

The Outlook for the US Economy and Travel

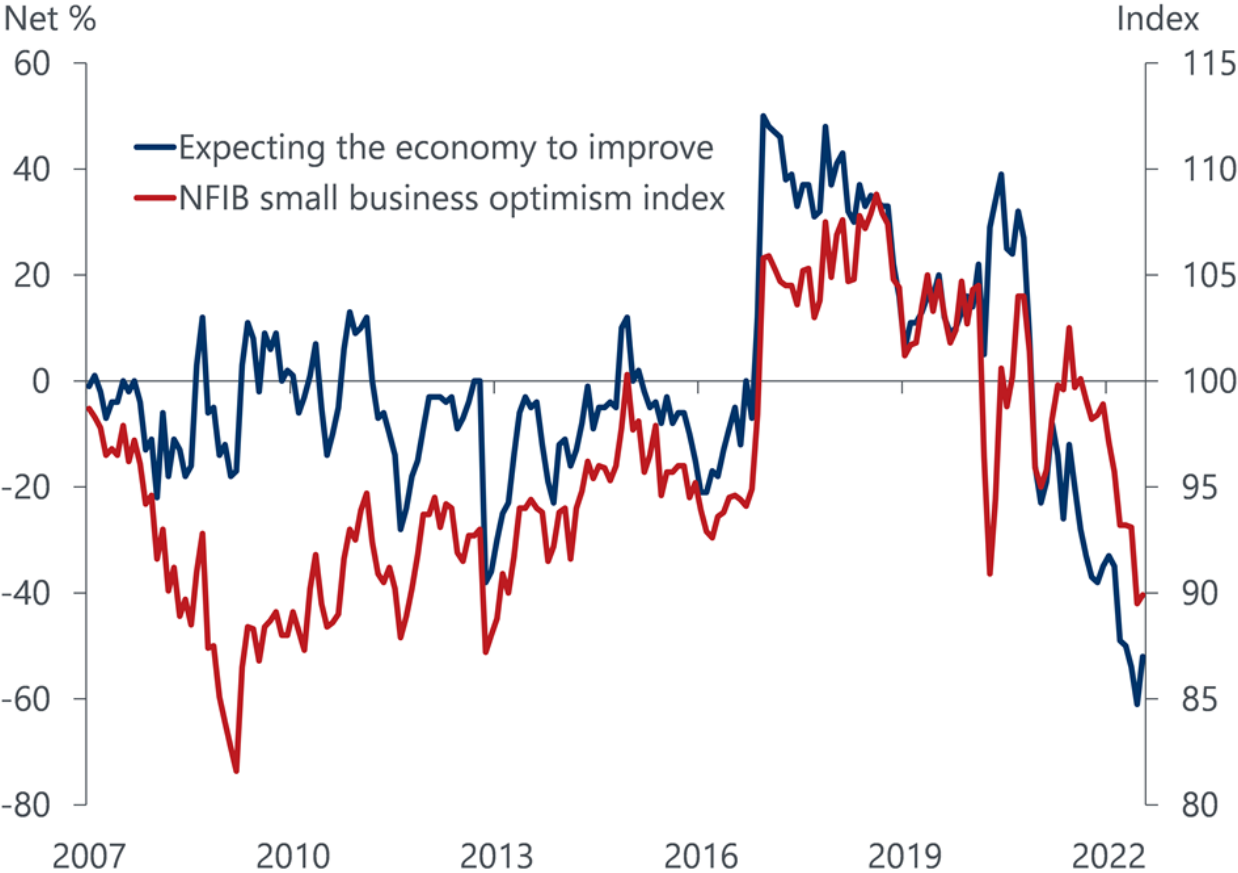
Adam Sacks
President
Tourism Economics
adam@tourismeconomics.com

August 2022

- 1** Economic environment is tenuous
- 2** Obstacles still oppose recovery
- 3** Why the travel industry will prevail

Small business optimism remains low despite July uptick

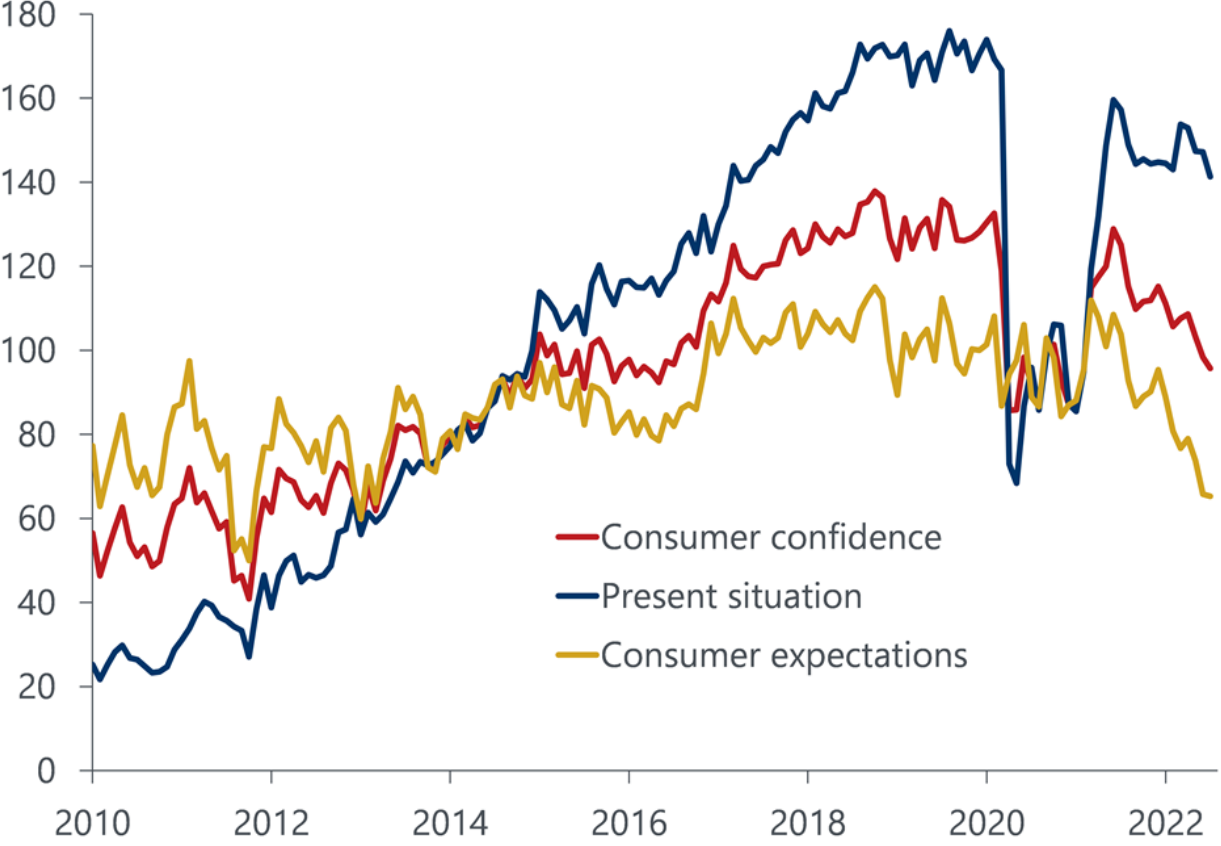
US: Small businesses remain downbeat on the outlook



Consumers feeling uneasy

US: Consumer confidence

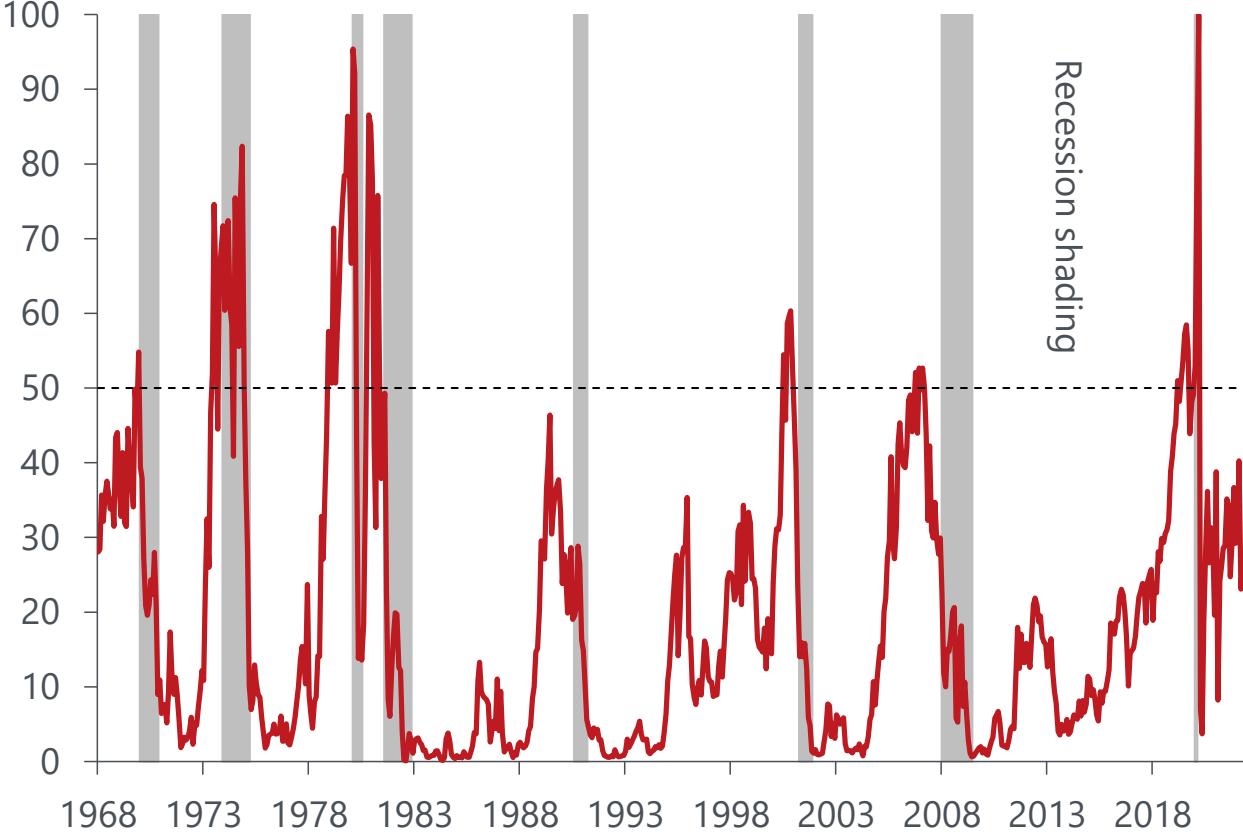
1985Q1=100



Oxford models don't see near term recession

US: Probability of a recession 3 months ahead

Percent, 3-month lead



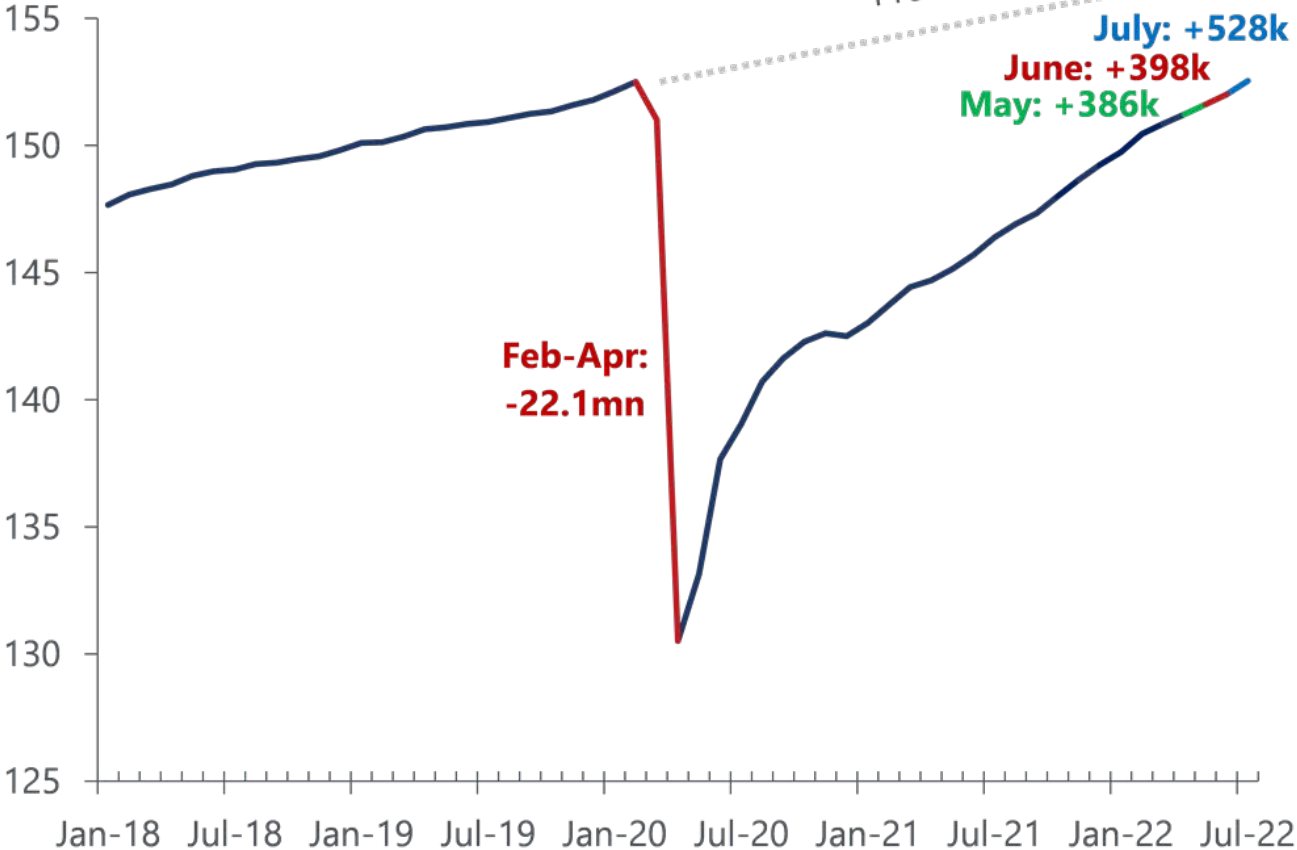
Using the Chicago Fed National Activity Index, the real federal funds rate & the yield curve

