

NORTH AMERICAN TRAVEL MARKET UPDATE

Although U.S. and Canada visitor arrivals to Hawai'i are down slightly year-to-date through June as compared to the previous year (-1.4%), the market is expected to improve in the second half of 2014. Travel demand for Hawai'i is strong, with more than one-in-three U.S. air leisure travelers reporting they are "extremely or very" interested in visiting Hawai'i within the next two years. At the same time, an eight percent increase in scheduled air seats to Hawai'i from North America, coupled with a potential leveling-off of travel prices, is expected to fuel increased travel to Hawai'i from the U.S. and Canada in the second half of 2014.



INDUSTRY UPDATE

Air Seat OutlookPage 2
 Cost of a Hawai'i Vacation.....Page 3



CONSUMER TRENDS

Travel Demand for Hawai'i.....Page 4



KEY PERFORMANCE INDICATORS

Hawai'i Visitor Arrivals Year-to-Date.....Page 5

2014
vs
2013

TOPLINE

U.S. & Canada Visitors
(Year-to-Date through June)

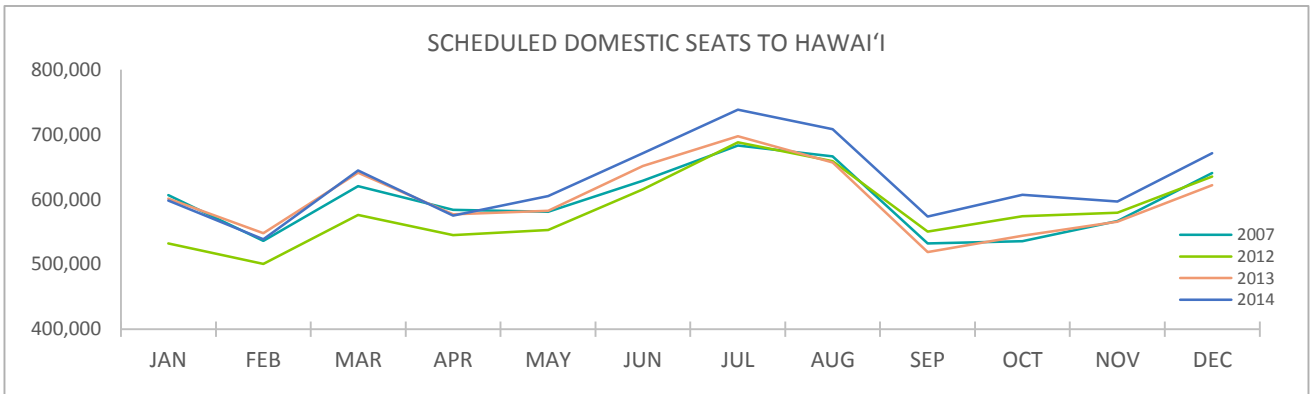
U.S.	↓ 2.0%
Canada	↑ 3.2%
North America	↓ 1.4%



INDUSTRY UPDATE

Air Seat Outlook

After a slow start to the year, visitor arrivals to Hawai'i are expected to heat up in the second half of 2014 due in part to an increase in total scheduled nonstop air seats from the U.S. Mainland, which are expected to reach their highest level since 2007. From July through December, scheduled air seats from the U.S. mainland are expected to be +8.2 percent greater than the same period last year. In addition, scheduled international seats from Canada are expected to be up +10.5 percent in the second half of the year as compared to 2013.



Scheduled seats from many of Hawai'i's key U.S. gateways are expected to grow considerably. Scheduled seats from Los Angeles are expected to increase by +13.7 percent, Oakland by +19.4 percent, San Jose by +18 percent, Seattle by +13 percent, Dallas by +17.1 percent, and Houston by +20.8 percent.

All islands are expected to see increases in scheduled air seats. Kona will see the largest growth from the U.S., with an increase of nearly +19 percent as compared to 2013. Lihu'e will also see just over a +14 percent growth in air seats.

