U.S. TRAVEL OUTLOOK

Examining Current Industry Trends

CURRENT STATE OF THE ECONOMY

After a slow start in the first quarter of the year, economic growth accelerated to 3 percent annualized growth in the second quarter, the fastest quarterly pace in more than two years. Developments so far in the third quarter paint a positive picture overall for the economy. Employment and personal income continue to increase, though at a slightly milder pace than earlier in the year and consumer confidence remains high. Together these factors should buoy consumer spending in the near term; upturns in capital goods shipments signal that businesses are continuing to invest in equipment; and exports of U.S. goods and services are growing. While the recent hurricanes in Texas and Florida will likely have negative impacts in the near term, the overall foundation for the economy remains solid.

Economic Summary: Aside from two natural disasters and the government possibly running out of money, U.S. economic output stayed the course. The Commerce Department estimated second quarter real GDP growth at a 3 percent increase. This second estimate, revised up from the 2.6 percent advance estimate released in July, makes second quarter 2017 GDP the largest quarterly real GDP growth rate in almost three years. The growth was led by a 3.3 percent increase in consumer spending, contributing 2.2 percentage points (pp) to real GDP growth. Services spending remained an important part of this growth, contributing 1 pp to real GDP growth; however, travel-related services remained flat for the second quarter in terms of real GDP growth contribution.

Business investment remained a strong contributor to economic growth, growing at an annual rate of 6.9 percent in the second quarter, which was similar to the 7.2 percent gain in the first quarter of the year. Meanwhile, residential investment declined at an annual rate of 6.5 percent following strong increases in the two prior quarters. U.S. exports also had a solid quarter, increasing 3.7 percent. Service exports, including travel, led export growth, increasing 6.5 percent. Imports rose a slower 1.6 percent. As a result, the trade deficit narrowed to $567 billion (seasonally adjusted annual rate), or 2.9 percent of GDP.

Government spending, which decreased 0.3 percent in the second quarter maintaining its flat contribution to real GDP growth, remained the topic of discussion for the national economy. In early September, Congress passed a bill that:

- extends the nation's borrowing authority (or "debt ceiling") by two months to December 8, and
- replenishes federal funding for the Federal Emergency Management Agency (FEMA) in the wake of Hurricanes Harvey and Irma.

Postponing the debt ceiling discussion to December may only delay, not defuse, the tension. According to Oxford Economics' economists Gregory Daco and Oren Klachkin: "In a persistently tense political environment… Congress will be forced into another difficult debt ceiling vote in February or March." As asset managers from Tortoise Investments explain the risk of kicking this can down the road in *Forbes*: "The risk with leaving the debt ceiling issue looming much longer is it could distract Congressional focus away from achieving other important legislative agenda items, such as tax reform." Not addressing the debt ceiling, however, could result in a significant increase in borrowing costs. After Standard & Poor's Global Ratings cut the credit rating for U.S. treasuries in 2011, the Government Accounting Office estimated the 2011 debt ceiling limit delay led to an increase in Treasury's borrowing costs of at least $1.3 billion to the final fiscal year 2011 balance sheet.

Economists revised down expectations for third quarter growth given the spending outlays expected to manage the aftermaths of Hurricanes Harvey and Irma. IHS Market Chief Economist Nariman Behravesh, via *The Wall Street Journal*'s Ben Leubsdorf warned that "Hurricane Harvey could cause volatility in economic indicators for the second half of 2017, potentially reducing third-quarter growth and raising economic activity in the fourth quarter." Daco and Klachkin of Oxford Economics estimate that "Hurricane Harvey will cut 0.2 to 0.3pp from real GDP growth in Q3, bringing our forecast to 2.5 percent."

The economic costs of Hurricane Harvey are still being estimated, but its landfall on Houston did not go unnoticed. According to Chuck Watson of Enki Holdings, "If Harvey were just a hurricane, it would have only caused $4 or $5 billion worth of damage. As a tropical storm phase, it's actually producing five times that much damage," Watson says. Research from data journalism site FiveThirtyEight suggests that Hurricane Harvey may be the second-most financially costly storm in U.S. history, but, as *Forbes* suggests estimates as large as $190 billion in costs from Accuweather suggests that Harvey's costs could make up to nearly 40 percent of Houston's economy, last estimated by the Commerce Department at $477 billion in total economic output. As Houston contains hubs for both passenger travel and oil refinement, travel-related concerns remained fixed on restarting passenger flights to Houston and containing rising gas prices.

Hurricane Irma is predicted to cause $83 billion in damage and lost economic output to Florida according to an estimate from Moody's Analytics. That compares with a toll as high as $108 billion for Hurricane Harvey. In Miami Beach, where the city's roughly 22,000 hotel rooms stood virtually empty for a week, the lost revenue from that stream alone could top $25 million, according to city and industry tourism figures. Irma is "going to be a very significant financial burden on businesses," said Jerry Libbin, chief executive of the Miami Beach Chamber of Commerce. Losses in agriculture, the state's second largest industry after tourism, are expected to be in the billions of dollars, according to the Florida Farm Bureau.

