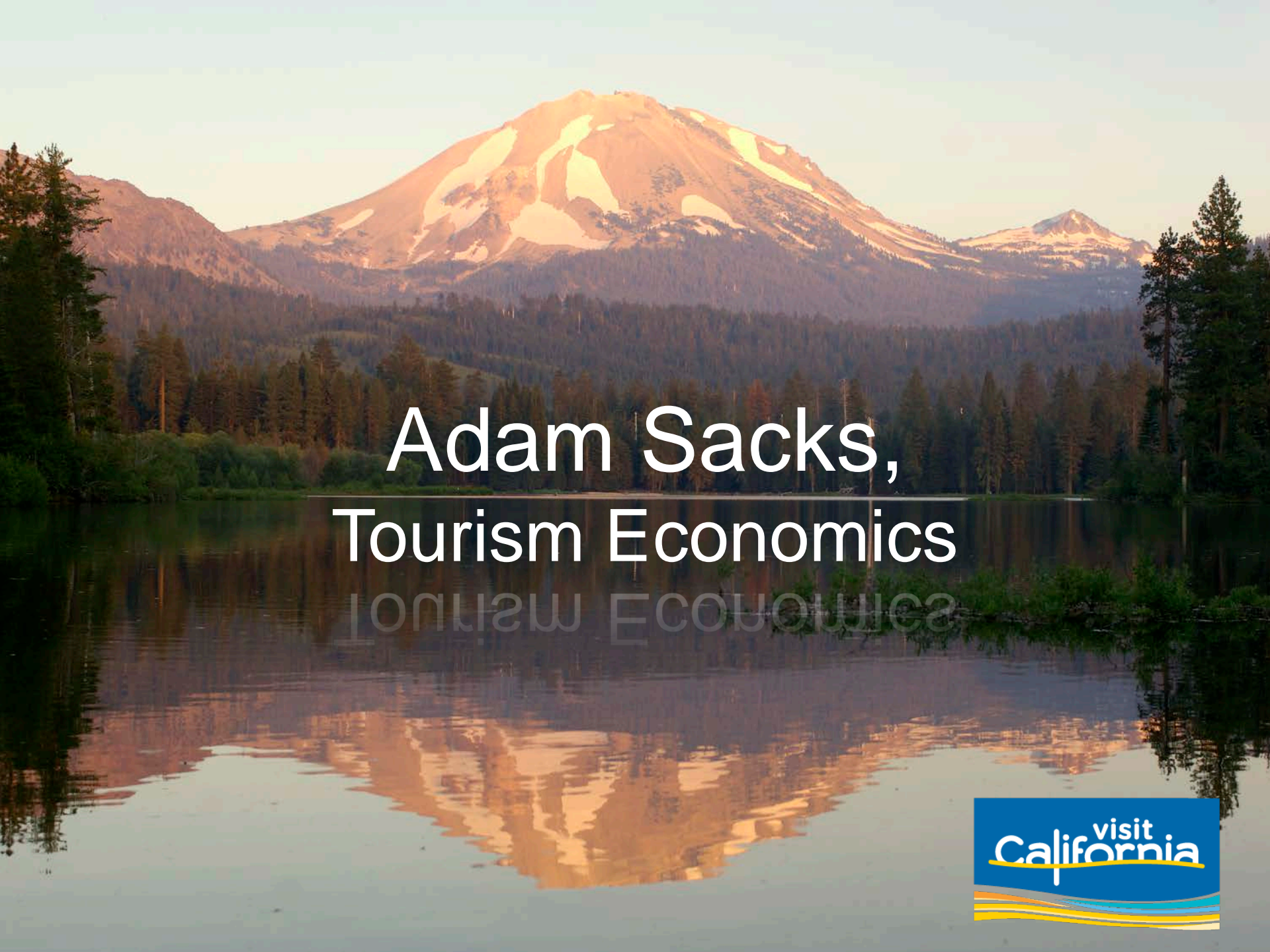


VISIT CALIFORNIA 2012
Outlook FORUM





Adam Sacks, Tourism Economics

TOURISM ECONOMICS





Market Allocation Platform



Applying economics to
destination marketing decisions

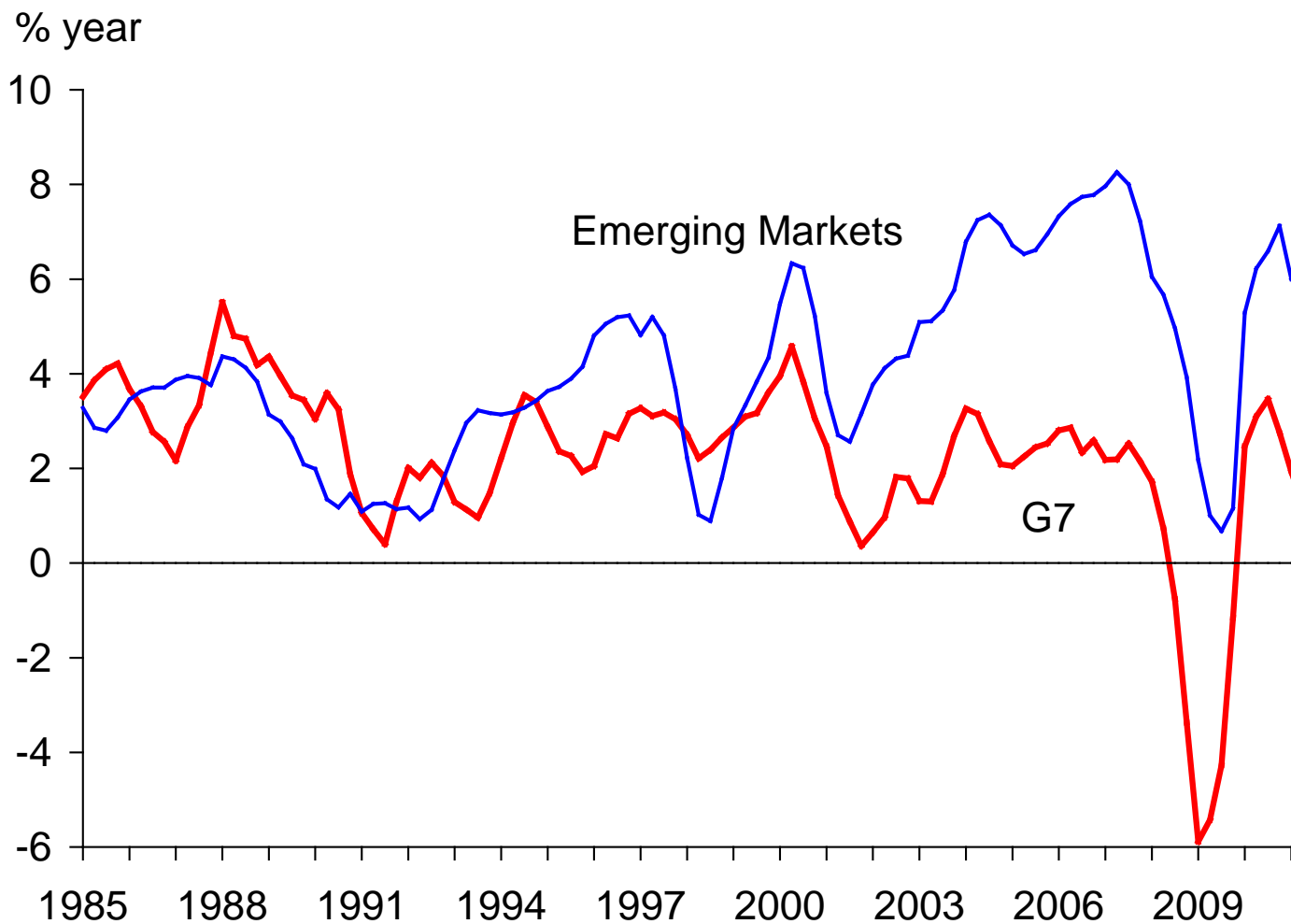


TOURISM
ECONOMICS

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Global growth losing momentum...

G7 & Emerging Markets: GDP growth

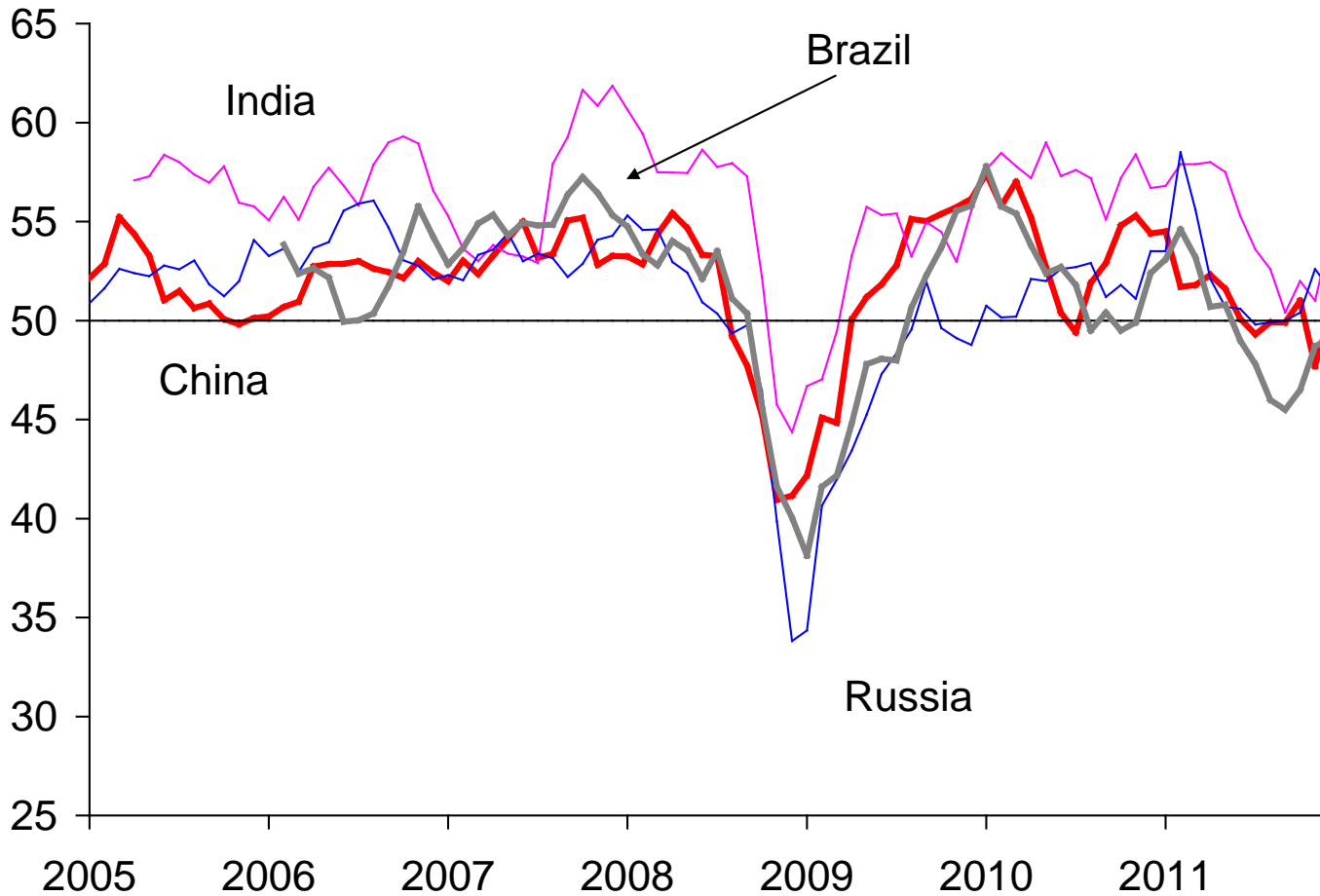


Source: Oxford Economics

...with marked weakness in emergers ...

BRICs: Manufacturing Purchasing Managers' Index

Index

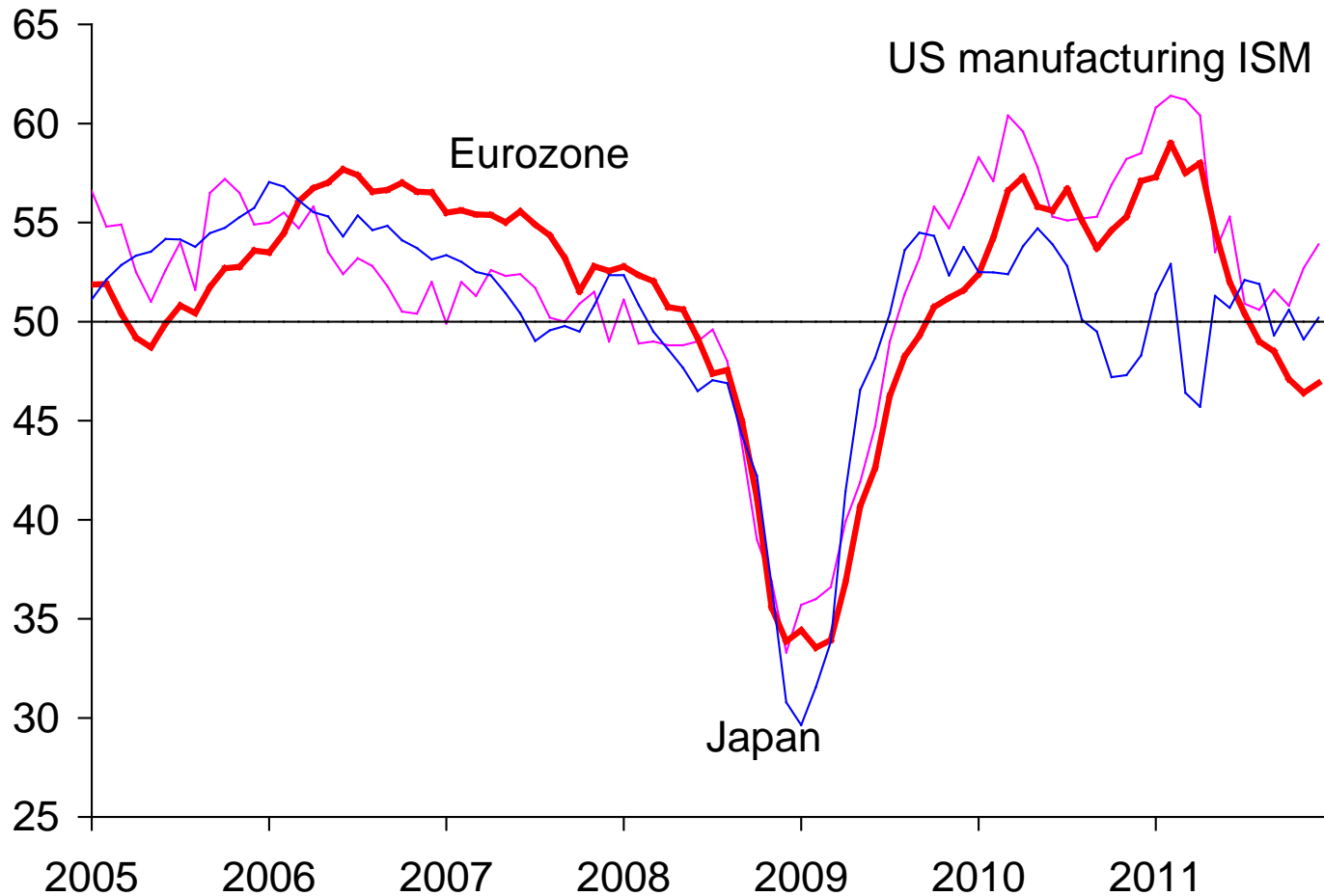


Source : PMI/Markit/China NBS

...and Eurozone in recession...

