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ECONOMICS

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# Can Travel Defy Economic Gravity?

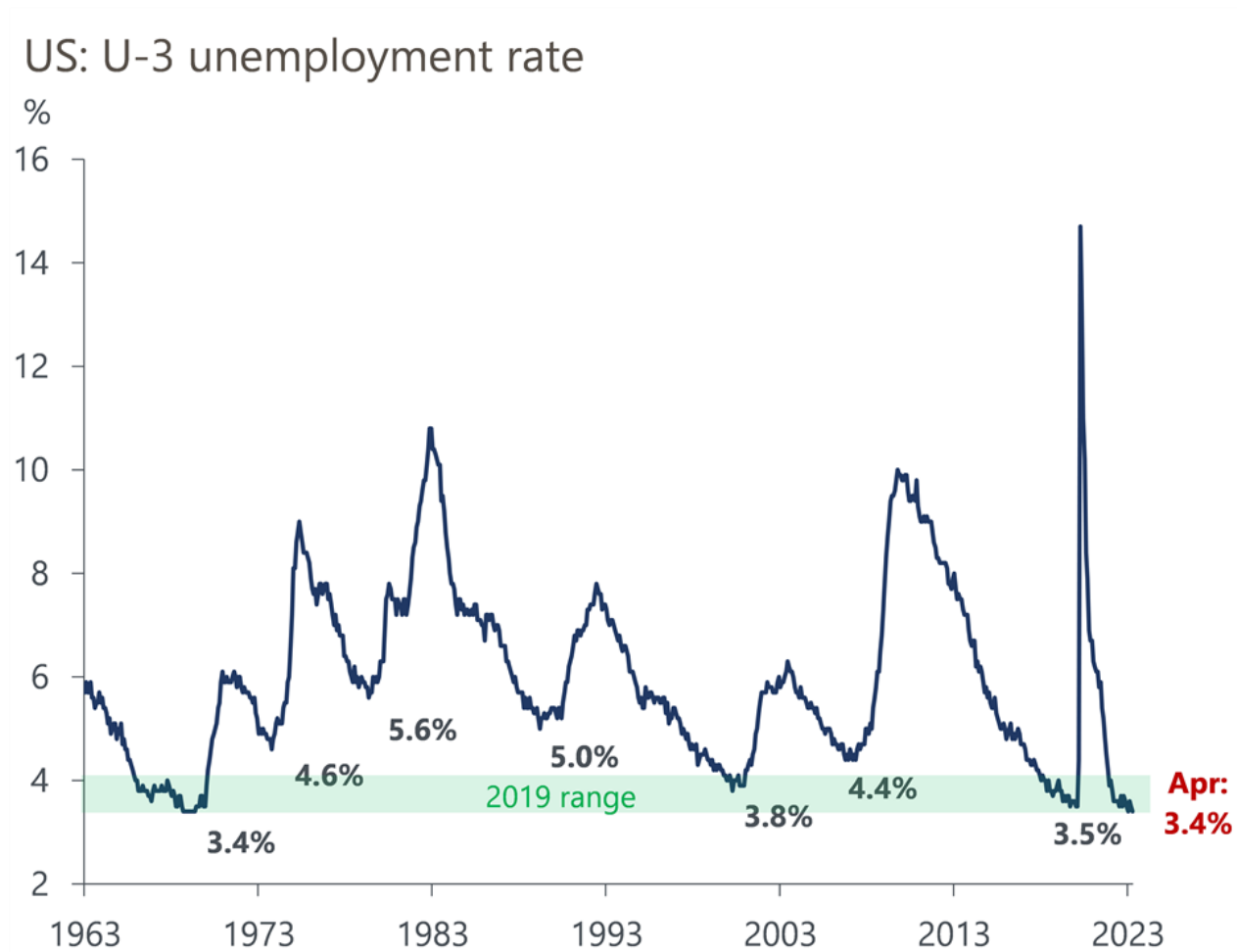
Adam Sacks

President

Tourism Economics

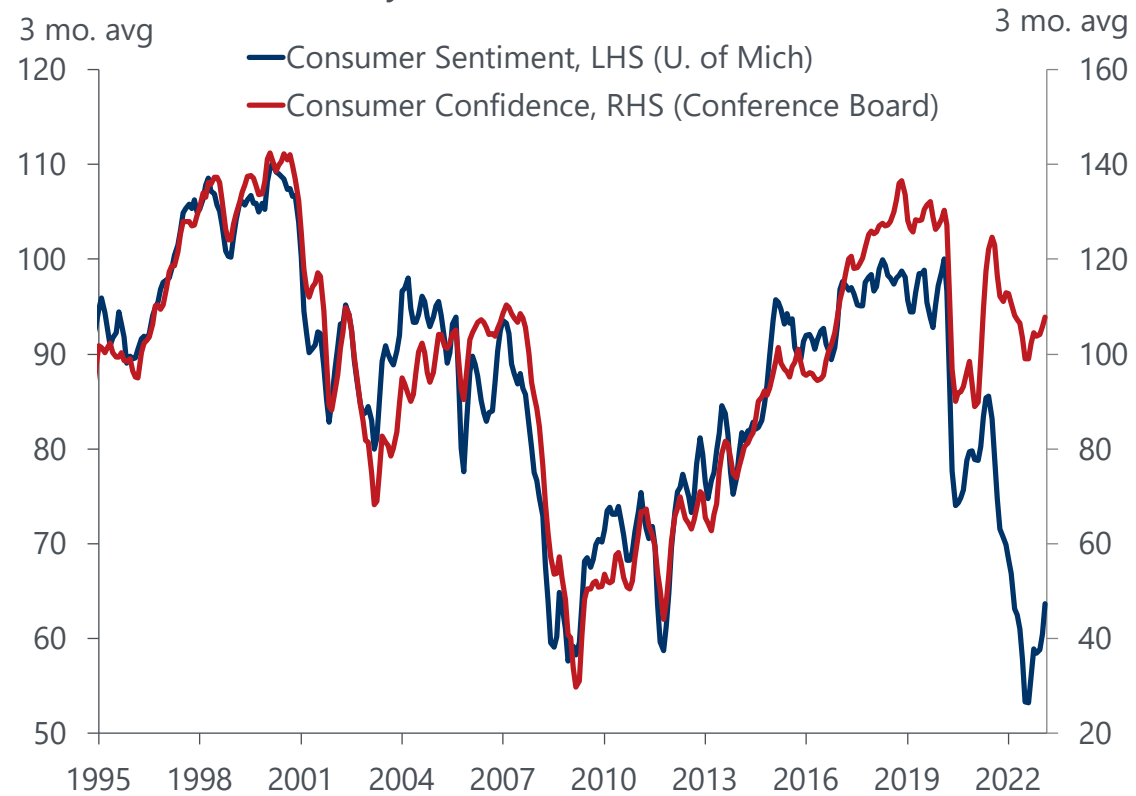
[adam@tourismeconomics.com](mailto:adam@tourismeconomics.com)

# Unemployment rate the lowest in 50 years



# Yet, consumers are feeling uneasy

## US: Consumer surveys

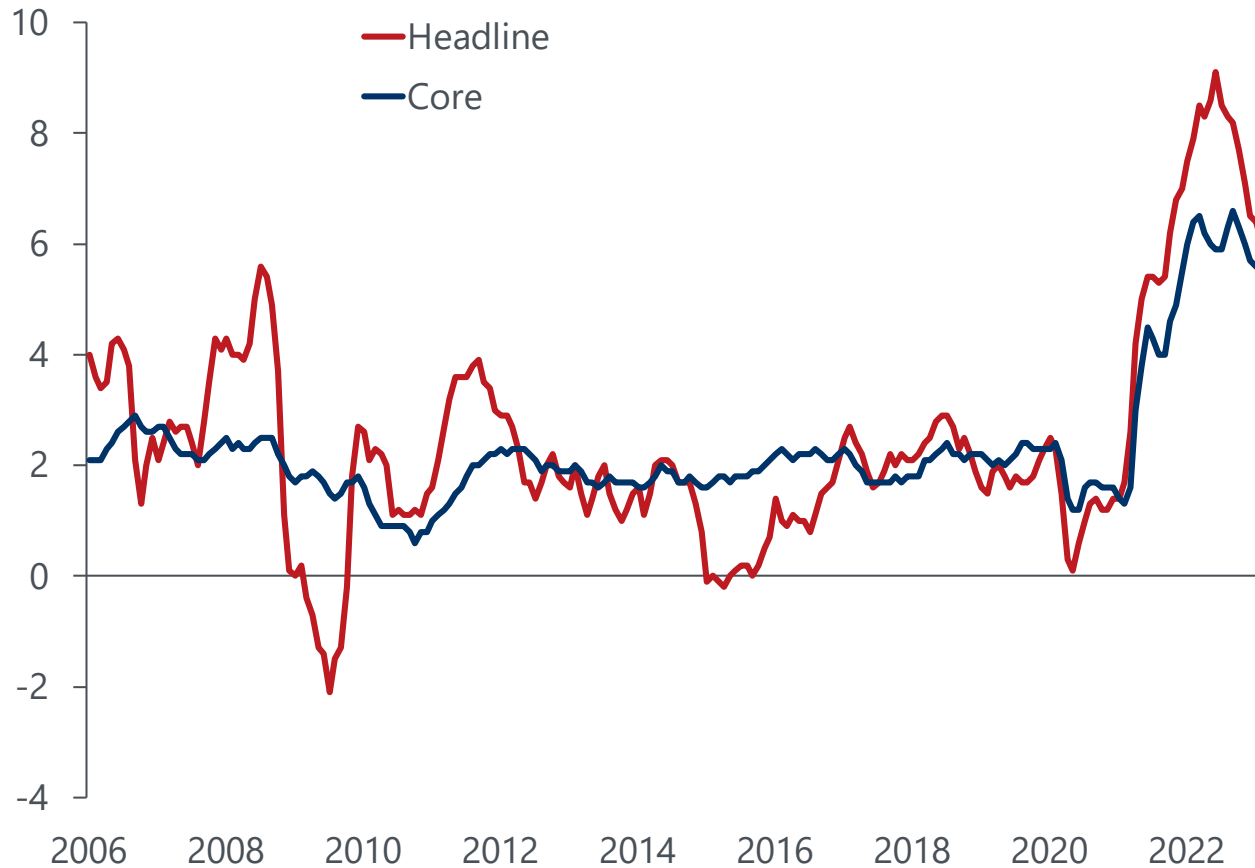


Source: Oxford Economics/Haver Analytics

# The culprit? Inflation

## US: Consumer prices

%, year



Source: Oxford Economics/Haver Analytics

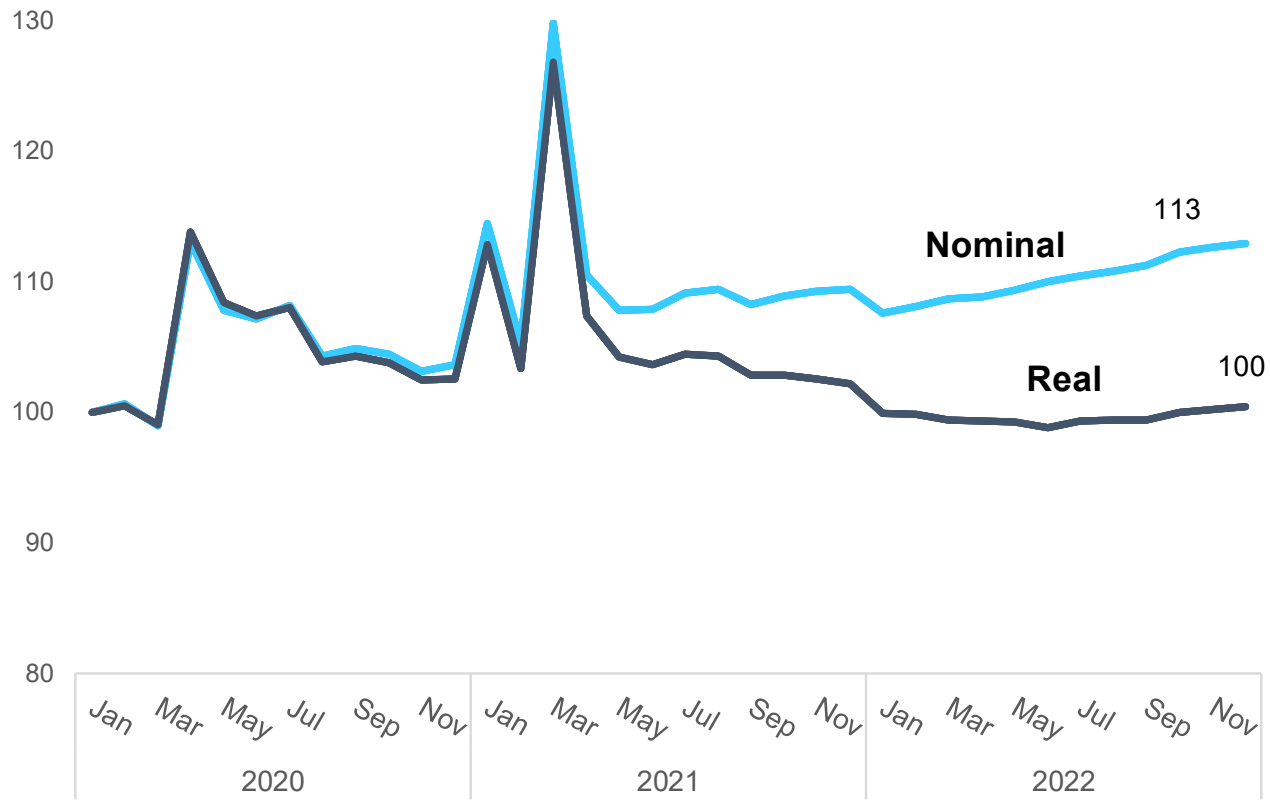
Prices are 6% higher than a year ago

- The average household is spending an additional \$400/month to buy the same goods and services as last year.

