U.S. TRAVEL ASSOCIATION

AUGUST 2017 | Research and Trends From David Huether

U.S. TRAVEL OUTLOOK

Examining Current Industry Trends

CURRENT STATE OF THE ECONOMY

Closely mirroring 2016, the economy improved during the second quarter of the year, aided by solid consumer spending, businesses investment and export growth, which may have been encouraged by a modest depreciation in the value of the dollar since the beginning of the year. Consumer confidence remains elevated, employment and wage growth are expanding and recent data on retail sales indicate that consumer spending—a necessary ingredient for United States economic expansion—got off to a solid start in the third quarter.

Economic Summary: Amidst geopolitical turmoil, the economy coasted through the first half of 2017. According to the U.S. Department of Commerce advance estimate for 2017's second quarter, real GDP expanded 2.7 percent (seasonally adjusted annualized rate [SAAR]). With the final revision of first quarter real GDP growth at 1.2 percent, 2017's first half average growth-rate (1.9%) exceeds 2016's over the same time period. The pattern of a weak first quarter followed by a stronger second quarter remains symptomatic of the hamstrung economic acceleration in the post-Great Recession recovery period. "The economy is on cruise control. Unfortunately cruise control is about 2 percent," said Diane Swonk, founder of DS Economics to *The Wall Street Journal*.

However, consumers remained relatively confident, and consumer spending, roughly two-thirds of the U.S. economy, shouldered much of the responsibility for the rebound in real economic output, rising at a 2.8 percent annual rate. Travel-related services (transportation, recreation and accommodation & food services) edged down 0.5 percent (SAAR) in the second quarter after a 3-percent gain in the first quarter. Exports also had a massive turnaround in the spring, accelerating to 7.4 percent against a 3.4-percent contraction in the first quarter (goods exports rebounded 10.4 percent).

Inventory investment, which depressed all investment in the first quarter (-1.5 percentage point contribution to GDP in Q1), stopped the bleeding but still contracted in Q2. Residential investment also receded considerably, down 6.8 percent SAAR, while business investment remained strong (up 5.2% SAAR). "[Business] investment, which has disappointed over the past couple years, is coming back, and that's an encouraging sign for the future," said Charles Seville, senior director at Fitch Ratings

Looking forward, "Based on the strength of the labor market," said Gregory Daco and Oren Klachkin, economists at Oxford Economics, "the outlook for consumer spending looks relatively upbeat." On the other hand, wage growth remained soft for July, increasing 2.5 percent year-on-year (y/y). Daco and Klachkin continue: "unless wage growth accelerates or policy makers implement a fiscal stimulus program to underpin income gains, there will be constraints to consumer spending, since there are limits to how much households will or can dip into savings."

The nation's top economists at the Federal Reserve also remained (literally) unmoved by the risks posed by future spending. Minutes from the Fed's July 2017 Federal Open Market Committee (FOMC) meeting voted to keep the overnight treasuries at a rate of 1-1.25 percent. The FOMC "continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further… Near-term risks to the economic outlook appear roughly balanced." Just as important, the FOMC also announced that trimming the $4.5 trillion balance sheet, which effectively tightens monetary supply and raises prices, to happen "relatively soon," with New York Federal Reserve President William Dudley noting it "wasn't unreasonable" to expect this asset sell-off in September.

The immediate outlook for the third quarter, according to the Atlanta Federal Reserve's GDPNow model, forecasts a 3.7 percent real GDP increase (SAAR). Daco and Klachkin estimate that the "Treasury [Department will] exhaust… almost all of its cash balances on October 2," citing Treasury Secretary Steven Mnuchin's cautioning to Congress to raise the debt ceiling.

The International Monetary Fund predicts that the economies of the U.S. and United Kingdom will expand slower than previously forecast, the BBC reports. The U.S. economy is now predicted to grow by 2.1 percent rather than 2.3 percent this year. The IMF reported the main factor behind its revision was "the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes… Market expectations of fiscal stimulus have also receded." U.S. Travel Association, for our part, remains slightly more optimistic, keeping 2017 and 2018 growth at 2.3 percent and 2.5 percent respectively.

LABOR

The U.S. economy continued a strong summer, adding 209,000 jobs in July while the unemployment rate fell to 4.3 percent, the lowest since March 2001, according to the Bureau of Labor Statistics. A more encompassing rate that includes discouraged workers and the underemployed was unchanged at 8.6 percent.

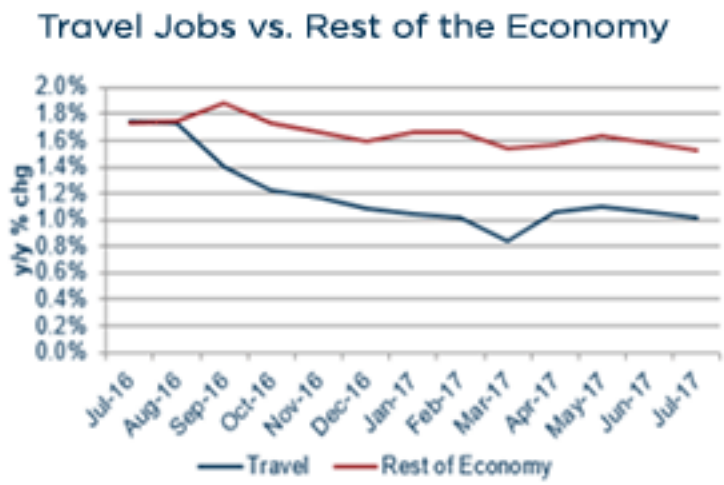
The number of employed Americans hit a new high of 153.5 million and the employment-to-population ratio also moved up to 60.2 percent, tied for the highest level since February 2009. Note: while the employment-to-population ratio has been improving since 2014, it still remains considerably below the 63 percent annual average during the two decades prior to the Great Recession.

