TRAVEL INDUSTRY INDICATORS®

Monthly Analysis
Industry Trends & Outlook

Brian London
Travel Industry Analyst

March 31, 2011

Dear Client:

Recessionary behavior is sticking around during the recovery. Simple pleasures like dining out on a daily basis have become eating in or getting some form of take out of less expensive food. Affluent consumers exhibited a "return to value" during the recession and are still demonstrating frugal behaviors where possible.

Personal income increased $38.1 billion, or 0.3 percent, and disposable personal income increased $36.0 billion in February, according to the Bureau of Economic Analysis. Real disposable income decreased 0.1 percent in February, in contrast to an increase of 0.5 percent in January. **The change** in disposable personal income was affected by reduced employee contributions for government social insurance, which reflected provisions of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

Americans will need that extra cash. Over the past 12 months, the consumer price index increased 2.1 percent. Add to that, gasoline prices rose 6.65 cents per gallon carried by the rise in crude oil prices stemming from the turmoil in Libya. The national average for a gallon of self-serve, regular gasoline was $3.57 on March 18, according to the Lundberg Survey. The current average price is nearly 76 cents above the year-ago level.

Rising oil prices would take a substantial toll on the rate of projected business travel, with research suggesting that oil priced above $125 per barrel would result in a reduction of 1.5 percent in total U.S. business travel spending and roughly 700,000 trips forecast between 2011 and 2013.

These economic factors caused the Consumer Confidence Index decline in March. The Index now stands at 63.4 (1985=100), down from 72.0 in February. Consumers' inflation expectations rose significantly in March and their income expectations soured, a combination that will likely impact spending decisions. **Consumers** were also more downbeat about the labor market.

From a travel standpoint, the *Traveler Sentiment Index* has soared to its highest level since April 2007. The overall TSI now stands at 95.2, up 9.2% from October 2010. Increases in the "Affordability of travel", "Interest in travel," "Time for travel" and "Money available for travel" suggests the travel and tourism industry can expect a rebound in leisure demand during the year ahead.

For those that needed confirmation about drive market rebounding; Americans drove 3 trillion miles in 2010, the most vehicle miles traveled since 2007 and the third-highest ever recorded. This despite rising gas prices, which only cause travelers to reconsider the true costs of fly vs. drive destinations.

Business travel, spurred by technological advances and widespread meetings spending cuts in 2009, is slowly improving. In anticipation of this rebound, it should be noted that the total active U.S. hotel development pipeline comprises 3,118 projects totaling 327,693 rooms. This represents an 11.1 percent decrease. Of the nine U.S. geographic regions, the South Atlantic region has 23 percent of the U.S. hotel rooms supply. This region also has the highest percentage of rooms under construction (23 percent) in the country, followed by the Middle Atlantic (21 percent) and the West South Central (19 percent). The region with the lowest activity of construction projects is New England, with only 885 rooms in construction.

PFK Hospitality Research forecasts that U.S. hotels should achieve a 7.1 percent increase in RevPAR in 2011. Projections of rising employment and income should result in a solid 4.0 percent increase in the demand for lodging accommodations. The recent 2.0 percent reduction in the payroll tax will put more people on the road for both personal and professional travel. **We know from prior cycles,** RevPAR gains driven primarily by ADR growth are more profitable. Therefore, the upper-tier hotels are expected to realize superior profit growth this year relative to all other property types.

Domestic air-fares were up 10.26 percent year over year and up 9.24 percent year to date. Although sales are up, transactions are down as airlines cut capacity and raised fares. Total sales were up 11.9 percent over February 2010 and up 11.22 percent year to date. The average price to fly one mile rose 10.8 percent. Domestic revenue grew 11.5 percent, fueled in large part by a 10.5 percent increase in yield. As fuel prices remain at or near historically high levels, U.S. airlines may experience a more challenging revenue environment.

International travel, on a worldwide basis, is up some 6 percent above the pre-recession peak of early 2008, based on IATA projections. The growth shows a recovery from December's slowdown that was related to severe weather in Europe and North America, which reduced total traffic by 1-2 percent. However, not all is well on the international front, as Thomas Cook and TUI Travel have admitted their profits suffered after the uprisings in Tunisia and Egypt. Profits will be down between £25 million and £30 million.