# Inflation has taken a bite out of disposable income

## Personal income

January 2020 = 100

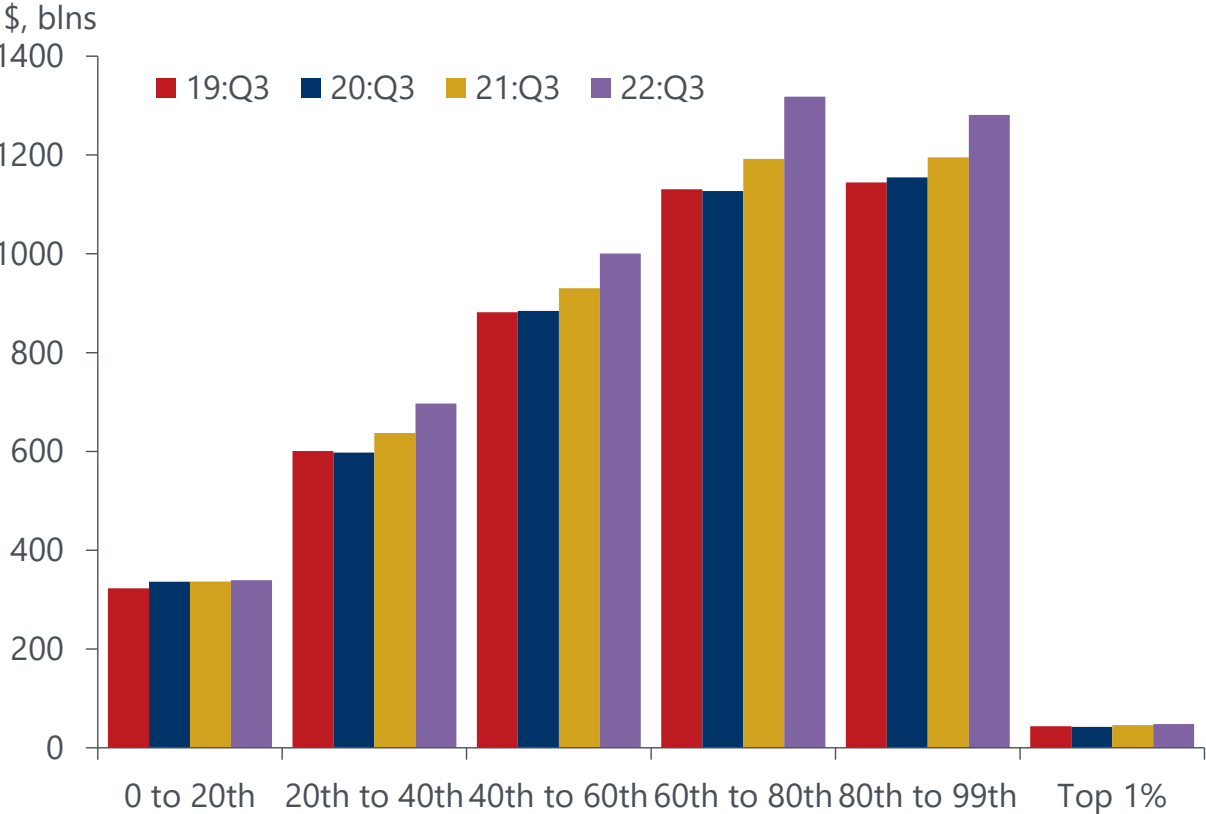


Note: Disposable personal income, seasonally adjusted

Source: BEA; FRED

# And households are taking on some debt

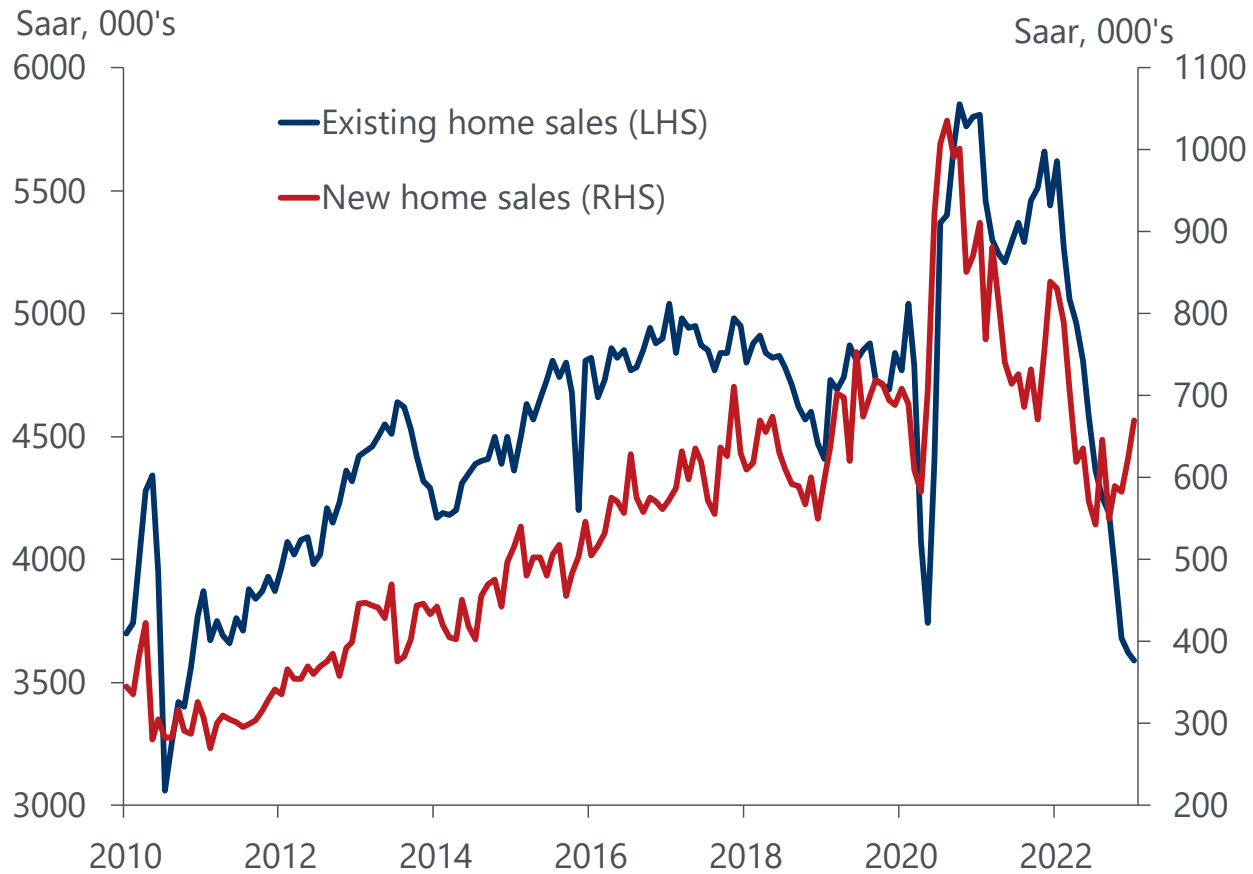
US: Outstanding consumer credit



Source: Oxford Economics/Haver Analytics

# Housing market is already in recession

## US: New and existing home sales

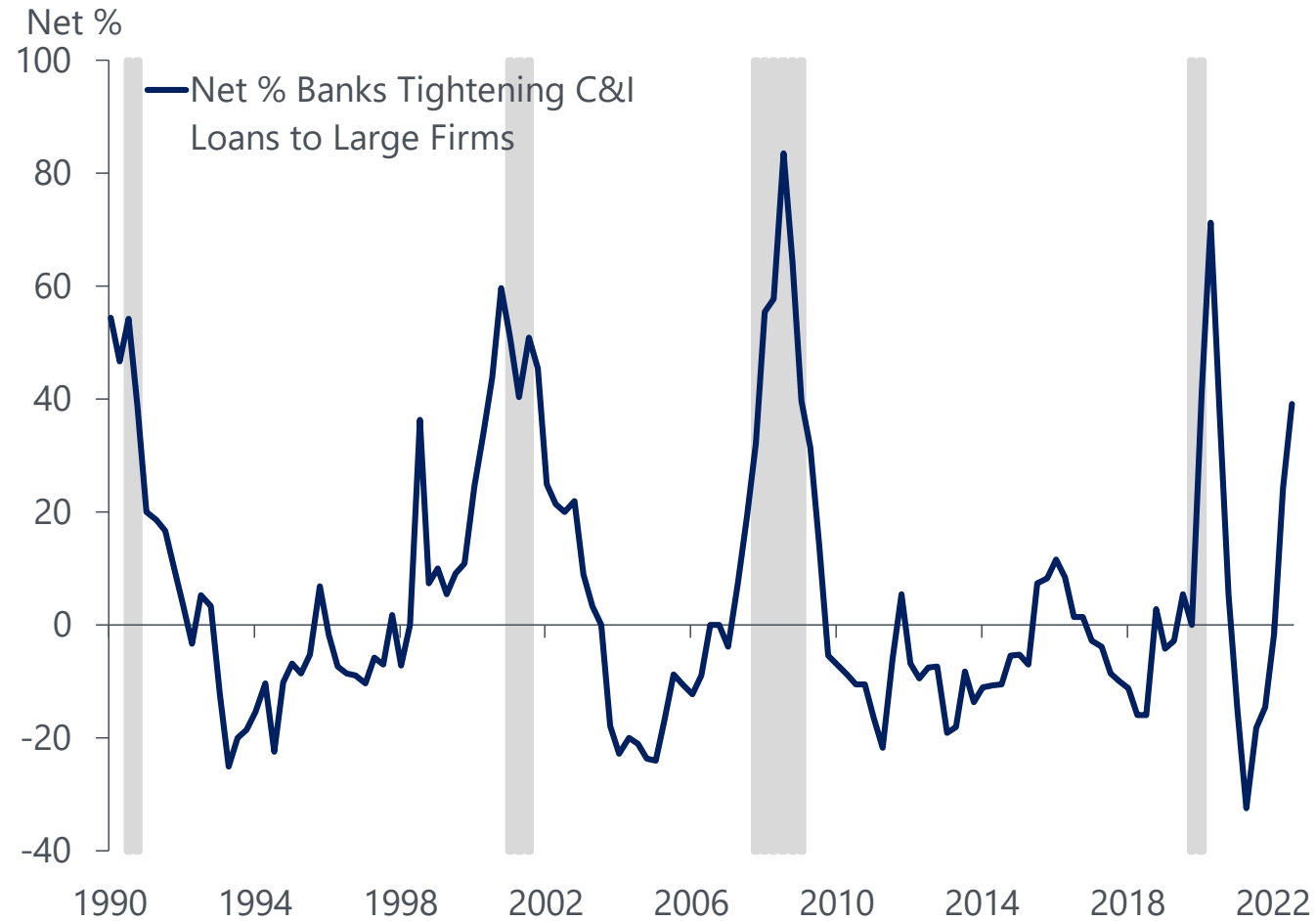


Source: Oxford Economics/Haver Analytics



# Credit conditions becoming less favorable

## US: FRB Sr Officers Survey: Banks Tightening C&I Loans



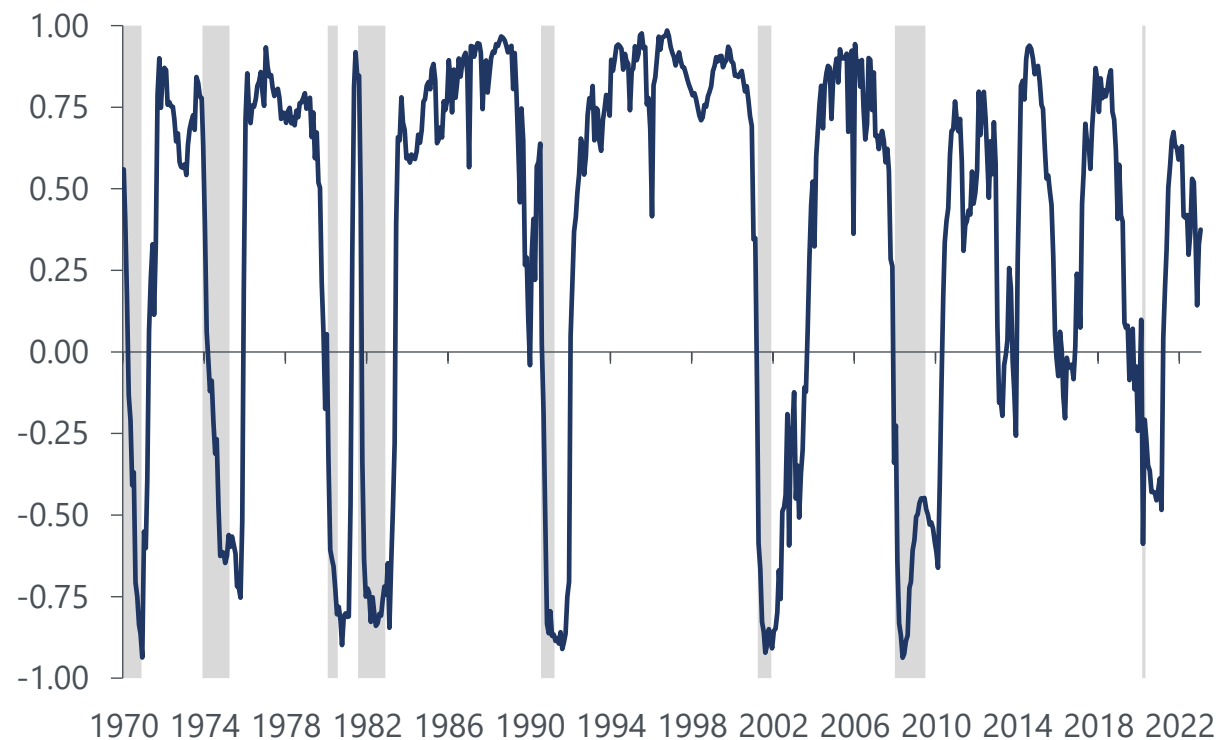
Source: Oxford Economics/Haver Analytics



# Oxford indicator points to a contraction later this year

US: Oxford Economics' US Business Cycle Indicator (BCI)

Index, -1 to +1



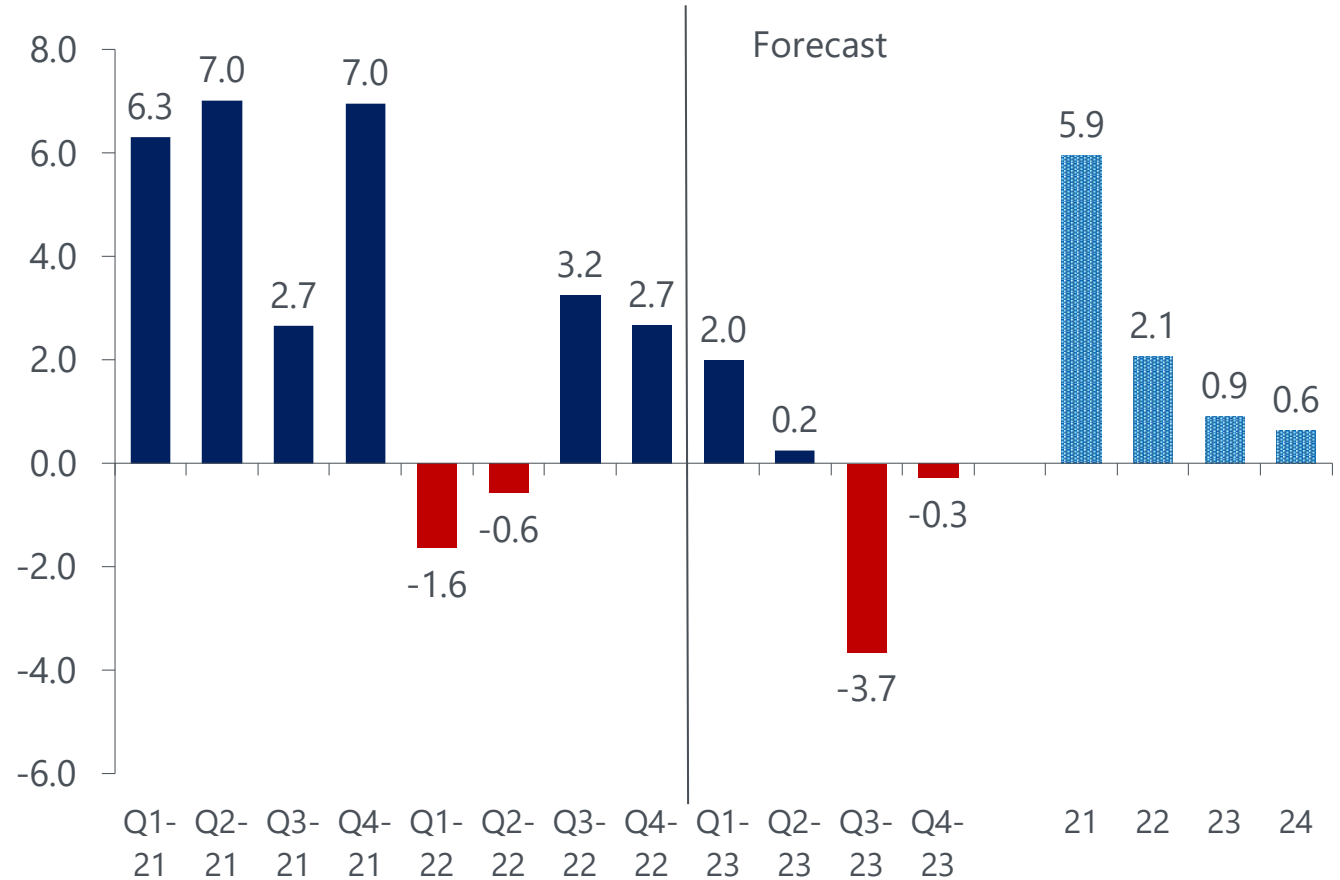
Source: Oxford Economics/Haver Analytics

The sharp fall in our US business cycle indicator in February suggests the economy lost momentum midway through Q1.

