The Outlook for the Economy and the Philadelphia Travel Industry

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1. Economy is heading toward a mild recession

2. Why we expect travel to defy the economic downturn

3. The outlook for Philadelphia
Consumers feeling uneasy

US: Consumer surveys

Source: Oxford Economics/Haver Analytics
Job growth continues at a more tempered pace

US: Nonfarm payroll employment

Source: Oxford Economics/Haver Analytics

US: U-3 unemployment rate

Source: Oxford Economics/Haver Analytics
October CPI brought signs of hope but we’re not there yet

Headline and core CPI inflation decelerated to a still elevated 7.7% and 6.3%, respectively. Interest rate hikes will continue.
Lower affordability = fewer sales

US: New and existing home sales

Source: Oxford Economics/Haver Analytics
And households are taking on some debt.
We are headed toward a recession in Q2

Why?
• Persistently high inflation
• Aggressive Fed monetary policy tightening
• Negative spill-over effects from slower global activity
• Weaker corporate earnings
...will weigh on consumers' and businesses' willingness to spend

Source: Oxford Economics/Haver Analytics
The recession will be mild by historical standards

Why?
- Household balance sheets are in great shape and debt service burdens are low.
- Nonfinancial corporate balances are strong
- State and local governments are flush with cash.

Source: Oxford Economics/Haver Analytics
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What have the last three “normal” recessions looked like?

Quite a bit of variation is evident in the GDP-hotel room demand relationship.

Source: STR, BEA
Excess savings are buffer

US: Excess savings based on reported personal income data

- Excess savings-LHS
- Savings rate-RHS
- Pre-pandemic savings rate-RHS

Source: Oxford Economics/Haver Analytics
... especially to high-end travelers

$2.4$ trillion saved during pandemic, now sits at $1.2$ trillion in September

Households in the top income quartile held close to half of excess savings at the end of Q2

Source: Oxford Economics/Haver Analytics
Household balance sheets remain strong

Household debt service
Financial obligations as ratio to disposable income

Household net worth
In trillions, real

Note: Quarterly data through 2022Q3. Financial obligations ratio is the ratio of household debt payments, and payments such as rent and auto leases, to disposable income. Source: Federal Reserve, NBER.

Note: 2020 dollars. Quarterly data through 2022Q3. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER.
“While macroeconomic concerns continue to dominate the headlines, we are not seeing any signs of weakness in our business. ...consumers still have $1.7 trillion in excess savings, with the majority concentrated in the top income brackets which gives us confidence the recovery in the lodging industry is sustainable.”

Host earnings call, November 3, 2022
Inflation remains high but should slow in the coming months

Headline CPI inflation eased to 6.5% y/y in December, helped lower by retreating energy prices, while core CPI inflation fell a more modest 0.3ppts to 5.7% y/y.

Easing supply chain stress is helping.
“While we are mindful of macroeconomic headwinds, the travel industry is experiencing a countercyclical recovery. Global demand is continuing to ramp as consumers shift spend to experiences, businesses return to travel, and international markets continue to reopen.”

Delta CEO Ed Bastian, October 13, 2022
Spending continues to rise… for services

Consumer spending on services is currently 66% of total consumption. It is normally closer to 70%.

Normalization implies further growth for travel.

Durable goods: +24.7% (cars, furniture, recreational goods, etc.)

Nondurable goods: +10.7% (food, clothing, gas, etc.)

Services: +3.8%
And overall intentions to travel remain elevated.
Slippage evident among lower income earners

Planning Leisure Travel Within the Next 6 Months
% of American Consumers

Quarter of Survey
- 2021 Q2
- 2021 Q3
- 2021 Q4
- 2022 Q1
- 2022 Q2
- 2022 Q3
- 2022 Q4

Light gray bars represent the average for all survey respondents.
34% plan to travel... as they work remotely

Which of the following describes your remote work plans within the next 12-24 months?

- I plan to work remotely, away from home, in another US location for 1-4 weeks: 10%
- I plan to work remotely, away from home, in various locations over the next 12 to 24 months: 9%
- I plan to work remotely, away from home, in another US location for 4 or more weeks: 8%
- I plan to work remotely, away from home, in an international location for at least 1-2 weeks: 7%

Travel Sentiment Study Wave 67
“There's been a permanent structural change in leisure demand because of the flexibility that hybrid work allows. This is not pent-up demand. It's the new normal.”

United Airlines earnings call, October 19, 2022
Business travel intentions now exceed 2019

Average expected trips versus 2019
Average monthly trips expected in next six months relative to pre-pandemic (2019=100%)

[q1&q2] How many times do you travel on average for business purposes?

Business Travelers Survey BASE: Q4 = 790; Q3 N = 1641; Q2 N = 2545
Group bookings showing strength

“Group bookings are up 30% compared to 2019, and we expect it to perform better than prior recessions.”

Marriott earnings call, Sept 8

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Event Planner
% Of meeting planners who expect to plan more in-person meetings in 2023 than in 2022

- October 2022: 59%
- December 2022: 67%

"More" responses

Source: Northstar Meetings Group and Cvent (Meetings industry PULSE survey), as of December 2022
International is gaining momentum

Non-resident overseas arrivals to the U.S.
Index (2019 = 100)

Source: I-94/ADIS
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Last year finished with momentum

Hotel Room Revenue
Center City, difference relative to same month in 2019

Source: STR, Tourism Economics
Hotel rooms sold to grow 15% in 2023 (but still 7% below 2019)

Room demand
Center City, in millions
Rate growth will support recovery in 2023

Average Daily Rate
Center City, Philadelphia

Source: STR, Tourism Economics
Hotel revenue expected to surpass 2019 levels in 2023

Room revenue
Center City, in millions

Source: STR, Tourism Economics
A mild recession is likely in 2023

Inflation and higher interest rates will leave a mark, but strong balance sheets should limit the downside.
Summary

2 Travel is uniquely positioned for this downturn

- Households (and businesses) are in a fiscally strong position
- Pent-up demand is prioritizing travel
- Business travel continues to rebuild
- International recovery will continue
Summary

3 Philadelphia outlook

• Demand will continue to reclaim ground in 2023
• Rate will be supported by rising occupancy
• Combination of resilient domestic demand and recovering international will bring Philadelphia hotel revenue to pre-pandemic levels this year