Advocacy Amidst Economic Peril

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WORRIES ABOUND
Global growth is slowing

**World: GDP & PMI**

- Global composite PMI (Adv two months, LHS)
- Global GDP (RHS)

Source: Oxford Economics/Haver Analytics/Markit
...and the US economy is being pulled into the fray

US: Global manufacturing cycle leads the US

Source: Oxford Economics/Haver Analytics
RevPAR growth is waning as occupancies flatten & ADR loses traction

Occupancy and ADR growth
% change

RevPAR of less than 1%

Source: STR; Tourism Economics
World trade growth has stalled

World trade and world trade indicators
% year 3mma (volume)

Source: Oxford Economics/Nederland CPB
Trade war is producing both real and confidence effects

US: Trade war disrupts trade flows

Source: Oxford Economics
Goods impacted by tariffs see moderate price inflation

**US: Inflationary Impact of Tariffs**

- PCE: Tariff impacted categories
- PCE: All other core goods

Source: Oxford Economics/Haver Analytics
THE US ECONOMY IS SLOWING BUT STURDY
Longest expansion on record…

US: The longest economic expansion on record

Number of months, Trough to Peak

Source: Oxford Economics, NBER
...but also the slowest

**US: Expansions and Recessions**

% compound annual growth rate

Source: Oxford Economics/Haver Analytics
Manufacturing sector activity has stalled

US: ISM new orders lead core orders capital goods orders

- ISM new orders index (LHS, 3-month lead)
- Core capital goods ex aircraft (RHS)

Source: Oxford Economics/Haver Analytics
...and investment growth is tapering
Confidence has softened but still high

US: NFIB Small Business Optimism Index

- NFIB headline index - 3mo avg (LHS)
- % of firms planning to raise capex in 3-6 months (RHS)

Source: Oxford Economics/Haver Analytics
Wage growth continuing to pace at around 3%
Consumer confidence remains elevated but battered

US: Consumer Sentiment
1966Q1=100

- "Trump bump"
- Gov't shutdown
- Trade war fears

Source: Oxford Economics/Haver Analytics
Household wealth up 50% from pre-recession high

US: Household net wealth

$ in Trillions


Source: Oxford Economics/Haver Analytics
Low leverage & high savings represent reassuring buffers

**Household financial obligations ratio**

Percent of disposable income

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Historical average

2019 Q1: 15.4%

**US: Personal savings rate**

Source: Oxford Economics/Haver Analytics

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
Economic growth slows to 1.6% in 2020

US: Contribution of fiscal stimulus to growth

Real GDP growth, %

- Impact of BBA, 2018
- Impact of TCJA, 2017

Source: Oxford Economics

BBA, 2018 = Bipartisan Budget Act of 2018
TCJA, 2017 = Tax Cuts and Jobs Act of 2017
SO ARE WE HEADED FOR A RECESSION?
US Recession odds at 40% in 2020

- Recession odds elevated due to still-shallow yield curve & financial conditions
- Our baseline continues to see moderating economic activity, without a sharp downturn.
- Key to our view is continued sturdy employment and consumer spending growth.

<table>
<thead>
<tr>
<th>Recession Indicator</th>
<th>Recession prediction 'hit rate'*</th>
<th>Current signal</th>
</tr>
</thead>
<tbody>
<tr>
<td>World industrial output</td>
<td>64%</td>
<td>Red</td>
</tr>
<tr>
<td>Global stocks</td>
<td>50%</td>
<td>Green</td>
</tr>
<tr>
<td>Commodity prices</td>
<td>41%</td>
<td>Yellow</td>
</tr>
<tr>
<td>Corporate spreads</td>
<td>67%</td>
<td>Green</td>
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<tr>
<td>Credit standards</td>
<td>56%</td>
<td>Yellow</td>
</tr>
<tr>
<td>Earnings recession</td>
<td>60%</td>
<td>Yellow</td>
</tr>
<tr>
<td>US yield curve</td>
<td>85%</td>
<td>Red</td>
</tr>
</tbody>
</table>

Source: Oxford Economics

- Potential recession signal
- Approaching recession signal
- Not close to recession signal
WHAT DOES THIS MEAN FOR THE TRAVEL SECTOR?
Occupancy rates remain elevated

Note: Recessions shaded; data seasonally adjusted; history through 2019 Q2, forecast through 2020 Q4. Source: STR, NBER, Tourism Economics
Domestic air travel bookings remain steady

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

**US Household Vacation Intentions**

% planning to take vacation in next six months

Source: Conference Board, Tourism Economics
Leading travel indicators: domestic travel remains positive

**September Domestic and International Travel Index**

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

Source: Oxford Economics, U.S. Travel Association
GLOBAL MARKETS: WELCOME TO THE INBOUND RECESSION
The inbound recession is upon us

- Negative performance in 8 out of last 10 months
- Total inbound is down -1.7% through August of 2019

US international inbound arrivals

% change y/y

Source: NTTO, StatCan, Banco de Mexico
Arrivals of overseas visitors to the US have slowed

Overseas arrivals growth
Change from prior year

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 October 2019.

