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The Resurgent Travel Sector: How Long Will it Last?

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The Resurgent Travel Sector

Perspectives on the economy and
travel industry

Marketing Outlook Forum

(ABRIDGED VERSION)

October 2014

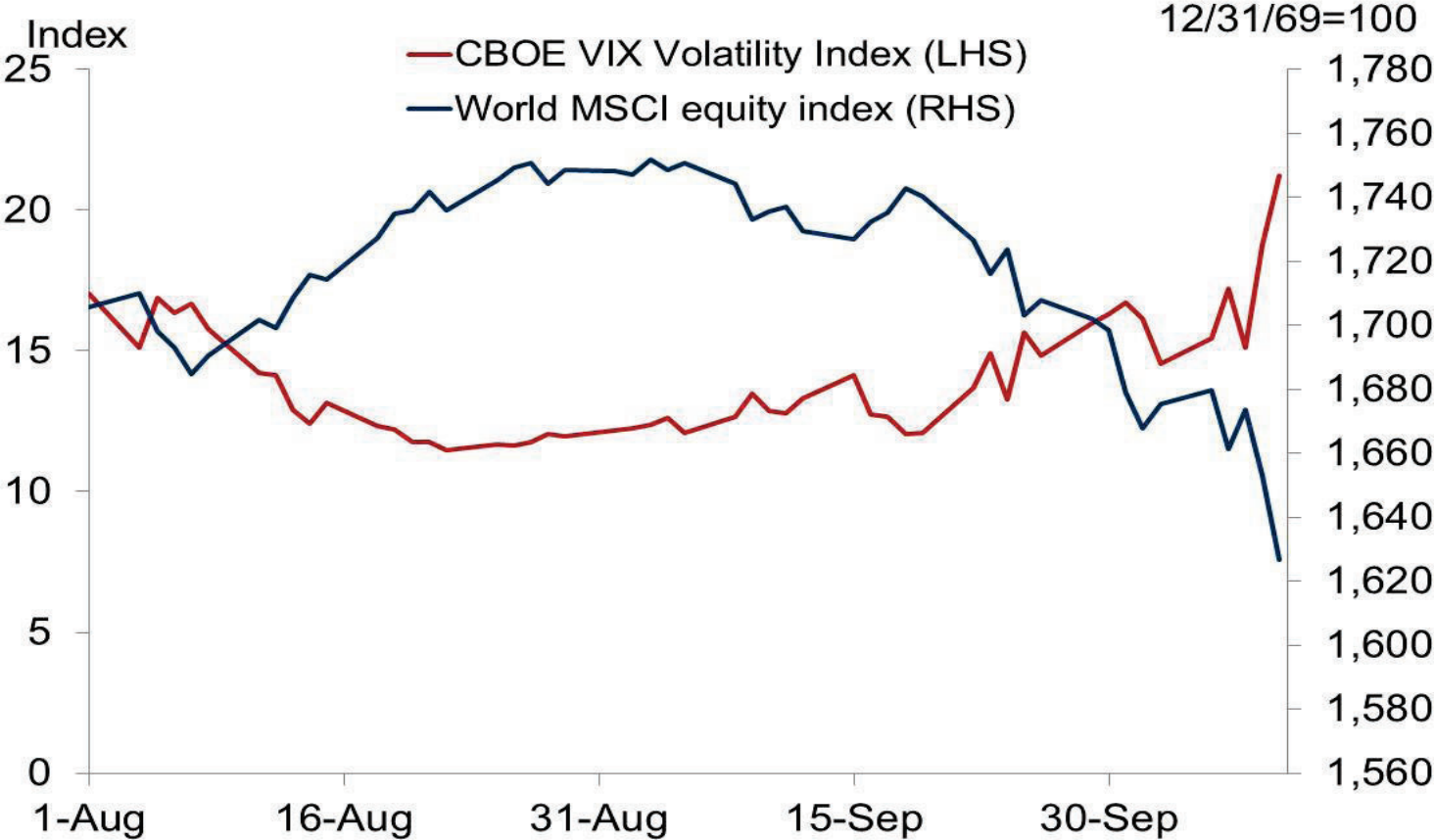
Takeaways

- The US economy is poised to accelerate
- Risks to this assertion are primarily beyond our shores
- The US travel sector has seriously outperformed
- Anticipate slowing volumes in 2015 with opportunity mainly in terms of yield

Rapidly evolving global picture

Increased volatility due to global economic scare

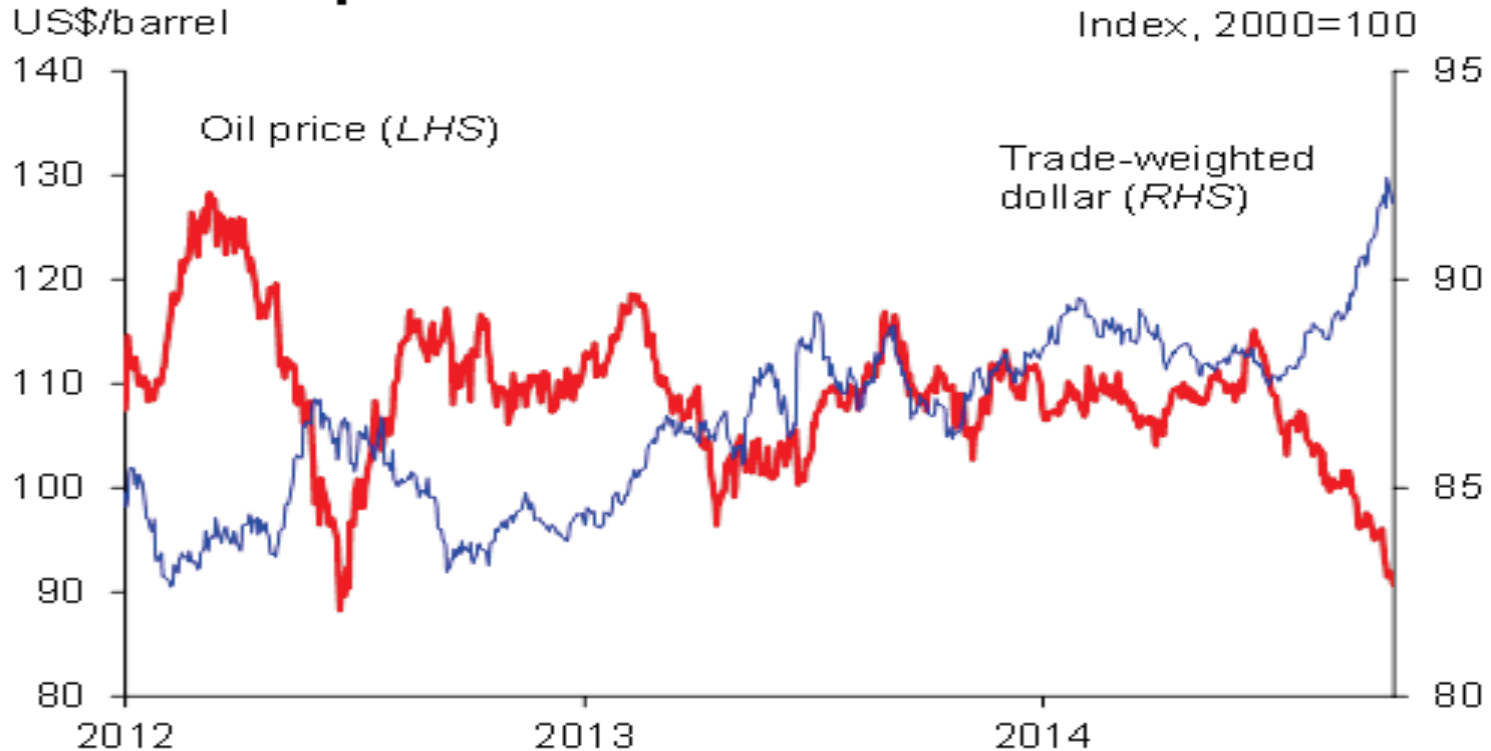
Global: World MSCI and the VIX



Source: Oxford Economics/Haver Analytics

Risk of weaker global growth evident in data

World: Oil prices and the dollar



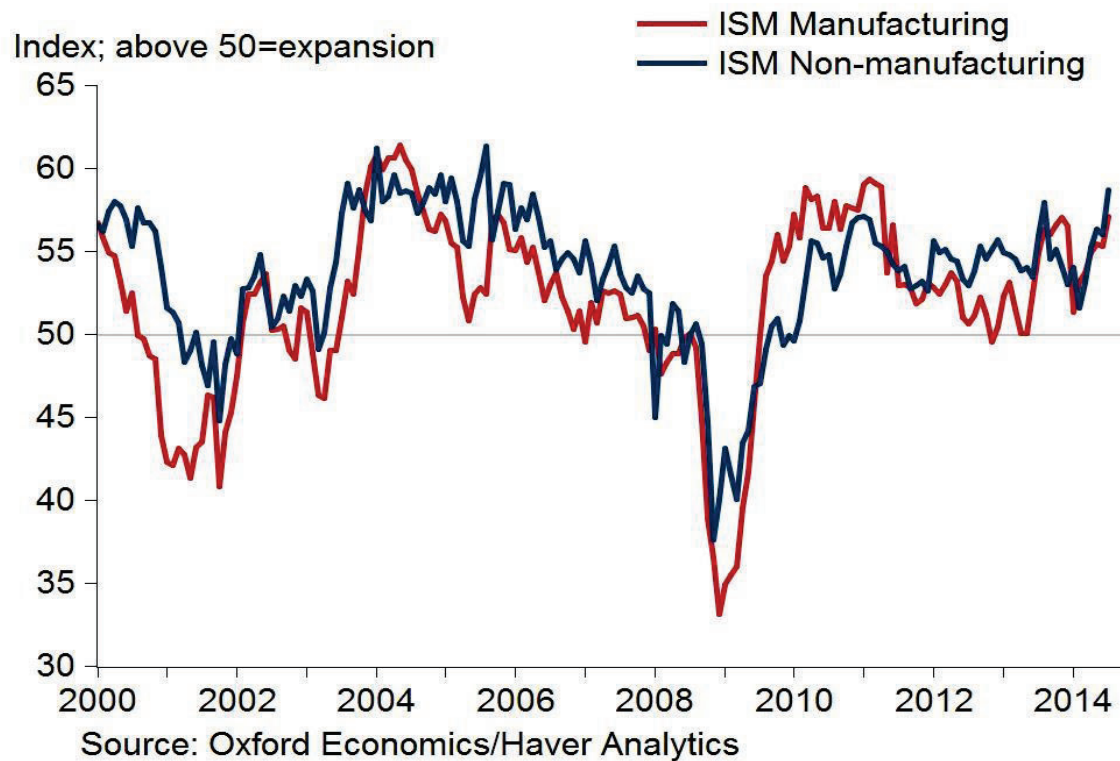
Source : Oxford Economics/Haver Analytics

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Both services and manufacturing are expanding

US: PMI Indices

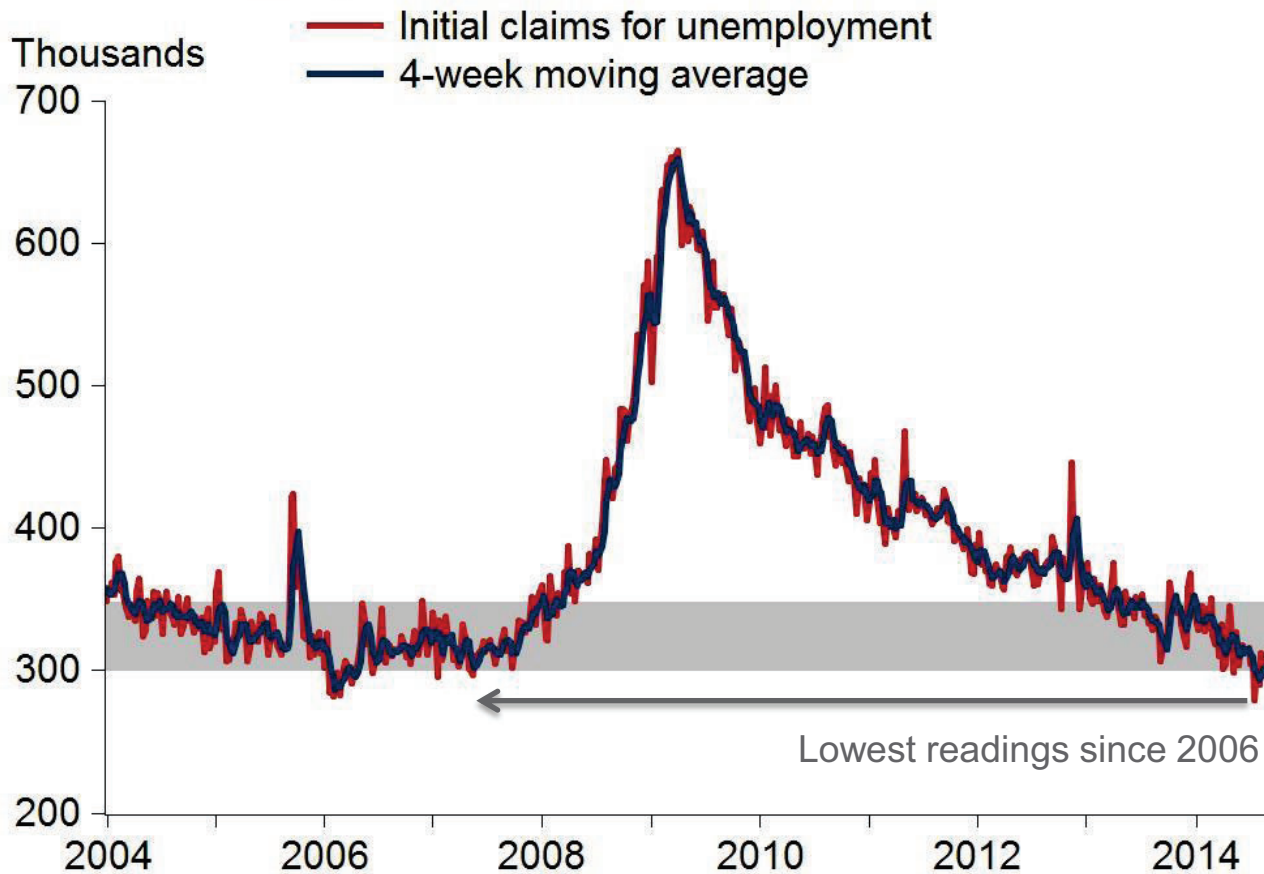


Why is the US economy poised to accelerate?

