

US ECONOMY AND HOTEL INDUSTRY 2020 OUTLOOK

Navigating the crisis

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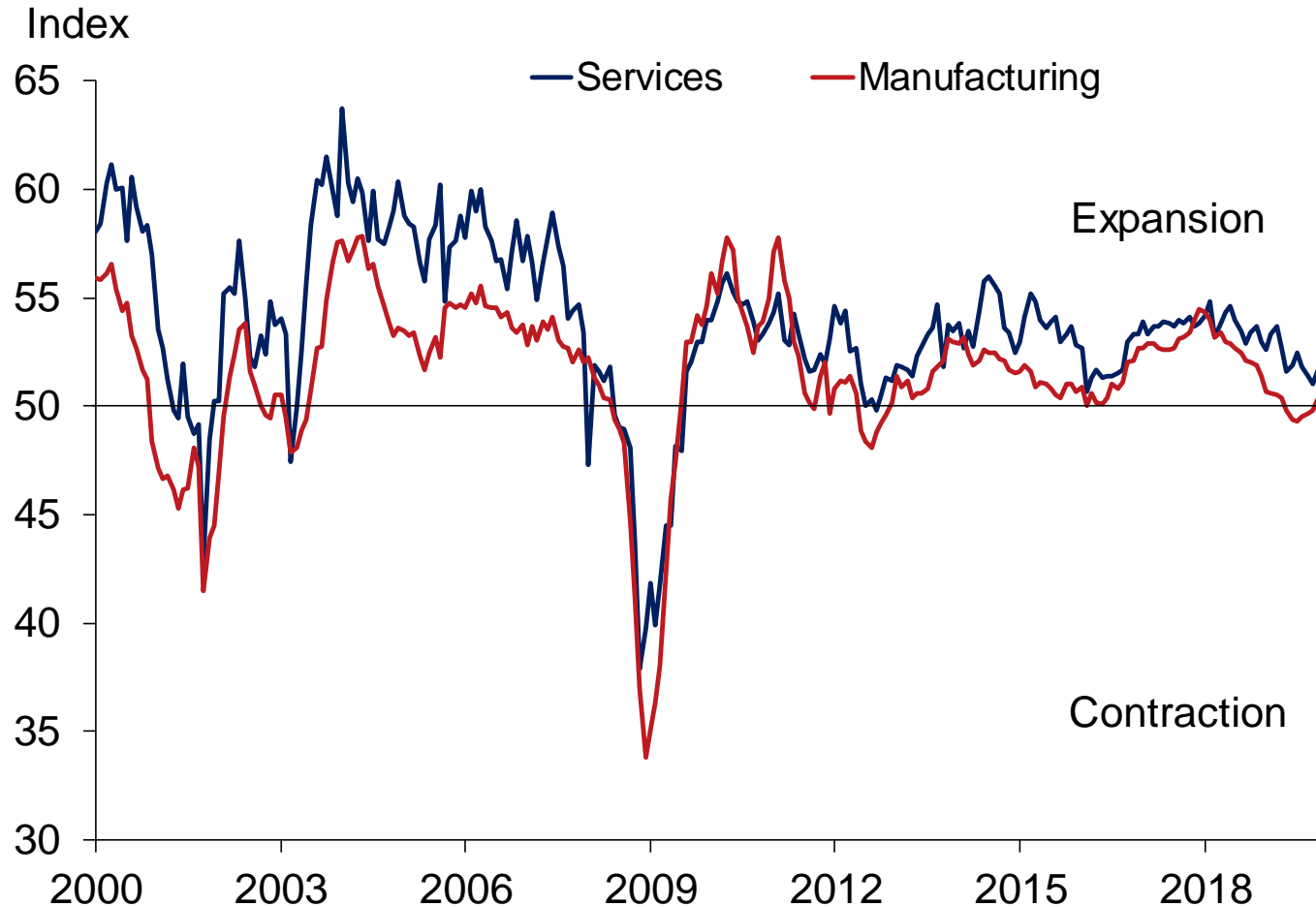
March 2020