Bars and restaurants provided the biggest boost for the month with 53,000 additional employees, while professional and business services contributed 49,000. "Kind of an all-around strong headline number," said Tony Bedikian, head of global markets at Citizens Bank. "More people are coming into the labor force and finding jobs. It's difficult to find anything really negative in the report."

Average hourly earnings increased nine cents, or 0.3 percent, in July after rising 0.2 percent in June. That was the biggest rise in five months. On a year-on-year basis, wages increased 2.5 percent for the fourth straight month. Although the economy is near full employment, wage growth has not been strong in part because many of the jobs being created are in low-wage industries.

July's monthly increase in earnings could, however, offer Fed policymakers some assurance that inflation will gradually rise to the U.S. central bank's 2-percent target. Sluggish wage growth and the accompanying benign inflation, however, suggest the Fed will delay raising interest rates again until December. It has increased borrowing costs twice this year and its benchmark overnight interest rate is in a range of 1 percent to 1.25 percent.

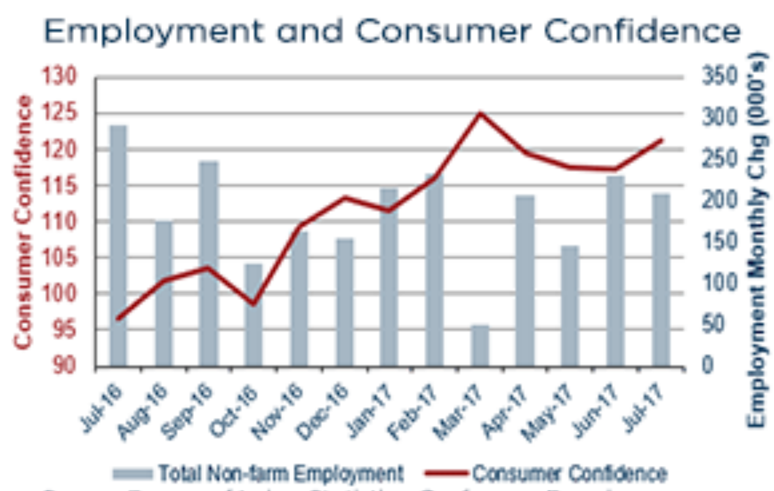
[The travel industry added 13,400 jobs in July](), according to U.S. Travel's analysis of the latest Labor Department employment report. Travel industry employment has grown every month in 2017 so far, adding an average of 9,500 jobs per month. Most travel industry segments added jobs last month. Job gains occurred in the food and beverage service, amusements/gambling/recreation, and airline industry in particular. Employment in the lodging segment also edged up. The travel industry as a whole has added 66,800 jobs so far this year. 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.



Source: Bureau of Labor Statistics, U.S. Travel Association

CONSUMER CONFIDENCE

The Conference Board *Consumer Confidence Index®*, which had declined marginally in June, improved in July. The Index now stands at 121.1, up from 117.3 in June. "Consumer confidence increased in July following a marginal decline in June," said Lynn Franco, director of economic indicators at The Conference Board. "Consumers' assessment of current conditions remained at a 16-year high and their expectations for the short-term outlook improved somewhat after cooling last month. Overall, consumers foresee the current economic expansion continuing well into the second half of this year."



Source: Bureau of Labor Statistics; Conference Board

Consumer confidence remained largely unchanged for July according to a survey of consumers by The University of Michigan. Americans appear to be the most optimistic about the current economic situation in the U.S. than they have in 12 years. July consumer sentiment ended up at 93.4. In the meantime, economists expected the July measure of consumer attitudes to fall slightly more, to 93.1. U.S. consumer sentiment last fell to 95.1 in June, sinking 2.1 percent from May.

"The relatively small decline still left the Sentiment Index higher in the first seven months of 2017 than in any other year since 2004," the group's chief economist, Richard Curtin, said. "The size of the decline was tempered by record favorable views of Current Economic Conditions, which rose to its highest level since July of 2005. At the same time, consumers expressed less optimism about future prospects for the overall economy and for their own personal finances." Curtin added.

Gallup reported that Americans' level of confidence in the economy for the week ending August 13 continued to be the highest Gallup has measured since mid-March. This score is similar to the score the week before, when the index climbed five points to hit +7, ending a three-month period in which confidence remained within a tight window of zero to +5.

While confidence in the economy has remained positive throughout 2017—a sharp contrast to the mostly negative scores Gallup recorded from 2008 to 2016—it weakened in late March. Americans' worsening expectations for the economy, especially among Democrats, were behind the relative decline. But in early August, prominent indicators pointed to a strengthening economy. The surging Dow Jones industrial average surpassed the 22,000 milestone for the first time on August 2 and has remained near this level since.

