TOURISM ECONOMICS

# San Diego Travel Forecast

## July 2017

**Report Prepared For:**
**San Diego Tourism Authority**

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

# Contents

# 1 Executive Summary

- San Diego hosted nearly 7.1 million visitors in the first quarter of 2017, a 2.9% decline from the prior year. This follows a 4.9% increase in visitation in the fourth quarter of 2016, driven mainly by domestic day visitors. Conversely, it was domestic day visitors that led to the decline in Q1 2017 (down 6.2%), and lacklustre overnight growth (0.1%). Total visitor expenditures grew by 3.6% in the first quarter–a healthy start to the year. The San Diego hotel market jumped 2.5% in Q1 2017, with an accompanying average daily room rate (ADR) of $153.14—a 6.1% increase from 2016 Q1. In Q2 2017, hotel demand increased 2.4%, while ADR and RevPAR increased 3.3% and 4.6%, respectively.
- Strong domestic fundamentals – particularly on the consumer side – supported a strong finish to 2016. Looking ahead for the remainder of 2017, we expect US GDP to increase by 2.2%, and expected continued strength in the labour market will fuel income and consumer spending gains. Possible domestic weaknesses include the failure of the Trump administration to deliver on campaign pledges of fiscal stimulus, tax reform, and reduced regulations, which has the potential to undermine confidence from businesses and consumers alike. Longer-term, while domestic consumer fundamentals remain healthy, slowing visitor demand will weigh on expenditures as growth rates ease more toward historical averages.
- Based on our current forecast, San Diego visitation is expected to grow 0.6% in 2017 before picking up to 1.2% in 2018 and 1.5% in 2019– a bit weaker than our previous forecast, mainly due to weakened international travel and a decline in day visitors from Mexico. Overnight visitation will expand by 1.1% in 2017 and will edge up to 1.5% growth in 2018 as global demand remains muted; some further rebound is then expected in 2019 as growth reaches 1.6%. Growth in day visits will remain flat in 2017 as visitors from Mexico are expected to decline this year and next. Visitor expenditures in San Diego are expected to rise 4.7% in 2017 before slowing to 3.7% and 3.6% in 2018 and 2019, respectively. Similar to 2016, hotel room demand in San Diego will continue its growth premium over the US in 2017. Even as the supply of available rooms increases by 1.4% this year, hotel occupancy is still expected to reach 77.9%. ADR will advance 3.2% in 2017 to nearly $160. Despite solid economic fundamentals, uncertainty persists in both domestic and international markets, weighing on US hotel sector performance. This trend is expected to continue. While business investment is expected to strengthen as domestic and global demand firms, ongoing dysfunctionality in Washington will continue to constrain the pace of spending. On the international front, unintended consequences of President Trump's ongoing rhetoric and policies related to travel restrictions, immigration, and international relations still do not portend well for inbound travel.

## San Diego Tourism Summary Outlook

(annual % growth, unless stated)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Visits | 1.4% | 1.9% | 0.6% | 1.2% | 1.5% | 1.5% | 1.8% |
| Day | 1.0% | 2.5% | 0.0% | 0.9% | 1.4% | 1.4% | 1.5% |
| Overnight | 1.8% | 1.3% | 1.1% | 1.5% | 1.6% | 1.5% | 2.2% |
| Expenditure | 7.7% | 4.8% | 4.7% | 3.7% | 3.6% | 3.7% | 3.8% |
| Day | 2.0% | 2.9% | 1.6% | 1.7% | 3.1% | 2.5% | 1.5% |
| Overnight | 8.4% | 5.1% | 5.1% | 4.0% | 3.6% | 3.8% | 4.0% |
| Hotel Sector | | | | | | | |
| Room supply | 0.4% | 1.3% | 1.4% | 3.1% | 2.1% | 1.8% | 1.5% |
| Room Demand | 2.8% | 2.2% | 2.5% | 2.2% | 1.9% | 2.1% | 2.1% |
| Occupancy (%) | 76.3 | 77.1 | 77.9 | 77.2 | 77.1 | 77.3 | 77.8 |
| ADR ($) | $150.74 | $154.92 | $159.95 | $167.32 | $172.39 | $178.21 | $179.88 |

# 2 San Diego Tourism Outlook

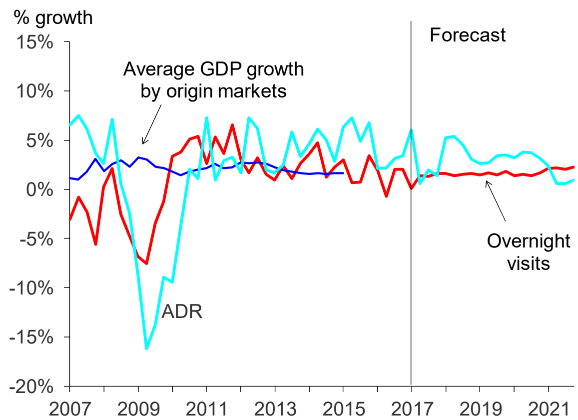
## 2.1 Visitor Trends

Visitation to San Diego totaled just over 34.9 million in 2016, a 1.9% increase over the prior year. Mainly supported by incredibly strong day visits (up 8.2%) in the final quarter of 2016, overnight visits lent some support finishing Q4 with 2.0% growth. A 2.9% decline in visits in the first quarter of 2017 is foretelling of what's to come– expect a lackluster 0.6% increase in visits for the year, a result of even day visits, and a 1.1% increase in overnight visits. Overnight household visits fell 2.7% in Q1, the fourth consecutive quarter of decline, while hotels and motels increased 1.7%. Growth in Mexico day visits to San Diego increased to 3.1% in 2016, but expect steady declines through each quarter of 2017.

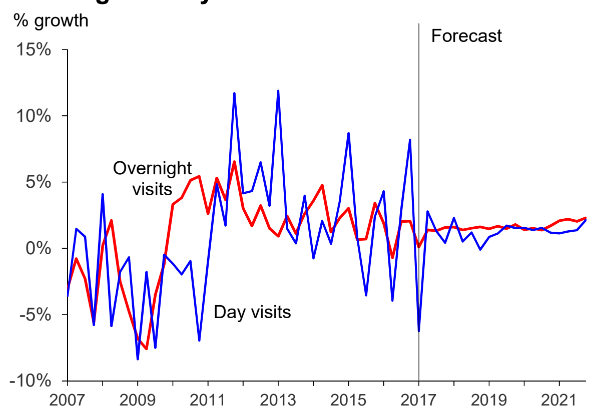
Total visitation to San Diego is expected to grow just 0.6% in 2017, compared to our February 2017 forecast of 1.2%. The downgrade is largely due to a weakened outlook on day visits from Mexico. Otherwise, the revised outlook considers a slowdown in demand growth from international inbound travelers. We anticipate the downward pressure of a strong dollar on foreign buying power to persist in the near term. Continued economic weakness in Brazil and more muted prospects from the United Kingdom and Western Europe also weigh on the near-term inbound outlook for San Diego, but strong domestic consumer demand and a slower-than-anticipated Fed tightening cycle are providing support. Overnight visits to San Diego are expected to grow 1.1% in 2017, compared to our 1.5% estimate in our February 2017 forecast. Day visitation will remain even, representing a downgrade from our earlier forecast of 0.9%.

While our US GDP forecast registers 2.2% for 2017, and healthy domestic indictors are expected to persist—including employment growth, firmer wage growth, and healthy consumer confidence and spending—the potential for weakness remains. Uncertainty surrounding the Trump administration remains a weakness as the failure to make good on campaign promises has the potential to undermine confidence in businesses and consumers

**Overnight Visitor Market**

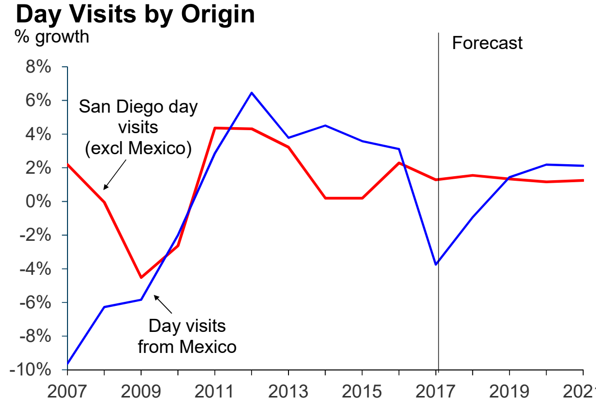



**Overnight & Day Visits**




Source : Tourism Economics / CIC Research

**Day Visits by Origin**




Source : Tourism Economics/SDCVB

alike. President Trump's rhetoric and policies, including travel restrictions and anti-immigrtion stance, pose additional risks to international travel sentiment, and weaknesses are expected in 2017

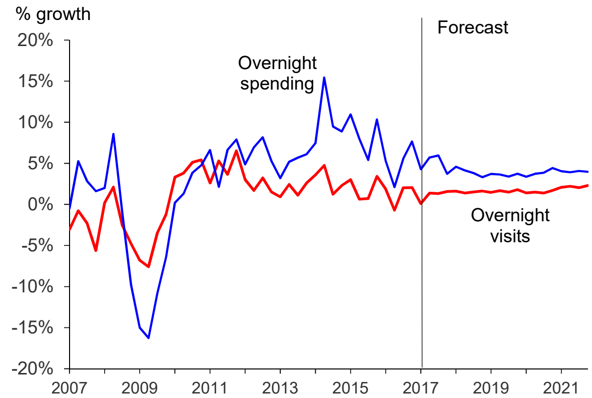
## 2.2 Expenditures

A strong finish for total expenditures in the final quarter of 2016 (7.7%) led to an average growth rate of 4.8% for the year. While not as strong, 2017 Q1 registered 3.6% growth. Weaker, yet still healthy, spending experienced in the first quarter is mainly attributable to a decline in day visitor spending. A bounce-back in spending is expected in the second quarter, and total expenditures are expected to increase 4.7% in 2017. This is on par with our previous forecast in February 2017. In 2016, spending by hotel/motel visitors was up 5.6%%, and spending by visitors staying in private households rose just 1.2%. Spending by visitors who stayed in neither hotels/motels or households rose 7.2% for the same period.

The average length of stay of overnight visitors has increased slighrly to 3.8 days per trip in the first quarter of 2017. Average expenditures by overnight visitors on a per-day basis rose 4.3% over the period ending Q1 2017.

