ALGER

TRANSCRIPT

More to the Economic Story

DAN C. CHUNG, CFA
CEO, CIO
Portfolio Manager

For several years now, we've been positive on the U.S. economy, even as many commentators incorrectly forecasted recessions. We've noted before that standard economic statistics can be outdated and thus misleading.

For example, a recent CPI inflation report of 1.7% was below economists' predictions, and many headlines interpreted it as a sign of continuing weakness in the economy. Many pointed out the "dramatic drop" of 4.2% in the data for "lodging away from home," i.e., travel.

The travel industry, however, is far from weak, based on Alger analysts' in-depth research. In this video, I thought I'd use the travel industry to give you a more detailed understanding of what's really happening in part of the economy and how Alger uses its investment process to understand it.

First of all, the internet has had a tremendous impact on the travel industry. The rise of online travel agencies and search engines to help consumers find hotels, book flights and plan vacations allows consumers to see what is available and make their own decisions about what they want to pay for vacations. As competition for Americans' travel dollars has increased, the result has been lower prices and more choices.

Secondly, the recent rise of Airbnb and companies like it are creating an entirely new competitor for the traditional hotel industry: you and millions of individuals like you who can rent out a room, apartment or house with greater ease than ever before. Formerly unused or underused capital assets are now directly competing with the Marriott or the Holiday Inn for travelers. This has a growing impact on standard economic government data, because when someone decides to use Airbnb to stay in a private owner's home, the data doesn't show up in the government-collected information that goes into the CPI's travel and leisure component, or in the data usually looked at for household income. This is all part of the accelerating changes taking place in our economy that are difficult for traditional statistics created decades ago to capture or measure.

Furthermore, the effect isn't new. The price of travel has fallen over the last few decades, and it has been a tremendous benefit to most everyone, with more people every year travelling not just locally but also internationally because they can afford to. The enjoyment of travel and new experiences with friends and family is a positive value to "living standards" that are hard to measure, but they are significant I think we can all agree.

Our point isn't just about the economy, but rather the growth opportunity for many sectors. Travel is now a significant growth driver on a global scale because of the "rising middle class" in the emerging markets. The prime example is China. Ten years ago, the number of Chinese who traveled outside their country was relatively insignificant: less than 40 million. But last year, there were 122 million Chinese who traveled outside China, and in the last five years that number increased by more than 52 million. In the U.S., we had three million visitors from China in 2016. That is up from only one million five years ago and very likely zero 10 years ago.

Inspired by Change, Driven by Growth.

New York in particular is a popular destination for foreign travelers and when we compare its tourism numbers to those of cities such as London and Paris, we see a very healthy industry. For example, that increase of two million Chinese tourists in New York City over the last five years would require eight to 10 million more hotel room nights of capacity. In 2016 Manhattan had only 91,500 rooms or 33 million room nights of capacity. Thus the growth in Chinese tourists alone could require nearly a third of all New York City's hotel rooms. It's analysis like this that suggests to us at Alger that the building boom in many leading cities of the world, which are also tourism leaders, is not evidence of overheated markets but instead a great growth trend likely to stay for a while. The number of Chinese tourists in the U.S. is expected to double by 2020 to more than 6.5 million, which would still be less than 0.5% of China's population. From commercial construction, to restaurants, entertainment and the wide variety of tourism-related services, travel drives a great deal of economic vitality.

In this episode of Alger on the Record, I've shared some Alger insights into one industry and one great growth trend we follow to illustrate how Alger analysts dissect industries and look for investment opportunities, and also why headline "data" often doesn't offer insights into what's really happening with an industry, consumers, or the economy.

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