Q&A Communication for Labor Day 2015

What was the variance of forecasted and actual travel for Labor Day 2014?

Last year, IHS predicted that 34.7 million Americans would travel over the 2014 Labor Day holiday period. This forecast represented an increase of 1.3 percent relative to the 34.3 million trips that occurred over the holiday period in 2013. Improving economic fundamentals boosted consumer expectations, leading to moderate growth in the holiday travel volume forecast.

Actual 2014 Labor Day person trips were 35.1 million, an increase of 2.5 percent relative to Labor Day 2013. The forecast accurately captured the increase in total person-trips, coming within 1.2 percent of actual 2014 Labor Day travel.

What were the factors that contributed to the increase in Labor Day travel last year?

- **Strong GDP and Employment growth:** Real GDP expanded at a faster pace than expected going into the third quarter of last year. This economic growth was bolstered by strong employment reports as businesses continued to hire and expand payrolls which helped push the unemployment rate to a level lower than anticipated. Greater job security added to the increase in holiday travel over Labor Day weekend in 2014.

- **Increased Consumer Spending:** Real disposable income increased faster than expected, growing 2.5 percent in the third quarter. Encouraged by improvements in the job market and signs that the economy was headed in the right direction, the consumer survey reports showed increased optimism about the future. Consumer prices were also lower, helped by gasoline prices that were slowly beginning to fall. Consumer spending increased by 4.2 percent year-on-year in the third quarter of 2014.

- **Rising Home Prices:** The median existing home price grew 4.8 percent in the third quarter of 2014, and new home prices rose 5.9 percent, both metrics exceeding expectations. Household net worth was positive as well, aided by a strong-performing stock market. Rising home prices, coupled with the positive GDP and employment numbers, allowed consumers to feel more comfortable spending discretionary income on travel.

2015 Forecast Review

What is driving the one percent increase in Labor Day person-trips this year?

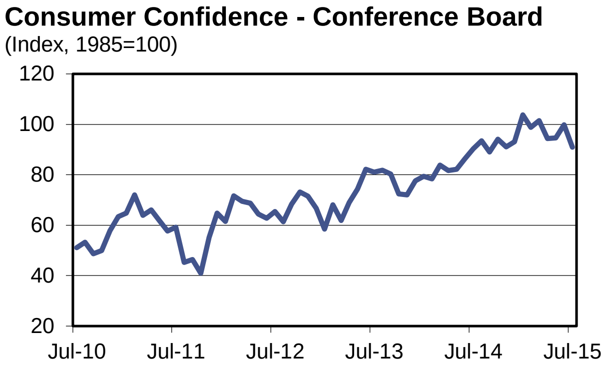
- **Economic Indicators:** While the first half of the year showed minimal economic growth, the consumer spending outlook remains relatively bright, supported by solid gains in employment, real disposable income, household net worth, and home sales. However, the mood of the consumer has weakened slightly and that should help to limit the chances of robust growth in travel spending.

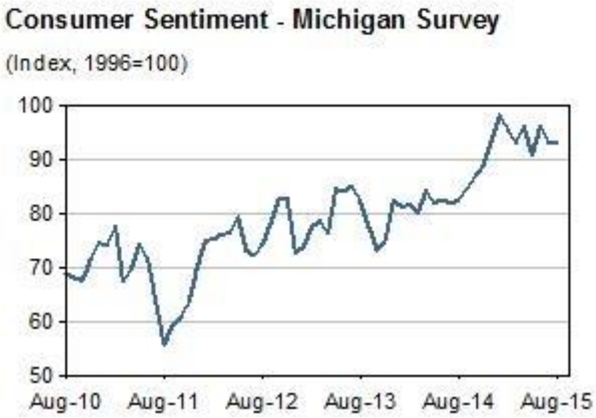
  - **Slow growth in GDP offset by continued improvements in the job market:** Real GDP advanced at a 2.3 percent annual rate in the second quarter, following an upwardly revised gain of 0.6 percent in the first quarter. Consumer spending accelerated, while exports and state and local government purchases rebounded from first-quarter declines. IHS expects that growth in the third quarter will come in at 2.1 percent on a quarter to quarter basis, but then accelerate to 3.1 percent in the fourth quarter. Employment growth in July was a solid 215,000, as was the 235,000 average gain from May through July. The July report is consistent with other strong data on the labor market, and along with an underlying 2.5-3.0 percent economic growth rate, suggests that US companies are shrugging off bad news in the rest of the world and should continue to support improvements in the labor market.

