TRAVEL FORECAST

Summer 2019

HIGHLIGHTS

The U.S. Travel Forecast projects that domestic travel will decelerate and grow by 1.7% in 2019 (compared to 1.9% last year), while international inbound travel will stall with just 0.2% growth (compared to 3.5% last year).

- **Domestic Leisure Travel:** Following strong first-quarter performance, the domestic leisure market is expected to slow through the rest of 2019. It is forecast to grow by 1.8% in 2019 and by 1.7% in 2020. Domestic leisure travel is expected to continue growing faster than domestic business travel and will continue to be supported by upbeat consumer attitudes and solid—though moderating—labor market conditions.
- **Domestic Business Travel:** Business investment rose 6.9% in 2018 but is expected to decelerate in 2019 and 2020. Corporate profits are also expected to slow or possibly decline in 2019 and 2020, and equity markets may follow suit. Although the domestic business market performed relatively well in the first quarter of 2019 (1.8%), growth is expected to decelerate through the rest of the year. Domestic business travel is expected to grow by 1.5% in 2019 and 1.4% in 2020, and will continue to trail the domestic leisure travel.
- **International Inbound Travel:** Inbound travel to the U.S. softened in the early months of 2019, due in large part to declines from Canada and Mexico, while arrivals from overseas remained positive. Overseas visitations to the U.S. are expected to grow moderately (1.9%) for the year (2019). Meanwhile, arrivals from Canada and Mexico are expected to decline. As a result, overall international visitations to the U.S. will edge up just 0.2% in 2019, with an expectation of a recovery to 3.0% growth in 2020.

The Macro Economy

The U.S. Economy

The U.S. is experiencing its longest economic expansion on record, now 121 consecutive months since its trough in 2009.

At the same time, a number of high-frequency indicators have shown that the rate of growth has slowed in 2019. While ongoing wage growth and still-strong consumer confidence continue to boost consumer spending, decelerating business spending on capital goods may be signaling an expectation of slower economic growth. In addition, export growth has been anemic in recent months.

Forecast: Looking ahead, domestic economic fundamentals are poised to cool as we move through 2019, despite a real GDP advance of 3.1% in the first quarter. As benefits from the fiscal stimulus begin to dissipate, the U.S. economy is expected to slow gradually—but not abruptly—in the second quarter of 2019 and through the rest of the year. Despite a trifecta of policy risks—trade, fiscal, and monetary—the economy should maintain much of its momentum thanks to solid macroeconomic fundamentals, including healthy consumer spending and confidence, coupled with moderate growth in corporate profits and business investment.

Though growth will slow, the 121-month economic expansion is likely to continue at least through 2019 and, more likely than not, also 2020. But the odds of a recession are not insignificant: Oxford Economics estimates recession odds of 25% in 2019 and 40% in 2020.

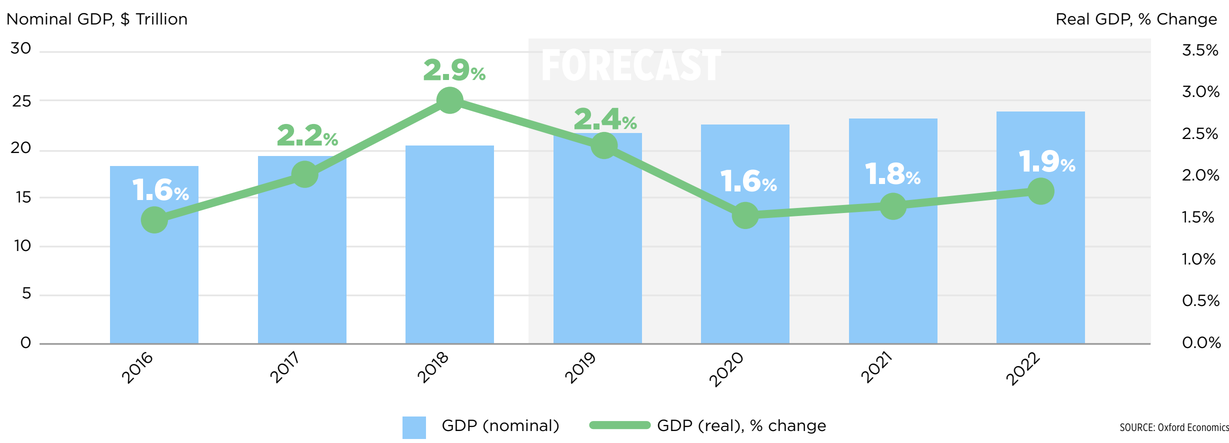
Fiscal stimulus from tax cuts and government spending will continue to contribute to growth in 2019 and 2020, though their effect will diminish. Lower gas prices could support increased household spending on other goods and services. It is now anticipated that the Federal Reserve System will cut interest rates twice in 2019, which could provide a welcome boost to the economy and help offset an economic slowdown.

