AAA 2013/2014 Year-End Holidays Travel Forecast

Prepared for:

American Automobile Association

December 17, 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 2013/14 Year-End Holidays Travel Forecast*** combines information from multiple sources to provide a forecast of travel patterns for the upcoming holiday period. This report comprises two key components—the **Travel Forecast** and the **Holiday Traveler Profile**. The Travel Forecast is based on economic conditions while the Holiday Traveler Profile is developed employing survey data on travel behaviors. This approach provides the most comprehensive and detailed understanding of holiday travel at both the national and regional levels. In addition, the regional travel sections in this report incorporate information about the state of the local tourism industries throughout the United States.

Travel Forecast

In cooperation with AAA, IHS developed a unique methodology to forecast actual domestic travel volumes. The economic variables used to forecast travel for the current holiday are leveraged from IHS Global Insight's proprietary databases. These data include macroeconomic drivers such as employment, output, household net worth, asset prices including stock indices, interest rates, housing market indicators, and variables related to travel and tourism, including prices of gasoline, airline travel, and hotel stays.

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.

The Travel Forecast is reported in person-trips, which are defined as round-trips that involve travel of 50 miles or more away from home. In particular, AAA and IHS forecast total US holiday travel, travel by mode of transportation, and travel by US census region. The Travel Forecast presented in this report was prepared the week of November 25.

Holiday Traveler Profile

The Holiday Traveler Profile is a survey of intended travel behaviors related to party composition, travel distances, trip expenditures, and vacation activities conducted by D.K. Shifflet & Associates. The initial survey includes 1,357 households, out of which only those respondents intending to travel during the designated holiday are interviewed in detail about their anticipated trips. For the Year-End holidays in 2013/14, 665 respondents were interviewed in detail about their intended trips. The survey was in the field from Tuesday, November 5 to Friday, November 8.

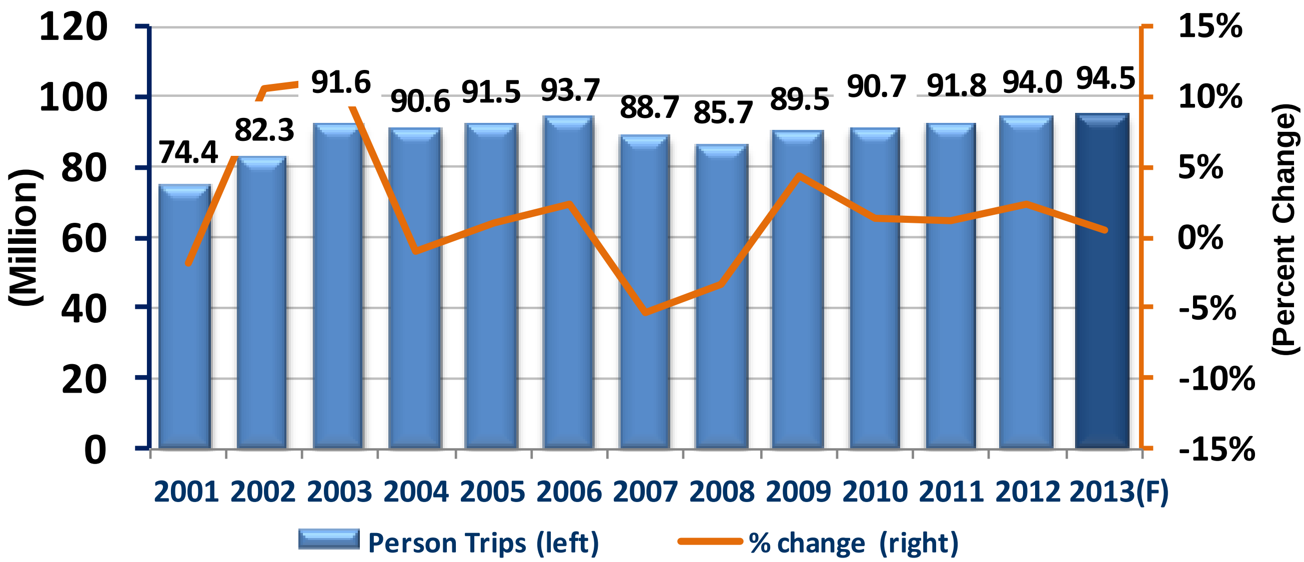
Year-End Holiday Travel Period

For the purposes of this forecast, the year-end holiday travel period is defined as trips that include travel of 50 miles or more away from home during the period from Saturday, December 21 to Wednesday, January 1.

Year-End Holidays 2013/14 Travel Forecast

Travel for the 2013/14 year-end holiday is expected to be slightly higher than last year, with an increase of just 0.6 percent expected. AAA and IHS expect 94.5 million travelers to venture at least 50 miles from their home this holiday period, a total that will build on the high-water mark seen last year, and marking the fifth straight year of year-over-year increases in travel volume. The growth in travelers is partly driven by calendar effects, as this year the holiday is a 12-day period, compared to the 11-day period in 2012/13. The overall economic picture remains depressed, with weak economic and employment growth constraining disposable income growth and dampening consumer expectations.

CHART 1
YEAR-END TRAVELERS 2001/02 – 2013/14
TOTAL PERSON-TRIPS*



** 2001/02–2012/13 represent actual travel results, 2013/14 is a forecast.*

The overall economic picture remains in the stagnant state of that has been present throughout the year. IHS expects real GDP growth of 2.1 percent for the fourth quarter of 2013 compared to same period last year. This level of muted economic growth is not enough to drive significant employment gains, as the unemployment rate for the quarter is expected to average 7.2 percent. While that rate is a 0.6-point improvement from a year ago, overall employment levels remain low and the unemployment rate has seemingly idled the past few months.

Weak economic factors are constraining real disposable income growth, which is forecast to decrease 0.5 percent for the quarter. Despite that, consumers are expected to stretch their budgets for the quarter and increase consumer spending by 2.8 percent. The willingness to spend, even at a modest rate, comes despite a continued decline in consumer optimism. All three major measures of consumer optimism—the Conference Board's Consumer Confidence Index, the Reuters/University of Michigan Consumer Sentiment Index and the Bloomberg Consumer Comfort Index—are now below year-ago levels and are all on a multi-month slide from highs seen earlier in the year.

As can be seen in Chart 1, travel volumes for the year-end holiday are traditionally very stable. Only once in the past 10 years have we seen a yearly travel volume change of greater than five percent, and that was a decline in 2007 as the recession was getting started. The stability precludes any impact of pent-up demand, as last year's holiday travel volume set a post-recession peak and this year should top that level.

The stability around year-end holiday travel is due in part to the longer holiday travel period. Spanning both the Christmas and New Year holidays, the year-end holiday period covers two weekends and can range from 10 to 13 days depending on what day of the week the two holidays fall. For 2013/14, the holiday period will last 12 days, which is one day longer than the holiday period the previous two years; the last time we saw a 12-day holiday period was 2009/10. The additional day within the holiday period compared to last year is a significant contributor to the expectation of higher travel volumes this year.

Gas prices are not expected to have a major impact on travel decisions this year. While prices are expected to remain below last year's levels, they have begun to creep up slightly from the lows of mid-November, which were the lowest the national average had been in nearly three years. The national average price per gallon as of December 6 was $3.26, which was nearly four percent lower than on the same day last year.

The year-end holiday period is by far the longest holiday period of the year, enabling travelers to visit friends and family, take a vacation, or both. Travel during the holiday declined by a total of 8.5 percent during the two years after the recession hit, but in the five years since the recession first took hold, travel volumes have been on a steady march upwards, surpassing the pre-recession high last year and expected to top that level again this year. Calendar effects may be driving the growth, but considering the overall state of the economy, the importance of travel to consumers remains evident as they will continue to take to the roads, the rails, and the skies during this holiday period.

Travel by Mode of Transportation

For the year-end holiday period, AAA and IHS expect that the primary mode of transportation will remain the automobile, with just under 91 percent of travelers expected to travel via this mode. The 85.8 million auto travelers represent an increase of 0.9 percent from last year. The result is a very slight increase in share from last year, when 90.6 percent of people traveled by automobile. The year-end holiday period covers two weekends and spans 12 days, which results in a high volume of travelers in comparison to other holiday periods. Additionally, 85.8 million auto travelers means that 27 percent of the total US population will hit the road for a trip at some point this holiday period.

As mentioned previously, the price of gasoline as of December 6 was $3.26. That's a decrease of less thanfour percent compared to a year ago, but up abotu eight cents from the middle of November. While the average price has remained below last year's level for the past few months, the small variance from a year ago is unlikely to have a major impact on the mode of transportation travelers choose.

Air travel is expected to account for roughly six percent of all travel this holiday period, in line with the share seen last year. The 5.5 million people expected to travel by air during the year-end holidays this year will be a decrease of 1.4 percent from the 5.6 million travelers last year. Although we are still not at pre-recession levels, air travel volume seems to have stabilized a bit after the volatility seen during and after the recession.

> *"Still very uncertain about the stability of the economy and the government."*
>
> *Pacific Respondent*

Other modes of travel (bus, train, cruise, multimodal travel) will account for the remaining 3.3 percent of the total person-trips, as 3.1 million travelers will use these modes to take their year-end trips. That 3.1 million travelers is a 4.2 percent decrease from the 3.3 million travelers last year.

CHART 2
DISTRIBUTION OF US 2013/14 YEAR-END TRAVELERS BY MODE OF TRANSPORTATION

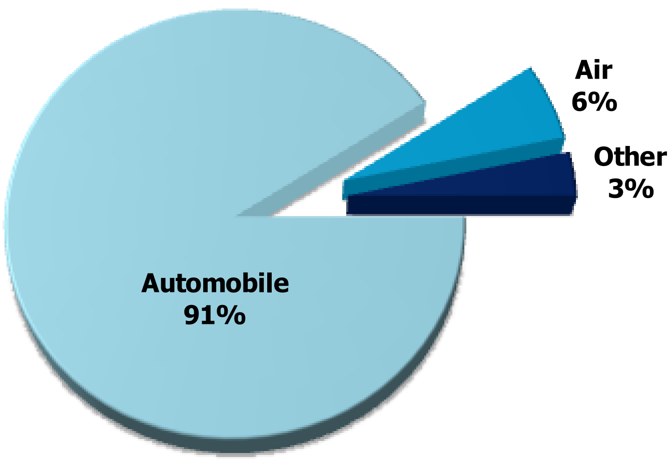
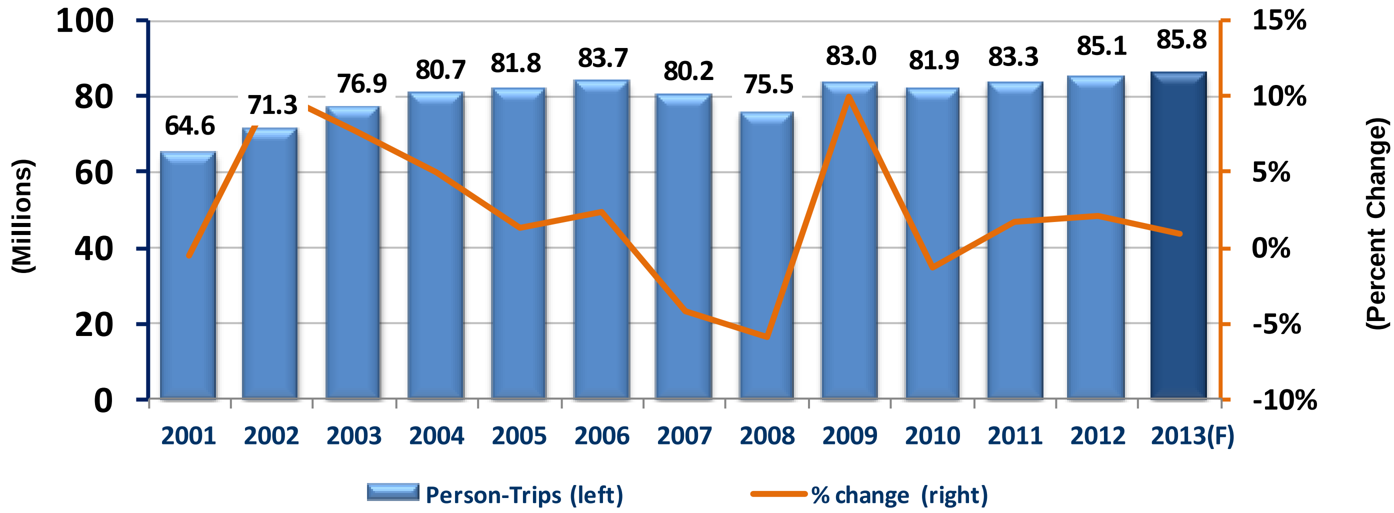
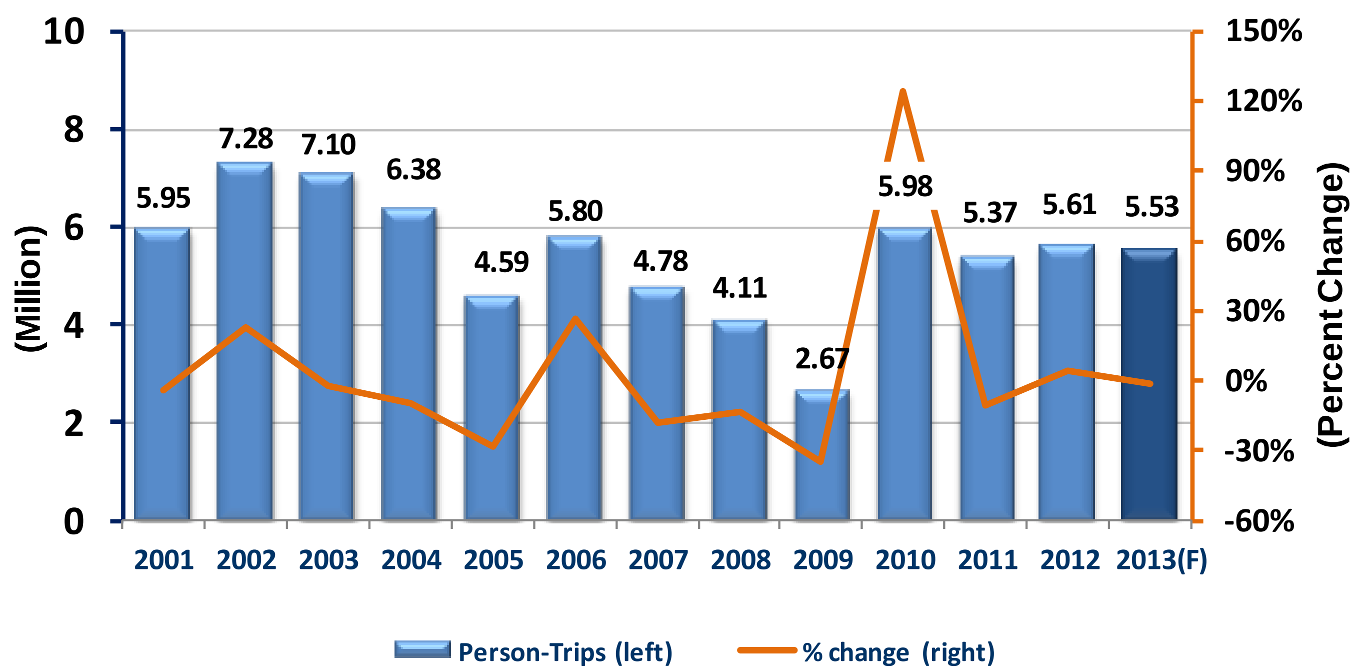