CONSUMER SPENDING

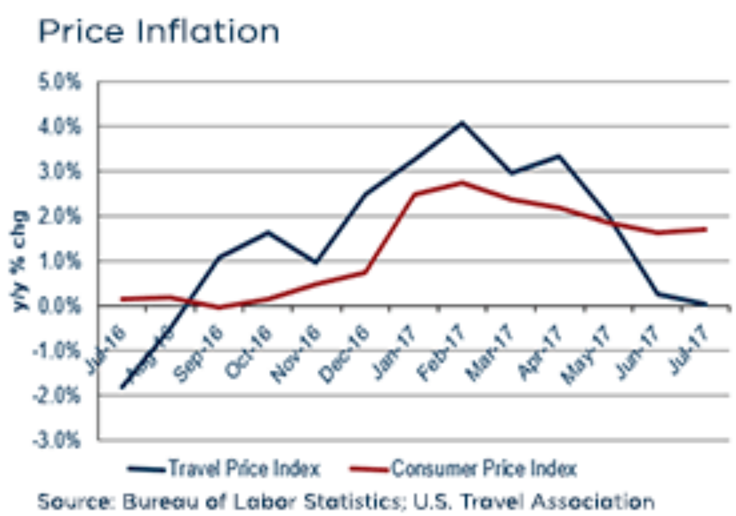
Personal incomes had a flat June, according to the Commerce Department. Meanwhile, real disposable personal incomes contracted slightly in June by 0.1 percent while real personal consumption expenditure (PCE) also remained unchanged. The PCE Price Index, the Federal Reserve's preferred inflation measure, slipped to a 1.4 percent 12-month growth rate (Core PCE prices [excluding food and energy] remained unchanged at 1.5 percent). "One of the things that's really holding back inflation right now is weak wage growth," said Scott Anderson, Bank of the West chief economist. "Without that catalyst of rising real wages, it's going to be hard for inflation to move a lot higher."

"Americans have made up the difference between mediocre spending growth and abysmal income growth by sharply reducing how much they save," said Matthew Klein in the *Financial Times*' FT Alphaville blog. As the Commerce Department definition of saving "can sometimes make reasonable behaviors look imprudent… [such as saving] by buying assets that appreciate in value... The unanswered question is whether the drop in the aggregate savings rate is actually being driven by people who have gotten richer [by investing money in appreciating assets], or instead by those struggling to sustain their expenses in the face of stagnant real incomes?"

According to the Federal Reserve, outstanding consumer credit surpassed the $1.0 trillion mark in June. Revolving debt increased 4.9 percent from June 2016, surpassing the previous 2008 credit peak. (NB: the downside of this "peak" was one of the largest consumer credit defaults in history, also known as the Great Recession) "It's worrisome that we are starting to see delinquency rates now begin to rise even with the unemployment rate at a cycle low," David Rosenberg, the chief economist at Gluskin Sheff, said.

Consumer prices in July increased 1.7 percent over the prior 12 months according to the Labor Department's Consumer Price Index for All Urban Consumers (CPI-U). While inflation remained below the Fed's 2-percent target, it is an improvement from June (with inflation at 1.6 percent). The Core CPI-U (less food and energy prices) also increased at a 1.7 percent 12-month rate.

The Travel Price Index for July remained flat over July 2016. Other lodging (including hotels and motels) decreased by 4.9 percent while the prices for motor fuel were unchanged. Airline fares were up 0.7 percent. The CPI-U increased 0.1 percent for the same period. Gallup recently forecasted optimistic consumer spending data for July 2017 reaching another all-time high in July, with survey respondents averaging $109 spent "yesterday."



Inequality researchers recently took a look at the change in income between 1980 and

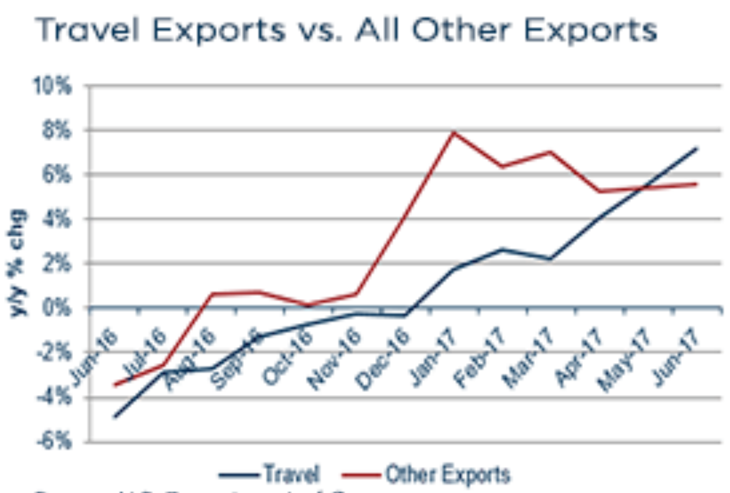
2014 and found that only a few decades ago, the middle class and the poor weren't just receiving healthy raises, their take-home pay was rising even more rapidly in percentage terms than the pay of the rich.

The post-inflation, after-tax raises that were typical for the middle class during the pre-1980 period—about 2 percent a year—translate into rapid gains in living standards. At that rate, a household's income almost doubles every 34 years. By contrast, in recent decades, only very affluent families—those in roughly the top 1/40th of the income distribution—have received such large raises. Yes, the upper-middle class has done better than the middle class or the poor, but the huge gaps are between the super-rich and everyone else. According to the analysis, the basic problem is that most families used to receive something approaching their fair share of economic growth, and they don't anymore.

EXPORTS

The U.S. goods and services trade deficit narrowed to an eight-month low in June, contracting by 1.2 percent to $194.4 billion. Leading export sectors included shipments of capital equipment, petroleum and soybeans. Imports fell 0.2 percent to $238 billion due to declines in crude oil and consumer goods. According to Vince Golle at Bloomberg: "Firmer overseas demand has helped boost sales of American-made goods and services, with trade contributing to economic growth in four of the last five quarters. A weaker dollar may also be benefiting U.S. exporters."

