

# Performance and Prospects International Travel to the US

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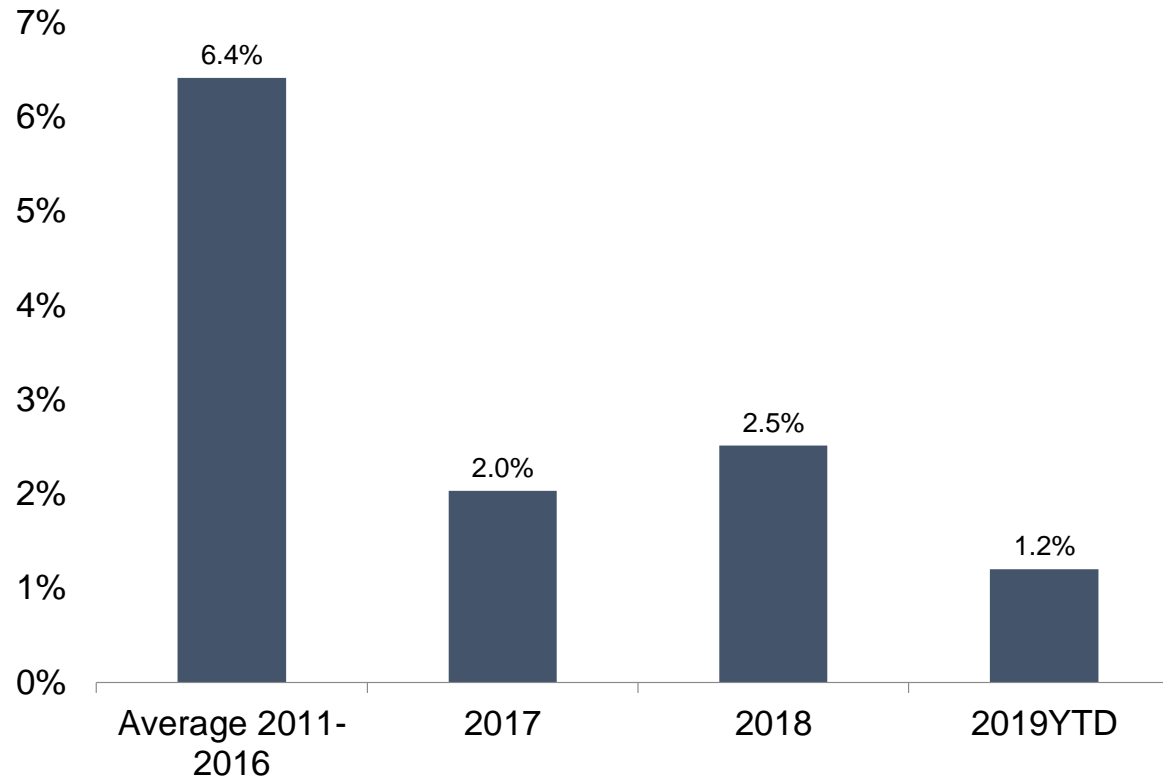
**RECENT TRENDS:**

**THE INTERNATIONAL TRAVEL RECESSION IS NOW**

# This year is shaping up as expected: slow

## Overseas Visits to the US

% change



Source: NTTO, Tourism Economics

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

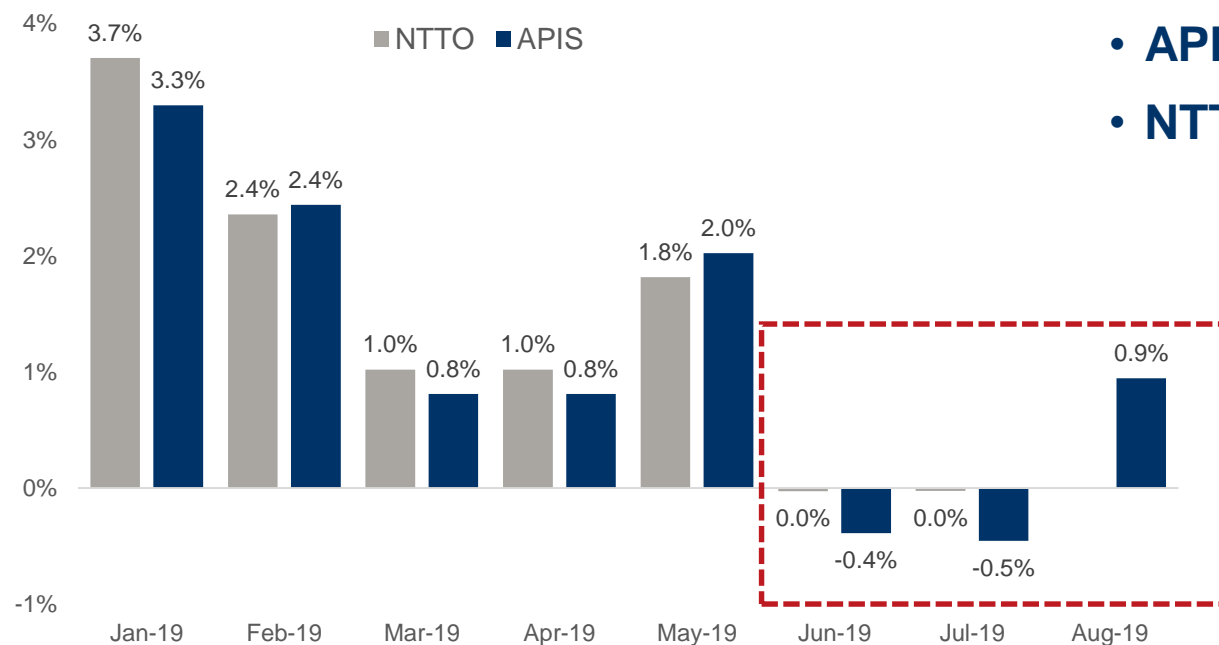
Tourism Economics, January 2019

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



## Annualized growth

2011-16: 6.5%

2019:

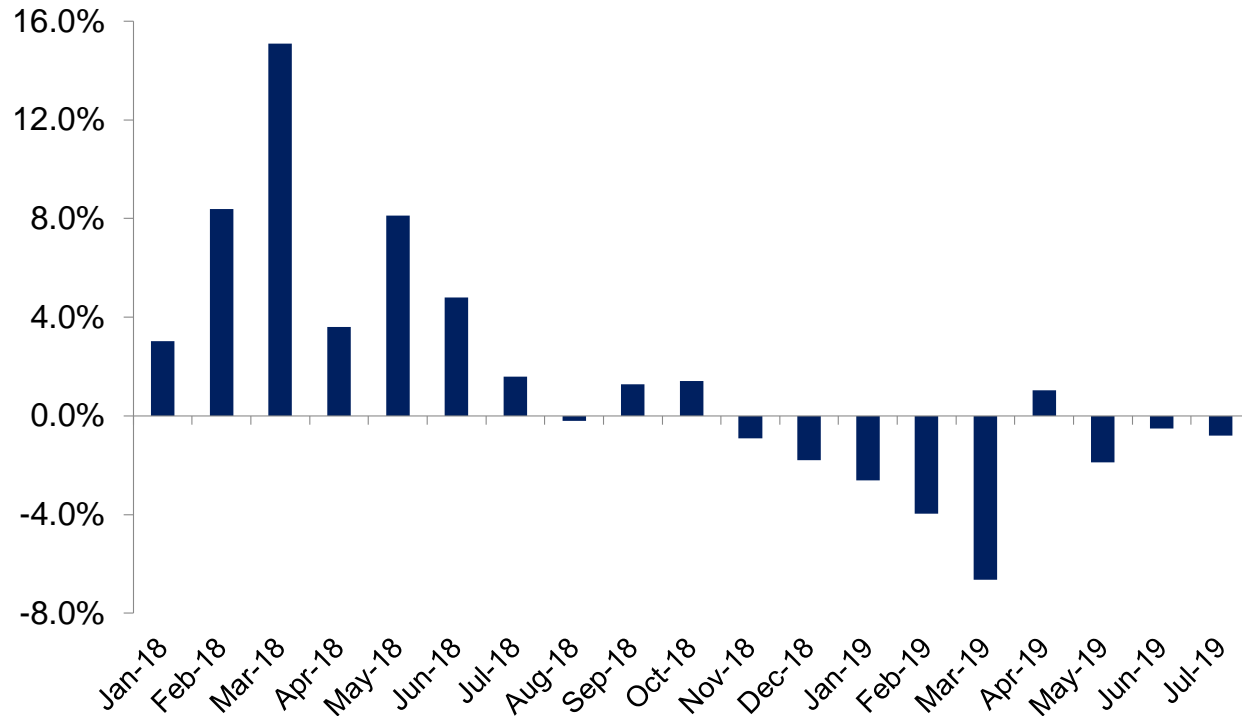
- APIS: 1.1% (Aug-YTD)
- NTTO: 2.7% (Jul-YTD)

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.  
Source: APIS (Advanced Passenger Information System, US Customs), NTTO (National Travel and Tourism Office), Tourism Economics

