and more

Audio



On today's podcast episode, we discuss the travel stats that sum up how the year has gone, if a full recovery is even on the cards, and what's next for budget airlines. Tune in to the discussion with host Marcus Johnson, forecasting writer Ethan Cramer-Flood, and forecasting analyst Zach Goldner.

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Episode Transcript:

Ethan Cramer-Flood:

I would be cautious in assuming that things are "back to normal." We're acting as if the world has now returned to pre-pandemic times. Let's compare everything to 2019 and see if things

are better or worse, and then make some decision from that point. I'm not sure things are really back to normal. I think there's still distortions in how regular people are choosing to spend their money.

Marcus:

Hey gang. It's Thursday, September 12th, Ethan, Zach, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus. Today I'm joined by two folks. We have one of our senior forecasting analysts based in Colorado. His name is Zach Goldner.

Zach Goldner:

Hey, Marcus. Thanks for having me.

Marcus:

Hello, sir. Yes indeed. Thank you for being here. We're also joined by our visible forecasting writer. He is over in New York City and we call him Ethan Cramer-Flood.

Ethan Cramer-Flood:

Marcus. It's apple picking season.

Marcus:

Already?

Ethan Cramer-Flood:

But instead of apple picking, I'm here with you on a podcast. Let that sink.

Marcus:

Okay. Don't say it like that.

Zach Goldner:

Ethan, how many apples did you have last year?

Ethan Cramer-Flood:

So many. The amount of apples that you come back from an apple picking sojourn with will dominate your kitchen for the next two months. It's just outrageous.

Marcus:

I think you're taking too many. I think that's what's happening.

Ethan Cramer-Flood:

Yeah, no, yes.

Marcus:

Leave a few behind.

Ethan Cramer-Flood:

We take too many. I'm not taking full blame for this. But let's say things happen and you end up eating nothing but apple related content for the next two months.

Marcus:

Sounds like a crime taking place, but we'll talk about it later.

Zach Goldner:

Marcus?

Marcus:

Yes.

Zach Goldner:

The only crime here is that Ethan didn't give me me an apple, but I-

Marcus:

The only crime here is apple pie and that Americans think that's a socially acceptable dish.

Ethan Cramer-Flood:

Ooh. Shots fired.

Marcus:

Yeah, it's truly awful.

Ethan Cramer-Flood:

I enjoy apple pie, but after two months of nothing but apple related food, I don't enjoy any of it.

Marcus:

Okay. All Americans, apple pie, peanut butter?

Ethan Cramer-Flood:

Oh my god.

Marcus:

Chicken and waffles.

Ethan Cramer-Flood:

You got to keep these hot takes to yourself.

Zach Goldner:

My ears are bleeding.

Marcus:

They know I'm right. If I ever ran for president.

Ethan Cramer-Flood:

You got to keep these takes to yourself.

Marcus:

Is that not true? Do you guys not like peanut butter?

Ethan Cramer-Flood:

No, I love peanut butter. I love apple pie. I'm a normal person.

Marcus:

There we go. Exactly.

Ethan Cramer-Flood:

It's a staple.

Marcus:

See? All Americans. If I ever ran for office, free peanut butter for everyone, and I'll get elected like that. Marcus 2028. Look out. All right, we probably don't need a fact of the day because we've been talking about American foods the whole time. So let's just start the episode. Today's real topic, how travel is changing. Has it fully recovered and how budget airlines are pivoting.

All right, let's talk about the state of travel. So at the start of the year globally, a record 4.7 billion people were expected to fly this year surpassing 2019's figure of 4.5 billion according to a projection at the time by the International Air Transport Association, IATA. The travel world certainly had a tailwind going into this year. US and tourism related spending grew 7% last year, outpacing 2019's previous high, according to the World Travel and Tourism Council. US domestic travelers, zooming in on America for a second, spent 9% more than they had in 2019.

So those numbers all look good. But looking at major travel periods for this year in America, couple for you, 7.7 million folks flew around the country over Memorial Weekend. That's over half a million more than a year ago. And around 44 million families hit the road over the holiday weekend as well. It's close to the 2005 record. Juliana Kim of NPR notes that Labor Day, another major holiday, travel holiday, in America, was expected to see the busiest ever for the holiday at airports with 17 million passengers playing to fly through Wednesday, according to the TSA. The best we've seen in five plus, six plus years. Ethan, I'll start with you. What has been the most interesting travel stat to you that you've seen this year and why?