After growing by 2.9% last year, the fastest pace since 2015, U.S. real GDP growth is forecast to slow down to 2.4% in 2019 and 1.6% in 2020 (Figure 1). Despite the overall projection of growth, downside risks remain—slower disposable income growth, lackluster global activity, and rising trade tensions—that warrant a cautious outlook.

What This Means for Travel:

A growing yet moderating domestic economy likely means a growing yet moderating domestic travel market. But lower gas prices are expected to continue to give a boost, particularly to domestic leisure travel.

FIGURE 1 – U.S. GDP



SOURCE: Oxford Economics

The U.S. Labor Market

The U.S. unemployment rate fell to a historically low level of just 3.9% in 2018 and reached a 49-year low of 3.6% in the first half of 2019. Despite the continuing increase in hiring and falling unemployment, the rate of growth in hiring has slowed down considerably in the second quarter of 2019. The hiring slowdown was broad-based across industries, depicting an economy that is still growing but losing momentum.

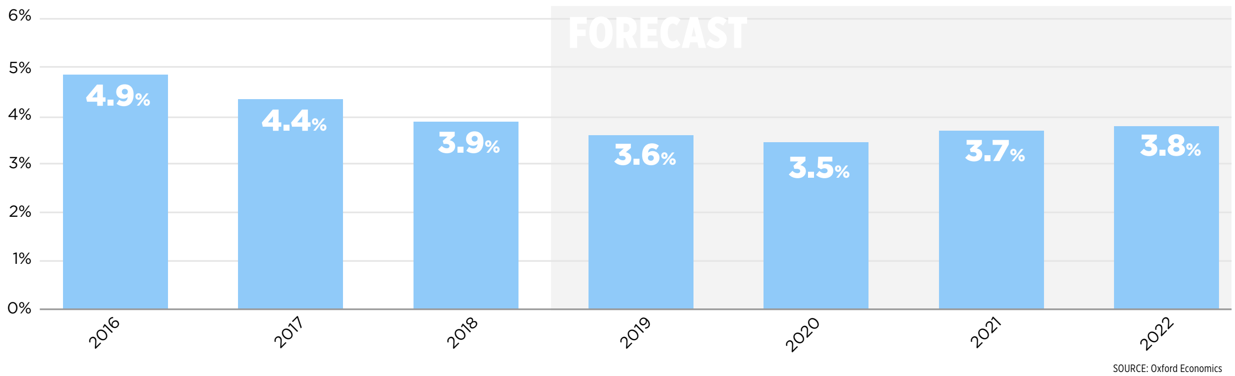
A tightening labor market is still putting upward pressure on wages. Wages continued to increase in 2018 and through the first half of 2019, where the 3.2% y/y increase in private-sector nominal wages marked the fastest rate of growth in more than a decade.

Forecast: U.S. unemployment is projected to average 3.6% in 2019 and to fall further to 3.5% in 2020 (Figure 2). Growth in real personal income will slow from nearly 3% in 2018 to about 2% in 2019 and 2020.

What This Means for Travel:

The fact that the labor market tightened in 2018 and through the first part of 2019 helped boost consumers' average wage income and increased the availability of funds for travel. Despite a slowdown in hiring, the expectation that the labor market will continue to tighten, and that wages will continue to grow, will likely help increase domestic leisure travel at a moderating but stable rate.

FIGURE 2 – UNEMPLOYMENT RATE



U.S. Consumer and Business Confidence

American optimism about the economy dipped in the early part of 2019 (particularly after the January government shutdown), but then recovered somewhat in the second quarter. After declining in December and January, the Conference Board's Consumer Confidence Index climbed to 134.1 in May 2019, its highest rate since November 2018.

