



Destination Marketing in Uncertain Times



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Key points

- Global economy is on shaky ground
- US economy is on solid footing (at least relatively)
- Travel continues to grow, but is losing pace
- Destination marketing is even more essential now

Global Economy

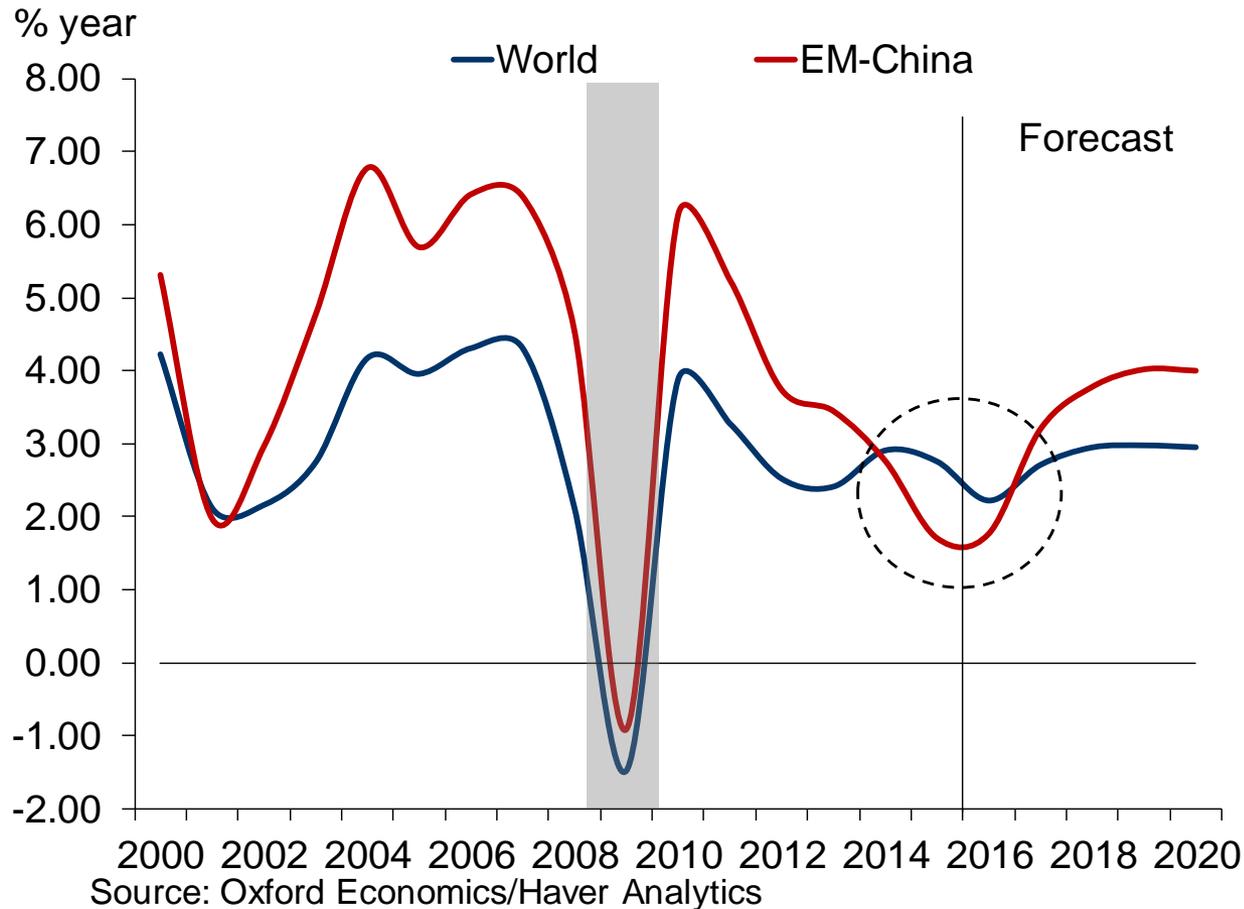


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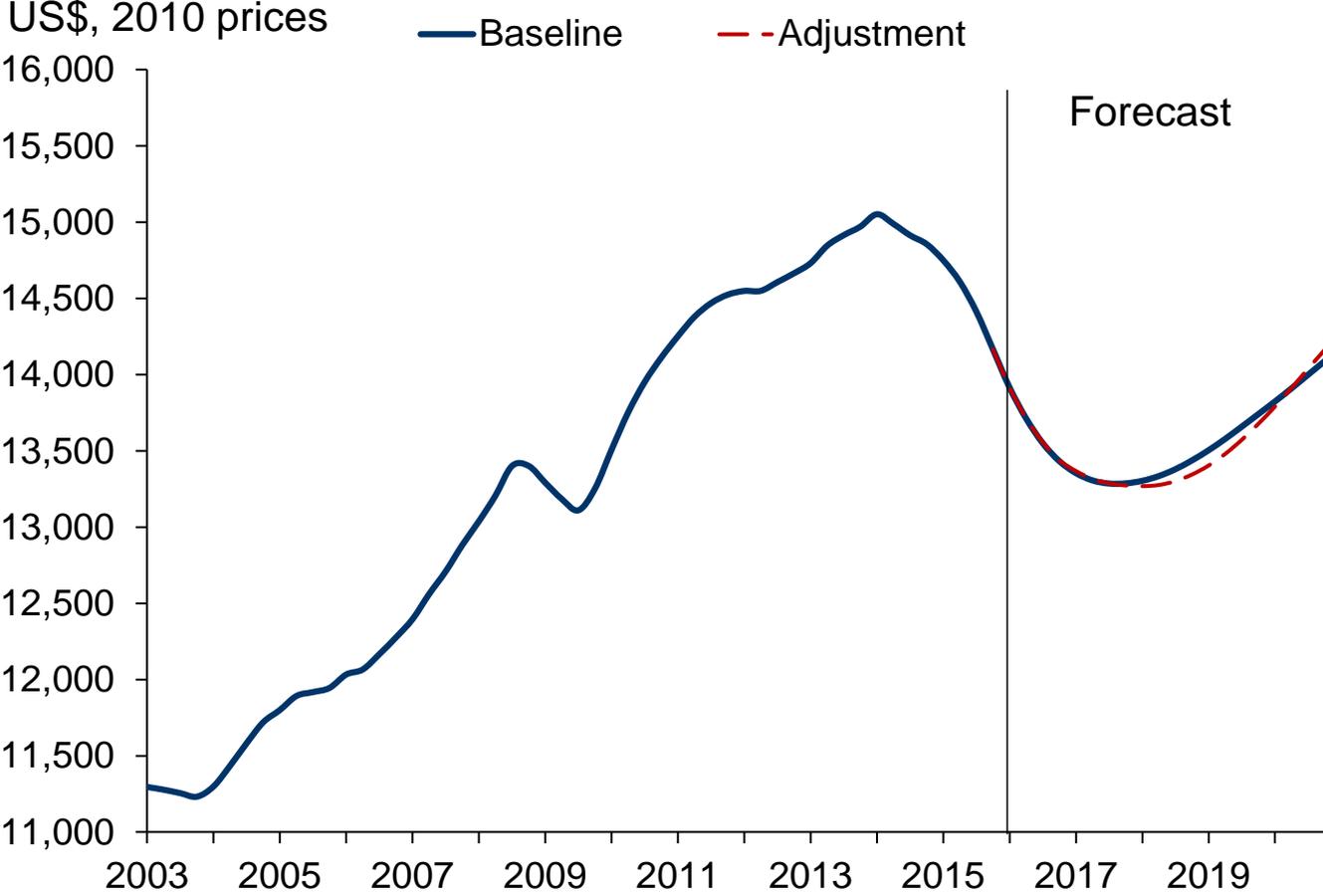
EMs no longer the locomotive of global growth

World: GDP growth



Brazil: Worst recession in a century

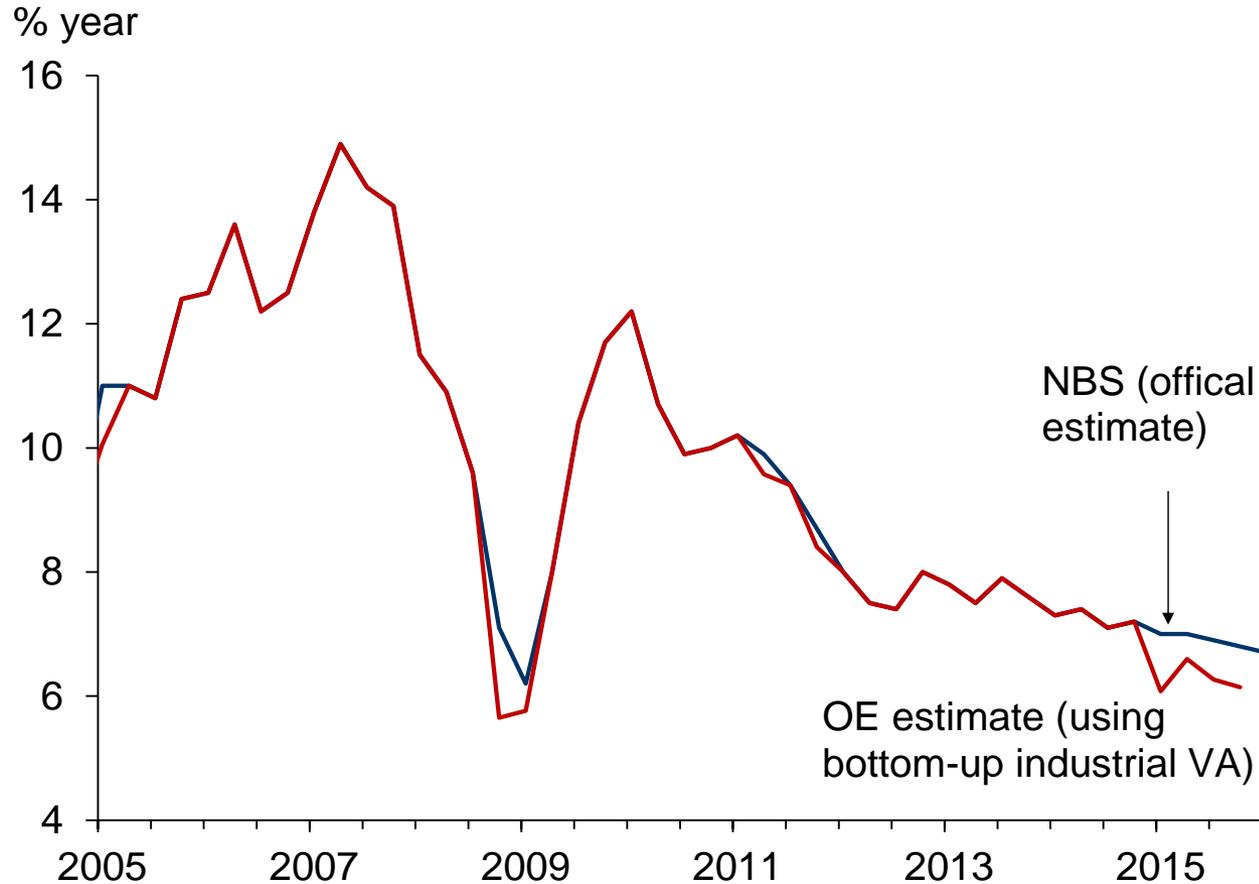
Brazil: GDP per capita (PPP terms)



Source: Oxford Economics

China: GDP growth continues to slow

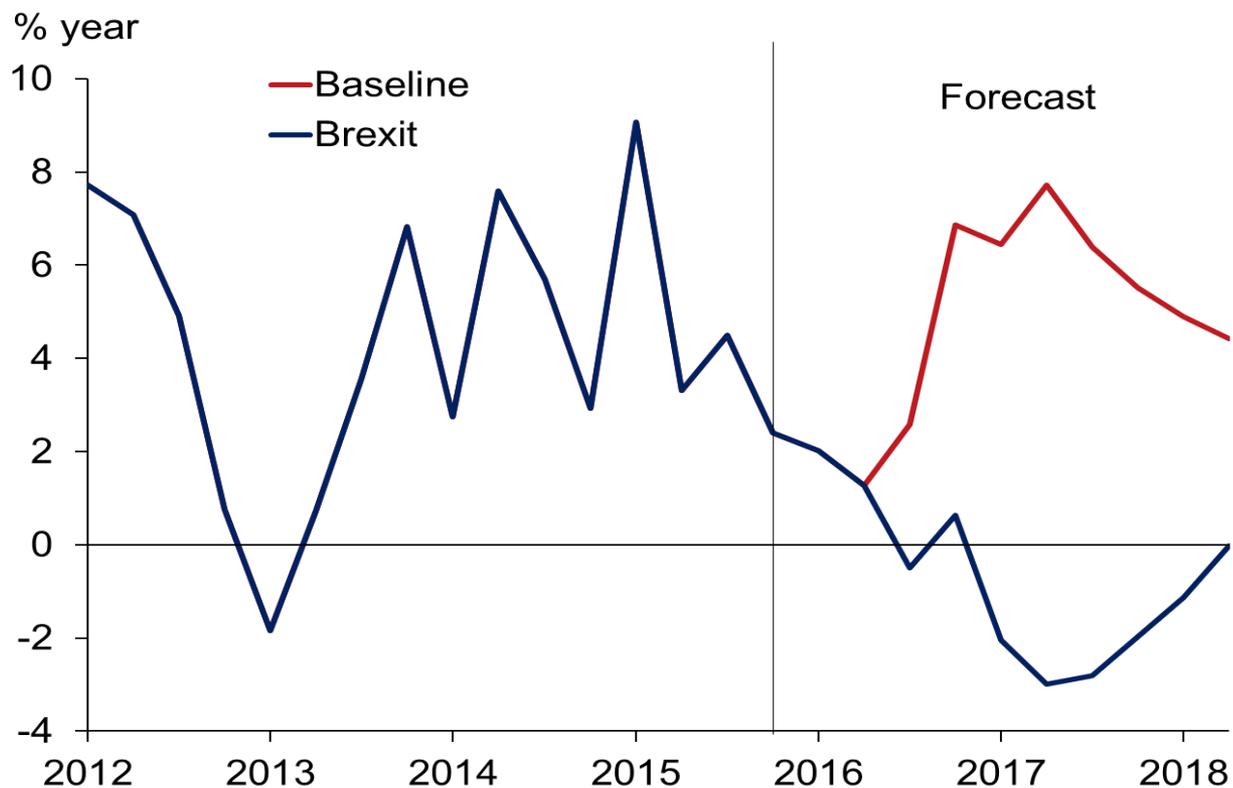
China: GDP growth estimates



Source: Oxford Economics/Haver Analytics

“Brexit” damaging confidence and certainty

UK: Business investment



Source : Oxford Economics

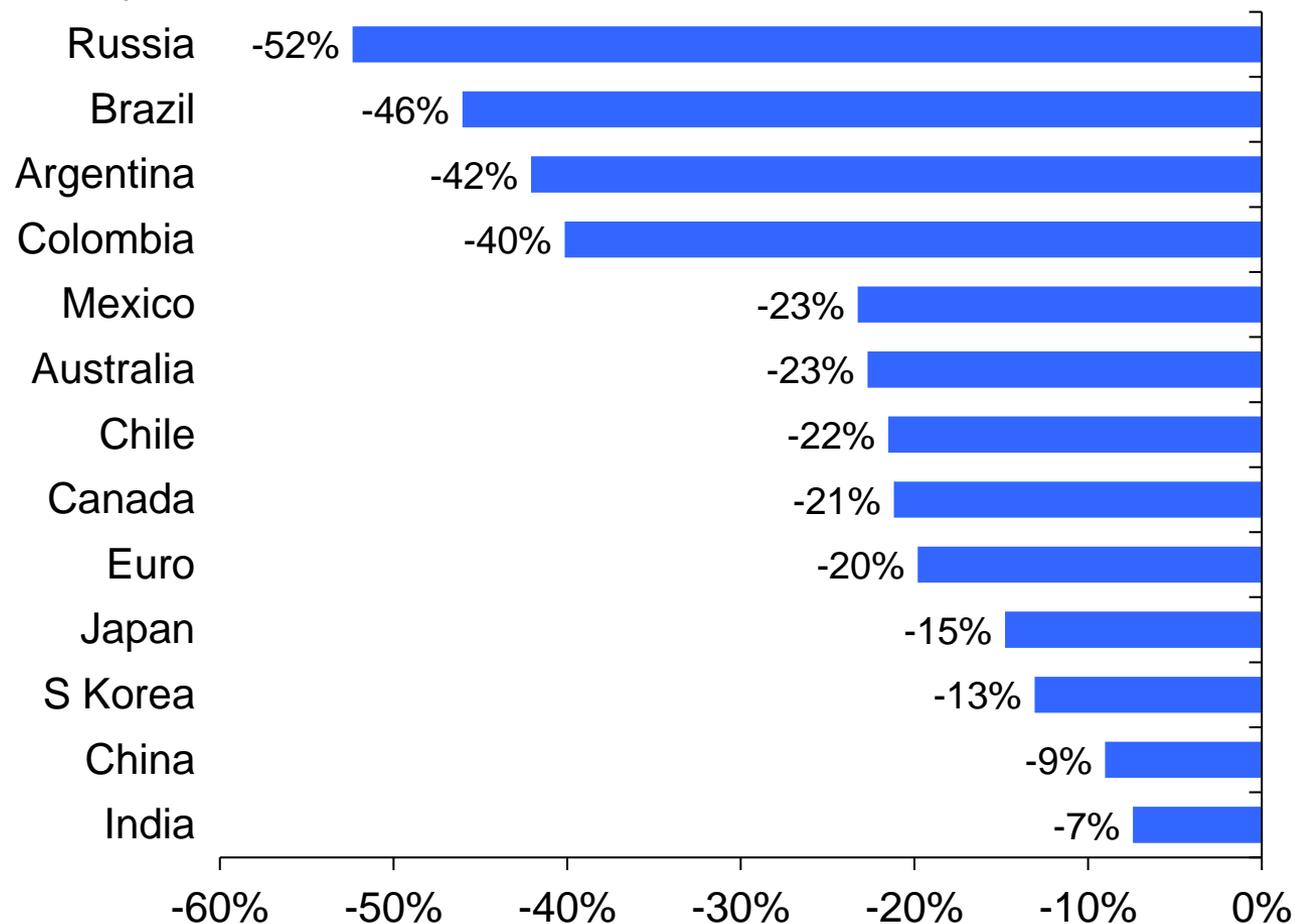
Global economy: slow and unsteady

- World GDP growth for 2016: 2.2% – slowest pace of global growth since 2009. Forecast for 2017 cut further to 2.7%.
- EMs economies expected to remain subpar.
- Strains in financial markets have abated but conditions still tighter than end-2015, and global risks are still skewed to the downside.

Global headwind: strong \$US

Exchange rate depreciation, 2016 / 2014

local per \$US

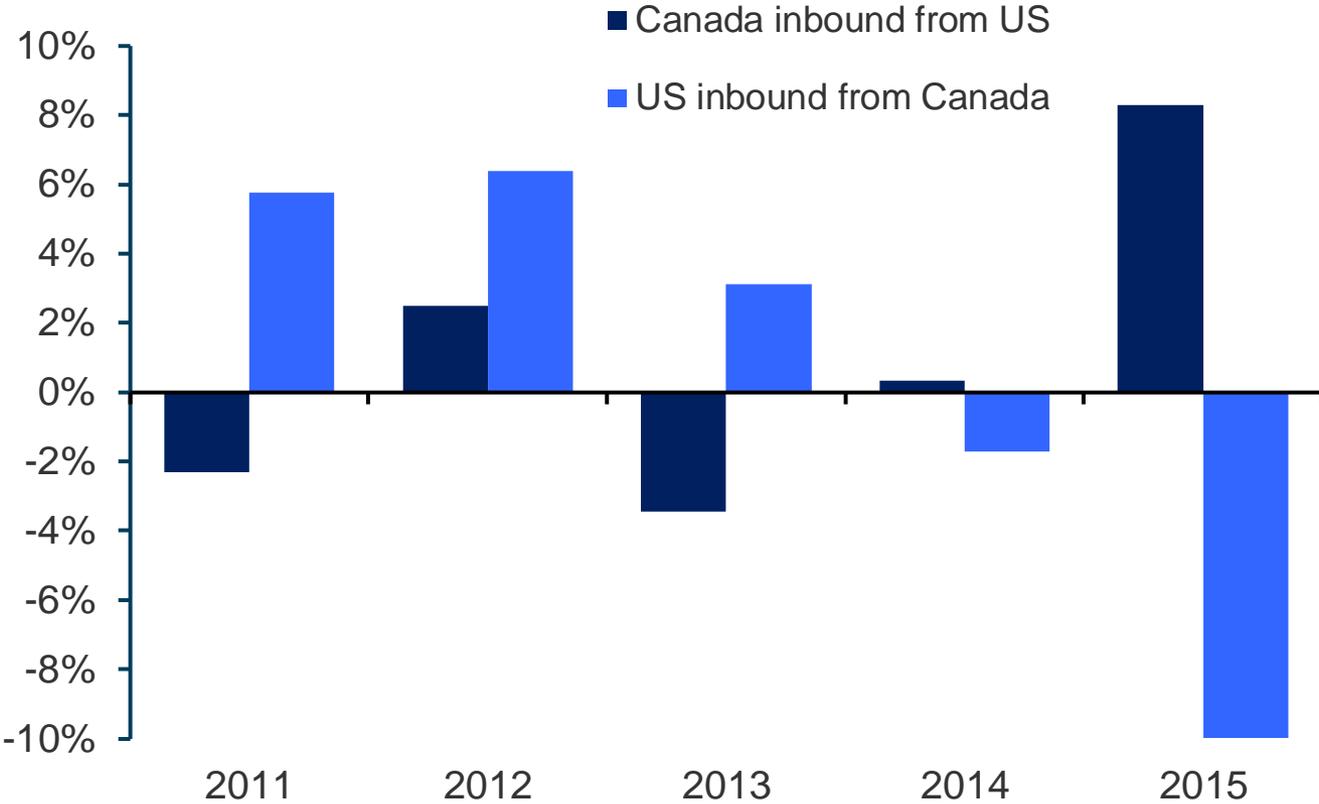


Source: Tourism Economics

Exchange rate defining northern border flows

Visits across the Canadian-US border

% change

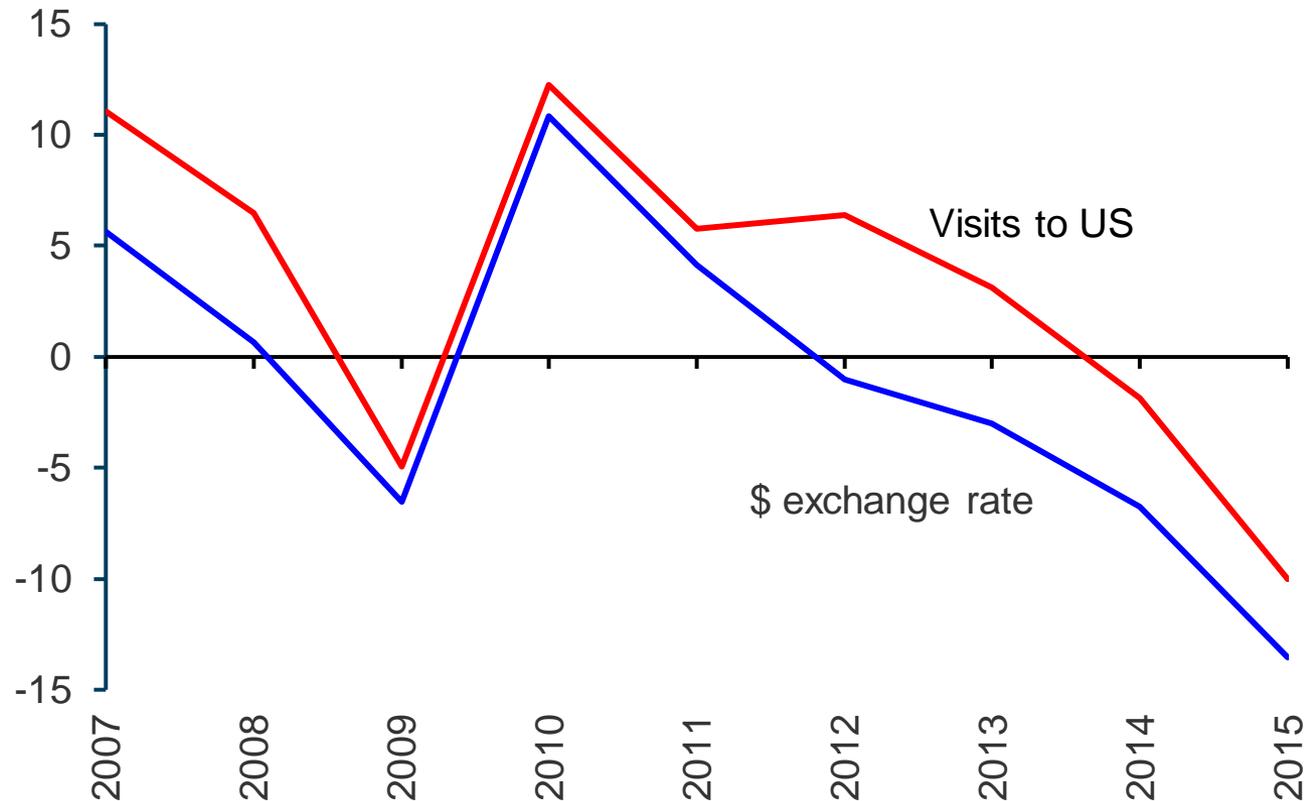


Canada to US continues to contract in 2016: -14% through April (air only -4.8%)

Canada arrivals are following the script

Canada visits to the US and exchange rates

% change

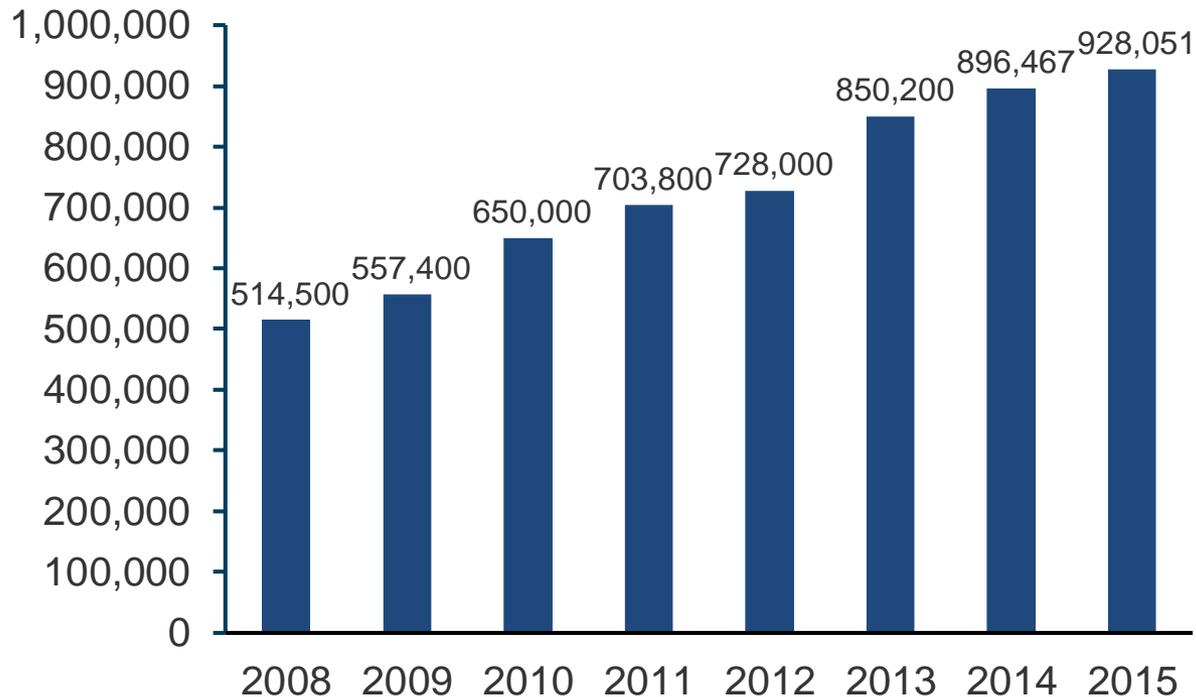


Source: Statistics Canada, Oxford Economics

...but Arizona has bucked the trend

Canada travel to Arizona

Visits

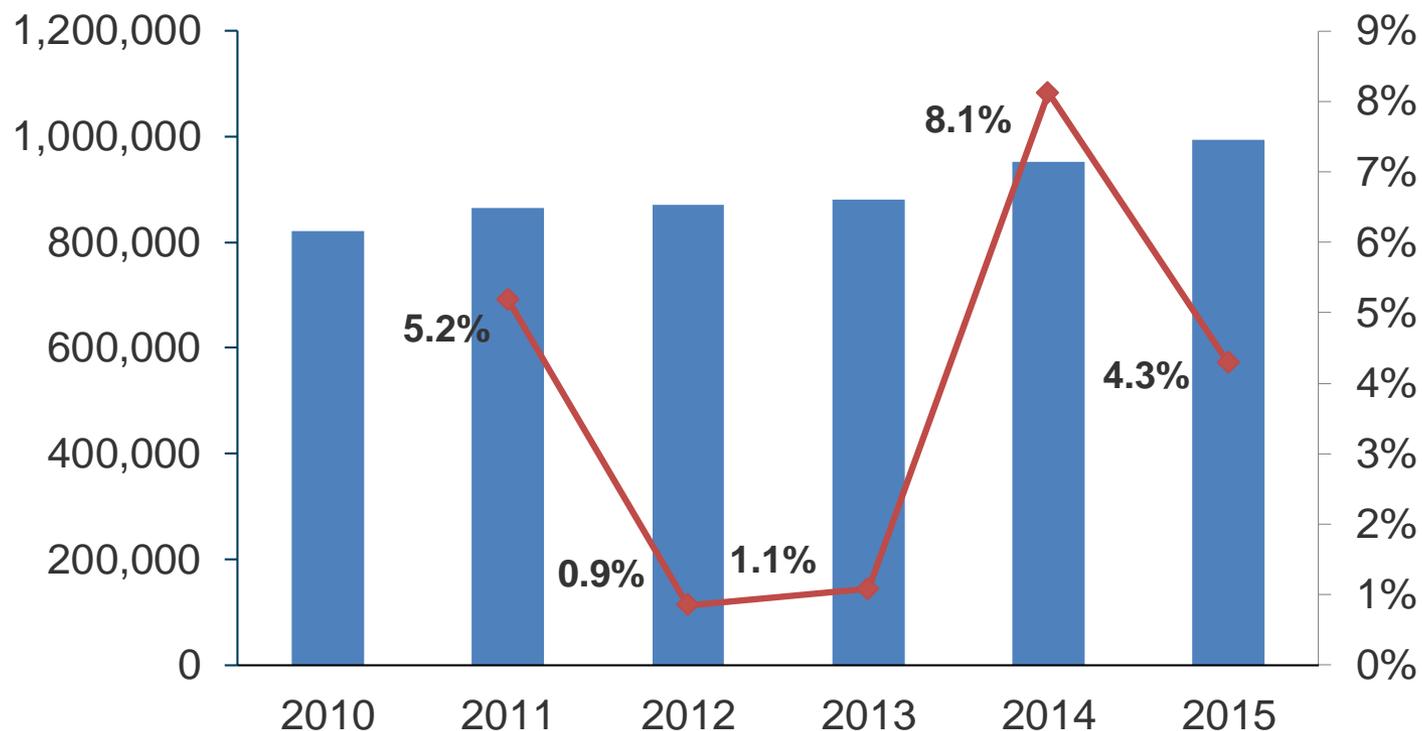


Sources: Statistics Canada through 2014, Tourism Economics in 2015

Overseas arrivals are showing resilience

Overseas travel to Arizona

Levels and % change (right)

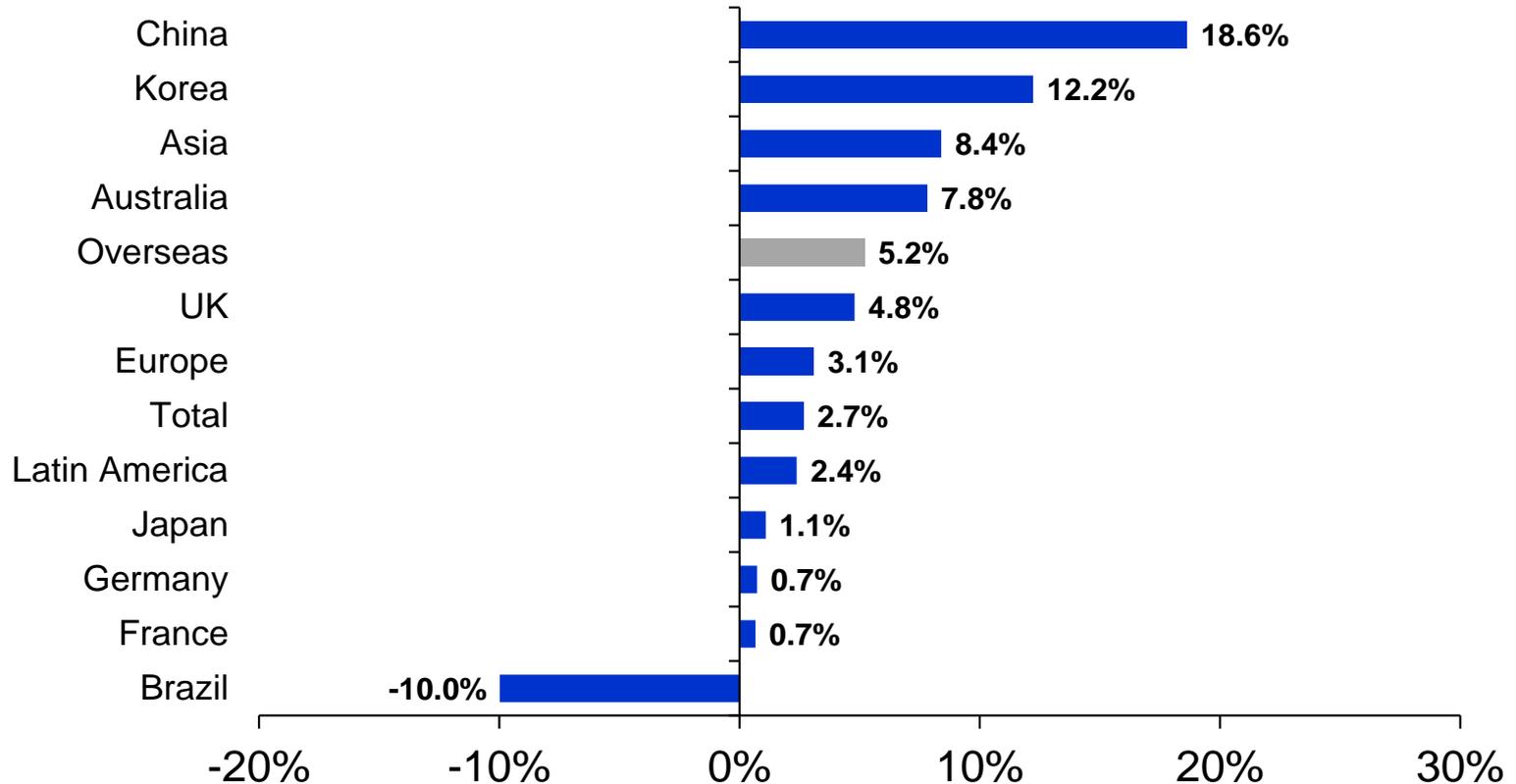


Source: Tourism Economics

...continuing into this year

YTD growth for air arrivals in the US, May-16

Annual % change, YTD



Source: Tourism Economics, APIS

US Economy



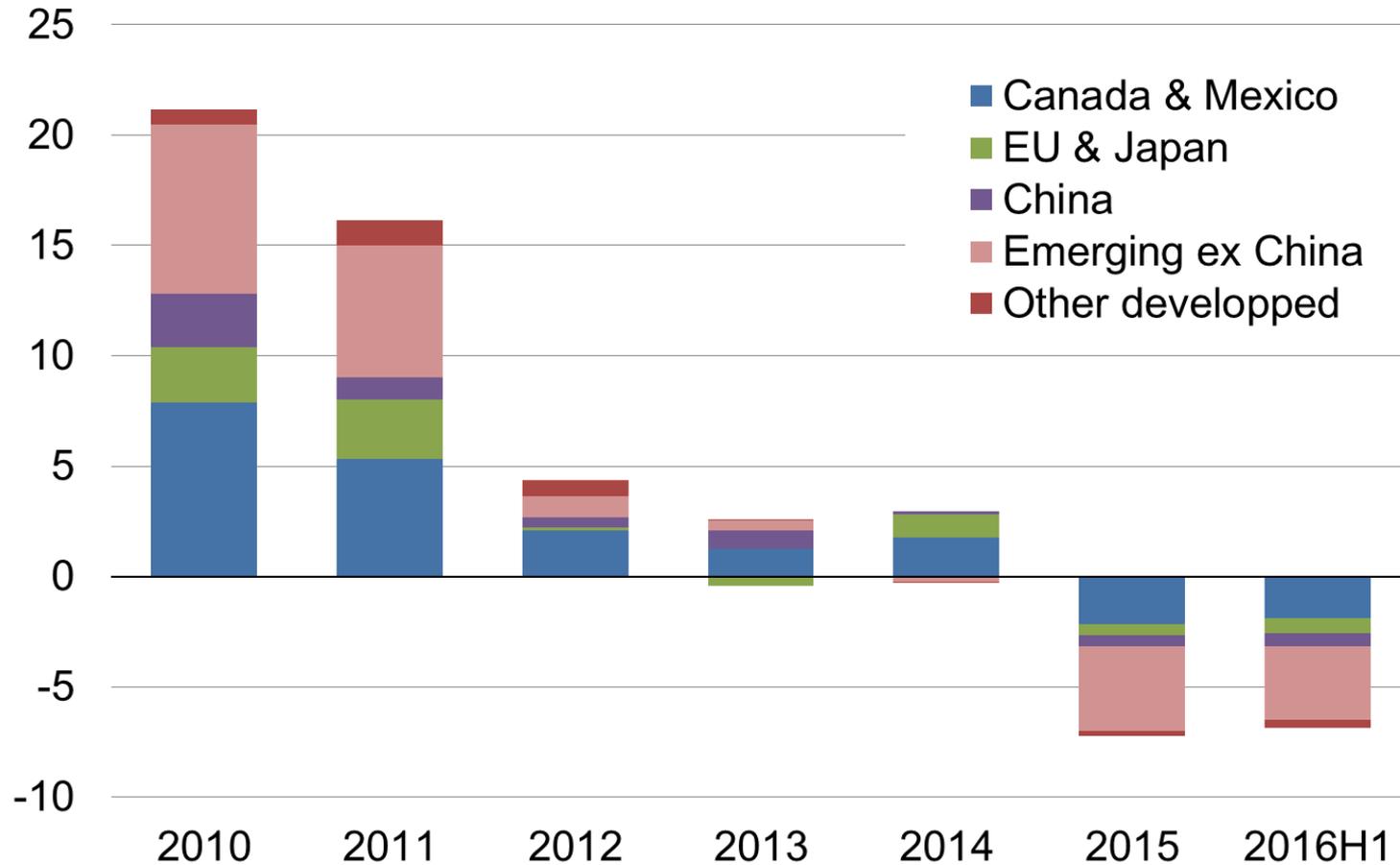
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Sluggish global growth restraining net exports

US: The 'emerging markets' threat

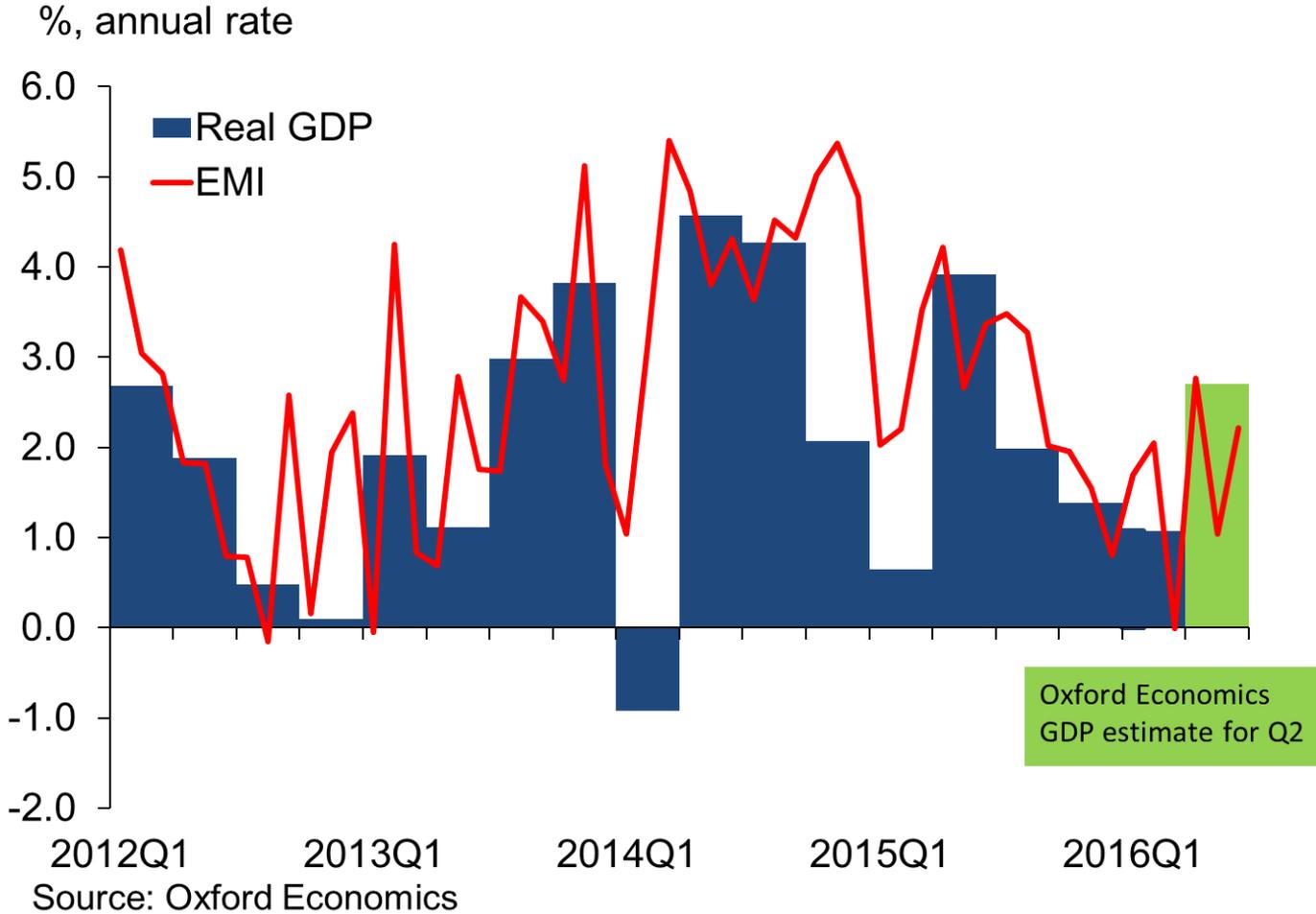
Percentage points contribution to US merchandise export growth



Source: Oxford Economics

EMI points to rebounding growth in Q2: consumers back!

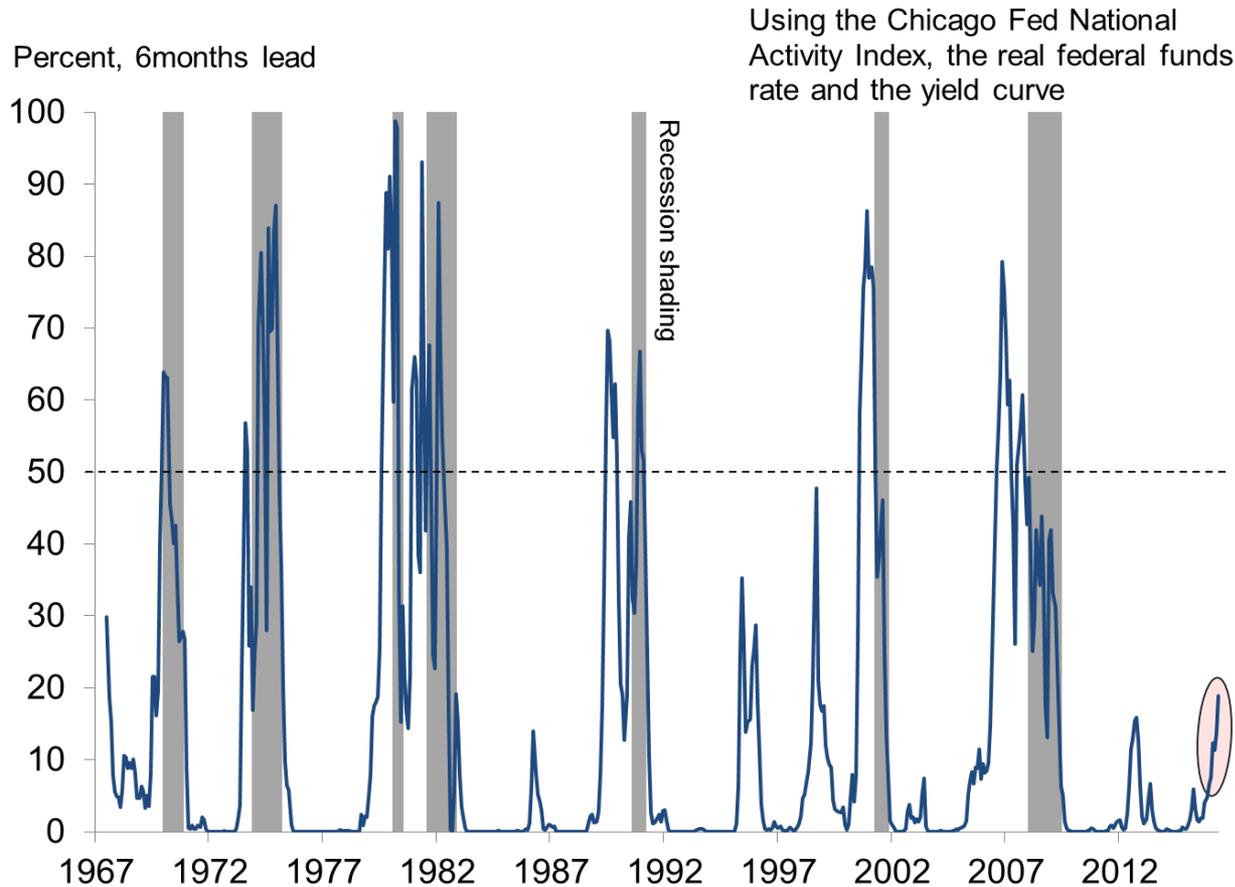
US: OE's Economic Momentum Indicator



■ Principal component approach using 24 economic activity indicators

The risk of a recession has risen but still low...

US: Probability of a US recession 6-mo ahead



Source : Oxford Economics

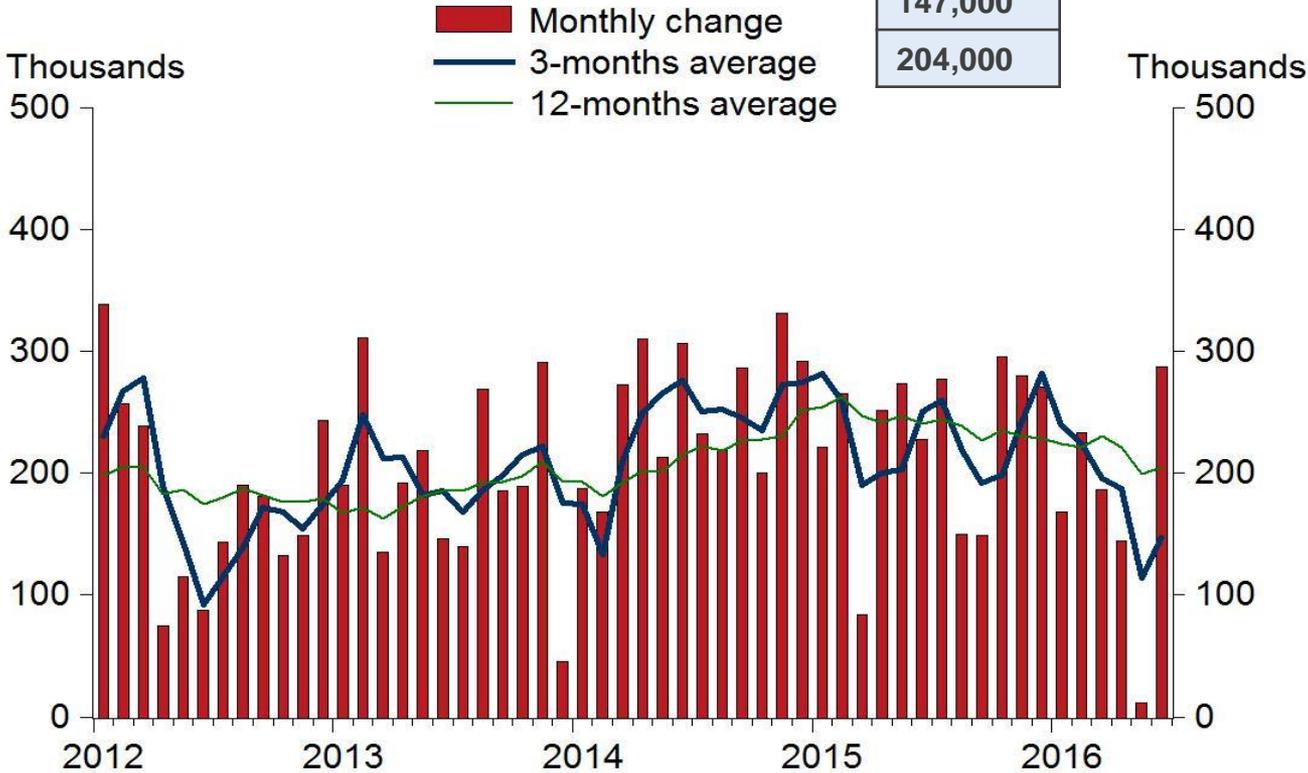
■ Triple Ps rule for a recession:

- **Profound**
- **Persistent**

Employment bounced back in June

US: Nonfarm payrolls

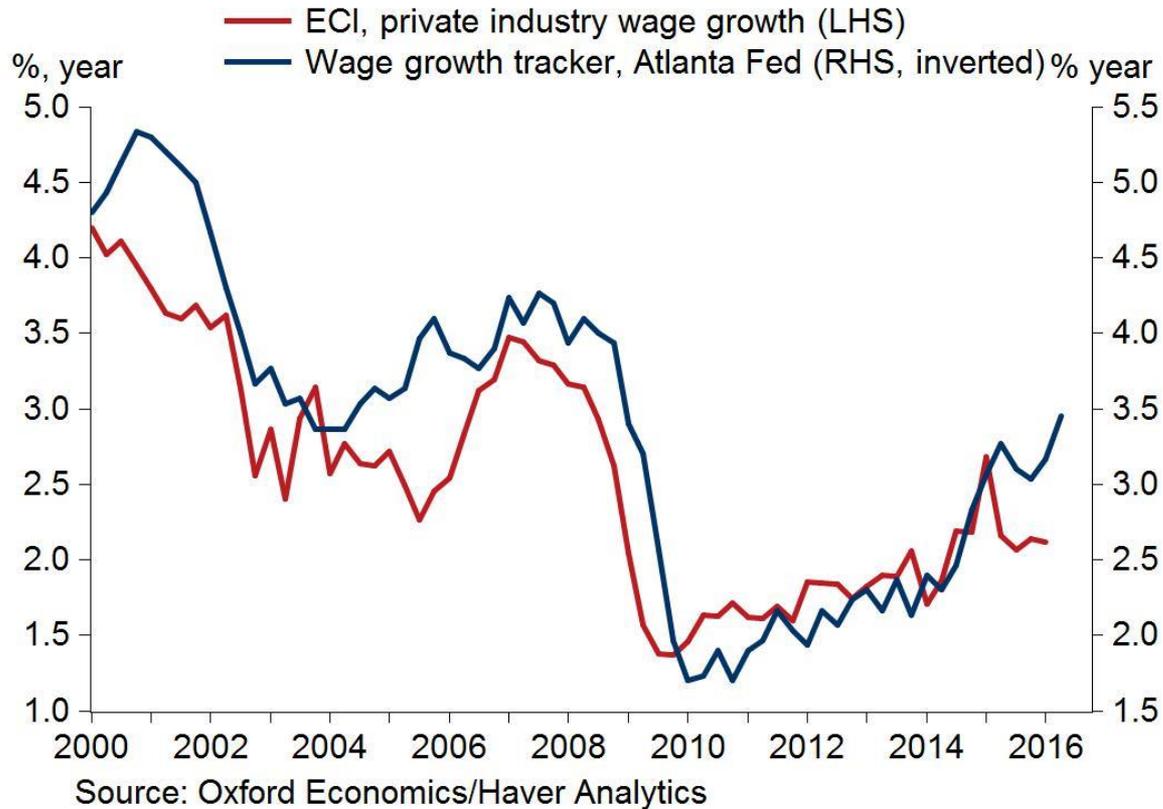
Jun 2016
287,000
147,000
204,000



Source: Oxford Economics/Haver Analytics

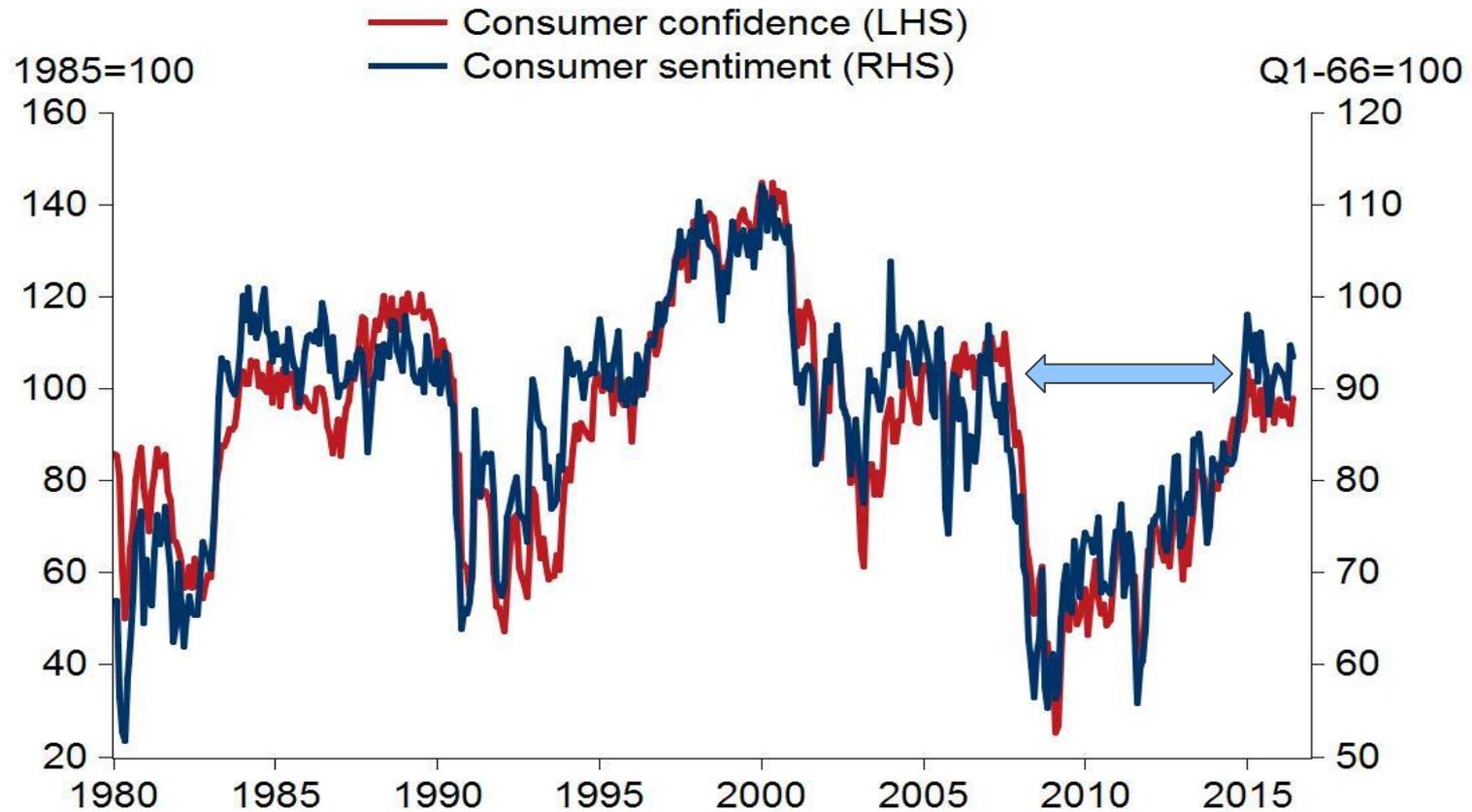
...wage growth should pick up the income baton

US: Labor market slack



Consumers remain optimistic despite elections & Brexit

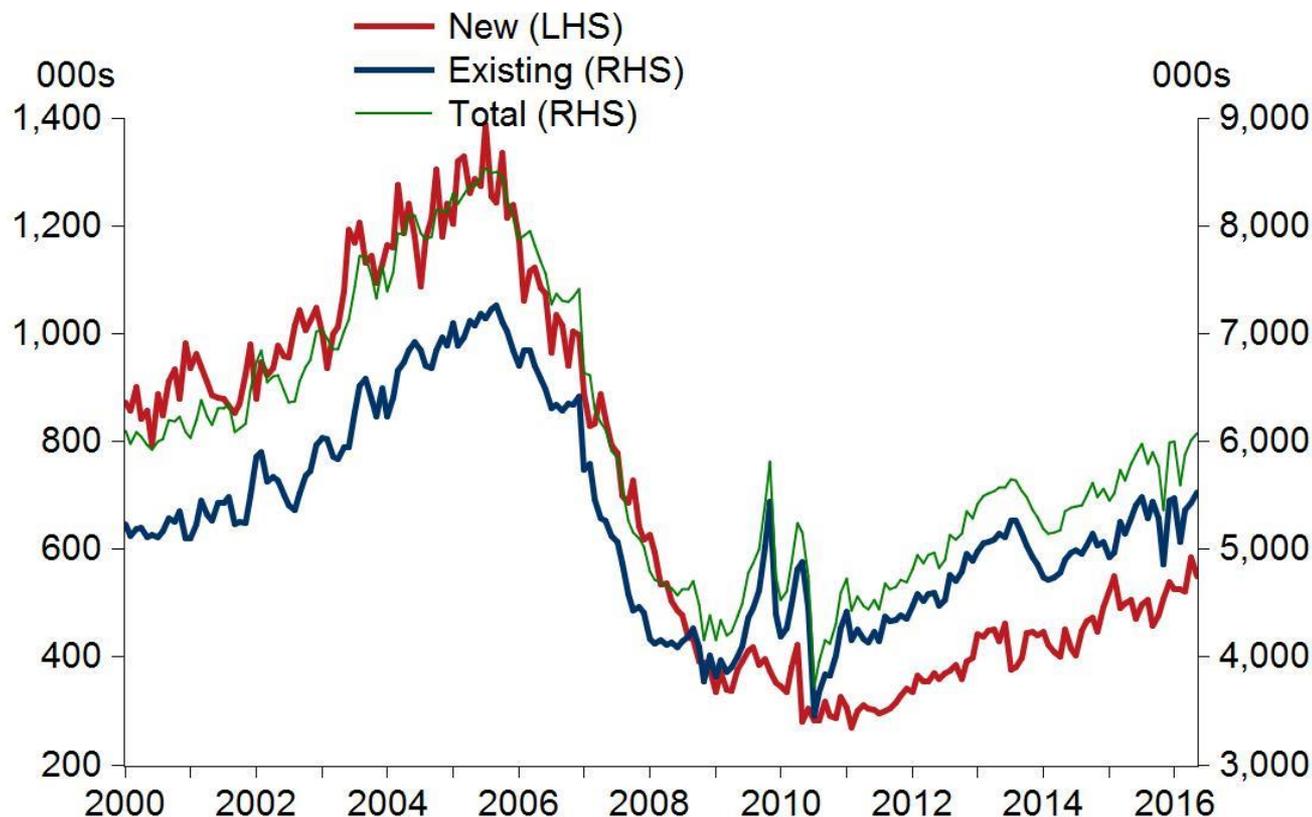
US: Consumer attitudes



Source: Oxford Economics/Haver Analytics

Housing recovery remains very gradual...

US: Single family home sales



Source: Oxford Economics/Haver Analytics

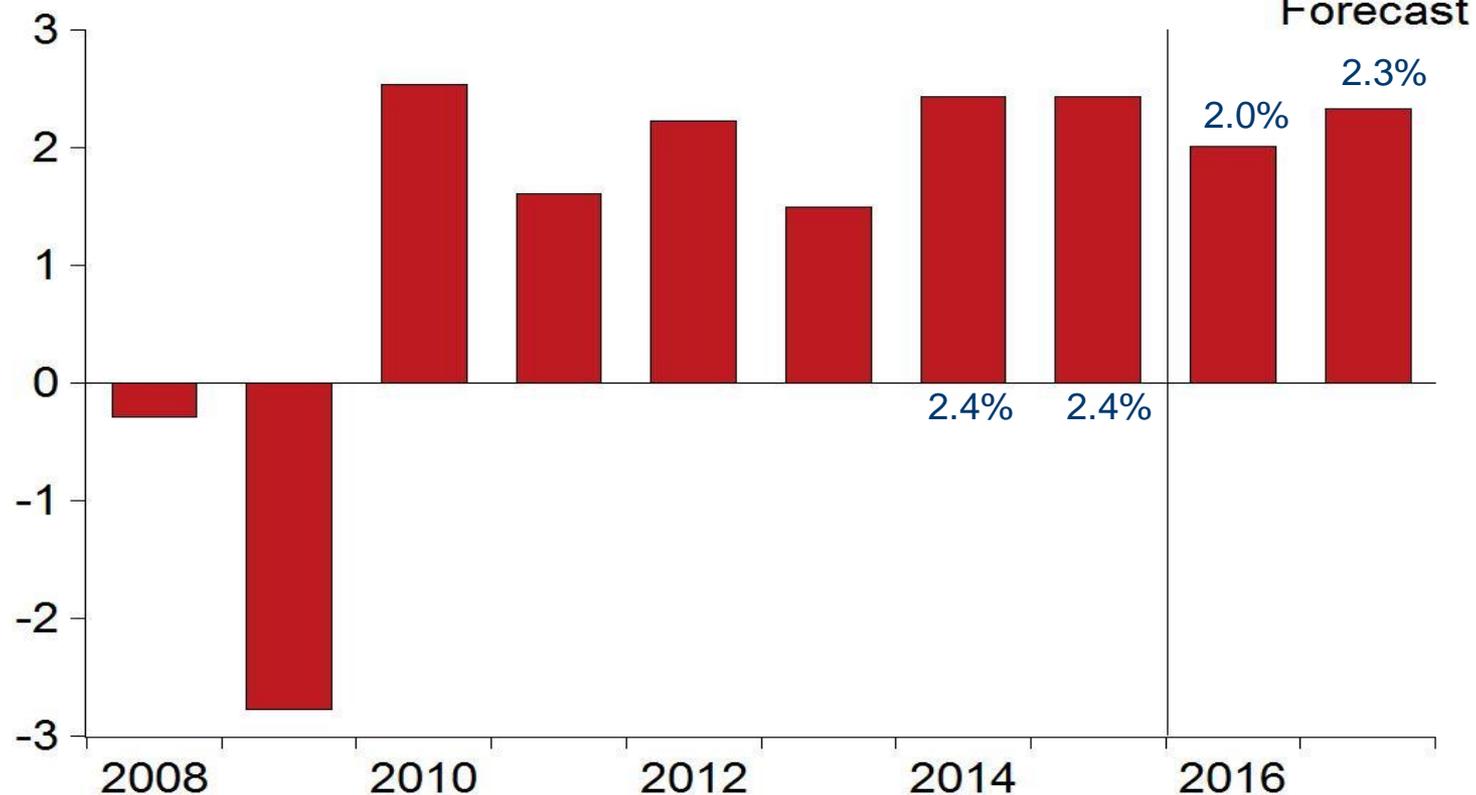
Drivers:

- Income growth
- Low interest rates
- Modest price inflation
- Pent-up demand

GDP hovering in 2-2.5% range...

US: GDP

%, year



Source: Oxford Economics

US economy balance remains positive

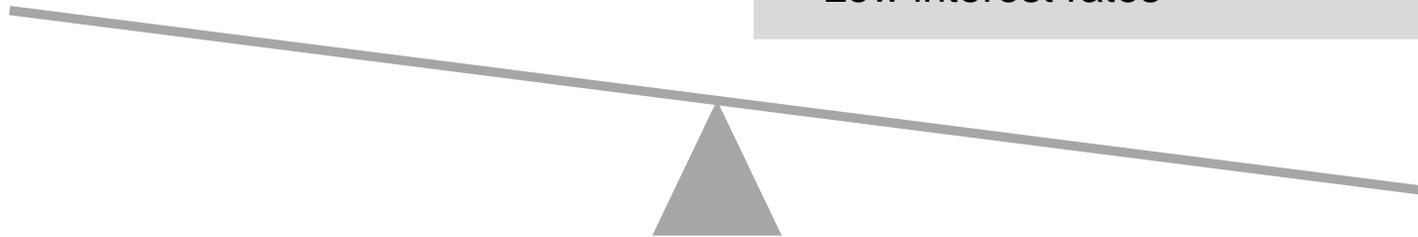
- Consumer spending in the front seat, housing in the back seat, investment in the trunk and trade being pulled behind

Limiting factors

- Global growth drag
- Strong dollar impacting trade

Positives

- Anticipated wage gains
- Solid consumer confidence
- Pent-up housing demand
- Low interest rates



	2015	2016	2017-19
GDP Growth	2.4%	2.0%	2.3%

Current travel trends and expectations

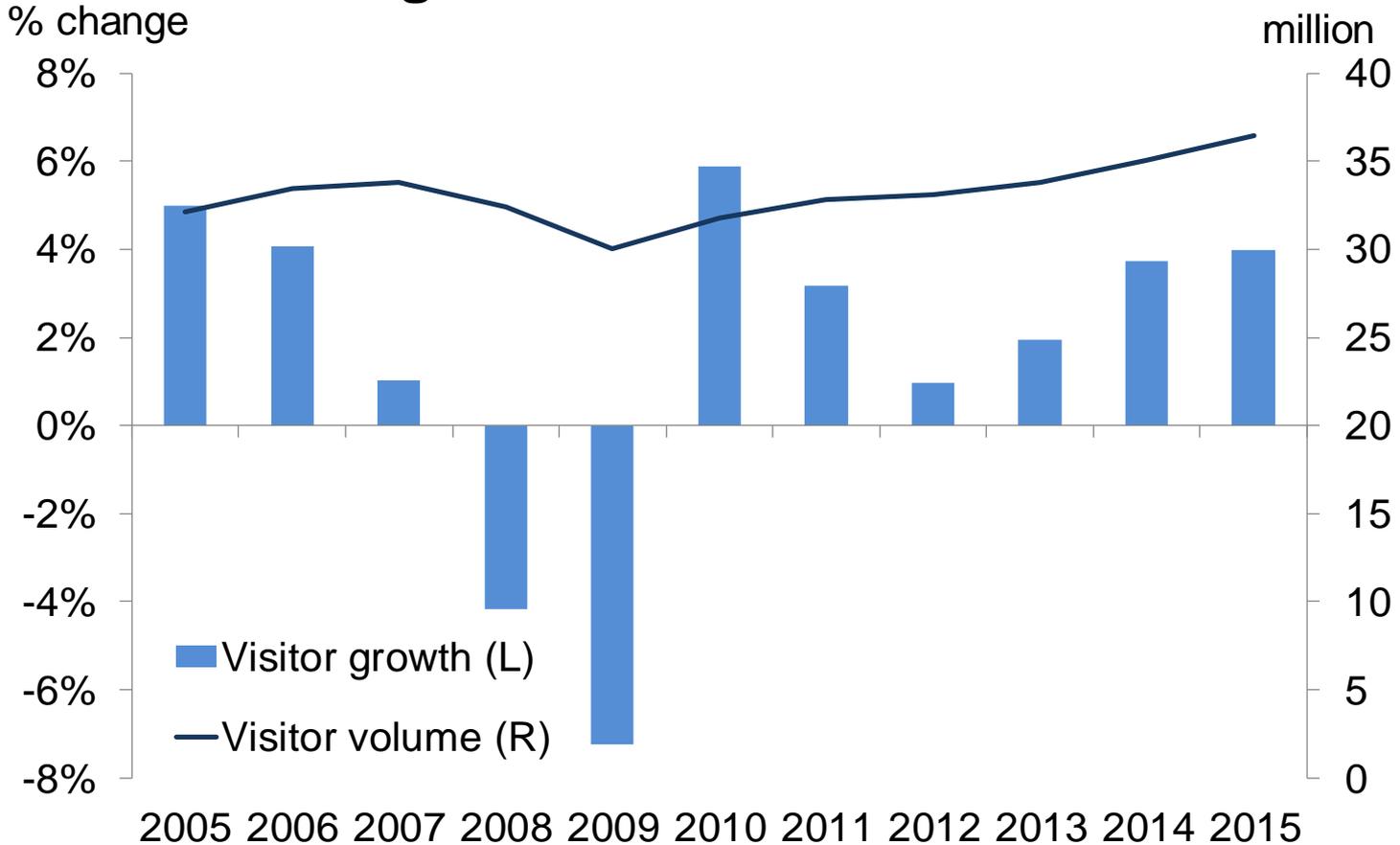


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Torrid pace for overnight visits to Arizona

Annual overnight visitor trend

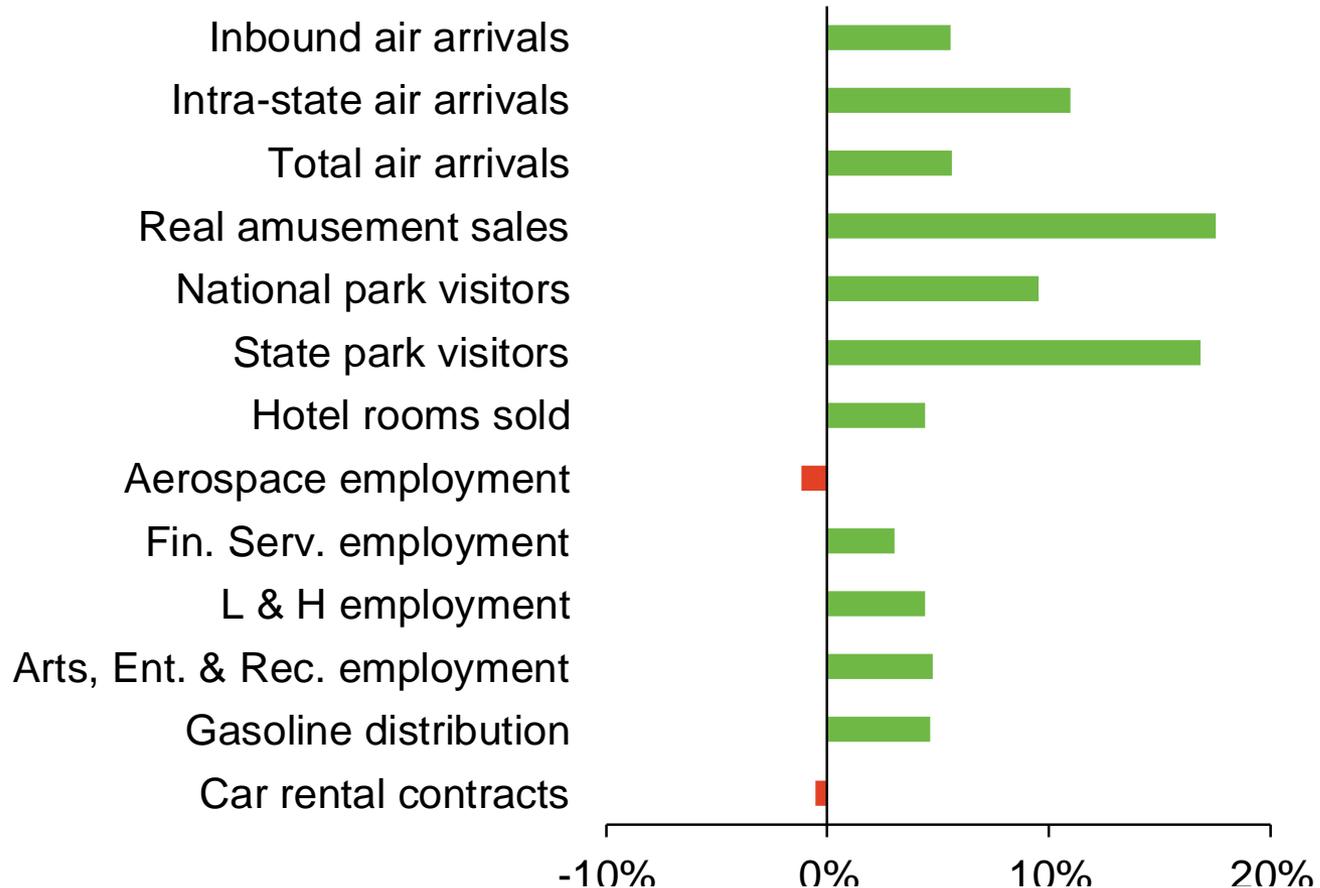


Source: AOT / Tourism Economics

...with industry indicators showing strength

2015 Growth in indicators

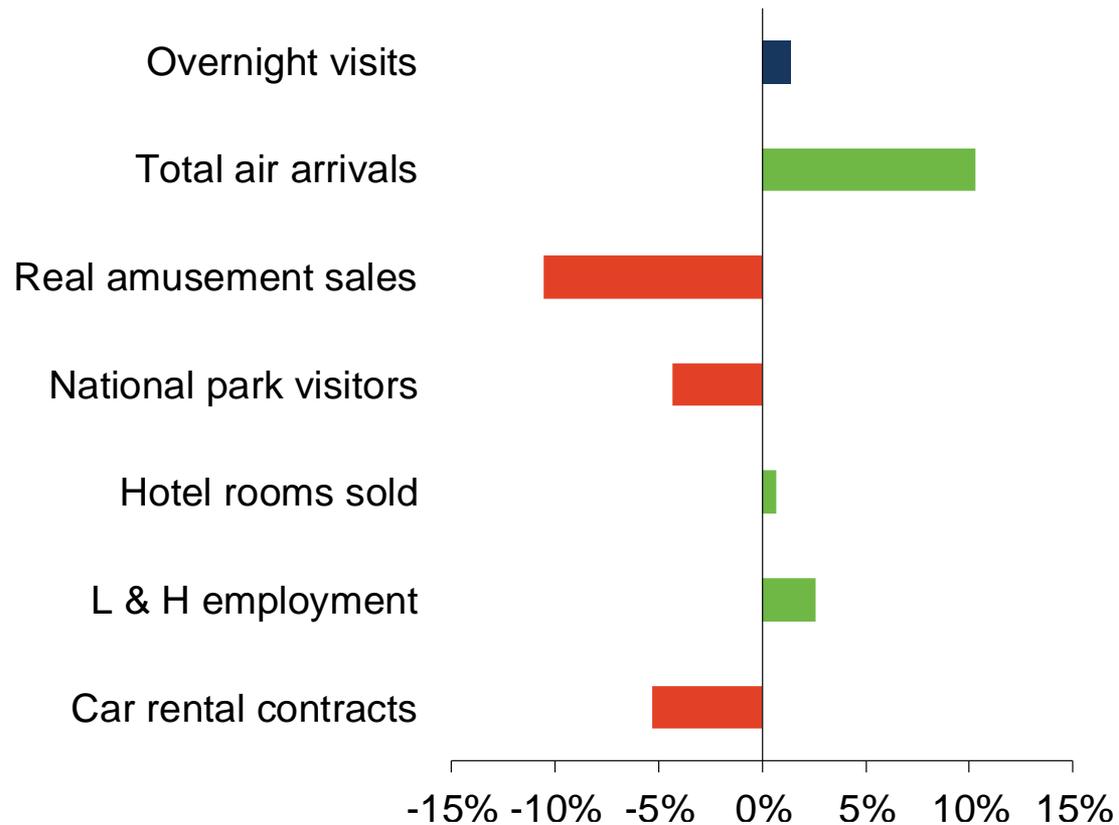
% change



Industry pace has slowed in 2016

2016Q1 Overnight visits & indicator growth

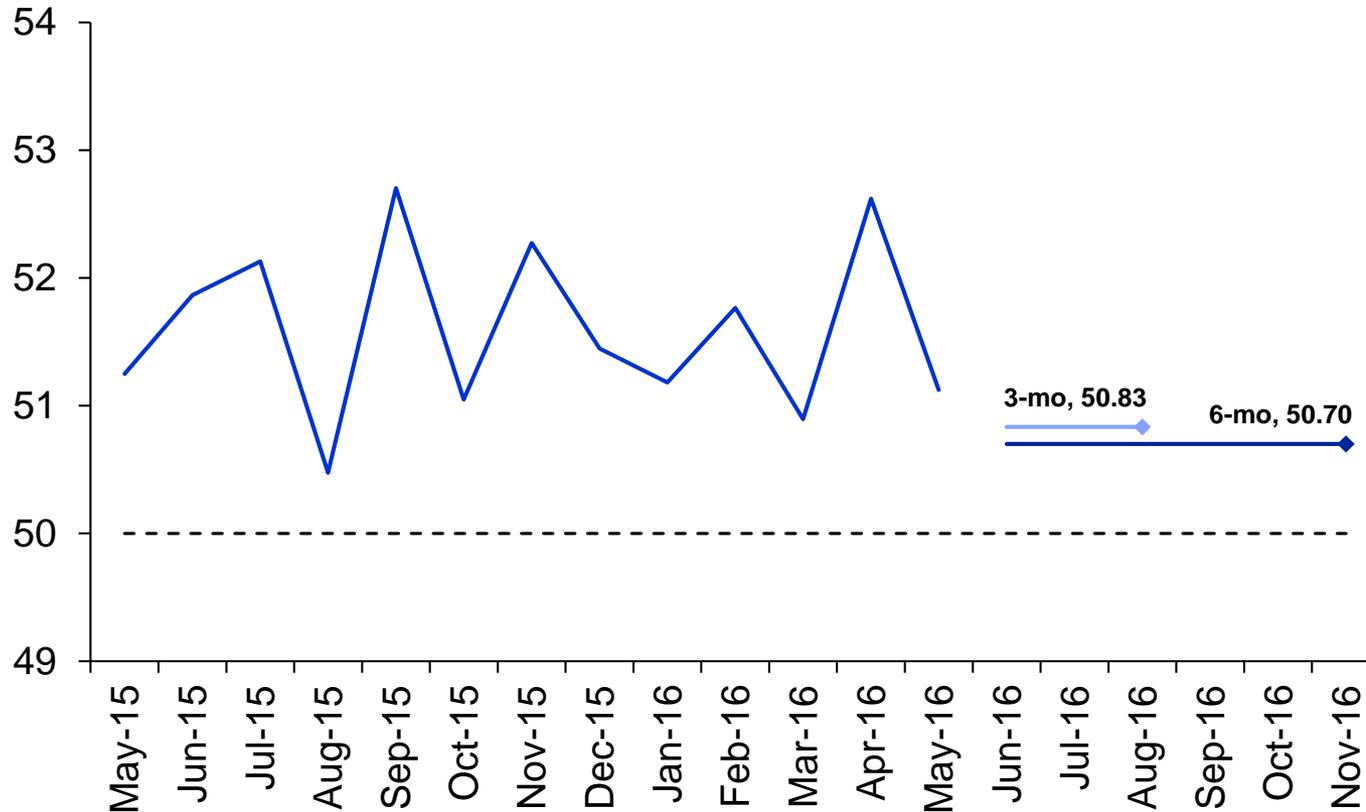
% change



This is true across the country

May Travel Trends Index

Index (>50=expansion, <50=decline)

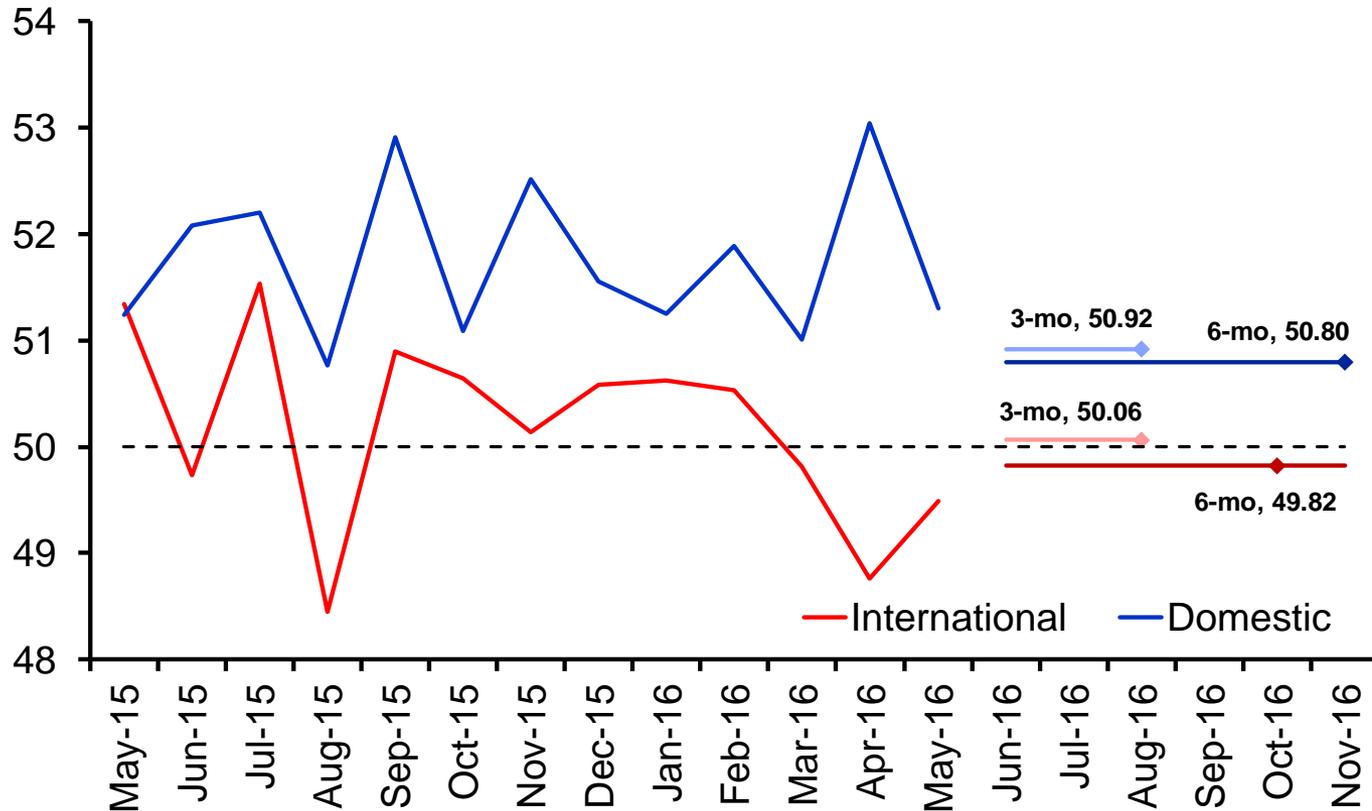


Source: Oxford Economics, U.S. Travel Association

...especially from international visitors

May Domestic and International Travel Index

Index (>50=expansion, <50=decline)

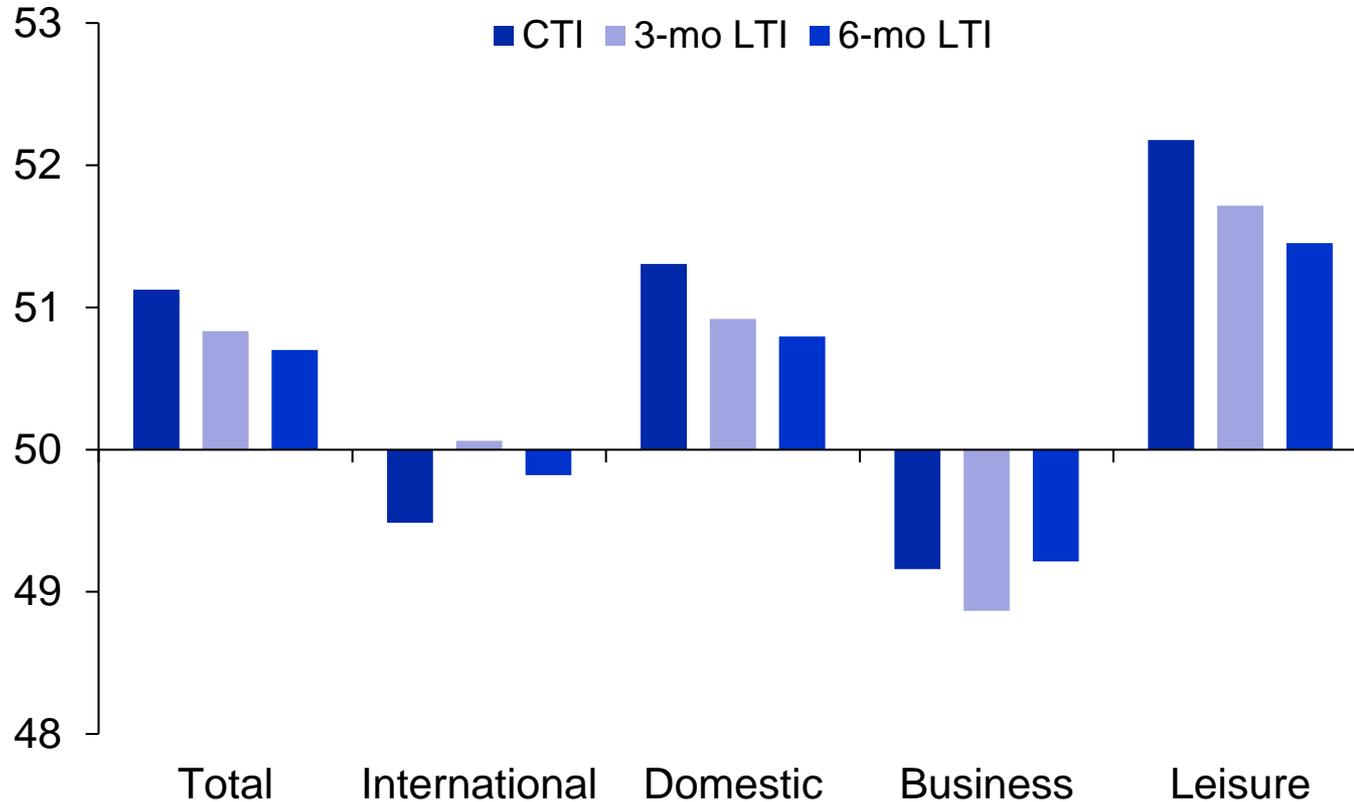


Source: Oxford Economics, U.S. Travel Association

...while business travel also slowing

May CTI, 3-month and 6-month LTI

Index (>50=expansion, <50=decline)

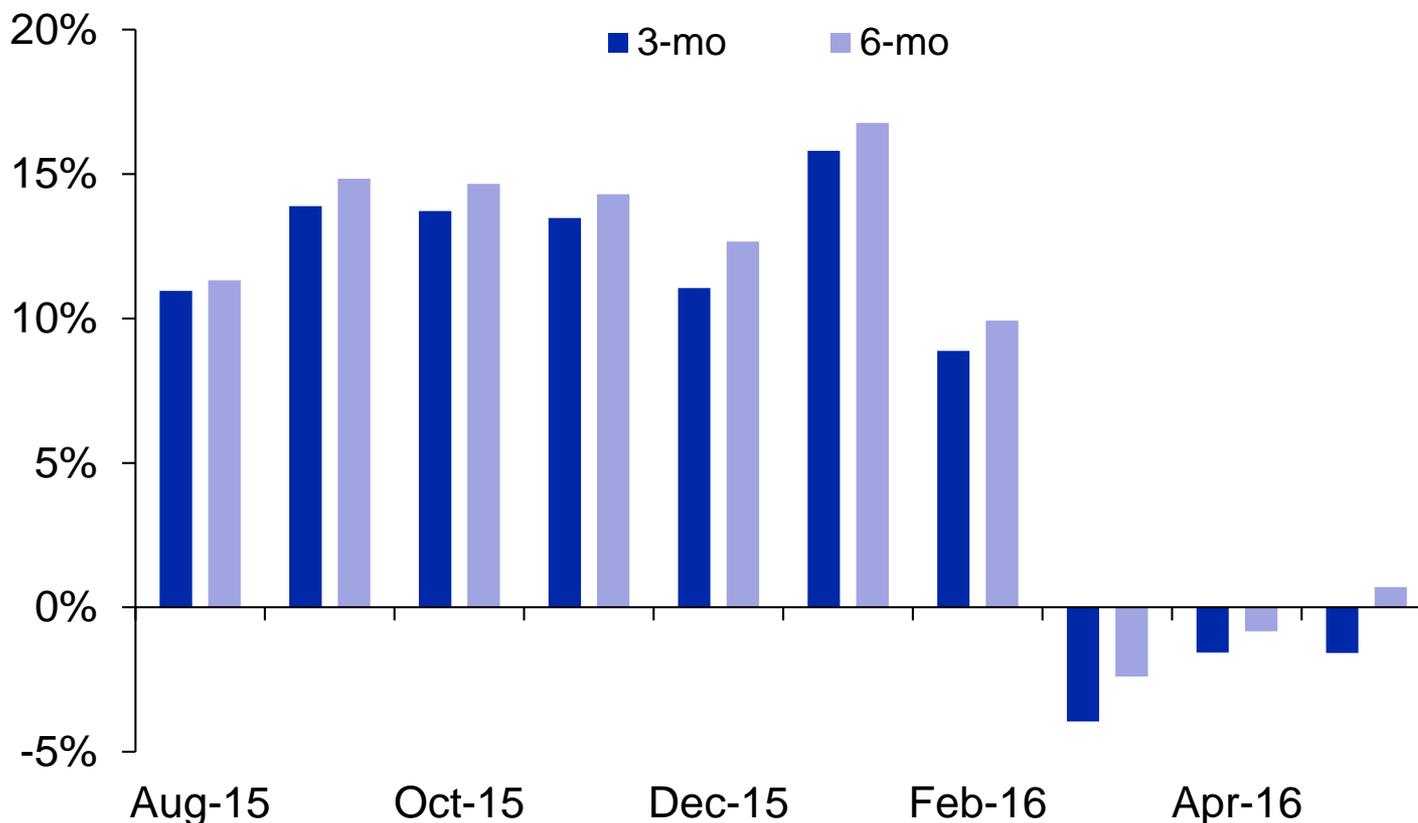


Source: Oxford Economics

Air travel bookings suddenly faltering

Forward-Looking US Air Travel Bookings

y/y % change, advance moving-sum (month of booking)



Source: Tourism Economics, ARC

Long term trends and the lodging cycle



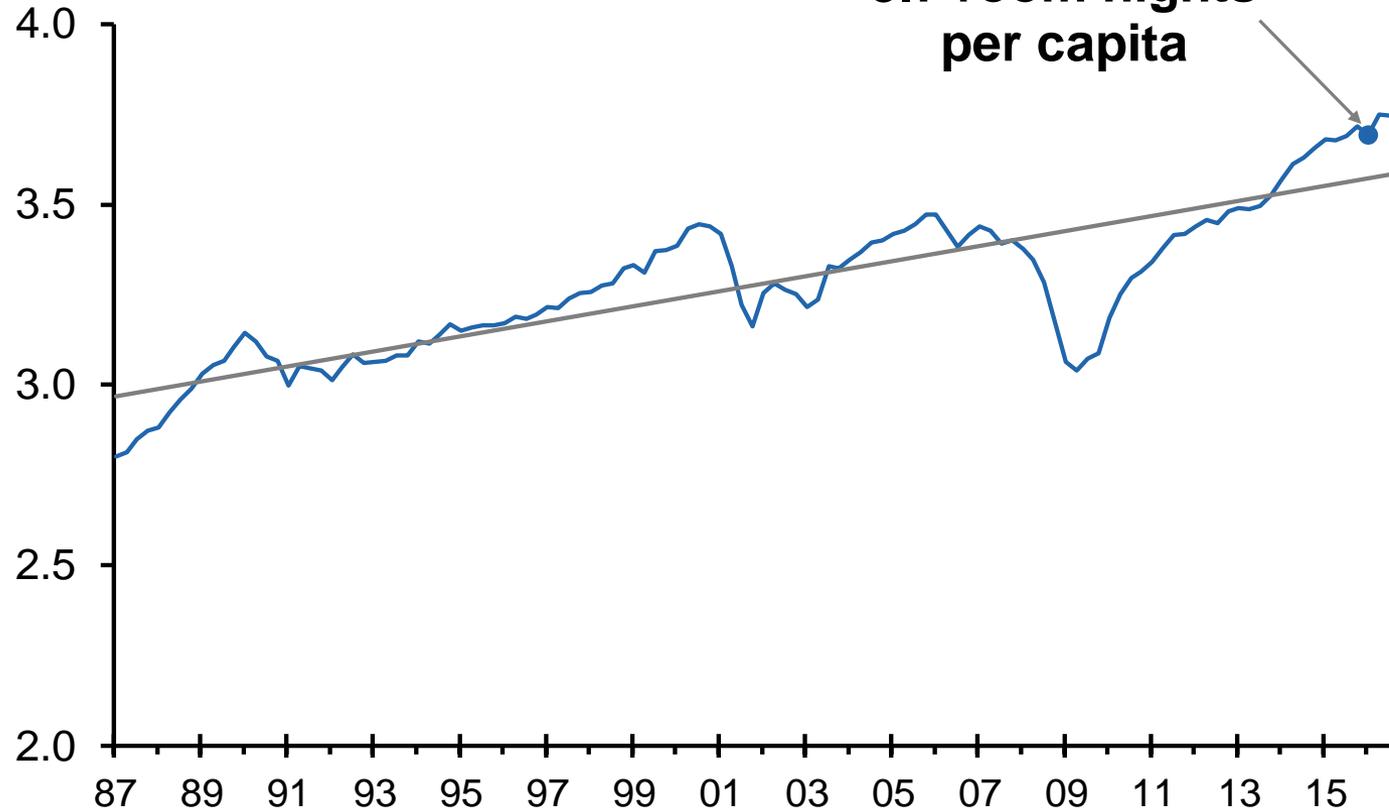
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US room demand at all-time high...per capita

Room nights per capita

Annual room nights

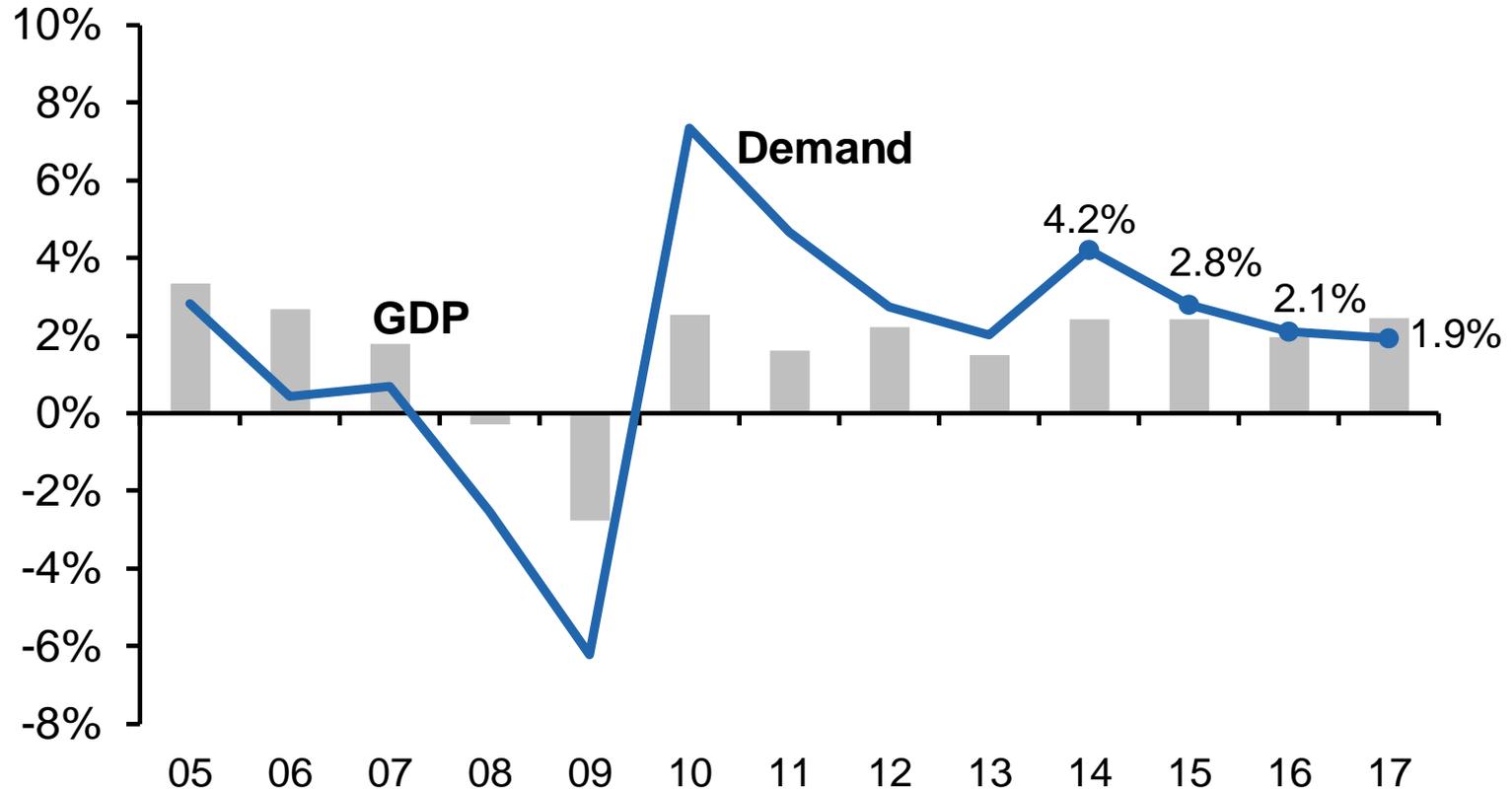


Note: Seasonally adjusted
Source: STR; Tourism Economics

Hotel room demand converging with GDP

Room demand and GDP

% change

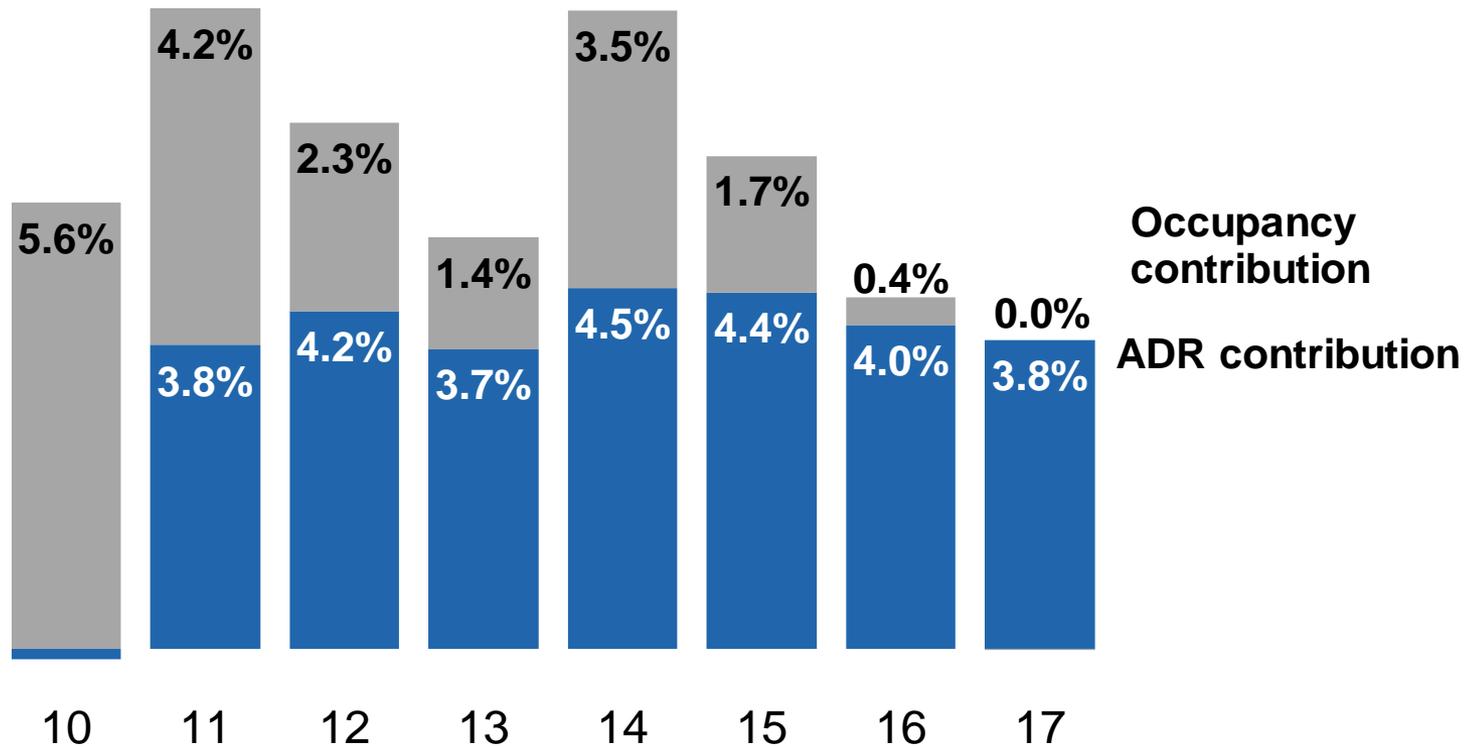


Source: STR; BEA; Tourism Economics

Rate is now the primary revenue driver

Occupancy and ADR growth

% change



Source: STR; Tourism Economics

Destination marketing in challenging times



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Why prioritize destination marketing?

- The visitor economy is outpacing the rest of the economy

US consumers devoting more to travel

Spending on lodging

Real, per capita GDP and spending on lodging

Percentage change since 1980

250%

200%

150%

100%

50%

0%

-50%

1980

1985

1990

1995

2000

2005

2010

2015

229%

Spending on lodging has increased 229% since 1980 (real, per capita basis)

77%

GDP has increased 77% since 1980 (real, per capita basis)

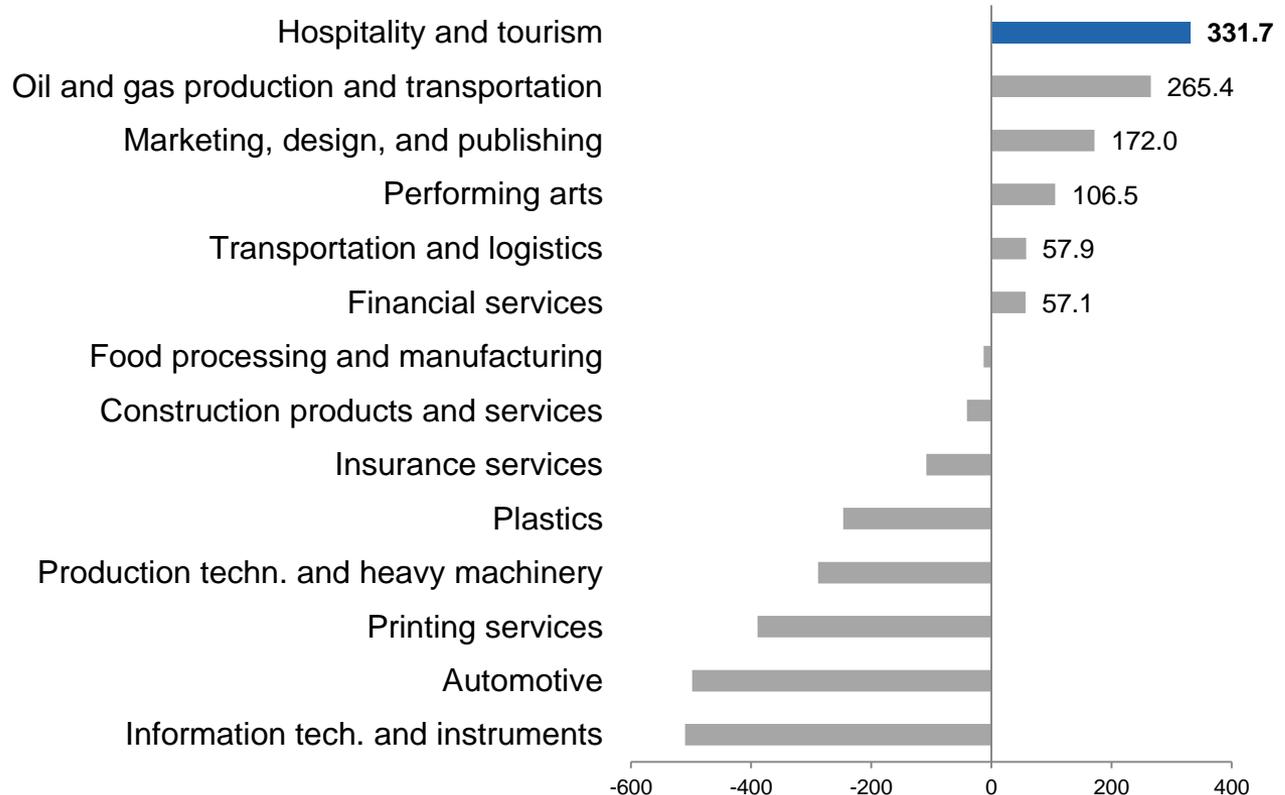
Source: Bureau of Economic Analysis; Tourism Economics

Visitor economy outperforms other “exports”

Hospitality and tourism has generated more US jobs over the past 15 years than any other traded cluster of its size.

Job creation in traded clusters

Net change in jobs 1998 to 2013, in thousands



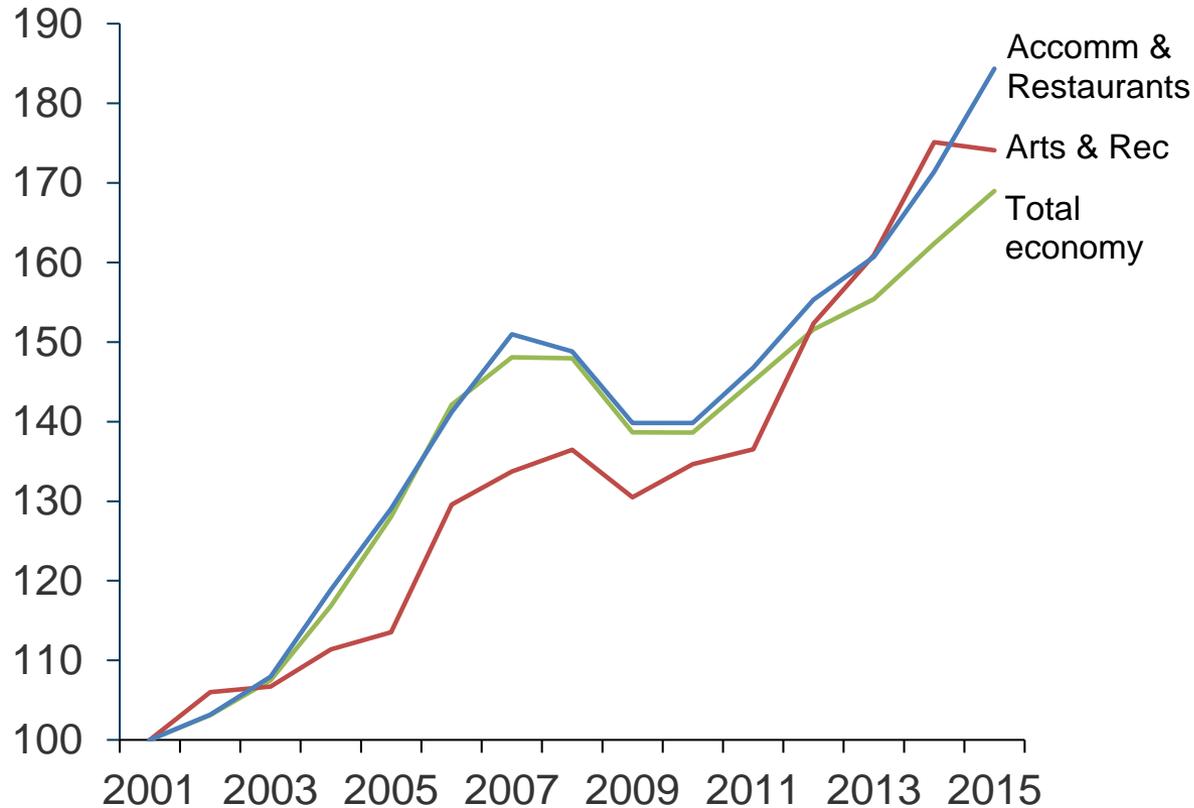
Note: Graph shows selected traded clusters. Excludes the largest and smallest clusters, such as business services, education, and distribution and electronic commerce, which each have greater than 2.0 million jobs and are on a different scale than the selected clusters.

Source: US Cluster Mapping Project; Census Bureau; Tourism Economics

The Arizona visitor economy is leading

Earned Income by Industry in Arizona

2001=100



Source: BEA, Tourism Economics

Why prioritize destination marketing?

- The visitor economy is outpacing the rest of the economy
- The visitor economy is a catalyst for economic development

How destination marketing drives the economy



#1 – Building transport networks

- Airlift is one of the top criteria for site selectors
- Air passenger volumes are a strong predictor of future population growth and employment growth.

“Air service is profoundly important to corporate investment and location decisions... “This is one of tourism’s most significant contributions since the levels of air service at New Orleans far exceed what local demand could support.”

Stephen Moret, Secretary, Louisiana
Economic Development

#2 – Raising the destination profile

- Destination promotion strongly supports economic development through brand development, raising awareness, and building familiarity

“Every tourist that comes through here is a potential business lead.”

Jeff Malehorn, President & CEO,
World Business Chicago

“If we do it right, the ideal brand will transcend the visitor market and support all economic development.”

Hank Marshall, Economic Development
Executive Officer, City of Phoenix
Community and Economic Development
Department

#2 – Raising the destination profile

Familiarity is critical in attracting investment

- 13% of executives with site selection responsibilities state that their perceptions of an area's business climate were influenced by leisure travel and 37% reported influence by business travel (Development Counsellors International, 2014)

“We are learning a lot from Visit California by how they brand California and how to take their model and apply it to economic development.”

Brook Taylor, Deputy Director, Governor's Office of Business and Economic Development

#3 – Targeted conventions and trade shows

- By securing meetings, conventions and trade shows for local facilities, DMOs attract the very prospects that economic development agencies target.

“Our EDO doesn’t have to fly to DC or China. The low hanging fruit is coming here for events.”

Steve Moore, CEO, Greater Phoenix CVB

#4 – Raising the quality of life

Channel of impact: The visitor economy supports amenities and a quality of life that attract investment in other sectors.

- Boeing’s decision to relocate its headquarters to Chicago was heavily influenced by the cultural assets and vibrancy of the city.
- Asheville’s recent win of a \$125 million investment from GE Aviation was heavily influenced by its quality of life scores related to both outdoor activities and a vibrant downtown.

*“Traveler attractions are the same reason
that CEOs choose a place.”*

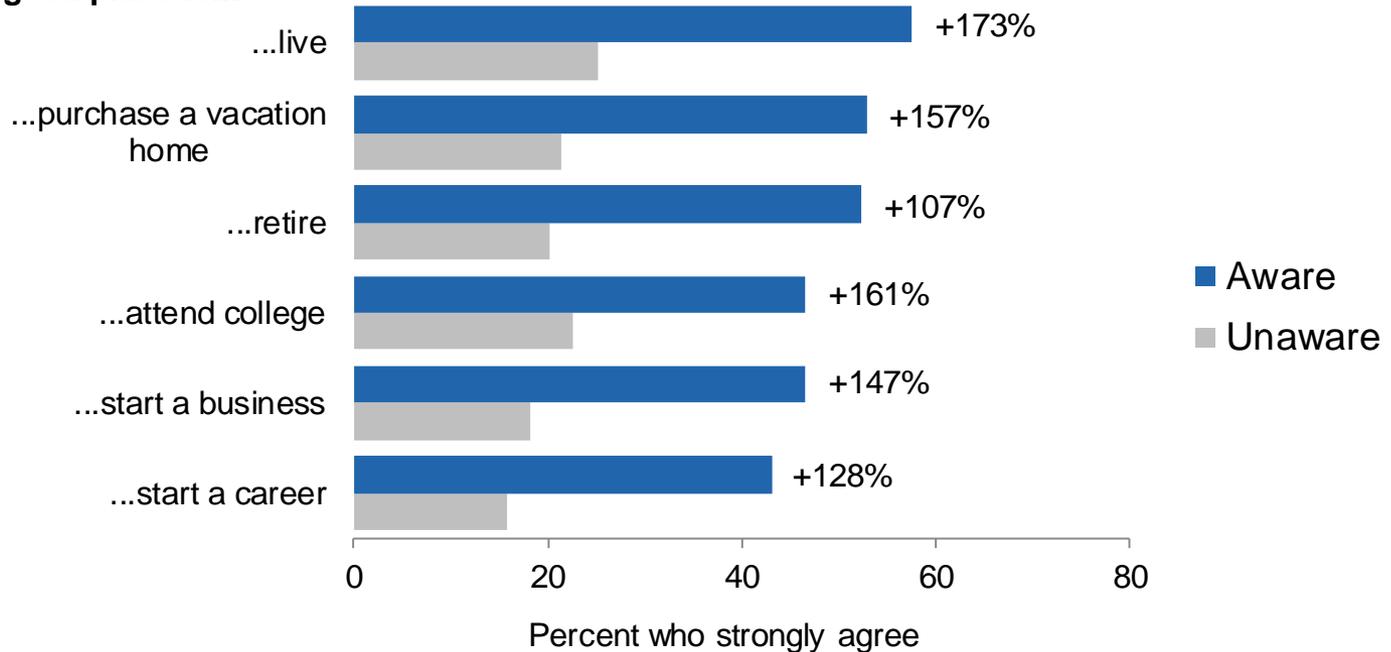
Jeff Malehorn, President & CEO, World Business Chicago

Impact of campaign on economic perceptions

Marketing influences perceptions on key decision criteria

Lake Erie Shores and Islands 2014 campaign impact on the region's economic development image

"A good place to..."



Note: Percentages indicate the increase in "ad aware" respondents who strongly agree relative to "unaware".

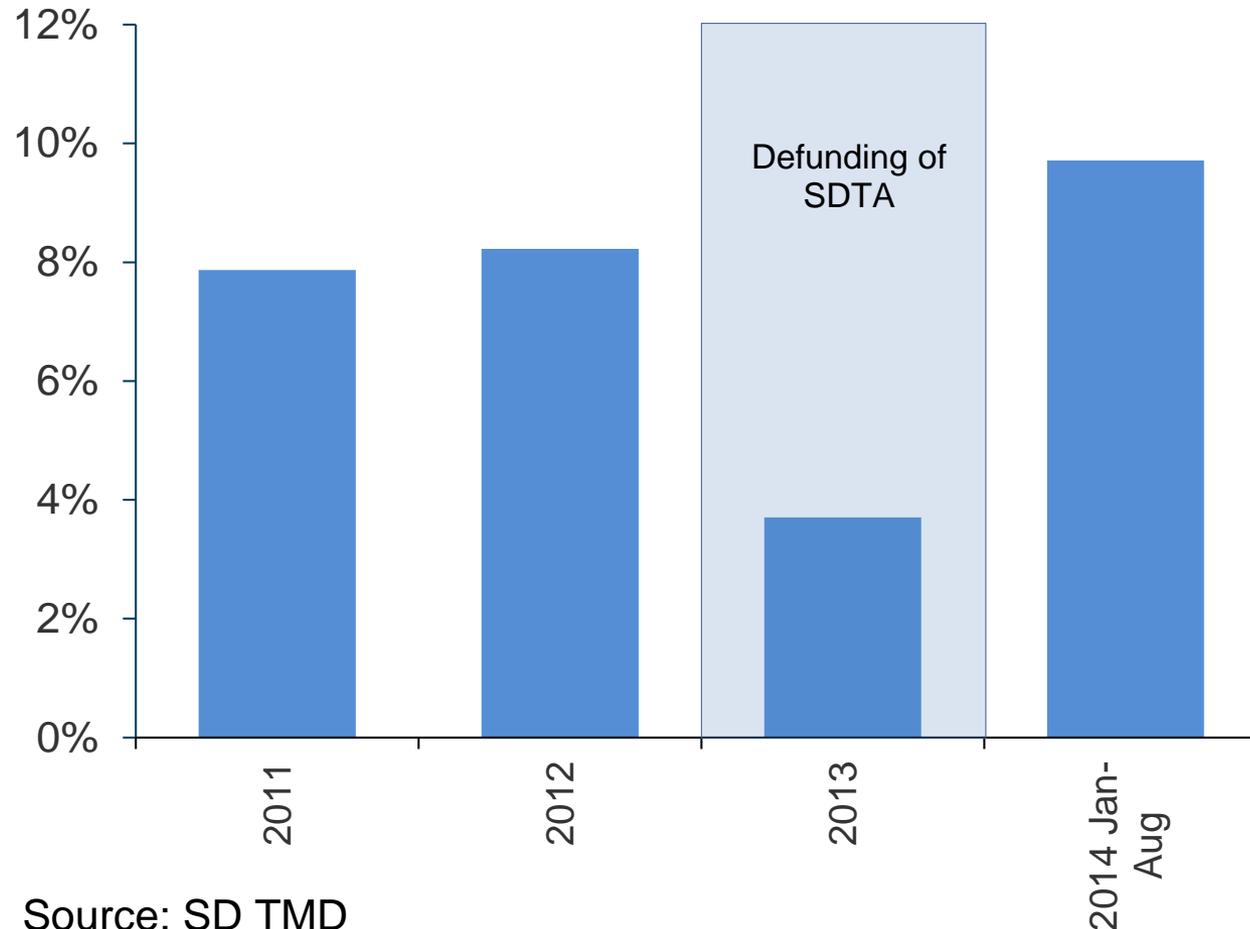
Source: Longwoods International (2015, July) "Destination Marketing and Economic Development: Creating a Singular Place Brand"

Why prioritize destination marketing?

- The visitor economy is outpacing the rest of the economy
- The visitor economy is a catalyst for economic development
- It actually works

SDTMD case study is telling

San Diego TOT Receipts year-over-year % change

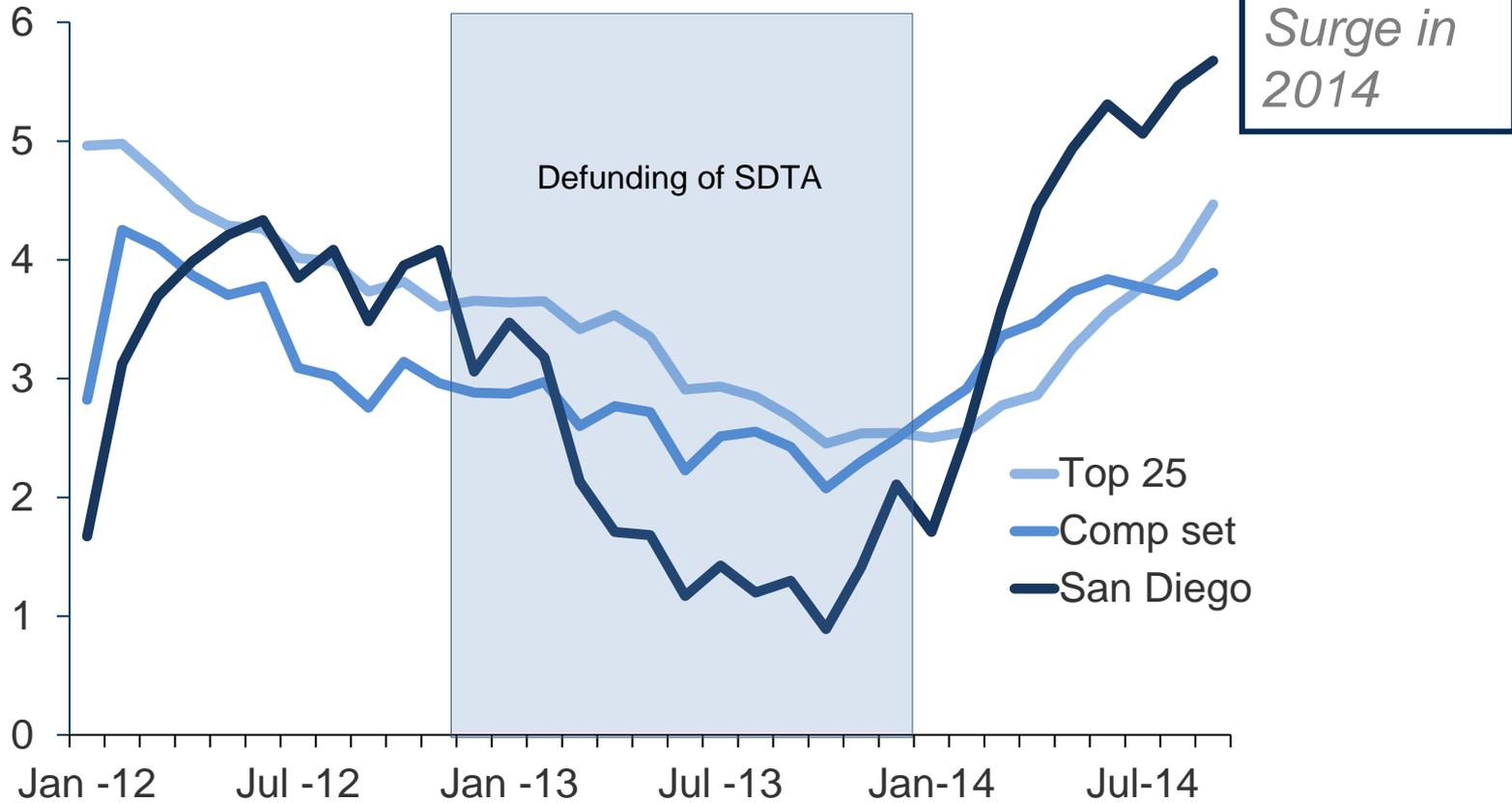


Source: SD TMD

San Diego stark demand slowdown in 2013

Striking lull in SD room demand

Room nights, 12-mo moving sum, % change year ago



Sources: STR, Tourism Economics

Why prioritize destination marketing?

- **The visitor economy is outpacing the rest of the economy**
- **The visitor economy is a catalyst for economic development**
- **It actually works**
- **Destination marketing meets a pronounced need**

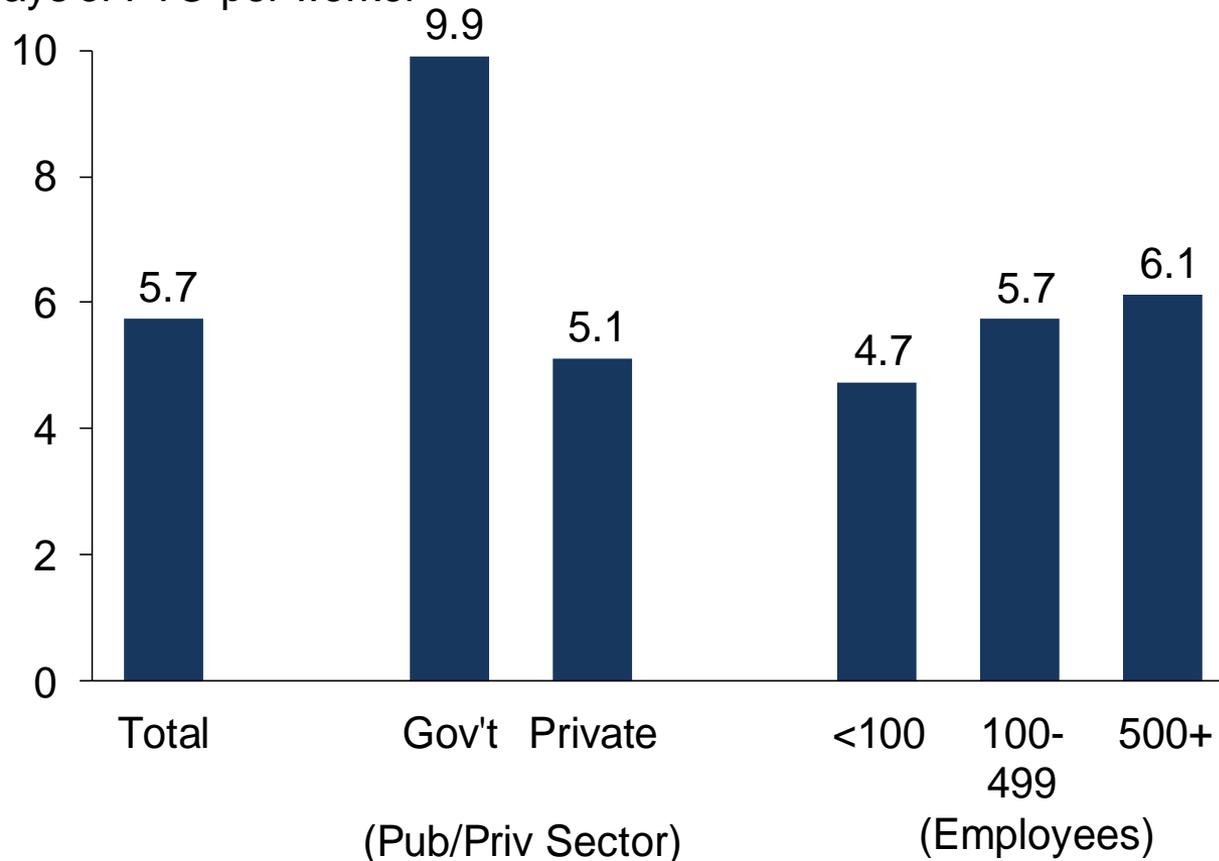
The need for destination promotion

	Challenge	Solution: Destination Promotion
1	The primary motivator of a trip is usually the experience of a destination, beyond the offerings of one business	Articulates the brand message that is consistent with consumer motivations
2	Effective marketing requires scale to reach potential visitors	Pools sustained resources to provide the economies of scale and marketing infrastructure required to generate impact

Target opportunity: 5.7 unused vacation days

Unused PTO in 2015

Days of PTO per worker

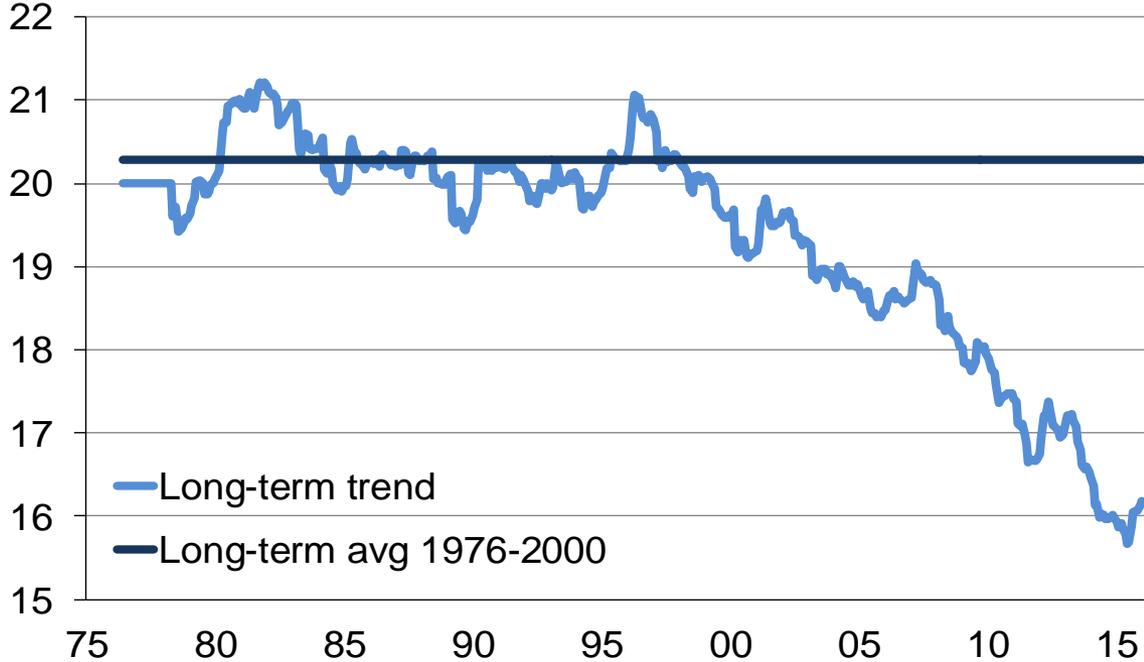


Sources: GfK and Oxford Economics

Destination marketing must reverse this trend

Days Away on Vacation

Annual vacation days per worker, trend is the 24-month moving average

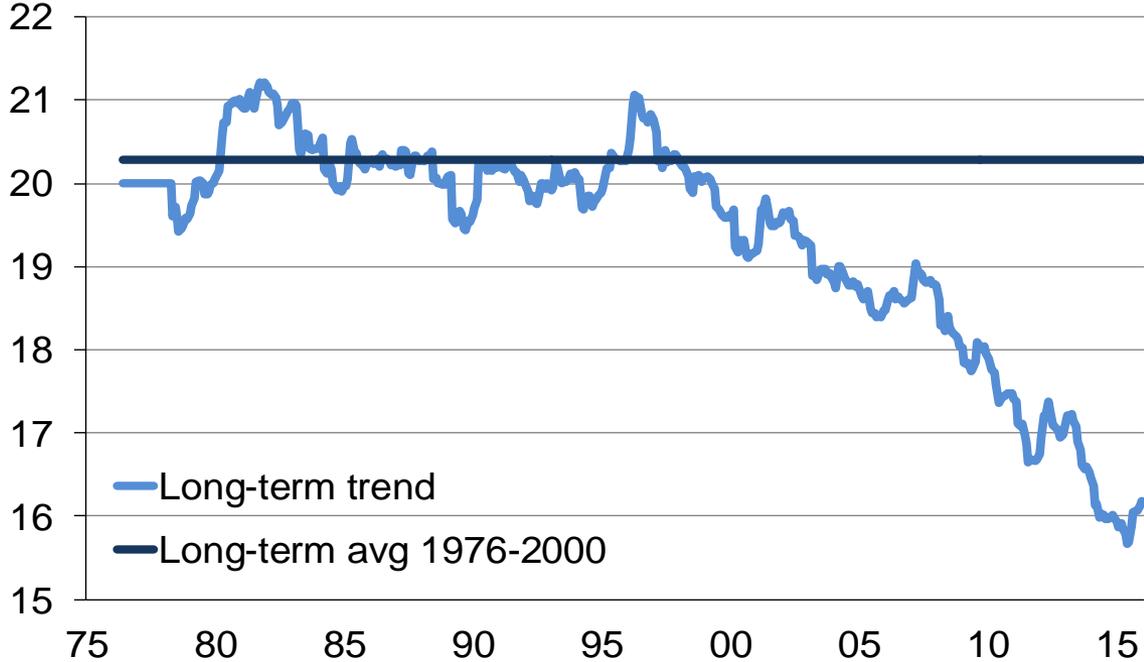


Source: Oxford Economics analysis of BLS survey results

Destination marketing must reverse this trend

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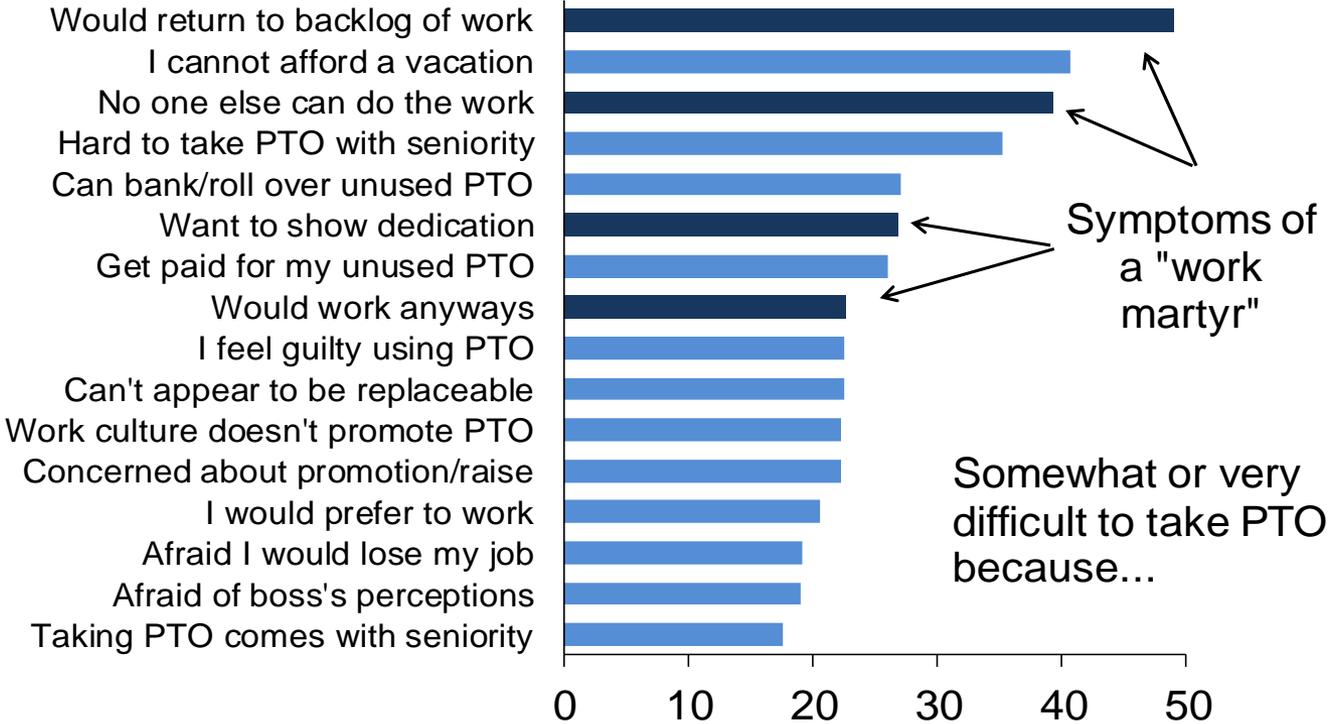


Source: Oxford Economics analysis of BLS survey results

Plenty of reasons why...

Obstacles to taking PTO

Multiple answers allowed, share of respondents, %

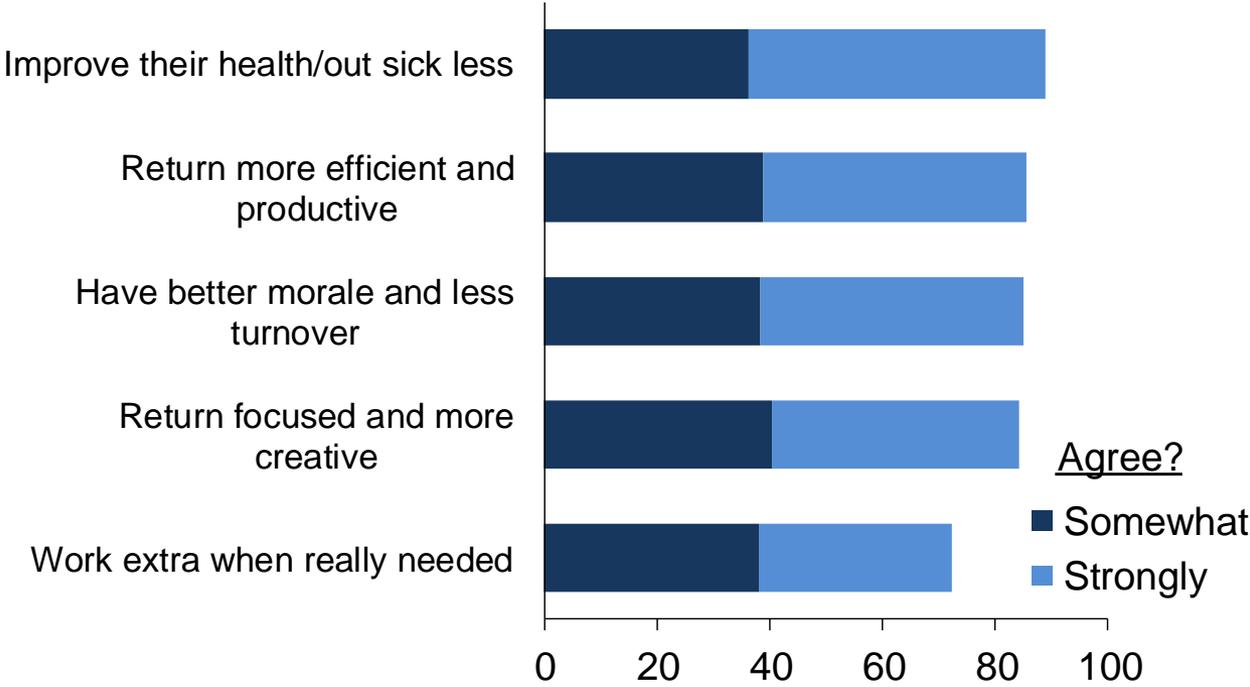


Sources: GfK and Oxford Economics

But the benefits are real

The Manger's View of PTO

%, "By using their PTO, employees..."



Sources: GfK and Oxford Economics

Take aways

- Global economy is on shaky ground
- US economy is on solid footing (at least relatively)
- Travel continues to grow, but is losing pace
- Destination marketing is even more essential now



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