

U.S. & CANADA TRAVEL MARKET UPDATE

As American travelers begin their Thanksgiving pilgrimages home for the holidays, Hawai'i continues to be well-positioned to capture our share of U.S. outbound travelers moving into the winter season. The third quarter of 2014 saw the first quarterly year-over-year increase in visitor arrivals from the U.S. and Canada. With growing travel interest, a record number of scheduled air seats from the U.S. and Canada, and easing travel prices, Hawai'i will likely continue to see a boost in visitor arrivals through the remainder of 2014 and into the opening months of 2015.

SPOTLIGHT ON

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The Wednesday before Thanksgiving marks the busiest travel day of the year in the U.S. While holiday travel is largely dominated by the 'Visiting Friends and Relatives' market, VFR only accounts for 12 percent of domestic visitors to Hawai'i in the month of November, on par with Hawai'i's yearly average.

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Not only will an increase in scheduled seats from the U.S. and Canada help grow air capacity for the North American market, it will also likely result in downward pressure on airfares in the next six months.

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Travelers are motivated to take a vacation for a wide variety of reasons. Of these, having fun and experiencing new cultures mark the top two motivators for Americans taking a leisure trip overseas.

KEY PERFORMANCE INDICATORS

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Arrivals from the U.S. and Canada picked up in the third quarter. This growth is expected to continue through the final months of 2014 and into 2015, due in part to an increase in scheduled air seat capacity from the U.S. and new service from Canada.

2014
vs
2013



AT A GLANCE

AIR SEAT FORECAST

(Six Month Outlook)

U.S.	↑ 9.2%
Canada	↑ 13.4%
North America	↑ 9.5%

U.S. & CANADA VISITORS

(Year-to-Date through September)

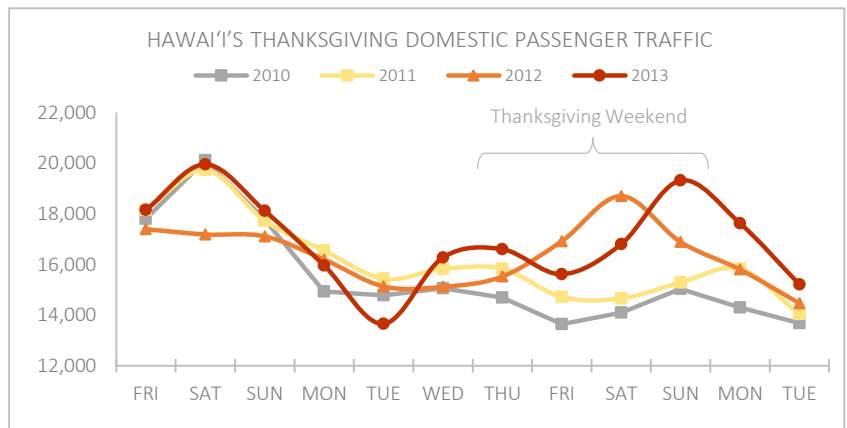
U.S.	↓ 0.5%
Canada	↑ 1.5%
North America	↓ 0.3%



SPOTLIGHT ON: THANKSGIVING TRAVEL & THE VFR MARKET

During the 12-day Thanksgiving period this year from Friday, November 21st through Tuesday, December 2nd, an estimated 24.6 million passengers will travel globally on U.S. airlines. The industry trade organization for U.S. airlines (Airlines for America) expects the number of air travelers to increase +1.5 percent during this time, up from 24.2 million estimated Thanksgiving air travelers in 2013. An expanding U.S. economy, employment growth, rising personal income, and lower energy prices are helping to drive growth in travel demand during the holiday season.

For many U.S. airports, the busiest day of the year for travel is the Wednesday before Thanksgiving. While Hawai'i saw a small uptick in domestic arrivals the Wednesday before Thanksgiving in 2013, it is actually the Saturday before the holiday weekend that has seen the largest amount of passenger traffic. Domestic passenger arrivals to Hawai'i actually tend to taper in the weekdays before the Thanksgiving holiday weekend.



