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U.S. TRAVEL **FALL 2022**

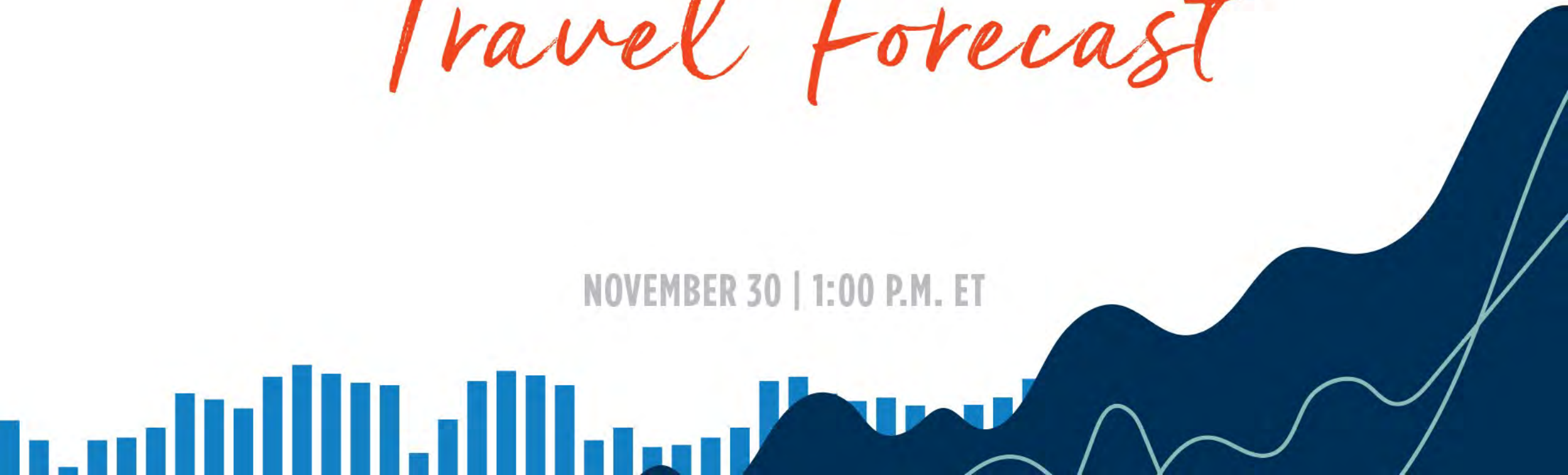
Travel Forecast



U.S. TRAVEL **FALL 2022**

Travel Forecast

NOVEMBER 30 | 1:00 P.M. ET



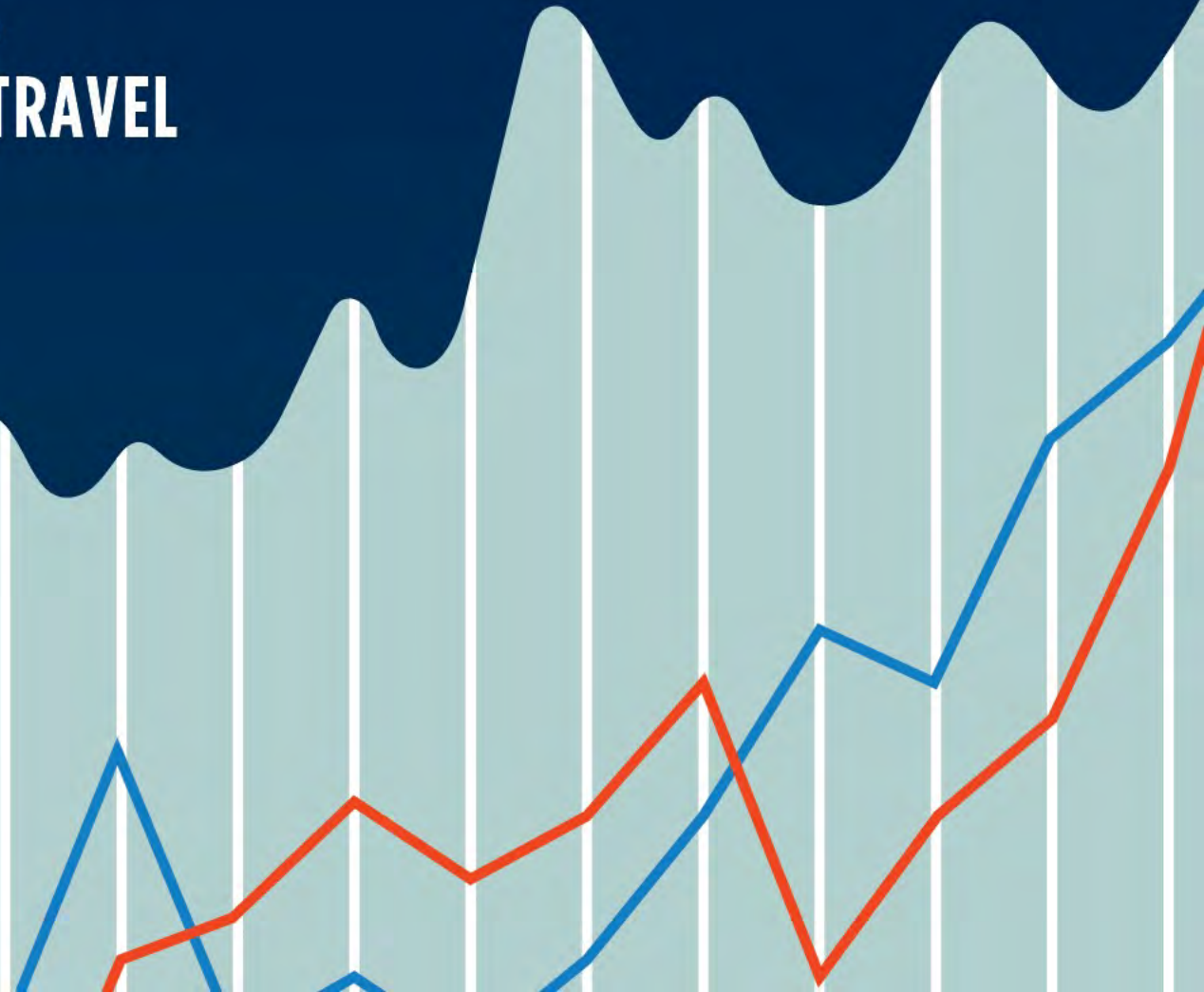


TORI BARNES

Executive Vice President
Public Affairs and Policy
U.S. Travel Association

Analyzing

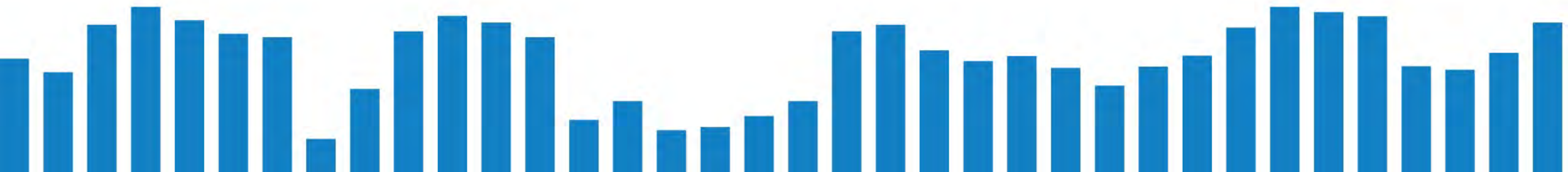
THE FUTURE TRAJECTORY OF **LEISURE,**
BUSINESS, GROUP AND **INTERNATIONAL TRAVEL**



AVAILABLE NOW

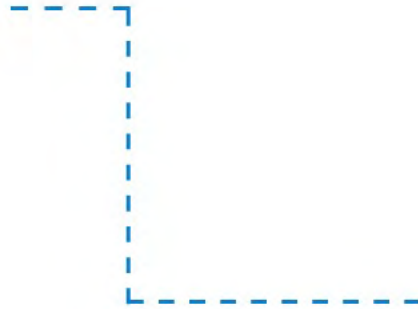
U.S. TRAVEL **FALL 2022 TRAVEL FORECAST**
summary data table

[BIT.LY/TRAVELFORECAST-2022](https://bit.ly/travelforecast-2022)




ADAM SACKS

President and CEO
Tourism Economics

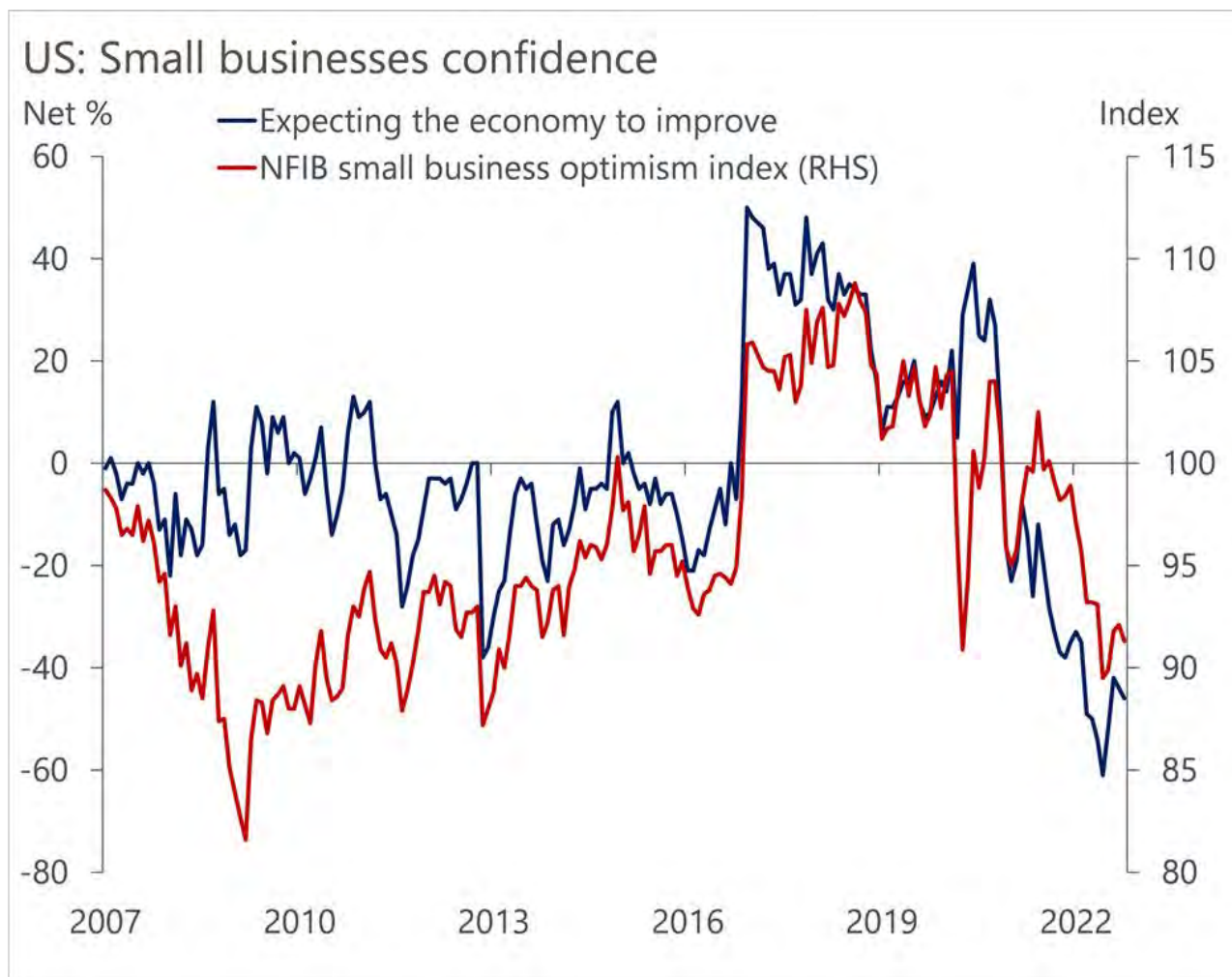


The Outlook for the Economy and Travel

Adam Sacks
President
Tourism Economics
adam@tourismeconomics.com

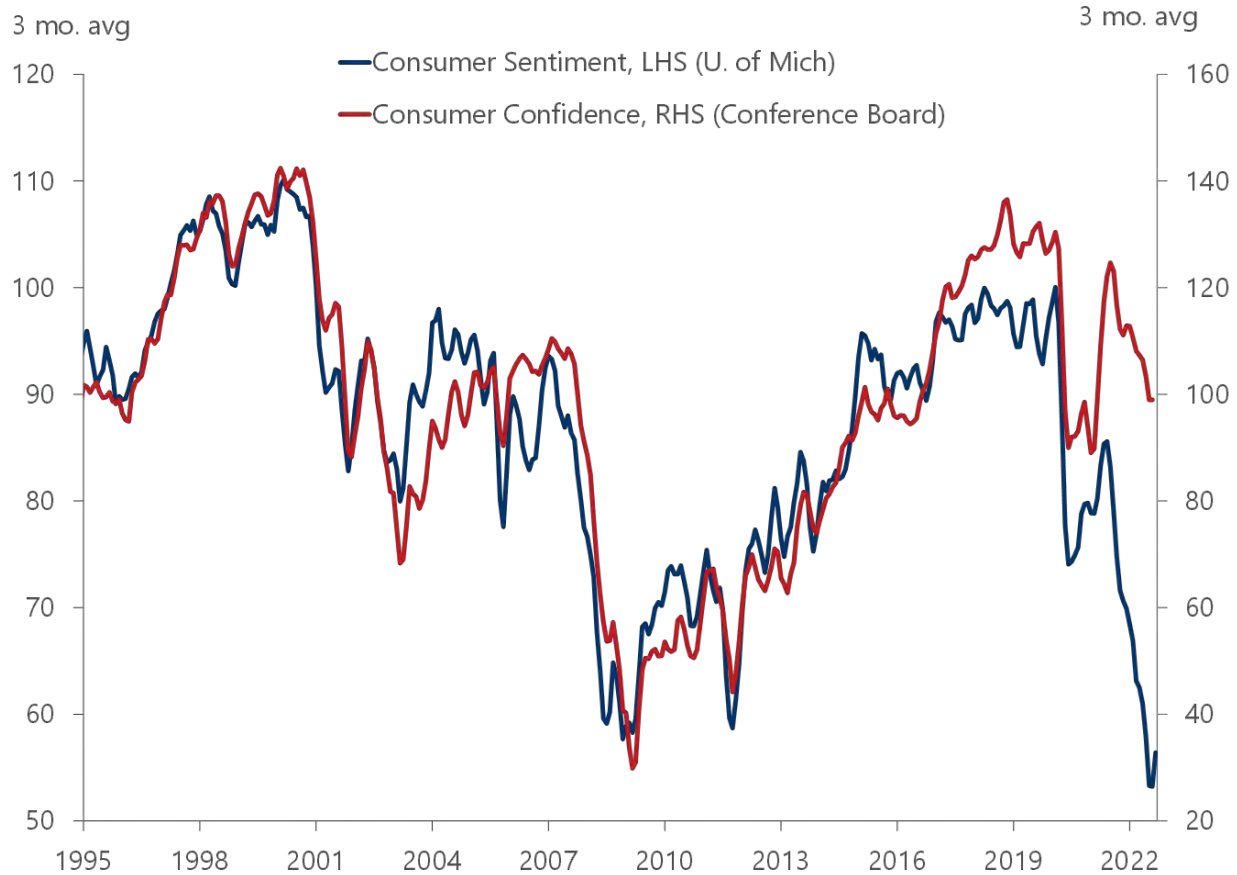
- 
- 1 Are we headed for a recession?
 - 2 How does this usually work?
 - 3 Why will travel prevail?