Source: Oxford Economics

Job growth continues to be strong

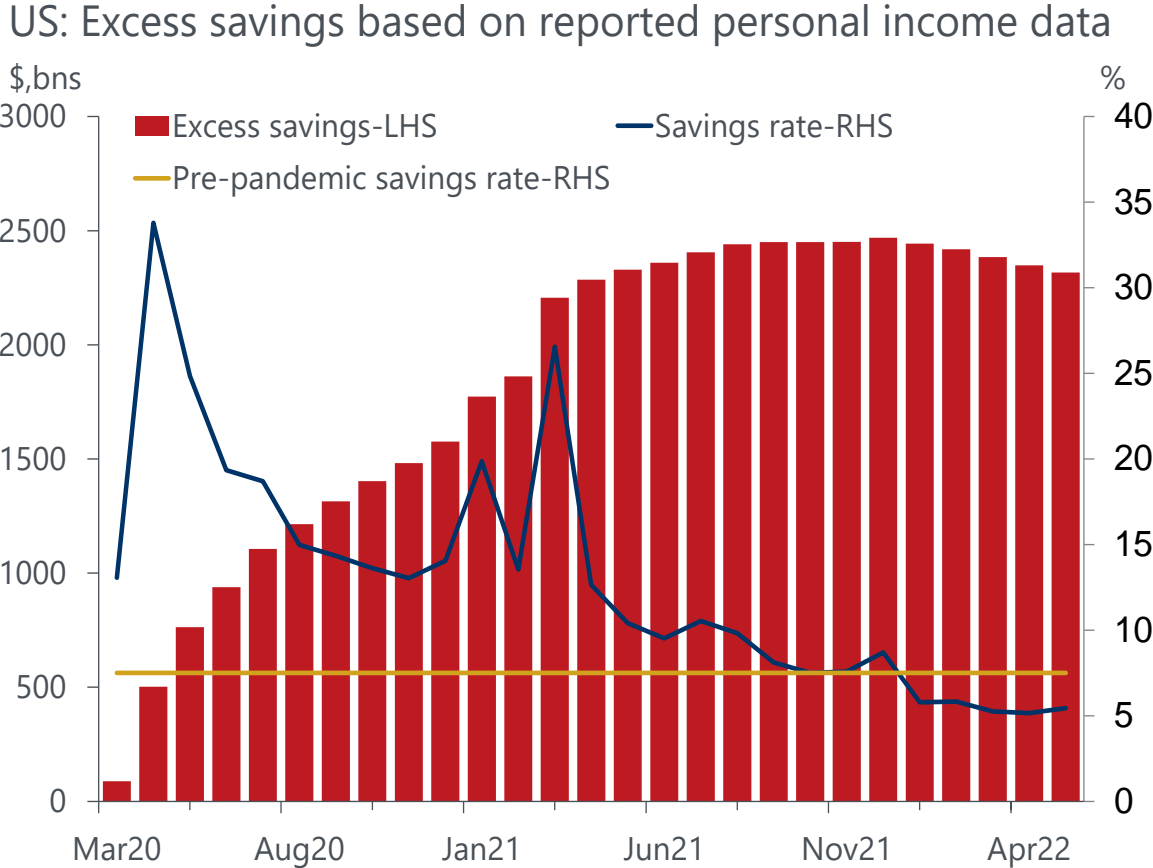
US: Nonfarm payroll employment

Millions



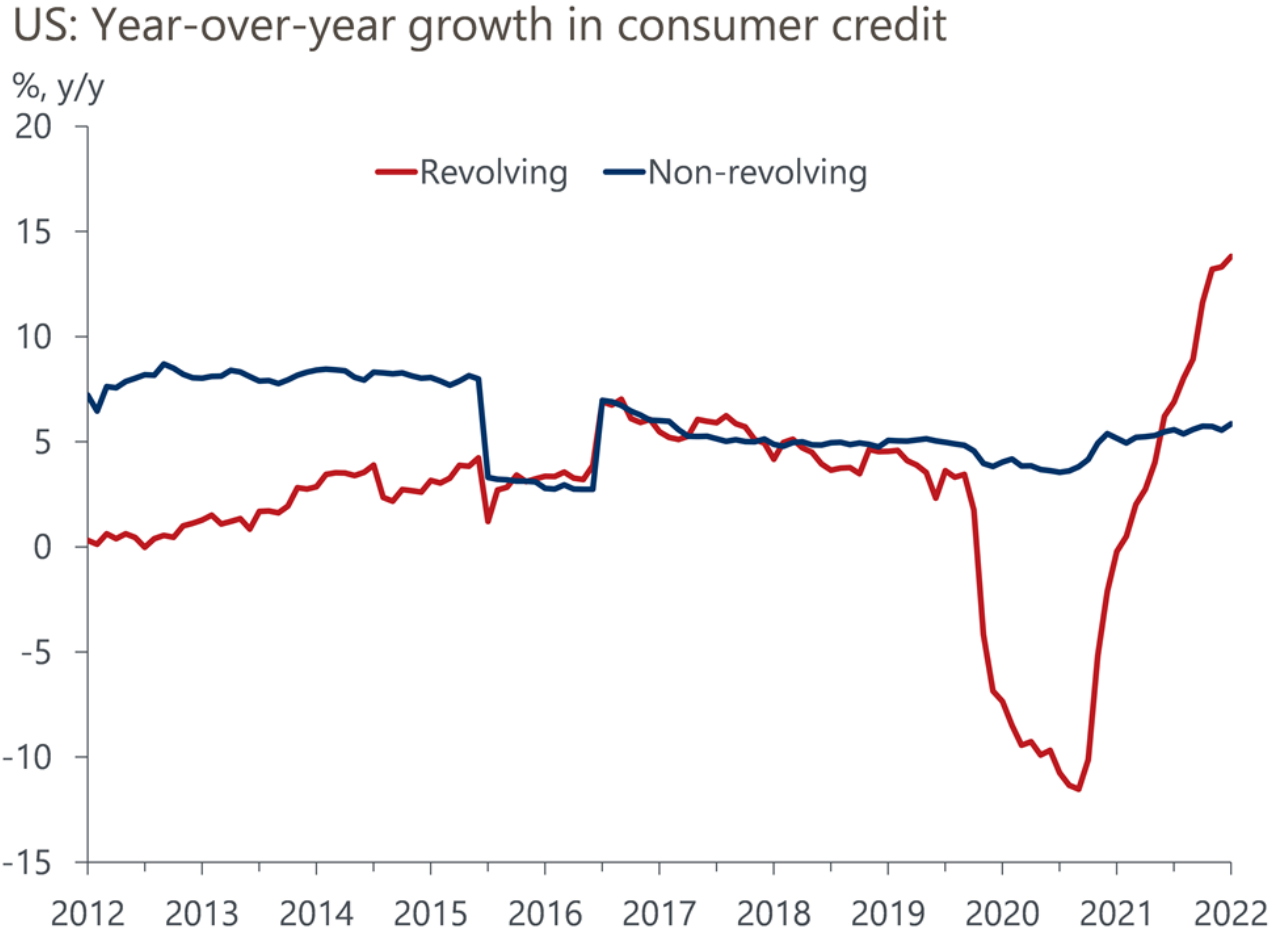
**Unemployment rate
recovers from 15% to
3.5% in record time**

The savings war chest is being tapped



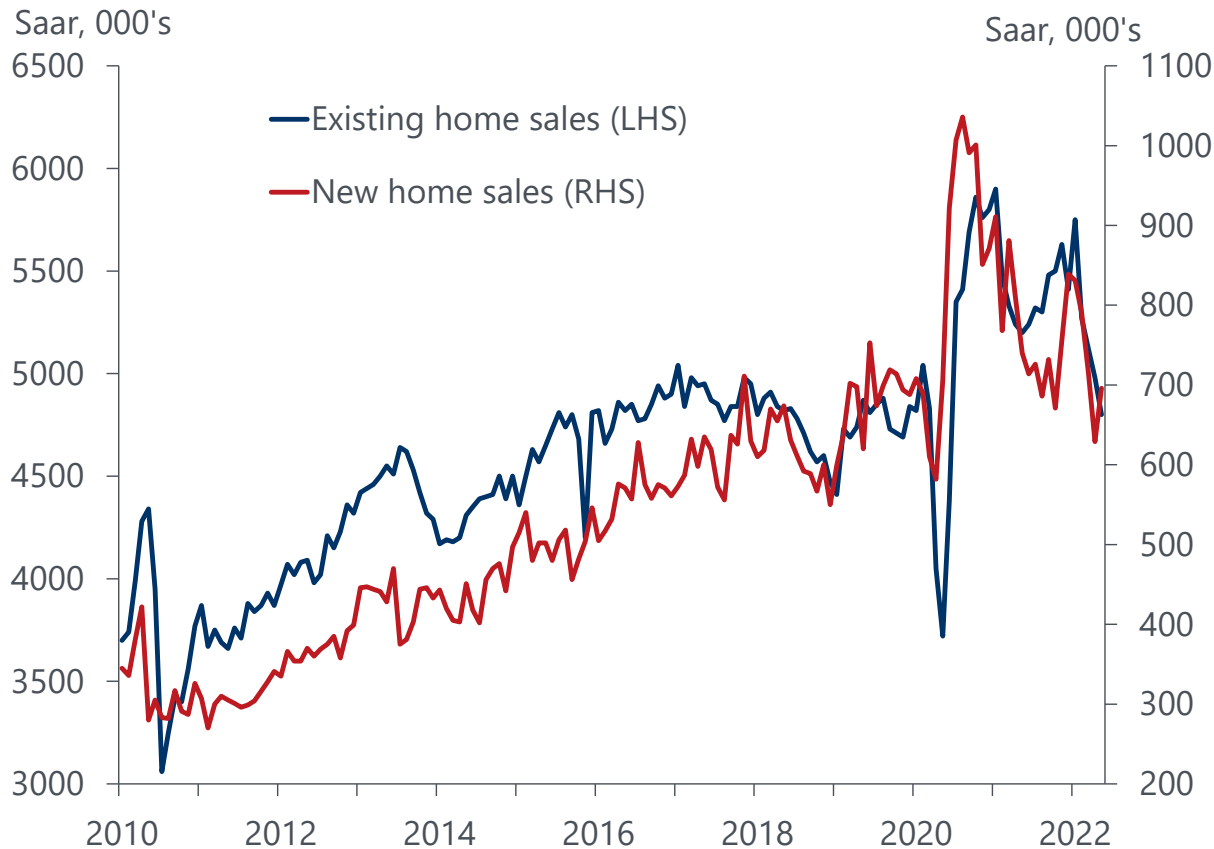
Source: Oxford Economics/Haver Analytics

Some households are borrowing more to maintain spending



Higher rates have taken a toll on housing

US: New and existing home sales



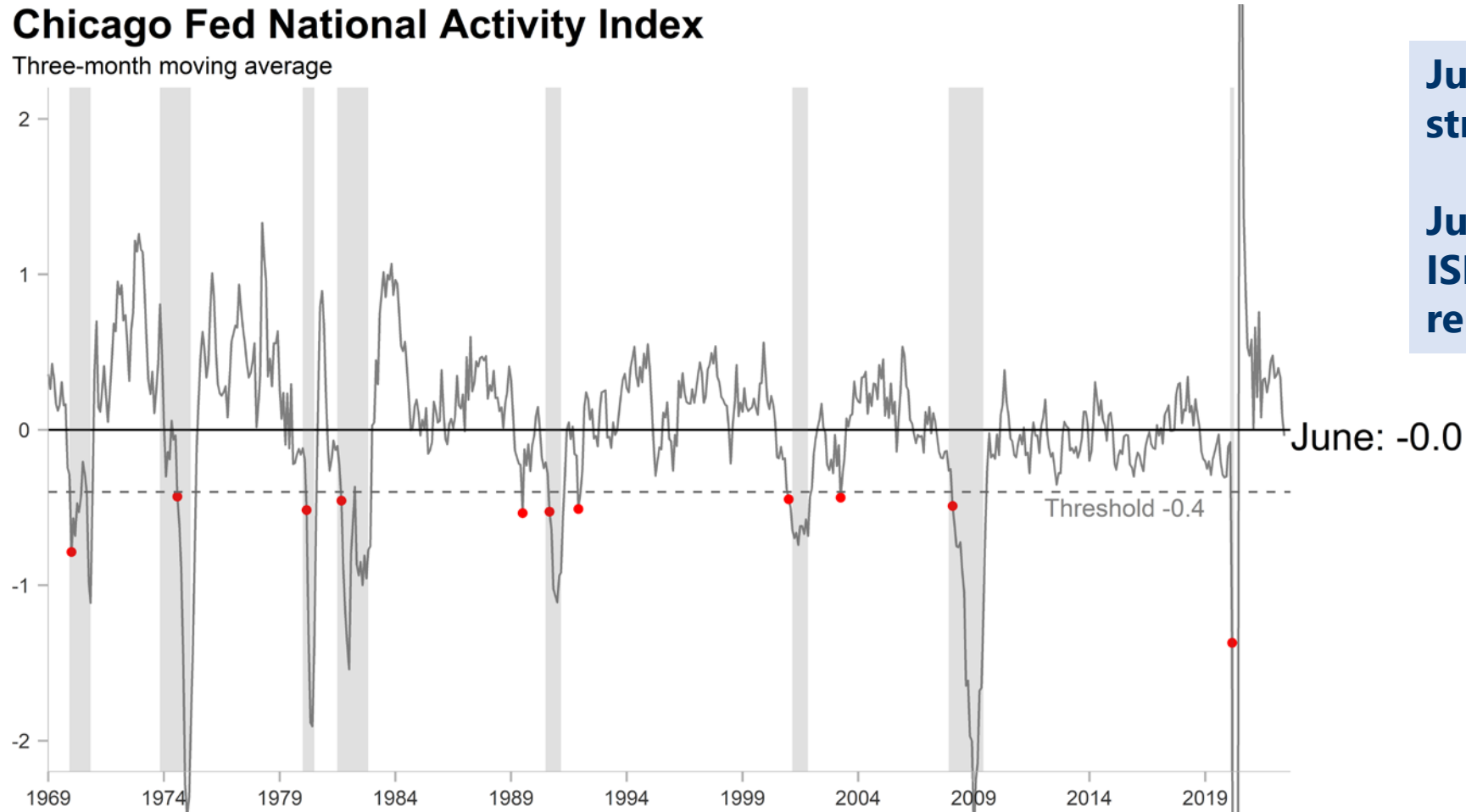
Source: Oxford Economics/Haver Analytics

~15mn households
have been priced
out by higher rates

Big picture still resilient!

Chicago Fed National Activity Index

Three-month moving average

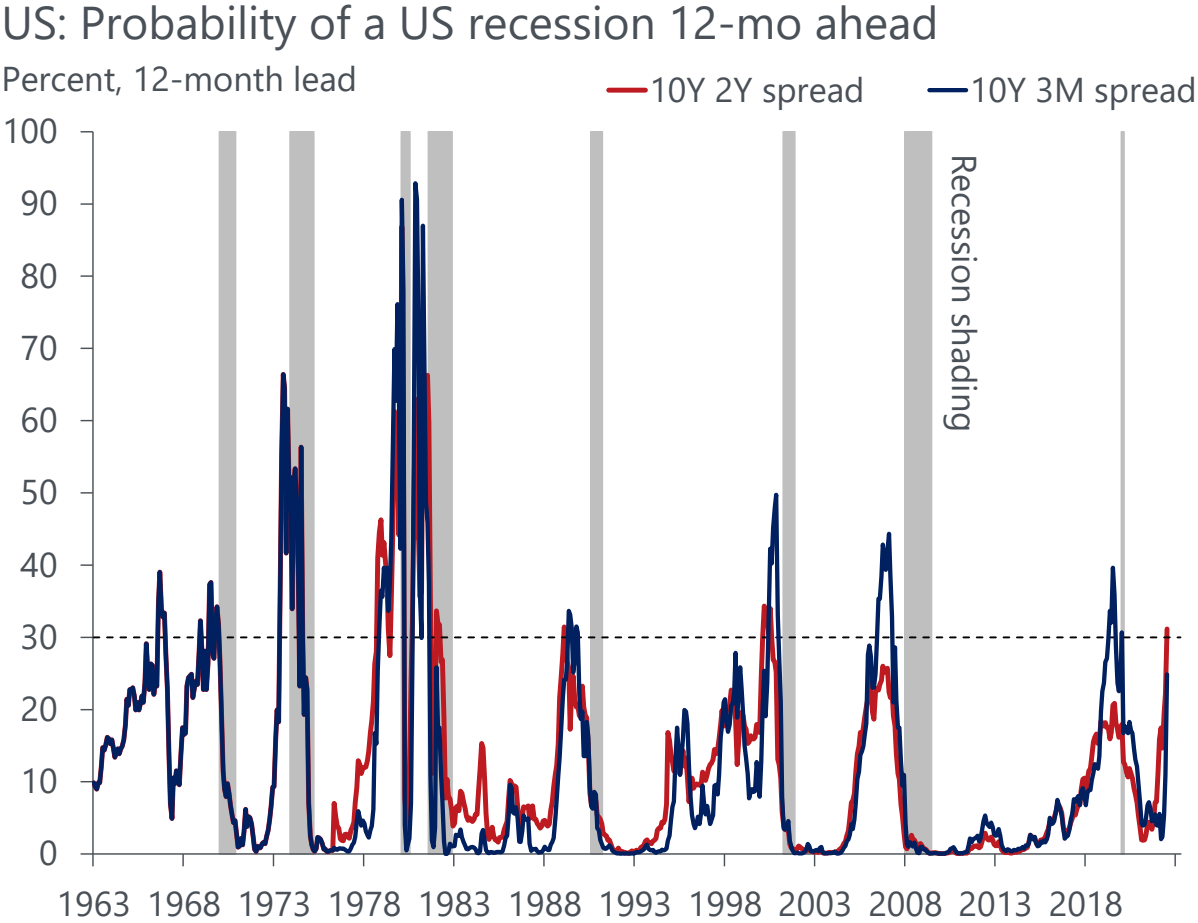


July services PMI strengthened to 56.7

July manufacturing ISM slowed to 52.8 but remains expansionary

Note: Index is calculated as a weighted average of 85 indicators of US economic activity, such as employment, consumption, industrial production, and housing starts. Zero represents trend growth. Red dots indicate the months in which the index falls below a threshold value of -0.4 for the first time in six months. Of these 11 cases, nine represented recessions. Grey shading indicates recessions. Source: Chicago Fed

