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2025 travel industry outlook

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Introduction

Enthusiasm for experiences post-pandemic has fueled three years of growth across much of the travel industry. Metrics like air passenger volumes and hotel revenue per available room have largely reached or surpassed 2019 levels. Travel suppliers, online platforms, and destinations continue to invest in attracting guests and users. But the industry is also able to turn more attention to challenges and opportunities in innovation. Two years of experimentation with generative artificial intelligence (Generative AI), both by providers and travelers, has begun to reveal the most promising near-term opportunities for the technology. Years-long efforts among airlines and hotels to sell more than seats and rooms appear to be accelerating. Strong demand for travel is piquing the interest of partners from other consumer industries. Still, all the cutting-edge tech and operational excellence in the world cannot replace understanding the ultimate decision-maker: The traveler. In the coming year, travelers will have the final say—on which destinations boom, which new products succeed, and which tech platforms influence where they go and what they do.



General demand outlook

Travel demand, which began to climb as soon as most pandemic restrictions were lifted a few years ago, appears poised to continue its strong run. Over the recent winter holiday season, US travelers planned more and longer trips, and planned to increase their average spend compared to 2023 (figure 1).¹ It appears that many

followed through on those more-ambitious plans: TSA throughput (the number of passengers processed at US airports) rose by 7% year over year for the period between December 20 and January 5.²

Figure 1. Over the recent holiday season, Americans showed high enthusiasm for travel, suggesting the year ahead could be another strong one



Questions: (1) How many leisure trips will you be taking this holiday season?; (2) For this trip, how long do you intend to travel?; (3) How does your budget for this trip compare to your budget for your longest trip of the 2023 holiday season? N = 2,005

Source: 2024 Deloitte holiday travel survey

Three major drivers appear to underlie this strong demand:

- Post-pandemic reprioritization—More travelers said they planned to raise their holiday travel budgets versus the prior year. And among those, 40% said they would do so because “travel has become more important to me since the pandemic.” That reprioritization is the biggest reason for bigger budgets and twice the rate it was in 2023.
- Laptop lugging—The share of travelers planning to do some work on their longest trip of the season rose significantly, from a third to half. This freedom to roam has been in place for more than four years for many Americans. Still, the number of Americans using it to enable travel persists, and may be growing.
- Positive financial outlook—The share of Americans (not just travelers) who say their financial situation has improved versus last year rose to 37% from 31%.

If that positive financial outlook holds, post-pandemic reprioritization and laptop lugging are likely to have a continued positive impact on Americans’ travel intentions. The post-pandemic reprioritization and laptop-lugging trends are most prominent among millennial travelers, who have decades ahead of them to influence travel trends.

Over the recent holiday season, compared to travelers overall, millennials were more likely to increase their budgets (38% vs. 28%), attribute that increase to reprioritization of travel (49% vs. 40%), and plan to do some work during their longest trip of the season (54% vs. 44% of Gen X and 31% of boomers).

Affordability is often the biggest barrier to travel. Either a hit to consumer confidence or persistent high prices could challenge travel demand in the coming year. About one in five Americans surveyed say they opted out of a trip they wanted to take in 2024 due to the high cost of flights or lodging. And many have made other adjustments due to cost—opting to drive or stay with loved ones, or cutting back on in-destination spend (figure 2).³ But more than a third surveyed say they have made no adjustments to travel plans due to high airfare or hotel rates.

Travel providers’ ability to price and present the product properly will be a big success factor in the year ahead. The ability to offer flexibility, and to reach travelers with the right message at the right time, also will likely be important to making the most out of guest opportunities.

Figure 2. Affordability is the number one barrier to travel. But more often travelers find ways to make the trip fit their budget

Younger travelers are more affected by high travel prices. Half of boomers say they do not change their plans due to high prices, compared to 22% of Gen Z travelers.



