Perspectives on US Inbound Travel

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Overview

Growth in overseas visitors to the US has traditionally been measured based on arrival forms completed by inbound passengers (I-94) and reported by the National Travel and Tourism Office (NTTO). While this I-94 data has long served as an important indicator of the valuable inbound US travel market, Tourism Economics has concluded that recent I-94 data are underrepresenting overseas travel to the US.

- On April 9, 2018, NTTO announced the suspension of reporting on overseas arrivals, acknowledging irregularities in the data. At least two issues seem to be the culprits. First, the raw data collected by Department of Homeland Security (DHS) include untenably large (triple-digit) increases in overseas visitors tagged as not spending any nights in the US. These records are not counted as “visitors” as the I-94 definition requires an overnight stay. Second, the raw data include a significant number of visitors traveling on visas who were incorrectly categorized as US residents. By definition, residents are not counted as visitors, resulting in yet another source of international arrivals underreporting.

- Tourism Economics conducted an extensive analysis of alternative government and private sector datasets and compared these to the official I-94 data measuring overseas travel to the US. This analysis shows that I-94 data not only overstated growth in 2014 and 2015 with the move to electronic processing of DHS records, as has been previously documented, but that continued disparities in the data have persisted through 2016 and 2017.

- This report presents an analysis of various secondary data sources to establish a more reliable view of overseas arrivals performance over the past three years as well in 2018.

Summary of Tourism Economics estimates

- The adjacent table presents our estimates of international travel to the US in 2017 and through the first four months of 2018. We estimate total international visitor arrivals (overseas plus Canada and Mexico) to the US increased 1.6% in 2017, and 3.9% year-to-date April 2018.

- Before it was suspended, official estimates of overseas (total international excluding Canada and Mexico) visitation to the US based on I-94 data showed a contraction of 6.3% (Jan.-Sep. 2017). In contrast, we estimate overseas visitation to the US increased 3.6% in 2017. This is corroborated by a combination of immigration and origin-destination datasets, with four separate sources showing growth of between 3.4% and 6.0%.

- Tourism Economics will continue to track these data sources on a monthly basis to present recent trends in international inbound. These are subject to revision as input data are revised and additional data become available.

US International Inbound Estimates, % change

		2017 Full year	2018 Jan-April
Total		**1.6%**	**3.9%**
Overseas		**3.6%**	**3.2%**
North America			
	Canada	4.9%	5.0%
	Mexico	-5.7%	8.0%
Latin America*		**7.0%**	**4.5%**
	Brazil	5.0%	20.0%
	Argentina	8.4%	5.1%
	Colombia	3.5%	8.6%
Europe		**2.6%**	**3.7%**
	UK	0.0%	2.2%
	France	3.9%	7.6%
	Germany	4.5%	-10.3%
Asia Pacific		**4.1%**	**1.9%**
	Australia	0.1%	6.1%
	China	6.0%	8.9%
	India	4.2%	5.7%
	Japan	-1.0%	-3.7%
	S Korea	13.1%	2.6%
Middle East		**-6.2%**	**0.1%**
	Israel	5.4%	9.7%
Africa		**-3.3%**	**-9.8%**

* Latin America = South America, Central America and Caribbean

Source: Tourism Economics

Monthly data show undercounting began in early 2016

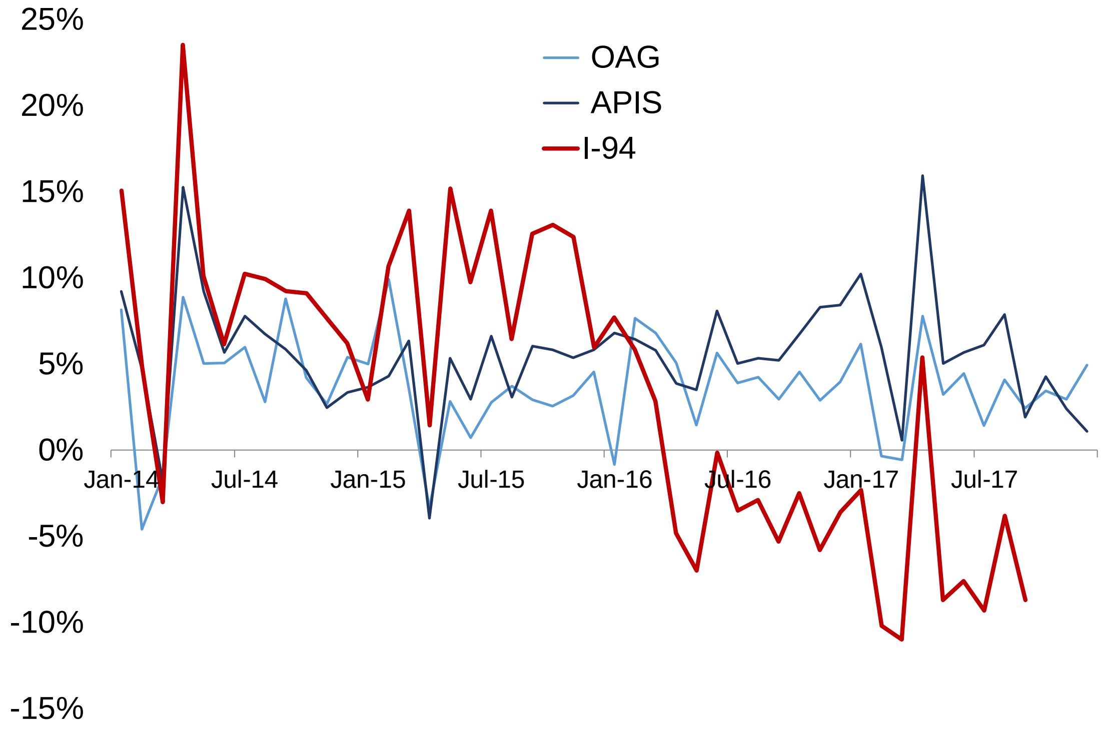
- The volatility of I-94 data is evident in comparison to three alternative measures of overseas arrivals. The accompanying graph shows monthly year-over-year changes.

