Top Ten Travel and Tourism Trends for 2006

Summary:

The US travel industry reported excellent news for 2005 after accomplishing a complete recovery from the downturn in travel since 2000. Demand was up and US travel expenditures rose 7.8%. Looking ahead to 2006 however, the pace of total travel spending growth will slow to 4.4%. Rising travel demand in 2005 (as well as increased fuel costs) pushed travel prices up enough to dampen demand in the coming year. Higher prices were key factors in the decline of TIA's Traveler Sentiment Index to a new low of 83.8 in October 2005. Consumer confidence indicators have shown reason for optimism about the 2006 travel industry. The Conference Board announced December's Index stood at 103.8, one of its highest levels in 3 years. In January, it jumped to 106.3. In February it dropped back to 101.7. This tells us that consumers are optimistic tempered by caution.

What's ahead for 2006? The outlook for most segments of the travel industry is positive:

Leisure:	More moderate growth is forecast for 2006. Growth in domestic leisure travel will slow to 2% and international travel to the US will grow by 5.5% in 2006.
Business:	Moderate growth in 2006 as companies balance increased travel expense with cost controls. Business travel will increase 1.5% in 2006.
Meetings:	Corporate planners, third party planners and suppliers all forecast steady growth in both the number of meetings and average meeting spending.
Group Tour:	Will grow as long as operators can customize tours for individual groups.

The increased travel demand in 2005 enabled travel suppliers to raise prices. In December 2005, TIA's Travel Price index showed airfares were up 6.4% vs. 2004 and hotel/motel rates had risen 3.3%. Higher prices are also forecast for 2006. Travel suppliers are turning in improved balance sheets, but consumers may find it harder to find travel bargains. Despite higher prices, and the fact that some consumers find it difficult to get away from work, statistics show that Americans are still traveling. Demand for air travel, RV travel and cruises is up as is the overall museum and amusement park attendance.

The Internet is already the primary research and booking tool for many travelers. Research indicates that the access to information empowers consumers by giving them more choices. For destinations and attractions, this means heightened competition. Destinations and attractions must make sure that web-based resources, tools and programs are effective as well as integrated into overall marketing and communications plans.

1. Continued Growth in 2006 – but at a moderate rate

- According to TIA, 2005 leisure travel was up 4%, international travel to the US jumped 7% and business travel increased 1%. For 2006, TIA forecasts more moderate growth due mainly to higher travel prices. Leisure travel will be up 2% in 2006, and international travel to the U S will increase 5.5%. Business travel will grow 1.6%.
- The percentage of adult Americans who have taken at least one trip of 75 miles from home has risen to the highest level observed since 1999, according to the Yesawich, Pepperdine, Brown & Russell/Yankelovich Partners National Leisure Travel Monitor. According to the report, 58% of Americans took such a trip in the last 12 months.

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2. Lodging: Setting New Records in 2006

- It's a great time to be in the hotel business. The US lodging industry is set for another year of record financial performance. Occupancy levels reached 63.1% in 2005, and are projected to increase to 64.1% in 2006. Supply is growing, but just barely. The number of hotel rooms in the US increased less than 1% in 2005. More rooms will come online in 2006, but supply growth will remain well under 2%. As a result, hoteliers are enjoying healthy room rate increases. Average daily rates increased 5.3% in 2005 and are predicted to rise another 5.6% in 2006. RevPAR, which increased 7.8% in 2004, jumped 8.4% in 2005! The outlook for 2006 calls for another 7.3% rise in RevPAR. *(Source: PricewaterhouseCoopers)*
- Hotel industry profits will reach $20.8 billion in 2005, nearly as much as it earned in 2000. Profits are expected to set a new high in 2006 as they top $25 billion. *(Source: PricewaterhouseCoopers)*
- Average daily rates for 2005 were $90.67. For 2006, average daily rates will climb to $95.31. *(Source: PricewaterhouseCoopers)*

3. Airlines: Light at the End of the Tunnel

- 2005 marked the fifth year in a row of losses for US carriers. Estimates of the losses for 2005 total $10 billion. In the past five years, US airlines have lost a staggering $42 billion. However, there is good news! Many airline industry analysts are predicting that the worst may be over and 2006 may prove to be a transition year. Experts agree that the industry is highly unlikely to turn a profit in 2006, but losses are expected to drop as low as $1.5 to $2 billion. 2007 could find the industry back in the black. *(Source: ATA)*
- What's behind the cautious optimism? For the first time in 10 years, the four key economic drivers for the airlines are moving in the right direction:
    - First, capacity has been constrained. At the end of 2005, the US fleet is 20% smaller than it was in mid-2000. The airlines had 5% less seats available at the end of 2005 than at the start of the year.
    - Second, travel demand is rising. Demand grew 5% in both 2004 and 2005.
    - Third, operating costs are being reduced. The airlines have cut 160,000 jobs, and increased labor productivity by 30% since 2000. Fuel efficiency improved by 18%.
    - Finally, fares are beginning to recover. Business travelers are back. Although they may not pay as high a premium as they once did, business travelers tend to pay more than leisure travelers.

