TOURISM ECONOMICS

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TRUMP IMPACT ON TRAVEL

CLIENT BRIEFING

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The Effect of a Trump Presidency on International Travel to the US

The election of Donald Trump has introduced new uncertainty into the outlook for the US travel industry. While a Clinton presidency would have been broadly considered a continuation of existing policies, Trump ran a campaign calling for shifts in foreign, fiscal, trade, and immigration policies that have potentially significant implications for the global economy and travel.

Oxford Economics has separately analyzed Trump's proposals and assessed a range of risks to the US economy. The conclusion of this analysis is that the most likely scenario involves significantly watered-down positions that would produce only marginally slower economic growth in 2017 and 2018 relative to our pre-election baseline scenario.

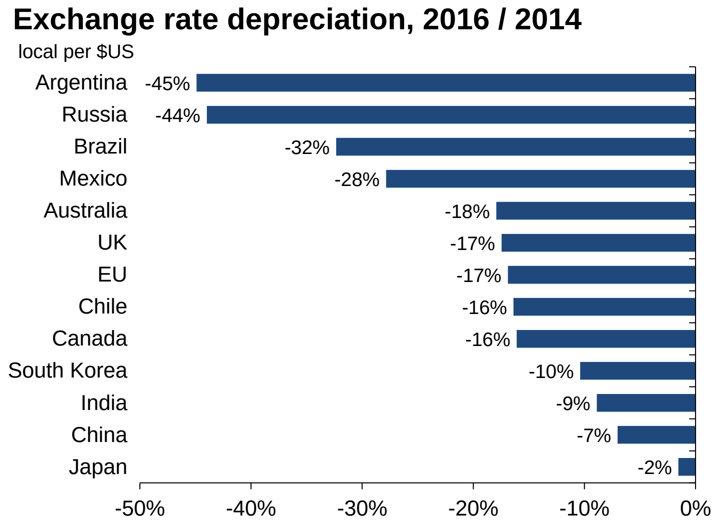
But travel is notoriously more reactive to external events. International leisure travelers in particular have discretion in their choice of destinations and readily shift preferences based on any number of real or perceived factors. Given Trump's protectionist platform, questioning of longstanding alliances, and "America first" rhetoric, it bears asking what effect his presidency might have on travel to the US.

Analysis is based on Tourism Economics' proprietary Tourism Decision Metrics (TDM) and Global City Travel (GCT) models. These databases contain historic data and ten-year forecasts for travel flows over 180 countries and 300 cities worldwide, including detail on trips, nights, spending and bilateral flows.

CURRENT MARKET FORCES

The strong dollar and weak global economic growth present steady headwinds for inbound travel to the US

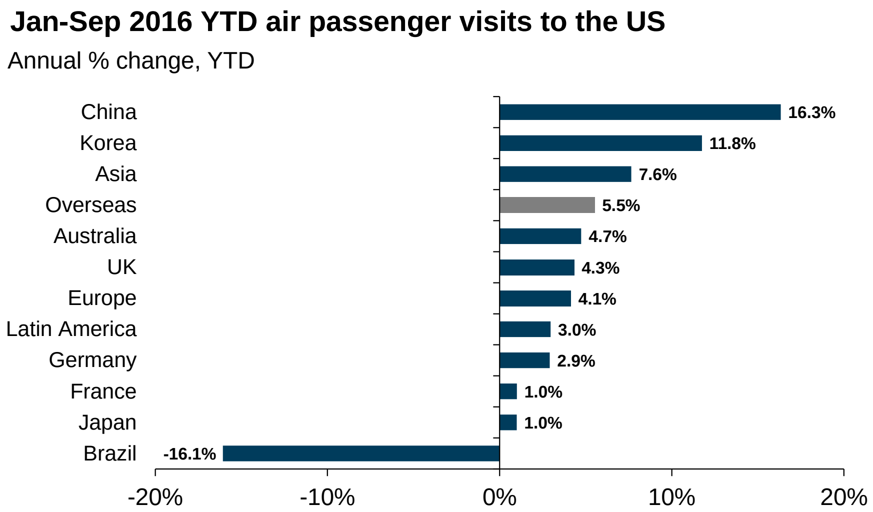
The US is already facing market challenges. A strong US dollar has made travel to the US significantly more expensive for key source markets over the past several years. Latin American markets have been particularly hard hit; we estimate Brazilian travel to the US has fallen 16% through September. While the euro and sterling in 2016 will average 17% below their 2014 values against the dollar, European travel to the US has held up well over the past year. Canada has been (as is typical) more reactive to the stronger US dollar with an 11% fall in visits to the US in 2015 and another 8% fall expected in 2016.