Artificial intelligence ambition and anxiety amid acceleration

AI is increasingly being applied to travel. Early efforts have been pointed across the business, at customer service, operations optimization, predictive maintenance, shopping and discovery, and more. Activity will likely continue to accelerate as startups and pilots point toward the applications with the most near-term potential. Travel providers and startups are piloting applications with more potential for impact to both the business and the experience of travel, ranging from airline revenue management⁴ to personalized hotel guest communications.⁵

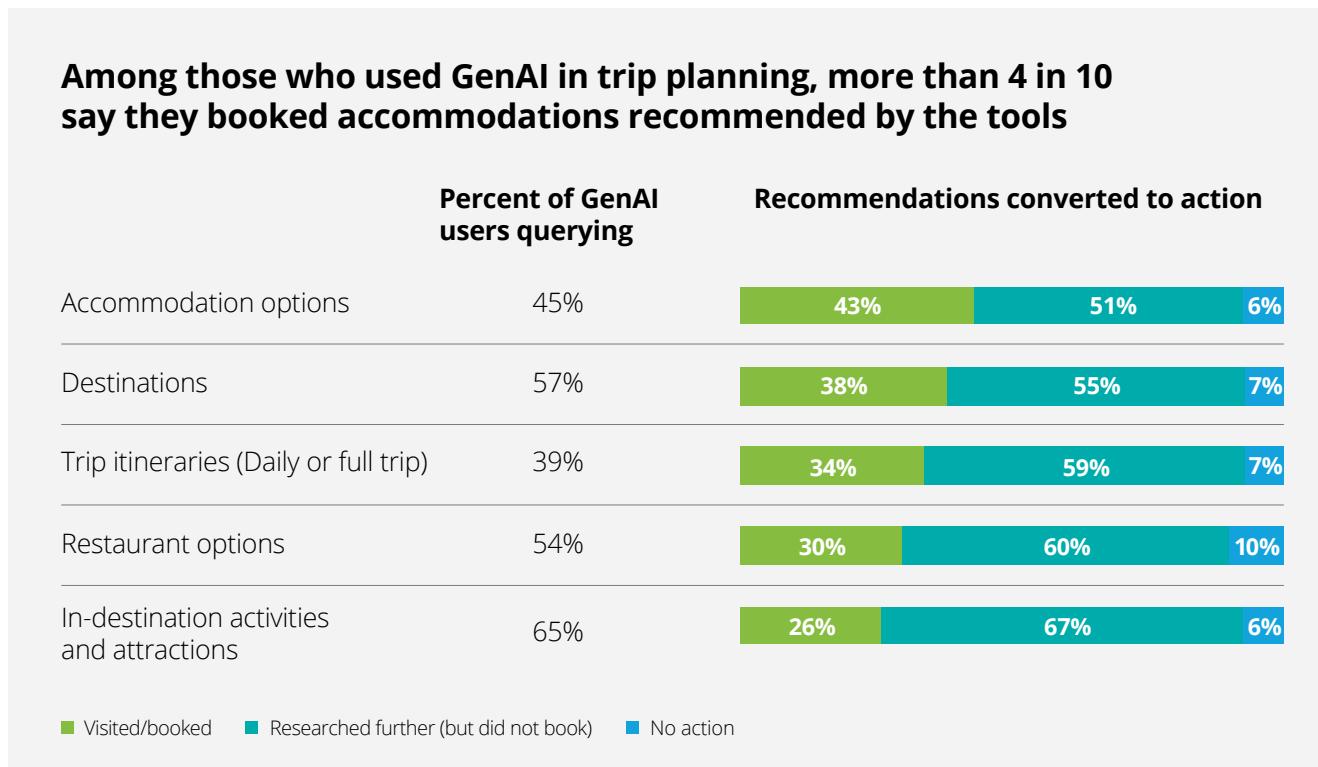
On the shopping and distribution front, all of the big online travel agencies have Generative AI (GenAI) tools. And the rise of the technology has already inspired some GenAI-powered trip planning startups.⁶ Most have yet to create tactics that take full advantage of the technology to create exciting new approaches to

shopping, booking or inspiration. They often lack image integration, personalization, and seamless connection to real-time bookable product. But the race is on. Meaningful interface change is coming.

