Can Flagstaff’s Travel Industry Defy Economic Gravity?

Flagstaff, AZ
November 2023

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Who is Tourism Economics?
Oxford Economics

Founded in 1981
Started in collaboration with Oxford University

600+ staff across 20 global offices
Offices in London, NY, Frankfurt, Paris, Sydney, Singapore and more

300+ Economists
Macro, Tourism, City, Industry, Real Estate, Construction, Infrastructure, Housing

More than 4,000 international clients & growing
Travel, Government, Corporate, B2C, Real Estate, Technology, Financial, Asset & Investment Management

Consultancy & Thought Leadership
We combine the analytical skills of our economists and thought leadership teams to deliver groundbreaking research

Forecast Services include:
Macroeconomic, Travel & Tourism, Industry, City and Regional & Real Estate

Oxford’s Unique Macroeconomic Model
All based on Oxford’s unique set of global linked models that set us apart.

World Leading
In economic forecasting & analytics
Awards and Accolades

Focus Economics Best Economic Forecaster Awards

Oxford Economics has proven to be a trusted, accurate independent provider of economic forecasts, having been best overall forecaster over the last five years.

Corporate Livewire Innovation And Excellence Awards 2021

Oxford Economics is proud to announce that we have been awarded Economic Forecasting Specialists of the Year.

Bloomberg’s U.S. Economics Forecast Rankings: 2021

## Awarded Most Accurate Among Big Names

### The FocusEconomics Analyst Forecast Awards

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Subscription forecasting services
Understanding the subscription levels and details

MACRO & INDUSTRY
- Economic Model
- Economic Databank
- Commentary
- Scenarios (Event & Regulatory)
- Climate Service & Model
- Strategy & Allocation Service
- Risk Tools
- Industry Forecasts
- Commodity Forecasts

CITIES & REGIONS
- US States, MSAs & Counties
- US Construction Forecasts
- Canada Provinces & Metros
- European Cities & Regions
- Asia & China Cities & Regions
- City Scenarios
- UK Regions and LADS
- Africa & Middle East Cities
- Global Cities and FUAs (WRT)

TRAVEL & TOURISM
- County Travel Forecasts
- Country Travel Scenarios
- Country-City Travel Forecasts
- Air Passenger Forecasts
- Cruise Intelligence Platform
- Symphony

REAL ESTATE
- Global Forecasts
- Global Commentary
- Regional Analysis
- Event Driven Commentary
- Real Estate & Climate Model
TE serves 1,000+ destinations, companies, and associations, globally
About Tourism Economics

Tourism Economics is an Oxford Economics company with a singular objective: combine an understanding of the travel sector with proven economic tools to answer the most important questions facing our clients. More than 500 companies, associations, and destination work with Tourism Economics every year as a research partner. We bring decades of experience to every engagement to help our clients make better marketing, investment, and policy decisions.

**Global Travel Data-sets:** The broadest set of country, city and state coverage available.

**Consulting Services:** Travel Forecasts, Economic Impact Analysis, Policy & Market Assessments.

**Symphony Data Platform:** Creating clarity and definition in decision making.
You’ve had some amazing teams...
Nash’s Suns...What a fun group to watch!
You made it to the world Series!

D-BACKS ARE GOING TO THE WORLD SERIES
And embarrassed the Cowboys!
There’s only one issue...
I’m coming to you from Dallas, TX...
Awww...

Semien's 5 RBIs, Seager's home run lead Rangers over Diamondbacks 11-7 for 3-1 World Series lead

Rangers take 3-1 World Series lead after offensive showcase  The Rangers take a 3-1 World Series lead after beating the Diamondbacks 11-7 in Arizona.
Awww...

Vikings trade for Joshua Dobbs with Kirk Cousins out for season

<table>
<thead>
<tr>
<th></th>
<th>vs MAN</th>
<th>vs ZONE</th>
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<tr>
<td>TD-INT</td>
<td>7-1</td>
<td>1-4</td>
</tr>
<tr>
<td>1st DOWN PCT</td>
<td>40%</td>
<td>25%</td>
</tr>
<tr>
<td>QBR</td>
<td>69.3</td>
<td>23.7</td>
</tr>
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</table>

46-POINT QBR DROP-OFF FROM MAN TO ZONE (LARGEST IN NFL)
That one superbowl...

