TOURISM ECONOMICS

Quarterly Travel Forecast

Prepared for the San Diego
Convention and Visitors Bureau

December 2011

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

Contents

Executive Summary

- While the US economy is proving resilient, the volatile situation in Europe and weaker results from Asia are adding headwinds to an already strained recovery.
- The US labor market has improved, but the rate of improvement reflects only a partial recovery. Consumer confidence remains below "healthy" levels and the recovery has left many households and some industries behind. These persistent factors, along with recent trends and the downgrade to the US forecast, have led to a downgrade in the San Diego forecast for overnight visits 1.1% in 2012, down from 1.4% in our October report.
- Total visits to San Diego grew a respectable 2.6% in the third quarter of 2011 but at only about half the rate of growth experienced in the second quarter of this year (+5.1%) and somewhat below expectations. This slowdown in the growth of travel to San Diego had been expected, and is consistent with the smaller gains in travel observed nationwide during the third quarter.
- Encouragingly, overnight visitation to San Diego grew 3.7% in Q3, outperforming our last forecast slightly (3.5%). Overnight visits are forecast to grow 3.5% in the final quarter of 2011 but will slow to a growth rate of only 1.1% in 2012.
- Hotel room demand in San Diego grew 4.6% in the third quarter, with strong performance in July and September. This raised the average occupancy rate for the quarter to 78.9%. Accordingly, hotels responded with an increase in room rates, with ADR climbing 3.0%.
- For the year through November, room demand in San Diego increased 3.6% compared to 5.4% for California and 5.1% for the US. The 70.8% average occupancy rate enjoyed by San Diego through the third quarter still stands above both the US and California. Also, while ADR has grown more slowly in San Diego, San Diego's ADR is still at a premium above both California and the US.
- However, hotel performance in San Diego during the last three months of 2011 will likely be weaker. Data from October indicate only moderate growth while November data showed no growth in demand and declines in ADR from last year. While room demand is trending with the previous forecast, ADR has not responded as expected.
- On the positive side, supply remains constrained and the general trend of rate rises remains intact, however, at a lower level. ADR is forecast to increase at a pace of 3.1% in 2012 and 3.9% in 2013.
- Visitor spending in San Diego continued to expand in the third quarter of 2011, increasing 6.6% over the same quarter of the prior year and is expected to increase 5.2% for the year. Traveler spending will be held in check largely by a subdued inflation outlook, growing 4.1% in 2012.

San Diego Tourism Summary Outlook
(annual % growth, unless stated)

	2009	2010	2011	2012	2013	2014	2015
Visits	-4.8%	0.9%	3.0%	2.2%	2.2%	3.1%	2.1%
Day	-4.8%	-2.5%	2.6%	3.3%	3.3%	4.1%	2.0%
Overnight	-4.8%	4.5%	3.5%	1.1%	1.0%	2.0%	2.2%
Expenditure	-12.1%	1.7%	5.2%	4.1%	4.1%	5.9%	6.1%
Day	-9.2%	-4.3%	4.8%	4.6%	6.0%	7.6%	5.2%
Overnight	-12.4%	2.5%	5.2%	4.0%	3.9%	5.7%	6.2%
Hotel Sector							
Room supply	3.7%	1.2%	0.3%	0.9%	0.6%	0.7%	1.3%
Room Demand	-5.8%	7.0%	3.4%	1.9%	1.5%	2.6%	3.5%
Occupancy (%)	62.8	66.4	68.5	69.2	69.8	71.1	72.6
ADR ($)	$124.28	$121.19	$124.36	$128.22	$133.19	$141.65	$150.98

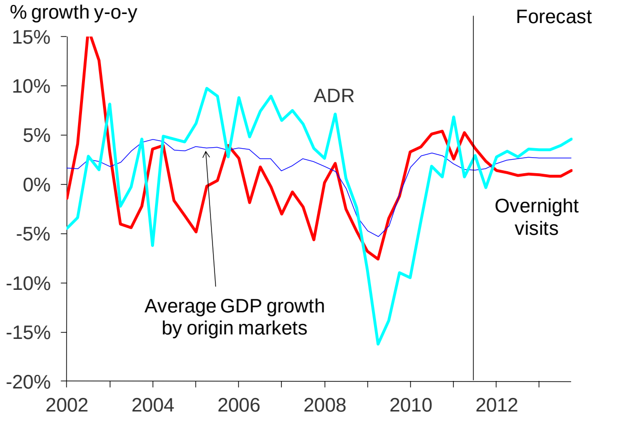
San Diego Tourism Outlook

Visitor Trends

Total visits to San Diego grew a respectable 2.6% in the third quarter of 2011, slowing from the robust 5.1% growth posted in the second quarter and somewhat below expectations. Visitation in August was especially weak. The day trip market was once again a drag on growth, increasing only 1.7% during the quarter. Day visits from Mexico grew more than forecast but still only slightly at 0.3%, while the growth in domestic day visits slowed to 2.0%. More positively, overnight visitation grew 3.7%, slightly better than expected. Hotel guests led the gains, increasing 4.3% in volume over last year, followed by household and other overnight visitors at 3.0% and 2.9%, respectively.

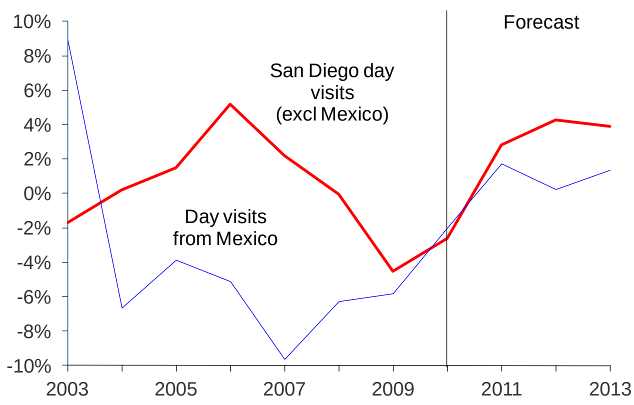
Visitor growth had been expected to moderate in the second half of 2011 as weakening economic performance in the U.S. and around the world took its toll. This expectation was realized during the third quarter but data from the early months of the fourth quarter suggest a moderate pick-up in both San Diego visitation and spending, reflecting the recently more positive economic and consumer environment. San Diego visitor growth of 3.2% is now expected in the fourth quarter of 2011, with day visits forecast to rise 4.2%. Overnight visitor growth of 2.4% is anticipated as hotel visitation rises an expected 2.8%. Visitation to San Diego for full year 2011 will likely reach approximately 30.8 million, surpassing 30 million visitors for the first time since 2008 and growing 3.0% above 2010 levels. Ovenight visits are forecast to rise 3.5% with hotel/motel visits climbing 4.3% above 2010.

San Diego: Overnight Visits



Source : Tourism Economics/CIC Research

San Diego day visits



Source : Tourism Economics/SDCVB

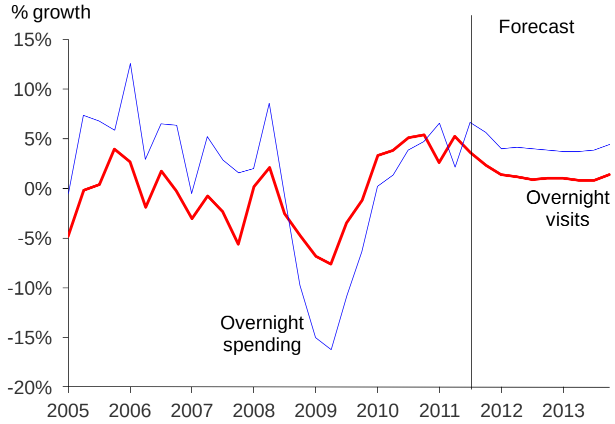
Despite this somewhat more positive performance in the near term, economic problems in the Eurozone continue to weigh negatively on the US economic forecast. While the US has experienced relatively modest economic growth throughout 2011 and indications point to the same for the fourth quarter, the economy remains fragile. Our US macroeconomic forecast (as well as the global forecast) has been dowgraded over recent months, reducing expected real GDP growth in 2012 and 2013; which has dampened travel industry prospects.