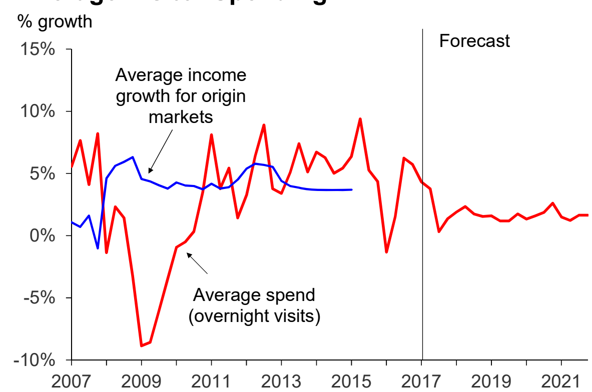
Visitor expenditures are expected to grow by 4.7% in 2017, supported mainly by the overnight market. Looking ahead, strength in expenditures growth will start to slow, a result of lower spending by both overnight and day visitors. Total visitor spending is forecast to grow 3.7% and 3.6% in 2018 and 2019, respectively.

**Overnight Visits & Expenditures**



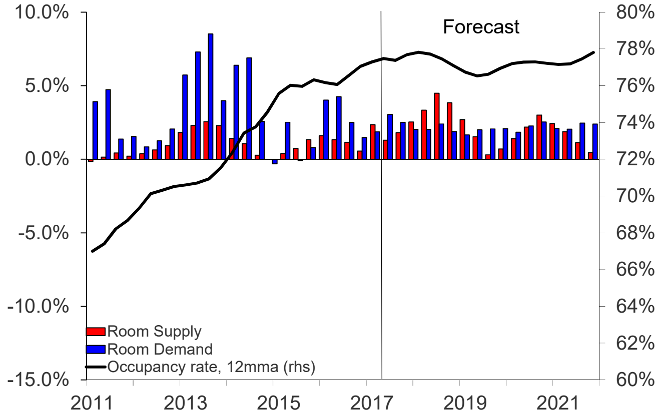

Source : Tourism Economics / CIC Research

**Average Visitor Spending**




Source : Tourism Economics

## 2.3 Hotel Performance



Source : Tourism Economics / STR

San Diego room demand grew 2.2% in 2016 and registered 2.5% growth in the first quarter of 2017. Room demand is expected to register 2.5% growth in 2017. Room supply growth increased to 1.3% in 2016 from just 0.4% in 2015, and measured 1.1% in Q1 2017 and 1.0% in Q2 2017. The premium in demand growth over that of supply in 2016 brought occupancy up to 77.1% from 76.3% in 2015, and is expected to reach 77.9% in 2017. Growth in average daily room rates (ADR) registered 2.8% in 2016, a marked slowdown from the prior year, though Q1 saw a boost of 6.1% in Q1 2017 and 3.3% in Q2 2017. Given the boost in ADR through the first half of the year, ADR in 2017 is expected to register 3.2% growth in 2017. Revenue per available room (RevPAR) posted 3.8% gain in 2016, following a robust 8.6% gain in 2015. RevPAR, similar to ADR, has been upgraded since our previous forecast, and is expected to register 4.3% growth for 2017.

The San Diego hotel sector outperformed the US in 2015 and 2016. Room demand growth in 2016 registered 2.2% in San Diego and 1.7% across the US. In 2017, the trend is expected to continue, with San Diego outperforming the US (2.5% vs 1.7%). Conversely, supply growth will underperform the nation in 2017, as the US is expected to see 2.0% in growth, while San Diego will experience about a 1.4% increase in available rooms in 2017. ADR growth in San Diego is also expected to outperform the US, with growth rates of 3.2% and 2.5%, respectively. San Diego has maintained its lead compared to the nation in terms of occupancy, reaching 77.1% in 2016, and is expected to near 78% in 2017. The US, on the other hand, will remain around 65% occupancy. Current hotel pipeline projections suggest that room supply growth in San Diego will increase, on average, 1.4% in 2017 and 3.1% in 2018. Supply for the US market will contribute at least 2.0% growth each year through 2019.

Room demand for San Diego is expected to increase by 2.5% in 2017 before posting 2.2% growth in 2018 and 1.9% in 2019 as overnight visitation growth remains steady. Overall, room demand over the forecast horizon has increased in comparison with our previous forecast in February 2017 (2.2% in 2018, 1.9% in 2019, and 2.1% in 2020 in our current forecast, compared to 1.5% in 2018, 1.0% in 2019, and 1.2% in 2020 in our previous forecast from February 2017). The resulting differences in hotel demand between our previous and current forecasts are 0.7%

for 2018, 0.9% for 2019, and 0.9% for 2020. We expect demand in the US hotel sector to remain slightly above or below 2.0% through 2020 for a number of reasons. Oxford Economics forecasts GDP growth of 2.2% in 2017, rising to 2.4% in 2018, then dropping to 1.9% in 2019. Private consumption is expected to grow 2.6% this year, followed by a marked slowdown-- registering 2.5% growth in 2018, 2.0% in 2019, and 1.8% in 2020.

Despite solid economic fundamentals, uncertainty persists in both domestic and international markets, weighing on US hotel sector performance. This trend is expected to continue. While business investment is expected to strengthen as domestic and global demand firms, ongoing dysfunctionality in Washington will continue to constrain the pace of spending. On the international front, unintended consequences of President Trump's ongoing rhetoric and policies related to travel restrictions, immigration, and international relations still do not portend well for inbound travel. Looking forward, we expect that continued supply growth, coupled with a slowdown in demand, will result in declined occupancy levels for the US lodging sector. We expect a similar trend for the San Diego lodging sector, with occupancy levels registering 77.2% in 2018, 77.1% in 2019, and a slight uptick in 2020 to 77.3%.

As US room demand growth eases, moderate growth in room supply will stem ADR gains to 2.4% in 2017, and 4.6% and 3.1% in 2018 and 2019, respectively. Here, the San Diego outperforms the nation as room rates are expected to be higher than the national average through 2020.

# 3 US Tourism & Lodging Outlook

**Domestic Person Trips in the US**
**(Millions)**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | 1900.1 | 1963.7 | 1997.5 | 2030.3 | 2059.6 | 2109.3 | 2178.7 | 2206.5 | 2245.9 | 2286.3 | 2322.4 | 2356.2 |
| % change | -3.3 | 3.3 | 1.7 | 1.6 | 1.4 | 2.4 | 3.3 | 1.3 | 1.8 | 1.8 | 1.6 | 1.5 |
| **By purpose** | | | | | | | | | | | | |
| **Business** | 434.3 | 446.6 | 440.7 | 439.4 | 445.7 | 450.8 | 459.8 | 458.9 | 466.2 | 471.2 | 475.0 | 478.2 |
| % change | -5.8 | 2.8 | -1.3 | -0.3 | 1.4 | 1.2 | 2.0 | -0.2 | 1.6 | 1.1 | 0.8 | 0.7 |
| **Leisure** | 1465.9 | 1517.1 | 1556.8 | 1590.9 | 1614.0 | 1658.4 | 1718.9 | 1747.5 | 1779.7 | 1815.1 | 1847.4 | 1878.1 |
| % change | -2.5 | 3.5 | 2.6 | 2.2 | 1.5 | 2.8 | 3.6 | 1.7 | 1.8 | 2.0 | 1.8 | 1.7 |
| **Hotel room demand** | | | | | | | | | | | | |
| **Roomnights** | 940.7 | 1008.1 | 1057.9 | 1086.6 | 1107.7 | 1152.5 | 1182.5 | 1202.1 | 1223.1 | 1247.0 | 1268.9 | 1291.0 |
| % change | -6.2 | 7.2 | 4.9 | 2.7 | 1.9 | 4.1 | 2.6 | 1.7 | 1.7 | 2.0 | 1.8 | 1.7 |

Forecast prepared May 2017

**Summary US Lodging Forecast**

| | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Rooms (mn room nights) | | | | | | | | | | | | |
| Room Supply | 446.3 | 458.2 | 467.0 | 464.8 | 454.7 | 467.5 | 476.7 | 475.1 | 464.5 | 477.7 | 486.9 | 485.1 |
| Room Demand | 270.1 | 317.6 | 332.2 | 282.3 | 277.7 | 322.8 | 337.6 | 285.0 | 282.0 | 329.9 | 344.4 | 290.8 |
| Occupancy (% balance) | 60.5% | 69.3% | 71.1% | 60.7% | 61.1% | 69.0% | 70.8% | 60.0% | 60.7% | 69.1% | 70.7% | 59.9% |
| ADR ($) | $ 121.25 | $ 124.58 | $ 127.19 | $ 122.29 | $ 124.27 | $ 127.42 | $ 130.30 | $ 125.85 | $ 127.61 | $ 131.12 | $ 133.77 | $ 129.09 |
| RevPAR ($) | $ 73.39 | $ 86.34 | $ 90.47 | $ 74.26 | $ 75.92 | $ 87.98 | $ 92.27 | $ 75.50 | $ 77.46 | $ 90.56 | $ 94.60 | $ 77.38 |

**(year-to-year % growth)**

| | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Rooms (mn room nights) | | | | | | | | | | | | |
| Room Supply | 1.4% | 1.5% | 1.6% | 1.7% | 1.9% | 2.0% | 2.1% | 2.2% | 2.2% | 2.2% | 2.1% | 2.1% |
| Room Demand | 0.7% | 2.0% | 1.5% | 2.3% | 2.8% | 1.6% | 1.6% | 1.0% | 1.5% | 2.2% | 2.0% | 2.0% |
| Occupancy (% balance) | -0.7% | 0.5% | 0.0% | 0.6% | 0.9% | -0.4% | -0.4% | -1.2% | -0.6% | 0.0% | -0.1% | -0.1% |
| ADR ($) | 3.3% | 3.0% | 3.4% | 2.6% | 2.5% | 2.3% | 2.4% | 2.9% | 2.7% | 2.9% | 2.7% | 2.6% |
| RevPAR ($) | 2.6% | 3.5% | 3.4% | 3.2% | 3.4% | 1.9% | 2.0% | 1.7% | 2.0% | 2.9% | 2.5% | 2.5% |

Forecast prepared February 2017

# 4 Key Origin Economies

## 4.1 US Market Summary

### Economy in 2% growth mode

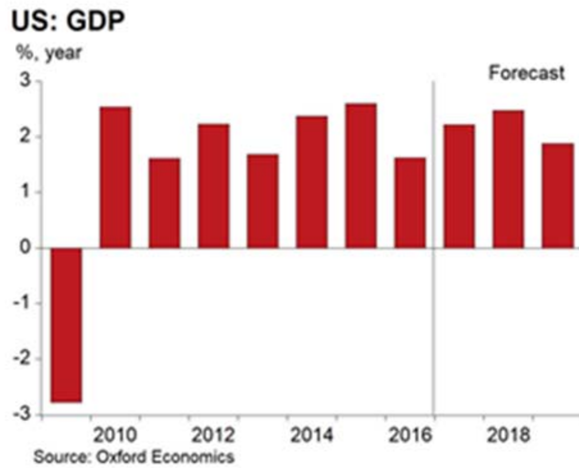
Real GDP growth was revised up to 1.4% in Q1 2017, with final sales up 2.6% and inventories subtracting 1.1 percentage point (pp) from growth. But weak consumer spending, temporarily restrained by higher inflation, unusually warm weather and slower tax refunds, was not repeated in Q2. As such, we forecast a rebound in GDP growth to around 3.0% in Q2.

