



# California Travel & Tourism Outlook

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April 2011



TOURISM  
ECONOMICS

AN OXFORD ECONOMICS COMPANY

# Forecast Overview

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- California visits rebounded in 2010:
  - Visitor volumes rose across all measured segments – business and leisure, domestic and international.
  - Domestic overnight travel rebounded strongly.
  - Per trip spending rose slightly in concert with the relative strength of overnight visits.
  - Price increases were modest as tourism providers exerted limited pricing power.
- Visitor growth is expected to moderate in 2011 as domestic markets move beyond the (typically brisk) recovery stage and as the Tohoku Pacific earthquake and subdued economic growth in Europe subdue international market growth.
- The positives now outweigh the negatives in our economic outlook. Though the consumer recovery will be limited by modest wage and job growth, strong business confidence will encourage investment and continued hiring.

# California Travel Forecast Summary

California Tourism Summary							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total Visits</b>	-6.7%	6.0%	2.6%	3.5%	2.4%	2.5%	2.3%
<b>Domestic</b>							
Total Visits	-6.6%	5.8%	2.6%	3.2%	2.1%	2.3%	2.0%
Leisure Visits	-7.0%	5.1%	2.4%	3.5%	2.1%	2.4%	2.1%
<b>International</b>							
<b>Total</b>							
% change	-7.5%	8.1%	2.6%	5.7%	5.2%	4.9%	5.0%
Overseas	-12.8%	16.1%	3.9%	6.4%	5.9%	4.7%	4.8%
Mexico	-4.1%	1.9%	1.5%	5.2%	4.9%	5.3%	5.5%
Canada	-1.9%	10.0%	2.3%	5.6%	4.1%	4.2%	3.2%
<b>Leisure</b>							
% change	-1.8%	8.2%	2.3%	5.5%	5.0%	5.1%	5.1%
Overseas	0.2%	16.6%	3.6%	6.1%	6.1%	5.4%	5.2%
Mexico	-4.1%	1.9%	1.2%	4.9%	4.3%	5.1%	5.5%
Canada	3.3%	10.0%	2.2%	5.4%	4.0%	4.0%	3.1%
<b>Total Expenditures (\$ billions)</b>							
	88.5	95.1	101.2	107.1	112.8	119.3	124.5
% change	-9.2%	7.5%	6.4%	5.8%	5.3%	5.8%	4.4%
<b>Domestic</b>							
	72.7	77.4	82.0	85.9	89.9	94.4	98.1
% change	-8.1%	6.4%	5.9%	4.7%	4.6%	5.1%	3.9%
<b>International</b>							
	15.8	17.7	19.2	21.2	23.0	24.9	26.4
% change	-13.9%	12.3%	8.5%	10.6%	8.1%	8.4%	6.2%

Source: Tourism Economics. Historical sources: TNS Global (domestic); CIC Research, OTTI (international); Dean Runyan (expenditures)

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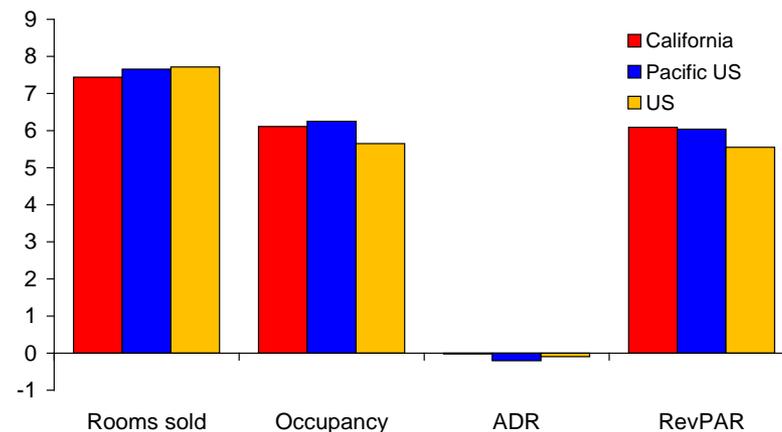
# California Travel Outlook **SUMMARY**

# Recent Performance: Strong 2010...

- As a mirror image of 2009, visits rebounded in 2010 with continued, albeit slowing, growth in the second half of the year. This was expected based on typical recovery patterns. The continued growth in visits over the full year brought total visits up 6.0% for 2010, stronger than our previous forecast.
- The hotel sector enjoyed a strong recovery with a 7.4% increase in the number of rooms sold in 2010. Though occupancy rates also rose, room rates were flat for the year.
- International airport arrivals remained strong through November with only a slight dip in December.
- International visits to California have shown healthy growth in 2010. Growth from Asian destinations was expected and overall growth was supported by surprising strong growth rates from France and Germany.

## Hotel Performance

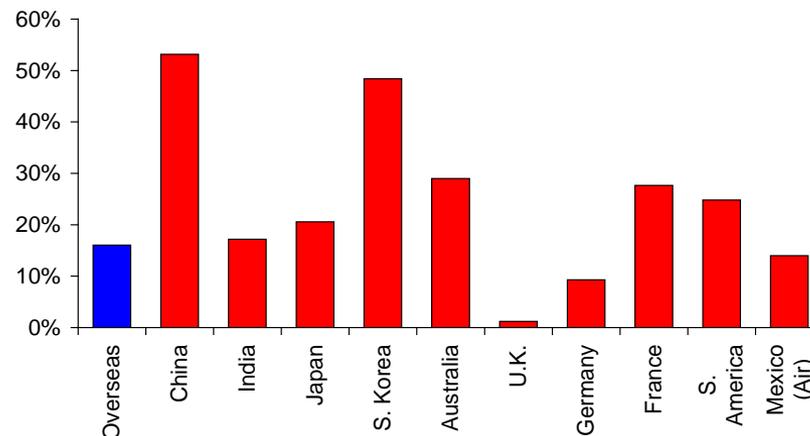
% change year ago, Jan-Dec 2010



Source : STR Global

## International Arrivals in California

% change year ago, 2010 (preliminary)

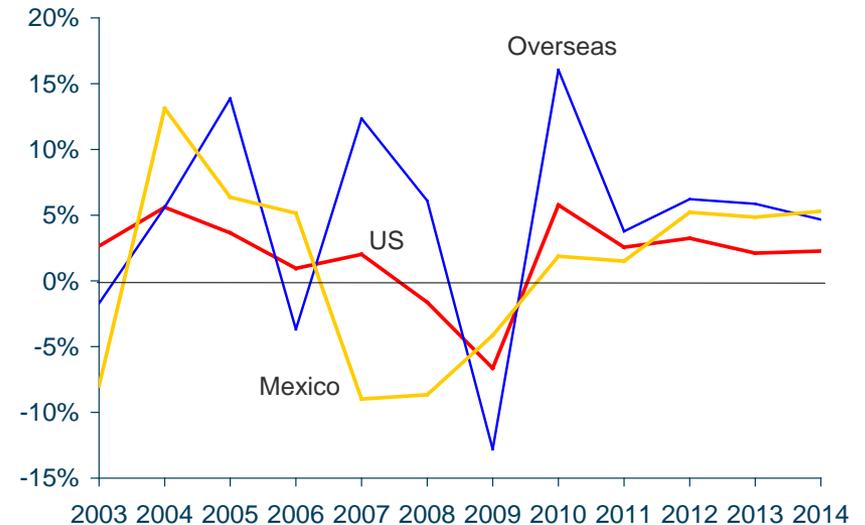


Source : CIC Research, OTTI

# ...pulls some growth forward from 2011

- Total visits to California, including international, grew 6.0% in 2010. This recovered about two-thirds of the losses experienced during the 2008/2009 recession.
- Growth is expected to moderate in 2011 as the “rebound” part of the recovery ends and the economy faces ongoing labor and housing market headwinds. In addition, a significant drop-off in Japanese outbound is expected for 2011 due to the Tohoku Pacific earthquake and tsunami.
- Domestic visits to California grew 5.8% in 2010 and are forecast to grow 2.6% in 2011. Domestic business travel will return to trend after a strong 2010 and slightly outperform leisure travel as the corporate sector remains on stronger footing than the household sector. International arrivals, fueled by Asia, will continue to outperform domestic travel over the near term.
- Visits to California are expected to surpass historic highs in 2012.

**CA Total Visits**  
annual % growth



Source : Tourism Economics, OTTI, CIC Research, TNS Global

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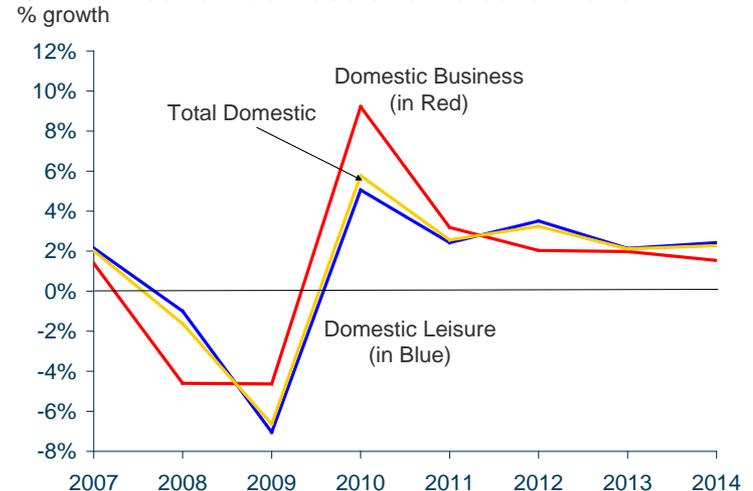
California Travel Outlook

# DOMESTIC FORECAST

# Business and Leisure Travel

- Business travel will continue to lead visitation growth in CA in 2011 as corporations are on a stronger footing than households. Leisure visits will drive growth in 2012 and beyond.
- With the improvement in the western states economies forecast for 2012, CA leisure visit growth will surpass US leisure growth in 2012.

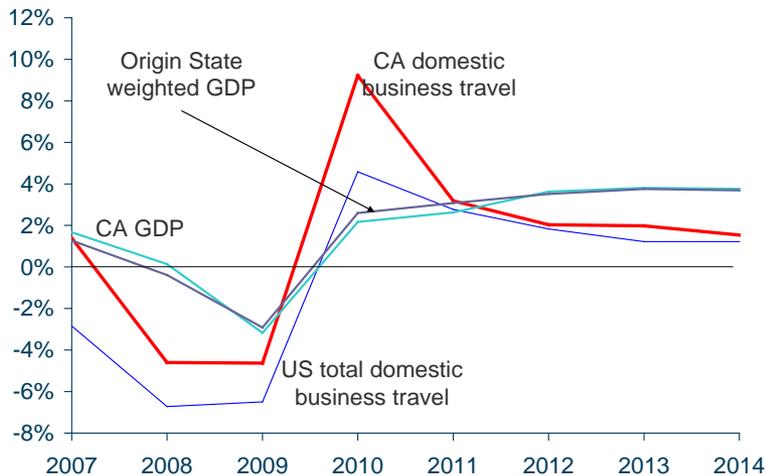
## CA Domestic Business and Leisure Visits



Source : Tourism Economics

## Domestic Business Travel

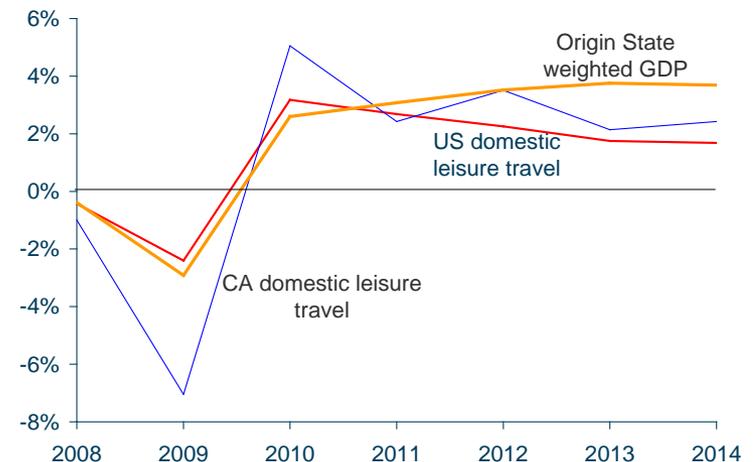
annual % growth



Source : Tourism Economics

## US Domestic Leisure Travel

annual % growth

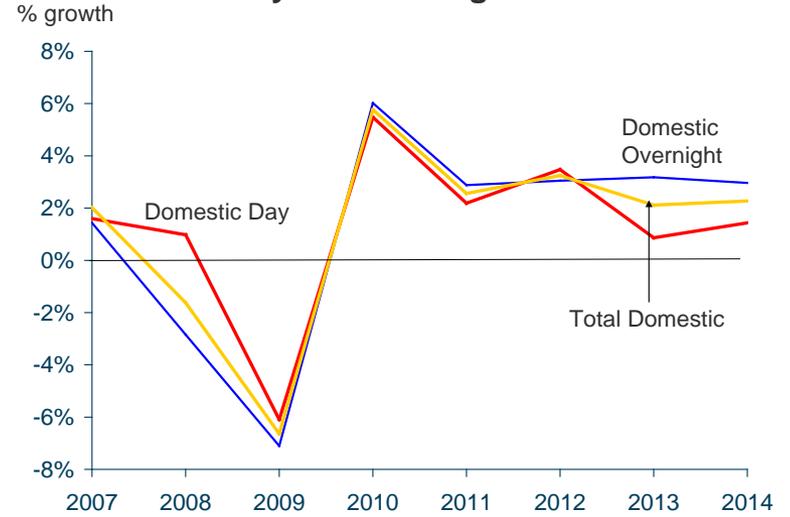


Source : Tourism Economics

# Day and Overnight Travel

- Visitors took advantage of depressed hotel rates in 2010 as domestic overnight travel rebounded strongly from 2009.
- The relative gain in overnight visits vs. day visits helped boost visitor expenditures.
- There is still room at the inn – overnight visitor growth will continue to lead domestic visits in 2011 but at lower growth rates than in 2010.
- Travel prices will rise in 2011 as transportation and accommodation prices rise. But with unemployment still high, pricing power will be minimal.