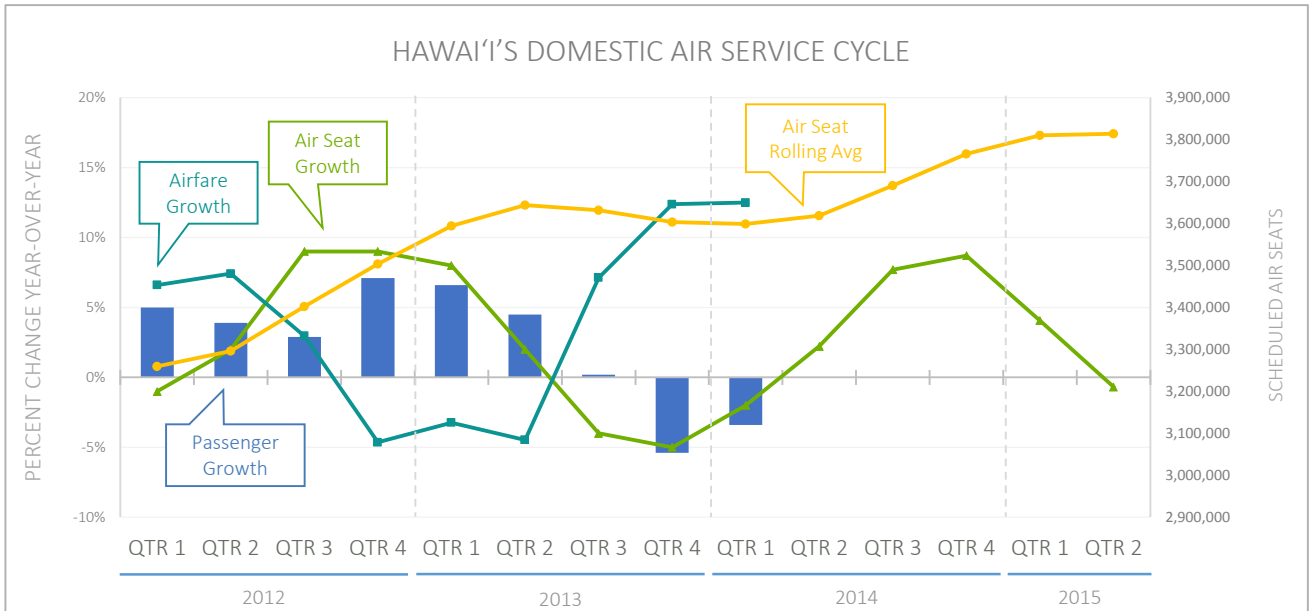
Scheduled Nonstop Seats to Hawai'i - July through December						
	U.S.			Canada		
	2014	2013	Percent Change	2014	2013	Percent Change
Honolulu	2,292,835	2,181,141	↑ 5.1%	70,375	62,209	↑ 13.1%
Kahului	927,634	835,994	↑ 11.0%	63,031	59,208	↑ 6.5%
Lihu'e	324,900	284,043	↑ 14.4%	9,918	8,352	↑ 18.8%
Kona	331,604	279,114	↑ 18.8%	11,204	10,066	↑ 11.3%
Hilo	23,716	24,563	↓ 3.4%	0	0	~
Statewide	3,900,689	3,604,855	↑ 8.2%	154,528	139,835	↑ 10.5%

Source: US DOT T-100 data from Diio Mi

Air Seat Outlook Continued

Hawai'i's domestic air service is cyclical. As air seats to the state increase, downward pressure is put on airfares. In turn, lower airfares help to drive more visitors to the state.

Airfares to Hawai'i skyrocketed to record highs in the second half of 2013, due to a drop in air seat availability. This equated to a drop in visitor arrivals from the domestic market. With scheduled domestic air seats on track to grow +8.2 percent in the second half of 2014, airfares are expected to decline, thereby boosting visitor arrivals. Despite the cyclical rises and falls in air service to Hawai'i, the total number of seats to the state has trended upwards over the last two years and is expected to continue on this path into 2015.



Sources: US DOT T-100 data from Diio Mi

Note: Air seats from 2014 Q2 through 2015 Q2 are scheduled air seats. Air seats from 2012 Q1 through 2014 Q1 are actual air seats operated.

Cost of a Hawai'i Vacation

The cost of a Hawai'i vacation for consumers is increasing. The average roundtrip base airfare to Hawai'i has jumped over +17 percent since 2009, while average daily hotel room rates have climbed +22 percent. When considering both airfare and hotel room rates, the average cost of a Hawai'i vacation has grown over +25 percent in the last five years. This is further compounded for Canadian visitors, who must deal with fluctuating exchange rates. As of January 2014, the average cost of a hotel room for Canadians is now 14.0 percent higher than the same period in 2013.

Average Cost of a Hawai'i Vacation						
	Average Roundtrip Airfare to Hawai'i		Average Daily Room Rate		Estimated Cost of a Hawai'i Vacation	
	Cost	Year-Over-Year	Cost	Year-Over-Year	Cost	Year-Over-Year
2013	\$649.00	↑ 2.5%	\$227.07	↑ 10.8%	\$2,891.00	↑ 8.6%
2012	\$633.00	↑ 3.1%	\$204.93	↑ 8.0%	\$2,663.00	↑ 6.7%
2011	\$614.00	↑ 10.6%	\$189.83	↑ 8.6%	\$2,495.00	↑ 9.4%
2010	\$555.00	↑ 0.2%	\$174.84	↓ 1.3%	\$2,281.00	↓ 1.0%
2009	\$554.00	~	\$177.10	~	\$2,304.00	~