International markets remained especially strong as passenger revenue grew 17 percent, led by a 27 percent increase in Pacific revenue. International fares were up 13.58 percent year over year and up 12.9 percent year to date **The International Air Transport Association (IATA) downgraded its airline industry outlook** for 2011 to $8.6 billion from the $9.1 billion it estimated in December 2010. At the same time the global economy is now forecast to grow by 3.1 percent this year—a full 0.5 percentage point better than predicted just three months ago.

In the U.K., the imposition of an "air-passenger duty" should slow any growth to the U.S. **Berlin** is on the verge of becoming the most promising air transport market in Europe. The German capital is accumulating, year after year, new records in both tourism and air transport. Last year, Berlin received 22.3 million passengers, a number up by 6.4%. European infrastructure gains should not be a concern U.S. stakeholders.

In 2010, 60 million international visitors traveled to the United States, a nine percent increase over 2009. In 2010, the top inbound markets continued to be Canada and Mexico, both of which were up in arrivals. In 2010, 14 of the top 15 countries posted increases in visitation to the United States. Nine of the top 15 countries posted record visitation to the United States: Canada, France, Brazil, South Korea, Australia, Italy, the People's Republic of China, India and Colombia. The future looks bright as the U.S. begins it first marketing campaigns later this year. Marketing, however, does not always overcome economic realities.

Troubling, **Air Canada will cut capacity and eliminate unprofitable routes** because of high fuel costs. Routes considered no longer profitable in the current high-fuel price environment: Ottawa-Thunder Bay, Ottawa-Washington Dulles, Montreal-Washington Dulles, Calgary-Chicago, Calgary-San Francisco and Calgary-London, Ontario. The airline will continue to adjust fares and fuel surcharges in response to market conditions, including fuel prices, and make adjustments to capacity as required.

We believe the cruise industry has successfully endured the recent economic downturn and has nimbly responded by moving ships and lowering rates, which has helped most lines generate a profit in 2010. CLIA cruise lines carried about 15 million passengers last year at 103 percent occupancy, continuing 20 years of growth.

Despite all the optimism, however, a major change will take place in August 2012 when North American Emission Control Areas go into effect within 200 nautical miles from U.S. and Canadian shores. The new regulations will force cruise ships to use low-sulfur fuel, which is more expensive, or take other steps to reduce their emissions. That will lead to changes in homeports and ports of call.

U.S. dollar trends continue down, with trade deficits being the leading cause of decline.

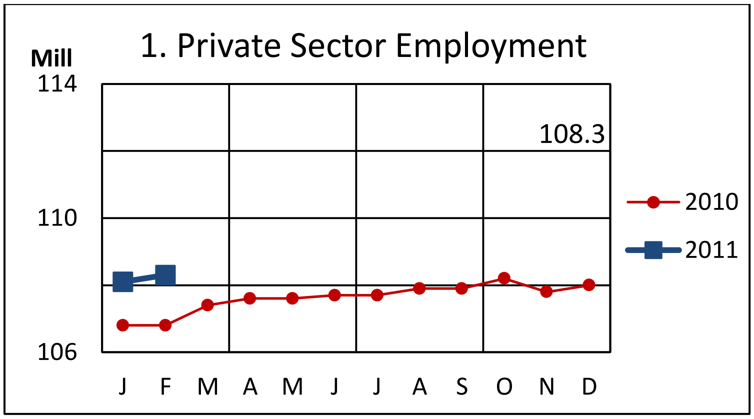
Updated indicators follow, together with a Trend Watch look at employee productivity.

