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AN OXFORD ECONOMICS COMPANY

Will a US Recession Derail the Travel Recovery?

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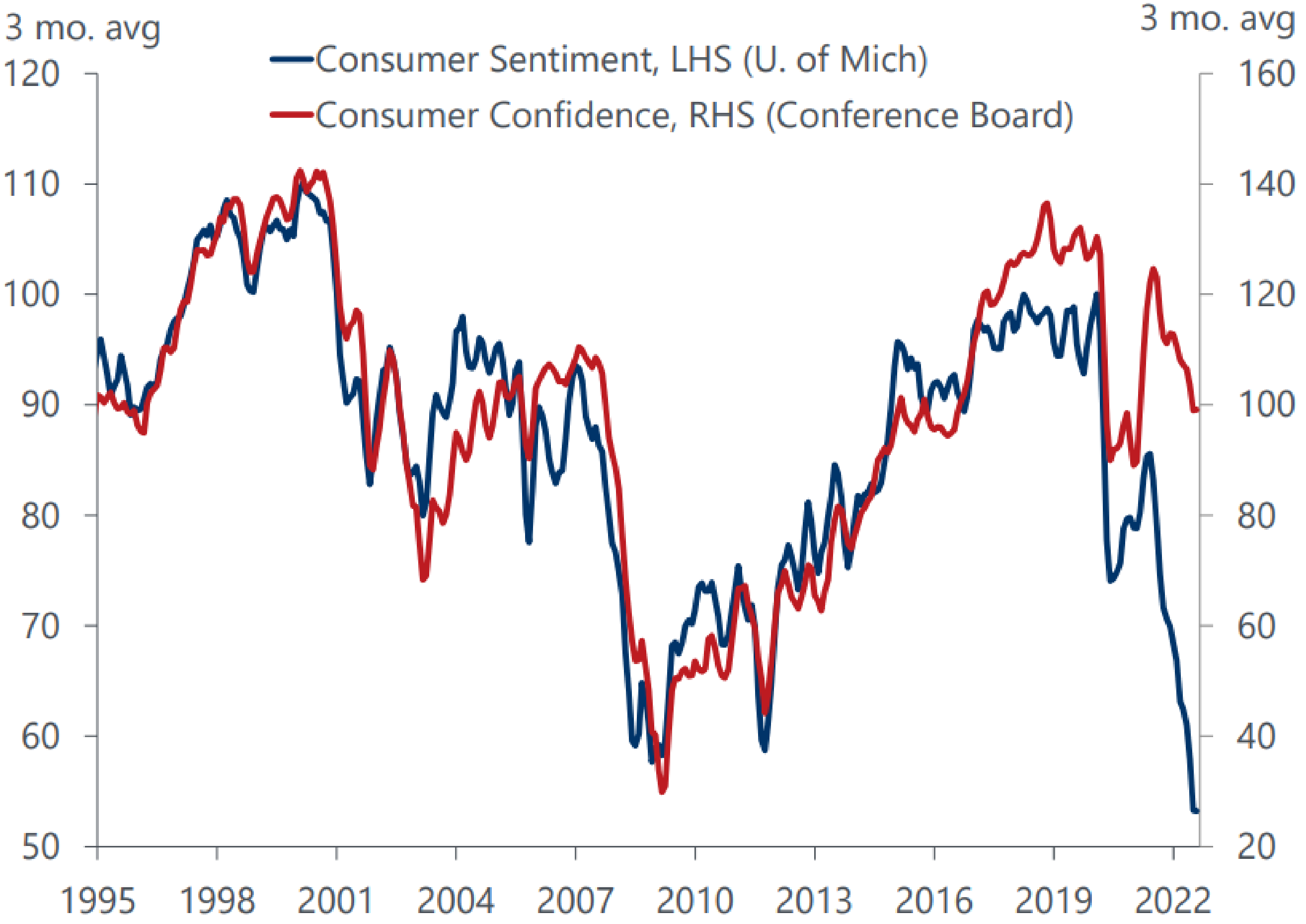
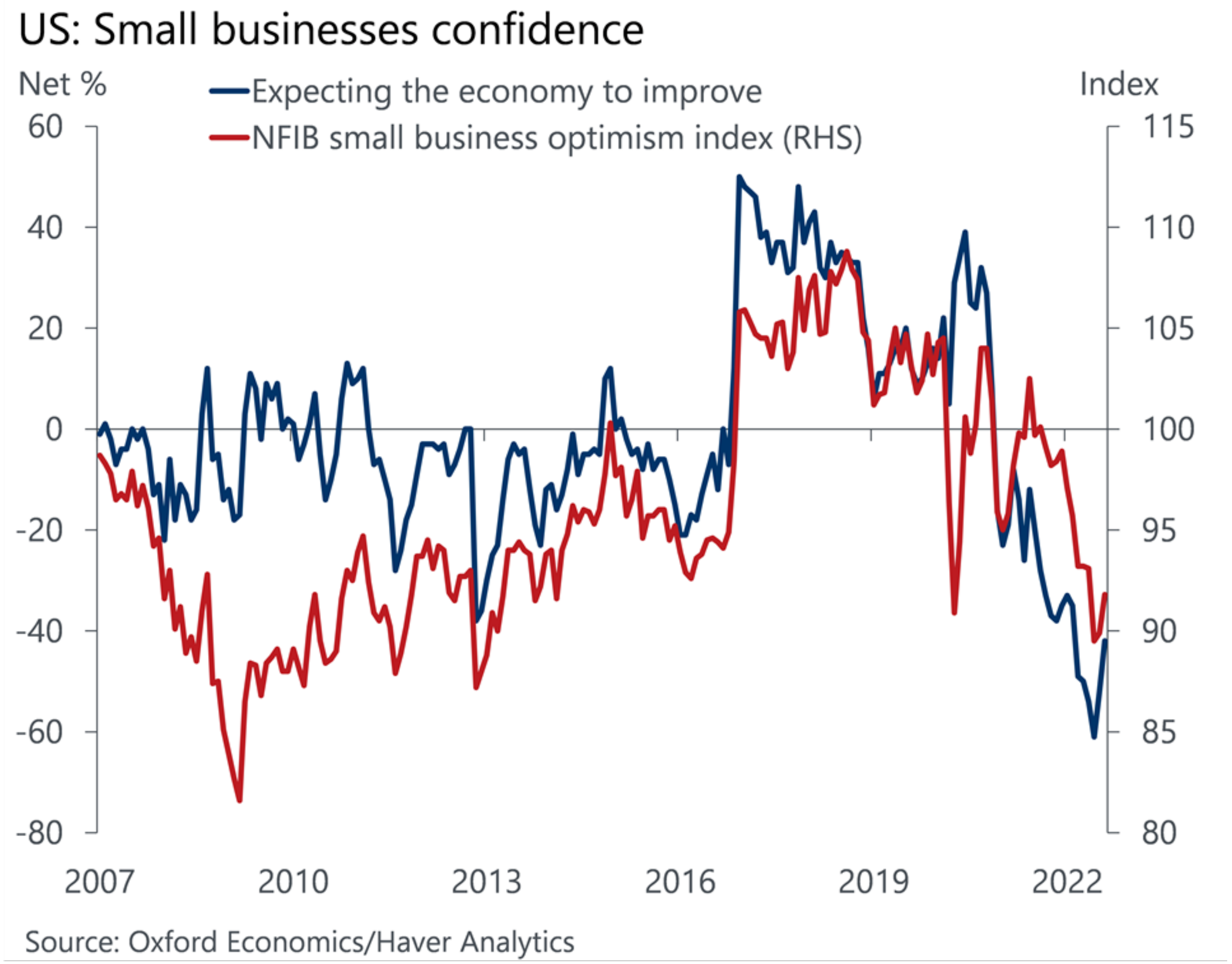
Consumers feeling uneasy

US: Consumer surveys



Source: Oxford Economics/Haver Analytics

Small business optimism remains low despite recent uptick



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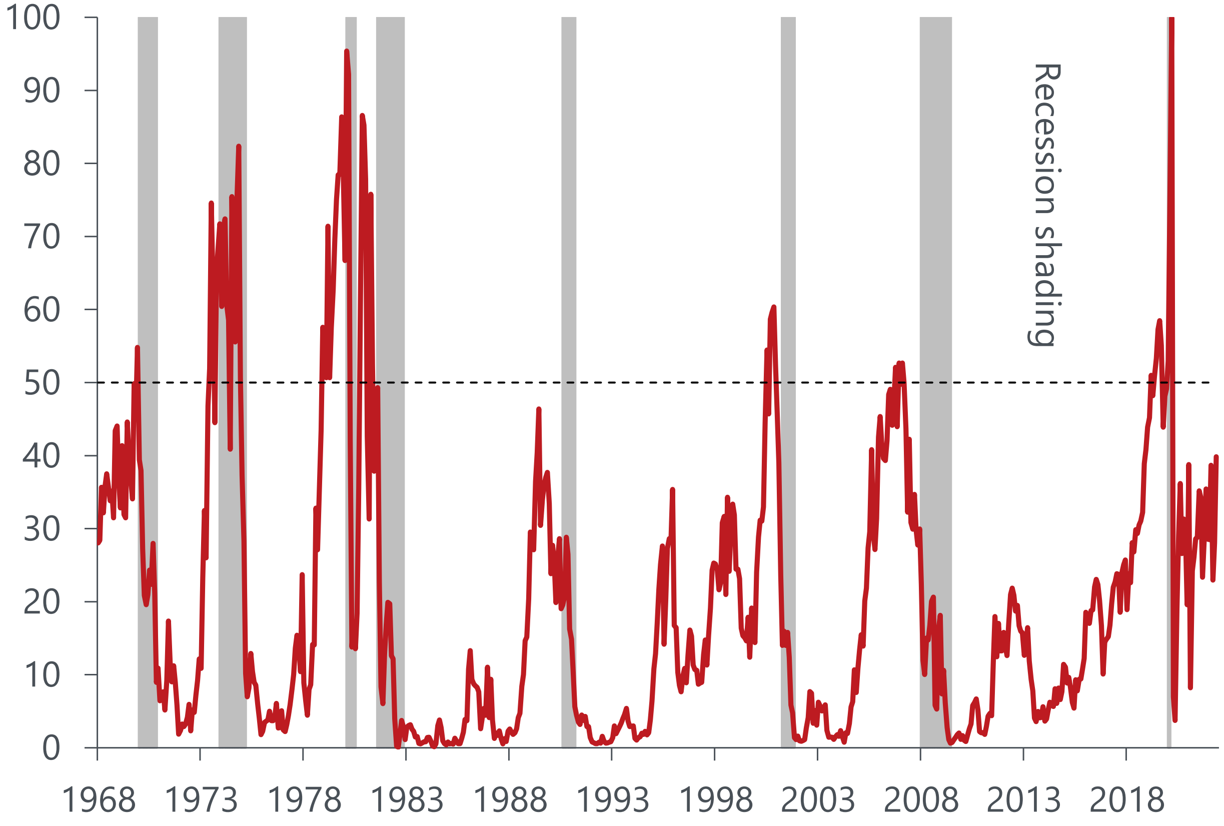
Some Oxford indicators don’t see near term recession