CHART 3
YEAR-END TRAVELERS 2001/02 – 2013/14
AUTOMOBILE PERSON-TRIPS*



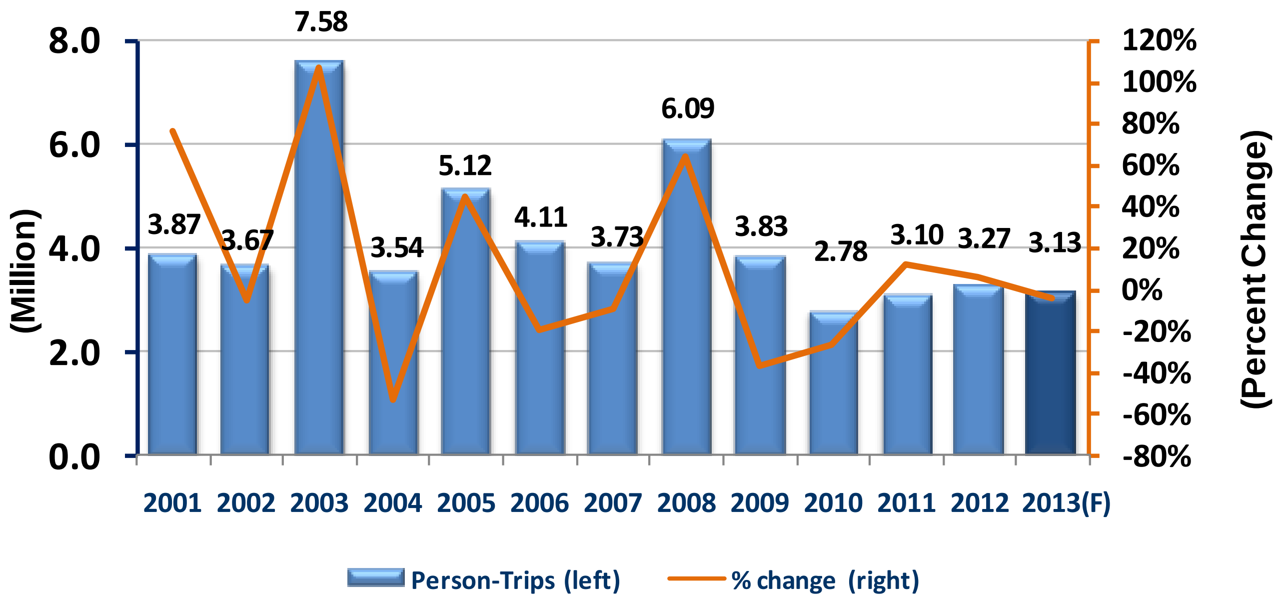
** 2001/02–2012/13 represent actual travel results and 2013/14 is a forecast.*

CHART 4
YEAR-END TRAVELERS 2001/02 – 2013/14
AIR PERSON-TRIPS*



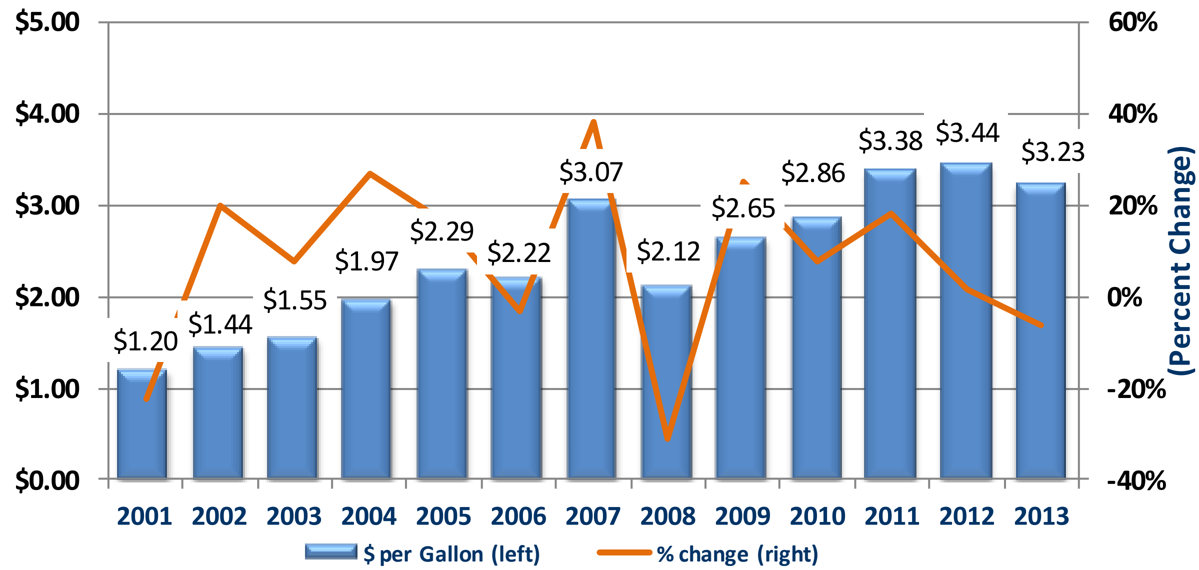
** 2001/02–2012/13 represent actual travel results and 2013/14 is a forecast.*

CHART 5
YEAR-END TRAVELERS 2001/02 – 2012/13
OTHER TRAVEL MODES PERSON-TRIPS*



** 2001/02–2012/13 represent actual travel results and 2013/14 is a forecast.*

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



Source: AAA Fuel Gauge Report

** November gasoline prices are emphasized because prices observed several weeks prior to the holiday are likely to influence holiday travel planning, while actual holiday prices are typically less influential.*

Travel by Region: East North Central

Year-end holiday travel originating from the East North Central region (ENC) is expected to increase 0.7 percent this upcoming holiday period compared to last year. As the pace of the economic recovery remains subdued and consumer confidence remains depressed, the minor improvement in upcoming travel is mainly driven by a relatively longer holiday season this year. The forecast for travel by automobiles calls for a 0.9 percent increase, while travel by airplane is forecast to decline by 1.5 percent. Total person-trips in the East North Central region are projected to account for 32.5 percent of the regional population, which is above the national figure of 29.7 percent.

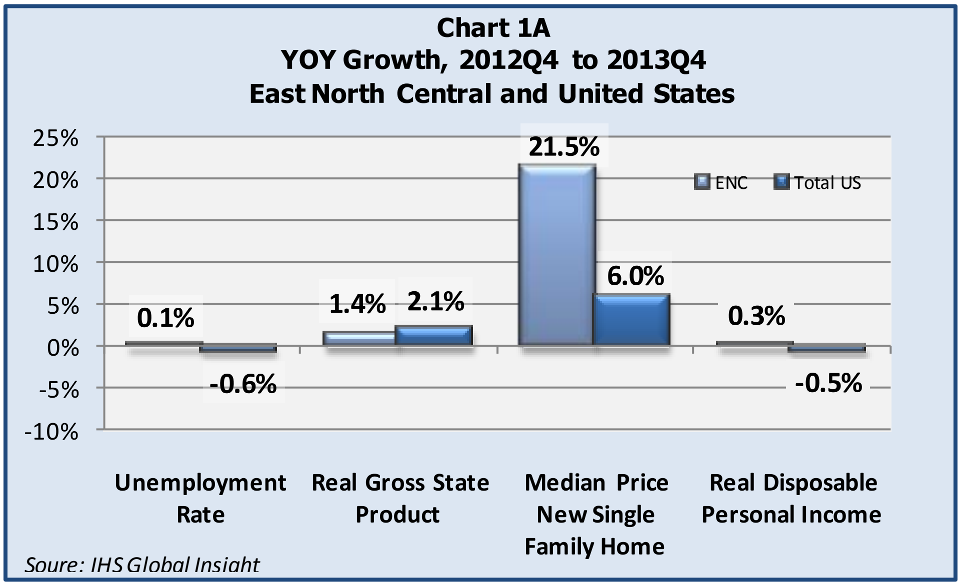
TABLE 1A

2013/14 YEAR-END TRAVEL FORECAST – EAST NORTH CENTRAL REGION AND UNITED STATES

	East North Central			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.7%	15.16	32.5%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.9%	13.86	29.7%	0.9%	85.85	27.0%
Air (millions of person trips)	-1.5%	0.82	1.8%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.1%	8.1%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.4%	1,889		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	21.5%	257		6.0%	268	

The economy in the East North Central region has been growing steadily, and real output is forecast to expand 1.4 percent in the fourth quarter relative to last year. Payrolls rose again in the third quarter, as the region added over 100,000 jobs across the five ENC states. This marked 15 consecutive quarters with employment growth—dating back to the first quarter of 2010. Losses in the public sector and construction slowed progress, although the construction sector is expected to start posting gains next quarter. Employment in educational services expanded by almost four percent year over year, while professional, scientific, and technical services posted a 2.1 percent payroll increase. The leisure and hospitality sector also demonstrated strong growth, adding nearly 10,000 jobs in the third quarter. As of the third quarter, total nonfarm employment in the ENC sat at 20.9 million, five percent above the recession-era trough of 20.8 million, and just 3.7 percent shy of the pre-recession peak. The regional unemployment rate, however, remains elevated at 8.1 percent. By comparison, the national unemployment figure is estimated at 7.2 percent.

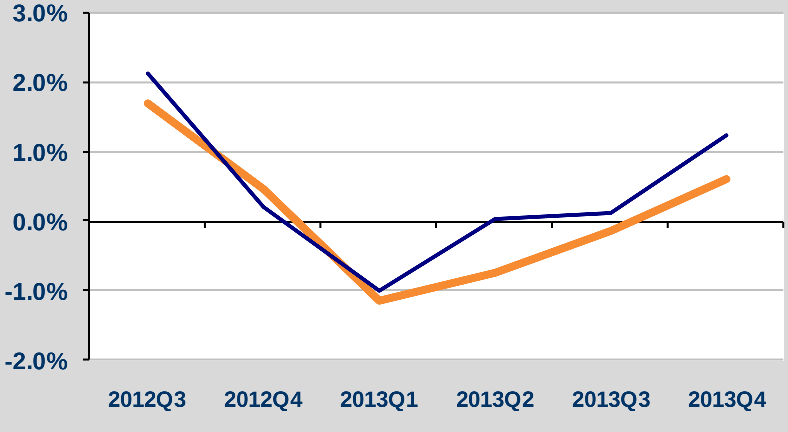
Real estate markets around the country have softened recently; however, we expect this is only temporary. On the builder side, the pause is being caused a backog in orders, while on the consumer side, affordability issues and concern over potential interest rate movements are to blame. Nevertheless, low housing



inventories, rapidly recovering household formation and easing access to financing will help the housing market regain its momentum in 2014. In the second quarter of 2013, the median price of a new single-family home in the ENC region surpassed its pre-recession peak, reaching $253,653. After a temporary softening in the third quarter, home prices are expected to increase 21.5 percent in the fourth quarter, relative to last year, and reach $257,104.

The improvements in the housing market encourage consumer spending through the wealth effect; however, we do not expect these gains to support a robust recovery in consumer spending. There has also been a tremendous loss of consumer confidence in recent months due to political bickering, the debt-ceiling crisis, and a loss of faith in government effectiveness. The Reuters/University of Michigan Consumer Sentiment Index fell 1.2 points in mid-November to 72, while the Conference Board's Consumer Confidence Index plunged nine points in October, reaching the lowest level since April. The recent loss in confidence does not bode well for holiday travel expectations, and the small increase in expected travel is driven by the relatively longer holiday season this year compared to last.

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



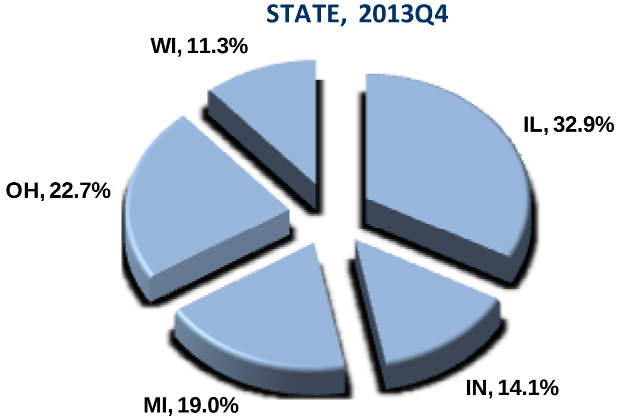
Source: IHS Global Insight

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 declining on an annualized basis since the first quarter of 2013. However, in the fourth quarter, leisure and hospitality output will expand by 0.6 percent. Chart 1B illustrates the path of growth for total output from the leisure and hospitality industry in the ENC region and the broader United States.

Chart 1C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. With Chicago being one of the top cities for tourism in the United States, it is no surprise that Illinois accounts for one-third of tourism output in the East North Central region. Of the remaining states, Ohio (22.7%) contributes the most to the region's leisure and hospitality sector, followed by Michigan (19%), Indiana (14.1%), and Wisconsin (11.3%).

CHART 1C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
EAST NORTH CENTRAL REGION MAKEUP BY STATE, 2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: East South Central

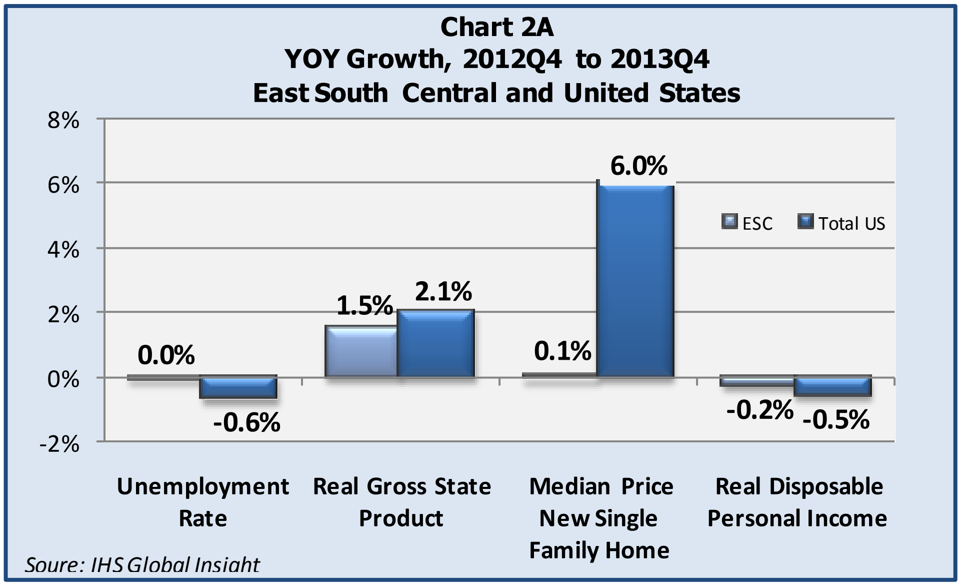
Year-End holiday travel for the East South Central (ESC) region is forecast to improve by 0.5 percent during the upcoming holiday season relative to last year. The modest improvement in travel expectations is driven primarily by a relatively longer holiday season, counterweighted by depressed consumer confidence and a muted economic expansion. Travel by automobile is expected to increase by 0.8 percent while air travel is forecast to decline by 0.9 percent. Total person-trips in the ESC region are expected to account for 29.4 percent of the region's population.

TABLE 2A
2013/14 YEAR-END TRAVEL FORECAST – EAST SOUTH CENTRAL REGION AND UNITED STATES

	East South Central			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.5%	5.53	29.4%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.8%	5.17	27.5%	0.9%	85.85	27.0%
Air (millions of person trips)	-0.9%	0.15	0.8%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.0%	7.8%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.5%	643		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	0.1%	190		6.0%	268	

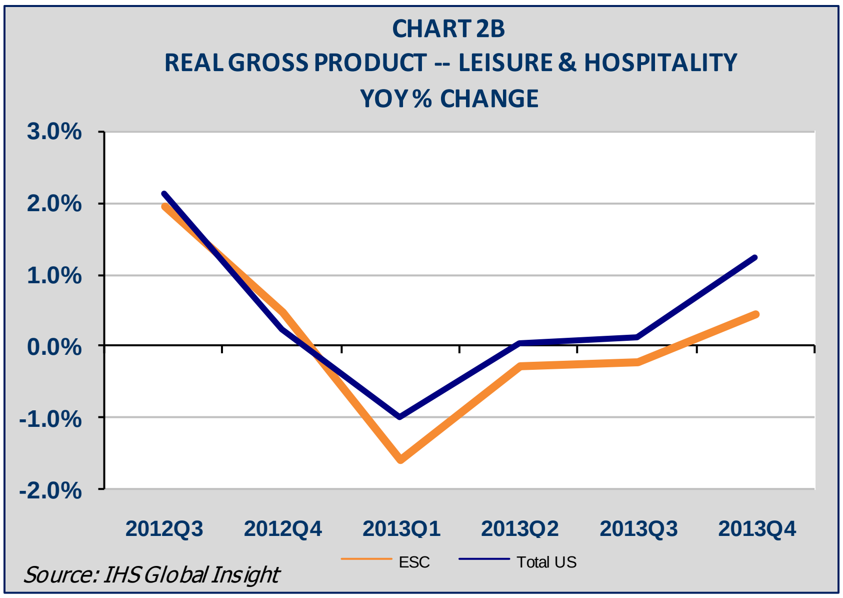
The East South Central region continues to experience the type of modest economic growth that has become a staple of the current recovery. Real gross state product in the combined ESC states is expected to increase by 1.5 percent in the fourth quarter relative to last year, compared to 2.1 percent nationwide. Fourth-quarter growth is depressed from a large, likely unplanned, accumulation of inventories in the third quarter and from a reduction in government hours due to the shutdown. In the third quarter, federal payrolls fell 4.7 percent in the ESC compared to year-ago levels, and we expect this trend to continue through the end of the year. The regional jobless rate remains elevated at 7.8%, which is the third-highest unemployment rate among the nine census regions. In the fourth quarter, Mississippi will lead the region in payroll expansion (1.8 percent), while Alabama will remain the weakest performer among ESC states (one percent).

While the national housing market has been one of the bright spots in an otherwise muted recovery, housing activity has slowed in recent months. On the builder side, the pause is being caused by pipeline pressure, while on the consumer side, affordability issues and concern over potential interest rate movements are to blame. Even so, the slowdown is expected to be short-lived as accelerating household formation and easing lending standards are expected to help the housing market regain its momentum in 2014. The ESC's regional housing market was able to weather the real estate crisis better than most. With one of the least expensive housing markets in the country, the region saw relatively little price speculation. An



ample supply of land and lack of a housing craze allowed the ESC region to avoid rapid price appreciation and the subsequent bust. As a result, the median price of a new single-family house is expected to remain relatively flat in the fourth quarter compared to year-ago prices.

With no real gains in home equity, and a loss of faith in government effectiveness, the mood of the regional consumer remains relatively subdued. The Reuters/University of Michigan Consumer Sentiment Index fell 1.2 points in mid-November to 72, while the Conference Board's Consumer Confidence Index plunged nine points in October, reaching the lowest level since April. There is some early evidence of the consumer bouncing back from recent events in Washington, but the outlook for the holiday retail season is slightly worse than last year, held back by a decline in real incomes. In the fourth quarter of this year, real disposable incomes in the ESC are expected to shrink by 0.2 percent relative to a year earlier, compared to a 0.5 percent reduction nationwide. Thus, ESC residents are not yet ready to make significant increases in their spending and we expect only a small increase in ESC holiday travel, driven primarily by the longer holiday travel period (12 days compared to 11 days last year).

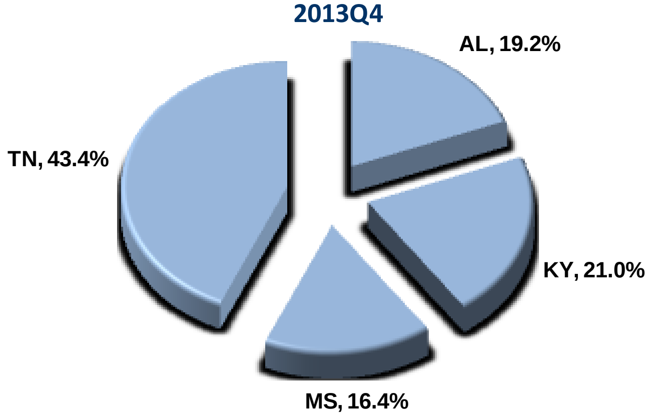


In addition to the originating travel forecast of person-trips from the East South Central region, the following information provides a look into the state of the local tourism industry in the region. In general, because the majority of travel occurs by automobile and remains within regional borders,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

The tourism industry in the ESC region has been declining on an annualized basis since the first quarter of 2013. However, in the fourth quarter, regional tourism output is forecast to grow 0.5 percent above year-ago levels, compared to 1.2 percent nationwide. Chart 2B illustrates that total output from the leisure and hospitality industry in the ESC region has been lagging that of the greater nation for most of the past year.

Chart 2C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. Tennessee contributes the most to the region's leisure and hospitality sector, accounting for 43.4 percent of the leisure and hospitality output, while Alabama, Kentucky, and Mississippi make up the remaining three-fifths of the total.

CHART 2C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
EAST SOUTH CENTRAL REGION MAKEUP BY STATE, 2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: Middle Atlantic

Year-end holiday travel originating from the Middle Atlantic region (MATL) is expected to increase by 0.5 percent relative to last year. The small increase is driven mostly by an extra day in this year's holiday travel period, which will span 12 days compared to 11 days last year. Automobile travel is forecast to increase by 0.6 percent while travel by airplane will decline by 1.3 percent. The 10.55 million people expected to travel during the upcoming holidays represent 25.5 percent of the region's population, which is below the national frequency expected to travel of 29.7 percent.

TABLE 3A

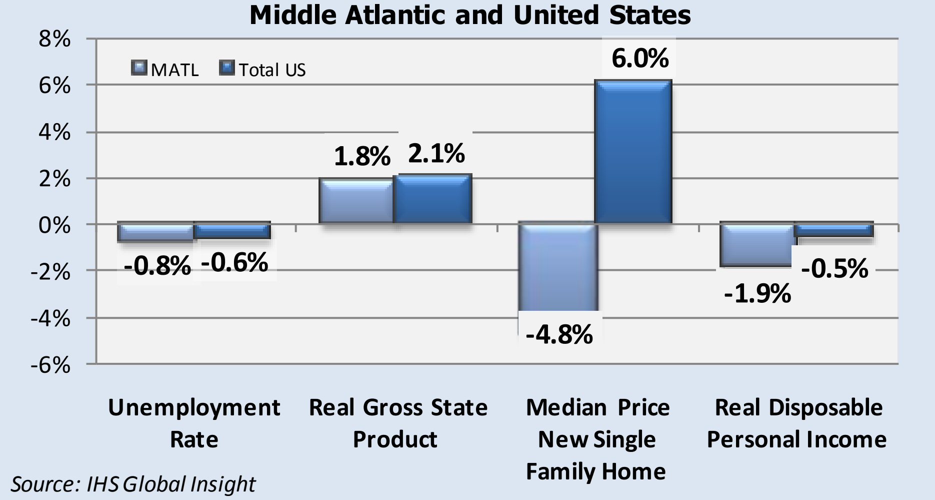
2013/14 YEAR-END TRAVEL FORECAST – MIDDLE ATLANTIC REGION AND UNITED STATES

	Middle Atlantic			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.5%	10.55	25.5%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.6%	9.49	22.9%	0.9%	85.85	27.0%
Air (millions of person trips)	-1.3%	0.70	1.7%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.8%	7.7%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.8%	2,034		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	-4.8%	338		6.0%	268	

The Middle Atlantic economy continues to display positive, albeit modest growth, which is consistent with the pace of the current recovery. In the fourth quarter, real gross regional product is expected to grow 1.8 percent above year-ago levels, while the unemployment rate is projected to decline 0.8 percentage point. The job market is gradually improving as the service industries continue to lead the expansion. Education and health services added over 13,000 jobs in the third quarter, while financial services created nearly 9,000 jobs. The professional and business services sector showed some weakness, shedding around 680 jobs, but we believe this to be temporary. Total employment expanded 1.1 percent in the third quarter, relative to last year, and the fourth quarter will see the same pace of job creation. If job growth continues on trend into next year, the key to unemployment will be labor-force participation.

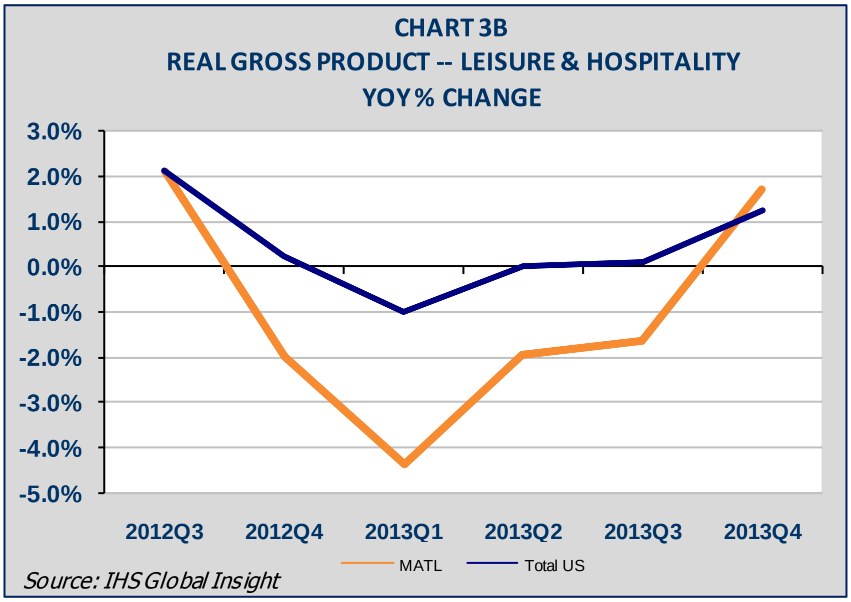
Despite improvements in the regional labor market, there has been a tremendous loss of consumer confidence in recent months. The two major consumer mood indexes took a hit in October; the Reuters/University of Michigan Consumer Sentiment Index fell by approximately 6 percent, while the Conference Board's Consumer Confidence Index fell more than 11 percent. There is evidence that the consumer mood is likely to slip further, since the mid-November consumer sentiment reading fell another 1.2 points. This recent loss in confidence does not bode well for holiday travel, since confidence is a

Chart 3A
YOY Growth, 2012Q4 to 2013Q4
Middle Atlantic and United States



Source: IHS Global Insight

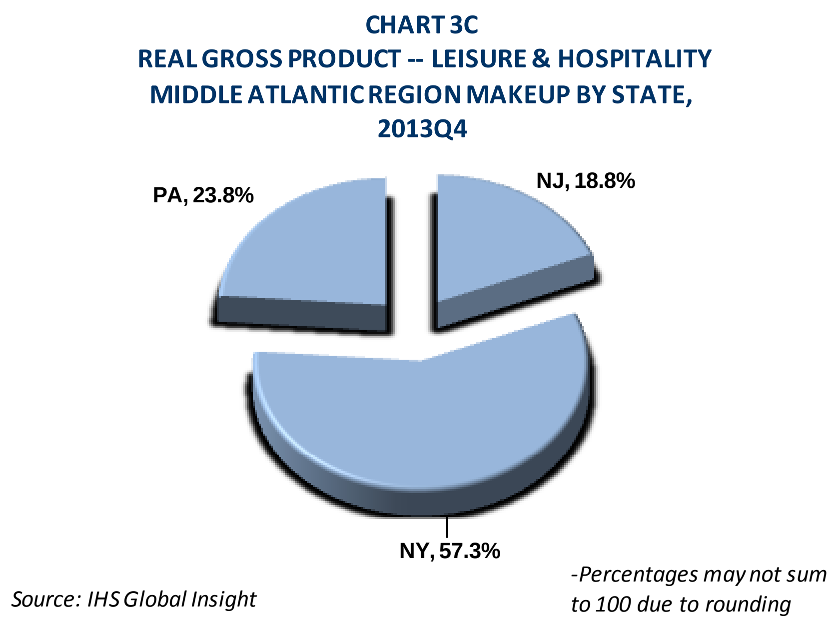
key driver in how much discretionary spending occurs in November and December. Moreover, real disposable incomes are projected to fall 1.9 percent in the fourth quarter (compared to 0.5 percent nationally), which is an additional headwind for MATL residents who are planning to travel over the year-end holidays. We expect to see a modest increase in travel volumes this holiday period, boosted by the longer holiday period that introduces another travel day into this year's forecast relative to last (12 days versus 11 days last year). Absent this added calendar effect, holiday travel would likely be lower than it was last year.



The national housing market, which has been one of the bright spots in the recovery, has lost some momentum. On the builder side, the pause is being caused by pipeline pressure, while on the consumer side, affordability issues and concern over potential interest rate movements are to blame. While the national housing market is expected to regain momentum in 2014, the near-term future of the MATL real estate market is less encouraging. In the Middle Atlantic region, the median price of a new single family home hit its peak in the third quarter of 2012. Since then, prices have receded, falling nearly 12 percent below year-ago prices as of the third quarter of this year. In the fourth quarter, new home prices are projected to decline another 4.8 percent compared to a year ago. New York will see the largest median price decline (4.8 percent), followed by New Jersey (2.2 percent) and Pennsylvania (1.9 percent).

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 tourism industry in the Middle Atlantic region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has been declining on an annualized basis since the fourth quarter of 2012. In the fourth quarter, leisure and hospitality output is projected to expand by 1.7 percent, compared to 1.2 percent nationally. Chart 3B illustrates the path of growth for total output from the leisure and hospitality industry in the MATL region and for the nation.



Travel by Region: Mountain

The Mountain (MTN) region is forecast to see a modest upswing in travel over the year-end holiday period. The improvement, however, is driven not by improving economic conditions, but from a calendar effect. The length of the holiday travel period is a day longer than it was last year, which means there are more trips to be had. As a result, total person-trips in the MTN region are projected to increase 0.5 percent relative to last year. Automobile travel is projected to grow 0.9 percent while travel by airplane will decline 1.7 percent. About 31.4 percent of the regional population is expected to journey at least 50 miles from home this holiday, a slightly higher frequency than is expected nationwide (29.7 percent).

TABLE 4A

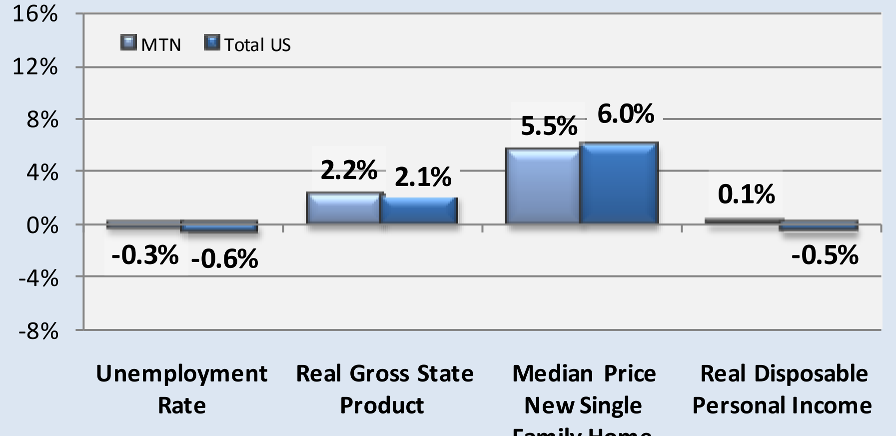
2013/14 YEAR-END TRAVEL FORECAST – MOUNTAIN REGION AND UNITED STATES

	Mountain			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.5%	7.24	31.4%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.9%	6.50	28.2%	0.9%	85.85	27.0%
Air (millions of person trips)	-1.7%	0.51	2.2%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	7.1%		-0.6%	7.2%	
Real Gross Product ($, bn)*	2.2%	904		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	5.5%	229		6.0%	268	

Economic growth in the Mountain region closely mirrors that of the greater nation. In the fourth quarter, real gross regional product is forecast to grow 2.2 percent above year-ago levels, which is roughly on a par with the increase expected nationwide (2.1 percent). The Mountain region continues to be an attractive destination for companies due to its relatively low costs of doing business and ample supplies of labor. More than one-fifth of the jobs added over the past year were in the leisure and hospitality industry, which is benefitting from the nation's economic recovery. The pace of the national expansion will remain muted in the fourth quarter, however, held back by inventory paybacks from the third quarter and from a reduction in government hours due to the shutdown. Once these headwinds dissipate, economic growth will pick up in 2014, but near-term growth prospects look meek.

Following the October shutdown and the agreement to temporarily suspend the debt ceiling, the mood of the consumer remains cautious. There is some early evidence of the consumer bouncing back from the recent events in Washington, but the outlook for the holiday retail season is slightly worse than last year, which is bad news for spending on discretionary items such as travel. The Reuters/University of Michigan Consumer Sentiment Index fell 1.2 points in mid-November to 72, while the Conference Board's Consumer Confidence Index plunged 9 points in October, reaching the lowest

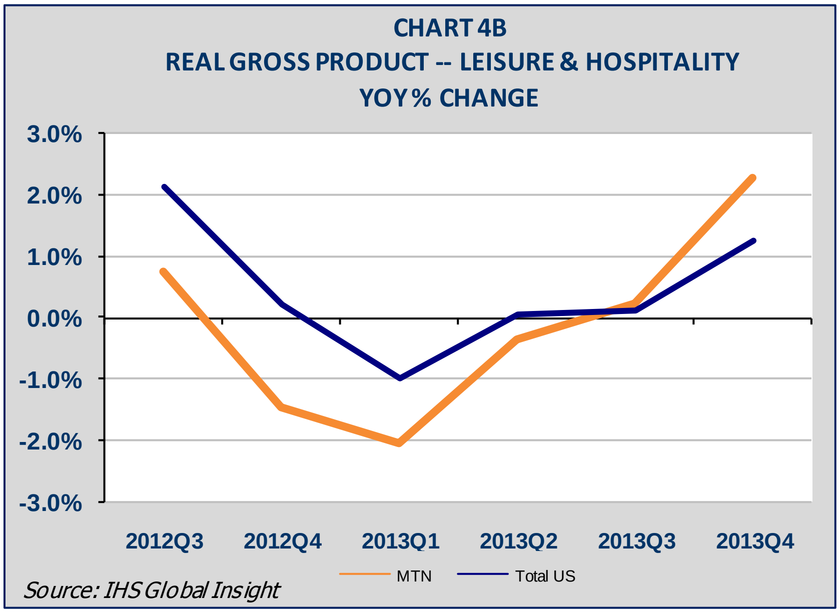
Chart 4A
YOY Growth, 2012Q4 to 2013Q4
Mountain and United States



Source: IHS Global Insight

level since April. Consumer confidence is a key driver in how much discretionary spending occurs in November and December, and real incomes in the MTN region are projected to be relatively unchanged from last year (0.1 percent above year-ago levels). Taken together, this constitutes a downside risk for year-end holiday travel.

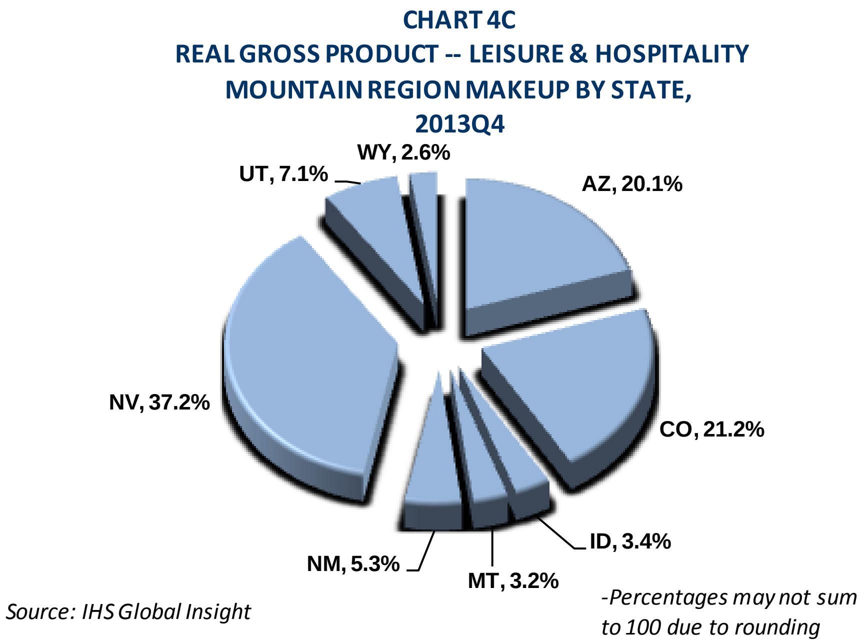
The housing market has softened in recent months, but the loss of momentum is only temporary. Builders have been facing tight credit conditions since the end of the crisis, but the Fed Senior Loan Officer Survey reports that lenders began to ease their standards in the third quarter as they compete with one another to satisfy the strengthening demand for construction and land development loans. With financing more readily available, inventory should pick up across the country by mid-2014, and the additional supply will loosen price pressures. In the fourth quarter, the median price for new single-family homes in the MTN region is projected to be 5.5 percent above year-ago prices, compared to six percent nationally. While the gains are welcome, prices are not expected to return to pre-recession levels in the near term.



While the Mountain region continues to show signs of progress, the toxic budget debates in Washington and the lack of clarity regarding future fiscal policy continue to act as a drag on the economy. With the recent loss in consumer confidence and a lack of growth in real incomes, the forecast calls for a slight uptick in Mountain region holiday travel, driven primarily by the longer holiday travel period compared to last year (12 days versus 11 days last year).

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 declining on an annualized basis since the fourth quarter of 2012 (Chart 4B). In the fourth quarter of 2013, we expect leisure and hospitality output to expand for the first time this year, growing 2.3 percent above year-ago levels (compared to 1.2 percent nationally).

Chart 4C provides a breakdown of the composition of regional output from the leisure and hospitality industry by state. With Las Vegas being one of the most attractive tourist destinations, Nevada contributes 37.2 percent to the region's leisure and hospitality output. Colorado and Arizona contribute 21.2 and 20.1 percent, respectively, followed by Utah (7.1 percent), New Mexico (5.3 percent), Idaho (3.4 percent), Montana (3.2 percent), and Wyoming (2.6 percent).



Travel by Region: New England

The New England region (NENG) is projected to see a 0.7 percent increase in total person-trips during the upcoming year-end holiday period as compared to last year. The economy remains weak, and pervasive economic and political uncertainties are preventing robust travel growth. The modest travel increase is largely supported by a relatively longer holiday season, which is one day longer than the holiday season last year. Automobile travel is expected to increase by 0.9 percent, while travel by airplane is projected to decline by 0.2 percent. The four million people expected to travel from the NENG region will represent 27.6 percent of the region's population, which is below the national frequency of 29.7 percent.

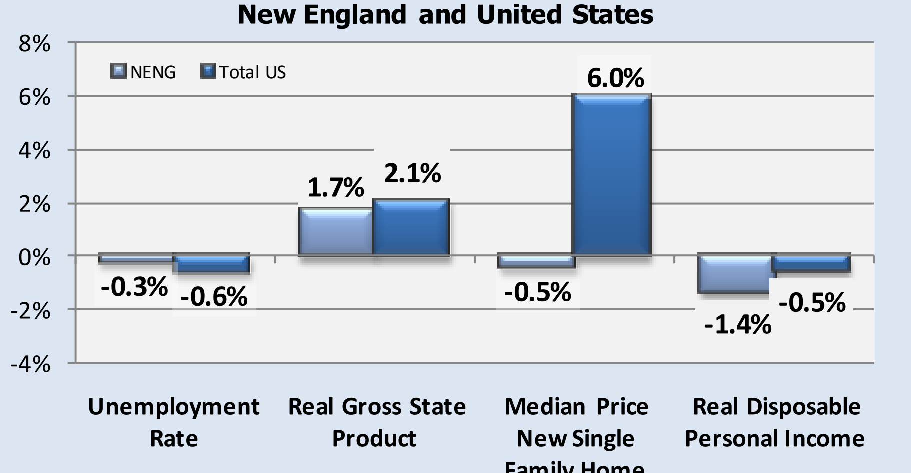
TABLE 5A
2013/14 YEAR-END TRAVEL FORECAST – NEW ENGLAND REGION AND UNITED STATES

	New England			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.7%	4.03	27.6%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.9%	3.55	24.3%	0.9%	85.85	27.0%
Air (millions of person trips)	-0.2%	0.35	2.4%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.3%	6.9%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.7%	737		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	-0.5%	397		6.0%	268	

While the New England economy has decelerated over the past few months, the region continues to show signs of progress. Real gross regional product grew 1.7 percent in the third quarter (year over year) as the economy added nearly 17,000 new jobs. In the fourth quarter, we expect real gross product to continue to expand at this same pace in the fourth quarter (1.7 percent) while the pace of job creation will accelerate. The unemployment rate is expected to reach 6.9 percent this coming holiday, 0.3 percentage point below year-earlier levels. As the employment outlook continues to improve, however, the unemployment rate is likely to get worse before it gets better as more discouraged workers decide to re-enter the labor force. The labor force participation rate averaged 66.1 percent from 2005 through 2008. This year, it sank from 63.2 percent in September to 62.8 percent in October. Even if higher participation rates do not raise the unemployment rate, they could halt its decline.

Despite the steady pace of job creation, New England residents still face too many negatives to allow a robust consumer spending recovery: high (though falling) debt burdens, lower home prices, and a lack of confidence in the government's ability to make things better. Moreover, in the fourth quarter, real disposable incomes are forecast to fall 1.4 percent below year-ago levels. Taken together, this constitutes a substantial headwind for year-end holiday travel originating from the New England region this year.

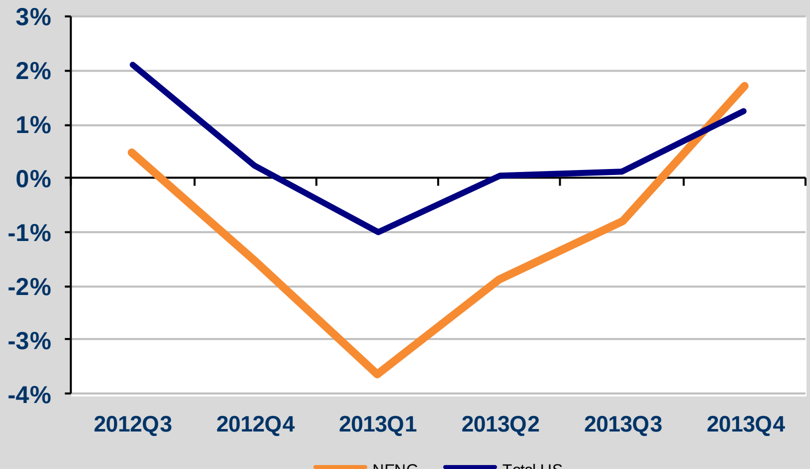
Chart 5A
YOY Growth, 2012Q4 to 2013Q4
New England and United States



Source: IHS Global Insight

The housing market recovery has experienced a temporary slowdown caused by the pipeline pressures on the builder side and affordability issues on the consumer side. In August, the FHFA House Price Index slowed to a 0.3 percent increase, following a 0.8 percent advance in July. This represents the smallest month-over-month increase since September 2012. Like previous reports, the FHFA Index showed that price gains are strongest in the West, where inventories are lean, and weakest in the Northeast, where single-family housing markets are struggling because of high foreclosure rates and slowing population growth. In New England, the median price of single-family homes is expected to decline 0.5 percent relative to this time last year, compared to 0.5 percent nationally. Relatively low interest rates and steady employment growth are both positives for the investment environment, but we anticipate that near-term uncertainty will continue to restrain private construction. With the housing market losing traction, there is less support for consumer spending through its effect on wealth and on housing-related purchases. As such, we expect to see only a modest increase in total person-trips from the New England region, buoyed by the longer holiday travel period this year compared to last (12 days versus 11 days).

CHART 5B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



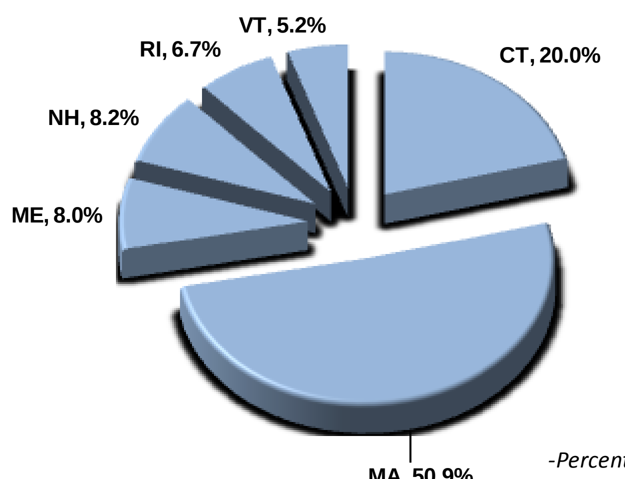
Source: IHS Global Insight

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.

The tourism industry in the New England region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has been declining on an annualized basis since the fourth quarter of 2012. In the fourth quarter of this year, leisure and hospitality output is projected to expand by 1.7 percent, compared to 1.2 percent nationally. Chart 3B illustrates the path of growth for total output from the leisure and hospitality industry in the NENG region and for the nation.

Chart 5C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. Massachusetts commands the highest share, contributing 51 percent to regional leisure and hospitality output. This is not surprising, as Boston is one of the nation's most popular tourist destinations. Connecticut contributes the second largest share at 20 percent, with the rest of the states contributing the remaining 29 percent.

CHART 5C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
NEW ENGLAND REGION MAKEUP BY STATE,
2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: Pacific

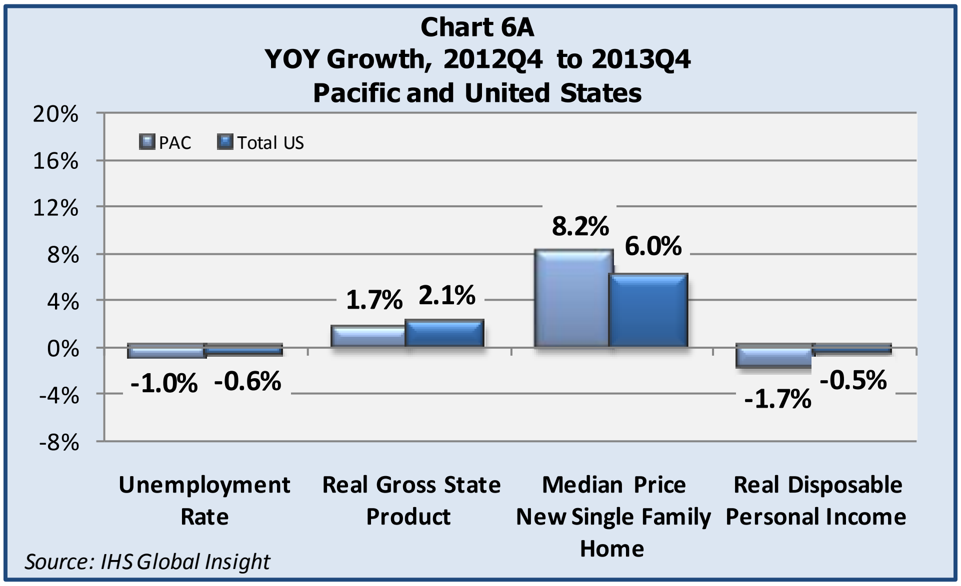
The year-end travel forecast for the Pacific (PAC) region calls for a 0.4 percent increase in total person-trips, as 15.9 million residents are expected to journey at least 50 miles away from home. Travel by automobile is projected to rise by one percent, while air travel is forecast to fall by 2.7 percent. The Pacific region typically has a higher-than-average share of the population travel by plane, which holds true for this holiday season (2.4 percent versus 1.7 percent nationally). The slight uptick in total person-trips stems from the additional day in this year's travel period compared to last year; without the calendar effect, travel volumes would likely decline.

TABLE 6A
2013/14 YEAR-END TRAVEL FORECAST – PACIFIC REGION AND UNITED STATES

	Pacific			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.4%	15.90	30.7%	0.6%	94.51	29.7%
Automobile (millions of person trips)	1.0%	14.16	27.4%	0.9%	85.85	27.0%
Air (millions of person trips)	-2.7%	1.25	2.4%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-1.0%	8.3%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.7%	2,440		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	8.2%	387		6.0%	268	

While the Pacific region is seeing positive movement in a few key indicators, the recovery has slowed in recent months. Economic and political uncertainties have put downward pressure on economic growth as real gross product is expected to be just 1.7 percent higher than during the previous year-end holidays (compared to 2.1 percent nationally). On the labor front, the unemployment rate will be one percentage point lower than last fourth quarter, but the labor force participation rate is also expected to fall, indicating that consumers are not confident in their job prospects. In the latest household survey, the drop in the labor force was large (720,000), as the national workforce fell to its lowest level since August 2012. If the prognosis of rather static employment growth holds up, the key to the jobless rate a year or two from now will boil down to labor-force participation rates.

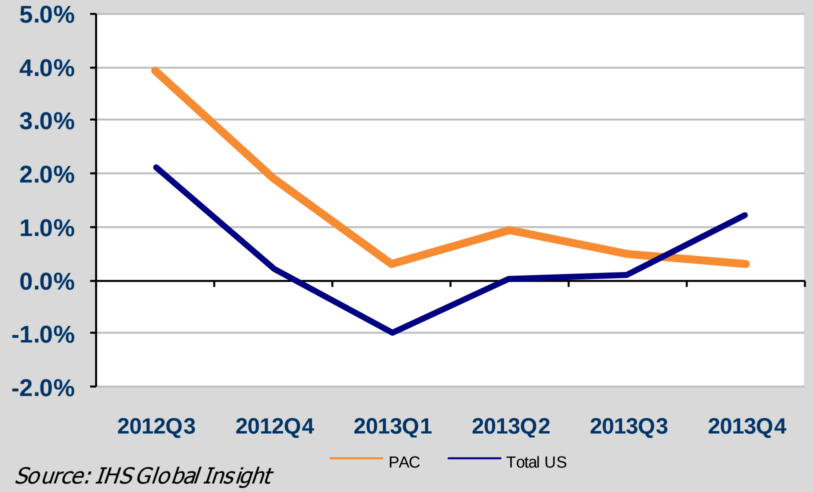
The national housing market has softened recently due to affordability issues on the consumer side and pipeline pressures on the builder side. The slowdown is only temporary, however, as increasing rates of household formation and easing lending standards will lead to a pickup in activity in 2014. The Pacific region continues to outpace the greater nation in terms of home price growth. In the fourth quarter, the median price of new single-family homes is expected to rise 8.2 percent above year-ago prices, compared to six percent nationally. The fastest rates of appreciation continue to occur in the West, where the hardest-hit housing markets of California,



Nevada, and Arizona reside. In California in particular—the epicenter of the housing boom and bust—new home prices were up 16.2 percent (year-over-year) in the third quarter and are expected to realize double-digit gains in the fourth quarter as well (10.9 percent).

Despite continued progress in the regional housing market, Pacific residents still face too many negatives to allow for an increase in travel spending this holiday. Real disposable incomes are expected to be 1.7 percent lower this fourth quarter compared to last, while average annual wages are forecast to decline 1.5 percent. Moreover, consumer confidence has fallen significantly in recent months as concerns over political and economic uncertainty continue to weigh heavily on spending decisions. The Reuters/University of Michigan Consumer Sentiment Index fell 1.2 points in mid-November to 72, while the Conference Board's Consumer Confidence Index plunged nine points in October, reaching its lowest level since April. Consumer confidence is a key driver in how much discretionary spending occurs in November and December. As such, we expect only a slight increase in year-end holiday travel originating from the Pacific region, driven largely by the length of the holiday travel period, which is a day longer than it was last year.

CHART 6B
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
YOY % CHANGE



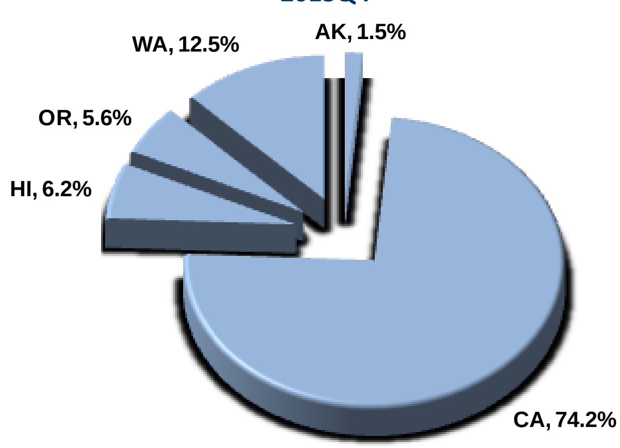
Source: IHS Global Insight

In addition to the originating travel forecast of person-trips from the Pacific 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 Pacific region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has been growing on an annualized basis over the course of 2013, but growth has been decelerating. In the fourth quarter, we expect leisure and hospitality output to grow just 0.3 percent, compared to 1.2 percent nationally. Chart 6B illustrates the path of growth for total output from the leisure and hospitality industry in the Pacific region and the country as a whole.

Chart 6C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. California is the largest contributor of tourism output to the Pacific region (74.2 percent). Washington is second to California (12.5 percent), while Alaska accounts for the smallest share (1.5 percent) of the regional total.

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



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: South Atlantic

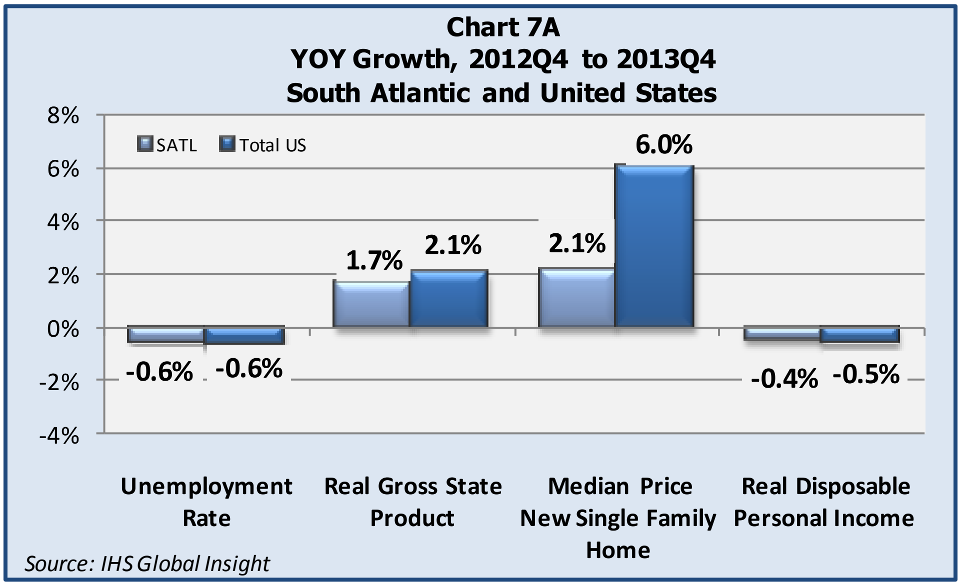
During the year-end holiday period, travel originating from the South Atlantic (SATL) region is expected to increase by 0.3 percent relative to last year, which is slightly lower than the growth expected nationwide (0.6 percent). Automobile travel is forecast to increase 0.5 percent, while air travel is expected to be 0.7 percent lower than year-ago levels. Approximately 28.2 percent of the region's population is expected to travel this year, which is just below the national figure (29.7 percent). An altogether weak economy is keeping travel growth flat this holiday period. With the length of the holiday period a day longer than it was last year, we expect a slight increase in total person-trips thanks to this added calendar effect.

TABLE 7A
2013/14 YEAR-END TRAVEL FORECAST – SOUTH ATLANTIC REGION AND UNITED STATES

	South Atlantic			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.3%	17.56	28.2%	0.6%	94.51	29.7%
Automobile (millions of person trips)	0.5%	15.90	25.6%	0.9%	85.85	27.0%
Air (millions of person trips)	-0.7%	0.96	1.6%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.6%	7.4%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.7%	2,515		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	2.1%	272		6.0%	268	

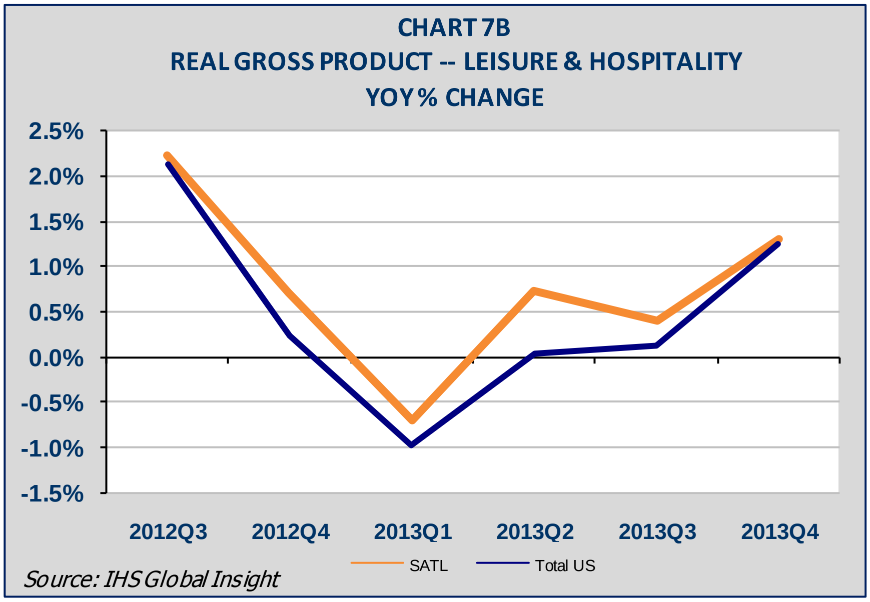
Following the national trend, economic growth in the South Atlantic region has slowed, and will continue to decelerate into the fourth quarter. Real gross state output is forecast to grow 1.7 percent in the fourth quarter (year-over-year), which is slightly lower than the increase expected nationwide (2.1 percent). On the job front, the government sector continues to have a disproportionate impact on the South Atlantic region, especially Maryland, Virginia, and Washington D.C., due to the importance of defense/nondefense agencies in these states, as well as the contractors that benefit from federal dollars. Government employment acted as a drag on SATL payrolls through the summer and fall months. In the fourth quarter, federal employment is projected to be 3.2 percent lower than it was last year, owing partly to the reduction in government hours due to the shutdown. The unemployment rate is expected to reach 7.4 percent, which is 0.6 percentage point lower than at this time last year, though still above the national average (7.2 percent). While the jobless rate is improving, the data depict a regional economy that is recovering at a sluggish pace.

The South Atlantic housing market has made progress over the past year, but the momentum of the housing recovery has slowed in the second half. After climbing 8.1 percent and 12.9 percent in the first and second quarters, respectively, new median home prices in the SATL rose just 0.9 percent (year-over-year) in the third quarter, and are expected



to climb just 2.1 percent in the final three months of the year. While the demand for housing remains as strong as ever, credit is tight, flood insurance rates are on the rise, mortgage rates are elevated relative to recent levels, and income growth has not kept up with price growth. Taken together, these conditions present temporary challenges for the housing market, as well as consumer spending, through the impact of home prices on household net worth.

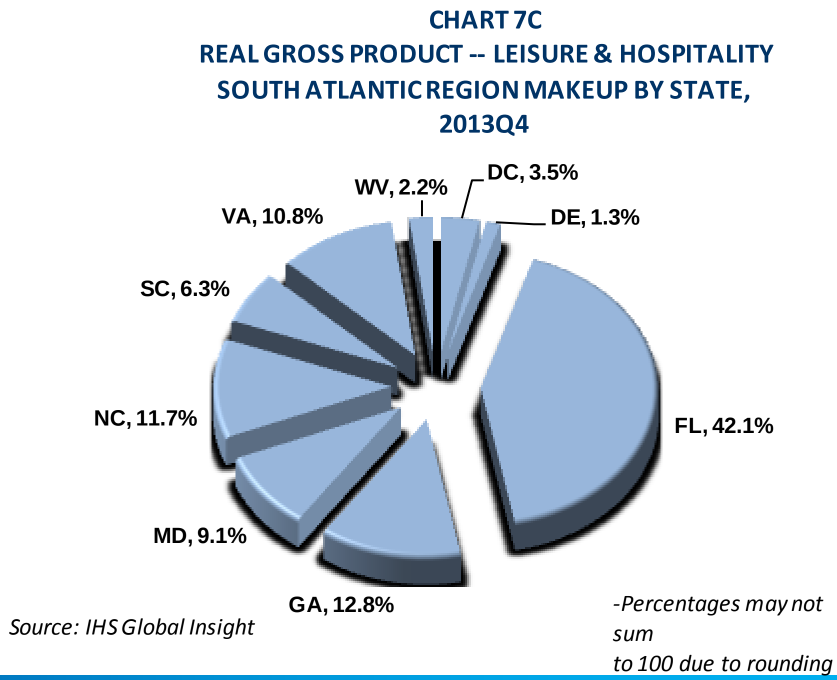
In addition to the deceleration in housing market activity, South Atlantic residents are projected to see declining real incomes this holiday season. In the fourth quarter, real disposable income is forecast to decline 0.4 percent relative to one year ago, compared to 0.5 percent nationally. At the same time, consumer confidence has fallen significantly in recent months as concerns over political and economic uncertainty continue to weigh heavily on spending decisions. The Reuters/University of Michigan Consumer Sentiment Index fell 1.2 points in mid-November to 72, while the Conference Board's Consumer Confidence Index plunged nine points in October, reaching its lowest level since April. Consumers are facing too much uncertainty to increase their discretionary spending this coming holiday season. We expect the number of total-person trips from the SATL region to remain relatively flat compared to last year, boosted by the longer holiday period which introduces another day into this year's forecast relative to last (12 days compared to 11 days last year),



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 in the South Atlantic region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), has been growing on an annualized basis since the second quarter of 2013. In the fourth quarter, we expect leisure and hospitality output to grow 1.3 percent, compared to 1.2 percent nationally. Chart 7B illustrates the path of growth for total output in the leisure and hospitality industry in the South Atlantic region and the broader United States.

Chart 7C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. Florida contributes the largest portion of tourism output to the South Atlantic region. Georgia, North Carolina, and Virginia individually contribute double-digit shares, combining for more than one-third of the region's tourism output.



Travel by Region: West North Central

The West North Central (WNC) region is expected to witness a 1.1 percent increase in travel this year-end holiday period as compared to last year, outpacing the national increase of 0.6 percent. Automobile travel, which accounts for the majority of person-trips both in the WNC region and the nation overall, is forecast to increase by 1.3 percent. The forecast for travel by airplane calls for a decrease of 1.1 percent. A higher-than-average share of the West North Central population is expected to travel this holiday (37.9 percent), which is typical of the WNC region based on its widespread geographic region. The modest increase in total person-trips is supported by a one-day increase in the length of the holiday travel period compared to last year.

TABLE 8A

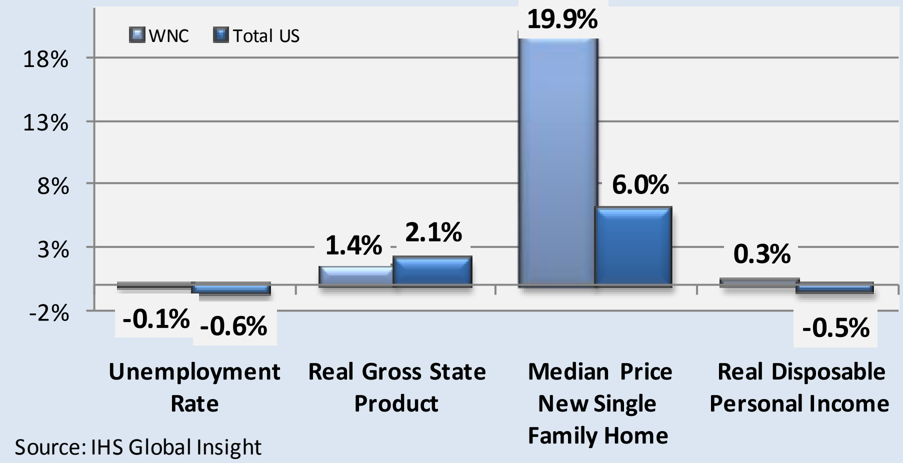
2013/14 YEAR-END FORECAST – WEST NORTH CENTRAL REGION AND UNITED STATES

	West North Central			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	1.1%	7.92	37.9%	0.6%	94.51	29.7%
Automobile (millions of person trips)	1.3%	7.38	35.3%	0.9%	85.85	27.0%
Air (millions of person trips)	-1.1%	0.31	1.5%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	-0.1%	5.4%		-0.6%	7.2%	
Real Gross Product ($, bn)*	1.4%	894		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	19.9%	260		6.0%	268	

Payroll gains in the West North Central region kept pace with the nation in October, adding 1.4 percent year-on-year. This places the WNC region right in the middle of the pack, at fifth, among all nine Census regions. Competing effects keep the region's labor market moving along at only a moderate pace. On one hand, strong commodity prices and agricultural land values throughout the area, combined with energy sector activity in North Dakota, have provided strong boosts to employment and personal income. Conversely, the region has a considerably slower-growing population than the nation, which keeps a lid on job gains as fewer people means less need for goods and services. The unemployment rate in the WNC is expected to be 5.4 percent in the fourth quarter, the lowest jobless rate among the nine census regions. However, recent progress has been slow, as regional unemployment is just one-tenth of a percentage point lower than at this time last year.

The housing market in the West North Central region has been strong, and will continue to exhibit strong growth through the end of year. The median price of a new single-family home is forecast to grow 19.9 percent (year on year) in the fourth quarter, with each state in the region expected to see double-digit price gains. Existing home prices are also up and will be 8.8 percent higher this holiday season compared to last. While recent price gains have been strong, home sales in the region have slowed. After growing at an average rate of 10.2

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

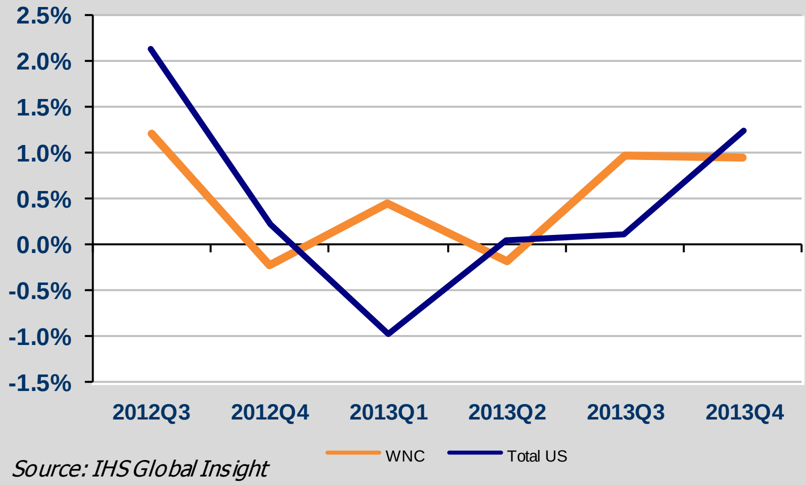


Source: IHS Global Insight

percent (quarter over quarter) through the first three quarters, total home sales in the WNC are projected to rise 7.1 percent in the fourth quarter. Nevertheless, we believe the loss of momentum is only temporary. The Fed Senior Loan Officer Survey reports that lenders began to ease their standards in the third quarter as they compete with one another to satisfy the strengthening demand for construction and new development loans. With financing more readily available, housing inventory should pick up by mid-2014, and the additional supply will loosen price pressures.

The West North Central region will be one of three regions to see an increase in real incomes over the year-end holidays, though the gains will be slight. Real disposable incomes in the WNC are expected to increase 0.3 percentage point, compared to the 0.5-percentage-point decline expected nationwide. With small income gains, and increasing nonmortgage debt levels, consumers in the West North Central region still face too many negatives to allow for a robust increase in travel spending. The region's economy has performed better than most, but continued economy uncertainty and tight household budgets are restricting the region's travel growth. Nevertheless, the longer holiday travel window (12 days rather than 11) means there will be one more day for WNC residents to venture more than 50 miles away from home to celebrate the year-end holidays. As such, the forecast calls for a 1.1 percent increase in WNC total person-trips relative to last year.

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



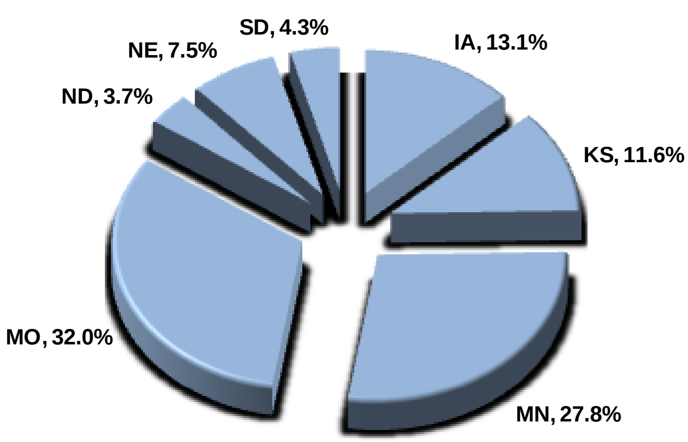
Source: IHS Global Insight

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.

Chart 8B illustrates the path of total output from the leisure and hospitality industry in the WNC and the broader United States. The tourism industry in the West North Central region, as measured by leisure and hospitality industry output (the value of goods and services produced by the leisure and hospitality industry), declined in the second quarter of the year, but accelerated in the third quarter and is expected to hold nearly steady in last quarter of 2013.

Missouri is the largest contributor to tourism in the West North Central region and accounts for nearly one-third of regional industry output.

CHART 8C
REAL GROSS PRODUCT -- LEISURE & HOSPITALITY
WEST NORTH CENTRAL REGION MAKEUP BY STATE, 2013Q4



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

Travel by Region: West South Central

The West South Central (WSC) region has shown moderate economic growth this year, but like the rest of the nation, progress has slowed. The recovery is still moving forward, but the slowdown will prevent appreciable travel growth this season. The year-end holiday travel forecast calls for an increase of 0.9 percent in total person-trips relative to last year, compared to 0.6 percent nationwide. Automobile travel, which is the dominant travel mode in the region and for the country overall, is forecast to rise by 1.3 percent. Air travel is expected to decrease by 0.5 percent compared to last year. The 10.63 million person-trips from the WSC region represent 27.8 percent of the population, which is below the expected national frequency of 29.7 percent.

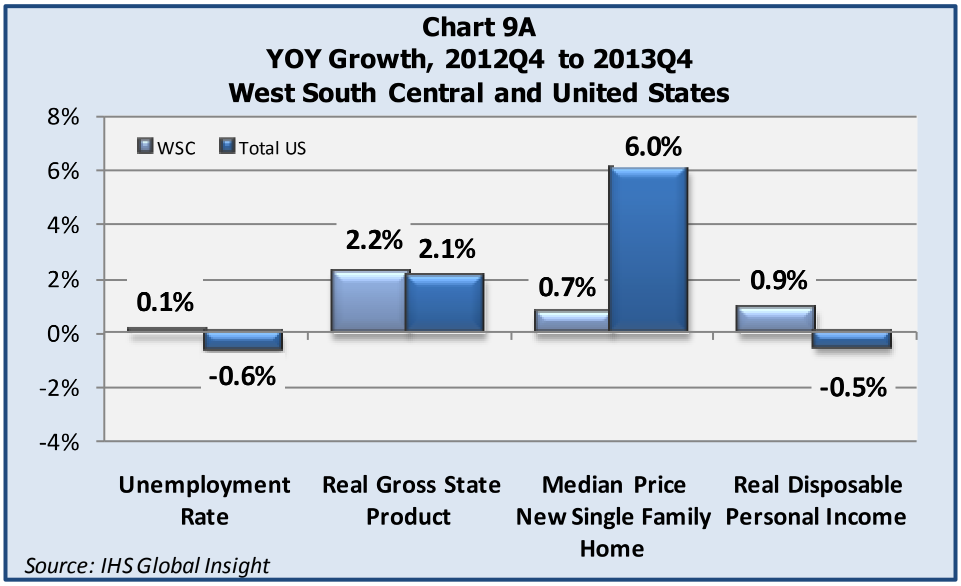
TABLE 9A

2013/14 YEAR-END TRAVEL FORECAST – WEST SOUTH CENTRAL REGION AND UNITED STATES

	West South Central			United States		
Year End Travel	**YOY % Change**	**Level**	**% of Population**	**YOY % Change**	**Level**	**% of Population**
Total (millions of person trips)	0.9%	10.63	27.8%	0.6%	94.51	29.7%
Automobile (millions of person trips)	1.3%	9.85	25.8%	0.9%	85.85	27.0%
Air (millions of person trips)	-0.5%	0.47	1.2%	-1.4%	5.53	1.7%
Economy (2013Q4)	**YOY % Change**	**Level**		**YOY % Change**	**Level**	
Unemployment Rate (YOY Change)	0.1%	6.3%		-0.6%	7.2%	
Real Gross Product ($, bn)*	2.2%	1,693		2.1%	15,859	
Median Price, New Single Family Home ($, thn)	0.7%	201		6.0%	268	

Although the West South Central region continues to expand at a relatively healthy clip, growth downshifted in each of the first three quarters of 2013. As a result, in the third quarter of the year, the region no longer held the spot as the "top growing area" in the country, as it had been through most of the recovery. Indeed, payrolls in the region were up by an annualized 1.3 percent (quarter over quarter) during the third quarter, after rising two percent and 1.9 percent in the first and second quarters, respectively. The unemployment rate in the WSC will tick up 0.1 percentage point in the fourth quarter compared to last year, aided by a 0.4 percentage point drop in the labor force participation rate. While real gross product is projected to grow 2.2 percent, which is a tenth of a percentage point higher than during the previous year-end holidays.

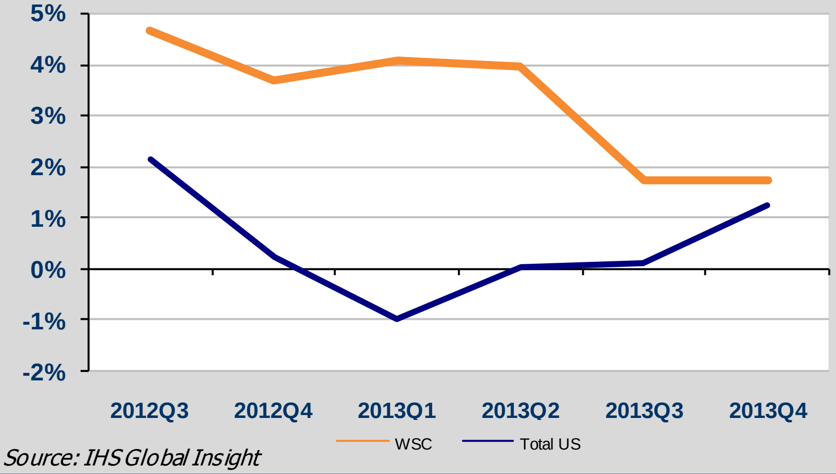
Much of the deceleration in the third quarter came from the construction sector, which after seeing robust gains in the first and second quarters, actually shed jobs during the July–September period. This slowdown in construction should be only temporary, however. Although the national housing recovery has slowed on the back of higher mortgage rates, the demand for housing should begin to pick up steam once again over the near term, supporting a continued recovery of the construction sector. In the fourth quarter, the median price of new single-family homes is expected to be just 0.7 percent higher than in



the fourth quarter of 2012, compared to a six percent increase nationwide.

In addition to the slowing housing market and rising unemployment, many consumers in the West South Central region face falling real incomes. Real personal disposable income in the WNC is set to increase 0.9 percent in the fourth quarter compared to last year, while the country as a whole will experience a 0.5 percent drop. However, the regional increase comes largely from Texas, where incomes are forecast to rise 1.4 percent. Income growth in the other three WNC states' is projected to be relatively flat. With a longer holiday travel period compared to last year (12 days versus 11 days), we expect slightly more trips originating from the West North Central region this year-end holiday compared to last. Economic uncertainty, an unstable job market, and constrained household finances will put a damper on holiday travel growth.

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



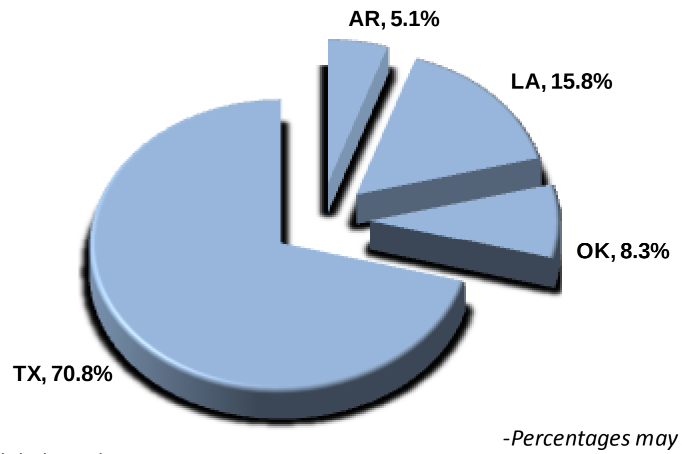
Source: IHS Global Insight

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.

The tourism industry in the WSC region has been growing on an annualized basis since the third quarter of 2011, but growth in tourism output (the value of goods and services produced by the leisure and hospitality industry) slowed in the third quarter of 2013. In the fourth quarter, we expect tourism output to grow 1.8 percent, compared to 1.2 percent nationally. Chart 9B illustrates the path of total output from the leisure and hospitality industry for the region and the total United States.

Chart 9C provides a breakdown of the composition of total output from the leisure and hospitality industry by state. Texas accounts for nearly three-quarters of tourism output in the West South Central region. Conversely, Arkansas accounts for the smallest share, with just 5.1 percent of regional tourism output. Louisiana (15.8 percent) and Oklahoma (8.3 percent) account for the remaining shares of the regional total.

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



Source: IHS Global Insight

-Percentages may not sum to 100 due to rounding

2013/14 Year-End Holidays 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 year-end 2013/14 holiday travel period, the survey was in the field during November 5–8, 2013, and 665 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.[1] 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 1.0 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.[2]

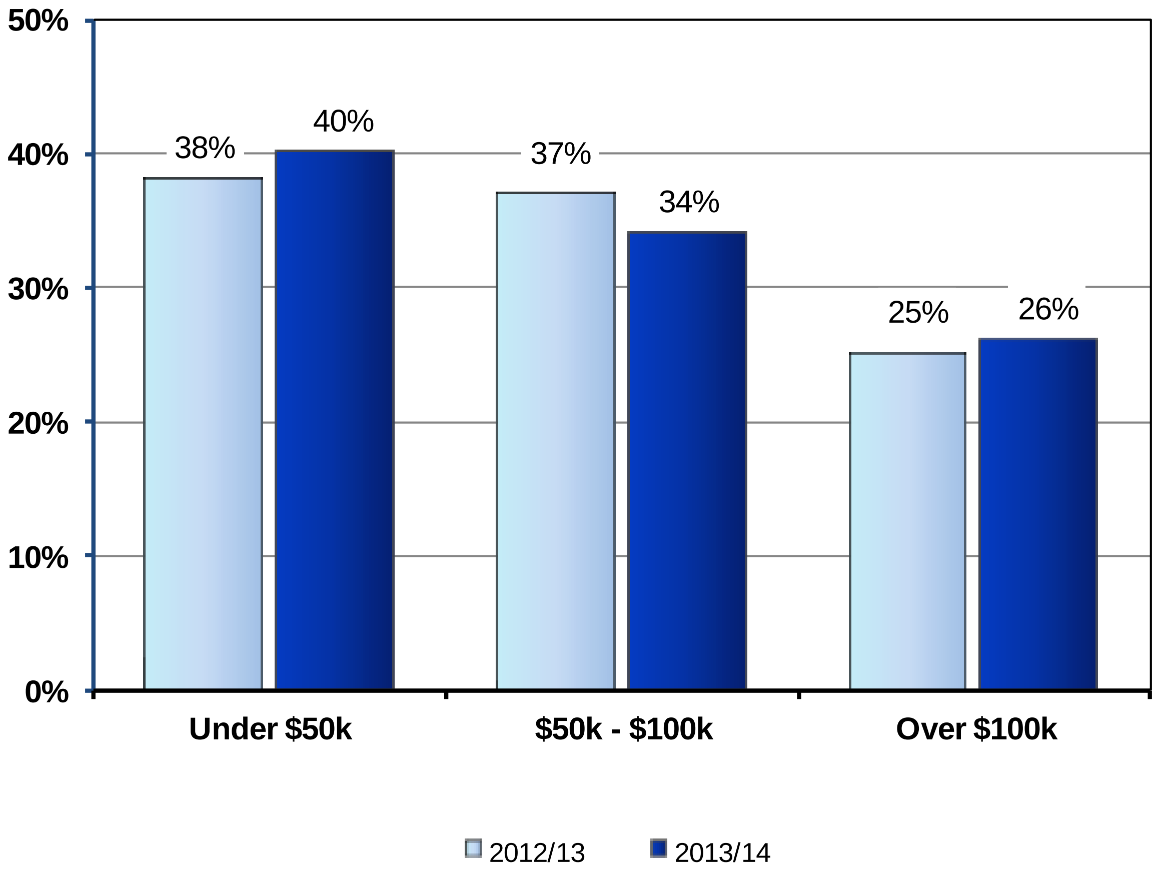
[1] Specifically, the margin of error for each binary response question is, at most, about 6 percentage points, with 99% confidence.

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

Change in Year-End Traveler Demographics

The economy remains weak and consumer confidence has fallen, leading to AAA's year-end travel forecast of only slight growth. The chart below, taken from the *Holiday Traveler Profile,* shows that households making less than $50,000 are expected to make up 40 percent of all travelers this year, up from 38 percent last year. The share of travelers with household incomes between $50,000 and $100,000 is expected to fall slightly, down from 37 percent last year to 34 percent. Households making over $100,000 will make up the remaining 26 percent of total person-trips.

CHART 7
HOUSEHOLD INCOME DISTRIBUTION OF INTENDING TRAVELERS
YEAR-END 2012/13 AND 2013/14 HOLIDAY
TOTAL US



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

Travel Distances

Travelers intend to journey an average of 805 miles round-trip over the upcoming year-end holidays, which is 45 miles more than the 760 miles expected from last year's survey. The near six percent increase in mileage is reflected in the shift from the lower mileage categories to the higher mileage categories. The share of respondents indicating their intent to travel 701–1,500 miles increased from 17 percent in 2012/13 to 21 percent in 2013/14, while the proportion planning to travel more than 1,500 miles increased from 21 percent last year to 22 percent for this year.

"I plan on adding stops to my trip since the travel distance will be greater."

East South Central Respondent

The distribution among mileage categories for the United States is fairly balanced, with nearly every category (with the exception of the 151–250 mileage category) receiving between a 15 percent and 22 percent share of intended travelers. The average miles traveled varies among regions. In the East South Central region, respondents expect to travel an average of 646 miles round-trip over the year-end holidays, with only 32 percent expecting to travel more than 700 miles. On the other end of the spectrum is the Mountain region, which is consistently at the top of expected travel distance, whose travelers for this holiday period are planning to travel 970 miles (on average) with 49 percent of intending travelers planning to travel more than 700 miles round-trip.

TABLE 8
EXPECTED ROUND-TRIP DISTANCE TRAVELED
2013/14 YEAR-END HOLIDAYS
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	16%	10%	15%	15%	21%	22%	805
New England	21%	13%	14%	17%	17%	18%	665
Middle Atlantic	15%	16%	14%	14%	16%	25%	659
South Atlantic	13%	8%	13%	13%	28%	25%	965
East North Central	19%	18%	20%	16%	6%	20%	668
East South Central	10%	12%	18%	28%	22%	10%	646
West North Central	13%	13%	22%	12%	30%	10%	699
West South Central	11%	3%	17%	17%	28%	24%	943
Mountain	18%	3%	10%	20%	22%	27%	970
Pacific	18%	4%	18%	19%	15%	25%	750

Source: D.K. Shifflet & Associates, Ltd.
Numbers may not sum to 100 percent due to rounding

Total Spending

Travelers intend to spend a median of $765 this holiday period. That figure is relatively unchanged compared to last year's median spend of $759. 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 is expected to account for roughly 35 cents of the traveler dollar. Food and beverages and shopping continue to make up large shares of the traveler dollar, though the shares are lower this year than last, as other transportation spending has increased. Other transportation will make up 23 cents of the traveler dollar compared to 17 cents last year.

> *"Finances are much tighter this year than last, so we plan to spend less on gifts and hotels in an effort to save money."*
>
> *Mountain Region Respondent*

TABLE 9
MEDIAN EXPECTED TOTAL HOUSEHOLD TRIP SPENDING AND AVERAGE EXPECTED SHARES OF BUDGET BY CATEGORY
2013/14 YEAR-END HOLIDAYS
TOTAL US AND BY REGION OF RESIDENCE

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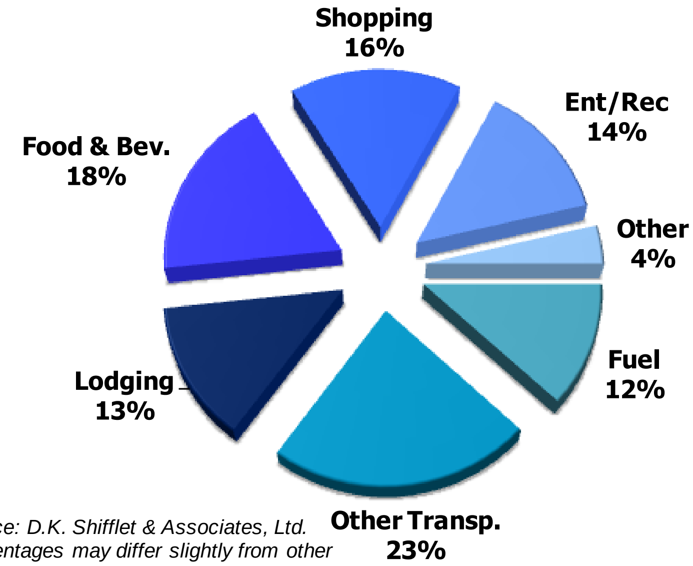
	Total US	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Median Total	**$765**	**$702**	**$839**	**$692**	**$689**	**$842**	**$717**	**$821**	**$812**	**$812**
Fuel Transportation	12%	10%	8%	13%	13%	14%	13%	12%	10%	11%
Other Transportation	23%	27%	25%	20%	15%	27%	16%	17%	25%	28%
Accommodations	13%	12%	16%	12%	17%	14%	12%	11%	11%	13%
Food & Beverages	18%	21%	18%	19%	17%	15%	20%	21%	20%	18%
Shopping	16%	16%	18%	15%	23%	13%	22%	23%	16%	14%
Entertainment/Recreation	14%	12%	13%	20%	13%	12%	14%	12%	14%	12%
Other	4%	3%	2%	3%	2%	5%	4%	5%	3%	3%

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

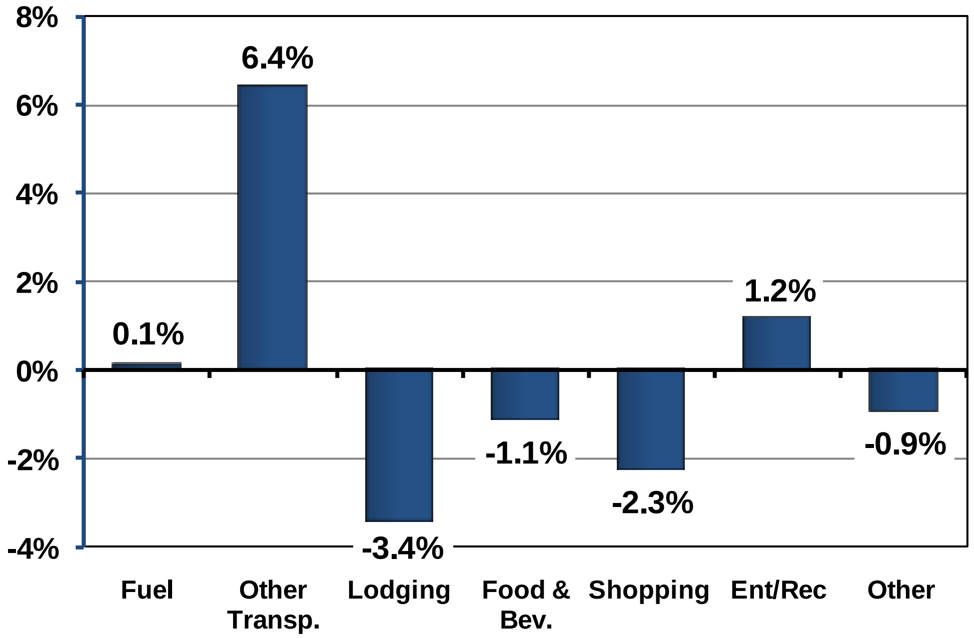
Chart 10 illustrates the average expected shares of budget by category for 2013/14. Chart 11 shows the change in expected budget distribution from year-end 2012/13 to 2013/14.

CHART 10
US 2013/14 YEAR-END SPENDING
DISTRIBUTION BY CATEGORY



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

CHART 11
TOTAL US YEAR-END HOLIDAYS SPENDING
CHANGE IN BUDGET SHARE FROM 2012/2013 TO 2013/2014



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

Party Composition

For the 2013/14 year-end holiday period, the most common party composition remains two adults, at 40 percent, which is up four percentage points from last year. The next largest share is families, at 25 percent. That share is down four points from last year. Groups with one adult or with three or more adults will make up 20 percent and 14 percent, respectively, of total travel parties this year.

"I will be traveling with less people this year"

West South Central Respondent

.

TABLE 12
PARTY COMPOSITION
2013/14 YEAR-END HOLIDAYS
TOTAL US AND BY REGION OF RESIDENCE

	One Adult	Two Adults	Three or more Adults	Families
Total US	**20%**	**40%**	**14%**	**25%**
New England	26%	40%	9%	26%
Middle Atlantic	22%	40%	17%	22%
South Atlantic	21%	49%	4%	25%
East North Central	15%	37%	24%	24%
East South Central	36%	26%	5%	32%
West North Central	17%	24%	11%	48%
West South Central	12%	40%	19%	29%
Mountain	21%	44%	6%	29%
Pacific	23%	41%	23%	13%

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

Activities

Visiting with friends and family as well as dining remain the top two activities for travelers during the upcoming holiday season. The table below shows that 74 percent are planning to visit with friends and family, while 70 percent plan on dining as a specific activity. Both of these categories will see increases from last year, as visiting with family and friends will add 8 percentage points, while the share of travelers intending to dine is three percentage points higher. The share of travelers planning to shop is expected to fall to 51 percent, compared to last year's share of 57 percent.

"We will be with all of the family this year"

Mountain Respondent

These three activities are clearly the primary planned activities as they are the only activities showing up on more than 50 percent of travelers' plans. The share of travelers intending to participate in touring/sightseeing has fallen, from 34 percent last year to just 30 percent this year. Visiting historic sites and visiting museums and art exhibits each saw an increase of five percentage points.

TABLE 13
EXPECTED ACTIVITIES
2013/14 YEAR-END HOLIDAYS
TOTAL US AND BY REGION OF RESIDENCE

	Total US	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Visit with friends/relatives	74%	73%	83%	81%	80%	68%	64%	71%	63%	78%
Dining	70%	69%	81%	63%	76%	68%	59%	68%	68%	75%
Shopping	51%	49%	55%	44%	54%	47%	63%	54%	55%	53%
Touring/sightseeing	30%	20%	41%	32%	26%	30%	29%	30%	26%	27%
Night Life	28%	17%	29%	33%	26%	20%	32%	28%	32%	31%
Visit historic sites	21%	17%	17%	20%	11%	29%	16%	17%	18%	27%
Visit museums, art exhibits, etc.	21%	18%	15%	16%	11%	24%	10%	33%	21%	28%
Go to beach/waterfront	18%	19%	19%	23%	13%	13%	9%	8%	23%	26%
Attend concerts, plays, dance, etc.	17%	17%	14%	11%	6%	17%	10%	27%	22%	20%
Watch sporting events	16%	16%	12%	11%	26%	15%	26%	18%	11%	19%
Hike, bike, etc.	12%	15%	9%	11%	8%	16%	8%	7%	14%	17%
Attend festivals, craft fairs, etc.	12%	5%	11%	12%	6%	9%	13%	10%	20%	15%
Visit national or state parks	11%	7%	13%	6%	6%	13%	16%	4%	9%	20%
Gambling	11%	9%	14%	15%	8%	7%	2%	11%	8%	14%
Visit theme/amusement parks	10%	4%	4%	17%	7%	8%	4%	5%	16%	17%
Observe & conserve nature/culture Eco-Travel	7%	5%	5%	6%	7%	10%	8%	2%	11%	7%
Snow ski, snow board, other	7%	7%	7%	4%	8%	7%	3%	3%	11%	11%
Other	7%	17%	1%	3%	5%	11%	3%	6%	15%	4%
Spa	6%	4%	11%	9%	4%	6%	11%	3%	1%	4%
Look at real estate	5%	5%	3%	2%	3%	2%	2%	2%	9%	15%
Play golf	3%	4%	2%	3%	2%	3%	5%	2%	2%	6%
Hunt, fish, etc.	3%	0%	1%	3%	4%	3%	7%	0%	5%	4%
Boat/sail	3%	2%	7%	8%	6%	2%	1%	0%	1%	0%
Compete in sporting events	2%	4%	0%	1%	0%	5%	4%	0%	1%	0%
Attend show: boat, car, home, etc.	1%	1%	3%	1%	0%	0%	1%	1%	1%	0%

Source: D.K. Shifflet & Associates, Ltd.
Numbers may not add to 100 percent due to rounding and multiple responses.

Chart 14
Variance In Expected Primary Activities
Year-End 2013/14 Compared to 2012/13 Year-End Holidays

Expected Activities	2013/14	2012/13	Variance
Visit with friends/relatives	74%	66%	8%
Dining	70%	67%	3%
Shopping	51%	57%	-6%
Touring/sightseeing	30%	34%	-4%
Night Life	28%	27%	1%
Visit historic sites	21%	16%	5%
Visit museums, art exhibits, etc.	21%	16%	5%
Go to beach/waterfront	18%	19%	-1%
Attend concerts, plays, dance, etc.	17%	13%	4%
Hike, bike, etc.	16%	10%	6%
Watch sporting events	12%	17%	-5%
Attend festivals, craft fairs, etc.	12%	13%	-1%
Visit national or state parks	11%	10%	1%
Gambling	11%	13%	-2%
Visit theme/amusement parks	10%	7%	3%
Observe & conserve nature/culture - Eco-Travel	7%	6%	1%
Snow ski, snow board, other snow/ice sports	7%	9%	-2%
Look at real estate	7%	4%	3%
Spa	6%	6%	0%
Other	5%	8%	-3%
Play golf	3%	3%	0%
Hunt, fish, etc.	3%	5%	-2%
Boat/sail	3%	4%	-1%
Compete in sporting events	2%	2%	0%
Attend show: boat, car, home, etc.	1%	3%	-2%

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

Addendum 1: US Economic Forecast Summary:

PUBLISHED: 11/18/2013

Fourth-quarter GDP growth is depressed. So far this month, there have been two positive surprises in the newly released economic data. Third-quarter real GDP grew at a 2.8% annual rate—well above consensus expectations, although 0.8 percentage point of this growth came from increased inventories. We believe at least some of these inventories were unplanned, triggering offsetting forecast changes in the coming months. The other surprise concerned employment. In October, the month when the government shutdown occurred, 204,000 new jobs were created on top of strong upward revisions to the August and September data. The net findings are that the economy currently has an underlying trend growth rate of about 2.0-2.5% and that the shutdown had little effect on private sector hiring (i.e., indirect impacts) and probably little effect on spending and investment.

The shutdown will contribute to an annualized 4.5% drop in real federal government spending in Q4. Sequester-related budget restrictions contributed to a decline in federal government outlays, from 22.0% of GDP in fiscal year (FY) 2012 to 20.8% in FY 2013. Meanwhile, government revenues increased from 15.2% of GDP to 16.7% of GDP as payroll and income tax rates increased in January. The result was a decline in the deficit to 4.1% of GDP, from 6.8% of GDP. We expect the deficit to fall toward 3.0% of GDP by 2016—a level that, internationally, is considered reasonable and sustainable. Looking ahead, the funding bill to open the government and suspend the debt ceiling expires early next year. We do not expect another politically costly government shutdown, but the chances for a grand bargain agreement are nil. The most likely outcome is an extension of the current funding bill for the remainder of FY 2014, but with the mitigation of the defense portion of a potential $20 billion sequestration.

Consumer confidence will negatively impact holiday spending. There has been a tremendous loss of consumer confidence in recent months due to political bickering, the impending debt-ceiling crisis, and a loss of faith in government effectiveness. The two major consumer mood indexes took a hit in October; the Reuters/University of Michigan consumer sentiment index fell by approximately 6%, while and the Conference Board's consumer confidence index fell more than 11%. There is evidence that the consumer mood is likely to slip further, since the mid-November Reuters/University of Michigan consumer sentiment reading fell another 1.2 points. This recent loss in confidence does not bode well for holiday retail sales, since confidence is a key driver in how much discretionary spending occurs in November and December. While the forecast includes an acceleration of consumer spending growth from an annual rate of 1.5% in the third quarter to 2.3% in the fourth quarter; however, most of the increase will be in services, which were abnormally depressed over the summer. We expect holiday retail sales to increase 3.2% over last year's low base.

The housing market will bounce back in 2014. On the builder side, the pause is caused by pipeline pressures; on the consumer side, affordability issues and concern over policy dysfunction are to blame. In August, the S&P/Case-Shiller Home Price Index rose 12.8% year-on-year, a massive gain, in the same month as affordability hit its lowest level in five years. Mortgage rates were partially to blame; although they began to retreat after the Fed's September non-taper announcement. Builders have been facing tight credit conditions since the end of the crisis, but the Fed Senior Loan Officer Survey reports that lenders began to ease their standards in the third quarter as they compete with one another to satisfy the strengthening demand for construction and land development loans. With financing more readily available, housing in inventory should pick up by mid-2014. The additional supply will loosen price pressures.

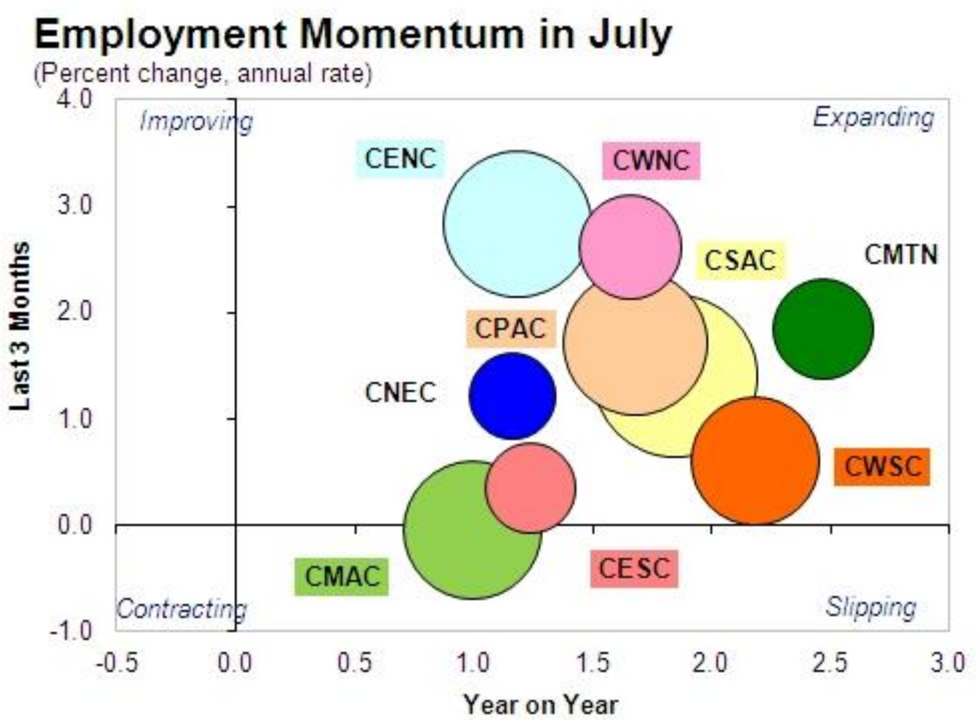
Fed unlikely to begin tapering bond-buying program in 2013. Janet Yellen's testimony during her confirmation hearing for Federal Reserve chairperson suggested that she will take a slow and cautious approach when winding down the Fed's bond-buying program. Consequently, we continue to place a low probability of the Fed announcing a start to tapering at its December meeting, and believe that the 18-19 March meeting is the likeliest timing, depending on the state of the labor market and fiscal policy at that time. This slow approach will help maintain downward pressure on long-term bond yields. Nonetheless, interest rates are headed higher next year as economic growth improves, with the 10-year Treasury yield reaching 3% by the third quarter.

Addendum 2: US Regional Forecast Summary:

PUBLISHED: 09/18/2013

Easy does it

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



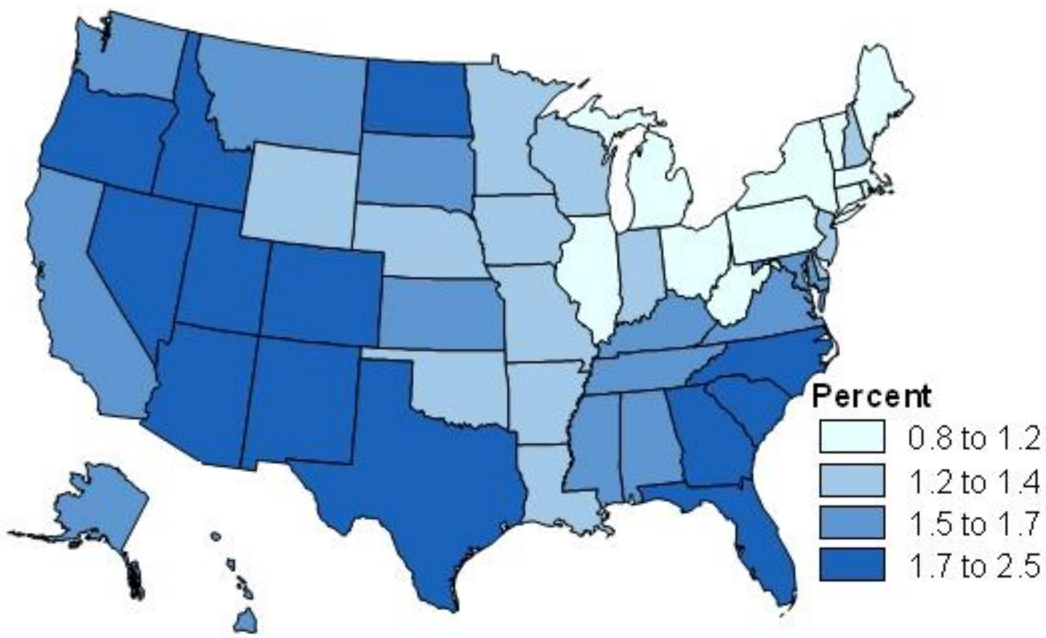
With the energy sector cooling, North Dakota will cede its spot as the fastest growing state (one it has held since 2010) to Utah, which is being powered by a thriving high-tech sector. At the national level, the construction sector will post the most marked payroll increase, powered by the ongoing turnaround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

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

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

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

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



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

Second-quarter vacancy rates: On the decline

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

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

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

State homeowner vacancy rates

(Four-quarter moving average)

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

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

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

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