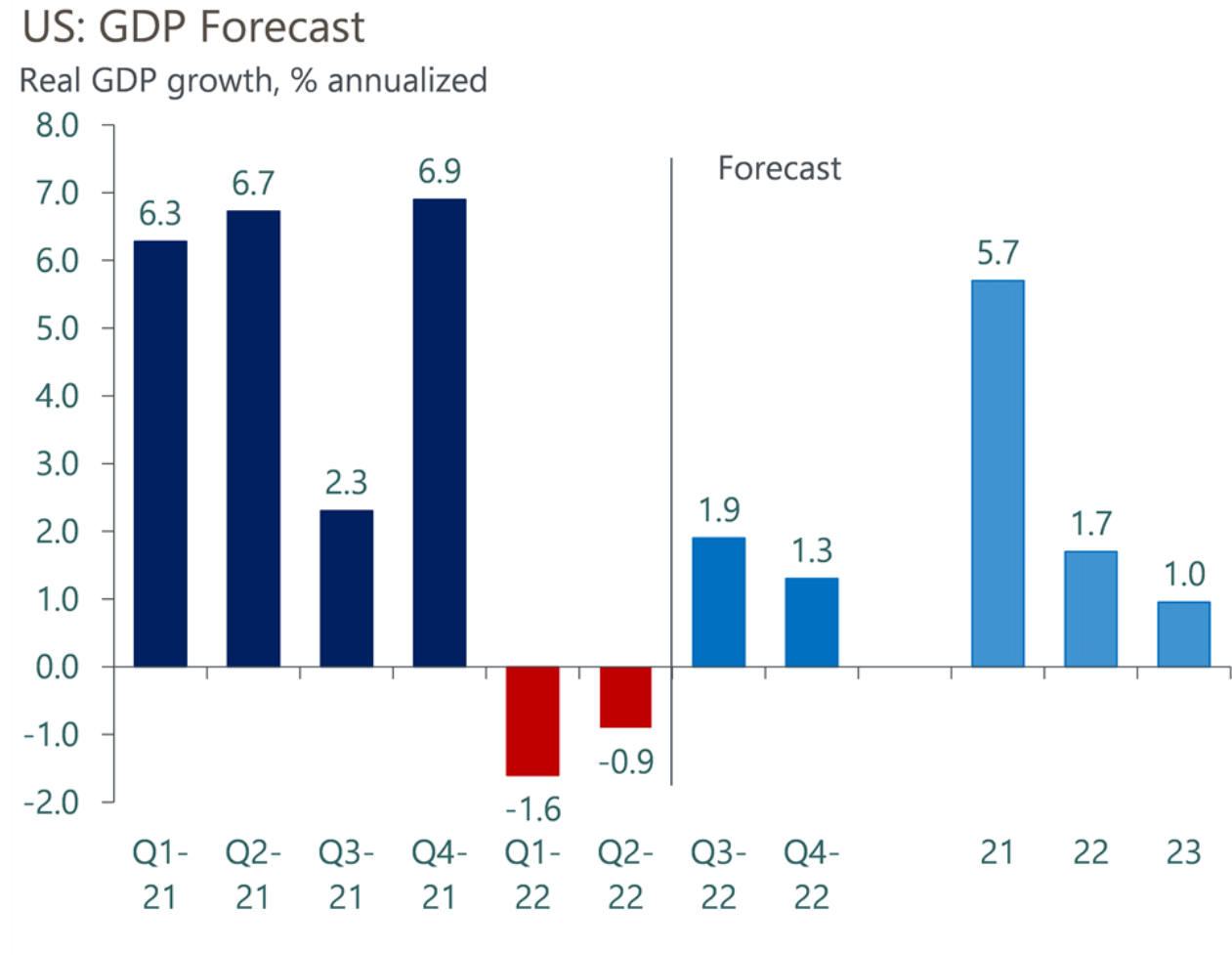
But the yield curve indicates greater risk in 2023



Source: Oxford Economics/New York Federal Reserve

Using the yield curve

The US economy has a (narrowing) path to a soft landing

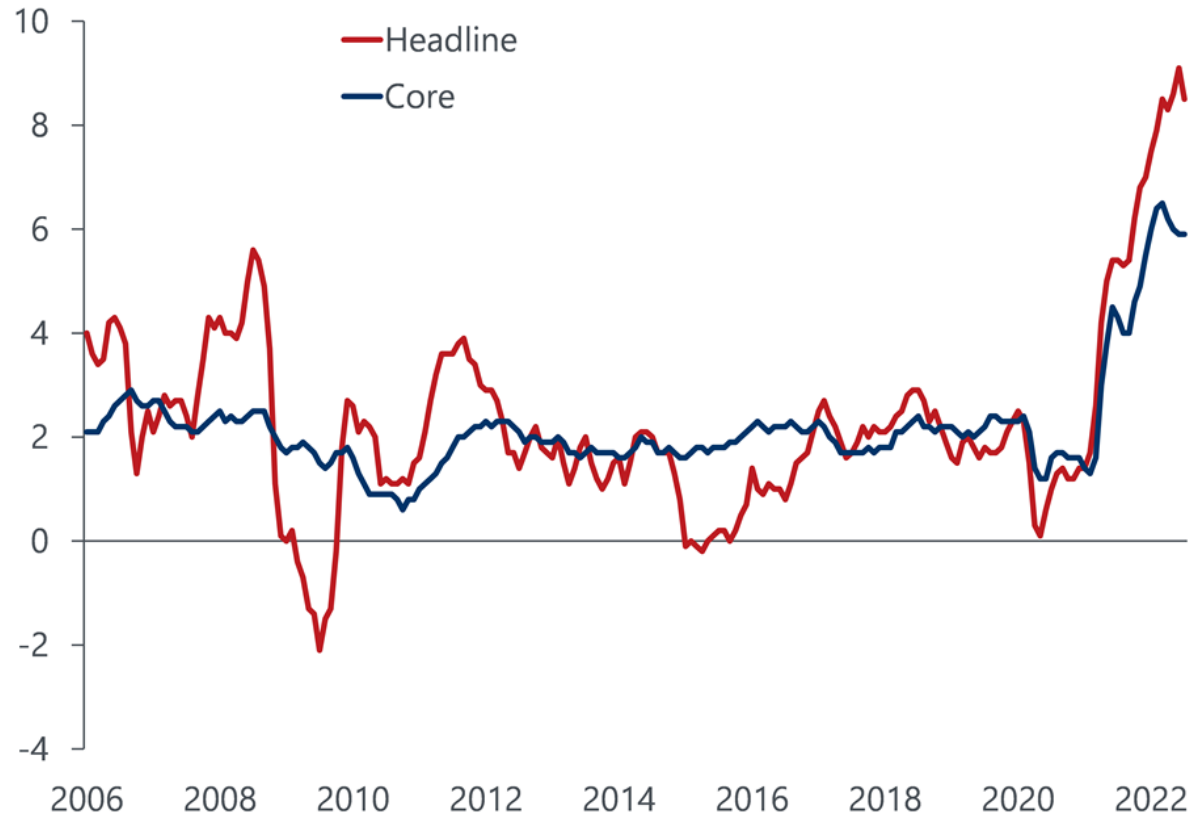


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Obstacle 1: inflation

US: Consumer prices

%, year



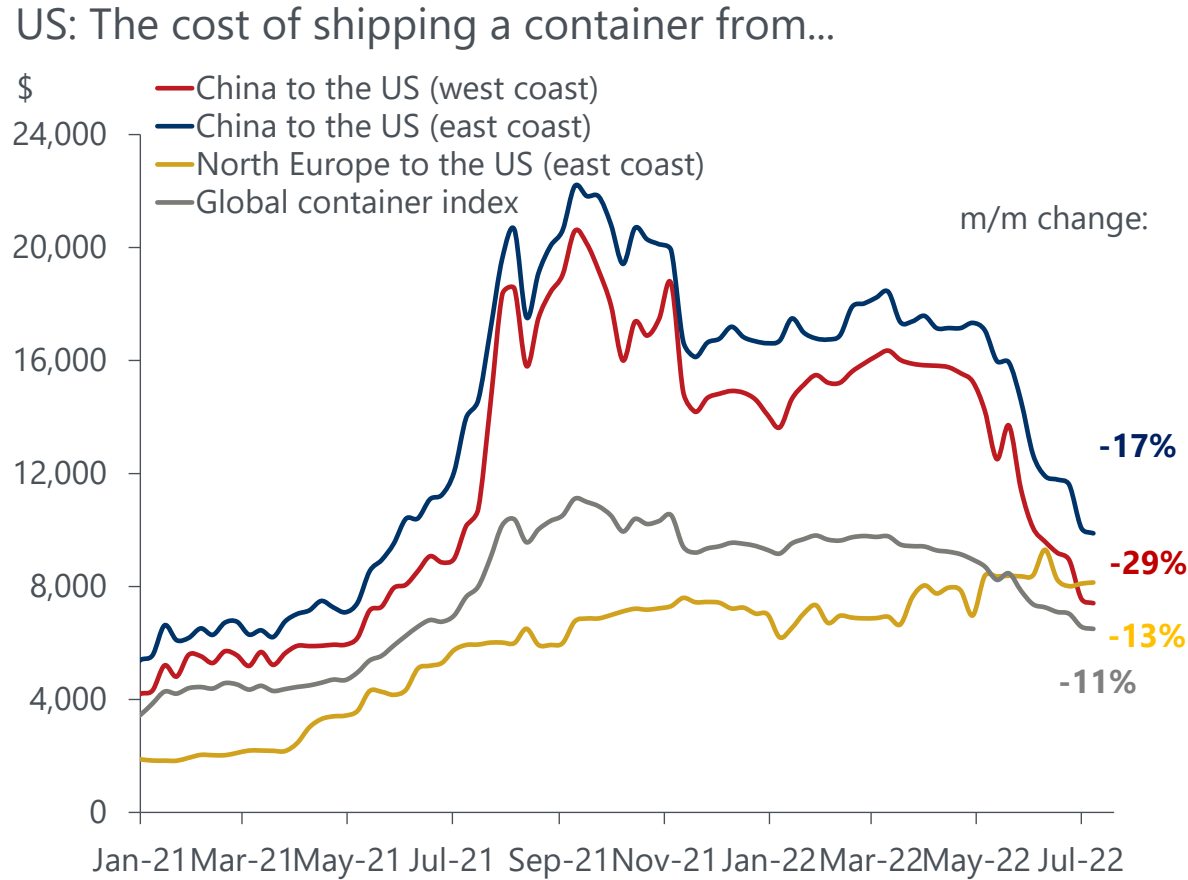
Source: Oxford Economics/Haver Analytics

**July headline CPI unchanged!
(Core +.3%)**

Annual rate softened but still high

- **Headline: +8.5%**
- **Core: +5.9%**
- **Energy: +33%**
- **Food prices: +11%**