# The inbound recession is upon us

## US international inbound arrivals

% change y/y



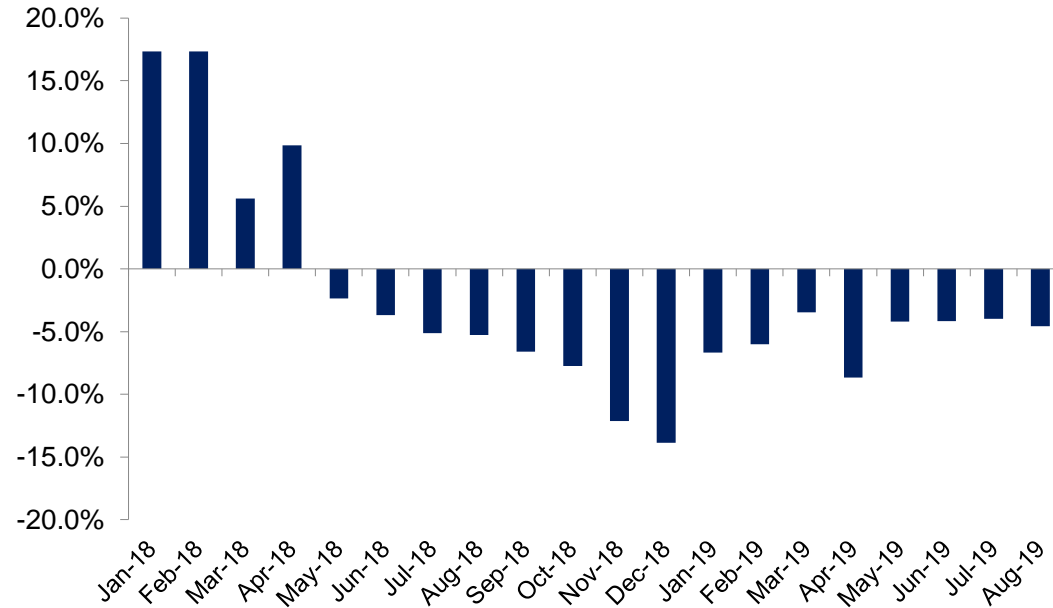
Source: NTT, StatCan, Banco de Mexico

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

# Asia showing marked slowdown

## Inbound arrivals to US from China

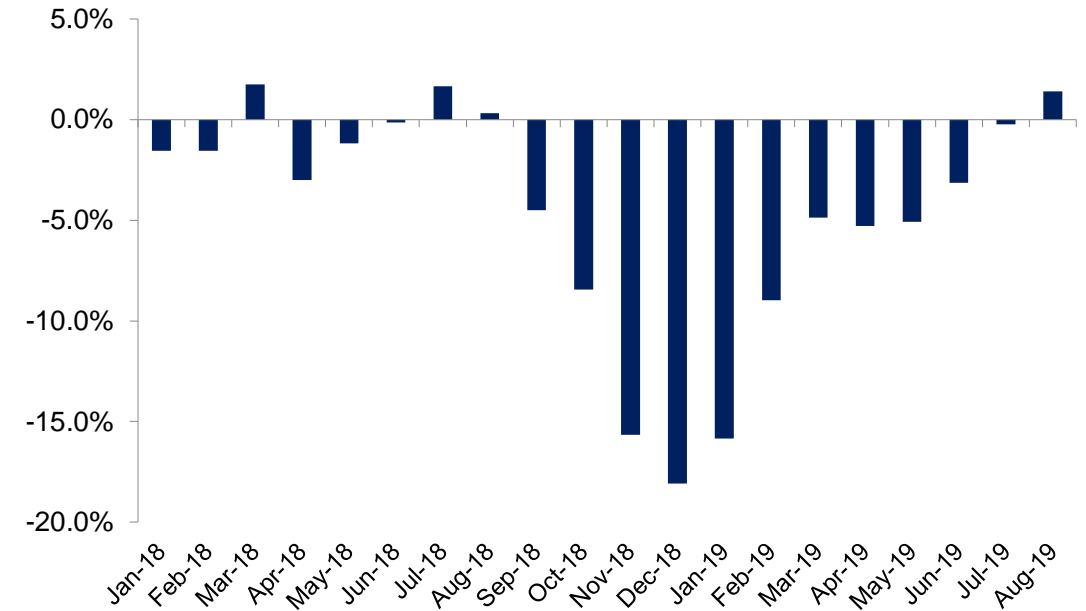
% change, 3 month moving average



Source: NTTO

## Inbound arrivals to US from South Korea

% change, 3 month moving average

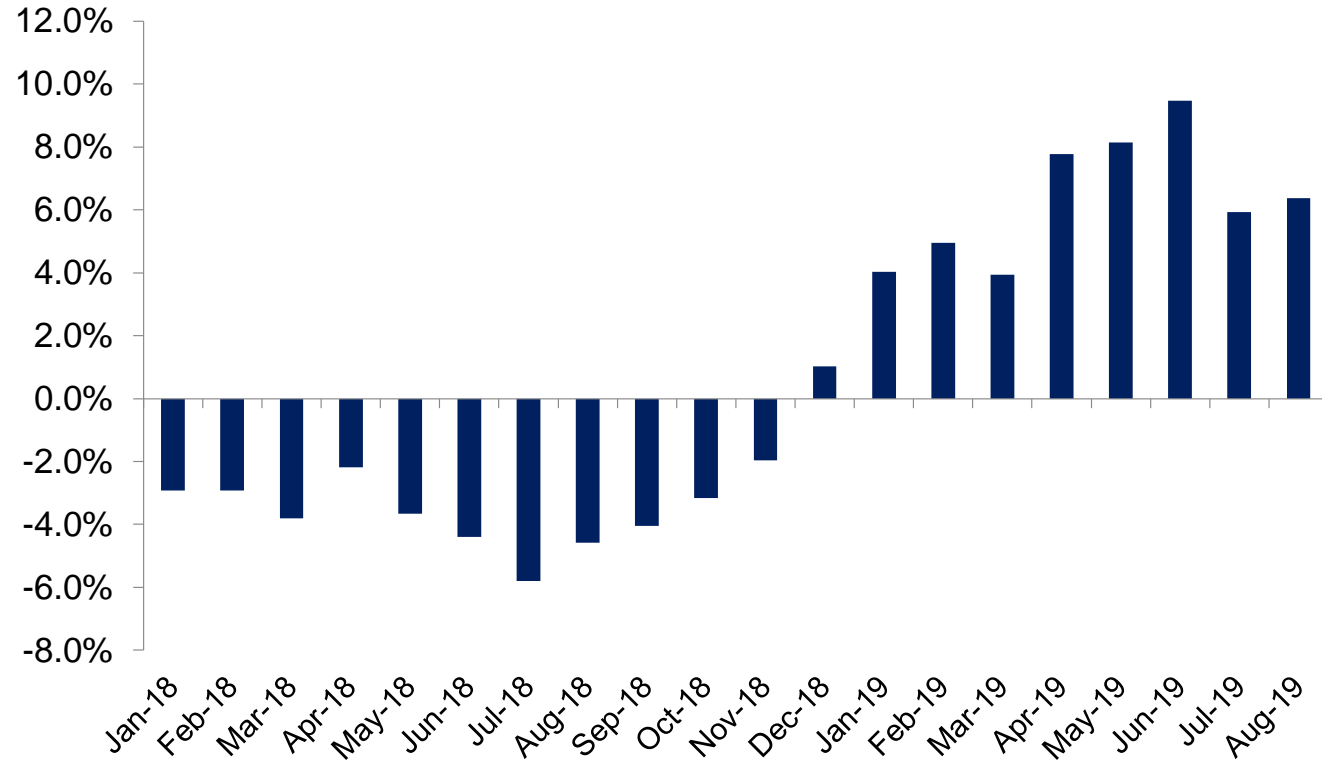


Source: NTTO

# Except for Japan!

## Inbound arrivals to US from Japan

% change, 3 month moving average

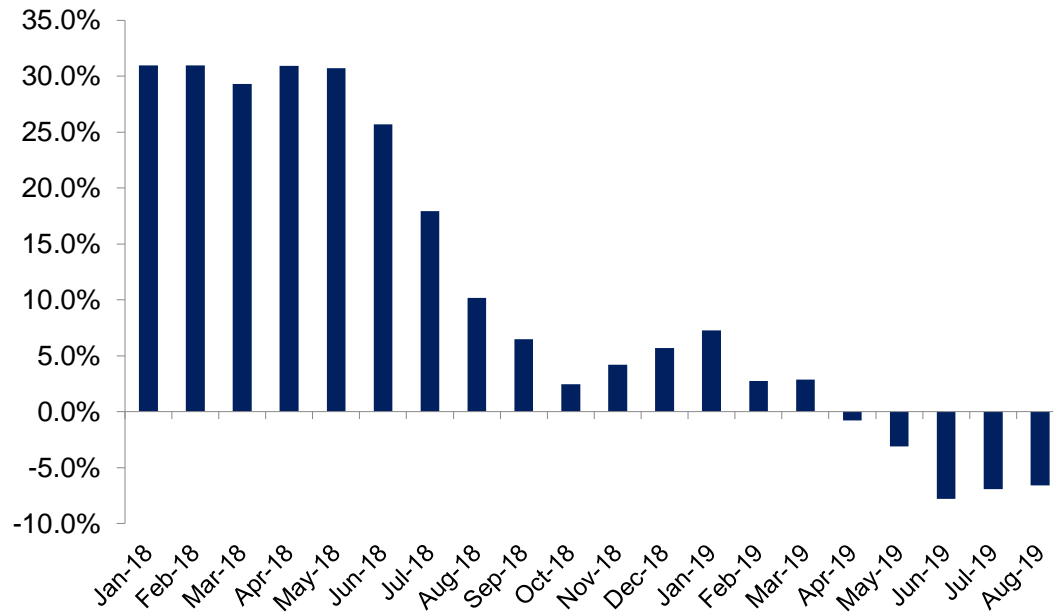


Source: NTT

# Brazil faltering

## Inbound arrivals to US from Brazil

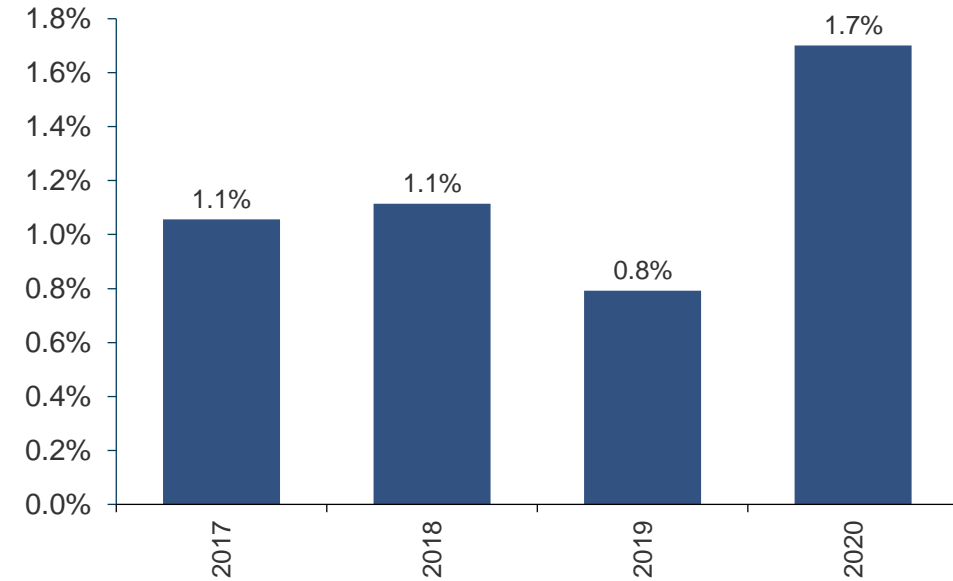
% change, 3 month moving average



Source: NTTO

## Brazil Real GDP

% change

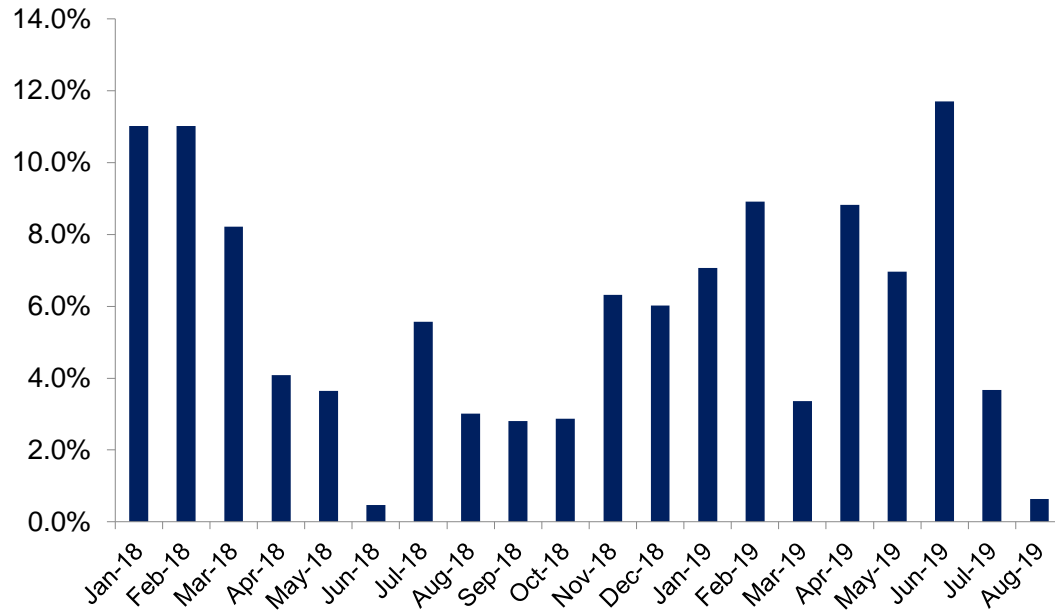




# UK holding strong while Germany struggles

## Inbound arrivals to US from UK

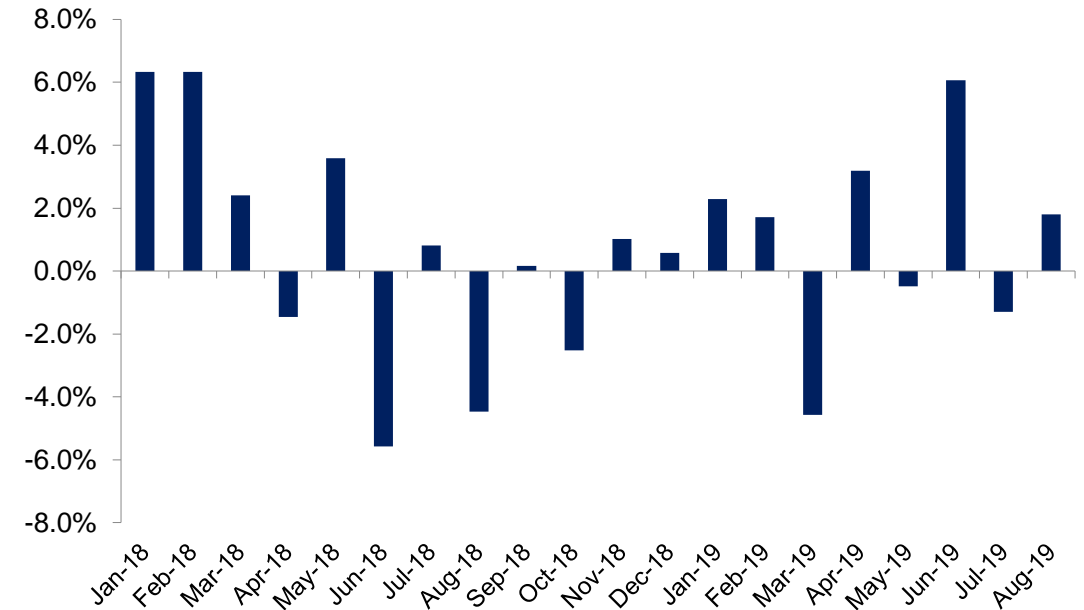
% change, 3 month moving average



Source: NTTO

## Inbound arrivals to US from Germany

% change, 3 month moving average



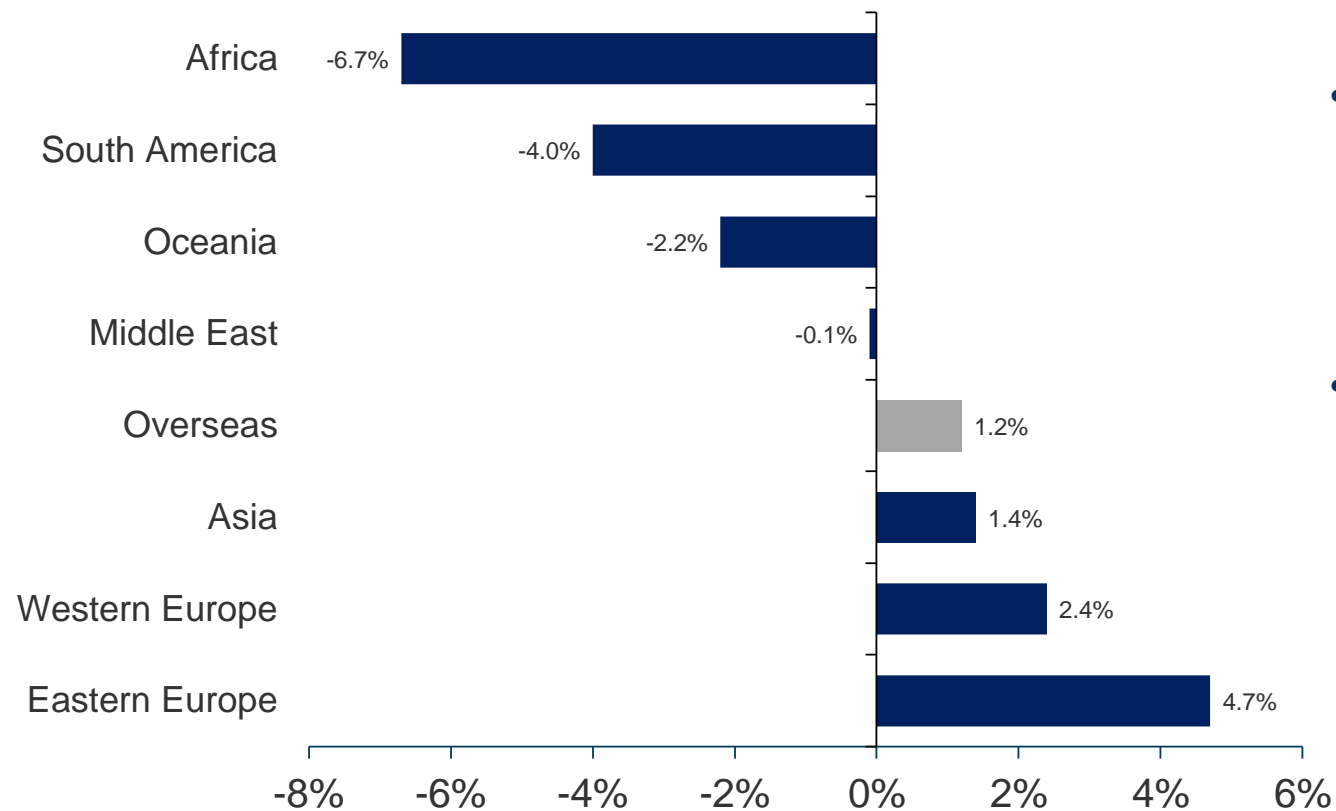
Source: NTTO

- UK +4.8%
- Germany 0.2%

# Inbound growth in 2019 led by... Europe

## US Inbound arrivals

% change, Jan-Aug 2019



- 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.

# Early indicators are mixed for 2019

## US Inbound arrivals

% change, Jan-Aug 2019

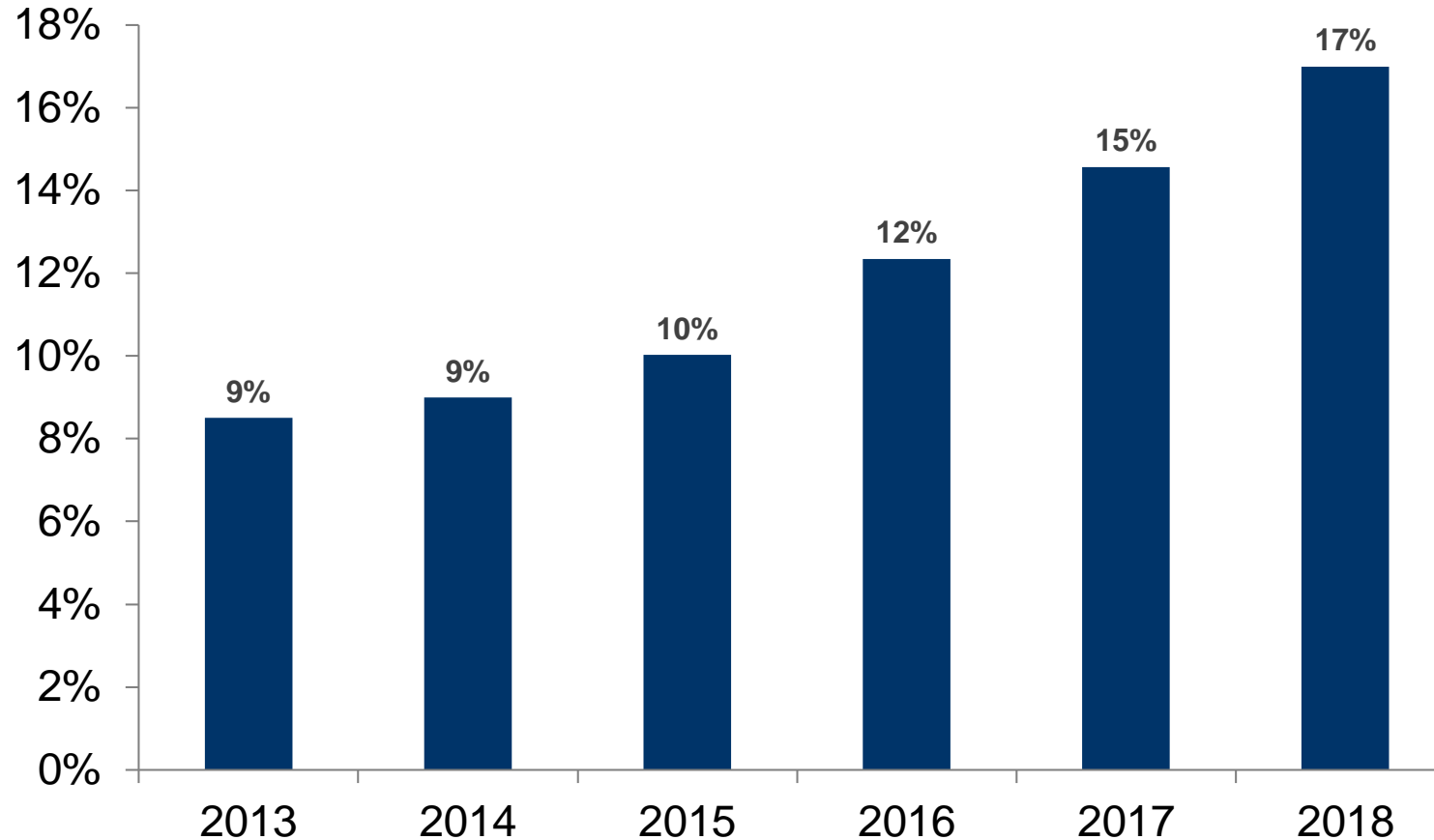


- Key emerging markets—China, Brazil, and South Korea—all contracted in the first eight months of the year.
- Spain, Japan, and the UK posted robust results.