US: Probability of a recession 3 months ahead

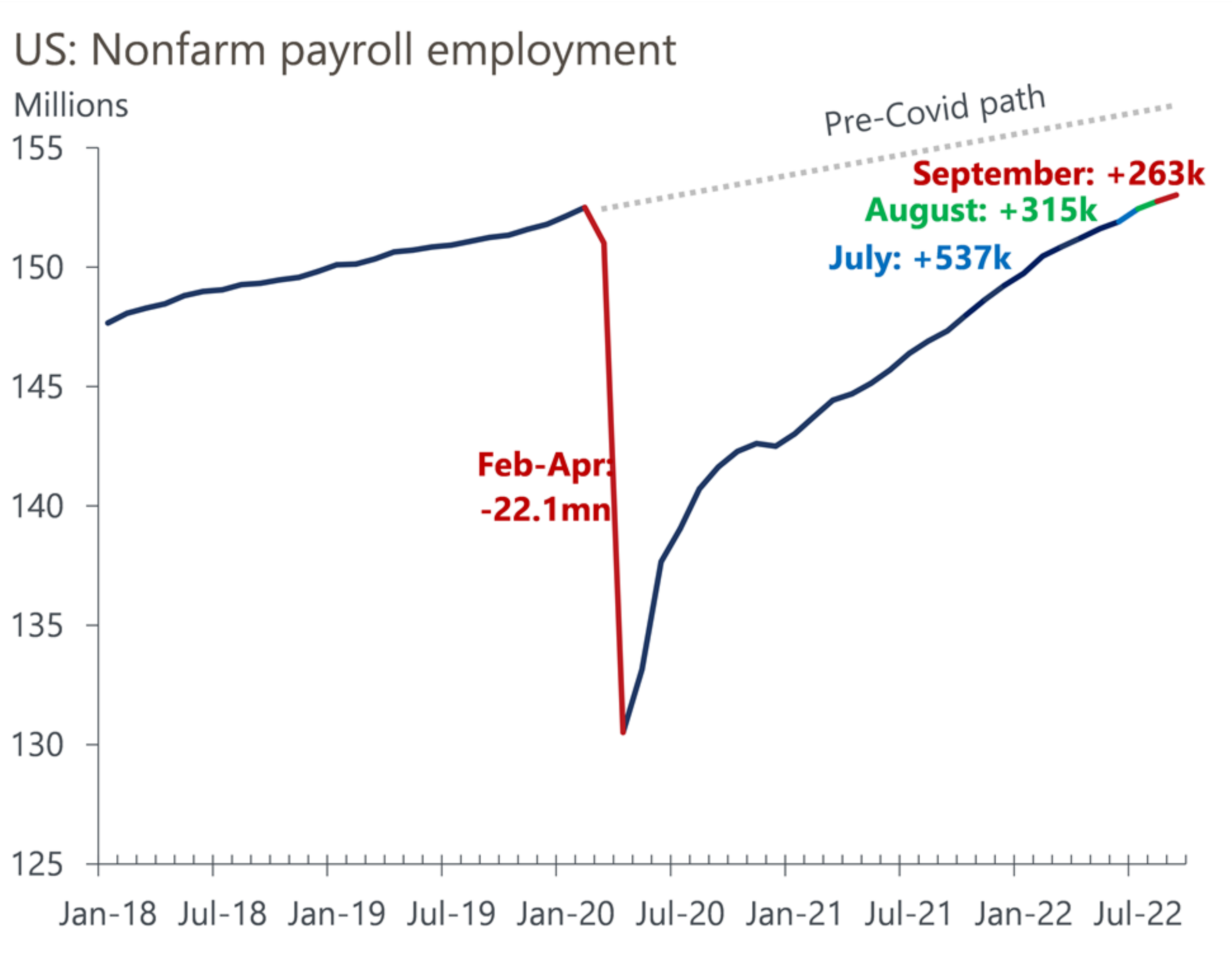
Percent, 3-month lead



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

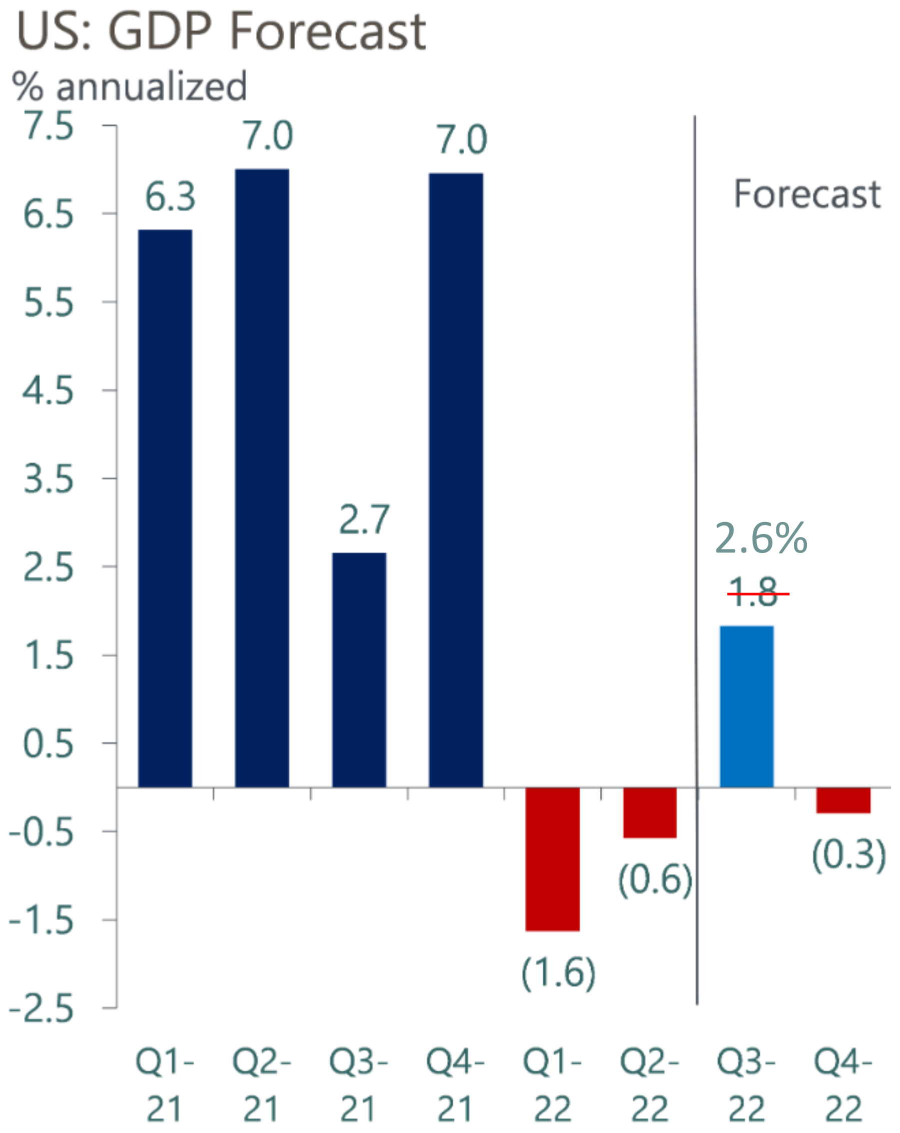
Source: Oxford Economics

Job growth moderated slightly in September



Unemployment rate recovers from 15% to 3.5% in record time

The US economy is resuming growth in the second half of 2022



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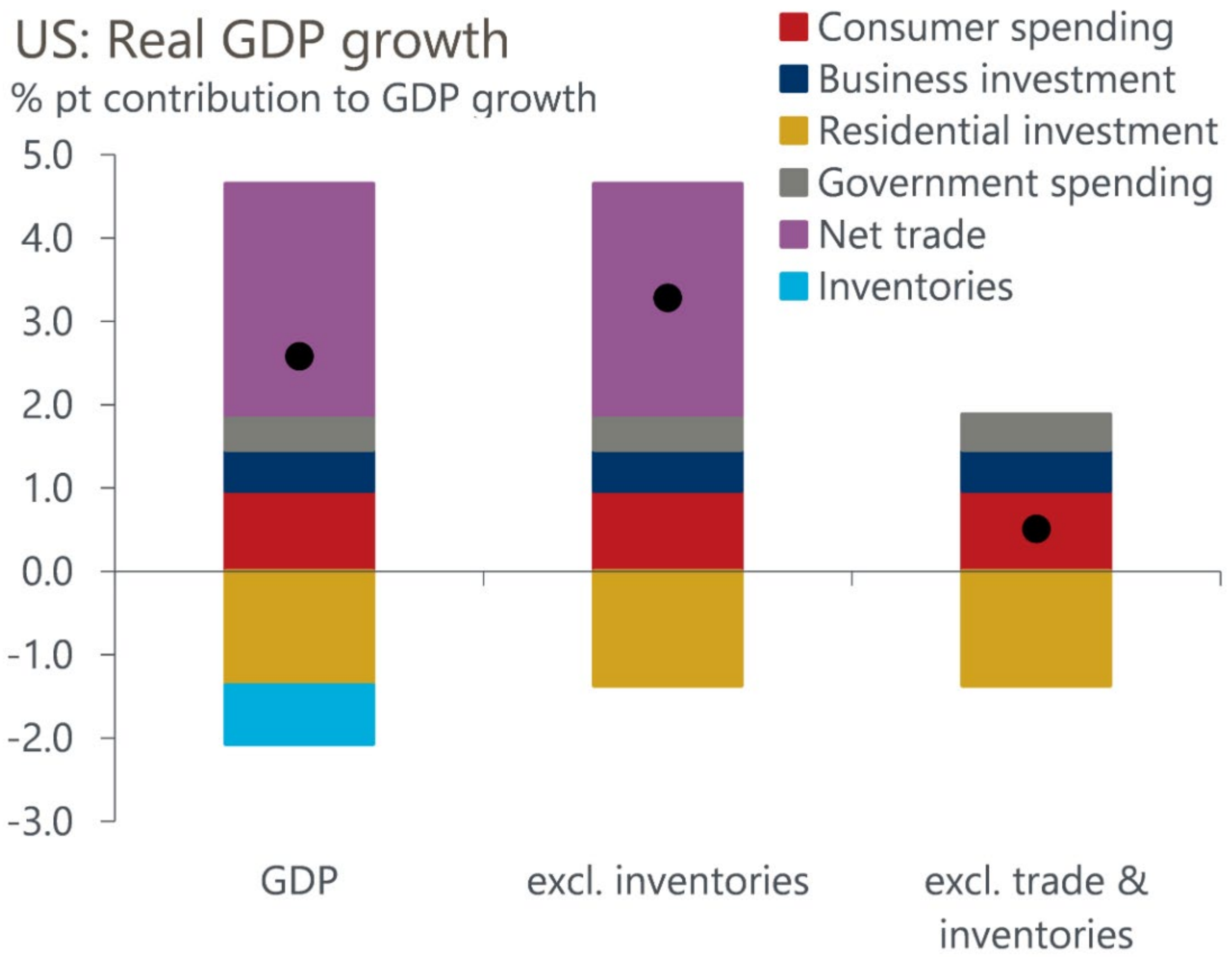
Healthy contributions from consumers & businesses in Q3 2022



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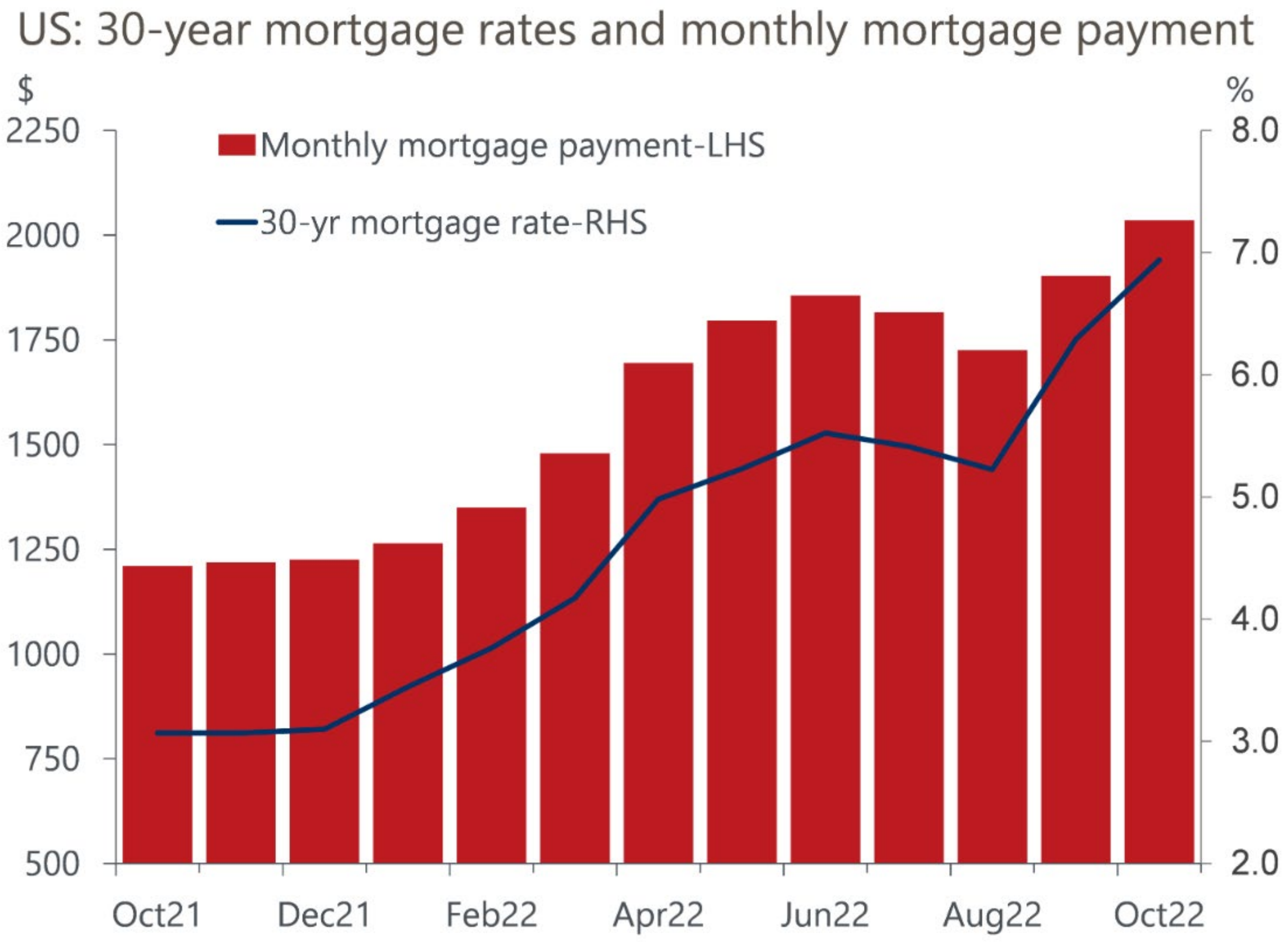
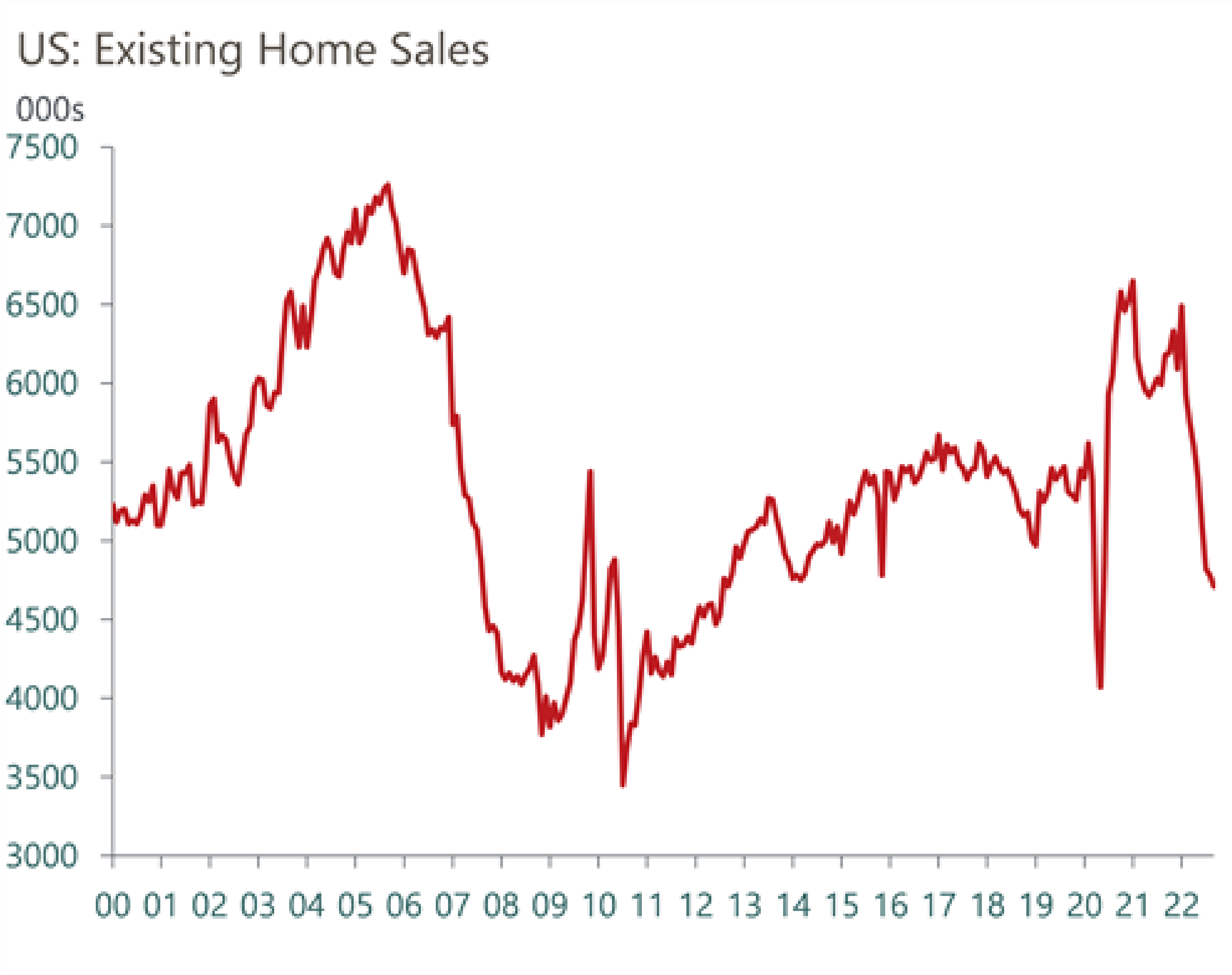
Higher interest rates will cause a steep deceleration in some sectors



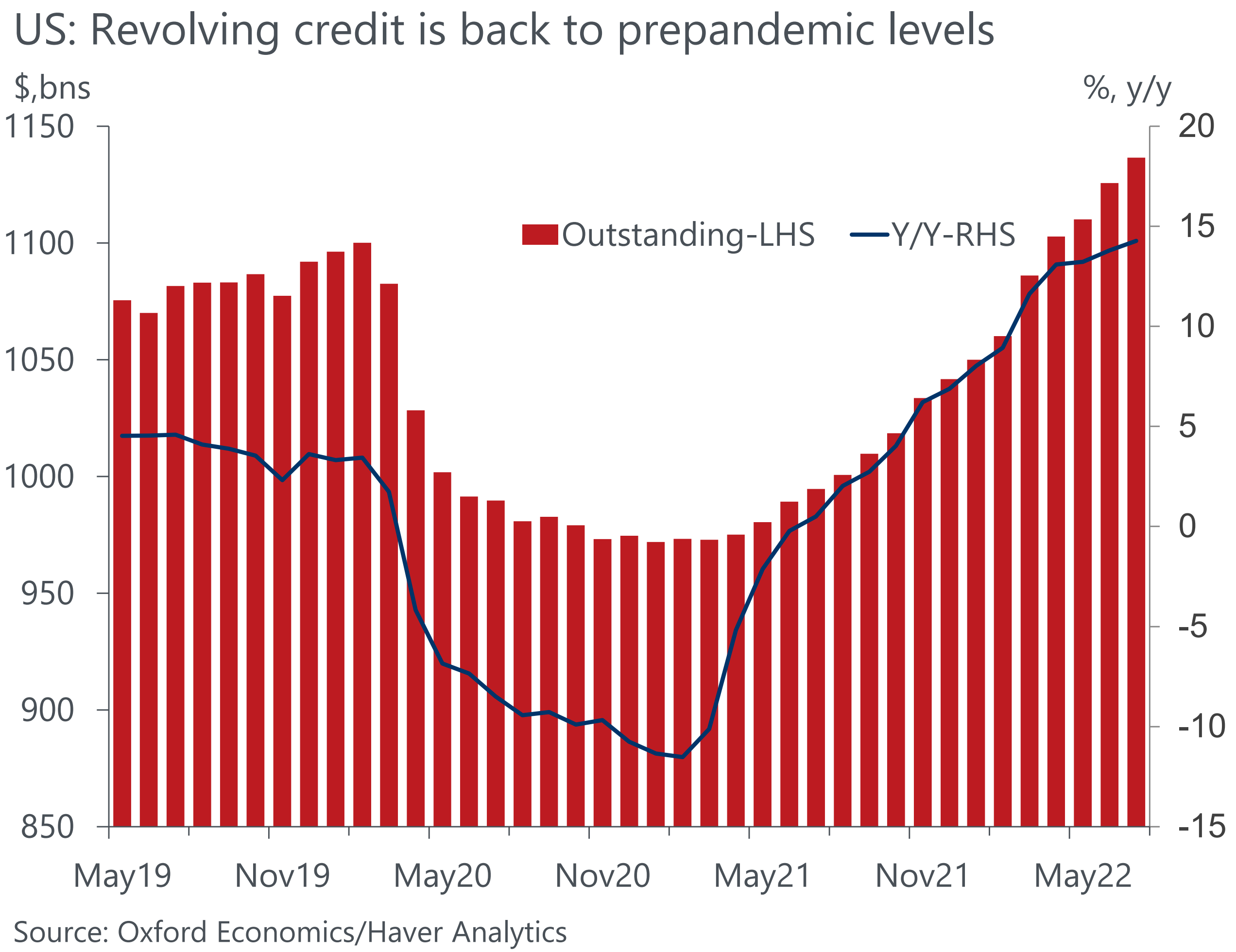
Average monthly mortgage payments have risen nearly $750, with interest rates topping 7%

