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2015 Marketing Outlook Forum - Outlook for 2016

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# How Long Will Travel Defy Gravity?

Adam Sacks

*Tourism Economics*

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# The Outlook for Travel in an Uncertain Economic Climate

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(abridged for distribution)



Adam Sacks  
President

October 2015

# Topics

**1 Global economic challenges**

**2 US economic resilience**

**3 Implications for travel**

**4 Closing thoughts**



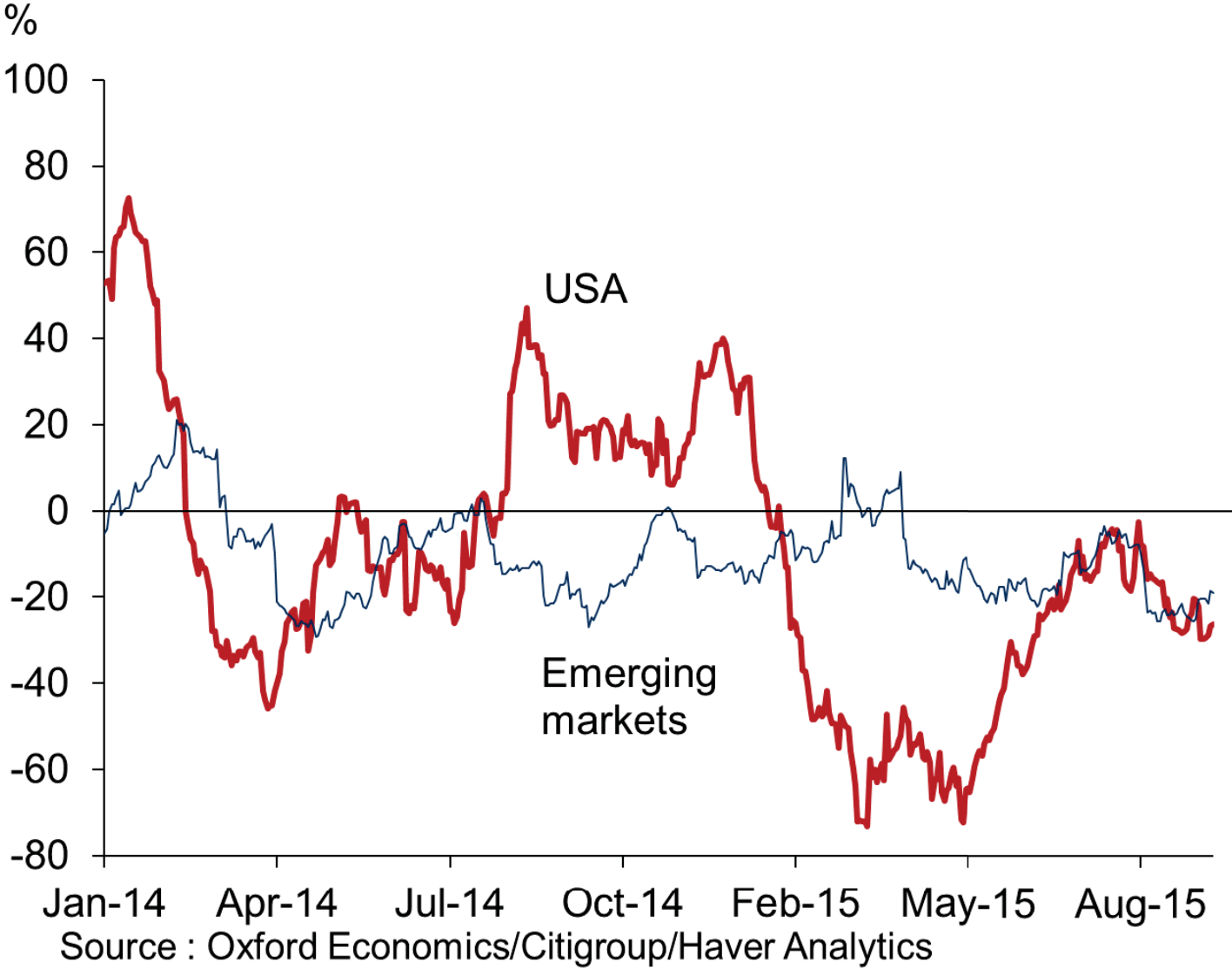
# Challenges in the Global Economy

# Global economy subject to cross-winds

US disappointed early in 2015, but momentum is intact	<b>Economy</b>	<b>Markets</b>	<b>Oil</b> ▼56% past year (USD)
Europe on the mend			<b>Dollar</b> ▲15% past year
China slowdown, India gaining			<b>Global equities</b> ▼5% past year (USD)
Emerging markets buffeted			<b>Supportive monetary policy</b> “Negative” interest rates

