TOURISM ECONOMICS

San Diego Travel Forecast

March 2022

Report Prepared For:
San Diego Tourism Authority

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

Contents

1 Executive Summary

- The third quarter of 2021 exhibited promising results for San Diego's travel recovery. Total visitation improved to 76% of 2019 Q3 with 8.0 million visitors, due largely to the overnight segment reaching 87% of its 2019 Q3 level, while the recovery in day visitation lagged at only 65% of its 2019 Q3 level. Expenditures indicated a similarly promising picture, with Q3 visitor expenditures improving to 69% of its 2019 level, up from 57% the prior quarter. Day visitation from Mexico remains profoundly weak with less than 400,000 visitors in 2021 Q3, compared to 2019 Q3 tallying over one million Mexican day visitors. In the hotel sector, room demand reached 88% of its 2019 Q3 level. The return of hotel room demand in Q3 improved occupancy to 73.2%, but still down compared to the 82.3% occupancy posted in 2019 Q3. Revenue per available room (RevPAR) was down just 3% relative to 2019 Q3, supported by the average daily room rate (ADR) rising to $201.86 – 9% above the $184.35 recorded in 2019 Q3.

- San Diego visitorship in 2021 improved to 23.8 million visitors from 14.3 million in 2020 – still 32% shy of the 35.1 million visitors recorded in 2019. Both overnight (+58.8%) and non-Mexican day visitors (+124.2%) experienced substantial gains in 2021 after severe declines in 2020, but Mexican day visitation contracted a further 17.1% in 2021. A prolonged forecasted recovery sees overnight and non-Mexican day visitation recovering to 2019 levels in 2024, but Mexican day visitation is expected to remain below pre-pandemic rates through 2025. Expenditures are expected to register 33.2% growth in 2022, led by the recovery in day visitor expenditures, and is forecast to rise another 25.1% in 2022. Visitor expenditures to San Diego are expected to remain below their 2019 benchmark throughout the forecast period. In the hotel sector, recovering room demand is expected to bolster occupancy to 71.9% in 2022 and push occupancy above its 2019 watermark in 2024 and 2025. ADR is expected to contract 1.0% in 2022 after rising 26.7% in 2021. A return to 2019 ADR is projected for 2023. With the still soft occupancy rate, RevPAR remains well below its 2019 level but is expected to achieve a full recovery in 2023.

- For the US overall, 2021 has seen rapid advancement in the hotel industry's recovery. While room demand in Q1 remained 25.1% weaker than in 2019 and ADR had eroded 22.6% relative to 2019, by Q4, room demand trailed its 2019 level by only 4.2% and ADR surpassed 2019 prices by 3.3%. There is some softening anticipated in Q1 of 2022, as the Omicron wave and still lagging business travel recovery are expected to weigh on hotel performance. However, an improving health situation, easing of pandemic-related restrictions, the normalization of group meetings and corporate travel, and healthy consumer finances are expected to support an upswing in travel activity in the spring and summer of 2022, and lead to a full recovery to 2019 levels in room demand and ADR in 2022 with RevPAR trailing its 2019 level by a mere 0.6%.

- The spread of the Omicron variant and year-end slump in consumer spending put a chill on the US economy in Q1, with our new baseline seeing GDP essentially flat on the quarter. But as the Omicron wave recedes, we foresee a spring rebound led by buoyant demand for in-person services. Given the weak start of the year, we forecast that the economy will grow 3.5% in 2022 and 2.5% in 2023. While consumer spending is poised to soften in Q1, we see an improving health situation and strong underlying fundamentals, including a tight labor market and healthier household balance sheets, spurring a swift rebound in Q2. Headline inflation firmed 0.1ppt to 5.8% in December compared to a year earlier – the highest rate since 1982. Elevated inflation will remain a headwind in 2022 but easing supply constraints should support growth and reduce inflationary pressures. The FOMC and Chairman Powell struck an even more hawkish tone at the January policy meeting and confirmed that rate tightening will begin in March and that balance sheet reduction will begin after rate lift-off. We expect the Fed to raise rates by 25bps in March, followed by an additional 75bps of rate increases throughout 2022.

- The risk of a shift to a higher inflation regime in advanced economies has risen in the last six months. Long-term structural drags on inflation are largely still present, so our baseline view remains that medium-term inflation will stay low. But our views on the risk of an inflation regime shift have shifted due to several developments. Inflation has been higher and stickier for longer than expected, and analysis of the composition of inflation indices in the US suggests broader price pressures are emerging. Strong monetary growth will contribute to inflation staying elevated, and labor market developments could also help entrench higher inflation. Long-term inflation expectations have risen but generally have not broken above the top of the ranges seen in the last 20 years. A shift in central bank behavior in recent months has reduced market concerns about inflation slightly, but risks remain clearly higher than six months ago.

San Diego Tourism Summary Outlook (annual % growth, unless stated)	2019	2020	2021	2022	2023	2024	2025
Visits	-1.9%	-59.2%	57.1%	36.3%	8.7%	4.9%	3.6%
Day	-3.3%	-67.3%	65.9%	55.9%	6.9%	4.7%	4.2%
Overnight	-0.5%	-51.3%	51.4%	22.5%	10.4%	5.1%	3.0%
Expenditure	1.3%	-55.6%	33.2%	25.1%	12.3%	5.8%	4.7%
Day	-0.2%	-69.1%	70.8%	57.0%	7.8%	5.9%	5.0%
Overnight	1.5%	-54.3%	30.6%	22.3%	12.8%	5.8%	4.7%
Hotel Sector							
Room supply	2.3%	-7.6%	7.4%	1.7%	1.4%	1.0%	1.5%
Room Demand	-0.1%	-41.3%	36.4%	18.2%	7.0%	3.5%	2.8%
Occupancy (%)	76.6	48.7	61.9	71.9	75.9	77.8	78.8
ADR ($)	$166.11	$129.89	$164.54	$162.94	$167.81	$174.19	$180.08

2 San Diego Tourism Outlook

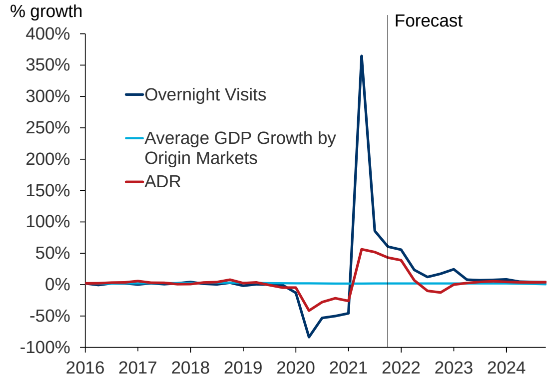
2.1 Visitor Trends

San Diego concluded 2021 with 23.8 million visitors, approximately 68% of 2019 visitation. Visitation only registered 40% of its 2019 level in Q1 but, due partly to the vaccine rollout and strong leisure travel recovery, improved to 69% in Q2 and 76% in Q3. However, Q4 tailed off, reaching only 72% of its 2019 level as the leisure travel season slowed down heading into winter. Overnight visitation was the strongest segment in 2021 at 77% of 2019 visitation, while day visits remained pinned at just 58% of 2019 levels.

Total visitation to San Diego is expected to reach 87% of 2019 visitation in 2022 with 30.7 million visitors. This is due in part to the resilient jobs recovery and increasing compensation growth bolstering households' excess savings and the residing pent-up demand for travel. Overnight visitation is expected to continue to lead the recovery, improving to 90% of its 2019 level in 2022. The total number of day visitors is forecast to experience a significant increase in 2022, reaching 85% of its 2019 level from 58% in 2021. Non-Mexican day visitation is forecast to achieve 95% of its 2019 level in 2022, while Mexican day visitation is expected to continue to significantly trail the other segments in recovery, only reaching 51% of its 2019 level in 2022. Macroeconomic risks represent headwinds for the travel recovery, as widespread inflation and the lagging business travel segment present downside risk to the near-term travel outlook, as well as the ever-present uncertainty of a potential new COVID-19 variant.

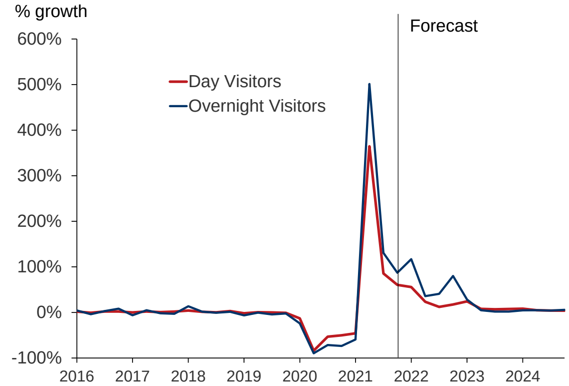
The spread of the Omicron variant and year-end slump in consumer spending put a chill on the US economy in Q1, with our baseline seeing GDP essentially flat on the quarter. But as the Omicron wave recedes, we foresee a spring rebound led by buoyant demand for in-person services, including travel. Given the weak start to the year, we forecast that the economy will grow 3.5% in 2022, followed by 2.5% growth in 2023 and 1.9% in 2024. We forecast overall visitation to near 2019 levels in 2024 with 35.0 million visitors before exceeding its pre-pandemic benchmark in 2025 with 36.2 million visitors.

Overnight Visitor Market



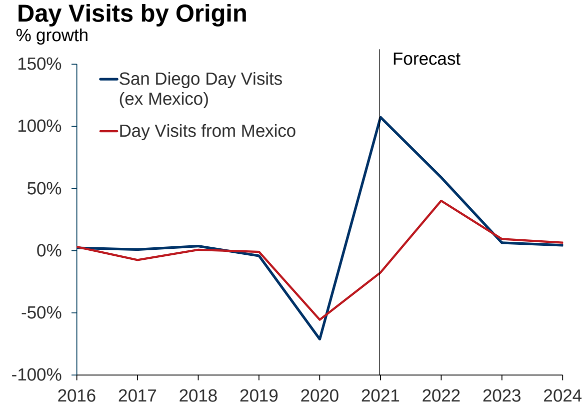
Source : Tourism Economics/CIC Research

Overnight & Day Visits



Source : Tourism Economics / CIC Research

Day Visits by Origin



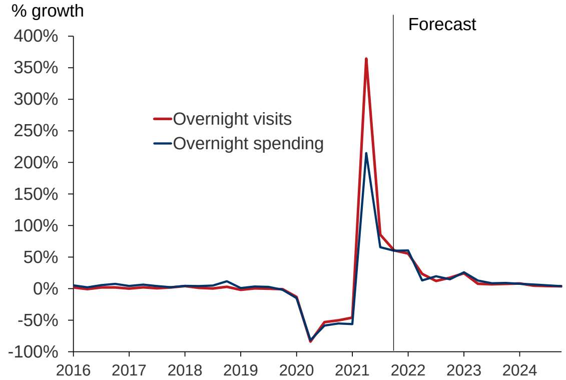
Source : Tourism Economics/SDCVB

2.2 Expenditures

Visitor expenditures grew 44.3% in 2021 to reach $7.45 billion after contracting 55.6% in 2020. The largest area of growth was among non-Mexican day visitors (+131.9%), as international border restrictions has hampered Mexican day visitor expenditures in 2021 (-18.3%) and overnight visitor expenditure rose 41.8%.

In 2022, visitor expenditures are expected to grow 25.1%, reaching $8.6 billion. Despite strong growth, the $8.6 billion projected in 2022 is still $3.0 billion shy of the $11.6 billion posted in 2019. We forecast the recovery in expenditures to be more gradual than visitation, with expenditures anticipated to remain 8.0% shy – over $900 million – of its 2019 level in 2025.

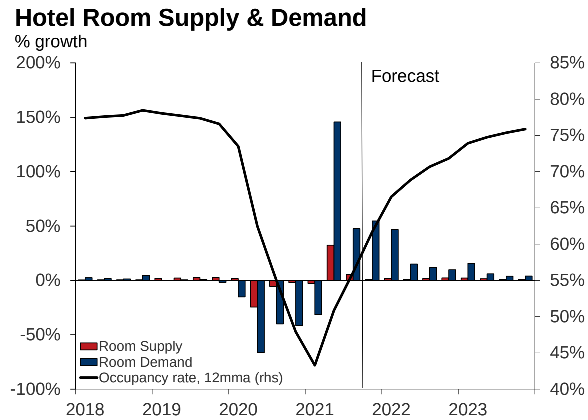
Overnight Visits & Expenditures



Source : Tourism Economics / CIC Research

2.3 Hotel Performance

The COVID-19 pandemic saw San Diego room demand contract 41.3% in 2020. While room demand rebounded well in 2021, posting 36.4% growth, it remains 19.9% below its 2019 level. Room supply only fell 7.6% in 2020 and nearly entirely recovered in 2021, growing 7.4% year-over-year and reaching 99.2% of its 2019 level. While room supply is forecast to surpass its 2019 benchmark in 2022, room demand is projected to remain 5.3% down relative to 2019 and then achieve a full recovery in 2023. This recovery timeline slightly trails the US overall, which is expected to reach a full recovery in room demand in 2022.



