



## U.S. & CANADA TRAVEL MARKET UPDATE

Hawaii is in a favorable position moving into the shoulder season. Air seat capacity from the U.S. and Canada is expected to surpass pre-recession levels in the upcoming six-month period and travel intentions for a Hawaii vacation have reached a record high. At the same time, however, air leisure travelers remain cost-conscious and competition is heating up among other warm weather destinations. It is important to continue to emphasize the unique *value* a Hawaii vacation provides to visitors in order to remain competitive in the marketplace.

### INDUSTRY UPDATE

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Scheduled air seats from the U.S. and Canada are expected to be up +9.1 percent in the upcoming six months. Kahului will see the largest growth in seat capacity from the U.S.

### SPOTLIGHT ON

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Canada is poised for growth this winter, with increased air seat capacity from Vancouver and new non-stop service from Toronto to Honolulu.

### CONSUMER TRENDS

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A record 36 percent of U.S. air leisure travelers report they intend to visit Hawaii in the next 24 months. As consumers change the ways in which they plan and book vacations, the travel industry must adapt to new trends in mobile technology.

### COMPETITIVE REVIEW

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Hotel room rates are rising across the globe. Hawaii's average daily rate is largely on par with other major U.S. cities, but is outpacing growth among other warm weather competitors like Mexico and the Caribbean.

### KEY PERFORMANCE INDICATORS

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Arrivals from the U.S. and Canada are relatively flat year-over-year through July 2014. Visitor arrivals are expected to pick up in the upcoming months, 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 (6 Month Outlook)

U.S.	↑	8.9%
Canada	↑	12.5%
North America	↑	9.1%

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

U.S.	↓	1.7%
Canada	↑	2.3%
North America	↓	0.8%



## INDUSTRY UPDATE

### Air Seat 6-Month Rolling Forecast

Total scheduled air seats from the U.S. are expected to jump +8.9 percent from September 2014 through February 2015 as compared to the same time last year. September, October, and December will see the largest growth, posting gains in scheduled seats of over +10 percent during these months.

Scheduled air seats from Canada are also expected to be up +12.5 percent in the upcoming six months as compared to the previous year. Growth is primarily concentrated around December, January, and February. Hawai'i will also benefit from the newest addition of Air Canada Rouge, which will operate new nonstop service from Toronto to Honolulu starting in November 2014, as well as provide increased air seat capacity from Vancouver.

Scheduled Nonstop Seats to Hawai'i – September 2014 through February 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
September	572,627	518,824	↑ 10.4%	14,260	14,451	↓ 1.3%
October	603,991	543,949	↑ 11.0%	16,989	16,553	↑ 2.6%
November	597,406	565,813	↑ 5.6%	31,660	30,320	↑ 4.4%
December	686,198	621,842	↑ 10.3%	61,448	50,967	↑ 20.6%
January	654,737	598,118	↑ 9.5%	64,349	56,342	↑ 14.2%
February	573,663	538,555	↑ 6.5%	58,120	50,728	↑ 14.6%
<b>Total</b>	<b>3,688,622</b>	<b>3,387,101</b>	<b>↑ 8.9%</b>	<b>246,826</b>	<b>219,361</b>	<b>↑ 12.5%</b>

All major airports (excluding Hilo) are expected to see growth in air seat capacity in the September through February period. Kahului is expected to see the largest growth in scheduled domestic air seats at +18 percent. Similarly, Honolulu is expected to see the biggest jump in air seats from Canada at +21.1 percent as compared to the same time last year.

Scheduled Nonstop Seats to Hawai'i – September 2014 through February 2015						
	U.S.			Canada		
	This Year	Last Year	Percent Change	This Year	Last Year	Percent Change
Honolulu	2,143,102	2,035,042	↑ 5.3%	98,720	81,512	↑ 21.1%
Kahului	913,455	773,959	↑ 18.0%	107,865	99,995	↑ 7.9%
Līhu'e	294,558	267,838	↑ 10.0%	18,618	17,226	↑ 8.1%
Kona	318,873	288,843	↑ 10.4%	21,623	20,628	↑ 4.8%
Hilo	18,634	21,419	↓ 13.0%	0	0	~

