THE WEBINAR WILL BEGIN SHORTLY

U.S. TRAVEL’S SUMMER 2023 TRAVEL FORECAST

JUNE 27 | 1:00 P.M. ET
TORI BARNES
Executive Vice President
Public Affairs and Policy
U.S. Travel Association
ANALYZING
WHAT TO EXPECT FOR LEISURE, BUSINESS, GROUP AND INTERNATIONAL TRAVEL
KEY THEMES

- **Leisure travel** will continue to grow but at a more moderate rate.
- **Business and international travel** will see continued growth in the short-term but...
- Deteriorating economic conditions result in a **less optimistic long-term forecast**, especially for business and international travel.
The Future Shape of Travel

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Outline

1. An economic slowdown is ahead
2. The latest (and expected) phase for travel
3. Anticipating the reshaping of travel
4. Implications
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Unemployment remains historically low

US: U-3 unemployment rate

Source: Oxford Economics/Haver Analytics
Yet, consumers are feeling uneasy

US: Consumer surveys

Source: Oxford Economics/Haver Analytics
The culprit? Inflation

Prices in May were 4% higher than a year earlier
Core prices were 5.3% higher
Inflation has taken a bite out of disposable income

**Personal income**
Index (January 2020=100)

Note: Disposable personal income, seasonally adjusted. Most recent data point is April 2023.
Source: BEA; Tourism Economics
So the savings rate has come down to earth

**Personal savings rate**

% of income

Note: Data is seasonally adjusted, three-month average. Source: Bureau of Economic Analysis
And households are taking on some debt.

US: Outstanding consumer credit

Source: Oxford Economics/Haver Analytics
Housing market is stressed

US: Existing homes for sale

Source: Oxford Economics/Haver Analytics
Because of this...

**Mortgage rates**

Note: Dashed line indicates historical average. Grey shading indicates recessions. Most recent data point is June 22, 2023.

30-Year Fixed Rate Mortgage Average in the US. Source: Freddie Mac
The Conference Board's Leading Economic Index is falling

The index remains on a firm downward trend
- Depressed consumer expectations,
- Constrained ISM new orders
- Tight credit

Lowest level since July 2020
Investors see high risk of a recession

US: Probability of a US recession 12-mo ahead
Percent, 12-month lead

10Y 2Y spread
10Y 3M spread

Recession shading

Source: Oxford Economics/New York Federal Reserve

Using the yield curve
Oxford BCI points to a contraction later this year
We are headed toward a recession in the second half of 2023.

We expect the recession to be mild because:

1. There are no glaring balance sheet imbalances
2. Labor market impacts will be modest

Source: Oxford Economics/Haver Analytics
Household balance sheets remain strong

**Household debt service**
Financial obligations as ratio to disposable income

Note: Quarterly data through 2023Q1. 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 2023Q1. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER
Labor markets remain tight

Available jobs versus available workers

- 1-in-15 positions remain unfilled (6.4%)

Two job openings per job seeker

**Labor market tightness**
Job openings per unemployed worker

- **Job openings per unemployed (May 2022-Apr. 2023)**
- **Same month 2019**

Source: BLS
The US recession will be mild by historical standards

Unemployment rate will reach 5.2% in 2024
What have the last three “normal” recessions looked like?

Hotel demand during recessionary periods
Year-over-year %, quarterly peak-to-trough

Source: STR, BEA
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Lodging demand trends have softened...

**Hotel demand, year-over-year growth**

US total, six-week moving average

**Hotel demand relative to 2019**

US total, six-week moving average

Source: STR, Tourism Economics
2023 ST Rental Demand Up 12% in May

U.S. Short-term Rental Weekly Demand (Nights) – Based on Night Stayed

Week #
Slippage evident among lower income earners
Sure enough… weakness in economy

Total U.S., Demand, % change to 2019, Jun 2022 – May 2023

[Graph showing demand trends for different types of retail chains, with a focus on the drop in demand for economy chains.]
Air travel is holding

TSA air passenger volumes
Checkpoint travelers, trailing 7-day average, relative to pre-Covid

100% of pre-Covid
Air passengers: 100.1%

Note: Most recent data point is June 25, 2023.
Source: Transportation Security Administration
“We are planning to grow June quarter capacity 17% over last year to meet strong customer demand. This growth is a couple points below our initial plan to fully restore capacity this summer.”

