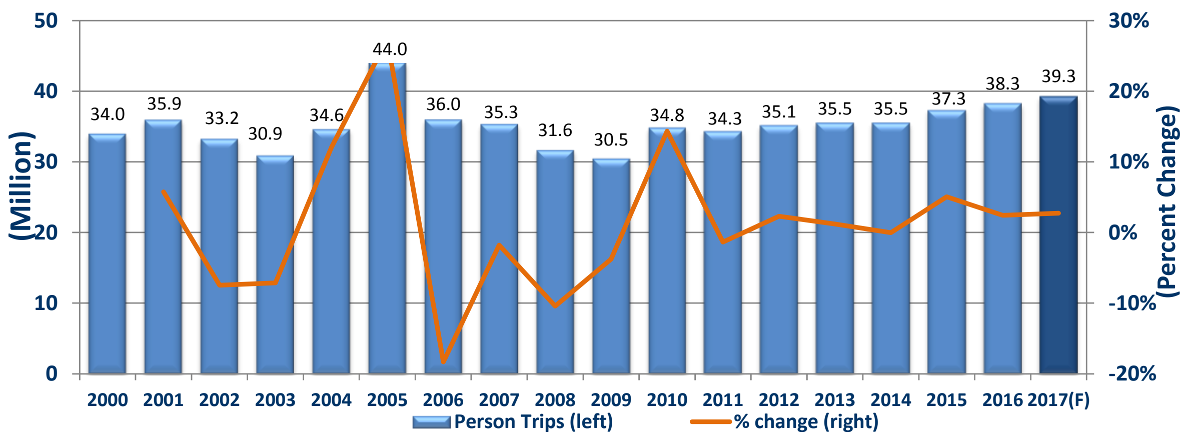
2017 Memorial Day Travel Forecast Review

Memorial Day travel expected to experience strong growth with more than 1 million additional travelers in 2017.

- AAA and IHS forecast an increase of more than 1 million travelers over the Memorial Day holiday in 2017, from 38.3 million in 2016 to 39.3 million this year. This 2.7 percent increase represents the third consecutive year of growth and the second-highest volume of travelers on record.
- The 2017 forecast is 29 percent higher than the 2009 post-recession low of 30.5 million.
- In the past three years, travel volume has grown 10.5 percent with the addition of 3.75 million travelers.

Total Memorial Day Travelers, 2000-2017



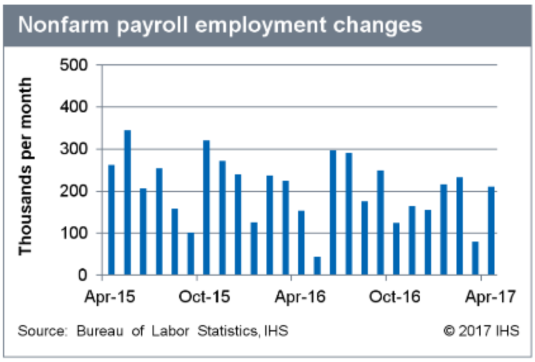
What is driving the 2.7 percent increase in Memorial Day holiday travel this year?

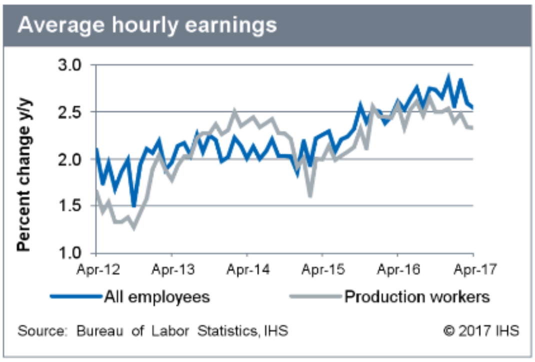
- **Forecast summary:** Increasing personal income levels and falling unemployment rates have led to strong growth in consumer spending. Furthermore, strong stock market performance has bolstered household net worth. The combination has resulted in a high level of consumer optimism, which is driving travel growth.

- **Economic overview:** The U.S. economy is on firmer footing than it was a year ago, as healthy gains in employment, real disposable income and household wealth will continue to fuel consumer spending. Real consumption growth will hold at 2.7 percent this year and pick up to 3.3 percent in 2018, when tax cuts boost both spending and saving.