Small business optimism remains low despite recent uptick



Consumers feeling uneasy

US: Consumer surveys



Source: Oxford Economics/Haver Analytics

Job growth continues at a more tempered pace

US: Nonfarm payroll employment

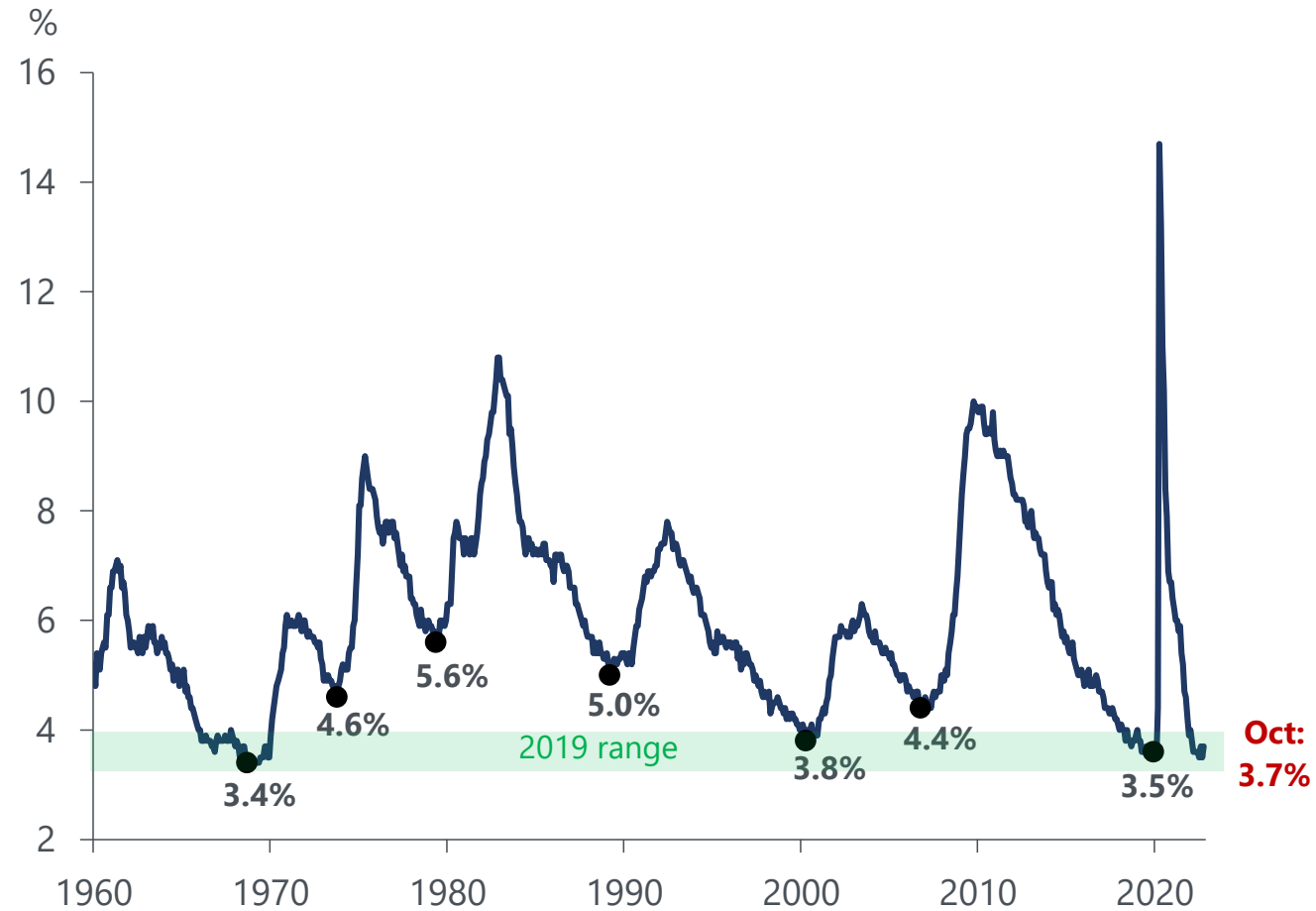
Thousand



Source: Oxford Economics/Haver Analytics

Unemployment rate remains historically low

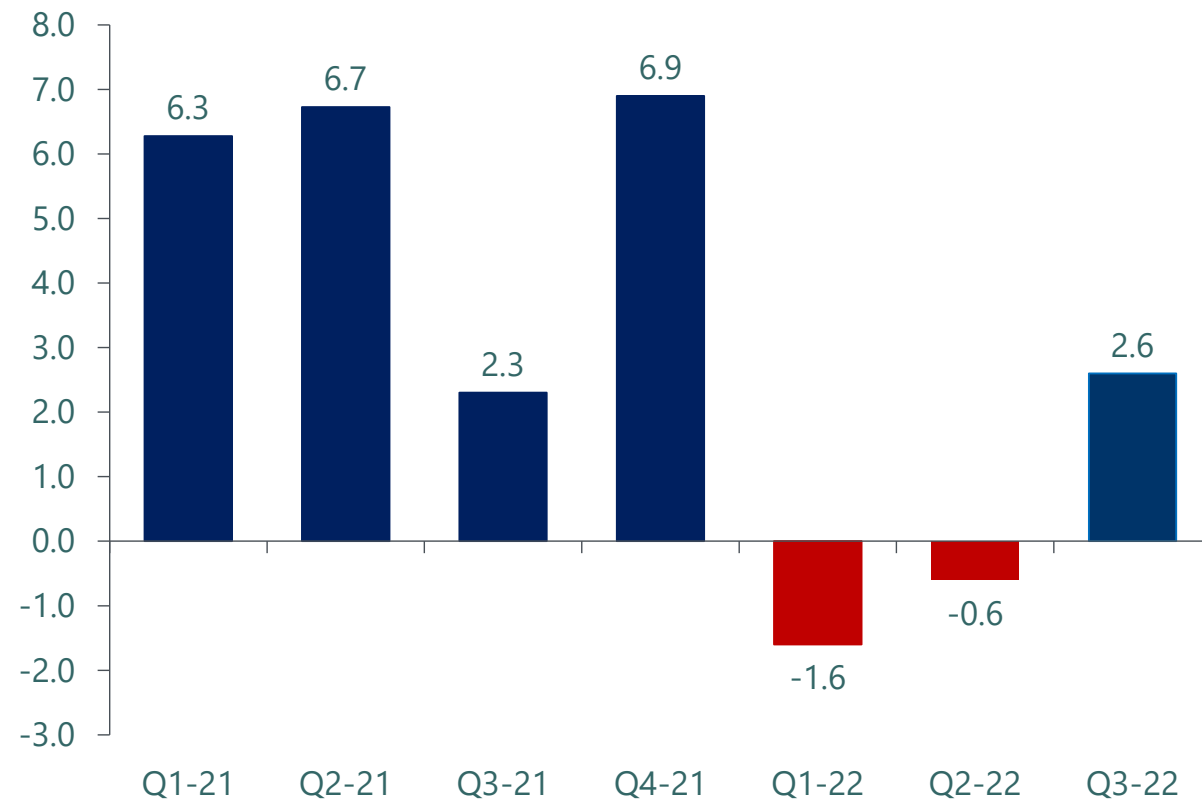
US: U-3 unemployment rate



Source: Oxford Economics/Haver Analytics

The US economy resumed growth in the third quarter

US real GDP growth, % annualized

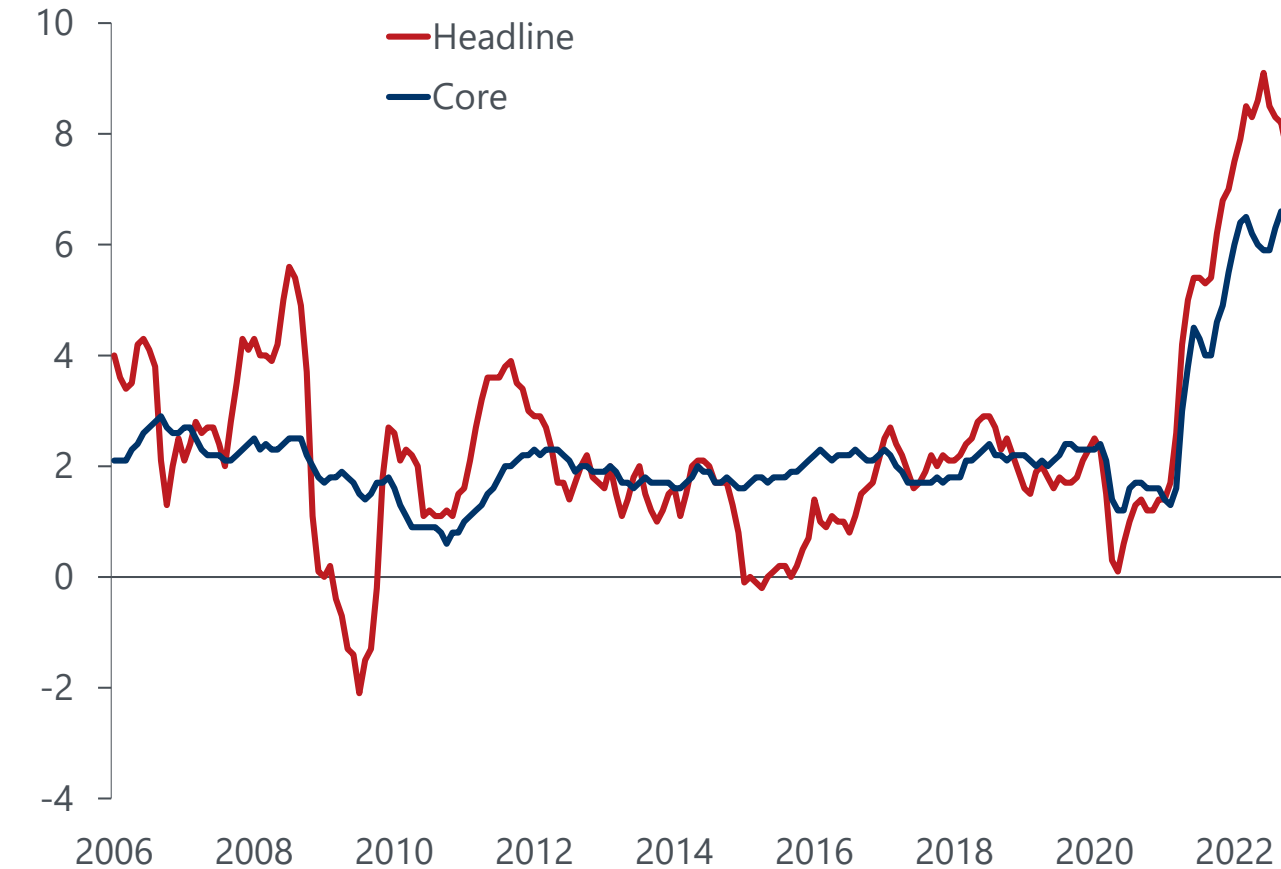


Source: BEA

October CPI brought signs of hope but we're not there yet

US: Consumer prices

%, year



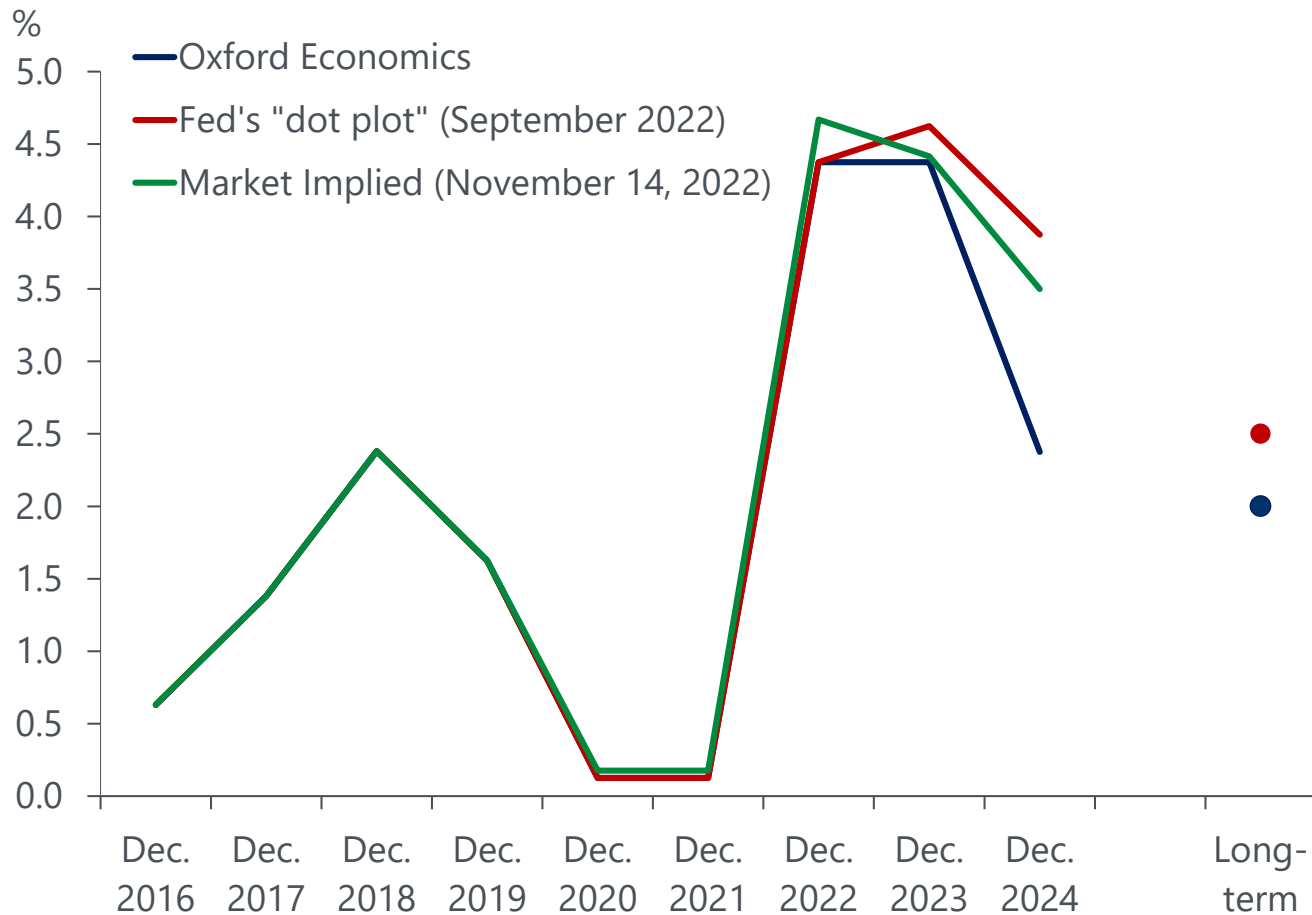
Headline and core CPI inflation decelerated to a still elevated 7.7% and 6.3%, respectively.

Interest rate hikes will continue.

Source: Oxford Economics/Haver Analytics

And the Fed has been dialed in on its core mission

US: Federal funds rate expectations



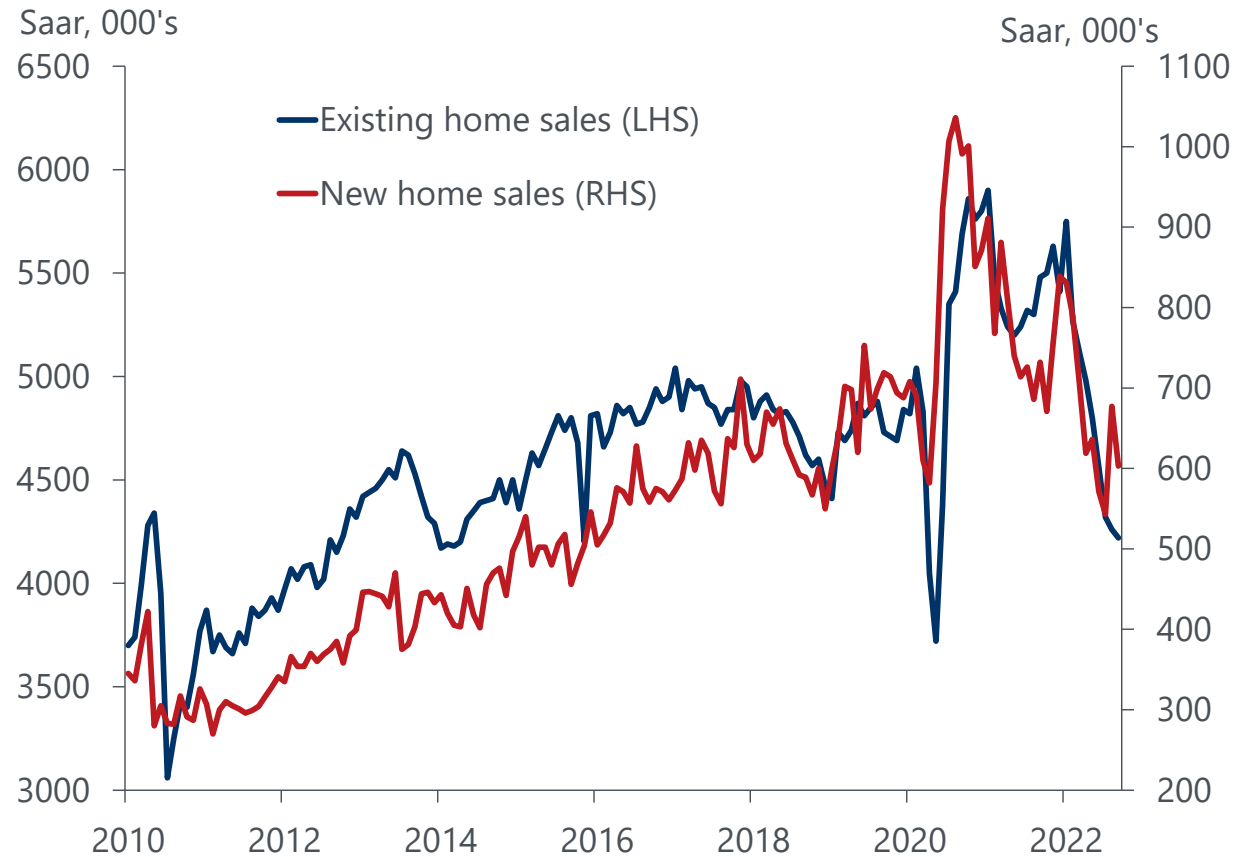
Source: CME/Federal Reserve/Oxford Economics

The Fed raised interest rates by 75bps for a fourth consecutive meeting in November, lifting the target range for the fed funds rate to 3.75% to 4.00%.

The Fed signaled that the pace of rate hikes may slow as it assesses the cumulative impact of 375bps of rate hikes, which will affect inflation and the economy with a lag.

Lower affordability = fewer sales

US: New and existing home sales



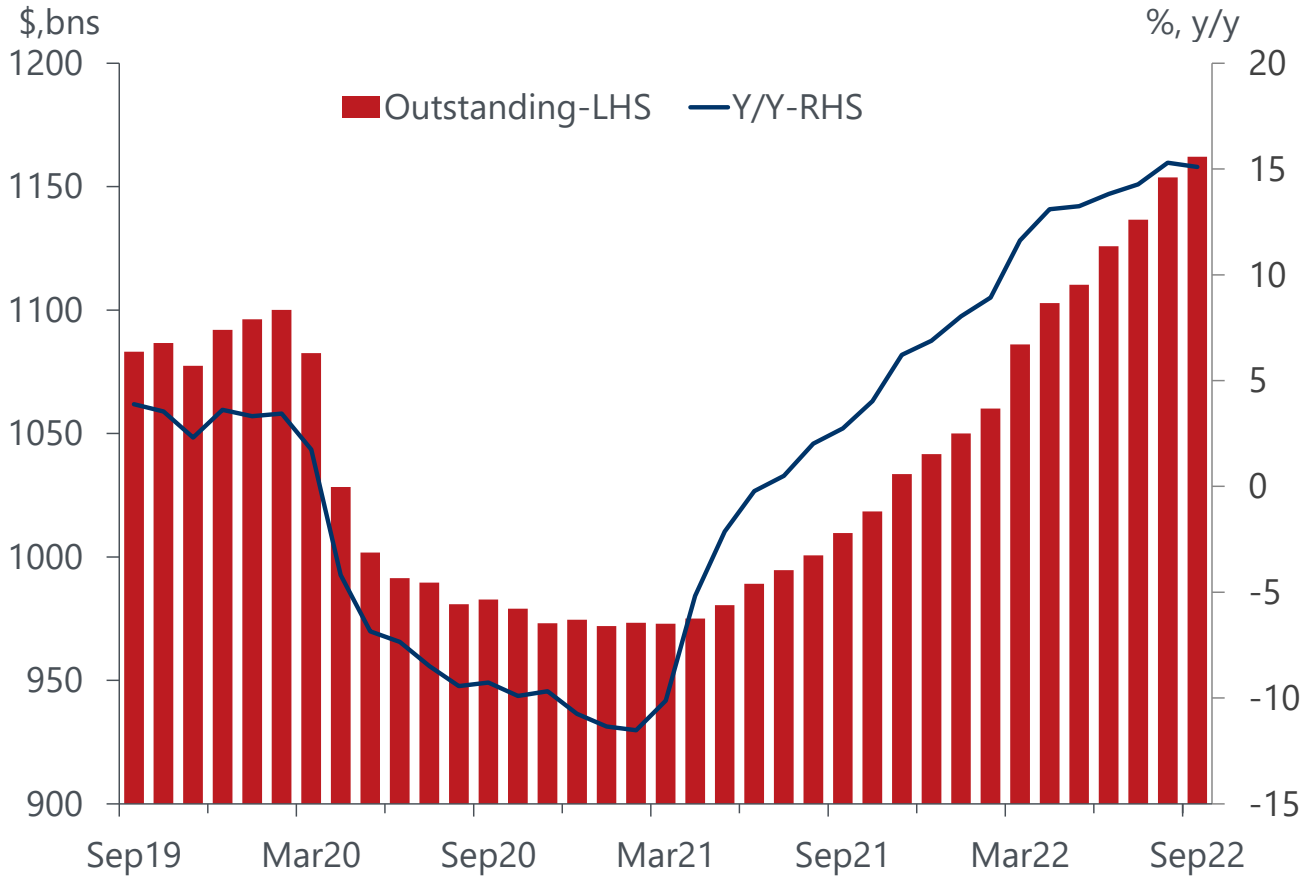
Source: Oxford Economics/Haver Analytics

Average new monthly mortgage payments have risen nearly \$750, with interest rates near 7%

~20 mn households have been priced out by higher rates

And households are taking on some debt

US: Revolving credit has surpassed prepandemic levels

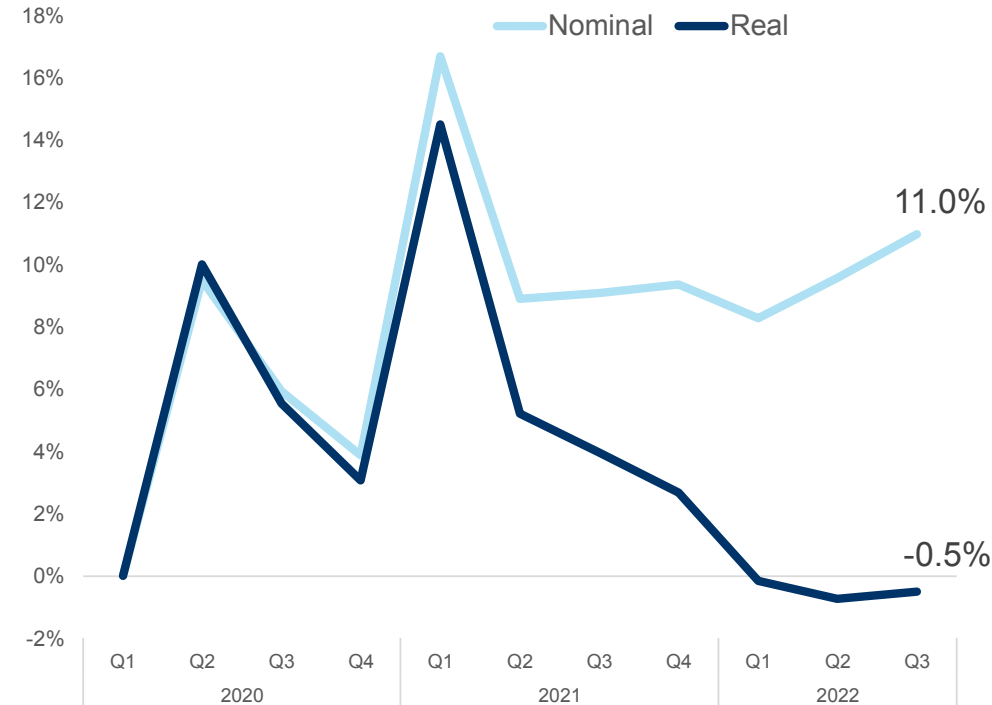


Source: Oxford Economics/Haver Analytics

Real income modestly down compared to pre-pandemic

Disposable personal income growth

Change relative to 2020 Q1

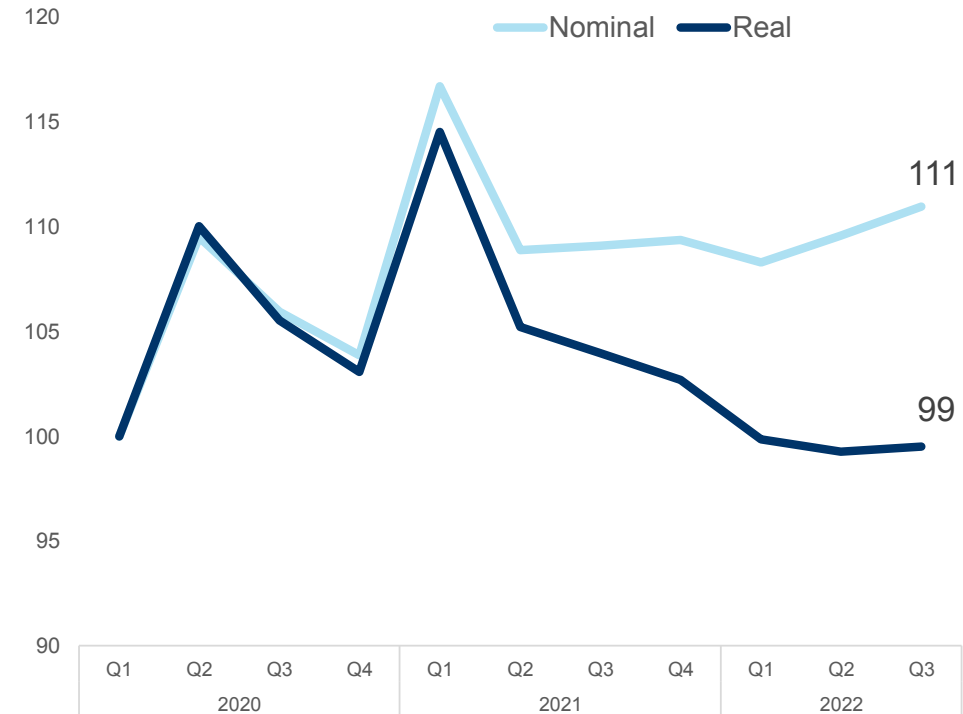


Note: Disposable personal income (measures income after taxes), seasonally adjusted. Real series deflated by PCE price index.

Source: BEA; Tourism Economics

Personal income growth

2020 Q1 = 100



Note: Personal income, seasonally adjusted. Real series deflated by PCE price index.

Source: BEA; Tourism Economics

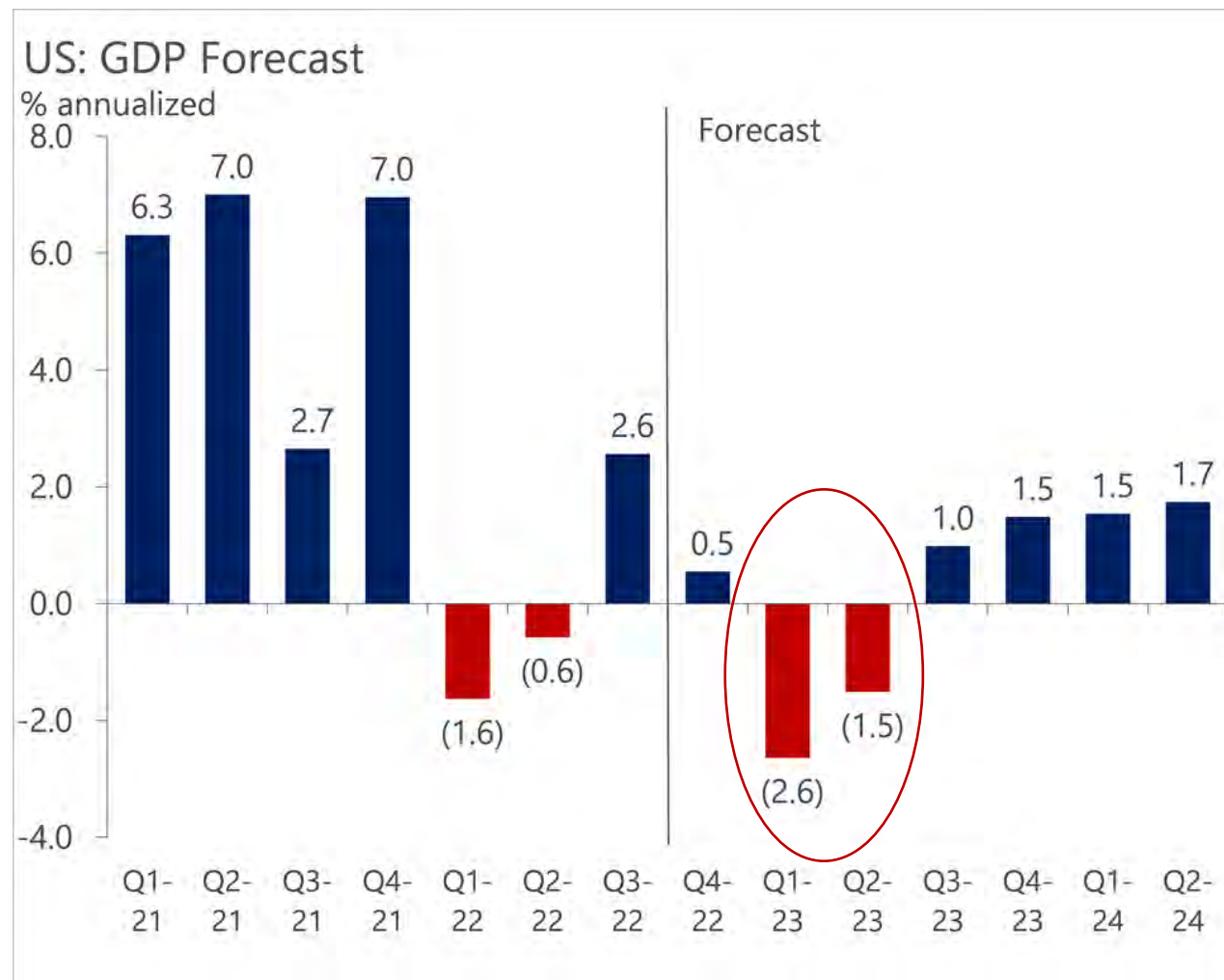
The yield curve has inverted (and stayed there)

US: Yield curve inversion



Source: Oxford Economics/Haver Analytics

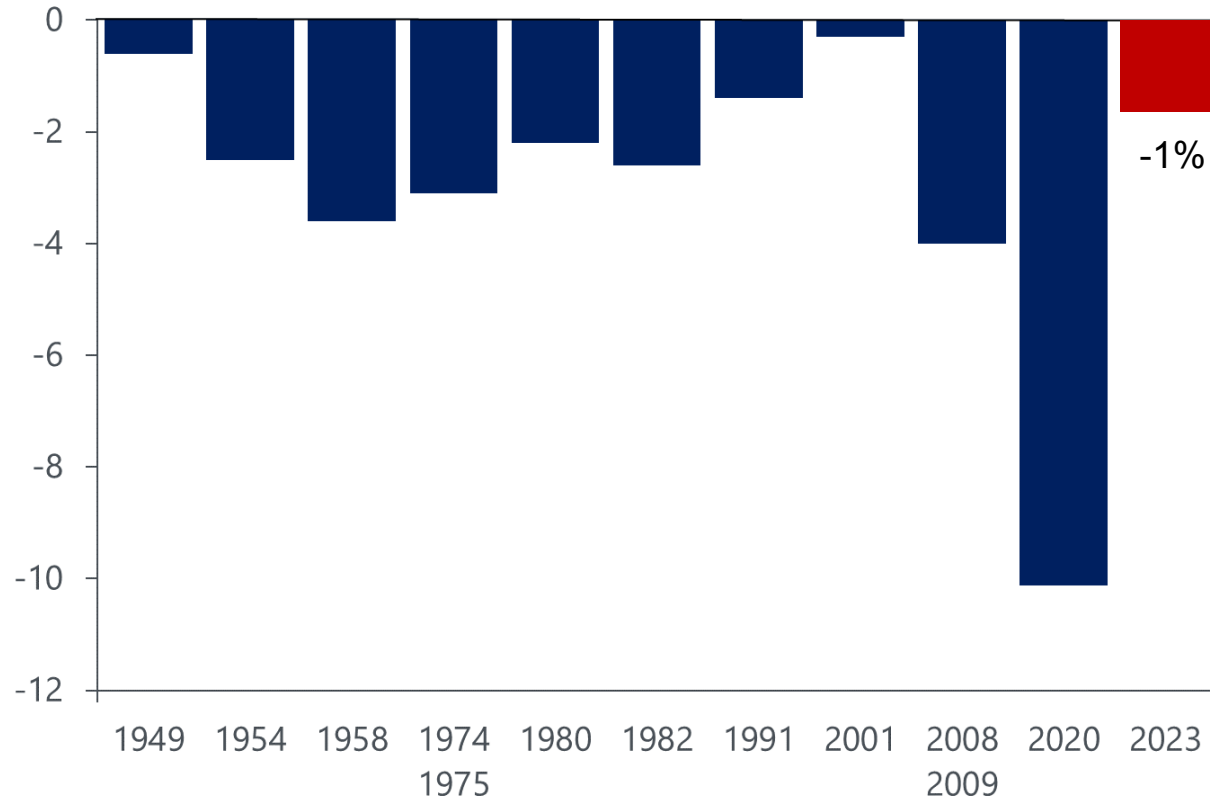
We are headed toward a recession in 2023



