

# The Future Shape of Travel

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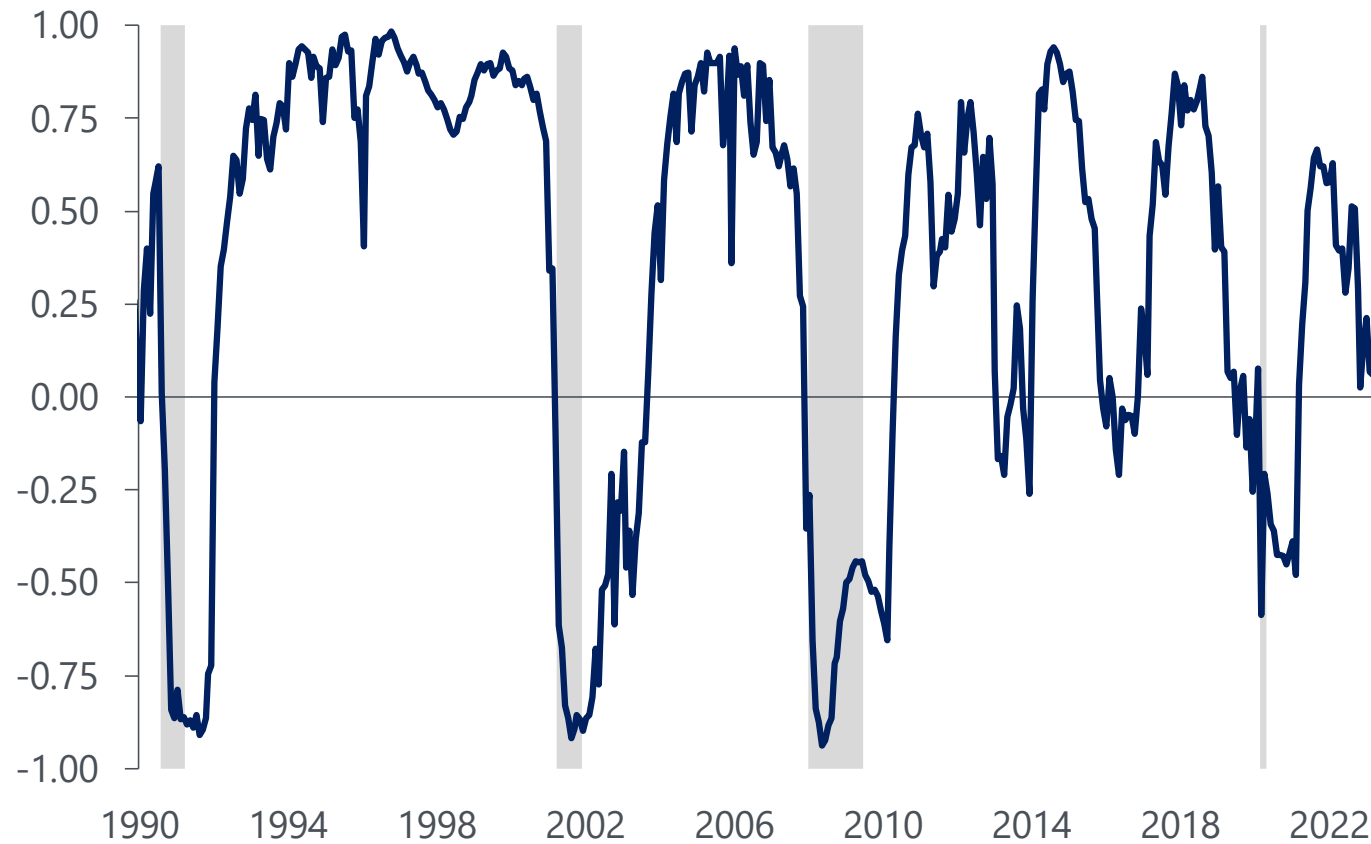
# Outline

1. An economic slowdown is ahead
2. The latest (and expected) phase for travel
3. Anticipating the reshaping of travel
4. Implications

# Oxford BCI points to a contraction later this year

## US: Oxford Economics' US Business Cycle Indicator

Index, -1 to +1

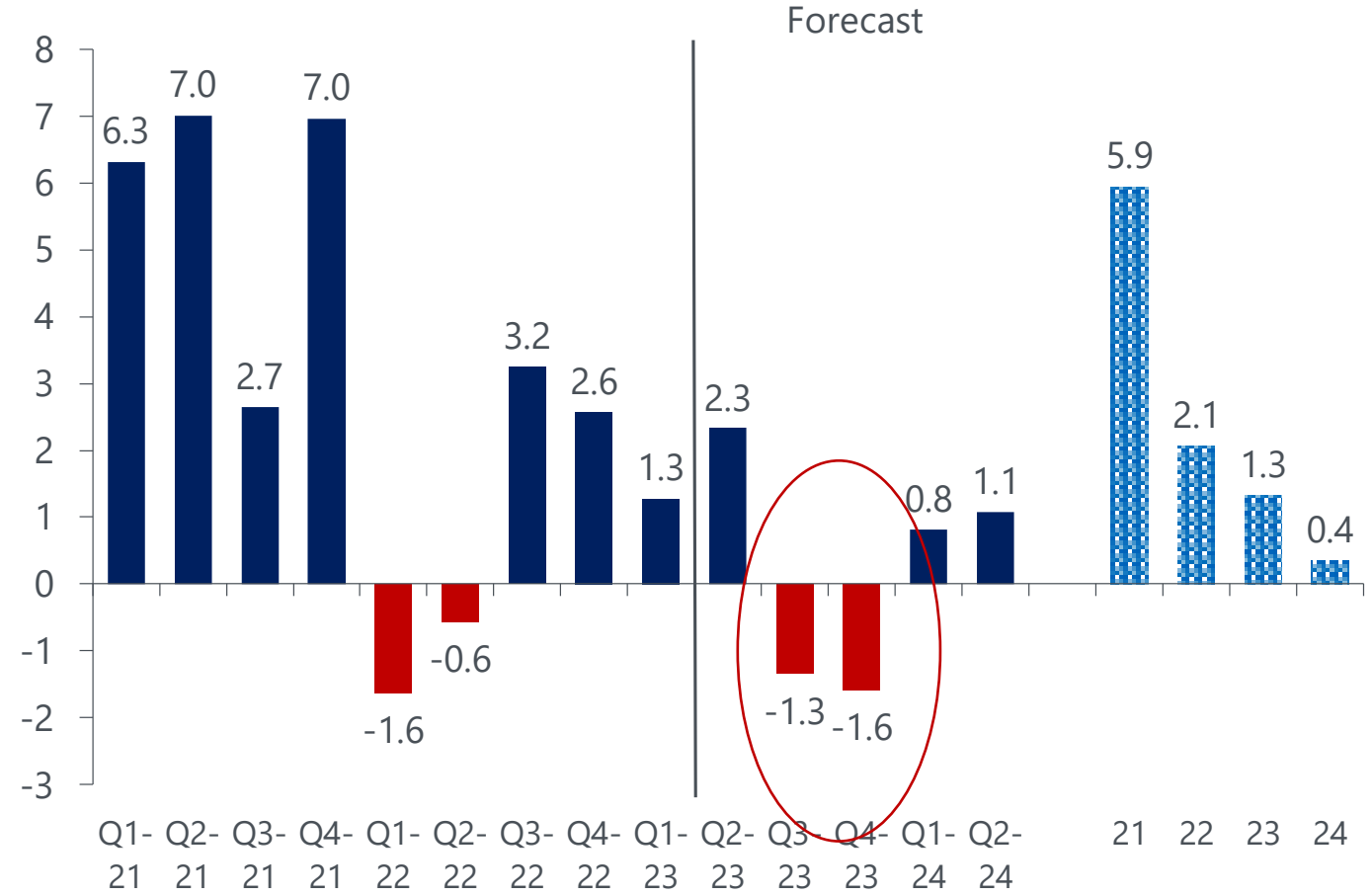


Source: Oxford Economics/Haver Analytics

# We are headed toward a recession in the second half of 2023

## US: GDP Forecast

% annualized



We expect the recession to be mild because

1. There are no glaring balance sheet imbalances
2. Labor market impacts will be modest

Source: Oxford Economics/Haver Analytics

# Household balance sheets remain strong

## Household debt service

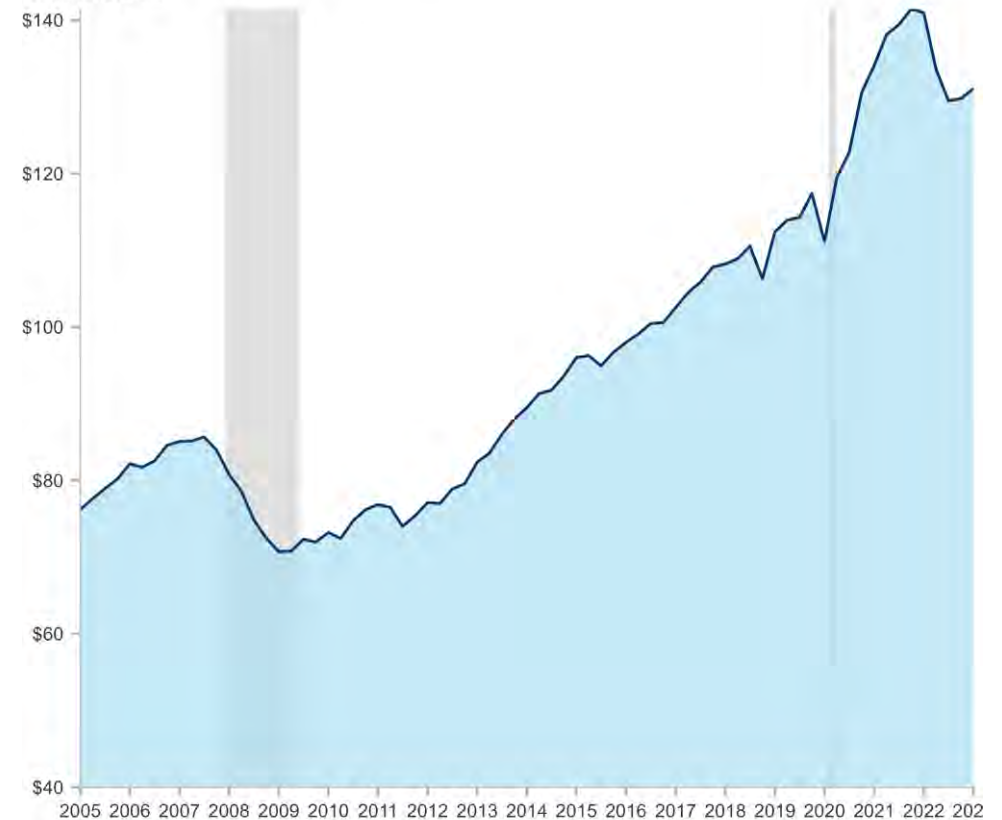
Financial obligations as ratio to disposable income



Note: Quarterly data through 2023Q1. 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

## Household net worth

In trillions, real



Note: 2020 dollars. Quarterly data through 2023Q1. Net worth of households and nonprofit organizations. Measures assets such as housing and financial assets, minus liabilities. Source: Federal Reserve, NBER



# Labor markets remain tight

## Available jobs versus available workers



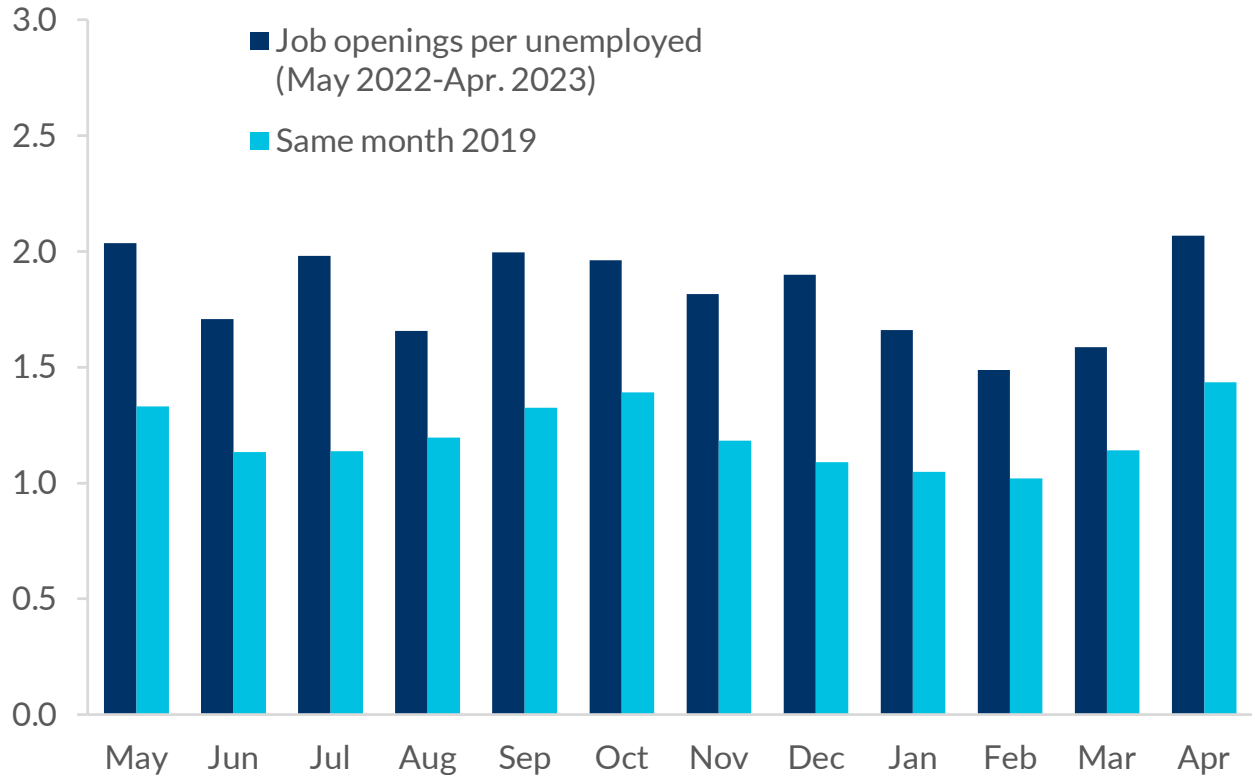
1-in-15 positions remain unfilled (6.4%)

Note: Available jobs are employment plus openings. Available workers are the labor force. Data through May 2023. Seasonally adjusted. Grey shading indicates recessions. Source: Bureau of Labor Statistics

# Two job openings per job seeker

## Labor market tightness

Job openings per unemployed worker

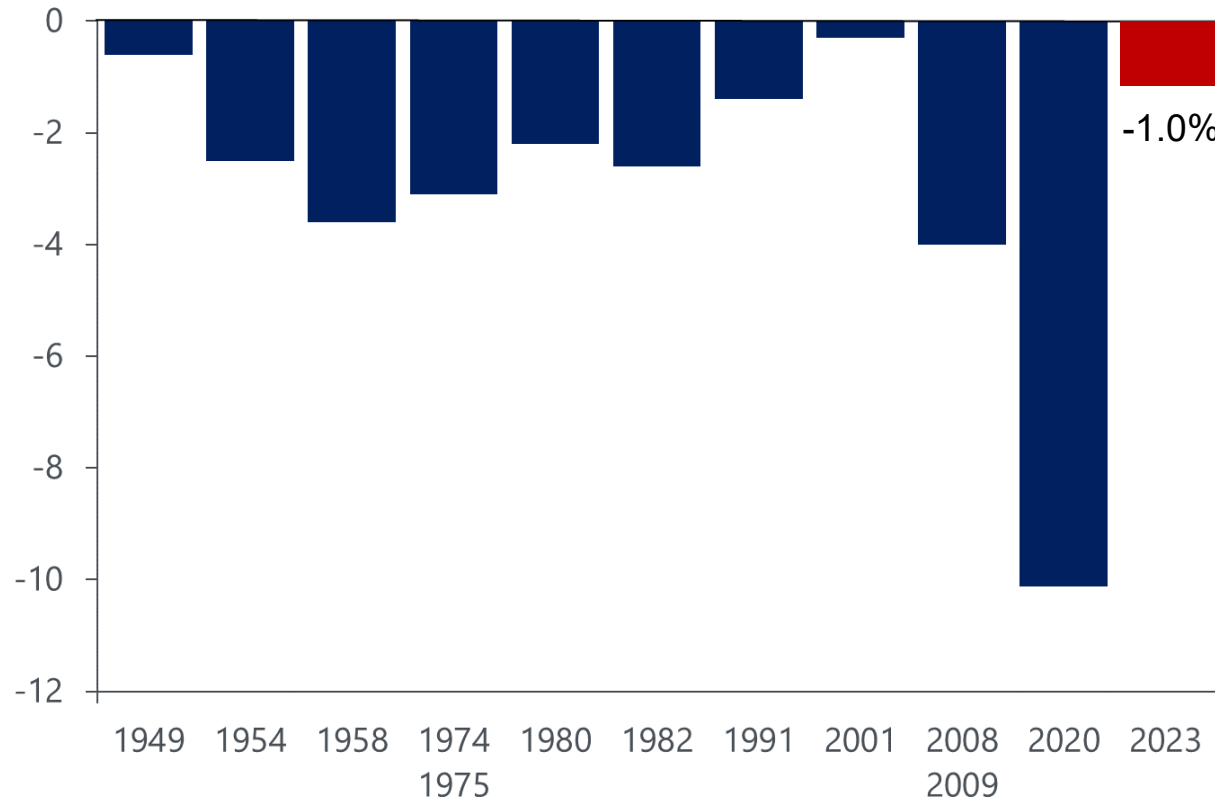


Source: BLS

# The US recession will be mild by historical standards

US: Peak-to-trough recessions since 1949

% change, peak to trough



Unemployment rate will reach 5.2% in 2024

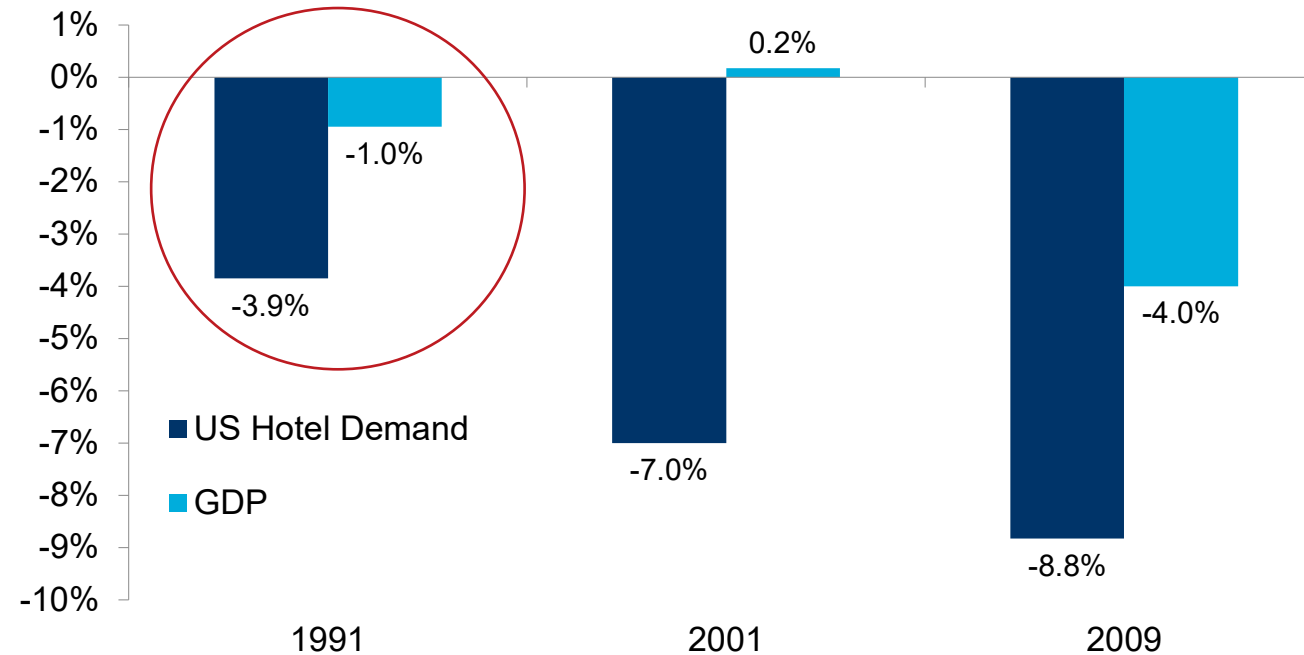
Source : Oxford Economics/Haver Analytics