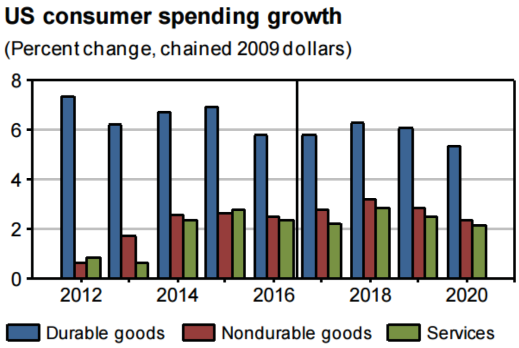
- **Economic indicators:** Real GDP growth is expected to strengthen from an annual rate of 1.7 percent in the first quarter to 3.1 percent in the second quarter, led by a bounce-back in consumer spending growth. In the first quarter, real growth was held back by a sharp decline in household energy consumption, reflecting a relatively warm winter and a surge in prices. Consumer spending, currently 69 percent of GDP, is driving the economy's ebb and flow. Real consumption growth is projected to pick up from 1.3 percent in the first quarter to 3.1 percent in the second quarter and hold at 2.7 percent through the final two quarters of 2017. Consumer confidence and sentiment remain buoyant, supported by the fundamentals of rising employment, real incomes and household net worth. Household finances are in good shape, thanks to rising home prices and stock prices, moderate use of credit, and substantial deleveraging over the past decade. This will help the recovery in residential investment to move forward, despite rising interest rates and supply-side constraints.

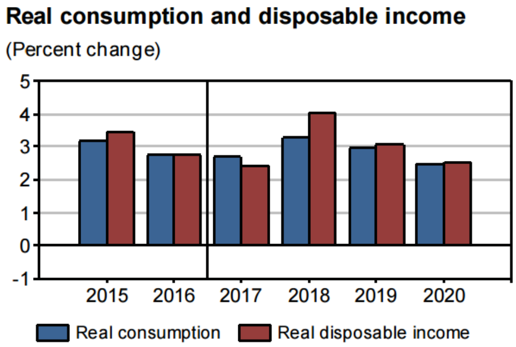
- **The labor market is approaching full employment:** March was a "not-so-good" month in the good month/ bad month spectrum, with 98,000 jobs added, although this did follow two good months of more than 200,000 jobs added. We just saw that Nonfarm payroll gains bounced back smartly in April—211,000 additional jobs. The first-quarter average monthly gain was a respectable 178,000 jobs, or just short of the 182,000 average of the past year. Leisure and hospitality, healthcare and social assistance, financial activities, and mining posted solid gains. The unemployment rate in April ticked lower, down to 4.4%, as the number of additional employed far outpaced the feeble labor-force gains. That's the lowest the rate has been since May 2001. The U-6 unemployment rate, the broadest measure of unemployment, which includes discouraged workers who have given up looking for work as well as part-timers who would prefer to work full time, declined by 0.3% in April to 62.9%. For both employment rate measures, the first four months of the year averaged the lowest since 2007. The participation rate ticked lower and the employment-population ratio ticked higher for the month of April. While the job market is continuing to improve, it is not yet enticing additional workers to enter the workforce at a pace that matches additional jobs.