# Disappointment abounds in 2015

## World: Economic surprise indices



# Market turmoil over the summer

## World: Stock markets

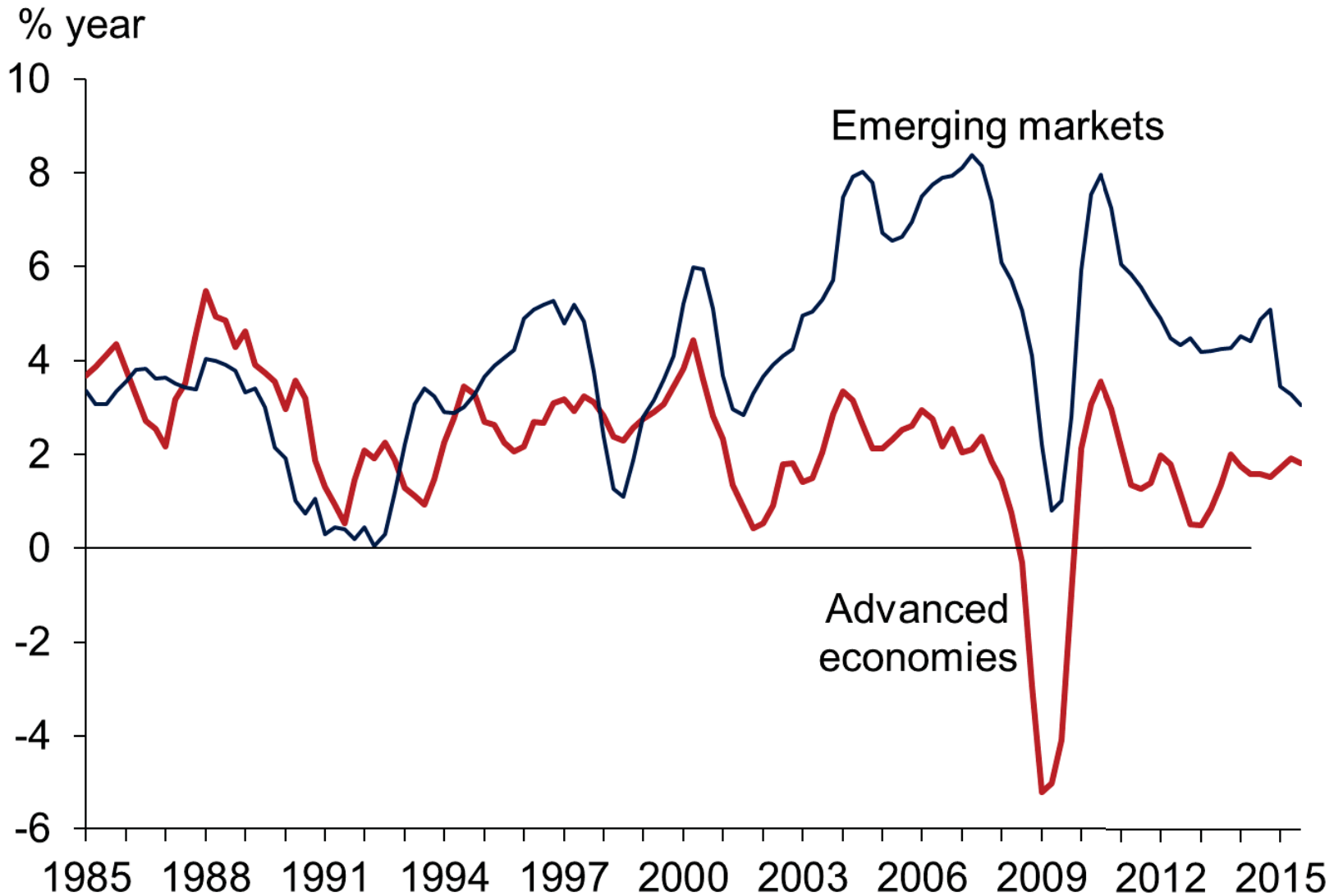
Index August 1 2014=100



Source : Oxford Economics/Haver Analytics

# ...as balance of global growth has shifted

## GDP growth

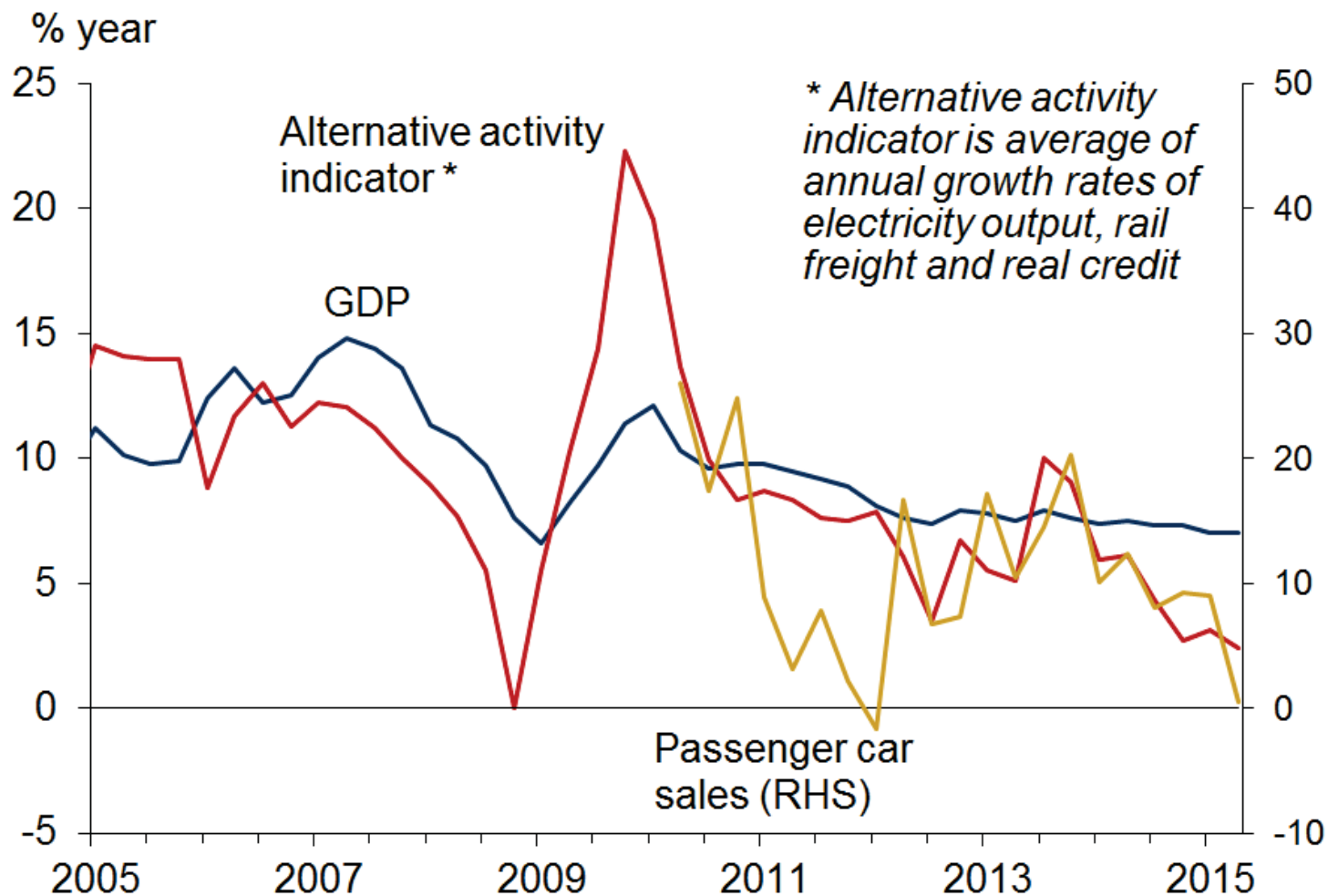


Source: Oxford Economics



# Chinese growth has slowed massively

## China: GDP growth and alternative indicator

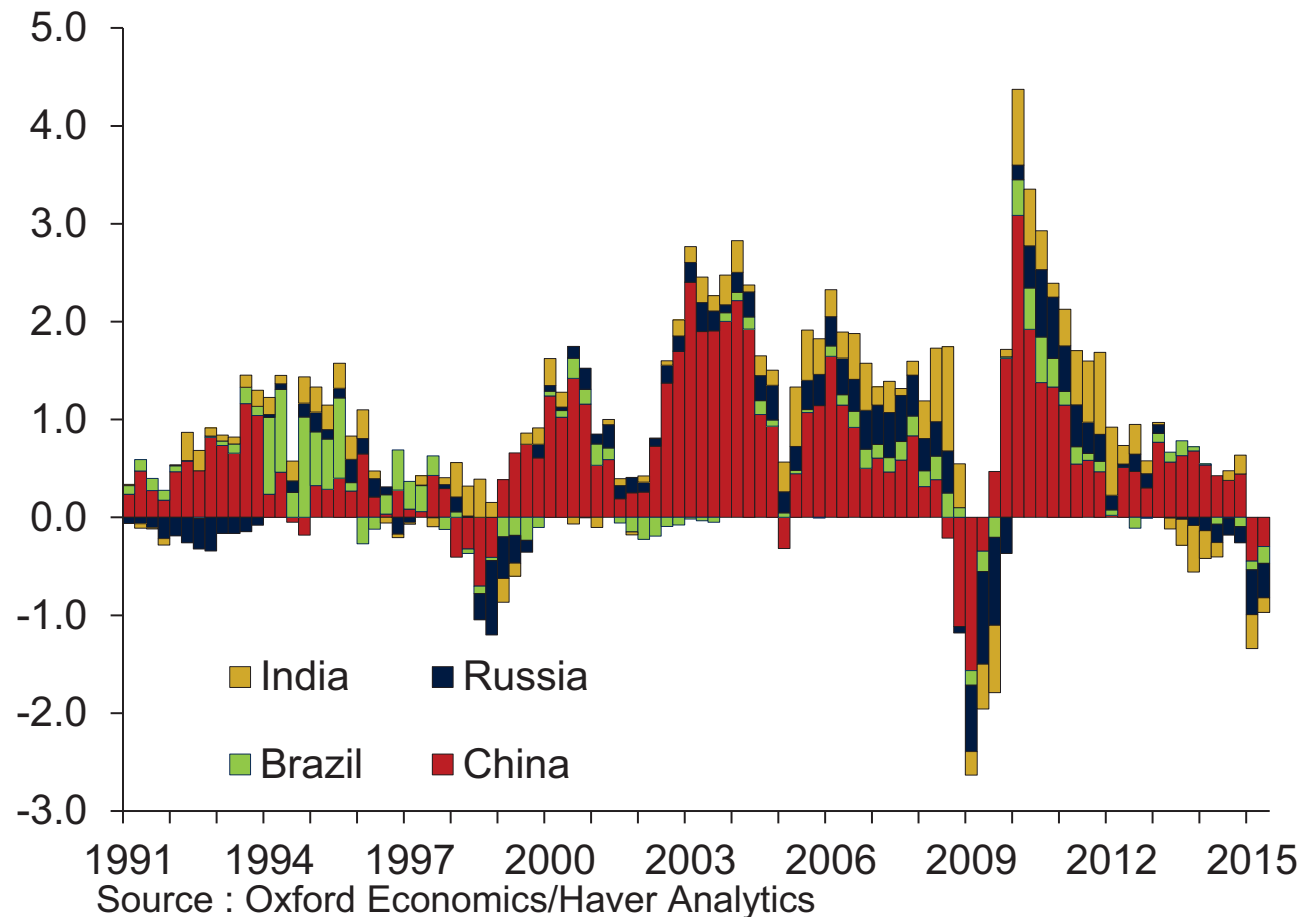


Source: Oxford Economics/Haver Analytics

# EM import weakness extends beyond China...

## BRICs: Contribution to world trade growth

% point contributions to y/y growth in world goods trade



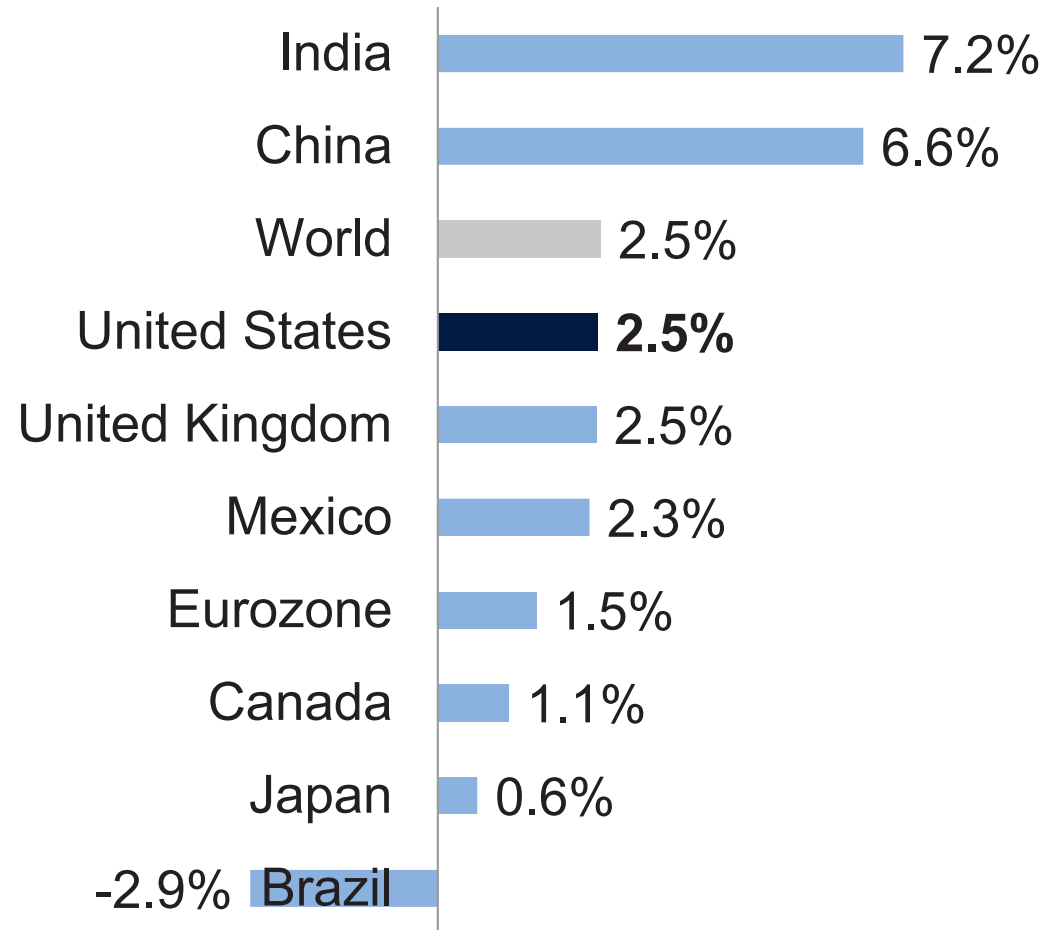
Import volumes in H1 fell in all four BRICs and cut over 1 percentage point from annual world trade growth. Double-digit import volume declines in Russia and Brazil

# Global economy trudges ahead

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## Global GDP Forecasts for 2015