The recession will be mild by historical standards

US: Peak-to-trough recessions since 1949

% change, peak to trough



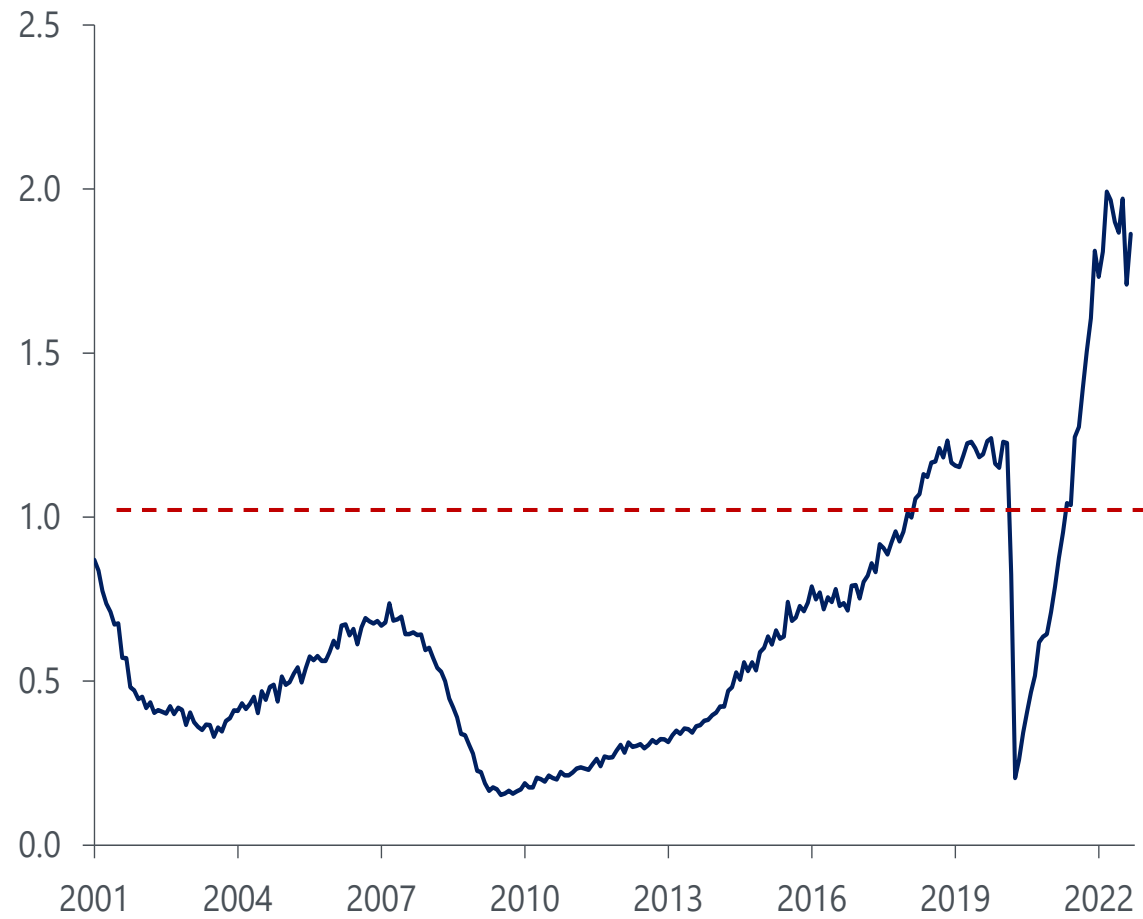
Source : Oxford Economics/Haver Analytics

Why?


- Household balance sheets are in great shape and debt service burdens are low.
- Nonfinancial corporate balances are strong
- State and local governments are flush with cash.

Another buffer: job openings

US: Number of job openings per unemployed



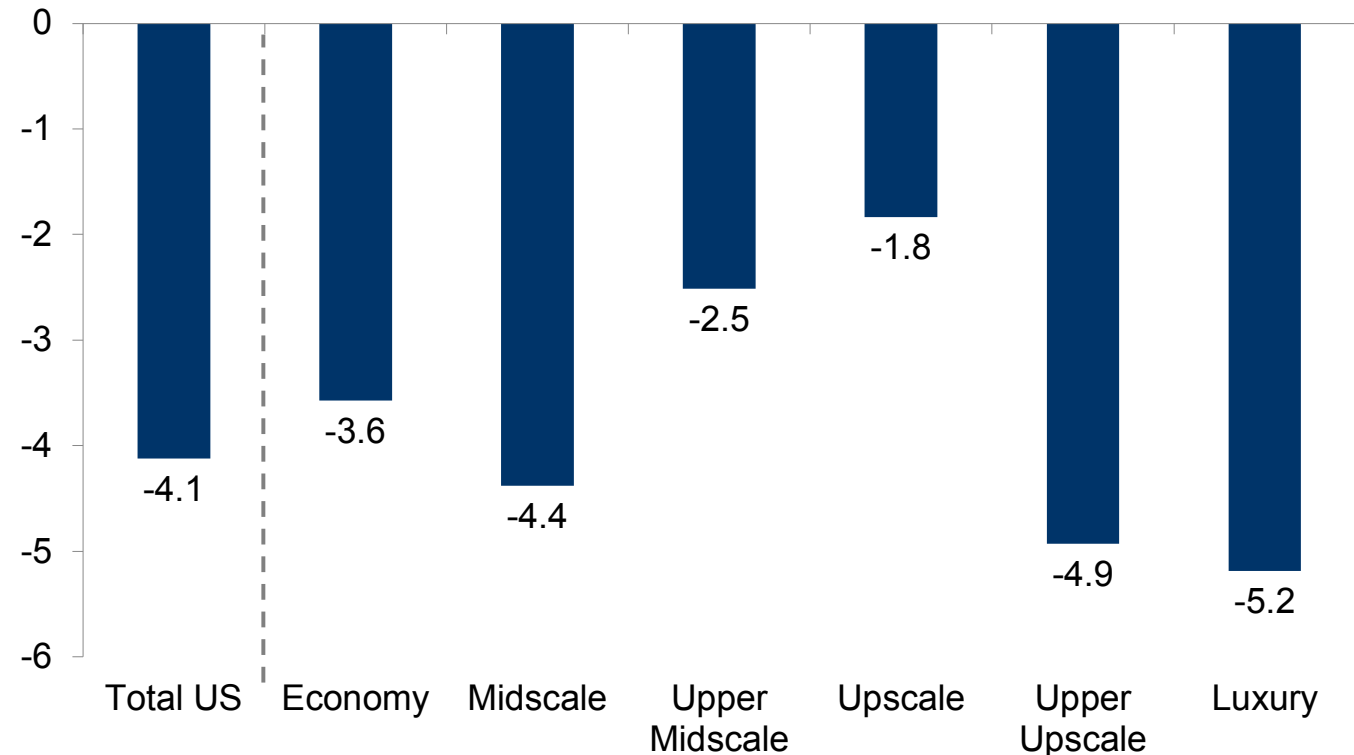
Source: Oxford Economics/Haver Analytics

- 
- 1 Are we headed for a recession?
 - 2 How does this usually work?
 - 3 Why will travel prevail?

What is the usual relationship?

Hotel demand response to GDP during recessions

% change in room demand from -1% change in real GDP, 1987-2019



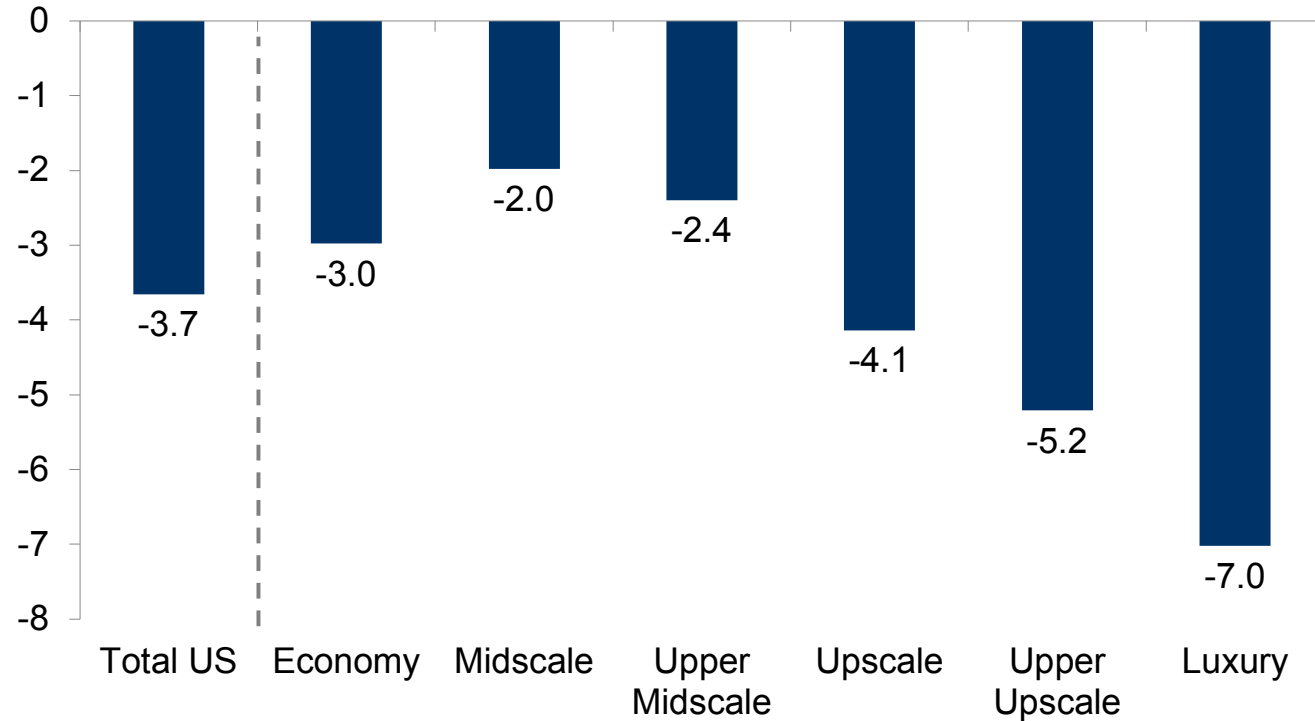
Over the past three recessions (not counting 2020), hotel demand fell on average 4x the rate of GDP.

Source: Tourism Economics

Rates react most at the top end

Hotel ADR response to GDP during recessions

% change in ADR from -1% change in real GDP, 1987-2019



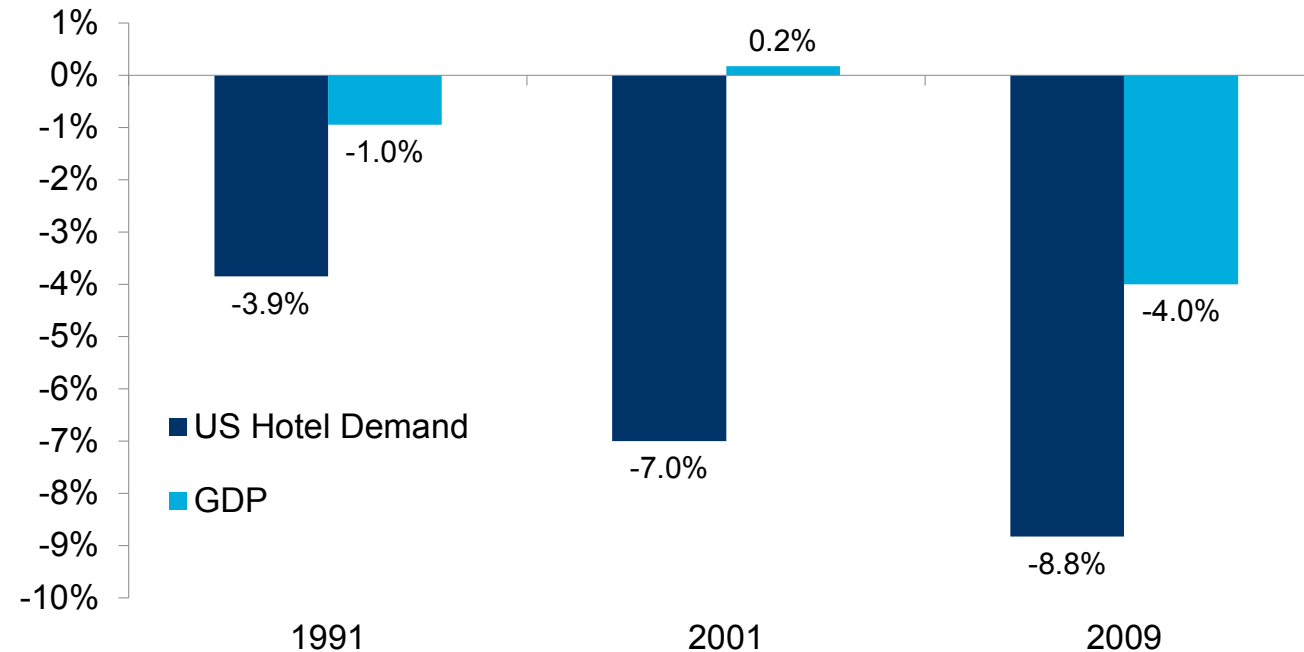
For every 1% drop in GDP, Luxury ADR falls 7%

Source: Tourism Economics

What have the last three “normal” recessions looked like?

Hotel demand during recessionary periods

Year-over-year %, quarterly peak-to-trough



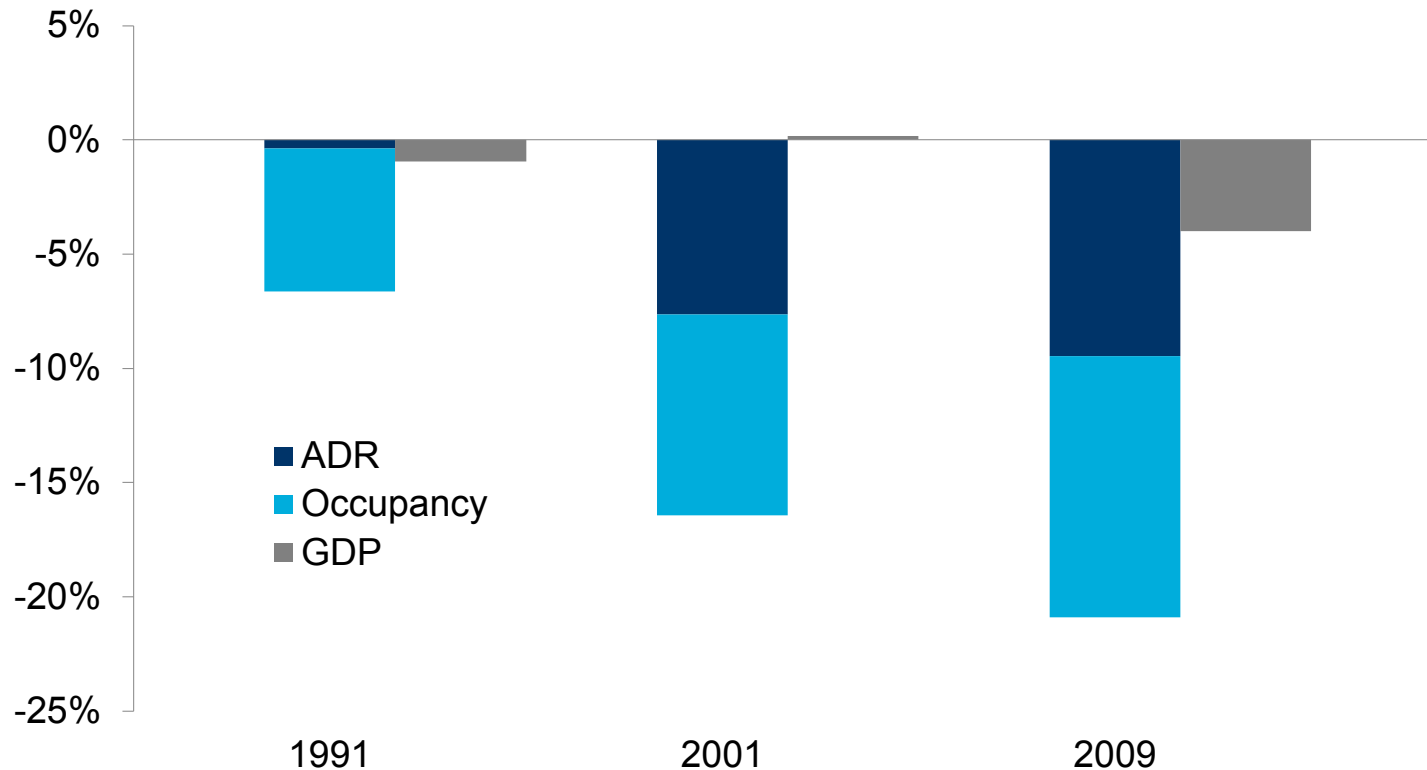
Source: STR, BEA

Quite a bit of variation is evident in the GDP-hotel room demand relationship

Overall performance (choose your own adventure)

Hotel performance during recessionary periods

Year-over-year %, quarterly peak-to-trough



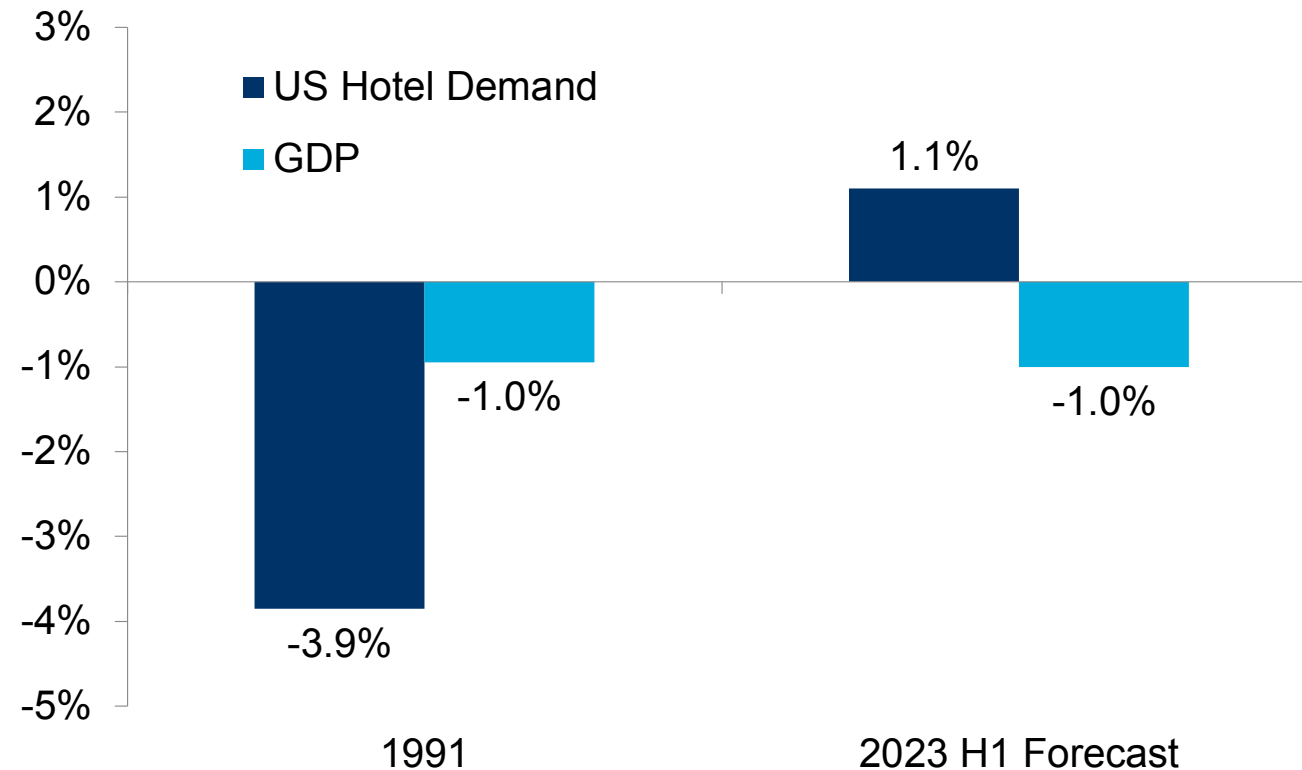
Source: STR, BEA

Quite a bit of variation is evident in the GDP-hotel room demand relationship

Our expectation for 2023 is unique

GDP and Hotel Room Demand

Year-over-year %, quarterly peak-to-trough

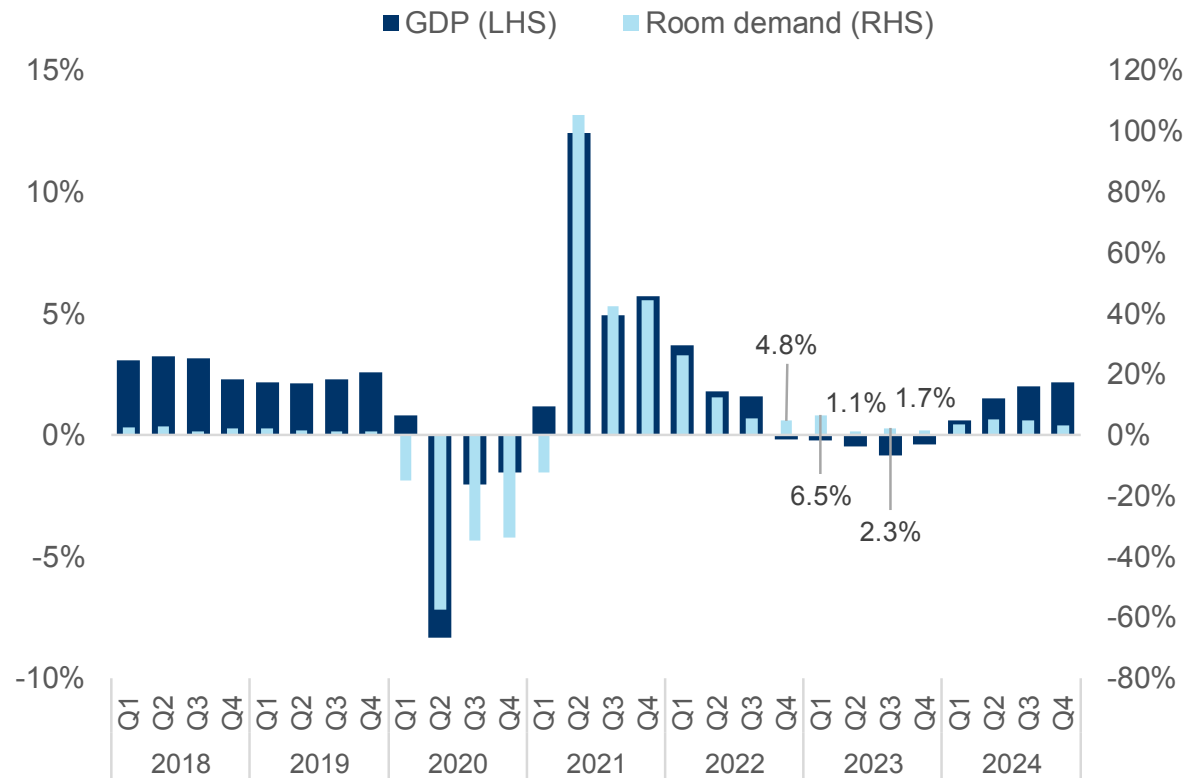


Source: STR, Tourism Economics, U.S. Travel, BEA

Room demand will slow in 2023 but remain positive


GDP and hotel room demand

Quarterly data, year-over-year growth



Note: Real GDP, seasonally adjusted.