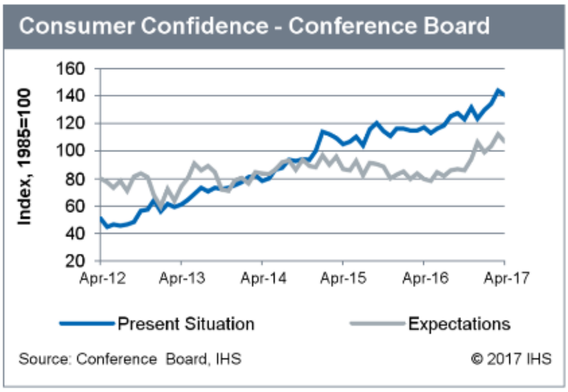


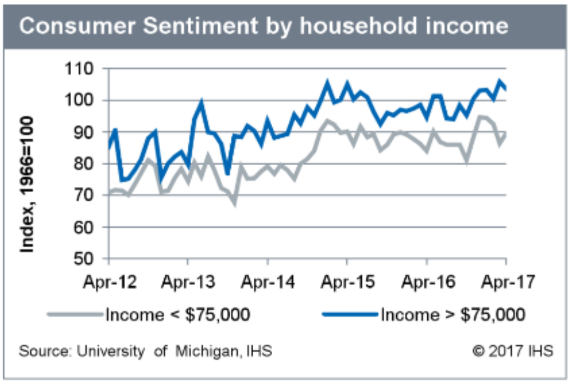
- **Consumers spending will remain strong:** The most recent data show fourth-quarter real consumer spending growth was 3.5 percent on an annual basis, with upward revisions mainly in the services categories, which is beneficial to supporting travel. Real consumption growth is projected to pick up from 1.3 percent in the first quarter to 3.1 percent in the second quarter and hold at 2.7 percent through the final two quarters of 2017 on a quarter to quarter basis. Real disposable income growth is likely to slow down in the first quarter to a 0.9 percent annual rate, after a 2.0 percent reading in the fourth quarter but will rebound in the second quarter to 3.8 percent growth and remain around three percent for the rest of the year.





- **Consumer surveys show strong optimism:** In March, the Conference Board's Consumer Confidence Index surged to its highest level since December 2000, but April saw a slight step back although the index remains well about the levels of earlier this year. The index is up nearly 25 points from a year ago and both "present situation" and "expectations" components of the index are showing strong growth. The index now rests at 120.3. The final April University of Michigan's Consumer Sentiment Index continued to edge up toward the 13-year high it achieved in January and is now just 1.5 below that. It now sits at 97.0, up just 0.1 points since last month and 8 points from last April. Both the "current conditions" and "expectations" portions of the index are showing growth in line with the overall index.



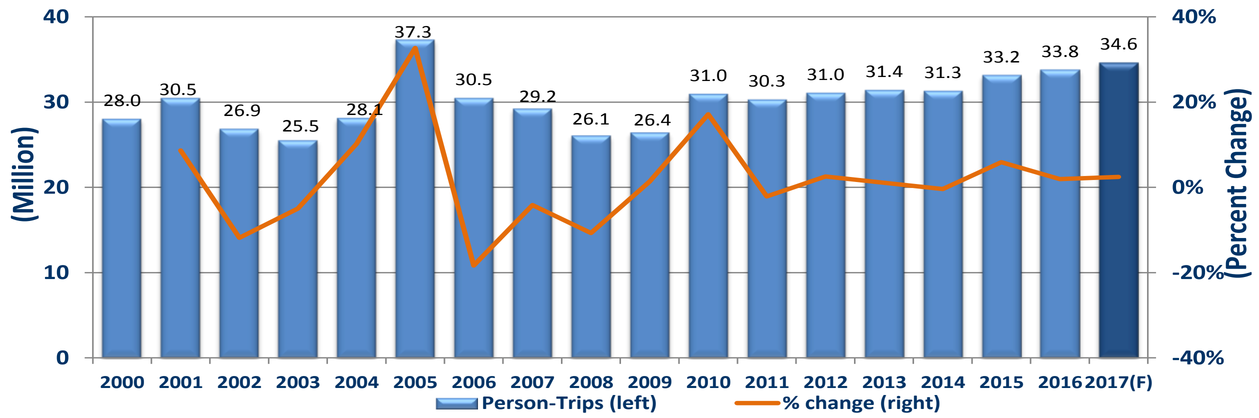


Travel by Mode

Automobile trips are up, though slowing compared to overall travel growth

- The overall travel volume via automobile will increase by 830,000 over last year's total, rising to 34.6 million in 2017 from the 33.8 million seen in 2016.
- Travel by automobile will grow below overall travel growth —2.43 percent growth for auto travel compared to 2.72 percent for overall travel. This would mark the second consecutive year where auto travel fails to keep pace with overall travel growth as the travel share falls from 88.8 to 88.1.
- The transportation mode has increased in seven of the past nine years, adding 8.5 million travelers during that timeframe.
- The 2017 forecast is 14.8 percent above the average since 2001 and 14.0 percent above the average of the last 10 years.

