U.S. TRAVEL ASSOCIATION

MAY 2017 | Research and Trends From David Huether

U.S. TRAVEL OUTLOOK

Examining Current Industry Trends

CURRENT STATE OF THE ECONOMY

Halfway through the second quarter of the year, uncertainty is on the upswing. The timeliness of overhauls related to healthcare as well as the tax system have become questionable. As a result, consumer confidence and business confidence, while up smartly over the past six months, appear to be in "evaluation mode" as Washington adjusts to the new administration and the controversies that have developed. However, the fundamentals related to the economy are sound. The labor market is healthy; wages are growing and even accelerating. The dollar has moderated slightly since the new year while inflation remains moderate.

Economic Summary: The economy slowed considerably to start 2017. Real GDP increased at a 0.7 percent seasonally adjusted annualized rate (saar) for the first quarter. The slowdown was expected, and continues a trend of three sub-1 percent first quarter starts in the past four years (and six slow starts in the past eight years). The economic weakness focused on damp consumer spending numbers, Personal consumption expenditure (PCE), an economic pillar that composes two-thirds of GDP, slowed down considerably in the first quarter. Per the Commerce Department's GDP release, first quarter 2017 consumer spending posted at 0.3 percent saar, composing 0.2 percentage point (pp) of the 0.7 percent increase in GDP, much slower than it did during the 2016's fourth quarter (2.1%, 2.4 pp respectively). This continues a four-year trend where first-quarter PCE numbers were outpaced by the previous year's fourth-quarter.

Despite stagnant consumer spending numbers, economists remain tacitly optimistic about upcoming trends. First, the real GDP outpaced consumer spending by 0.5 pp, a rare occurrence. This fact also implies that other portions of the economy, namely investment and exports, were giving above average performances to make up for the difference. Fixed investment was the largest contributor to GDP for Q1, adding 1.6 pp and increasing 10.4 percent, with business investment leading the way (1.1 pp, 9.4% respectively). Exports also increased sizably, but were cancelled out by similar increases in imports.

Second, seasonality has been a recurring trend in economic data. Despite this, many economists are largely unworried about the slow start. According to Paul Ashworth, chief U.S. economist at Capital Economics: "Consumption growth will rebound in the second quarter," noting the second half bounce-back that predicates the slow first quarter. Chris Low, chief economist at FTN Financial suggested that "there is enough reason to doubt the growth slowdown for the [Federal Reserve] to stay the course on tightening [monetary policy and controlling expectant inflation], especially with a bigger-than-expected pop in employment costs." For its part, labor contributed another solid jobs report for April, suggesting that wages and personal incomes would drive a future trend of consumer spending and inflation pressures.

However, it is strange to see consumer spending slow down so abruptly despite sky-high consumer sentiment and expectations. Consumer and business confidence indices notably skyrocketed after the election, especially for the University of Michigan's Consumer Sentiment Index (CSI) and the National Federation of Independent Business' (NFIB) Optimism Index. On the other hand, uncertainty clouds both indices as well: stark expectations around party lines have clouded some of the CSI's veracity, while the NFIB Small Business Uncertainty Index also remains high at latest count. Joseph Brusuelas, chief economist at RSM US noted:

> "There is a growing imbalance between investor and firm expectations on growth and the hard data that points to sustained sluggish economic activity. Should that reform not be forthcoming this year, one should expect a reduction in risk appetite across the real economy and asset markets. That alone should get the attention of policy makers mired in the dysfunction of Washington, D.C."

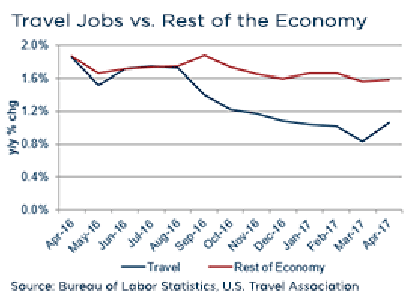
Recent events in Washington, including the removal of former FBI director James Comey, may serve to accelerate, and not ameliorate, the current dysfunction. Economists Gregory Daco and Oren Klachkin of Oxford Economics highlighted their major concerns in a note to members: "Trump's decision to fire Comey may sap him of the political capacity necessary to push through his desired dramatic policy reform through Congress… Congress is likely to be distracted by this scandal." This could further stand to limit a deficit-focused budget discussion that includes comprehensive corporate tax reform, healthcare replacement, approving infrastructure spending and a fiscal stimulus. With the hard budget deadline of September 30th, Daco and Klachkin now project that “persistent rumblings in Washington heighten the risk of further [budget implementation] delays beyond early 2018.”

Despite soft economic numbers, positive labor and consumer spending reports for April point to the expected snap-back recovery in the second quarter of 2017. Despite soft labor productivity numbers, the Wells Fargo Economic Group suggests 2.1 percent growth for the rest of 2017. This will maintain the slow-growth course the economy has kept since the Great Recession. For the second quarter, the Atlanta Fed’s GDPNow model suggests 3.6 percent seasonally adjusted annualized growth in the second quarter of 2017, much higher than the range of blue chip 2.4-to-3.7-percent consensus forecasts of economists.

LABOR

The overall job market rebounded in April. The unemployment rate dropped to 4.4 percent, its lowest level since May 2007. The economy added a solid 211,000 jobs, far surpassing the disappointing 79,000 jobs gained in March, per Labor Department figures. "It's a very strong report," says Michael Arone, chief investment strategist at State Street Global Advisors. "We're nearing full employment in the U.S. economy." Many economists say the U.S. is now at or near "full employment," meaning the unemployment rate won't go down significantly more. It's a state where employers must pay up to hire because it becomes harder to find workers. That's why wage growth is expected to pick up. Wages grew 2.5 percent in April as compared to a year ago, which is better than in prior years but not considered robust yet -- the Federal Reserve would like to see wage growth closer to 3.5 percent.