% change



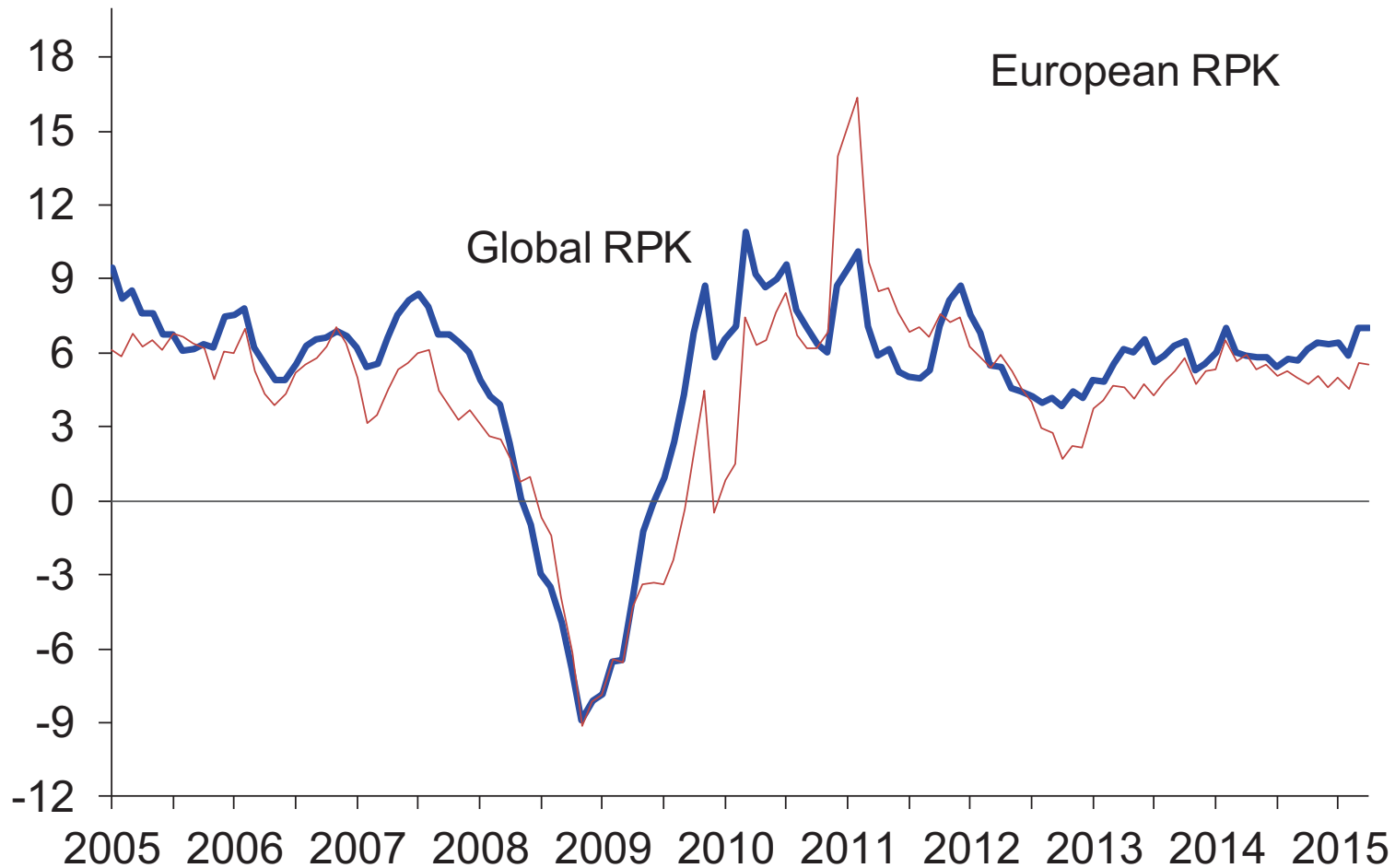
Source: Oxford Economics

# Yet global travel is continuing at a strong clip

## International air passenger traffic growth

% year 3mma, RPK

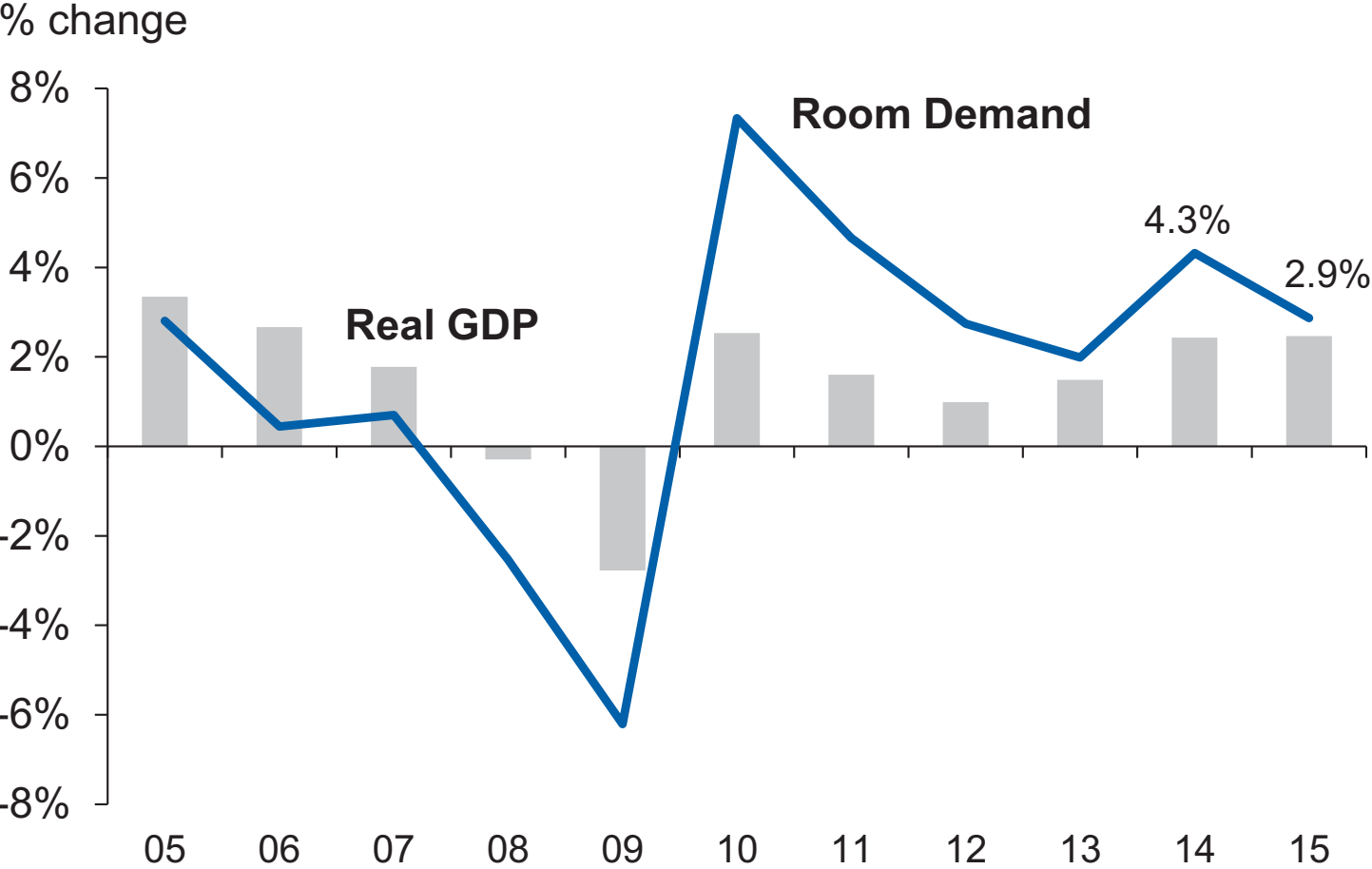
RPK = revenue passenger kms



Source: IATA

# Room demand continues to outpace GDP

## US Room demand and GDP

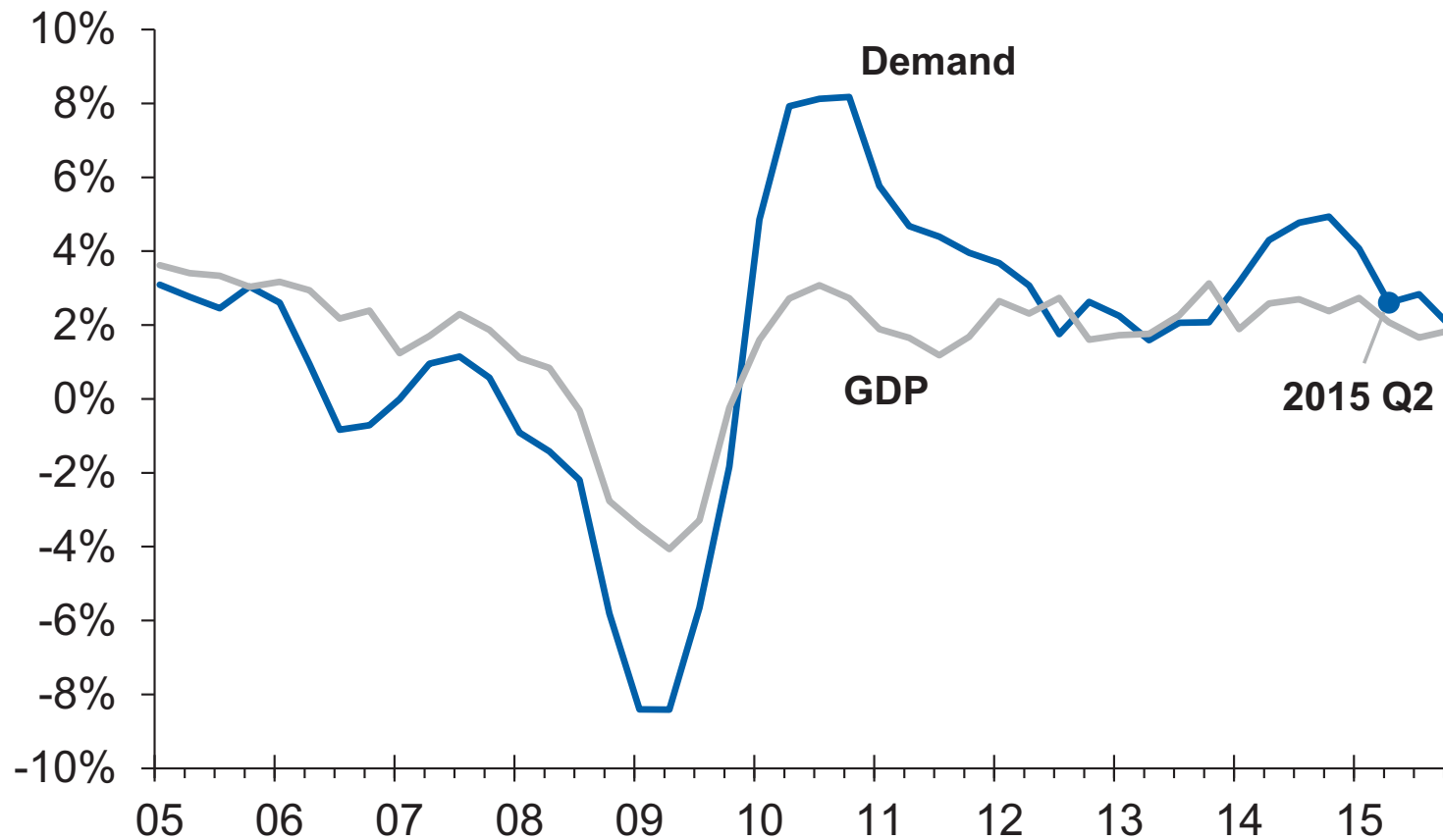


Source: STR; BEA; Tourism Economics

# ...this is not typical

## Room demand and GDP

% change from prior year

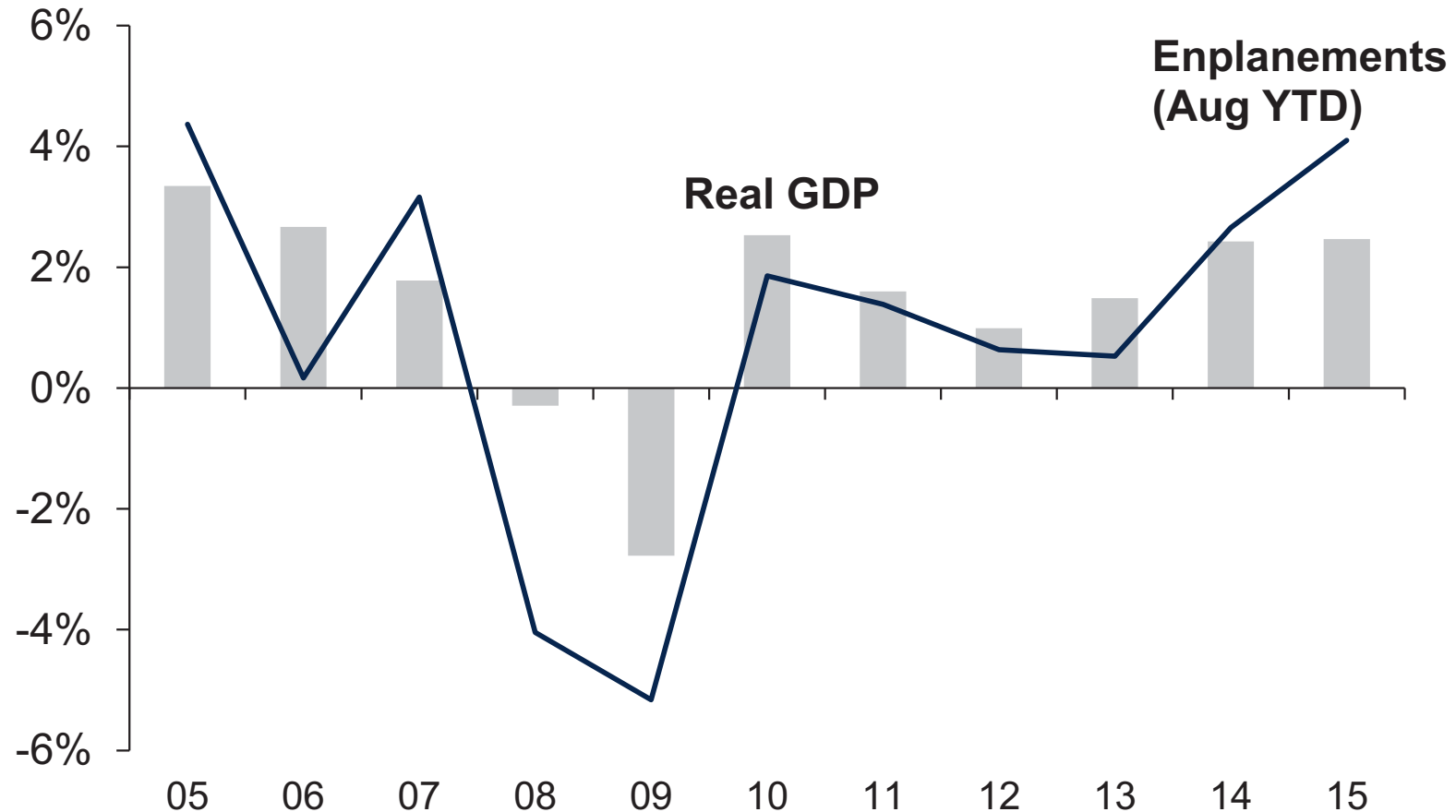


Source: STR; BEA; Tourism Economics

# And now air travel is surging

## US domestic air travel and GDP

% change

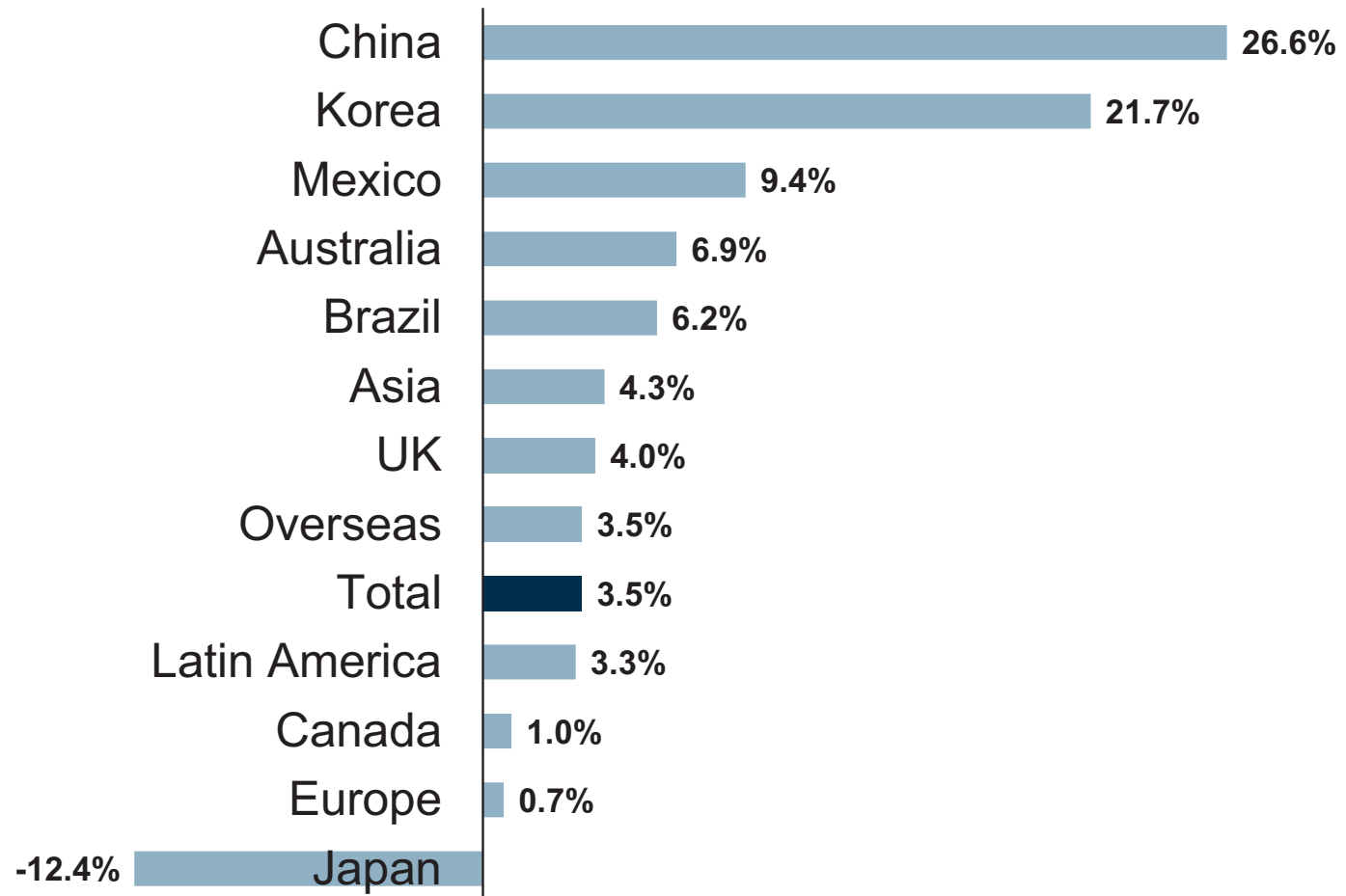


Source: BTS; BEA; Tourism Economics

# While international inbound (air) stays resilient

## Air arrivals by port of departure (Jan-Aug)

Annual % change, YTD



Source: Tourism Economics, APIS