Sincerely,

Letter #323
March 31, 2011

Brian London

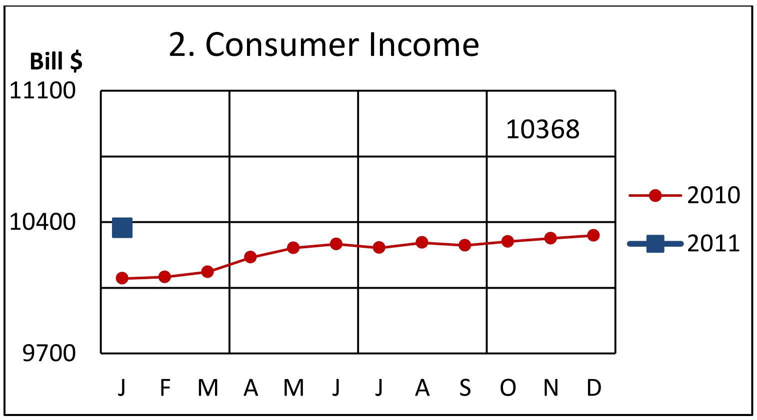
General Business Indicators



February 2011

% Change:	
Prior Period:	+0.2%
Prior Year:	+1.4
Year-to-Date:	+1.3

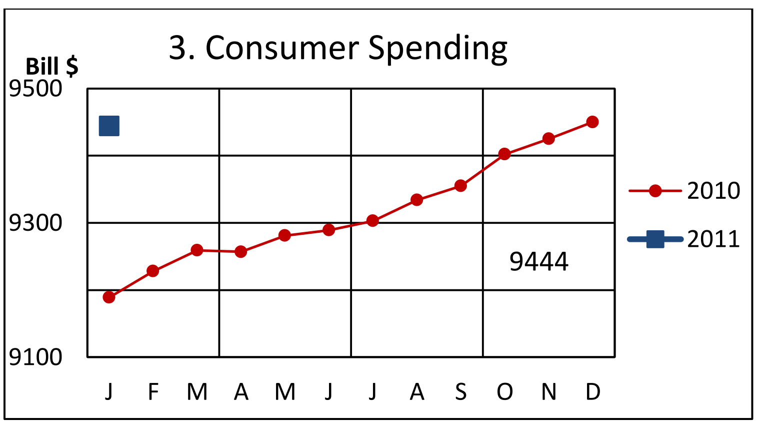
Job gains continue, though at a monthly rate still below what normally occurs in recovery periods.



January 2011

% Change:	
Prior Period:	+0.4%
Prior Year:	+2.7
Year-to-Date:	--

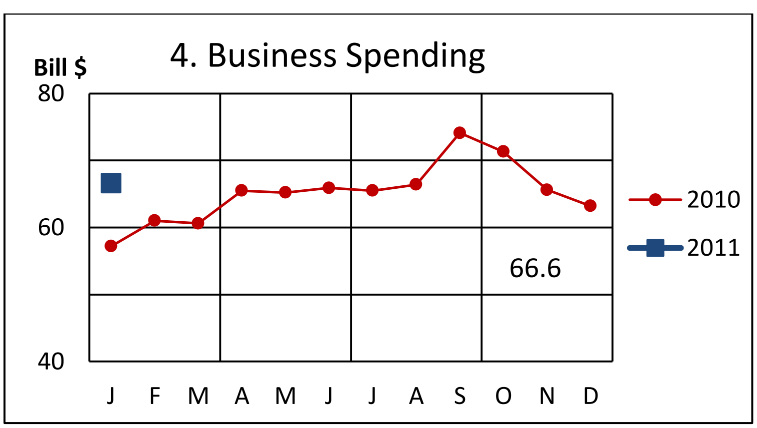
Reduced employee contributions for government social insurance boosted income by reducing social security contribution rates.



January 2011

% Change:	
Prior Period:	-0.1%
Prior Year:	+2.8
Year-to-Date:	--

A rising consumer saving rate (5.8% in Jan'11) is taking its toll on spending. Possible retrenchment by consumers to come.

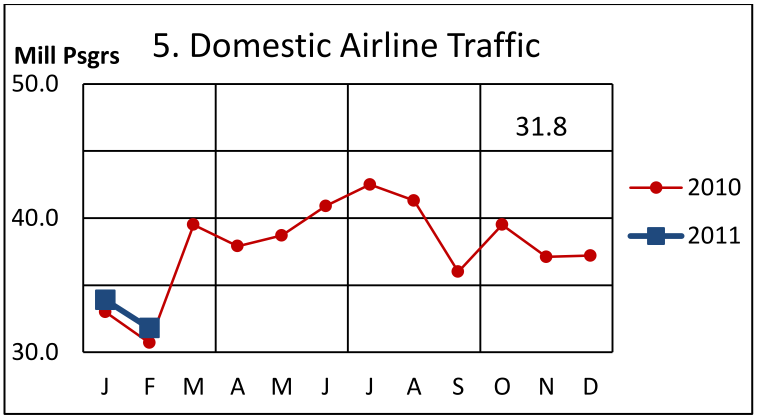


January 2011

% Change:	
Prior Period:	+5.4%
Prior Year:	+16.4
Year-to-Date:	--

Monthly gains in capital spending by companies are an encouraging sign of rising business confidence.