# We are headed toward a recession in the second half of 2023

## US: GDP Forecast

% annualized



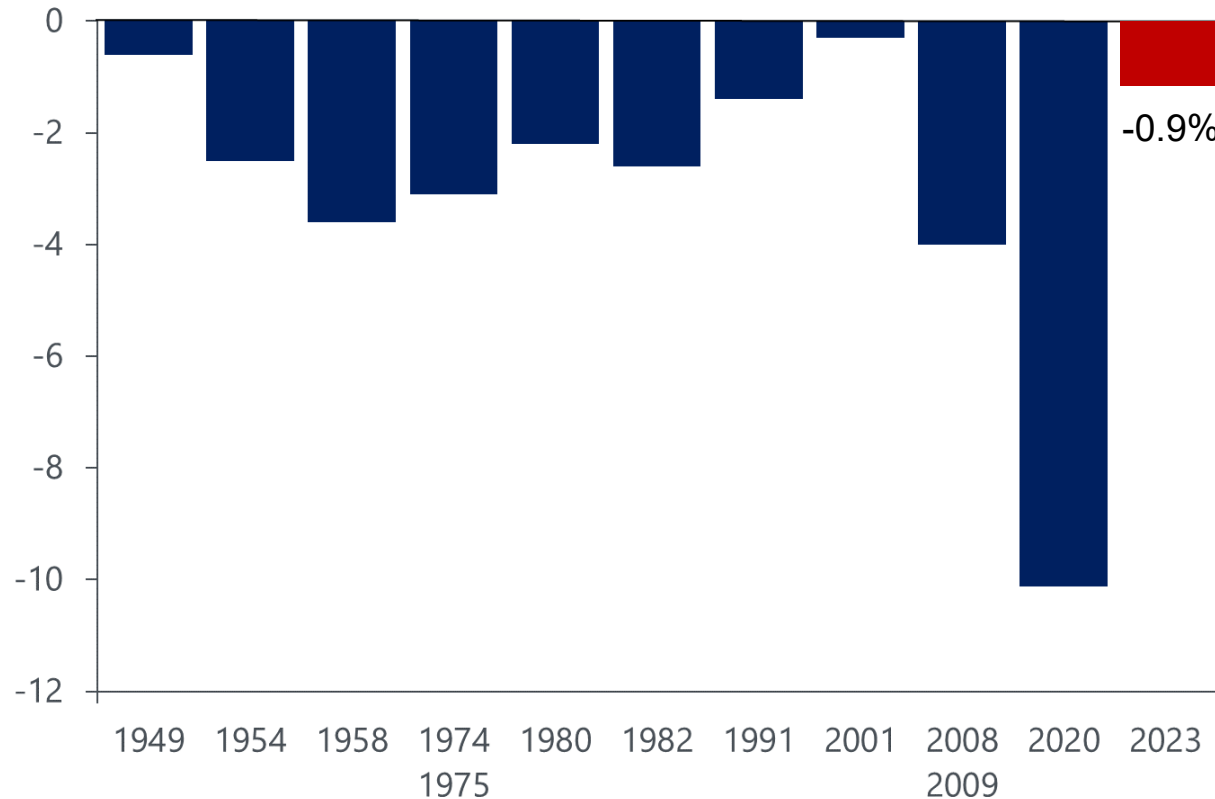
We expect the recession to be mild because there are no glaring imbalances in the economy's balance sheet.

Household balance sheets are in great shape, nonfinancial corporate balance sheets are healthy, and state and local governments are flush with cash.

# The US recession will be mild by historical standards

US: Peak-to-trough recessions since 1949

% change, peak to trough



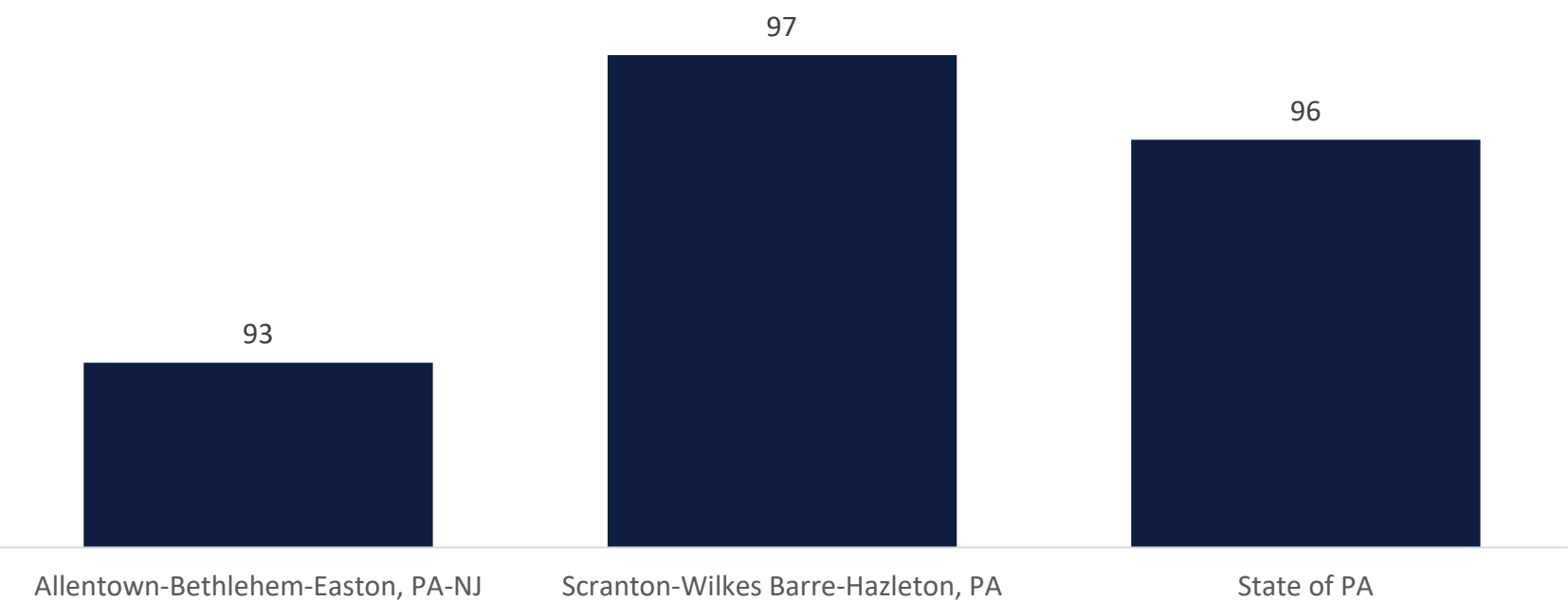
Unemployment will reach 5%

Source : Oxford Economics/Haver Analytics

# L&H jobs within touching distance of full recovery

## Leisure & Hospitality Employment

% recovered vs 2019 (index, 100=2019)

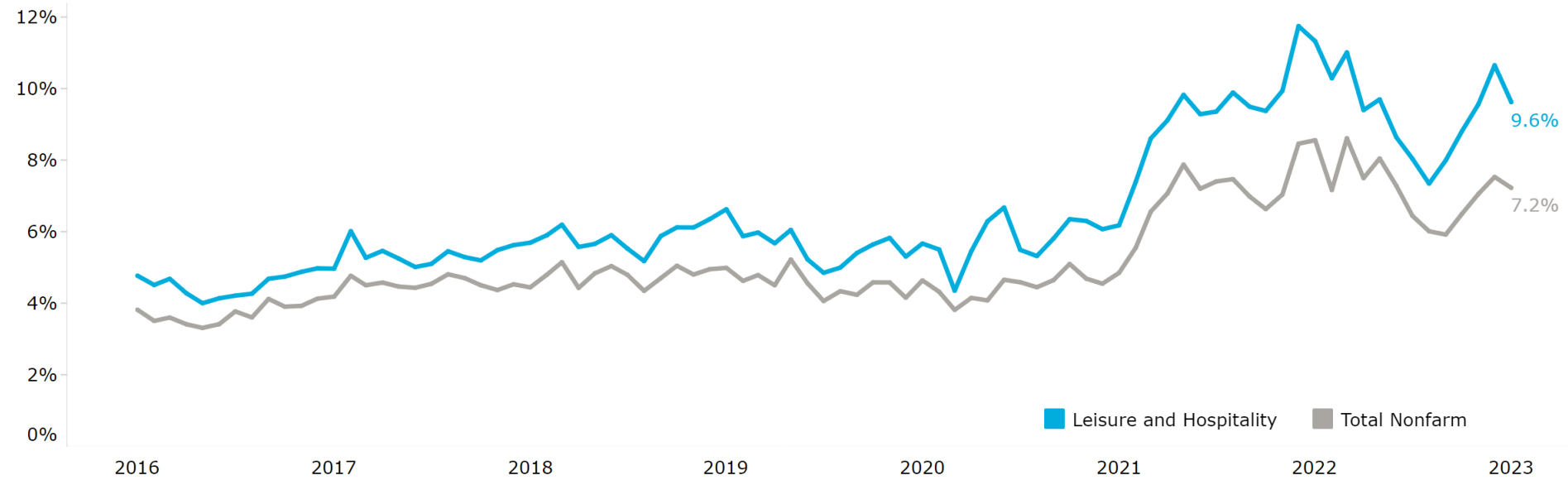


Source: BLS – Current Employment Statistics

# But 1-in-10 leisure & hospitality jobs remains unfilled

## Job Openings Rate: Leisure and Hospitality vs. Total Nonfarm

Scranton--Wilkes-Barre--Hazleton, PA



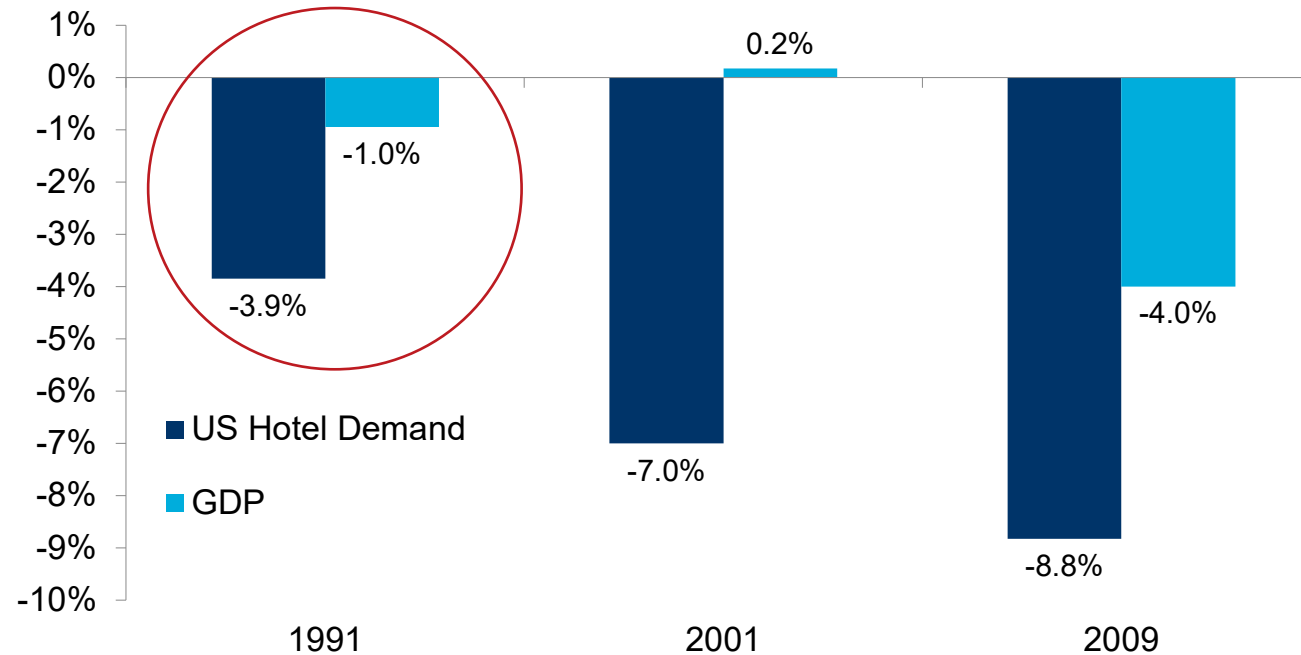
The **9.6%** open rate in March represented **2.1k** available L&H jobs.

Source: Tourism Economics; BLS

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

## Hotel demand during recessionary periods

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



Source: STR, BEA

# Why the travel industry may defy economic gravity

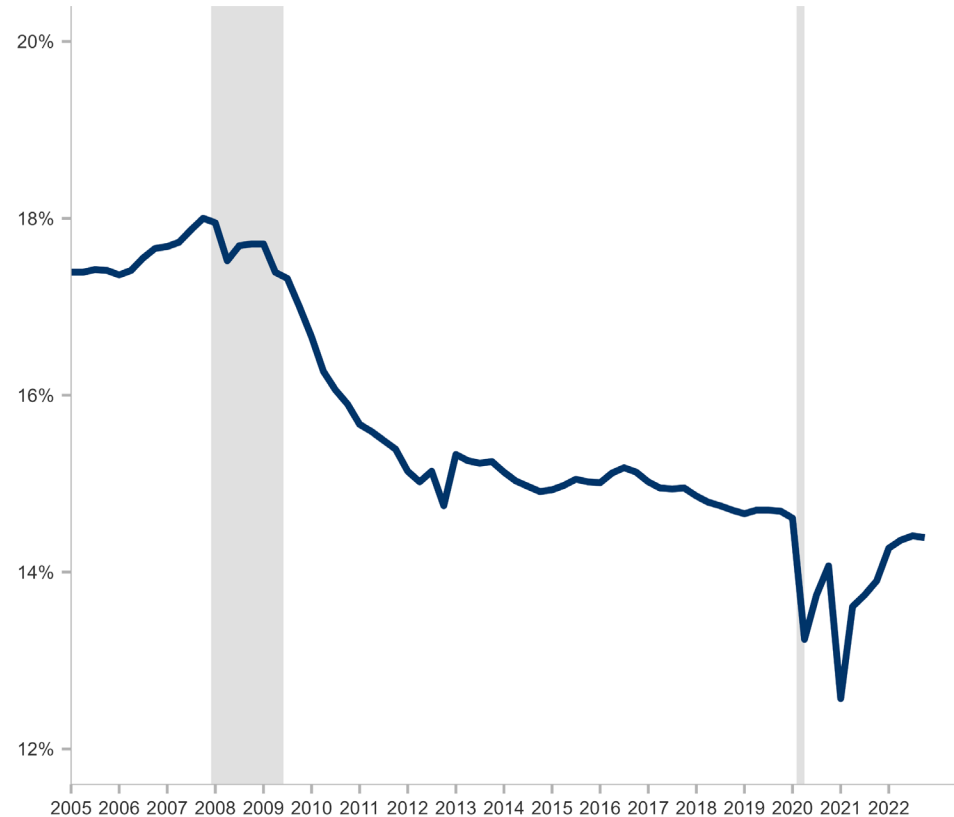
1. US households are in a position of strength
2. Pent-up demand and prioritization of travel is real
3. Businesses are still restoring necessary travel
4. International still rebuilding



# Household balance sheets remain strong

## Household debt service

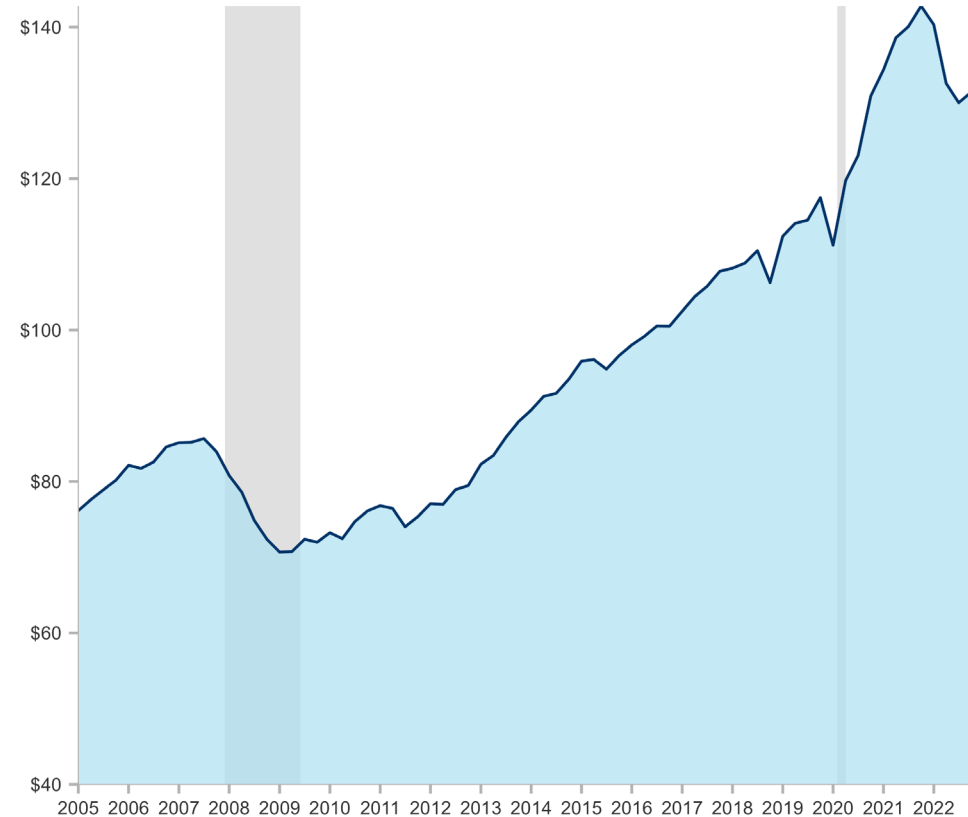
Financial obligations as ratio to disposable income



