

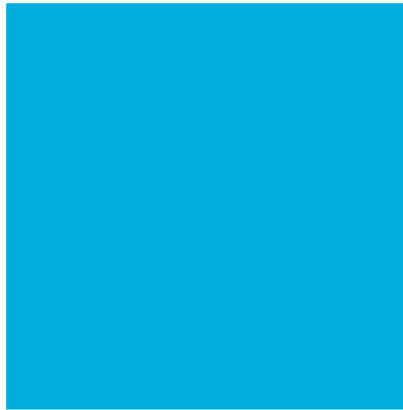
US ECONOMY AND HOTEL INDUSTRY 2020 OUTLOOK

Navigating the slowdown

**Adam Sacks
President
Tourism Economics**

February 2020

Agenda



Outlook for the economy

State of the US lodging sector

Travel sector prospects

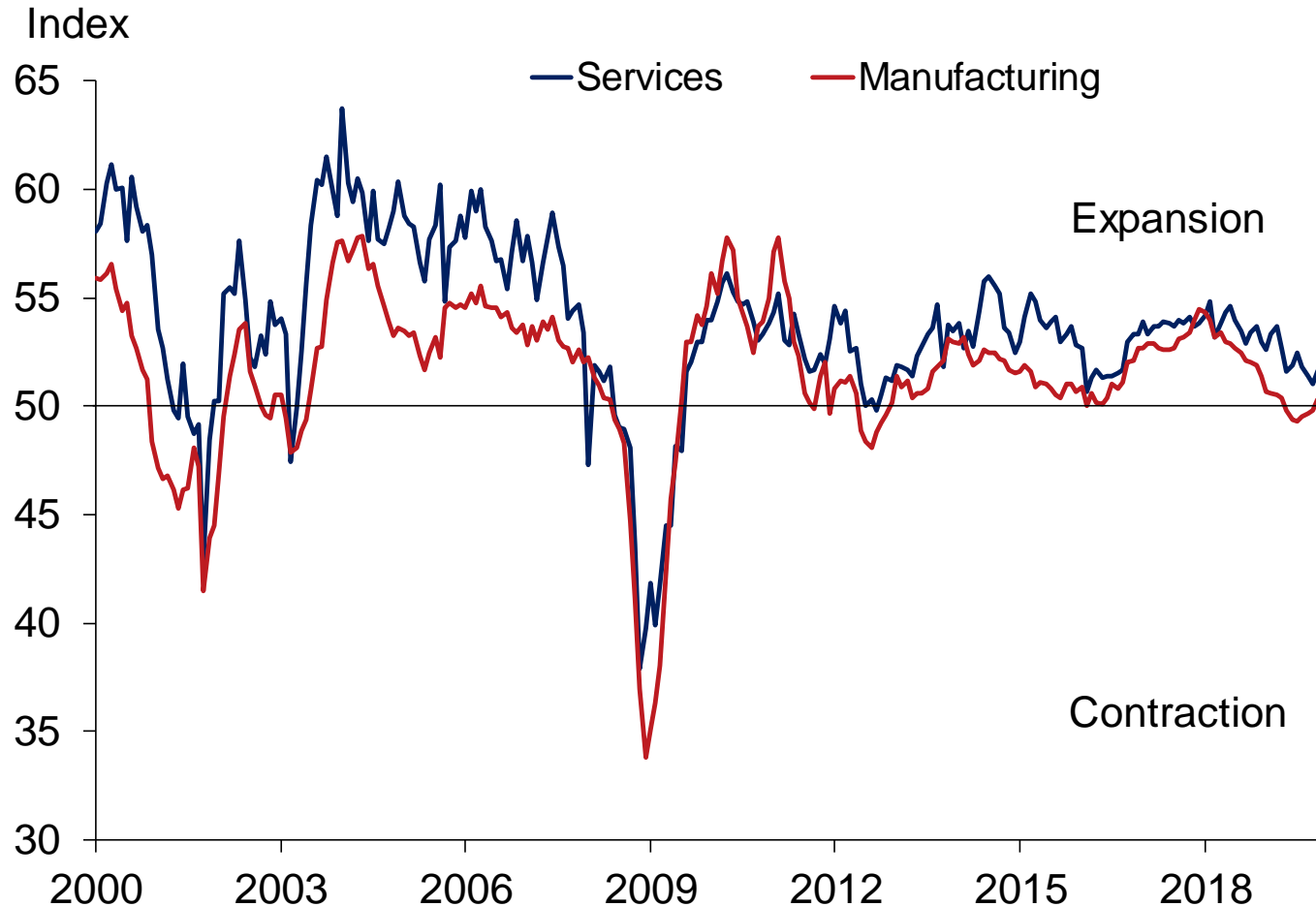
Lodging outlook

A stylized, light blue globe with a white grid of latitude and longitude lines, centered in the background of the slide.

ECONOMIC OUTLOOK

Global activity recently showing signs of bottoming out

World: PMIs



Source : Oxford Economics/Markit

And leading indicators pointing to early-2020 pick up

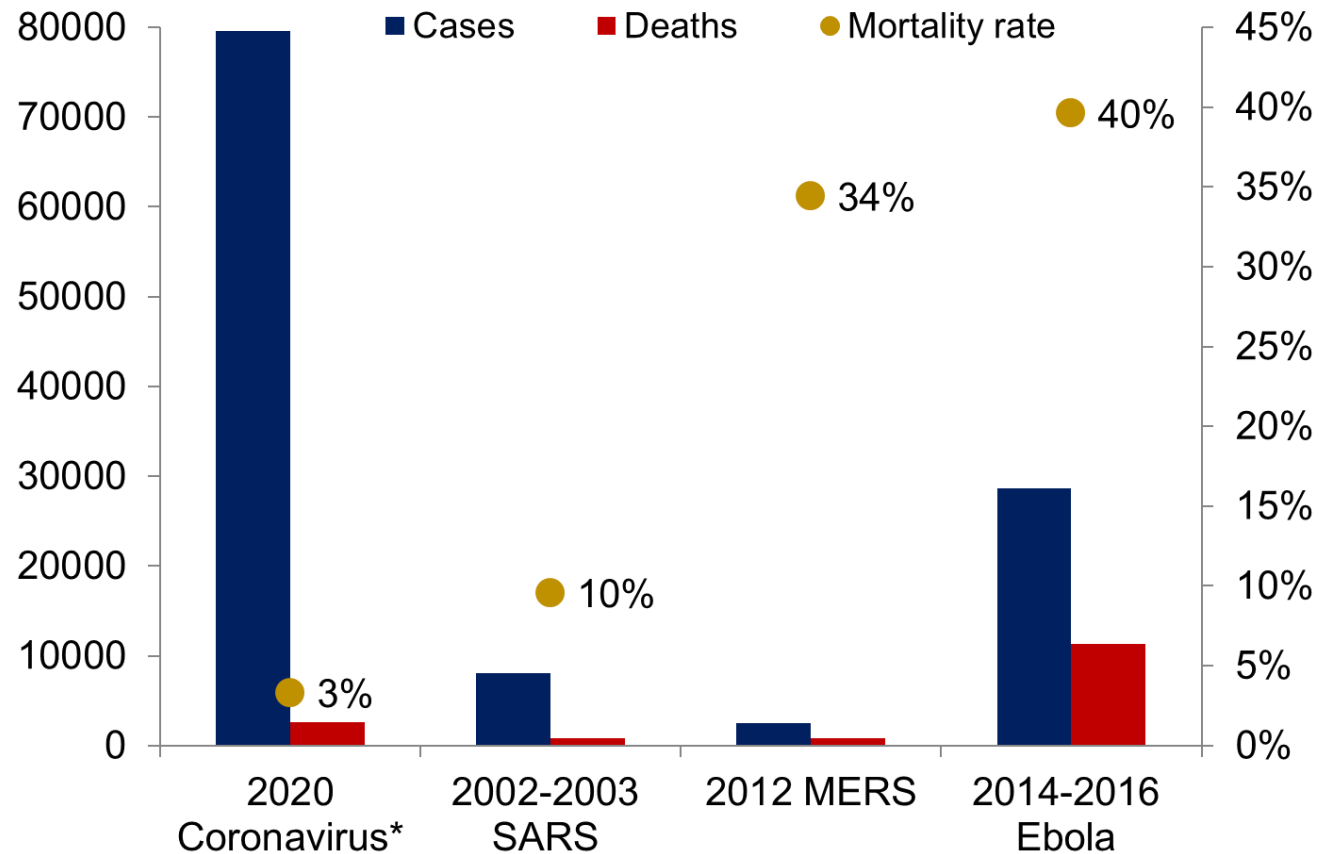
World: GDP & PMI



Source : Oxford Economics/Haver Analytics/Markit

But then the coronavirus hit...

Faster spreading virus, but lower mortality rate

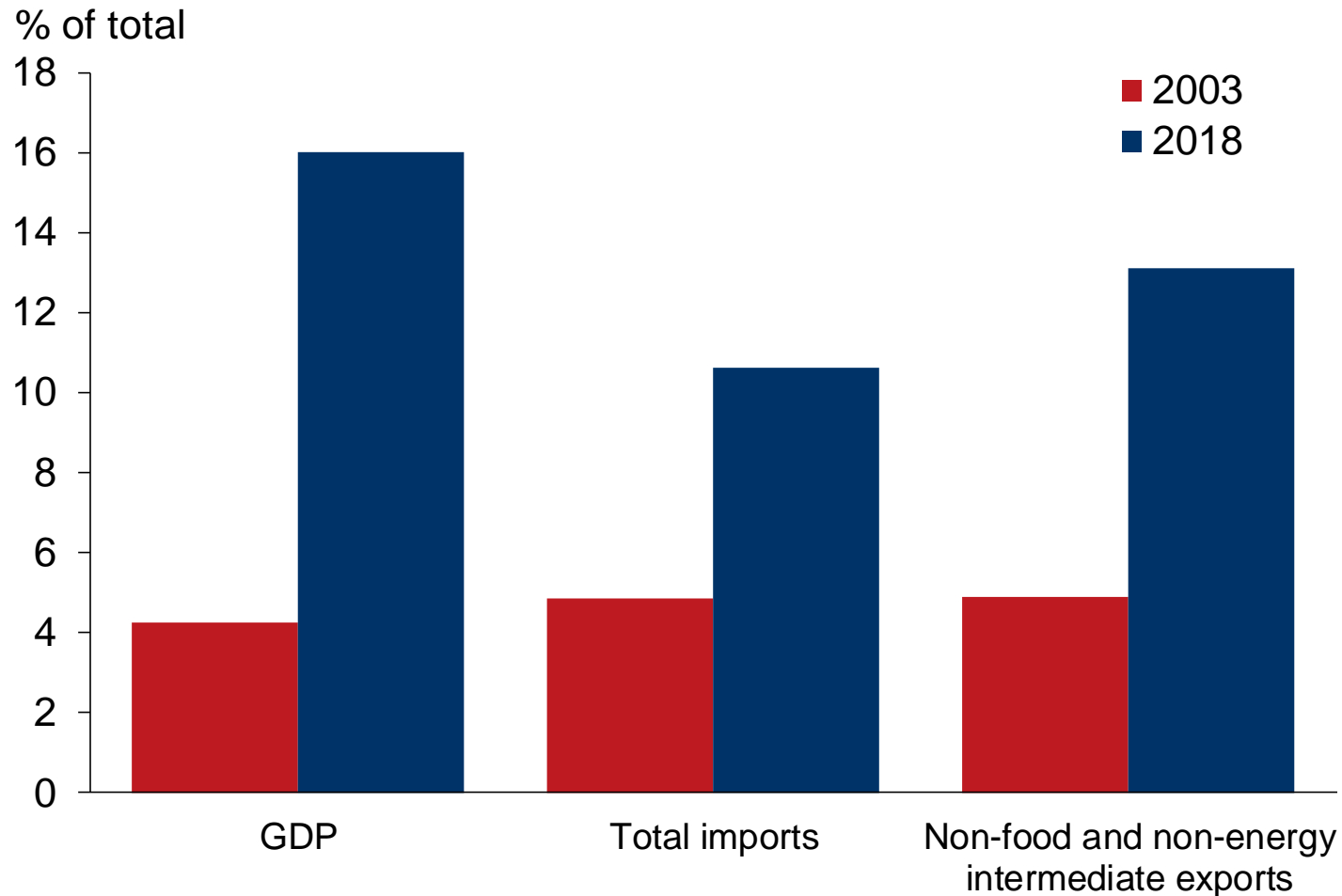


Source : Oxford Economics/WHO/CDC

*As of February 24th, 2020

This time is different because of China's global role

China's importance to the world economy



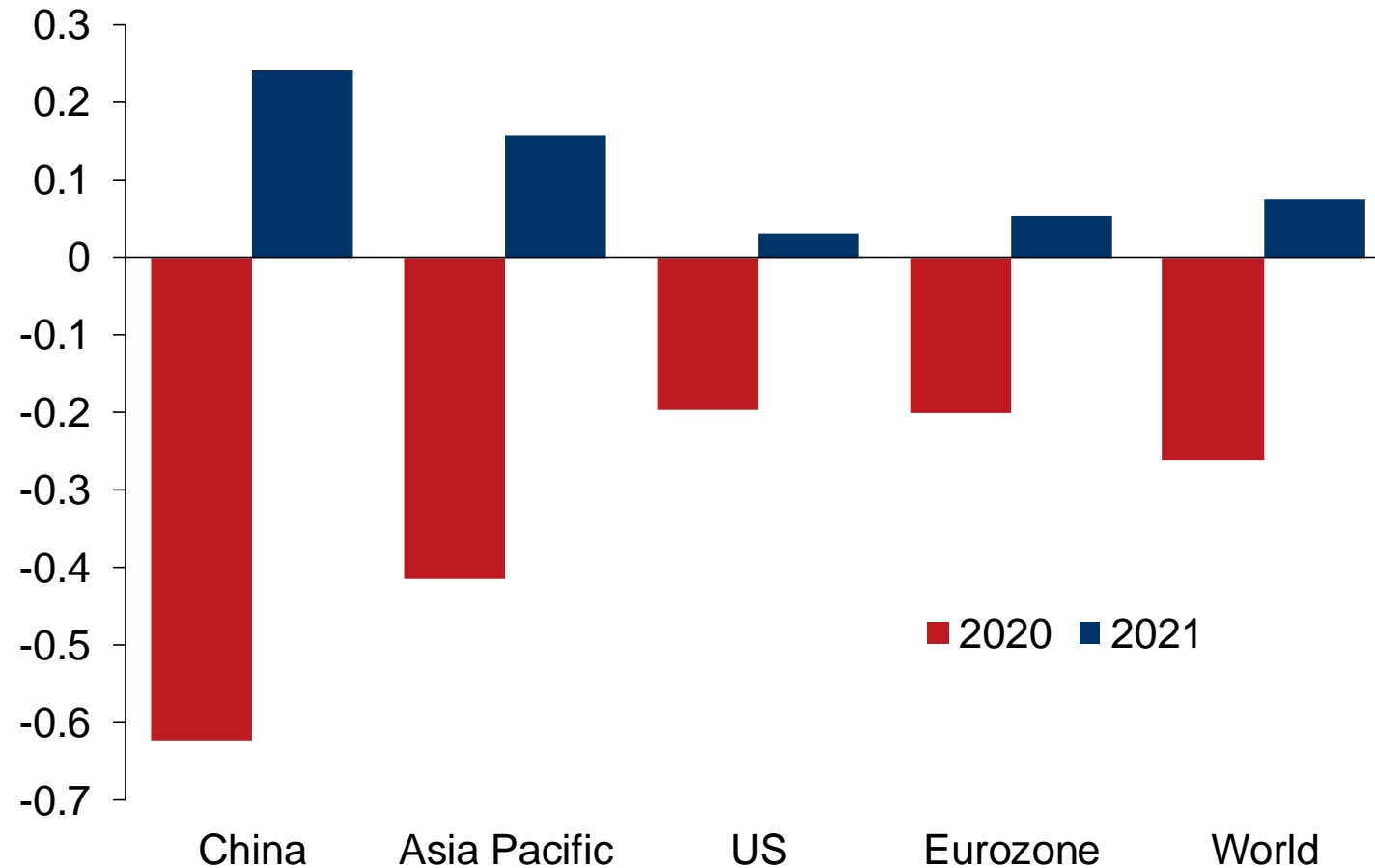
- China share of overseas travel to the US
 - 1% in 2002
 - 7% in 2019
- China is the #1 source of international travel spending in the US