Good news as supply chain stresses ease moderately

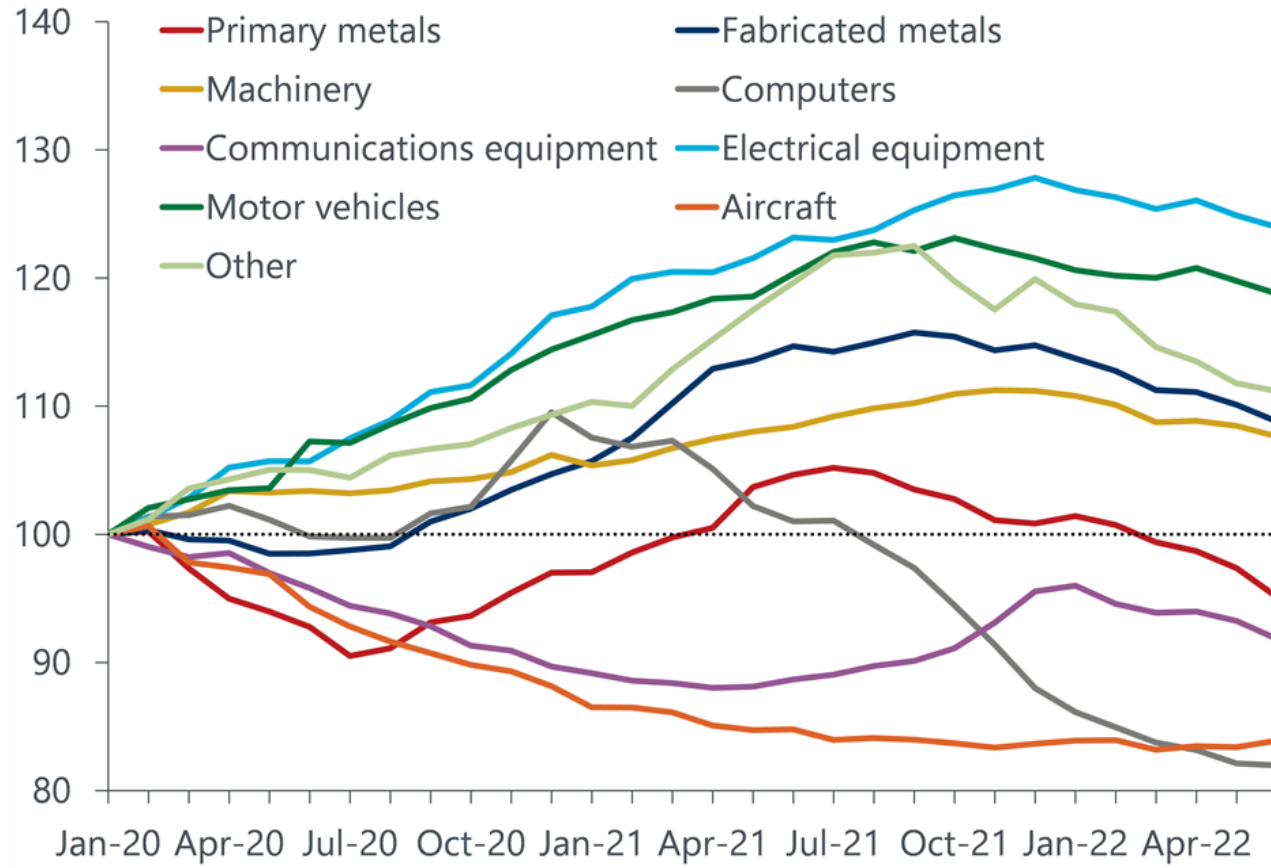


Source: Oxford Economics/Freightos Baltic Index

Unfilled goods orders are trending lower

US: Unfilled durable goods orders, inflation-adjusted

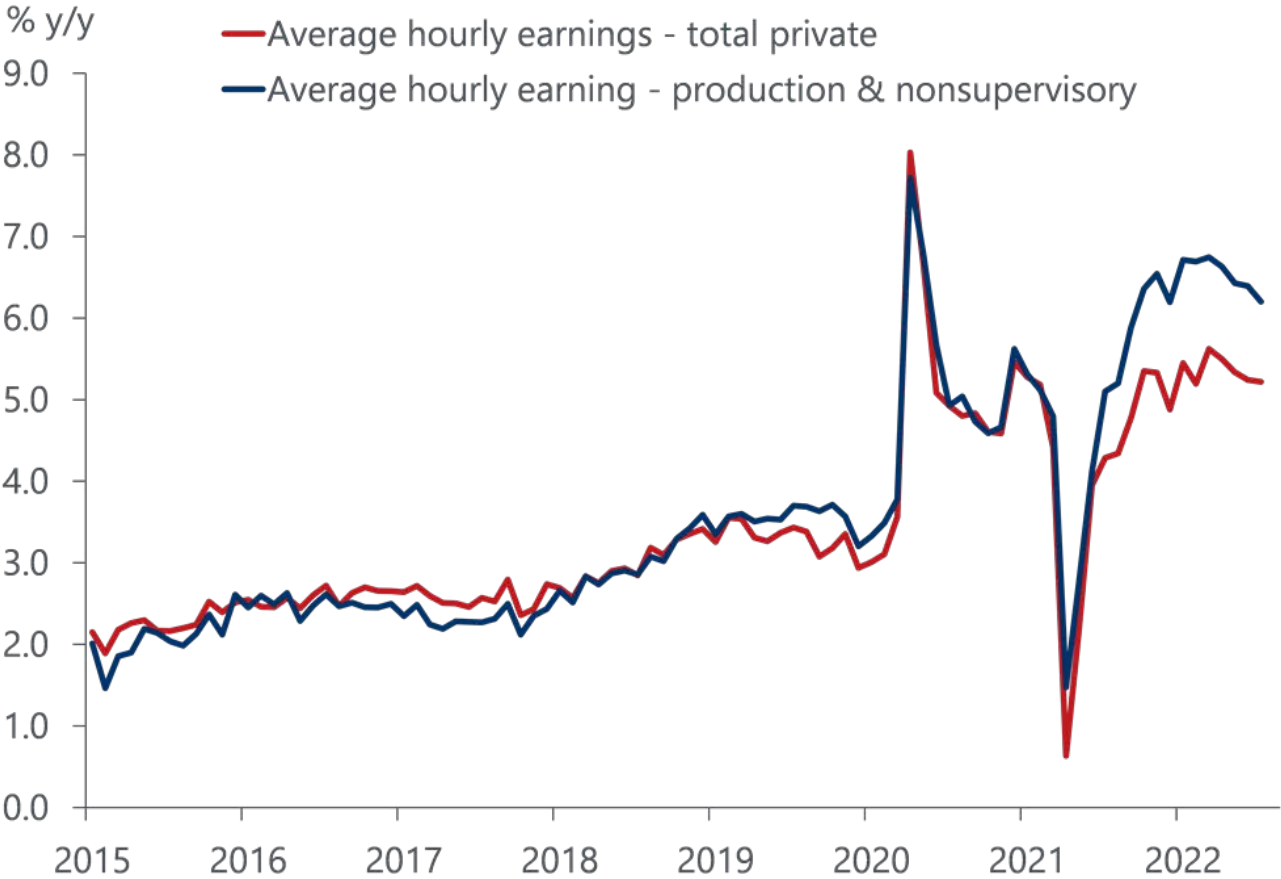
Index; Jan-20=100



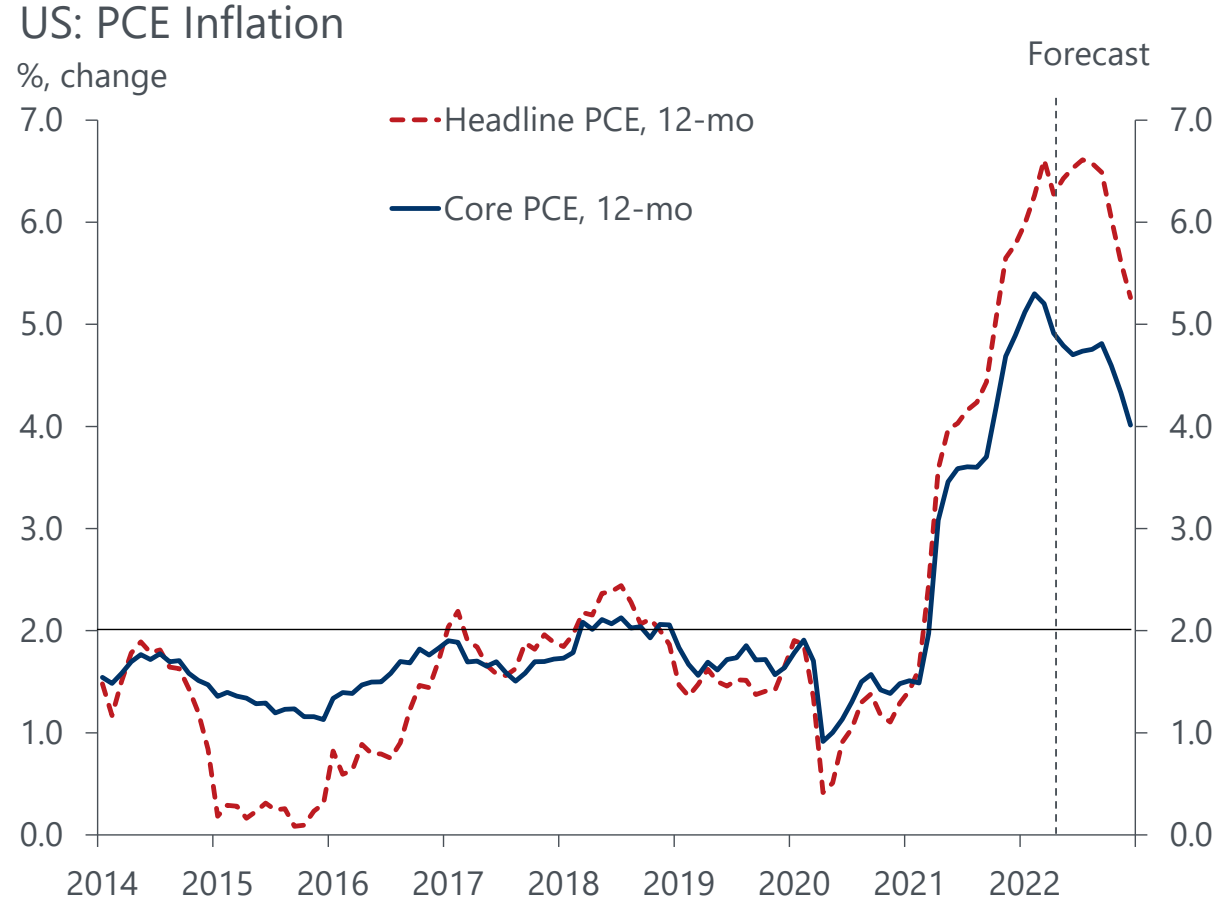
Note: Data are Oxford Economics estimates

Wage growth appears to have peaked

US: Stronger wage growth for lower wage workers

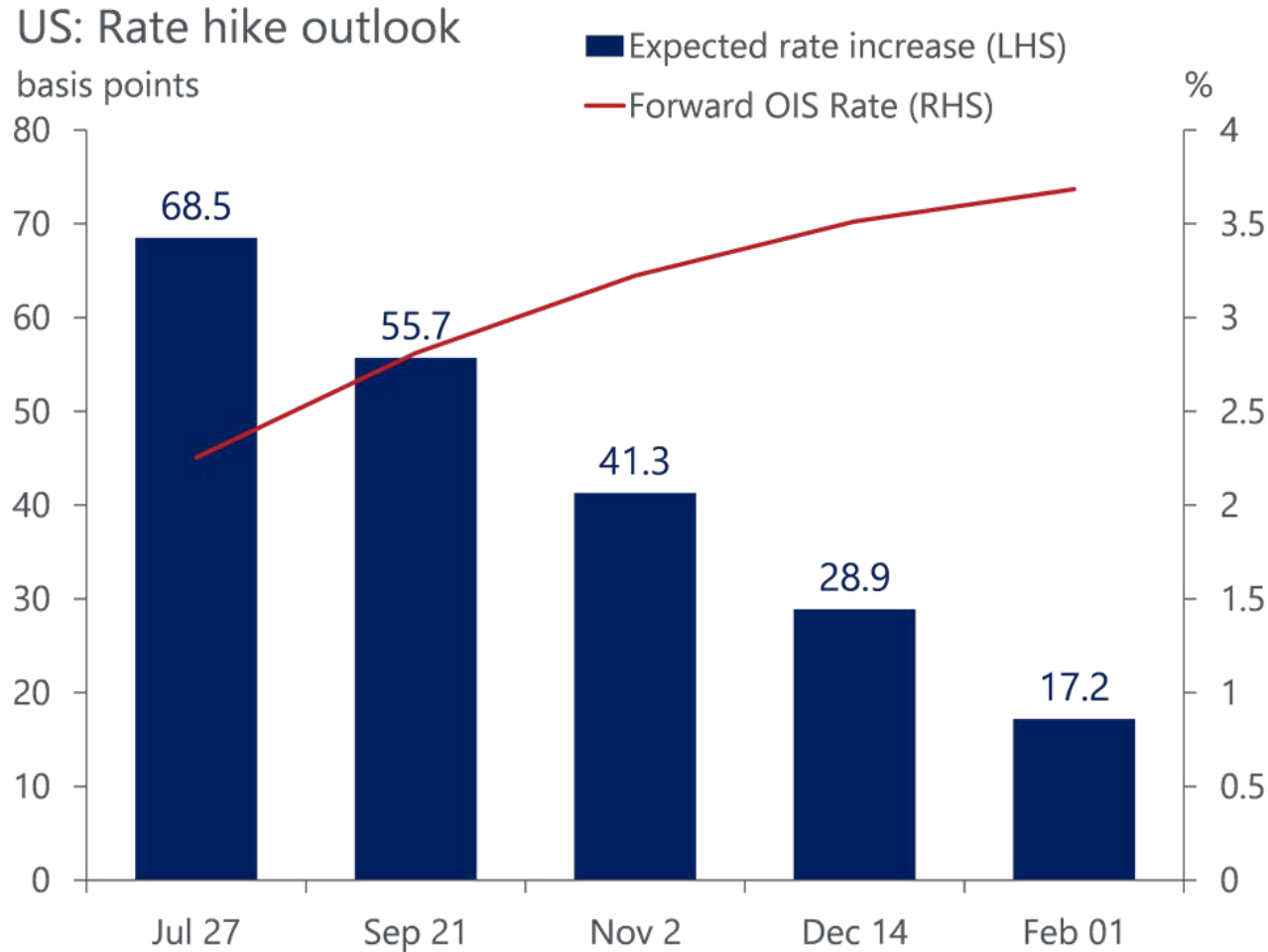


Expecting a gradual descent in CPI inflation



Source: Oxford Economics

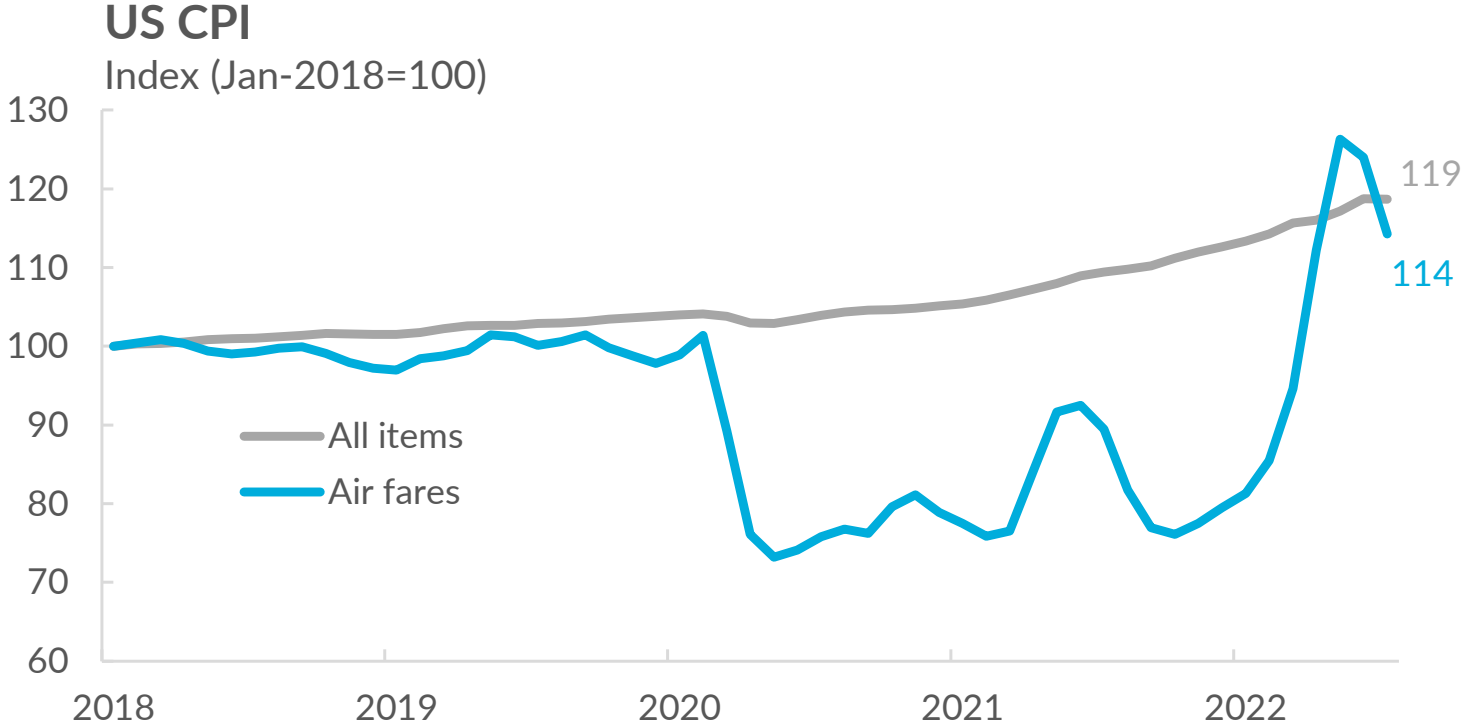
Fed isn't finished



Fed has raised rates as much as it had over the entire 2010-2019 expansion.

It also matched the peak 2.5 percent upper range hit during that period.

Air travel prices showing signs of relief



Sources: Tourism Economics, BLS, Haver

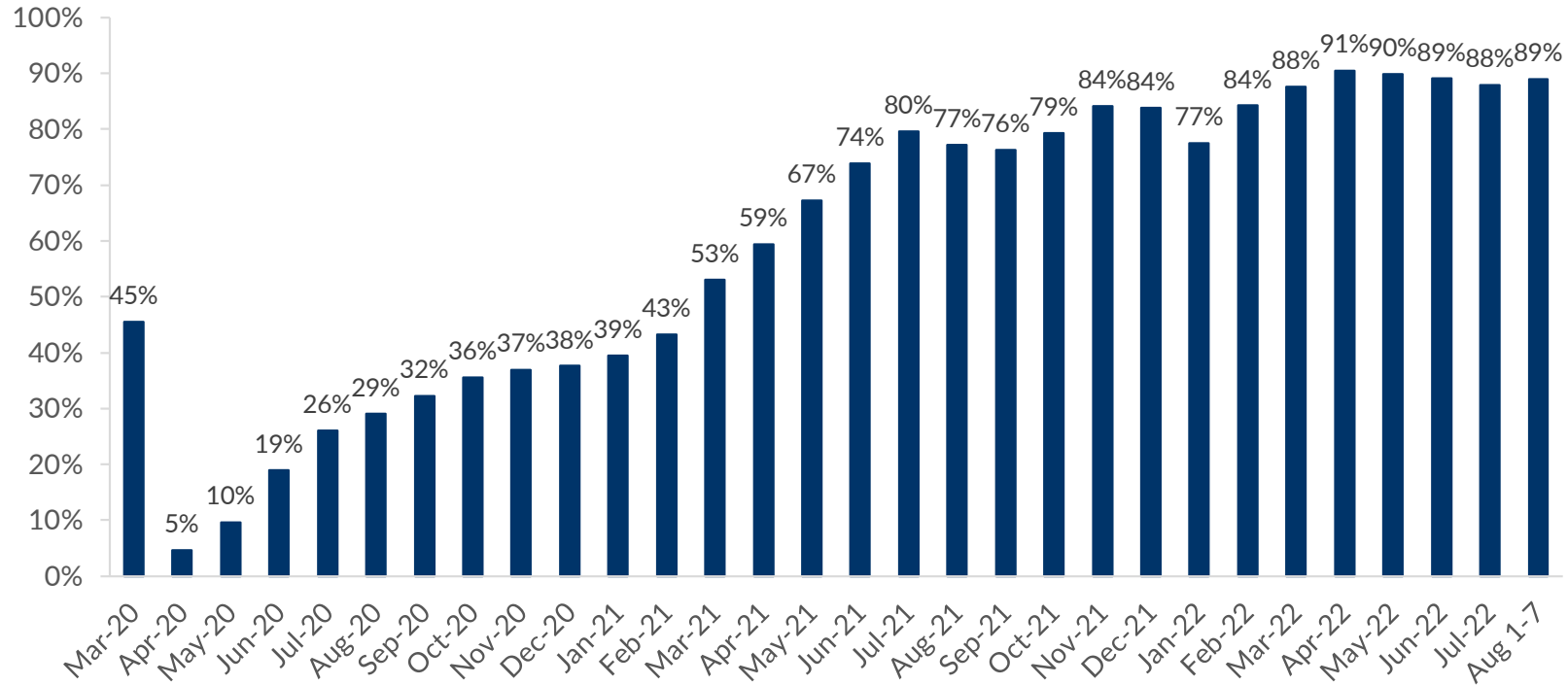
“Strong demand and pricing trends are continuing into the September quarter.”

