The expected 107.3 million year-end holiday travelers will set a new record. Travel volume will grow by more than 3 million, an increase of 3.1 percent.

AAA and IHS Markit forecast there will be 107.35 million travelers for the 2017 year-end holiday travel period – the highest travel volume on record. The 3.1 percent year-over-year increase will result in 3.2 million more travelers than the 104.16 from 2016.

- This year’s 3.1 percent increase in travel volume outpaces typical growth. The longer year-end holiday period typically results in less dramatic year-over-year swings in travel. However, the average annual growth during the past nine years is 2.5 percent.
- 2017 will be the ninth consecutive year of rising holiday travel.
- During the nine-year run (since 2008) of rising travel, total volume has grown by 21.6 million, an increase of more than 25 percent.
- The 2017 forecast is 17.3 percent higher than the average since 2000 and 14.2 percent higher than the average of the past 10 years.

Total Year-End Holiday Travelers, 2001-2017

A note about the calendar:

- The year-end holiday travel period can range from 10 to 13 days, depending on which day of the week Christmas and New Year’s Day fall. This year’s holiday travel period (which begins Saturday, Dec. 23, and ends Monday, Jan. 1) will last 10 days, which is one day less than last year. While a longer holiday travel period can offer more options for departures and return trips, all of the year-end holiday periods contain two weekends. Therefore, the travel impact isn’t going to scale directly to the length of the holiday, but the loss of day is certainly a small part of why the forecast growth isn’t higher based on the underlying fundamentals.

<table>
<thead>
<tr>
<th>Length of Holiday</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>11</th>
<th>10</th>
<th>10</th>
<th>11</th>
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<th>13</th>
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<tr>
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<td>90.6</td>
<td>91.5</td>
<td>93.7</td>
<td>88.7</td>
<td>95.7</td>
<td>90.7</td>
<td>91.8</td>
<td>94.0</td>
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What is driving the 3.1 percent increase in year-end holiday travel this year?

Forecast summary: The underlying momentum in the economy remains strong. Unemployment remains near historic lows, wages are rising, prices remain low and overall household net worth continues to grow.
Solid income growth plus brimming confidence is a recipe for robust spending this holiday season and is the primary reason why growth is expected for this holiday period.

- **Economic Indicators**: While there has been a slight cooling off from what was seen in the third quarter, the fourth quarter real GDP is expected to be 2.5 percent higher than the same period a year ago. We expect that the underlying consumer demand will remain very strong as the primary culprits for some of the cooling compared with the third quarter are inventory and trade impacts, which won't affect consumer spending or holiday travel. As has been the case for the second half of the year, the overall economic outlook remains conducive to solid consumer spending growth. Unemployment is at a 16-year low and incomes are growing across the board. Steady gains in the stock market continue to help, at least psychologically.

- **Consumer spending remains a steady foundation of economic growth**: Consumer spending growth will remain the principal driving force in the U.S. economic expansion. Household finances continue to improve, supported by gains in employment, real incomes, stock prices and home values. During the fourth quarter, consumer spending is forecast to grow 4.1 percent compared with last year. With personal income growth forecast to rise by 3.7 percent, the savings rate will take a slight dip to 3.1 percent from the 3.4 percent seen in the third quarter.
The labor market remains very strong and is nearing historic levels of a tight labor market: The October employment report showed a post-storm rebound, with solid job gains for the month and a large upward revision to the prior two months. The current unemployment rate nudged down to 4.1 percent, from the 4.2 percent seen in September. Both the size of the labor force and the number of employed people in the household survey contracted after massive September gains, but the labor force shrank more. Payroll growth should remain solid for the rest of 2017 but will likely begin to fall short of recent standards soon.

Consumers maintain their optimism, especially toward the near term: The University of Michigan's Consumer Sentiment Index took a step back in November after a big jump in October. However, the figure remains well above prior-year levels, especially for the "Current Conditions" portion where the current 113.6 reading is more than six points above last year’s reading. In November, the Conference Board’s Consumer Confidence Index surged more than three points to its highest level since November 2000. An optimistic and confident consumer increases the likelihood that consumers will spend their rising incomes and not put them toward savings, which is especially helpful for discretionary spending categories such as travel.
Travel by Mode

97.4 million automobile trips are forecast for 2017, an increase of 3 percent.