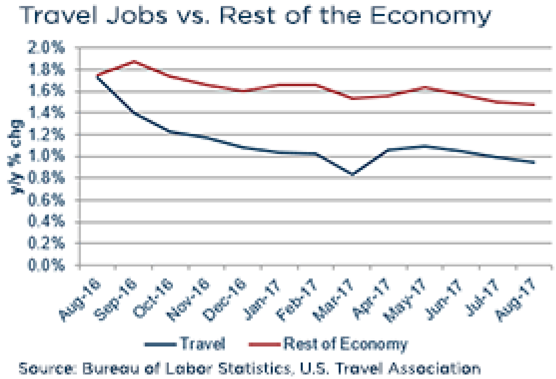
Yet Florida's economy is in solid shape, with a booming population that reached 20.6 million last year, record numbers of tourists and a growing health-care sector, said Sean Snaith, an economist at the University of Central Florida. The state's gross domestic product, a broad measure of goods and services produced, grew 3 percent last year, compared with 1.5 percent in the U.S., according to the Board of Economic Advisers. "It's going to be a bit of a setback, but I don't think it's sufficient to knock us off the trend we've been on growth wise," he said.

LABOR

Job growth lagged in August, with the economy adding a lower-than-projected 156,000 positions and the unemployment rate ticking up slightly to 4.4 percent. Average hourly wages rose 3 cents last month to $26.39, up 2.5 percent from a year ago—a raise economists call tepid and government officials say "has room for improvement." "Growth was slower in August, but that's because there were fewer gains in growing industries, not because we're seeing more losses in shrinking industries," said Jed Kolko, chief economist at Indeed.com. "We're actually at a point of unusual stability."

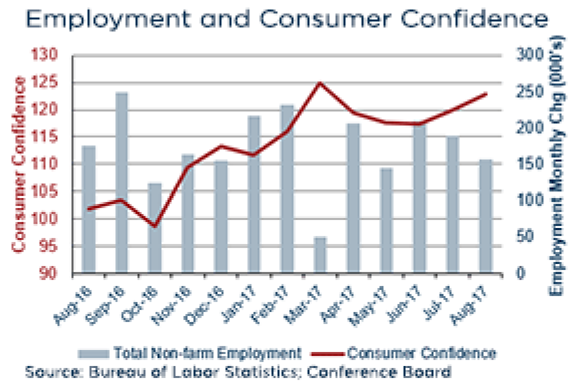
While the unemployment rate crept up from a 16-year-low, the increase is still within the margin of error. The August report does not include any impact from Hurricane Harvey, as the collection of the data used for the report was completed before the storm struck. Employees also worked a bit less in August, with the average workweek falling 0.3 percent to 34.4 hours. Last month marked a slowdown in hiring and another period of tepid wage growth, but overall the economy continues down a healthy path of steady if unspectacular improvement.

Meanwhile, travel employment changed little in August following strong growth in June and July. The travel industry added 1,000 new jobs in August and has accounted for 64,900 additional jobs in the first eight months of 2017. Travel employment growth has averaged 8,100 per month so far this year, in line with the average monthly gains in 2016. The airline industry continued to add jobs, while employment in lodging industry edged down this month.



CONSUMER CONFIDENCE

The Conference Board *Consumer Confidence Index*®, which had increased in July, improved further in August. The Index now stands at 122.9, up from 120.0 in July. "Consumer confidence increased in August following a moderate improvement in July," said Lynn Franco, director of economic indicators at The Conference Board. "Consumers' more buoyant assessment of present-day conditions was the primary driver of the boost in confidence, with the Present Situation Index continuing to hover at a 16-year high. Consumers' short-term expectations were relatively flat, though still optimistic, suggesting that they do not anticipate an acceleration in the pace of economic activity in the months ahead."



Consumer sentiment declined in September, after hitting a seven-month high in August. The consumer sentiment index, a survey of consumers by The University of Michigan, hit 95.3 in September, better than economists polled by *Reuters* expected. In August the index nearly returned to peak levels recorded earlier in 2017, hitting 97.6. "Consumer confidence edged downward in early September due to concerns over the outlook for the national economy," Richard Curtin, chief economist for the Surveys of Consumers, said in a statement. Curtin noted that hurricanes Harvey and Irma greatly impacted expected economic conditions in September. Nine percent of consumers "spontaneously mentioned concerns that Harvey, Irma, or both, would have a negative impact on the overall economy," Curtin said. "Renewed gains in incomes as well as rising home and equity values have acted to counterbalance the negative impacts from the hurricanes," Curtin added.

As of mid-September, Americans remained mixed about the economy, with Gallup's U.S. Economic Confidence Index averaging +2 for the week ending September 10. This marks the third week in a row that the index hovered near zero, the index's neutral point. In recent weeks, Americans have been less likely to express optimism about the economy than was the case in early to mid-August, when a booming stock market and positive economic news sparked a temporary rally. However, the current level of economic confidence is in line with most of the index's weekly estimates since April. As such, the decline in economic confidence the past three weeks mostly reflects a return to attitudes just before the early August rally. Americans' generally positive ratings of the economy's current health are essentially offset by their more pessimistic outlook about the nation's future economic course.

After spiking briefly early last month, economic confidence has returned to the barely positive levels that were typical for much of the past five months. Americans, it would seem, are somewhat conflicted about the overall state of the economy—the greater share of U.S. adults believe the current condition of the economy is good rather than bad but, at the same time, a majority of the country believes economic conditions in the economy are getting worse, not better. The two recent hurricanes may have caused some Americans to fear for the future of the U.S. economy. In particular, experts have warned that Hurricane Harvey, which shut down a number of oil refineries has already caused gas prices to rise in some parts of the country.