A significant percentage of Thanksgiving holiday traffic in the U.S. can be attributed to the 'Visiting Friends and Relatives' (VFR) market. Just over 12 percent of U.S. visitors to Hawai'i in the month of November are VFR visitors. While the rest of the U.S. tends to see a growth in the VFR market in November, Hawai'i generally does not see an uptick in VFR visitors during the month. Hawai'i's percentage of VFR visitors in the month of November is actually largely on par with the yearly average of 11 percent VFR traffic (excluding the month of December) and well below the yearly average for 27 percent for U.S. outbound overseas travelers.

PURPOSE OF TRIP TO HAWAII' 2013												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pleasure / vacation	75%	77%	81%	76%	76%	80%	81%	81%	73%	75%	77%	80%
Visiting friends / relatives	11%	12%	11%	11%	13%	11%	12%	11%	11%	11%	12%	15%

Source: HVCB analysis of DBEDT and HTA data

At the same time, it is important not to completely discount the VFR market. Just over 50 percent of VFR visitors stay in paid accommodations while visiting Hawai'i as of 2013. On average, VFR visitors have made 8.32 trips to Hawai'i and spend nearly 12 days in the state, compared to an average of 5.75 trips and an average length of stay at 10 days among overall domestic passengers. More than one-in-three VFR travelers to Hawai'i are on a pleasure trip or vacation.

INDUSTRY UPDATE

Air Seat Six Month Rolling Forecast

Avid travelers from North America will find getting to the Neighbor Islands easier than ever before, as airlines are expected to operate a record number of nonstop scheduled air seats into Kahului, Līhu‘e, and Kona in the closing months of 2014 and opening months of 2015. Total scheduled air seats from the U.S. and Canada are expected to grow +9.5 percent in the November 2014 through April 2015 period, with 65 percent of the added seats bound for the Neighbor Islands and just over a third (35%) going to O‘ahu.

SCHEDULED NONSTOP SEATS TO HAWAI‘I – NOVEMBER 2014 THROUGH APRIL 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
Honolulu	2,186,138	2,080,842	↑ 5.1%	123,664	99,542	↑ 24.2%
Kahului	1,000,397	840,572	↑ 19.0%	153,575	139,536	↑ 10.1%
Līhu‘e	306,376	284,203	↑ 7.8%	26,970	25,752	↑ 4.7%
Kona	357,554	316,541	↑ 13.0%	31,458	31,053	↑ 1.3%
Hilo	18,480	21,455	↓ 13.9%	0	0	~

Meanwhile, air seats from the U.S. are expected to grow +9.2 percent from November through April as compared to the previous year. December and April will see the largest jump in air seat capacity, posting gains of over +10 percent in the month. Scheduled air seats from Canada are also expected to increase +13.4 percent in the upcoming six month period as compared to the same time last year. The introduction of Air Canada Rouge’s nonstop service from Toronto to Honolulu and increased air seats from Vancouver will boost capacity from December onward.

SCHEDULED NONSTOP SEATS TO HAWAI‘I – NOVEMBER 2014 THROUGH APRIL 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
November	597,305	565,813	↑ 5.6%	31,962	30,320	↑ 5.4%
December	685,143	621,842	↑ 10.2%	60,065	50,967	↑ 17.9%
January	654,566	598,118	↑ 9.4%	65,485	56,342	↑ 16.2%
February	579,413	538,555	↑ 7.6%	58,520	50,728	↑ 15.4%
March	702,453	644,355	↑ 9.0%	64,824	56,790	↑ 14.1%
April	650,065	574,930	↑ 13.1%	54,811	50,736	↑ 8.0%
Total	3,868,945	3,543,613	↑ 9.2%	335,667	295,883	↑ 13.4%

Source: Airline schedules data from Diio MI

Hawai'i's Domestic Air Service Cycle

As the number of scheduled air seats to Hawai'i grows, capacity typically reaches a point where the supply of seats outpaces passenger demand and airlines subsequently lower fares in order to fill seats. Lower fares result in reduced yields and airlines then decrease capacity to better align seats with expected levels of demand. Due to contracting seat capacity, airfares begin to rise.