Higher rates have taken a toll on housing



~20 mn households have been priced out by higher rates

And households are taking on some debt



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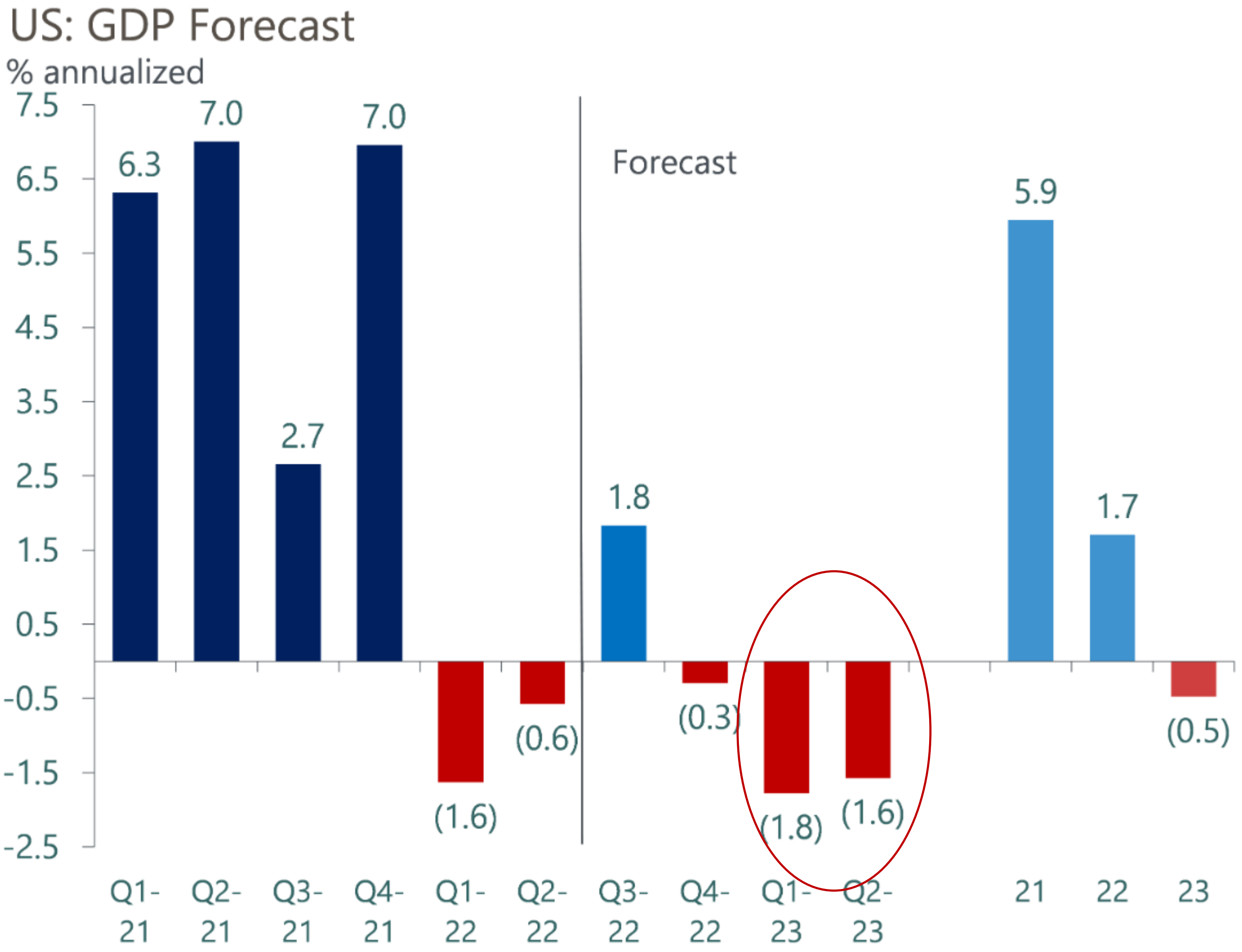
We are headed toward a recession in 2023



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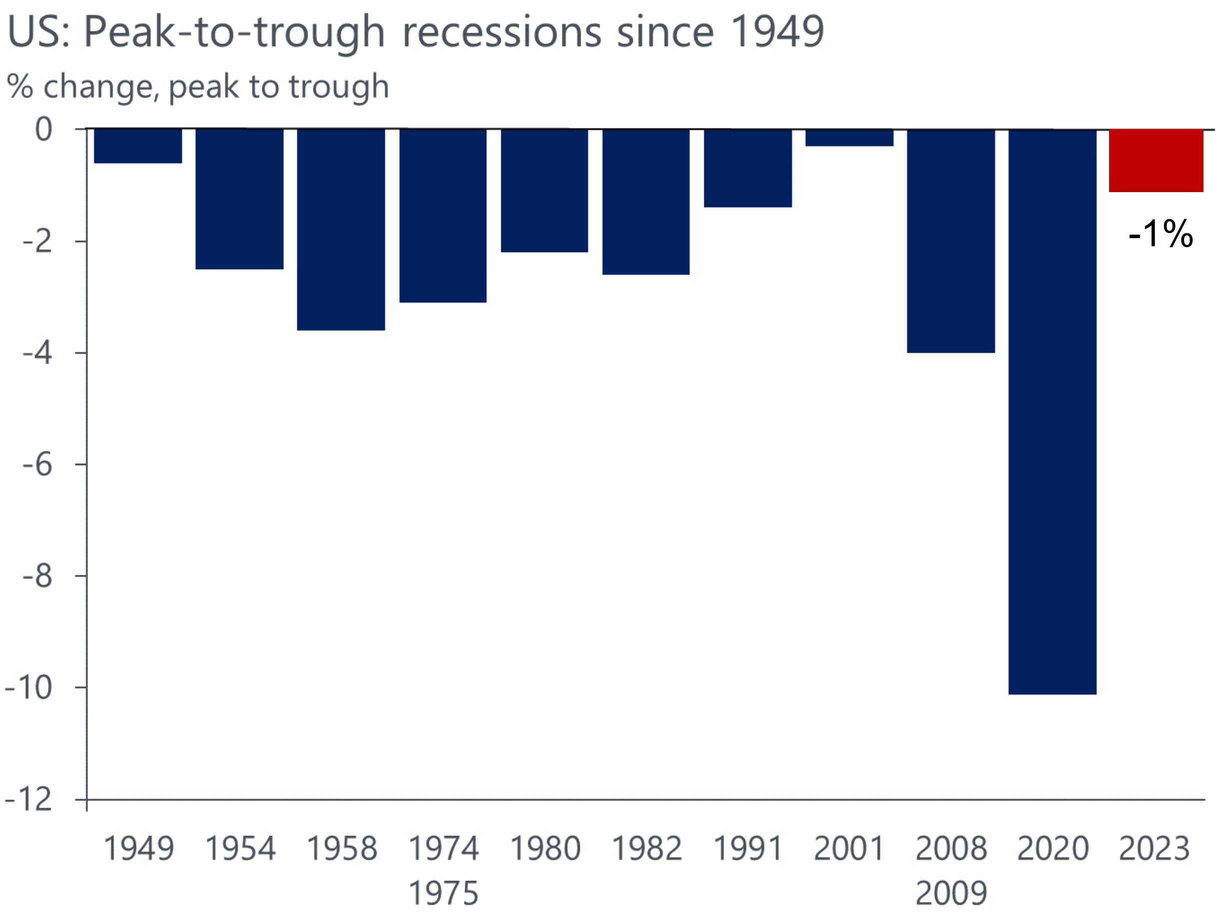
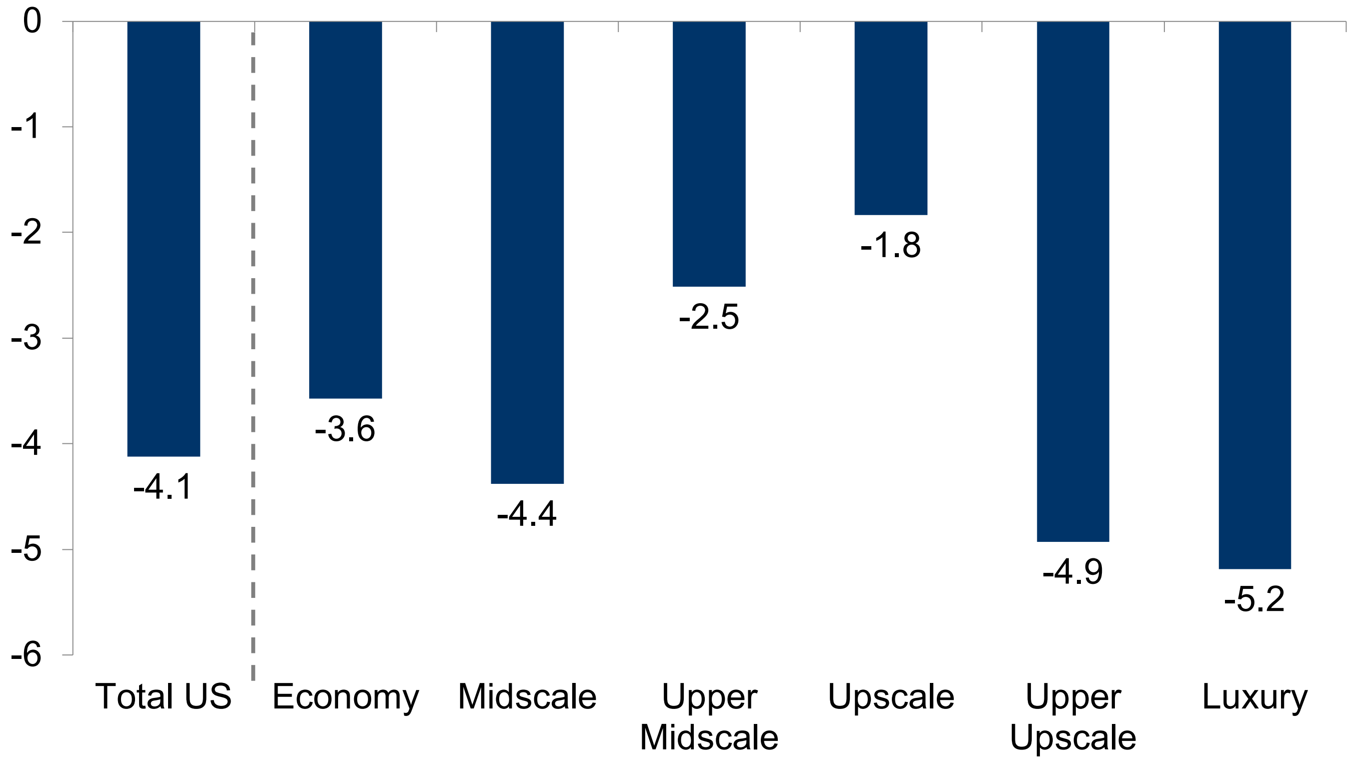
The recession will be mild by historical standards



Source : Oxford Economics/Haver Analytics

What is the usual relationship?

Hotel demand response to GDP during recessions
% change in room demand from -1% change in real GDP, 1987-2019

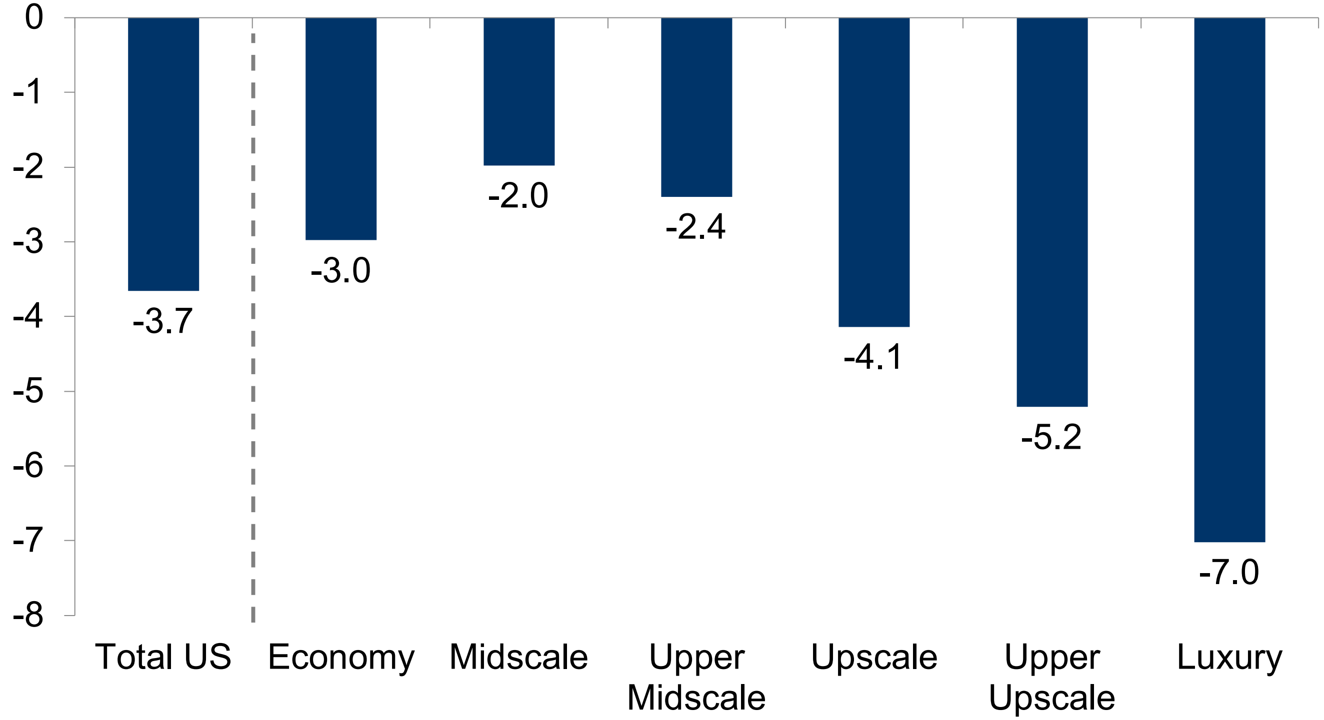


Source: Tourism Economics

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

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



Source: Tourism Economics

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

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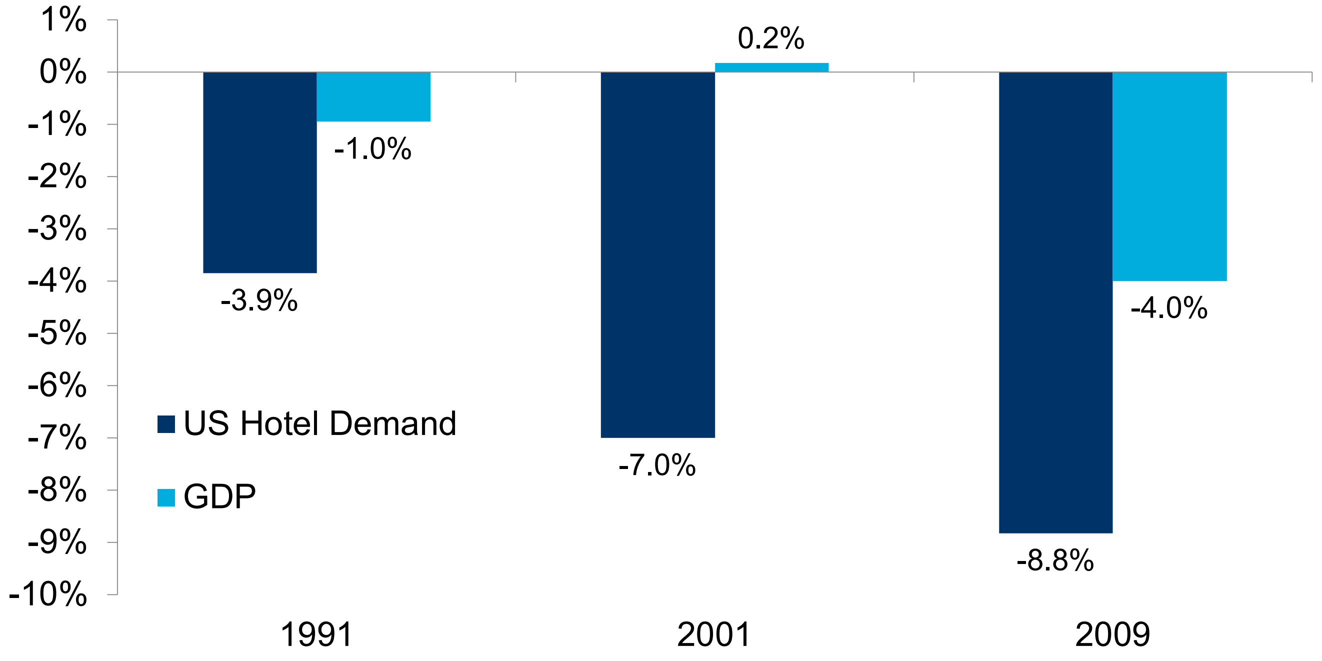
What have the last three “normal” recessions looked like?

