



TOURISM
ECONOMICS

AN OXFORD ECONOMICS COMPANY

The Outlook for US Hotel Performance

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June 2022

AGENDA

- 1 A dramatic recovery
- 2 Economic fundamentals
- 3 The twin-headed monster
- 4 The outlook

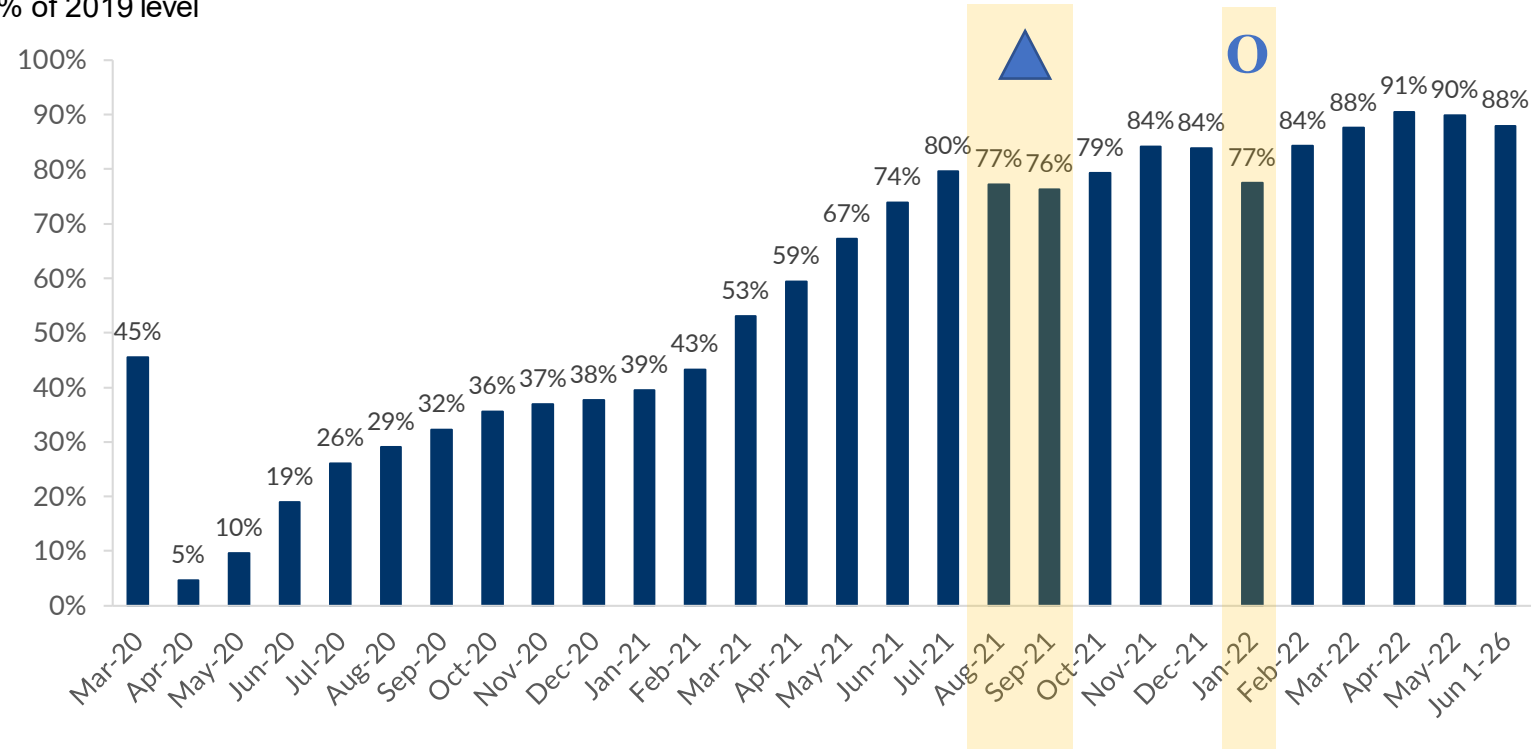
1 A dramatic recovery



Air travel modestly down in June (but supply is largely to blame)

Air Passenger Volume

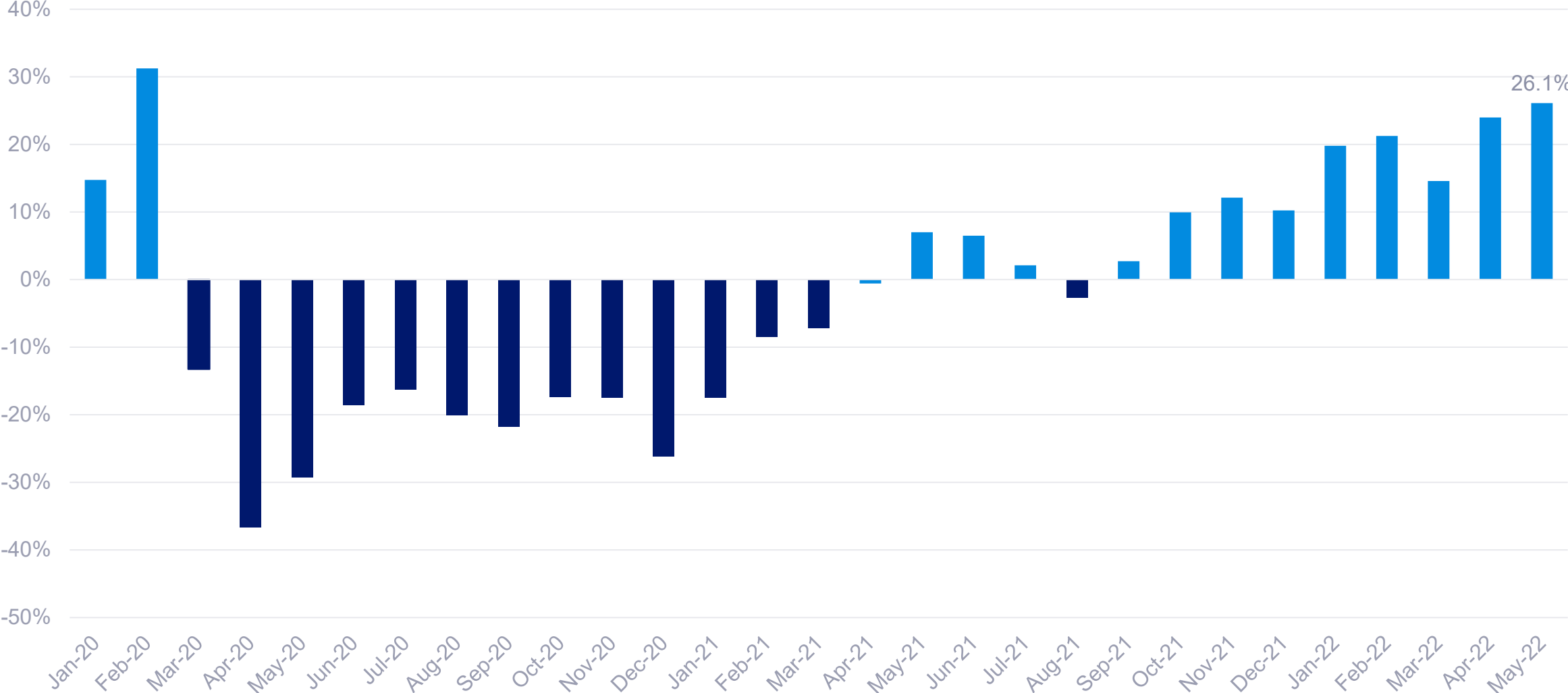
% of 2019 level



Source: TSA

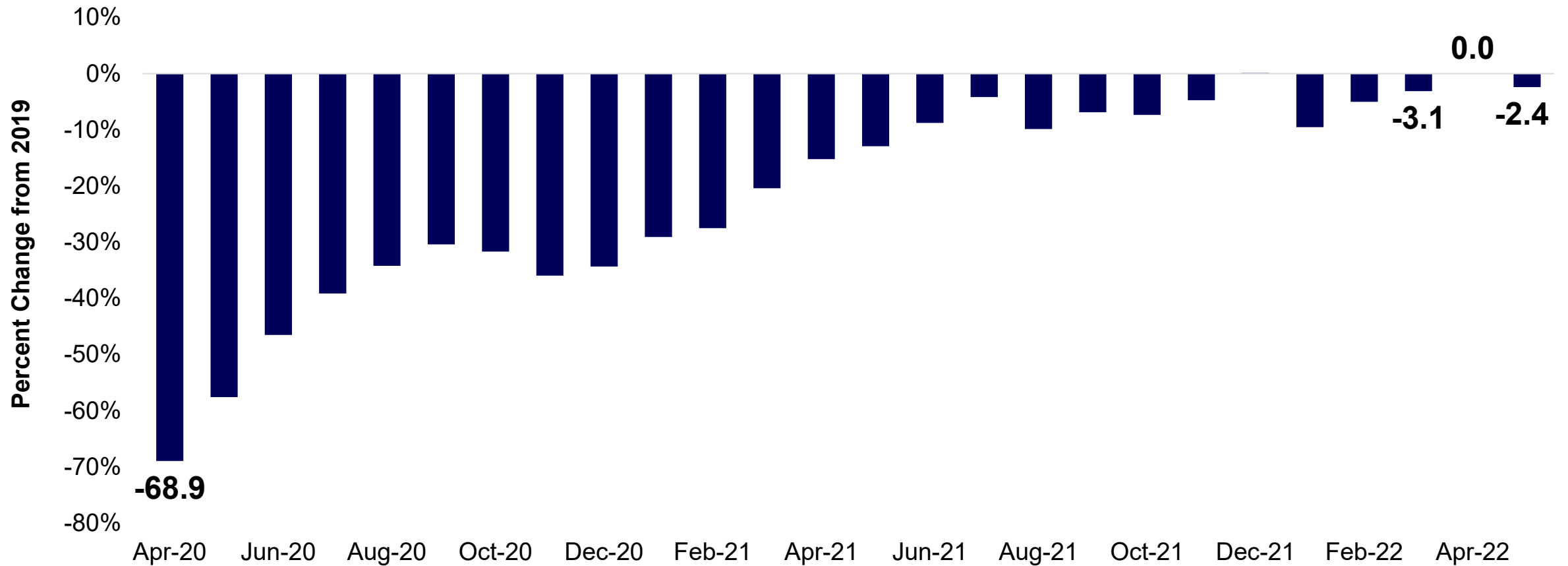
ST Rental Demand Up 26% in May, another peak

Change in United States Short-term Rental Demand vs 2019



Source: AirDNA

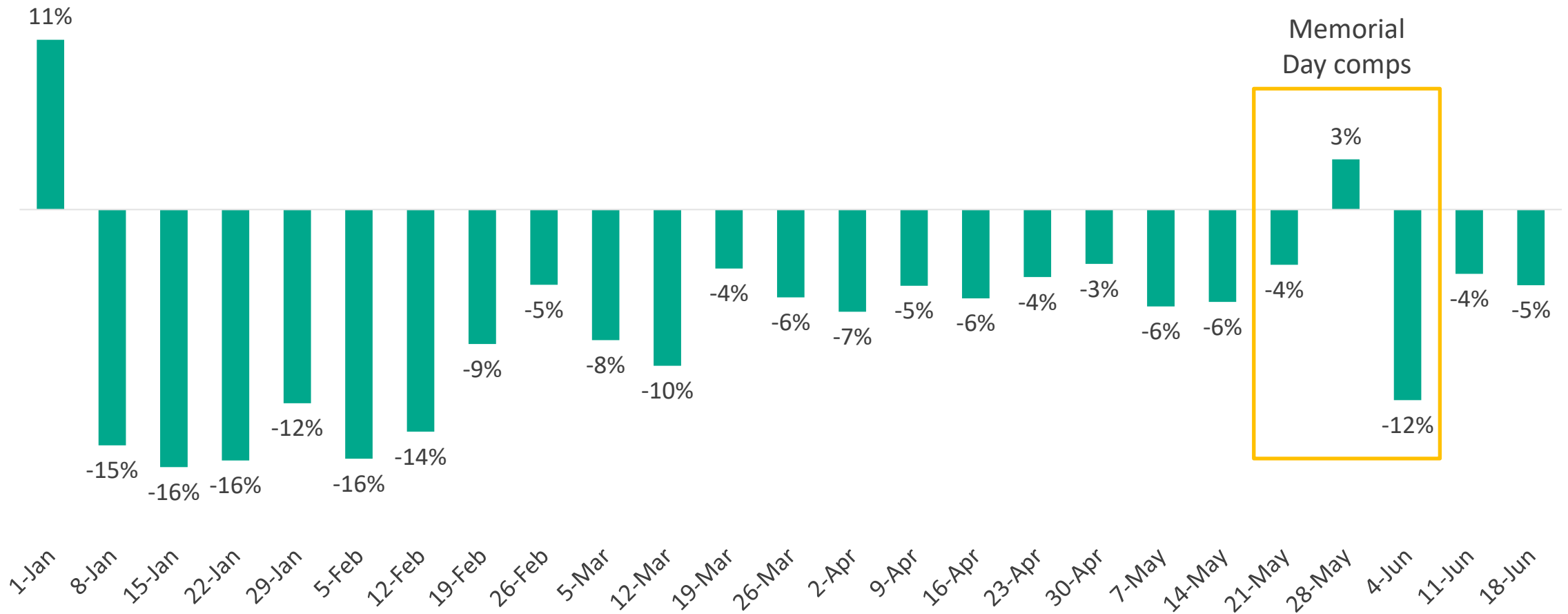
Room Demand flirting with full recovery



*prelim May '22

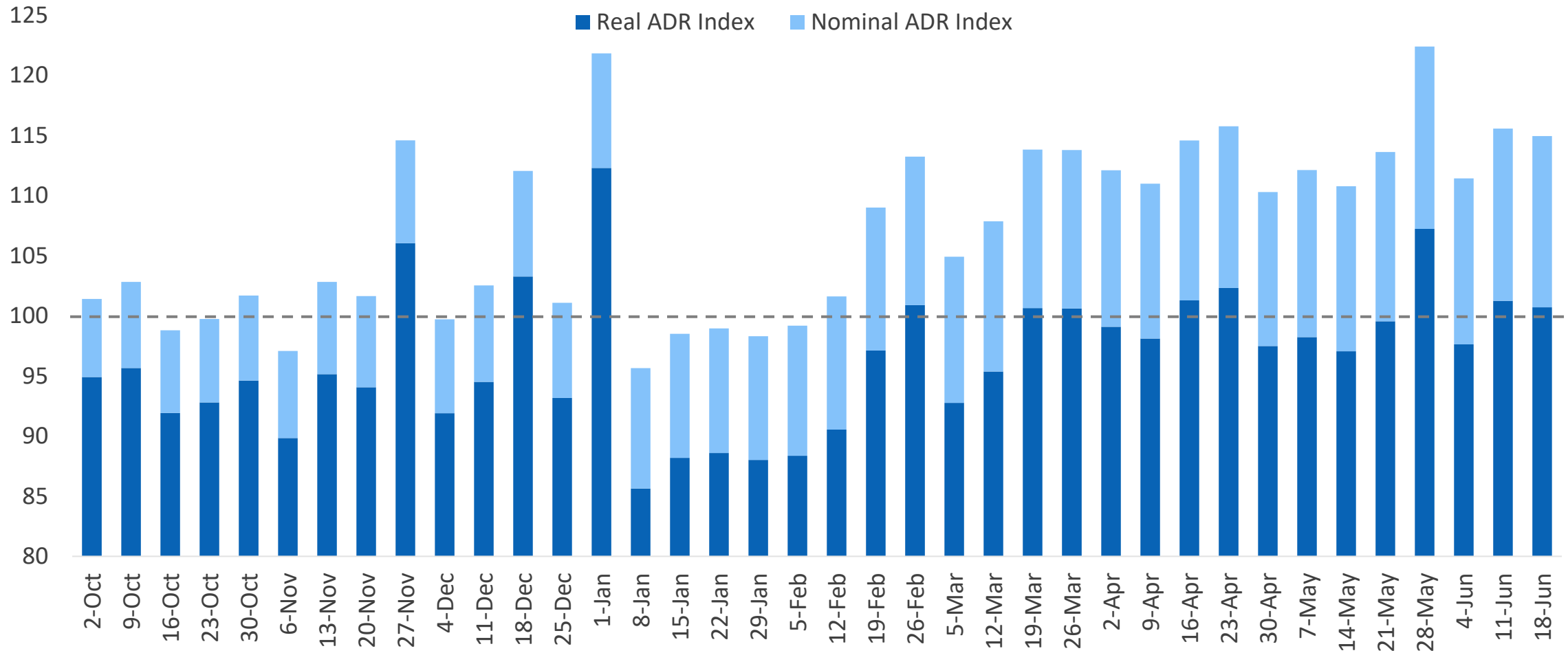
Occupancy comfortable in the -3% to -5% range

Total U.S., weekly occupancy % change to 2019, 1 Jan – 18 Jun 2022



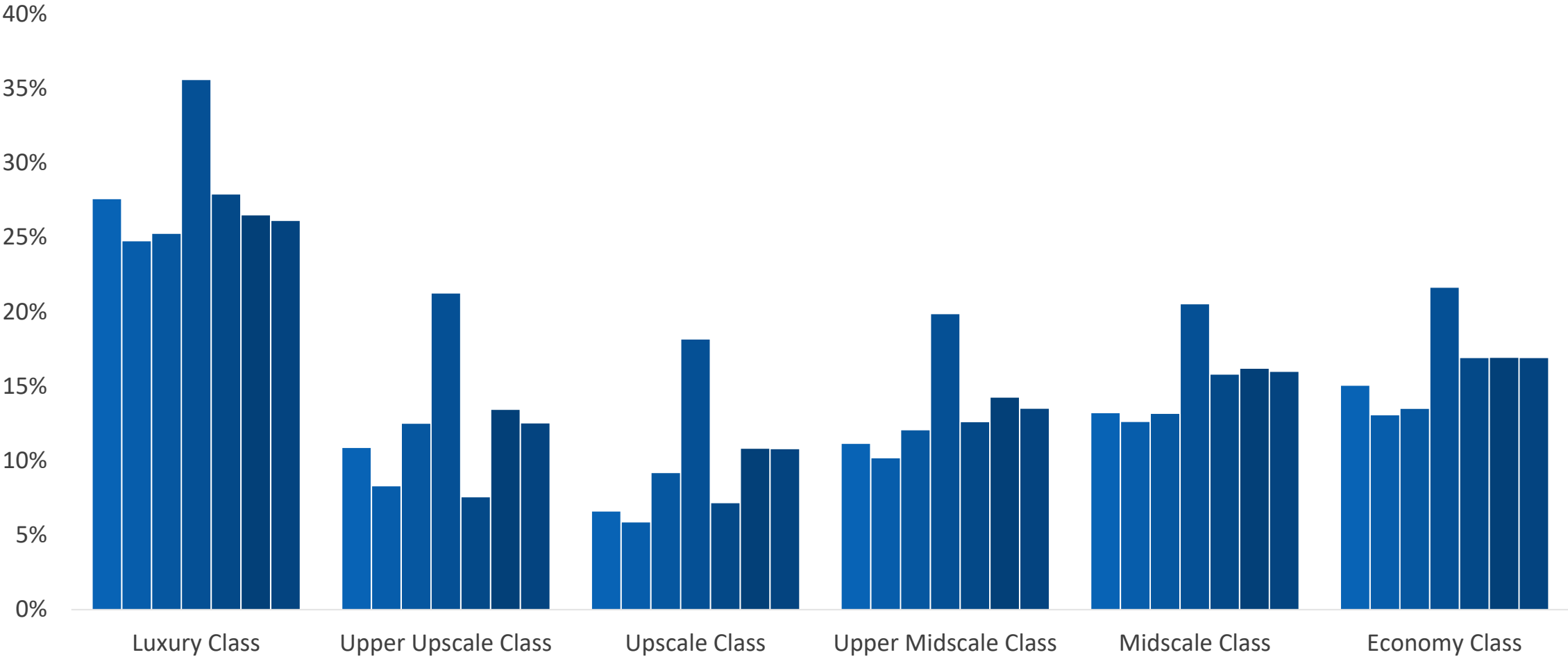
ADR +13% in May (but roughly flat in real terms)

U.S., Weekly ADR indexed to 2019, Oct 2021 – Jun 2022



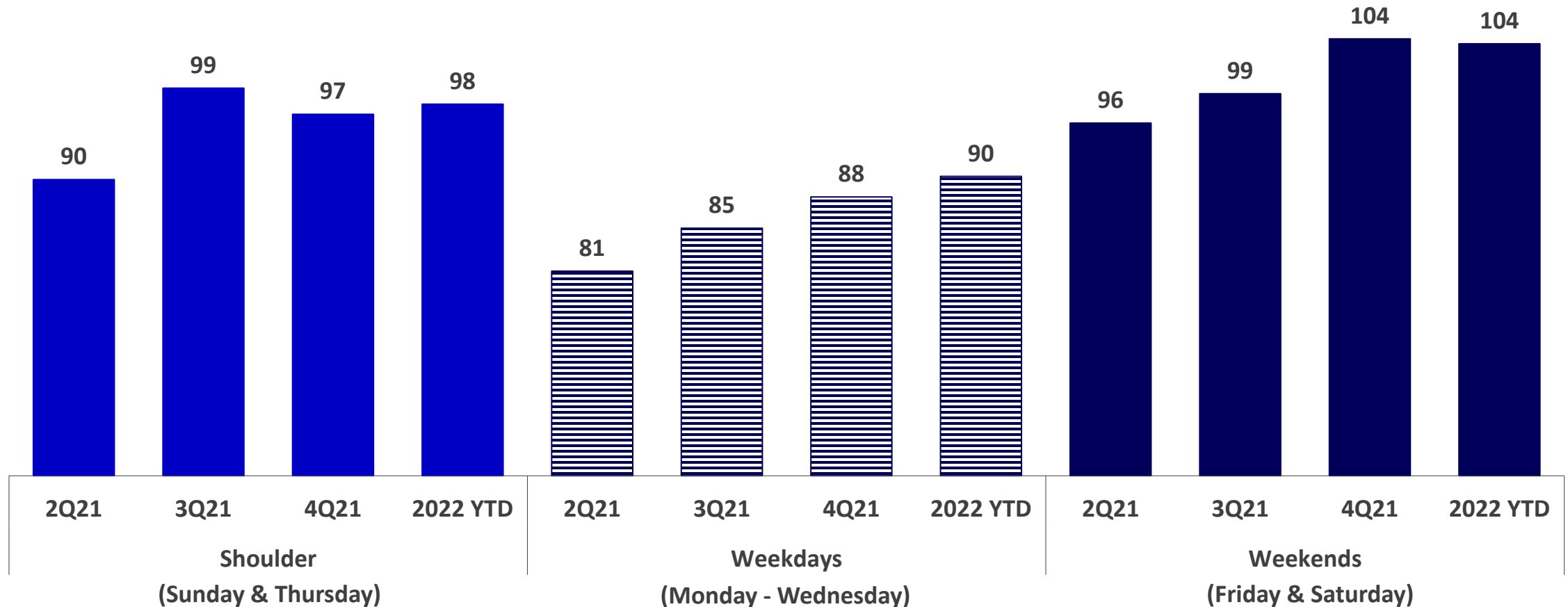
ADR strong across all classes (and especially Luxury)

