TOURISM ECONOMICS

San Diego Travel Forecast

December 2018

Report Prepared For:
San Diego Tourism Authority

TOURISM ECONOMICS

AN OXFORD ECONOMICS COMPANY

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1 Executive Summary

- As the year concludes, San Diego visitation and traveller spending both look to have had a very strong 2018. Approximately 35.8 million visitors will have spent around $11.3 billion, representing 2.3% growth in visitation and 4.7% growth in spending compared to 2017. Day visitor growth outpaced overnight visitor growth, expanding 2.9% and 1.7%, respectively. Day visits from Mexico have recovered from last year's 5.3% decline to expand by around 0.2% annually in 2018. Furthermore, day visits excluding Mexico registered 3.8% growth, supporting the bulk of overall visitation growth. Hotel demand growth is projected to grow 2.0% in 2018, notably faster than hotel supply growth (+0.6%). The average daily room rate (ADR) and revenue per available room (RevPAR) both look to continue recent strength, growing 3.3% and 4.7%, respectively.

- The overall US hotel sector has had a strong year as well. We expect that on an annual basis, room supply will have grown 2.0% while room demand will have grown 2.4% in 2018. On a quarterly basis, supply growth has been stable throughout the year, while demand slowed from around 3.0% in Q1 and Q2 to slightly below 2.0% in the final two quarters. Furthermore, occupancy growth fell from 1.0% in the first half of the year to an expected -0.2% in the second half. We anticipate occupancy growing 0.6% overall in 2018 before easing and potentially contracting in the coming years. ADR will have grown 2.6% in 2018, an improvement over 2.2% growth in 2017, but still not above 3.0% as it had been in recent years through 2016. RevPAR is expected to grow 3.0% in 2018, which also represents an improvement from 2017 (2.9%). Despite expected recoveries by both pricing metrics in Q4 versus Q3, ADR and RevPAR look to moderate in coming years to around 2.4% and 2.2%, respectively.

- Developments in the US and global economies suggest that 2018 will have been a peak in the hotel industry and global growth overall. Consumer spending and confidence remain healthy, in tandem with firming wage growth due to a record-tight labor market. However, the benefits of fiscal policy, particularly the large tax cuts and deregulation, will dissipate in 2019 as trade tensions, which had been initially shrugged off by businesses, will begin to have a larger impact on investment decisions. Foreign traveller sentiment remains a major risk, but energy prices and dollar strength look to moderate, providing some reprieve.

- Our San Diego visitor forecast for 2019 has come down from our June estimates as visitation slowed from the Q1 strength (+8.4%) to a subdued average growth rate of 0.9% over the latter three quarters of 2018. We foresee overall visitation growing 2.0%, supported by 2.0% growth in both the day and overnight segments. We expect visitation to hover near 2.0% through 2022, with increased emphasis on day travel growth. Expected to average around 2.1% through 2023, day travel growth will likely outpace overnight travel over the same period (+1.9%). Expenditures were also revised down slightly for 2019, as we now anticipate overall growth of 3.9%, supported by overnight traveller spending (+4.1%). In the hotel sector, room supply growth is expected to outpace room demand growth in 2019 and will continue to do so through 2023. Occupancy is expected to moderate slightly to 78.0% in 2019 from 78.3% in 2018, and will continue to soften,

registering around 76% by 2023. ADR growth is expected to continue, however we forecast growth easing to 2.5% in 2019 and 2020, and then 2.0% in 2021. RevPAR is expected to follow a similar trend, registering 2.1% in 2019 and falling below 2% for the remainder of our projections.

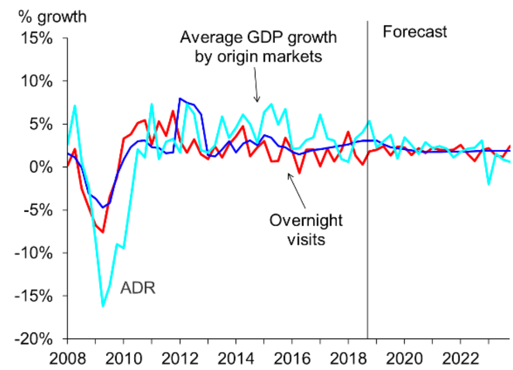
- While many economic indicators remain strong or have only begun to soften in the closing months of 2018, we still expect the overall US economic picture to become weaker in 2019. We expect the annual level of GDP growth of 2018 to register around 3.0%, however by the end of 2019, we will likely be closer to 2.0%. This will lead to a cooling of consumer spending; however, tightness in the labor market has led to wage growth approaching 3.0%, which may buoy consumer sentiments. As fiscal policies look to make their last supportive impact in 2019, business investment will begin a cooling pattern that will bring growth below 5.0% in the coming years. The global economic backdrop is no longer as supportive of US growth as it has been; the US growth rate now exceeds all other G-7 economies, emerging markets have begun to react negatively to tightening financial conditions, and trade wars have taken a toll on both relationships and output. Moving forward, we expect relative domestic strength to support growth in the travel and hotel industries, however at a moderating pace as travellers and businesses measure global cooling and persistent tensions.

San Diego Tourism Summary Outlook (annual % growth, unless stated)							
	2017	2018	2019	2020	2021	2022	2023
Visits	0.3%	2.3%	2.0%	2.0%	2.2%	1.9%	1.7%
Day	-0.7%	2.9%	2.0%	2.2%	2.4%	2.2%	1.7%
Overnight	1.2%	1.7%	2.0%	1.9%	2.0%	1.6%	1.7%
Expenditure	4.1%	4.7%	3.9%	4.4%	4.0%	3.5%	3.4%
Day	1.7%	5.7%	2.4%	3.5%	3.2%	3.0%	2.8%
Overnight	4.4%	4.7%	4.1%	4.5%	4.1%	3.6%	3.5%
Hotel Sector							
Room supply	1.0%	0.6%	2.5%	2.6%	2.2%	2.3%	2.1%
Room Demand	1.3%	2.0%	2.0%	1.4%	1.5%	2.0%	1.8%
Occupancy (%)	77.3	78.3	78.0	77.0	76.6	76.3	76.1
ADR ($)	$160.11	$165.41	$169.57	$173.81	$177.30	$181.23	$181.78

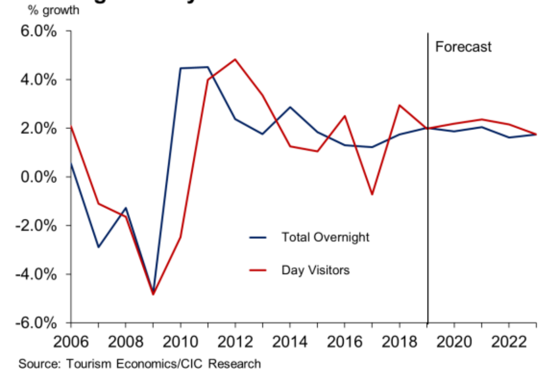
2 San Diego Tourism Outlook

2.1 Visitor Trends

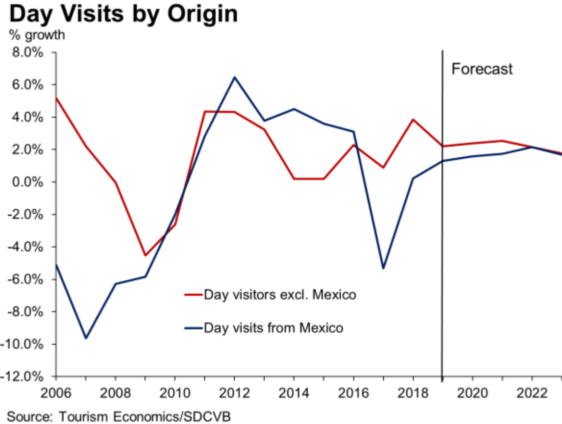
Visitation to San Diego in 2018 is expected to total 35.8 million, slightly below our previous forecast. Visitation growth was strongest in the beginning of the year, with first quarter visitation registering an 8.4% increase from 2017. The second quarter showed more modest growth around 1.5%, and there was a 0.2% contraction in the third quarter. Fourth quarter growth, currently estimated at 1.5%, is expected to set the tone for more moderate growth going forward. Overall, both day and overnight visitors supported 2018's growth trend, though day visitors led the charge (2.9% day vs 1.7% overnight). Mexican day visitors rebounded from a decline in 2017 and are expected to show slight growth of 0.2% in 2018. Excluding Mexican day visitors, day visitation grew by 3.8%, far stronger than the 0.9% growth of last year.



Total visitation is expected to grow 2.0% in 2019, which is a slight downward revision from our June 2018 forecast of 2.1%. Softening expectations in 2019 reflect the appearance that 2018 was the peak in the current business cycle and that we are turning toward overall economic cooling. However, for now, economic fundamentals and consumer confidence remain strong and are staving off the worst effects of persisting trade tensions. We expect visitation to continue to be supported both by day and overnight visitors through 2019, with both forecasted to grow 2.0%. Overall visitation growth is expected to remain at 2.0% in 2020 and be more dependent on day visitation growth (2.2%) than overnight growth (1.9%). This is in line with our previous forecast.

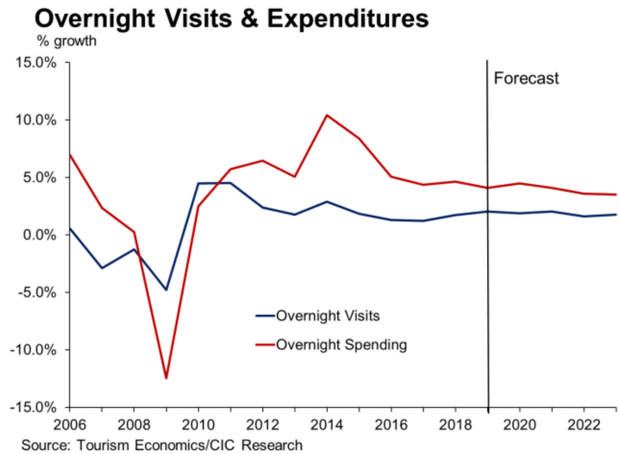


GDP is expected to come in at 3.0% for 2018, closing out one of the strongest years in recent memory. However, we expect that 2018 will have represented a peak and GDP growth will soften to 2.8% in 2019 and 2.7% in 2020. Consumer spending and confidence remain at highs as wage growth is firming in response to a tight labor market. Trade tension remains a major risk to US and worldwide business, reflected in our expectation that business investment, which grew around 7.0% this year, will fall to 3.3% in 2019. Eurozone growth is projected to cool from 1.9% in 2018 to 1.6% in 2019, and we remain cautious with regard to growth cooling in emerging markets. For these reasons, we expect overall visitation growth to fall below 2.0% in our longer-term projections.

