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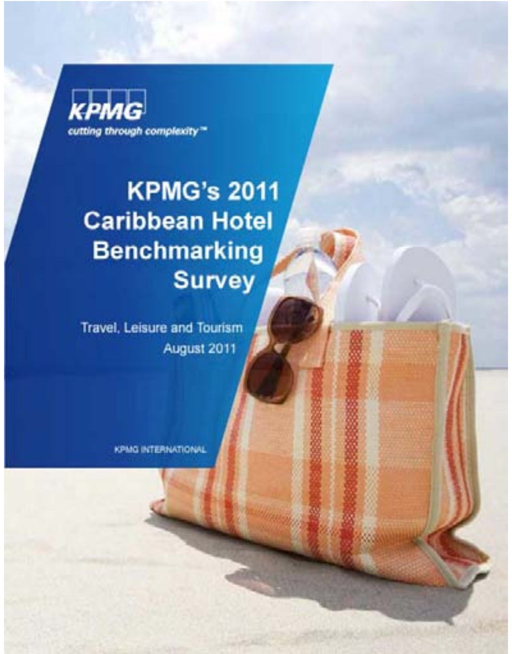
The Global Economic Outlook and its Impact on Tourism

Presentation to the Bahamas Hotel Association by David Slatter, Associate Director

2 February 2012

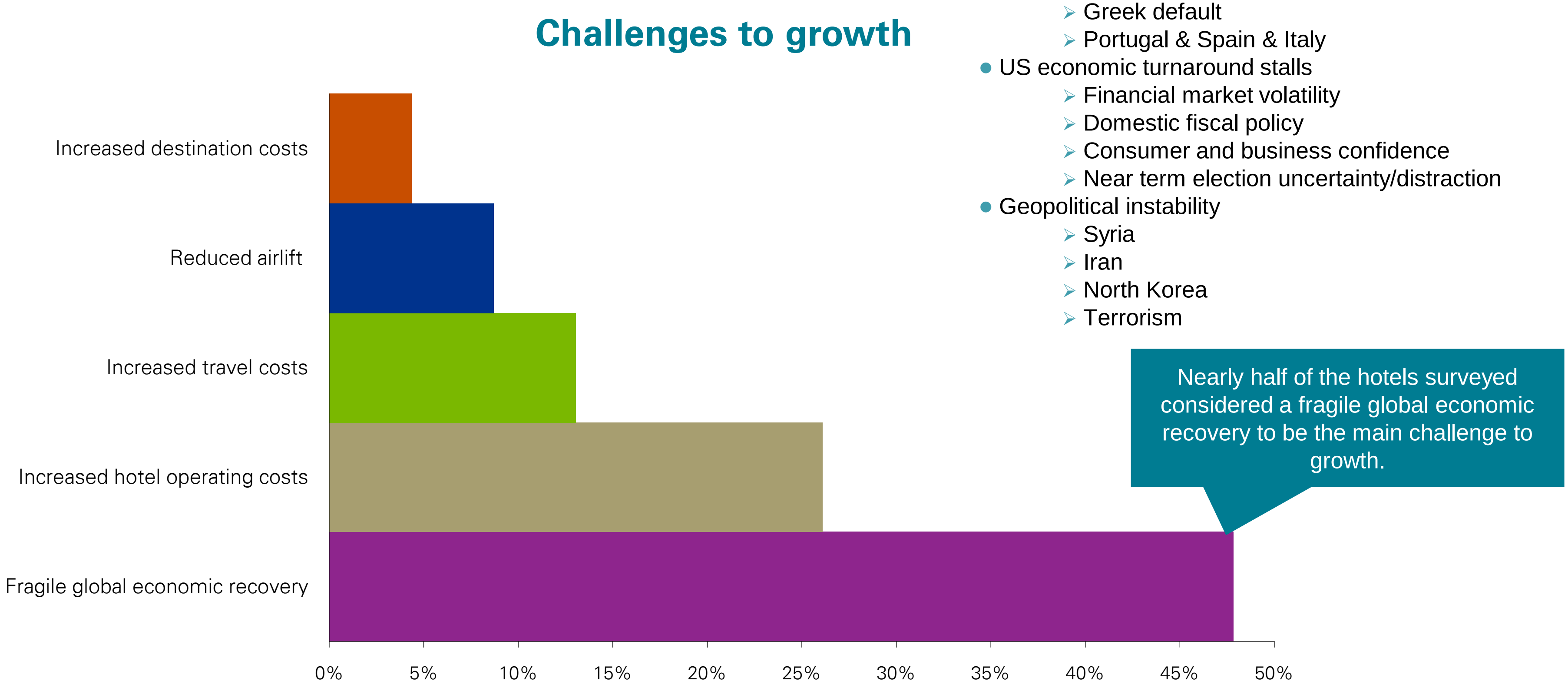
Agenda



Discussion Points

- KPMG's 2011 Caribbean Hotel Benchmarking Survey results
- Euro Area sovereign debt crisis
- World equity markets
- US unemployment
- US consumer and industrial sentiment
- Historic GDP figures of target markets for Bahamian tourism
- Projected GDP figures of target markets for Bahamian tourism
- Demographic trends
- Final thoughts

