



SPOTLIGHT ON: 2016 TRAVEL OUTLOOK 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

North America | January 2016

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Spotlight On: North American 2016 Travel Outlook

Following another record breaking year for the U.S. travel industry, the outlook for 2016 is moderately bright. The U.S. appears to be a beacon of relative stability in an unpredictable world market. American consumer confidence has returned to pre-recession levels and U.S. GDP is expected to grow faster than all other advanced nations in the year ahead. Falling oil prices continue to bode well for the broader U.S. economy, with a barrel of oil now costing less than \$27, down from \$53 at the same time last year. While an ever-strengthening dollar has driven a wedge into American exports, it has in turn helped fuel American consumption at home.

Economic indicators point to continued growth from the U.S. outbound travel market,

barring any major global disruptions. The U.S. Travel Association is forecasting a +2.1 percent increase in domestic leisure travel - a growth rate slightly lower than the previous two years but still reaching a new record of 1.74 billion person-trips. Total travel expenditures by U.S. residents are also expected to grow +3.3 percent in the upcoming year, to \$837 billion.

As a destination, Hawai'i can expect to see its share of visitors from the North American market. Favorable market conditions, coupled with record-level air service, should help boost arrivals in 2016. The strong U.S. dollar and low gas prices, however, will pose increased competition from both international and domestic drive market destinations.

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AIR FORECAST

Air service to Hawai'i from the U.S. and Canada is expected to continue on a slower but sustained growth path in the first half of 2016.

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LODGING TRENDS

U.S. hotel demand will remain strong in 2016. Room rates are expected to grow while occupancy will remain flat.

PG3

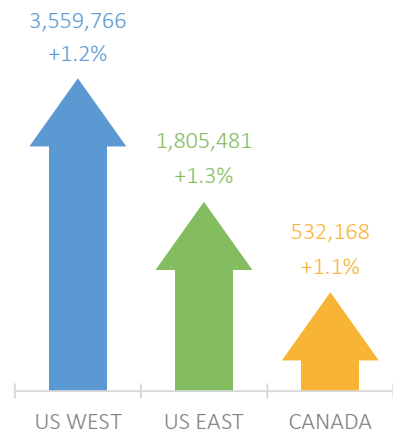
COMPETITOR UPDATE

A strong U.S. dollar and increased air access will put international travel more within reach in the year ahead.

PG4



HTA 2016 Visitor Arrival Forecast



Source: HVCB analysis of HTA Visitor Arrival Data, 2016 vs 2015



2016 Travel Outlook

At a Glance: Canada

The Canadian overseas travel market will continue to face challenges in 2016. After reaching parity in 2013, the Canadian dollar went into a freefall and is currently trading at just \$0.69 cents on the U.S. dollar. Hawai'i's high hotel room rates meant the average cost of a Hawaiian Island vacation was significantly more expensive for Canadians in 2015. The declining value of the loonie will continue to put downward pressure on Canadian spending abroad. With no end in sight for the falling currency, the market's outlook for 2016 is less favorable than in recent years.

Slower but Sustained Growth for Hawai'i in 2016

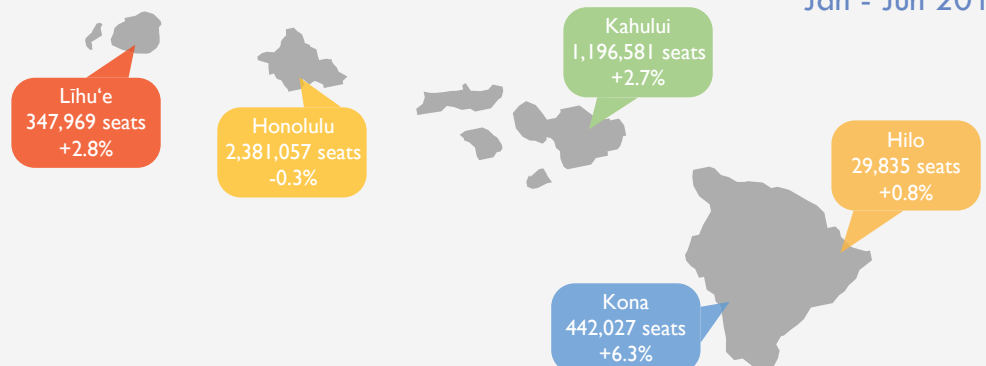
Air Forecast

The airline industry can look forward to another strong year ahead. According to the International Air Transport Association (IATA), the strongest financial performance will be delivered by North American airlines in 2016. Profits are expected to reach \$19.2 billion, a marked improvement over the \$11.2 billion seen just three years ago. Lower fuel costs and increased competition will help keep airfares low. Consumers can expect to see better prices, more fare sales, and flexible ticketing options in 2016.