Source : Tourism Economics / STR

Occupancy has risen to 61.9% in 2021, after reaching as low as 48.7% in 2020. We forecast 2022 will experience another sharp rise to 71.9% occupancy, before the recovery begins to moderate in 2023 with 75.9% occupancy and then exceed pre-pandemic occupancy with 77.8% in 2024. Despite taking one year longer to return to 2019 occupancy, San Diego's hotel occupancy is expected to remain stronger than the overall US hotel sector throughout the forecast.

San Diego's average daily room rate (ADR) recovered to $164.54 in 2021, just 0.9% below its 2019 level. We expect ADR to contract slightly (-1.0%) in 2022 before experiencing rises of greater than 3.0% in each of the succeeding three years. While RevPAR has benefitted from the return of ADR in 2021, the continual weakness in occupancy led to RevPAR remaining 20.0% below its 2019 benchmark. As room demand growth pushes occupancy to higher levels, RevPAR is expected to register 15.1% growth in 2022 and another 8.7% expansion in 2023, resulting in a full recovery to its 2019 level. The ADR recovery timeline trails the nation overall by one year, but San Diego RevPAR and US RevPAR are both expected to fully recovery simultaneously in 2023.

We forecast the hotel sector nationally to approach a full recovery in 2022 in room demand and ADR, but occupancy to take an additional year before returning to its 2019 level. The hotel sector during the pandemic has been largely buoyed by the resilient domestic leisure segment. Robust consumer spending that has rotated towards services will continue to support travel, as pandemic restrictions continue to ease and the labor market recovers. The domestic leisure segment should fully recover by summer 2022 while, substantial business investment, a healing US labor market, and the heightened return to the office and in-person meetings will ignite domestic business travel. San Diego's strength as a leisure travel destination has insulated it from some of the more severe declines seen in other cities, and although San Diego is forecast to trail the US overall slightly in terms of fully recovering to 2019 benchmarks, it is expected to continue to outperform the nation in occupancy – 71.9% versus 63.8% in 2022, respectively.

3 US Tourism & Lodging Outlook

Domestic Person Trips in the US
(Millions)

	2019	2020	2021	2022	2023	2024	2025
Total	2318.0	1582.0	2021.0	2235.7	2398.2	2493.3	2530.0
% change	1.8	-31.8	27.8	10.6	7.3	4.0	1.5
By purpose							
Business	463.9	181.3	249.6	370.8	446.2	484.1	491.6
% change	1.1	-60.9	37.6	48.6	20.4	8.5	1.5
Leisure	1854.1	1400.6	1771.4	1864.9	1952.0	2009.2	2038.4
% change	1.9	-24.5	26.5	5.3	4.7	2.9	1.5
Hotel room demand							
Roomnights	1293.1	830.5	1131.9	1290.6	1361.1	1405.4	1429.3
% change	1.7	-35.8	36.4	14.0	5.5	3.3	1.7

Forecast prepared in November 2021

Summary US Lodging Forecasts
(Millions)

	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rooms (mn roomnights)												
Room Supply	486.3	436.2	479.6	485.2	475.5	494.0	507.3	506.1	496.0	509.6	518.2	515.0
Room Demand	251.3	146.1	230.4	202.5	220.3	300.8	328.7	293.2	276.1	343.7	366.5	314.7
Occupancy (% balance)	51.7%	33.5%	48.0%	41.7%	46.3%	60.9%	64.8%	57.9%	55.7%	67.4%	70.7%	61.1%
ADR ($)	$123.71	$83.64	$101.70	$94.01	$99.49	$119.89	$138.52	$132.98	$127.18	$135.09	$139.88	$133.98
RevPAR ($)	$63.92	$28.01	$48.85	$39.23	$46.10	$73.01	$89.74	$77.04	$70.78	$91.10	$98.92	$81.87

(year-to-year % growth)

	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	1.8%	-11.0%	-3.9%	-2.5%	-2.2%	13.3%	5.8%	4.3%	4.3%	3.1%	2.1%	1.8%
Room Demand	-14.6%	-57.3%	-34.7%	-33.8%	-12.3%	106.0%	42.7%	44.8%	25.3%	14.2%	11.5%	7.3%
Occupancy (% balance)	-9.9%	-36.4%	-22.6%	-19.8%	-5.3%	27.4%	16.7%	16.2%	9.3%	6.5%	5.9%	3.2%
ADR	-3.7%	-37.0%	-23.7%	-27.0%	-19.6%	43.3%	36.2%	41.5%	27.8%	12.7%	1.0%	0.8%
RevPAR	-19.3%	-69.8%	-48.2%	-50.4%	-27.9%	160.7%	83.7%	96.4%	53.5%	24.8%	10.2%	6.3%

Forecast prepared in January 2022

4 Key Origin Economies

4.1 US Market Summary

After 2021 takeoff, US economy downshifts

The US economy closed 2021 on a high note with real GDP growing by an annualized 6.9% in Q4 and rising 5.7% in 2021 as a whole, its best annual performance since 1984. However, the upside surprise in Q4 was driven largely by a surge in inventories, while consumer spending and business fixed investment also supported growth. Real final sales to domestic purchasers, a better gauge of underlying demand that strips out trade and inventories, rose only 1.9% on an annualized basis in Q4.

Moreover, the early end to the holiday shopping season led to a sharp loss of consumer spending momentum in December and made for a weak handoff into Q1. Omicron disruptions and the continued rise in inflation will likely constrain consumer spending and overall activity in the early part of Q1. We now expect GDP growth to be flat in Q1, down from 2.3% growth in our January baseline. Part of the downgrade also reflects a drag from inventories following the massive accumulation in Q4.

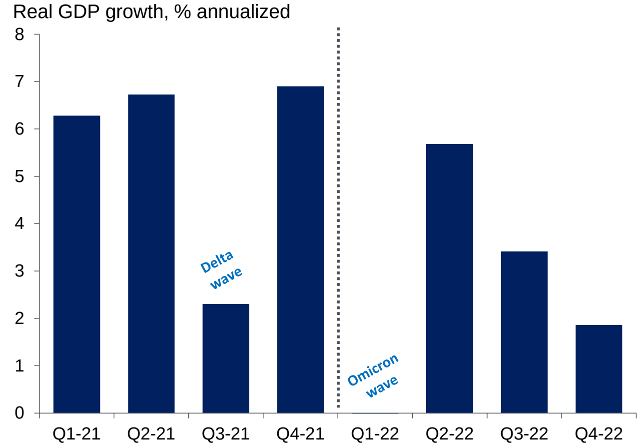
But the economic soft patch will likely be temporary. With the country slowly moving past the Omicron wave, we foresee a spring rebound in economic activity led by in-person services sectors. This should lift Q2 real GDP growth to a strong 5.6% annualized, followed by a robust 3.4% advance in Q3. In all, we have lowered our 2022 GDP growth forecast by 0.5ppts to 3.5%, and continue to see the economy growing 2.5% in 2023.

Covid and fiscal policy are downside risks

Risks to the US outlook remain tilted to the downside. The unresolved pandemic and the possibility that Congress will not pass President Joe Biden's Build Back Better (BBB) fiscal package are the key reasons growth could disappoint.

US: Omicron will put a temporary chill on GDP

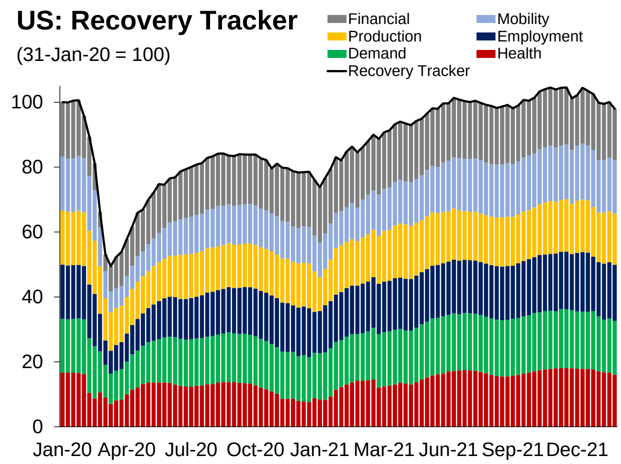
Real GDP growth, % annualized



Source: Oxford Economics

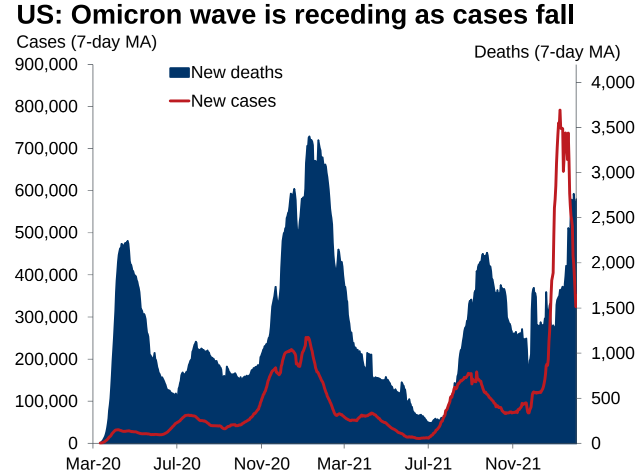
US: Recovery Tracker

(31-Jan-20 = 100)



Source: Oxford Economics

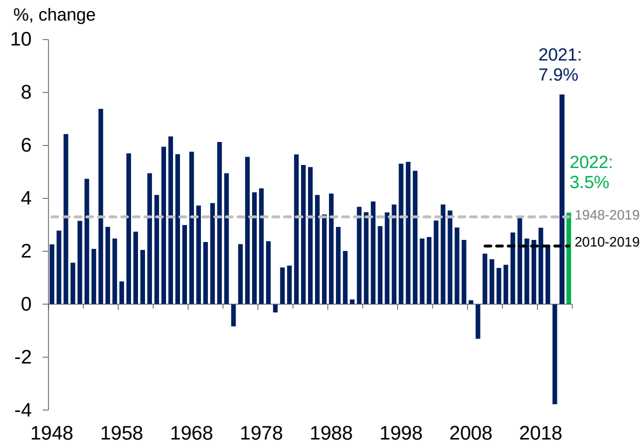
US: Omicron wave is receding as cases fall



Source: Oxford Economics/Haver Analytics

- **Coronavirus pandemic**: After surging at a lightning-quick pace, Covid cases have fallen nationally, suggesting that the worst of the Omicron wave is likely behind us. Our baseline forecast assumes that the economic toll from Omicron variant will be concentrated in the early part of Q1. As case numbers subside, an improving health situation should reinvigorate the recovery in the spring and summer.
- **Consumer spending**: Deteriorating health conditions and a weak handoff from Q4 2021 into Q1 will likely cause consumer spending to temporarily stall. But a rebound should ensue in Q2, with consumers benefitting from a tight labor market, healthier balance sheets, and excess savings. We see consumer spending growing 3.5% in 2022.
- **Business investment and supply chains**: We expect business investment growth to moderate through 2022, in line with cooler demand prospects. Still, a gradual easing of supply constraints and the need to expand productive capacity and replenish inventories will support strong growth of 4.2% in 2022.

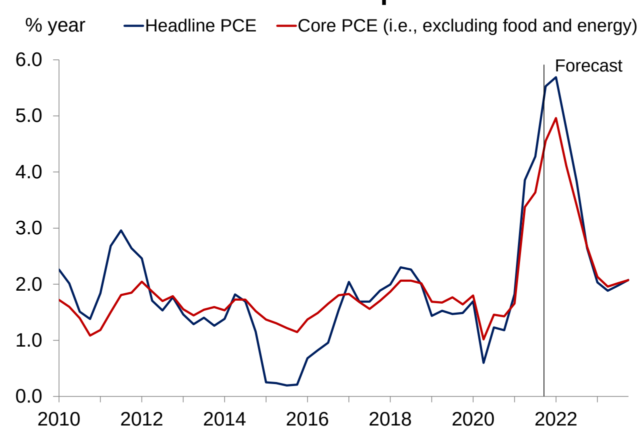
US: Above-trend consumer spending growth in 2022



Source : Oxford Economics/Haver Analytics

- **Labor market**: Job creation showed surprising resilience during the Omicron wave, with payrolls jumping 467k in January and 678k in February. We see the economy adding around 4 million jobs this year, with the unemployment rate falling toward 3.5% by year-end.
- **Housing activity**: Housing activity should remain constrained by a shortage of homes for sale, surging house prices, and higher interest rates. We see residential investment falling 2.2% in 2022.