Note: Quarterly data through 2022Q4. 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 2022Q4. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER

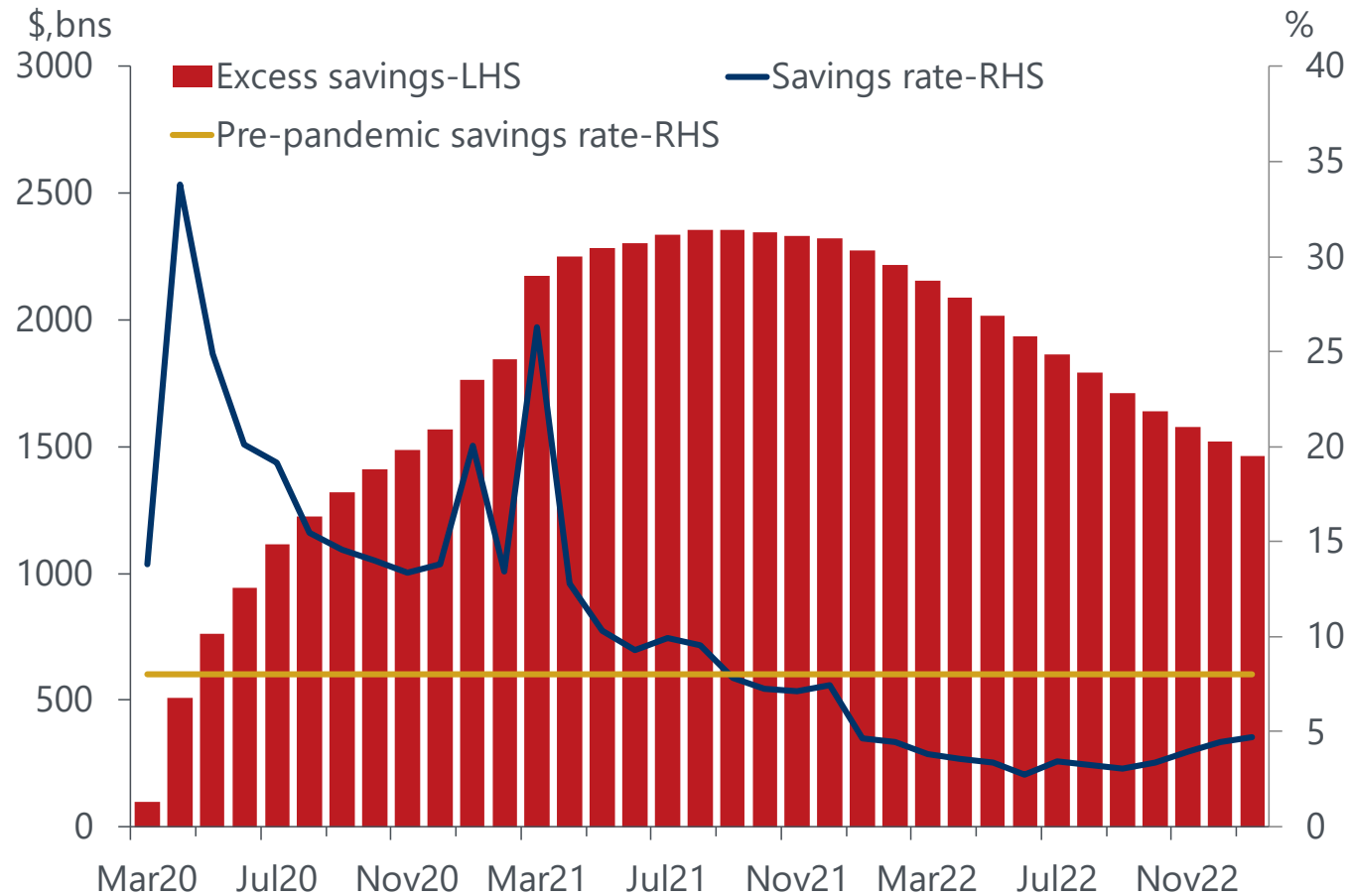
“To date, however, we have not seen signs of demand softening. Certainly, trends could change quickly but booking demand and pricing remains strong.”

Marriott earnings call, February 14, 2023

(Remarks edited for clarity)

# Excess savings are buffer

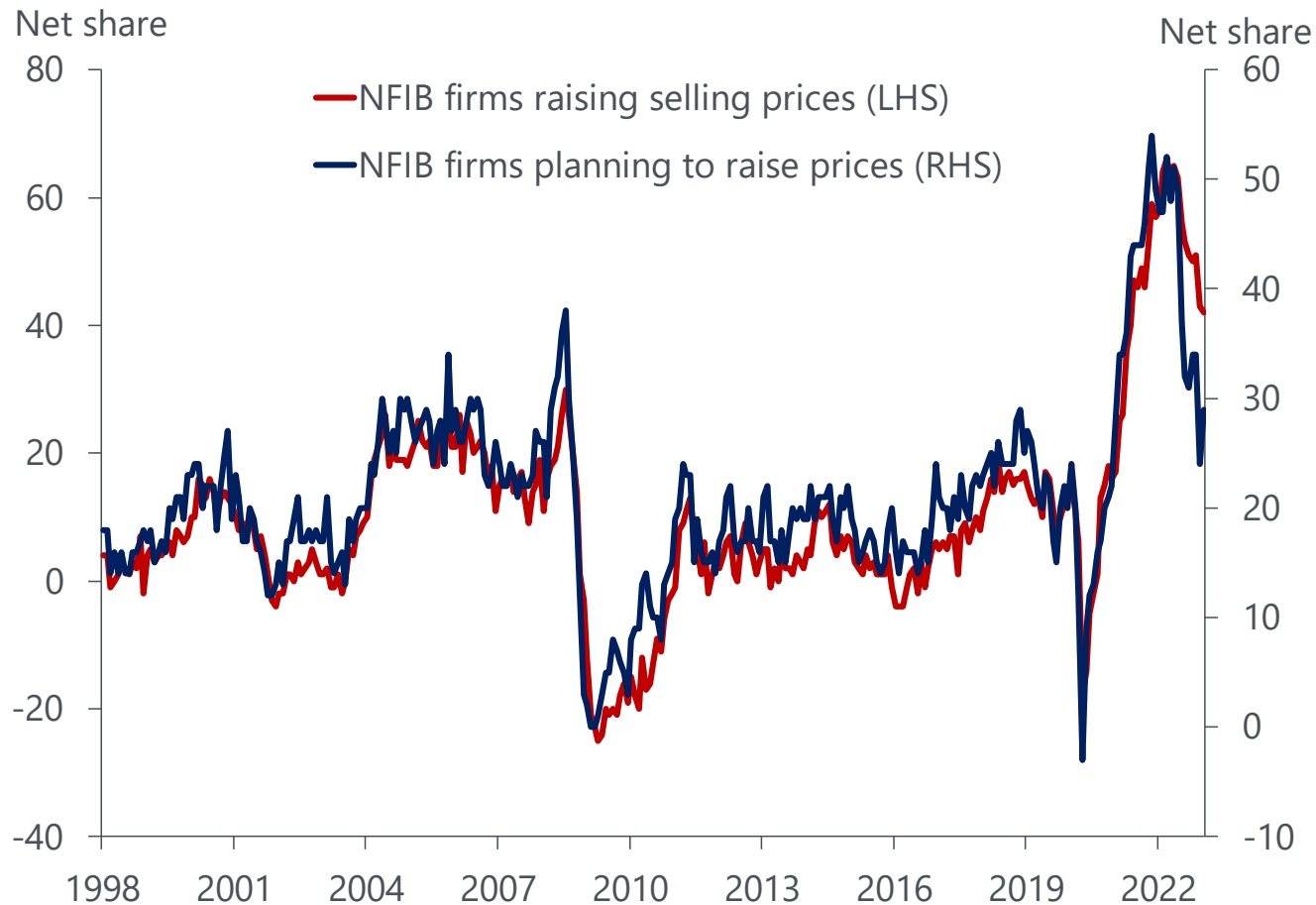
US: Excess savings based on reported personal income data



Source: Oxford Economics/Haver Analytics

# Inflation remains high but should slow in the coming months

## US: Small business optimism survey



Source: Oxford Economics/Haver Analytics

# Why the travel industry may defy economic gravity

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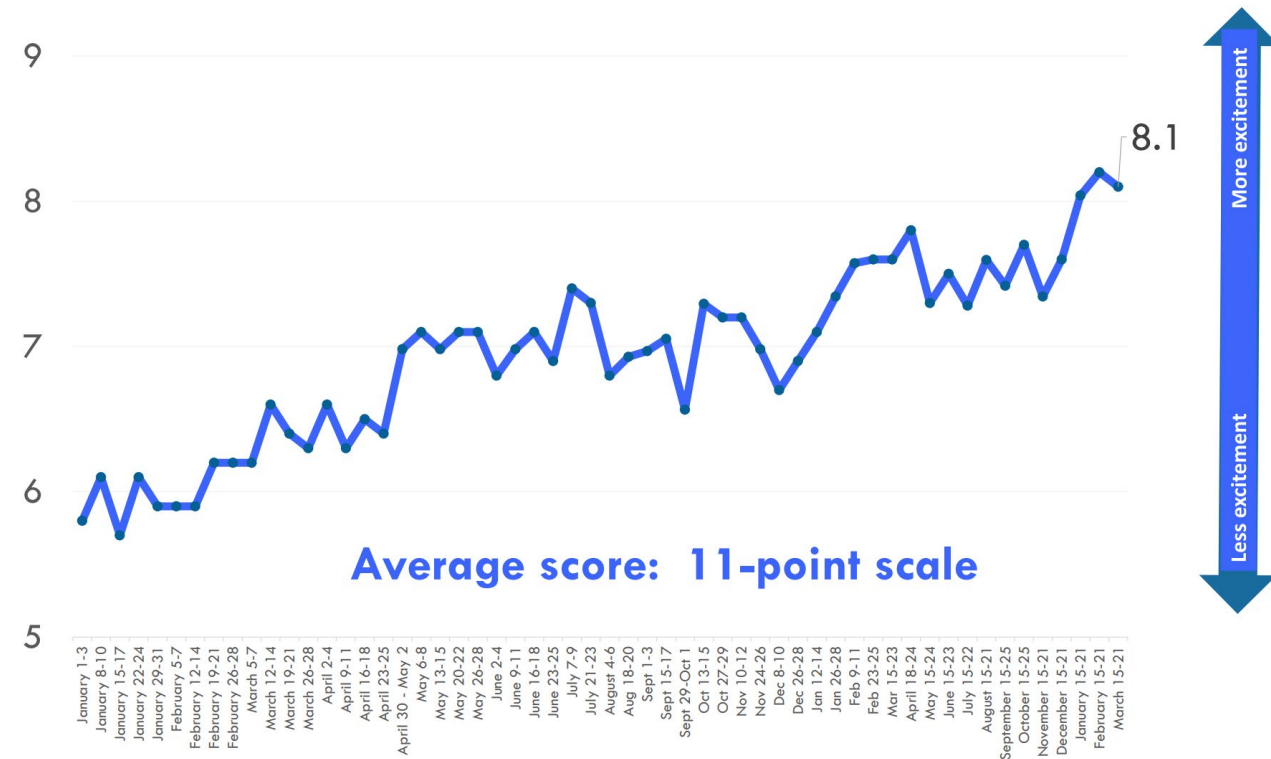
“We continue to see that people are prioritizing travel over just about everything.

“Maybe it's still the effect of COVID and people realizing there's more valuable things to do with their lives.”

Expedia earnings call, February 9, 2023

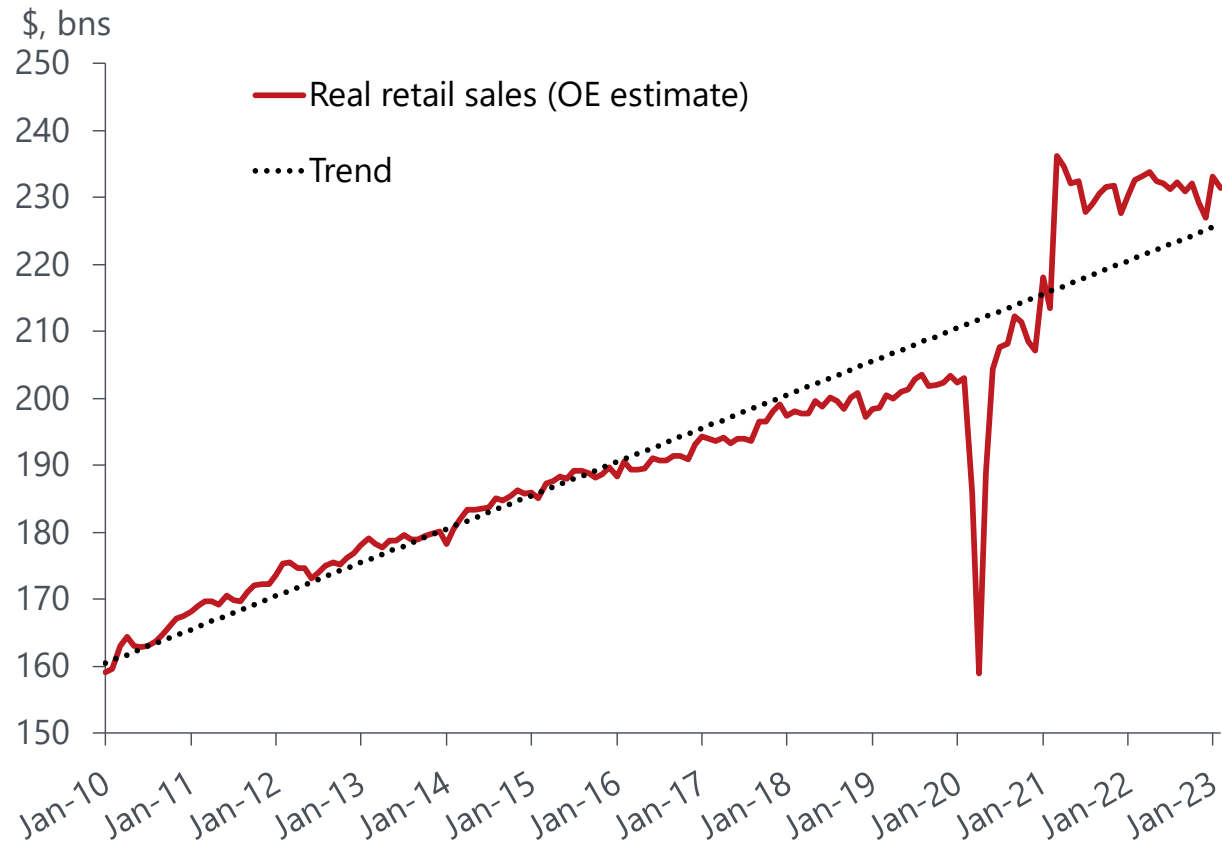
(Remarks edited for clarity)

**Question:** Which best describes how excited you are about LEISURE TRAVEL in the **NEXT TWELVE (12) MONTHS?** (Please answer using the 11-point scale below)