- 2017 year-end holiday car travel is forecast to hit 97.4 million, which is an increase of 2.9 million over 2016 and highest on record.
- 2017 will be the sixth consecutive year of reaching a new high volume mark for travel by car.
- The 3 percent increase in auto travel is just slightly below the overall travel growth rate, as such share of travel by car will remain virtually unchanged at 90.7 percent.
- 2017 will be the seventh consecutive year of rising automotive travel, and during that time the average growth rate has been 2.5 percent. Travel volume has grown by 15.5 million during that seven-year run.
- The 2017 forecast is 18.9 percent above the average since 2000 and 14.3 percent above the average of the last 10 years.

![Year-End Holiday Travelers by Automobile, 2001-2017](image)

Air travel will see the biggest increase in 2017 travel volume during the year-end holiday, at 4.1 percent.

- 6.4 million travelers will take to the skies this holiday period—an increase of 250,000, or 4.1 percent, over 2016.
- 2017 will have the highest air travel volume seen for this holiday since 2004.
- This will be the sixth consecutive year of travel volume growth for this mode, with the average annual growth rate during that time coming in at 2.9 percent.
- Overall holiday air travel has increased by nearly 1 million travelers during this six-year run.
- Share of travel via air will rise to 5.9 percent in 2017. This will be the fourth consecutive year where air travel gained share.
Travel by other modes will increase 2.2 percent.

- Travel by other modes (including bus, train and cruise ship) is forecast to hit 3.6 million. The growth of 2.2 percent will be the fourth straight year of rising travel growth via this mode.
What is the impact of gasoline prices on the forecast?

- Gas prices remain well above the level seen at the same time last year, as the November average price of $2.53 is $0.36 above the monthly average from a year ago. This December’s national average price is $2.47 (Dec. 1-13), which is 28 cents more than last December.

- The 13 percent increase in gas prices from last year will likely serve as a very slight headwind on auto travel, but with disposable income continuing to rise, it is unlikely to have a major impact on overall travel.

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* November 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.
2017 Year-End Holiday Travel Forecast Review

What was the variance of forecasted and actual travel for year-end 2016/2017?

- Last year, IHS Markit predicted that 103.1 million Americans would travel over the 2016 year-end holiday period. This forecast represented a 2.5 percent increase relative to the 100.6 million trips that occurred during the 2015 holiday period. Due to stronger than expected economic growth, and a considerable jump in consumer spending, the actual number turned out to be 100 thousand more travelers than forecasted with 104.2 million travelers.

- Overall economic growth during the fourth quarter of 2016 was much stronger than predicted. The predicted growth of 1.4 percent was overshot by almost a full half-percentage point due to strong jobs numbers and consumer spending. Although the holiday period was a full day shorter than the previous year, strong economic fundamentals led to the actual number of travelers overshooting the forecast by a full percentage point.

What were the factors that contributed to the growth in year-end holiday travel last year?

- **Strong Labor Market**: Unemployment has continued to fall from its high of more than 10 percent in 2009. The economy added 156,000 jobs in December of 2016, which decreased the unemployment rate to 4.7 percent for the final quarter of the year. This rate was half a percentage point lower than a year prior. A net of 620,000 jobs were added during the fourth quarter of 2016.

- **Consumer Spending on the Rise**: The increased labor market activity during the end of 2016 failed to produce the personal income gains expected. Personal income grew just 1.6 percent, a full percentage point lower than IHS Markit’s forecast, and real disposable income, which accounts for changing expenses, grew just 0.2 percent. Despite these numbers, consumer confidence reached a 13-year high, which translated to strengthening asset prices, as household net worth increased 4.6 percent over the previous year. These developments overcame the low wage-growth numbers and pushed consumer spending to increase by 4.3 percent. This was the second-highest spending growth over the previous six years.
Overview: The Bureau of Economic Analysis’ advance estimate of third-quarter GDP growth was a solid 3.0 percent, despite disruptions stemming from hurricanes Harvey and Irma. This was 0.6 percentage point above our previous base forecast and 0.3 percentage point above our tracking estimate just prior to the release.

A string of solid monthly data on consumer and business spending in September led us to lower our estimate of the (negative) impact of hurricanes on third-quarter output growth. We now put this subtraction at roughly 0.5 percentage point, down from our initial estimate of about 1.25 percentage points. This implies that were it not for the hurricanes, third-quarter real GDP growth could have registered 3.5 percent, following 3.1 percent growth in the second quarter. Thus, the underlying momentum in the economy is strong.

