



SPOTLIGHT ON:
2018 MARKET
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.

Photo courtesy of HTA / Dado Rialas

MARKET INSIGHTS UPDATE

United States | January 2018

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2018 Market Outlook

Between murky travel policies, chaotic new security protocols, and the looming threat of international conflict, 2017 offered no shortage of possible disruptions to the U.S. travel industry. Coupled with the fact that—looking at historical norms—the United States is due for a recession, a slowdown in Hawai'i's visitor industry might have been understandable. But that slowdown never came. In fact, despite significant headwinds, U.S. visitor arrivals grew for the 8th consecutive year. It can therefore be said with cautious optimism that 2018 will see the continued healthy development of both national and local travel markets.

One explanation for continued strength of the U.S. economy is that consumers have been

largely resilient to recent disruptions. The U.S. Consumer Confidence Index stood at 122.1 (1985=100) in December, a year-over-year increase of nearly ten points, and just a few points shy of the 17-year high.

Going into 2018, U.S. consumers appear primed for another strong year. This correlates well with high-level assessments of the U.S. economy. According to the Economist Intelligence Unit (EIU), the U.S. Gross Domestic Product (GDP) will increase roughly +2 percent in 2018, a rate identical to initial assessments of 2017 growth. This month's *Market Insights Update* takes a closer look at these trends and what they mean for Hawai'i visitor industry in 2018.

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COMPETITOR UPDATE

Competition for U.S. travelers will remain stiff in 2018. Despite being affected by a spate of hurricanes and travel warnings, the Caribbean and Mexico continue to see growth in American arrivals year-to-date through Q3 2017.

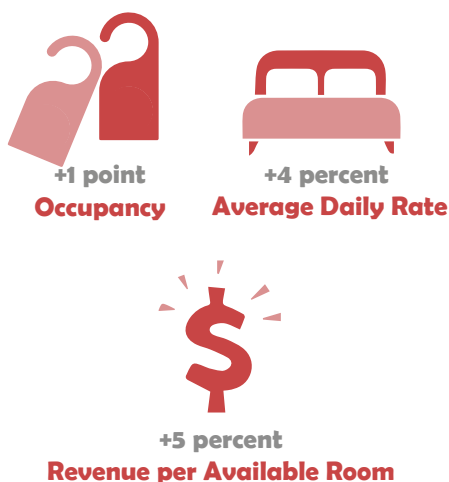
PG4





2018 Market Outlook

Hawai'i Hotel Performance



Source: HVCB analysis of Hospitality Advisors data, 2017 vs 2016

The U.S. Travel Market

As with the U.S. economy as a whole, it is widely expected that 2018 will bring favorable conditions for the national travel industry. According to the U.S. Travel Association, travel performance might even exceed GDP growth; they predict total travel expenditures to increase by +4 percent to \$1.1 trillion. Domestic leisure person-trips are also expected to increase by +35 million in 2018 to a total of 1.8 billion. Of further note, U.S. travel is forecasting a resumption of growth in international visitor arrivals, an important component of the travel market responsible for approximately 15 percent of total spend. After the sharp declines reported throughout 2017, the anticipated +2 percent growth comes as welcome news.

Additionally, according to the EIU, the U.S. dollar forecast weakened between June and December 2017. The Euro, Pound, Yen, and Renminbi are expected to increase in value in 2018. As foreign currencies are expected to remain strong against the dollar, international travelers may find it cheaper to travel to the States. Americans' spending power abroad may be reduced, which in turn encourages more domestic travel.

Lodging Outlook

Nationwide, the broad consensus among purveyors of hospitality market research is that