Delta earnings call, July 13

Obstacle 2: air capacity

Air Passenger Volume

% of 2019 level



Source: TSA

Air travel remains 11% below 2019 levels

“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

Obstacle 3: workforce

Job openings

Openings rate, US

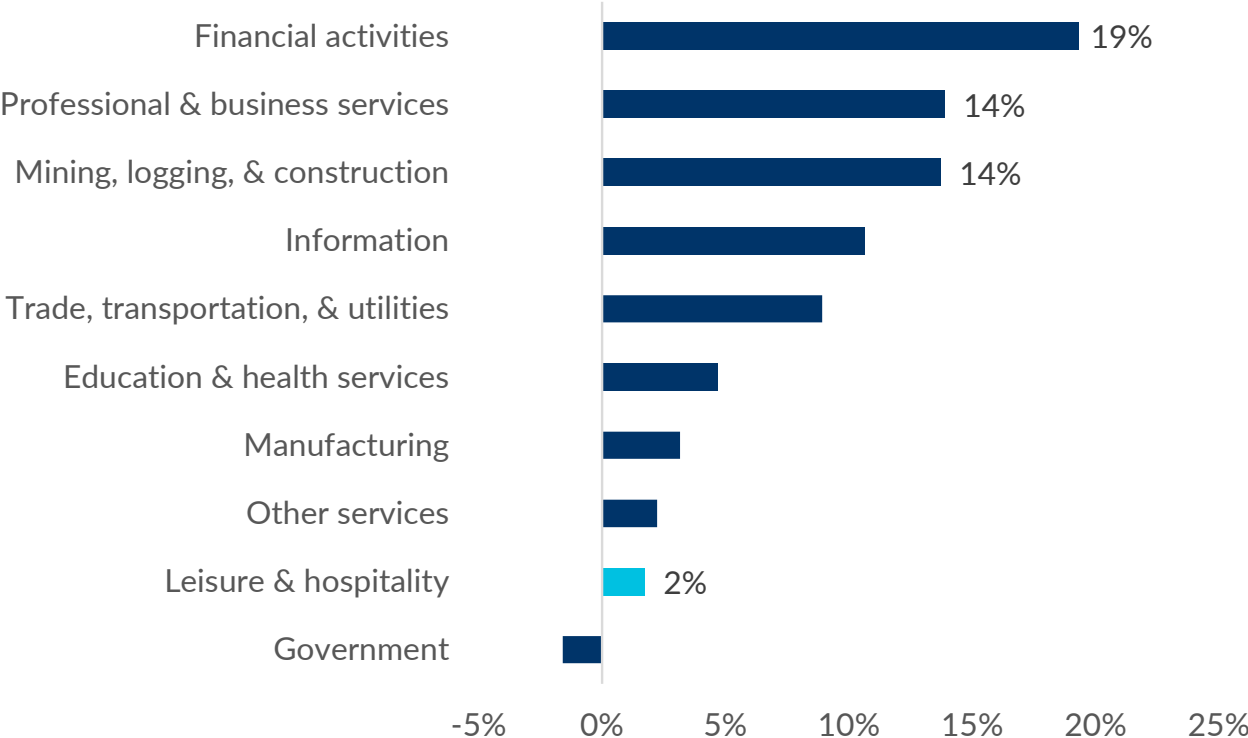


Note: The job openings rate is the job openings level as a percent of total employment plus job openings level. Data through June 2022. Seasonally adjusted. Total refers total private. Source: Bureau of Labor Statistics

Wide disparity in labor market recovery

Raleigh employment growth by industry

% of industry growth versus same month 2019

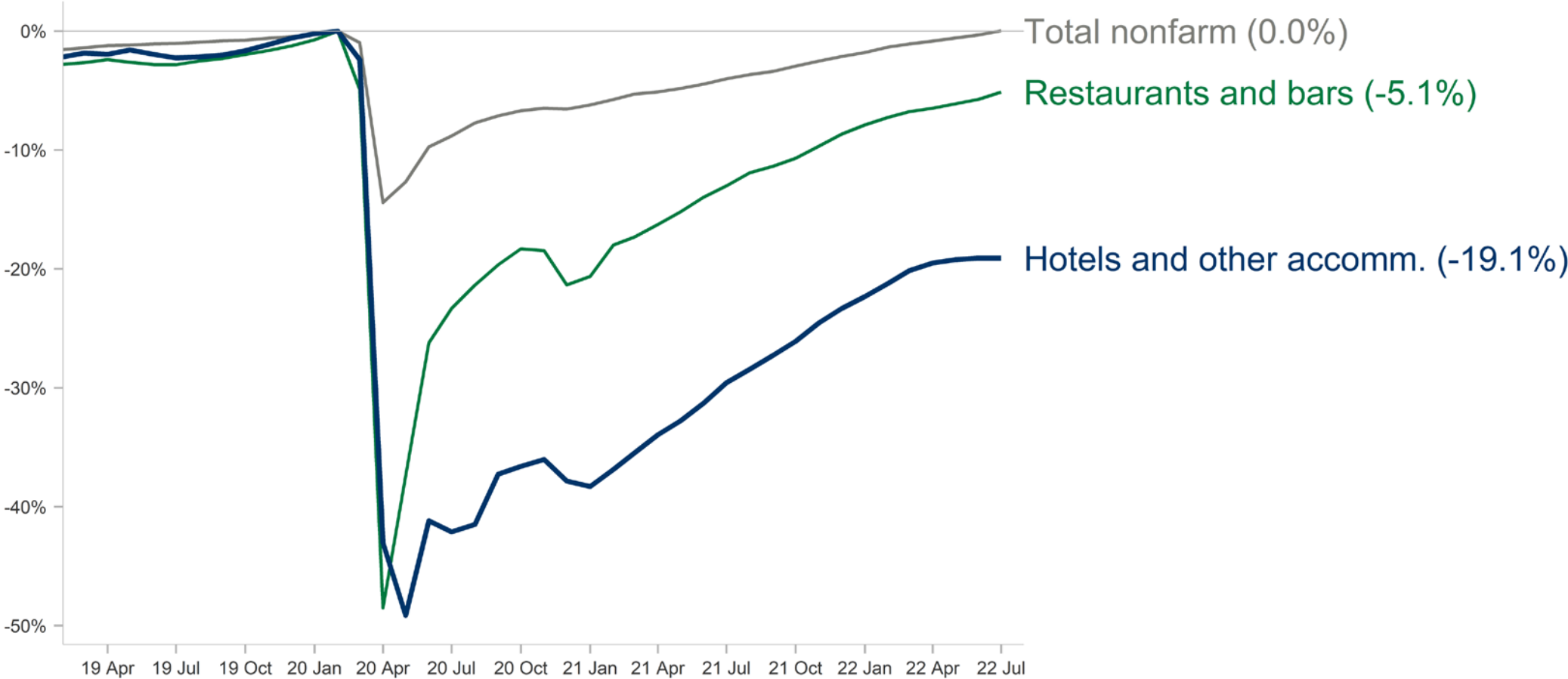


Source: BLS

Situation is especially acute in hotel sector

Employment losses by sector

Relative to February 2020, US

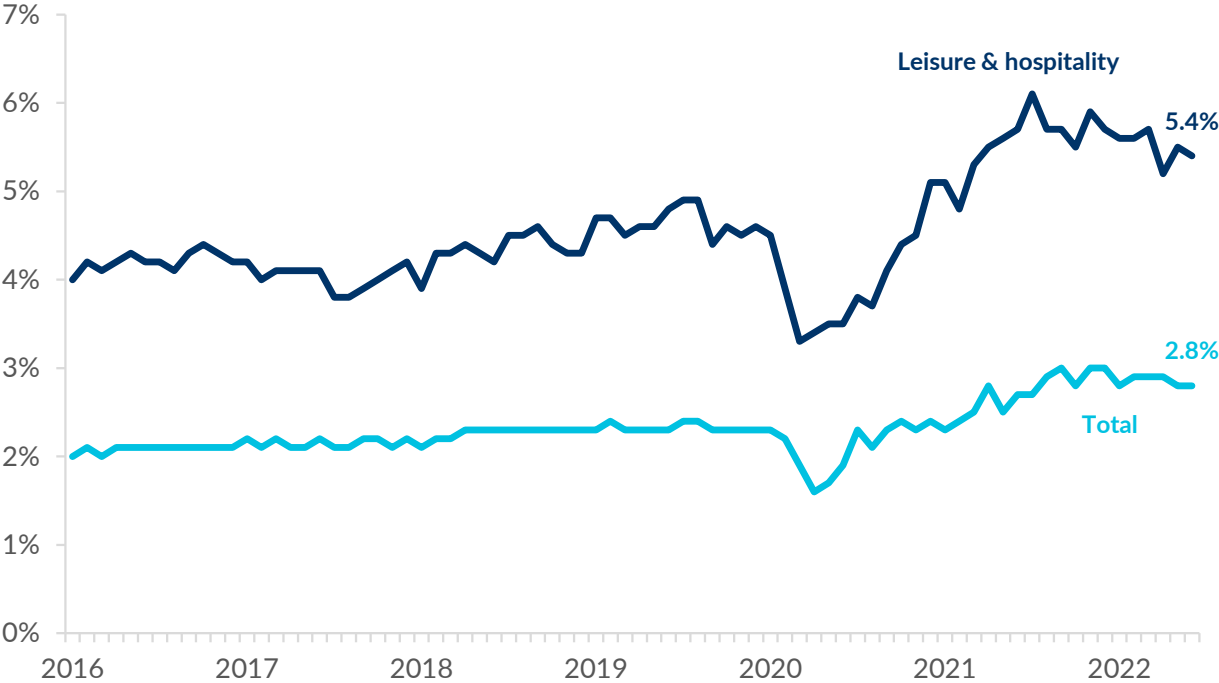


Note: Seasonally adjusted. Data through July 2022. Source: Bureau of Labor Statistics

Quit rate in hospitality is elevated

Job quits rate

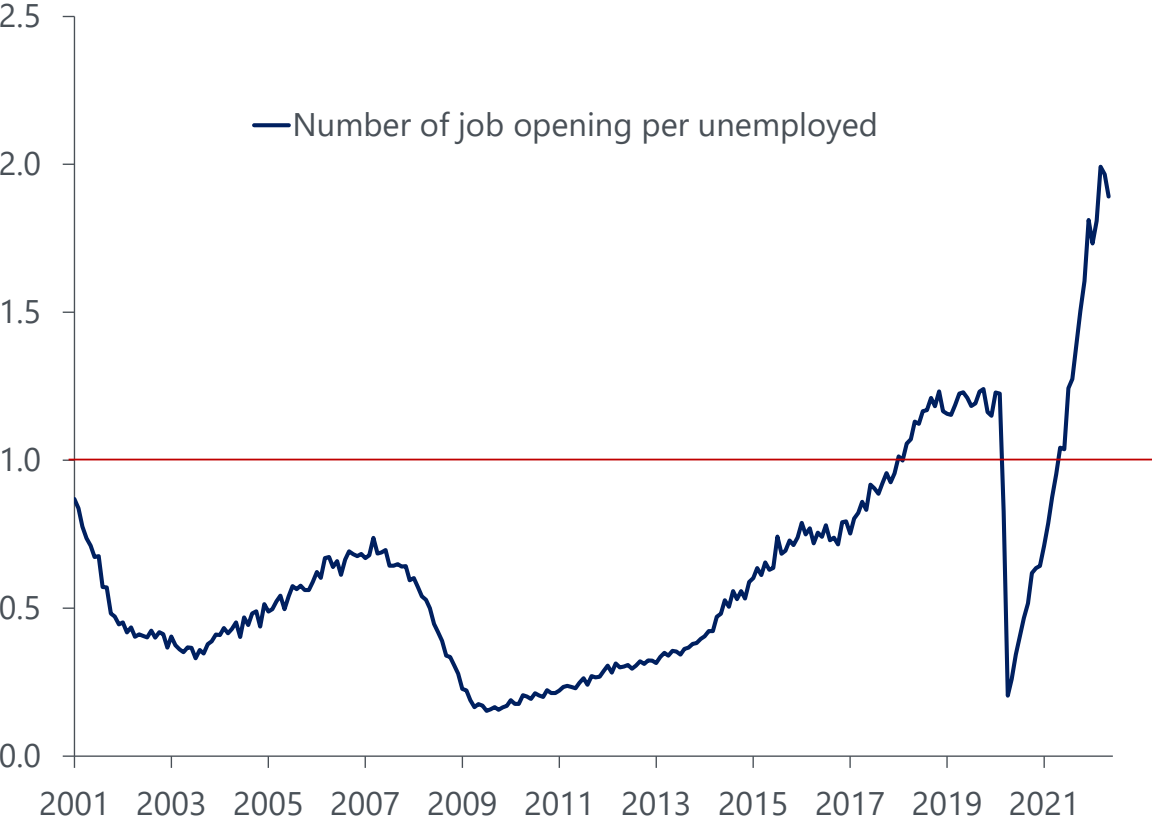
Share of quits as a percent of total employment