Challenges to growth for the Caribbean tourism industry

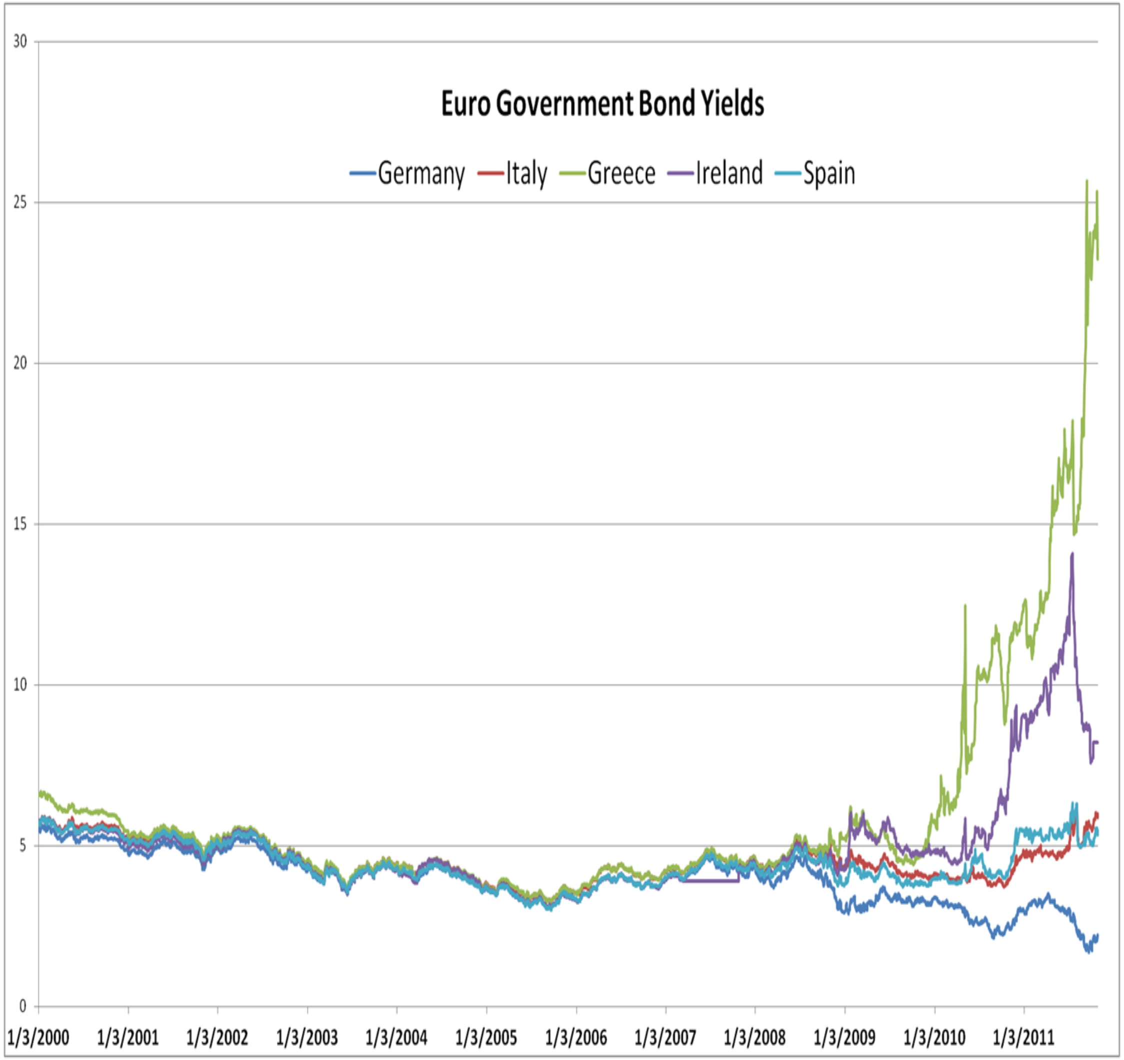


Source: KPMG's 2011 Caribbean Hotel Benchmarking Survey

The key challenges for the global economy include:

- Europe's as yet unresolved sovereign debt crisis
  - Greek default
  - Portugal & Spain & Italy
- US economic turnaround stalls
  - Financial market volatility
  - Domestic fiscal policy
  - Consumer and business confidence
  - Near term election uncertainty/distraction
- Geopolitical instability
  - Syria
  - Iran
  - North Korea
  - Terrorism

Euro area sovereign debt saga – 2000 to October 2011



Source: Bloomberg data

This chart shows the yields of Germany, Italy, Greece , Ireland and Spain from the beginning of 2000 through October 2011.

Between 2000 and the second half of 2008 the markets treated all Euro zone sovereign debt as having the same risk profile regardless of the fiscal policies and fiscal health of the issuer.

It is interesting to note that during 2007 the markets actually considered Irish debt less risky than German debt.

