

Edition
#2

Destination unknown: The future of long-distance travel

A study on the post-Covid recovery
and consumer expectations

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The Roland Berger
Center for Smart Mobility

Summary: A fragile recovery

After almost three years in the doldrums, what is the status and outlook for the long-distance travel sector? This question is the key motivation behind this report, a follow-up to a similar report produced in 2021.

The first section covers the market situation and post-Covid recovery in 2022. In particular, we focus on the recovery of aviation, and provide airline industry forecasts for 2023.

In the second section, we outline the results of our consumer sentiment survey. Undertaken in late 2022, it involved almost 7,000 respondents in seven countries (China, USA, Germany, France, UK, India, Brazil). We compare the findings to both a pre-Covid 2019 baseline index and the 2021 survey results, revealing how consumer expectations have changed.

The report finds that:

- Travel bounced back in 2022, beating predictions made in 2021 but falling below pre-Covid levels. In the US, for example, pent-up demand saw long-distance travel return to around 90% of pre-Covid levels. However, a full global recovery is not expected in 2023.
- The recovery is fragile and built on a contradiction. While travelers returned in large numbers, survey respondents said they are now less willing to travel long distance than in 2021 (down around 28%). So it is unclear if the demand surge will be fleeting or sustained.
- The key reasons behind the decline and behavioral changes are concerns about the environmental effects of travel, and the use of virtual communication. Air travel is likely to be hardest hit.

We assess the impact of sustainability concerns in a separate publication.

Recovery status of long-distance travel demand

Air and rail travel have bounced back in USA and Europe, but China lagging

The easing of many Covid travel restrictions meant that air and rail travel enjoyed a strong global recovery in the past 18 months. But while this beat expert predictions, demand is still short of pre-Covid levels in major markets:

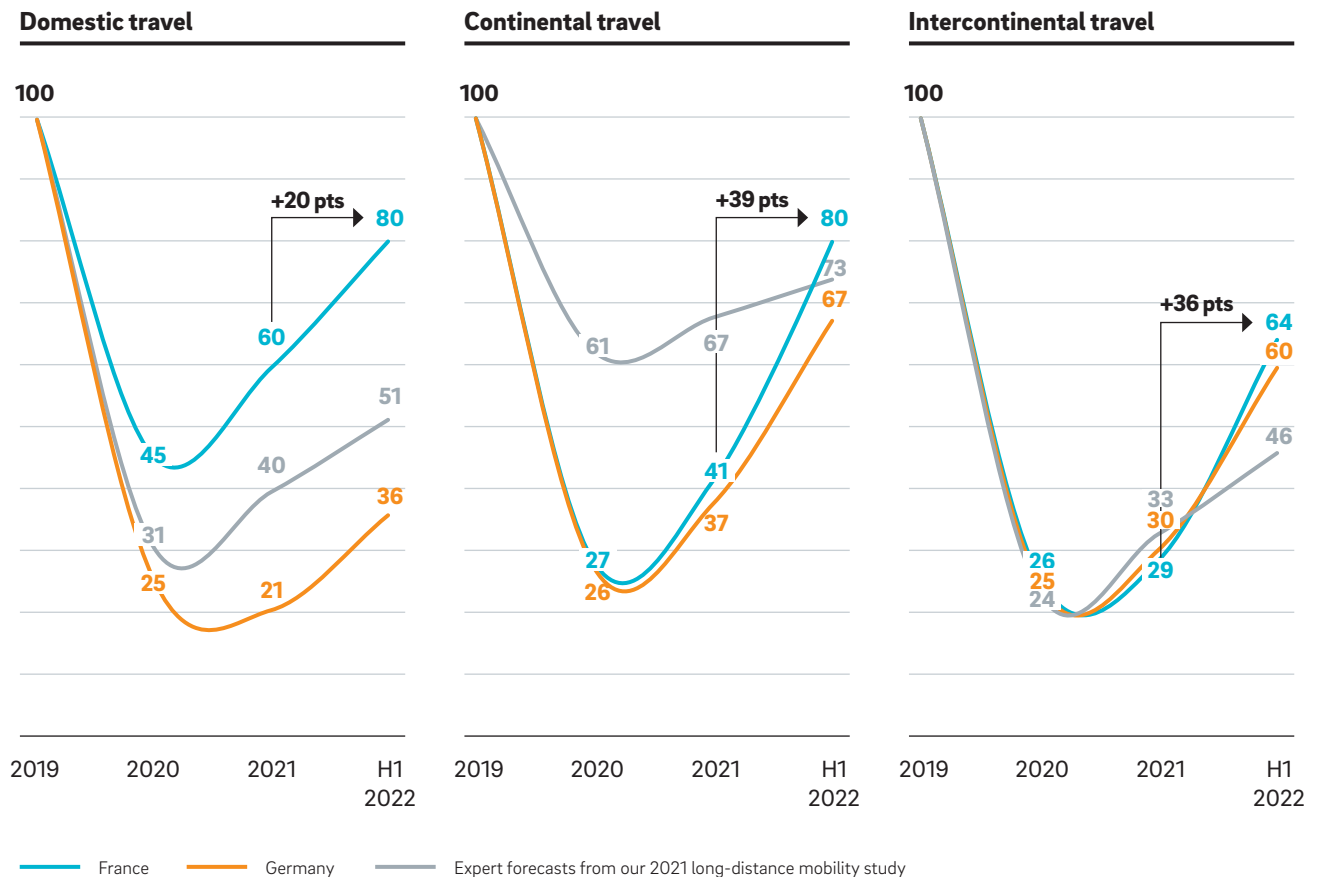
USA: The US saw a steep recovery in air travel. Demand, measured in terms of number of trips, grew to 87% of pre-Covid levels in H1 2022 – 18 points higher than in 2021. This was driven by a higher share of domestic flights as well as the easing of travel restrictions. Demand on some routes even surpassed previous levels; for example, the New York – Paris route hit 101% of its pre-Covid level in August 2022. A full recovery is expected in 2023.