After reaching an all-time high in 2015, air service to Hawai'i from the North American market is expected to remain flat in the year

ahead. In the first six months of 2016, more than 4.3 million air seats are bound for Hawai'i from the U.S. and Canada, a +1.4 percent increase year-over-year. The bulk of additional air seats are headed to Kona and Kahului, while seats to Hilo will remain flat and Honolulu will be down slightly. Expansion of service to Hawai'i will continue, thanks to Virgin America's recently launched flights from San Francisco to Honolulu and Kahului, Delta's new route from Seattle to Kona, and WestJet's introduction of a wide-body Boeing 767 from Alberta to Honolulu and Kahului. Meanwhile, Allegiant will suspend service to Hawai'i in July 2016.

Scheduled Air Seats to Hawai'i Jan - Jun 2016



Source: HVCB analysis of Diio Mi data, Jan - Jun 2016 vs 2015

U.S. Hotel Industry Performance

	2012	2013	2014	2015	2016F
DEMAND	+2.7%	+2.0%	+4.3%	+2.9%	+1.9%
SUPPLY	+0.4%	+0.6%	+0.7%	+1.1%	+1.9%
OCCUPANCY	61.4%	62.2%	64.4%	65.6%	65.6%
PERCENT CHANGE	+2.3%	+1.4%	+3.5%	+1.8%	0.0%
AVERAGE DAILY RATE	\$106	\$110	\$115	\$120	\$127
PERCENT CHANGE	+4.2%	+3.8%	+4.5%	+4.7%	+5.7%
REVENUE PER AVAILABLE ROOM	\$65	\$68	\$74	\$79	\$83
PERCENT CHANGE	+6.6%	+5.2%	+8.2%	+6.5%	+5.7%

Source: HVCB analysis of Smith Travel Research data, 2012 - 2016F

Lodging Trends

Following the trend of slower but sustained growth, U.S. hotel demand is expected to increase +1.9 percent in 2016, slightly below the +2.9 percent seen in 2015. Hotel inventory is expected to accelerate in 2016, with a +1.9 percent increase in supply. Occupancy levels are expected to remain stable at an all-time high of 65.6 percent. A strong U.S. dollar and increased confidence amongst hotel operators and brands is expected to result in Average Daily Rate (ADR) growth, currently forecasted at a +5.7 percent. High ADR coupled with sustained occupancy, means Revenue per Available Room (RevPAR) is expected to also grow +5.7 percent in the year ahead.

Hawai'i's hotel occupancy rate is well above the U.S. average. The most current available data for 2015 puts statewide occupancy at 79 percent year-to-date through October, a +1.4 point increase over 2014. Due to O'ahu being at near full operating capacity, it is unlikely Hawai'i's hotels will keep pace with U.S. forecasts as a whole. There is opportunity, however, to grow some Neighbor Islands occupancy, most notably Hawai'i Island (66.3% YTD) and Kaua'i (71.9% YTD). Meanwhile, Hawai'i's Average Daily Rate remains one of the highest in the nation. Though October 2015, statewide ADR has grown +4.0 percent, slightly below the U.S. average. With strong demand for lodging, this momentum is expected to continue into 2016.

In 2016, hotels are continuing to look towards maximizing ancillary fees, as seen in testing of different terms and price points for amenities such as WiFi, minibar charges, and room service. The lodging industry has also begun enforcing more stringent cancellation policies. Hotels will continue to pursue dynamic pricing agreements as yield management strategies evolve across the industry. Driven by strong demand in the digital space, online presence for small and mid-sized hotels is becoming increasingly important. Double-digit growth of the sharing economy could present a threat to traditional hotels, although safety continues to remain a concern.

Visitor Arrival Forecast

The Hawai'i Tourism Authority is projecting slower but sustained growth for North American visitor arrivals in 2016. Although year-end results are not yet available, visitor arrivals from the U.S. and Canada were forecast to grow +5.0 percent in 2015. In 2016, arrivals are expected to slow to +1.3 percent year-over-year.