G3: Manufacturing Purchasing Managers' Index

Index



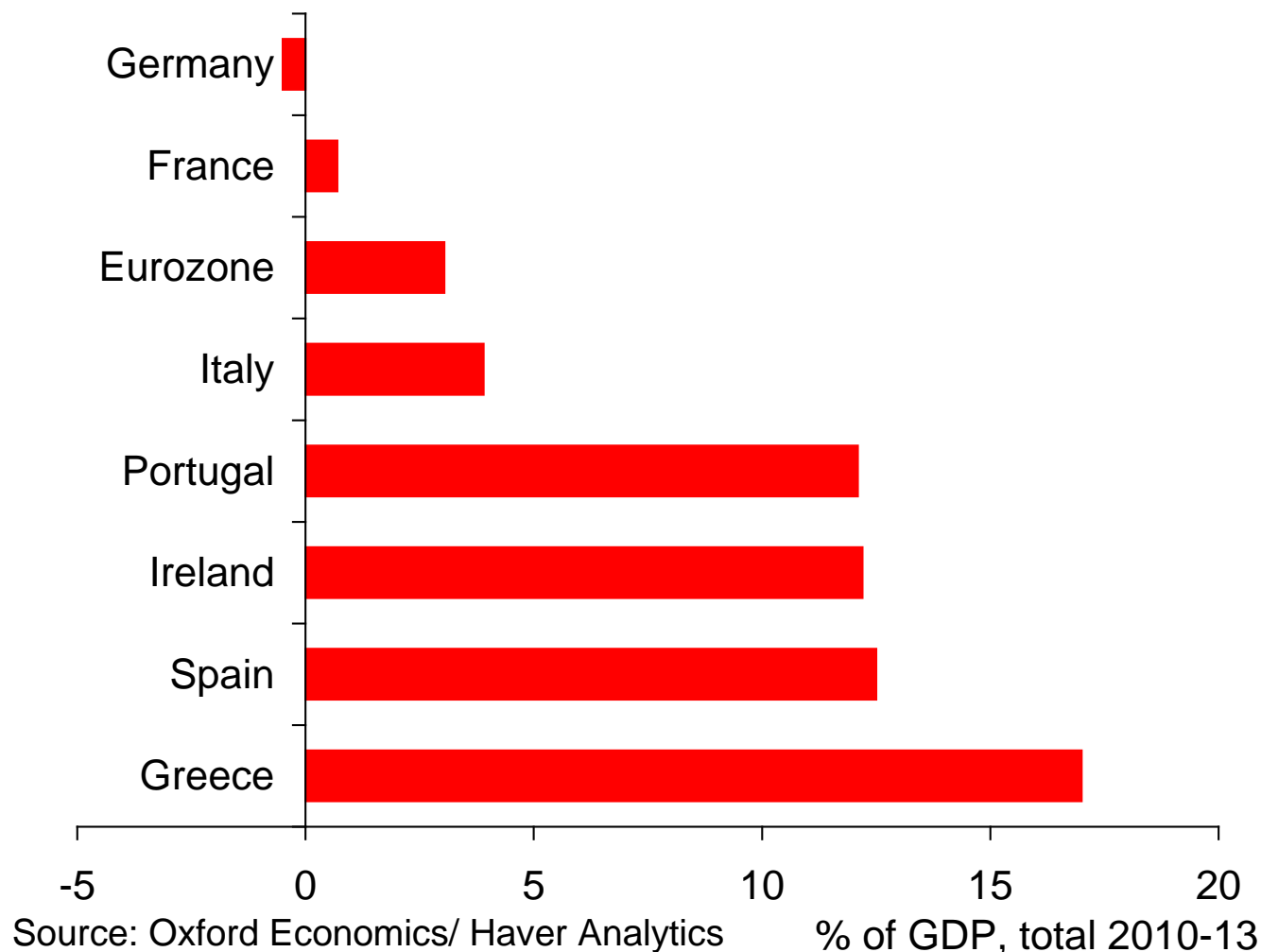
Source : PMI/Markit

Why is economic growth slowing?

- Some slowdown inevitable after inventory-driven rebound in 2010
- Debt worries driving government policy
- High oil and commodity prices
- Household and corporate caution – now compounded by financial market volatility

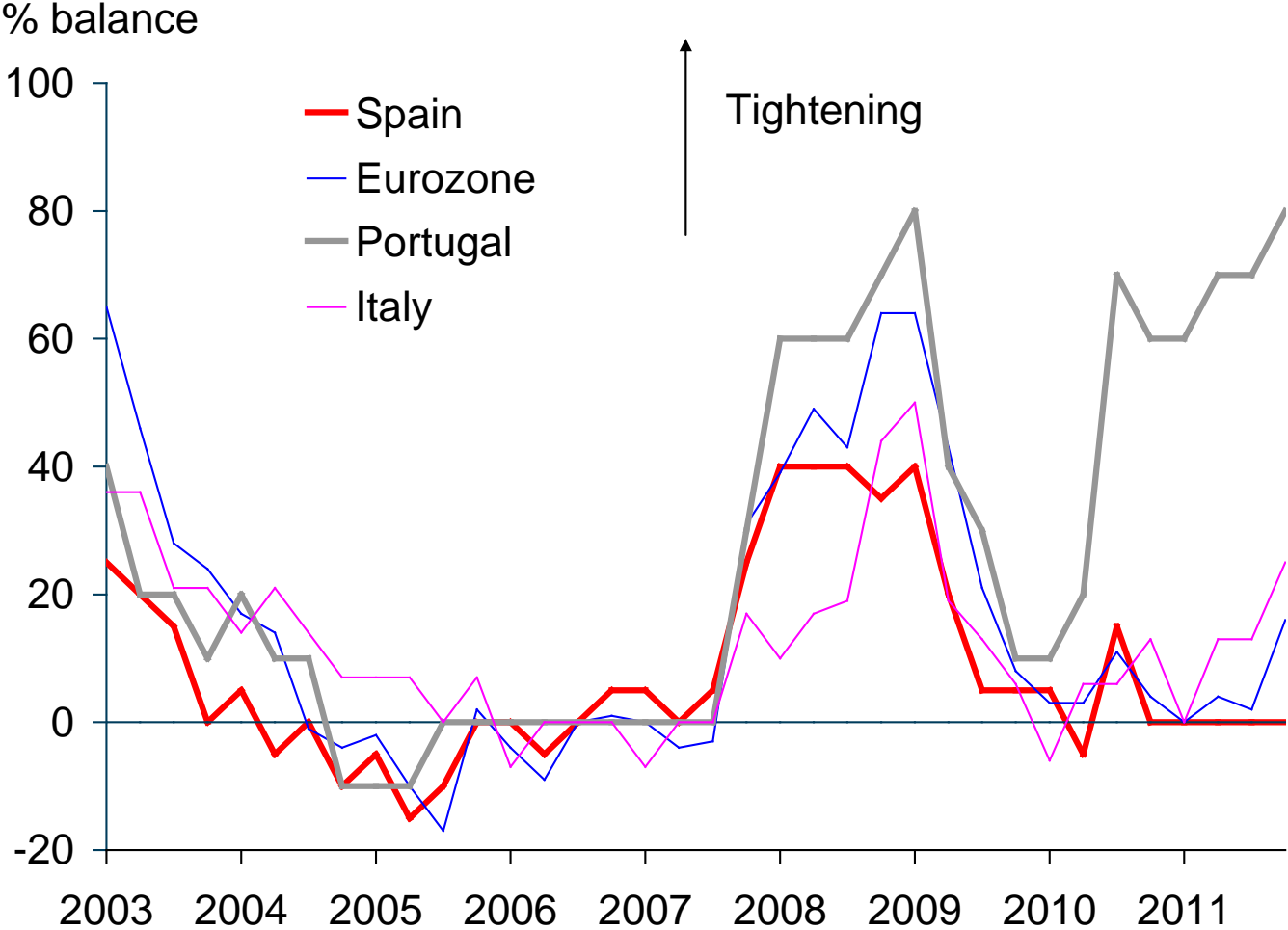
Fiscal tightening increasingly severe

Discretionary fiscal tightening, 2010-13



Eurozone credit conditions tightening further...

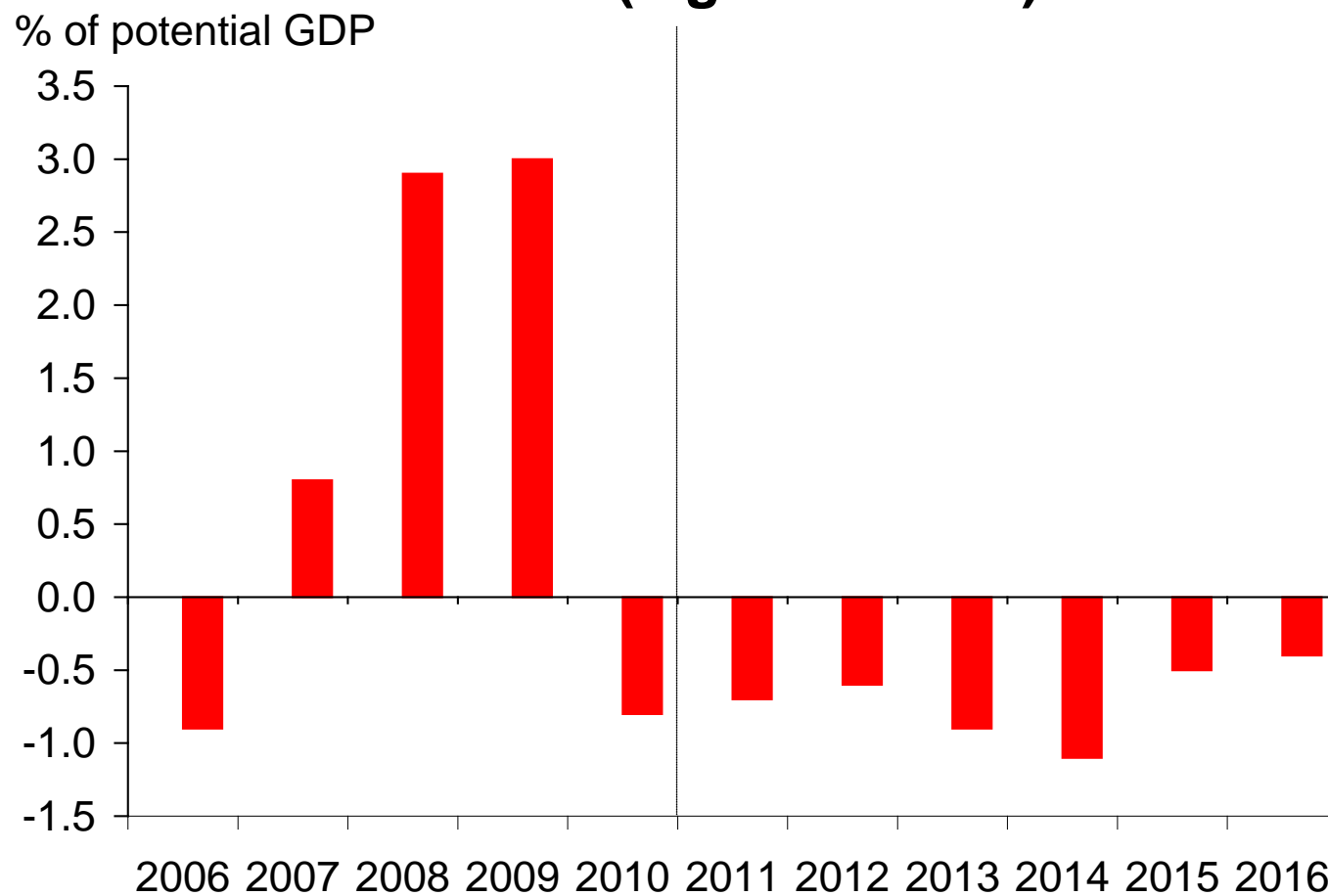
Credit conditions for loans to businesses



Source: Oxford Economics

Policy is tightening in the US as well

US: Change in cyclically-adjusted structural balance (sign reversed)

