



Photo courtesy of HHA



**SPOTLIGHT ON:
2020 Outlook**

MARKET INSIGHTS UPDATE

United States | December 2019

In this Issue

Long TSA lines, endless delays, and weather-related cancellations are just some of the frustrations travelers have already had to face this holiday season. Snowstorms on both the East and West coasts disrupted the 32 million passengers who traveled by plane for Thanksgiving this past month. Despite these challenges, a record number of travelers took to the air, up nearly four percent from the year prior. In fact, December 1st, 2019 was the busiest travel day ever on record for the U.S. airline industry.

The U.S. travel industry is expecting to see continued tempered growth into 2020, with domestic leisure travel forecast to grow a modest +1.5 percent. At the same time, U.S. domestic travel spending is expected to increase by +3.5 percent, due in part to rising travel prices and

associated costs. As such, it will be difficult for the U.S. travel industry to continue to top its record-breaking profits through the year ahead.

That said, Hawai'i's outlook is more positive than the national level. A record 5.2 million seats are expected to fly to Hawai'i from the U.S. mainland in the first half of 2020, a +8 percent increase year-over-year. With the recent crack-down on short-term rentals, hotels now have a more advantageous market position. And demand for a Hawaiian Island vacation remains at an all-time high, with more than one third of U.S. air leisure travelers saying they are interested in visiting in the next two years. This month's Market Insights Update takes an in-depth look at the broader forecast for the U.S. travel industry, and what Hawai'i can expect, in the year ahead.

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.

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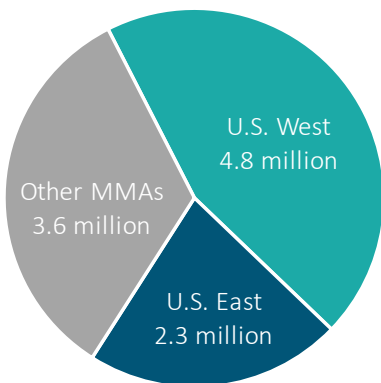




Photo courtesy of HTA

2020 Industry Outlook

2020 Hawai'i Visitor Arrival Forecast



Source: DBEDT

Air Service Forecast

Since deregulation in 1978, the U.S. airline industry has been characterized by boom and bust cycles that track with the health of the global economy. The volatility has eased, however, following a fundamental change in operations and finances since the Great Recession in 2009. U.S. airlines have revamped their business models, minimizing losses by lowering operating costs, eliminating unprofitable routes, and grounding older and less fuel-efficient aircraft. In addition, airlines have increased revenues by initiating new services that customers are willing to pay for and charging separately for services that were historically bundled with the ticket price. This, coupled with an unprecedented period of consolidation in recent years with

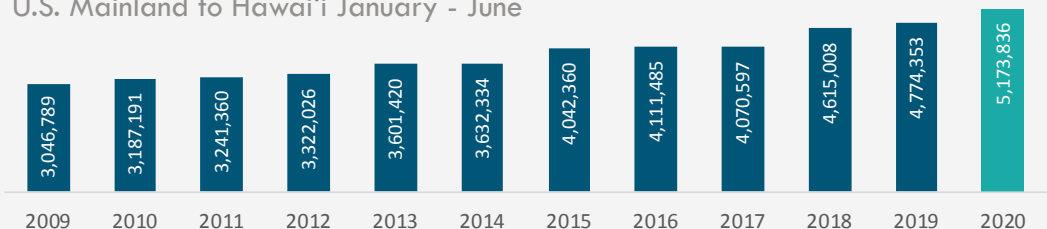
three major mergers (United Airlines/Continental, Alaska/Virgin America, US Airways/American), has led to the most recent boom and ten consecutive years of profitability.

Aviation demand is driven by economic activity and a strong U.S. economy provides the basis for growth. Looking ahead to 2020, U.S. air travel is expected to temper after a decade of continuous growth. Slowing demand and rising costs will begin to squeeze airlines. North American demand is forecast to flatten, while fares are expected to increase a modest one percent. Oil prices, which have a significant impact on airline operating costs, remain higher than in the recent past. In addition, the grounding of