## CA Domestic Day and Overnight Visits



Source : Tourism Economics

## Domestic Visitor Expenditures



Source : Dean Runyan, Tourism Economics

# Domestic Forecast Growth

Annual Person Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Domestic</b>							
<b>Total</b>	-6.6%	5.8%	2.6%	3.2%	2.1%	2.3%	2.0%
<b>Business</b>	-4.6%	9.2%	3.2%	2.0%	2.0%	1.5%	1.9%
<b>Leisure</b>	-7.0%	5.1%	2.4%	3.5%	2.1%	2.4%	2.1%
<b>Day</b>	-6.1%	5.5%	2.2%	3.5%	0.9%	1.4%	1.3%
<b>Overnight</b>	-7.1%	6.0%	2.9%	3.0%	3.2%	3.0%	2.7%

Source: Tourism Economics. Historical sources: TNS Global (domestic); CIC Research, OTTI (international); Dean Runyan, CIC Research (expenditures)

Domestic Person Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Drive</b>	-6.4%	7.0%	2.3%	3.1%	1.9%	2.7%	2.1%
<b>Fly</b>	-8.0%	1.8%	3.9%	4.8%	4.5%	2.0%	3.4%
<b>Gateway</b>	-4.7%	6.5%	3.4%	3.1%	2.9%	2.5%	2.4%
<b>Non-Gateway</b>	-10.8%	3.5%	2.2%	2.8%	1.5%	2.3%	1.7%
<b>Paid Accommodation</b>	-4.1%	6.8%	3.3%	3.4%	3.4%	3.4%	3.0%
<b>Non-paid</b>	-11.6%	4.7%	2.2%	2.5%	2.8%	2.3%	2.1%

Source: Tourism Economics. Historical sources: TNS Global, STR

**Gateway** is defined as visitation to one or more of the following metropolitan areas: San Diego, Anaheim-Orange County, Los Angeles, San Francisco Bay Area; **Non-Gateway** is defined as visitation to one or more non-Gateway destinations.

# Domestic Leisure Forecast Growth by Market

Annual Domestic Leisure Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total</b>	-7.0%	5.1%	2.4%	3.5%	2.1%	2.4%	2.1%
<b>California</b>	-5.2%	6.9%	2.1%	3.6%	1.9%	2.4%	2.0%
<b>Primary Markets</b>	-11.2%	2.8%	4.2%	3.7%	3.3%	3.2%	2.7%
Arizona	-11.0%	9.2%	2.6%	2.9%	3.3%	3.2%	2.1%
Nevada	-16.6%	0.3%	6.0%	5.0%	4.0%	4.1%	3.5%
Oregon	0.2%	0.0%	4.7%	3.5%	2.4%	2.4%	2.5%
Washington	-25.9%	-1.0%	4.8%	4.2%	3.5%	2.8%	3.0%
Utah	-8.1%	-3.7%	4.1%	2.7%	2.9%	2.7%	1.9%
Colorado	12.4%	3.4%	3.6%	3.7%	3.5%	3.0%	2.9%
<b>Opportunity Markets</b>	6.8%	1.1%	4.8%	3.6%	3.3%	3.1%	2.9%
Texas	8.2%	0.8%	5.9%	4.6%	4.6%	4.0%	4.3%
New York	15.1%	2.1%	3.8%	3.0%	2.4%	2.4%	2.1%
Illinois	-4.5%	0.2%	4.3%	2.6%	2.2%	2.2%	1.4%
<b>Rest of US</b>	-22.9%	-8.4%	2.2%	2.3%	2.2%	1.5%	1.6%

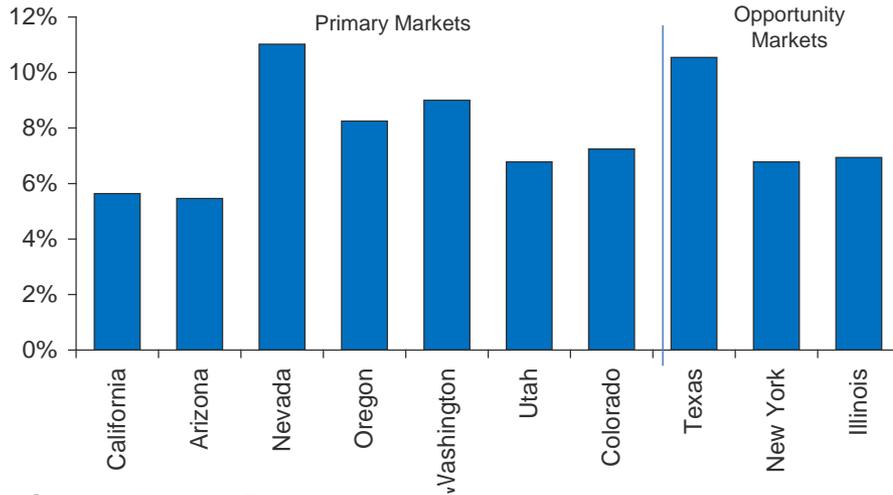
Source: Tourism Economics. Historical sources: TNS Global

**Note on volatility of historical data and treatment in forecast:** Due to smaller sample sizes and relatively smaller visitor volumes in absolute terms, the historical data of origin markets tends to be more volatile than total visitor volumes.

# Domestic market comparisons

## Projected trip growth by source market

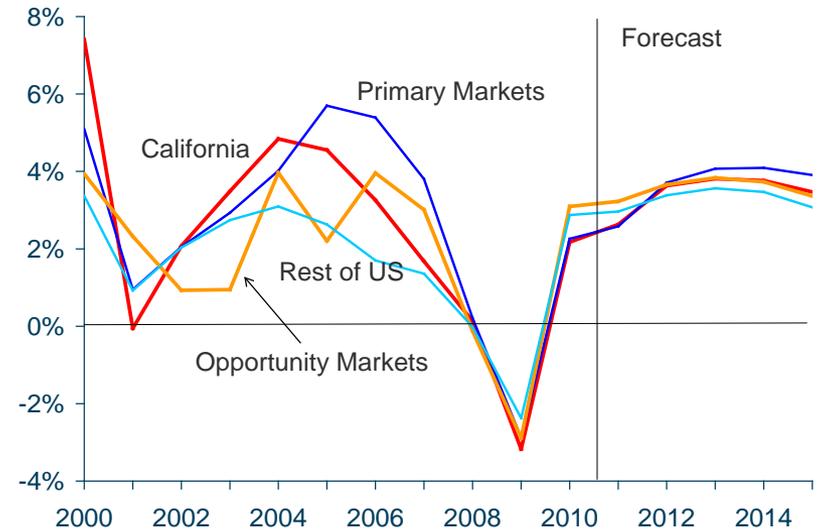
Cumulative growth, 2011-2012



Source : Tourism Economics

## Real State GDP by Origin Market

% growth



Source : Tourism Economics

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California Travel Outlook

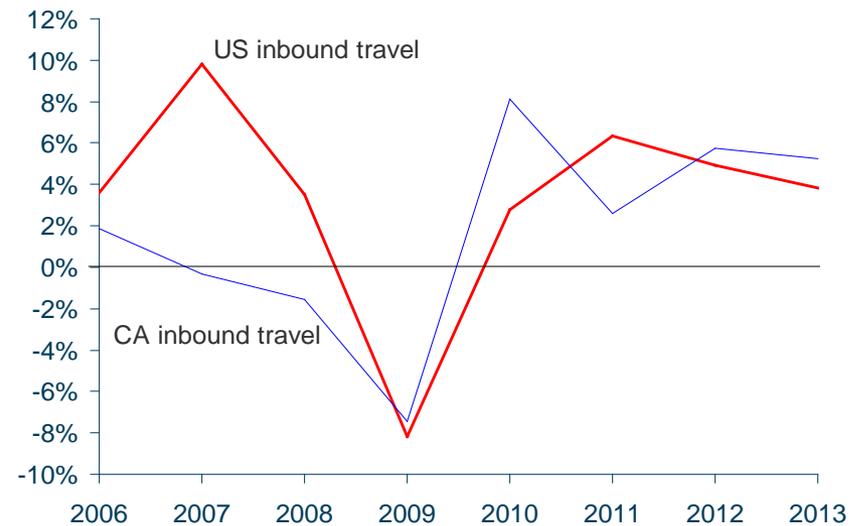
# **INTERNATIONAL FORECAST**

# Asia rebounds, earthquake impact 2011

- Asia will drive growth in international arrivals to California over the forecast period. As expected, visits from Japan finally began to recover in 2010 and South Korea surged on the back of visa waiver status.
- With the Tohoku Pacific earthquake affecting Japanese outbound in 2011 and California's relatively high exposure to Asian markets, California inbound travel will lag that of the US this year.
- Once the travel recovery in Japan begins in 2012, California will rebound to levels higher than that of the US as a whole.

## CA International Inbound Travel

annual % growth



Source : Tourism Economics

# Tohoku Pacific earthquake overview

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- The Tohoku Pacific earthquake and tsunami which struck Japan on March 11 was the most serious to hit Japan since the Kobe earthquake of 1995, and can be expected to have significant short-term economic and travel impacts.
- The two regions most affected (Miyagi and Fukushima prefectures) have GDP around US\$200 billion or perhaps 4% of the Japanese total. But as well as damaging local infrastructure it has also led to major damage to electricity production facilities including nuclear plants – an impact that will have significant knock-on effects on the broader economy.
- Early tentative estimates of the damage suggest costs of up to US\$200 billion or around 4% of Japanese GDP (compared to US\$100 billion for the Kobe quake), which can be expected to come through a variety of channels:
  - **Direct disruption of economic activity.** Economic activity can be expected to be severely affected in the main zones of impact.
  - **Industrial shutdowns.** Several major industries including the car industry – which represents 15% of manufacturing output – have announced closures of their production facilities.
  - **Power shortages.** Power companies have announced rolling power cuts. This can be expected to have a significant negative impact on economic output.
  - **Financial contagion.** Activity may also be negatively affected by wealth effects such as stock market losses and uninsured losses faced by households and firms (only around 15% of homes and businesses have earthquake insurance).

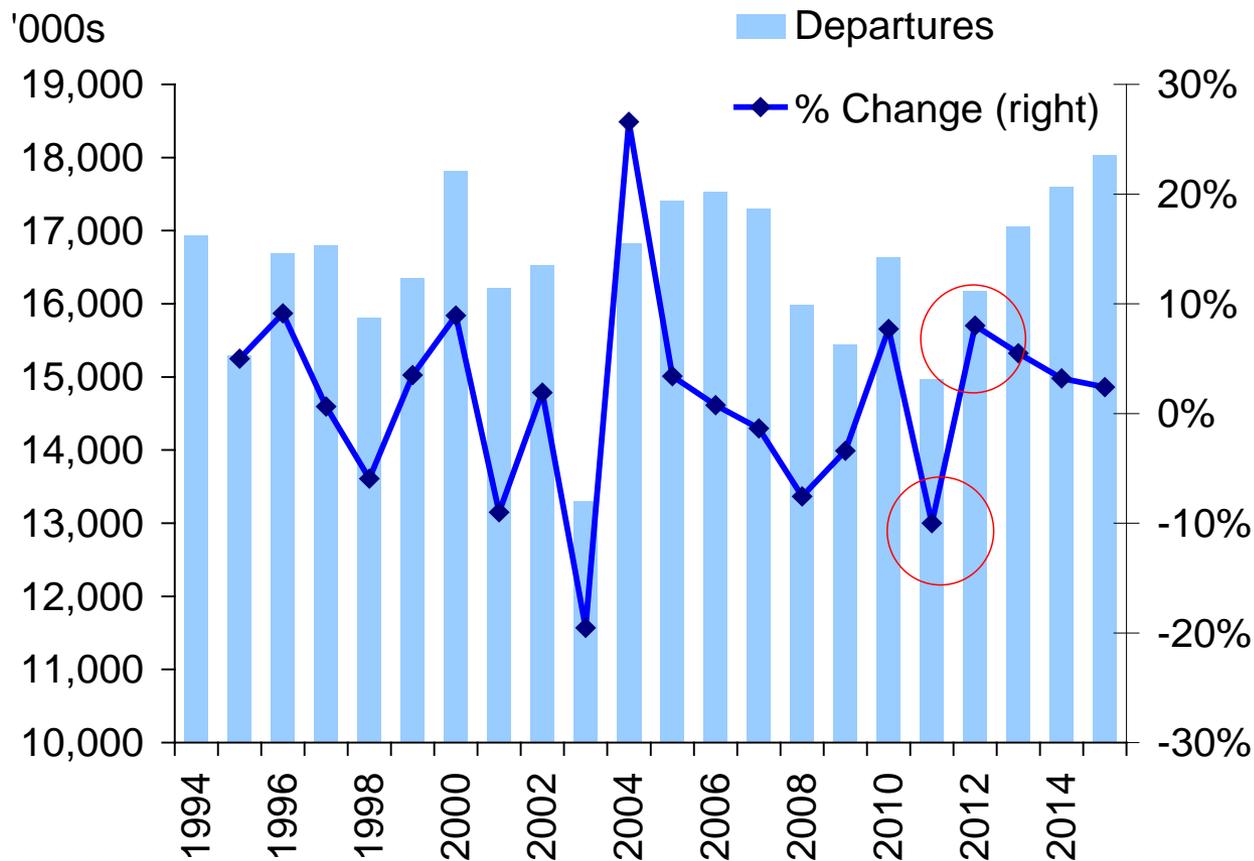
# Travel Impacts

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- Japanese travelers are notably reactive to crises.
- An initial surge in Japanese outbound may be observed as some Tokyo and other regional residents flee potential radiation. This will likely benefit Asian destinations.
- A significant drop-off in Japanese outbound is expected for 2011.
- This will affect longer haul destinations more acutely as observed with historic drops in Japanese consumer confidence.
- A strong (though only partial) recovery is expected in 2012 as the economy and travel confidence rebound. Full recovery will be realized in 2013.