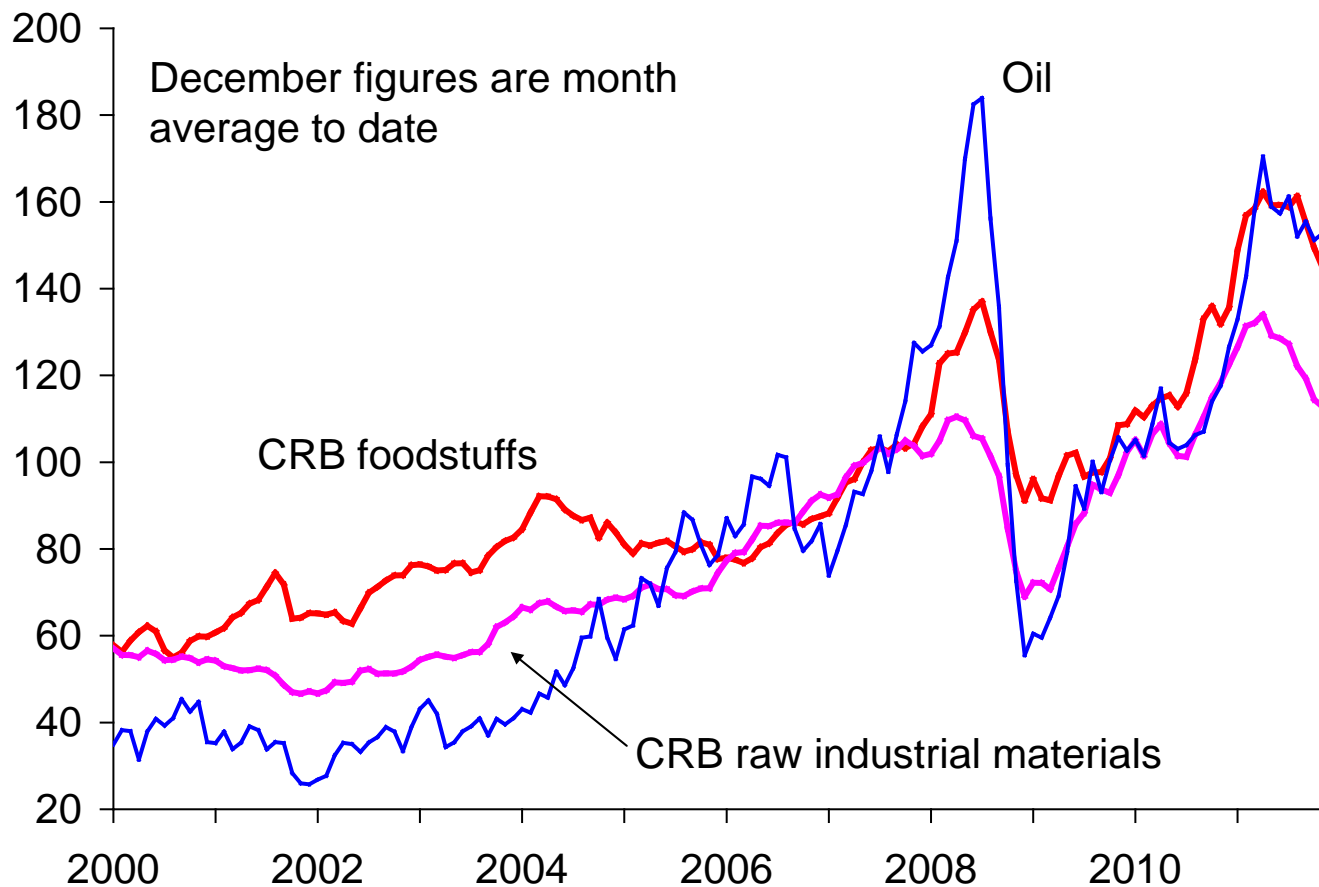


Source : Oxford Economics/Haver Analytics

Commodity prices hurting net importers...

World: Commodity prices

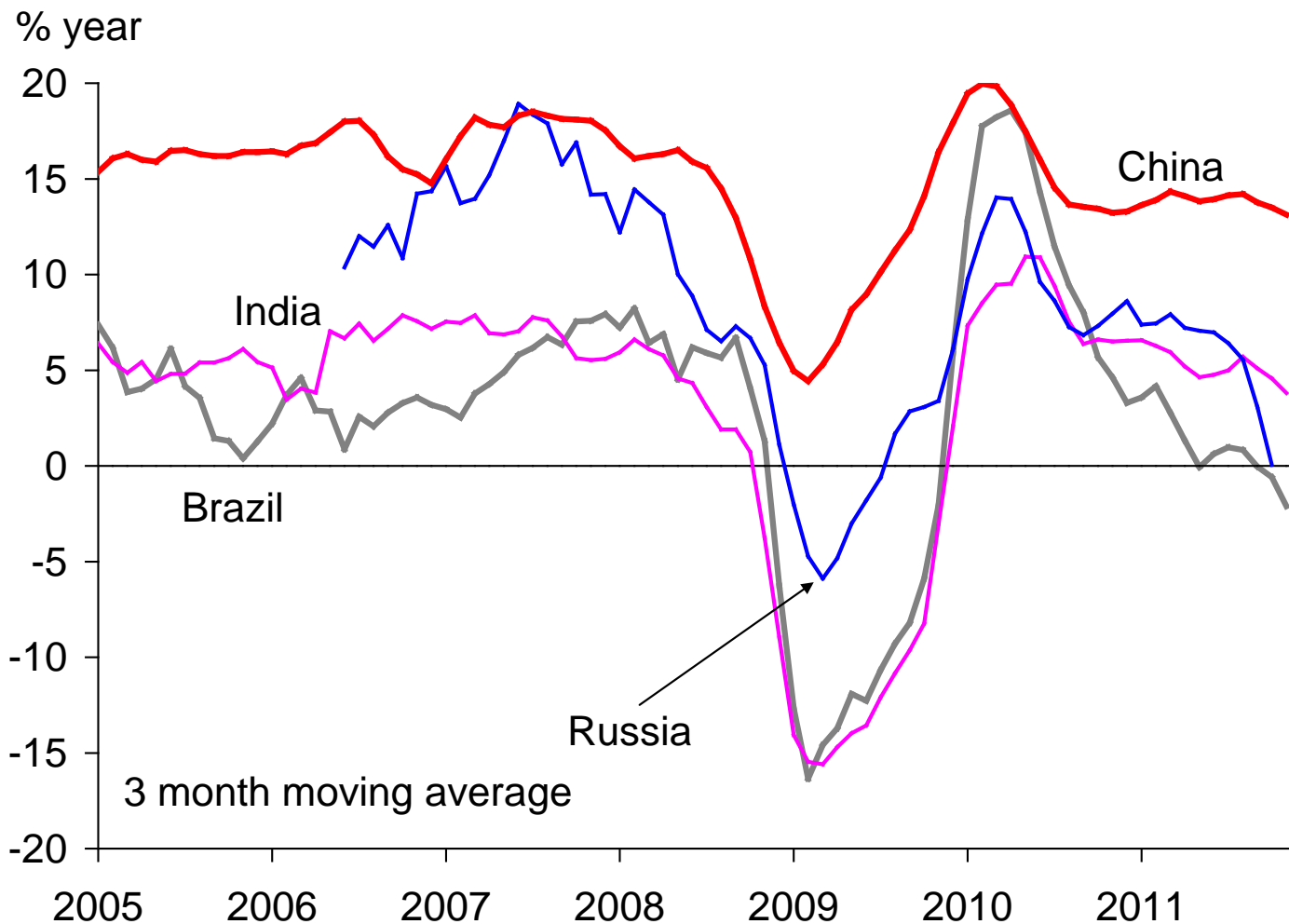
2007=100 (rebased)



Source: Haver Analytics

Global slowdown in industrial production

BRICS: Industrial production

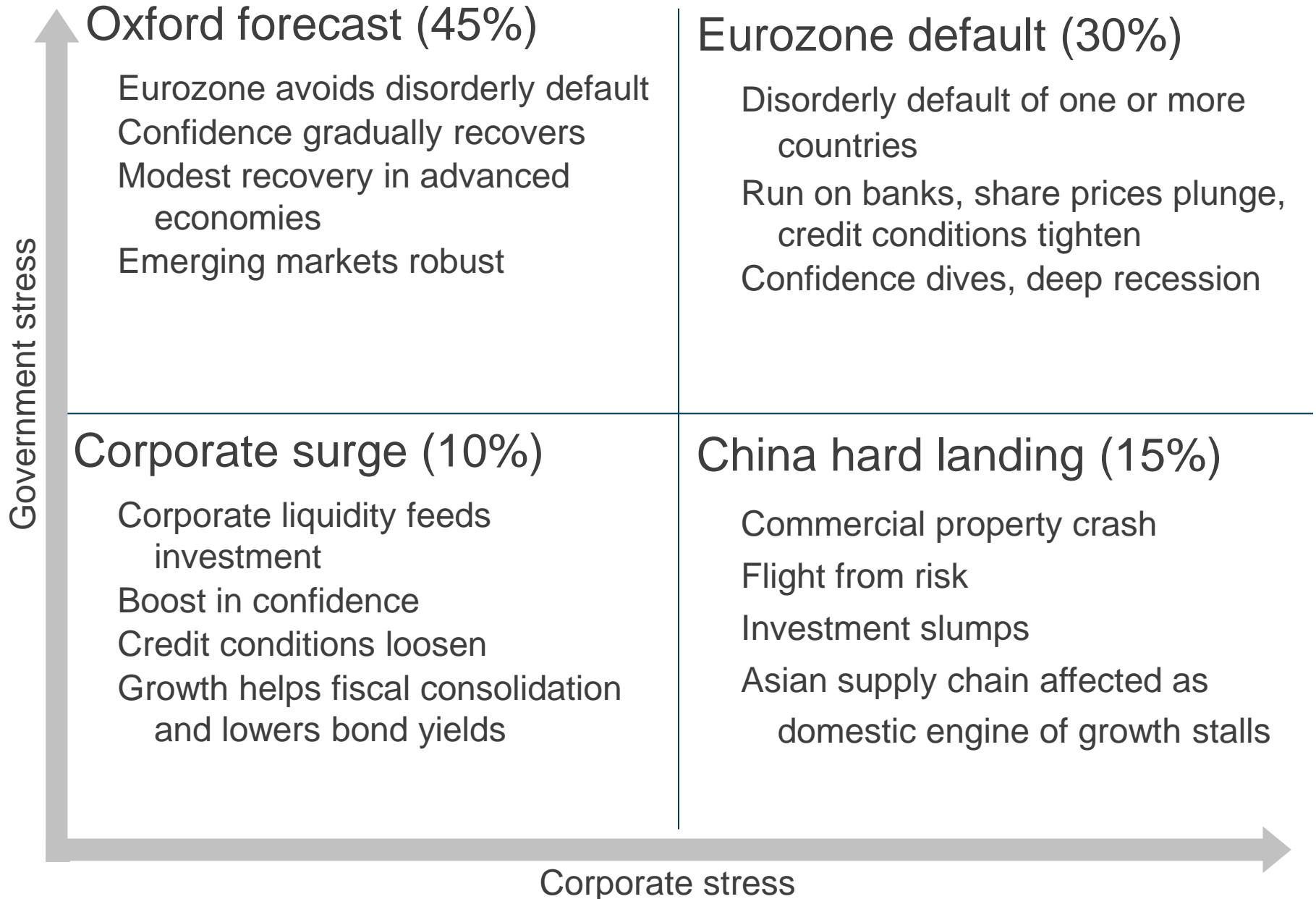


Source: Haver Analytics

US Outlook: able to push through?

- Short term indicators do not indicate stall speed
- Companies are in strong position
- Monetary policy incredibly expansionary

Risks to Oxford forecast



Oxford forecast (45%)

Eurozone avoids disorderly default
Confidence gradually recovers
Modest recovery in advanced economies
Emerging markets robust

Eurozone default (30%)

Disorderly default of one or more countries
Run on banks, share prices plunge, credit conditions tighten
Confidence dives, deep recession

Corporate surge (10%)

Corporate liquidity feeds investment
Boost in confidence
Credit conditions loosen
Growth helps fiscal consolidation and lowers bond yields

China hard landing (15%)

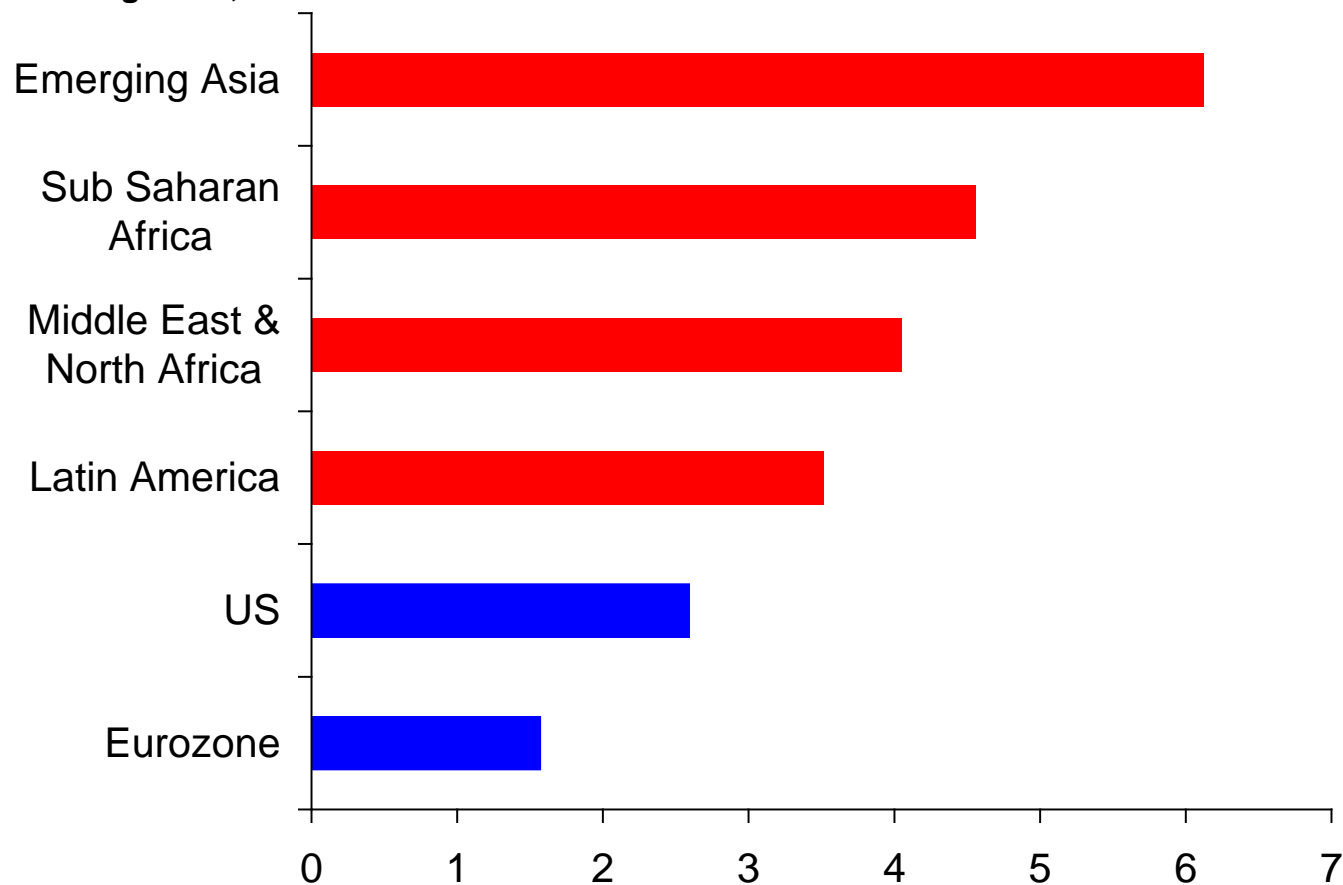
Commercial property crash
Flight from risk
Investment slumps
Asian supply chain affected as domestic engine of growth stalls