Given this backdrop, growth in visitation to San Diego is expected to slow to 2.2% in both 2012 and 2013, down from 3.0% in 2011. Overnight visits will continue to grow, but at a slower rate as we expect some substitution to day trips, which are anticipated to increase 3.3%. Overnight visitation is expected to grow just 1.1% in 2012, down considerably from the 3.5% growth expected in 2011. Growth in hotel / motel visits will be only slightly stronger at 1.1%. In 2013, a continued modest recovery in overnight visitors is expected, with growth forecast at 1.0%. Day visitors, however, will continue to show greater strength, increasing another 3.3% over 2012.

Expenditures

Visitor expenditures in San Diego recovered nicely in the third quarter. After underperforming visits in the second quarter, spending outpaced visits in the third quarter, rising 6.2%. These spending gains were somewhat stronger than expected and reflect the better- than-anticipated performance of San Diego's overnight visitor market in the third quarter.

Overnight Visits & Expenditures



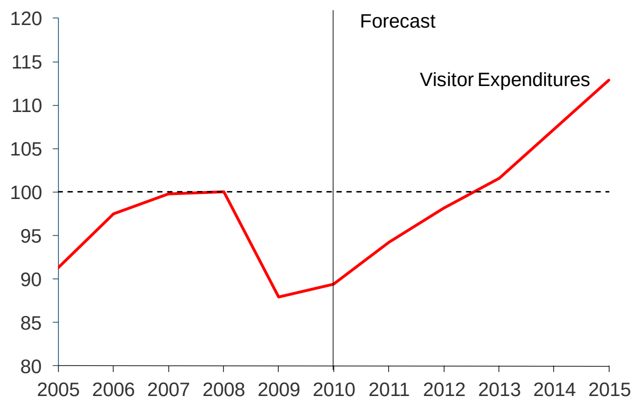
Source : Tourism Economics / CIC Research

The growth in spending occurred despite the decline in the average length of stay in San Diego during the third quarter. This affect on spending was largely offset by the increase in visitation. Overnight visitors spent 6.6% more in San Diego during the third quarter while their average length of stay declined 2.4%. Hotel/motel visitors led the increase with an 8.1% gain in spending as hotel ADR grew 3.0%.

Visitor spending growth in San Diego is expected to slow in the fourth quarter (+5.7%), reflecting the modest slowdown in overnight visitation that is also forecast. But ongoing growth in visitor spending in the city will become more elusive in the next year or two as the rate of growth in visitation also slows. Household budgets remain constrained by economic conditions and, while improving, consumer confidence remains at low levels. Additionally, the inflation outlook remains fairly benign. Total visitor spending in San Diego is forecast to increase 4.1% in 2012 and 2013 when spending will regain the level set in 2008.

Visitor Expenditures

Index, 2008=100



Source : Tourism Economics

Hotel Performance

The hotel sector continued to lead the recovery in San Diego's travel industry in the third quarter. Hotel room demand in San Diego grew 4.6% in 2011Q3, with strong performances in both July (5.0%) and September (7.9%). This raised the average occupancy rate for the quarter to 78.9% compared to 75.4% last year. Accordingly, hotels responded with an increase in average room rates, as ADR climbed 3.0% to $135.82, boosting RevPAR 7.6%.

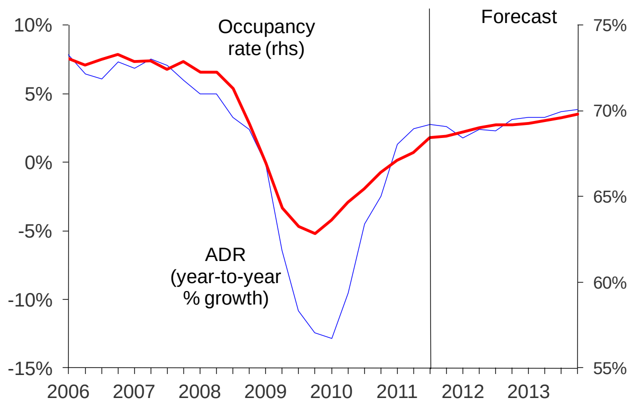
For the year through November, hotel performance in San Diego was mixed but has generally lagged both the US and California. The number of rooms sold in San Diego has grown 3.6% for the year compared to 5.4% for California and 5.1% for the US. San Diego's room supply (available rooms) increased 0.3% through November, more than the gains posted in

California (+0.1%) but significantly less than the increase in room supply nationwide (+0.6%). California ADR is still performing quite strongly, up 5.5% through November, well above the national average rate of growth of 3.7% and San Diego's 2.7%. That said, the 70.8% average occupancy rate enjoyed by San Diego through the third quarter of 2011 still stands well above both rates achieved by the US overall (61.8%) and in California (68.1%). Also, while ADR has grown more slowly in San Diego, San Diego's ADR ($127) in the third quarter is still at a premium above both the average rate charged in either California ($117) or the US overall ($102).

Early hotel industry data for the fourth quarter has turned quite soft, however. Demand for hotel rooms in San Diego grew only 1.1% in October, the slowest monthly rate of growth experienced since November 2009, and slowed even more to a rate of only 0.1% in November. Average daily room rates have also weakened appreciably, up only 0.9% in October but actually down 2.5% in November as compared to these same months in 2010. Consequently, the forecast for the final quarter of 2011 has been downgraded to reflect these recent trends.

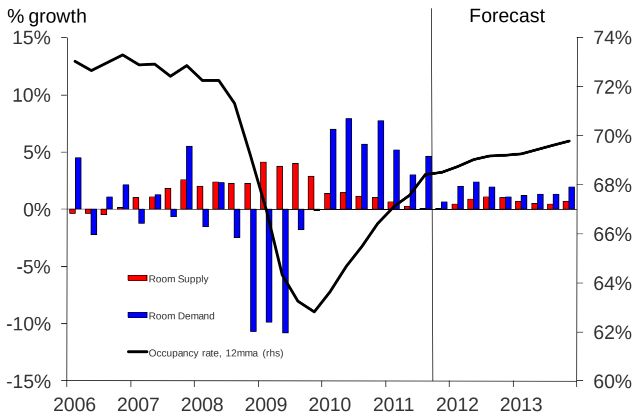
Moving forward the forecast has also been downgraded to reflect a weaker economic outlook. Room demand growth is forecast to slow in both 2012 and 2013, to 1.9% in 2012 and 1.5% in 2013. ADR will also be weaker than previously forecast, growing 3.1% and 3.9% in 2012 and 2013, respectively.

Occupancy and ADR (12mma)



Source : Tourism Economics / STR

Hotel Room Supply & Demand



Source : Tourism Economics / STR

US Tourism Outlook

The slowdown in travel's recovery and growth in the third quarter noted above was also apparent at the national level. Third quarter, 2011 travel and tourism satellite account results just released by the Bureau of Economic Analysis (BEA) show that real (i.e., after adjusting for inflation) spending on travel and tourism decreased at an annual rate of 1.0% in the third quarter of 2011, after increasing 3.2% (revised) in the second quarter. In comparison, real GDP rose 2.0%.