Source: BEA; STR; Tourism Economics

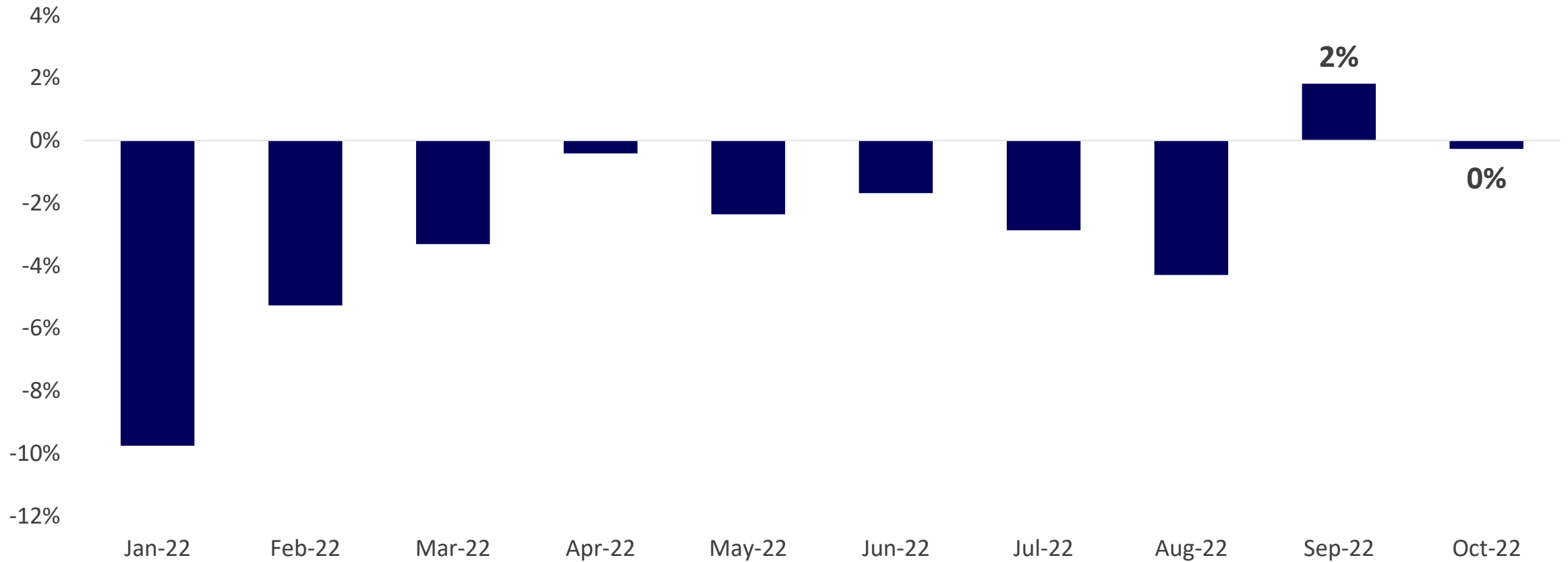
- 
- 1** Are we headed for a recession?
 - 2** How does this usually work?
 - 3** Why will travel prevail?

Why the travel industry will prevail

1 No signs of weakness yet!

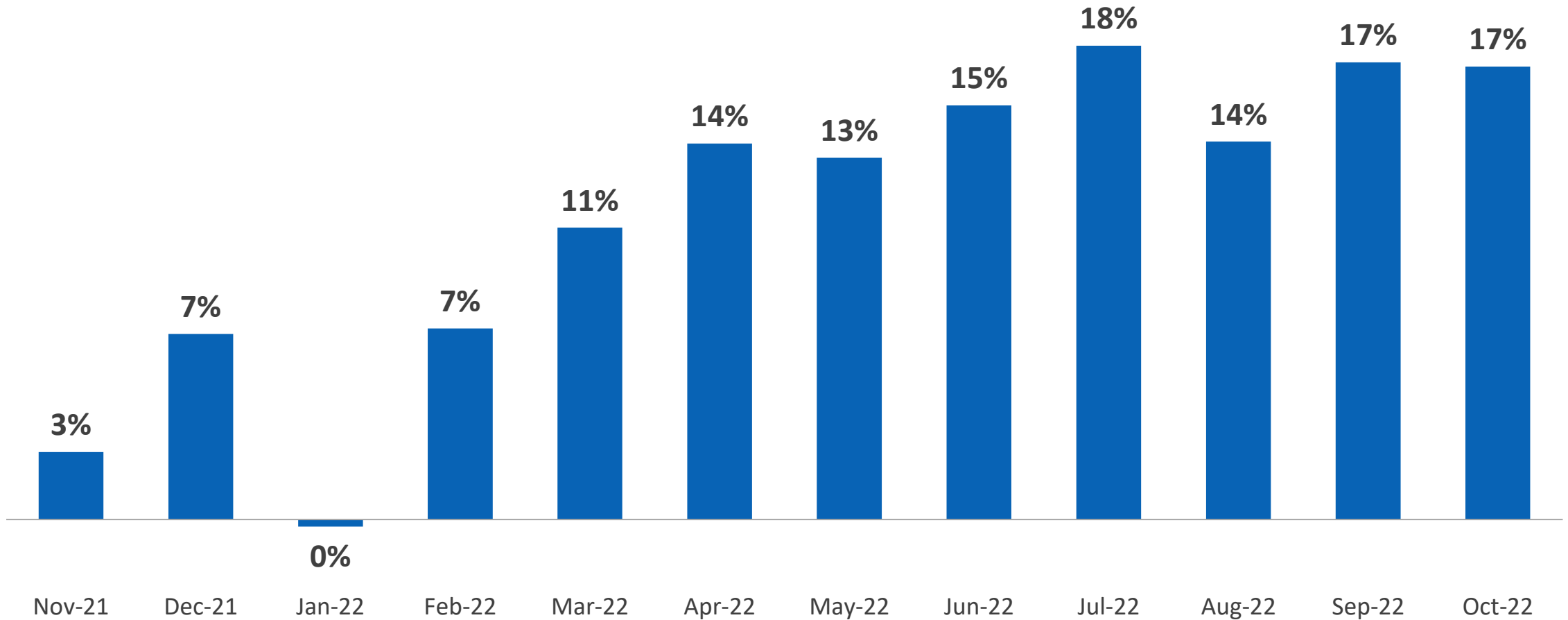
Newsflash: hotel room demand is fully recovered

Total U.S., demand % chg. to 2019, Jan 2022 – Oct 2022



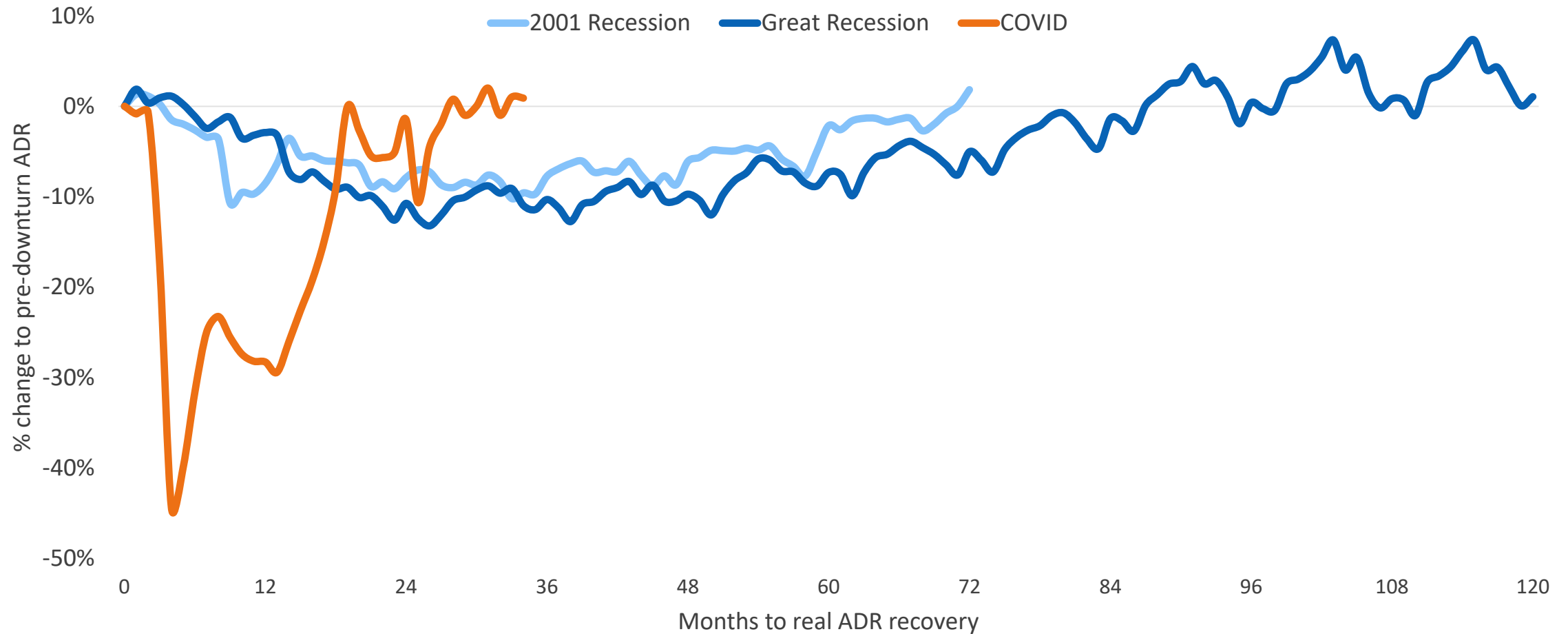
...and hotels continue to command high rates

Total U.S., ADR % chg. to 2019, Nov 2021– Oct 2022



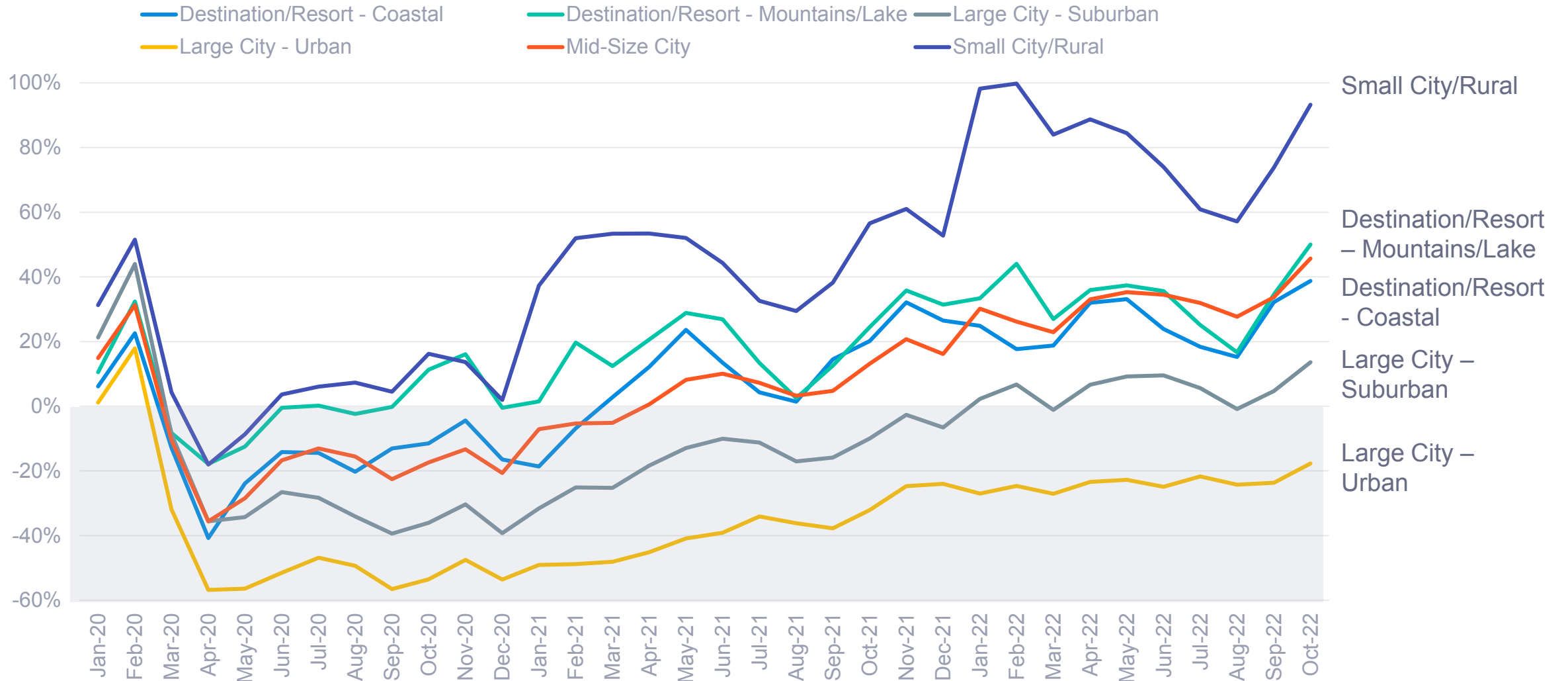
Real ADR recovery very strong compared to prior downturns

Total U.S., real ADR % change to pre-recession year



ST rental demand expands... everywhere

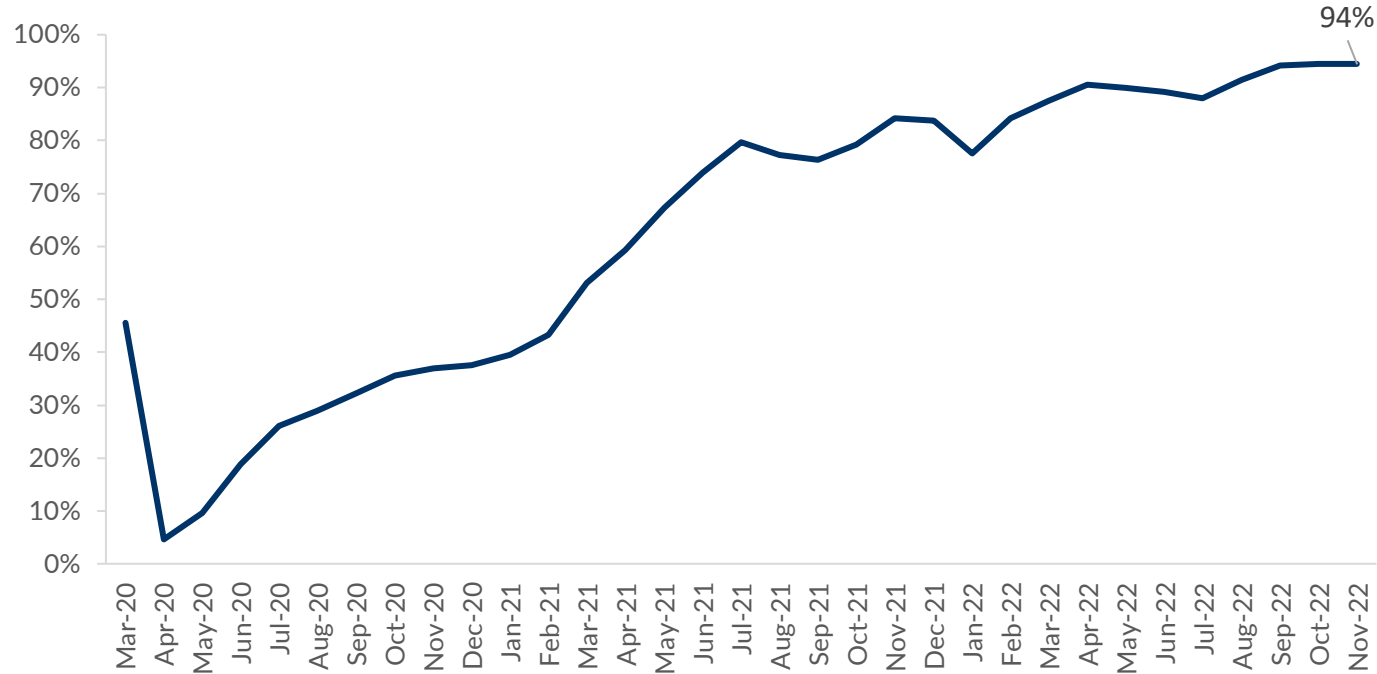
Change in U.S. Short-term Rental Demand vs 2019 by Location Type



Air transportation continues to make gains

Air Passenger Volume

% of 2019 level



Source: TSA

“We are expecting a very, very robust demand for the holiday periods for Thanksgiving and Christmas, and it looks to us now is the business is going to have a very strong fall.

I think everybody is looking for cracks. And what I'd say is we haven't seen any cracks in our demand set yet.”

Delta earnings call, Sept 14

Auto travel still just fine

arrivalist.com | US Daily Travel Index



Date Granularity: Monthly | Compare Period: 2022 vs 2021 | Trip Type: Overnights | Destination: (All) | 2022 | 2021 | DAILY TRAVEL INDEX | Arrivalist

Daily drive market index of US travelers who moved at least 50 miles from home and spent a minimum of 2 hours at the destination. The index is based on the average daily volume of 2019 travelers.

Last Updated: Nov 28, 2022

“In a normal world, 60% of our business is fly and 40% of it is drive. In the second quarter, we think it was 33% fly and 67% drive.”

Hilton earnings call, July 27

Why the travel industry will prevail

- 1 No signs of weakness yet!
- 2 US households are in a position of strength

Household balance sheets remain strong

Household debt service

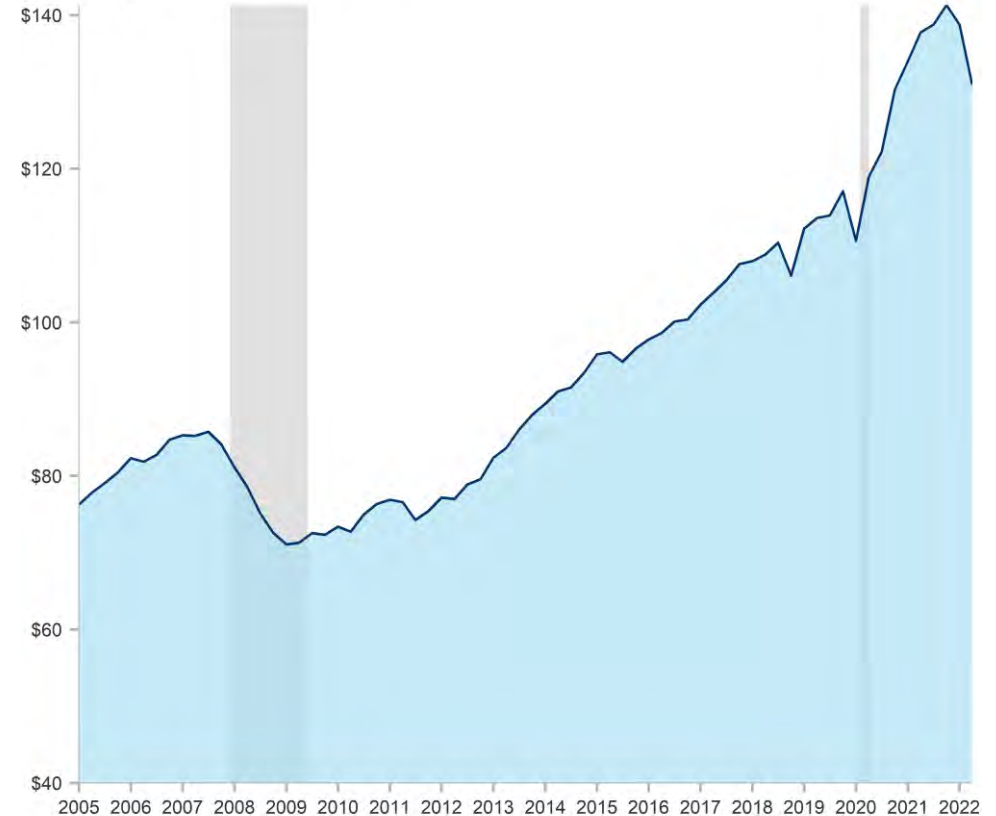
Financial obligations as ratio to disposable income



Note: Quarterly data through 2022Q2. Financial obligations ratio is the ratio of household debt payments, and payments such as rent and auto leases, to disposable income. Source: Federal Reserve, NBER

Household net worth

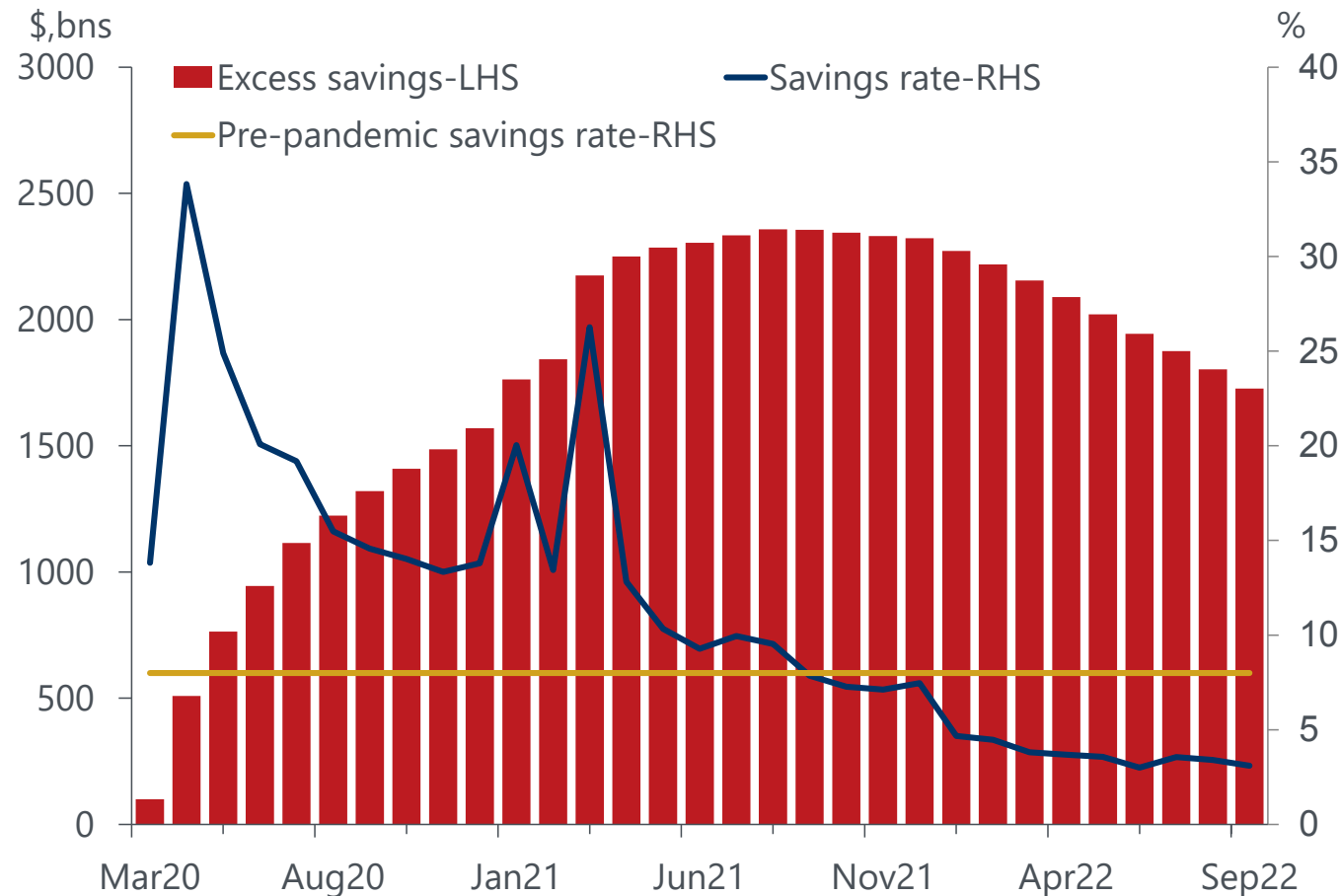
In trillions, real



Note: 2020 dollars. Quarterly data through 2022Q2. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER

Excess savings remain, but are drawing down

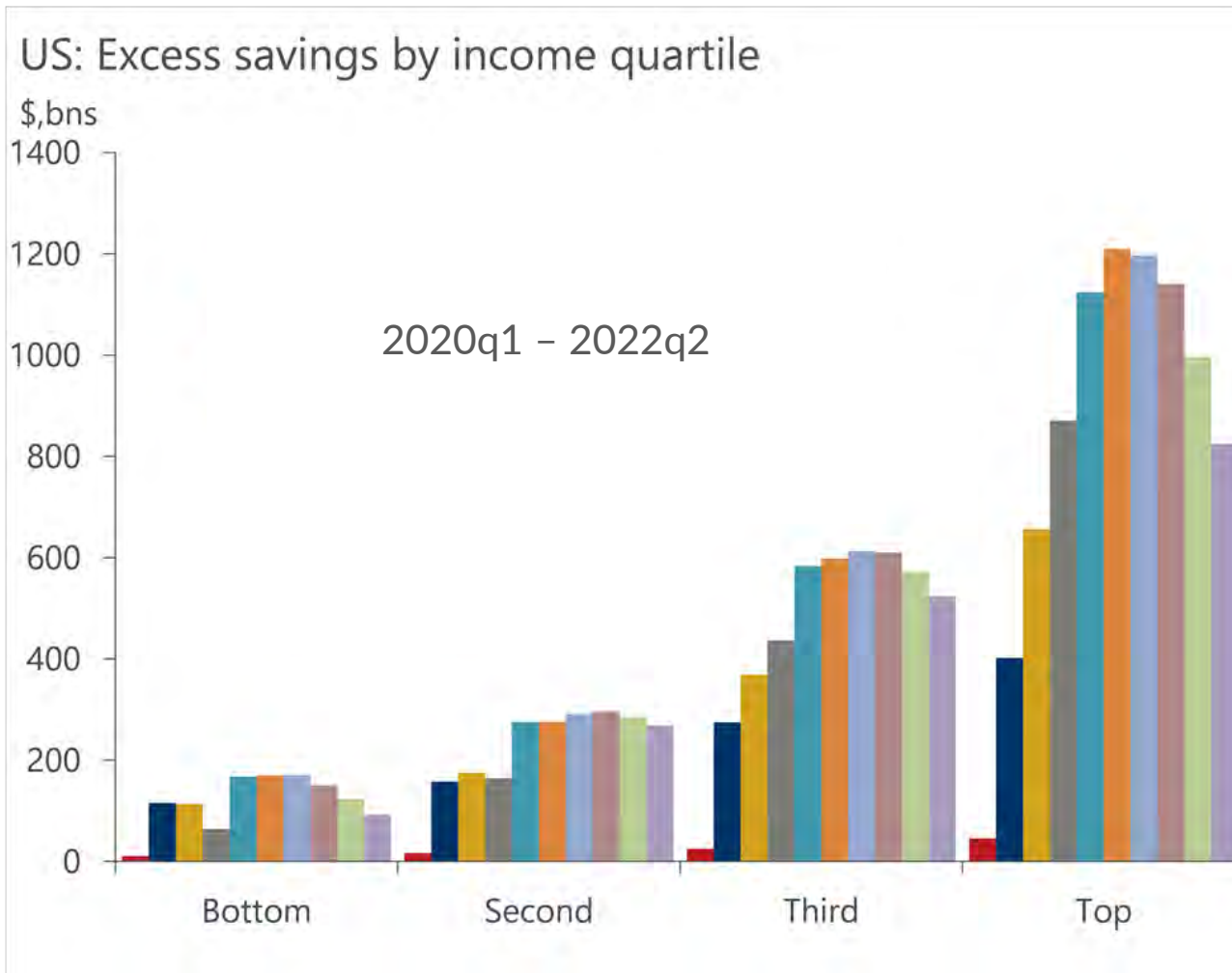
US: Excess savings based on reported personal income data



Source: Oxford Economics/Haver Analytics

Still-massive excess savings will provide some support to consumer spending going forward.

Excess savings remain, but are drawing down



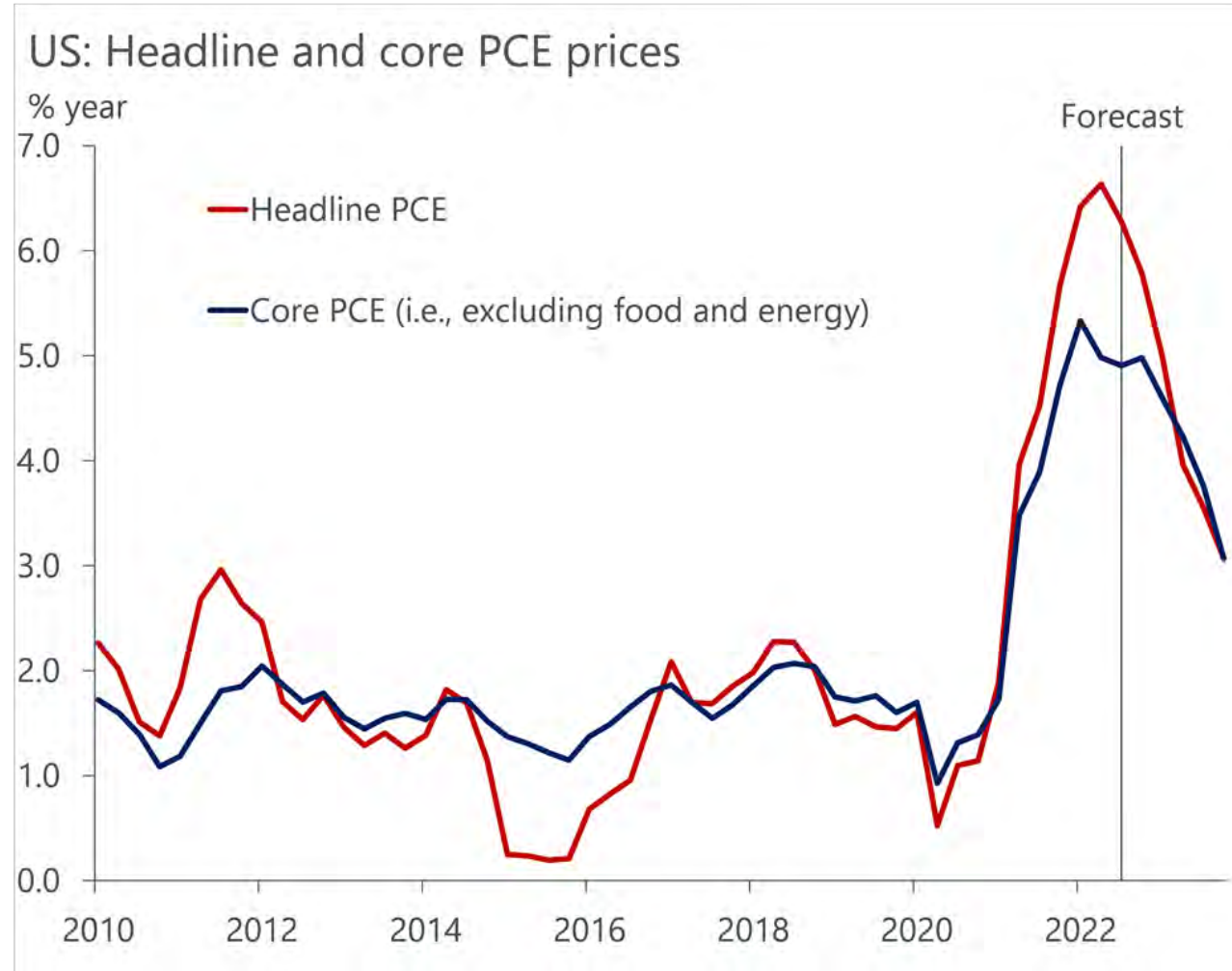
\$2.4 trillion saved during pandemic, now sits at \$1.7 trillion in September (a 27% decline over the past year)

Households in the top income quartile held close to half of excess savings at the end of Q2, while accounting for about two-thirds of the drawdown.

“While macroeconomic concerns continue to dominate the headlines, we are not seeing any signs of weakness in our business. ...consumers still have \$1.7 trillion in excess savings, with the majority concentrated in the top income brackets which gives us confidence the recovery in the lodging industry is sustainable.”

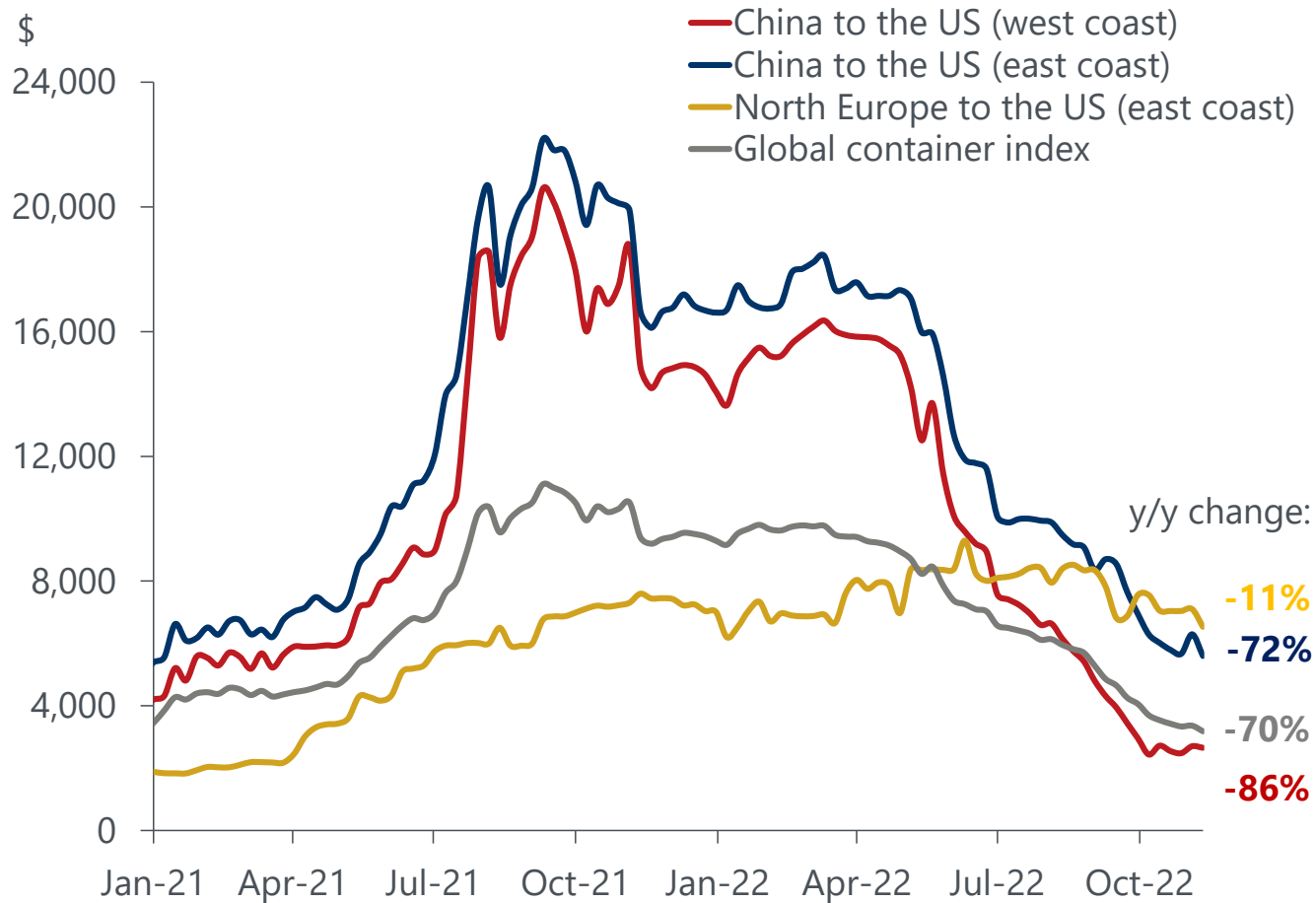
Host earnings call, November 3, 2022

Expect inflation to slow in the coming months



Shipping costs continue to fall

US: The cost of shipping a container from...



Source: Oxford Economics/Freightos Baltic Index

Why the travel industry will prevail

- 1 No signs of weakness yet!
- 2 US households are in a position of strength
- 3 Pent-up demand and prioritization of travel is real

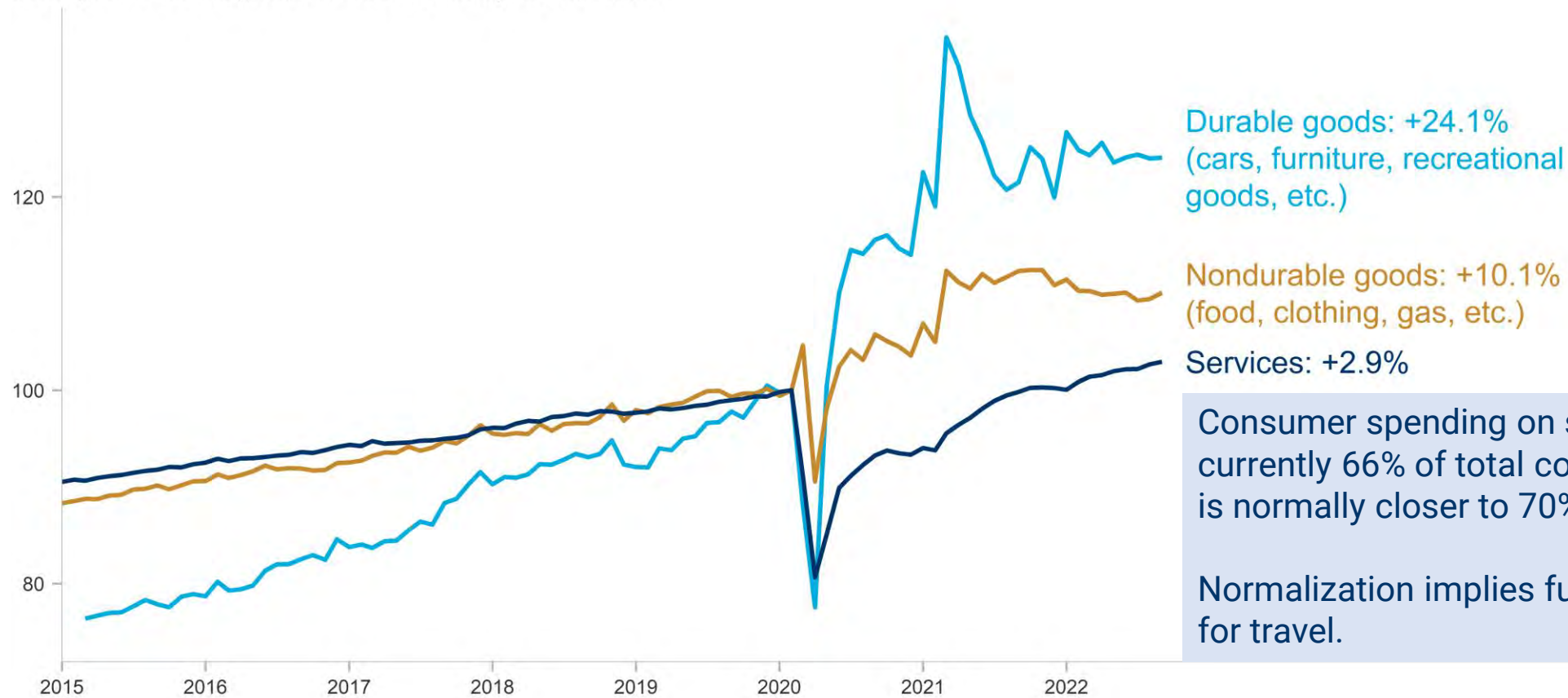
“While we are mindful of macroeconomic headwinds, the travel industry is experiencing a countercyclical recovery. Global demand is continuing to ramp as consumers shift spend to experiences, businesses return to travel, and international markets continue to reopen.”

Delta CEO Ed Bastian, October 13, 2022

Spending continues to rise... especially for services

Consumer spending, real

Index (Feb 2020=100), increase since February 2020 in labels



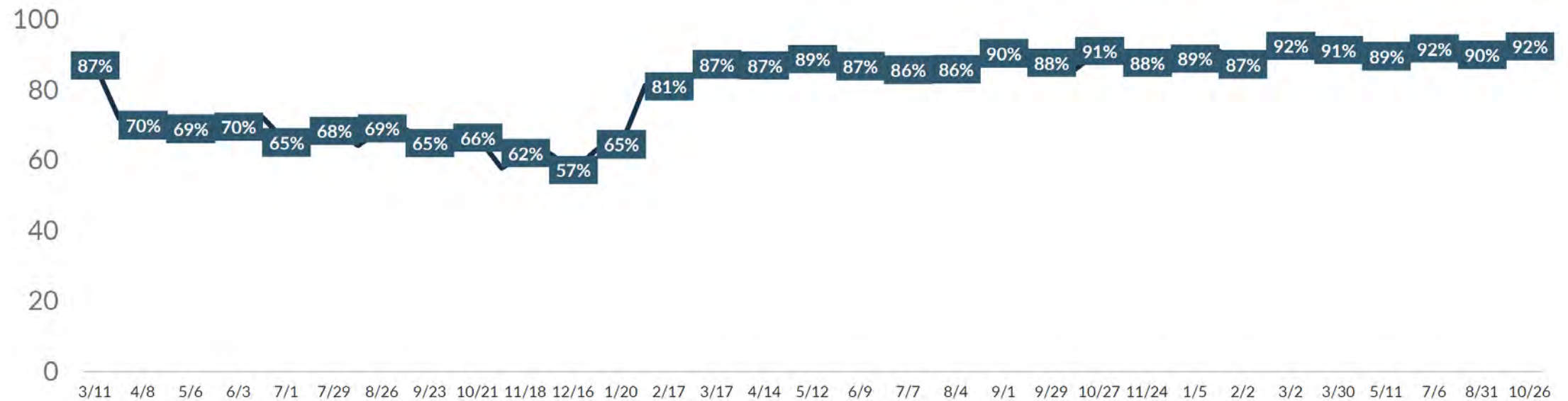
Consumer spending on services is currently 66% of total consumption. It is normally closer to 70%.

Normalization implies further growth for travel.

Note: Real. Seasonally adjusted monthly data through September 2022
Source: Bureau of Economic Analysis

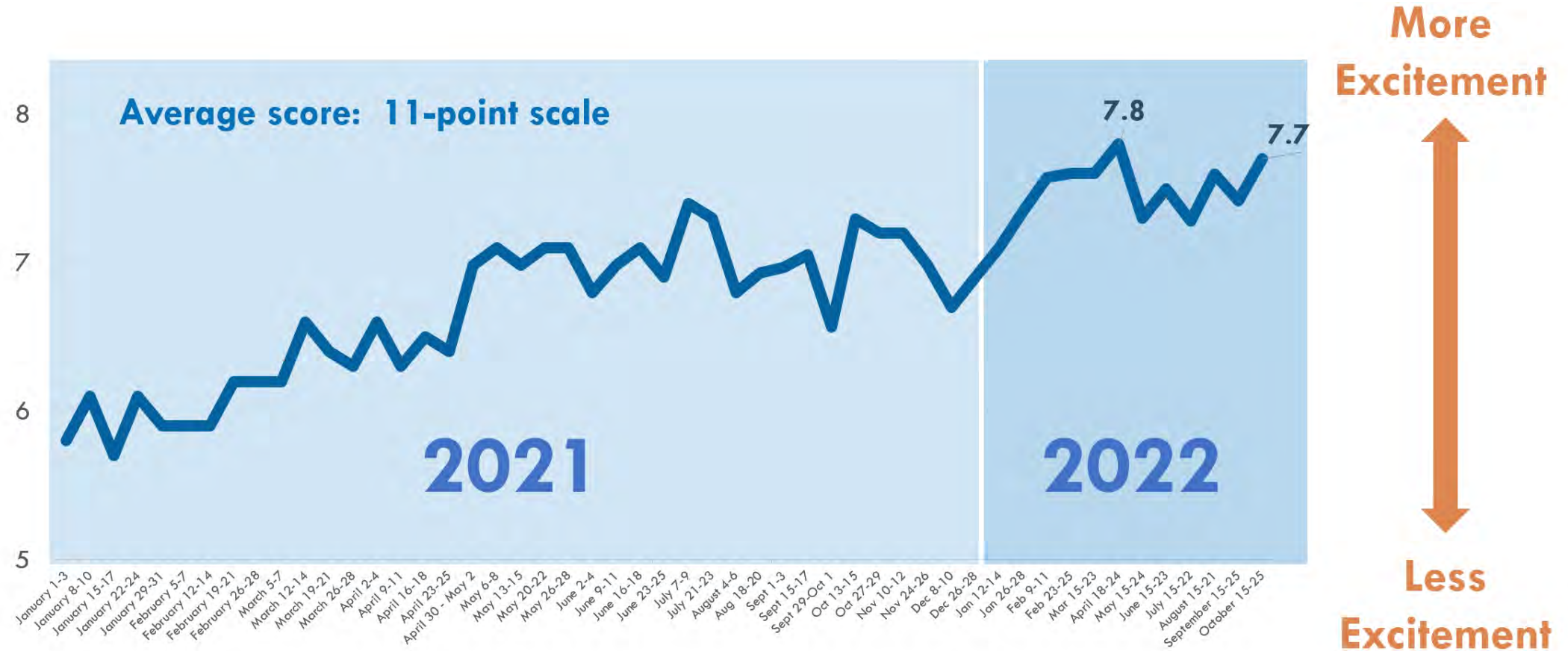
And overall intentions to travel remain elevated

Travelers with Travel Plans in the Next Six Months Comparison

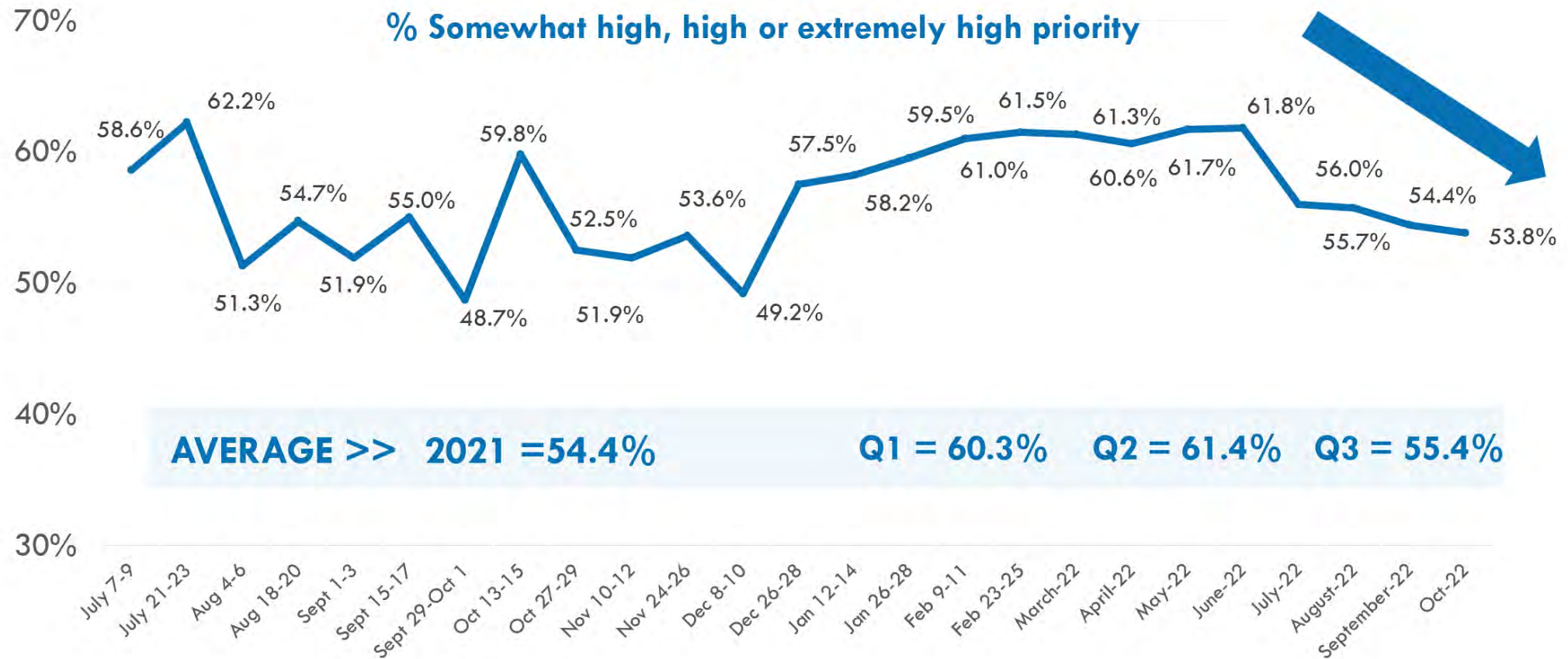


Travel Sentiment Study Wave 67

How excited are you about leisure travel in the coming year?

