AAA Thanksgiving 2013 Travel Forecast

Prepared for:

American Automobile Association

November 20, 2013

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Regional definitions used throughout the report:

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

Holiday Forecast Methodology: A Brief Overview

The *AAA Thanksgiving 2013 Travel Forecast* combines information from several sources to provide a prospective assessment of likely travel patterns for the upcoming holiday weekend. This report consists of two key components: the holiday travel forecast and the holiday traveler profile. The travel forecast is based on economic conditions while the holiday traveler profile is developed employing survey data on travel behaviors. This approach provides the most comprehensive and detailed understanding of holiday travel at both the national and regional levels. In addition, the regional travel sections in this report have been enhanced to incorporate information about the state of the local tourism industries throughout the United States.

HOLIDAY TRAVEL FORECAST

In cooperation with AAA, IHS developed an approach to forecast domestic travel volumes. The economic variables used to forecast travel for the current holiday are leveraged from IHS. These data include macroeconomic drivers such as employment, output, household net worth, asset prices including stock indices, interest rates, housing market indicators, and variables related to travel and tourism, including prices of gasoline, airline travel, and hotel stays[1].

The historical travel volume estimates come from the ongoing travel survey database of D.K. Shifflet & Associates (DKSA), the premier source of US resident travel volume and behavior. DKSA interviews over 50,000 US households per month tracking trip incidence, party composition, traveler behavior, and spending—all after the trips have been taken.

Holiday travel is forecast by person-trips, where a person-trip is defined as a round-trip that involves travel of 50 miles or more away from home. In particular, AAA and IHS forecast total US holiday travel, travel by mode of transportation, and travel by US census region. The *Actual Travel Forecast* presented in this report was prepared the week of October 31.

HOLIDAY TRAVELER PROFILE

The Holiday Traveler Profile is a survey of intended travel behaviors related to party composition, travel distances, trip expenditures, and vacation activities conducted by D.K. Shifflet & Associates. The initial survey includes 1,353 households, out of which only the respondents intending to travel during the designated holiday are interviewed in detail about their anticipated trips. For Thanksgiving 2013, 418 respondents were interviewed in detail about their intended trips. The survey was in the field from Wednesday, October 9 to Tuesday, October 15.

THANKSGIVING HOLIDAY TRAVEL PERIOD

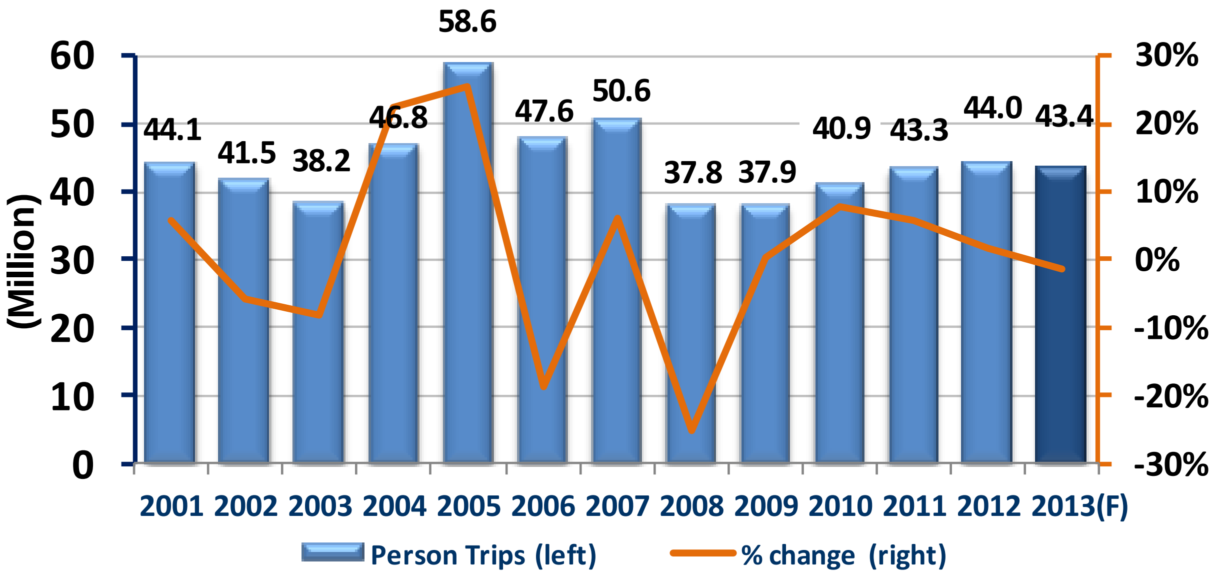
For the purposes of this forecast the Thanksgiving holiday travel period is defined as round-trips that include travel of 50 miles or more away from home during the period from Wednesday, November 27 to Sunday, December 1, 2013.

[1] Due to the timing of the release of the various forecasts from IHS, some regional forecast data may lag the most recent IHS US Economic Forecast.

Travel Forecast for Thanksgiving, 2013

Travel for the 2013 Thanksgiving holiday period is expected to remain largely unchanged from 2012, as AAA and IHS forecast a slight decrease in travel volume of 1.5 percent from last year. The expected 43.4 million travelers is the second-highest volume since the recession-driven declines of 2008–09, and falls just shy of last Thanksgiving's four-year peak. While the economy continues to advance, the pace of the recovery remains sluggish. Significant economic uncertainty remains, as fiscal headwinds have undermined consumer and business confidence, particularly expectations about the future. Improvements in the unemployment rate and the housing market are welcome, but gains are less than expected and lower than needed to prevent a modest drop in travel volumes this Thanksgiving holiday period.

CHART 1
THANKSGIVING TRAVELERS 2001-2013
TOTAL PERSON-TRIPS*



** 2001-2012 represent actual travel results. 2013 is a forecast.*

The economic outlook for the Thanksgiving holiday period remains consistent with what has been seen throughout the post-recession period. Economic growth remains muted, showing only marginal improvements from a year ago, while the labor market continues to struggle to maintain a meaningful pace of job creation. Further, the housing recovery has lost some momentum, which is putting more pressure on households to meet their financial obligations amidst rising consumer debt and weak payroll gains, which have become a staple of this recovery.

Total economic activity, measured as real gross domestic product, is expected to grow by 1.7 percent for the fourth quarter of 2013 compared to the fourth quarter of 2012. The employment market shows a similar expectation, with fourth-quarter unemployment forecast to average 7.3 percent, which is half a percentage point lower than last year. The unemployment rate continues to tick down, but this has more to due to with the historically low labor-force participation rate (63.2 percent) than it does with job gains. For consumers, the effect is that real disposable income is forecast to decline by more than half a percentage point, while consumer spending is forecast to rise 1.9 percent.

As in the debt-ceiling crisis of 2011, both the Conference Board's Consumer Confidence Index and the Reuters/University of Michigan Consumer Sentiment Index plunged in October. Both metrics reached their lowest readings since April and January, respectively (Consumer Confidence=71.2, Consumer Sentiment=73.2). Following the government shutdown and the political bickering over the debt ceiling crisis, consumer expectations were particularly hurt, as many Americans feel that the economic outlook is under threat from political finger-pointing and gamesmanship. The overall level of pessimism coming from the consumer is an additional headwind to holiday travel, as some will choose to forego their discretionary travel plans with these conditions.

Notwithstanding the sluggish recovery and the important policy risks that are impacting the economy, Thanksgiving is a more sentimental holiday than most, with less of a focus on taking advantage of a long weekend and a much greater emphasis on reconnecting with friends and family. Many college students return home during their break, while some families who have moved away from each other reconvene to spend time together around the dinner table. This year's expected travel volume will be just two percent below the average travel volume of 44.3 million seen in the past 12 years, which is representative of the stable demand for Thanksgiving holiday travel as opposed to more recreational holidays such as Memorial Day or Labor Day.

Gas prices are not expected to have a major impact on travel decisions this year. Prices are expected to remain below levels of the previous two years, and are more likely to impact how travelers allocate their budget across spending categories than to dictate go/no-go decisions.

Travel by Mode of Transportation

During the 2013 Thanksigiving holiday period, AAA and IHS forecast that 38.9 million Americans will travel by automobile. This represents a 1.6 percent decline from last year's 39.5 million travelers. As a result, the share of travelers choosing this mode is largely unchanged from last year and remains at 90 percent. The share of travel by auto has remained right around this level since a spike in auto share in 2009 during the recession.

The price of gasoline will always be relevant to those travelers who plan to drive during the holiday. The national average price of self-serve regular gas as of November 11 was $3.19, which is $0.25 below year-ago levels. That seven percent decline in gas prices since last year is not expected to alter travel patterns patterns significantly from last year as real disposable income is expected to fall by half a percentage point despite the drop fuel prices.

"New home purchase and move instead of a cruise this year"
Mountain Respondent

Air travel is expected to make up 7.2 percent of overall travel this holiday period, which is down slightly from the 7.4 percent that travelled via air in 2012. Slightly more than 3.1 million travelers are expected to fly during this holiday period, which is a decline of 3.7 percent from 2012. On a volume basis, this decline will give back some of the gains seen in 2012, and total volume will remain slightly below the 3.2 million average travelers seen since the post-recession rebound in 2010.

The remaining 3.2 percent (1.4 million) of travelers will use other modes of travel (bus, trains, watercraft, multi-modal travel), representing a 9.5 percent increase from 2012. This will mark the third consecutive year of steady growth via these modes, but the volume remains significantly below the pre-recession average of 3.2 million travelers seen from 2001 through 2008.

CHART 2
DISTRIBUTION OF US 2013 THANKSGIVING TRAVELERS
BY MODE OF TRANSPORTATION

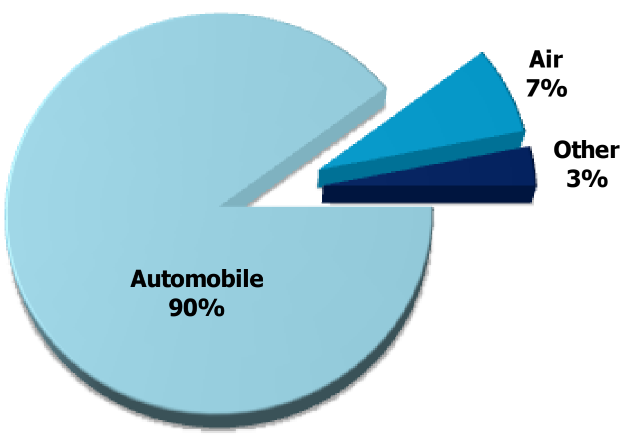
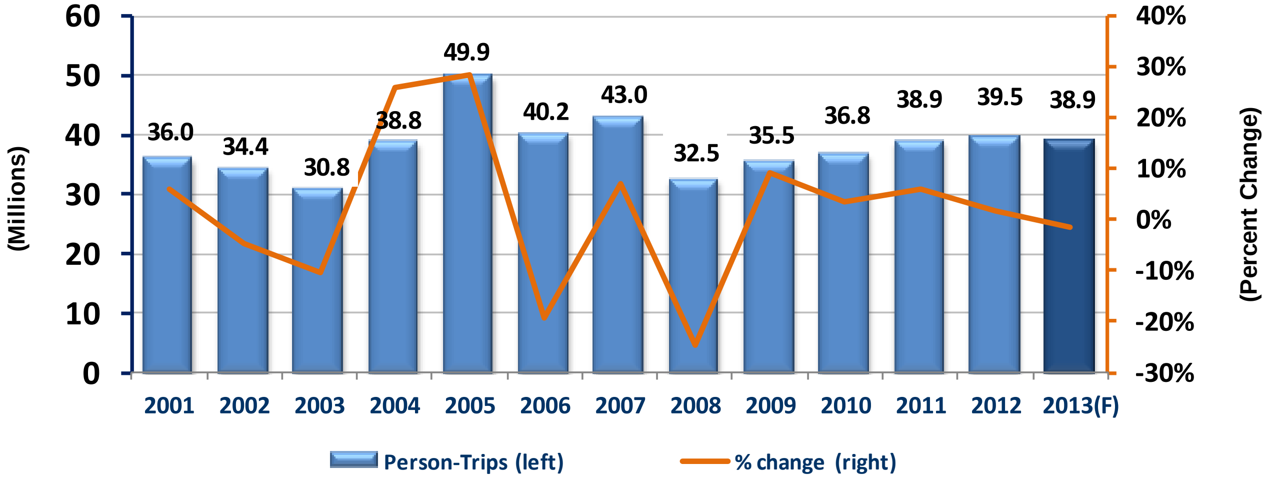
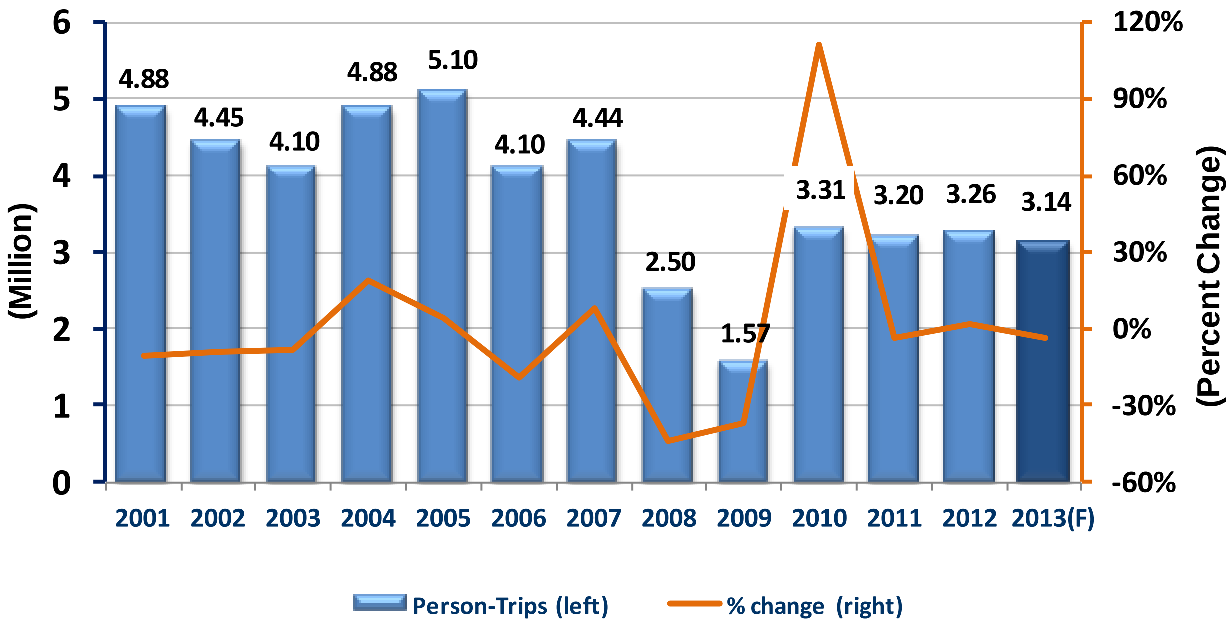


CHART 3
THANKSGIVING TRAVELERS 2001-2013
AUTOMOBILE PERSON-TRIPS*



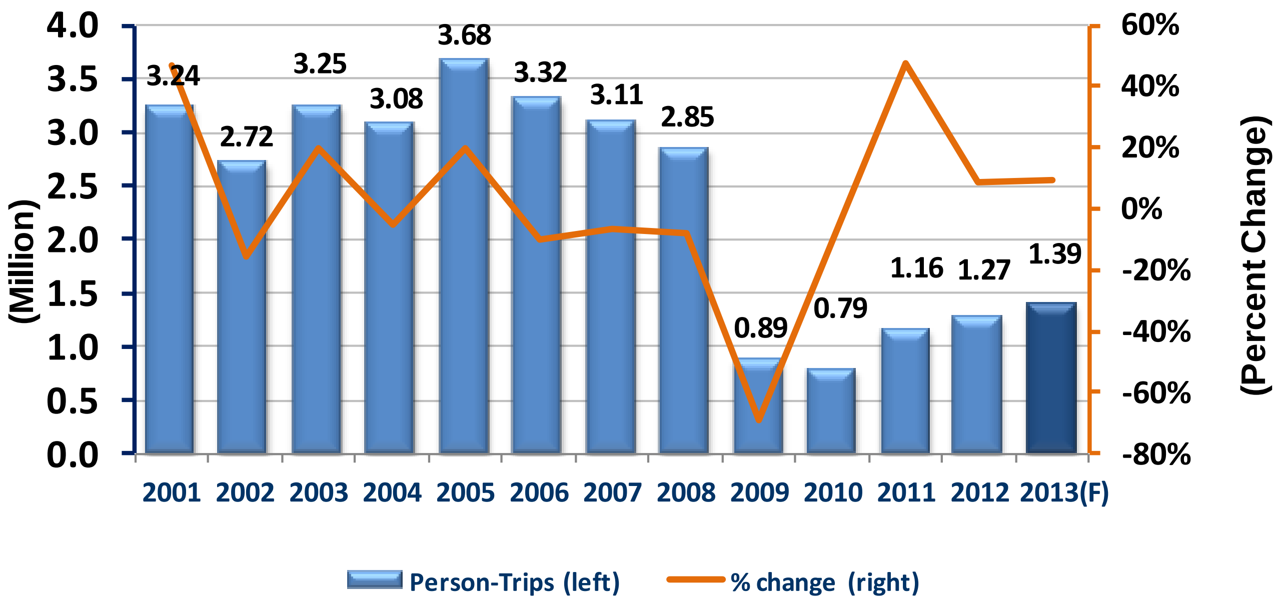
**2001-2012 represent actual travel results.2013 is a forecast.*