Travel exports increased $0.4 billion (1.7% m/m) from May to June to a level of $21.8 billion. The travel sector increased its trade surplus by $0.5 billion to $7.6 billion in June. After being in decline for much of 2016, travel exports appear to be on the recovery path. The 12-month growth rate in travel exports turned positive in January and generally improved throughout the first six months of the year. In June, travel exports were up 7.2 percent compared to June 2016, the fastest 12 month growth rate in two years.



Source: U.S. Department of Commerce

Recent commentary from the IMF's 2017 *External Sector Report* warned against growing protectionism. The report summary, available on the IMF website, suggests that the current account gap (balance of trade and finance) between many of the world's largest economies are "becoming increasingly concentrated in advanced economies… increased concentration of deficits in a few economies carries greater risks of disruptive trade policy actions." Indeed, the report was published in light of a recent lack of progress in U.S.-China trade talks.

STATE OF BUSINESS

Business investment has had a very solid year so far, according to the Commerce Department. Nonresidential fixed investment increased above the 5 percent mark (SAAR) in two consecutive quarters (the first half of 2017) for the first time since 2014. Durable goods spending increased 6.5 percent in June after falling 0.1 percent in May, according to the Commerce Department. However, Gregory Daco and Oren Klachkin noted: "Much of the earlier [trend of] weakness [in durable goods spending] was apparent in soft capital goods spending." Core capital goods spending (non-defense orders excluding aircraft, a proxy for business spending) decreased 0.1 percent in June.

[Inventory investment increased by 0.5 percent in June](#) across U.S. businesses. This was the [largest monthly increase in inventories over seven months](#), outpacing a 0.3 percent increase in sales, according to the Commerce Department. A rising inventory-to-sales ratio may, however, suggest limited inventory growth for the third quarter.

However, the Institute for Supply Management's (ISM) [Non-Manufacturing Index](#) (NMI)—covering industries including travel-related industries—fell to 53.9 in July from 57.4 in June. A reading above 50 indicates expanding activity, as measured by sales, production, hiring and other factors. Economists surveyed by *The Wall Street Journal* had [expected a reading of 57.0 for July](#). "The ISM report is clearly a big disappointment and suggests that the economy may have lost some momentum going into the third quarter," Andrew Hunter, U.S. economist at Capital Economics, said in a note.

Positive retail sales may point the way forward. According to the Commerce Department, the U.S. [retail sector saw a 4.2 percent y/y increase in sales in July](#). Auto sales increased 6.1 percent over 12 months, while travel-related sectors (gasoline stations and foodservice and drinking places) increased by 2.1 and 3.4 percent y/y respectively. "[American shoppers flocked to the malls in July](#), suggesting consumers are well-positioned to propel the economy forward in the second half of the year," said Sal Guatieri, a senior economist at BMO Capital Markets. "It should tamp down chatter about the Fed delaying rate hikes until next year."

U.S. TRAVEL FORECAST

To complement our [biannual travel forecast table](#), the research department is releasing its first report offering background information and context to our latest projections. A few highlights from the forecast include:

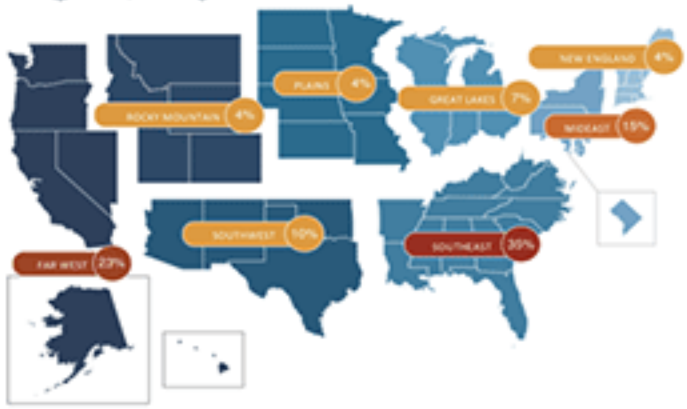
Source: Oxford Economics, U.S. Travel Association

- As our Fall 2016 forecast predicted, travel growth slowed last year:
  - Growth in domestic leisure travel decelerated, due in part to a weaker economy;
  - Domestic business travel declined slightly, likely a result of weaker business investment, declining corporate profits and weaker equity markets;
  - Growth in domestic leisure travel decelerated, due in part to a weaker economy;
- Travel picks up in 2017, thanks to a rebound in domestic business travel:
  - Domestic leisure travel is expected to grow at a similar pace to 2016;
  - Domestic business travel growth is expected to recover, thanks to an increase in business optimism following the presidential election, higher fixed investment and strong equity markets;
  - International inbound travel is expected to remain relatively flat in 2017, due to a still-strong U.S. dollar and weak global economy. (It remains to be seen whether President Trump's "America first" rhetoric, and the administration's stance on numerous issues including border control and trade will have a significant effect on the number of international visitors to the U.S.)

LEISURE TRAVEL

The July U.S. Travel Barometer reported that 79 percent of U.S. residents were searching for lodging within the U.S. in July. This is consistent with July of last year. Domestic searches by region are consistent with the seasonal changes noted in July of last year—the Southeast captured slightly more than one-third of domestic searches followed by 19 percent to the Far West.