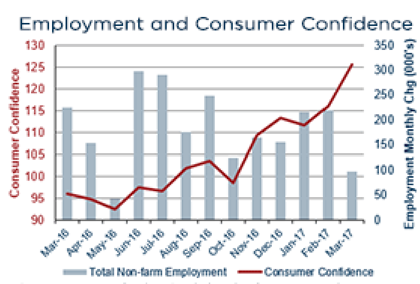
April's report showed other signs of progress. U.S. underemployment -- which includes Americans in part-time jobs and those at different lengths of unemployment -- hit its lowest mark in a decade too. The largest measure of underemployment, known as the "U-6 rate, hit 8.6 percent. This is a decrease from 17 percent in 2010, and even lower from a year ago.



U.S. Travel Association’s economists reported that April was a very good month for travel employment. The travel industry added 21,200 jobs in April 2017, accounting for 10 percent of all new non-farm jobs, according to analysis of the most recent Labor Department employment report. This is the travel industry’s highest monthly job increase since November 2015. Job gains occurred in nearly all travel-related sectors. Over the past 12 months, the travel industry has added about 86,600 jobs. The travel industry remains a consistent job creator for the U.S. economy, adding new jobs 10 out of the last 12 months and continuing to support one in nine American jobs.

The Employment Cost Index, the broadest measurement of labor costs, reports that the first quarter 2017 U.S. labor costs recorded their biggest gain since the fourth quarter of 2007. This suggests that wage growth was picking up as the labor market nears full employment. The Index increased 0.8 percent, after rising 0.5 percent in the fourth quarter. In the 12 months through March, labor costs increased 2.4 percent after rising 2.2 percent in the year to December.

CONSUMER CONFIDENCE



The Conference Board reported that the Consumer Confidence Index®, which had increased in March, declined in April. The Index now stands at 120.3, down from 124.9 in March. “Consumer confidence declined in April after increasing sharply over the past two months, but still remains at strong levels,” said Lynn Franco, director of economic indicators at The Conference Board. “Consumers assessed current business conditions and, to a lesser extent, the labor market less favorably than in March. Looking ahead, consumers were somewhat less optimistic about the short-term outlook for business conditions, employment and income prospects. Despite April’s decline, consumers remain confident that the economy will continue to expand in the months ahead.”

Consumer sentiment climbed to 97.7 in mid-May, riding the so-called Trump bump a little longer reported by The University of Michigan. Economists were expecting The University of Michigan's Consumer Sentiment Index to see a smaller preliminary reading of 97. "Consumer sentiment remained on the high plateau established following Trump's election, with the early May figure nearly identical with the December to May average of 97.4," Richard Curtin, chief economist of the group, wrote. The Index finished April with a reading of 97, up from 89 for the same month a year ago. "The Trump bump was relatively small given that the Sentiment Index averaged 91.8 in the comparable six month period a year ago and 94.5 in the same period two years ago," Curtin added.

Gallup reported that U.S. economic confidence reached a 2017 low. Americans' views of the economy remained positive, but just barely. Gallup's U.S. Economic Confidence Index averaged +3 for the week ending May 7. The index is down four points from two weeks ago and now sits at a nominal low for the year after trending downward from its early March peak. From a broader perspective, Americans remain relatively chipper about the state of the U.S. economy since the November election. In absolute terms, Gallup's Economic Confidence Index has posted a positive value 25 weeks in a row, indicating more Americans are optimistic about the economy than pessimistic. The index is still 14 points above where it stood right before the 2016 election.

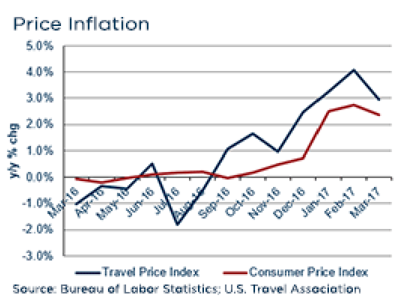
But while economic confidence remains in positive territory, it now sits at its lowest level in six months. This occurs even as Americans' feelings about the current state of the economy have been stable and positive -- perceptions that mesh well with the most recent jobs report. But for many Americans, it's not the current state of the economy clouding their overall rating of the economy, but in fact it is their perceptions of economic times ahead.

CONSUMER SPENDING

To little surprise, personal consumer expenditure (PCE) was flat for March 2017. On the other hand, PCE expanded 0.3 percent, cooling any oncoming inflationary pressure. According to the Commerce Department release: “The increase in real PCE in March was more than accounted for by an increase in spending for services, notably spending for household utilities. This increase was partially offset by a decrease in spending for durable goods.”

“Spending numbers were soft in February and March, but it’s not necessarily the end of the world,” since the figures follow a strong fourth quarter and exist in an economy nearing full employment, said Scott Brown, chief economist at Raymond James Financial Inc. “If we don’t see a rebound in the numbers we get for April and May, that would be concerning. But the fundamentals are still sound for the consumer.”

Reflecting the spending stall, consumer prices also slowed down in March. The 12-month percent change in PCE Price Index (the Federal Reserve’s preferred measure of inflation) fell short of the Fed’s 2 percent target rate at 1.8 percent, 1.6 percent excluding food and energy. That marks a slowdown after the inflation gauge climbed above their 2 percent goal in February for the first time since April 2012.