CHART 4
THANKSGIVING TRAVELERS 2001-2013
AIR PERSON-TRIPS*



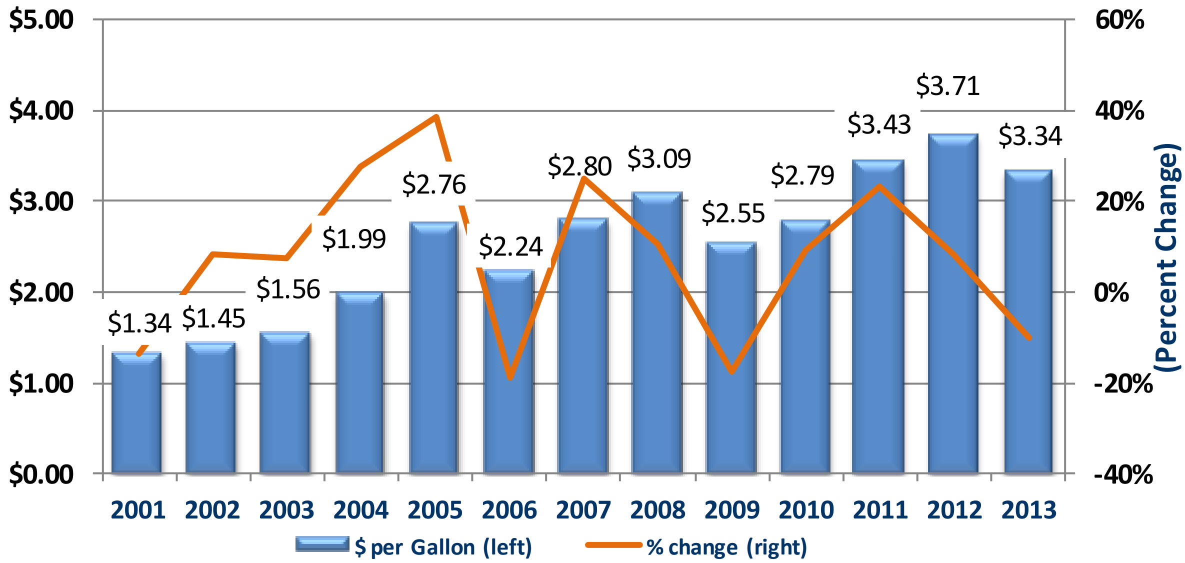
**2001-2012 represent actual travel results.2013 is a forecast.*

CHART 5
THANKSGIVING TRAVELERS 2001-2013
OTHER TRAVEL MODES PERSON-TRIPS*



**2001-2012 represent actual travel results.2013 is a forecast.*

CHART 6
AVERAGE OCTOBER* GASOLINE PRICES
NATIONAL AVERAGE PER GALLON REGULAR UNLEADED
2001-2013



Source: AAA Fuel Gauge Report

** October 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.*

Travel by Region: East North Central

The recovery in the East North Central (ENC) region remains the weakest in the nation,with real output expected to grow just 1.4 percent in the fourth quarter. The unemployment rate is projected to be 8.1 percent, the second-highest jobless rate among the nine census regions. As the regional economy remains sluggish, and with consumer confidence held back by the political drama that unfolded in Washington in the past month, regional travel volumes are expected to decline during the upcoming Thanksgiving holiday season. Travel by automobile, which accounts for 90 percent of total person-trips, is projected to fall by 1.4 percent, while air travel is expected to decline by 3.8 percent. The 7.21 million person-trips from the ENC region represent 15.5 percent of the population, which is higher than the national frequency expected to travel (13.6 percent).

TABLE 1A

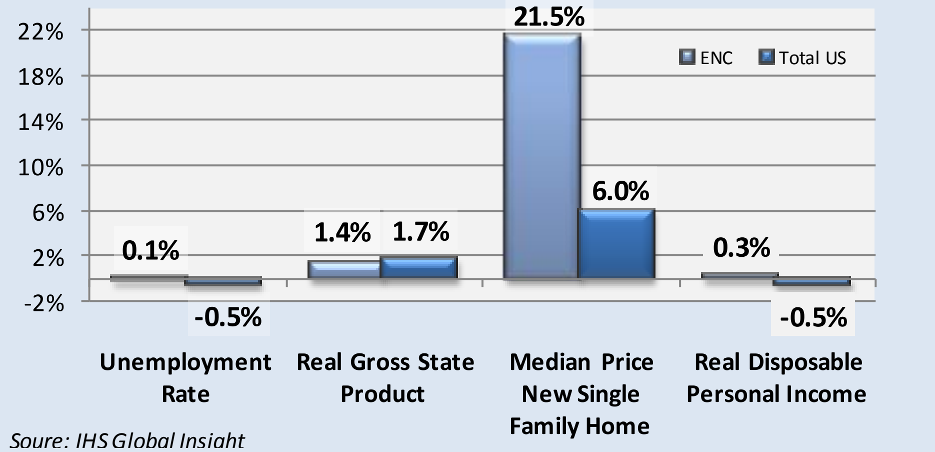
2013 THANKSGIVING TRAVEL FORECAST – EAST NORTH CENTRAL REGION AND UNITED STATES

	East North Central			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-1.4%	7.21	15.5%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-1.4%	6.48	13.9%	-1.6%	38.87	12.2%
Air (millions of person trips)	-3.8%	0.52	1.1%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.1%	8.1%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.4%	1,889		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	21.5%	257		6.0%	268	

The economy in the ENC region has been growing slowly over the past year, but that growth has been steady and accelerating. The region added more than 20,600 jobs in the second quarter, followed by 107,000 jobs in the third. Michigan led the way in the third quarter, as payrolls expanded 1.9 percent compared to this time last year. Manufacturing, leisure and hospitality, and professional and business services showed the strongest gains, adding more than 326,000 jobs. Ohio showed the weakest payroll gains, with third-quarter growth of only 0.7 percent. Despite the improvements to the labor market, the unemployment rate in the ENC region remains stubbornly high at 8.1 percent. As the region continues to add jobs into next year, the unemployment rate is expected to fall below eight percent in the first quarter of 2014.

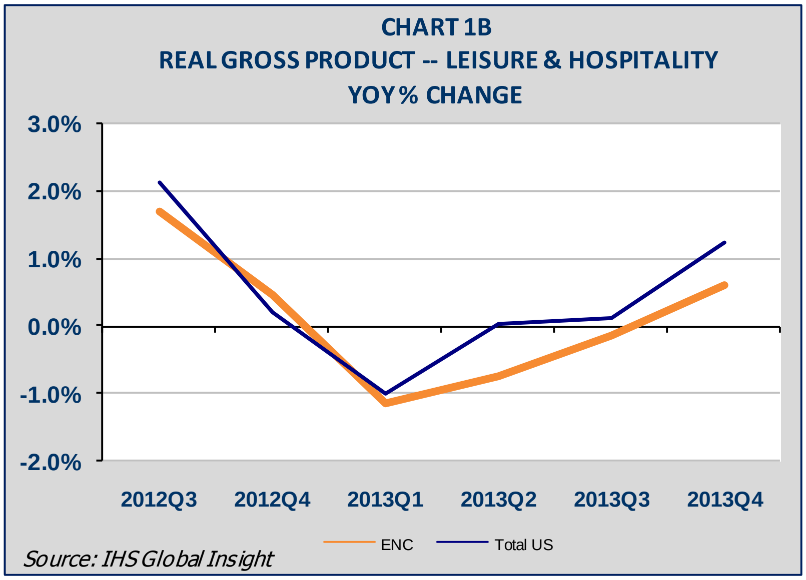
While the ongoing economic recovery is certainly a cause for optimism among consumers, the recent government shutdown and debt ceiling crisis dealt a serious blow to consumer confidence. Furloughs of government contractors who are not eligible for the back pay that has been authorized for official employees took a bite out of hundreds of thousands of paychecks. The frightening possibility that we could revisit this spectacle as

Chart 1A
YOY Growth, 2012Q4 to 2013Q4
East North Central and United States



Soure: IHS Global Insight

soon as mid-January has consumers spooked about the prospects for the economy going forward. Moreover, households are still facing too many headwinds to allow a robust consumer spending recovery. High debt burdens, modest employment growth, and a lack of confidence in the government's ability to make things better continue to prevent major discretionary spending improvements. Sluggish real personal disposable income growth and rising non-revolving credit such as auto and student loans are also encouraging more cautious spending. In the ENC region, real disposable personal income is expected to increase 0.3 percent in the fourth quarter of 2013, while the national average is expected to fall by 0.5 percent.

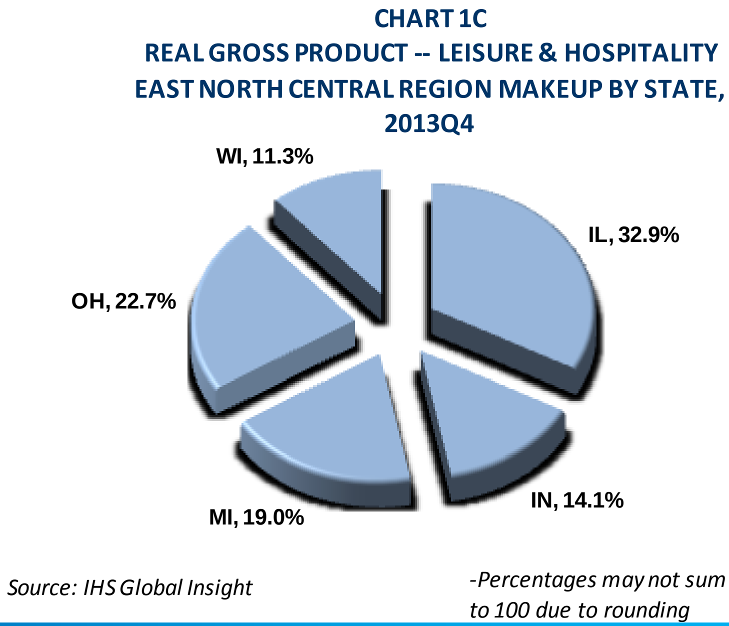


The housing market, while still on the recovery path, has been slightly depressed due to higher mortgage rates over the past spring and summer. Housing permits and starts also slowed during the summer as tight lending standards and shortage of developed lots constrained builders' ability to meet demand. These setbacks, however, are only temporary. Low housing inventories and rapidly recovering household formation rates have been pushing prices to increase. In the ENC region, the median price of a new single-family home is expected to increase by 21.5 percent in the fourth quarter of this year, relative to the same quarter last year. Michigan, in particular, is experiencing strong double-digit gains as this market suffered among the worst after the housing collapse. As foreclosure starts continue to fall and lending gradually eases, housing starts are expected to regain their momentum in the first quarter of 2014, and household formation is expected to reach a post-recession high.

In addition to the originating travel forecast of person-trips from the East North Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

The tourism industry in the ENC region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), was in decline over the past year. However, in the last quarter of this year, the industry is expected to grow a modest 0.6 percent. Chart 1B demonstrates that the tourism industry in the ENC region has lagged the national tourism recovery in the past three quarters.

The composition of tourism industry output by state in the ENC region is fairly balanced (Chart 1C). With Chicago being one of the top cities for tourism in the United States, it is no surprise that Illinois accounts for one-third of tourism output in the East North Central region. Wisconsin accounts for the smallest share, with just 11.3 percent of the total.



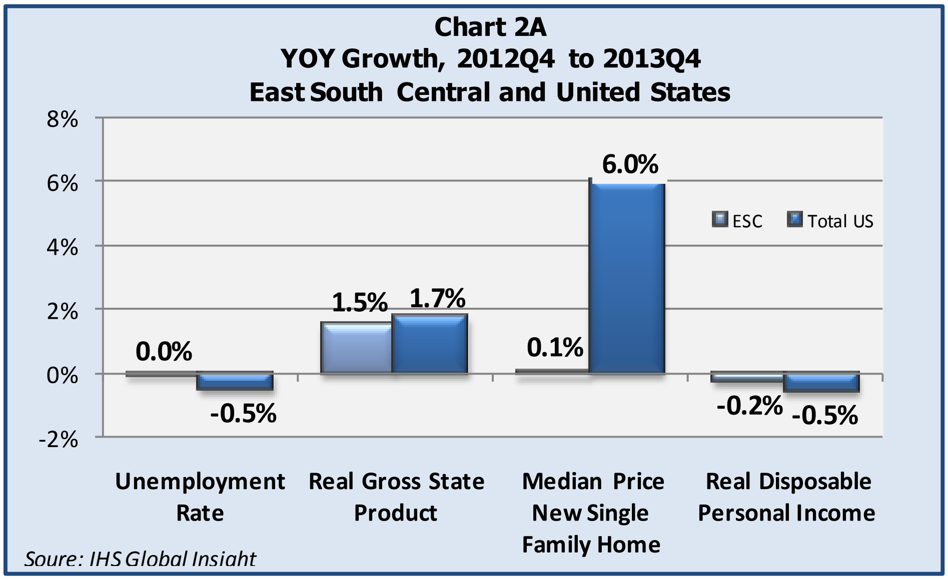
Travel by Region: East South Central

Travel from the East South Central (ESC) region over the Thanksgiving holiday is projected to decline by 1.4 percent relative to last year. While the economy continues to move forward, unimpressive job numbers and declining real incomes will encourage slightly fewer travelers to take to the roads this Thanksgiving relative to last. Automobile travel, which makes up 90 percent of all travel, is expected to decline by 1.7 percent, while air travel will decline by 1.3 percent. Total person-trips in the ESC region are projected to reach 2.56 million and account for 13.6 percent of the population. This proportion is on a par with the expected nationwide frequency.

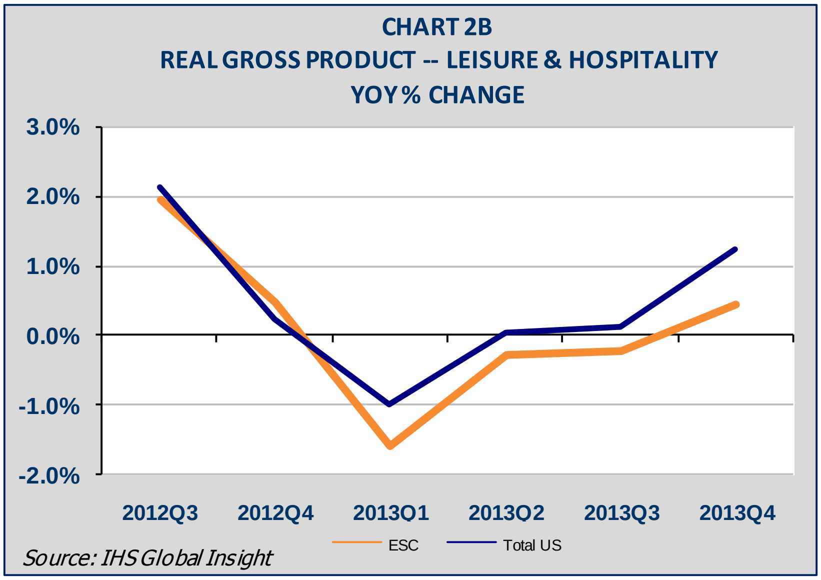
TABLE 2A
2013 THANKSGIVING TRAVEL FORECAST – EAST SOUTH CENTRAL REGION AND UNITED STATES

	East South Central			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-1.4%	2.56	13.6%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-1.7%	2.44	13.0%	-1.6%	38.87	12.2%
Air (millions of person trips)	-1.3%	0.08	0.4%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.0%	7.8%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.5%	643		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	0.1%	190		6.0%	268	

The ESC region continues to experience modest economic growth, in line with the rest of the nation. Real gross state product in the combined ESC states is expected to be 1.5 percent above year-ago levels this fourth quarter, which is slightly below the increase expected nationwide (1.7 percent). Payrolls in the ESC region were up 1.2 percent in July 2013 compared to July 2012, led by strong performances in Mississippi and Kentucky. The region has successfully attracted several large assembly plants, thanks to its business-friendly tax laws, strong transportation infrastructure, and cheap and abundant labor, which has helped buoy the particularly important manufacturing sector. However, labor market conditions are not entirely rosy. Poor performers such as Alabama are pulling down regional job growth and slowing the economic recovery. With only 148,000 new jobs added in September nationwide, there remains a substantial amount of slack in labor markets across the country. Overall, the unemployment rate in the ESC region is expected to remain unchanged at 7.8 percent in the fourth quarter of 2013.



The regional housing market continues to show improvement. With one of the least expensive housing markets in the country, the ESC remains in better shape than the country as a whole. The region has weathered the real estate crisis better than most, protected by relatively little price speculation, an ample supply of land, and lack of a housing craze that elsewhere led to boom and bust. As a result, the median price of new single-family home is expected to improve by 0.1 percent. While a gradual strengthening of the housing market is supporting increased levels of consumer spending, a 0.2 percent projected decline in real disposable income is expected to undermine these positive developments. At the national level, nonmortgage consumer debt is expected to be 5.8 percent higher in the third quarter versus a year earlier (the most recent data available), almost entirely driven by non-revolving credit such as auto and student loans. The rise of student loans and the relatively weak payroll gains in this recovery have held back spending by certain age cohorts, especially among 25–35-year-olds.

