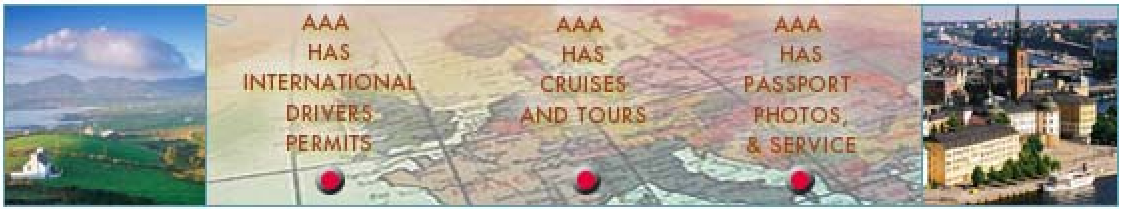
SUMMER 2008 U.S. OUTBOUND INTERNATIONAL VISITOR VOLUME AND SPENDING FORECAST

A Global Insight Report



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A REPORT FOR:

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THE POWER OF PERSPECTIVE

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I. Summer 2008 Travel Outlook

AAA comissioned Global Insight to prepare a US international outbound travel outlook for the 2008 summer travel season. While the economic cards are clearly stacked against a strong summer travel season, Global Insight does expect that outbound travel will gain 2.6% over last year, bringing total US outbound summer travel to 25.2 million person-trips, up from 24.5 million trips in 2007. Some of the key issues impacting the summer outlook include:

- **US Economic Outlook** –A mild 2-quarter recession will hit in the first two quarters of 2008. Unfortunately, the economic news will be at its worst right in the middle of the peak trip booking period. Things begin to improve in Q3 and 2009 should bring good news on three critical travel driver fronts: (1) economy will rebound (sub-prime, housing crisis begins to abate, exports remain robust), (2) oil prices begin to moderate, (3) dollar will begin to rise against most currencies (particularly outbound destination currencies), (4) ADRs also begin to moderate as new capacity comes on-line, particularly in Asia and emerging country destinations.
- **Exchange rates** will slightly alter destination choices, but they are more likely to cause trip postponement. The weak dollar will also cause increases in trip spending, albeit only slightly since outbound US travelers will reallocate as much and as long as they can. Price inflation will also impact destination choices, but again, a reallocation of budgets is the more likely outcome.
- Many of these factors add a potential downside risk to the summer 2008 travel season. Economic uncertainly, travel inflation, and exchange rates may cause trip postponement decisions and domestic-for-outbound trade-outs. The supply side will respond with promotional deals to keep capacity utilization up. Domestic US travel will see a boost from this outbound hesitation.
- **WHTI**, although recently in the news, has already been largely internalized. As such, it is mostly a non-issue and has likely stopped putting a damper on international travel. Passport applications are still up, but their growth trajectory has already turned over. Further proof that leisure travel is amazingly resilient.
- The prospects for **travel inflation and costs** remain a drag on outbound travel. Hotel room rates, airfares, and gasoline prices are still rising, albeit at a slowing rate. Food and beverage, entertainment, and shopping will continue to feel the pain of travel budget reallocation away from these trip activities in order to pay for the increases in accommodation and transportation costs. Help is on the way, but will not reach the traveler until well after the summer 2008 travel season.

Travel has become amazingly resilient in the face of recent events both economic and non-economic. As such, despite the gloomy economic outlook for the first half of 2008, we expect a moderation, but not a collapse, in the growth of US outbound international travel this summer. Some destinations will be more impacted than others by exchange rates, inflation and non-economic factors that contribute to destination choice. And some US Census regions will show stronger outbound growth than others as their performance outpaces or falls behind that of the US. All regions, however, will show growth in outbound travel this summer, albeit well below the historical trend further highlighting the resiliency of US travelers.