Consumer prices stayed relatively stable in April, according to the Labor Department’s Consumer Price Index (CPI). Headline CPI (12-month percent-change, all-items) increased 2.2 percent, up 0.2 percent from March. Core CPI (all items less food and energy), fell below the two-percent-mark since October 2015, posting at 1.8 percent 12-month growth in April 2017. Economists Gregory Daco and Oren Klachkin at Oxford Economics note to members: “The underlying trend for inflation looks to be relatively stable around the Fed’s 2.0 percent target,” suggesting that inflation will be less of a headwind in the second quarter of 2017.

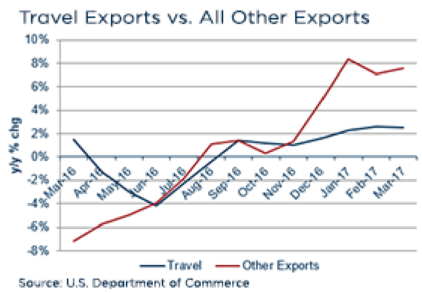
The Travel Price Index (TPI) sprinted ahead of the CPI in April 2017. The 12-month rate increased 3.3 percent and the monthly rate grew 0.9 percent from March, as reported by U.S. Travel. Other lodging (including hotels and motels) increased by 2.4 percent while the prices for motor fuel increased by 1.2 percent. Airline fares were down 0.6 percent.

Advance surveys on consumer spending conducted by Gallup ring in more positive news for consumer spending. April measurements of cash amount “spent yesterday” averaged $107 per day, up $7 per day from March. The release states: “April's $107 is the ninth daily spending average of at least $100 that Gallup has recorded for any given month during nine years of tracking the metric, and the third consecutive such reading in 2017.” The latter statement implicates inflationary pressure as a macroeconomic headwind in the first quarter of 2017, as the last time readings were consistently over the $100 per day level were the first months of the 2007-9 Great Recession. More importantly, according to Gallup’s Justin McCarthy, even if “retail sales sagged in the first quarter of 2017, April could be a turning point.” Positive advance retail sales numbers, which boosted to 0.4 percent month over month (m/m) in April from 0.1 percent m/m in March, verify that the fundamentals of the consumer spending market will remain strong and 2017’s economic engines may finally start to turn over in the second quarter.

EXPORTS

The U.S. trade deficit narrowed slightly in March to $43.7 billion from $43.8 billion in February. However, both exports and imports decreased by $1.7 billion from their previous levels. On the other hand, travel exports, bucked the trend, moving up slightly to $21.0 billion, $0.1 billion more than in February. Passenger fares exports made up nearly 60 percent of the increase, increasing by $77 million to $3.4 billion while travel expenditures increased by $52 million to $17.7 billion.

As reported by David Huether, senior vice president of research and economics at U.S. Travel, "It is important to note that overall travel exports increased at an annual rate of 3 percent during the first quarter of this year. And while this is not as fast as overall export growth during Q1, it is nonetheless the third consecutive quarter of positive export growth following three consecutive quarters of declining travel exports. While it is too soon to measure the full effects related to the new Administration's actions in regards to international inbound travel, it should be noted that the value of the dollar has decreased by about 3 percent through the first 4 months of the year, and this should help out on the export front if this trend continues moving forward."



STATE OF BUSINESS

Overall U.S. industrial production rose 0.5 percent in March because of an 8.6 percent weather-driven surge in utilities generation, as reported by the Federal Reserve. Manufacturing output, though, fell unexpectedly 0.4 percent in March. This is its biggest decline in seven months as auto production contracted in a check on the manufacturing sector's expansion. The decline in the manufacturing index in March was its first loss since August 2016. Among its major components, only computer and electronic products registered an increase of roughly 1.0 percent, and motor vehicles and parts recorded the largest decrease of 3.0 percent.

The Institute for Supply Management (ISM) Manufacturing Index decreased by 2.4 points to 54.8 in April. "The sugar high is wearing off," said Wells Fargo economists, Tim Quinlan and Sarah House, in a note to members, referring to the gap between sky-high survey-based "soft data" and relatively weak output performance "hard data." This marked the third monthly decline of the ISM Manufacturing Index. Despite the decline, survey respondents were universally positive about business conditions. The ISM Non-Manufacturing Index, on the other hand, rebounded in April to 57.5, gaining 2.3 points on March's loss of momentum. All three travel related industries (arts, entertainment & recreation; accommodation & food services; and retail trade) reported expansions, though employment indicators across the services sector gauge remained muted.

The National Federation of Independent Business' (NFIB) Small Business Optimism Index hovered near the recent surge of record-high readings that followed the November 2016 election, but fell by 0.2 points to 104.5 points for April 2017. The decline was led by an eight point drop in "expectations for future business conditions," which was interpreted by NFIB President and CEO Juanita Duggan as a sign that "[small] business owners were measurably shaken when Congress failed to address one of their most important concerns…[The Affordable Care Act]…Their failure to do so caused volatility in the Optimism Index." Most other components of the Optimism Index, however, gained on the momentum in March, especially with respect to new orders and employment.

"Tourism and general travel activity picked up," said the Federal Reserve's April Beige Book. For example, the Atlanta district reported that Georgia, Louisiana and Tennessee contacts recorded growth in tourism and hospitality, while Florida reported a slight decrease. The Midwest and Plains Regions (Kansas City District) also reported that tourism activity "increased markedly," while the surprise of early warm weather meant "[tourist] activity picked up beyond normal seasonal trends."