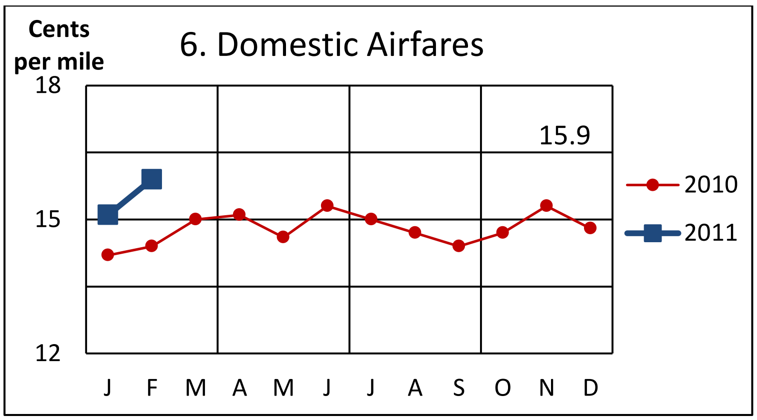
Domestic Travel Indicators



February 2011

% Change:	
Prior Period:	-6.2%
Prior Year:	+3.6
Year-to-Date:	+3.1

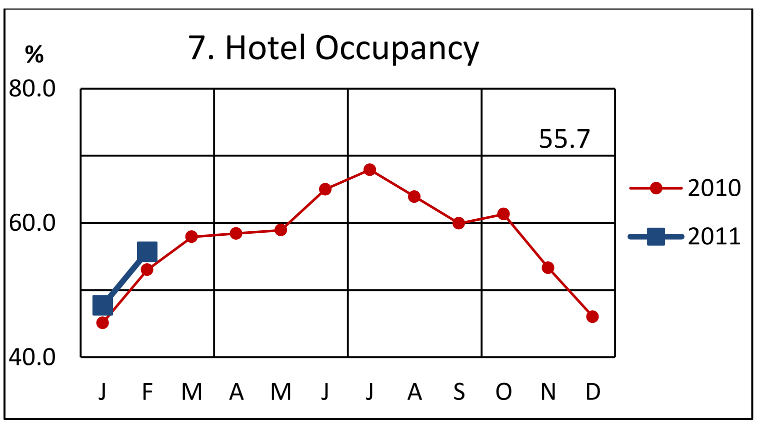
Prior year comparisons are valuable here; seven months of y/y percent increases despite rising costs



February 2011

% Change:	
Prior Period:	+5.3%
Prior Year:	+10.4
Year-to-Date:	+8.4

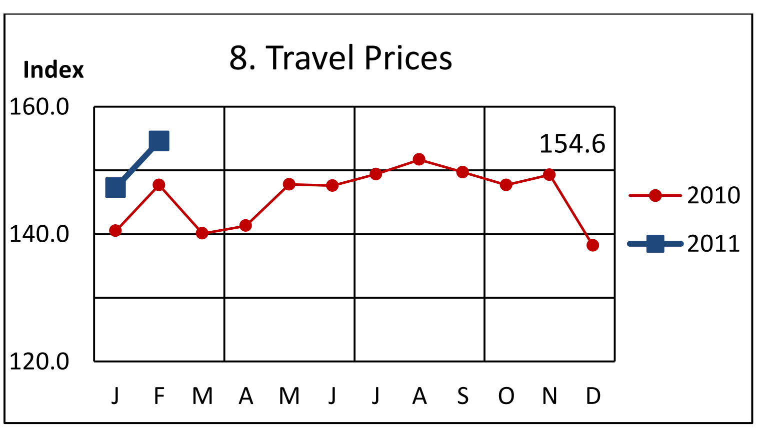
Airlines will continue to close less profitable routes. Look for prices to rise as load factors increase.