# What have the last three “normal” recessions looked like?

## Hotel demand during recessionary periods

Year-over-year %, quarterly peak-to-trough



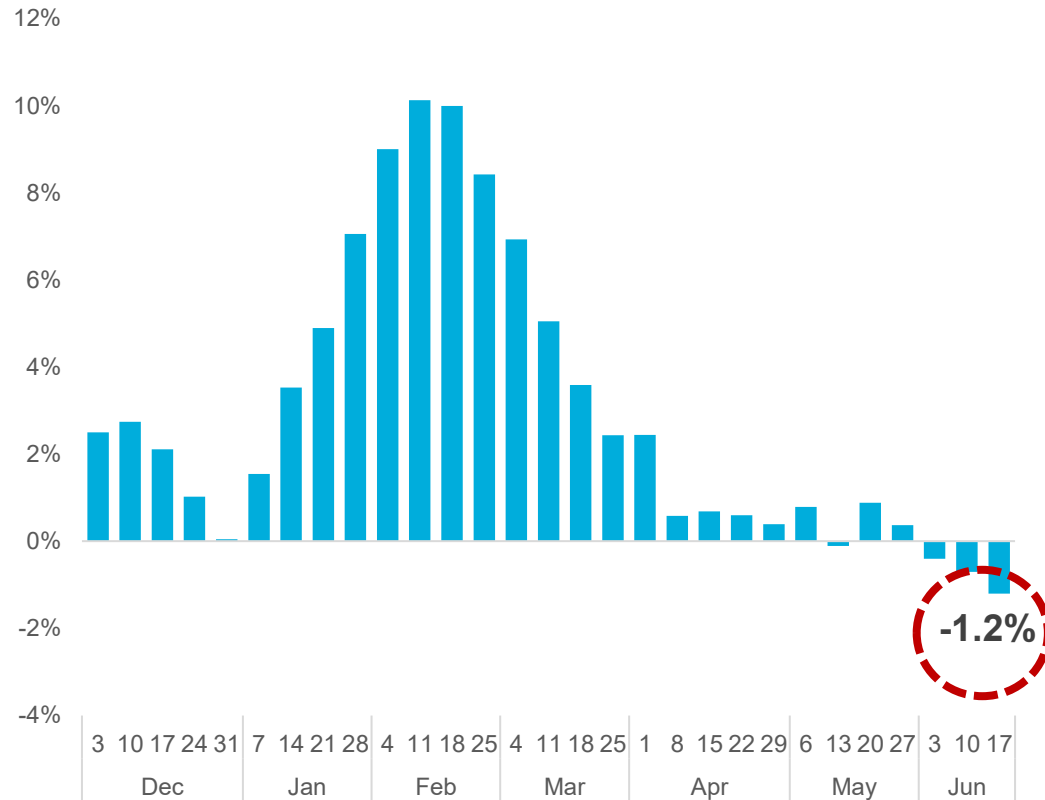
Source: STR, BEA

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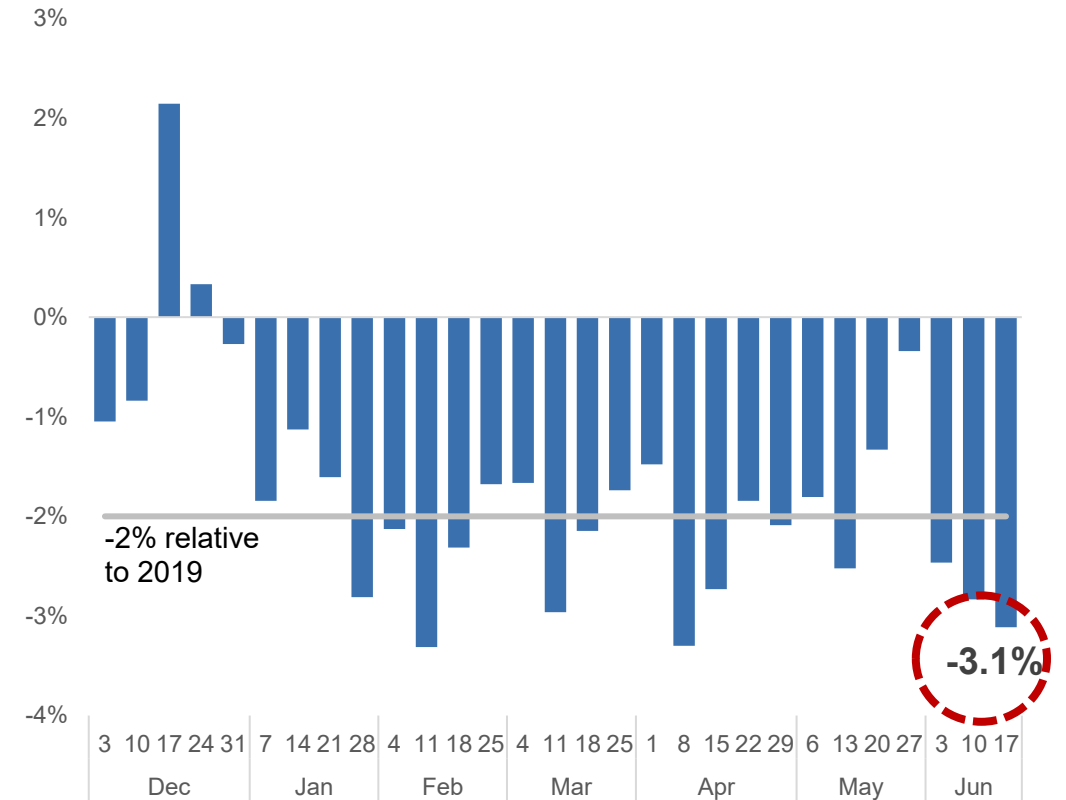
# Lodging demand trends have softened...

**Hotel demand, year-over-year growth**  
US total, six-week moving average



Source: STR, Tourism Economics

**Hotel demand relative to 2019**  
US total, six-week moving average

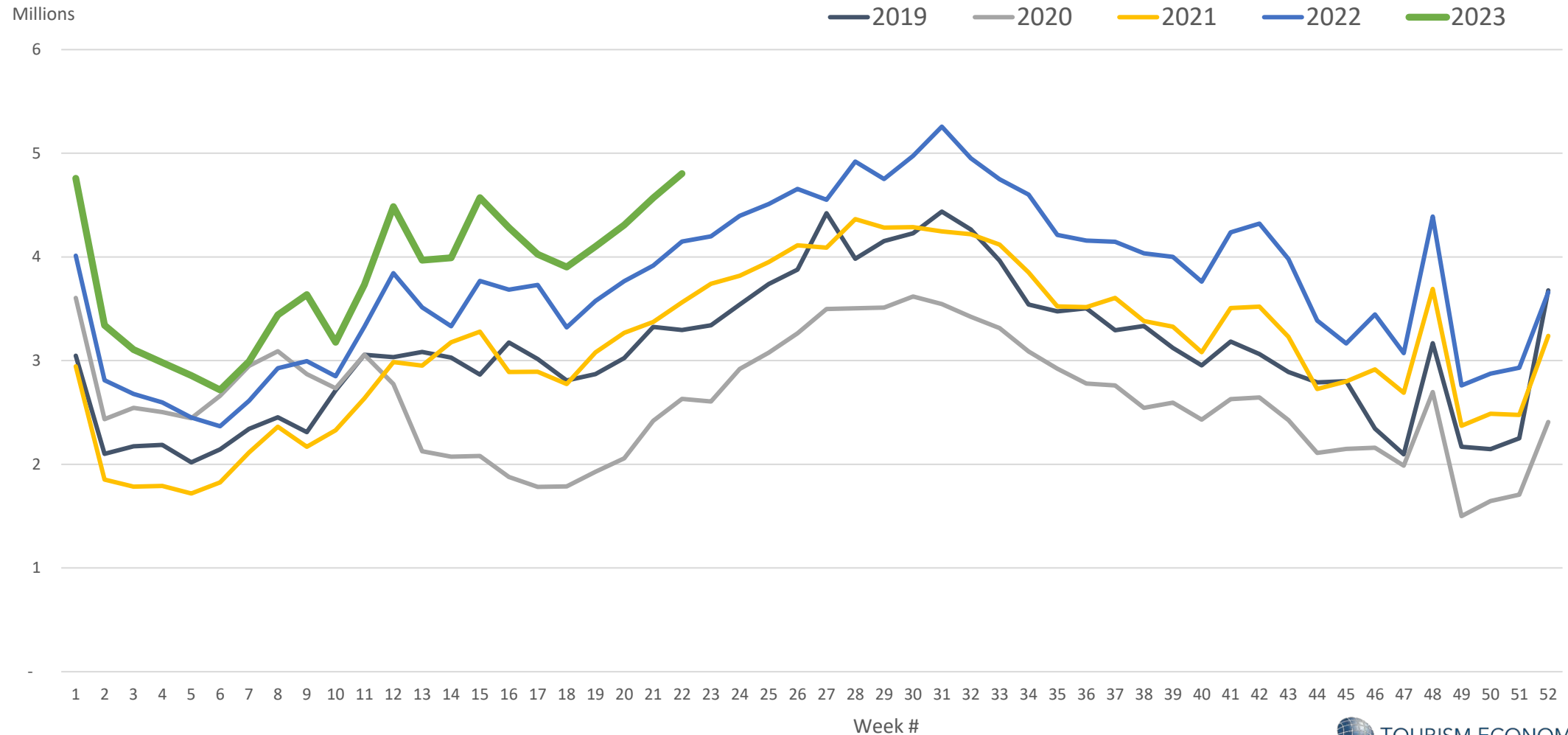


Source: STR, Tourism Economics

# 2023 ST Rental Demand Up 12% in May

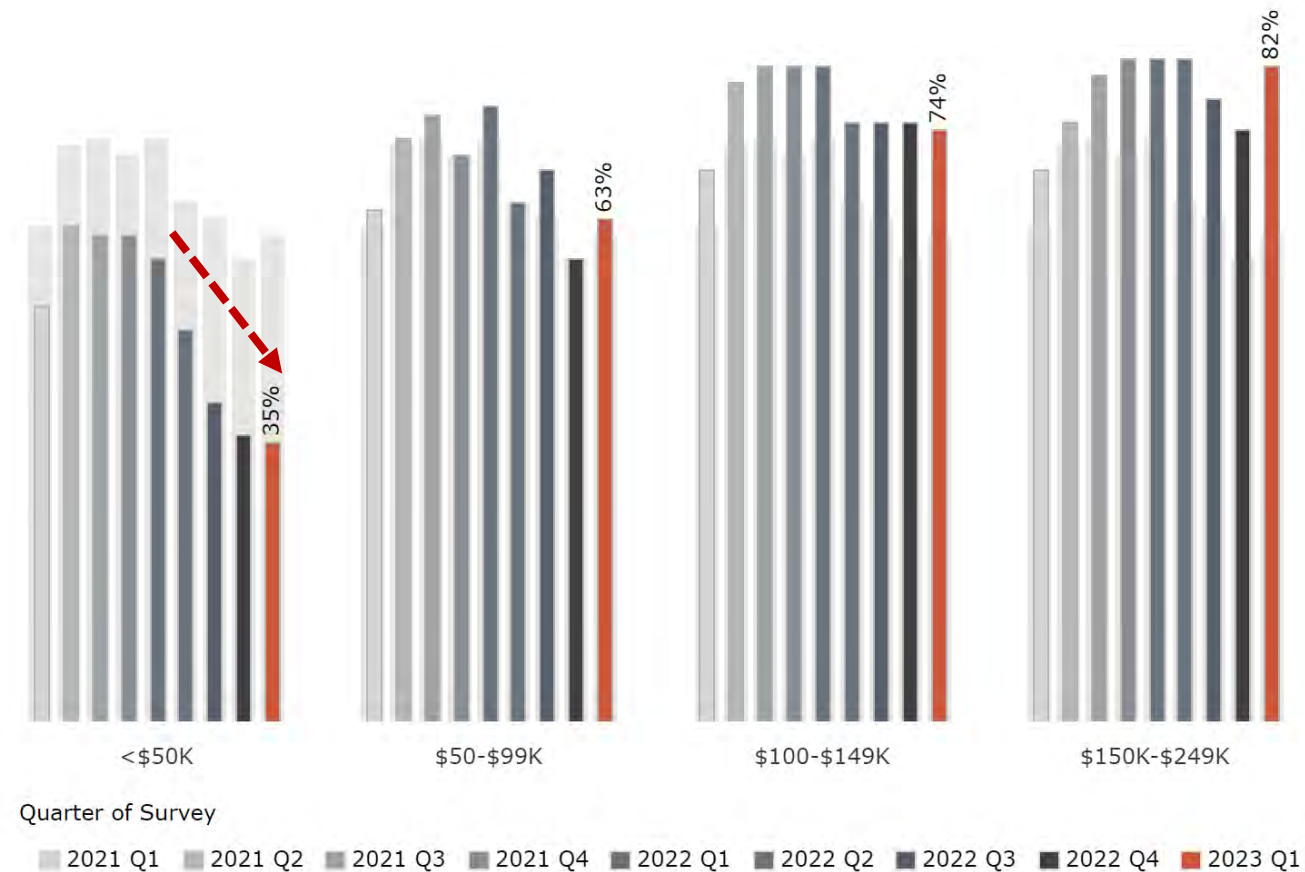
AIRDNA

## U.S. Short-term Rental Weekly Demand (Nights) – Based on Night Stayed



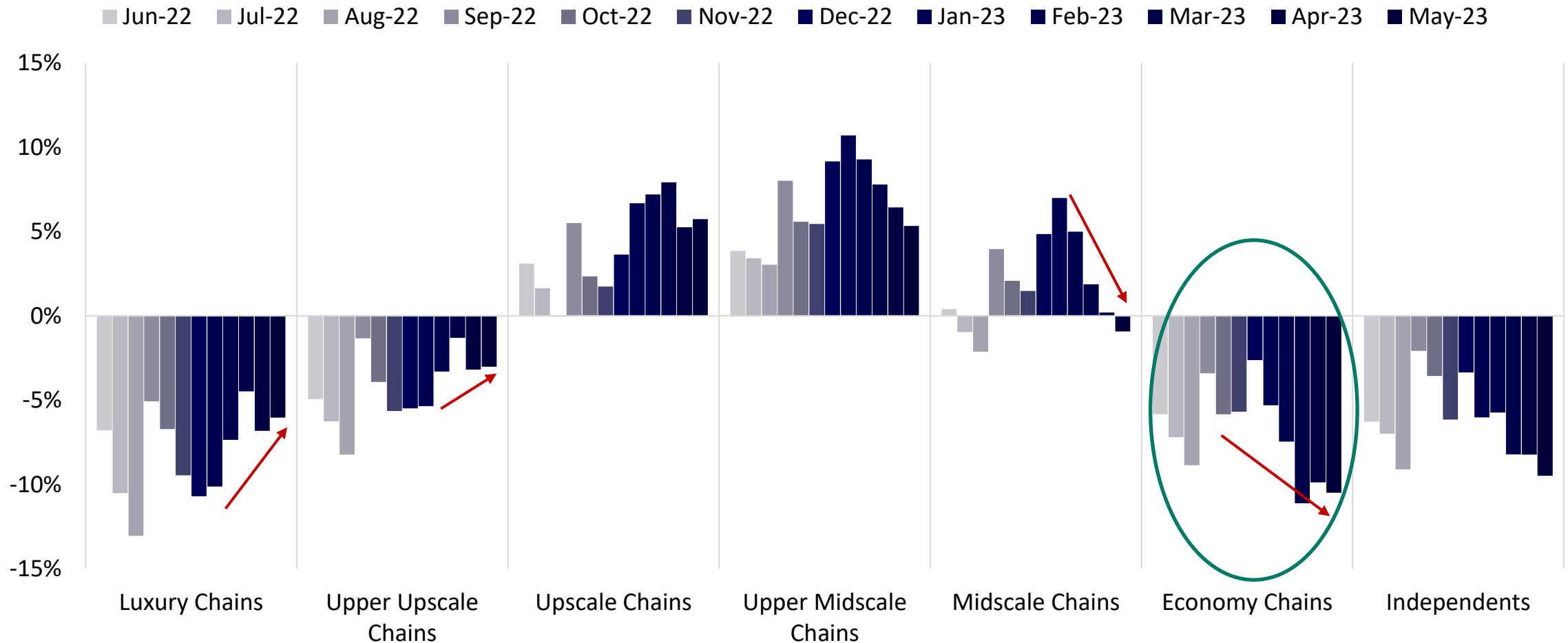
# Slippage evident among lower income earners

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



# Sure enough... weakness in economy

Total U.S., Demand, % change to 2019, Jun 2022 – May 2023



# Air travel is holding

## TSA air passenger volumes

Checkpoint travelers, trailing 7-day average, relative to pre-Covid



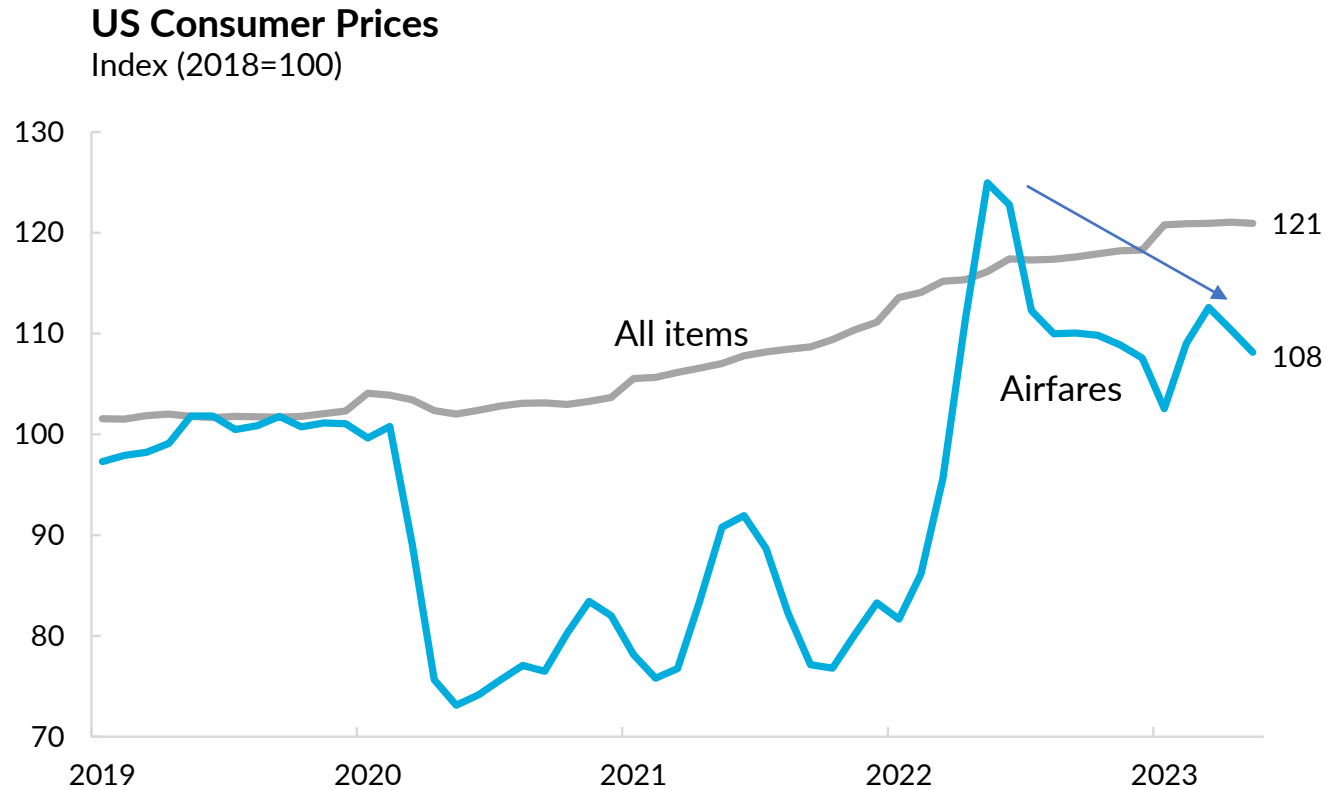
Note: Most recent data point is June 25, 2023.  
Source: Transportation Security Administration



“We are planning to grow June quarter capacity 17% over last year to meet strong customer demand. This growth is a couple points below our initial plan to fully restore capacity this summer.”