Travel business sentiment, as per the Beige Book seems to have decreased. The Boston District, representing New England, had "[restaurant] contacts, particularly in heavy tourism regions, [express] concern about possible labor shortages this summer, exacerbated by an expected slowdown in granting H-2B visas." New York City, reported that:

> "The outlook for international visitors has weakened noticeably: one industry expert has observed an increase in cancellations (conferences, meetings, school trips, etc.), a drop in airline ticketing and a marked decrease in inquiries from abroad. At least some of this slack is expected to be picked up by an increase in domestic visitors."

TRAVEL TRENDS INDEX

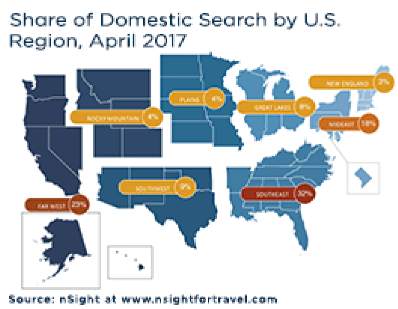
International inbound travel growth continues to avoid an outright decline, remaining in positive territory in March 2017. Nonetheless, the sector's more modest growth compared with the same period a year before underscores a projected slowdown in the months ahead, according to the U.S. Travel Association's [Travel Trends Index](#) (TTI).

Numerous reports have held that [international travel to the U.S. has measurably declined](#) as a direct result of President Donald Trump's executive orders on visas and immigration, the first of which was issued on January 27. U.S. Travel economists urge caution, though, both because the strong dollar, coupled with a weakening global economy, was already having an impact, and because any effects of the executive orders could not have shown up in economic data instantaneously. There are lag times between searches for international travel to the U.S. and actual trips—56.9 days on average, per data provided to U.S. Travel by the research firm ADARA. Any fallout from the Trump executive orders would begin to be captured in April travel data. Therefore, the most comprehensive measurement of the executive order's effects to date will be offered by the Travel Trends Index due to be released on June 6th.

Overall, travel to and within the U.S. grew at a faster year-over-year rate in March 2017 than in February 2017. Domestic travel posted strong growth, with business travel growth notably surpassing leisure travel, thanks in part to the timing of holidays like Easter and Passover this year. International inbound travel's Current Travel Index (CTI) reading of 50.2 shows that the sector grew in March, albeit at a much slower year-over-year pace than in previous months.

LEISURE TRAVEL

The April [U.S. Travel Barometer](#) showed that 76.3 percent of lodging searches by U.S. residents were to locations within the United States. This is identical to last month as well as April of last year. The Southeast continues to be the topped search region by U.S. residents – capturing nearly one-third (32%) of domestic searches in April. While the Southeast region has actually lost domestic search market share compared to April of last year, the Mideast and Far West share of domestic search increased.



[Just under 40 million Americans](#) will travel away from home this Memorial Day according to AAA. This represents more than one million more travelers than last year, resulting in the highest Memorial Day travel volume since 2005. "The expected spike in Memorial Day travel mirrors the positive growth seen throughout the travel industry this year," said Bill Sutherland, AAA senior vice president, Travel and Publishing. "Higher confidence has led to more consumer spending, and many Americans are choosing to allocate their extra money on travel this Memorial Day." 2017 will mark the third consecutive year of growth in Memorial Day travel with 2.7-percent more travelers than last year. Nearly nine in 10 (88%) travelers will drive to their destination – an increase of 2.4 percent over last year. Air travel is also up 5.5 percent from last year, resulting in 2.9 million Americans taking to the skies. In addition, drivers will pay the highest Memorial Day gas prices since 2015.

According to the 2016 National Park Visitor Spending Effects report, 2016's record of 331 million visitors at America's 417 National Park Service sites [contributed $34.9 billion to the U.S. economy](#) – a $2.9 billion increase from 2015. The strong economic output is attributed to record visitation and $18.4 billion that visitors spent in "gateway" communities near national parks. The report also found that visitor spending supported 318,000 jobs in 2016, including jobs in the hospitality, retail, transportation and recreation industries.

Strong economic indicators including a tightening labor market, growing disposable personal income, and elevated consumer confidence levels will fuel travel demand and push the [U.S. leisure travel market close to $381 billion in 2017](#), according to the 2017 Travel and Hospitality Industry Outlook Report from Deloitte. The report outlines changing customer expectations centered around authenticity, personalized experiences, removal of friction, and on-demand functionality that will challenge the leisure and hospitality industry in 2017. To meet new expectations, travel brands must continue to embrace technology and focus on mobile functionality in the coming year. Additionally, the report estimates a 4.3-percent gain in revenues for the hotel industry in the face of increased competition in the marketplace as well as predicts headwinds for the airline industry profits despite challenges, including increased operating costs from new labor agreements and rising oil prices, and competitive pressure from low-cost and international carriers.

Adobe found that recent geopolitical events and economic realities have contributed to reduced online travel spending growth in the U.S. New research found that year-over-year growth in online summer travel spending in the U.S. will decrease 66 percent from the previous year to $98 billion. Online summer travel spending still represents an increase of 5.1 percent from 2016. Although fewer inbound international flights are partly to blame, along with a strong U.S. dollar and the volatility introduced by President Trump's travel policies. "International flight bookings had been slowing but dropped by another 26 percent during the week that travel restrictions were announced," states the report. "Since then, they have been swinging up and down much more than last year."