U.S., ADR % change to 2019, weeks ending 7 May – 18 Jun 2022



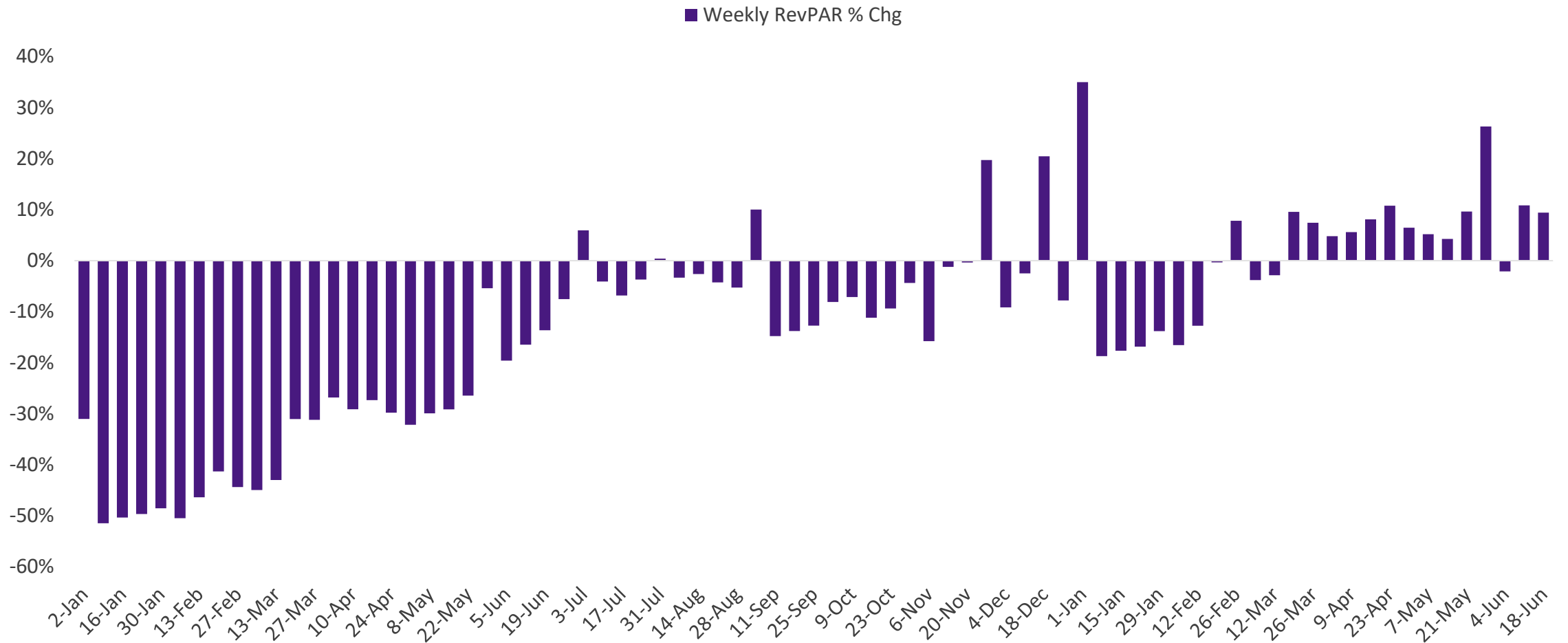
Largest demand gap remains in business travel days

U.S. room demand indexed to 2019 (matched by day type)



RevPAR poised for a great summer

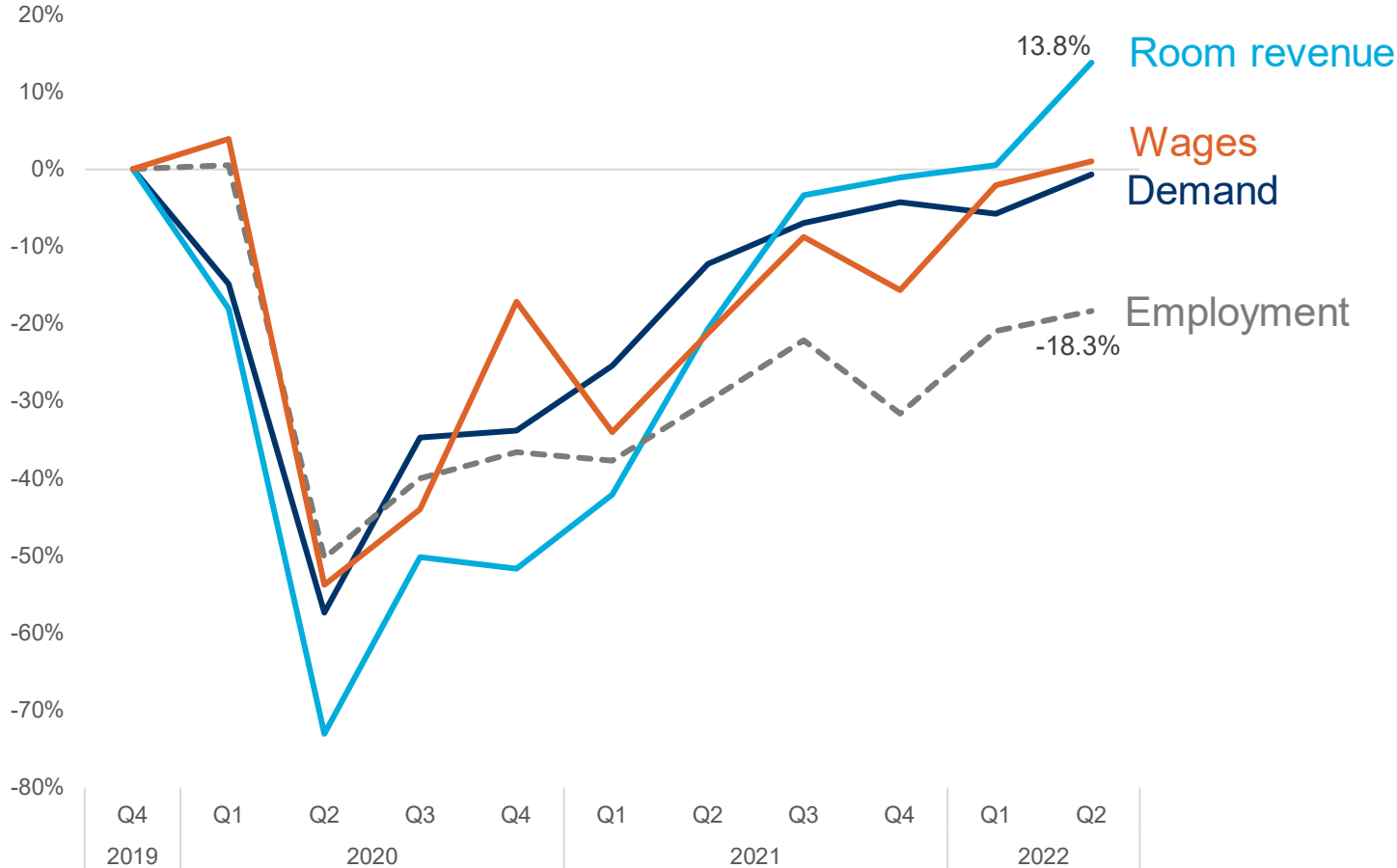
U.S., Weekly RevPAR % change to 2019, 2021-2022



Room revenue headlining the recovery metrics

Hotel recovery for key metrics

US, relative to 2019



Source: STR, BLS, Tourism Economics

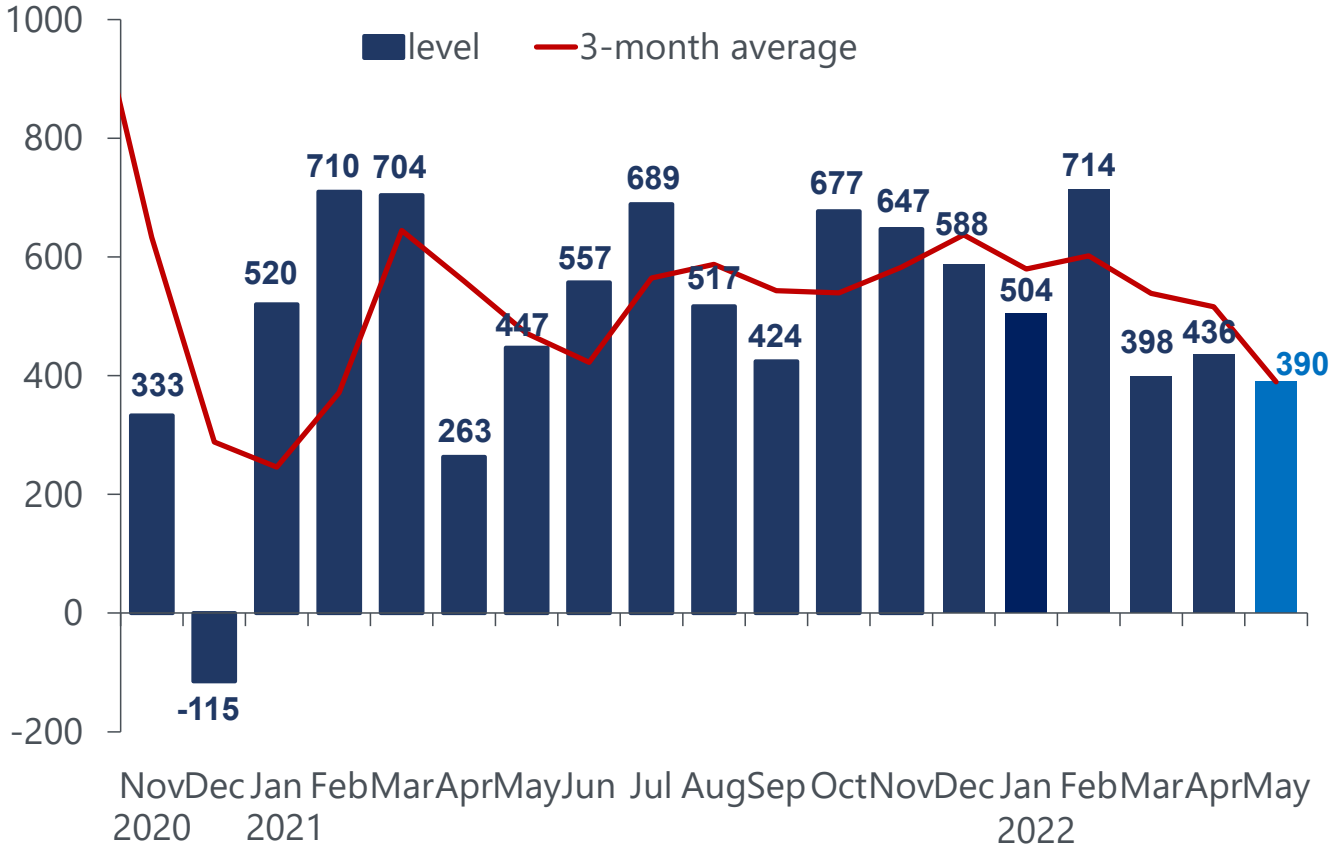
2 Economic fundamentals

The background of the slide is a dark blue color with a subtle, repeating grid pattern. In the lower half of the image, there is a faint, semi-transparent illustration of a modern building's interior, showing a large open space with a central pillar and various structural elements.

