

Travel and Recreation Outlook and Trends

By Norma P. Nickerson and Melissa Bruns-Dubois

Table 1
Travel Trends, 2007-2008

| Travel Indicators | % Change 2007-2008 |
|--|---------------------------------------|
| Overall Travel | |
| Domestic travel: United States | -1.0% |
| International travel: United States | +9.0% |
| Canadian | +14.0% |
| Overseas | +10.0% |
| Montana | -3.7% |
| Airline Travel | |
| United States (July YTD) | -3.9% Domestic +5.4% International |
| Montana (Oct. YTD) | +2.9% All air |
| Rooms Sold (Sept. YTD) | |
| United States | -0.6% |
| Montana | -1.8% |
| Mountain Region | -2.7% |
| National Parks (Oct. YTD) | |
| United States | -0.6% |
| Glacier National Park | -0.7% |
| Yellowstone National Park | -0.7% |
| Skier Visits 2007/2008 ski season | |
| United States | +9.8% |
| Montana | +14.5% |
| Gas Prices | |
| United States (July 07/08: \$2.95/\$4.11) | +39.0% |
| Montana (July 07/08: \$3.09/\$4.21) | +36.0% |

Sources: Travel Industry Association; Institute for Tourism and Recreation Research, The University of Montana; Montana Aeronautics Division; Smith Travel Research; National Parks Service Statistics; National Ski Areas Association.

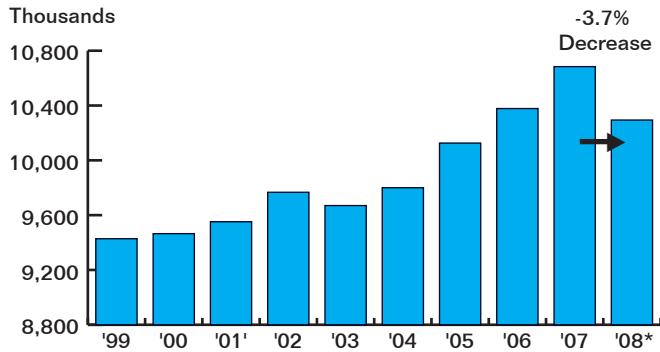
2008 Recap

It is now possible to say that the current consumer tolerance on gasoline prices in regard to travel behavior is around \$4.00/gallon. The highest average gasoline prices ever recorded hit during Montana's busiest travel month – July 2008 – at \$4.21 per gallon. This trend went beyond Montana borders, with the United States also seeing the highest average prices in July of 2008 at \$4.11 per gallon. Consumers changed their behavior, both at home and while on vacation. Through August of 2008, consumers reduced their consumption of gasoline by 5 percent. They took fewer trips to grocery stores, banks, and dry cleaners and at the same time, increased biking, walking, and using public transportation. On vacations they stayed closer to home, stayed longer in one spot with fewer side trips, and spent less on retail so they could fill up their gas tank. Some even stayed home.

It has been a sobering year for domestic travel in the United States (Table 1). Nationwide, preliminary numbers show domestic travel was down 1 percent (Sept. YTD). Preliminary numbers for Montana indicate a 3.7 percent drop in nonresident visitors to Montana in 2008 compared to 2007 (Figure 1). International visits to the United States were the one redeeming factor for the year, with an overall increase of 9 percent. This included an increase of Canadian visits to the United States of 14 percent and an increase of overseas visits of 10 percent. Visits from Mexico, however, were down 7 percent. While Montana does not have international visitation data, it is clear from hoteliers, retailers, attractions, and parks, that Canadian travel in Montana was its highest in years, and visitors from overseas grew as well. International travel was buoyed by the low value of the U.S. dollar compared to the Euro and the Canadian dollar for the first three quarters of 2008.

