SPOTLIGHT ON:
STATE OF THE INDUSTRY *PG2*

A monthly update including relevant information on travel industry trends, consumer and meetings market research, competitive intelligence, and Hawai'i's performance as a destination.

Market Insights Update

United States | August 2017

In This Issue

State of the Travel Industry

In a sense, reading the news nowadays feels like a study in cognitive dissonance. Rarely a day goes by without an act of terrorism, political scandal, or nuclear threat gracing the headlines. Then, flipping through the business section, readers are awash in unabashed optimism: unemployment is down, GDP growth is up, and the economy is as healthy as it has been at any point in the past decade.

Given this chaotic environment, U.S. consumers might be expected to ratchet back theirspending on big ticket items. That, in the face of such uncertainty and conflicting reports, they would decide to hold off on buying that new car or taking a dream vacation. It would not be all that surprising to see the U.S. travel industry starting to take a hit. But it hasn't.

Despite facing some significant headwinds over of the past twelve months, the fundamentals of the travel industry remain healthy and even bullish. Economic conditions should also be largely favorable for U.S. travel moving forward. Take a closer look at some of the key trends facing the industry, and what it means for Hawai'i, in this month's *Market Insights Update*.

Continued on PG2

AIRFARE UPDATE

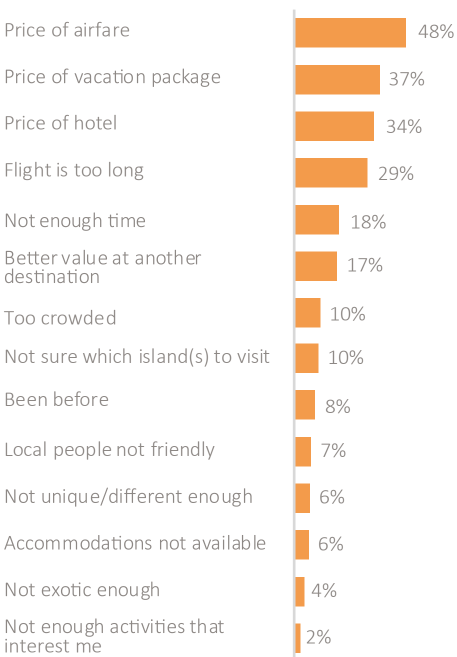
Due to increased demand, the average roundtrip airfare between the U.S. mainland and Hawai'i increased in the first quarter of 2017 compared to the same time last year.

PG4

Photo courtesy of HTA / Mark Kushimi

State of the Travel Industry

Top Reasons for Not Visiting Hawai'i Q2 2017



Source: HVCB analysis of MMGY Global travelhorizons data

State of Travel Union

Despite a tumultuous start, 2017 has thus far been a successful year for the U.S. travel industry. By one of the most basic metrics — air seats flown — U.S. consumers are expected to travel significantly more than they did the year prior. In the second quarter alone, an additional 10.7 million seats were flown from the U.S. compared to 2016, an increase of +4.1 percent. The domestic hotel industry's performance can similarly be characterized by modest but positive growth. Year-to-date through June, occupancy is up +0.7 points, while Average Daily Rate (ADR) grew +2.3 percent nationwide.

The U.S. travel industry has even succeeded in the one sector that concerned many professionals in the early months of this year: international travel. Following the announcement and subsequent attempts to implement "travel bans," various industry and economic analysts raised concerns that the policy would have a chilling effect on international travel to the United States. Indeed, there has been evidence that some revenue was lost, particularly in business travel. With that said, expenditures of foreign visitors to the U.S. are at an all-time high. Year-to-date through June, international travelers spent a record-breaking $126.5 billion (+3.9%) within the borders of the United States with travel spending up +2.6 percent and medical, education, and international worker spending growing +9.4 percent compared to same time last year.