- The Advanced Passenger Information System (APIS) maintained by the Department of Homeland Security (DHS) measures non-citizen inbound travel. APIS citizenship data is only a proxy for visits as it includes non-US citizens who are also US residents and thus not “visitors” as well as other non-visitor visa types.

- Nevertheless, the overlap with I-94 is more than 80% so we generally have found APIS to provide a reasonable proxy. Both OAG and SABRE are private sector measures of air passengers traveling to the US (excluding returning residents) and are based on GDS booking data. All three alternative sources track closely together.

- Historically, we also observe APIS and OAG trends to track closely together on a monthly basis as shown to the right. Data from I-94 emerges as the outlier, especially over the past year.

US Overseas Inbound Indicators
year-over-year % change



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Historical annual correlations

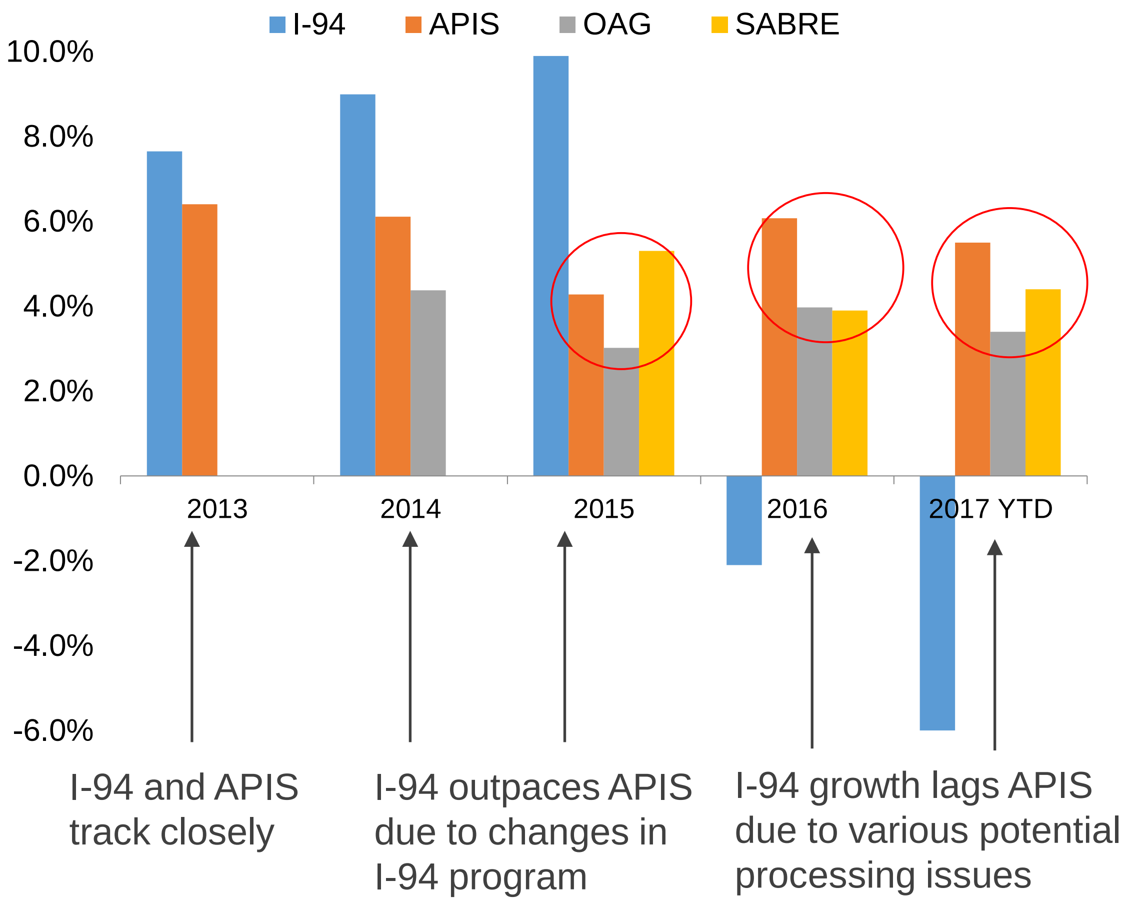
- The adjacent chart illustrates the volatility of I-94 data on an annual basis by comparing it to three alternative measures of overseas arrivals.

- Beginning in 2013 and continuing into 2014, we see I-94 outpacing the other measures due to documented changes to methods and definitions in the I-94 program.

- After the one-year anniversary of these changes, we expected the growth measured by I-94 to converge to the underlying growth in inbound travel. Instead, I-94 data has reversed course and began under-representing growth in 2016 and 2017.