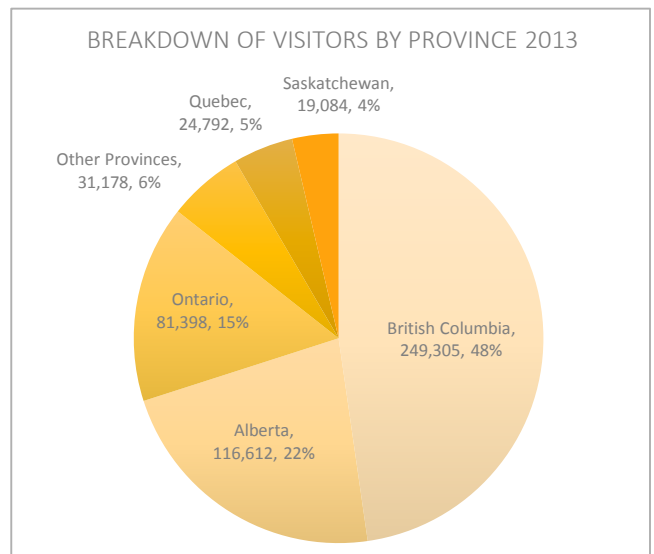
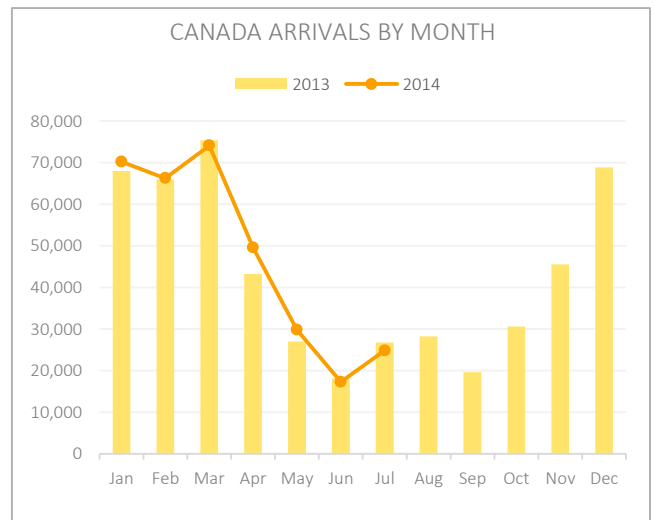
Source: Airline schedules data from Diio Mi

## SPOTLIGHT ON: CANADA

In the first seven months of 2014, Canadian arrivals to Hawai'i reached their highest level in 10 years. Arrivals from Canada equaled 331,830, up +2.3 percent year-to-date through July. This is positive news for Hawai'i, as general Canadian air leisure travel to the U.S. grew at a slower rate of only +1.9 percent in the first half of the year.

The Canadian market is largely seasonal, with visitor arrivals to Hawai'i concentrated around the December through March period. The winter outlook for the market this year is promising. Nearly 47 percent of Canadians surveyed by the Conference Board of Canada in June 2014 indicated that they planned to take a vacation outside their country this winter, up from 44.5 percent the previous year. Winter travel intentions to warm weather destinations, in particular, are up year-over-year. Hawai'i is in a good position moving into the fall and winter season, with scheduled air seats from Canada expected to increase +12.5 percent in the upcoming six months. Currently, British Columbia accounts for nearly half (48%) of visitor arrivals from Canada, while Alberta makes up 22 percent, and Ontario 15 percent.

Hawai'i will face two key challenges from the Canadian market this winter – the impact of the declining value of the Canadian dollar and growing competition from other warm weather destinations. As the Canadian dollar has seen a sharp devaluation within the last year against the U.S. dollar, Canadians are now paying +15.1 percent more to stay in a hotel in Hawai'i than they were a year ago. As the cost of a vacation to Hawai'i increases for Canadians, lower cost tropical destinations of comparable distance will become more appealing. Canadian arrivals to Mexico hit a record high in the first half of 2014. Nearly one million Canadians traveled by air to Mexico through June 2014, up +5.8 percent from the previous year. Ontario, Quebec, and Alberta make up the largest source markets for Mexico. Hawai'i, however, will be better positioned to tap into the Ontario market this winter, with the newest addition of Air Canada Rouge non-stop service from Toronto to Honolulu in November 2014.