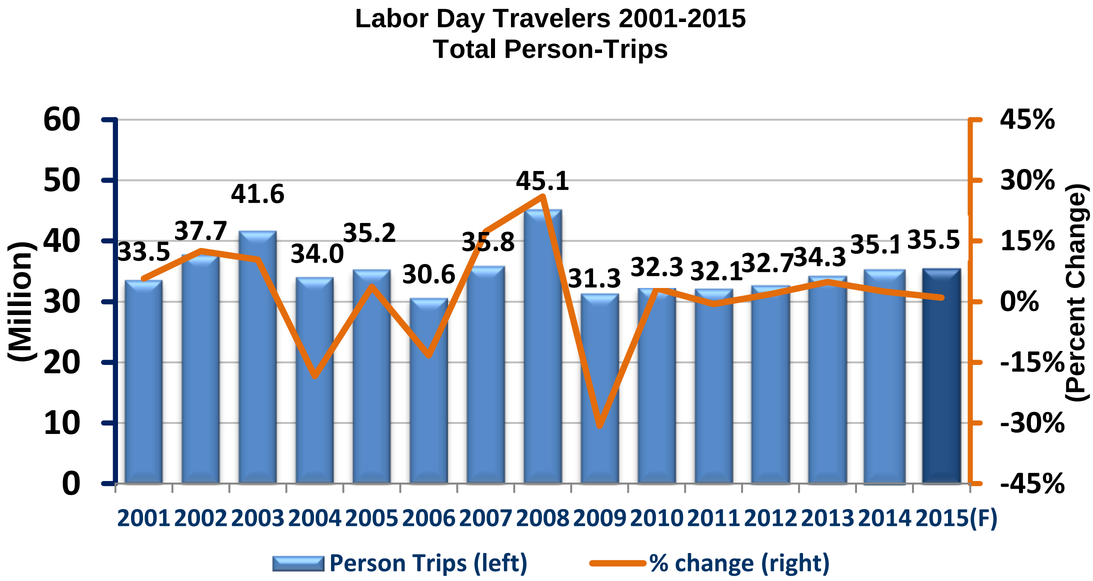
  - **Consumer spending is the mainstay of the US economy.** It is expected to grow 3.1 percent this quarter and 3.2 percent in the fourth quarter. Solid employment and income growth, improved household finances, and lower energy prices are all supporting US consumer expenditures. Moreover, despite worries about weak wage growth, US wage gains continue to outpace inflation. Recent strong sales of light vehicles have been one of the strongest contributors to robust consumer spending.

  - **The housing market is improving:** The improved prospects for housing can also be attributed to good jobs growth and improved credit availability for builders and homebuyers. That said, multifamily housing starts are accounting for an increasing share of total housing starts, as young adults have postponed forming families. The good news is that household demand is being helped by continued healthy jobs growth. Since the beginning of 2015 (with the notable exception of March) payroll jobs have increased by 200,000 or more, each month—sometimes much more. These gains are widespread, and, despite strong headwinds (especially a strong dollar), manufacturing jobs are also increasing. Typically, monthly payroll increases of 200,000-225,000 are associated with GDP growth rates of 2.5-3.0 percent.

  - **Consumer surveys trending lower:** The Bloomberg Consumer Comfort Index gained 0.4 point in the week ended 16 August and is now at 41.1. The index value remains above its level at this time last year, and has increased the previous two weeks, which stopped a five week slide in the results. The Conference Board's Consumer Confidence Index took a hit in July, falling 8.9 points to 90.9, the lowest reading since September 2014 and is now at the same level as July 2014. The University of Michigan's Consumer Sentiment Index lost 0.2 points in early August to reach 92.9. The value remains well above 82.5 reading of this time last year, but the index has fallen each of the past two months.