Share of Domestic Search by U.S. Region, July 2017



Source: nSight at www.nsightfortravel.com

A Carlson Wagonlit study projected airfares and hotel rates to rise over the next year. Rising fuel costs and increased demand were cited as the main reason for the increases. In North America, the increases will be more modest, with airfares expected to rise 2.3 percent and hotel rates to increase 2.9 percent next year, the study said. Worldwide, airfares are projected to rise 3.5 percent next year, with hotel rates jumping 3.7 percent and ground transportation, such as taxis, rising 1.6 percent, according to Carlson Wagonlit.

Allianz Global Assistance's Annual Sharing Economy Index revealed an uptick in familiarity and planned use of sharing economy services. Half of travelers indicated they were likely or very likely to use services like Uber, Lyft or Airbnb this year, compared to 36 percent in 2016 and 17 percent in 2015. As the years have progressed, familiarity has significantly increased across all sharing economy services, with Airbnb and Lyft having seen the largest increase in familiarity. While familiarity and likelihood of using sharing economy services have risen significantly since 2015, fewer than two in 10 Americans are willing to say they are "very trusting" of services.

Brand loyalty is evolving among younger generations and is increasingly built on personalized experiences where non-traditional approaches sometimes gain the most loyalty among the young. A survey by Crowdtwist speaks to a widening gap in brand loyalty among each generation, particularly with Generation Z, where 57 percent of those surveyed said they like to shop in a store rather than online. However, GenZ and millennials respond best to loyalty programs, which is considered one of the biggest drivers of brand choice for these generations.

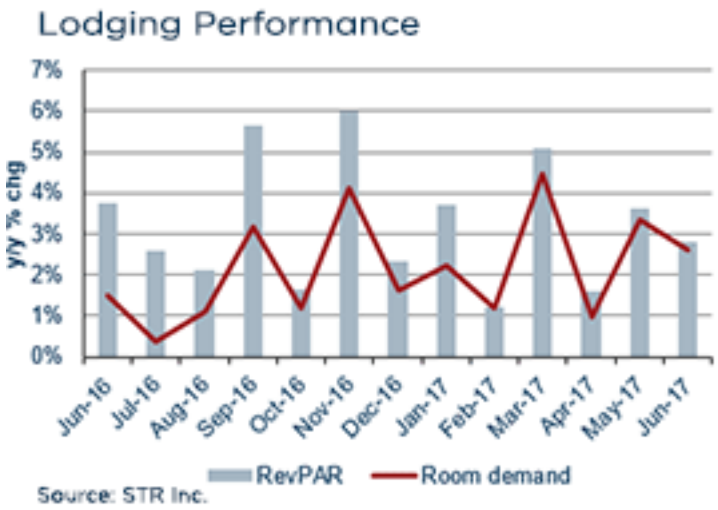
The survey suggests that brands must build personalized experiences, facilitate engagement across all channels including in-store, online, social, and mobile and provide relevant loyalty rewards and a wide range of opportunities to earn loyalty program points, including playing games and writing reviews. The survey also found that 75 percent of millennials and GenZ are willing to share personal information in exchange for a personalized experience.

As of 2016, more than half of families with children are headed by millennials, according to the Census Bureau. Despite the fact that millennials are postponing marriage and childbearing, the generation now accounts for the majority of households with children under age 18. Nearly half (48%) of Millennial households include children under age 18. Among Generation X, the figure is almost identical at 49 percent.

Choosing a destination is a lengthy and involved process, according to Expedia's latest white paper, "Destination Selection during the Traveler's Path to Purchase." A significant number of travel shoppers investigate multiple destinations at the start of their booking journey. Just over one-third of U.S. travelers weigh multiple options at the outset. Since Americans typically have less vacation time than their counterparts, travel is likely an even more highly considered purchase. In the seven weeks leading up to a hotel, air or package purchase, Americans logged 140 visits on average to travel sites. Online travel agencies are the most influential resource for U.S. travelers, with 17 percent attributing their destination selection to online travel agencies.

LODGING INDUSTRY

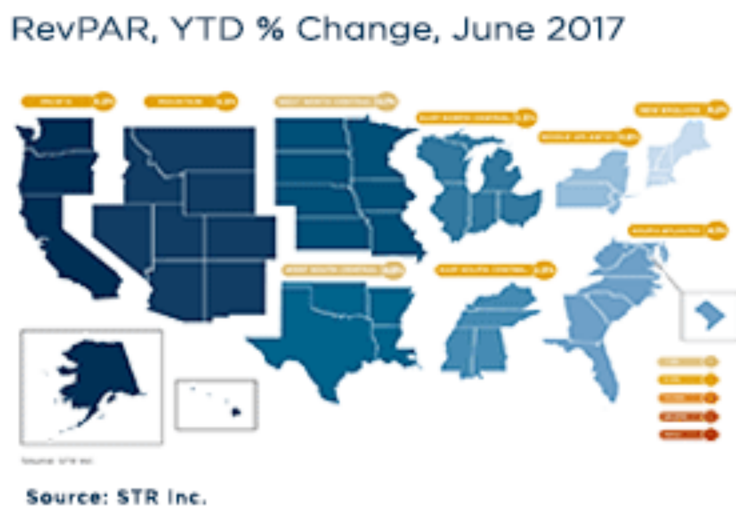
According to STR, total U.S. room revenue increased 4.7 percent and room demand increased 2.6 percent from a year ago in June 2017. Total room revenue reached $14.6 billion in June 2017.



Preliminary July 2017 data from STR shows mixed performance for the U.S. hotel industry. Overall occupancy performance ranged from a 2 percent decline to flat while average daily rate (ADR) growth ranged from flat to 2 percent, resulting in a revenue-per-available-room range of 1 percent decline to 1 percent growth.