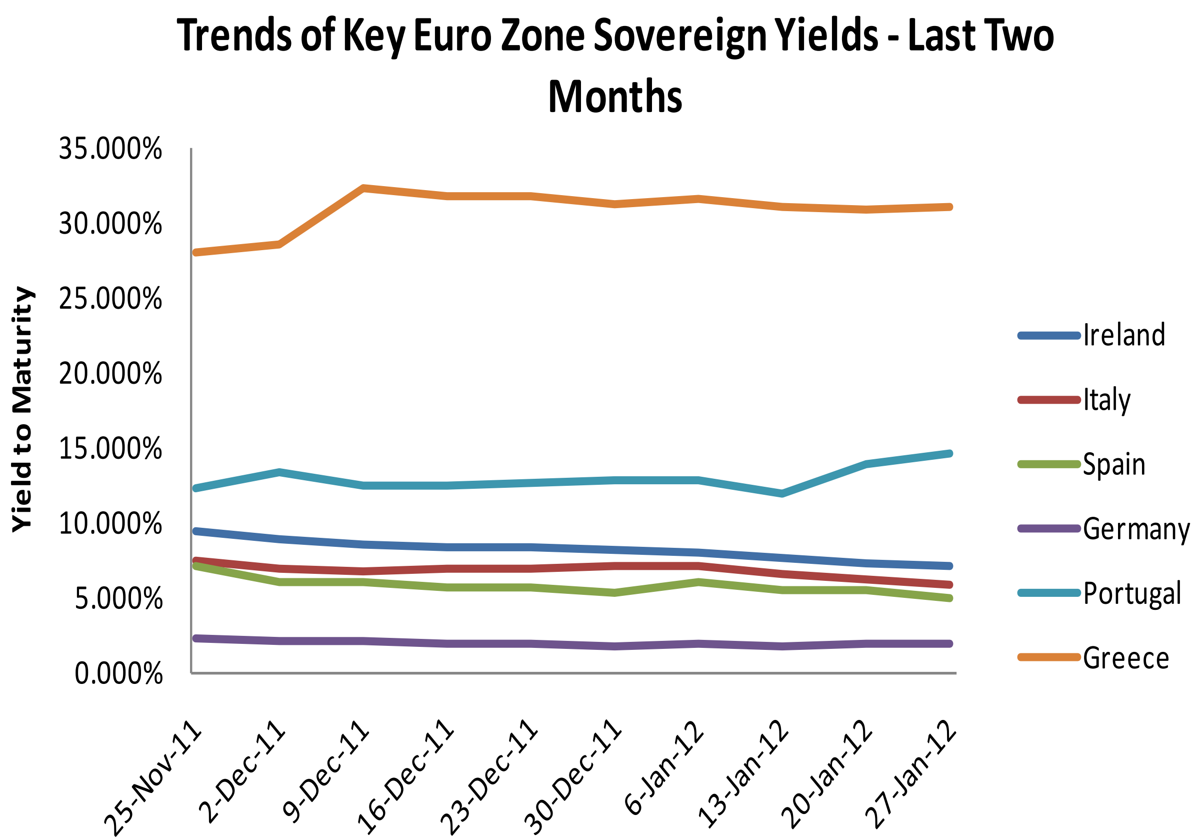
This all changed once the recession started to bite and the fiscal shortcomings of respective Euro member countries became evident.

The green line shows the rapid increase in the yield on Greek debt, while the dark blue line shows the similar increase in Irish debt until the bailout, after which yields have steadily declined.

We also see the gradual increase in the yields of Italian and Spanish debt.

The lower line represents the yield on German debt, which has steadily declined as investors sought a safe haven for their Euro debt exposure.