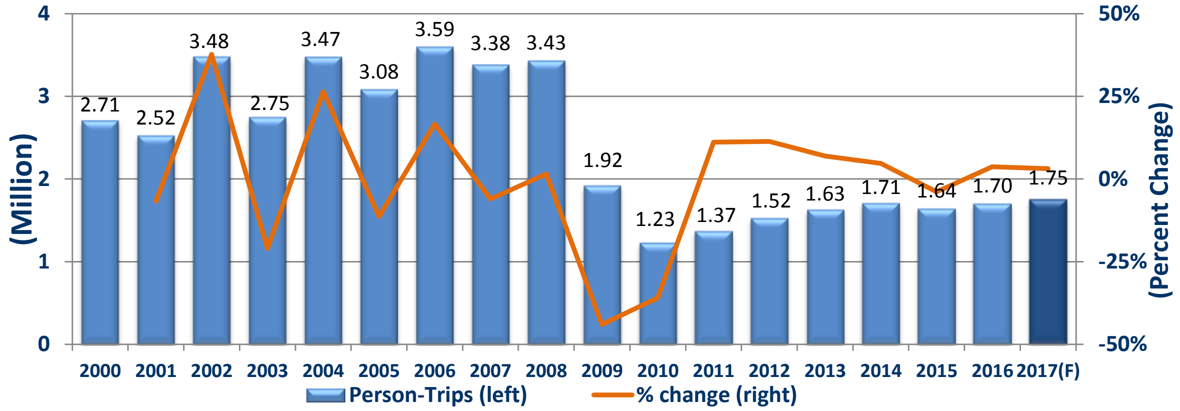
Memorial Day Travelers by Automobile, 2000-2017



Travel by other modes will outpace overall travel for the second consecutive year.

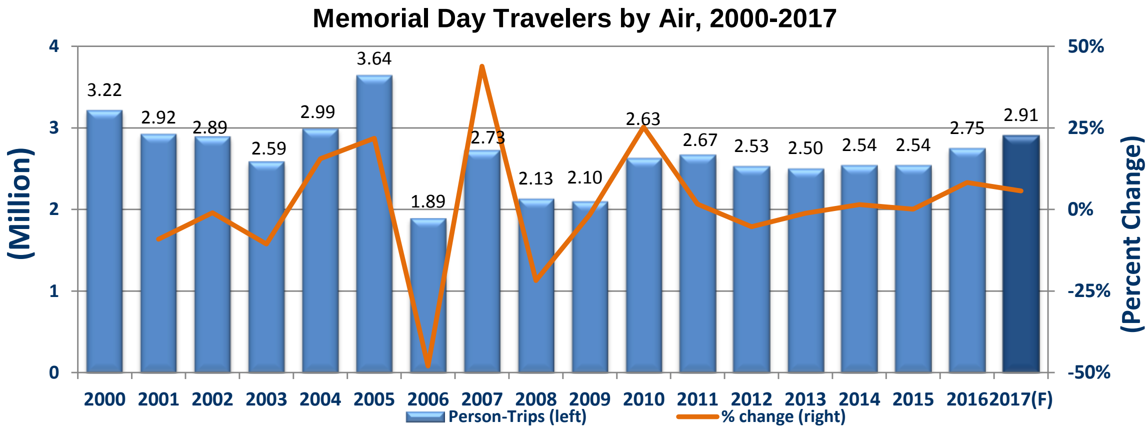
- Travel by other modes (including bus, train and cruise) will grow substantially in 2017, with the 1.75 million travelers by these modes representing an increase of 2.9 percent compared with 2016.
- Share of travel via this mode will increase from last year's 4.4 percent to 4.5 percent.

Memorial Day Travelers by Other, 2000-2017



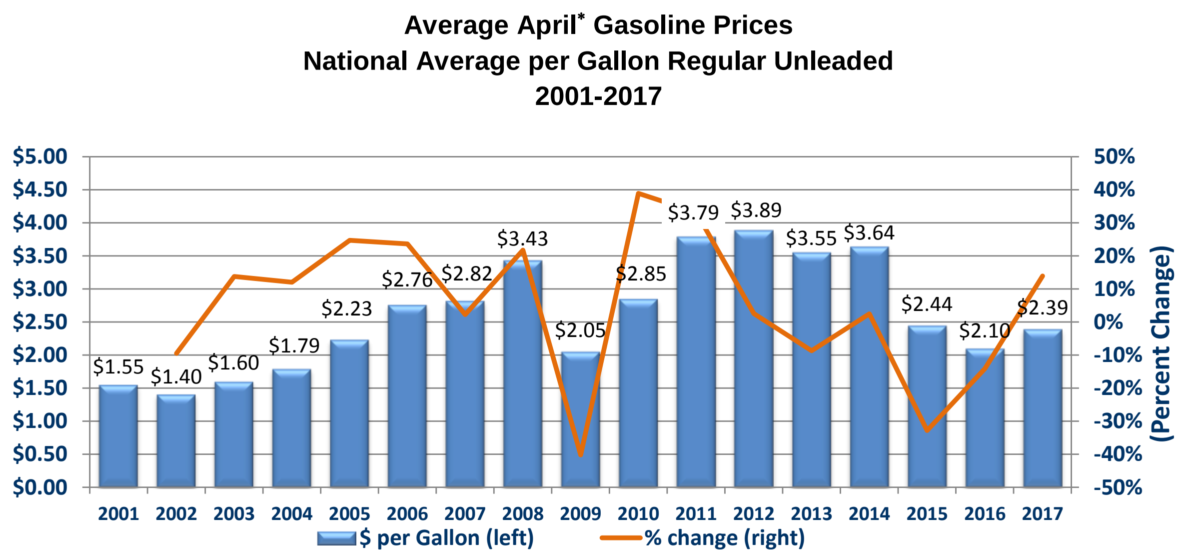
Air travel will rise by 156,000 additional travelers over Memorial Day 2017