# US Economy Stands its Ground

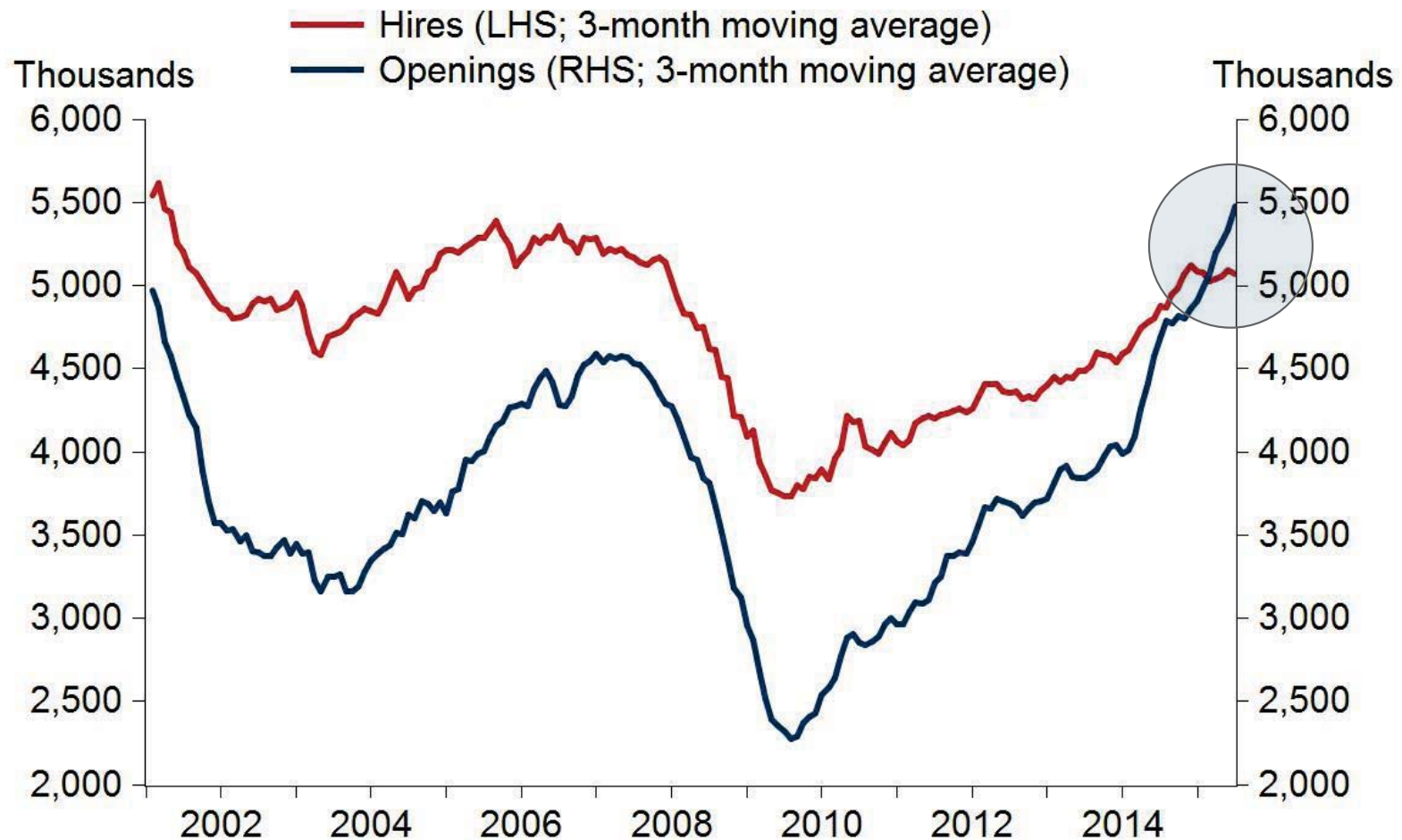
# Strong domestic fundamentals but some risks

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- The bumpy ride will continue for US economy: GDP low in Q3, higher in Q4
- Consumer spending appears to be on robust 3% trend
- Employment trend remains solid, and wage growth firming
- Drags from:
  - reduced energy capex
  - strong US dollar
  - sluggish global growth
- Inflation expected to rebound gradually but... renewed oil price drop
- Domestic risks: sluggish wage growth + policy missteps (budget+debt ceiling)
- Foreign risks: slowdown in China & lingering sluggishness in emergers

# Labor market dynamics are improving...

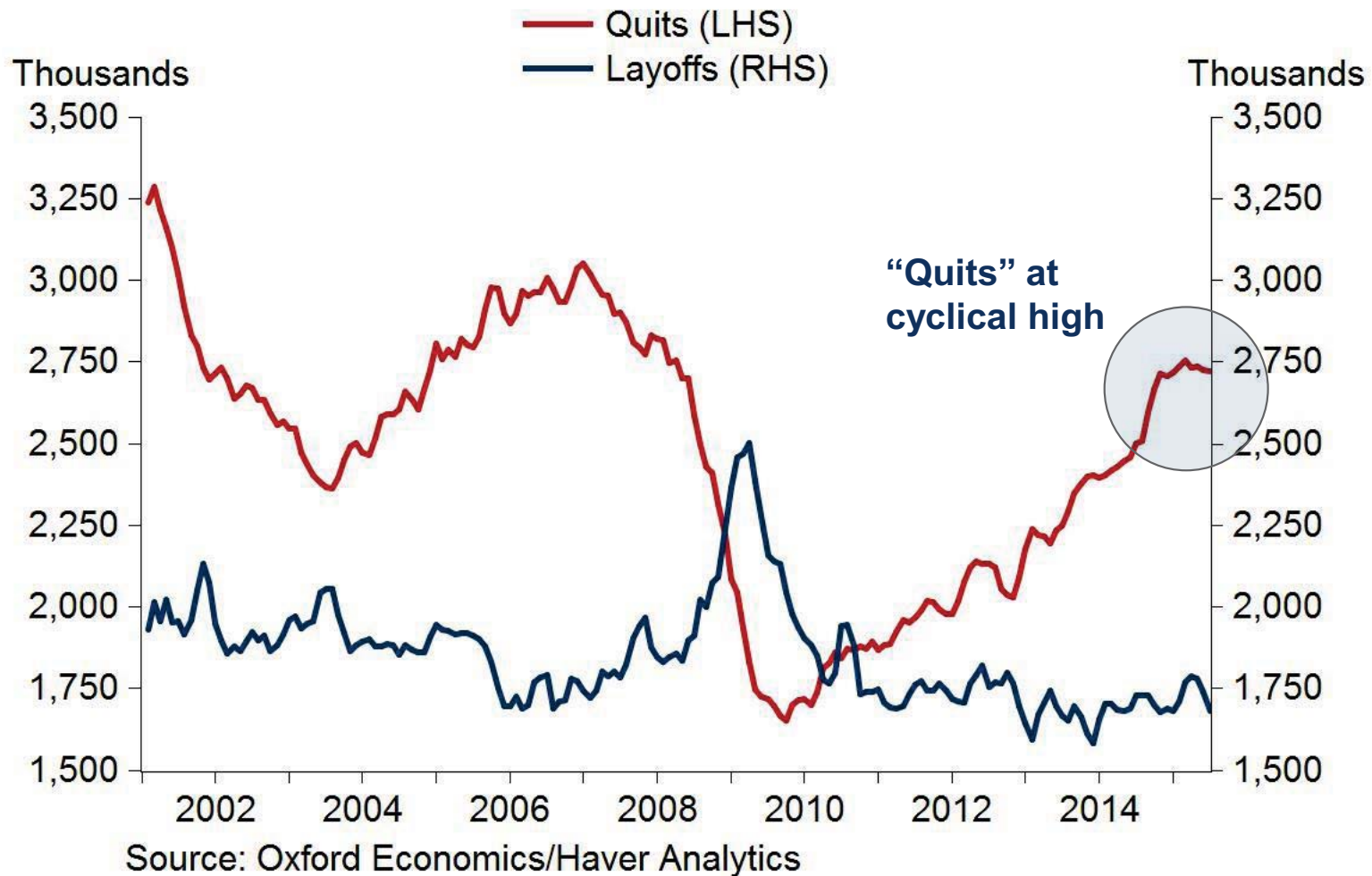
## US: Job openings and hires on the rise



Source: Oxford Economics/Haver Analytics

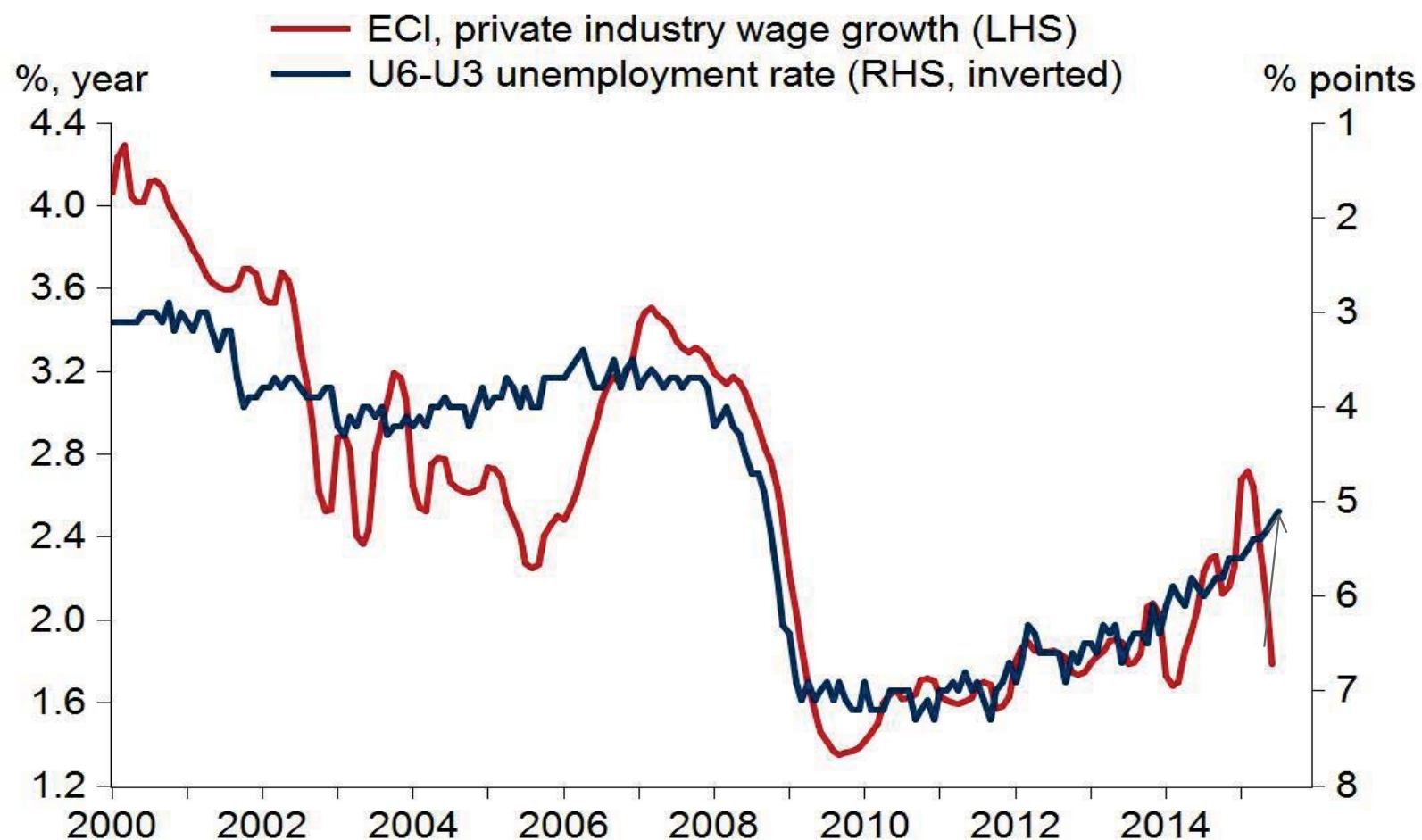
# ...more voluntary quits, few layoffs...