Now just 1.3 million jobs short of peak

US: Nonfarm payroll employment

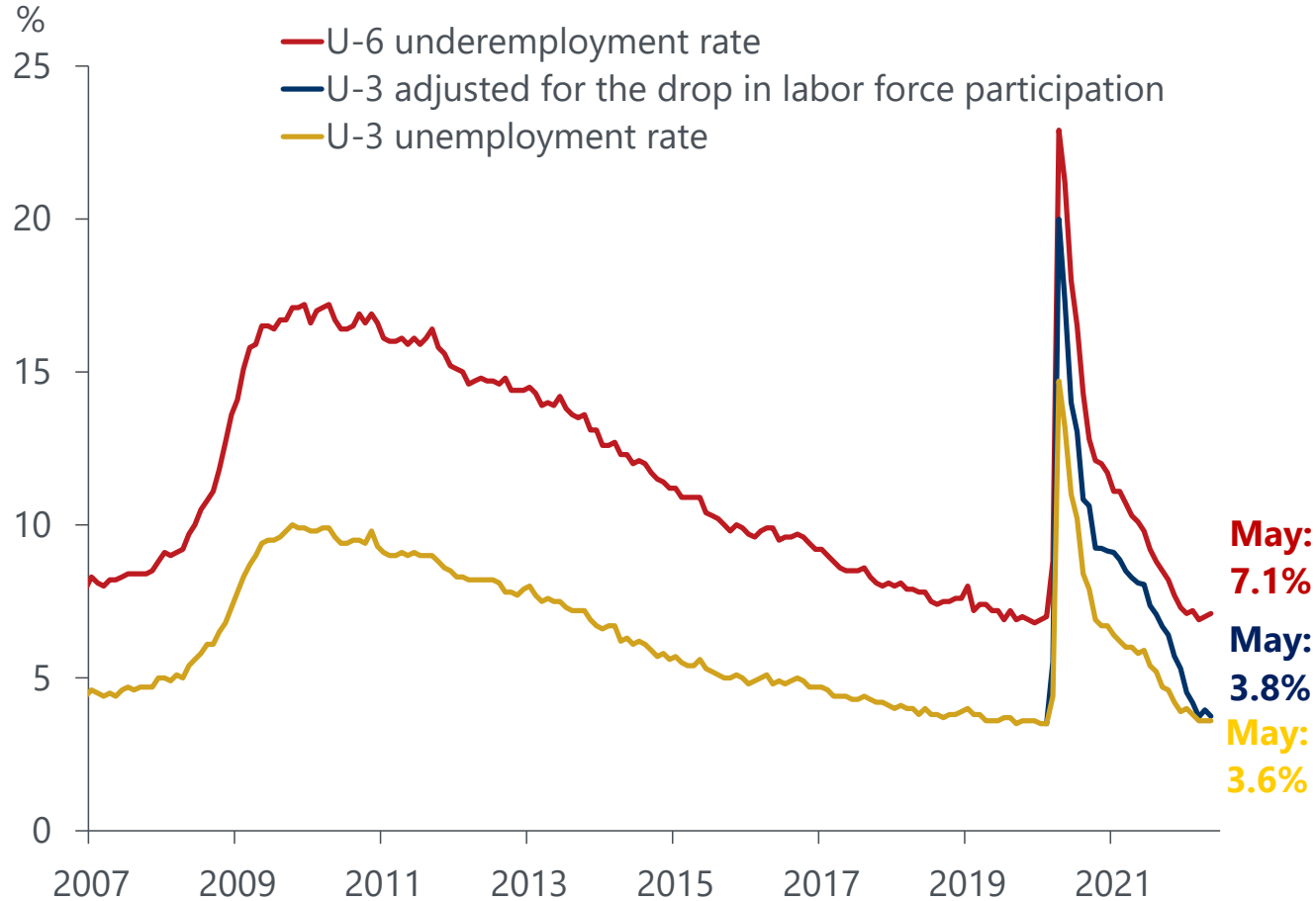
Thousand



Source: Oxford Economics/Haver Analytics

Unemployment rate from 15% to 3.6% in record time

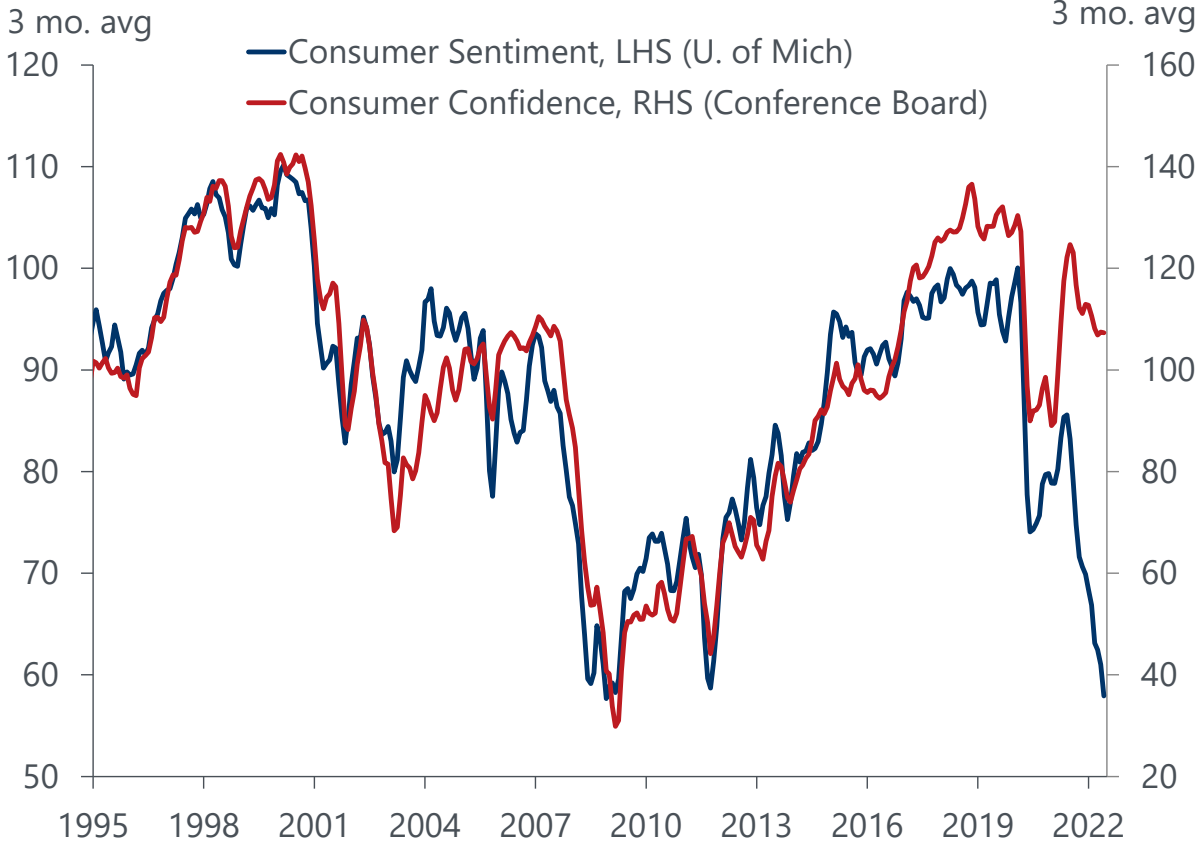
US: Unemployment rates



Source: Oxford Economics/Haver Analytics

Consumers feeling uneasy

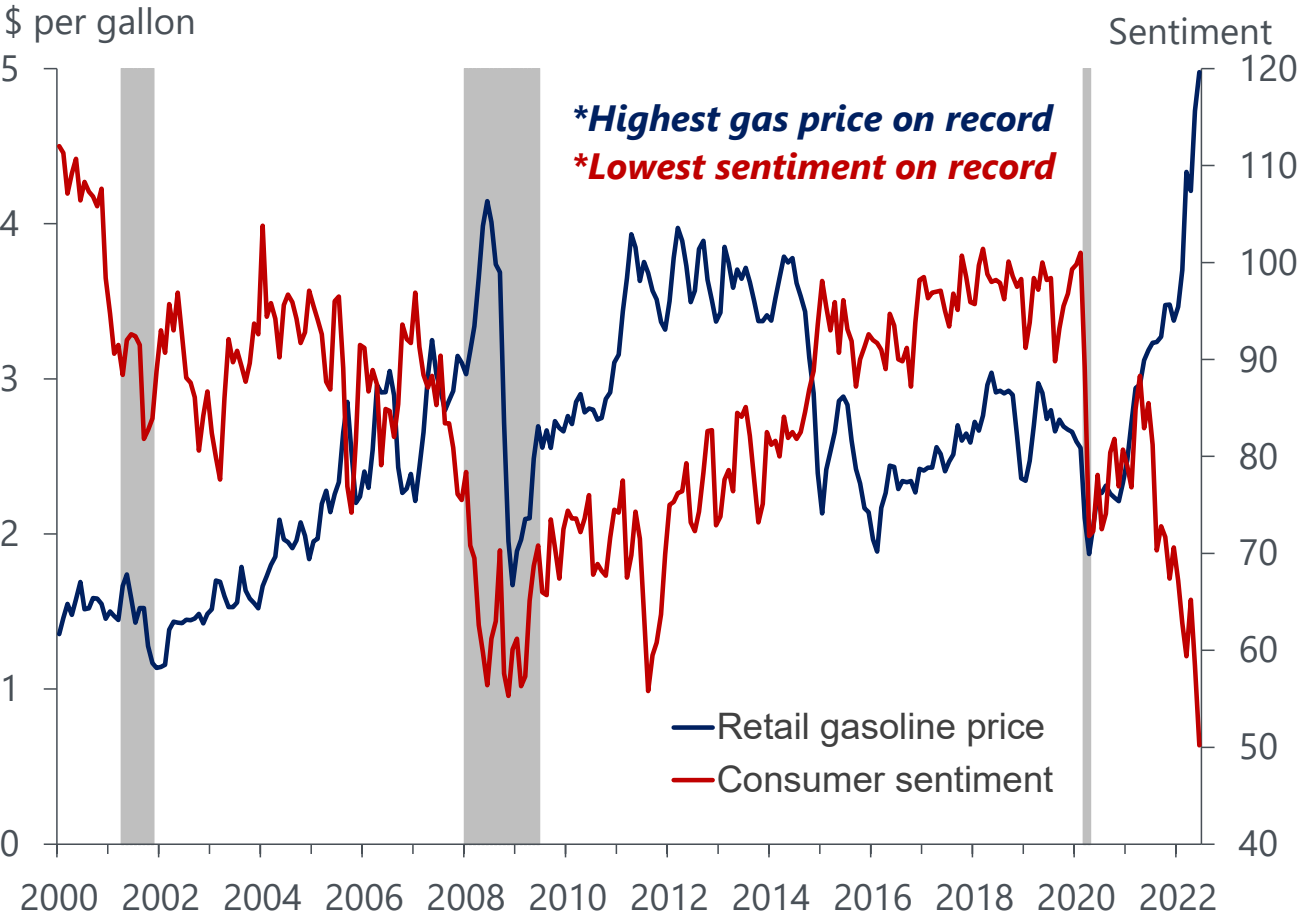
US: Consumer surveys



Source: Oxford Economics/Haver Analytics

Record high gas prices are a key reason

US: Surging gas prices are exacerbating depressed sentiment

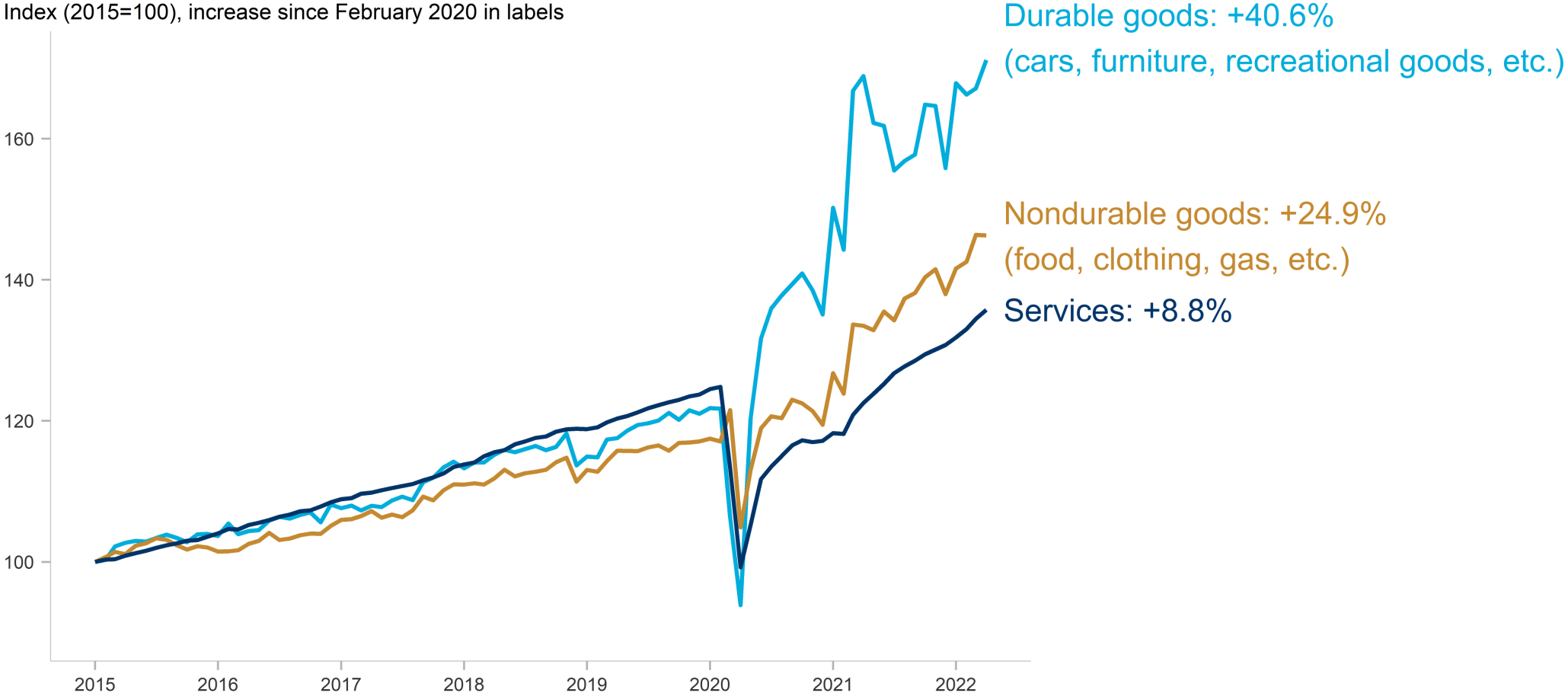


Source: Oxford Economics/Haver Analytics

But spending still showing resilience

Consumer spending

Index (2015=100), increase since February 2020 in labels

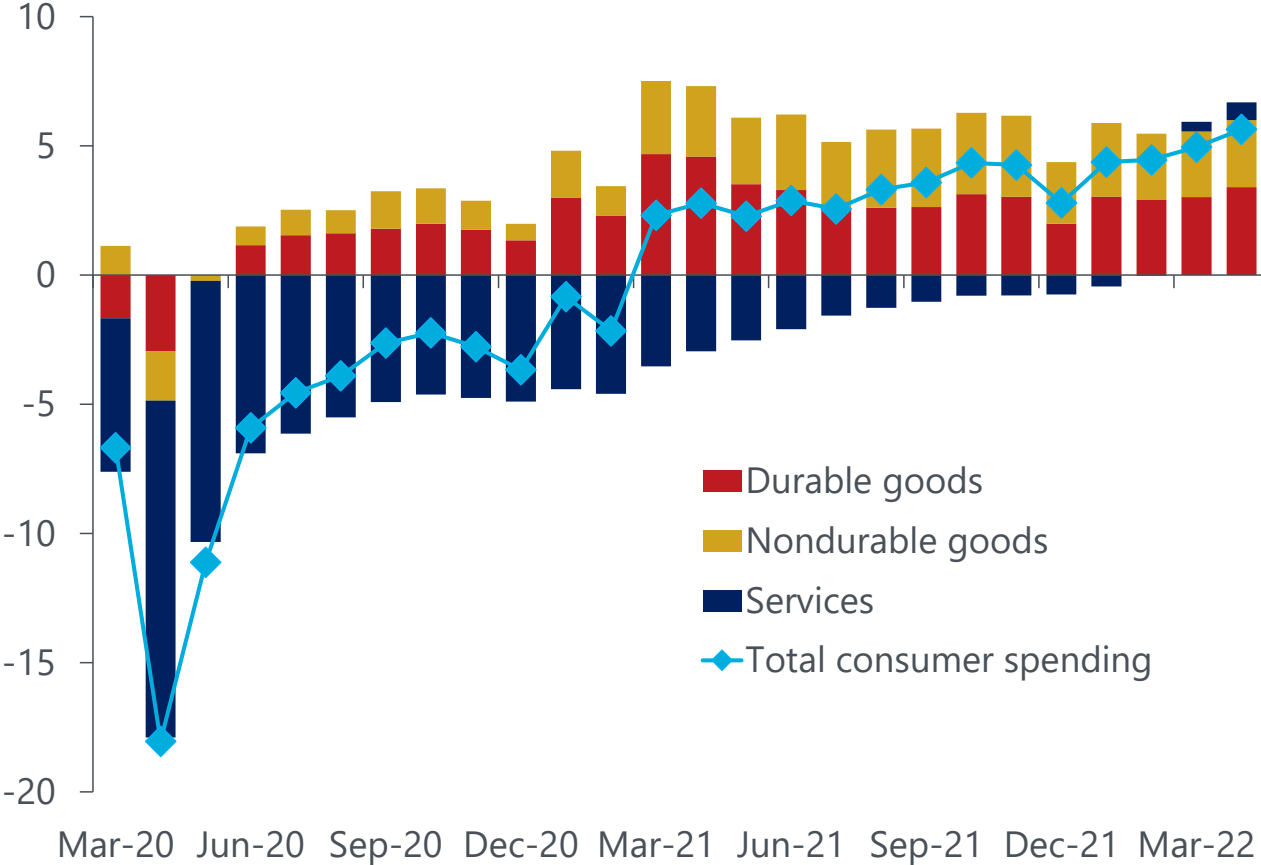


Note: Nominal. Seasonally adjusted monthly data through April 2022
Source: Bureau of Economic Analysis

Especially in services

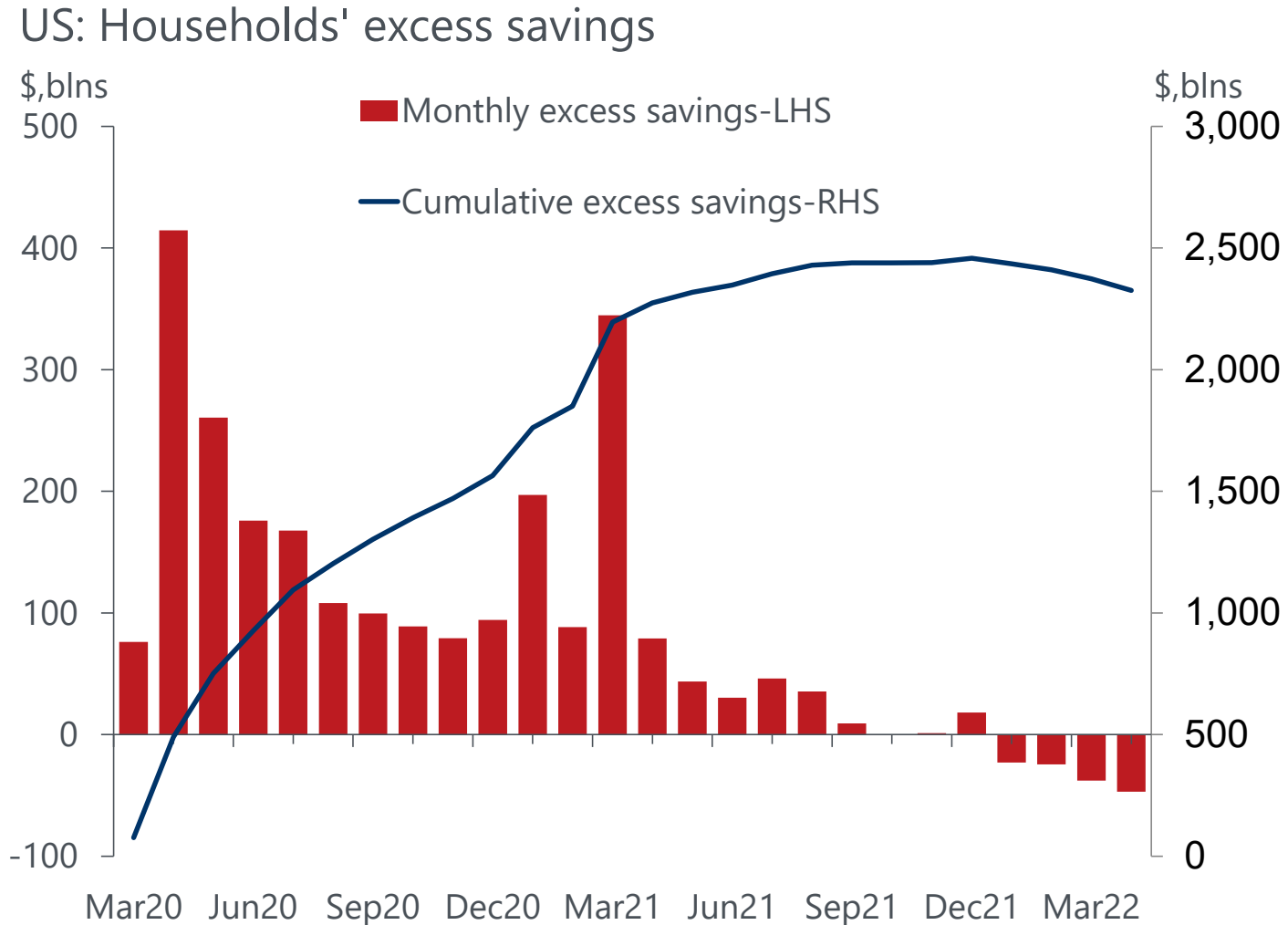
US: Services spending has recovered above pre-crisis level

Percent difference from February 2020



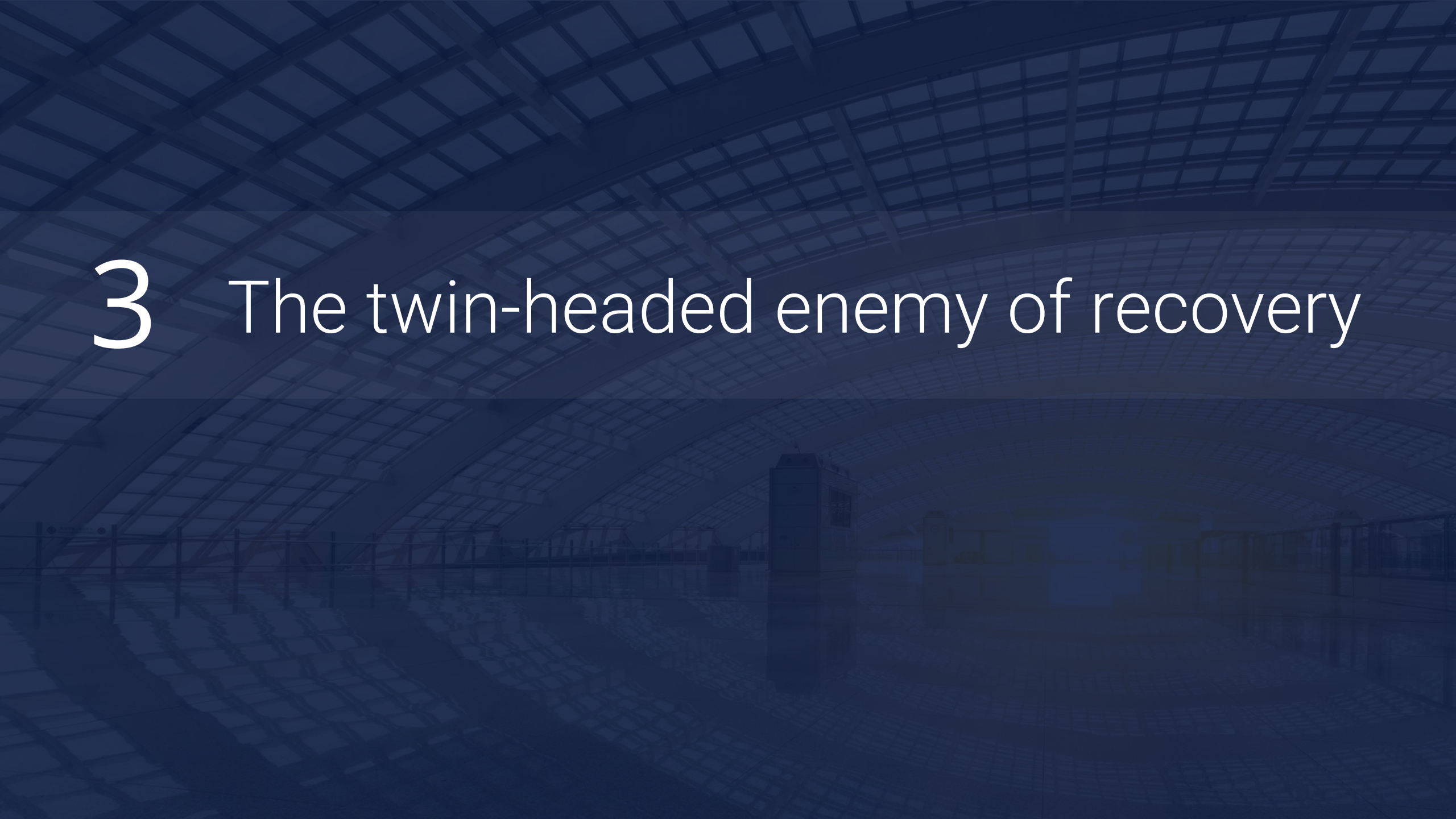
Source: Oxford Economics/Haver Analytics

The savings war chest is being tapped



Source: Oxford Economics/Haver Analytics

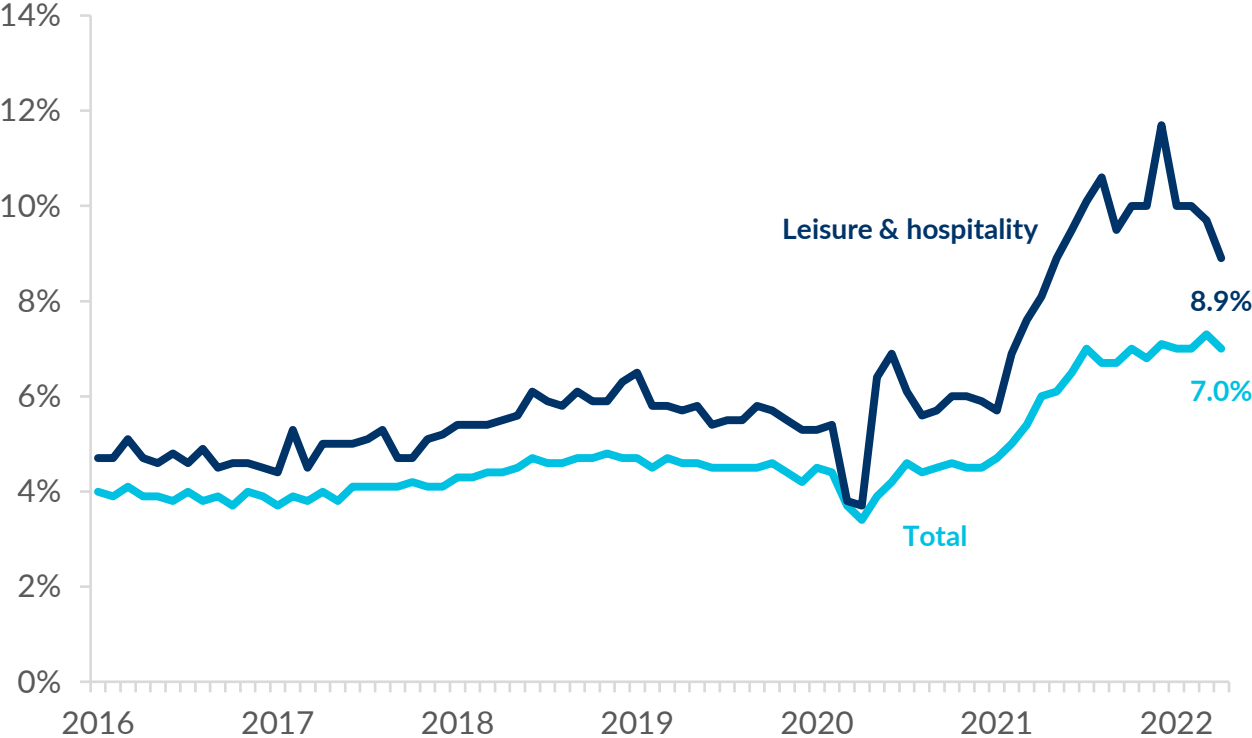
3 The twin-headed enemy of recovery



Enemy #1: Labor shortages

Job openings rate

Share of job openings as a percent of total available jobs

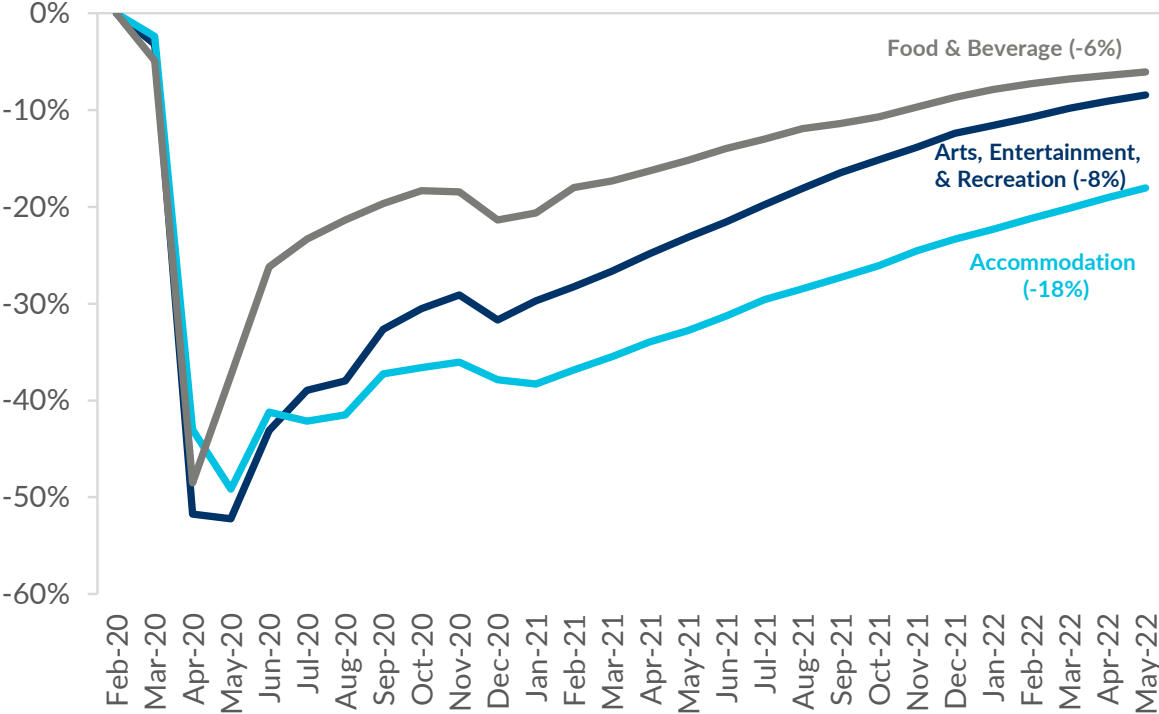


Source: BLS

Situation is especially acute in hotel sector (-300k jobs)

Share of jobs lost in L&H sub-industries

% of industry jobs lost from February 2020

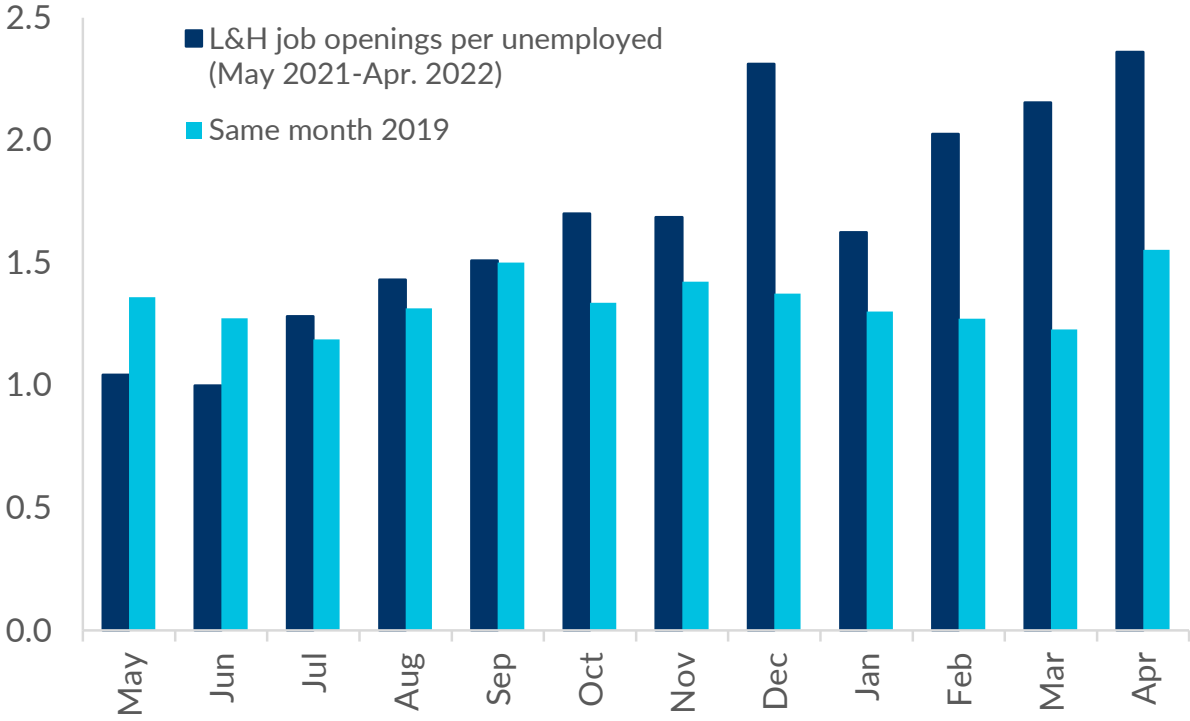


Source: BLS

More than 2 job openings per unemployed person

L&H labor market

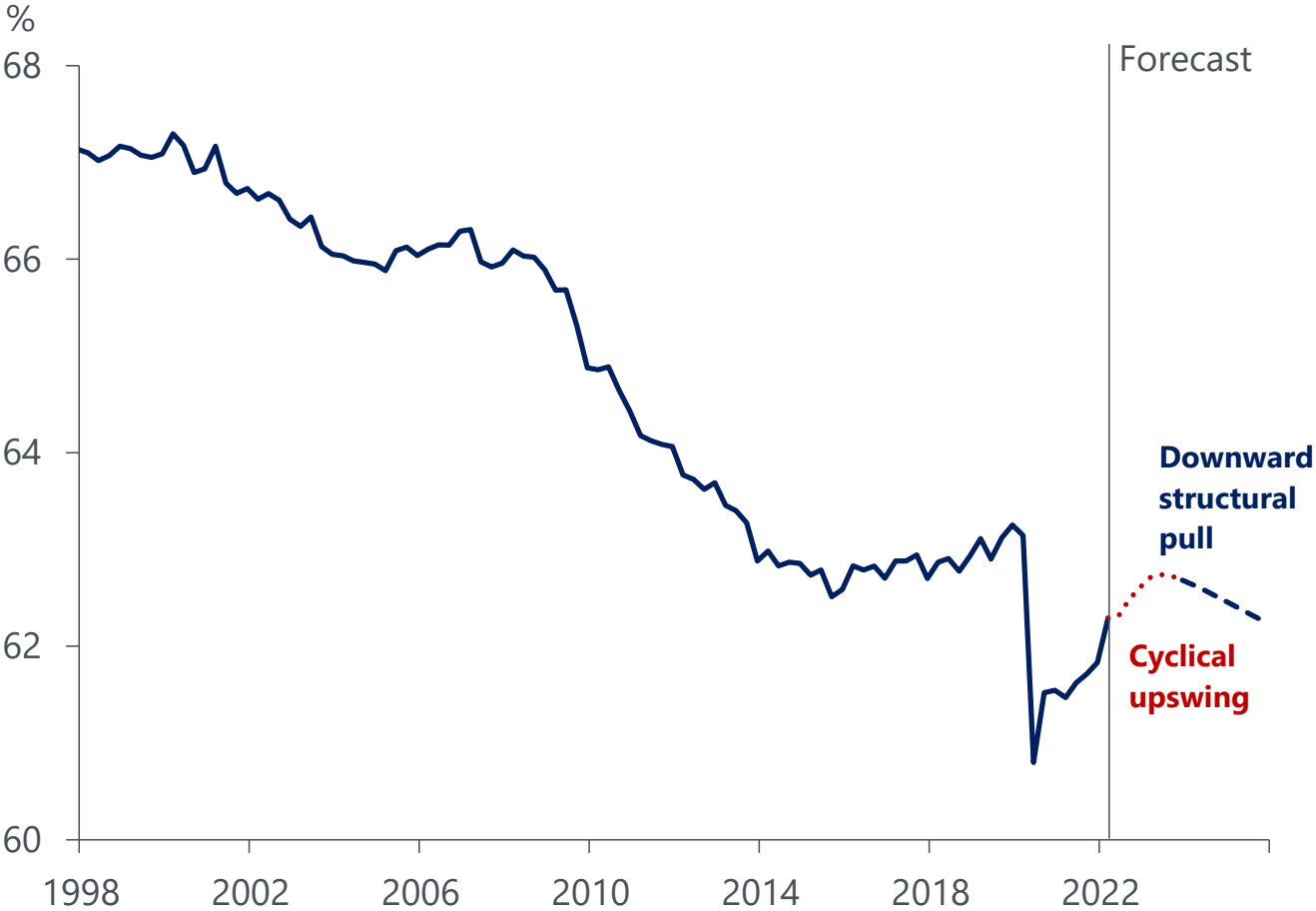
L&H job openings per unemployed L&H worker