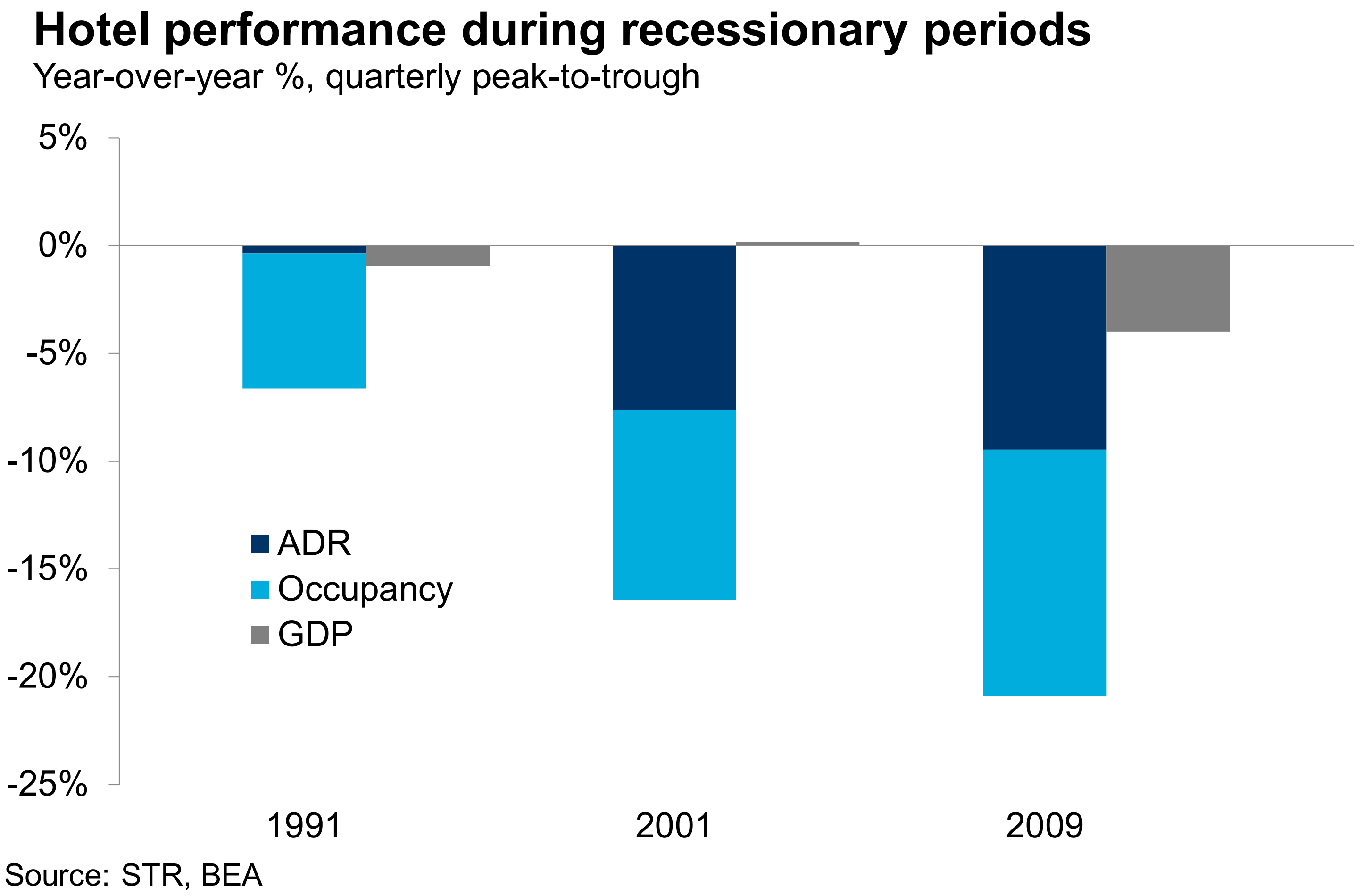
Hotel demand during recessionary periods
Year-over-year %, quarterly peak-to-trough



Source: STR, BEA

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

Overall performance (choose your own adventure)

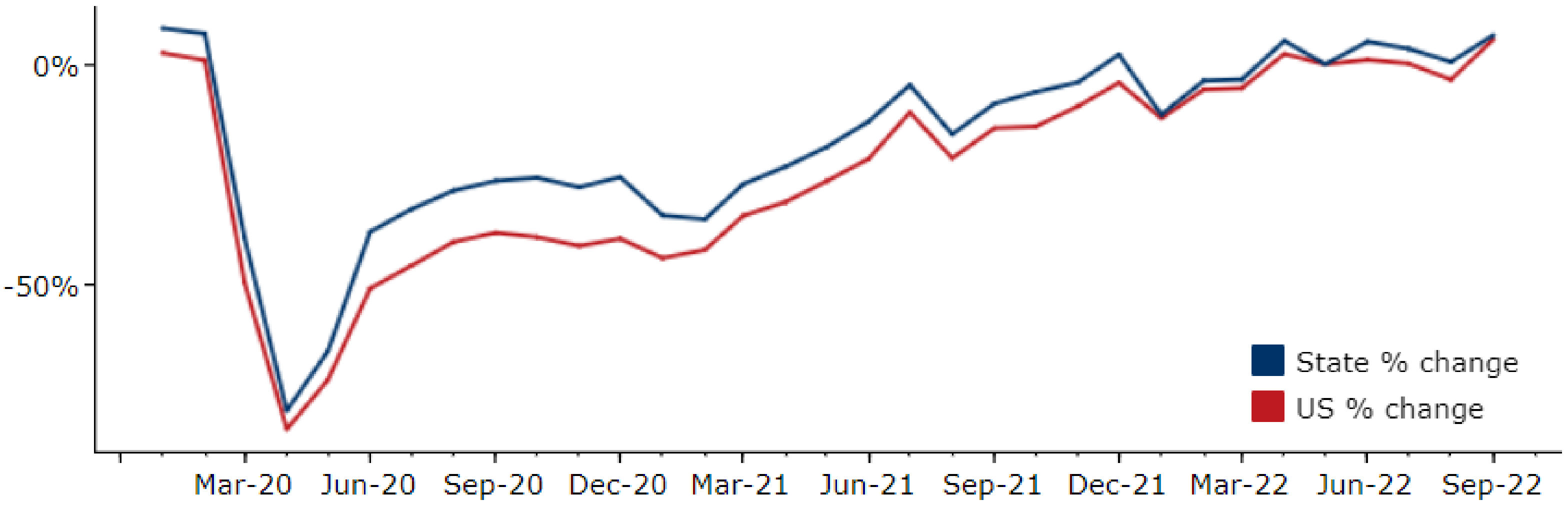


Quite a bit of variation is evident in the GDP-hotel room demand relationship

North Carolina Travel Spending outpacing US – averaging about 5-6% above 2019 levels

Travel Spending (% change vs 2019)

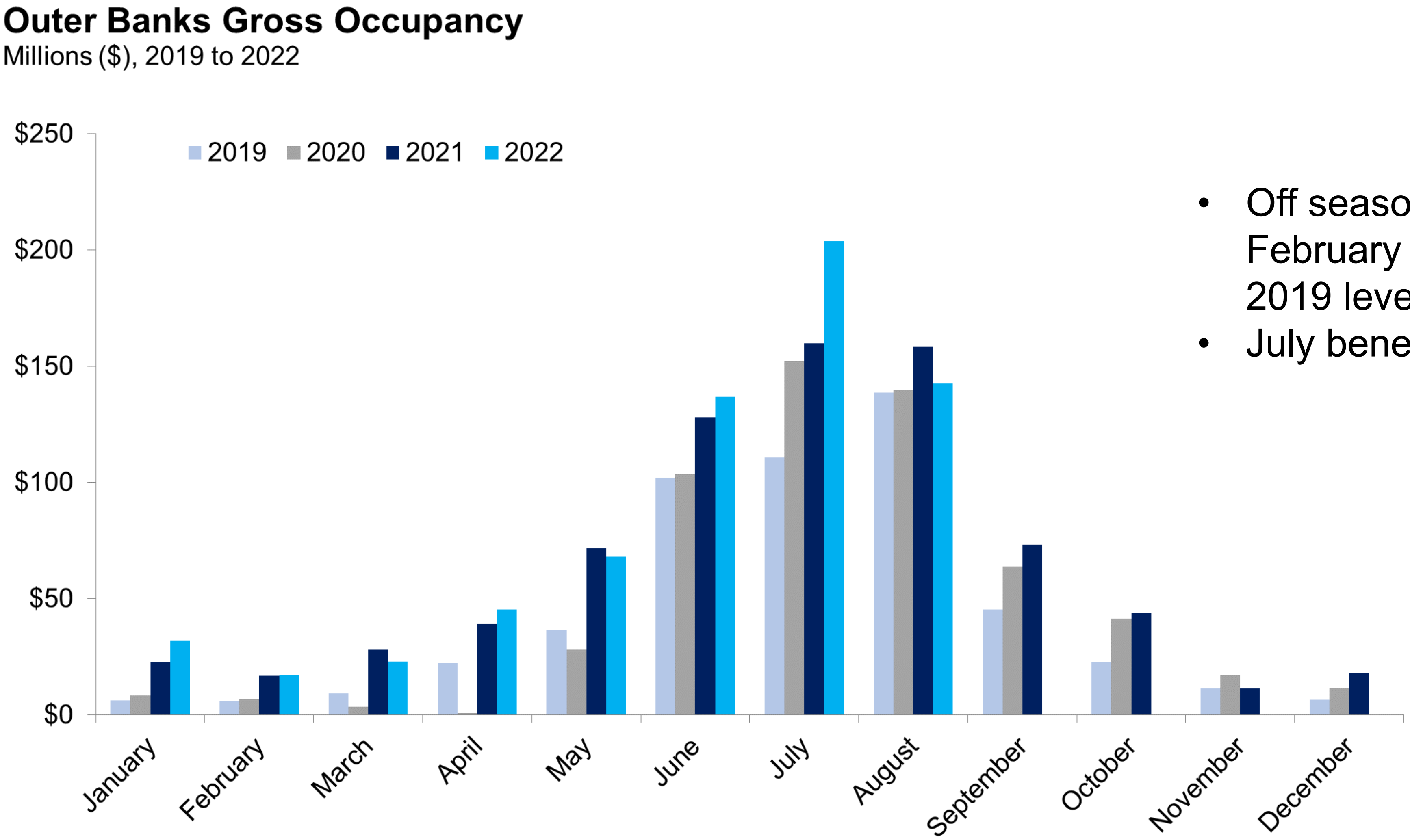
North Carolina vs U.S. total



North Carolina Travel Spending

	Travel Spending	vs. 2019	Market Growth Index (US = 100)*
Oct-21	$2.3B	-6.1%	109
Nov-21	$2.2B	-3.9%	106
Dec-21	$2.4B	+2.4%	107
Jan-22	$2.0B	-11.3%	101
Feb-22	$2.1B	-3.6%	102
Mar-22	$2.4B	-3.3%	102
Apr-22	$2.6B	+5.5%	103
May-22	$2.5B	+0.2%	100
Jun-22	$2.7B	+5.3%	104
Jul-22	$2.7B	+3.7%	103
Aug-22	$2.6B	+0.7%	104
Sep-22	$2.6B	+6.8%	101

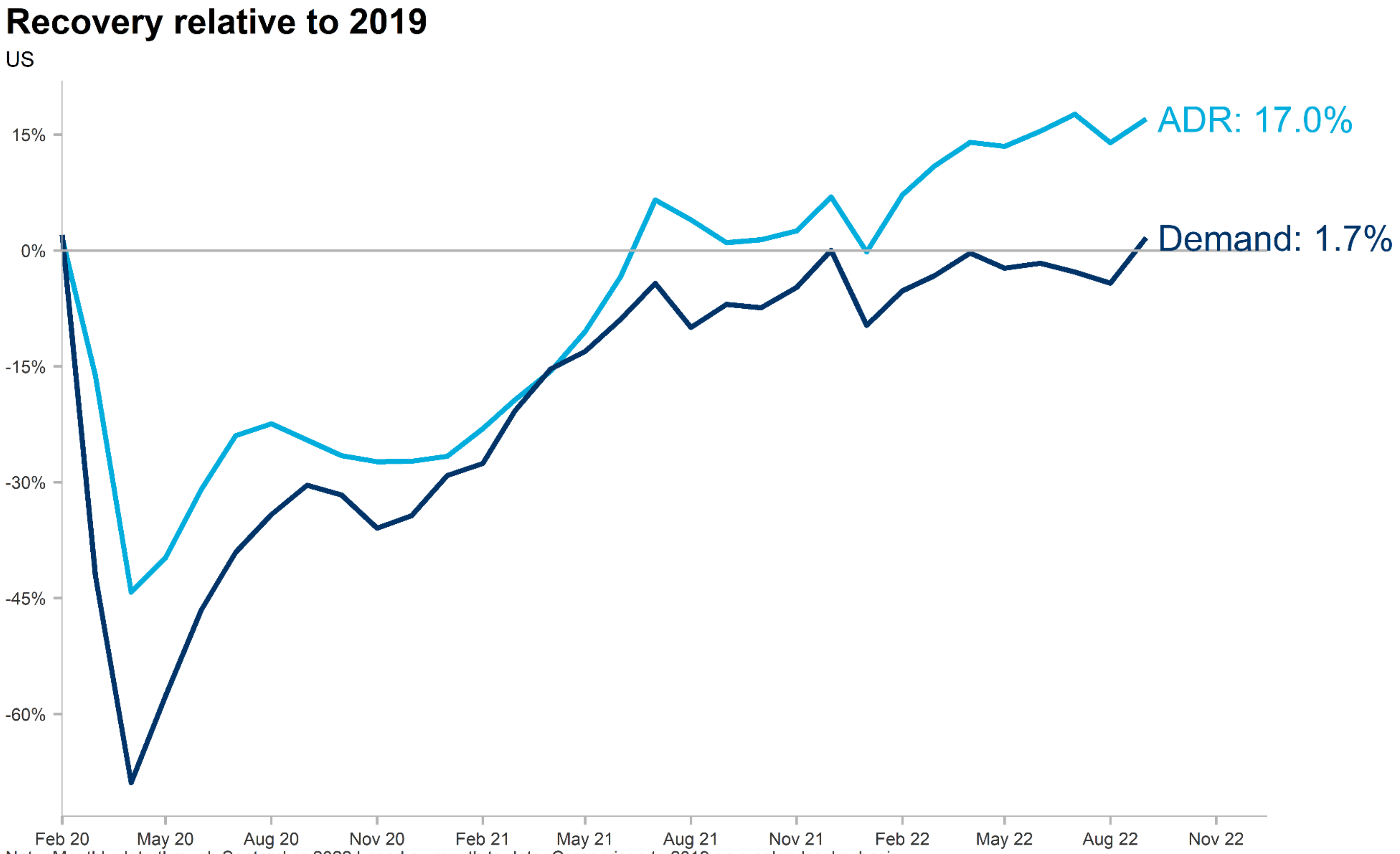
OBX gross revenues holding above 2019 levels