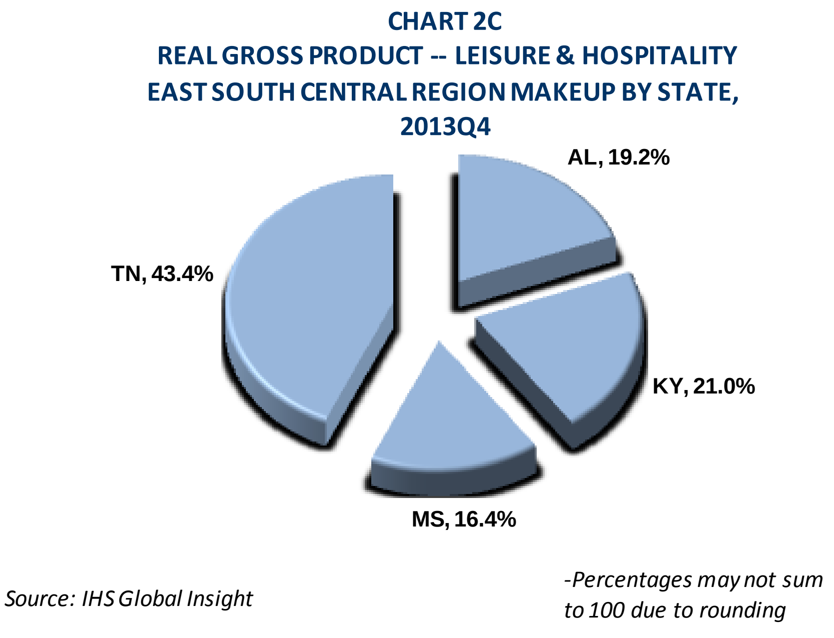


In addition to the originating travel forecast of person-trips from the East South Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

The ESC region's tourism industry has lagged behind the national recovery over the past year. In the fourth quarter of 2013, total output in the leisure and hospitality industry is projected to rise 0.5 percent over year-ago levels, which is below the national figure of 1.2 percent.

The share of tourism industry output in the ESC region is rather even. Tennessee is the largest contributing state, making up 43.4 percent of ESC region's tourism output, while Alabama, Kentucky, and Mississippi make up the remaining three-fifths of the total.

In terms of growth, Mississippi and Alabama will see their tourism output decline by 1.1 percent and 0.4 percent, respectively, in the fourth quarter of 2013. Conversely, Kentucky and Tennessee will see modest increases of 1.3 percent and 1.1 percent, respectively.



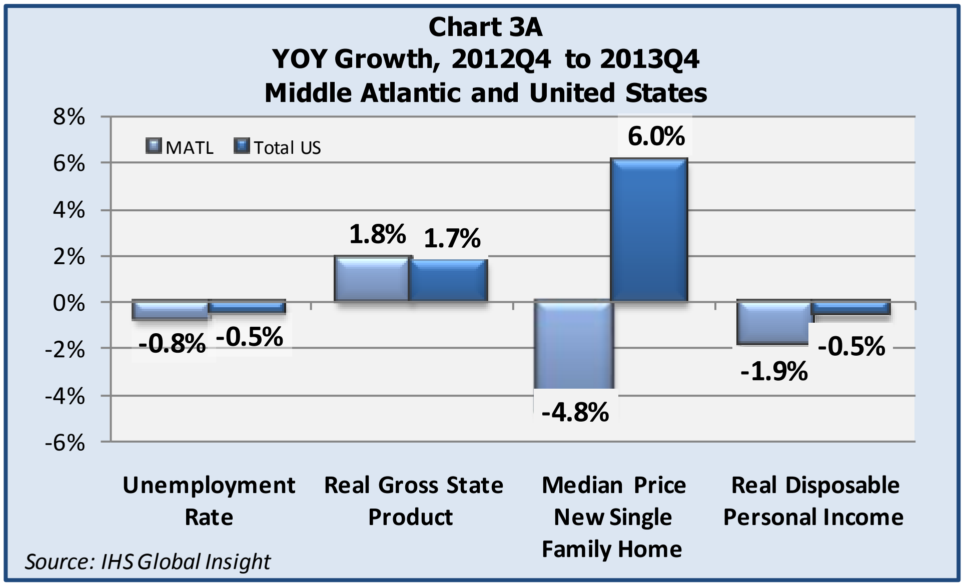
Travel by Region: Middle Atlantic

Thanksgiving holiday travel originating from the Middle Atlantic (MATL) region is forecast to decline 2.4 percent relative to last year. The MATL economy continues to recover from the Great Recession of 2008–09, but the overall pace of recovery remains sluggish. Payrolls expanded by just 148,000 nationwide in September, extending a succession of mediocre job reports. Real disposable income is expected to decline 1.9 percent in the fourth quarter, down because of tax increases in early 2013 and dividend accelerations in 2012, while the political fallout in Washington has put a damper on consumer confidence. As a result, the forecast for travel by automobile calls for a decline of 2.3 percent, while air travel is expected to decline by 5.8 percent. About 12.1 percent of the regional population is expected to journey at least 50 miles from home this holiday, a slightly lower frequency than is expected nationwide (13.6 percent).

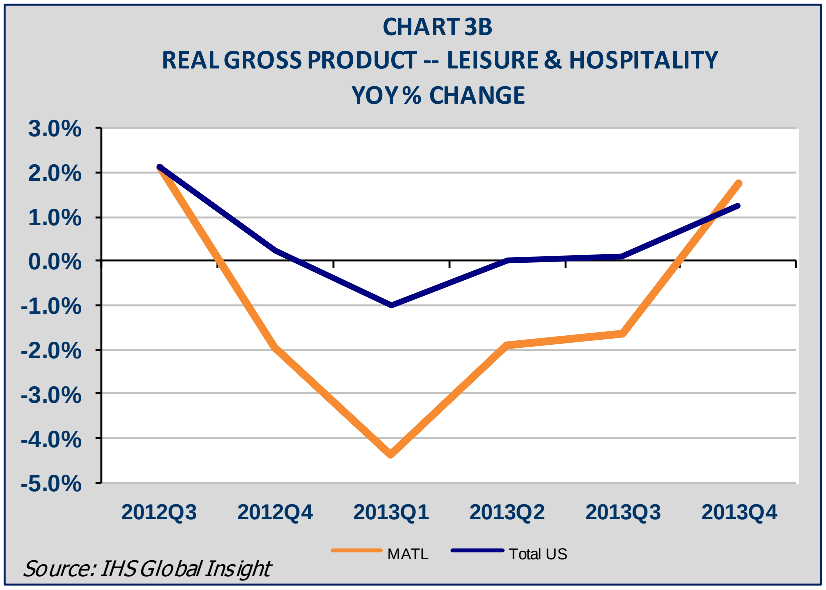
TABLE 3A
2013 THANKSGIVING TRAVEL FORECAST – MIDDLE ATLANTIC REGION AND UNITED STATES

	Middle Atlantic			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-2.4%	5.01	12.1%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-2.3%	4.47	10.8%	-1.6%	38.87	12.2%
Air (millions of person trips)	-5.8%	0.41	1.0%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.8%	7.7%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.8%	2,034		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	-4.8%	338		6.0%	268	

The MATL regional economy continues to expand, albeit at a slow pace. Real output grew 1.6 percent in the third quarter, and is projected to rise 1.8 percent in the fourth quarter compared to year-ago levels. The job market is gradually improving with the service industries leading the expansion. Professional and business services are expected to add over 18,000 of the 46,000 new jobs expected this quarter, followed by the leisure and hospitality sector with 8,000 new jobs. The regional unemployment rate has been steadily declining and is expected to be 0.8 percent below last year's level at 7.7 percent. Despite the positive trends in both employment and output, however, the recovery in the MATL region remains sluggish at best.



The lack of growth in real disposable incomes is one of the main obstacles to consumer spending on discretionary items such as travel. In the fourth quarter of this year, real disposable income in the MATL region is expected to decline by 1.9 percent relative to year-ago levels. Nationwide nonmortgage consumer debt is expected to be 5.8 percent higher in the third quarter versus a year earlier (the most recent data available), almost entirely driven by non-revolving credit such as auto and student loans. The rise in student loans and the relatively weak payroll gains in this recovery have held back spending by certain age cohorts, especially among 25–35 year-olds. With less money in their pockets, consumers will be slightly more cautious in their discretionary spending on items such as travel.

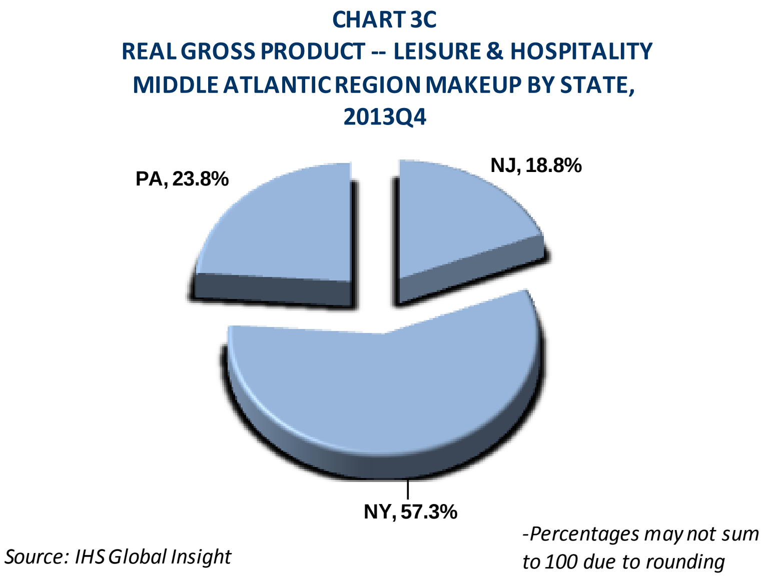


While the national housing market continues to post gains, the housing market in the Middle Atlantic region remains near the bottom. The median price of a new single-family home in the MATL is expected to decline 4.8 percent in the fourth quarter, which compares very poorly with the 6.0 percent increase expected nationwide. New York will see the biggest median home price decline at 4.8 percent, followed by a 2.2 percent decline in New Jersey and 1.9 percent decline in Pennsylvania. Across the country, only a handful of states continue to suffer from rising foreclosure rates, largely concentrated in the Northeast. These include New Jersey, Washington DC, Delaware, Maine, and New York.

In addition to the originating travel forecast of person-trips from the Middle Atlantic region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

The national tourism industry has witnessed leisure and hospitality output (the value of goods and services produced by the leisure and hospitality industry) shrink on an annualized basis since the fourth quarter of 2012. Chart 3B shows that the MATL tourism industry has been falling faster than that of the greater nation since the fourth quarter of 2012. In the fourth quarter of 2013, the leisure and hospitality industry in the Middle Atlantic is expected to generate 1.7 percent growth relative to the same quarter last year. The relative nationwide figure for comparison is 1.2 percent.

New York State contributes 57.3 percent of the Middle Atlantic region's tourism output, which is no surprise, since New York City is one of the top tourist destinations in the country. Pennsylvania is the second largest with a 23.8 percent share. New Jersey is the state with the smallest output share—but it is also the state where tourism output is expected to grow the fastest, posting 5.7 percent growth in the fourth quarter.



Travel by Region: Mountain

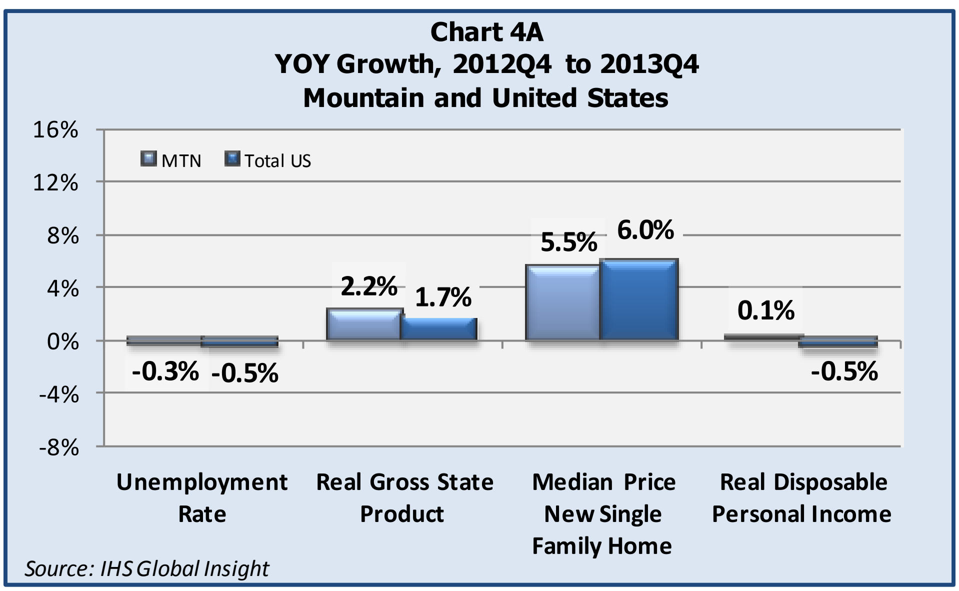
The economy in the Mountain region continues to recover at a faster pace than the rest of the nation. Real gross product is expected to grow 2.2 percent relative to year-ago levels, compared to 1.7 percent nationwide. Colorado and Utah continue to be among the leaders of the recovery in recent years, as both states have a relatively young and well-educated workforce. Yet despite enjoying a comparatively faster recovery than the greater nation, the overall pace of post-recession growth remains subdued. The temporary government shutdown has undermined consumer and business confidence, while elevated levels of consumer debt are headwinds to consumer spending. As such, total person-trips originating from the Mountain region are expected to decline 0.8 percent compared to Thanksgiving 2012. Automobile travel is expected to decline 0.9 percent while air travel is forecasted to decline by 3.8 percent. The share of the Mountain population that is expected to travel (14.1 percent) is higher than the projected national frequency of 13.6 percent.

TABLE 4A

2013 THANKSGIVING TRAVEL FORECAST – MOUNTAIN REGION AND UNITED STATES

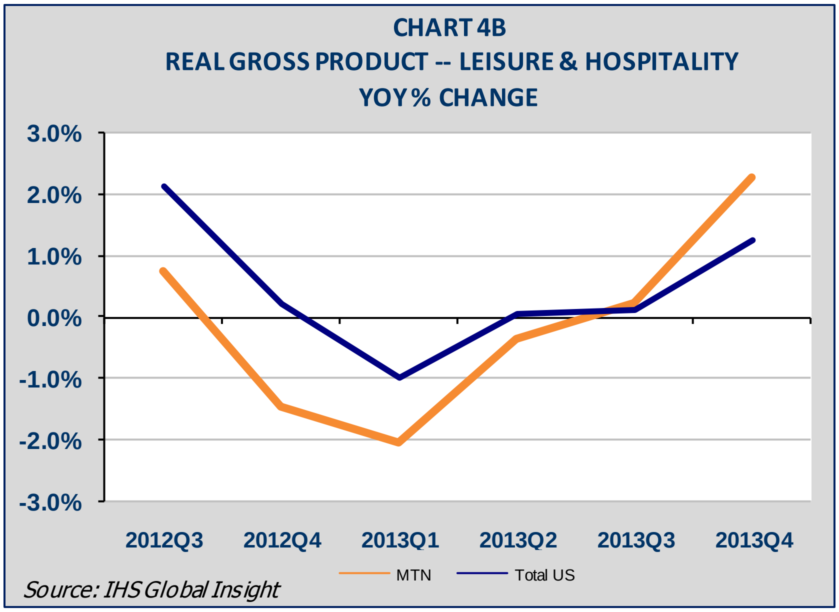
	Mountain			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-0.8%	3.25	14.1%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-0.9%	2.83	12.2%	-1.6%	38.87	12.2%
Air (millions of person trips)	-3.8%	0.20	0.9%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	7.1%		-0.5%	7.3%	
Real Gross Product ($, bn)*	2.2%	904		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	5.5%	229		6.0%	268	

The Mountain region's recovery from the recession continues to outpace much of the rest of the nation. As of July of this year, total payrolls were up 230,000 year over year, a gain of 2.5 percent. The region continues to be an attractive destination for companies due to its ample supply of labor and relatively low costs of doing business. Utah and Colorado continue to be the fastest-growing states in the region. These two states avoided the worst of the recession, and have been the leaders of the recovery in recent years. Wyoming is the only state in the region to lose jobs over the past year, with losses concentrated in the state's vital mining sector, but Montana and Nevada have been slipping in recent months. At 7.1 percent, the regional unemployment rate is below the national average of 7.3 percent, and fourth-lowest among the nine census regions.