Europe: European air traffic also bounced back. Demand reached 60-80% of pre-Covid levels in H1 2022, as against 20-40% in 2021 (see infographic), driven by domestic and continental travel. This was despite the war in Ukraine and multiple economic challenges. The results are in line with 2021 customer sentiment and reflect a strong desire for private travel. Rail travel in Europe also rebounded, reaching about 75% of pre-Covid levels.

China: The situation was different in China. Its strict zero-Covid policy saw air traffic demand drop to 32% of pre-Covid levels in H1 2022, compared to 74% in 2021. Some Chinese airlines saw 50% reductions in EBIT as a result. Rail travel was also hit, with demand falling by 37 points between 2021 and 2022. China only began lifting its zero-Covid policy in early 2023.

UPWARD TRAJECTORY

Air travel demand in Europe is recovering strongly across all travel distances [100 = 2019 levels]



Source: Eurostat, data.gov.uk, Roland Berger

Recovery outlook for the air travel market

Airlines' capacity forecasts now exceed 2019 levels in big markets; industry still squeezed

Airlines' forecast numbers in major markets are expected to exceed pre-Covid levels imminently. According to the aviation data company Cirium, seat capacity for flights originating from or leaving the US in H2 2022 is estimated to be 111% of pre-Covid levels, and 104% in H1 2023. The H2 2022 figure for Europe is 104%. China is projected to hit pre-Covid levels a little later, achieving 109% of pre-Covid passenger numbers in H1 2023.

Despite the revival of the past 18 months, several market trends are putting pressure on airlines and airports to make their operational processes more efficient and cost-effective. Top among these are:

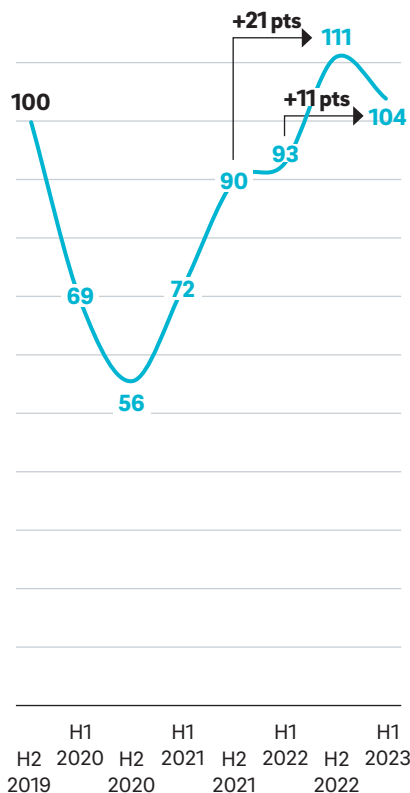
- Resource scarcity, caused by a tight labor market and skills shortage (particularly in Europe and the USA), and made worse by the pandemic and difficulties adapting to demand recovery.
- Cost increases, due to rising energy and fuel prices (+40% increase in oil prices in 2022). Driven by unprecedented inflation, these are putting pressure on finances and investment capabilities.

Away from aviation, the aerospace industry also saw a resurgence in 2022. Airbus had received orders for 1,015 medium-haul and 47 long-haul aircraft by the end of November, while Boeing had 644 orders by the end of October. The total number of orders was the highest since 2018, despite orders from China, one of the biggest markets, being yet to fully recover.

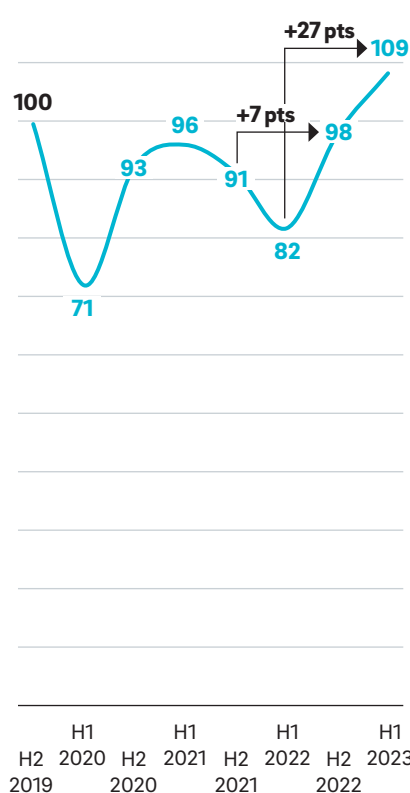
FLYING HIGH

Forecasts suggest airline seat numbers¹ in the US, China and Europe will all recover by H1 2023

