2017 Independence Day Travel Forecast Review

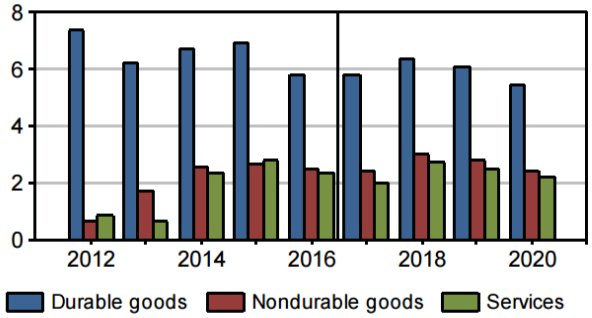
With 44.2 million Americans planning a trip, travel will rise 2.9 percent this Independence Day. That is the most on record and an increase of nearly 1.25 million people from 2016, which was the previous high-water mark.

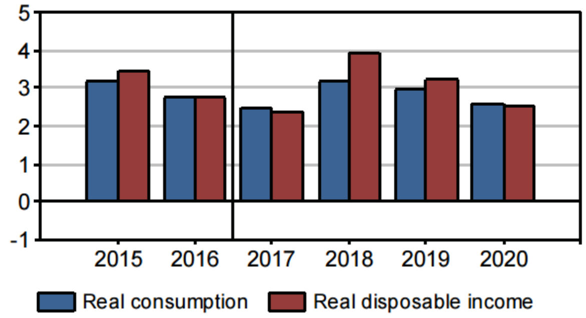
- AAA and IHS Markit forecast 44.2 million travelers for the 2017 Independence Day holiday travel period, compared to the 43.0 million in 2016.
- This is the fourth straight year of rising travel volume around this holiday and it has grown in seven of the previous eight years.
- The 2017 volume is nearly 50 percent higher than the post-recession low seen in 2009.
- The 2017 forecast is 13 percent higher than the average since 2000.
- In the past four years, travel volume has grown nearly 10 percent with the addition of nearly four million travelers.

Total Independence Day Travelers, 2003-2017

What is driving the 2.9 percent increase in Independence Day travel this year?

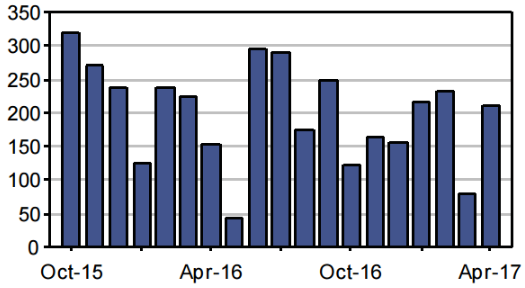
- **Forecast summary:** Sustained economic growth over the past few years has pushed unemployment down and has begun increasing wages. These personal income gains have in turn been spent by households in the way of increasing consumer spending, which when combined with an optimistic consumer, bodes well for increasing travel.



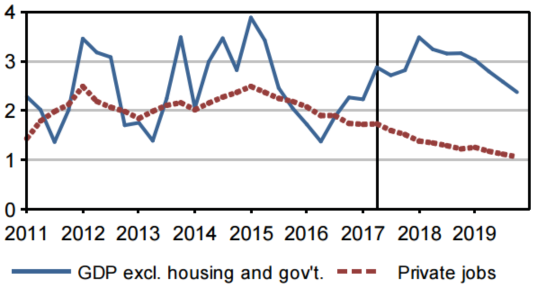


- **Economic Indicators:** Consumer spending will remain an engine of economic growth, supported by rising employment, disposable incomes and household wealth. In the long-term, expected income tax cuts in 2018 are expected to drive an acceleration in spending while also supporting an increase in the personal saving rate.
- **Consumer spending will remain strong:** Recent news on the consumer markets front has been mixed. In March, spending was flat while disposable income gains were positive, sending the savings rate to the highest level since August of last year. The April jobs report was well received on both the payroll and wage growth fronts. Light-vehicle sales (another economic indicator) in April reflected an improvement from the soft March results, but the sales pace was weaker than expected. April's consumer price index (CPI) rose 0.2 percent, with core prices up 0.1 percent; energy prices rose 1.1 percent, with gasoline up 1.2 percent while natural gas services increased 2.2 percent; food prices both at home and away from home rose 0.2 percent. Retail sales increased a solid 0.4 percent in April, better than the slim 0.1 percent gain in March, but not the breakout performance markets had hoped to see.

