OUTLOOK FOR THE GLOBAL ECONOMY AND TRAVEL

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August 2018
The Outlook for the Economy and Travel

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<th>Views on the global economy</th>
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How many galaxies are in the Universe?

- In 1995, NASA’s Hubble Space Telescope identified between 100 billion and 200 billion galaxies in the Universe.

- This was the working estimate for the next 20 years …until ….

- Astronomers at the University of Nottingham now say the number of galaxies in the observable Universe is 2 trillion.

- Conclusion: economists are more reliable than real scientists.
Broad-based growth

World GDP by major market in 2018

% change

- India
- China
- World
- United States
- South Korea
- Australia
- Mexico
- Canada
- Brazil
- France
- Germany
- United Kingdom
- Japan

Source: Oxford Economics
Global growth peaked in early 2018
...with trade indicators also slowing sharply

**World: Alternative trade indicators**

% year, 3mma

- IATA air freight
- RWI freight
- HK/Shanghai cargo

Source: Oxford Economics/Haver Analytics
Synchronized growth in both advanced and emerging economies

Source: Oxford Economics
Next year likely to experience slowdown

World GDP by major market

% change

Source: Oxford Economics
Q2 will likely represent the growth peak this year
WHY IS THE ECONOMY SLOWING?
1. Protectionism

G-3: Investment indicators
% year, 3mma

Survey-based indicator, advanced 3 months (RHS)

G-3* investment goods orders indicator (LHS)

Source: Oxford Economics/Haver Analytics * US, Germany, Japan
2. Higher gasoline prices weigh on income & spending

US: Retail gasoline price

Source: Oxford Economics/Haver Analytics
3. Higher interest rates pushing up borrowing costs

Source: Oxford Economics/Haver Analytics
US OUTLOOK
Private sector confidence remains upbeat

US: Consumer attitudes

Source: Oxford Economics/Haver Analytics
…and wage growth slowly firming
Consumer spending growth is solid but slowing
Consumer spending remains solid around 2.5-3.0%

US: Consumer spending growth

Source: Oxford Economics/Haver Analytics

Winter slowdown to be followed by Spring rebound
We see business investment growth peaking in 2018
Expect a slowdown over next two years

GDP

Real, annual growth

Forecast
History

Historical average

Note: Historical average calculated on period from 2000 to 2017.
Source: Bureau of Economic Analysis; Oxford Economics
Dreaded Recession? Not yet…but rising risks

US: Probability of a recession 6 months ahead

Using the Chicago Fed National Activity Index, the real federal funds rate & the yield curve

Source: Oxford Economics
Travel activity in the US has strengthened this year

July Domestic Business and Leisure Travel Index

Index (>50=expansion, <50=decline)

Source: Oxford Economics, U.S. Travel Association
RISKS
What could possibly go wrong?

US: NFIB Small Business Optimism Index
- NFIB headline index - 3mo avg (LHS)
- % of firms planning to raise capex in 3-6 months (RHS)

Source: Oxford Economics/Haver Analytics

US: NFIB Small Business Uncertainty Index
Sum of percent of 'don’t know' and 'uncertain' responses to survey questions

Source: Oxford Economics/Haver Analytics
Risk #1: Trade protectionism

US: No winners in a Sino-American trade conflict

Percent change from baseline

United States: 2018
2019

China: 2018
2019

Assume the US follows through on its threat to impose 25% tariffs on $150 billion of imports from China, and China retaliates in kind.

Source: Oxford Economics
Risk #2: Fed’s balancing act could prove challenging

Faster inflation could lead to a more hawkish Fed and a market “indigestion”.
A wider a budget deficit and reduced asset purchases from the Fed could push up long term rates
Risk #3: Wages must increase

US: Spending beyond their means?

% year

- Real disposable income
- Real consumer spending

Source: Oxford Economics/Haver Analytics
“Savings dip”: Savings = $\frac{1}{2}$ spending since 2015

US: Consumer spending growth attribution

Source: Oxford Economics / Haver Analytics
But savings dip driven mostly by lower-income families

US: The bottom 60% are driving the savings dip

Source: Oxford Economics / Consumer Expenditure Survey
Risk 4: Financial market stress…

**US: Effect of 10% equity market correction**
Percent change relative to baseline

- **GDP (LHS)**
- **S&P 500 (RHS)**

Source: Oxford Economics

**US: Consumption impact of an equity correction**

- **Wealth effect**
- **Follow-on effects**

Source: Oxford Economics
Risk 4: Fiscal overdrive and growth exhaustion

Key risk for 2019-2020:

1. Reduced marginal fiscal stimulus
2. Higher inflation
3. Tighter Fed stance
4. Wider deficit
5. Higher long-term borrowing cost
6. More protectionism

US: Fiscal stimulus versus monetary policy drag
Contribution to real GDP growth, percentage points, relative to "no stimulus" case

*Assumes 4 federal funds rate hikes in 2018 and 2 in 2019

Source: Oxford Economics
WHERE WILL THE DEMAND COME FROM?
Strength of demand is setting new norms

**Room nights per capita, US**

2018 Q2: 3.8 room nights per capita

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Note: Seasonally adjusted
Source: STR; Tourism Economics
But has settled into strong correlation with GDP

Room demand and GDP

% change

Note: Real GDP.
Source: STR; BEA; Tourism Economics
Lodging has gained wallet-share among consumers.