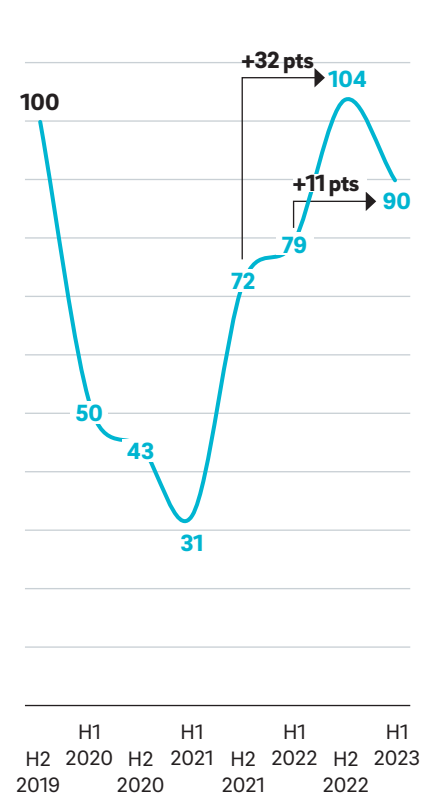
United States



China



Europe



¹ Seats forecast for flights both from and to the continent/country

Consumer sentiment survey: Overview and summary

Business travel facing the greatest drops; sustainability now a major factor

The 2022 consumer sentiment survey is a follow-up to a survey conducted in 2021. Both are organized around four key market dimensions: Travel distance (domestic, continental, intercontinental); travel purpose (business, private); mode of transport (train, plane, car, bus, other); and focus markets (China, USA, Germany, France, UK; India and Brazil added in 2022).

The survey was performed in November 2022 and involved almost 7,000 respondents in the focus markets, representing 46% of the world's population. The main purpose was to establish current consumer expectations and compare these with a pre-Covid baseline and the 2021 results.

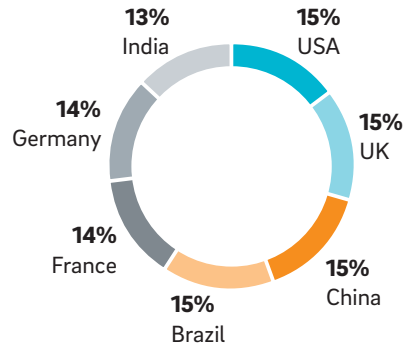
Highlights

- Overall demand for long-distance travel expected to remain below pre-Covid levels in the coming years.
- Business travel worst hit, with a 28% drop in the number of trips per person compared to pre-Covid levels.
- Consumers more positive about private travel, particularly regarding continental trips (demand up 10% vs. 2021).
- Sustainability now a key factor behind the decline in demand among all travelers.
- Most respondents (90%) willing to pay more to limit the climate impact of flights.
- A majority of respondents expect to reduce their use of air travel in favor of rail or cars, but fewer than in 2021.
- With environmental concerns now a major driver for traveling less, it's unclear whether the "revenge" travel of 2022 will be fleeting or sustained.

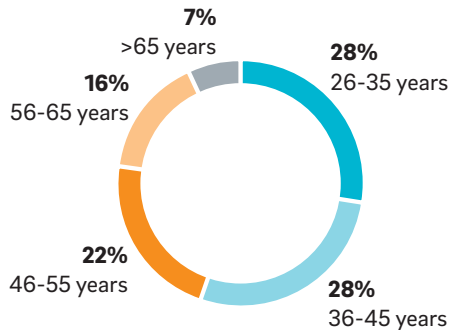
THE LOWDOWN

Survey respondents¹ were distributed evenly across the focus markets

Breakdown by country

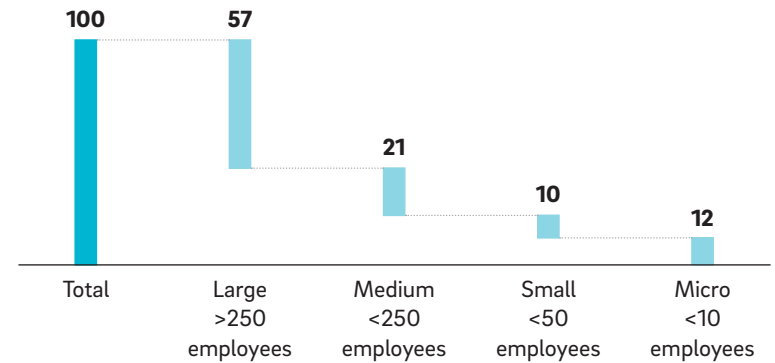


Breakdown by age group

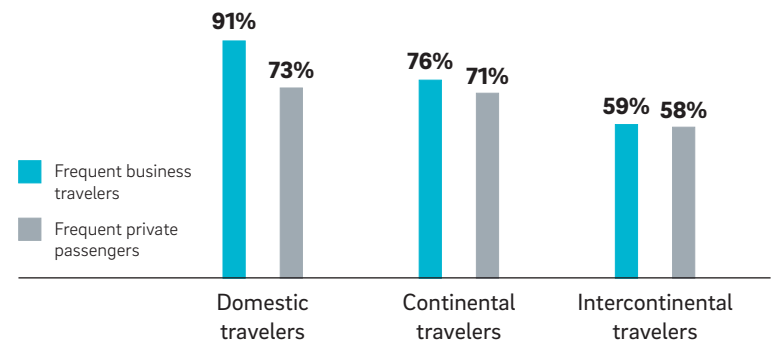


97% of participants own a driver's license

Breakdown by size of company



Breakdown of frequent travelers by distance²



¹ Survey performed in November 2022 involving 6,585 participants

² Share of travelers who consider themselves frequent travelers, by distance and travel purpose

How overall travel intentions have changed – and why

Business and private travel plans continue to slide, but domestic trips rising

Across all focus markets, the intention to travel remains significantly lower than in pre-Covid times. Indeed, it has fallen further than in 2021. The expected number of business trips decreased by 28% vs. pre-Covid levels, five points lower than in 2021. Private travel saw a drop of 19%, a point lower than in 2021.

The results were driven by a continued fall in plans to travel longer distances. For example, intercontinental business travel intentions fell to 42% of pre-Covid levels, a 22-point decrease on 2021. More positively, intentions to travel domestically rose compared to 2021, although they remain well below pre-Covid levels.