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

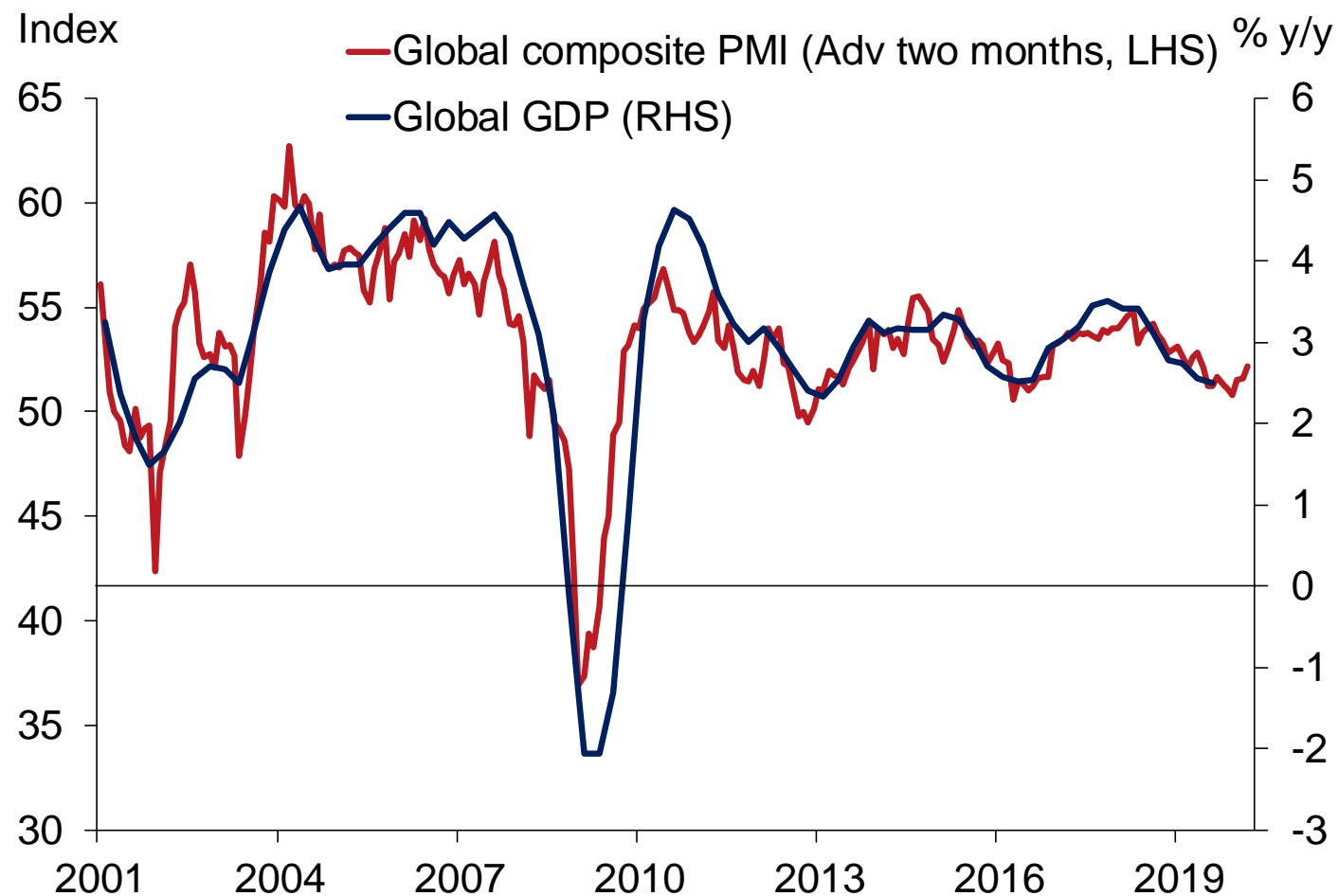
World: PMIs



Source : Oxford Economics/Markit

And leading indicators pointing to early-2020 pick up

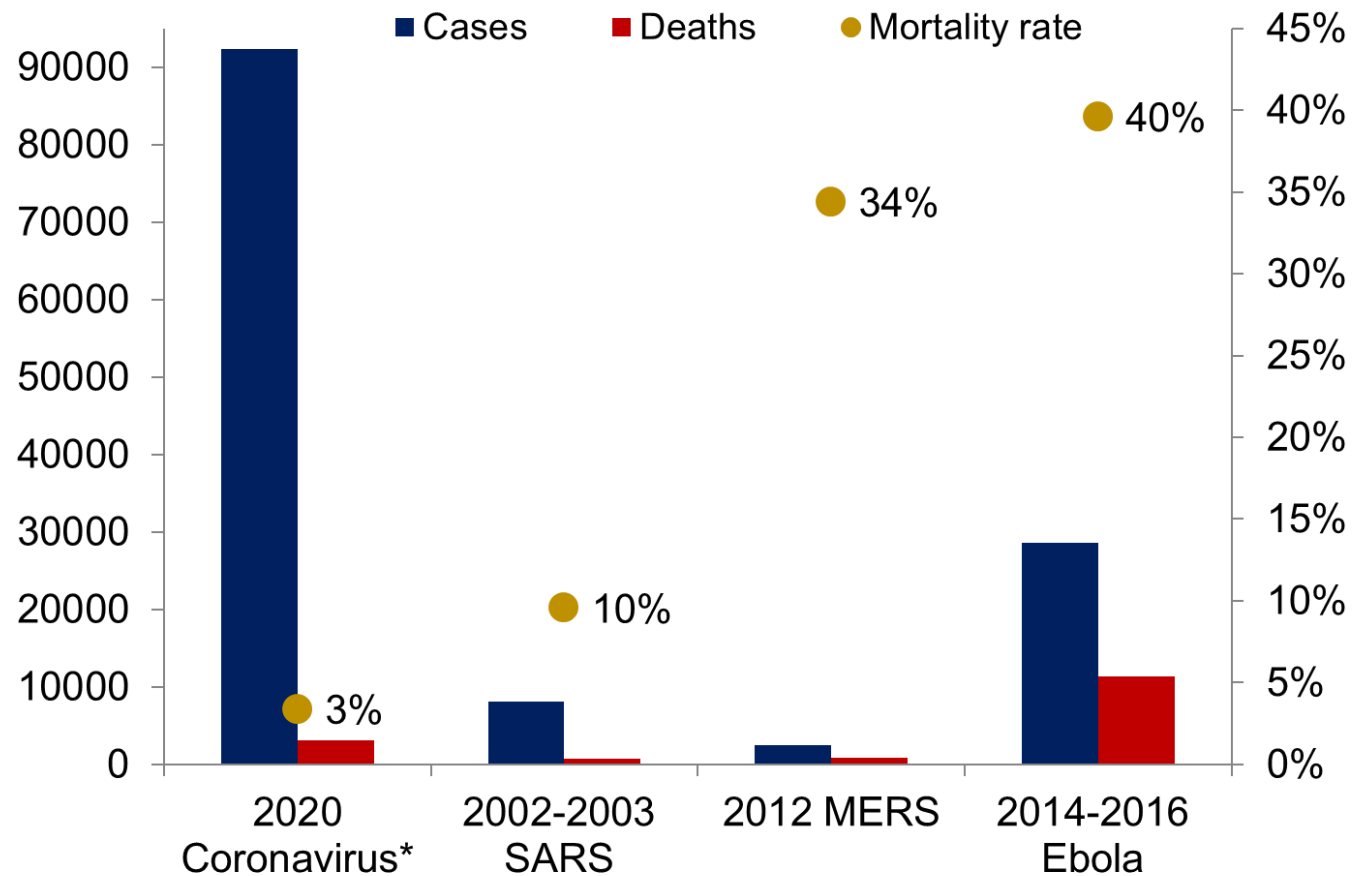
World: GDP & PMI



Source : Oxford Economics/Haver Analytics/Markit

But then the coronavirus hit...

Faster spreading virus, but lower mortality rate

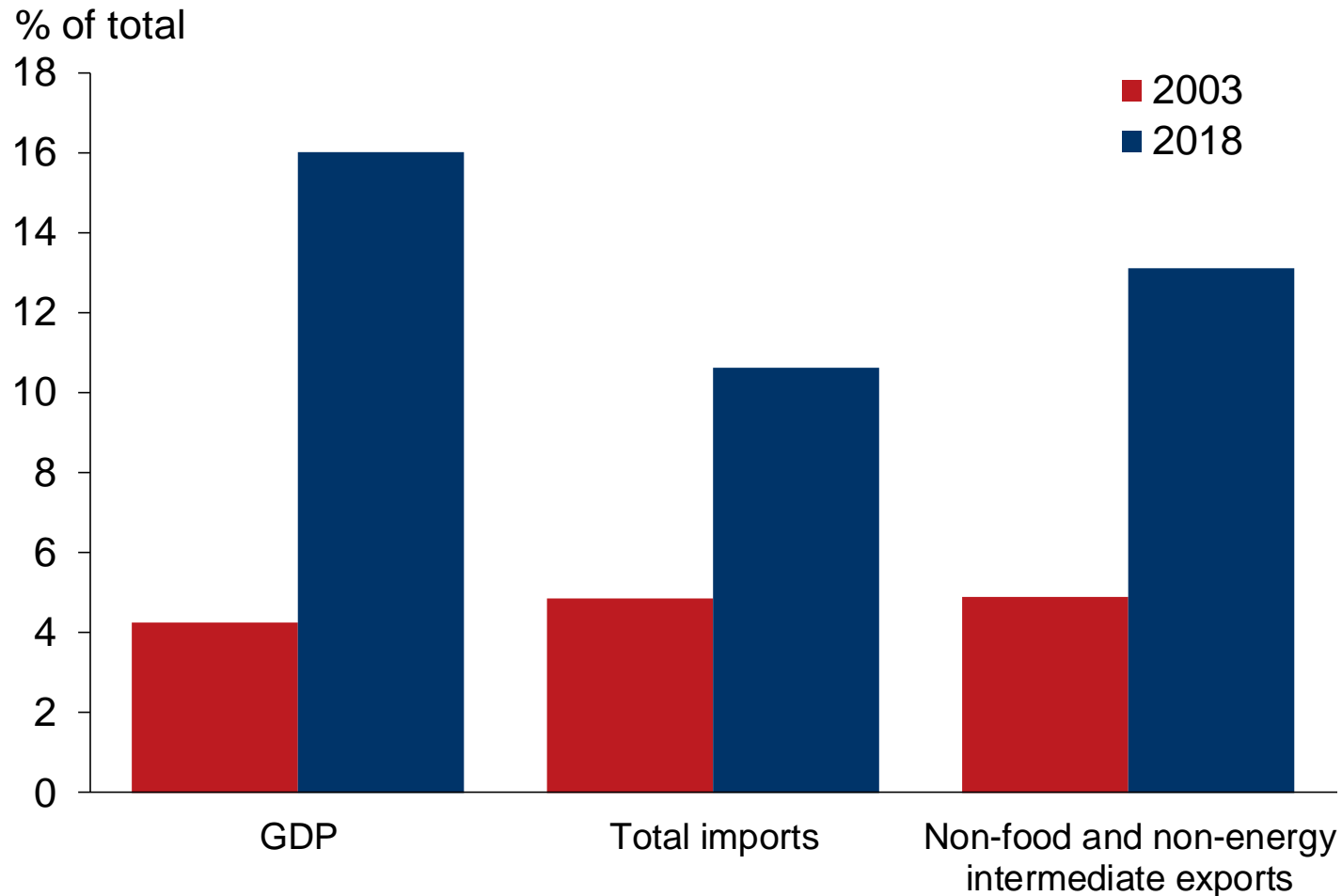


Source : Oxford Economics/WHO/CDC

*As of March 3rd, 2020

This time is different because of China's global role

China's importance to the world economy

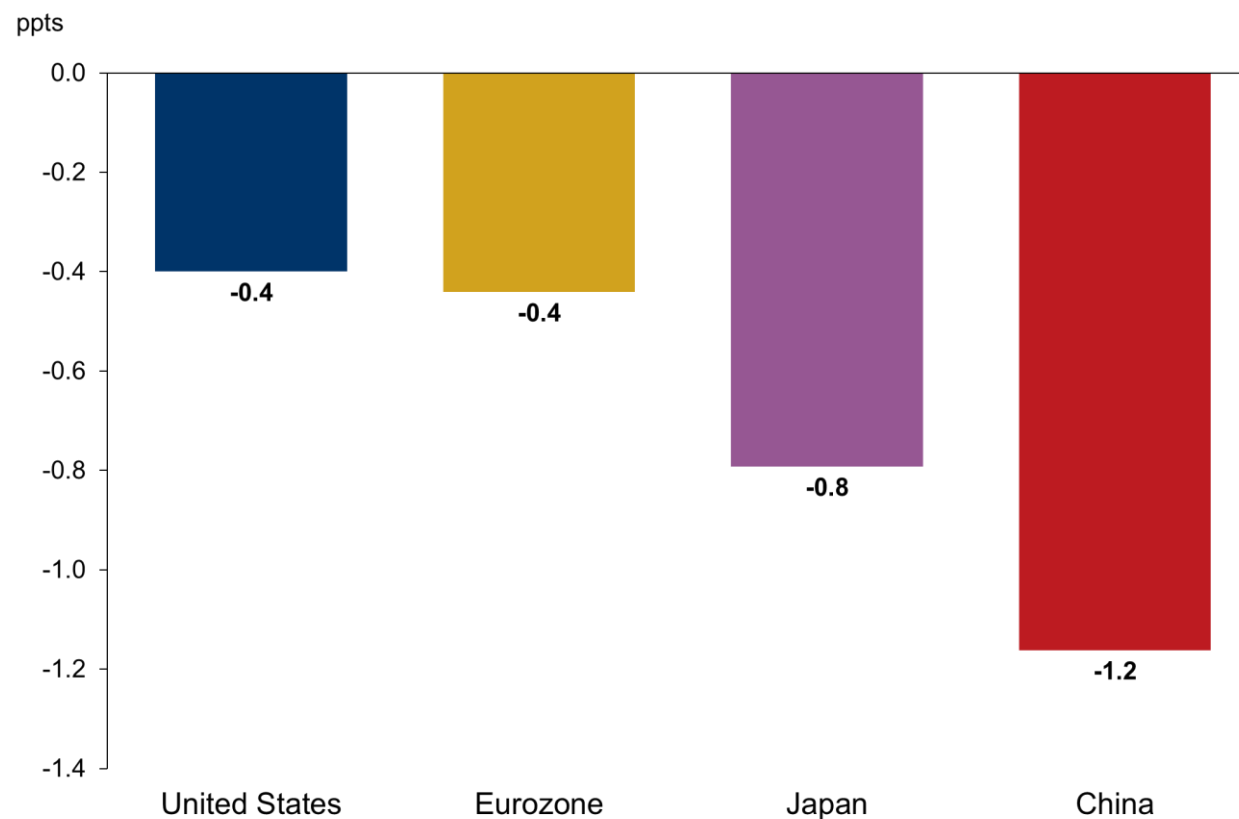


- China share of overseas travel to the US
 - 1% in 2002
 - 7% in 2019
- China is the #1 source of international travel spending in the US

