

OCTOBER 2014 MARKET INSIGHTS | HAWAII VISITORS & CONVENTION BUREAU

U.S. & CANADA TRAVEL MARKET UPDATE

Before Tropical Storm Ana began bearing down on the Hawaiian Islands, market conditions were poised for a strong fourth quarter in terms of visitor arrivals from the U.S. and Canada. It is not yet possible to say how Ana will affect arrivals in the month of October. However, an analysis on Page 3 looks at the recent impact of Hurricanes Iselle and Julio on passenger arrivals.

Ana's impact will occur against the backdrop of strong market indicators. Scheduled air seats from the U.S. and Canada are expected to grow considerably in the remainder of the year and travel sentiment among leisure travelers is strong. U.S. air leisure travelers report increased interest in travel, time for travel, and a better financial state as compared to the same time last year. These factors combined should help to drive growth in arrivals from the North American market in the final quarter of 2014.

INDUSTRY UPDATE

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Increased air seat capacity from the U.S. coupled with new service from Canada puts scheduled air seats above pre-recession levels in the upcoming six month period.

SPOTLIGHT ON

Page 3

Hurricanes and tropical storms are a reality for Hawai'i. With Ana looming on the storm front, it is too early to tell exactly how three large storms in 2014 will impact year-end arrivals. Both Iselle and Julio drove down visitor numbers by a significant percentage in the month of August.

CONSUMER TRENDS

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Traveler sentiment is relatively stable – U.S. leisure travelers report that their interest in travel, time for travel, and perceived affordability of travel is the same or better than it was one year ago. At the same time, one-in-four working Americans still do not use all their vacation days.

COMPETITIVE REVIEW

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The cost of travel is rising in the U.S. Hawai'i's average daily rate grew +5.4 percent year-over-year in the first half of 2014. This is relatively tame, however, compared to San Francisco's +11.4 percent growth.

KEY PERFORMANCE INDICATORS

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Arrivals from the U.S. and Canada are relatively flat year-over-year through August 2014. Visitor arrivals are expected to pick up in the remainder of the year, due in part to an increase in scheduled air seat capacity from the U.S. and Canada.

2014
vs
2013



AT A GLANCE

AIR SEAT FORECAST (Six Month Outlook)

U.S.	↑	8.3%
Canada	↑	14.6%
North America	↑	8.7%

U.S. & CANADA VISITORS (Year-to-Date through August)

U.S.	↓	1.0%
Canada	↑	1.5%
North America	↓	0.8%



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INDUSTRY UPDATE

Air Seat Six Month Rolling Forecast

Total scheduled air seats from the U.S. are expected to grow +8.3 percent from October 2014 through March 2015 as compared to the same period last year. October and December will see the largest jump in capacity, posting gains of over +10 percent in each month.

Scheduled air seats from Canada are also expected to increase +14.6 percent in the upcoming six month period as compared to the previous year. Growth is primarily from December onwards, due to the introduction of Air Canada Rouge's nonstop service from Toronto to Honolulu and increased air seat capacity from Vancouver.

Scheduled Nonstop Seats to Hawai'i – October 2014 through March 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
October	604,260	543,949	↑ 11.1%	17,360	16,553	↑ 4.9%
November	597,223	565,813	↑ 5.6%	32,802	30,320	↑ 8.2%
December	684,957	621,842	↑ 10.1%	61,677	50,967	↑ 21.0%
January	649,800	598,118	↑ 8.6%	64,789	56,342	↑ 15.0%
February	575,308	538,555	↑ 6.8%	58,520	50,728	↑ 15.4%
March	692,471	644,355	↑ 7.5%	64,824	56,790	↑ 14.1%
Total	3,804,019	3,512,632	↑ 8.3%	299,972	261,700	↑ 14.6%

All major airports (excluding Hilo) are expected to see growth in air seat capacity in the October through March period. Kahului is expected to see the largest growth in scheduled domestic air seats at +18.4 percent. Similarly, Honolulu is expected to see the biggest jump in air seats from Canada at +25.4 percent as compared to the same time last year.