**Consumer spending, US**

Index (Dec. 2011=100)

**Growth 2011 to June 2018**

- Lodging (46.2%)
- F&B (40.6%)
- Recreation services (35.8%)
- Consumer spending (29.4%)
- Air (24.2%)
- Motor vehicle fuel (-15.8%)

Note: Data is nominal, three-month moving average, seasonally adjusted and extends through June 2018.
Source: Bureau of Economic Analysis; Tourism Economics
Hospitality is leading job growth

Employment by Industry in Broward County
2007=100

Source: BEA, BLS, Tourism Economics
...and income growth too

Earned Income by Industry in Broward County
2007=100

Source: BEA, BLS, Tourism Economics
All while the Broward County economy leads the US

Total Employment
2010=100

Source: BEA, BLS, Tourism Economics

Oxford Economics
Further demand gains anticipated as GDP accelerates

Room demand and GDP

Index (2005=100)

Note: Recessions shaded; data seasonally adjusted; monthly lodging demand through July 2018.
Source: STR; BEA; NBER; Tourism Economics
Room supply appears to be peaking below prior cycles

Supply growth

Annualized growth, four-quarter moving average

Note: Recessions shaded; data seasonally adjusted; history through 2018 Q2, forecast through 2019 Q4.
Source: STR, NBER, Tourism Economics
Market-level supply pressures are beginning to ease

Rooms under construction by market

As a ratio to existing supply

- Nashville, TN: 12.1%
- New York, NY: 11.1%
- Denver, CO: 9.4%
- Dallas, TX: 7.2%
- Seattle, WA: 6.7%
- West Palm Beach-Boca Raton, FL: 6.5%
- Houston, TX: 6.5%
- Orlando, FL: 6.0%
- Los Angeles-Long Beach, CA: 5.5%
- Philadelphia, PA-NJ: 5.3%
- Fort Lauderdale, FL: 5.0%
- Miami-Hialeah, FL: 5.0%
- San Diego, CA: 4.7%
- Boston, MA: 4.4%
- Minneapolis-St Paul, MN-WI: 4.3%
- Tampa-St Petersburg, FL: 3.9%
- United States: 3.6%
- Atlanta, GA: 3.0%
- Las Vegas, NV: 3.0%
- Detroit, MI: 2.8%
- Washington, DC-MD-VA: 2.8%
- Anaheim-Santa Ana, CA: 2.7%
- San Francisco-San Mateo, CA: 2.7%
- Chicago, IL: 2.5%
- San Antonio, TX: 2.1%
- New Orleans, LA: 2.1%
- Phoenix, AZ: 2.0%
- Canada: 1.8%
- Quebec: 0.3%

Note: Rooms under construction, any opening date, as ratio to existing supply.
Source: STR; Tourism Economics
Sources of new demand

- International markets
- Groups
- Vacation starved Americans
- “Seasoned” travellers
Has there been a “Trump Slump” in visits to US?

Number of international visitors to the USA declines

Is ’Trump Slump’ To Blame For Decline In Foreign Tourists To The U.S.?

America Has a Foreign Tourism Problem

A new travel industry coalition is urging the Trump administration to help stem a drop in international visitors.

By Justin Bachman
January 17, 2018, 5:00 AM EST Updated on January 17, 2018, 5:42 PM EST
% saying they have a very or somewhat favorable view of the U.S.

Source: Pew Research Center
A comparative view of US inbound performance in 2017

**International visits to the US by region**

NTTO Jan-Sep 2017 % change and TE full year 2017 estimates

- Total: -35%
- Overseas: -32%
- Mideast: -32%
- Africa: -28%
- LATAM: -14%
- Europe: 0.4%
- Oceania: 2.6%
- Asia: 4.1%

Source: NTTO, Tourism Economics
The dollar eased, supporting growth

**Exchange rate, US dollar**

Real effective exchange rate index, historical average = 100

2018 Q2:
5.3% above historical average

Note: History through 2018 Q2. Historical average based on period from 1995 Q1 to 2018 Q1.
Source: Bank for International Settlements; Oxford Economics
Momentum is carrying over into 2018

Non-citizen arrivals to the US by port of departure
January-June 2018, YTD % change