Despite the clear improvements in the regional economy, consumers have plenty of reason to remain cautious. The temporary government shutdown has undermined consumer and business confidence, particularly with respect to future expectations. The approved legislation that effectively ended the shutdown funds the government at current spending levels through January 15. If Congress is unable to enact more permanent fiscal policy in the coming months, the stage is set for another shutdown in January. The transient nature of existing fiscal policy is a headwind to consumer spending, as the Reuters/University of Michigan Consumer Sentiment Index is forecast to fall by about seven points in the fourth quarter of this year. Overall, we expect real disposable income to rise just 0.1 percent in the Mountain region compared to last fourth quarter, which will put strain on discretionary items such as travel. While the shutdown and debt ceiling debates are unlikely to impact consumer spending in the long run, the potential uncertainty remains a headwind to short-term discretionary spending.

Higher mortgage rates over the past spring and summer have put a damper on this year's home sales, but the regional housing market continues to show signs of progress. The median price of new single-family homes in the MTN region is expected to be 5.5 percent higher this Thanksgiving relative to last, compared to a 6.0 percent increase expected nationwide. Ultralow inventories have been supporting the rise in home prices, eventually persuading more current homeowners to list their houses, and enticing more builders to increase their activity. As housing activity heats up in the coming year, this will provide a boost to consumer spending through its positive impact on household net worth.

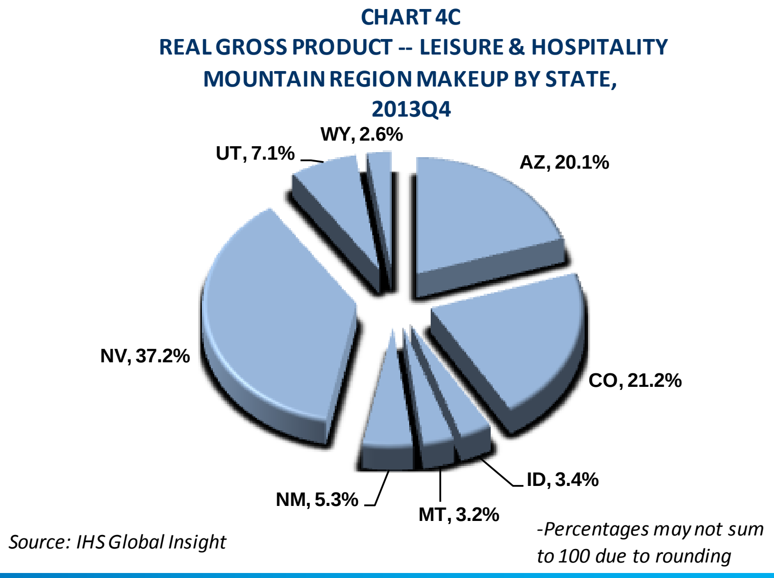


In addition to the originating travel forecast of person-trips from the Mountain region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

The tourism industry in the Mountain region, as measured by leisure and hospitality output (the value of goods and services produced by the leisure and hospitality industry), returned to growth in the third quarter of this year. In the fourth quarter of 2013 (as illustrated in Chart 4B), leisure and hospitality output in the combined Mountain states is expected to rise 2.3 percent relative to one year ago (the national tourism output growth rate for comparison is 1.2 percent).

Of all the Mountain states, Wyoming is expected to see the largest year-over-year increase in tourism output in the fourth quarter (4.2 percent), followed by Arizona (3.3 percent) and Nevada (2.8 percent).

The Mountain region includes Nevada, Colorado, and Arizona, each of which contribute large amounts of tourism output to the regional total. Nevada, which includes the major tourist city of Las Vegas, contributes 37.2 percent of the Mountain region's tourism output. The remainder of the states account for much smaller shares of the Mountain region's tourism output.



Travel by Region: New England

The New England economy continues to expand, albeit at a slow pace. Despite some improvements, the economy remains weak, and consumers, overburdened by debt and deteriorating incomes, are reluctant to spend. As a result, travel originating from the New England region is expected to decline 2.5 percent over the 2012 Thanksgiving holiday period, a slightly sharper decline than is expected nationwide (down 1.5 percent). Travel by automobile is projected to fall 2.7 percent while air travel is forecasted to decline by three percent. The share of the New England population that is expected to travel (12.9 percent) is lower than the projected national frequency of 13.6 percent.

TABLE 5A

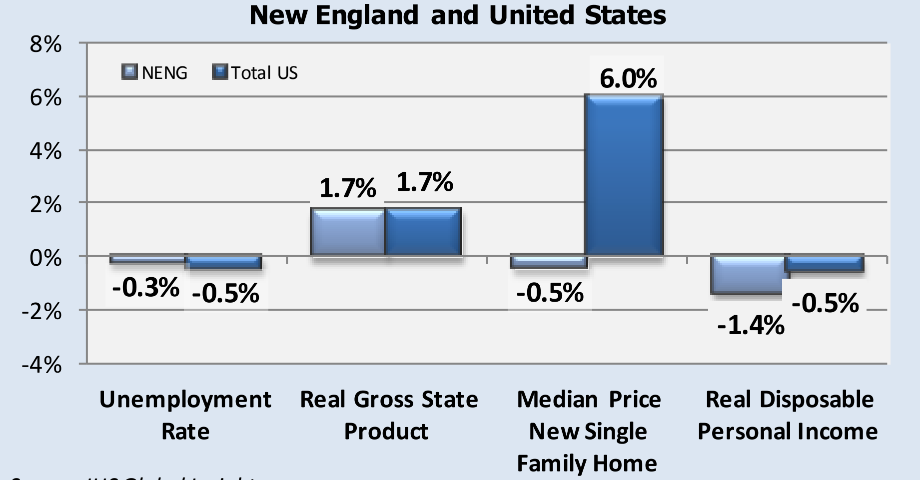
2013 THANKSGIVING TRAVEL FORECAST – NEW ENGLAND REGION AND UNITED STATES

	New England			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-2.5%	1.89	12.9%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-2.7%	1.65	11.3%	-1.6%	38.87	12.2%
Air (millions of person trips)	-3.0%	0.19	1.3%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	6.9%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.7%	737		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	-0.5%	397		6.0%	268	

While the recovery in New England region decelerated a bit over the summer, the region continues to show signs of progress. Indeed, total private-sector payrolls expanded by an average of 1.1 percent per month from April to July, adding over 30,000 jobs in the second and third quarters combined. While the region created more jobs than it lost in the third quarter, the unemployment rate rose from 6.9 percent to 7.2 percent as more people returned to the labor force, although for the fourth quarter the unemployment rate is expected to fall 0.3 percentage points to 6.9 percent. After rising to a record high in the early 2000s, the labor-force participation rate fell during 2008–09 and has continued to decline to a 35-year low (nationally). As the employment outlook improves, the unemployment rate is likely to get worse before it gets better, as more discouraged workers choose to re-enter the labor force. In the fourth quarter, the unemployment rate is expected to be 6.9 percent.

Real disposable incomes in the New England region are expected to fall 1.4 percent in the fourth quarter compared to year-ago levels, down because of tax increases in early 2013 and dividend accelerations in 2012. Nationwide nonmortgage consumer debt is expected to be 5.8 percent higher in the third quarter versus a year earlier (the most recent data available), driven almost entirely by non-revolving credit such as auto and student loans. Student loan debt has surpassed every other major form of nonmortgage debt, so while most Americans are deleveraging, a certain proportion of the

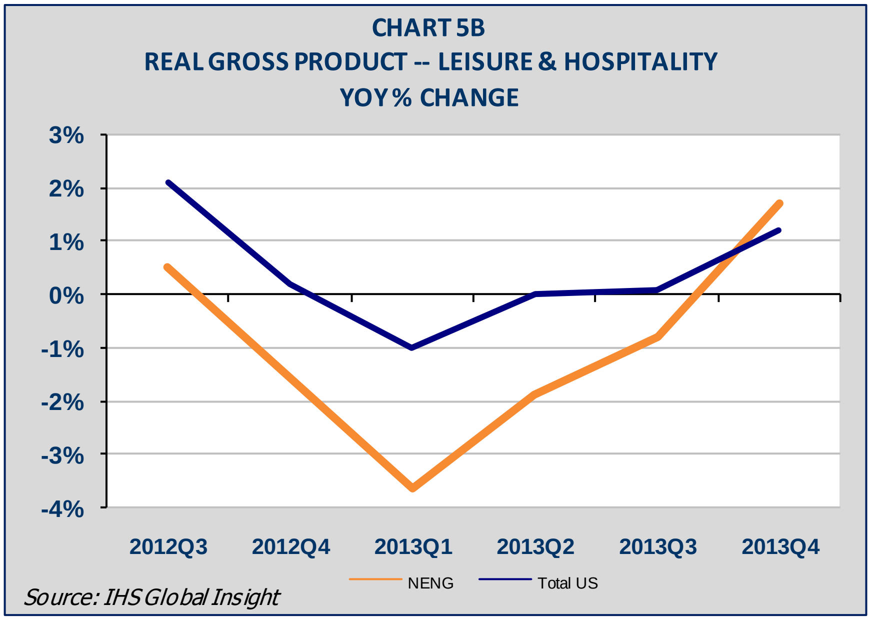
Chart 5A
YOY Growth, 2012Q4 to 2013Q4
New England and United States



Source: IHS Global Insight

population is loading up on student loan debt. The rise of student loans and relatively weak payroll gains in this recovery are expected to hold back spending by certain age cohorts, especially among 25–35-year-olds, which will act as a headwind for holiday travel.

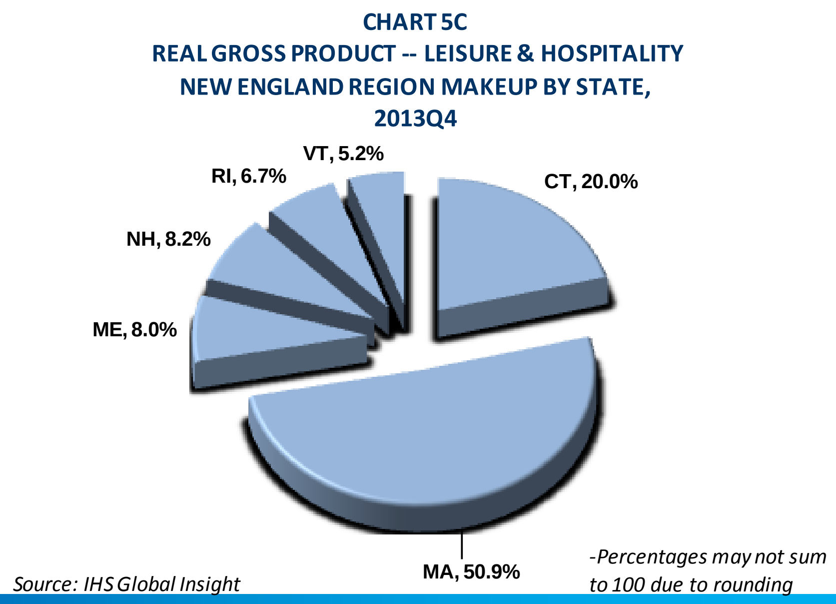
To make matters worse, almost all measures of the consumer's attitude have weakened in recent months, off the heels of a temporary government shutdown. The mid-October Reuters/University of Michigan's Consumer Sentiment Index declined by 2.3 points, reaching its lowest level since January (73.2), while the Conference Board's Consumer Confidence Index fell by 2.1 points in September, to 79.7. While the temporary shutdown is unlikely to impact consumer spending in the long run, the uncertainty regarding future fiscal policy remains a headwind to short-term discretionary spending.



The housing recovery has lost momentum in recent months, both regionally and nationwide. A number of factors led to this loss of momentum, including: builder access to credit, a shortage of lots to build on, higher mortgage rates, and higher home prices. However, we view these setbacks as temporary. Lending standards for construction and land development loans are just beginning to ease, as demand for these types of loans strengthens. Moreover, ultralow inventories have been supporting the rise in homes prices, and will eventually persuade more current homeowners to list their houses, and entice more builders to increase their activity. With mortgage rates still low (relative to historical norms) this will encourage growth in both single-family and multifamily structures, as housing will play a pivotal role in getting the economy back on track over the next three years. In the short term, however, home prices will provide little support to consumer spending, as the median price of a new single-family home in New England is expected to fall 0.5 percent relative to year-ago prices.

In addition to the originating travel forecast of person-trips from the New England region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

Tourism output (the value of goods and services produced by the leisure and hospitality industry) in New England is expected to rise 1.7 percent in the fourth quarter, relative to this time last year. By comparison, the national tourism industry is expected to register growth of 1.2 percent. Massachusetts is the largest contributor of tourism output for the New England region, accounting for 50.9 percent of the regional total.



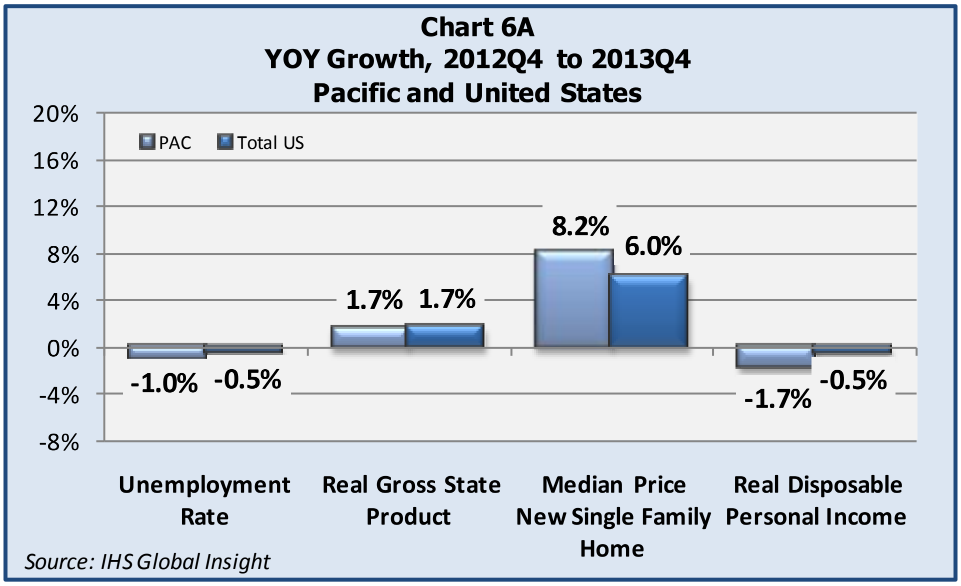
Travel by Region: Pacific

The Pacific region continues to show upward movement in key economic indicators, but growth is slow and the overall economy remains weak. New home prices in the region are projected to be up 8.2 percent in the fourth quarter, compared to last year, while regional gross output is expected to grow on pace with the greater nation (1.7 percent). The unemployment rate is expected to fall one percentage point from the fourth quarter of last year, but will remain the highest jobless rate among the nine census regions. Sluggish economic growth and declines in real disposable income will put a damper on Thanksgiving travel in the Pacific region this year. Total person-trips are expected to decline 2.8 percent compared to Thanksgiving 2012. Automobile trips, which account for the largest share of holiday trips, will drive the decline in person-trips, falling 3.3 percent. Air travel, which typically makes up a larger share of holiday travel in the Pacific region than in the country overall, is expected to fall five percent. Approximately 13.7 percent of the region's population is expected to travel this year, which is roughly on a par with the nation as a whole (13.6 percent).

TABLE 6A
2013 THANKSGIVING TRAVEL FORECAST – PACIFIC REGION AND UNITED STATES

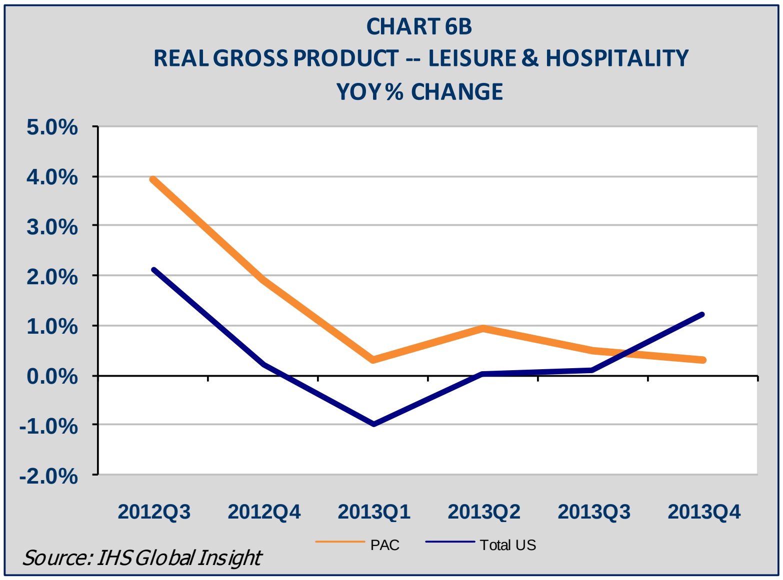
	Pacific			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-2.8%	7.09	13.7%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-3.3%	6.11	11.8%	-1.6%	38.87	12.2%
Air (millions of person trips)	-5.0%	0.72	1.4%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-1.0%	8.3%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.7%	2,440		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	8.2%	387		6.0%	268	

Despite moderately strong growth in a few key indicators, the pace of economic recovery in the Pacific region has slowed. Real gross output growth in the region has decelerated and is projected to grow a modest 1.7 percent in the fourth quarter, relative to this time last year. The region's unemployment rate is expected to be one percentage point lower than last fourth quarter, but remains the highest in the country. California's forecast unemployment rate of 8.7 percent will skew the region's rate upward in the fourth quarter; Hawaii, Alaska, and Washington each have unemployment rates below seven percent. Total nonfarm employment in the region is forecast to see an annual increase of 1.6 percent in the fourth quarter of 2013. The leisure and hospitality sector has been a strong performer in terms of adding jobs, with employment growing 4.4 percent annually as of July. The professional and business services sector and wholesale trade sector have also contributed jobs to the region, However, the region's labor force participation rate is expected to



fall as workers remain pessimistic about their job prospects. Government employment is still down, and slow growth in manufacturing persists. Employment in the region is not expected to reach pre-recession levels until late 2015. The Pacific region's employment situation is improving, but not quickly enough to bolster consumer spending on discretionary travel.