Scheduled Nonstop Seats to Hawai'i – October 2014 through March 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
Honolulu	2,169,333	2,078,502	↑ 4.4%	98,720	81,512	↑ 25.4%
Kahului	968,961	818,371	↑ 18.4%	107,865	99,995	↑ 10.5%
Līhu'e	305,229	279,141	↑ 9.3%	18,618	17,226	↑ 6.3%
Kona	341,862	315,009	↑ 8.5%	21,623	20,628	↑ 3.2%
Hilo	18,634	21,609	↓ 13.8%	0	0	~

Source: Airline schedules data from Diio Mi

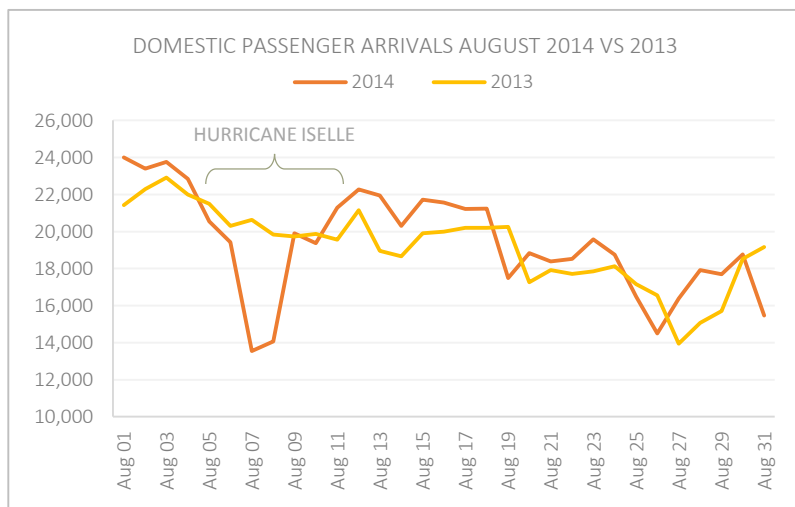
SPOTLIGHT ON: HURRICANE IMPACT ON VISITOR ARRIVALS

Tropical Storm Ana threatens to reach hurricane status by the time it arrives in the Hawaiian Islands and will likely impact passengers from the North American and international markets. It is still too early to predict what effect Ana will have on Hawai'i, as it depends on the severity and path of the storm. It is not advisable to equate Ana with Hurricanes Iselle and Julio at this time. The following provides a look at the impact of Iselle and Julio on August passenger arrivals.

The impending arrival of two major hurricanes largely affected visitor arrivals in the first ten days of the month. Hurricane coverage in the media, flight cancellations from the mainland, and the suspension of airline rebooking fees led to a downturn in passenger volume in the period surrounding the expected onset of Hurricanes Iselle and Julio. As a result, both U.S. and Canada visitor arrivals ended the month of August with a relatively flat performance.

In the five days leading up to the storm (August 5 – 9), total passenger volume was pulled down by -9.9 percent, including a -14.2 percent drop in domestic passenger arrivals year-over-year. Excluding this five-day period, total passenger arrivals to the state were up +2.7 percent overall and +4.3 percent in the domestic market. Taking the five-day period surrounding Iselle and Julio into account, growth in total passengers flattened out to +0.6 percent overall, and +1.1 percent in the domestic market – shaving off 2.1 percentage points of growth in total passengers and 3.2 percentage points of growth domestically.

Longer term, it is difficult to say exactly what impact Hurricane Iselle and Julio had on Hawai'i. Many airlines offered booked passengers a chance to reschedule at no additional cost. However, as visitors plan months to years in advance for a trip to Hawai'i, it is possible that many may not have been able to reschedule their vacations in the near-term.