Americans in the first half of 2019 also felt the best about current economic conditions in 18 years, highlighting the robust labor market and rising wages. Consumer spending has likewise continued to grow in the first months of the year.

Although consumer confidence remains high, there are suggestions that it started on a path of decline in June 2019 amid growing concerns about tariffs (most notably the 25% tariffs on nearly half of all imports from China) and a weaker level of domestic job creation. Business confidence has also moderated.

Still, the expectation of more accommodative monetary policy has been well-received by the business community and the S&P 500 neared record highs in June.

Forecast: With a decline in consumer confidence in June as well as an expected cooling in disposable income, consumer spending will likely moderate through the rest of 2019 and 2020.

Business investment is also poised to cool in response to four likely conditions:

- Domestic demand -> moderating
- Tax incentives & deregulation -> diminishing boost
- Financial conditions -> tightening
- Global growth -> slowing

What This Means for Travel:

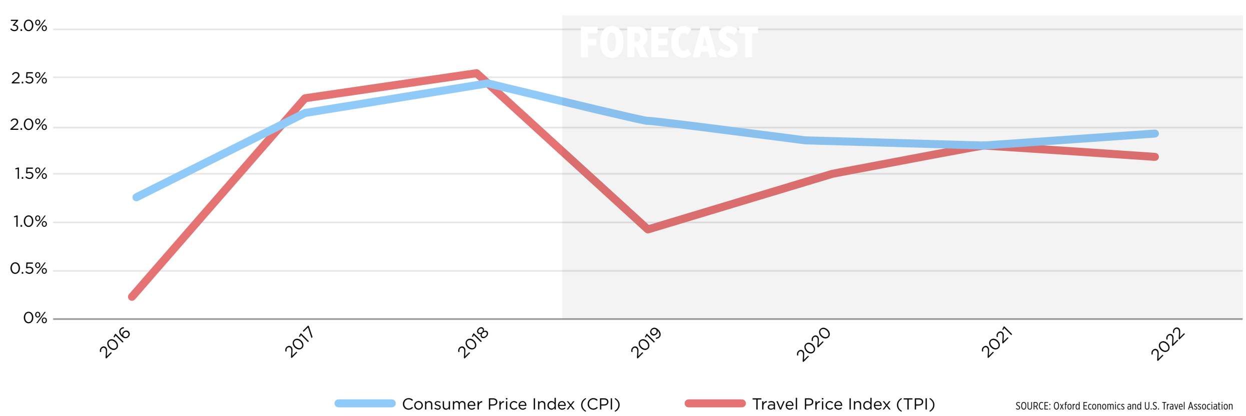
Consumer confidence, wages and income are important indicators for the travel industry, since travel spending is impacted by how consumers feel about the stability of their jobs and the overall economy. A moderation in consumer confidence and consumer spending will likely have a moderating effect on domestic leisure travel, while a cooling of business confidence and business investment will likely have a related effect on domestic business travel.

U.S. Inflation

Inflation remains low. Through the first five months of 2019, the Consumer Price Index (CPI) increased by 1.7% compared to the same period in 2018, well below the Fed's inflation target of 2%. While there were significant price declines in many areas directly related to travel, including airline fares, motor fuel and intercity transportation, these were offset by sizable increases in other travel-related prices, including recreation services, food and beverages away from home, and lodging. As a result, the U.S. Travel Association's Travel Price Index grew in line with the CPI (at 1.7%) through the first five months of the year.

Forecast: After increasing by 2.4% in 2018, growth in the Consumer Price Index (CPI) is estimated to slow down to 2.1% in 2019 and 1.9% in 2020. While growth in the Travel Price Index (TPI) was similar to the CPI in 2018 (at 2.5%) and in the first four months of 2019, it is expected to slow down much more markedly through the second part of the year and settle around 0.9% in 2019 and 1.4% in 2020 (Figure 3).

FIGURE 3 – CONSUMER PRICE INDEX & TRAVEL PRICE INDEX



What This Means for Travel:

The fact that inflation grew (and is expected to continue growing) slower than wages means that real earnings are up, and people have more money to spend. Positive growth in private-sector real earnings is critical to the health of the domestic leisure travel sector. The projected further slowdown in travel-related prices through the rest of 2019 and 2020 will undoubtedly provide a boost for domestic leisure travel.