# Overview of expected impact

## Departures from Japan



Source : JTB, Tourism Economics

# Inbound Leisure Forecast Growth

Annual International Leisure Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total</b>	-1.8%	8.2%	2.3%	5.5%	5.0%	5.1%	5.1%
<b>China</b>	21.3%	53.1%	15.6%	18.1%	16.1%	15.2%	15.8%
<b>India</b>	16.9%	17.2%	11.4%	11.8%	8.7%	6.5%	8.1%
<b>Japan</b>	-19.4%	20.6%	-6.8%	3.9%	6.7%	5.5%	5.4%
<b>South Korea</b>	16.4%	48.4%	7.1%	6.8%	6.6%	6.3%	5.0%
<b>Australia</b>	0.4%	29.0%	3.1%	3.4%	3.1%	2.6%	2.5%
<b>United Kingdom</b>	-9.0%	1.2%	2.1%	5.4%	4.6%	3.7%	3.3%
<b>Germany</b>	-5.2%	9.3%	2.6%	4.2%	4.6%	3.1%	2.9%
<b>France</b>	32.4%	27.6%	2.8%	5.8%	4.3%	3.8%	4.4%
<b>Scandanavia</b>	-2.8%	21.3%	2.6%	3.9%	4.7%	4.1%	3.6%
<b>South America</b>	22.4%	24.8%	8.1%	8.4%	5.6%	5.3%	5.5%
<b>Canada</b>	3.3%	10.0%	2.2%	5.4%	4.0%	4.0%	3.1%
<b>Mexico</b>	-4.1%	1.9%	1.2%	4.9%	4.3%	5.1%	5.5%
<b>Rest of World</b>	-0.9%	8.9%	3.8%	5.6%	6.6%	5.9%	5.3%

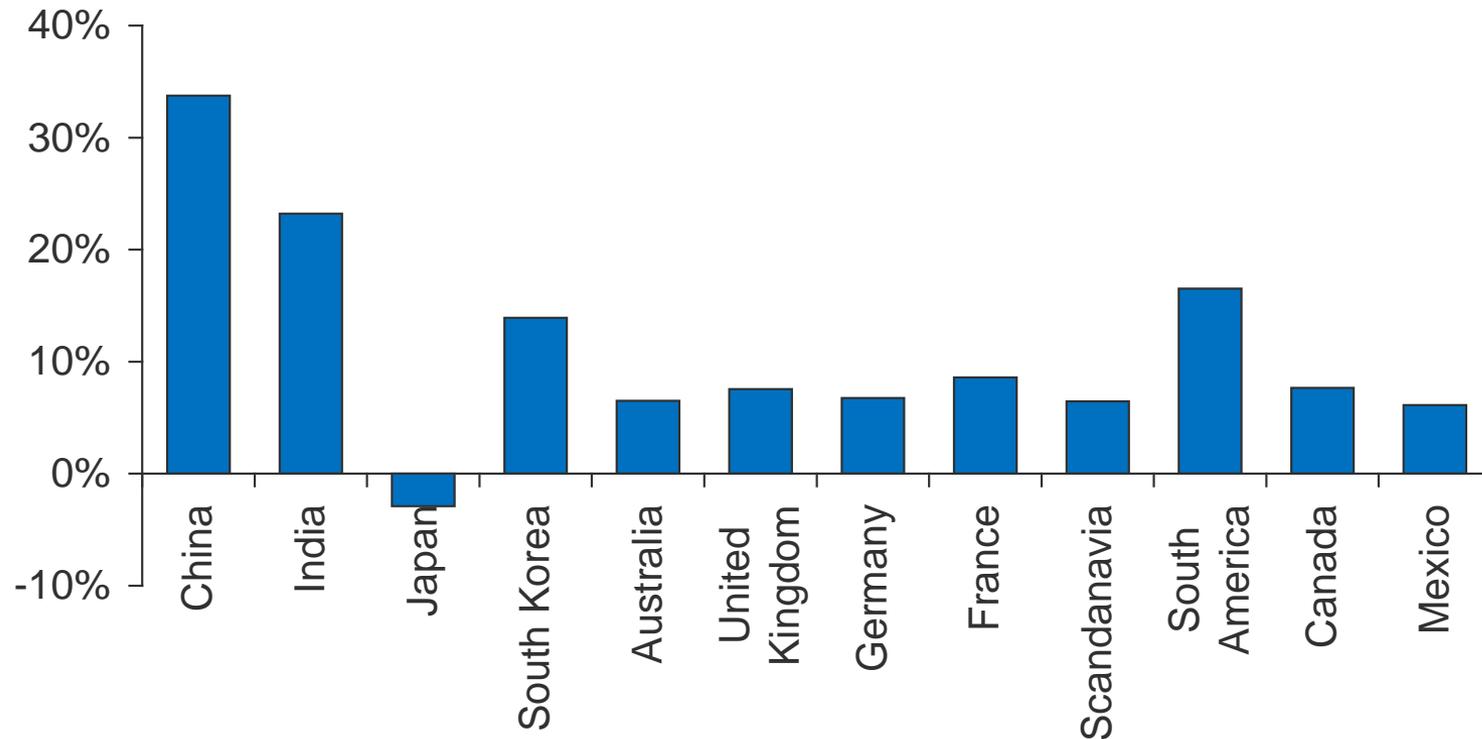
Source: Tourism Economics. Historical sources: CIC Research, OTTI

**Note on volatility of historical data and treatment in forecast:** Due to smaller sample sizes and relatively smaller visitor volumes in absolute terms, the historical data of origin markets tends to be more volatile than total visitor volumes.

# International market comparisons

## Projected international leisure visits by market

Cumulative growth, 2011-2012



Source : Tourism Economics

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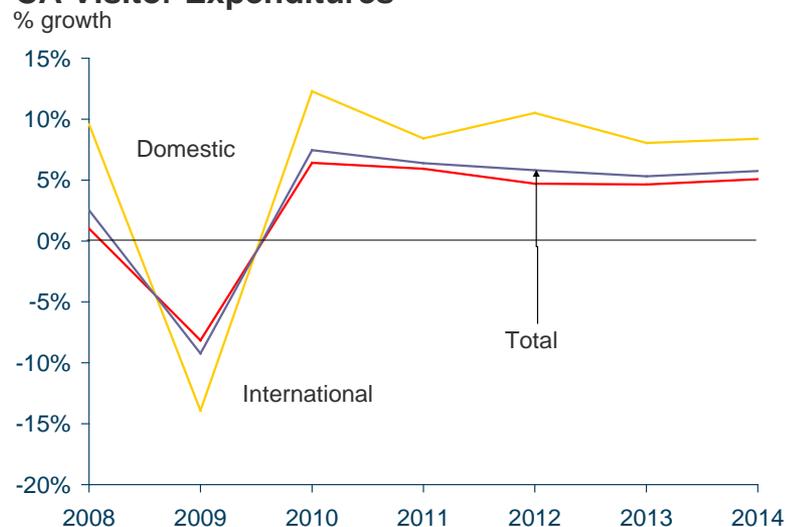
California Travel Outlook

# VISITOR SPENDING

# Spending rebounds on pricing and trip type

- Visitor spending is benefitting from a strong rebound in overnight visits.
- Lodging prices should continue their upward trend in the near term as hoteliers respond to demand.
- Longer term, pricing is expected to stabilize after 2011 with visitor volume driving spending.

**CA Visitor Expenditures**



Source : Dean Runyan, Tourism Economics

## Direct Visitor Expenditures

(\$ Billions)

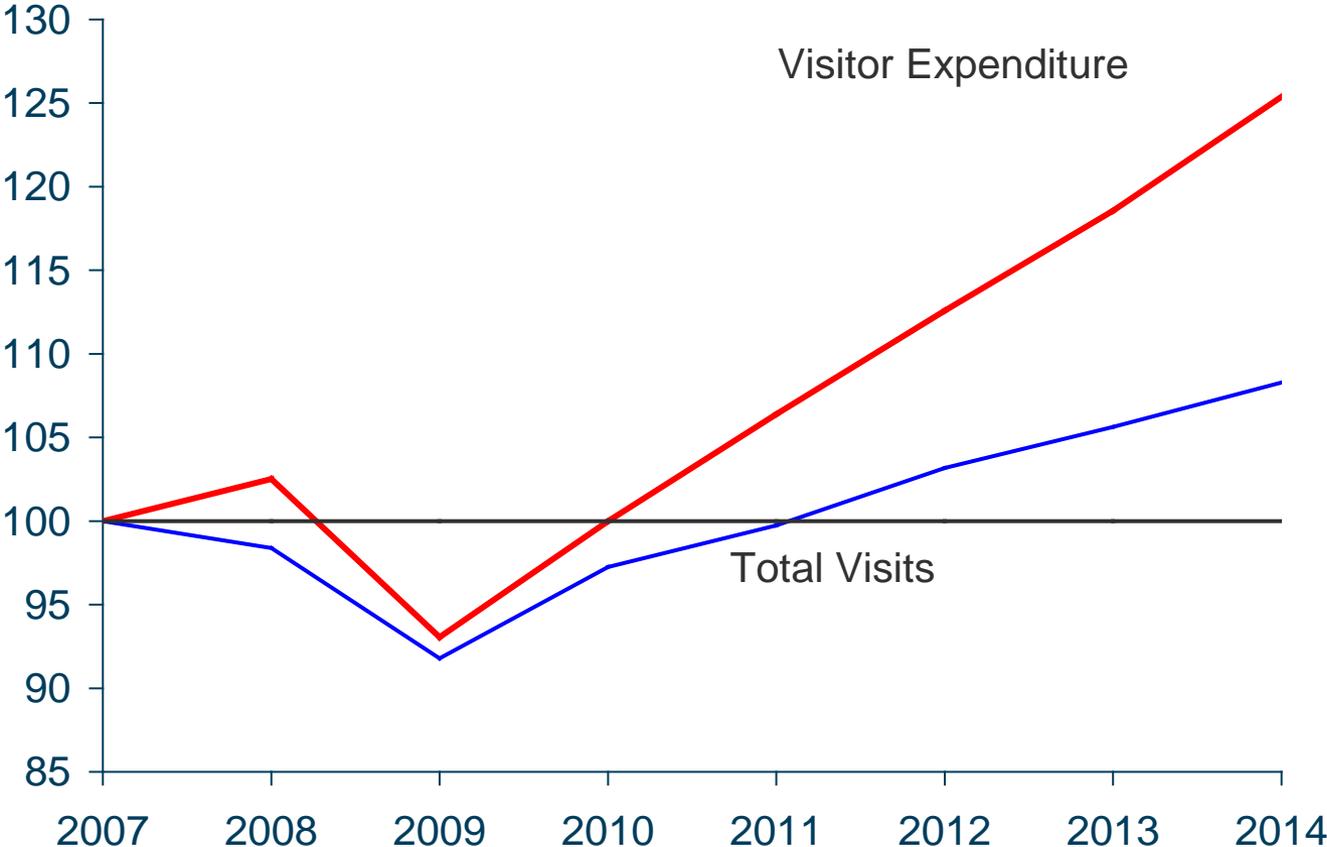
	2009	2010	2011	2012	2013	2014	2015
<b>Total Expenditures</b>	88.5	95.1	101.2	107.1	112.8	119.2	124.4
% change	-9.2%	7.5%	6.4%	5.8%	5.3%	5.7%	4.4%
<b>Domestic</b>	72.7	77.4	82.0	85.9	89.9	94.4	98.1
% change	-8.1%	6.4%	5.9%	4.7%	4.6%	5.1%	3.9%
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% change	-13.9%	12.3%	8.4%	10.5%	8.1%	8.4%	6.1%

Source: Tourism Economics. Historical sources: Dean Runyan, CIC Research

# Expenditures recover ahead of visits

## California Visitors vs Visitor Expenditures

Index, 2007 = 100



Source : Tourism Economics

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Macro forecast assumptions / CA travel model drivers

# US & GLOBAL ECONOMIES

# Key points

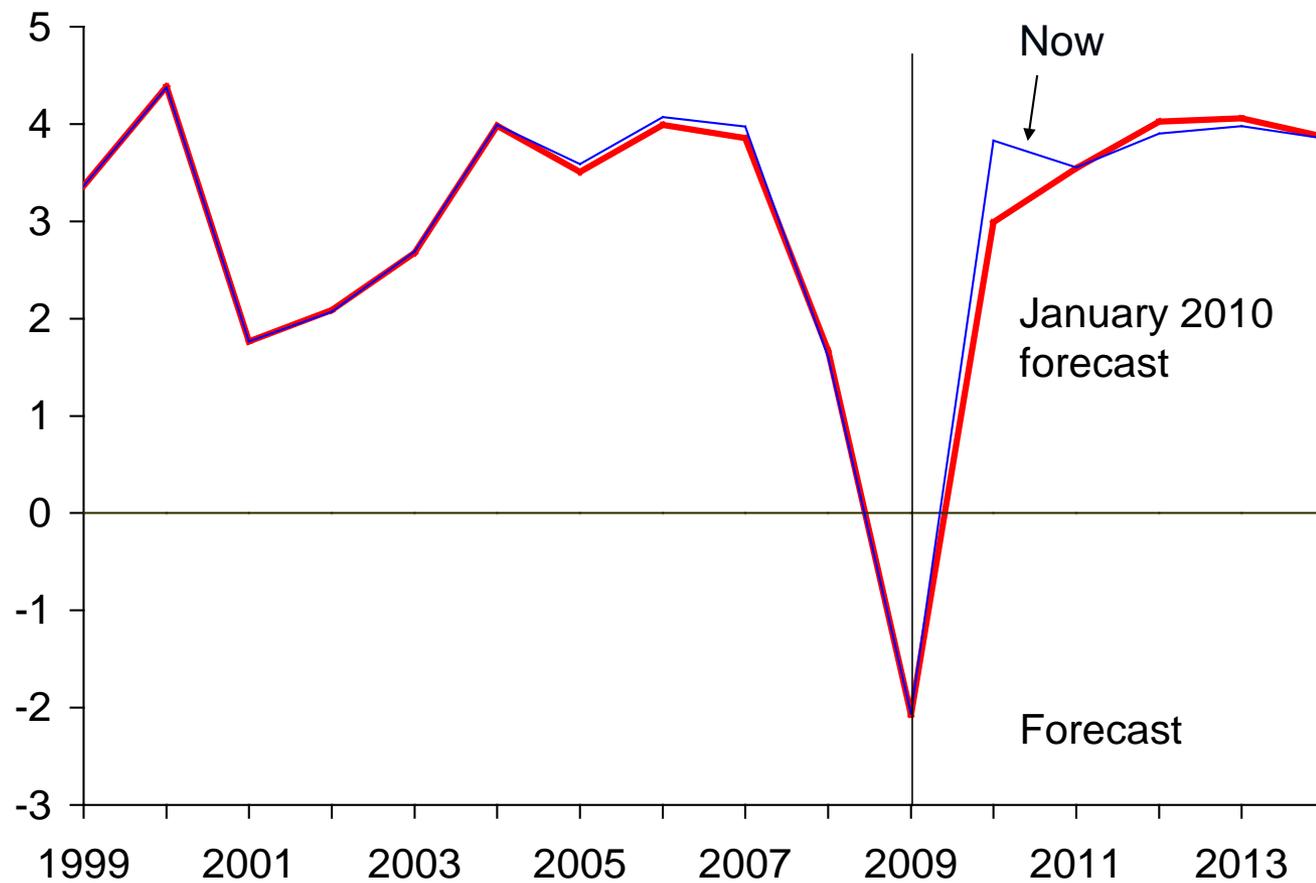
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- Globally, the recovery has been stronger-than-expected, led by emerging markets
- Starting to see some inflation concerns
- In the US, the economy recovery depends to a great extent on the health of the consumer sector, and recent indications have been very encouraging. However, there is still some cause for caution, in the still-high foreclosure and bankruptcy rates, in soaring energy prices, and in fiscal austerity
- While the positives do outweigh the negatives, headwinds to full recovery remain, especially in the US and Europe