1. Household spending to gain momentum

Initial claims point to further payroll gains...

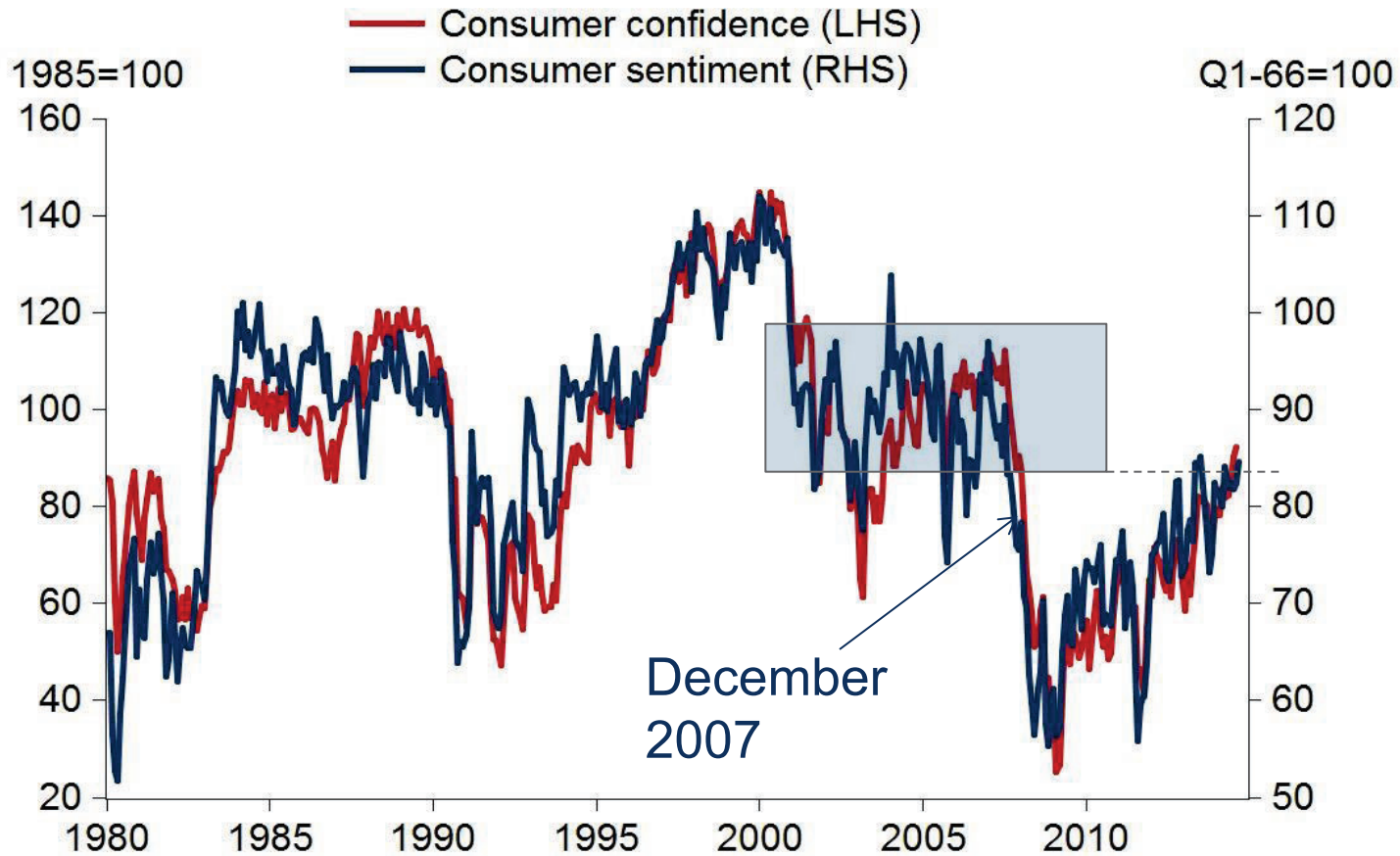
US: Unemployment claims



Source: Oxford Economics/Haver Analytics

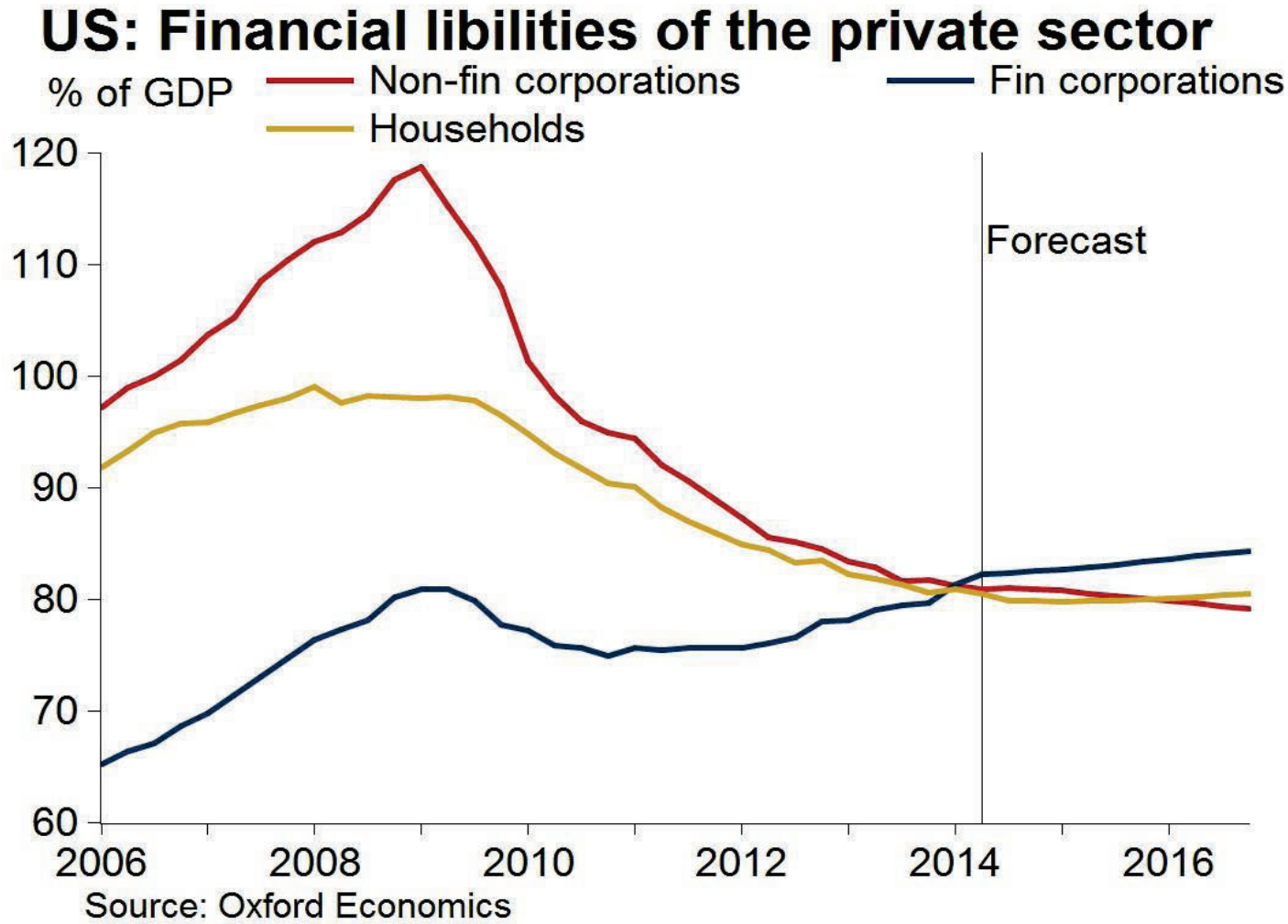
Consumers are feeling more cheerful...

US: Consumer attitudes



Source: Oxford Economics/Haver Analytics

... and deleveraged household sector...



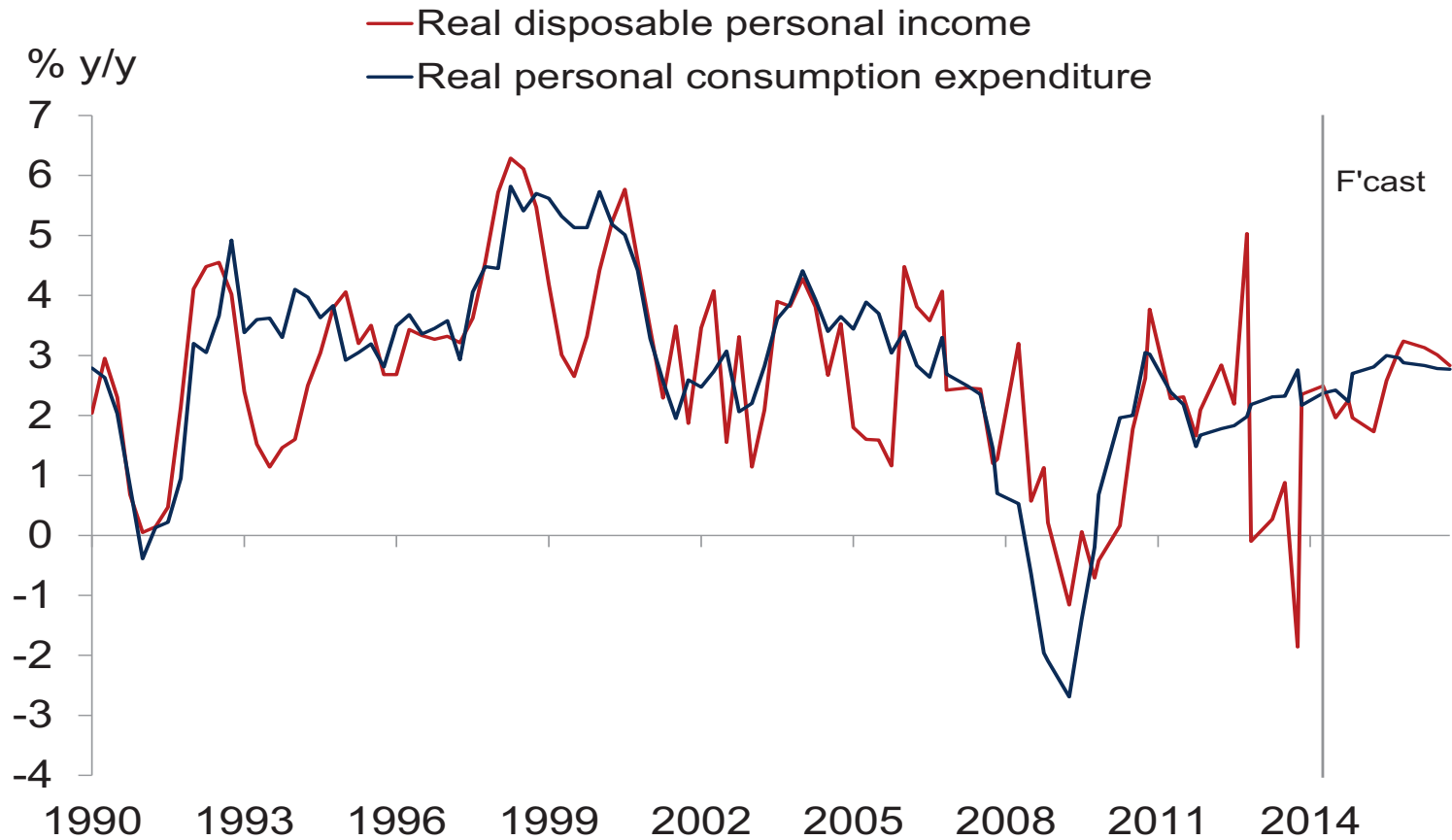
Survey and anecdotal signs of wage pressures

NFIB small business survey wage plans



Source: Oxford Economics/Haver Analytics

...should support a rise in consumer spending



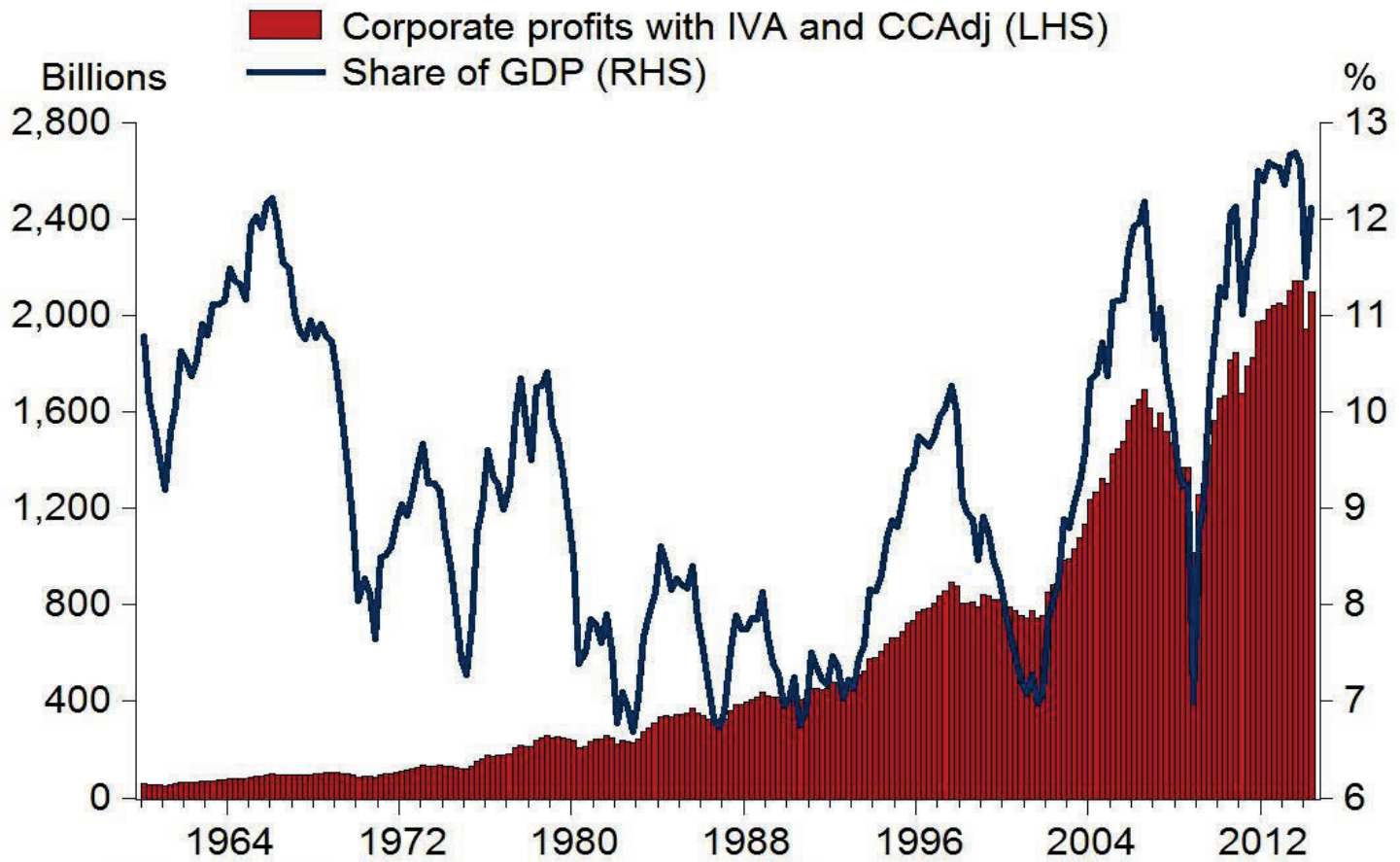
Source : Oxford Economics/Haver Analytics

Why is the US economy poised to accelerate?