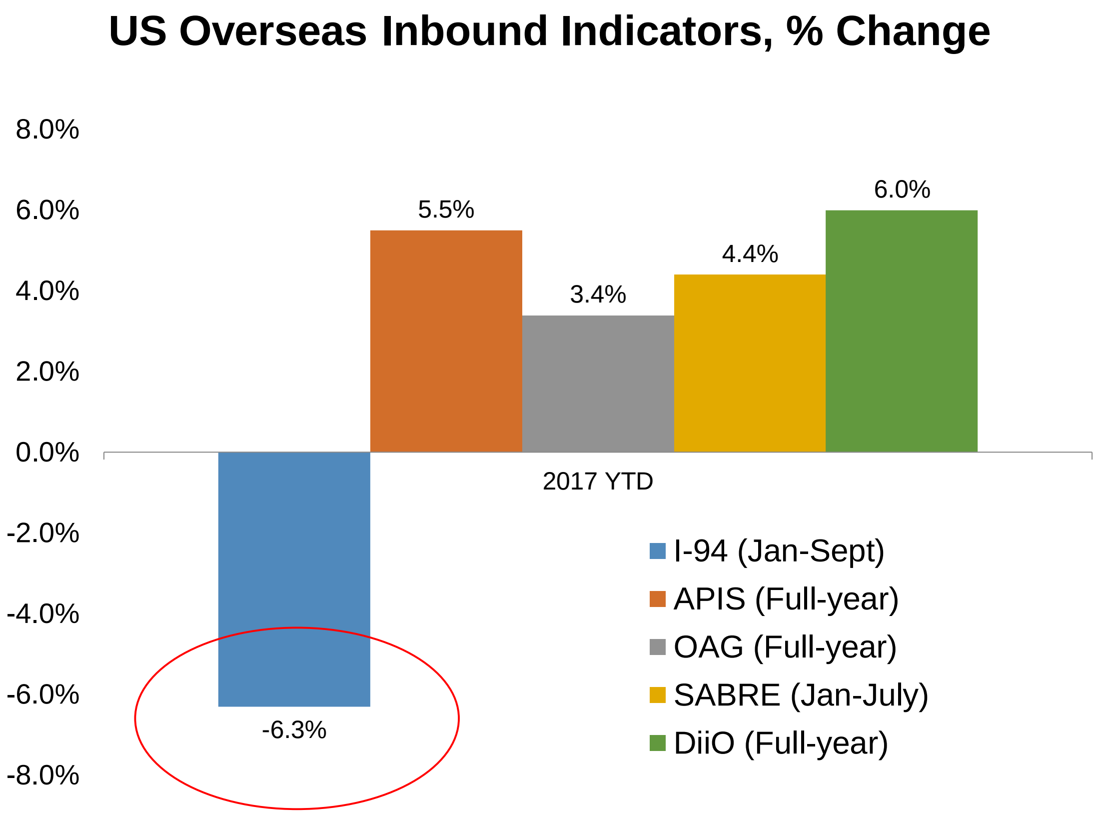
- Alternate sources correlate within +/- 2% while I-94 is consistently the outlier.

US Overseas Inbound Indicators, % Change



Establishing an alternative view of 2017

- To confirm our view of 2017, we analyzed an additional dataset from DiiO that tracks travel on an origin-destination basis and allows for analysis of non-resident travel to the US.
- These data corroborate the growth story told by APIS, SABRE, and OAG. DiiO aviation data indicates 6% growth in overseas travel to the US in 2017, while SABRE indicates 4.4%, and APIS indicates 5.5% growth.
- This leaves I-94 as the only source showing a contraction in 2017.