Source: HVCB analysis of DBEDT data

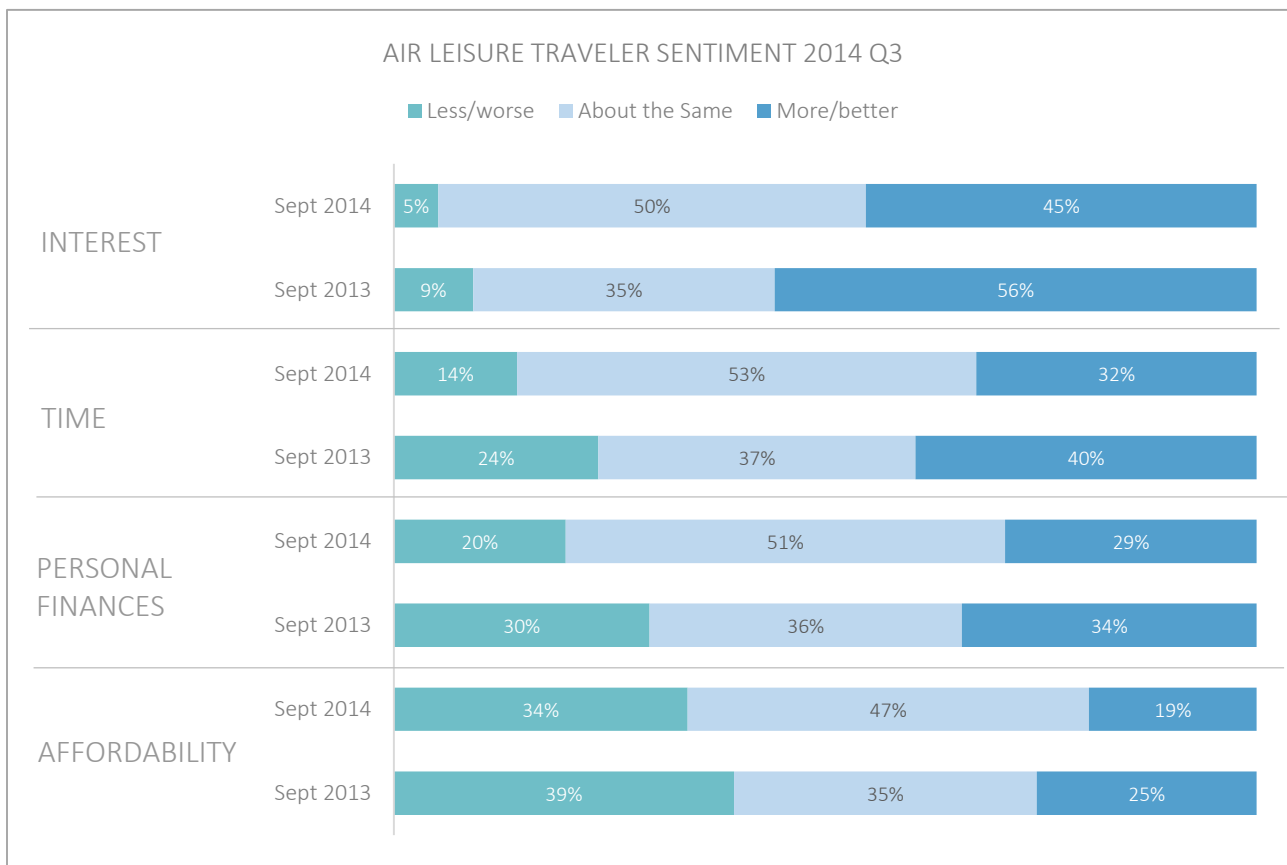
Tropical Storm Ana is expected to reach the islands on October 17 – 20. Airlines have already initiated re-booking fee waivers and if the storm continues to gain strength in the coming days, flight cancellations and airport closures are a likely scenario. Passenger arrivals from the domestic market currently stand at +13.7 percent month-to-date through October 15th as compared to the previous year. It is likely that Ana will pull down this number by month-end. HVCB will continue to monitor the storm's impact on visitors and issue updates as needed.



CONSUMER TRENDS

Traveler Sentiment

Traveler sentiment among U.S. air leisure travelers has generally strengthened year-over-year. According to the latest MMGY Global *travelhorizons* data, travel sentiment metrics indicate that air leisure travelers' interest in travel, time to travel, personal financial conditions, and perception of the affordability of travel are the same as or stronger than they were one year ago.