Global GDP

Global GDP accelerated to 3.2% real growth in 2018, experiencing its fastest pace of growth since the Great Recession in 2010. While the global economy slowed at the end of 2018, it picked up again in the first quarter of 2019. First-quarter growth was particularly strong in the U.S. (+3.1%) and China (+6.4%) but it also exceeded expectations in Europe.

Forecast: Despite a relatively strong first quarter, indicators continue to suggest a gradually cooling global economy. After registering 3.2% growth in 2018, global (real) GDP is expected to slow gently to 2.7% in 2019 and 2020 (Figure 4). According to Oxford Economics, recession risks remain small for 2019, but are greater for 2020. Much of global GDP growth is underpinned by what happens in the United States and China, and will be dependent on outcomes of trade policy negotiations between the two countries.

What This Means for Travel:

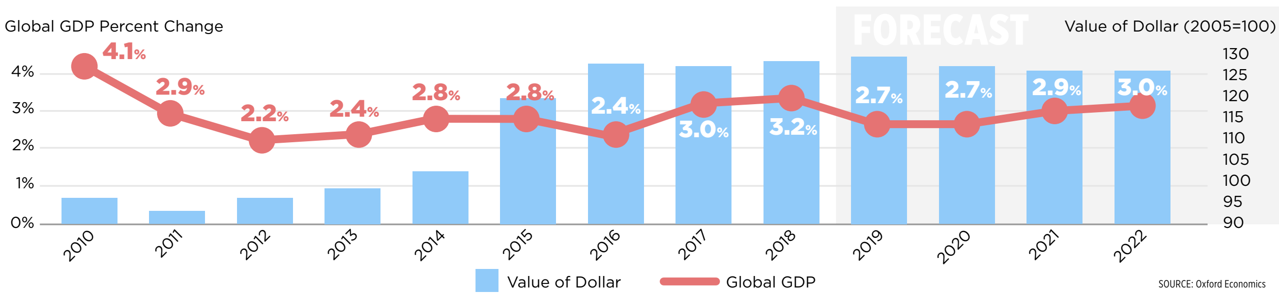
A strong global economy generally bodes well for growth in inbound travel to the U.S., and a slowdown in global economic growth can have an effect on outbound travel from affected countries.

Value of the Dollar

After edging down slightly in 2017 (following strong growth in 2015 and 2016), the U.S. dollar strengthened again in the first half of 2018 and then stabilized at a relatively high level through the rest of 2018 and the first part of 2019.

Forecast: It is always very difficult to forecast currency exchange rates. While the expected lowering of interest rates should in theory lead to a decline in the value of the U.S. dollar, this has not been the case in recent years. The "trade wars," on the other hand, can lead to a relative increase in the value of the dollar (as the currencies of our trading partners would lose value with the decline of the U.S. as a key trading partner), but that too is difficult to predict. Oxford Economics' forecast expects the U.S. dollar to continue strengthening through 2019, with a projected appreciation of 1.2% (weighted average exchange rate index). It then projects a depreciation of 2% in 2020 (Figure 4).

FIGURE 4 – GLOBAL GDP AND THE VALUE OF THE DOLLAR



What This Means for Travel:

The continued strength of the U.S. dollar in 2018 and 2019 means that the U.S. remains a relatively expensive place to visit, dampening international inbound travel. A possible depreciation of the U.S. dollar in 2020 would help provide a well-needed boost to the competitiveness of the U.S. as a destination for international travel.

THE U.S. TRAVEL INDUSTRY

Domestic Travel

Domestic person-trips in the U.S. marked their ninth successive year of growth in 2018 with a 1.9% expansion. Gains were realized in both the leisure and business travel segments, though as has been the trend, leisure led the charge. Air travel again led all transportation modes in the first quarter of this year (+3.9%) and is expected to do so through the rest of 2019.

Business travel growth (1.6%) continued to lag the leisure market (2.0%), despite record business investment growth.

- **Domestic Leisure Travel:** The 2.0% increase in domestic leisure travel in 2018 was a moderate slowdown from the prior year. In the first quarter 2019, the domestic leisure segment continued its leading role of the domestic travel market with 2.3% growth, supported by upbeat consumer confidence, solid spending and rising wages.