US International Outbound Trips and Spending by Destination
Summer 2008

	Summer Person-Trips ('000)			Summer Spending (US$, mn)		
	2007	**2008**	**%ch**	**2007**	**2008**	**%ch**
Americas						
Mexico	5,752	5,827	1.3%	$5,259	$5,609	6.7%
Canada	5,128	5,085	-0.8%	$3,841	$4,036	5.1%
Costa Rica	229	235	2.6%	$270	$304	12.8%
Brazil	225	217	-3.5%	$331	$353	6.4%
Caribbean	2,443	2,476	1.4%	$3,068	$3,310	7.9%
Puerto Rico	783	776	-1.0%	$922	$995	7.9%
Bahamas	357	341	-4.5%	$420	$442	5.1%
Jamaica	339	361	6.3%	$399	$479	19.8%
Dominican Republic	312	324	4.1%	$367	$407	11.1%
Rest of Caribbean	652	674	3.5%	$959	$987	2.9%
Europe						
Italy	1,550	1,623	4.7%	$2,496	$2,592	3.9%
United Kingdom	1,178	1,208	2.6%	$1,896	$1,965	3.6%
France	1,028	1,096	6.7%	$1,654	$1,707	3.2%
Germany	694	724	4.4%	$1,116	$1,153	3.2%
Netherlands	344	359	4.3%	$554	$574	3.6%
Ireland	316	337	6.6%	$509	$533	4.7%
Spain	307	317	3.3%	$495	$518	4.8%
Switzerland	243	259	6.5%	$391	$403	3.0%
Asia						
China	505	573	13.4%	$959	$1,059	10.5%
Hong Kong	315	330	4.7%	$598	$645	7.9%
Japan	234	244	4.3%	$444	$457	2.9%
India	201	227	13.1%	$381	$415	8.9%
Rest of World	3,850	4,044	5.0%	$4,821	$5,111	6.0%
Total	24,541	25,183	2.6%	$29,083	$30,745	5.7%

Figures in the table above represent total outbound travel. Leisure travel accounts for 82% of US international outbound travel. Some countries are more leisure intensive than others with China, Hong Kong and the UK having the highest percentage of business travel. Accounting for the lion's share of total travel, leisure travel drives the overall travel outlook.

Europe does fairly well as a destination this summer, partially because the popularity of the region as a US travel destination allows it to defy economic fundamentals and partly because the region has come back into favor as a US travel destination.

The emerging destinations of China and India continue to draw more US visitors. While the volume of visitors to these countries is still relatively small, they show the strongest growth of the top 20 destinations, both growing over 13% compared to the average of 2.6% for total outbound.

Outbound spending will also show moderate increases this summer, advancing by 5.7% and reaching $30.7 billion. Spending growth outpaces visitor volume primarily because of inflation.

Global inflation is expected to advance by 3.8% in 2008. Real spending will advance by only 1.9%, well behind the 2.6% advance in visitor volume.

Economic conditions will vary across the US regions and as such growth in departures from each region will vary as well. West South Central will lead the pack with 4.7% growth in outbound international person trips while the Pacific region will lag behind with only a 1.8% expansion.

US International Outbound Trips and Spending by Origin
Summer 2008

	Summer Trips By Origin ('000)			Summer Spending By Origin (US$, mn)		
	2007	**2008**	**%ch**	**2007**	**2008**	**%ch**
New England	1,963	2,009	2.3%	$2,502	$2,630	5.1%
Connecticut	736	756	2.6%	$938	$990	5.5%
Massachusetts	982	1,003	2.2%	$1,251	$1,313	5.0%
Middle Atlantic	6,871	7,038	2.4%	$6,967	$7,332	5.2%
New York	4,172	4,281	2.6%	$4,230	$4,460	5.4%
New Jersey	1,718	1,758	2.3%	$1,742	$1,831	5.1%
Pennsylvania	982	1,003	2.1%	$995	$1,045	4.9%
South Atlantic	4,908	5,046	2.8%	$6,595	$6,967	5.6%
Metropolitan DC*	1,115	1,144	2.6%	$1,499	$1,580	5.4%
Florida	2,008	2,064	2.8%	$2,698	$2,850	5.6%
Virginia	892	918	2.9%	$1,199	$1,268	5.7%
Maryland	446	457	2.5%	$600	$631	5.3%
North Carolina	446	460	3.2%	$600	$636	6.0%
East North Central	2,454	2,503	2.0%	$2,381	$2,498	4.9%
Illinois	1,227	1,255	2.3%	$1,191	$1,253	5.2%
Ohio	491	501	2.1%	$476	$500	5.0%
East South Central	491	503	2.4%	$605	$642	6.1%
West North Central	491	503	2.4%	$666	$702	5.3%
West South Central	1,718	1,799	4.7%	$2,500	$2,712	8.5%
Texas	1,472	1,541	4.7%	$2,142	$2,323	8.4%
Mountain	982	1,015	3.4%	$1,161	$1,243	7.1%
Colorado	491	508	3.6%	$580	$622	7.2%
Pacific	4,663	4,749	1.8%	$5,706	$6,019	5.5%
California	3,927	3,993	1.7%	$4,805	$5,061	5.3%
Washington	491	501	2.1%	$601	$635	5.8%
Total	24,541	25,183	2.6%	$29,083	$30,745	5.7%

**DC is measured as the DC Metropolitan Statistical Area (MSA)*

II. US Macroeconomic Outlook

Executive Summary

- The economy has slipped into recession during the first half of 2008.
- The downturn is spreading beyond housing, as credit tightens and high commodity prices squeeze spending power.
- Monetary and (especially) fiscal stimulus should produce a modest rebound in growth during the second half of the year.
- The export outlook looks positive, and must remain so, if the economy is to avoid a deeper recession.
- The Fed is likely to cut interest rates to 1.5% by midyear.