Source : Oxford Economics/Haver Analytics

Asia worst affected but US and eurozone not untouched

GDP revisions due to coronavirus

pp revision to annual GDP growth

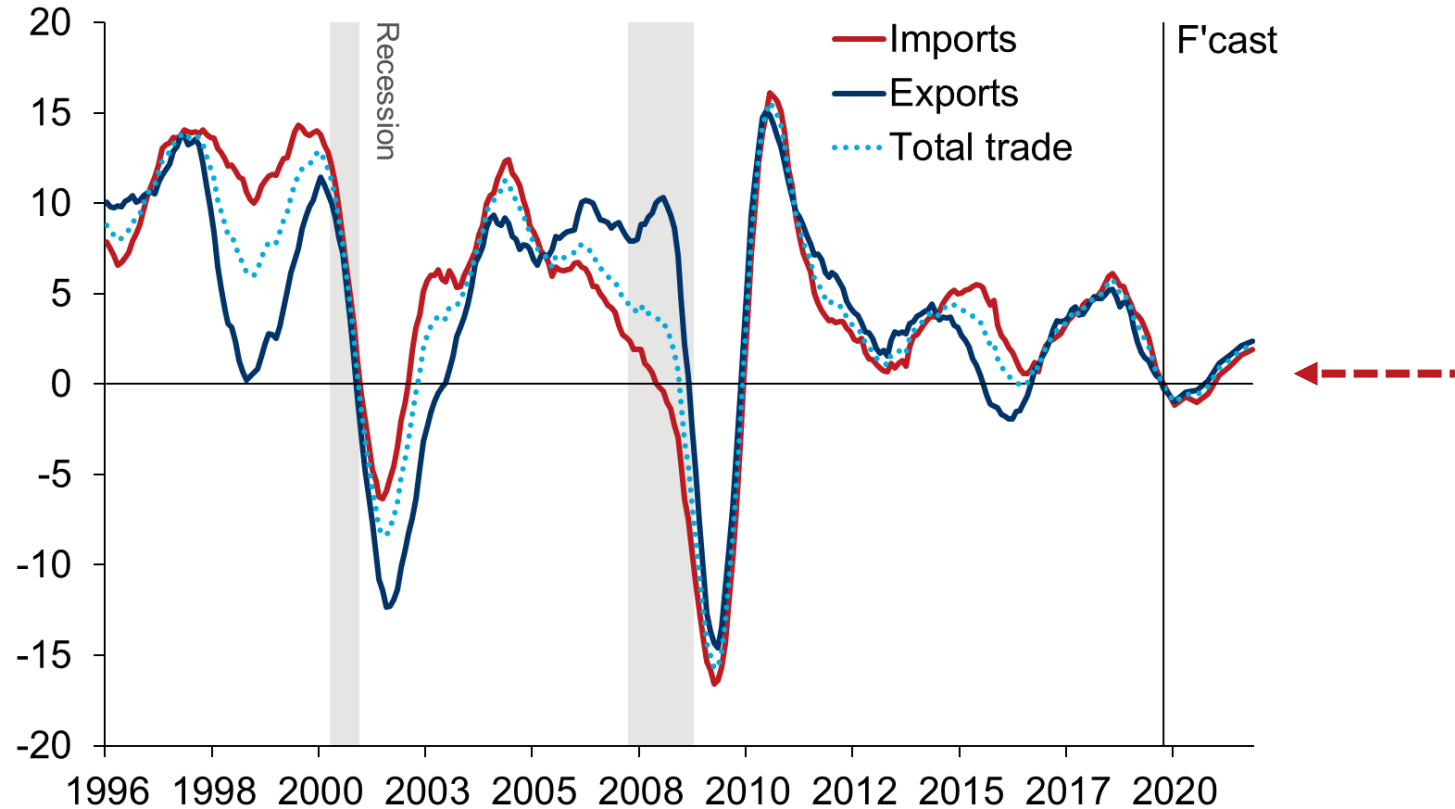


Source : Oxford Economics/Haver Analytics

US trade flows have stalled

US: Trade growth at its worst outside recession

% y/y (12m ma)

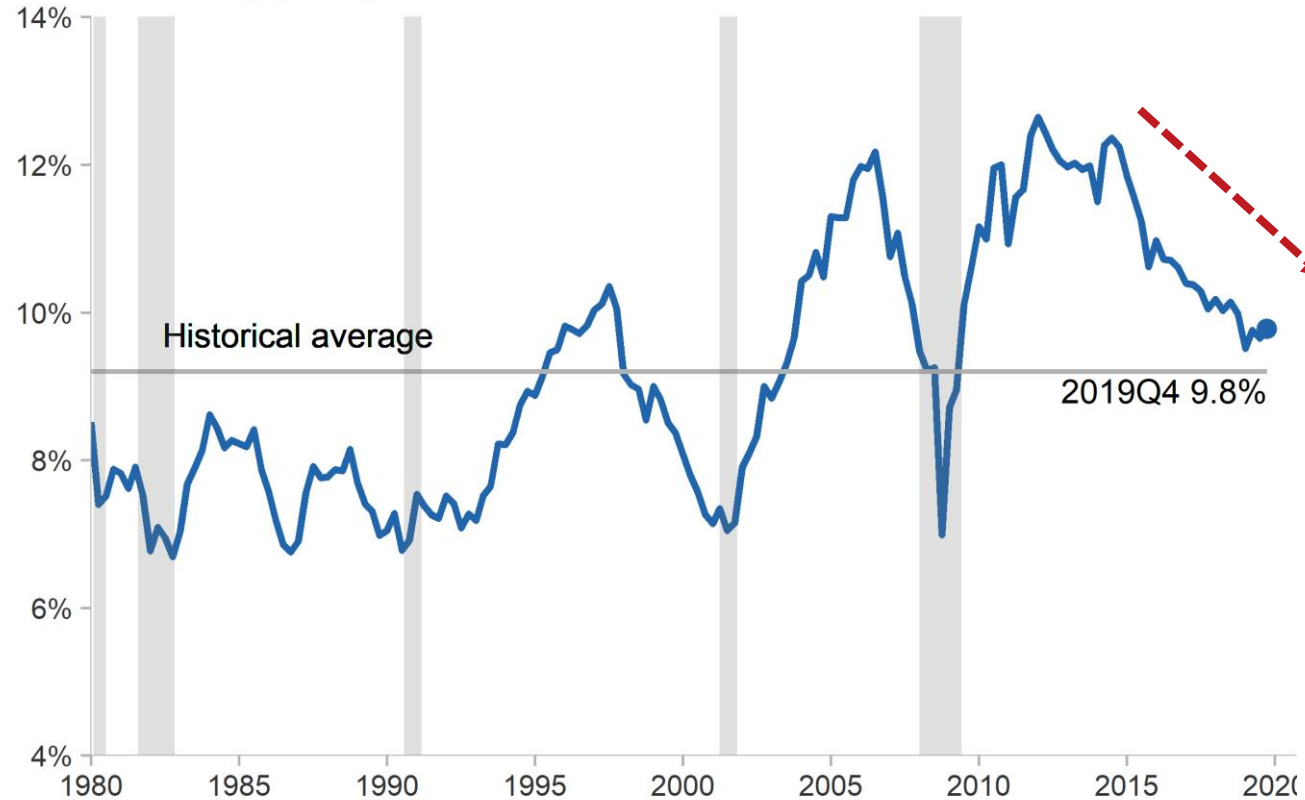


Source : Oxford Economics/Haver Analytics

Corporate profits have narrowed

Corporate profits

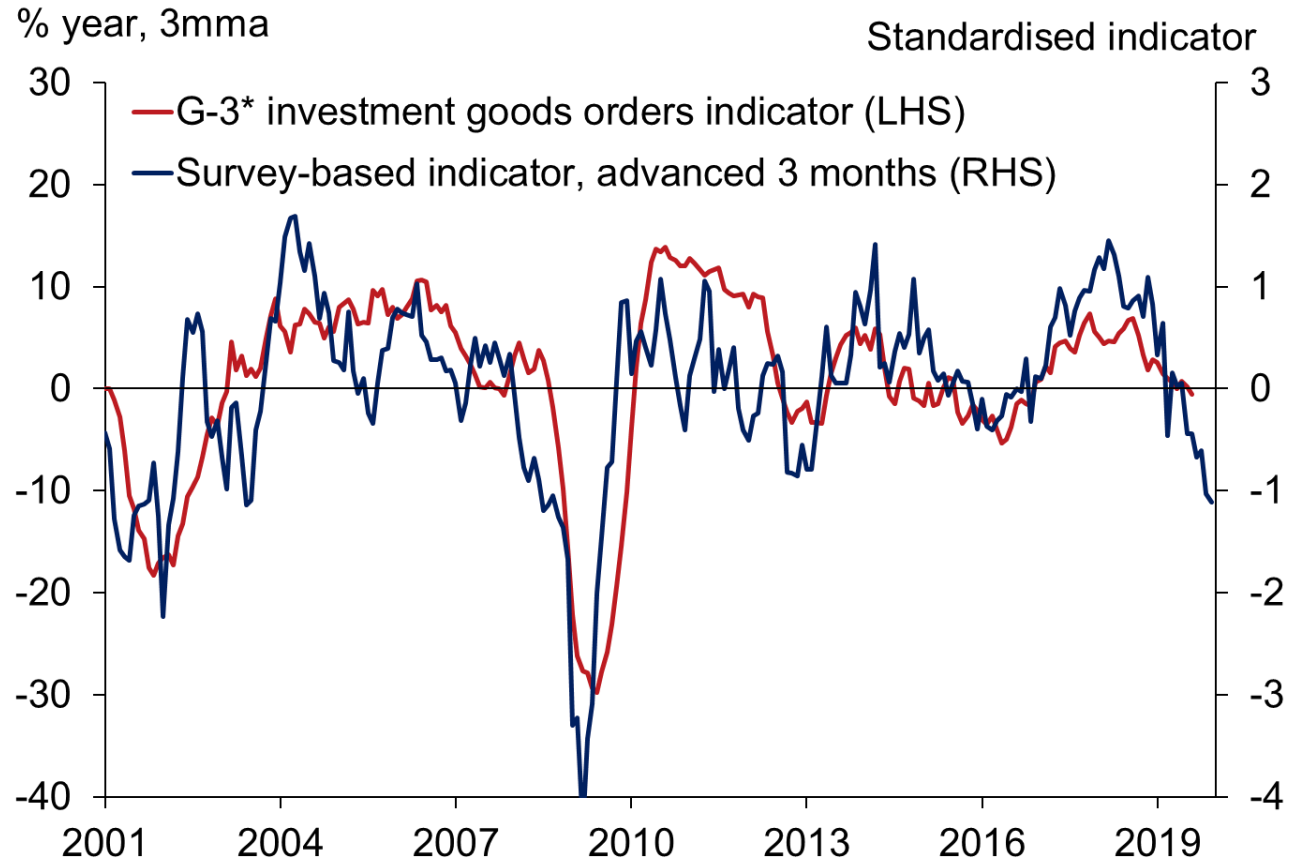
As a ratio to GDP, quarterly



Note: History through 2019 Q4. Pre-tax corporate profits. With IVA and CCAAdj.
Source: Bureau of Economic Analysis; Oxford Economics

Investment intentions have fallen sharply

G-3: Investment indicators



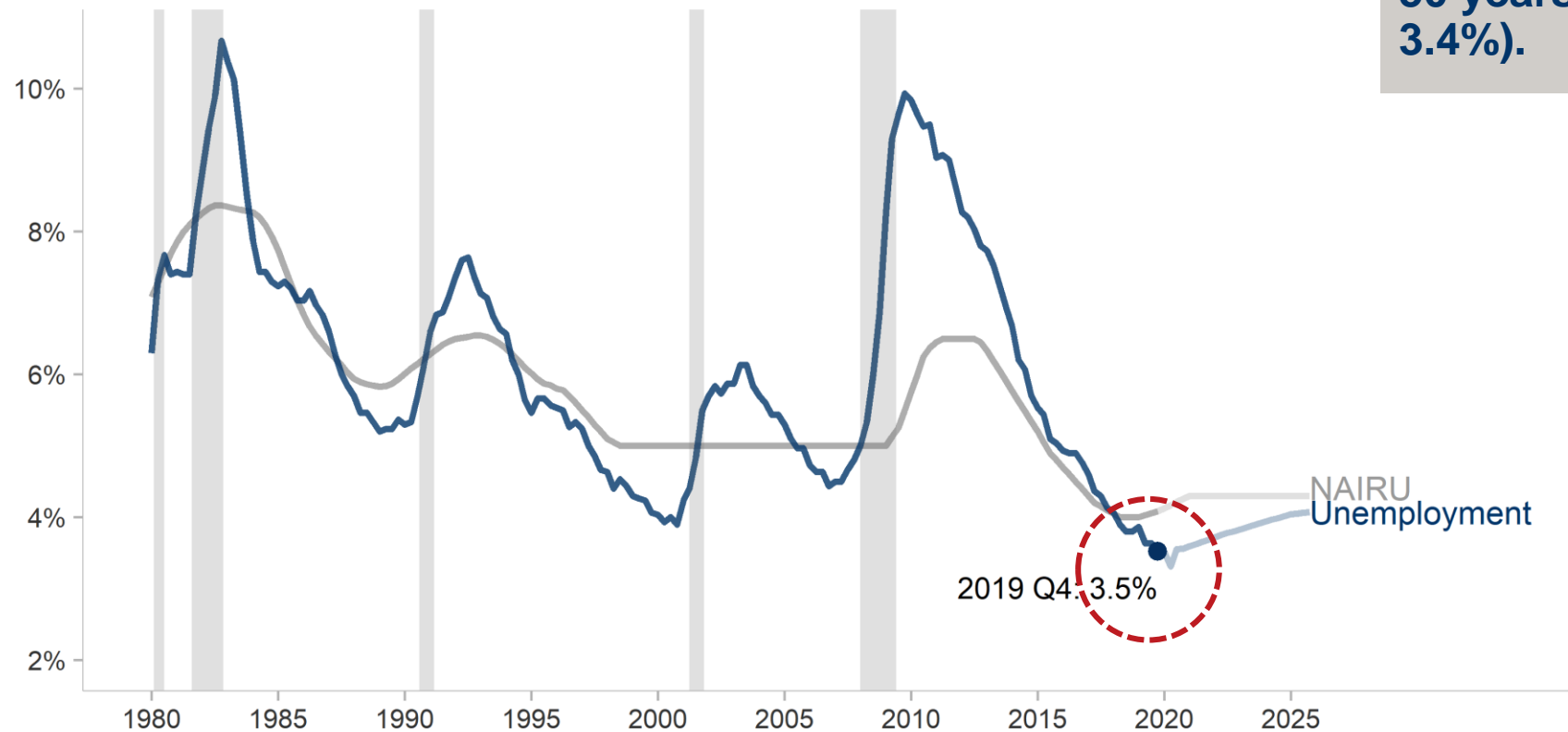
Source : Oxford Economics/Haver Analytics * US, Germany, Japan

Global trade slowdown is having its effect

Services have been more resilient

The long, steady expansion has pulled unemployment down to 3.5%

Unemployment rate



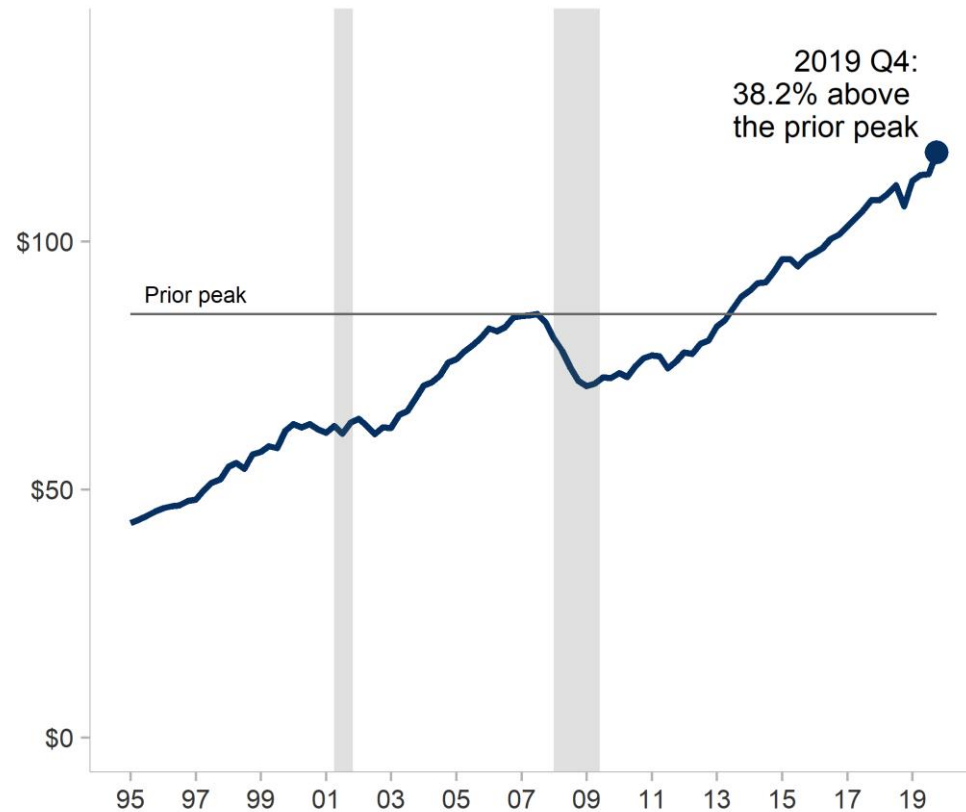
The unemployment rate is the lowest its been in over 50 years (May 1969 it was 3.4%).