# Retail sales have plateaued

## US: Retail sales

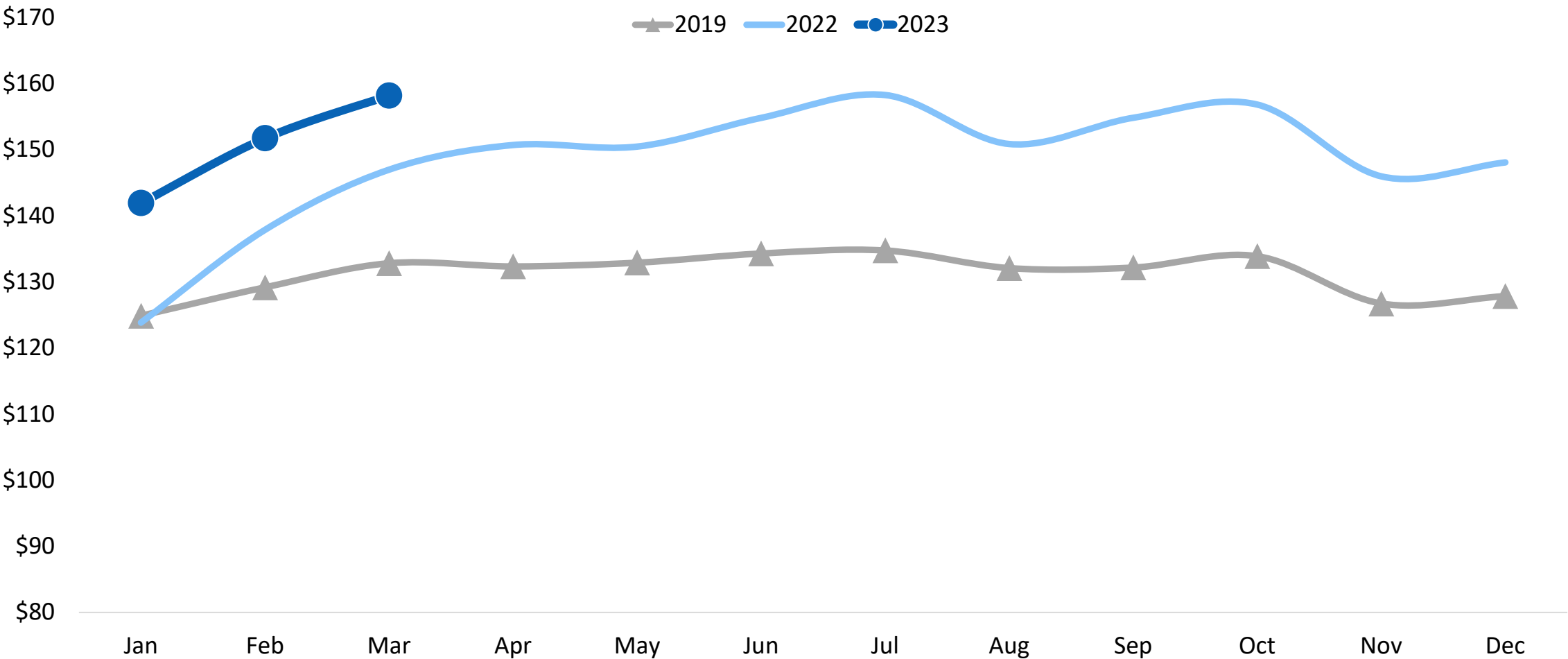


Source: Oxford Economics/Haver Analytics



# ADR growth still very strong

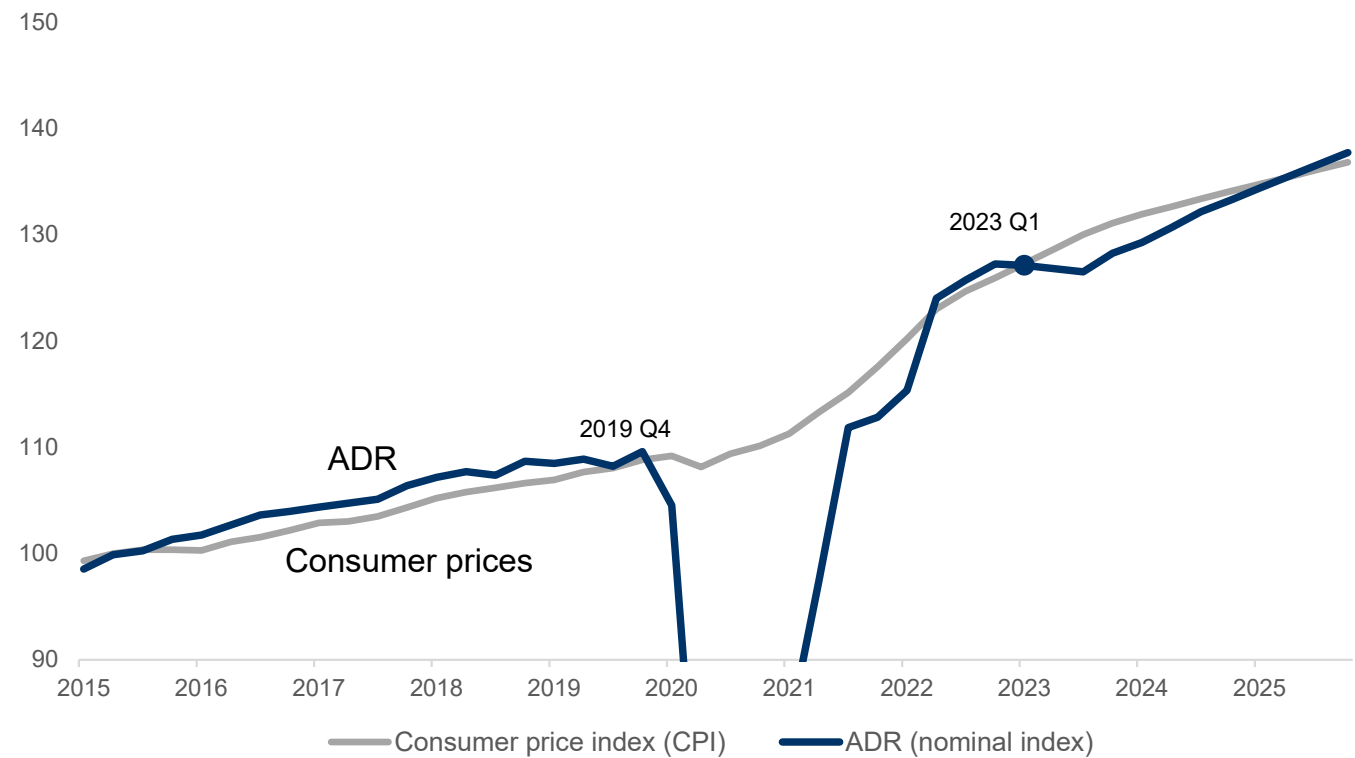
Total US, monthly ADR, 2019, 2022, 2023



# ADR growth has kept pace with inflation; forecast anticipates slowing

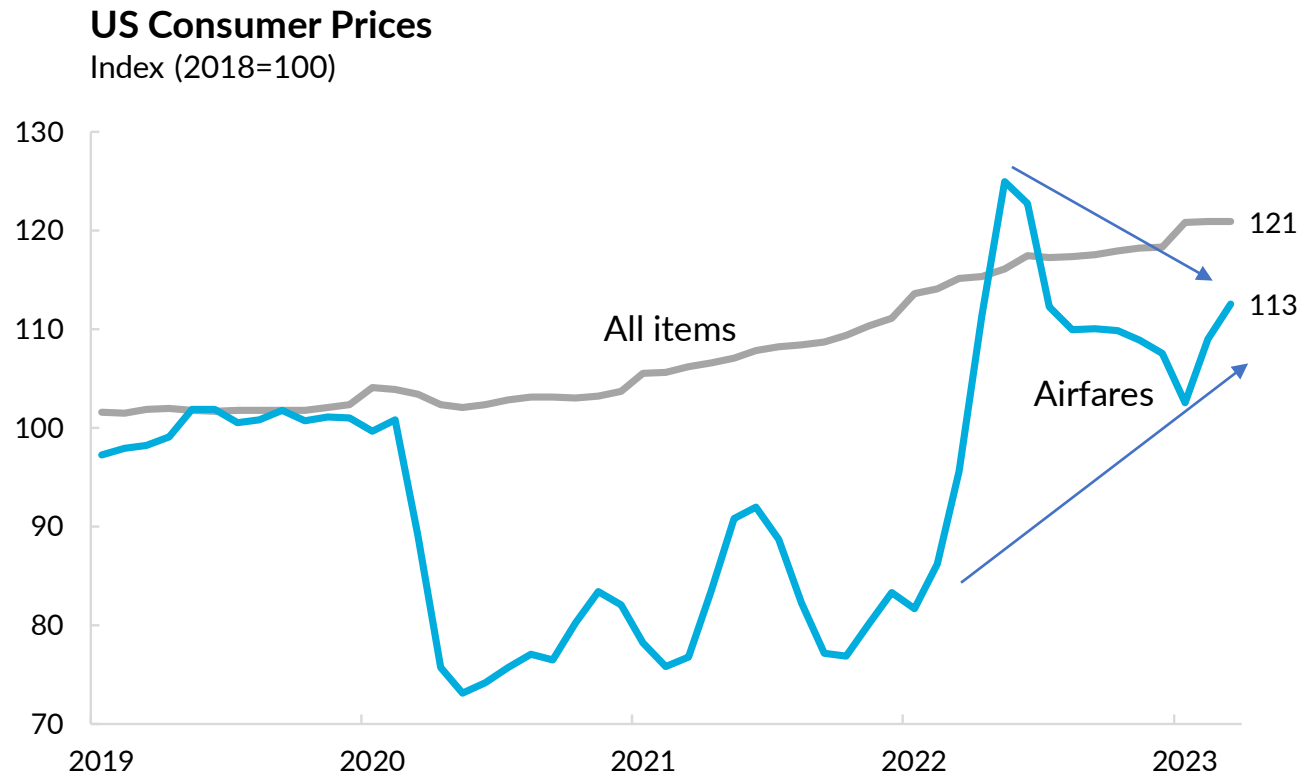
## US ADR

ADR and CPI index (2015=100)



Source: STR; Tourism Economics

# Airfares feel expensive

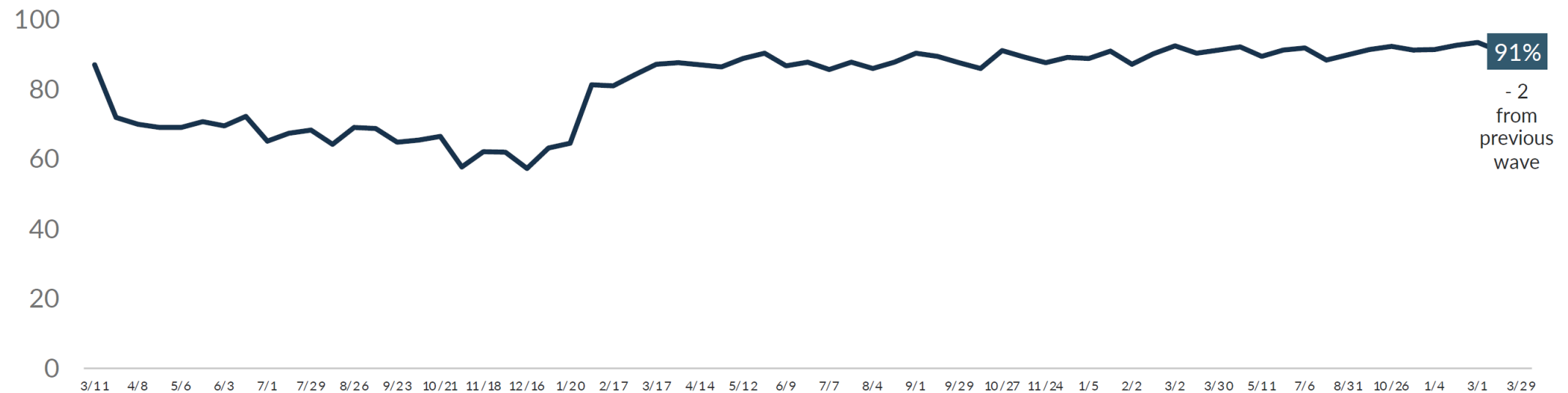


Sources: BLS

- Airfares in March were 9% below May 2022 peak.
- However, prices were 18% higher than a year earlier.

# Still... overall intentions to travel remain elevated

## Travelers with Travel Plans in the Next Six Months Comparison

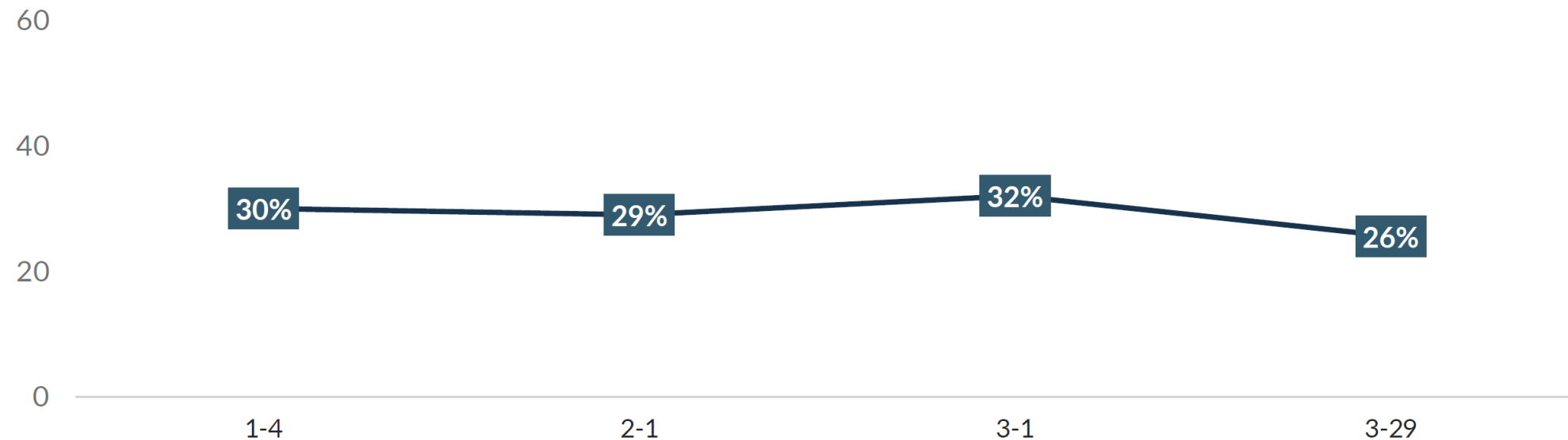


Travel Sentiment Study Wave 72

Longwoods INTERNATIONAL | miles PARTNERSHIP

# How should we understand the impact of inflation?

Indicated that Inflation\* Would Greatly Impact their Decision to Travel in the Next Six Months