Travel Implications

- Most international travel was likely booked prior to the downturn. However, uncertainty around the state of the economy going in to 2008 may have tempered summer bookings.
- Household wealth is a key factor in travel decisions. Tight credit and weak housing markets may limit upside travel potential this summer.
- The fiscal stimulus will more likely have an impact on international travel spending than the volume of travelers. Domestic travel may also see a boost from the fiscal stimulus package.

The Forecast in Brief

In response to the implosion of Bear Stearns, **the Federal Reserve has pulled out all the stops** to try to calm the crisis in the financial markets and prevent it from pulling the U.S. economy into a deep recession. It guaranteed $29 billion of Bear Stearns' securities, while opening its discount lending window to investment banks. And it lopped another 75 basis points off its federal funds rate, taking it down to 2.25%.

Opening the discount window to investment banks does seem to have calmed fears that Bear Stearns might just be the first in a series of dominos to fall. And mortgage rates in the conventional fixed-rate market have fallen, although they remain unusually high relative to Treasuries. **But the evidence clearly indicates that the economy is already, at the very least, in a shallow recession.** And the size of the losses still being absorbed by the credit markets and the magnitude of the de-leveraging process that is under way suggest that even if the Fed can avoid a deep recession, growth will remain subpar for some time.

Global Insight expects GDP declines of 0.1% in the first quarter and 0.7% in the second. Housing activity is still plunging, consumer spending growth has slowed sharply, nonresidential construction appears to have peaked, business equipment spending is slipping, and state and local government finances are coming under increased stress. Essentially, most supports to growth are disappearing—with one key exception. Export growth remains robust, while imports are falling. In the first quarter, we expect domestic demand to fall a steep 1.1%, but the support from foreign trade adds a full percentage point to GDP growth, as in the fourth quarter.

With first-quarter GDP growth expected to be just fractionally below zero, a small increase would not be a surprise. **If first-quarter GDP does come in slightly positive, is there still a**

recession under way? We would answer "yes," because a recession is decided by monthly movements in key indicators such as employment and industrial production, which we expect to show a series of declines during the first half of the year. And we think that **GDP weakness will be more evident in the second quarter**. We see domestic spending dropping even more steeply then, by 2.0%, as consumer spending joins the list of falling items. We now anticipate that oil prices will stay above $100/barrel for the quarter, pushing up gasoline prices and squeezing spending power.

The second quarter would be worse still (with GDP down 1.6%), but for the help from the fiscal-stimulus package, which will deliver tax rebates to consumers beginning in early May. We assume that they spend about 20% of the rebates within three months of receipt and another 20% in the following three months.

Housing remains the biggest drag on growth. We expect housing starts to hit bottom in the third quarter of 2008, at just 855,000 units (annual rate). On an annual basis, starts should drop to a low of 911,000 in 2008. House price declines have accelerated, and we expect the OFHEO house price index to show an unprecedented 12.6% decline from the second quarter of 2007 to the first quarter of 2009.

But housing is no longer the only area of weakness—**the downturn is now spreading more broadly**. The **consumer** is being squeezed by a weakening labor market, falling home prices, tighter credit availability, and high energy prices. Consumer sentiment is at recession levels. And **payroll employment** has now declined for three months in a row, removing the last support under consumption.

Real consumer spending should be up just 0.7% in the first quarter, and we expect spending to decline in the second quarter, even with the help from the tax rebates. Spending growth should revive to 2.6% (annualized) in the third quarter, but slow again thereafter.

This year, even with the rebate boost, we see consumer spending growth slipping to 1.4%, well below the 2.2% gain in incomes. Light-vehicle sales fall to 14.9 million units in 2008—their worst year since 1995.

Growth in the economy has had a very beneficial impact on the **federal budget deficit**, but the good news is now in the past. Faster spending growth and slower revenue growth, combined with the cost of the stimulus package, will raise the deficit to $413 billion in fiscal 2008.

Global growth is slowing, but along with a weakening dollar, is still supporting U.S. export growth. Growth in Asia still looks solid, although there are signs that European growth is losing steam, partly because U.S. goods are gaining at Europe's expense as the dollar slides, and partly because some housing markets there (e.g., United Kingdom) are turning down. Falling interest rates and slowing U.S. growth have sent the **greenback to new lows**. This is bad news for U.S. consumers, but it is dramatically improving the competitiveness of U.S. producers. Exports rose 8.1% in 2007, and should rise a similar 8.2% this year.