Ethan Cramer-Flood:

So one thing I just recently discovered via these articles that you sent around, although they were primarily about flying, the stat that was buried in there was about gasoline prices in the US and the fact that they're actually down. Which I found somewhat counterintuitive and in some cases they're tremendously down. So if we're talking about these travel related data points that we constantly see, it seems like every holiday weekend there's a new record being set, more people are spending money traveling, more people are flying, more people, just everything. We set a new record all the time. It's also that gas prices are actually down and

there's almost no category I can think of in the world across any industry or any product set where prices are lower now than they were just a couple of years ago.

Marcus:

Good point.

Ethan Cramer-Flood:

But they're significantly lower. It was like \$5 in 2022 and then in 2023 it got under four and now it's like 3.50. That's a major decline.

Marcus:

Yeah.

Ethan Cramer-Flood:

So people have the ability to drive around. Now once you get there, the pricing reality of after you travel, we spend a lot of time talking about ticket prices and airlines and whether they're up or down and whether flying internationally is higher and we're going to talk about low cost airs and then gasoline prices being down. Once you get there, hotel prices and the cost of everything that you intend to do once you arrive in your destination, those are still outrageous. But it is fascinating that there's almost nothing in America that's cheaper now than it was a couple years ago, but in travel, some of it is.

Marcus:

I mean, lower gas prices definitely helping, particularly on that Labor Day weekend. Gas prices over that weekend were about 3.35 a gallon for regular down from 3.82 a year ago. So a significant drop. And that has contributed to Americans hitting the road a lot more. AAA reporting domestic travel over Labor Day weekend was up 9% year-on-year and that seems to be something people are doing instead of international travel. That was down 4%, international travel over Labor Day weekend, according to AAA down 4%, as international travel costs up 11%. Zach, for you?

Zach Goldner:

Yeah.

Marcus:

What jumps out?

Zach Goldner:

So as you had mentioned the article and what our own forecast show in terms of ad spending on travel, but we're seeing that the industry remains elevated here in the US and internationally. And that is as inflation continues to hurt the average American's pocketbook, the effects that we're seeing are not being distributed equally. So the statistic I want to share with you guys is something from CoStar Group and a Wall Street Journal piece regarding ultra luxury hotels.

The number of US hotels with an average daily rate of \$1000 plus in the first half of this year was 80. That's compared to 22 in 2019. Now, if we were to look across the pond in Europe, you have the number of places have tripled in that time. So I don't know about you, I can't afford \$1000 hotel a night, but what we're seeing in travel is also being reflected in the economy. As when the middle class is getting a little more squeezed, we're seeing luxury being hotter than ever before. Those that do have the money to spend are making up from their time during COVID being spent inside their homes and they're splurging.

Ethan Cramer-Flood:

It's interesting to hear you make this observation about that in Europe as well because one of, at least an anecdotal experience I had is that although, I mean to Marcus's point, international travel declined 4% even while we're seeing these explosive travel figures for within the US. But in my experience as an individual, I would encourage everyone to think about the cost of their trip after they've landed. So while it is true that flying overseas is incredibly expensive, the ticket, the airfare, is prohibitively expensive and can be scary, once you land, things are a lot cheaper. Every hotel I've stayed in in Europe in the last couple of years has been less expensive and better than what it would be in the US where prices have absolutely exploded. So what it takes for you to have a good time on your trip after you've gotten there can often actually be less expensive if you leave the country. But the problem is that barrier. It's getting on the flight in the first place.

Marcus:

Yeah.

Zach Goldner:

Personally, I'm a big skier. I've seen on social media a lot of comparisons comparing the US ski resorts to that of the European ski resorts, which can be five times the size or larger. And when you look at day pass here in the States, some resorts are up to \$300 a day. Compare that to Europe where you might be spending 25, 50, 75 bucks?

Ethan Cramer-Flood:

Yeah, exactly.

Marcus:

But to your point, Zach, there does seem to be a bit of a travel bifurcation that's getting worse. And you mentioned hotels. Marriott's high-end brands, Ritz-Carlton, St. Regis, W Hotels, outperforming those of the lower chains that they have. Also home rentals. Rachel Wolfe, who writes for our retail briefing was pointing this out. Slowing demand from US guests in Q2, except for those in higher income brackets who pick more expensive listings, that was according to Airbnb CEO, Brian Chesky. And then in terms of airlines as well, Delta and United reporting strong growth in revenues from their premium cabins in Q4, up 15% year-on-year for Delta and 16 for United. While budget carriers like Spirit and Frontier had to resort to steep discounts to fill the seat. So it does seem like it's getting harder for travel for people in the lower income brackets. And Deloitte's summer travel survey showing consumers with incomes under 50 grand making up 19% of travelers. That's down from 31% of travelers a year ago.