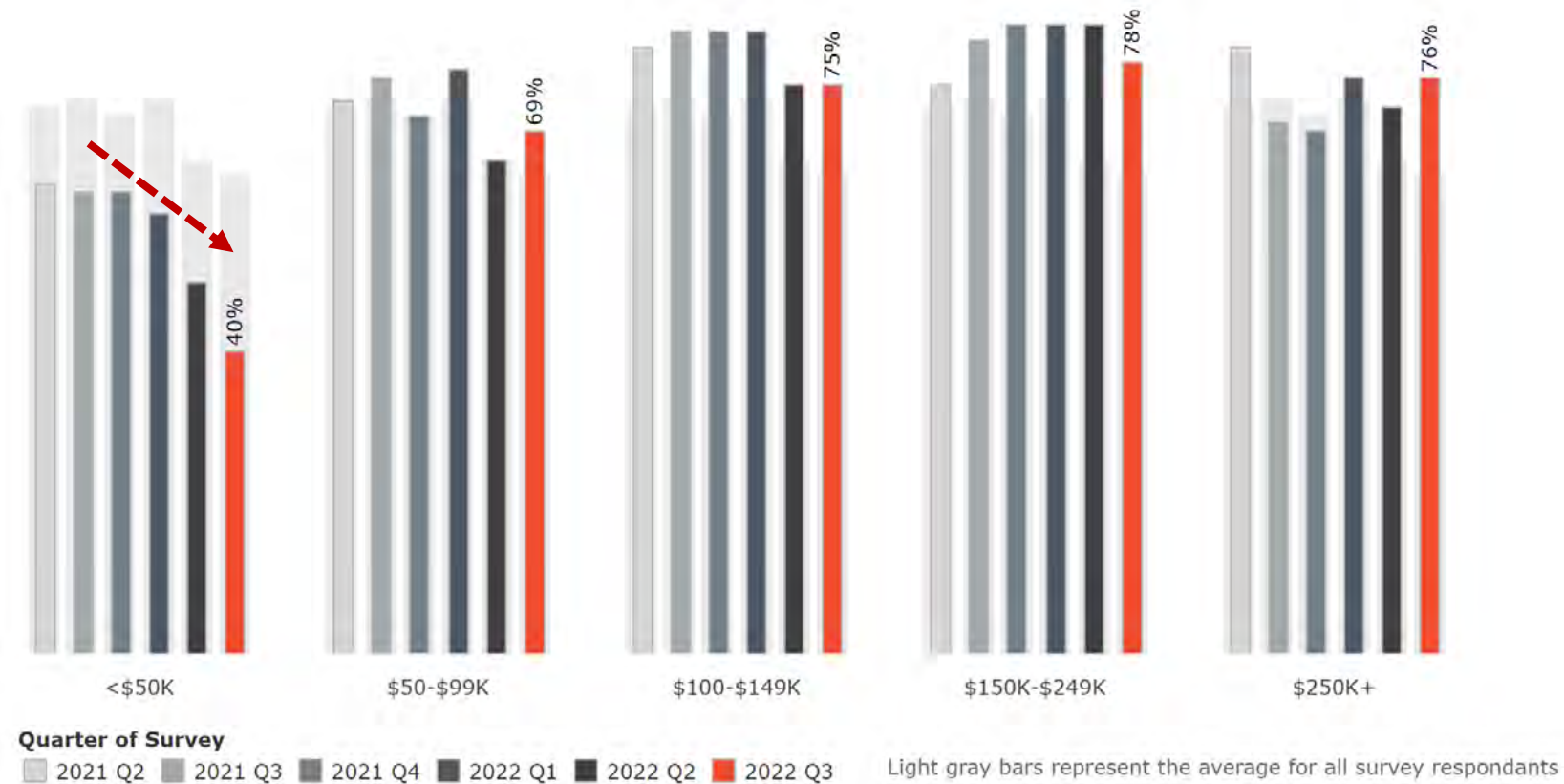


Is travel a budget priority?



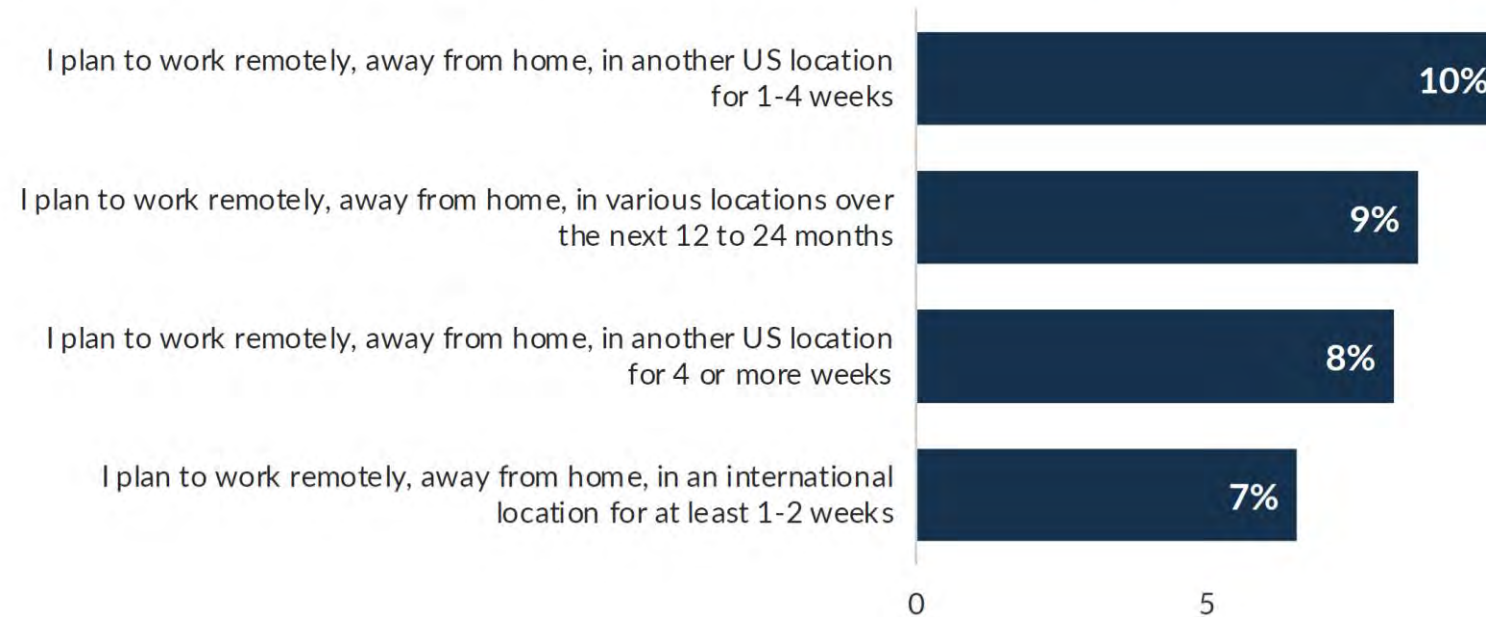
Slippage evident among lower income earners

Planning Leisure Travel Within the Next 6 Months
% of American Consumers



34% plan to travel... as they work remotely

Which of the following describes your remote work plans within the next 12-24 months?

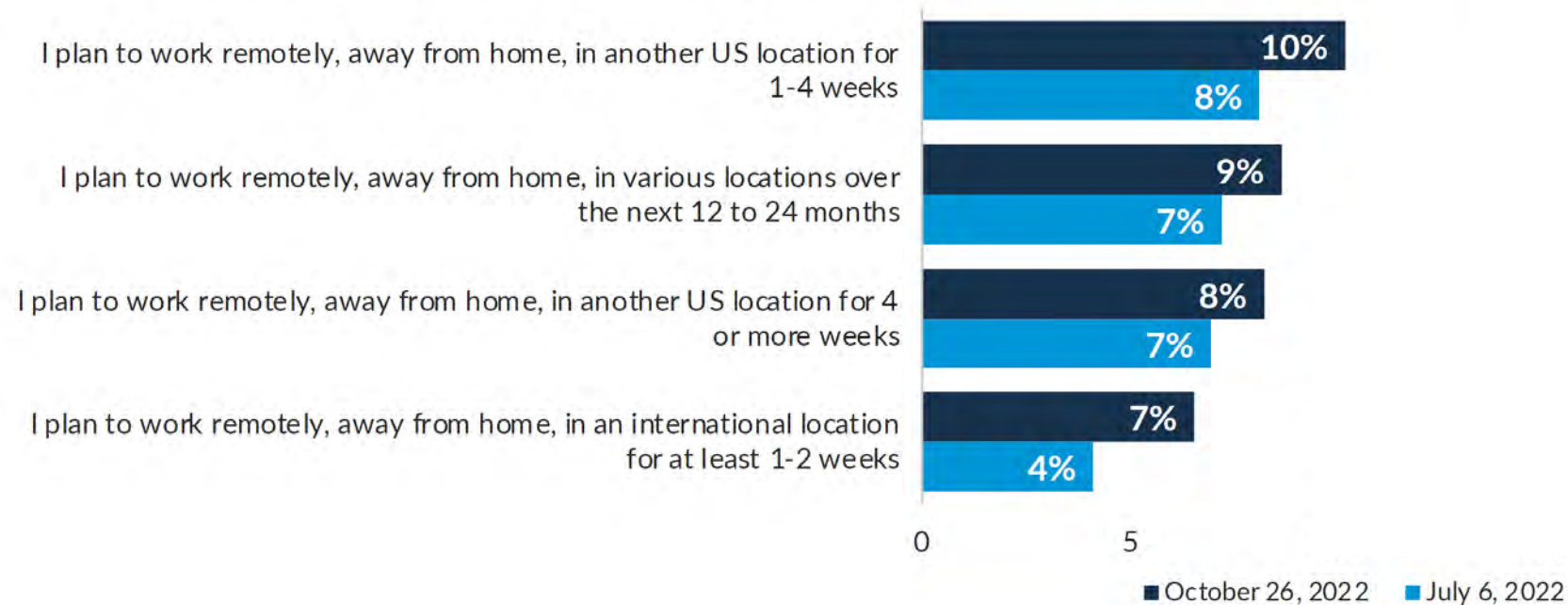


Travel Sentiment Study Wave 67

Longwoods INTERNATIONAL | miles PARTNERSHIP

...an increase from 26% just a few months ago

Which of the following describes your remote work plans within the next 12-24 months?



Travel Sentiment Study Wave 67

Longwoods INTERNATIONAL | miles PARTNERSHIP

“There's been a permanent structural change in leisure demand because of the flexibility that hybrid work allows. This is not pent-up demand. It's the new normal.”

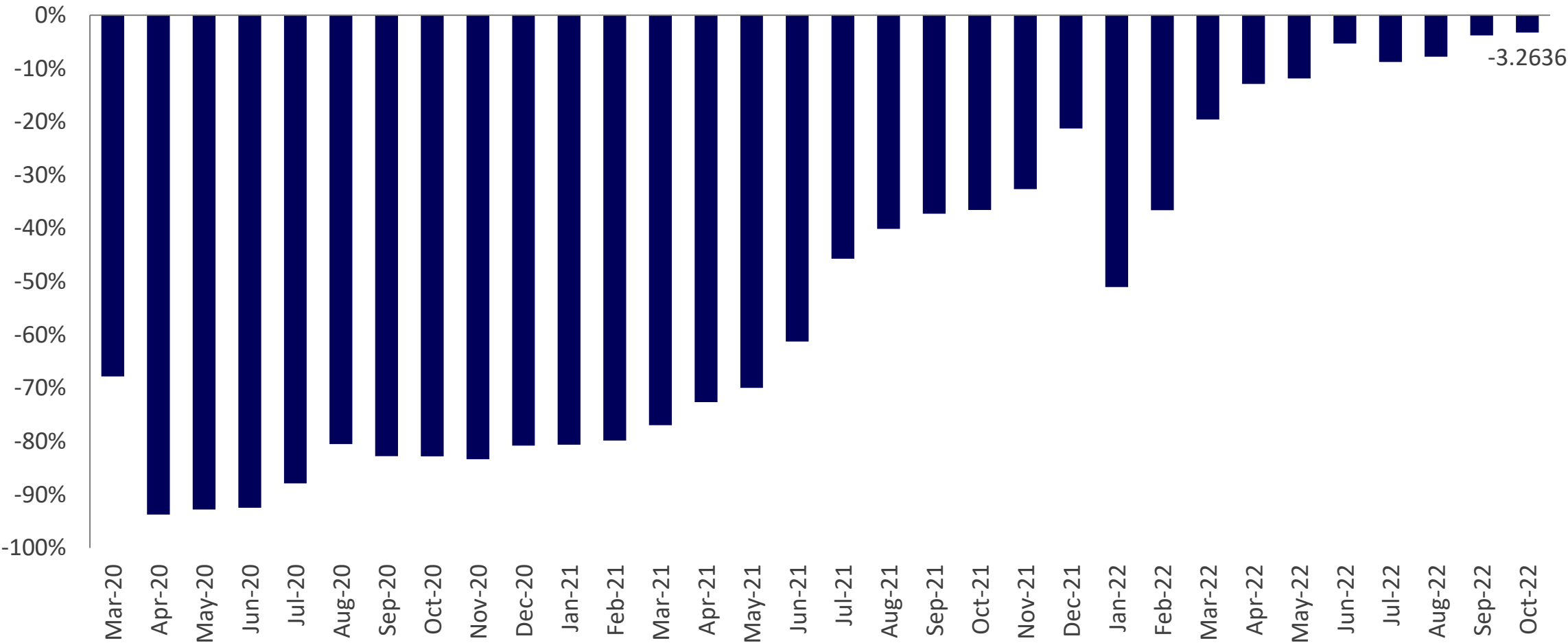
United Airlines earnings call, October 19, 2022

Why the travel industry will prevail

- 1 No signs of weakness yet!
- 2 US households are in a position of strength
- 3 Pent-up demand and prioritization of travel is real
- 4 Businesses are still restoring necessary travel

The Group Recovery Continues

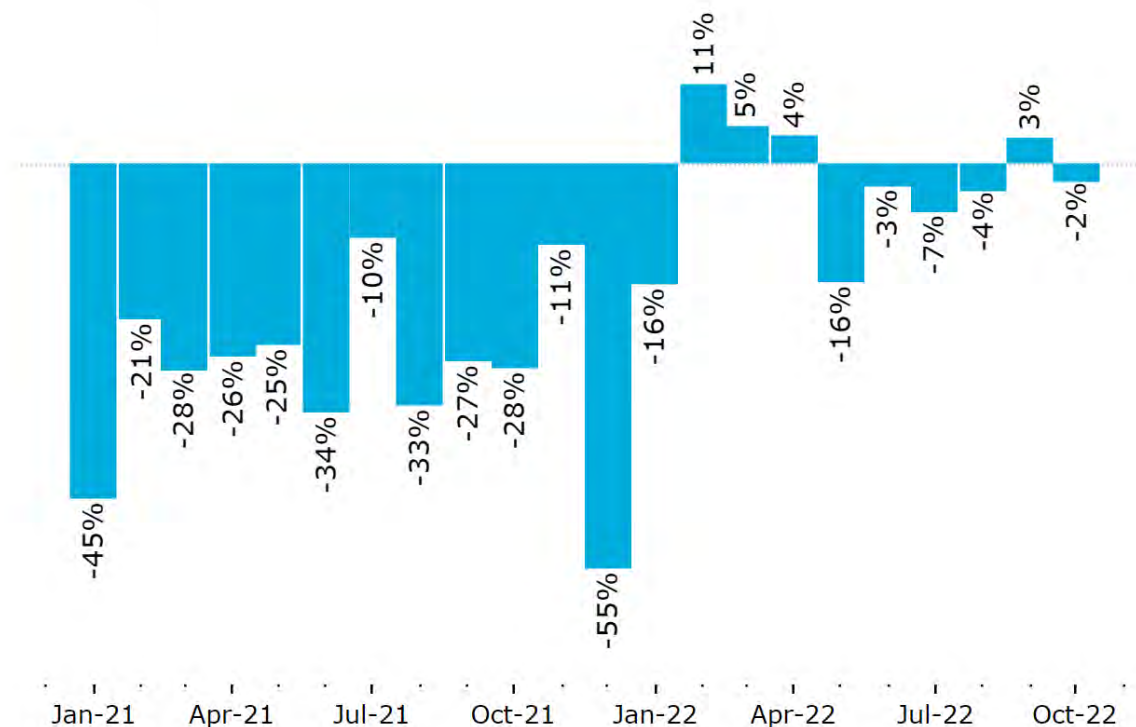
Total U.S., Group demand % change to 2019, Luxury & upper upscale, Mar 2020 – Oct 2022



Group bookings activity is just below 2019 levels

DMO/CVB Group Bookings

Hotel room nights contracted during most recent months
% change from 2019



“Group bookings are up 30% compared to 2019, and we expect it to perform better than prior recessions.”

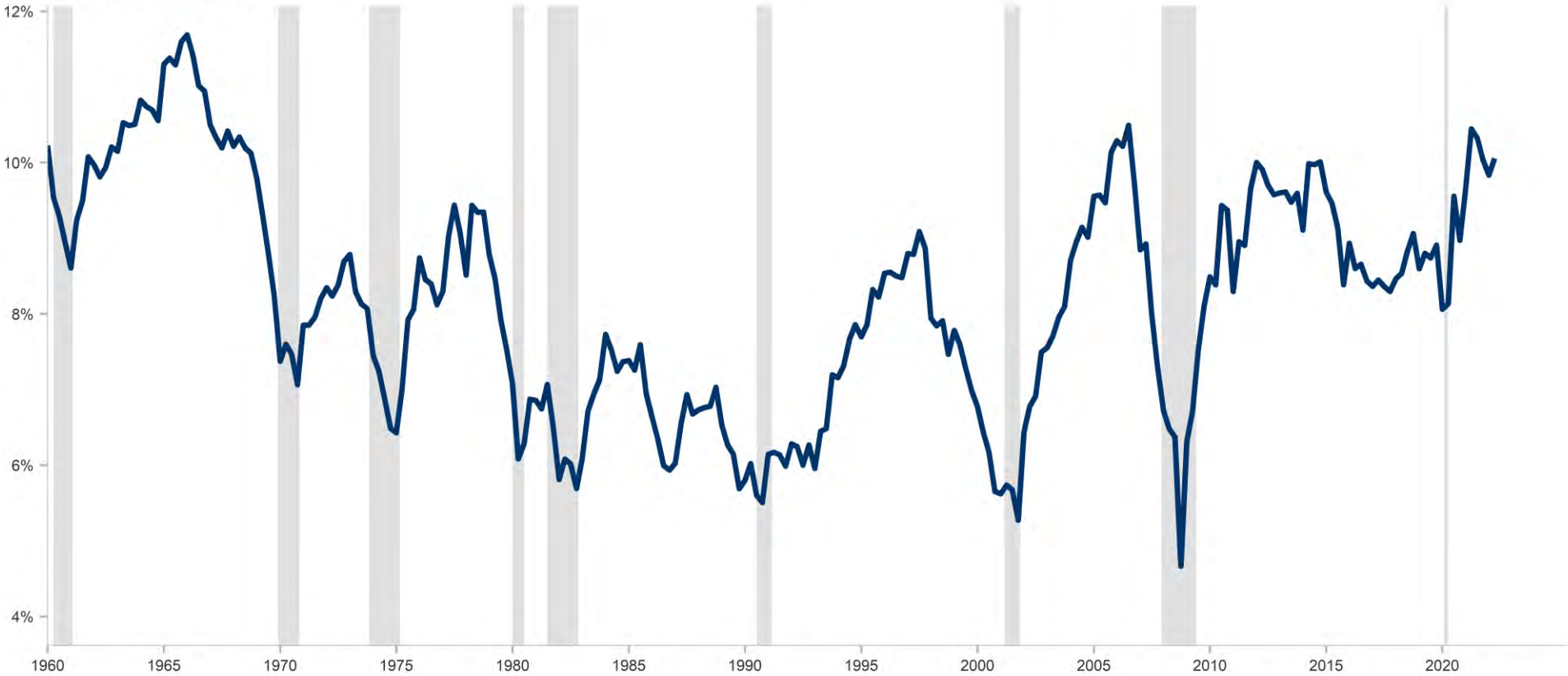
Marriott earnings call, Sept 8

Source: Simpleview CRM (250+ U.S. DMOs)

And corporate profit margins remain strong

Corporate profit margins

Grey bars indicate recessions

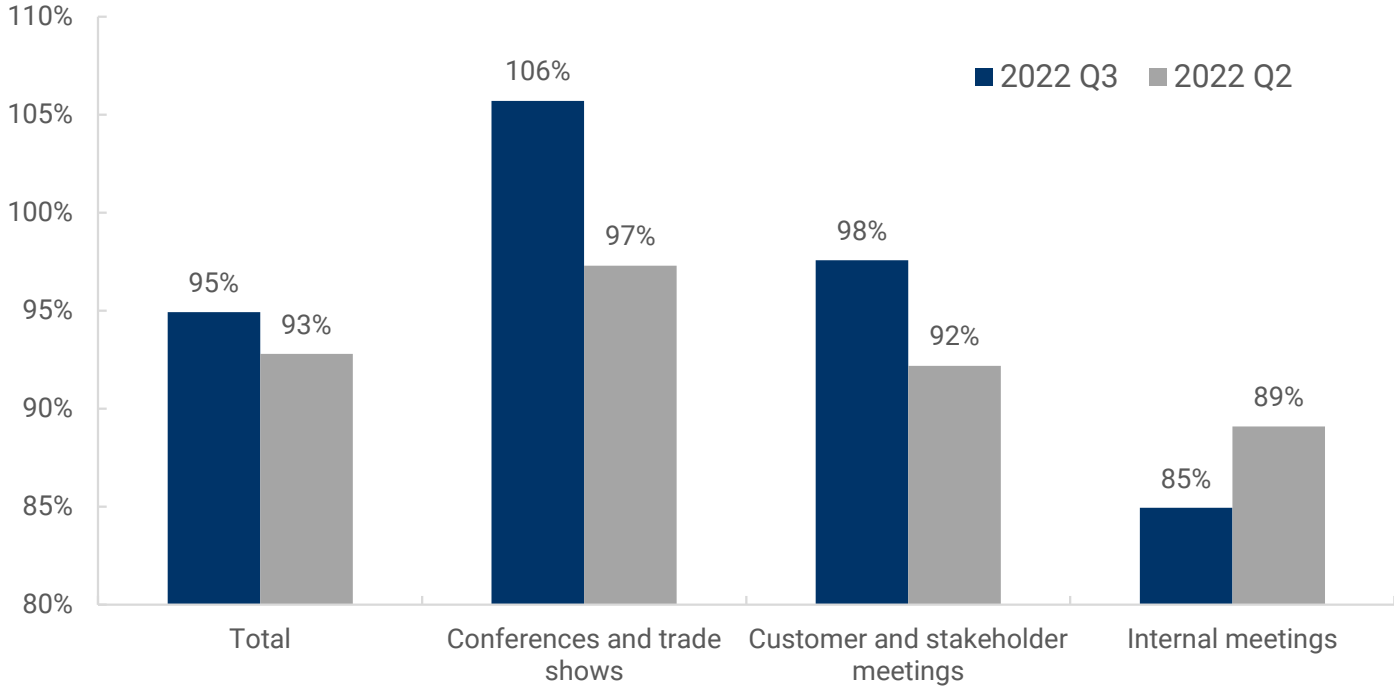


Note: Quarterly data through 2022Q2. Corporate profits before tax as a ratio to GDP. Based on corporate profits with inventory valuation and capital consumption adjustments, domestic industries. Source: BEA, NBER

Business travel expectations INCREASED in Q3

Average expected trips versus 2019

(% average monthly trips expected in six months relative to average monthly pre-pandemic trips)



[q1&q2] How many times do you travel on average for business purposes?