Looking ahead, we forecast annual real GDP growth of 2.2 percent this year, followed by 2.5 percent, 2.2 percent, and 2.1 percent gains over the coming three years. This lowers the unemployment rate to below 4.0 percent in late 2018, well below the non-accelerating inflation rate of unemployment (NAIRU), which we estimate at 4.7 percent. The Federal Reserve is expected to gradually remove accommodation over the next few years. Our forecast includes a 0.25-percentage-point increase in the federal funds rate at the December meeting, followed by three 0.25-point hikes in 2018 and two 0.25-point hikes in 2019 and 2020. Tight labor markets and an overheating economy will lead the Fed to temporarily raise the funds rate above the longer-run neutral rate of 2.75 percent. The 10-year Treasury note yield reaches 3.6 percent by the end of the decade, while equity prices stagnate.

The U.S. House of Representatives unveiled the Tax Cuts and Jobs Act (TCJA), a 10-year, $1.5-trillion tax cut consistent with the Senate budget resolution that was subsequently adopted by the House to help expedite the legislative process. This has increased the likelihood that a tax bill will be enacted in the foreseeable future, requiring only a simple majority in the Senate. However, there remain significant political and legislative hurdles to clear before a bill is enacted. Our baseline forecast does not include a tax cut, but we will create an alternative scenario incorporating provisions of the TCJA. The impact is likely to be modest, adding 0.2–0.3 percentage point to real GDP growth in the first year of implementation.

Current quarter and one quarter ahead: Real GDP growth is projected to moderate from a 3.0 percent annual rate in the third quarter to 2.6 percent in the fourth quarter and 2.3 percent in the first quarter of 2018. The economy’s third-quarter performance was boosted by strong contributions from inventory investment and net exports, ingredients that are missing in the fourth quarter. On the positive side, growth in real final sales to domestic purchasers will accelerate from 1.8 percent in the third quarter to 2.5 percent in the final quarter of 2017, helped by recovery from hurricanes Harvey and Irma.

Consumer spending growth will remain the principal driving force in the U.S. economic expansion. Household finances continue to improve, supported by gains in employment, real incomes, stock prices, and home values. Real consumption is projected to increase at annual rates of 3.0 percent in the fourth quarter and 2.5 percent in the first quarter of 2018.

After declines in the second and third quarters, residential construction will stabilize in late 2017 and resume growth in early 2018. Increasing demand from young adults, limited supplies of homes for sale, and rising prices should lead to more construction activity, along with repair and reconstruction of storm-damaged homes in Texas and Florida.

Real business fixed investment will continue to increase at a 4 percent annual rate in the near term, sustained by expanding global markets, low financing costs, and an improving regulatory climate. Real government purchases will continue to stagnate, with modest growth in state and local spending offset by cuts in federal purchases. Growth in both exports and imports will strengthen through early 2018, reflecting healthy expansions in the domestic and global economies.

Core inflation, measured by the personal consumption deflator, remained at 1.3 percent year on year (y/y) in September. As demand pressures build, we expect a pickup to 1.6 percent y/y in the fourth quarter. The unemployment rate is projected to
edge down to 4.0 percent in the first quarter of 2018; this tightening of labor markets will also generate some upward pressure on wage rates.

**Consumer spending, income, and confidence:** U.S. consumer activity eased back in the third quarter, after an up-and-down first half of the year. Real consumer spending grew at a 2.4 percent annualized rate in the quarter, compared with 1.9 percent and 3.3 percent rates in the first and second quarters. The slowdown primarily stems from a deceleration in services spending, which grew at the slowest pace in four years. Some of this is likely due to hurricane disruptions, but overall the storms appear to have had a limited impact on consumer spending.

Personal income was similarly strong in September, including 0.4 percent gains in top-line income as well as the important wages and salaries component. Income and job gains are a major reason consumer confidence is at cyclical highs. Both major measures of consumer mood—the University of Michigan’s Consumer Sentiment Index and the Conference Board’s Consumer Confidence Index—surged more than five points in October. Solid income growth plus brimming confidence is a recipe for a robust holiday shopping season. We are forecasting holiday sales (defined as not-seasonally adjusted November plus December total retail sales, excluding automobile dealerships, gasoline stations, and food services) to increase 4.1 percent this year, up from 3.6 percent growth last year and 3.2 percent growth in 2015. The online share of these sales will take an even larger piece of the pie, accruing nearly $125 billion in sales, or 18.3 percent of the total.

Our baseline forecast calls for real spending to advance by 3.0 percent in fourth quarter 2017 and 2.5 percent in first quarter 2018. Despite this near-term strength, we look for growth to relax in the next few years as the economy reaches capacity; real consumer spending is forecast to decelerate from 2.7 percent in 2017 to 2.5 percent next year and 2.2 percent in 2019. Our baseline forecast does not assume any changes to the average effective personal tax rate, so any such upside change to fiscal policy could provide some lift to the consumer sector in the next couple of years.