Job gains bounce back in April
(Monthly payroll gains, thousands)

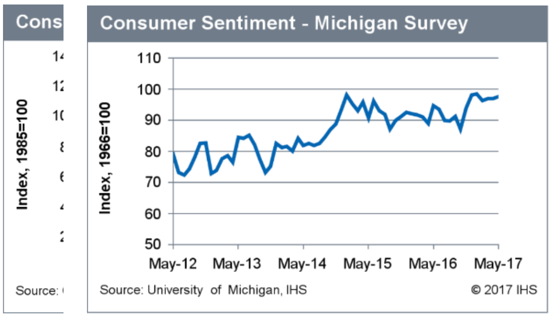


Employment cools as productivity improves
(Percent change from a year earlier)



- **The labor market continues steady growth:** Job growth rebounded from a weak 79,000 in March (as revised) to a solid 211,000 new jobs in April. The three-month average gain in April barely moved versus March gains, registering 174,000 jobs. Construction job gains firmed to 5,000 positions, from 1,000 in March, for a more noticeable gain, but one that still lagged those earlier in the year. Manufacturing payrolls scored another month in the black, but also lagged earlier gains. Food service and healthcare garnered good job gains as they almost always do. Retailing employment gains were again subdued compared with last year's average monthly gain of 17,000, by picking up just 6,300 jobs—after a string of back-to-back declines. Workweeks (when an employee works 35-44 hours) nudged higher, but since the data are only published to one decimal place, it is difficult to see whether the rise was significant or just rounding. The unemployment rate dropped from 4.5 percent to 4.4 percent in April, as the household survey's increase of 156,000 jobholders outpaced a small increase in the labor force. Over the past five months, the labor force (after adjustment for population controls) has expanded by an average 250,000. That is an impressive gain and reflects people filtering back into the ranks of job seekers from discouraged-worker status. Over the previous 12 months, the average gain was only 149,000 people per month and that includes the recent spurt.
- Consumers remain upbeat: In April, the Conference Board's Consumer Confidence Index fell back a bit after three straight months of increases. The current level of 120.3 remains well above last year's figure of 94.7. The mid-May University of Michigan Consumer Sentiment Index inched up for the third straight month, hitting 97.7, which is three points above the level from a year ago.

Consumer confidence and sentiment



Travel by Mode

Independence Day car trips are increasing right in line with overall travel

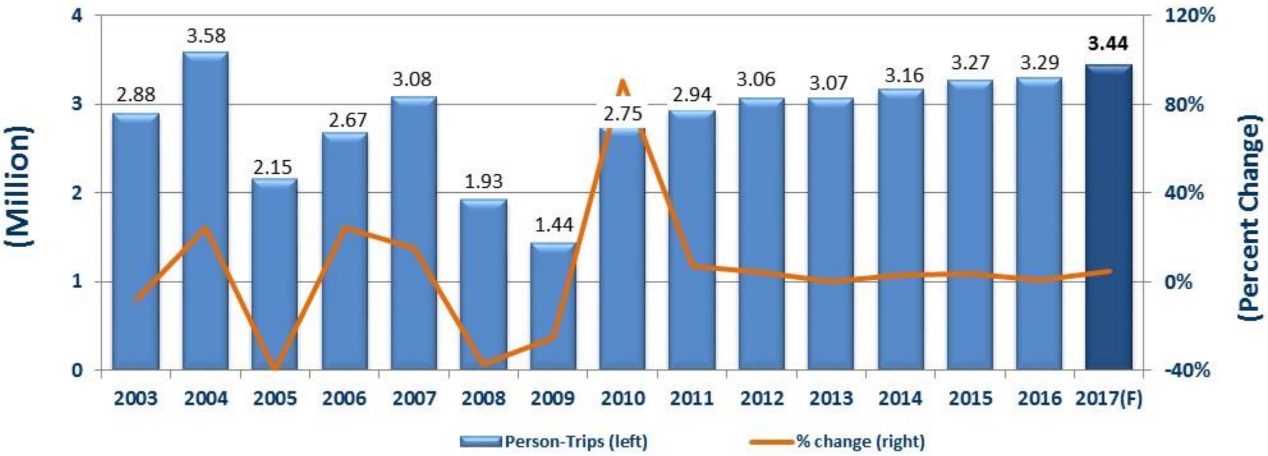
- Travel by automobile is projected to increase by 2.9 percent in 2017. This is the fourth straight year of increasing travel via car and the highest volume on record.
- Travel by car share remains unchanged at 84.8 percent, and the share has risen just 0.07 points during the past four years.
- Automotive travel has increased in seven of the past eight years, adding nearly 11 million travelers during that timeframe.
- The 2017 forecast is 13.1 percent above the average since 2000 and 10.5 percent above the average of the last 10 years.

