TRAVEL FORECAST

December 2019

HIGHLIGHTS

The U.S. Travel Fall 2019 Forecast projects that domestic travel will grow by 1.4% in 2020— slower than the estimated 1.7% rise in 2019—while international inbound travel will increase 2.0% in 2020 following an estimated decline of 1.0% in 2019.

- **Domestic Leisure Travel:** Keeping up with its moderate rate of growth over the past few years, domestic leisure travel is expected to grow by 1.9% in 2019 before slowing to 1.5% growth in 2020. Domestic leisure travel is expected to continue growing faster than domestic business travel and will be supported by upbeat consumer attitudes and solid—though moderating—labor market conditions.
- **Domestic Business Travel:** Business investment grew at the fastest pace in four years in 2018 but is expected to decelerate in 2019 and 2020. Domestic business travel is expected to grow by 1.1% in 2019 and 1.0% in 2020, continuing to trail domestic leisure travel.
- **International Inbound Travel:** Overseas visitations to the U.S. are expected to grow moderately (1.5%) while arrivals from Canada (-3.0%) and Mexico (-4.0%) are expected to decline in 2019. As a result, total international visitations to the U.S. are projected to decline by 1.0% in 2019, with an expectation of a recovery to 2.0% growth in 2020.

The Macro Economy

The U.S. Economy

The U.S. is experiencing its longest economic expansion on record, now (as of December 2019) at 126 consecutive months since its trough in June 2009. At the same time, a number of high-frequency indicators suggest that the economy has been slowing throughout 2019.

While the consumer sector—which accounts for 68% of GDP—remains foundationally strong, the current slowdown in economic growth is due to weak trade and waning business confidence. During the first three quarters of 2019, GDP grew at an average annual rate of 2.3%, the slowest pace in three years. Recession fears resurfaced in early October as ISM manufacturing and nonmanufacturing indices fell to their lowest levels since 2009 and 2016, respectively.

Forecast: After moderating in 2019, domestic economic fundamentals will likely continue to cool in 2020. While consumers are still benefitting from several factors—low interest rates, a solid labor market and healthy household balance sheets—a slower pace of consumer outlays is expected.

In line with the deceleration in the overall economy, business investment has begun to moderate as well. While business investment increased by 6.4% in 2018, slower global growth, continuing trade tensions, weakening business confidence and a strong dollar will likely limit growth in 2019 to 2.4% and an even slower 0.7% in 2020. Growth in personal income, employment and consumption—which are all expected to be slower, but positive—are expected to support a soft landing for the domestic economy.

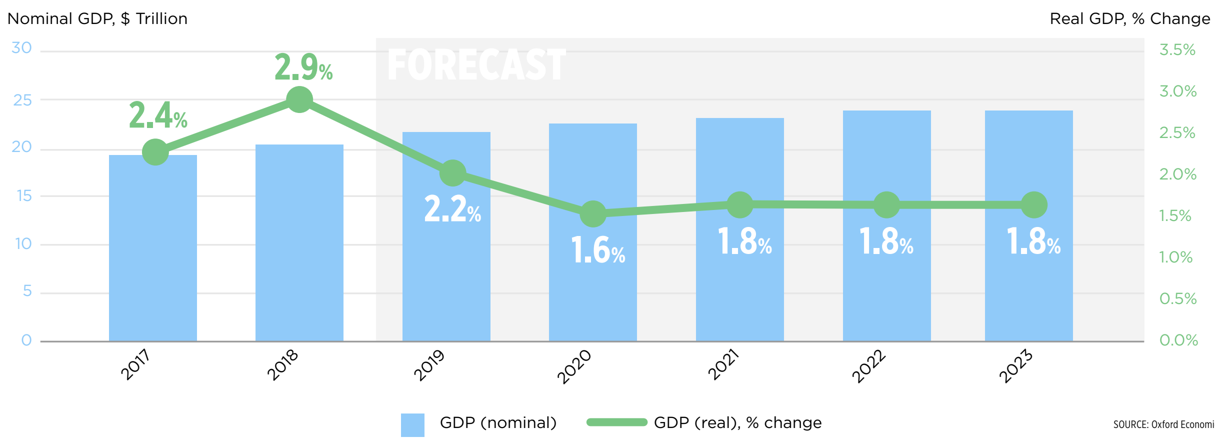
As benefits from the fiscal stimulus have begun to dissipate, economic growth is expected to slow further in 2020. Nevertheless, the 126-month economic expansion is likely to continue at least through the end of 2019 and, more likely than not, 2020.