This is precisely what happened at the end of 2013 and into the first half of 2014. As airlines decreased air seat capacity to Hawai'i, fares skyrocketed. Based on recently released data from the U.S. Department of Transportation, the cost of a round-trip flight in the first half of 2014 from the U.S. mainland grew +12.6 percent year-over-year, averaging almost \$700. The cost of airfare for Canadians also grew at +3.3 percent in the first six months of the year, averaging nearly \$740 CAD.

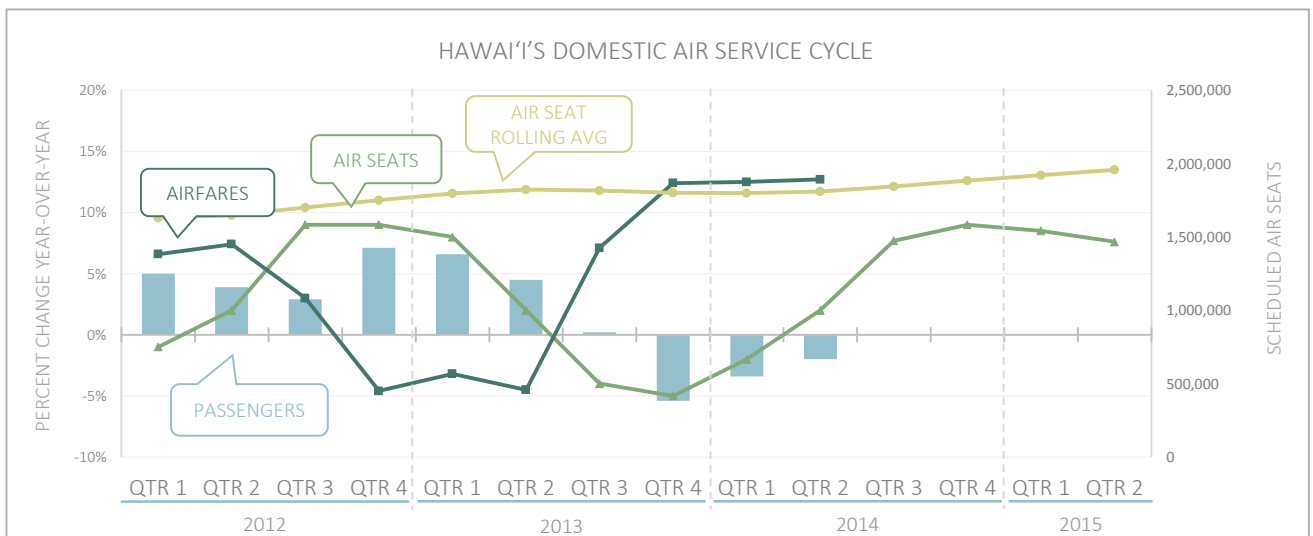
AVERAGE U.S. ROUND-TRIP AIRFARE TO HAWAI'I YEAR-TO-DATE TROUGH JUNE (USD)			
	2014	2013	Percent Change
Los Angeles	\$599	\$540	↑ 10.9%
San Francisco	\$614	\$517	↑ 18.9%
Chicago	\$882	\$802	↑ 10.0%
New York	\$883	\$746	↑ 18.4%
Dallas	\$848	\$760	↑ 11.5%
Houston	\$922	\$869	↑ 6.1%
Total US Mainland	\$699	\$621	↑ 12.6%

AVERAGE CANADA ROUND-TRIP AIRFARE TO HAWAI'I YEAR-TO-DATE TROUGH JUNE (CAD)			
	2014	2013	Percent Change
Vancouver	\$634	\$620	↑ 2.3%
Toronto	\$901	\$921	↓ 2.2%
Calgary	\$757	\$718	↑ 5.3%
Total Canada	\$736	\$713	↑ 3.3%

When airfares rise, airline yields improve, and the carriers once again add seats into the marketplace. As a result, the air service cycle repeats itself.