Although Federal Reserve officials are still indicating that their number one concern remains the downside risks to growth, some are worrying that they are starting to take risks with inflation; two FOMC voters dissented from the March 18 rate cut. But our view is that the growing evidence of economic contraction will induce the Fed to take out further insurance against a downward spiral. Therefore, we expect it to take the **federal funds rate** down another 75 basis points by midyear, to 1.50%, and to hold there for the rest of 2008.

III. How Will a Mild U.S. Recession Affect States in 2008?

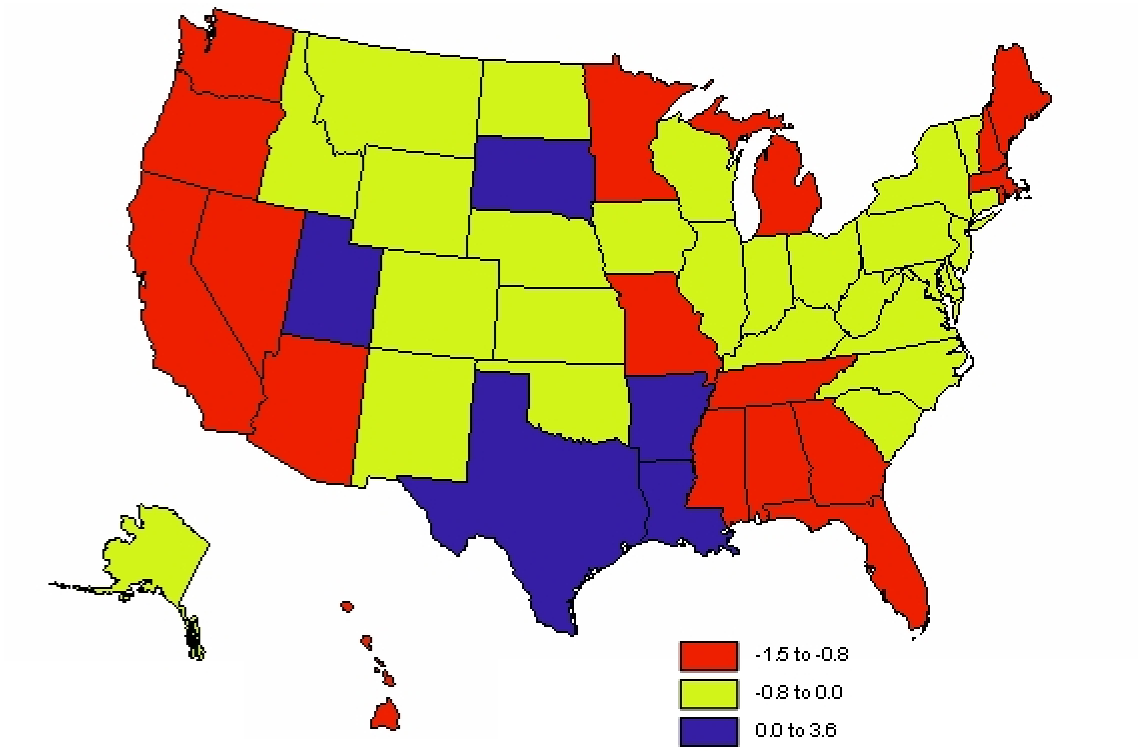
In light of the avalanche of negative economic news through the early weeks of 2008, Global Insight concludes that the U.S. economy is most likely in recession now, and we project that it will last until this summer. We reported earlier that almost one-half of the slowdown in U.S. economic growth in the latter half of 2007 could be attributed to the sharp slowing of four state economies: Arizona, California, Florida, and Nevada. These states were, not coincidentally, at the epicenter of the home-building and home-price bubbles. It was the bursting of those bubbles, and the credit contagion that erupted after the subprime mortgage crisis, that led to the downward economic spiral. We base our recession call on the spread of distress to sectors other than housing. Financial markets have tightened across the spectrum of asset and credit instruments, and manufacturing is also in contraction as we begin 2008. One positive for the economy at present is soaring export demand, aided by the weakened dollar.

The regional implications of the recession will continue to follow the pattern of the home-building bust. With huge inventories of unsold new homes, and existing homes for sale, residential construction has yet to hit bottom. We project fewer than 1 million starts in 2008, the lowest since World War II. Home prices have yet to reach an equilibrium, because buyers and sellers are at a stand-off as home sales plummet. The rapid-growth states in the Sun Belt, especially the four mentioned above, will experience the most dramatic reversals of fortune. The Northeast, although very much at risk of a deeper financial-sector meltdown and further home-equity declines, should experience a more moderate cycle, because its home-building excesses were not so severe, and they accounted for a smaller share of growth. The main moderating factor for states is export strength, which aids export-oriented manufacturing, but visits to popular destinations by international tourists should also mitigate the effects of economic downturn.