- Memorial Day air travel is forecasted to be 2.91 million individuals in 2017. This growth of 5.5 percent is the second fastest since 2010.
- 2017 marks the fourth straight year of increasing air travel volume, with the total growth topping 16 percent during that time.
- The 2.91 million travelers expected to fly is the highest total seen over a Memorial Day weekend since 2005.



What is the impact of gasoline prices on the forecast?

Gas prices have trended up since this time last year, but only slightly, as the 2017 national average is less than 14 percent above the 2016 national average for the month of April. While this price increase is the highest April-over-April growth since 2011, strong positive movements in personal income and real disposable income will moderate the expected effects of marginally higher prices at the pump. The fact that this will be the first time in three years where prices heading into the holiday period are above the level of the previous year is unlikely to have a significant impact on what mode travelers choose as the change is so slight and the overall average remains low.



* April 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.

What was the variance of forecasted and actual travel for Memorial Day 2016?

Last year, IHS predicted that 38.0 million Americans would travel over the 2016 Memorial Day holiday period. This forecast represented a 1.8 percent increase relative to the 37.3 million trips which occurred during the 2015 holiday period.

While overall economic growth during 2016 was relatively pedestrian, holiday travel saw robust growth, spurred by strong job market performance, continued low gasoline prices and strong increases in real disposable income. These effects together led an increase in consumer spending of 3.8 percent year-over-year. Actual 2016 Memorial Day person-trips were 38.3 million, an increase of 2.45 percent over the 2015 number. Much of the unanticipated growth was seen in increased air travel. The forecast was within 0.6 percent of actual 2016 Memorial Day travel.

What were the factors that contributed to the growth in Memorial Day travel last year?

- **Strong Labor Market:** Unemployment has continued to fall from its high of more than 10 percent in 2009. The unemployment rate dropped more than anticipated in the second quarter of 2016, falling below five percent for the first time since the recession.
- **Increased Income and Spending:** The added growth in the labor markets during the second quarter of 2016 spurred wage growth amongst American workers, as personal incomes grew 4.3 percent year-over-year. Increased wages translated into increased spending in 2016, with the rate increasing by 3.8 percent over the 2015 numbers.
- **Increasing Home Prices:** The median prices for existing houses rose 4.9 percent year-over-year in the second quarter of 2016. This incredibly strong growth was paired with an eight percent increase in the price of new homes, and helped to push a 1.5 percent increase in household net worth.

Addendum 1: U.S. Economic Forecast Summary
Published April 10, 2017

Overview: There is a silver lining to the demise of the recent attempt in the U.S. House of Representatives to “repeal and replace” the Affordable Care Act with the American Health Care Act (AHCA). Unless the deep divisions among Republicans that doomed the AHCA can be bridged, President Trump and the Republican leaders in Congress will have to garner support among Democratic representatives and senators for any future initiatives. Ironically, this may increase the chances of a pro-growth agenda moving forward.

One early indication of this was a signal from Republican leaders that they are likely to exclude some of the provisions most opposed by Democrats from the legislation needed to fund the U.S. government past the April deadline, thus avoiding even a partial government shutdown. Moreover, given the AHCA defeat, the chances of enacting a radical overhaul of the U.S. corporate tax code (e.g., a border-adjustment tax) have become even slimmer. More likely to get enacted is a less ambitious plan (as yet unspecified) to cut personal and corporate tax rates (and repatriate profits from overseas), while closing some loopholes. In order to get even limited Democratic support, there will need to be some tax breaks for middle-class households. Last but not least, some increase in infrastructure spending is probable, since such spending is already favored by Democrats. While there is no inevitability to any of this, such a modest agenda has a better chance of happening than anything more ambitious.