Source: HVCB analysis of HTA data

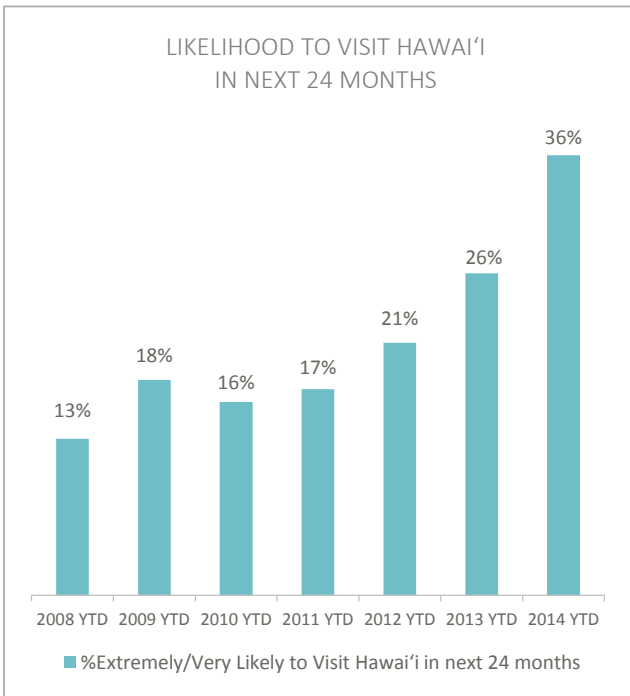


## CONSUMER TRENDS

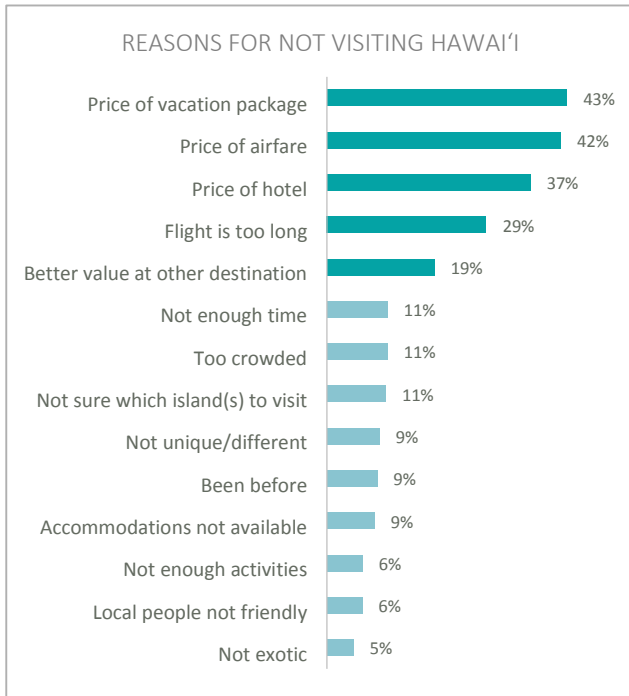
### Travel Intent for Hawai'i

Travel intent for Hawai'i continues to grow. According to the latest MMGY Global *travelhorizons* data, a record number of air leisure travelers (36%) report that they are very likely or extremely likely to visit the state in the next 24 months.

Converting intent continues to be an issue for Hawai'i's visitor industry. The high cost of a Hawai'i vacation acts as a significant barrier to turning intention into a booking. One-third (33%) of U.S. air leisure travelers report they have considered visiting Hawai'i but decided not to after all. The price of a vacation package, airfare, and hotel remain the top three reasons for a change in travel intentions. Similarly, one-fifth (19%) of U.S. air leisure travelers cite better *value* at other destinations, which impacts their selection of a vacation destination.