Source: BLS

Labor supply rebound – an encouraging sign for 2022

US: Labor force participation rate

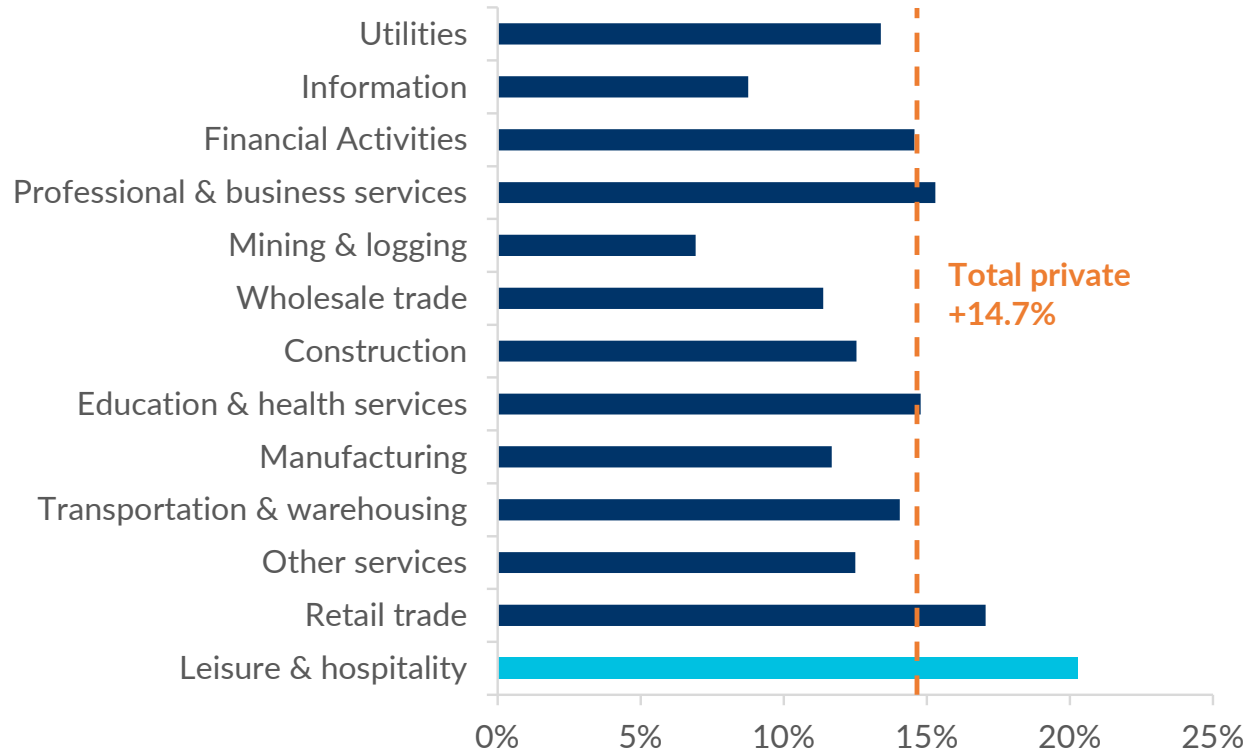


Source: Oxford Economics/Haver Analytics

No sector has matched L&H wage increases

Wage growth by industry

% change relative to May 2019, industries ranked by hourly wages

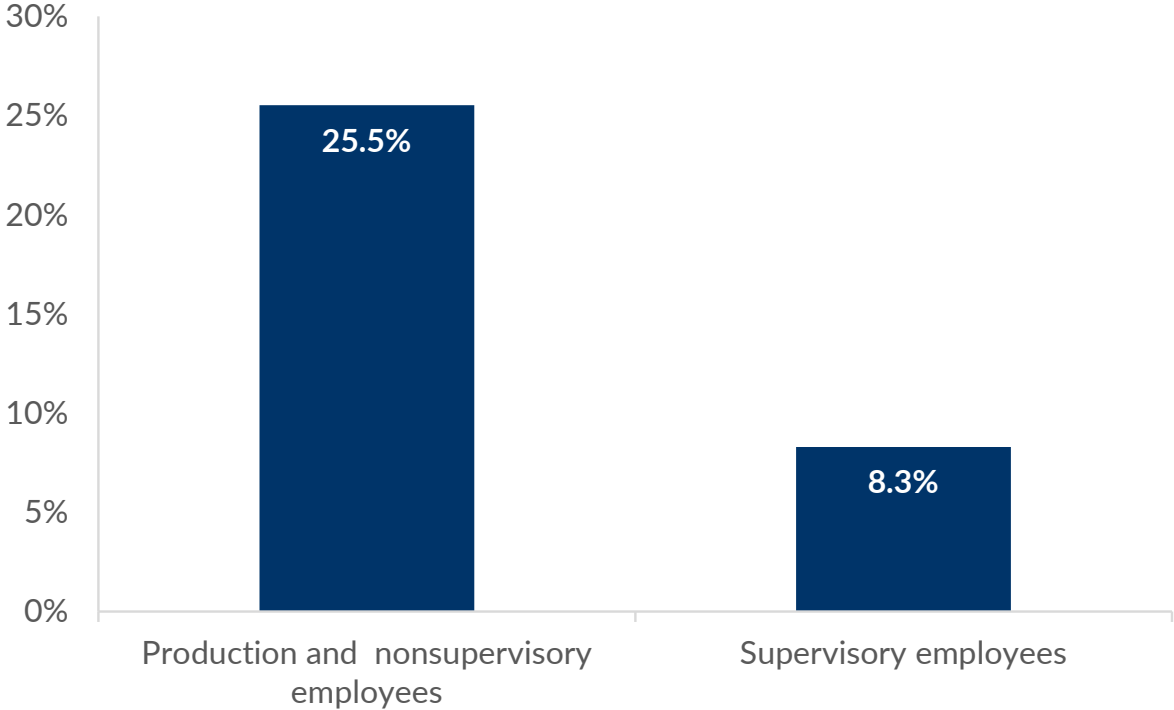


Source: BLS

Increases MUCH larger for lower ranks

Accommodation wage growth

% change relative to April 2019

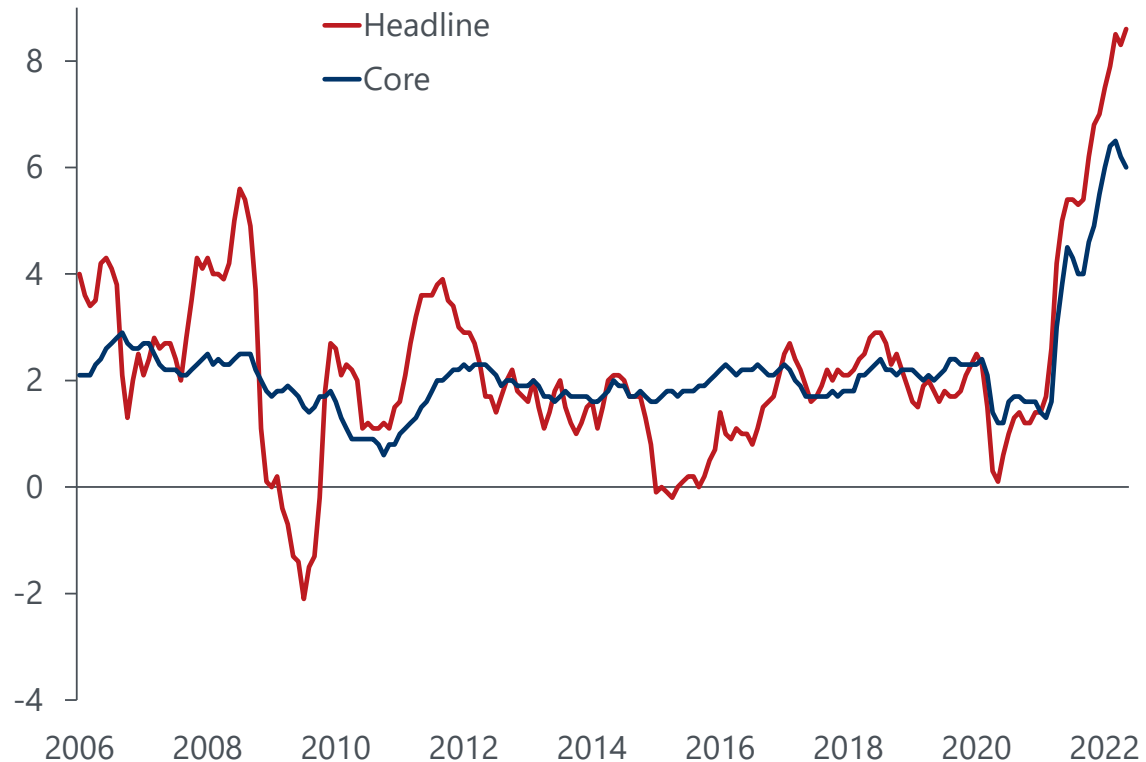


Source: BLS

Enemy #2: Inflation

US: Consumer prices

%, year

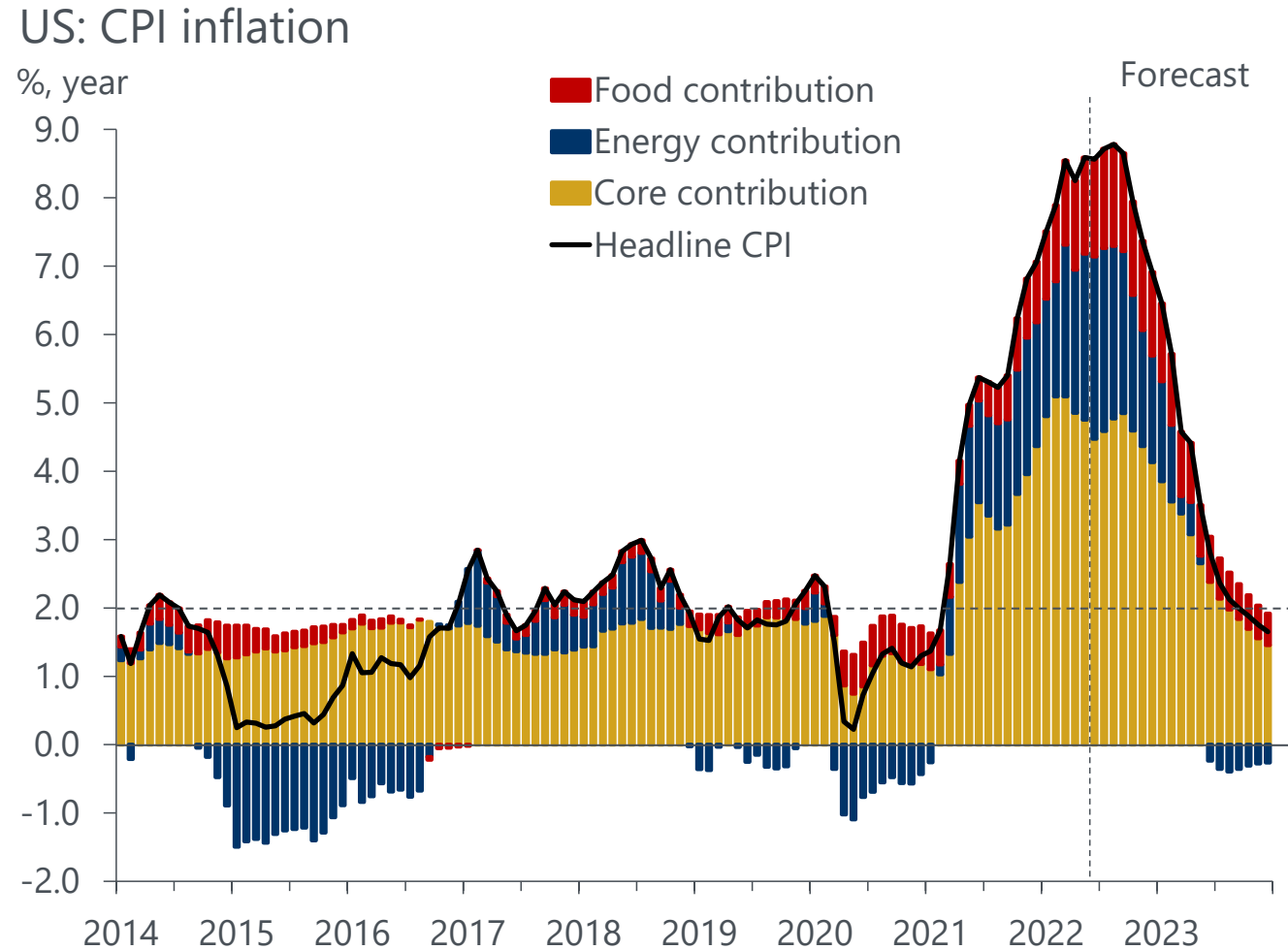


Source: Oxford Economics/Haver Analytics

Consumer prices ramped up to a 40-year high in May

- **Energy +34.6% from a year ago**
- **Food prices +10.1%**

Expecting a very gradual descent in CPI inflation



Source: Oxford Economics

Gas prices are the biggest concern for travel

U.S. Retail Gasoline Prices Dollars per Gallon

Weekly, all grades



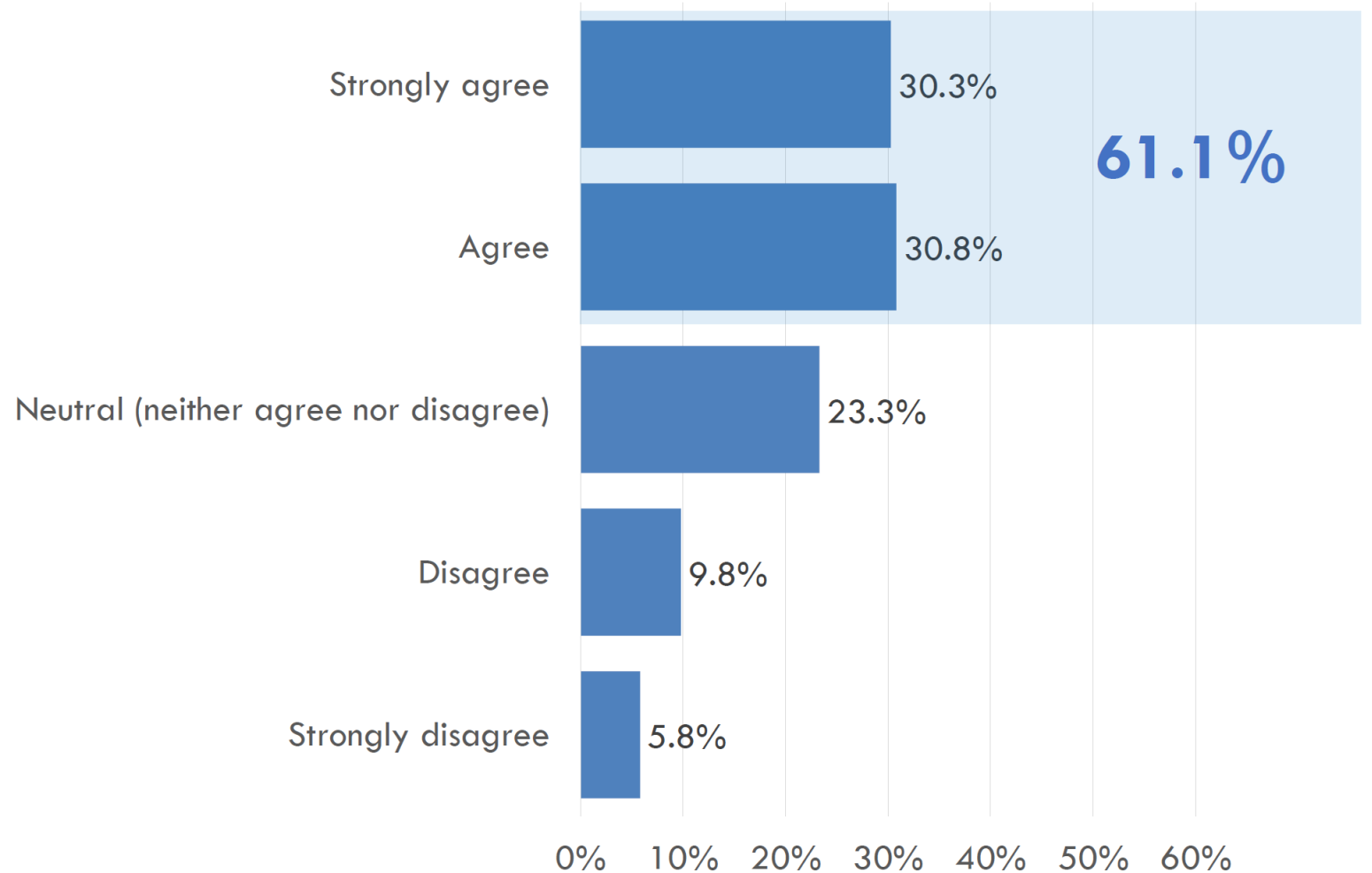
Source: EIA

Travelers VERY concerned about gas prices

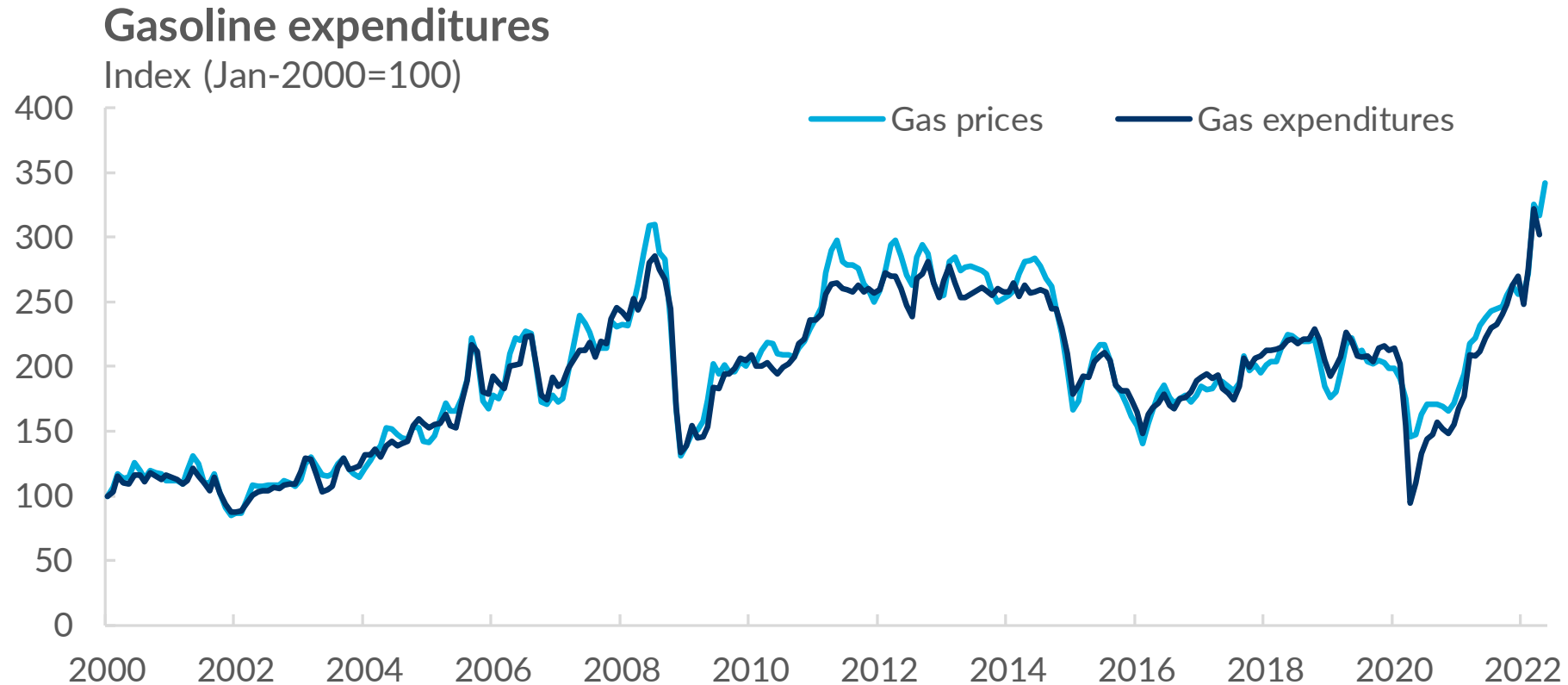
Question: How much do you agree or disagree with the following statements?

If gasoline prices don't come down, I'll be taking fewer road trips this spring/summer.