US: Headline and core PCE prices



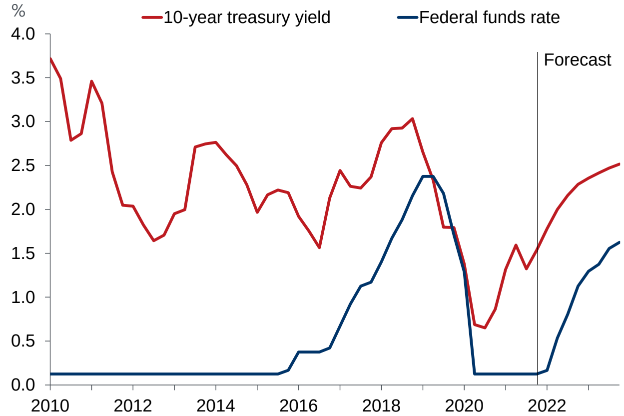
Source: Oxford Economics/Haver Analytics

- **Rising inflation**: Strong demand and constrained supply will continue to underpin prices and wages in the near term. We forecast headline PCE inflation will remain elevated in early 2022, while core PCE inflation will stay above 4% y/y through H1 before falling rapidly thereafter.
- **Fiscal policy**: Our baseline forecast includes both the approved $1.2tn bipartisan infrastructure package and a $1.8tn Build Back Better (BBB) bill. Though the risk that BBB doesn't get passed has risen, we still believe that a reworked package could be passed.

Hawkish Fed signals rate liftoff in March

At the January policy meeting, the FOMC and Chairman Powell confirmed that rate lift-off is poised to begin in March. Powell struck a hawkish tone during the press conference, as he did not overtly push back on the idea of a more rapid tightening cycle and asserted that there is plenty of room for interest rate normalization without hurting the labor market. We expect the Fed to raise rates by 25bps in March, followed by an additional 75bps of rate increases throughout 2022. We look for the Fed to start shrinking its balance sheet in July.

US: Interest rates



Source: Oxford Economics/Haver Analytics

Long-term factors affecting our outlook

After a rebound in activity through 2022, economic growth will cool as the fiscal impulse fades. We expect GDP growth of around 1.9% in 2024-2030, slightly above our potential growth estimate of 1.8%. Slower projected population growth will result in lower output growth in the long run, while productivity growth will firm modestly in the medium to long term and provide an offset.

What to watch out for

Fiscal stimulus: On November 15, President Joe Biden signed the bipartisan Infrastructure Investment and Jobs Act (IIJA) into law. The legislation provides $550bn in new funding for transportation projects, power and water infrastructure, and broadband. With the infrastructure bill done, the focus has shifted to the other piece of Biden's agenda, the Build Back Better (BBB) plan. However, the risk that the BBB will not get passed rose significantly in December amid opposition from Senator Manchin.

Potential GDP and Its Components
Average Percentage Growth

	2010-2019	2020-2029
Potential GDP*	1.7	1.9
Employment at NAIRU	0.7	0.4
Capital Stock	1.9	1.5
Total Factor Productivity	0.6	1.2

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

If BBB legislation is completely derailed, that would likely shave 0.2ppts-0.4ppts from growth in 2022. The drag to growth in 2023 would likely be larger at 0.5ppts.

Household savings and consumer spending: US households have accumulated excess savings worth around $2.5tn since the onset of the crisis. While some of these funds have been used to pay down debt, we anticipate about 13%-15% will be used to smooth out consumer spending through 2022. A greater or faster use of those funds would lead to stronger growth and higher inflation.

Coronavirus pandemic: The global spread of the Omicron coronavirus variant poses a risk to the outlook, although signs have emerged that the worst of the Omicron wave may be behind us. Overall, we anticipate only a moderate economic hit from the variant early in the year followed by a rebound in the spring.

Financial risk: With the Federal Reserve signaling its intention to start raising interest rates from near zero, financial conditions have started to tighten from their very accommodative level in an orderly manner. A disorderly tightening in financial conditions would slow the flow of credit and weigh on corporate and business confidence, which would further restrain economic growth.

Risk warnings

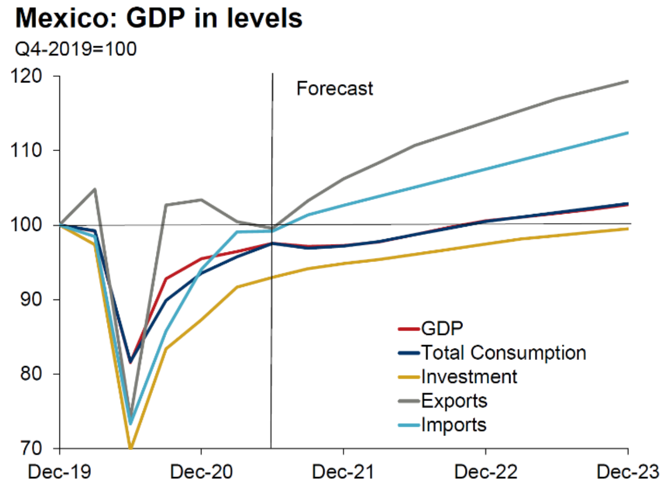
GDP growth		Strong recovery depends on improving health situation
CPI inflation		Core PCE inflation at 2.7% by end-2022
Current account balance		Relatively stable current account deficit in the long term
Government balance		Expansionary fiscal policy widening budget deficit
Government debt		Stimulus pushed federal debt over 100% of GDP in 2020
External debt		US is a net debot, but generates income surplus

4.2 Mexico

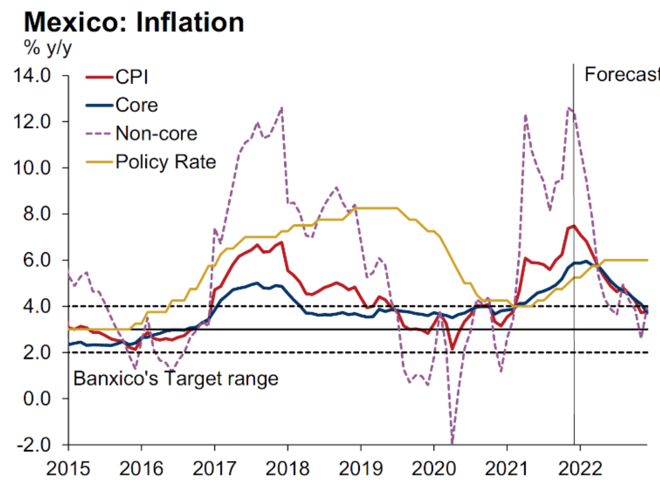
We have cut our 2022 GDP growth forecast by 0.6ppt to 2.2%, down from an estimated 5.2% in 2021. Weaker-than-expected activity in Q4 2021 and persistent supply-chain disruptions caused by the Omicron wave have driven the revision. The recent surge in Covid cases has exceeded previous wave peaks, but the resurgence is unlikely to result in stricter measures limiting activity. Risks to our outlook remain tilted to the downside.

Private consumption showed resilience in October, with a modest 0.2% m/m expansion, and manufacturing exports jumped 7.3% m/m in November. But the adverse effects of the outsourcing ban and shortages of intermediate goods weighed on October monthly economic activity. We have cut our Q4 2021 GDP forecast to just 0.1% q/q, down from 0.9% previously, but kept a 0.5% q/q expansion in Q1 2022.

Lower energy and fresh food prices cooled December inflation to 7.4% y/y after reaching a peak of 7.7% in the second half of November. Core inflation rose, though, due to persistent supply-chain disruptions and imported inflation. Base effects and the eventual end to supply disruptions should allow inflation to ease to 3.8% by the end of 2022, but risks to our outlook remain tilted to the upside.



Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

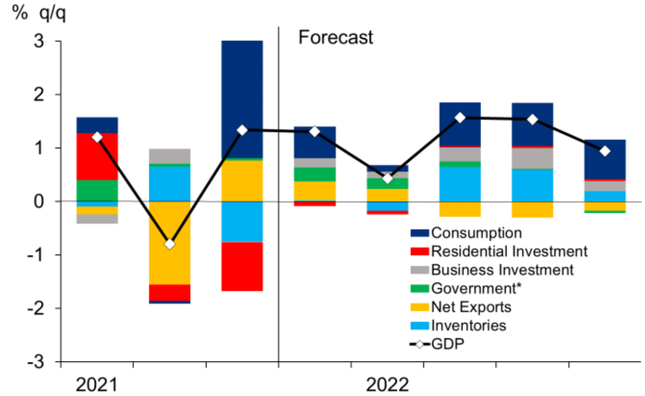
Accumulated shocks to core prices and financial pressure from a more aggressive US Fed warrants further monetary restriction. However, a more dovish Banxico board composition clouds the outlook. We expect an additional 50bp rate hike in Q1 to 6.0% while we wait for additional details over the stance of the new Banxico governor, Victoria Rodriguez Ceja. The Mexican peso will remain exposed to volatility episodes.

We expect the government to extend the modest fiscal expansion seen this year into 2022, with a small primary deficit of 0.5% of GDP. However, public debt will narrow to 51.7% of GDP this year from an estimated 53% in 2021.

4.3 Canada

Surging Omicron cases have prompted a retightening of public health restrictions and heightened caution that will weigh on the Canadian economy in early 2022. Early signs suggest Omicron will likely fade quickly and we expect growth to rapidly rebound once restrictions ease. We now forecast GDP to grow 4.1% in 2022, down from 4.3% previously, after rising 4.6% in 2021.

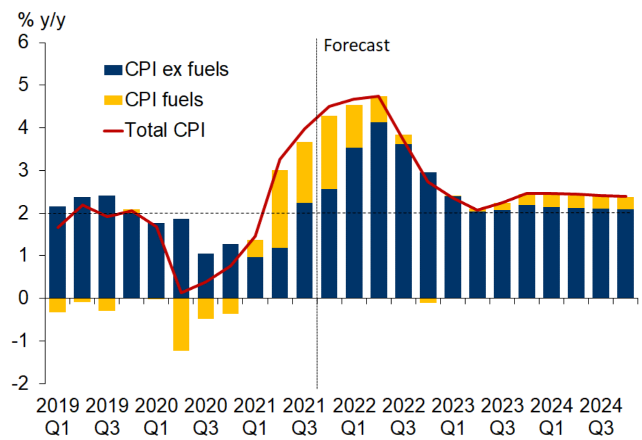
Canada: GDP to bounce back in Q2 after Omicron induced Q1 lull



Source: Oxford Economics
*Includes consumption and capital spending

Most regions across Canada have imposed strict restrictions to contain the highly transmissible Omicron outbreak and preserve hospital capacity. We assume the economic fallout from Omicron will be contained to Q1, with a strong rebound beginning in Q2 as health conditions improve, restrictions ease, supply chains increasingly loosen, and business and consumer confidence improve.

Canada: CPI inflation



Source : Oxford Economics/Haver Analytics

The labor market closed 2021 on an upswing, as a 54,700 (+0.3%) jobs gain in December pushed the unemployment rate down to 5.9%, the lowest since the pandemic began. Material job losses are likely in January and possibly in February, but we expect most of these jobs will be quickly recouped once restrictions ease.

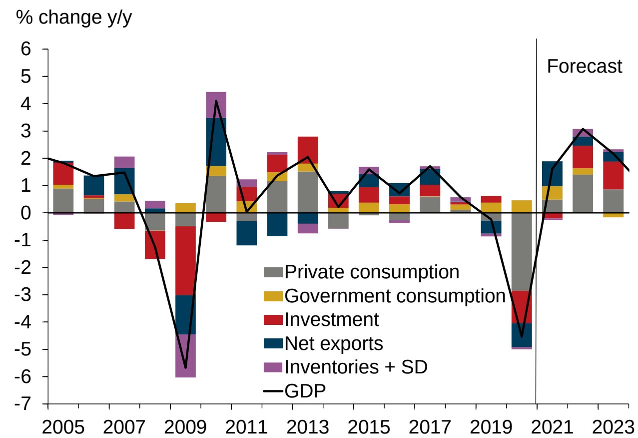
CPI inflation held steady at a near two-decade high of 4.7% y/y in November. We forecast inflation to remain elevated in the near term, peaking at 5% in April before easing to the mid-2% range in early 2023 as supply bottlenecks clear and energy prices fall.

Despite the temporary disruptions from Omicron in Q1, we now expect growing inflation concerns and a tight labor market will prompt the Bank of Canada to begin raising rates in July 2022 and again in October. The Bank could start lifting rates even sooner and more quickly if Omicron proves less harmful to the economy, but we think the Bank will stay on a cautious path given its apprehensions about high household debt and overvalued house prices.