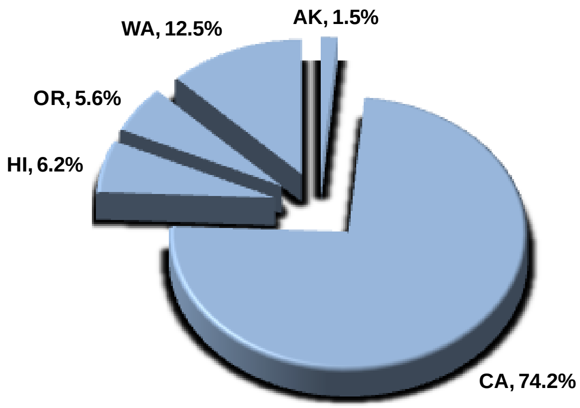
The housing market is a bright spot in the Pacific region. California was among the hardest hit states during the housing market crash, and thus has had significant ground to recover in recent years. The median price of a new single-family home in the region has shown strong growth in the last year, driven by double-digit growth in California. In the fourth quarter of 2013, the median price of new single-family homes in the Pacific is forecast to increase 8.2 percent over the same quarter last year and outpace the national growth rate of 6.0 percent. Existing home prices are also projected to show positive growth in the fourth quarter with a 14.7 percent annual increase. Housing starts in the region are also up, a trend which fueled 3.1 percent annual growth in construction employment through July of this year. However, the housing market will likely slow in the coming months as mortgage rates rise and growth in home prices decelerates.



Falling incomes and muted consumer confidence present further impediments to growth in travel spending this Thanksgiving. Real disposable personal income in the Pacific region will be 1.7 percent lower in the fourth quarter of this year compared to last year, which is a steeper decline than the national decrease of 0.5 percent. Average annual wages have also fallen in the region, and are forecast to be 1.5 percent lower than the fourth quarter of 2012. Nationwide, nonmortgage consumer debt is expected to be 5.8 percent higher in the third quarter compared to last year (the most recent data available), further eroding consumers' ability and willingness to spend money on holiday travel. The 25-to-35 age bracket has been struggling with high student debt loads, leaving little room for discretionary spending. The Reuters/University of Michigan Consumer Sentiment Index is at its lowest level since January of this year (73.2), when the payroll tax cuts expired. The positive signs in the economic picture will not be enough to spur growth in travel spending over the Thanksgiving weekend in the Pacific region.

In terms of growth in total leisure and hospitality output (the value of goods and services produced by the leisure and hospitality industry), the Pacific region has been an above-average performer. However, in the fourth quarter of 2013, tourism output growth in the Pacific region will fall below the national trend, growing only 0.3 percent. The composition of tourism industry output by state in the Pacific region is dominated by California, which accounts for 74.2 percent of tourism output in the region.

CHART 6C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
PACIFIC REGION MAKEUP BY STATE,
2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: South Atlantic

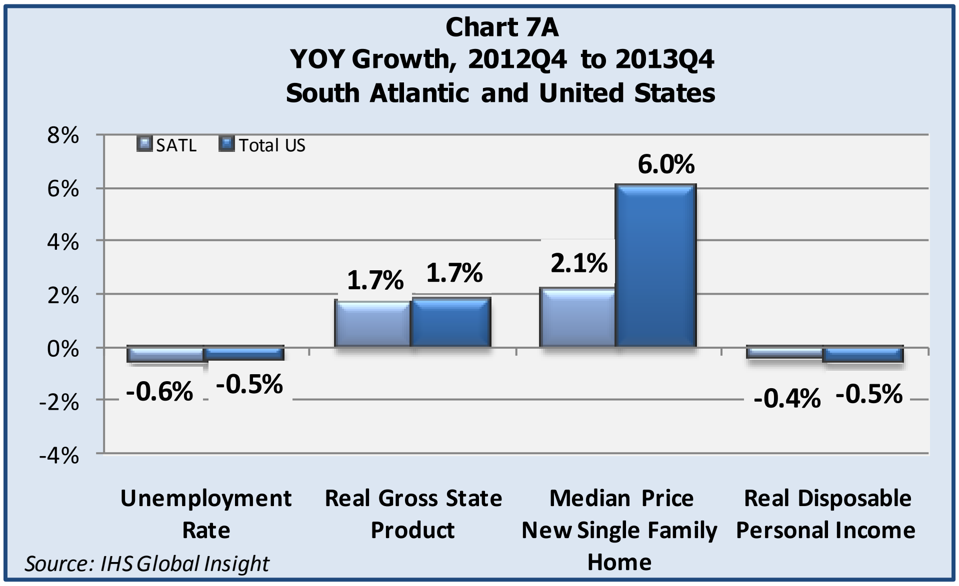
Thanksgiving travel in the South Atlantic region is expected to decline 0.7 percent compared to Thanksgiving 2012. While the economy in the region is continuing to show signs of positive progress, growth in employment and income remains weak. Though it has been falling, the unemployment rate remains stubbornly high at 7.4 percent. Without enough positive movement, particularly in the job market, to support a robust consumer spending recovery, travel volumes from the SATL region will be mostly unchanged relative to last Thanksgiving. Automobile trips, which account for the largest share of travel in both the region and the country overall, are expected to fall 1.1 percent. Air travel, the mode of travel for less than one percent of the population, is forecast to fall 1.5 percent. Approximately 13 percent of the South Atlantic population is expected to travel over Thanksgiving this year, which is slightly below the national figure of 13.6 percent.

TABLE 7A

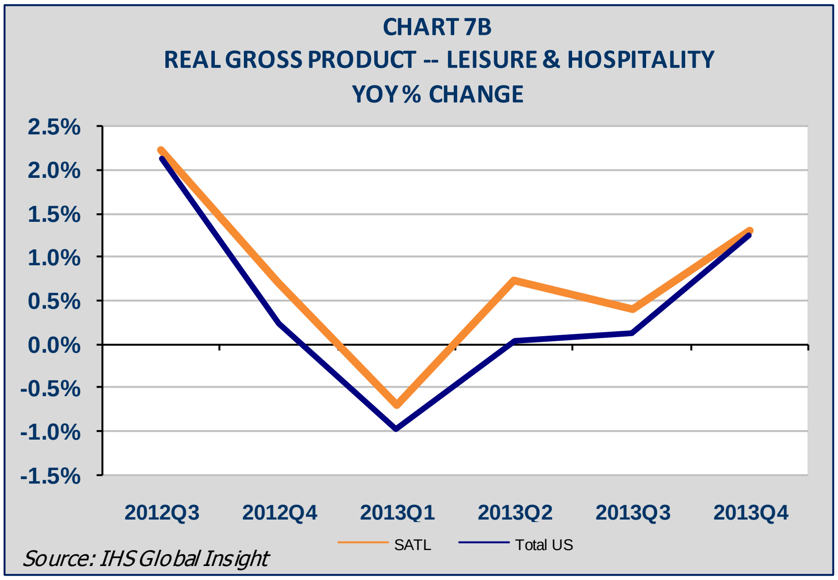
2013 THANKSGIVING TRAVEL FORECAST – SOUTH ATLANTIC REGION AND UNITED STATES

	South Atlantic			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-0.7%	8.10	13.0%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-1.1%	7.34	11.8%	-1.6%	38.87	12.2%
Air (millions of person trips)	-1.5%	0.57	0.9%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.6%	7.4%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.7%	2,515		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	2.1%	272		6.0%	268	

Economic growth in the South Atlantic region has slowed along with the nation overall. Real gross state product in the combined South Atlantic states is expected to show a modest 1.7 percent annual increase in the fourth quarter, which is in step with the national trend. The unemployment rate in the region has fallen 0.6 percentage point since the fourth quarter of 2012, which outpaced the decline in the national unemployment rate. However, unemployment remains high at 7.4 percent, which is the fifth-highest unemployment rate among the nine census regions. Despite gains in the private sector, the government sector acted as a drag on payrolls through the summer as the region has suffered job losses spurred by federal budget cuts. Federal employment in the SATL region is projected to fall 2.8 percent in the fourth quarter, relative to year-ago levels. Not surprisingly, the unemployment rates in Maryland, Delaware, and the District of Columbia, all of which have a large concentration of government employees, has ticked up in the past year, even as the regional average has declined. Continued uncertainty in Washington and instability in the regional labor market will prevent an increase in holiday travel this Thanksgiving holiday relative to last.



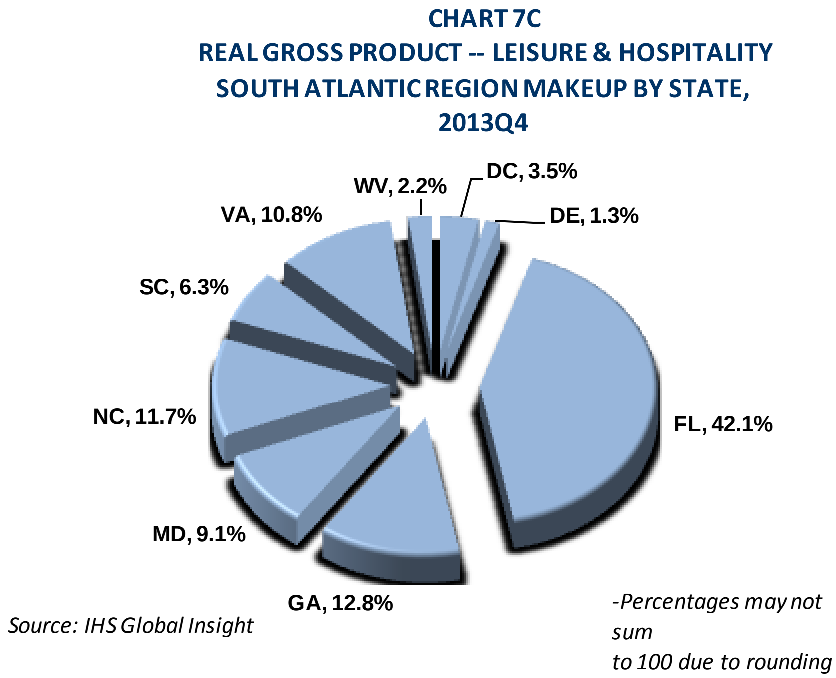
The US housing market has shown positive growth over the past year, although the South Atlantic region has underperformed the nation as a whole.The median price of a new single-family home in the region will see just a 2.1 percent year-on-year increase in the fourth quarter, leaving the region lagging significantly behind the national market. The region had been making strong progress, but prices dropped in some states during the summer. Home prices in West Virginia and Delaware are lower than they were at this time last year, and the Carolinas and the District of Columbia saw median price increases of less than two percent. Housing starts also slowed in the middle of 2013, but strong growth in Florida and Georgia will push the region's growth into positive territory in the fourth quarter. With mortgage rates rising, price growth will likely slow through the end of the year. Although the housing market has picked up this year, a slowdown in home equity growth is contributing to consumers' caution in spending money on discretionary Thanksgiving travel.



In addition to deceleration in the housing market and an uncertain job situation, a decline in real income is forcing consumers to curb travel spending this holiday season. Real disposable personal income in the region is down 0.4 percent from last year, which is only slightly better than the 0.5 percent decline for the nation overall. Real wages are also down in the region; West Virginia and North Carolina are the only states in the region to see increases, both of which are below 1 percent. With flat incomes already hindering discretionary spending, a 5.8 percent nationwide rise in nonmortgage consumer debt in 2013 has put further restrictions on household spending. Falling discretionary income, uncertainty in the job market, and wavering consumer confidence are all contributing to the South Atlantic region's 0.7 percent decrease in planned travel over the Thanksgiving weekend this year.

The tourism industry in the SATL region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has shown positive growth over the last three quarters. In the fourth quarter of 2013, total output from the leisure and hospitality industry in the SATL region is expected to grow by 1.3 percent from the year prior, which is slightly above the national average of 1.2 percent.

Florida contributes more than 42 percent of tourism output to the South Atlantic tourism industry, with its draw of high-profile beaches and amusement parks in the state. The state will also see the biggest year-on-year growth in the region, with tourism output expected to be 3.3 percent higher in the fourth quarter of 2013 relative to last year. Georgia contributes the second-largest share of tourism output, with 12.8 percent of the regional total.



Travel by Region: West North Central

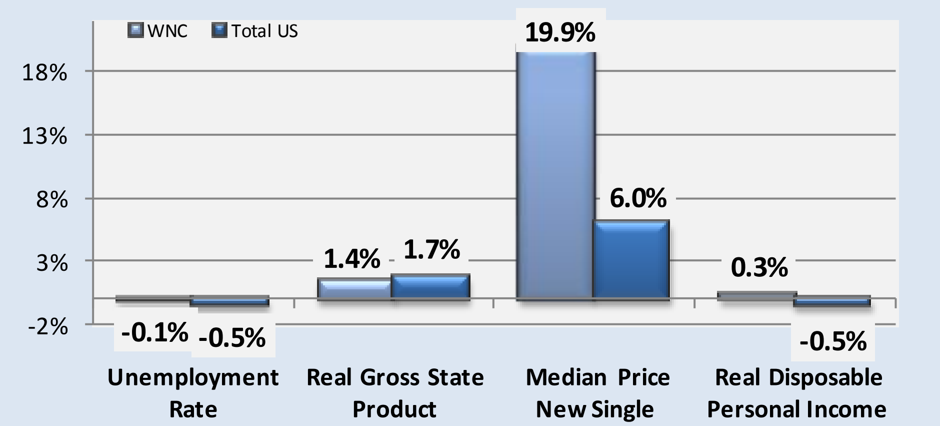
The economic recovery in the West North Central (WNC) region continues to outpace the greater nation, but progress has slowed in recent months. Unemployment in the region remains the lowest of all the Census regions, but persistent weakness in the overall economy will prevent any growth in Thanksgiving travel this year. Total person-trips are forecast to show a 0.3 percent decline compared to last Thanksgiving, which is better than the 1.5 percent nationwide decrease in holiday travel. Automobile trips in the West North Central region, which make up the lion's share of trips both within the region and across the country, are expected to fall 0.3 percent annually. Travel by air, which accounts for less than five percent of the population's trips, will decrease 3.9 percent compared to last Thanksgiving. Roughly 17.8 percent of the region's population is projected to travel for the holiday weekend this year, which is significantly higher than the 13.6 percent national share and easily the highest share of travelers across all nine Census regions.

TABLE 8A
2013 THANKSGIVING FORECAST – WEST NORTH CENTRAL REGION AND UNITED STATES

	West North Central			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-0.3%	3.72	17.8%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-0.3%	3.38	16.2%	-1.6%	38.87	12.2%
Air (millions of person trips)	-3.9%	0.16	0.8%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.1%	5.4%		-0.5%	7.3%	
Real Gross Product ($, bn)*	1.4%	894		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	19.9%	260		6.0%	268	

The West North Central region is among the nation's strongest performers in terms of economic recovery, but it has not escaped a slowdown in growth. Real gross state product is expected to increase just 1.4 percent year over year in the fourth quarter, compared to the 1.7 percent national increase. The employment situation remains a highlight of the economic picture in the region. At roughly 5.4 percent, the West North Central possesses the lowest unemployment rate of any region in the country. The region's mining sectors continue to generate jobs, particularly in resource-rich North Dakota, where the unemployment rate fell to just below 3 percent over the course of the last year. Natural resources and mining employment will see a 14.8 percent increase in the fourth quarter compared to year-ago levels. The region's service industries will also add jobs in the fourth quarter, as will the financial sector, which benefits from a high concentration of finance firms in Omaha, and a North Dakota energy sector that is fueling finance job growth. However, not all of the region's employment news is positive: manufacturing employment is expected to remain flat in the fourth quarter, and the region will see a 3.8 percent decrease in federal government employment compared to

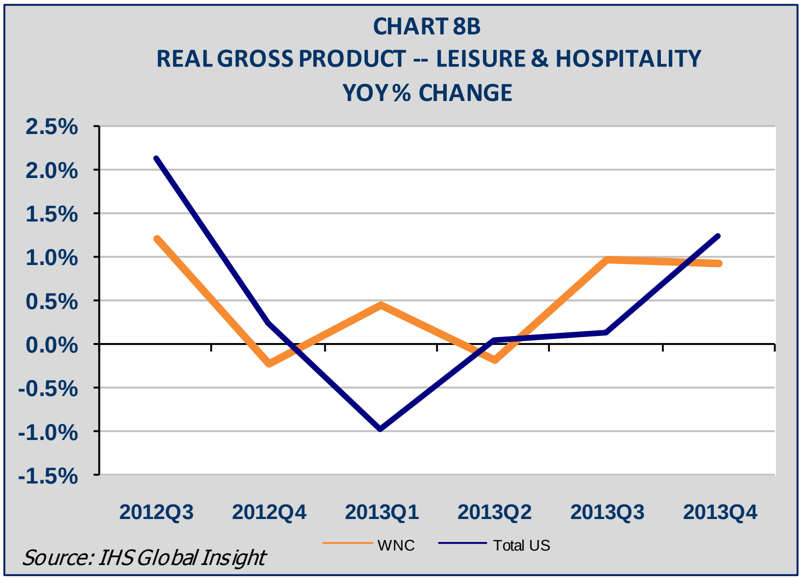
Chart 8A
YOY Growth, 2012Q4 to 2013Q4
West North Central and United States



Source: IHS Global Insight

this time last year.