*(Base: All respondents, 4,018 completed surveys.
Data collected May 15-24, 2022.)*



But... US fuel consumption highly inelastic



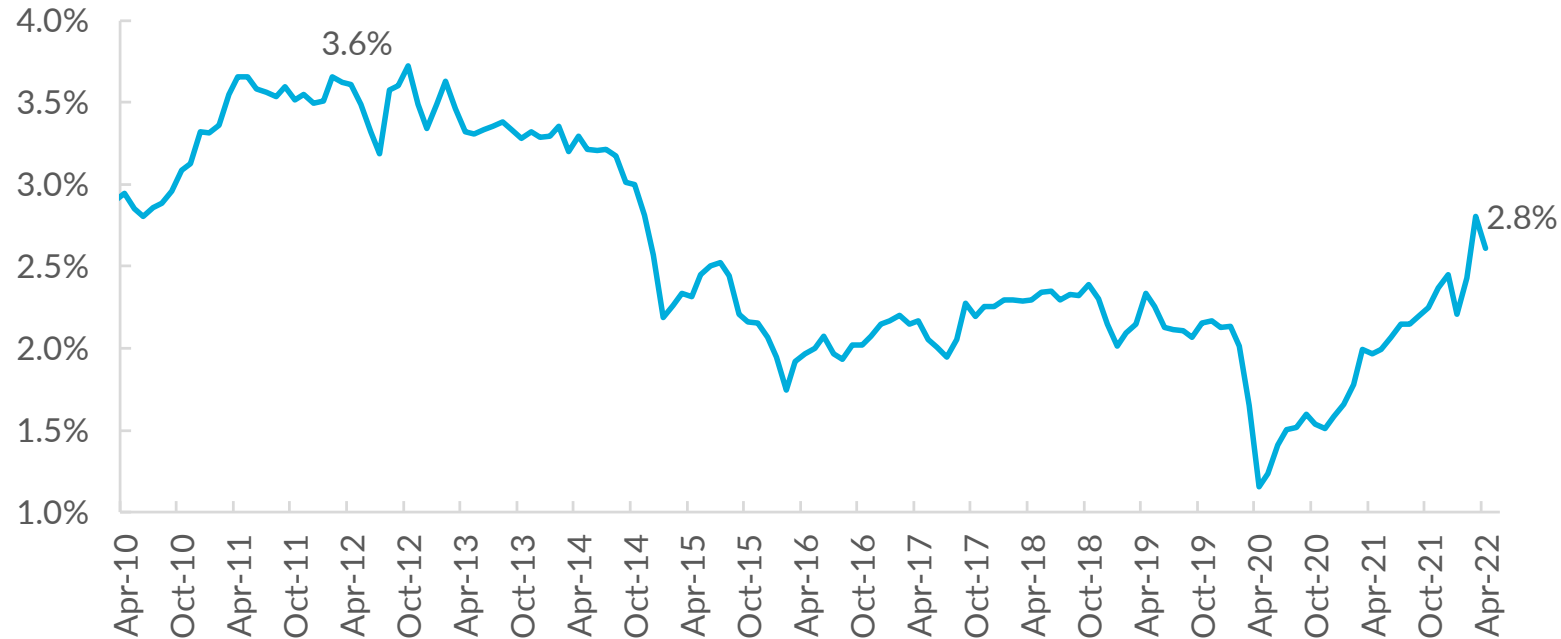
Sources: Tourism Economics, EIA, BEA

Note: BEA data based on average annual expenditures by consumer units. PCE as of April-22, Gas Price as of May-

...and remains a reasonable share of household expenditures

Gasoline and other motor fuel expenditures

Share of total personal consumption expenditures

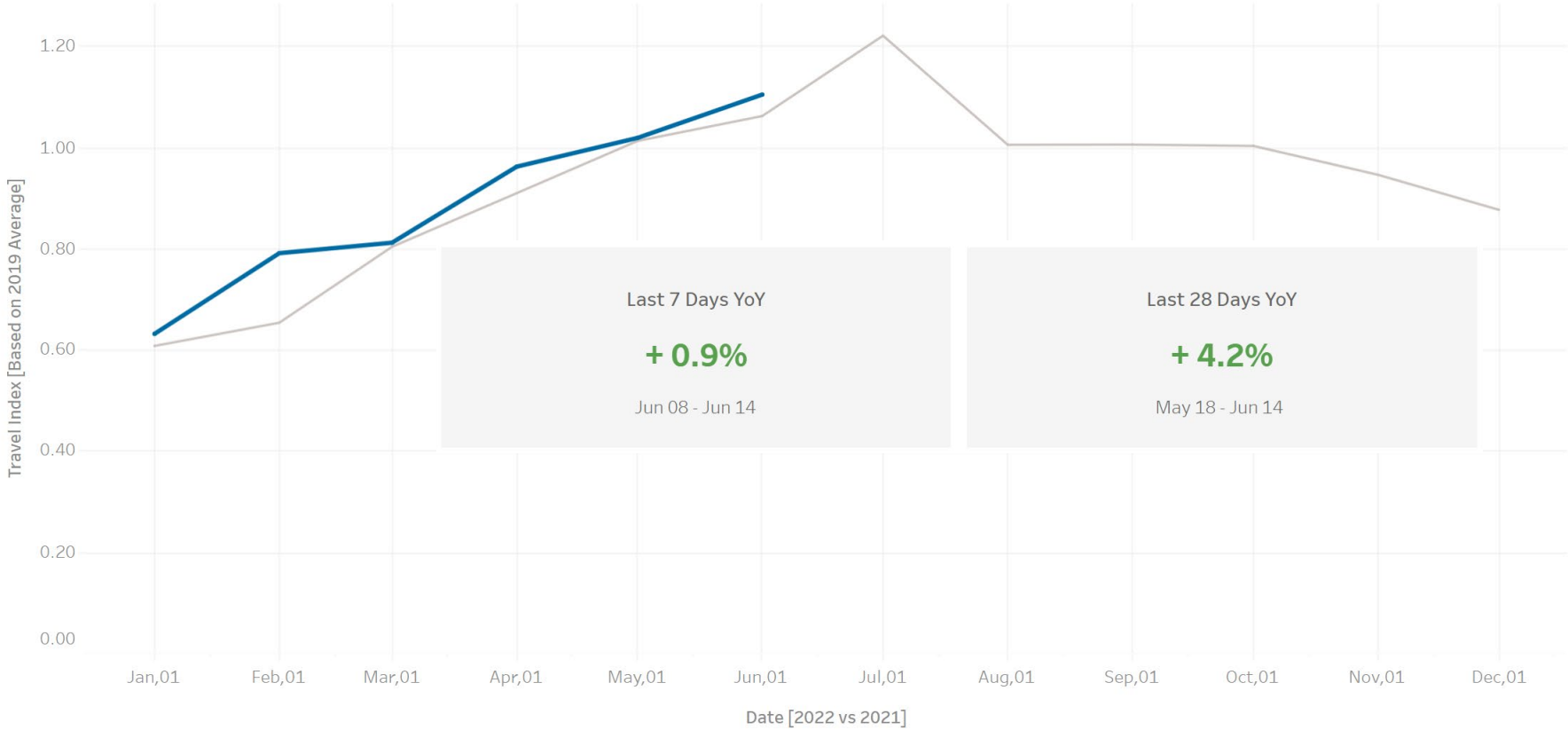


Source: BEA

- **Even with recent gas price increases, the budget burden on households is less than in 2010-2014.**

Auto travel still pacing ahead of last year

arrivalist.com | US Daily Travel Index

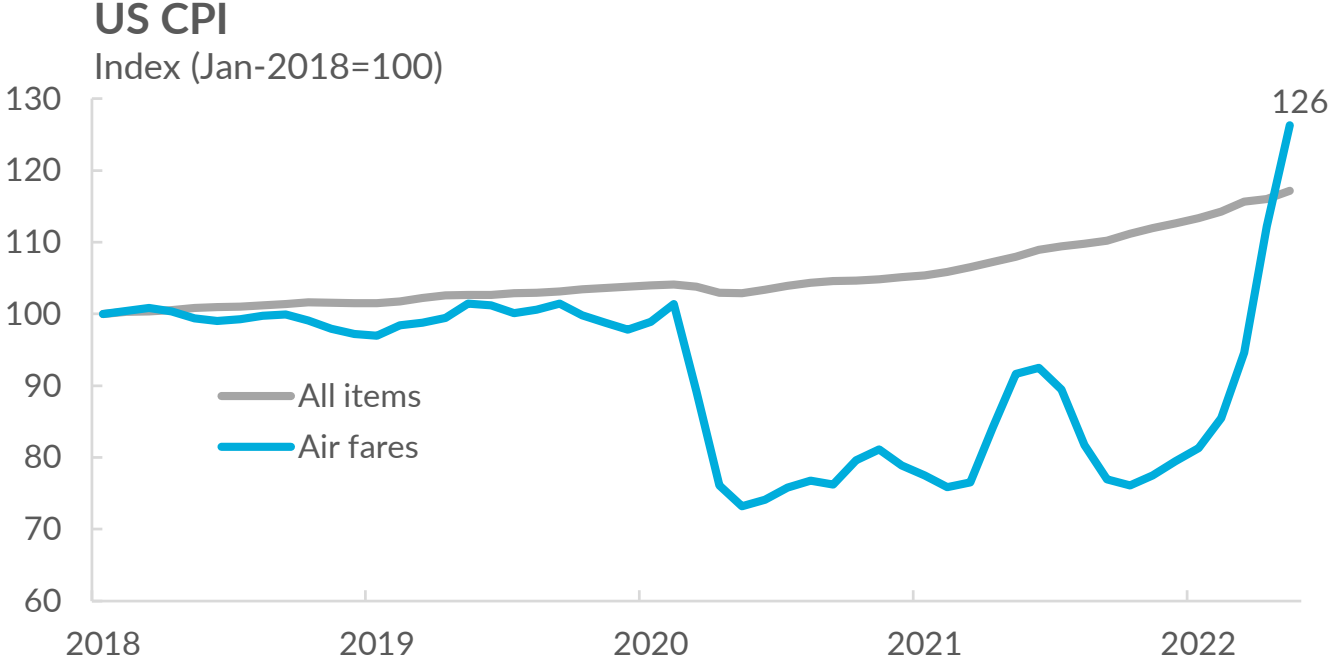


Date Granularity:
 Compare Period:
 Trip Type:
 Destination:
 2022 ■ 2021 ■



Daily drive market index of US travelers who moved at least 50 miles from home and spent a minimum of 2 hours at the destination. The index is based on the average daily volume of 2019

Air travel prices have spiked but not yet affecting demand



Sources: Tourism Economics, BLS

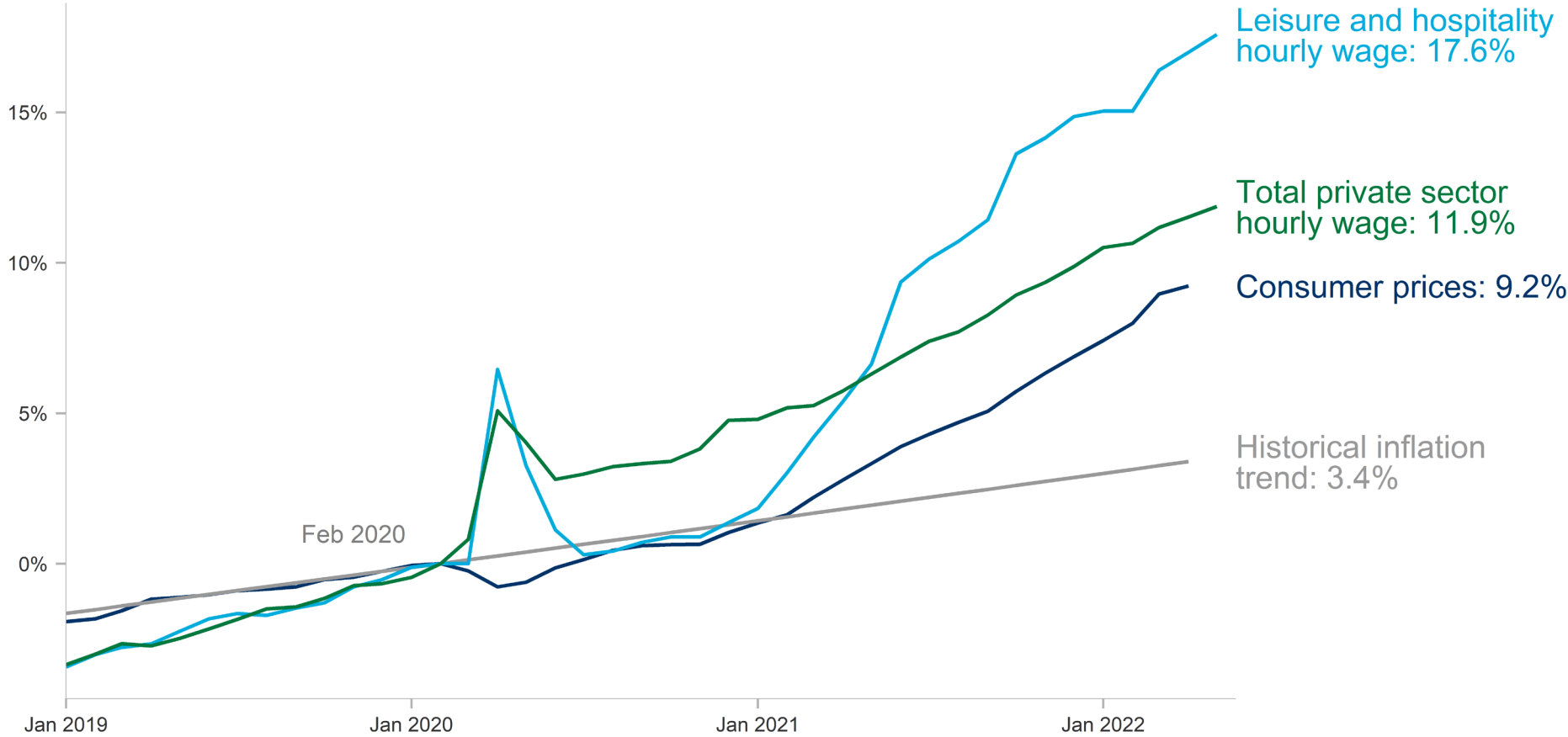
“Revenue management systems are just beginning to tighten up because we don't want to run out of supply for this summer... And our biggest concern right now is selling out for this summer.”

United Airlines revenue guidance, May 16

One reason consumers are absorbing price increases

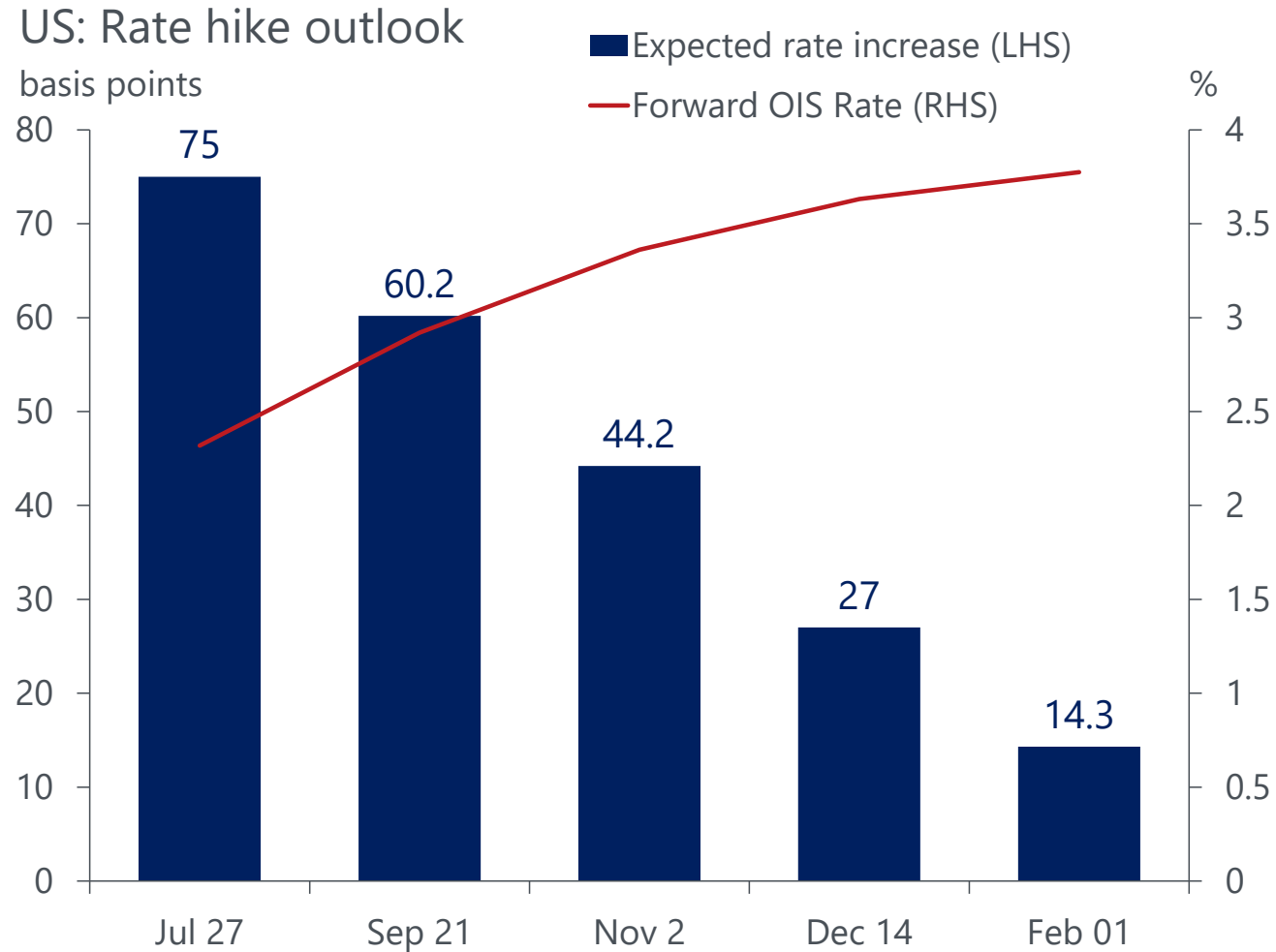
Wage growth comparison

Cumulative increase since February 2020



Note: Data shown through May 2022. Historical inflation trend measured since 2008. Consumer price inflation measured by PCE price deflator. Wage rates measure all private-sector employees. Source: BLS (average hourly earnings, establishment survey), BEA

Markets are expecting another 75bp hike in July

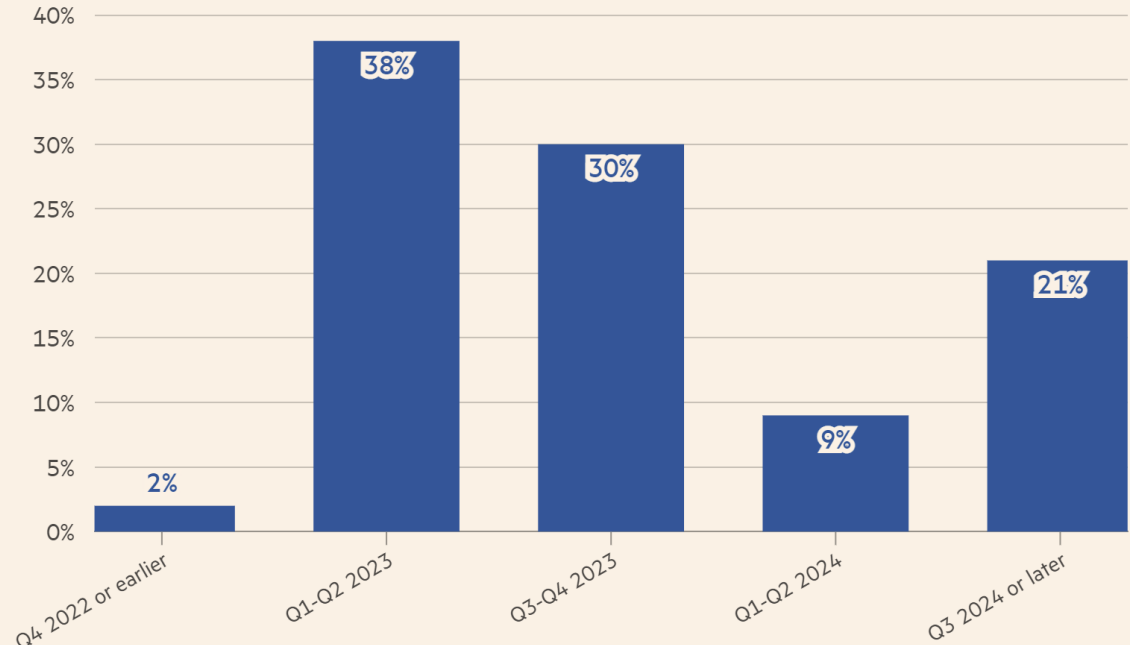


Source: Oxford Economics/Bloomberg

70% of economists expect a recession by the end of 2023

Most economists surveyed predict that the next recession will begin in 2023

In which range is the most likely starting quarter of the next recession (as determined by the NBER business cycle dating committee)?