## US: Workers increasingly voluntarily leave jobs



# Tighter labor market will support stronger wages

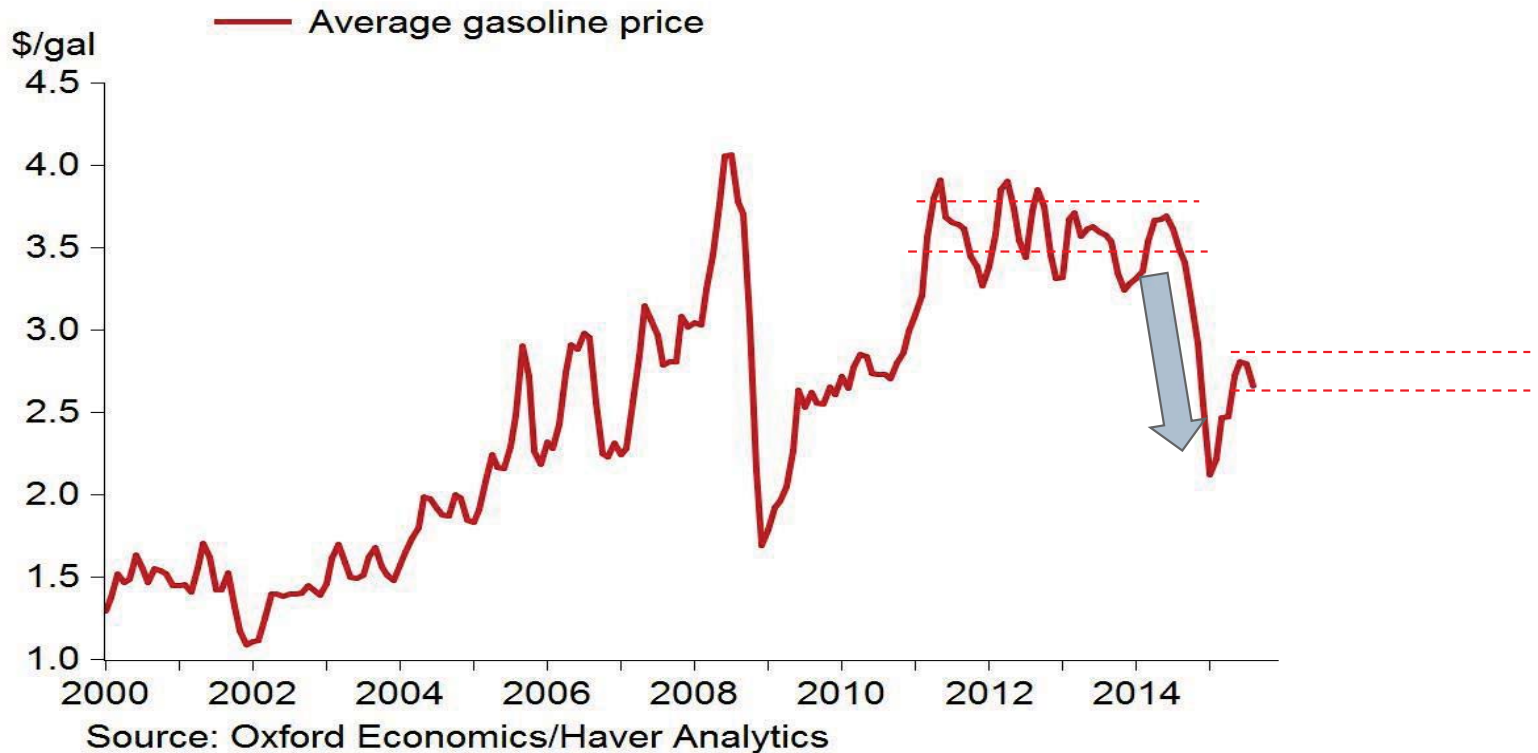
## US: Labor market slack



Source: Oxford Economics/Haver Analytics

# Low gas prices is a boon for consumers...

## US: Retail gasoline price

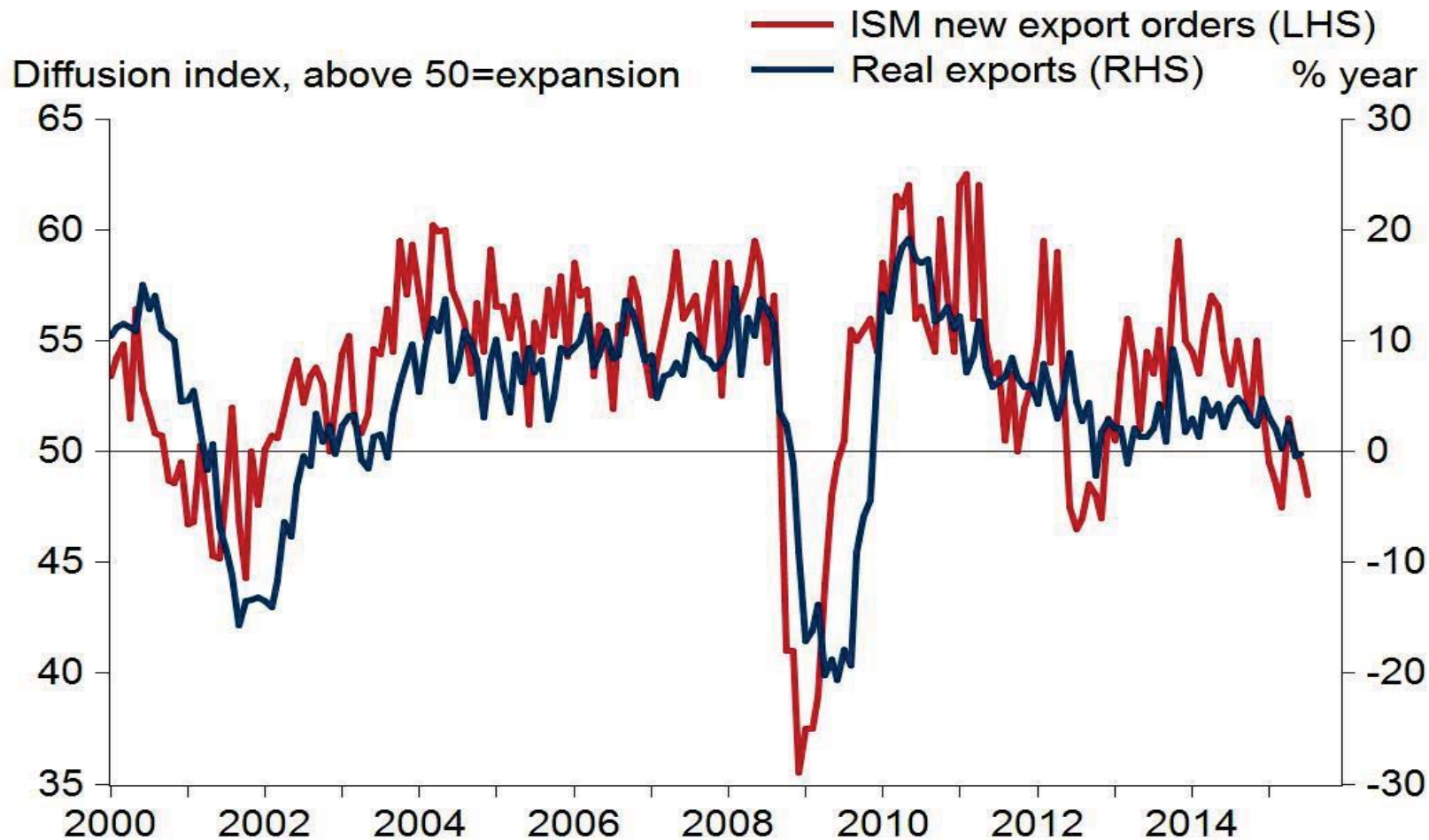


### Impact of lower price for regular grade gasoline\* in 2015

Categories	Over 2015
National savings at the pump	\$130 billion
Share of disposable income	0.9%
Savings per household	\$1,000
* Assumes \$2.50 per gallon	
Source: Oxford Economics	

# Trade constraints will linger through 2015

## US: Export trends



Source: Oxford Economics/Haver Analytics

# Favorable US fundamentals to prevail

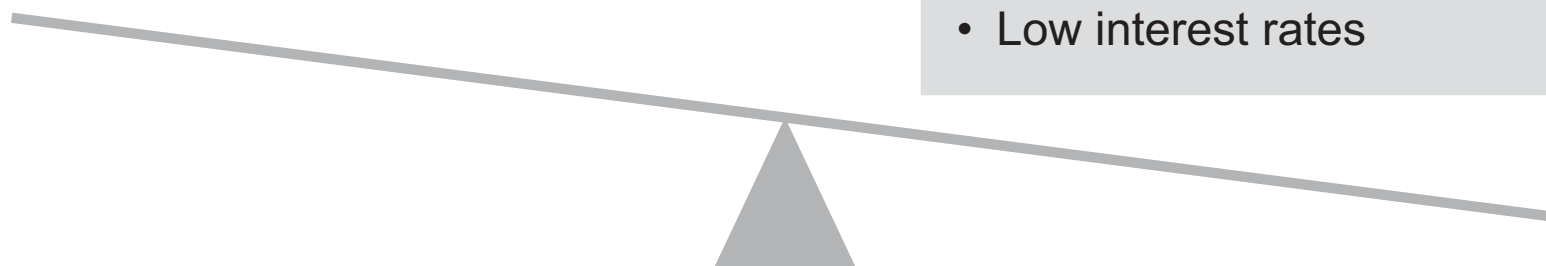
- Consumer spending in the front seat, housing in the back seat, investment in the trunk and trade being pulled behind

## Limiting factors

- Global growth drag
- Strong dollar impacting trade competitiveness
- Less slack for short term unemployment to fall

## Positives

- Strong labor market performance with anticipated wage gains
- Rising consumer confidence/sentiment
- Pent-up housing demand boosting construction
- Low interest rates



	2014	2015	2015-19
GDP Growth	2.4%	2.5%	2.7%

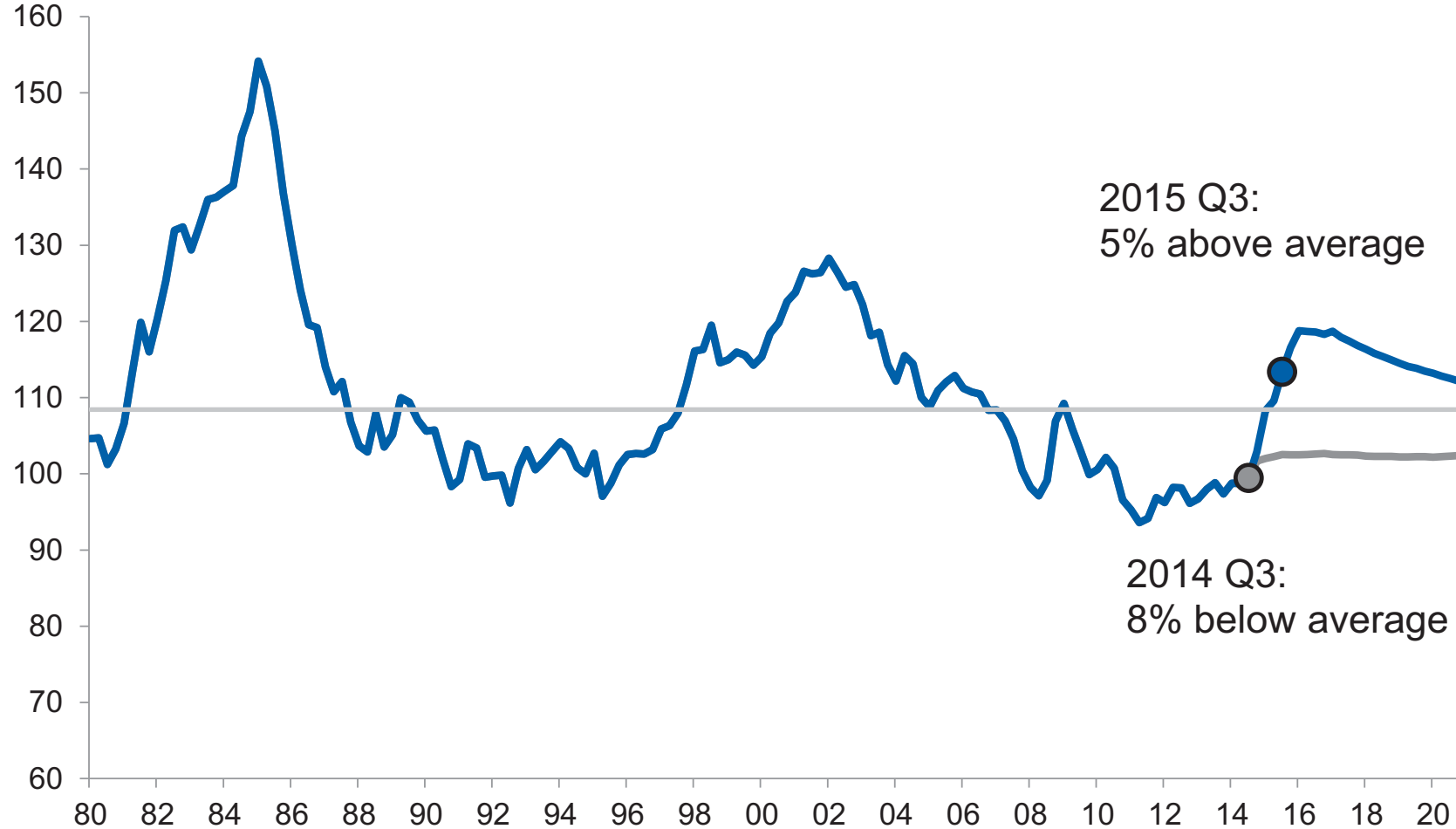


# Implications for US Travel Markets

# Dollar toggles from weak to strong

## US dollar, real exchange rate

Real effective exchange rate

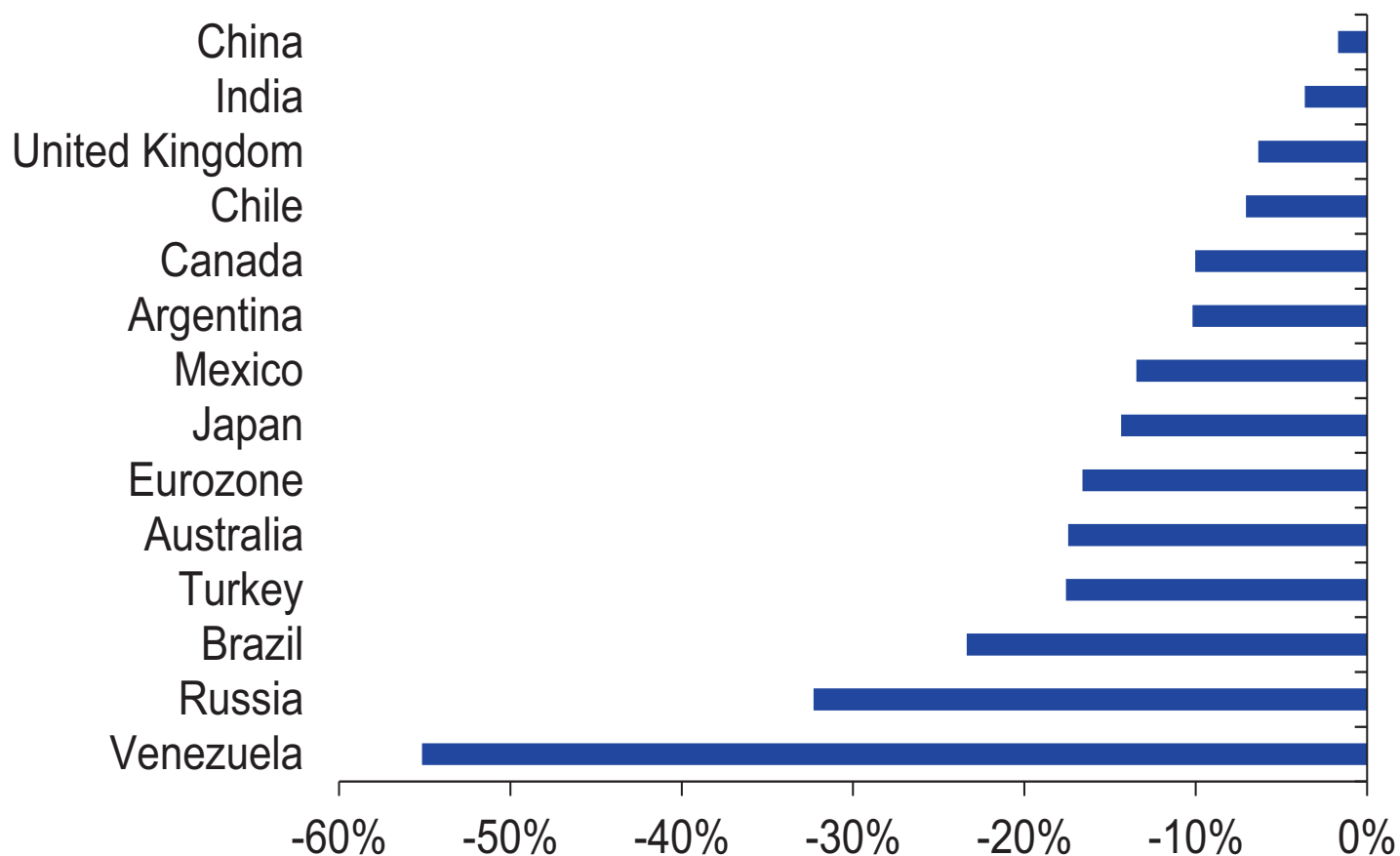


Note: Dark grey line is October 2014 forecast. Blue line is September 2015 forecast. Light grey line is long-term average (20-year).  
Source: Oxford Economics; Bank for International Settlements

# Large shifts for some markets

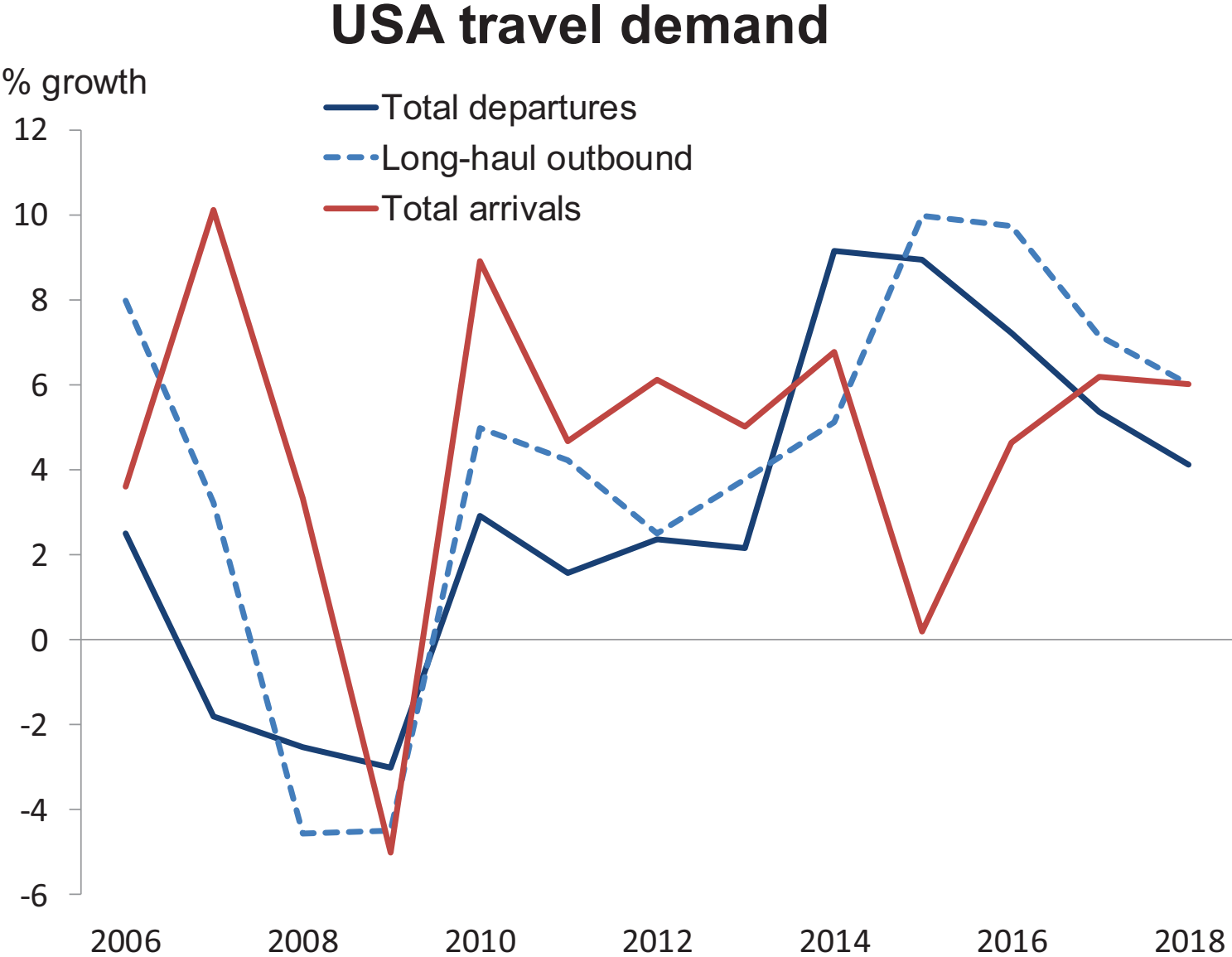
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## Currency depreciation vs. \$US in 2015