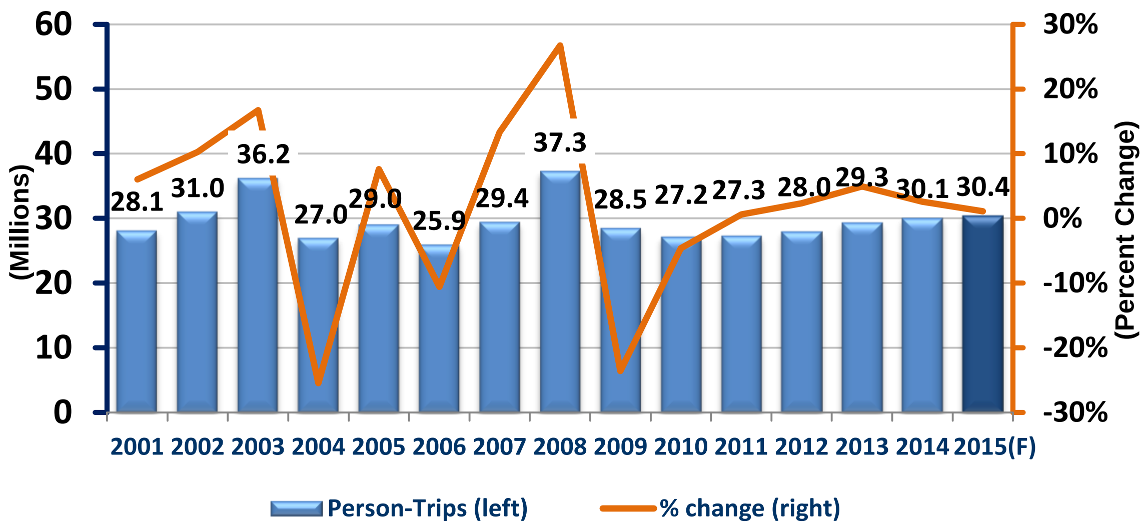
- **Comparison to Historical Average:**
  - 2015 will mark the fourth consecutive year of overall travel growth for the Labor Day holiday period, and will also be the seventh out of the past nine years to see a year-over-year increase in volume. Looking at just the previous ten years, the average volume was 34.5 million, while going back to 2001 the average is 35.1 million. The 2015 forecast is one percent above the historical average (to 2001), but three percent above the ten-year average and 7.6 percent above the recent post-recession (2010-2014) average.
  - Observed on the first Monday in September, Labor Day can fall anywhere from September 1-7. Therefore 2015 will see the latest possible occurrence of the actual Labor Day holiday. Historically we have seen a slight tendency for lower travel volumes when the holiday falls at this end of the spectrum. The most recent year in which the holiday was on the 7th was 2009, which is obviously a difficult year to draw conclusions from. Years in which the holiday fell on the 6th are 2010 and 2004. While not an overriding factor, Labor Day falling near the end of its potential window for when it can occur is another factor helping to dampen the growth potential when tied into the middling overall economic picture.

In summary, the core economic fundamentals remain consistent with what has been the case previously this year - a strong labor market has helped to increase personal income, which, combined with flat prices, has resulted in a boost to disposable income. However, consumers remain cautious and as a result, will only drive a slight increase in holiday travel this Labor Day.

Automobile trips will keep pace with the overall 2015 Labor Day travel volume, while travel by "other" modes will be unchanged from 2014.

The number of travelers expected to drive to their holiday destinations this year will increase just over one percent, resulting in the share of automobile travel to remain virtually unchanged from 2014 and come in at 85.8 percent. The 30.4 million travelers will mark the fifth consecutive year of rising travel volume by automobile, with the 2015 forecast expected to be the second highest volume by this mode since 2003. The forecast is 2.8 percent higher than the average since 2001, and is 4.2 percent higher than average of the past decade.