Corporate stress

Fundamentals still positive

Economic growth prospects: 2011-2020

Annual growth, US\$ basis

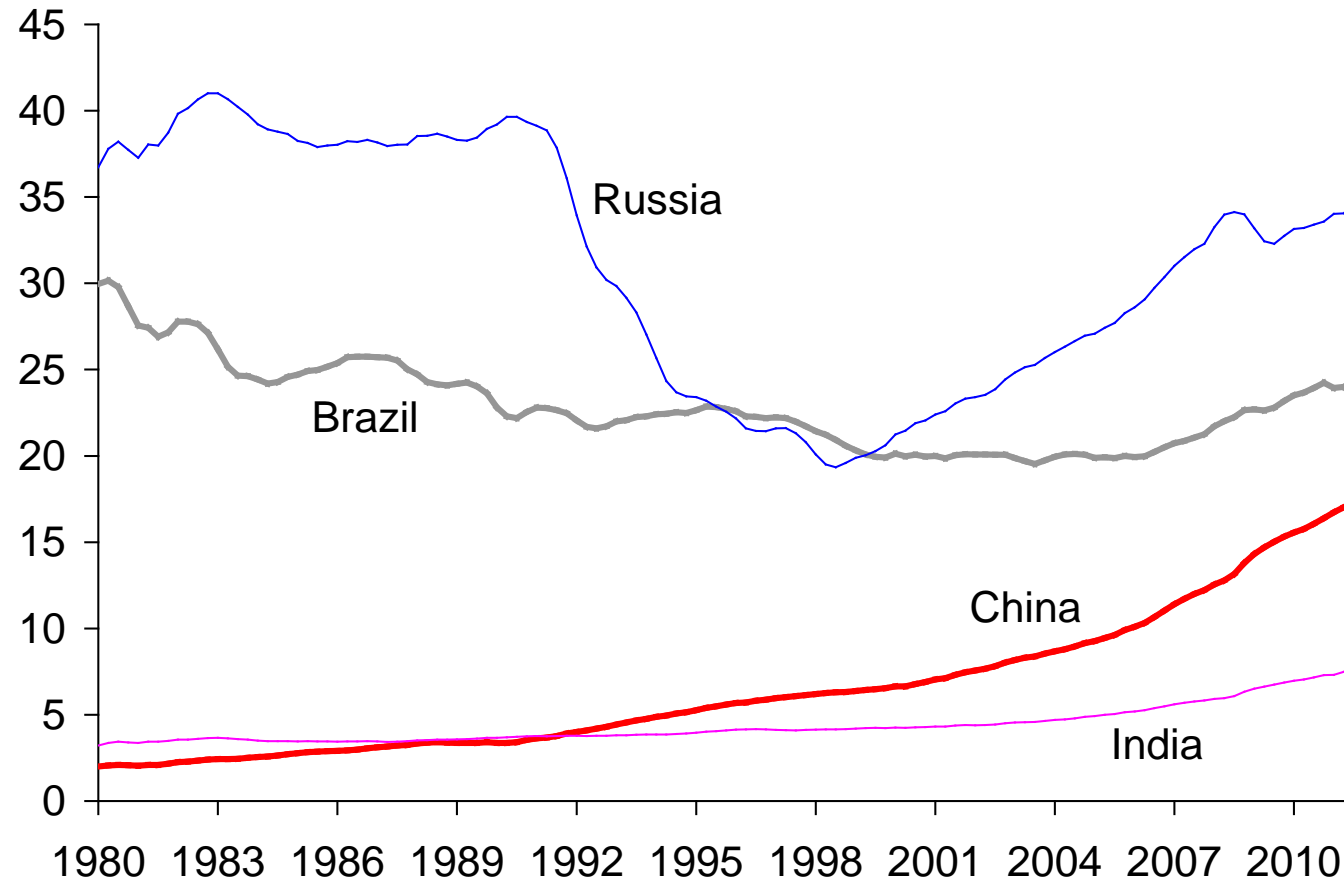


Source : Oxford Economics

Lots of scope for EM catch up

BRICs: GDP per capita* (US\$)

US = 100

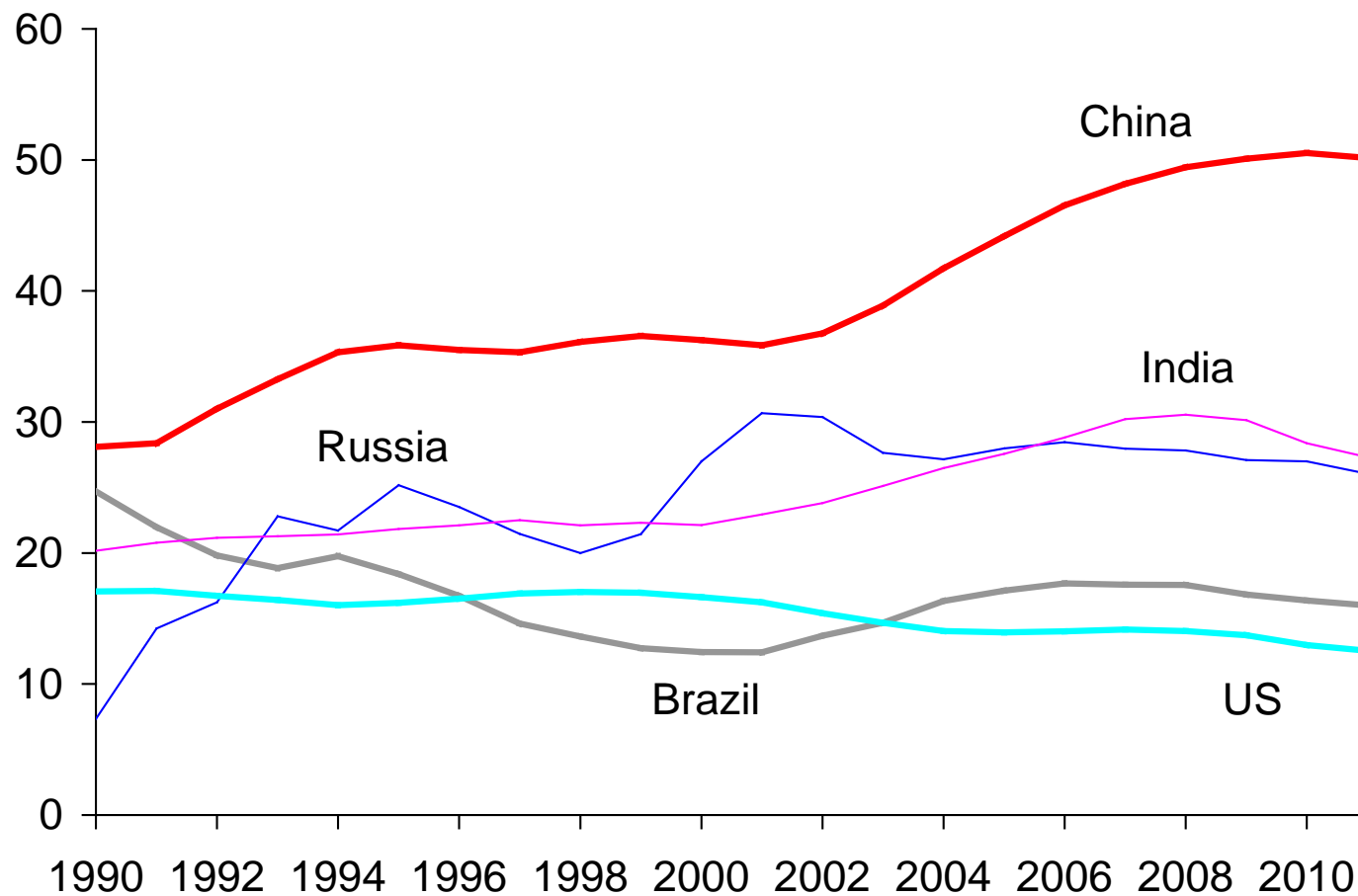


Source : Oxford Economics

Strong savings support investment...

BRICs: Gross national savings

% GDP, 3 years moving averages



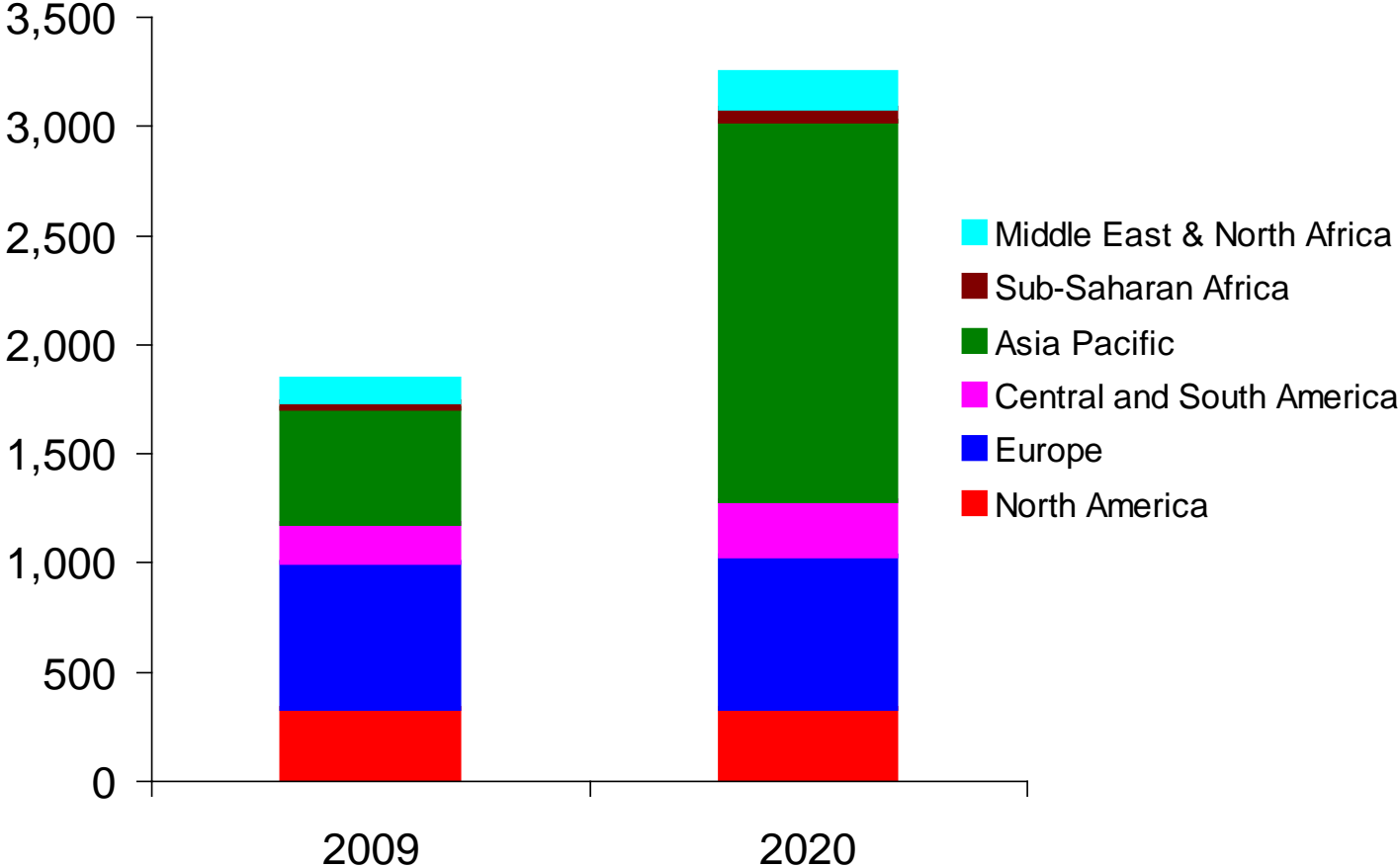
Source : Oxford Economics

...and rising middle class driving consumption

Global middle class

Millions

Household income of \$10 to \$100 dollars a day in PPP



Source: OECD

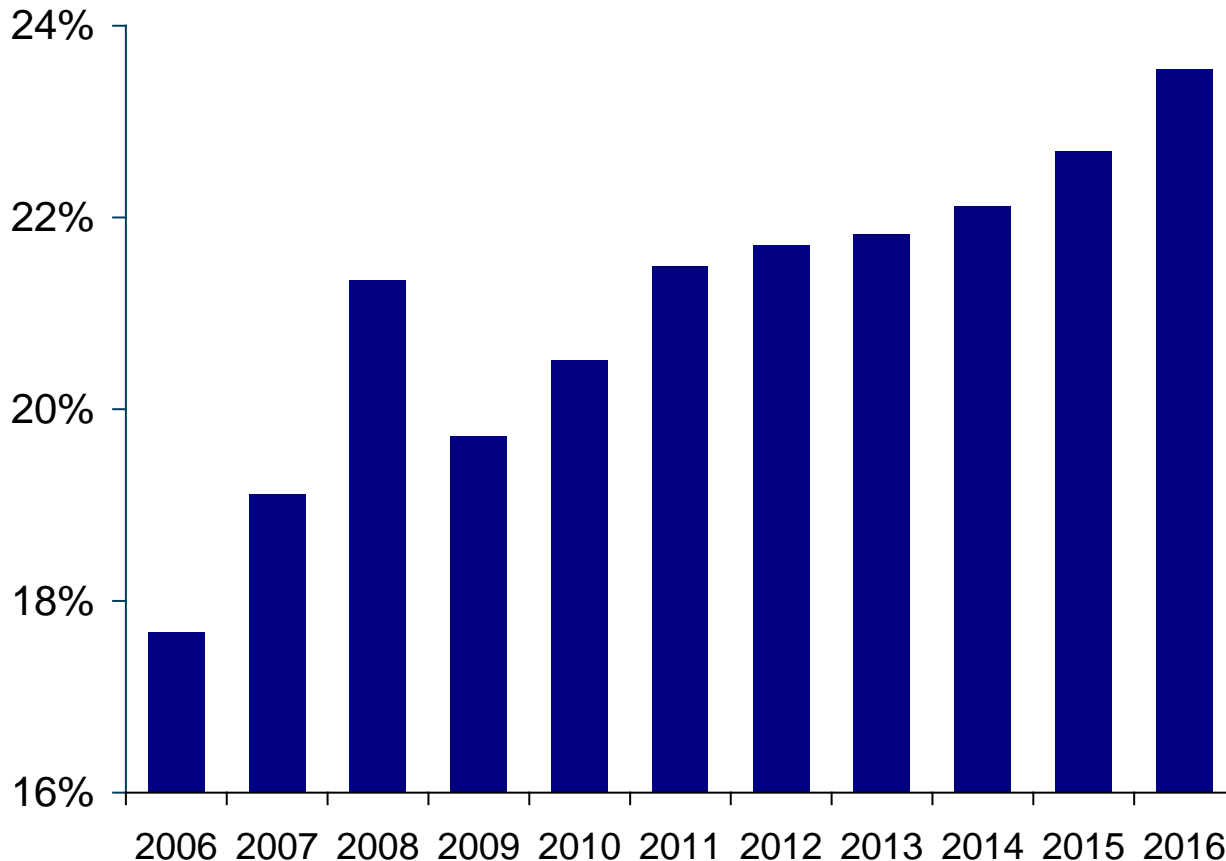
Risk is pronounced...