After growing by 2.9% last year, the fastest pace since 2015, U.S. real GDP is forecast to end 2019 with 2.2% growth and slow further in 2020 with 1.6% growth (Figure 1). This represents slower growth than previously anticipated, but the economy is not expected to slip into a recession in the near term as economic fundamentals remain broadly supportive of growth. At the same time, the odds of a recession are not insignificant: Oxford Economics puts the odds at around 40-45% in 2020, reflecting the risks from tightening financial conditions, cooling domestic momentum, rising global headwinds and lingering policy uncertainty.

What This Means for Travel:

A growing but moderating domestic economy likely means a growing but moderating domestic travel market. However, there are other factors—such as lower gas prices—that will continue to provide a boost to the industry, particularly to the domestic leisure travel market.

FIGURE 1 – U.S. GDP



SOURCE: Oxford Economics

The U.S. Labor Market

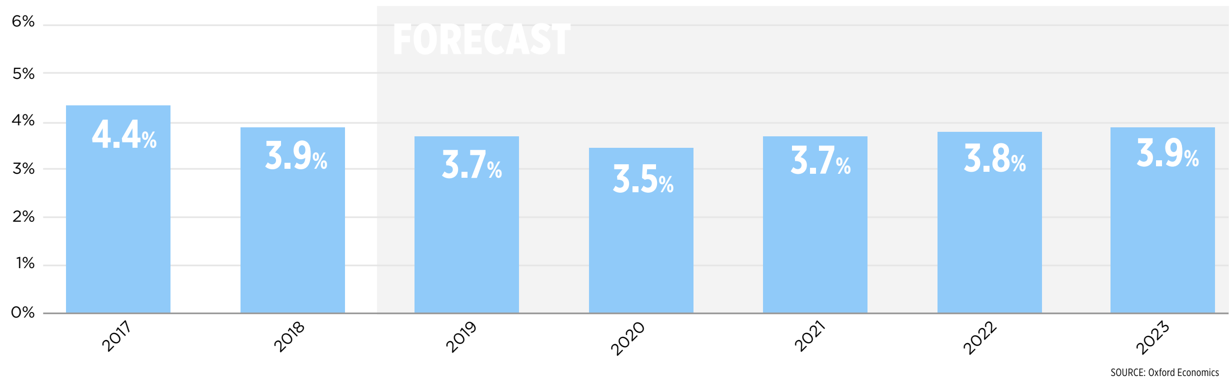
The U.S. unemployment rate fell to a 50-year low of 3.5% in September 2019. The tightening labor market has put upward pressure on wages: Through the first nine months of 2019, real average hourly wages for all private sector employees increased at the fastest pace in four years.

Forecast: Labor market conditions are expected to remain favorable and the U.S. unemployment rate is projected to remain at a low 3.5% in 2020 (Figure 2). Nevertheless, growth in real personal income is expected to moderate, going from 3% growth in 2019 to 1.6% in 2020. This slowdown is due to two key factors: accelerating inflation and slowing employment growth.

What This Means for Travel:

The labor market tightening through the first half of 2019 helped boost consumers' average wages and increased the availability of funds for travel. The expectation that the labor market will continue to tighten, and that wages will continue to grow, will likely help underpin domestic leisure travel at a moderating but stable rate.

FIGURE 2 – UNEMPLOYMENT RATE

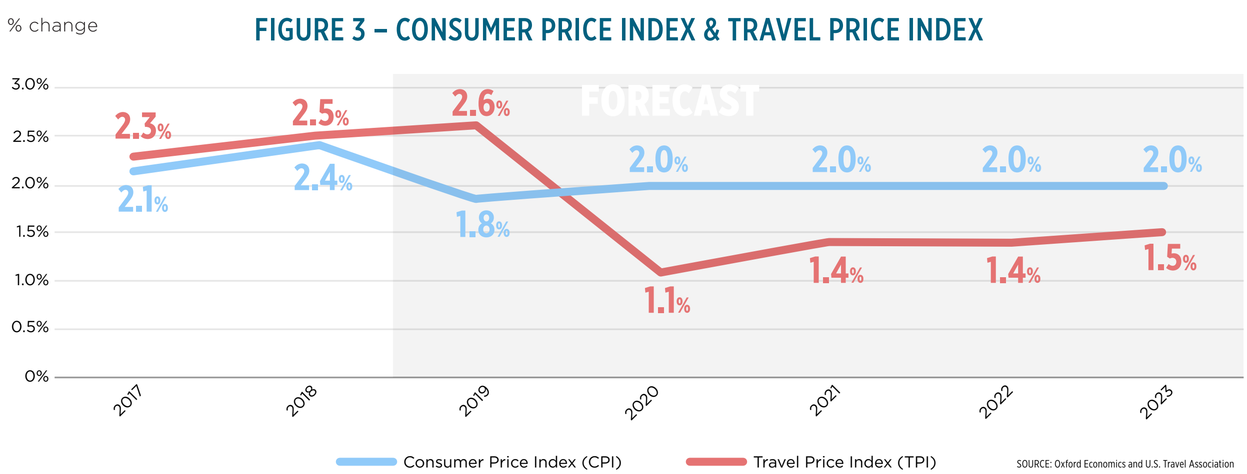


U.S. Inflation

Through the first nine months of 2019, the seasonally-unadjusted Consumer Price Index (CPI) increased by 1.7% compared to the same period in 2018, below the Fed's inflation target of 2%. For the same period, the seasonally unadjusted Travel Price Index (TPI) increased by 1.9%. The higher TPI growth rate was largely driven by a 3.0% increase in food consumed while traveling and a 3.5% increase in lodging (including hotels and motels). A 4.5% decrease in motor fuel prices and a 0.3% decrease in airline fares slowed down overall TPI growth and kept it in line with that of CPI.

Forecast: After increasing by 2.4% in 2018, growth in the Consumer Price Index (CPI) is estimated to end 2019 at 1.8% and increase slightly to 2.0% in 2020. While growth in the Travel Price Index (TPI) was similar to growth in CPI in 2018 (at 2.5%), it is expected to be stronger than CPI growth by the end of 2019, at around 2.6%, and then slow down to 1.1% in 2020, with this slowdown mainly due to slower growth in food prices away from home (Figure 3).

FIGURE 3 – CONSUMER PRICE INDEX & TRAVEL PRICE INDEX



What This Means for Travel:

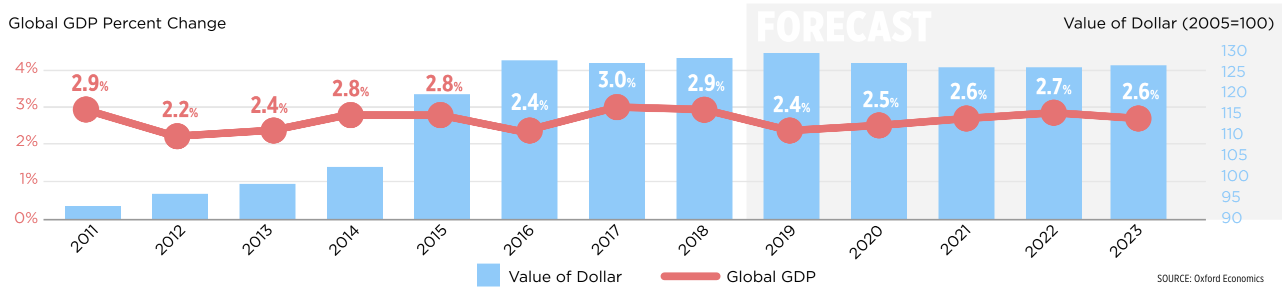
The projected further slowdown in travel-related prices through the rest of 2019 and 2020 will undoubtedly provide a boost for domestic leisure travel.

Global GDP

Global (real) GDP grew by a relatively strong 2.9% in 2018, just slightly below the 3.0% growth in 2017, which was the fastest pace of growth since the recovery from the Great Recession in 2010.

Forecast: Global (real) GDP is expected to conclude 2019 with growth of 2.4% and edge up slightly in 2020 with 2.5% growth (Figure 4). According to Oxford Economics, prospects for the global economy are subdued for 2020. Much of global GDP growth is underpinned by the economic performance in the United States and China—which together account for 40% of the global economy—and will be dependent on the outcome of trade policy negotiations currently underway between the two countries. Slower global growth in 2019 and 2020 is expected to be driven by more modest expansions in Europe, North America and the Asia/Pacific regions.

FIGURE 4 – GLOBAL GDP AND THE VALUE OF THE DOLLAR



What This Means for Travel:

The expected slowdown of the global economy will put downward pressure on global travel. This slowdown in global travel could have a negative effect on inbound travel to the U.S.

Value of the Dollar

After edging down slightly in 2017, the U.S. dollar strengthened again in the first half of 2018 and stabilized at a relatively high level through the rest of 2018 and the first part of 2019.

Forecast: It is always difficult to predict currency exchange rates. While the expected lowering of interest rates should, in theory, lead to a decline in the value of the U.S. dollar, this has not been the case in recent years. Trade wars, on the other hand, can lead to a relative increase in the value of the dollar—because the currencies of our trading partners lose value with the decline of the U.S. as a key trading partner—but that, too, is difficult to predict. Oxford Economics expects that the U.S. dollar will conclude 2019 with a projected appreciation of 2.8% (weighted average exchange rate index) before a depreciation of 1.6% in 2020 (Figure 4).

What This Means for Travel:

The continued strength of the U.S. dollar in 2018 and 2019 means that the U.S. remains a relatively expensive place to visit, dampening international inbound travel. A possible depreciation of the U.S. dollar in 2020 would help provide a much-needed boost to the competitiveness of the U.S. as a destination for international travel.

THE U.S. TRAVEL INDUSTRY

Domestic Travel

Domestic person-trips in the U.S. marked their ninth successive year of growth in 2018 with a 1.7% expansion. Both the leisure and business travel segments saw increases, though leisure outpaced business travel, as has been the trend. Air travel again led all transportation modes throughout the first half of this year (+4.2%) and is expected to do so through the rest of 2019.

- **Domestic Leisure Travel:** The 1.8% increase in domestic leisure travel in 2018 was a moderate slowdown from the prior year. In the first half of 2019, the domestic leisure segment continued to lead the domestic travel market with 2.0% growth, supported by upbeat consumer confidence, solid spending and rising wages.
- **Domestic Business Travel:** The 1.1% increase in domestic business travel in 2018 was a notable improvement from the stagnant growth of the prior year. Domestic business travel registered 1.7% growth in the first quarter of 2019 and slowed to just 0.8% in the second quarter of the year.

Forecast: Our previous forecast in May 2019 anticipated growth of 1.7% in domestic travel for 2019, and the current forecast remains unchanged. Personal income, employment and consumption—all expected to end the year on a positive note—are expected to continue supporting a strong, though slowing, domestic economy over the next several years. As a result, the domestic travel market is expected to grow at a moderate rate of 1.4% in 2020.

- **Domestic Leisure Travel:** Following strong performance in the first half of the year (2.0% growth), domestic leisure travel is expected to slow slightly through the rest of 2019 and then moderate to 1.5% growth in 2020 (Figure 5). Domestic leisure travel is expected to continue growing faster than domestic business travel and will continue to be supported by upbeat consumer attitudes and solid—though moderating—labor market conditions.
- **Domestic Business Travel:** After growing at its fastest pace in four years in 2018, business investment has decelerated somewhat in 2019 and is expected to continue in 2020. Corporate profits are also expected to slow or possibly decline in 2020, and equity markets may follow suit. Although domestic business travel performed relatively well in the first quarter of 2019 (1.7%), growth decelerated in the second quarter (0.8%) and is expected to remain relatively slow through the rest of the year. Domestic business travel is expected to end 2019 with 1.1% growth and slow further to 1.0% growth in 2020, continuing to trail domestic leisure travel.

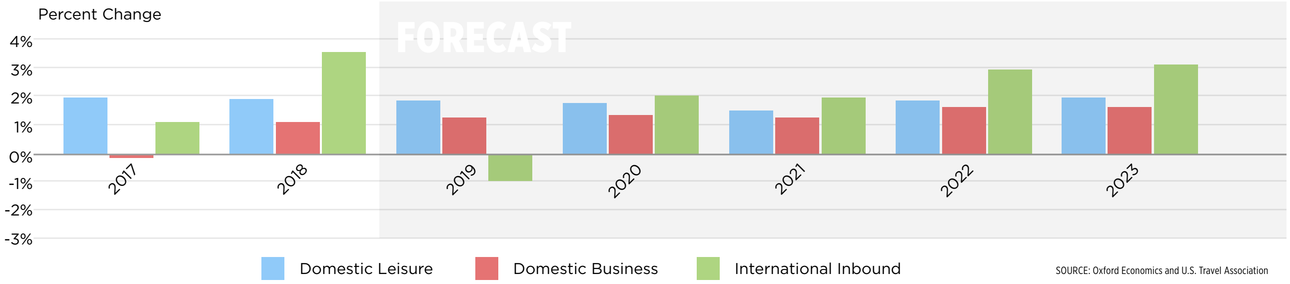
TRAVEL SENTIMENT

American traveler sentiment for leisure travel in fall 2019 remained strong, and little changed from their sentiment in the recent past—38% of Americans expected to travel more for leisure over the next 12 months, 53% expected to travel the same and 9% expected to travel less. This is supportive of our prediction of continued growth in leisure travel in 2020.

The top deterrent to leisure travel continues to be cost, specifically personal financial reasons (36%), although expensive airfare was cited by 25% of respondents–up from 21% during the same period last year. Work, other personal obligations and not enough vacation time were also cited by a greater share of respondents this fall.

SOURCE: Destination Analyst

FIGURE 5 – U.S. DOMESTIC AND INTERNATIONAL INBOUND TRAVEL VOLUME



International Inbound Travel

The United States welcomed 79.9 million travelers from abroad in 2018, up 3.4% from 2017. These travelers spent $156 billion on U.S. travel-related goods and services.[1] International arrivals to the U.S. were evenly split between those originating from neighboring Canada and Mexico and those from all other countries: overseas visitors accounted for 49.9% of all international visitors to the United States in 2018, while 50.1% arrived from Canada and Mexico.

While inbound travel grew steadily in 2018, it has performed far worse in 2019. In the first nine months of 2019, total inbound travel declined by 1.3%. It is clear that headwinds persist: a high value of the dollar and slowing global economic growth have dampened international travel demand to the U.S., trade tensions remain front and center, negative perceptions surrounding U.S. policies regarding protectionism and immigration continue to pose risks to international traveler sentiment and key international economies are slowing.

- **Visitations from Canada and Mexico:** Overnight visitations from Canada grew by 4.8% in 2018 to 21.5 million, and overnight visitations from Mexico grew by 3.9% to 18.5 million. More than halfway through 2019, however, both markets performed very poorly, with visitations from Canada down 3.9% and visitations from Mexico down 3.2% through September compared to the same period last year.
- **Visitations from Overseas:** Overseas visitations to the U.S. grew by 2.5% in 2018. While overall global performance was solid in 2018, there were surprising declines in Japan (-2.8%), China (-5.7%) and South Korea (-5.3%) that followed years of chart-topping growth. This is particularly worrisome since these are three of the United States' four largest overseas markets. The only other decline among top 10 markets was Germany (-0.9%). At the same time, a continued strong rebound in visitations from Brazil and solid growth from India and France helped ensure that overseas visitation to the U.S. experienced its strongest increase (+2.5%) since 2015.

  In the first nine months of 2019, overseas visitations to the U.S. grew at a relatively slow 1.0% compared to the same period in 2018. While visitations from the U.K. (+3.9%), Japan (+7.2%), France (+4.3%) and India (+4.5%) grew strongly, visitations from China (-4.7%), Brazil (-3.7%), South Korea (-1.6%) and Germany (-0.7%) declined.

  In 2018, overseas travel to the U.S. accounted for 11.7% of all global long-haul travel, higher than any other country but significantly lower than in previous years. Since 2015, the U.S. share of global long-haul travel has declined by two percentage points. Global long-haul travel grew at an impressive pace of 21% over the three years between 2015 and 2018, while overseas travel to the U.S. grew by only 3.1% over the same three-year period.

  The five-year rise in the value of the U.S. dollar, combined with trade tensions and economic volatility in certain source markets, have combined to dampen international inbound travel to the U.S. It is important to note that without the marketing efforts of Brand USA, the organization charged with promoting the United States as a travel and tourism destination, steeper market share declines would certainly be evident. Brand USA's in-market efforts have been effective at propping up America's share of visitation and its associated benefits.

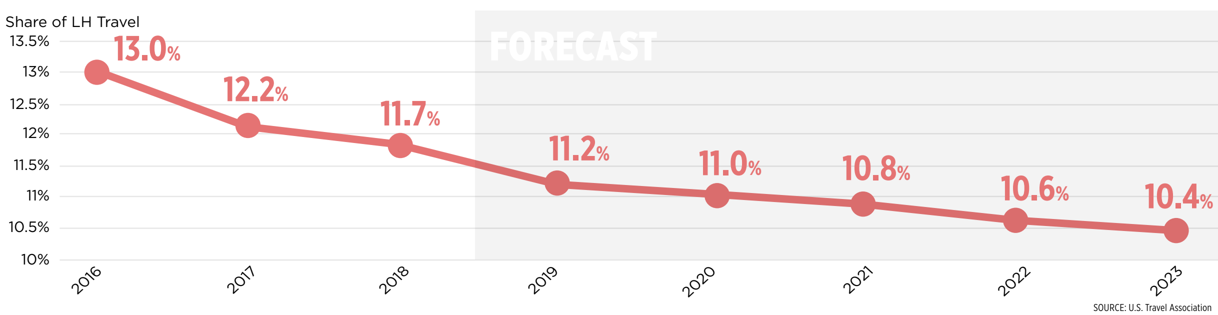
Boosting international inbound travel to the U.S. will be especially important to the travel industry given the expected slowdown in domestic travel over the next several years. Brand USA's proven track record of increasing international visitation to United States will be critical to this effort and will add positive momentum for the industry at a time when domestic demand is expected to ebb.

Forecast: Overseas visitation to the U.S. continued to increase in 2019, as declines from China, South Korea and several Latin American countries have been offset by growth from many key European markets, as well as India and Japan. Meanwhile, visitations from Canada and Mexico significantly declined. As a result, overall international visitations to the U.S. are projected to end 2019 with a decline of 1.0%, with an expected recovery to 2.0% growth in 2020 (see Figure 5 above).

- **Visitations from Canada and Mexico:** For 2019 overall, visitations from Canada and Mexico are expected to decline by 3.0% and 4.0%, respectively, the first time since the 2009 financial crisis that visitations from both of these major markets declined in the same year. Visitations from Canada are expected to recover more strongly (+3.0%) in 2020, while visitations from Mexico are projected to remain slow (+1.0%).
- **Visitations from Overseas:** Overseas visitations to the U.S. are forecast to end 2019 with 1.5% growth. Solid growth from key European markets as well as India and Japan will be largely offset by continued declines in visitations from China and South Korea.

  While overseas visitations to the U.S. are projected to accelerate slightly and grow by 1.9% in 2020 and by around 3.0% in the years that follow, global long-haul travel is expected to grow more quickly. As a result, the U.S. will continue to lose global market share. U.S. Travel estimates that the U.S. share of global long-haul travel will continue to decline and settle at 10.4% by 2023 (Figure 6).

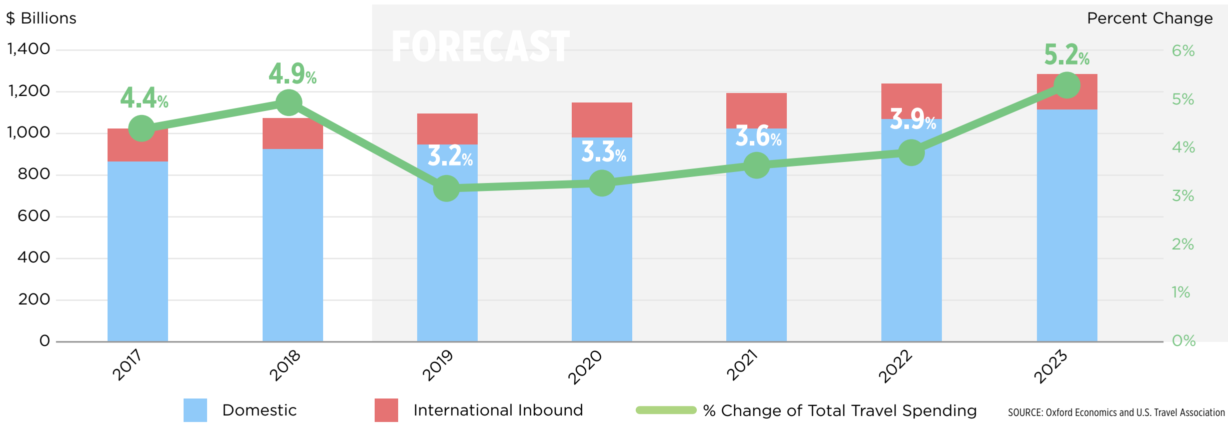
FIGURE 6 – U.S. SHARE OF GLOBAL LONG-HAUL TRAVEL



Travel Spending

- **Domestic Travel Spending** grew at a solid pace of 5.2% in 2017 and 5.8% in 2018, but is forecast to end 2019 at a slower rate of 4.0%. It is projected to slow down further in 2020 to 3.5% growth.
- **International travel spending** was nearly static in 2017 and 2018 (following a decline in 2016) and is forecast to end 2019 with a decline of 1.7%. International visitor spending is currently expected to recover in 2020 and beyond.
- **Total travel spending** (domestic + international inbound) is forecast to end 2019 by surpassing $1.1 trillion, up 3.2% from 2018 (Figure 7). It is expected to increase at a similar pace of 3.3% in 2020 and at increasingly faster rates over the medium term.

FIGURE 7 – U.S. TRAVEL SPENDING



Conclusion

The overall outlook for the travel industry is for continued growth over the next several years. Growth in both domestic leisure and domestic business travel is expected to remain relatively moderate, in line with the overall U.S. economy. International inbound travel, after declining in 2019, is expected to recover modestly in subsequent years, but may remain constrained by global headwinds and is likely to underperform overall global travel.

There are numerous policy tools available to boost growth trends for both domestic and international travel, including: a comprehensive infrastructure package that includes financing reform for airport capital projects; implementation of biometrics for both the Transportation Security Administration and Customs and Border Protection; the aforementioned long-term renewal of Brand USA; and expansion of the Visa Waiver Program and Global Entry. We urge Congress and the administration to expedite consideration of all of the above.

U.S. Travel will next update its Forecast in spring 2020.

	2017	2018	TRAVEL FORECAST 2019	2020	2021	2022	2023
GDP (Billions of current dollars)	19,519	20,580	21,427	22,161	22,982	23,887	24,831
Unemployment Rate (%)	4.4	3.9	3.7	3.5	3.7	3.8	3.9
Consumer Price Index (CPI)[1]	245.1	251.1	255.6	260.7	265.9	271.2	276.7
Travel Price Index (TPI)[1]	279.4	286.5	293.9	297.2	301.3	305.4	310.0
Total Travel Spending in the U.S. ($ Billions)	**1,038**	**1,089**	**1,123**	**1,161**	**1,203**	**1,250**	**1,315**
U.S. Residents	882	933	970	1,004	1,041	1,081	1,138
International Visitors[2]	156	156	154	157	162	169	177
Total International Visitors to the U.S. (Millions)	**77.2**	**79.9**	**79.1**	**80.7**	**82.9**	**85.3**	**88.0**
Canada	20.5	21.5	20.8	21.5	21.9	22.5	23.4
Mexico	17.8	18.5	17.8	18.0	18.5	19.1	19.6
Overseas	38.9	39.9	40.5	41.2	42.5	43.7	44.9
Global Long-Haul Travel (Millions)	319.5	342.3	360.7	376.5	394.2	413.2	432.1
U.S. Share of global long-haul travel (%)[3]	**12.2**	**11.7**	**11.2**	**11.0**	**10.8**	**10.6**	**10.4**
Total U.S. Domestic Person-Trips[4] (Millions)	**2,241**	**2,278**	**2,317**	**2,349**	**2,386**	**2,430**	**2,475**
Business	454	459	464	469	476	483	490
Leisure	1,786	1,819	1,853	1,880	1,910	1,948	1,985

	2017	2018	TRAVEL FORECAST 2019	2020	2021	2022	2023
Real GDP (chained 2015 dollars)	2.4%	2.9%	2.2%	1.6%	1.8%	1.8%	1.8%
Consumer Price Index (CPI)[1]	2.1%	2.4%	1.8%	2.0%	2.0%	2.0%	2.0%
Travel Price Index (TPI)[1]	2.3%	2.5%	2.6%	1.1%	1.4%	1.4%	1.5%
Total Travel Spending in the U.S.	**4.4%**	**4.9%**	**3.2%**	**3.3%**	**3.6%**	**3.9%**	**5.2%**
U.S. Residents	5.2%	5.8%	4.0%	3.5%	3.6%	3.9%	5.3%
International Visitors[2]	0.1%	0.3%	-1.7%	2.1%	3.5%	4.1%	4.6%
Total International Visitors to the U.S.	**1.1%**	**3.4%**	**-1.0%**	**2.0%**	**2.8%**	**3.0%**	**3.1%**
Canada	6.3%	4.8%	-3.0%	3.0%	2.0%	3.0%	4.0%
Mexico	-6.1%	3.9%	-4.0%	1.0%	3.0%	3.0%	3.0%
Overseas	2.0%	2.5%	1.5%	1.9%	3.1%	2.9%	2.7%
Global Long-Haul Travel	9.1%	7.1%	5.4%	4.4%	4.7%	4.8%	4.6%
Total U.S. Domestic Person-Trips[4]	**1.6%**	**1.7%**	**1.7%**	**1.4%**	**1.6%**	**1.9%**	**1.9%**
Business	-0.1%	1.1%	1.1%	1.0%	1.4%	1.5%	1.5%
Leisure	2.0%	1.8%	1.9%	1.5%	1.6%	1.9%	1.9%

[1] 1982-84 = 100

[2] Excludes international traveler spending on medical, educational and cross-border/seasonal work-related activities or international passenger fares on U.S. airlines

[3] Reflects the share of overseas visitations to the U.S. (ie: visitations from all countries except Canada and Mexico) to gobal long-haul (inter-continental) travel

[4] One person trip of 50 miles or more, one way, away from home or including one or more nights away from home

Sources: U.S. Travel Association's Travel Forecast Model, Tourism Economics, Department of Labor, Department of Commerce