Euro area sovereign debt developments – Last two months

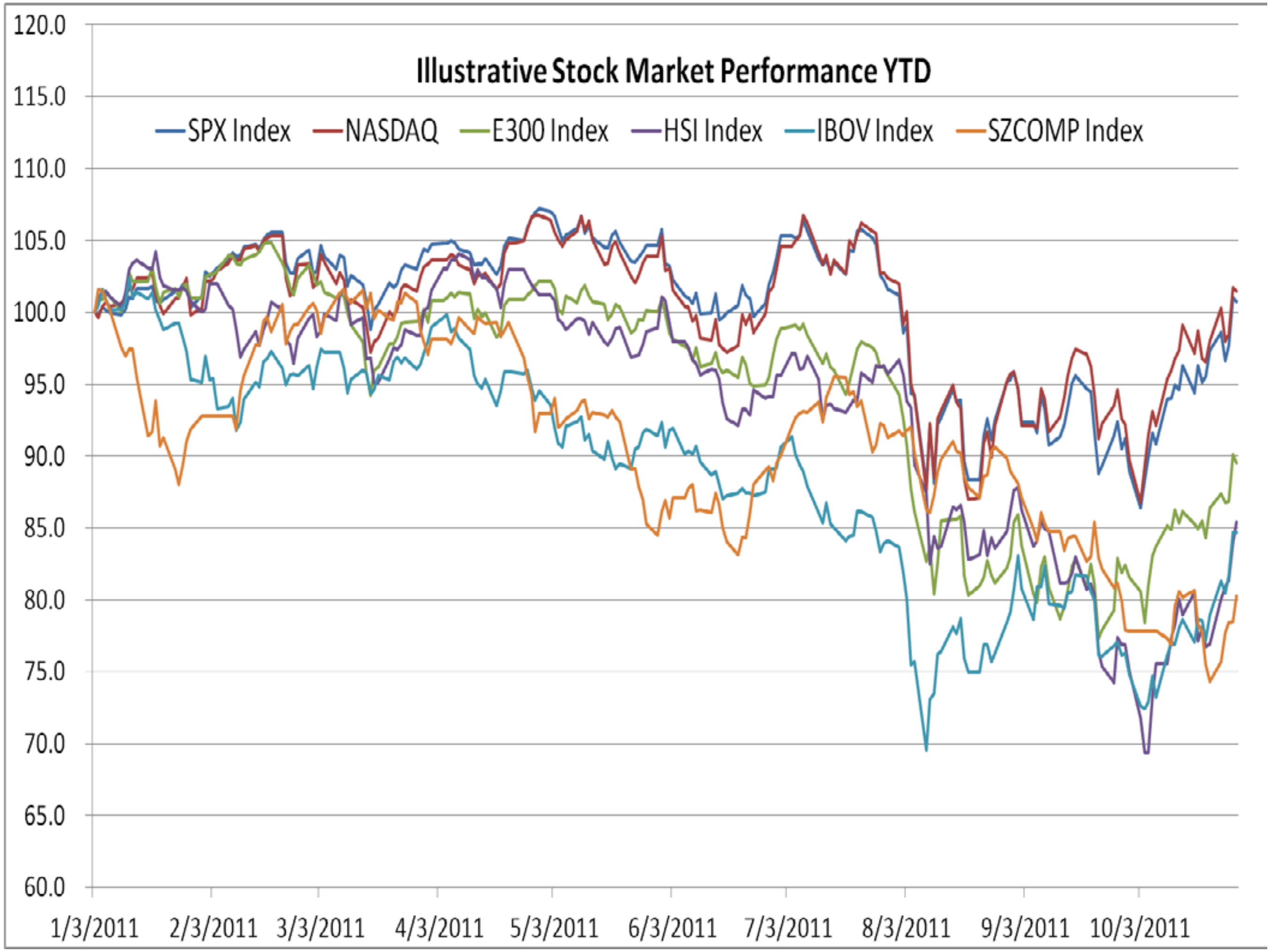


Since October 2011 the respective yields have changed as follows:

- **Germany – Due to a flight to quality, yield has declined from approximately 2.3% to 1.8%**
- **Italy – After peaking around 7.1% in early 2012, recently the yield has declined to 5.7%, lowest since October 12th, as investors consider Italian debt less risky**
- **Greece – The yield has deteriorated further from approximately 25% to 31% given the effective default on Greek debt, which the markets have factored**
- **Ireland – The yield has declined by approximately 1% to 7.0%**
- **Spain – The yield dropped to 4.8%, the lowest since November 23, 2010.**
- **Portugal – According to a Fitch Ratings, Portugal doesn't present the default risk that Greece does. David Riley, head of the sovereign-debt unit at Fitch Ratings stated recently, "The government there is committed and credible. The economy is highly indebted, but they are working on organizing a debt for equity swap,"**

While the Euro Area sovereign debt saga is expected to dampen global economic growth, the bond markets indicate a decrease in the probability of the Greek debt crisis spilling over to other Euro area countries.

