



SPOTLIGHT ON:  
2017 TRAVEL  
OUTLOOK *PG2*



Photo courtesy of HHA / Ter Johnson

*A monthly update including relevant information on travel industry trends, consumer and meetings market research, competitive intelligence, and Hawai'i's performance as a destination.*

# MARKET INSIGHTS UPDATE

United States | January 2017

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### 2017 U.S. Travel Industry Outlook

If there is one thing that can be said about 2016, it is that it was an interesting year; the rapid spread of the Zika virus, shifting global paradigms, and the renewed specter of terrorism abroad have all contributed to what may be the most memorable year in recent history. Despite this chaotic backdrop, however, the U.S. travel industry exhibited healthy growth over the past 12 months. Likewise, as 2016 slips into history, the U.S. travel and tourism industry in general – and Hawai'i's visitor industry in particular – can look forward to 2017 with cautious optimism.

Overall, attitudes towards the next 12 months are generally positive: U.S. Con-

sumer Confidence continued to climb at the end of 2016 (+4.3 pts from the previous month, to 113.7), driven primarily by increased optimism about the future of the economy. This outlook is, for the most part, shared by the experts. The dollar remains strong and the Economist Intelligence Unit (EIU) predicts U.S. GDP will grow by +2.3 percent in 2017, a pace notably higher than what is expected for Canada or Europe. All of these factors, as well as fuel costs remaining well below recent historical norms, point to modest but positive growth for the U.S. outbound travel market for the near future.

*Continued on PG2*



### COMPETITOR UPDATE

Motivated by a strong dollar, international travel remains an increasingly popular activity for U.S. residents. In fact, travel demand is such that Americans are turning to a new destination: Cuba. But is the island nation really a serious competitor in the travel game?

PG4

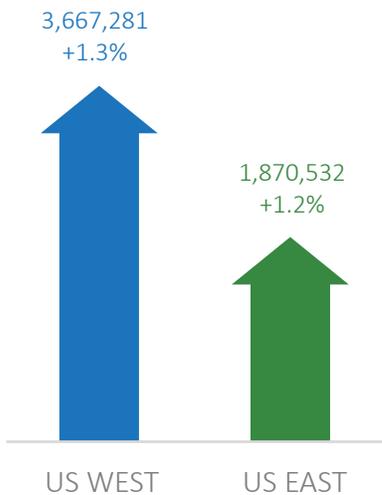




Photo courtesy of HTA / Tor Johnson

## 2017 U.S. Travel Outlook

### 2017 Hawai'i Visitor Arrival Forecast



Source: HVCB analysis of DBEDT Visitor Forecast

The favorable conditions predicted by economists and industry experts translate directly into a strong outlook for the U.S. outbound travel market. The U.S. Travel Association is forecasting steady growth in U.S. domestic leisure travel as compared to 2016. If their expected +1.6 percent increase is realized, a record 1.77 billion domestic person-trips will be taken this year. Moreover, domestic travel expenditures are expected to climb to \$856 billion, an increase of +2.8 percent from 2016 spending levels. Overall these predicted growth rates match or exceed those seen in recent years, thus indicating that industry performance will continue to see strong, albeit more moderate growth, throughout 2017.

#### *Air Outlook*

While the airline industry's record-breaking profitability is expected to taper slightly in 2017, experts predict airlines will see another excellent year. The International Air Transport Association (IATA) once again has the North American market leading the way, with an anticipated net profit of \$18.1 billion, compared to preliminary estimates of a \$20.3 billion net profit in 2016. Some of this decline can be attributed to high-

er fuel costs. The EIU estimates that the price of crude will rise to \$57 a barrel from roughly \$40 a barrel in 2016. At the same time, however, fuel costs are actually expected to decrease as a share of overall airline operating costs this year. Likewise, an anticipated +3.6 percent expansion of aircraft fleets will help keep fares low, while offering consumers more route options.

In a similar manner, after two years of sustained record highs, air seat capacity to Hawai'i from the U.S. mainland is set to decline slightly in the first half of 2017. All told, some 4.06 million seats are scheduled to arrive from the U.S. mainland in the January through June period, down -1.2 percent from the same time last year. The decline is not uniform across the islands; indeed, only O'ahu is expected to experience a net loss of capacity (-3.3%, or 75,000 seats). Scheduled mainland seats to all of the Neighbor Islands' airports will increase, at least modestly, relative to 2016. The most significant expansion in capacity is to Kona Airport on the Island of Hawai'i, which is expected to see an additional 18,000 seats (+4.4%) from U.S. gateways.