# China visa issues are compounding the effects of the trade war

## Visa Refusal Rates - Mainland China

Selected nationalities - B-visas



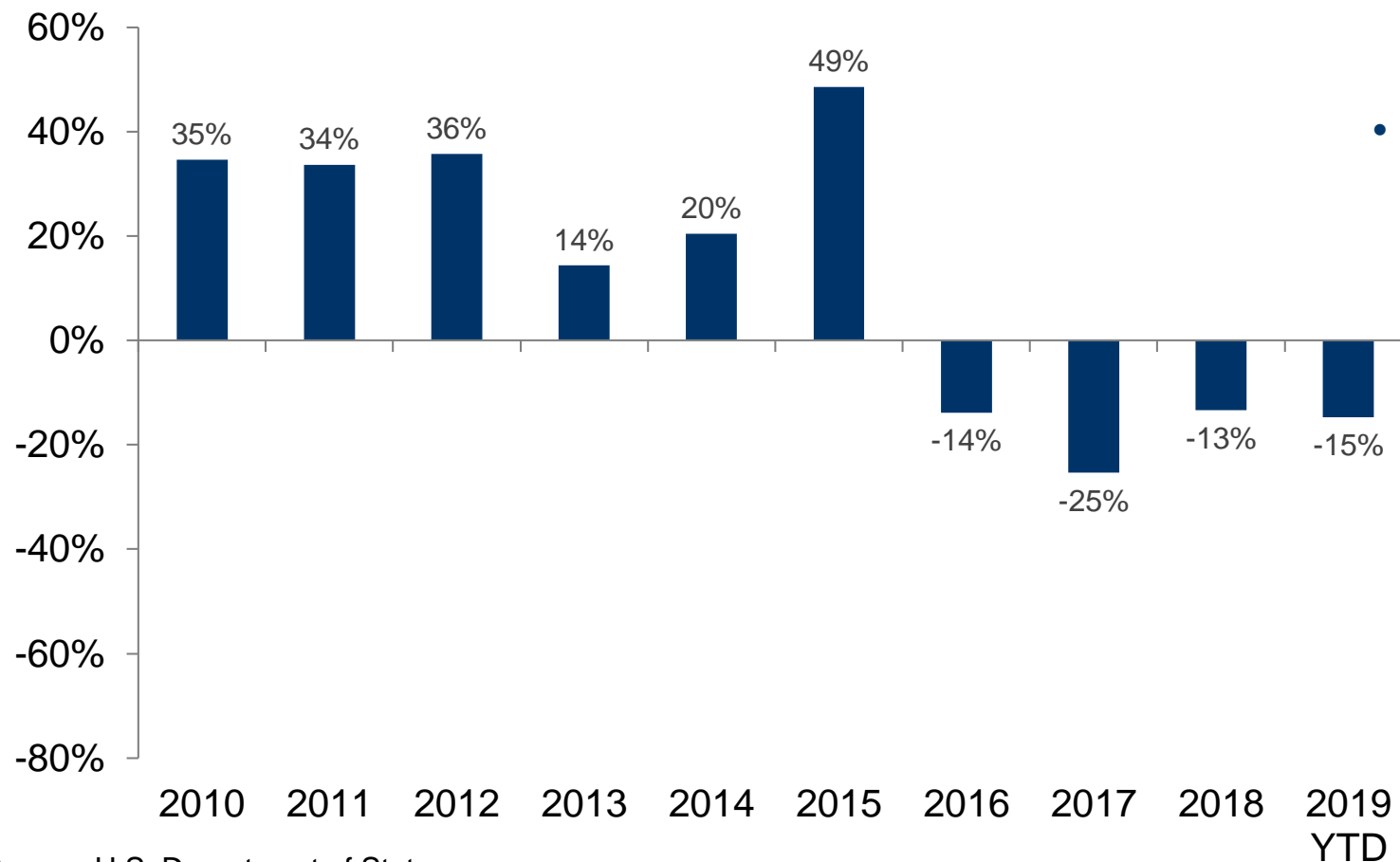
Source: U.S. Department of State

- 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.

# China visa issuance declines have coincided with these rejections

## Nonimmigrant China Visa Issuance Growth

year-over-year growth rate



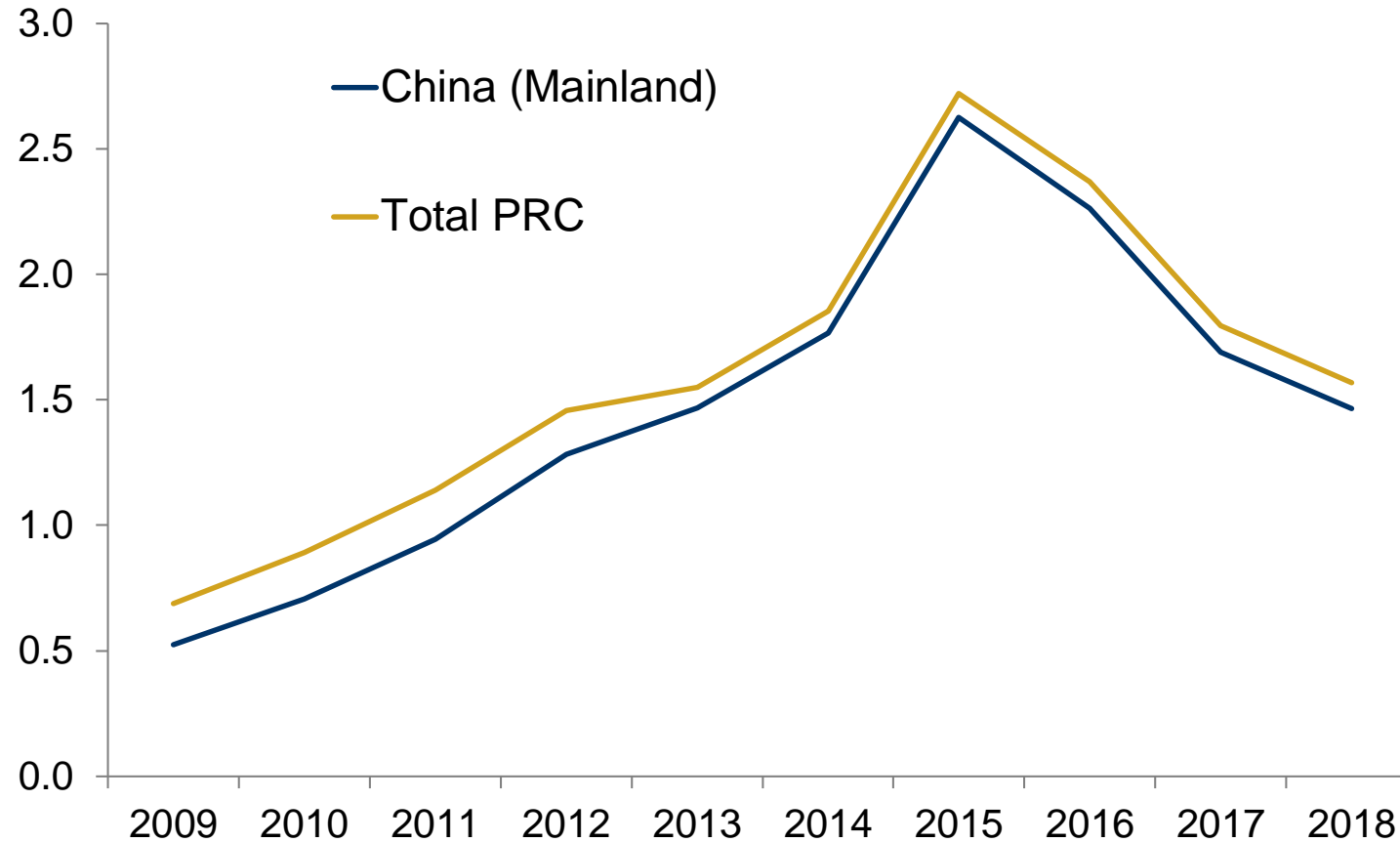
- Visa issuance to Chinese travellers has fallen in each of the past four years.
- Visa issuance in FY2018 was down 42% from its peak in 2015

Source: U.S. Department of State

# China visa issues

## Nonimmigrant Visa Issuance Volume

Annual total (millions)