As tools evolve, travelers appear ready to embrace them. From October 2023 to October 2024, the share of respondents to Deloitte's holiday travel survey saying they had used GenAI for trip planning doubled from 8% to 16%. Excluding boomers, whose adoption remains in the mid-single digits, usage climbed from 10% to 21% over the same period.⁷

Users have moved quickly beyond experimentation. For those who use it, GenAI plays a significant role in trip planning. Many have actually booked accommodations or activities, or chosen destinations or itineraries, that they discovered using GenAI platforms (figure 3).

Figure 3. Planning potential: Travelers following through on GenAI recommendations



Questions: (1) Which of the following do you use for travel inspiration and information? (Please select all that apply); (2) How have you used GenAI tools in travel discovery or planning? (Please select all that apply); (3) Which, if any, actions have you taken based on a GenAI tool's travel recommendations? Totals may not add to 100% due to rounding. n=193 travelers using GenAI in trip planning
Source: Deloitte 2024 summer travel survey

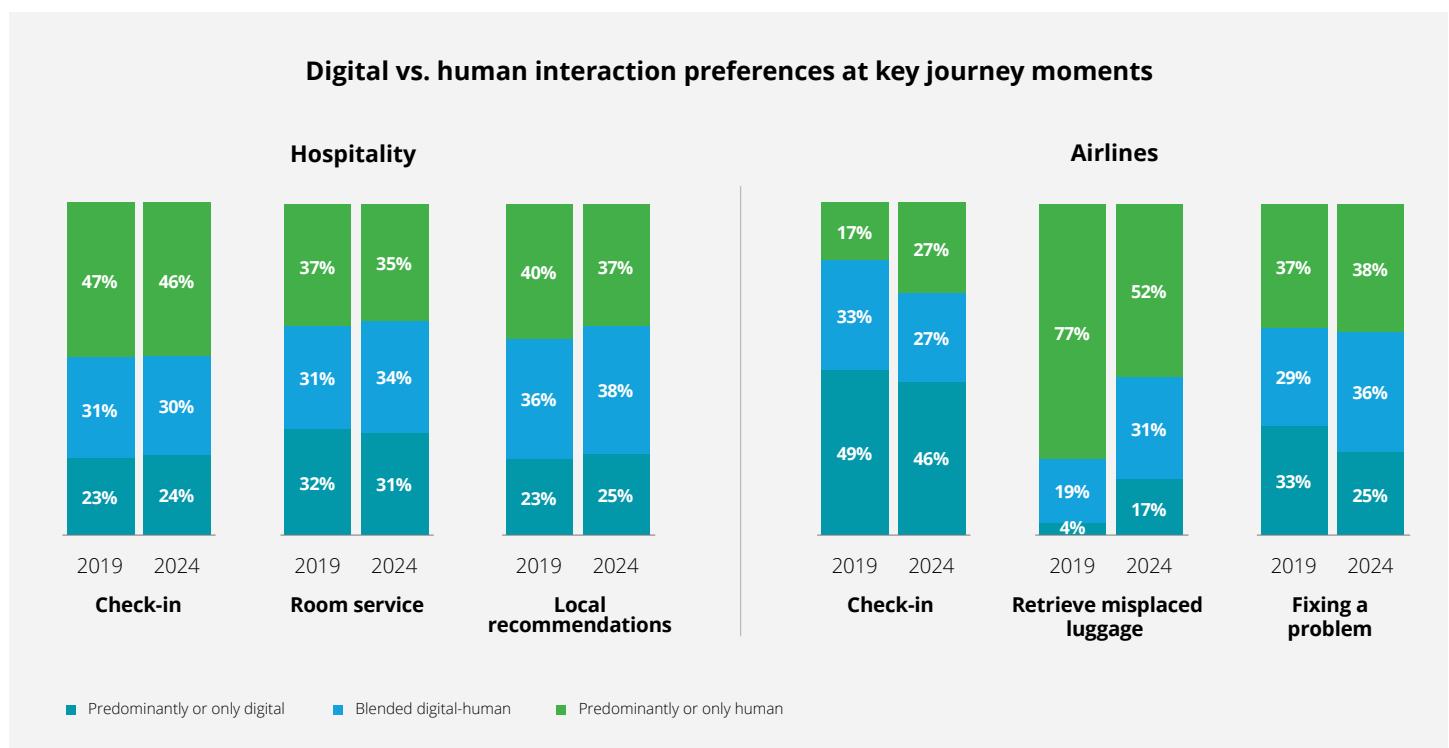
Millennials are leading adopters, as one in four say they have used GenAI in trip planning. Among millennials with income of \$100,000 or more, that answer jumps to 29%. Their preferred use case for the technology is searching destinations based on trip type, but nearly half of users say they also use it further down funnel to find accommodations.

