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Baumohl: Despite Global Recovery Cost Cutting Continues; Hotel Rates Most Competitive

Bernard Baumohl

A recent discussion of the state of the economy by high economists was a bit like a tennis match, said Bernard Baumohl, Chief Global Economist for The Economic Outlook Group, LLC at the Strategic Travel Symposium early this week, sponsored by the National Business Travel Association and Business Travel News. He said that one person would state why the economy is in great shape. The next would explain how major crisis with Greece will spread. "Back and forth they went. Everyone was disoriented," Baumohl said, promising to demystify the discussion.

His conclusion was that corporate travel has already stabilized. "Corporate Travel will recover this year and be stronger in 2011, but it is unlikely to return to pre-recession levels for several years."

This means corporate travel departments will remain focused on cost-cutting and new emphasis will be placed on video conferencing and less first front of plane air travel, Baumohl told attendees. In addition, he predicted, "Upscale hotels will have to compete aggressively and this could hurt margins."

Several corporate travel agents and managers in the audience validated the fact the fierce competition from hotels was driving amazing rates cuts. "Unsolicited and significant rate cuts!" one corporate travel agent told Travel Market Report.

Due to economic conditions, the biggest increase in corporate travel will be to the Far East and Latin America, Baumohl said, noting that sensitive business talks cannot be done via web conference, selling, marketing and negotiating often requires face-to-face conversations, and cultivating new relationships demands a personal touch.

The New Normal generally refers to the belief that economic recovery will be anemic and growth will be extremely slow for five to ten years, Baumohl stated, insisting: "That is too pessimistic; there is more robust economic growth ahead." In fact, the first quarter of 2010 promises to show positive GDP growth, he said.

The cyclical recovery in corporate travel has begun but will take years to return to pre-recession levels, he said. Plus, the industry faces fundamental changes, especially in the areas of cost cutting and communications technology.

There are three lines of thought about the next one to two years, according to Baumohl. Each has serious implications for the travel industry.

In the worst scenario, there would be a double dip recession, a relapse back into a recession once the federal stimulus and inventory investment wind down. In this case, unemployment will remain high and global crises will grow in Greece, Spain, Portugal and Italy, while Washington gridlock leads to record deficits ad loss of confidence in the dollar. For the travel industry, this would be a global disaster. Business and leisure travel would shut down; hotel and transportation would slip, the dollar would crash and there would be a threat of deflation. He gave this a 15% probability of materializing.

The second scenario would be a slow, weak recovery, a "New Normal," which he predicted has a 30% chance of occurring. Here, a prolonged period of recovery would lead to a modest rise in consumer and business spending, a depreciating dollar and scarce credit as interest rates crawl higher but inflation remains quiescent. This would mean a weak recovery in business travel.

He gave the third and most optimistic scenario a 55% chance of materializing. He noted that 90% of the labor force is still at work, there is pent up consumer demand, companies are eager to increase inventory, capital spending and employment and banks tend to lend as default risk diminishes.

In this scenario, GDP growth would be 3.5% to 5% and US and foreign economies would recover, the dollar would climb and business and leisure travel would go into in recovery mode. He noted that US unemployment appears to have peaked, Americans are shopping more but avoiding debt, and US household wealth is starting to recover. As a result, his forecast is for a significant rise in business spending.

Internationally, foreign trade is picking up. The biggest growth is in the economies of Asian and Latin American countries, many of which are growing at three to four times the rate of the economies of developed nations. For 2010, he predicted strong growth in India (7.4%)

and China (10%), Brazil (5.2%) as well as, Peru and Columbia—and Chile would have been in those numbers if not for the earthquake.

Among first and second world nations, Russia (3.9%), the U.S (3.5%), Canada (2.6%) and Australia (2.3%) are among the fastest growing, where Baumohl predicted growth of 3% to 4%. While UK growth is predicted to be 2%, the Eurozone is predicted to have growth of 0.8% and Japan remains sluggish at 1%.

His main caveat was oil. "That could be the spoiler."

Baumohl pointed to a number of other potential spoilers. In the U.S., these include real estate defaults, tight credit, demand for funds that drives interest rates up. He also cited potential internationalderailers such as sovereign debt defaults, with Greece just the first of many, nuclear issues in Iran and Pakistan, terrorists using weapons of mass destruction and China's credit bubble bursting.

One of the biggest issues he saw in the U.S. is Washington gridlock, which he said reminded him of Mark Twain's quip that "diapers and politicians have to be changed frequently."