# Recovery stronger-than-expected...

## World : Global real GDP growth

% year

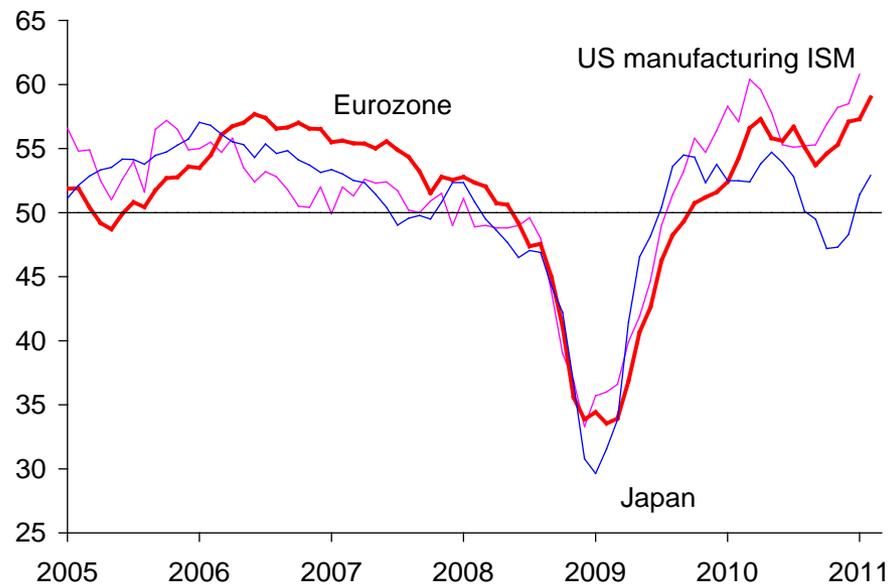


Source : Oxford Economics

# Momentum remains strong into 2011...

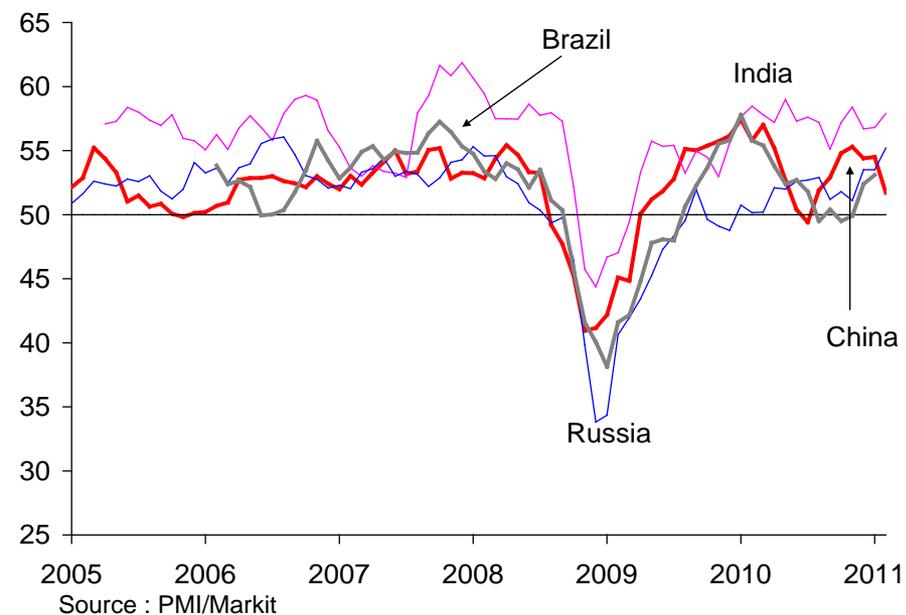
## G3: Manufacturing Purchasing Managers' Index

Index



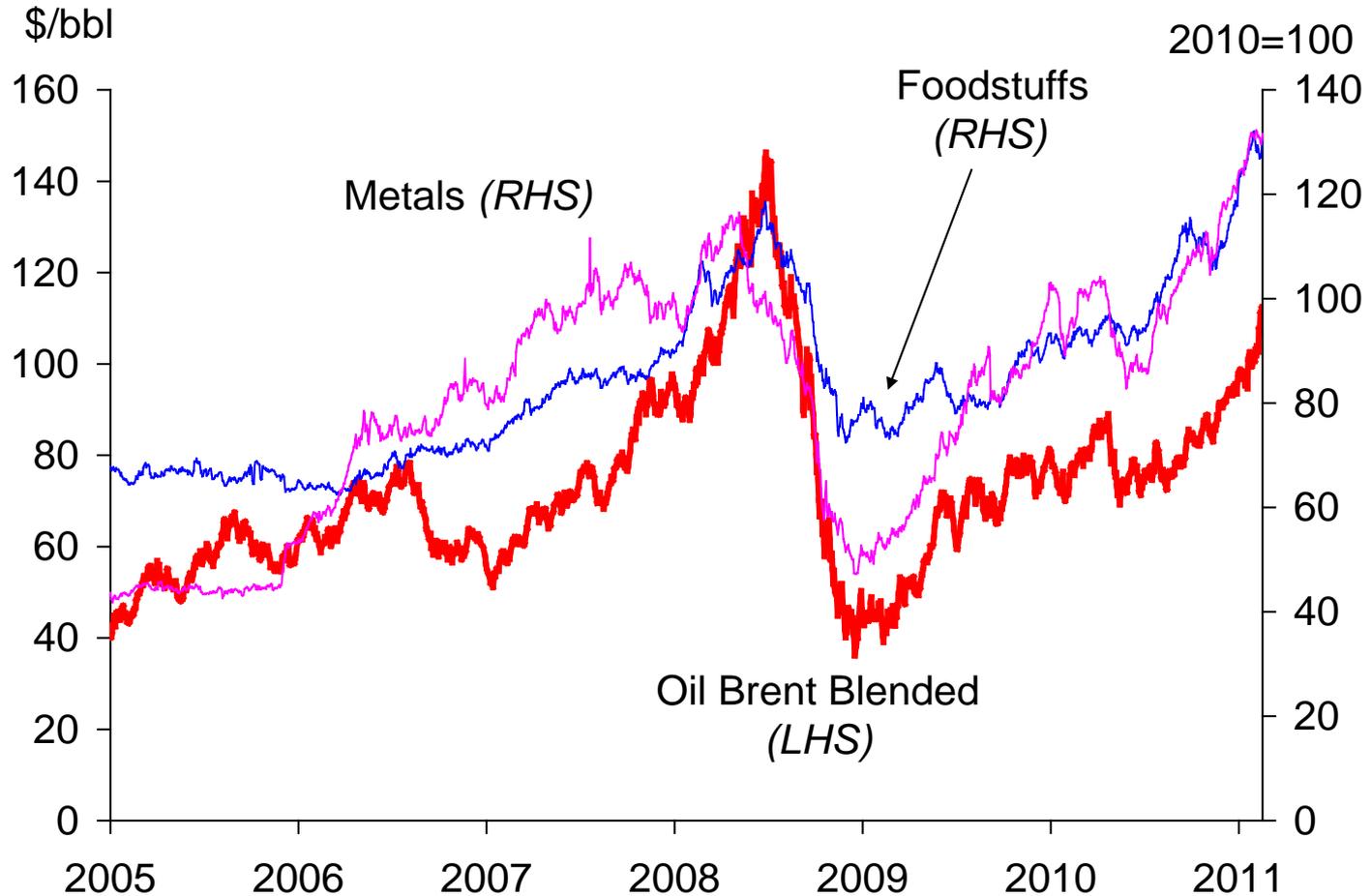
## BRICs: Manufacturing Purchasing Managers' Index