...Opportunity is immense.

What are the implications for destination marketing?

International travel to the US is set to grow faster than domestic

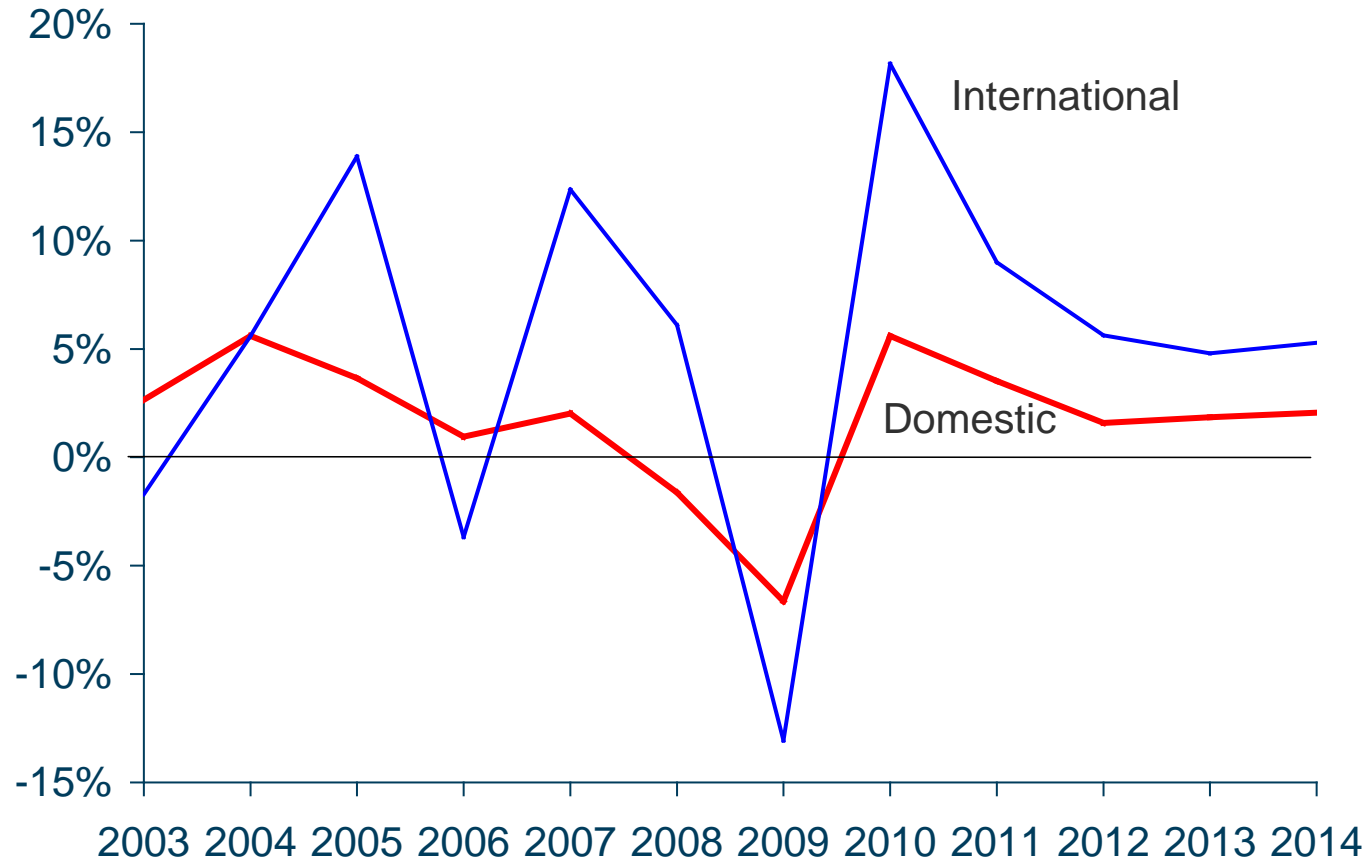
Inbound share of total US travel spend



...the same is true for California

CA Total Visits

annual % growth

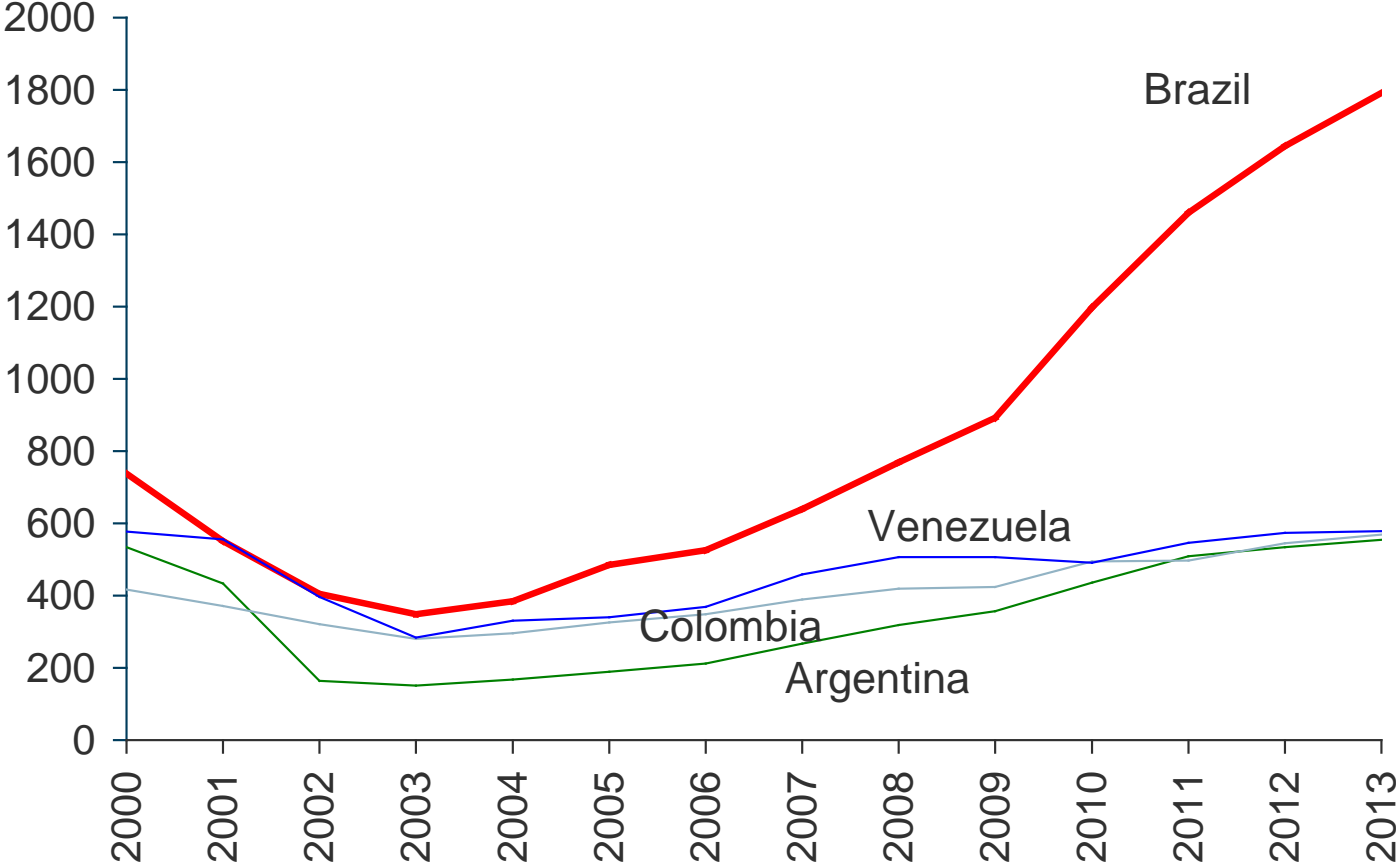


Source : Tourism Economics, OTTI, CIC Research, TNS Global

Brazil rising

US Inbound: South America

Thousand visits

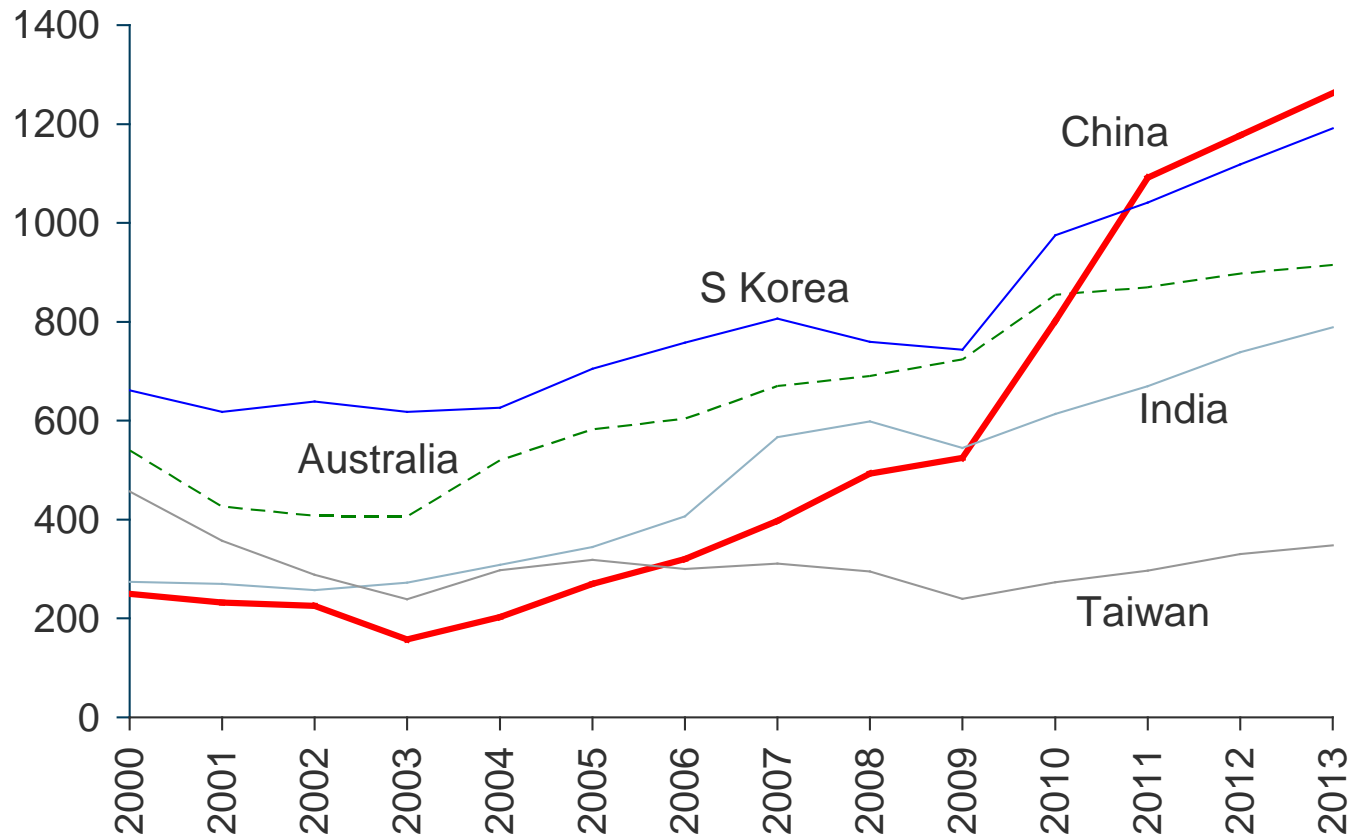


Source : OTTI, Tourism Economics

Asian markets continue to present opportunity

US Inbound: Asia Pacific

Thousand visits

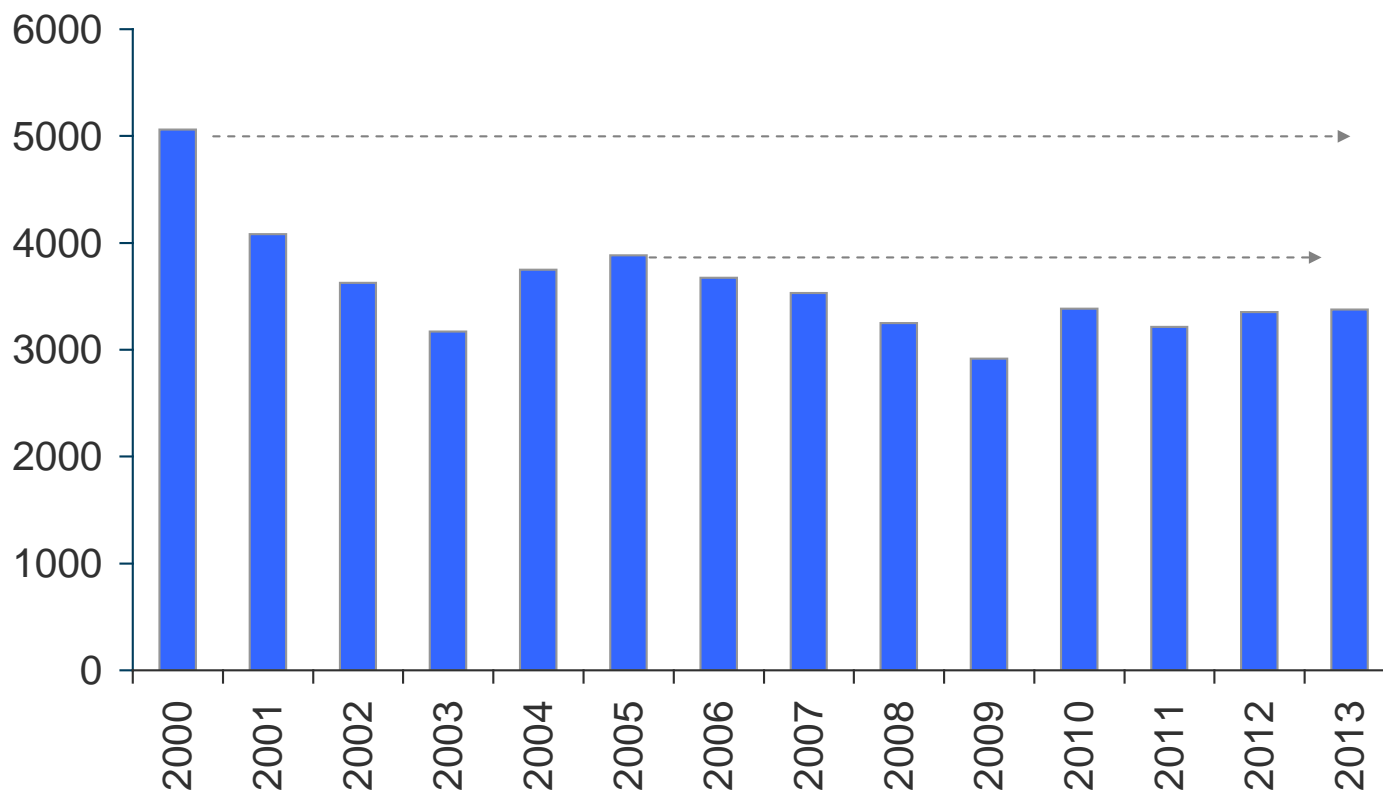


Source : OTTI, Tourism Economics

Japan well below potential

US Inbound: Japan

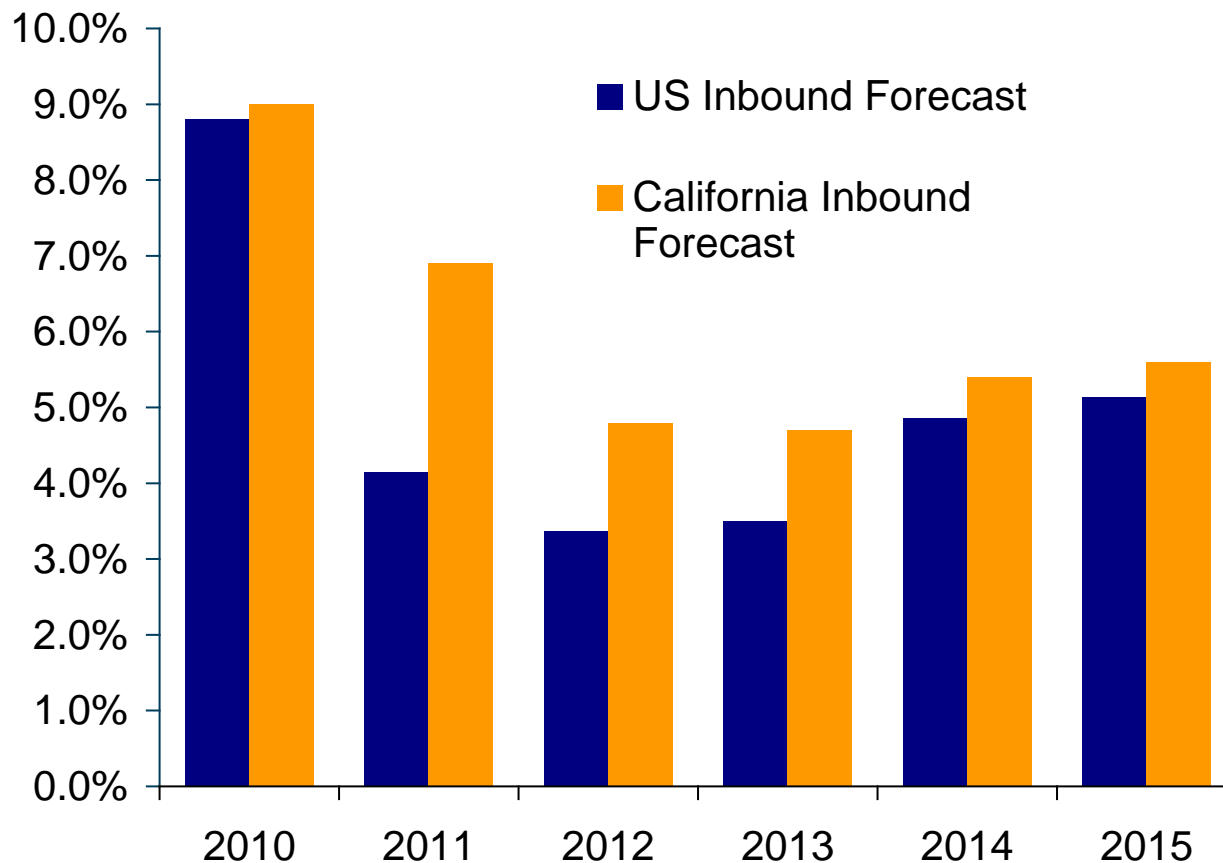
Thousand visits



Source : Tourism Economics, OTTI

California is set to gain market share