Source: Oxford Economics

# US outbound is surging

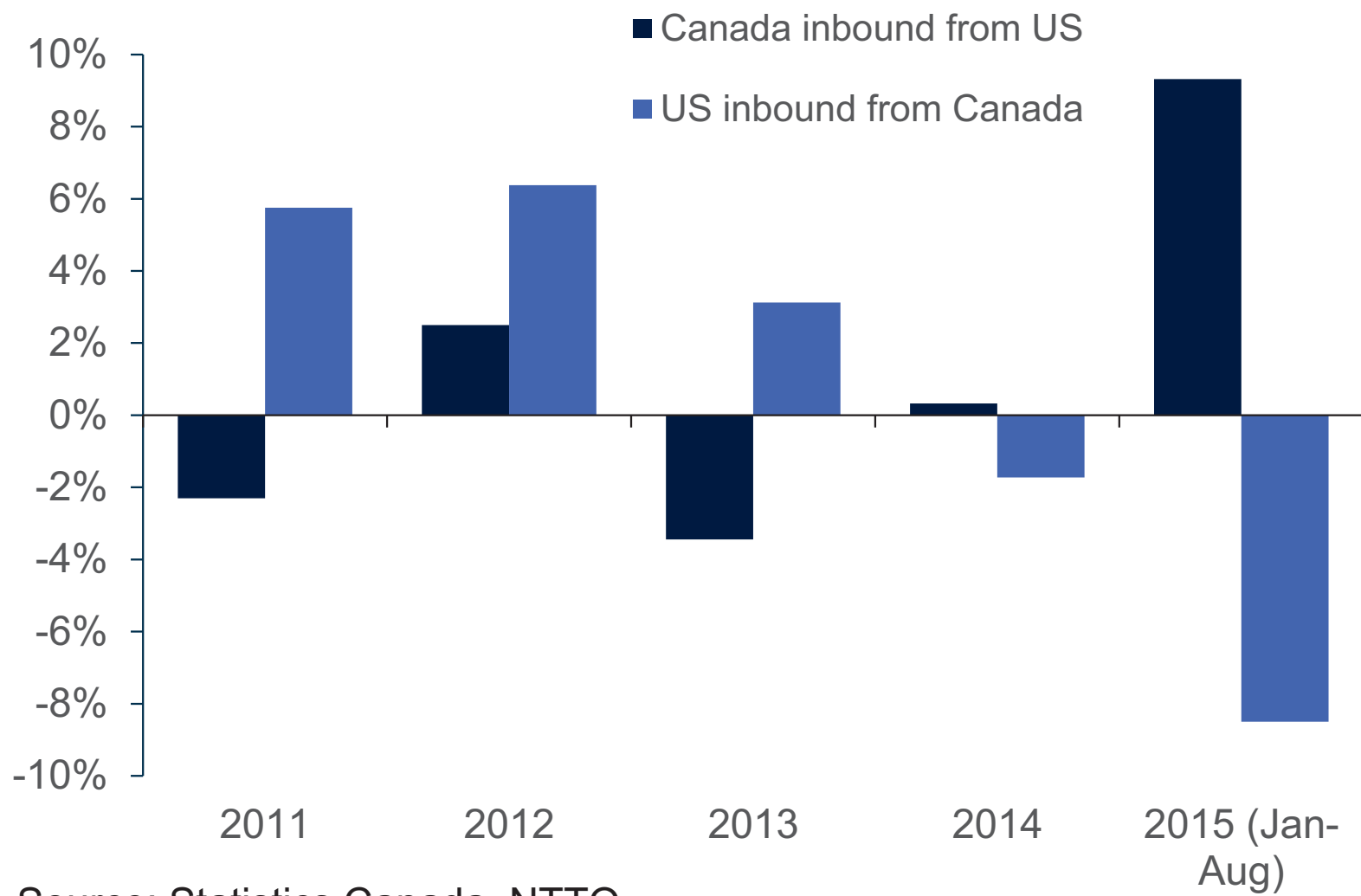


Source: TDM, UNWTO

# US inbound from Canada plunging

## Visits across the Canadian-US border

% change

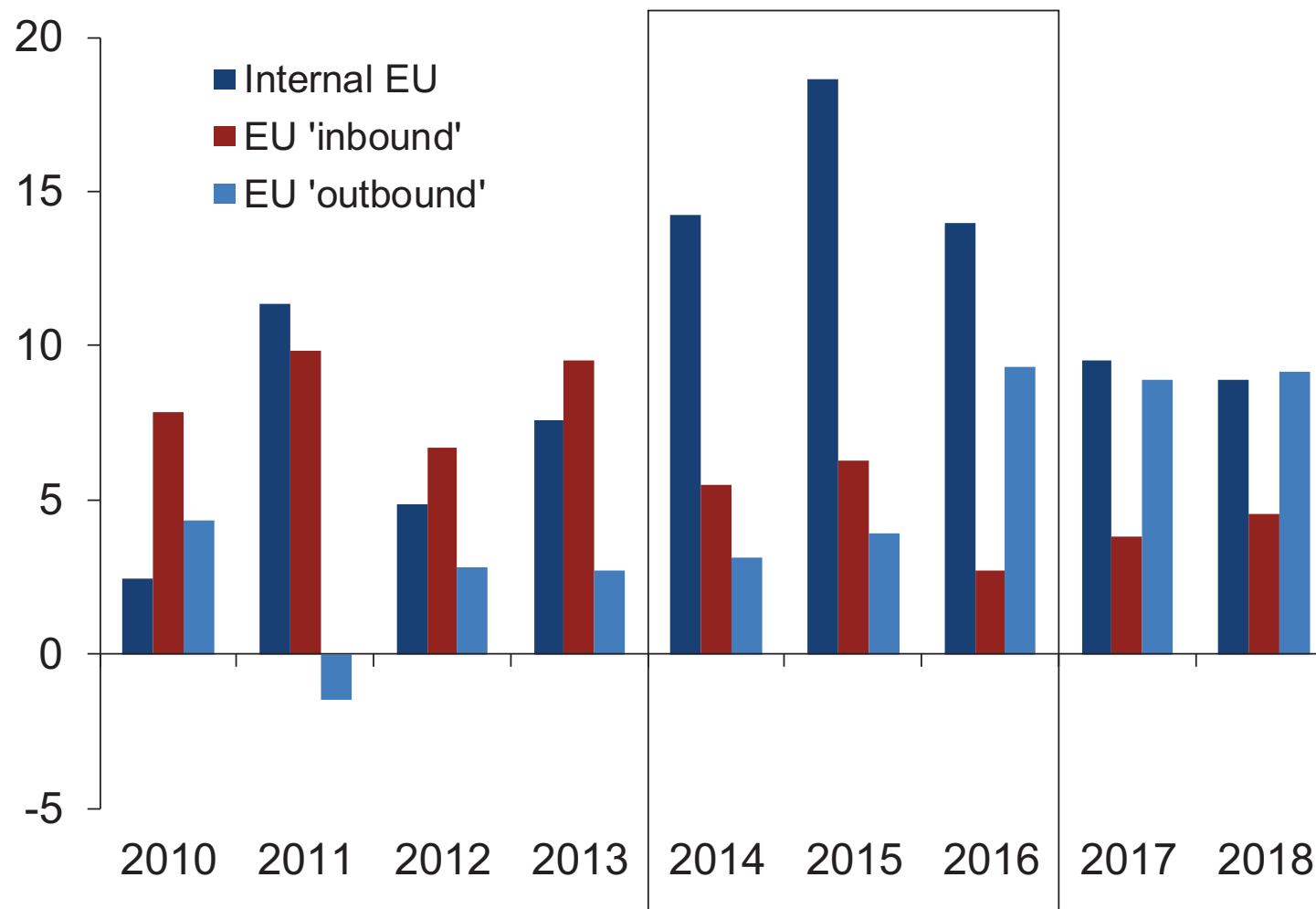


Source: Statistics Canada, NTTO

# European travelers turn inward

## EU: growth in international travel flows

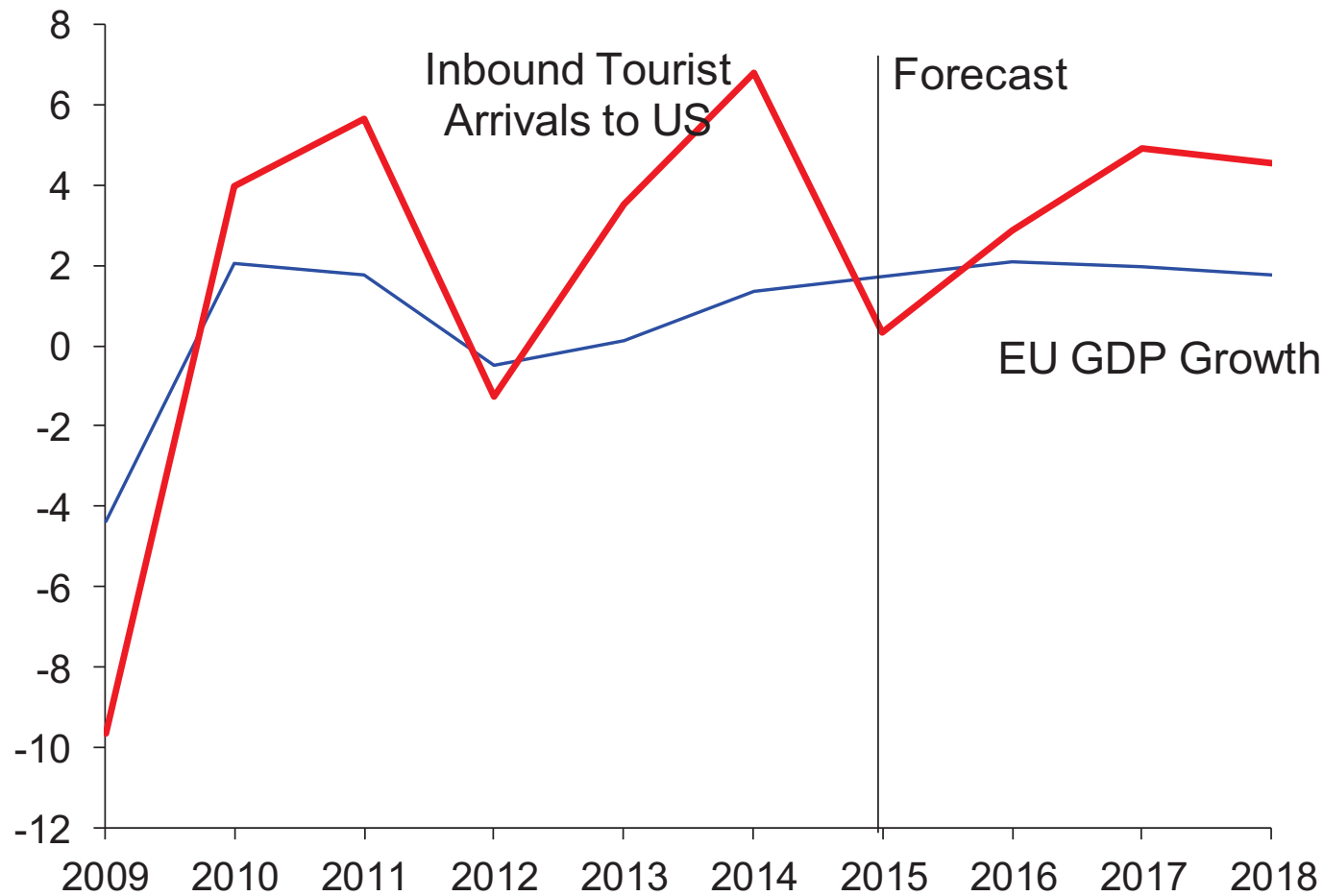
Million trips relative to previous year



Source: Tourism Economics

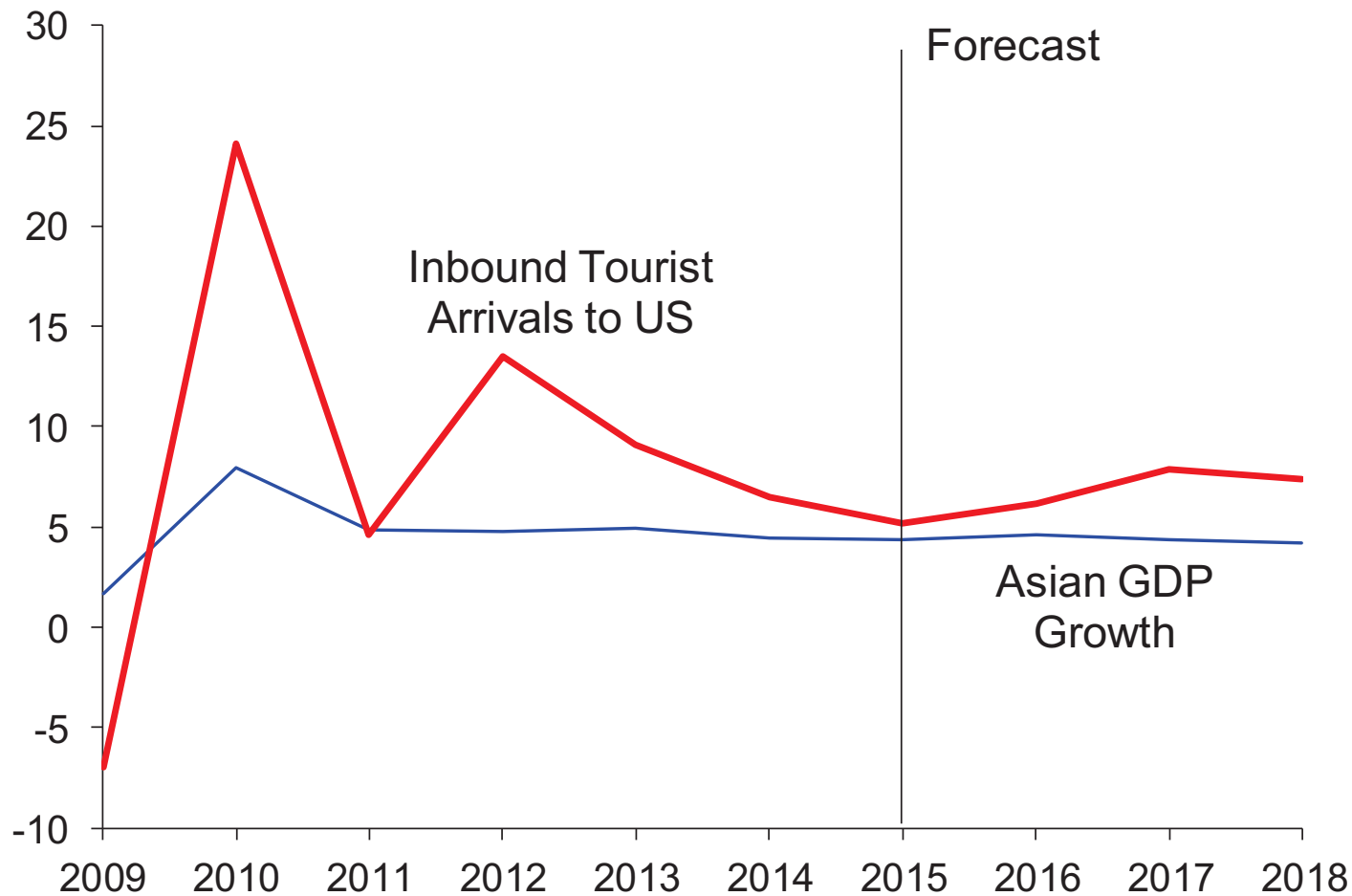
# European inbound growth to remain modest