Delta CEO Ed Bastian, 2023Q1 earnings call

# Airfares feel expensive... but aren't

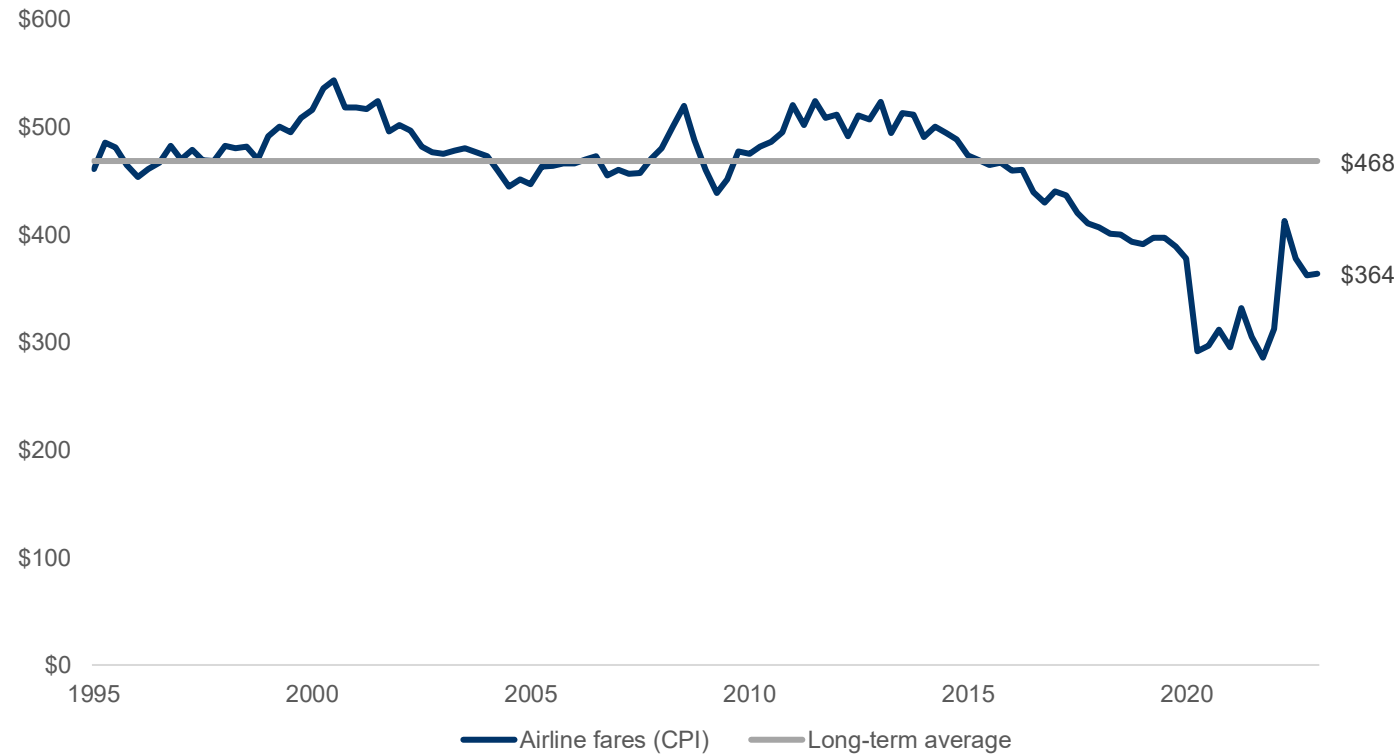


Sources: BLS

- Airfares in May were 13% **below** May 2022 peak.

# Airfares remain below long term prices

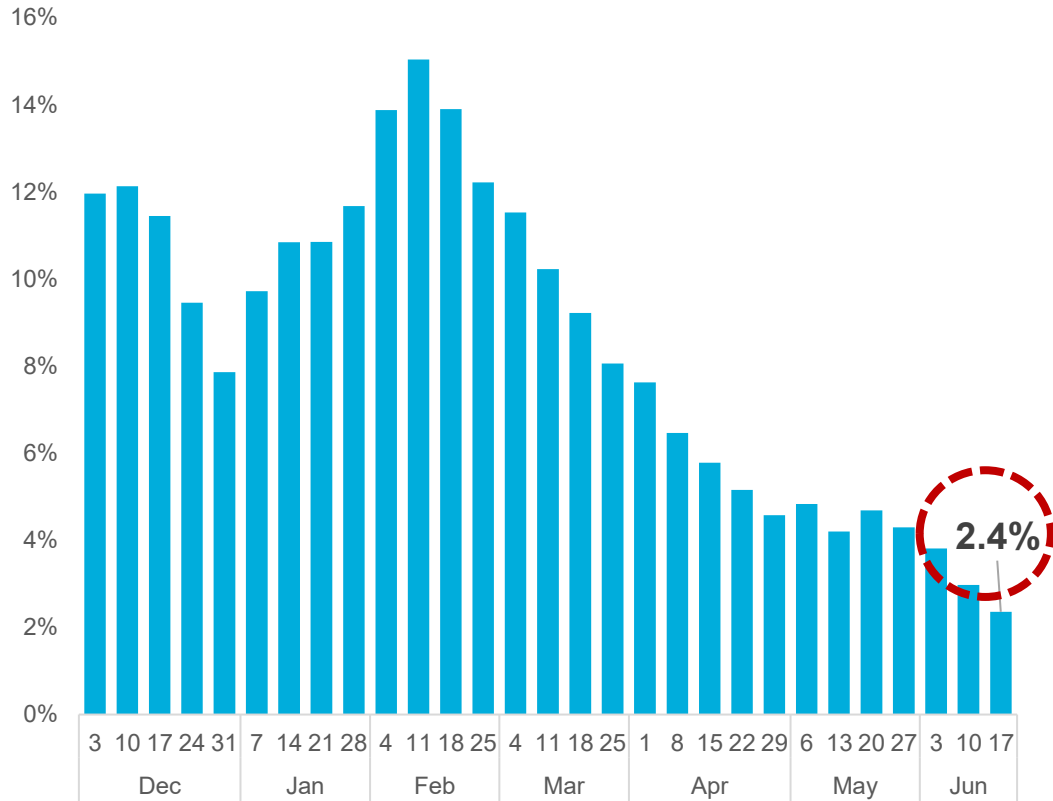
## Average domestic airfare



Note: Graph is based on Consumer Price Index measure of airfares, set to level of average airfare based on Bureau of Transportation Statistics average domestic airfare in 2005. Most recent data point is 2023 Q1  
Source: BLS; BTS; Tourism Economics

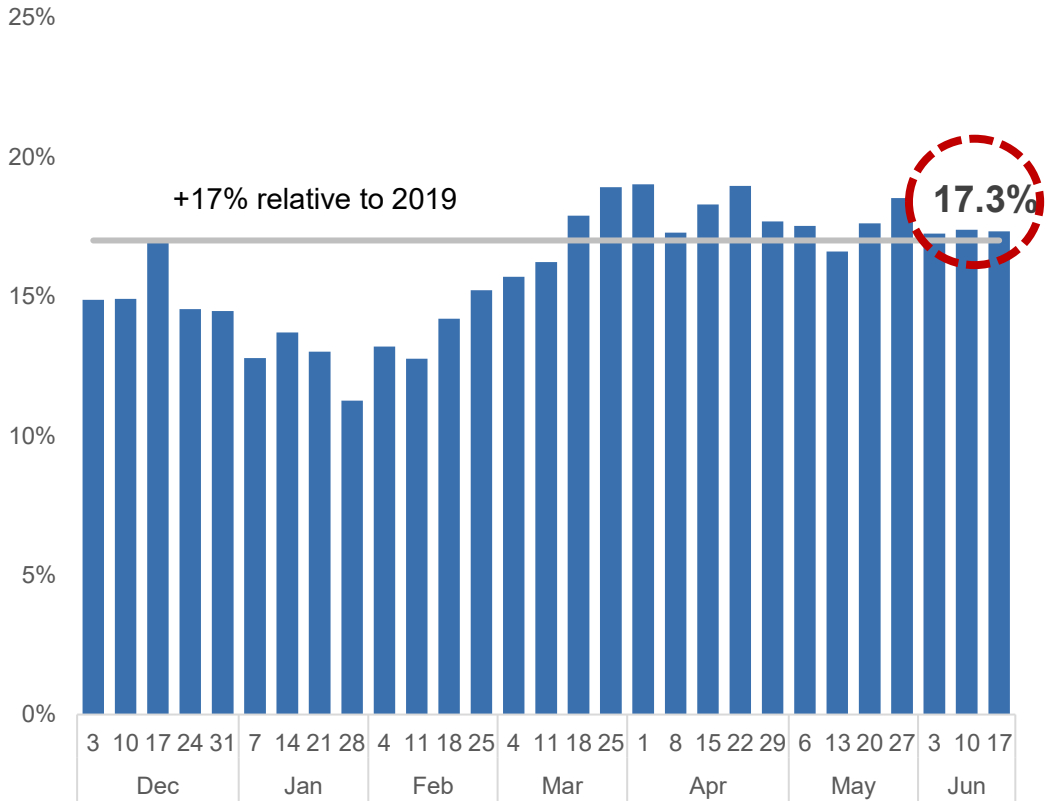
# ADR growth has slowed but remains positive relative to last year

**Hotel ADR, year-over-year growth**  
US total, six-week moving average



Source: STR, Tourism Economics

**Hotel ADR relative to 2019**  
US total, six-week moving average



Source: STR, Tourism Economics

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# Leisure Travel

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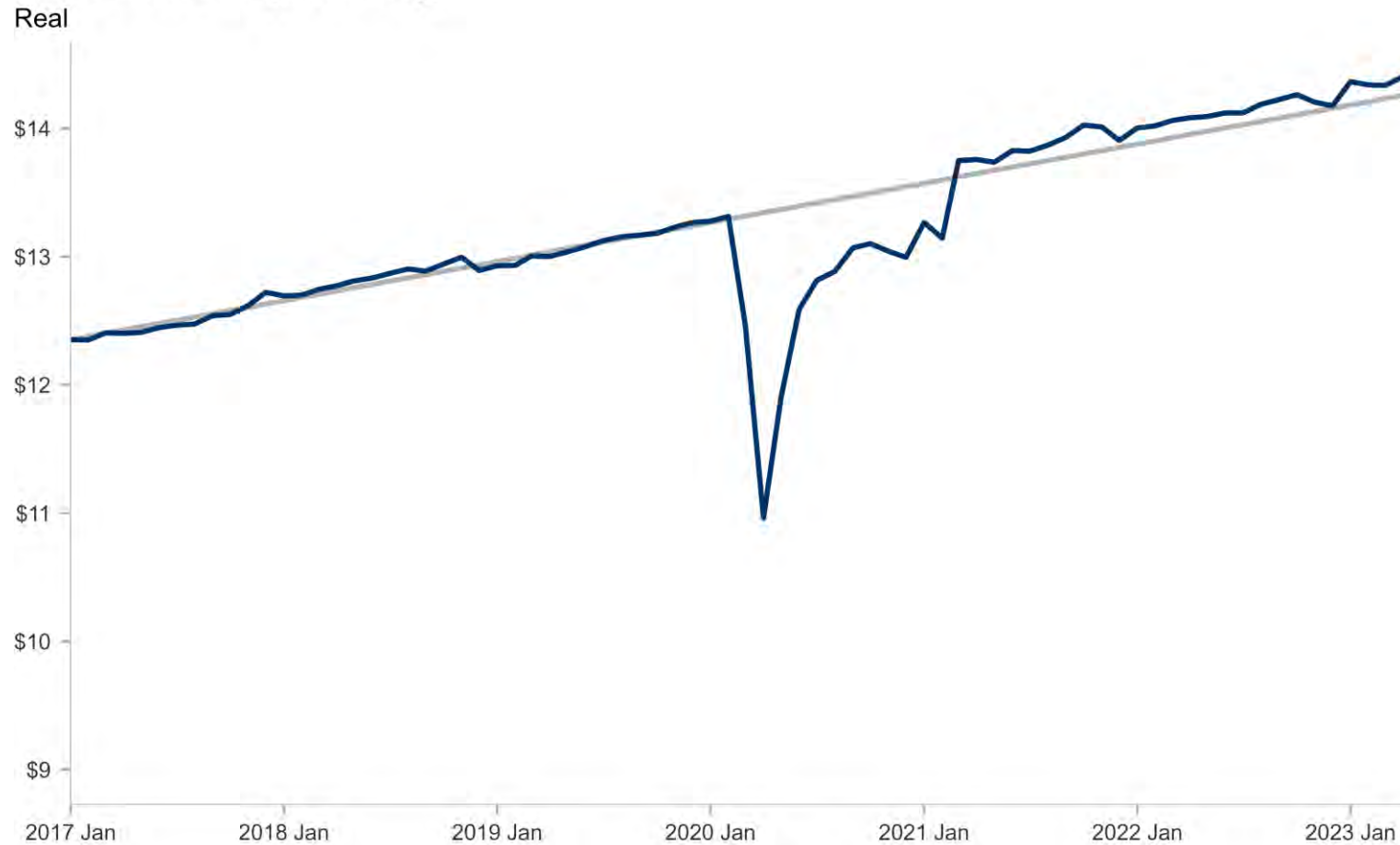
“Travel demand remains strong in what appears to be a more structural post-pandemic environment of people prioritizing travel above most other categories of spend. While economists continue to debate potential recession outcomes, consumers have so far shaken it off and continue to travel.”

Expedia earnings call, May 4, 2023



# Post-pandemic. Bounce back to normal?

## Consumer spending

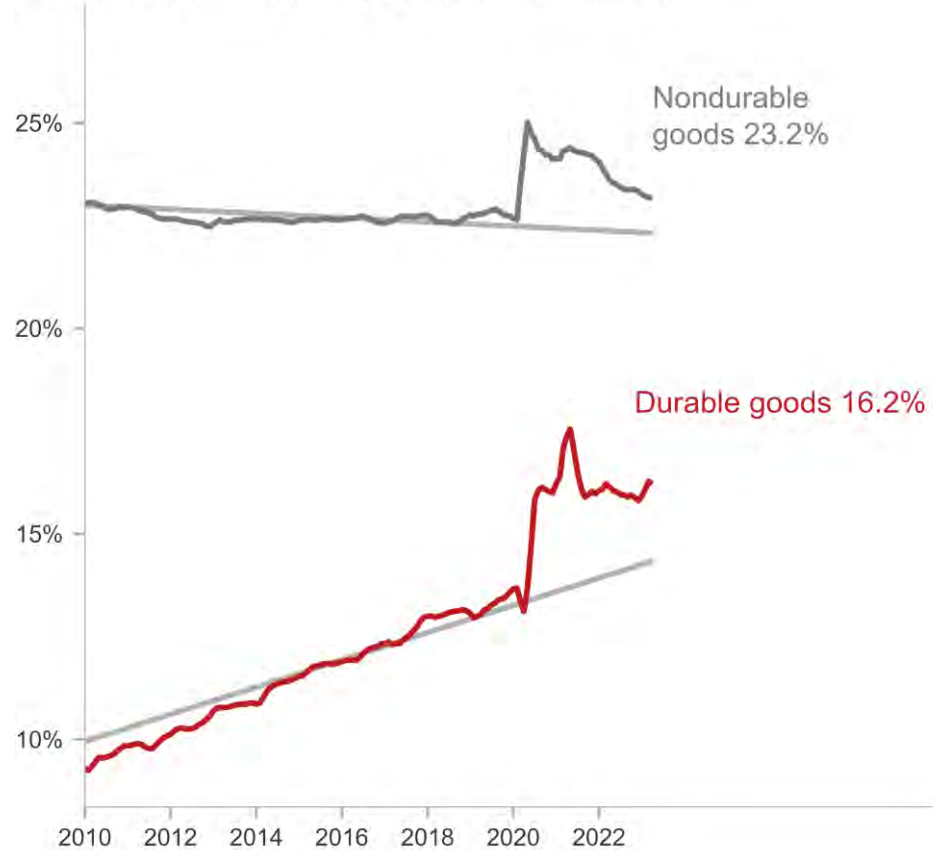


Note: Seasonally adjusted, annualized, in trillions, 2012 dollars. Monthly data through April 2023. Source: Bureau of Economic Analysis

# Consumer spending is out of shape

## Share of consumer spending

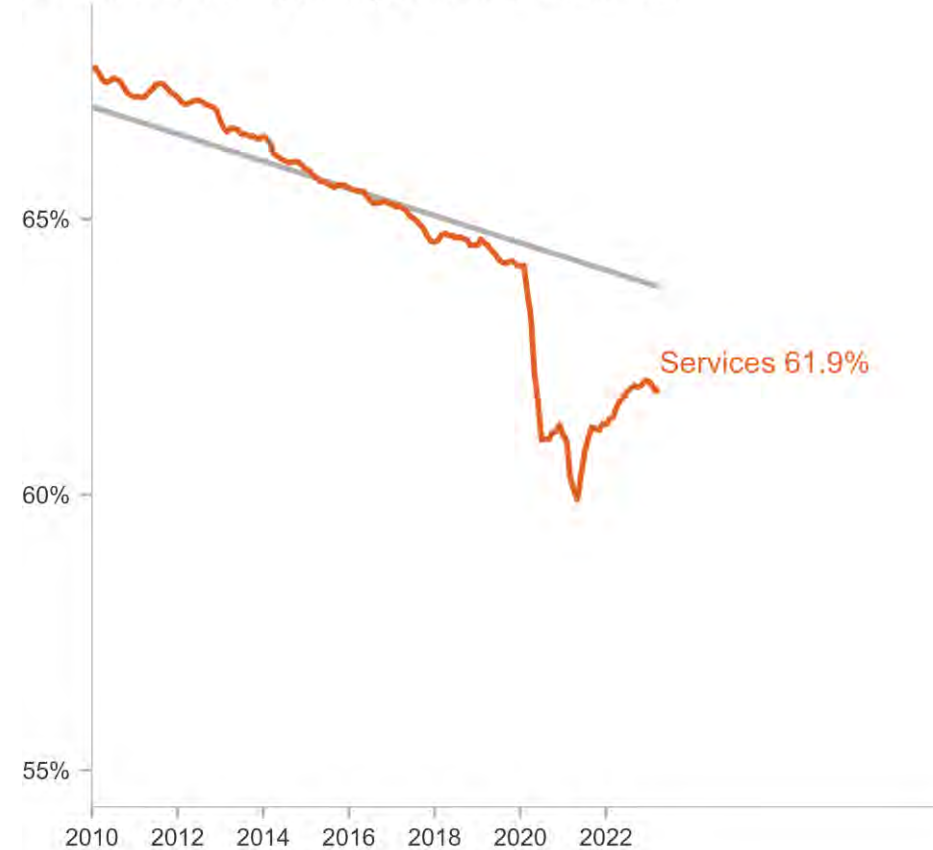
Three-month moving average, recent share in label



Note: Real. Seasonally adjusted monthly data through April 2023.  
Source: Bureau of Economic Analysis

## Share of consumer spending

Three-month moving average, recent share in label



Note: Real. Seasonally adjusted monthly data through April 2023.  
Source: Bureau of Economic Analysis

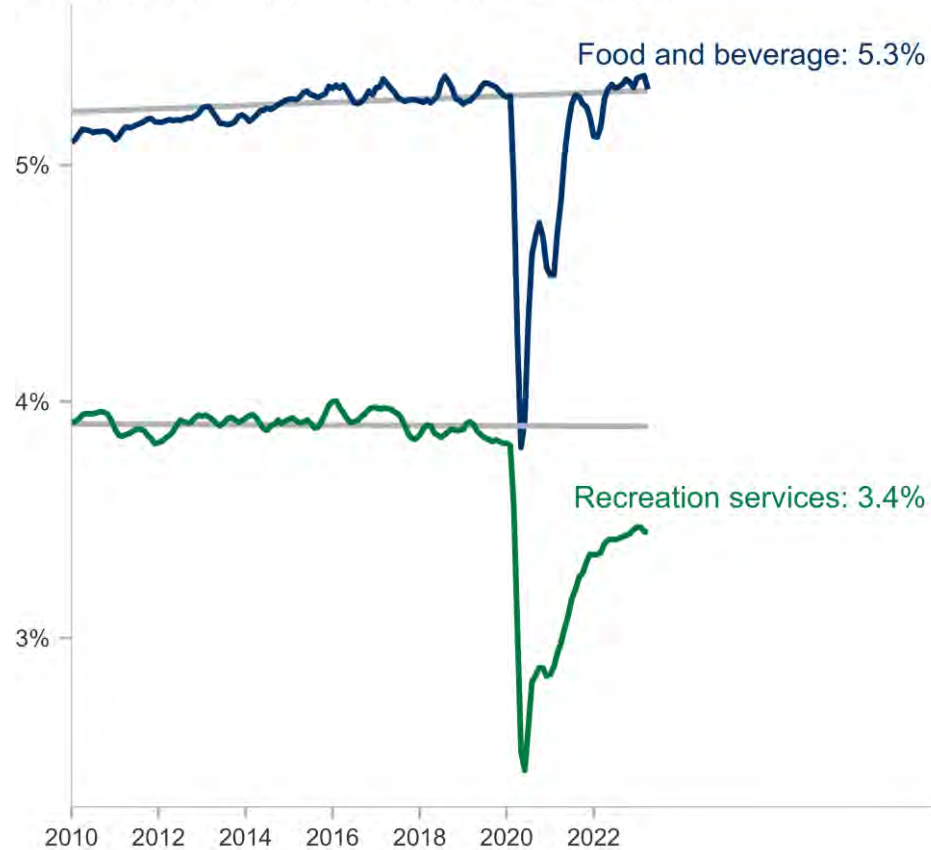
“Macroeconomic weakness is being offset with the countertrend of consumer spending continuing to rebalance back to services.”