February 2011

% Change:	
Prior Period:	+16.8%
Prior Year:	+5.1
Year-to-Date:	+5.4

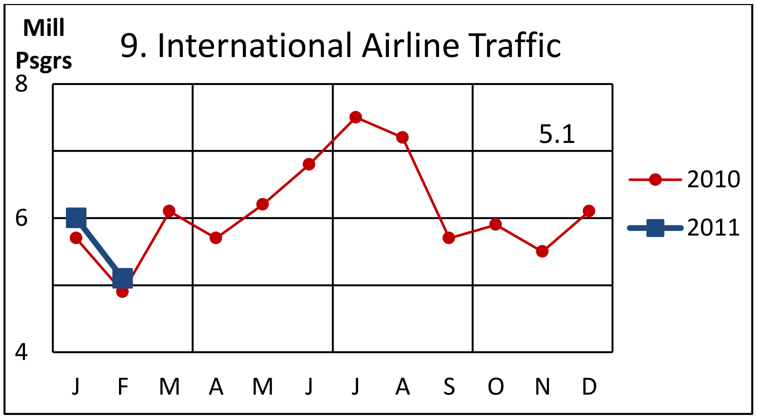
Rates have come back stronger than occupancy. An oversupply and pipeline construction might keep this measure in check.



February 2011

% Change:	
Prior Period:	+5.0%
Prior Year:	+4.7
Year-to-Date:	+4.8

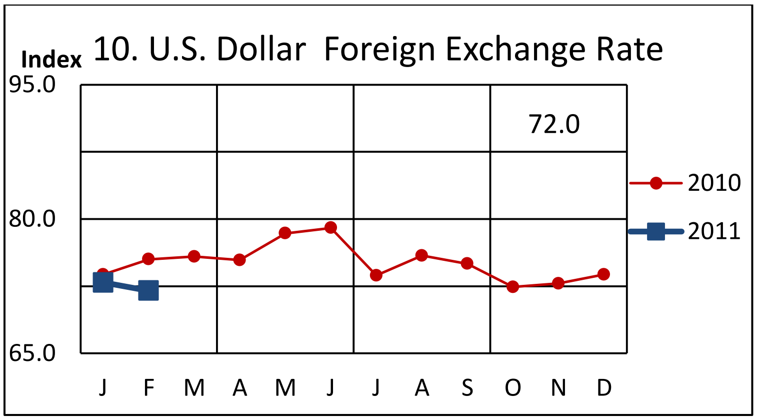
Monster increase in air prices push this index higher. Also, with commodity prices up; look for food prices to increase 2-3% or more.



February 2011

% Change:
Prior Period: -15.0%
Prior Year: +4.1
Year-to-Date: +4.7

Political unrest in the Middle East and North Africa is estimated to have cut international traffic by about one per cent.



February 2011

% Change:
Prior Period: -1.2%
Prior Year: -4.6
Year-to-Date: -2.9

Trade and budget deficits keep a steady stream of dollars leaving the country; combined with an even bigger supply of dollars outstanding, the value lowers.

Key: First arrow = Prior Period, Second arrow = Prior Year; Third arrow = Year-to-Date. Up arrow (green) denotes positive percent change. Down arrow (red) denotes negative percent change. Double sideways arrow (blue) denotes no percent change.

ECONOMIC AND TRAVEL FORECASTS
(Change vs. Prior Year)

	2005	2006	2007	2008	2009	2010 (est)	2011 (fcast)
U.S. Economic Environment							
Gross Domestic Product	3.1%	2.7%	1.9%	0.0%	(2.6) %	2.9%**(r)**	**3.3%**
Businesses:							
Investment Spending	6.7	7.9	6.7	0.3	(17.1)	6.0	**9.5**
Corporate Profits	16.7	10.4	(6.1)	(16.5)	(0.4)	29.2**(r)**	**8.0**
Consumers:							
Disposable Income	1.3	4.0	2.3	1.7	0.6	1.4**(r)**	**1.4**
Personal Spending	3.4	2.9	2.8	(0.3)	(1.2)	1.3	**1.3**
Savings Rate (%)	1.4	2.4	1.7	2.7	4.2	5.6	**5.0**
CPI	3.4	3.2	2.8**(r)**	3.8	(0.4)**(r)**	1.6**(r)**	**1.2**
U.S. Travel Industry							
Domestic:							
All Modes/Rm Demand	3.3	1.1	1.2	(1.6)	(5.8)	7.4	**2.3**
Air Travel Enplanements	1.6	(1.3)	1.0	(0.7)	(7.2)	0.5	**1.5**
International:							
Air Travel-Enplanements	9.4	5.5	4.4	2.8	(4.6)	6.0	**4.5**
Outbound Overseas	5.0	4.7	3.7	1.6	(1.3)	3.5	**3.6**
Inbound Overseas	6.7	0.0	10.3	6.1	(6.3)	3.0	**4.0**

Economic data: Department of Commerce, Bureau of Economic Analysis GDP, Disposable Income, Personal Spending in inflation-adjusted dollars. Bureau of Labor Statistics: CPI. 2011 forecasts, Travel Industry Indicators.