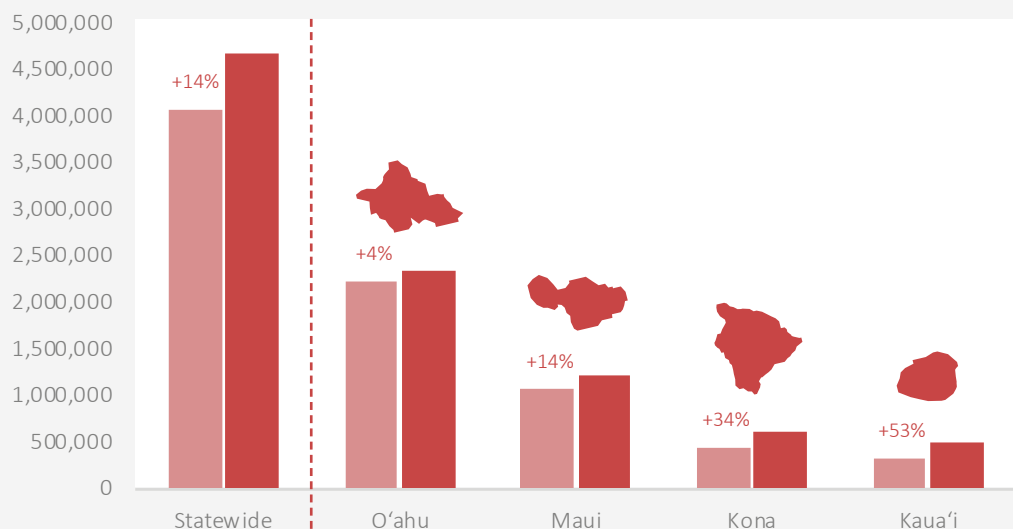
hotels will continue to succeed in 2018, albeit perhaps not as robustly as other travel-related sectors. Both hotel stock and demand are expected to increase by roughly +2 percent over the next 12 months, which means that occupancy will more or less remain unchanged from 2017 levels. This will bring modest but positive growth in Average Daily Rate (ADR), which is expected to increase by +2 to +3 percent.

In Hawai'i, occupancy, ADR, and revenue per available room (RevPAR) should increase statewide, continuing the trend seen over the course of 2017. According to the most recent data published by the Hawai'i Tourism Authority, Hawai'i's hotels recorded a strong performance last year. Overall statewide occupancy in 2017 was at 80 percent, up +1 point year-over-year, while both ADR and RevPAR set a new record highs, reaching \$264 (+4%) and \$212 (+5%) respectively. It should be noted that the performance growth was not equally distributed among all islands. In fact, O'ahu's occupancy slightly declined (-0.7 points), while RevPAR remained flat when compared to 2016. Kaua'i's occupancy grew to 76 percent from 73 percent, while ADR and RevPAR also went up to \$264 (+4%) and \$200 (+9%) respectively. The Island of Hawai'i, on the other hand, experienced the largest increase in hotel performance in 2017

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Scheduled Air Seat Capacity from U.S. Mainland to Hawai'i

■ Q2 2018 ■ Q2 2017



Source: HVCB analysis of Diio Mi data

due to greater air seat capacity to the island during the year. Occupancy reached 74 percent (+6 points) and RevPAR averaged \$185 (+11.7%). Looking ahead, it is likely that the growth in demand will continue in 2018, particularly on the Neighbor Islands.

Air Outlook

Given that the average cost of oil is expected to increase +17 percent to \$63 per barrel in 2018—the highest it has been since 2014—it would be reasonable to conclude that airline performance would suffer as a result. Again, this does not appear to be the case. The International Air Transport Association (IATA) 2018 outlook actually predicts that total industry profits will increase +11 percent to \$38.4 billion (against \$824 billion in total revenues). In addition to structural considerations such as increased efficiency and lower interest payments, much of the increased profitability is attributable to greater demand. Year-over-year, total passenger counts are expected to grow by some +6 percent to 4.3 billion.

For Hawai'i, this upbeat air travel assessment translates into record capacity from the U.S. mainland. A total of 4.7 million air seats will fly between U.S. gateways and the islands during the first 6 months of 2018, an increase of +14 percent from the year prior. As with hotel occupancy, the growth is primarily driven by increased demand for travel to the Neighbor Islands. Capacity to O'ahu is still increasing by +5 percent, but that pales in compar-

ison to the growth seen elsewhere; +170,000 seats to Lihue (+53%), and +150,000 seats to Kona (+34%) and Maui (+14%) respectively.