1. Household spending to gain momentum
2. Signs of business investment strengthening

Corporate profits rebound in Q2

US: Corporate profits



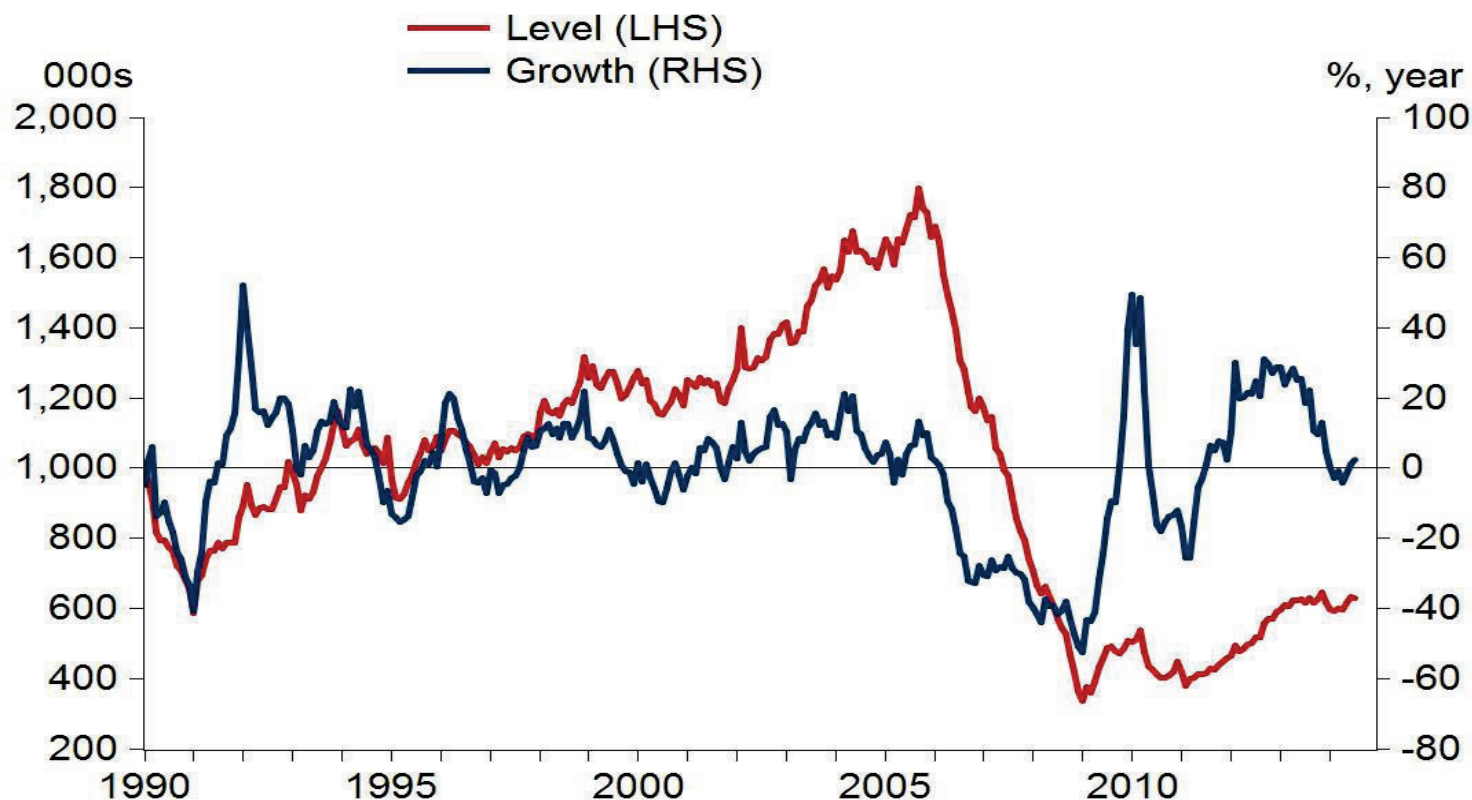
Source: Oxford Economics/Haver Analytics

Why is the US economy poised to accelerate?

1. Household spending to gain momentum
2. Signs of business investment strengthening
3. Housing?

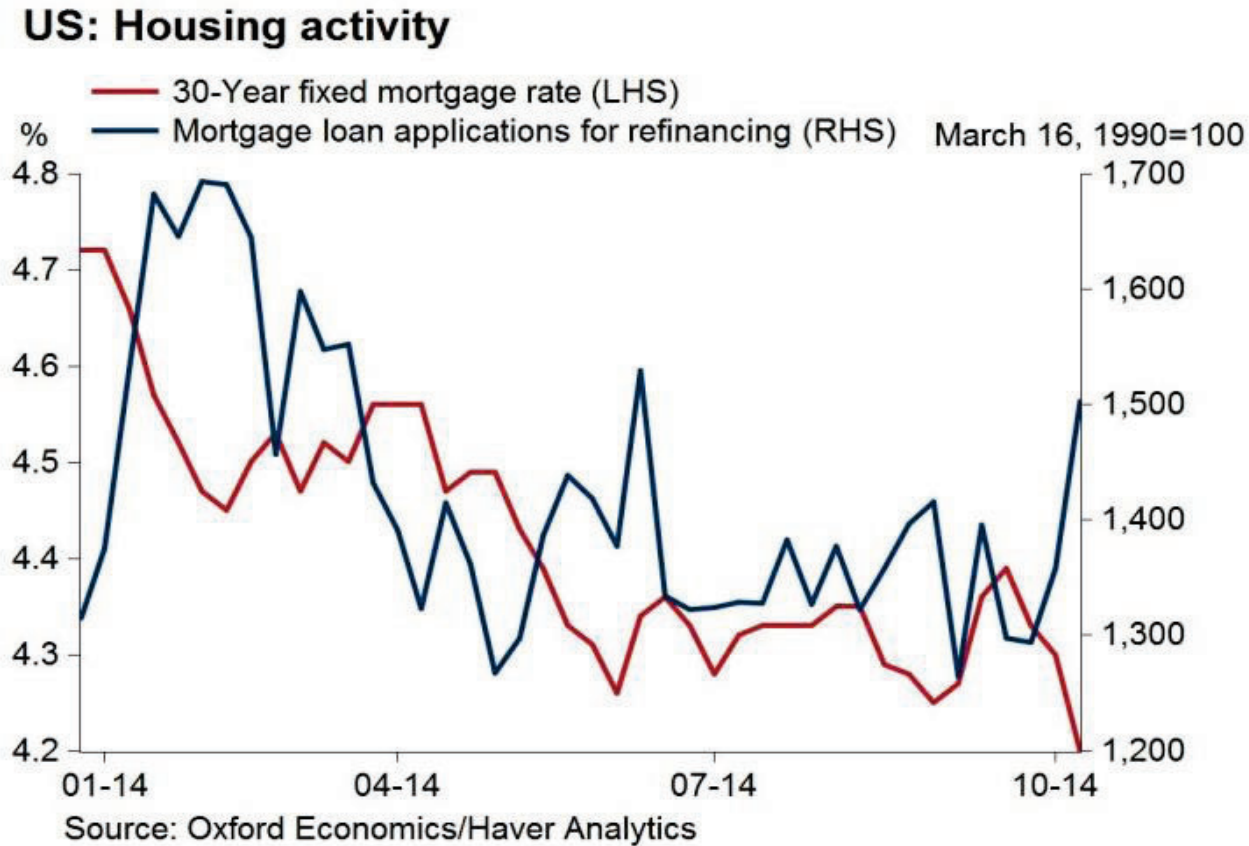
Key domestic risk is housing activity...

US: Single-family permits



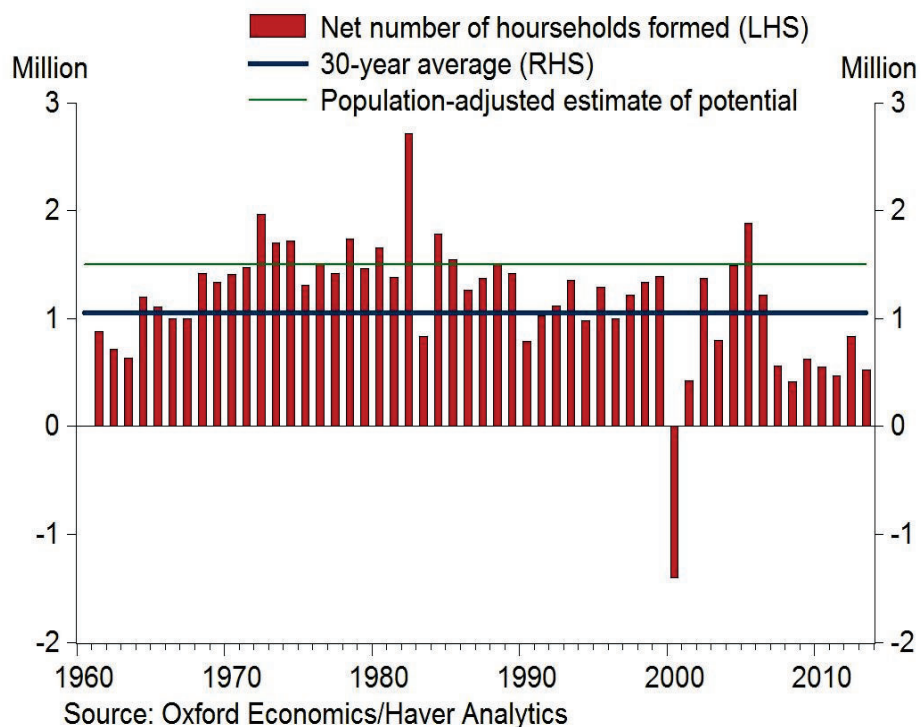
Source: Oxford Economics/Haver Analytics

Still-low mortgage rates...

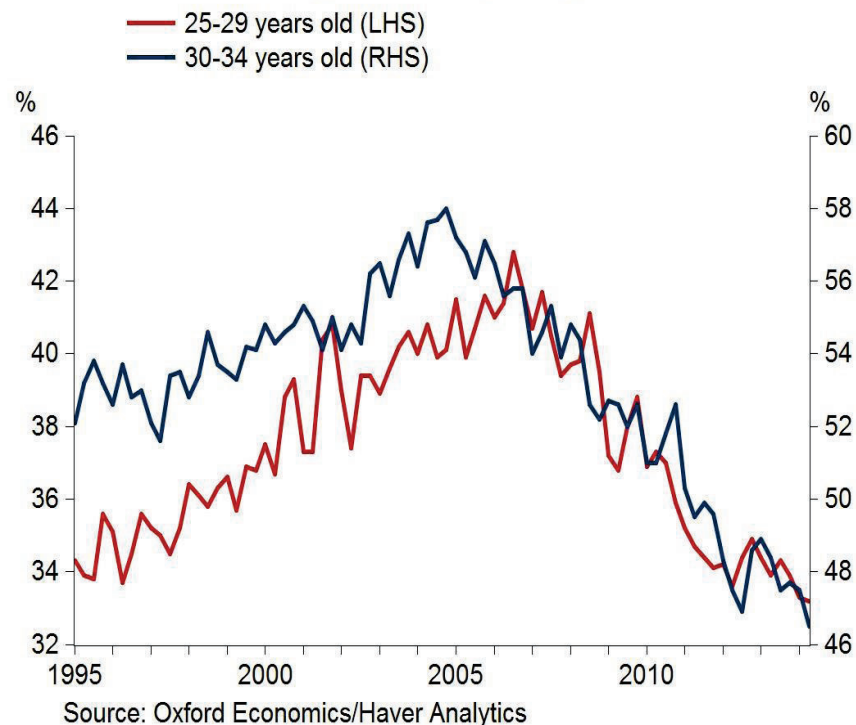


Housing pent up demand, but ability & will?

US: Household formation rate

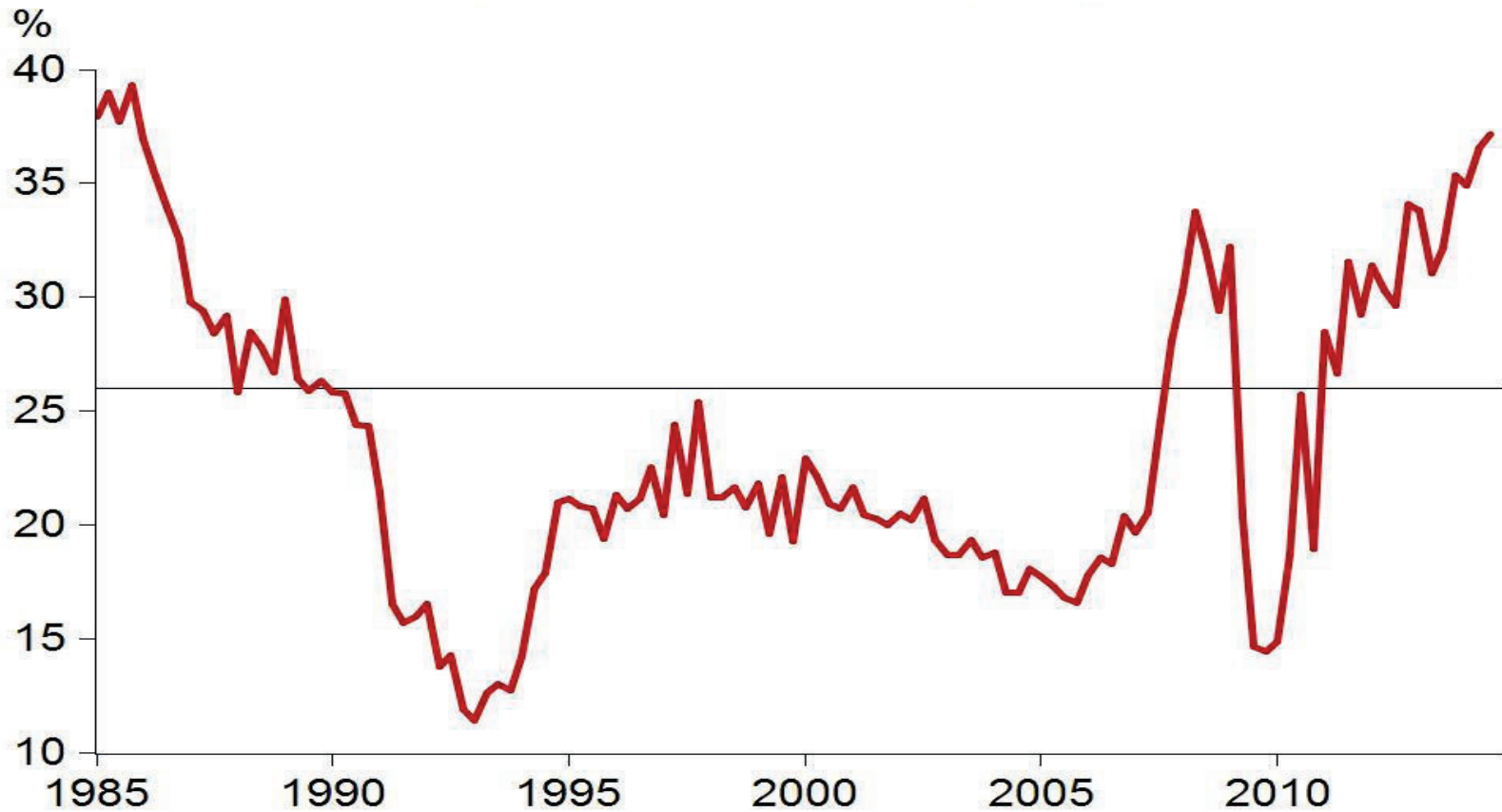


US: Homeownership rates of young Americans



Shift towards rentals away from single-family

Multi-family starts as a share of total starts



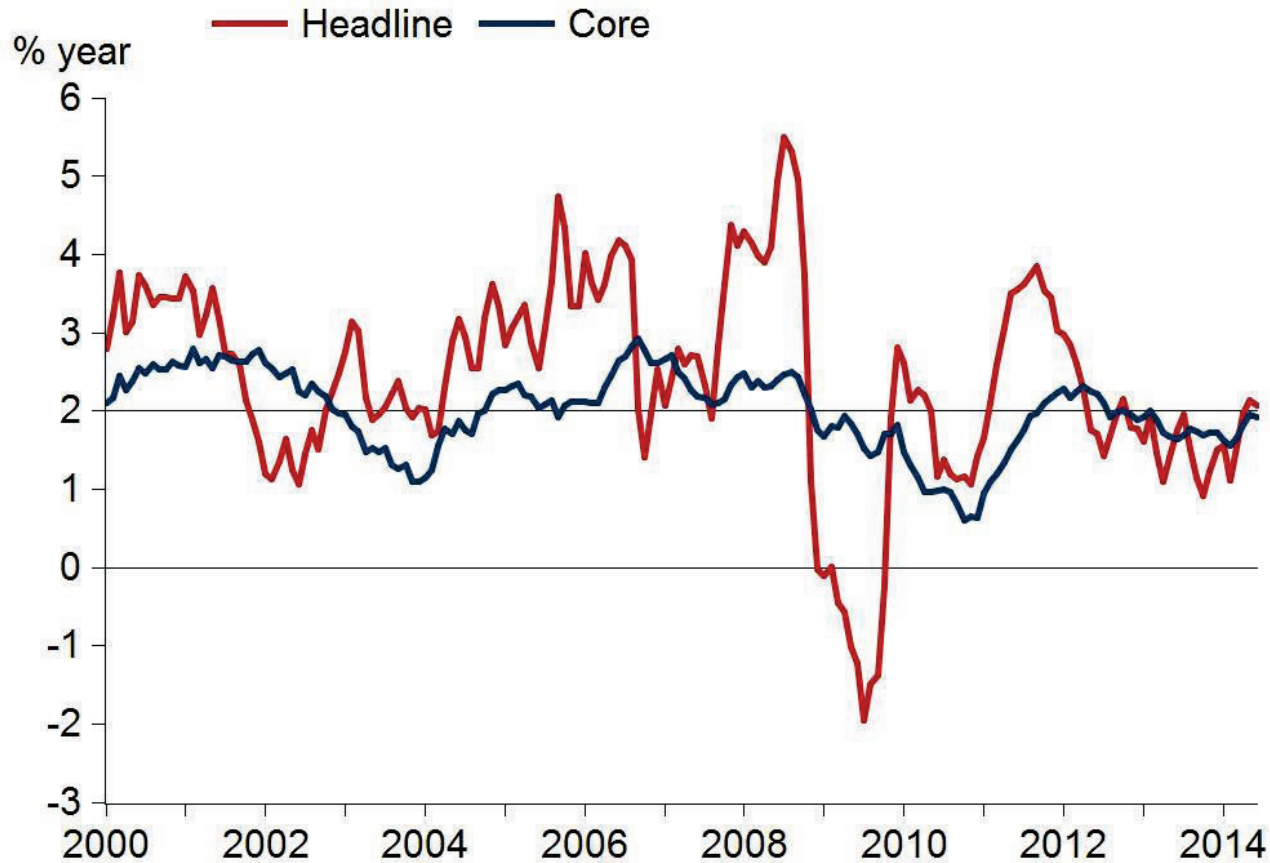
Source: Oxford Economics/Haver Analytics

Why is the US economy poised to accelerate?

1. Household spending to gain momentum
2. Signs of business investment strengthening
3. Housing?
4. Policy should remain favorable

Inflation remains below the 2% target

US: Consumer prices

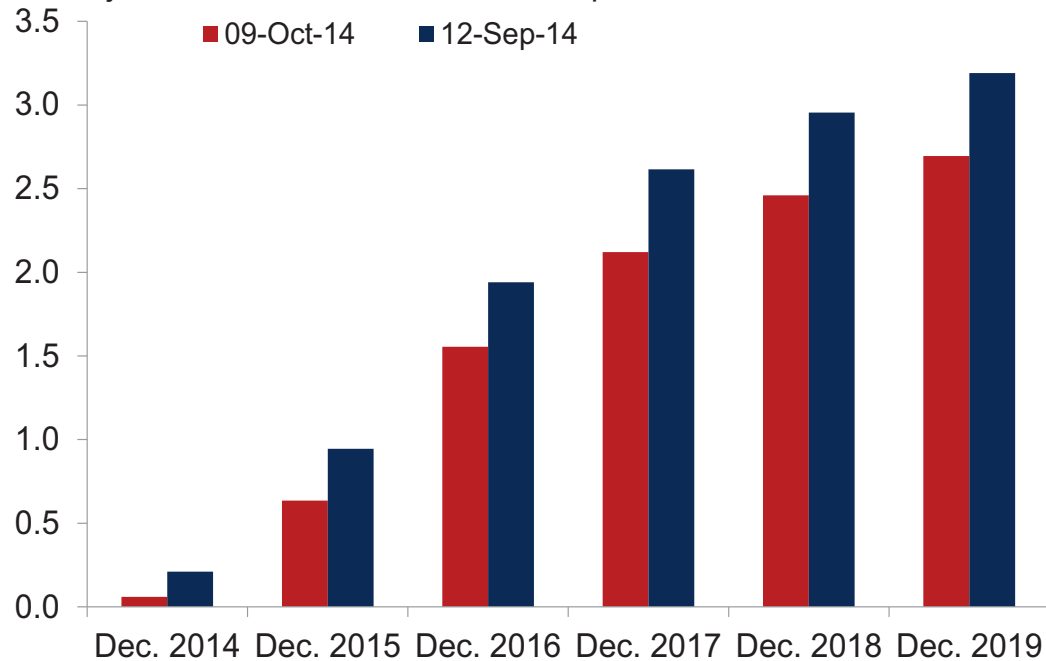


Source: Oxford Economics/Haver Analytics

Declining market expectations for Fed tightening

US: Market implied Fed funds rate using Eurodollar prices

%, Adjusted for estimated risk and term premiums

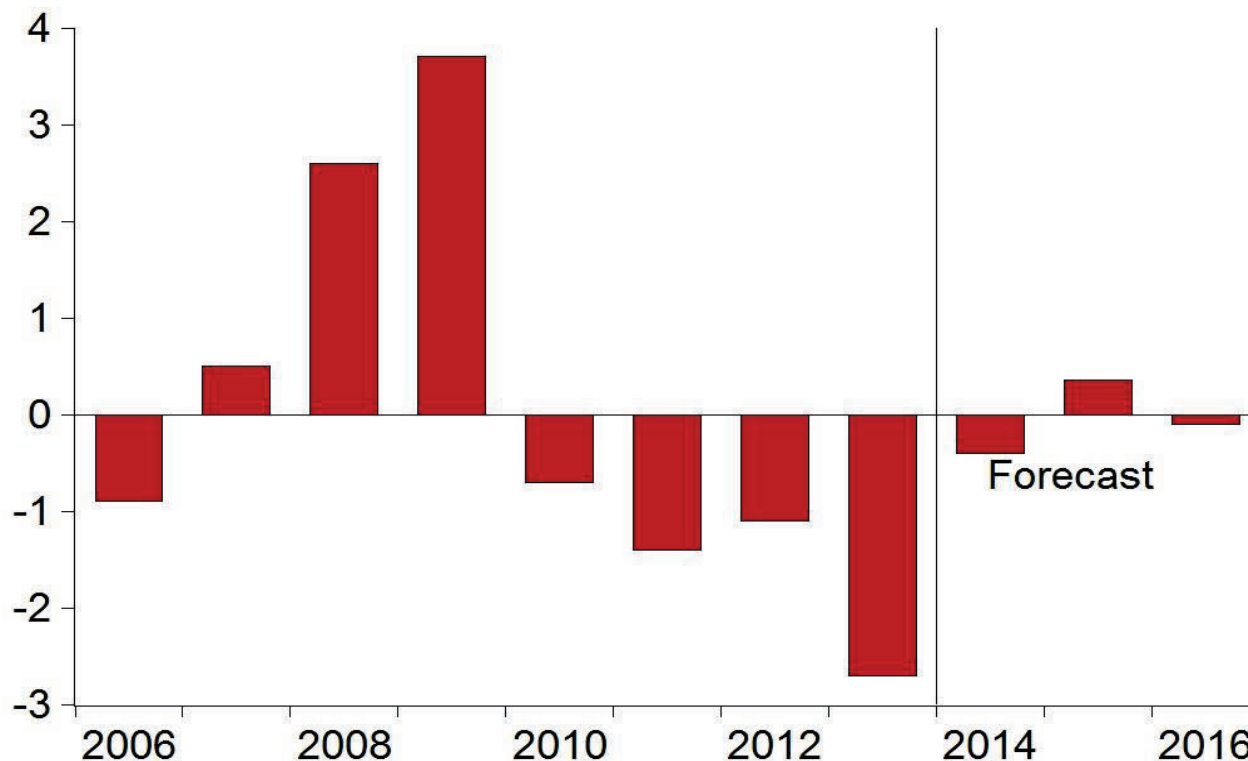


Source : Oxford Economics/Haver Analytics

Government no longer major drag on growth

US: Change in cyclically-adjusted structural balance

% of potential GDP



Source: Oxford Economics

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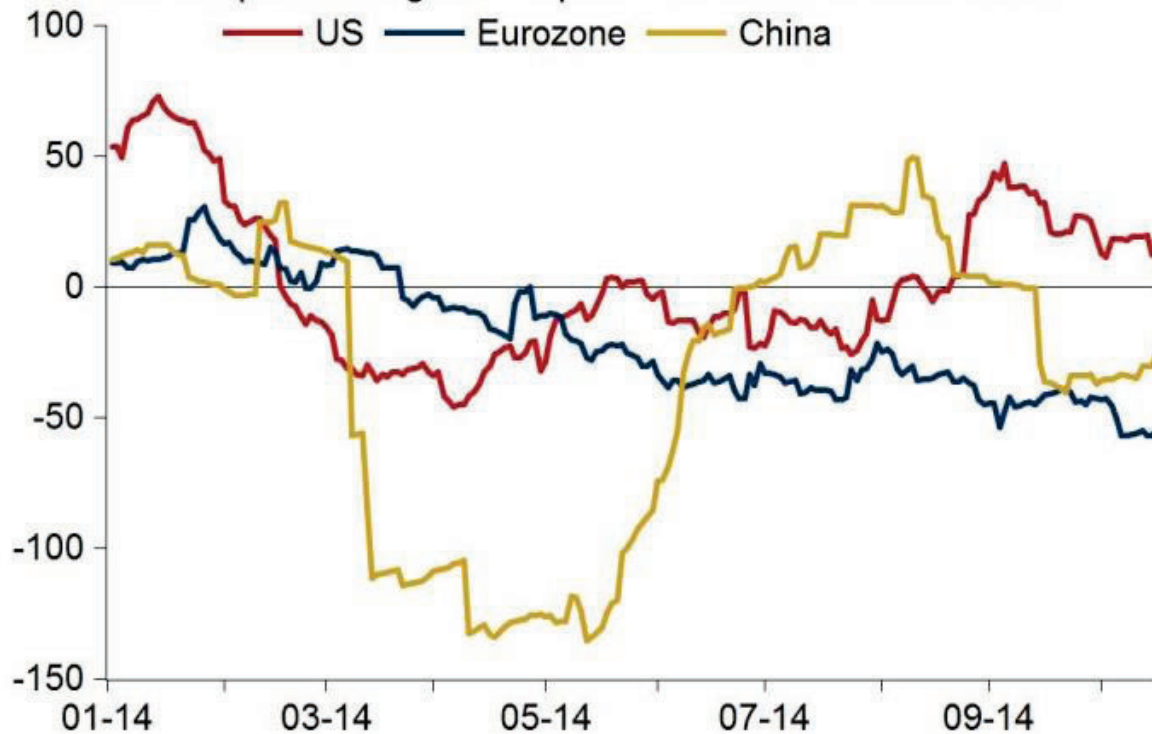
Global economy increasingly fragile