Adobe also looked at social media mentions to gauge the reasons for travel bookings. Choosing a bucket list destination led the pack, followed by picking a destination because of its culture and having to travel for business purposes.

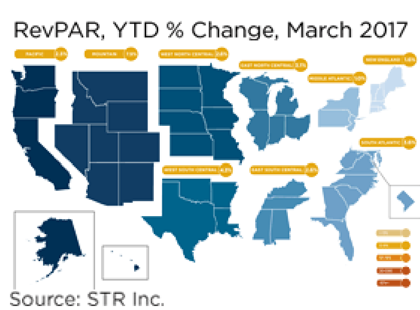
Based on the latest American Customer Satisfaction Index (ACSI), customer satisfaction with online travel agencies (OTAs) was unchanged from last year, with an ACSI score of 79. But the data showed respondents prefer booking directly with hotels. In its report, ACSI pointed out that customer satisfaction with OTAs has remained stagnant from 2016 to 2017 while satisfaction levels with airline websites and hotel websites have increased during the same period. This seems to suggest that OTAs, while rather dominant, may need to look at ways of improving their overall customer experiences. OTAs also saw declines in customer satisfaction from 2016 to 2017 along with a slight decline in satisfaction with usefulness of site-generated recommendations and loyalty programs.

According to a new survey on consumer travel habits from the American Society of Travel Agents (ASTA), millennials are traveling more than other generations. Millennials took an average of 2.38 leisure trips in 2016, 32-percent more than Gen Xers (1.8 trips), and 44-percent more than baby boomers (1.65 trips). In a major reversal of previous trends, the survey also revealed that millennials and Gen Xers are spending more on tours and lodging than Boomers. Boomers spent a combined average of $351 on lodging, tours and activities in 2016, while Millennials and Gen Xers spent an average of $457 and $468 respectively. Additional findings from the survey showed that Millennials enjoy cruising more than other generations. Almost a third of millennials (32%) have cruised in the last five years, and 61 percent report that they "strongly like" cruising. These reports are higher than all other age groups reporting.

Only 12.9 percent of travelers have used a messaging app (like Facebook Messenger or Whatsapp) to communicate with travel providers according to a new survey from Skift. That number shrinks to just 4.6 percent of travelers that have used messaging apps more than once or twice. Travel companies and messaging services alike believe that new artificial intelligence tools embedded in messaging services will boost communication between the consumer and the travel provider in addition to making answering common customer questions faster and easier. These survey results reaffirm other studies that found travel lagging behind other sectors when it comes to messaging with customers, and that the U.S. lags behind other global markets when it comes to the adoption of messaging as a communications tool.

LODGING INDUSTRY

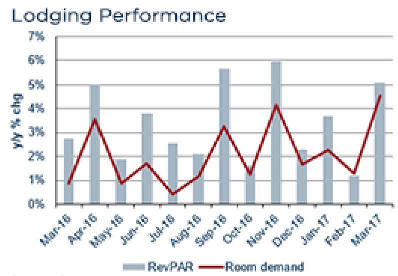
According to STR, the U.S. hotel industry reported positive year-over-year results in the three key performance metrics during the first quarter of 2017. Occupancy rate rose 0.9 percent to 61.1 percent, average daily rate (ADR) grew 2.5 percent to $124.27, and RevPAR increased 3.4 percent to $75.92 compared with Q1 2016. Bobby Bowers, STR's senior VP of operations said, "This was the strongest first quarter on record in each of the performance metrics, but it is important to note that results were boosted by a favorable Easter calendar shift (March 2016 to April 2017) as well as the Presidential Inauguration and Women's March in January."



The U.S. hotel industry saw even greater growth in March 2017, according to STR. Compared with results from March 2016, occupancy rose 2.6 percent to 68 percent, ADR grew 2.4 percent to $127.79, and RevPAR grew 5.1 percent to $86.93. These measures were the highest for any March on record and marked the industry's 85th consecutive month with a year-over-year increase in RevPAR.

Preliminary April data reported from STR indicated that occupancy declined somewhat. The upscale and upper-upscale chain segments were hit the hardest, with occupancy declining by as much as 4 percent and revenue per available room dropping by as much as 3 percent, as the early data shows. The economy segment fared the best.

Despite lower occupancy, total U.S. average daily rate was up across the board.



Source: STR Inc.

The latest annual [American Customer Satisfaction Index (ACSI) report](), found that overall guest satisfaction with hotels is up 2.7 percent to a score of 76 out of 100. However, because the hospitality market is so fragmented with so many brands and options to choose from — not to mention the growing popularity of vacation rentals and short-term rental platforms — it can be more challenging for hotels to exceed customers' expectations. Not only that, but the largest 50 hotel chains in the U.S. only account for 45 percent of the total market share for lodging.

Gauging guest satisfaction by hotel company, Hilton scored highest with an ACSI rating of 81, the same score it received last year. In terms of what guests like most about the customer experience, they cited ease of making a reservation, ease of check-in process, and courtesy and helpfulness of staff. They were least satisfied with the quality of amenities, food services and loyalty programs.