United Airlines CEO, Scott Kirby, 2023Q1 earnings call

# Revealing upside for travel spending

## Share of consumer spending

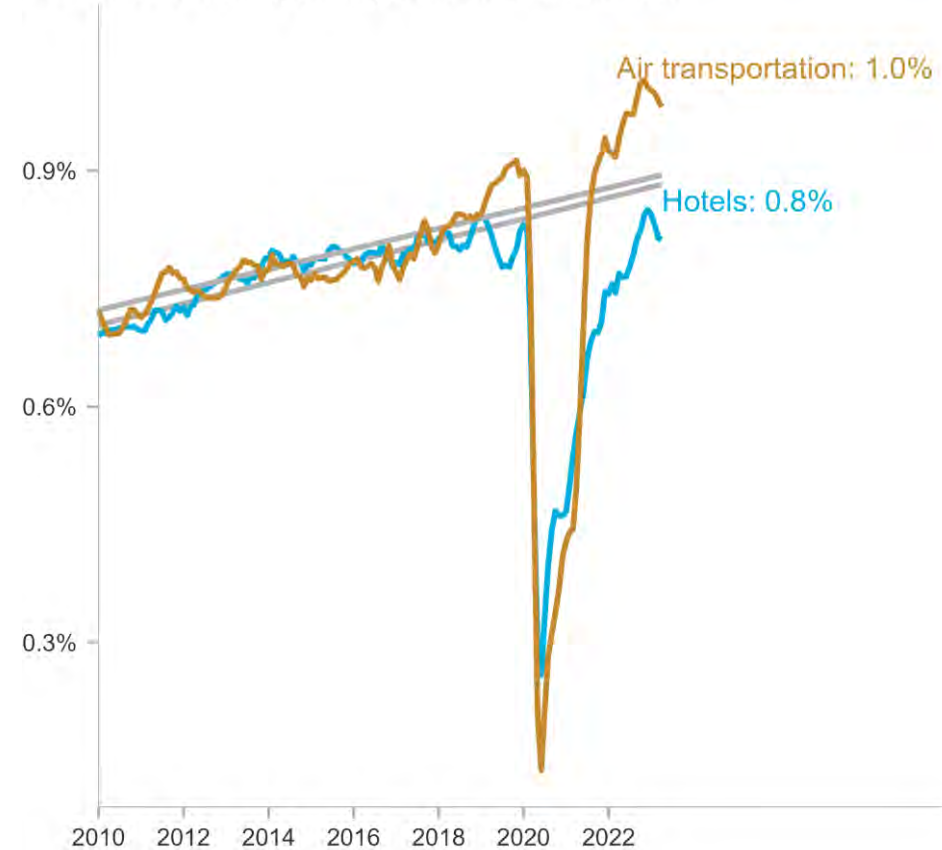
Three-month moving average, recent share in label



Note: Real. Seasonally adjusted monthly data through April 2023.  
Source: Bureau of Economic Analysis

## Share of consumer spending

Three-month moving average, recent share in label



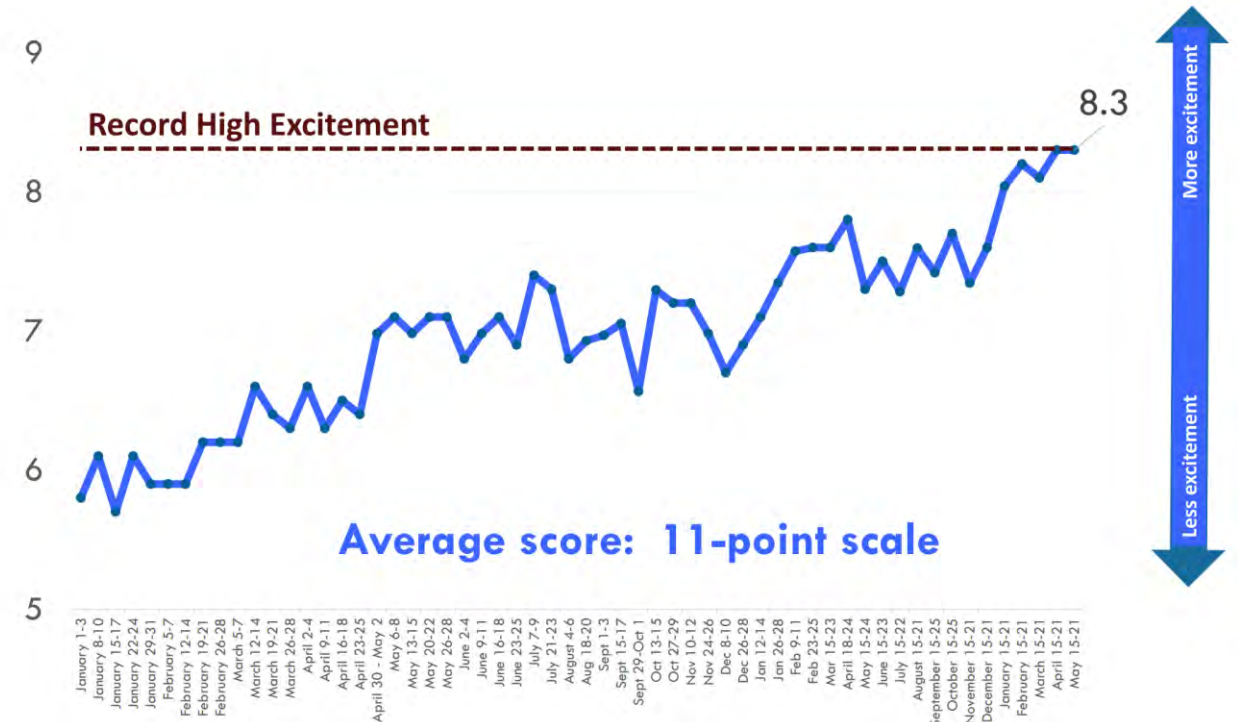
Note: Real. Seasonally adjusted monthly data through April 2023.  
Source: Bureau of Economic Analysis

““We haven't seen any slowdown in the leisure segment. So it's apparent to us that the well-heeled leisure consumer continues to want experiences. The shift from goods to travel and other experiences has occurred and it's real and it's very sticky.”

Host Hotels earnings call, May 4, 2023

(Remarks edited for clarity)

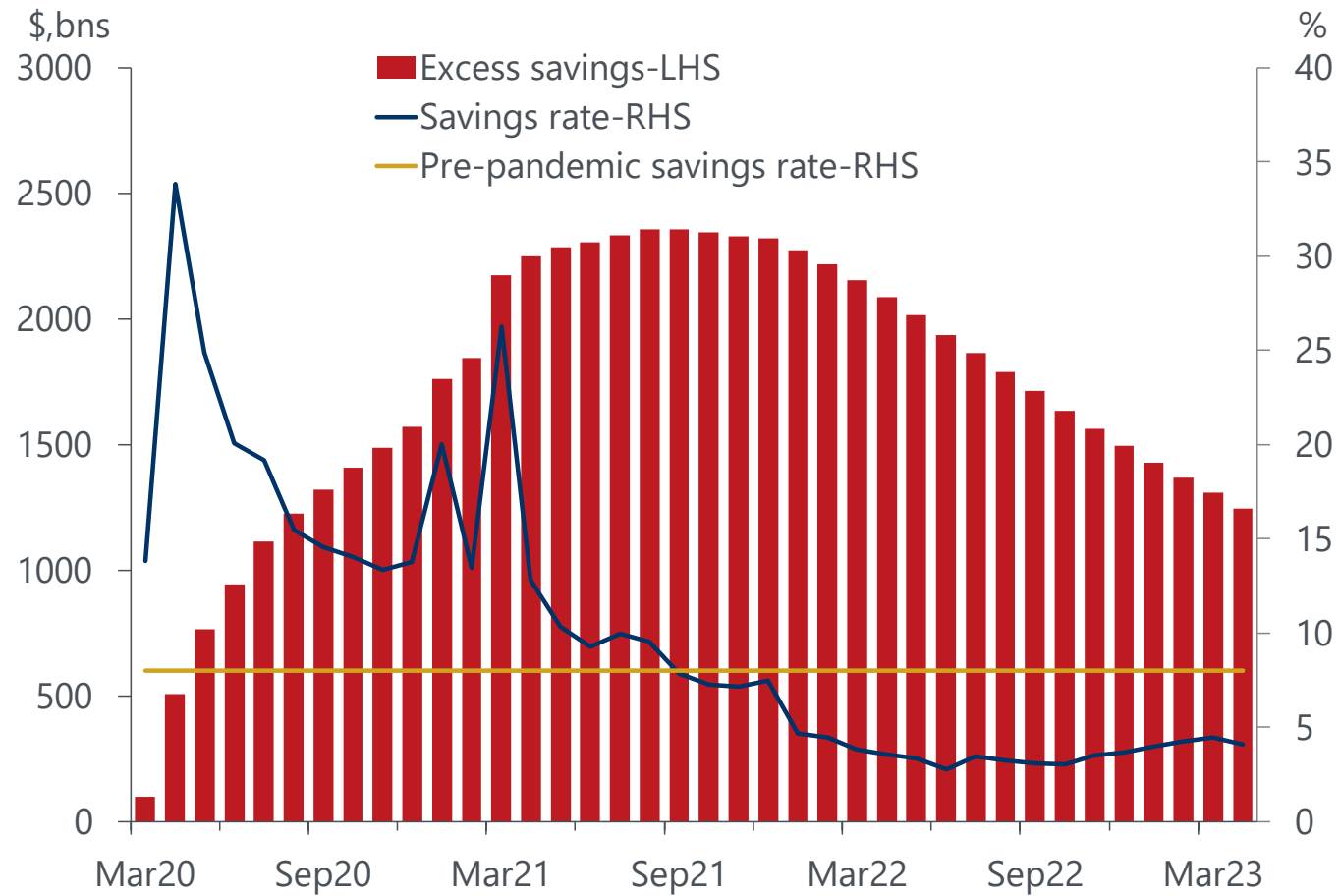
**Question:** Which best describes how excited you are about LEISURE TRAVEL in the **NEXT TWELVE (12) MONTHS?** (Please answer using the 11-point scale below)



Destination  Analysts

# Excess savings are buffer

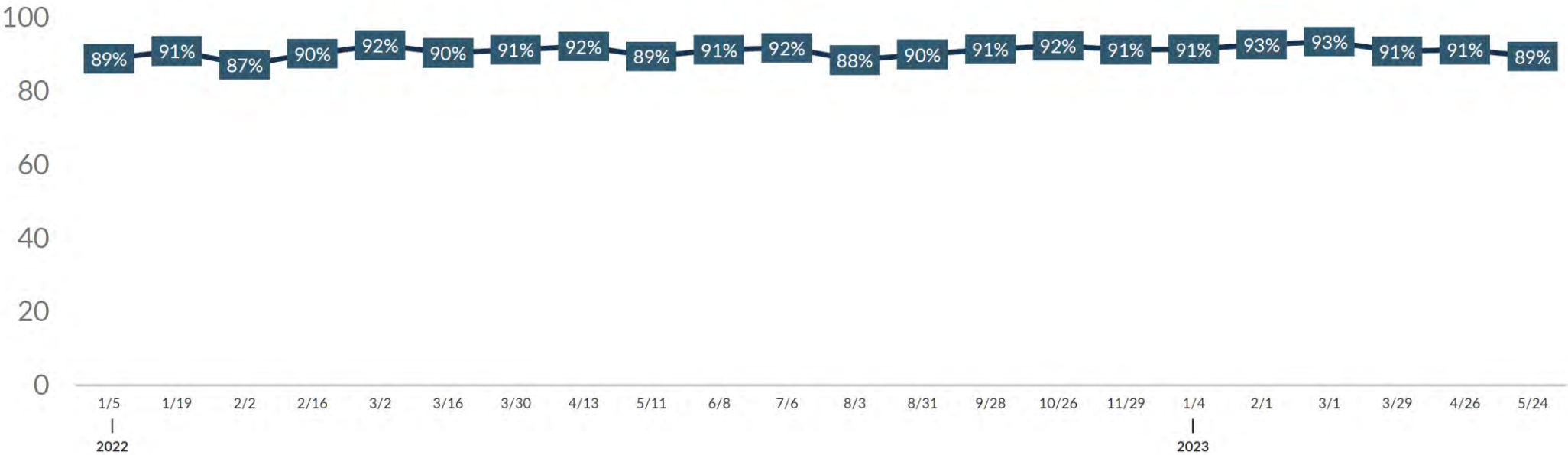
## US: Excess savings and savings rates



Source: Oxford Economics/Haver Analytics

# Overall intentions to travel remain elevated with some slippage

## Travelers with Travel Plans in the Next Six Months Comparison

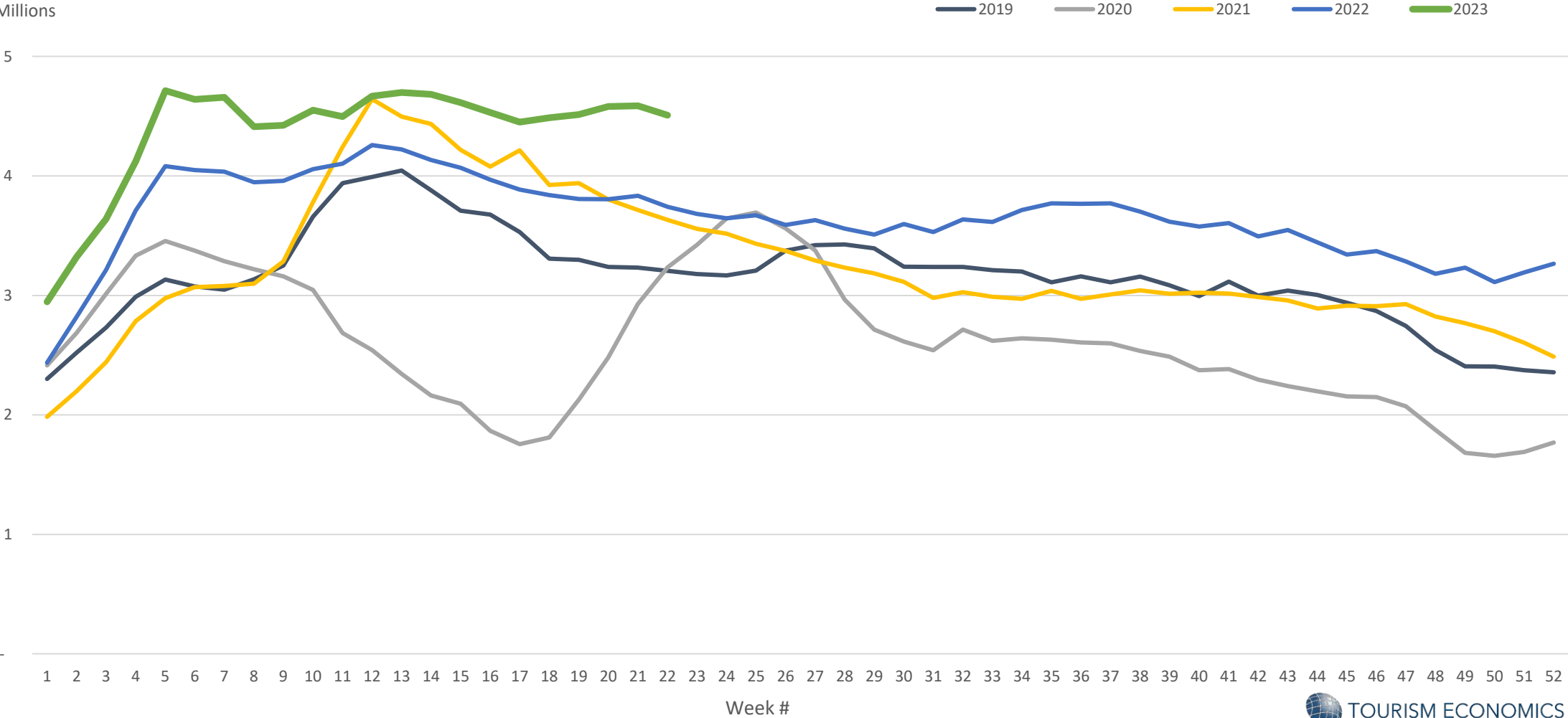


\*Note: Data spanning multiple years, beginning from 1/5/2022.  
Travel Sentiment Study Wave 74



# Booking Activity is Maintaining Strength (+23% in May)

## U.S. Short-term Rental Nights Booked (4 Week Moving Avg.) – Based on Reservation Date



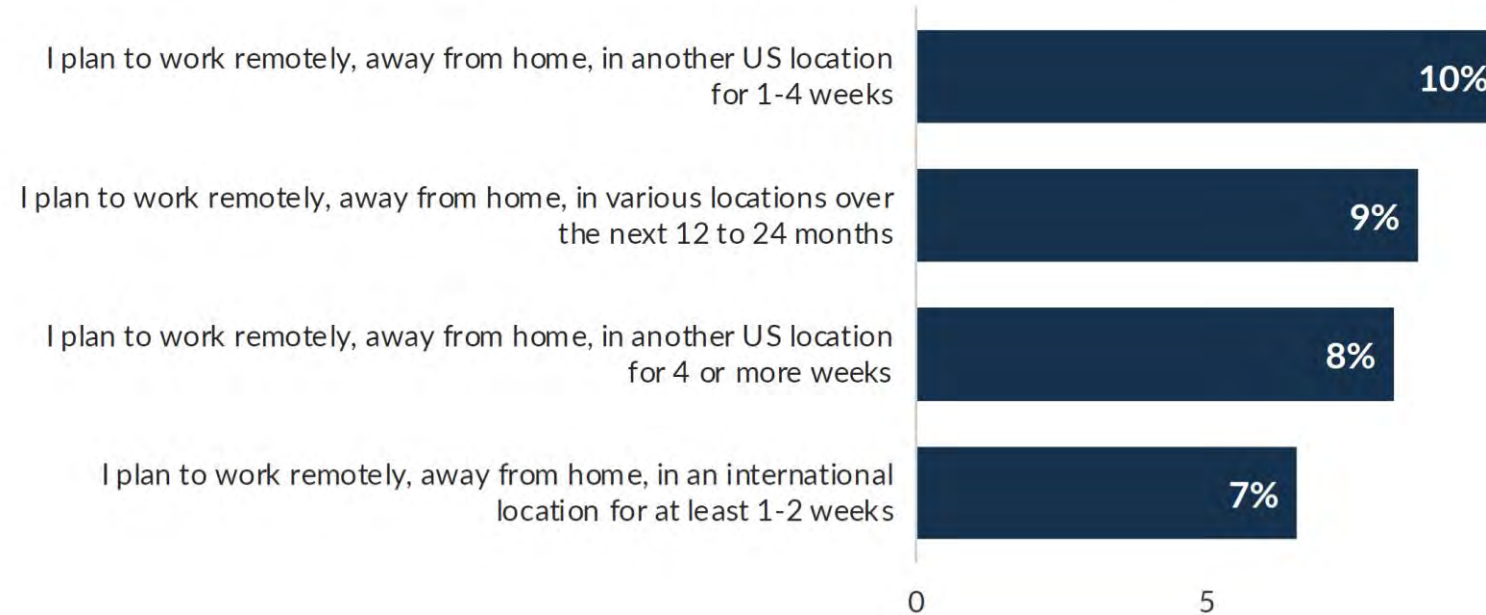
# Pressure of high prices is evident in travel sentiment