- Eurozone faltering
- China slowing
- Rest of emergers slowing as well
- Ebola
- US not immune to all of this

Not the good kind of surprise

World: Citigroup economic surprise indices

% balance of positive/negative surprises in economic data releases

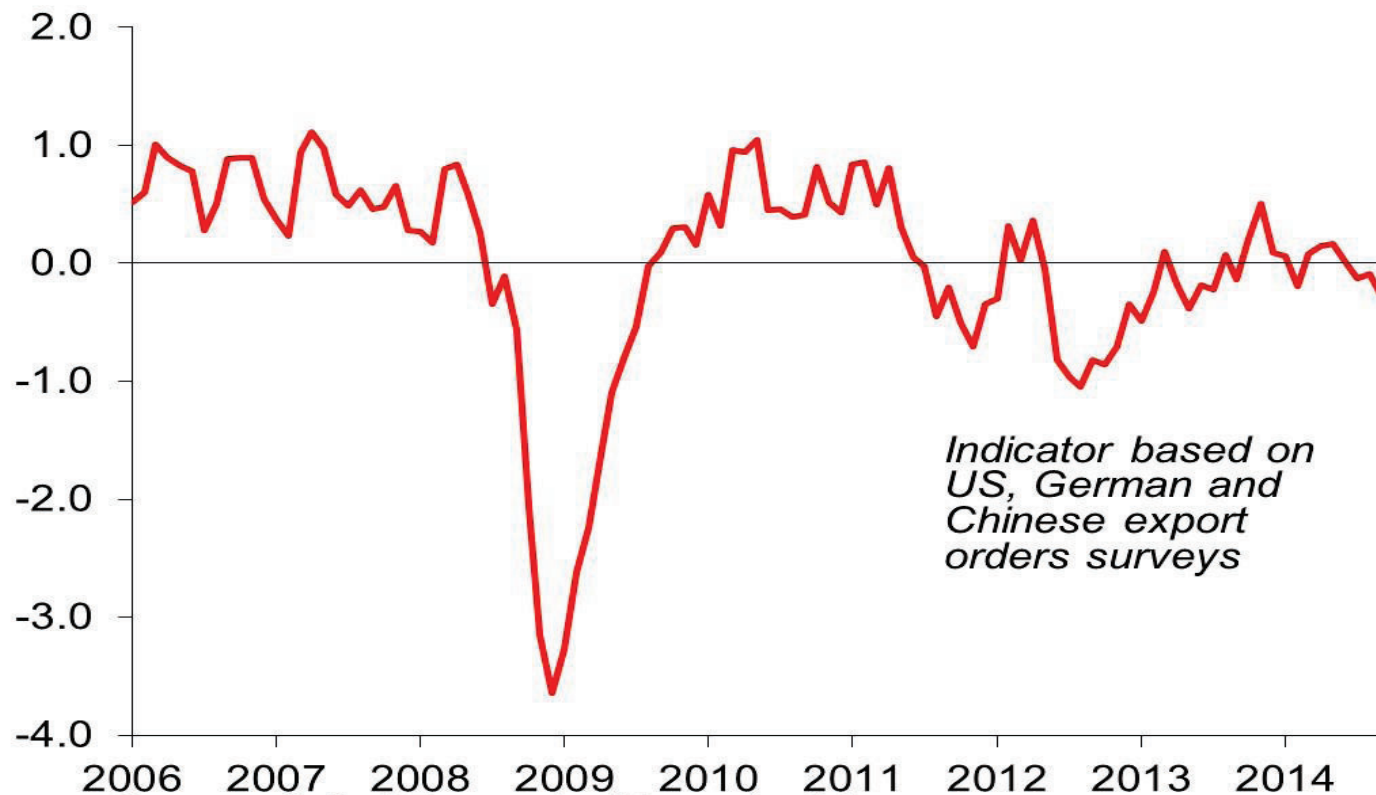


Source: Oxford Economics/Haver Analytics

Global trade slowing

World: Monthly export indicator

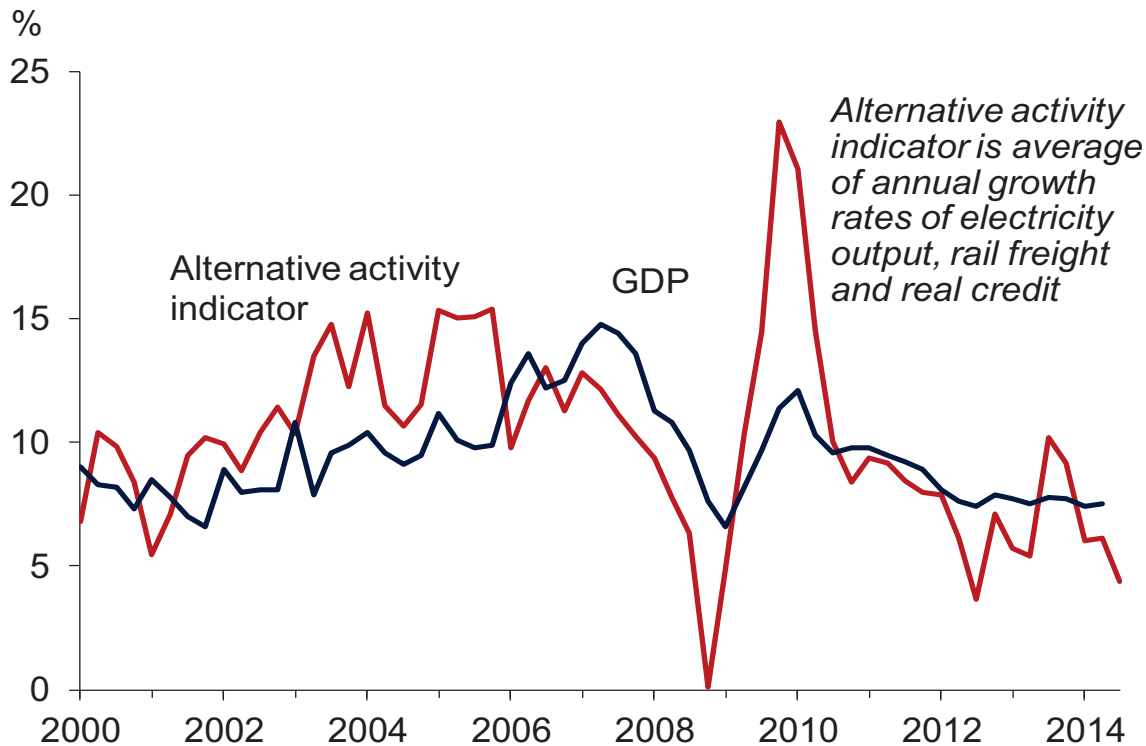
Standardised index



Source : Oxford Economics/Haver Analytics

China slowing even more?