Note: Non-accelerating inflation rate of unemployment (NAIRU) refers to the estimated level of unemployment below which inflation rises. History through 2019 Q4.
Source: Bureau of Labor Statistics; Oxford Economics

Household wealth has improved, and households have de-leveraged

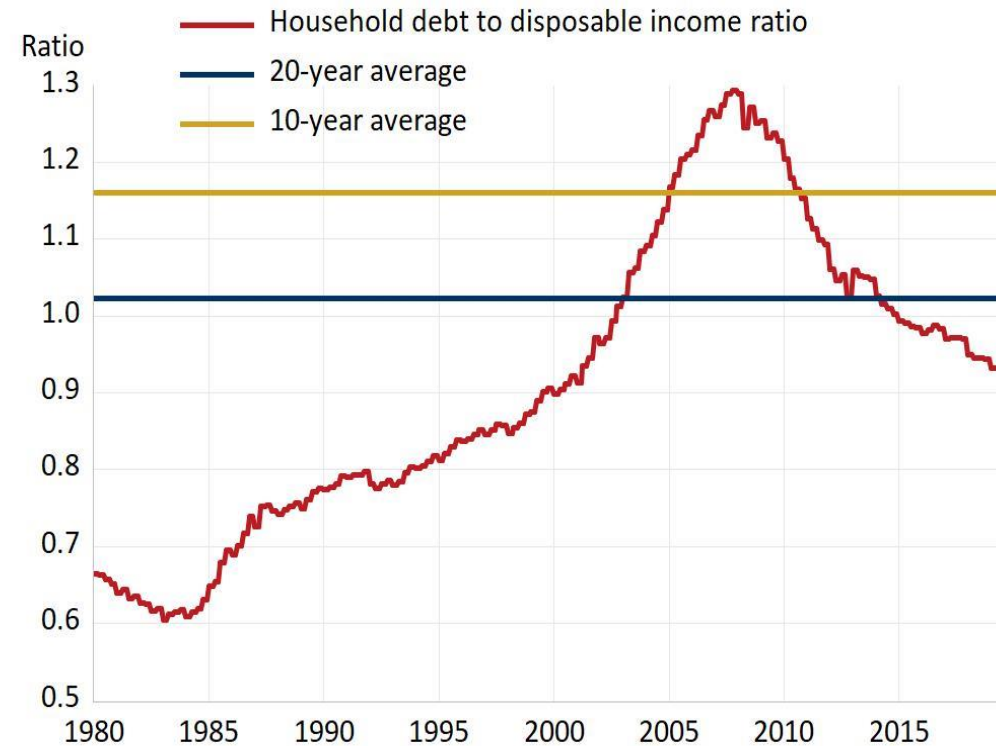
Household net wealth

In trillions of 2019 dollars



Source: Federal Reserve; Oxford Economics

US: Household debt to disposable income



Source: Oxford Economics/Haver Analytics

Wages continue to outpace inflation

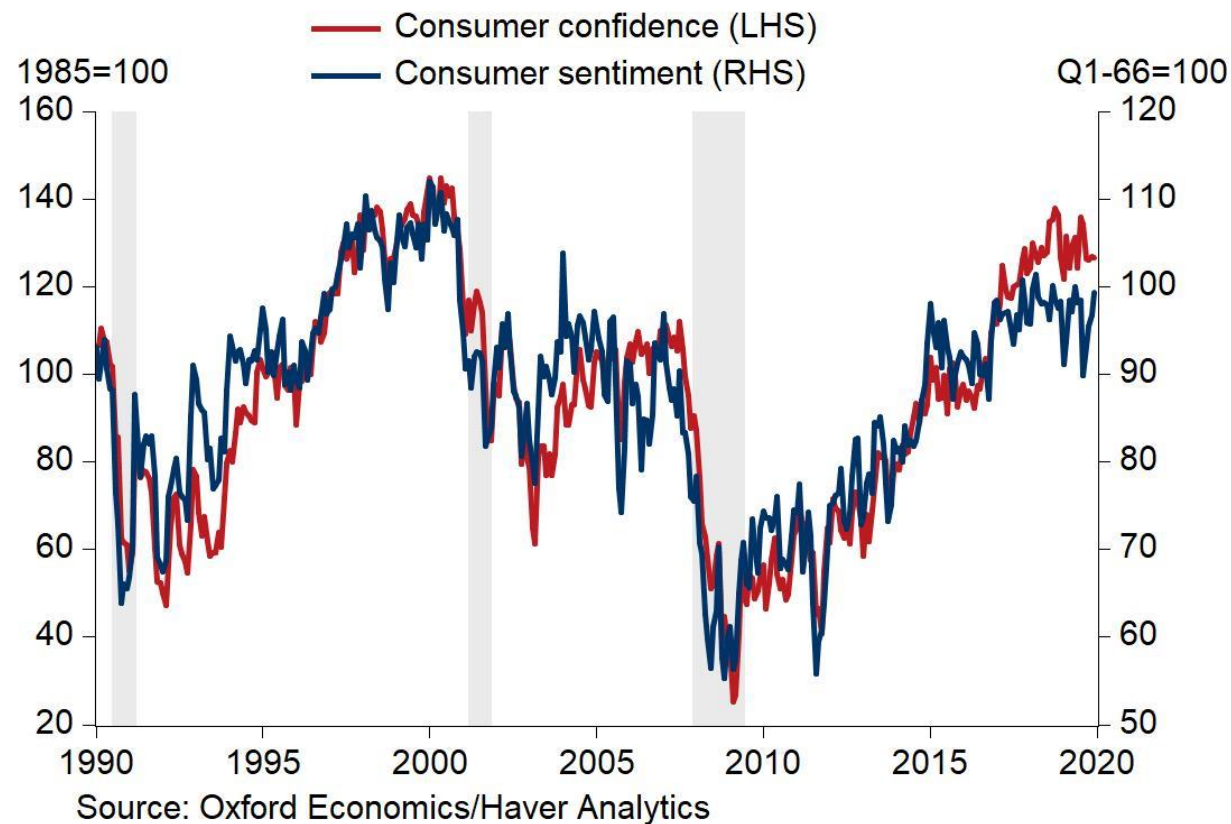
US: Average hourly earnings



Source: Oxford Economics/Haver Analytics

Despite recent volatility, consumer confidence is buoyant

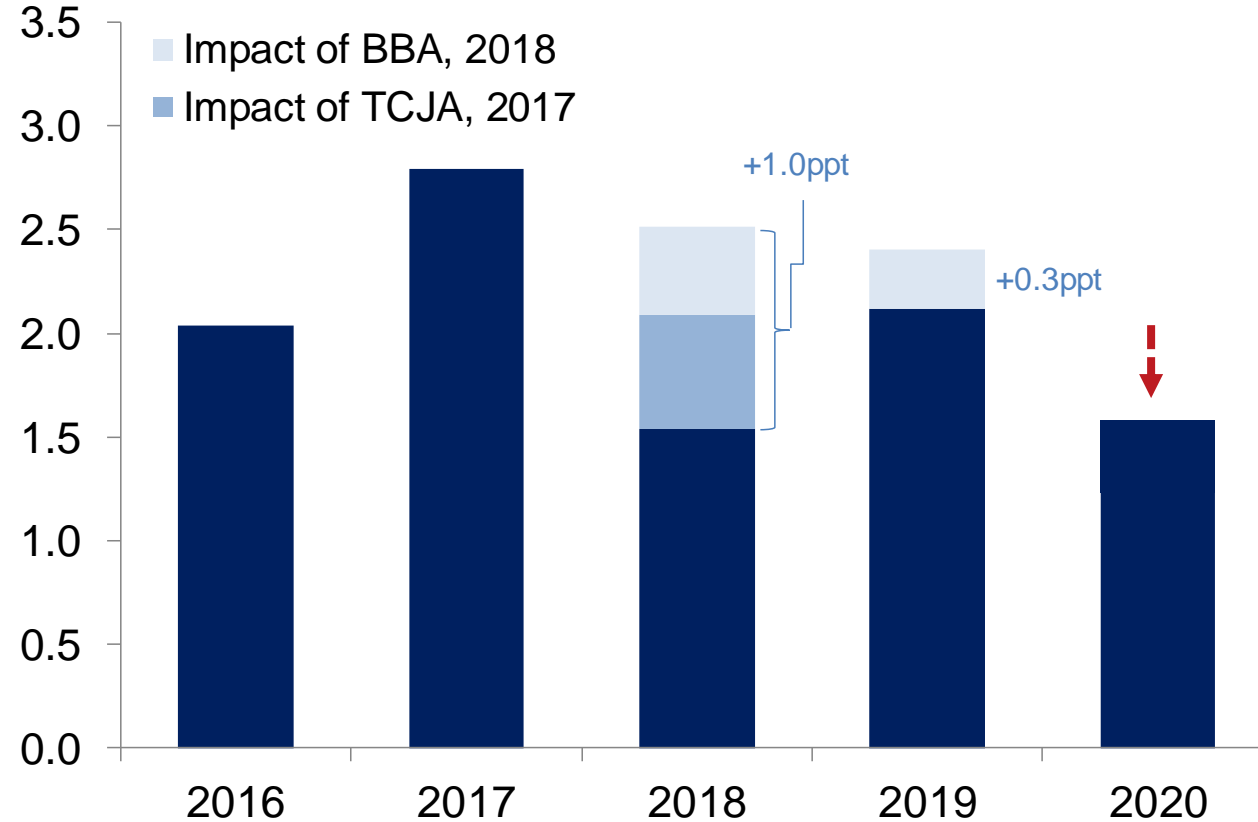
US: Consumer attitudes



A slower 2020 is inevitable

US: Policy tailwinds diminish over time

Real GDP growth, Q4/Q4



Source: Oxford Economics

BBA, 2018 = Bipartisan Budget Act of 2018
TCJA, 2017 = Tax Cuts and Jobs Act of 2017



STATE OF THE US LODGING INDUSTRY

2019 Results: Flat Is The New “Up”

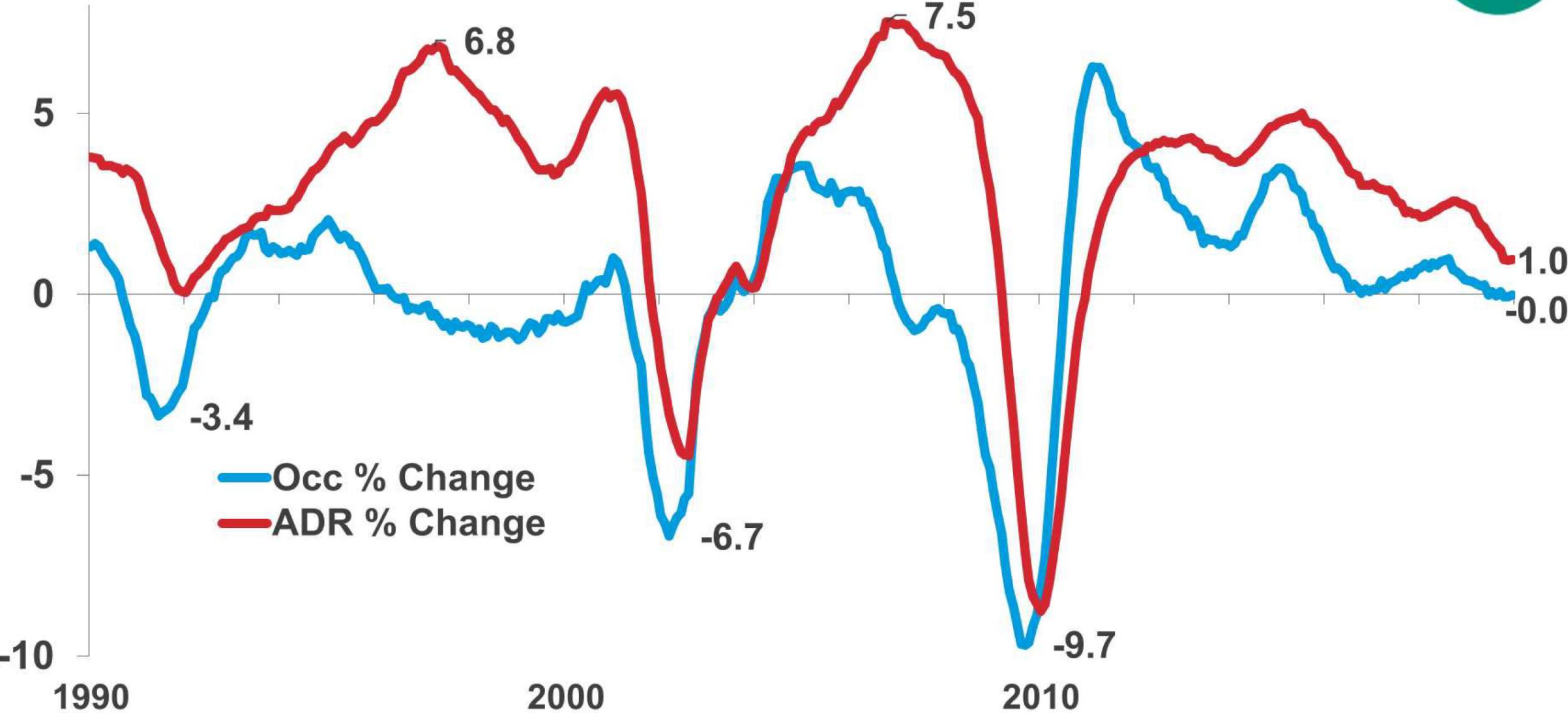


		% Change
Room Supply		2.0%
Room Demand		2.0%
Occupancy	66.1%	-0.0%
ADR	\$131	1.0%
RevPAR	\$87	0.9%
Room Revenue		3.0%

Total US Results, December YTD 2019

Source: STR
2020 © CoStar Realty Information, Inc.