Brazil 18%
China 8%
Mexico 7%
Canada 6%
France 6%
Germany -10%
S Korea 3%
Japan 2%
United Kingdom 2%

Source: APIS, Banco de Mexico, Statistics Canada
International exposure across top US markets

Importance of international visitors

International visitor share of total nights in paid accommodations, 2016

- Miami: 46%
- San Francisco: 45%
- New York: 44%
- Los Angeles: 44%
- Phoenix: 39%
- Tampa: 31%
- Boston: 28%
- Orlando: 26%
- Riverside: 26%
- Houston: 26%
- Detroit: 21%
- Seattle: 20%
- San Diego: 19%
- Las Vegas: 19%
- Washington: 17%
- Philadelphia: 17%
- San Jose: 17%
- Chicago: 15%
- Minneapolis: 15%
- New Orleans: 15%
- Charlotte: 10%
- Atlanta: 8%
- Denver: 8%
- St Louis: 7%
- Nashville: 3%
- Other: 4%

Source: Tourism Economics
Opportunity: New traveling households

**Added households with income > $35,000**

2027 vs. 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Added Households (Millions)</th>
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<tbody>
<tr>
<td>Germany</td>
<td>1.2</td>
</tr>
<tr>
<td>Spain</td>
<td>1.3</td>
</tr>
<tr>
<td>Australia</td>
<td>1.5</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1.5</td>
</tr>
<tr>
<td>Canada</td>
<td>1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>1.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.1</td>
</tr>
<tr>
<td>France</td>
<td>2.5</td>
</tr>
<tr>
<td>UK</td>
<td>2.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.8</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.8</td>
</tr>
<tr>
<td>Russia</td>
<td>3.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.8</td>
</tr>
<tr>
<td>USA</td>
<td>8.7</td>
</tr>
<tr>
<td>India</td>
<td>9.4</td>
</tr>
<tr>
<td>China</td>
<td>64 million</td>
</tr>
</tbody>
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Source: Tourism Economics, constant 2015 prices

Oxford Economics
New traveling households ($100k threshold)

**Added households with income > $100,000**
2027 vs. 2017

- Argentina: 0.1
- Venezuela: 0.1
- Mexico: 0.2
- Brazil: 0.2
- Russia: 0.3
- Spain: 0.4
- Italy: 0.6
- South Korea: 0.6
- France: 0.6
- Canada: 0.8
- India: 0.9
- Australia: 1.0
- Germany: 1.2
- UK: 1.7
- China: 5.7
- USA: 8.4

Source: Tourism Economics, constant 2015 prices
Sources of new demand

- International markets
- Groups
- Vacation starved Americans
- “Seasoned” travellers
Prospects for group are encouraging

Group Room Demand and CAPEX

% change

Real capital investment

Group room demand

Source: STR, BEA

Oxford Economics
Sources of new demand

- International markets
- Groups
- Vacation starved Americans
- "Seasoned" travellers
Target opportunity: 705 mn unused vacation days

Days Away on Vacation

Annual vacation days per worker

Long-term average: 20.3 days

Note: Estimates are based on survey results for 2013 to 2017 (GfK and Beresford Research). Estimates for earlier years are based on analysis of BLS data. Source: Oxford Economics
Reversal in trends for both short and longer trips

**Full and Partial Week Vacations**

24-month moving avg, % of employed adults

Sources: Oxford Economics analysis of BLS survey results
Sources of new demand

- International markets
- Groups
- Vacation starved Americans
- “Seasoned” travellers
All age groups are spending more on travel, led by seniors

Recent household spending on lodging by age
Difference relative to long-term average

All households | Under 25 | 25 to 34 | 35 to 44 | 45 to 54 | 55 to 64 | 65 to 74 | 75+
---|---|---|---|---|---|---|---
16% | 1% | 20% | 12% | 8% | 8% | 23% | 24%

Note: Recent constant dollar spending (2013 to 2015) relative to long-term average for the same age brackets (1984 to 2015).
Source: BLS; Tourism Economics
Seniors now represent greatest share of households and spending

Share of lodging spending by age

Note: Lodging spending is based on recent three-year average (2013 to 2015). Consumer spending represents leisure trips.

Source: BLS; Tourism Economics
Key takeaways

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<th>Improved economy to boost demand</th>
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<td>Demand gains through 2018 and 2019. Business and group travel to show life.</td>
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<th>Slowdown is likely in H2</th>
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<td>Travel metrics will soften as the year progresses and into 2019</td>
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<th>Risks are increasing in probability</th>
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<td>Watch for policy missteps, wage stagnation, and interest rates.</td>
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<th>Travel demand opportunities remain solid</th>
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<td>International visitors, groups, vacation trends, and demographics paint a positive picture.</td>
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August 2018