Independence Day Travelers by Automobile, 2003-2017

Air travel will show the strongest growth in travelers this Independence Day holiday

- Air travel is forecast to grow by 4.6 percent this year, rising to 3.44 million.
- The 3.44 million travelers expected to fly is the highest total seen over the Independence Day holiday period since 2004.
- This will be the eighth straight year of continued growth in air travel since the two recession-driven declines in 2008 and 2009.
- Air travel volume has grown by two million since 2009.
- Share of travel via air will rise to 7.8 percent in 2017, which is the highest share via this mode since 2004.

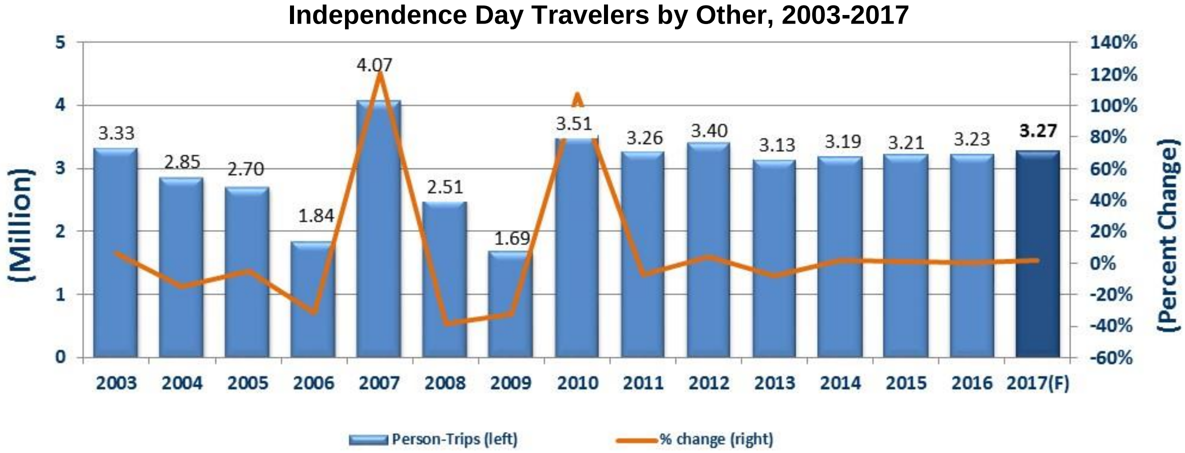
Independence Day Travelers by Air, 2003-2017



Travel by other modes will rise for the fourth consecutive year.

- Travel by other modes (including bus, train and cruise) will grow slightly in 2017, rising 1.4 percent to 3.27 million travelers.

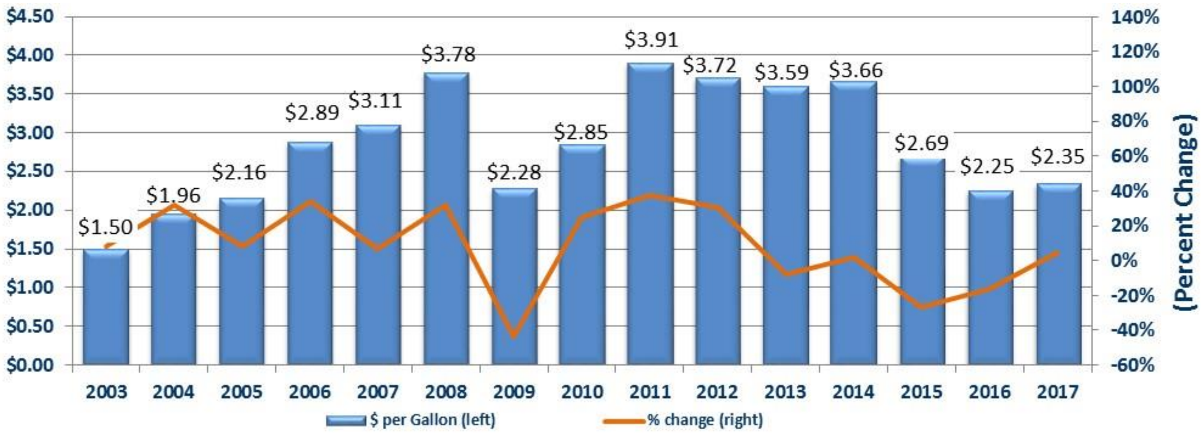
Independence Day Travelers by Other, 2003-2017



What is the impact of gasoline prices on the forecast?