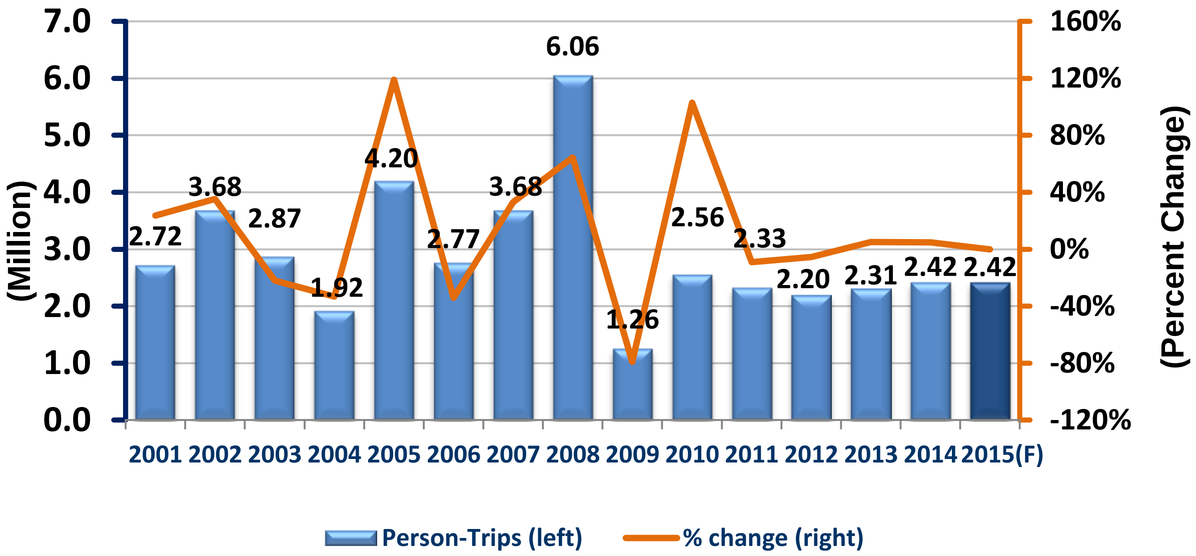
Labor Day Travelers by Automobile, 2001-2015



The increase in automobile travel will just outpace the overall growth in travel over the Labor Day holiday period. Growth in disposable income has been helped by a number of factors, as falling unemployment has helped increase personal income while lower energy prices are helping to keep overall prices from growing. However, the expectation is that consumer spending will grow less than the increase in disposable income as consumers remain cautious and will use some of that rising income to pay down debts as opposed to spending it all. As a result, the automobile travel for the Labor Day holiday period will see growth, but there is not expected to be a surge in travelers hitting the road this holiday.

Travel volume via other modes (rail, bus, cruise, etc.) will see the lowest modal growth for the holiday, but is not expected to see a significant shift in total travel share. The 2.42 million travelers expected to use these modes will be a 0.2 percent decrease from 2014, which will decrease share of travel less than a tenth of a point to 6.8 percent. Despite the lack of growth for 2015, the forecast is nearly 11 percent higher than the post-recession average.

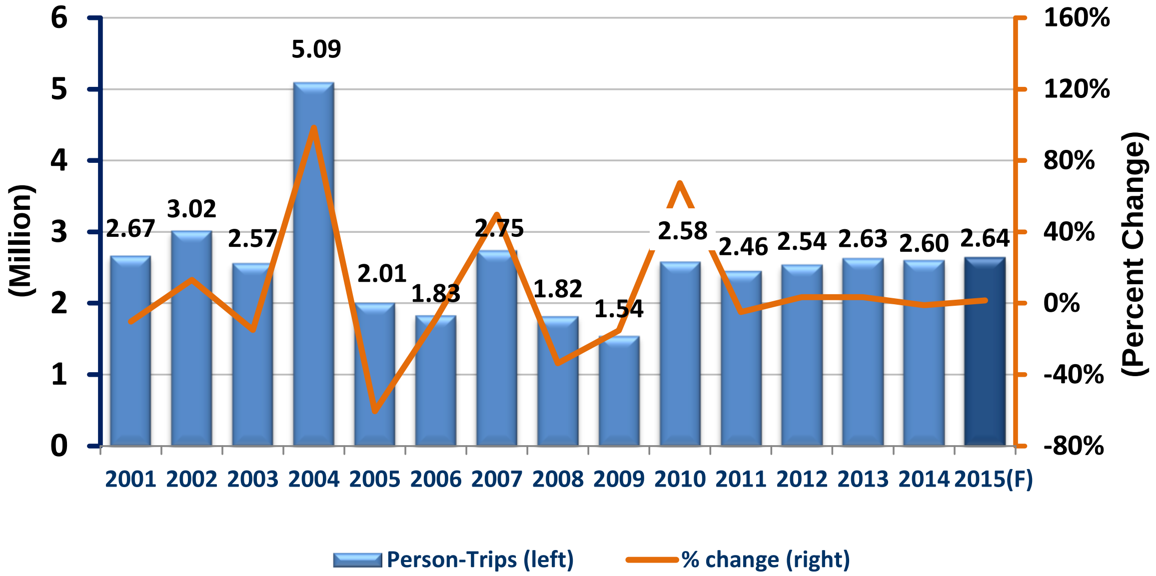
Labor Day Travelers by Other, 2001-2015



Air travel growth will slow relative to the past two years.