In this economic environment, state growth rankings will be drastically altered. Nevada and Arizona, respectively ranking 1st and 2nd in employment growth over the past five years, will see significant job losses in 2008, indeed besting only Michigan in the 2008 ranking. Florida will also see net losses, as will California, Minnesota, Missouri, and Maine. Texas, on the other hand, will continue its climb in the state rankings, to 3rd in 2008, behind only Louisiana and Utah in the rate of job growth. Note that these are full-year net results—many more states will see contracting payrolls in the first half of the year that will be recouped in the second half. Indeed, the map below characterizes states by the extent of losses in real gross state product (GSP) in the first half of 2008. Only Michigan, with a decline of 0.2%, will see a net GSP loss for the full year.

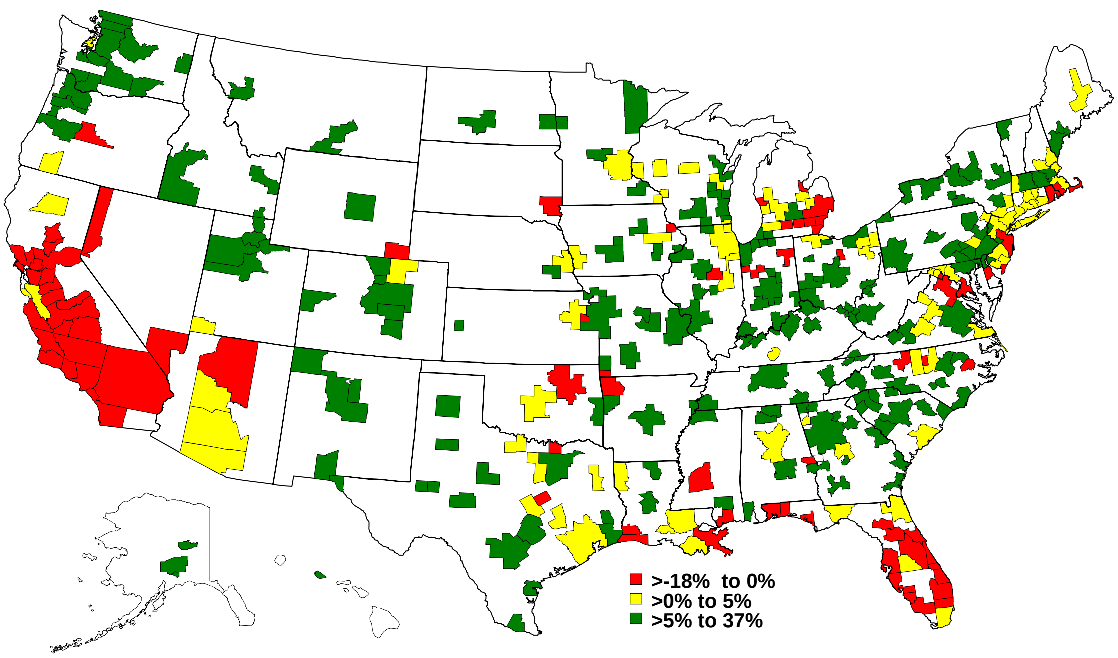
Most States Will See GSP Declines Throughout the First Half of 2008. Based on the U.S. Regional Service February 2008 Baseline Forecast, real GSP will decline in many states during the first half of 2008. California will see an annualized loss of 1.5% over this period, the largest decline among all states. Arizona and Nevada will follow close behind, with losses of 1.4% each.

Gross State Product Growth
First 1/2 of 2008



One of the key determinants of household wealth is the health of the housing market. The following map illustrates those areas of the country where there has been substantial home-price depreciation (areas in red). Outbound leisure travel from these areas may be limited by the impact of falling home values on household wealth.

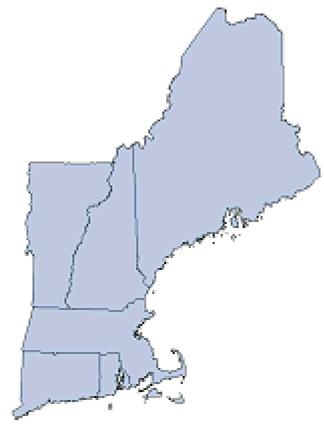
Appreciation / Depreciation – 2007Q3



IV. Outlook for Key Outbound Regions

The Middle Atlantic, South Atlantic and Pacific regions account for over 65% of US international outbound travel and spending. Economic conditions in these three regions play a significant role in determining the outbound travel potential of the US. When conditions are good in these three regions, the overall outlook for US outbound travel will follow suit. We are expecting the first half of 2008 to be weak across the board, but particularly so in the Pacific region. Outlooks for each of the regions are presented below.