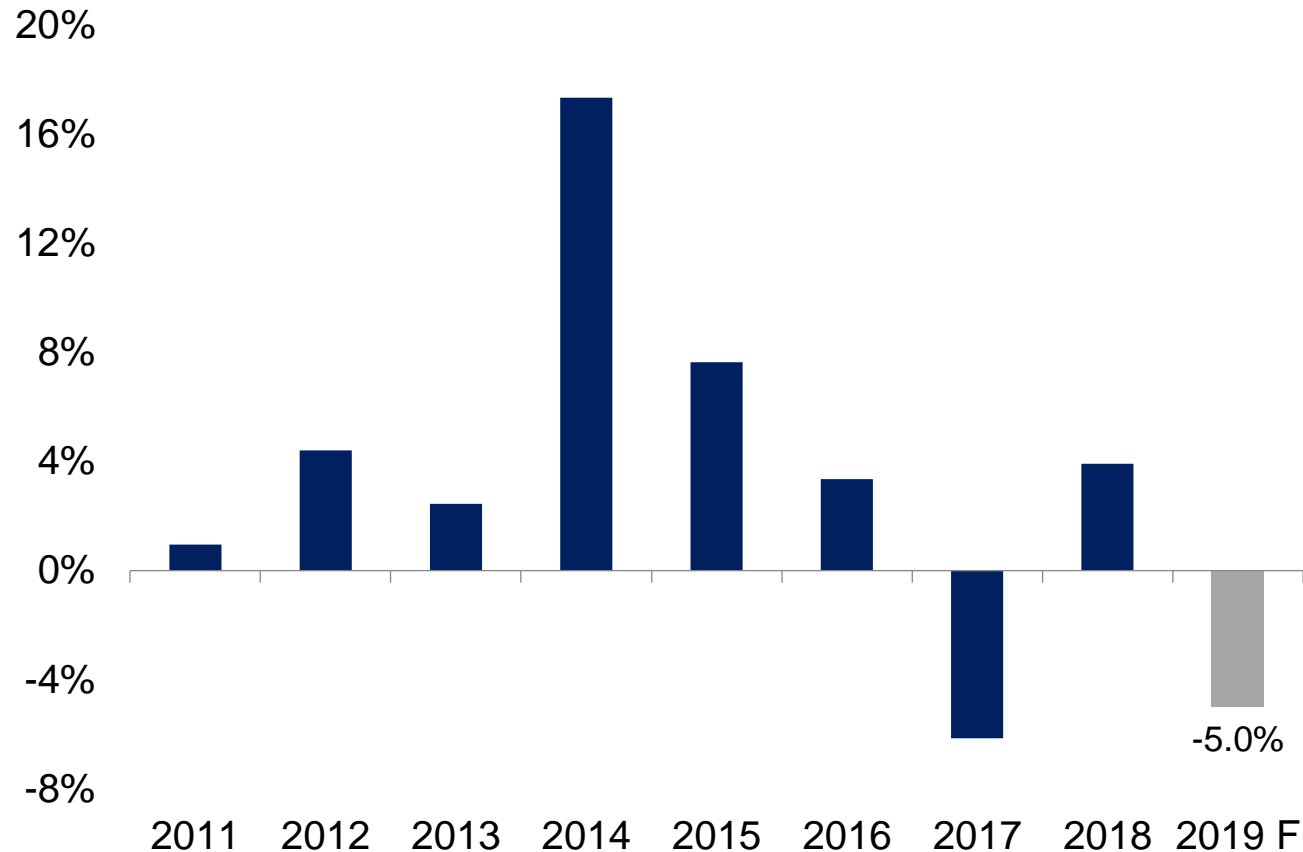


Source: U.S. Department of State

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

# Mexico is also contracting in 2019 after a partial rebound last year

## Mexico Visits to the US % change

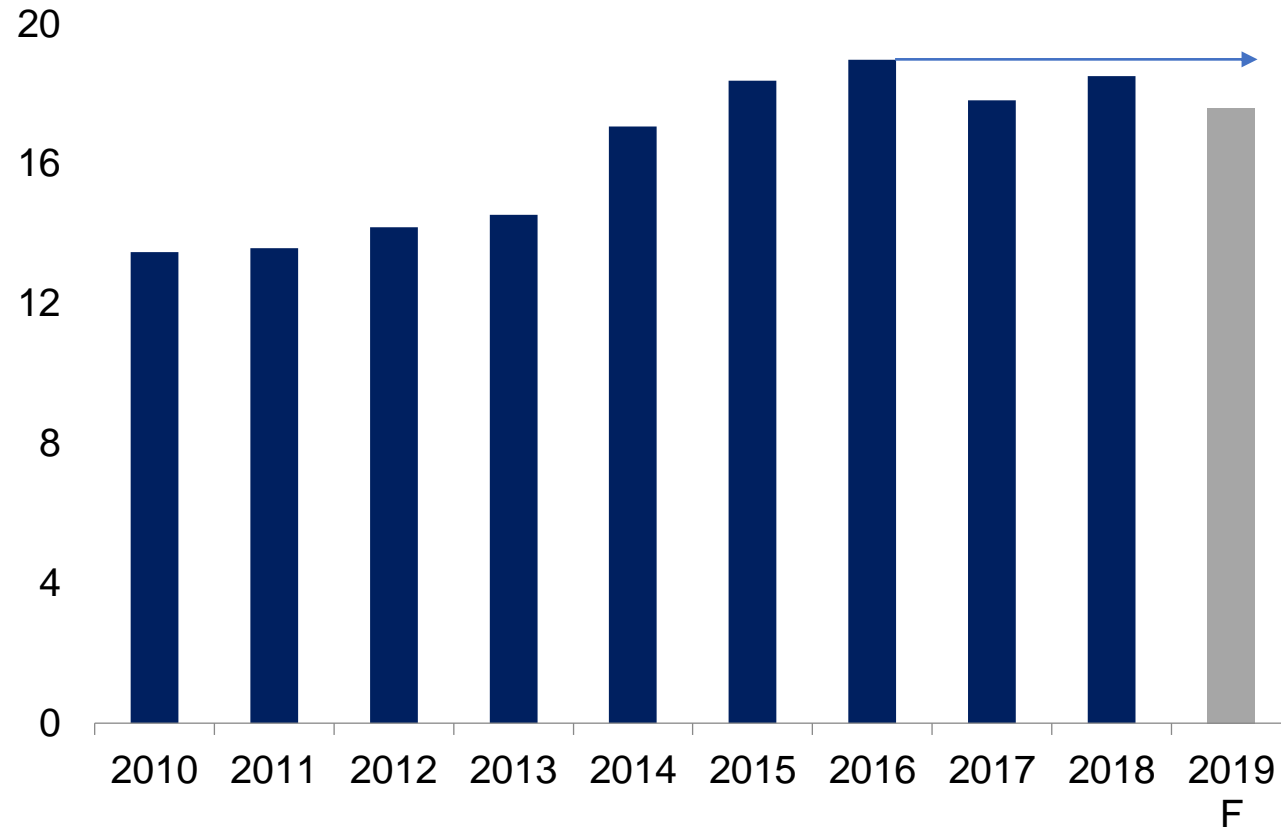


Source: NTT, Tourism Economics

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

# ...and is expected to remain 7% below 2016 peak

## Mexico Visits to the US millions



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

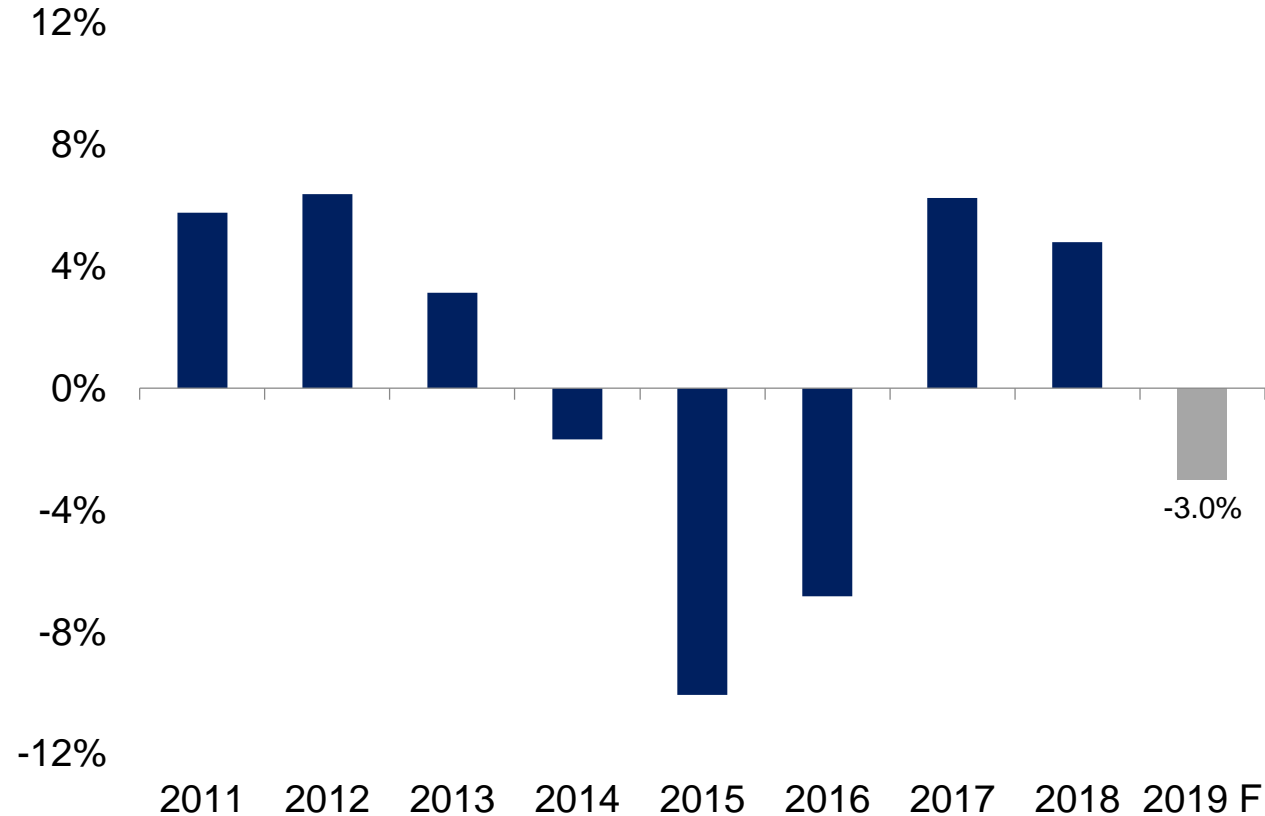
Source: NTTO, Tourism Economics



# Canada is also in retreat after two years of recovery

## Canadian Visits to the US

% change



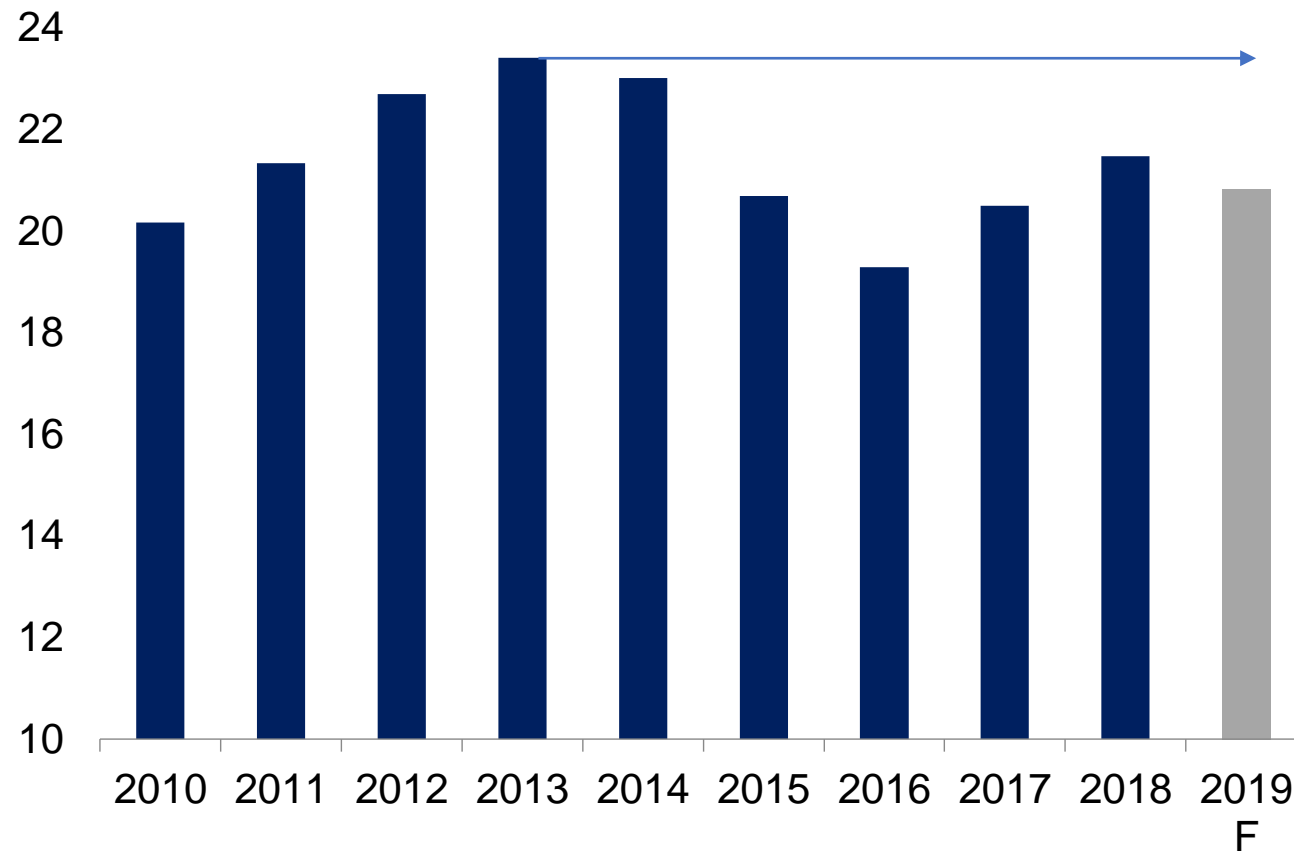
- The Canadian market is also contracting with a 3% decline expected for the year.

Source: NTTO, Tourism Economics

...and is expected to remain 11% below 2013 peak

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## Canadian Visits to the US millions



Source: NTT, Tourism Economics

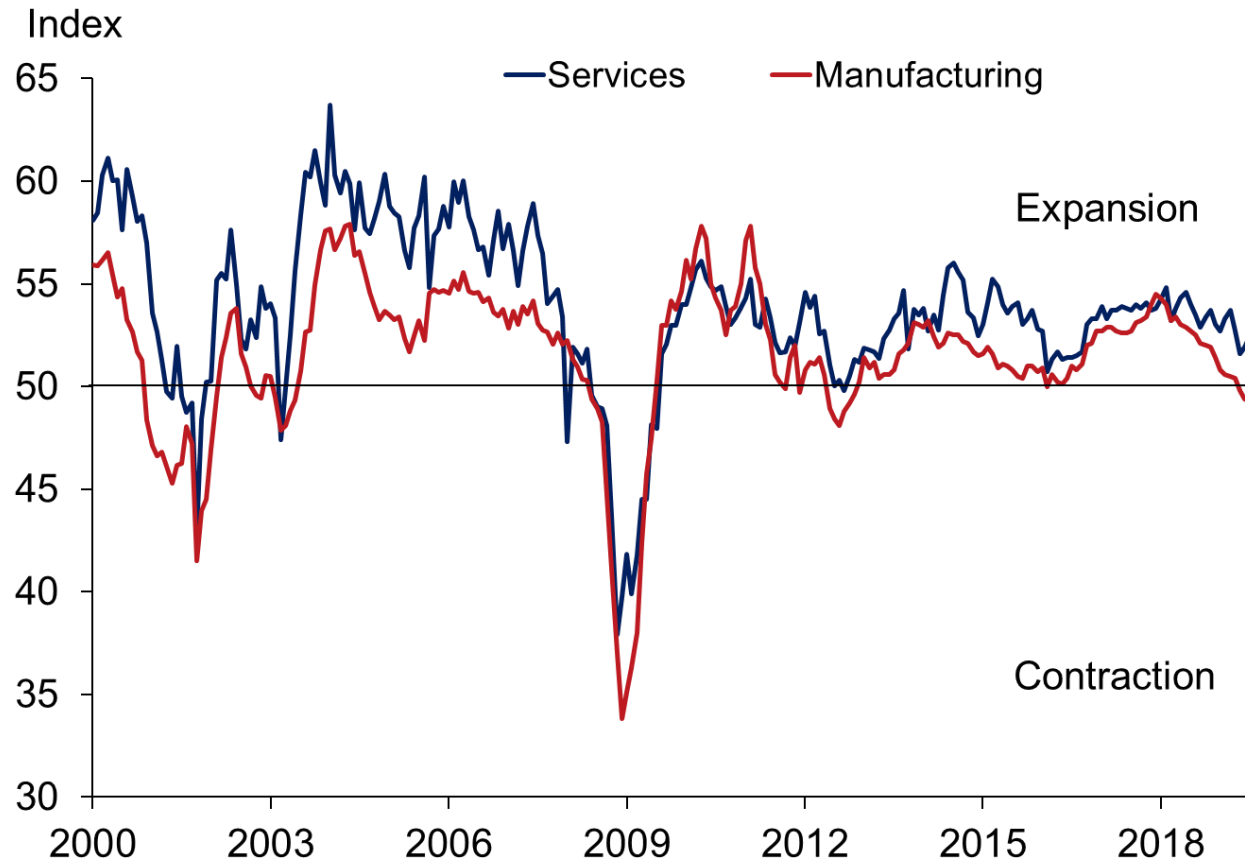


## REASONS FOR THE DOWNTURN

- Slowing global economy
- Weakening global currencies vs USD
- Sentiment and visa issues