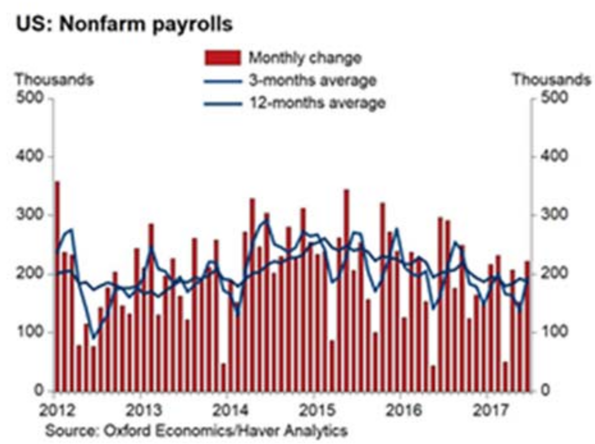
We believe the economy will grow 2.2% in 2017, with consumer spending moderating a little from the pace of 2016, but business investment and trade firming. We expect a fiscal stimulus package worth $500 billion (down from $1.2 trillion previously) over the next decade, including tax cuts for businesses and households and a modest infrastructure program. With less fiscal stimulus, the economy is now seen growing 2.4% in 2018 (down from 2.7% previously). Against a backdrop of modest growth and inflation below the Fed's 2% mandate, we forecast only two further rate hikes before the end of 2018 and a gradual normalization of the Fed's balance sheet starting in Q4 2017.

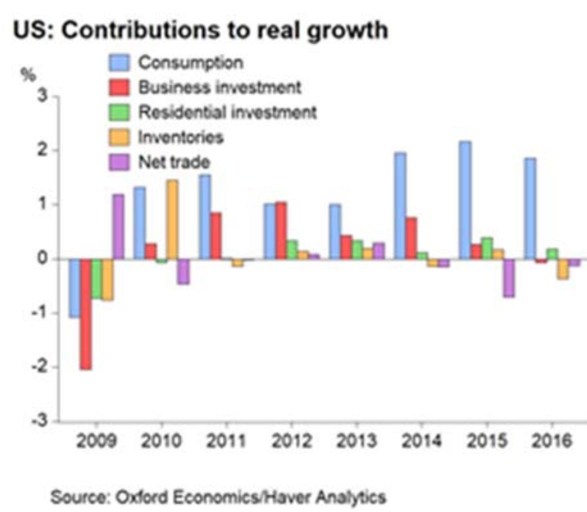
### Solid fundamentals but policy uncertainty

The economy remains quite strong despite transitory weakness at the start of the year. Income growth should remain supportive of consumer spending despite higher inflation than last year, while business investment is expected to firm. Key forecast drivers include:

- **Solid but maturing labor market** – healthy employment growth and firmer wage growth will bolster household income, confidence and outlays.
- **Solid consumer spending** – boosted by buoyant private sector confidence, steady increases in employment, faster wage growth and lower taxes, consumer spending growth should average 2.6% pa in 2017-18.
- **A revival in business investment** – business investment has firmed thanks to a stronger global

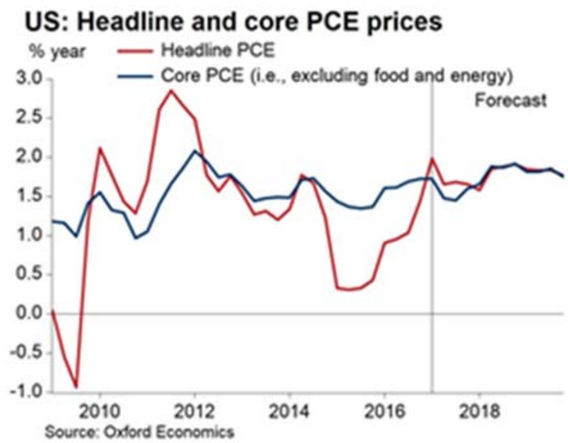


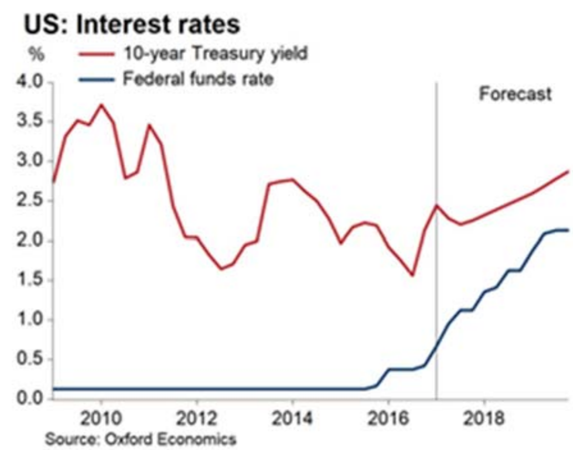



backdrop and rebounding energy activity. Political uncertainty represents an upside and downside risk to business activity.

- **Moderate housing activity** – stronger wage growth is supportive of housing activity but tight inventories and elevated home price inflation are important headwinds. We see residential investment contributing 0.2pp to annual GDP growth in 2017-18.
- **Inflation undershooting the Fed's mandate** – the Fed's favored inflation gauge - the personal consumption expenditure deflator - is expected to average 1.6-1.7% in 2017 and 2018.
- **Trade flows improving** – firmer global activity will support trade flows, but we expect that net trade will be a drag on GDP growth during 2017-18.
- **Policy uncertainty** – the uncertainty surrounding the likelihood, timing and magnitude of President Trump's policy proposals explain why he is seen as the greatest upside and downside risk to growth.

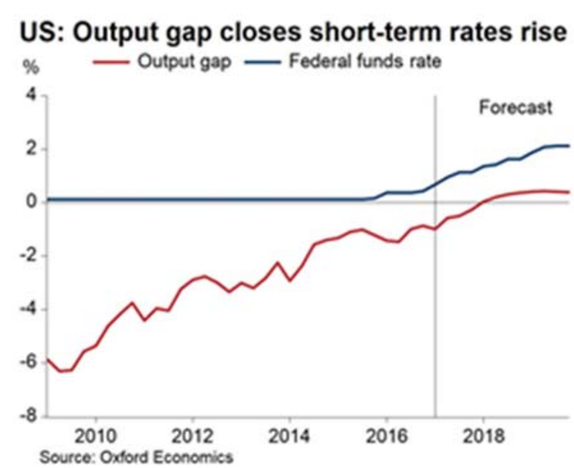



## Cautious Fed

The minutes from the June 13-14 FOMC meeting underscore that the start of the balance sheet reduction is on course for this year. Some policymakers preferred to start within a "couple of months" while others suggested waiting until later this year to allow additional time to "assess the outlook for economic activity and inflation." We anticipate that the FOMC will announce at the September 19-20 policy meeting that a reduction in the balance sheet will commence in October.

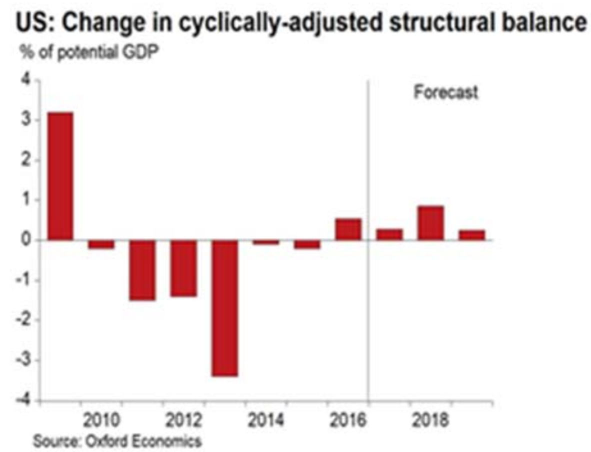
On the interest rate front, we believe that the inflation slowdown could be long-lasting and lead policymakers to forgo additional rate hikes this year. Our baseline view is that the Fed will raise rates twice in 2018. We look to Chair Yellen's testimony to Congress on July 12 for more timely guidance on the timing of future rate hikes and balance sheet reduction.



## Long-term factors

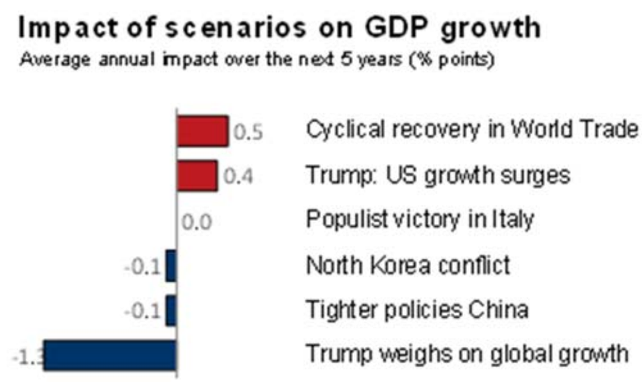
The US economy should grow 2.3% over the next two years, but then slow to 1.6-1.7% during 2019-2021 and 1.5% in 2025. The small negative output gap (now less than 1%) should close over the next year.

- **Flexible labor force** – the US will maintain the flexibility of its labor force, giving it an advantage over its peers.
- **Strengthening financial sector** – debt levels for US financial corporations are the lowest since 2001.




## What to watch out for

**Presidency** – Donald Trump's victory means that uncertainty is likely to linger over the near-term US economic outlook.




**Pro-growth fiscal reform** - a large fiscal stimulus package, combining infrastructure outlays with income and corporate tax cuts, has the potential to boost economic activity over the next two years.

**Protectionism** - calls for unilateral tariffs could severely curtail growth and employment in US, and lead to much higher domestic inflation.