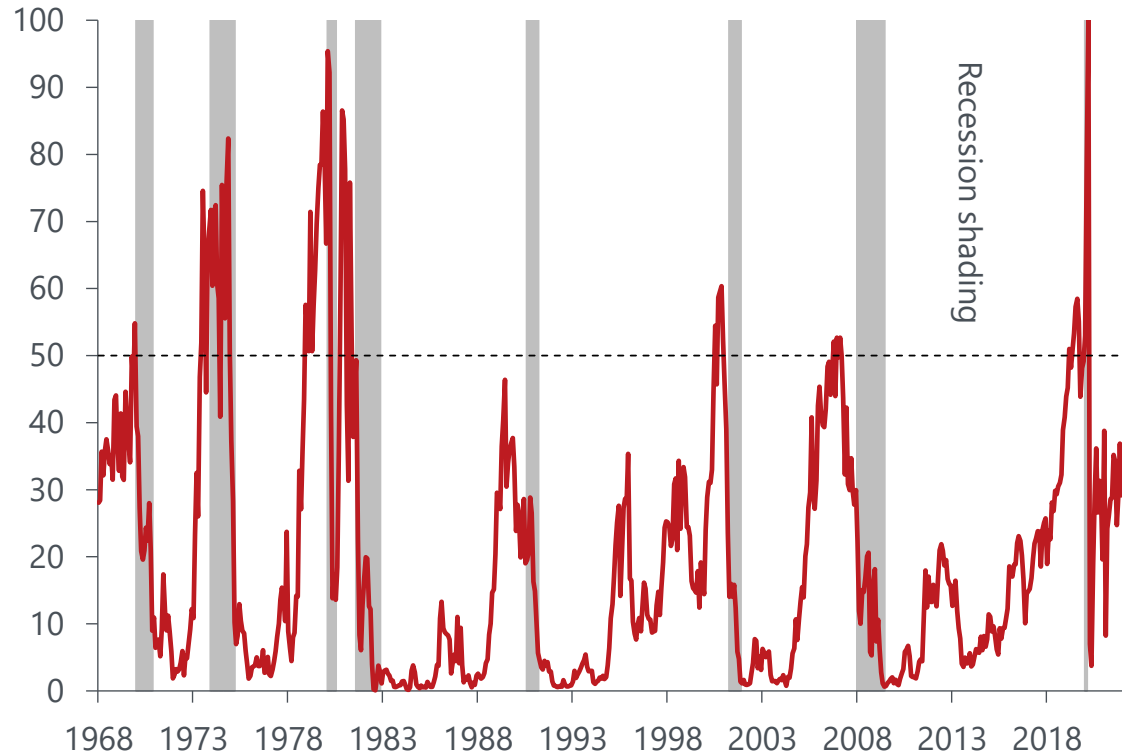


Source: FT-IGM survey of 49 economists from Jun 6 to 9
FT Graphic: Caitlin Gilbert / @caitlinsgilbert

Recession odds are rising, but not yet flashing red

US: Probability of a recession 3 months ahead

Percent, 3-month lead



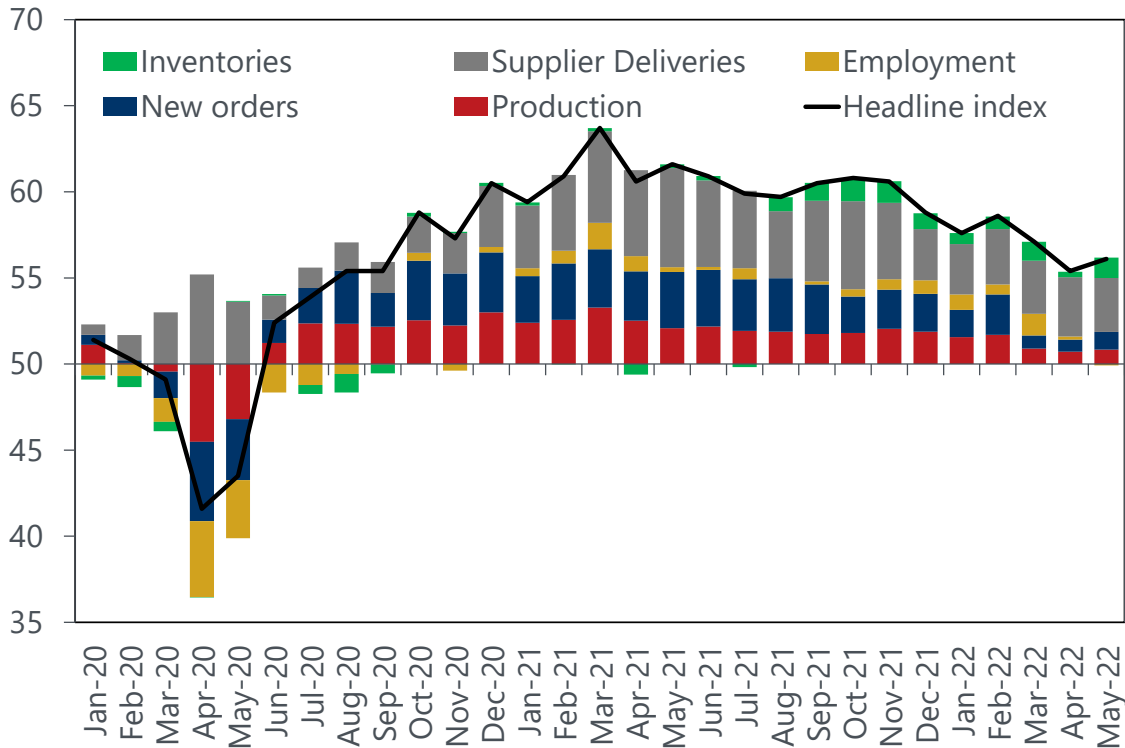
Source: Oxford Economics

Using the Chicago Fed National Activity Index, the real federal funds rate & the yield curve

ISM surveys maintained resilience in May

US: Contribution to headline ISM Manufacturing

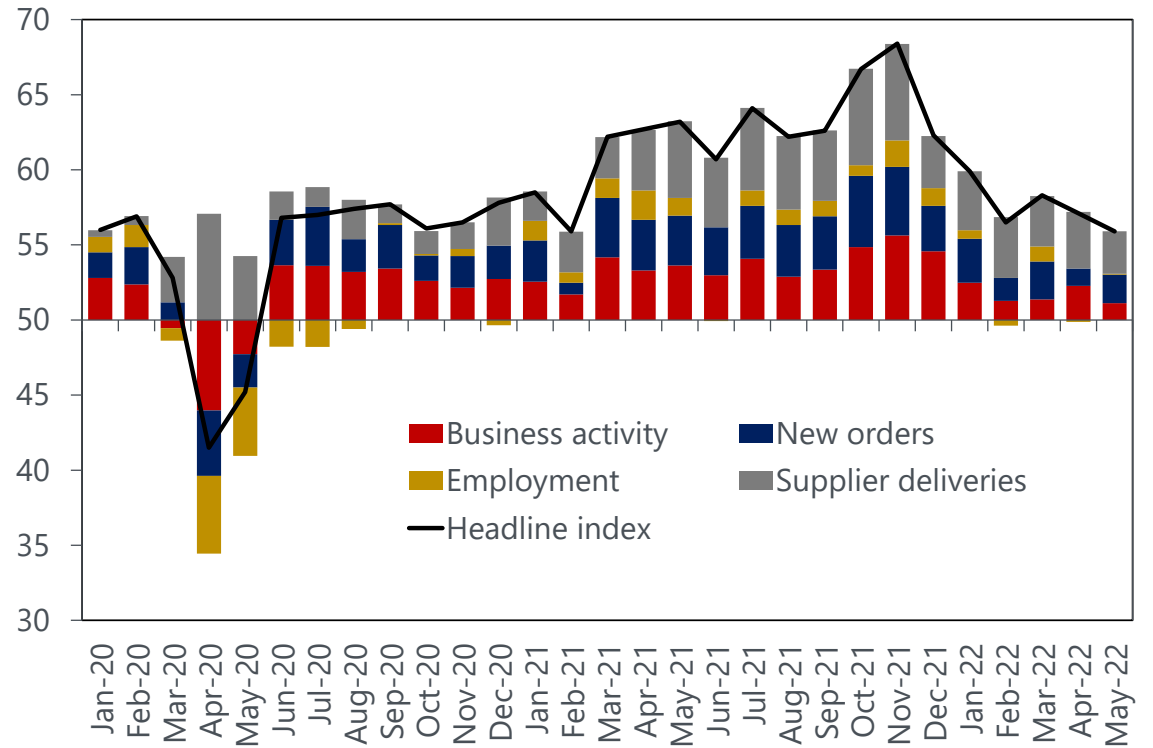
Index; above 50=expansion



Source: ISM/Oxford Economics/Haver Analytics

US: Contribution to headline ISM Services

Index; above 50=increasing

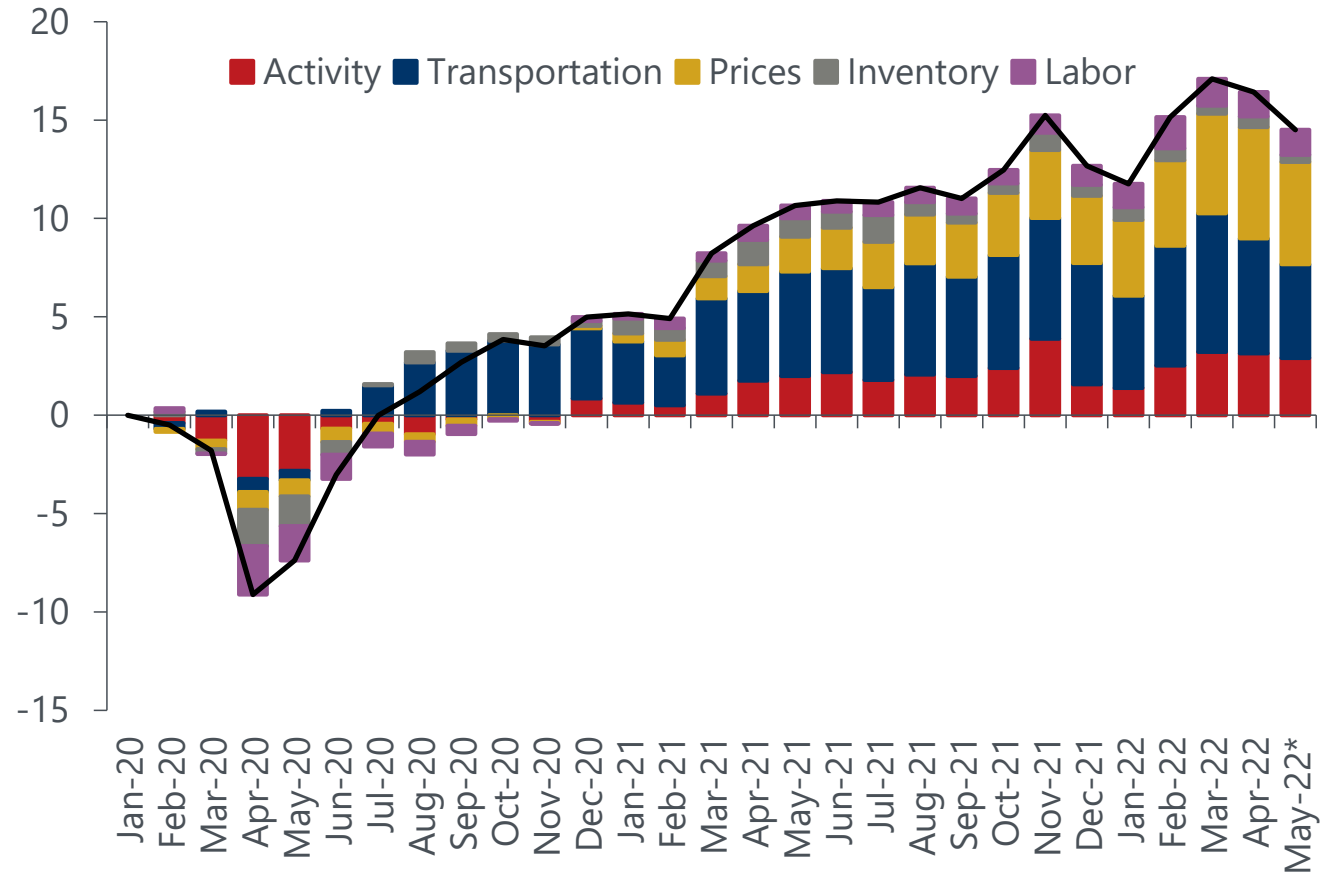


Source: ISM/Oxford Economics/Haver Analytics

Supply chain stress eased modestly in May

US: Supply chain stress tracker

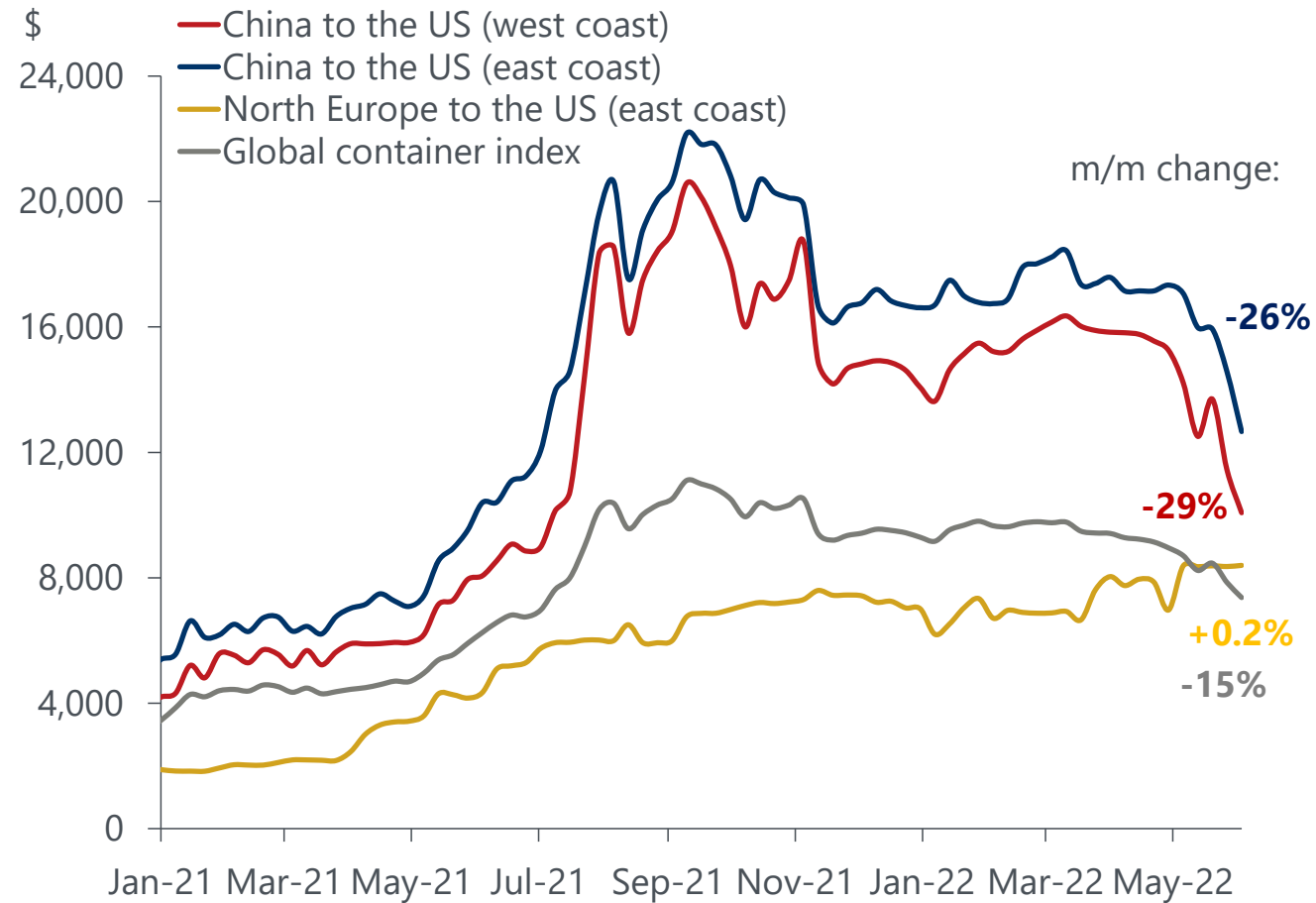
Index; > 0 = rising stress



Note: * estimate based on preliminary data and OE forecasts

Shipping costs have fallen sharply in June

US: The cost of shipping a container from...

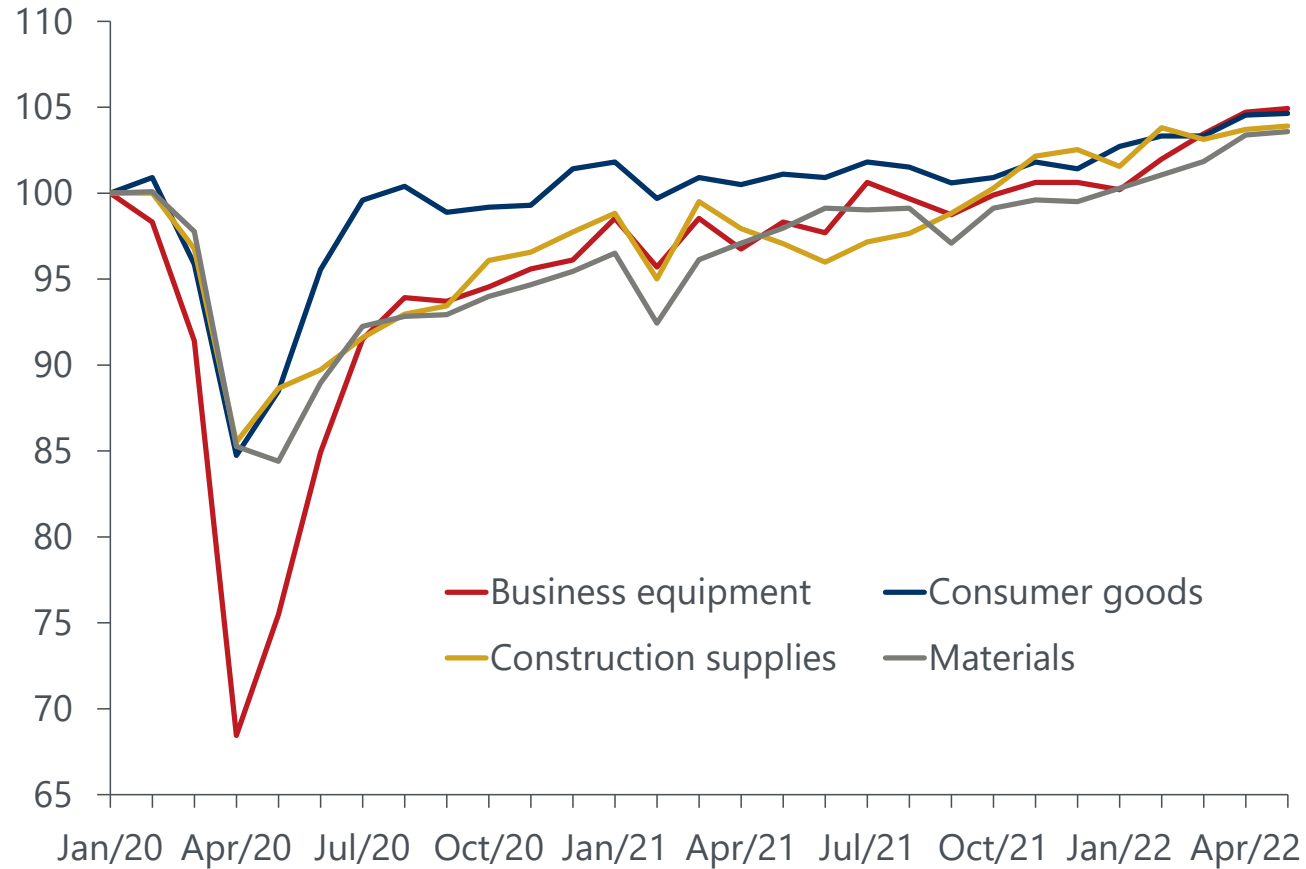


Source: Oxford Economics/Freightos Baltic Index

Production continues to power through supply constraints

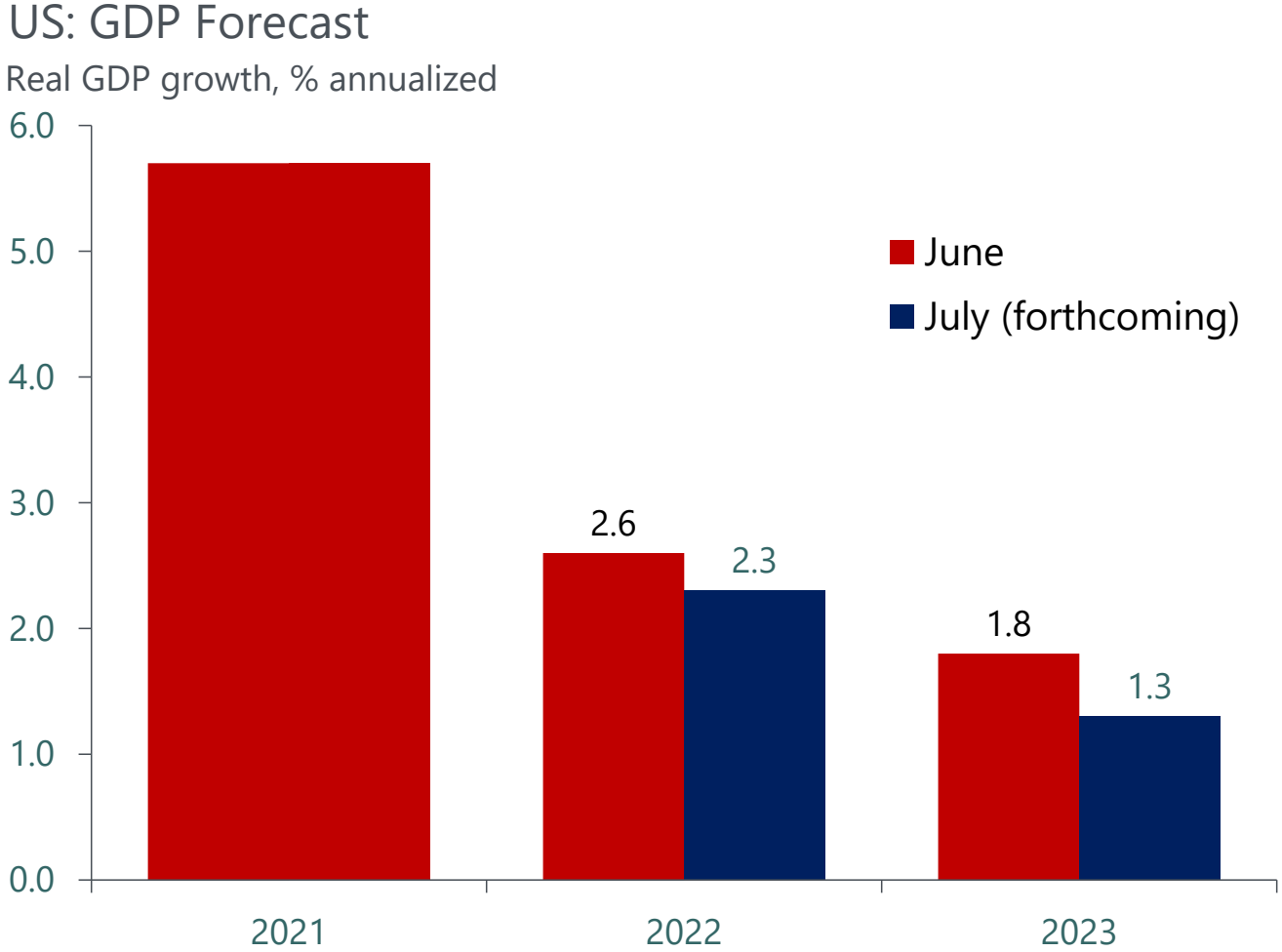
US: Industrial production by market group

Index; Jan/20=100



Source: Oxford Economics/Haver Analytics

GDP growth to slow significantly in latter part of 2022 into 2023



Source: Oxford Economics

“Aggressive and front-loaded Fed rate hikes will weigh heavily on economic activity and raise the odds of a hard landing, especially for 2023.”

However, we remain in the camp that recession is not inevitable.”

- Oxford note to clients, June 24, 2022

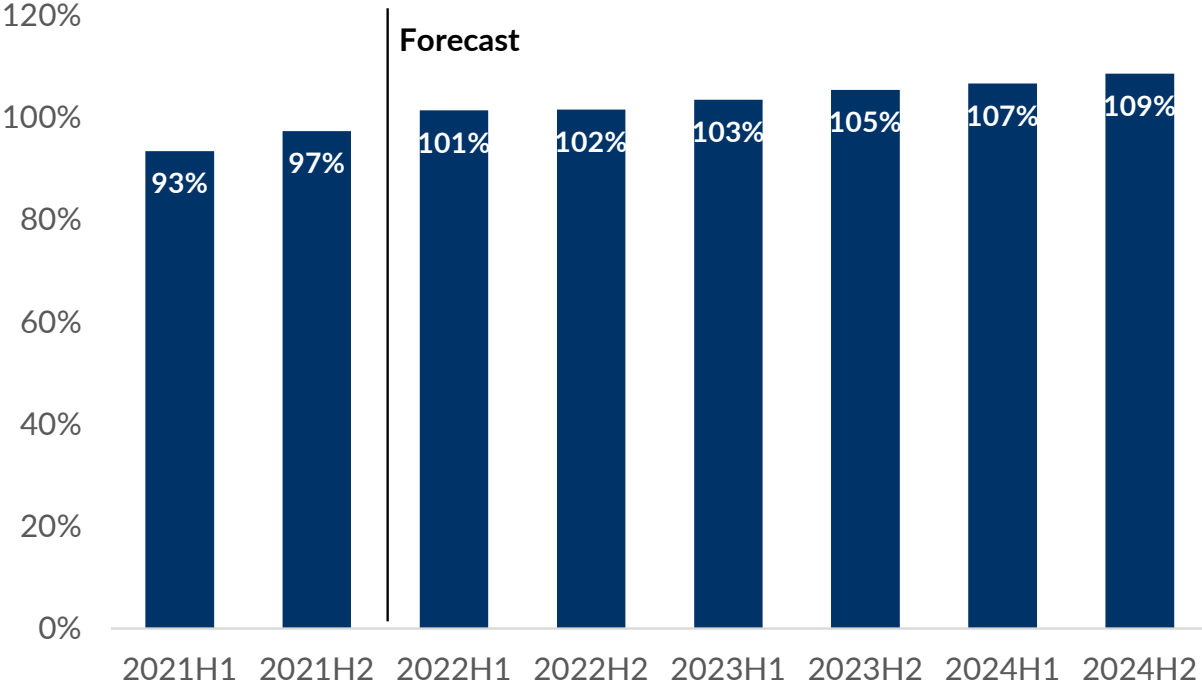
4 The travel outlook



Domestic leisure has recovered. Much slower growth ahead.