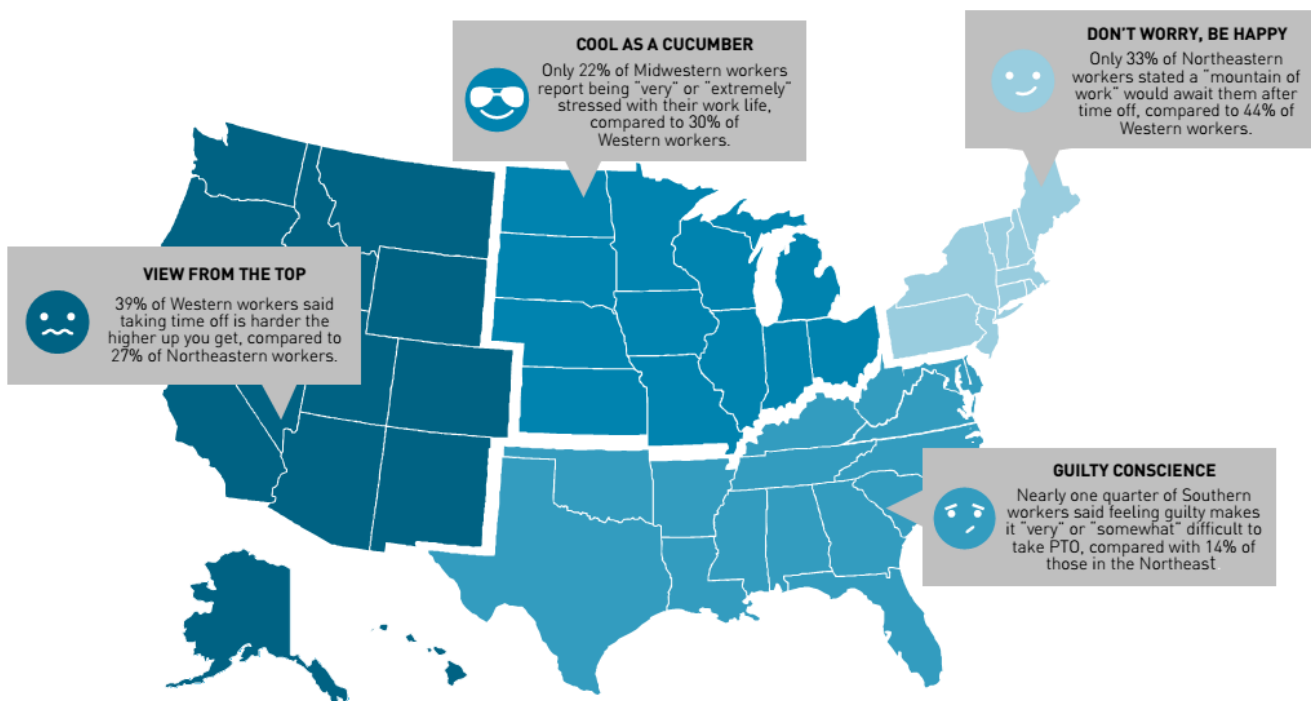
Source: MMGY Global *travelhorizons* data Wave III 2014

Vacation Deficit Disorder

While traveler sentiment remains strong and U.S. air leisure travelers feel they are in a similar or better position in terms of time to travel compared to last year, a significant percentage of working Americans still do not use all of their paid time off. According to the latest U.S. Travel Association study “Overwhelmed America: Why Don’t We Use Our Earned Leave?”, 41 percent of American workers do not plan to use all their paid vacation days this year.

While 95 percent of workers recognize the importance of taking paid time off, 37 percent refuse to characterize the process as ‘easy’. In the end, four in ten workers do not take all of their earned vacation days each year. American workers have a variety of reasons for leaving vacation time on the table. The top four most cited reasons include the amount of work that would pile up while gone (40%), the belief that no one else can take on their role while gone (35%), not being able to afford a vacation (33%), and the fear of being seen as replaceable (22%).

At the same time, however, workers recognize the benefits of taking vacation days. Overall, working Americans agree that paid time off is a time to relax and recharge (90%) and engage in fun activities (88%). The top motivators for taking time off include avoiding burn-out and stress (88%) and taking a break from colleagues (84%).



Source: Travel Effect 'Overwhelmed America: Why Don't We Use Our Earned Leave?'

Working Americans use paid time-off for a variety of planned events. Vacation accounts for the majority use of paid time off, with nearly two-thirds (64%) of U.S. workers using days off to take a trip. Travel companies and DMOs have attempted to capitalize on the market of unused vacation days, launching campaigns aimed at people who do not use all their paid time off. MasterCard Travel, Ocean City, and Las Vegas have all launched TV spots encouraging American's to 'take back your vacation days'.