Source: APIS (Advanced Passenger Information System, US Customs), NTTO (National Travel and Tourism Office), Tourism Economics
Markets are mixed for 2019

US Inbound arrivals
% change, Jan-Sept 2019

- Key emerging markets—China, Brazil, and South Korea—all contracted in the first nine months of the year.
- Spain, Japan, and the UK posting robust results.
China visa issuance declines have coincided with rejection rates

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

Nonimmigrant China Visa Issuance Growth
year-over-year growth rate

Source: U.S. Department of State
% saying they have a very or somewhat favorable view of the US

- Japan 67%
- United Kingdom 50%
- Canada 39%
- Mexico 32%
- Germany 30%
Visitors can get sticker shock from exchange rates

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

Source: Oxford Economics
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
UK faltering after a strong start

**Inbound arrivals to US from UK**

% change, 3 month moving average

Source: NTTO
A BRIEF DETOUR TO GRADE FORECAST PERFORMANCE
Key points from a year ago

- Global and US economies will slow
- Travel is going to slow down over the coming year
- Especially international

US economic growth is anticipated to slow, but remain positive

Despite a trifecta of policy risks – trade, fiscal and monetary – the economy should maintain momentum

Our October baseline forecast is for 2.5% GDP growth in 2019.

ST outlook: travel demand is tapping the breaks

<table>
<thead>
<tr>
<th>Index (50=expansion, &lt;50=decline)</th>
<th>Now</th>
<th>Then</th>
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<tbody>
<tr>
<td>Room demand (18,19,20)</td>
<td>2.5 / 1.9 / 1.7</td>
<td>2.6 / 2.1 / 1.6</td>
</tr>
</tbody>
</table>

Source: U.S. Travel Association, Oxford Economics
Key points from a year ago

Watch out for…

- Trade war escalation
- Monetary policy mishaps

But expect more (though slowing) demand growth
SOME FINAL THOUGHTS
Strength of travel sector is part of a longer trend

National room nights per capita has not only exceeded its prior peak. It is also running well-ahead of its long-term trend.

Room nights per capita, US

2019 Q2: 3.9 room nights per capita

Note: Seasonally adjusted
Source: STR, Tourism Economics
Travel continues to gain American wallet share

**Consumer spending on lodging**
Real, per capita GDP and spending on lodging

Percentage change since 1980

- **271%**
  - Spending on lodging has increased 271% since 1980 (real, per capita basis)

- **91%**
  - GDP has increased 91% since 1980 (real, per capita basis)

Note: Measures leisure travel spending on lodging by US households. Data through the first quarter of 2019.
Source: Bureau of Economic Analysis; Oxford Economics
Americans are regaining sanity (but 768 mn days still unused)

**AMERICA’S VACATION TREND**

- **20.3 days** Long Term Average (1978 to 2000)
- **21.2 Days** usage of paid time off peaked in 1981
- If Americans returned to vacation patterns seen between 1976 and 2000 (averaging 20.3 days per year), this would equate to 447 million additional days of vacation used.

- **(2005-2010)** Americans took an average of 18.1 days annually.
- **17.4 days taken**

Tourism Economics
**New traveling households ($100k threshold)**

**Increase in number of households with income greater than $100k**

Change from 2019 to 2029, in thousands

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase (in thousands)</th>
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<tbody>
<tr>
<td>United States</td>
<td>10,377</td>
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<tr>
<td>China</td>
<td>7,617</td>
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<td>United Kingdom</td>
<td>2,114</td>
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<tr>
<td>India</td>
<td>1,461</td>
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<td>Germany</td>
<td>1,234</td>
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<td>Australia</td>
<td>1,227</td>
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<td>Canada</td>
<td>834</td>
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<td>France</td>
<td>478</td>
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<td>South Korea</td>
<td>474</td>
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<td>Italy</td>
<td>429</td>
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<td>Spain</td>
<td>292</td>
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<td>Mexico</td>
<td>188</td>
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<tr>
<td>Brazil</td>
<td>153</td>
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<td>Russia</td>
<td>111</td>
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Note: Constant 2015 prices.  
Source: Oxford Economics

- 27 million additional $100k households by 2029 in these 14 countries alone.
- This is equivalent to a 34% increase (or a 62% increase if the US is excluded).
Takeaways

• The global economy is slowing

• The US economy is foundationally strong but is slowing due to weak trade, financial market tightening, and waning business confidence

• We remain on a “recession watch” but are not convinced this is inevitable

• Travel has achieved historic heights which positions it to weather a downturn

• Leading travel indicators are still positive in the short term

• Long term prospects remain solid

• Metrics-based advocacy remains vital
DON’T STOP BELIEVIN’