The reasons

The grounds for the declines are broadly similar for both private and business travel. The drop in business travel is largely driven by the use of virtual communication tools, with 61% of respondents citing this as a reason (up 19 points on 2021). Changes to corporate travel policies and new regulations also featured strongly, while environmental concerns jumped in importance (up eight points vs. 2021). In private travel, budget and environmental concerns featured prominently, behind the use of virtual communication. Notably, health concerns rose in prominence.

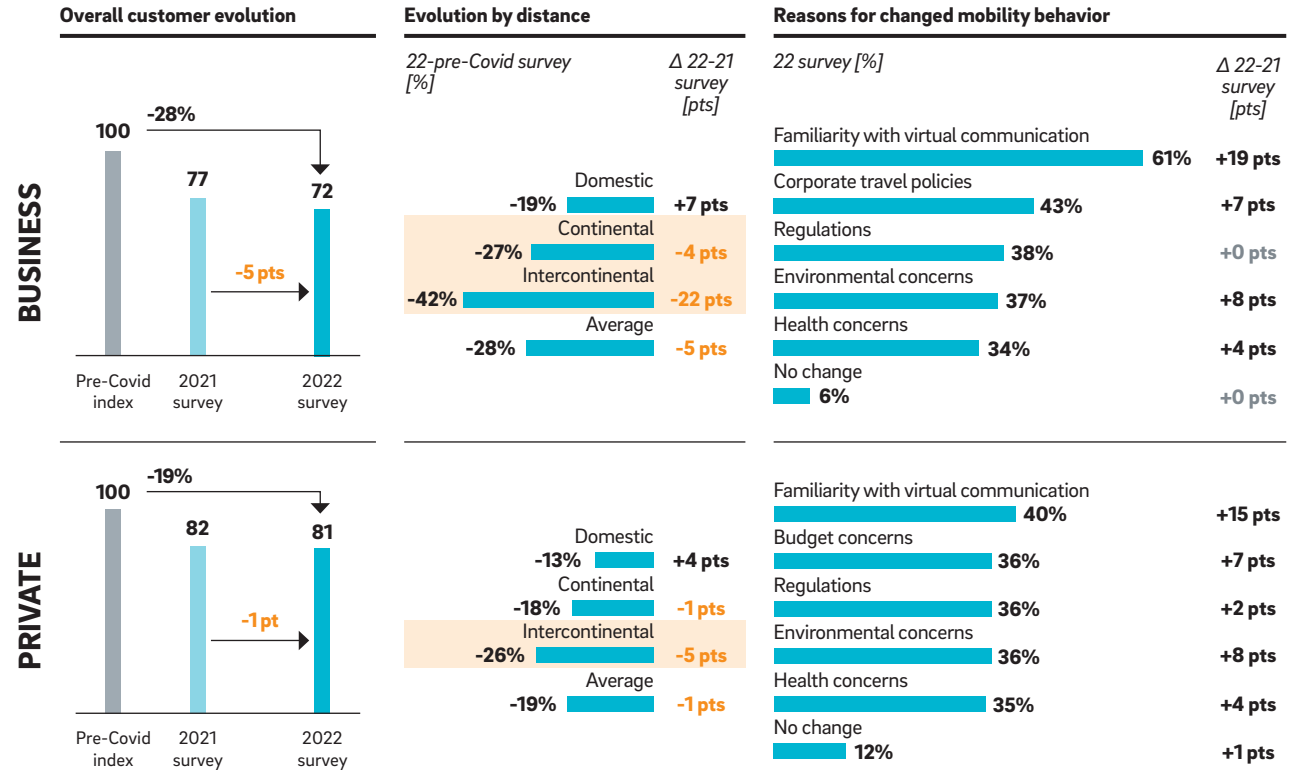
DRIVING DOWN DEMAND

Globally, the number of trips is expected to fall in the coming years, mainly as a result of teleconferencing

Q1 Before the pandemic, how many trips did you make for different travel purposes?

Q2 In the next few years, how many trips do you intend to make for different travel purposes?

Q7 What are the reasons for your changed mobility behavior in business and private travel in the next few years? (Multiple choice possible)



Note: Survey scope includes EU, USA, China, India and Brazil in 2022, and EU, USA China in 2021

Source: Roland Berger survey

Overall change in travel modes

Greatest shift is from air to rail, but air passengers willing to pay more

The drop in overall long-distance travel demand will impact each travel mode differently, with air travel considered to be the most affected.

Business air travel will be hit hardest, with the overall number of planned trips in the next few years falling by almost a third compared to pre-Covid levels. Business train travel is similarly affected, while car use continues to slip. Private air travel will suffer similar falls in planned trips, although expectations have risen since the 2021 survey. Video conferencing remains the main driver behind the decline in planned air travel.

Train travel remains the main alternative to air, especially among private travelers. For example, around 30% would be willing to use the train to replace their domestic and continental flights.

Sustainability premium

Further highlighting the growing importance of environmental concerns, around 90% of travelers are happy to pay more for a flight ticket if it helps decarbonization efforts. Willingness increases according to the length of the journey. Both business and private travelers are willing to pay a premium of around 20%.

TRAINS, PLANES AND AUTOMOBILES

Air travel, especially on intercontinental routes, is expected to suffer most in the next few years [% change in number of trips]

Q4 Before the pandemic, how did you use the different modes of transport for different travel purposes?