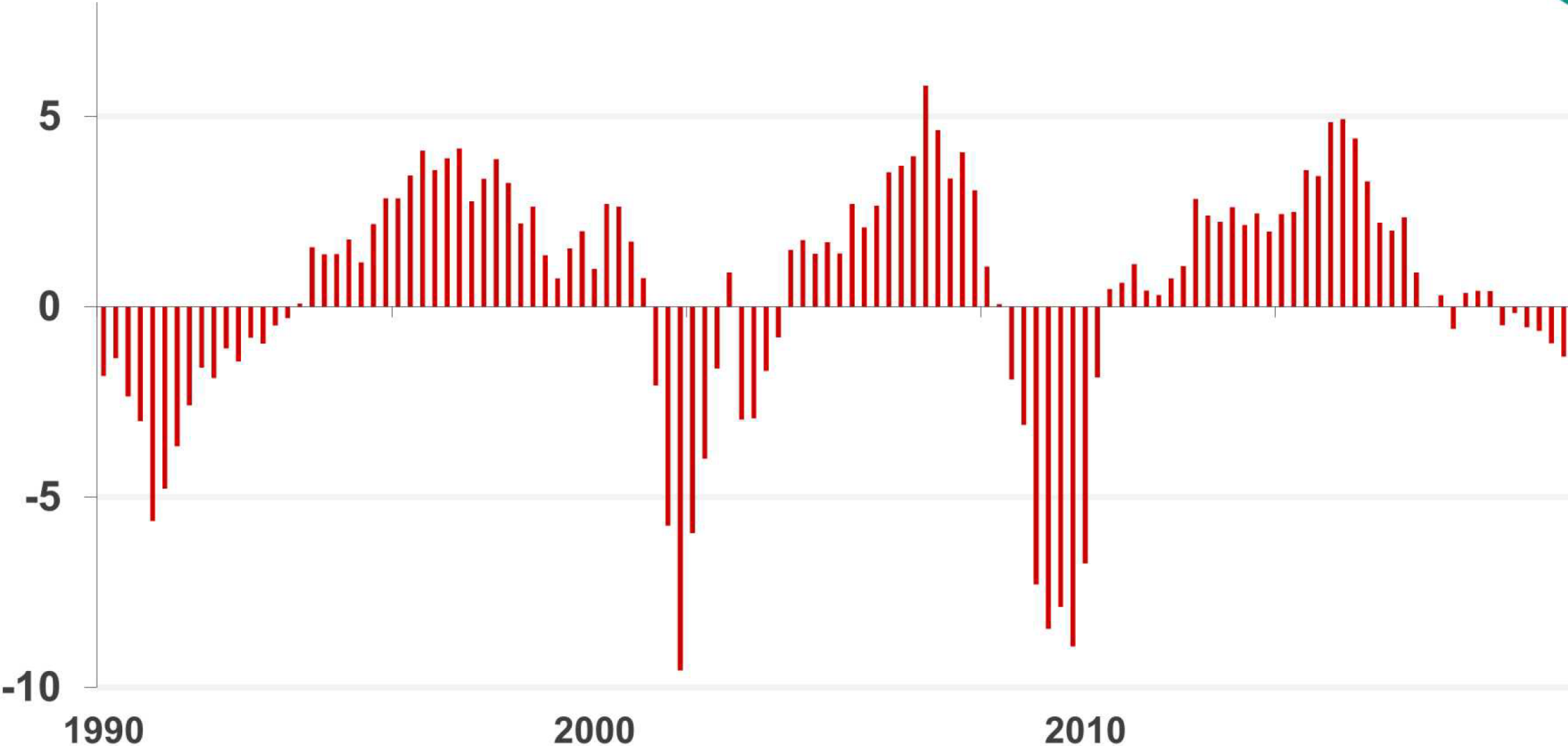
Long Run Trends Point In One Direction: Down!



Total U.S., ADR & OCC % Change, 12 MMA 1/1990 – 12/2019

Source: STR
2020 © CoStar Realty Information, Inc.

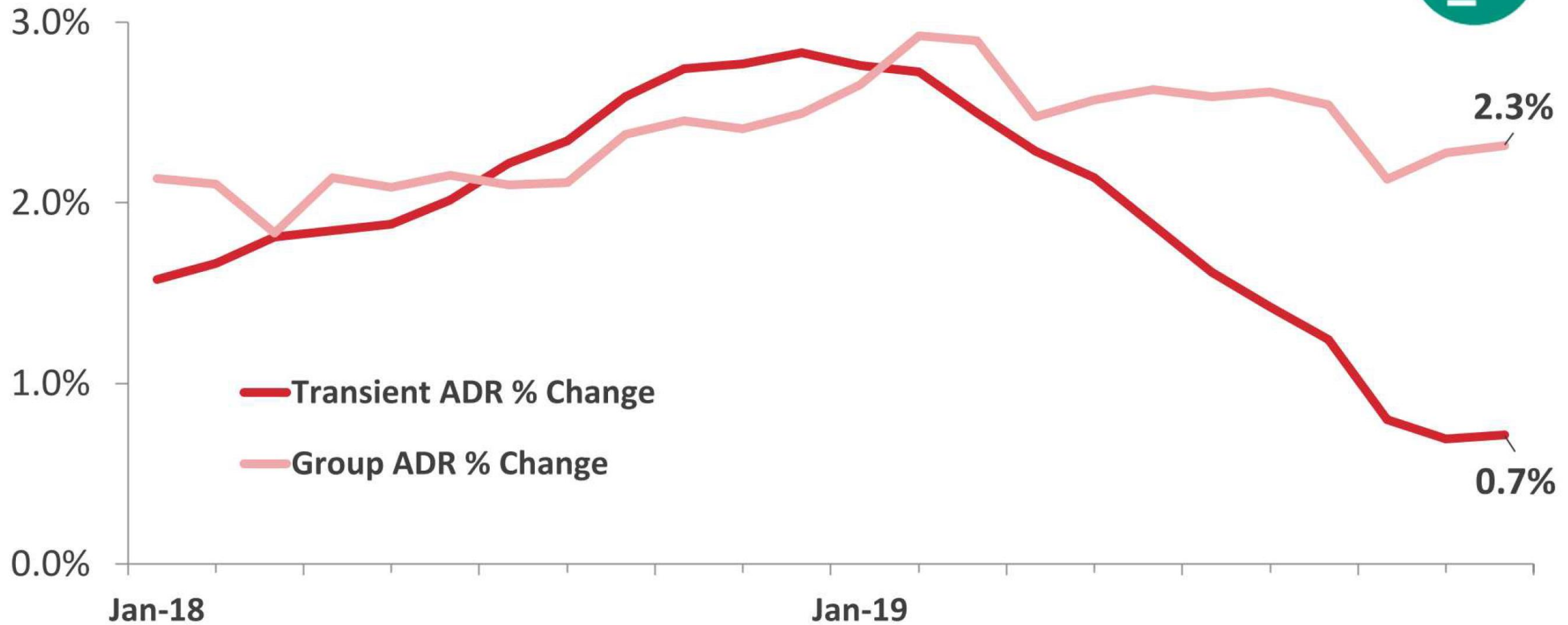
Real ADR Growth (ADR% minus CPI%) Has Now Been Negative For Six Quarters



Total U.S., Real ADR % Change (ADR minus CPI), by quarter, Q1/1990 – Q4/2019

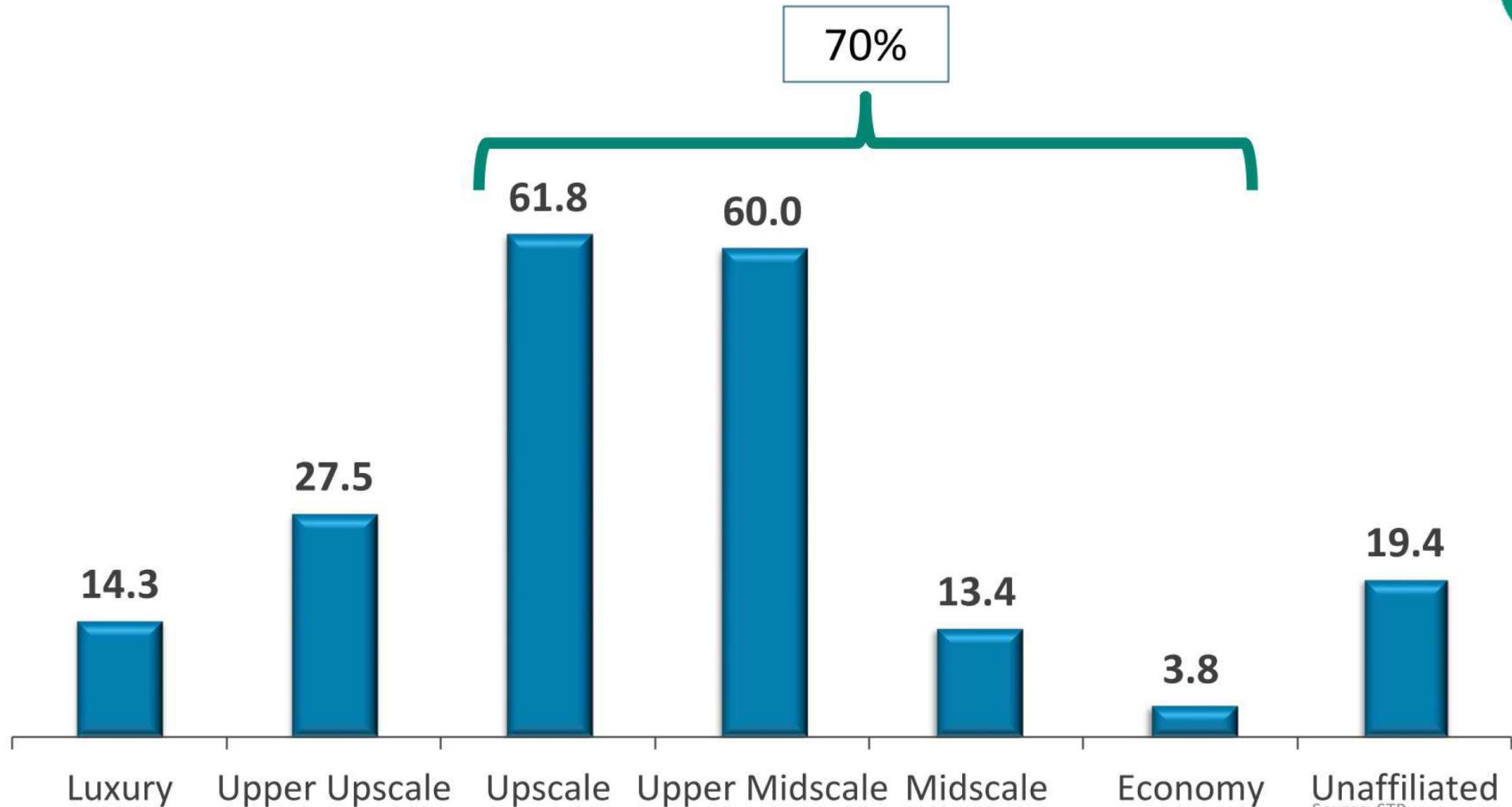
Source: STR
2020 © CoStar Realty Information, Inc.

Segmentation ADR % Change: Transient ADR Growth Much Weaker Than Group ADR Growth



*ADR % Change, Transient & Group, 12MMA, 1/2018 – 12/2019

Limited Service Construction Is The Name Of The Game



*US Pipeline, Rooms In Construction , '000s Rooms, by Scale, December 2019

Source: STR
2020 © CoStar Realty Information, Inc.

January 2020



RevPAR
2.2%

ADR
1.4%

Transient RevPAR
5.0%

Group RevPAR
1.8%

January Room Demand
91 Million

In Construction Rooms
+6.8%

Miami Hotel Performance Lifts US Data

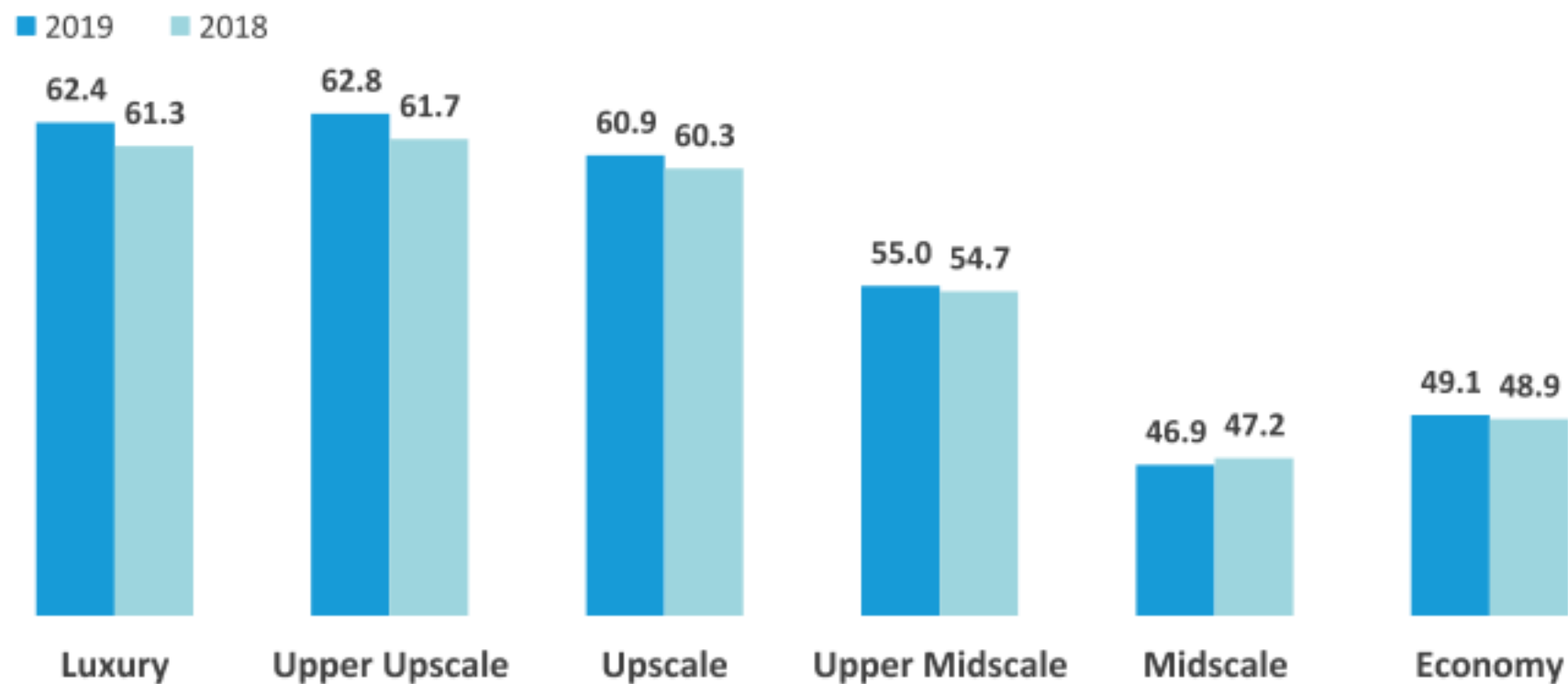
January 2020



	Occ %	ADR %	RevPAR %
US	0.8	1.4	2.2
Miami	3.5	14.5	18.6
US excl. Miami	0.8	0.9	1.7