Total nonresident visitor numbers were down in Montana but that does not paint a clear picture. Some areas, especially along the Hi-Line and in the Kalispell area, were experiencing higher numbers of Canadian visitors. The Yellowstone area saw an influx of international visitors. In the Institute for Tourism and Recreation Research (ITRR) survey of tourism industry business owners (N=313), 44 percent indicated their numbers were up in 2008 while 36 percent saw a decrease. Twenty-three percent of respondents said they saw a change

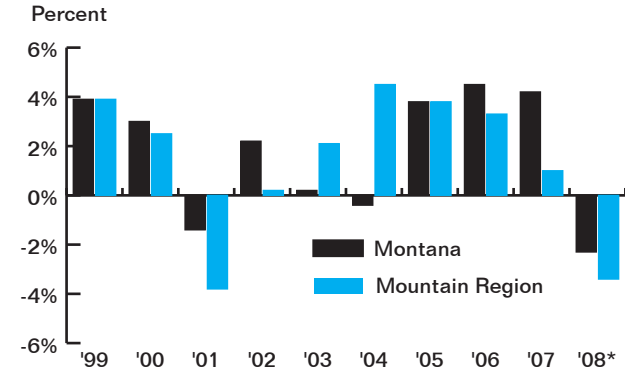
Figure 1
Montana Nonresident Visitor Trends
1999-2008



*Preliminary

Source: Institute for Tourism and Recreation Research, The University of Montana.

Figure 2
Percent Change in Rooms Sold
1999-2008



*Preliminary

Source: Smith Travel Research.

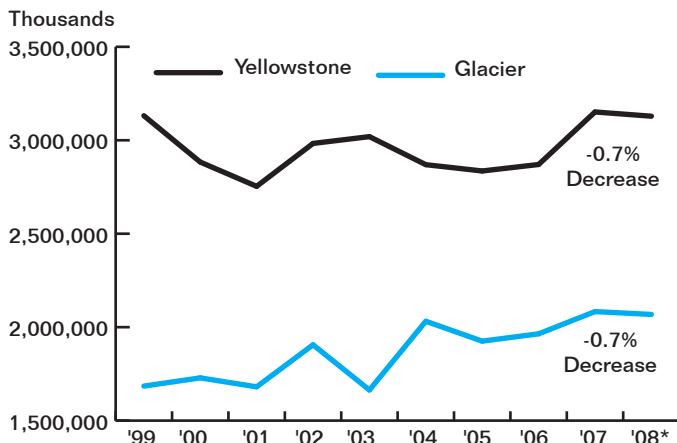
in the type of visitor – more Canadians and more international. Seventeen percent said they didn't see any change in the type of visitors. The rest of the business owners (60 percent) reported mixed changes including fewer families, more families, tighter wallets, more affluent travelers, more regional visitors, less regional visitors, larger groups, and more couples. It seems that the change in the type of visitor seen by businesses differs depending on the type of business, location of the business, and maybe the economic conditions. It is clear that the situation for each business was unique.

According to Smith Travel Research, the decrease in nonresident visitation was seen in Montana accommodations. Hotels experienced a 2.3 percent decrease in rooms sold

compared to a 3.4 percent decrease in the Mountain West and a 0.9 percent decrease overall across the United States (Figure 2). The nation's national parks also experienced a slight decline this past year of 0.6 percent while both Yellowstone and Glacier National Parks each experienced a decrease of 0.7 percent in recreation visits this past year, October year to date (Figure 3).

There were two positive numbers in the Montana travel industry this year. First, Montana airline deboardings increased 2.9 percent in 2008 over 2007 (Figure 4). As illustrated in Table 2, numerous communities experienced air travel increases, with the highest increases in Kalispell (5.1 percent) followed by Bozeman (4.7 percent), Billings (2.9 percent), and

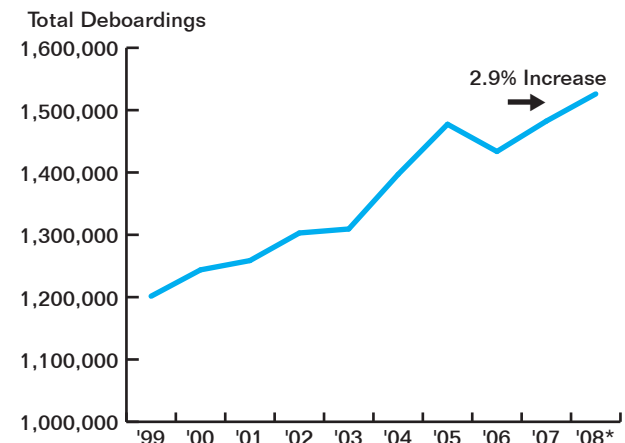
Figure 3
National Park Recreation Visits
1999-2008



*Preliminary

Source: National Park Service.

Figure 4
Montana Air Traffic
1999-2008



*Preliminary

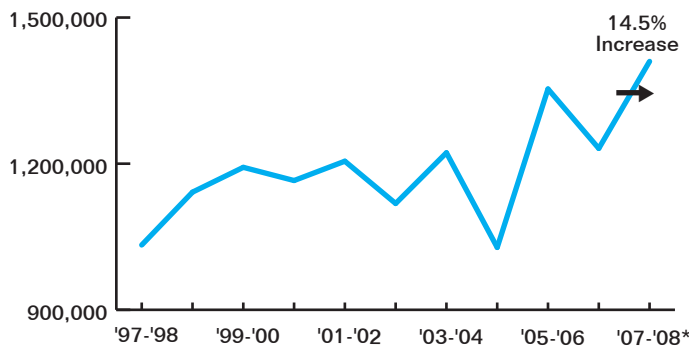
Source: Montana Aeronautics Division.

Table 2
Percent Change in Airport
Deboardings by City,
2007-2008

| % Change from 2005 | |
|--------------------|--------|
| Billings | 2.9% |
| Bozeman | 4.7% |
| Butte | -11.2% |
| Great Falls | 1.2% |
| Helena | 1.7% |
| Kalispell | 5.1% |
| Missoula | 2.5% |
| West Yellowstone | 6.0% |

Source: Institute for Tourism and Recreation Research, The University of Montana.

Figure 5
Montana Ski Area Visits, 1997-2008



Source: USDA Forest Service: Big Sky Resort; Moonlight Basin; Great Divide Ski Area

Missoula (2.5 percent). Second, the ski industry had a good year as well. Skier visits in the state were up 14.5 percent over the 2006-07 ski season (Figure 5). Similarly, the National Ski Area Association reported a 9.8 percent increase in skier visits nationally. Montana ski area managers partially attribute their higher numbers to more locals hitting the slopes due to the good snow conditions.

Travel Economic Indicators

In response to potential travel behavior change due to higher gasoline prices, ITRR conducted a mid-summer survey of nonresidents to Montana. The purpose was to determine if visitor characteristics and spending were different from previous years. While the results cannot be generalized to the full nonresident population, it was possible to reliably compare July and August vacationers of 2005 with July and August vacationers of 2008. Some differences emerged in visitor characteristics and visitor spending patterns. Length of stay decreased by nearly a day, income level in the \$100,000 to \$120,000 range increased by 10 percent, and the number of first-time visitors increased to 44 percent compared to 26 percent in 2005 (Grau 2008). Average daily visitor spending dropped 15 percent, with significant decreases in spending on retail, auto rental, guides, and entrance fees (Table 3).

In October 2008, the University of Michigan Consumer Sentiment Index showed the third lowest level of consumer sentiment in 30 years at 57.6. The Index is a survey of consumer confidence regarding consumer expectations on the overall economy. The only two months lower than this past October were March and May of 1980 (52.7 and 51.7 respectively). Compare that to the three highest consumer sentiment months, which occurred in January, February and May of 2000 at 112.0, 111.3, and 110.7 (Consumer Sentiment Index, 2008).

Overall employment in the United States fell by 1.2 million in the first 10 months of 2008, with over half of the decrease occurring in August through October (BLS 2008). And quarterly spending fell in quarter three for the first time since 1991. Finally, the Traveler Sentiment Index, which measures consumers' perception on affordability, personal finance, interest in pleasure trips, time available, and perception of service quality, continues to show declines month after month (Cook 2008).