Source: OBX Visitor Bureau, Tourism Economics

- Off season revenues for January & February were many multiples above 2019 levels
- July benefitted from calendar shift

National Hotel demand was stronger than expected in September



Note: Monthly data through September 2022 based on month to date. Comparison to 2019 on a calendar day basis.
Source: STR

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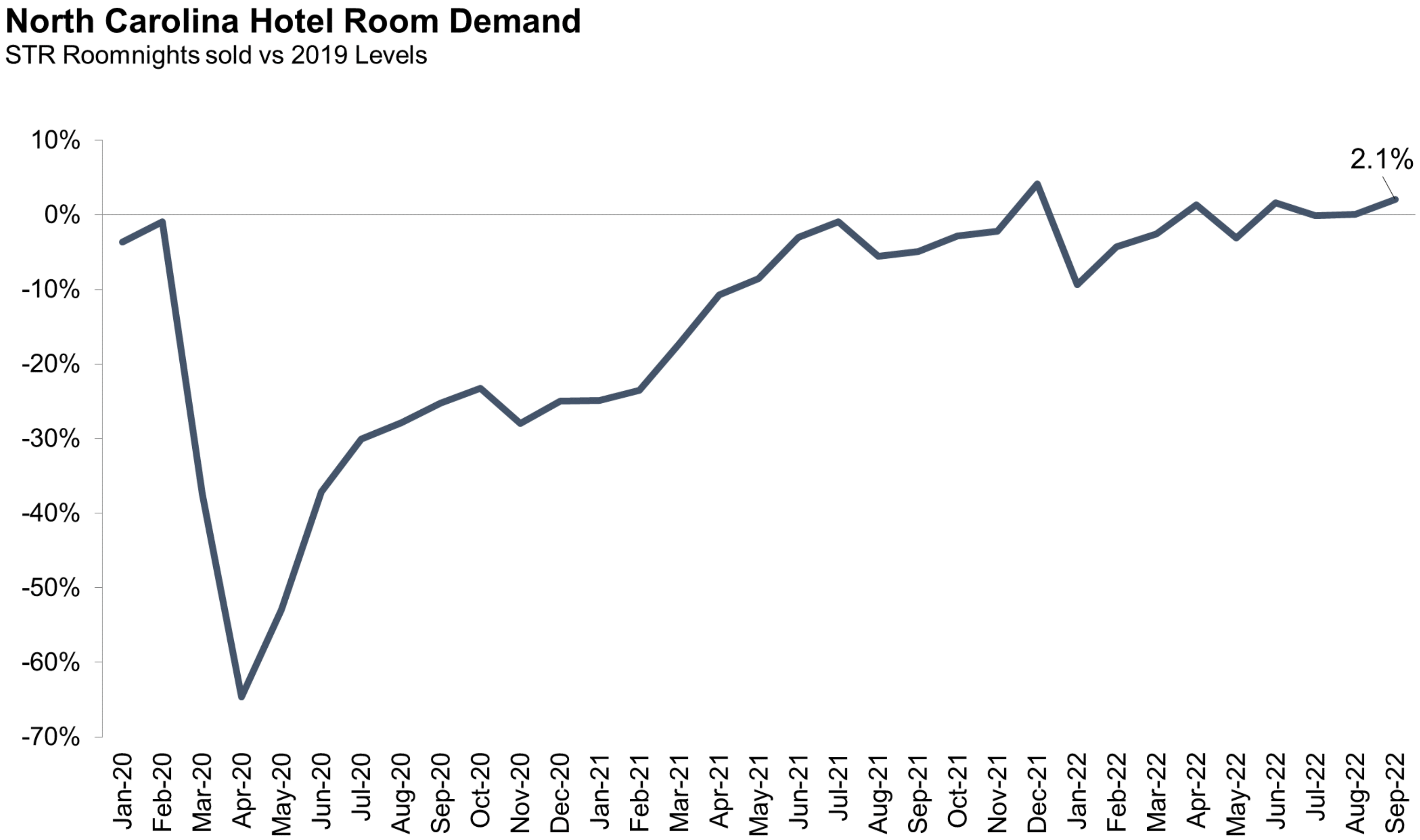
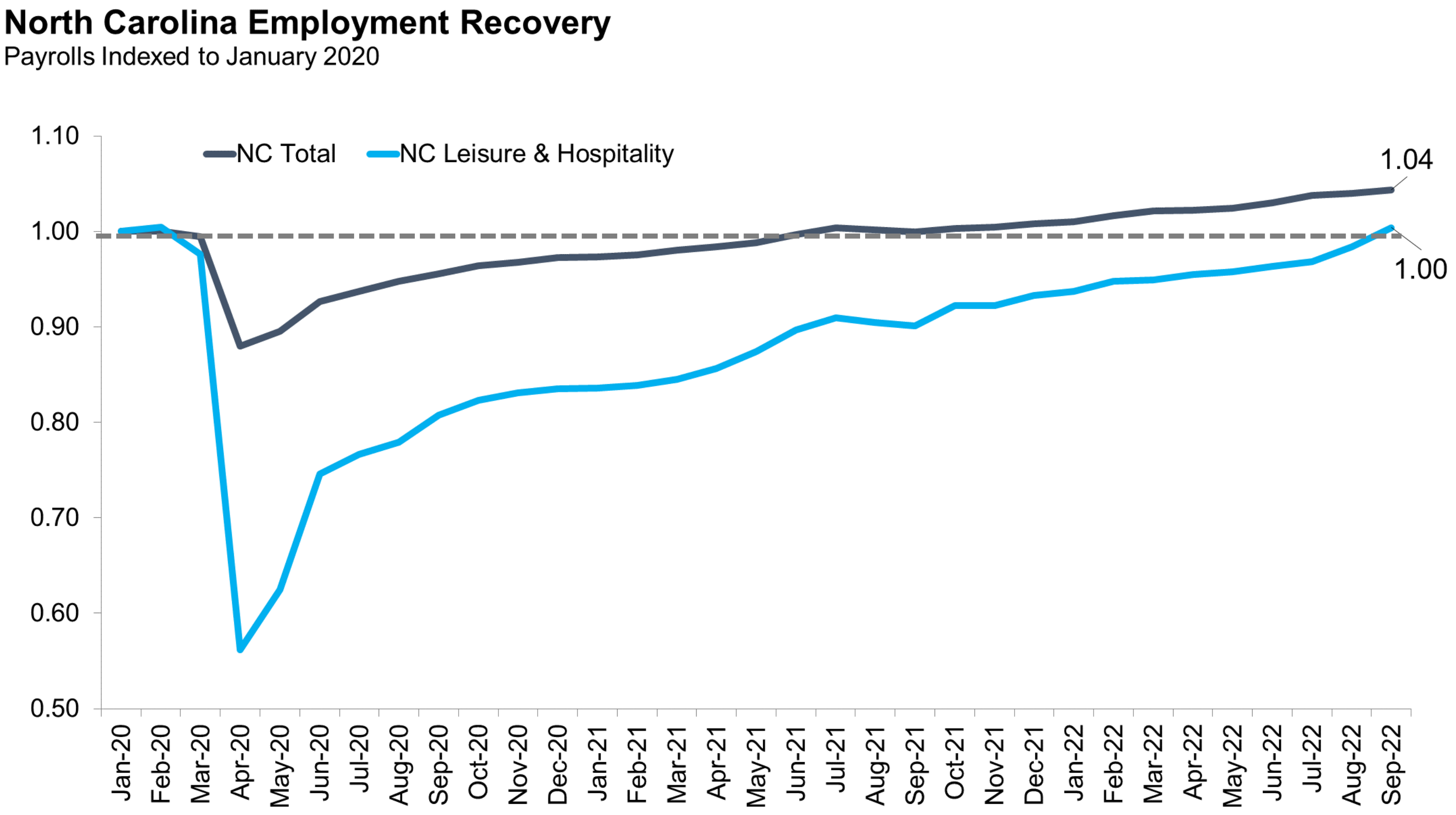
North Carolina Hotel Room Demand Gained in September



Source: STR, Tourism Economics

NC Labor Market steadily adding Leisure & Hospitality jobs



Source: BLS, Tourism Economics

Leisure & Hospitality jobs crossed the pre-pandemic threshold for the first time in September 2022

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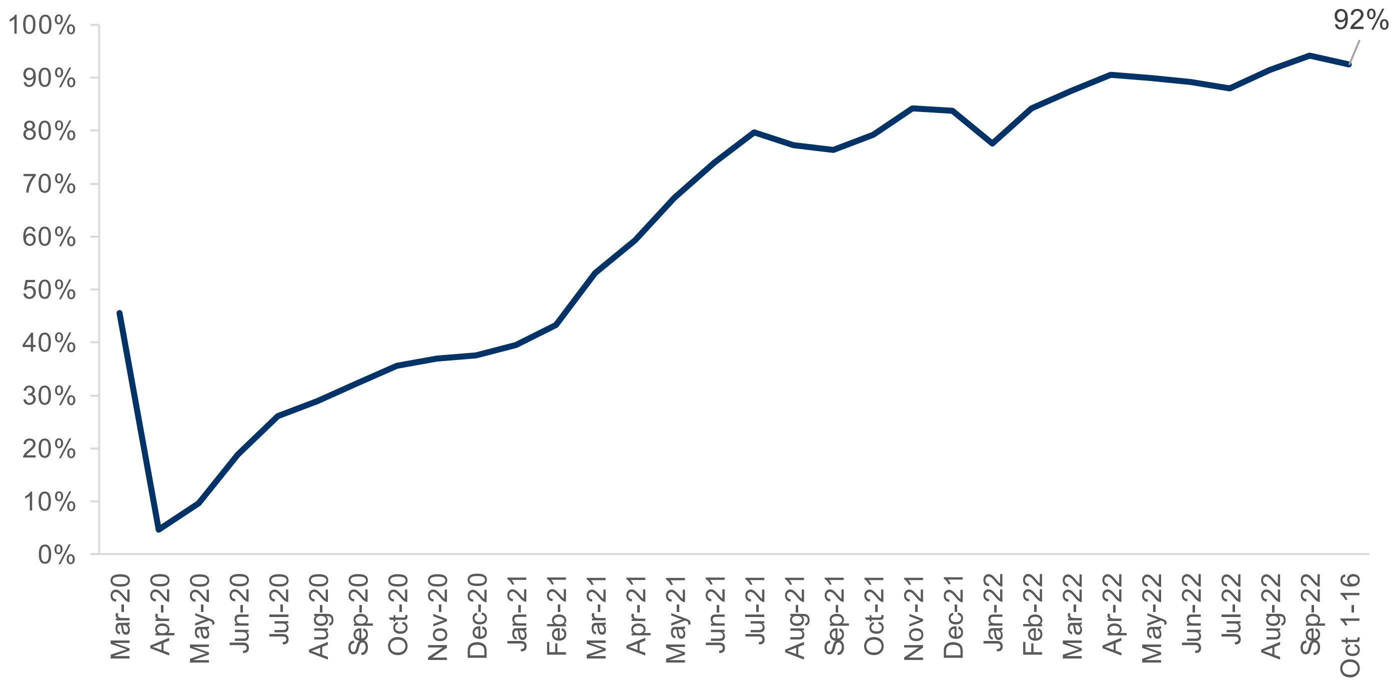
Air transportation continues to make gains

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.

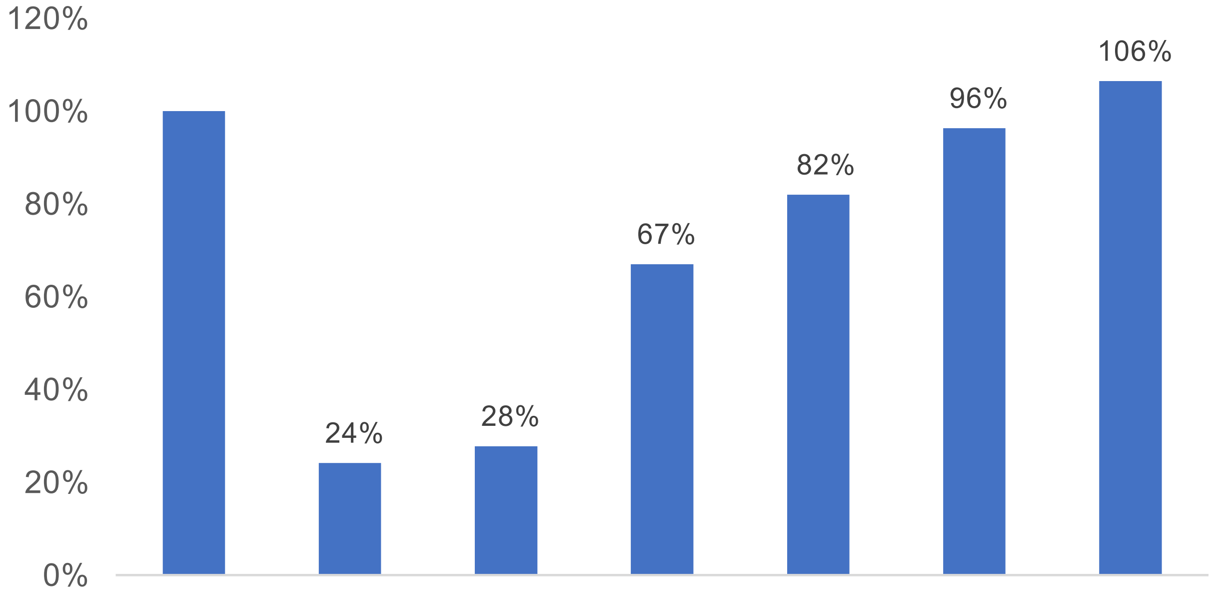
I think everybody is looking for cracks. And what I'd say is we haven't seen any cracks in our demand set yet."

Delta earnings call, Sept 14

International travel represents a headwind

International inbound forecast

% of 2019

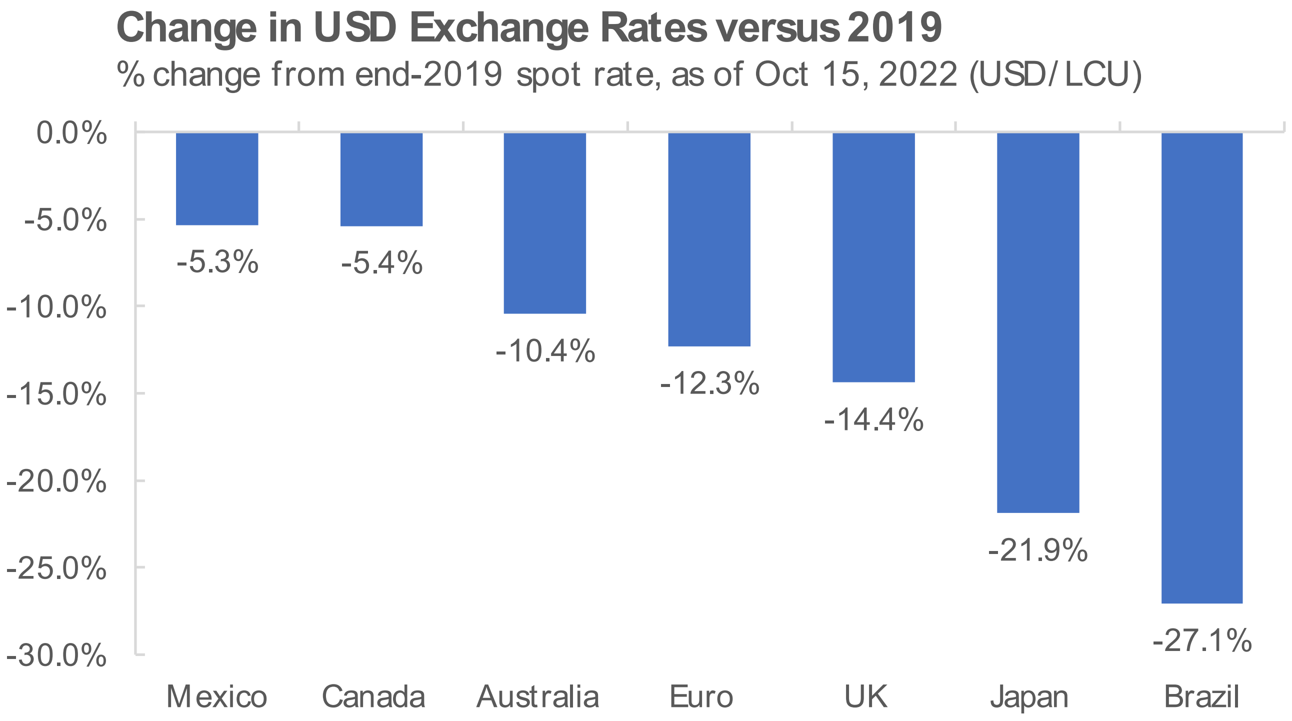


Source: Tourism Economics

August overseas inbound = 2.6 mn
66% of Aug 2019 visits

June outbound = 4.5 mn
75% of June 2019 departures

And traveling to the US has gotten more expensive



Sources: Tourism Economics, Haver
Note: Negative change implies depreciation of local currency (LCU) versus USD.