Travel by air will increase 1.5 percent this year as 2.64 million travelers fly to their holiday destinations. The share of Labor Day travel by air will remain virtually unchanged at 7.4 percent. While this marks the third out of the last four years air travel will increase, the total volume post-recession seems stuck in the range of 2.5 to 2.6 million. Looking back historically, despite the steep recession driven declines in 2008 and 2009, and the abnormal spike year of 2004, the overall air travel volume for this holiday has remained fairly steady, as the 2015 forecast is just 2.3 percent higher than the average volume going back to 2001.

Labor Day Travelers by Air, 2001-2015

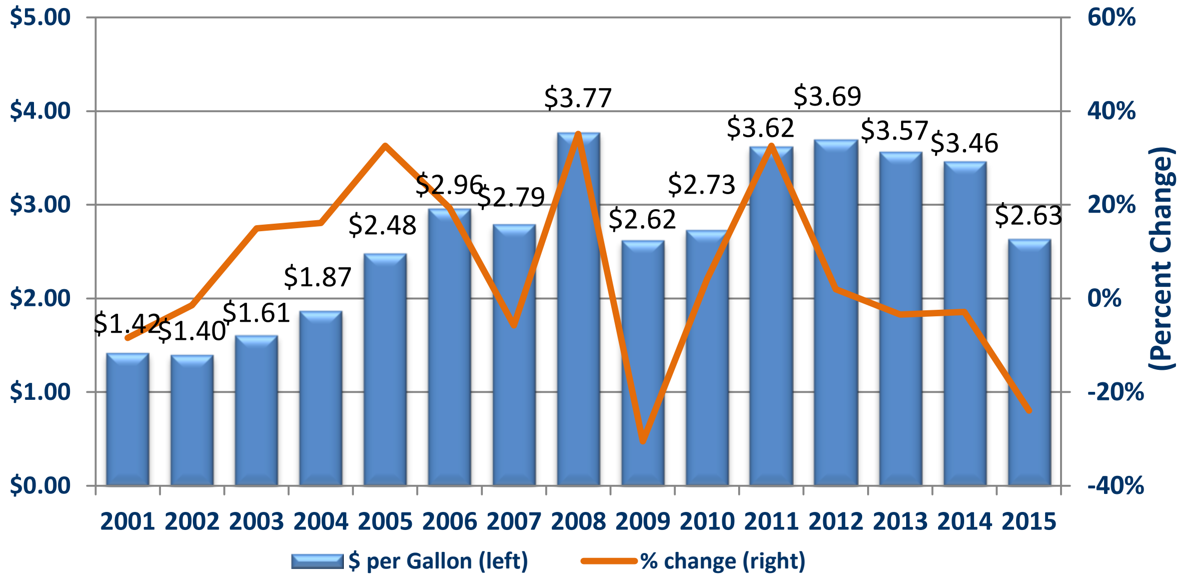


What is the impact of gasoline prices on the forecast?

The average price of regular unleaded gasoline was $2.63 through the first three weeks of August, which is 24 percent lower than the same time last year. Most U.S. consumers are paying the lowest gas prices for this time of the year since 2009. As of August 21st, the national average was 80 cents lower than the same day last year, and while prices have fallen nearly 20 cents from the recent highs seen in June, they remain 60 cents above the lows seen earlier this year. Therefore, prices are most likely to impact mode choices and budget choices as opposed to being a strong driver of a go/no go travel decision.

Average August* Gasoline Prices
National Average Per Gallon Regular Unleaded

2001-2015



* August gasoline prices are emphasized because prices observed several weeks prior to the holiday are likely to influence holiday travel planning, while actual holiday prices are typically less influential. 2015 gasoline price is an August average through August 21, 2015.

Addendum 1: US Economic Forecast Summary
Published August 17, 2015

Second-quarter real GDP growth was 2.3 percent; first-quarter growth was also revised up, from -0.2 percent to 0.6 percent. Given the large accumulation of inventories in the first half of the year, US GDP growth will be constrained in the current quarter and in the fourth quarter. Specifically, IHS expects that the bulk of the inventory adjustment will occur in the third quarter, resulting in real GDP growth of 2.1 percent, compared with 2.3 percent in the second quarter. However, by the fourth quarter, the impact of the inventory adjustment will diminish and growth should rebound to 3.1 percent. Meanwhile, final sales (excluding inventories) will grow an average 0.5 percentage points higher than real GDP over the next four quarters.