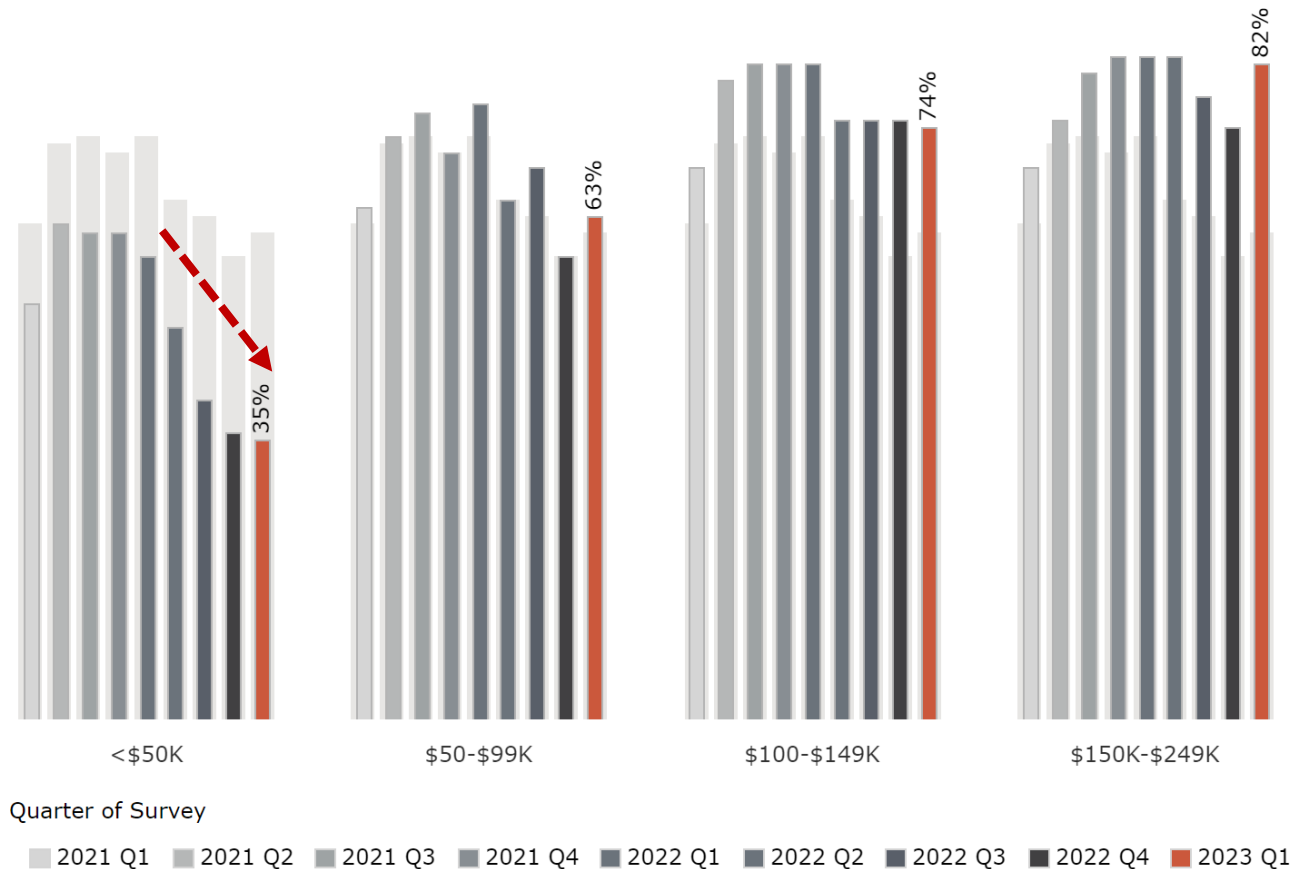


Travel Sentiment Study Wave 72

Longwoods INTERNATIONAL | miles PARTNERSHIP

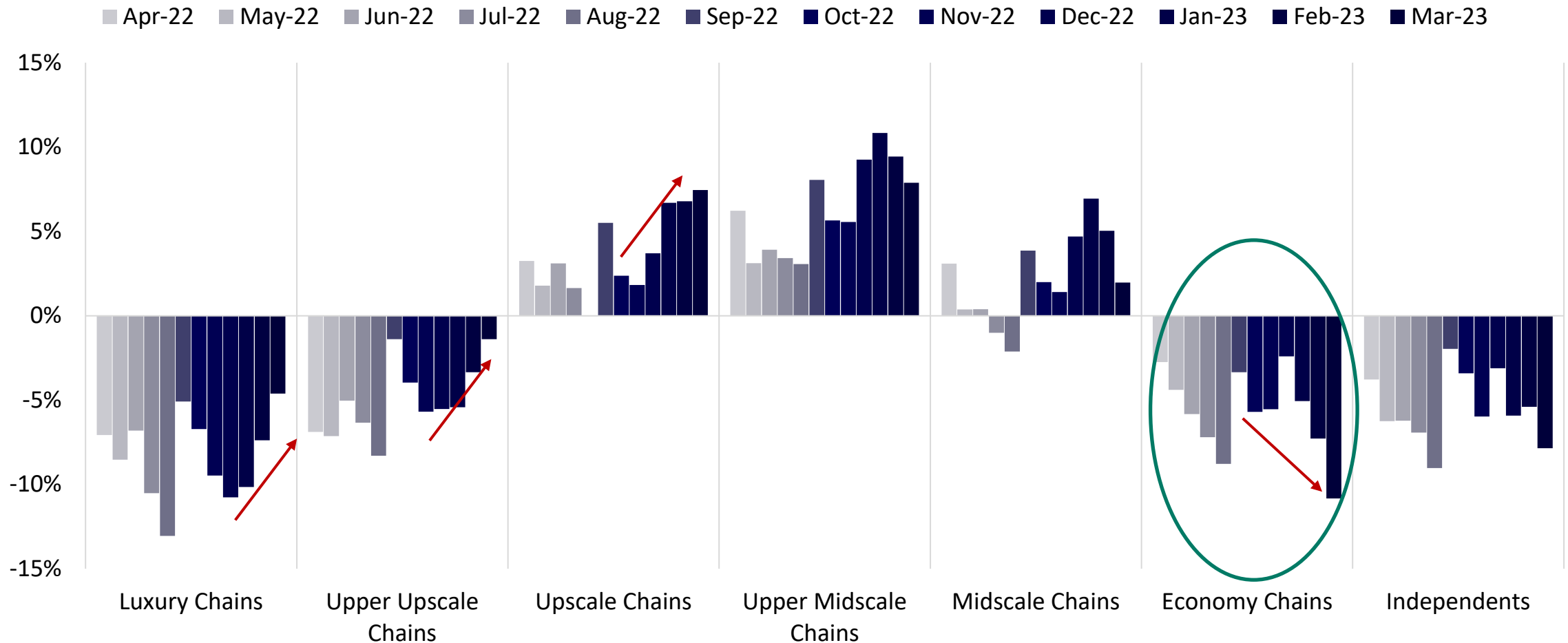
# Slippage evident among lower income earners

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



# Sure enough... weakness in economy

Total U.S., Demand, % change to 2019, Apr 2022 – Mar 2023





# Travel budget for next 12 months has increased 13% over past year

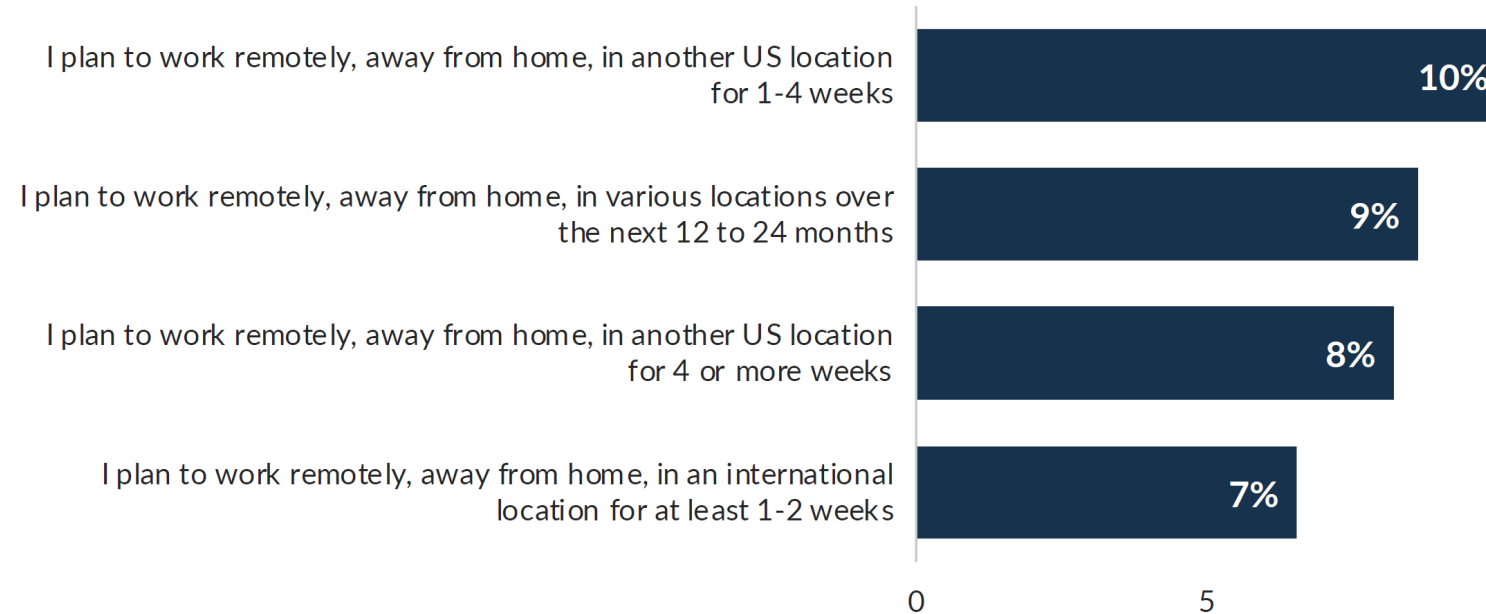
## Maximum Expected Annual Travel Budget

Destination  Analysts



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

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



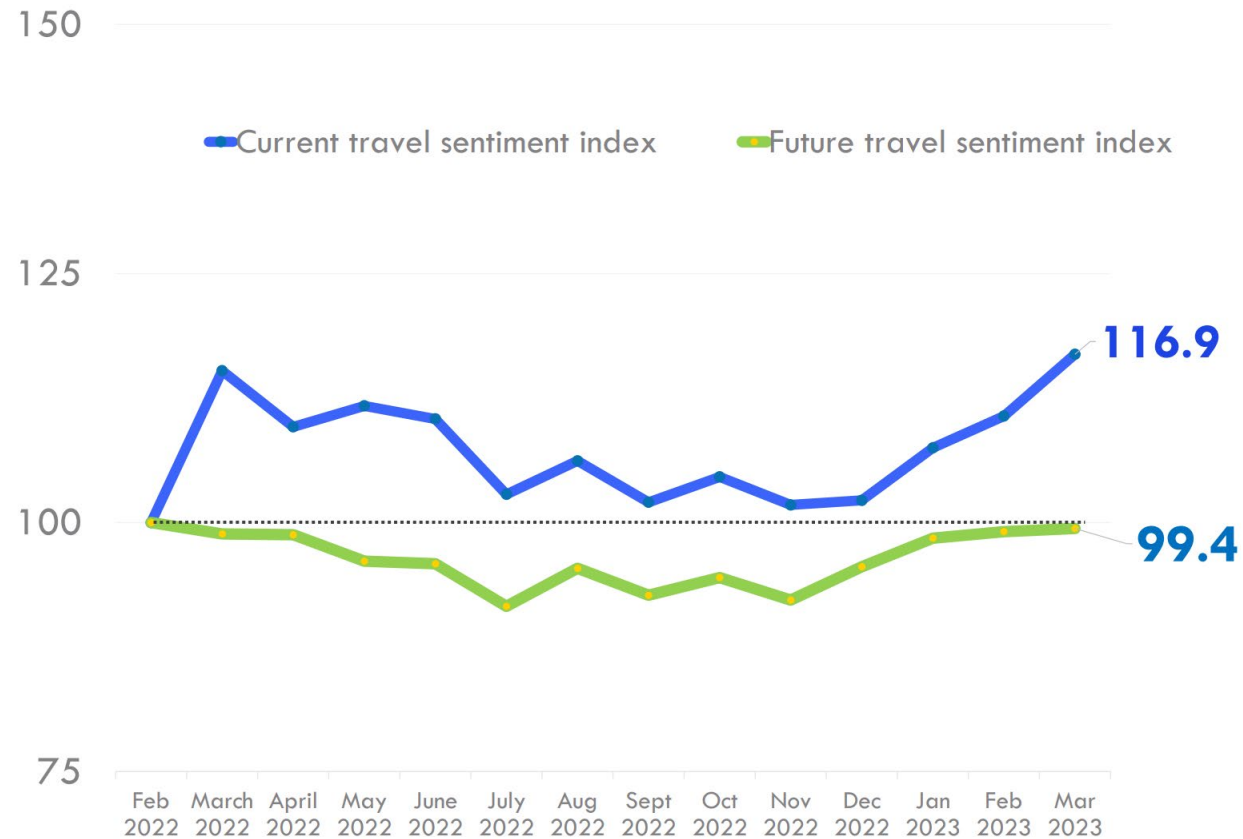
Travel Sentiment Study Wave 67

Longwoods INTERNATIONAL | miles PARTNERSHIP

“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

# DA Travel Sentiment Index trending... up



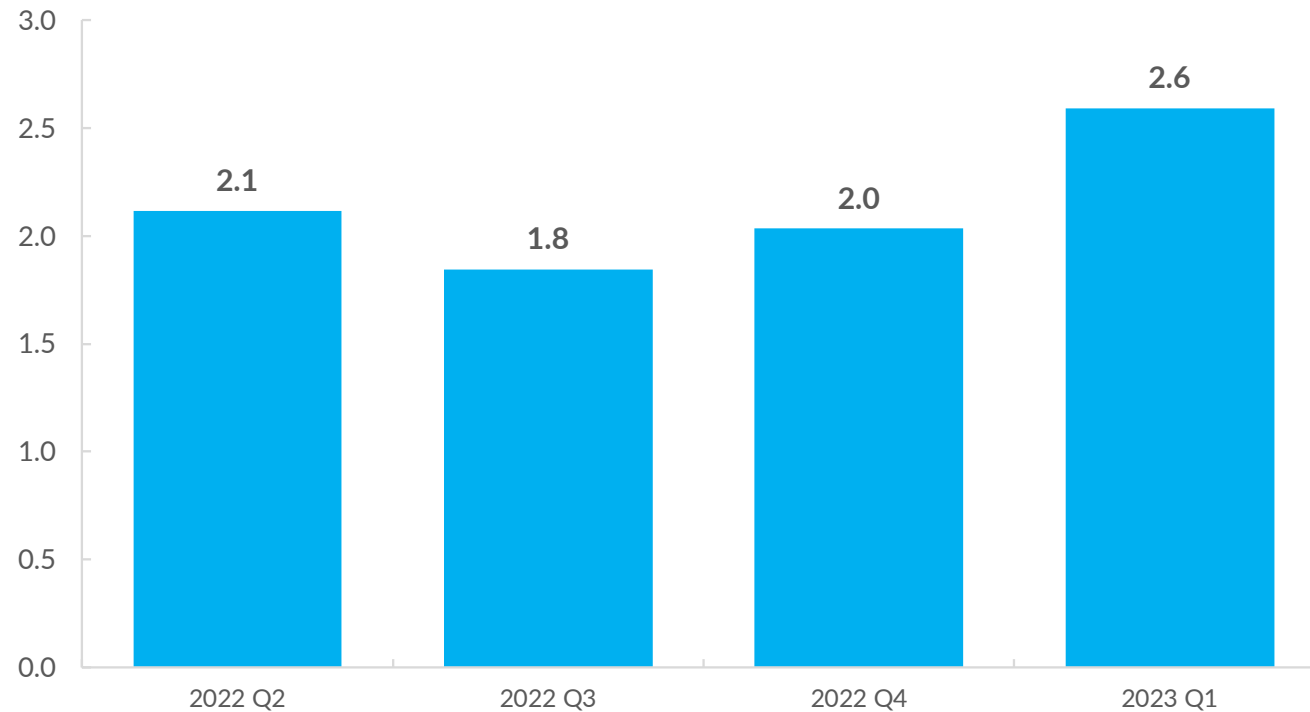
Note: These indices measure change in sentiment relative to Feb 2022.