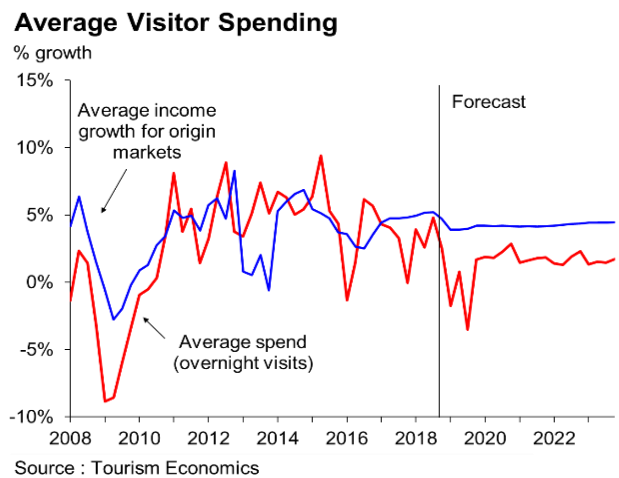


2.2 Expenditures

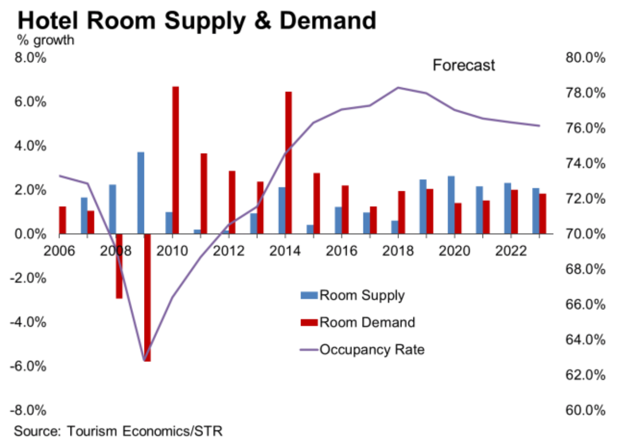
Visitor expenditures are expected to register 4.7% growth in 2018. Day visitor spending is expected to grow 5.7%, outpacing overnight visitor spending by a full percentage point. Spending by day visitors from Mexico recovered from a 6.3% contraction in 2017 to post 3.2% growth in 2018, while day visitors excluding Mexicans spent 6.4% more in 2018 when compared to 2017. Day visitor spending experienced particularly strong growth in the first quarter, registering a 15.8% expansion, which supported the softer spending growth seen through the following three quarters. Overnight visitor spending growth was more evenly spread out through the year, and is expected to end 2018 on a high note, with growth of 5.1% expected in the fourth quarter, picking up momentum going into the start of 2019.



Nonetheless, we expect overall spending growth to cool in 2019 to 3.9%, reflecting the similar cooling of economic conditions. We expect overnight visitor spending to be more supportive of growth in 2019 compared to spending from day visitors, increasing 4.1% and 2.4% respectively. Through 2023, we expect expenditure growth to peak in 2020 before moderating over the outer years. Overall support will come from overnight visitors, though day visitors will contriute to gains as well.



2.3 Hotel Performance



San Diego room demand is projected to finish 2018 with an average growth rate of 2.0% behind strong 2.1% growth in Q4. This is below expectations from our previous forecast which placed demand growth at 2.7%. Room supply growth is expected to register 0.6% for full-year 2018, having its strongest quarter of growth to finish the year (0.9% in Q4). The softness in comparison to our previous forecast for 2018 supply growth (2.4%) was the result of weaker-than-expected growth in each of the four quarters of the year. Room demand growth outpaced room supply growth in every quarter of 2018, resulting in occupancy of 78.3%, beating our previous forecast levels in three of four quarters, and reversing expectations that the third and fourth quarters would return negative growth. Average daily room rate (ADR) growth is expected to surpass our June estimates, registering 3.3% again in 2018, supported by 5.4% growth in Q4. Revenue per available room (RevPAR) also experienced increasing strength over the course of 2018 and is expected to average 5.8% growth in the second half of the year.

We expect room demand growth to register 2.0% in 2019 and to moderate to 1.4% in 2020. In a reversal of trends, we forecast that room supply growth will overtake room demand growth in 2019 at 2.5%, and that it will continue to do so averaging 2.3% growth between 2020 and 2023. Occupancy is forecasted to remain near current levels, but to soften slightly in the coming years to 78.0% in 2019 and 77.0% in 2020. Both ADR and RevPAR are expected to come in softer than this year’s results and our previous forecast for the next two years. ADR should grow by around 2.5% in both years, while RevPAR is expected to grow 2.1% in 2019 and 1.3% in 2020. The two metrics are also expected to fall below 1% growth at the long end of our forecast.

Compared to the overall US for 2018, San Diego’s hotel sector continues to come in well above average for occupancy. San Diego registered a 78.3% occupancy rate while the national average for 2018 is just 66.2%. We forecast both the San Diego sector and national averages to remain at or near current levels in the near future. Conversely, room supply and demand growth in San Diego are expected to underperform national averages in 2018. Room supply growth is 2.0% at the national level and only 0.6% in San Diego, while demand growth is 2.4% nation-wide versus 2.0% in San Diego. Both the San Diego and national markets are expected to see softer occupancy growth and even some declines in occupancy rates in the coming years. The US level is expected to fall by around 0.5% in each year between 2020 and 2022. San Diego ADR growth is expected to be on par with national averages in the coming years. The US ADR is expected to grow approximately 2.4% each year through 2022. National average RevPAR growth, alternatively, is expected to moderate to 2.6% in 2019 and around 1.9% through 2022. That said, while San Diego

RevPAR growth outpaced the national average in 2018, recording 4.7% compared to 3.2%, we do not expect this trend to continue going forward.

Our forecast continues to note that international and domestic economic cooling will likely adversely affect the San Diego and broader US hotel sector. While business confidence has not yet faltered, we predict business investments to slow as the supportive short-term effects of US fiscal policy begin to taper and continued uncertainty and trade tension come more into focus. Overall, we expect the San Diego hotel sector to continue to grow in accordance with recent demand but be weighed down by broader economic trends. To summarize, we forecast an occupancy rate of 78.0% in 2019, 77.0% in 2020, and 76.3% on average from 2021 to 2023. ADR growth is expected at 2.5% in both 2019 and 2020, before softening to 2.1% on average in 2021 and 2022, and finally falling to 0.3% growth in 2023. RevPAR growth is forecasted at 2.1% and 1.3% in 2019 and 2020, respectively, before averaging 1.6% in 2021-2022 and stagnating in 2023.

3 US Tourism & Lodging Outlook

Domestic Person Trips in the US
(Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total	1900.1	1963.7	1997.5	2030.3	2059.6	2109.3	2178.7	2206.6	2247.9	2291.1	2332.7	2368.2	2406.3	2448.8
% change	-3.3	3.3	1.7	1.6	1.4	2.4	3.3	1.3	1.9	1.9	1.8	1.5	1.6	1.8
By purpose														
Business	433.4	443.1	436.6	434.1	439.1	442.4	459.8	454.7	456.3	463.6	472.1	478.8	485.6	493.3
% change	-6.0	2.3	-1.5	-0.6	1.2	0.8	3.9	-1.1	0.4	1.6	1.8	1.4	1.4	1.6
Leisure	1466.8	1520.5	1560.9	1596.2	1620.5	1666.8	1718.9	1751.9	1791.5	1827.5	1860.5	1889.4	1920.7	1955.5
% change	-2.5	3.7	2.7	2.3	1.5	2.9	3.1	1.9	2.3	2.0	1.8	1.6	1.7	1.8
Hotel room demand														
Roomnigl	940.7	1008.1	1058.4	1087.2	1108.0	1152.6	1181.5	1200.0	1231.7	1263.3	1289.5	1309.6	1331.6	1353.7
% change	-6.2	7.2	4.6	2.7	1.9	4.0	2.5	1.6	2.6	2.6	2.1	1.6	1.7	1.7

Forecast prepared in Fall 2018

Summary US Lodging Forecast
(Millions)

	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Demand (roomnights, mn)												
Room Supply	453.4	465.5	474.5	472.4	462.3	474.9	484.1	481.5	471.4	483.9	493.4	490.2
Room Demand	276.7	323.2	338.2	291.6	284.7	333.3	343.8	297.0	290.5	339.0	352.9	301.2
Occupancy (% balance)	61.0%	69.4%	71.3%	61.7%	61.6%	70.2%	71.0%	61.7%	61.6%	70.0%	71.5%	61.4%
ADR ($)	$ 124.33	$ 127.42	$ 129.14	$ 125.35	$ 127.54	$ 131.24	$ 131.86	$ 128.79	$ 130.63	$ 134.30	$ 135.27	$ 131.34
RevPAR ($)	$ 75.89	$ 88.47	$ 92.06	$ 77.37	$ 78.55	$ 92.11	$ 93.65	$ 79.43	$ 80.50	$ 94.07	$ 96.75	$ 80.70

(year-to-year % growth)

	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room supply (roomnights, mn)	1.7%	1.7%	1.8%	1.8%	2.0%	2.0%	2.0%	1.9%	2.0%	1.9%	1.9%	1.8%
Room Demand (roomnights, mn)	2.5%	2.0%	2.1%	3.6%	2.9%	3.1%	1.6%	1.9%	2.0%	1.7%	2.6%	1.4%
Occupancy (% balance)	0.8%	0.3%	0.3%	1.7%	0.9%	1.1%	-0.4%	-0.1%	0.1%	-0.2%	0.7%	-0.4%
ADR ($)	2.6%	2.3%	1.5%	2.4%	2.6%	3.0%	2.1%	2.7%	2.4%	2.3%	2.6%	2.0%
RevPAR ($)	3.5%	2.6%	1.8%	4.2%	3.5%	4.1%	1.7%	2.7%	2.5%	2.1%	3.3%	1.6%

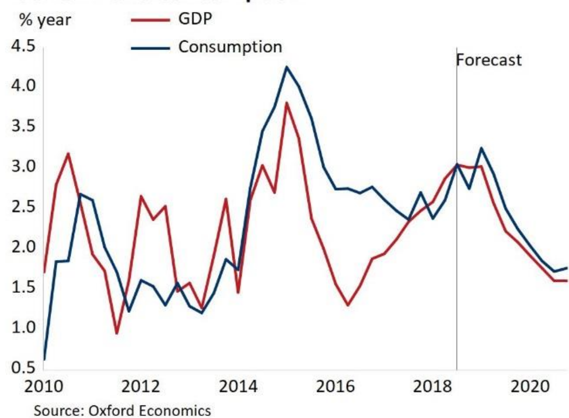
Forecast prepared in November 2018

4 Key Origin Economies

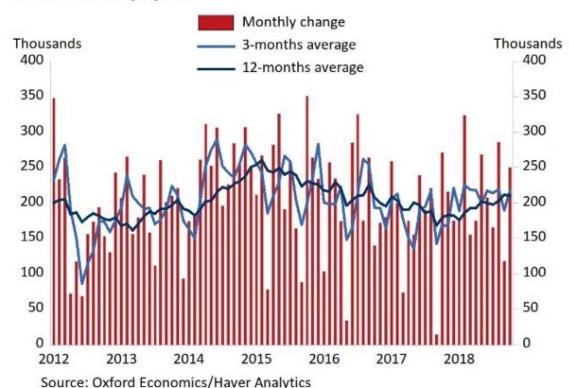
4.1 US Market Summary

A Resilient Economy

Real GDP grew a solid 3.5% (seasonally adjusted annual rate) in Q3, in line with expectations, with real final sales up a modest 1.5% and inventories contributing a sizeable 2.1 parts per thousand to growth. In a sharp reversal from Q2, net foreign trade exerted a significant 1.8ppt drag. The modest gain in final sales featured the strongest advance in consumer spending in four years, partially offset by the weakest gain in business investment in nearly two years and a third consecutive quarterly decline in residential investment.