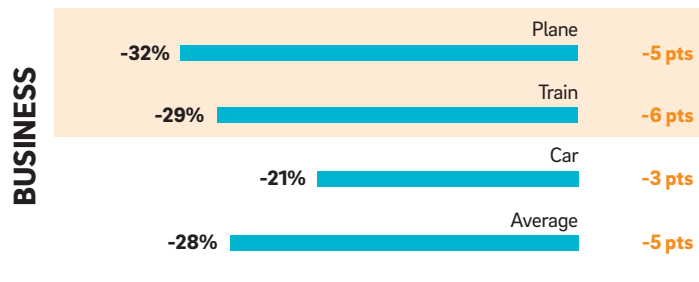
Q5 In the next few years, how do you intend to use the following modes of transport?

Q10 For a trip which you usually fly, for what type of distance would you be inclined to reconsider your choice of transportation mode?

Evolution of the number of trips by travel mode

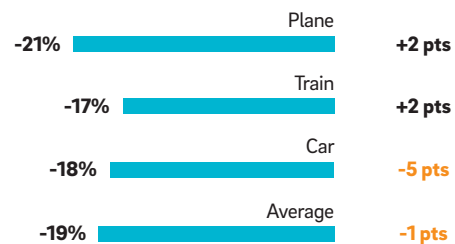
22-pre-Covid survey [%]

Δ 22-21 survey [pts]



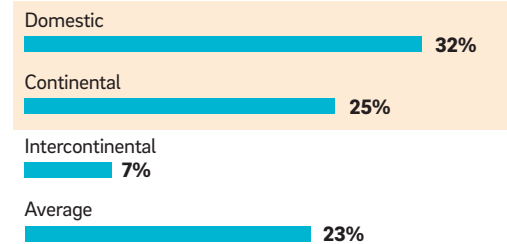
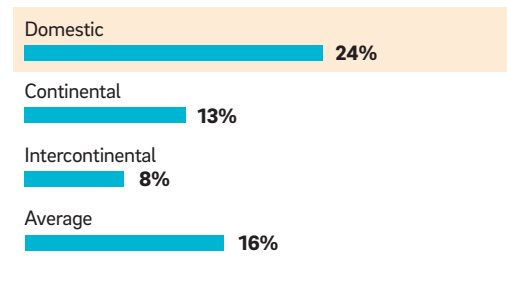
BUSINESS

PRIVATE



Willingness to replace air travel with train

22 survey [%]



Note: Survey scope includes EU, USA, China, India and Brazil in 2022, and EU, USA China in 2021

Source: Roland Berger survey

Change in demand by focus market

USA, Europe and Brazil facing greatest drops in business travel; China in private

It is already clear from the survey that the overall drop in long-distance travel demand is expected to hit business travel harder than private travel. But where exactly will the axe fall?

Business travel in the US seems to be heading for the biggest decline. The 2022 survey results suggest that it has fallen 36% compared to pre-Covid levels, 12 points lower than in 2021. Europe is faring only marginally better, with France, Germany and the UK seeing falls of between 30% and 35% compared to pre-Covid levels (an average of six points lower than 2021).

In private travel, the most negative forecasts are from China, where there is a 31% drop compared to pre-Covid levels, 14 points lower than in 2021. This is undoubtedly a result of the country's strict Covid-related lockdowns in 2022. Predictions for private travel in the other major markets remain stable.

Newcomers' performance

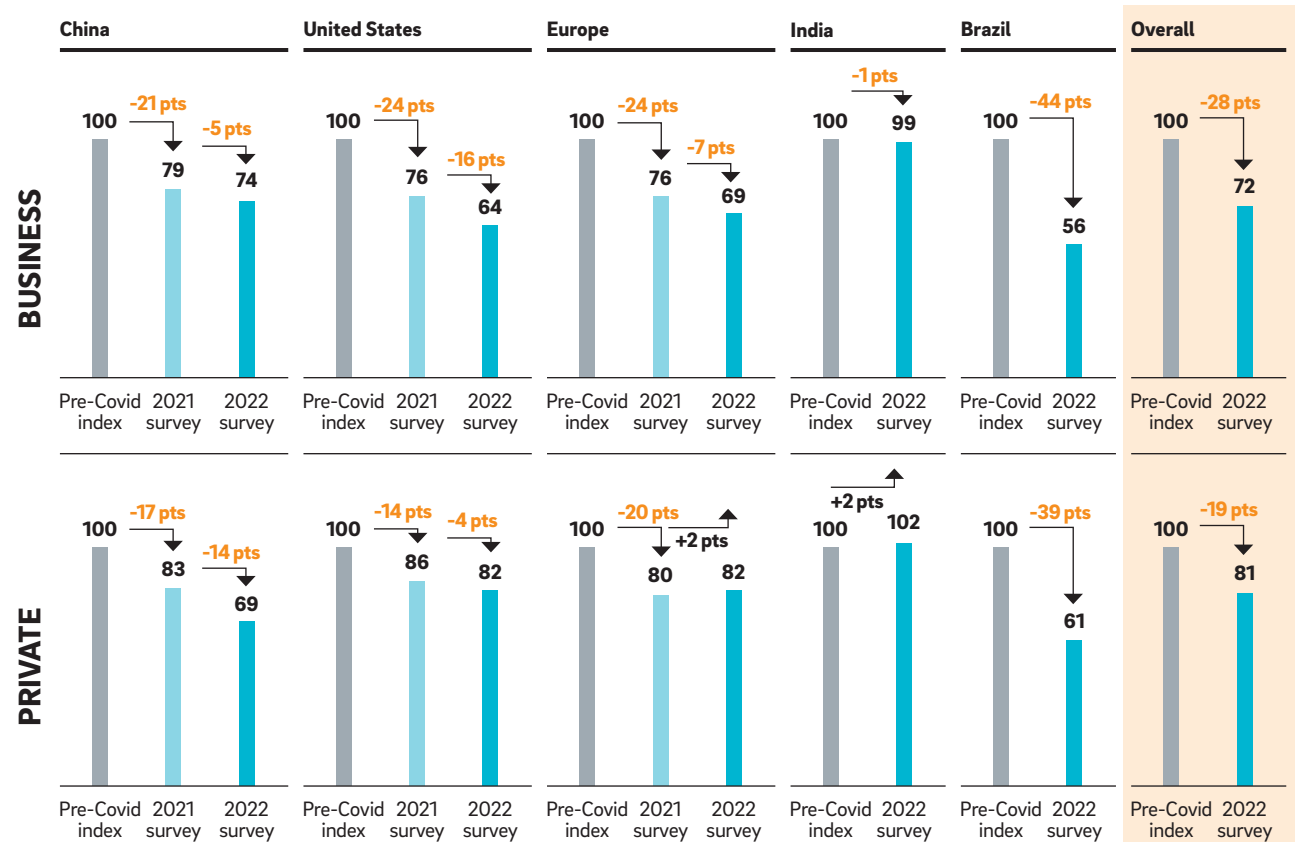
The new focus markets of India and Brazil display very different results. India bucks the trend, with expectations that travel will soon return to pre-Covid levels. Private travel is even predicted to surpass pre-Covid levels. Demand in Brazil, however, is forecast to plummet in the next few years, falling by around 40% compared to the 2019 index.