Hotels and airlines also are investing in AI and automation throughout the trip itself. While automation has the potential to save travelers time or enable more fun and comfort, most still expect the human touch along their journeys. Most prefer some human interaction across processes including check-in and getting local recommendations (figure 4). Over a five-year period, from 2019 to 2024, traveler preference for digital versus human interaction across much of the travel journey barely moved. This is not to suggest that travel suppliers should not invest in automation. They should proceed gradually and thoughtfully, realizing that front-line workers play a key role in the travel experience.

For all of its promise, AI faces several challenges in travel environments. The technology is only as good as the data it has to work with. In travel, this is incredibly complex. For a single hotel or airline, several different systems need to work together to share and organize data. For the travel experience overall, AI should connect across even more disparate systems and inputs.

Some of this data is owned by the travel supplier, but much of it is not. Weather, traffic, opening hours at attractions and restaurants, and up-to-date crowd size are all examples of data outside of travel suppliers' systems that can be of great relevance to travelers. Add in travel's legacy technology quagmire, and implementing AI looks even more challenging. Many travel suppliers are laden with technical debt, and sometimes providers hesitate to invest in new technology too quickly. While AI is expected to increasingly have an impact on the travel experience, the pace of change will likely be uneven and may appear slow to some observers.

Figure 4. Travelers embrace some automation, but still want the human touch, especially in hospitality



Totals may not add to 100% due to rounding.
Source: Deloitte 2024 summer travel survey

Mega micro merchandising

Both hoteliers and airlines are in various stages of continuous efforts to sell to travelers in a more robust, customizable way. "Modern retailing" is the phrase in airlines, and "attribute-based selling" is a comparable effort in hospitality. For online travel agencies, it's "the connected trip."

Whatever you call it, across travel, providers are looking to expand their offerings and enable travelers to purchase the experiences and amenities they want most.

Efforts in these areas have been running for several years, but we are reaching an inflection point because:

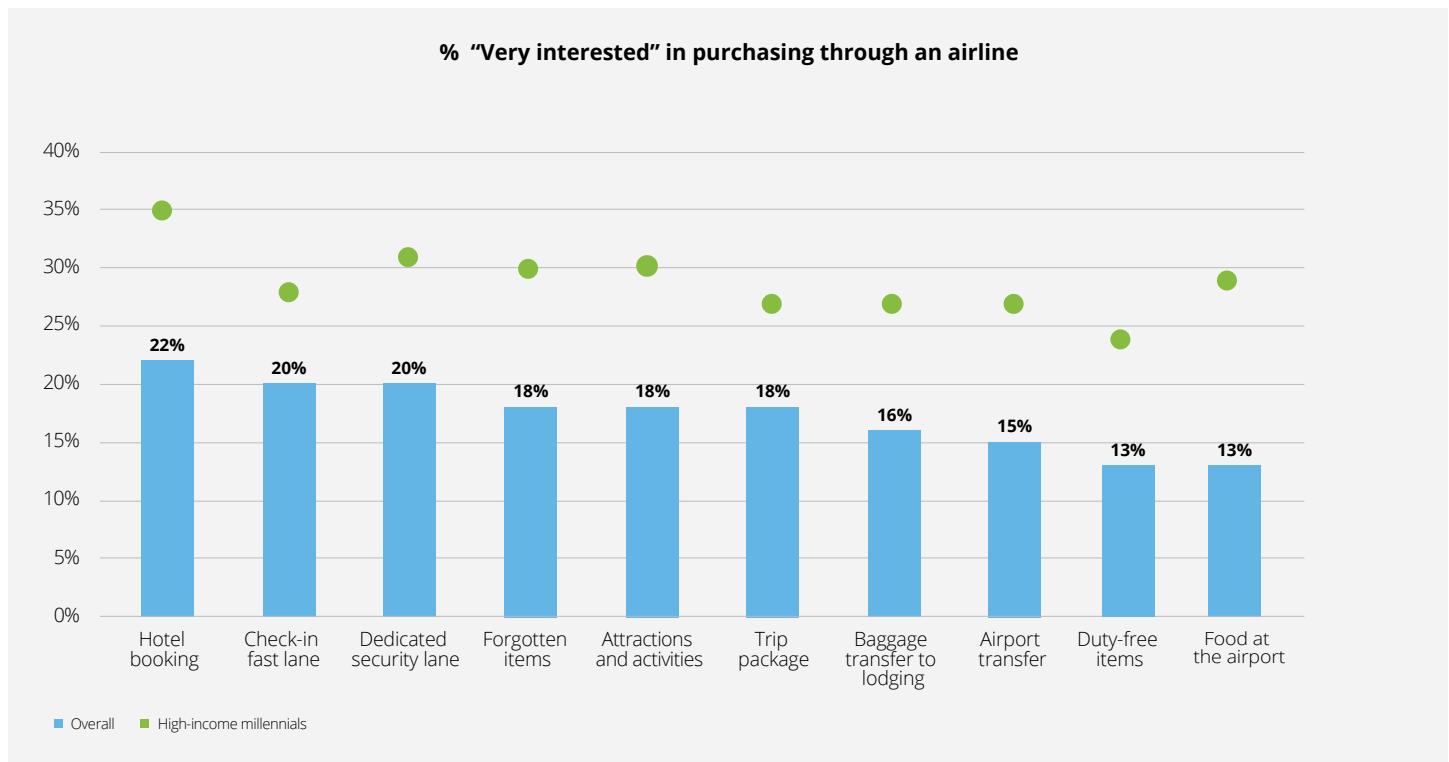
- Airlines are at a maturing (but not mature!) stage of the needed tech transformation.
- Travel suppliers face slowing demand growth (a natural and expected development after the post-pandemic surge) and high operating costs. Applying technology to capture incremental spend offers the potential for some revenue gains that would be hard to realize with hotel nights and base fares alone.

- GenAI enables a better understanding of what offers will be relevant to which travelers, when.

As travel providers prepare and iterate on evolving offerings, traveler interest and receptivity will be key to success. Deloitte's 2024 holiday travel survey asked travelers about their interest in purchasing several products or services from their preferred airline. For most ancillaries included in the survey, 40% to 50% of all travelers expressed some interest. But the share who say they are "very interested" is much lower (figure 5).⁸

Interest varies for different types of travelers, indicating a need for smart segmentation and personalization. High-income millennials are particularly receptive, as are travelers bringing work along on their vacations (laptop luggers). Among boomers, fewer than one in 10 say they are "very interested" in nearly all options included in the survey. Their receptivity was highest for upsells that could smooth the day of travel (14% very interested in dedicated security lane, 12% for expedited check-in).⁹

Figure 5. Rolling out new ancillary products will be more complicated than flipping the "ON" switch



Source: 2024 Deloitte holiday travel survey

A separate question in the survey sought to understand flyers' priorities by asking them to select one from a list of hypothetical freebies for their next flight. While there are some significant

demographic patterns (figure 6), age and income are not great predictors of choice. This indicates a potential need for airlines to personalize offers.

Figure 6. Air travelers' priorities vary widely, but there are some demographic patterns