Such moderately pro-growth policies are already built into the IHS Markit baseline. The good news is that even before any policy changes, the U.S. economy is on a firmer footing than it was a year ago. Specifically, real GDP growth in the fourth quarter of 2016 was revised up from 1.9 percent to 2.1 percent (third-quarter growth was 3.5 percent). Growth in final sales to domestic purchasers (GDP less inventories and exports)— arguably the best measure of the underlying growth rate of the economy—registered 2.8 percent, compared with 2.1 percent in the third quarter and an average of 1.8 percent in the first half of 2016.

Looking past the recent volatility of GDP numbers (expected to continue into the first and second quarters of 2017), inflation-adjusted growth has been slowly picking up, on average, since the fourth quarter of 2015— notwithstanding the disappointing payroll jobs gain in March (98,000). The big growth swings in the third and fourth quarters were all about inventories and soybean exports. IHS Markit predicts that real GDP growth in the first quarter of this year will ease again, to 1.7 percent, because of a continuing mild drag from inventories and a temporary pullback by consumers. We expect real GDP growth in the remaining three quarters of 2017 to average a stronger 2.7 percent.

Current quarter and one quarter ahead: Real GDP growth is expected to strengthen from an annual rate of 1.7 percent in the first quarter to 3.1 percent in the second quarter, led by a bounce-back in consumer spending growth. In the first quarter, real growth was held back by a sharp decline in household energy consumption, reflecting a relatively warm winter and a surge in prices. Residual seasonality in the real GDP data is also contributing to the recent variability in growth: in eight of the past 10 years, real GDP has accelerated in the second quarter. After above-trend growth in the spring quarter, economic growth should settle to a more sustainable 2.4 percent pace in the summer quarter. Inventory investment and net exports will be mild drags on U.S. growth through the third quarter.

Consumer spending, currently 69 percent of GDP, is driving the economy’s ebb and flow. Real consumption growth is projected to pick up from 1.3 percent in the first quarter to 3.1 percent in the second quarter and hold at 2.7 percent through the final two quarters of 2017. Consumer confidence and sentiment remain buoyant, supported by the fundamentals of rising employment, real incomes and household net worth. Household finances are in good shape, thanks to rising home prices and stock prices, moderate use of credit, and substantial deleveraging over the past decade. This will help the recovery in residential investment to move forward, despite rising interest rates and supply-side constraints.

The expansion in capital spending is gaining momentum. After 5.7 percent growth in the first quarter, real nonresidential fixed investment is projected to increase at annual rates of 8.3 percent this spring and 5.7 percent this summer. The recovery in commodity prices from their January 2016 low is sparking a rebound in investment in mining and drilling structures. We are also seeing strong gains in spending on information equipment, industrial machinery, and aircraft. An improving regulatory climate and anticipation of corporate tax cuts (expected to take effect in 2018) have boosted business confidence.

Consumer spending, income and confidence: Fourth quarter real consumer spending growth was revised up from a 3.0 percent to a 3.5 percent annual rate in the third estimate; upward revisions were mainly in the services categories. Our forecast for first-quarter real spending growth has been marked down to 1.3 percent, from last month’s 2.2 percent. The downgrade in our outlook was premised on several factors. These included stronger-than-expected January and February core consumer goods price inflation, a poor February reading of real consumer spending, lower-than expected March light-vehicle sales, and a substantial downgrade to our first-quarter outlook for spending on natural gas services, electricity and clothing. Our downgrade of household utility and clothing spending is driven by recent unseasonably warm weather. Real disposable income growth is likely to slow down in the first quarter to a 0.9 percent annual rate, after a 2.0 percent reading in the fourth quarter. Real consumer spending growth should hit a 2.7–3.1 percent annual rate for the remaining quarters of 2017.

Recent news on the consumer markets front has been mixed. Disposable income gains were solid in January and February, although real consumer spending growth fell into negative territory. Light-vehicle unit sales finished the first quarter on a low note, registering the lowest monthly seasonally adjusted annual rate since February 2015. In March, the Conference Board’s Consumer Confidence Index surged to its highest level since December 2000, while University of Michigan’s Consumer Sentiment Index remained at elevated levels.

