Performance and Prospects International Travel to the US

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RECENT TRENDS:

THE INTERNATIONAL TRAVEL RECESSION IS NOW
This year is shaping up as expected: slow

“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 and is on pace for just 1.2% this year through August 2019.
Arrivals of overseas visitors to the US have slowed

Overseas arrivals growth
Change from prior year

<table>
<thead>
<tr>
<th>Month</th>
<th>NTTO</th>
<th>APIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-19</td>
<td>3.7%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Feb-19</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Mar-19</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Apr-19</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>May-19</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Jun-19</td>
<td>0.0%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Jul-19</td>
<td>-0.5%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Aug-19</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Note: Overseas excludes Canada and Mexico. March and April growth averaged to smooth Easter timing impact. NTTO data available through July 2019, APIS data available through August 2019.

Annualized growth
2011-16: 6.5%
2019:
- APIS: 1.1% (Aug-YTD)
- NTTO: 2.7% (Jul-YTD)

Source: APIS (Advanced Passenger Information System, US Customs), NTTO (National Travel and Tourism Office), Tourism Economics
The inbound recession is upon us

- Negative performance in 8 of last 9 months
- Total inbound is down -2% through July of 2019

**US international inbound arrivals**

% change y/y

Source: NTTO, StatCan, Banco de Mexico
Asia showing marked slowdown

Inbound arrivals to US from China
% change, 3 month moving average

Inbound arrivals to US from South Korea
% change, 3 month moving average

Source: NTTO
Except for Japan!

Inbound arrivals to US from Japan
% change, 3 month moving average

Source: NTTO
Brazil faltering

Inbound arrivals to US from Brazil

% change, 3 month moving average

Brazil Real GDP

% change

Source: NTTO

Source: Oxford Economics
UK holding strong while Germany struggles

• UK +4.8%
• Germany 0.2%

Inbound arrivals to US from UK
% change, 3 month moving average

Source: NTTO

Inbound arrivals to US from Germany
% change, 3 month moving average

Source: NTTO
Inbound growth in 2019 led by… Europe

- Emerging markets have faltered in 2019, particularly Africa and South America.
- Oceania (largely Australia) has also contracted while Asia has only grown 1.4% through August.
- Surprisingly, Europe has grown despite uneven economic performance.

## US Inbound arrivals
% change, Jan-Aug 2019

<table>
<thead>
<tr>
<th>Region</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>-6.7%</td>
</tr>
<tr>
<td>South America</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Oceania</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Middle East</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Overseas</td>
<td>1.2%</td>
</tr>
<tr>
<td>Asia</td>
<td>1.4%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>2.4%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Source: NTTO

*Graph showing US Inbound arrivals % change, Jan-Aug 2019.*
Early indicators are mixed for 2019

- Key emerging markets—China, Brazil, and South Korea—all contracted in the first eight months of the year.

- Spain, Japan, and the UK posted robust results.
China visa issues are compounding the effects of the trade war

In 2018, 3.2% of the 10,313 students who applied to study in the United States on Chinese government scholarships were rejected.

But in the first three months of 2019, 13.5% of visa applications were rejected, the China Scholarship Council statistics showed.

**Visa Refusal Rates - Mainland China**
Selected nationalities - B-visas

<table>
<thead>
<tr>
<th>Year</th>
<th>Visa Refusal Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9%</td>
</tr>
<tr>
<td>2014</td>
<td>9%</td>
</tr>
<tr>
<td>2015</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>12%</td>
</tr>
<tr>
<td>2017</td>
<td>15%</td>
</tr>
<tr>
<td>2018</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: U.S. Department of State
China visa issuance declines have coincided with these rejections

Visa issuance to Chinese travellers has fallen in each of the past four years.

Visa issuance in FY2018 was down 42% from its peak in 2015

**Nonimmigrant China Visa Issuance Growth**

year-over-year growth rate

- 2010: 35%
- 2011: 34%
- 2012: 36%
- 2013: 14%
- 2014: 20%
- 2015: 49%
- 2016: -14%
- 2017: -25%
- 2018: -13%
- 2019: -15%

Source: U.S. Department of State
China visa issues

Visa issuance in FY2018 was down 42% from its peak in 2015

Nonimmigrant Visa Issuance Volume
Annual total (millions)

- China (Mainland)
- Total PRC

Source: U.S. Department of State
Mexico is also contracting in 2019 after a partial rebound last year.

- Available data for the year indicates another fall in travel to the US from Mexico.
- We expect a decline of 5% for the year.

Mexico Visits to the US
% change

Source: NTTO, Tourism Economics
...and is expected to remain 7% below 2016 peak

- As a result, the Mexican market will remain suppressed relative to prior years.

Source: NTTO, Tourism Economics
Canada is also in retreat after two years of recovery

The Canadian market is also contracting with a 3% decline expected for the year.