It did feel to me though, I mean maybe we said this last time, it does feel like travel is back and there's some numbers from the TSA showing this summer, so June, July, August, the TSA screened an average of 2.7 million passengers a day versus 2.3 million over the same period in 2019. And then Labor Day, I mentioned that 17 million figure, 17 million Labor Day flyers would be 4% more than last year, 11% more than pre-pandemic 2019.

Zach Goldner:

And Marcus, as you do mention how some of those more budget airlines are changing up some of their features and their offerings, they're moving more towards a premium strategy where they're allowing you to maybe block off the middle seat or allowing wifi on all plans, which are going to eventually increase up the price of the ticket, squeezing the middle class even more for a pricier ticket.

Marcus:

Let's talk about those budget airlines for a second because there was an Economist piece that was titled from Southwest to Spirit, Budget Airlines are in a Tailspin, pointing out that today Southwest is America's biggest domestic carrier and the world's fourth-largest airline, turning an annual profit every year since inception in 1973 to 2019. However, it points out the pandemic has hammered profit. Southwest's revenue of 26 billion last year was above pre-pandemic levels, but net profits fell from 2.3 billion in 2019 to just 500 million, the article noting that neither Spirit or JetBlue have turned an annual profit since the pandemic. Ethan, what's next for budget airlines, particularly in America?

Ethan Cramer-Flood:

Well, unfortunately it seems like what's next is basically what Zach said in that they're going to attempt to turn their fortunes around by leaning into more premium options and trying to compete maybe a little bit more with the legacy carriers. That doesn't seem like the way to go.

Marcus:

Right.

Ethan Cramer-Flood:

I mean, my initial instinct was they need to get back to actually competing at being low cost options because they hardly seem like they are anymore. Again, this is anecdotal. I live in New York City, so I realize that my experience as a frequent traveler over the last 10 years or so may be distorted because we have weird idiosyncrasies with how competitive it is flying in and out of New York and the airport fees, et cetera. But rarely do these low cost airlines actually present the lowest option anymore.

It used to obviously you would know that they would be your lowest price option and then you would make the decision as to whether you want to deal with everything that comes with that. Nowadays they don't even, when you're searching for your airfare and your flight here, they're not even the ones that come up because the legacy carriers have done such a good job at competing at the lower end. They put you in the back, the very end of economy, coach class, whatever. That's fine. And you're going to have to pay for all your add-ons. But very frequently for us, it would be more JetBlue. We don't have as much Southwest here, but something like JetBlue that always used to be the cheapest just isn't anymore except for in

certain routes. And very frequently they're being undercut. So be low cost. This is what people are looking for. It's expensive to ride on these guys now, so why wouldn't you just go with the legacy carriers that give you more ancillary benefits?

Marcus:

I do wonder if they can compete with that because those folks, to your point, they're offering lower cost seats. Keith McMullan, Aviation Strategy, agreeing with you, Ethan, saying legacy carriers are filling up the empty seats to the back with no frills fares. And I wonder how to look, I mean I'd known because booked flights recently and I'd seen the tickets, but there's a couple of examples. Virgin Atlantic that flies from the US to Europe, they split their economy ticket into economy light, classic, and delight. United split their economy into basic economy, economy, and economy fully refundable. Americans split economy into basic economy, main cabin, and main plus. And so they have taken that lower end ticket option they had, made an even lower end one, one in the middle, and one that's a little bit above that, and it seems to be working.

Zach, my question is, can low cost airlines exist in the US the way that they exist in Europe? And I say that because, so Ryanair, that's Europe's biggest airline by passenger volume and their main low cost carrier over there, they hit record profit and their August numbers were also at record highs. So they're doing well. Wizz Air is another Hungarian based one. They're doing well as well. But part of the reason they're doing well, Europe has more secondary airports, so they don't fly you necessarily to the big hub airport. They'll fly you to an airport just outside the city, so it's cheaper for them to rent the space from those secondary airports for low cost airlines. And two, the country's a lot smaller, and so when you're flying between places, there's an hour flight here and there. You can get an hour flight here and there to some parts of the US, but it's just so much bigger. So can they even exist at low cost airlines in America?

Zach Goldner:

You look at what's happening in the economy right now, they're trying to merge and be acquired by a bigger group. The consolidation among US airlines right now is intense. There's only a handful of real competing airlines.

I think you brought up a great point about Ryanair. I think that if an airline really were to just be cheap, there are two factors that Americans look for most. One, they want to look at the

cheapest price, and two, they want to make sure they get to their destination and on time. If you were to get those two factors down, I think that you could replicate a strategy like Ryanair. Yes, the airline that even openly mocks its customers for giving negative reviews.

Marcus:

It's true.

Zach Goldner:

People don't care about the experience on the actual plane nearly as much, where if you're able to just get those two factors down, I think you'd really be open up to a big base of Americans that are making under \$50,000 a year that would be willing to take more flights if the fares were lower.