Consumer spending will remain an engine of U.S. economic growth, supported by rising employment, disposable incomes and household wealth. Income tax cuts in 2018 will likely fuel an acceleration in spending growth and a hike in the personal saving rate. Real consumption growth is projected to stay at 2.7 percent in 2017 and then pick up to 3.3 percent in 2018 and 3.0 percent in 2019. Real disposable income growth will likely jump to 4.1 percent in 2018, from a projected 2.4 percent in 2017.

Business investment spending: Capital spending will be one of the first quarter’s highlights. Real spending on equipment is expected to climb about 6 percent, with robust gains in the industrial and “other” categories offsetting a decline in transportation equipment. A rebound in core capital goods shipments, in conjunction with rising net imports of capital goods, form the basis for the first-quarter forecast. Further out, we anticipate respectable 4–6 percent gains in 2017–19. Spending on intellectual property products, a category that is steadier year in and year out compared to spending on equipment and structures, is expected to see moderate growth in the 3.5–5.0 percent range over 2017–19.

The Baker Hughes oil and gas rig count has now climbed to 839, more than double the 71-year low of 404 rigs reached in May 2016. Despite this impressive gain, nominal spending on mining structures fell in the third quarter of 2016 and increased less than $1.0 billion in the fourth quarter. In the past, the annual data revisions have brought the spending and rig count gains back into line; we expect the second-half 2016 numbers to be revised up, but not until August. Given than the second-half gains were understated, there is a chance that the first-quarter numbers will be much stronger than the 118 percent jump that we forecast. With oil and natural gas prices likely to climb higher, growth in mining structures will remain solid during 2017 and 2018.

Housing and construction: New home sales reached the fastest pace in nine years during February. Homes offered for sale prior to being started had among the highest shares since the early 1990s, so homebuilders are cautious. Homes sold and not started also rose, suggesting that buyers are willing to wait. Inventories of existing homes for sale shrank compared with a year earlier for the 21st straight month to the lowest February level since 1982, when the data began. As a result, median and average prices gains accelerated. Lacking inventory expansion, sales of existing homes will move sideways this year.

Building permits increased for single-family homes but declined for multifamily structures, and housing starts followed suit. New homes going under contract before the start of construction will prime the pump for future building. Homebuilder optimism about buyer traffic and future sales prospects has not been higher since June 2005, while homebuilder optimism about current sales conditions has not been higher since 1999. Mortgage commitment rates have so far largely ignored the latest increase in the federal funds rate. Taken together, elevated homebuilder optimism, low inventory of homes for sale, and continued price increases should encourage more building.

It is difficult to get a good reading on the construction sector in the first quarter because of the weather. On the one hand, the first quarter experienced the second warmest weather on record in the lower 48 states, going back to 1895. On the other hand, it was also the eleventh wettest. For builders, rain matters more than temperature—above all, they disdain mud. Weather likely shifted construction jobs from March (6,000 additional jobs) to February (59,000 more jobs, a 10 year high), but it is hard to say if either jobs or building activity shifted across the first two quarters of 2017.

International trade: Both import and export gains have picked up over the last 18 months. Exports have responded to better economic growth among countries that the United States exports to, as well as the fading effects of the strong dollar. Stronger domestic demand accounts for the stronger import growth.

The real trade deficit in goods shrank by a sizable $5.4 billion in February; the real nonpetroleum deficit declined by $4.5 billion. These numbers imply that trade's contribution to first-quarter GDP growth will be minimal. Trade took a whopping 1.7 percentage points off GDP growth in the fourth quarter; it is expected to remain a drag on growth for at least the next two years.

The Mexican peso lost 13 percent of its value between the November U.S. election and the end of the year. In a remarkable turnaround, it regained all this lost value between President Trump's inauguration and early April. Similarly, the broad-based exchange rate shot up 6.5 percent between the election and the end of year, only to drop back close to its pre-election value in early April. We believe that the dollar still has legs. In the forecast, with the United States still outperforming its trading partners, the real trade-weighted dollar edges up another 4 percent or so over the next four quarters, peaking in the first quarter of 2018; it then embarks on a long multiyear slide.

Meanwhile, import prices, which have inched up recently, will slip again and not rebound until early 2018. By suppressing inflation, falling import prices have heretofore played a role in keeping the Fed from hitting its 2 percent inflation target.

Congress and the administration are expected to move on three proposals pertinent to trade: the border-adjustment tax, tariffs and immigration reform. We have held back incorporating policy changes relating to these subjects because what laws ultimately get enacted is uncertain at this point.