Real GDP is now trending at 3.0% year over year – the fastest pace since early-2015 – supported by strong growth in consumer spending, resilient business activity and firming government outlays (bolstered by the Bipartisan Budget Act of 2018).



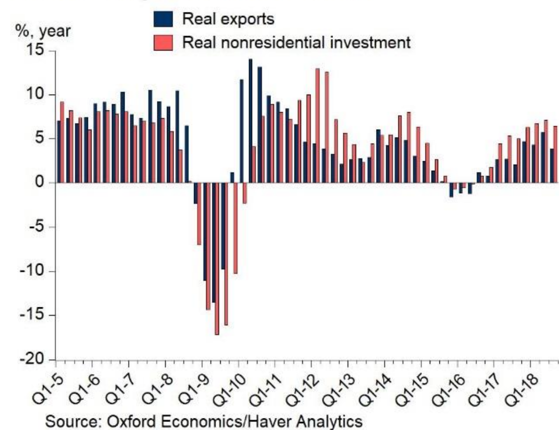
Headline PCE (personal consumption expenditure) inflation slowed to 2.0% y/y in September and core PCE inflation maintained a 2.0% y/y pace for the fifth consecutive month. Considering the latest economic and inflation data, we believe the Fed will proceed with one more rate hike this year, and we forecast three hikes in 2019.

While the midterm elections changed the political landscape, with Democrats regaining control of the House of Representatives and Republicans consolidating their majority in the Senate, we don't foresee significant changes for the economy. We expect US real GDP to grow 2.9% in 2018, followed by a more modest 2.5% advance in 2019.

…but some risks on the horizon

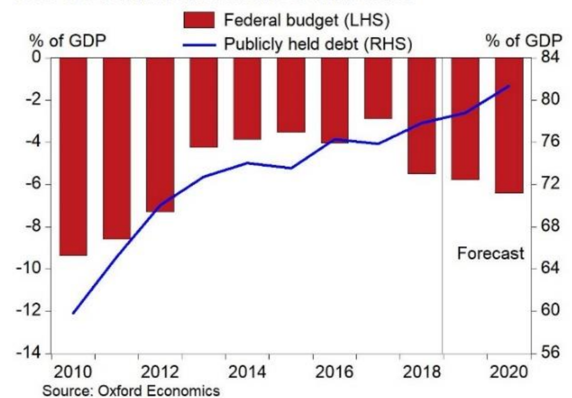
A healthy, maturing labor market: steady job gains and gradually firming wage growth will continue to support disposable income growth, which should drive consumer outlays. However, with the unemployment rate expected to flatten out around 3.6%, we should expect slower payrolls growth.

Solid consumer spending: rising incomes and record household wealth support record levels of confidence, pointing to a sturdy pace of outlays. However, the slippage in the personal saving rate points to gradually moderating consumer spending growth in 2019.



Steady business investment: fiscal stimulus and strong energy sector activity are supporting business investment growth of nearly 7% this year, though that should ease to 3.3% in 2019 as reduced fiscal impetus, slower global growth, and higher input and borrowing costs weigh on business outlays.

Moderate housing activity: reduced affordability will continue to constrain residential activity going into 2019 as tight inventories, high home price inflation and rising interest rates dampen demand.



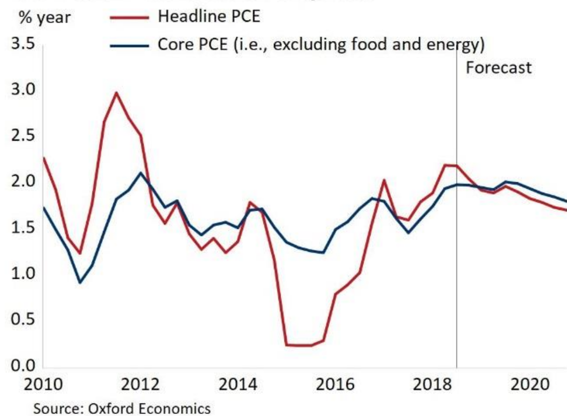
Trade flows weakening: rising trade tensions will continue to disrupt trade flows going into 2019. We forecast net trade will be a drag on growth next year.

Firming inflation: headline and core PCE inflation are expected to hover around the Fed's 2% target into 2019.

New political landscape: Congress will focus on passing the USMCA, raising the debt ceiling and avoiding a mini-fiscal cliff in 2020, but tax cuts and any other major policy initiatives are likely off the table through 2020.

Policy risks: trade protectionism will curtail growth, especially considering the possibility of further retaliation from China.

Three Fed rate hikes expected in 2019



Currently, the Fed is blessed with a 'goldilocks' scenario, featuring a strong economy operating at full employment and inflation close to its 2% target. However, the Fed cannot rest on its laurels as it must try to maintain this steady state amid more volatile financial markets, building inflationary pressures and rising trade tensions.

Assuming the market correction doesn't become profound, pervasive and persistent, then Fed policymakers look poised to raise rates a fourth time this year in December. Looking ahead to next year, we forecast a slowing in GDP growth to 2.5% from around 3% this year, but this should be robust enough to justify three rate increases, especially given the tightening labor market. This should lift the fed funds rate above the Fed's estimate of the long-run neutral rate and engineer a moderately restrictive monetary policy stance.

Long-term factors

The US economy should grow nearly 2.0% per annum in 2022-30 as the economy grows broadly in line with its potential.

Flexible labor force: the US will maintain the flexibility of its labor force, giving it an advantage over its peers.

Recovering productivity: we continue to foresee a modest rebound in US productivity growth.

Potential GDP and Its Components
Average Percentage Growth

	2007-2016	2017-2026
Potential GDP*	1.5	1.9
Employment at NAIRU	0.5	0.6
Capital Stock	1.6	1.7
Total Factor Productivity	0.6	0.9

*ln(Potential GDP)=0.65*ln(Employment at NAIRU) +0.35*ln(Capital Stock)+ln(Total Factor Productivity)

What to watch out for

Protectionism: implemented and announced tariffs, along with retaliation from China and other trading partners, will harm growth and employment, especially as the heightened tensions have escalated to a full-on trade war.

Weaker income and consumer spending growth: real income and consumer spending growth should converge in the coming months, though we do not discount the risk of slower outlays if wages and incomes do not rise sufficiently in the near term.

Risk warnings

GDP growth	● (green)	Solid demand supported by strong fundamentals
CPI inflation	● (amber)	Inflation near Fed's 2% target, but upward drift is possible
Current account balance	● (amber)	Current account deficit to widen
Government balance	● (amber)	Expansionary fiscal policy widens budget deficit
Government debt	● (amber)	Federal debt remains under 80% of GDP
External debt	● (amber)	US is a net debtor, but generates income surplus

Financial risk: a sizeable and sustained fall in asset prices could have a negative impact on wealth for high-income households, while the knock-on effects would also severely impact lower-income families.

Higher energy prices: if WTI crude averages $70 a barrel in 2018, the net drag on GDP growth will be 0.3 percentage points, wiping out half of the boost from the fiscal stimulus. The strain is felt most acutely by lower-income households.

Housing risk: on the housing front, limited supply could continue to erode affordability, curbing demand and activity.

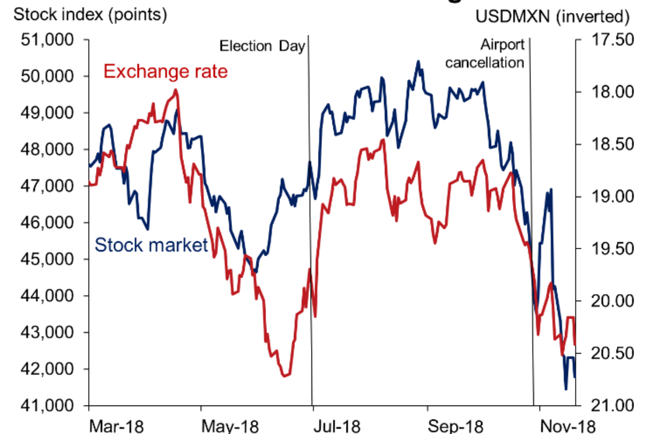
Fiscal stimulus: a lower fiscal multiplier, more crowding-out effects or a more aggressive Fed could limit the expected growth upside from fiscal stimulus in 2019.

Immigration: a material change in immigration policy threatens potential labor supply and could limit growth.

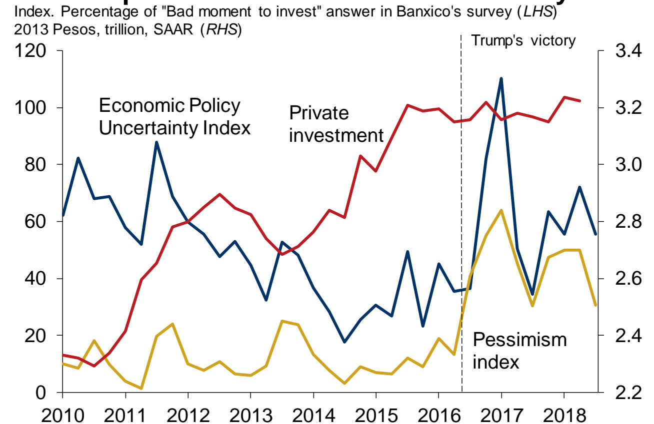
Growth exhaustion in 2019-20: late-cycle fiscal stimulus could spur faster Fed tightening and limit GDP growth.

4.2 Mexico

President-elect Andrés Manuel López Obrador's (AMLO) decision to cancel an ongoing airport project, via a flawed national referendum, has injected a high degree of domestic uncertainty and sent Mexican assets tumbling. The decline in business confidence and the higher interest rates will impede the recovery in investment (that was expected after the successful conclusion of the trade talks), at a time when a slowing US economy over the next two years will lead to subdued export growth. We now expect GDP growth of 2.0% per annum in both 2019 and 2020, down from 2.2% and 2.5% previously. We have also modified our inflation, policy rate and exchange rate forecasts.



During the last three years, a series of external shocks have hit the Mexican economy particularly hard: US monetary policy normalization, 2014's oil price collapse, the election of President Trump and the subsequent NAFTA renegotiation process. But an episode of self-inflicted market turbulence after AMLO's recent arbitrary decision could be the prelude to Mexico facing a sustained period of home-grown uncertainty.