Source: BLS

More than 2 job openings per unemployed person

US: Far more job openings than unemployed

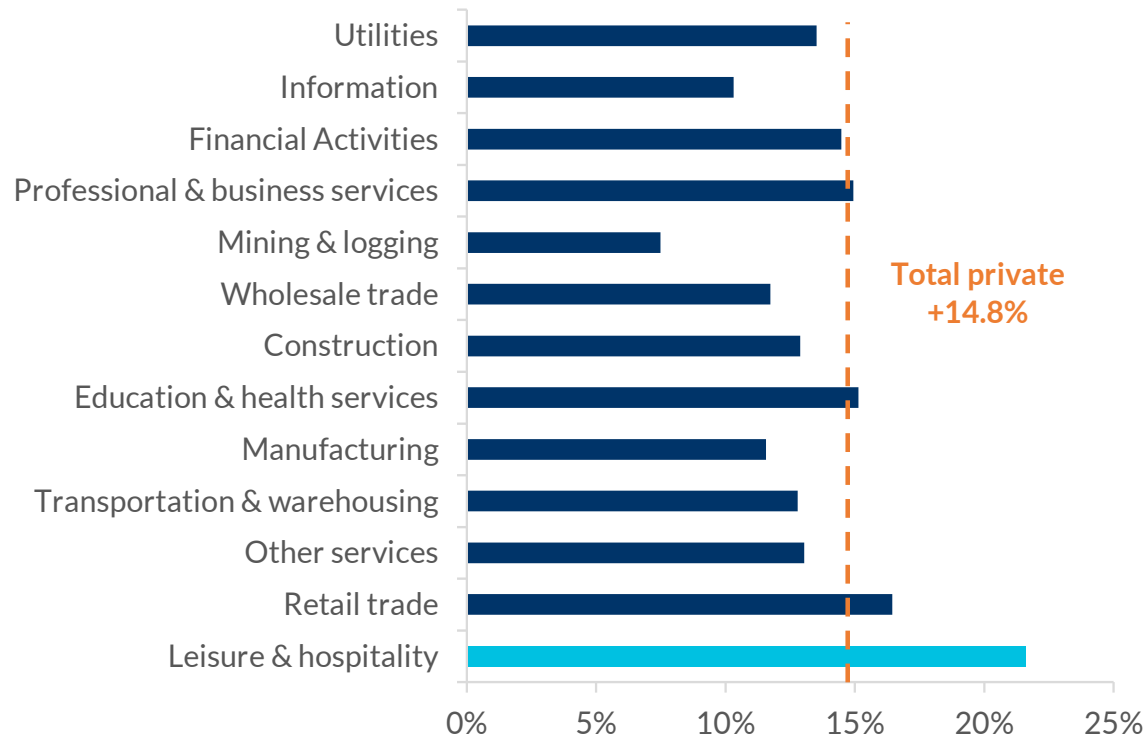


Source: Oxford Economics/Haver Analytics

No sector has matched L&H wage increases

Wage growth by industry

% change relative to May 2019, industries ranked by hourly wages

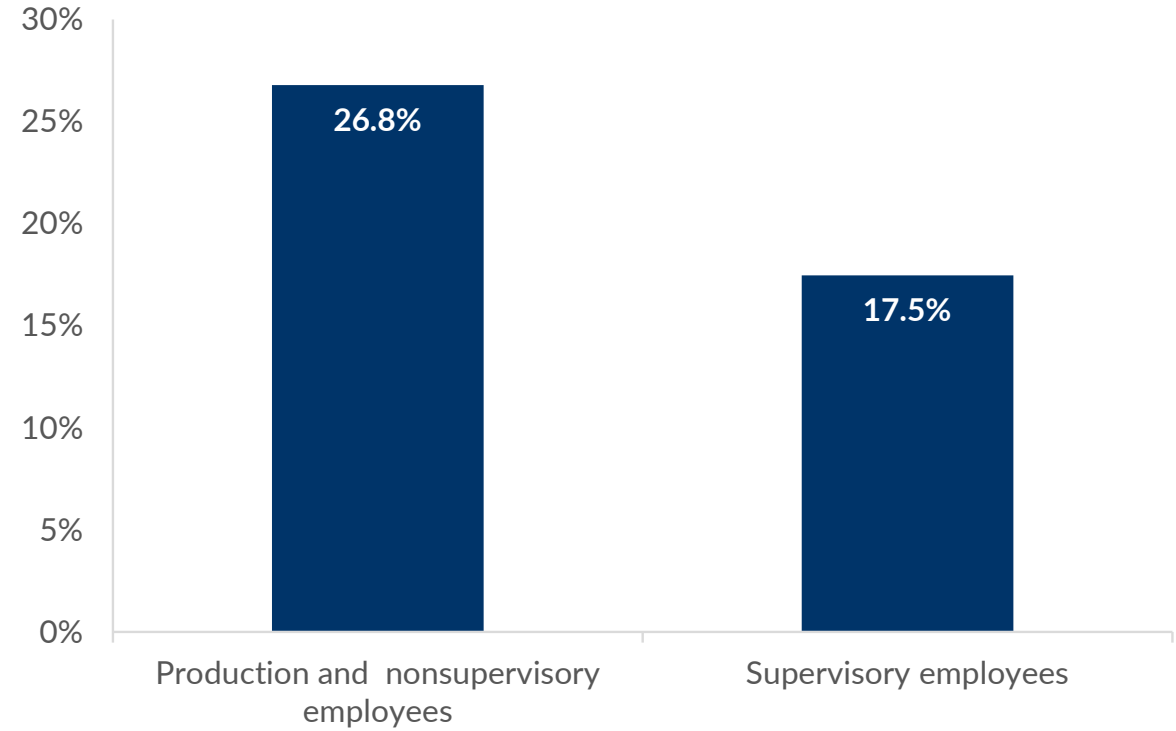


Source: BLS

Increases larger for lower ranks

Accommodation weekly wage growth

July 2022 vs. July 2019

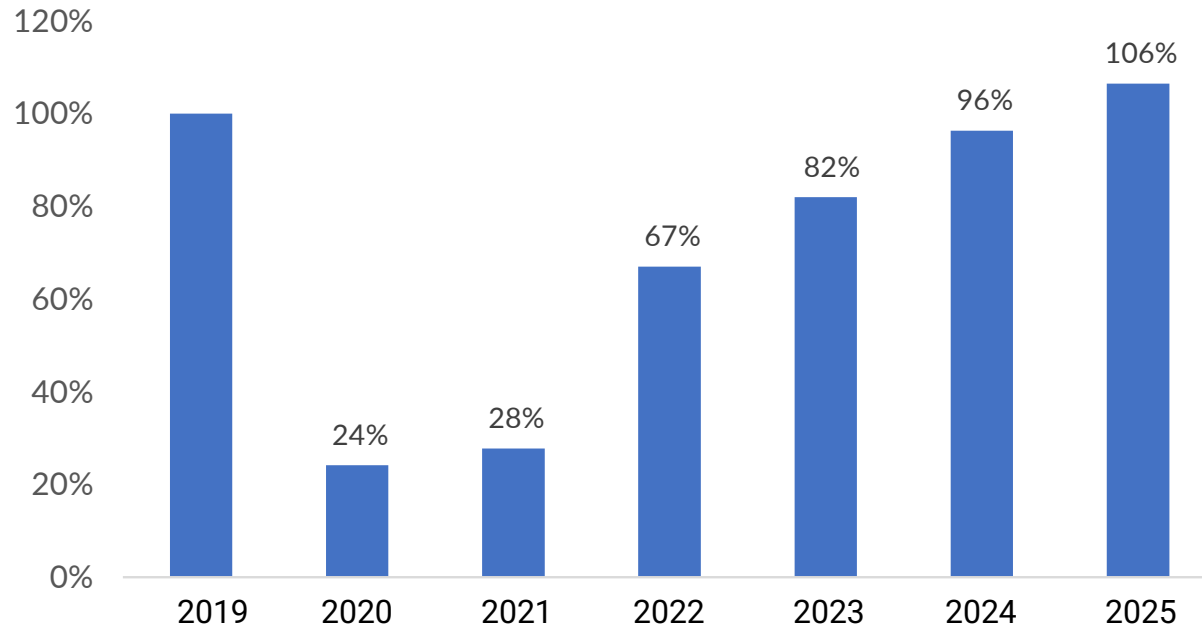


Source: BLS

Obstacle 4: international inbound

International inbound forecast

% of 2019



Source: Tourism Economics

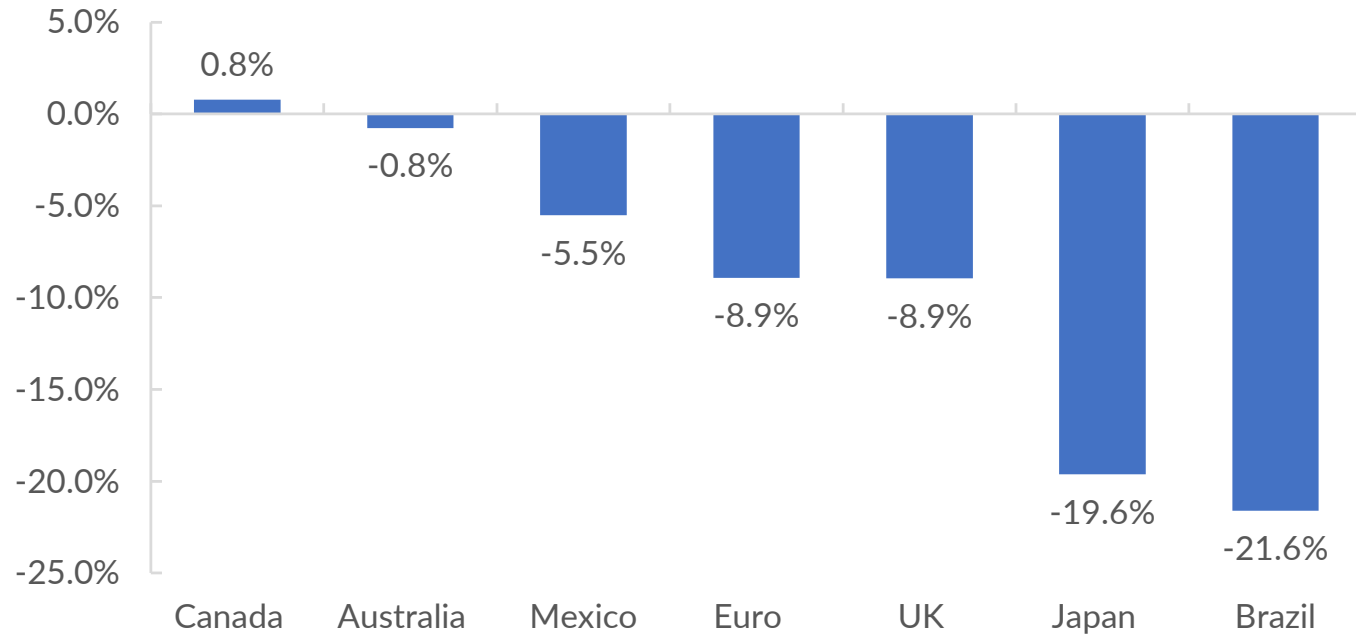
May inbound = 4,317,602
64% of May 2019 visits

May outbound = 6,853,148
80% of May 2019 departures

And traveling to the US has gotten MORE expensive

Change in USD Exchange Rates versus 2019

% change from end-2019 spot rate, as of Aug 9 2022 (USD/LCU)



Sources: Tourism Economics, Haver

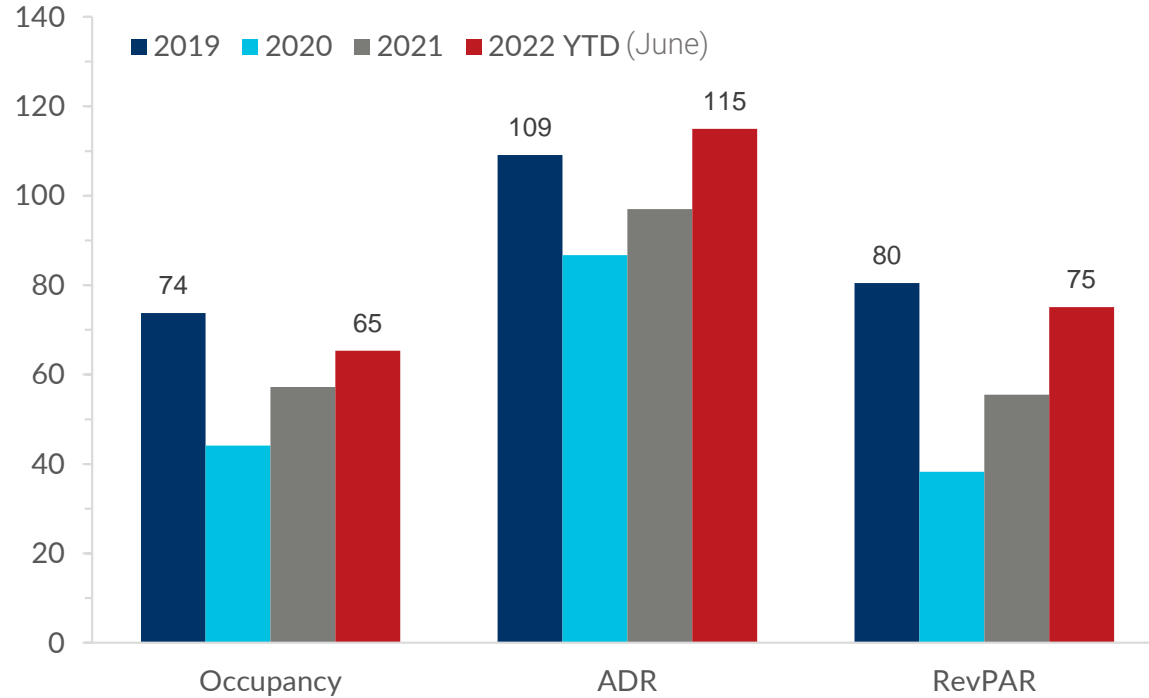
Note: Negative change implies depreciation of local currency (LCU) versus USD.

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All hotel measures have staged a comeback