World equity markets



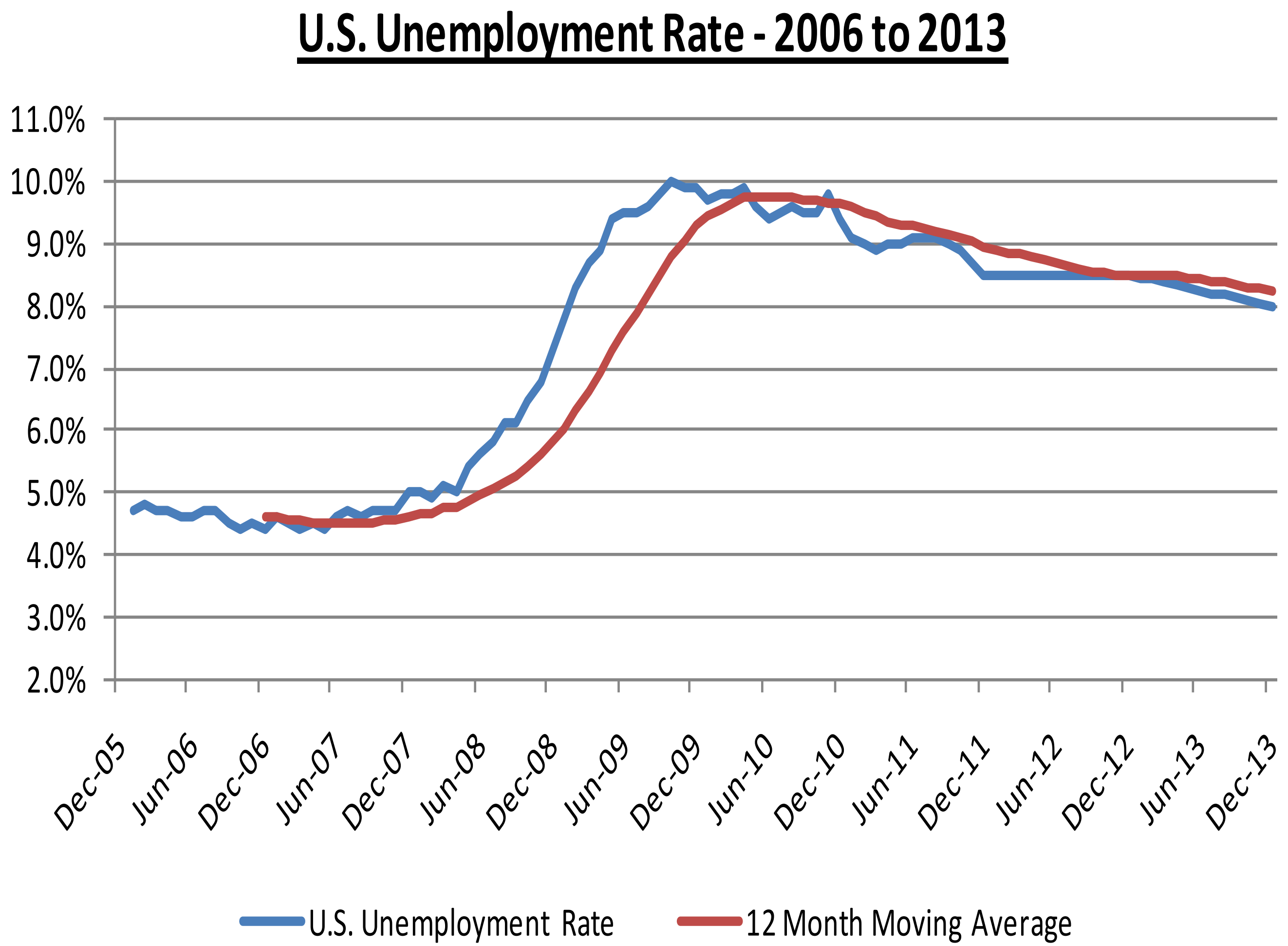
Source: Bloomberg data

Since hitting their 2011 lows during the second half of 2011, these indices have recovered as follows:

- **S&P 500 is up approximately 20%**
- **NASDAQ is up approximately 21%**
- **E300 is up approximately 20%**
- **Hang Seng Index is up approximately 26%**
- **Brazil BOVESPA Index is up approximately 31%**

Global equity markets indicate that investors anticipate improved corporate profitability in 2012. Increases in equity values, if sustained, may have a positive impact in global tourism through the wealth effect.