Index



# ...but inflation concerns rise as commodities surge

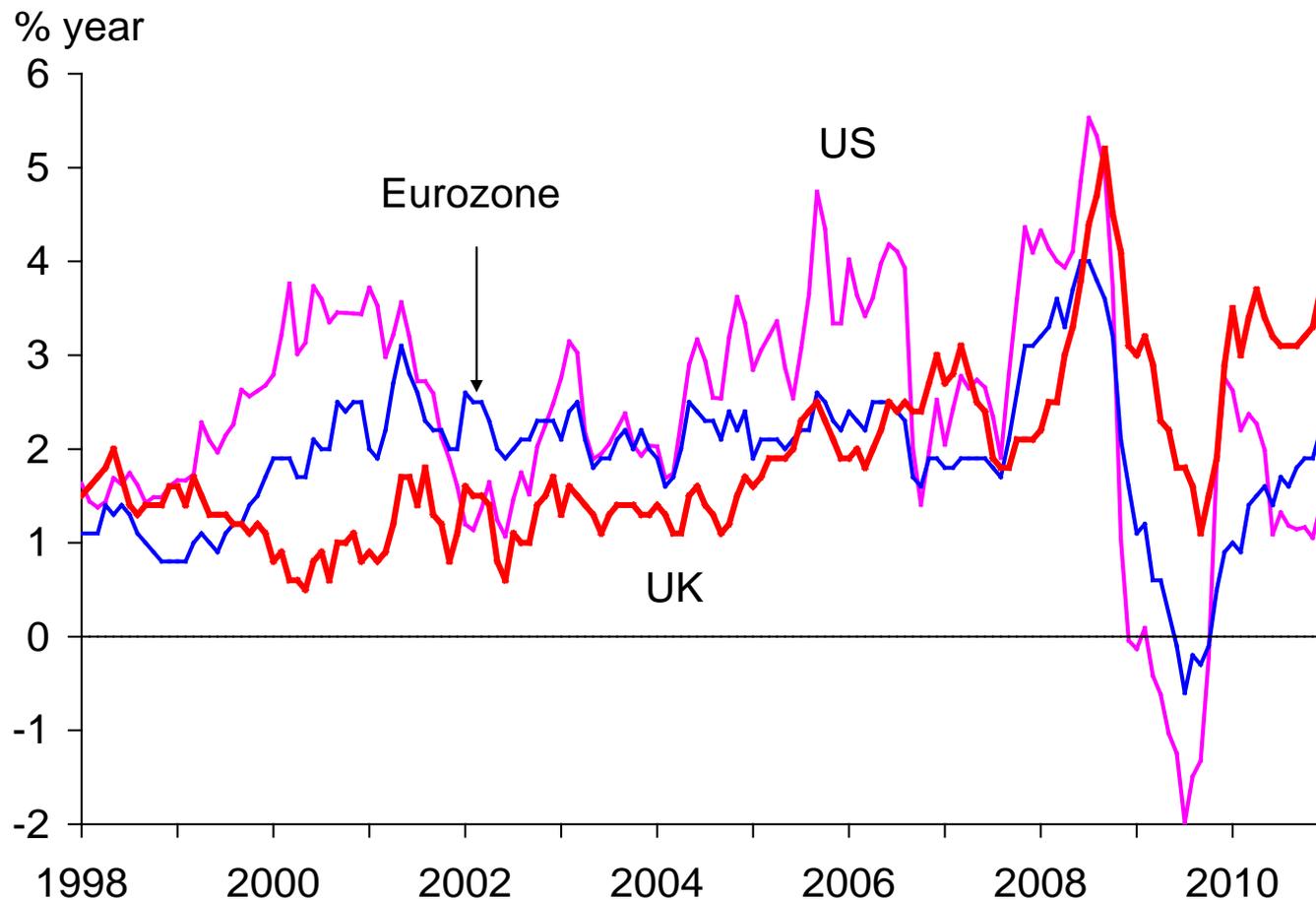
## Commodity prices



Source: Haver Analytics

# Headline inflation above target in major economies

## World: CPI Inflation

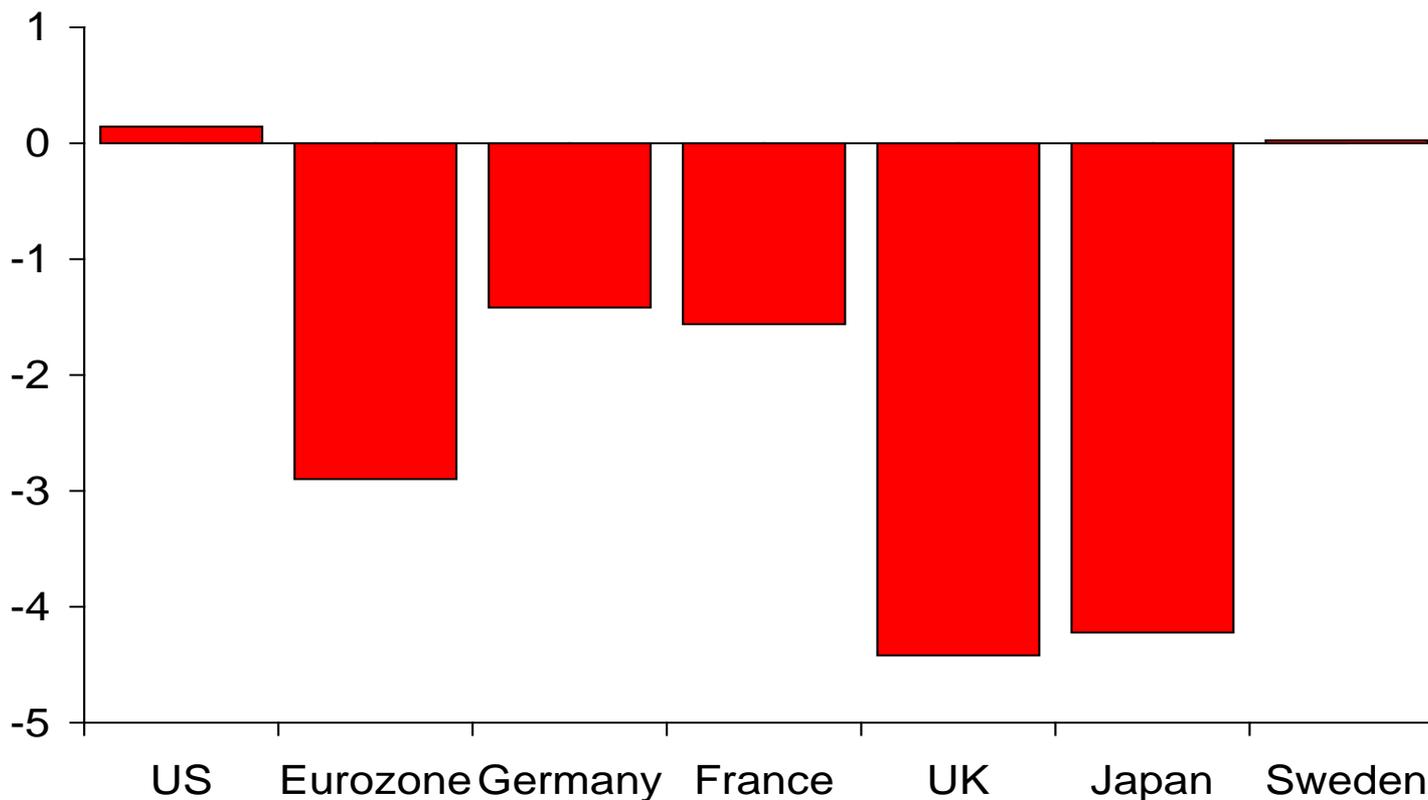


Source: Haver Analytics

# Slack still abundant in advanced economies...

## GDP, % difference in 2010Q4 from 2007/8 peak

% difference

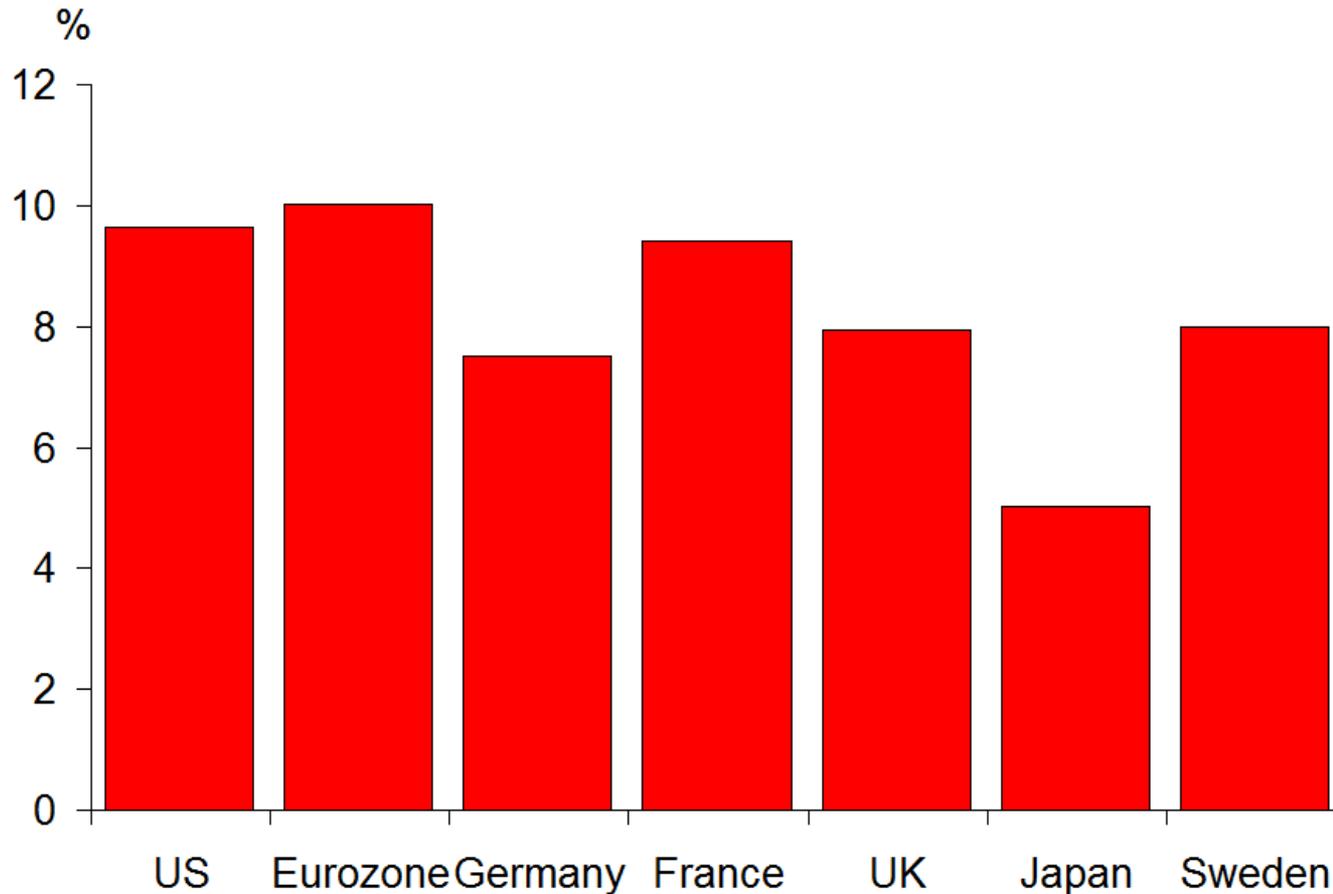


Source: Oxford Economics

# ...and unemployment very high

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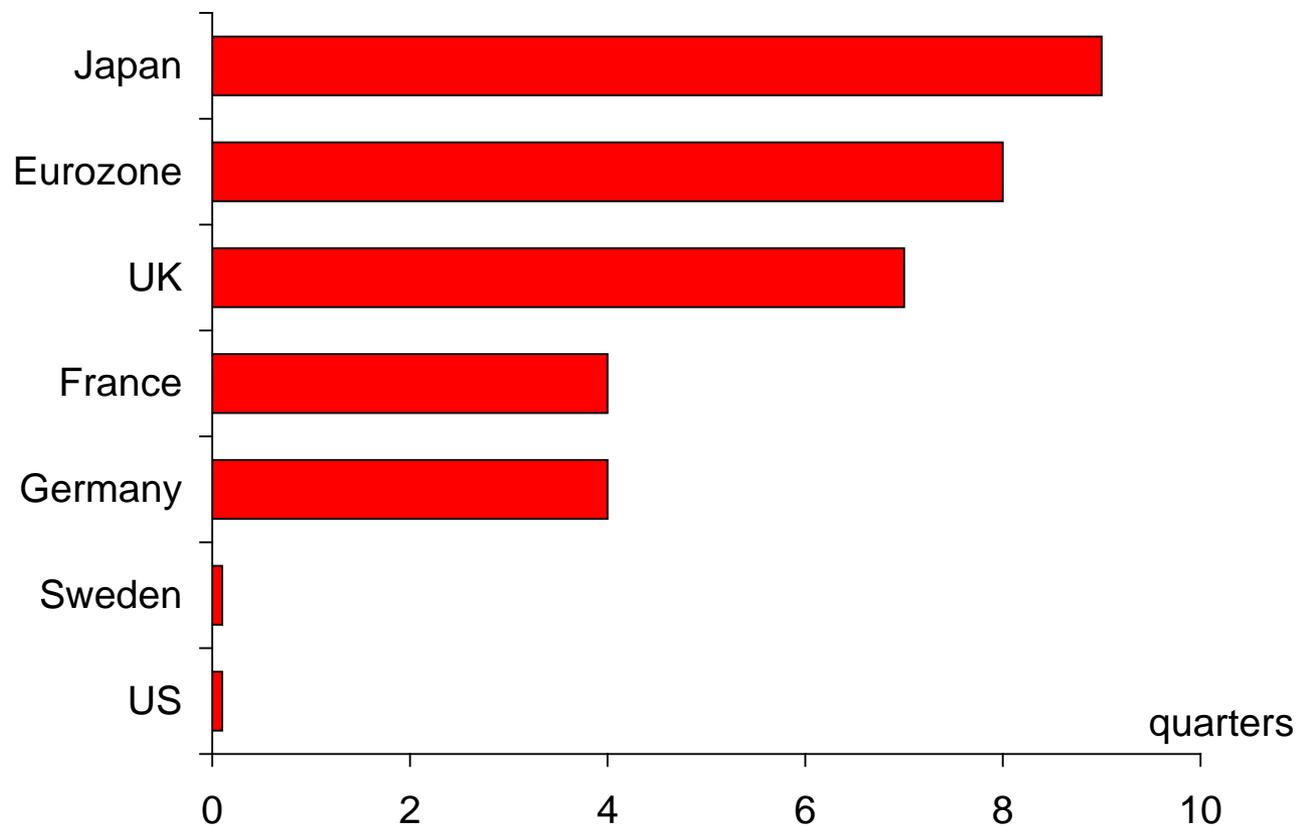
## Unemployment rate in 2010Q4



Source: Oxford Economics

# Pre-crisis levels still some time off

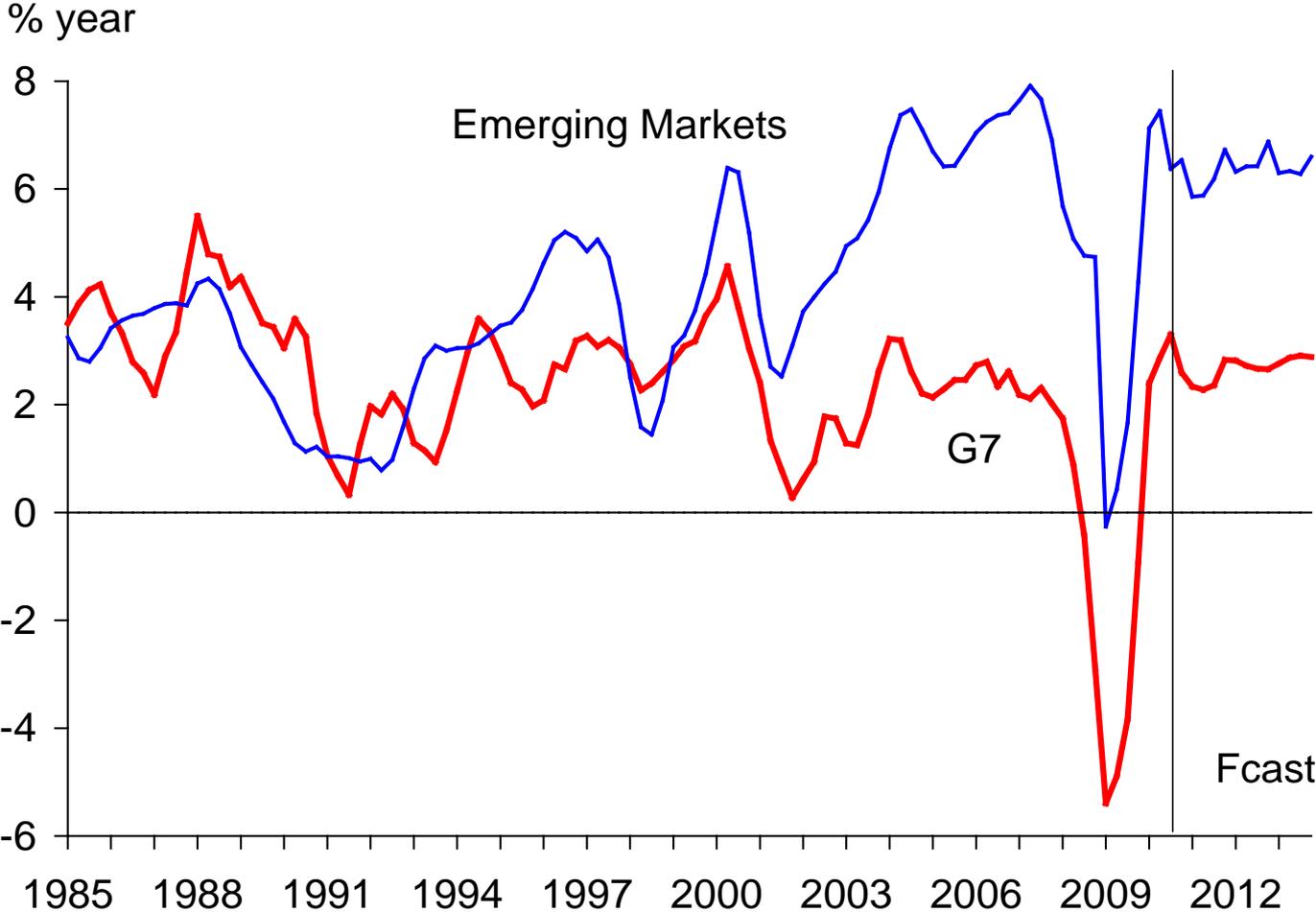
## Time to return to pre-crisis peak from 2011



Source : Oxford Economics/Haver Analytics

# Emerging markets are creating global demand

## G7 & Emerging Markets: GDP growth

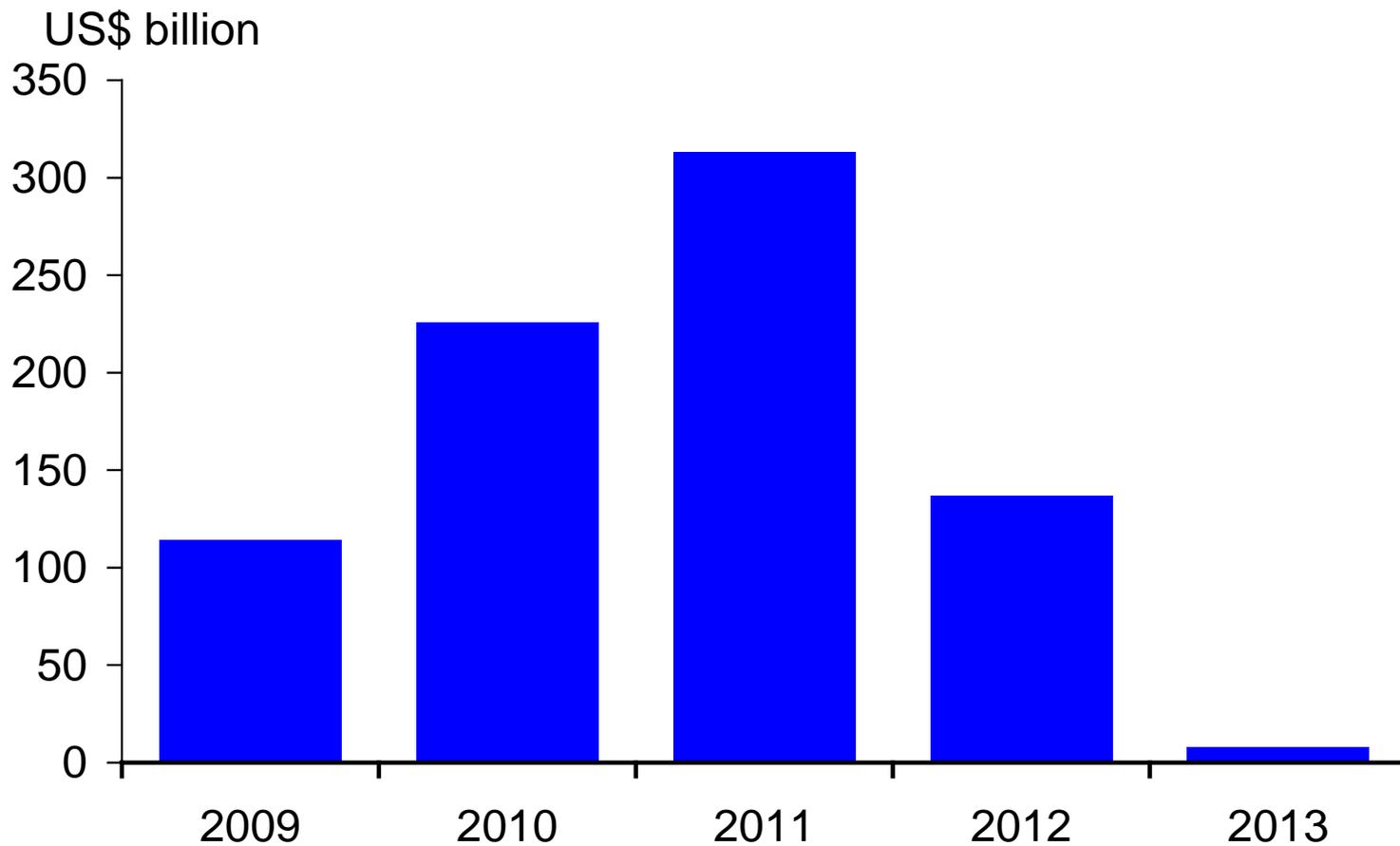


Source: Oxford Economics

# US facing fiscal restraint

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## Federal stimulus spending