Government spending: Through the first five months of the current fiscal year, the federal government deficit was within 1 percent of the shortfall for the comparable year-earlier period. Fiscal year-to-date, both outlays and receipts are nearly flat with the prior fiscal year. Higher outlays for health, interest payments and Social Security have been offset by lower Medicare and income security spending. Meanwhile, individual income taxes and social insurance contributions were higher, while corporate taxes, excise taxes, and "other" taxes and receipts were lower. We anticipate the federal deficit will be little changed from the prior fiscal year, but be a slightly smaller share of GDP this fiscal year than last.

Real government spending in the fourth quarter of 2016 was revised lower, with the already small growth rate cut in half. Real federal spending was revised only a small amount, with its negative growth a tick lower, reflective of a slight upward revision to prices; nominal spending was unchanged. Real state and local spending showed positive but weaker growth, with more consumption offset by less gross investment. The downward revision to gross investment came out of structures, which represents 75 percent of the total. The growth in structures remained positive in the fourth quarter, but weaker. We expect a decline in the first quarter of 2017.

The American Health Care Act (AHCA) was pulled before getting a vote in Congress, leaving the Affordable Care Act in place. Hence, our baseline remains unchanged with respect to healthcare. This month, in a nod to the presidential budget proposal, our baseline includes an additional $20 billion in federal defense spending starting in fiscal 2018. We solved the Republican-Democrat divide over whether it should be paid for with nondefense cuts or matched by more nondefense spending by doing neither and allowing the deficit to increase by $20 billion. We anticipate that Congress will craft and pass a spending bill to avoid a government shutdown at the end of April.

Monetary policy, unemployment and inflation: The Federal Open Market Committee (FOMC) minutes showed that, once again, committee members were split in their assessment of the inflation outlook. Some participants were concerned about a faster-than-expected increase in inflation should the unemployment rate undershoot the long-run normal rate, while others expected only slow price acceleration given still-low inflation measures and well anchored inflationary expectations. As a whole, however, the committee continued to anticipate that labor market conditions would strengthen further, and that inflation would stabilize around 2 percent over the medium term. Meanwhile, about half of the participants did not incorporate any fiscal policy changes into their projections because of continuing uncertainty. Still, most participants continued to view upside risk to the economy from more expansionary fiscal policies. Until recently, the FOMC had stated that it was not planning to reduce the balance sheet until the normalization of the federal funds rate was "well underway." As the incoming data renewed the Fed's confidence about the economy and reaffirmed the projections of two more rate hikes for the year, both meeting minutes and recent speeches from Fed officials have signaled that the committee is considering shrinking the balance sheet soon. Most members anticipated that reducing the size of the balance sheet would be appropriate before year-end if the economic outlook evolves as expected. That said, the March employment data, which showed nonfarm payroll gains slowed to 98,000 (and the January and February payroll gains revised down), are likely to calm some of the upbeat tone that has existed among Fed officials in recent weeks. The data, however, will not affect the federal funds rate projections in a substantial way, considering that a slowdown in employment growth was expected, and only one month of data is not enough to shift the projections. IHS Markit still expects two more rate hikes for the year, with the next one coming in June.

Addendum 2: U.S. and Regional Population and Travel Share Data

National	Population (Thousands)	Travel Volume (Thousands) Automobile	Air	Other	Total	Share of Population Automobile	Air	Other	Total
United States	325,367	34,631	2,906	1,754	39,291	10.6%	0.9%	0.5%	12.1%
Census Divisions									
East North Central	46,783	5,711	328	269	6,309	12.2%	0.7%	0.6%	13.5%
East South Central	19,021	1,755	183	78	2,016	9.2%	1.0%	0.4%	10.6%
Mid Atlantic	41,484	4,158	308	141	4,607	10.0%	0.7%	0.3%	11.1%
Mountain	24,207	2,750	274	112	3,136	11.4%	1.1%	0.5%	13.0%
New England	14,763	1,609	140	21	1,770	10.9%	0.9%	0.1%	12.0%
Pacific	53,261	5,431	645	424	6,500	10.2%	1.2%	0.8%	12.2%
South Atlantic	64,637	6,616	581	209	7,406	10.2%	0.9%	0.3%	11.5%
West North Central	21,280	2,924	139	283	3,346	13.7%	0.7%	1.3%	15.7%
West South Central	39,931	3,678	308	216	4,201	9.2%	0.8%	0.5%	10.5%

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