Domestic leisure person trips

% of time period in 2019



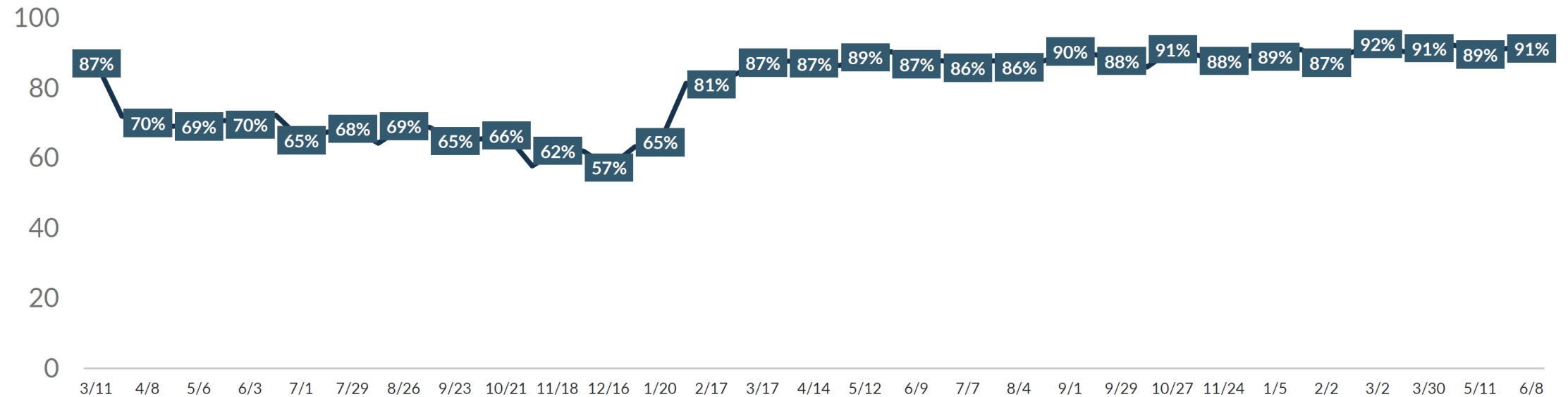
“...the pent-up demand that’s out there for travel seems to be outweighing anything the market can throw at it and we continue to be feeling very good about a summer recovery that should be very robust.”

Expedia earnings call, May 2

Source: Tourism Economics, U.S. Travel Association

Intentions to travel remain high at 9-in-10

Travelers with Travel Plans in the Next Six Months Comparison

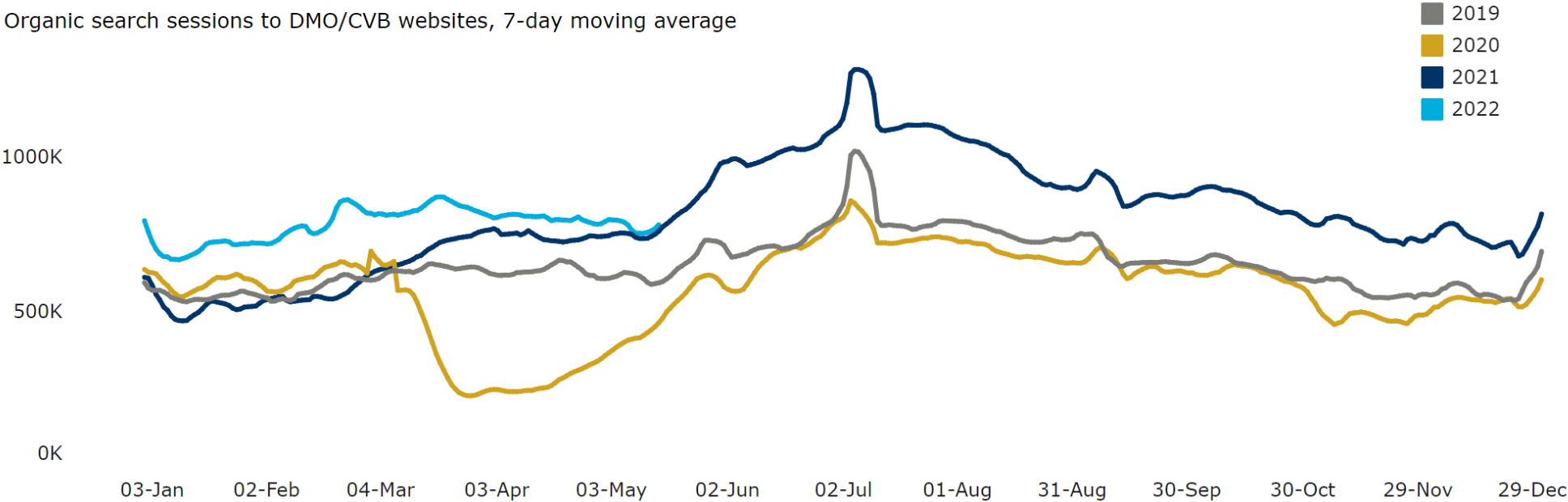


Travel Sentiment Study Wave 62

US destination website searches remain above 2019 levels

Website Traffic

Organic search sessions to DMO/CVB websites, 7-day moving average

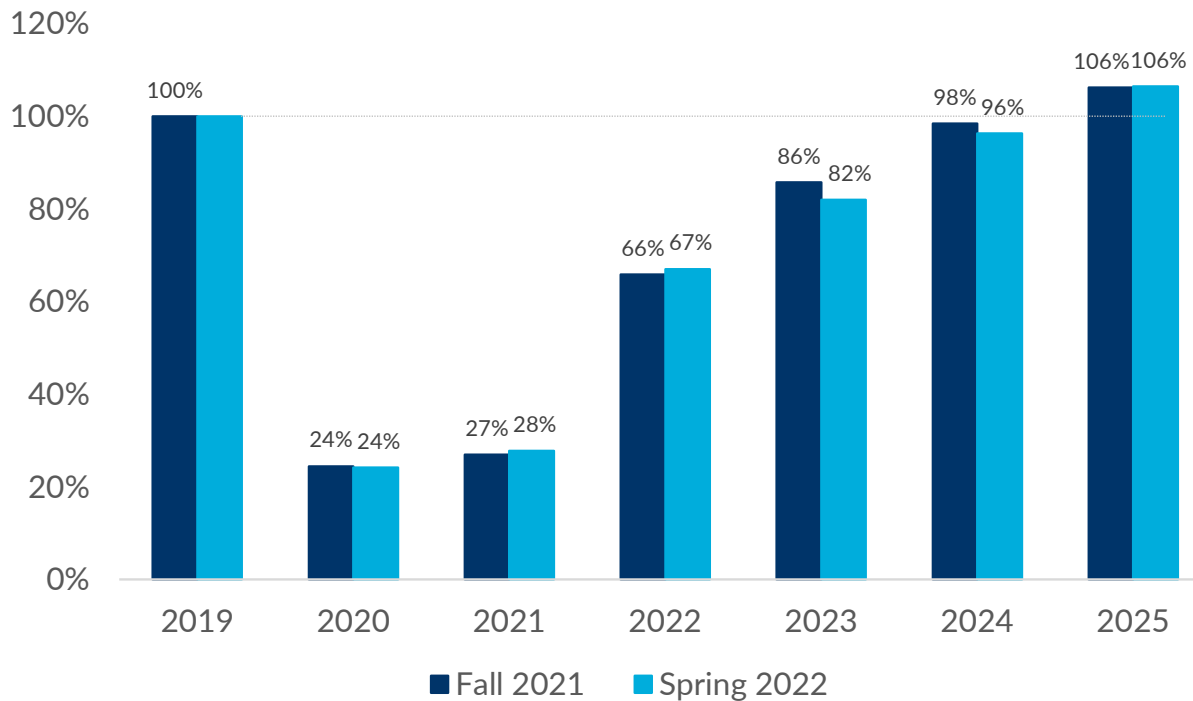


Source: Simpleview & Tempest (300+ U.S. DMOs)

International is on its way back

International inbound forecast

% of 2019



“We have seen a recovery in international travel, particularly from Canada, Germany and the U.K. New York remains the top destination market followed by San Francisco and Seattle, and we expect sequential improvements in international demand over the course of this year.”

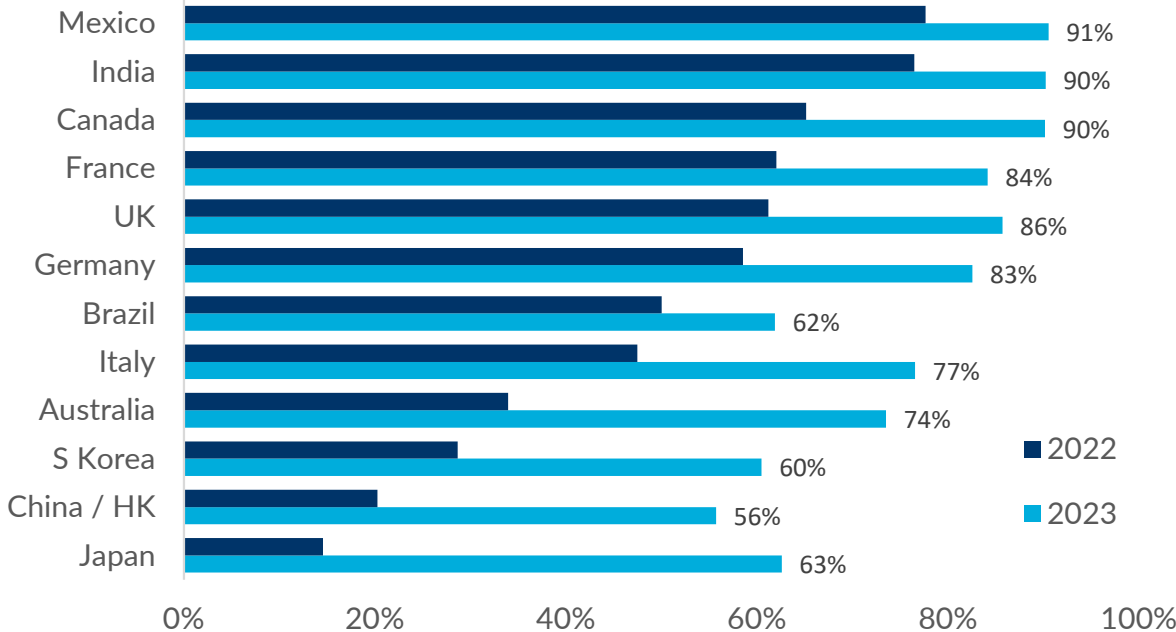
Host Hotels revenue guidance, May 5

Source: Tourism Economics, U.S. Travel Association

NAM and Europe will lead recovery into next year

Top US origin markets

% recovered relative to 2019



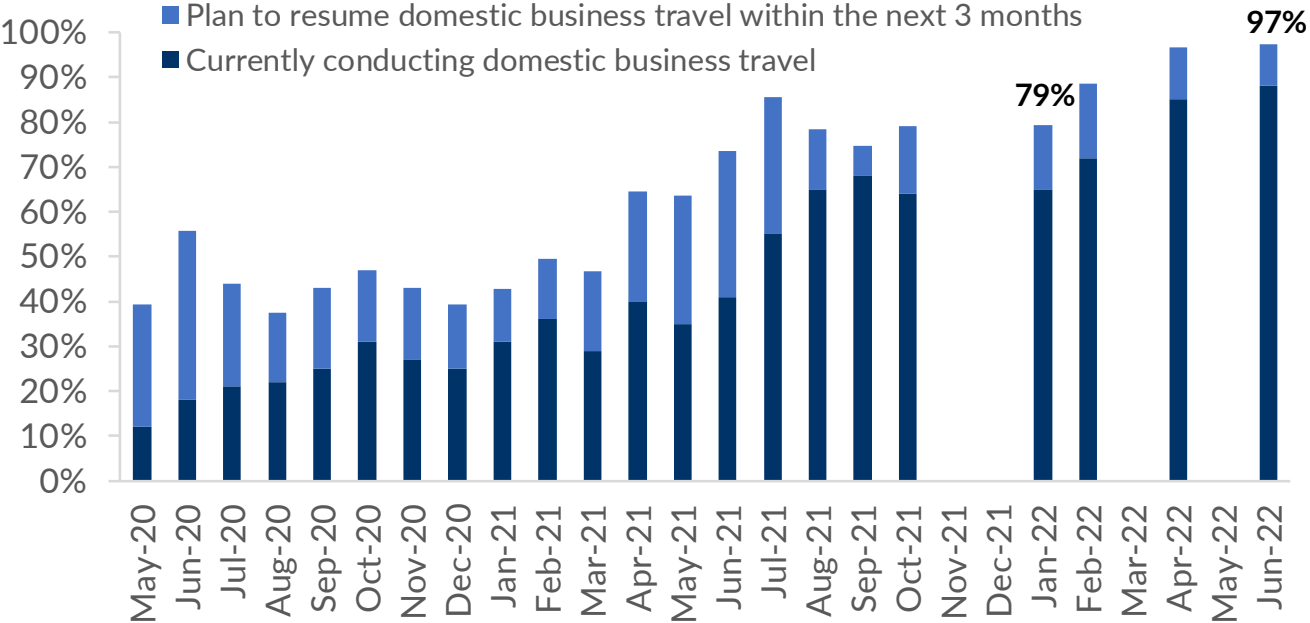
Note: Top 12 origin markets for international travelers to the United States. Does not include increased international travel from dropping of pre-departure testing.

Source: Tourism Economics

Nearly 100% of US companies traveling now or planning to start soon

Domestic business travel outlook

% of US companies



Source: GBTA

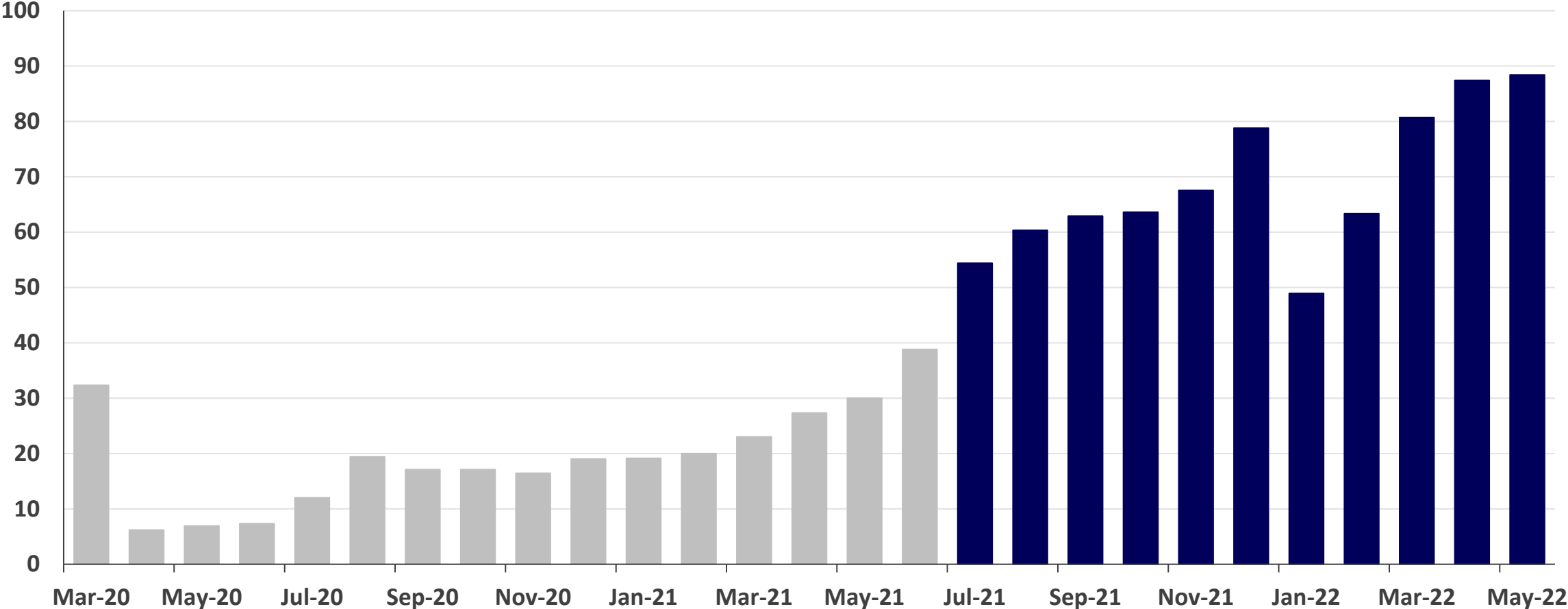
“The leisure part is strong and will continue as far as the eye can see. But the great part is the business part, which is continuing to bounce back rapidly here in the US and Europe.”

United Airlines earnings call, May 17



Group demand slowed at the beginning of the year but is now strengthening

U.S. group demand indexed to 2019 (luxury & upper upscale classes only)

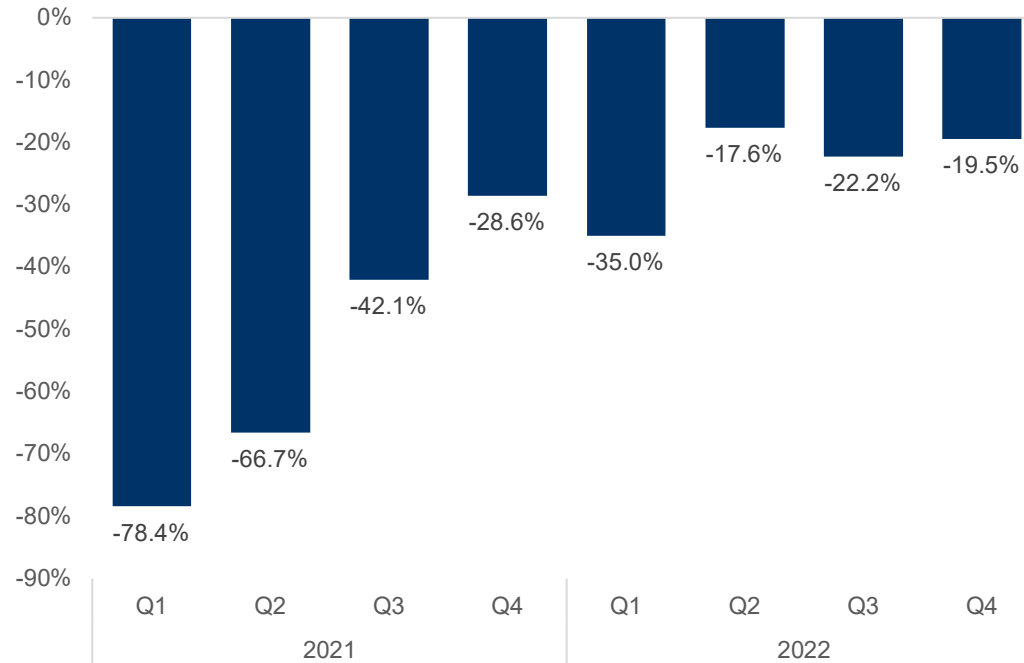


Source: STR. 2022 © CoStar Group

Improvements for groups in sight (but still -20% through 2022)

On the books relative to historical pace

Pace ahead of future date (same time last year), relative to 2019 pace



Source: SimpleView CRM (250+ DMOs)

“Demand still building, for business and for group on top of very strong leisure.

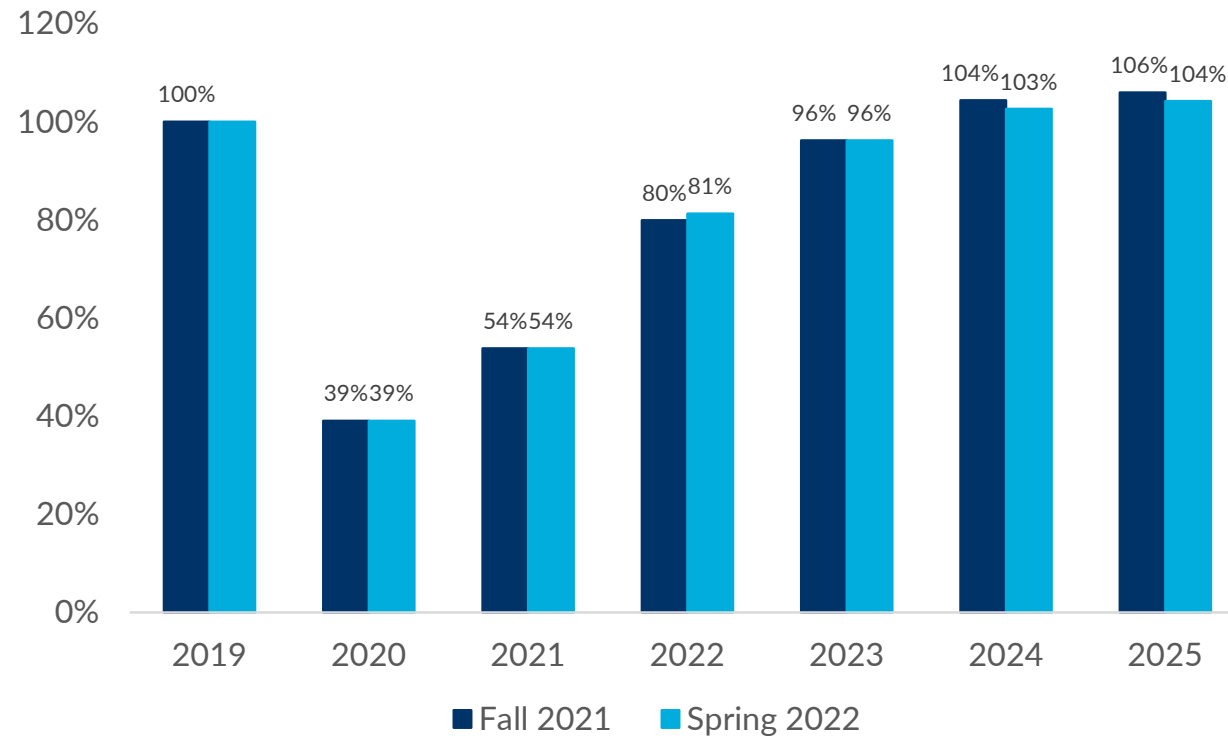
We're seeing meetings and events coming back strongly.”