Wake County hotel performance

ADR and RevPAR in \$, Occupancy in %

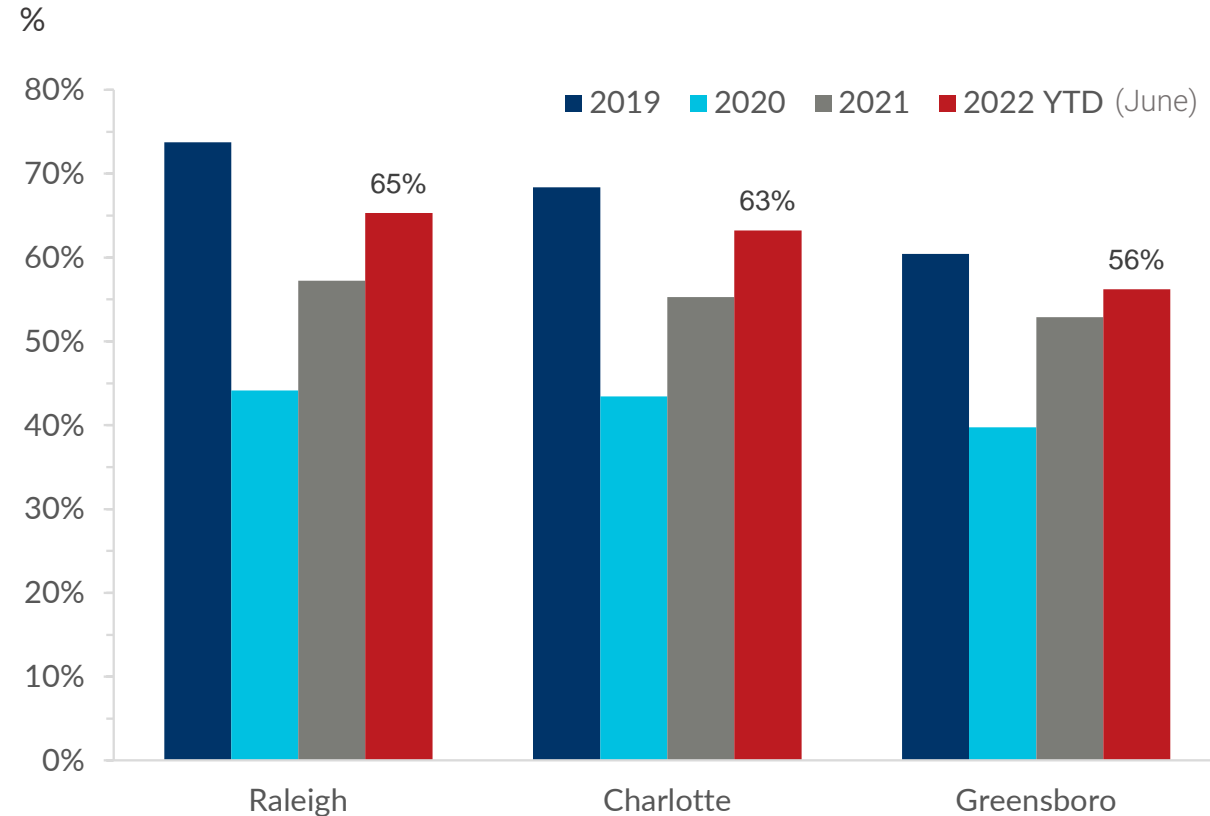


Source: STR

	June	July (est)
Occupancy:	73%	70%
ADR:	\$122	\$120
RevPAR:	\$90	\$84

And Raleigh has maintained pole position

Occupancy rate

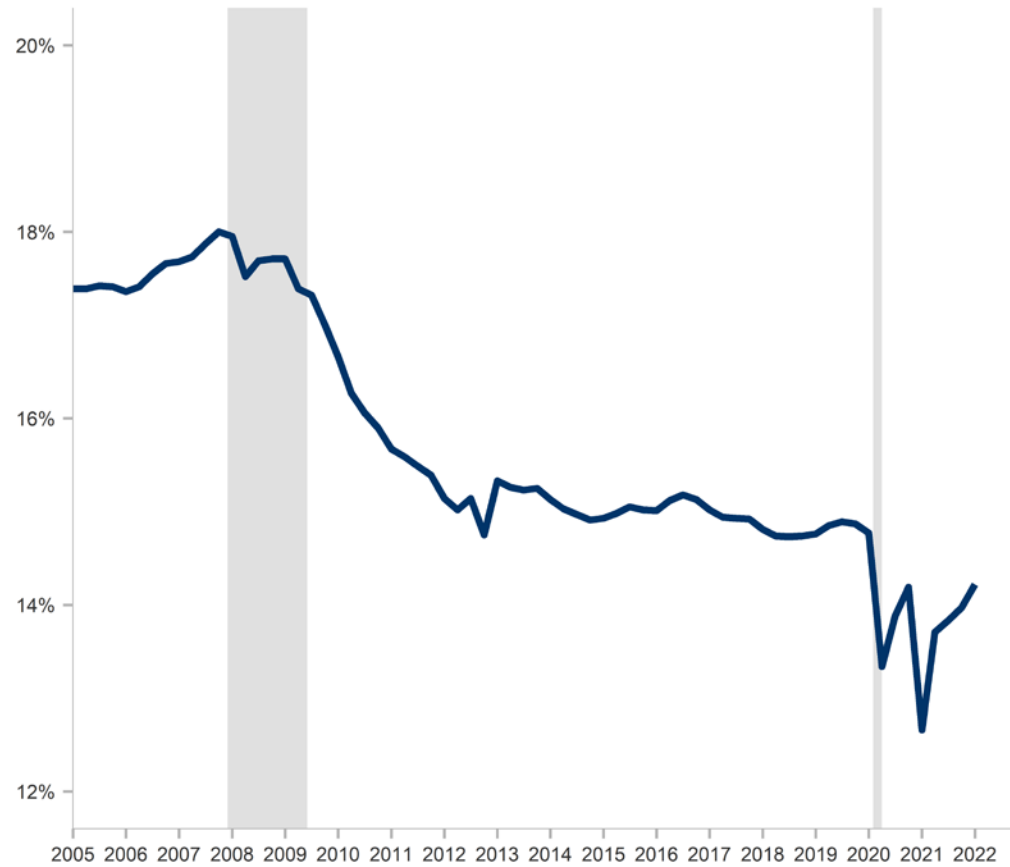


Source: STR

Household balance sheets remain strong

Household debt service

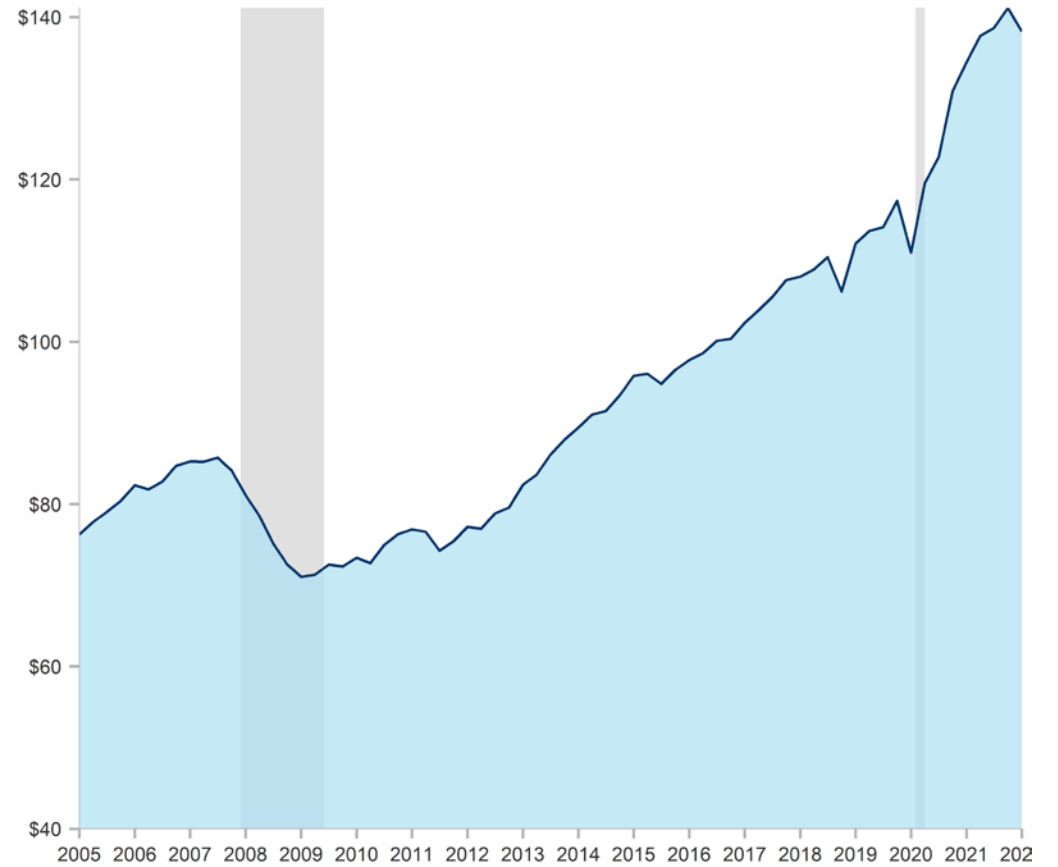
Financial obligations as ratio to disposable income



Note: Quarterly data through 2022Q1. 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

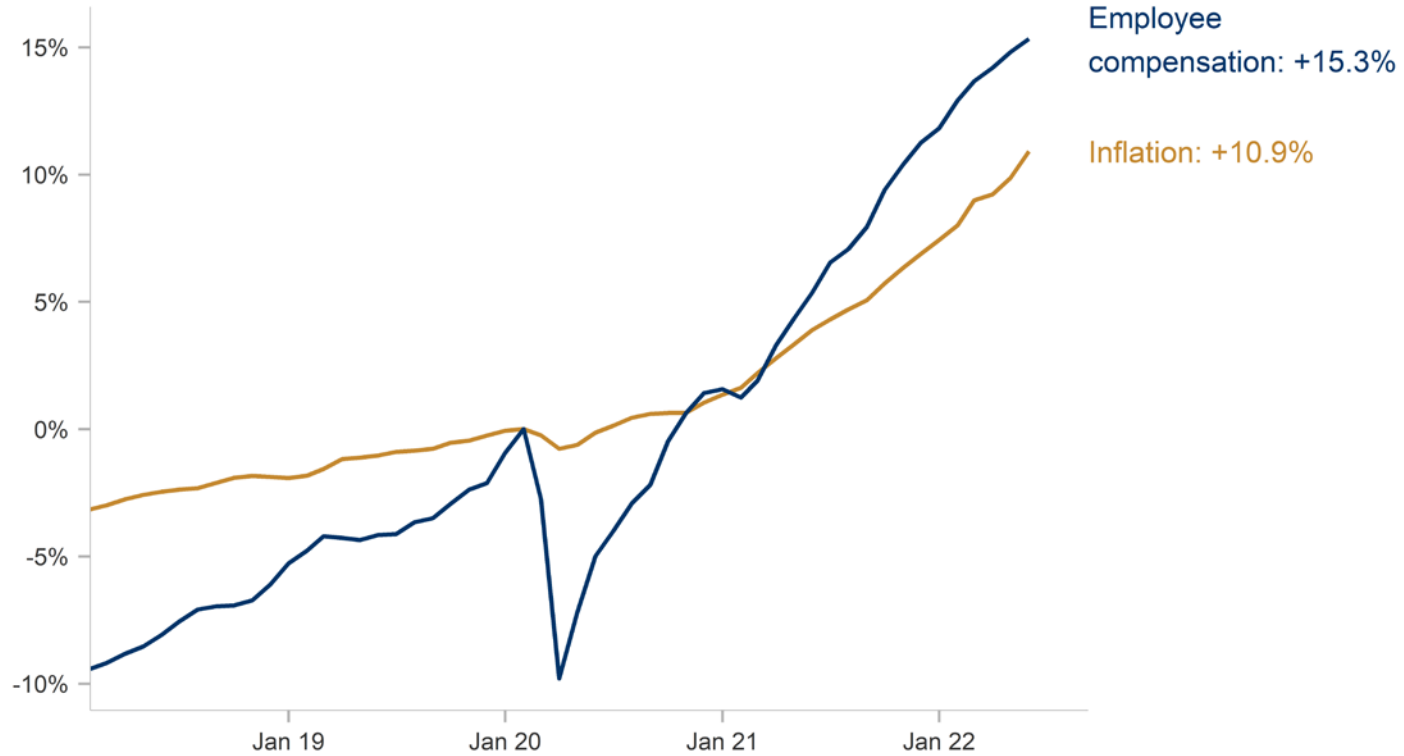


Note: 2020 dollars. Quarterly data through 2022Q1. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER

And wages still ahead of inflation over past 2 years

Compensation compared to inflation

Growth since February 2020

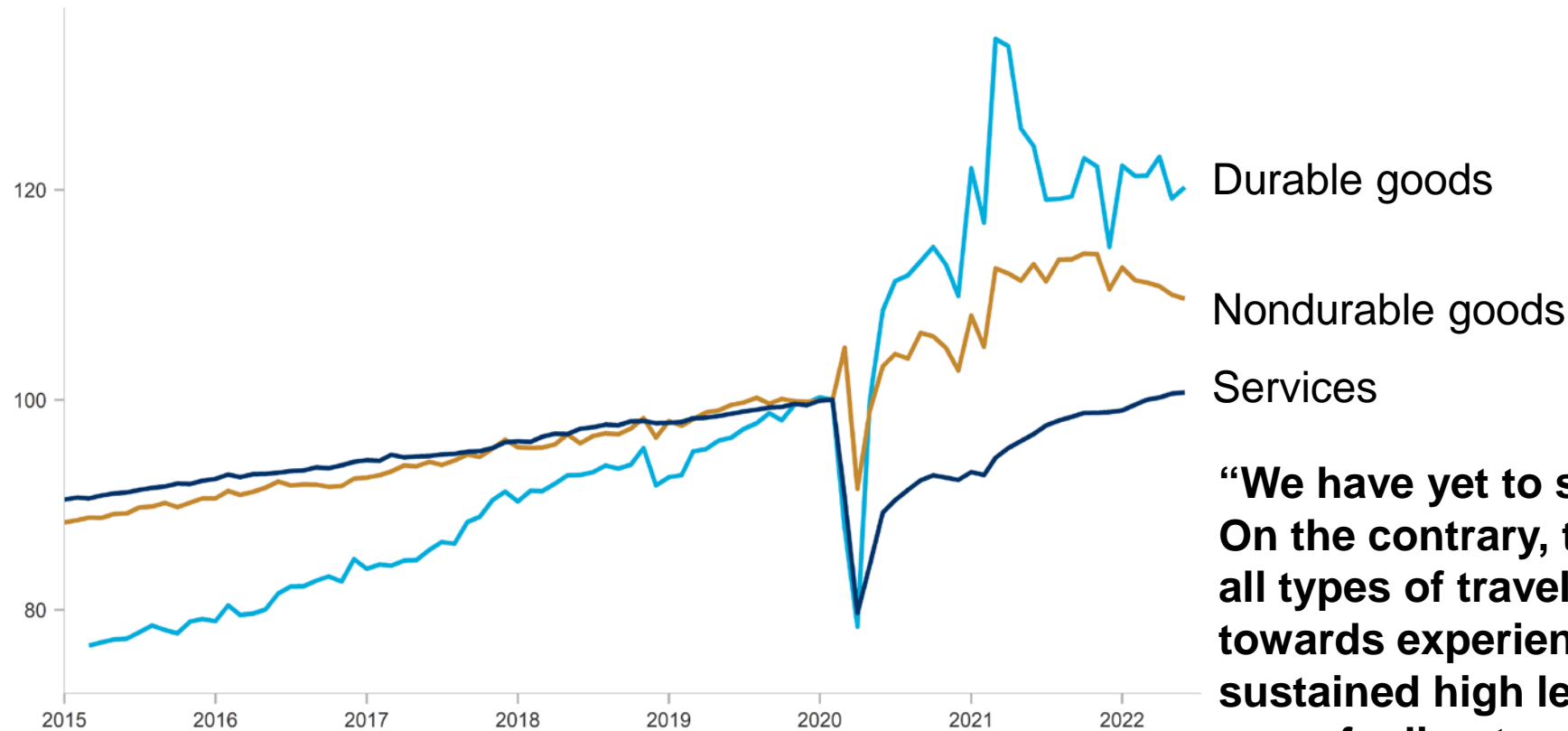


Note: US nominal employee compensation (wages, salaries, insurance, etc.) in aggregate. Inflation measured using PCE deflator. Data is seasonally adjusted, through June 2022.
Source: Bureau of Economic Analysis

So 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 June 2022
Source: Bureau of Economic Analysis

“We have yet to see signs of a slowdown. On the contrary, the pent-up demand for all types of travel, the shift of spending towards experiences versus goods, sustained high levels of employment ...are fueling travel.”
Marriott earnings call, Aug 2

Could high gas prices undercut auto travel?

U.S. Retail Gasoline Prices Dollars per Gallon

Weekly, all grades

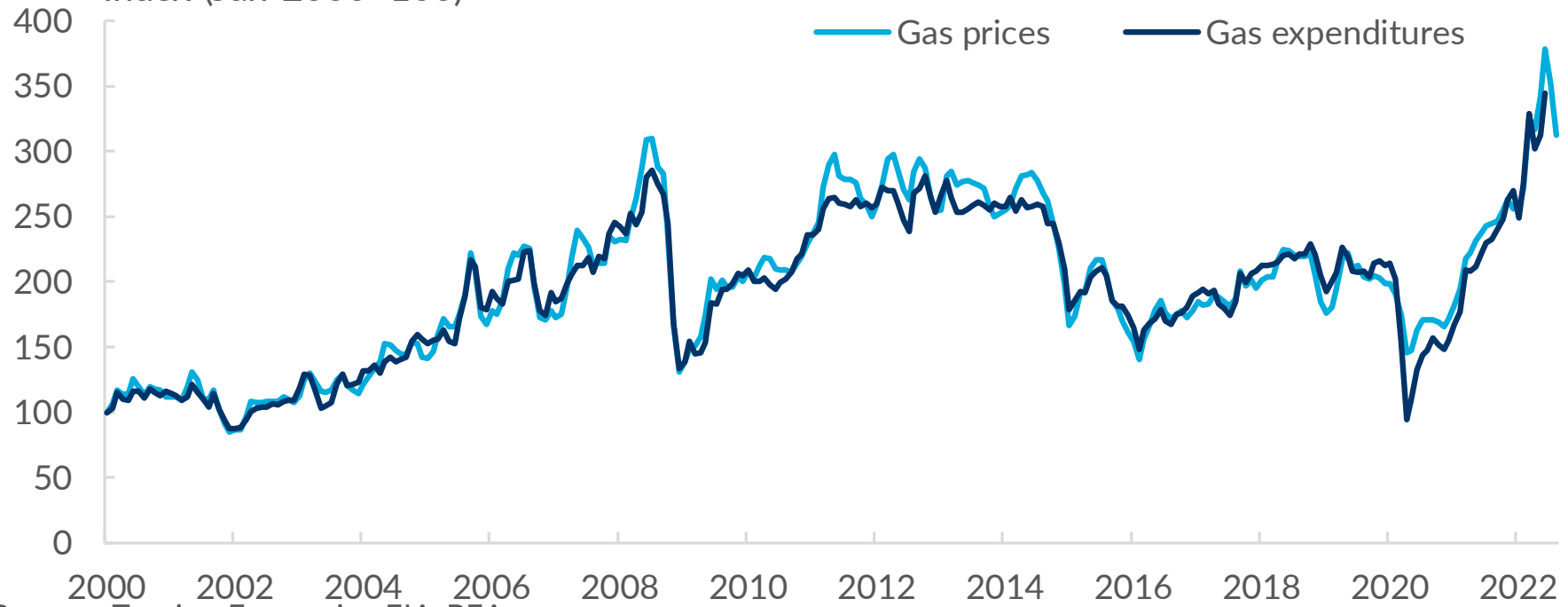


Source: EIA

No... US fuel consumption highly inelastic

Gas prices versus gasoline expenditures

Index (Jan-2000=100)



Sources: Tourism Economics, EIA, BEA

Note: BEA data based on average annual expenditures by consumer units. PCE as of Jun-22, Gas Price as of 8-Aug-22.

Auto travel still pacing just fine

arrivalist.com | US Daily Travel Index



Date Granularity
Monthly

Compare Period
2022 vs 2021

Trip Type
All

Destination
(All)

2022

2021



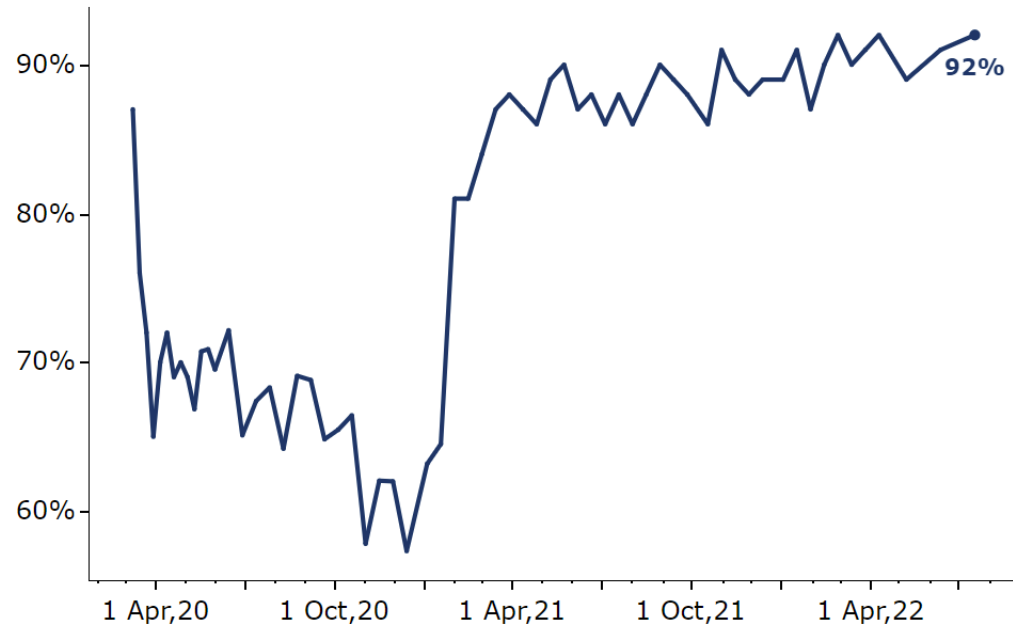
Daily drive market index of US travelers who moved at least 50 miles from home and spent a minimum of 2 hours at the destination. The index is based on the average daily volume of 2019 travelers.