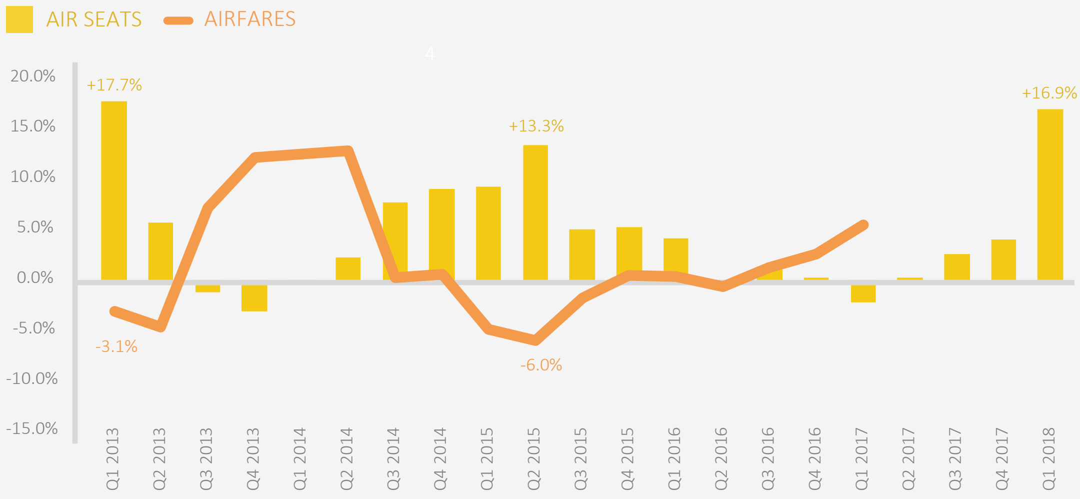
The continued success of the industry can be attributed to several major factors. First, global oil prices, though higher than 2016, are still relatively low and stable. This has helped keep airfares down despite unprecedented levels of demand. Second, the dollar has walked back from its uncharacteristically aggressive run in the latter half of 2016. While a strong dollar can be beneficial to U.S. consumers, it also discourages inbound international travel to the U.S. and encourages U.S. residents to look abroad. These trends are expected to continue into 2018. According to the Economist Intelligence Unit, oil prices will fall another -1.9 percent in 2018 and the dollar will continue a modest slip relative to foreign currencies.

Unfortunately, while economic conditions remain broadly favorable for travel, that message appears to have been lost on travelers themselves. Over the course of the past year, the U.S. Air Leisure Traveler Sentiment Index has plummeted -13.1 percent, from a record high of 130 to 113. The causes of this decline are myriad. Interest in travel is waning, the perceived time available for travel is limited, and a full 21 percent of air leisure travelers reported that the affordability of travel (or lack thereof) was a major deterrent. These trends are alarming because traveler sentiment has historically served as a leading indicator for actual travel.

Continued on PG3

Air Service Cycle

Year-Over-Year Percent Change in Air Seats & Fares



Source: HVCB analysis of Diio Mi data

2017 may be an exception to the rule. There are numerous signs pointing to the continued success of the industry. In the near term, the Labor Day holiday weekend is expected to bring a huge boost in air travel; an additional +5.0 percent over 2016. Looking further out, the U.S. Travel Association is anticipating person trips to grow +2.0 percent and expenditures to increase +4.1 percent through 2017 year-end. The outlook for the U.S. air and hotel industries is likewise rosy. In short, the current state of the U.S. travel industry can be summed up with a single word: good.

A Look at Hawai'i

Considering both past performance and the near-term future, Hawai'i's tourism industry is at a crossroads. 2017 performance has been another banner year for the islands. Total visitor arrivals are up +4.0 percent year-to-date through June, while visitor expenditures jumped +8.7 percent. Throw in record-breaking air seat capacity and a strong first quarter hotel performance (occupancy increased +0.4 points, while ADR grew +6.0%), and it is hard to see anything but sunshine and calm waters for the destination's future.

Despite the strong performance year-to-date, there appear to be a few clouds on the horizon. Hawai'i travel intentions among U.S. air leisure travelers has faltered in recent quarters. According to the market research firm MMGY Global, the share of travelers who are planning a trip to Hawai'i within the next two years has fallen sharply, from 51 percent to just 29 percent over the course of the past twelve months.