IHG earnings call, May 6

Trip volume at 81% this year and 96% next year

US domestic business trip volume

% of 2019



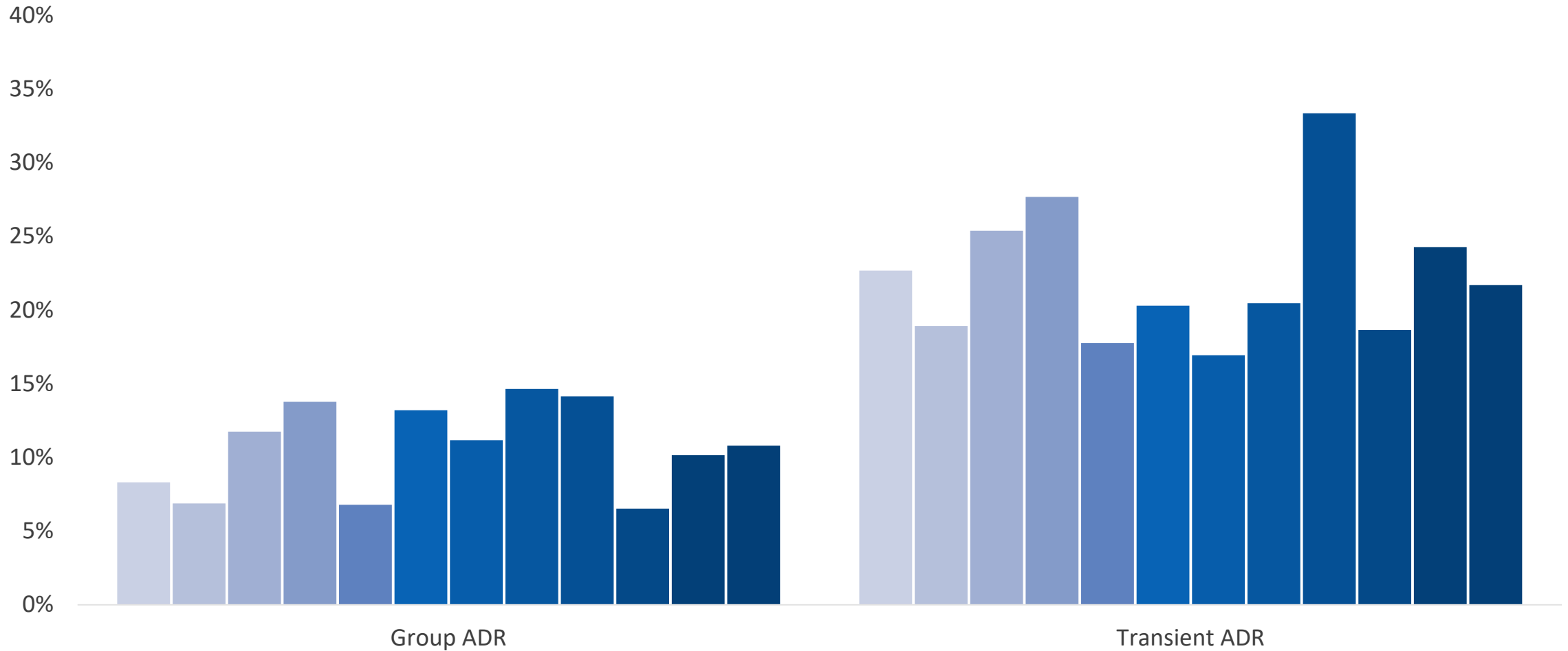
Source: Tourism Economics, U.S. Travel Association

“Our recent survey results show that 90% of our corporate accounts anticipate travel volumes to increase in the June quarter as offices continue to reopen.”

Delta earnings call, April 13

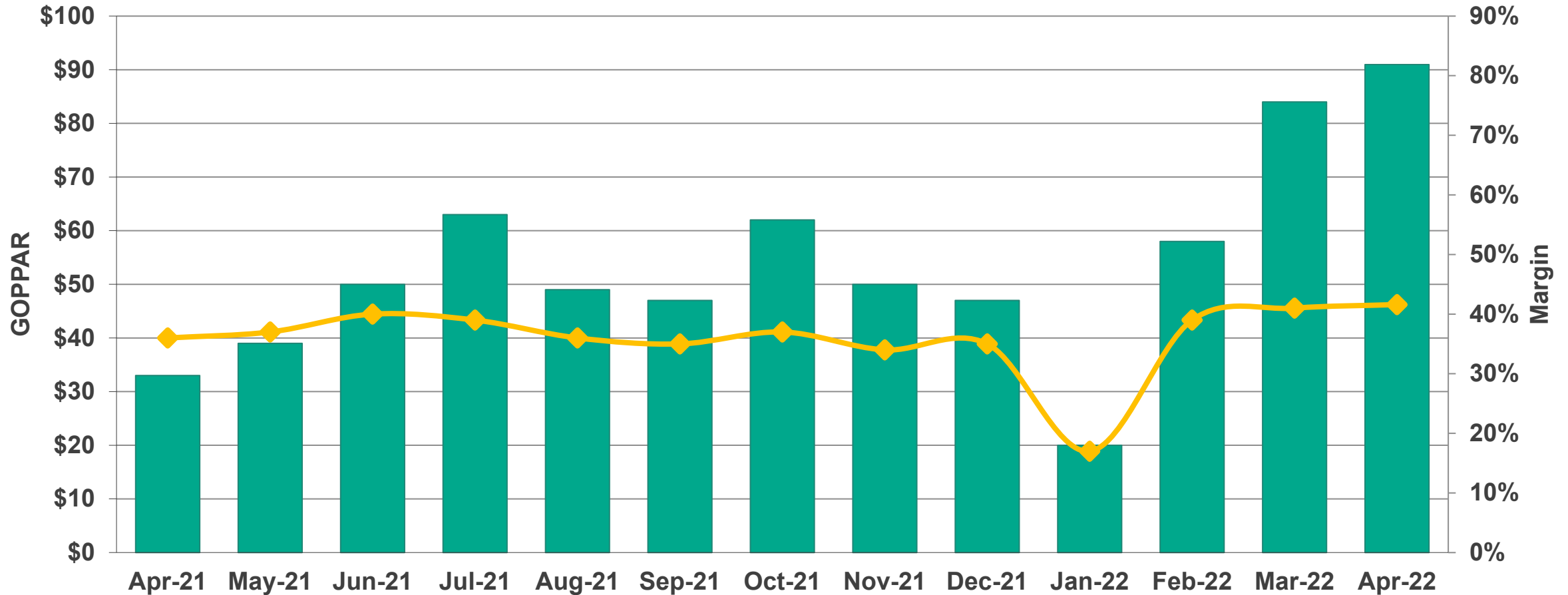
Groups are getting a massive cut on ADR right now

U.S., segmentation ADR % change to 2019, weeks ending 2 Apr – 18 Jun 2022



GOP margin highest since October 2018 and third highest ever

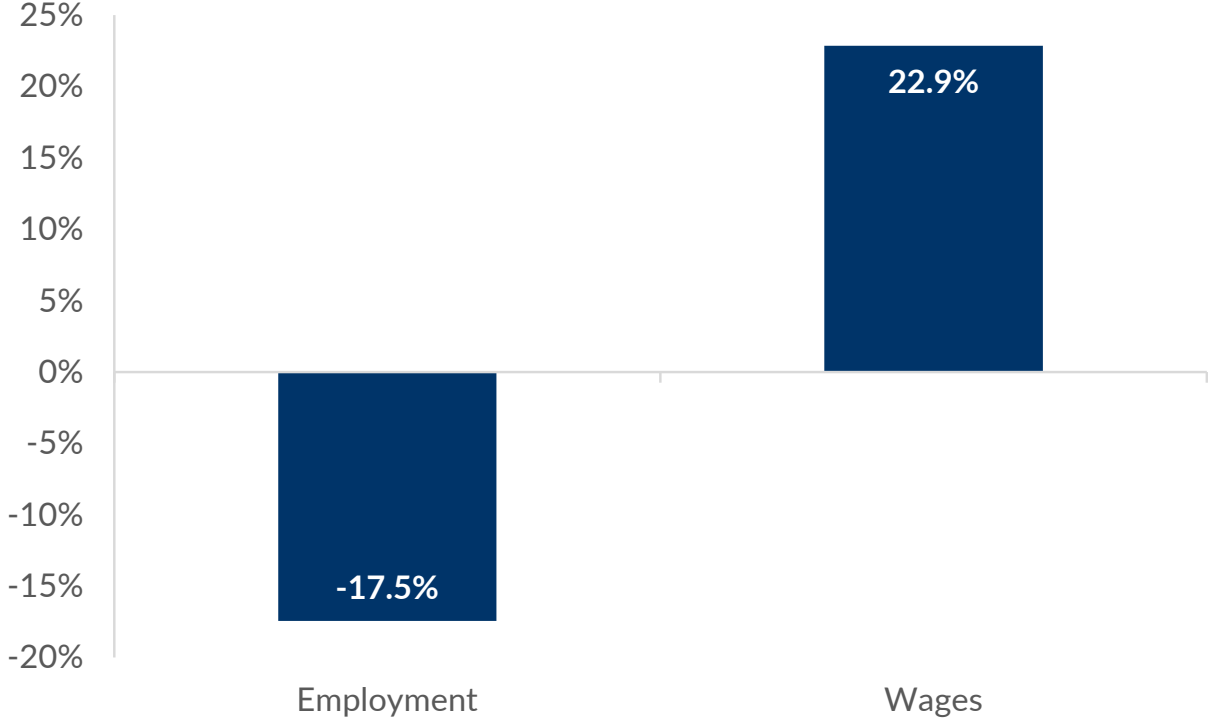
GOPPAR & GOP margin by month (2021 and 2022)



Wage increases are offsetting lower staffing

Accommodation employment situation

% change relative to same month 2019

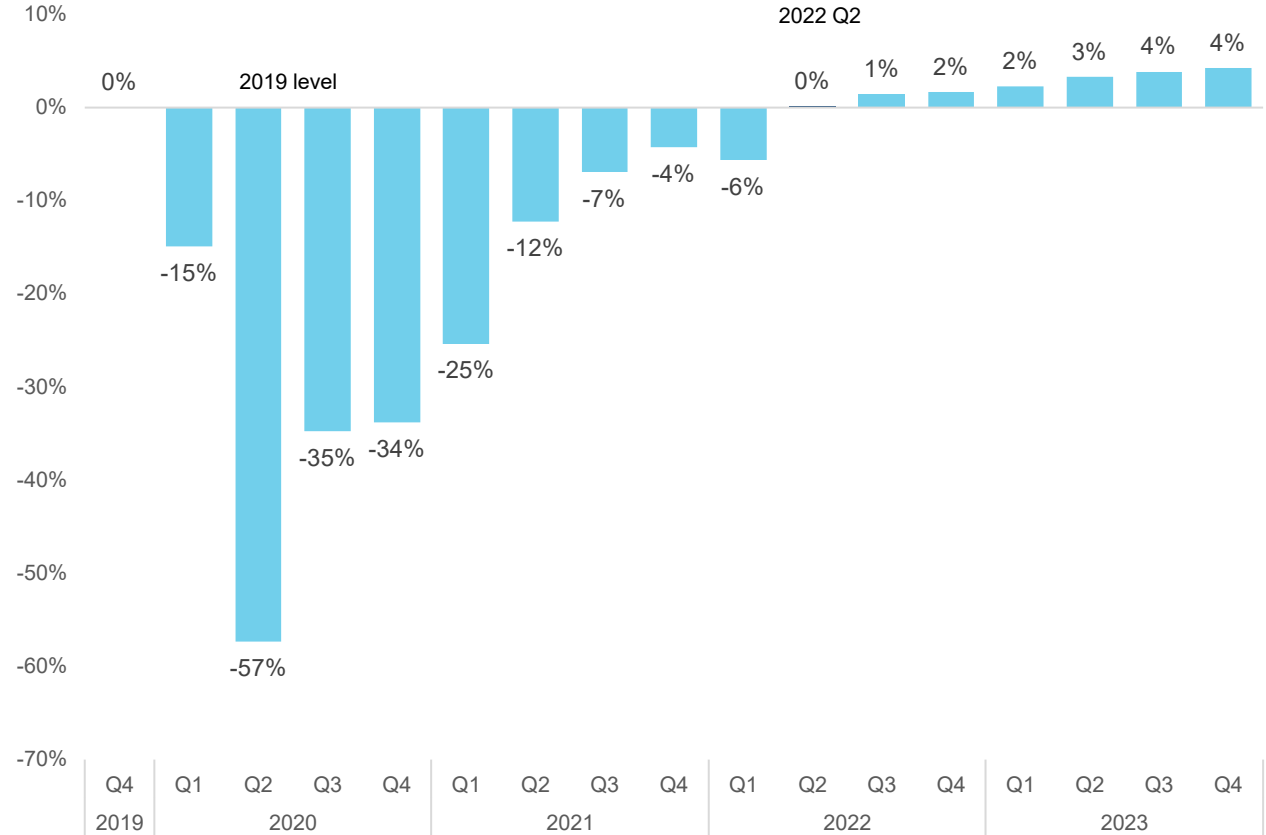


Source: BLS

Room demand hits breakeven this summer. Additional gains modest.

Room demand

Quarterly, relative to 2019



Source: STR; Tourism Economics

“For 2022, we expect leisure RevPAR to exceed 2019 peak levels given excess consumer savings, a strong job market and pent-up demand.

We expect business transient to be roughly back to 2019 levels by year-end, supported by corporate profits, demand from big businesses, and loosening travel restrictions.

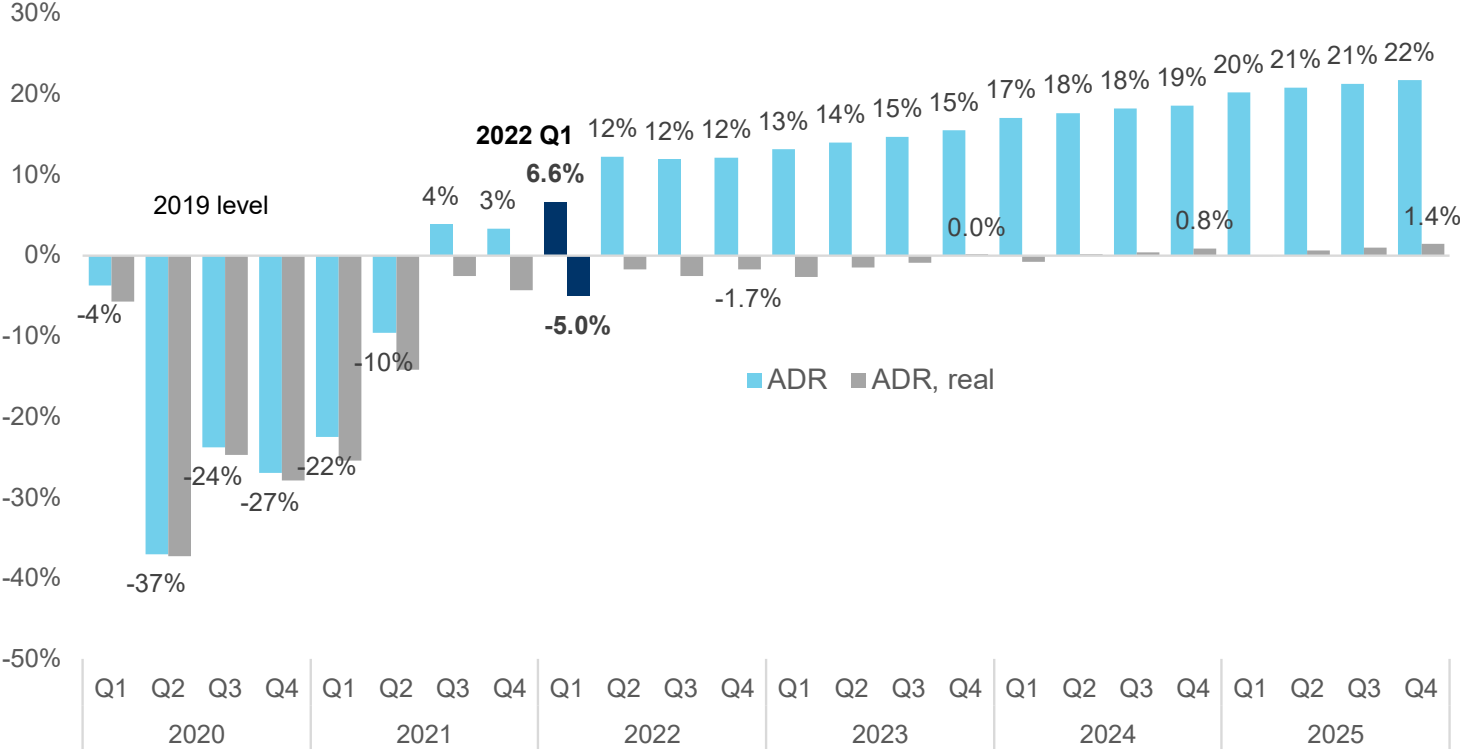
On the group side, we expect RevPAR to be at approximately 90% of 2019 levels by year-end, as demand for company meetings and convention business accelerates.”

Hilton earnings call, May 3

Inflation-adjusted ADR outlook just keeps pace

US ADR

Quarterly, relative to 2019



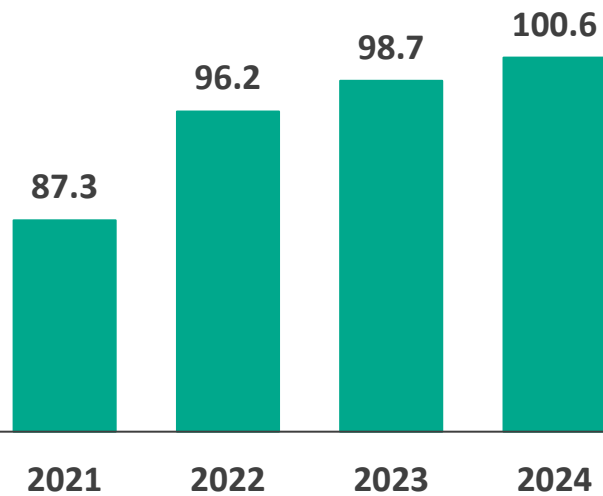
Source: STR; Tourism Economics

RevPAR fully recovered this year (but 2024 in real terms)

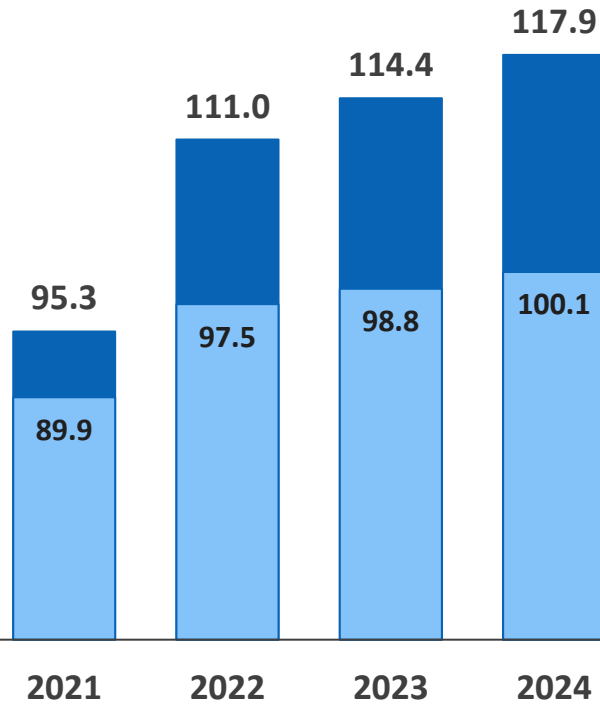
U.S. KPIs, indexed to 2019



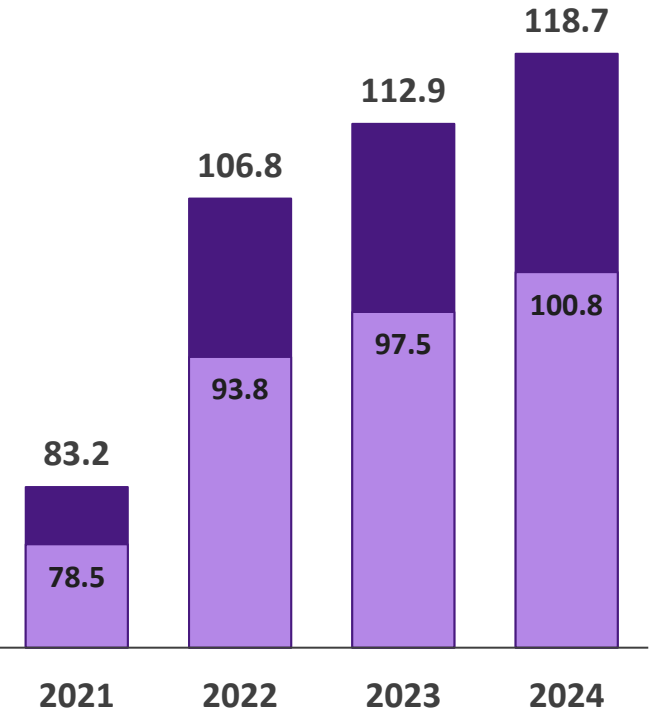
Occupancy Index



ADR Index



RevPAR Index

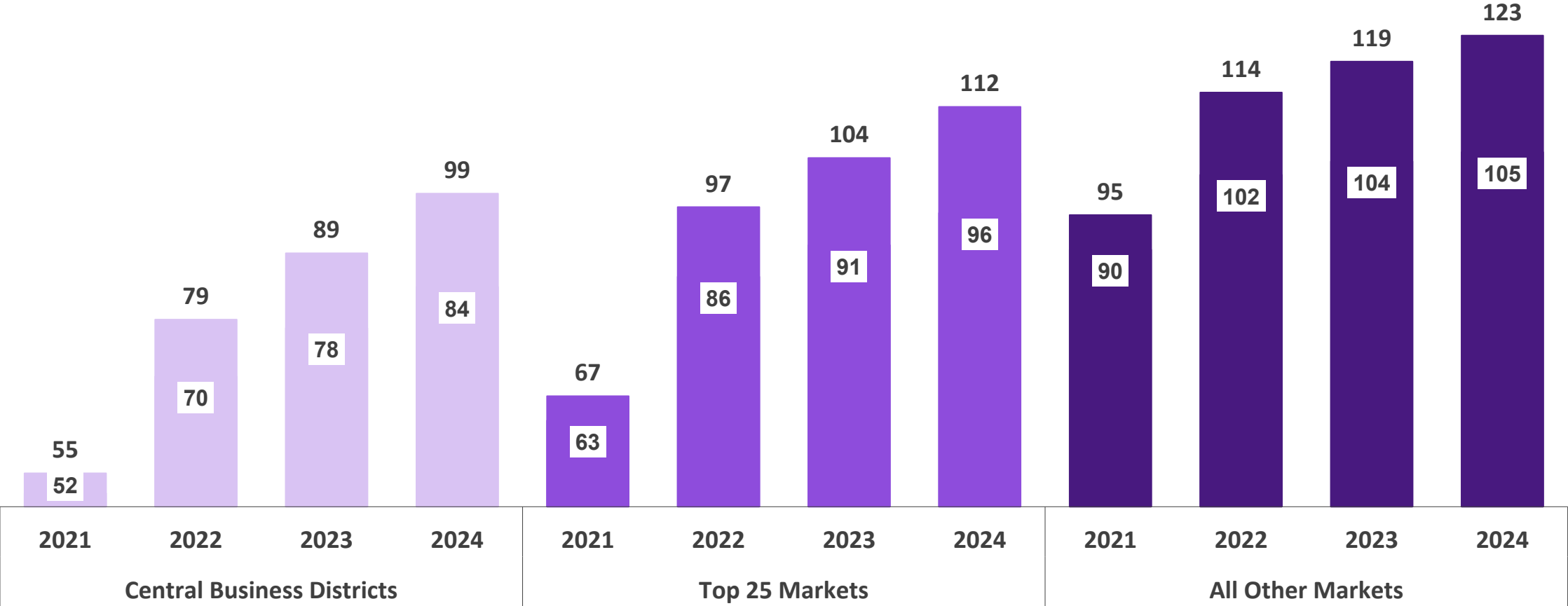


■ Nominal ADR ■ Real ADR ■ Nominal RevPAR ■ Real RevPAR



RevPAR Recovery for CBDs and Top 25 Markets will lag

U.S. RevPAR forecast by market type, indexed to 2019 (nominal and real)



Summary

1 **A dramatic recovery**

The US travel sector has experienced an “unprecedented” recovery with hotel demand fully back, short term rentals far ahead, and air travel at around 90% back

2 **Economic fundamentals**

The key fundamentals of corporate performance, employment, household savings, and income growth are all favorable

3 **The twin-headed monster (labor and prices)**

Labor force shortages will limit air travel recovery and continue to put pressure on prices. While a recession is possible, it would likely be modest and short-lived.

4 **The travel outlook**

Travel is well-positioned to continue its forward progress. Business travel will continue toward “return to normal” and household finances + pent-up demand should prevent a typical exaggerated drop.