**Business investment spending:** Business fixed-investment growth slowed to a 3.9 percent annual rate, following two solid quarters of roughly 7 percent growth. Equipment spending maintained its strong pace, increasing to a rounded-up 9.0 percent annual rate for the second straight quarter. Structures, however, contracted 5.2 percent, as spending on buildings and electric utilities fell, real spending on mining and petroleum slowed, and construction costs jumped. Growth in intellectual property products held at a steady 4.3 percent.

The gains in equipment spending merit a small round of applause because they were broadly based. Among the 46 line items in the real equipment table (Table 5.5.6U in the National Income and Product Accounts), only three were lower in the third quarter than a year earlier, when 25 line items were in the red. Better news yet, orders for core capital goods continue to push higher, aided by a softening dollar. Since reaching a peak last December, the broad trade-weighted value of the U.S. dollar has declined sharply (7.5 percent), helping to make U.S.-produced goods more competitive on world markets. Over this same period, core orders have risen at an 8.7 percent annual rate.

The Baker Hughes rig count continues to slide. Currently, 898 rigs are drilling for oil and natural gas in the lower 48 states, down by 60 rigs from 14 weeks ago. The rig count hit a 71-year bottom of 404 rigs in May 2016, then more than doubled over the next 12 months, before falling oil and gas prices brought the recovery to an abrupt end.

Steady GDP growth will power equipment spending going forward. Over 2017–19, we anticipate respectable 4.0–5.0 percent gains. Spending on intellectual property products, a category that is steadier year in and year out compared with spending on equipment and structures, is expected to see moderate growth in the 3.0–4.0 percentage range over 2017–19. Real spending on structures will struggle in 2018 as real spending on mines and wells slows after a strong first half in 2017, and real spending on most categories of non-mining structures eases or drops after several years of solid gains.

**Housing and construction:** The housing market is in a mid-business-cycle slump. Housing starts have flattened this year, and the third-quarter level was down from a year earlier; both new and existing home sales have dropped for two straight quarters. The weakness has many causes, including labor shortages, tight credit to developers, and slow household formation growth among young adults. This demographic has delayed forming households for several reasons, including student debt, the high cost of college and graduate school, and low real earnings. We believe that the housing slump will probably end soon
because the economy is growing steadily and creating jobs, borrowing rates remain low and demand (gauged by rising home prices across the country) remains strong. We also believe that the risks to the housing market remain tilted to the upside.

Core construction tumbled again in the third quarter on declines in all three of its components. Real spending on public construction dropped for the fifth time in six quarters, as infrastructure spending sank to its lowest level since 1997. Real spending on structures tumbled 5.2 percent, despite a 23 percent rise in mines and wells. Residential fixed investment fell 6.0 percent, following a 7.3 percent second-quarter drop.

Existing home sales inched up in September on the heels of three straight monthly declines. Quarterly sales fell 3.1 percent; compared with a year earlier, third quarter sales were about unchanged. Housing starts dropped 4.7 percent in September; the single-family category declined 4.6 percent, while multifamily starts lost 5.1 percent. Single-family permit trends continued to expand in September and multifamily permit trends contracted. The FHFA House Price Index advanced 0.7 percent month on month (m/m) in August, making for a 6.6 percent year-on-year (y/y) gain. Prices rose in eight of the nine Census divisions, with the New England region being the odd one out. The Case-Shiller price indexes continue to march forward at rates that, while not worrisome, are unsustainable. Prices are growing in the 5–10 percent range in most places but not sustainable.

**International trade**: Trade made a positive contribution to GDP growth for the third straight quarter in Q3, as real exports increased and real imports fell. Export growth slowed after two strong quarters on a real drop in petroleum products that may have been related to the hurricanes. Outside of capital goods, which posted double-digit gains for the second straight quarter, imports were weak across the board.

The dollar continues moving erratically, pulled by shifting forces. The broad-based dollar index lost nearly 9 percent of its value between January and September but has since strengthened. At this writing, it is down 5.4 percent for the year. Most of its decline this year is an offset to the Trump election—part of it, though, is that growth abroad has picked up. In the latest forecast, the dollar strengthens over the next five quarters because the U.S. economy continues to outperform the economies of almost all its major trading partners. The dollar then embarks on a long multiyear slide.

The world economy is in its best place in 10 years. Not a single major economy is in recession. And, lately, updates to country forecasts have mostly been upgrades. Stronger growth abroad plus the fading effects of the strong dollar have fueled export growth over the past year. In the forecast, world growth picks up from a 2.5 percent rate in 2016 to 3.1 percent this year and 3.2 percent in 2018.