- While gas prices remain slightly above the levels of a year ago, the difference has begun to moderate. The May 2017 average, \$2.35, is just 4.4 percent above the average of May 2016, which is not significant enough to keep travelers off the roads for the Independence Day holiday as prices still remain historically low for this time of the year.

Average May* Gasoline Prices
National Average per Gallon Regular Unleaded
2003-2017



* May 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 Independence Day 2016?

- Last year, IHS Markit predicted that 42.9 million Americans would travel over the 2016 Independence Day holiday period. This forecast represented a 1.3 percent increase relative to the 42.3 million trips which occurred during the 2015 holiday period.
- In fact, Independence Day travel outpaced last year's estimates on the back of stronger than predicted economic growth, pushed forward by growth in personal income, household financial assets, and disposable income. Overall economic growth picked up in the third quarter relative to forecasts, settling just under 2 percent growth, and pushing personal income metrics higher. These effects led to consumer spending growth of 3.8 percent, resulting in almost 43 million Americans travelling over Independence Day weekend, which was a 1.5 percent increase over the previous year.

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

- **Strong Labor Market:** Unemployment has continued to fall from its high of more than 10 percent in 2009. While IHS accurately predicted the unemployment rate during the third quarter of last year, stronger labor markets fueled increased wages and personal income.
- **Increased Income and Spending:** The added growth in the labor markets during the third quarter of 2016 spurred wage growth amongst American workers, as personal incomes grew 4.3 percent year-over-year, a full half-point higher than expected. While the consumer savings rate did increase during this time, consumers also spent a significant chunk of that additional income as consumer spending increased 3.8 percent, half a point higher than our forecast.
- **Increasing Home Prices:** The median prices for existing houses rose 5.4 percent year-over-year in the third quarter of 2016. This incredibly strong growth outpaced the 1.9 percent growth of the existing home stock, and helped push forth the 5.4 percent increase in household net worth.

Addendum 1: U.S. Economic Forecast Summary
Published May 17, 2017

Overview: IHS Markit expects that real GDP growth will rebound sharply in the second quarter, to 3.4 percent. To begin with, residual seasonality alone will boost the second-quarter number. A recent study by Kurt G. Lunsford of the Federal Reserve Bank of Cleveland shows that, based on data from 1985 to 2015, residual seasonality shaves 0.8 percentage point from first-quarter growth rates and adds 0.6 percentage point to second-quarter growth rates. The biggest contributors to this seasonality are private investment spending and government expenditures (especially on national defense).

Moreover, after the temporary pause in the first quarter (some of it weather related), consumer spending is expected to recover strongly. The fundamentals driving household demand (employment, incomes, asset appreciation, etc.) remain strong and consumers are still very optimistic. Payroll employment growth picked up from 79,000 jobs in March to a robust 211,000 jobs in April. This brings the year-to-date monthly average increase to 185,000—on par with 2016 gains. Finally, after a big deceleration in inventory accumulation during the first three months of the year, businesses will begin rebuilding their stocks of goods at a faster rate by late 2017.

The real GDP growth number for the first quarter was probably a fluke. Nothing in the data changes the basic picture of an economy growing at an underlying rate of 2.0–2.5 percent. This view was echoed in the statement released after the May 2–3 meeting of the Federal Open Market Committee (FOMC), which characterized the first-quarter weakness as “likely transitory.” The FOMC still expects to raise interest rates twice this year, most likely in June and December. IHS Markit also expects that the Fed will begin to shrink its balance sheet—very gradually—starting late this year or early next year.

After a disappointing first quarter, real GDP is projected to increase at annual rates of 3.4 percent in the second quarter and 2.9 percent in the third quarter. The domestic economy is entering a period of broadly based growth, with solid gains in consumer spending, residential investment, and business fixed investment projected over the remainder of 2017. After a decline in the first quarter, government spending will increase thanks to additional funding for defense and security in Congress’s continuing budget resolution.

Consumer spending, income and confidence: Real consumer spending growth came in at a 0.3 percent annual rate in the advance estimate of the first quarter. This showing was an aberration, influenced by unseasonably warm weather, a spike in consumer price inflation, delayed income tax refunds, and payback for a strong fourth quarter in holiday and auto sales. Our forecast for second-quarter real spending growth has been marked up to 3.4 percent, from last month’s forecast of 3.1 percent. Real disposable income growth should accelerate to a 3.7 percent annual rate in the second quarter, after dipping to 1.0 percent in the first quarter. Real consumer spending growth will likely hit a 2.7 percent annual rate for the last two quarters of this year.