China: GDP and alternative indicator

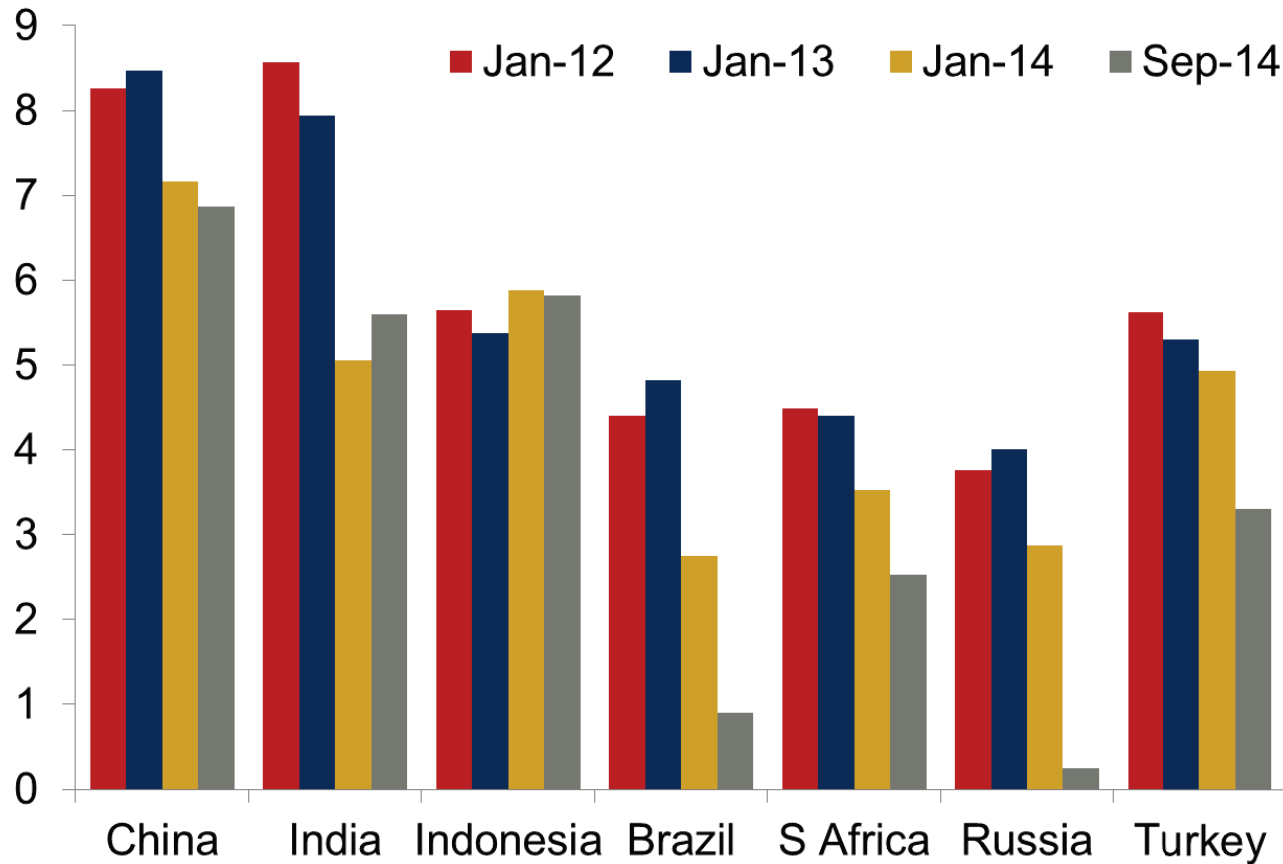


Source : Oxford Economics/Haver Analytics

Substantial downgrades to EM outlook

Emerging Markets: GDP growth, 2015

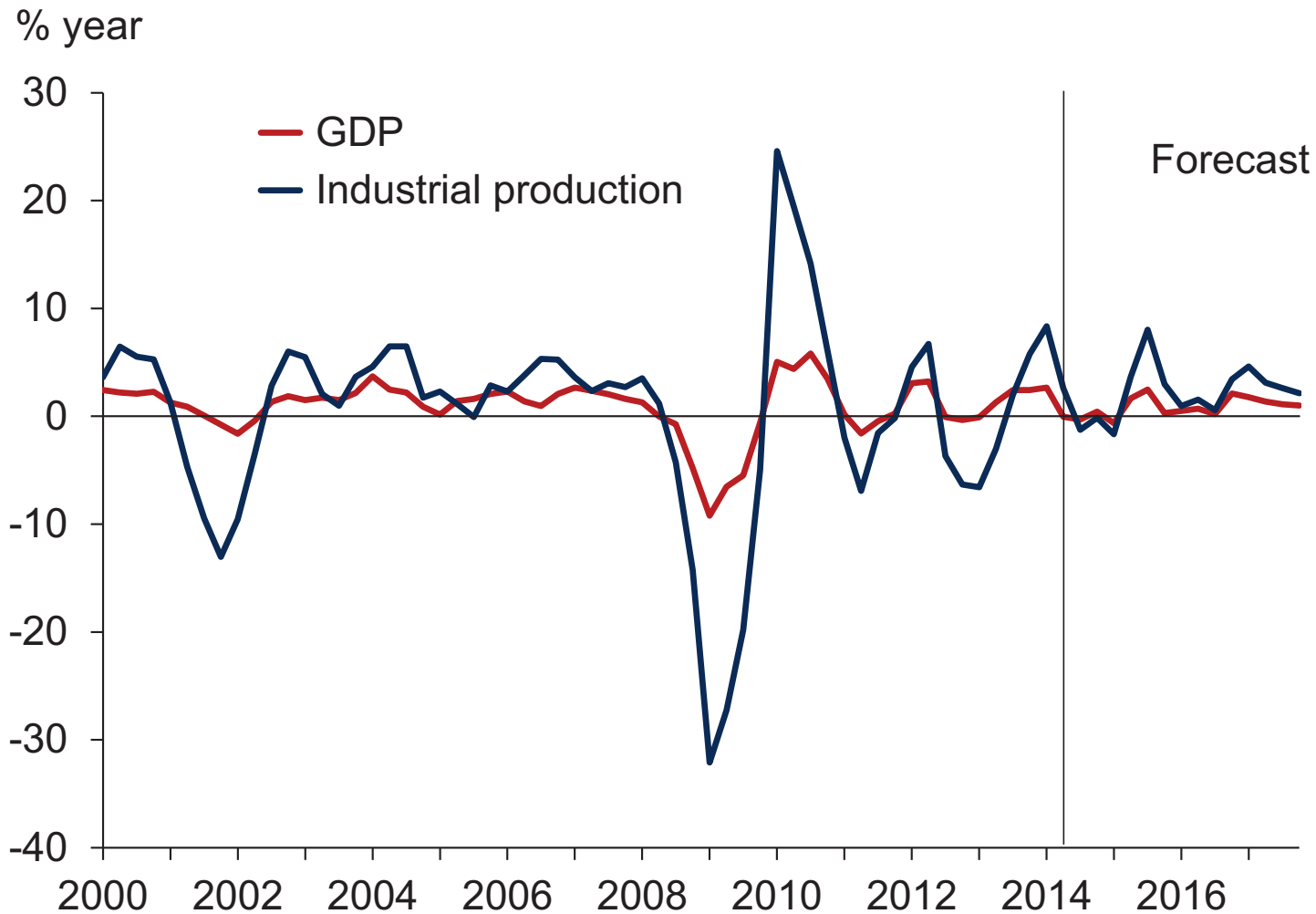
% Annual Growth



Source : Oxford Economics/Haver Analytics

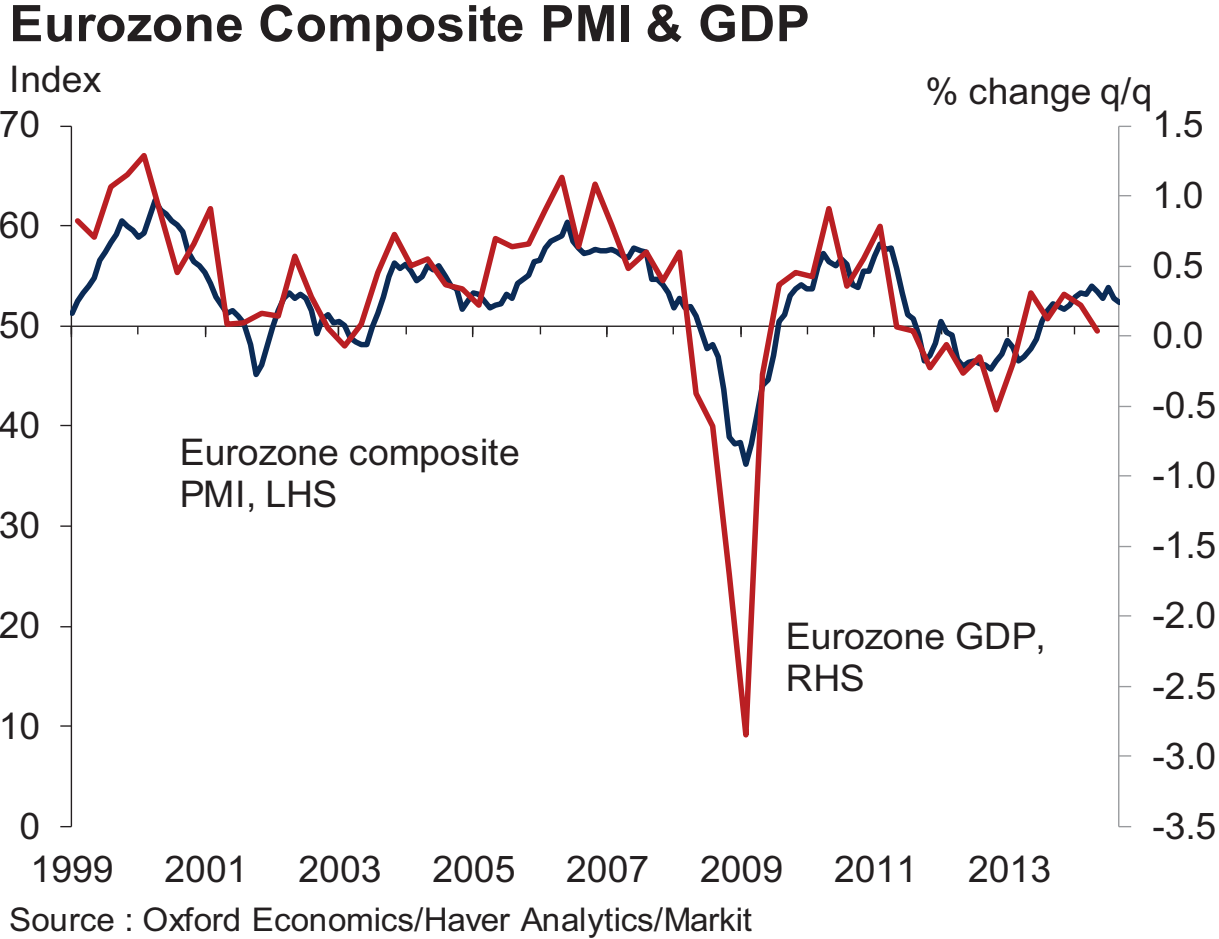
Almost no growth in Japan

Japan: GDP and industrial production



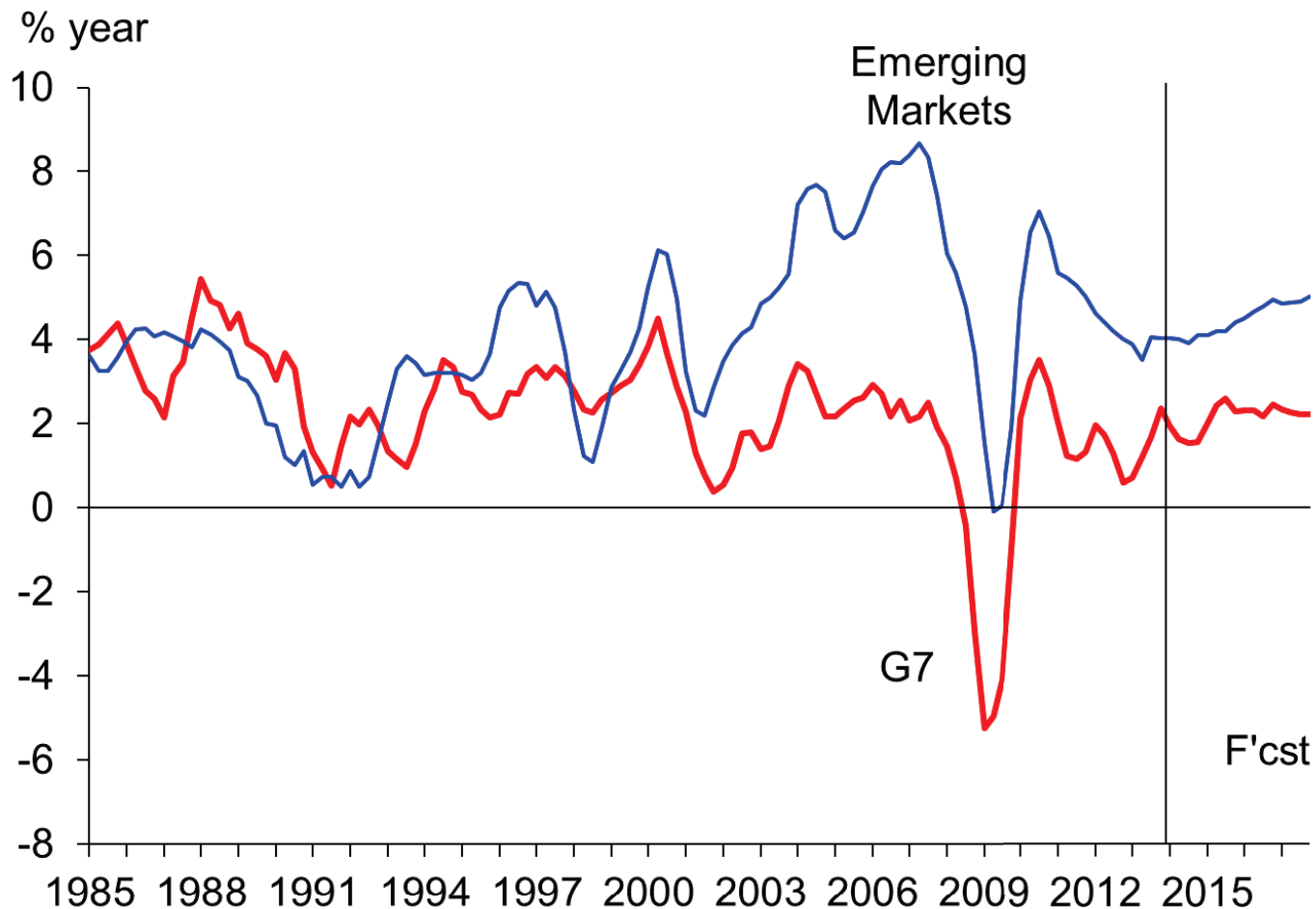
Source: Oxford Economics

EU leading indicators suggest modest growth



Smaller growth premium for EMs

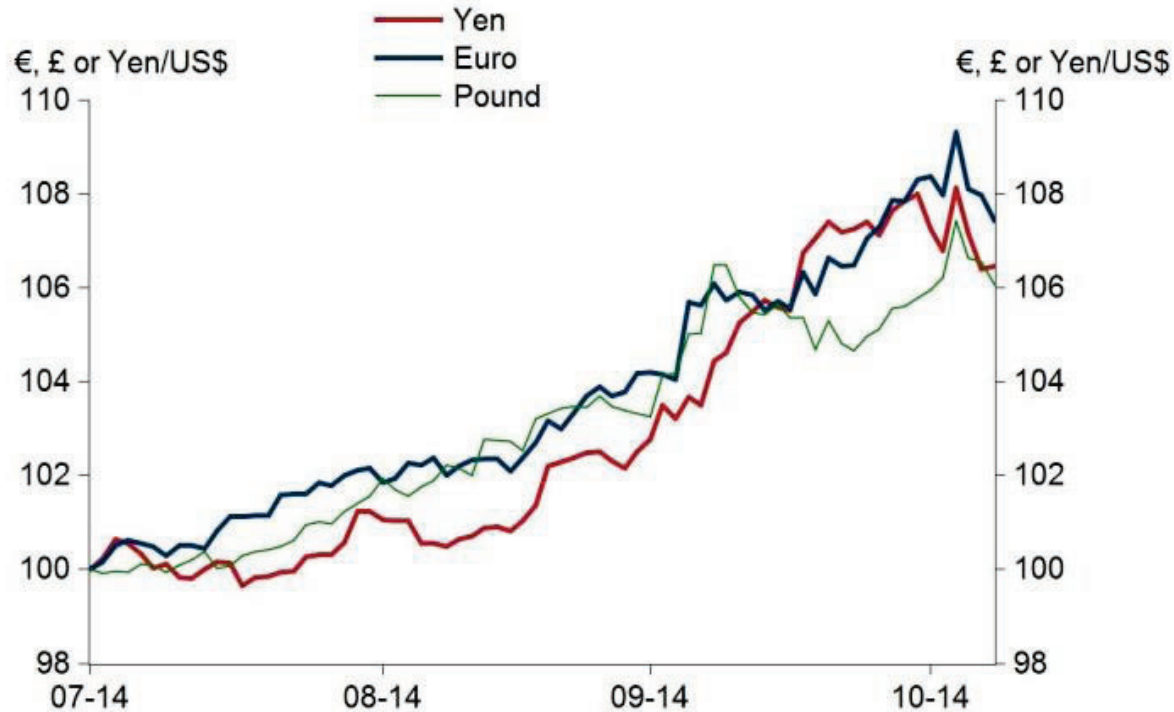
G7 & Emerging Markets: GDP growth



Source: Oxford Economics

A strengthening dollar adds to the risk

US: Exchange rates (July 1, 2014=100)

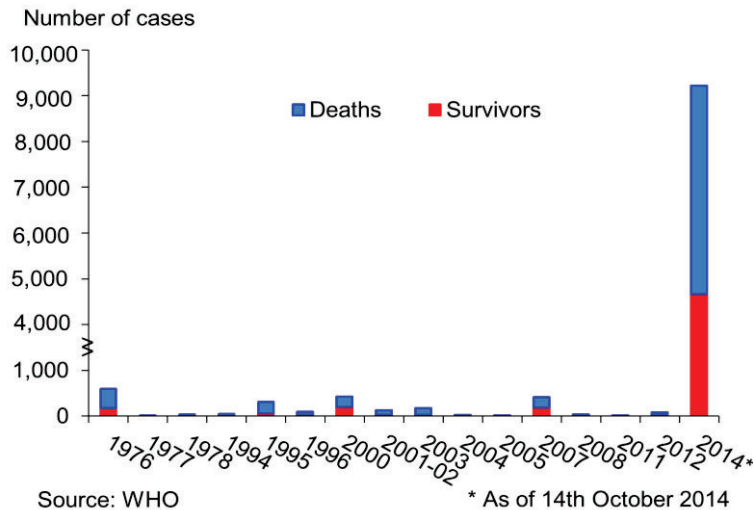


Source: Oxford Economics/Haver Analytics

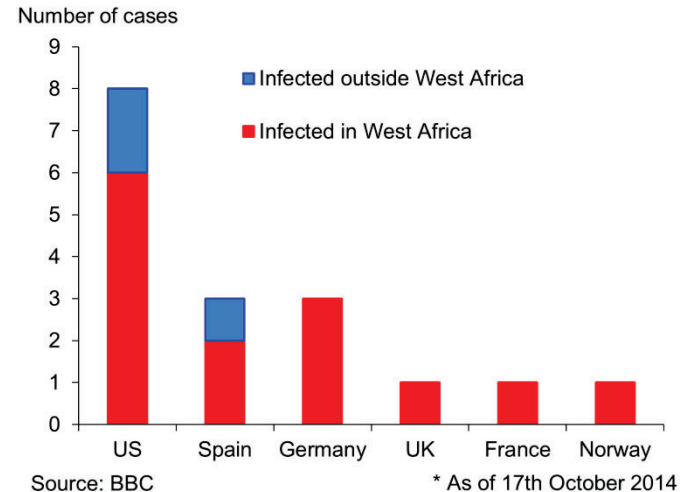
Ebola in perspective

- Risks are almost entirely in the category of perceptions and confidence at the moment
- Infection rate is less than 100 per 100,000 (less than 0.001%) compared to up to 50% in flu pandemics such as the Asian Flu pandemic in 1957-58
- Still potentially significant impact