# Why the travel industry may defy economic gravity

1. US households are in a position of strength
2. Pent-up demand and prioritization of travel is real
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4. International still rebuilding

# Business travel intentions now exceed 2019

Trips per month over the coming six months

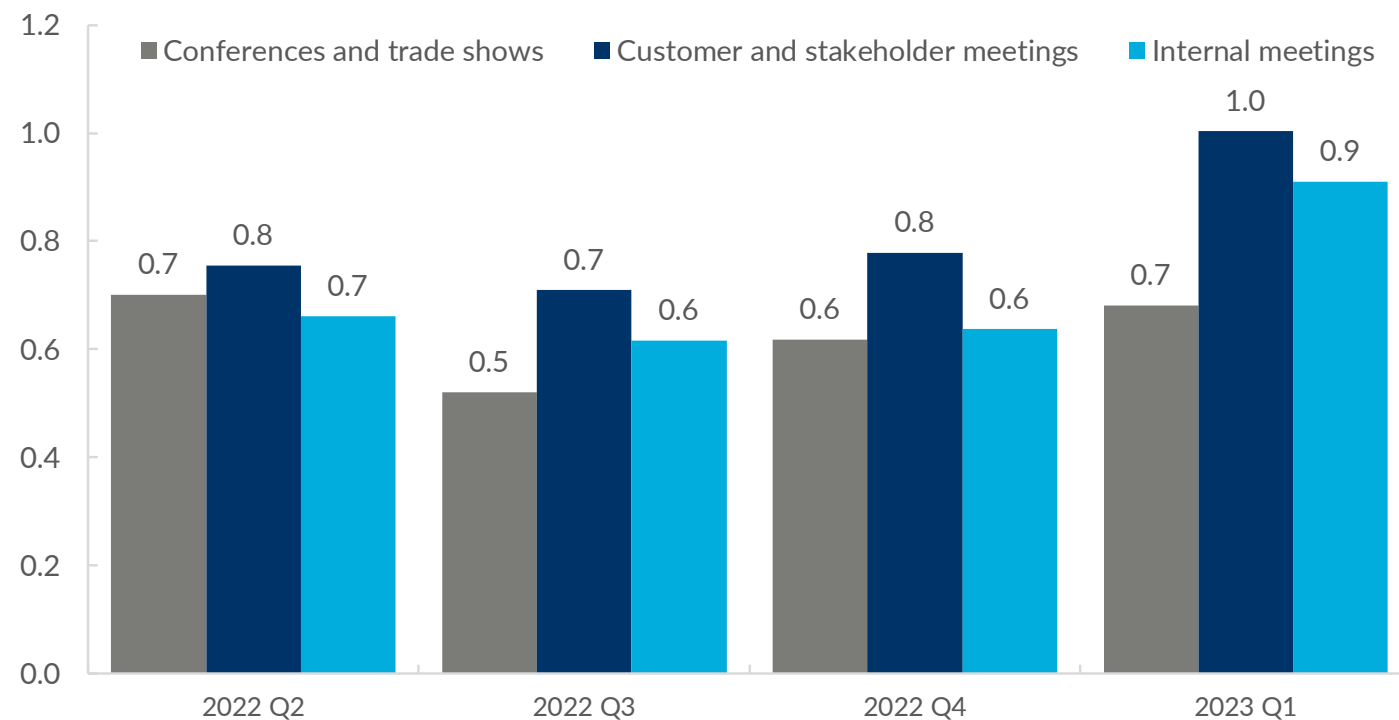


How frequently do you expect to travel for each of the following business purposes over the next six months?

Source: U.S. Travel Association, JD Power, Tourism Economics

# Strength across business travel purposes

## Trips per month over the coming six months

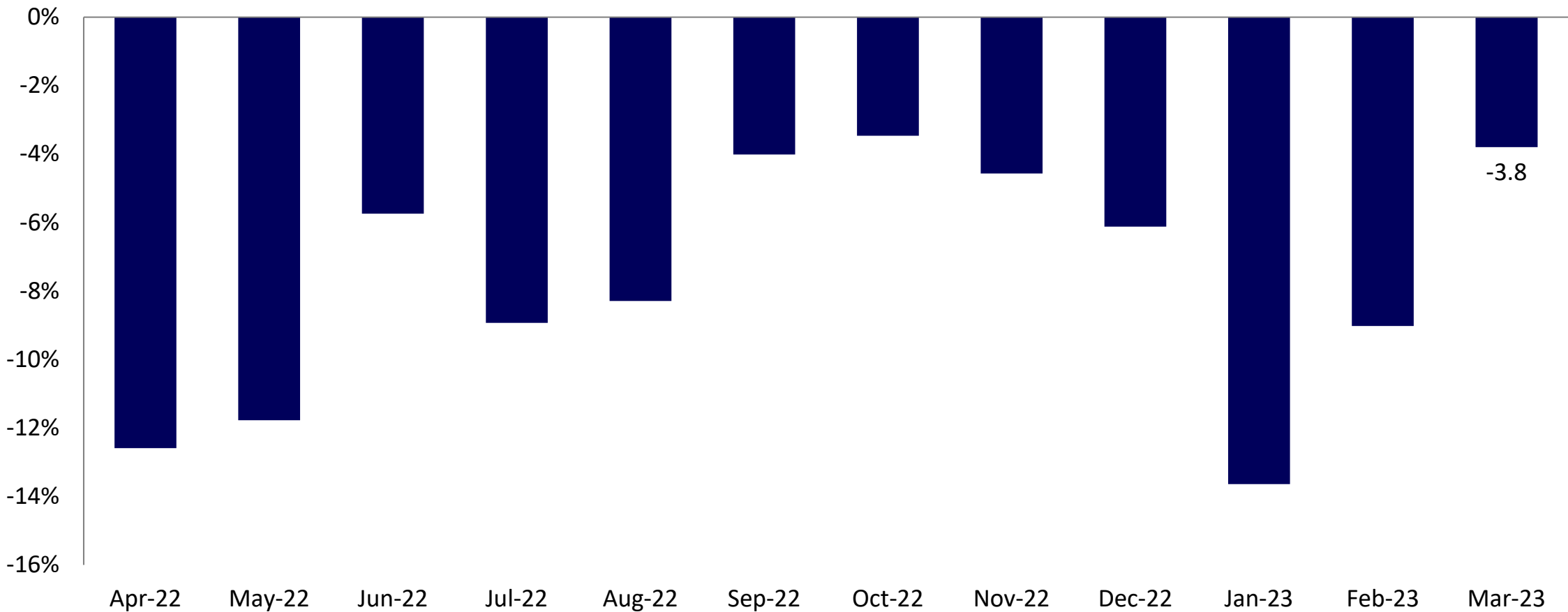


How frequently do you expect to travel for each of the following business purposes over the next six months?  
Source: U.S. Travel Association, JD Power, Tourism Economics



# Groups making their comeback!

US, LUUC, Group demand % change to 2019, Apr 2022 – Mar 2023



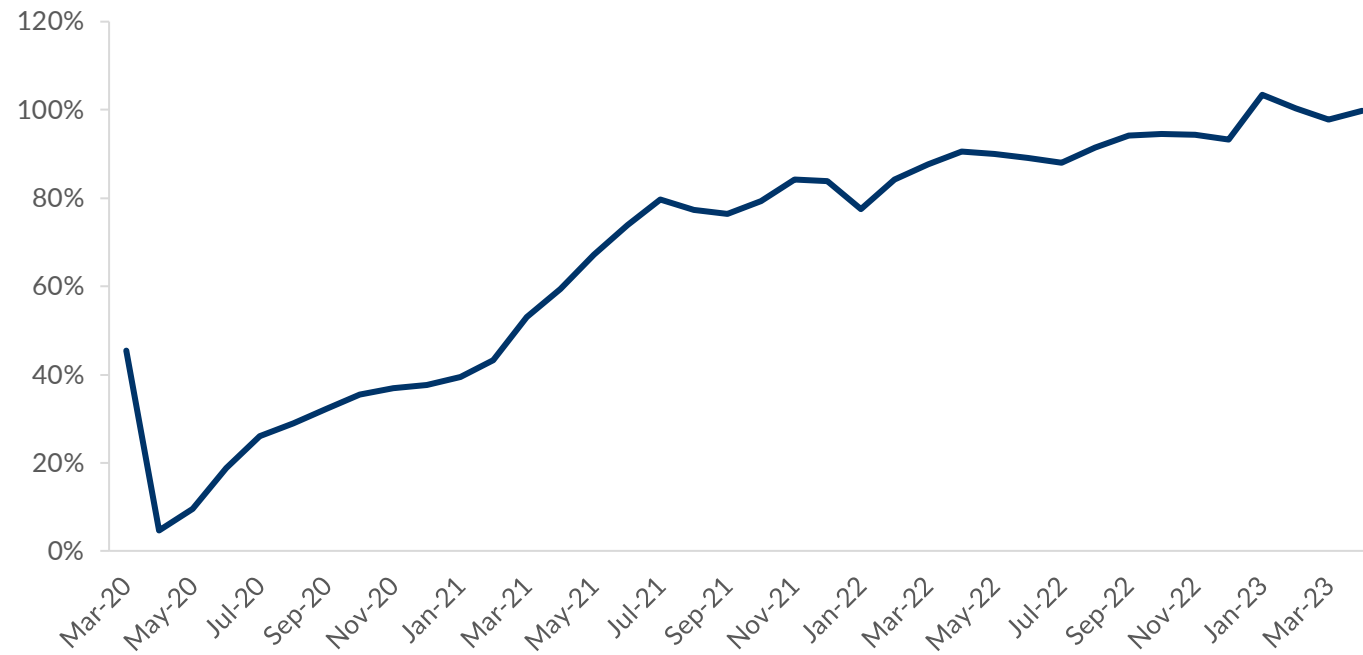
“Consumer demand remains healthy, with advanced bookings significantly ahead for each month of the March quarter compared to 2019. And in our recent corporate survey, results were positive with 96% of respondents expecting to travel as much or more in Q1 than Q4.”

Delta Airlines earnings call, January 13, 2023

# Air travel has fully recovered

## Air Passenger Volume

% of 2019 level



Source: TSA

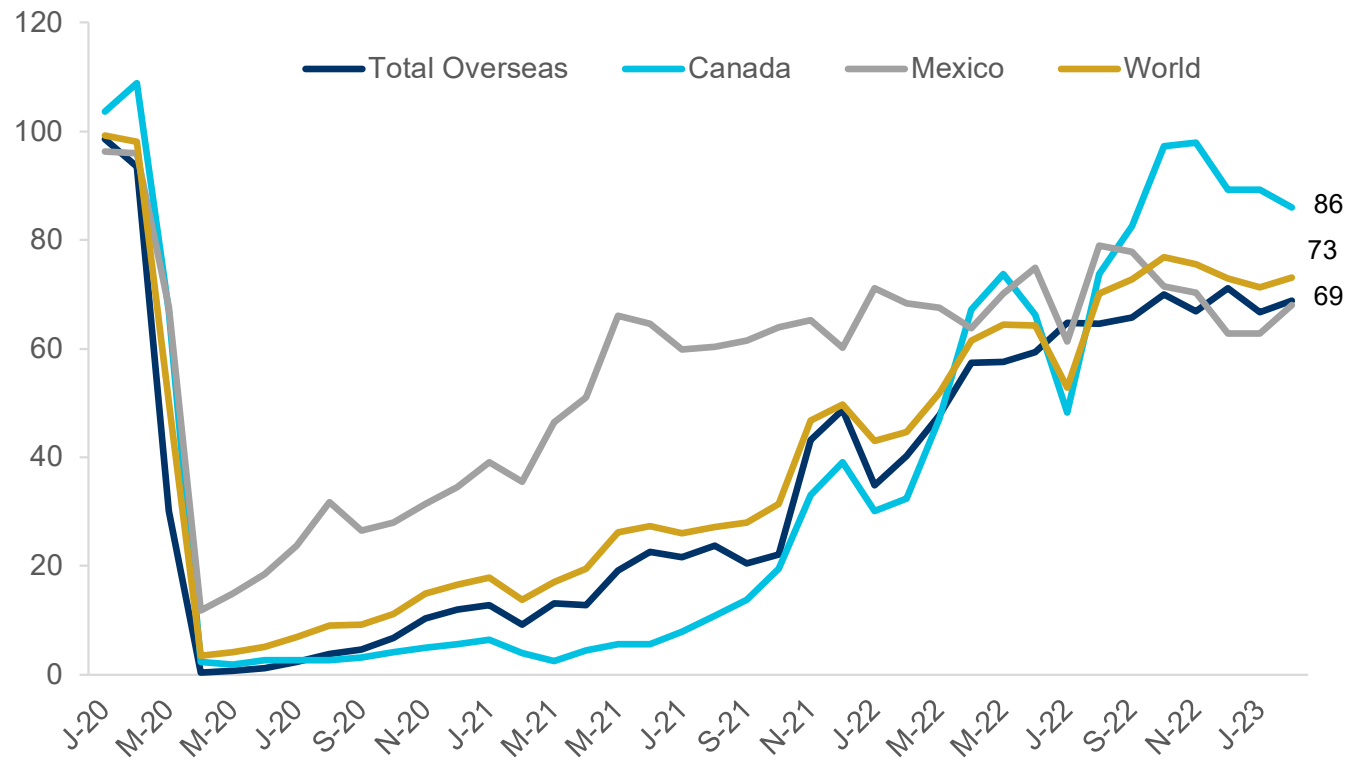
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# International inbound is gaining momentum

## International visits to USA

2019 = 100 (same month comparison)



Source: NTTO

US inbound: 65% recovered in 2022

US outbound: 81% recovered in 2022

This gap will narrow in 2023

“We expect a strong demand environment to continue in 2023 and anticipate further improvement in long-haul international travel this year.”