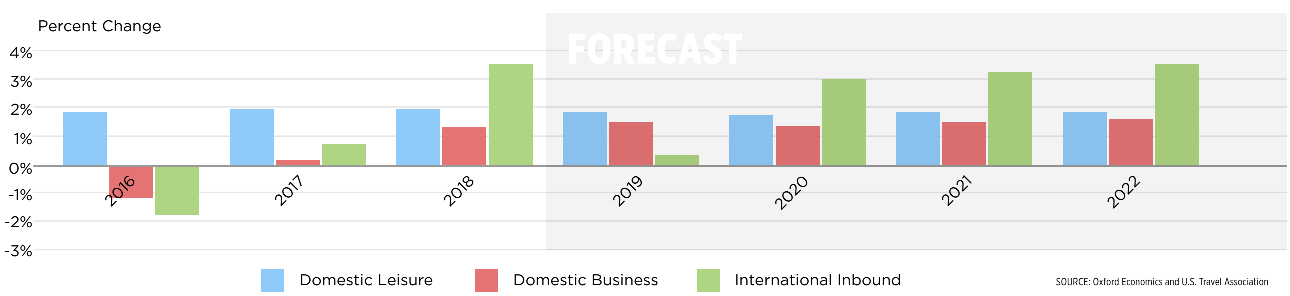
- **Domestic Business Travel:** The 1.6% increase in domestic business travel in 2018 was a notable improvement from the stagnant growth of the prior year. In the first quarter of 2019, the domestic business segment picked up further, with 1.8% growth. While business investment remained strong, financial markets have been volatile, and trade strains remain front and center.

Forecast: Personal income, employment, and consumption—all expected to be positive—are anticipated to continue supporting a strong, though slowing, domestic economy over the next several years. As a result, the domestic travel market is expected to grow at a slightly slower rate of 1.7% in 2019 and 1.6% in 2020. The pace of growth in hotel room demand will reach about 2.0% in 2019, supporting similar growth in overnight travel. Day trips are expected to average 1.4% growth in 2019.

- **Domestic Leisure Travel:** Following strong first-quarter performance, the domestic leisure market is expected to slow through the rest of 2019. It is forecast to grow by 1.8% in 2019 and by 1.7% in 2020 (Figure 5). Domestic leisure travel is expected to continue growing faster than domestic business travel and will continue to be supported by upbeat consumer attitudes and solid—though moderating—labor market conditions.

- **Domestic Business Travel:** Business investment rose 6.9% in 2018 but is expected to decelerate in 2019 and 2020. Corporate profits are also expected to slow or possible decline in 2019 and 2020, and equity markets may follow suit. Although the domestic business market performed relatively well in the first quarter of 2019 (1.8%), growth is expected to decelerate through the rest of the year. Domestic business travel is expected to grow by 1.5% in 2019 and 1.4% in 2020, and will continue to trail the domestic leisure travel.

FIGURE 5 – U.S. DOMESTIC AND INTERNATIONAL INBOUND TRAVEL VOLUME



International Inbound Travel

The United States welcomed 79.6 million travelers from abroad in 2018, up 3.5% from 2017. These travelers spent $156 billion on U.S. travel-related goods and services.[1] International arrivals to the U.S. were evenly split between those originating from neighboring Canada and Mexico, and those from all other countries: overseas visitors accounted for 50.1% of all international visitors to the United States in 2018, with 49.9% arriving from Canada and Mexico.

Growth in overseas visitations remained moderate (around 2%) in the first five months of 2019, while the number of arrivals from both Canada and Mexico declined significantly.

Visitations from Canada and Mexico: Overnight visitations from Canada grew by 4.9% in 2018 to 21.2 million, and overnight visitations from Mexico grew by 3.9% to 18.5 million. In early 2019, however, both markets performed very poorly, with visitations from Canada down 5.8% and visitations from Mexico down nearly 9% through April compared to the same period last year.

Visitations from Overseas: Overseas visitations to the U.S. grew by 2.5% in 2018. While overall global performance was solid in 2018, there were surprises on the downside: Japan (-2.8%), China (-5.7%), and South Korea (-5.3%) registered declines following years of chart-topping growth. This is particularly worrisome since these are the United States' three largest overseas markets after the U.K. The only other decline among top-10 markets was Germany (-0.9%). At the same time, a continued strong rebound in visitations from Brazil and solid growth from India and France helped ensure that overseas visitations to the U.S. experienced their strongest increase (+2.5%) since 2015.