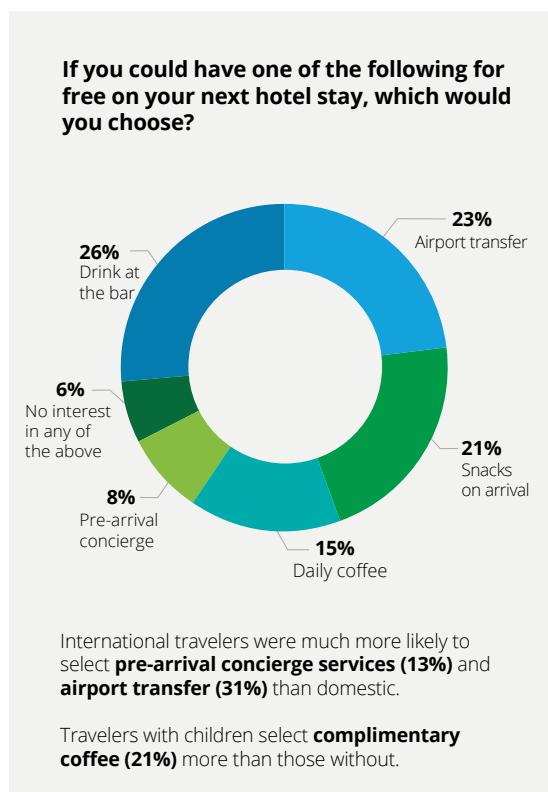


*Millennials with annual household income of more than \$100,000
Source: 2024 Deloitte holiday travel survey

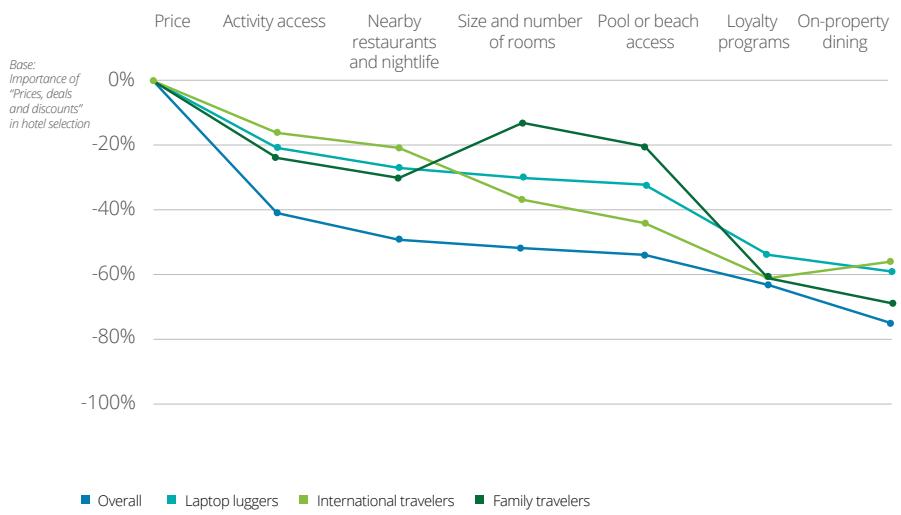
When developing and timing upsell offers, the nature of the trip and the history of the individual traveler could unlock more than simple demographic tendencies can. This can also apply as some hotel companies look to expand the ability to choose rooms based on certain attributes and otherwise expand what is bookable. Asked to choose from a list of five hypothetical freebies (figure 7), age and income groups show relatively weak preference patterns.¹⁰ Differences among respondents appear sharper when using a trip-type lens—international trips, family trips, and trips blending work and travel elicit marked departures from the overall traveler pool. This is also true for ranked importance of hotel attributes.

As suppliers explore offering travelers more, they could increasingly find themselves in partnership with brands from other industries. Opportunities to leverage partnerships to enrich trips abound: expanding in-room and in-flight entertainment, enabling shopping before or during trips, offering compelling activities on property or in-destination, connecting travelers to locals who share their interests. Current market realities could make now a good time to experiment. Travel providers could find themselves in demand as partners, given the strength of demand compared to other categories. And the right partnerships could create more frequent engagement with travel brands in between flights and stays.

Figure 7. When it comes to attributes and amenities that appeal to hotel guests, trip type is as important as demographics



How important are attributes and amenities relative to price?