4. Business Travel: Controlled Growth & Cost Containment

- A Robert Half Management Resources survey shows that 48% of employees travel for work less frequently that they did five years ago. Businesses have cut back on travel and instead rely on less expensive communications capabilities such as webcasts and videoconferences.
- Companies should expect to pay more for all components of a business trip in 2006. The National Business Travel Association (NBTA) predicts airfares will be up 6% in 2006. This is consistent with American Express' forecast of a 5% to 8% increases in domestic airfares. Hotels will also be raising rates. NBTA says companies can expect to see 9% higher hotel costs. American Express predicts increases will be in the 3% – 5% range on lodging rates. Car rental rates will also be up. Both NBTA and American Express foresee increases of 8% to 9% in 2006.
- Businesses report to RTM that their focus is on cost-containment for business travel. This translates to new technologies for individual business travel (web and video conferencing) and consolidating meetings, negotiating lower prices for holding multiple-year meetings at the same destination, and other cost-containment measures.

5. Demographics: Multiple Frontiers of Opportunity

- The first Baby Boomers turn 60 in 2006. Travel tops the list of desired retirement activities across all ages of this segment. Other popular interests are: spending time with loved ones/friends (42%); exercising more (42%); volunteering (37%); taking up a hobby (33%); acquiring new skills (29%) and taking classes (25%). *(Source 2005 Del Webb Baby Boomer Survey)*
- The aging population is not just a US phenomenon. By 2020, there will 700 million people over age 65 worldwide. *(Source: Deloitte & Touche)*
- On the other end of the spectrum, youth/student travelers make up 24% of all international travelers worldwide. There is a growing student population, with more diversity, traveling in higher percentages, at earlier ages, on more expensive trips, using technology, demanding more from their travel experience, and going to destinations further away than did previous generations. *(Source: Student Youth Travel Association, SYTA)*
- Demographers are identifying traits of the youngest age category as “Generation M” and tracking those under age 12. The “M” stands for multi-tasking and mobile. This is the generation that has grown up with IPOD, text messaging on their cell phones, and other forms of continuous and instant communication.

6. Time Poverty Drives 2006 Travel Decisions

- Expedia research shows that Americans, with an average 12 vacation days per year, leave a total of 421 million vacation days unused. Nearly 1/3 of respondents to Expedia’s 2005 survey reported that they did not take all their vacation days.
- Yesawich, Pepperdine, Brown & Russell/Yankelovich report that in 2005, nearly half of Americans suffer from what they call “time poverty” – the generalized sense that people do not have enough time to do what they want. In travel, they report the desire to simplify their lives by buying all-inclusive events.
- The reverse effects of this trend are also beginning to emerge. RTM has noted an increase in what we have termed “Sabbatical Vacations” - - in which consumers save up time and money for several years in order to do the “trips of a lifetime”. These trips such as hiking the Appalachian Trail, taking cooking classes in France, visiting distant destinations such as Australia or New Zealand, and other pursuits require multiple weeks.

7. Attractions: Dividing into Winners and Losers

- Nationwide attendance at the 50 largest theme parks increased 4.2% to 176 million in 2005. This marked a second straight year of attendance increases. Worldwide, amusement park attendance was also up in 2.5% in 2005. *(Source: Amusement Business, Economics Research Associates Theme Park Insider)*
- A recent report on Visual Arts by the Rand Corporation indicates that recent growth in museum attendance is a function of population growth rather than successful efforts by museums to attract larger and more diverse audiences.
- Overall attendance at Chicago museums was up 2% in 2005, but 9 of the city’s 10 largest museums reported a decline in attendance. An article in the Chicago Sun-Times notes that a special exhibit at the Museum of Science pulled in 1.8 million visitors, but at the expense of other museums. The Chicago figures represent a national trend – overall attendance is up coast-to-coast but, given a burst of new museum construction, individual museums are seeing their numbers decrease. According to Lord Cultural Resources Planning and Management, Inc, 1500 museums have opened in the US in the past few years, bringing the total to 16,500. *(Source: Chicago Sun-Times)*

8. Internet: #1 Source of Travel Planning & Purchasing

- 79 million Americans, (78%) used the Internet to find travel or destination information in 2005, up from 65% in 2004.
- According to PhoCusWright, 7 million more Americans purchased travel online in 2005 than the previous year. The PhoCusWright's survey also forecasts that online leisure/unmanaged business travel markets increased by 25% in 2005 – and totaled more than $65 billion.
- The Yesawich, Pepperdine, Brown & Russell/Yankelovich National Leisure Travel Monitor indicates that 56% of survey respondents use the Internet as the sole source of information used for travel planning.
- Forrester Research predicts that travel will remain the number one online retail category and grow to $119 billion by 2010. *(Source: Hotelmarketing.com)*