As Expected: Slow Occupancy Month

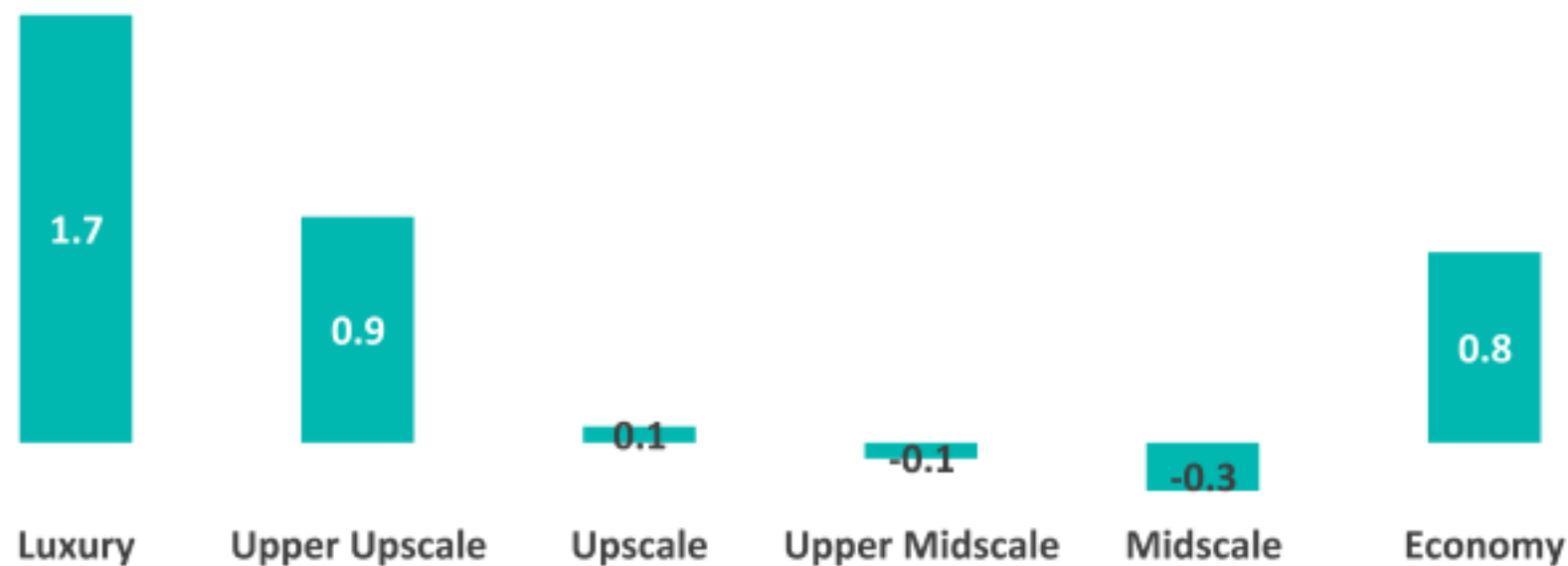
YTD January 2020 & 2019



Source: STR. 2020 © CoStar Realty Information, Inc. 28

RevPAR Growth Still Alive At Upper End

12 MMA January 2020

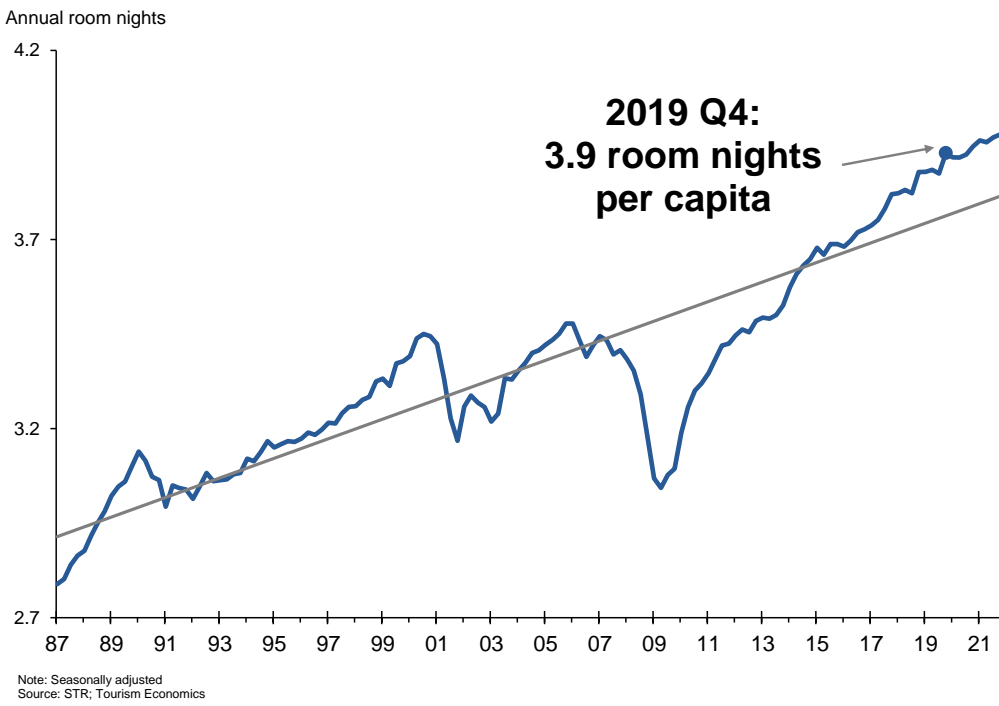




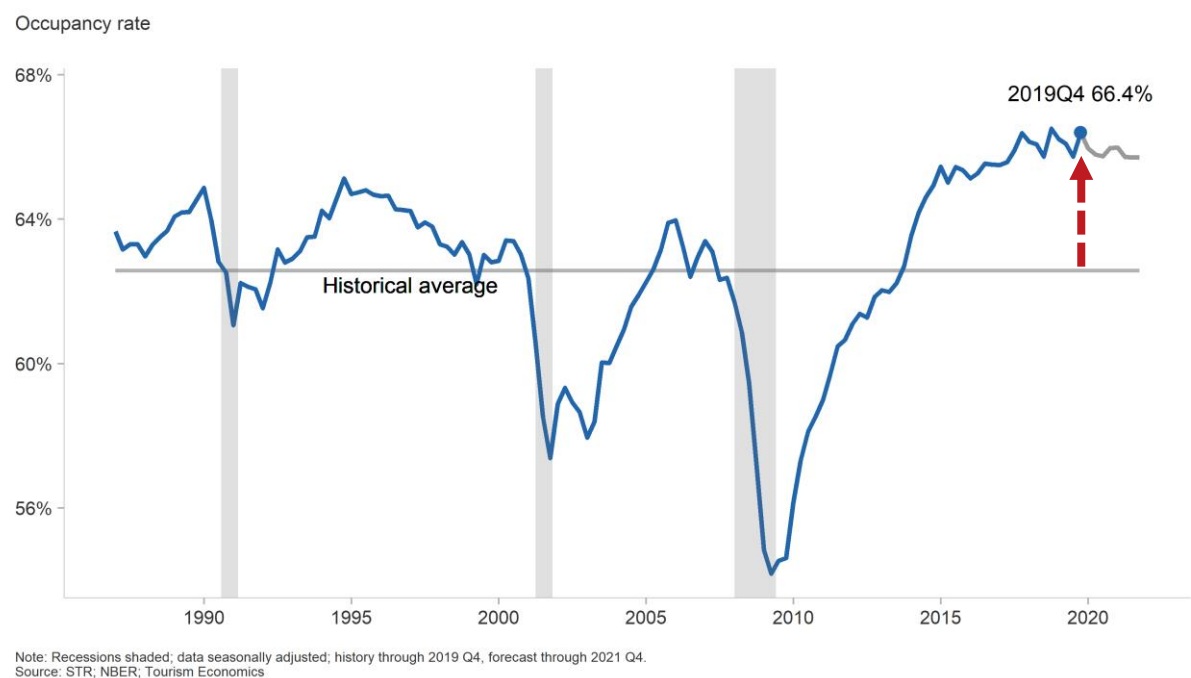
TRAVEL PERSPECTIVES

People are traveling more than ever

Room nights per capita, US

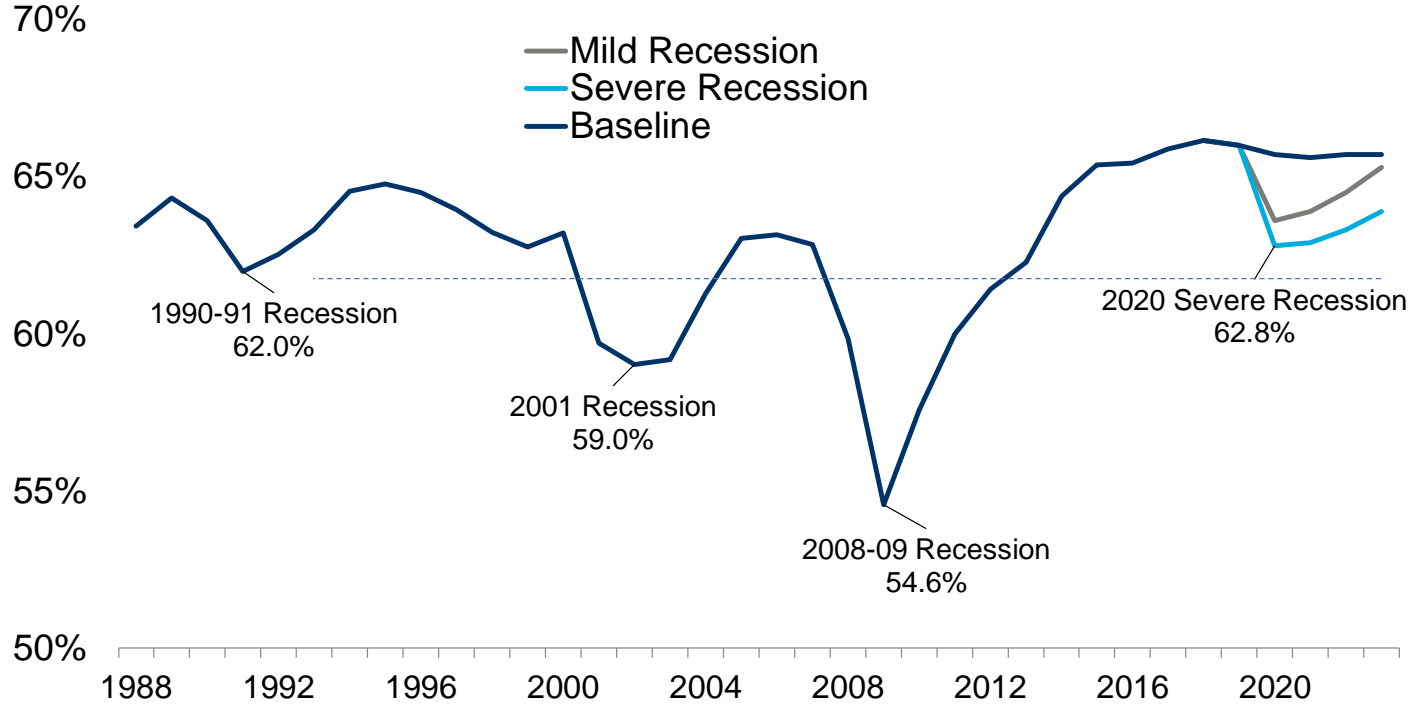


Occupancy



Even in “severe recession” occupancy rates are higher than in the past three

Hotel Occupancy Rate Levels

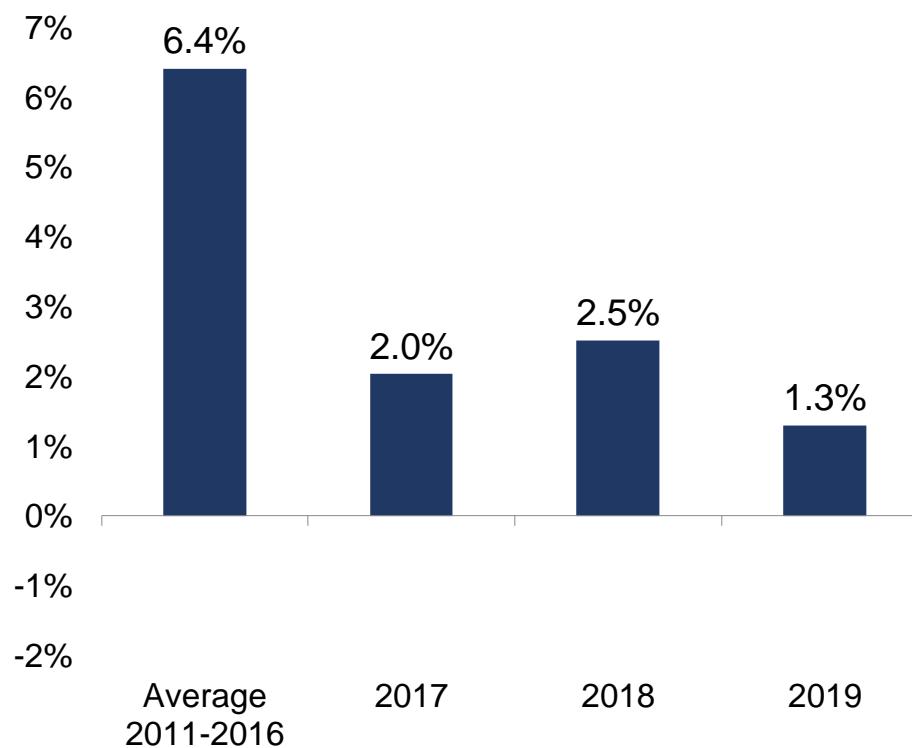


Source: STR, Tourism Economics

International inbound performing as expected

Overseas Visits to the US

% change



Source: NTT, Tourism Economics

“We expect inbound travel performance to remain tepid in 2019 consistent with recent monthly trends.”

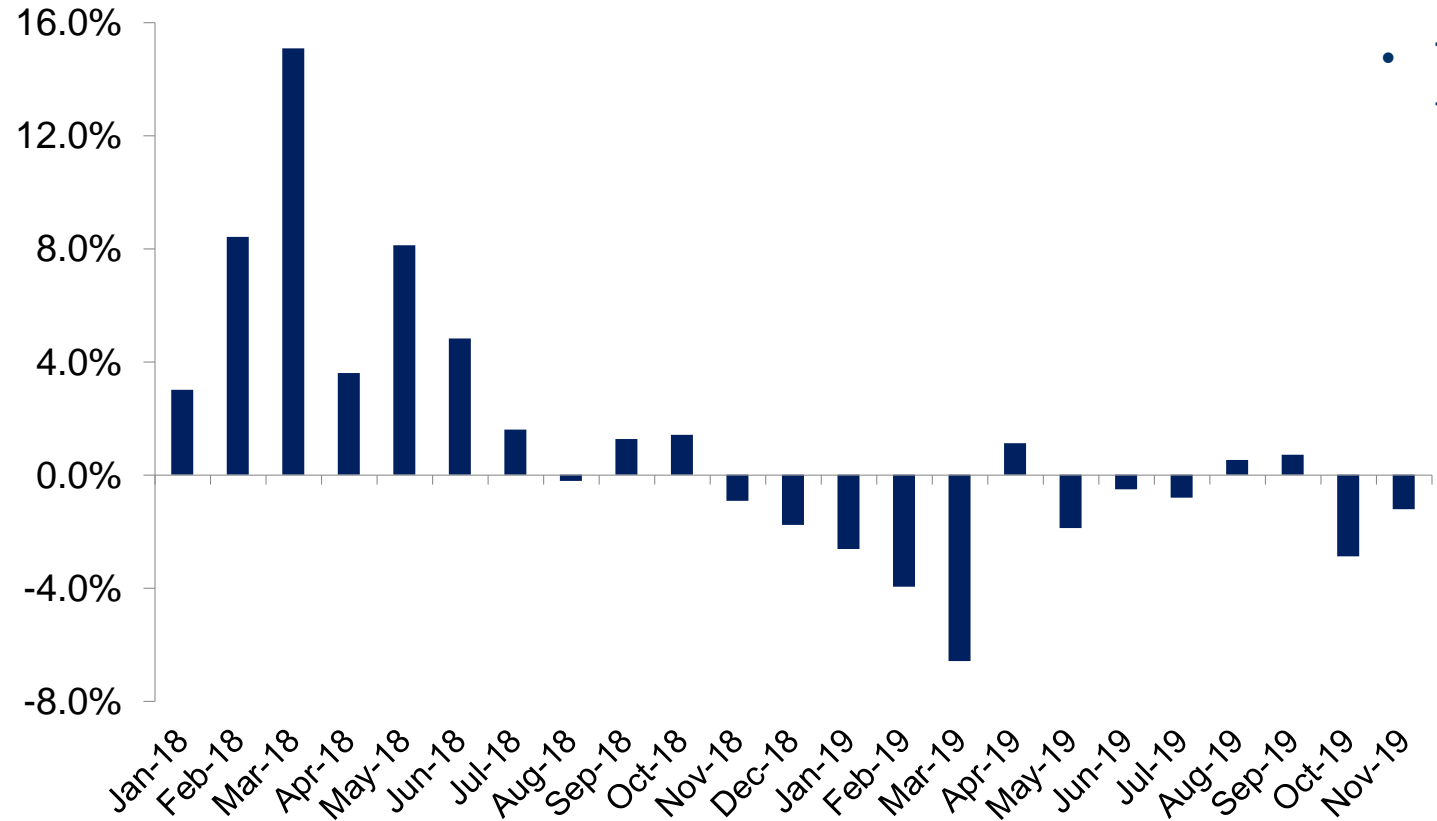
Tourism Economics, January 2019

- After averaging growth of 6.4% from 2011-2016, overseas travel to the US has slowed markedly.