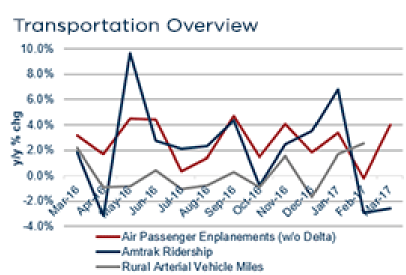
Results from STR's 2017 HOST Almanac indicate that U.S. hotel industry revenue and house profit reached all-time highs in 2016. Revenues topped an estimated $199 billion in 2016, increasing nearly $9 billion from 2015. Total industry-wide house profit exceeded $76 billion, a per-available-room increase of 2 percent from 2015. Even though records were set in each category, STR's Consulting & Analytics team notes that growth was much lower than the levels experienced in 2015. "Inflation-adjusted revenues topped the previous peak, and real house profit levels were the second-highest we've seen," said Joseph Rael, STR's director of financial performance. "However, in the past year, we've also seen revenue growth slow considerably throughout the country. With RevPAR growth forecasted below 3 percent for the next couple of years, we only expect modest profit increases in the short term."

Average daily rates (ADR) are holding strong in both the second and third quarters of 2017 despite declines in committed occupancy, according to new data from TravelClick's April 2017 North American Hospitality Review (NAHR). In the third quarter, for example, ADR for group travel is up 4.5 percent, but bookings are down -5.9 percent. Similarly, across all travel segments for the same quarter, ADR is up 1.9 percent, but bookings are down -4.3 percent. The transient leisure segment is showing positive gains in both bookings and ADR during the second quarter of 2017, up 6.6 percent and 1.3 percent respectively.

TRANSPORTATION

AIR TRAVEL

Airlines for America (A4A) reported that year-over-year revenue domestic passenger enplanements on U.S. carriers increased 4 percent and revenue international passenger enplanements increased 0.9 percent in March 2017, respectively, over March 2016.



Source: Airlines for America (A4A), Amtrak, Federal Highway Administration

The International Air Transport Association (IATA) reported that global passenger traffic demand in March rose 6.8 percent, compared to the same month a year ago. Capacity grew 6.1 percent and load factor climbed by half a percentage point to 80.4 percent, which was also a record for the month. March demand growth represented a moderate slowdown relative to performance in February after adjusting for the distortion in the year-to-year comparisons owing to the extra day in February 2016. The imposition of the ban on large electronics in the cabin on certain routes to the U.S. and UK occurred too late in March to have an effect on traffic figures.

The North American market posted a 2.7 percent traffic rise in March compared to the year-ago period. Capacity climbed 3.7 percent, and load factor slipped 0.7 pp to 79.8 percent. Passenger traffic has trended sideways in seasonally-adjusted terms since July 2016, alongside a similar trend in capacity.

Boasting over 104 million passengers, Atlanta-Hartsfield-Jackson retained its spot atop the list of world's busiest airports in 2016, according to the annual ranking released by the Airports Council International (ACI). Beijing (PEK), Dubai (DXB), Los Angeles (LAX), and Tokyo (HND) rounded out the top five. Notably, LAX experienced 8 percent growth since 2015 and moved from seventh to fourth place in the rankings, solidifying its position as one of the fastest growing hubs in 2016. With over 1.4 billion passengers passing through their airports, the top 20 busiest airports represent 18 percent of global passenger traffic in 2016.

Airline passenger satisfaction is up compared to a year ago, but airlines remain in the bottom third of industries tracked by the American Customer Satisfaction Index (ACSI). As the largest airlines lower their ticket prices to compete with discount carriers, the industry gains 4.2 percent to 75 on a 100-point scale. “Customer satisfaction has never appeared to be a goal for airlines,” says Claes Fornell, ACSI Chairman and founder. “Compared to other industries, the financial return on passenger satisfaction is not much of an incentive. The exception is in the few airports where airlines actually compete with one another – or when they treat passengers spectacularly badly in public.”

As reported by passengers, the best airlines are JetBlue, Southwest and Alaska. JetBlue leads the industry with a 2-percent improvement to an ACSI score of 82, edging ahead of second-place Southwest whose score is unchanged at 80. JetBlue’s low-cost business model and cabin upgrades appear to be paying off. Southwest continues to please passengers with policies like no charges for flight changes and no hidden extra fees. In addition, the two airlines have a better track record for compensating passengers on overbooked flights as opposed to the legacy carriers. United is the lowest-scoring legacy airline, despite edging up 3 percent to 70. “Apparently, low ticket prices are not enough of a trade-off for low service quality,” says ACSI Director, David VanAmburg, “Particularly as most airlines now also compete on price.”

The 2017 North American Airline Satisfaction Study by J.D. Power also found that overall satisfaction with the airline industry continues to rise, increasing 30 points to 756 on a 1,000-point scale in 2017. While the airline industry still ranks in the bottom tier of industries tracked by J.D. Power--including North American rental car companies and hotels--satisfaction scores have been increasing for the past five consecutive years. The study found that falling airfares, an average decrease of 8.5 percent in 2016, coupled with improved on-time performance, fewer lost bags, historically low bump rates, and high scores for flight crews, drove consumer satisfaction levels to their highest since 2006.

Emirates announced that they will be cutting 20 percent of their flights to the United States beginning in May. The cuts will affect five of its 12 U.S. destinations including Boston, Los Angeles, Seattle, Fort Lauderdale and Orlando, and will reduce inbound flights from Dubai to 101, down from 126 currently. The airline is citing a drop in demand due to changing travel climate in the U.S.: "The recent actions taken by the U.S. government relating to the issuance of entry visas, heightened security vetting, and restrictions on electronic devices in aircraft cabins, have had a direct impact on consumer interest and demand for air travel into the U.S.," the carrier said.

ROADS & RAILS

As stated in a study by the Boston Consulting Group, one quarter of all U.S. travel could be in shared, electric self-driving vehicles in less than 15 years. The impact will be felt most in cities where over one million people live, as these will be the launch locations for driverless ride-sharing services. In the study, the researchers said the everyday commuter in Chicago may be able to save $7,000 per year by moving to a self-driving, ride-sharing platform in the future.