Source : Oxford Economics/Haver Analytics

Asia worst affected but US and eurozone not untouched

Global: Coronavirus shock to 2020 GDP growth

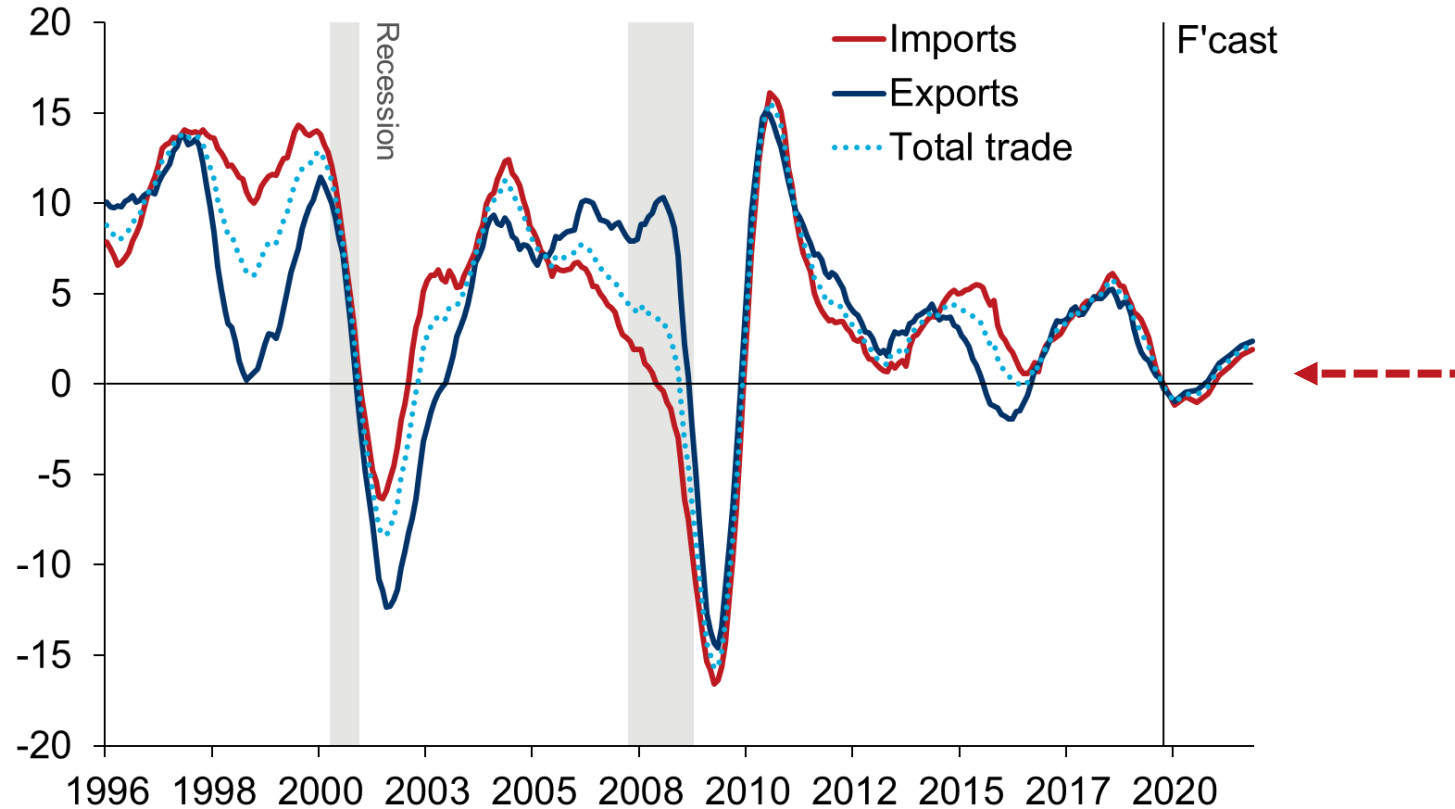


Source : Oxford Economics

Vulnerability #1: US trade flows have stalled

US: Trade growth at its worst outside recession

% y/y (12m ma)