From a national perspective, the rebound in housing activity has been one of the lone bright spots in an otherwise weak recovery, but recent progress has slowed. The West North Central region has easily outperformed the national growth in home prices, with the median price of a new single-family home expected to be 19.9 percent higher in the fourth quarter of this year relative to last. Existing median home prices in the WNC region have also grown, with an 8.8 percent year-on-year increase expected in the fourth quarter. However, housing starts have fallen across the region, with six of the region's seven states seeing double-digit declines. Home sales dropped across the nation this summer, interrupting an otherwise positive price trajectory. As mortgage rates rise, home sales are expected to slow through the end of the year, which will constrain the growth in home prices. The deceleration in home equity growth is contributing to the lack of increase in expected travel volumes this Thanksgiving holiday relative to last year.

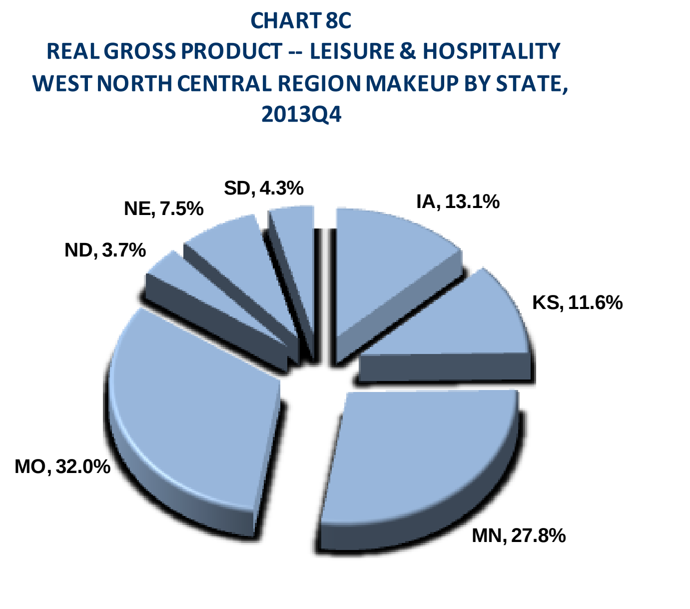


The West North Central region is one of only three Census regions for which we expect to see an uptick in real disposable income this fourth quarter relative to last (0.3 percent). While the region will outperform the national average (0.5 percent projected decline), the modest increase in real incomes will not be enough to stimulate a sizable increase in Thanksgiving holiday travel.

In addition to the originating travel forecast of person-trips from the West North Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

Tourism in the WNC region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry) has shown mixed progress over the last several quarters. In the fourth quarter of 2013, the regional tourism industry is expected to grow 0.9 percent relative to last year. Except for South Dakota and Kansas, every state in the region is expected to see an annual increase in tourism output in the fourth quarter of this year.

Missouri and Minnesota remain the largest contributors to tourism outputin the West North Central region, together accounting for more than half of the regional total, followed by Iowa, Kansas, Nebraska, South Dakota, and North Dakota.



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: West South Central

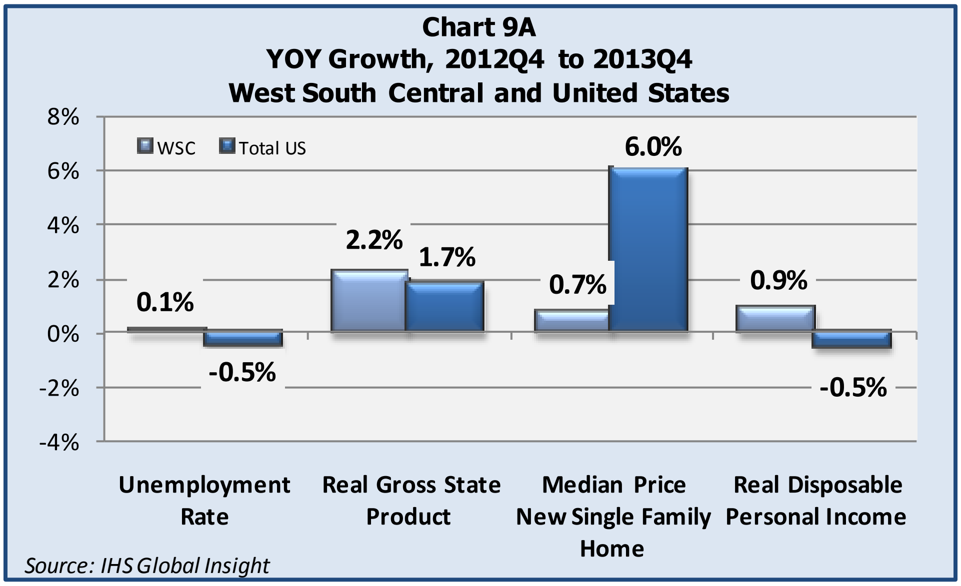
The West South Central (WSC) region continues to show signs of economic progress, but along with the country as a whole, the pace of the recovery has slowed. Travel originating from the WSC is expected to fall slightly compared to last Thanksgiving, declining 0.7 percent compared to 1.5 percent nationwide. Automobile travel, which makes up the largest share of holiday trips, is expected to decrease 0.7 percent, while travel by air is forecast to fall 2.9 percent. It is expected that 12 percent of the West North Central population is projected to travel over the Thanksgiving holiday, which is below the national figure of 13.6 percent.

TABLE 9A
2013 THANKSGIVING TRAVEL FORECAST – WEST SOUTH CENTRAL REGION AND UNITED STATES

	West South Central			United States		
Thanksgiving Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	-0.7%	4.57	12.0%	-1.5%	43.39	13.6%
Automobile (millions of person trips)	-0.7%	4.17	10.9%	-1.6%	38.87	12.2%
Air (millions of person trips)	-2.9%	0.28	0.7%	-3.7%	3.14	1.0%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.1%	6.3%		-0.5%	7.3%	
Real Gross Product ($, bn)*	2.2%	1,693		1.7%	15,811	
Median Price, New Single Family Home ($, thn)	0.7%	201		6.0%	268	

Real gross output in the combined WSC states has been increasing throughout the year and is projected to grow 2.2 percent in the fourth quarter compared to year-ago levels. In recent quarters, however, the composition of growth has been changing. The energy sector, one of the main drivers of growth in the WSC region since the end of the recession, has reached a mature part of the business cycle and has begun to cool off. As a result, mining hiring has decelerated from the double-digit gains seen between 2010 and early 2012, expanding just 0.8 percent (quarter-over-quarter) in the second quarter, down from 5.2 percent in the first three months of the year. On the other hand, the construction sector has picked up steam, becoming the fastest growing sector in the first half of 2013, as housing markets in the region finally embarked on a sustainable path to recovery.

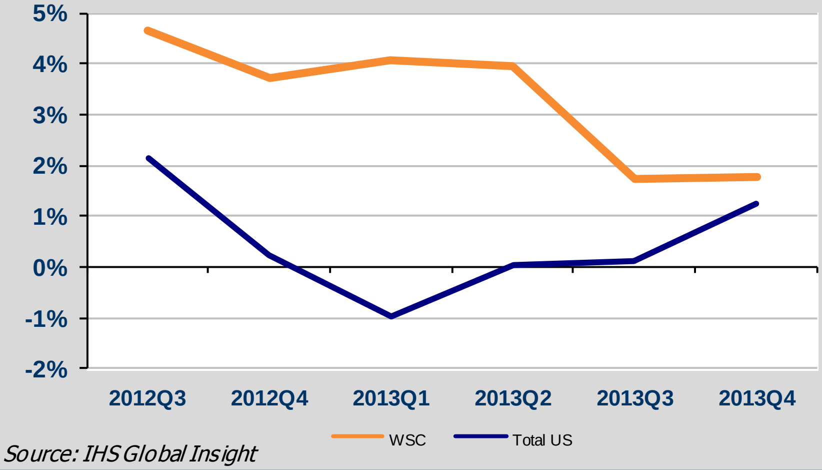
Unfortunately, there is still weakness in the regional labor market. The unemployment rate is expected to be 0.1 percentage point higher this fourth quarter than it was last, and the labor force participation rate is expected to tick down as well. Texas and Oklahoma will each see a 1.0 percentage point decline in their respective unemployment rates, but Louisiana and Arkansas will see a1.2 and 0.1 percentage point increase, respectively. The region has been hurt by budget cuts, with federal employment projected to fall 3.3 percent in the fourth quarter.



compared to year-ago levels. All in all, while the region's unemployment rate is among the lowest in the nation, the West South Central region is still facing instability in the labor market thanks to a slowdown in energy-related employment and persistent weakness across industries of the regional economy.

The housing market in the West South Central region has struggled recently. The median price for new single-family homes is expected to be nearly flat compared to last fourth quarter (0.7 percent growth versus 6.0 percent nationwide). Arkansas and Louisiana are expected to see 1.4 percentage point declines, while Texas and Oklahoma will experience a minimal degree of home price appreciation. Housing starts are also expected to fall this fourth quarter (down 2.9 percent year over year), providing further evidence that the regional housing market is losing momentum. Home sales dropped across the country over the past spring and summer as higher mortgage rates have put a damper on sales activity. Nevertheless, we view these setbacks as only temporary. The ultralow inventory of homes on the market has been supporting the rise in national home prices, and will eventually persuade more current homeowners to list their houses, and entice more builders to increase their activity. For the time being, however, home prices are providing little help to consumers as relates to wealth and consumer spending power.

CHART 9B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



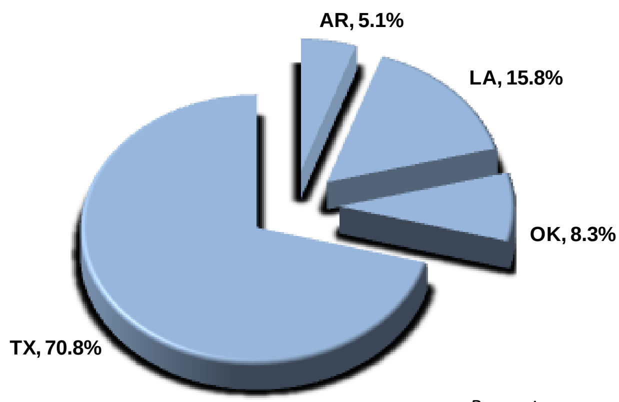
Source: IHS Global Insight

In addition to the originating travel forecast of person-trips from the West South Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, regional travel ties closely with the output generated by that region's leisure and hospitality industry.

Real gross state product in the leisure and hospitality industry (the value of goods and services produced by the leisure and hospitality industry) has been growing at a faster pace in the WSC region than the nation at large. While growth has been decelerating over the course of the year, we expect this trend to continue in the fourth quarter (1.8 percent growth in the WSC versus 1.2 percent nationwide).

Texas accounts for nearly three-quarters of tourism output in the West South Central region. Arkansas accounts for the smallest share with just 5 percent of regional tourism output.

CHART 9C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
WEST SOUTH CENTRAL REGION MAKEUP BY STATE, 2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Thanksgiving2013 Holiday Traveler Profile Survey Methodology

The *Holiday Traveler Profile* study, conducted by D.K. Shifflet and Associates, surveys holiday travelers regarding their planned holiday travel including planned party composition, travel distances, trip expenditures, and activity participation. For the Thanksgiving 2013 holiday, the survey was in the field from Wednesday, October 9 to Tuesday, October 15 and 418 respondents were interviewed in detail about their holiday plans. This panel was designed to yield survey responses that are statistically significant at the national level.[2] Although we report detail for individual census regions, the reader should be aware that the census-region-level results are not generally statistically significant and margins of error are generally large.

Those census region-level responses that do differ significantly from national responses are flagged with asterisks, as in the example below from our Memorial Day 2010 report:

Party Composition Memorial Day 2010 (example)

	One Adult	Two Adults	Three or more Adults	Families
Total US	**21%**	**33%**	**19%**	**27%**
New England	11%	10%*	26%	53%
Middle Atlantic	7%	19%	15%	60%*
South Atlantic	30%	33%	23%	14%
East North Central	39%	17%	23%	21%
East South Central	27%	23%	15%	35%
West North Central	6%*	17%	28%	49%
West South Central	16%	39%	20%	24%
Mountain	26%	52%	10%	13%
Pacific	13%	67%*	14%	6%*

** Indicates estimate differs from estimate for Total US with 99 percent confidence or greater.*

Source: D.K. Shifflet& Associates, Ltd.
Numbers may not add due to rounding.

In the above example, note that the percent of New England respondents planning to travel as a party of "Two Adults" is listed as "10 percent*." As the footnote below the table states, the asterisk indicates that the New England estimate differs from the Total US estimate with 99 percent confidence or greater. In other words, if the actual proportion of New England residents traveling in a party of two adults were the same as the actual proportion of US residents traveling in a party of two adults, there would be a 1 percent or lower chance of seeing a difference as large as the difference observed in this survey (10 percent for New England versus 33 percent for Total US). Therefore, it is unlikely—though not impossible—that this difference is reflective of random sampling error.

Although we will focus primarily on national responses, our commentary on the *Holiday Traveler Profile* tables may call out certain regional responses of interest. When we discuss a regional response, we will generally avoid highlighting responses with large margins of error. For example, the margin of error for the share of New England residents travelling in parties with two adults is +/-14 percent, meaning that the share could be as high as 24 percent. As such, we would either avoid highlighting that result or provide the margin of error to the reader for appropriate statistical context.[3]

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[2] Specifically, the margin of error for each binary response question is, at most, about 6 percentage points, with 99% confidence.

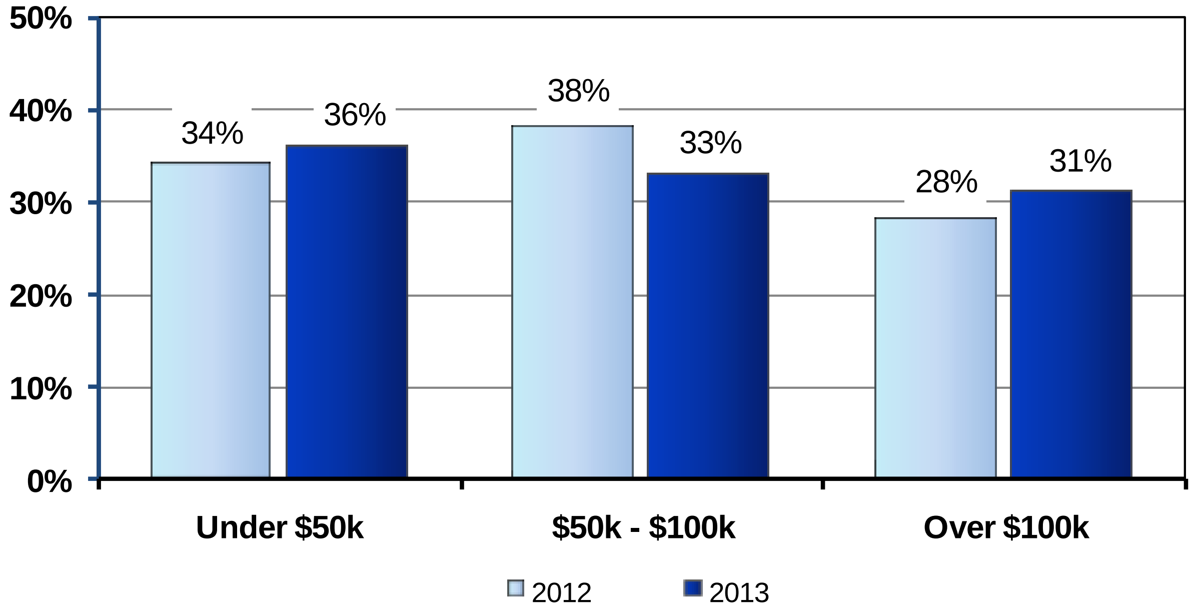
[3] This +/-14% margin of error reflects a 99% confidence interval based on a t-distribution.

Change in the AverageThanksgiving Traveler

Results from the survey of intended travelers reveal that the share of expected travelers in the under-$50,000 household income bracket has risen from 34 percent last year to 36 percent this year, while the $50,000–100,000 household income bracket has fallen five percentage points to 33 percent. The highest income bracket has also seen an increase in intended travelers from 28 percent to 31 percent.