The two largest publicly traded U.S. car-rental companies reported drops in first-quarter revenue and widening losses, suggesting that the growing popularity of ride-hailing services, such as Lyft and Uber, is cutting into traditional car-rental demand. Hertz Global Holdings' first-quarter U.S. car rental revenue fell 3.8 percent from a year earlier and Avis Budget's Americas revenue fell 3.7 percent. Both companies have attempted to capitalize on the growing ride-hailing trend by reaching agreements within the past year to rent out a fraction of their fleets to Uber and Lyft drivers. Still, financial analysts who cover the two companies said ride-hailing growth is more than offsetting any benefits Avis Budget or Hertz are generating from the partnerships, while business-travel researchers noted that usage of ride-hailing services has jumped as more corporations adjust their policies to allow employees to expense such services.

A recent report from the American Public Transportation Association makes the case for investing more in our country’s transit system. As per the report, public transit drives local economies due to the share of riders using public transit for shopping, which has more than doubled since 2007. The report also notes that 87 percent of trips ones to commute to work, travel to entertainment or run errands. The association believes public transportation investments would benefit people from all walks of life and spur growth in the U.S. economy.

According to the U.S. Energy Information Administration (EIA), U.S regular gasoline retail prices are forecast to average $2.39 per gallon for the 2017 summer driving season. This is up from $2.23 last summer. The higher forecasted gasoline price is primarily the result of higher forecasted crude oil prices. The annual average price for regular gasoline in 2017 is forecast to be $2.34 gallon which, if realized, would result in the average U.S. household spending about $160 more on motor fuel in 2017 compared with 2016.

AAA reported that the May 15 national average for a gallon of gasoline is now $2.34 - seven cents less than a month ago, but also 12 cents more than a year ago. Despite the jump in demand, the continued oversupply of gasoline caused prices in most parts of the country to drop or remain steady, except for some states in the Great Lakes and Central regions where prices increased by a penny or more. In coming weeks, the onset of summer travel is likely to increase demand which might help dip into high gasoline stocks. However, it may not be enough demand to increase prices significantly.

BUSINESS TRAVEL

According to a new report from Skift and Meetings Mean Business (MMB), 46 percent of convention and visitors bureau (CVB) senior executives place critical importance on conventions positioning their destination as a regional hub of innovation. Outside of tourism and hotel spending, CVB executives felt that showcasing their area for future business development, especially in the science and engineering arena, is the most valuable impact of conventions on their destinations. Although conventions have always been seen as an economic driver for destinations through immediate hotel and tourism spending, 81 percent of CVB executives believe they could increase opportunities for public funding if they more effectively show evidence of the long-term impacts on the area's innovation economy.

Business travelers are becoming more concerned with personal safety and overall quality of life according to new research from the Association for Corporate Travel Executives (ACTE) and American Express Global Business Travel. Concerns surrounding personal safety while traveling spiked 56 percent since September 2016. Additionally, interest in adding leisure to business trips increased 43 percent, and inquiries regarding work-life balance have grown by 31 percent in the last six months. The new survey also found that sharing economy services continue to grow amongst business travelers.

The growth rate of popular ridesharing app Uber among business travelers slowed down to just one percent in Q1 2017, according to the latest data from Certify. For the first time Certify noted that ridesharing competitor Lyft outpaced the growth of Uber, achieving two percent growth in Q1 2017. Uber maintains a commanding lead in business travel ground transportation, comprising 53 percent of the ground travel expenses tracked. At the same time, taxis have fallen to just 10 percent, signaling that the ridesharing industry as a whole will likely continue to dominate business ground travel.

INTERNATIONAL TRAVEL

The latest U.S. Travel Barometer showed that the U.S. received 13.0 percent of global international lodging searches in April 2017. This is up slightly from the U.S. share during the first three months of the year and comparable to the 13.4 percent share in April of last year. The U.S. share of global searches continues to climb in 2017 and reached 51.6 percent in April. This is consistent with the 51.4 percent of global searches seen last April.

In terms of the U.S. share of international searches in the U.S., the Mideast region continues to be the top searched region capturing four in 10 international searches and was also the region that received the largest boost in terms of share in April – increasing 12.1 percent compared to April 2016. The Southeast lost share compared to April 2016.

According to the United Nations World Tourism Organization's (UNWTO) latest World Tourism Barometer, < a href="https://www.imtj.com/news/unwto-reports-sustained-growth-international-tourism/" target="_blank">international travel spending is consistent with the 4 percent growth in international tourist arrivals to 1.23 billion that was reported earlier this year for 2016. Outbound tourism spending in China increased by 12 percent to $261 billion and the number of outbound travelers rose to 135 million in 2016, cementing China's spot as the number one source market for international travel. The United States was the number two source market with $121.5 in international tourism expenditure. Germany, the United Kingdom, and France round out the top five source markets.