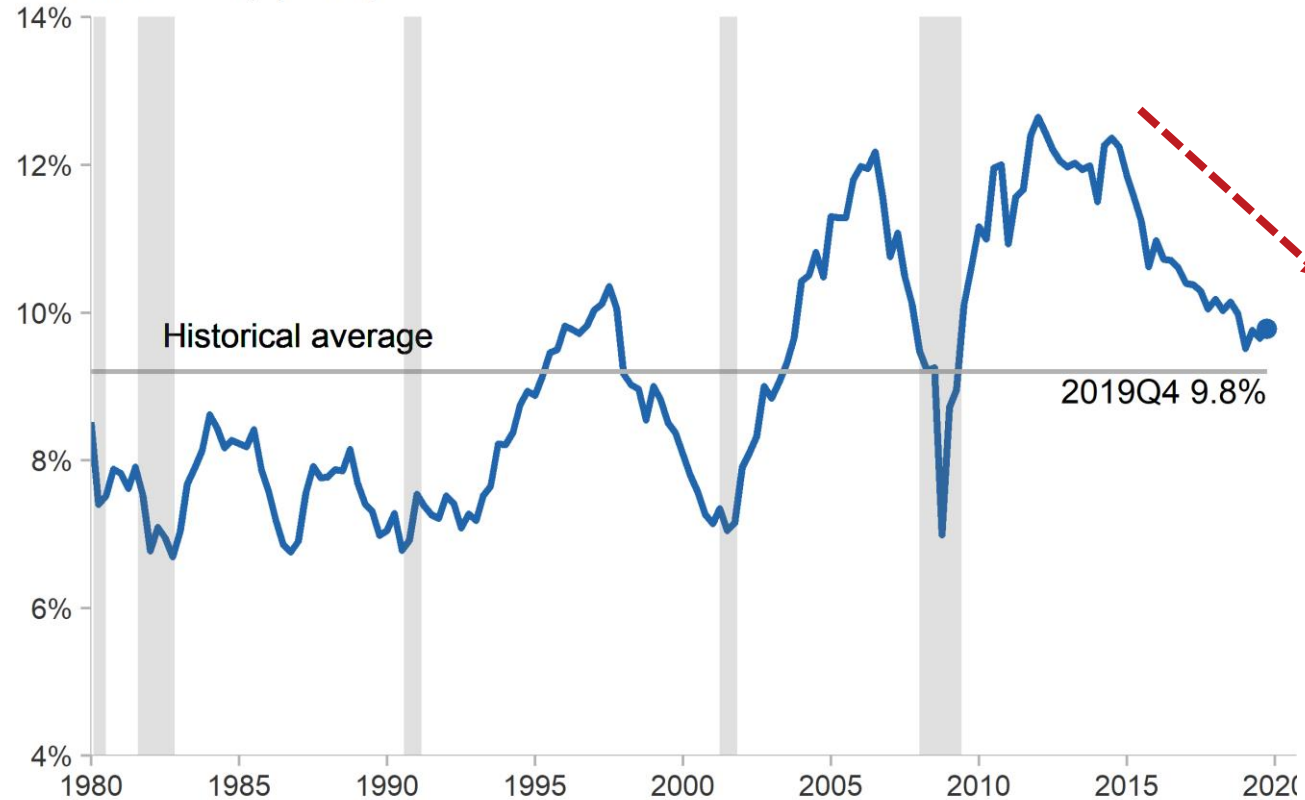


Source : Oxford Economics/Haver Analytics

Vulnerability #2: Corporate profits have narrowed

Corporate profits

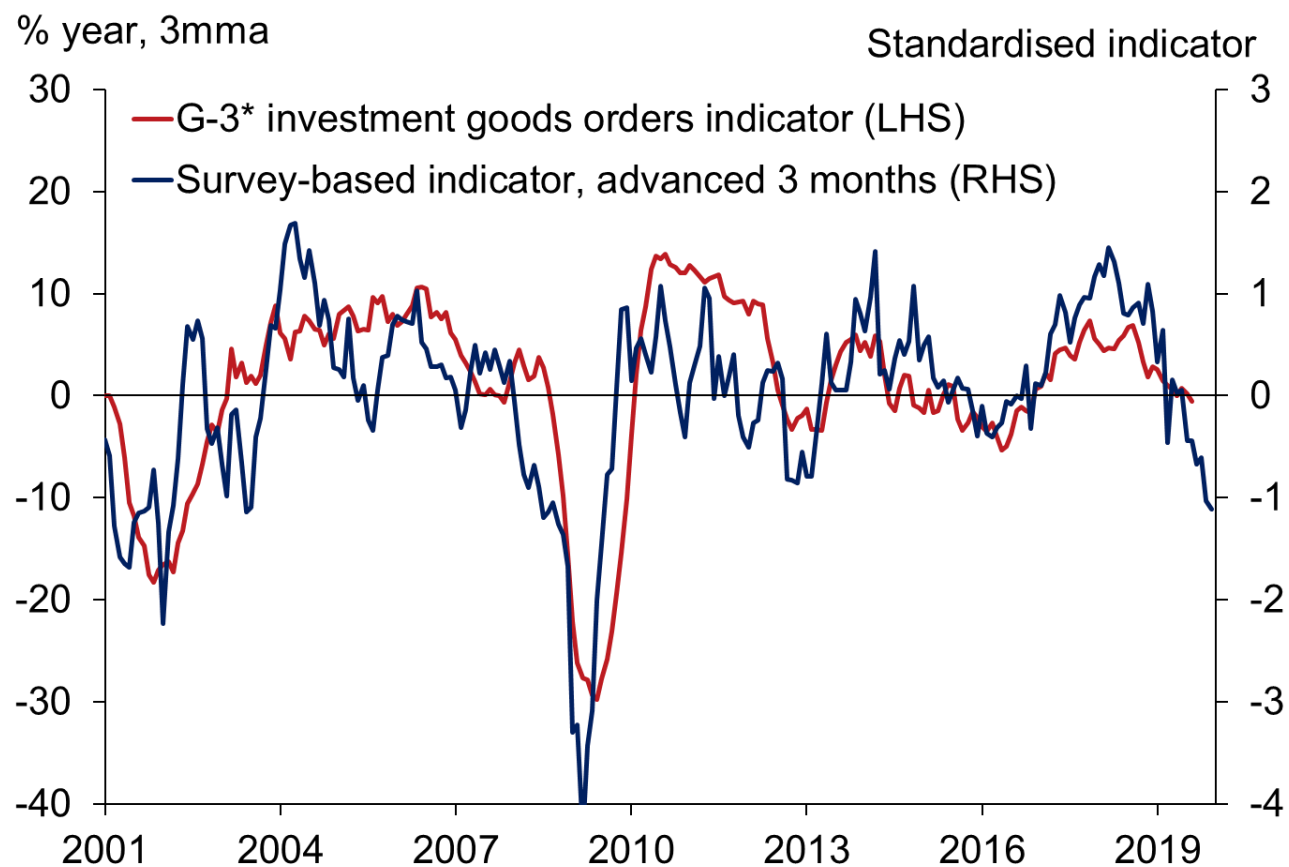
As a ratio to GDP, quarterly



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

Vulnerability #3: Investment intentions have fallen sharply

G-3: Investment indicators



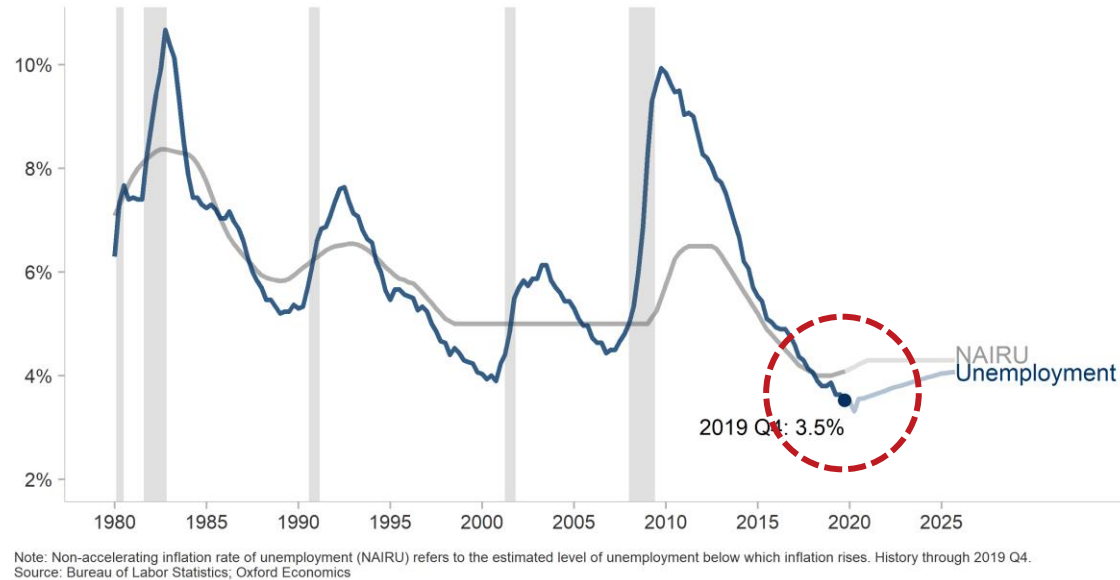
Source : Oxford Economics/Haver Analytics * US, Germany, Japan