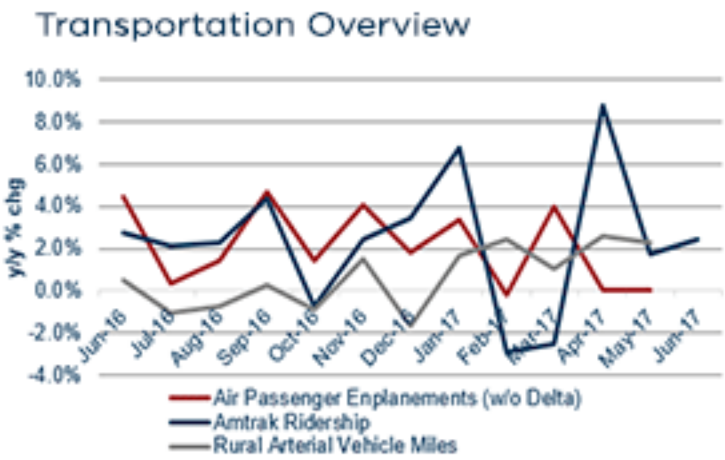
Continued modest growth is projected for the U.S. hotel industry through 2018, according to STR and Tourism Economics' latest forecast. "Demand growth exceeded forecasts during the second quarter, which falls in line with reports that tourism has surpassed expectations," said Amanda Hite, STR's president and CEO. "That led us to lift our [revenue per available room] RevPAR projections for total-year 2017, even with weaker-than-expected ADR growth. That lack of pricing power will be more of an issue in 2018 when occupancy is forecasted to decline. Regardless, industry performance should stay healthy with moderate rate growth pushing RevPAR levels to all-time highs."

Predictions for total-year 2017 are that the U.S. hotel industry will report flat occupancy at 65.5 percent, a 2.3 percent rise in ADR to $126.94 and a 2.3 percent increase in revenue per available room (RevPAR). RevPAR grew more than 3.0 percent for each year from 2010 to 2016



TRANSPORTATION

AIR TRAVEL



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

Labor Day air travel will get a boost this year, fueled by affordable ticket prices and higher household wealth, according to Airlines for America (A4A). U.S. airlines will carry a projected 16.1 million passengers worldwide between August 30 and September 5, up 5 percent from the 15.4 million passengers carried during last year's holiday period. Domestic travel will drive most of the increase, A4A Vice President John Heimlich said, as travelers vacation closer to home in the shorter Labor Day holiday break. The Labor Day projection is for 110,000 more passengers each day from August 30 through September 5, according to the group. Airlines are adding 130,000 seats a day through either larger planes or more flights.

Growth in the global air passenger traffic market reached a 12-year high in the first half of 2017. Passenger traffic grew 7.9 percent compared to the first half of 2016 and load factor hit a record 80.7 percent, according to International Air Transport Association's (IATA) June Air Passenger Market Analysis. IATA attributed the year's strong start to an improving global economic backdrop and stimulus from lower airfares. The industry's annualized growth pace remains ahead of the average growth rate of both the past five (6.4%) and 10 years (5.5%), IATA said.

IATA observed, however, that the upward trend in passenger traffic is slowing from its robust movement (about 12%) at the end of 2016 to around 7 percent since February. Business confidence, as measured in the services purchasing managers' index (PMI), has flattened since January and airlines have cut back on discounted air fares (aka "demand stimulation"). IATA's analysis reported that the Middle Eastern-North America international passenger market is showing the adverse effects of a "combination of factors including the recently lifted ban on personal electronic devices, as well as the wider negative stimulation from the travel ban that has now been implemented for certain countries."

IATA announced June global passenger traffic demand (measured in total revenue passenger kilometers or RPKs) rose by 7.8 percent compared to the same period a year ago. This was in line with May. All regions reported growth. "A brighter economic picture and lower airfares are keeping demand for travel strong. But as costs rise, this stimulus of lower fares is likely to fade. And uncertainties such as Brexit need to be watched carefully. Nonetheless, we still expect 2017 to see above-trend growth," said Alexandre de Juniac, IATA's Director General and CEO.

In June, North American airlines' demand rose 4.4 percent compared to June 2016. Capacity climbed 4.1 percent, with load factor inching up 0.3 percentage points to 84.5 percent. The comparatively robust economic backdrop in North America is expected to continue to support outbound passenger demand. However, anecdotal evidence suggests that inbound tourism is being deterred by the additional security measures in place for travel to the U.S.

Data released from the U.S. Department of Transportation's Air Travel Consumer Report shows that in the second quarter of 2017, the 12 U.S. carriers that report on involuntary denied boarding posted a "bumping rate" of 0.44 per 10,000 passengers, the lowest posted quarterly rate since 1995. That's down from a rate of 0.62 in both the second quarter of 2016 and the first quarter of 2017. Other data points showed a mixed bag on passenger service—mishandled baggage rose between May and June 2017, but was on an upswing from last year. On-time arrivals sank to 76 percent in June from 79 percent in May. About a third of those delays were weather-related. Hawaiian Airlines, Alaska Airlines and Delta Air Lines had the highest on-time arrival rates while JetBlue Airways, Virgin America and Spirit Airlines had the lowest. Flight cancellations also rose, from 0.8 percent in May to 1 percent in June.