# Global growth is slowing (especially manufacturing)

## World: PMIs



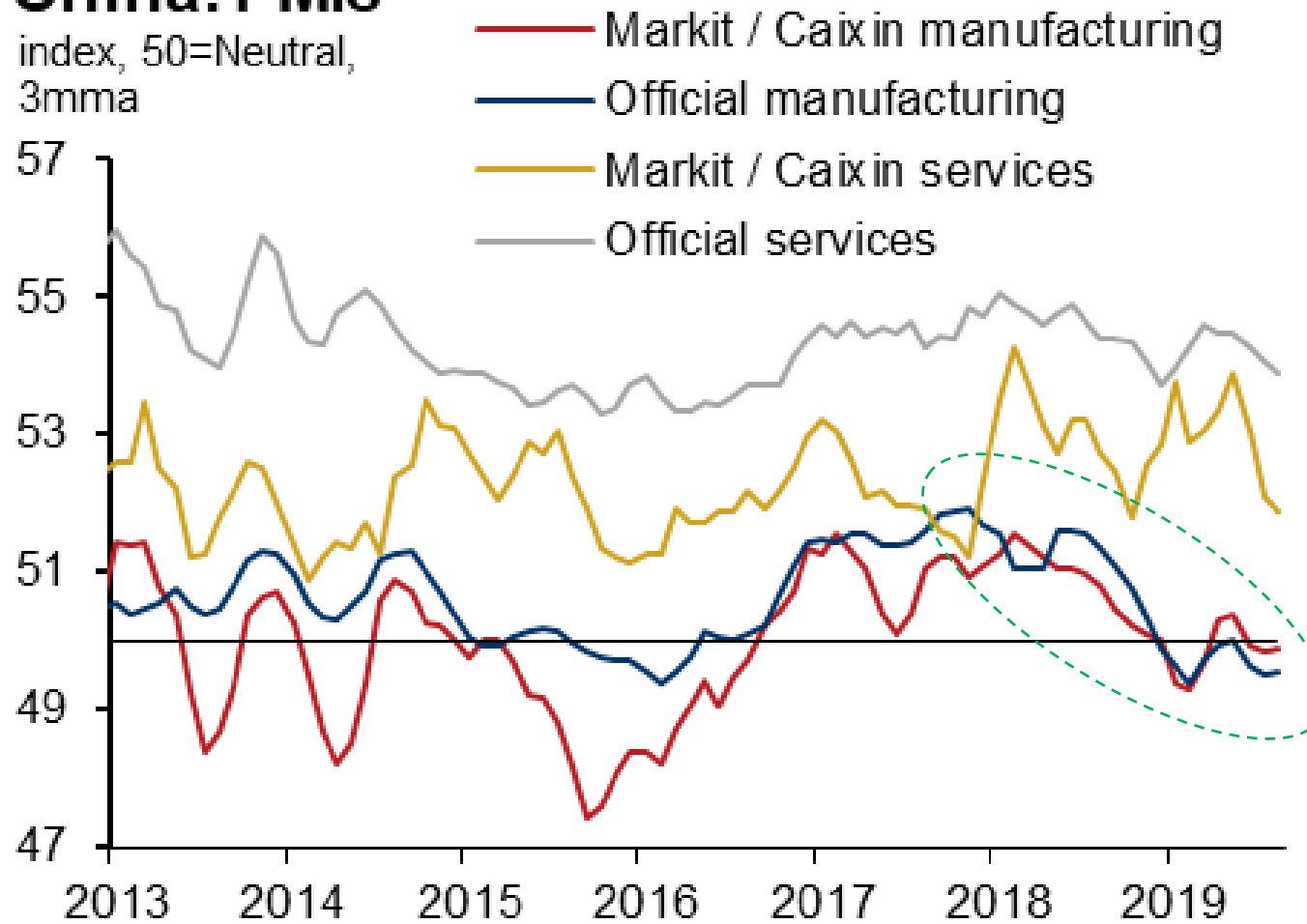
Source : Oxford Economics/Markit

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

# China has seen a sharp deceleration in industry...

## China: PMIs

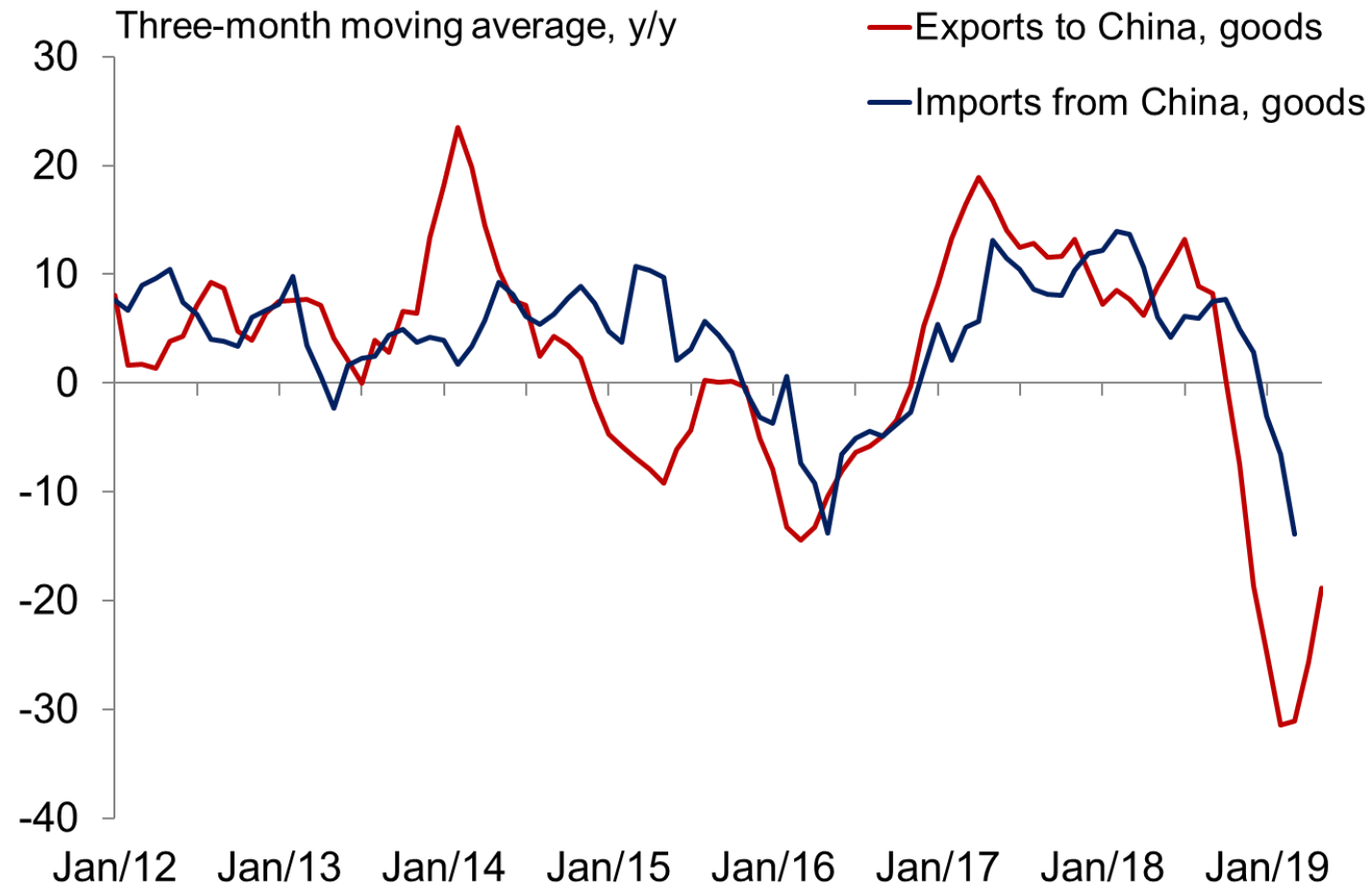
index, 50=Neutral,  
3mma



Source: Oxford Economics, CEIC Data, Markit, Caixin

# Trade war is producing both real and confidence effects

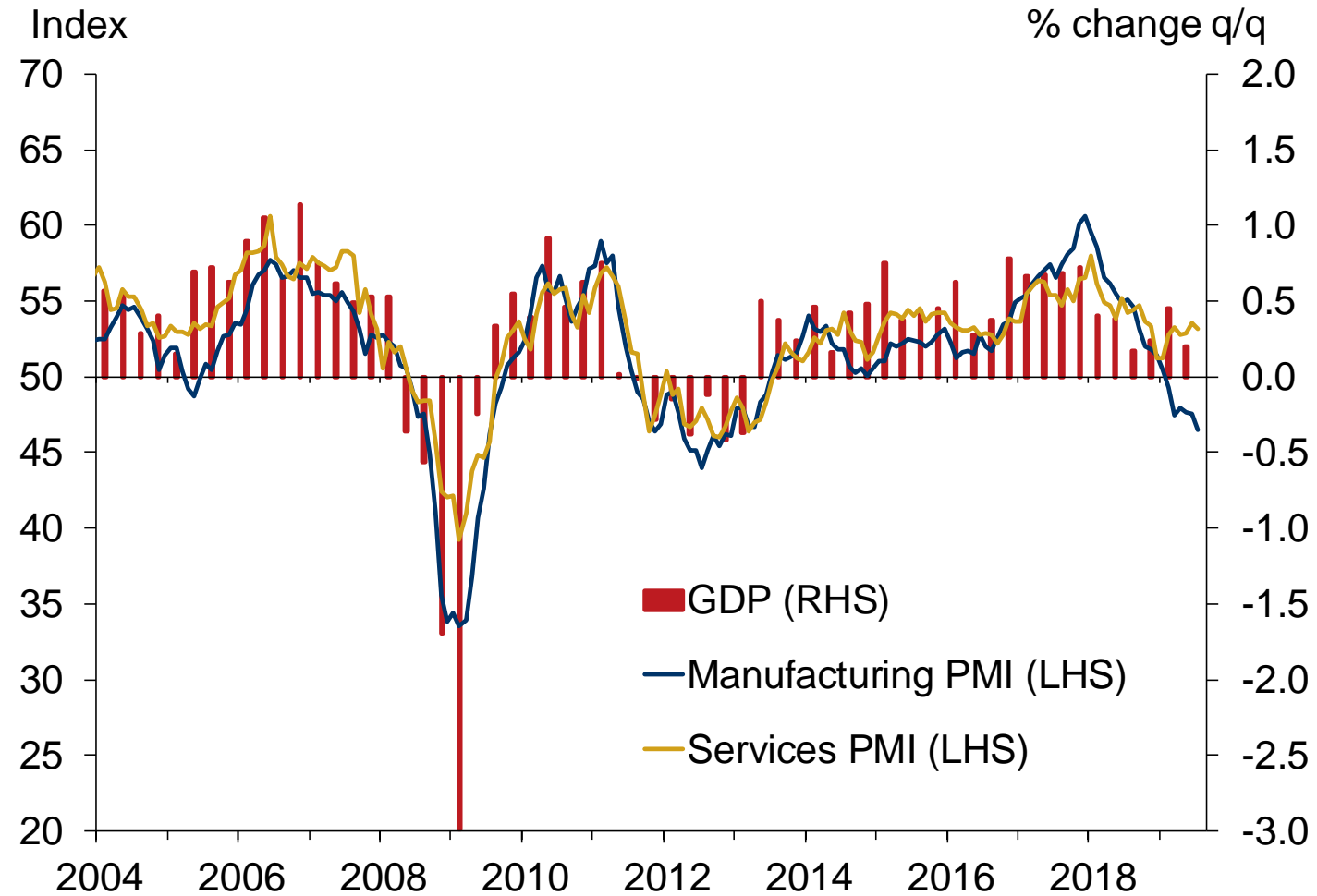
## US: Trade war disrupts trade flows



Source : Oxford Economics

# European activity has continued to soften...

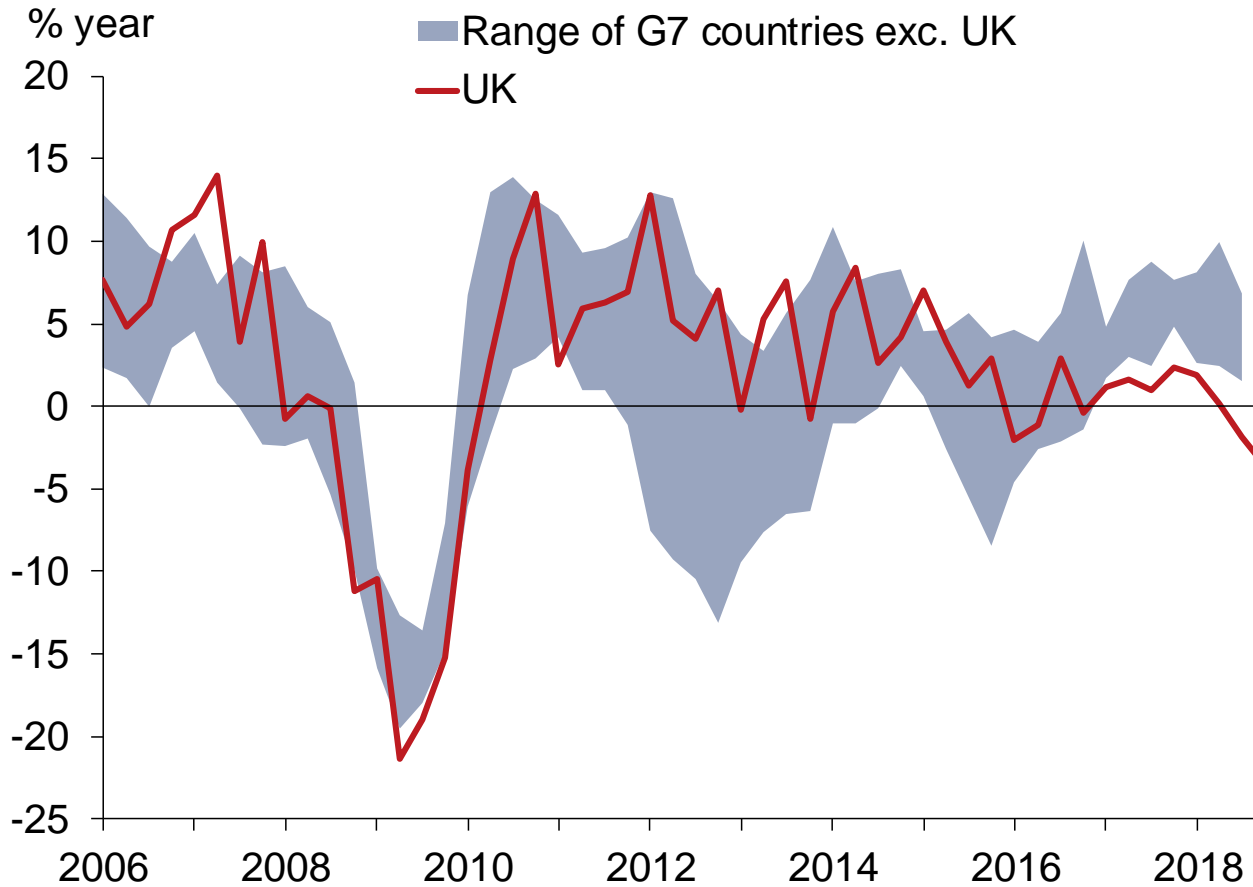
## Eurozone PMIs & GDP



Source: Oxford Economics/Haver Analytics/IHS Markit

# Brexit anxiety hurting UK and EU27 too

## UK: Business investment



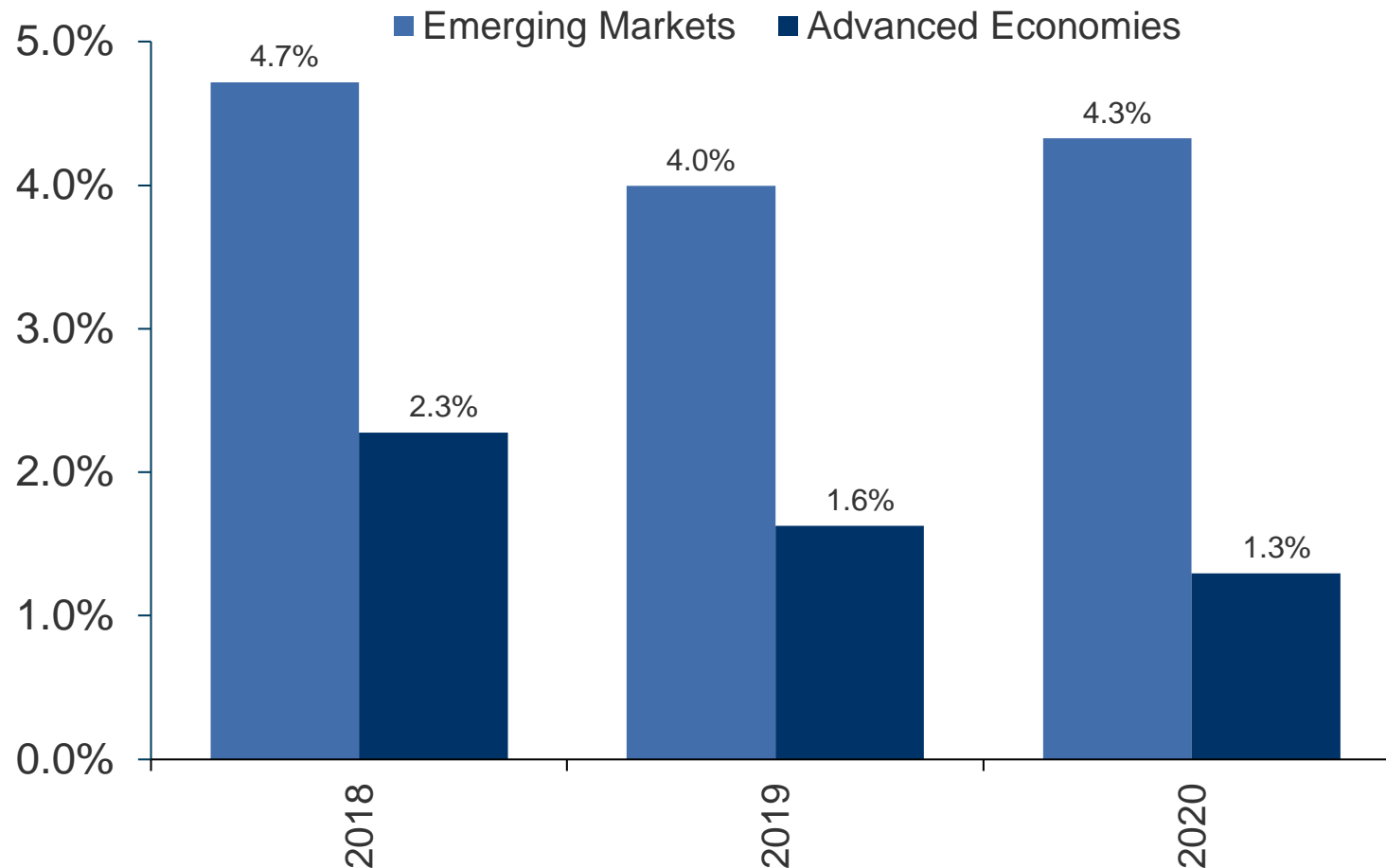
Source : Oxford Economics calculations using data from Haver Analytics