Global trade slowdown is having its effect

Services have been more resilient

Ultimate backstop: consumers

Unemployment rate



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

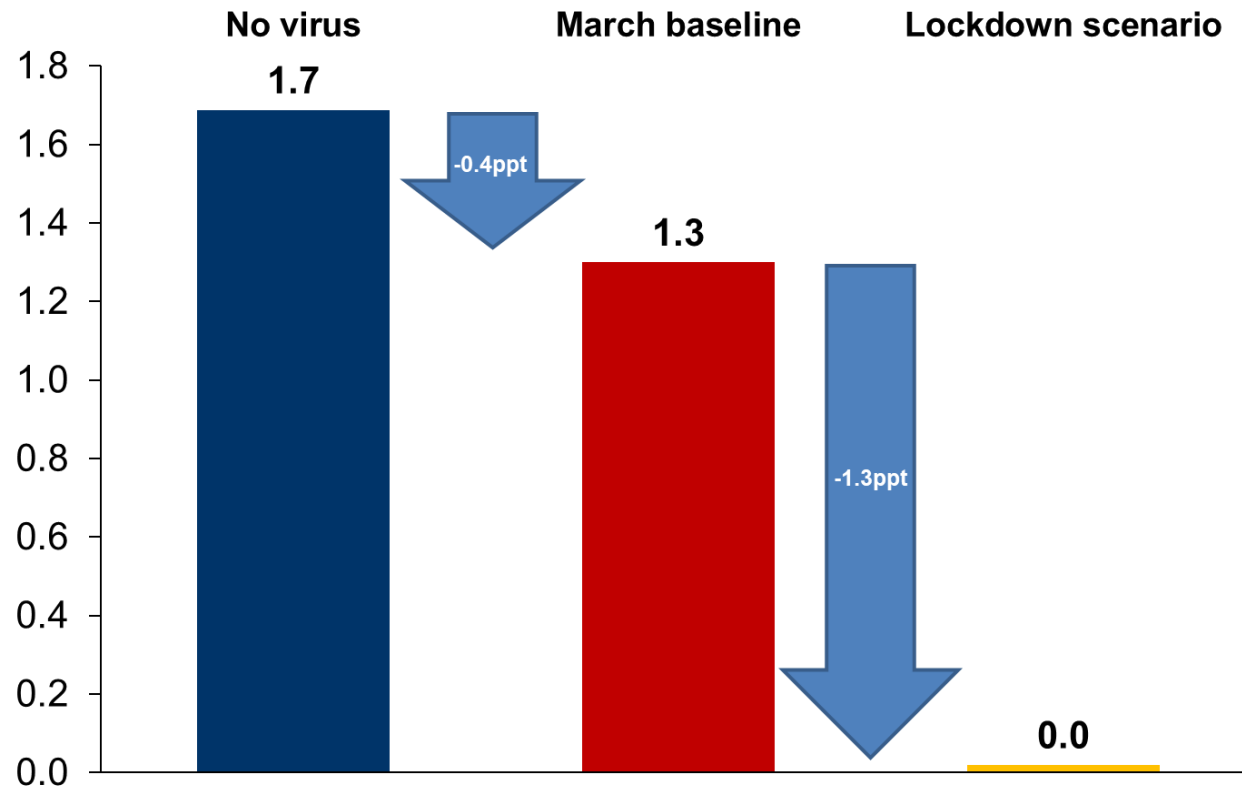
US: Average hourly earnings



A slow 2020 is inevitable

US GDP growth in 2020

% average



Source : Oxford Economics

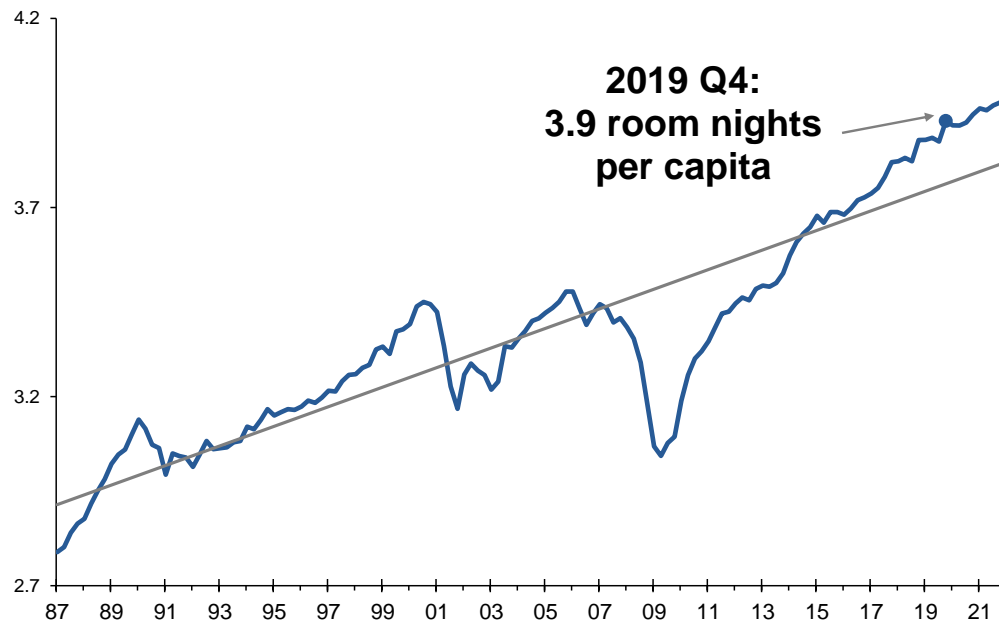


TRAVEL PERSPECTIVES

People are traveling more than ever

Room nights per capita, US

Annual room nights



Note: Seasonally adjusted
Source: STR; Tourism Economics

Occupancy

Occupancy rate

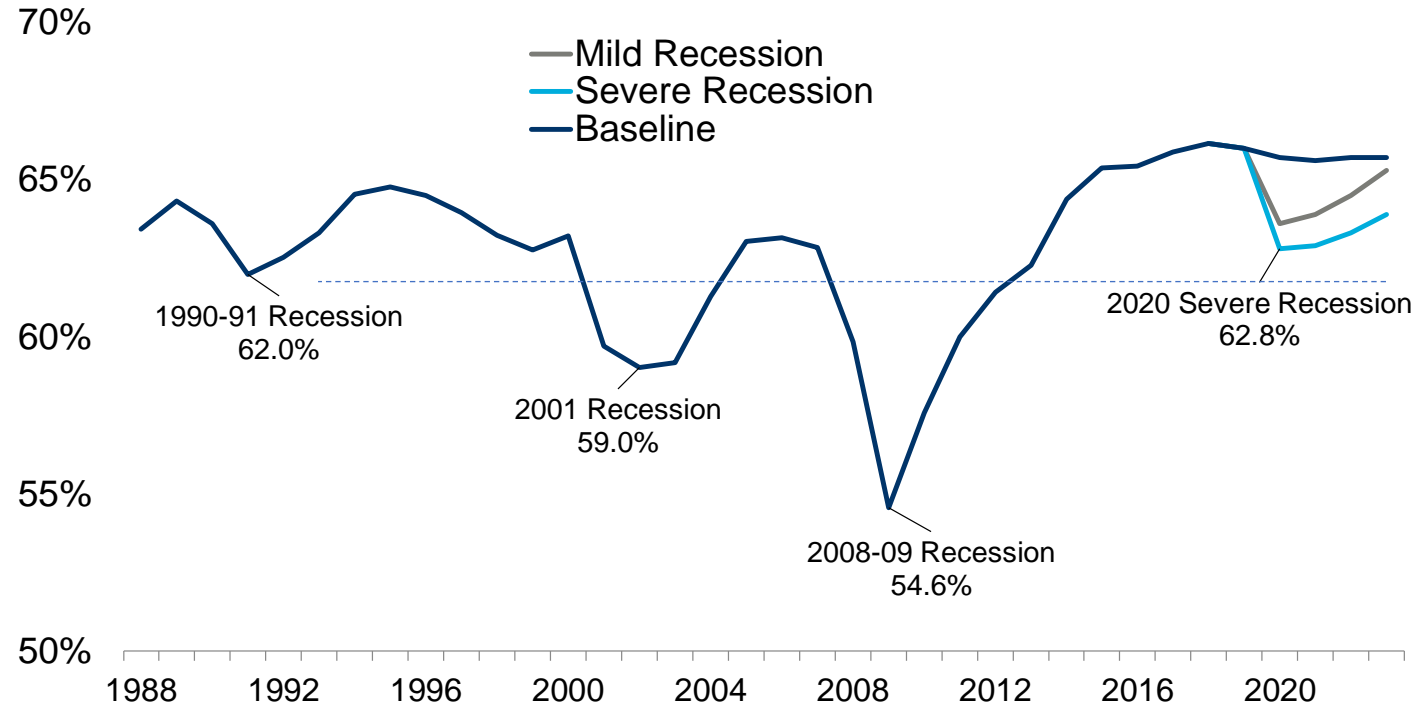


Note: Recessions shaded; data seasonally adjusted; history through 2019 Q4, forecast through 2021 Q4.
Source: STR; NBER; Tourism Economics