% Good of Very Good Time to Spend on Travel



# 34% plan to travel... as they work remotely

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

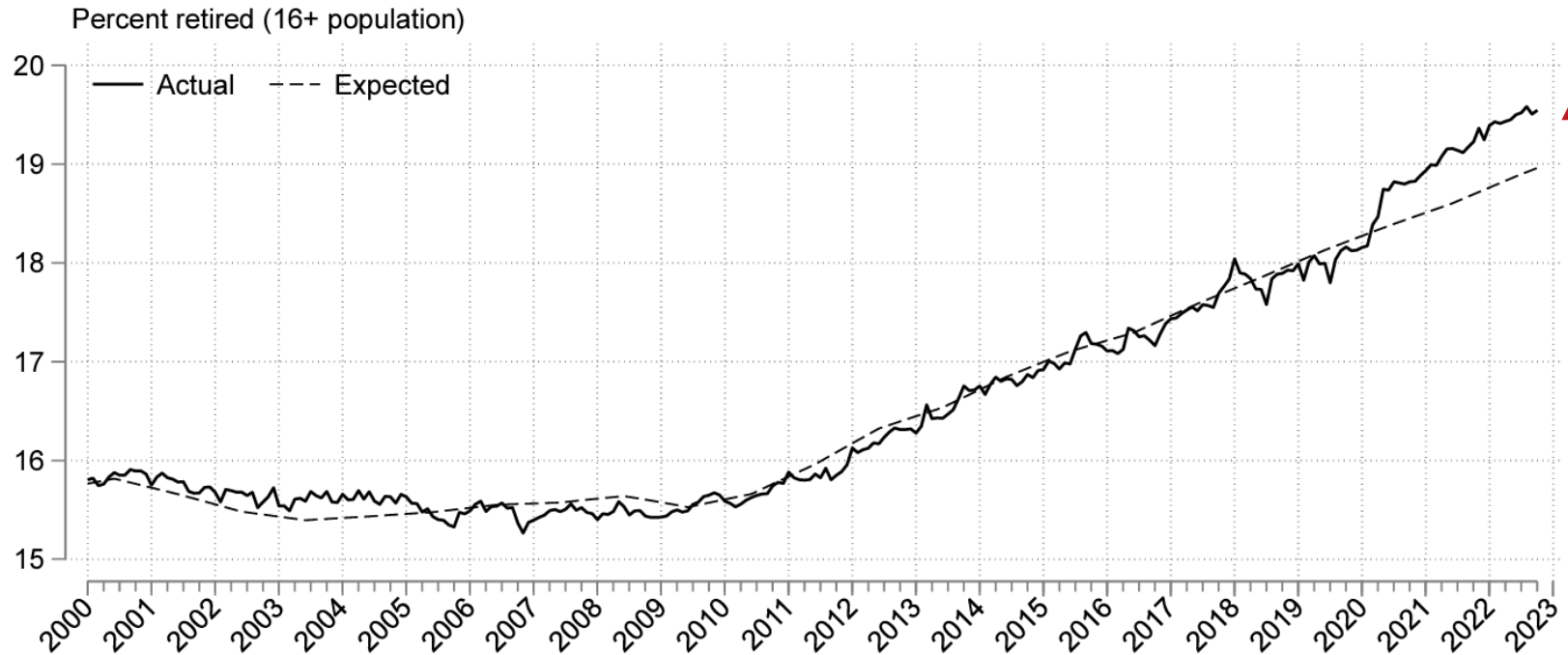


Travel Sentiment Study Wave 67

Longwoods INTERNATIONAL | miles PARTNERSHIP

# Retirements accelerate as the population continues to age

Figure 2. Not in the labor force and retired (age 16+), actual and expected



The Great Retirement Boom

Almost 1-in-5 people above the age of 16 are retired

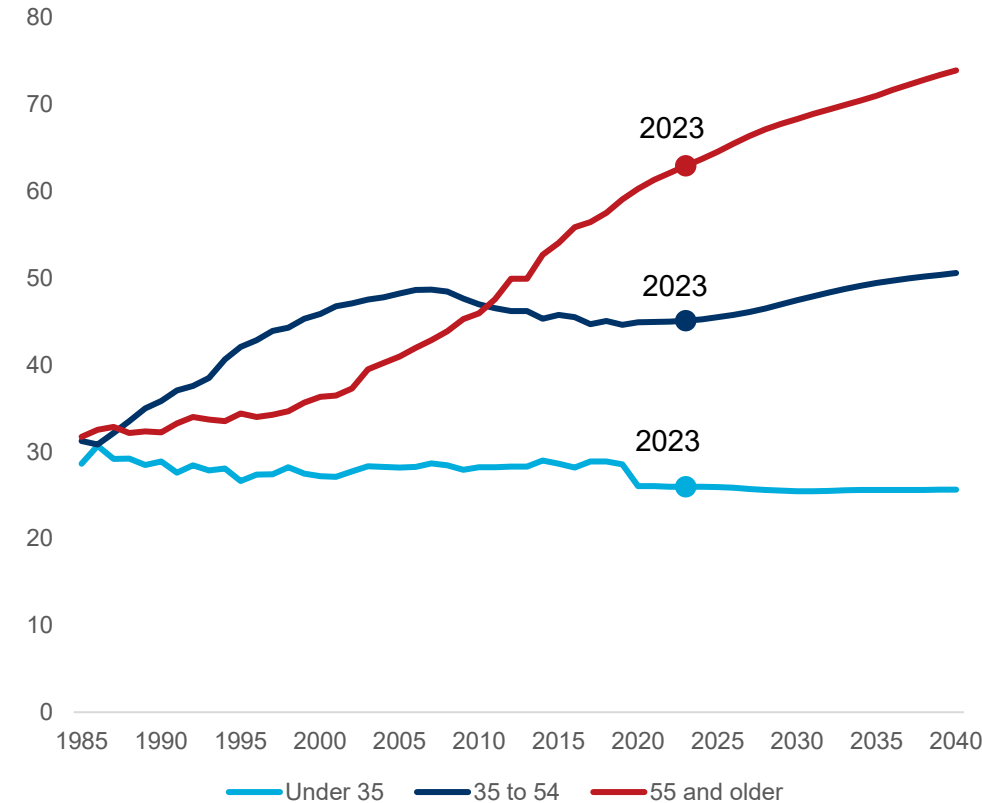
Note. Figure shows the actual retired share of the population (solid line) and retired share that would be expected given the population age distribution, age-specific retirement rates, and other factors (dashed line) as described in the text. Data are seasonally adjusted and adjusted for updated population controls to the Current Population Survey. Last observation is October 2022.

Montes, Joshua, Christopher Smith, and Juliana Dajon (2022). "The Great Retirement Boom": The Pandemic-Era Surge in Retirements and Implications for Future Labor Force Participation," Finance and Economics Discussion Series 2022-081. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2022.081>.

# What will more older households mean for travel?

## Households by age

In millions



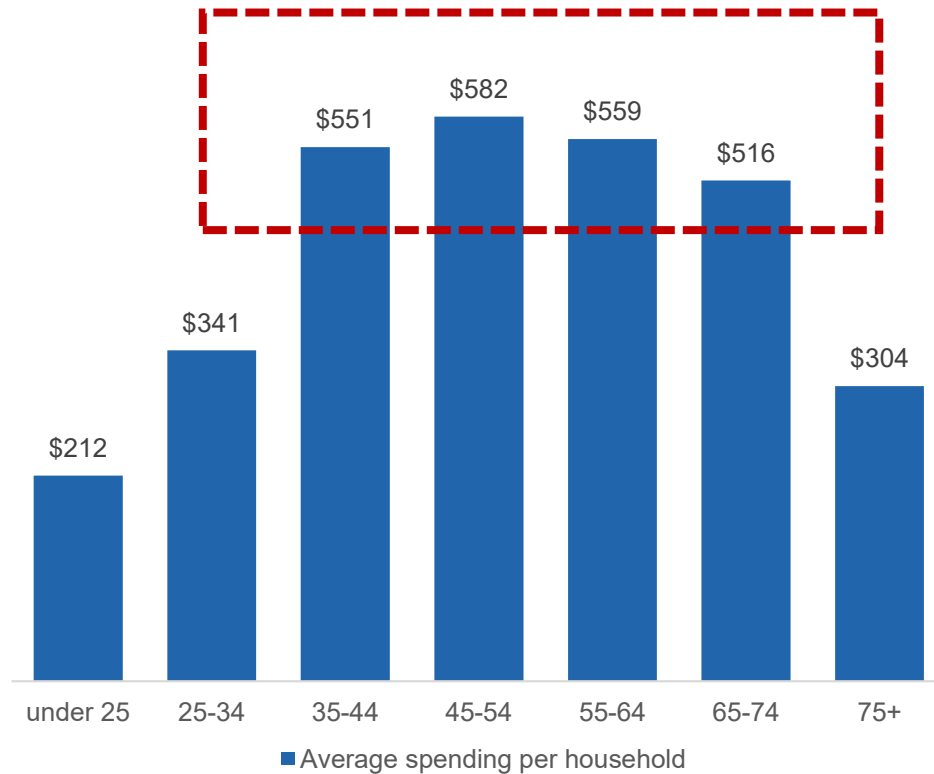
US median age: 38.9

Note: Number of consumer units (similar concept to households), by age of head of household.  
Source: BLS; Tourism Economics

# Household spending on lodging peaks 45-54, and stays strong through 65-74

## Lodging spending by age

Leisure travel, based on age of head of household



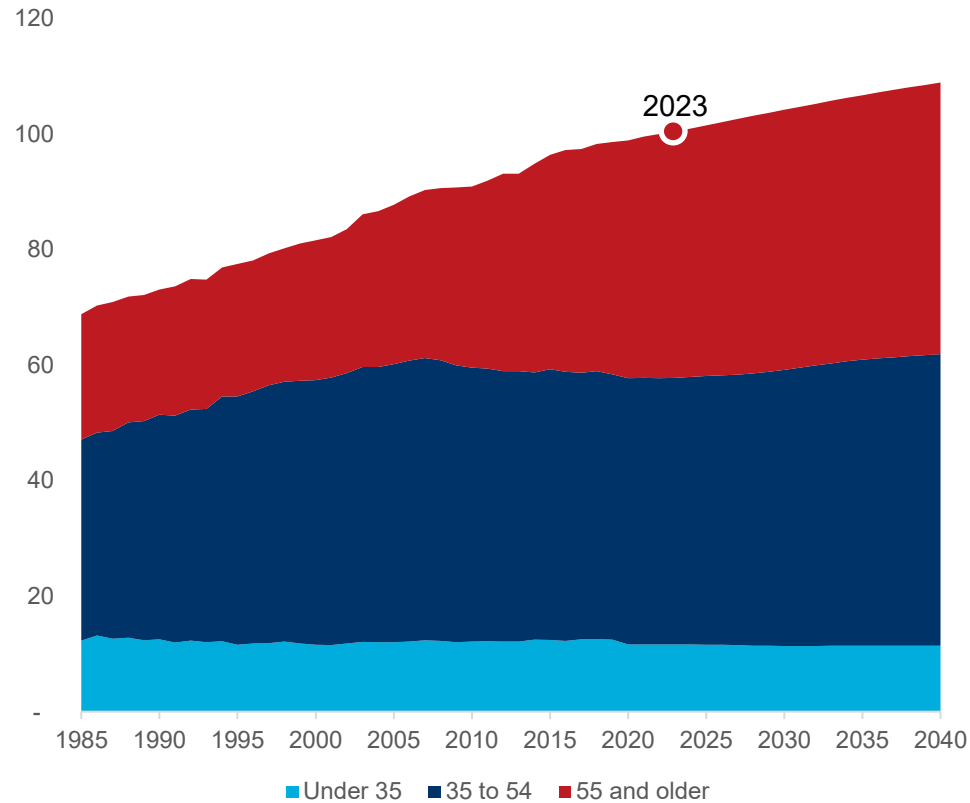
Note: Based on three-year average through 2020.

Source: BLS, Tourism Economics

# Older guests represent an increasingly important opportunity

## Aggregate lodging spending by age cohort, standardized

Index, 2022=100



The importance of the 55+ segment grows almost 1% a year, before adding potential uplift to spending by healthier, wealthier retirees than in the past

Note: To show the impact of growth in each age cohort, this graph applies the average spending by age cohort during three years ending 2020 to all years.

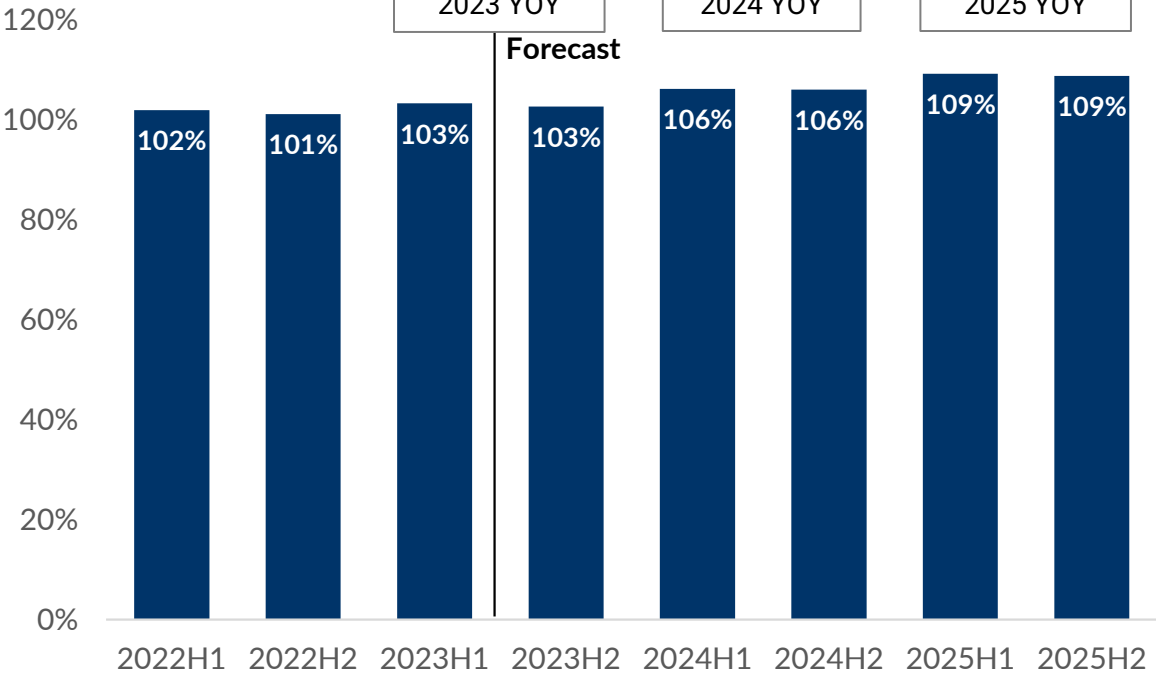
Source: BLS; Tourism Economics



# Domestic leisure settles into sustainable growth

## Domestic leisure person trips

% of time period in 2019



Source: Tourism Economics, U.S. Travel Association



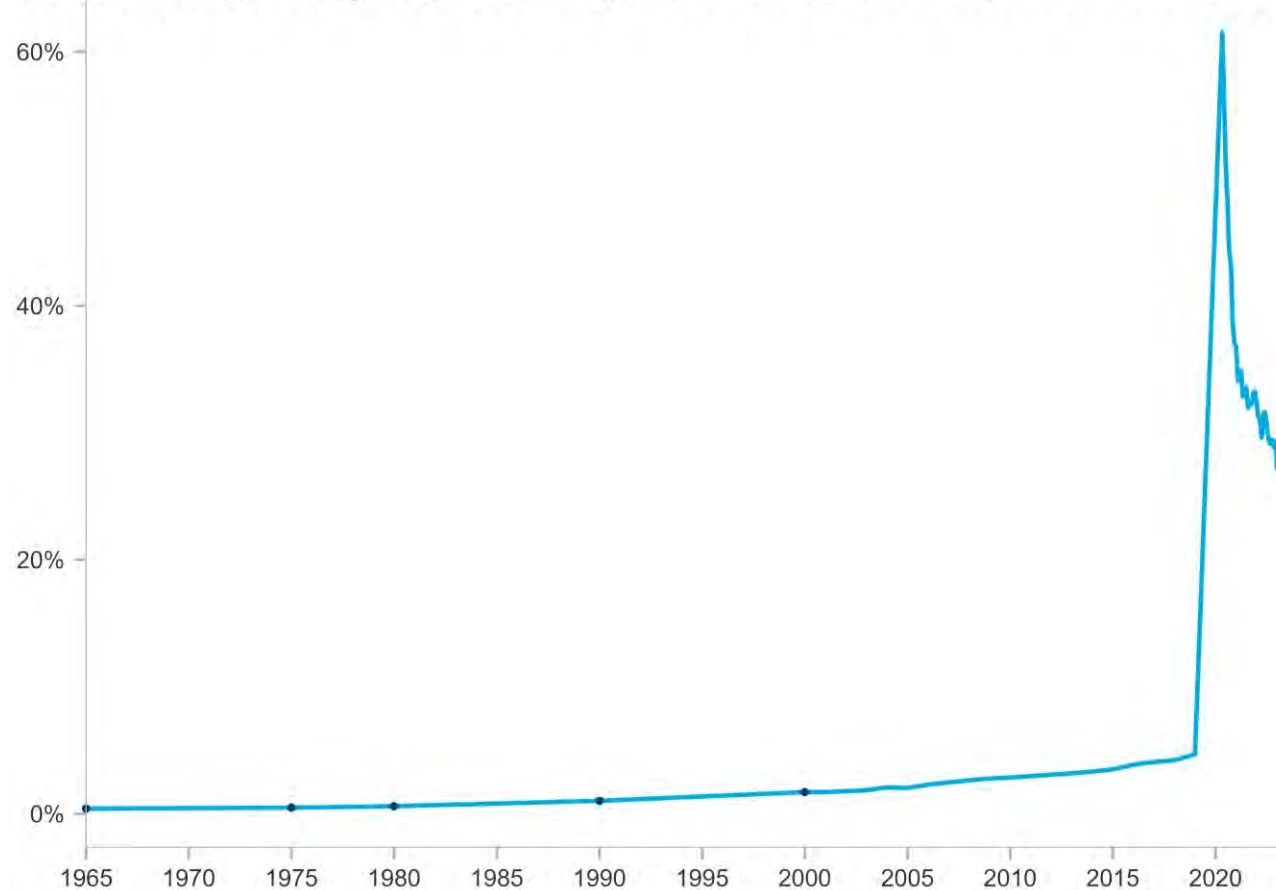
# Business Travel

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# We have leapt ahead to a new way of working

## Percentage of paid full days worked at home since 1965



More than 1-in-4 paid work days in the US are currently happening from home.

In just three years, we went from 5% to 28%.

WFH share of days: 28.2%

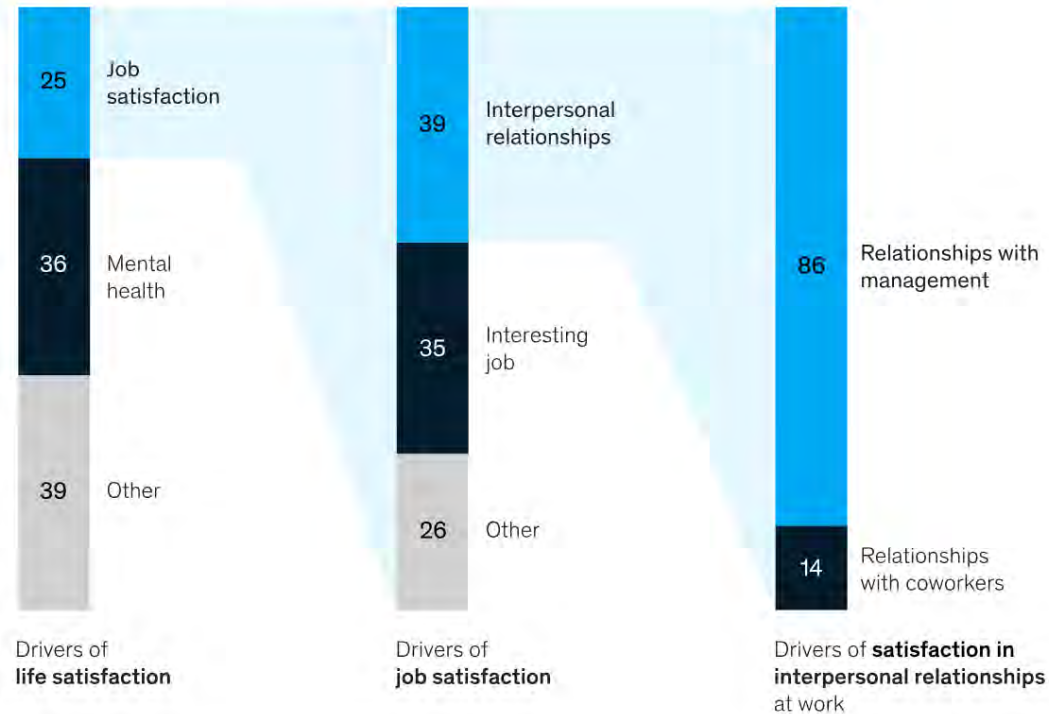
Note: Most recent data point is May 2023.

Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

# Interpersonal relationships help drive job satisfaction

**Relationships with management are a critical factor in employees' life satisfaction.**

Share of satisfaction explained by each factor,<sup>1</sup> %



Particularly relationships with management

Building relationships is no longer optional

<sup>1</sup> Drivers of life satisfaction based on various UK and European surveys; drivers of job satisfaction and satisfaction in interpersonal relationships based on a 2015 International Social Survey Programme Work Orientations module (n = 27,732 respondents across 37 countries).