With scheduled domestic air seats to the state expected to increase +9.2 percent from November 2014 through April 2015, record air service levels will likely result in downward pressure on airfares. Lower airfares in turn could help to drive more visitors to the state.

Visitor arrivals from the U.S. mainland grew +2.1 percent in the third quarter of 2014. This is the first quarterly growth seen in 2014 and growth is expected to continue into the fourth quarter, due in part to increased air seat capacity and a potential moderating of airfares from the U.S. mainland.



Sources: US DOT T-100 data from Diio Mi.



CONSUMER TRENDS

Global Travel Motivators

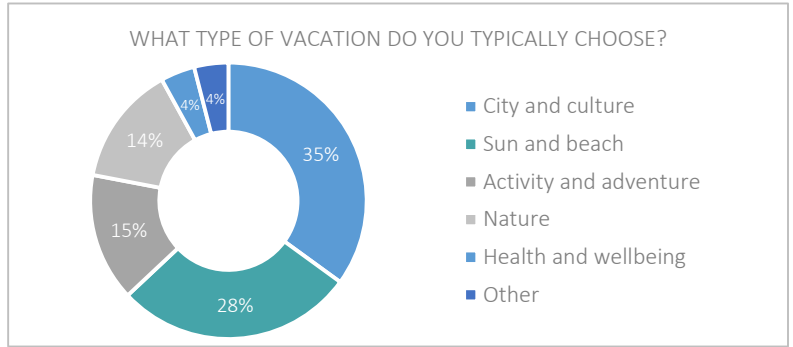
Travelers often seek out unique and interesting experiences on a vacation. According to TripAdvisor’s TripBarometer 2014 Psychology of Travel Global Report. ‘Enhancing perspectives’ is the top travel motivator for more than 70 percent of travelers across the globe. Within this segment, travelers are looking for unique and interesting experiences, as well as broadening their understanding of the world. In addition to new experiences, one-in-six global travelers are in search of liberation. This includes travelers who are looking to enjoy life and let go of concerns while on a vacation. Immersion ranks as the third most important travel motivator, capturing nearly half of all global travelers. These travelers are driven by the desire to enjoy life, be immersed in local culture, meet new people, and create memories.

TRAVEL MOTIVATOR:	TRAVEL ATTRIBUTE:	
Enhancing perspectives 71%	Provide me with unique & interesting experiences	55%
	Broaden my knowledge & enrich understand of world	44%
Liberation 62%	Help me to enjoy life to fullest	45%
	Allow me to let got and feel completely carefree	33%
Immersion 47%	Allow me to immerse myself in the local life and culture	36%
	Help me to meet new people and create memories	21%
Relationships 47%	Allow me to enjoy special moments together with loved ones	42%
	Allow me to strengthen my relationships with those close to me	19%
Excitement 31%	Give me a sense of exhilaration	18%
	Challenge me to try something new	16%
Harmony 22%	Restore my sense of harmony and balance	17%
	Allow me to feel looked after and taken care of	6%
Luxury 21%	Provide me with enviable experiences	14%
	Allow me to feel special and spoil myself	10%
Order 21%	Give me time to think and regain control of my life	12%
	Allow me to feel organized and avoid surprises	10%

Source: HVCB analysis of TripAdvisor TripBarometer 2014 Psychology of Travel Global Report