Recent news on the consumer markets front has been mixed. In March, spending was flat while disposable income gains were positive, sending the saving rate to the highest level since August of last year. Overall, energy and core (excluding energy and food) consumer prices fell in March, with food-at-home prices surging. The April jobs report was well received on both the payroll and wage growth fronts. Light-vehicle sales in April reflected an improvement from the soft March results, but the sales pace was weaker than expected. In April, the Conference Board’s Consumer Confidence Index fell back a bit, while University of Michigan’s Consumer Sentiment Index inched up; both indexes remain 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 slow down from 2.7 percent in 2016 to 2.5 percent this year, pick up to 3.2 percent in 2018, and then ease to 3.0 percent in 2019.

Business Investment Spending: Business fixed investment—the economy's first-quarter star—posted its strongest growth numbers in 13 quarters despite a paltry gain in intellectual property products. Over-the top real growth in spending on mines and wells (up a whopping annualized 449 percent) lifted the headline capital spending increase to near double digits. More pertinent to the future, the rebounding oil and gas rig count suggests that capital spending has momentum. The Baker Hughes oil and gas rig count has now risen to 877, more than double the 71-year low of 404 rigs reached in May 2016. With oil and natural gas prices likely to climb higher, growth in mining structures will remain solid during 2017 and 2018. A pickup in the rig count would generally lead to a corresponding pickup in equipment used in drilling (i.e., trucks, construction, railroad, and mining and oil field equipment). With much equipment necessarily idled over the last two years, though, this corresponding pickup will likely be modest.

Equipment also had a strong first quarter, with gathering momentum as industrial and information processing equipment posted low double-digit growth. Two straight quarters of growth in core capital goods shipments and capital goods imports suggest that companies are stepping up purchases of new equipment. Over 2017–19, starting this second quarter, we anticipate respectable 4–6 percent gains in real equipment purchases.

Intellectual property products had a second consecutive quarter of weak growth, as real spending on entertainment, literary, and artistic originals declined and real spending on research and development nearly came to a halt. We believe that the weakness is either temporary or a matter of the data not measuring activity accurately. 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.

Housing: The housing market continues to hit new milestones. In March, existing homes sold at their fastest pace in 10 years, while homes that sold were on the market for significantly less time than a year earlier. This uptick in activity may have been an attempt to beat the widely anticipated March federal funds rate increase; homebuyers did not expect that mortgage rates would not rise in lockstep. New home sales also advanced in March, with the number of homes offered before construction starts twice the size of the year-earlier number, suggesting cautious optimism on the part of homebuilders.

During the first quarter of 2017, home ownership rates increased year-over-year for three of the five age brackets. Although these were not statistically significant increases, even insignificant changes in a majority of age brackets has not been seen in 12 years. The fact that they occurred in the youngest three age brackets is an encouraging sign. In our latest outlook, single-family housing starts are now higher over the next few years. A combination of elevated levels of homes for sale and sold before breaking ground, plus an encouraging uptick in homeownership rates, suggests that building will pick up sooner, although the eventual plateau is unchanged. We expect real residential investment to grow more modestly in the second quarter after the first-quarter gain, which was the fastest in nearly two years.

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	323,686	37,504	3,445	3,273	44,221	11.6%	1.1%	1.0%	13.7%
Census Divisions									
New England	14,742	1,974	164	143	2,281	13.4%	1.1%	1.0%	15.5%
Middle Atlantic	41,475	5,034	471	458	5,963	12.1%	1.1%	1.1%	14.4%
South Atlantic	64,104	7,134	619	452	8,204	11.1%	1.0%	0.7%	12.8%
East North Central	46,761	6,898	354	581	7,832	14.8%	0.8%	1.2%	16.7%
East South Central	18,960	2,035	104	144	2,283	10.7%	0.6%	0.8%	12.0%
West North Central	21,208	2,851	140	352	3,343	13.4%	0.7%	1.7%	15.8%
West South Central	39,574	3,575	409	265	4,250	9.0%	1.0%	0.7%	10.7%
Mountain	23,945	2,615	339	306	3,261	10.9%	1.4%	1.3%	13.6%
Pacific	52,917	5,388	845	572	6,805	10.2%	1.6%	1.1%	12.9%

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