But, as we approach the end of 2011 – yet another roller coaster ride for the U.S. travel industry - we see some more hopeful signs as the industry approaches the end of its recession-rebound cycle. A number of new surveys and sales results show increasing consumer optimism and willingness to spend, but also a new "resourcefulness" in the way they spend their discretionary income.

Despite this, consumer confidence remains at historic lows, income growth will remain subdued, and consumers likely will go further in cutting debt levels. Travel intentions remain weak, as observed in U.S. Travel's *TravelHorizons* survey. As a result, our forecast for growth in total US domestic trips in 2011 has been lowered slightly from our spring forecast to 2.0% (down 0.1%), with travel expected to exhibit a slowdown towards the end of the year. In the first half of 2011, domestic person trips showed greater strength, growing around 2.6% while in the second half of 2011, trip growth is forecast to average 1.4%.

Domestic Person Trips in the US

(Millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	2000.5	2004.5	1964.9	1900.6	1965.7	2004.9	2035.8	2072.1	2114.0
% change	0.4	0.2	-2.0	-3.3	3.4	2.0	1.5	1.8	2.0
By purpose									
Business	508.7	494.3	461.1	436.5	451.5	457.9	465.7	473.9	481.3
% change	-0.2	-2.8	-6.7	-5.3	3.4	1.4	1.7	1.8	1.6
Leisure	1491.8	1510.2	1503.8	1464.2	1514.2	1547.0	1570.0	1598.2	1632.7
% change	0.6	1.2	-0.4	-2.6	3.4	2.2	1.5	1.8	2.2
By mode of transport									
Auto	1718.5	1717.2	1687.2	1635.9	1692.1	1725.5	1754.2	1786.0	1823.3
% change	0.8	-0.1	-1.7	-3.0	3.4	2.0	1.7	1.8	2.1
Air	156.6	158.1	151.9	144.0	147.3	149.5	151.3	153.3	155.3
% change	-6.7	1.0	-4.0	-5.2	2.3	1.5	1.2	1.3	1.3
Other	125.5	129.1	125.8	120.7	126.2	129.8	130.2	132.8	135.4
% change	5.2	2.9	-2.6	-4.0	4.6	2.8	0.3	2.0	1.9
By duration									
Overnight	969.0	978.9	961.0	911.5	970.0	1001.0	1016.2	1039.9	1067.8
% change	0.1	1.0	-1.8	-5.2	6.4	3.2	1.5	2.3	2.7
Day-trips	1031.5	1025.6	1003.8	989.2	995.7	1003.8	1019.6	1032.2	1046.2
% change	0.7	-0.6	-2.1	-1.5	0.7	0.8	1.6	1.2	1.4

The medium term forecast remains positive but has been tempered. US domestic travel is forecast to grow 1.5% in 2012 and 1.8% in 2013.

At least partially offsetting relatively weak domestic travel has been the robust and better than expected growth in international inbound travel to the U.S, This has resulted in an upward revision to the short term forecast for this segment. Total international visits are now forecast to grow at a rate of 4.1% in 2011, as compared with our spring forecast of a 3.5% gain. The strength in international visitation is being led by overseas markets, especially emerging markets, such as China and India. Overseas travel to the U.S. is forecast to grow 5.9% in 2011, followed by an additional 3.4% gain in 2012. Asia/Pacific and Latin America markets continue to be the brightest lights while European inbound markets continue to struggle and are forecast to generate the same number of visitors to the United States as they did in 2009.

US Hotel Sector

The US hotel industry continues to surprise on the upside when it comes to demand. Room demand increased 5.1% for the year-to-date through November. While demand growth slowed a bit in late summer/ear/y fall, it was renewed in November when room demand rose 5.3%. Occupancy now averages 61.2% for the year nationally, up 4.4% over 2010. And room rates are also slowly recovering, rising 3.7% year-to-date through November and helping to push RevPAR up 8.2%.

Hotel performance is expected to slow through the rest of this year and into next year. Room demand growth is forecast to slow to 4.7% for 2011 followed by a modest 1.1% increase in room demand in 2012. Room rates, however, are expected to continue their recovery, rising 3.6% in 2011 followed by a 3.7% gain in 2012.

Summary US Lodging Forecasts

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rooms (mn roomnights)												
Room Supply	427.9	438.8	445.8	442.4	431.4	441.9	448.7	445.6	434.5	445.6	452.9	450.4
Room Demand	222.3	266.2	285.0	236.8	236.7	279.9	298.1	243.5	237.2	281.1	302.8	249.0
Occupancy (% balance)	52.0%	60.7%	63.9%	53.5%	54.9%	63.4%	66.4%	54.6%	54.6%	63.1%	66.9%	55.3%
ADR ($)	$96.34	$97.99	$99.20	$98.37	$99.43	$101.48	$103.04	$101.98	$102.44	$104.86	$106.99	$106.41
RevPAR ($)	$50.06	$59.45	$63.41	$52.66	$54.55	$64.29	$68.45	$55.73	$55.94	$66.14	$71.54	$58.82

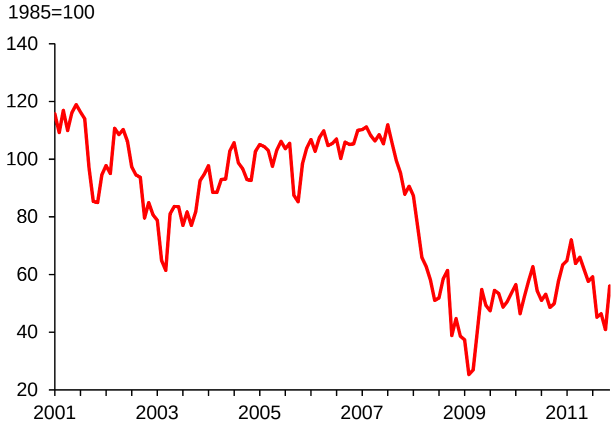
(year-to-year % growth)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	2.5%	2.1%	1.5%	1.1%	0.8%	0.7%	0.6%	0.7%	0.7%	0.8%	0.9%	1.1%
Room Demand	4.7%	8.2%	8.2%	8.2%	6.5%	5.2%	4.6%	2.8%	0.2%	0.4%	1.6%	2.2%
Occupancy (% balance)	2.2%	6.0%	6.6%	7.0%	5.6%	4.4%	3.9%	2.1%	-0.5%	-0.4%	0.7%	1.1%
ADR	-4.3%	0.0%	1.7%	2.0%	3.2%	3.6%	3.9%	3.7%	3.0%	3.3%	3.8%	4.3%
RevPAR	-2.2%	6.1%	8.4%	9.1%	9.0%	8.1%	7.9%	5.8%	2.5%	2.9%	4.5%	5.5%

US Economic Outlook

Although economic growth in 2011Q3 was revised down to an annual rate of 2.0% from the original 2.5%, the outlook continues to improve. Most of the downward revision to Q3 was in stockbuilding, and the strong drag from destocking is likely to be at least partially reversed in Q4.