Holmes' grab secures Steelers' record sixth Super Bowl title

Just when it looked like the Arizona Cardinals had authored the greatest comeback in Super Bowl history -- scoring 16 unanswered points in the fourth quarter -- the Steelers answered with a monstrous, improbable drive.
Hopefully, you’re all good (at) sports...
In all seriousness...let's talk Travel & the economy...
Can Flagstaff’s Travel Industry Defy Economic Gravity?

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Let’s answer this by asking a few questions...
1 Are we still headed for a recession?

2 How does this usually work?

3 Is this time different?
An economic slowdown
Unemployment remains historically low

US: U-3 unemployment rate

Source: Oxford Economics/Haver Analytics
Yet, consumers are still feeling uneasy

US: Consumer surveys

Source: Oxford Economics/Haver Analytics
The culprit? Inflation

- Prices in August were 3.7% higher than a year earlier
- Core prices were 4.3% higher
Inflation has taken a bite out of disposable income

Personal income
January 2020 = 100

Note: Disposable personal income, seasonally adjusted
Source: BEA; FRED

• The average U.S. household is spending an additional $400/month to buy the same goods and services as last year.
This chart is for my fellow "C" students

Disposable personal income growth
Change relative to 2020 Q1

Note: Disposable personal income (measures income after taxes), seasonally adjusted. Real series deflated by PCE price index.

Source: BEA; Tourism Economics

In “C student” terms:
“If you made $100K and your wage increased to $111K, you can actually only buy $99K of pre-inflation stuff.”
Less bang for your buck!
And households are taking on more debt

U.S.: Revolving credit has surpassed pre-pandemic levels

We used stimmies to pay down debt!

Amazon & inflation helped us gain it back.

Oxford Economics/Haver Analytics
Outstanding debt by income level in the US

US: Outstanding consumer credit

$ blns

0 to 20th 20th to 40th 40th to 60th 60th to 80th 80th to 99th Top 1%

20:Q1 21:Q1 22:Q1 23:Q1

Source: Oxford Economics/Haver Analytics

“Wanna be rich enough so I can hold my laptop like this”

Shout out to the 1% for living within their means. 😊
Saving rate historically low and falling again

US: Personal saving rate
% disposable income

Source: Oxford Economics/Haver Analytics
Student loan payments surged…

US: Treasury receipts from the Department of Education

weekly totals, $bn

This will eat into excess savings.

Source: Oxford Economics/Haver Analytics
Housing market is already in recession

US: 30-year mortgage rates

Source: Oxford Economics/Haver Analytics

US: Pending and existing home sales

Index, 2001 = 100

Source: Oxford Economics/Haver Analytics
Temporary employment is often a harbinger

3-month average change in payroll employment

Source: Oxford Economics/Haver Analytics

"witch hazels are the harbingers of spring"
Workers losing some confidence

Quit rate and Wage Growth

Source: Oxford Economics/Haver Analytics
Manufacturing is on a weak footing

These colors represent indicators for manufacturing.

They’re all down. 😞
Credit conditions becoming less favorable…

Expect a squeeze on lending standards that constrains consumer spending.
The sharp fall in our U.S. business cycle indicator in February suggests the economy lost momentum midway through Q1.
Likely recession in Q4 of 2023, Q1 of 2024

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

Available jobs versus available workers

Unemployment rate will only reach 5.1% in 2024

A recession will be mild by historical standards

We expect the recession to be mild because there are no glaring imbalances in the economy's balance sheet.

Household balance sheets are in great shape, nonfinancial corporate balance sheets are healthy, and state and local governments are flush with cash.
1 Are we still headed for a recession?

2 How does this usually work?

3 Is this time different?
What have the last three “normal” recessions looked like?

Hotel demand during recessionary periods
Year-over-year %, quarterly peak-to-trough

<table>
<thead>
<tr>
<th>Year</th>
<th>US Hotel Demand</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>-3.9%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2001</td>
<td>-7.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2009</td>
<td>-8.8%</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

Source: STR, BEA
1 Are we still headed for a recession?

2 How does this usually work?

3 Is this time different?
Why the travel industry may defy economic gravity

1. U.S. households are in a position of strength
2. Pent-up demand and prioritization of travel is real
3. Businesses are still restoring necessary travel
4. International still rebuilding
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 2022Q4. 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

Excess savings are a buffer…

US: Excess savings based on reported personal income data

Source: Oxford Economics/Haver Analytics
“To date, however, we have not seen signs of demand softening. Certainly, trends could change quickly but booking demand and pricing remains strong.”