Global Travel Trip Types

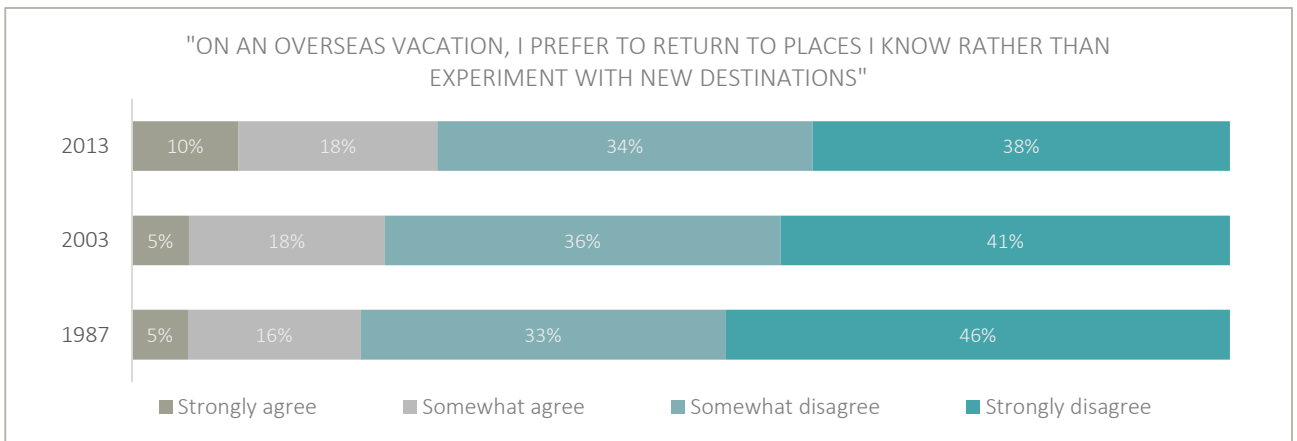
Among global travelers, more than one-in-three global travelers choose trips that involve urban landscapes and culture. Sun and beach trips comes in a close second, with 28 percent of travelers choosing a warm-weather destination. Back to nature and activities/adventure tie for a close third, with around 15 percent of travelers reporting they choose outdoor-centric vacations.



U.S. Traveler Experiences

Among U.S. outbound leisure travelers, the desire to have fun and experience new cultures are cited as the top reasons for taking a vacation. According to the latest TravelStyles USA data, U.S. leisure travelers see an overseas vacation as time to have fun (73%), experience new cultures (73%), and try new things (65%). American leisure travelers express less interest in experiences and activities that they can have at home, such as nightlife and entertainment activities.

American travelers' desire for new and unique experiences is growing, making it the defining element of a vacation for many. The majority of U.S. overseas leisure travelers (72%) would prefer to experiment with new destinations rather than return to somewhere they have been before. Conversely, only 10 percent of American travelers would strongly prefer to visit places that are familiar to them. This segment that prefers a familiar destination has actually doubled in the past decade, suggesting that some U.S. overseas travelers are becoming less experimental over time. This segment is still relatively small, however; nearly four times as many American travelers still would still strongly prefer to visit a new destination while on an overseas vacation (38% versus 10%).



Source: HVCB analysis of TravelStyles USA 2013-14



KEY PERFORMANCE INDICATORS

Hawai'i Visitor Arrivals Year-to-Date Through September

Visitor arrivals from the North American market in September were up +4.9 percent year-over-year, with growth likely fueled in part by a +9.1 percent increase in scheduled seats from the U.S. and Canada. While the September increase was the largest gain in an given month thus far in 2014, U.S. and Canada visitor arrivals year-to-date were still -0.3 percent below the previous year.

Over the last 10 years, U.S. West visitor arrivals year-to-date through September peaked in 2007, registering nearly 2.5 million visitors. Although arrivals were down slightly in the first nine months of 2014 (-0.5%), U.S. West visitors are still well above the 10-year average. After falling to a 10-year low in 2009, U.S. East visitor arrivals have steadily rebounded but have not yet recovered to pre-recession levels. U.S. East visitor arrivals through September were relatively flat year-over-year (-0.3%). Arrivals from Canada in the first nine months of 2014 reached an all-time high, topping out at nearly 378,000 visitors. This is a nearly +115 percent increase since 2005 and well above the 10-year average.



Source: HVCB analysis of HTA data



Hawai'i Visitors and Convention Bureau
2270 Kalākaua Ave #801 Honolulu, HI 96815
(808) 923-1811 | insights@hvcb.org
www.hvcb.org/insights

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