BAD BUSINESS

While drops in private travel across the focus markets have stabilized, business travel expectations continue to fall

Q1 Before the pandemic, how many trips did you make for different travel purposes?

Q2 In the next few years, how many trips do you intend to make for different travel purposes?



Source: Roland Berger survey

Change in travel distance and modes by focus market

Europeans have the most positive outlook; intercontinental travel the big loser

Overall, the 2022 survey found that people are increasingly turning away from long-distance travel. This is especially the case for business travel, where intercontinental travel numbers continue to fall sharply in all markets, particularly in the USA and Europe.

More positively, Europeans are now more likely to travel domestically or within Europe than they were in 2021. The UK has the brightest outlook, with a strong resurgence in private continental travel since 2021 (up 11 points) and a four-point recovery in private intercontinental travel (the only focus market to record a rise in this category).

Travel modes

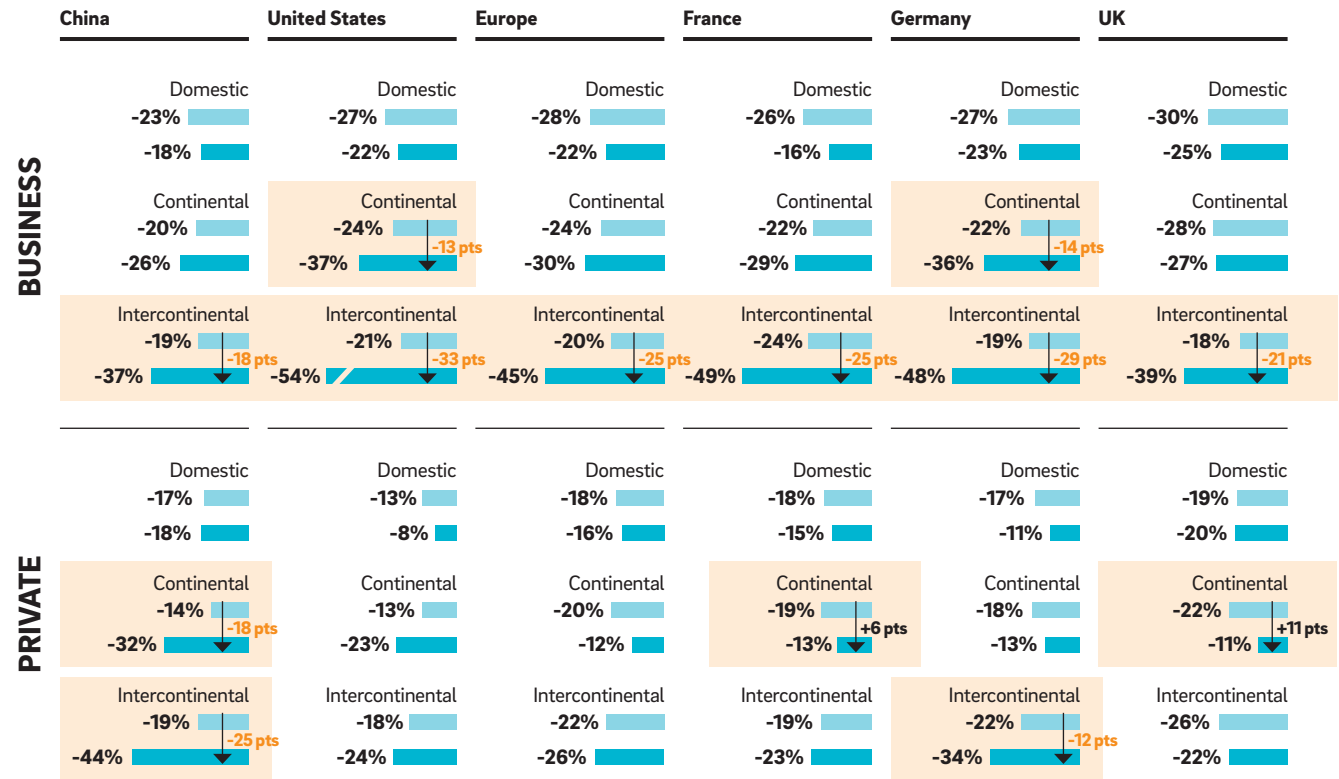
Air travel, both business and private, is the most adversely affected travel mode across all focus markets, with drops of 20-39% in China, the US and Europe compared to pre-Covid levels. Train travel in the three major markets is similarly affected. However, once again there are signs of a recovery in Europe, at least in private travel. Here, plane and train travel expectations have risen since 2021, by four and seven points respectively. Car travel, meanwhile, continues to fall across the board.