4.4 Japan

We have lowered our Q1 2022 GDP growth forecast to 0.3% from 0.7% to reflect slowing consumption during the domestic surge in Covid cases caused by the Omicron variant. But we expect the lost activity will be made up in Q2 and Q3, supported by the release of pent-up demand and the ongoing recovery in exports. Therefore, we have only downgraded our 2022 GDP growth forecast by 0.1ppt to 3.1%.

Japan: Contributions to GDP growth

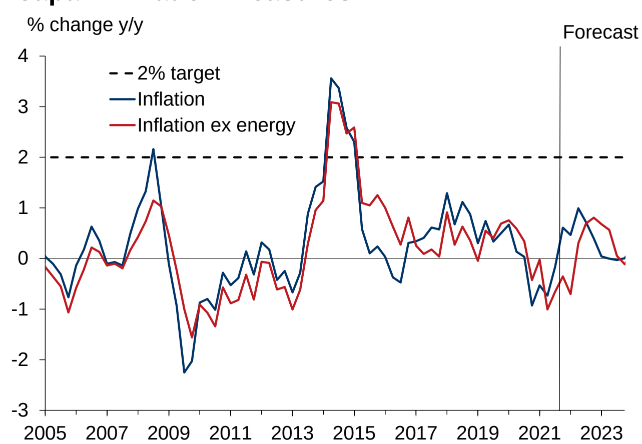


Source: Oxford Economics

Consumption improved in Q4 2021 alongside the recovery in mobility as Covid cases were more contained. However, we expect consumption to dip in Q1 due to the domestic surge in Covid cases caused by the Omicron variant in January.

Exports could be temporarily impeded by the global surge in the Omicron variant, but we expect the recovery will continue, supported by robust demand for capital goods and a gradual easing of supply chain disruptions, especially in the auto sector. Recent machinery order trends suggest that investment is on a recovery path as firms face structural changes.

Japan: Inflation measures



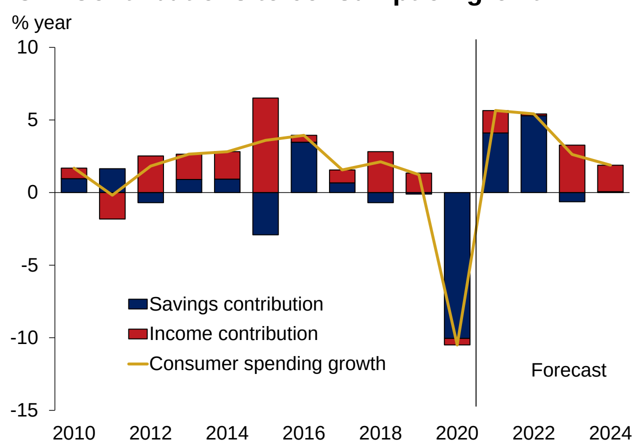
Source: Oxford Economics

Core CPI (excluding fresh food) was 0.5% y/y in November, up from 0.1% in October, led by higher energy prices. But since inflation is still chronically undershooting the Bank of Japan's (BoJ's) target, we expect current policy rates to remain unchanged for the foreseeable future. The yen has been weak against the US dollar amid wider yield spreads, and we expect it will continue trading around its current level.

4.5 United Kingdom

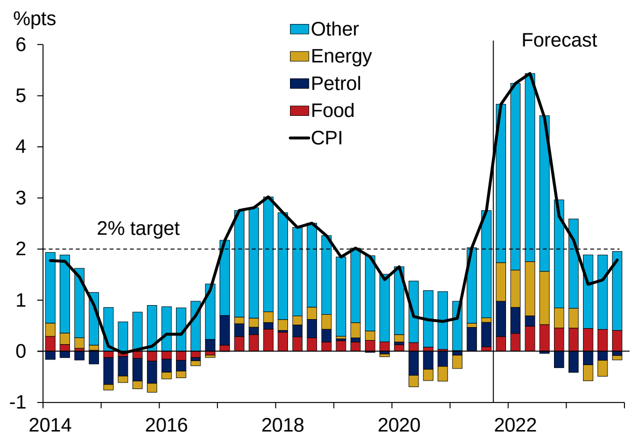
We have cut our near-term growth forecast, with the surge in Covid cases having caused greater consumer caution and forcing large numbers of people to isolate. However, as after previous Covid waves, the subsequent rebound should be strong. We now expect GDP growth of 4.5% in 2022, down from 4.9% last month. Our forecast for 2023 has been nudged down to 2.7% from 2.8%.

UK: Contributions to consumption growth



Sources: Oxford Economics/Haver Analytics

UK: Contributions to CPI inflation



Sources: Oxford Economics/Haver Analytics

Monthly GDP data suggest the economy enjoyed stronger momentum in late autumn, with social consumption sectors performing particularly well. Furthermore, the ONS has made large favorable revisions to the historical data for the pandemic period, which mean that the output measure of GDP is now reported to have passed its pre-pandemic level in November 2021.

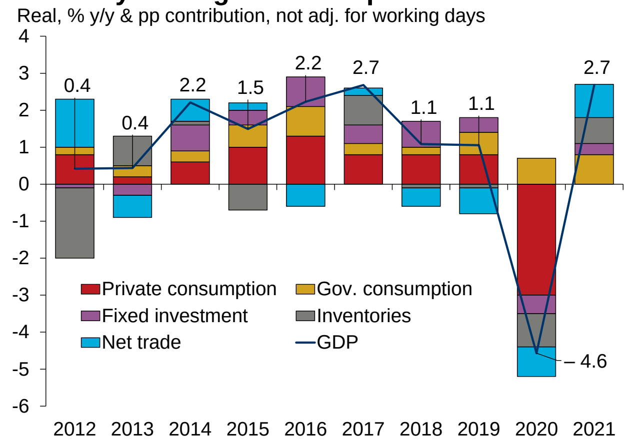
But the emergence of the Omicron variant has temporarily paused the recovery. Though the government has imposed only minor restrictions, high-frequency data shows much lower activity in social consumption sectors in December. This is likely to reflect greater consumer caution and large numbers of people being forced to isolate. After November's 0.9% m/m gain, we estimate that GDP fell by 0.8% m/m in December. It is likely to remain weak in January before rebounding strongly as infections come back down. By delaying the rotation in spending back from goods to services, Omicron may also exacerbate the pressure on global goods prices. We expect CPI inflation to spike to nearly 6% in April before falling back, with an average of 4.5% now forecast this year, up from 3.8% seen last month.

Despite the huge uncertainty caused by Omicron, the MPC decided to raise Bank Rate from 0.1% to 0.25% in December. Heightened uncertainty is likely to discourage another hike in February. But the MPC's increasingly hawkish rhetoric now leads us to expect further hikes in May and November, meaning Bank Rate ends 2022 at 0.75%.

4.6 Germany

The government has implemented limited further steps to contain the Omicron wave, but mobility data show that voluntary social distancing continues to weigh on activity in early-2022 after causing GDP to fall in Q4 last year. Yet the outlook for 2022 remains solid. A surge in car output suggests that supply bottlenecks have begun to ease and consumption should bounce back as infections slow and restrictions ease. Overall, a weak start to the year means we have nudged down our 2022 GDP forecast to 3.9% from 4.0% last month, after preliminarily-reported growth of 2.7% in 2021. Growth in 2023 is seen at 2.9%.

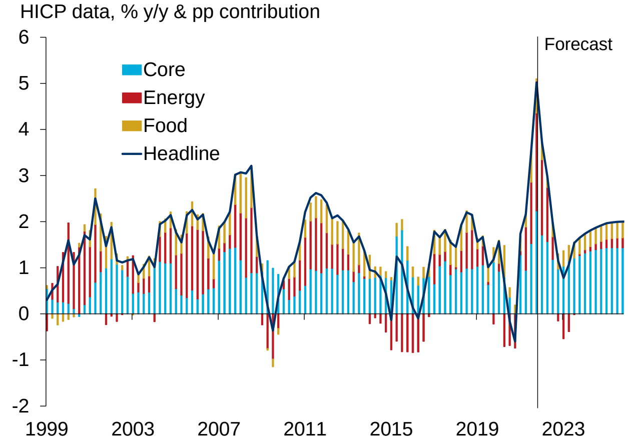
Germany: GDP growth composition



Source: Oxford Economics/Stat. Office

Retail sales rose 0.6% m/m in November, building on October's upwardly revised 0.5% gain. Consumers redirecting spending away from contact-intensive services due to increased voluntary social distancing probably provided support. Indeed, mobility data suggests that hospitality spending tumbled in late-Q4 and triggered a moderate contraction in Q4 GDP. Even though the jobless rate fell to 5.2% in December and we expect the labor market rebound to take a breather over the winter, still-buoyant hiring intentions offer a bright outlook. Strong take-up of booster jabs, supportive fiscal policy and easing supply bottlenecks also suggest robust growth as infections slow.

Germany: Inflation



Source: Oxford Economics/Haver Analytics

Indeed, industrial turnover jumped 4.1% m/m in November, with factory orders seeing a similar rise. Along with a sharp pick-up in trucking activity and car output through Q4, this suggests that industrial production will see a strong end to the year after edging down 0.2% m/m in November. A further gradual easing of the supply crunch and sky-high backlogs point to eventual sharp output gains during 2022.

Inflation edged up to 5.3% in December, despite a sharp drop in energy prices, as core inflation rose further to 3.7%. We expect inflation to slow sharply in January as base effects kick in. Easing oil prices and supply bottlenecks should slow inflation to around 1% by Q4, with an average of 2.4% for 2022 after 3.1% in 2021.

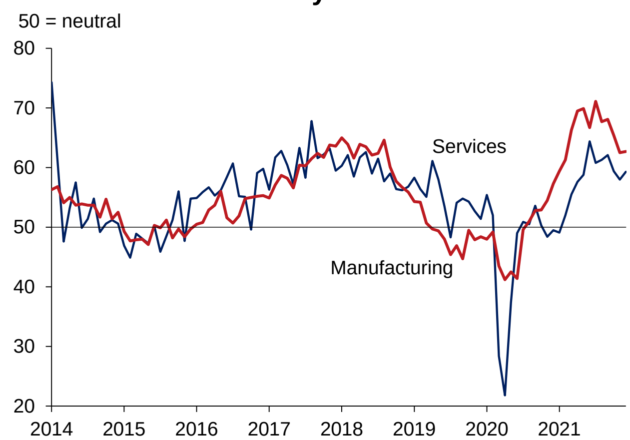
4.7 Switzerland

We have kept our 2022 and 2023 GDP growth forecasts unchanged at 3.1% and 1.7%. The pandemic situation and surge in Omicron cases are still seen as a significant drag on growth in Q1 2022. While some of the initial worst fears about Omicron have proved unfounded and new containment measures have been less restrictive than expected, this will be offset by increased voluntary social distancing and disruption to businesses from staff having to self-isolate.

Latest indicators show that the economy is starting from a better position in the new year than expected previously. Exports rebounded strongly in November, again driven by the pharmaceutical and chemical sector. Retail sales and high-frequency data point to good Christmas business despite the challenging pandemic situation and unemployment was only 0.1pp above its pre-crisis level in December.

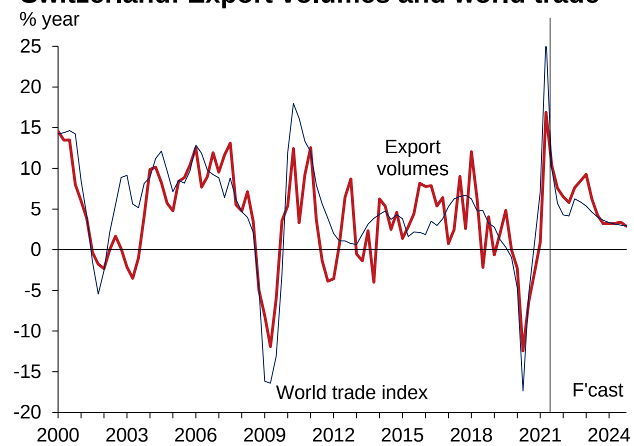
The robust recovery trend (we expect q/q GDP growth of 0.4% in Q4 2021) will be interrupted in Q1, when we see GDP declining by 0.2%. The Federal Council decided to introduce stricter restrictions from 20 December, including that only vaccinated and recovered people have access to restaurants and leisure venues and a requirement to work from home. While these measures are modest compared with many other countries, other problems becoming more visible. At the time of writing, more than 2% of the population is in isolation or quarantined. The government has already reacted and shortened the isolation and quarantine period from 10 to 5 days.