Comparing US and CA Outlooks



Market allocation as an investment portfolio

An optimal investment portfolio has the following characteristics

- Adequate diversification
- Risk mitigation
- Defined time horizon
- Maximizing returns

...the same is true for destination marketing

Translating market analysis into decisions

- Marketing strategies are often based on current travel activity
- However, the goal is to identify new opportunities
- Market costs and risks vary across markets
- And all this changes over time!

The need: a dynamic and flexible system to continuously evaluate market opportunities and guide investment decisions

Market Allocation Platform

Visit Orlando.

Visit Sweden

Abu Dhabi

NYC
nycvisit.com

explorez sans fin
Canada
keep exploring

Travel Alberta
Canada

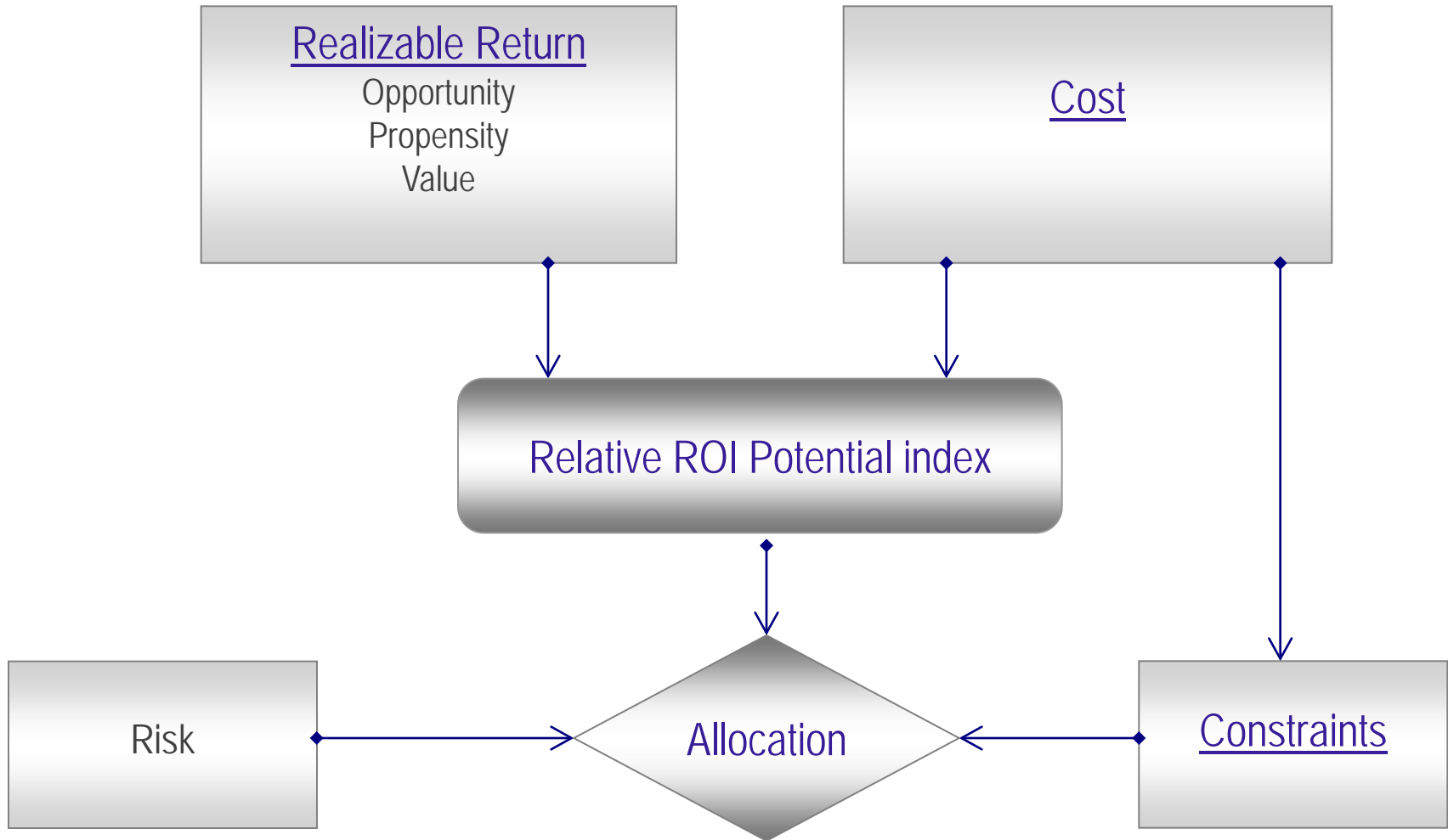
Visit Britain

Holland.