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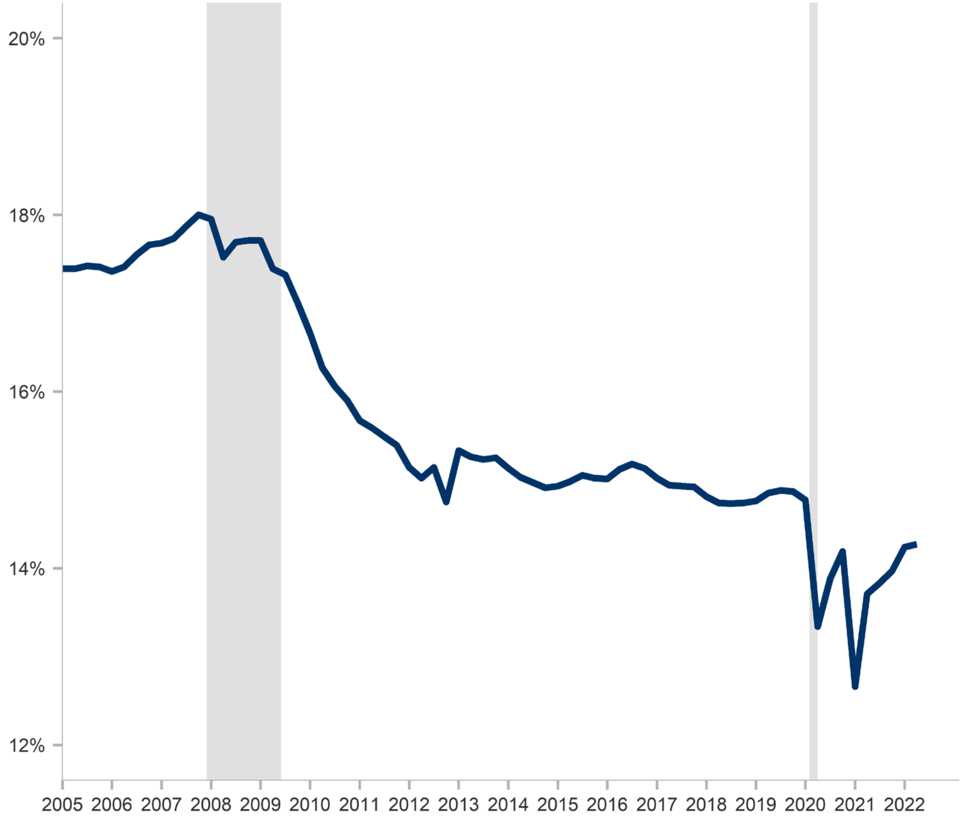
Household balance sheets remain strong

Household debt service

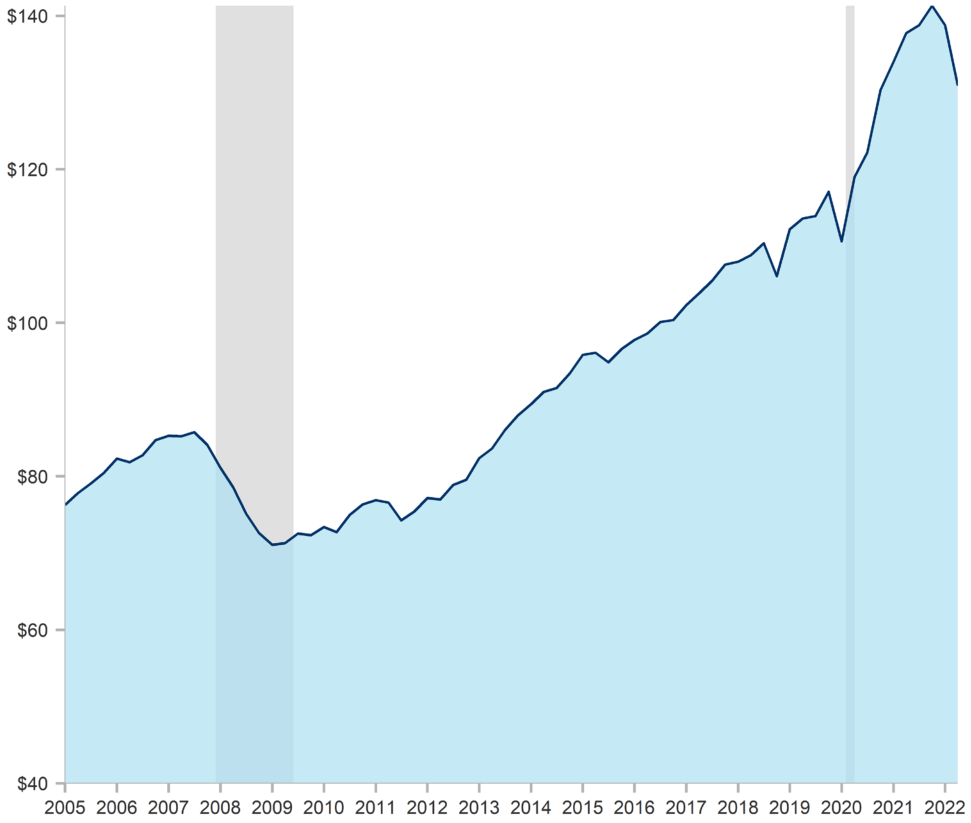
Financial obligations as ratio to disposable income



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

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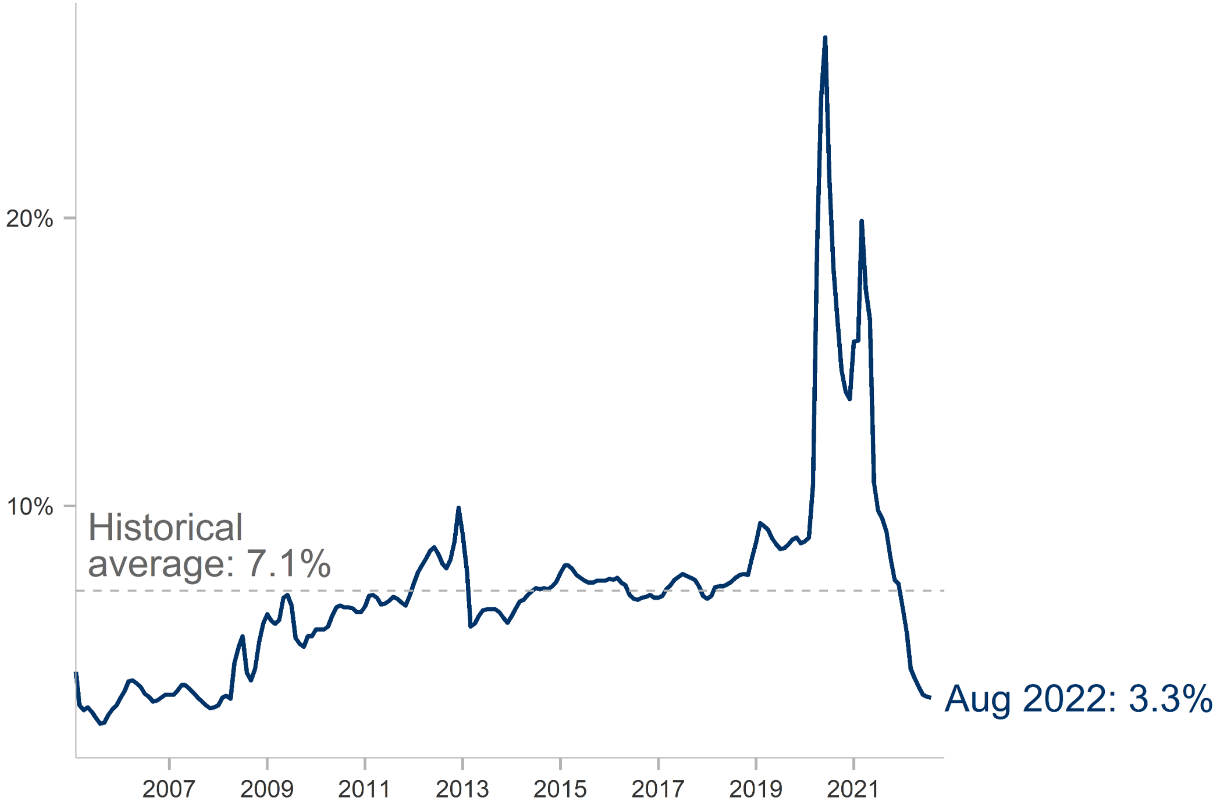
The savings war chest is being tapped

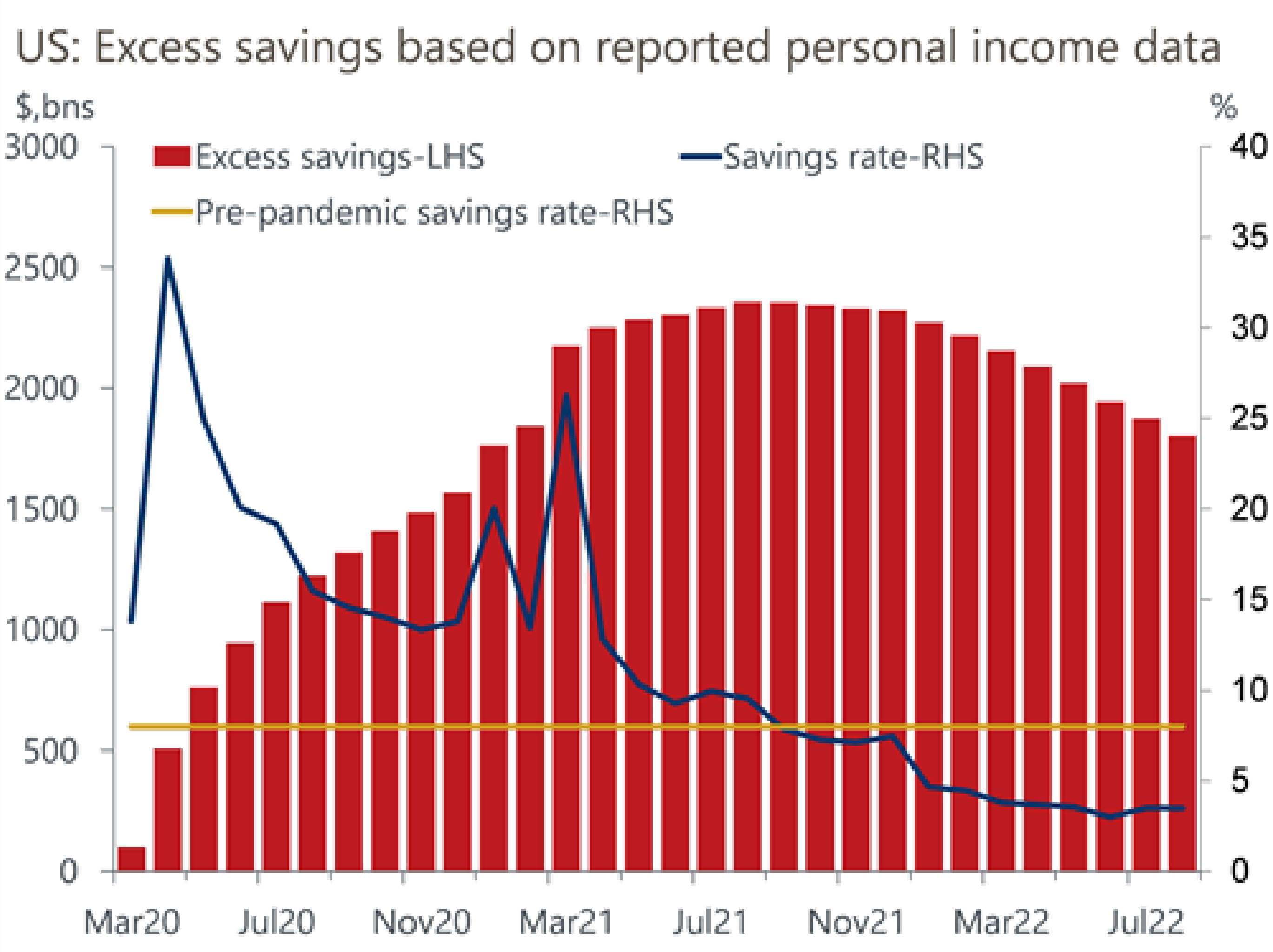
Personal savings rate

% of income



Note: Data is seasonally adjusted, three-month average. Source: Bureau of Economic Analysis

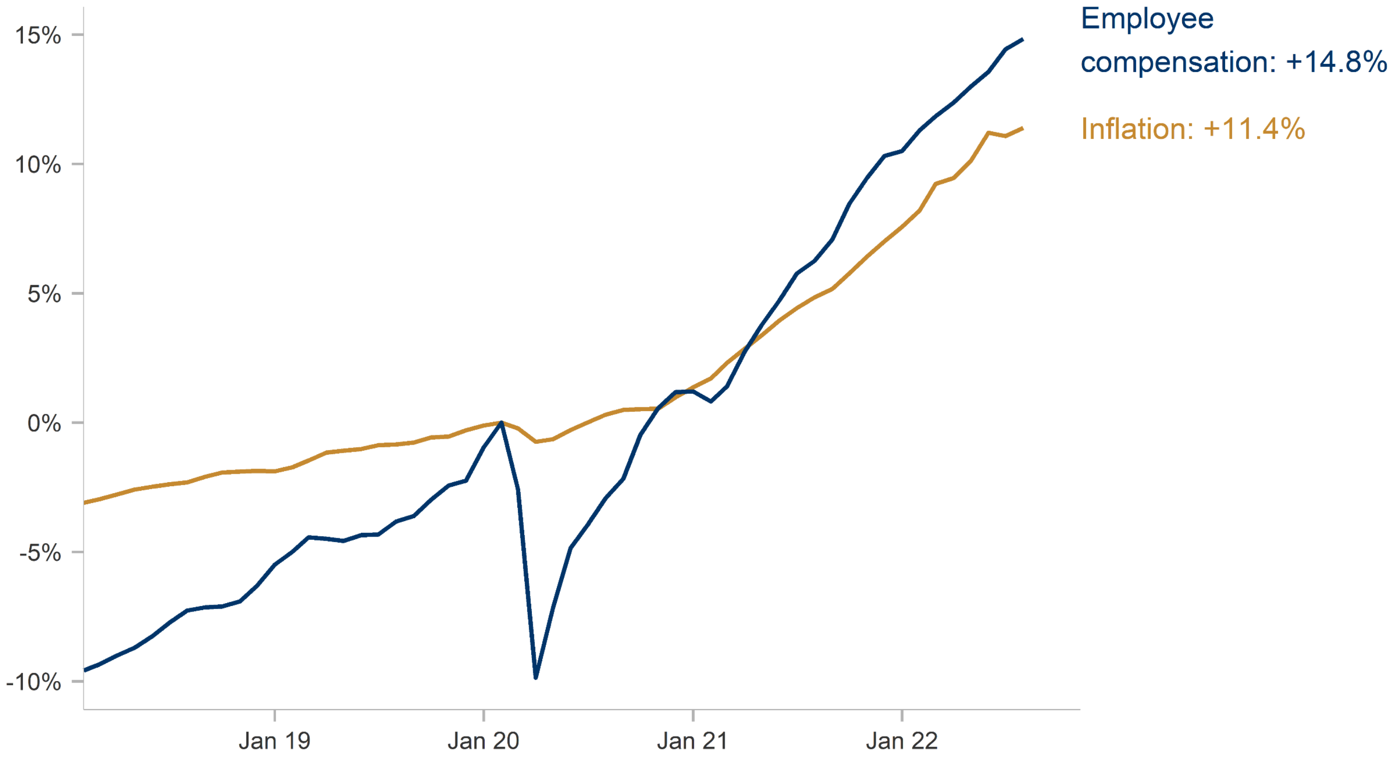
Excess savings remain, but are drawing down