American Airlines earnings call, January 26, 2023

# Room demand is still below the economic trend

## Ratio to GDP, short-term

Annual room nights per \$1 million

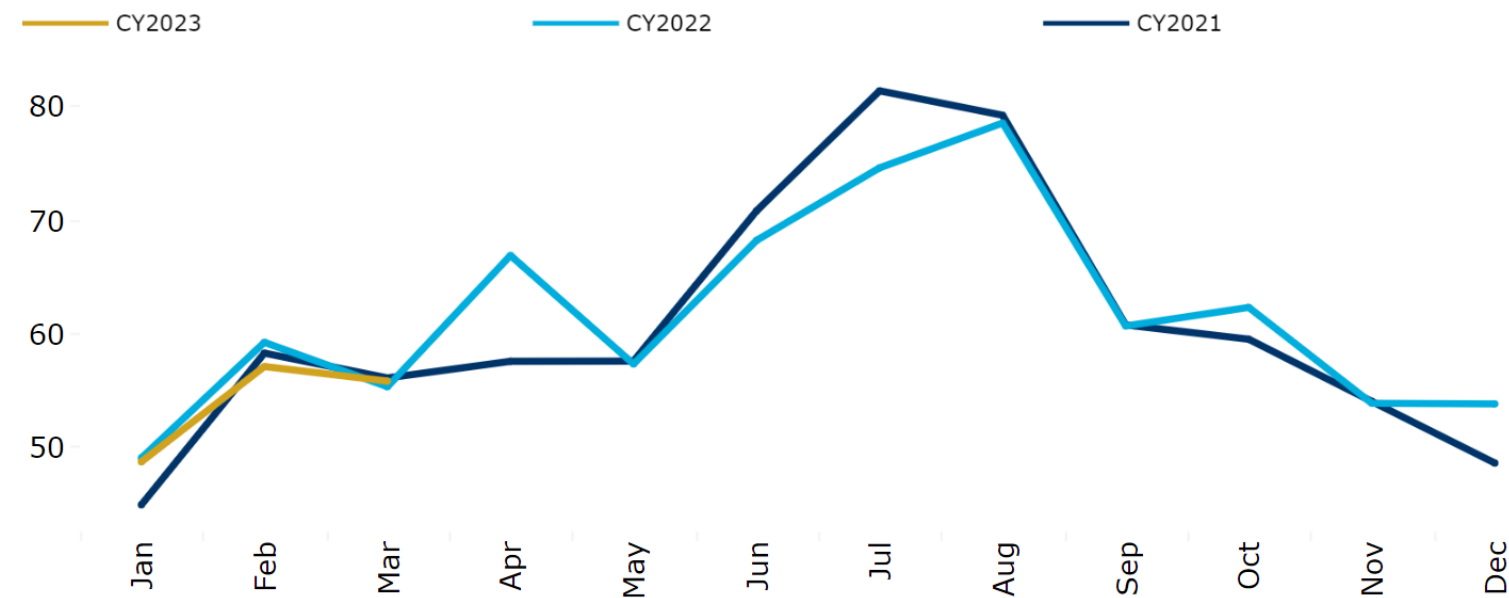


Source: STR; Tourism Economics

# Hotel occupancy is tracking along with last year's performance

## Pocono Mountains Hotel Occupancy

3-year trend, all counties



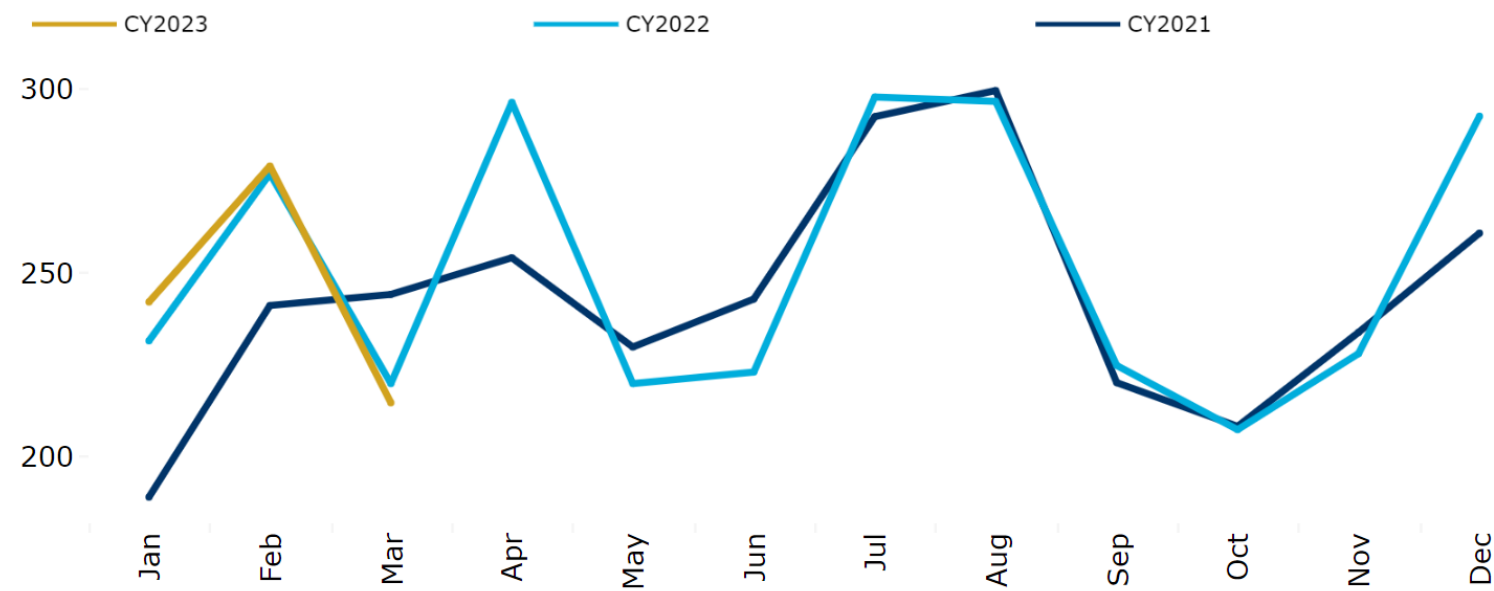
Source: STR



# ADR remains elevated

## Pocono Mountains Hotel ADR

3-year trend, all counties

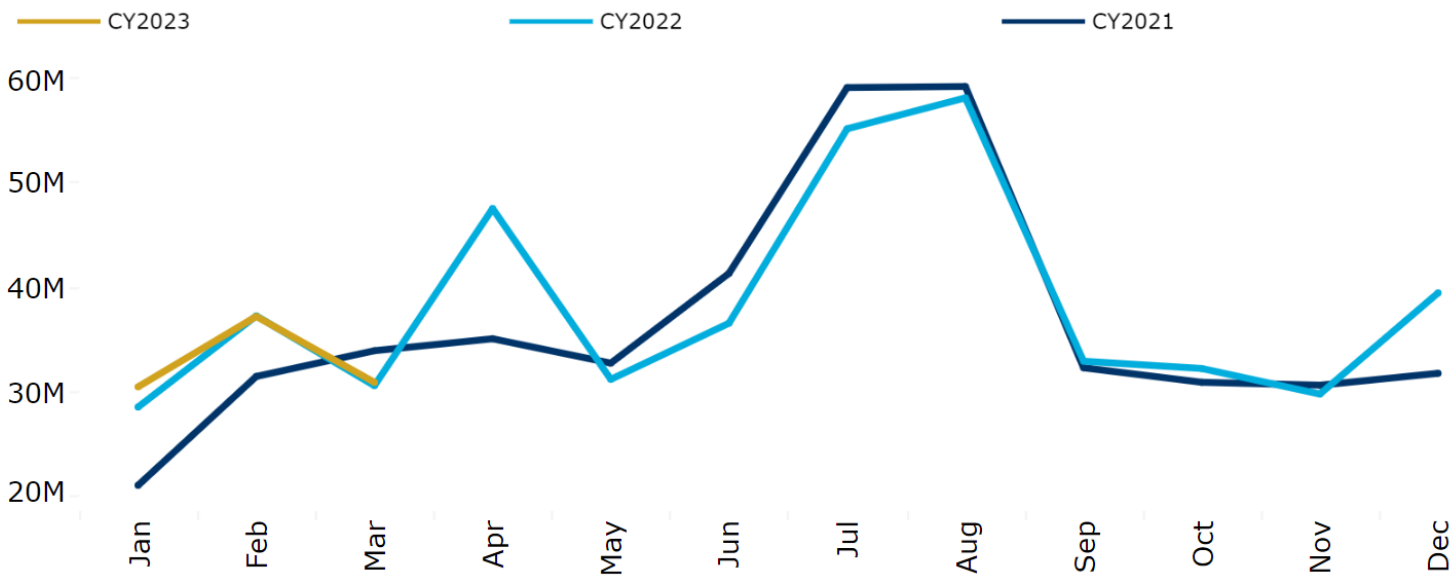


Source: STR

# Resulting in RevPAR even with 2022 levels

## Pocono Mountains Hotel RevPAR

3-year trend, all counties

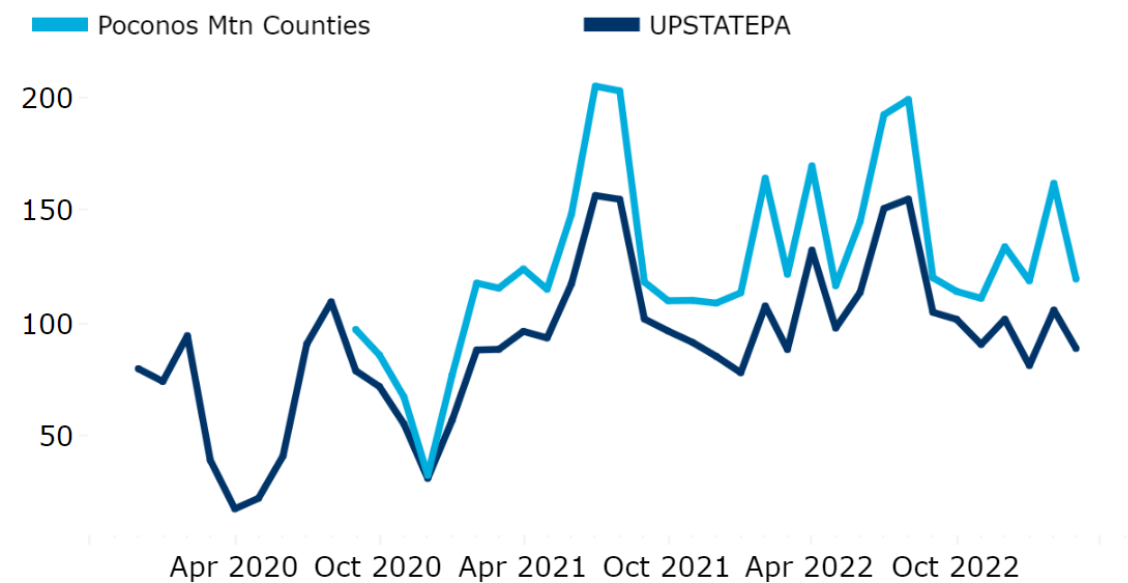


Source: STR

# Poconos outperforming the region

## Hotel RevPAR

3-year trend, Pocono Mountain (all counties) vs average for upstate PA



Source: STR

# Leading all regions in rate and RevPAR

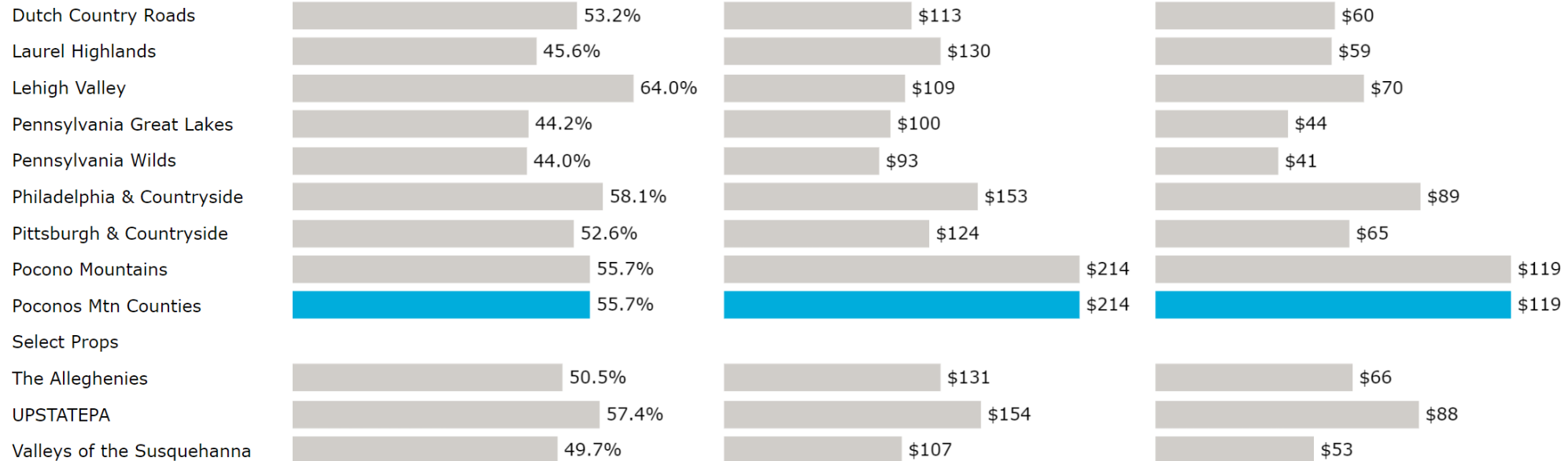
## Hotel RevPAR

March 2023

Occupancy

ADR

RevPAR

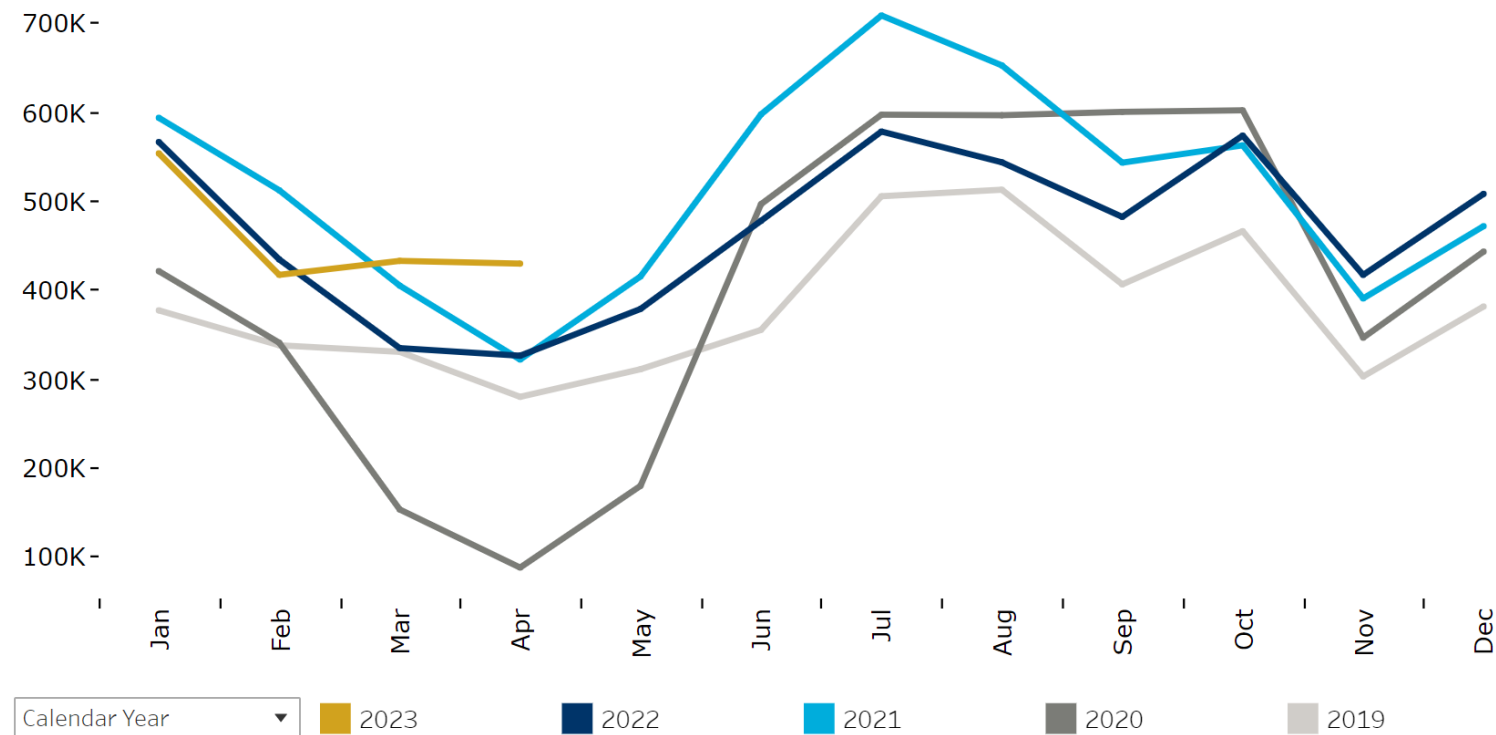


Source: STR

# Engagement is strong

## Website Sessions

Total sessions to [Poconomountains.com](https://poconomountains.com)

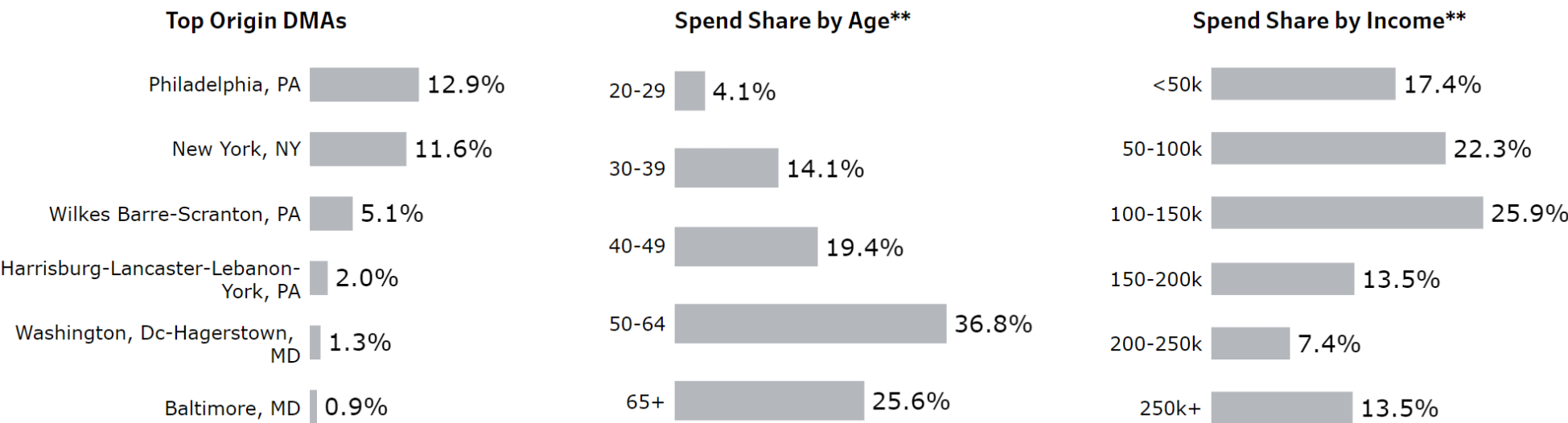


Source: Google Analytics

# Credit card spending increase 22% in March vs prior year

## In-market spending

Credit card spending by visitors, March 2023



Source: TransUnion/Commerce Signals; \*Lodging spend represents in-market spend only; \*\*Sample with unspecified age/income excluded

# Summary

## 1 A mild recession is likely in 2023

- Inflation and higher interest rates will leave a mark
- Strong balance sheets should limit the downside

## 2 Visitor economy is well-positioned

- Households are in a fiscally strong position
- Pent-up demand is prioritizing travel
- Business travel continues to rebuild
- International is coming back