For total inbound, a recession is underway

US international inbound arrivals

% change y/y



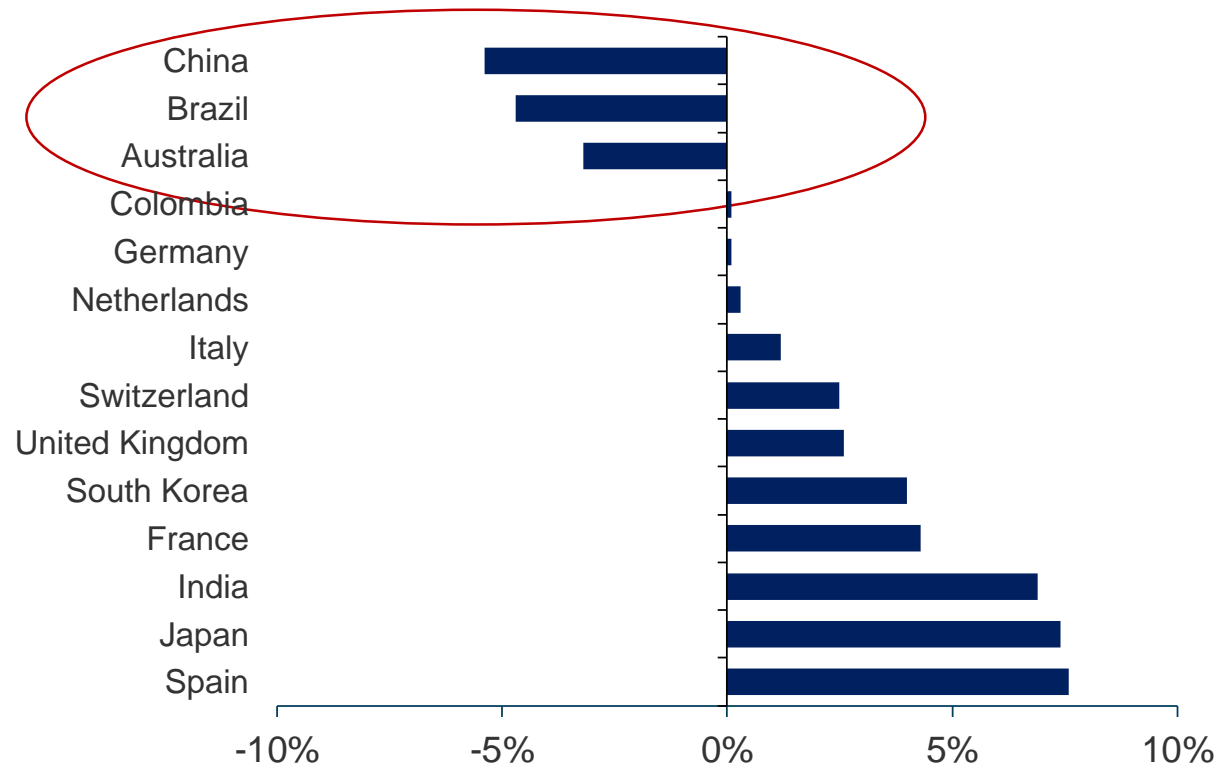
- Negative performance in 8 out of 11 months this year
- Total inbound is down -1.1% through November of 2019

Source: NTT, StatCan, Banco de Mexico

A wide mix of performance last year

US Inbound arrivals

% change, Jan-Dec 2019



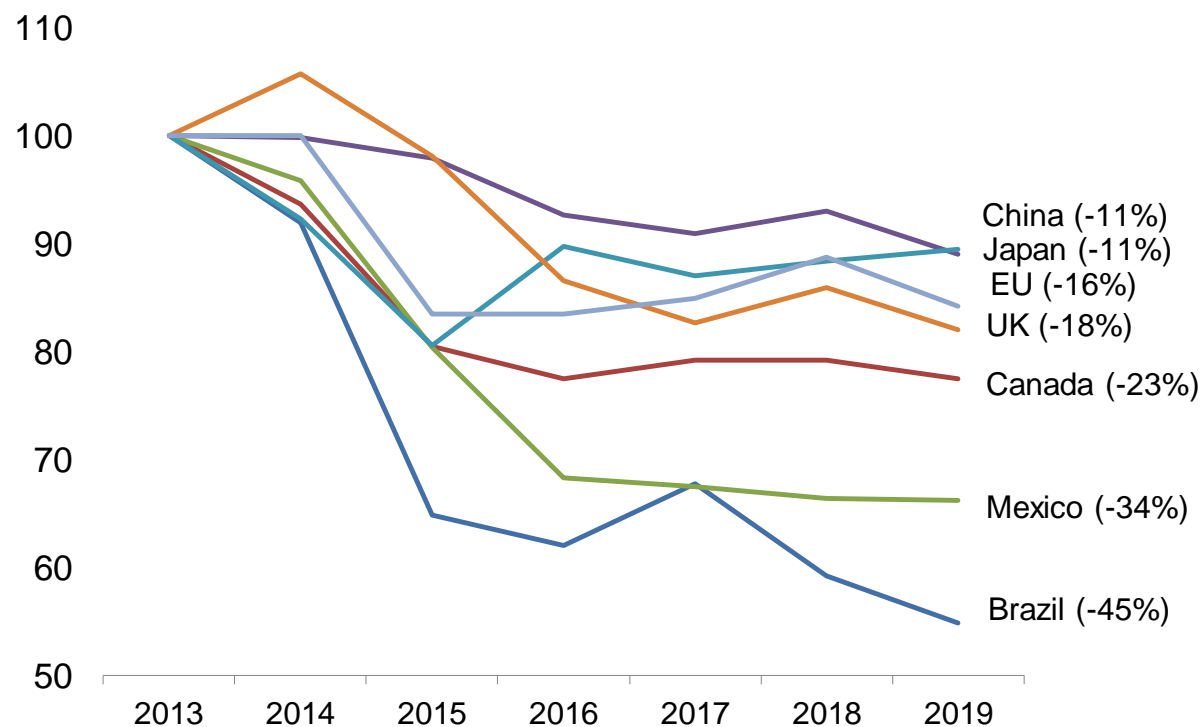
Source: NTTO

- Key emerging markets, including China and Brazil, contracted in 2019.
- Spain, Japan, and India posted robust results.

Visitors can get sticker shock from currency exchange

\$US Exchange rates, \$/LC

2013=100, annual average



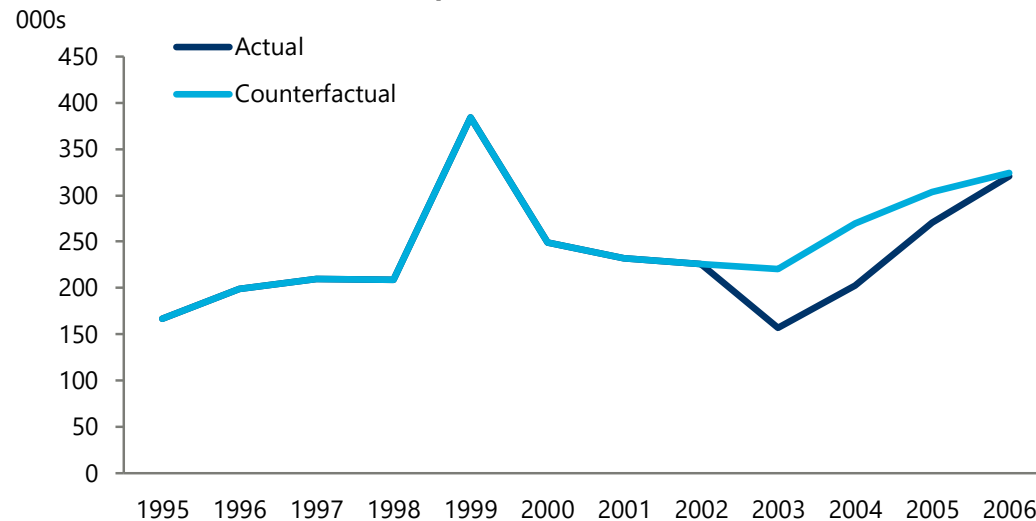
Source: Oxford Economics

- The US is significantly more expensive to visitors relative to six years ago.

Coronavirus impacts

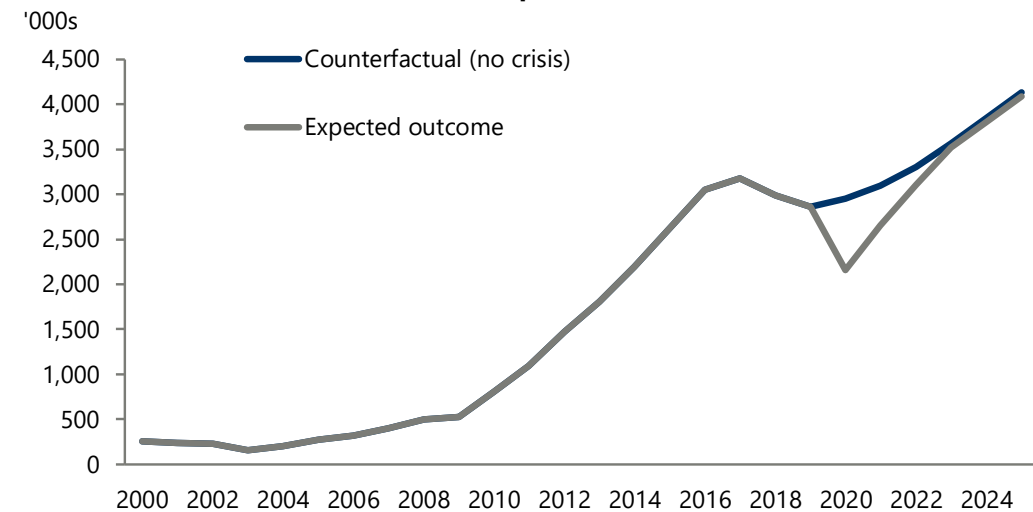
- Based on historical precedent, a 25% drop in visits to the US from China is expected in 2020.
- The rest of Asia also likely to see a drop up to 10%.
- 1.6 million visits and \$7.7 billion in visitor spending lost in 2020.

US Arrivals from China, SARS Impact



Source: Tourism Economics

US Arrivals from China, Coronavirus Impact



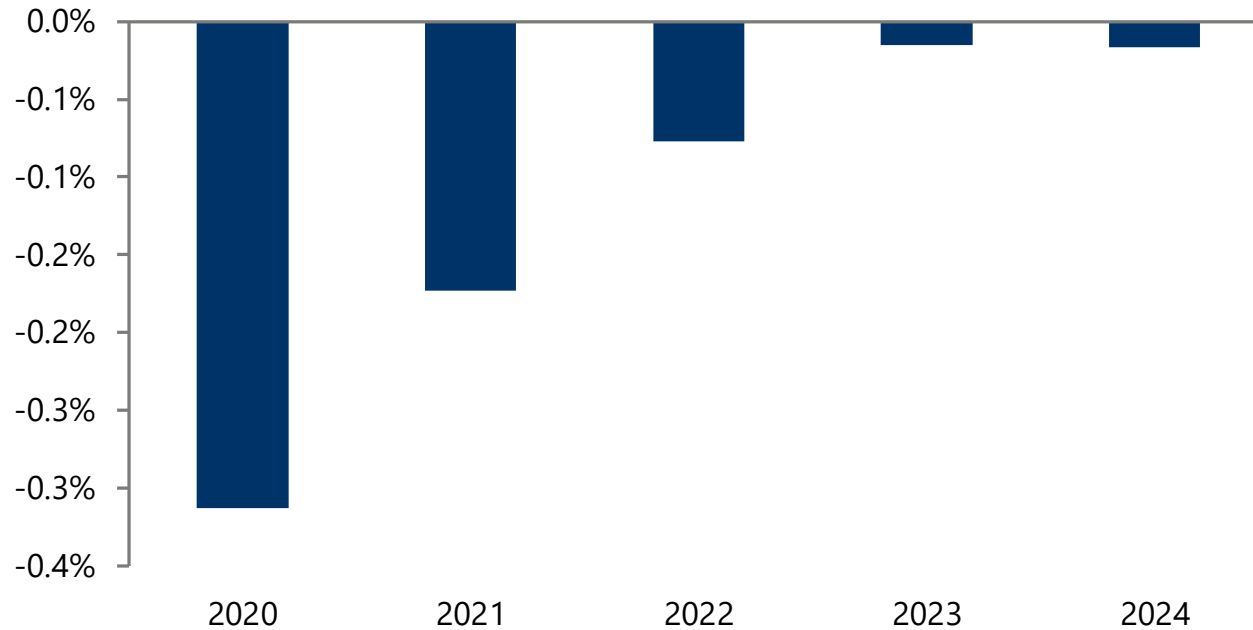
Source: Tourism Economics, NTTO

Coronavirus hotel impacts

- 7.5 million hotel room nights will be lost in 2020 alone
- In 2020, 0.6% of US hotel room demand will be forfeited

US Hotel Room Nights from Chinese Visitors, Coronavirus Impact

% of total hotel room demand



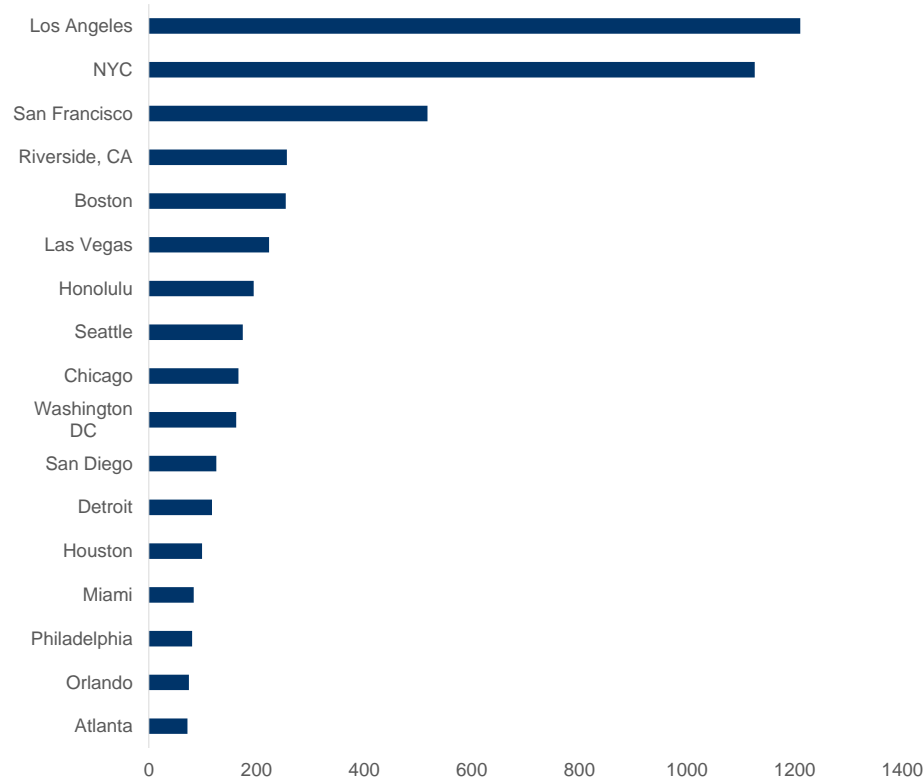
Source: Tourism Economics, STR

City exposure to China

- Los Angeles and New York City are the largest US city destinations with 1.2 million and 1.1 million overnight visits from China in 2019, respectively.