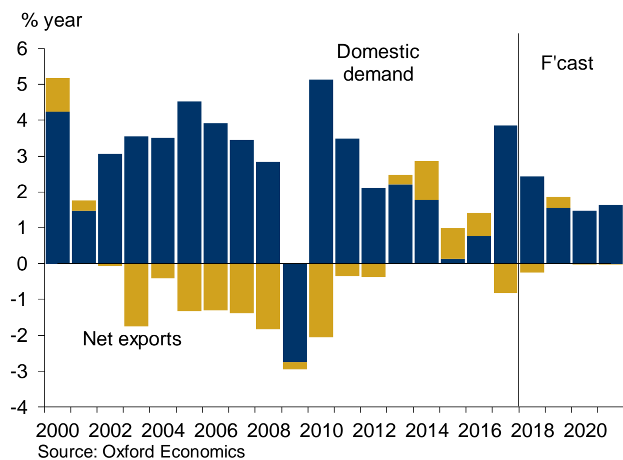
Our baseline view that AMLO would maintain a harmonious relationship with the financial and business community has been strained by recent political developments, although we still expect his administration to maintain fiscal discipline and uphold the central bank's independence.

However, the start of AMLO's term in office already looks quite different from what we had expected only a month ago. We have incorporated higher inflation, higher interest rates, a weaker currency and a decline in business confidence (which will reverse only gradually) into our forecasts. Hence, we have dropped our call that the Mexican economy will accelerate in the next two years.

4.3 Canada

Momentum persists in the Canadian economy. Operating near full capacity, growth is moderating from its above-trend 3.0% pace last year. We expect real GDP growth to average 2.2% this year before easing to 1.9% in 2019 and 1.5% in 2020, roughly in line with Canada's potential output.

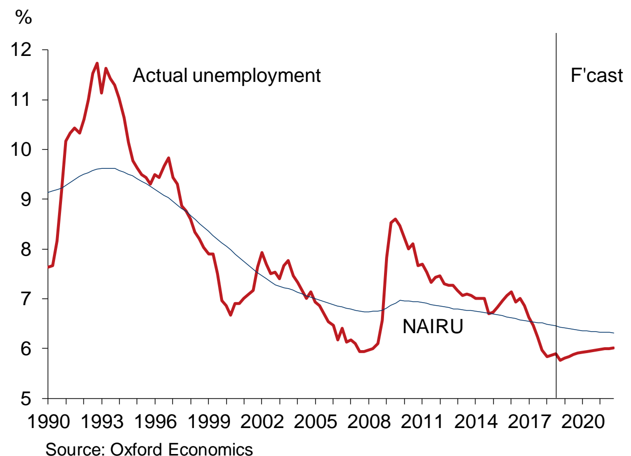
Canada: Contributions to GDP growth



Source: Oxford Economics

The Canadian labor market added a modest 11,000 jobs in October, following a 63,000 rebound in September. October's job gains, combined with fewer people looking for work, pushed the unemployment rate down to 5.8%. The unemployment rate has now ranged between 5.8% and 6.0% for about a year. Growth in hourly wages remains subdued and is expected to average just over 2% this year. However, continued job growth and an economy operating near full employment suggest wage pressures will build.

Canada: Unemployment and the NAIRU



Source: Oxford Economics

Real GDP edged up 0.1% in August, following a 0.2% rise in July. GDP growth has eased from 3.0% y/y in February to 2.5% y/y in August, and we expect growth to moderate further to around 2.0% y/y.

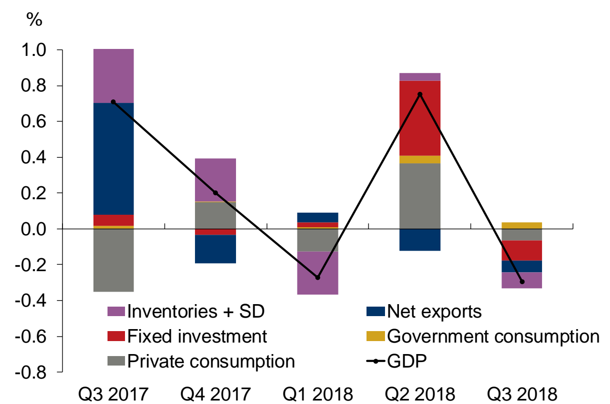
The USMCA, which is expected to get legislative approval in all three countries later this year, reduces trade-related uncertainty in North America. However, US-China trade tensions remain elevated and the threat of an all-out trade war persists.

On the monetary front, the Bank of Canada (BoC) raised interest rates at its October meeting, as expected. Given the economy's momentum, lack of spare capacity and the added certainty on the North American trade front, we are forecasting three rate increases in 2019 and two more in 2020. The BoC has dropped its "gradual approach" to a more neutral stance for monetary policy but it will still appropriately monitor the economy's adjustment to higher interest rates and global trade developments.

4.4 Japan

A solid outlook for domestic demand will support growth in 2019, helping to alleviate the external risks. Consumption will be bolstered by a robust labour market while investment will remain solid as firms continue to expand capacity and spend more on research and development. Export growth continues to moderate, but demand for Japanese capital goods is still relatively resilient. Overall, we expect GDP to grow by 1.0% in 2018 and by 1.2% in 2019.

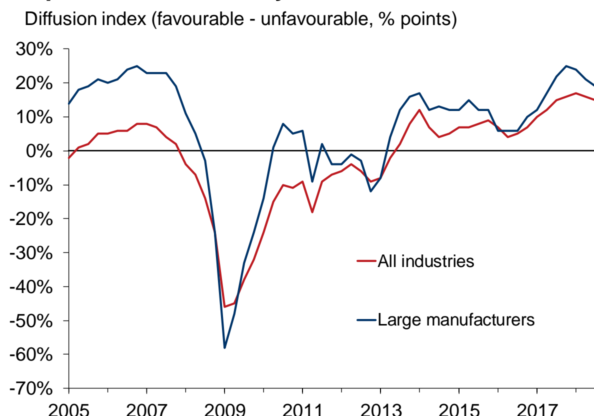
Japan: Contributions to quarter-on-quarter GDP



Source: Oxford Economics/Haver Analytics

GDP contracted 0.3% quarter over quarter in Q3 as adverse weather and a series of natural disasters disrupted business and consumer activity. Net external trade and a fall in inventories exerted a further drag on growth. However, we expect the economy to rebound in Q4 as survey data continue to point to healthy business sentiment, while a robust labour market will help consumption. External trade continues to slow, but prospects for capital goods exports look relatively more promising.

Japan: Tankan survey



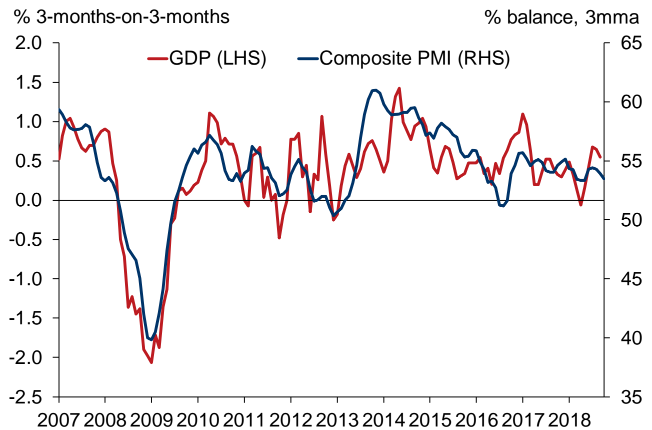
Source: Oxford Economics/Haver Analytics

Nevertheless, risks are skewed to the downside. The US-China trade conflict is here to stay, weighing on growth via the Asian supply chain and undermining sentiment, possibly amplified by a slowdown in global growth. Looking ahead, we expect growth to slow going into 2020, due to a cyclical slowdown in business investment and the projected effects of the consumption tax hike in Q4 2019. However, the government is planning to implement stimulus measures, softening the negative impact.

With inflation well below the Bank of Japan's (BoJ) 2% target, monetary policy is committed to remain expansionary for longer. To make the easing stance more sustainable, the BoJ tweaked policy in late July, but market conditions have not improved fundamentally. Meanwhile, we continue to look for an end to the dollar rally and see the Japanese yen averaging 110-111 per dollar in 2019.

4.5 United Kingdom

The latest high-frequency data suggests that the Q3 strength was largely 'noise' and that quarterly GDP growth will slow in Q4. But with the Budget announcing a loosening of fiscal policy next year, we have raised our forecast for 2019 GDP growth from 1.5% to 1.7%, after estimated expansion of 1.3% this year. This projection is predicated on the UK achieving an orderly exit from the EU.



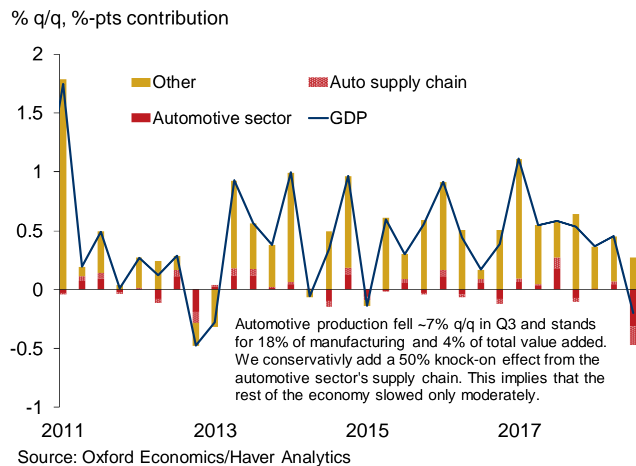
GDP grew by 0.6% in Q3, a seven-quarter high. But the fact that this strength was not matched by any of the business surveys had led us to suspect that there was some 'noise' in the data. And the early data for Q4 has not only reinforced this idea but has hinted at a greater loss of momentum, with October's composite PMI (a strong indicator of economic health) slipping to its lowest level since March's snow-affected outturn. We expect Q4 to see GDP growth slip back to the 0.3-0.4% pace seen for much of the past couple of years.

But the outlook for 2019 has been boosted by a loosening of fiscal policy announced in the Budget on 29 October. The Office for Budget Responsibility (OBR) made large favourable revisions to its borrowing forecasts, which allowed the Chancellor to increase government spending (mainly via higher National Health Services funding) and make sizeable increases in income tax thresholds, while still maintaining the same margin for error against his fiscal rules.

The UK and EU have reached agreement at a technical level on the Brexit withdrawal agreement. But it remains very uncertain whether it will gain parliamentary approval and we estimate that there is a 20% chance of a disorderly Brexit in March 2019. The deal involves the UK and EU agreeing an open-ended customs union to help ensure that there is no hard border on the island of Ireland. We think it will prove very difficult for the UK to extricate itself from this arrangement, so our forecast assumes that the customs union remains in place well beyond the transition period.

4.6 Germany

The German economy fared even worse than expected in Q3 as GDP contracted by 0.2%. However, this was largely due to temporary production cuts in the automotive sector and its supply chain. As a result, we have cut our 2018 GDP growth forecast to 1.6% (from 1.8%). But there is no sign that the engine of domestic expansion, the labor market, is stuttering, so we maintain our 2019 growth forecast at 1.6% with no material impact from political uncertainty.



Source: Oxford Economics/Haver Analytics

Temporary cuts in the automotive sector have been a heavier blow to activity than we had expected. Industrial production fell by 0.9% q/q in Q3, the worst result in nearly six years, as automotive output tumbled 7.4%. Combined with supply-chain effects, the latter cut GDP growth by around 0.5 percentage points, ending the economy's long growth streak. However, September industrial production suggests that a bounce-back is now under way, with output rising 0.2% m/m thanks to the car sector. Rising factory orders also bode well for Q4; we have raised our Q4 GDP growth forecast to 0.6% q/q

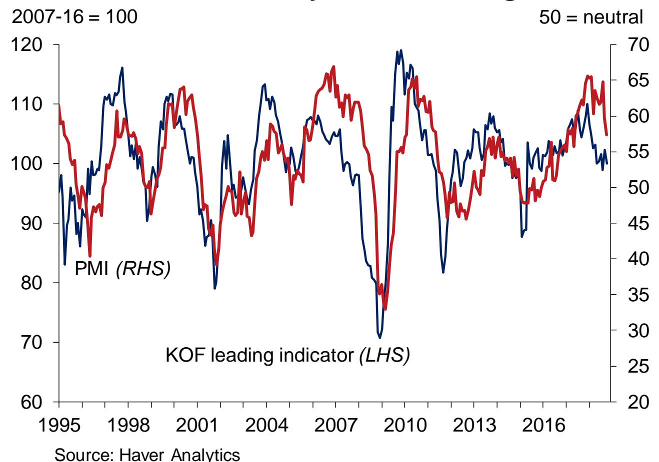
Domestic demand also slowed in Q3. Retail sales fell 0.3% m/m in September and 1% q/q in Q3, pointing to broader consumer caution. Another upside surprise from inflation probably played a role, rising to a decade-high of 2.5% y/y in October due to surging energy prices, eroding households' real incomes. But this effect should fade soon, with inflation seen slowing to 1.9% in 2019 from 2.0% in 2018 and fiscal stimulus due in 2019. Moreover, employment growth of 1.3% in September and strong wage gains will bolster incomes. Finally, investment probably rose solidly despite the external headwinds, leaving us confident about our view on domestic demand.

On the political front, Chancellor Merkel's decision not to stand for her party's top post has caused waves. It could lead to months of political volatility until her successor is chosen and the future of the government is decided. But we do not see any major economic implications as key fiscal policy measures have already been agreed.

4.7 Switzerland

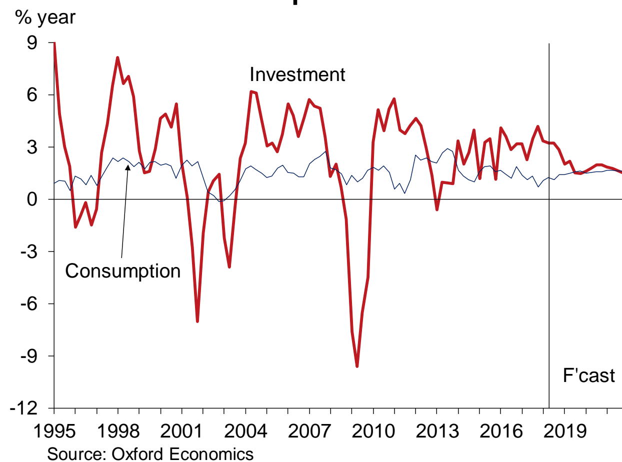
Recent economic data, such as that for exports of goods, have been weaker than expected. As a result, we have revised down slightly our forecast for GDP growth in 2018 to 2.9% (from 3.0% previously). For 2019, we have kept our forecast at 1.6% as the pace of expansion will slow down given the significant risks facing the global economy – which will weigh on Swiss investment activity and exports.

Switzerland: PMI survey & KOF leading indicator



According to the Swiss Federal Customs Administration, exports of goods decreased in Q3 2018 for the first time since the end of 2016. Apart from precision instruments, all major product groups posted negative growth rates. Given these weaker than expected results, we have revised down our forecast for export volume growth in 2018 to 3.1% (down from 3.5% previously). However, we still think the outlook for Swiss exporters is broadly positive because they should continue to benefit from reasonable international demand. World trade weighted by Swiss export shares is forecast to grow by 4.0% in 2019, compared to 4.2% this year and 5.9% in 2017. As a result, export volumes should grow at a fairly healthy pace of 3.4% in 2019.

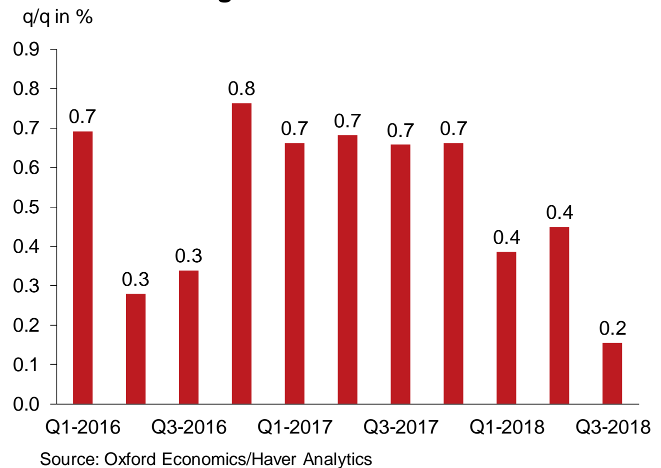
Switzerland: Consumption and investment



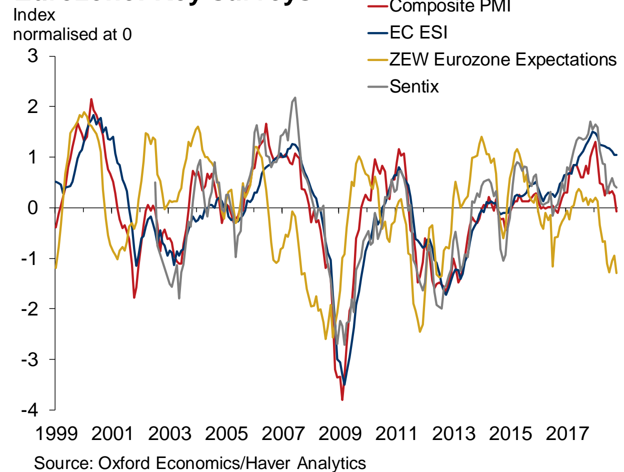
Sentiment among Swiss companies deteriorated further in October. The industrial PMI dropped 2.3 points to 57.4 in October and the PMI for the services sector fell 4.8 points to 55.7. However, these PMI readings remain higher than in most other industrial countries and are still clearly above the 50-threshold that indicates expansion. Nevertheless, investment activity is forecast to slow down noticeably in 2019, in part because an increasingly uncertain global background is expected to weigh on capital spending by Swiss firms.

4.8 Eurozone

Although we had expected that GDP growth would be softer in Q3, the magnitude of the slowdown surprised us. The 0.2% expansion was the slowest in five years, although we suspect it was partially driven by transitory factors affecting Germany. As a result, we have lowered our GDP growth forecasts to 1.9% for this year and 1.6% in 2019 (from a previous 2% and 1.7% respectively).



GDP grew just 0.2% in Q3, below both the 0.4% in Q2 and consensus expectations. With no detailed breakdown available yet, we can only speculate about what caused the slowdown, but we suspect that consumer spending remained weak while investment probably moderated following a strong Q2. Although the magnitude of the slowdown was larger than expected, we still believe it was partially driven by a transitory slowdown in Germany and will be partly reversed in Q4.



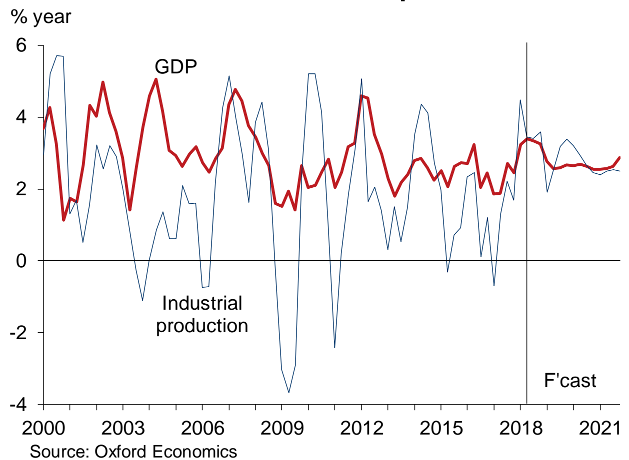
That said, latest leading indicators show the eurozone has not entered the final quarter of the year with much momentum. Both the EC Economic Sentiment Indicator and the composite PMI fell in October, with the latter at its lowest in two years, dragged down by a sharp slowdown in the service sector.

Inflation edged up to 2.2% in October, the highest in six years, as a result of rising oil prices. Core inflation remains weak, but we still expect it to trend upwards as wage growth strengthens. We see headline inflation at around 2% over the coming months, resulting in an average of 1.8% for 2018, before easing slightly to 1.7% in 2019.

As expected, no new policy announcements were made at the October European Central Bank meeting. The central bank is still on track to end quantitative easing purchases this year despite concerns about Italy. But given an increasingly adverse outlook, we do not expect the first interest rate hike until Q4 2019, with a very gradual pace of tightening thereafter.

4.9 Australia

Consumers remain the weak link in Australia's economic outlook. Growth in retail sales slowed to just 0.2% q/q in Q3, and the consumer confidence surveys have fallen back in recent months amid the ongoing weakness in wage growth and an acceleration in house price declines. In contrast, the high frequency indicators for businesses remain buoyant, with the manufacturing and services purchasing managers' indices comfortably in positive territory. We continue to see GDP growth of 3.3% this year followed by 2.6% in 2019.



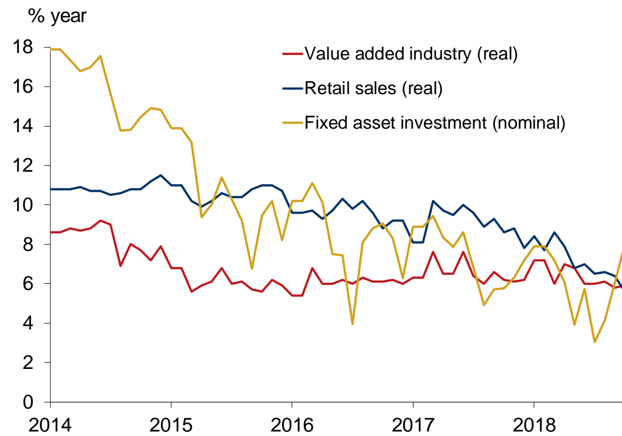
The unemployment rate has continued to track down, from 5.5% at the start of the year to 5% in September. But the rate is being flattered by a drop in the participation rate and the pace of growth in employment remains patchy after the spectacular growth seen in 2017.

The inflation data for Q3 confirmed that underlying price pressures remain subdued, with the Reserve Bank of Australia's underlying trend measures of inflation still well below 2%. The headline rate fell back to 1.9% in Q3 (from 2.1% the previous quarter), as a decline in the measured cost of childcare (a result of changes to the government's subsidy program) and a moderation in the pace of housing cost increases (particularly utility bills) more than offset increases in the cost of fuel and the impact of the Australian dollar's depreciation.

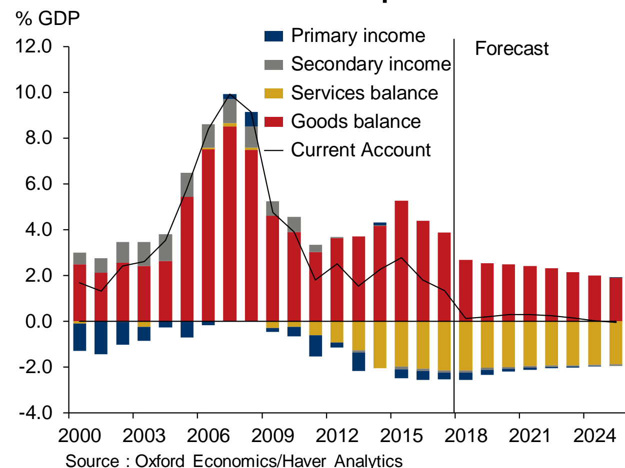
As expected, the RBA maintained the cash rate at 1.5% at its November meeting. The quarterly Statement of Monetary Policy provided the Bank's latest forecasts, with the outlook for GDP growth upgraded for this year and next, to 3.5% and 3.25% respectively. Despite this they forecast underlying inflation to remain below 2.5% until at least 2021, and we expect them to keep the cash rate on hold until Q2 2020, when we expect their projections to show inflation decisively accelerating beyond 2.5%.

4.10 China

Overall growth in industry edged up in October, reflecting stronger exports and infrastructure investment as well as industrial restocking. But consumption growth weakened further amid subdued confidence, while credit growth continued to disappoint. We expect the government to take further measures to support the economy as downward pressures increase. However, the policy easing should remain relatively modest, as well as data-dependent, and thus incremental. Nonetheless, we expect the impact of the policy easing to become large enough to help growth bottom out in around Q2 2019.



Export growth accelerated in October, defying expectations of a slowdown amid higher US tariffs and softer global trade momentum. Indeed, while shipments to the US held up well, those to other parts of the world grew even faster, suggesting that global demand is more resilient than expected; although a weaker Chinese yuan may also be helping the country's exporters.

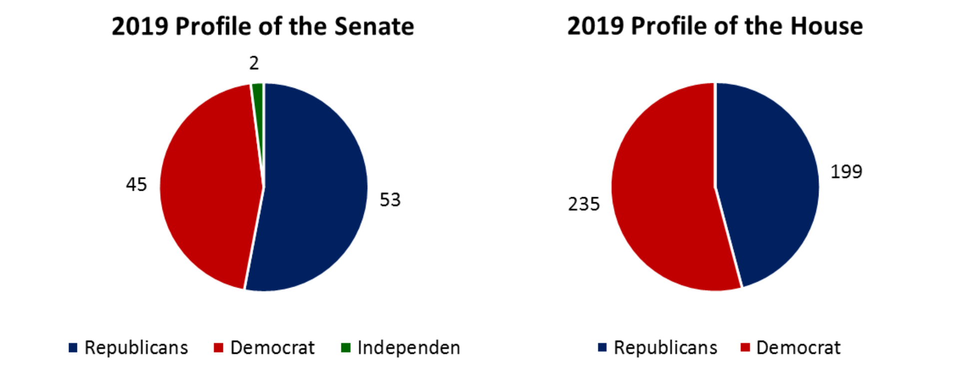


Looking ahead, the trade conflict with the US will be a key headwind for China's economy. It will affect exports as well as investment in manufacturing and confidence more generally. Domestically, we still expect demand momentum to ease in Q4 and in 2019. In particular, we expect real estate sales and construction to cool further as sentiment softens and support from the scheme to renovate shanty towns declines. Against this background, consumption should be subdued as well.

But policy easing should moderate the slowdown. Following the earlier steps, we expect the government to take further action to support economic growth as downward pressures increase – this could include possibly more reserve requirement ratio cuts, additional support for infrastructure and further cuts in taxes and social security contributions.

5 New Political Landscape

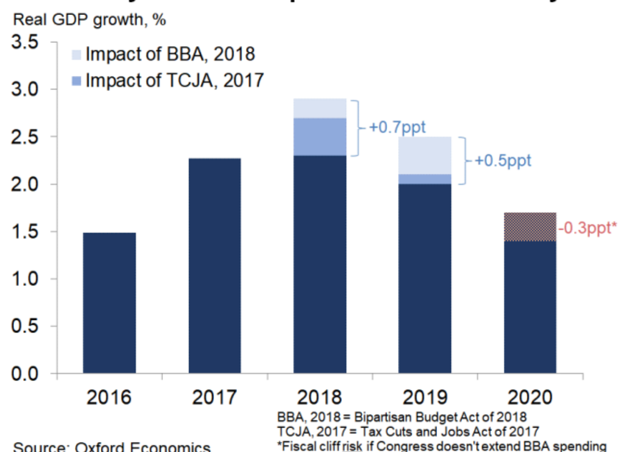
Democrats picked up 40 seats in the House of Representatives in the 2018 midterm elections, more than enough to take control of the chamber. Republicans, on contrast, boosted their majority in the Senate by three seats to 53-47. Democrats made inroads at the state level, increasing the number of Democratic governors by seven and flipping several state legislatures.



Major legislation in 2019 likely limited to must-pass items

A divided Congress will stand in the way of any major legislation that could significantly affect our forecast. Congress and the Administration must agree on a handful of items in 2019. Failure to do so would lend downside risk to our outlook.

1. Approve the USMCA. Under the Trade Promotion Authority (TPA), there are several steps required before the USMCA (aka NAFTA 2.0) can take effect, with Congressional approval of legislation implementing the deal marking the final step. We believe that will happen early next year as we don't believe Democrats will derail the USMCA without a viable alternative just to deprive Trump of a "win". Further, Republicans can accelerate the process and get it done this year if they think that is a risk.



2. Raise the debt limit. The debt limit will have to be raised sometime during the summer of 2019. While we know from experience over the past decade that no party benefits from a debt ceiling standoff, we cannot discount the possibility of a last-minute agreement that raises market fears of a default and sharp economic slowdown.

3. Passing government budgets. The Bipartisan Budget Act of 2018 (BBA) increased discretionary spending caps for fiscal years 2018 and 2019. Unless new legislation is passed, spending caps will come back into force for fiscal 2020 and

2021. Failure to raise the spending caps in those two years would cut GDP growth in 2020 by 0.3 parts per thousand. While we don't expect that to happen as the spotlight shifts to the 2020 election, we believe passing government budgets with a split Congress will not be a simple walk in the park.

House Democrats may pass tax legislation that reverses provisions of the Tax Cuts and Jobs Act (TCJA) that benefit corporations and the wealthy. However, such efforts would be purely symbolic since they would be dead on arrival in a GOP-controlled Senate and would certainly face a Trump veto. Still, Democrats will be looking for opportunities to highlight their differences with Republicans and Trump ahead of the 2020 presidential election. Democrats might run into political trouble if they try to undo the TCJA's cap on SALT deductions, since repeal of the SALT cap would predominantly benefit upper income households.

Any hope for infrastructure?

Increased investment in infrastructure has long had bipartisan backing, but efforts to boost spending typically get mired in disagreements over how to finance the new outlays. Earlier this year, Trump proposed leveraging $200 billion in federal funding to attract more than $800 billion in funds from state and local governments and private investors. That proposal might have more legs in 2019 given the crop of new Democratic governors, many of whom campaigned on specific proposals to boost infrastructure spending in their states.

There are few other areas where Trump and a divided Congress might find common ground. When we published our preview of the midterms, we highlighted the possibility that policymakers might agree on a way to permanently grant legal status to the Dreamers, undocumented immigrants brought to the US as children. Given the president's more recent rhetoric on immigration that seems less likely, although Trump may see it as way to win back some of the moderate voters that abandoned House Republicans in the midterms.

An agreement on a plan to lower prescription drug prices is also possible. Trump hasn't conformed to GOP orthodoxy on this issue and unveiled a proposal last month that takes a small step in the direction of allowing the government to negotiate prices with drug companies.

Trump will still have a lot of power

Trump will still have significant influence over the economy through executive actions, most notably on trade. Democratic gains in the midterms are unlikely to soften Trump's stance toward China. Indeed, many Democrats have been supportive of Trump's trade agenda.

Trump is expected to continue to pursue an aggressive deregulatory agenda and to continue efforts to chip away at the Affordable Care Act (ACA) following Republicans' unsuccessful efforts at repeal. On Friday, December 14th, U.S. District Judge Reed O'Connor of the Norther District of Texas ruled the ACA unconstitutional. He ruled on the basis that without the tax penalty associated with the individual mandate, which

was repealed by Congress in 2017 by the TCJA, the Supreme Court ruling of 2012 which upheld the ACA no longer holds. That case was brought by Republican attorneys general and supported by the Trump Administration, though opposition leaders have already stated intentions to appeal the decision to the Supreme Court. Meanwhile, ballot initiatives to adopt the ACA's Medicaid expansion recently passed in three states.

With GOP still in control of the Senate, Trump will also still be able to nominate federal judges, including to the Supreme Court should another vacancy arise.

Don't forget the lame duck session; hearings on tap in 2018

Congress and the president must agree on legislation funding fiscal 2019 spending. Recall that Congress has passed spending bills funding 70% of 2019 discretionary outlays. Remaining spending bills must be passed by December 21 or there will be a partial government shutdown. Agencies yet to be funded include the Department of Homeland Security, which will receive any funding to build a border wall. With Democrats controlling the House next year, Trump will see this as his last chance to secure significant wall funding, but Democratic votes will be needed in the Senate to passing any spending bills, so we should not discount the possibility of a government shutdown in early December.

Look for Democrats to launch investigations on several fronts into Russian interference in the 2016 election, Trump's business dealings and the actions of cabinet members. Given their relative narrow majority, we expect Democrats will be cautious in pursuing impeachment unless any report from the special counsel is particularly damaging. Further, Democrats will likely want to avoid a rally in the Trump base around a common theme.

6 San Diego Forecast Tables

San Diego Visitor Forecast
(millions)

	2017	2018	2019	2020	2021	2022	2023
Visits	35.0	35.8	36.5	37.3	38.1	38.8	39.5
Total Overnight	17.6	17.9	18.3	18.7	19.0	19.3	19.7
Hotel / Motel	10.0	10.2	10.4	10.5	10.7	10.9	11.0
Household	6.6	6.7	6.9	7.0	7.2	7.3	7.5
Other	1.0	1.0	1.1	1.1	1.1	1.1	1.2
Day Visitors	17.4	17.9	18.2	18.6	19.1	19.5	19.8
Day (excl Mexican)	13.1	13.6	13.9	14.2	14.6	14.9	15.1
Mexican Day Visitors	4.3	4.3	4.4	4.4	4.5	4.6	4.7

(year-to-year % growth)

	2017	2018	2019	2020	2021	2022	2023
Visits	0.3%	2.3%	2.0%	2.0%	2.2%	1.9%	1.7%
Total Overnight	1.2%	1.7%	2.0%	1.9%	2.0%	1.6%	1.7%
Hotel / Motel	1.4%	1.7%	2.0%	1.7%	1.8%	1.5%	1.5%
Household	0.5%	1.6%	2.1%	2.1%	2.4%	1.8%	2.0%
Other	4.5%	2.8%	2.3%	2.6%	1.9%	1.5%	2.3%
Day Visitors	-0.7%	2.9%	2.0%	2.2%	2.4%	2.2%	1.7%
Day (excl Mexican)	0.9%	3.8%	2.2%	2.4%	2.6%	2.2%	1.8%
Mexican Day Visitors	-5.3%	0.2%	1.3%	1.6%	1.7%	2.1%	1.7%

San Diego Visitor Forecast
(millions)

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	7.65	9.06	10.75	8.36	7.78	9.24	10.96	8.55	7.94	9.42	11.22	8.70
Total Overnight	3.98	4.47	5.10	4.40	4.06	4.57	5.17	4.50	4.16	4.64	5.28	4.58
Hotel / Motel	2.34	2.73	2.82	2.26	2.38	2.81	2.85	2.32	2.43	2.83	2.91	2.36
Household	1.43	1.47	1.97	1.88	1.46	1.50	2.01	1.92	1.49	1.54	2.05	1.95
Other	0.22	0.27	0.31	0.25	0.23	0.27	0.31	0.26	0.23	0.28	0.32	0.27
Day Visitors	3.92	3.66	4.59	5.65	3.96	3.72	4.67	5.79	4.04	3.78	4.79	5.94
Day (excl Mexican)	2.75	2.55	3.55	4.65	2.82	2.60	3.62	4.77	2.88	2.64	3.71	4.90
Mexican Day Visitors	1.17	1.11	1.04	1.00	1.15	1.12	1.05	1.02	1.17	1.14	1.07	1.04

(year-to-year % growth)

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	8.4%	1.4%	-0.2%	1.5%	1.8%	2.1%	1.9%	2.2%	2.0%	1.9%	2.4%	1.7%
Total Overnight	4.1%	1.3%	0.3%	1.8%	2.0%	2.4%	1.4%	2.4%	2.3%	1.4%	2.2%	1.6%
Hotel / Motel	3.2%	1.1%	1.3%	1.7%	1.9%	2.6%	0.8%	2.7%	2.1%	0.7%	2.4%	1.5%
Household	5.6%	1.7%	-1.4%	1.9%	2.2%	2.1%	2.0%	2.0%	2.5%	2.5%	1.8%	1.7%
Other	4.3%	2.3%	2.7%	2.4%	2.9%	2.1%	2.1%	2.3%	3.2%	2.4%	2.6%	2.4%
Day Visitors	13.4%	1.5%	-0.7%	1.2%	1.5%	1.7%	2.5%	2.0%	1.6%	2.5%	2.5%	1.9%
Day (excl Mexican)	16.1%	1.7%	0.4%	2.6%	1.8%	2.0%	2.6%	2.2%	1.7%	2.5%	2.6%	2.3%
Mexican Day Visitors	7.9%	1.1%	-5.6%	-2.0%	1.0%	0.8%	1.9%	1.6%	1.4%	2.3%	2.1%	0.7%

San Diego Visitor Expenditure Forecast

($ million)

	2017	2018	2019	2020	2021	2022	2023
Expenditure	10,828	11,342	11,789	12,308	12,801	13,255	13,711
Total Overnight	9,814	10,271	10,693	11,173	11,630	12,049	12,471
Hotel / Motel	7,388	7,720	8,088	8,468	8,815	9,142	9,458
Household	1,432	1,497	1,533	1,591	1,661	1,718	1,779
Other	994	1,054	1,072	1,115	1,155	1,190	1,234
Day Visitors	1,014	1,071	1,097	1,135	1,171	1,206	1,239
Day (excl Mexican)	770	820	835	866	894	919	944
Mexican Day Visitors	243	251	261	269	277	286	295

(year-to-year % growth)

	2017	2018	2019	2020	2021	2022	2023
Expenditure	4.1%	4.7%	3.9%	4.4%	4.0%	3.5%	3.4%
Total Overnight	4.4%	4.7%	4.1%	4.5%	4.1%	3.6%	3.5%
Hotel / Motel	4.1%	4.5%	4.8%	4.7%	4.1%	3.7%	3.5%
Household	3.3%	4.5%	2.4%	3.8%	4.4%	3.4%	3.5%
Other	7.9%	6.1%	1.6%	4.1%	3.6%	3.0%	3.7%
Day Visitors	1.7%	5.7%	2.4%	3.5%	3.2%	3.0%	2.8%
Day (excl Mexican)	4.5%	6.4%	1.9%	3.6%	3.3%	2.9%	2.7%
Mexican Day Visitors	-6.3%	3.2%	4.0%	3.0%	2.9%	3.3%	2.9%

San Diego Visitor Expenditure Forecast

($ million)

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	2,486	2,973	3,331	2,552	2,612	3,098	3,426	2,654	2,732	3,216	3,589	2,772
Total Overnight	2,284	2,691	2,976	2,320	2,407	2,805	3,067	2,414	2,519	2,911	3,218	2,525
Hotel / Motel	1,753	2,053	2,204	1,710	1,866	2,140	2,302	1,781	1,961	2,215	2,420	1,871
Household	288	349	470	390	296	365	467	404	305	382	486	417
Other	244	288	302	220	245	300	298	229	253	314	311	237
Day Visitors	201	282	356	232	205	293	359	240	213	305	371	247
Day (excl Mexican)	140	225	298	156	141	233	300	162	146	243	309	167
Mexican Day Visitors	61	58	57	76	64	60	60	78	66	62	62	79

(year-to-year % growth)

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	5.3%	4.2%	4.8%	4.8%	5.1%	4.2%	2.8%	4.0%	4.6%	3.8%	4.8%	4.4%
Total Overnight	4.4%	4.1%	5.0%	5.1%	5.4%	4.2%	3.1%	4.1%	4.7%	3.8%	4.9%	4.6%
Hotel / Motel	3.5%	4.1%	5.0%	5.3%	6.5%	4.2%	4.4%	4.2%	5.1%	3.5%	5.2%	5.0%
Household	7.4%	2.5%	4.2%	4.6%	3.0%	4.4%	-0.6%	3.7%	3.0%	4.6%	4.1%	3.2%
Other	8.1%	6.3%	6.1%	3.8%	0.3%	4.3%	-1.3%	3.7%	3.3%	4.7%	4.4%	3.6%
Day Visitors	15.8%	5.3%	2.9%	2.5%	2.0%	3.7%	1.0%	3.1%	3.5%	4.1%	3.2%	2.9%
Day (excl Mexican)	18.2%	5.7%	4.3%	2.4%	0.5%	3.7%	0.4%	3.4%	3.8%	4.1%	3.1%	3.5%
Mexican Day Visitors	10.7%	4.0%	-3.9%	2.9%	5.6%	4.0%	4.3%	2.6%	3.1%	4.0%	3.8%	1.6%

San Diego Hotel Sector Forecasts

	2017	2018	2019	2020	2021	2022	2023
Room Supply	22.4	22.6	23.1	23.7	24.2	24.8	25.3
Room Demand	17.3	17.7	18.0	18.3	18.6	18.9	19.3
Occupancy (% balance)	77.3%	78.3%	78.0%	77.0%	76.6%	76.3%	76.1%
ADR	$160.11	$165.41	$169.57	$173.81	$177.30	$181.23	$181.78
RevPAR	$123.73	$129.54	$132.23	$133.91	$135.74	$138.35	$138.41
(year-to-year % growth)							
	2017	2018	2019	2020	2021	2022	2023
Room Supply	1.0%	0.6%	2.5%	2.6%	2.2%	2.3%	2.1%
Room Demand	1.3%	2.0%	2.0%	1.4%	1.5%	2.0%	1.8%
Occupancy (% balance)	77.3%	78.3%	78.0%	77.0%	76.6%	76.3%	76.1%
ADR	3.3%	3.3%	2.5%	2.5%	2.0%	2.2%	0.3%
RevPAR	3.6%	4.7%	2.1%	1.3%	1.4%	1.9%	0.0%

San Diego Hotel Sector Forecasts

	2018				2019				2020			
	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	5.7	5.8	5.8	5.9	5.8	5.9	6.0	6.0
Room Demand	4.3	4.6	4.8	4.1	4.3	4.7	4.8	4.2	4.4	4.8	4.8	4.3
Occupancy (% balance)	76.9%	81.2%	84.0%	71.2%	76.3%	81.9%	82.0%	71.7%	76.4%	80.2%	80.7%	71.0%
ADR ($)	$154.1	$166.1	$186.3	$151.9	$157.6	$171.0	$193.3	$153.4	$163.1	$175.3	$196.2	$157.8
RevPAR ($)	$118.6	$134.8	$156.5	$108.1	$120.3	$140.1	$158.5	$110.0	$124.6	$140.6	$158.3	$112.0
(year-to-year % growth)												
	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	0.4%	0.5%	0.6%	0.9%	2.3%	2.6%	2.2%	2.8%	2.3%	2.8%	3.1%	2.3%
Room Demand	2.6%	1.7%	1.5%	2.1%	1.5%	3.6%	-0.3%	3.5%	2.4%	0.6%	1.5%	1.2%
Occupancy (% balance)	2.1%	1.2%	0.9%	1.2%	-0.8%	0.9%	-2.4%	0.8%	0.1%	-2.2%	-1.6%	-1.1%
ADR	0.6%	3.3%	4.0%	5.4%	2.3%	3.0%	3.7%	1.0%	3.5%	2.5%	1.5%	2.9%
RevPAR	2.8%	4.5%	5.0%	6.6%	1.5%	3.9%	1.2%	1.8%	3.6%	0.3%	-0.1%	1.8%

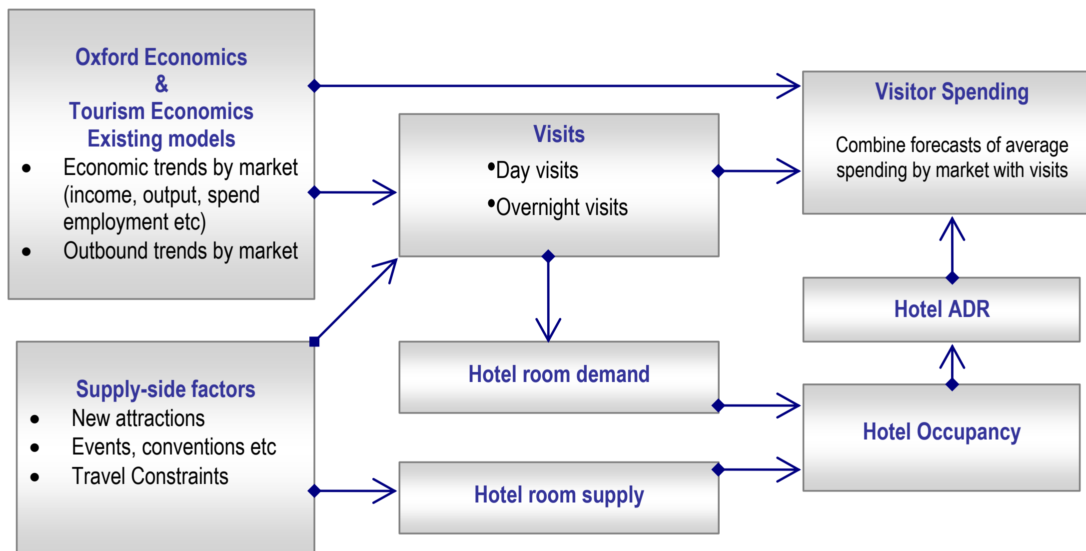
7 Forecast Methodology Overview

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

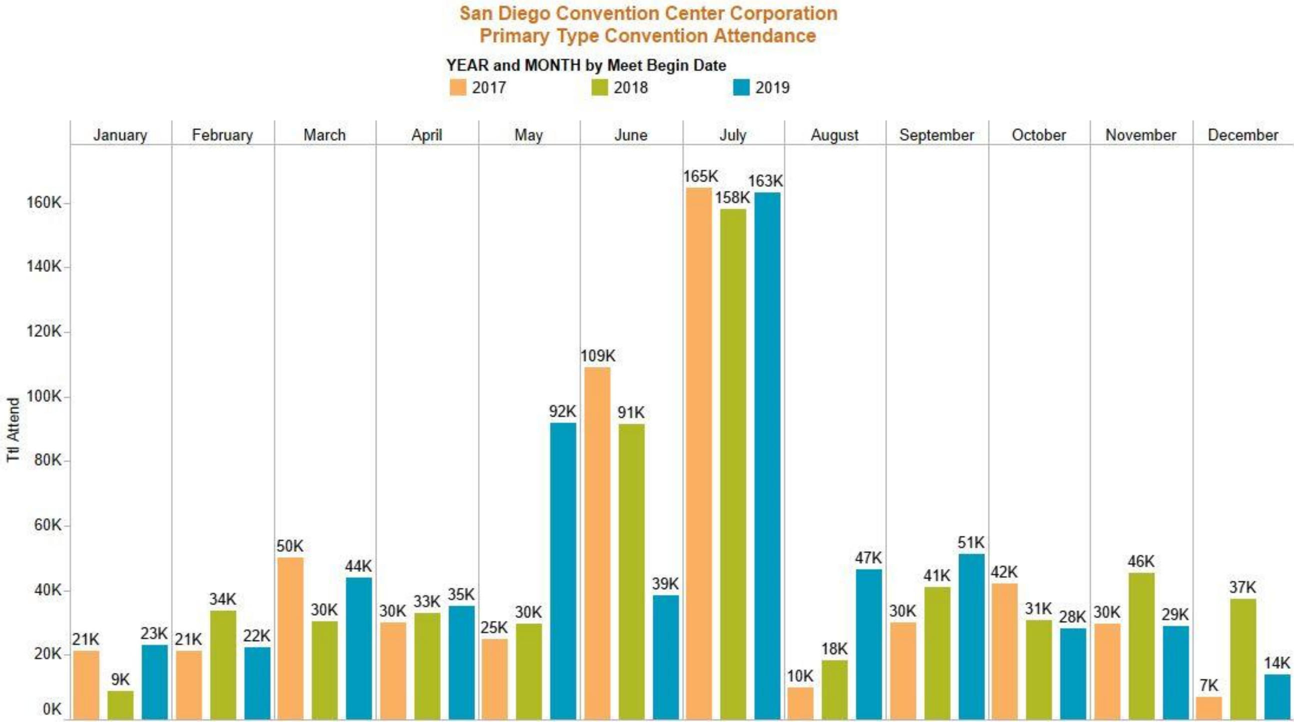


- **Overnight Visitors**. Trends in overnight visits have been identified and are forecast separately for stays in hotels and in private households. Forecasts account for different trends according to purpose of visit (business and leisure) as well as by origin market. Economic developments in key origin 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



Summary				
	2016	2017	2018	2019
Conventions	48	43	43	57
Conv. YOY Difference		-5	0	14
Estimated Attendance	634,603	539,635	557,250	586,900
Attend YOY Difference		-94,968	17,615	29,650

Sources:
Attendance for all months is the estimated attendance provided by the meeting planners to SDCCC.

9 San Diego Hotel Project Pipeline

San Diego County Potential New Supply Developments

Updated December 2018

Property Name	Street Address	City	Zipcode	Potential Open Date	Number of Rooms	Potentiality Rating*
Viejas Hotel: Willows Hotel & Spa	5005 Willows Road	Alpine	91901	2/1/2018	159	OPEN
Courtyard by Marriott	141 North Magnolia Avenue	El Cajon	92020	2/28/2018	120	OPEN
Castle Hotel at LEGOLAND	1 Legoland Drive	Carlsbad	92008	4/27/2018	250	OPEN
TownePlace Suites San Diego Downtown	1445 Sixth Avenue	San Diego	92101	6/11/2018	98	OPEN
The Fin Hotel	133 South Coast Highway	Oceanside	92054	7/15/2018	28	OPEN
Westin Carlsbad Resort & Spa	5480 Grand Pacific Drive	Carlsbad	92009	8/20/2018	71	OPEN
InterContinental Hotel - Lane Field South	900 Bayfront Court	San Diego	92101	9/18/2018	400	OPEN
Moxy Hotel	831 Sixth Avenue	San Diego	92101	11/28/2018	126	OPEN
Ayres Hotel - Millenia Chula Vista	1710 Millenia Avenue	Chula Vista	91915	Dec-18	135	5
				2018 Total	**1,387**	
TownePlace Suites San Diego Central	8650 Tech Way	San Diego	92113	Jan-19	106	5
The Guild Hotel	500 West Broadway	San Diego	92101	Feb-19	168	5
Hampton Inn and Suites by Hilton - Liberty Station	2211 Lee Court	San Diego	92133	Mar-19	181	5
Sycuan Casino Resort Hotel	5469 Casino Way	El Cajon	92019	Mar-19	302	5
Homewood Suites Chula Vista Eastlake	2424 Fenton Street	Chula Vista	91914	Apr-19	91	5
Hampton Inn Chula Vista Eastlake	2424 Fenton Street	Chula Vista	91914	Apr-19	104	5
TownePlace Suites Liberty Station	2311 Lee Court	San Diego	92133	Apr-19	222	5
Pala Casino Spa Resort	11154 Highway 76	Pala	92059	May-19	349	5
Carte Hotel & Suites Downtown San Diego	401 West Ash Street	San Diego	92101	Jun-19	239	5
Marriott SpringHill Suites	300 La Terraza Boulevard	Escondido	92029	Jun-19	105	5
SpringHill Suites Carlsbad San Diego	3136 Carlsbad Boulevard	Carlsbad	92008	Jul-19	104	5
Home2 Suites - Carlsbad/Palomar Airport	1901 Wright Place	Carlsbad	92008	Jul-19	146	5
Legacy International Center	875 Hotel Circle South	San Diego	92108	Nov-19	127	5
				2019 Total	**2,244**	
Hampton Inn	100 Fletcher Parkway	El Cajon	92020	Jan-20	96	5
Fairfield Inn & Suites San Diego Mission Bay	4345 Mission Bay Drive	San Diego	92109	Apr-20	111	2
Vista Palomar Hotel Project	NS W. San Marcos Blvd/Business Park Dr	Vista	92081	May-20	100	5
San Marcos Hotel	SWC Montiel Road & Leora Lane	San Marcos	92069	Jun-20	128	3
Element San Diego Rancho Bernardo	I-15 and Scripps Poway Parkway	San Diego	92131	Jul-20	135	2
Courtyard by Marriott San Diego Chula Vista	SR-125 and Olympic Parkway	Chula Vista	91913	Jul-20	153	2
Stone Brewing Company Boutique Hotel	Citracado Pkwy.	Escondido	92029	Jul-20	99	2
Sheraton Carlsbad Resort expansion	5480 Grand Pacific Drive	Carlsbad	92008	Jul-20	79	3
Hampton Inn Imperial Beach	Palm Avenue and Ninth Street	Imperial Beach	91932	Aug-20	100	2
Tapestry Collection Hotel Point Loma	2912 Garrison St.	San Diego	92106	Sep-20	92	2
Springhill Suites San Diego Del Mar	El Camino Real & Carmel Valley Road	San Diego	92130	Sep-20	112	2
AC Hotel (Autograph Collection by Marriott)	743 Fifth Ave.	San Diego	92101	Oct-20	147	2
1010 Oceanside (Belvedere Project)	Mission Ave. and Horne St.	Oceanside	92054	Nov-20	124	3
Imperial Beach Boutique Hotel	1046 Seacoast Dr.	Imperial Beach	91932	Nov-20	100	2
				2020 Total	**1,576**	
Aloft Hotel San Diego Downtown	964 5th Avenue	San Diego	92101	Jan-21	124	2
Marriott Residence Inn	1103 N Coast Highway	Oceanside	92054	Apr-21	117	2
Fifth & Ash Suites	SEC of Fifth Avenue and Ash St.	San Diego	92101	Jun-21	156	2
Destination Resorts Hotel	Pacific Street and Mission Avenue	Oceanside	92054	Jun-21	226	3
Joie de Vivre Hotel	Pacific St/Civic Ctr/Myers St/Mission Ave	Oceanside	92054	Jun-21	158	3
Embassy Suites San Diego City Center	1351-1371 Fifth Avenue	San Diego	92101	Jun-21	157	2
Manchester Pacific Gateway Complex (tower 1)	Broadway, PCH and Harbor Drive	San Diego	92101	Jul-21	545	5
Manchester Pacific Gateway Complex (tower 2)	Broadway, PCH and Harbor Drive	San Diego	92101	Jul-21	545	5
Manchester Pacific Gateway Complex (boutique)	Broadway, PCH and Harbor Drive	San Diego	92101	Jul-21	290	5
Embassy Suites San Diego Aiport Liberty Station	2300 Lee Court	San Diego	92133	Nov-21	240	2
Ponto Beachfront Hotel	Carlsbad Blvd and Avenida Encinas	Carlsbad	92011	Dec-21	267	2
Hampton Inn	923 Island Ave.	San Diego	92101	Dec-21	132	2
Costa Verde Center	Costa Verde Shopping Center - UTC	San Diego	92122	Dec-21	200	2
State & Grape	NWC of Grape St & State St	San Diego	92101	Dec-21	60	2
Columbia & Howthorn	Hawthorn St between Columbia & Grape St	San Diego	92101	Dec-21	22	2
				2021 Total	**3,239**	

***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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