New England



Travel Implications

- GSP growth in New England will lag that of the US in 2008, dampening outbound travel relative to the US.
- Further, the housing market crunch was felt more strongly in New England than in some other regions. The housing market crisis has been a source of concern for leisure travel as travel decisions are at least in part impacted by household wealth which is reduced by falling home prices.
- Summer outbound travel from New England will post a fairly weak 2.3% gain over 2007, slightly behind the US average of 2.6%.

The New England regional economy exhibited decelerating growth in late 2007 as total employment in the region increased only 0.8% year-over-year (y/y) for December. Regional payroll expansions were concentrated in Massachusetts (up 0.7%), New Hampshire (up 0.9%), and Connecticut (up 1.0%). Combined, these three states accounted for 46,500 new jobs over the past year. Nevertheless, it is important to note that the 0.8% growth recorded in December is part of a substantial slowdown in job growth during the fourth quarter of 2007, a period during which the regional economy lost nearly 6,000 jobs (a decline of 0.3% in annualized growth). Economic slowdown in the latter portion of 2007 was not isolated to the New England area; the national economy also faced a period of deteriorating performance, largely because of the effects of the housing collapse that began to pervade many key components of the economy.

Major sources of growth for the region's economy have come from the services industries, particularly education and health services (EHS) and professional and business services (PBS). These two sectors accounted for nearly 80% of the region's y/y net job gain in December and have become increasingly important to the New England economy in recent years. The region's combination of a highly skilled labor force and its aging population's rising demand for health care services has fueled the particularly robust growth in these two sectors. In addition, the opportunity for growth in skilled services employment has been enhanced by the declines of traditional industries in the region, including the manufacturing sector. Manufacturing employment continues to be the weakest component of the New England economy, declining 1.3% y/y in December because of constant waves of cost-cutting layoffs and outsourcing.

One detail that should not be overlooked, however, is the magnitude of the growth rates in EHS and PBS employment (both added jobs at 2.0% y/y as of December 2007) relative to those at the national level. Nationwide, EHS and PBS employment grew 2.0% and 2.3%, respectively. Although New England's growth in these sectors has not been significantly lower than that at the national level, these two rates are still disappointingly weak for the region's economy. As traditional industries continue to deteriorate, the region depends more and more heavily on its services industries to sustain positive economic growth. In fact, it is often the case that employment in New England's key services industries must expand faster than national averages for the region to keep pace with U.S. total employment growth. Since this has not been the case most recently, job growth in New England has lagged behind the national economy yet again.

Turning to the housing market, the effects of the real estate crisis were felt throughout New England. Total private housing starts in the region declined a total of 27.8% y/y as of the fourth quarter of 2007. Each of the states posted significant losses in housing starts, ranging from a 16.1% reduction in New Hampshire to a 33.4% reduction in Maine. Also, total housing starts dropped more than 25% in four out of the six New England states: Massachusetts (down 28.0%), Maine (down 33.4%), Vermont (down 33.3%), and Connecticut (down 29.8%). Such precipitous declines in starts had serious consequences for the health of the region's construction industry, which lost jobs at a rate of 0.4% y/y. The collapse of the residential real estate market crippled residential construction across the region, although this is not fully reflected in the relatively small percentage loss mentioned above. Nonresidential construction, including commercial real estate and nonbuilding work, was particularly strong in a number of states, including New Hampshire and Rhode Island. This trend provided strong offsetting growth that salvaged the construction sectors in each of the two states and also mitigated the overall losses observed in the regional construction industry. Home sales and prices also saw significant declines, the latter of which had serious consequences for the economy. Plummeting prices led to significant reductions in personal wealth, cutbacks in consumer spending, and widespread patterns of home foreclosures, all of which contributed to a slowing economy in New England and across the United States.

Middle Atlantic

Travel Implications

- The Middle Atlantic region will lag the US in terms of GSP growth in 2008 limiting upside potential for international outbound travel from the region.
- Employment gains in the region will reach 0.5% in 2008, ahead of the national average of 0.2% as the financial sector continues to expand. Stronger employment growth will provide support for outbound travel from the region.
- The region will see 2.4% gains in summer international outbound travel in 2008, slightly behind the US average of 2.6%.