# Global GDP growth hits its nadir in 2019

## World GDP

% change

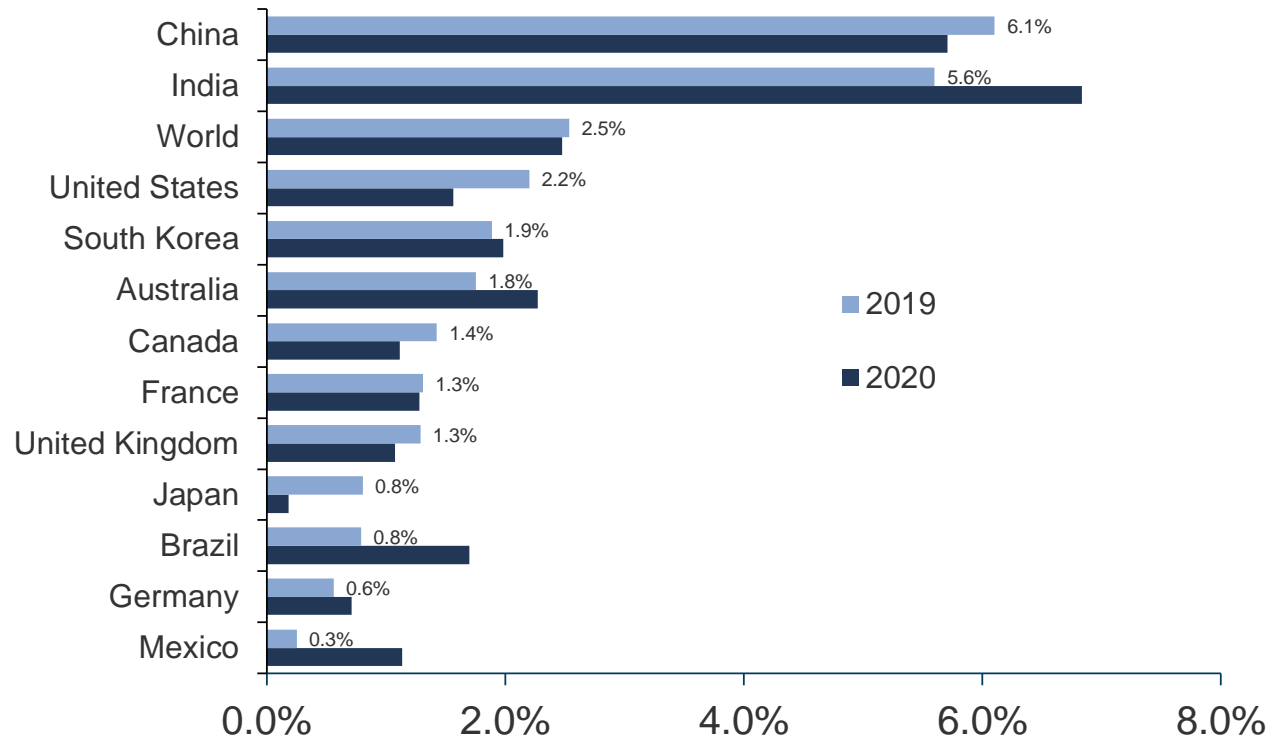


Source: Oxford Economics

# Some markets expected to pick up in 2020

## World GDP by major market

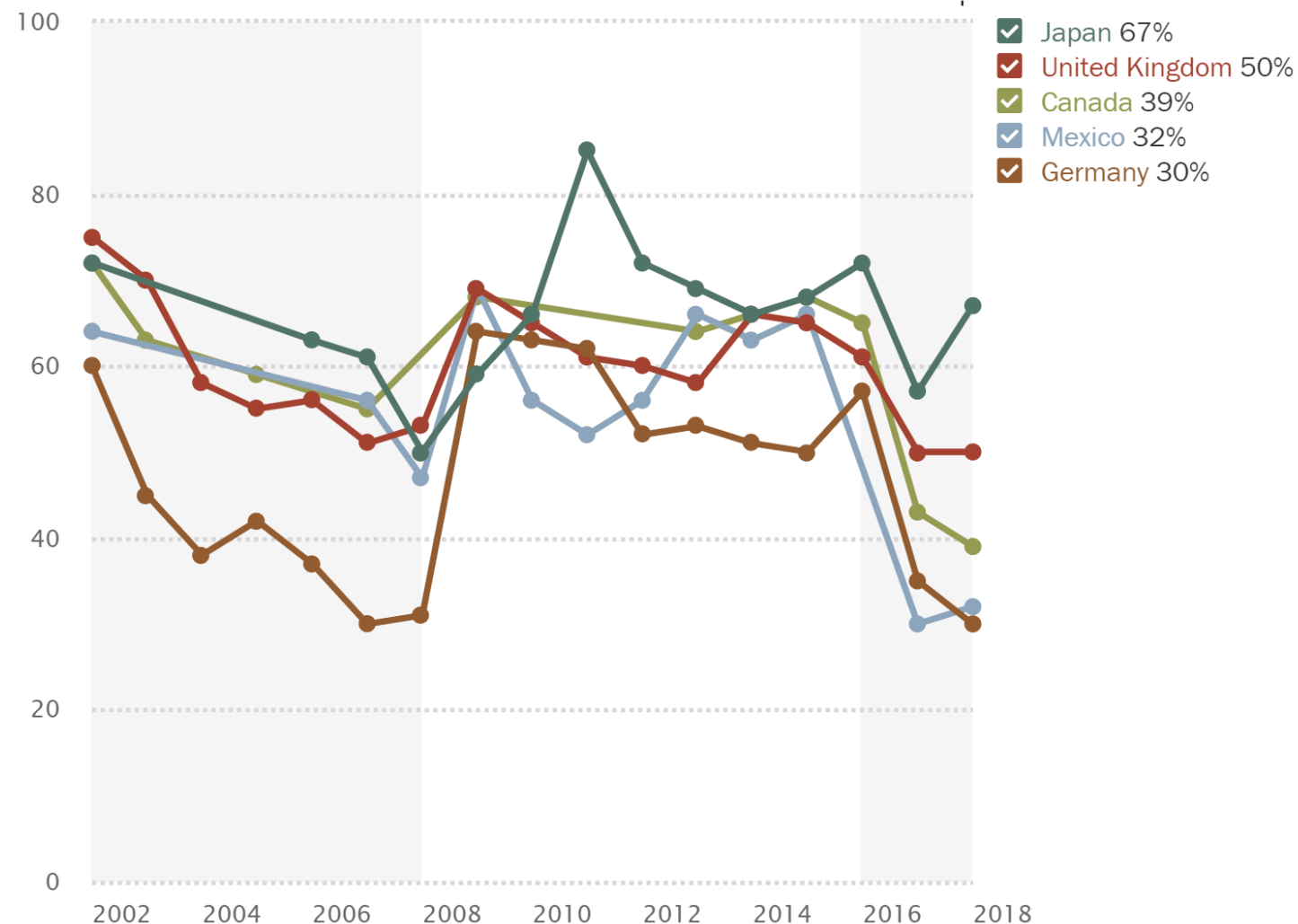
% change



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

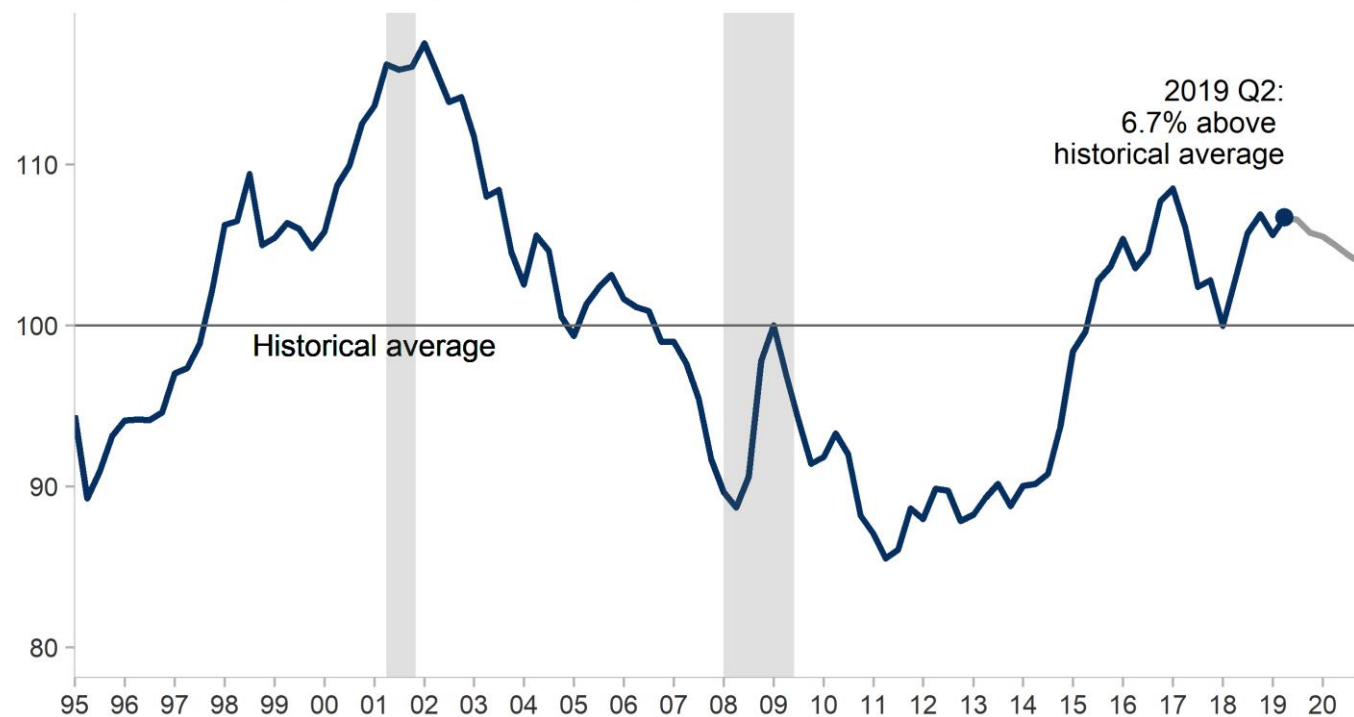


- Sentiment also appears to be playing a role in selected markets, namely Canada, Mexico, and Germany.

# 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



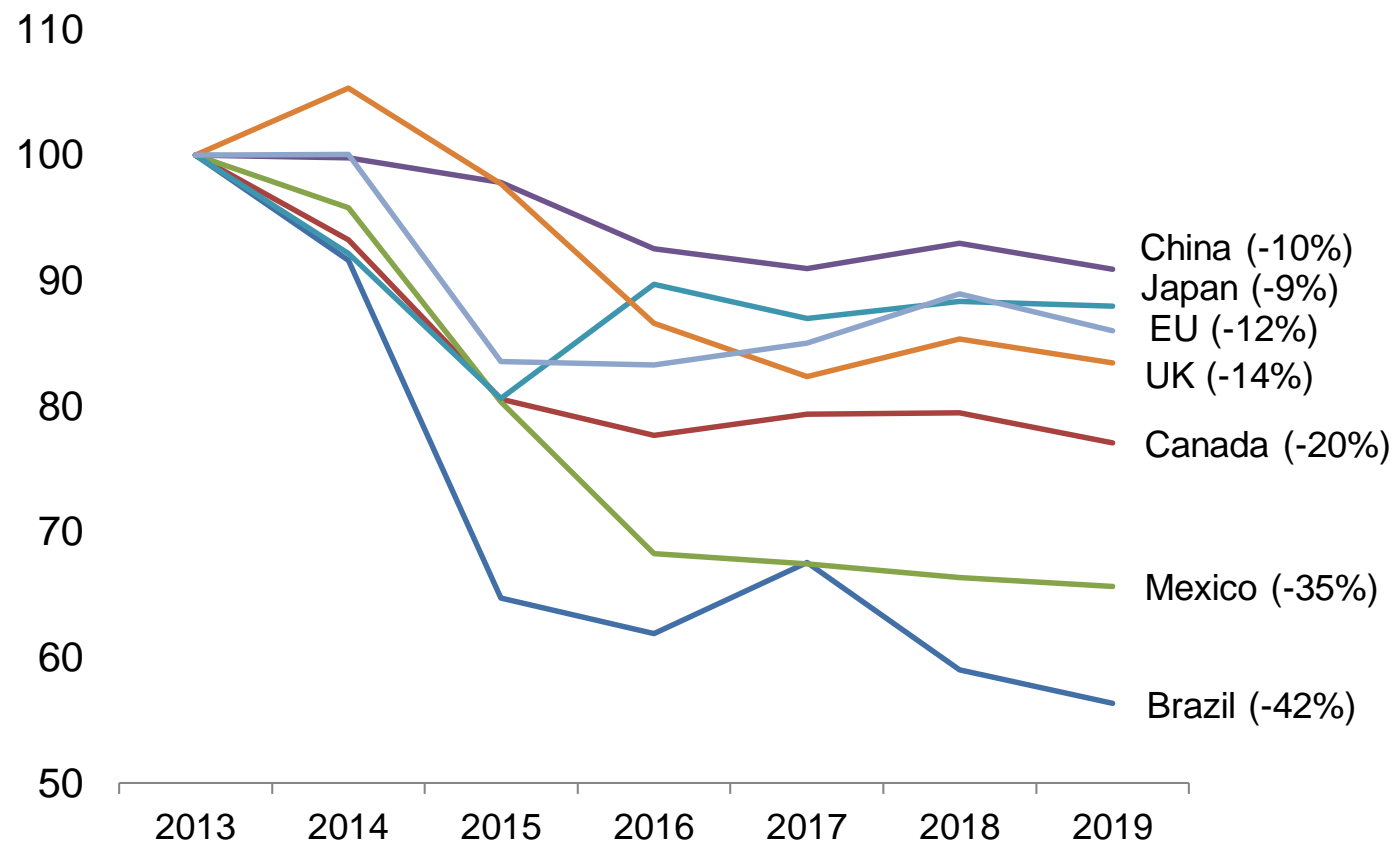
Note: History through 2019 Q2. Historical average based on period from 1995 Q1 to 2019 Q2.  
Source: Bank for International Settlements; Oxford Economics

# 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



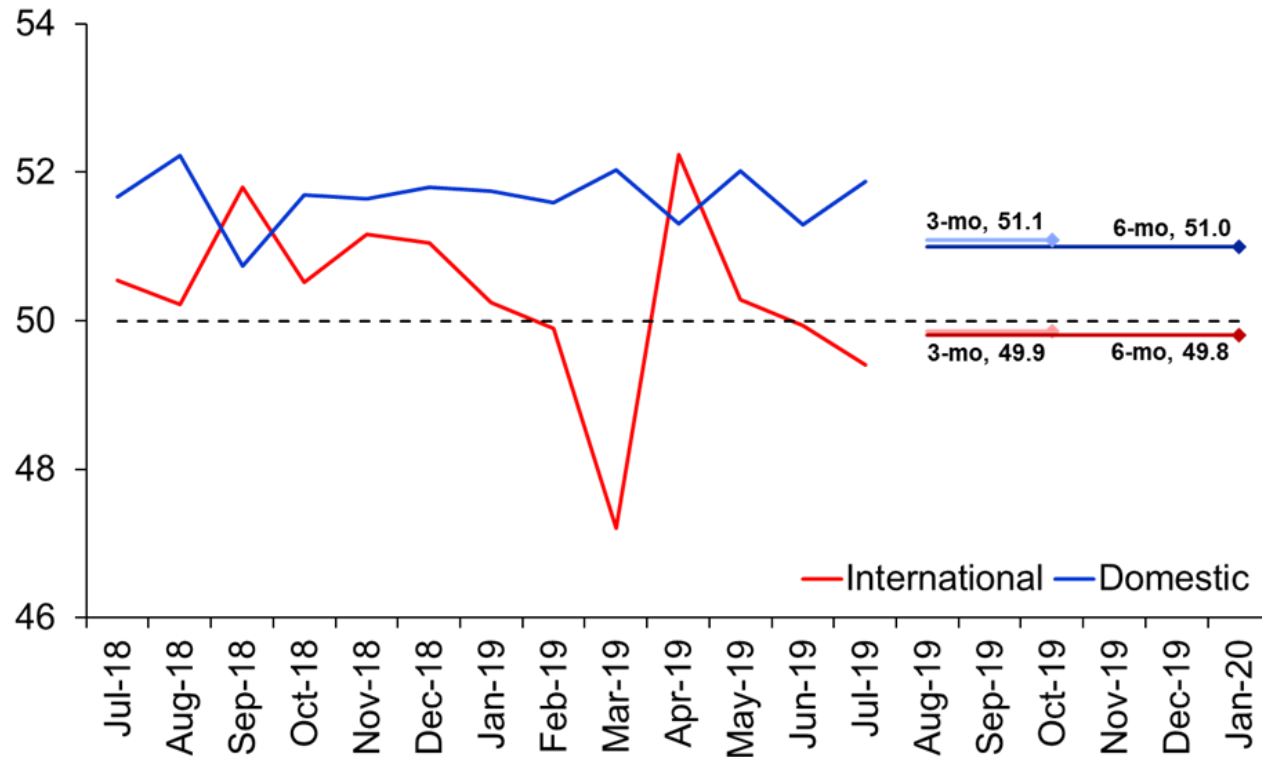
## WHAT DOES THIS MEAN FOR THE US TRAVEL INDUSTRY?

- 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

## July Domestic and International Travel Index

Index (>50=expansion, <50=decline)

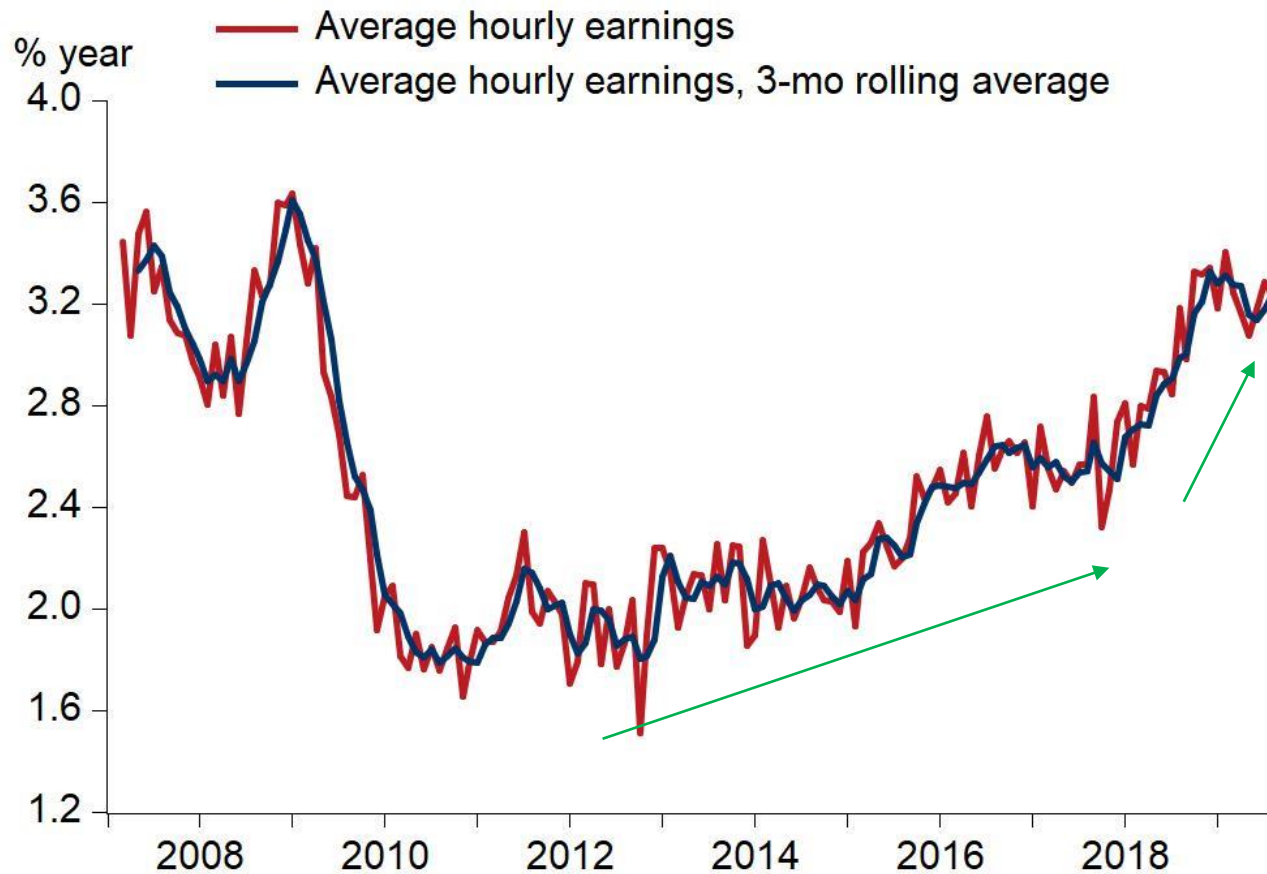


Source: Oxford Economics, U.S. Travel Association

- 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.

# Wage growth anchored above 3% for 14<sup>th</sup> consecutive month

## US: Average hourly earnings



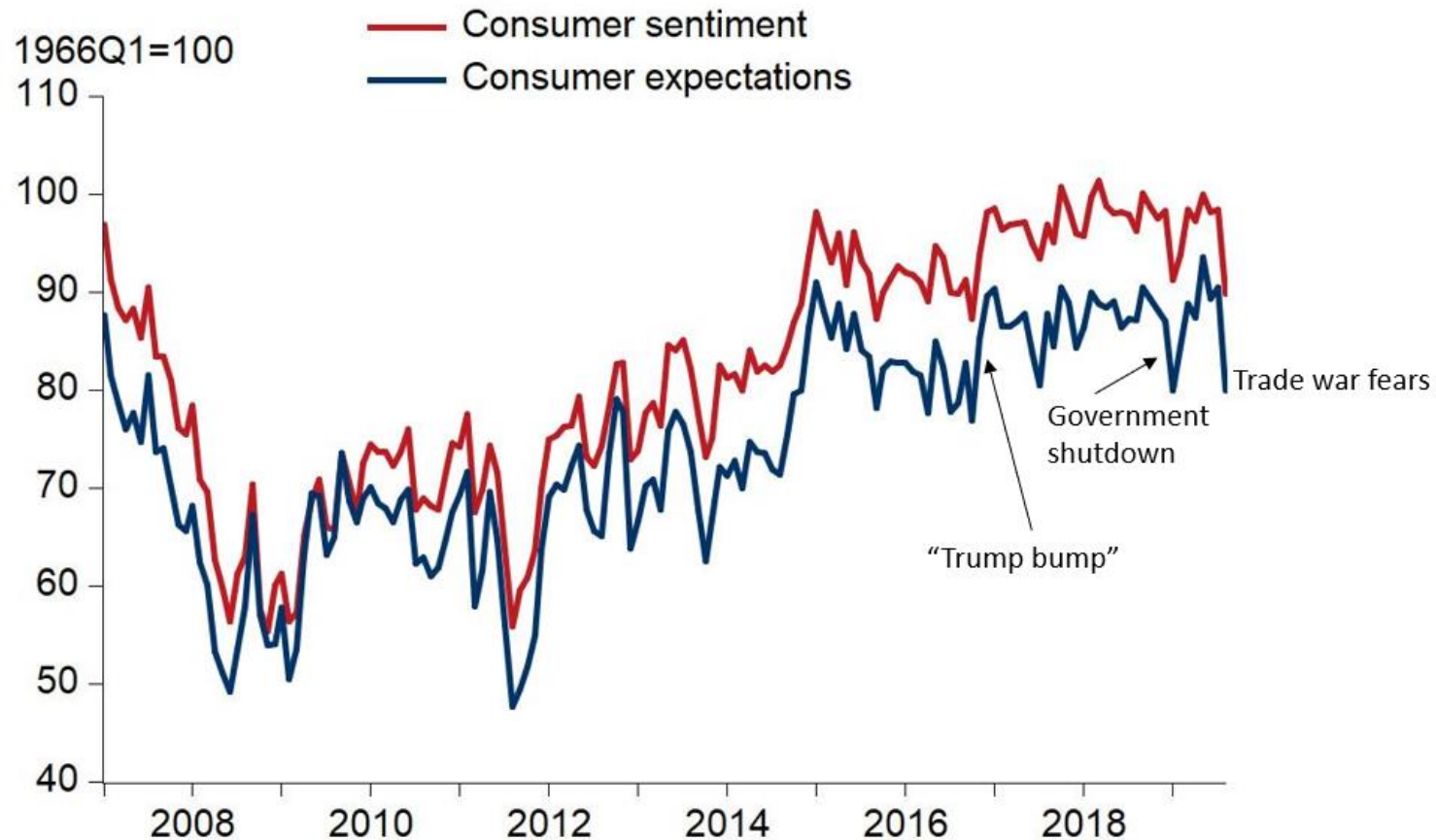
Source: Oxford Economics/Haver Analytics

- 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

## US: Consumer Sentiment

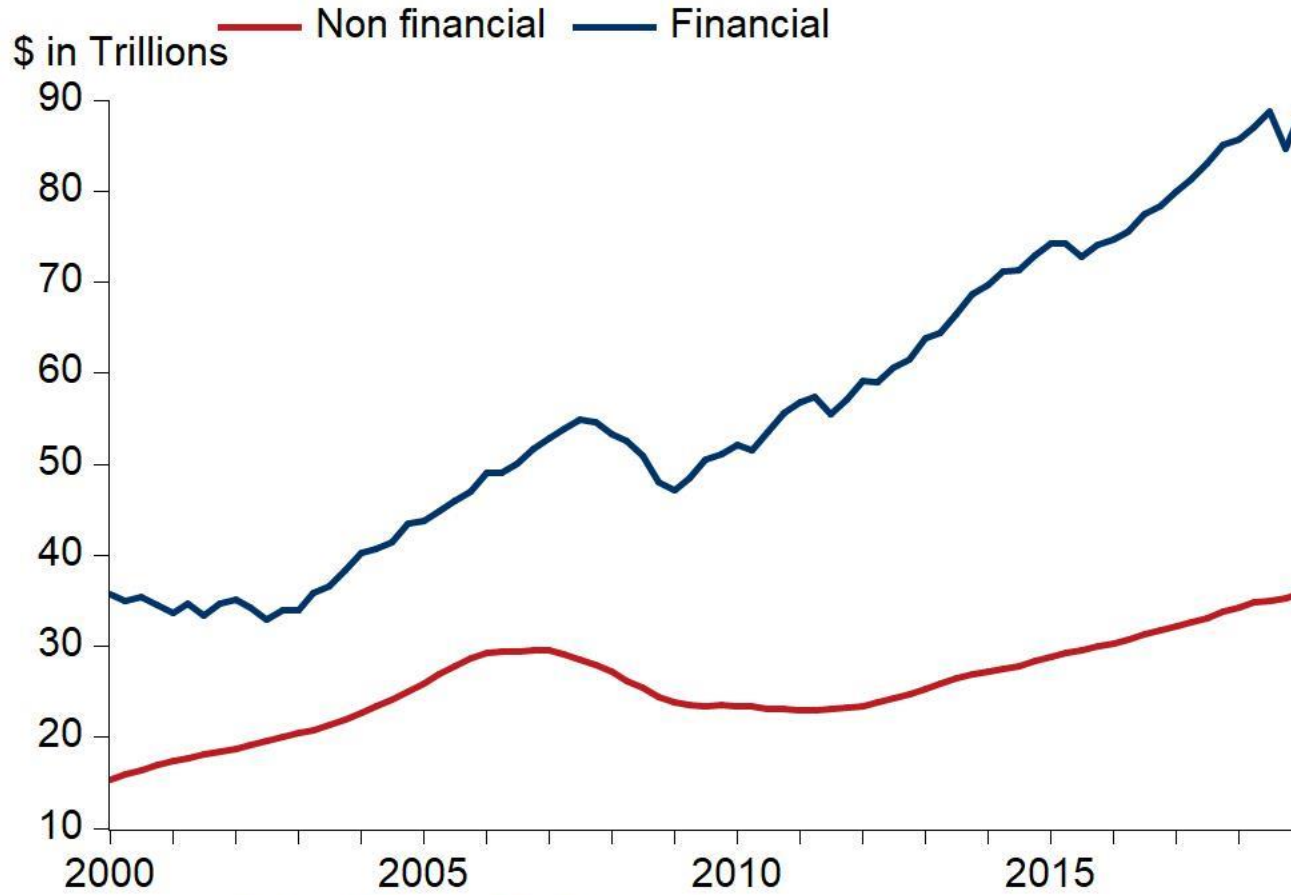


Source: Oxford Economics/Haver Analytics

- Consumer confidence also remains elevated despite recent financial market volatility.