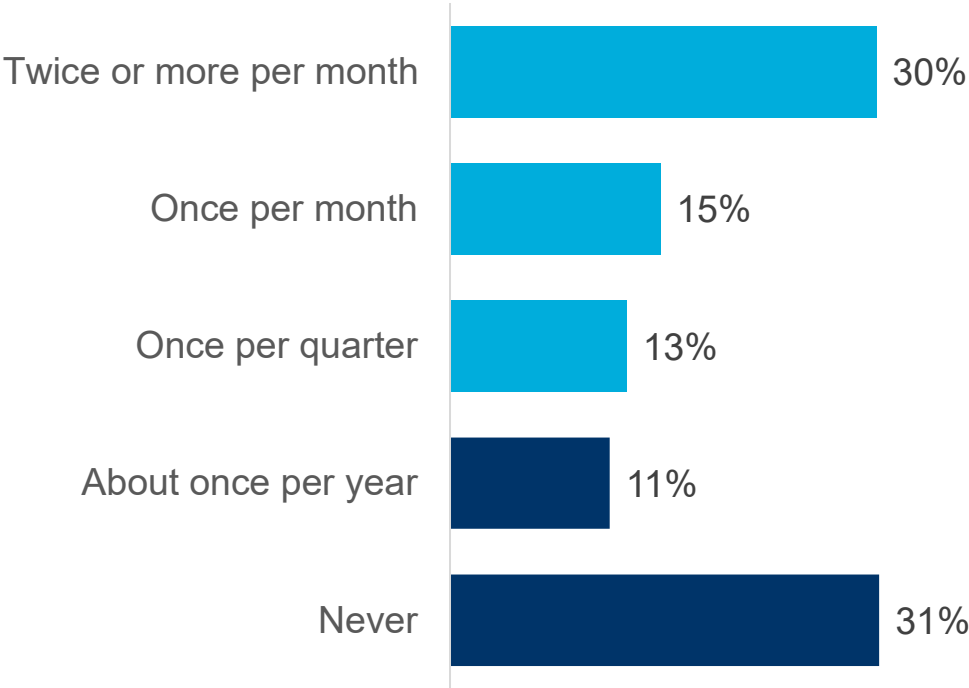
Source: Jan-Emmanuel De Neve et al., "Work and well-being: A global perspective," *Global Happiness Policy Report 2018*, February 10, 2018, [happinesscouncil.org](http://happinesscouncil.org); Richard Layard, *Can we be happier?: Evidence and ethics*, London, UK: Pelican Books, 2020; McKinsey analysis.

Allas, T. and Schaninger, B. (2020) The boss factor: Making the world a better place through workplace relationships. McKinsey Quarterly

# Most fully remote workers meet with colleagues in person

## Do you ever meet with your coworkers in person?

Sample: Workers who were fully remote last week



58% of fully remote workers meet their colleagues in person at least quarterly

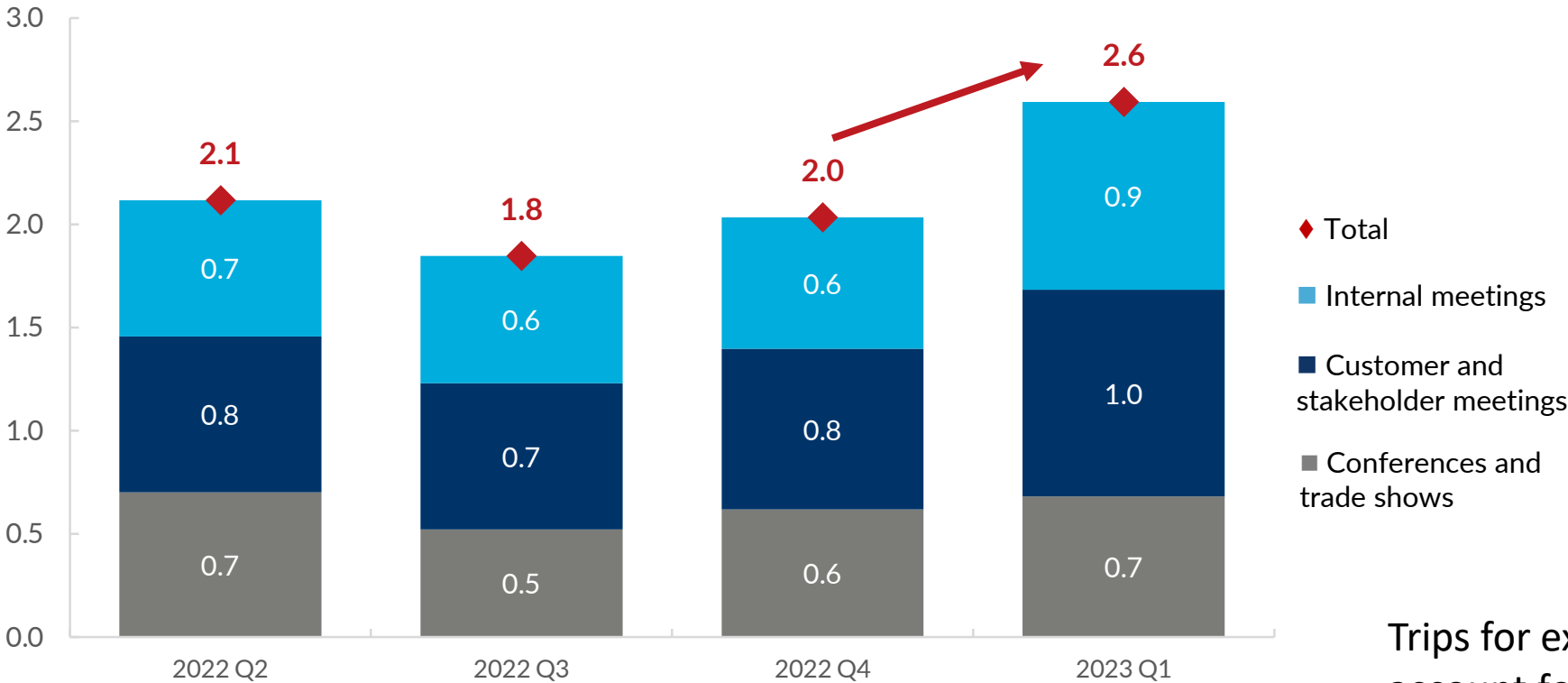
83% of corporate executives say business travel is **essential** to company operations

Tourism Economics, US Travel Association, and JD Power (2023 Q1)  
Business Travel Survey

Note: June 5, 2023 research release. Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2022. "Why working from home will stick," National Bureau of Economic Research Working Paper 2873. [www.wfhresearch.com](http://www.wfhresearch.com)

# Business travelers expect to take more trips in the next 6 months compared to Q4 2022

Trips per month over the coming six months



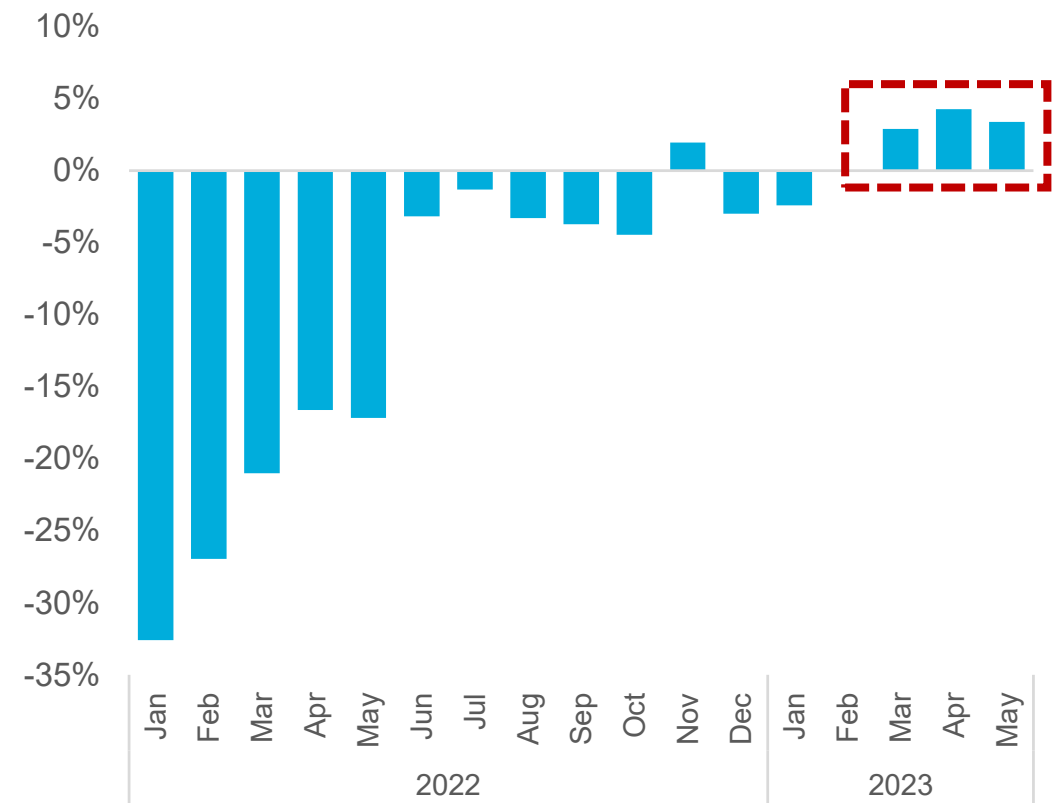
How frequently do you expect to travel for each of the following business purposes over the next six months?  
Business Travelers Survey BASE: N = 2293

Trips for external purposes account for 65% of planned trips.

# Group event activity and bookings continue to improve

## US DMO booking activity, trailing six months

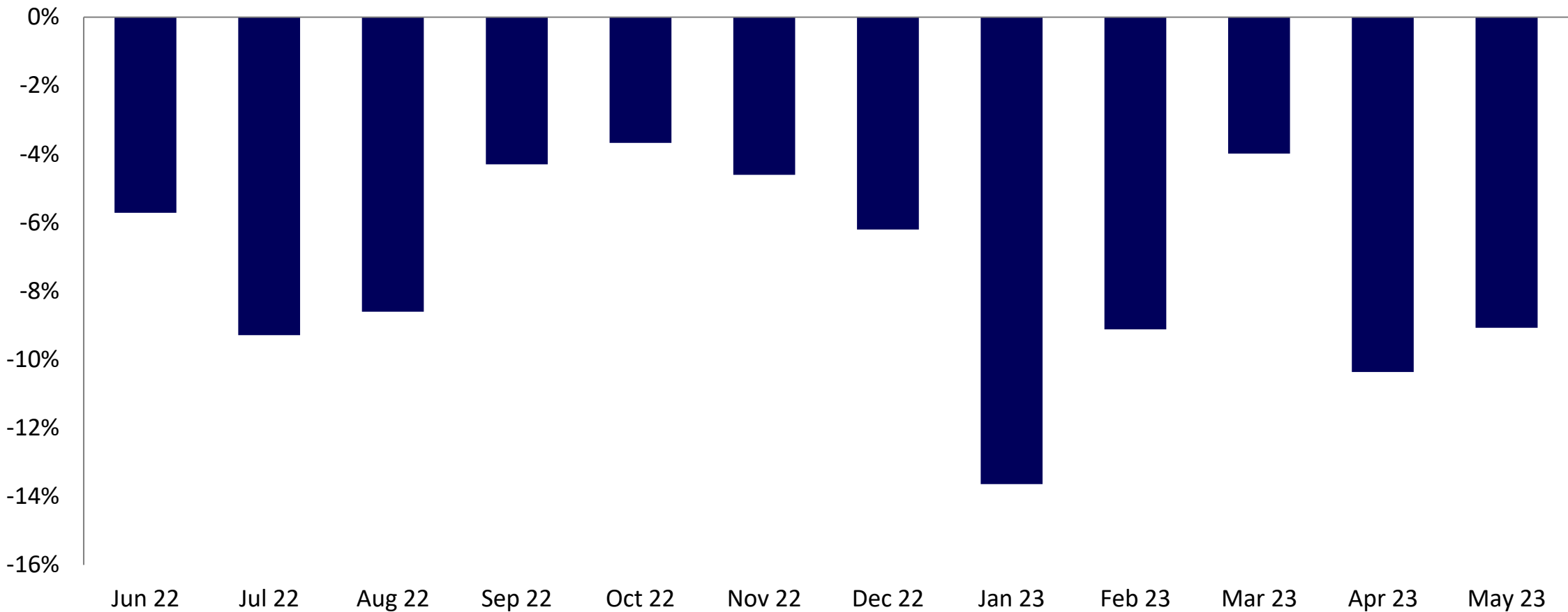
Hotel room nights contracted, trailing six-month sum, relative to 2019



Source: SimpleView CRM (250+ DMOs)

# Groups comeback is still in process

US, Lux & Upper Upscale classes, Group demand % change to 2019, Jun 2022 – May 2023





“Group demand was also very strong in Q1. Group revenue for full year 2023 was pacing up 26% to 2022 at the end of the quarter, a significant improvement from group pace at the end of last year.”

Marriott, CEO, Tony Capuano, 2023Q1 earnings call

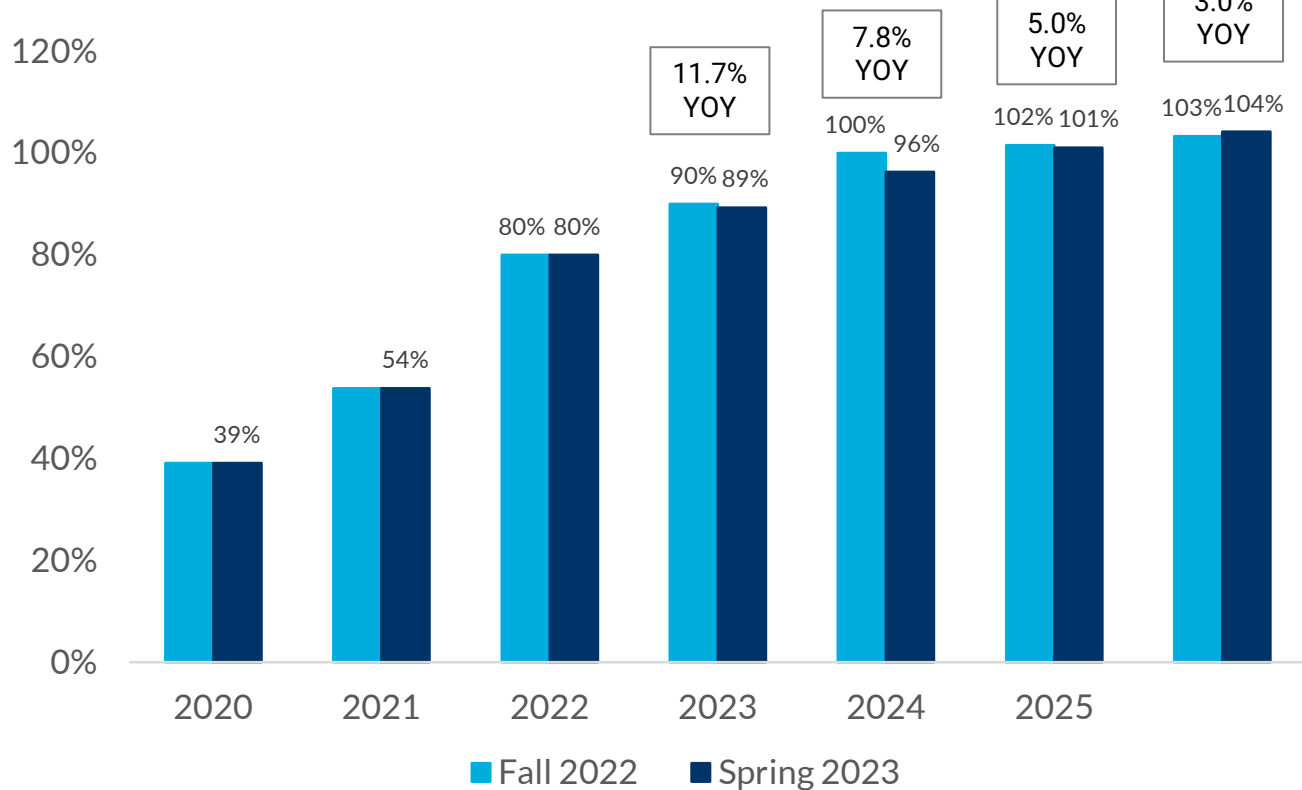
“And we have seen a high correlation between the opening of offices with the return of corporate travel. And that is a good tailwind for us on the corporate revenue front.”

Delta CEO, Ed Bastian, 2023Q1 earnings call

# Recession mutes the business travel recovery

## US domestic business trip volume

% of 2019



Source: Tourism Economics, U.S. Travel Association



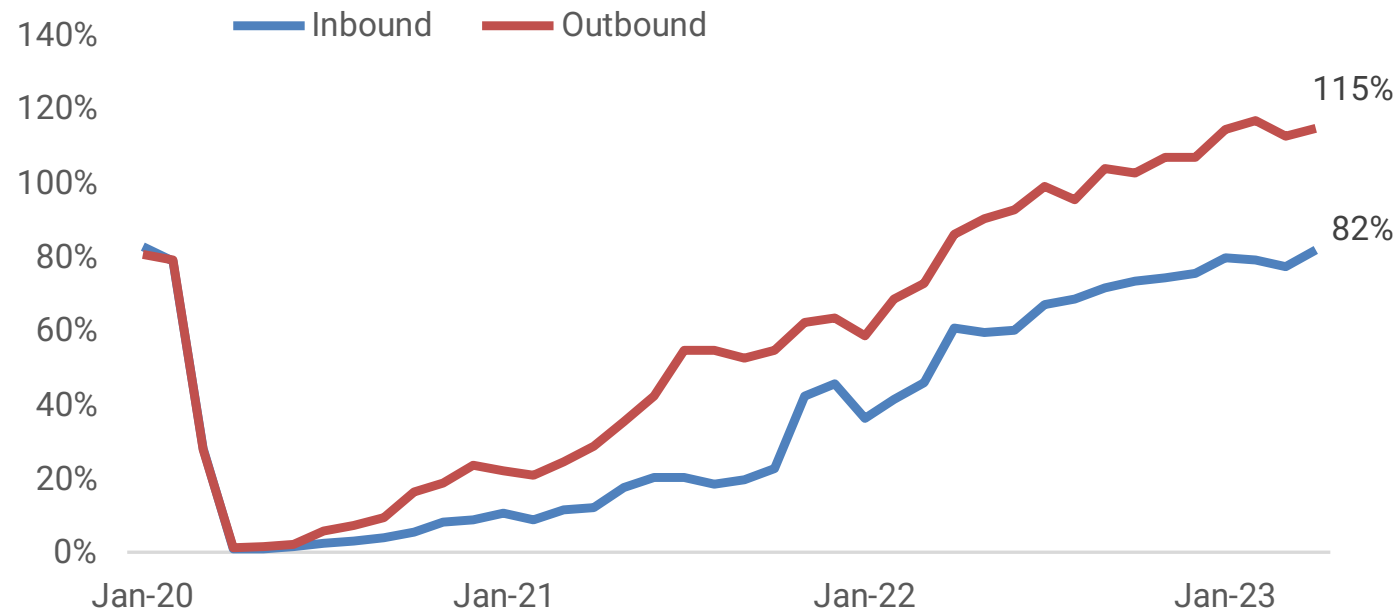
# International Travel

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# Outbound recovery is well ahead of inbound