Global: Ebola cases



Global: Ebola cases outside Africa*



Ebola in perspective

- Still potentially significant impact – SARS Example
- Ebola has lower infection rate but higher mortality rate

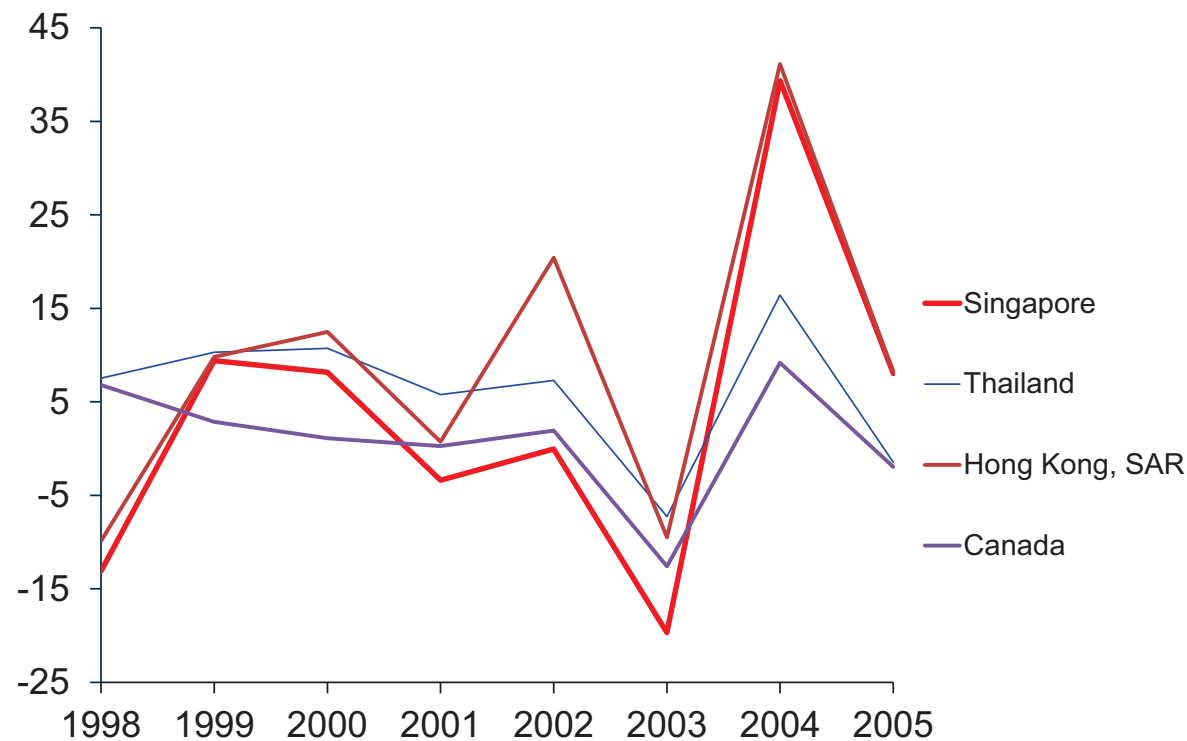
Country	GDP loss (% , 2003)
China	0.5
Hong Kong	2.9
Taiwan	0.5
Singapore	3.0
Vietnam	1.1
Korea	0.1
Thailand	1.4
Malaysia	0.4
Indonesia	0.1
Philippines	0.0
East Asia	0.6

Ebola in perspective (SARS)

- Still potentially significant impact – SARS Example

International arrivals

% growth



Source: Tourism Economics

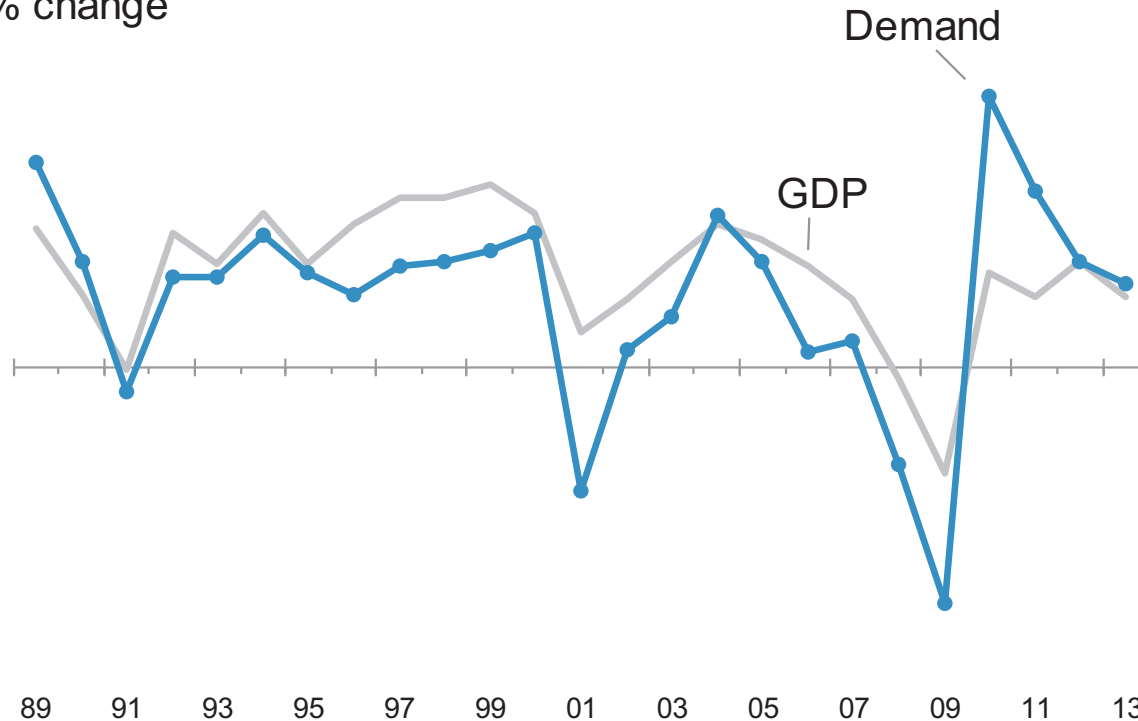
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Generally, room demand hugs GDP growth

GDP and Room Demand

% change

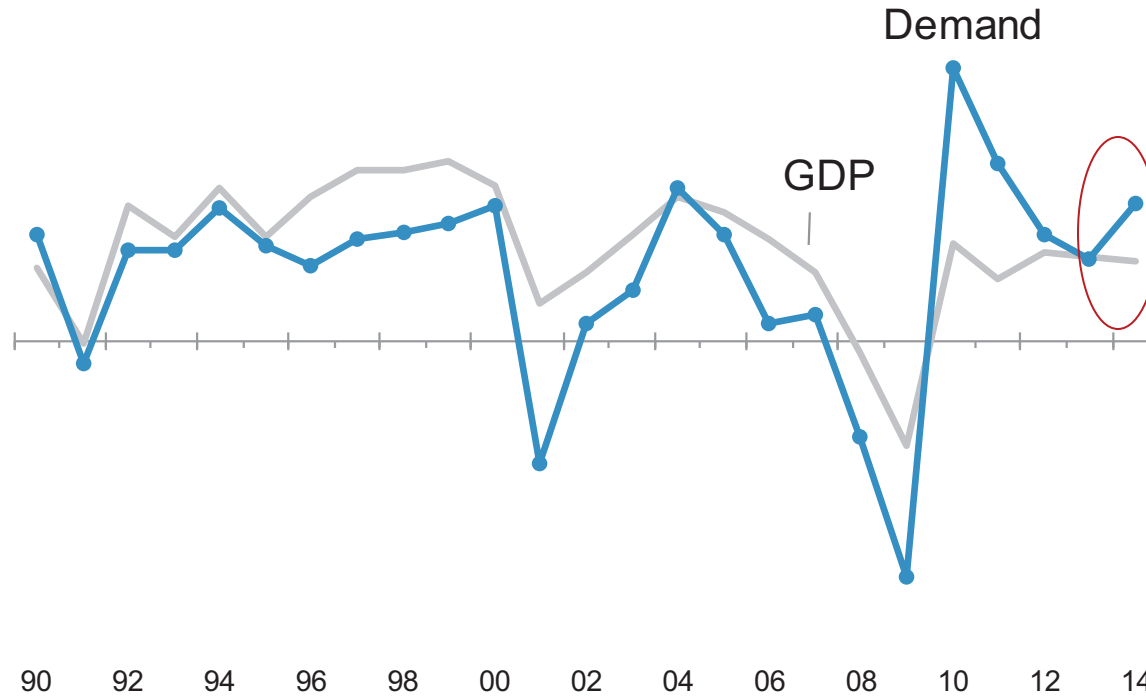


Source: Bureau of Economic Analysis; STR; Oxford Economics

But demand has accelerated as GDP softened

GDP and Room Demand

% change

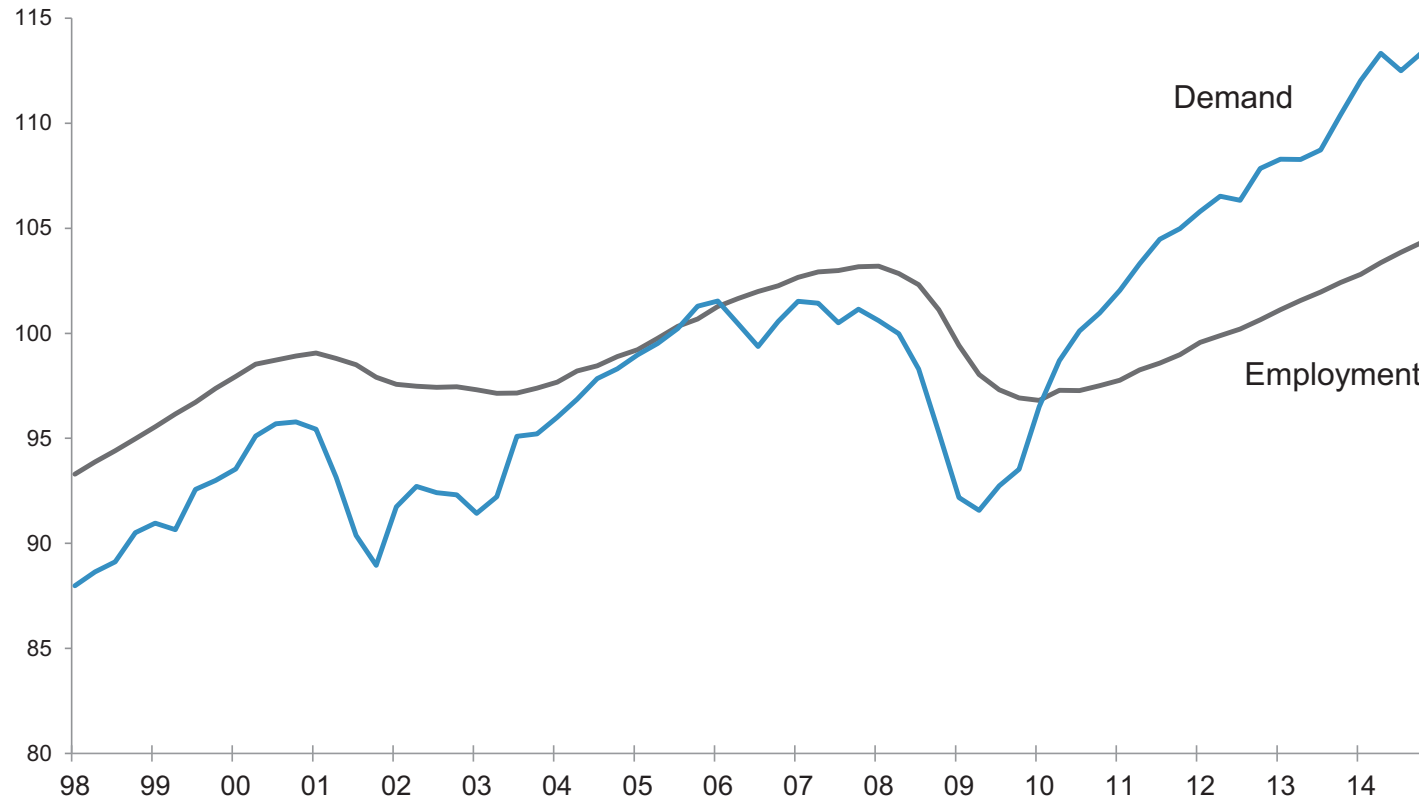


Source: Bureau of Economic Analysis; STR; Oxford Economics

Room demand well above employment trends

Employment and room demand

Index (2005=100)