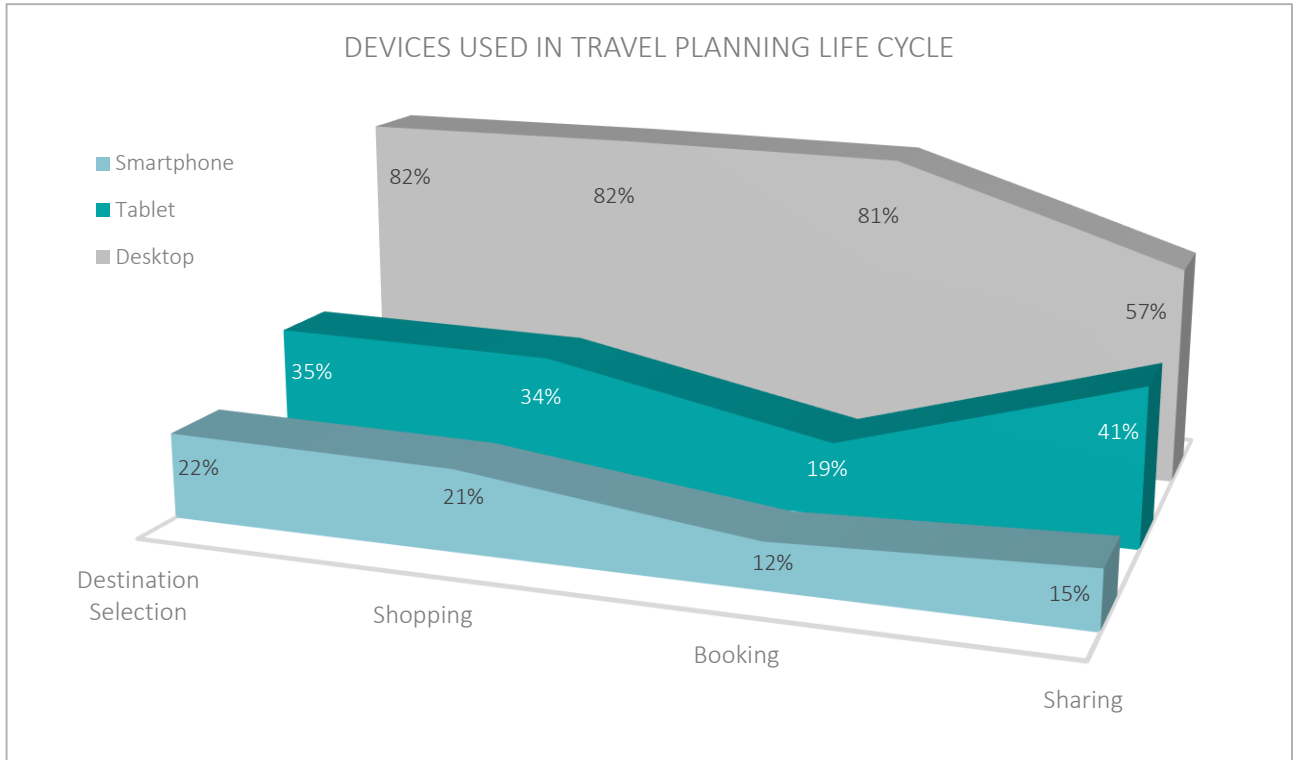
Source: MMGY Global *travelhorizons* data Wave I, II, & III 2014



Source: MMGY Global *travelhorizons* data Wave III 2014

## The Shift to Mobile

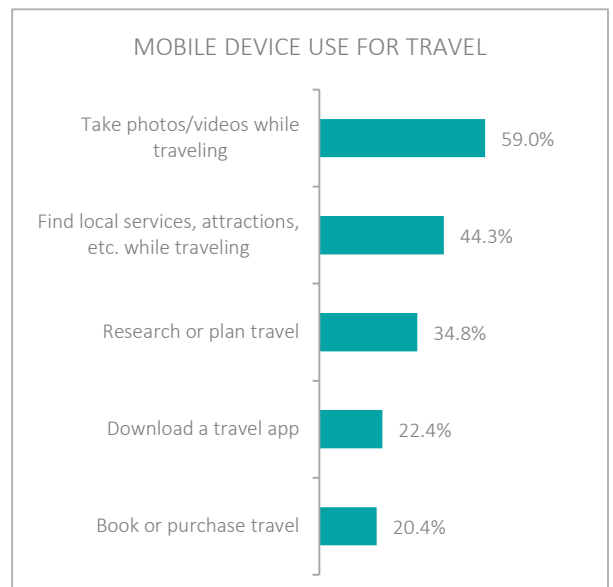
As consumers become more reliant on mobile technology, the way in which they plan and book vacations is changing. While desktop devices still dominate the travel planning process, smartphones and tablets are growing in importance, especially when sharing experiences during and after a vacation. According to a recent survey conducted by PhoCusWright, desktop devices still have the majority share in destination selection, shopping, booking, and sharing. However, tablets and smart phones are gaining share in the destination planning and booking process, particularly in regards to destination selection and sharing.



Source: PhoCusWright Traveler Technology Survey 2013

Over 76 percent of Hawai'i Target Travelers own a smartphone or tablet as of 2014. Of these, nearly 70 percent own a smartphone, up from just over 52 percent in 2011. Similarly, almost 34 percent own an iPad or other tablet device, up from approximately 14 percent just three years ago.

Among Hawai'i Target Travelers, a significant percentage use mobile devices during their travels. Nearly 60 percent use a mobile device for taking photos and videos while traveling, while almost 45 percent use a mobile device for finding local services and attractions. A smaller percentage of Hawai'i Target Travelers – just over 20 percent – use mobile devices for booking or purchasing travel. Over 22 percent have downloaded a travel app on a mobile device.