Overnight Visits from China in 2019

000s

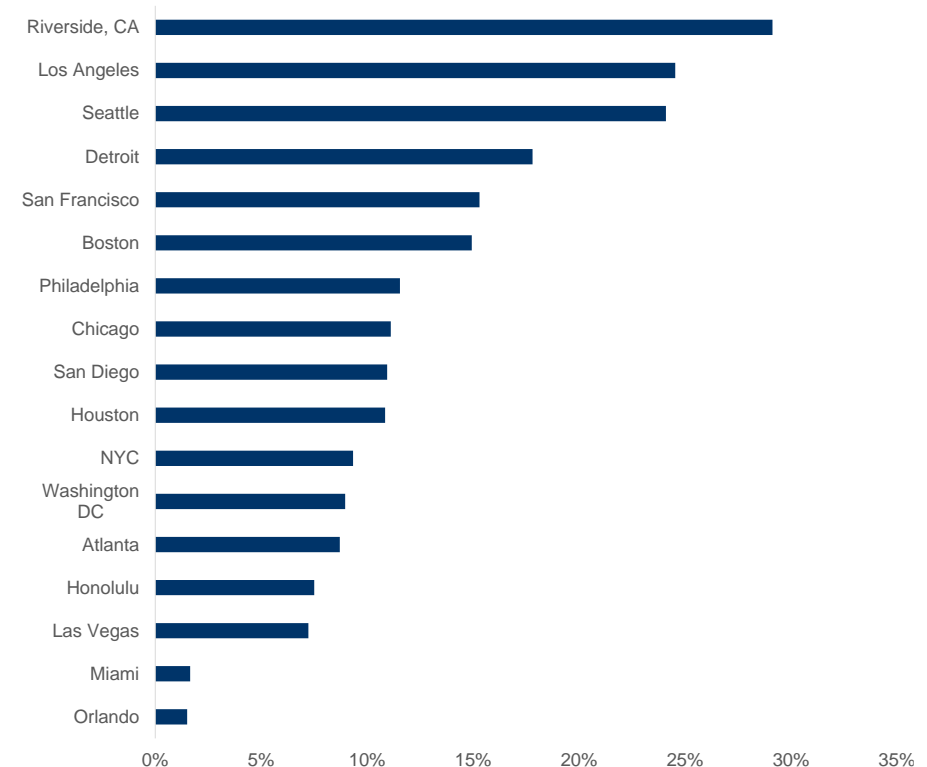


Source: Tourism Economics

- As a share of total overseas visitors to each city in 2019, Riverside CA, Los Angeles, and Seattle are most exposed to the Chinese market.

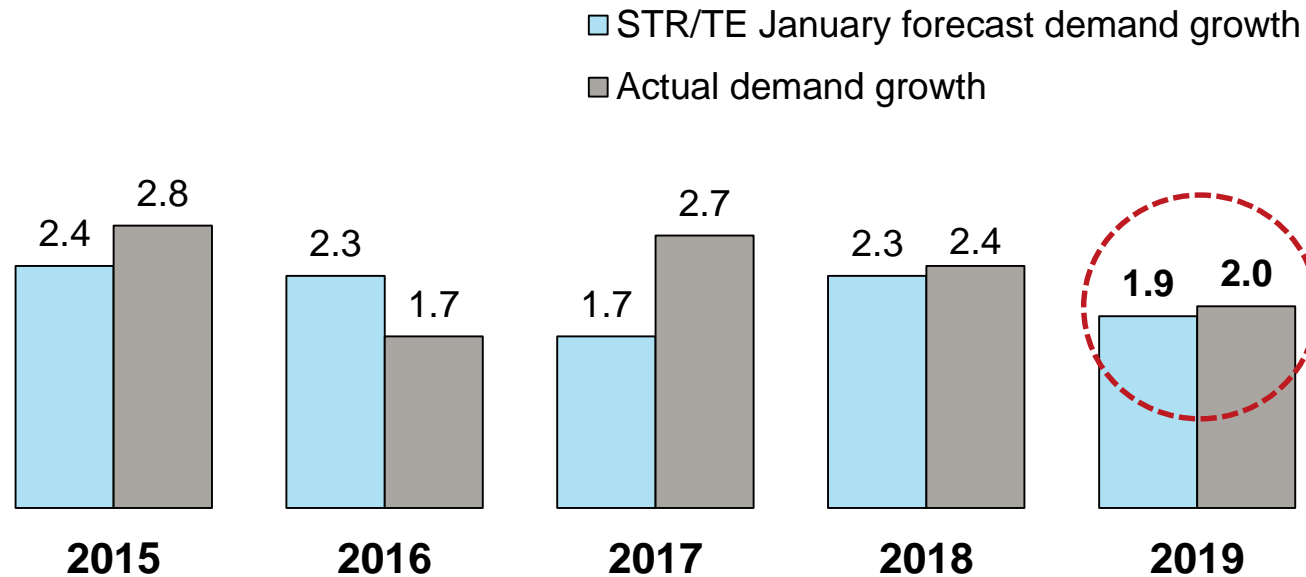
Share of Overseas Visits from China in 2019

%



Demand forecasts have been consistently accurate

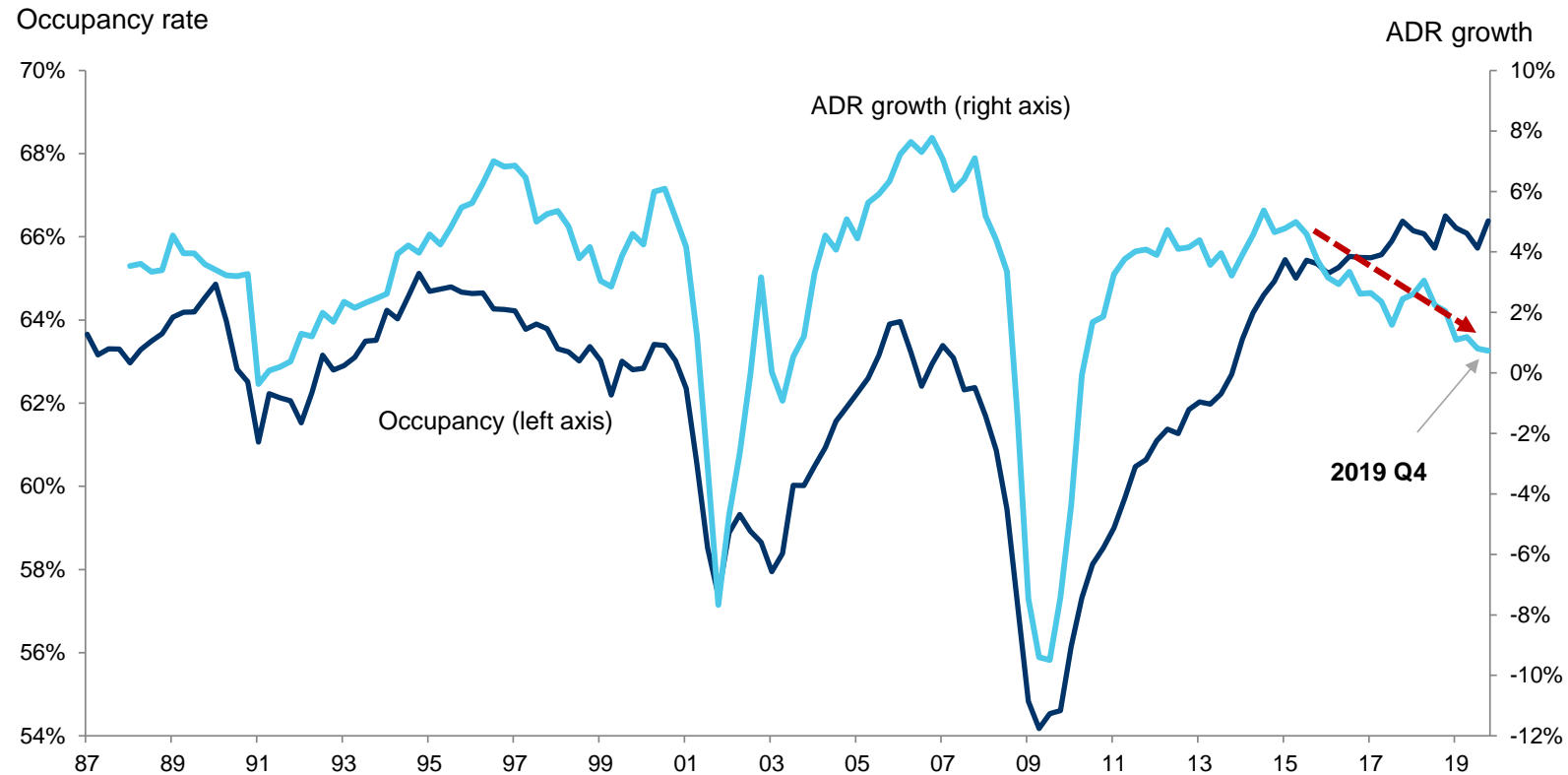
Accuracy of current year demand forecasts released in January of each year



Source: STR/Tourism Economics

...but ADR has been renegade

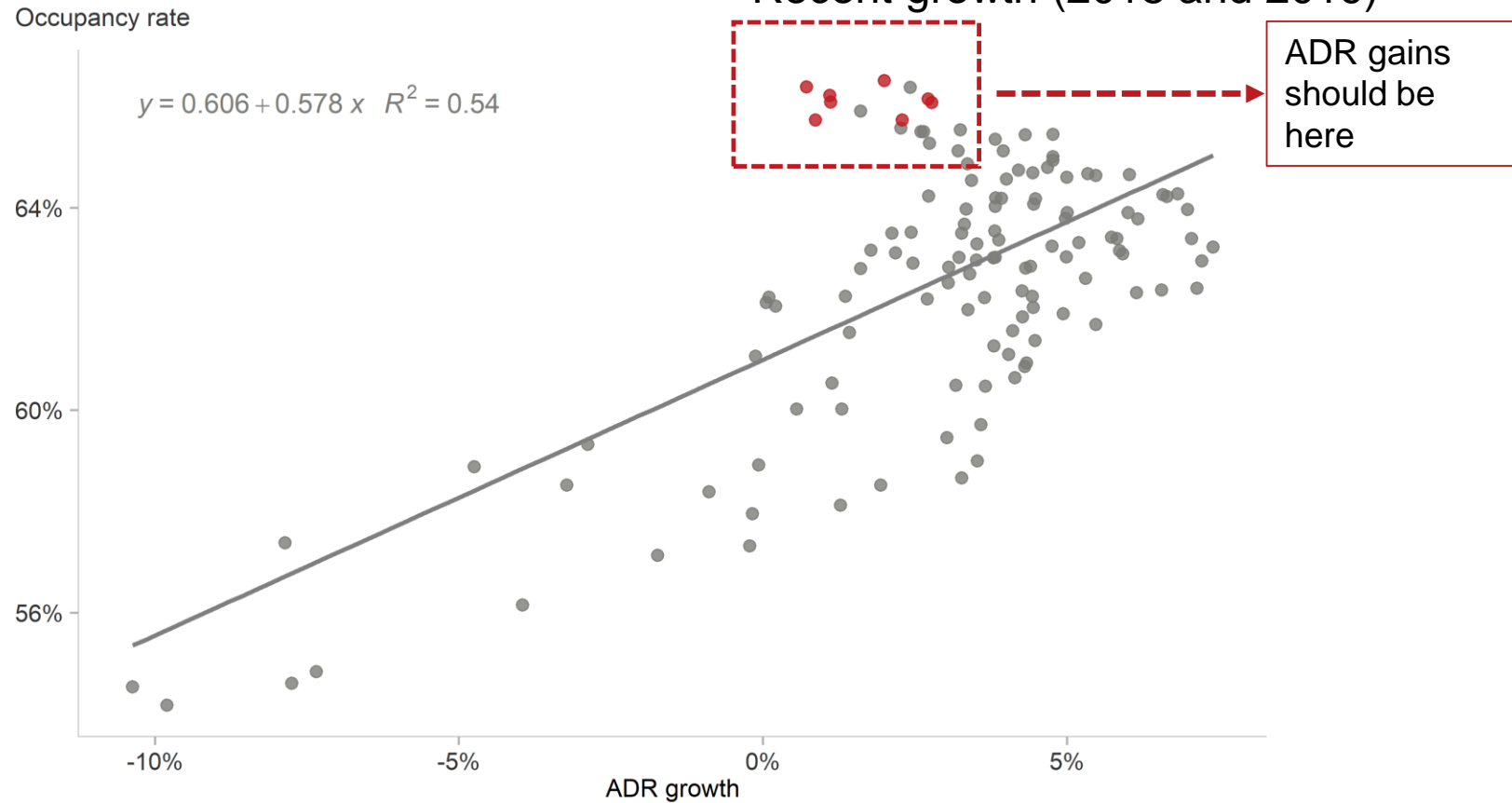
Occupancy and ADR growth



Source: STR; Tourism Economics

...weak despite levels of occupancy

Occupancy rate and ADR growth

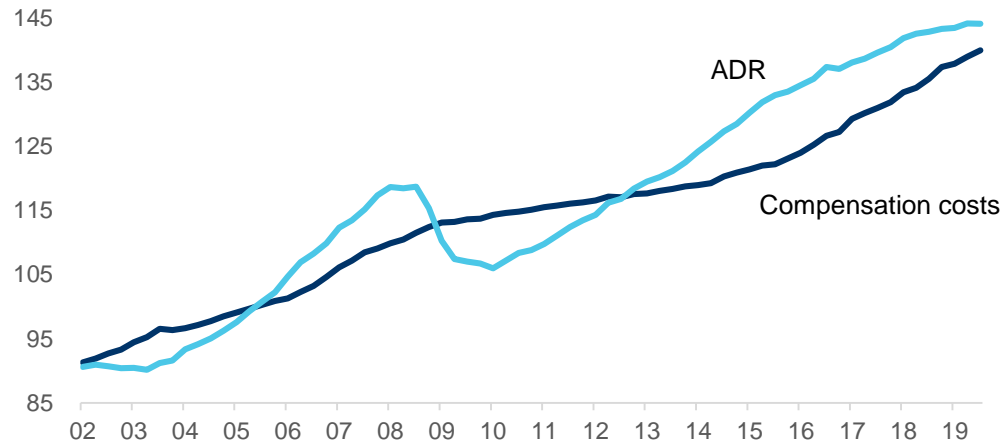


Note: Quarterly data. Occupancy is seasonally adjusted. ADR growth is year-over-year growth in nominal ADR. Equation shows predicted ADR growth based on the level of occupancy.
Source: STR; Tourism Economics

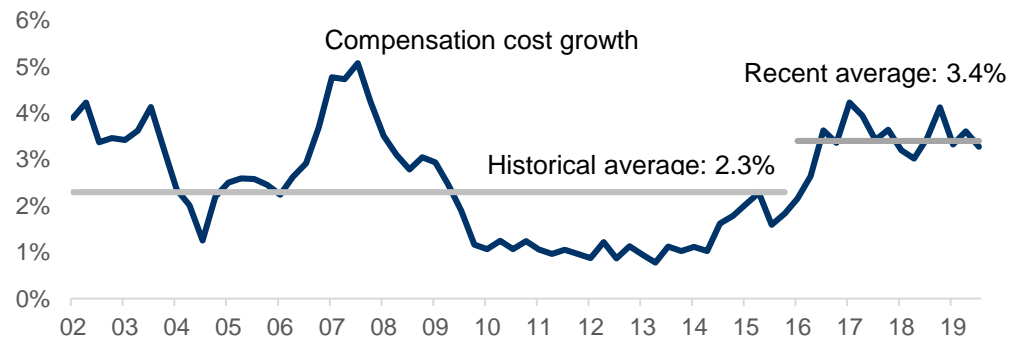
While increases in costs are eclipsing rate gains

Compensation costs and ADR

Leisure and hospitality sector compensation, index (2005=100)