And wages still ahead of inflation over past 2+ years

Compensation compared to inflation

Growth since February 2020



Note: US nominal employee compensation (wages, salaries, insurance, etc.) in aggregate. Inflation measured using PCE deflator. Data is seasonally adjusted, through August 2022.
Source: Bureau of Economic Analysis

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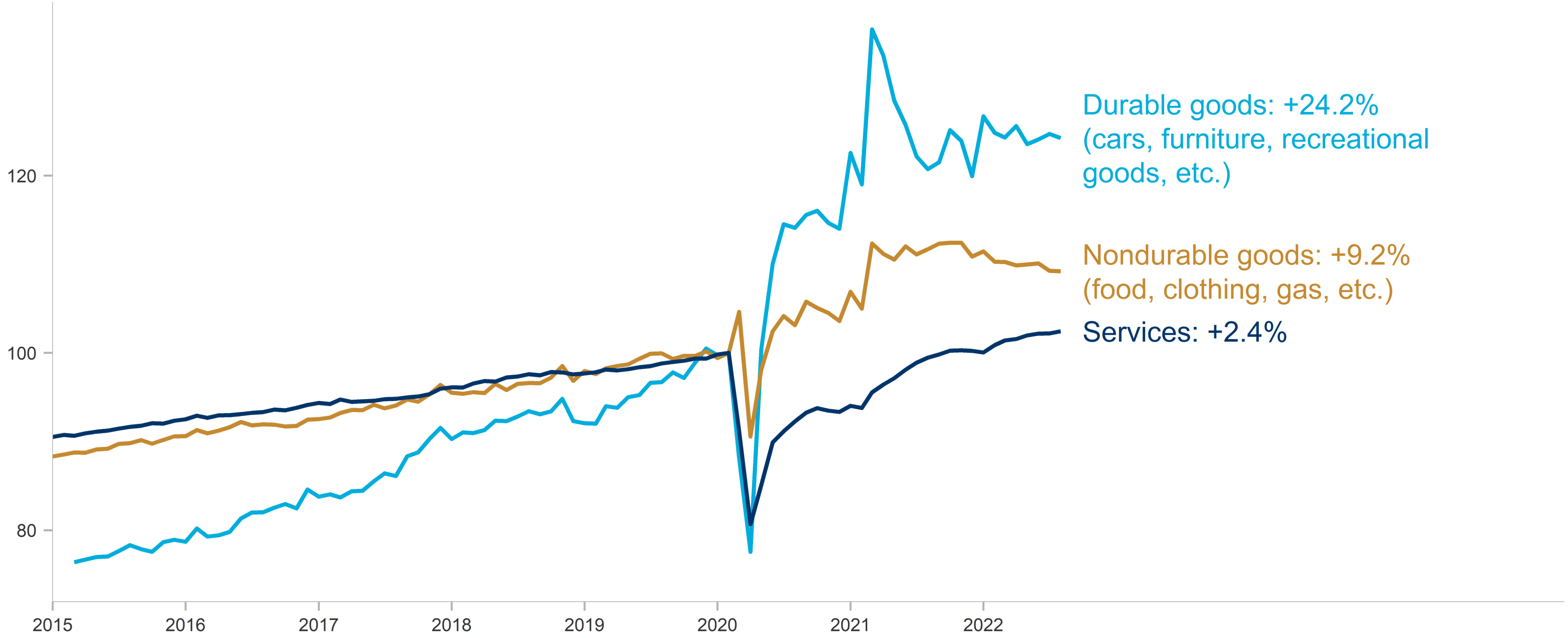
Spending continues to rise… especially for services

Consumer spending, real

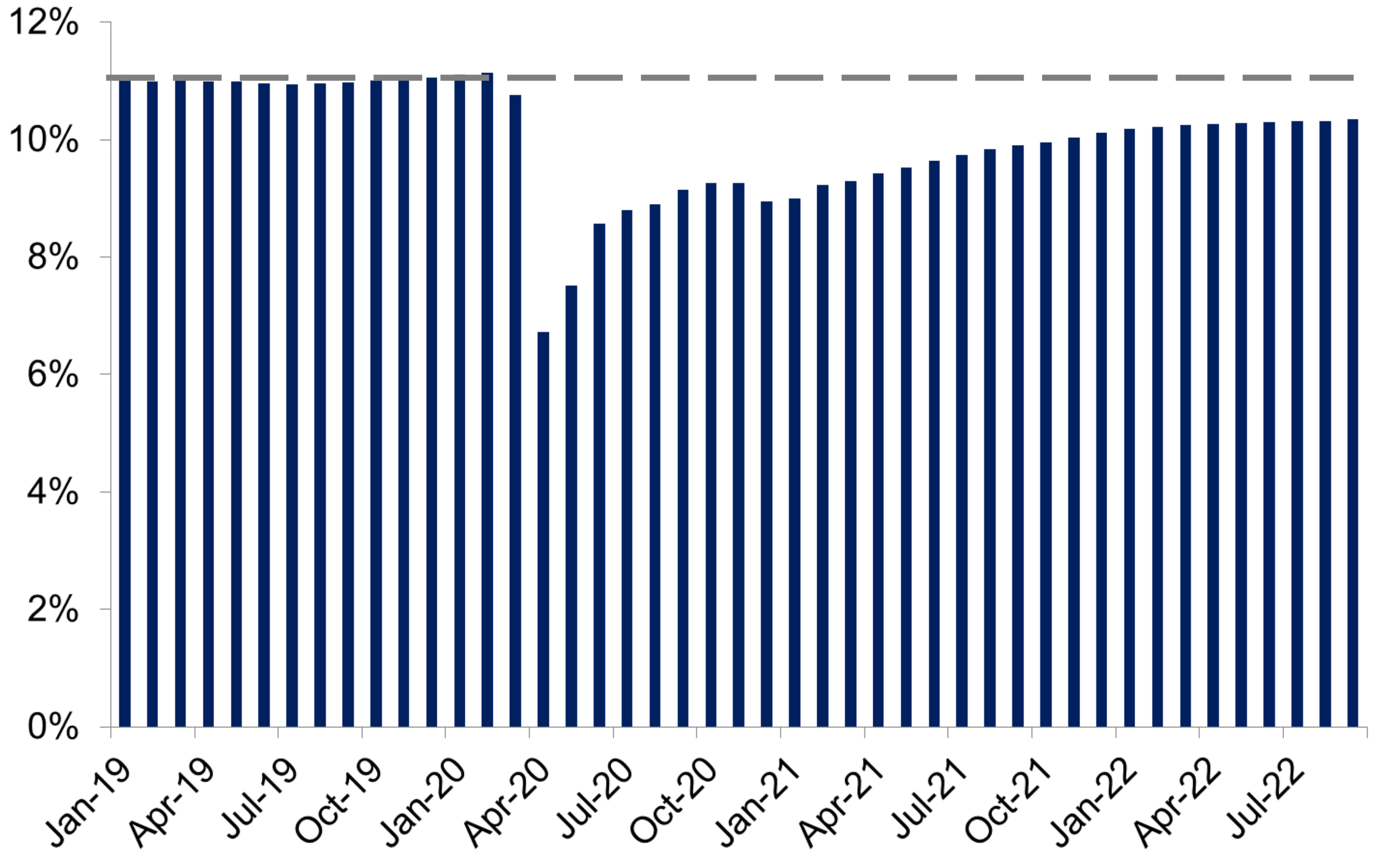
Index (Feb 2020=100), increase since February 2020 in labels



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

Labor market orienting back towards services, reflecting consumer spending

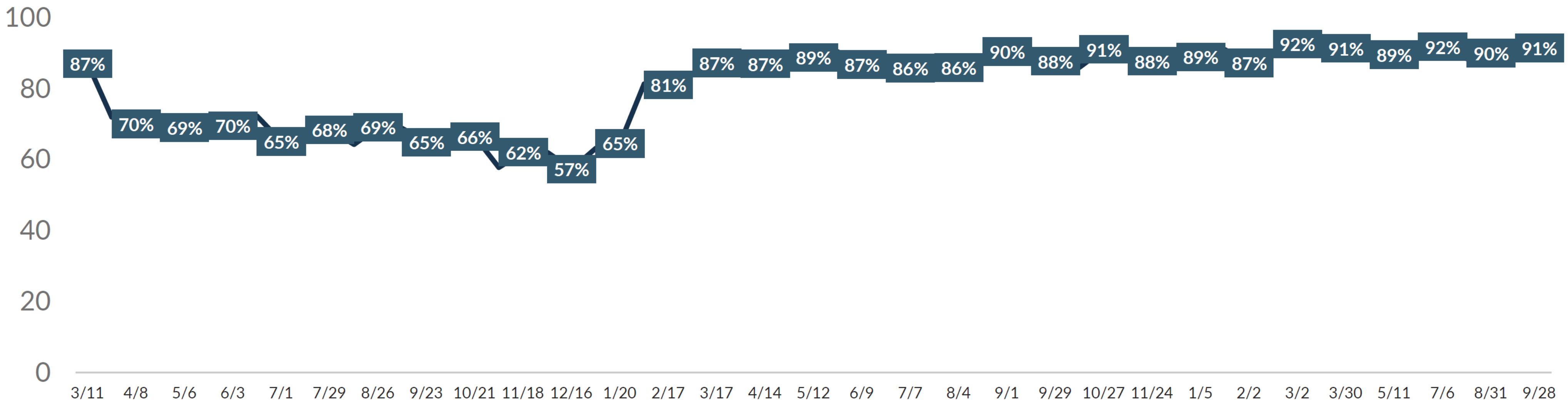
Share of Leisure & Hospitality Jobs
Monthly, percentage of total US Nonfarm Payrolls



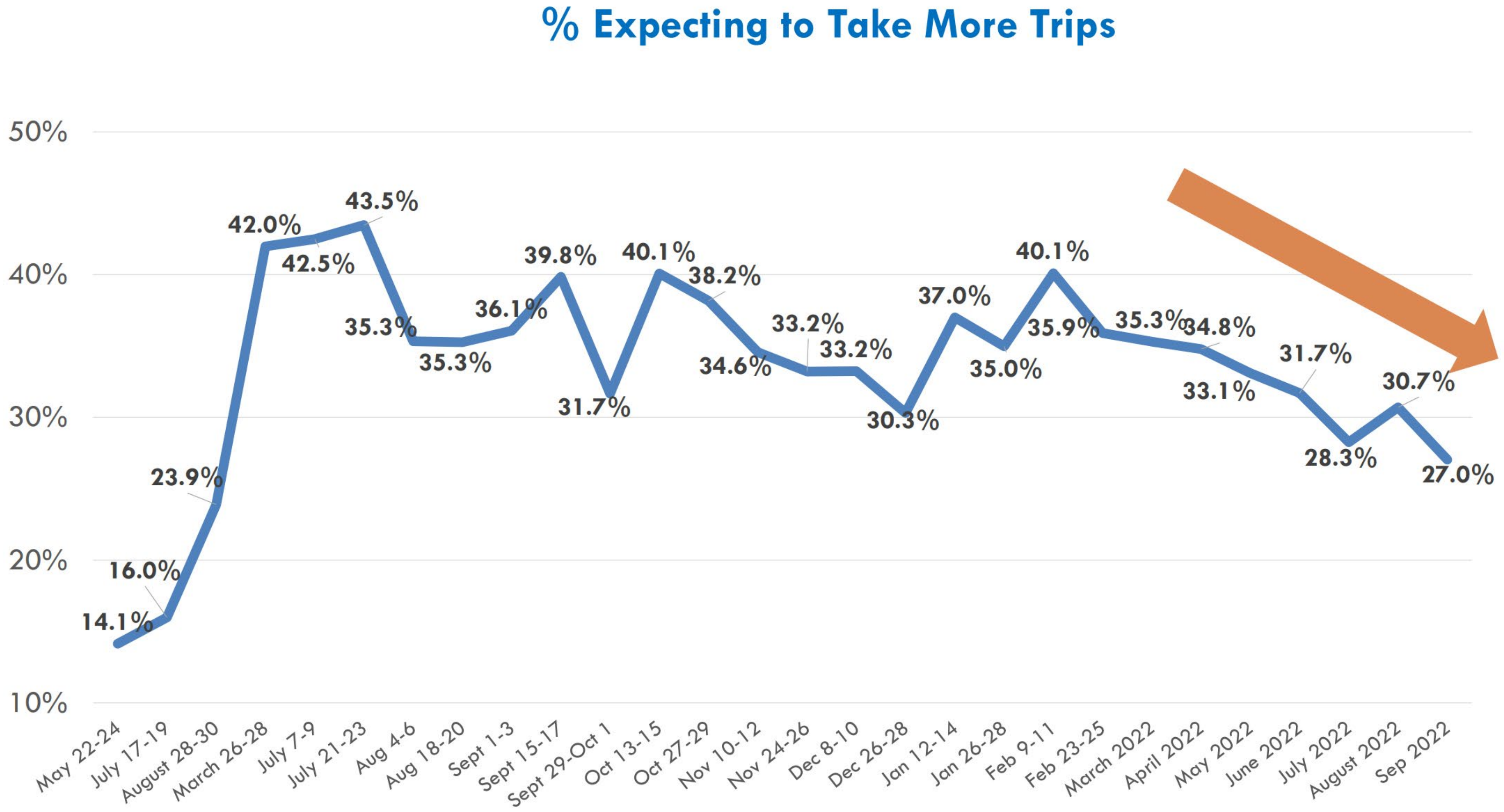
Source: BLS, Tourism Economics

And overall intentions to travel remain elevated

Travelers with Travel Plans in the Next Six Months Comparison



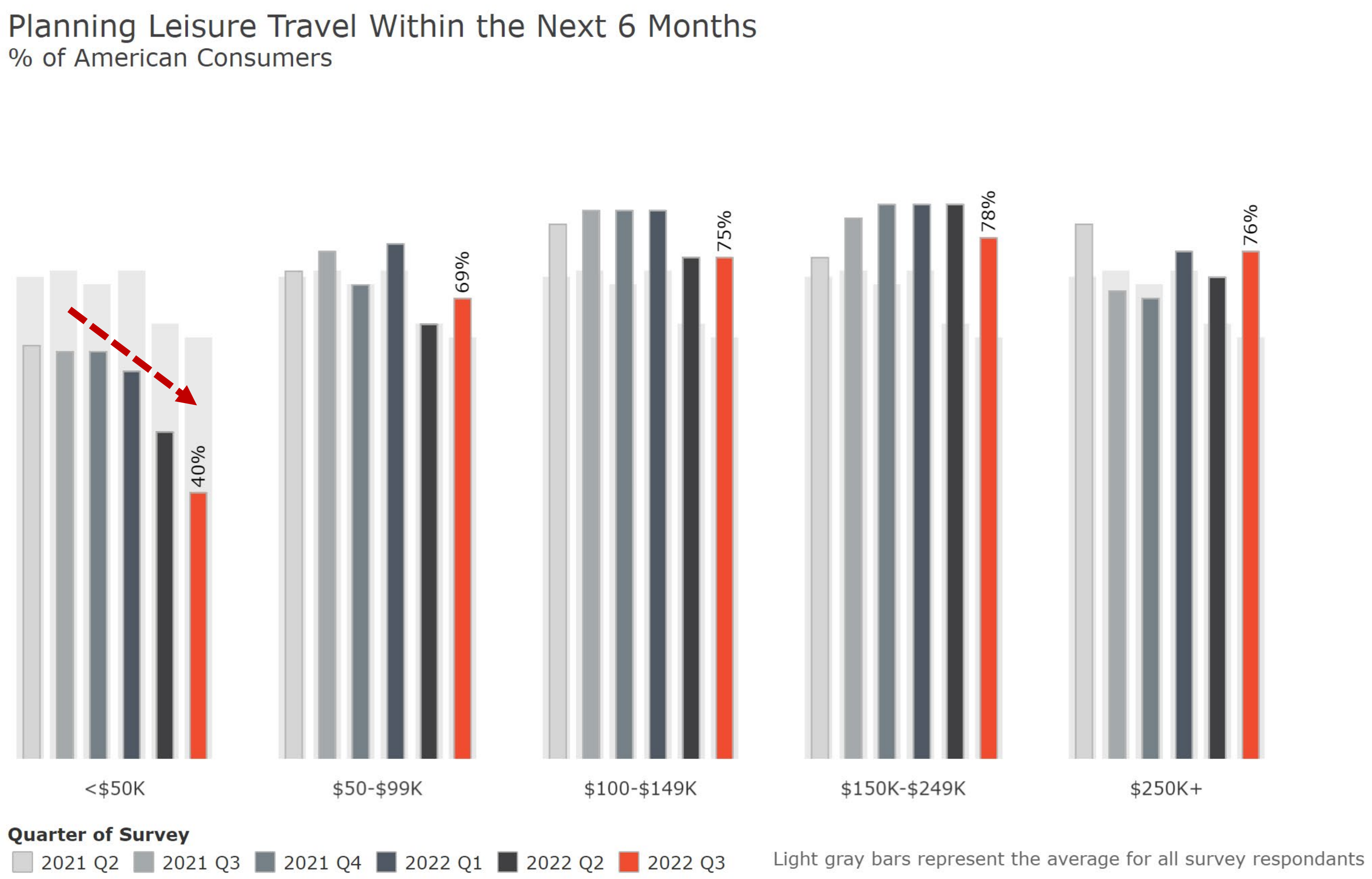
A drop-off among those expecting to travel more



