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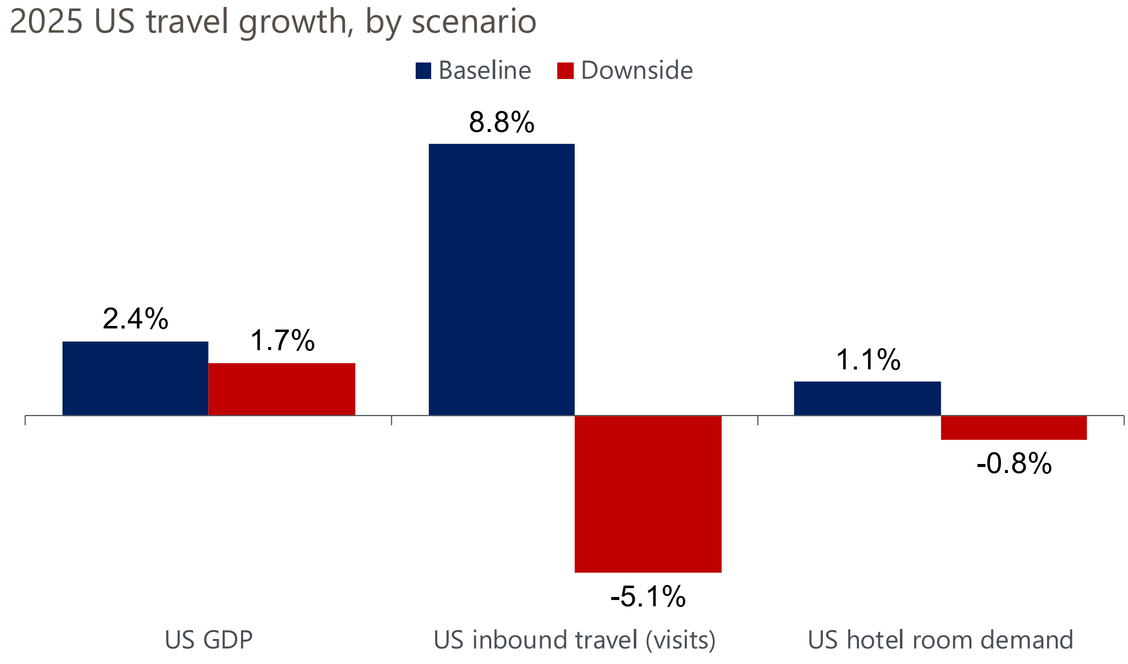
Research Brief | US

Expanded trade wars scenario on US travel

- **We have explored the potential impacts to the US travel sector in an expanded trade war scenario. In this downside scenario, we assume the US implements substantial tariffs on Canada, Mexico and China, and that these countries respond with retaliatory measures. We also assume an additional level of loss in travel sentiment from Europe as a result of the tariffs and the recent tensions on how to handle Russia in Ukraine.**
- **An expanded trade war would impact travel through three channels: 1) sentiment effects, with residents of these origin countries, and elsewhere, expressing reduced interest in visiting to the US and reduced business travel, 2) economic effects, including slower US growth and likely recessions in Canada and Mexico, and 3) foreign exchange effects, with a stronger US dollar raising the cost for international visitors.**
- **In a trade war characterized by 25% across the board tariffs on Canada and Mexico, and a 10% tariff on the EU and China, we anticipate moderate slowing in US growth, with GDP growth in 2025 slowing to 1.7% in the downside, compared to 2.4% in the baseline.**
- **In the travel sector, we expect 2025 US inbound visits to decline 5.1% and hotel room demand to decline 0.8%, as compared to 8.8% and 1.1% growth in the baseline, respectively. Overall, international visits to the US in 2025 in 2025 would be 12.7% lower than the baseline.**
- **US inbound travel spending in 2025 would be 10.9% lower than in the baseline outlook, which totals to an estimated $18B loss in 2025 alone. Total US travel spending, representing domestic and inbound spending combined, would be 3.7% lower than the baseline. This totals to an estimated $64B loss in total travel spending in 2025 alone.**

Chart 1: Expanded trade wars are a downside to US travel



Source: Oxford Economics, Tourism Economics, STR. Note: Baseline inbound from Dec 24 forecast and Baseline room demand from Jan 25 forecast