US unemployment

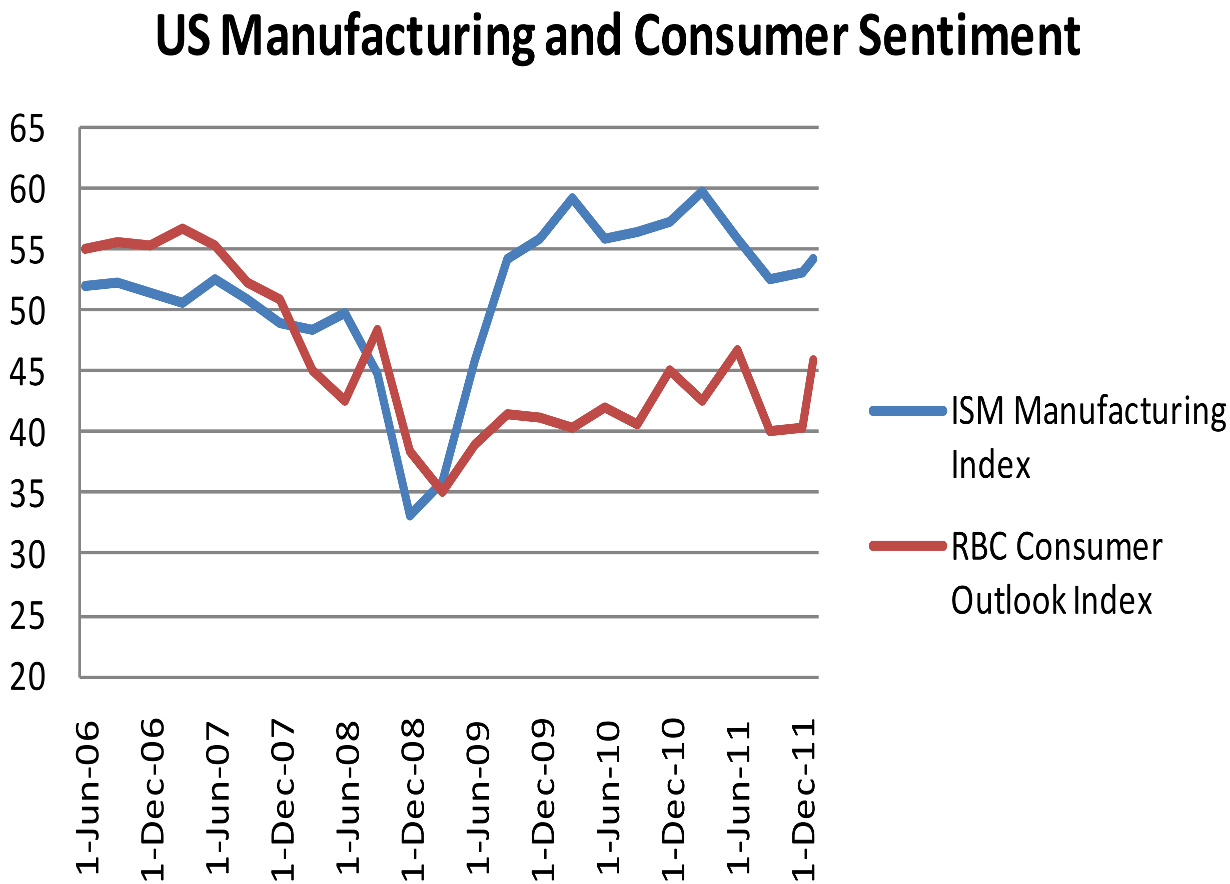


Since peaking at 10.0% in October of 2009, the US Unemployment rate has trended downward to 8.5% in December of 2011.

While sources like the Federal Reserve, US Bureau of Labor Statistics and RBC Economics Research expect the US unemployment rate to decline further, they expect that decline to be gradual with their 2013 forecast range set at approximately 7.8% to 8.2%.

Source: Dec 2005 – Dec 2011 from Bloomberg data; Jan 2012 to Dec 2013 extrapolated by KPMG based on data from the US Bureau of Labor, Federal Reserve and RBC Economics Research

US consumer and industrial sentiment



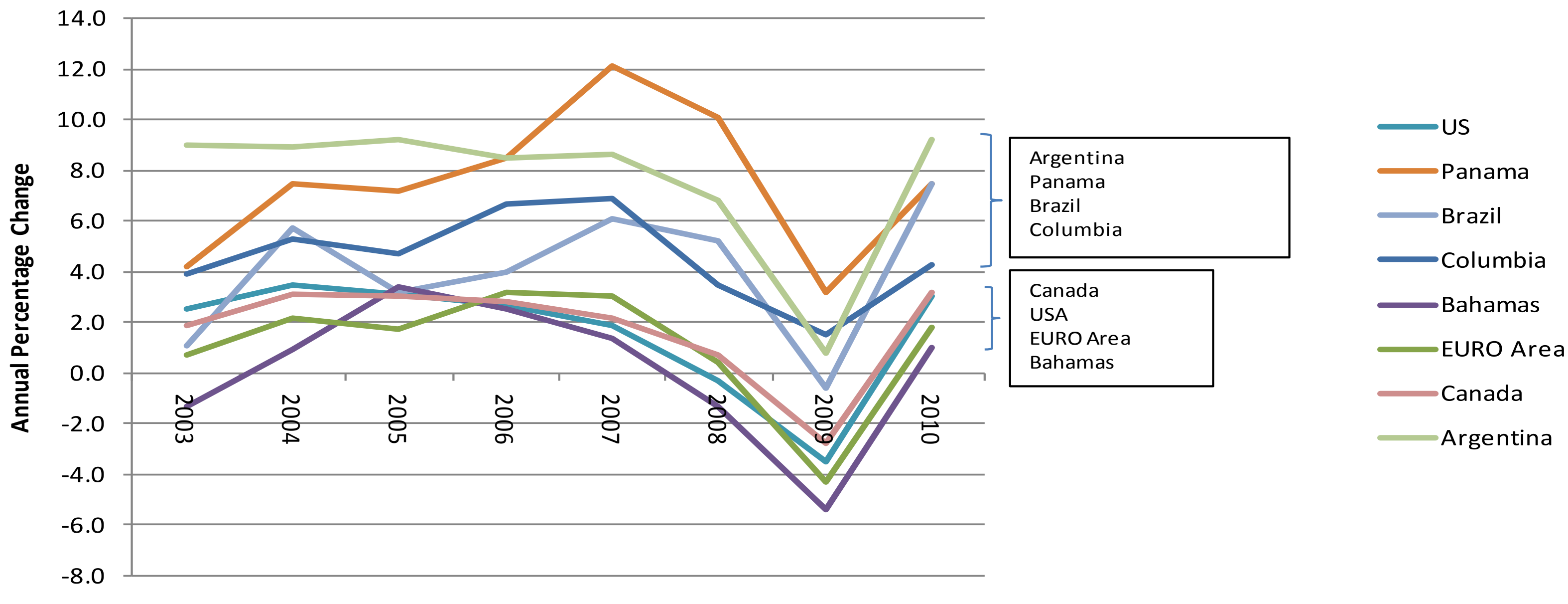
Since peaking at 59.7in March 2011 the ISM Manufacturing PMI declined to 51.4 in July 2011.