In the first four months of 2019, overseas visitations to the U.S. grew at a relatively slow 2.0% compared to the same period in 2018. While visitations from the U.K. (+8.2%), Japan (+6.5%), France (+4.1%) and India (+4.0%) grew strongly, visitations from China (-3.1%), Brazil (-2.1%), South Korea (-4.4%) and Germany (-0.9%) declined.

With 39.9 million arrivals in 2018, overseas travel to the U.S. accounted for 11.7% of all global long-haul travel, higher than any other country but significantly lower than in previous years. Since 2015, the U.S. share of global long-haul travel declined by 2 percentage points. Global long-haul travel grew at an impressive pace of 21% over the three years between 2015 and 2018, while overseas travel to the U.S. grew by only 3.1% over the same three-year period.

The five-year rise in the value of the U.S. dollar, combined with trade tensions and economic volatility in certain source markets, have combined to dampen international inbound travel to the U.S. It is important to note that without the marketing efforts of Brand USA, the organization charged with promoting the United States as a travel and tourism destination, steeper market share declines would certainly be evident. Brand USA's in-market efforts have been effective at propping up America's share of visitation and its associated benefits.

Forecast: Overseas visitations to the U.S. are expected to grow moderately (1.9%) for 2019. Meanwhile, visitations from Canada and Mexico are expected to decline. As a result, overall international visitations to the U.S. will edge up just 0.2% in 2019, with an expected recovery to 3.0% growth in 2020 (see Figure 5 above).

Please Note:

This section of the U.S. Travel Forecast usually matches forecast projections from the National Travel and Tourism Office (NTTO) at the U.S. Department of Commerce. Since NTTO has not yet published an updated travel forecast, this section incorporate international inbound visitations projections from Oxford Economics.

1. Excludes international traveler spending on medical, educational and cross-border/seasonal work-related activities or international passenger fares on U.S. airlines.

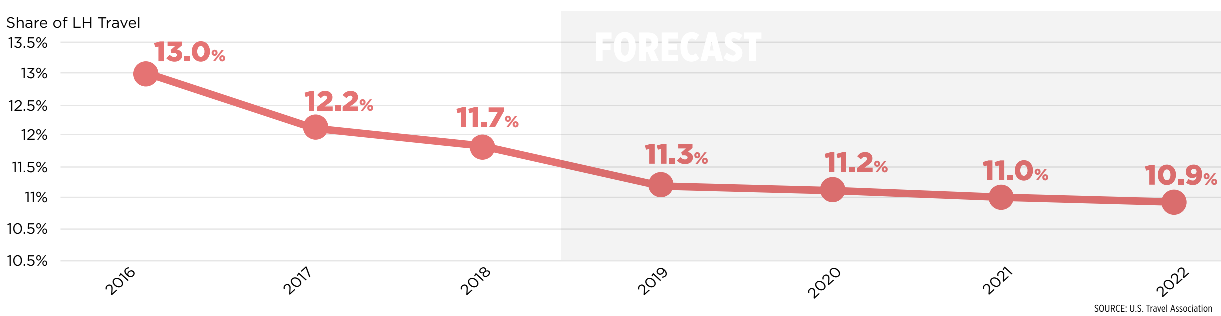
Visitations from Canada and Mexico: Recently released data from Canada (Statistics Canada) and Mexico (Banco de Mexico) on outbound travel volume through April 2019 was more negative than expected. After performing well through most of 2018, arrivals from Canada to the U.S. were down each month so far (data is available through April) in 2019. On a year-to-date basis, visitations through April are down 5.8%. Meanwhile, after performing well through most of 2018, total outbound visitations from Mexico (most of which are to the U.S.) through April were down 8.9% compared to the same period last year.

While the forecast for both markets expects some recovery over the remainder of the year—about 1.5% growth for both Canada and Mexico—this is still quite slow. As a result of strong declines in the beginning of the year and slow projected growth in the remainder of the year, the visitation forecasts for Canada (-1.0%) and Mexico (-1.9%) are negative for 2019. However, both markets are expected to recover in 2020.

Visitations from Overseas: Overseas visitation to the U.S. is forecast to grow by 1.9% in 2019, with growth coming mostly from key European markets as well as India and boosted by a modest rebound in growth from China. Conversely, a slowdown in visitation from South Korea and Taiwan is expected. Headwinds remain; a continued strong U.S. dollar, as well as negative perceptions surrounding U.S. trade policies, protectionism and immigration, continue to pose risks to international traveler sentiment.