The forecast is a result of a projected slowdown in the overall travel marketplace. 2015 was a record year for U.S. and Canadian outbound travel, which was likely a result of lower airfares and pent-up demand. Looking ahead, the consensus is that Hawai'i's North American visitor arrivals will continue to grow, albeit at a slower rate than 2015.

Sources: Hawai'i Tourism Authority, Smith Travel Research, PricewaterhouseCoopers, U.S. Travel Association, Diio Mi

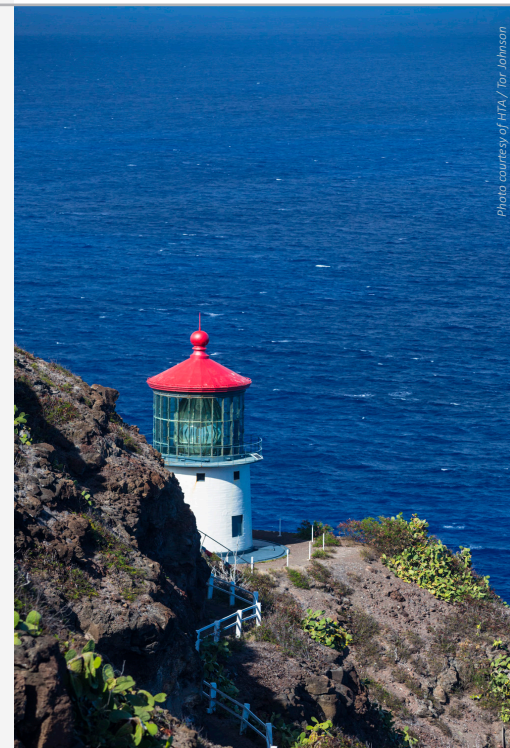


Photo courtesy of HITA / Tor Johnson

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Competitor Update

Sneak Peek at Next Month

- + Spotlight On: Golf Traveler Profile
- + Updated Airfare Data through Q3 2015
- + 2015 Year-End Visitor Arrivals

Competition Heats Up South of the Border

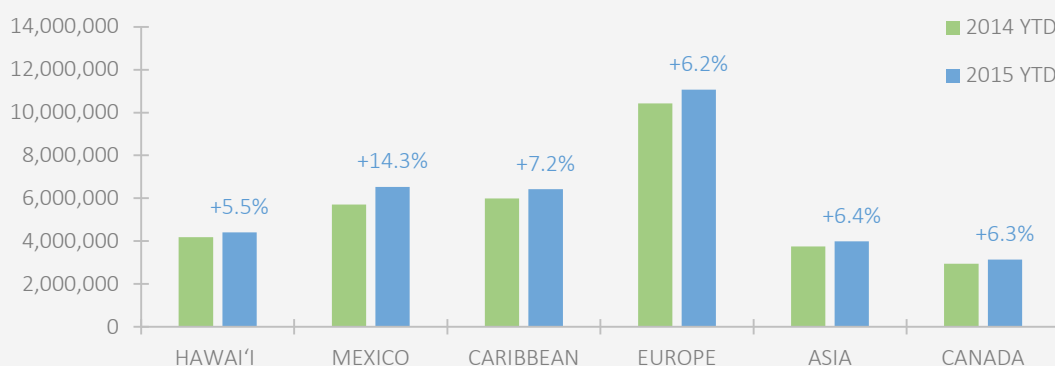
Competition for U.S. travelers will remain stiff in 2016. With an exceptionally strong U.S. dollar, falling airfares, and increased air service, international travel will be more within reach for Americans than ever before. As a result, nearly two-thirds of U.S. travelers are planning an international trip in 2016, up +32 percent over 2015.

While traveler numbers on the whole are rising, some destinations are benefiting from increased visitation more than others. According to the Office of Travel and Tourism Industries (OTTI), U.S. outbound air travel was up nearly +7.3 percent year-to-date through

October 2015, totaling more than 41.7 million person trips. While all major destinations saw a boost in U.S. visitors, only Mexico benefited from an increase in market share.

Looking ahead, Mexico is expected to pose increased competition for all destinations in 2016, due in part to expanded air routes. After two years of negotiations, the U.S. and Mexico recently reached a liberalized air treaty that paves the way for airlines on both sides of the border to set their own prices and fly any route between the two nations. Enhanced competition will increase traffic and keep fares low, benefiting Mexico as a vacation destination.

Total U.S. Outbound Air Travelers year-to-date through Oct 2015



Source: HVCB analysis of HTA and OTTI data, Jan - Oct 2015 vs 2014