Delta CEO Ed Bastian, 2023Q1 earnings call
Airfares feel expensive... but aren’t

• Airfares in May were 13% below May 2022 peak.
Airfares remain below long term prices

Note: Graph is based on Consumer Price Index measure of airfares, set to level of average airfare based on Bureau of Transportation Statistics average domestic airfare in 2005. Most recent data point is 2023 Q1
Source: BLS; BTS; Tourism Economics
ADR growth has slowed but remains positive relative to last year.

Source: STR, Tourism Economics
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Leisure Travel
“Travel demand remains strong in what appears to be a more structural post-pandemic environment of people prioritizing travel above most other categories of spend. While economists continue to debate potential recession outcomes, consumers have so far shaken it off and continue to travel.”

Expedia earnings call, May 4, 2023
Post-pandemic. Bounce back to normal?

Consumer spending

Consumer spending is out of shape

**Share of consumer spending**
Three-month moving average, recent share in label

- Nondurable goods 23.2%
- Durable goods 16.2%

**Share of consumer spending**
Three-month moving average, recent share in label

- Services 61.9%

Note: Real. Seasonally adjusted monthly data through April 2023.
Source: Bureau of Economic Analysis
“Macroeconomic weakness is being offset with the countetrend of consumer spending continuing to rebalance back to services.”

United Airlines CEO, Scott Kirby, 2023Q1 earnings call
Revealing upside for travel spending

Share of consumer spending
Three-month moving average, recent share in label

Food and beverage: 5.3%
Recreation services: 3.4%

Air transportation: 1.0%
Hotels: 0.8%

Note: Real. Seasonally adjusted monthly data through April 2023.
Source: Bureau of Economic Analysis
“We haven't seen any slowdown in the leisure segment. So it's apparent to us that the well-heeled leisure consumer continues to want experiences. The shift from goods to travel and other experiences has occurred and it's real and it's very sticky.”

Host Hotels earnings call, May 4, 2023

(Remarks edited for clarity)
Excess savings are buffer

US: Excess savings and savings rates

Source: Oxford Economics/Haver Analytics
Overall intentions to travel remain elevated with some slippage.

Travelers with Travel Plans in the Next Six Months Comparison

*Note: Data spanning multiple years, beginning from 1/5/2022.
Travel Sentiment Study Wave 74
Booking Activity is Maintaining Strength (+23% in May)

U.S. Short-term Rental Nights Booked (4 Week Moving Avg.) – Based on Reservation Date

Week #  Millions

2019  2020  2021  2022  2023

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52
Pressure of high prices is evident in travel sentiment

% Good of Very Good Time to Spend on Travel

[Line chart showing the percentage of people who rate it a good or very good time to spend on travel over time from July 21 to May 23. The chart shows a decline in the percentage from 45.1% in October 2022 to 27.5% in May 2023. There is a notable drop in February 2023.]
34% plan to travel... as they work remotely

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

- I plan to work remotely, away from home, in another US location for 1-4 weeks: 10%
- I plan to work remotely, away from home, in various locations over the next 12 to 24 months: 9%
- I plan to work remotely, away from home, in another US location for 4 or more weeks: 8%
- I plan to work remotely, away from home, in an international location for at least 1-2 weeks: 7%

Travel Sentiment Study Wave 67
Retirements accelerate as the population continues to age.