Consumer confidence



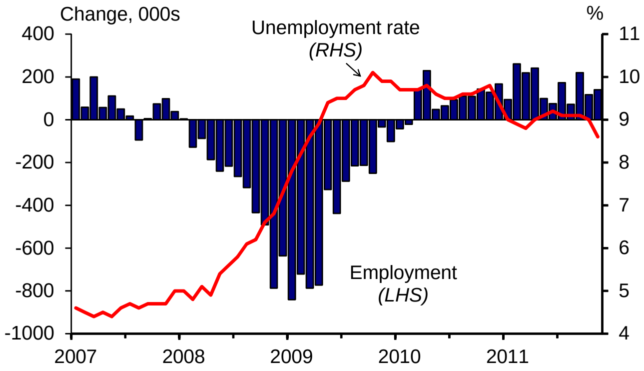
Source: Conference Board

Growth prospects in the near term are also being boosted by positive indicators from a number of sectors. Consumer confidence rebounded strongly in November and car sales and chain store sales seem to have benefited. The start to the holiday season appears to have been strong enough to offset a slower pace of sales earlier in the month.

Both ISM indexes remained in positive territory in November, with the manufacturing index rising a bit and the nonmanufacturing index falling slightly. New orders fell in September and October, but are still up 7.5% from a year earlier. Manufacturing output has averaged 0.4% monthly growth since July, and is up 4.1% in the year to October.

And the labor market continues to improve. Payrolls added 120,000 jobs in November despite another 20,000 loss in the government sector, and the previous two months' gains were revised up a total of 72,000. The unemployment rate dropped 0.4 percentage points to 8.6%, its lowest reading in more than two and a half years. About half of that improvement reflected a drop in the labor supply, but the other half was due to a fourth consecutive strong gain in household employment. Even the housing market produced some good news, with pending home sales up 10.4% in the latest month.

Private payrolls and the unemployment rate



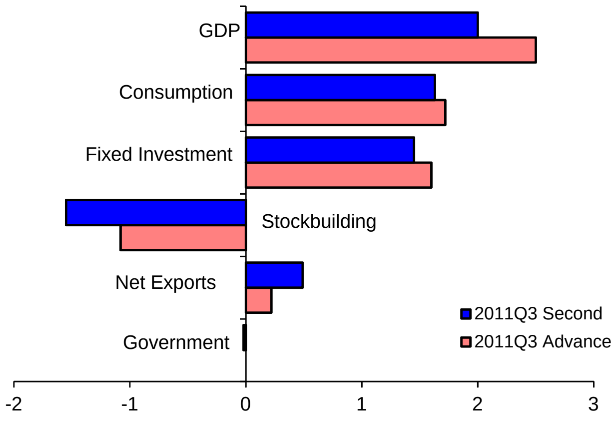
Source : Bureau of Labor Statistics

Despite the improvements listed above, many of the indicators remain at weak levels. Even with the 15 point jump, consumer confidence was still only at 56 in November – it needs to be over 80 to reflect a healthy consumer sector. Similarly, initial unemployment claims have improved considerably from the summer levels, but they're hovering around 400,000, a level consistent with weak growth in employment.

And there are a couple of key uncertainties. The super committee failed in its efforts to come to a deficit reduction agreement, so by law automatic spending cuts of $1.2 trillion over 10 years are scheduled to begin. But it had been hoped that an agreement would have addressed a number of other fiscal measures set to expire at the end of the year unless Congress acts. These include the emergency unemployment benefits and the payroll tax holiday, which if not renewed would cut disposable income by about $150 billion in 2012. But there are other more routine measures as well, such as alternative minimum tax relief, the investment tax credit, and the prevention of steep cuts in Medicare payments to providers. The continuing resolution funding the government is set to expire on December 16 (need to update – what happened?) , so Congress must enact another to prevent a partial shutdown. It is probable that all of this will be worked out before the end of the year – indeed that is the assumption implicit in our forecast – but it will most likely be another case of putting it off to the last possible moment.

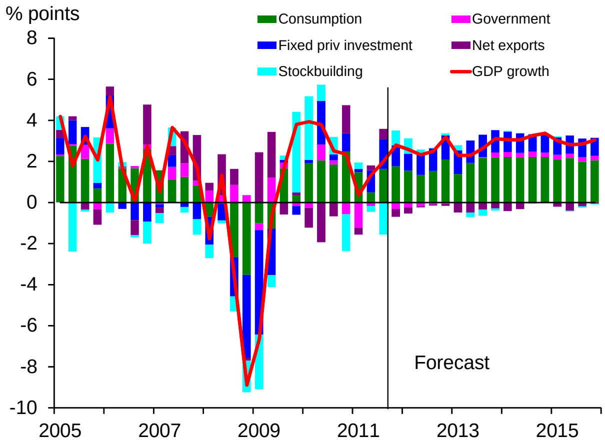
It now appears that recession cannot be avoided in Europe, but so far we expect that recession to be mild. Central banks around the world made a coordinated move at the end of November to try to ease the funding problems of European banks, and there are discussions underway to provide greater fiscal coordination across the Eurozone. But the financial situation in the Eurozone remains very dangerous and it is yet possible that a severe credit crunch could ensue and spread to the United States. Even without a severe crunch, there is evidence that European banks are curtailing lending into the US in order to shore up their balance sheets, which means less support to US activity. This volatile situation remains a key risk to the US forecast.

Contributions to growth



Source: BEA

Contributions to growth



Source: BEA/Oxford Economics

Another round of quantitative easing by the Federal Reserve is perhaps less likely now, given that domestic economic prospects have improved, but it remains a possibility if conditions deteriorate. And there are other means it could employ to be supportive, including stating actual targets for inflation and the unemployment rate.

As mentioned earlier, growth in Q4 is expected to be supported by a turnaround in stockbuilding and faster growth in consumer spending. Those will be offset to a degree by a sharper decline in government spending, slower growth in fixed investment and a mild deterioration in real net trade. Overall growth is forecast at an annual rate of 2.7%.

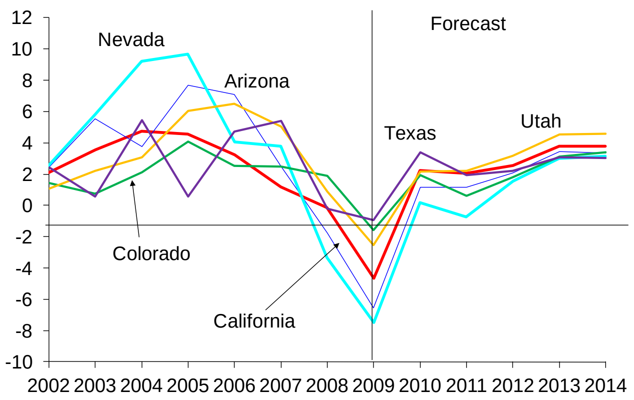
Over the course of 2012, we continue to expect moderate growth of about 2.5%. That will reflect continued constraints on consumers, who are still trying to rebuild their balance sheets, on businesses faced by continued uncertainty, and on goverments still struggling with deficits. Residential investment is expected to turn mildly positive, the first annual increase in seven years. GDP is expected to advance 2.4% in 2012 and 2.6% in 2013 after growth of 1.7% in 2011.