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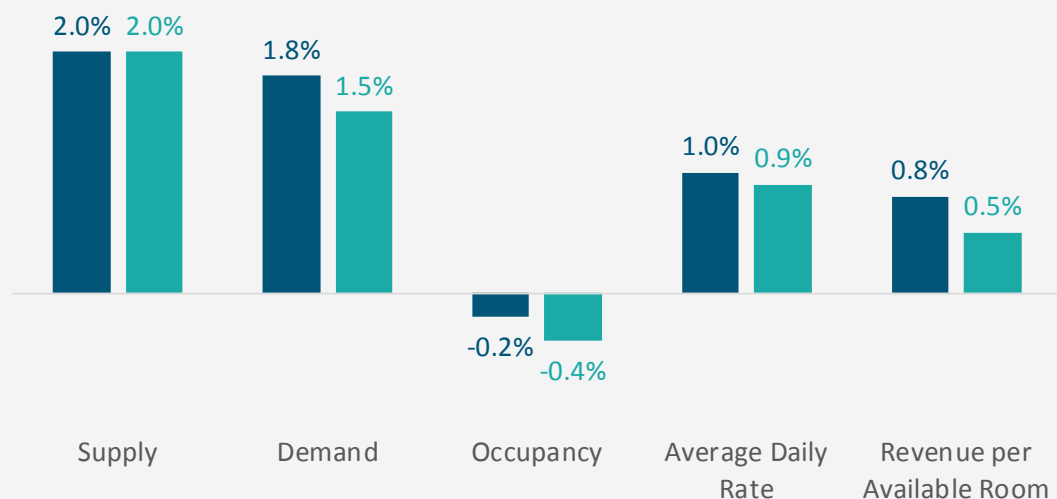
Nonstop Scheduled Air Seats

U.S. Mainland to Hawai'i January - June



U.S. Hotel Industry Forecast

■ 2019F ■ 2020F



Source: STR

Air Service Forecast Continued

Boeing's 737 MAXs will continue for the foreseeable future, having a significant impact on major carriers like Southwest and American Airlines. With these compounding factors, airlines have responded to the slower growth environment by trimming capacity expansion.

Even with a less favorable outlook for the U.S. airline industry, it is encouraging that Hawai'i is expected to be an exception to the norm from current forecasts. Air seats from the U.S. mainland to Hawai'i are expected to total nearly 5.2 million in the first half of 2020, an increase of +8.4 percent year-over-year and a full +62 percent higher compared to ten years ago. There are more than 335,700 *additional* seats being flown from the U.S. West market between January through June 2020 compared to 2019, a +8 percent increase. Similarly, a +11 percent increase in seats from the U.S. East will add an additional +63,700 seats bound for Hawai'i. The majority of the additional air seats (60%) are headed for the Neighbor Islands, including +165,700 seats to Maui, +47,500 seats to Kaua'i, and +30,500 seats to Kona.

Lodging Forecast

After a disappointing 2019 for the overall U.S. hospitality industry, more of the same is expected for 2020. Declines are anticipated for demand, occupancy, average daily rate and revenue per available room. Supply is expected to remain flat. For the first time ever, non-traditional hotel room supply (condos hotel, time-shares, vacation rentals) has outpaced traditional hotel rooms in the U.S.

Despite a less favorable outlook for the U.S. hotel industry, Hawai'i's occupancy rates remain well above the national average. Statewide occupancy is 81.1 percent year-to-date through October 2019, significantly higher than the U.S. average of 65.9 percent. O'ahu remains at near full operating capacity (84.4%), flat with the year prior. Maui County and the Island of Hawai'i, however, have shown promising growth, with occupancy rates increasing +1.5 percent and +1.4 percent respectively in the first ten months of 2019. With increased air seat capacity expected in the first half of 2020, this upwards trend is expected to continue.



Photo courtesy of HTA



Photo courtesy of HTA

Sneak Peek at Next Month



Spotlight On:
Changes in the Marketing
Landscape

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Hawai'i Tourism Outlook

The Hawai'i Department of Business, Economic Development & Tourism (DBEDT) is expecting 2020 to be another growth year for Hawai'i's tourism industry. The most recent forecast anticipates that total visitors to Hawai'i will increase +2.5 percent, to 10.72 million. Meanwhile, total visitor expenditures will also increase +2.4 percent, to \$18.2 billion. U.S. visitor arrivals are expected to make up more than two-thirds of all arrivals to Hawai'i.

While the forecast for the seventh year of growth is welcome, it also underscores the need to protect Hawai'i's natural resources

and host culture, which are what both residents and visitors treasure. To that end, the Hawai'i Tourism Authority (HTA) has shifted its focus towards a sustainable tourism model. At its Fall Tourism Update in November on the Island of Hawai'i, HTA announced that it will begin investing greater resources in programs that promote responsible tourism in 2020, including those that focus on Hawaiian culture, natural resources, community, and safety and security.

Sources: HVCB analysis of USTA, STR, IATA, PWC, Dijo Mi, HTA, and DBEDT data