According to data from Forward Keys, air passenger arrivals to the United States fell in the first quarter of the year, while arrivals to Canada and Mexico rose. Long-haul arrivals to the U.S. fell by 4.3 percent in Q1, possibly due to travel uncertainty following President Trump's executive order as well as the strong dollar. Meanwhile, Canada and Mexico saw 6.1 percent increases in arrivals during the same period. Although arrivals were already picking up in the second quarter: forward bookings to the United States were 3.7 percent ahead of last year, likely due to the later Easter holiday. (Note of caution: Forward Keys data is not an official estimate of international visitation to the United States)

The travel industry last week called for the Department of Homeland Security (DHS) to explain the rationale behind a possible expansion of the current laptop and electronics ban in carry-ons aboard flights from Europe to the U.S., a move that is expected to have an outsize impact on corporate travel. Currently, laptops and tablets are not allowed in carry-on bags on flights from 10 airports in the Middle East and North Africa. The DHS confirmed last week that it was considering expanding that ban to flights from Europe to the U.S., but as of press time, the agency said no decision had been made.

In a response to the Executive Order banning travel to the U.S. from six Muslim majority countries, foreign PhD applicants are opting out of U.S. programs in a field where the United States both dominates and relies on foreign talent, according to Reuters research. A Reuters survey of 19 Canadian universities showed a spike in international applications, most notably from Iran and India. Five top Canadian economics and business PhD programs are getting at least half of their new Iranian students this fall because of the ban, based on interviews with universities and students. Reuters research shows that foreign students make up over 60 percent of the graduate student body at U.S. universities. While a plurality comes from China and India, Iran, one country affected by the Executive Order, contributed nearly 10,000 graduate students to U.S. universities in the 2015-2016 academic year. While a mass exodus has yet to be seen – the *U.S. News & World Report* claims that drops in foreigner applications from one region may be compensated for by spikes in other foreign region applications, an Indiana University graduate program director noted, “We also had many more international applicants turn us down this year relative to the last three years… I cannot say definitively how much of this is attributable to the travel ban, but I suspect it played a role."

According to Hopper, demand for flights to the United States has fallen in nearly every country since January, possibly due to messaging fallout following President Trump’s executive order. Searches for U.S. flights from China and Iraq have dropped 40 percent since Trump’s inauguration, while demand from Ireland and New Zealand is down about 35 percent. Russia was an exception, where searches for flights to the United States have surged 60 percent since January.

Brazil’s economy appears to be making a comeback. The Brazilian real is gaining strength and is up more than 20 percent against the dollar. This is good news for destinations as it coincides with a surge in the amount of spending by Brazilians traveling abroad. According to data released by Brazil’s Central Bank, expenditures of Brazilians abroad totaled $1.5 billion in March, 18.5 percent higher than the same period of last year. In the first quarter of 2017, expenses were $4.5 billion, or 50.4 percent higher, than the expenses recorded during Q1 2016. While the real is still down 20 percent from a high of 40 cents to the U.S. dollar just as the recession was beginning, it is up 22 percent since the trough of the recession at the beginning of February 2016.

PROJECT: TIME OFF

Americans are using more vacation. After losing almost a week of paid time off since the year 2000, Americans’ vacation habits are starting to improve. Employees took an average of 16.8 days of vacation in 2016, up from 16.2 days in 2015. These findings, from Project: Time Off’s *State of American Vacation 2017* report, provide reason to be cautiously optimistic. While Americans are taking more vacation time, there is also a slight increase in the number of days left unused. In 2016, 662 million vacation days were left on the table. This is four million days more unused days than in 2015. Read more.

U.S. Travel Association Updates

RESEARCH

The research department just launched an informational video explaining the great utility of Interactive Travel Analytics and its four subscriptions: Travel Economic Impact, Monthly Travel Statistics, International Travel Statistics and State Tourism Office Budgets.

Be on the lookout for updated U.S. Travel forecast tables before IPW including revised domestic and international trip volume and spending figures.

POLICY

Airline executives were on the hot seat in recent House and Senate hearings about consumer practices – from overbooking and change fees, to seat size and passenger compensation. In advance, U.S. Travel briefed congressional offices on how these issues are only symptoms of the underlying disease: dwindling choice in the aviation marketplace. Our analysis shows that one of the four biggest domestic airlines (American, Delta, Southwest and United) currently controls over half of seat capacity on flights out of 155 U.S. airports – and 100 percent of seat capacity at 74 of those airports. The data is part of U.S. Travel's forthcoming aviation policy blueprint, which will identify problems in the U.S. passenger aviation marketplace and recommend policy solutions to address them.

The European Commission decided not to suspend visa-free travel for American citizens, determining that would only invite retaliation by the U.S. The European Parliament had voted in March to start requiring visas for U.S. visitors unless the U.S. granted visa-waiver status to Bulgaria, Croatia, Cyprus Poland and Romania – all E.U. nations not currently in the U.S. Visa Waiver Program. U.S. Travel has worked closely with European travel and tourism advocates toward a diplomatic resolution of the dispute.

National Travel and Tourism Week was celebrated May 7th through the 13th. The celebration highlighted the millions of American workers who keep our industry strong. Our *Faces of Travel* theme echoed in celebrations all week by over 200 cities and destinations across the country. The variety of promotional themes reflected the creativity of our travel colleagues: from the Real Southern Scavenger Hunt in Columbia, S.C. to the Tacos for Tourism feast in Bowling Green, OH – and the stunning lighting of New York City's Empire State Building in red.

U.S. Travel applauded Argentina's entry into Global Entry, the valuable trusted traveler program, which would allow pre-screened Argentinian citizens to utilize an expedited entry process into the U.S. while improving security for all travelers. Starting in May, Argentina will become the tenth country in the world to join Global Entry, which allows pre-screened, low-risk Argentine passport holders to enjoy a speedy customs process at 42 major U.S. airports. Argentina's addition to Global Entry also signals renewed strength in relations between the two countries, especially since Argentina began seeking re-entry into the Visa Waiver Program (VWP) last year.

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