Key Origin Economies

US Market Summary

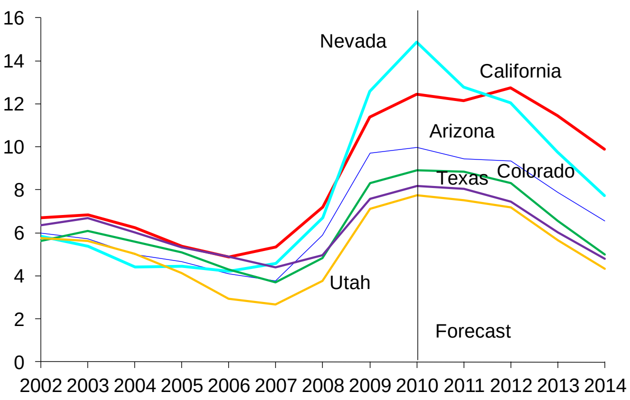
Key DMA Economy Comparisons											
	Nonfarm Payroll Employment			Unemployment Rate		Housing permits	House Price Index (Average of MSAs)			Real GDP	
	2 year trend, 12 mma	ann. % change	last mo Oct 2011	2 year trend	last mo Oct 2011	2 year trend, 12 mma	2 year trend	ann. % change	last q 2011 Q3	ann. % change	last yr 2010
Los Angeles			0.9%		11.4%				-5.3%		1.5%
Sacramento			0.1%		12.7%				-10.2%		-1.5%
San Francisco			1.6%		9.2%				-5.2%		4.5%
Phoenix			2.0%		8.1%				-12.2%		0.7%
Las Vegas			1.4%		13.1%				-15.2%		-1.9%
Salt Lake City			2.7%		6.3%				-5.1%		1.7%
Denver			0.9%		7.5%				-2.0%		1.7%
Dallas			1.6%		8.0%				-2.5%		2.5%

Real Gross State Product
% growth



Source : Oxford Economics

Unemployment Rate
% of labor force

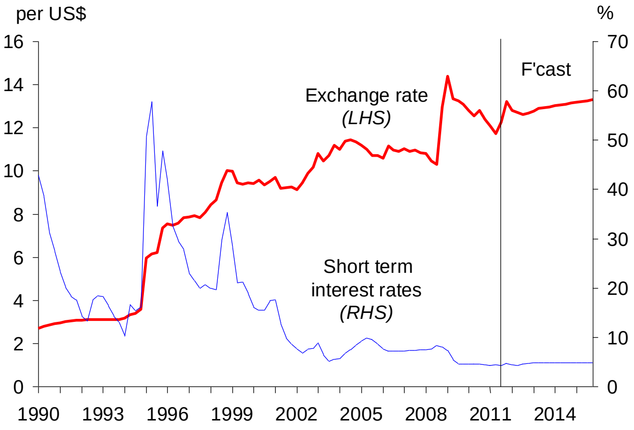


Source : Oxford Economics

Mexico

Seasonally adjusted GDP grew by a stronger than expected 1.3% on the quarter in Q3 driven by services, which expanded 1.6%. This partly offset slower growth in manufacturing, up 0.5%, as the faltering US economy exerted a heavier toll on Mexican exports. In annual terms, GDP grew 4.4% in Q3 after a 3.6% rise in Q2.

Mexico: Exchange and interest rates



Source: Oxford Economics

Our overall growth forecast for 2011 is now 3.9%. This is slightly higher than our previous forecast of 3.8%, with the resilience shown in Q3 largely offset by much weaker growth in Q4, expected to be just 0.1%. Looking further ahead, we have lowered our GDP growth forecast for 2012 to 3.8%, albeit this is above the more cautious consensus forecast of 3.3%.

During the first half of November, annual inflation accelerated to 3.4% from 3.2% (following a monthly increase of 1% in the CPI), though the main culprit was higher energy costs owing to the end of temporary electricity subsidies. The core CPI was more stable, rising only 0.3% on the month. We expect inflation to be 3.4% at the end of2011.

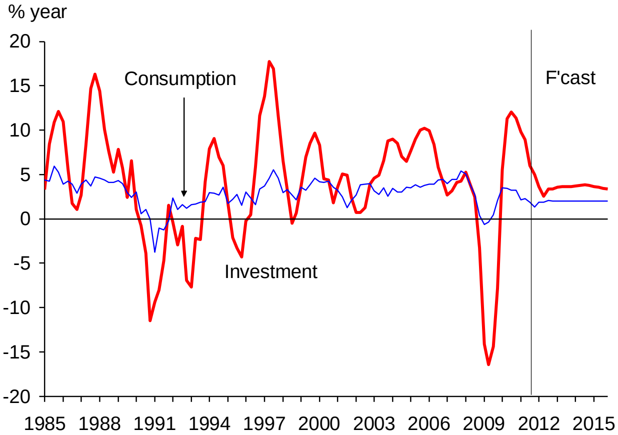
The peso continues to be strongly affected by the global financial market turmoil, with a sharp slide in the last two weeks. It was trading at over MXN14 to the US$ at the time of writing compared with MXN11.7 at the end ofJuly. But provided some sort of stability returns to financial markets, the MXN is expected to recover some of the lost ground.

Canada

After falling marginally in Q2, Canadian GDP bounced back at an annualized rate of 3.5% in Q3. The rise was driven by net trade, as export volumes rose and imports contracted. On the downside, stockbuilding, which tends to move with imports, deducted 2.6% points from quarterly GDP growth.

Recent economic indicators suggest another quarter of reasonable GDP growth in Q4. We expect it to average 2.4% in 2011 as a whole. In 2012, we forecast a slowdown in growth to 2.1%.

Canada: Consumption and investment



Source: Oxford Economics

Although the external environment remains weak, we have become more positive about the outlook for exports. The US economy, the destination for three-quarters of Canada's exports, has generally been stronger than expected in recent months. Combined with a weaker Canadian dollar and rising fuel exports, we now expect export volumes to rise by 4.3% in 2012.

On the domestic side in 2012, we expect moderate growth in consumer spending, although the risks to this forecast are on the downside. Business investment growth will slow from an expected 12% in 2011, and residential fixed investment will increase at a modest rate. Meanwhile, the government will make a smaller contribution to growth.

Slower growth and stable oil prices will lead to a moderation in inflation to 1.9% in 2012. As a result, we expect the Bank of Canada to hold interest rates until end-2012.

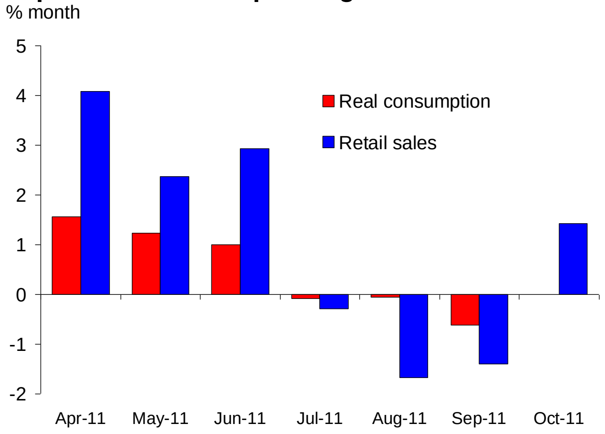
Japan

GDP growth was around 1.5% in Q3, as the Japanese economy rebounded from the slump caused earlier this year by natural disasters.

However, within this figure investment actually fell, including on plant and equipment. And with Q4 likely to see a slight decline in output, growth for 2011 as a whole is forecast at -0.5%.

Recent monthly indicators have shown worrying signs that the rebound in activity is stalling. Real consumer spending has fallen for three straight months while October's rise in retail sales did no more than offset the steep decline in the previous month. And unemployment jumped to 4.5% in October.