Travel Data: Air Transport Association; Smith Travel Research; Commerce Department/Tourism Industries; 2011 forecasts, Travel Industry Indicators.

Productivity Metrics Help Overcome Service Lags

The year 2011 is unfolding as one in which travel industry revenue growth will be limited as a result of less than robust consumer income gains (which limit consumer spending). Those who have been able to generate meaningful profit increases have largely done so through cost-cutting and productivity improvement, albeit at the expense of stretching thin current resources while destroying employee morale.

Since our industry is a labor intensive one, the focus has to be on payroll expense. Nearly 40 percent of restaurant costs are payroll-related; and we have reported here before that these percentages range from 40 percent for an airline up to 45 percent for the average hotel property.

There are small signs that hiring is coming back; but no signs that hiring is coming back strong. The 'do more with less' mantra seems to be here to stay and improving employee productivity is one sure way to reduce the risk of service lags. This is especially important as hiring decisions can be made as a mechanism to "reach stated objectives."

Productivity is still defined simply as the amount of output produced by workers per unit of input. In our industry, output measures might be defined as numbers of leads generated, inquires processed, customer transactions, number of visitors, or ultimately revenue produced. Input would be the number of employees, hours worked, or payroll expense directly related to the specific output activity.

To increase productivity, one must find ways to generate higher output per employee through better training, organizing work flows and operating systems more efficiently, or using technology applications to reduce labor expense. When this is accomplished, unit costs fall and profit margins increase. Forward thinking organizations will do well to distinguish productivity from bustle.

In times of tight budgets, gains in productivity enable an organization to hold the line on spending, even though their workload and volume may increase. Employee morale then increases as workers see a direct relationship between their inputs (effort) and their output (results).

In looking ahead, productivity improvement should be given high priority. As part of its business plan, every organization should have a comprehensive set of departmental productivity goals. The targets should be expressed statistically on a per unit cost or revenue basis, i.e. cost per inquiry generated or cost per booking. If these targets are met, so will be the bottom-line profit goals of the organization. One of the keys to generating increases is to understand the barriers to reaching those goals; then giving the employee every resource it needs to overcome those barriers.

When the books are closed at year-end, we believe the winners will be organizations that, in spite of modest revenue gains, have achieved significant gains in productivity that reduce unit costs and widen profit margins.

Statistical Sources

General Business Indicators

1. Private Sector Employment	U.S. Department of Labor, Bureau of Labor Statistics. Monthly survey of 390,000 business establishments. Seasonally adjusted.
2. Consumer Income	U.S. Department of Commerce. Bureau of Economic Analysis. Real disposable income in chained 2005 dollars, i.e. adjusted for inflation.
3. Consumer Spending	U.S. Department of Commerce. Bureau of Economic Analysis. Consumer expenditures in chained 2005 dollars, i.e. adjusted for inflation.
4. Business Spending	U.S. Census Bureau. Represents new orders placed by businesses for non-defense capital goods.

Domestic Travel Indicators

5. Domestic Airline Traffic	Air Transport Association. Passenger enplanements for 13 major ATA member carriers.
6. Domestic Airfares	Air Transport Association. Monthly average domestic passenger yields, based on data provided by a 7 airline sample of ATA member carriers.
7. Hotel Occupancy	Smith Travel Research. STR Lodging Outlook. U.S. occupancy percent.
8. Travel Prices	Travel Industry Indicators. Composite weighted index based on monthly data for domestic airline fares, drive gasoline costs, lodging and restaurant meal expense. 1998=100.

International Travel Indicators

9. International Airline Traffic	Air Transport Association. International passenger enplanements for 13 major ATA member carriers.
10. U.S. Dollar Exchange Rate	Federal Reserve Board. Index based on trade-weighting of euro currencies plus U.K., Sweden, Switzerland, Japan, Australia and Canada.

Other Information

Travel Industry Indicators is published monthly by London Tourism Publications, Inc. Our June and July issues will be combined and will include mid-year industry forecasts. Our November and December issues, also combined, will contain annual industry forecasts.

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