CLOSE TO HOME

While domestic travel is beginning to recover in the three major markets, intercontinental travel is nosediving [% change vs. pre-Covid levels in 2021 and 2022 survey]

Q1 Before the pandemic, how many trips did you make for different travel purposes?

Q2 In the next few years, how many trips do you intend to make for different travel purposes?



2021 survey 2022 survey

Source: Roland Berger survey

Reasons behind changed travel habits

Virtual communication is the dominant factor, with sustainability catching up

The underlying factors behind the expected declines differed for business and private travel.

Business travel

The main driver, as in 2021, was the shift to virtual communication. Across the focus markets, between 55% and 78% of respondents stated that this would impact the way they travel after the Covid-19 pandemic. The rise in the second biggest factor, corporate travel policies, perhaps reflects the shift. A major difference between 2021 and 2022 is the growing importance of environmental concerns in business travel. For example, 21% of US respondents now say that environmental concerns will impact their business travel plans, as against 11% in 2021. Similar jumps were recorded in China and Europe. In Brazil, health concerns are a major driver, whereas regulation is a powerful factor in India.

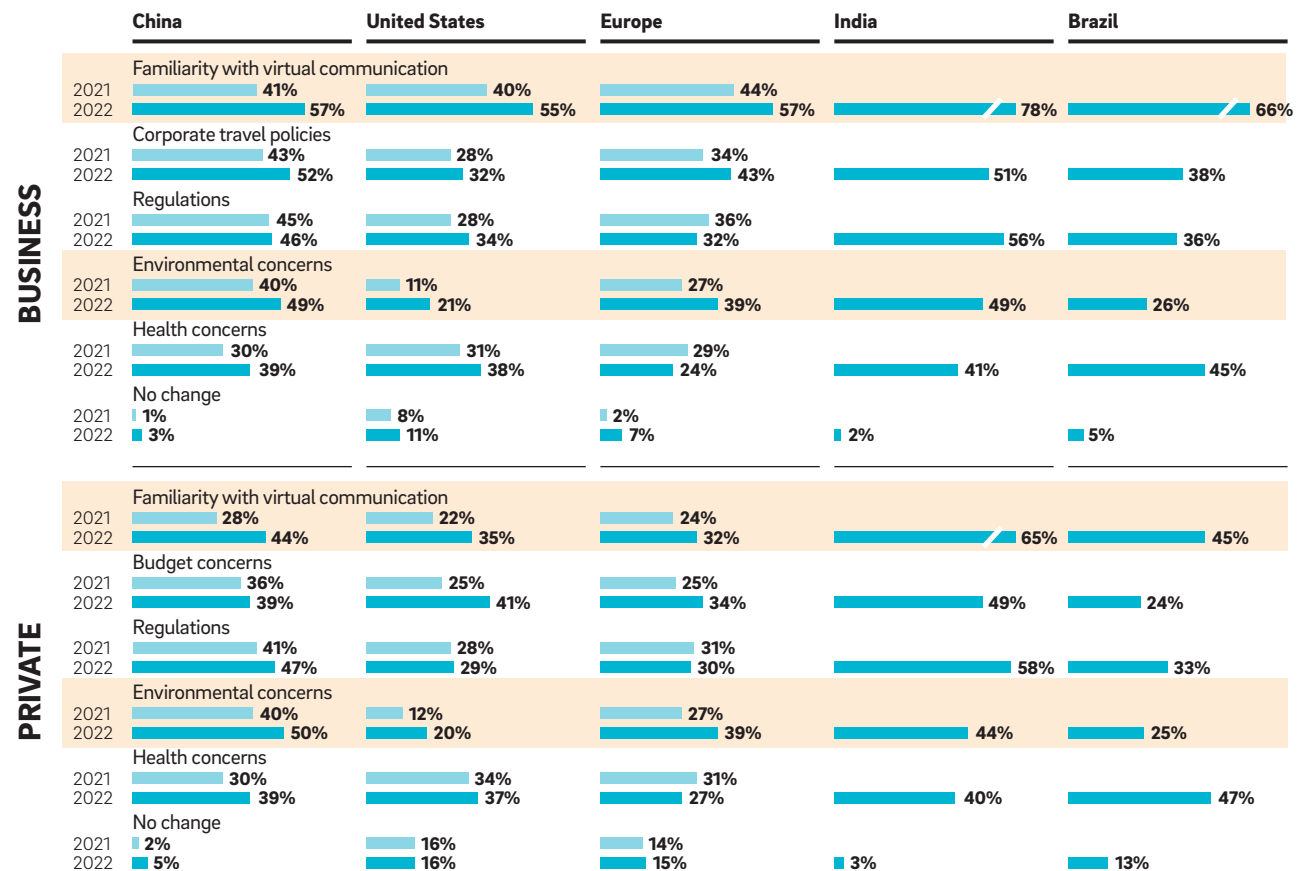
Private travel

The rise in the importance of environmental concerns in private travel is similarly acute. Across the three major markets, this factor jumped by between nine and 12 points, with a strong first showing in India. It is now the primary motivation for reducing private travel in China and Europe. Meanwhile, the economic turmoil and big jumps in inflation in 2022 are reflected in the results. Budget concerns rose sharply in the US and Europe compared to 2021, with respondents in the UK in particular feeling the pinch. The country was the only focus market that cited budget concerns as the primary factor for reducing private travel.