The typical U.S. air traveler is not earning loyalty points. According to a recent Skift survey, only 17 percent of respondents said they always collect points when they fly and one-third indicated they never collect points. Some 13 percent said "I sometimes but not always collect points when I fly." That may suggest some travelers who are loyalty program members don't exclusively fly with one carrier. The survey results reiterate that many Americans are infrequent flyers who are more concerned with finding the lowest fares rather than having a relationship with an airline that doesn't give them many benefits.

ROADS & RAILS

According to the U.S. Energy Information Administration Short-term Energy Outlook, U.S. regular gasoline retail prices averaged $2.30 per gallon in July, down 5 cents/gallon from the average in June but 6 cents/gallon higher than in July 2016. During the April-through-September summer driving season of 2017, U.S. regular gasoline retail prices are forecast to average $2.37/gallon, 14 cents/gallon higher than last summer. Annual average U.S. regular gasoline retail prices are forecast to be $2.33/gallon in both 2017 and 2018.

Travel expense management software provider, Certify, revealed business travel spending results for the second quarter of 2017. After not gaining any traction during the first quarter, ride-hailing service Uber picked up 2 percent to claim a commanding 55 percent of ground transportation overall in the second quarter. Lyft also grew 2 percent over the same time period. As for the overall ground transportation category, Certify reported that, for the first time in the report's history, taxi's dropped to 8 percent. The car rental industry also experienced a decline of 3 percent to 29 percent overall.

Earnings for rental car companies Hertz Global Holdings, Inc. and Avis Budget Group, Inc. were lackluster for the second quarter. Hertz reported total revenues for the three-month period ending in June of $2.2 billion, a 2 percent decline from the same period in 2016. Meanwhile, Avis Budget Group also reported second quarter revenue of $2.2 billion, which was unchanged from the same period last year. The disappointing results prompted Avis' shares to drop by nearly 10 percent, Zacks.com reported

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BUSINESS TRAVEL

Global business travel spending reached $1.3 trillion in 2016, representing a modest 3.5 percent growth over 2015 levels, according to the *Global Business Travel Association (GBTA) BTI™ Outlook – Annual Global Report & Forecast*. Business travel spending is projected to grow 6.1 percent in 2018, followed by about 7 percent growth in both 2019 and 2020--the highest spending gains since 2011. However, the forecast remains on shaky ground as the Global Economic Policy Uncertainty Index has hit a 20-year high. China retained its top spot as the world's leading business travel market, growing 9.2 percent. The United States remained the second largest market at almost $284 billion in business travel spending, after decreasing 0.2 percent from 2015.

Another research report from the GBTA conducted by Rockport Analytics indicated that domestic U.S. business travel is not growing much despite a relatively strong economy. Business travel revenue represented 3 percent of U.S. gross domestic product in 2016, totaling $424 billion. Trip volume grew 1.2 percent in 2016 while spending dipped slightly on a per trip basis, falling 1.1 percent. While U.S. business travel volume grew slightly in 2016, total spending by business travelers dropped 2.2 percent to $520 per trip. Transient business purposes accounted for 48 percent of business trips, while group travel totaled 28 percent and 25 percent were a combination of business and leisure. Interestingly, meetings operation expenditure represents 38 percent of total business travel spending, showing an opportunity for businesses to continue to look for savings.

Almost 60 percent of event planners have experienced some form of disruption in their events, according to a white paper released by the Incentive Research Foundation titled 2016 Event Disruption Study found that almost 60 percent of event planners have experienced some form of disruption in their events, estimating that nearly a quarter of their events have been affected in some way. The survey also found that four in 10 planners have experienced some increase in the time and effort to plan for disruptions in the past two years. Planners reported that the two most frequently occurring disruptions are weather-related events and vendor failures. In general, airlines present the most frequent cause of disruptions through cancellations, delays and overbooking.

According to a recent survey, a growing number of business travelers prefer to avoid interaction with people when on the road, at least until something goes wrong. The research by Egencia, Expedia's business-travel arm, found that half of business travelers said they want to avoid human contact while travelling. According to the survey, seven in 10 business travelers prefer work trips to their regular time in the office. But technology is becoming increasingly important for every element of their trips. Two-thirds want to be able to book and manage travel across all of their devices. Half want travel updates to arrive by text—a figure that rises to 63 percent among Americans, who consistently seek a larger role for technology than the other nationalities surveyed.

New Phocuswright research found that millennial business travelers are booking almost half of their new airline reservations—and over half of their new hotel bookings—on smartphones. This shift to mobile has impacted managed travel programs in general, with nearly half of mobile reservations going to either OTAs or supplier sites, according to Phocuswright's The U.S. Business Traveler: Debunking Common Myths About Corporate Travel. The smartphone is the platform of choice not only for research, but for bookings as well.

INTERNATIONAL TRAVEL

The United States' share of international searches increased to 14.8 percent in July, according to the latest U.S. Travel Barometer. This is up slightly from the last few months but on par with July 2016. Travel interest to Canada has remained strong the last few months—capturing nearly 7 percent of international searches in July. The Mideast and Southeast lost share compared to a year ago. Close to one-third of international searches to the U.S. were to the Southeast and one-quarter were to the Mideast.

Over 75.6 million international arrivals visited the U.S. in 2016, according to the

Commerce Department. The statistic reflects a 2.4 percent annual decrease in visitation since 2015. The most dramatic shift in 2016 was the 6.8 percent decrease in Canadian arrivals, as only 19.3 million Canadians visited the U.S. in 2016. Mexican arrivals, after posting a 5.5 percent increase in U.S. arrivals over the first three quarters, were decimated in November and December (-9.7 and -9.6 percent decreases in U.S. arrivals, respectively), leaving the annual number at 18.7 million, a meager 1.9 percent increase compared to 2015. Overseas visitations, nearly half of all arrivals, had 37.6 million visitations over 2016, down 2.1 percent from 2015. All regions save Asia reported decreases in U.S. visitation, with the majority of reduced visitation occurring over the second half of the year.