Canadian Visits to the US
% change

Source: NTTO, Tourism Economics
...and is expected to remain 11% below 2013 peak

Canadian Visits to the US
millions

Source: NTTO, Tourism Economics
REASONS FOR THE DOWNTURN

- Slowing global economy
- Weakening global currencies vs USD
- Sentiment and visa issues
Global growth is slowing (especially manufacturing)

- Eurozone in slow motion
- Germany contracting
- Brazil in recession
- Mexico stalled
- China and India slowing

World: PMIs

Source: Oxford Economics/Markit
China has seen a sharp deceleration in industry…

Source: Oxford Economics, CEIC Data, Markit, Caixin
Trade war is producing both real and confidence effects

US: Trade war disrupts trade flows

Source: Oxford Economics
European activity has continued to soften…

Eurozone PMIs & GDP

GDP (RHS)
Manufacturing PMI (LHS)
Services PMI (LHS)

Source: Oxford Economics/Haver Analytics/IHS Markit
Brexit anxiety hurting UK and EU27 too

**UK: Business investment**

% year

-25 -20 -15 -10 -5 0 5 10 15 20


Range of G7 countries exc. UK
UK

Source: Oxford Economics calculations using data from Haver Analytics
Global GDP growth hits its nadir in 2019

**World GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Emerging Markets</th>
<th>Advanced Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>4.7%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2019</td>
<td>4.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2020</td>
<td>4.3%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
Some markets expected to pick up in 2020

World GDP by major market

% change

Source: Oxford Economics
Falling sentiment is apparently playing a part in certain markets

% saying they have a very or somewhat favorable view of the US

- Sentiment also appears to be playing a role in selected markets, namely Canada, Mexico, and Germany.
Dollar highest since early 2000s but is only 7% above long run average

Exchange rate, US dollar

Real effective exchange rate index, historical average = 100

Note: History through 2019 Q2. Historical average based on period from 1995 Q1 to 2019 Q2.
Source: Bank for International Settlements, Oxford Economics
Visitors can get sticker shock from changes over the past five years

$US Exchange rates, $/LC
2013=100, annual average

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

Source: Oxford Economics
WHAT DOES THIS MEAN FOR THE US TRAVEL INDUSTRY?

- Domestic travel is saving the day as the US economy withstands turmoil
- US travel sector is in a position of strength with record performance this year
Leading travel indicators: domestic travel to remain positive

- The U.S. Travel Association LTI provide forward looking indicators of travel activity over the next three- and six-month windows.
- Leading indicators, including search and bookings data, foretell modest continued growth for domestic travel.
- This is compensating for expected drops in international travel.

**July Domestic and International Travel Index**
Index (>50=expansion, <50=decline)

Source: Oxford Economics, U.S. Travel Association
Wage growth is supporting domestic travel demand amidst a tight labor market.

While we remain on a “recession watch” but are not convinced this is inevitable over the next 12 months. Oxford Economics has pegged the recession probability for the US in 2020 at 40%.
Consumer confidence remains elevated but battered

- Consumer confidence also remains elevated despite recent financial market volatility.
Household wealth up 50% from pre-recession high

• Wage growth is supporting domestic travel demand amidst a tight labor market.

• Consumer confidence also remains elevated despite recent financial market volatility.
Low leverage & high savings represent reassuring buffers

- A combination of deleveraging and low interest rates have lowered the debt burden on US households in recent years.

- This is positioning the domestic market for travel gains.
But domestically… air travel bookings remain steady

Air passenger bookings are pacing about 5% ahead of last year for travel over the next six months.

Forward-Looking US Air Travel Bookings

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

Source: Tourism Economics, ARC
And vacation intentions are holding above last year

More US households are reporting an intention to take a vacation than in any of the prior two years.

**US Household Vacation Intentions**

% planning to take vacation in next six months

- **2017**
- **2018**
- **2019**

Source: Conference Board, Tourism Economics
RevPAR growth is waning as occupancies flatten & ADR loses traction

Occupancy and ADR growth

% change

RevPAR forecast:
2018: 2.9%
2019: 1.6%
2020: 1.1%

Source: STR; Tourism Economics
TE models call for a modest rebound over next two years

Inbound arrivals
% change y/y

Source: NTTO, Tourism Economics
Takeaways

• International travel to the US has been steadily slowing over the course of 2019 and now contracting based on summer data.

• This weakness is most evident in key emerging markets (China, Brazil, South Korea) as well as Canada and Mexico.

• The causes of these declines are manifold: a weak global economy, a strong US dollar, and falling global sentiment towards the US.

• Leading indicators point toward continued international inbound travel weakness but the domestic market appears steady.

• We remain on a “recession watch” but are not convinced this is inevitable over the next 12 months as consumers are in a particularly strong position to withstand a slowdown.