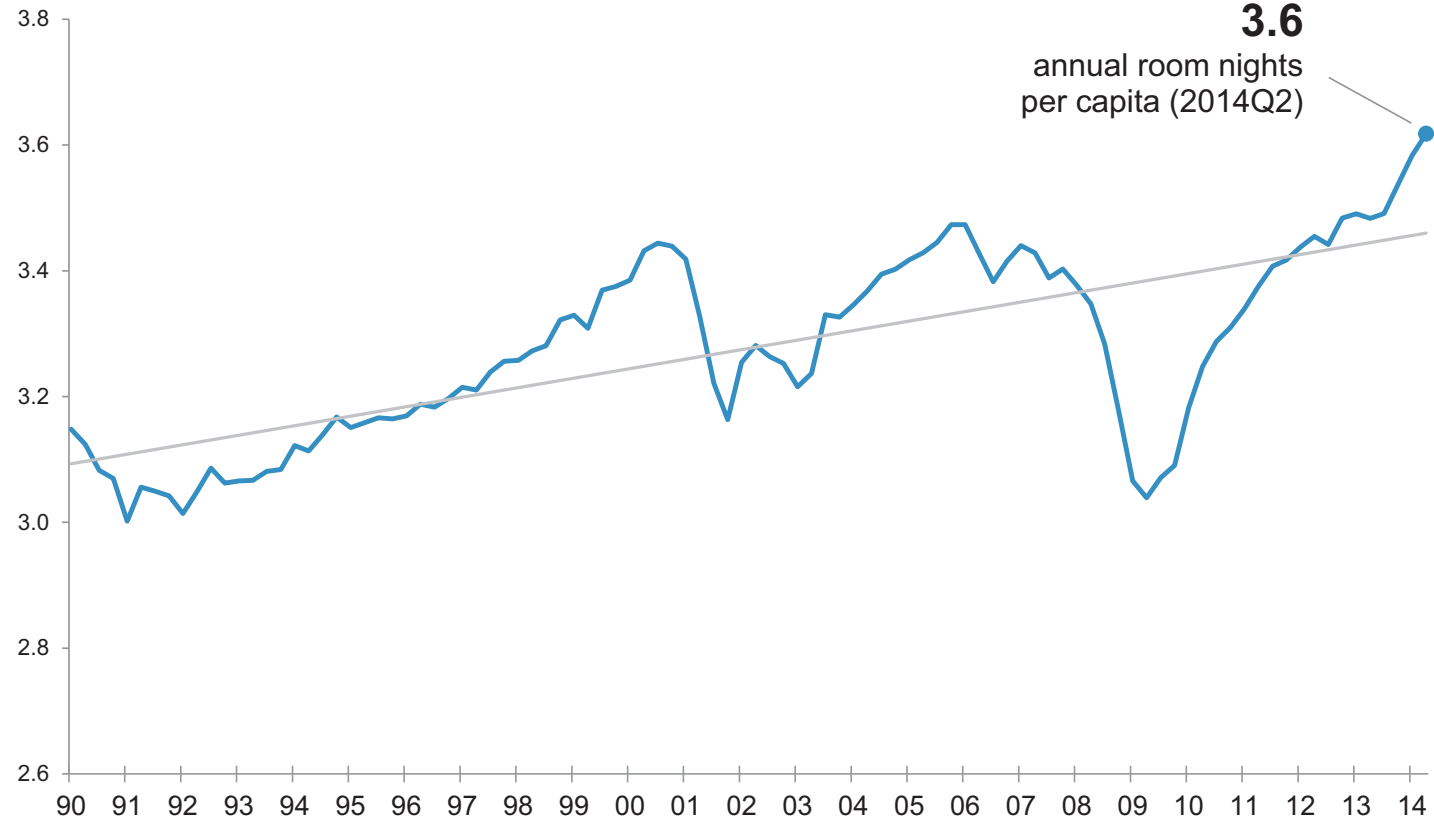
Note: Nonfarm payroll employment. Lodging demand and employment is actual through second quarter 2014. Employment shows the Oxford Economics forecast through fourth quarter of 2015.

Source: Bureau of Labor Statistics; STR; Oxford Economics

Hitting new highs on a per capita basis

Room nights per capita

Annualized



Note: Room night demand is shown on annualized basis. Data is seasonally adjusted actual through the second quarter of 2014.

Source: Census Bureau; STR; Tourism Economics

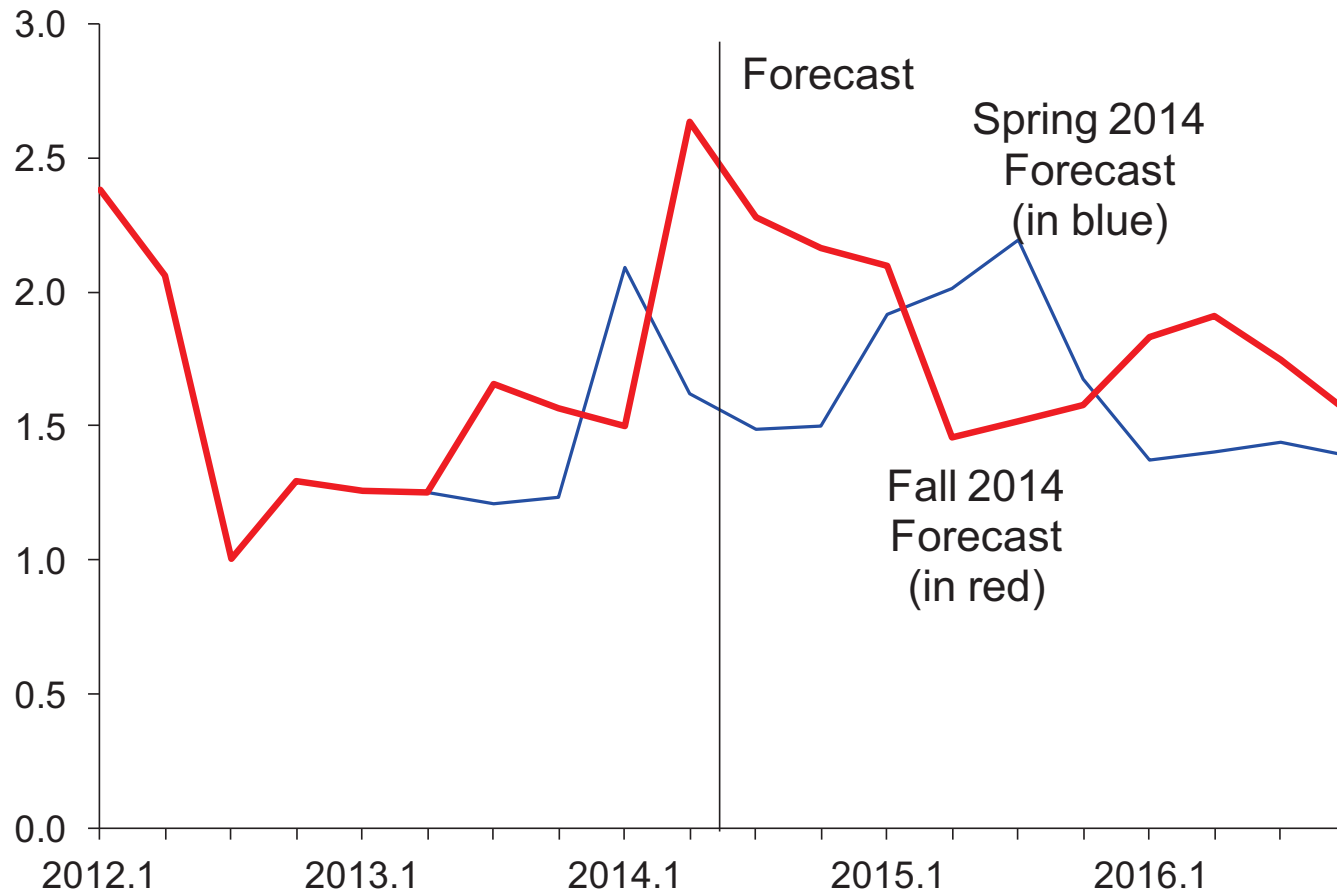
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Stronger near term countered by 'breather' in 2015

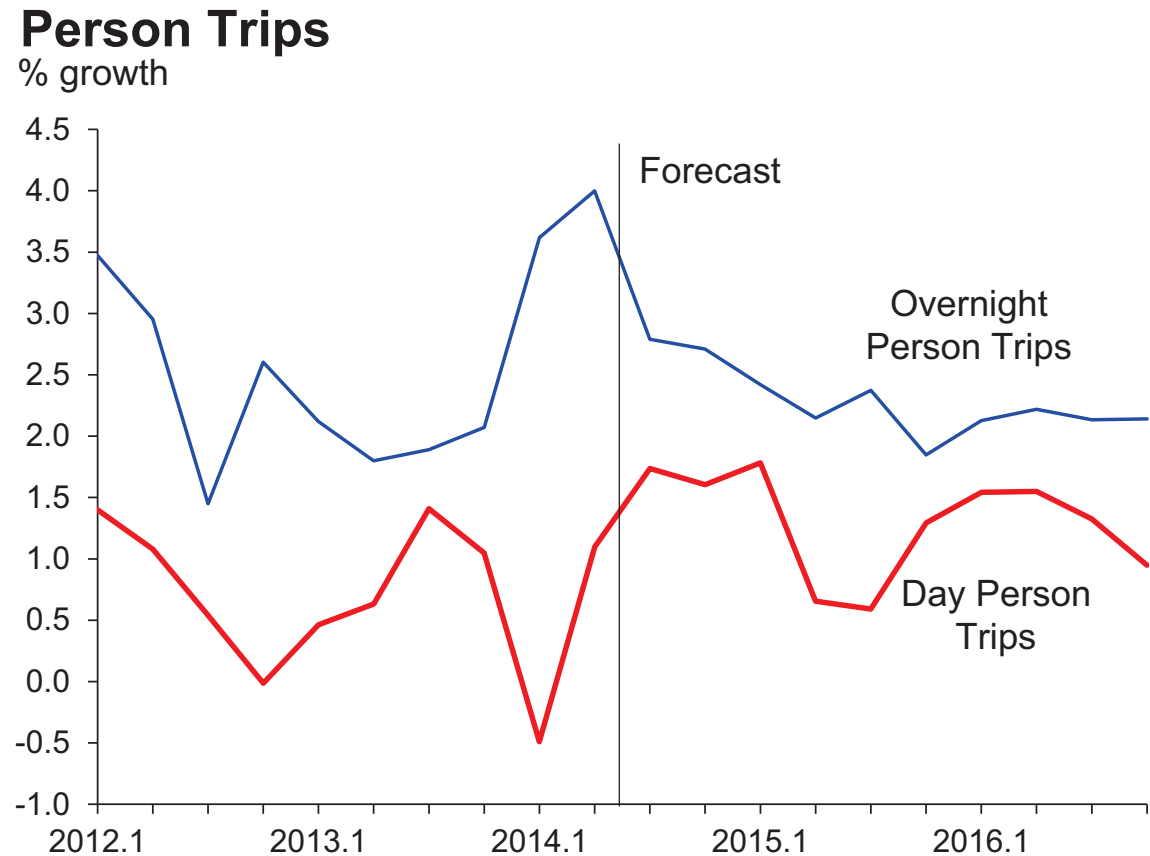
Person Trips

% growth



Overnight demand will drive spending

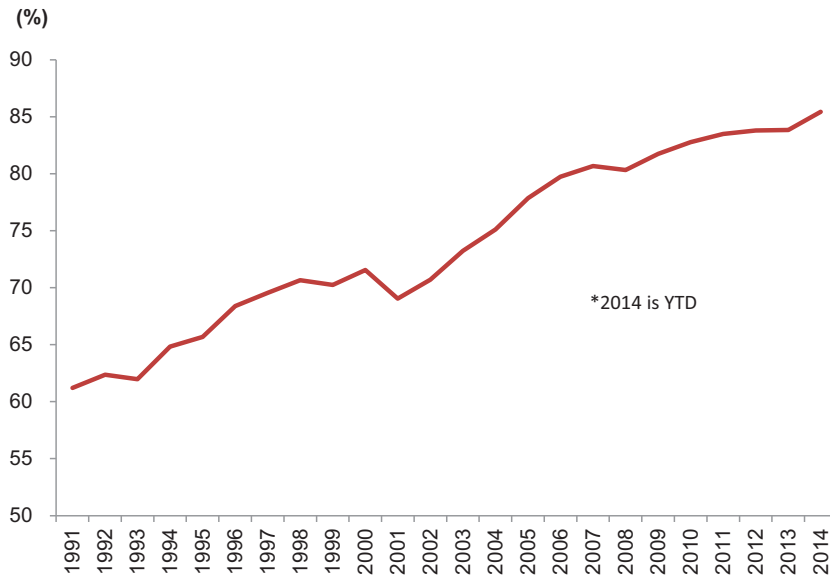
- Lower fuel costs will free up budget



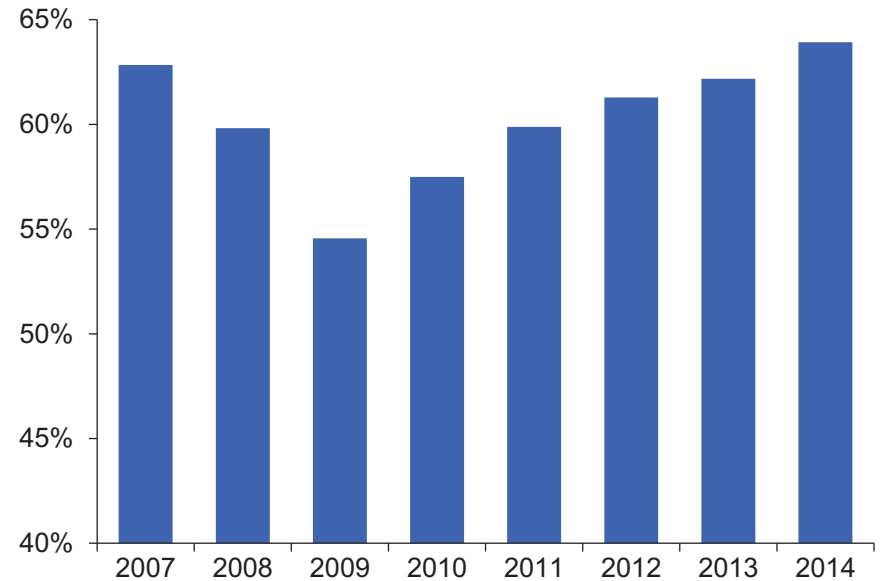
Source: Tourism Economics

Yield opportunities in 2015

Domestic load factor



US hotel occupancy rate



Source: Smith Travel Research

Thank you!

Adam Sacks

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