Annual revisions to the National Income and Product Accounts showed weaker growth in the past three years—especially in 2013—as the growth in consumer spending and state and local government expenditures was downgraded. The revisions show weaker real consumer spending growth for each quarter in 2012 and 2013. These revisions are consistent with the popular belief that the economic recovery was foundering and that the 2013 payroll tax-cut expiry had a stronger negative impact on consumer spending than originally thought. Second-quarter real consumer spending growth came in at a 2.9 percent annual rate, while first-quarter real consumer spending growth was revised down by three ticks, to a 1.8 percent rate. Our consumer spending outlook remains relatively unchanged from last month's forecast. Real consumer spending is projected to increase at annual rates of 3.1 percent in the third quarter and 3.2 percent in the fourth quarter. Incoming data for the month of July have been mostly favorable on the consumer front, where we have seen a well-received employment report, robust light-vehicle sales, relatively strong and broad-based retail sales growth, and falling gasoline prices. Weekly gasoline prices (DOE all grades) fell 14.3 cents per gallon by mid-August (week ended 10 August) from the early June reading of $2.86/ gallon. In July, the University of Michigan's consumer sentiment and Conference Board's consumer confidence indexes took a beating due to stock market volatility and the headline effects of concern over China's financial markets and the Greek debt issue. We expect consumer mood to regain lost ground in the upcoming months as these headline effects wear of

As expected, housing markets continue to gain momentum. In June, housing starts and permits, existing home sales, and home prices posted strong gains, although new home sales decreased. Credit availability is improving for homebuyers and builders, supporting substantial gains in construction activity even as interest rates rise over the next few years. Annual revisions to residential investment affected the 2012-14 time period. As a result, the acceleration that had been present in mid-2013 has disappeared, but the second half of 2014 and the start of 2015 were both revised up. In total, residential investment lost $21 billion in spending, amounting to about 1.4 percent of the total over three years. While the data on the housing market have been mixed, with new home prices and sales, as well as single-family starts, faltering in June, this was after they reached a multiyear high in the prior month. Overall, starts and permits both recorded their highest levels of activity since the end of 2007 in the second quarter—regaining pre-financial crisis levels, but not pre-housing bubble levels. In addition, the pace of existing home sales has been holding up well. Median and average prices for existing homes are lower than for new homes, but have been rising at an average of 3-4 percent annual rate over the past five months, and we think that is a reasonable pace that balances the need for improved affordability against the need for homeowners to build equity.

Our outlook remains essentially unchanged, with new home sales expected to reach a 528,000-unit annualized rate and existing-home sales expected to hit a 5.52-million-unit rate by the end of the year.

Recent data on the economy and statements by members of the Federal Open Market Committee confirm that a September time frame for the first interest rate hike since 2006 is likely. If the Federal Reserve was looking for further reasons to begin raising interest rates in September, it found plenty in recent data, especially the July employment report— decent payroll gains, an increase (albeit small) in the labor force, a bounce in manufacturing jobs, and growth in wages (albeit still tepid). That said, a labor-force participation rate that remains at a 38-year low and wage gains that could be signaling more slack in the labor market do not make a September rate hike a slam dunk. The IHS forecast anticipates two 0.25-percentage-point increases in the federal funds rate target in 2015 and four such increases in 2016. The policy rate is expected to reach an equilibrium of 3.25 percent in late 2017.

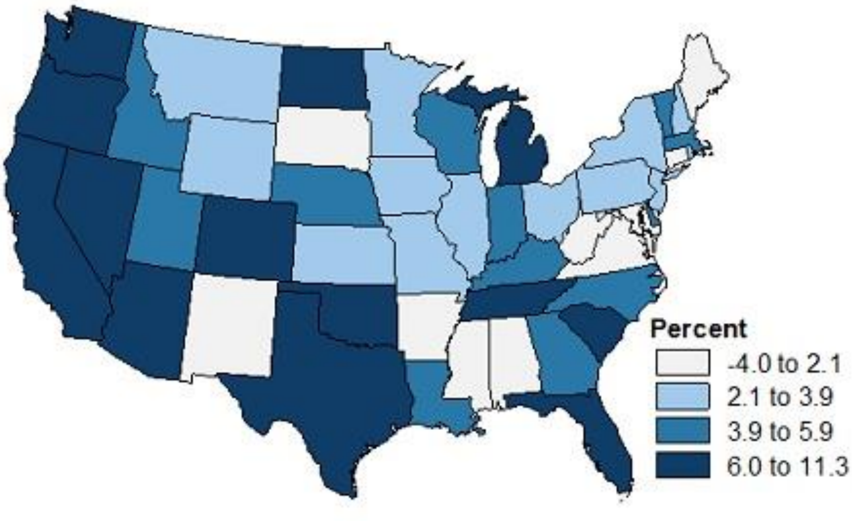
Addendum 2: US Regional Housing Update (Published June 19, 2015)