informed decisions ...improved ROI

visit
California

Framework for consistent analysis

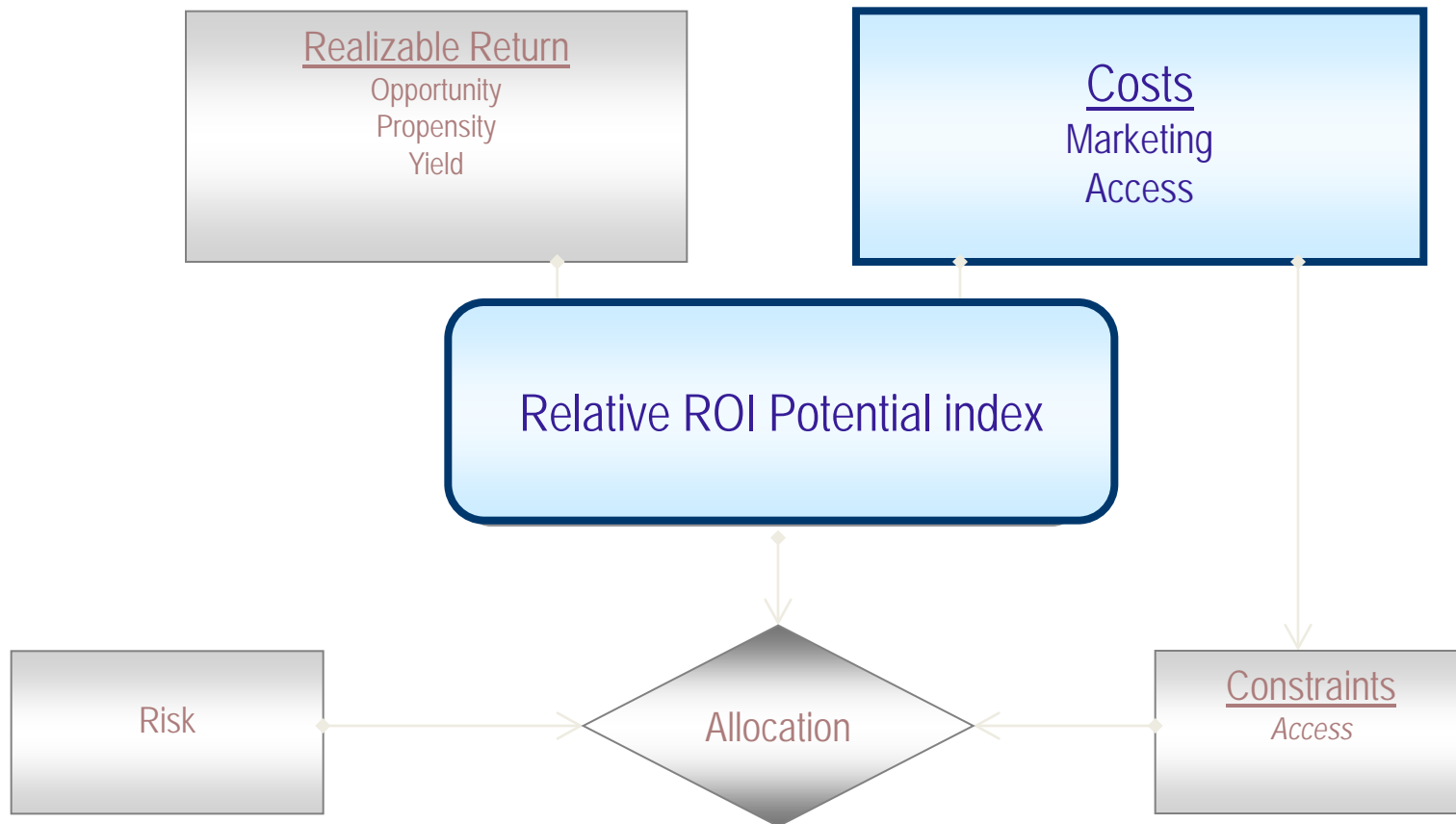


Measuring opportunity is complex

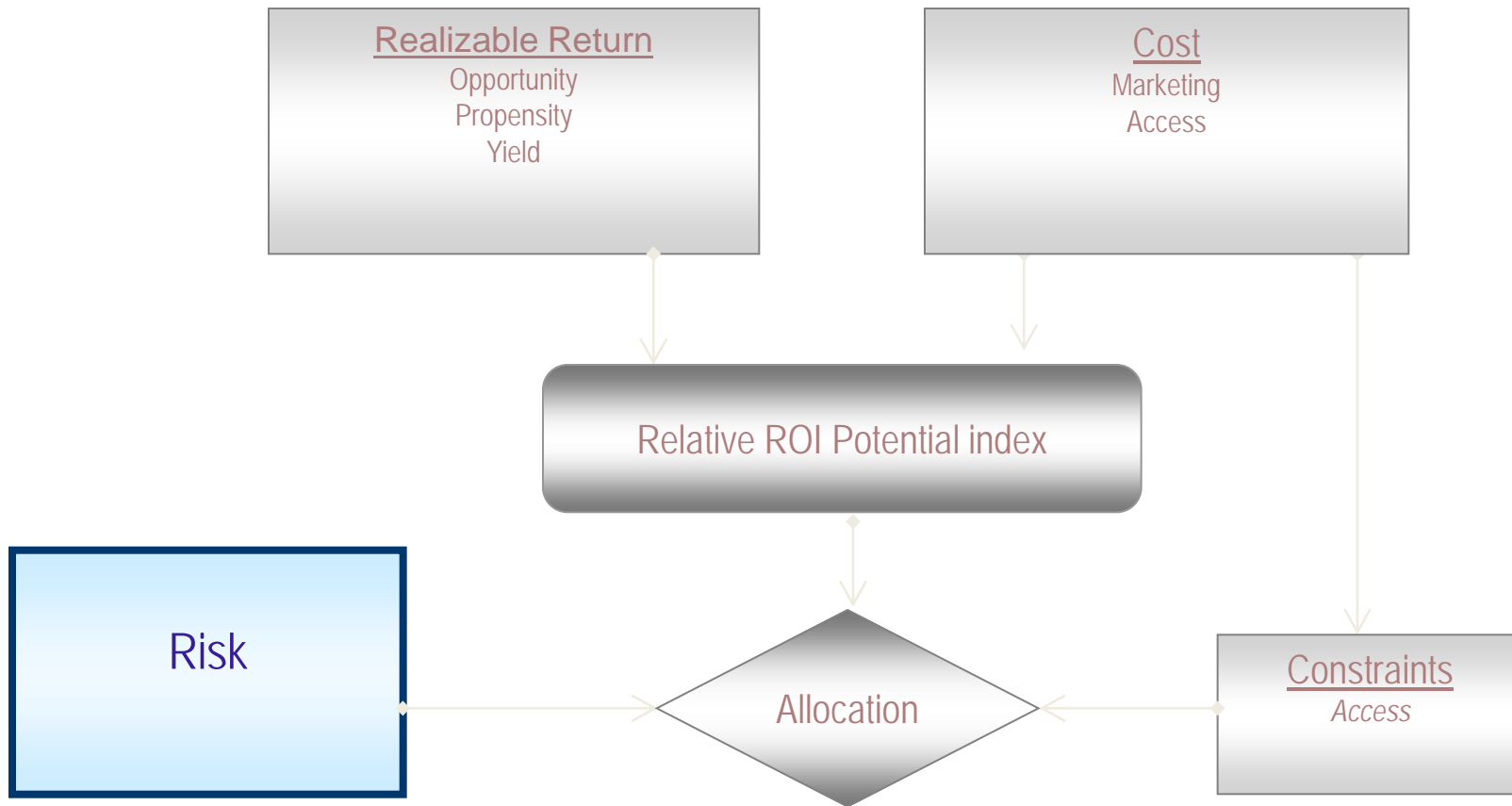
- Market size and growth
- Destination and activity preferences
- Market presence
- Accessibility / barriers
- Purchasing power
- Value per visitor

Cost of attracting a visitor...

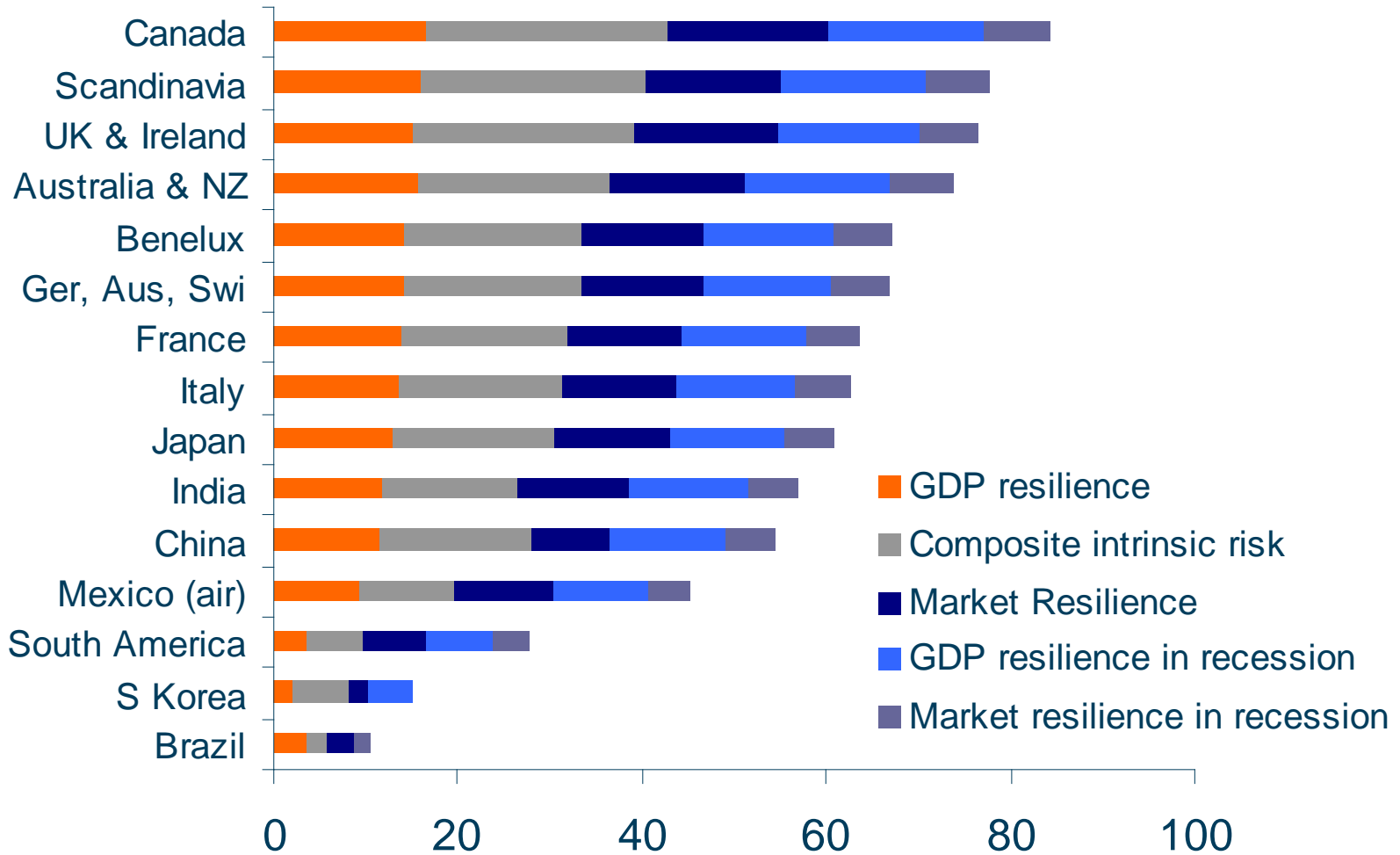
...the flip side of “return”



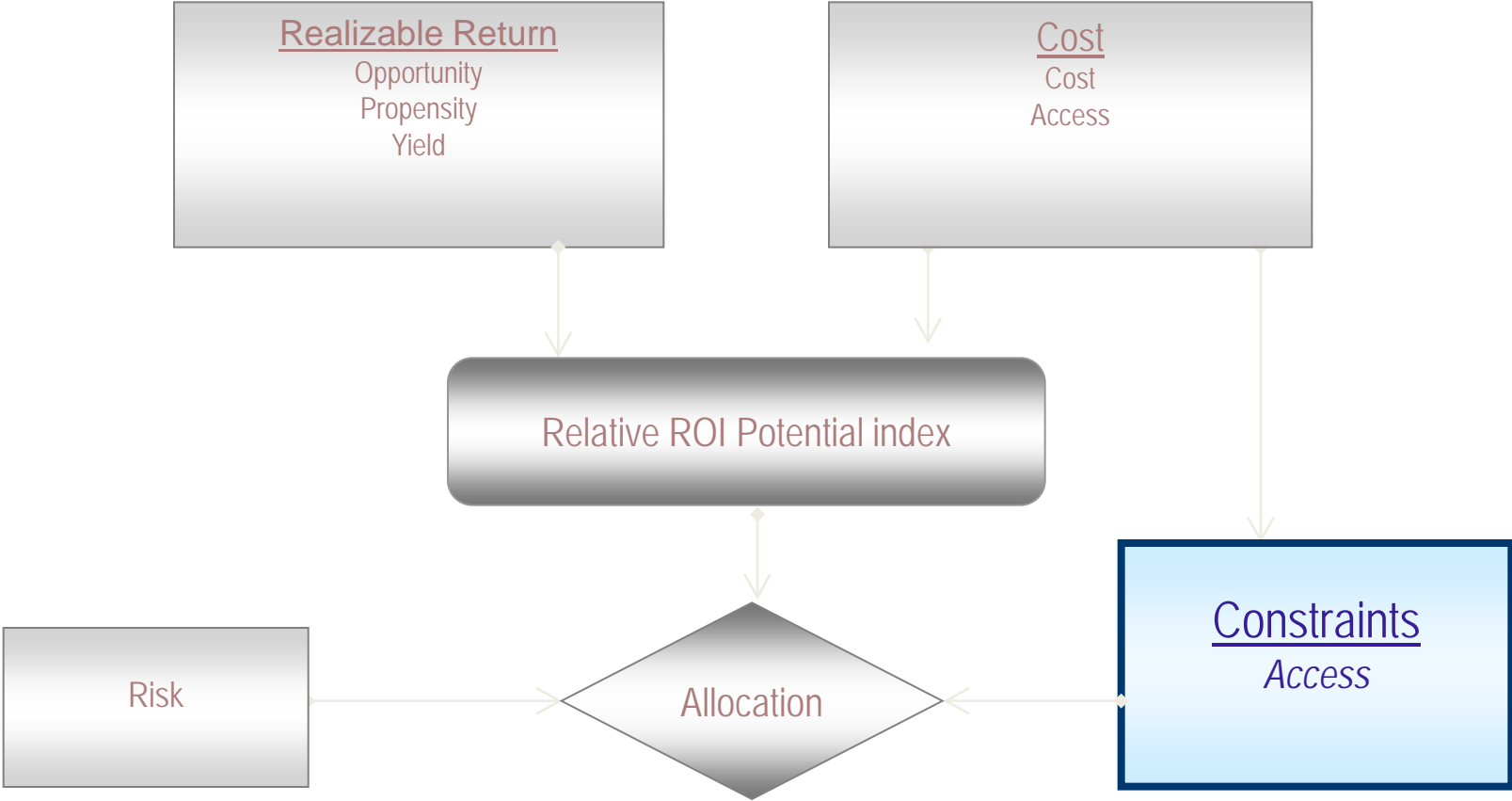
Step 4: Factor in risk



Market risk is used to “discount” returns



Finally... factor in constraints



Market constraints

Market constraints provide upper limits on allocation based on:

- Distance
- Air service
- Visa requirements

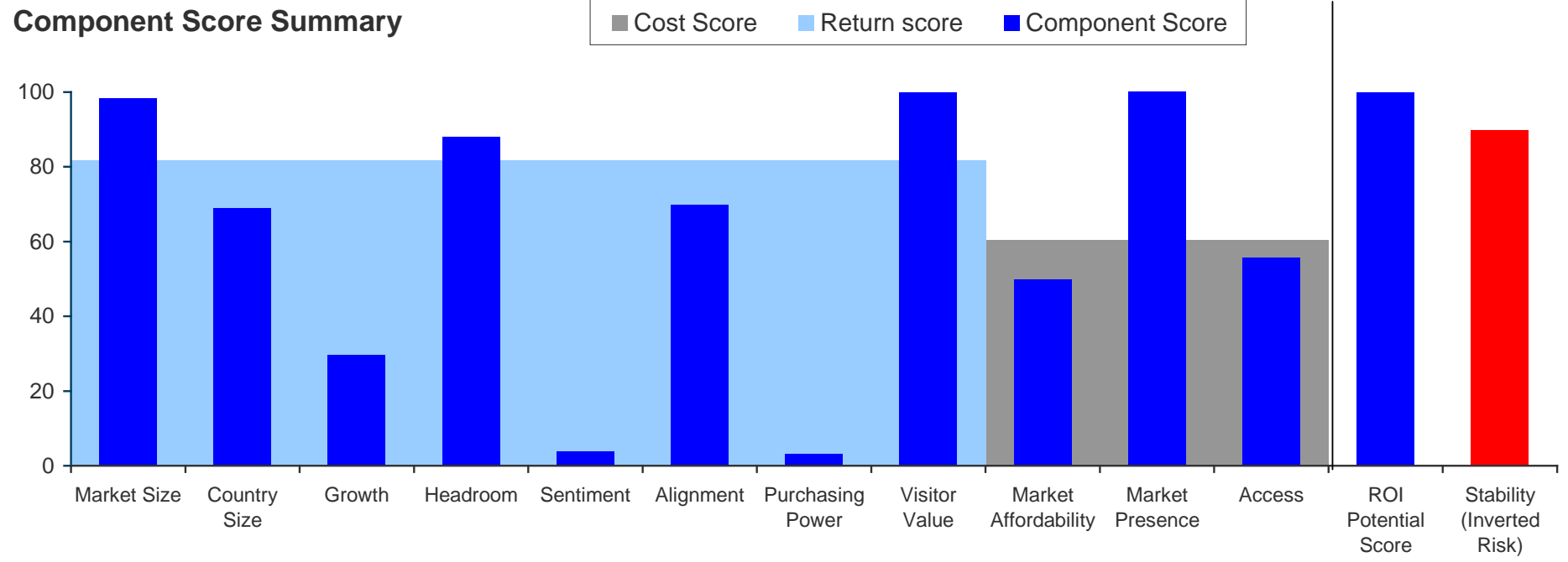
Dynamic functions of MAP system

- **Interactive analysis**
 - Time horizon: short-term, long-term
 - Risk tolerance: Low, balanced, or high
 - Market subsets
 - Indicator subsets