Source: TravelStyles USA 2014



## COMPETITIVE REVIEW

### Average Daily Rate and Occupancy

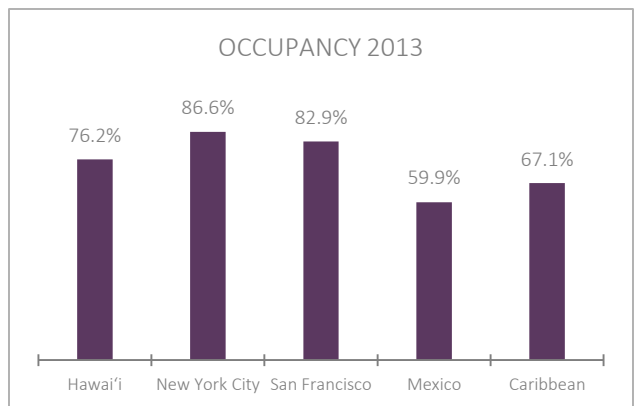
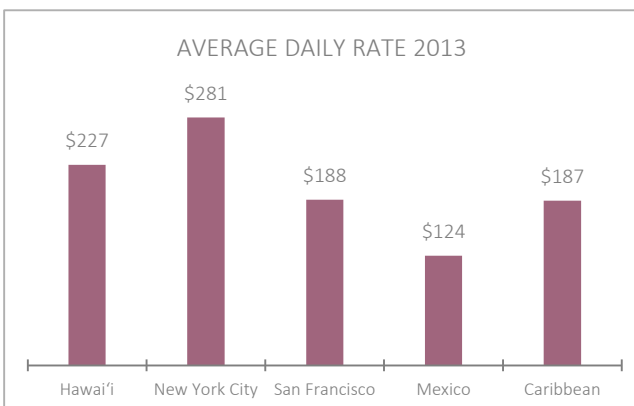
Travel costs are on the rise. According to the U.S. National Travel & Tourism Office (NTTO), travel and tourism goods and service prices were up +2.3 percent nationwide in the first quarter of 2014. The upturn in prices is mainly attributable to the accommodation sector, which grew +13.2 percent in the first quarter.

The cost of travel accommodations in Hawai'i remains much higher than that of other warm weather destinations such as the Caribbean and Mexico. While Hawai'i competes more directly with specific regions within these countries (i.e. Cabo San Lucas in Mexico and the Bahamas in the Caribbean), it is important to measure what is happening within the broader U.S., Mexico, and Caribbean accommodation sectors to better understand how Hawai'i compares.

In 2013, daily room rates in Hawai'i on average were +83 percent higher than those in Mexico and +21 percent greater than the Caribbean. Hawai'i's average daily rate has grown at a faster rate year-over-year than those of competitors, increasing at +29 percent as compared to five years ago. Mexico's average daily rate, on the other hand, has grown at a rate of +25 percent since 2009, while Caribbean hotel room rates have grown at just +20 percent.

While the average hotel room cost in Hawai'i is much higher than that of other warm weather destinations, the state's ADR is much more comparable to other major U.S. cities, including New York and San Francisco. In 2013, New York City room rates were nearly +24 percent higher than Hawai'i's, while San Francisco room rates were -17 percent lower. As such, Hawai'i's average daily rate is mostly on par with other major U.S. destinations.

Despite being a more expensive destination as compared to other warm weather destinations, Hawai'i has maintained a much higher occupancy rate than Mexico and the Caribbean. In 2013, Hawai'i averaged just over 76 percent occupancy, significantly higher than Mexico's 60 percent occupancy and the Caribbean's 67 percent. Within the domestic market, however, both New York City and San Francisco surpassed Hawai'i's occupancy rate, at 87 percent and 83 percent respectively.



Sources: HVCB analysis of Smith Travel Research data



## KEY PERFORMANCE INDICATORS

### Hawai'i Visitor Arrivals Year-to-Date Through July

In the first seven months of 2014, U.S. and Canada visitor arrivals were down -0.8 percent year-to-date. At the same time, however, U.S. and Canada arrivals are at the second highest level ever and well above the 10-year average.

In the last 10 years, year-to-date arrivals through July from the U.S. West market peaked in 2013, at just over 1.9 million visitors. Although arrivals are down slightly in the first seven months of 2014 (-1.7%), U.S. West arrivals are still well above the 10-year average. After falling to a 10-year low in 2009, arrivals from the U.S. East market have steadily rebounded but have not yet reached the 10-year high achieved in 2006. U.S. East visitor arrivals through July are relatively flat year-over-year (-0.2%). Visitors from Canada in the first seven months of 2014 reached an all-time high, topping out at over 330,000 arrivals. This is an almost +120 percent increase since 2005 and well above the 10-year average.

Visitor arrivals are expected to turn around in the second half of 2014. In the month of July, visitor arrivals from the U.S. and Canada posted their largest gain in 2014, up +2.3 percent year-over-year. Similarly, visitors are expected to be up slightly in August as compared to the previous year, despite the loss of arrivals due to Hurricane Iselle and Julio.



Source: HVCB analysis of HTA data



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