Marriott earnings call, February 14, 2023

(Remarks edited for clarity)
Why the travel industry may defy economic gravity

1. U.S. households are in a position of strength

2. Pent-up demand and prioritization of travel is real

3. Businesses are still restoring necessary travel

4. International still rebuilding
Slippage evident among lower income earners

Planning Leisure Travel Within the Next 6 Months
% of American Consumers
Still... overall intentions to travel remain elevated
Travelers are shrugging off inflation

Inflation will Greatly Impact Decision to Travel in Next Six Months
% of travelers

Source: Longwoods International
“The consumer is generally holding up well and our forward bookings remain solid.”

Marriott 2023 Q2 earnings call
Travel budget for next 12 months has increased 13% over past year
“Macroeconomic weakness is being offset with the counterc Trend of consumer spending continuing to rebalance back to services.”

United Airlines, 2023 Q1 earnings call
Speaking of purchases...
Let’s go back in time...

HAIRCUTS?
WHERE WE'RE GOING,
WE DON'T NEED HAIRCUTS.
2020: Excess Amazon Orders & No Haircuts

72 orders placed in 2018

179 orders placed in 2020
Well that’s come to an end…
Spending on Amazon going down... Spending on services going up!

Consumer spending, real
Index (Feb 2020=100), increase since February 2020 in labels

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

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

Services: +3.8%

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

Normalization implies further growth for travel.

Note: Real. Seasonally adjusted monthly data through November 2022
Source: Bureau of Economic Analysis
Why the travel industry may defy economic gravity

1. U.S. households are in a position of strength
2. Pent-up demand and prioritization of travel is real
3. Businesses are still restoring necessary travel
4. International still rebuilding
Predictions don’t always age well

“We don’t like their sound, and guitar music is on the way out.”

On the Beatles
Decca Recording Company, 1962

“He’s a very good offensive player…. But he won’t turn this franchise around.”

On Michael Jordan
Rod Thorn, the Chicago Bulls general manager

“There’s no chance that <this> is going to get any significant market share.”

On the iPhone
Steve Balmer, 2007
Speaking of which...

“More than 50% will disappear in post-coronavirus world.”

Bill Gates says more than 50% of business travel will disappear in post-coronavirus world
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
Business travelers expect to take more trips in the next 6 months

<table>
<thead>
<tr>
<th></th>
<th>2022 Q2</th>
<th>2022 Q3</th>
<th>2022 Q4</th>
<th>2023 Q1</th>
<th>2023 Q2</th>
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<tr>
<td><strong>Total</strong></td>
<td>2.1</td>
<td>1.8</td>
<td>2.0</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Internal meetings</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Customer and stakeholder meetings</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Conferences and trade shows</td>
<td>0.7</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>

How frequently do you expect to travel for each of the following business purposes over the next six months?
Source: U.S. Travel Association, JD Power, Tourism Economics
We now have a new way of working

More than 1-in-4 workdays are happening from home.

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

WFH share of days: 28.2%

34% of travelers plan to travel as they work remotely

Note: Most recent data point is May 2023.
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

- Twice or more per month: 30%
- Once per month: 15%
- Once per quarter: 13%
- About once per year: 11%
- Never: 31%

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

Why the travel industry may defy economic gravity

1. U.S. households are in a position of strength
2. Pent-up demand and prioritization of travel is real
3. Businesses are still restoring necessary travel
4. International still rebuilding
SIGNIFICANT YEAR OVER YEAR GROWTH

International arrivals to U.S.
Index, same month 2019=100

- Europe: 80
- Asia Pacific: 49
- Americas (excl CA & MEX): 77
- Middle East and Africa: 90

MEAF, 90
LATAM, 77
APAC, 49
Outbound recovery is well ahead of inbound

Inbound and Outbound Travel Spending
Millions of dollars, seasonally adjusted

Implies 38 million lost room nights
(2.9% of 2023 US hotel room demand)
The rightsizing of this will boost the US industry

U.S. International Travel Trade Balance
Millions of dollars, seasonally adjusted
Exports minus imports