Japan: Consumer spending



Source : Oxford Economics/METI/Cabinet Office

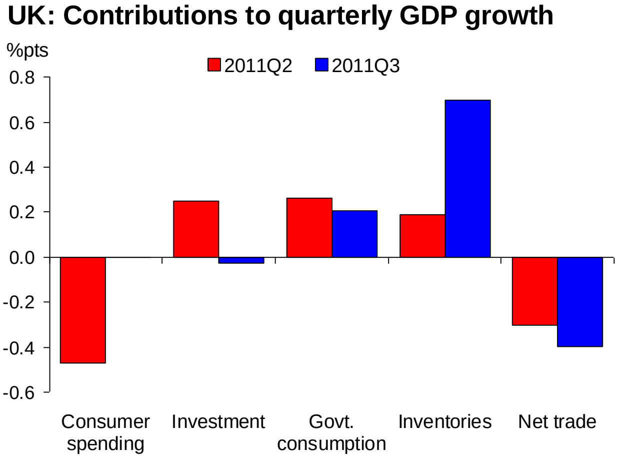
Meanwhile, the recovery in industrial production has stalled, and November's manufacturing PMI pointed to contracting activity. Floods in Thailand were partly to blame, but slower exports to China and the Eurozone are also playing a role.

With the situation in the Eurozone highly uncertain and some troubling signals from China, downside risks to Japanese growth remain significant. We have downgraded our GDP forecast for 2012 to 1.7% from 2% last month.

Against this background, we expect continued efforts by the authorities to prevent appreciation of the yen, and the recent unwelcome rise in Japanese bond yields may also need to be tackled.

United Kingdom

While the second estimate of GDP saw quarterly growth for Q3 unrevised at +0.5%, the fact that stockbuilding and government consumption together contributed 0.9 percentage points suggests there is little underlying strength. Indeed, we expect to see a modest decline in GDP in Q4. Manufacturing output dropped sharply in October and, while the surveys have continued to report rising activity in the services sector, growth has slowed considerably compared with earlier in 2011.



Source : Haver Analytics

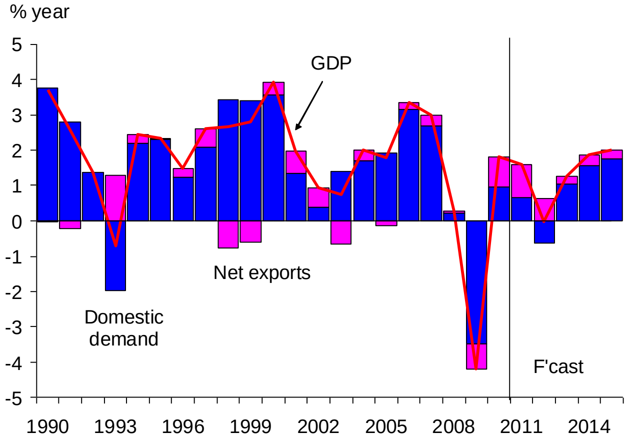
UK prospects remain heavily dependent on the outcome of events in the Eurozone and the escalation of the crisis in recent weeks has further damaged confidence. Our central forecast continues to assume that the authorities are able to agree to a solution which contains the financial crisis, though the probability attached to such an outcome has fallen over the past month. Under these circumstances, we expect UK GDP to grow by just 0.4% in 2012, compared with our November forecast of 1.0%, with the UK enduring a mild recession around the turn of the year.

The Chancellor's Autumn Statement saw significant downgrades to the forecasts for economic growth, bringing them closer to our own. He announced a series of small-scale, pro-growth, initiatives, but was forced to announce further cuts in current spending – to take place in the next parliament – in order to remain on track to meet his fiscal plans.

Eurozone

We have further downgraded our Eurozone forecast this month. We expect the Eurozone to enter recession in 2011Q4 and for GDP growth to be around zero in 2012. Moreover, the recovery in 2013 is expected to be weak as well with growth of just 1.3%.

Eurozone: Contributions to GDP growth



Source: Oxford Economics

The deepening crisis in Eurozone financial markets has caused a severe loss of confidence. Firms appear to be postponing investment projects until the economic outlook is more favourable. And consumers - hit by austerity measures, stubborn inflation and growing unemployment – are cutting back on spending.

Efforts to stem the crisis are ongoing, with further austerity measures in Italy – which faces a potential debt refinancing crunch early next year - and efforts by Eurozone leaders to toughen up budgetary rules in the single currency area.

But it is unclear whether the proposals made by European leaders so far will be sufficiently strict and credible to restore market confidence. And political obstacles to a big expansion of ECB sovereign bond purchases – a possible short-term expedient - still remain significant.

At the December meeting, the ECB cut interest rates by 25bp to 1% and extended loans to banks to 3-year maturities to combat growing funding strains. Inflation remains above target but we believe it will fall to 1.7% in 2012, leaving room for the ECB to cut interest rates further.

San Diego Forecast Tables

San Diego Visitor Forecast

(millions)

	2008	2009	2010	2011	2012	2013	2014	2015
Visits	31.1	29.6	29.9	30.8	31.5	32.1	33.1	33.8
Total Overnight	15.2	14.4	15.1	15.6	15.8	15.9	16.3	16.6
Hotel / Motel	7.7	7.3	7.8	8.2	8.3	8.4	8.6	8.9
Household	6.7	6.4	6.5	6.6	6.7	6.7	6.8	6.9
Other	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Day Visitors	15.9	15.2	14.8	15.2	15.7	16.2	16.9	17.2
Day (excl Mexican)	12.1	11.5	11.2	11.5	12.0	12.5	13.1	13.4
Mexican Day Visitors	3.9	3.6	3.6	3.6	3.6	3.7	3.8	3.8

(year-to-year % growth)

	2008	2009	2010	2011	2012	2013	2014	2015
Visits	-1.5%	-4.8%	0.9%	3.0%	2.2%	2.2%	3.1%	2.1%
Total Overnight	-1.3%	-4.8%	4.5%	3.5%	1.1%	1.0%	2.0%	2.2%
Hotel / Motel	-1.2%	-5.0%	7.0%	4.3%	1.2%	1.5%	2.6%	3.4%
Household	-1.5%	-4.7%	1.6%	2.6%	1.0%	0.5%	1.4%	0.8%
Other	-0.7%	-3.1%	4.5%	4.4%	1.6%	0.6%	1.5%	2.3%
Day Visitors	-1.6%	-4.8%	-2.5%	2.6%	3.3%	3.3%	4.1%	2.0%
Day (excl Mexican)	0.0%	-4.5%	-2.6%	2.8%	4.3%	3.9%	4.7%	2.0%
Mexican Day Visitors	-6.3%	-5.8%	-2.0%	1.7%	0.2%	1.4%	2.0%	2.0%

San Diego Visitor Forecast

(millions)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	5.9	7.7	9.8	6.4	6.0	8.1	10.1	6.6	6.1	8.3	10.3	6.7
Total Overnight	3.3	3.8	4.5	3.5	3.4	4.0	4.7	3.6	3.4	4.0	4.7	3.7
Hotel / Motel	1.8	2.1	2.3	1.7	1.9	2.2	2.4	1.7	1.9	2.2	2.4	1.7
Household	1.4	1.5	2.0	1.7	1.4	1.6	2.0	1.7	1.4	1.6	2.0	1.7
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Day Visitors	2.7	3.9	5.4	2.9	2.6	4.1	5.4	3.0	2.7	4.3	5.6	3.1
Day (excl Mexican)	1.8	3.0	4.4	2.0	1.7	3.2	4.5	2.1	1.8	3.3	4.7	2.2
Mexican Day Visitors	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9