Year-over-year growth

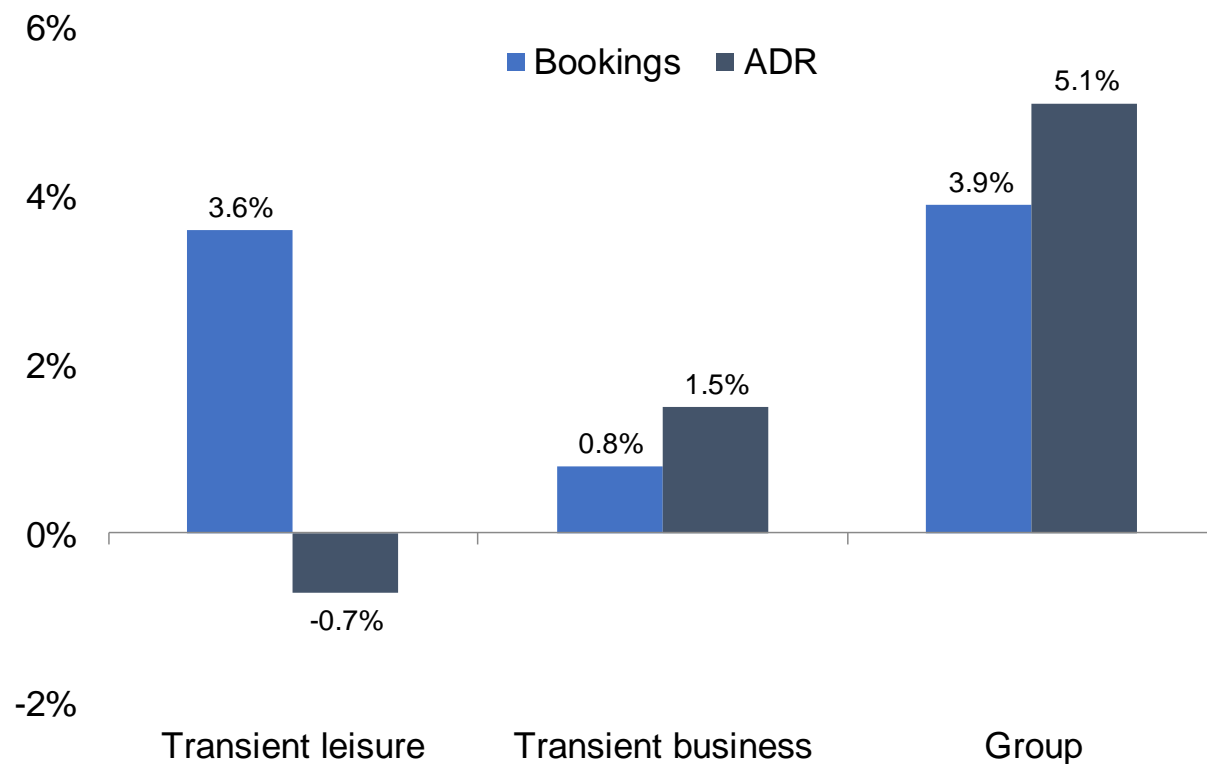


Note: Compensation costs for leisure and hospitality sector jobs (wages, salaries and benefits at accommodation and food service establishments) based on Employment Cost Index.
Source: STR; BLS; Tourism Economics

Some pace data showing a rebound

North America 12-month lodging outlook

Performance pace: Nov 2019 - Oct 2020



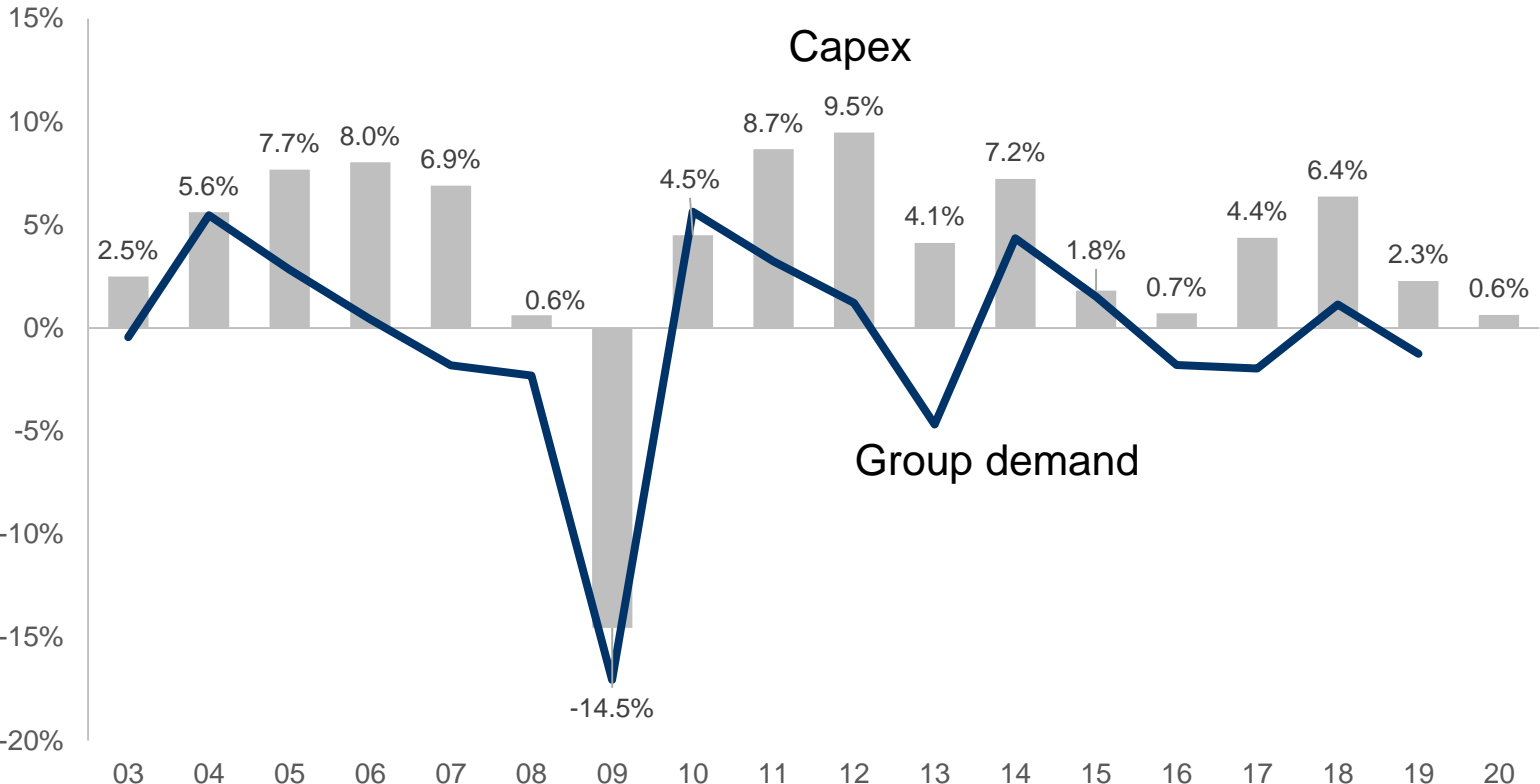
Source: TravelClick

- Weakness in transient business demand and in rate for transient leisure

But the underlying economic data indicate weakness in group

Group lodging demand and capex spending

US, annual growth

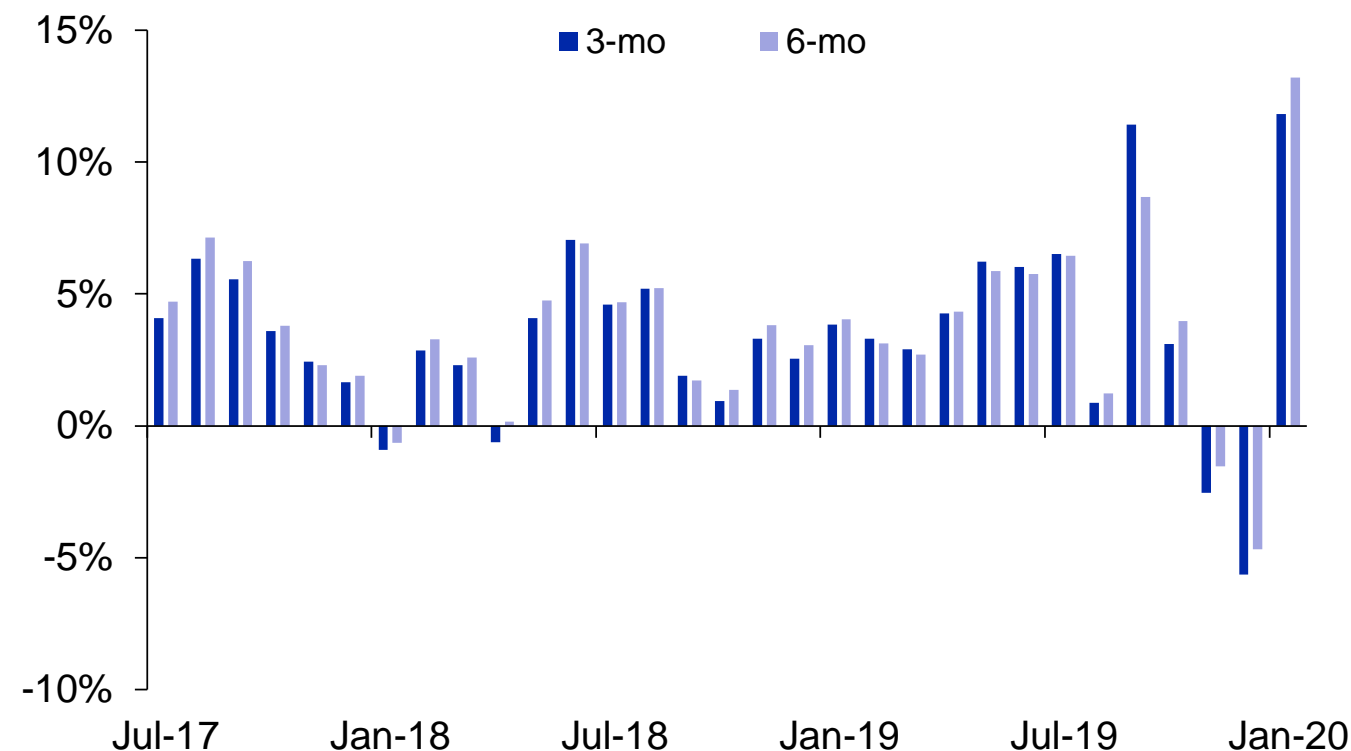


Note: Capital expenditures measured as nonresidential fixed investment, private, real.
Source: STR; BEA; Oxford Economics

Domestic air travel bookings showing some volatility

Forward-Looking US Air Travel Bookings

y/y % change, advance moving-sum (month of booking)



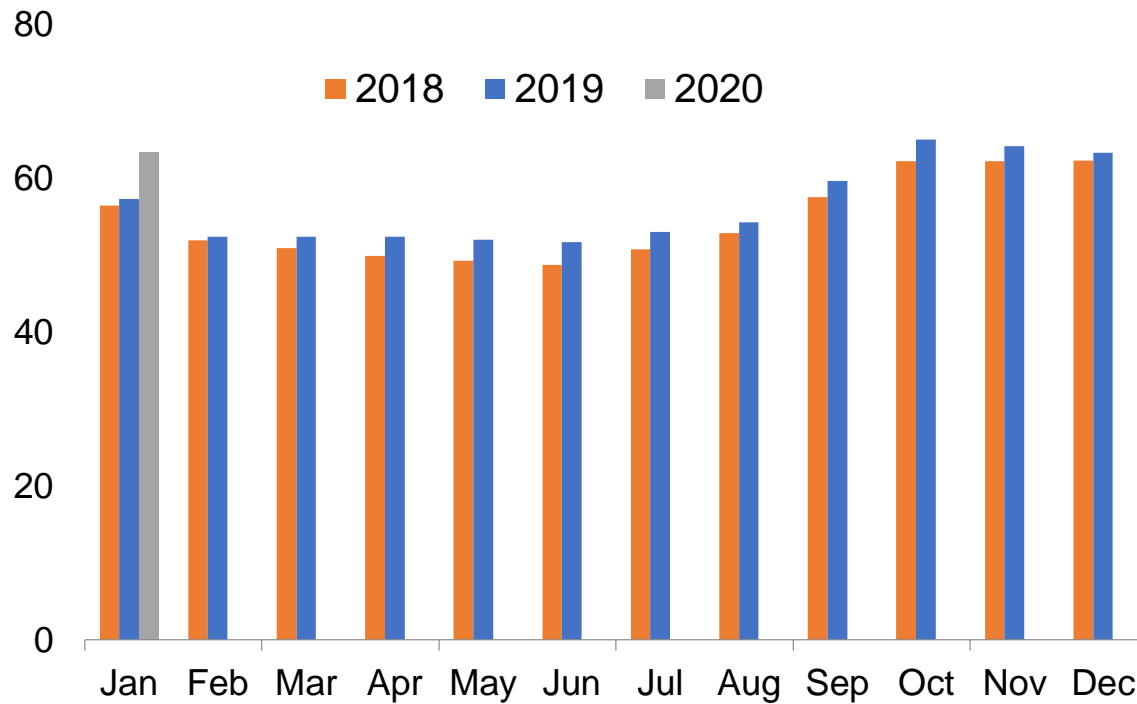
- Air passenger bookings rebounded strongly in January after a week finish to 2019

Source: Tourism Economics, ARC

And vacation intentions are holding

US Household Vacation Intentions

% planning to take vacation in next six months



- Vacation intentions remained above prior year levels in each of the past 13 months.

Source: Conference Board, Tourism Economics

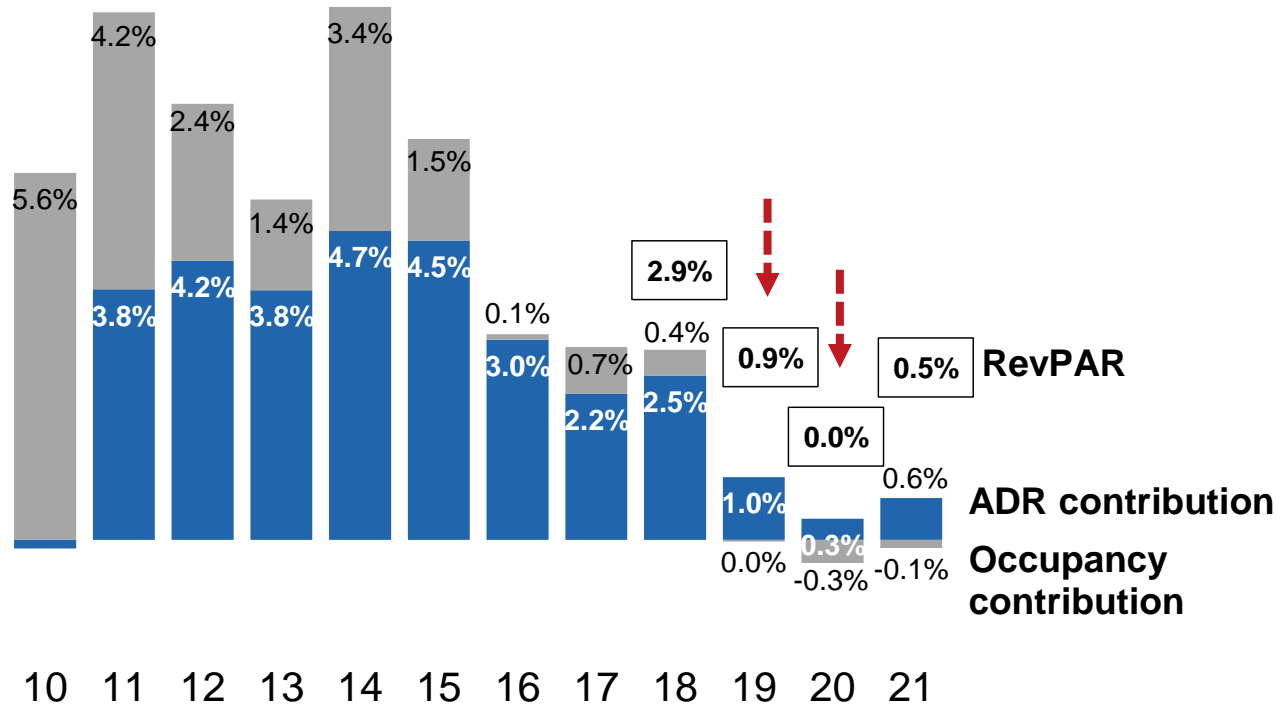


THE US LODGING OUTLOOK

Expect flat RevPAR in 2020

US Occupancy and ADR growth

% change



*STR and TE forecast
(Jan-2020 release)*

RevPAR

- 2018: 2.9%
- 2019: 0.9%
- 2020: 0.0%

Source: STR; Tourism Economics



Total United States

Key Performance Indicator Outlook (% Change vs. Prior Year)

2020F – 2021F



TOURISM
ECONOMICS

AN OXFORD ECONOMICS COMPANY



Outlook		
Metric	2020 Forecast	2021 Forecast
Supply	1.9%	1.9%
Demand	1.6%	1.7%
Occupancy	-0.3%	-0.1%
ADR	0.3%	0.6%
RevPAR	0.0%	0.5%

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