9. Packaged Travel: Requires Custom-Fitting

- The 2005 United States Tour Operators Association (USTOA) member survey shows that the number of customized tours sold has increased from 14% in 2002 to 56% in 2005.
- "Gone are the days of the sold out per capita tours. Almost gone are the days of the traditional group tour packages. The trends that I'm witnessing (both currently and for the next five years) are specific affinity groups…. " *(Source: Karen Eylon)*
- 24% of international travelers worldwide are youth/student travelers. Student/Youth Travel showed double digit increases in both the number of travelers (13.7%) and revenues (13.4%) between 2003 and 2004. Top Student/Youth segments for Group Travel are educational and music/performance travel. Other key group travel segments include sports & leisure, summer/teen, language, and high school graduation travel. *(Source: Student and Youth Travel Association (SYTA))*

10. Cruises/RV: Continued Strong Demand

- 46% of active leisure travelers are interested in taking a cruise *(Source: Yesawich, Pepperdine, Brown & Russell/Yankelovich Partners National Travel Monitor)*
- Cruising continues to grow in popularity. Passenger growth has averaged 8% a year from 1980 through 2004. In the US alone, there are now 29 ports. The industry expects 30 million people will book a cruise within the next three years. The industry has increased its appeal to a broader market of young vacationers, families and specific niche markets. *(Source: CLIA)*
- Cruises are increasingly catering to families that travel. More than 1 million children under the age of 18 took cruises with their families in 2004. Carnival alone is expected to host 500,000 kids in 2005, a 300% increase over the past eight years. *(Source: Travel Trade)*
- US ownership of RV's has reached record levels. Nearly 8 million American households own at least one RV – a 15% increase over the past five years. Although retail sales of RV's were down 3.5% in the first 8 months of the year, 2005 is expected to be the second best year ever for RV sales. The typical RV owner is 49 years old, married, owns a home and has an annual household income of $68,000. *(Source: RVTravel.com, RVIA)*
- Historically, highest RV ownership rates are for consumers between the ages of 55 and 64. 10% of American households in that age range own an RV. Sales are expected to remain strong as more and more baby boomers swell the ranks of the 55 to 64 age group. By 2010, 8.5 million American households (out of approximately 150 million) are projected to own an RV.
- RV rentals are also popular. In 2005, RV rentals jumped 36% and now represent a $350 million industry. Owners and renters combined, RV enthusiasts now number 30 million. *(Source: RVIA)*

Other Trends to Watch & Noteworthy News:

Pet Travel: According to a 2002 TIA survey, 14% of all adults (29.1 million) say they have traveled with a pet on a trip of 50 miles or more, one-way in the past three years. Dogs are the most common type of pet to take (78%).

Youth Sports Travel: Parents that travel to attend games represent a growing sub-segment of the sports travel segment. According to TIA, more than 52 million Americans attended an organized sports event, competition, or tournament as either a spectator or participant while traveling.

Family Reunion Travel: According to the Gale Group, there are more that 200,000 family reunions in the US each year, attended by 8 million people. Reunions Magazine reports 73% of reunions have 50 or more attendees and 35% have more than 100. 6% have more than 200 attendees. 85% of reunions occur in June, July, and August. 64% of families expect to use a hotel or resort for their next reunion *(Source: Reunions Magazine)*

Grandparent/Grandkid Travel: According to the 2005 Yesawich, Pepperdine, Brown & Russell/Yankelovich Leisure Travel Monitor, four out of ten active travelers are grandparents going with their grandchildren or extended family on vacation.

Nature Travel: The WTO estimates that nature tourism generates 7% of all international travel expenditure. Growth estimates for nature travel range between 10% and 30% per year since 1993.

Spas: The spa industry is a $40 billion business worldwide, but its rapid growth phase may be coming an end. The number of new spa openings in the US has slowed to just 12% last year, down substantially from a peak of 50% in 2000. Expect spas to expand promotion of travel concepts such as honeymoon spas, romantic spa vacations, mind/body/spirit holidays and medical/spa travel. Men now generate 25% of total spa revenues. *(Source: Spa Finder, MSNBC, Forbes.com)*

Potential Threat: Avian Flu
Airports and airlines are on high alert as they gear up for an outbreak of the avian flu among humans, a much-feared event that would put travelers and travel-industry workers on the frontlines of the fight against the disease. Many of the industry’s new pandemic-prevention programs were spawned by the spread of SARS, which emptied hotels and forced flight cancellations in East Asia and North America in late 2002 and 2003. Airlines, airports and hotels are working to stop a bird flu pandemic before it starts. *(Source: San Francisco Chronicle)*

International Travel: The UN World Tourism Organization (UNWTO) predicts worldwide arrivals will grow by 4% in 2006. Although that is slower than the 5.5% growth in 2005, the WTO is optimistic about a continued recovery. “Despite various terrorist attacks and natural disasters, the recovery of tourist arrivals worldwide, which started in 2004, continued firmly through 2005,” the UNWTO said. The organization also noted three uncertainties that could cause a major disruption in international travel: terrorism, energy costs, and avian flu. (*Source: UNWTO)*