(year-to-year % growth)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visits	1.3%	0.8%	1.7%	-0.5%	1.0%	5.1%	2.6%	3.2%	2.0%	2.5%	2.3%	1.9%
Total Overnight	3.3%	3.8%	5.1%	5.4%	2.6%	5.3%	3.7%	2.4%	1.4%	1.2%	0.9%	1.1%
Hotel / Motel	7.0%	7.6%	5.7%	7.9%	4.8%	4.9%	4.3%	2.8%	1.3%	1.3%	1.1%	1.2%
Household	-0.9%	-1.3%	4.3%	3.1%	-0.4%	5.6%	3.0%	1.7%	1.4%	1.0%	0.7%	1.0%
Other	1.3%	4.5%	6.2%	5.4%	3.1%	7.5%	2.9%	4.4%	3.0%	1.8%	0.9%	1.0%
Day Visitors	-1.2%	-2.0%	-1.0%	-7.0%	-1.0%	4.8%	1.7%	4.2%	2.7%	3.7%	3.4%	3.0%
Day (excl Mexican)	-0.9%	-2.3%	-0.6%	-8.7%	-4.1%	5.9%	2.0%	6.2%	4.7%	4.8%	4.1%	3.5%
Mexican Day Visitors	-1.6%	-0.9%	-2.6%	-2.9%	5.5%	1.4%	0.3%	-0.2%	-1.0%	0.2%	0.1%	1.7%

San Diego Visitor Expenditure Forecast

($ million)

	2008	2009	2010	2011	2012	2013	2014	2015
Expenditure	7,916	6,958	7,080	7,447	7,751	8,072	8,548	9,068
Total Overnight	7,047	6,170	6,325	6,656	6,924	7,195	7,605	8,077
Hotel / Motel	4,983	4,319	4,490	4,788	4,990	5,215	5,552	5,952
Household	1,407	1,239	1,216	1,222	1,266	1,297	1,346	1,388
Other	657	611	620	647	668	683	707	736
Day Visitors	868	788	754	791	827	877	943	991
Day (excl Mexican)	634	581	561	594	628	671	730	770
Mexican Day Visitors	234	208	193	196	199	205	213	221

(year-to-year % growth)

	2008	2009	2010	2011	2012	2013	2014	2015
Expenditure	0.2%	-12.1%	1.7%	5.2%	4.1%	4.1%	5.9%	6.1%
Total Overnight	0.2%	-12.4%	2.5%	5.2%	4.0%	3.9%	5.7%	6.2%
Hotel / Motel	1.0%	-13.3%	3.9%	6.6%	4.2%	4.5%	6.5%	7.2%
Household	-1.8%	-11.9%	-1.9%	0.6%	3.5%	2.5%	3.8%	3.1%
Other	-0.7%	-7.1%	1.4%	4.3%	3.3%	2.2%	3.5%	4.2%
Day Visitors	0.0%	-9.2%	-4.3%	4.8%	4.6%	6.0%	7.6%	5.2%
Day (excl Mexican)	1.2%	-8.5%	-3.3%	5.8%	5.7%	6.9%	8.7%	5.6%
Mexican Day Visitors	-3.2%	-11.2%	-7.2%	1.8%	1.4%	3.2%	3.8%	3.6%

San Diego Visitor Expenditure Forecast

($ million)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	1,571	1,863	2,108	1,538	1,669	1,914	2,239	1,625	1,735	1,995	2,332	1,689
Total Overnight	1,448	1,659	1,832	1,385	1,544	1,695	1,954	1,463	1,605	1,766	2,032	1,520
Hotel / Motel	1,021	1,196	1,302	971	1,127	1,231	1,407	1,023	1,171	1,284	1,469	1,067
Household	273	293	361	288	254	289	374	305	265	301	386	314
Other	153	171	170	126	163	175	173	135	170	181	178	139
Day Visitors	123	203	275	153	125	219	285	161	129	229	300	169
Day (excl Mexican)	80	160	226	96	80	173	236	105	84	183	250	111
Mexican Day Visitors	43	44	50	57	46	45	49	56	45	46	50	58

(year-to-year % growth)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditure	-0.2%	0.7%	2.8%	3.5%	6.2%	2.7%	6.2%	5.7%	3.9%	4.3%	4.1%	4.0%
Total Overnight	0.2%	1.3%	3.8%	4.8%	6.6%	2.1%	6.6%	5.6%	4.0%	4.2%	4.0%	3.9%
Hotel / Motel	1.2%	3.0%	4.4%	7.6%	10.3%	2.9%	8.1%	5.3%	3.9%	4.3%	4.4%	4.3%
Household	-1.7%	-5.5%	1.2%	-2.1%	-7.0%	-1.3%	3.6%	5.8%	4.3%	4.0%	3.1%	3.0%
Other	-2.8%	2.1%	5.7%	0.3%	6.3%	2.7%	1.8%	7.6%	4.1%	3.4%	3.0%	2.7%
Day Visitors	-4.1%	-3.8%	-3.7%	-6.4%	1.9%	7.4%	3.6%	5.7%	3.2%	4.7%	5.0%	4.9%
Day (excl Mexican)	-2.3%	-3.1%	-3.2%	-4.8%	-0.7%	8.6%	4.7%	9.5%	6.0%	5.4%	5.7%	5.9%
Mexican Day Visitors	-7.3%	-6.2%	-5.7%	-9.0%	6.8%	3.2%	-1.2%	-0.6%	-1.6%	2.2%	1.7%	2.9%

San Diego Hotel Sector Forecasts

	2008	2009	2010	2011	2012	2013	2014	2015
Room Supply	20.2	20.9	21.2	21.2	21.4	21.5	21.7	22.0
Room Demand	13.9	13.1	14.1	14.5	14.8	15.0	15.4	16.0
Occupancy (% balance)	69.2%	62.8%	66.4%	68.5%	69.2%	69.8%	71.1%	72.6%
ADR	$141.94	$124.28	$121.19	$124.36	$128.22	$133.19	$141.65	$150.98
RevPAR	$98.20	$78.11	$80.51	$85.21	$88.74	$92.97	$100.78	$109.65
(year-to-year % growth)								
	2008	2009	2010	2011	2012	2013	2014	2015
Room Supply	2.2%	3.7%	1.2%	0.3%	0.9%	0.6%	0.7%	1.3%
Room Demand	-2.9%	-5.8%	7.0%	3.4%	1.9%	1.5%	2.6%	3.5%
Occupancy (% balance)	-5.1%	-9.2%	5.7%	3.1%	1.0%	0.9%	1.9%	2.1%
ADR	2.4%	-12.4%	-2.5%	2.6%	3.1%	3.9%	6.4%	6.6%
RevPAR	-2.8%	-20.5%	3.1%	5.8%	4.1%	4.8%	8.4%	8.8%

San Diego Hotel Sector Forecasts

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rooms (mn roomnights)												
Room Supply	5.2	5.3	5.3	5.4	5.2	5.3	5.3	5.4	5.3	5.3	5.4	5.4
Room Demand	3.2	3.6	4.0	3.2	3.4	3.7	4.2	3.2	3.5	3.8	4.3	3.3
Occupancy (% balance)	62.2%	68.3%	75.4%	59.8%	64.9%	70.1%	78.9%	60.1%	65.9%	71.2%	79.5%	60.2%
ADR ($)	$114.60	$120.44	$131.91	$115.18	$122.47	$121.37	$135.82	$114.79	$125.89	$125.47	$139.59	$118.89
RevPAR ($)	$71.24	$82.20	$99.50	$68.89	$79.54	$85.10	$107.10	$69.01	$83.01	$89.30	$110.96	$71.55
(year-to-year % growth)												
	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Room Supply	1.4%	1.4%	1.1%	1.0%	0.7%	0.3%	0.1%	0.1%	0.5%	0.9%	1.1%	1.0%
Room Demand	7.0%	7.9%	5.7%	7.8%	5.2%	3.0%	4.6%	0.6%	2.0%	2.4%	1.9%	1.1%
Occupancy (% balance)	5.5%	6.4%	4.5%	6.7%	4.5%	2.7%	4.5%	0.5%	1.5%	1.5%	0.8%	0.1%
ADR	-9.4%	-3.7%	1.8%	0.8%	6.9%	0.8%	3.0%	-0.3%	2.8%	3.4%	2.8%	3.6%
RevPAR	-4.4%	2.4%	6.4%	7.5%	11.7%	3.5%	7.6%	0.2%	4.4%	4.9%	3.6%	3.7%