Last Updated: Aug 14, 2022

Intentions to travel remain elevated

Consumer Travel Sentiment

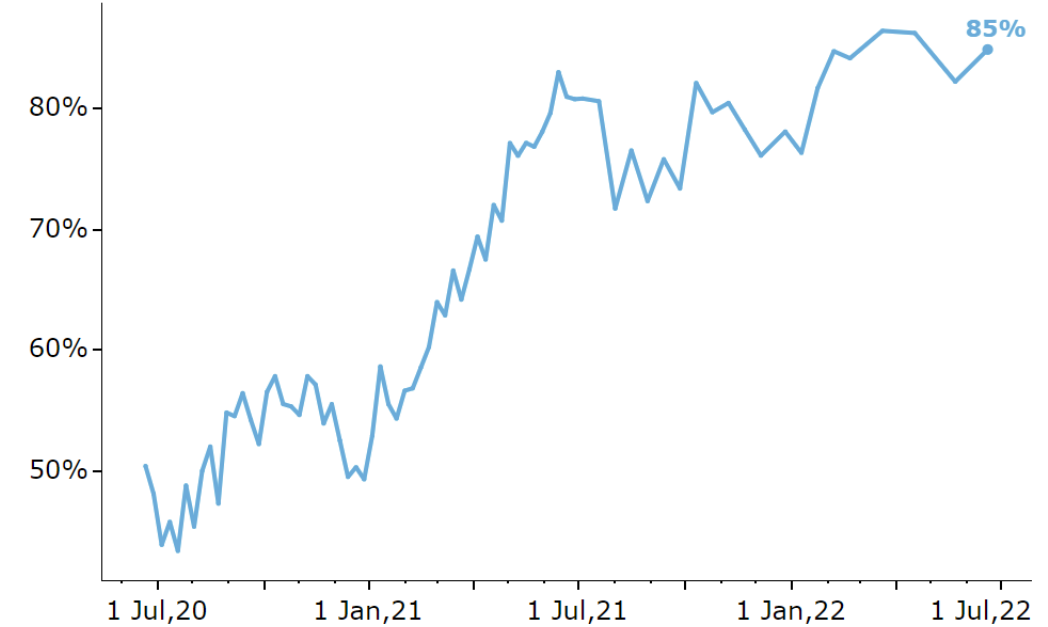
Travelers with Travel Plans in the Next Six Months



Source: Longwoods International

Consumer Travel Sentiment

% of U.S. travelers that are currently ready to travel

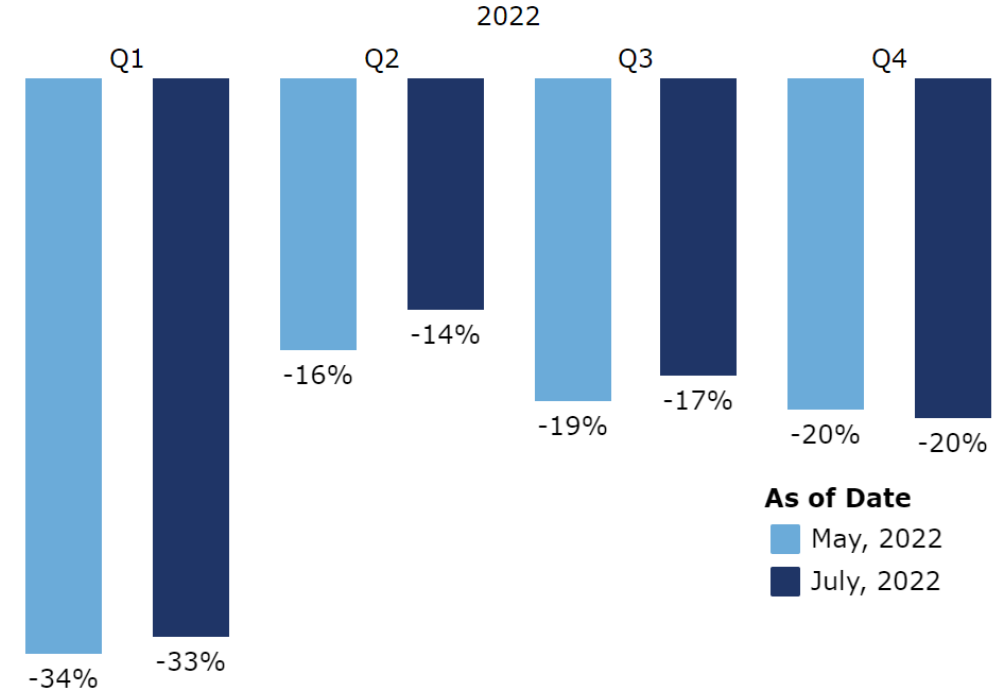


Source: Destination Analysts

Businesses continuing to resume “normal” level of travel

DMO/CVB Room Nights on the Books

Pace for future dates, relative to the same period in 2019



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

“On the group side, RevPAR in the quarter was roughly 85% of 2019 levels.”

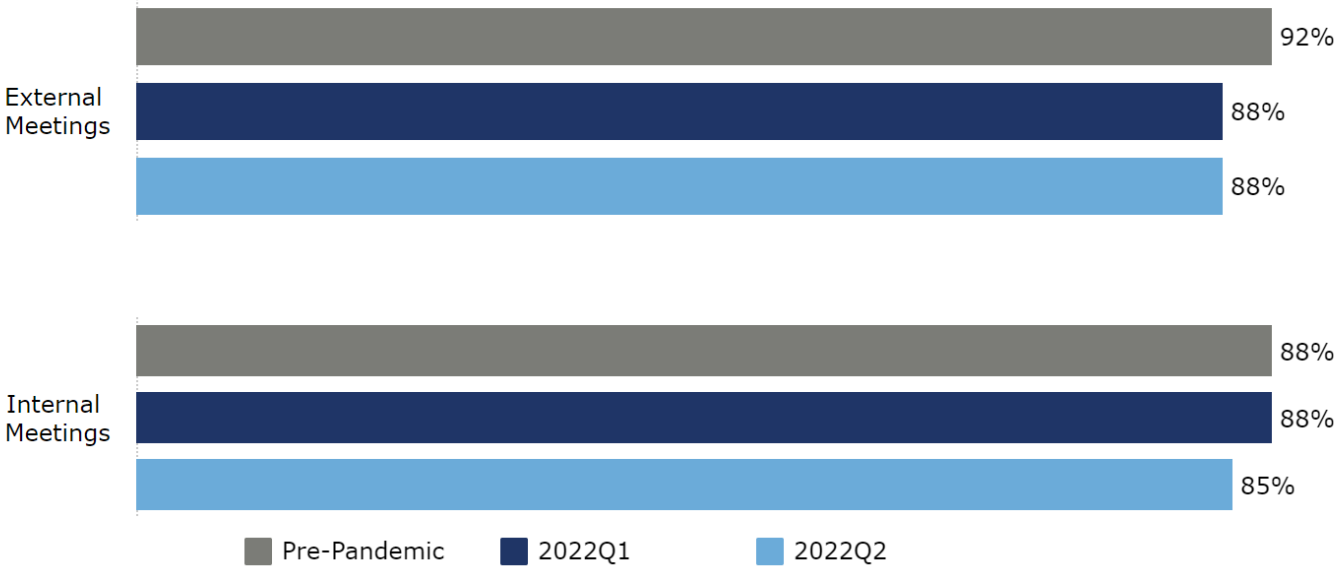
In the US, total group position is nearly at prior peak levels for the third quarter and exceeds prior peaks for the fourth quarter.”

Hilton earnings call, July 27

Business travel gap is narrowing

Business Travel Plans Next Six Months

% share of respondents expecting to take at least on trip



Source: Tourism Economics; U.S. Travel Association; and J.D. Power

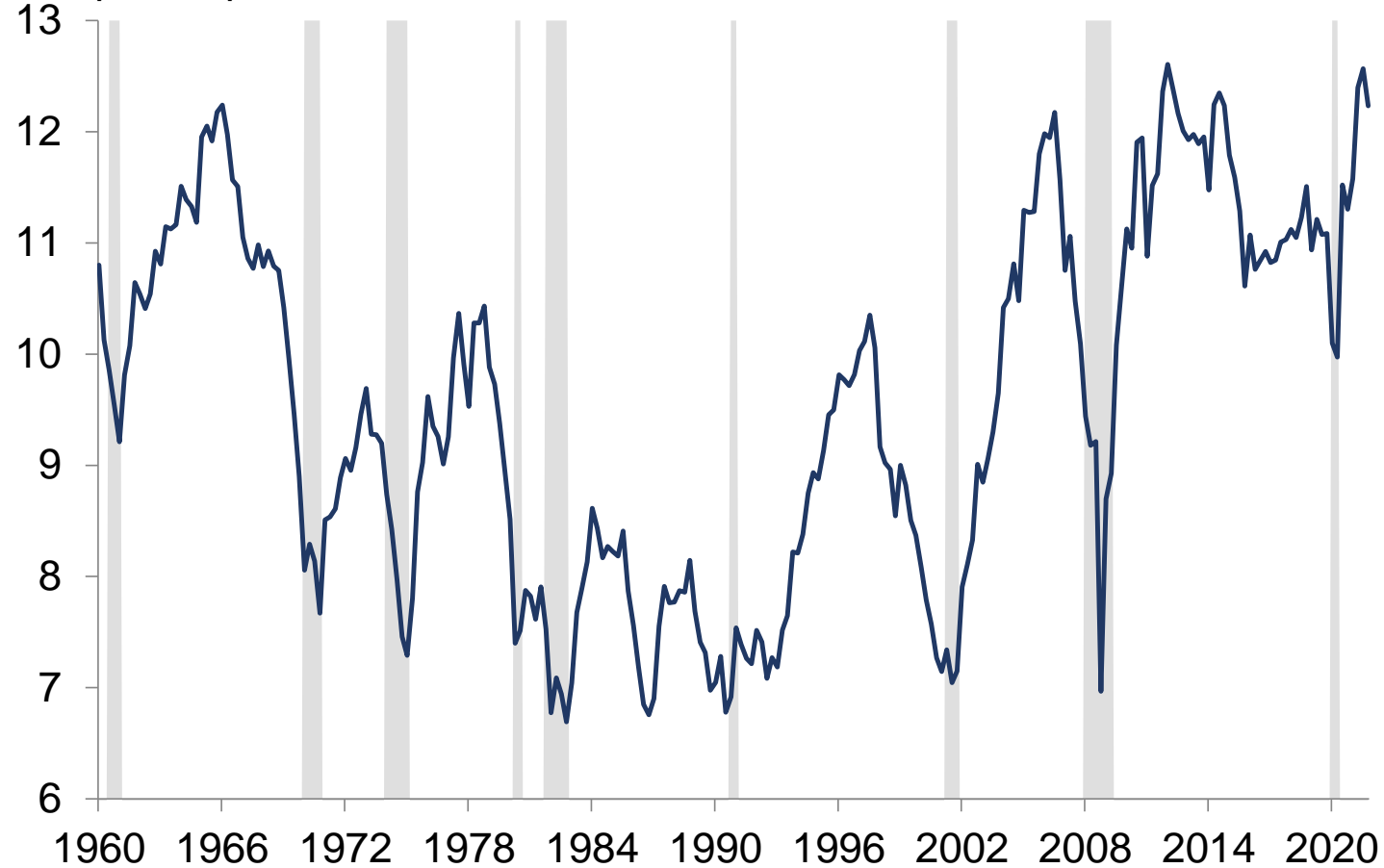
“June bookings were up 50% compared to 2019. At the end of the second quarter, group RevPAR for the remainder of 2022 was pacing just a few percentage points down to 2019. ...short-term bookings could lead to second half group RevPAR up slightly compared to 2019.”

Marriott earnings call, Aug 2

Profits remain solid

US: Profit margins and recessions

Corporate profits before tax % GDP



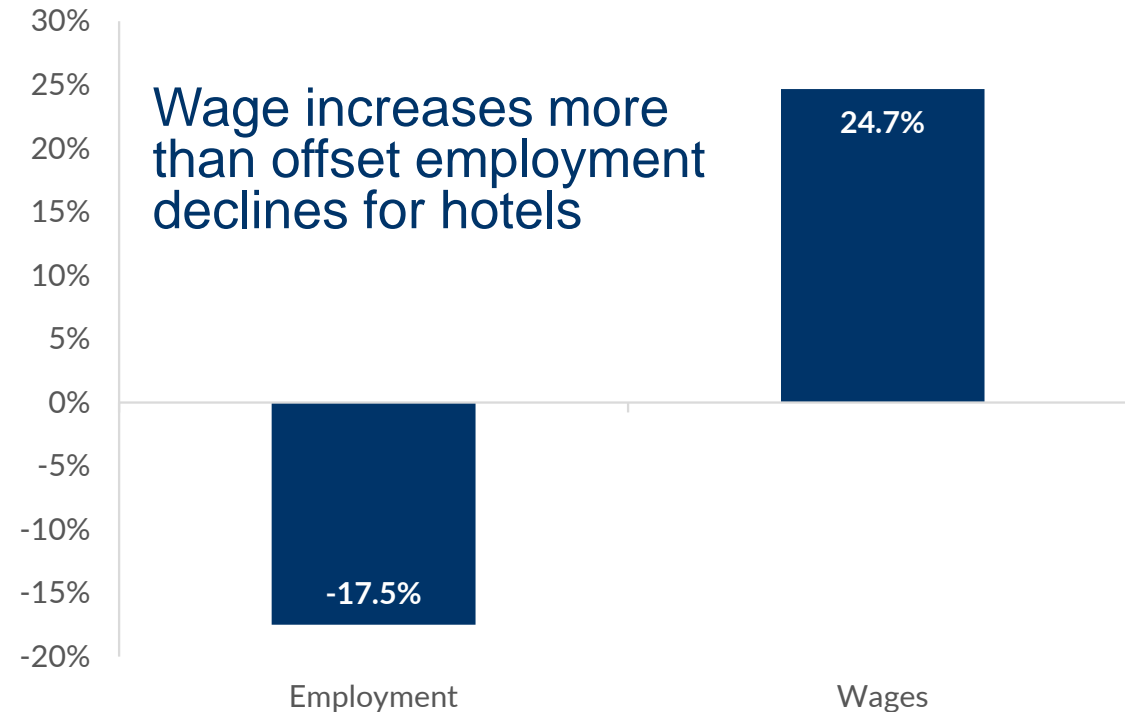
“While macroeconomic concerns have been dominating the headlines, we are not seeing any signs of weakening. Certain segments of the lodging industry are still recovering, and we believe there is meaningful room for growth, particularly in the business transient and group segments.”

Host earnings call, July 30

Higher costs + better revenue management = continued high rates

Accommodation employment situation

July 2022 vs. July 2019



Source: BLS

“Hotels benefit from the ability to reprice rooms on a nightly basis ahead of rising costs.”

Host earnings call, July 30

ECONOMIC IMPACT VISITORS TO RALEIGH



\$2.3B
visitor
spending

\$6.4 million
EVERY DAY



\$1.2B
labor
income

\$2,980 for every
household in Wake
County



31,000
total
jobs

4.4% of all jobs



\$243M
state & local
taxes

Saving each
household in
Raleigh/Wake County
\$592

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