Home price gains hold steady. Home prices nationwide grew at a 5.0 percent pace in the first quarter of 2015, according to the Federal Housing Finance Agency's purchase-only home price index. This matches the pace of gains in the final quarter of 2014 and indicates that price increases have likely stabilized after a period of deceleration following their rapid run-up in 2013. Home sales in the first quarter, meanwhile, were significantly stronger relative to one year earlier. At the same time, inventories of for-sale homes increased very modestly over the year, doing little to ease supply constraints. These two factors have combined to reverse the trend of decelerating price growth that we had seen prior to the fourth quarter of last year. Demand has been supported by the improving labor market, but lingering affordability issues and tight lending standards have kept price growth in check.

States varied considerably in their year-over-year (y/y) price performances during the quarter, with some making double-digit gains while others lost ground. Colorado leapt to the front of the pack, with home prices climbing 11.3 percent y/y. Strong demand and population growth there have led to extremely limited inventories of for-sale homes, particularly in the Denver area, where competitive bidding has pushed prices skyward. Nevada climbed back into double-digit territory, with prices increasing 10.2 percent y/y. We consider Nevada's ascent—which is happening despite troubles with lingering foreclosure inventories—to still be a rebound from the abysmal lows it suffered during the recession. Florida (up 8.7 percent y/y), Washington (up 7.5 percent y/y), and California (up 7.5 percent y/y) rounded out the top-five performers.

At the opposite end of the spectrum, sales prices declined in two states and the District of Columbia. In West Virginia, weak labor market gains and heavy losses in the state's coal mining sector have led to a weakening housing market, with prices dropping 4.0 percent y/y. Washington DC home prices dropped 0.7 percent y/y due largely to a significant y/y increase in foreclosure inventories due to a new law that had accelerated the pace of delinquent homes moving into the foreclosure system. Maryland homes fell 0.4 percent y/y, as the state similarly struggles with new foreclosures. The bottom five also included Connecticut and Maine, which saw modest respective increases of 0.5 percent y/y and 1.1 percent y/y.

Home Prices, FHFA Purchase-Only Index, first-quarter 2015
(Percent change from a year earlier)



Amidst volatility, existing home sales continue to rise. Existing home sales in April 2015 dipped 3.3 percent month over month, to a seasonally adjusted annual rate of 5.04 million units. Although the slide was unexpected, it is important to keep in mind that March was particularly strong; sales had surged to a revised 5.21 million units. Some of April's weakness may also be explained by supply issues. Although inventories of for-sale homes continued to rise as normal as the spring selling season kicked off, they were still 0.9 percent lower in April than one year earlier. Despite the April deceleration, sales of existing homes did grow at a healthy pace, increasing 6.1 percent y/y.

On a yearly basis, existing home sales were up in all four Census regions. The fastest pace was in the North Central region, where transactions were up by double digits for the second straight month in April, by 13.0 percent y/y. In both the South and West, the pace of home sales moderated to 3.6 percent y/y and 6.4 percent y/y, respectively, due to month-on-month (m/m) declines in April. Sales in the Northeast rose at a more anemic 1.6 percent y/y pace.

New home sales picking up some steam. According to the US Census Bureau, sales of newly built homes rose 6.8 percent m/m in April to an annualized rate of 517,000 units. The strong showing coincides with rising confidence among homebuilders and increasing construction spending. The data on new homes are often volatile and statistically unreliable, so one month of data hardly paint a complete picture. An examination of the numbers relative to one year earlier, however, also indicates strength, with sales up 26.1 percent relative to April 2014. Indeed, this was the fifth straight month where the rate of new homes sales increased by double digits. Sales were up in all regions except the Northeast, where they decline 19.0 percent y/y. The South and West continued to expand rapidly, while in the Midwest, April brought marked improvement, with sales up 20.0 percent y/y.