CONSUMER SPENDING

Consumer spending increased at a 0.3 percent monthly rate for July, according to the Commerce Department. The Commerce Department release also noted a strong increase in travel spending, noting that "within services, the largest contributor to the increase was spending for food services and accommodations." According to MarketWatch's Jeffry Bartash: "Households are in the best financial shape in years, buoyed by low unemployment, rising incomes and a surging stock market. Incomes, for example, climbed 0.4 percent in July to mark the biggest gain in five months." Furthermore, according to Bloomberg's Sho Chandra: "While real disposable incomes gained, the saving rate dipped to the lowest this year."

Furthermore, outstanding consumer credit increased at 6 percent seasonally adjusted annualized rate (SAAR) for July to $3.7 trillion, according to the Federal Reserve. Revolving consumer credit, which includes credit cards, increased at a 3.2 percent SAAR, finishing at just under $1 trillion outstanding. Non-revolving credit increased at a 6.9 percent SAAR. According to the American Banking Association, "Federal government holdings of student loans continue to be the largest portion of non-revolving credit, comprising approximately 40 [percent] of outstanding credit."

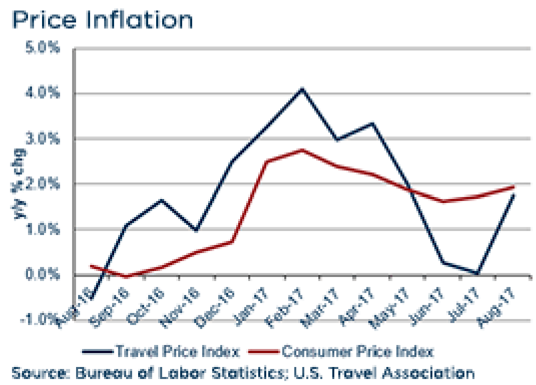
On the other hand, the Personal Consumption and Expenditures Index (PCE Index) stayed stubbornly low, up 0.1 percent for July on a monthly basis. The Federal Reserve's preferred rate of inflation, the 12-month increase in the PCE Index, increased 1.4 percent in July; "core" PCE inflation, that is, inflation less food and energy items, registered at 1.4 percent as well. With consumer spending rising and the savings rate decreasing, weak inflation numbers (below the Fed's 2 percent inflation target), can cause pressure on future decisions to increase interest rates. "It appears that inflation is taking longer to respond to economic growth and labor market slack than in past cycles," Fotios Raptis, an economist at TD Economics, said in a note to clients. "But overall we continue to believe that price pressures will eventually pick up as the economic cycle continues to mature."

On the other hand, the 12-month inflation rate for the Consumer Price Index rose 1.9 percent in August, according to the Labor Department. Core inflation, which excludes food and energy items, increased a softer 1.7 percent. "After a five-month hiatus core inflation came back to life in August," J.P. Morgan economist Michael Feroli said. "Today's report should ease some of the low inflation concerns among wavering [Federal Reserve] officials, and we continue to expect the leadership will prevail in getting another (interest rate) hike in at the December meeting." While prices have increased 1.9 percent in the year through August, inflation numbers may be complicated by the rebuilding process after Hurricanes Harvey and Irma.

The 12-month inflation rate for travel prices increased 1.7 percent in August, according to U.S. Travel's Travel Price Index. The largest component changes in consumer prices were seen in motor fuels, which increased 10.3 percent over 12 months and saw a 3.2 percent 12-month decrease in motor fuel prices. Steady price increases across other component price indicators were weighed down by a flat month (-0.1 percent 12-month rate) for lodging prices.

The incomes of middle-class Americans rose last year to the highest level ever recorded. Median household income rose to $59,039 in 2016, a 3.2 percent increase from the previous year and the second consecutive year of healthy gains, the Census Bureau reported. The nation's poverty rate fell to 12.7 percent, returning nearly to what it was in 2007 before a financial crisis and deep recession walloped workers in ways that were still felt years later. The new data, along with another Census report showing the rate of Americans lacking health insurance to be at its lowest ever last year, suggest that Americans were actually in a position of increasing financial strength.

Yet, inequality remains high with the top fifth of earners taking home more than half of all overall income while middle-class households are only now seeing their income eclipse 1999 levels. And racial disparities remain, with the median African American household earning only $39,490, compared with more than $65,000 for whites and over $81,000 for Asians. Economists and policy experts wonder whether the gains will continue. "There's a danger that this is as good as it gets," said Peter Atwater, president of Financial Insyghts. "We are already at a 16-year low in unemployment. The likelihood of significant job growth from here is limited."



EXPORTS

The U.S. trade deficit remained relatively flat in July, expanding slightly to $43.7 billion from $43.5 billion in June, according to the Commerce Department. Year-to-date, the U.S. trade deficit is running almost 10 percent higher through the first seven months of 2017 ($319 billion) than through the first seven months of 2016 ($291.2 billion). A 6 percent increase in exports year-to-date (YTD) is being outpaced by a 6.7 percent YTD increase in imports.