The nominal trade deficit widened by $0.7 billion to $43.5 billion in September, close to expectations and reflecting solid gains in both exports (up 1.1 percent) and imports (up 1.2 percent). The increase in exports was stronger than we had expected, reflecting surprising strength in exports of services. This contrasted with our expectation for a soft reading, reflecting decreased tourism in areas affected by Hurricane Irma.

The underlying trade story remains the same: Both imports and exports have picked up from last year. Stronger world demand and the fading effects of the strong dollar have boosted exports. Meanwhile, stronger domestic demand—particularly for capital goods—has strengthened import growth.

**Government spending**: The U.S. federal government ran a marginal $8-billion surplus in September but ended fiscal year (FY) 2017 with a deficit of $665.7 billion, the largest since 2013. That is about $78 billion more than FY 2016, and the increase occurred on the outlays side of the balance sheet. Outlays were up 5.2 percent from FY 2016, while receipts grew just 1.2 percent. Spending on homeland defense, interest, health care (Medicare and Medicaid), Social Security, and national defense was higher this year, with the only savings coming from fewer income-security payments thanks to an improving economy.

In the advance estimate of third-quarter GDP, federal spending increased at a 1.1 percent annual rate, down from 1.9 percent in the second quarter and 1.6 percent in the third quarter of 2016. Federal spending will likely be a negative for GDP growth this year, however, with an expected 0.2 percent contraction for calendar year 2017. The drag is coming primarily from the nondefense category, which is on track for its weakest growth since 2013. President Trump’s vow to reduce the size of federal government makes it unlikely that federal nondefense spending will contribute positively to GDP over the next few years.
Tax reform is a hot topic in Washington right now, but we think the odds of legislation passing before the end of 2017 remain unlikely, given that there are few legislative days left in the year and there will likely be much debate over some portions of the currently proposed bills. For example, changes to treatment of the state and local tax deduction and various aspects of housing-related taxes will be opposed by certain interest groups and lawmakers. Our baseline forecast continues to assume no changes to tax policy. However, we are monitoring the legislative process closely and will adjust future forecasts accordingly.

**Monetary policy, unemployment, and inflation:**

In October, nonfarm payrolls rose by 261,000 and the unemployment rate dipped one-tenth of a point to 4.1 percent. Job growth for September was revised upwards into positive territory, from -33,000 to +18,000—the result keeps intact the now-85-month streak of employment growth and reduces our estimate of the economic impact from hurricanes Harvey and Irma. The Federal Open Market Committee seems undeterred by the storm impacts, noting at its Oct. 31-Nov. 1 meeting that economic activity is “rising at a solid rate despite hurricane-related disruptions.”

Although the committee left the target federal funds rate unchanged at a range of 1.00–1.25 percent following this meeting, we believe that another 0.25-percentage point hike will occur in December, followed by three more in 2018 and another two in 2019. The Fed’s balance-sheet normalization program, which got underway in October, is expected to run essentially on autopilot, barring a major change to the economic outlook.

Inflation has slipped further away from the Federal Reserve’s 2 percent target recently, running counter to the theory that inflation should be firming at this mature stage of economic expansion. The Fed’s preferred measure—the core PCE price index—has inched up 0.1 percent in each of the last five months and is only 1.3 percent higher on a 12-month basis, down from 1.9 percent higher as of February. Some Fed officials are increasingly concerned about low inflation and have argued that interest rate hikes be put on hold until it shows clear signs of firming, while others are more fretful that forgoing increases could lead to financial imbalances or an overheating economy. Current Fed chair Janet Yellen has sympathized with the latter recently, but she will be replaced by colleague Jay Powell in 2018, pending Senate confirmation. Powell will likely bring an extension of the Yellen-era policy, since he shares the desire to gradually normalize interest rates.
# Addendum 2: U.S. and Regional Population and Travel Share Data

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**Census Region definitions:**
- East North Central (ENC): IL, IN, MI, OH, WI
- South Atlantic (SATL): DC, DE, FL, GA, MD, NC, SC, VA, WV
- East South Central (ESC): AL, KY, MS, TN
- West South Central (WSC): AR, LA, OK, TX
- Middle Atlantic (MATL): NJ, NY, PA
- West North Central (WNC): IA, KS, MN, MO, ND, NE, SD
- Mountain (MTN): AZ, CO, ID, MT, NM, NV, UT, WY
- Pacific (PAC): AK, CA, HI, OR, WA
- New England (NENG): CT, MA, ME, NH, RI, VT