Visit California MAP Markets

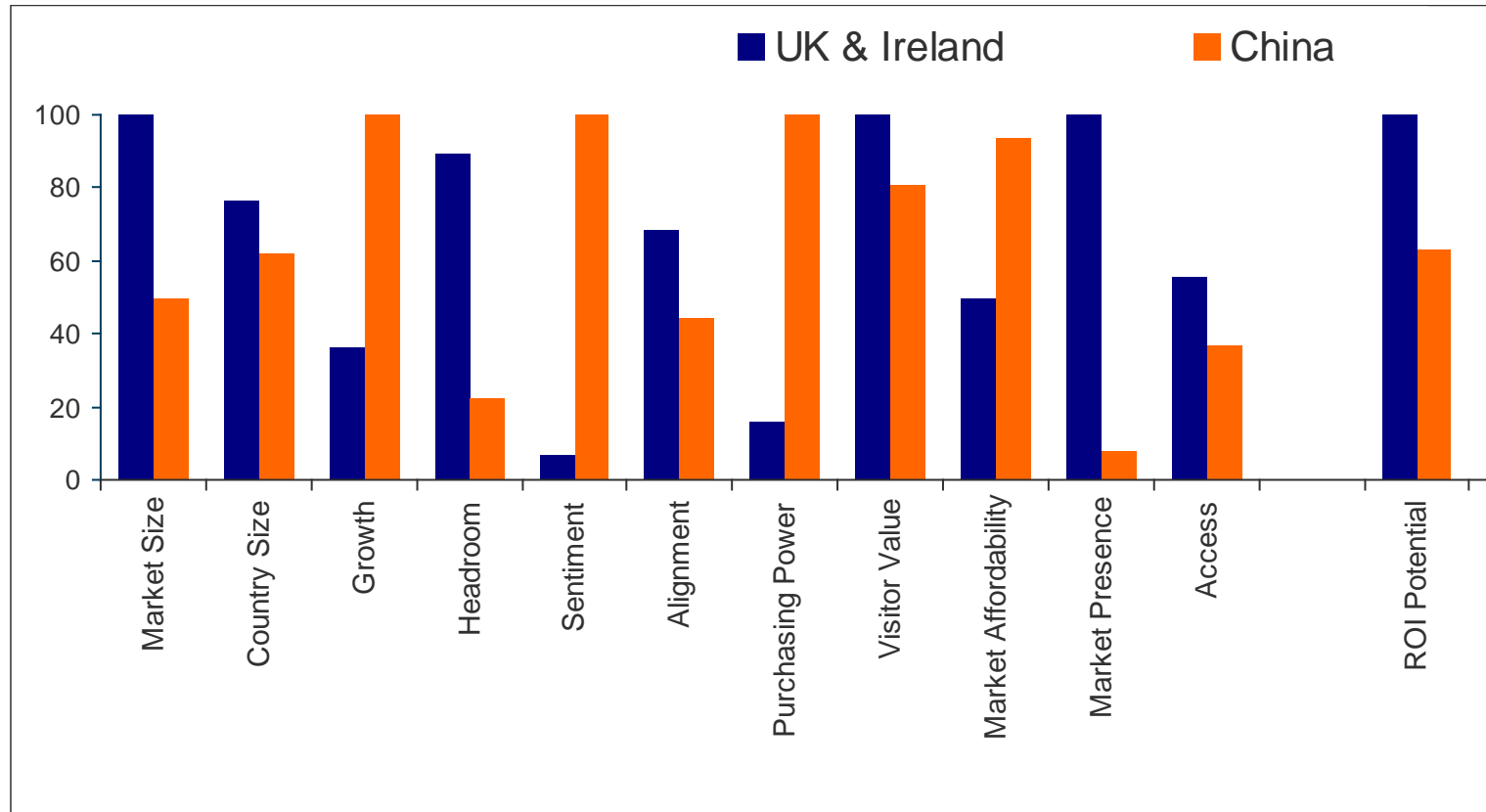
1. Canada
2. Mexico
3. UK & Ireland
4. Germany, Austria, Switzerland
5. Scandinavia
6. France
7. Italy
8. Benelux
9. Australia & NZ
10. China
11. India
12. Japan
13. S Korea
14. Brazil
15. Other South America

Example scores for United Kingdom*

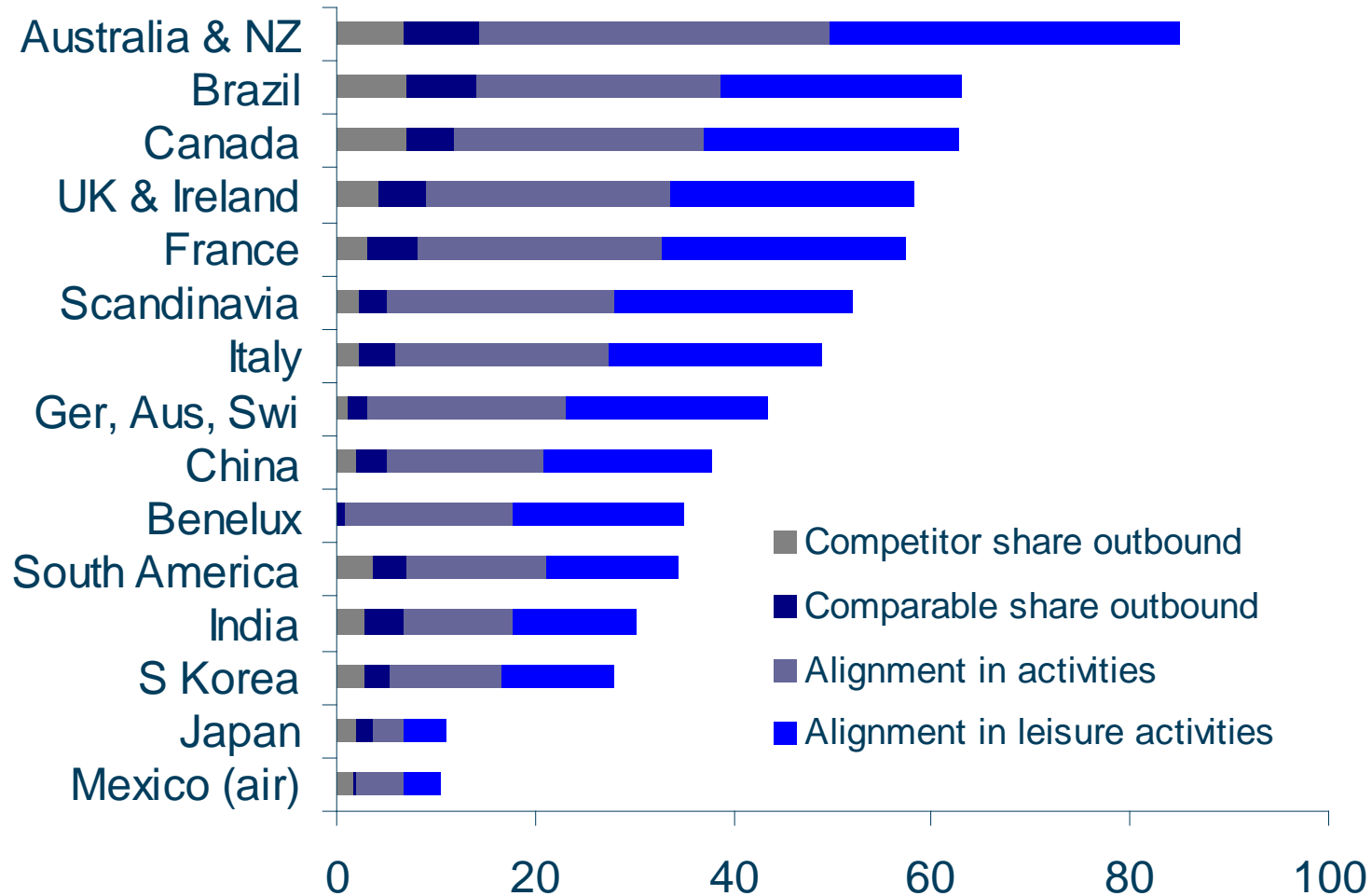


*Includes Ireland

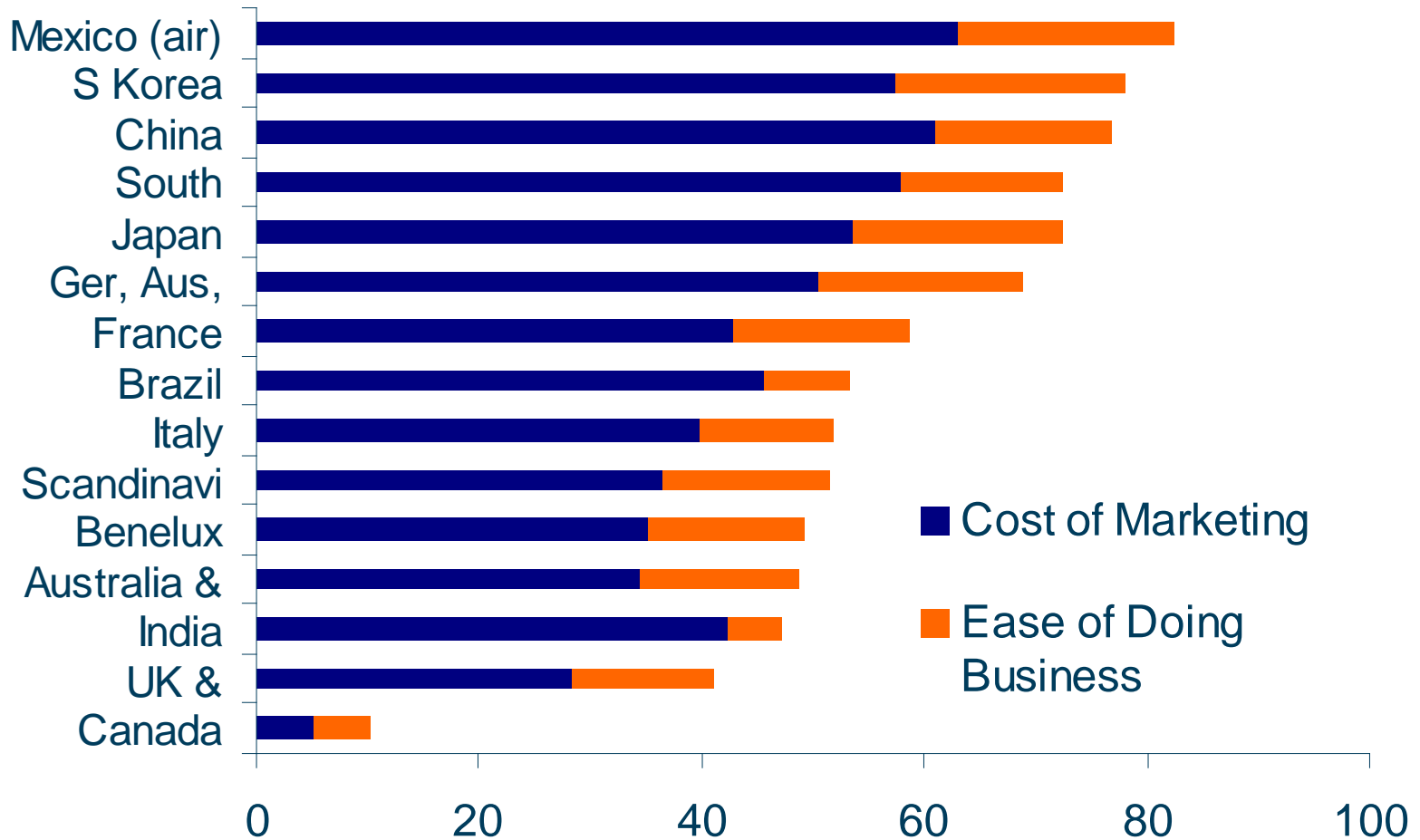
Comparing markets



Example metric: Alignment



Example metric: Costs



Initial findings

- Visit California's allocation has been historically consistent with balanced risk tolerance and short term time horizon
- Appropriate focus on bellwethers (UK, Canada, Australia, Japan, Germany)
- Scenario testing of longer term horizon (both with and without additional risk) suggests higher weighting in several emerging markets (China and Brazil)
- Working with Visit California to finalize the model over the coming weeks as an input into market allocation decisions



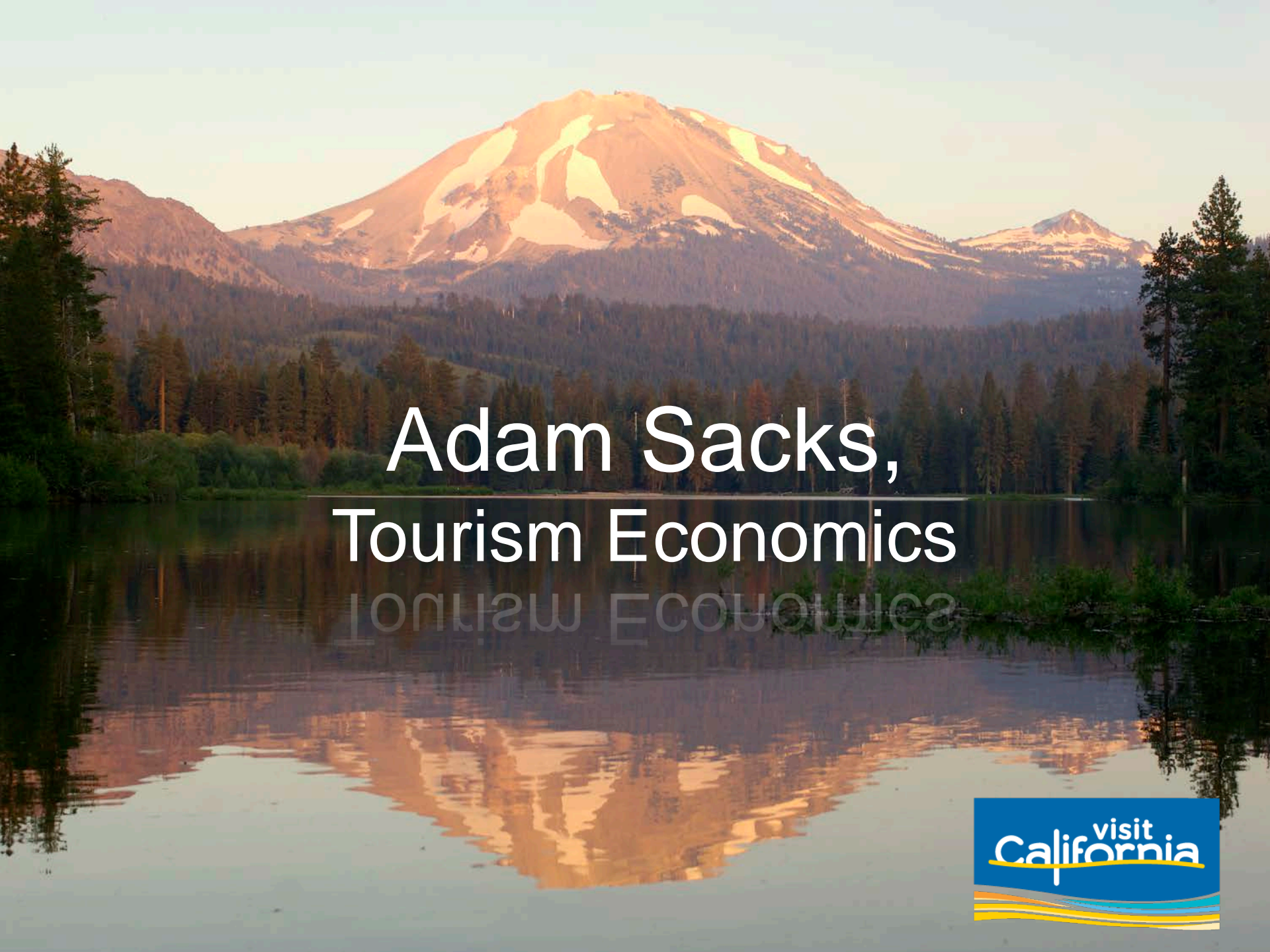
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