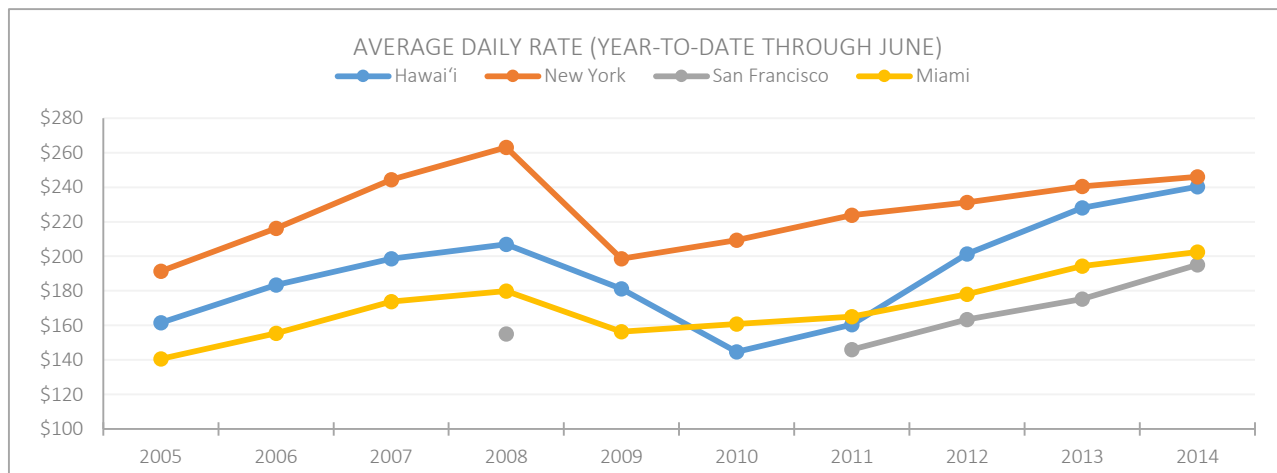
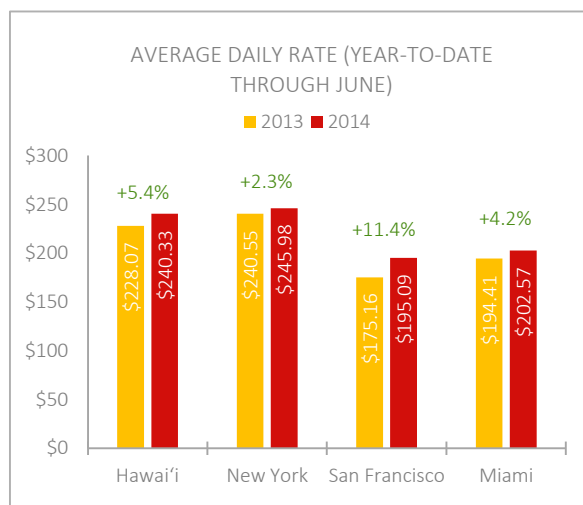


COMPETITIVE REVIEW

Average Daily Rate in the U.S. Market

Although the cost of a Hawai'i vacation continues to rise for travelers, Hawai'i's average daily rate (ADR) is largely on par with other major U.S. cities such as New York and Miami. In the first half of 2014, Hawai'i's ADR grew at a rate of +5.4 percent year-over-year, slightly above New York City's +2.3 percent but well below San Francisco's +11.4 percent. As of June 2014, Hawai'i ranked as the second most expensive destination in the U.S. in terms of ADR, falling just behind New York City.

The rising cost of a Hawai'i vacation is a reality for travelers, due in part to increased room rates over the last four years. Since 2011, Hawai'i's ADR year-to-date through June has grown at a rate of +50 percent, which has helped to drive the high-cost perception among travelers. New York City, on the other hand, has maintained relatively stable prices, with ADR increasing by only +10 percent in the last four years. Both Miami and San Francisco fall somewhere in the middle, with room rates growing at +23 percent and +34 percent respectively since 2011. It is important to continue to consider how cost and value perceptions among travelers impact the destination selection process. Room rates alone are not responsible for value perceptions of a destination. In next month's issue, an analysis of the latest airfare data will be available, providing a more complete picture of current travel costs to Hawai'i for consumers.



Sources: HVCB analysis of Smith Travel Research data



KEY PERFORMANCE INDICATORS

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

U.S. and Canada visitor arrivals were down -0.8 percent year-to-date through August as compared to 2013. Visitor arrivals in August were largely impacted by two major hurricanes. Flight cancellations, negative media exposure, and the suspension of airline rebooking fees led to a downturn in passenger volume in the period surrounding the expected onset of Hurricanes Iselle and Julio. Consequently, U.S. and Canada visitor arrivals ended the month of August relatively flat.

Within the last 10 years, U.S. West visitor arrivals year-to-date through August peaked in 2013, registering over 2.2 million visitors. Although arrivals are down slightly in the first eight months of 2014 (-1.3%), 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 August were relatively flat year-over-year (-0.5%). Arrivals from Canada in the first eight months of 2014 reached an all-time high, topping out at nearly 358,000 visitors. This is a +160 percent increase since 2005 and well above the 10-year average. In the remainder of the year, increased air seat capacity from the U.S. and Canada may help drive visitor arrivals from the North American market.



Source: HVCB analysis of HTA data