The Middle Atlantic continued to be the tortoise of the regional economies in 2007. We expect final numbers for 2007 growth to show a slight deceleration from the 0.9% job gain in 2006, coming in around 0.8%. This would keep the Middle Atlantic ranked toward the bottom of the pack within the nine Census regions, where it has consistently held the seventh or eighth slot in terms of total job growth.

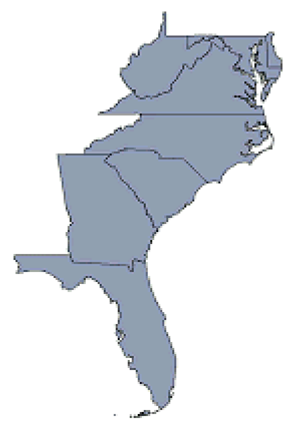
The Middle Atlantic manufacturing sector is still shedding jobs—it lost more than 25,000 in 2006, and another 30,000 during 2007.The nonmanufacturing sector has been able to pick up the slack to a certain extent because of growth in the region's services industries. Indeed, the bulk of the region's jobs continue to come from the service sector, especially education and health services and professional and business services. The professional and business services sector alone added more than 35,000 new jobs during 2007, single-handedly outweighing manufacturing losses during the same period. Education and health services added well over 45,000 new jobs during that time, bringing its total payrolls to almost 3.3 million. Because Pennsylvania has the third-highest percentage of population age 65 and older in the nation (about 15% of the total state population), demand is increasing in the region for health-care services—indeed, Pennsylvania and New York have the third- and fourth-highest concentrations of health-care industry jobs, respectively, in the nation.

The region's 0.7% y/y employment gain in December placed it seventh out of the nine Census regions. This is no surprise, since Pennsylvania, New Jersey, and New York were, as usual, clustered at the bottom of the growth scale among the 50 states and Washington, D.C. New York recorded a 0.8% y/y job gain in December, and Pennsylvania and New Jersey saw a 0.7% gain. All of these growth rates were below the national average of 1%. The region's 4.8% December jobless rate was the third lowest among the Census regions, just slightly below the nation's 5.0% rate.

The decline in the housing sector exerted a slight drag on the region's growth in 2007, and will affect it more substantially in 2008. The Middle Atlantic will see annual job growth of 0.5% in 2008, as the construction sector loses nearly 3.5% of its jobs, and growth in the finance sector slows to a crawl. The service sector will continue to propel the regional economy in the near term, particularly through employment gains in professional and business services and health and education services (both will grow about 1.5% and 2.1%, respectively, this year

South Atlantic

Travel Implications



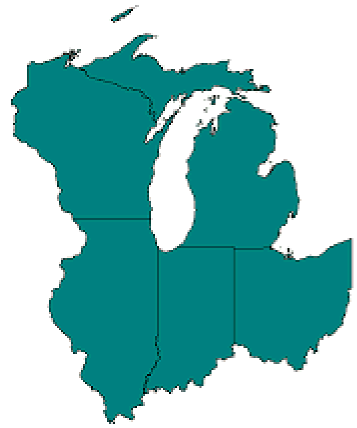
- GSP growth in the South Atlantic region will outpace US growth providing a boost to outbound travel from this region relative to the US.
- Employment growth will outpace that national average as well and except for Florida the region was spared from significant housing market depreciation.
- These factors add up to relatively strong support for international outbound travel this summer which will expand by 2.8% in 2008.

The South Atlantic economy cooled during the autumn of 2007, with monthly job growth decelerating from the 1.6% to 1.7% range to the 1.4–1.5% range. Not a big drop, to be sure, and the South Atlantic easily remains in the top half of the regional economies, steady in its third place ranking behind the West South Central and Mountain regions. The South Atlantic's total employment gain of 1.4% year-over-year (y/y) in December 2007 was 0.4 percentage point higher than the East South Central, ranked just below it, and 0.4 percentage point lower than the Mountain region, ranked just above it.

The South Atlantic's large but shrinking manufacturing sector gave up more than 30,000 jobs in 2006 and over 35,000 in 2007. Since 2000, the region's traditional manufacturing industries—textiles, apparel, and furniture—have shed more than 250,000 jobs. Growth in the construction industry, which had buoyed payrolls and helped compensate for losses in manufacturing, has now started to cool as well, although not dramatically—the sector gave up only about 700 jobs from its peak in early 2007 through the end of the year.

As the year wears on, the region's employment growth will slow as the national construction industry cooldown kicks in, and this will have ripple effects on the finance, retail, transportation, and manufacturing sectors. Total employment growth in 2007of 1.5%, down significantly from 2.1% growth in 2006, will be followed by further deceleration to less than 1.0% in 2008. In the medium term, annual job growth will rebound from a weak 2008 with modest but steady gains, averaging 1.5% from 2009 to 2013.