While overseas visitations to the U.S. are projected to accelerate and grow by about 3.5% over the medium term, global long-haul travel is expected to grow faster. As a result, the U.S. will continue to lose global market share. We are estimating that the U.S. share of global long-haul travel, which stood at 13.7% in 2015 and has fallen to 11.7% in 2018, will continue to decline and settle below 11% by 2022 (Figure 6).

FIGURE 6 – U.S. SHARE OF GLOBAL LONG-HAUL TRAVEL



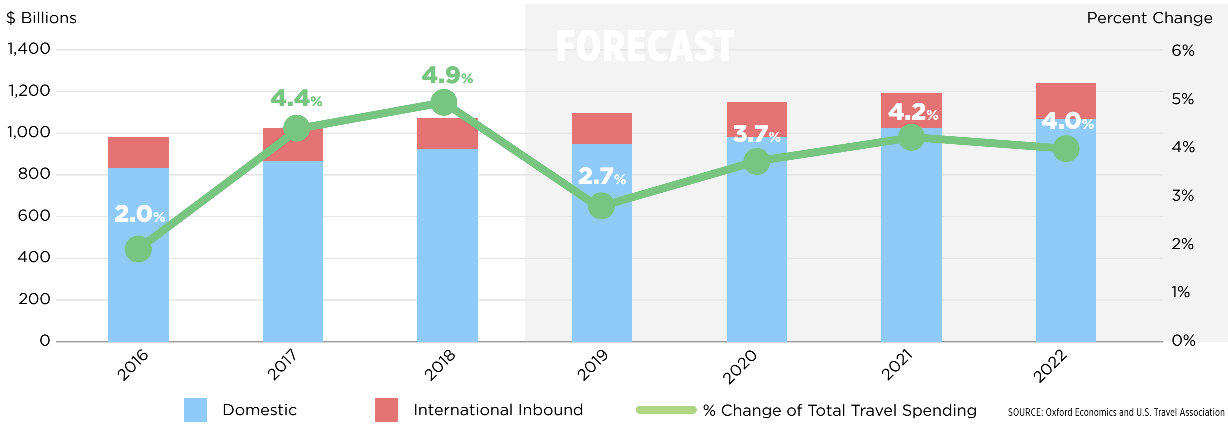
Travel Spending

Domestic Travel Spending Domestic travel spending grew at a solid pace of 5.2% in 2017 and 5.8% in 2018, but is forecast to grow at a slower rate of 2.9% in 2019, to $960 billion. It is projected to then pick up in 2020 to about 4% growth.

International travel spending, on the other hand, was nearly static in 2017 and 2018 (following a decline in 2016) and is forecast to recover somewhat in 2019. Despite a projection of anemic growth in total international visitations in 2019, we are estimating that total spending by international visitors will grow by 1.7% in 2019. This is a result of the continued projected growth in overseas visitations and the fact that overseas visitors spend significantly more per visit than those from Canada and Mexico. International visitor spending is currently estimated to pick up further in 2020 and beyond.

Total travel spending (domestic + international inbound) is forecast to surpass $1.1 trillion in 2019, up 2.7% from 2018 (Figure 7). Total travel spending is expected to increase at a solid pace of about 4% per year over the medium term.

FIGURE 7 – U.S. TRAVEL SPENDING



SOURCE: Oxford Economics and U.S. Travel Association

Conclusion

The overall outlook for the travel industry is for continued growth over the next several years. Both domestic leisure and domestic business travel are expected to decelerate in line with the overall U.S. economy. International inbound travel, after stalling in 2019, is expected to recover in subsequent years, but may remain constrained by global headwinds.

There are numerous policy tools available to boost growth trends for both domestic and international travel, including: a comprehensive infrastructure package that includes financing reform for airport capital projects; implementation of biometrics for both the Transportation Security Administration and Customs and Border Protection; the aforementioned long-term renewal for Brand USA; and expansion of the Visa Waiver Program and Global Entry. We urge Congress to expedite consideration of all of the above.

U.S. Travel will next update its Forecast in late fall of 2019.