*Continued on PG3*

## U.S. Hotel Industry Performance

	2013	2014	2015	2016P	2017F
DEMAND	+2.0%	+4.3%	+2.9%	+1.6%	+1.6%
SUPPLY	+0.6%	+0.7%	+1.1%	+1.6%	+2.0%
OCCUPANCY	62.2%	64.4%	65.6%	65.5%	65.2%
PERCENT CHANGE	+1.4 pt(s)	+3.5 pt(s)	+1.8 pt(s)	-0.1 pt(s)	-0.3 pt(s)
AVERAGE DAILY RATE	\$110	\$115	\$120	\$124	\$128
PERCENT CHANGE	+3.8 pt(s)	+4.5 pt(s)	+4.7 pt(s)	+3.2 pt(s)	+3.1 pt(s)
REVENUE PER AVAILABLE ROOM	\$68	\$74	\$79	\$81	\$84
PERCENT CHANGE	+5.2 pt(s)	+8.2 pt(s)	+6.5 pt(s)	+3.2 pt(s)	+2.8 pt(s)

Source: HVCB analysis of Smith Travel Research data, 2013-2017F

### Lodging Trends

Demand for hotel rooms in the United States is expected to grow +1.6 percent in 2017, while experts anticipate that inventory will grow at +2.0 percent. Though overall U.S. hotel room occupancy is expected to decline slightly in 2017 (-0.3 points, to 65.2%), Average Daily Rate (ADR) is expected to rise to \$128, an increase of +3.1 percent. Higher ADR, coupled with more or less unchanged occupancy year-to-year, means Revenue per Available Room (RevPAR) will be up +2.18 percent to \$84 in 2017.

Of course, Hawai'i's hotel industry vastly outperforms the national market. The most recent data shows that statewide occupancy grew +0.5 points to 79.9 percent, year-to-date through August 2016. ADR and RevPAR likewise exhibited healthy growth, increasing +3.2 percent and +3.8 percent respectively. With O'ahu once again operating near full capacity, it is likely that occupancy rates there will remain relatively unchanged throughout 2017, with any increases in statewide occupancy being driven by the Neighbor Islands.

New inventory will continue to be a significant factor impacting Hawai'i's hotel industry throughout 2017 and beyond. On O'ahu, The Hyatt Centric Waikiki is slated for a January 17th grand opening, and the announced Atlantis Resort in Ko Olina re-

presents the newest addition to the burgeoning resort scene of West O'ahu. Similarly, last year's reopening of the Four Seasons Resort Lanai and the expected reopening of the Lodge at Koele early this year mean that the island is once again a viable destination after more than a year with almost no available capacity. It is unlikely that this added supply will outstrip the pace of growing demand, but the expanded inventory is nevertheless important for the state's continued development as a destination.

### Hawai'i Traveler Outlook

The Hawai'i Department of Business, Economic Development & Tourism (DBEDT) predicts another year of modest but positive gains in the volume of U.S. mainland visitors to the state; the most recent forecast pegs the growth rate at +1.3 percent, which means Hawai'i should welcome more than 5.5 million U.S. visitors over the course of 2017. It should be noted that such predictions are often conservative, allowing for the hopeful possibility that this actual visitor arrivals will exceed expectations, as they have often done in previous years. Leisure and hospitality ventures across the state should also take heart in the +4.1 percent increase in visitor expenditures predicted for next year, which would at least match expenditure growth in 2016 and significantly outperform 2014 and 2015 growth.



Source: HVCB analysis of U.S. Conference Board, Economist Intelligence Unit, U.S. Travel Association, International Air Transport Association, Diio Mi, Smith Travel Research, Hospitality Advisors, Department of Business, Economic Development & Tourism, and Hawai'i Tourism Authority data.

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## Competitor Update

### Sneak Peak at Next Month



Romance & Honeymoon  
Travel



Airfare Update

#### *Cuba Hype Overblown?*

As outbound travel increases across the board, one of the most talked-about destinations in recent months has been Cuba. Despite the fact that U.S. leisure travel to the country is still technically illegal, last year's loosening of travel restrictions to facilitate "educational visits" has launched the island nation into the travel spotlight. And indeed, Cuba has proven popular to a portion U.S. travelers; more than 230,000 Americans made the journey in 2016, and 20 daily flights have been added between Havana and various U.S. cities.

This begs the question, is the opening of Cuba really a threat to other travel destinations? U.S. air travel to Cuba is a drop in

the bucket compared to the U.S. outbound travel market as a whole, and decades of neglect have left the country's hotel infrastructure ill-equipped to handle a high volume of U.S. travelers. What's more, none of this takes into account that the new U.S. administration could very well put travel restrictions back in place, effectively closing off the nation to most U.S. travelers again. With plans to double hotel inventory by 2020, Cuba could indeed become a major player, but it will take time and a substantial financial investment. Whatever the future holds for Cuba as a U.S. leisure destination, Hawai'i needs to keep a watchful eye on the island nation's progress.