Business Travelers Survey BASE: Q3 N = 1641; Q2 N = 2545

“Regardless of whether you think demand for business travel will ultimately return to 100% or something less, it almost certainly is going higher from here.”

United earnings call, October 19

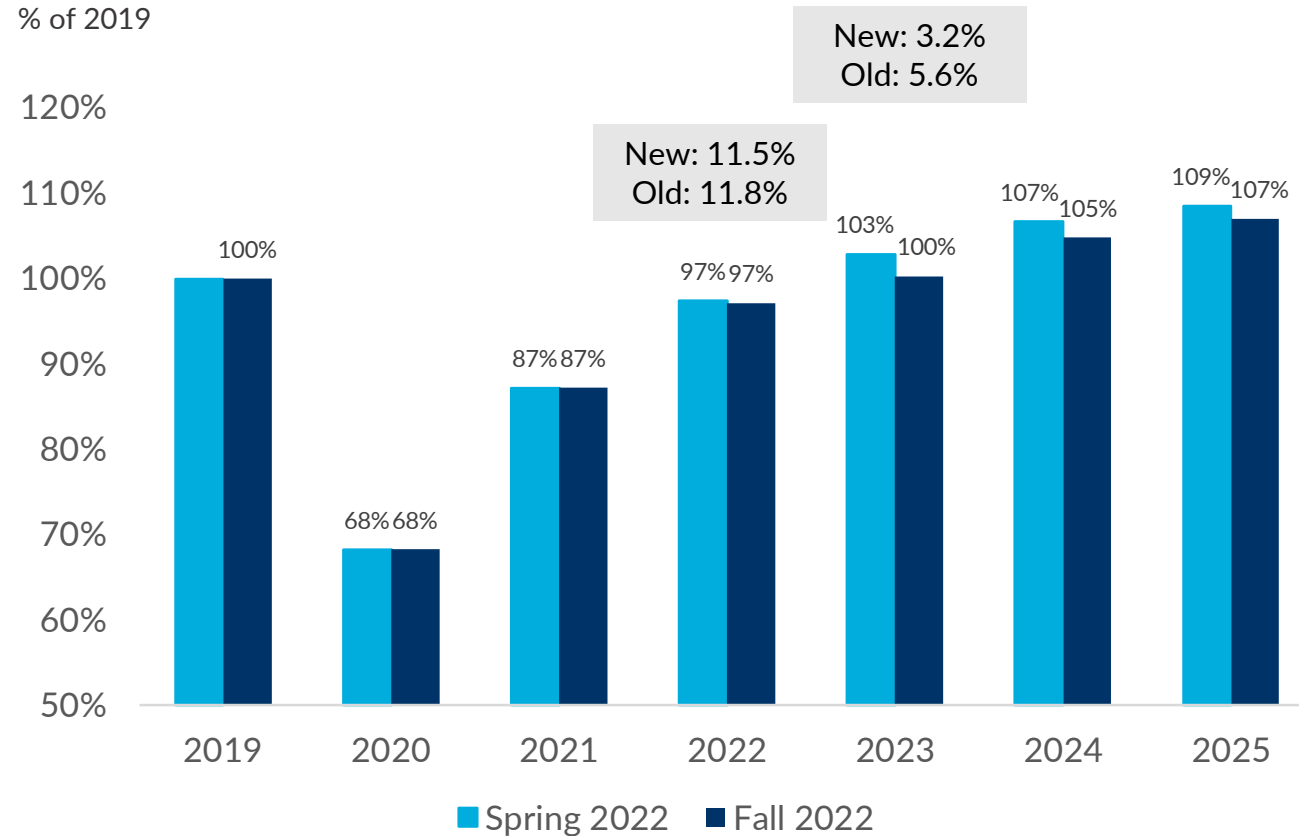
The Travel Outlook



Comparing current and previous forecast

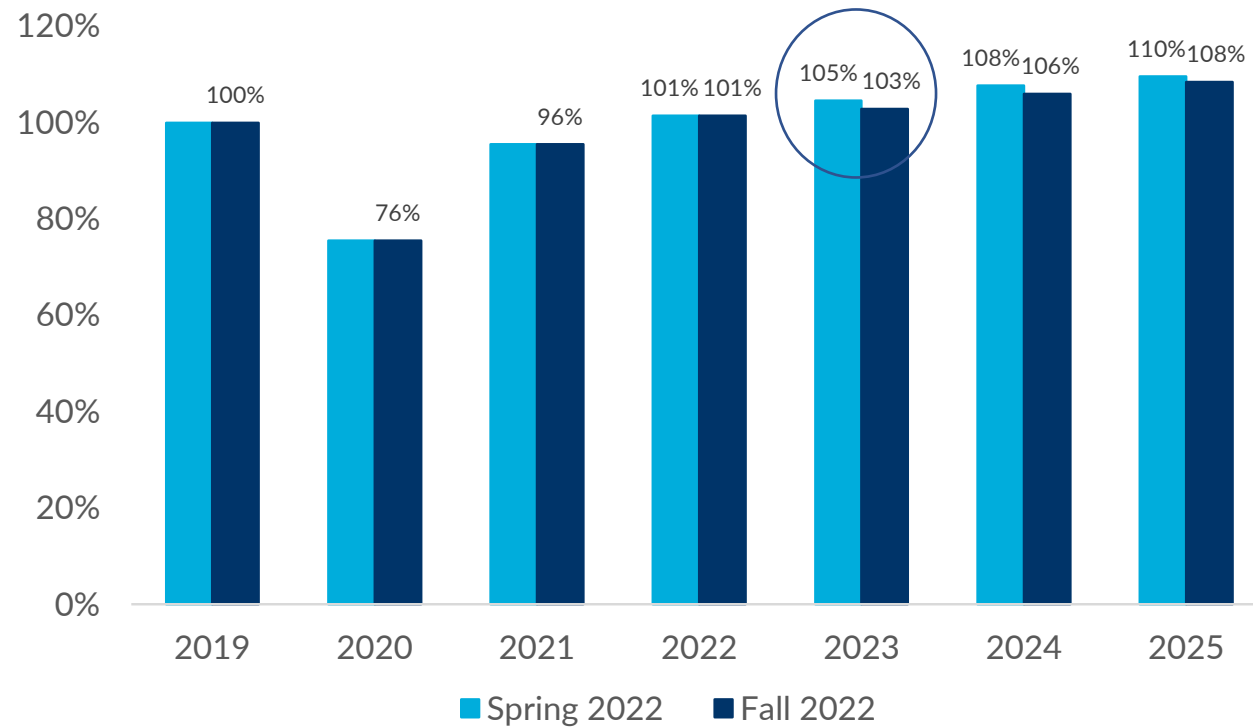
US domestic trip volume

% of 2019



Modest downgrade to leisure travel forecast

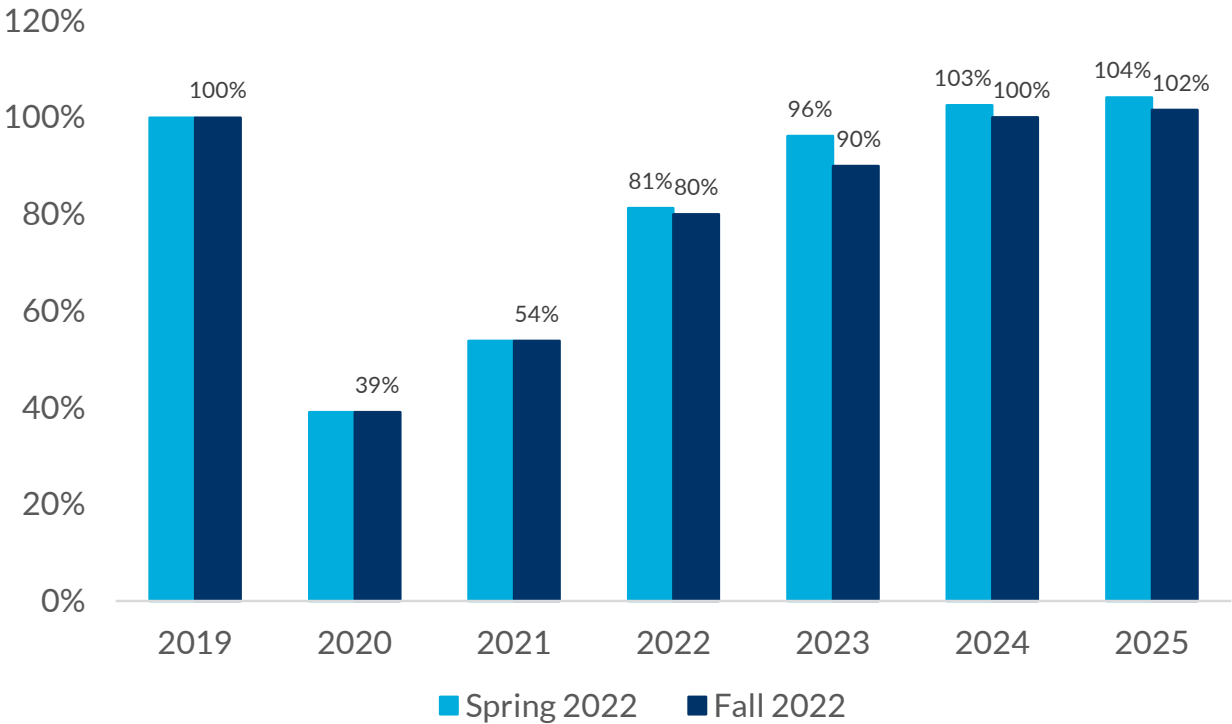
US domestic trip volume
% of 2019



Business trip volume: 80% this year and 90% next year

US domestic business trip volume

% of 2019

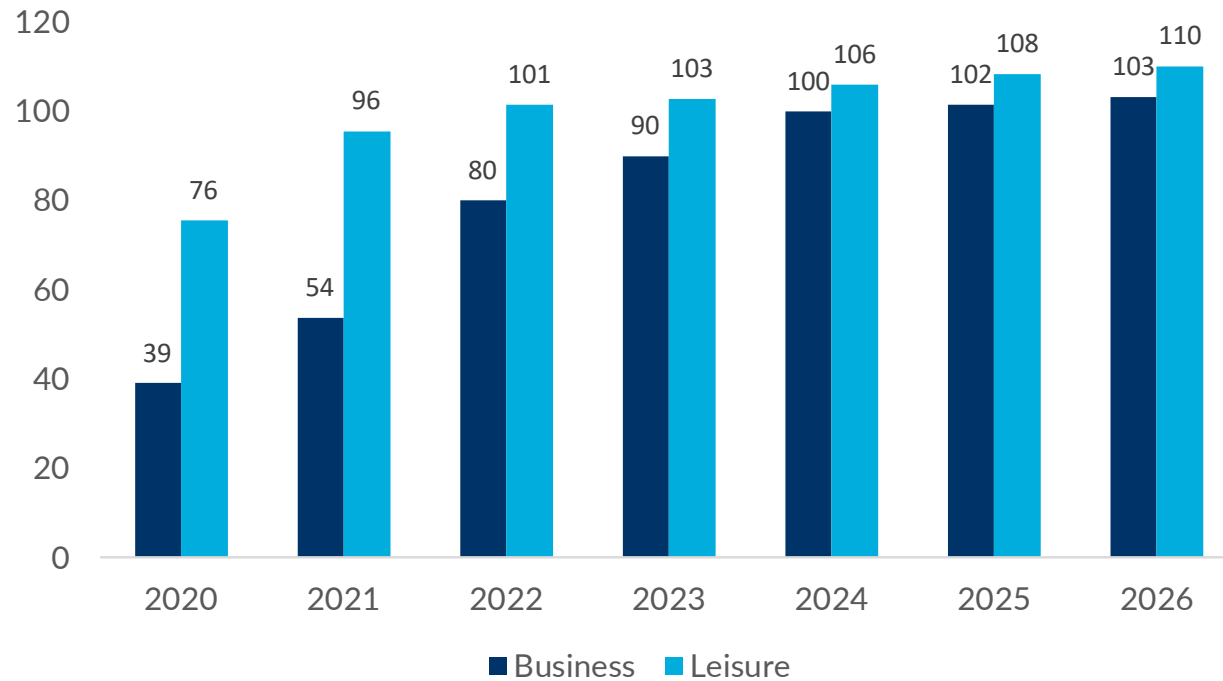


Source: Tourism Economics, U.S. Travel Association

Big picture is unchanged, but with slower growth in 2023

US domestic trip volume

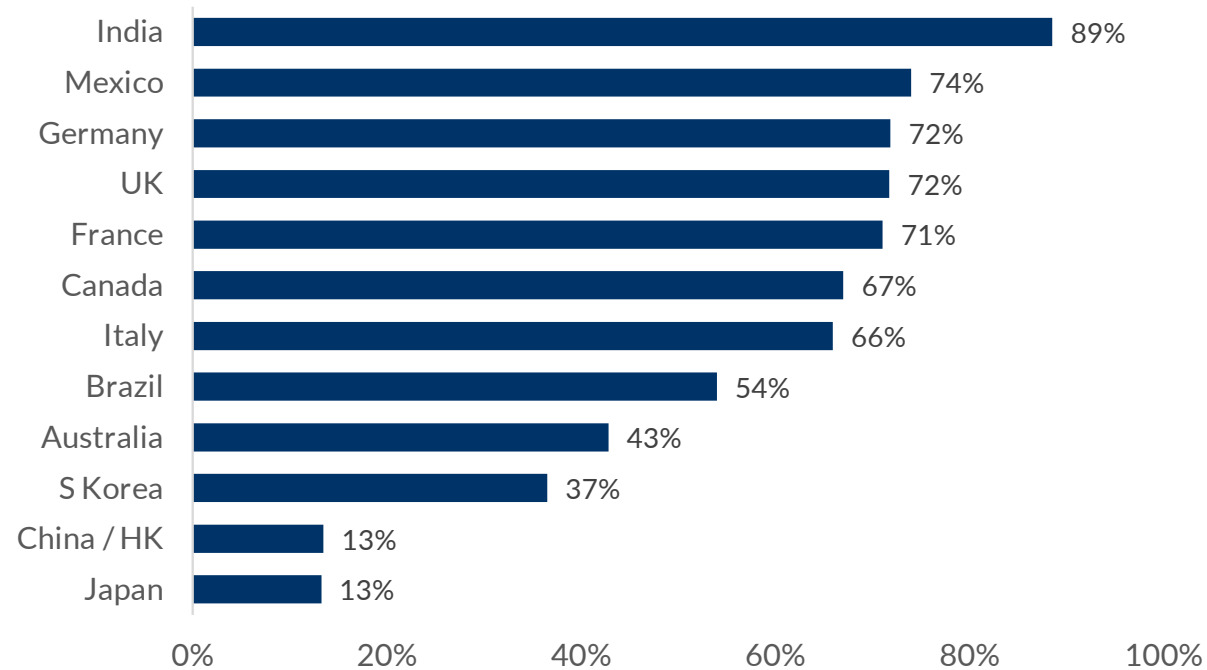
% of 2019



International recovery: partial and mixed

Top US origin markets in 2022

% recovered relative to 2019



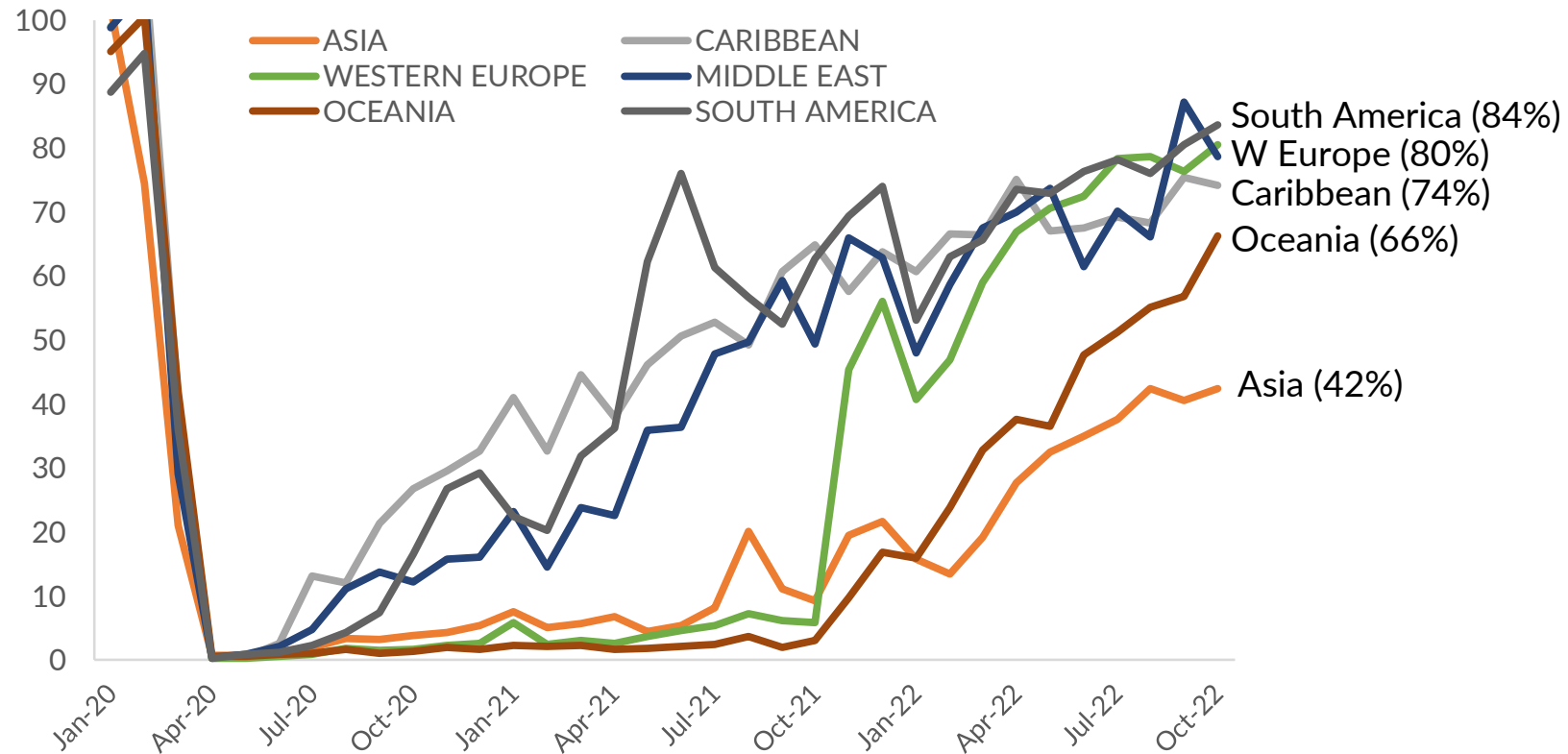
Note: Top 12 origin markets for international travelers to the United States.