Inbound and Outbound Travel Spending  
Millions of dollars, seasonally adjusted



US inbond: 61% recovered in 2022

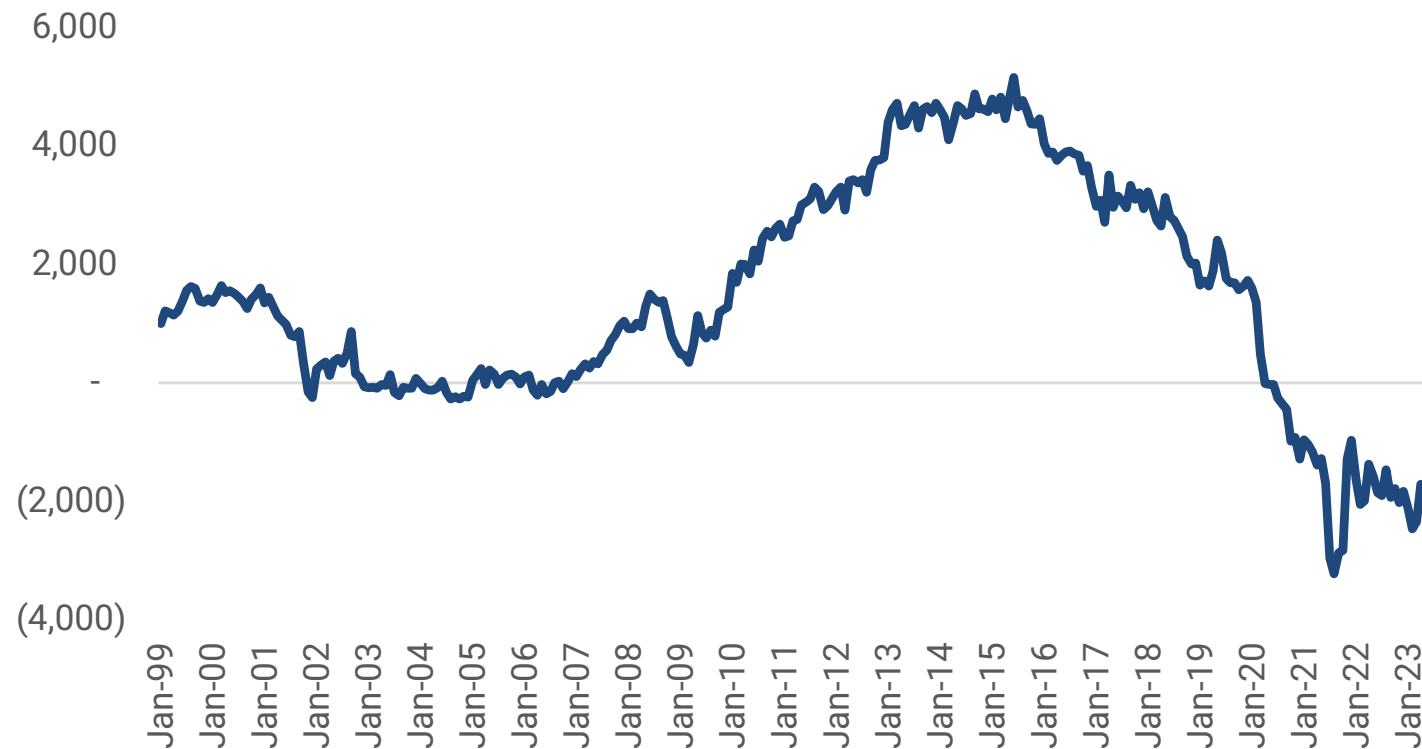
US outbound: 90% recovered in 2022

# International is now a net loss for the US

## U.S. International Travel Trade Balance

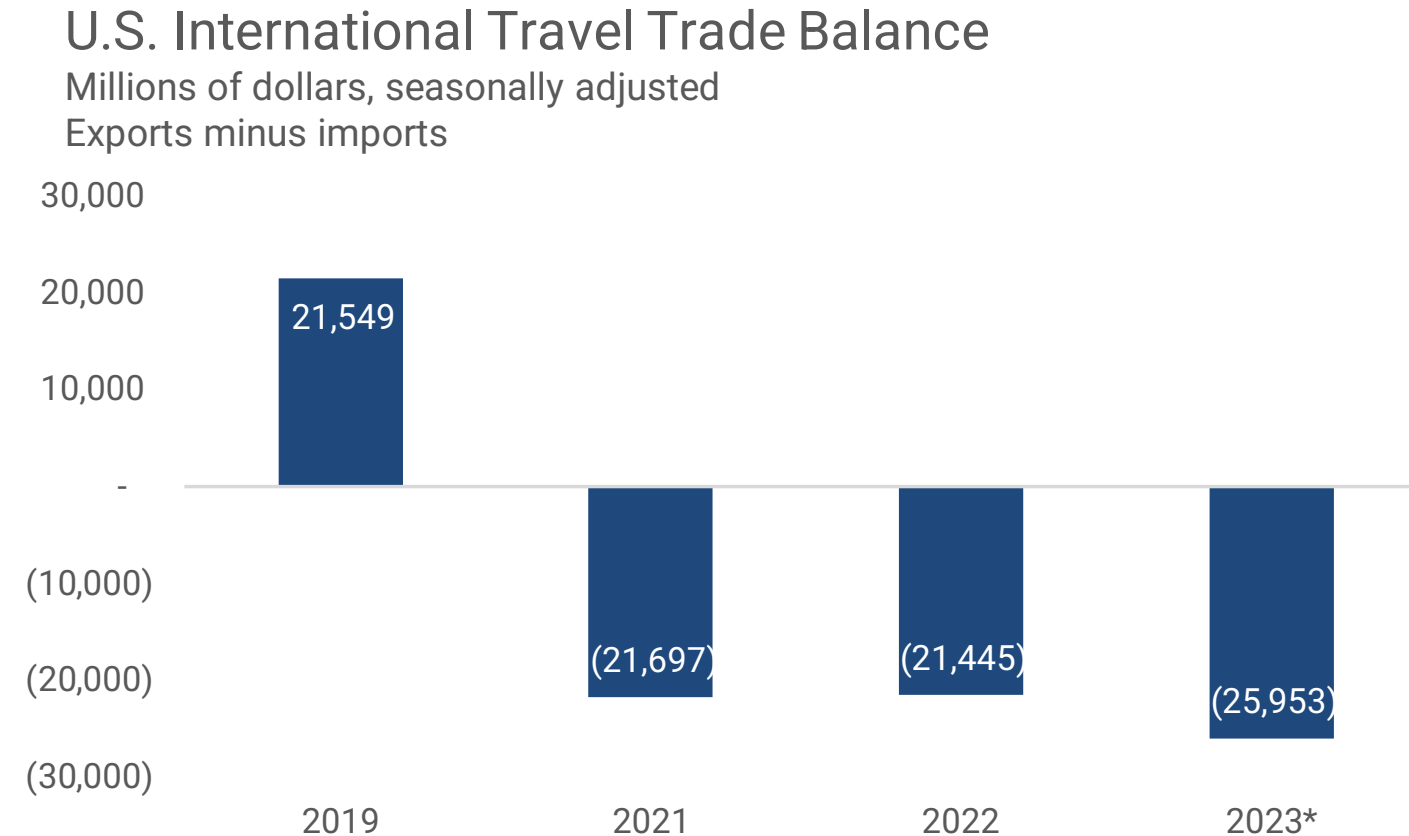
Millions of dollars, seasonally adjusted

Exports minus imports



US is running a multi-year travel deficit for the first time in history

# The rightsizing of this will boost the US industry



\$47 billion difference between 2019 and 2023 at current performance rates

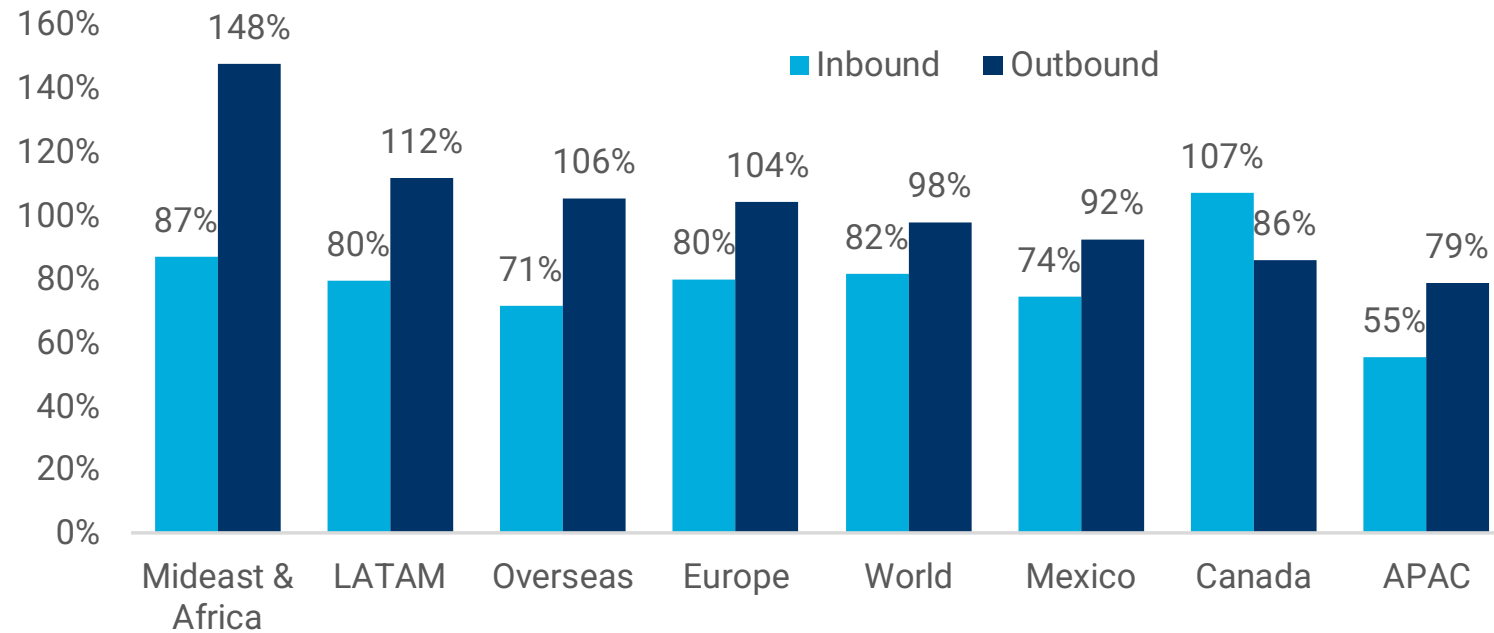
Implies 38 million room nights (2.9% of 2023 room demand)

\* Assumes deficits consistent with first 4 months

# Expect a narrowing of these imbalances

## US Inbound and Outbound Travel

% relative to 2019 (May 2023 YTD)



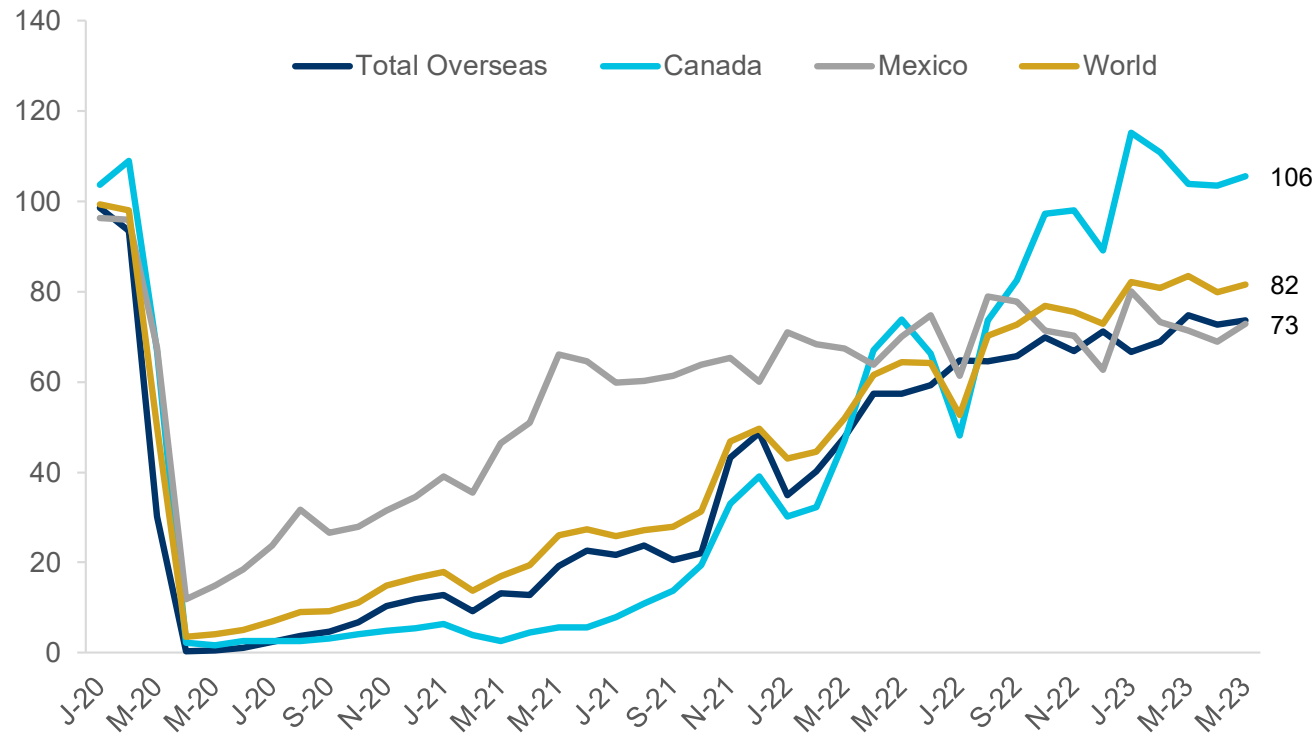
Source: NTTO



# International inbound is gaining momentum

## International visits to USA

2019 = 100 (same month comparison)

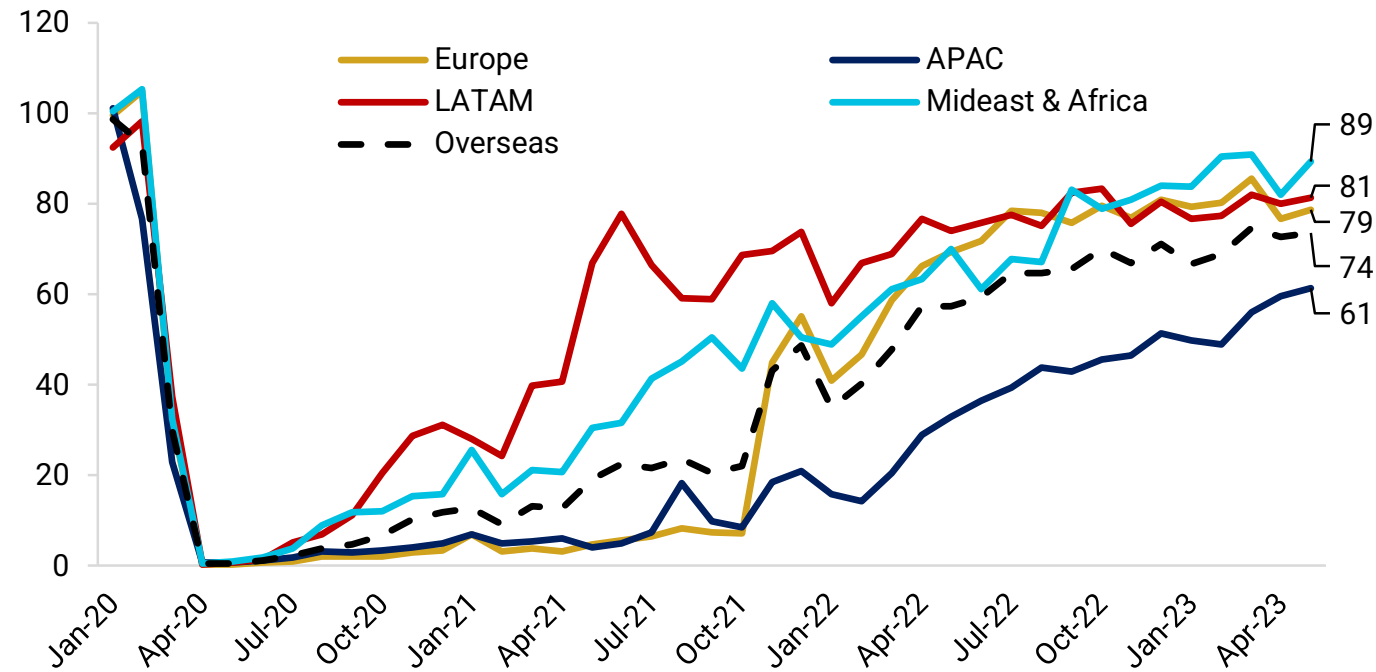


Source: NTTO

# International inbound is gaining momentum

## US Inbound Travel from Global Regions

2019 = 100 (same month comparison)

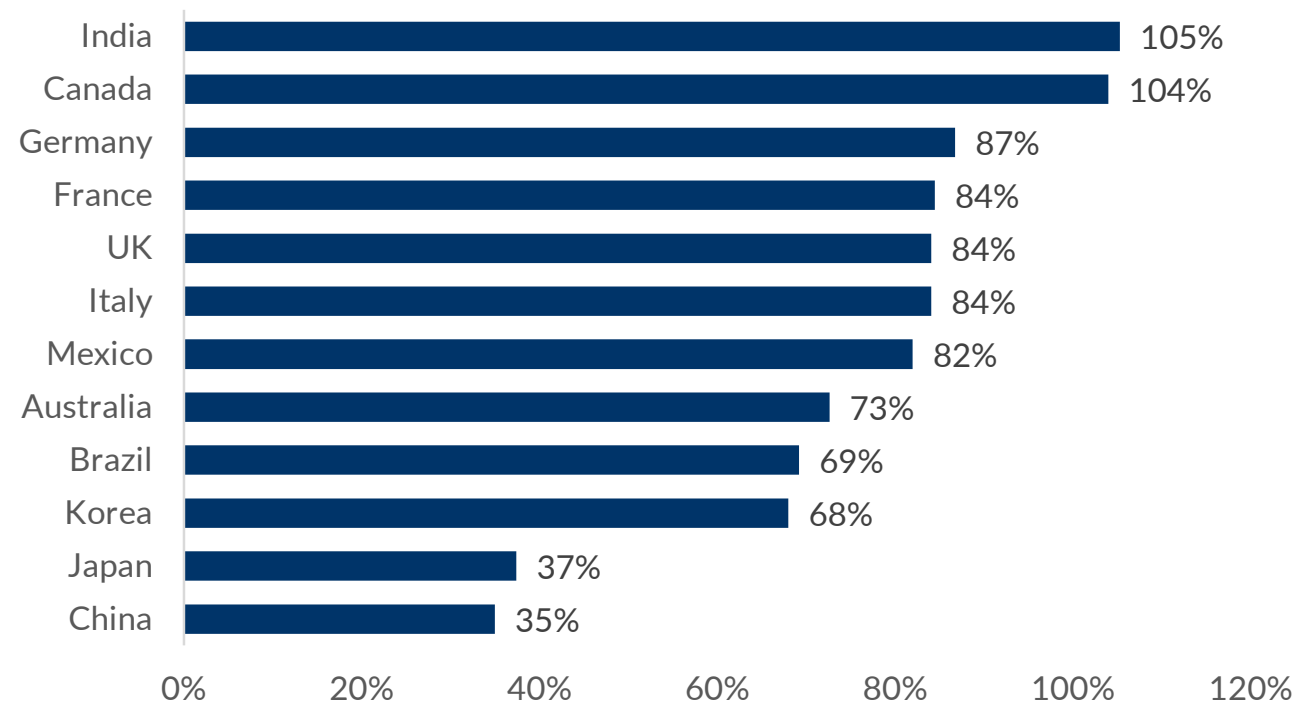


Source: ADIS/ I-94

# Good, bad, and ugly performance in 2022

## Top US origin markets in 2022

% recovered relative to 2019



Note: Top 12 origin markets for international travelers to the United States.

Source: Tourism Economics

“Long-haul international is moving into the lead over domestic. This is a multiyear structural change based on aircraft retirements and pilot downgrades at essentially all long-haul U.S. airlines around the world. For 2023, we expect to expand international flying by approximately twice the rate of domestic, leaning into the favorable supply-demand balance that we expect.”

United Airlines, CEO, Scott Kirby, 2023Q1 earnings call

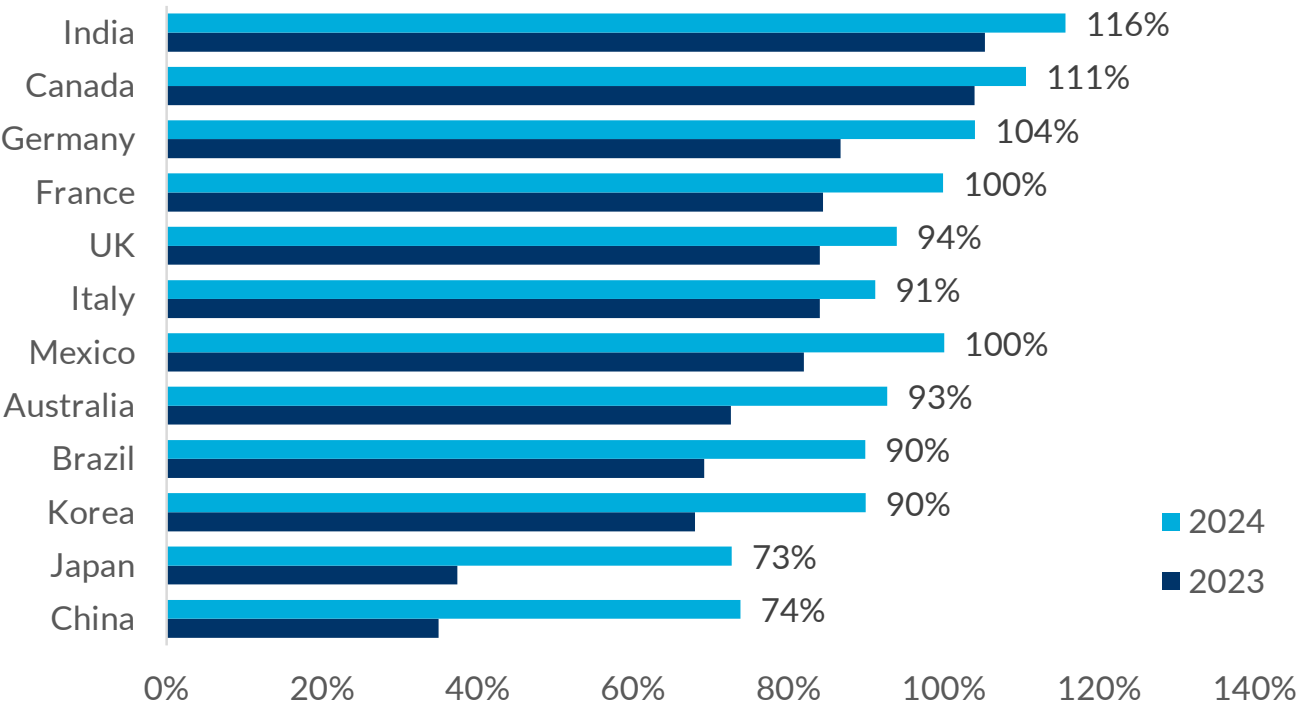
“International inbound business from Latin America is pacing strong. European travel which is much improved from the troughs of the pandemic continues to build but it is not yet back to pre-pandemic levels, creating opportunity. And perhaps most significantly, Asian inbound business is only beginning to show improvement. With COVID rules relaxed, we believe inbound travel from Japan, Korea and eventually China will yield positive returns for our business.”

Hertz, CEO, Stephen Scherr, 2023Q1 earnings call

# Improvements will be marked in 2023H2 and 2024

## Top US origin markets

% recovered relative to 2019



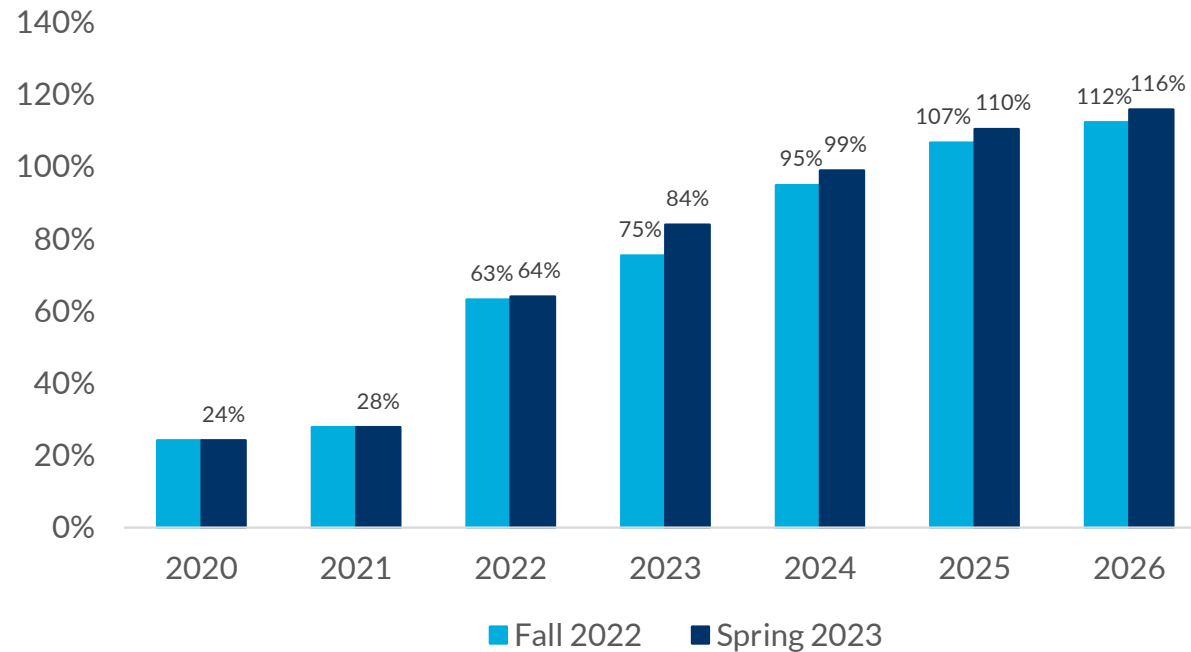
Note: Top 12 origin markets for international travelers to the United States.

Source: Tourism Economics

# International forecast upgraded with strong Canada rebound

## International inbound forecast

% of 2019



Source: Tourism Economics, U.S. Travel Association

# Outline

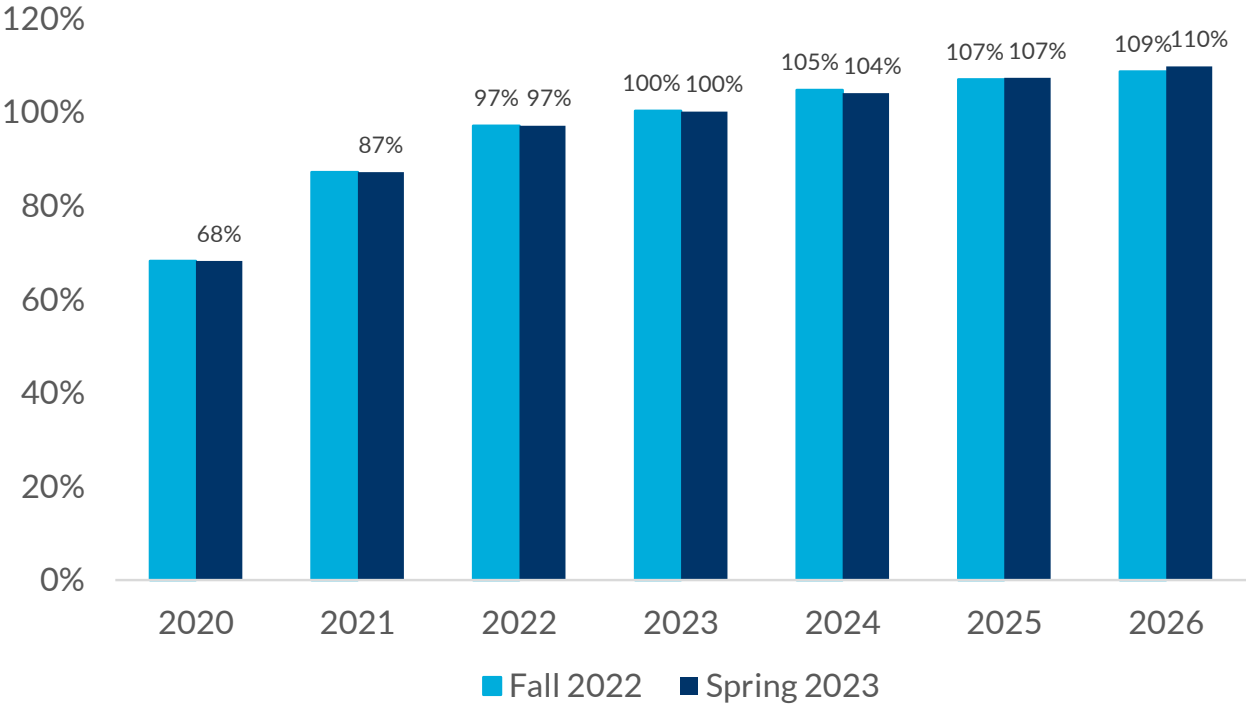
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# Domestic forecast nearly unchanged since fall 2022

## US domestic trip volume

% of 2019

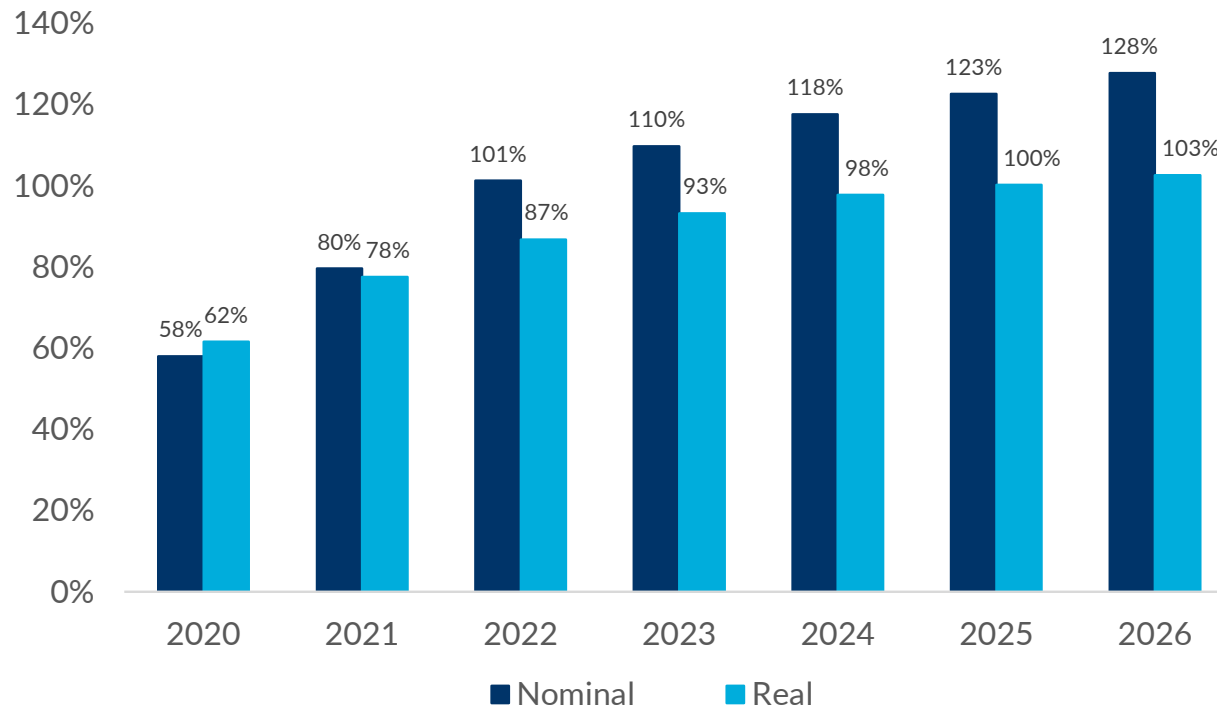


Source: Tourism Economics, U.S. Travel Association

# Two stories for industry revenue

## Total US visitor expenditures

% of 2019

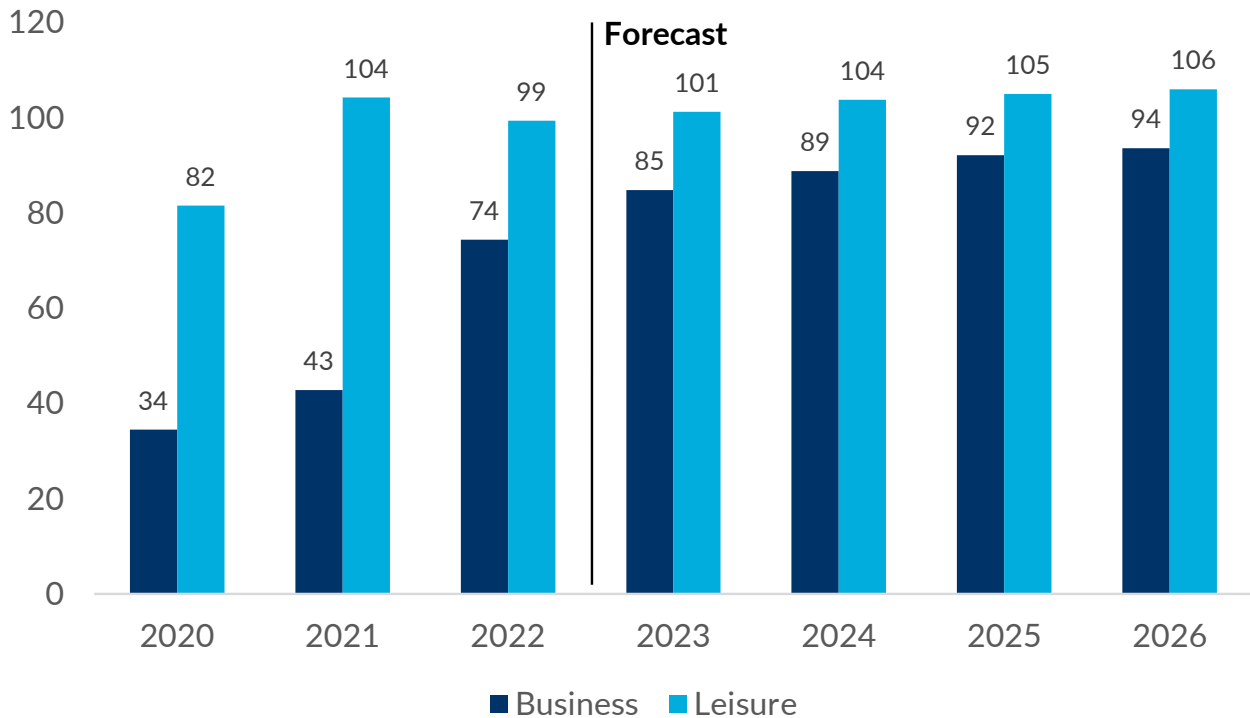


Source: Tourism Economics, U.S. Travel Association

# Business travel spending accelerating in 2023

## Real travel expenditures

Index (2019=100)



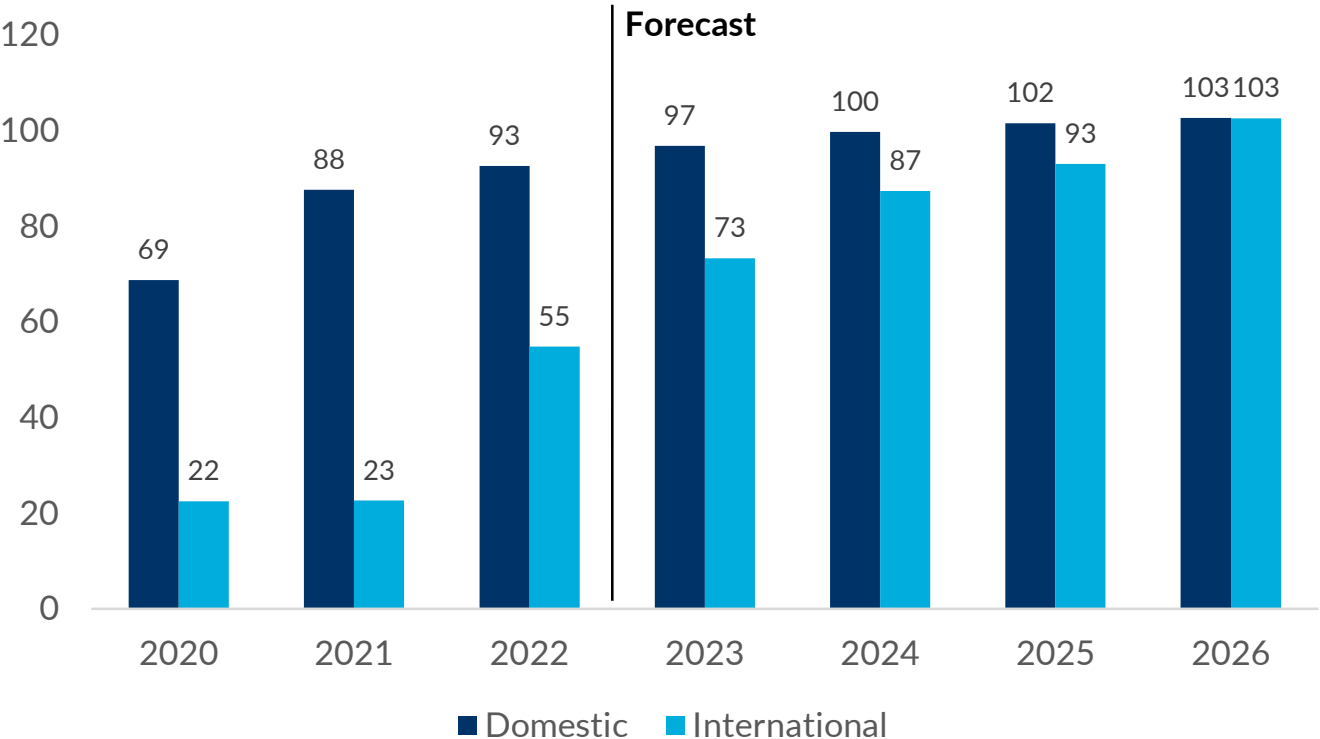
Note: Domestic travel expenditures only.

Source: Tourism Economics

# Domestic spending will nearly recover this year in real terms

## Real travel expenditures

Index (2019=100)

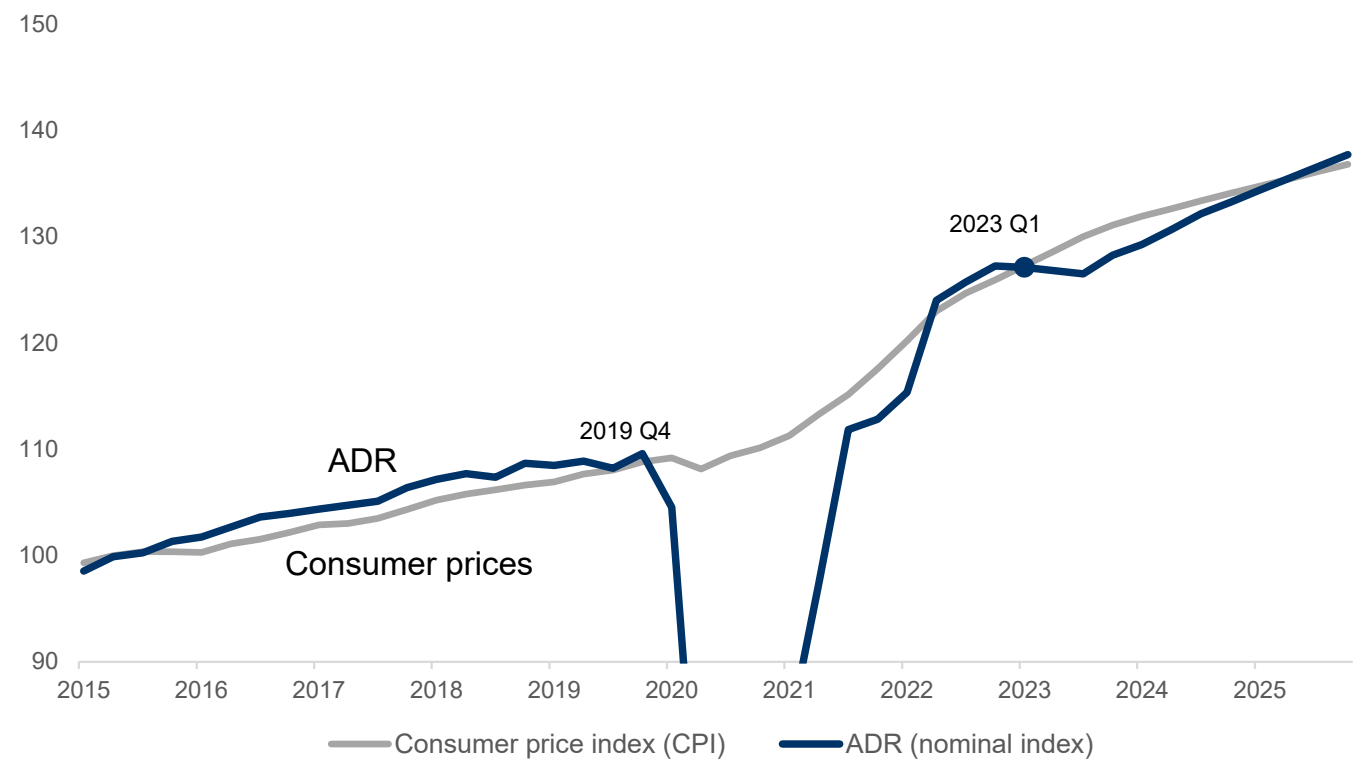


Source: Tourism Economics, U.S. Travel Association

# Prices will come under some pressure

## US ADR

ADR and CPI index (2015=100)



Source: STR; Tourism Economics

# The Future Shape of Travel

1. An economic downturn will be mild
2. Current slowing of travel reflects a “breather” for leisure travel and international imbalances
3. Leisure travel has fully recovered and is settling into a sustainable pace (1.4% in 2023, 3.1% in 2024)
4. Business travel continuing to rebuild toward 2019 volumes (in 2025)
5. International represents the greatest opportunity as it shifts from a deficit to a surplus in 2024

# Opportunities

1. Higher end leisure
2. Retirees
3. Hybrid-remote workers
4. Rebounding group business
5. Business meetings
6. International