However, after adjusting for inflation, exports outpaced imports over the first half of the year. "The healthy growth in real exports this year led net exports to contribute positively to real [gross domestic product] growth in both the first and second quarter," wrote Sam Bullard, senior economist at Wells Fargo, in a research note. "Clearly, trade will be one of the major economic indicators that will be impacted by the negative effects of Hurricane Harvey over the coming months. While appearing to be reopening more quickly than was seen with the Port of New Orleans during Hurricane Katrina, the Port of Houston is one of the busiest ports of trade in the U.S."

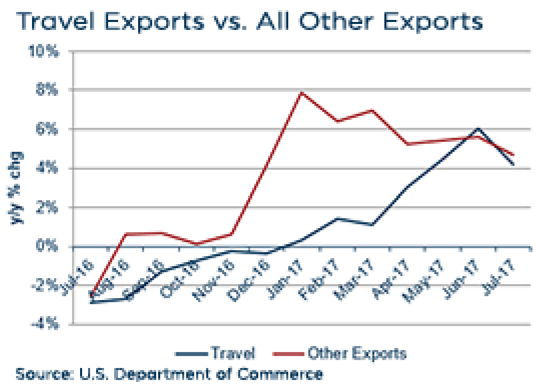
While growing trade deficits despite solid export growth may cause worry in some policy makers, recent economic research from the Council on Foreign Relations (CFR) suggests that continued policy emphasis on narrowing the trade deficit may increase protectionism and lower long-run economic growth. In reviewing recent economic literature on trade deficit, CFR quoted Peterson Institute's Gary Hufbauer: "it is better to recognize that the trade deficit is neither all good or all bad, but rather consists of trade-offs: the U.S. economy benefits from foreign goods and investment even as a high deficit displaces some workers and adds to the national debt."

Travel exports, on the other hand, decreased slightly from $21.4 billion in June to $21.2 billion in July. Travel exports have increased YTD at 2.9 percent to $146.3 billion through the first seven months of 2017. The travel trade surplus also narrowed slightly on a monthly (-$0.1 billion) and YTD basis (-5.4 percent, -$2.6 billion). However, without the $46.9 billion travel trade surplus for July, the U.S. goods and services deficit would be nearly 15 percent larger.

STATE OF BUSINESS

Nonfarm business-sector productivity increased at a 1.5 percent seasonally adjusted annual rate in the second quarter, up from a 0.1 percent growth rate in the first quarter, according to the Labor Department. The second-quarter productivity growth serves as an "encouraging sign for longer-term growth, but the news will hardly be market moving," said Scott Anderson, chief economist at Bank of the West, noting lower unit labor cost growth will keep a lid on consumer inflation. According to *The Wall Street Journal*, "It is unclear whether the second-quarter pickup in productivity signals a broader, sustained shift" that will manifest in larger gains on household incomes and economic growth.

Industrial production rose 0.2 percent in July following an increase of 0.4 percent in June. In July, manufacturing output edged down 0.1 percent; the production of motor vehicles and parts fell substantially, but that decrease was mostly offset by a net gain of 0.2 percent for other manufacturing industries. This increase in industrial production comes despite a 6.8 percent decline in durable goods orders (though most of this was due to a decline in seasonal aircraft orders). Excluding aircraft, durable goods orders increased a healthy 0.5 percent. Core non-defense, non-aircraft durable goods shipments increased 1 percent, indicating a healthy start to the third quarter for manufacturing.

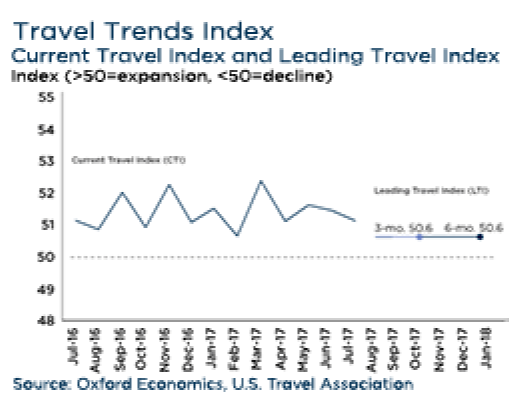


Manufacturing activity looks to be at another all-time high in August, reports the Institute for Supply Management (ISM). The ISM Manufacturing Index for August reached 58.8, the highest rate in six years. The strongest index component performers included increasing prices, production and new orders, all of which reading over 60 (any reading over 50 indicates expansion). The ISM Non-Manufacturing Index increased 1.5 points to 55.3. The index for prices paid for purchased materials and services by nonmanufacturing companies rose 2 points to 57.9, which, according to Robert Hughes of the American Institute for Economic Research "suggests higher input costs." Production managers also expressed concern about the effect of Hurricanes Harvey and Irma on input prices.

The Federal Reserve's Beige Book was released for September 2017. The Fed dutifully noted, however, that the data from their 12 district offices were "primarily collected before Hurricane Harvey made landfall on the Gulf Coast." Contacts at the Boston Fed noted that "restaurant revenues through June were up about 3.6 percent from a year earlier" as well as "a strong summer tourism season" for Maine. Travel spending looks to have picked up, albeit modestly, across the Mid-Atlantic (New York, Philadelphia and Richmond districts). However, travel industry contacts in the Southeast (Atlanta district) noted that the summer season was "softer than expected, which they attributed to significant rainfall throughout the region." Into the upper Midwest and Plains, the Minneapolis district noted that "most regional and state fairs have seen increased attendance." Glacier National Park summer visits were up 25 percent over last year's record attendance."