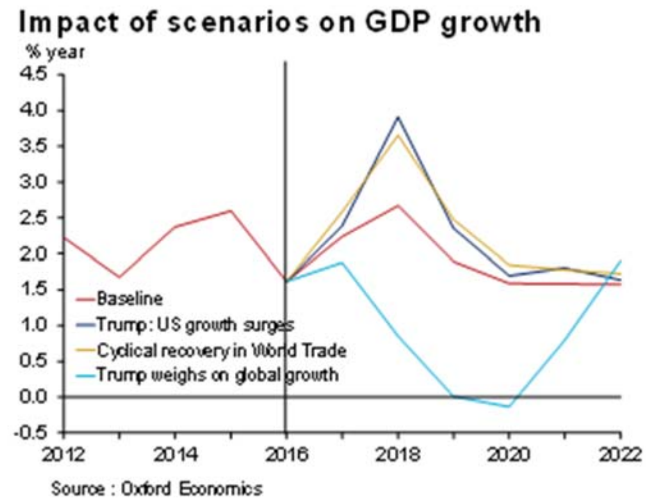
**Tighter financial conditions** - while financial conditions remain very loose, a tightening could occur.

**Business aversion** - we should not underestimate the force of anti-immigration and protectionist rip currents.

**US dollar appreciation** - reduced growth and monetary policy divergence will limit the dollar upside, but a larger-than-expected fiscal stimulus program could boost the greenback.

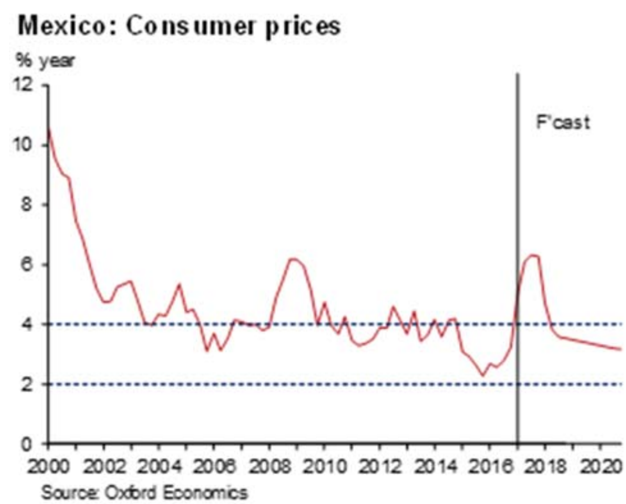
**Slower global growth** - much slower emerging markets growth (led by China) could lead to substantially weaker growth in developed economies.

**Geopolitical developments** - proposals to revisit security commitments to European and Asian allies and geopolitical tensions in the Middle East or Asia could have wide-ranging consequences. A large-scale terrorist attack on US soil also represents a key risk.




## 4.2 Mexico

The economy showed a remarkable resilience to the inflationary and confidence shock in Q1, with GDP expanding by 0.7% q/q, or 2.8% y/y. But this consumer-driven growth is likely to decelerate in the coming quarters as inflation erodes real incomes. Our growth forecasts remain unchanged this month, at 2.4% for 2017 and 2.1% for 2018.




Inflation has accelerated sharply in the last six months, reaching an eight-year high of 6.2% in May, up from 3.4% in December 2016. This has been mainly a consequence of the government's liberalisation of domestic fuel prices in January and the accumulated impact of the peso's slump in the two years up to January 2017. We see inflation peaking at 6.4% in August and remaining above 6% through the rest of 2017.

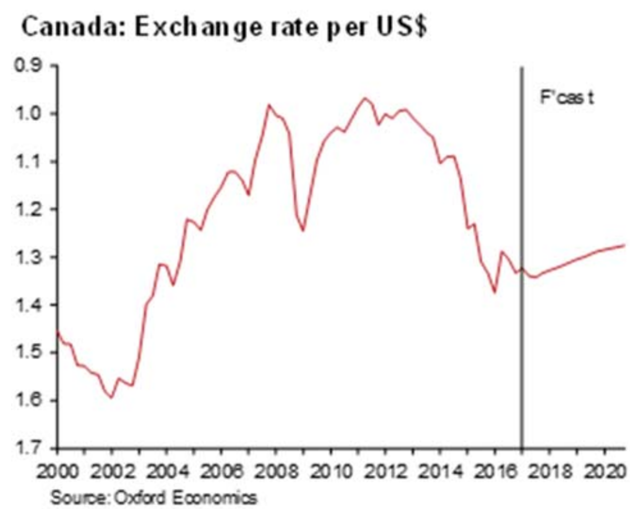
As inflation has continued to rise, Banxico has increased interest rates at every policy meeting since last September. However, June's 25bp rate hike, which took the target rate to 7.0%, was accompanied by a quite dovish statement, signalling that this was likely the last hike of this tightening cycle (see Banxico to Stop at 7%...).

After recovering 22% against the dollar since President Trump's inauguration, we now see the peso as close to fundamental value. Further appreciation could continue in H2 2017 as Mexico's yields remain quite attractive and the short-term risks are low, but some depreciation is likely in the first half of next year due to the political uncertainty surrounding the Mexican general election in mid-2018.

The good performance of the economy in Q1 did not rely only on private consumption, which contributed 2% points of the 2.8% y/y GDP growth. Net trade contributed 0.5% points as export volumes increased by an impressive 9.1% while import volumes rose by 7.7%. We expect net trade to remain a positive contributor to growth this year as global trade rebounds but its impetus should moderate in the coming quarters.

## 4.3 Canada

Real GDP grew 3.7% annualized in Q1, marking a very upbeat start to 2017 for Canada's economy. The headline gain was broad-based, with the exception of net exports (which were a drag on growth). The economy appears to be picking up momentum, but we think the headline Q1 growth number overstates the true pace of underlying economic activity. Going forward, we expect that rising activity in both energy and non-energy sectors, as well as supportive monetary and fiscal policy, will underpin a more moderate-paced expansion and forecast that GDP growth will average 2.5% in 2017 as a whole.



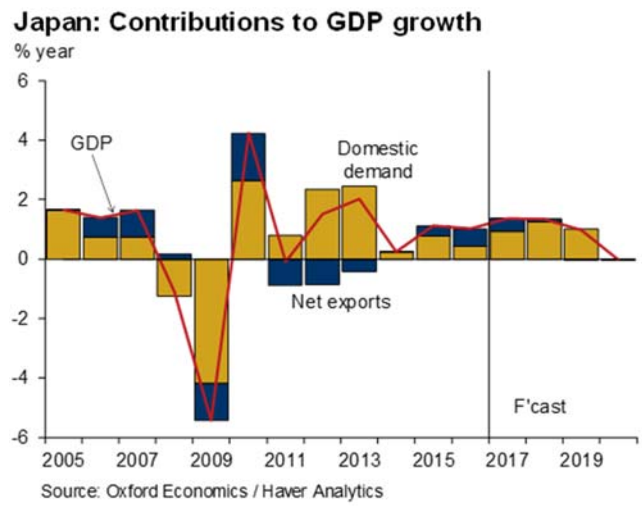

A recent speech from Senior Deputy Governor Carolyn Wilkins signals the Bank of Canada is growing more confident about the economic outlook. However, rather than signalling an imminent tightening of monetary policy, we think the Bank of Canada is trying to telegraph that it is very unlikely – barring an unexpected shock – to lower the overnight rate below the current level of 0.5%. We expect the next move from the Bank of Canada will be a 25 basis point rate hike in Q1 2018. In our view, weak inflationary pressures and considerable domestic and global uncertainties will keep the Bank of Canada on the sidelines until early next year.

The economy continues to generate robust employment growth, with the 12-month moving average in May at its strongest since early 2013. Upbeat job creation will support income growth and in turn consumer spending, even as wage growth remains weak. Meanwhile, oil prices continue to trade in the US$40-50 per barrel range, highlighting that energy sector activity isn't likely to contribute as robustly to GDP growth as it did in the days before oil prices collapsed.

## 4.4 Japan

GDP is forecast to grow by 1.4% this year and 1.3% in 2018 as improving global demand and a weak yen supports growth in exports and business investment. Moreover, fiscal and monetary policy will remain helpful. And given solid employment, we expect domestic demand to becoming an increasing driver of growth. However, the economy faces several headwinds. Aside from the risk of US trade protectionism, the yen is vulnerable to 'risk-off' episodes. Wage growth is also sluggish, which could stall the recovery in household spending.

Monthly data suggest GDP growth was solid in Q2, with goods export volumes up nearly 7% year-on-year in the first two months of the quarter and industrial production recording annual growth of 6% over the same period. In addition, the latest Tankan survey shows capital expenditure intentions continuing to improve. In particular, planned software investment by SMEs soared to a survey record-high as labour constraints are spurring firms to invest in labour-saving technologies.




We expect exports to remain the key driver of economic growth this year, although the contribution from the external sector is likely to ease in H2 as Chinese import demand moderates. Meanwhile, fiscal and monetary policy will be supportive. However, while we see some upside risks to our business investment outlook, we remain cautious over the strength of household spending as wage growth continues to be sluggish.

We have revised up our forecast for the JPY, both this year and next. While we still expect the growing divergence in US/Japanese monetary policy to weaken the yen, we have lowered the number of forecast rate hikes by the US Fed this year and next. As such, the spread between Japanese-US yields will be smaller and we now look for the JPY/USD to end 2017 at 113.5, before weakening to 116 by end-2018.

## 4.5 United Kingdom

We have nudged up our forecasts for GDP growth in 2018 and 2019 to 1.5% and 1.6% respectively, as a downgrade to our oil price projection heralds a period of lower inflation and eases the squeeze on household spending power. However, growth will still be subdued by historical standards, with fiscal austerity continuing to exert a sizeable drag.

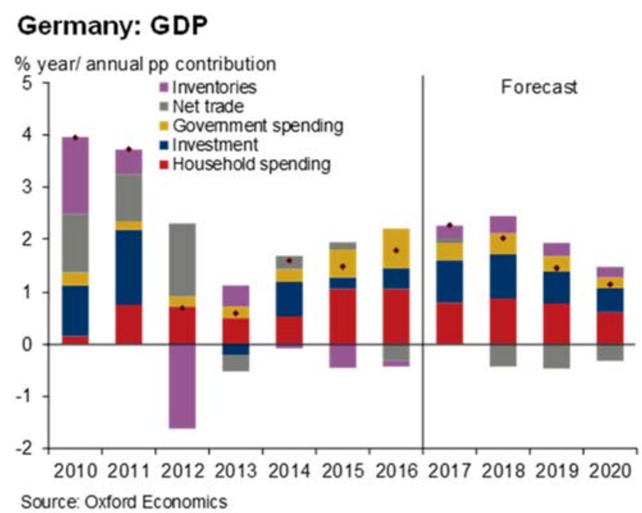
The final estimate for Q1 2017 left quarterly GDP growth unrevised at just 0.2%. And hopes of a strong rebound in Q2 have been dampened by a run of softer official output data, May's drop in retail sales and disappointing CIPS surveys for June. We now expect quarterly GDP growth of 0.3-0.4% in Q2.