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2021</th>
<th>2022</th>
<th>2023*</th>
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<tr>
<td>Value</td>
<td>21,549</td>
<td>-21,967</td>
<td>-21,445</td>
<td>-25,953</td>
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*$ Assumes deficits consistent with first 4 months

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

Implies 38 million room nights (2.9% of 2023 room demand)
International inbound sentiment is gaining momentum

### Likelihood to Travel to the US in the Next 12 Months

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<tr>
<th>Country</th>
<th>2019 Average</th>
<th>August 2023</th>
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<tr>
<td>All Markets</td>
<td>31%</td>
<td>30%</td>
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<tr>
<td>Australia</td>
<td>22%</td>
<td>16%</td>
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<tr>
<td>Brazil</td>
<td>43%</td>
<td>39%</td>
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<tr>
<td>Canada</td>
<td>47%</td>
<td>48%</td>
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<tr>
<td>China</td>
<td>43%</td>
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<tr>
<td>France</td>
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<td>Germany</td>
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<td>India</td>
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<td>Mexico</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>South Korea</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>UK</td>
<td>23%</td>
<td>16%</td>
</tr>
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</table>

Base: Respondents who are likely to take an international holiday in the next 12 months

Q. In the NEXT 12 MONTHS, what country or countries will you visit on your international holiday(s)? - % United States

Source: Brand USA/Big Village’s Caravan Omnibus Study
“International inbound business from Latin America is pacing strong. European travel …continues to build …creating opportunity. And perhaps most significantly, …we believe inbound travel from Japan, Korea and eventually China will yield positive returns for our business.”

Hertz, 2023Q1 earnings call
What about the state of Arizona?
International *visitation* will recover in 2025
International *spending* will almost be recovered in 2025
What about Flagstaff’s workforce?
LEISURE & HOSPITALITY SEGMENT EMPLOYMENT IN THE COUNTY OUTPACED THE NATION

L&H employment
Index (2010=100)

Source: BLS
LEISURE & HOSPITALITY SEGMENT EMPLOYMENT IN THE COUNTY OUTPACED OTHER INDUSTRIES

Coconino County Employment Index (2010=100)

Source: BLS
L&H EMPLOYMENT HAS RECOVERED ABOVE PRE-PANDEMIC LEVELS

Coconino jobs recovery by industry, March 2023
% of industry growth relative to same month 2019

Source: BLS
LEISURE & HOSPITALITY WITNESSED GREATER JOB LOSSES THAN OTHER INDUSTRIES BUT QUICKLY RECOVERED

Coconino County employment recovery
Index (same month 2019=100)

Source: BLS
What about lodging in Flagstaff?
HOTEL DEMAND IN FLAGSTAFF RECOVERED FASTER FROM PANDEMIC LOWS

Hotel room demand
Index (same month 2019=100)

Source: STR
HOTEL REVENUE HAS BEEN ABOVE 2019 LEVELS SINCE JANUARY 2021

Hotel room revenue
Index (same month 2019=100)

Source: STR
Key Takeaways & Summary
Post vs. Kellogg during the Great Depression...

In the late nineteen-twenties, two companies — Kellogg and Post — dominated the market for packaged cereal. And Post was the market leader. But then along came The Great Depression...

KELLOGG 'VS' POST. HOW KELLOGG WON THE CEREAL WARS OF THE GREAT DEPRESSION. (THE REST, AS THEY SAY, IS HISTORY.)
The Rise and Fall of Colorado Tourism

What happens when you take a successful advertising campaign and cut the budget to zero?
Flagstaff’s Great Opportunity: Press Forward; Take Over.
Summary

1. A mild recession is likely in Q4 of 2023
   - Inflation and higher interest rates will leave a mark
   - Strong balance sheets should limit the downside

2. Visitor economy is well-positioned
   - Households are in a fiscally strong position
   - Pent-up demand is prioritizing travel
   - Business travel continues to rebuild
   - International is coming back
And Hey... Things are looking up for AZ Sports...
Can the Answerbacks do it again? How D-backs are approaching a must-win Game 5

Arizona has responded every time its improbable postseason run has appeared over -- and that’s exactly why it believes it can overcome the biggest challenge yet.

6h • Jesse Rogers
...AND Kyler’s Coming BACK! Awww...
The future is bright in Flagstaff! We have haircuts again!
Thank You!

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