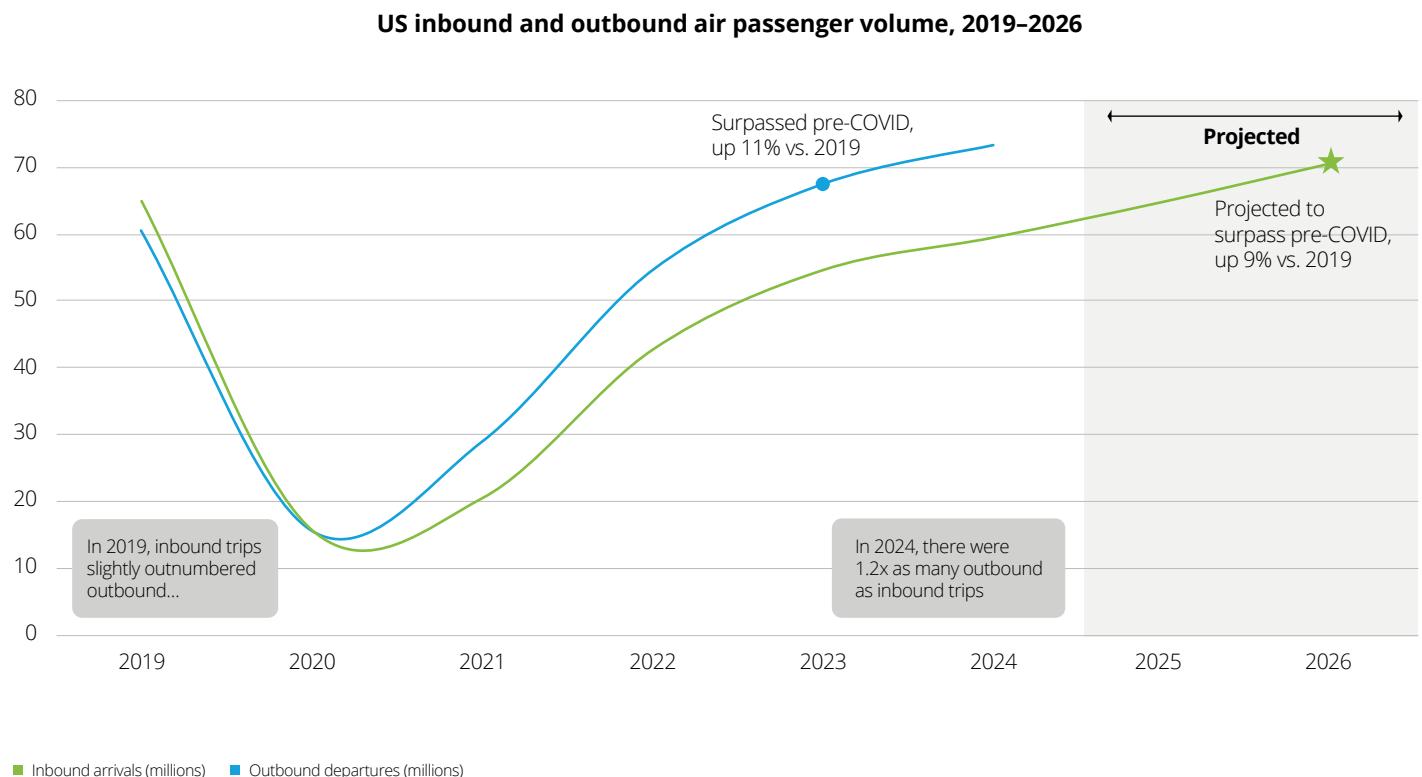
Sources: 2024 Deloitte holiday travel survey; Deloitte 2024 summer travel survey

Inbound, outbound out of balance

International travel returned slower after the pandemic. US travelers' enthusiasm to explore brought international trip volume and spend up, but inbound visits have yet to return to pre-pandemic levels.

Tourism Economics projects that inbound visits to the United States will recover by the end of 2025 but will only exceed 2019 levels by 12%, while departures will be 19% higher (figure 8).¹¹

Figure 8. US outbound trips have grown faster than inbound since 2021, leaving a significant gap



Source: National Travel and Tourism Office I-92 Data; projections calculated by applying growth rates from Tourism Economics via Brand USA interactive market data

With this imbalance, some travel suppliers may struggle to replace the spend flying out of the country as international travel remains strong, especially among the highest-income Americans. In October 2024, 21% of Americans with household income over \$200,000 said they planned to take an international flight over the holidays, up significantly over 2023 and about twice the share of Americans overall.¹²