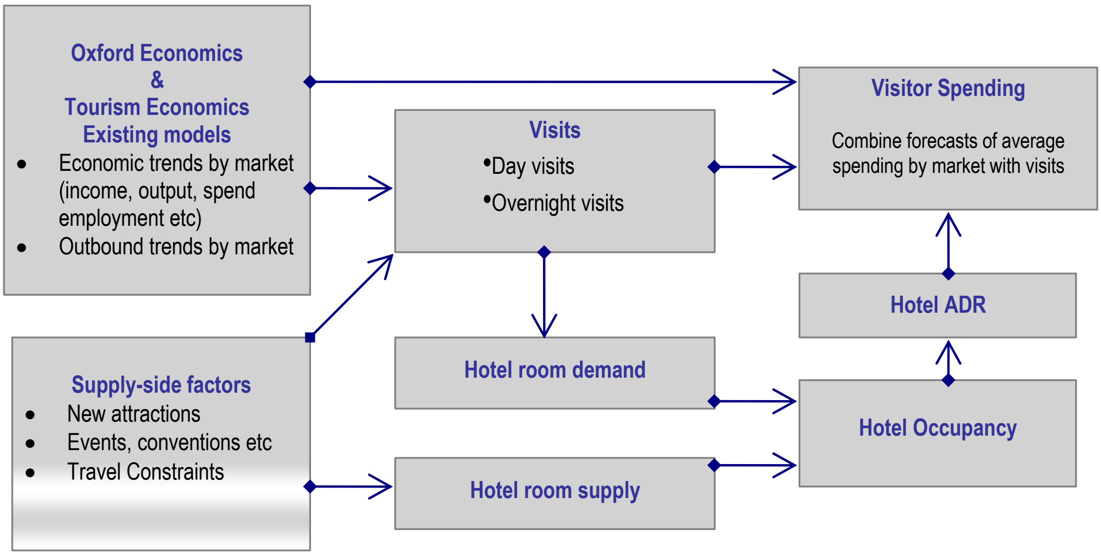
Forecast Methodology Overview

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

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

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

Summary of Main Model Relationships

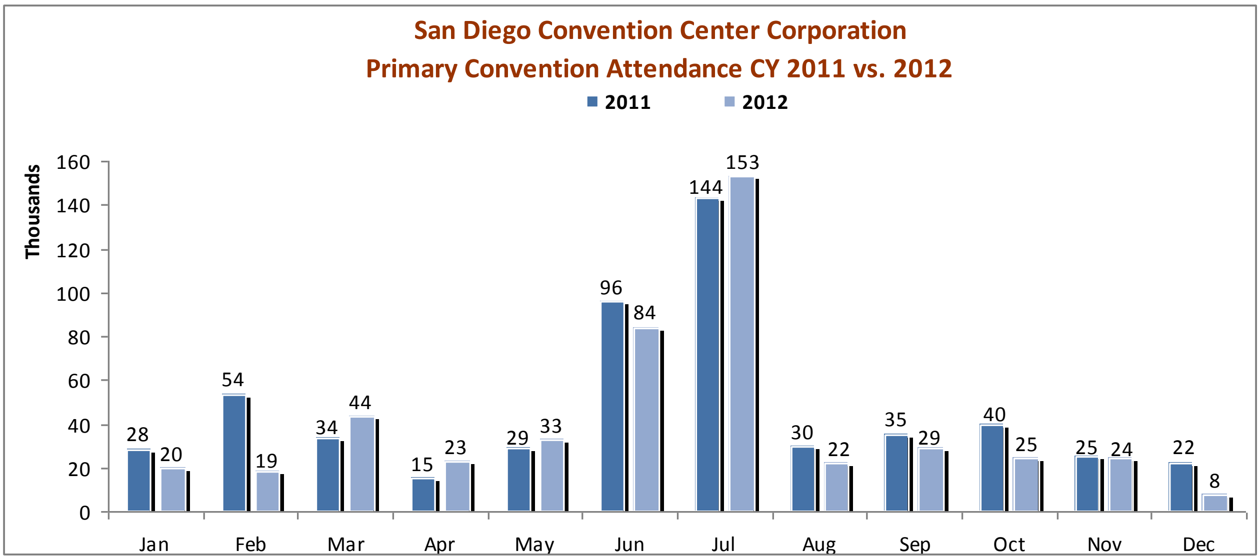


- **Overnight Visitors**. Trends in overnight visits have been identified and are forecast separately for stays in hotels and in private households. Forecasts account for different trends according to purpose of visit (business and leisure) as well as by origin market. Economic developments in key origin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

average length of visit according to origin markets are taken into consideration as well as any impact of economic developments.

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

San Diego Convention Center Corporation Attendance Forecast



Summary

2011

72 Conventions

550,697 Estimated Attendance

2012

48 Conventions

481,800 Estimated Attendance

Sources:

Source of past months' (January – October 2011) attendance is SDCCC actual reported attendance post event.

Source of attendance of future months (November 2011 onward) is the estimated attendance provided by the meeting planners to SDCCC, and reported in the 18-month calendar.

San Diego Hotel Project Pipeline

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.

Property Name	Address	City	Potential Opening Date	Hotel Rooms	Potential Rating
Navy Lodge North Island Coronado (Additional Rooms)	Coronado Naval Base	Coronado	January-12	205	5
Hyatt Place Vista/Carlsbad	2645 S. Melrose Drive	Vista	March-12	150	4
Hilton Carlsbad Oceanfront Resort & Spa	7205 Ponto Drive	Carlsbad	June-12	215	5
Seacoast Inn (Re-opening after renovation)	800 Seacoast Drive	Imperial Beach	August-12	78	4
Surfer's Point Resort	2005 N. Coast Hwy. 101	Encinitas	December-12	7	4
			2012 Total	**655**	
Stone Brewing Company Boutique Hotel	Citracado Pkwy.	Escondido	January-13	50	3
Viejas Casino and Resort	5005 Willow Road	Alpine	January-13	150	4
Legoland Hotel	One Legoland Drive	Carlsbad	June-13	250	4
La Terraza Springhill Suites by Marriott	300 La Terraza Boulevard	Escondido	September-13	105	4
Holiday Inn - Mission Valley	625 Hotel Circle So.	San Diego	December-13	87	4
The Inns at Heritage Park - Old Town (B&B)	2460 Heritage Park Row	San Diego	December-13	80	4
Lumina	NWC of Columbia/Ash	San Diego	December-13	140	3
Marriott Renaissance Hotel	J Street, 5th and 6th	San Diego	December-13	362	3
Source: SDCVB Hotel Database			**2013 Total**	**1,224**	

OXFORD
Abbey House, 121 St Aldates
Oxford, OX1 1HB, UK
Tel: +44 1865 268900

NEW YORK
817 Broadway, 10th Floor
New York, NY 10003, USA
Tel: +1 646 786 1863

LONDON
Broadwall House, 21 Broadwall
London, SE1 9PL, UK
Tel: +44 207 803 1400

SINGAPORE
No.1 North Bridge Road
High Street Centre #22-07
Singapore 179094
Tel: +65 6338 1235

www.tourismeconomics.com

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY