AAA Labor Day 2013
Travel Forecast

Prepared for:

American Automobile Association

August 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 Labor Day 2013 Travel Forecast* combines information from several sources to provide a prospective assessment of likely travel patterns for the upcoming holiday weekend. This report comprises two key components: the actual travel forecast and the holiday traveler profile. The actual 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.

HOLIDAYTRAVEL FORECAST

In cooperation with AAA, IHS Global Insight developed an approach to forecast domestic travel volumes. The economic variables used to forecast travel for the current holiday are leveraged from IHS Global Insight. The data includes 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 more than 50,000 US households per month, tracking trip incidence, party composition, traveler behavior, and spending—all after the trips have been taken.

Actual 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 Global Insight 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 July 29.

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 DKSA. The initial survey includes 1,350 households, out of which only the respondents intending to travel during the designated holiday are interviewed in detail about their anticipated trips. For Labor Day 2013, 306 respondents were interviewed in detail about their intended trips. The survey was in the field from Tuesday, July 16 to Friday, July 19, 2013.

LABOR DAY HOLIDAY TRAVEL PERIOD

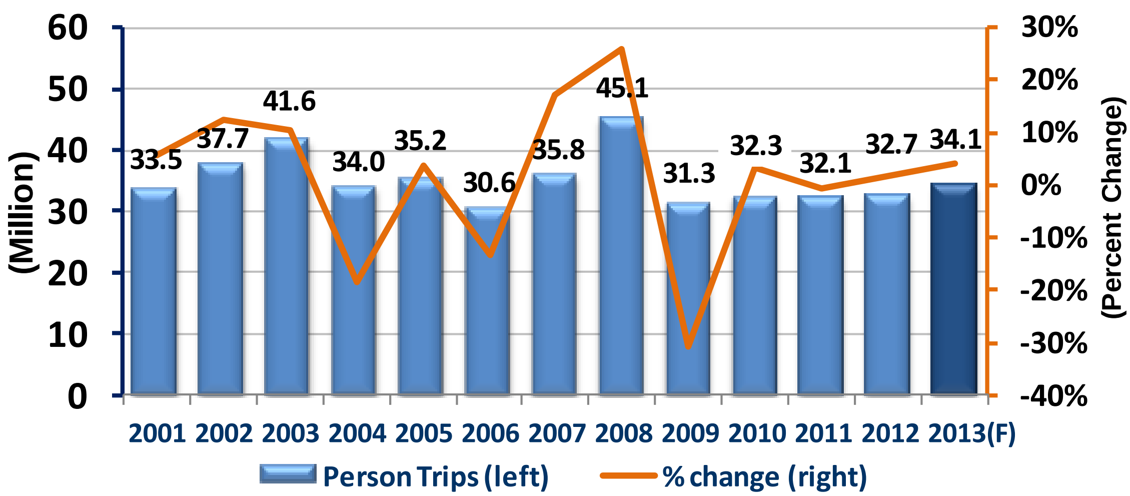
For purposes of this forecast, the Labor Day holiday travel period is defined as round-trips that include travel of 50 miles or more away from home during the period from Thursday, August 29 to Monday, September 2.

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

Travel Forecast for Labor Day, 2013

AAA and IHS expect that 34.1 million Americans will take trips of at least 50 miles away from home during the 2013 Labor Day holiday travel period. The 2013 volume of travelers would represent an increase of 4.2 percent over the 32.7 million travelers during the holiday period last year. While the overall economic outlook remains mixed, economic indicators have improved from one year ago and are trending up during 2013. As a result, rising consumer expectations, buoyed in part by a rising housing market, should drive travel volumes to their highest levels since the recession-driven decline in 2009.

CHART 1
LABOR DAY TRAVELERS 2001-2013
TOTAL PERSON-TRIPS*



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

From 2000 to 2008, the average travel volume during the Labor Day holiday period was 36.1 million travelers. The four years since the recession-driven decline of 2009 have shown an average of 32.1 million as the Labor Day holiday period has settled around a new normal of volume.

Following a sluggish start to the year, the economic outlook heading into the Labor Day holiday period remains mixed, but appears to be on a gradually increasing trend. Real gross domestic product for the third quarter is expected to be just 1.4 percent higher than the third quarter of 2012. The unemployment rate continues to fall, and is expected to be nearly half a percentage point lower than last year, but remains stubbornly high at roughly 7.6 percent. Despite that, consumers are the most upbeat they have been since early 2008. Moreover, consumer finances continue to improve as household financial obligations (mostly consisting of debt payments) as a share of after-tax income are the lowest they have been since the 1980s.

Boosting consumer optimism is a strong housing market. Home sales are at levels last seen before the recession began. Home prices for the third quarter are expected to be 5.2 percent above last year’s levels and IHS expects housing to remain a strong engine of growth through 2015. Financial markets and the housing market are helping drive household worth up more than eight percent from one year ago. That increase is offsetting growth of just 0.8 percent in real disposable income. As a result, consumer spending should increase 3.4 percent in the third quarter, relative to last year's levels.

Supporting the expectation of rising consumer spending is the state of consumer sentiment. By the end of July, the Bloomberg Consumer Comfort Index had reached a five-year high at -23.5[2]. The Reuters/University of Michigan's Index of Consumer Sentiment tells a similar story, as the July results increased to 85.1, the highest level in six years. The Conference Board's Consumer Confidence Index fell in July for the first time since March, but remains well above year-earlier ago levels.

Gas prices are unlikely to have a major impact on travel decisions this Labor Day holiday period. Prices are below last year's levels as of mid-August, and they should remain at or below those levels.

The date of the Labor Day holiday is another variable that is considered in the forecast. Observed on the first Monday in September, Labor Day can fall anywhere from September 1–7. When the holiday falls earlier in September, people have shown a higher tendency to travel. For example, the three highest-volume holiday travel years since 2000 have come in 2008, 2003, and 2002, when Labor Day fell on either September 1 or 2. This year, Labor Day is September 2, which is one day earlier in the month than last year. While not an overriding factor, Labor Day falling earlier within its potential window is another factor supporting an increase in expected travel volume.

Overall, AAA and IHS Global Insight are forecasting a 4.2 percent increase in Labor Day travel, with 34.1 million travelers expected during the holiday period. While the economic outlook remains mixed, consumers are experiencing rising wealth and feeling optimistic enough to provide a boost in the expected travel volume in 2013.

[2] The *Bloomberg Consumer Comfort Index* subtracts the percentage of households with negative views on the economy, personal finances and buying climate from the share with positive outlooks and the difference is divided by 3. The results can range from 100, indicating every participant in the survey had a positive response to all three components, to minus 100, signaling all views were negative.

Travel by Mode of Transportation

AAA and IHS Global Insight expect that more than 85 percent of travelers—or 29.2 million—will make their Labor Day holiday journey in an automobile. Automobile travel continues to be the most convenient mode of travel for many Americans. This represents a 4.3 percent increase over the 28 million travelers who took to roads and highways last year and a slight increase in travel share from last year.

The national average price of self-serve regular gasoline as of August 13 is 15 cents lower than last year, which is only a 4.2 percent decrease compared to August 13, 2012. Gas prices for all of August 2012 were 2.7 percent higher than the average through the 13th of August this year. Since the year-over-year monthly gas price average is right in line with last year, fuel costs are not expected to have a major impact on either overall or automobile travel volume.

> *"We did not take as big of a summer vacation so planning on doing more over Labor Day"*
>
> *WNC Respondent*

Air travel during the Labor Day holiday period has remained fairly stable over the past three years after some significant highs and lows preceeding and during the recession. The expectation is that 2013 will continue the steadiness seen recently as 2.61 million travelers are forecast to fly this year, an increase of 2.8 percent from 2012. That volume will make up just under eight percent of all travelers, a slight decline in share from 2012.

Other modes of travel (trains, cruises, bus, multi-modal travel) will make up the remaining seven percent of total person-trips, up slightly from the 2012 share. The 2.3 million travelers expected to use these modes is 4.3 percent above last year's level. Travel via these modes seems to have stabilized a bit after three volatile years around the recession and immediately afterwards.

CHART 2
DISTRIBUTION OF 2013 US LABOR DAY TRAVELERS
FORECAST BY MODE OF TRANSPORTATION

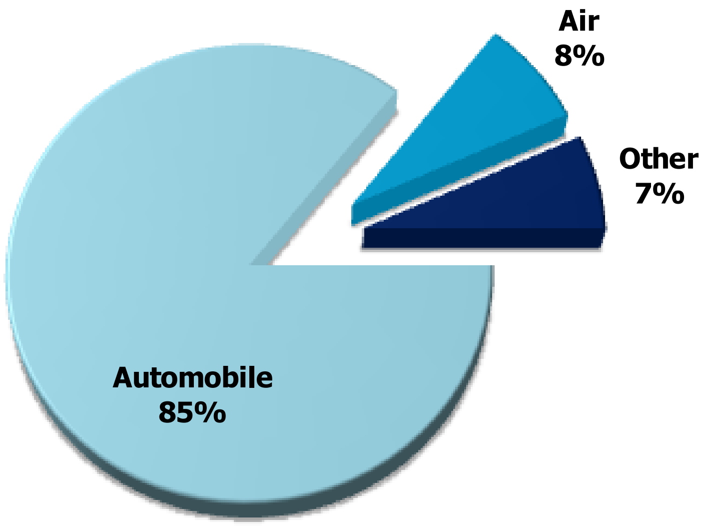
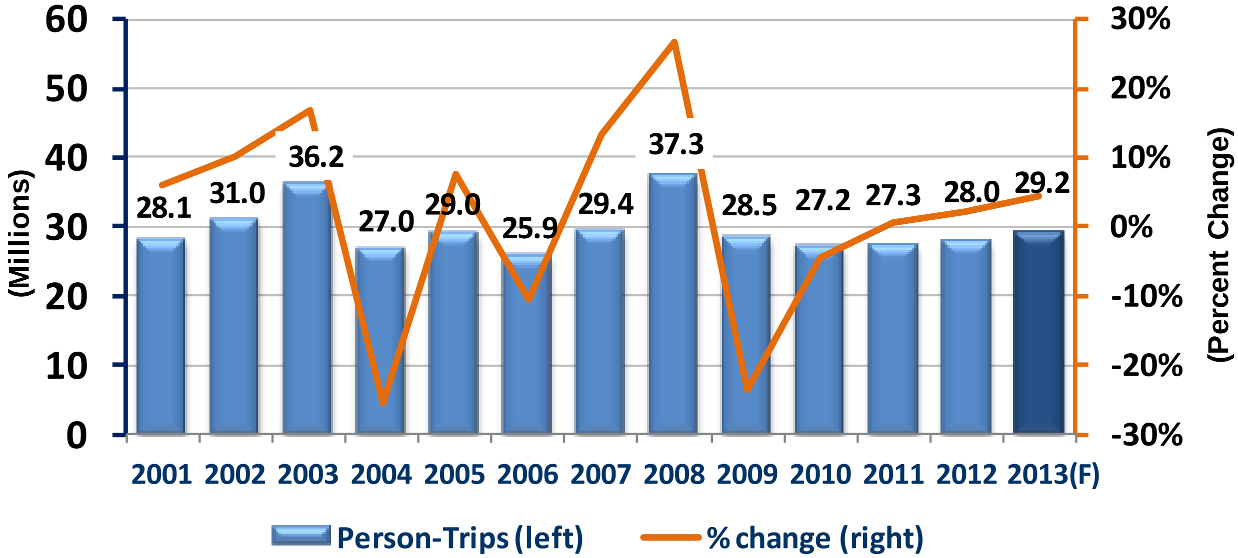
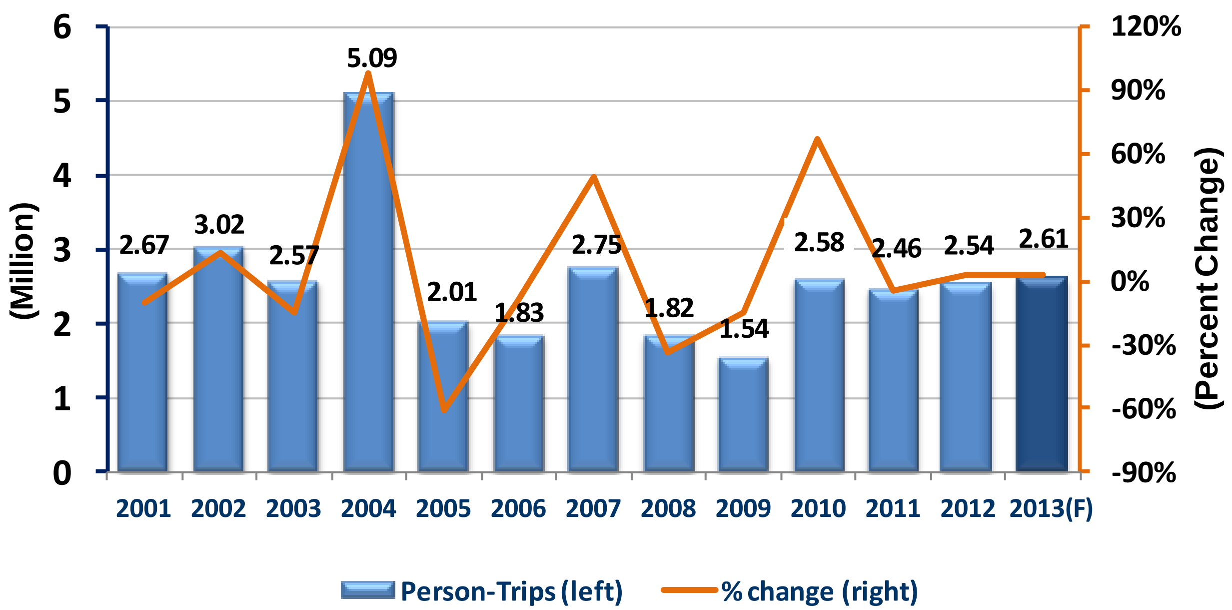


CHART 3
LABOR DAY TRAVELERS 2001-2013
AUTOMOBILE PERSON-TRIPS*



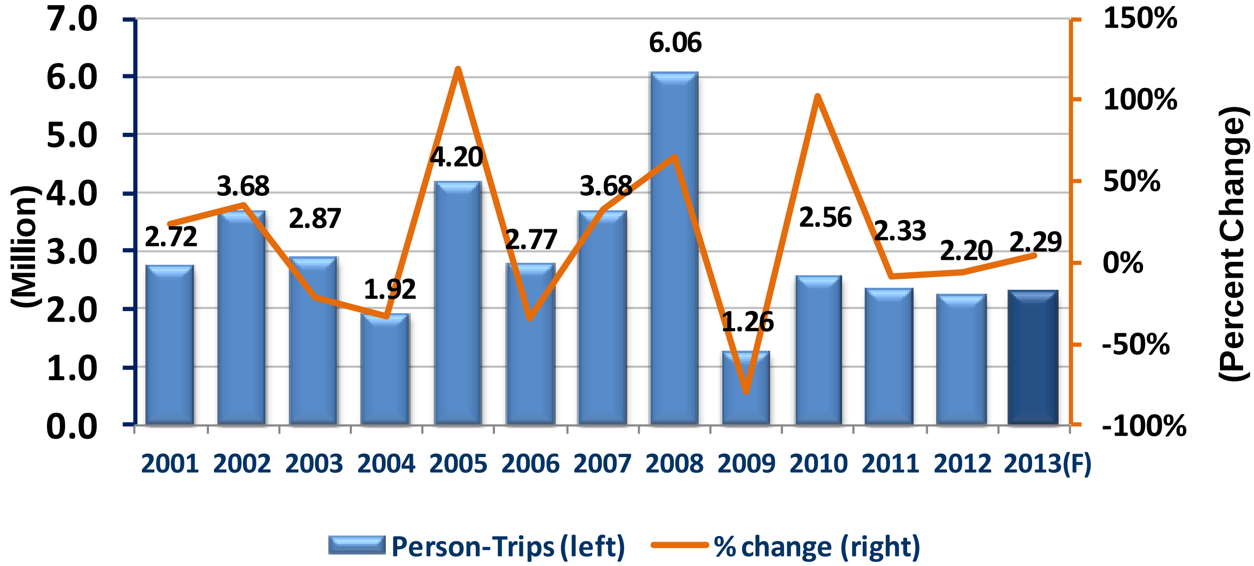
2001-2012 represent actual travel results. 2013 is a forecast.

CHART 4
LABOR DAY TRAVELERS 2001-2013
AIR PERSON-TRIPS*



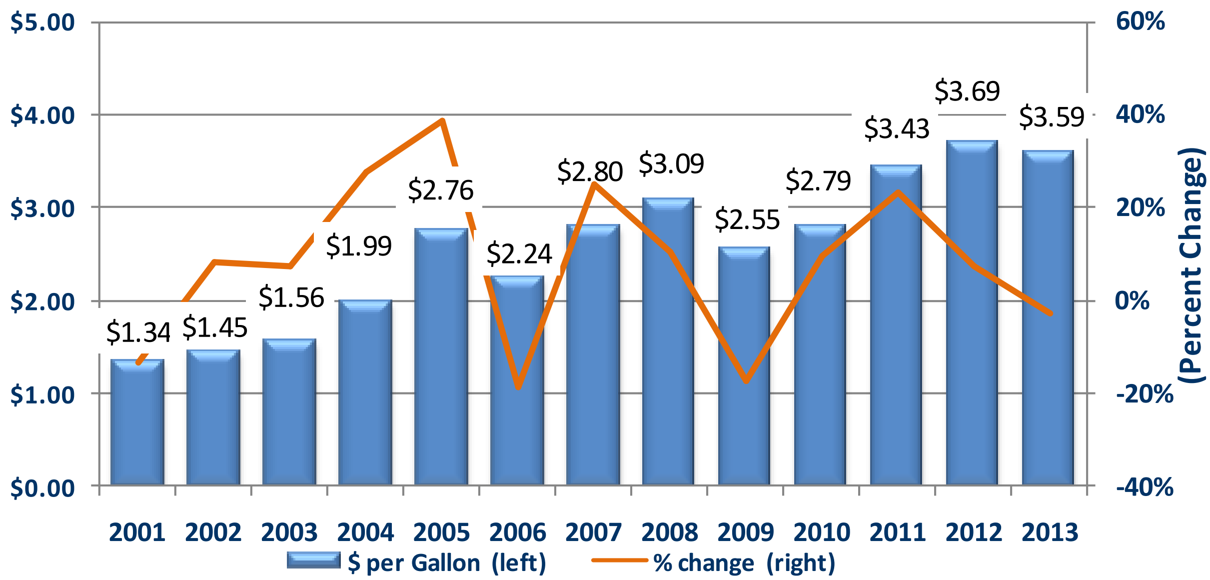
2001-2012 represent actual travel results. 2013 is a forecast.

CHART 5
LABOR DAY TRAVELERS 2001-2013
OTHER MODES OF TRAVEL PERSON-TRIPS*



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

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



Source: AAA Fuel Gauge Report

** August 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.*

***2013 gasoline price is an August average through August 13, 2013.*

Travel by Region: East North Central

The East North Central (ENC) region is forecast to see a modest upswing in travel over the upcoming Labor Day holiday period. The number of total person-trips originating from the ENC is expected to increase 3.5 percent year over year. While employment growth and housing activity are the bright spots in the national economy, the pace of the current expansion remains subdued in the ENC. Real gross regional product is expected to grow just 0.4 percent compared with the third quarter of 2012, while the unemployment rate is forecast to decline just 0.3 percent over that same time span. Automobile travel is expected to grow 3.5 percent relative to last Labor Day, while airline travel is expected to increase 1.8 percent. Total person-trips in the ENC region are projected to account for 12.6 percent of the regional population, which is above the national frequency of 10.7 percent.

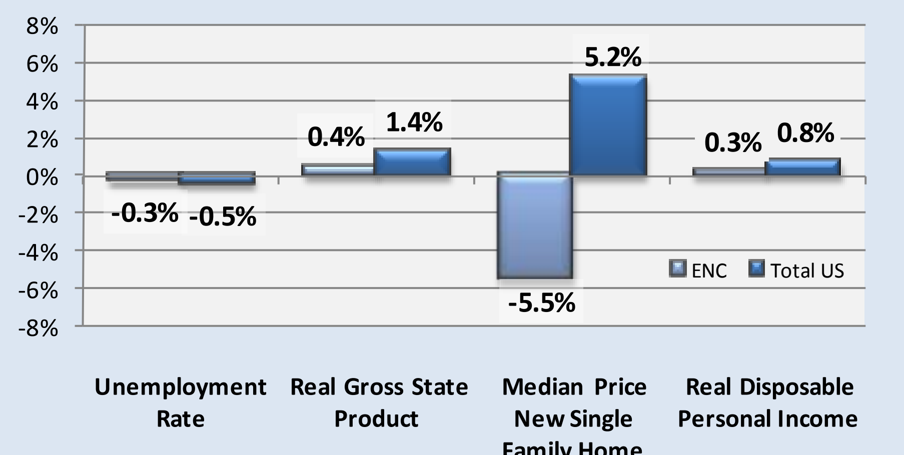
TABLE 1A
2013 LABOR DAY TRAVEL FORECAST – EAST NORTH CENTRAL REGION AND UNITED STATES

	East North Central			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	3.5%	5.89	12.6%	4.2%	34.07	10.7%
Automobile (millions of person trips)	3.5%	5.27	11.3%	4.3%	29.17	9.2%
Air (millions of person trips)	1.8%	0.22	0.5%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	8.0%		-0.5%	7.6%	
Real Gross Product ($, bn)*	0.4%	1,872		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	-5.5%	224		5.2%	260	

With over 20,000 new jobs created, payrolls in the East North Central expanded again in the second quarter of 2013. This marks the 13th consecutive quarter of employment growth in the combined ENC states. Indiana, Minnesota, and Ohio together added over 41,000 jobs, while Wisconsin and Illinois fumbled away half of these gains. The unemployment rate is expected to reach 8 percent, falling 0.3 percent in the third quarter compared with last Labor Day, but will remain above the national jobless rate of 7.6 percent. However small the improvements to the regional indicators, an improving employment picture and stronger economic output will be enough to support a modest increase in total person-trips originating from the ENC this Labor Day.

The housing recovery remains among the bright spots in the national economy. Existing home sales jumped in May to a 5.18-million-unit annual rate, the highest level since November 2009, while the FHFA House Price Index was up 7.3 percent from May 2012. The ENC region, however, is falling behind. The median price of a new single-family home in the ENC is expected to decline 5.5 percent in the third quarter, compared with a 5.2 percent increase nationally. Foreclosure inventory is shrinking rapidly; however, the share of

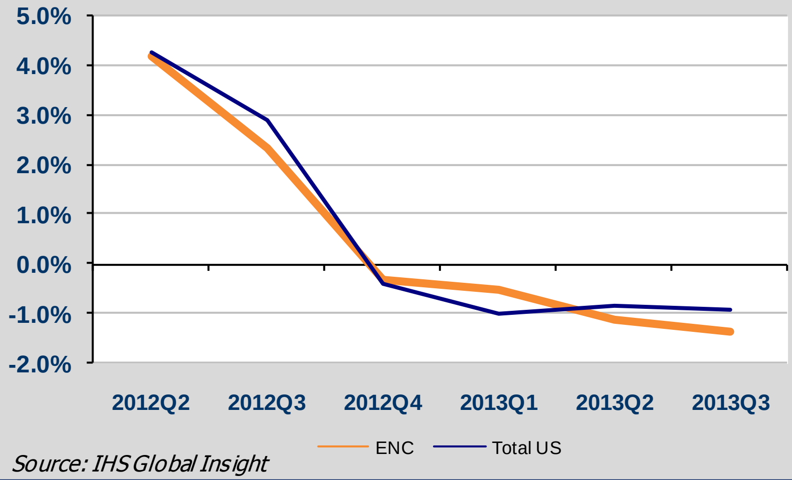
Chart 1A
YOY Growth, 2012Q3 to 2013Q3
East North Central and United States



Soure: IHS Global Insight

nationally foreclosed loans remains about twice its long-term average prior to the housing bust. Illinois and Michigan were the among the states hit hardest by the foreclosure crisis, and as a result have the farthest to go to return to normal levels. Foreclosure inventory fell in both states in the first quarter (down 1.6 percent in Illinois, down 1.1 percent in Michigan) and as the share of distressed homes continues to drop, home prices in the ENC will start to pick up and mirror the national trend

CHART 1B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



Source: IHS Global Insight

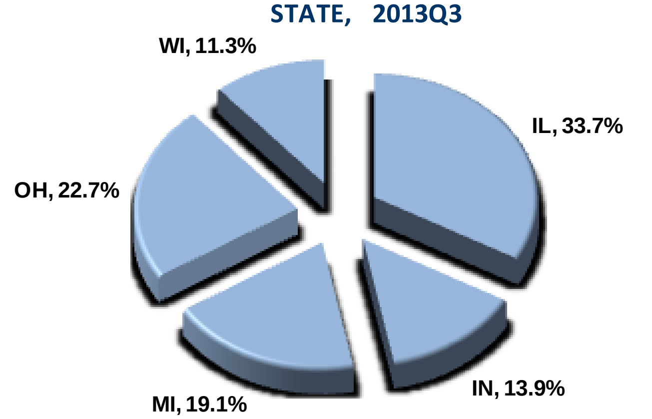
In addition to the originating travel forecast of person-trips from the East North Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders, 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), has been shrinking on an annualized basis since the fourth quarter of 2012, as illustrated in Chart 1B (left). National leisure and hospitality output has also been shrinking over that same time span.

Among the contributing states, Indiana has fared the worst, as leisure and hospitality output is expected to fall 1.9 percent in the third quarter, compared to year-earlier levels. Ohio, Illinois, Michigan, and Wisconsin are also expected to see modest declines in statewide leisure and hospitality output.

The composition of tourism industry output by state in the ENC region will remain 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 nearly 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.

CHART 1C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
EAST NORTH CENTRAL REGION MAKEUP BY STATE, 2013Q3



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: East South Central

Labor Day travel originating from the East South Central (ESC) region is expected to grow 2.7 percent relative to last year. With the long-awaited housing recovery upon us, and the private sector continuing to add jobs, consumers are the most upbeat since early 2008. Some of this growth is lagging within the region, however, and as a result, travel growth will lag the national totals. Air travel is anticipated to improve a full percentage point, while automobile travel is expected to increase 2.8 percent. The projected 1.73 million travelers from the ESC accounts for 9.2 percent of the regional population, a slightly lower frequency than is expected nationwide (10.7 percent).

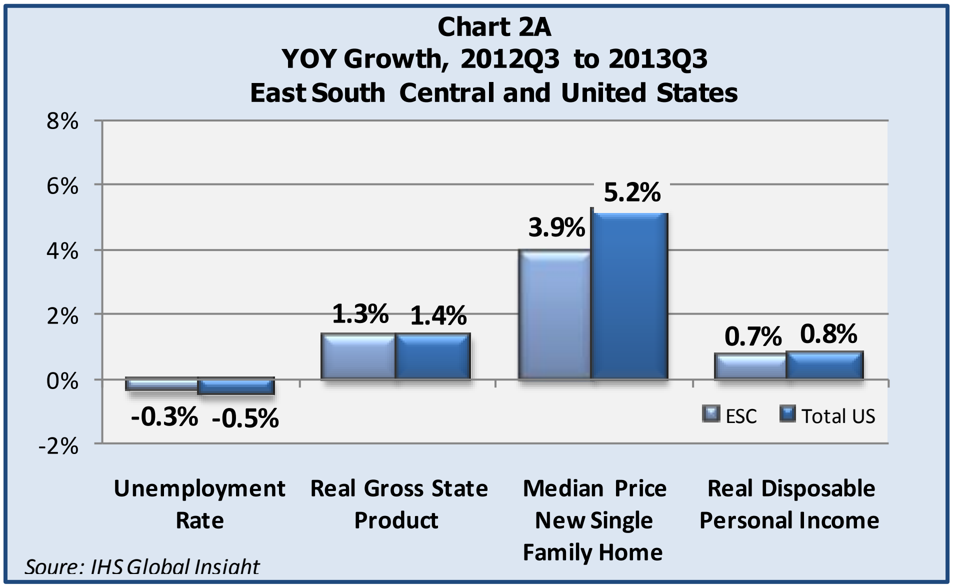
TABLE 2A

2013LABOR DAY TRAVEL FORECAST – EAST SOUTH CENTRAL REGION AND UNITED STATES

	East South Central			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	2.7%	1.73	9.2%	4.2%	34.07	10.7%
Automobile (millions of person trips)	2.8%	1.55	8.3%	4.3%	29.17	9.2%
Air (millions of person trips)	1.0%	0.08	0.4%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	7.8%		-0.5%	7.6%	
Real Gross Product ($, bn)*	1.3%	641		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	3.9%	190		5.2%	260	

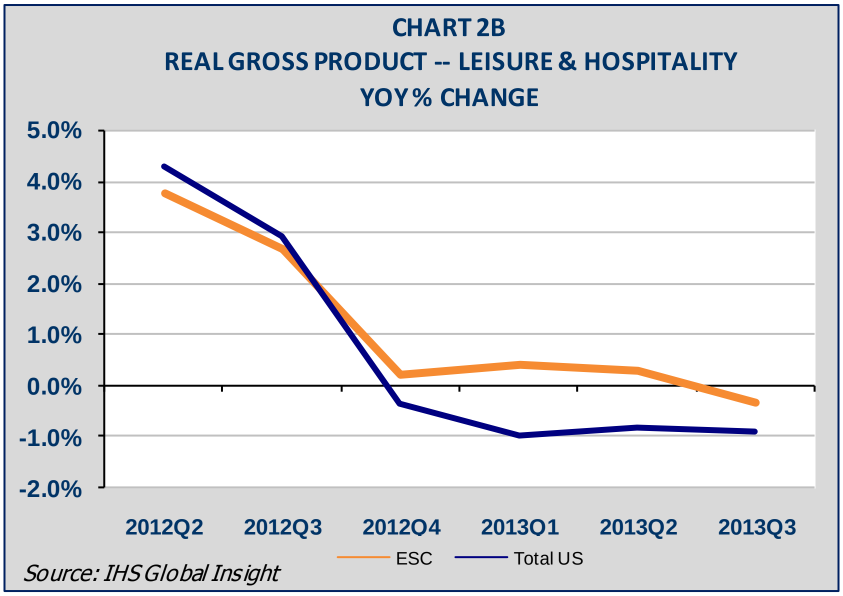
Over the past four quarters, the ESC region has continued to add jobs. Kentucky and Tennessee led the way in terms of year-over-year employment gains, while Mississippi and Alabama averaged less than 1 percent growth. The region's key service sectors—education/health, finance, and leisure/hospitality services—posted significant gains over the past year, adding more than 10,000 jobs since the second quarter of 2012. Together, these sectors constitute a large chunk of the region’s economy, so progress in these industries is a good sign for the economy as a whole.

The regional unemployment rate is expected to fall to 7.8 percent in the third quarter, which is 0.3 percentage point below last year's level. Labor market conditions are not entirely rosy, however, as the ESC experienced both a deeper recession and a slower recovery than the country as a whole. Employment levels are still below the pre-recession peak, and are expected to remain so until mid-2015.



The housing market, however, continues to display strong growth. A revival in household formation rates and a growing demand in the owner-occupied sector are pushing up home prices. The median price of a new single-family home in the ESC is expected to increase 3.9 percent in the third quarter of 2013, compared with year-ago prices. On a national scale, housing shortages caused by under-building are driving the market. Closing the gap between demand and supply will take time, because it takes about seven months on average for a single-family permit to turn into a completed home. Housing will play a pivotal role in bringing the unemployment rate down over the next three years. Residential investment should directly contribute 0.4 percentage point to real gross domestic product growth in 2013.

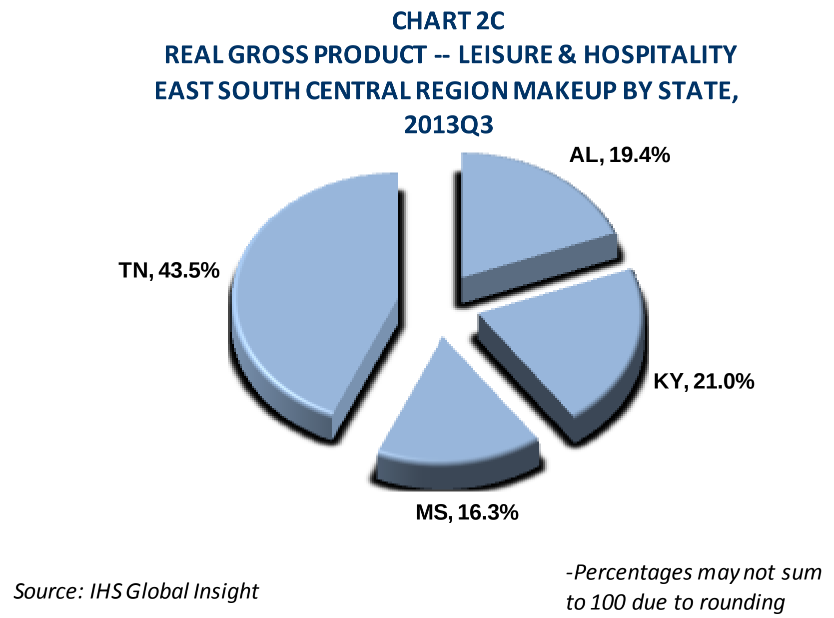
The housing recovery is supporting consumer spending, and is probably one of the reasons why national consumer spending grew 2.6 percent in the first quarter. We doubt this pace can be maintained in the near term, though, since it would be far ahead of the 1.1 percent growth rate that we expect for real disposable income in the third quarter. In the ESC region, real incomes are expected to increase 0.7 percent in the third quarter, held back by the expiry of the payroll tax cut, high (though falling) debt burdens, and a lack of confidence in the government's ability to make things better. As a result, we expect only a modest increase in total person-trips originating from the ESC this Labor Day.



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 tourism industry in the ESC, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has been decelerating since the second quarter of 2012. After experiencing virtually no growth between the last quarter of 2012 and the second quarter of 2013, regional tourism output is expected to contract by 0.3 percent in the third quarter of 2013, compared to 0.9 percent nationally,

The share of tourism industry output in the ESC region is comparatively even. Tennessee is the largest contributing state, making up 43.5 percent of ESC's tourism output, while Alabama (19.4 percent), Kentucky (21 percent) and Mississippi (16.3 percent) make up the remaining three-fifths of the total.



Travel by Region: Middle Atlantic

For Labor Day 2013, travel originating from the Middle Atlantic (MATL) region is expected to improve by 4.2 percent relative to Labor Day 2012, on a par with the national average. Despite continued, positive developments in the regional labor market, the factors driving the economy are still mixed. As a result, the increase in expected travel relative to Labor Day 2012 remains modest. Travel by automobile is projected to improve by 4.3 percent, while air travel is anticipated to grow by 2.6 percent. Total person-trips in the Middle Atlantic will account for 11.5 percent of the population, which is above the national frequency of 10.7 percent.

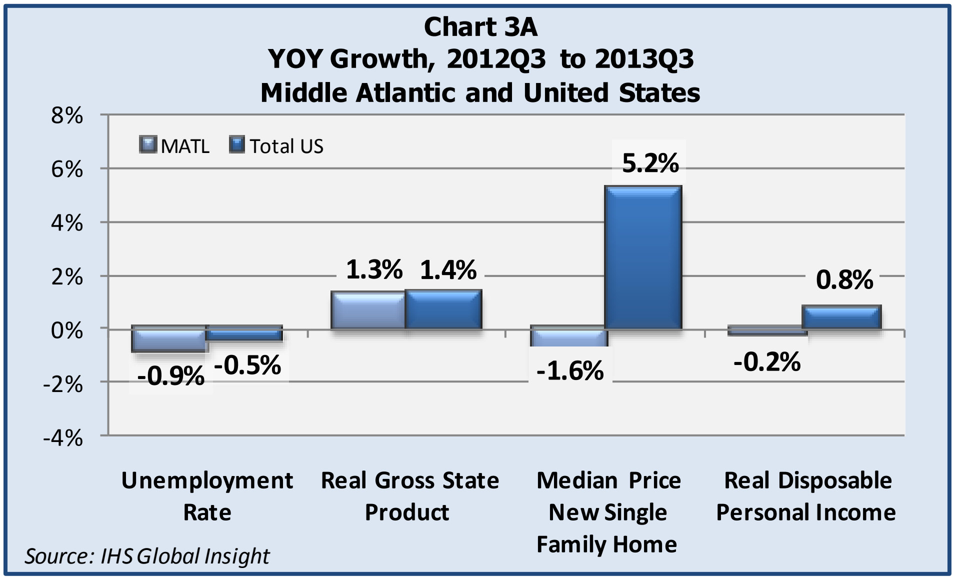
TABLE 3A

2013 LABOR DAY TRAVEL FORECAST – MIDDLE ATLANTIC REGION AND UNITED STATES

	Middle Atlantic			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	4.2%	4.74	11.5%	4.2%	34.07	10.7%
Automobile (millions of person trips)	4.3%	3.99	9.7%	4.3%	29.17	9.2%
Air (millions of person trips)	2.6%	0.40	1.0%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.9%	7.8%		-0.5%	7.6%	
Real Gross Product ($, bn)*	1.3%	2,021		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	-1.6%	357		5.2%	260	

The Middle Atlantic's economy is growing at a solid pace, adding nearly 55,000 jobs in the second quarter of 2013. The region's service industries are leading the current expansion, with help from the retail trade and construction sectors. The manufacturing sector continues to struggle, however, and has yet to fully recover from the recession. At a national level, the ISM manufacturing index moved back above neutral in June (from 49.0 to 50.9), leaving the two-month ISM average at essentially neutral. With year-to-date orders up less than one percent, however, it will be difficult for manufacturing to establish any forward traction in 2013.

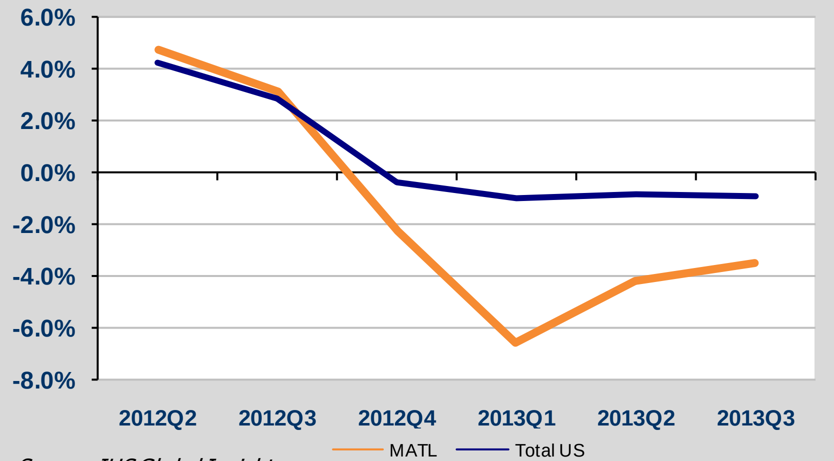
The regional unemployment rate has been steadily declining; from a high of 8.5 percent in the first quarter to a projected 7.8 percent in the third quarter of 2013. New Jersey is helping to keep that rate elevated (8.5 percent unemployment), while Pennsylvania boasts the lowest expected third-quarter jobless rate among Middle Atlantic states (7.4 percent). The Middle Atlantic region's consistently moderate job gains this year will result in positive annual employment growth of 1.1 percent in 2013, down just a touch from 1.2 percent growth in 2012.



Housing activity is sizzling, and remains one of the brightest spots in the economic recovery. Home prices rose at a record rate in April, and that strong growth is expected to continue through 2015. The Middle Atlantic region, however, is not experiencing the same home price appreciation, as the median price of a new single-family home is forecast to decline 1.6 percent compared with the third quarter of 2012. In many parts of the country, extremely low inventory is driving a meteoric rise in new home prices. The most rapid increases occured in the western states that were hit hardest by the housing crisis. The low level of available inventory is preventing sales from increasing at an even faster pace, thereby driving up home prices across the country. More homes should come onto the market as prices continue to climb, encouraging more homeowners to put their homes up for sale and lifting others out from underwater mortgages.

Despite promising developments in both the national labor and housing markets, the economy is still not out of the woods. Because of poor export growth, manufacturing output has stalled. More importantly, the federal spending sequester will keep growth in check for the rest of this year, with little evidence of policymakers working toward a "grand bargain" fiscal policy agreement. With high debt burdens, low house prices, and modest employment growth, we expect a moderate increase in total person-trips originating from the MATL region this Labor Day holiday period compared with last year.

CHART 3B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



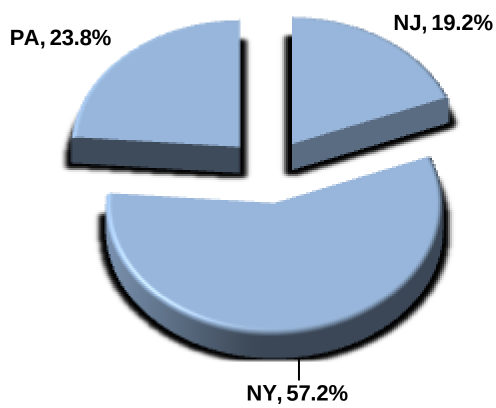
Source: IHS Global Insight

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 MATL tourism industry witnessed leisure and hospitality output (the value of goods and services produced by the leisure and hospitality industry) decline sharply in the first quarter of 2013 (see Chart 3B). While the industry's contraction eased slightly in the following quarter, this decline is expected to continue in the third quarter of this year, falling 3.6 percent compared to last year. By comparison, the national tourism industry is expected to decline 0.9 percent compared with year-earlier levels.

New York State contributes 57.2 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 and New Jersey account for the remaining 42.8 percent of regional tourism output.

CHART 3C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
MIDDLE ATLANTIC REGION MAKEUP BY STATE,
2013Q3



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: Mountain

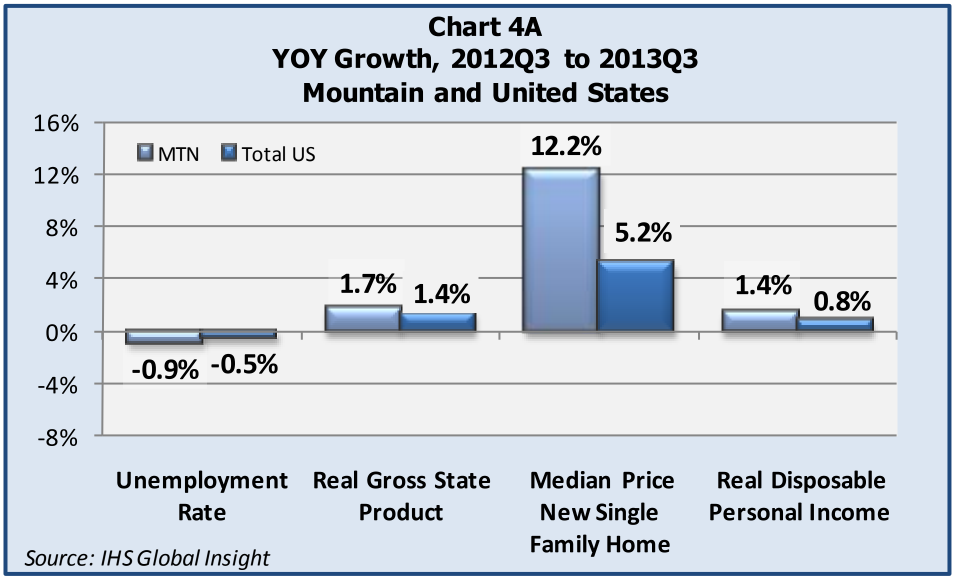
The holiday forecast for the Mountain region calls for a 5.4 percent increase in travel this Labor Day holiday versus 2012. The Mountain region's economic recovery continues to outpace much of the rest of the nation. Construction jobs are on the rise due to the burgeoning recovery in the housing market, while Utah and Denver continue to be a magnet for high-tech companies. Automobile travel is anticipated to rise by 5.5 percent, while air travel is forecast to increase 3.8 percent. The projected 2.58 million travelers from the Mountain region will account for 11.2 percent of the regional population, which is slightly above the national frequency of 10.7 percent.

TABLE 4A

2013 LABOR DAY TRAVEL FORECAST – MOUNTAIN REGION AND UNITED STATES

	Mountain			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	5.4%	2.58	11.2%	4.2%	34.07	10.7%
Automobile (millions of person trips)	5.5%	2.15	9.4%	4.3%	29.17	9.2%
Air (millions of person trips)	3.8%	0.22	0.9%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.9%	7.0%		-0.5%	7.6%	
Real Gross Product ($, bn)*	1.7%	899		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	12.2%	225		5.2%	260	

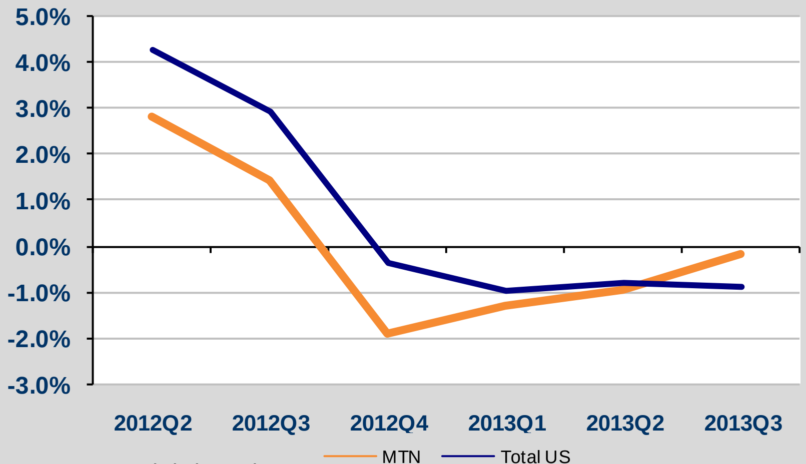
The recovery in the Mountain region continues to outpace much of the rest of the nation. In the first quarter, payrolls were up 1.9 percent compared with the year previous, second-highest among the nine census regions. Construction employment is growing due to the arrival of the long-awaited housing recovery. Increased commercial activity is also boosting construction employment as firms add capacity in production and infrastructure. Additionally, the Mountain region continues to be a magnet for high-tech companies, which are relocating from other regions to take advantage of the high proportion of post-secondary graduates. Job "clustering" seems to be a hallmark of the high-tech industry, and metro areas such as Salt Lake City and Denver are reaping the benefits of this trend. Both Utah and Denver have been recognized as leaders in creating a business-friendly policy environment, and have a relatively young and well-educated workforce. The region's unemployment rate is expected to reach 7.0 percent in the third quarter, the third-lowest among the nine census regions.



Housing activity in the Mountain region is sizzling. In 2012, housing starts were up 44 percent in Colorado, after gains of around 20 percent in 2010 and 2011. In Utah, housing starts are expected to increase more than 25 percent in 2013 and 2014, respectively, as the recovery fully takes hold. Home prices are rising for several reasons: inventories are lean, interest rates are relatively low, the economy is growing and creating jobs, the share of distressed homes is dropping, and expectations that prices are likely to continue to rise are inducing prospective homebuyers to bid soon and bid higher. In the Mountain region, the median price of new single-family homes is forecast to increase 12.2 percent in the third quarter, relative to year-earlier prices. Household formation is reviving, and the recovery in demand is spreading from rental units to the owner-occupied sector. Consequently, home price gains are likely to remain strong for some time.

The housing recovery is supporting consumer spending and is probably one of the reasons why nationwide consumer spending grew by 2.6 percent in the first quarter. However, we doubt that this pace can be maintained in the Mountain region, since it would be far ahead of the projected 1.4 percent increase in third-quarter real disposable incomes. While the Reuters/University of Michigan Consumer Sentiment Index is at its highest level in six years, consumers have not totally thrown caution to the wind. Households still face too many negatives to allow a robust consumer spending recovery including high (though falling) debt levels, a loss of income due to the expiry of the payroll tax, and a lack of confidence in the government's ability to make things better. While the economic outlook for Mountain residents has improved, the forecast still calls for a modest increase in person-trips this coming holiday.

CHART 4B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



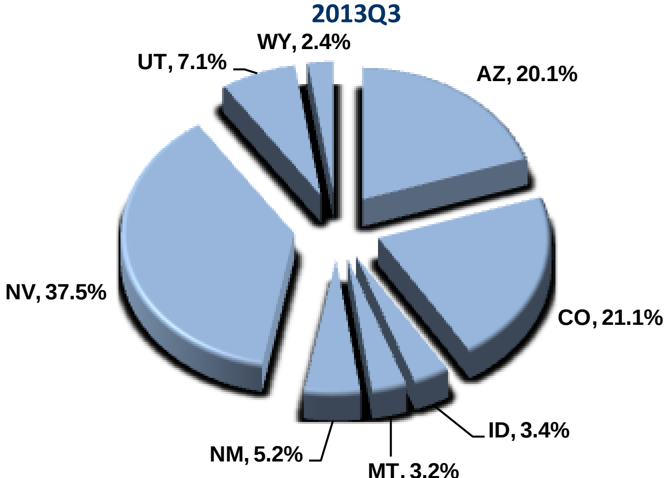
Source: IHS Global Insight

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 industry output (the value of goods and services produced by the leisure and hospitality industry), has been falling since the fourth quarter of 2012. Since then, the declines have decelerated, and tourism output is expected to fall just 0.2 percent in the third quarter, compared with year-earlier levels (for comparison, the national growth rate is 0.9 percent).

Nevada, Colorado, and Arizona contribute the largest amount of tourism output to the Mountain regional as a whole. Nevada, which includes the major tourist city of Las Vegas, is expected to contribute 37.5 percent of regional tourism output. The remaining states of Utah, New Mexico, Idaho, Montana, and Wyoming contribute a little over one-fifth of the total regional output.

CHART 4C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
MOUNTAIN REGION MAKEUP BY STATE,
2013Q3



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: New England

During the upcoming Labor Day holiday, travel originating from the New England (NENG) region is anticipated to grow by 4.4 percent, relative to Labor Day 2012. While the housing market is reviving, employment is growing, and consumer confidence is on the rise, the economic headwinds still exist. As a result, automobile travel is anticipated to rise by 4.5 percent, relative to Labor Day 2012, while air travel is forecast to increase 2.7 percent. The boost in total person-trips from the New England region is slightly higher than the nation as a whole (4.2 percent), as is the percentage of the population expected to travel (11.7 percent versus 10.7 percent nationally).

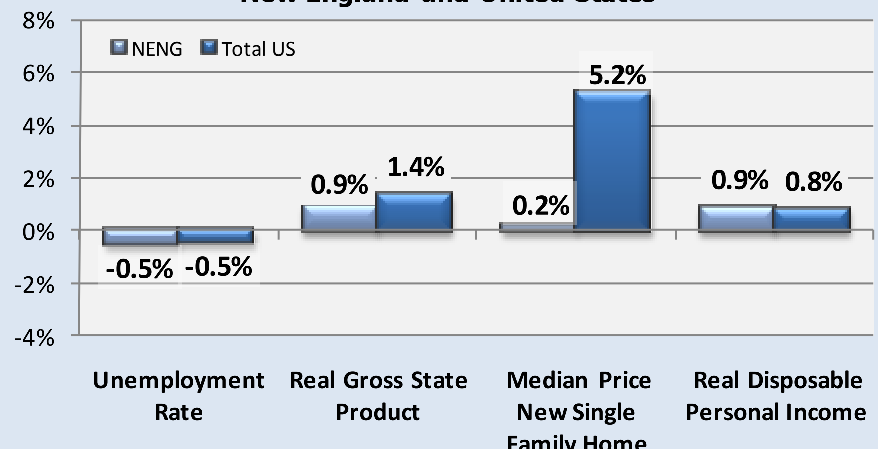
TABLE 5A
2013 LABOR DAY TRAVEL FORECAST – NEW ENGLAND REGION AND UNITED STATES

	New England			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	4.4%	1.71	11.7%	4.2%	34.07	10.7%
Automobile (millions of person trips)	4.5%	1.48	10.1%	4.3%	29.17	9.2%
Air (millions of person trips)	2.7%	0.12	0.8%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.5%	6.8%		-0.5%	7.6%	
Real Gross Product ($, bn)*	0.9%	730		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	0.2%	415		5.2%	260	

Recovery in the New England economy slowed in the second quarter of 2013, as the region added only 8,500 jobs. At the sector level, the healthcare; professional, scientific, and technical services; and administrative and support service sectors fared well, combining for a net gain of 22,900 jobs. Steady performances in these areas of the economy is good news for New England, as these are the industries with the highest growth potential. Another strong contributor was the construction sector, which added over 3,600 jobs in the second quarter. The unemployment rate is expected to fall 0.5 percentage points compared with this time last year, reaching 6.8 percent in the third quarter.

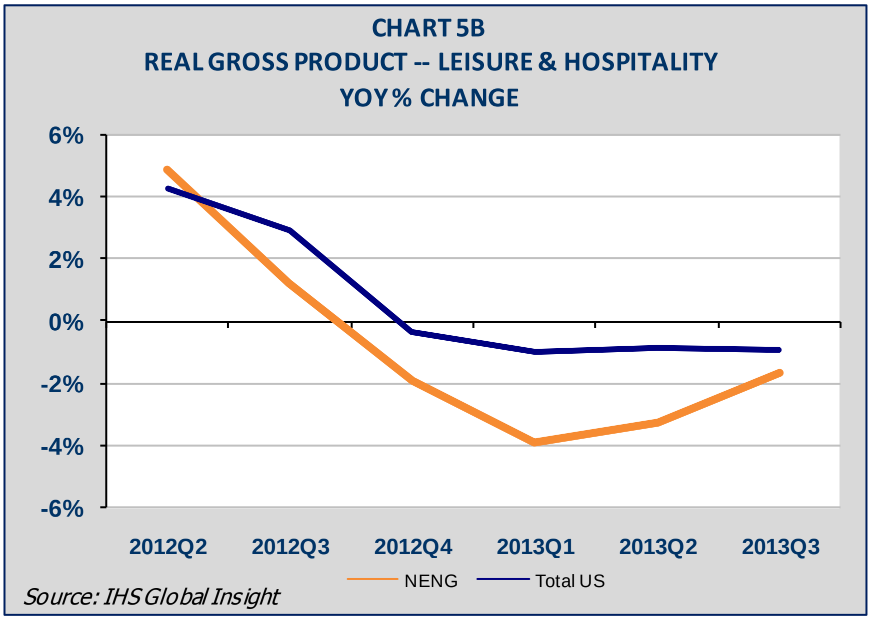
The long-awaited housing recovery is upon us, and housing activity is sizzling at the national level. Home sales are at levels last seen before the recession began, and home prices rose at a record monthly rate in April. In New England, however, the rise in home values has been more gradual, mostly because prices did not fall as sharply as in other regions. In the third quarter, the median price of new single-family homes is forecast to increase 0.2 percent above year ago prices, as compared to 5.2 percent nationally. In many parts of the country, extremely low inventory is driving a meteoric rise in new home prices. The most rapid increases occured in the western states that were hit hardest by the housing crisis.

Chart 5A
YOY Growth, 2012Q3 to 2013Q3
New England and United States



Source: IHS Global Insight

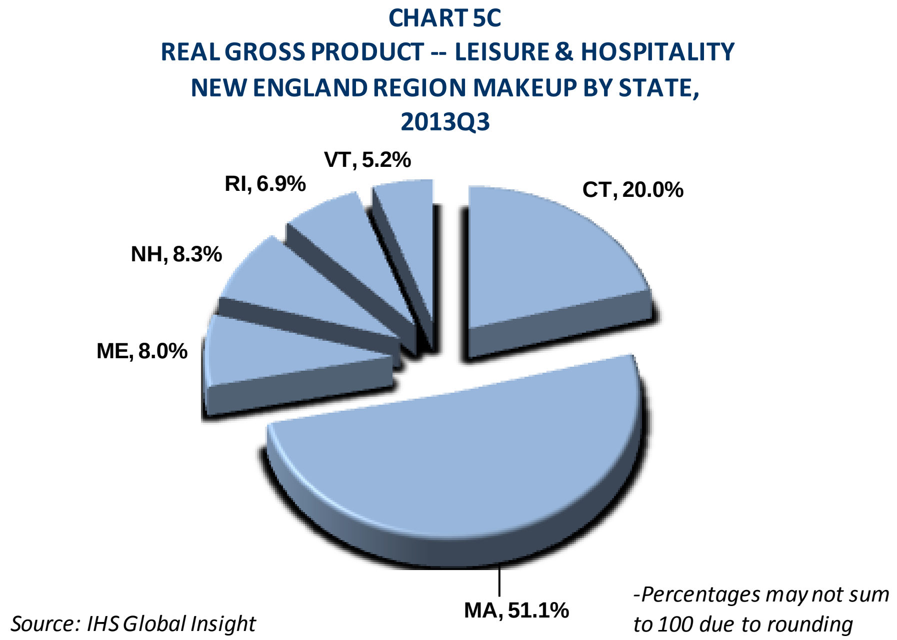
Real disposable income growth in the region is forecast to increase by 0.9 percent in the third quarter of 2013, compared with year-earlier levels. While consumer confidence has grown stronger, weak growth in real disposable incomes is not sufficient to support a strong increase in consumer spending. Furthermore, households are continuing to face familiar troubles—high (though falling) debt burdens, payroll tax cut expiration, modest employment growth, and low (though rising) house prices. With these challenges still in place, a significant increase in discretionary spending remains unlikely.



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.

Leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry) in New England is expected to decline by 1.7 percent in the third quarter of 2013. New England's leisure and hospitality sector experienced a sharp contraction in the first quarter of 2013 when output fell by 3.9 percent. Since then, the industry performance has improved, but we do not expect to see positive year-over-year growth until the fourth quarter of 2013.

Massachusetts is the largest contributor to the region's travel industry, accounting for 51.1 percent of regional tourism output. With Boston being one of the biggest attractions in the region, this is hardly surprising. Connecticut (20 percent), New Hampshire (8.3 percent), Maine (8.0 percent), Rhode Island (6.9 percent) and Vermont (5.2 percent) account for the remaining tourism output, as of the third quarter of 2013.



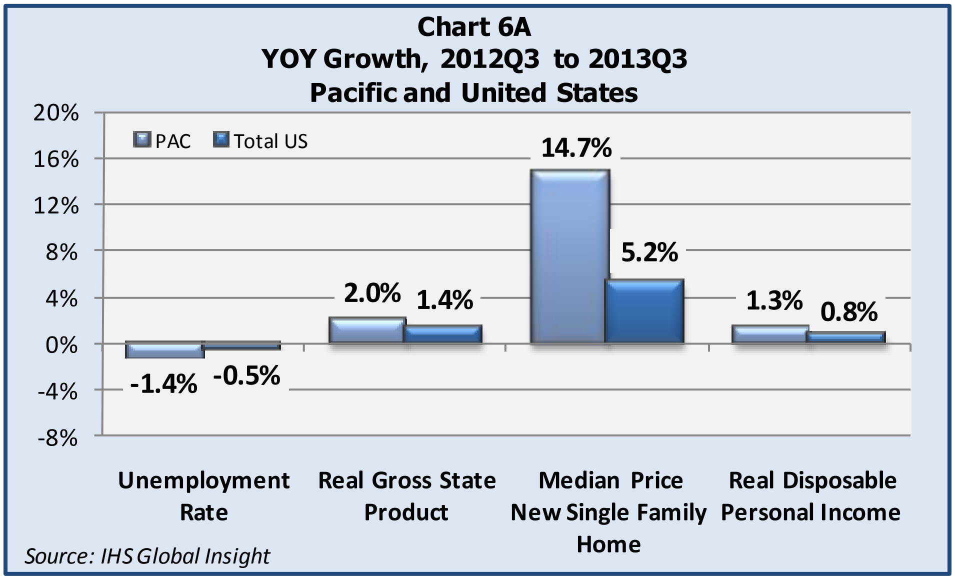
Travel by Region: Pacific

Relative to last year, travel demand in the Pacific region is expected to increase moderately this Labor Day, albeit at a quicker pace than is expected nationwide. Despite positive movement in key economic drivers, especially in the housing market, the overall pace of recovery in the region remains slow. Real gross state product in the region is projected to increase 2.0 percent in the third quarter of 2013, while the unemployment rate is expected to tick down 1.4 percentage points. Total Labor Day person-trips are forecast to increase 5.7 percent over last year's levels; the second-fastest rate of growth among the nine census regions. Automobile trips are expected to increase 6.0 percent, and air travel in the region is forecast to increase 4.2 percent. Roughly 10.3 percent of Pacific residents are expected to travel for Labor Day this year, which is slightly less than the national frequency of 10.7 percent. As is typically the case, the Pacific region is projected to see a higher share of its residents travel by air for the upcoming holiday weekend (1.3 percent compared with the national share of 0.8 percent).

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

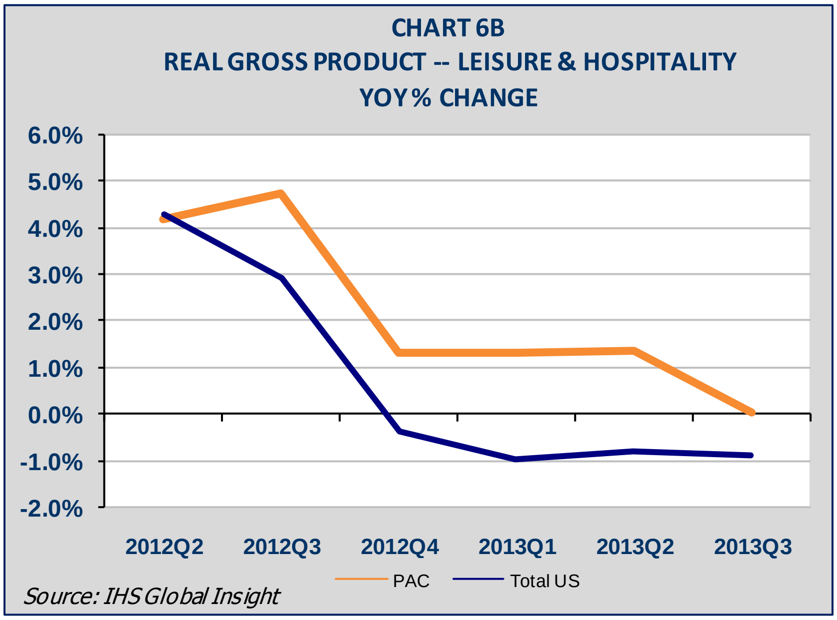
	Pacific			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	5.7%	5.30	10.3%	4.2%	34.07	10.7%
Automobile (millions of person trips)	6.0%	4.20	8.1%	4.3%	29.17	9.2%
Air (millions of person trips)	4.2%	0.69	1.3%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-1.4%	8.4%		-0.5%	7.6%	
Real Gross Product ($, bn)*	2.0%	2,433		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	14.7%	376		5.2%	260	

The Pacific region continues to make slow but steady progress towards recovering from the Great Recession. Key economic indicators in the region are showing signs of life, and consumer confidence is on the rise. Payrolls increased in the second quarter of the year, with the region adding over 71,000 jobs. The regional unemployment rate, which is the highest in the nation, is expected to decline 1.4 percentage points since Labor Day 2012, despite adding over 21,000 people to the labor force. The only drag on the Pacific region was contractions in the public sector, as total employment increased 1.7 percent year on year in the second quarter.



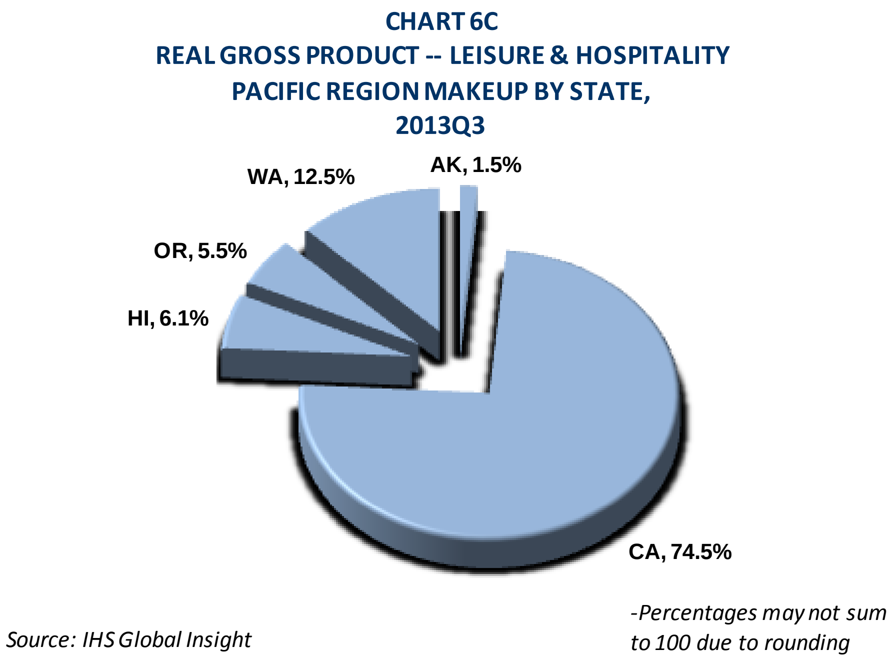
Regional housing market activity is also on the rise. Relative to this time last year, the median price of new single-family homes is expected to increase 14.7 percent, which is significantly higher than the national average (5.2 percent). The most rapid increases occurred in the western states that were hit hardest by the housing crisis. In California, the median price of new homes is expected to increase nearly 18 percent from the third quarter of last year. The price of existing homes is also increasing, boosting household wealth and subsequently improving consumer spending.

Real disposable personal income is expected to be just 1.3 percent higher than in the third quarter of 2012. Though consumer confidence is at its highest level since 2008, weak growth in real incomes and familiar headwinds such as high (though falling) debt levels and payroll tax cut expiration are not conducive to a robust discretionary spending recovery. While the job market is improving, the unemployment rate in the Pacific region remains highest in the nation at 8.4 percent. Paying down debt and saving for the future has taken precedence over travel spending in recent years, and continued uncertainty about the future of the job market is preventing consumers from spending much on travel.



With little evidence of policymakers working towards an agreement on fiscal policy, sequestration continues to take a toll on the national economy. The uncertainty surrounding fiscal policy and slow growth in export demand will continue to suppress economic growth. The federal government sector is continuing to shed jobs. Over 5,300 federal jobs were eliminated in the second quarter nationwide, which brought total federal employment down 3 percent compared to the second quarter of last year. Overall, the slow recovery in the U.S. is preventing a robust resurgence in travel demand, as is reflected in this year's forecast.

Growth in the Pacific region's total leisure and hospitality output, as measured by the value of goods and services produced by the leisure and hospitality industry, is expected to be flat in the third quarter of 2013, compared with the same time last year. Still, the region is expected to fare better than nation as a whole, which is expected to see a 0.9 percent decline in tourism output relative to the third quarter of 2012. Washington will be the strongest performer in the region with an expected 5.7 percent increase in tourism output.



Travel by Region: South Atlantic

Labor Day travel originating from the South Atlantic (SATL) region is projected to increase by 2.9 percent compared with last year. The regional economy continues to make progress towards recovery, but sluggish growth continues to suppress growth in travel spending. The unemployment rate in the region is forecast to drop 0.9 percentage point in the third quarter of 2013, while real gross regional product is forecast to increase 1.5 percent. As such, travel by automobile and airplane is expected to increase by a modest amount this Labor Day compared with last year (3.1 percent and 1.3 percent, respectively). Of the regional population, 9.8 percent of residents are expected to travel for the upcoming holiday, which is lower than the expected national frequency of 10.7 percent.

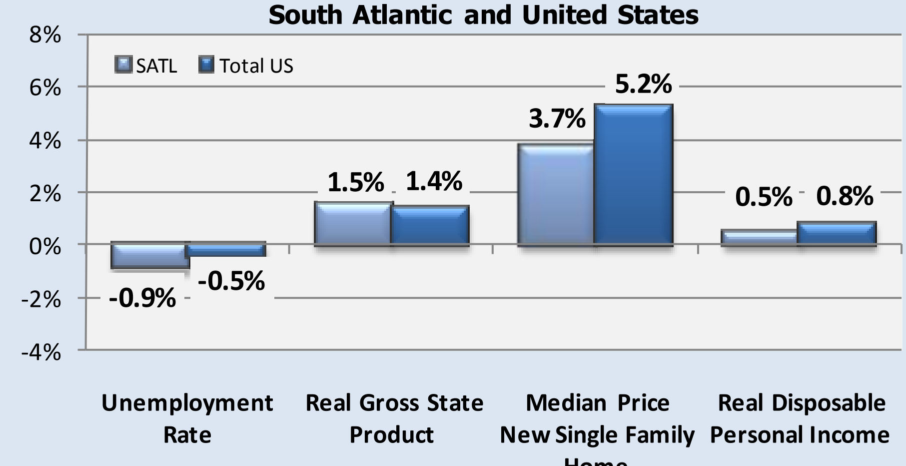
TABLE 7A

2013 LABOR DAY TRAVEL FORECAST – SOUTH ATLANTIC REGION AND UNITED STATES

	South Atlantic			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	2.9%	6.07	9.8%	4.2%	34.07	10.7%
Automobile (millions of person trips)	3.1%	5.29	8.5%	4.3%	29.17	9.2%
Air (millions of person trips)	1.3%	0.47	0.8%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.9%	7.3%		-0.5%	7.6%	
Real Gross Product ($, bn)*	1.5%	2,501		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	3.7%	267		5.2%	260	

The South Atlantic region, along with the nation, is making strides towards economic recovery. Consumer confidence is at its highest level since 2008, suggesting that consumers are seeing a light at the end of the tunnel. The private sector continues to add jobs, but economic growth for the country as a whole remains slow. The SATL region faces a unique combination of circumstances that have made it difficult to keep pace with a comparatively faster, though still sluggish national recovery. First, the South Atlantic is home to states such as North Carolina and Georgia that rely heavily on the manufacturing industry. Slower growth around the world has created a headwind for US export growth, at the expense of the region's manufacturing industry. Second, despite gains in the private sectors of Maryland, Virginia, and the District of Columbia, the influential government sector acted as a drag on payrolls in the first four months of 2013. The federal spending sequester is likely to hinder economic growth in these states through the end of the year. Total nonfarm employment in the South Atlantic increased a modest 1.5 percent in the second quarter, compared with year-earlier levels.

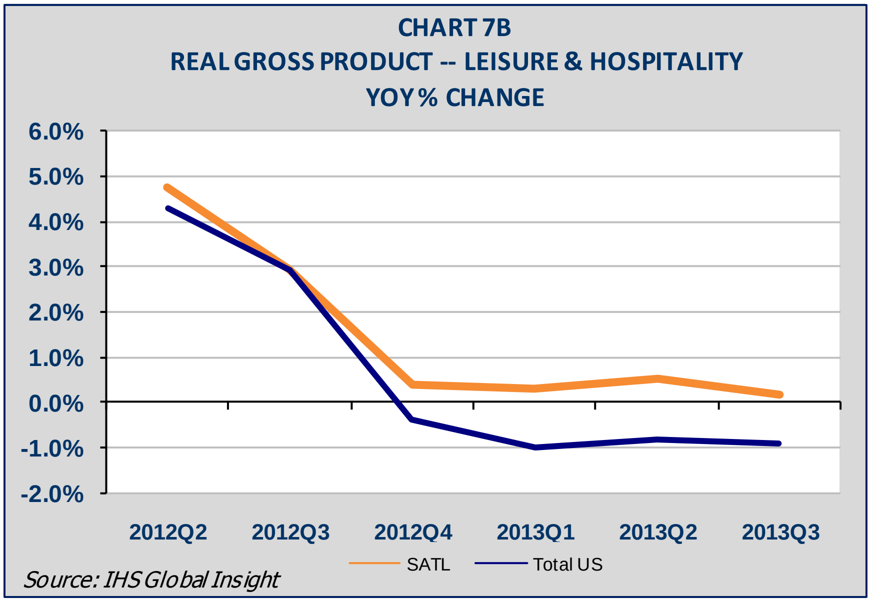
Chart 7A
YOY Growth, 2012Q3 to 2013Q3
South Atlantic and United States



Source: IHS Global Insight

Real disposable income, which plays a significant role in travel decisions, is forecast to increase just 0.5 percent in the third quarter of 2013, relative to one year earlier. This is slightly lower than the comparable national figure of 0.8 percent. With persistent uncertainty surrounding the regional labor market, particularly in states with a disproportionate number of federal jobs, a modest increase in real income will not be enough to spark a sizable increase in holiday travel volumes originating from the South Atlantic.

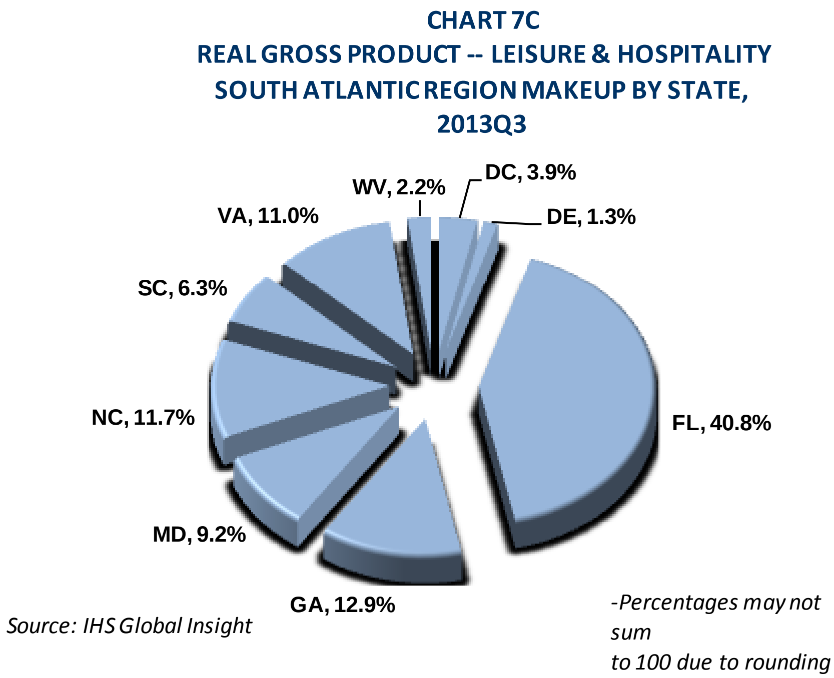
The long-awaited housing recovery is upon us, and housing activity is sizzling at the national level. Unfortunately, the SATL housing market region is lagging behind the rest of the nation. Home prices are rising for several reasons: inventories are lean, interest rates are relatively low, the economy is growing and creating jobs, and the share of distressed homes is dropping. In the SATL, foreclosure inventory is shrinking rapidly, particularly in Florida, which was hit especially hard during the crash. In the first quarter, Florida saw the largest decline in foreclosure inventory, but despite a 2.9-percentage-point decline, it still retains the largest share of foreclosed homes in the country, at a whopping 11.4 percent. The sale of foreclosed homes constitutes a drag on new home prices, and the median price of a new single-family home in the SATL is expected to increase 3.7 percent in the third quarter, compared with 5.2 percent nationwide. Once the foreclosure inventory is gobbled up, new home prices will continue to climb, and accelerate.



In addition to the originating travel forecast of person-trips from the South 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 tourism industry, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), declined at the end of last year for the greater United States, but the SATL region realized positive growth. In the third quarter of 2013, tourism output in the South Atlantic is forecast to grow 0.2 percent year over year, compared with a loss of 0.9 percent nationwide.

Florida contributes 40.8 percent of tourism output to the South Atlantic tourism industry, with its draw of high-profile beaches and amusement parks. Florida will also see the highest year-on-year growth in tourism output among South Atlantic states (1.4 percent). Georgia contributes the second-largest share of tourism output (12.9 percent), with Atlanta being one of the top cities for tourism in the United States. North Carolina (11.7 percent), Virginia (11 percent), Maryland (9.2 percent), South Carolina (6.3 percent), the District of Columbia (3.9 percent), West Virginia (2.2 percent), and Delaware (1.3 percent) contribute the remaining portions of regional tourism output.



Travel by Region: West North Central

The West North Central (WNC) region is expected to witness a 6.4 percent increase in Labor Day travel in 2013, making it the strongest-performing region in the country. Automobile trips are expected to increase 6.5 percent compared with last Labor Day, while air travel is forecast to rise 4.7 percent. A higher-than-average share of the West North Central region typically travels over the holidays due to its widespread geography. This is the case for Labor Day this year, with 13.1 percent of the WNC population forecast to travel, compared with 10.7 percent of the national population.

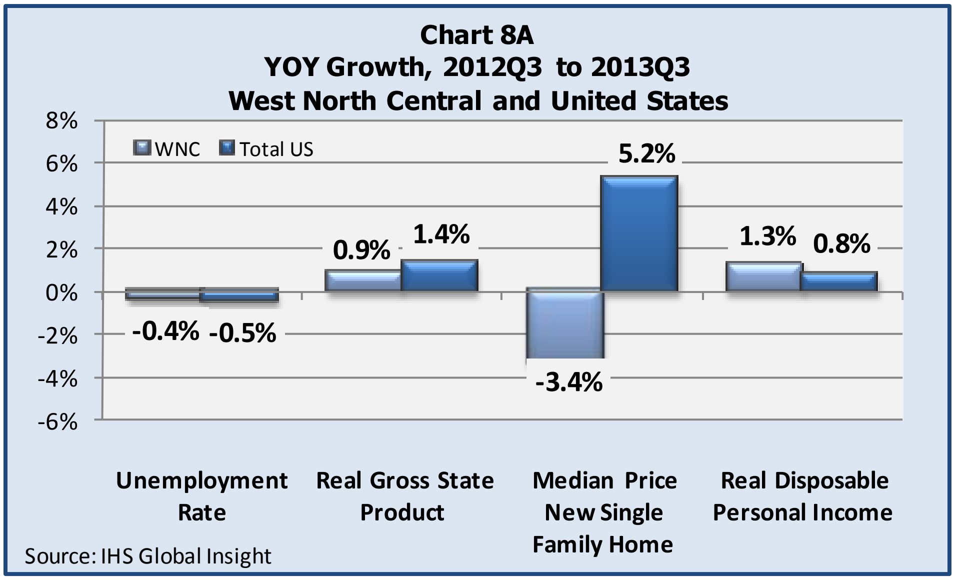
TABLE 8A

2013 LABOR DAY FORECAST – WEST NORTH CENTRAL REGION AND UNITED STATES

	West North Central			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	6.4%	2.73	13.1%	4.2%	34.07	10.7%
Automobile (millions of person trips)	6.5%	2.43	11.6%	4.3%	29.17	9.2%
Air (millions of person trips)	4.7%	0.11	0.5%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.4%	5.3%		-0.5%	7.6%	
Real Gross Product ($, bn)*	0.9%	890		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	-3.4%	230		5.2%	260	

Despite a comparatively strong performance in expected travel growth, the WNC is experiencing a similarly measured economic recovery similar to the country as a whole. Compared with year-earlier levels, payrolls in the WNC region expanded at a 1.3 percent pace in the first quarter of this year, just behind national gains of 1.5 percent. This places the WNC directly in the middle of the pack (fifth) compared with the other eight census regions. Although the regional economy is relatively healthy, with shallower job losses during the recession than many other areas of the United States, it has less ground to make up. This fact, combined with tempered rates of population growth, means that payroll expansion will be slow but steady. Total employment peaked here in the first quarter of 2008. As of the first quarter of this year, it has clawed back to 99.2 percent of that peak. The WNC labor market is on track to regain all of its lost jobs before the end of this year, and as a result, the region enjoys the lowest unemployment rate in the country (5.3 percent).

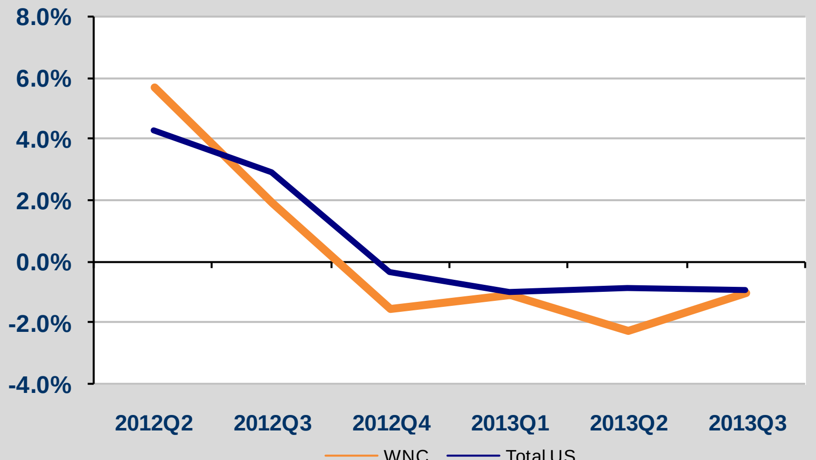
Compared with third-quarter 2012, real output in the WNC region is expected to grow 0.9 percent, versus 1.4 percent nationwide. Real disposable personal income is also expected to increase, although by just 1.3 percent compared with this time last year. With meager gains in disposable income and slow job growth in most states within the region, consumers will be cautious in increasing their discretionary spending. Moreover, with the ending of the payroll tax cut, and high (though falling) debt burdens, we expect holiday travel to increase by a modest 6.4 percent relative to Labor Day 2012, while still maintaining the fastest rate of



increase among the nine census regions.

The residential real estate market in the West North Central region remained fairly resilient throughout the housing bust. Home prices peaked at $150,212 in the second quarter of 2007, and lost only 9.4 percent of their value by the time they bottomed out in early 2011. Much of the recent rise in home values is being driven by investor activity, particularly in the states that were hit hardest by the housing bust and have the most room for upward growth. Having weathered the storm better than most, home price appreciation in the WNC region has been kept in check. In the third quarter, the median price of new single-family homes is expected to fall 3.4 percent below year-earlier prices but remain above the pre-recession peak. At the national level, new home prices are expected to rise by 5.2 percent, as the long-awaited housing recovery is now upon us.

CHART 8B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



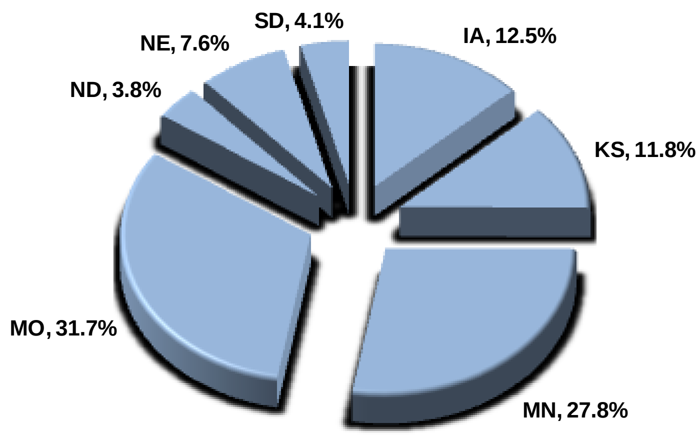
Source: IHS Global Insight

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.

Growth in the WNC's tourism industry (as measured by the value of goods and services produced by the leisure and hospitality industry) has been falling on an annual basis since the fourth quarter of 2012. In the third quarter of this year, tourism output is projected to be 1.0 percent lower than it was in last year's third quarter, which is roughly on a par with the decline in national tourism output (0.9 percent). North Dakota, one of only two states is the region to see positive tourism output growth, is expected to see a 3.1 percent increase relative to the third quarter of 2012. The largest decline in tourism output is forecast in South Dakota, where it is expected to contract by 5.3 percent.

The largest players in the West North Central tourism industry are Missouri, which accounts for 31.7 percent of the region's leisure and hospitality output, and Minnesota, which contributes 27.8 percent.

CHART 8C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
WEST NORTH CENTRAL REGION MAKEUP BY STATE, 2013Q3



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: West South Central

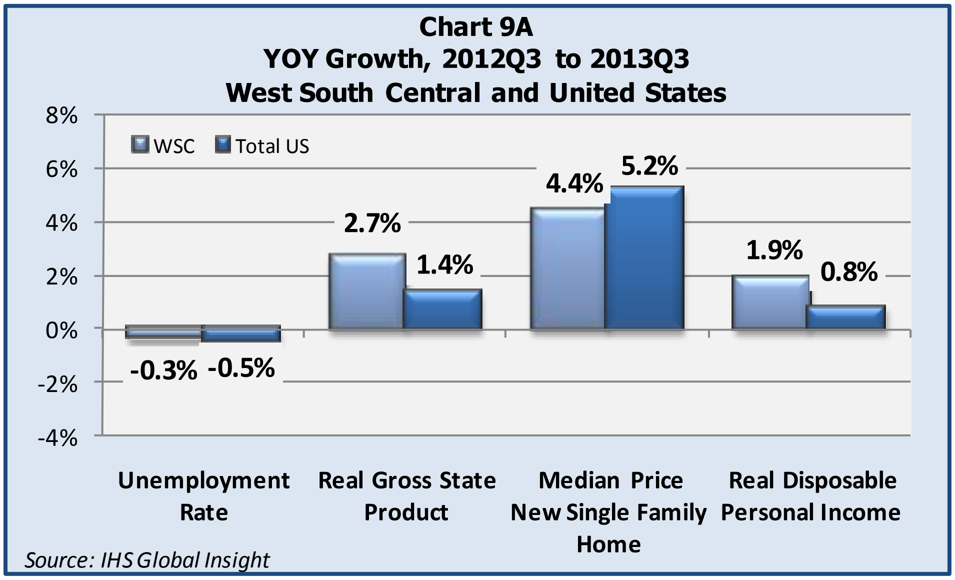
Holiday travel volume in the West South Central (WSC) region is expected to increase 3.7 percent this Labor Day compared with last year. The region is projected to underperform the nation as a whole, which is forecast to see a 4.2 percent increase in Labor Day trips. The economy continues to recover across the country and in the WSC region, but slow progress is preventing a robust resurgence in travel demand. Automobile travel is expected to rise by 3.8 percent, while air travel is forecast to grow 2.1 percent above last year's levels. A projected 8.7 percent of the West South Central population will travel for Labor Day this year, which is below the national frequency of 10.7 percent.

TABLE 9A

2013 LABOR DAY TRAVEL FORECAST – WEST SOUTH CENTRAL REGION AND UNITED STATES

	West South Central			United States		
Labor Day Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	3.7%	3.32	8.7%	4.2%	34.07	10.7%
Automobile (millions of person trips)	3.8%	2.81	7.4%	4.3%	29.17	9.2%
Air (millions of person trips)	2.1%	0.30	0.8%	2.8%	2.61	0.8%
Economy (2013Q3)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	6.2%		-0.5%	7.6%	
Real Gross Product ($, bn)*	2.7%	1,697		1.4%	13,838	
Median Price, New Single Family Home ($, thn)	4.4%	199		5.2%	260	

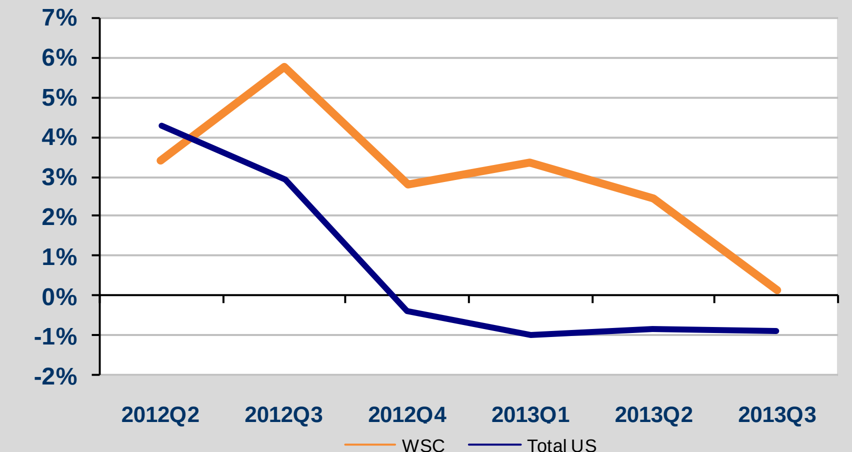
The WSC region continues to lead the nation in job gains. In the first quarter of 2013, payrolls were up an annualized 2.5 percent, relative to the fourth quarter of last year. Employment gains have been very uneven across the region, however, with Texas far outpacing the other states. Indeed, while payrolls in Texas were up 3.5 percent (quarter-over-quarter) during the first three months of the year, they were up by less than 1.4 percent in Oklahoma and 0.2 percent in Arkansas, and actually contracted 0.5 percent in Louisiana. The energy sector, one of the main drivers of growth since the end of the recovery, has slowed on the back of lower oil prices compared to year ago levels and still-low natural gas prices. As a result, mining hiring in the region has decelerated from the double-digit gains seen between 2010 and early 2012, expanding just 5.6 percent (quarter over quarter) in the first quarter of this year. On the other hand, the construction sector has picked up steam, becoming the fastest growing sector in early 2013, as housing markets in the region finally embarked on a sustainable path to recovery. The unemployment rate in the WSC is expected to reach 6.2 percent in the third quarter, the second-lowest jobless rate among the nine census regions.



The median price of a new WSC single-family home is expected to be 4.4 percent higher than in the third quarter of last year. Texas is forecast to lead the way in home price appreciation, with a 4.4 percent increase in the median price of new homes and a 6.0 percent increase in the median price of existing homes. Demand for new homes continues to rise as the supply of existing homes remains tight, and existing home prices continue to climb. Builders have yet to catch up with demand and so sales are held back a bit, but should pick up through the rest of the year.

Increasing home prices, along with personal income gains (up 1.9 percent in the third quarter), have allowed consumers to increase discretionary spending nationwide. However, people remain cautious due to economic and fiscal uncertainties. Because of poor export growth, manufacturing output for the greater nation has stalled. More importantly, the federal spending sequester will keep growth in check for the rest of this year. With little evidence of policymakers working toward a "grand bargain" fiscal policy agreement, we have removed our assumption of tax increases in early 2014. All this means that economic growth in the U.S. is unlikely to ramp up until early next year. With economic headwinds that are still strong, we expect only a modest increase in holiday travel volumes originating from the WSC this year compared with last.

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



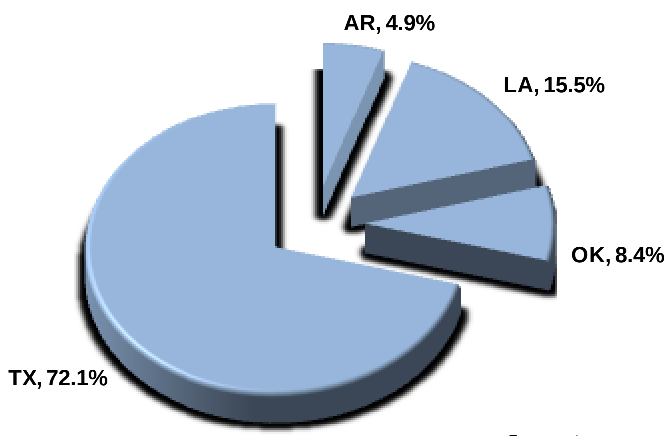
Source: IHS Global Insight

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.

Growth in tourism output (as measured by the value of goods and services produced by the leisure and hospitality industry) in the WSC region has been trending down over the past year. However, growth in the region's tourism industry remained positive, even as the national tourism industry started to decline. The WSC region is expected to see marginal (0.1 percent) year-on-year growth in the third quarter, compared with a contraction of 0.9 percent for the nation as a whole.

Texas accounts for nearly three-quarters of tourism output in the West South Central region, and will be the only WSC state to see positive year-on-year third quarter growth in tourism output. Arkansas accounts for the smallest share, with just five percent of regional tourism output.

CHART 9D
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
WEST SOUTH CENTRAL REGION MAKEUP BY STATE, 2013Q3



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Labor Day 2013 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 Labor Day 2013 holiday, the survey was in the field during July 16–19, 2013, and 306 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.[3] **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.

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.[4]

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

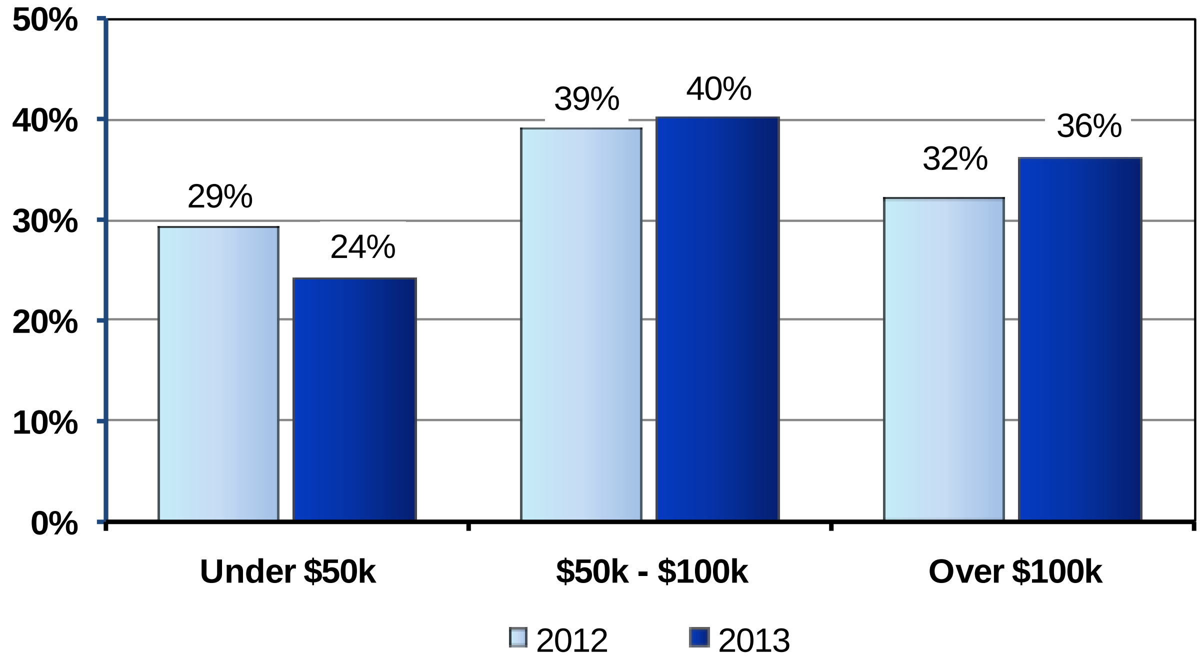
[4]This +/-14% margin of error reflects a 99% confidence interval based on a t-distribution.

Change in the Average Labor Day Traveler

Despite the improvements in the macroeconomic indicators, growth in the national economy remains weak, and has hampered robust consumer spending growth. From April through the month of July, consumer spending has been stimulated by modest employment growth and a revival in the housing market. However, weak real incomes and fiscal policy uncertainties are constraining consumer spending. As a result, the type of family planning to travel this holiday differs from those planning to travel last year, as has been the case for most of the year. The chart below highlights this by showing the change in income distribution of those intending to travel this holiday taken from the *Holiday Traveler Profile* survey.

Those households making less than $50,000 are expected to make up 24 percent of all travelers this year, down from 29 percent in 2012. Households making over $100,000 will make up 36 percent of holiday travelers this year versus 32 percent in 2012. Like last year, this year's data show that the largest group of travelers will come from households with incomes between $50,000 and $100,000.

CHART 10
HOUSEHOLD INCOME DISTRIBUTION OF INTENDING TRAVELERS
LABOR DAY 2012 AND 2013 HOLIDAYS
TOTAL U.S.



Travel Distances

On a national level, travelers plan to log an average of 594 miles round-trip this upcoming holiday. This is slightly less than the Labor Day holiday in 2012, when the expected round-trip distance was 626 miles. About 56 percent of total travelers plan to travel less than 400 miles round-trip, and the remainder of travelers expect to take trips of more than 400 miles. While the total number of travelers is expected to increase this year, more travelers will prefer shorter-distance trips. The proportion of travelers taking a trip of under 400 miles will increase by 2 percentage points relative to last year, with the largest increase coming in the 50-150 mile trips. The increase in the shortest trips is nearly offset by a 10 percent decline in trips in the 151-250 miles range. The share of travelers making the longest trips (over 1500 miles) decreased, but the second-longest trip category saw an almost parallel increase.

> *"I'm going cross country (CT to Seattle) by rail and then flying home. I plan on visiting Seattle for a few days, then Portland, OR for a few days."*
>
> *New England Respondent*

The distance traveled, however, varies across regions. For example, in the relatively compact New England region, just 15 percent of travelers plan to go more than 700 miles round-trip this Labor Day holiday period. Nevertheless, on average, New England respondents plan to travel 503 miles round-trip this upcoming holiday, which is an increase over last year's 334-mile average. In the Mountain region, which covers a large geographic portion of the country and consistently shows one of the higher expected distance traveled, 55 percent of travelers plan to make trips longer than 700 miles, which is up from 47 percent last year. On average, respondents from this region plan to travel 1,060 miles round-trip over the holiday, compared with 905 miles last year. The respondents from the Middle Atlantic region, however, are expecting to travel an average of 437 miles, which is markedly different from the last year's figure of 744 miles but more on a par with the 2009–11 average of 442. This is supported by the fact that fewer MATL respondents intend to travel more than 1,500 miles (3 percent versus 21 percent in 2012) and a higher frequency intend to take trips between 50 and 150 miles (32 percent versus 19 percent in 2012).

TABLE 11
EXPECTED ROUND-TRIP DISTANCE TRAVELED
LABOR DAY 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	25%	13%	18%	15%	21%	9%	594
New England	18%	14%	41%	11%	8%	7%	503
Middle Atlantic	32%	17%	18%	18%	11%	3%	437
South Atlantic	33%	8%	15%	10%	30%	4%	592
East North Central	26%	15%	11%	30%	11%	6%	495
East South Central	11%	22%	14%	8%	43%	3%	665
West North Central	10%	19%	18%	24%	25%	4%	663
West South Central	17%	20%	26%	19%	12%	6%	558
Mountain	3%	5%	34%	3%	33%	22%	1060
Pacific	34%	5%	10%	9%	15%	27%	666

Measures of statistical confidence are not available for differences between regional and Total US average miles traveled. Numbers may not sum due to rounding
Source: D.K. Shifflet & Associates, Ltd.

Total Spending

The median *Holiday Traveler Profile* respondent expects to spend $804 this upcoming holiday period, which is above the expected median spending of $749 for survey respondents in 2012. The spending distribution is largely unchanged as well, aside from a decrease in other transportation and a corresponding increase in spending on food and accommodations. This suggests that travelers have no plans to dramatically alter the components of their travel budget from last year. However, as stated in the Holiday Traveler Profile Survey Methodology, this survey was in the field during the week of July 16. If there is a substantial rise in gas prices prior to Labor Day weekend, it is possible that travelers may reduce their total travel budgets and reallocate spending from discretionary categories (food and accommodation) to compensate for increased outlays on fuel.

> *"Economy is better. Feel more financially secure than years past."*
>
> *Pacific 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 approximately 24 cents of the holiday traveler dollar. Accommodations and food and beverages account for the largest shares of holiday spending, receiving 24 and 21 percent (respectively) of the average respondent's wallet.

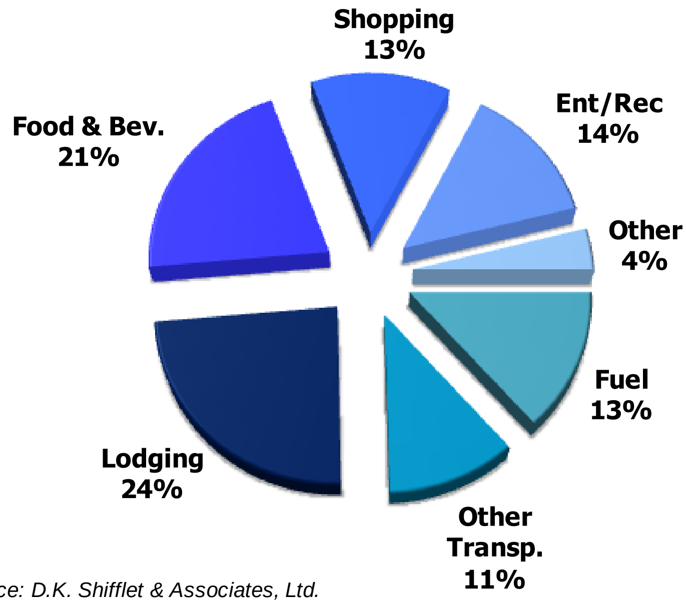
TABLE 12
MEDIAN EXPECTED TOTAL TRIP SPENDING AND AVERAGE EXPECTED SHARES OF BUDGET BY CATEGORY
LABOR DAY 2013 HOLIDAY
TOTAL US AND BY REGION OF RESIDENCE

	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	**$804**	**$809**	**$1,077**	**$740**	**$660**	**$946**	**$741**	**$649**	**$670**	**$622**
Fuel Transportation	13%	10%	11%	16%	14%	11%	15%	15%	19%	15%
Other Transportation	11%	12%	5%	2%	9%	13%	14%	5%	19%	19%
Accommodations	24%	23%	25%	28%	25%	23%	22%	20%	18%	26%
Food & Beverages	21%	21%	21%	21%	19%	24%	18%	21%	16%	19%
Shopping	13%	12%	16%	15%	16%	11%	12%	16%	12%	10%
Entertainment/Recreation	14%	13%	15%	13%	14%	14%	15%	19%	14%	9%
Other	4%	9%	6%	4%	3%	3%	4%	3%	3%	3%

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

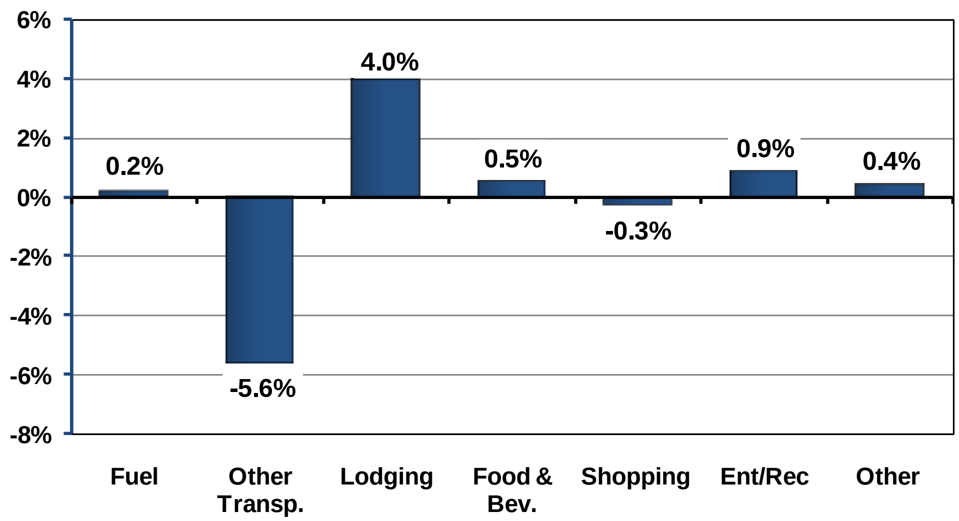
Chart 11 illustrates the average expected shares of budget by category for 2013 based on the Intenders Survey. Chart 12 compares this distribution for Labor Day 2013 to the expected budget distribution for Labor Day 2012. The category expected to see the largest drop in spending is "other transportation", with that share being taken up by increasing accommodations spending. The expected share of spending on gasoline is up slightly from last year.

CHART 11
US 2013 LABOR DAY SPENDING
DISTRIBUTION BY CATEGORY



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

Chart 12
US 2012 and 2013 Labor Day
Spending Distribution by Category



Party Composition

For Labor Day 2013, the most common expected travel party (36 percent) is composed of two adults. About 28 percent of respondents expect to travel with family. Meanwhile, 17 percent of respondents expected to travel with just one adult and the remaining 18 percent expect to travel with parties of three or more adults this Labor Day holiday travel period. These results do not represent a dramatic change from 2012.

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

	One Adult	Two Adults	Three or more Adults	Families
Total US	**17%**	**36%**	**18%**	**28%**
New England	10%	41%	18%	31%
Middle Atlantic	15%	45%	24%	16%
South Atlantic	32%	23%	18%	27%
East North Central	6%	31%	27%	36%
East South Central	19%	32%	9%	40%
West North Central	21%	41%	5%	33%
West South Central	5%	44%	21%	30%
Mountain	10%	44%	16%	30%
Pacific	17%	42%	18%	22%

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

Activities

The Labor Day travel holiday is viewed by some Americans as the last chance to take a summer trip. Therefore, travelers are expected to be involved in a variety of activities. The Labor Day holiday period generally includes a whole range of activities such as festivals, outdoor events, sporting events, trips to the beach, retail sales, and much more. Dining, visiting with friends and relatives, and shopping are expected to be the top three primary activities this Labor Day weekend.

"This time we intend to go to a theme park, where last year we just went camping."

ESC Respondent

TABLE 14
EXPECTED PRIMARY ACTIVITIES
LABOR DAY 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
Dining	57%	76%	69%	46%	47%	59%	54%	52%	32%	61%
Visit with friends/relatives	46%	55%	46%	37%	35%	48%	47%	46%	52%	51%
Shopping	43%	58%	54%	39%	57%	35%	28%	50%	23%	39%
Touring/sightseeing	39%	37%	53%	47%	36%	30%	30%	44%	33%	37%
Hike, bike, etc.	21%	15%	32%	19%	20%	7%	18%	19%	40%	37%
Go to beach/waterfront	33%	62%	53%	21%	23%	30%	15%	30%	15%	42%
Visit historic sites	22%	8%	37%	15%	12%	20%	12%	30%	23%	31%
Visit theme/amusement parks	16%	13%	20%	19%	21%	15%	20%	11%	17%	11%
Visit national or state parks	19%	13%	27%	26%	21%	11%	18%	18%	23%	20%
Visit museums, art exhibits, etc.	16%	12%	7%	35%	6%	10%	9%	19%	21%	26%
Watch sporting events	10%	2%	3%	18%	8%	16%	16%	3%	13%	8%
Night Life	24%	16%	34%	23%	16%	32%	13%	23%	5%	27%
Attend festivals, craft fairs, etc.	18%	15%	23%	7%	25%	18%	13%	18%	22%	23%
Gambling	10%	6%	16%	13%	8%	2%	7%	12%	10%	16%
Compete in sporting events	2%	2%	6%	0%	4%	3%	1%	4%	0%	0%
Observe & conserve nature/culture - Eco-Travel	10%	4%	11%	14%	4%	11%	5%	8%	16%	10%
Attend concerts, plays, dance, etc.	10%	13%	8%	3%	5%	16%	7%	15%	12%	4%
Play golf	9%	7%	6%	21%	17%	8%	8%	6%	5%	6%
Spa	7%	2%	6%	8%	7%	10%	3%	6%	2%	10%
Boat/sail	9%	12%	15%	20%	15%	0%	6%	12%	12%	5%
Attend show: boat, car, home, etc.	3%	2%	11%	2%	1%	0%	10%	0%	0%	3%
Look at real estate	2%	3%	0%	0%	10%	1%	2%	0%	6%	2%
Snow ski, snow board, other snow/ice sports	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Hunt, fish, etc.	10%	4%	12%	10%	10%	5%	10%	13%	21%	11%
Other	9%	7%	0%	4%	6%	13%	7%	12%	10%	17%

** Indicates estimate differs from estimate for Total US with at least 99 percent confidence or greater.*
Source: D.K. Shifflet & Associates, Ltd.

As described previously in the report, the expectations for holiday travel this Labor Day are not significantly different from last year, as we expect only modest increases in total travelers, expected holiday spending, and expected distance traveled. However, there are some changes in the expected primary activities of travelers this coming holiday. Visiting family and friends is going to be replaced by more theme park visitation and touring and sightseeing. The percentage of respondents expecting to take trips to the beach is also expected to increase, while fewer respondents noted that their primary activities would include visiting museums.

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

Expected Activities	2013	2011	Variance
Dining	57%	56%	1%
Visit with friends/relatives	46%	56%	-10%
Shopping	43%	44%	-1%
Touring/sightseeing	39%	35%	4%
Go to beach/waterfront	33%	28%	5%
Night Life	24%	27%	-3%
Visit historic sites	22%	19%	3%
Hike, bike, etc.	21%	20%	1%
Visit national or state parks	19%	14%	5%
Attend festivals, craft fairs, etc.	18%	15%	3%
Visit theme/amusement parks	16%	9%	7%
Visit museums, art exhibits, etc.	16%	20%	-4%
Watch sporting events	10%	12%	-2%
Gambling	10%	10%	0%
Observe & conserve nature/culture - Eco-Travel	10%	9%	1%
Attend concerts, plays, dance, etc.	10%	11%	-1%
Hunt, fish, etc.	10%	6%	4%
Play golf	9%	9%	0%
Boat/sail	9%	10%	-1%
Other	9%	7%	2%
Spa	7%	5%	2%
Attend show: boat, car, home, etc.	3%	4%	-1%
Compete in sporting events	2%	1%	1%
Look at real estate	2%	4%	-2%
Snow ski, snow board, other snow/ice sports	0%	0%	0%

Date of Departure and Return From Holiday Trips

For the Labor Day 2013 Holiday Forecast Report, intending travelers were asked about their planned date of departure and return. The largest share of travelers (46 percent) plan to leave for their holiday trip on Friday, August 30. The remaining travelers were spread across Wednesday or earlier (16 percent), Thursday (20 percent), and Saturday (11 percent). The anticipated return dates are more concentrated around the last two date options, though the last possible day (Tuesday) includes any return trips planned for later as well. Fully 85 percent of respondents intend to return from their Labor Day trip on Monday, Tuesday, or later. This illustrates that most travelers intend on taking full advantage of the extended weekend, with only 13 percent of respondents planning to return on Sunday.

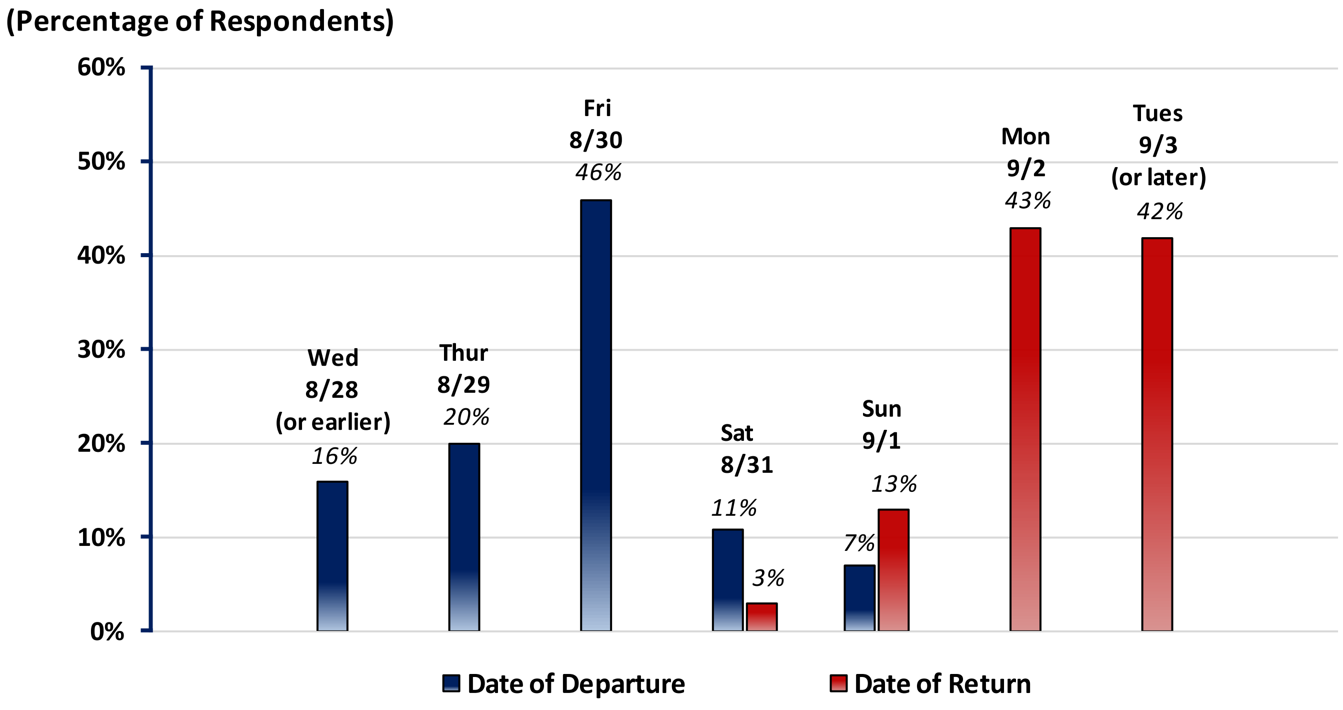
THIS YEAR, LABOR DAY FALLS ON MONDAY, SEPTEMBER 2. WHAT DAY DO YOU PLAN TO LEAVE FOR YOUR LABOR DAY HOLIDAY TRIP?:

- **WEDNESDAY, AUGUST 28TH (OR EARLIER)**
- **THURSDAY, AUGUST 29TH**
- **FRIDAY, AUGUST 30TH**
- **SATURDAY, AUGUST 31ST**
- **SUNDAY, SEPTEMBER 1ST**

WHAT DAY DO YOU PLAN TO RETURN?:

- **SATURDAY, AUGUST 31ST**
- **SUNDAY, SEPTEMBER 1ST**
- **MONDAY, SEPTEMBER 2ND**
- **TUESDAY, SEPTEMBER 3RD (OR LATER)**

CHART 13
2013 LABOR DAY HOLIDAY
DATE OF DEPARTURE AND RETURN



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

Addendum 1: US Economic Forecast Summary: Mixed Signals from both the economy and the Fed

PUBLISHED: 07/03/2013

Over the past month, volatility has returned to financial markets as investors try to read the tea leaves on the economy and—crucially—attempt to figure out when the Federal Reserve intends to start tapering its bond purchases. Predictably, markets have overreacted to both incoming economic data and Fed hints that it is ready to ease up on the accelerator.

One big disappointment on the economy was the unusually large downward revision in first-quarter real GDP growth—from 2.4% to 1.8%. Most of the revision was due to sharply slower growth in consumer spending on services. But this was “old news.” Consumer spending fundamentals are still quite positive and the stage is set for sustained growth of 2.0–2.5% this year and next. Auto sales are at a five-year high. Consumers are the most upbeat since early 2008. Moreover, consumer finances continue to improve—for example, household financial obligations (mostly consisting of debt payments) as a share of after-tax income are the lowest they have been in a long time.

Meanwhile, housing activity is sizzling. Home sales are at levels last seen before the recession began. House prices rose at a record monthly rate in April. IHS expects housing to remain a strong engine of growth through 2015.

Unfortunately, the economy is still not completely out of the woods yet. Because of poor export growth, manufacturing output has stalled. More importantly, the federal spending sequester will keep growth in check for the rest of this year. With little evidence of policymakers working toward a “grand bargain” fiscal policy agreement, we have removed our assumption of tax increases (through limitations on deductions) in early 2014. All this means that growth is unlikely to ramp up (to 3% or higher) until early next year.

When will the Federal Reserve begin tapering? The Fed appears eager to extricate itself from its asset-purchase program sooner rather than later. The June employment report makes it marginally more likely that the Fed will move this year. But the report was a mixed bag—payroll growth accelerated in the second quarter, but the unemployment rate was stuck at 7.6%—so a slowdown in asset purchases is not a foregone conclusion. Chairman Bernanke stresses that incoming data would have to be consistent with the Fed’s forecast for a 7.2% unemployment rate later this year for the Fed to taper. But other policymakers believe that accumulated progress warrants a tapering as early as September.

We think that unemployment will stay higher than the Fed forecasts this year, so the Federal Open Market Committee will likely wait to taper until early 2014 (60% probability). But it is possible that committee members have already decided to taper this year, and that only an unexpectedly bad outcome in the second half could stay their hand (40% probability). Meanwhile, markets reacted strongly to the Fed’s tapering signals. Ten-year Treasury rates jumped 40 basis points. But even if the Fed tapers this year, monetary policy would still be easy by most accounts, with bond buying continuing until the unemployment rate reached 7.0%, and short-term interest rates held at the zero-bound until the jobless rate reached 6.5% (which we expect to happen in late 2015).

The long-awaited **housing** recovery is upon us. Household formation is reviving, and the recovery in demand is spreading from rental units to the owner-occupied sector. We expect starts to improve another 24% in 2013, to 967,000, and then by 27% in 2014, to 1.23 million. House prices are also reviving. We expect an 11.1% (fourth quarter to fourth quarter) house-price increase in 2013, as measured by the FHFA purchase-only index, following a 5.4% increase in 2012.

The housing recovery is supporting **consumer spending** (through its effect on wealth and housing-related purchases), and is probably one of the reasons why consumer spending grew 2.6% in the first quarter despite the drag from the loss of the payroll tax cut. We doubt that this pace can be maintained in the near term, though, since it would be far ahead of the 0.6% growth rate that we expect for real disposable income. Households still face too many negatives to allow a robust consumer spending recovery—a loss of about 1% of disposable income due to the ending of the payroll tax cut, high (though falling) debt burdens, low (though now rising) house prices, modest employment growth, and a lack of confidence in the government's ability to make things better. Overall, we expect consumer spending to rise 1.9% in 2013, about the same as in 2012, and to strengthen to 2.4% growth in 2014. Light-vehicle sales are a bright spot thanks to pent-up demand and favorable credit conditions. We expect sales of 15.4 million units for 2013, up from 14.4 million in 2012.

Capital equipment spending should remain an important driver of GDP growth this year. After jumping 12% in the fourth quarter, capital equipment investment rose just 4.1% in the first quarter. But we suspect that the fourth-quarter bounce was exaggerated by the anticipated expiry of bonus depreciation. We expect spending growth of 5.0% in 2013, before a pickup to 7.2% in 2014.

On the **business structures** side, spending on buildings is improving, although at an uneven pace. We expect spending to rise 1.2% in 2013, down from 10.8% growth in 2012. **Oil and gas drilling** activity soared 24% in the first quarter. We expect a 7.0% increase in 2013, after 5.7% growth in 2012.

State and local government budgets are gradually improving as revenues continue rising. However, the sequester spending cuts mean smaller federal grants and still-tight budgets. We expect real state and local government spending to decline 1.1% in calendar 2013, after dropping 1.4% in calendar 2012.

The **federal budget deficit** narrowed to $1.1 trillion in fiscal 2012 (7.0% of GDP), from $1.3 trillion in fiscal 2011 (8.7% of GDP). Fiscal policy is tightening, as stimulus fades away and spending cuts and tax increases take effect. We expect the deficit to decline further to $746 billion in fiscal 2013 (4.7% of GDP).

Slower growth around the world has created a headwind for US **export** growth**,** while modest domestic activity has limited the pull for **imports**. We expect modest export growth during 2013, at 1.7%, down slightly from 3.4% in 2012, while imports grow 1.4% in 2013. The **dollar** is expected to move sideways against major-currency trading partners over the next couple of years. We foresee a downward trend against emerging-market currencies, dictated by the pace at which China allows the renminbi to appreciate. The overall **current-account deficit** should shrink to 2.5% of GDP in 2013, from 2.8% in 2012, due to a smaller bill for imported oil.

Inflation remains subdued and well below the Fed's target of 2% on some measures. We expect lower oil prices to pull headline **CPI inflation** down to 1.3% in 2013, from 2.1% in 2012. Moreover, in the face of sluggish demand growth, core PCE inflation will be just 1.1%.

Markets reacted strongly to the Fed's tapering signals. Ten-year Treasury rates currently stand close to 2.65%, a 75-basis-point increase since January. Markets likely expect the Fed to tighten monetary policy sooner rather than later and perhaps raise interest rates sometime next year. But even if the Fed tapers later this year, monetary policy would still be easy by most accounts. As a result, we expect long-term interest rates to ease back from current levels, but stay higher than previously thought for the remainder of the year. The 10-year rate should end 2013 at 2.4%, rising to 2.8% by the end of 2014.

The **Federal Reserve** is continuing its purchases of long-term Treasuries at $45 billion per month and mortgage-backed securities at $40 billion per month. It has said that it would increase or decrease its purchases depending on the outlook for the labor market. In either case, purchases will probably taper off rather than come to a sudden halt. We expect quantitative easing to continue well into 2014, given only gradual labor-market improvement. We expect no rate hike before late 2015.

Addendum 2: US Regional Forecast Summary: A Hazy Outlook

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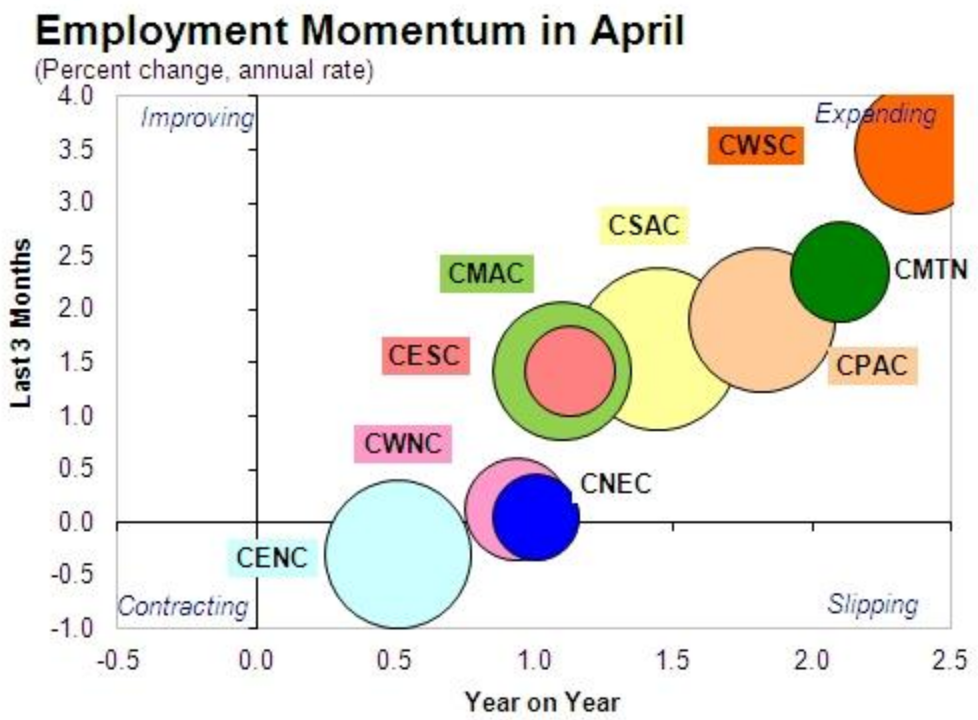
Although the US economy's fundamentals are improving, particularly in housing, policy headwinds from Washington are limiting growth. We now expect that the sequester, which is creating significant cuts in government spending, will continue through the end of the year, and as a result, the second-half economic expansion will be weaker than previously anticipated. The sequester also has the potential of derailing consumer and business confidence, especially since it is lasting longer than anticipated. The Washington, DC, area will feel the greatest pinch, of course, as its economy is highly dependent on federal government spending.

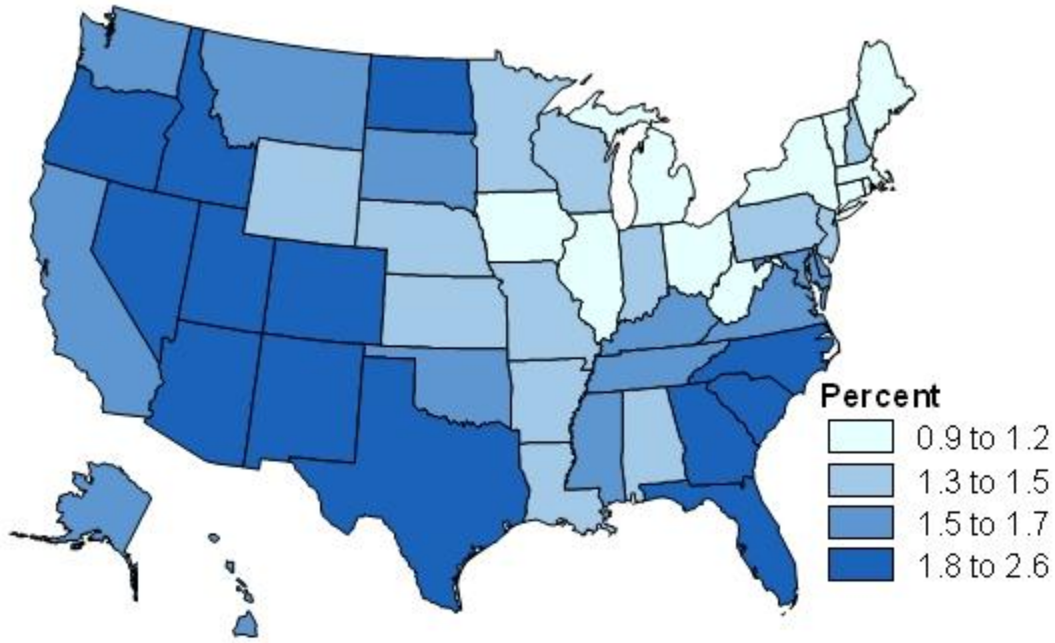


The modest pace of growth will continue for most states this year. The Sunbelt states will perform better than average, thanks in part to the turnaround of the region's severely beat-up housing market. On the other hand, parts of the Midwest and much of the Northeast will lag. On the external front, the main impediment to growth comes from the ongoing European recession and its dampening effect on US exports. Export growth slowed considerably last year on the back of sluggish global growth, and in 2013 we do not expect the international trade environment will see much improvement. The Northeast, which was the only region to see exports contract last year, will struggle again in 2013 because of its outsized exposure to Europe. By the end of 2013, only six more states will have surpassed their prerecession peak employment level, bringing the total number of states that have moved from recovery to expansion to just 17.

We expect unemployment rates will fall only moderately across the country this year, in line with the slow pace of job growth. By the end of 2013, nearly half the states will still have rates at or above 7%. Nevada, where the unemployment rate only recently dropped below 10%, will remain the state with the highest rate (9.7%). It will be followed closely by California, which will still see a jobless rate of 9.5% in the last quarter of the year. Bringing the unemployment rate back to prerecession levels has proven a very slow process, in part because as employment conditions gradually improve, previously discouraged job seekers are increasingly resuming their job searches, returning to the labor force, and joining the ranks of the unemployed until they are hired.

The housing recovery is finally underway thanks to rock-bottom interest rates, lean inventories of new and existing homes, and sustained employment gains. We expect 25 states to see starts jump more than 20% in 2013, albeit from a very low base. Not surprisingly, the states that saw the biggest drops during the recession—Nevada, Arizona, California, and Florida—are expected to see the sharpest increase this year, with starts rising more than 40%. Still, despite the robust gains, starts in those states will remain more than 50% below their prerecession peaks by the end of the year.

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



Real GSP increases across the board

According to the latest figures published by the Bureau of Economic Analysis (BEA), during 2012, real gross state product (GSP) increased in all states except Connecticut. Growth accelerated in 35 states, and in 7 of the 8 BEA regions, with the Great Lakes region being the only one to experience a slowdown.

Nationally, durable-goods manufacturing led the expansion, rising 9.1% in real terms, and contributing the most to growth in 22 states. In Oregon, one of the fastest growing states, the sector contributed nearly three percentage points to growth, driven in part by production at the state's Intel plant. However, in the top two states—North Dakota and Texas—the mining sector (mainly oil and gas extraction in these states) contributed the most to real GSP growth last year. North Dakota and Texas are home to the Bakken and Eagle Ford shales, respectively—the two most productive tight oil plays in the country. As a result, the states' mining sectors have benefited greatly from persistently high oil prices, and the ongoing boom in unconventional energy. In contrast, the weakness of Wyoming's mining sector dragged down growth enough to make the state one of the worst performers last year. Wyoming's mining sector is dominated by natural gas drilling and has been hurt by very low natural gas prices.

Highest and lowest real GSP growth rates, 2012					
Rank	State	Growth rate	Rank	State	Growth rate
1	North Dakota	13.4	47	Idaho	0.4
2	Texas	4.8	48	South Dakota	0.2
3	Oregon	3.9	49	New Mexico	0.2
4	Washington	3.6	50	Wyoming	0.2
5	Minnesota	3.5	51	Connecticut	-0.1

The finance and insurance sector, which saw real output rise 3.6% in 2012, after falling a revised 0.6% in 2011, was also an important contributor to last year's growth at the national level, and the leading contributor to growth in the BEA's Mideast region (Delaware, the District of Columbia, Maryland, New Jersey, New York, and Pennsylvania). The states that benefited the most from the growth in the finance and insurance sector were Utah, South Dakota, and Delaware, where the sector contributed at least 0.75 percentage point to real GSP growth last year. In Connecticut, however, the sector contracted significantly, contributing more than any other sector to the state's weak performance last year.

Also notable was the performance of the construction sector, which finally turned around after seeing eight consecutive years of real output contraction nationally. The construction sector expanded in all but seven states, benefiting from the much awaited turnaround of the housing sector, which finally began to see rising home sales and prices and falling inventories last year.

Nationally, only two sectors contracted in 2012: agriculture and government. Despite the strength of the finance and insurance sector in South Dakota, the state was one of the worst performers last year, because of the devastating effect of the drought on its important agriculture industry.

In 2013, we expect the recovery will continue across the country, with all states seeing real GSP gains. However, the economy continues to face numerous headwinds that will keep growth moderate, most notably the government spending sequester (now expected to last at least through the end of the year), the protracted recession in the Eurozone, and weaker growth in emerging markets. On the other hand, the ongoing turnaround in the domestic housing market will help keep the recovery afloat.

Foreclosure rates are falling

According to the Mortgage Bankers Association's national delinquency survey, foreclosure rates across the country declined in the first quarter of 2013. The foreclosure inventory rate—the percent of all loans in foreclosure—currently stands at 3.6% nationwide, the lowest reading since 2008. The country's first-quarter foreclosure rate is down 0.8 percentage point from its year-earlier level, and nearly every state posted a decline. In fact, in about 20 states, foreclosure rates are actually within one percentage point of what they were at the close of 2006, before foreclosures began to skyrocket.

The past year's decline was most significant in the housing bubble states where peak levels were most severe during the crisis—Florida, Arizona, California, and Nevada. Florida experienced the greatest year-over-year decline (2.9 percentage points). Home price appreciation and the steady labor market recovery helped homeowners avoid foreclosure in the housing bubble states. (It is important to note, however, that foreclosure activity had ramped up so much during the crisis that these states still have a long way to go before reaching prerecession levels.)

Other notable states include the Midwest states of Illinois, Michigan, and Indiana, where a pickup in manufacturing payrolls has spurred labor market expansion; economic growth in turn is relieving pressure on foreclosure rates. While rising home prices, increased employment, and higher personal income levels certainly play a role in reducing foreclosure, banks themselves are also contributing to the cutback by permitting short sales and through loan relief programs.

States with largest y/y declines in foreclose rates: Share of total loans in foreclosure			
	2012Q1 (Percent)	2013Q1 (Percent)	Point change
Florida	14.3	11.4	-2.9
Arizona	3.6	1.8	-1.8
Illinois	7.5	5.9	-1.6
California	3.3	1.8	-1.5
Michigan	3.1	2.0	-1.1
Nevada	6.5	5.5	-1.0
Minnesota	2.6	1.6	-1.0
South Carolina	4.6	3.6	-1.0
Indiana	4.8	3.9	-0.9
Mississippi	3.5	2.6	-0.9
United States	**3.6**	4.4	**-0.8**

Despite the declines, foreclosure rates remain highly elevated in many states. The national foreclosure rate averaged 1.1% during the two decades preceding the real estate crash, which means that its current reading of 3.6% is still more than three times higher than normal. The good news is that only a handful of states are skewing the national average upward. Fewer than one-third of states (16) have a foreclosure rate that surpasses the national average. And even among these states, only seven exceed the national rate by more than one percentage point: Florida (11.4%), New Jersey (9.0%), New York (6.2%), Illinois (5.9%), Maine (5.8%), Nevada (5.5%), and Connecticut (5.1%).

While Florida and Nevada have the severe housing crisis to blame for their high foreclosure rates, the other five states can trace their woes to the fact that foreclosures in these states must go through the court system in a judicial review. In judicial foreclosure states, foreclosures can take several months to go through court, which creates a large backlog of foreclosures. Therefore, the high foreclosure rates in these states do not indicate new foreclosures so much as they indicate batches of homeowners who defaulted months or years ago and are finally getting processed.

Looking ahead, we expect that foreclosures will continue to decline as the market improves in the hard-hit housing states and as the judicial review states continue to work off their foreclosure backlogs. However, it will be years before rates are down to historically normal levels.