Switzerland: PMI surveys



Source: Haver Analytics / procure.ch

Switzerland: Export volumes and world trade



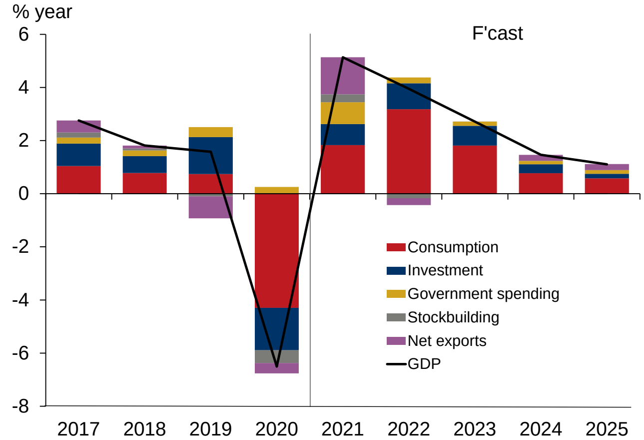
Source: Oxford Economics

But the situation remains challenging and the short-term risks are on the downside. On the other hand, given the speed of the Omicron spread, the pandemic situation could worsen, although this could pave the way for an even stronger bounce-back from Q2 2022 onwards.

4.8 Eurozone

We now see the eurozone growing by 3.9% in 2022, down marginally from our forecast last month, after expected expansion of 5.1% in 2021. The latest surge in Covid infections has led us to lower our forecast for Q1. But as we assume that the health situation will not result in hard lockdowns, we expect the economy to recover the lost ground by mid-year, with the impact over this year as a whole being very mild. Growth in 2023 is forecast to slow to 2.7%.

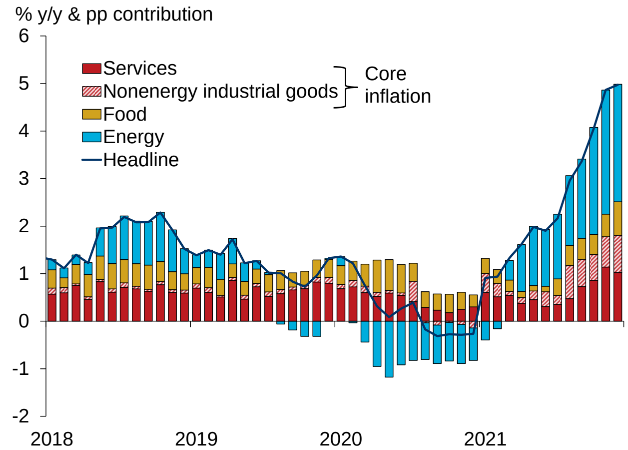
Eurozone: Contributions to GDP growth



Source: Oxford Economics

Our latest forecast sees a sharp slowdown in growth in Q4 2021 and Q1 2022, which are now both seen at around 0.3%, before returning to strength in the rest of 2022. The hit to eurozone growth will be milder than during the 2020 winter wave but the outlook remains highly uncertain, not least because of the still-limited knowledge about the Omicron variant and its evolution in Europe, the scope and duration of winter restrictions and behavioral shifts among consumers.

Eurozone: Headline inflation breakdown



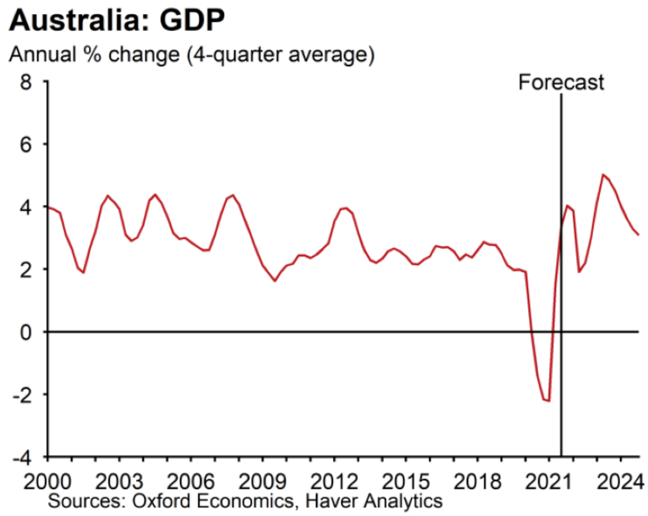
Source: Oxford Economics/Haver Analytics

Recent industrial data, such as German industrial production for November, continue to show that the recovery in this sector will be bumpy. But confidence indicators are improving, and we see eurozone industrial production posting gradual increases over the coming quarters.

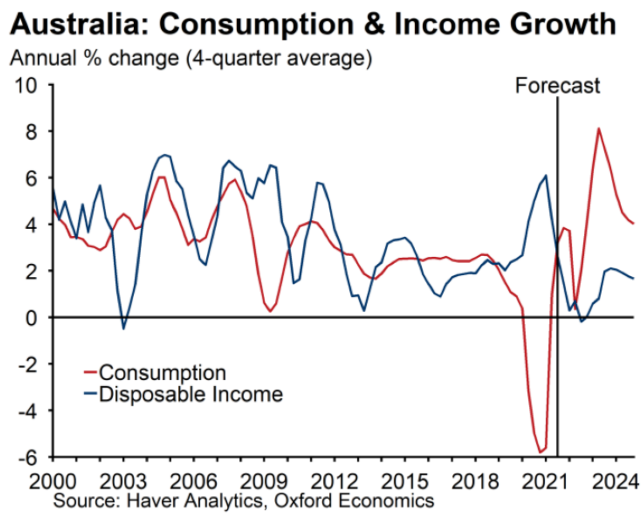
The increase in inflation to 5.0% in December from 4.9% in November was driven by non-energy components, but energy continued to be the main contributor. The next few months may be very volatile, but we believe that that inflation will slow materially later this year as supply bottlenecks ease and structural inflation headwinds reassert themselves. And while the ECB revamped its asset purchase plans at its December meeting, the outlook for policy rates is largely unchanged, with rate hikes expected only in the medium term.

4.9 Australia

The recent run of data confirms that the Australian economy bounced back smartly in Q4 from the Delta lockdowns, with November retail sales rising briskly. However, this momentum will be short lived as the economy grapples with an explosion of COVID cased from the Omicron variant. We have dialed down our outlook for consumption growth in Q1, with a pickup in public-related spending on vaccination programs providing some offset. We estimate growth was 4.0% in 2021, and now expect a more modest expansion of 3.0% in 2022.



Unlike previous COVID waves, the pullback in activity caused by the Omicron wave will be determined by consumer hesitancy rather than government restrictions. State governments have largely held the line on 'living with COVID' and resisted ramping up trading and travel restrictions, despite active cases having exceeded the peaks of previous episodes. We expect this will remain the case so long as health care systems continue to cope with rising caseloads.



With the variant emerging late in December, we expect the impact on activity in Q4 to be limited. But we have downgraded our outlook for Q1 due to the increase in consumers being forced into isolation combined with greater household caution. We are of the opinion that this is a timing shift, and momentum will be stronger through H2 2022.

The Omicron wave has generated domestic supply-chain disruptions that have largely been absent since the initial stages of the pandemic. Staff shortages have led to the relaxation of isolation rules for some workers, which may ameliorate some disruption. Nevertheless, firms will be faced with growing labor supply shortages in Q1.

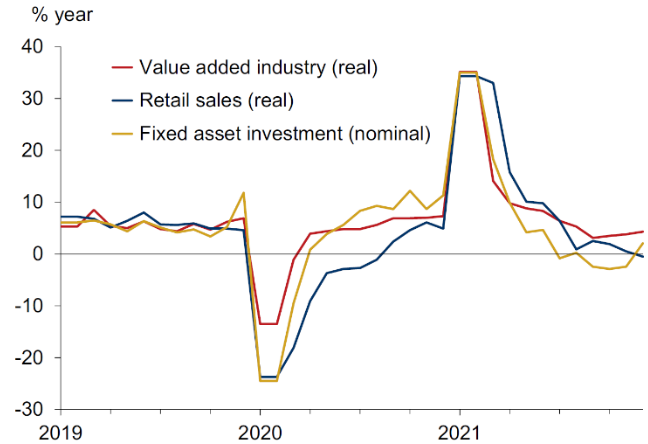
4.10 China

GDP growth eased to 4% y/y in Q4 2021. While this beats our expectations, it still represents a substantial slowdown from 4.9% in Q3. We expect growth to be relatively weak in 2022, easing to 5% from 8.1% in 2021. The repercussions of the real estate downturn and weak consumptions as the authorities maintain a zero-Covid approach will continue to affect economic activity this year. We expect meaningful and front-loaded policy support to shore up growth, but the risks to our forecasts are skewed to the downside.

Domestic demand remained weak in Q4, though momentum appeared to start stabilizing in December. Nominal infrastructure investment returned to y/y growth as project approvals and financing increased, while corporate investment growth picked up further, partly offsetting the weakness in consumption and real estate investment.

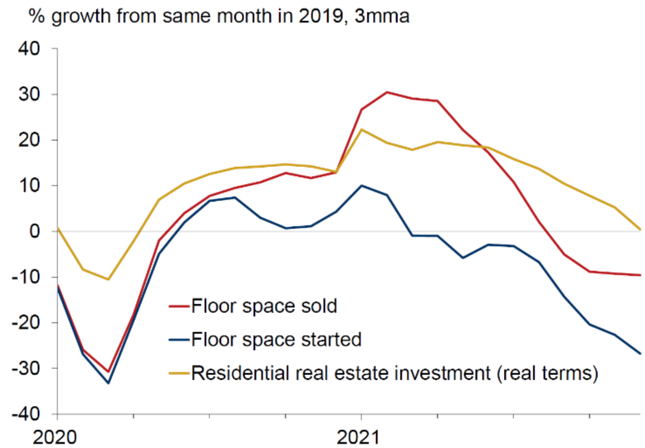
China's Central Economic Work Conference held in December and recent policy statements by top officials and the PBoC have emphasized economic stability in 2022 and signalled that more policy easing is underway. Following recent policy rate cuts, we look for another reduction in the reserve requirement ratio (RRR) and loan prime rate (LPR) in Q1. We also expect strong infrastructure spending, robust credit growth, and adequate support for the real estate sector this year.

China: Key cyclical indicators



Source : Oxford Economics/CEIC

China: Housing activity



Source : Oxford Economics/CEIC

The risks to our growth forecasts are skewed to the downside. While new Covid cases have now declined to low levels after a wave of outbreak over the past few weeks, and many people will not be travelling back to their hometowns for Chinese New Year holidays due to strict local restrictions, the potential for more severe and frequent outbreaks will continue to be a key risk. Meanwhile, policy easing may not be sufficient to contain the real estate downturn, especially in H1.

5 Rising risk of a higher inflation regime

Last June we assessed the risk of an inflation regime change, during which inflation remains elevated for several years, in the advanced economies. At the time, we considered the risk of a regime shift to be real, but limited, with a probability of 10%-15%. We also argued that:

- A regime shift needed various elements, including expansionary policy and a series of shocks;
- We were likely to be at the very early stages of any shift; and
- We should be cautious about predicting a regime shift, given contained inflation expectations and the existence of long-term structural disinflationary forces.

Figure 1: Inflation has risen sharply in the advanced economies since last June

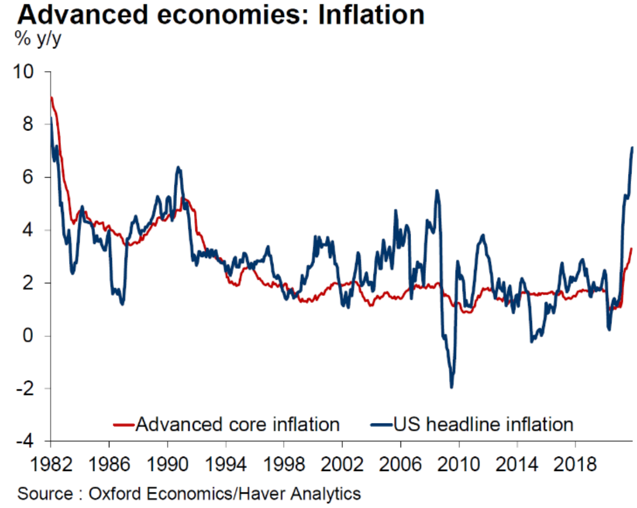
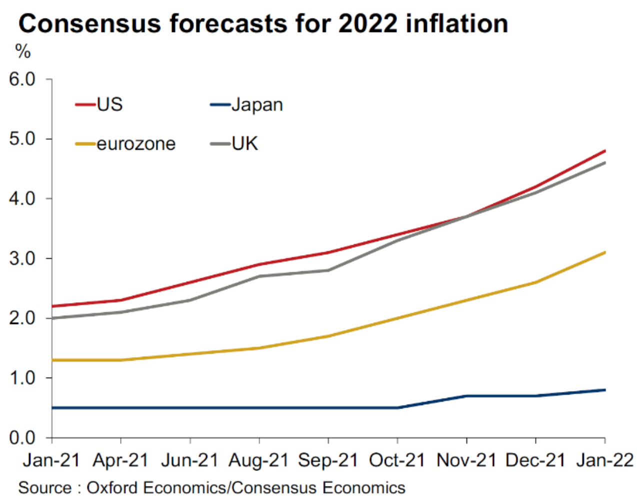


Figure 2: Inflation has consistently run ahead of forecasts in the last year



Since our last assessment, what has changed?