Hawai'i Visitor Outlook

Of course, for higher air seat capacity to be maintained, it must be utilized. If there are too many empty seats, airlines will scale back flights and fares will increase. Fortunately, all indications point to continued growth in U.S. visitor arrivals throughout 2018. The travel intentions of U.S. air leisure travelers, for instance, increased dramatically in the fourth quarter of 2017 after falling sharply in the first half of year.

Of those surveyed, nearly half (45%) reported they would be likely or very likely to visit Hawai'i over the next two years, up +15 points from where that share stood in the second quarter. Likewise, the Hawai'i Department of Business, Economic Development, and Tourism (DBEDT) is forecasting a strong performance in 2018. Their fourth quarter forecast called for +3 percent and +2 percent increases in visitor arrivals from the U.S. West and U.S. East markets, with total U.S. visitor arrivals anticipated to crest 5.9 million. The U.S. continues to account for the lion's share of visitation to Hawai'i (63%). Overall, visitor arrivals from all markets are forecast to grow +2 percent for a total of 9.4 million visitors in 2018.

Source: HVCB data analysis from Diio Mi, the Economist Intelligence Unit, Hospitality Advisors, the Hawai'i Department of Business, Economic Development, and Tourism, Hawai'i Tourism Authority, the International Air Transport Association, the National Travel and Tourism Office, and U.S. Travel Association.





Photo courtesy of Mark Kishimi



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Competitor Update

Sneak Peek at Next Month

-  Immersive Travel
-  Airfare Update

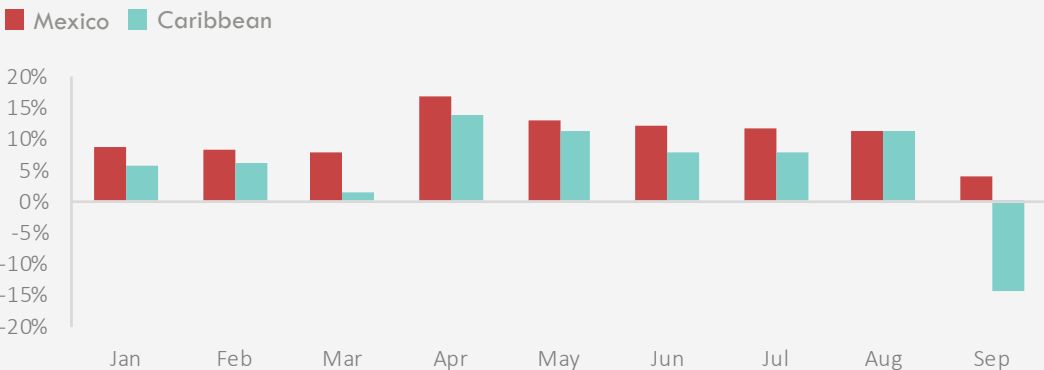
Hawai‘i will continue to face stiff competition for U.S. travelers in 2018. Recent data from the National Travel and Tourism Office shows that the number of American travelers to the Caribbean and Mexico reached double-digit growth in the first two quarters of 2017. Year-to-date through September, the number of U.S. travelers to the Caribbean grew +7 percent, while Mexico was up +11 percent. When looking at the individual months post-hurricane season, visitation from American travelers to the Caribbean dropped dramatically (-15%), while Mexico's growth slowed to +4 percent.

Air seat capacity to affected Caribbean destinations — including Puerto Rico, Cuba, and the U.S. Virgin Islands — is set to decline by -1.2 million air seats in the 6-month period following the storms. Visitors' perception chal-

lenges continue to persist for unaffected Caribbean areas and the region is currently offering competitive rates to attract lost businesses. At the same time, however, more than +600,000 additional seats are being flown to Mexico in the same period. Most of these new seats serve popular tourist destinations such as Cancun (+10%) and Mexico City (+19%).

This shift comes at a time when the U.S. State Department is increasing travel advisories for citizens traveling south of the border. Five states were recently labeled with a Level 4 “Do Not Travel” warning in response to high crime in those regions. However, this is not the first time that Mexico has been issued a travel warning and American travelers seemed to be relatively unaffected given their nature to quickly forget.

Year-Over-Year Percent Change in U.S. Outbound Arrivals



Source: HVCB analysis of the National Travel & Tourism Office data, 2017 vs 2016