The general election saw the Conservative party surprisingly lose seats and fall short of a majority. It has since struck a confidence and supply agreement with the Democratic Unionist Party (DUP) who will support key legislation in parliament. This should ensure that the Government is able to govern in the near term, but there is a strong chance that it will not last the full five-year-term. The loss of a parliamentary majority increases the risk of a 'no deal' scenario on Brexit, but we still see a divorce deal which allows a period of transitional arrangements, followed by a free-trade agreement, as the most likely outcome.

The June MPC meeting saw three members vote for an immediate rate hike. But one of the three, Kristin Forbes, has now left the Committee, and though some members – most notably Bank Chief Economist Andy Haldane – have made more hawkish noises of late, they have stated that certain criteria must be fulfilled before they vote for a hike. We still think that the first rate hike is unlikely to come before 2019 given the subdued outlook for growth and likelihood that inflation will slow next year.

## 4.6 Germany

The growing likelihood of a further pick-up in quarterly GDP growth in Q2 has prompted us to raise our growth forecast for 2017 again. We now expect the German economy to expand by 2.3% this year, compared with 2.0% last month.



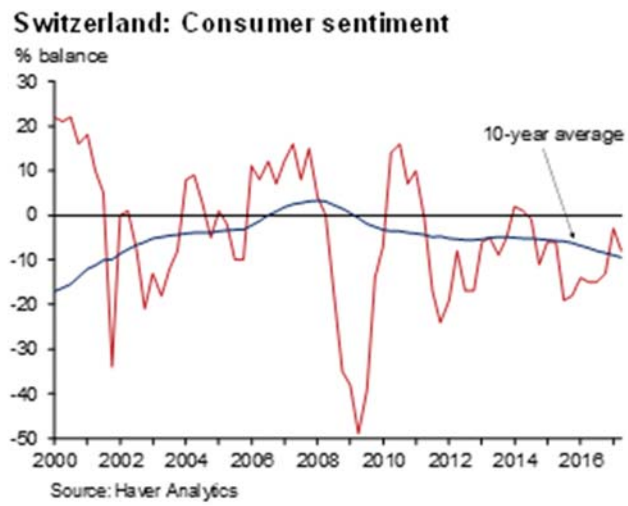

Both the soft and hard data now point to a broad-based improvement in quarterly growth in Q2. Our GDP indicator currently points to a quarterly rise of over 1%, well above Q1's 0.6% gain. While our baseline forecast assumes a less dramatic pick-up to 0.9%, this would be the strongest two-quarter period of growth since early-2011. We still expect growth to slow in the second half of the year, and beyond, but we now expect the slowdown to be more gradual than previously assumed.

One reason for this is that we assume that the employment recovery will continue for longer than previously expected – given the ongoing weakness of wage growth, despite the low unemployment rate, we have raised our assessment of the level of spare capacity in the labour market. This, combined with weaker inflation thanks to oil price developments, has led us to push up our household spending forecast.

We have also raised our investment forecast over the rest of the decade, given the conducive environment and strong financial position of firms.

Overall, after expansion of 2.3% this year, we now see GDP growth of 2.0% in 2018 and 1.5% in 2019 (compared with our forecasts last month of 1.6% and 1.2% respectively). Although we still see inflation rising above 2% in the latter part of the decade in response to the stronger recovery, we have lowered our inflation forecast for this year and next slightly, mainly in response to the downward revision to our oil price forecast.

## 4.7 Switzerland




Despite very upbeat business sentiment, the Swiss economy expanded by only a modest 0.3% in the first quarter of 2017. As a result, we have slightly lowered our growth forecast for 2017 from 1.5% to 1.4%. However, there were undeniably positive signs in the Q1 report, such as the acceleration of the Swiss industrial sector and the upturn in exports and investment activity. Moreover, unemployment has continued to fall steadily this year and the external background is now relatively solid. Consequently, we have maintained our GDP growth forecast for 2018 at 1.8%.

Swiss real GDP expanded by 0.3% quarter-on-quarter in Q1 2017, whereas we had expected a rise of 0.5%. Equipment and construction investment increased and net exports also contributed noticeably to overall GDP growth. However, private consumption only grew marginally and there was a significant negative impact from the change in inventories.

Although the industrial PMI fell for a second consecutive month in May, at 55.6 it remains clearly above the growth-contraction threshold of 50. And one positive sign is that the order backlog sub-component is still at a high level. Moreover, industrial companies are hiring workers. This is reflected in labour market developments, with the unemployment rate edging down from 3.3% at the end of 2016 to 3.2% in May. This trend should continue, helping to boost private consumption spending in the coming months.

## 4.8 Eurozone


The continued strong tone to recent economic data, along with an upward revision to Q1 GDP, has prompted us to upgrade our GDP growth forecast for 2017 from 1.9% to 2.0%, well above the consensus forecast of 1.7%.

The first detailed Q1 GDP release for the Eurozone revealed that quarterly GDP growth was revised up from 0.5% to 0.6%. The breakdown showed broad-based strength. Encouragingly, investment recorded another solid expansion, suggesting that it can pick up some of the slack from slowing household spending.

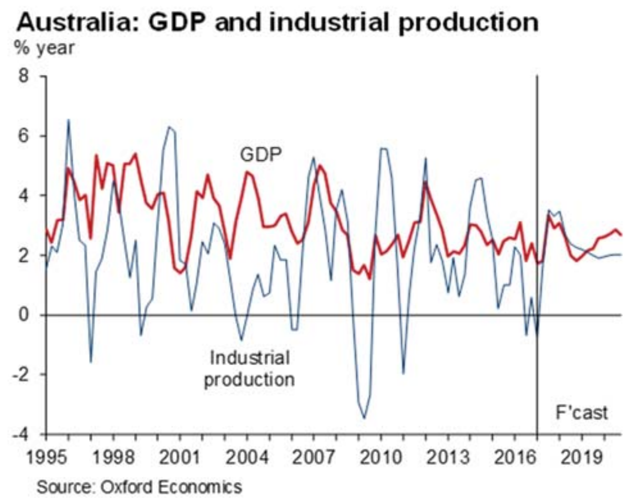
The business surveys are on track to exceed their Q1 averages this quarter, suggesting that a further acceleration in GDP growth is quite possible. As yet, there is little hard data for Q2, but the healthy unemployment figures for April – unemployment recorded its sharpest monthly fall in over two years – is indicative of another quarter of robust growth. We have penciled in a 0.6% rise in GDP, but there are certainly upside risks (and some downside risks) to this figure.

Over the rest of the year, we expect the recovery to remain more broadly based than in 2016 as investment and exports take over the baton from household spending. While the latter will inevitably slow in response to higher inflation, rising employment and tentative signs of accelerating wage growth imply that spending will remain solid.

Despite the upward revisions to our GDP forecast over recent months, there is little evidence to suggest that underlying inflation pressures are building more rapidly than previously assumed – a view to which a majority of the ECB Governing Council appear to subscribe. Accordingly, we do not expect the ECB to bring forward policy normalization in response – unconventional policy will be unwound very slowly.

## 4.9 Australia

The national accounts data reported a very surprising 1.6% contraction in export volumes in the first three months of the year, which dragged quarterly GDP growth down to just 0.3% q/q. Domestic demand held up surprisingly well, growing 0.8% q/q, but with households still struggling with slow employment and wages growth, and the sectoral trends in investment very mixed, we do not expect this pace to be sustained. A bounce-back in exports and GDP is forecast in Q2 but the big miss in exports in Q1 means that we now expect the economy to expand by close to 2.4% both this year and next.




Exports were held back by falls in the volume of minerals and metal ores and coal products, which declined 6% and 4% respectively. The slide in coal volumes may be partially related to Cyclone Debbie, which struck Queensland in late March. But the fall in ores is harder to explain given steady increases in iron ore exports (80% of the category) from the Pilbara region. Export volumes are likely to have bounced back in Q2, but are now only forecast to grow by 5.7% in 2017 as a whole after the weak Q1.

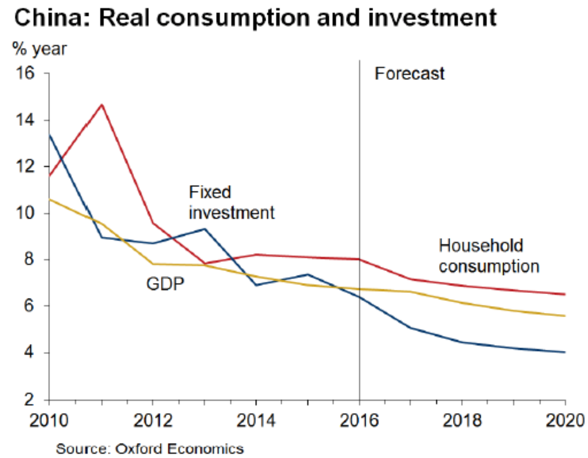
Despite slowing growth in employment and wages, household spending grew 0.5% q/q in Q1, after an upwardly-revised 1% gain in the last quarter of 2016. However, with real income growth set to stay sluggish until H2 2018, consumer spending growth is likely to slow; we expect it to increase by 2.5% this year and 2.1% in 2018.

Non-mining private sector investment recorded the third consecutive quarter of growth in Q1, further supporting our view that activity levels are turning around. But with LNG extraction investment set to decline as the Wheatstone and Ichthys facilities are completed, and residential investment already falling, it will be 2019 before a sustained recovery in total investment materialises.

## 4.10 China

Economic growth momentum held steady in May, following a slowdown in April, with real fixed asset investment growth stable and household consumption remaining robust. Amid a reasonably constructive external outlook, a modest tightening of overall monetary conditions is consistent with economic growth cooling over the rest of the year without declining substantially. We expect GDP growth to average 6.6% in 2017, just below the outturn for 2016.

China's recent export data indicate that the recovery of global demand is relatively broad-based. The further pick-up in growth of exports to the US and the EU is particularly encouraging in terms of the sustainability of the global trade recovery. However, with the recent rise in inventories in industry now weighing on production, growth of Chinese industrial value added remained unchanged at 6.5% y/y in May.