Source: Tourism Economics

Signs of some acceleration

US Inbound Overseas Travel by Region

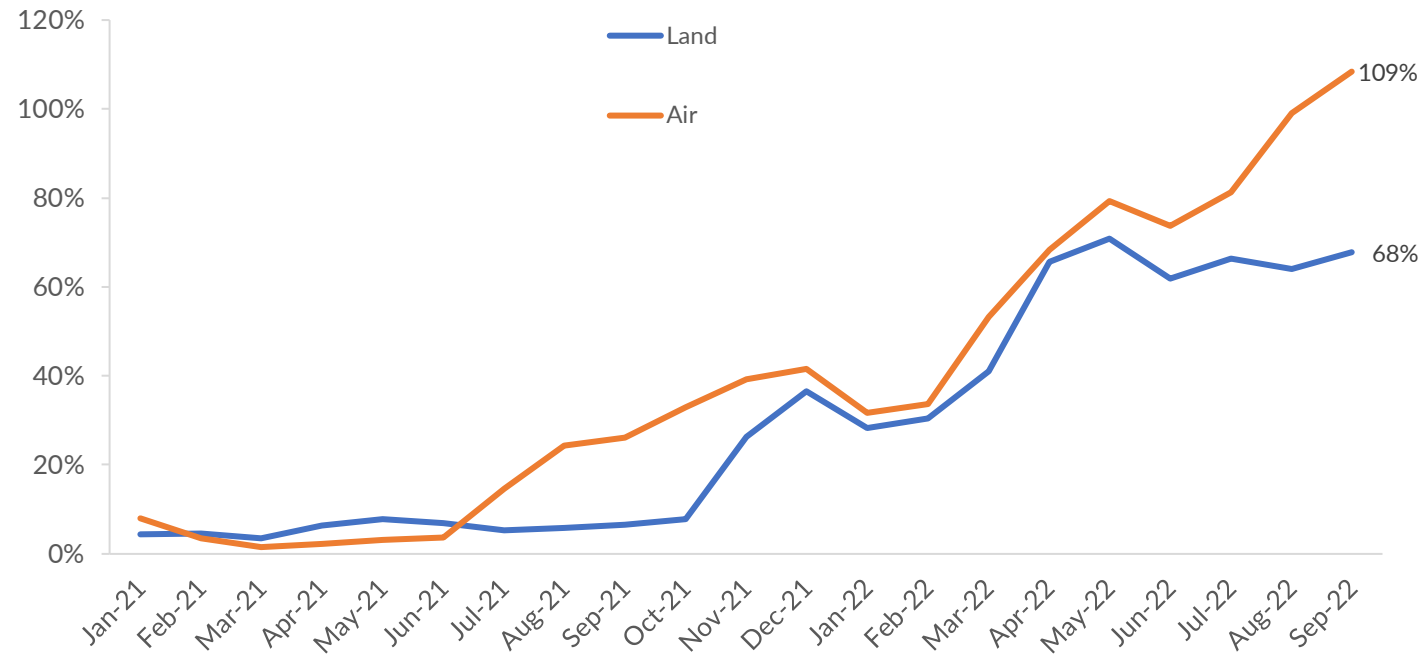
Same month in 2019 = 100



Source: I-94, NTTO

Canada air has recovered while land stalls

Canada Visits to USA % of same month in 2019

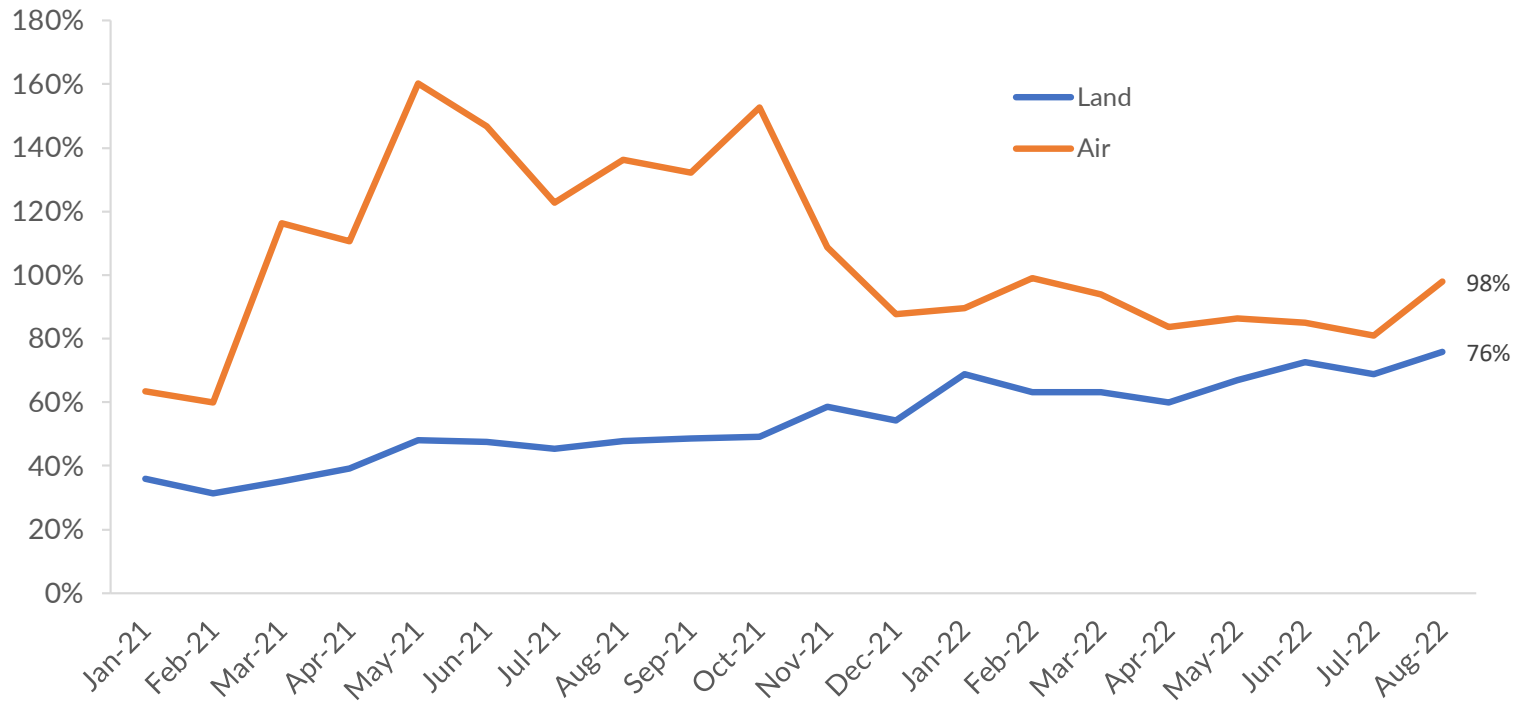


Source: Statistics Canada

Mexico air arrivals in range of 2019 volumes

Mexico Visits to USA

% of same month in 2019

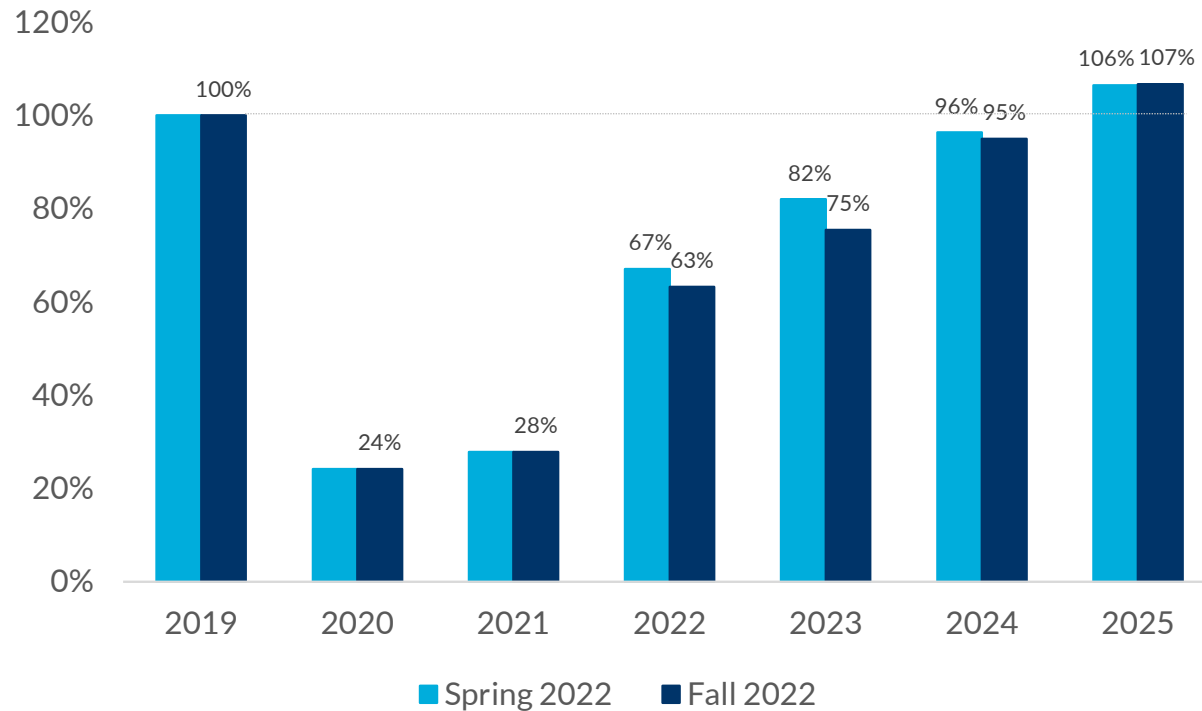


Source: Statistics Canada

International inbound forecast downgraded

International inbound forecast

% of 2019



Source: Tourism Economics, U.S. Travel Association

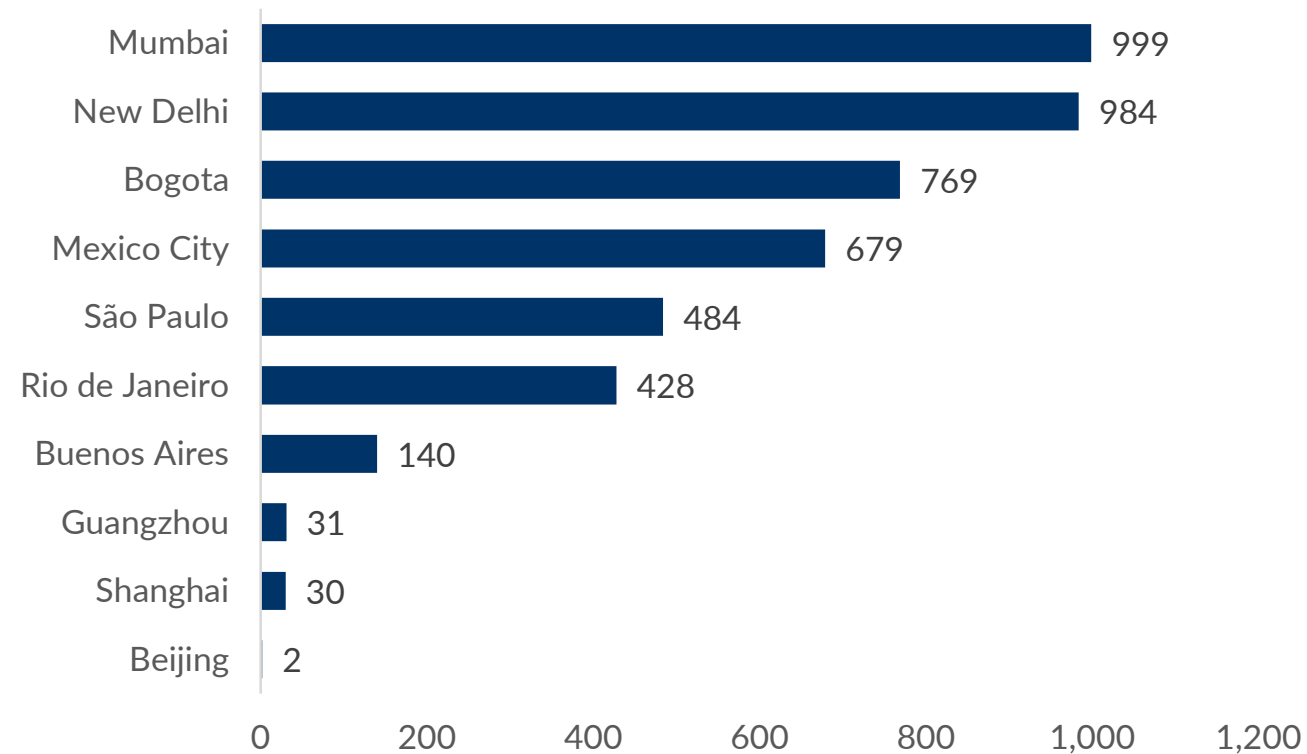
Headwinds have stiffened

1. Strong dollar
2. Weaker global economy
3. Visa backlog
4. China “zero covid” policy

This headwind will increasingly affect the market

Visa appointment wait times

Calendar days, interview required visitors (B1/B2)

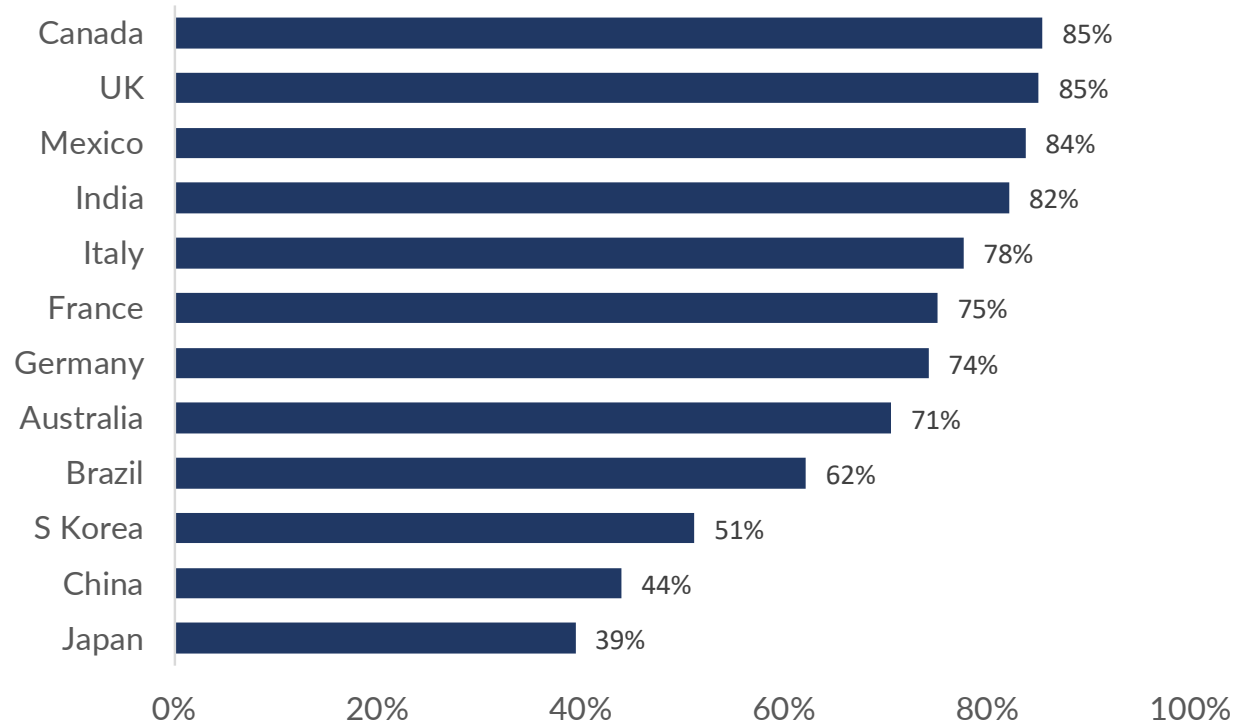


Source: U.S. State Department

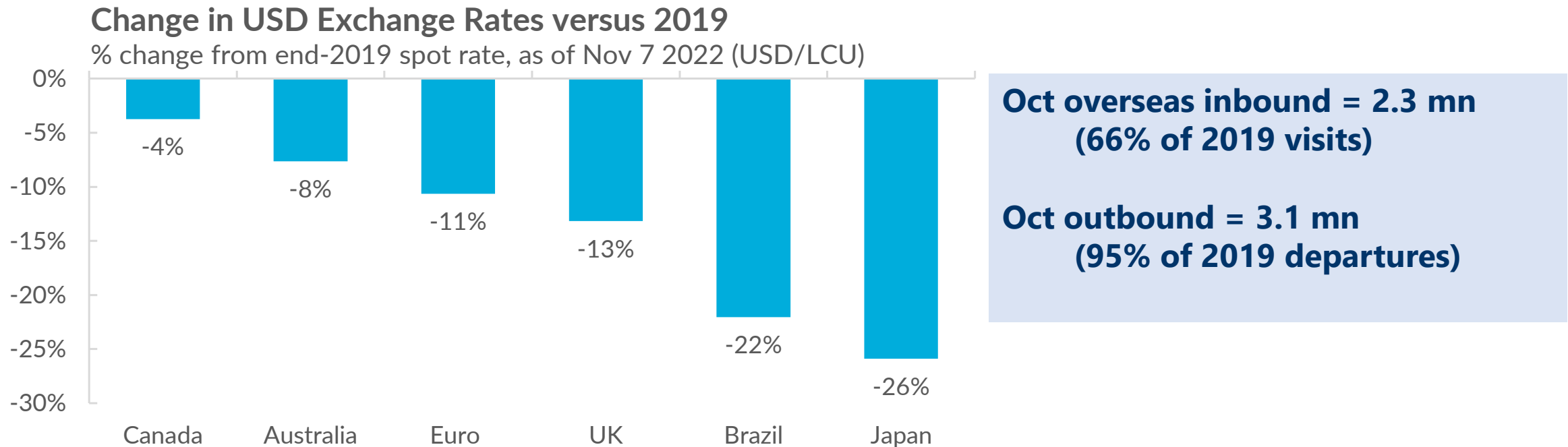
A snapshot of next year

International visits to US in 2023

Share of 2019



And traveling to the US has gotten more expensive



Sources: Tourism Economics, Haver

Note: Negative change implies depreciation of local currency (LCU) versus USD.

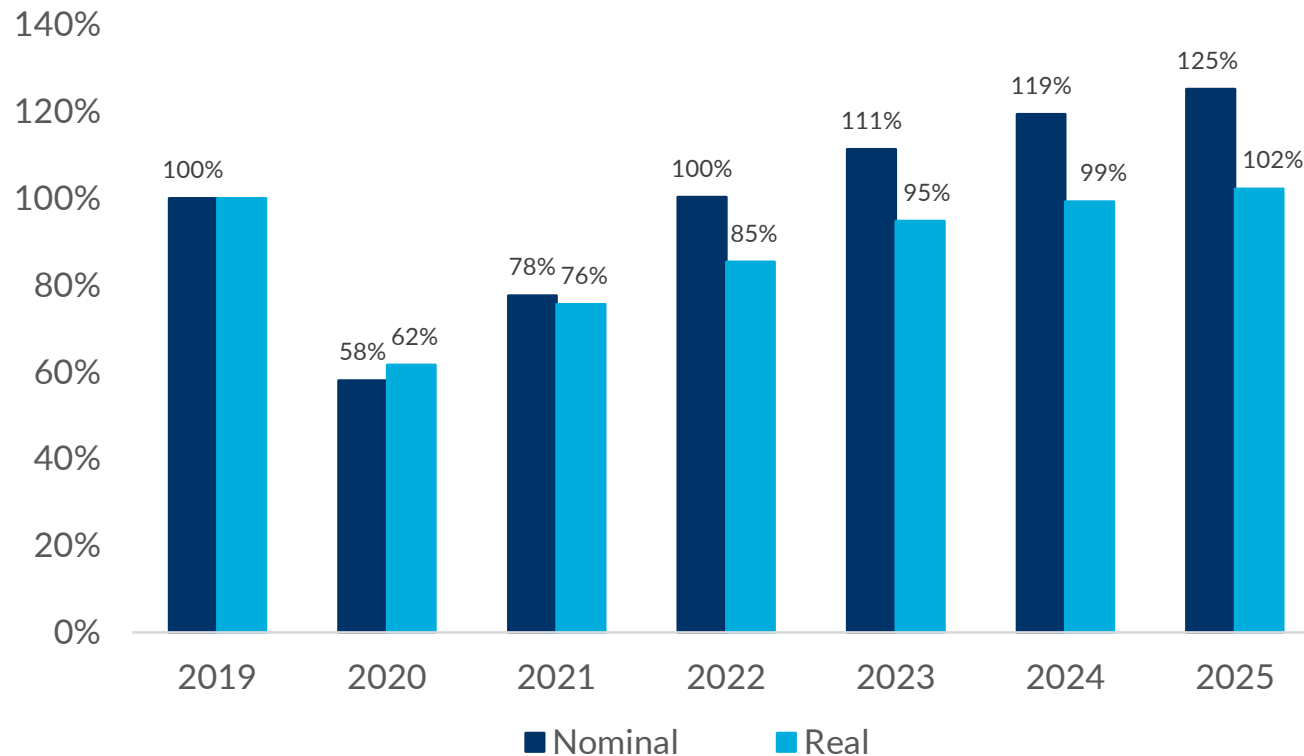
“Demand for transatlantic travel is extending well into the fall. Starting in October, we anticipate flying more transatlantic capacity than 2019, making it the first geography to exceed 2019 capacity levels.”

Delta earnings call, October 13, 2022

Nominal spending recovers this year. Real will take more time.

Total US visitor expenditures

% of 2019

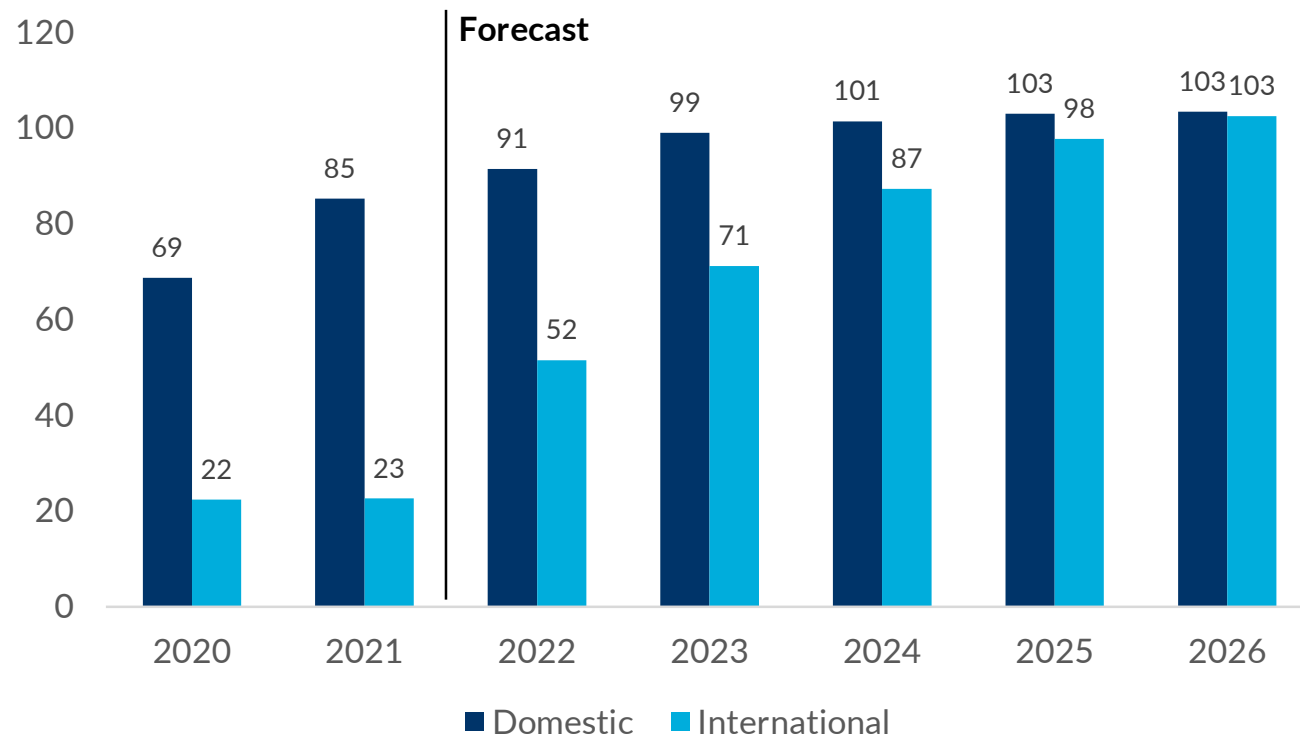


Source: Tourism Economics, U.S. Travel Association

International spending will “catch-up” to domestic in 2026

Real travel expenditures

Index (2019=100)

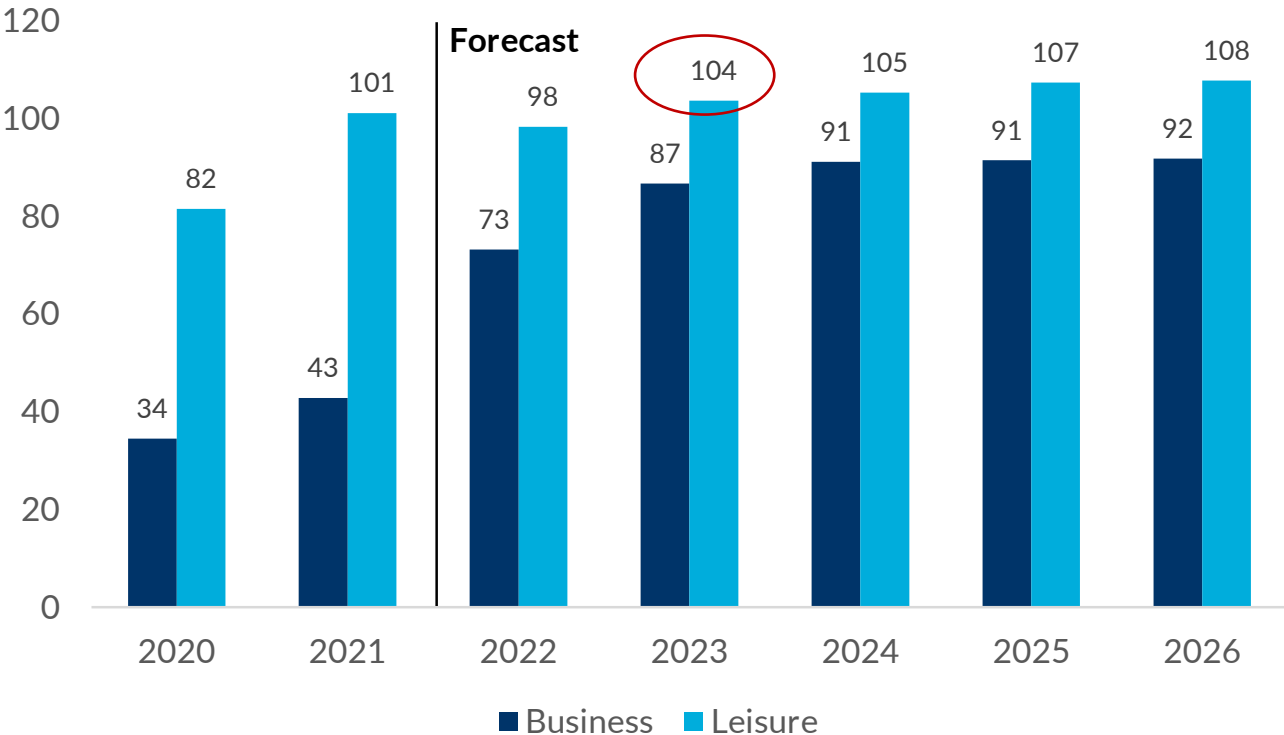


Source: Tourism Economics, U.S. Travel Association

Business travel spending at 73% this year and 87% in 2023

Real travel expenditures

Index (2019=100)



Note: Domestic travel expenditures only.

Summary

1 **A mild recession is likely in 2023**

Inflation and higher interest rates will leave a mark, but strong balance sheets should limit the downside

2 **Usually, this would imply a substantial retrenchment in travel**

The 1% drop in GDP would historically room demand to drop 4%. The latest forecast defies this norm.

3 **Four reasons travel is uniquely positioned for this downturn**

- Momentum is still evident
- Households (and businesses) are in a fiscally strong position
- Pent-up demand is prioritizing travel
- Business travel continues to rebuild

4 **The travel outlook**

The 2023 outlook was revised downward but we still expect growth across all segments

RESEARCH ESSENTIALS

U.S. Travel Answer Sheet

Monthly Travel Data Report

Travel Facts and Figures

The Intersection Webinar Series

Forecast

Monthly Workforce Data

INTERACTIVE DATA

Recovery and Growth Insights Dashboard

DMO Digital Performance Dashboard

Economic Impact Calculator

Economic Impact Map

NCAE Mobile Data Insights Dashboard

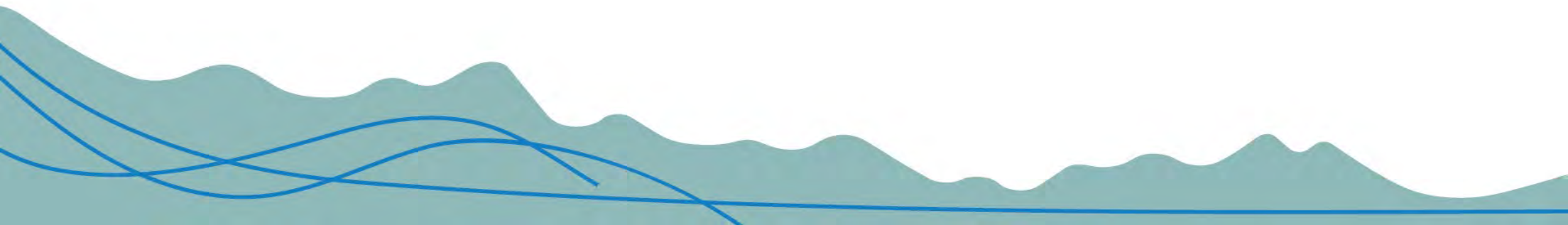
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