Indicators of new home construction surge in April. Housing starts surged by 20.2 percent in April, to a seasonally adjusted annual rate of 1.14 million. This was the fastest pace of construction since November of 2007. April's numbers were the first yearly increase in starts since January, when they hit 1.08 million. They were also a healthy 9.2 percent higher than at the same time last year. Despite some demand-side headwinds, there are a number of factors leading to increasing building activity, the most important of which is limited supply of existing homes in many markets. Additionally, much of the increase was the result of single-family construction rather than multifamily construction. Single-family starts rose to 733,000, a pace that is 14.7 percent higher than a year earlier. Multifamily starts rose to 402,000, but were only up 0.5 percent y/y. The increase in the pace of homebuilding was distributed evenly throughout the nation, with all four regions seeing a double-digit increase over the previous April. More good news was seen in the permits data, which indicate that new construction is likely to remain strong in the coming months. Permits to build new homes rose to 1.14 million in April, the fastest pace since the end of 2007. Builders were likely more optimistic not only because of limited inventories, but by the fact that costs, particularly that of lumber, have been on the decline.

Foreclosure inventories shrink slightly. The nation's foreclosure situation improved slightly in the first quarter of 2015. Loans in some stage of foreclosure fell 10 basis points, to 2.2 percent of all loans. As many markets continue to improve, the pace of decline in foreclosure rates is slowing. The 40-basis-point y/y decline in the first quarter was markedly slower than the 83-point-drop that the rate has averaged over the past two years. It is also likely that employment instability due to the sharp slowdown in the nation's energy sector in the first quarter hampered a quicker improvement, particularly in the oil-rich states.

At this point, further declines in foreclosure inventories will largely depend on the ability of states to complete proceedings for homes already in the pipeline. The pace at which new foreclosures are entering that pipeline has largely returned to normal. New foreclosures as a share of all loans held steady at 0.5 percent in the first quarter, unchanged from both the previous quarter and one year earlier. States that have judicial review processes for bank repossessions are having a much harder time of clearing the backlog, while states that do not have inventories much closer to precrisis rates.

Addendum 5: US and Regional Population and Travel Share Data

Population and Travel Shares

	Population (Thousands)	Travel Volume (Thousands)				Share of Population			
		Automobile	Air	Other	Total	Automobile	Air	Other	Total
National									
United States	321,901	30,425	2,640	2,415	35,480	9.5 percent	0.8 percent	0.8 percent	11.0 percent
Census Divisions									
New England	14,736	1,604	128	122	1,854	10.9 percent	0.9 percent	0.8 percent	12.6 percent
Middle Atlantic	41,572	4,150	403	374	4,927	10.0 percent	1.0 percent	0.9 percent	11.9 percent
South Atlantic	63,367	5,613	472	340	6,424	8.9 percent	0.7 percent	0.5 percent	10.1 percent
East North Central	46,853	5,481	234	452	6,166	11.7 percent	0.5 percent	1.0 percent	13.2 percent
East South Central	18,921	1,644	78	114	1,836	8.7 percent	0.4 percent	0.6 percent	9.7 percent
West North Central	21,155	2,416	115	183	2,714	11.4 percent	0.5 percent	0.9 percent	12.8 percent
West South Central	39,084	2,966	308	226	3,500	7.6 percent	0.8 percent	0.6 percent	9.0 percent
Mountain	23,584	2,129	231	201	2,561	9.0 percent	1.0 percent	0.9 percent	10.9 percent
Pacific	52,630	4,423	671	404	5,498	8.4 percent	1.3 percent	0.8 percent	10.4 percent

Census Region definitions:

East North Central (ENC): IL, IN, MI, OH, WI
East South Central (ESC): AL, KY, MS, TN
Middle Atlantic (MATL): NJ, NY, PA
Mountain (MTN): AZ, CO, ID, MT, NM, NV, UT, WY
New England (NENG): CT, MA, ME, NH, RI, VT

South Atlantic (SATL): DC, DE, FL, GA, MD, NC, SC, VA, WV
West South Central (WSC): AR, LA, OK, TX
West North Central (WNC): IA, KS, MN, MO, ND, NE, SD
Pacific (PAC): AK, CA, HI, OR, WA