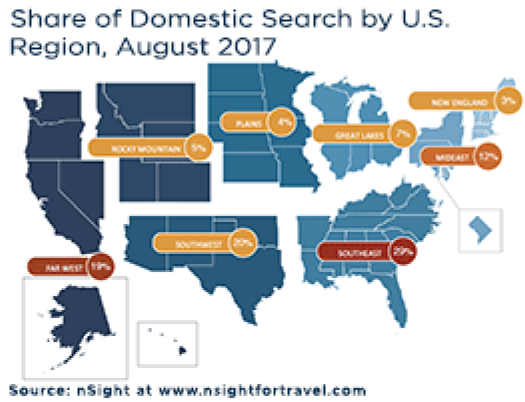
TRAVEL TRENDS INDEX

The latest Travel Trends Index (TTI) offers a substantially more pessimistic assessment of the U.S. travel economy than in months past, after a revised analysis reveals major storm clouds for the inbound international travel market. The report updates earlier numbers with newly available data, and finds that international visitation—initially found to have grown consistently this year—actually contracted in four of the seven months for which data is so far available.



The declines were steepest in February (6.8%) and March (8.2%). U.S. Travel economists say the slight uptick in April is likely due to the travel-heavy Easter holiday falling in that month this year. More recently, international inbound travel declined in both June and July, while domestic leisure travel remained healthy. View the full report here.

LEISURE TRAVEL



The August U.S. Travel Barometer reported that eight in 10 U.S. residents were searching for lodging within the U.S. in August. The share of U.S. residents searching for domestic travel is identical to August of last year. Interest in travel to the Southwest (which includes Texas) increased to 20 percent of domestic searches. This observed increase may be somewhat as a result of residents displaced by Hurricane Harvey, although the top state searching for lodging in the Southwest was California. While lodging searches increased to the Southwest, the share of domestic searches to the Southeast declined to 29 percent in August.

Domestic travel and road trips are up, according to the MMGY 2017 Portrait of the American traveler. The study showed that domestic travel comprised 85 percent of all American vacations, and in the last year, Americans took 13.9 million more vacations inside the U.S. than international trips. The rising preference for domestic destinations and low gasoline prices has also resulted in the increasing popularity of road trips.

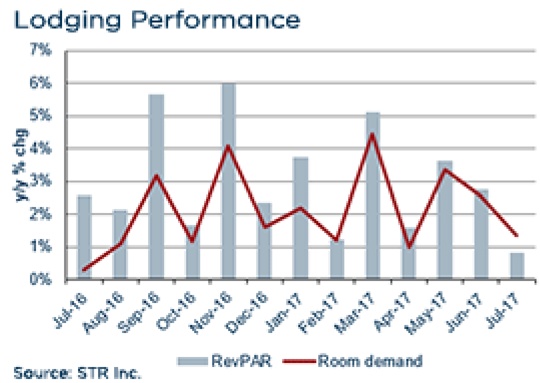
From 2016 to 2017, road trip vacations taken by Americans rose from 22 percent to an impressive 39 percent. In terms of economic impact, consumer expenditures on road trip travel increased from \$66.6 billion in 2015 to \$113.7 billion in 2016. Boomers are leading the growth of road trips with 42 percent of vacations taken as road trips compared to Millennial road trip vacations which only constitute 36 percent.

Facebook usage is dropping among teenagers, eMarketer reports. EMarketer predicts 14.5 million people from the ages of 12 to 17 will use Facebook in 2017, a drop of 3.4 percent from the prior year. Teens are migrating instead to Snapchat and Instagram. While Facebook has continued to grow around the world, with more than 2 billion users this year, younger people are finding it less compelling, said Oscar Orozco, a forecasting analyst at EMarketer. “Teens and tweens remaining on Facebook seem to be less engaged—logging in less frequently and spending less time on the platform,” Orozco said. “At the same time, we now have Facebook-nevers, many children aging into the tween demographic that appear to be overlooking Facebook altogether, yet still engaging with Facebook-owned Instagram.”

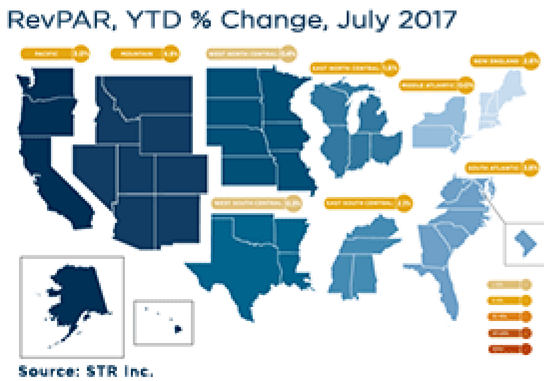
According to a new survey conducted by Princeton Survey Research Associates International, if expense were not a factor, Hawaii is the number one ideal vacation U.S destination for American adults, followed by Florida, California, Alaska and Colorado. Hawaii was the top-choice among women and all other age groups aside from millennials. Men chose Florida first and millennials preferred California. The survey found that 47 percent of adults would go on vacation alone, 28 percent have already done so and 19 percent would be open to it someday. Solo travel appeals most to millennials, according to the survey.