Question: In the NEXT 12 MONTHS, do you expect to travel more or less for leisure than you did in the most recent 12-month period? (Select one)

(Base: All respondents, 1,200+ completed surveys each wave in 2021. 4,000+ completed surveys each wave in 2022)

Why? Slippage evident among lower income earners



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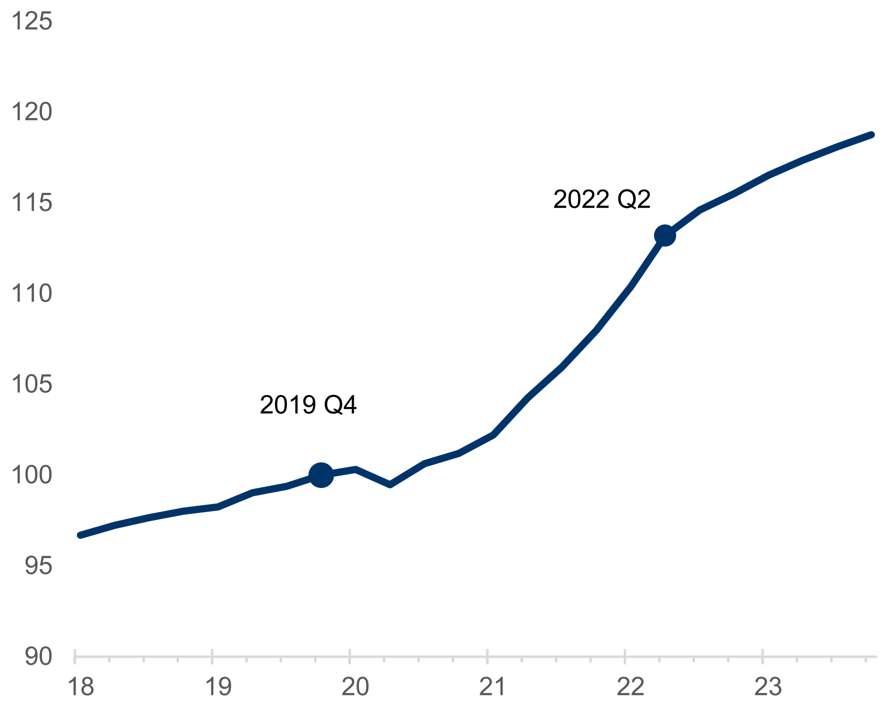
Expect inflation to slow as we proceed through next year

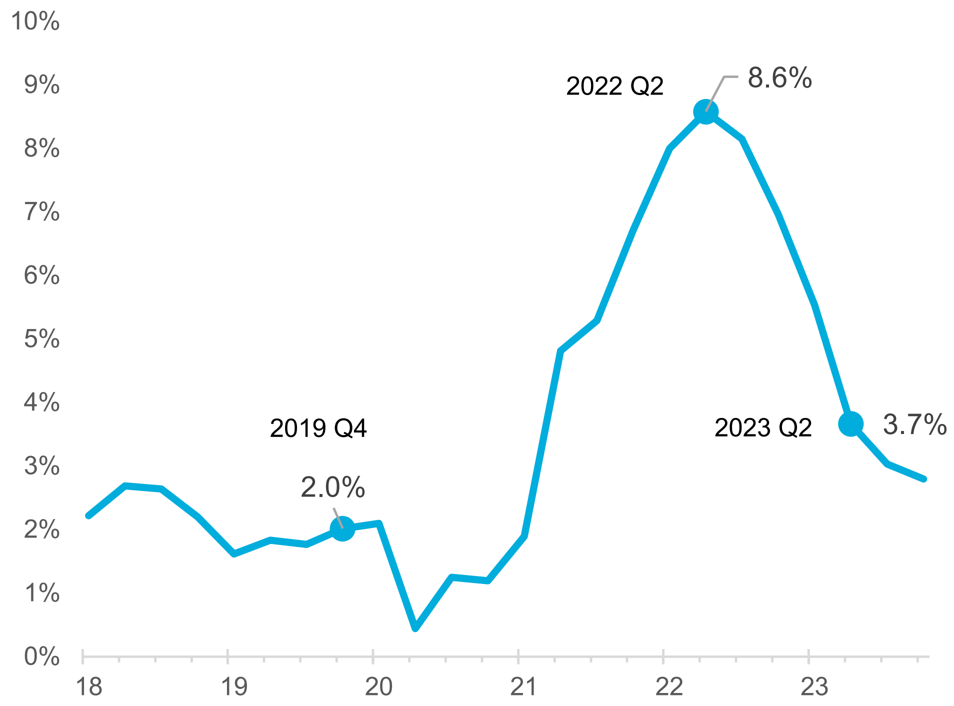
Consumer price index: Level

Index (2019 Q4 = 100)



Note: Seasonally adjusted, quarterly data.
Source: BLS, Oxford Economics

Consumer price index: Year-over-year change



Note: Seasonally adjusted, quarterly data.
Source: BLS, Oxford Economics

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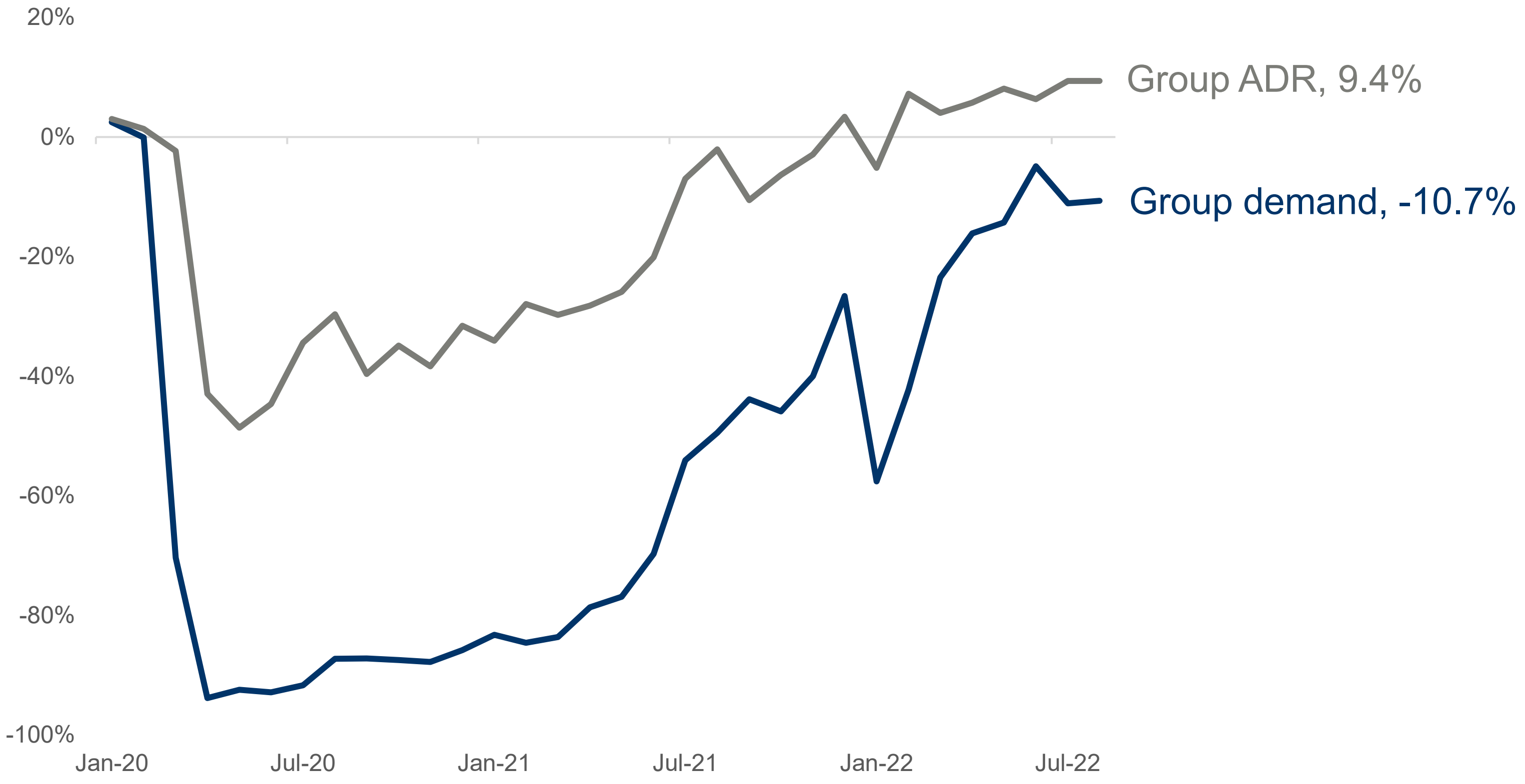
Group demand approaching 2019 levels

Hotel group performance: Top 25 US markets
Relative to 2019



“We are 9-10% off group position system wide for 2023...but our tentative and pipeline are off the charts... Our biggest issue is keeping up with all the demand.”

Hilton earnings call, Oct 26

Note: Data through August 2022. Source: STR

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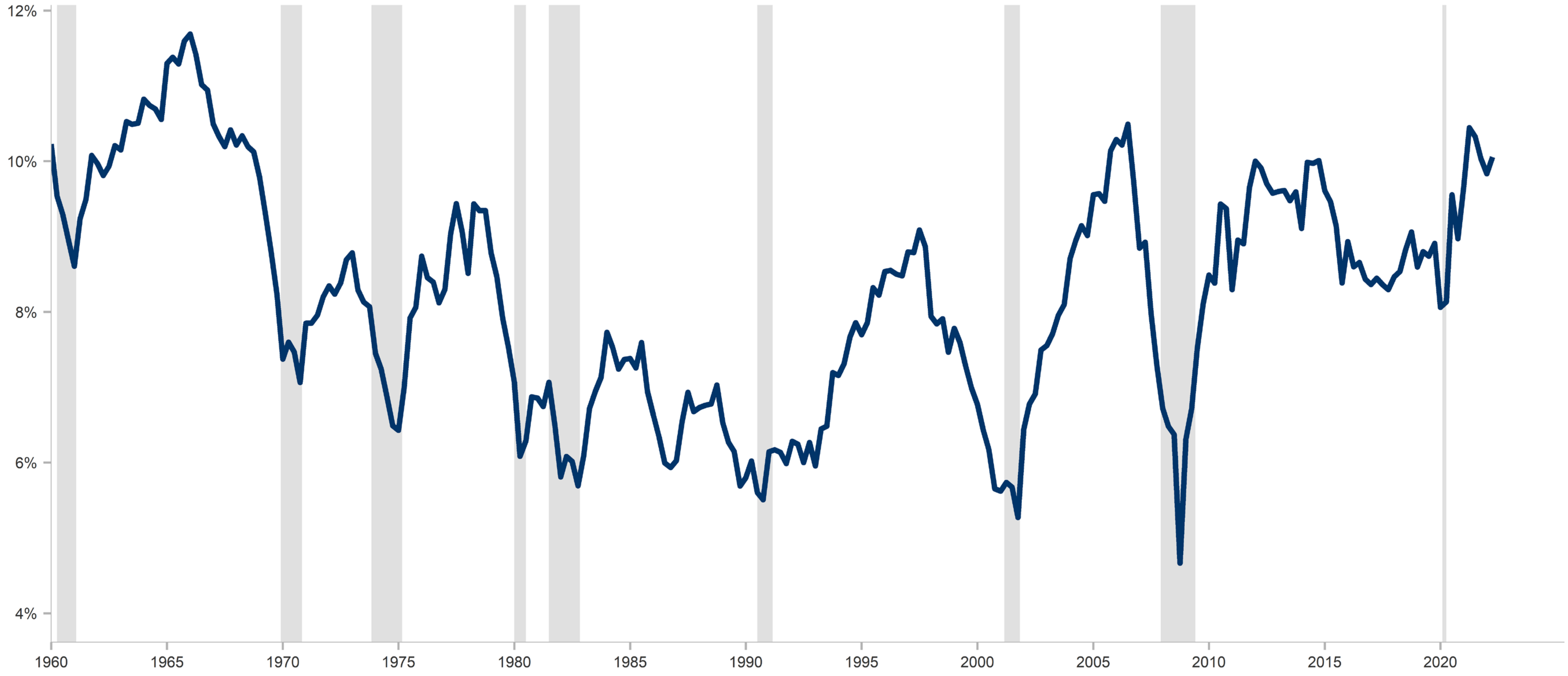
And corporate profit margins remain strong

Corporate profit margins

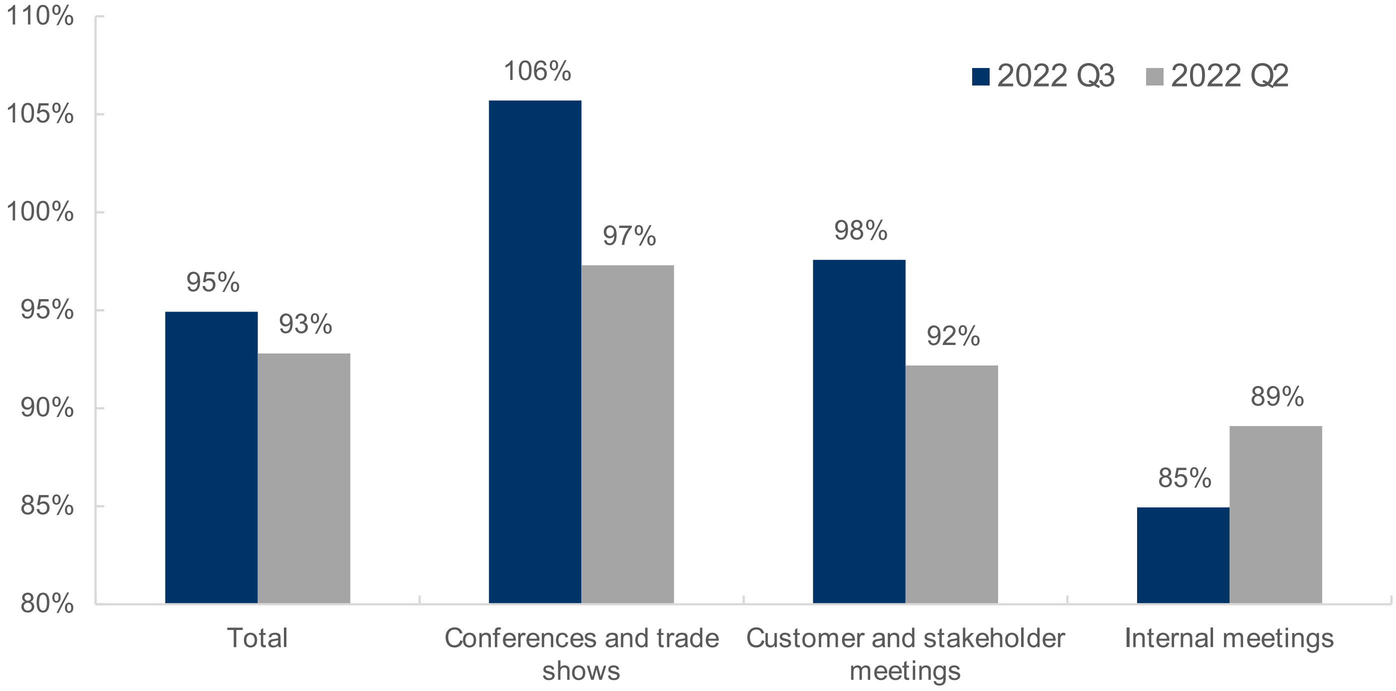
Grey bars indicate recessions



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

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