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Cruise Industry Sees Some Improvement in Pricing

For many in the travel industry it was this week a year ago, when Lehman Brothers declared bankruptcy, that marked the beginning of the long pricing slide that has been the theme of 2009.

But over the last few weeks, there have been signs of a turnaround for travel.

The signs are small, but they are encouraging. A Sept. 9 report from the Federal Reserve indicated that economic activity around the country "continued to stabilize in July and August." Some improvement is being recorded in other segments of the business, as well.

The outlook, as the Fed stated in its report, is "cautiously positive."

For cruise bookings so far this year, low prices and high volume has been a formula that has meant more work for less pay for travel agents but has at least kept them, and cruise lines, in business.

But on Sept. 1, Oceania Cruises raised prices on 40% of its 2010 departures, and another price increase is slated for Jan. 1.

The upper-premium line said it made the decision after a record-breaking August, which Oceania said was its best month ever for cruise bookings, with Aug. 31 the best booking day in the line's history.

While the company credited the record booking activity to sales on Europe cruises that expired at the end of August, it also declared that pricing had rebounded to 2007 and 2008 prerecession levels and said 32 of its 2010 cruises had already sold out.

Cruise industry analysts are also seeing signs of a pricing recovery.

Majestic Research, a New York-based equity research firm, found that cruise pricing for both Royal Caribbean Cruises Ltd. and Carnival Corp. brands were not only stabilizing going into the end of 2009 but showing some improvement.

Carnival's ticket pricing is "beginning to show some sequential improvement" in the fourth quarter of this year, Majestic leisure analyst Matthew Jacob found.

Jacob also noted that Royal Caribbean International's upcoming ship the Oasis of the Seas "appears to be generating very strong pricing premiums" for sailings close to its December launch date.

A survey of Q2 cruise sales from Wells Fargo Securities found that in a turnaround, Caribbean cruise pricing had weakened slightly, while Alaska cruise pricing was showing some improvement, said leisure equity analyst Tim Conder.

In the hotel sector, rates are stabilizing but not yet improving, said Jeff Higley, Spokesman for STR. "We've seen stabilization for sure," he said. "It's kind of settled into that year-over-year comparison that is



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minus 10%, minus 11%," he said. "So it's not getting worse, but it's really not getting better yet."

In its monthly forecast, STR left its September 2009 and 2010 industry forecast numbers unchanged – average daily rate is expected to decline 9.7% in 2009, to \$96.43, and occupancy is projected to be down 8.4%, to 55.4% – but President Mark Lomanno said the firm would be "looking very close at September results to see if there is anything unexpected, particularly in the group and business transient demand numbers."

In the cruise industry, the less expensive Caribbean products have held the steadiest during the recession, while regions that had earned premium pricing have suffered the most. Alaska has been particularly hard hit; in Conder's Q1 survey, he found that Alaska pricing had hit "new lows."

Wells Fargo's recent survey echoes a CruiseOne and Cruises Inc. report that also indicated Alaska pricing was making strides late into the season.

When asked to list the best-selling cruise destinations during Q2, Alaska came in second to the Caribbean, at 34.4%; during a Q1 survey, only 15% of agents chose Alaska.

That survey also said that most CruiseOne and Cruise Inc. agents found that pricing had either increased or stayed the same since Q1.

"Pricing is a bit mixed right now, and we are seeing spots of rebounding and also some aggressive pricing from some lines to drive sales for their need products," said Steven Hattem, Vice President of Marketing for CruiseOne and Cruises Inc. "We believe that pricing will go up slightly as 2009 inventory continues to diminish."

Brad Anderson, Co-President of cruise retailer America's Vacation Center, said he found that pricing was reflecting the recovery of the general economy.

"From AVC's standpoint, cruise prices have increased from their lows for most destinations in comparison to what they were at a few months ago," Anderson said. "The economy seems to be rebounding slowly, and that is reflected in the cruise booking pace and pricing."

"Bookings for 2010 are accelerating, and we're very pleased with our overall results for 2009 to date," he said.

Majestic Research cautioned that the additional cruise capacity coming out over the next few months – the Oasis, the Carnival Dream and another Solstice-class ship for Celebrity – could eventually mean more pricing pressure, but it added that the recent price trends are a "very positive development, and it could represent the first step toward recovery for the industry."