LODGING INDUSTRY

The U.S. hotel industry’s July performance left something to be desired, with some strong performances balanced with “less-than-impressive” percent changes, wrote Jan Freitag, SVP of lodging insights at STR. STR is predicting that supply and demand growth will hold at equilibrium this year at 2 percent and occupancy will decline 0.2 percent in 2018. Average daily rate (ADR) increased only 1.4 percent in July, the lowest ADR growth in 2017.



According to STR, July U.S. room revenue increased 2.7 percent and room demand increased 1.4 percent from a year ago. Total room revenue reached $15.4 billion in July 2017.



The hotel industry reported positive results in August, according to STR. In year-over-year comparisons, occupancy grew 0.9 percent to 70.7 percent and ADR increased 1.6 percent to $127.69, helping to boost revenue per available room (RevPAR) 2.5 percent to $90.31. Nashville, Tennessee, reported the only double-digit rise in RevPAR, which was primarily due to the only double-digit increase in ADR.

"All this led to barely noticeable positive revenue-per-available-room growth of 0.8 percent—the lowest this year," Freitag writes. "You really had to look closely to see it. This is the 89th month of consecutive RevPAR growth and we expect more growth as the year progresses, partially because room demand continues to hold. The industry sold 118 million room nights, which is the single largest room demand in any month ever recorded. Ever."

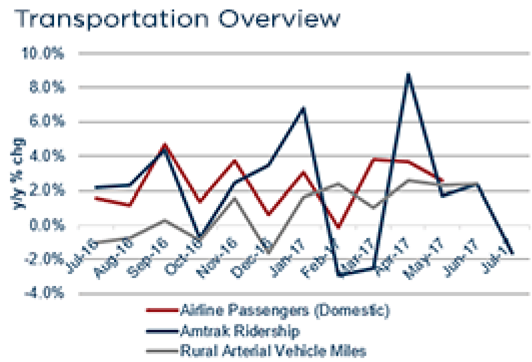
Hotels in the path of the solar eclipse in late August saw an average increase of 244 percent in RevPAR and 95 percent gains in occupancy on August 20, the day of the eclipse. Hotels logged 87 percent gains in RevPAR in the three days leading up to the eclipse. For comparison, the three-day RevPAR gain recorded by Houston's hotels during Super Bowl 51 was 356 percent, but there are nearly twice the hotels in the eclipse path as in the Houston market. Hopkinsville, Kentucky experienced the highest gains on any city in the path with a 1,644 percent increase in RevPAR on August 20 and 522 increase in the three days leading up to the eclipse. The impact of hotel performance within the path of totality was significant enough to lift the aggregate performance data for all U.S. hotels. Total U.S. RevPAR for 20 August increased by 17 percent, compared with Sunday, 21 August 2016.

Hotel demand and occupancy in Houston is expected to surge following Hurricane Harvey. Based on experiences from Hurricanes Katrina and Sandy, analysts at CBRE Hotels are projecting a 15 percent increase in nightly hotel demand in Houston, Austin, San Antonio, and Dallas Fort-Worth areas over the next four months, largely driven by displaced families, relief workers, insurance adjustors and contractors. Because Texas's hotel market comprises almost two percent of the total U.S. market, effects from Harvey will likely be felt in the hotel industry across the country. CBRE projects increased occupancy in Texas could lead to an additional $430 million in anticipated revenue, boosting the overall U.S. fourth-quarter growth in room revenue to 4.4 percent, up from an original forecast of 3.5 percent growth. Hoteliers are still assessing damage to make projections of industry impact from Hurricane Irma.

A study measuring guest expectations against experience by marketing firm Acxiom finds that "most travelers have more interaction with hotels than any other travel component," but "some of the most valued aspects of the hotel stay are also sources of great discontent." More than half of survey respondents found the length of the check-in and check-out process too long. While more than four in 10 were frustrated with 'outdated room features and design', one-third stated 'poor customer service' and one-quarter 'checked too many websites while booking.'

TRANSPORTATION

AIR TRAVEL



Source: BTS, Amtrak, Federal Highway Administration

North American airlines' traffic climbed 3.5 percent in July compared to July 2016 according to the International Air Transport Association (IATA). This was down from 4.4 percent growth in June, but still ahead of the five-year average pace (2.9%). Outbound travel is being supported by the relatively solid economic backdrop in North America; however, anecdotal evidence suggests that inbound demand is being negatively influenced by the additional security measures in place for travel to the U.S. July capacity rose 3.8 percent with the result that load factor slipped 0.3 percentage points to 85.9 percent.

Globally, air passenger traffic showed strong but moderating demand growth in July. Total revenue passenger kilometers (RPKs) rose 6.8 percent, compared to the same month last year, down from 7.7 percent year-over-year growth recorded in June. All regions reported solid or better growth in passenger volumes over the past year.

The Government Accountability Office (GAO) reported that revenue collected by airlines from fees on checked bags and trip changes or cancellations increased nearly 13 percent from 2010 to 2016, while proceeds from other optional fees also ballooned. The 11 U.S. airlines studied took in $7.1 billion from those charges in 2016, compared to $6.3 billion in 2010. GAO found that "transport-related" airline charges increased 10 percent while revenue from miscellaneous fees skyrocketed 87 percent.