Predictions that subdued U.S. inflation and trouble in Washington D.C. will hold back interest rate changes have resulted in the U.S. dollar remaining at its lowest value since June 2016, Reuters reported. "We may see some consolidation here from the dollar but fundamentally our bearish view on it remains," said UniCredit Global Head of FX Strategy Vasileios Gkionakis. Continued economic and political uncertainty has resulted in the U.S. dollar falling nearly 8 percent since the beginning of the year against a basket of major currencies. The dollar remains the dominant instrument for global trade, a role it is unlikely to surrender anytime soon. Yet those who trade in currencies see tentative signs that the dollar may be losing some status as markets grapple with the unorthodox actions coming from the White House.

As the top inbound country, the Loonie will have Canadians flocking back to the United States. Visitation from Canada is up 1 percent after declining 6 percent in 2016. Roger Dow, president and CEO of the U.S. Travel Association, discussed why a higher Canadian dollar could mean more business for the U.S. tourism industry.

The United Nations World Tourism Organization (UNWTO) recently released its 2017 edition of *Tourism Highlights*, a review of 2016 trends in international tourism. The report notes that global international tourism visitation increased to 1.2 billion arrivals in 2016, a 3.9 percent increase over 2015. While "many destinations [reported] sound results… some redirection of tourism flows was observed." This redirection would be manifested in continued strong annual international visitation to the Asia-Pacific region. The manner by which passengers travel abroad is also "gradually" shifting, according to UNWTO, with air transport (55%) maintaining its majority advantage over surface transport (45%). Visit to the Americas region increased at 3.5 percent, below the 10-year average (3.7%), with visits to North America slowing down to 130.5 million, a 2.4 percent increase from 2015.

Hotels.com's latest Chinese International Travel Monitor projects the U.S. to become an increasingly popular destination for Chinese travelers, ranking only behind France among international destinations over the next year. The increase in inbound Chinese travelers is attributed in part to "a recent agreement between the U.S. and China to extend visas for short-term business travelers, tourists and students." According to the study, the top U.S. markets for Chinese travelers are: Hawaii, New York, Los Angeles, Las Vegas, Seattle and San Francisco.

Expedia's Multi-National Travel Trends study found that Chinese travelers take the most number of trips per year with 5.3 on average, while Canadians take the fewest at under 2.8 trips. Americans averaged 4.4 trips per year. The study found that across all eight countries, at least 50 percent of travelers are undecided on a destination and are looking for help and inspiration during the planning and booking process. Advertising featuring deals are most likely to influence Americans, Canadians and Australians. Chinese travelers are by far the most likely group of travelers to be influenced by social media.

Despite political rhetoric, air travel demand has been on the rise between the U.S. and Mexico. Much of this is attributed to growing business ties between the two countries and rising international tourism by Mexico's surging middle class. Then, there's the never-ending desire to visit family, which points to changing demographics in the U.S. To serve the swelling market on both sides of the border, airlines including Delta, American, Alaska and Southwest recently added dozens of new routes or increased flight frequency to connect major business hubs and tourist hot-spots in both countries.

The middle class has become the fastest growing segment of Mexico's population, totaling 14.6 million households or 47 percent of the nation, as of 2015, according to Euromonitor International. Mexico's middle class will continue to grow, adding 3.8 million more households by 2030, Euromonitor predicts.

PROJECT: TIME OFF

Skipping vacation isn't just costly to your health—but also to your wallet. According to a recent report from Project: Time Off, American workers gave up $66.4 billion in 2016 benefits alone. That means last year employees effectively donated an average of $604 in work time to their employer. Read more.

U.S. Travel Association Updates

RESEARCH

Research recently released a factsheet focused on domestic travel economic impact. This includes breakdowns for leisure, business, general business and meetings. You can find the factsheet on our Research Travel Facts and Figures webpage.

POLICY

The Senate Appropriations Committee completed action on fiscal year 2018 funding bills for the Transportation and Commerce Departments. The committee-approved transportation bill included an increase in the Passenger Facility Charge (PFC) from $4.50 to $8.50 for originating passengers, as well as language to protect the integrity of global Open Skies agreements. This would be the first increase in 17 years and protects rural passengers from having to pay a higher PFC twice on connecting flights. There is no such provision in the House companion bill; and the overall appropriations process faces parliamentary turbulence. Still, this is significant progress on which to build.

The Appropriations Committee included report language explicitly rejecting the administration's proposal to disrupt funding for the Survey of International Air Travelers (SIAT) and even encouraging an increase in the sample size – important because Commerce is also considering reducing the survey size and raising its fees. The pending House version of the Commerce funding bill is silent on SIAT.

The U.S. Travel and Tourism Advisory Board (TTAB) offered detailed recommendations to Commerce Sec. Ross on enhancing America's competitiveness in the global marketplace. The letter proposes that the administration: initiate a 10-year national travel and tourism strategy emphasizing maximizing visitor spending rather than volume of visitors; market a welcome message; support Brand USA; retain the Survey of International Air Travelers; engage foreign governments in bilateral security agreements; support infrastructure investments; and develop a new public-private Secure Travel Partnership encompassing trusted traveler programs and security frameworks.

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