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Baseline scenario

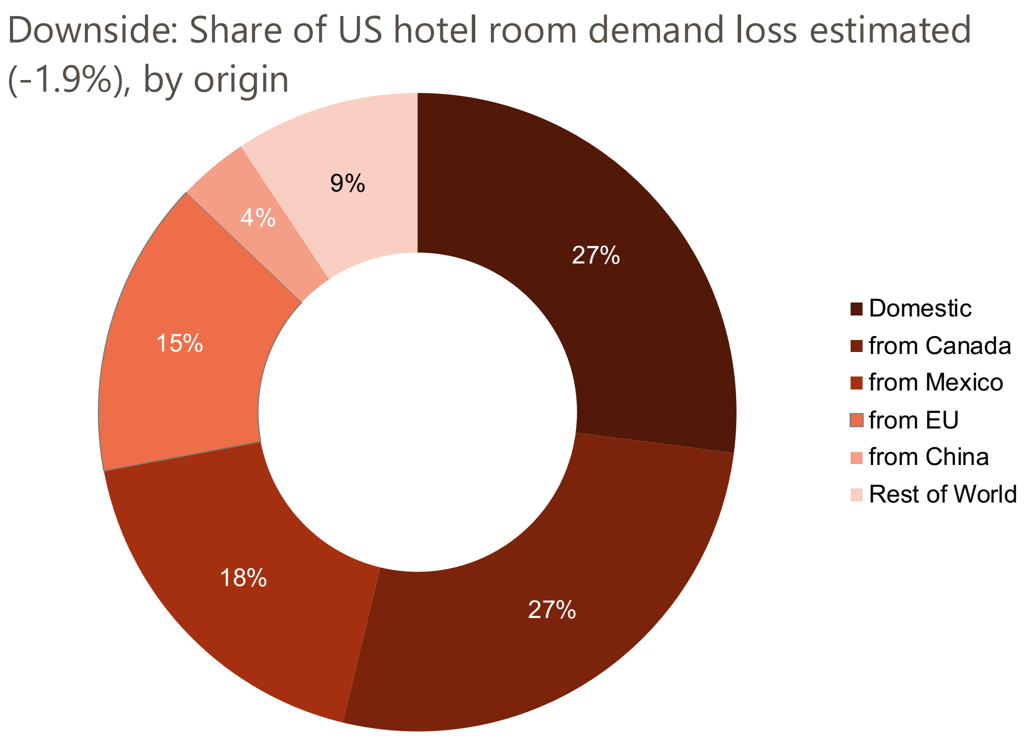
Our baseline scenario assumes a 25% tariff on steel and aluminum from all countries and tariffs on imports from Canada, Mexico, Europe, Taiwan, and others, as well as on a variety of critical industries like copper, pharmaceuticals, and semiconductors. These more targeted tariffs are anticipated to slow economic growth in the US and its trading partners, and contribute to lingering uncertainty, but not cause economic recessions. Inflation will remain a concern, and the Fed will nearly halt previously expected rate cuts this year. We expect GDP to grow 2.4%, US inbound travel to grow 8.8%, and US room demand to grow 1.1% in 2025.

Downside scenario: expanded trade wars

In an expanded trade wars (downside) scenario, adding to tariffs mentioned in the baseline scenario, we assume the US implements a 25% tariff on all imports from Canada (10% on energy) and Mexico and a 10% tariff on all imports from the EU, and that trading partners implement retaliatory tariffs. We assume an additional level of loss in travel sentiment from Europe as a result of the recent tensions on how to handle Russia in Ukraine. We assume nine months of 2025 will be affected by this downside scenario. There are other downside risks that are not assumed as part of the expanded trade war scenario, such as Federal policy, funding, and staffing changes that affect border processing and travel infrastructure capacity. In many cases, the dust hasn't settled yet.

The negative effects of an expanded trade war scenario will reach US hotel room demand in 2025. Domestic travel will be negatively affected by slower income growth and higher prices while international travel to the US will be hit by a trifecta of slower economies, a stronger dollar, and antipathy towards the US. In this scenario, we anticipate an overall 1.9% loss in hotel room demand from the baseline scenario. Loss from US domestic travel and inbound travel from Canada is anticipated to account for 1.0% (more than half of expected loss) of total US hotel room demand loss.

Chart 2: US hotel room demand declines from US and Canadian travelers represent more than half of the total impact in an expanded trade wars scenario



Source: Oxford Economics/Haver Analytics, Tourism Economics, STR

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An expanded trade war will have negative impacts on the economies of US and its trading partners. We expect the US economy will slow to 1.7% GDP growth in 2025. As tariffs raise inflation concerns, the Fed will likely pause all rate cuts in 2025. Effects in Canada and Mexico are expected to be more severe, with both economies entering recession. Canadian GDP would decline by a cumulative 1.7% from peak to trough, unemployment rate could reach above 8% later this year, and the Canadian dollar could depreciate 5% to 10%.

With weaker job and income growth and greater uncertainty, households and businesses will pull back on travel spending. Tariffs are expected to raise the prices paid by US consumers, having a negative impact to lower income households in particular and applying further pressure on performance at hotels in lower tier chain scales.

A mix of sentiment effects will negatively impact international travel to the US. In key origin markets, a situation with polarizing Trump Administration policies and rhetoric, accompanied by economic losses to nationally important industries, small businesses and households, will discourage travel to the US. Some organizations will feel pressure to avoid hosting events in the US, or sending employees to the US, cutting into business travel. Anecdotal evidence from Tourism Economics clients confirms a growing number of travel cancellations from Canada. Immigration policy enforment activities may also raise concerns among potential travelers, particularly from Mexico, such the process of crossing the border or their safety while in the US.

During the first half of Trump's first term, the US saw a 3% decline in visitors from Mexico. Additionally, the US share of China long-haul outbound trips fell during Trump's first term. This highlights that aggressive rhetoric and policy postering risks a loss in the global travel market share. In this scenario, inbound travel sentiment from Canada, Mexico, and the EU would quickly deteriorate. US travelers, for the most part, will continue international travel, with some regional itinerary adjustments.

Travel from Western Europe, which represented 37% of overseas travel to the US last year, is susceptible to declines as a result of both tariffs and the administration's perceived recent alignment with Russia in the war in Ukraine as sentiment towards the US is damaged.

In the expanded trade war scenario, the US dollar, which is already quite strong, will appreciate moderately. This will make the US more expensive for inbound travelers, dampening both visitor volume and average length of stay.

In a trade war characterized by 25% across the board tariffs on Canada and Mexico, and a 10% tariff on the EU and China, we anticipate moderate slowing in US growth, with GDP growth in 2025 slowing to 1.7% in the downside, compared to 2.4% in the baseline.

In the travel sector, we expect 2025 US inbound visits to decline 5.1% and hotel room demand to decline 0.8%, as compared to 8.8% and 1.1% growth in the baseline, respectively. Overall, US inbound visits in an expanded trade wars scenario could be 12.7% lower than the baseline.

US inbound travel spending in 2025 could be 10.9% lower than the baseline. Total US travel spending, representing domestic and inbound spending combined, could be 4.6% lower than the baseline.