High and sticky inflation has increased risks of a more permanent shift. The headline CPI in the US reached 7% y/y in December, a forty-year high, and aggregate core inflation in advanced economies has moved to its highest level since the early 1990s (Figure 1). Inflation forecasts for 2022 have risen steeply since last June (Figure 2).

The composition of inflation indices suggests price pressures are broadening. In early 2021 most of the inflation rise could be ascribed to base effects, rising energy prices, and reopening effects. But this position is now hard to sustain. Over half the US consumer basket is rising at a rate of 5% or above on an annualized basis, and trimmed mean inflation has topped 5%. The Atlanta Fed measure of 'sticky' inflation (based on items, mostly services, where price changes are infrequent) is running at 4% (Figure 3), and this may contain forward-looking information. The US NFIB survey shows the highest share of smaller firms raising prices since the 1980s.

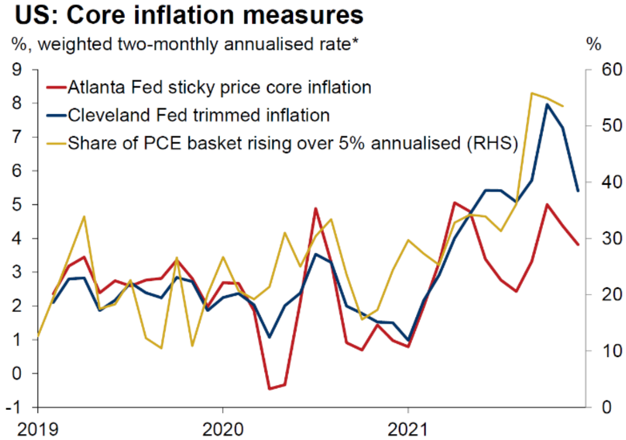
Supply shocks are ongoing. Some price shocks are still working their way through the system. Supply chain issues have not gone away and may be worsened by the Omicron wave (e.g. by shutdowns in Chinese ports). Meanwhile, Europe is being hit by a sharp rise in energy prices (with gas prices tripling since last June). And in the US rapid house price growth is feeding into the shelter component of the CPI (which is a large chunk of the CPI basket), with this process unfinished (Figure 4).

Monetary growth is still an inflation risk. Admittedly, as we have previously noted, money supply growth eased last year from very high levels in 2020. This suggests pressure on inflation from this source has peaked (Figure 5).

Still, a considerable monetary 'overhang' from the surge in money growth in 2020 remains, and the pace of broad growth is still relatively strong. Given money growth has been leading inflation by 12-15 months, this indicates (other things equal) inflation will stay above target for a while.

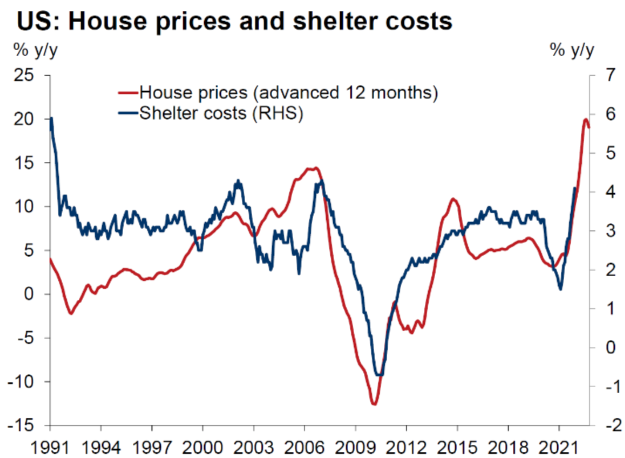
In the US and Canada, six-month annualised broad money growth is over 10% – about twice the pre-Covid pace. Money growth is also elevated in Europe compared to the 2016-2019 pace, albeit less so. Interestingly, money growth looks much more normal in Asia – where inflation has also failed to take off – though South Korea is an exception (Figure 6). This may be another indicator that inflation in the advanced economies is not just the result of global factors.

Figure 3: Details of US inflation suggest a broadening of price pressures



Source : Oxford Economics/Haver Analytics * weights: 2/3 current month, 1/3 previous month as proposed in Gomez-Pineda et al. (2021)

Figure 4: Rising house prices are one of a number of upward inflation shocks



Source : Oxford Economics/Haver Analytics

Tightening labor markets are adding to long-term risks. Labor market developments are a further upside risk to inflation, at least in some economies. In the US, a surge in quit rates and rising wages points to considerable labor market tightness. Data for vacancies and resignations also point in this direction in the UK. But the picture isn't universally one of labor market tightness – in the eurozone, negotiated wage growth in Q3 of 2021 fell to its lowest level in twenty years (Figure 7).

Long-term inflation expectations are still contained – just. Our baseline forecasts now suggest inflation will be considerably above target in advanced economies for 6-8 quarters in 2020-2022. The risk is that such a lengthy divergence from target starts to de-anchor long-term inflation expectations, entrenching inflation.

The news from this area in recent months is, however, cautiously positive. In the US, survey-based long-term expectations have risen significantly since early 2020 but have not yet clearly broken above the highest points of the last 20 years. Market-based measures such as inflation swaps have also risen since June, but forecasts of inflation in two years' time remain relatively contained, and in the US have even eased a little in recent weeks (Figure 8). Based on these measures, markets are still giving advanced economy central banks the benefit of the doubt – for now.

Measures of inflation 'tail risk' have risen. In the current environment, measures of tail risks to inflation may be as useful – and possibly more so – than mean/median forecasts. In the US, the Minneapolis Fed option-based estimated probability of inflation running above 3% over the next five years has risen to around 50% from 40% six months ago, briefly touching 65% late last year. The probability of inflation averaging above 4% over five years has risen to over 10%. This implies a considerable risk of inflation clearly above the Fed's targets in the medium term.

Tail risks have also risen in the eurozone but look lower. The SPF survey shows about a 10% probability of inflation at 3% or more in five years, up from 5% six months ago. This risk is still lower than the probability of inflation at below 1% in five years (12%). The gap between the two is closing, though, as in Q4 2020 forecasters were still much more worried about deflationary risks than high inflation in the eurozone in the medium term (Figure 9).

Figure 5: Monetary influence on inflation set to linger for some months

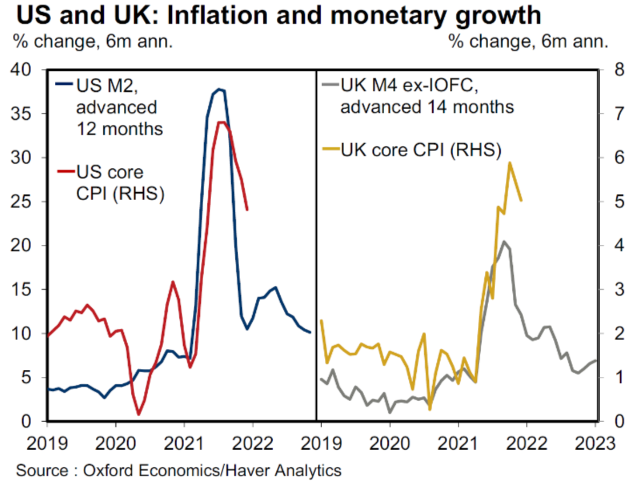
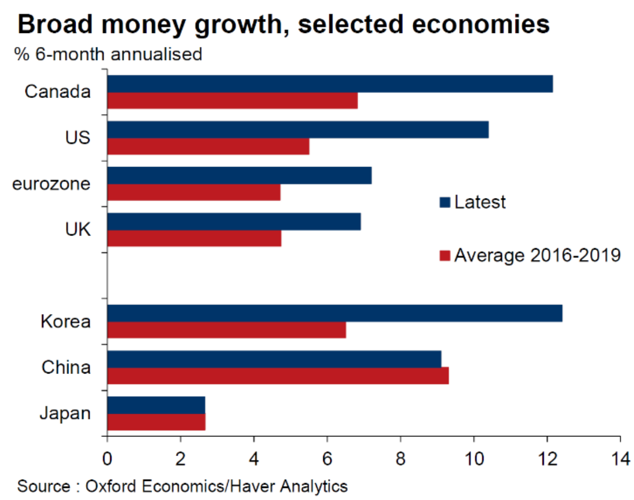


Figure 6: Money supply growth still strong in advanced economies, especially the US



Central banks have started to react to inflation risks. The inflation risks outlined above have prompted a shift in central bank behavior in recent months, which has prompted interest rates on 12–21-month instruments rising considerably in the US and UK (Figure 10). This shift looks to have had some impact on market indicators of long-term inflation risk, albeit these indicators remain somewhat higher than six months ago. We also note the central bank reaction so far has mostly been via signalling. It remains to be seen whether actions match words.

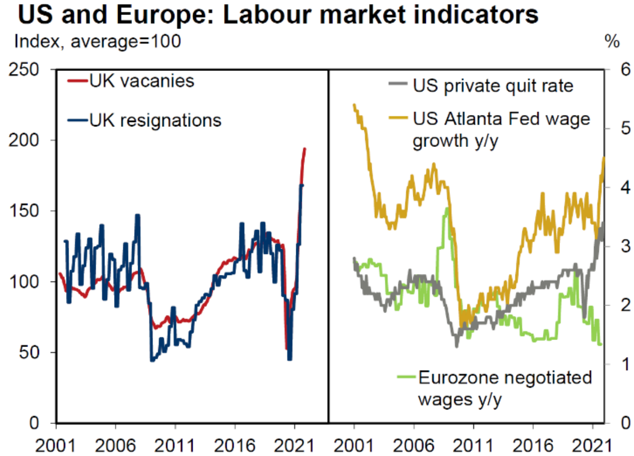
Long-term inflation risks have risen

The various indicators of inflation risk outlined above altogether represent an environment not seen since the early 1990s. Structural inflation drags like demographics haven't disappeared and long-term inflation expectations haven't taken off. But other pro-inflation influences have worsened – especially for the US.

Accordingly, we now think the probability of a shift to a higher inflation regime needs to be considered, at least partially, with reference to the period prior to the low inflation era of the last 25 years. Our previous detailed work on the probability of inflation regime shifts suggested a 10% risk of regime shift in a given year based on the 1956-2020 period. But the probability of shifts was much higher in the pre-1997 period at around 35% (Figure 11).

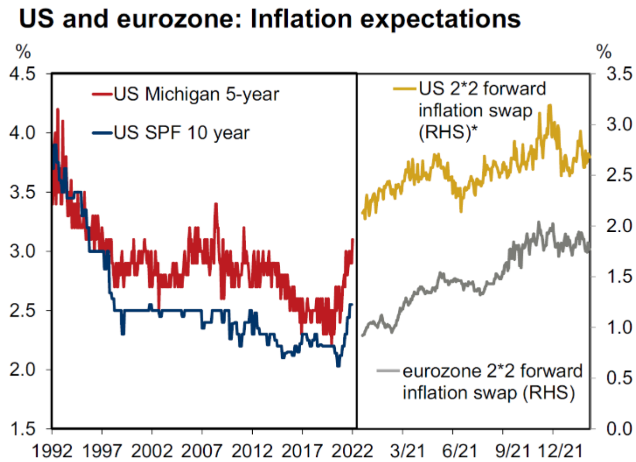
For the US, given high monetary growth, tight labor markets, ongoing price shocks, and the sharp skew in market measures of tail risk toward high inflation outcomes, we estimate the probability that inflation will run at 4% or more for several years is now 20%-25%. This is up from a 15% probability previously. Compared to six months ago, the US looks to be experiencing a series of inflationary shocks rather than a single shock related to economic reopening.

Figure 7: Labour market tightness visible in the US and UK, but less so in the eurozone



Source : Oxford Economics/Haver Analytics

Figure 8: Inflation expectations have not yet broken above highs of the last 20 years



Source : Oxford Economics/Haver Analytics * 2-year inflation in 2 years' time

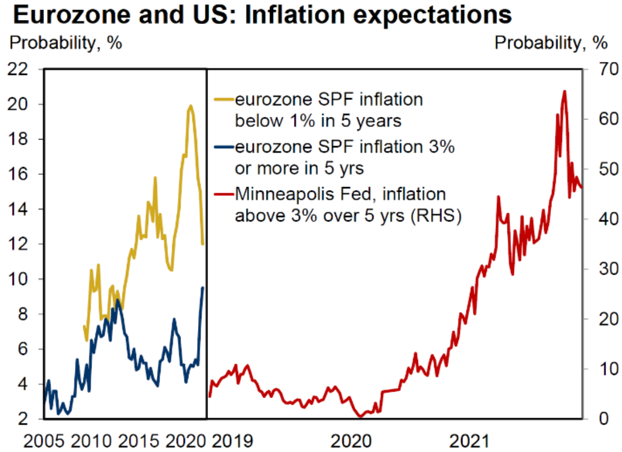
For the eurozone and Japan, the risk is lower – at below 10%. Both still look to be in the very early stages of a possible inflation regime change and have different inflation dynamics that could lead to long-term price rises higher than in the past decade but closer to central bank targets. The UK sits in the middle – we would estimate a 15% probability of high long-term inflation there.

We also think these risks may be under-priced by markets. Risks on this scale imply larger risk premia in longer-term inflation swaps and interest rates. To some degree, this may reflect a split in markets between two camps:

1. Those concerned that central banks (especially the Fed) have been too slow to react to inflation risks, and may continue to balk at the action needed to bring inflation back to target, and;
2. Those who believe that even modest rate hikes could cause a negative reaction in financial markets and the real economy that would rapidly cool inflation.

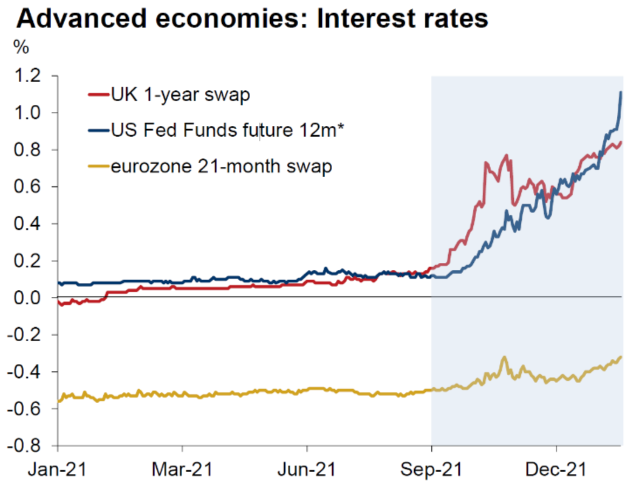
The economic uncertainty created by the pandemic may add to this split in market opinion. We will publish more detailed analysis on the thinking underpinning our assessment of the increase in the probability of a high inflation regime in the coming months. As well as continuing to monitor all the risk factors outlined above, we will explore the impact of policy tightening on inflation and the question of how high rates might go in the coming tightening cycle. We will also examine the variation in medium-term inflation risks across economies.

Figure 9: Probability of elevated long-run inflation up in US, but much less so in eurozone



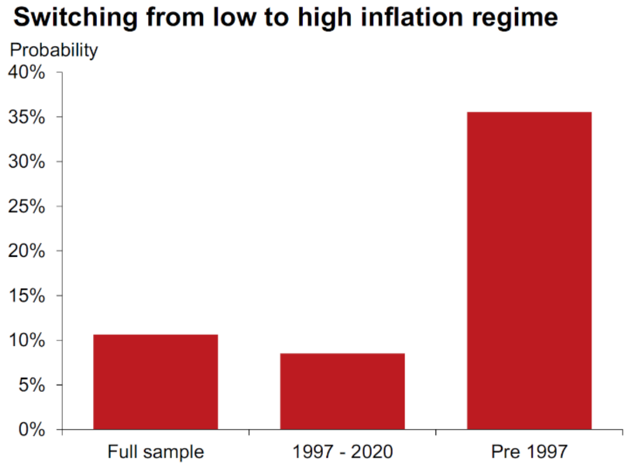
Source : Oxford Economics/Haver Analytics

Figure 10: Central banks have started to react to higher inflation – some more than others



Source : Oxford Economics/Haver Analytics * Implied Fed Funds rate

Figure 11: Inflation regime shift risks over time



Source : Oxford Economics

6 San Diego Forecast Tables*

San Diego Visitor Forecast (millions)	2019	2020	2021	2022	2023	2024	2025
Visits	35.1	14.3	22.5	30.7	33.4	35.0	36.2
Total Overnight	17.91	8.72	13.19	16.17	17.85	18.75	19.33
Hotel / Motel	10.19	5.02	7.64	9.52	10.45	10.72	10.99
Household	6.67	3.09	4.52	5.56	6.28	6.93	7.21
Other	1.06	0.61	1.04	1.09	1.12	1.10	1.12
Day Visitors	17.2	5.6	9.3	14.5	15.5	16.2	16.9
Day (excl Mexican)	13.0	3.8	7.8	12.4	13.2	13.7	14.2
Mexican Day Visitors	4.2	1.9	1.5	2.2	2.4	2.5	2.7
(year-to-year % growth)	2019	2020	2021	2022	2023	2024	2025
Visits	-1.9%	-59.2%	57.1%	36.3%	8.7%	4.9%	3.6%
Total Overnight	-0.5%	-51.3%	51.4%	22.5%	10.4%	5.1%	3.0%
Hotel / Motel	-0.5%	-50.7%	52.2%	24.6%	9.8%	2.6%	2.5%
Household	-0.6%	-53.7%	46.2%	23.0%	13.0%	10.3%	4.2%
Other	0.4%	-42.3%	70.6%	5.2%	2.4%	-1.4%	1.4%
Day Visitors	-3.3%	-67.3%	65.9%	55.9%	6.9%	4.7%	4.2%
Day (excl Mexican)	-4.1%	-71.1%	107.4%	59.0%	6.4%	4.4%	3.2%
Mexican Day Visitors	-0.9%	-55.5%	-17.5%	40.2%	9.4%	6.4%	9.4%

San Diego Visitor Forecast (millions)	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	2.90	6.23	7.98	5.40	5.17	8.04	9.97	7.51
Total Overnight	1.84	3.38	4.45	3.53	2.87	4.18	4.99	4.14
Hotel / Motel	1.22	1.94	2.50	1.97	1.83	2.59	2.88	2.23
Household	0.50	1.15	1.62	1.24	0.88	1.30	1.78	1.59
Other	0.12	0.29	0.33	0.31	0.16	0.29	0.33	0.32
Day Visitors	1.06	2.84	3.54	1.87	2.30	3.86	4.99	3.37
Day (excl Mexican)	0.70	2.45	3.17	1.45	1.73	3.39	4.48	2.77
Mexican Day Visitors	0.36	0.39	0.37	0.42	0.57	0.47	0.50	0.60
(year-to-year % growth)	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	-51.7%	418.4%	103.2%	68.8%	78.1%	29.1%	24.9%	39.1%
Total Overnight	-45.8%	364.6%	85.6%	60.6%	55.7%	23.4%	12.2%	17.3%
Hotel / Motel	-37.5%	327.5%	80.9%	60.9%	49.7%	33.3%	14.9%	12.7%
Household	-60.1%	443.9%	94.9%	57.9%	74.3%	12.9%	10.4%	28.1%
Other	-35.9%	364.5%	78.6%	70.1%	38.6%	-0.4%	0.0%	3.2%
Day Visitors	-59.3%	501.3%	130.7%	87.0%	117.0%	35.8%	40.9%	80.1%
Day (excl Mexican)	-59.2%	1010.0%	170.3%	128.7%	146.4%	38.1%	41.3%	90.6%
Mexican Day Visitors	-59.5%	55.2%	1.9%	14.6%	59.4%	21.5%	37.2%	43.7%

San Diego Visitor Expediture Forecast

($ million)

	2019	2020	2021	2022	2023	2024	2025
Expenditure	11,643	5,164	6,879	8,608	9,668	10,227	10,707
Total Overnight	10,572	4,833	6,313	7,720	8,710	9,212	9,642
Hotel / Motel	7,952	3,455	4,448	5,443	6,231	6,568	6,953
Household	1,545	727	911	1,210	1,393	1,553	1,586
Other	1,075	652	953	1,067	1,086	1,091	1,102
Day Visitors	1,071	331	566	889	958	1,014	1,065
Day (excl Mexican)	819	219	476	759	816	862	901
Mexican Day Visitors	252	112	90	130	142	153	164

(year-to-year % growth)

	2019	2020	2021	2022	2023	2024	2025
Expenditure	1.3%	-55.6%	33.2%	25.1%	12.3%	5.8%	4.7%
Total Overnight	1.5%	-54.3%	30.6%	22.3%	12.8%	5.8%	4.7%
Hotel / Motel	1.2%	-56.6%	28.8%	22.3%	14.5%	5.4%	5.9%
Household	3.3%	-53.0%	25.4%	32.8%	15.1%	11.5%	2.1%
Other	1.0%	-39.4%	46.3%	11.9%	1.8%	0.5%	1.0%
Day Visitors	-0.2%	-69.1%	70.8%	57.0%	7.8%	5.9%	5.0%
Day (excl Mexican)	-1.0%	-73.2%	116.9%	59.5%	7.5%	5.6%	4.6%
Mexican Day Visitors	2.6%	-55.5%	-19.6%	44.0%	9.4%	7.6%	7.3%

San Diego Visitor Expediture Forecast

($ million)

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	911	1,760	2,353	1,854	1,489	2,045	2,887	2,187
Total Overnight	860	1,606	2,109	1,738	1,380	1,817	2,525	1,997
Hotel / Motel	691	1,156	1,401	1,201	1,110	1,301	1,688	1,344
Household	67	215	379	249	121	266	473	350
Other	102	235	329	287	149	249	364	304
Day Visitors	51	154	243	117	109	228	362	189
Day (excl Mexican)	34	131	220	90	78	200	330	151
Mexican Day Visitors	17	23	23	26	31	29	32	38

(year-to-year % growth)

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	-56.9%	227.4%	71.9%	62.2%	63.4%	16.2%	22.7%	17.9%
Total Overnight	-56.2%	214.9%	65.7%	60.0%	60.5%	13.1%	19.7%	15.0%
Hotel / Motel	-53.5%	226.8%	62.2%	59.6%	60.6%	12.6%	20.5%	11.9%
Household	-75.9%	191.9%	77.1%	54.3%	81.3%	23.6%	24.6%	40.3%
Other	-49.4%	184.3%	68.6%	67.3%	46.0%	6.2%	10.7%	5.9%
Day Visitors	-66.0%	458.7%	154.9%	103.6%	112.5%	47.8%	48.7%	62.3%
Day (excl Mexican)	-65.0%	921.0%	197.4%	160.8%	128.9%	52.2%	49.8%	67.4%
Mexican Day Visitors	-67.7%	57.4%	8.4%	16.2%	79.7%	22.6%	38.3%	44.7%

San Diego Hotel Sector Forecasts

	2019	2020	2021	2022	2023	2024	2025
Rooms (mn roomnights)							
Room Supply	23.3	21.5	23.1	23.5	23.8	24.1	24.5
Room Demand	17.9	10.5	14.3	16.9	18.1	18.7	19.3
Occupancy (% balance)	76.6%	48.7%	61.9%	71.9%	75.9%	77.8%	78.8%
ADR	$166.11	$129.89	$164.54	$162.94	$167.81	$174.19	$180.08
RevPAR	$127.21	$63.24	$101.79	$117.15	$127.35	$135.46	$141.88

(year-to-year % growth)

	2019	2020	2021	2022	2023	2024	2025
Room Supply	2.3%	-7.6%	7.4%	1.7%	1.4%	1.0%	1.5%
Room Demand	-0.1%	-41.3%	36.4%	18.2%	7.0%	3.5%	2.8%
Occupancy	-2.4%	-36.4%	27.1%	16.2%	5.5%	2.5%	1.3%
ADR	0.2%	-21.8%	26.7%	-1.0%	3.0%	3.8%	3.4%
RevPAR	-2.2%	-50.3%	60.9%	15.1%	8.7%	6.4%	4.7%

San Diego Hotel Sector Forecasts

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rooms (mn roomnights)								
Room Supply	5.6	5.8	5.9	5.8	5.7	5.8	6.0	6.0
Room Demand	2.5	3.8	4.3	3.7	3.6	4.4	4.8	4.1
Occupancy (% balance)	44.0%	65.6%	73.2%	64.0%	63.4%	74.8%	80.5%	68.6%
ADR ($)	$110.72	$156.92	$201.86	$165.05	$153.83	$167.54	$181.70	$144.13
RevPAR ($)	$48.70	$102.93	$147.75	$105.63	$97.51	$125.38	$146.19	$98.93

(year-to-year % growth)

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	-2.7%	32.4%	5.2%	0.6%	1.8%	0.8%	1.7%	2.3%
Room Demand	-31.5%	145.7%	47.6%	54.7%	46.7%	15.0%	11.8%	9.7%
Occupancy (% balance)	-29.6%	85.6%	40.3%	53.7%	44.1%	14.1%	9.9%	7.2%
ADR	-26.1%	56.3%	51.9%	43.0%	38.9%	6.8%	-10.0%	-12.7%
RevPAR	-48.0%	190.0%	113.1%	119.8%	100.2%	21.8%	-1.1%	-6.3%

San Diego Hotel Sector Forecasts

	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rooms (mn roomnights)								
Room Supply	5.9	5.9	6.0	6.0	5.9	6.0	6.1	6.1
Room Demand	4.2	4.6	5.0	4.3	4.4	4.8	5.2	4.4
Occupancy (% balance)	71.7%	78.1%	82.9%	70.7%	74.0%	80.1%	84.7%	72.2%
ADR ($)	$153.94	$171.84	$189.44	$151.79	$160.62	$178.21	$196.20	$157.52
RevPAR ($)	$110.43	$134.29	$157.10	$107.25	$118.89	$142.71	$166.23	$113.73

(year-to-year % growth)

	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	2.2%	1.6%	0.8%	1.0%	1.1%	1.0%	1.0%	0.9%
Room Demand	15.6%	6.0%	4.0%	4.0%	4.3%	3.5%	3.2%	3.2%
Occupancy (% balance)	13.2%	4.4%	3.1%	2.9%	3.2%	2.5%	2.2%	2.2%
ADR	0.1%	2.6%	4.3%	5.3%	4.3%	3.7%	3.6%	3.8%
RevPAR	13.3%	7.1%	7.5%	8.4%	7.7%	6.3%	5.8%	6.0%

*Some historical values may differ from the narrative above due to revisions and updated data availability.