We are now more than three years removed from the recession of 2008–09, and the economy remains stuck in a sluggish recovery. The labor market continues to produce unimpressive job gains, as each new release of GDP data fails to reveal more than a "mini-cycle" of growth. Nonmortgage consumer debt is expected to be 5.8 percent higher in the third quarter versus a year earlier (the most recent data available), and with real disposable income expected to fall by half a percentage point in the fourth quarter, middle income households, in particular, are struggling keep up with non-revolving credit such as auto and student loans. As such, households making $50,000–100,000 will make up a smaller share of Thanksgiving travelers this year compared to last, as they struggle to keep up their nondiscretionary financial obligations.

CHART 7
HOUSEHOLD INCOME DISTRIBUTION OF INTENDING TRAVELERS
THANKSGIVING 2013 AND 2012 HOLIDAY
TOTAL US



Source: D.K. Shifflet& Associates, Ltd.
Numbers may not sum due to rounding

Travel Distances

Travelers intend to journey an average of 601 miles round-trip this upcoming Thanksgiving, which is an increase of 2.2 percent from last year, when travelers planned to log an average of 588 miles. The distribution across mileage categories remains largely unchanged from last Thanksgiving. Among households surveyed, 29 percent expect to travel more than 700 miles this coming holiday (versus 28 percent in 2012), while 36 percent are planning to travel 250 miles or less (compared to 38 percent last year). The largest change among any single category was the 151–250 mile range, where the share of travelers dropped from 18 percent to 14 percent.

While the average miles traveled and the distribution across mileage categories is similar to that of last year, there is significant variation in the year-to-year trends across regions. In the Pacific region, which typically has a larger-than-average share of travelers expecting to go more than 1,500 miles, only 26 percent of respondents fall into that category this year (compared to 34 percent last year). On the other hand, the Mountain region saw a 10-point increase in the share of travelers expecting to take a round trip of at least 1,500 miles. The Middle Atlantic region shows a significant downward shift in planned trip length. Roughly 36 percent of respondents in the Middle Atlantic expect to travel less than 150 miles for Thanksgiving this year; last year, the share was just 14 percent.

TABLE 8
EXPECTED ROUND-TRIP DISTANCE TRAVELED
THANKSGIVING 2013 HOLIDAY
TOTAL US AND BY REGION OF RESIDENCE

	50-150 miles	151-250 miles	251-400 miles	401-700 miles	701-1500 miles	Over 1500 miles	Average Miles
	(Percentage of Travelers)						
Total US	22%	14%	17%	17%	16%	13%	601
New England	28%	18%	11%	4%	12%	27%	607
Middle Atlantic	36%	12%	19%	15%	6%	11%	504
South Atlantic	12%	19%	17%	15%	27%	9%	602
East North Central	23%	10%	14%	32%	12%	9%	601
East South Central	28%	18%	24%	21%	8%	1%	472
West North Central	23%	24%	13%	11%	27%	2%	515
West South Central	20%	14%	24%	11%	21%	10%	591
Mountain	12%	12%	24%	15%	12%	24%	762
Pacific	24%	7%	11%	22%	10%	26%	795

Source: D.K. Shifflet& Associates, Ltd.
Numbers may not sum due to rounding

Total Spending

The median *Holiday Traveler Profile* respondent expects to spend $465 this upcoming holiday period, which is 6.6 percent lower than the expected median spending of $498 from intending travelers in 2012. The Thanksgiving holiday is a less expensive holiday compared to other travel holidays (Labor Day 2013—$804, July 4, 2013—$749, Memorial Day 2012—$703), owing to its emphasis on the gathering of friends and family. The distribution is mostly consistent with that of last Thanksgiving, with a slight shift away from food and beverages and shopping, and slightly more allocated to accommodations. The share of spending on fuel transportation remains unchanged from last year, so the expectation of a decrease in fuel spending that is right in line with the reduction in gas prices highlights how travel distances are expected to be consistent with last year. However, as stated in the Holiday Traveler Profile Survey Methodology, this survey was in the field from Wednesday, October 9 through Tuesday, October 15. If there is a substantial rise in gas prices prior to Thanksgiving weekend, it is possible that travelers may reallocate spending from discretionary categories (food and accommodation) to compensate for increased outlays on fuel.

"Wage and hour cuts at work, along with the uncertainty surrounding the government shutdown, is forcing us to hold back our spending."
South Atlantic Respondent

Total spending can be roughly grouped into the following categories: transportation spending and spending occurring at the travel destination including lodging; food and beverages; shopping; and entertainment. Transportation spending accounts for roughly 32 cents of the traveler dollar, while other categories make up the remaining 68 cents of the holiday dollar. The largest single spending category is a tie between shopping, food and other transportation, with the shopping spend being driven by Black Friday, which is traditionally the busiest shopping day of the year.

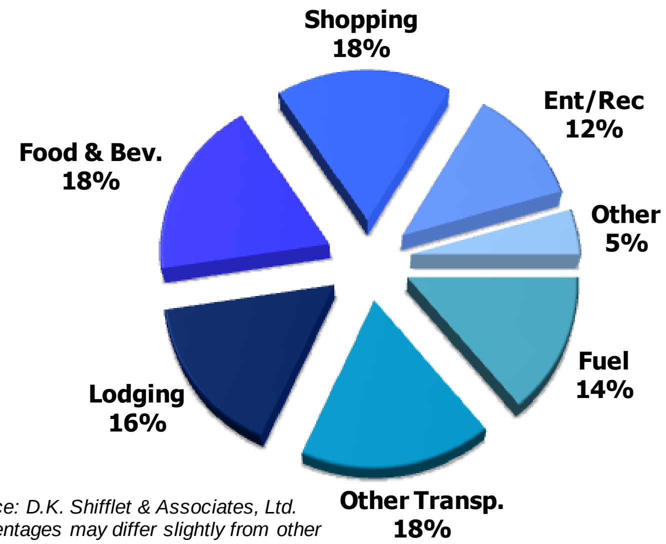
TABLE 9
MEDIAN EXPECTED TOTAL TRIP SPENDING AND AVERAGE EXPECTED SHARES OF BUDGET BY CATEGORY
THANKSGIVING 2013 HOLIDAY
TOTAL US AND BY REGION OF RESIDENCE

	Total US	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Median Total Expenditures	**$465**	**$563**	**$398**	**$403**	**$383**	**$441**	**$314**	**$627**	**$730**	**$681**
Fuel Transportation	14%	13%	15%	17%	21%	16%	15%	18%	17%	9%
Other Transportation Spending	18%	27%	16%	19%	9%	15%	7%	12%	21%	22%
Accommodations	16%	15%	15%	15%	19%	8%	15%	22%	15%	17%
Food & Beverages	18%	20%	23%	15%	20%	22%	23%	19%	16%	15%
Shopping	18%	13%	17%	18%	14%	21%	26%	17%	16%	16%
Entertainment/Recreation	12%	9%	11%	12%	14%	12%	11%	9%	11%	14%
Other	5%	2%	3%	5%	3%	5%	3%	1%	4%	7%

Source: D.K. Shifflet & Associates, Ltd.
Numbers may not add due to rounding.

Chart 10 illustrates the average expected shares of budget by category for 2013. Chart 11 shows the change in budget distribution from Thanksgiving 2012 to Thanksgiving 2013.

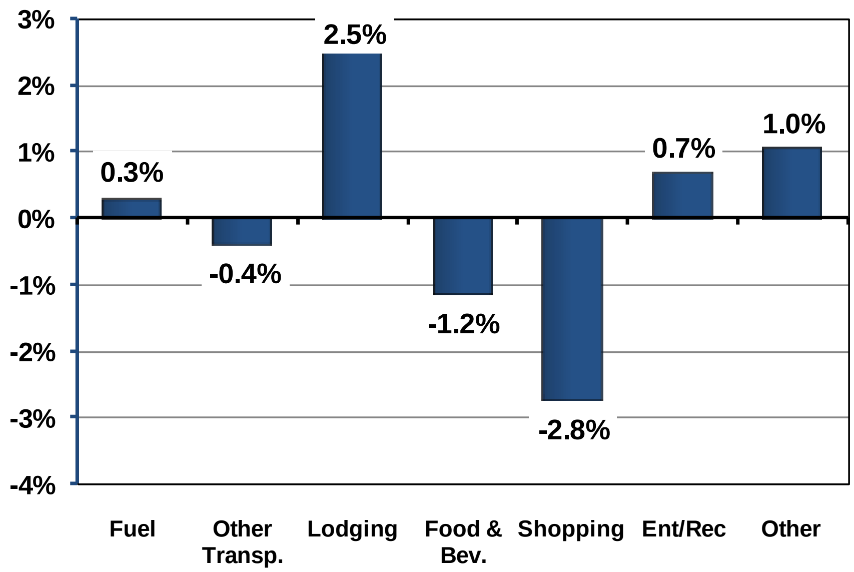
CHART 10
US 2013 THANKSGIVING SPENDING
DISTRIBUTION BY CATEGORY



Source: D.K. Shifflet & Associates, Ltd. Percentages may differ slightly from other charts due to rounfing

CHART 11

CHANGE IN BUDGET SHARE FROM 2012 TO 2013



Source: D.K. Shifflet & Associates, Ltd.

Party Composition

For Thanksgiving 2013, the most common expected travel party (32 percent) is composed of two adults. About 27 percent expect to travel as just one adult, and 25 percent of respondents expect to travel with family this Thanksgiving holiday travel period. This is similar to last year's distribution, with a slight increase in those expecting to travel as just one adult (23 percent last year) and a corresponding decrease in the share share of respondents expecting to travel with family (28 percent last year).

TABLE 13
PARTY COMPOSITION
THANKSGIVING 2013 HOLIDAY
TOTAL US AND BY REGION OF RESIDENCE

	One Adult	Two Adults	Three or more Adults	Families
Total US	**27%**	**32%**	**16%**	**25%**
New England	19%	34%	16%	32%
Middle Atlantic	13%	50%	10%	28%
South Atlantic	30%	23%	17%	30%
East North Central	40%	31%	3%	26%
East South Central	22%	40%	14%	24%
West North Central	35%	35%	11%	19%
West South Central	31%	27%	12%	30%
Mountain	15%	39%	18%	28%
Pacific	24%	27%	35%	15%

Source: D.K. Shifflet& Associates, Ltd.
Numbers may not add due to rounding.

Activities

While spending time with friends and relatives is a primary activity for nearly all holidays, it is even more relevant for Thanksgiving. It is therefore not surprising that two-thirds of all intending travelers expect to spend time with friends and family during the holiday period. It is also unsurprising that dining would have the second-highest participation rate for the Thanksgiving holiday.

Nearly half of all travelers intend to shop, which is to be expected given that Black Friday occurs during the holiday weekend and is the busiest shopping day of the year. Travelers intend to participate in all other activities at a rate of less than 25 percent each.

> *"We won't be spending as much money Christmas shopping on Black Friday"*
> *West South Central Respondent*

TABLE 14
EXPECTED PRIMARY ACTIVITIES
THANKSGIVING 2013 HOLIDAY
TOTAL US AND BY REGION OF RESIDENCE

	Total US	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Visit with friends/relatives	67%	69%	72%	60%	79%	72%	67%	70%	52%	59%
Dining	56%	64%	56%	53%	52%	70%	30%	58%	60%	52%
Shopping	44%	51%	26%	34%	39%	43%	37%	50%	53%	62%
Touring/sightseeing	23%	27%	11%	20%	22%	25%	7%	27%	23%	35%
Night Life	20%	27%	16%	28%	4%	27%	8%	8%	24%	30%
Watch sporting events	20%	14%	14%	20%	26%	17%	25%	22%	21%	24%
Visit museums, art exhibits, etc.	14%	12%	10%	12%	7%	17%	11%	8%	13%	24%
Hike, bike, etc.	12%	4%	17%	14%	19%	11%	10%	1%	21%	12%
Visit historic sites	12%	22%	7%	10%	4%	14%	8%	10%	10%	18%
Go to beach/waterfront	10%	21%	14%	3%	2%	11%	6%	19%	14%	9%
Attend festivals, craft fairs, etc.	10%	4%	2%	16%	1%	18%	7%	13%	12%	9%
Visit national or state parks	9%	6%	11%	13%	15%	5%	8%	3%	7%	14%
Gambling	8%	6%	7%	11%	1%	3%	6%	2%	11%	19%
Attend concerts, plays, dance, etc.	6%	7%	4%	5%	2%	10%	2%	3%	5%	10%
Observe & conserve nature/culture - Eco-Travel	6%	1%	11%	4%	4%	6%	0%	2%	2%	12%
Hunt, fish, etc.	5%	4%	4%	5%	2%	5%	0%	5%	16%	6%
Spa	5%	7%	6%	14%	0%	1%	2%	5%	7%	4%
Look at real estate	5%	1%	6%	6%	13%	1%	5%	3%	2%	6%
Play golf	5%	0%	4%	8%	5%	7%	3%	0%	9%	5%
Other	5%	5%	4%	10%	2%	9%	1%	3%	5%	0%
Visit theme/amusement parks	3%	7%	1%	5%	2%	0%	0%	1%	17%	4%
Attend show: boat, car, home, etc.	2%	2%	3%	1%	0%	7%	1%	0%	5%	0%
Boat/sail	2%	6%	5%	5%	0%	1%	0%	1%	3%	3%
Compete in sporting events	2%	0%	0%	6%	0%	4%	0%	0%	0%	0%
Snow ski, snow board, other snow/ice sports	1%	0%	4%	0%	0%	1%	1%	1%	0%	2%

Source: D.K. Shifflet & Associates, Ltd.
Numbers may not add due to rounding.

With the slight decrease in forecast travel volume this Thanksgiving period, we expect to see a decrease in spending and travel distance. As a result, there will be some changes in the expected activities during the holiday. The drop in spending can be seen largely in the decrease in shopping. Overall, the expected activities are fairly consistent with 2012, as only visiting with friends and families and shopping are expected to see a change in expectations of more than five percentage points.

TABLE 15
VARIANCE IN EXPECTED PRIMARY ACTIVITIES
THANKSGIVING 2013 HOLIDAY
COMPARED TO THANKSGIVING 2012 HOLIDAY

Expected Activities	2013	2012	Variance
Visit with friends/relatives	67%	75%	-8%
Dining	56%	56%	0%
Shopping	44%	50%	-6%
Touring/sightseeing	23%	21%	2%
Night Life	20%	15%	5%
Watch sporting events	20%	24%	-4%
Visit museums, art exhibits, etc.	14%	15%	-1%
Hike, bike, etc.	12%	9%	3%
Visit historic sites	12%	13%	-1%
Go to beach/waterfront	10%	14%	-4%
Attend festivals, craft fairs, etc.	10%	10%	0%
Visit national or state parks	9%	11%	-2%
Gambling	8%	6%	2%
Attend concerts, plays, dance, etc.	6%	6%	0%
Eco-Travel	6%	4%	2%
Hunt, fish, etc.	5%	6%	-1%
Spa	5%	5%	0%
Look at real estate	5%	3%	2%
Play golf	5%	4%	1%
Other	5%	5%	0%
Visit theme/amusement parks	3%	4%	-1%
Attend show: boat, car, home, etc.	2%	3%	-1%
Boat/sail	2%	3%	-1%
Compete in sporting events	2%	2%	0%
Snow ski, snow board, other snow/ice sports	1%	3%	-2%

Dates of Travel for Thanksgiving Trips

Thanksgiving Day always falls on the fourth Thursday of November. The midweek incidence of the holiday is part of what makes Thanksgiving unique, as the long weekend frees up more time for families and friends to spend together, while allowing more flexibility in terms of their travel plans. Moreover, because the timing of the holiday is consistent each year, travelers can schedule their plans to take full advantage of the long holiday weekend.

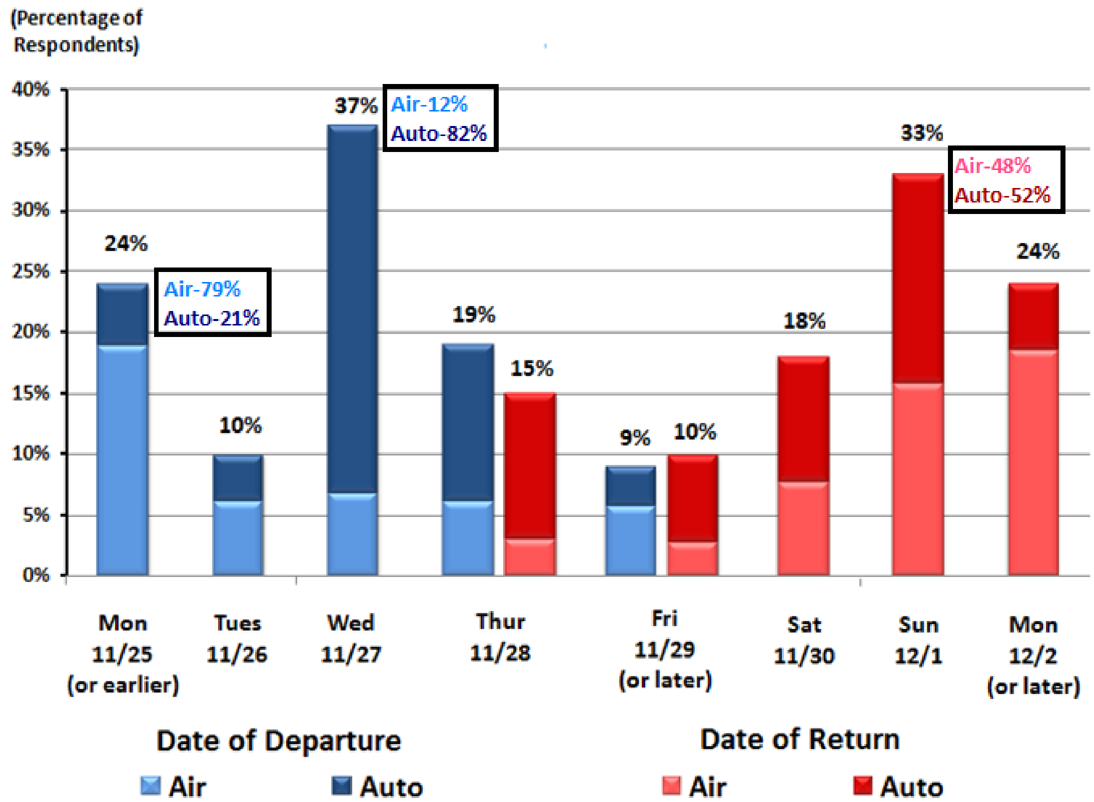
The *Holiday Traveler Profile* asked intending travelers what day they plan to leave for, and return from their Thanksgiving Holiday trip this year. Among those surveyed, the most popular day to leave is the Wednesday before Thanksgiving (37 percent). Nearly one-quarter of travelers will depart the Monday before Thanksgiving or earlier. The majority of respondents plan to return home on Sunday, December 1 (33 percent) or Monday, December 2 (24 percent), Use of the remaining dates is fairly even, which speaks to the added flexibility that the long holiday weekend allows.