Source: Oxford Economics

The backdrop for all this is a global economy that has hit a soft patch in 2016. Oxford Economics expects the global economy to grow just 2.2% this year, which would be the slowest growth since the great recession. However, overseas markets have been remarkably resilient in 2016 with non-resident air arrivals up 5.5% through September. These gains will be offset by declines from Canada, resulting in no growth in US international arrivals and a slight decline in international travel spending this year.

Despite this, overseas travel to the US has been remarkably resilient



Source: Tourism Economics, APIS

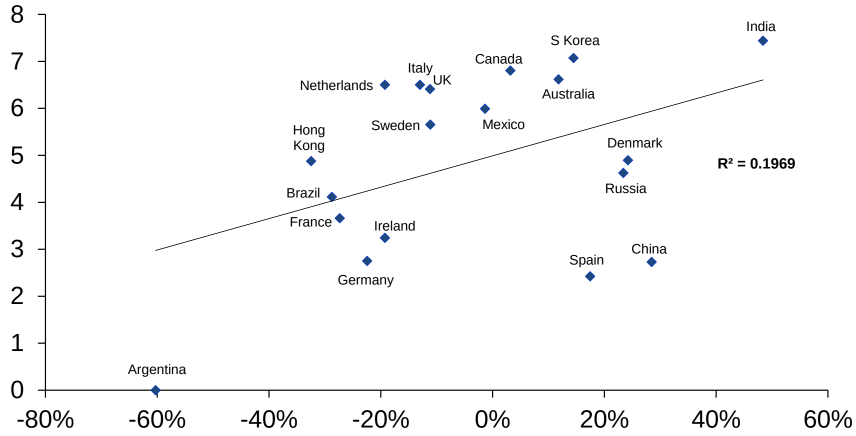
CAN UNPOPULAR POLICY AFFECT TRAVEL?

US is an aspirational destination for tourists, but this could change with Trump's policies

The US consistently scores highly as an aspirational destination for global travelers and is ranked number one in the world in terms of international traveler spending. However, Trump's policies and persona represent a real market risk if they translate into antipathy towards the US in general and dissuade travel to the US.

Arrivals performance vs favorability

Pew net favorability index, 2006



Source: Tourism Economics, Pew

change in arrivals to US, 2006/2000

In 2003, invasion of Iraq and its aftermath affected US and its global favorability

To test this hypothesis, we examined data from 2000-2006 and compared the performance in arrivals to the US by market with the Pew Foundation favorability index. In the mid-2000s, the US was experiencing negative trends in global favorability as a result of the 2003 invasion of Iraq and its aftermath. The data indicate a corollary relationship—those visitor markets that had a relatively less favorable view of the US generally underperformed in terms of visits to the US over the period from 2000-2006[1]. And those markets that had a more favorable view of the US, generally performed better in terms of growth in visits.

Two things stand out from the analysis. First, while there is a correlation, it is a rather tenuous one. Both the degree of the effect and the strength of the relationship (an r2 of just .197) are weak. Second, economic conditions can be anecdotally seen to play a more important role. India, Russia, and China were among the top growth markets—unsurprisingly so during this period of strong economic growth in emerging markets.

[1] 2000 was chosen to be a starting point as a pre-recession and pre-9/11 "normal" year

CONCLUSION

Trump's election has caused natural concern in terms of potential effects on the global economy and travel to the US. Indeed, his policy proposals and rhetoric hold the potential to damage both. How Trump will actually govern remains the greatest uncertainty. Any changes to visa or security policies that would impede travel from major US visitor source markets remain a wild card. And a continuation of campaign rhetoric that could alienate allies and trading partners also holds the potential to damage US travel intentions.

However, we expect that the practical implementation of policy will be relatively measured with a limited effect on the US economy. And while unpopular presidents and policies can negatively affect inbound travel, the historic indication is that this effect is not significant for the US. A continued strong dollar and modest global economic growth will remain the prevailing headwind for the US as it seeks to grow its tourism economy.

As a result, overseas visits to the US will continue to soften into 2017.[2] The Tourism Economics TDM model indicates a slight contraction in visits from Western Europe with the weaker pound weighing especially hard on the UK market. Meanwhile, Asian source markets will outperform all other regions with China, India, and Korea continuing to grow at robust rates. South American markets will begin their recovery next year as Brazil rebounds from two years of market declines. Similarly, a rebound in Canadian travel to the US is expected in 2017 after a cumulative 17% drop over the previous two years.

While risks and uncertainty remain, a post-campaign softening of rhetoric and centering of policies should limit the downside impact of the Trump administration.

[2] Recent overseas travel market analysis is based on Tourism Economics calculations due to a conceptual break in US government reported data beginning in 2014.

10 November 2016

All data shown in tables and charts is Oxford Economics' and Tourism Economics' own data, except where otherwise stated and cited in footnotes.

The modelling and results presented here are based on information provided by third parties, upon which Tourism Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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