A new study analyzed the "Southwest effect" on airfares that typically results when the low-cost carrier competes against legacy airlines in a particular market. The study found the Southwest effect continues to be strong even though the airline has matured into a major airline that carries more passengers on domestic flights than legacy competitors. The study, titled 'Public Benefits and Private Success: The Southwest Effect Revisited,' reviewed what became of ticket prices in 109 domestic markets that Southwest entered between 2012 and 2015. In those 109 markets, ticket prices dropped by an average of 15.2 percent while the number of flyers increased by an average of 27.8 percent. Nationwide, said the authors, one-way tickets are $45 cheaper when Southwest is in a market than when it is not. And those price benefits produce $9.1 billion annually in consumer fare benefits on domestic flights.

Southwest and JetBlue have the most generous airline reward programs in the U.S. Recent analysis by IdeaWorksCompany in its 2017 CarTrawler Reward Seat Availability Survey shows that Southwest Rapid Rewards and JetBlue TrueBlue offer flyers the lowest average prices for reward seats, while United's MileagePlus program has increased its price for rewards over the last few years.

The majority (56%) of travelers consider the total combination of product, service and convenience when deciding whether to make a flight purchase according to a new report from Amadeus, "Embracing Airline Digital Transformation: A Spotlight on what Travelers Value." A competitive price was the most important factor for 37 percent of travelers, with 28 percent agreeing that when searching for flights online, it is difficult to compare flights based on features other than price. Airline loyalty was not a significant factor for most travelers: only 20 percent said they always book with the same airline unless there is a significant price difference. Convenience of flight time and departure airport was the second most important factor for travelers with 31 percent choosing it as the most important factor. Additional findings from the report: 27 percent of travelers turned to metasearch (e.g. Google Flights, Kayak) first when searching for flights, and 39 percent said they are most likely to consult friends and family before booking a flight.

ROADS & RAILS

Vehicles logged an estimated 1.6 trillion miles traveling throughout the United States in the first half of this year, a 1.6 percent increase from the first six months of 2016, according to data published by the Federal Highway Administration (FHWA). "The increase in driving over the first half of the year highlights the growing demands challenging the nation's roads, and reaffirms the importance of improving the nation's infrastructure investments and streamlining the environmental and permitting processes," FHWA said. Vehicle miles traveled for the first half of the year have increased every year since 2011.

In June alone, vehicles traveled over 280.9 billion miles across the country, a 1.2 percent increase from June 2016. Vehicle miles traveled increased by the biggest percentage in the western United States.

The business implications of Hurricane Harvey are still being sorted out, but one of the earliest impacts is a jump in the price of gasoline as the largest oil refinery in the U.S. shut down operations, according to Bloomberg. Overall, about 18 percent of the U.S.'s oil refining capacity has been stopped. The news agency writes that Motiva Enterprises LLC's Port Arthur refinery "began a controlled shutdown because of severe flooding." Restarting the refinery depends on how quickly the flood waters recede. As a result, gas prices are spiking, including a 6.6 percent increase in New York.

Significant disruptions in the U.S. energy market have occurred in recent weeks as a result of Hurricane Harvey. The severity and duration of outages create additional uncertainty about the path of energy prices in the coming weeks and months. In addition, this month's energy outlook does not include any projected effects from Hurricane Irma. The U.S. Energy Information Administration (EIA) reported that U.S. regular gasoline retail prices reached $2.69 per gallon on September 11, up 29 cents per gallon from August 28 and the highest weekly average since August 2015. EIA forecasts the average U.S. regular gasoline retail price to be $2.61 per gallon in September and then fall to $2.40 per gallon in October. EIA forecasts the regular gasoline retail price to fall to $2.23 per gallon in December.

New research suggests that bike lanes could help lower healthcare costs, generate tremendous savings for cities and reduce citywide congestion. *Fast Company* reports that 'for every dollar spent to build new separated bike lanes, cities could save as much as $24 thanks to lower healthcare costs and less pollution and traffic, according to a new study from New Zealand. They found huge differences: If the city built a network of separated lanes and slowed down traffic speeds, it could increase cycling by 40 percent by 2040, but adding a few lanes in a few places might only increase bike traffic by 5 percent. The more people ride, the more the cost savings would add up. The biggest reduction is with healthcare costs.

BUSINESS TRAVEL

Average worldwide corporate negotiated airfare is projected to increase in 2018, according to Carlson Wagonlit Travel's 2018 Global Travel Forecast. Growing demand and rising crude oil prices are expected to outweigh the anticipated 6 percent increase in capacity and downward pressure on base fares from fare segmentation. Global average daily hotel rates are projected to increase 3.7 percent, with the biggest jump in Europe. Business travel managers are also expected to see the impact of the recent wave of hotel mergers in the upcoming Request for Proposals season.

Sharing economy giant Airbnb expects their business travel segment to grow to 30 percent of their business by 2020, according to David Holyoke, Airbnb's global head of business travel. The business travel segment currently makes up about 10 percent of the home-rental company's business. Airbnb has curated a category of their four million properties to highlight business-travel-ready homes with additional convenience features including 24/7 check-in. The company is attempting to make their home sharing platform more convenient for companies as well by introducing a dashboard for tracking employee travel and expenditures.