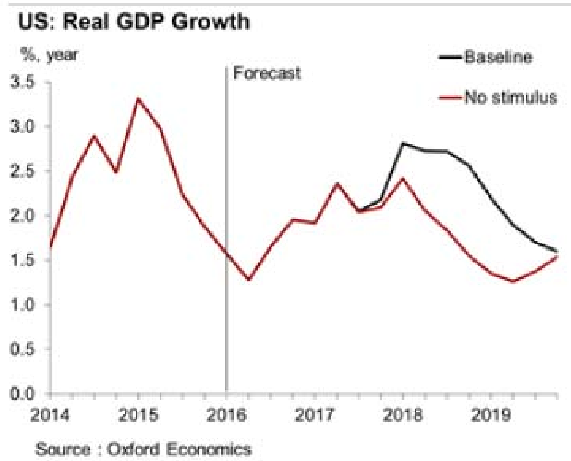



We expect economic growth momentum to cool over the remainder of 2017. Infrastructure investment should remain robust in a year of a major leadership reshuffle. And corporate investment should benefit somewhat from renewed profit growth. However, the tightening of house purchase restrictions in many large cities is likely to weigh on real estate investment. And manufacturing investment continues to be restrained by ample spare capacity in many sectors. The deceleration of domestic demand growth should weigh on imports later in 2017.

While the positive start to 2017 emboldened policymakers to raise interbank interest rates and tighten regulation of the financial system and local government debt, we do not think that China's leadership will want to see economic growth slowing significantly below 6.5%. Any significant loss in economic momentum in the coming months will probably lead to efforts to ease monetary conditions.

We expect GDP growth to decelerate through 2020 on slowing investment and industrial activity. But we forecast continued solid consumption and service sector growth. Overall, we forecast GDP growth in 2017-20 to average 6%.

# 5 The trillion-dollar question: Trump stimulus or not?




The trillion-dollar question is whether the administration will be successful in passing its promised tax reform and infrastructure package through Congress. We believe a small package of tax cuts and infrastructure spending will be implemented in 2018, but note that Congress' busy agenda and growing concerns around the President's future in office have reduced the odds of a large stimulus. Removing the stimulus from our forecast would leave the US economy in a 2% growth mode with the Fed adopting a more cautious stance.

In its first budget blueprint, the administration promises to balance the federal budget over the next 10 years via a mixture of severe spending cuts, totaling $3.6 trillion, and a very optimistic growth outlook. While we know such budget proposals are generally nothing more than an indication of presidential priorities, this budget stands out for its questionable timing, growth expectations and budgetary assumptions.

We estimate that GDP growth would have to be more than 2.0pp higher than in our baseline forecast every year through the decade to cover the $5.9 trillion static cost of President Trump's tax proposals—an impossible feat in our opinion.

Our baseline assumes a deficit-financed $1.2 trillion fiscal package including tax cuts and infrastructure spending over the next decade. We expect a $200 billion infrastructure boost (with peak outlays in mid-2018) and $1 trillion in tax cuts. About $600 billion of the tax cuts would go to households (with 50% going to the top 1% of income earners) and the remaining $400 billion to corporations.

Our baseline forecast sees real GDP growth accelerating from 2.1% this year to 2.7% in 2018. However, if we remove the fiscal stimulus assumption, the economy would advance only 2.0% in 2018 and create 700,000 fewer jobs over 2017-2018. In this scenario, we would expect the Fed to raise rates only 25-50bps next year, compared with 75bps in the baseline.

# 6 San Diego Forecast Tables

**San Diego Visitor Forecast**

(millions)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Visits | 34.3 | 34.9 | 35.1 | 35.5 | 36.1 | 36.6 | 37.3 |
| Total Overnight | 17.2 | 17.4 | 17.6 | 17.9 | 18.2 | 18.5 | 18.9 |
| Hotel / Motel | 9.6 | 9.8 | 10.0 | 10.1 | 10.2 | 10.3 | 10.5 |
| Household | 6.7 | 6.6 | 6.6 | 6.7 | 6.9 | 7.1 | 7.2 |
| Other | 0.9 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Day Visitors | 17.1 | 17.5 | 17.5 | 17.6 | 17.9 | 18.1 | 18.4 |
| Day (excl Mexican) | 12.7 | 13.0 | 13.1 | 13.3 | 13.5 | 13.7 | 13.8 |
| Mexican Day Visitors | 4.4 | 4.5 | 4.4 | 4.3 | 4.4 | 4.5 | 4.6 |

(year-to-year % growth)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Visits | 1.4% | 1.9% | 0.6% | 1.2% | 1.5% | 1.5% | 1.8% |
| Total Overnight | 1.8% | 1.3% | 1.1% | 1.5% | 1.6% | 1.5% | 2.2% |
| Hotel / Motel | 2.5% | 2.7% | 1.8% | 1.1% | 0.8% | 1.0% | 1.9% |
| Household | 0.3% | -1.0% | 0.0% | 2.0% | 2.6% | 2.0% | 2.5% |
| Other | 6.3% | 3.5% | 2.3% | 2.8% | 2.8% | 2.8% | 2.1% |
| Day Visitors | 1.0% | 2.5% | 0.0% | 0.9% | 1.4% | 1.4% | 1.5% |
| Day (excl Mexican) | 0.2% | 2.3% | 1.3% | 1.6% | 1.3% | 1.2% | 1.3% |
| Mexican Day Visitors | 3.6% | 3.1% | -3.7% | -0.9% | 1.4% | 2.2% | 2.1% |

**San Diego Visitor Forecast**

(millions)

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Visits | 7.05 | 8.80 | 10.99 | 8.26 | 7.19 | 8.89 | 11.14 | 8.32 | 7.27 | 9.01 | 11.32 | 8.46 |
| Total Overnight | 3.83 | 4.37 | 5.12 | 4.30 | 3.89 | 4.44 | 5.20 | 4.37 | 3.94 | 4.51 | 5.27 | 4.45 |
| Hotel / Motel | 2.27 | 2.69 | 2.81 | 2.25 | 2.29 | 2.72 | 2.84 | 2.28 | 2.32 | 2.74 | 2.86 | 2.30 |
| Household | 1.35 | 1.43 | 2.02 | 1.81 | 1.38 | 1.46 | 2.06 | 1.85 | 1.40 | 1.51 | 2.10 | 1.90 |
| Other | 0.21 | 0.25 | 0.29 | 0.24 | 0.22 | 0.26 | 0.30 | 0.25 | 0.22 | 0.26 | 0.31 | 0.26 |
| Day Visitors | 3.94 | 3.23 | 4.43 | 5.87 | 3.95 | 3.30 | 4.45 | 5.94 | 3.95 | 3.33 | 4.50 | 6.04 |
| Day (excl Mexican) | 2.72 | 2.20 | 3.37 | 4.78 | 2.78 | 2.28 | 3.40 | 4.86 | 2.78 | 2.30 | 3.43 | 4.94 |
| Mexican Day Visitors | 1.22 | 1.03 | 1.06 | 1.09 | 1.18 | 1.02 | 1.05 | 1.08 | 1.16 | 1.03 | 1.07 | 1.10 |

(year-to-year % growth)

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Visits | -2.9% | 2.1% | 1.3% | 1.0% | 1.9% | 0.9% | 1.3% | 0.8% | 1.2% | 1.4% | 1.6% | 1.7% |
| Total Overnight | 0.1% | 1.4% | 1.3% | 1.6% | 1.6% | 1.4% | 1.5% | 1.6% | 1.5% | 1.7% | 1.5% | 1.8% |
| Hotel / Motel | 1.7% | 1.7% | 1.7% | 1.9% | 1.2% | 1.0% | 1.0% | 1.1% | 1.0% | 0.6% | 0.8% | 1.0% |
| Household | -2.7% | 0.6% | 0.6% | 1.2% | 1.9% | 2.0% | 2.0% | 2.1% | 2.0% | 3.4% | 2.2% | 2.7% |
| Other | 1.9% | 2.8% | 2.3% | 2.0% | 3.4% | 2.6% | 2.9% | 2.5% | 3.1% | 3.3% | 2.5% | 2.6% |
| Day Visitors | -6.2% | 2.8% | 1.3% | 0.4% | 2.3% | 0.5% | 1.2% | -0.1% | 0.9% | 1.1% | 1.7% | 1.5% |
| Day (excl Mexican) | -6.6% | 4.9% | 2.3% | 2.1% | 3.9% | 1.0% | 1.6% | 0.3% | 0.8% | 0.9% | 1.8% | 1.5% |
| Mexican Day Visitors | -5.6% | -3.3% | -2.9% | -3.3% | -1.1% | -1.0% | -0.7% | -1.0% | 1.1% | 1.7% | 1.3% | 1.7% |

| San Diego Visitor Expenditure Forecast ($ million) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Expenditure | 9,921 | 10,402 | 10,895 | 11,303 | 11,705 | 12,140 | 12,598 |
| Total Overnight | 8,952 | 9,405 | 9,882 | 10,273 | 10,644 | 11,052 | 11,494 |
| Hotel / Motel | 6,723 | 7,097 | 7,529 | 7,837 | 8,120 | 8,434 | 8,769 |
| Household | 1,370 | 1,386 | 1,398 | 1,445 | 1,497 | 1,551 | 1,618 |
| Other | 859 | 921 | 956 | 991 | 1,026 | 1,068 | 1,107 |
| Day Visitors | 969 | 997 | 1,013 | 1,030 | 1,061 | 1,088 | 1,104 |
| Day (excl Mexican) | 712 | 737 | 759 | 770 | 792 | 808 | 815 |
| Mexican Day Visitors | 257 | 260 | 254 | 260 | 269 | 280 | 289 |
| (year-to-year % growth) | | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Expenditure | 7.7% | 4.8% | 4.7% | 3.7% | 3.6% | 3.7% | 3.8% |
| Total Overnight | 8.4% | 5.1% | 5.1% | 4.0% | 3.6% | 3.8% | 4.0% |
| Hotel / Motel | 9.2% | 5.6% | 6.1% | 4.1% | 3.6% | 3.9% | 4.0% |
| Household | 3.8% | 1.2% | 0.8% | 3.4% | 3.6% | 3.6% | 4.3% |
| Other | 10.1% | 7.2% | 3.8% | 3.7% | 3.6% | 4.0% | 3.7% |
| Day Visitors | 2.0% | 2.9% | 1.6% | 1.7% | 3.1% | 2.5% | 1.5% |
| Day (excl Mexican) | 2.4% | 3.5% | 2.9% | 1.5% | 2.9% | 2.0% | 0.8% |
| Mexican Day Visitors | 1.1% | 1.1% | -2.3% | 2.2% | 3.5% | 4.0% | 3.3% |