Sources: HVCB analysis of Diio Mi data and Smith Travel Research data

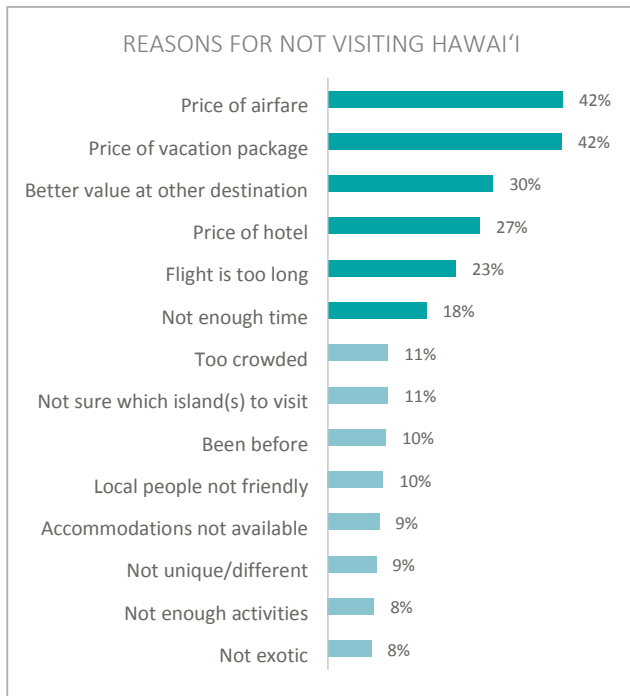
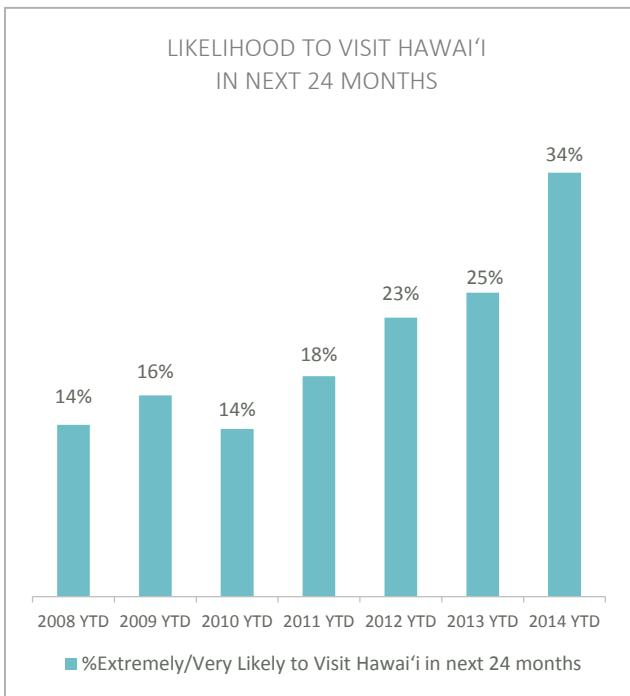


CONSUMER TRENDS

Travel Demand for Hawai'i

Travel demand for Hawai'i is growing. According to the latest MMGY Global *travelhorizons* data, a record number of air leisure travelers (34%) report that they are very likely or extremely likely to visit the state in the next 24 months.

Demand versus conversion continues to be an issue for Hawai'i's tourism industry. Travel demand for Hawai'i reached record highs in the first half of 2014. At the same time, however, record high prices continue to have a negative impact on value perceptions of Hawai'i as a destination. U.S. air leisure travelers are citing the *value* of a destination as an increasingly important factor in making travel decisions. The rising cost of travel coupled with the perceived value of a Hawai'i vacation prevents a significant percentage of leisure travelers from booking a vacation to the Hawaiian islands. More than one-third (38%) of air leisure travelers have considered visiting Hawai'i but decided not to after all for the reasons noted below.



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



KEY PERFORMANCE INDICATORS

Hawai'i Visitor Arrivals Year-to-Date

In the first half of 2014, U.S. and Canada visitor arrivals were down -1.4 percent year-to-date. At the same time, however, North American arrivals are at the second highest level ever and well above the 10-year average.

In the last 10 years, year-to-date arrivals through June from the U.S. West market peaked in 2013, at just over 1.6 million visitors. Although arrivals are down slightly in the first six months of 2014, U.S. West arrivals are still well above the 10-year average. After falling to a 10-year low in 2010, arrivals from the U.S. East market have steadily rebounded but have not yet reached the 10-year high achieved in 2006. U.S. East visitor arrivals through June are currently flat year-over-year.

Visitors from Canada in the first half of 2014 reached an all-time high, topping out at over 300,000 arrivals. This is an almost +120 percent increase since 2005 and well above the 10-year average.



Source: HVCB analysis of HTA data



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