INTERNATIONAL TRAVEL

Over 22.2 million international visitors arrived in the U.S. during the first four months of 2017, according to the Department of Commerce. This visitation rate remains 1.2 percent below total international visitation to the U.S. in the first four months of 2016. During this period, visitation from Canada was up 7.7 percent, while visitation from Mexico was down 4.9 percent and overseas visitation was down a similar 4.3 percent. For overseas visitation, all major regions of the globe posted declining travel to the U.S. except Asia. Of the 20 largest inbound travel markets for the United States, only six posted increases in visitation during the first four months of 2017 compared to the same period last year: Canada, South Korea, France, Italy, Spain and the Netherlands.

Referring to the Travel Trends Index (TTI), Skift quoted David Huether, senior vice president of economics and research at U.S. Travel: "We kept projecting drops in international visitation, and they kept not materializing. However, we recently were able to access new data inputs for the TTI to give us an even more comprehensive picture, and sure enough, the international travel segment has been far weaker than what was initially shown." Moreover Oxford Economics' Adam Sacks noted to the *Los Angeles Times*: "Additionally, the president's continued rhetoric and policies weigh heavily on the intentional inbound market outlook."

The United States' share of international searches increased to 16.1 percent in August, according to the latest U.S. Travel Barometer. This is up slightly from the last few months but identical to August 2016. Travel interest to Spain gained some ground but was similar to the 10.3 percent share captured in August of last year. International searches to the Southwest also increased to 12 percent of international searches while the Southeast and Mideast remained the top two regions searched by international travelers capturing 27 and 26 percent of lodging searches, respectively. Year-over-year, the share of international searches to the Mideast declined 6.1 percent in August.

According to the latest United Nations World Tourism Organization (UNWTO) World Tourism Barometer, 598 million international tourists took trips in the first six-months of 2017, making this year the strongest half-year for international tourism since 2010. Worldwide, international tourist arrivals (overnight visitors) increased by 6 percent compared to the same six-month period last year, well above the sustained and consistent trend of 4 percent or higher growth since 2010. Growth was strongest in the Middle East (+9%), Europe (+8%), and Africa (+8%), with Asia and the Pacific and the Americas trailing (+6% and +3%, respectively).

Canada is outperforming the United States in growth of its Chinese inbound travel market. Canada saw an all-time high of 610,000 Chinese tourists in 2016, representing 24 percent growth over 2015, while the United States posted declines in the first quarter and the month of March in 2017, down 0.5 percent and 2.1 percent respectively. Canada is becoming increasingly easy to travel to from China, with air seat capacity growing 26 percent in 2016 and 36.9 percent in the first six months of 2017, compared with the first six months of last year.

PROJECT: TIME OFF

Research shows that an employee's view of company vacation culture varies based on where they fall on the corporate ladder. According to Project: Time Off, half of senior leaders say their company culture encourages vacation while just 30 percent of non-managers say the same. This difference is also reinforced in a company's messaging. Six-in-10 senior leaders say they hear about the value of time off while over half (51%) of non-managers say they never do. Read more about how the disparity in perception can make various levels of the workforce feel as though they're employed by entirely different companies.

U.S. Travel Association Updates

RESEARCH

A new U.S. Travel study shows that travel is one of the most potent job creators of any American industry. *Travel: America's Unsung Hero of Job Creation* analyzes data from the U.S. Bureau of Labor Statistics to showcase the significant economic power of the travel industry in America—particularly the quality of the industry's jobs, and the large number that are created by small businesses. The report shows that Americans whose first job was in a travel-related industry earn more than those whose first jobs were in most other U.S. industries; that nearly 40 percent of workers who began their career in travel reached an annual career salary in excess of $100,000; and that the travel industry also offers a statistically better career starting point for Americans with less education. Access the online toolkit for additional background and social media resources, to help amplify this message.

The *Economic Review of Travel in America, 2017 Edition*—U.S. Travel's annual report offering a broad review of the 2016 economic year in travel—was recently released. The report outlines historical measurements of the U.S. travel and tourism industry detailing domestic and international inbound travel volume and the impact of travel on the U.S. economy, as well as the importance of the United States in the global market.

POLICY

Congress approved an initial $15 billion hurricane disaster aid package. We expect the impact on the travel sector to be significant. Meantime, the national travel community is eager to support recovery work. U.S. Travel has launched a web page offering links to organizations assisting with hurricane relief efforts, as well as up-to-date travel information for affected areas. Please join us in supporting these efforts in any way you can.

In a recent meeting with the Travel and Tourism Advisory Board (TTAB), Commerce Sec. Wilbur Ross reiterated that the U.S. must remain open for business to international travelers. He also noted that heightened travel security, the recent hurricanes and a strong dollar have created some headwinds for the industry. He requested a list of suggestions from the TTAB for steps the federal government could take to help. The TTAB made the following recommendations:

- Set a new goal for the number of visitors the U.S. will attract through 2025;
- Continue to fund and expand the Survey for International Air Travelers;
- Protect and support Brand USA;
- Create an umbrella brand for all trusted traveler programs at the Homeland Security Department;
- Develop a plan to promote infrastructure improvements

TTAB members will work with the Commerce Department on these and other ideas before presenting a refined list to the Secretary in late October.

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