Even in recession occupancy rates are higher than in the past three

Hotel Occupancy Rate

Levels

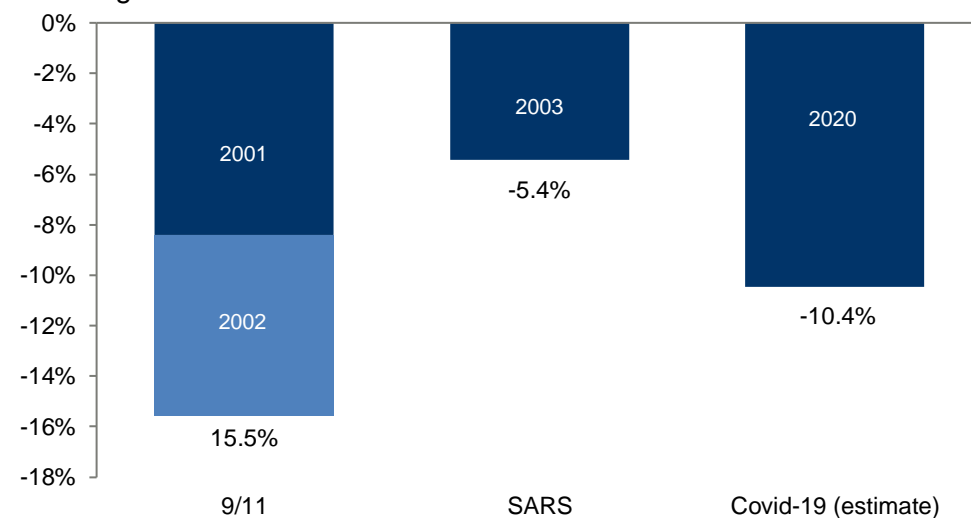


Source: STR, Tourism Economics

International inbound losses expected

Decline in International Visitors to the US

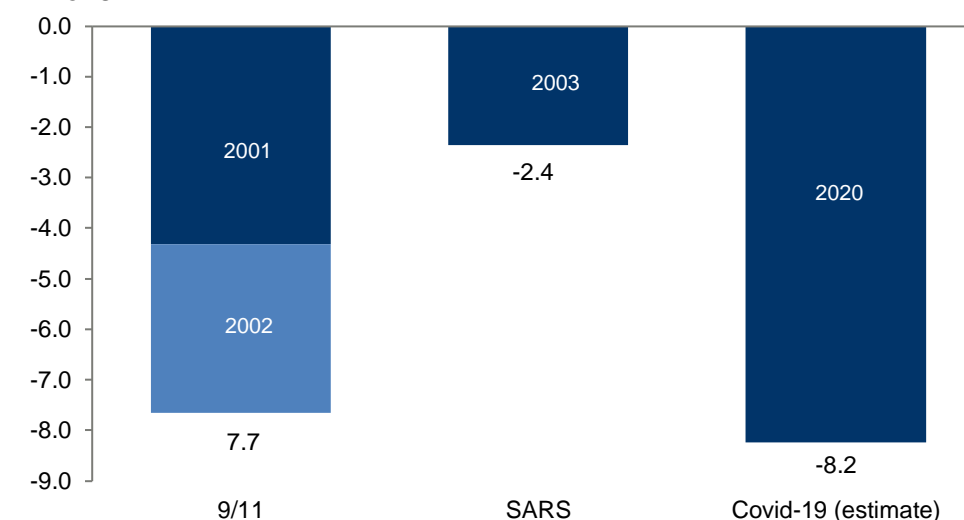
% change



Source: Tourism Economics

Decline in International Visits to the US

Millions



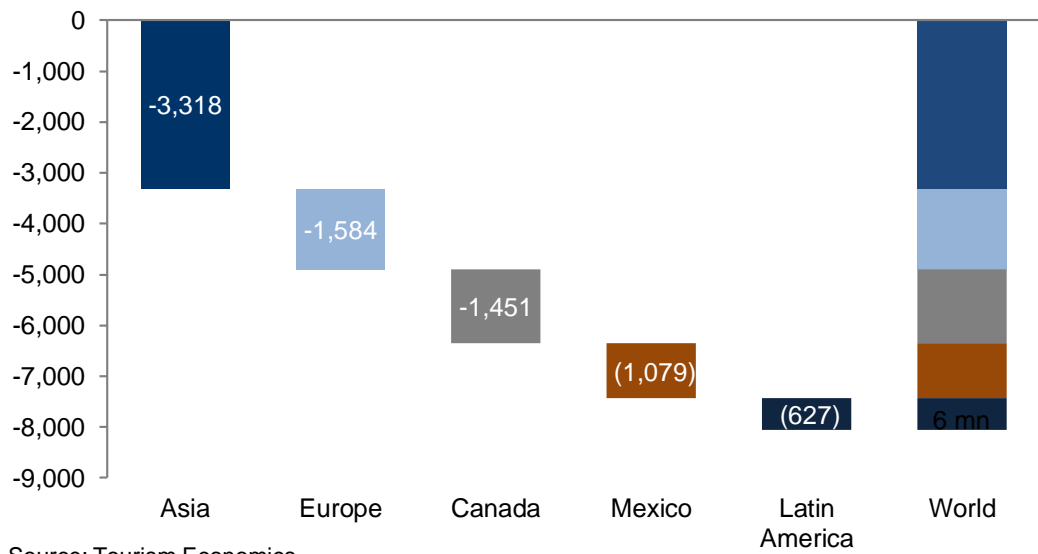
Source: Tourism Economics

- We are forecasting a 10% from in international visits this year, about double the decline from SARS.
- This implies 8.2 million lost visitors, exceeding the multi-year impact of 9/11.

Decline of 8 million visitors in 2020 = 1.3% of room demand

Decline in International Visitors to the US in 2020

Thousands

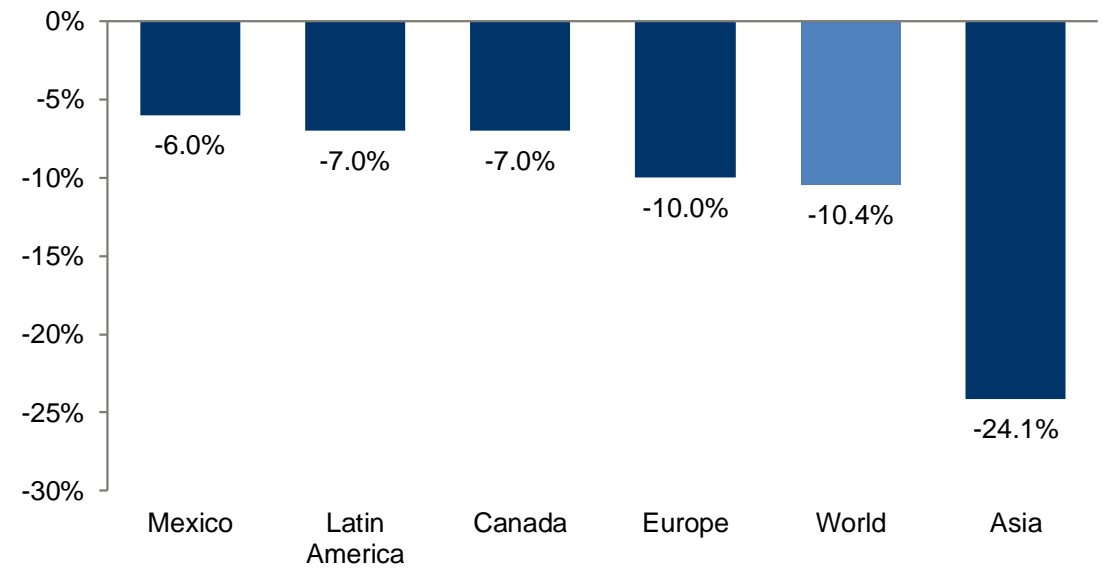


Source: Tourism Economics

- **Approximately 16 million room nights, most from Asian markets, followed by Europe.**

Decline in International Visitors to the US in 2020

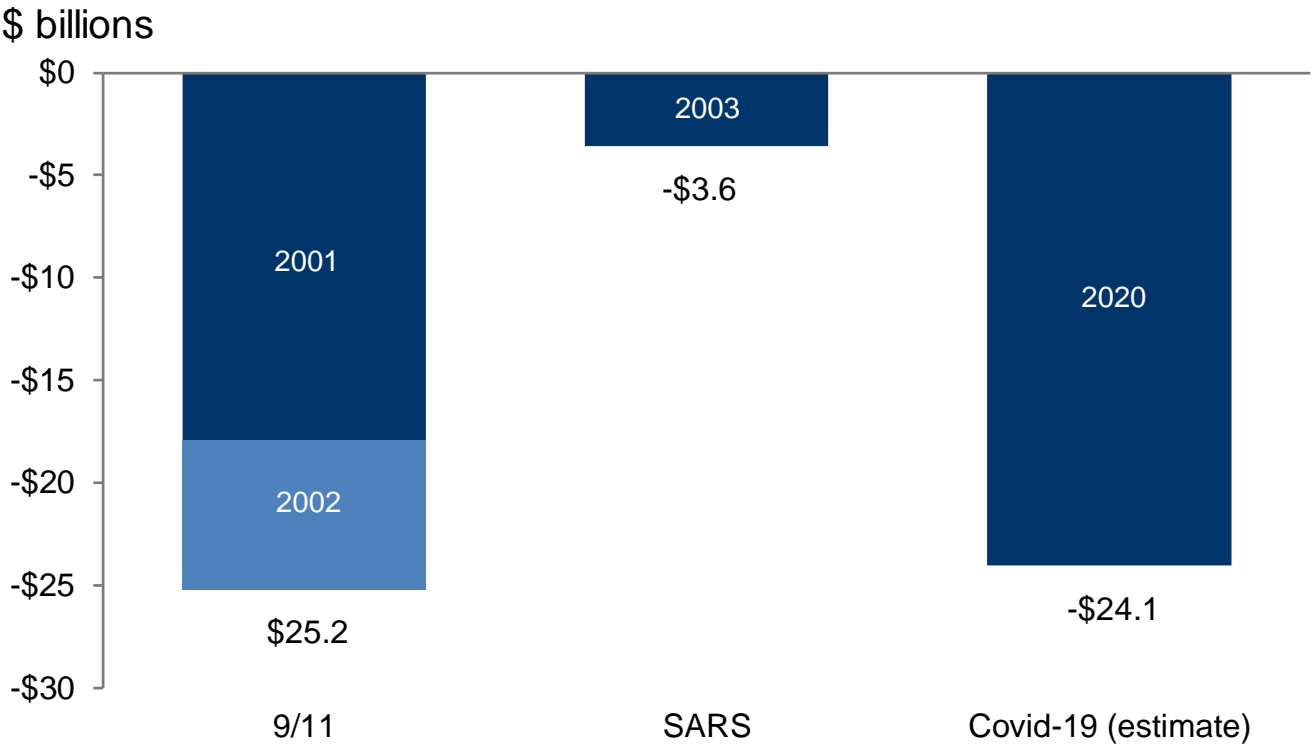
% change



Source: Tourism Economics

\$24 billion lost

Decline in International Visitor Spending in the US



Source: Tourism Economics

In economic terms, the impact of Covid-19 is expected to be nearly seven times greater than SARS.

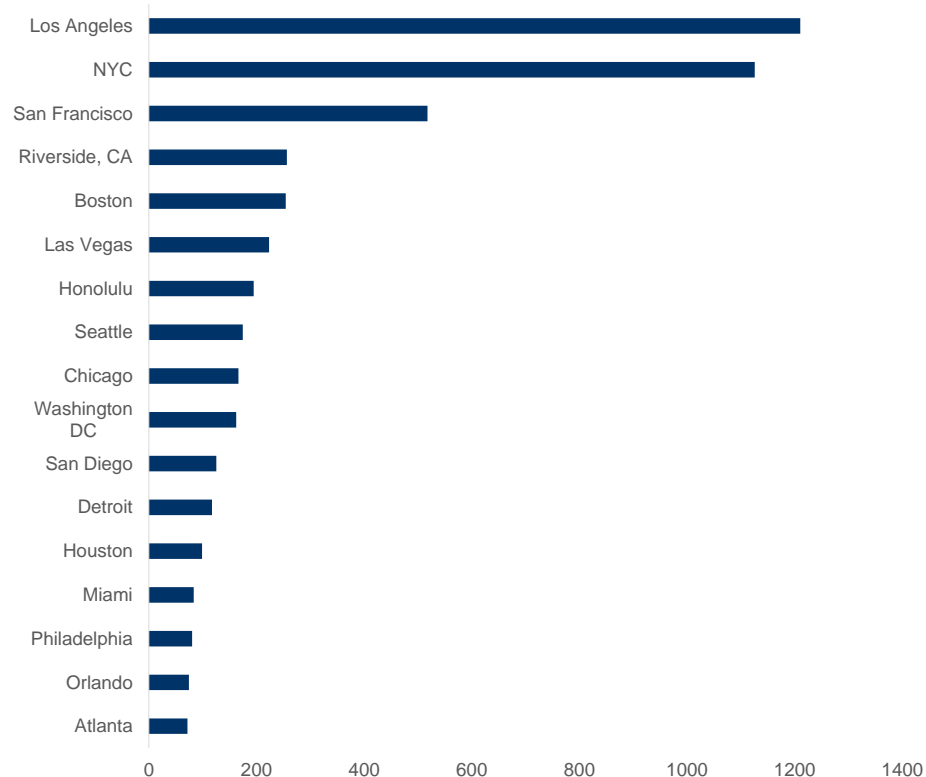
The US economy is forecast to lose \$24 billion in travel exports in 2020. This approaches the impact of 9/11 across both 2001 and 2002 (\$25 billion).