TRAVEL FORECAST

	2016	2017	2018	2019	2020	2021	2022
GDP (Billions of current dollars)	18,707.2	19,485.4	20,494.1	21,356.7	22,115.4	22,955.0	23,856.6
Unemployment Rate (%)	4.9	4.4	3.9	3.6	3.5	3.7	3.8
Consumer Price Index (CPI)*	240.0	245.1	251.1	256.3	261.1	265.9	271.2
Travel Price Index (aTPI)*	273.1	279.4	286.5	289.0	293.2	298.5	303.8
Total Travel Spending in the U.S. ($ Billions)	**994.1**	**1,037.7**	**1,089.0**	**1,118.7**	**1,160.6**	**1,209.4**	**1,257.7**
U.S. Residents	838.5	881.9	932.7	959.7	996.3	1,038.3	1,079.6
International Visitors**	155.6	155.8	156.3	159.0	164.4	171.1	178.1
Total International Visitors to the U.S. (Millions)	**76.4**	**76.9**	**79.6**	**79.8**	**82.2**	**84.9**	**87.8**
Canada	19.3	20.2	21.2	21.0	21.5	22.1	22.8
Mexico	19.0	17.8	18.5	18.2	18.7	19.3	20.0
Overseas	38.1	38.9	39.9	40.6	42.0	43.5	45.0
Global Long-Haul Travel (Millions)	292.9	319.5	341.9	361.4	378.3	396.3	415.4
U.S. Share of global long-haul travel (%)* **	**13.0**	**12.2**	**11.7**	**11.3**	**11.2**	**11.0**	**10.9**
Total U.S. Domestic Person-Trips**(Millions)**	**2,206.6**	**2,247.9**	**2,291.1**	**2,330.8**	**2,369.2**	**2,411.2**	**2,457.5**
Business	454.7	456.3	463.6	470.4	477.0	484.9	493.7
Leisure	1,751.9	1,791.5	1,827.5	1,860.5	1,892.2	1,926.3	1,963.8

TRAVEL FORECAST (GROWTH)

	2016	2017	2018	2019	2020	2021	2022
Real GDP (chained 2015 dollars)	1.6%	2.2%	2.9%	2.4%	1.6%	1.8%	1.9%
Consumer Price Index (CPI)*	1.3%	2.1%	2.4%	2.1%	1.9%	1.8%	2.0%
Travel Price Index (TPI)*	0.3%	2.3%	2.5%	0.9%	1.4%	1.8%	1.7%
Total Travel Spending in the U.S.	**2.0%**	**4.4%**	**4.9%**	**2.7%**	**3.7%**	**4.2%**	**4.0%**
U.S. Residents	2.5%	5.2%	5.8%	2.9%	3.8%	4.2%	4.0%
International Visitors**	-0.9%	0.1%	0.3%	1.7%	3.4%	4.1%	4.1%
Total International Visitors to the U.S.	**-1.8%**	**0.7%**	**3.5%**	**0.2%**	**3.0%**	**3.2%**	**3.5%**
Canada	-6.8%	4.8%	4.9%	-1.0%	2.3%	2.9%	3.3%
Mexico	3.4%	-6.1%	3.9%	-1.9%	3.0%	3.3%	3.5%
Overseas	-1.5%	2.0%	2.5%	1.9%	3.4%	3.4%	3.5%
Global Long-Haul Travel	3.8%	9.1%	7.0%	5.7%	4.7%	4.8%	4.8%
Total U.S. Domestic Person-Trips** **	**1.3%**	**1.9%**	**1.9%**	**1.7%**	**1.6%**	**1.8%**	**1.9%**
Business	-1.1%	0.4%	1.6%	1.5%	1.4%	1.6%	1.8%
Leisure	1.9%	2.3%	2.0%	1.8%	1.7%	1.8%	1.9%

[1] 1982-84 = 100

[2] Excludes international traveler spending on medical, educational and cross-border/seasonal work-related activities or international passenger fares on U.S. airlines

[3] Subject to revision as updated visitation statistics are released by the Department of Commerce

[4] Reflects the share of overseas visitations to the U.S. (ie: visitations from all countries except Canada and Mexico) to gobal long-haul (inter-continental) travel

[5] One person trip of 50 miles or more, one way, away from home or including one or more nights away from home

Sources: U.S. Travel Association's Travel Forecast Model, Tourism Economics, Department of Labor, Department of Commerce