| San Diego Visitor Expenditure Forecast ($ million) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2018 | | | | 2019 | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Expenditure | 2,361 | 2,835 | 3,229 | 2,469 | 2,472 | 2,944 | 3,343 | 2,545 | 2,562 | 3,049 | 3,456 | 2,637 |
| Total Overnight | 2,187 | 2,572 | 2,883 | 2,241 | 2,288 | 2,678 | 2,992 | 2,315 | 2,373 | 2,776 | 3,094 | 2,401 |
| Hotel / Motel | 1,693 | 1,996 | 2,169 | 1,670 | 1,774 | 2,078 | 2,257 | 1,728 | 1,844 | 2,148 | 2,338 | 1,791 |
| Household | 268 | 317 | 447 | 366 | 278 | 332 | 460 | 375 | 286 | 348 | 472 | 391 |
| Other | 226 | 258 | 267 | 205 | 236 | 268 | 276 | 211 | 243 | 280 | 283 | 219 |
| Day Visitors | 174 | 264 | 347 | 228 | 184 | 265 | 350 | 230 | 189 | 273 | 363 | 236 |
| Day (excl Mexican) | 119 | 204 | 283 | 153 | 127 | 205 | 286 | 152 | 130 | 210 | 296 | 156 |
| Mexican Day Visitors | 55 | 60 | 63 | 76 | 57 | 61 | 65 | 78 | 59 | 63 | 67 | 80 |
| (year-to-year % growth) | | | | | | | | | | | | |
| | 2017 | | | | 2018 | | | | 2019 | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Expenditure | 3.6% | 5.8% | 5.6% | 3.6% | 4.7% | 3.8% | 3.5% | 3.1% | 3.6% | 3.6% | 3.4% | 3.6% |
| Total Overnight | 4.3% | 5.9% | 6.0% | 3.8% | 4.6% | 4.1% | 3.8% | 3.3% | 3.7% | 3.6% | 3.4% | 3.7% |
| Hotel / Motel | 5.1% | 7.0% | 7.5% | 4.2% | 4.8% | 4.1% | 4.0% | 3.5% | 3.9% | 3.3% | 3.6% | 3.6% |
| Household | -1.4% | 1.5% | 0.8% | 2.0% | 3.8% | 4.6% | 2.9% | 2.7% | 2.8% | 4.7% | 2.7% | 4.3% |
| Other | 5.4% | 3.7% | 2.5% | 3.9% | 4.5% | 3.8% | 3.5% | 2.9% | 3.2% | 4.7% | 2.6% | 3.8% |
| Day Visitors | -4.3% | 4.5% | 2.3% | 1.9% | 5.9% | 0.7% | 1.0% | 0.7% | 2.8% | 3.0% | 3.6% | 2.5% |
| Day (excl Mexican) | -3.1% | 6.1% | 3.0% | 3.6% | 7.0% | 0.5% | 0.8% | -0.1% | 2.5% | 2.6% | 3.6% | 2.3% |
| Mexican Day Visitors | -6.6% | -0.8% | -0.7% | -1.3% | 3.5% | 1.1% | 2.1% | 2.3% | 3.5% | 4.1% | 3.6% | 2.9% |

## San Diego Hotel Sector Forecasts

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Room Supply | 21.9 | 22.2 | 22.5 | 23.2 | 23.7 | 24.1 | 24.5 |
| Room Demand | 16.7 | 17.1 | 17.5 | 17.9 | 18.3 | 18.7 | 19.0 |
| Occupancy (% balance) | 76.3% | 77.1% | 77.9% | 77.2% | 77.1% | 77.3% | 77.8% |
| ADR | $150.74 | $154.92 | $159.95 | $167.32 | $172.39 | $178.21 | $179.88 |
| RevPAR | $115.04 | $119.38 | $124.52 | $129.22 | $132.94 | $137.75 | $139.86 |
| **(year-to-year % growth)** | | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Room Supply | 0.4% | 1.3% | 1.4% | 3.1% | 2.1% | 1.8% | 1.5% |
| Room Demand | 2.8% | 2.2% | 2.5% | 2.2% | 1.9% | 2.1% | 2.1% |
| Occupancy | 2.3% | 1.0% | 1.0% | -0.8% | -0.2% | 0.2% | 0.6% |
| ADR | 6.1% | 2.8% | 3.2% | 4.6% | 3.0% | 3.4% | 0.9% |
| RevPAR | 8.6% | 3.8% | 4.3% | 3.8% | 2.9% | 3.6% | 1.5% |

## San Diego Hotel Sector Forecasts

| | 2017 | | | | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Rooms (mn roomnights) | | | | | | | | | | | | |
| Room Supply | 5.5 | 5.6 | 5.7 | 5.7 | 5.6 | 5.7 | 5.9 | 5.9 | 5.8 | 5.9 | 6.0 | 6.0 |
| Room Demand | 4.2 | 4.5 | 4.8 | 4.1 | 4.3 | 4.6 | 4.9 | 4.2 | 4.3 | 4.7 | 5.0 | 4.3 |
| Occupancy (% balance) | 75.4% | 80.2% | 83.2% | 72.6% | 75.9% | 79.8% | 82.1% | 71.1% | 74.4% | 79.0% | 82.5% | 72.3% |
| ADR ($) | $153.2 | $160.8 | $177.3 | $145.8 | $161.5 | $169.5 | $185.2 | $150.2 | $165.6 | $173.9 | $191.6 | $155.4 |
| RevPAR ($) | $115.4 | $129.0 | $147.5 | $105.8 | $122.5 | $135.3 | $152.1 | $106.8 | $123.3 | $137.4 | $158.1 | $112.5 |
| **(year-to-year % growth)** | | | | | | | | | | | | |
| | 2017 | | | | 2018 | | | | 2019 | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Room Supply | 1.1% | 1.0% | 2.3% | 1.3% | 1.8% | 2.5% | 3.3% | 4.5% | 3.8% | 2.7% | 1.5% | 0.3% |
| Room Demand | 2.5% | 2.4% | 2.2% | 3.1% | 2.5% | 2.0% | 2.0% | 2.4% | 1.9% | 1.7% | 2.0% | 2.1% |
| Occupancy (% balance) | 1.3% | 1.4% | -0.2% | 1.7% | 0.7% | -0.5% | -1.3% | -2.0% | -1.9% | -1.0% | 0.5% | 1.8% |
| ADR | 6.1% | 3.3% | 2.0% | 2.1% | 5.4% | 5.4% | 4.5% | 3.1% | 2.6% | 2.6% | 3.4% | 3.5% |
| RevPAR | 7.5% | 4.7% | 1.9% | 3.8% | 6.1% | 4.9% | 3.2% | 1.0% | 0.6% | 1.6% | 3.9% | 5.3% |

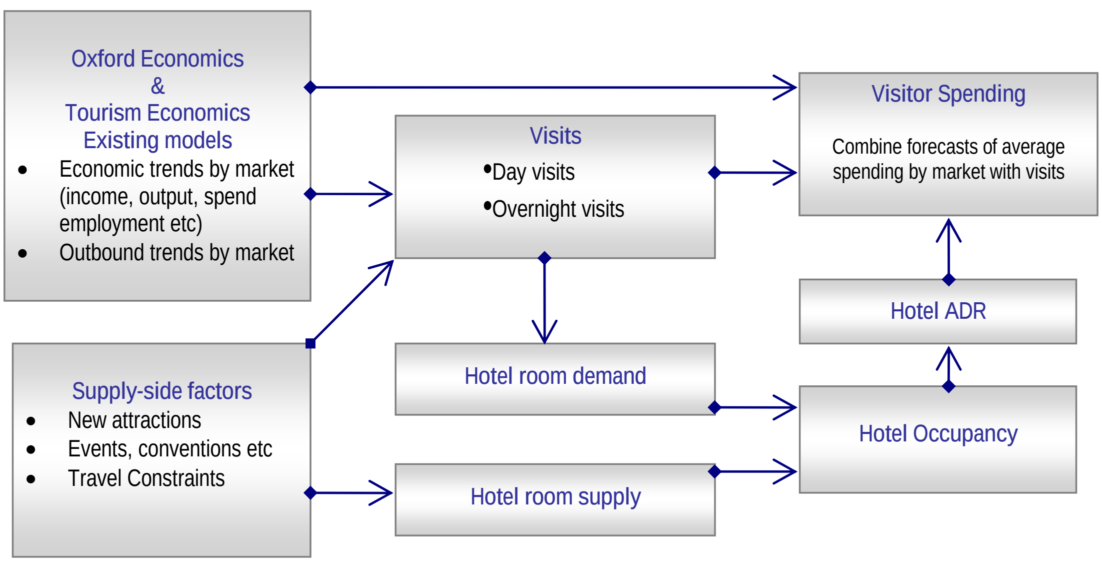
# 7 Forecast Methodology Overview

Forecasts reported in this document represent the baseline outlook with a business as usual marketing effort. This does not take any specific marketing programs directed at key markets into account.

The forecasts are primarily based upon expected economic developments in key origin markets as well as anticipated costs. Previous tourism trends relative to economic demand and travel conditions have been tracked and relationships have been quantified. Estimated relationships are applied to the economic and broader tourism forecasts.

Forecasts do account for the impact of important events which would influence visits and/or spend, such as air service restrictions and special events in San Diego such as hosting the Superbowl or US Open.