Outlook for 2009

Real Person Disposable Income and Real Consumer Spending are each projected to decline by 0.3 percent in 2009 (Cook 2008). With unemployment on the rise, an uncertain economic recovery,

and virtually a global recession, travel to Montana and elsewhere will not grow in 2009 and will likely decline.

According to the Travel Industry of America, the United States should expect a 1.7 percent decrease in total domestic person-trips in 2009. This includes a drop in leisure person trips and business person trips of 1.3 percent and 2.7 percent, respectively. International inbound trips will decrease 1.6 percent, with as much as a 3.1 percent decline from overseas. An additional crunch to the travel industry is the expected 10 percent reduction in airline seat capacity each year until 2011. The lodging industry is also predicting a 1 percent decline in rooms sold in 2009.

Montana tourism business owners who annually respond to the ITRR outlook survey provided their view on the upcoming year. This is the first year since the inception of the survey in 1995 that more than one-fourth of business owners admitted to expecting a decline. Table 4 shows the dramatic change in the sentiment of business owners for 2009 compared to the past seven years.

Last year, ITRR predicted Montana would experience a 2 to 3 percent increase in nonresident travel. How quickly things can change and how unknown the future can be! Instead of a 3 percent increase, there was a nearly 4 percent decrease. Now, with the U.S. predicting a travel decrease, the Canadian dollar hovering around 80 cents to the U.S. dollar, and Germany in the worst recession in 30 years, we can only hope the 2009 decline in nonresident visitation to Montana is at least on par with the U.S. predictions. At the time of this writing, gasoline prices fell below the \$2 mark, which is always a good sign for the travel industry. Additionally, a survey by Travel-Horizons (Cook 2008) revealed that leisure travel intentions among U.S. adults in October 2008 were the same as their intentions in October of 2007. People are not willing to sacrifice their vacation time. Looking at the full travel and economic picture, however, Montana can expect to see another decline in nonresident travel of 2 percent in 2009.

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Table 3
Nonresident Vacationer Spending Comparisons, July and August, 2005 and 2008

| Average Daily Expenditures | 2005 | 2008 | % change |
|----------------------------|-----------------|-----------------|-------------|
| Expenditure Category | 2008 Dollars | | |
| Gasoline, oil | \$49.04 | \$49.16 | 0% |
| Restaurant, bar | \$45.04 | \$40.77 | -9% |
| Hotel, motel, B&B | \$21.81 | \$22.86 | 5% |
| Groceries, snacks | \$20.30 | \$20.22 | 0% |
| Retail purchases | \$31.87 | \$20.48 | -36% |
| Campground, RV park | \$6.83 | \$8.50 | 24% |
| Auto rental, repair | \$10.59 | \$4.92 | -54% |
| Outfitters, guides | \$12.72 | \$4.22 | -67% |
| Licenses, entrance fees | \$6.64 | \$3.74 | -44% |
| Transportation fees | \$2.84 | \$2.77 | -3% |
| Gambling | \$1.28 | \$0.18 | -86% |
| Misc. services | \$1.40 | NA | |
| Total | \$210.36 | \$177.82 | -15% |

Source: Institute for Tourism and Recreation Research, The University of Montana. 2005 vacationer sample size = 998; 2008 vacationer sample size = 248.

Table 4
Business Owner Projections for 2009

| Projected Year | Expect an increase | Expect to remain the same | Expect a decrease |
|----------------|--------------------|---------------------------|-------------------|
| 2009 | 32% | 39% | 27% |
| 2008 | 55% | 34% | 10% |
| 2007 | 64% | 31% | 5% |
| 2006 | 63% | 31% | 6% |
| 2005 | 67% | 26% | 7% |
| 2004 | 79% | 18% | 3% |
| 2003 | 70% | 22% | 8% |
| 2002 | 56% | 33% | 10% |

Source: Institute for Tourism and Recreation Research, The University of Montana, Outlook Surveys.