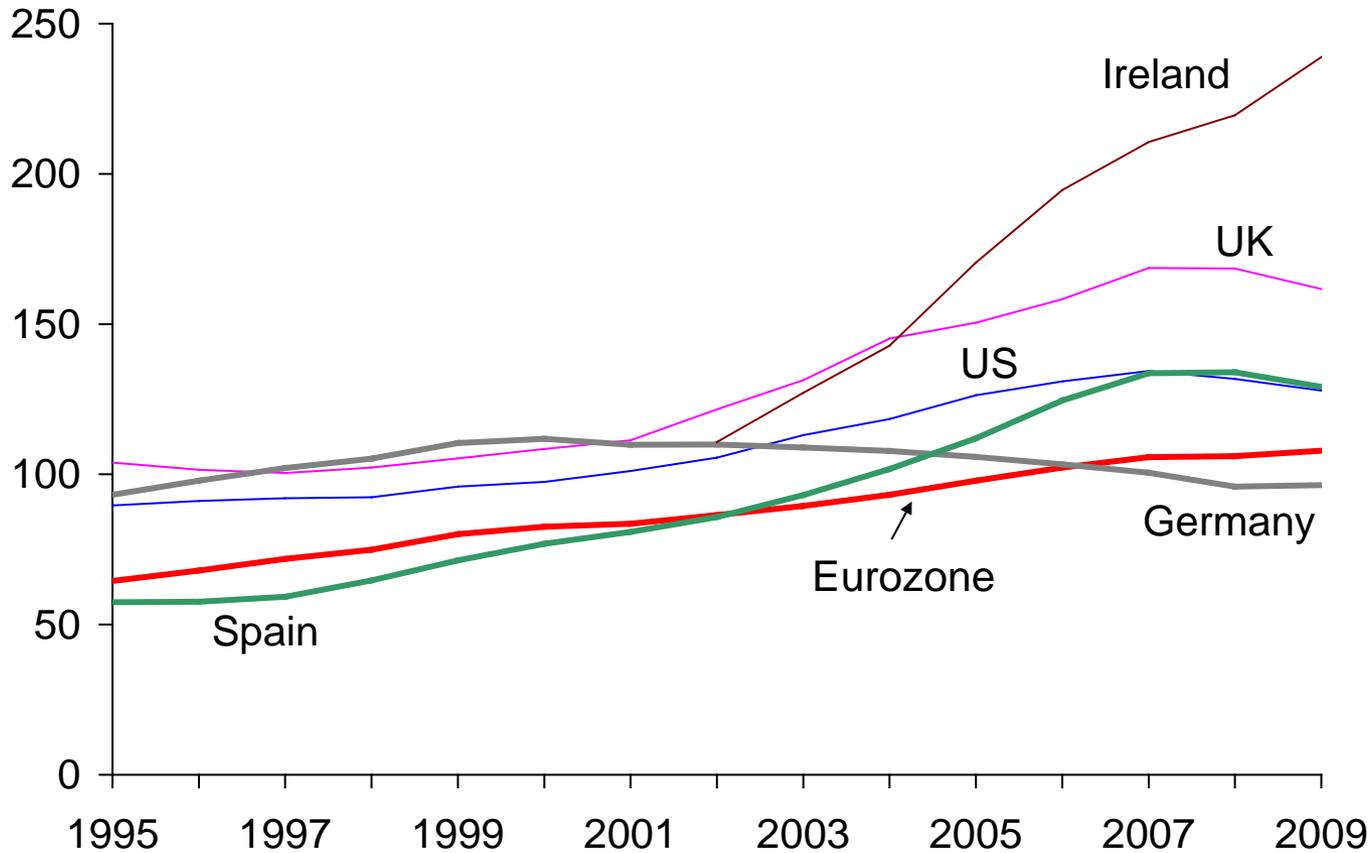
Source :CBO, OE

Fiscal years

# Households have more deleveraging to do...

## Household debt

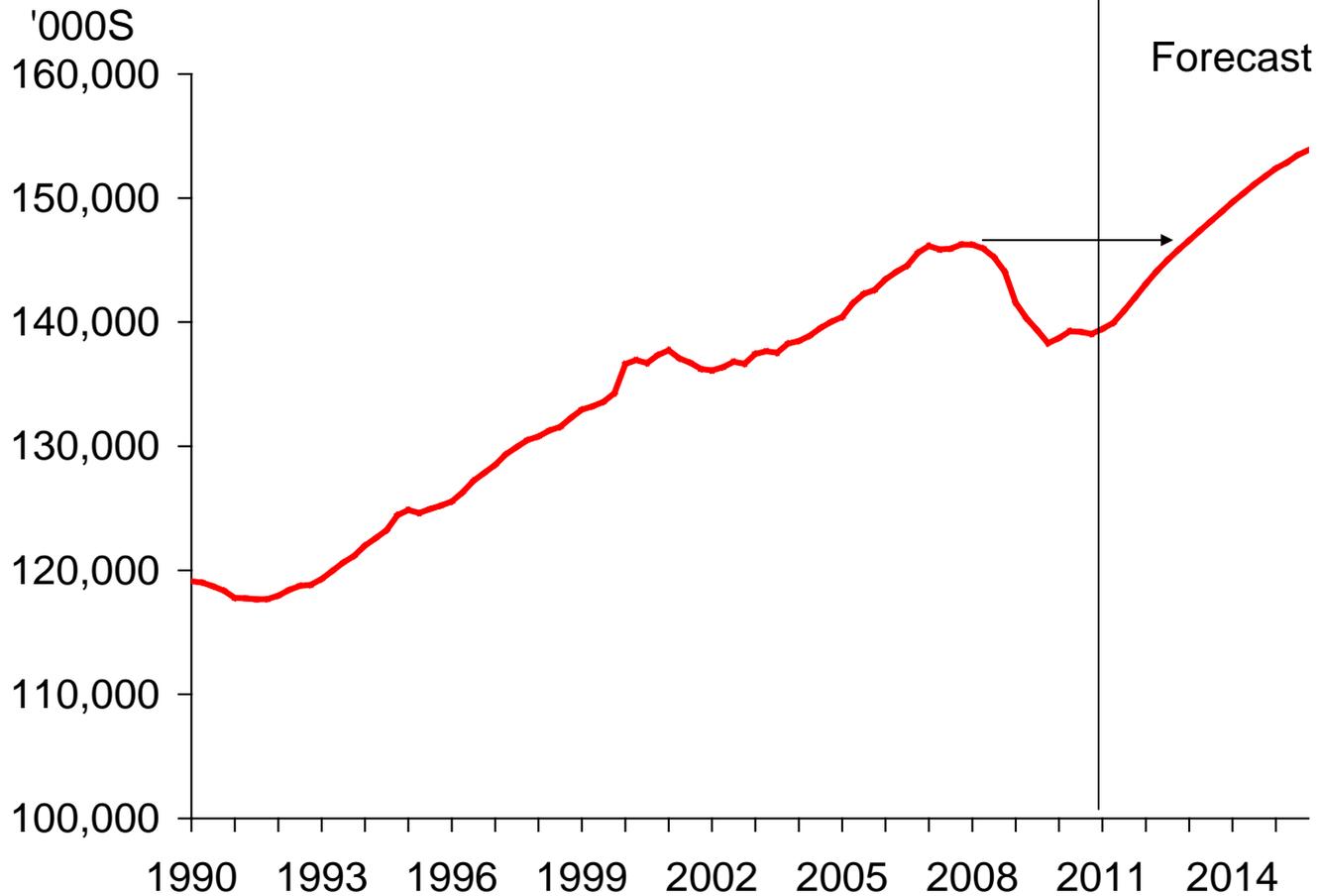
% of income



Source : Oxford Economics

# ...hampered by a slow recovery in employment...

## US: Employment

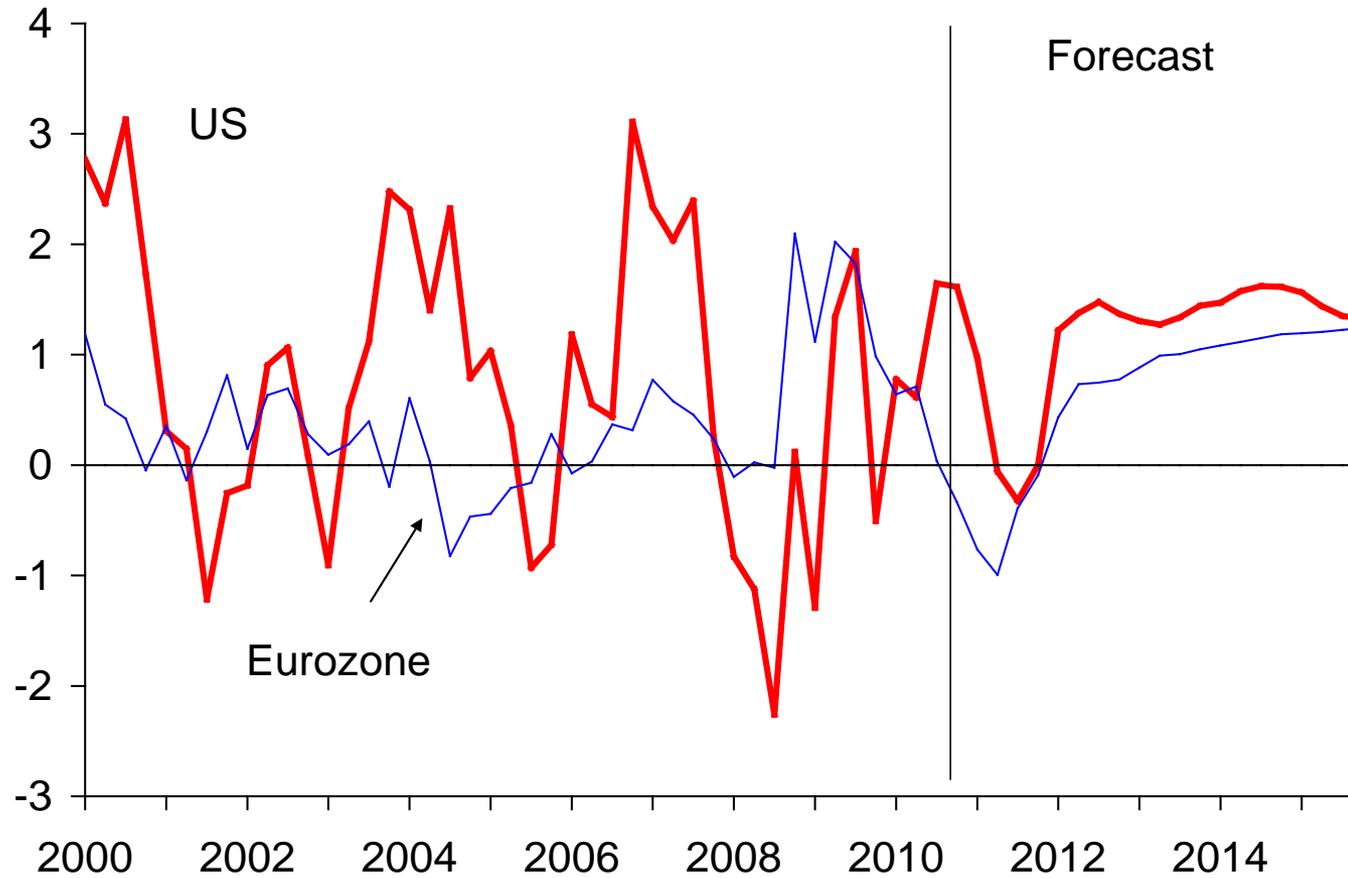


Source : Oxford Economics/Haver Analytics

# ...and real wage squeeze

## Wage growth, real terms

% year

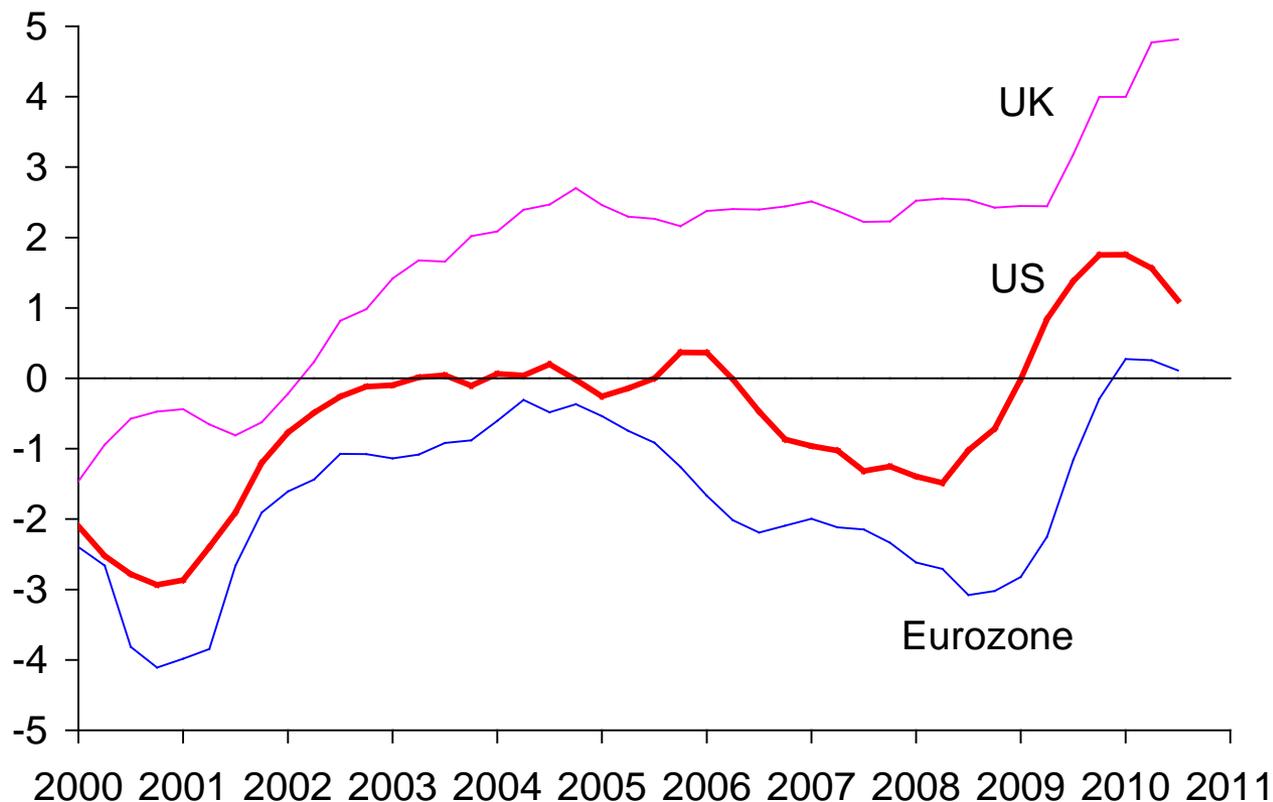


Source : Oxford Economics/Haver Analytics

# Upside risk from cash-rich companies...

## World: PNFC financial balances

% of GDP, 4-quarter average

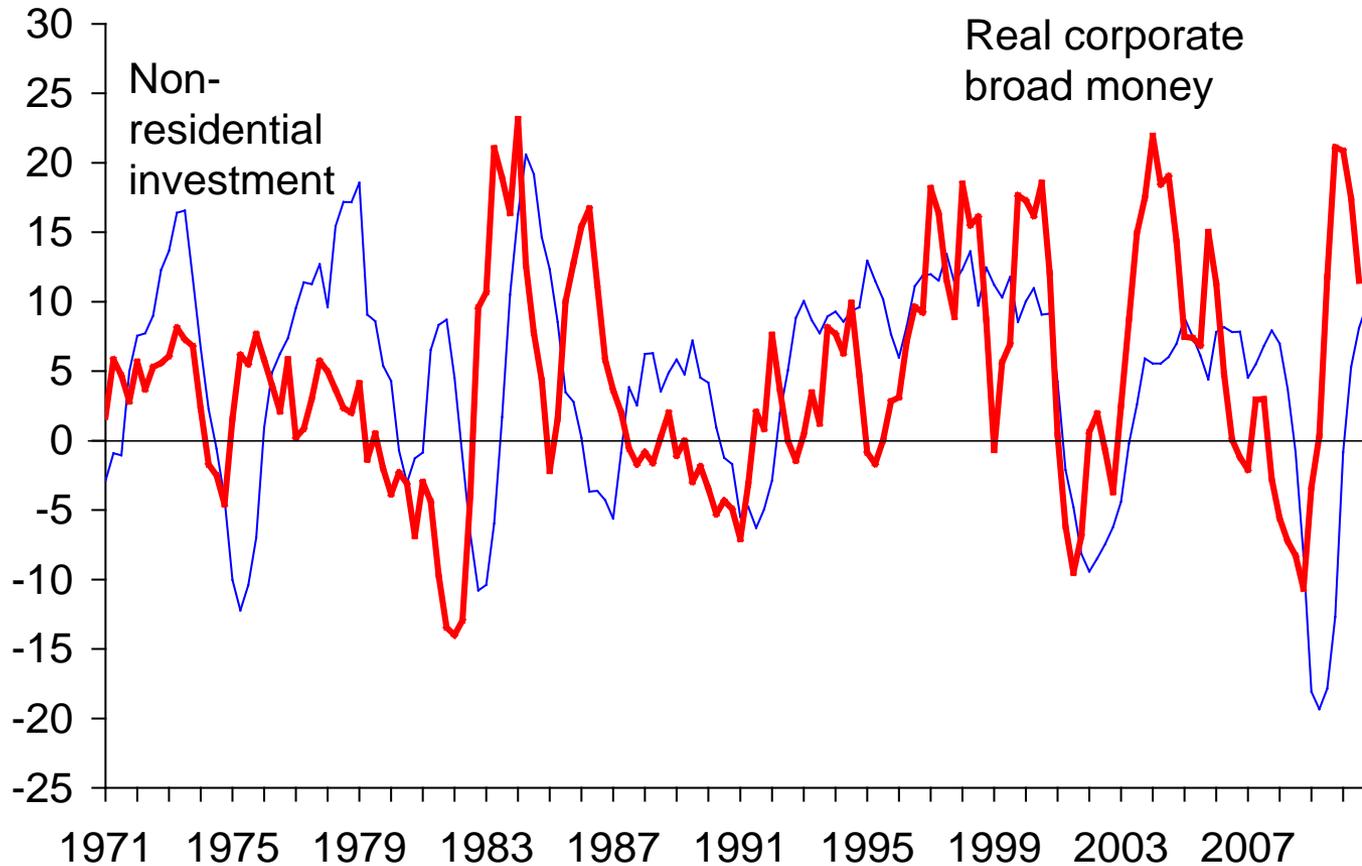


Source: Oxford Economics\Haver Analytics

# ...which is now fuelling investment recovery

## US: Investment and corporate money

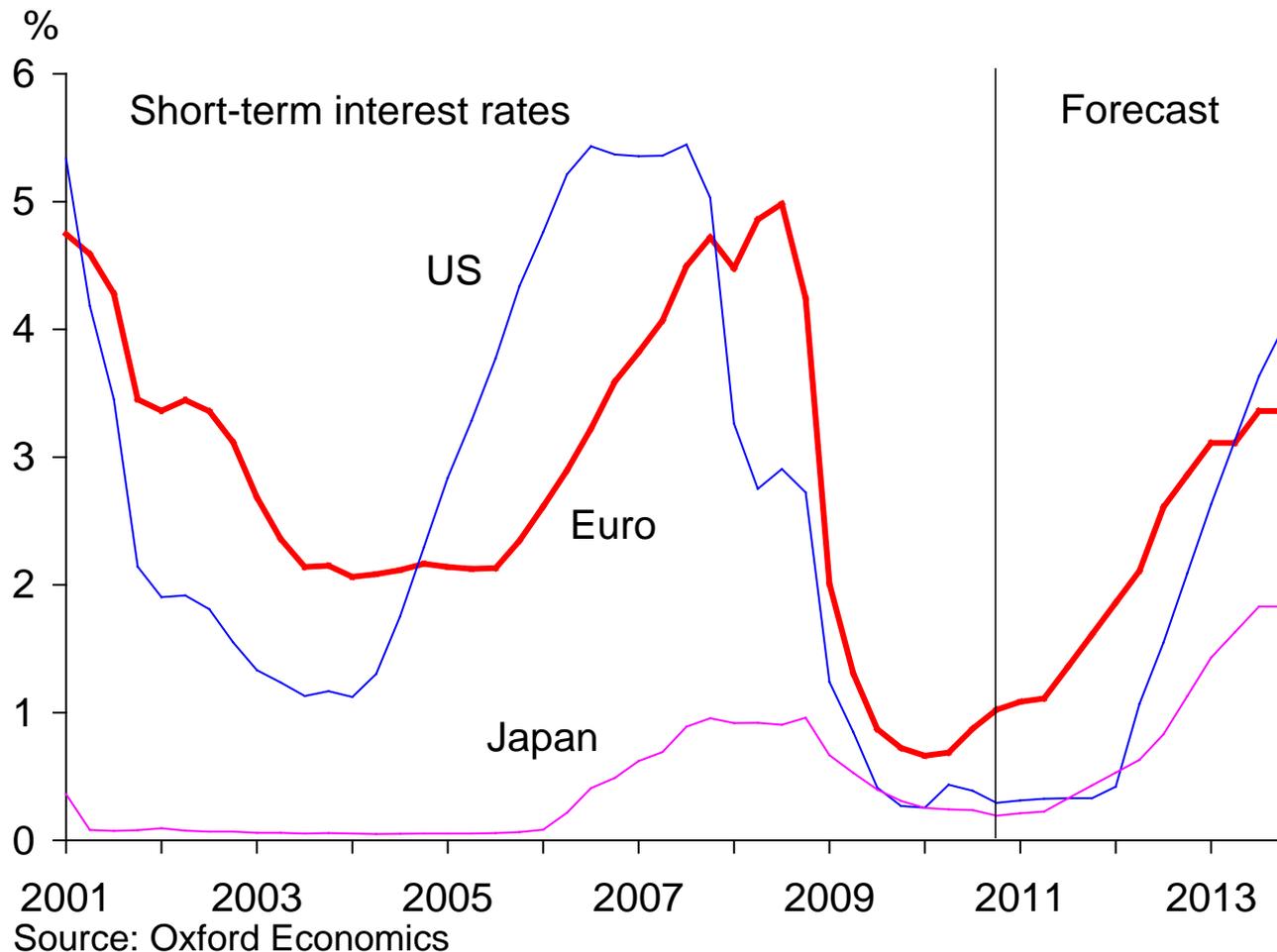
% year



Source : Oxford Economics/Haver Analytics

# Central banks to tighten slowly...

## World: Interest rates



## ...as they worry about downside risks

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- *'It will be several years before the unemployment rate has returned to a more normal level.'*