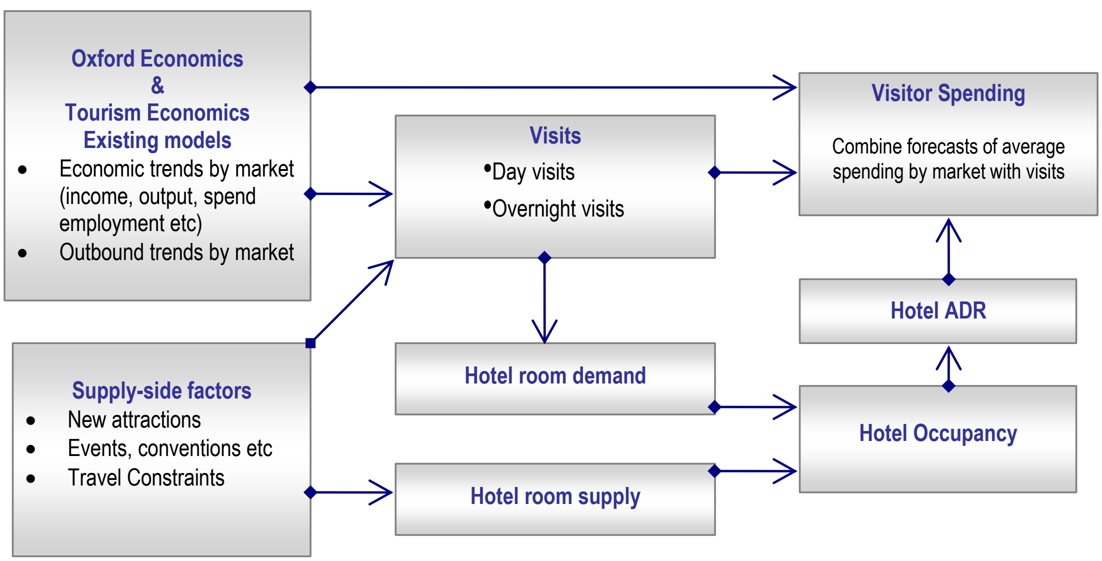
7 Forecast Methodology Overview

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

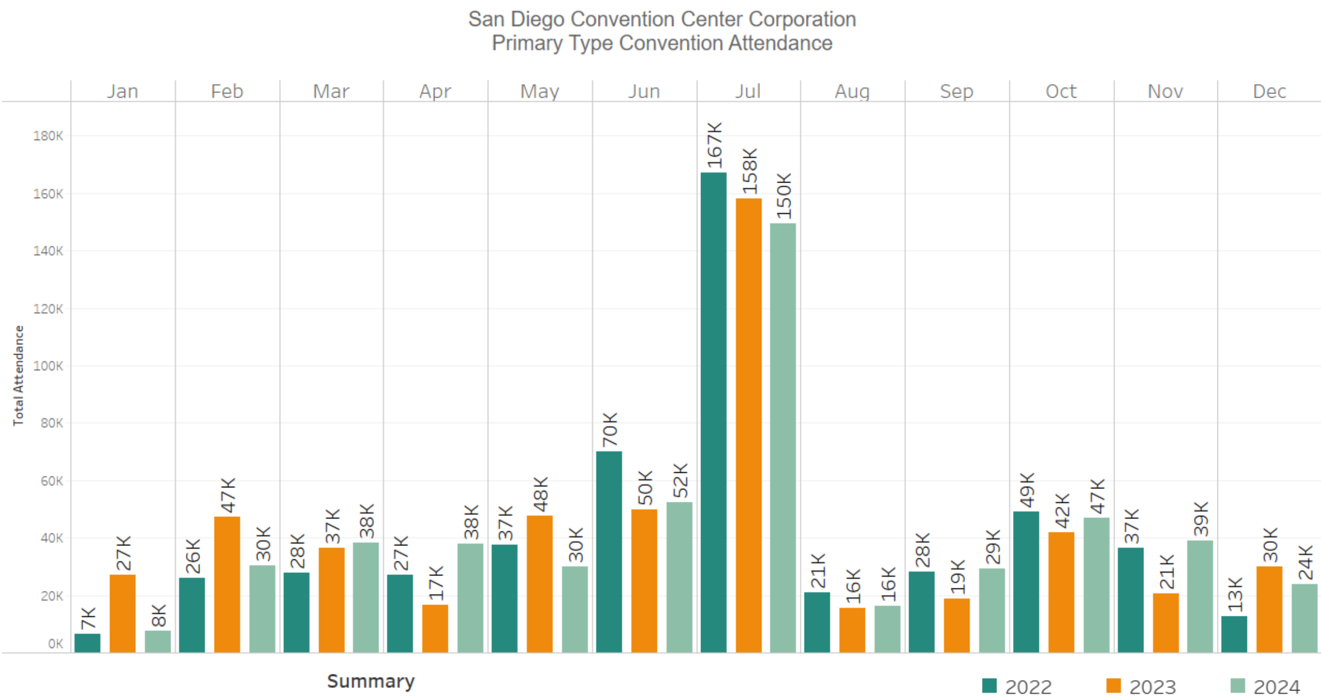


- **Overnight Visitors**. Trends in overnight visits have been identified and are forecast separately for stays in hotels and in private households. Forecasts account for different trends according to purpose of visit (business and leisure) as well as by origin market. Economic developments in key origin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

	2021	2022	2023	2024
Definite Conventions	12	51	48	44
Bookings YOY	-2	39	-3	-4
Total Attendance	57,480	508,850	509,427	501,244
Attendance YOY Change	-20,120	451,370	577	-8,183

9 San Diego Hotel Project Pipeline

San Diego County Potential New Supply Developments
Updated March 2022

Property Name	Street Address	City	Zipcode	Potential Open Date	Number of Rooms	Potentiality Rating*
Legacy International Center	875 Hotel Circle South	San Diego	92108	Feb-20	127	OPEN
Hampton Inn & Suites Imperial Beach	771 Palm Avenue	Imperial Beach	91932	May-20	100	OPEN
Home2 Suites - Carlsbad/Palomar Airport	1901 Wright Place	Carlsbad	92008	Jun-20	142	OPEN
Hampton Inn	100 Fletcher Parkway	El Cajon	92020	Jun-20	96	OPEN
Ayres Hotel Vista	2100 W San Marcos Blvd	Vista	92081	Jul-20	103	OPEN
Town and Country San Diego - *Remodel*	500 Hotel Circle North	San Diego	92108	Aug-20	675	OPEN
SpringHill Suites Carlsbad San Diego	3136 Carlsbad Boulevard	Carlsbad	92008	Aug-20	104	OPEN
				2020 Total	**1,347**	
Encinitas Beach Resort Alila	2100 N Coast Highway 101	Encinitas	92024	Mar-21	130	OPEN
The Monsaraz, A Tapestry Collection Hotel	2912 Garrison Street	San Diego	92106	Apr-21	92	OPEN
The Seabird Resort, a Destination Hotel	101 Mission Avenue	Oceanside	92054	May-21	226	OPEN
Mission Pacific Hotel, a Joie de Vivre Hotel	201 N. Meyers Street	Oceanside	92054	May-21	161	OPEN
Fairfield Inn & Suites San Diego Mission Bay	4345 Mission Bay Drive	San Diego	92109	Aug-21	111	OPEN
				2021 Total	**720**	
AC Hotel (Autograph Collection by Marriott)	743 Fifth Avenue	San Diego	92101	Jul-22	147	5
				2022 Total	**147**	
Homewood Suites San Diego Gaslamp	502-520 Seventh Avenue	San Diego	92101	Apr-23	87	3
Sleep Inn & Suites Oceanside	3340 Mission Ave	Oceanside	92058	Jun-23	43	3
Fairfield Inn & Suites Oceanside/Downtown	1103 Makena Way	Oceanside	92054	Jun-23	99	3
La Quinta Inn & Suites San Diego Gaslamp	923 Island Avenue	San Diego	92101	Jul-23	91	2
Hilton Garden Inn Vista Carlsbad East	SWQ Melrose Dr & Faraday Ave	Vista	92081	Jul-23	128	3
Home2 Suites Oceanside	NWC of Rancho Del Oro & El Corazon Blvd	Oceanside	92056	Jul-23	136	3
SpringHill Suites Chula Vista	Showroom Place & Fenton Street	Chula Vista	91914	Sep-23	179	3
element San Diego Mission Valley	8757 Rio San Diego Drive	San Diego	92108	Sep-23	150	3
Hampton Inn San Diego State University	6650 Montezuma Rd	San Diego	92115	Oct-23	125	2
Fairfield Inn & Suites El Cajon	1274 Oakdale Ave	El Cajon	92021	Oct-23	111	3
Tempo by Hilton	3510 Valley Center Drive	San Diego	92130	Dec-23	127	3
MainStay Suites Oceanside	3340B Mission Ave	Oceanside	92058	Dec-23	43	3
WoodSpring Suites Santee	8667 Mission Gorge Road	Santee	92071	Dec-23	122	2
Homewood Suites by Hilton San Diego Downtown	801 Broadway	San Diego	92101	Dec-23	126	3
Tempo by Hilton San Diego Downtown City Center	801 Broadway	San Diego	92101	Dec-23	166	2
				2023 Total		
Cambria Hotel Santee	Inwood Dr	Santee	92071	Jan-24	124	3
Motto by Hilton San Diego Gaslamp Quarter	705 Sixth Ave	San Diego	92101	Feb-24	186	2
Tapestry Collection Hotel San Diego Gaslamp	507 Seventh Avenue	San Diego	92101	Mar-24	238	3
SpringHill Suites San Diego Del Mar	3501 Valley Centre Dr	San Diego	92130	Mar-24	112	2
Home2 Suites by Hilton San Diego Downtown	1357 Fifth Avenue	San Diego	92101	Jun-24	134	3
Tru by Hilton	1357 Fifth Avenue	San Diego	92101	Jun-24	133	2
Wyndham Hotel @ Airport Rd	375 Airport Road	Oceanside	92058	Oct-24	86	2
Embassy Suites by Hilton Oceanside	Jefferson Street	Oceanside	92054	Nov-24	179	3
Residence Inn Oceanside/Downtown	1103 N Coast Hwy	Oceanside	92054	Dec-24	125	3
				2024 Total		
Homewood Suites by Hilton Oceanside	Jefferson Street	Oceanside	92054	Jan-25	112	3
AC Hotels San Diego Airport/Point Loma	1325 Scott Street	San Diego	92106	Feb-25	95	2
Hilton Garden Inn San Marcos	2151 Montiel Road	San Marcos	92069	Mar-25	128	3
Gaylord Resort & Convention Center Chula Vista	520 Marina Parkway	Chula Vista	91910	Mar-25	1,600	5
element San Diego Rancho Bernardo	Scripps Highland Drive	San Diego	92131	Jul-25	135	2
Hampton by Hilton Oceanside	Jefferson Street	Oceanside	92054	Jul-25	135	3
Hampton Inn & Suites San Diego Gaslamp	502-538 Seventh Avenue	San Diego	92101	Aug-25	132	3
WoodSpring Suites San Marcos	Grand Avenue	San Marcos	92078	Dec-25	122	2
Manchester Pacific Gateway Convention Hotel	937 N Harbor Dr	San Diego	92101	Dec-25	1,035	3
				2025 Total	**3,494**	

***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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