Figure 2. Not in the labor force and retired (age 16+), actual and expected

Note. Figure shows the actual retired share of the population (solid line) and retired share that would be expected given the population age distribution, age-specific retirement rates, and other factors (dashed line) as described in the text. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Last observation is October 2022.


The Great Retirement Boom

Almost 1-in-5 people above the age of 16 are retired.
What will more older households mean for travel?

Note: Number of consumer units (similar concept to households), by age of head of household.
Source: BLS; Tourism Economics
Household spending on lodging peaks 45-54, and stays strong through 65-74.

Average spending per household:
- under 25: $212
- 25-34: $341
- 35-44: $516
- 45-54: $582
- 55-64: $559
- 65-74: $516
- 75+: $304

Note: Based on three-year average through 2020.
Source: BLS, Tourism Economics
Older guests represent an increasingly important opportunity

The importance of the 55+ segment grows almost 1% a year, before adding potential uplift to spending by healthier, wealthier retirees than in the past.

Note: To show the impact of growth in each age cohort, this graph applies the average spending by age cohort during three years ending 2020 to all years.
Source: BLS; Tourism Economics
Domestic leisure settles into sustainable growth

Source: Tourism Economics, U.S. Travel Association
Business Travel
We have leapt ahead to a new way of working

More than 1-in-4 paid work days in the US are currently happening from home.

In just three years, we went from 5% to 28%.

WFH share of days: 28.2%

Note: Most recent data point is May 2023.
Interpersonal relationships help drive job satisfaction. Particularly relationships with management. Building relationships is no longer optional.
Most fully remote workers meet with colleagues in person

Do you ever meet with your coworkers in person?
Sample: Workers who were fully remote last week

- Twice or more per month: 30%
- Once per month: 15%
- Once per quarter: 13%
- About once per year: 11%
- Never: 31%

58% of fully remote workers meet their colleagues in person at least quarterly

83% of corporate executives say business travel is essential to company operations

Tourism Economics, US Travel Association, and JD Power (2023 Q1) Business Travel Survey

Business travelers expect to take more trips in the next 6 months compared to Q4 2022.

How frequently do you expect to travel for each of the following business purposes over the next six months?

Business Travelers Survey BASE: N = 2293

Trips for external purposes account for 65% of planned trips.
Group event activity and bookings continue to improve.

US DMO booking activity, trailing six months

Hotel room nights contracted, trailing six-month sum, relative to 2019

Source: SimpleView CRM (250+ DMOs)
Groups comeback is still in process
US, Lux & Upper Upscale classes, Group demand % change to 2019, Jun 2022 – May 2023
“Group demand was also very strong in Q1. Group revenue for full year 2023 was pacing up 26% to 2022 at the end of the quarter, a significant improvement from group pace at the end of last year.”

Marriott, CEO, Tony Capuano, 2023Q1 earnings call
“And we have seen a high correlation between the opening of offices with the return of corporate travel. And that is a good tailwind for us on the corporate revenue front.”

Delta CEO, Ed Bastian, 2023Q1 earnings call
Recession mutes the business travel recovery

US domestic business trip volume
% of 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2022</th>
<th>Spring 2023</th>
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<tbody>
<tr>
<td>2020</td>
<td>39%</td>
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<tr>
<td>2023</td>
<td>90%</td>
<td>90%</td>
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<tr>
<td>2024</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2025</td>
<td>102%</td>
<td>103%</td>
</tr>
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</table>

Source: Tourism Economics, U.S. Travel Association
International Travel
Outbound recovery is well ahead of inbound

Inbound and Outbound Travel Spending
Millions of dollars, seasonally adjusted

US inbound: 61% recovered in 2022
US outbound: 90% recovered in 2022
International is now a net loss for the US

US is running a multi-year travel deficit for the first time in history
The rightsizing of this will boost the US industry