Given that a value below 50 indicates negative growth the market was concerned about the possibility of a double dip recession, but since then it has trended upward and as at the end of January 2012 stood at 54.1.

The RBC Consumer Outlook Index bottomed at 35.2 in March 2009. Since then it has trended upward and after dipping during October and November of 2011, increased to 45.8 as at the end of January 2012.

Historic Real GDP Growth

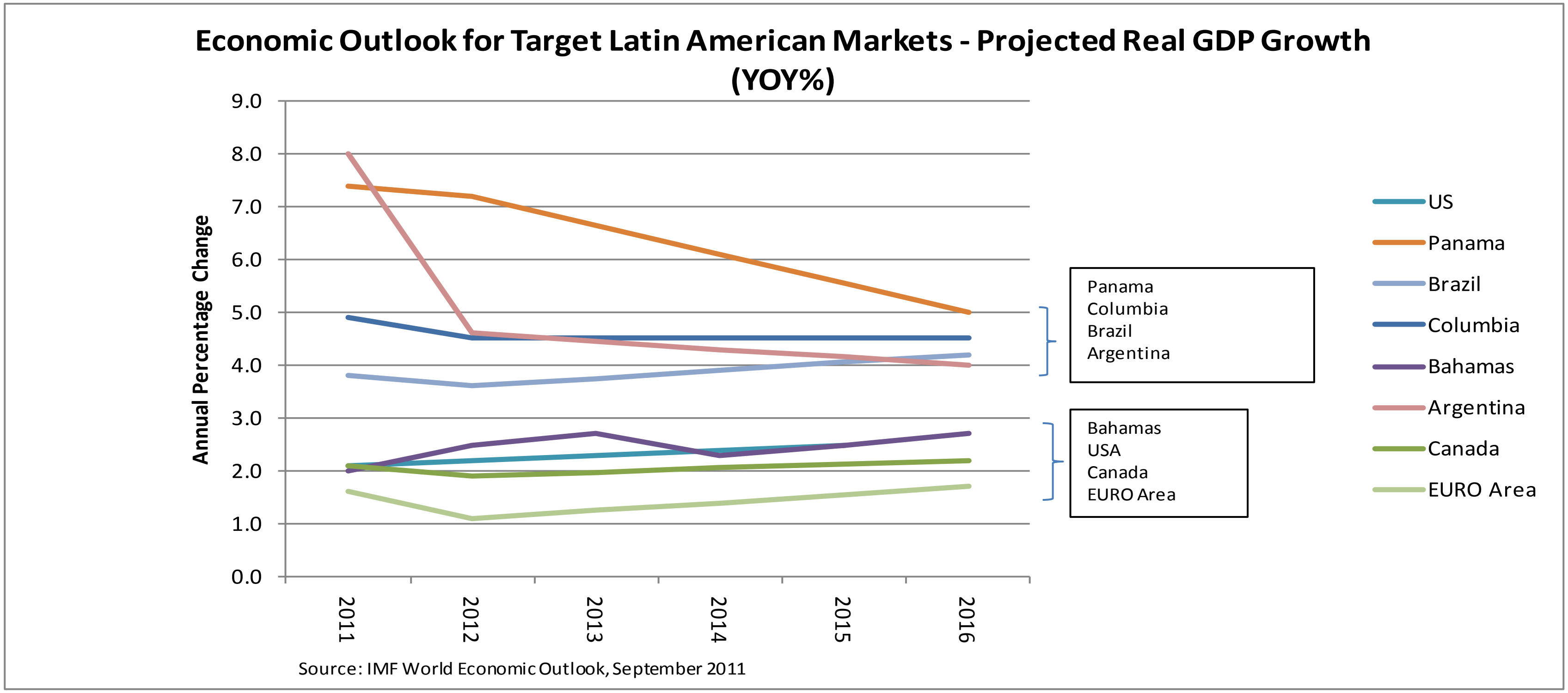
Past Economic Performance of Target Markets - Real GDP Growth (YOY%)



Source: IMF World Economic Outlook, September 2011

- **During the Great Recession, global diversification was limited to the magnitude of the economic slowdown**
- **The chart above shows the Real GDP growth of the economies of greatest significance to the Bahamian tourism market, both historically and targeted**
- **The economies of the USA, EURO Area and Canada , which account for approximately 95% of our tourists, all experienced recessions in 2009**
- **With the exception of Brazil, which saw GDP growth of -0.6% in 2009, the Latin American economies of Panama, Columbia, and Argentina ("LATAM Targets"), which are being targeted as markets for expansion, experienced positive Real GDP growth, albeit at lower levels than before the Great Recession**
- **Given that in excess of 60% of Bahamian GDP is based on tourism and the income elasticity of demand for tourism is greater than 1.0, when effectively 100% of your tourism market sees its income decline, the demand for the Bahamian tourism product will decline by a greater amount, thus the Bahamian economy underperforming the economies of the US, Canada and Euro Area.**