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

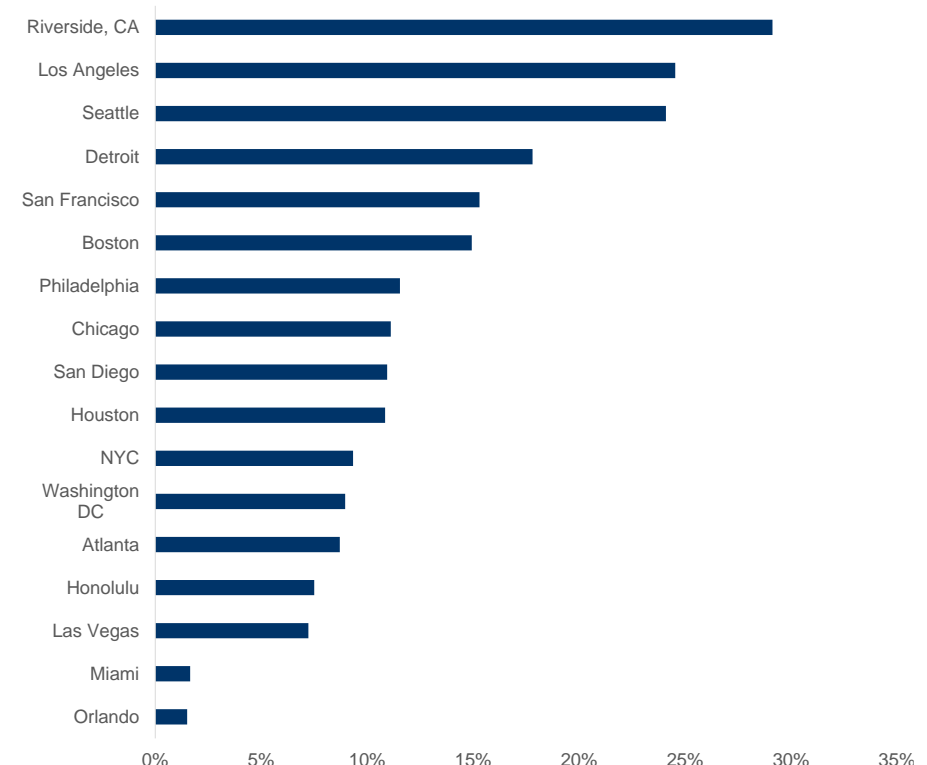


Source: Tourism Economics

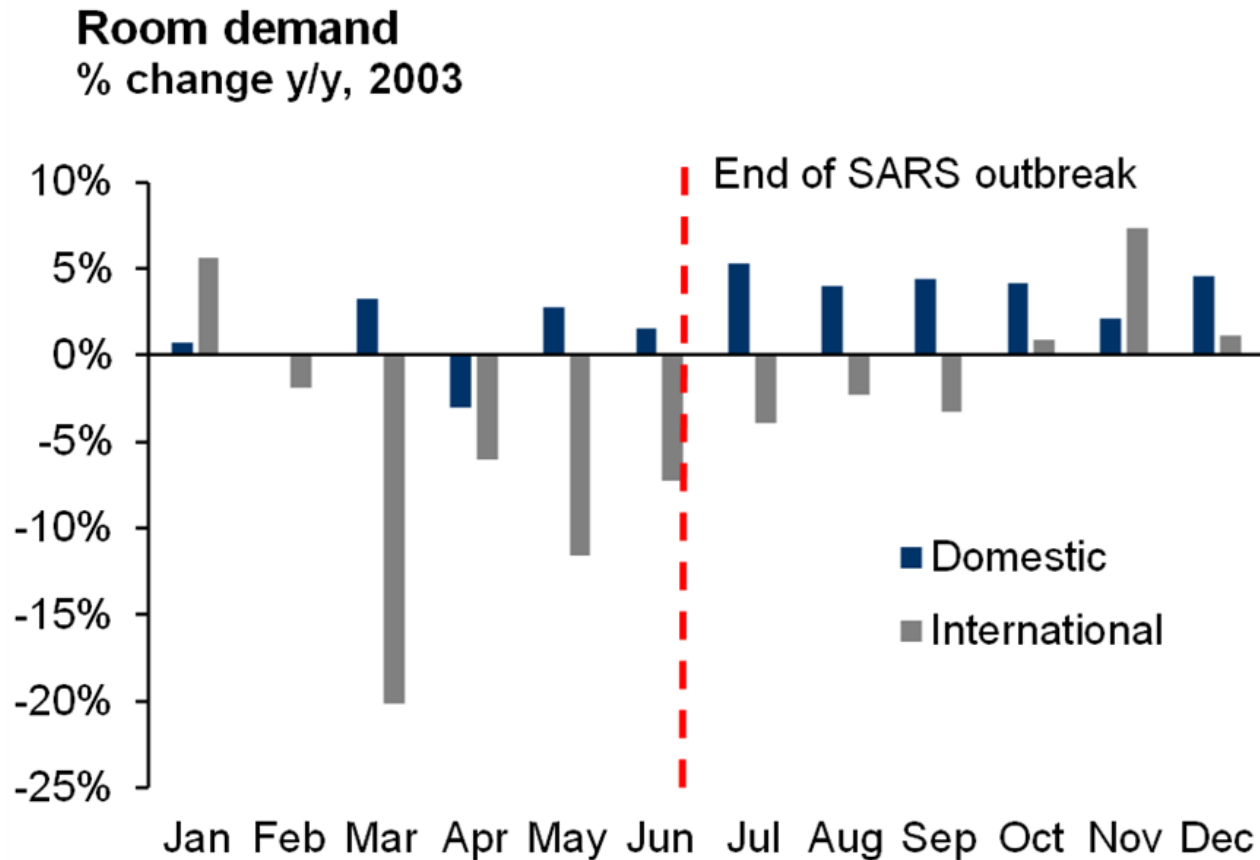
- As a share of total overseas visitors to each city in 2019, Riverside CA, Los Angeles, and Seattle are most exposed to the Chinese market.

Share of Overseas Visits from China in 2019

%



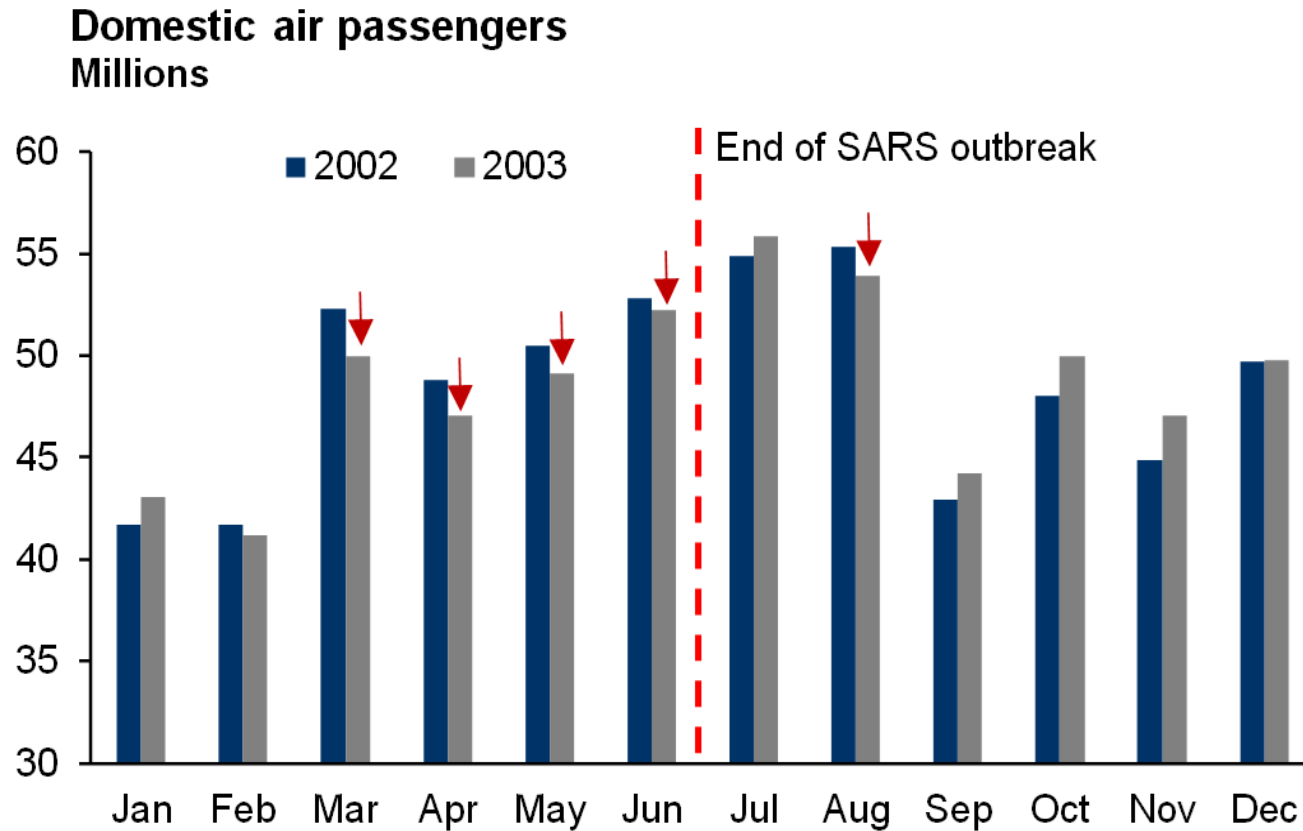
Interesting dynamic in 2003



Source: STR, NTTO, Tourism Economics

- Domestic room demand stayed positive while inbound travel demand fell

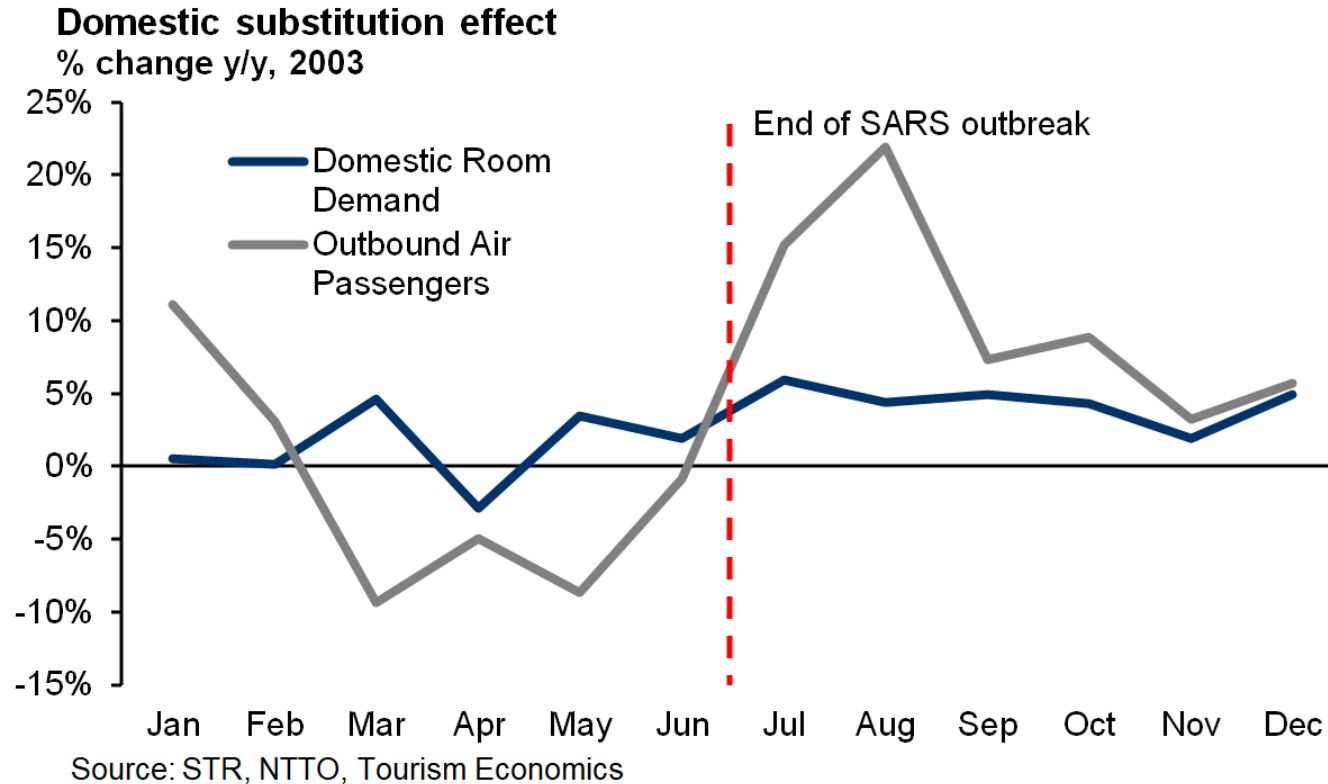
Domestic air travel fell for about half the year



- Air travel in the US was flat for the year in 2003

Source: BTS

Opportunity: Converting outbound travel to domestic



- Outbound trips declined 5% in 2003. Meanwhile, domestic travel grew.
- This same percentage decline in outbound travel in 2020 would be the equivalent of 5 million trips.
- We now expect US outbound travel to contract by 15% or by about 15 million trips.
- This could compensate for a large share of international losses if a share of these trips is converted into domestic travel.

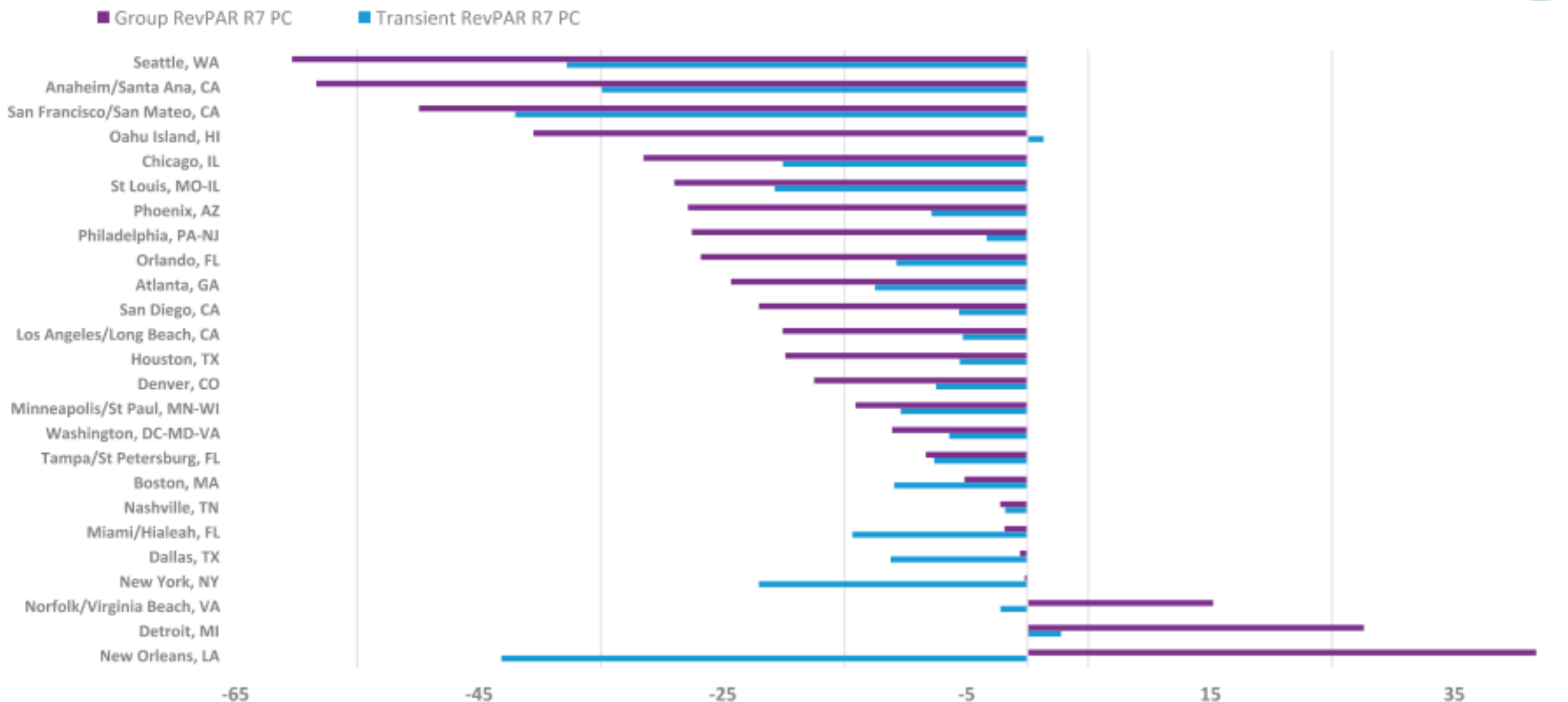
In the short term, all segments in freefall

STR data for the week ending Sat. March 7

- 11.6% drop in RevPAR for the week (-7.3% occ, -4.6% ADR)
- Largest hit to upscale and above, slightly less impact to economy.
- Hardest hit to urban, airport and resort, in that order.
- Major hits to San Francisco (-46%), Anaheim (-42%), Seattle (-35%), New York (-20%). Orlando (-17%). Seattle fell to 52% occupancy. SF fell to 63% occupancy. New York held to 72%, LA to 75%, and Vancouver to 74% (not so bad!)
- Less of a hit to Fri-Sat occupancy (leisure), with greater hit to Sun-Wed (business)
- Larger hit to group (-17% occ) than transient (-8% occ) among the upper upscale and above segment data.
- Large decline in group at big box hotels (1000 rooms+) (overall -15% occ, with a loss of 23% to group occ) (Seattle lost 62% of its group relative to last year)

Top25: RevPAR Falls Off A Cliff

Segmentation RevPAR % Change, Week end March 7



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