Fed Chairman B. Bernanke, 3 February 2011

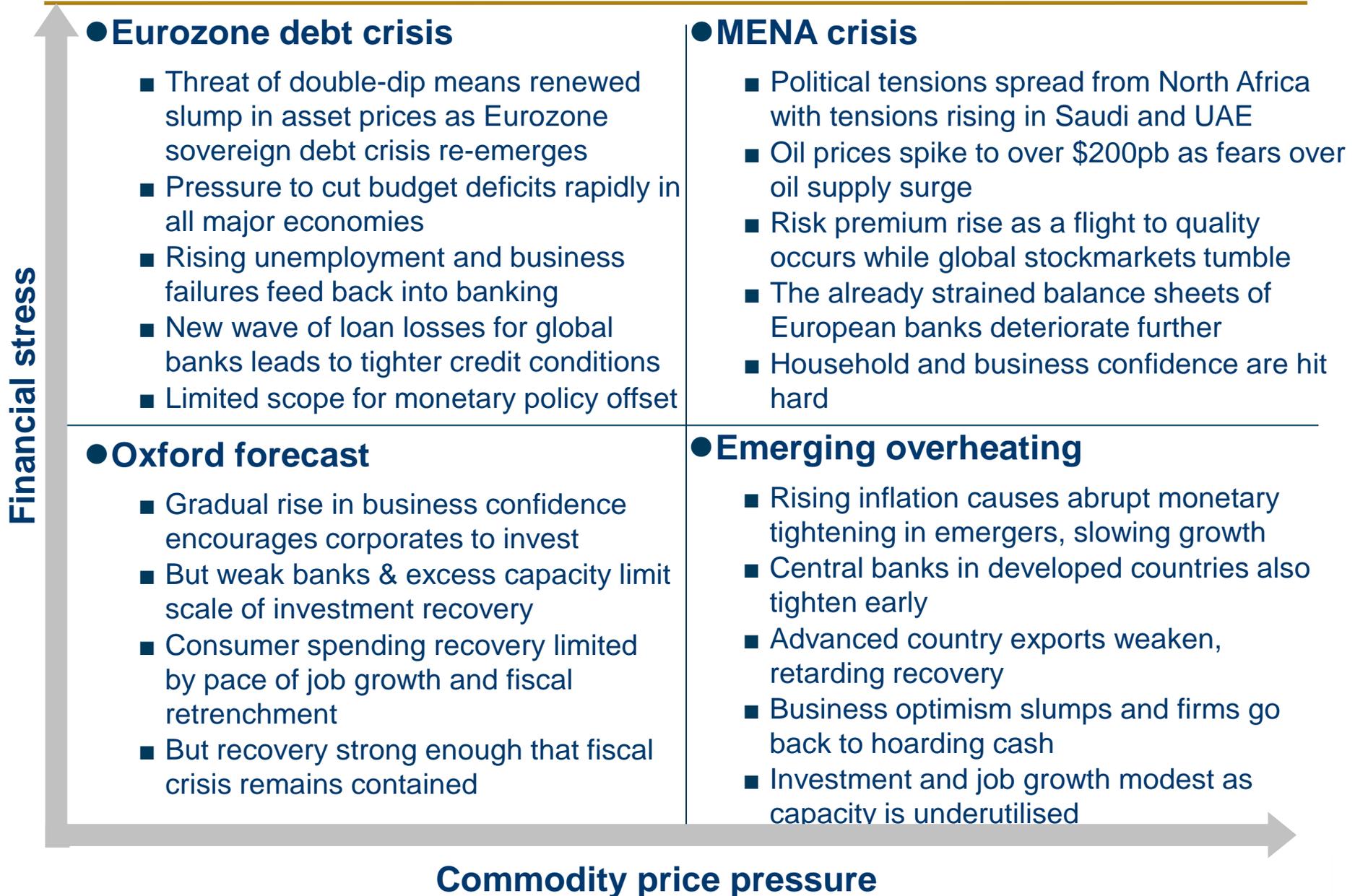
- *'Our economy is growing, but the pace of recovery is agonizingly slow, well behind the pace of recovery in prior recessions.'*

Fed Governor S Bloom Raskin, 11 February 2011

- *'In the Governing Council's assessment, the risks to this economic outlook are still slightly tilted to the downside, while uncertainty remains elevated.'*

ECB President JC Trichet, 3 February 2011

# Downside scenarios dominate



# Oxford Economics forecast

World GDP Growth % Change on Previous Year				
	2010	2011	2012	2013
US	2.9	3.3	3.5	3.6
Japan	4.1	1.4	2.0	2.0
Eurozone	1.7	1.5	1.7	2.0
of which:				
Germany	3.5	2.3	1.8	2.1
France	1.5	1.6	2.0	2.1
Italy	1.1	1.0	1.1	1.2
UK	1.4	1.9	2.6	3.0
China	10.3	9.8	9.0	8.8
India	8.8	8.2	9.0	8.8
Other Asia	6.8	5.5	6.0	5.9
Mexico	5.5	4.5	5.2	5.0
Brazil	7.6	4.6	5.1	4.6
Other Latin America	5.0	4.2	4.7	4.3
Eastern Europe	3.4	3.8	4.9	5.0
MENA	5.1	5.2	5.5	5.4
<b>World</b>	<b>3.9</b>	<b>3.5</b>	<b>3.9</b>	<b>4.0</b>
<b>World (PPP)</b>	<b>4.7</b>	<b>4.4</b>	<b>4.7</b>	<b>4.8</b>