Historic Real GDP Growth



- The chart above shows projected Real GDP growth. The projections for 2013-2015 were extrapolated by KPMG based on IMF projections for 2011, 2012 and 2016.
- The projected real GDP growth of the LATAM Targets is expected to exceed those of the US, Euro Area and Canada
- The Bahamian economy is expected to outperform the UEC economies in 2012 and 2013 before growing at the same pace as the US economy
- These projections support a strategy of targeting the LATAM markets in order to diversify the Bahamian tourist market
- It is interesting to note that the newest market for the Bahamas – Panama – is the highest GDP growth market

Demographic trends of interest

Demographic Facts/Trends of the Americas of Interest to Bahamian Tourism

Population (millions)	As at Mid-2010	% Total	Projected in 2025	% Total
Americas	929.0		1,059.0	
North America	344.0		391.0	
United States	*310.0*		*351.4*	
Hispanic Americans [1]	*45.0*		*75.0*	
Canada	*34.1*		*39.7*	
Quebec [2]	*7.9*		*9.2*	
Mexico	110.6		123.4	
Central America (Excl. Mexico)	42.4		54.6	
Panama	*3.5*		*4.3*	
Caribbean	42.0		46	
Spanish speaking	*25.1*		*26.8*	
South America	391		444	
Brazil	*193.3*		*212.4*	
Colombia	*45.5*		*53.5*	
Argentina	*40.5*		*46.2*	
Other countries	*111.7*		*131.9*	
Total Spanish Speaking	420.8	45.2%	511.4	48.3%
Total Portuguese Speaking	193.3	20.8%	212.4	20.0%
Total English Speaking	297.3	32.0%	313.4	29.6%
Total French Speaking	8.7	0.9%	10.1	1.0%
Others	10.0	1.1%	12.4	1.2%

Source: Population Reference Bureau, 2010 World Population data sheet

Note: Small discrepancies may occur do to rounding differences

1. Source: Congressional Research Service, The Changing Demographic Profile of the United States

2. Source: Statistics Canada website, www.statcan.gc.ca; 2025 is a rough estimate

The table to the left shows the population of the Americas by country, region and dominant language as at mid-year 2010 and projected in 2025.

In 2010 approximately 421 million people or 45% of the Americas spoke Spanish as their dominant language. This figure includes Hispanic Americas.

In 2010 approximately 193 million people or 21% of the Americas spoke Portuguese as their dominant language.

Combined Spanish and Portuguese represented the dominant language spoken by approximately 66% of all people living in the Americas.

By 2025 it is estimated that approximately 724 million people or 68% of all people living in the Americas will speak Spanish or Portuguese as their dominant language.

The commencement of direct flights between Nassau and Panama by Copa Airlines in mid-2011 and their subsequent increase in airlift highlights the potential for targeted development of the Central and South American markets.

Final thoughts

- The demand for travel is sensitive to the actual and perceived wealth of the traveler.
- The risk of the Euro Zone financial crisis dragging the US economy back into recession has diminished over the last two months.
- While Greece will effectively default given the write-offs required by the holders of Greek sovereign debt, the bond markets are pricing the sovereigns of Spain, Italy and Ireland at lower yields, which indicates that the bond markets consider the risk of default by any of these three countries to have lessened over the last two to three months.
- After Greece, the country of greatest concern is Portugal, but according to Fitch Ratings they are of the view that the leaders of Portugal, unlike the leaders of Greece, are taking the tough steps needed to avoid default.
- Since the end of October the world's major equity markets have increased between 20% to 31% indicating that equity market participants are more positive about corporate profits in 2012. If the rebound in equity markets is sustained over the medium term, the wealth effect caused by appreciating equity markets may stimulate greater touristic spending in 2012 and 2013.
- The rebound in equity markets will need to be sustainable to result in more conversion of stop over tourists into second home or time share owners. Apart from the ultra high end buyer, a market that is seeing growth in part due to tax laws in home countries, the second home market is unlikely to rebound for 1-2 years and will lag the stop over recovery.
- With an expected slow economic recovery, increase in stop over tourists is likely to be slow.
- Bahamas has seen a marked increase in cruise tourists, due to new, bigger ships, but also potentially due to a conversion of previous stop over travelers to cheaper cruise vacations during the economic downturn, notwithstanding ongoing growth in the cruise traveller market .

Final thoughts

- Improving employment figures in the US will also contribute to a widening of the potential traveler market.
- Based on the IMF World Economic Outlook of September 2011, between 2012 and 2016 real GDP growth is projected to be as follows:
  - World: 4.0% to 4.9%
  - USA: 2.1% to 2.7%
  - EURO Zone: 1.1% to 1.7%
  - Canada: 1.9% to 2.2%
  - Brazil: 3.6% to 4.2%
  - Argentina: 4.6% to 4.0%
  - Panama: 7.2% to 5.0%
  - Columbia: 4.5% to 4.5%
- The demographic and economic trends in the Americas support the strategy of the Bahamian tourism market investing resources in order to gain greater access to Central American and South American markets.

Thank you

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