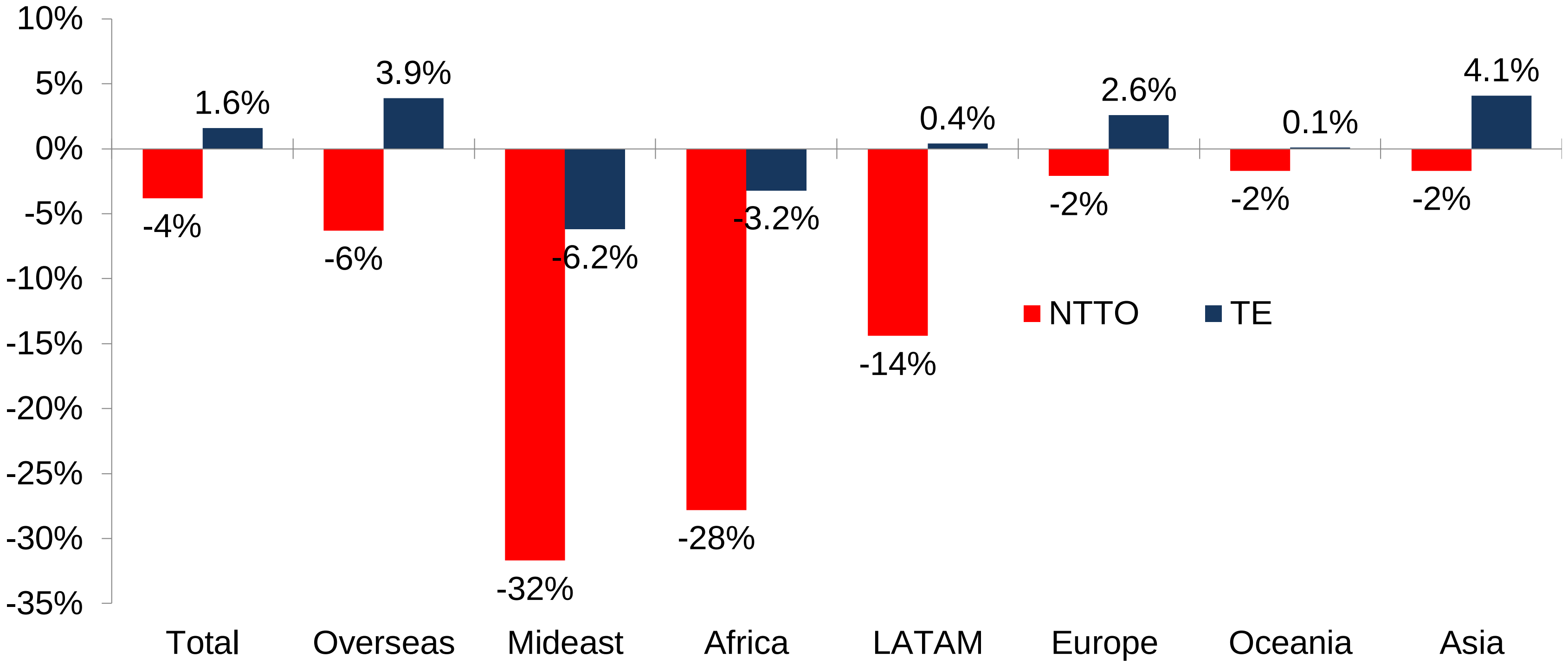
APIS: non-citizen air arrivals at US borders
OAG: Overseas origin air passengers arriving in US
SABRE: Overseas origin air passengers arriving in US
DiiO: Overseas origin air passengers arriving in US

A comparative view of US inbound performance in 2017

The below chart compares our full-year 2017 estimates for overseas travel to the US with published I-94 statistics. We estimate that overseas travel to the US increased 3.9% in 2017. We estimate Asia led growth with a 4.1% expansion, Latin America and Oceania both expanded modestly, while losses from the Middle East and Africa were not as severe as I-94 indicates.

International visits to the US by region

NTTO Jan-Sep 2017 % change and TE full year 2017 estimates



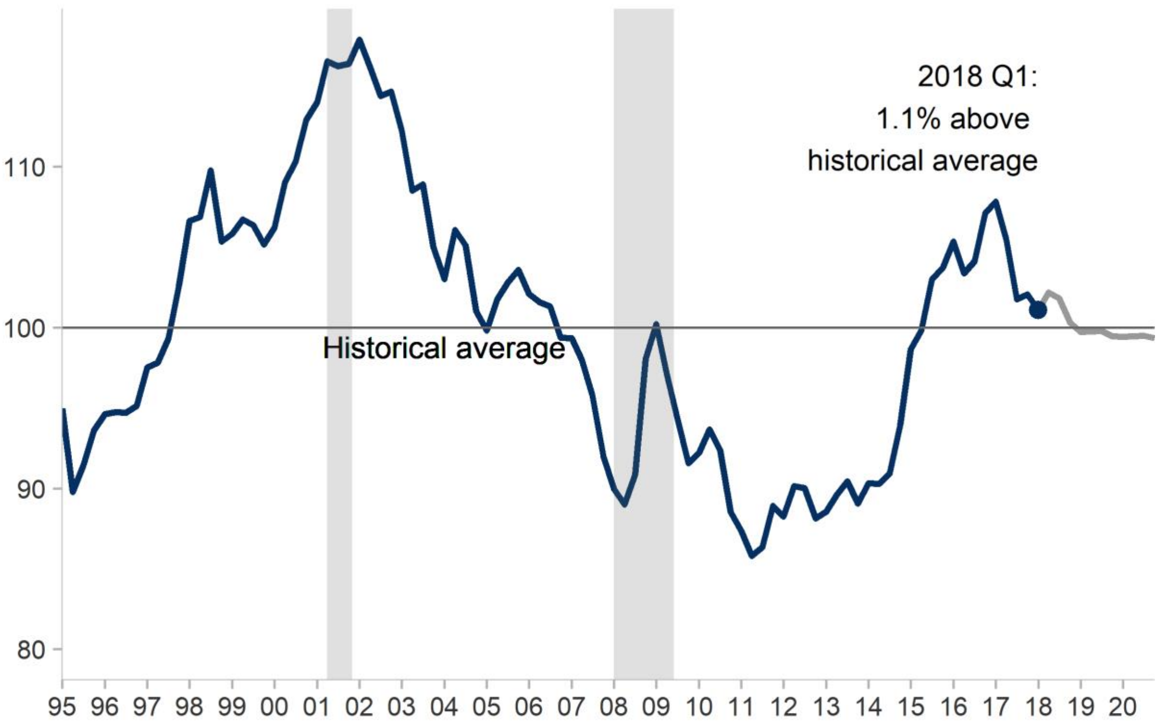
Source: NTTO, Tourism Economics

The dollar eased, supporting growth

While the dollar remains strong relative to the 2011 to 2014 period, it has weakened somewhat over the past year and now sits merely 1.1% above its historic average against US trading partners. As a result, the US is more price attractive in 2018 to travelers from all major origin markets than it was two years ago.

Exchange rate, US dollar

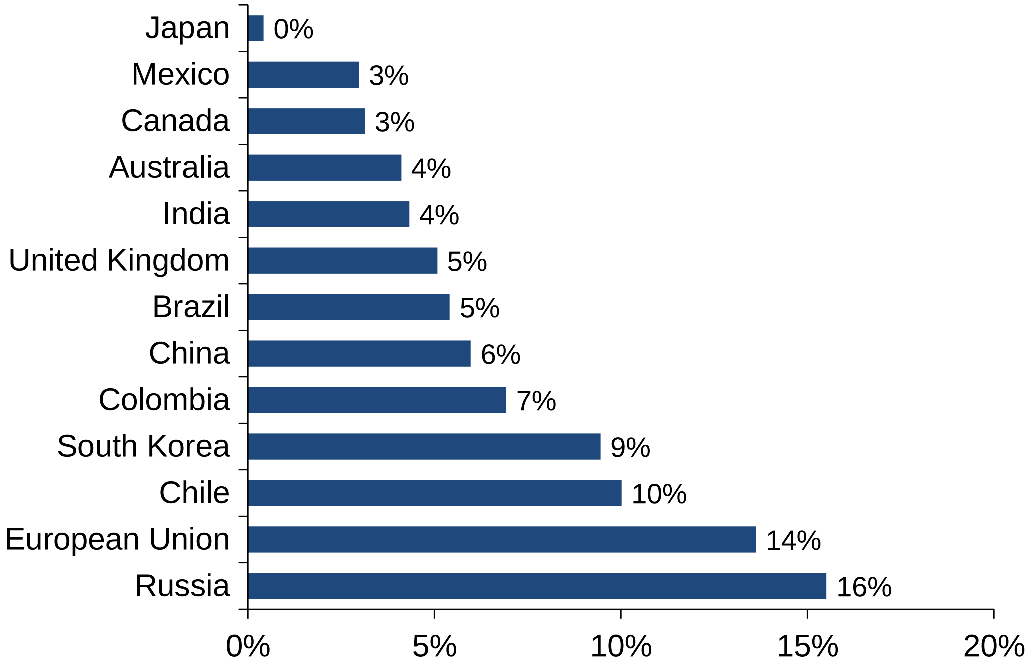
Real effective exchange rate index, historical average = 100



Note: History through 2018 Q1. Historical average based on period from 1995 Q1 to 2018 Q1.
Source: Bank for International Settlements; Oxford Economics

Exchange rate shifts, 2018 / 2016

$US per local

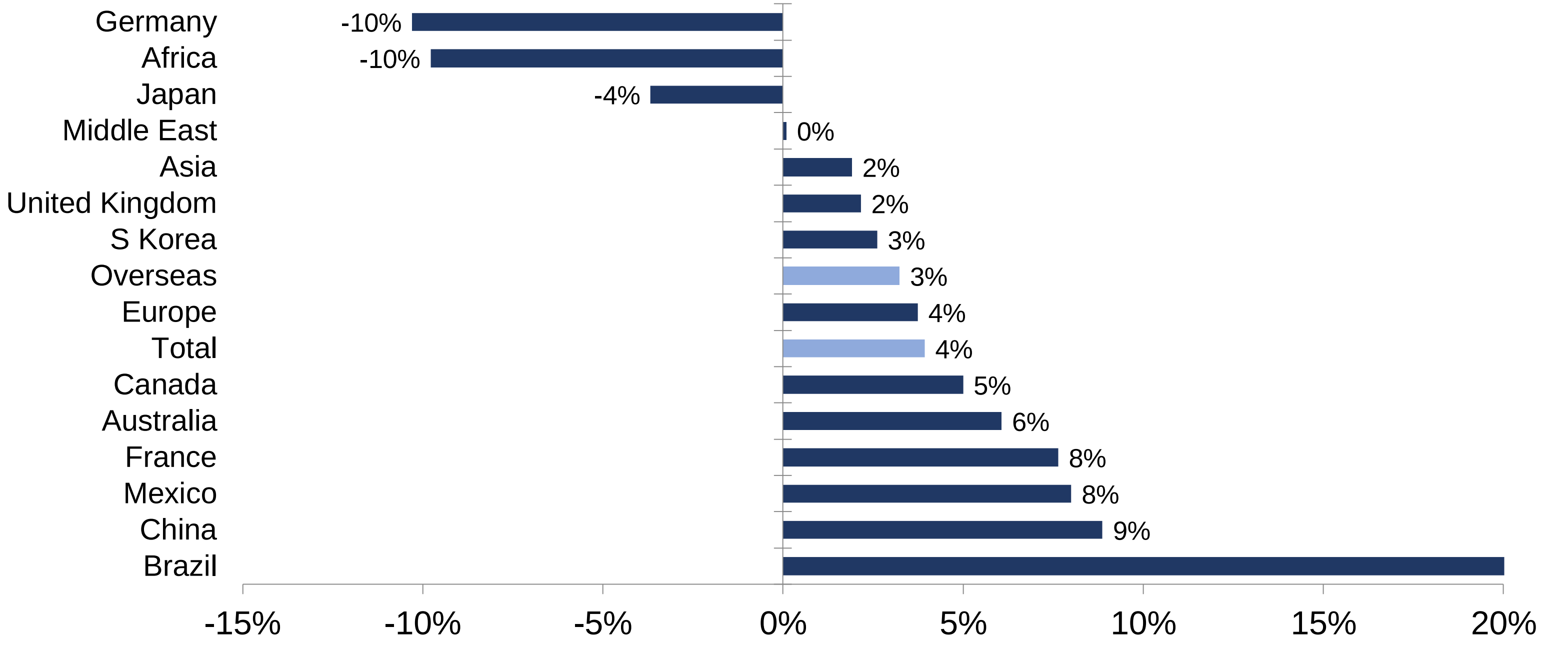


Momentum is carrying over into 2018

- The most recent APIS data paints a picture of continuing market strength for most world regions.
- Asia is growing modestly, with strength from China outweighing weakness from Japan, while South Korea is slowing.
- In Europe, strength from France and the UK is compensating for a drop in German arrivals.
- Brazil is now surging after a large decline in 2016 and modest growth in 2017.
- Canada continues to rebound from three years of declines (2014-2016). Mexico appears to have reversed course from last year and is performing well.

Non-citizen arrivals to the US by port of departure

January-April 2018, YTD % change



Source: APIS, Banco de Mexico, Statistics Canada

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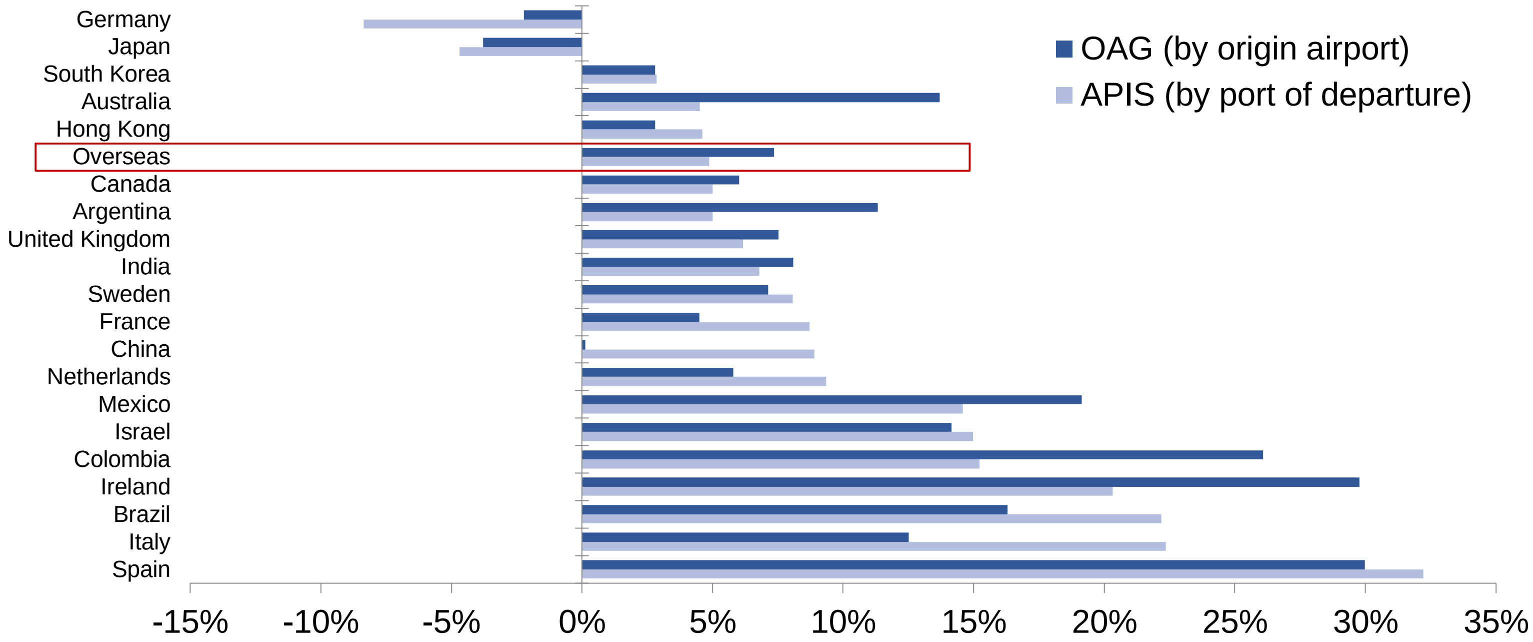
OAG flight data confirm general trends

- OAG data is based on originating airport while APIS is based on port of departure. In APIS, a visitor from India who connects in London would be counted as an arrival from the UK. However, OAG is based on a limited GDS-based sample so its trends are not always indicative of the market.
- However, a comparison of the two sources through March (OAG is not yet available for April) shows similar trends. Overseas arrivals increased 4.9% per APIS and 7.4% per OAG, year-to-date through March.
- Weakness from Germany and Japan is evident in both sources, as is a slowing of growth from Korea.
- Strength from the UK, India, Mexico, Brazil, and Spain is also clear from both sources.

International air arrivals to the US

Jan-Mar 2018, YTD % change



Source: APIS, OAG

- However, the two sources tell a contrasting story for China. OAG indicates no growth while APIS shows +9%. New direct flights could explain some of the disparity but additional analysis will be required to confirm performance of the Chinese travel market.

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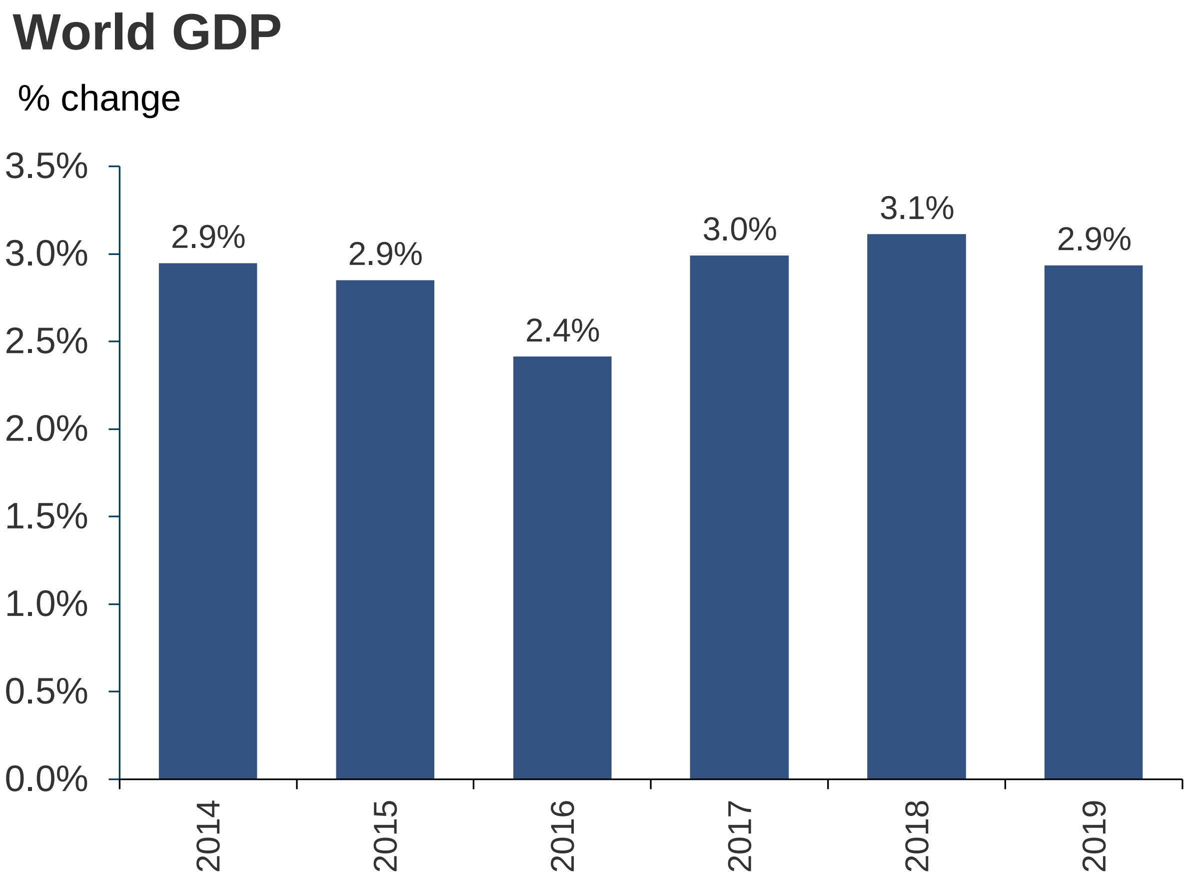
Strongest world economic growth since 2011

- Oxford Economics expects 3.1% global GDP growth in 2018 will be strongest performance in seven years.
- This is being driven by low interest rates, supportive credit, and the fastest world trade since the financial crisis.
- Despite the mounting threat of more protectionist trade measures, we expect the impact on global growth and trade to be mild.
- This should provide a supportive economic base for travel to the US in both 2018 and 2019.



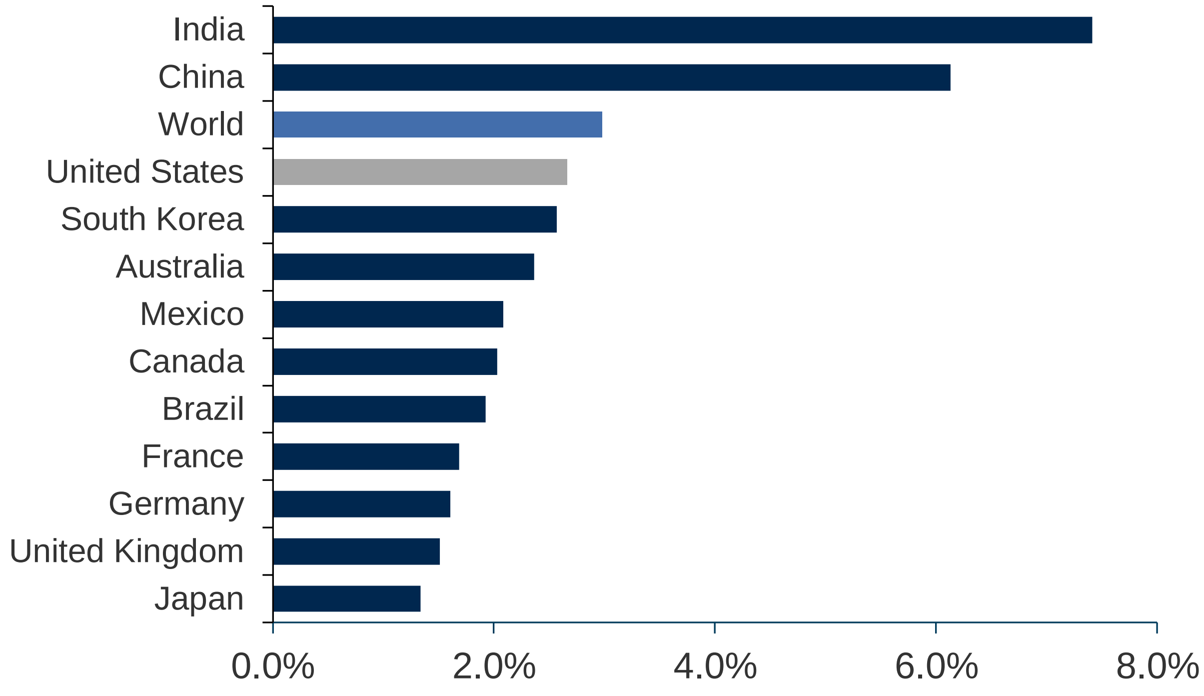
Source: Oxford Economics

Economies of major US source markets are all expanding

- Global surveys signal that the global expansion may lose momentum in Q2. The global purchasing managers index fell sharply in March. The fall highlights the risk that lingering trade tensions could damage confidence and prompt firms and consumers to delay investment and major spending plans.
- US economy is expected to reach 2.8% GDP growth in 2018, with inflation reaching the Fed's 2% target.
- Eurozone GDP growth forecast for 2018 nudged down to 2.2%, but the pace is expected to remain well above trend.
- China's growth picked up markedly in early 2018, which could provide a boost to global trade growth in the near term.

World GDP by major market in 2018

% change



Source: Oxford Economics

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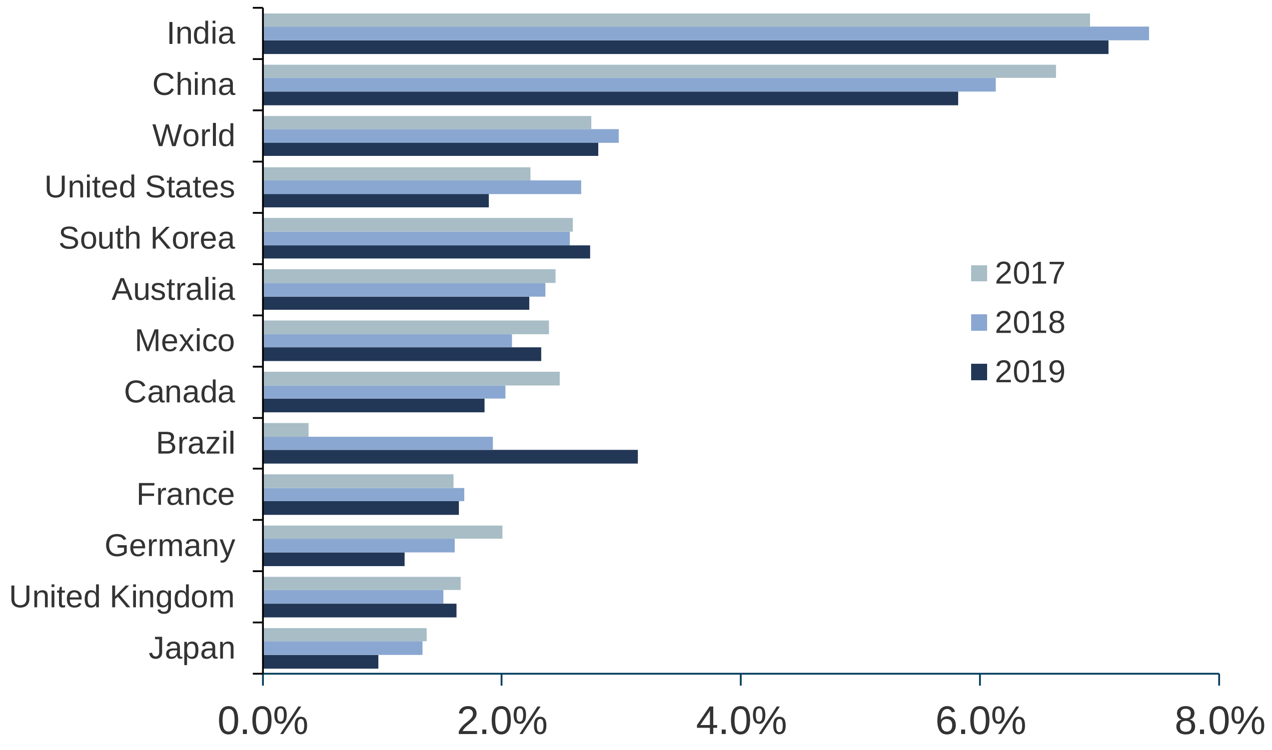
Next year likely to experience a slowdown

- Economic growth is expected to slow somewhat in 2019 across most markets.
- The US is particularly exposed to the reduced benefit of tax reform benefits, while the deficit rises and mounting trade wars hold the potential to stifle export growth.
- India will continue to lead growth among all major economies as China continues its measured slowdown.

World GDP by major market

% change



Source: Oxford Economics

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