Several dynamics are to blame for this decline in favorable travel intentions. The biggest concerns are in relation to the cost of a Hawai'i vacation. Of those air leisure travelers who decided against a trip to Hawai'i, 47.9 percent cited airfares as a deciding factor, 37 percent cited the cost of vacation packages, and 34 percent said room rates were too expensive.

To an extent, these are very real issues, and they should not be dismissed out of hand. At the same time, however, they have also been the leading concerns among travelers for years and have still not had an appreciable impact on net visitor arrivals. It is thus hard to translate flagging consumer sentiment into a definite prediction of the industry's future. For the rest of the year and into the next, it is possible that Hawai'i will see a reduction in airfares that might send travel intentions back up again. From September to December 2017, an additional +111,000 seats are expected to be flown between the U.S. mainland and Hawai'i. By the first quarter of 2018, capacity is scheduled to jump an astounding +16.9 percent year-over-year. Historically, such an increase in the number of seats flown has led to a decline in airfares. With the high cost of air travel being the single greatest barrier to a Hawai'i vacation, a drop in fares due to increased capacity will likely keep the wave of success going for yet another year.

Source: HVCB analysis of Economist Intelligence Unit (EIU), MMGY Global, Diio Mi, & HTA Visitor Arrival Data

Photo courtesy of HTA / Mark Kushimi

For more information regarding this issue of the Market Insights Update, to subscribe to the distribution list or submit topic requests for future issues, please contact insights@hvcb.org.

Photo courtesy of HTA / Mark Kushimi

Airfare Update

Sneak Peek at Next Month

+ Spotlight On: Sports Tourism

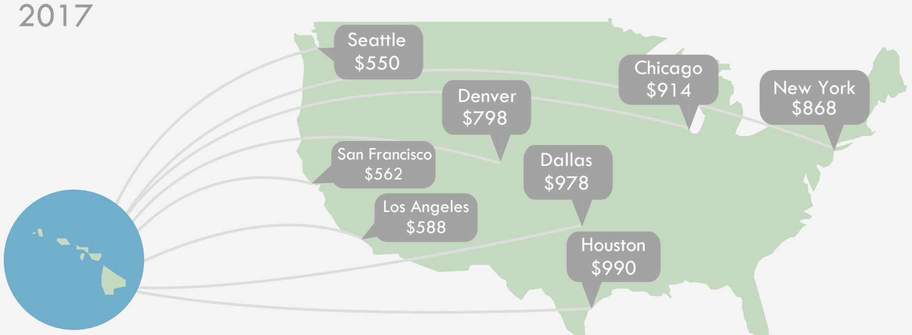
Fueled by record demand, the average roundtrip airfare between the U.S. mainland and Hawai'i grew in the first quarter of 2017 as compared to the same time last year. The average cost of a ticket to Hawai'i was $687 between January and March, an increase of +4.2 percent from the year prior.

As would be expected, fare hikes were observed across all major U.S. gateway cities, though travelers flying out of Texas were particularly hard hit. Relative to the first quarter of 2016, the cost of a roundtrip flight from Houston increased by +9.5 percent, while flights from Dallas shot up by +14.4 percent. Currently, it costs close to $1,000 for travelers in these markets to book a flight to Hawai'i. Similarly, airfares from the West Coast, including Seattle (+9.1%), San Francisco (+8.0%), and Los Angeles (+4.3%), all posted notable gains.

While this higher cost of travel is certainly not helping the broader Hawai'i visitor industry, that does not necessarily mean it is detrimental. For one, it is important to keep in mind that these fare increases are at least partially due to significant increases in demand. As a result, airlines have since added capacity on their mainland routes, an important consideration when looking at future fares.

Second, it bears noting that overall airfares have not grown astronomically over the past several years. For instance, the average roundtrip airfare in the first quarter of 2014 was just -0.5 percent lower than in 2017. When factoring in inflation and relative purchasing power, flights were actually more affordable this year than three years ago.

Average Roundtrip Airfare to Hawai'i Q1 2017



Source: HVCB analysis of Diio Mi data