## European Inbound % growth



# Asian inbound travel softening

## Asia Inbound % growth

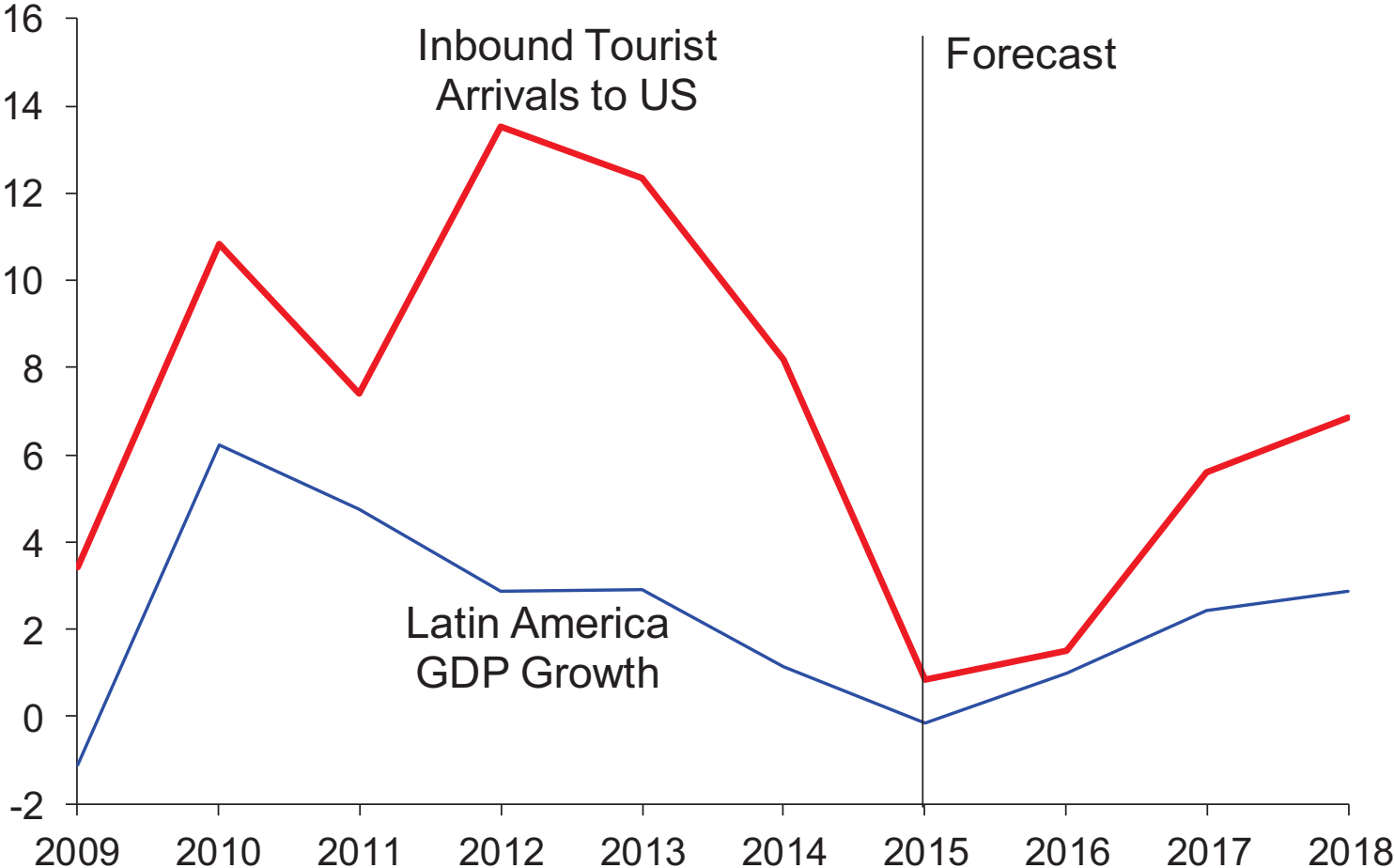




# Latin American markets slowing

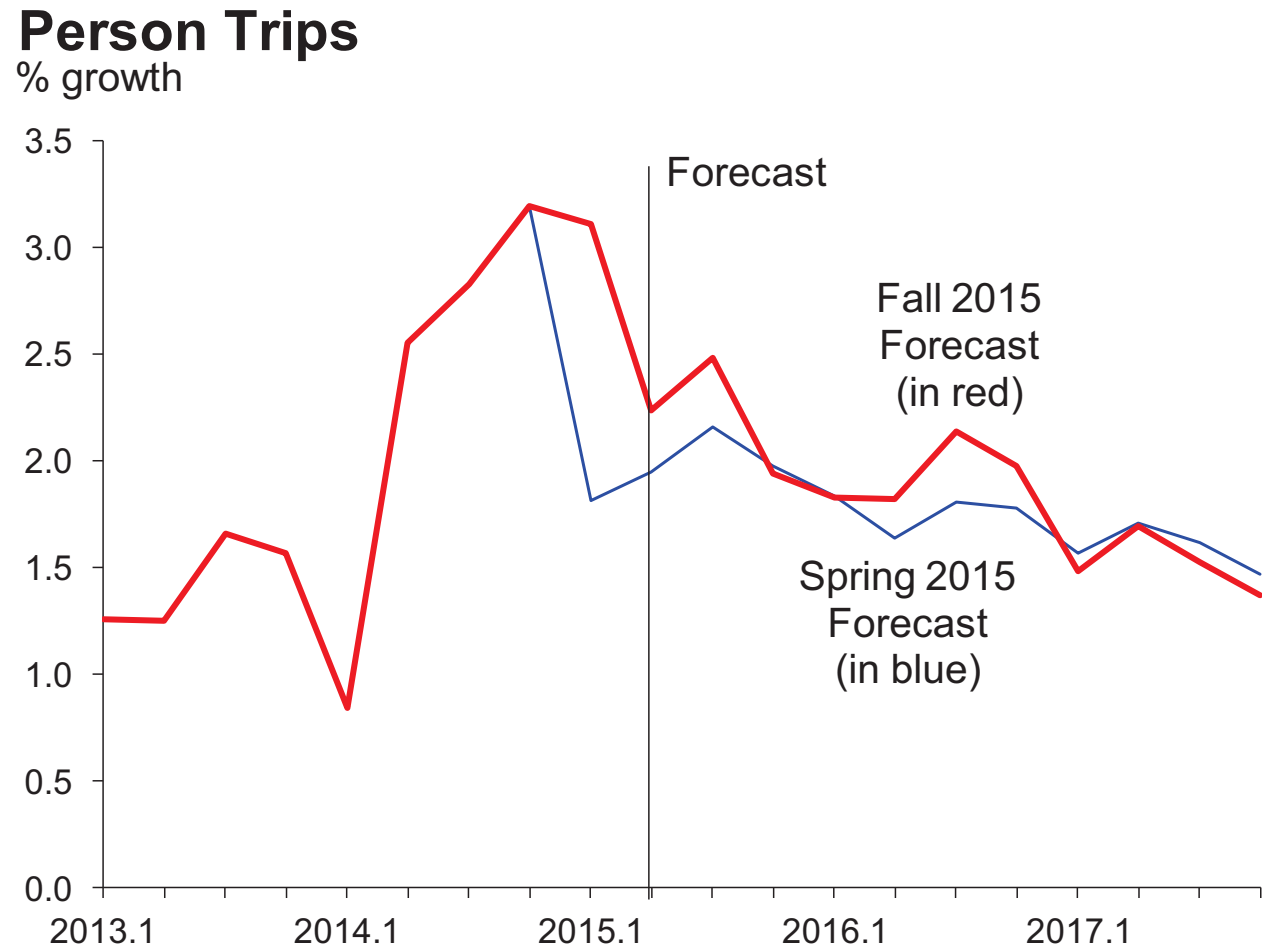
## Latin American Inbound

% growth



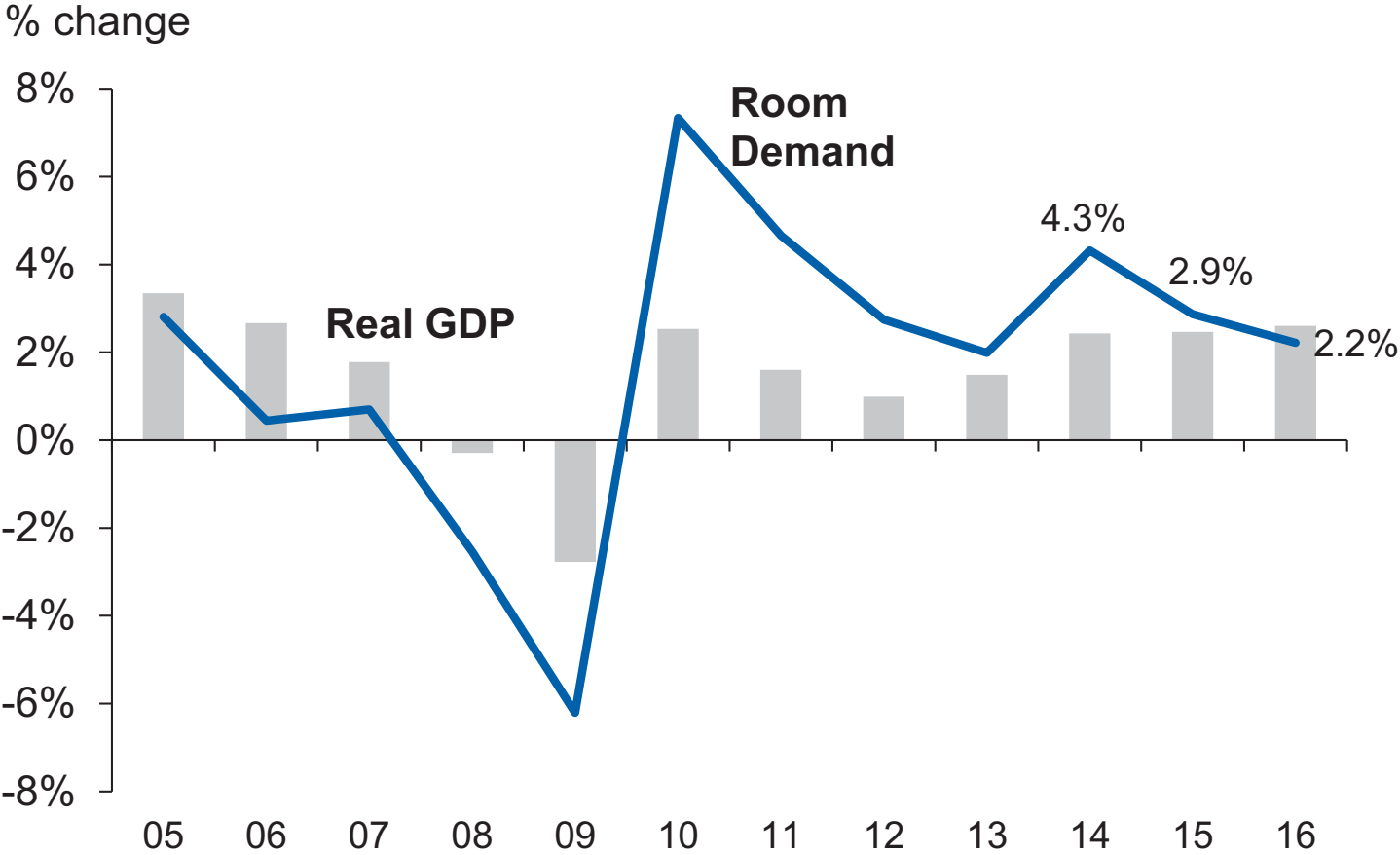
# Strong near term outlook for domestic travel

- Favorable US fundamentals
- Consumers are optimistic
- Looming risks temper the long-term view



# Return to normalcy in 2016

## US room demand and GDP

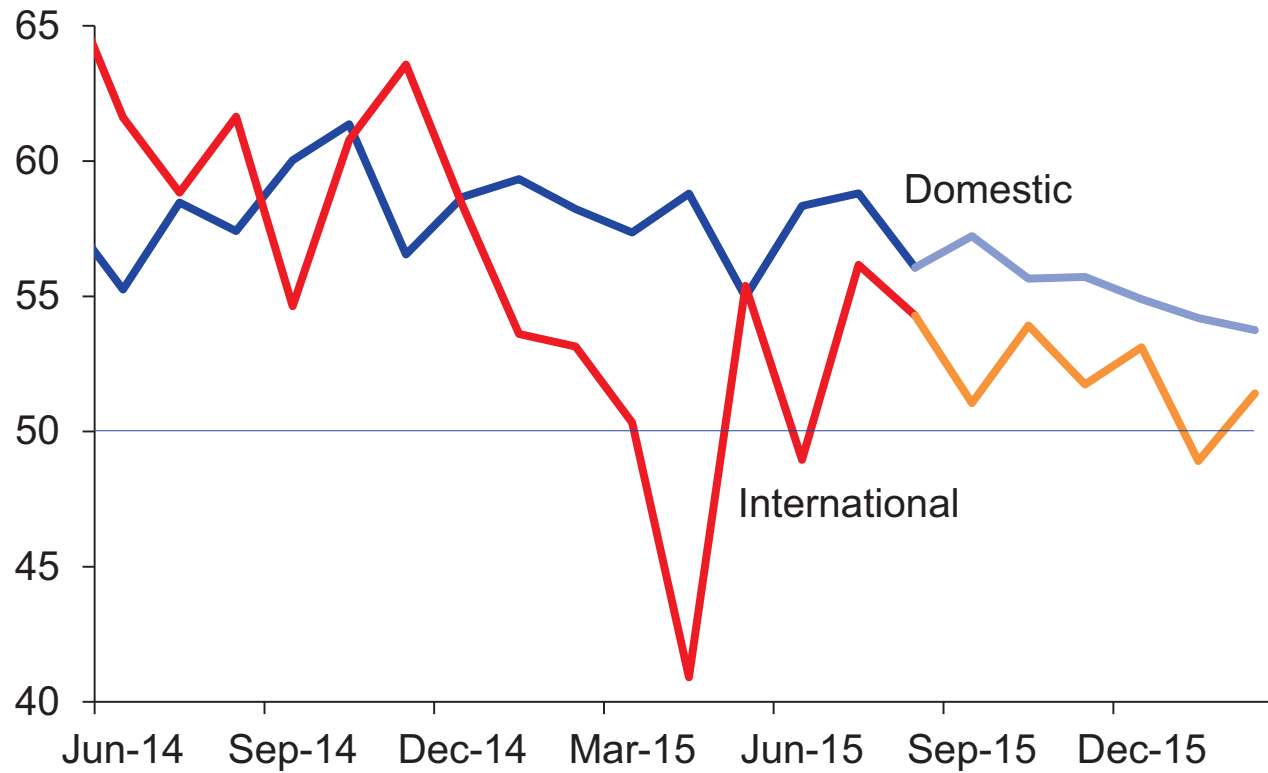


Source: STR; BEA; Tourism Economics

# Solid expectations on domestic markets

## Domestic & International Indices

Index (50=0% growth)



Source: Oxford Economics, U.S. Travel Association

# New takeaways

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- Solid fundamentals in US will sustain economic growth. But global headwinds (strong dollar and weak trade) mean less than stellar growth in 2016.
- Domestic travel will drive performance in latter part of 2015 and into 2016.
- Overseas inbound will weaken further over the coming 6 months.
- Overall, will travel continue to grow in 2016 but at a still slower rate.



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