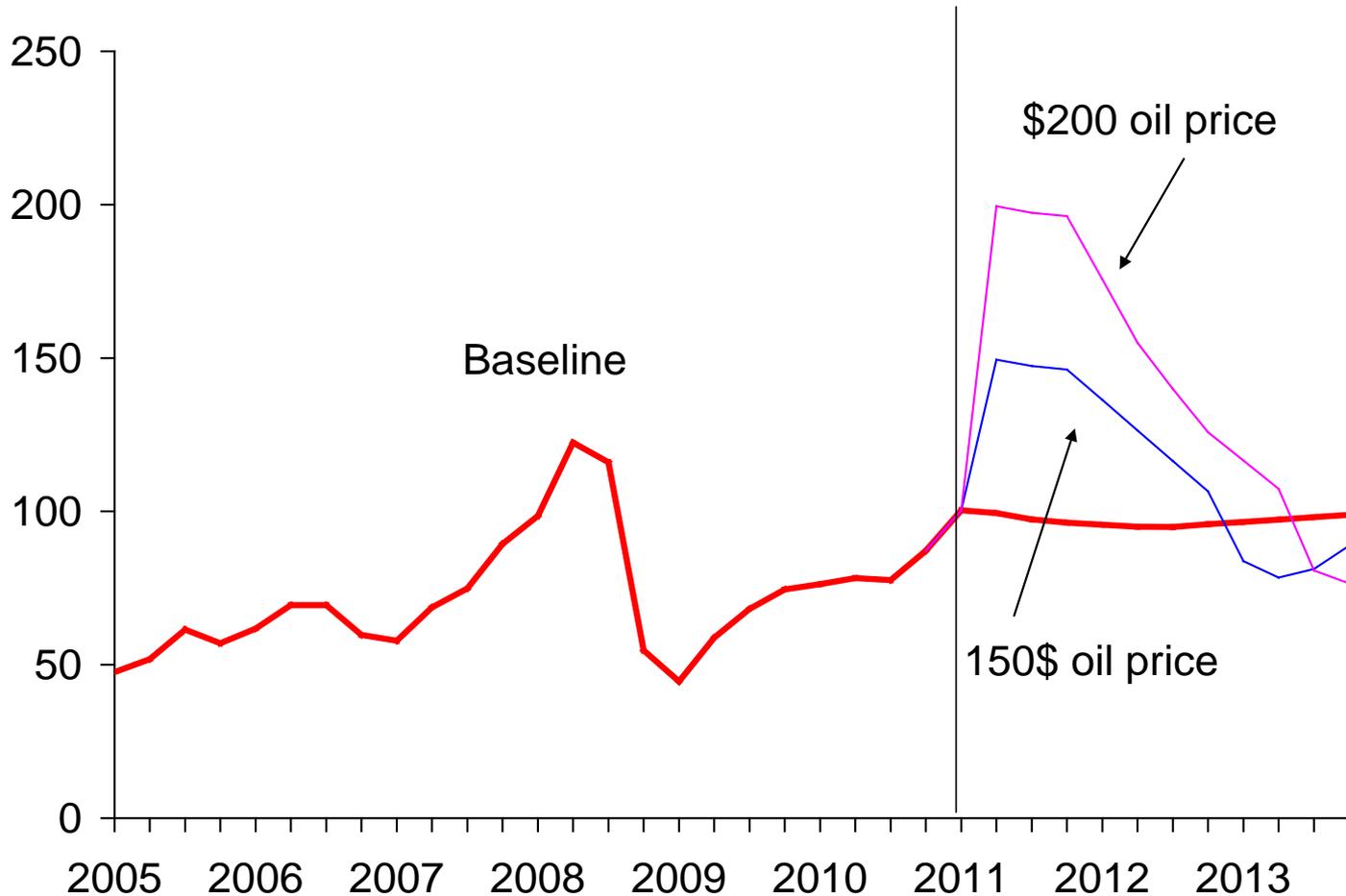
# Alternative scenarios - GDP growth

Alternative GDP growth forecasts				
	2009	2010	2011	2012
<b>Oxford Forecast (50%)</b>				
US	-2.6	2.9	3.3	3.5
Eurozone	-4.0	1.7	1.5	1.7
China	9.2	10.3	9.8	9.0
World	-0.7	4.7	4.4	4.7
<b>Emerging overheating (20%)</b>				
US	-2.6	2.9	2.7	2.2
Eurozone	-4.0	1.7	1.1	0.9
China	9.2	10.3	8.8	6.8
World	-0.7	4.7	3.8	3.4
<b>MENA crisis (10%)</b>				
US	-2.6	2.9	2.3	1.7
Eurozone	-4.0	1.7	0.7	0.4
China	9.2	10.3	7.8	6.2
World	-0.7	4.7	3.2	2.8
<b>Eurozone debt crisis (5%)</b>				
US	-2.6	2.9	0.8	0.4
Eurozone	-4.0	1.7	-0.4	-0.9
China	9.2	10.3	7.1	5.9
World	-0.7	4.7	2.1	1.8

# What if oil prices spike higher?

## Oil price

\$/barrel

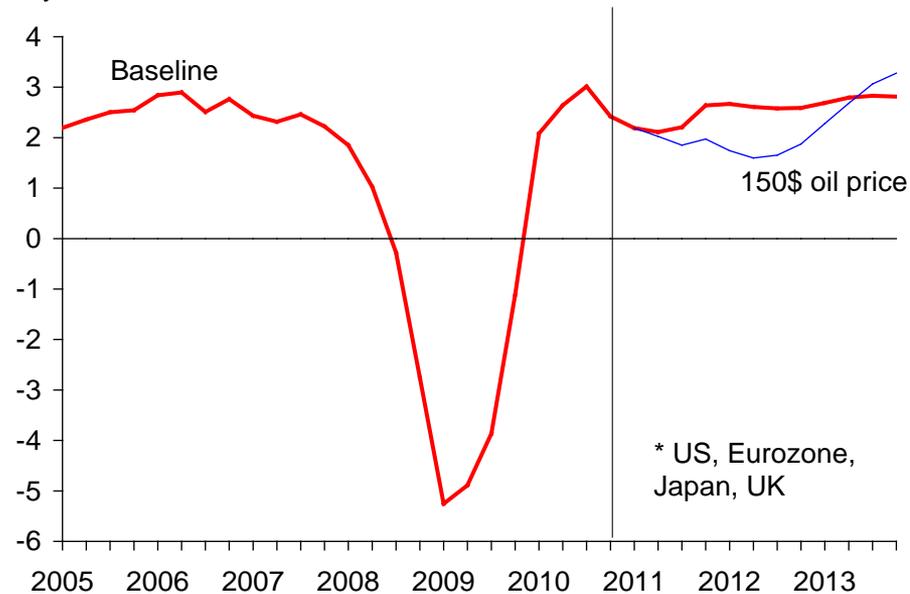


Source : Oxford Economics

# \$150pb oil would dull recovery...

## GDP growth: advanced economies\*

% year

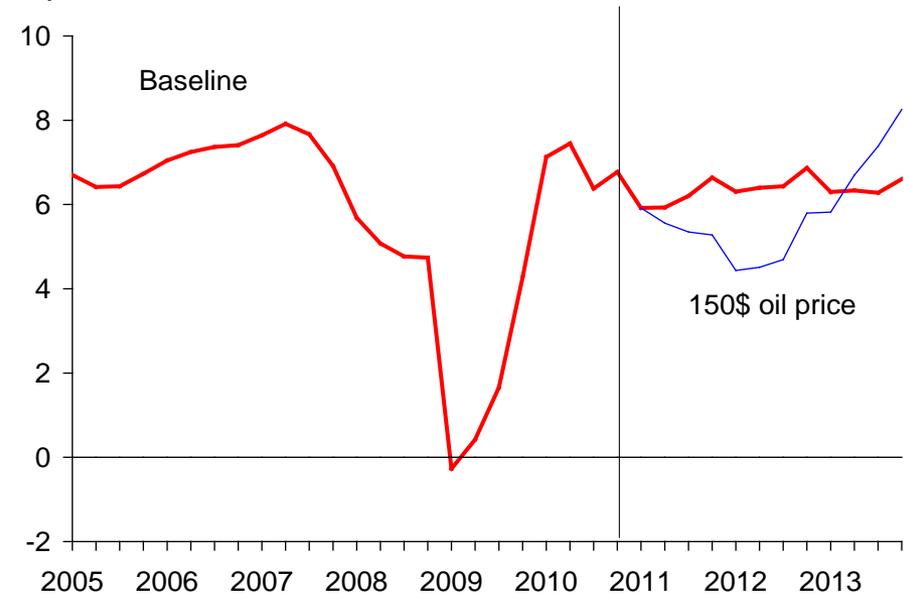


\* US, Eurozone, Japan, UK

Source : Oxford Economics

## GDP growth: emerging markets

% year

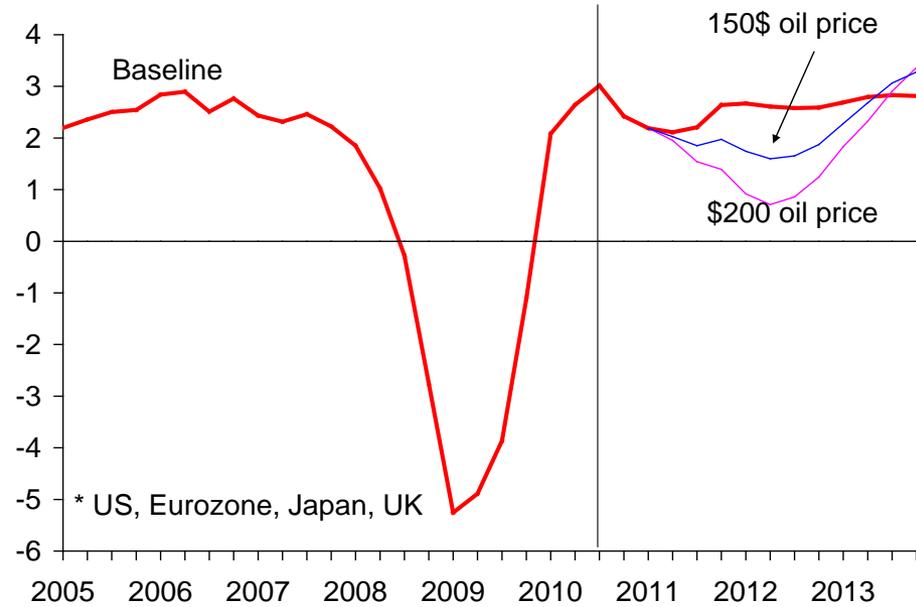


Source : Oxford Economics

# ...\$200pb would stall recovery

## GDP growth: advanced economies\*

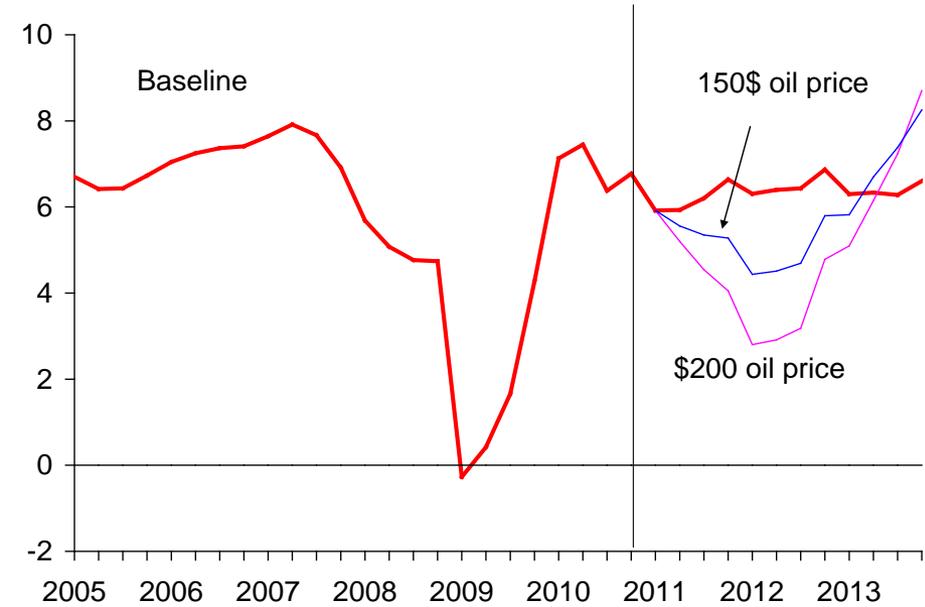
% year



Source : Oxford Economics

## GDP growth: emerging markets

% year



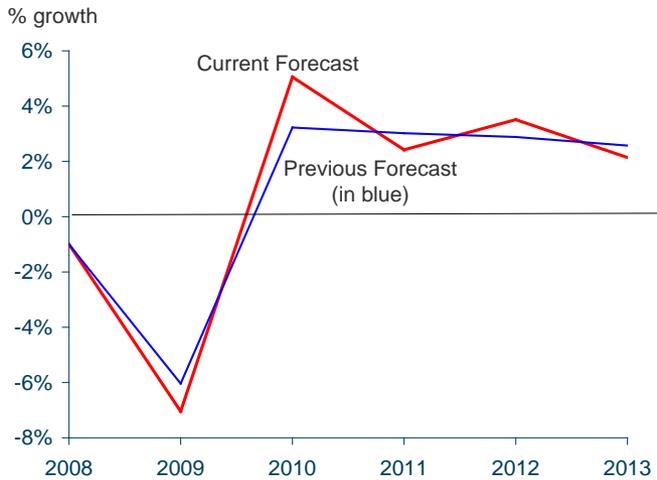
Source : Oxford Economics

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California Travel Outlook

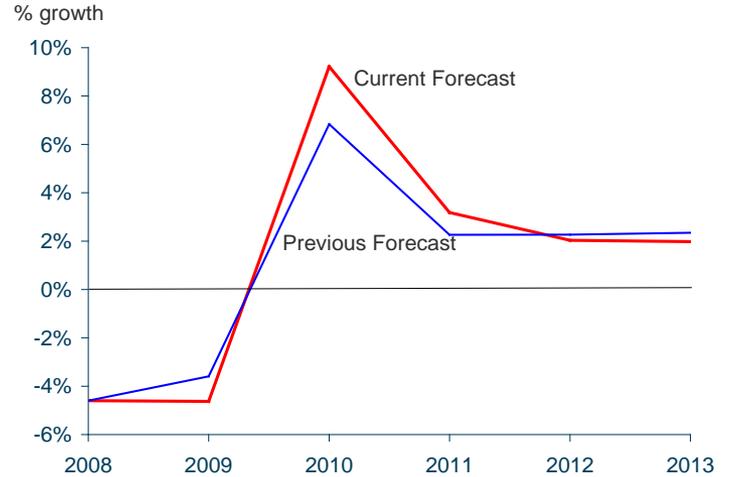
# FORECAST COMPARISONS

### Domestic Leisure Visits



Source : Tourism Economics

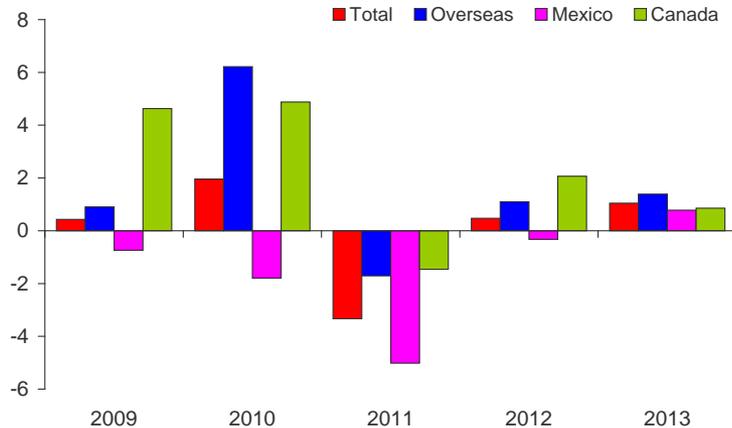
### Domestic Business Visits



Source : Tourism Economics

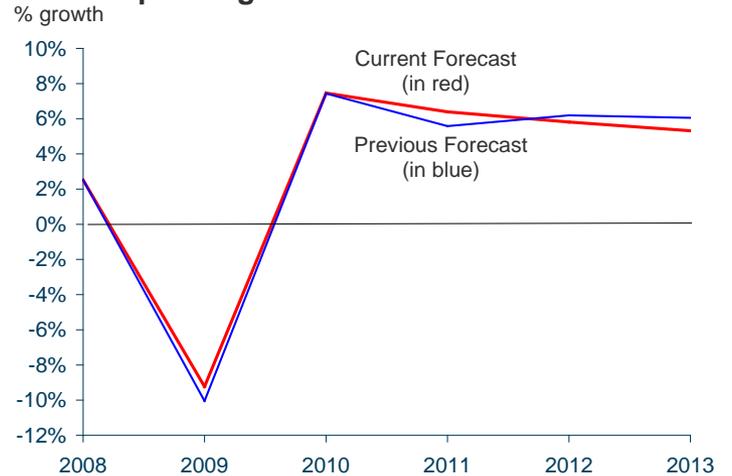
### International Forecast Comparison

Percentage point difference between forecasts (growth, current - previous)



Source : Tourism Economics

### Visitor Spending



Source : Tourism Economics

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Created to forge a union of tourism expertise and economic discipline to answer strategic questions facing destinations, developers, investors, and corporate planners.

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Travel data and forecasts for 185 countries



Policy analysis and recommendations



Market opportunity and scenario analysis



Destination visitor tracking and economic impact



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