WHAT DAY DO YOU PLAN TO LEAVE FOR, AND RETURN FROM YOUR THANKSGIVING HOLIDAY TRIP?

DATE OF DEPARTURE:
- **MONDAY, NOVEMBER 25TH, OR EARLIER**
- **TUESDAY, NOVEMBER 26TH**
- **WEDNESDAY, NOVEMBER 27TH**
- **THURSDAY, NOVEMBER 28TH**
- **FRIDAY, NOVEMBER 29TH, OR LATER**

DATE OF RETURN:
- **THURSDAY, NOVEMBER 28TH**
- **FRIDAY, NOVEMBER 29TH**
- **SATURDAY, NOVEMBER 30TH**
- **SUNDAY, DECEMBER 1ST**
- **MONDAY, DECEMBER 2ND, OR LATER**

CHART 13
DATES OF TRAVEL FOR THANKSGIVING



Source: D.K. Shifflet & Associates, Ltd.

Addendum 1: US Economic Forecast Summary

PUBLISHED 10/14/2013

Self-inflicted wounds from Washington will sap fourth-quarter growth. The government shutdown continues and the debt ceiling battles loom later in the month. The shutdown is making it more difficult for companies to conduct routine business, although with the Department of Defense (DoD) civilians going back to work, some of the spillover effects to the private sector are mitigated. The most significant effect of the shutdown is a loss of government "output," a value that is assumed to be equal to the compensation of the workers themselves. The more significant concern is the debt-ceiling-induced spending restrictions that could begin by 17 October. Once the government's incremental borrowing authority ceases, some government obligations will be unpaid, partially paid, or paid late. While we expect that the debt ceiling will be raised before these spending restrictions bite, the mere possibility of these nonpayments will trigger an increase in consumer and business uncertainty.

The direct impacts of the shutdown should be contained to the fourth quarter. Our assessment of third-quarter real GDP growth stands at 1.8% and is little changed from last month. Growth in the fourth quarter has been downgraded from 2.2% last month to 1.6%, largely because of the shutdown and other consumer and business reactions to the potential debt ceiling spending restrictions. On the monetary policy front, these fiscal issues virtually eliminate any chance that the Federal Reserve will begin its quantitative easing tapering in October. Our forecast of the tapering beginning in December remains in place. Emulating how consumer sentiment behaved during the debt ceiling crisis of 2011, the Reuters/University of Michigan index is forecast to fall by about seven points in the fourth quarter of 2013. While we do not feel that the shutdown and debt ceiling debates will impact consumer spending in the long run, the potential uncertainty remains a risk factor in the forecast.

Uncertainty in Washington will increase business risk. We ardently believe that the current debates in Washington exacerbate the current level of policy uncertainty in the US economy and will force businesses to add a risk premium in their business with the federal government. A sizable portion of capital spending involves plans that were made many quarters ago, and therefore it is unlikely that spending on these projects will be delayed because of any mild-to-moderate increase in economic uncertainty. Portions of other types of spending with shorter planning lead times, such as on information processing equipment, may be deferred over a short period. Even with this reduction, fixed investment will be by far the largest contributor to economic growth after consumer spending, contributing about a percentage point to the 2.5% growth in 2014, led by capital spending in industrial equipment, light vehicles, and intellectual property (i.e.,software and R&D).

Home sales will rebound in 2014. Higher mortgage rates over the past spring and summer have put a damper on this year's home sales. The summer also brought a slowdown in both permits and starts, as tight lending standards and a shortage of developed lots constrained builders' ability to meet demand. However, we view these setbacks as temporary. The resulting ultralow inventories have been supporting the rise in home prices, eventually persuading more current homeowners to list their houses, and enticing more builders to increase their activity. Housing starts are expected to reach an annual rate of 934,000 by the end of the year, and rise to 1.28 million by the close of 2014.

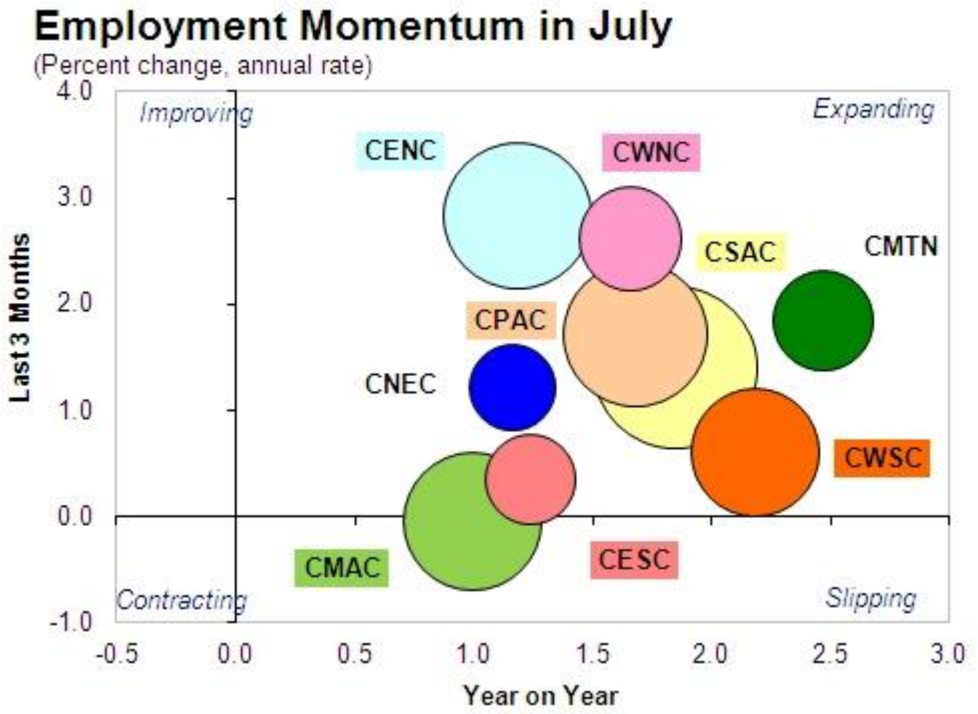
Income growth will be modest; household debt levels are high for some. Real disposable income is expected to grow at an annual rate of 1.8% in the third quarter. Overall, we expect real disposable income to increase only 0.6% in 2013 (down because of tax increases in early 2013 and dividend accelerations in 2012), but to pick up to a 3.2% gain in 2014. Nonmortgage consumer debt is expected to be 5.8% higher in the third quarter versus a year earlier, almost entirely driven by nonrevolving credit such as auto and student loans. The rise of student loans and the relatively weak payroll gains in this recovery have held back spending by certain age cohorts, especially among 25-35-year-olds. Student loan debt has surpassed every other major form of nonmortgage debt, so while most Americans are deleveraging, a certain proportion of the population is loading up on student loan debt.

Addendum 2: US Regional Forecast Summary

PUBLISHED: 09/18/2013

Easy does it

In the first half of 2013, employment growth in the United States moved ahead at a moderate pace. All but seven states gained jobs over the first seven months of the year, but in most states the average annual growth over the period amounted to less than 2%. During the remainder of the year, these modest gains will continue. By the end of 2013, only 7 more states will surpass their pre-recession peak employment level, bringing the total number of states that have moved from recovery to expansion to just 18.



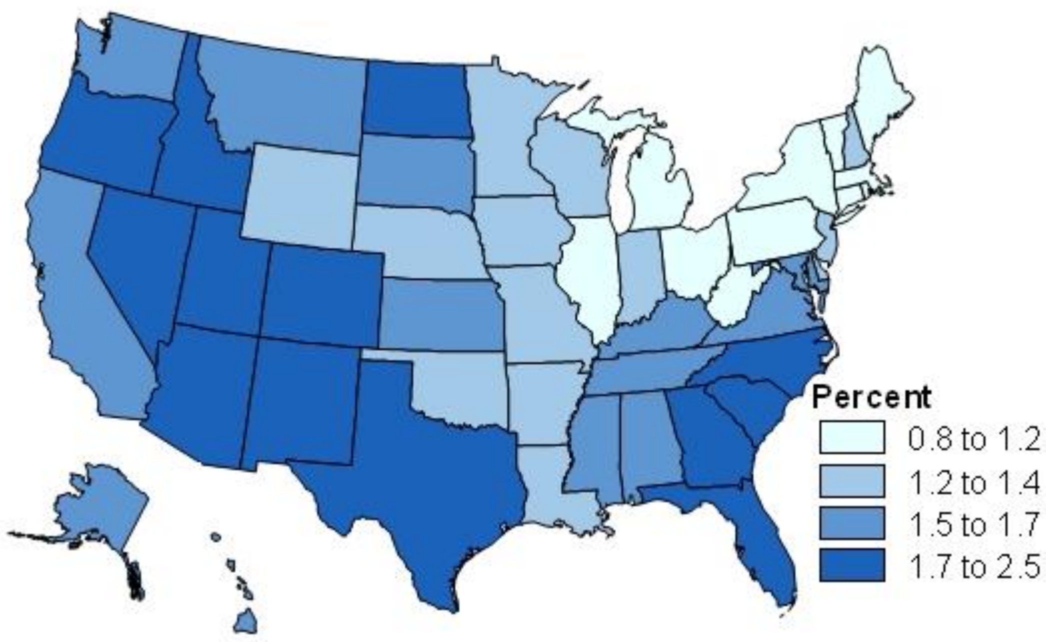
With the energy sector cooling, North Dakota will cede its spot as the fastest growing state (one it has held since 2010) to Utah, which is being powered by a thriving high-tech sector. At the national level, the construction sector will post the most marked payroll increase, powered by the ongoing turnaround of real estate markets nationwide. Thanks to the strong construction sector gains, the Sunbelt states will perform better than average this year as their severely battered housing markets begin to heal. On the other hand, the Midwest and especially the Northeast, where the housing recovery is lagging, will see the weakest job gains.

We expect unemployment rates will fall only moderately across the country this year. By the end of 2013, nearly half the states will still have rates at or above 7%. Nevada, where the unemployment rate finally dropped below 10% at the end of last year, will remain the state with the highest rate (9.6%). It will be followed by Mississippi, Rhode Island, and California, all with rates close to 9.0% in the last quarter. Bringing the unemployment rate back to pre-recession levels has proven a very slow process, because as conditions continue to improve, previously discouraged job seekers increasingly resume their job searches, returning to the labor force and joining the ranks of the unemployed until they are hired.

Although the housing recovery has slowed in recent months on the back of rising interest rates, we expect the slowdown will be only temporary since inventories are lean and the demand for housing still exceeds supply by a wide margin.

Moreover, despite rising interest rates, affordability remains very high by historical standards. As a result, we expect home sales and prices will continue to firm in the near term. Not surprisingly, the states that saw the biggest drops in prices during the recession—Nevada, Arizona, California, and Florida—are expected to see some of the sharpest increases. Higher prices will support the continued recovery of housing starts, which, by the end of the year, will be up by more than 20% in 11 states. Still, despite the robust gains, starts in most states will remain more than 50% below their pre-recession peaks by the end of the year.

Employment growth, 2013–18 (Average annual growth rate)



Although risks abound as we move towards the final quarter of 2013, the US economy is in much sounder shape now than it was nine months ago and is therefore more able to withstand the dangers posed by these headwinds, which include rising interest rates and higher oil prices. Employment growth, housing activity, and auto sales are among the bright spots in the economy and underscore the recovery's solid foundations. We thus expect that the economy will begin to gain more momentum in 2014–15, supported by stronger consumer and business spending.

Second-quarter vacancy rates: On the decline

The decline in the homeowner vacancy rate (HVR)—the proportion of homes that are vacant and for sale—is the latest among a series of signs pointing to a strengthening housing market. At 1.9%, this quarter's national HVR was down 0.2 percentage point from its year-earlier level and was the lowest second-quarter reading since 2005. The majority of states—38—experienced a year-over-year (y/y) reduction in vacancies in the second quarter. This is a good sign for the housing market because it indicates that states are working off the excess construction built up during the housing boom and foreclosure inventory accumulated during the bust.

Excess housing supply is drying up most quickly in the South and West, particularly in those states that were most affected by the bursting of the housing bubble. The second-quarter HVR plunged by at least 0.5 percentage point y/y in Hawaii, California, Arizona, Georgia, Nevada, and Florida. Nevertheless, rates remain elevated in these states because of the severity of the real estate bust. In Nevada, for example, the vacancy rate has been dropping significantly since 2009. Still, the Silver State's vacancy rate (at 3.3% in the second quarter) is the highest in the country. This suggests that although Nevada is making tremendous progress in working off the enormous excess housing inventory built up during the crisis, the state still has a long way to go.

While most of the housing bubble states are still struggling with higher-than-average vacancy rates, California is an exception. The state's vacancy rate plummeted to 1.3% in the second quarter, significantly lower than the national rate. This is mostly due to a marked improvement in the metro areas, particularly San Jose, San Francisco, San Diego, and Sacramento, where vacancy rates have dropped to pre-recession levels. Improved economic activity and a turnaround in the labor market have resulted in the release of pent-up housing demand in California. Renewed investor activity is another important force in boosting California's home sales; home prices remain affordable compared with pre-recession levels, but are gradually rising, so investors have the confidence they need to purchase real estate. With increased home sales, California's inventory of vacant homes is sinking more rapidly than most states'.

State homeowner vacancy rates

(Four-quarter moving average)

	Rate (Percent)		Rank		Point change
	2013Q2	2012Q2	2013Q2	2012Q2	One-year
Nevada	3.3	3.8	1	1	-0.5
Arkansas	3.2	3.0	2	4	0.2
Georgia	2.6	3.2	3	2	-0.6
Illinois	2.6	3.1	4	3	-0.5
New Jersey	2.6	1.8	5	39	0.8
North Carolina	2.5	2.4	6	17	0.1
South Carolina	2.4	2.7	7	10	-0.3
Oklahoma	2.4	2.5	8	15	-0.1
Texas	2.3	1.7	9	42	0.6
Florida	2.3	2.8	10	8	-0.5
Colorado	1.4	2.1	42	25	-0.7
Utah	1.4	1.8	43	38	-0.4
Wyoming	1.4	1.2	44	51	0.2
North Dakota	1.4	1.3	45	50	0.1
Nebraska	1.4	1.6	46	45	-0.2
Minnesota	1.4	1.9	47	36	-0.5
California	1.3	1.9	48	33	-0.6
Rhode Island	1.2	2.2	49	24	-1.0
South Dakota	1.2	1.6	50	46	-0.4
Wisconsin	1.2	2.1	51	27	-0.9

The Midwest states also performed well over the past year. Michigan, Wisconsin, Nebraska, North Dakota, and South Dakota all experienced reductions in vacancies and now rank among the bottom 10 states in the country. However, the recovery in vacancies has not been consistent across the nation. Some states in the Northeast actually rose in vacancies over the past year—most notably New Jersey (0.8 percentage point increase) and Massachusetts (0.6 percentage point increase). The situation is not as worrisome here, though, because vacancy rates were already quite low to begin with. The Northeast states were protected by land shortages, high building costs, and high population densities, which prevented vacancy rates from rising dramatically even during the crash. Among all the Northeast states, the only troubling state is New Jersey, where the vacancy rate rose to 2.6% in the second quarter, significantly higher than the national average. New Jersey's overall housing market has been slow to recover; the state's mortgage delinquencies are among the highest in the country, and the large pipeline of foreclosures is fueling high vacancy rates.

Not surprisingly, as excess housing inventory is disappearing around the country, home prices are on the rise. Looking further ahead, we expect vacancy rates to remain steady in the near term; heightened levels of new home construction will limit the demand for existing homes, and elevated home prices will encourage more "on-the-fence" sellers to sell, thereby increasing the housing supply.

Note: State homeowner vacancy rates here refer to the four-quarter moving average of the rate.