**Summary of Main Model Relationships**

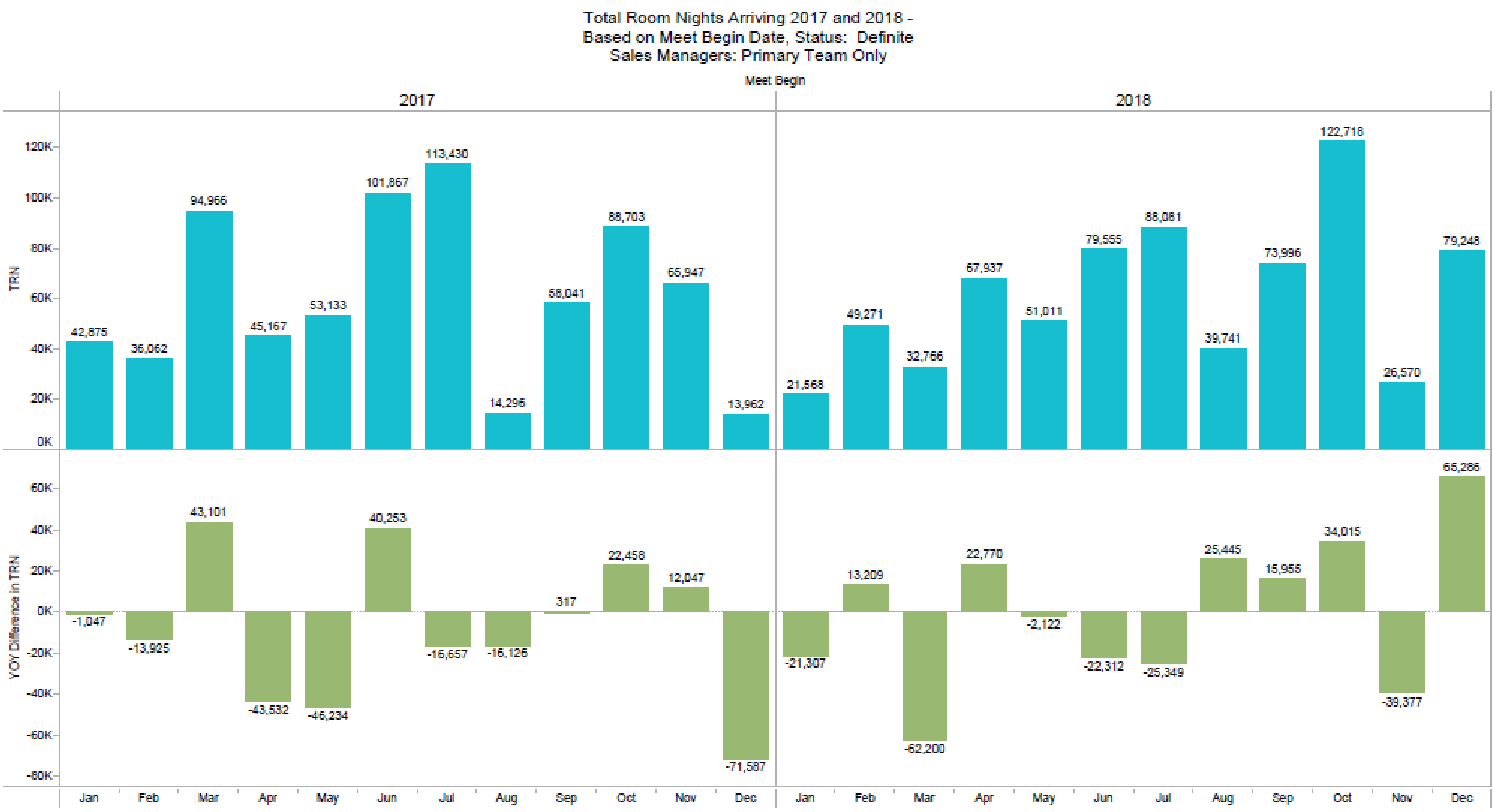



- **Overnight Visitors**. Trends in overnight visits have been identified and are forecast separately for stays in hotels and in private households. Forecasts account for different trends according to purpose of visit (business and leisure) as well as by origin market. Economic developments in key origin markets at the city, state, national and international level are included.
- **Day Visitors**. Travel patterns from nearby drive markets tend to differ from those from longer-haul markets. For day visitors the impact of economic developments in key origin markets and tourism costs (such as hotel room rates) differs from the impact on overnight visits. Mexican visitors represent a significant proportion of day visitors to San Diego and trends have been separately identified. For non-Mexican day visitors, business and leisure trends

have again been separately identified taking developments in origin markets into account.

- **Visitor Days**. Visitor days spent in San Diego are calculated from the number of overnight visits multiplied by average length of stay, plus day visits. Differences in the average length of visit according to origin markets are taken into consideration as well as any impact of economic developments.
- **Visitor Spending**. Average spending per day is calculated for different market segments and applied to visitor days. This takes tourism-related price inflation in both San Diego into account (such as hotel room rates), as well as spending patterns according to origin market and the impact of more general tourism costs (such as airfares and fuel costs).
- **Hotel Rooms sold**. Hotel room demand largely follows the trend in overnight visitor days. The impact of local demand on rooms is also accounted for as locals tend to use more rooms in economic downturns as a replacement for longer-haul travel.
- **Hotel Rooms supply**. Supply is calculated as the current stock of hotel rooms plus planned and current hotel construction. Probabilities are applied to the current timetable of projects underway to determine when new capacity will be available. It is assumed that almost all hotels under construction are completed, while a smaller proportion of those in the planning stage are completed according to plan.
- **Hotel Occupancy**. Occupancy is simply determined as the ratio of room demand to supply in terms of room nights.
- **Hotel Average Daily Rate (ADR)**. The cycle in daily rates follows occupancy closely, with a slight lag. Over time, more general price inflation also needs to be taken into consideration and price developments in San Diego as well as in origin markets are important factors.

# 8 San Diego Convention Center Attendance Forecast



# 9 San Diego Hotel Project Pipeline

San Diego County Potential New Supply Developments
*Updated June 2017*

| Property Name | Street Address | City | Zipcode | Potential Open Date | Number of Rooms | Potentiality Rating |
|---|---|---|---|---|---|---|
| Pendry San Diego | 550 J Street | San Diego | 92101 | Jan-17 | 317 | Open |
| Fairfield Inn and Suites San Marcos | 227 West San Marcos Boulevard | San Marcos | 92078 | Jan-17 | 116 | Open |
| Holiday Inn Express - La Jolla (New Rooms) | 6705 La Jolla Boulevard | La Jolla | 92037 | May-17 | 17 | Open |
| Courtyard by Marriott | 141 North Magnolia Avenue | El Cajon | 92071 | Aug-17 | 120 | 5 |
| Residence Inn San Diego Chula Vista | 2005 Center Park Road | Chula Vista | 91915 | Sep-17 | 148 | 5 |
| Ayers Hotel - Millenia Chula Vista | 1710 Millenia Ave | Chula Vista | 91915 | Sep-17 | 135 | 5 |
| Kona Kai Resort (New Rooms) | 1551 Shelter Island Dr | San Diego | 92106 | Dec-17 | 41 | 5 |
| | | | | 2017 Total | 894 | |
| Viejas Hotel (tower #3) | 5005 Willows Rd. | Alpine | 91901 | Mar-18 | 158 | 5 |
| LEGOLAND (2nd Hotel) | 1 Legoland Dr. | Carlsbad | 92008 | Mar-18 | 250 | 5 |
| The Guild Hotel | 500 West Broadway | San Diego | 92101 | Apr-18 | 168 | 5 |
| TownePlace Suites San Diego Central | 8650 Tech Way | San Diego | 92113 | May-18 | 106 | 5 |
| TownePlace Suites San Diego Downtown | 1441 Sixth Avenue | San Diego | 92101 | Jun-18 | 98 | 5 |
| SpringHill Suites Carlsbad San Diego | 3136 Carlsbad Boulevard | Carlsbad | 92008 | Jun-18 | 103 | 5 |
| Westin Carlsbad Resort & Spa (Additional rooms on Sheraton property) | 5480 Grand Pacific Dr. | Carlsbad | 92009 | Jul-18 | 71 | 4 |
| Home2 Suites - Carlsbad/Palomar Airport | 1901 Wright Place | Carlsbad | 92008 | Jul-18 | 146 | 4 |
| Hampton Inn and Suites by Hilton (Liberty Station) | NWC of N Harbor Dr & Kincaid Rd | San Diego | 92133 | Jul-18 | 181 | 5 |
| Carte Hotel & Suites Downtown San Diego | 401 W. Ash Street | San Diego | 92101 | Aug-18 | 239 | 5 |
| Moxy Hotel | 831 Sixth Ave. | San Diego | 92101 | Sep-18 | 126 | 5 |
| AC Hotel (Autograph Collection by Marriott) | 743 Fifth Ave. | San Diego | 92101 | Sep-18 | 147 | 5 |
| TownePlace Suites by Marriott (Liberty Station) | 2200 block of Lee Court | San Diego | 92133 | Oct-18 | 222 | 5 |
| InterContinental Hotel - Lane Field South | 900 West Broadway | San Diego | 92101 | Oct-18 | 400 | 5 |
| Embassy Suites San Diego Airport Liberty Station | 2300 Lee Court | San Diego | 92133 | Oct-18 | 240 | 5 |
| Homewood Suites Chula Vista Eastlake | 2424 Fenton St | Chula Vista | 91914 | Oct-18 | 90 | 2 |
| Hampton Inn Chula Vista Eastlake | Otay Lake Rd. & Fenton St. | Chula Vista | 91914 | Oct-18 | 106 | 2 |
| Courtyard by Marriott | 300 La Terraza Boulevard | Escondido | 92029 | Dec-18 | 105 | 4 |
| | | | | 2018 Total | 2,956 | |
| Fairfield Inn & Suites San Diego Mission Bay | SEQ Misson Bay Dr & Glendora St | San Diego | 92109 | Jan-19 | 111 | 2 |
| Hampton Inn | 100 Fletcher Parkway | El Cajon | 92020 | Apr-19 | 90 | 2 |
| Courtyard by Marriott San Diego Chula Vista | SR-125 and Olympic Parkway | Chula Vista | 91913 | May-19 | 153 | 2 |
| Hyatt Place | 1103 N Coast Highway | Oceanside | 92054 | Jun-19 | 127 | 2 |
| Beach Resort Hotel - South Block | Pacific Street & Mission Avenue | Oceanside | 92054 | Jun-19 | 225 | 2 |
| Oceanside Beach Resort Hotel - North Block | Pacific St./Civic Ctr./Myers St./Mission Ave. | Oceanside | 92054 | Jun-19 | 135 | 2 |
| 1010 Oceanside | Mission Ave. and Horne St. | Oceanside | 92054 | Jun-19 | 124 | 2 |
| San Marcos Hotel (SWC Montiel Rd & Leora Ln) | SWC Montiel Rd. & Leora Ln. | San Marcos | 92069 | Jun-19 | 128 | 1 |
| Stone Brewing Company Boutique Hotel | Citracado Pkwy. (across from Stone World Bistro) | Escondido | 92029 | Jul-19 | 99 | 3 |
| Sheraton Carlsbad Resort expansion (Additional Rooms) | 5480 Grand Pacific Dr. | Carlsbad | 92008 | Jul-19 | 79 | 2 |
| Sycuan Casino Resort Hotel | 5469 Casino Way | El Cajon | 92019 | Jul-19 | 300 | 5 |
| Crowne Plaza | 719 Ash Street | San Diego | 92101 | Oct-19 | 186 | 3 |
| Staybridge Suites | 719 Ash Street | San Diego | 92101 | Oct-19 | 146 | 3 |
| Aloft Hotel San Diego Downtown | 964 5th Ave. | San Diego | 92101 | Oct-19 | 124 | 1 |
| | | | | 2019 Total | 2,027 | |

__Potential Hotels Rating Scale:__ (5) Hotel is under construction. (4) Financing for hotel is secured. (3) City approved the project and all permits. (2) Architectural design/renderings, environmental documents prepared and ready to obtain permits and approval from city. (1) Conceptual idea only.

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