U.S. International Travel Trade Balance
Millions of dollars, seasonally adjusted
Exports minus imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance (Millions)</th>
</tr>
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<tbody>
<tr>
<td>2019</td>
<td>21,549</td>
</tr>
<tr>
<td>2021</td>
<td>(21,697)</td>
</tr>
<tr>
<td>2022</td>
<td>(21,445)</td>
</tr>
<tr>
<td>2023*</td>
<td>(25,953)</td>
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</tbody>
</table>

$47 billion difference between 2019 and 2023 at current performance rates
Implies 38 million room nights (2.9% of 2023 room demand)

* Assumes deficits consistent with first 4 months
Expect a narrowing of these imbalances

US Inbound and Outbound Travel
% relative to 2019 (May 2023 YTD)

Source: NTTO
International inbound is gaining momentum

International visits to USA
2019 = 100 (same month comparison)

Source: NTTO
International inbound is gaining momentum

US Inbound Travel from Global Regions
2019 = 100 (same month comparison)

Source: ADIS' I-94
Good, bad, and ugly performance in 2022

Top US origin markets in 2022
% recovered relative to 2019

- India: 105%
- Canada: 104%
- Germany: 87%
- France: 84%
- UK: 84%
- Italy: 84%
- Mexico: 82%
- Australia: 73%
- Brazil: 69%
- Korea: 68%
- Japan: 37%
- China: 35%

Note: Top 12 origin markets for international travelers to the United States.
Source: Tourism Economics
“Long-haul international is moving into the lead over domestic. This is a multiyear structural change based on aircraft retirements and pilot downgrades at essentially all long-haul U.S. airlines around the world. For 2023, we expect to expand international flying by approximately twice the rate of domestic, leaning into the favorable supply-demand balance that we expect.”

United Airlines, CEO, Scott Kirby, 2023Q1 earnings call
“International inbound business from Latin America is pacing strong. European travel which is much improved from the troughs of the pandemic continues to build but it is not yet back to pre-pandemic levels, creating opportunity. And perhaps most significantly, Asian inbound business is only beginning to show improvement. With COVID rules relaxed, we believe inbound travel from Japan, Korea and eventually China will yield positive returns for our business.”

Hertz, CEO, Stephen Scherr, 2023Q1 earnings call
Improvements will be marked in 2023H2 and 2024

Top US origin markets
% recovered relative to 2019

Note: Top 12 origin markets for international travelers to the United States.
Source: Tourism Economics
International forecast upgraded with strong Canada rebound

International inbound forecast
% of 2019

Source: Tourism Economics, U.S. Travel Association
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Domestic forecast nearly unchanged since fall 2022

**US domestic trip volume**
% of 2019

Source: Tourism Economics, U.S. Travel Association
Two stories for industry revenue

Source: Tourism Economics, U.S. Travel Association
Business travel spending accelerating in 2023

Real travel expenditures
Index (2019=100)

Note: Domestic travel expenditures only.
Source: Tourism Economics
Domestic spending will nearly recover this year in real terms

**Real travel expenditures**
Index (2019=100)

Source: Tourism Economics, U.S. Travel Association
Prices will come under some pressure

US ADR
ADR and CPI index (2015=100)

Source: STR; Tourism Economics
The Future Shape of Travel

1. An economic downturn will be mild

2. Current slowing of travel reflects a “breather” for leisure travel and international imbalances

3. Leisure travel has fully recovered and is settling into a sustainable pace (1.4% in 2023, 3.1% in 2024)

4. Business travel continuing to rebuild toward 2019 volumes (in 2025)

5. International represents the greatest opportunity as it shifts from a deficit to a surplus in 2024
Opportunities

1. Higher end leisure
2. Retirees
3. Hybrid-remote workers
4. Rebounding group business
5. Business meetings
6. International
DRIVE ACTION W/ DATA

1. SHARE THE FORECAST
2. CITE THE DATA
U.S. Travel’s IPW in San Antonio Sets Stage for Future Inbound Travel Growth

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MEMBER LOGIN REQUIRED