# Household wealth up 50% from pre-recession high

## US: Household net wealth

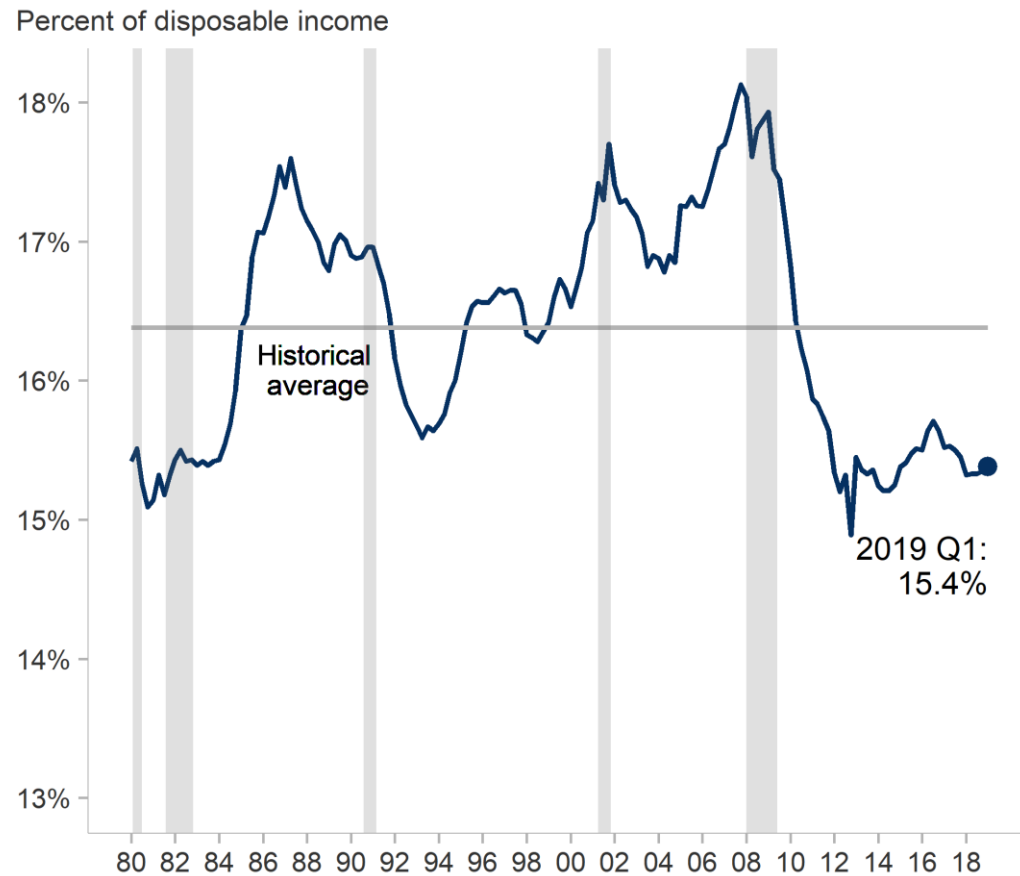


Source: Oxford Economics/Haver Analytics

- 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

## Household financial obligations ratio



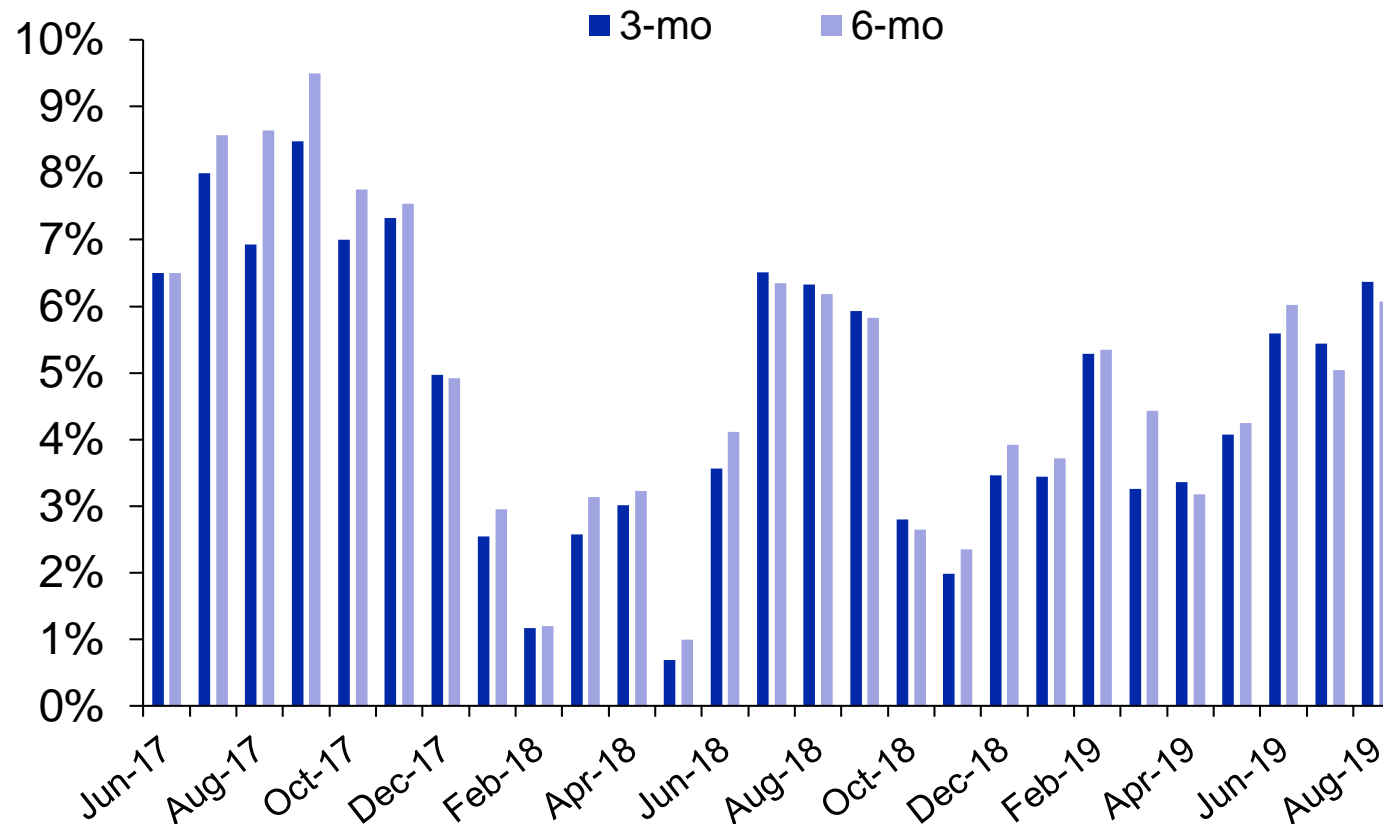
Note: Ratio of financial obligation payments to disposable personal income. Represents a broader measure than the debt service ratio. In addition to mortgage debt and consumer credit, it includes payments such as automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance and property taxes. Source: Federal Reserve; Oxford Economics

- 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

### Forward-Looking US Air Travel Bookings

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



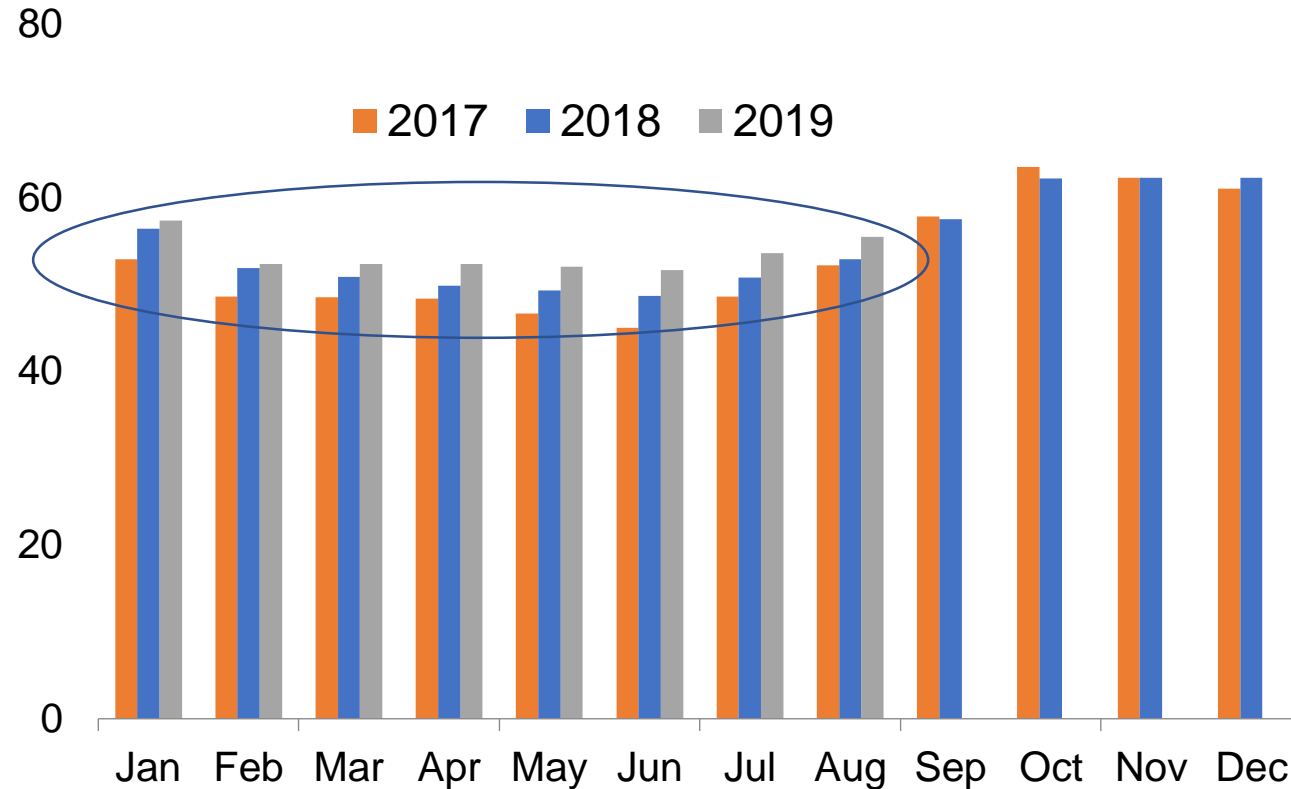
- Air passenger bookings are pacing about 5% ahead of last year for travel over the next six months.

Source: Tourism Economics, ARC

## And vacation intentions are holding above last year

### US Household Vacation Intentions

% planning to take vacation in next six months



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

Source: Conference Board, Tourism Economics

# RevPAR growth is waning as occupancies flatten & ADR loses traction

## Occupancy and ADR growth

% change

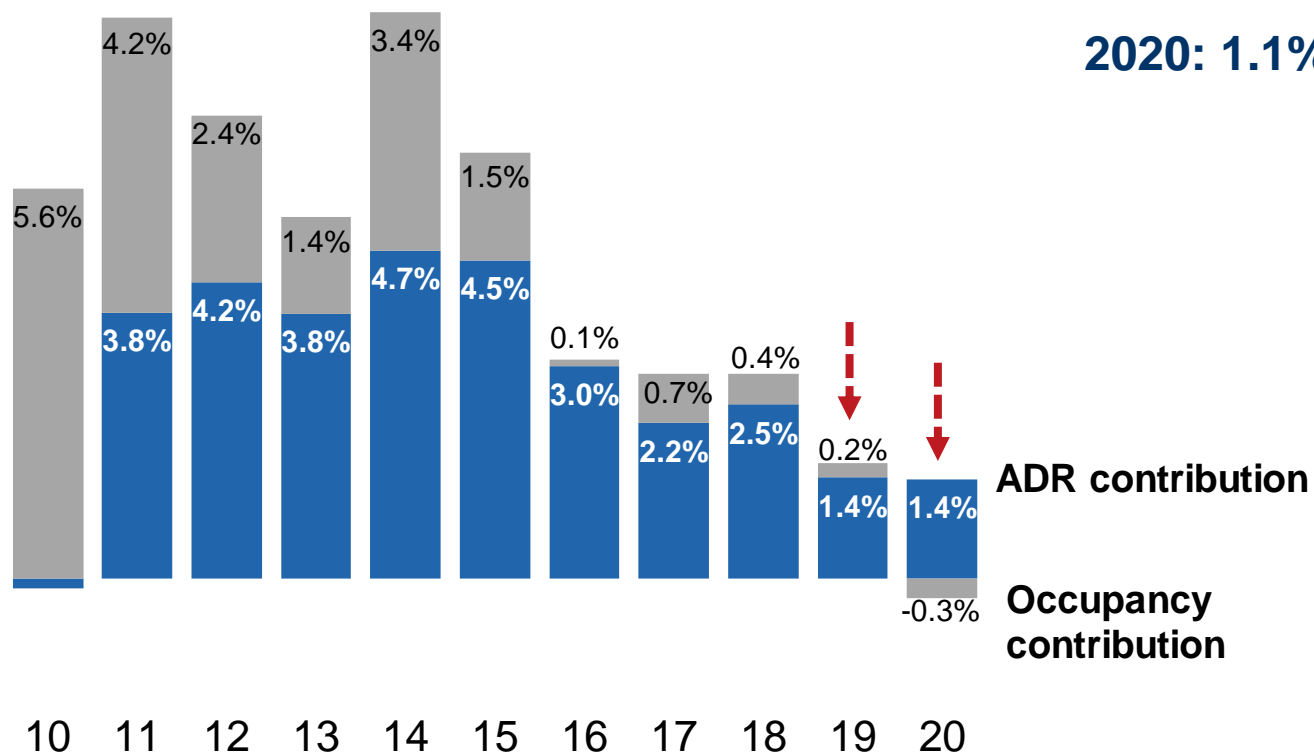


RevPAR forecast:

2018: 2.9%

2019: 1.6%

2020: 1.1%

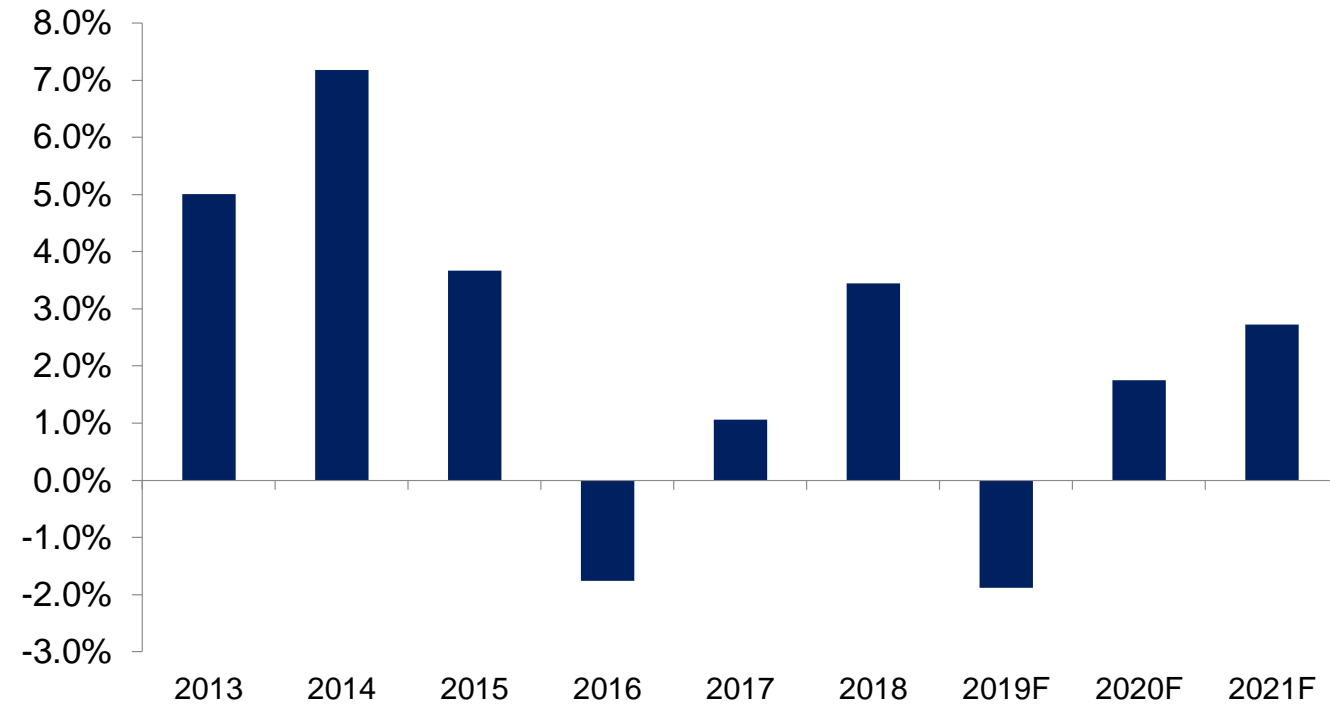


Source: STR; Tourism Economics

# TE models call for a modest rebound over next two years

## Inbound arrivals

% change y/y



Source: NTT, Tourism Economics

# Takeaways

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- 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.