DRIVING FACTORS

While virtual communication is way out in front, other factors driving the shift in travel behavior differ depending on market

Q7 What are the reasons for your changed mobility behavior in travel for the next few years? (Multiple choice possible)



Source: Roland Berger survey

Future travel behavior – and how to adapt to it

Behavior is changing and providers need digital tools and flexibility to adapt

While some of the survey findings are clear (the rise in virtual communication as an alternative to travel; the shift away from air travel; business travel hit hardest), others are more nuanced. For example, compared to 2021, the overall share of travelers stating that they will travel privately less than in pre-Covid times has grown. Yet the number of expected private trips is broadly flat. This suggests that those who have vowed to travel less will drastically cut their travel. The contradiction between the strong return to travel in 2022 and sentiment turning against travel due to environmental concerns is also interesting. It makes it difficult to determine if 2022 demand levels will continue or if they were a result of post-Covid pent-up demand for "revenge" travel.

How can the mobility ecosystem adapt?

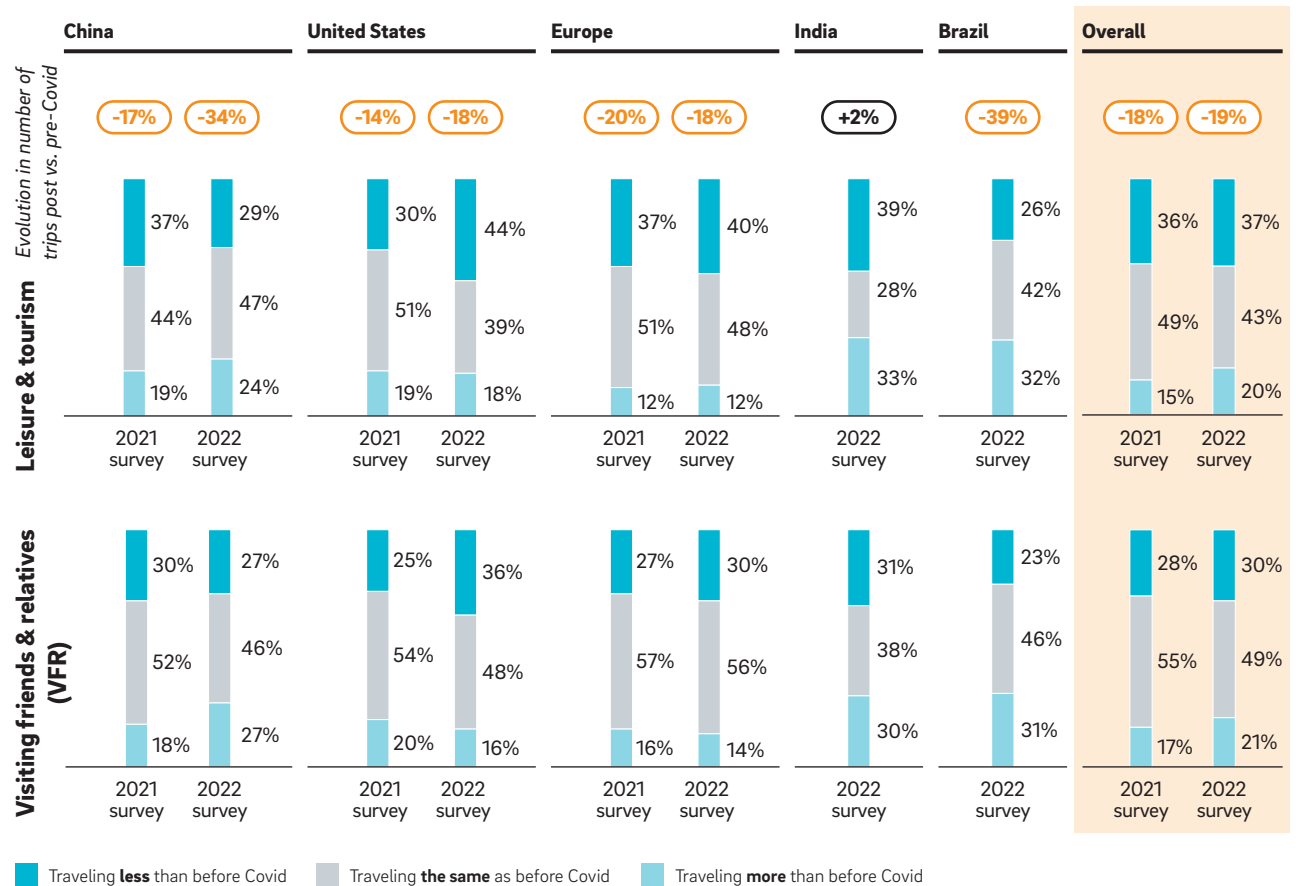
Several adjustments will be key to addressing evolving customer behavior and demand:

- Providers need to focus more on data and building digital capabilities to leverage revenue management and adapt to changing customer behavior. This can be achieved through customer relationship management and optimization of operating models.
- There needs to be more cooperation between different travel modes to optimize services.
- Airlines need to maintain the flexibility that was developed during the Covid-19 pandemic to accommodate changes in traffic demand.
- Aviation industry players (airlines, airports, etc.) must cooperate more to continuously improve management and the customer offer.

LESS IS MORE

Overall, fewer travelers plan to make private trips after the pandemic than before, and the share has risen since 2021

Q8 Will your mobility behavior for private travel change for leisure and for visiting friends and family in the next few years?



Source: Roland Berger survey

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