Marcus:

Yeah. Ethan, do you agree?

Ethan Cramer-Flood:

I would be cautious if I was these companies and anyone thinking about this. I would be cautious in assuming that things are back to normal, "back to normal." We're acting as if the world has now returned to pre-pandemic times. Let's compare everything to 2019 and see if things are better or worse and then make some strategic decision from that point. I'm not sure things are really back to normal. I think there's still distortions in how regular people around this country are choosing to spend their money in terms of the balance between services and consumer goods and retail and also we have this incredibly distorted housing market and this sort of frozen housing market, which also changes the availability of money in people's pockets. And at the end of the day, I think we will get back to a point where more consumers will go back to looking for the low cost carriers.

I mean, right now their legacy ones are able to fill up all their seats and the low cost ones are not able to fill up all their seats, but when these spending decisions actually get back to a truly "normal" level, I think the demand will pick back up, if they're there offering those low cost options. That's my concern is like they're going to shift their strategy and they're going to go premium, and then three years from now when people are making normal decisions again and they're looking for these cheap options, they're not going to be there.

Marcus:

Yeah. Good take.

Zach Goldner:

I think what you see that has the most amount of momentum at the moment is with business travel and with first class, upper class people, that are getting a premium offering on planes, and since we're now three, four years post-pandemic, we're looking at that momentum is going to eventually slow down and you're going to want to tap into a bigger audience. And that's where I see that airlines are continuing to want to price segment their demographics and airlines might want to try to open up more towards lower income individuals here in the US.

Marcus:

Yeah. Budget airlines seem to be working around the world, just struggling more in the US. The Economist was pointing out in 2001, budget carriers accounted for less than a 10th of global flight capacity. That figure now at one-third, according to the consultancy OAG. In America, yeah, things just aren't great. The share prices of America's four biggest low cost airlines tanked by nearly 50% on average since the start of last year, 2003. Those of America's three legacy carriers, American, Delta, and United are up by 5%.

Ethan Cramer-Flood:

Marcus, I know we're up against time, but let me get in a plug on something here.

Marcus:

Please.

Ethan Cramer-Flood:

Because we're thinking about these airlines and how they can get back to profitability and become sustainable. We have a possible solution to that coming out relatively soon. Our forecasting team is hard at work on our debut forecast for travel media ad spending, which is part of this whole commerce media trend.

Marcus:

Oh, interesting.

Ethan Cramer-Flood:

And when you think about additional sources of revenue, particularly in a low cost environment where part of the deal is that you're going to have a relatively bad experience, but you're going to get a cheap ticket and you're going to get where you want to go. If you think about these, that travel media is the way in which all transit and travel related companies, be they car services or airline services or anything in the travel world, can leverage their first party data to deliver advertising to their customers or their passengers or whatever. You think about the screen in the front of the seat when you're sitting in an airplane or all the different ways that there could and probably will be more ads coming at you in the future.

Now all the airlines are doing this, not just the low cost ones, but it's a pretty obvious way for more revenue to come in. That's the trade off that, again, maybe the premium travelers are going to say, "I want an ad-free experience." But the low cost providers are going to be like, "We're going to drown you in ads, but the ticket's going to be cheap because we're making up all this revenue." So we're going to have a forecast on how much money is in that.

Marcus:

That's a great point.

Zach Goldner:

And your seat, the screen in front of you, knows who you are.

Ethan Cramer-Flood:

Exactly.

Marcus:

Yeah. They've got a lot of information about you.

Zach Goldner:

Or personalized ads.

Marcus:

Ethan, one more time. The title of that forecast?

Ethan Cramer-Flood:

Digital Travel Media Ad Spending.

Marcus:

Okay. ProPlus subscribers, you can head to eMarketer.com and get hold of that. This month, it's coming out?

Zach Goldner:

Within the month. Yeah.

Ethan Cramer-Flood:

Yeah, by the end of the month.

Marcus:

Okay, perfect. All right, that's all we've got time for this episode. Gents, thank you so much for hanging out as always. Thank you to Ethan.

Ethan Cramer-Flood:

Thanks a lot.

Marcus:

Thank you, Zach.

Zach Goldner:

Thanks for having me.

Marcus:

Yes, indeed. Thank you to everyone who took time to listen to this episode. Thank you to Victoria who edits the show. Stuart runs the team. Sophie does our social media. We hope to see you tomorrow for the Behind the Numbers Weekly Listen, an eMarketer video podcast that you can of course check out on YouTube if you want to follow along to some of the data and the charts that we put up on the screen and see our faces. Or you can of course listen to us on any of the podcast platforms.