As US-based travel suppliers look to increase their share of inbound spend, the following trends should be considered:

- Arrivals from India are surging, expected to reach double 2019 levels by 2026. By that year, India could rival the United Kingdom as the biggest source market outside of North America.
- Visits from the United Kingdom have fully recovered, with 2024 surpassing 2019 by 34%. But other key European source markets like Germany and France have not—neither was projected to reach 2019 levels by 2024. In 2025, both are expected to surpass 2019 by 5% or less.
- Japan is not expected to recover above pre-COVID in the next few years.
- China arrivals are projected to remain more than 10% below 2019 and to finally surpass pre-COVID by 2027.
- With visitors from Japan and China recovering slowly, West Coast markets are likely bearing the brunt of the inbound-outbound imbalance.

What is keeping visitors away? For one, the strength of the dollar makes the United States a more expensive destination. And for some source markets, flight capacity has not recovered above pre-pandemic levels. This is especially true for US-China routes, where seats remained below 50% compared with 2019 levels as of December 2024.¹³

On the visa front, the US Travel Association (USTA) asserted in 2023 that the average wait time for an interview for a US visa, across the top 10 visa-required source markets, exceeded a year.¹⁴ The USTA applauded a \$50 million investment in reducing interview wait times,¹⁵ which could potentially enable more visits from countries like Brazil, Colombia, India, and China.

Exchange rates, flight capacity, and visa processing are not conditions that travel suppliers can easily address. But US travel providers can consider include the following steps:

- Smart marketing to growth countries. This includes good timing, based on times of year most popular for long-haul trips. It also includes ensuring that your flights or properties are represented well on the top booking apps and other channels in these markets.
- Catering to the Indian traveler will be increasingly important for many suppliers. Invest in understanding their trends and preferences.
- Staying informed about and continuing to support efficient visa processing.
- Offering deals that account for the strong dollar, such as pre-paid packages to lock in as much of the trip's cost as possible.
- Building collaborative relationships with destination marketers. Understand how they are promoting the destination abroad, and adjust accordingly or make your needs heard.

Policy watch: Potential impacts of a new administration

The waiting game that was the recent US election cycle is over, and a new administration has taken office and a new Congress has been sworn in. President Donald Trump proposed several policy changes that could affect travel, some of which were big campaign priorities.

The following areas of travel could be affected:

- **Americans' disposable income:** The potential extension of the Tax Cuts and Jobs Act of 2017 could buoy disposable income for some Americans, as could the Republican Party platform proposal of "large tax cuts for workers."¹⁶ At the same time, significant tariffs could potentially counteract this by raising the cost of many goods.
- **Mergers and acquisitions:** With some recently proposed acquisitions in the airline¹⁷ and corporate travel¹⁸ arenas facing scrutiny, some industry observers are eager to understand the new administration's posture toward corporate mergers.
- **Labor:** The administration's stance toward labor unions will be closely watched, as it can have significant bearing on the cost environment for hotels and airlines. Immigration policy also can have an effect.¹⁹ The 2024 Republican Party platform states an intent to "carry out the largest deportation operation in American history,"²⁰ and Trump has proposed a mass deportation program for undocumented workers. Such an effort could potentially impact availability of labor for contracted vendors, staffing companies, and vendor tenants in airports or hotels.
- **Inbound visits:** Some of the highest tariffs Trump has proposed target top inbound travel markets. He has proposed a 25% tariff on Mexico and Canada, and higher tariffs on goods from China.²¹ Such changes could potentially slow travel from affected countries, if for example, travel from them is restricted in response to such measures.²²

The year ahead should be another strong one for travel, but some providers will likely benefit more than others. High-earning Americans are likely to lead another year of frequent and sometimes far-flung trips. But there are also opportunities at lower tax brackets, especially among young generations, for whom travel is one of the most visible ways to embrace the you-only-live-once lifestyle. Airlines, hospitality brands, cruise lines, car rental providers, attractions, and others in the travel ecosystem cannot completely control whether they enjoy tailwinds or face headwinds from day to day. But technology increasingly offers ways to tilt the odds in one's favor—to reap the most benefits when demand is strong, and to weather weaker times.

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