East North Central



Travel Implications

- East North Central will be among the slowest-growing of the US regions in 2008 with GSP expected to expand by only 1.3% for the year. Consequently, the outlook for international outbound travel growth this summer is weak at only 2.0%.
- Employment growth will also struggle in the region as the domestic auto industry struggles but will expand on par with the national average of about 0.2% in 2008.
- Overall, the outbound travel picture from the region will be weak with only 2.0% growth expected this summer. That is over a half a percentage point below the US average of 2.6%.

In 2007, the East North Central (ENC) region lagged behind the growth rate of the United States. Indeed, total employment was unchanged in 2007 for the region, while the country’s employment grew at a 1.2% rate. The average unemployment rate for the year for the ENC region was 5.6%, one full percentage point higher than the U.S. average. At the end of the year, the region had 21.545 million jobs, down from 21.568 million at the end of 2006. Total employment saw its largest declines in September and October, when over 55,000 jobs were lost.

Every state in the region had employment growth lower than the nation’s rate, but two states had negative growth for the year. Ohio and Michigan both lost jobs, shedding 0.2% and 1.4%, respectively. The state that had the fastest total employment growth was Illinois, which grew at a 0.9% rate. Indiana and Wisconsin had employment growth of 0.3% and 0.5%, respectively, in 2007.

Nonmanufacturing employment in the region has recorded steady but modest growth in 2007. The ENC region gained 66,860 nonmanufacturing jobs, or a 0.4% gain. Growth has been strongest in Illinois, where the sector grew 1.1%. Michigan's nonmanufacturing employment fell by 0.9%.

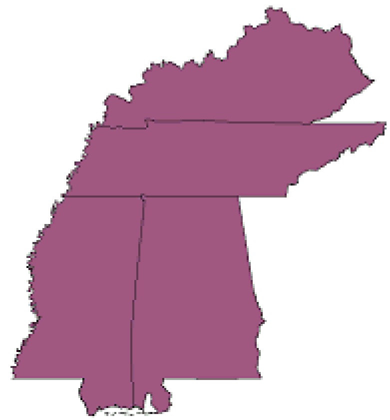
Manufacturing employment for the region has not fared as well. The sector has lost 2.1% of its jobs over the last year compared with a 1.6% loss for the United States. Manufacturing payrolls contracted in all five states. Michigan experienced the largest declines, losing 4.3% of its manufacturing jobs in 2007. Ohio also had large losses, shedding 2.2% of jobs from its manufacturing sector in 2007.

Growth prospects for manufacturing look dim because of the struggles of the domestic automobile industry. Ford, General Motors, and Chrysler continue to lay off workers, hitting the traditional automobile manufacturing states of Michigan, Ohio, and Indiana especially hard. Chrysler has recently halted operations at some plants in the region because of problems with parts suppliers. The foreclosure crisis has also hit the business and financial sectors of Chicago and Cleveland.

Through the end of 2008, the region will see modest employment gains. Total employment will increase at an annualized rate of 0.2% in 2008. This poor performance is due to problems in the mortgage market and the effect these problems have on the bottom lines of banks and financial institutions. Performance in the manufacturing labor market will be about the same over the next five quarters as it has been over the last year. The sector is expected to lose 2.1% of its payrolls in 2008.

Housing starts are expected to shrink from their elevated heights in the first half of the forecast period because of the fallout from the subprime mortgage crisis and a drying up of loanable funds; however, starts should begin to rise in the second half. After totaling over 182,000 units in 2006, housing starts will contract to nearly 102,000 units in 2008, before rebounding to 173,000 units in 2013.

East South Central



Travel Implications

- The East South Central region will expand just behind the US average putting the outlook for outbound travel for the region just behind the national average of 2.6% for summer 2008.
- Employment gains will exceed the national average by a half a percentage point, expanding by 0.7% in 2008.
- East South Central is on par with the US and the region will see a moderate 2.4% expansion in international outbound travel in summer 2008.

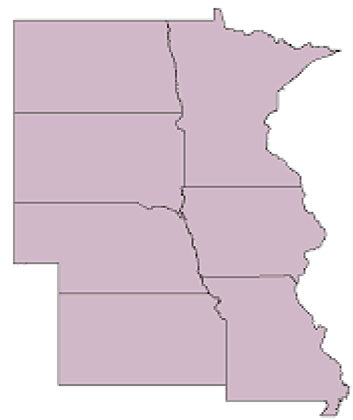
Over the course of 2007, the East South Central (ESC) region added to its payrolls at a modest but steady pace, ranging between 0.9% and 1.2% each month. This tepid rate of growth is primarily attributed to the slowdown in the manufacturing sector and below-average growth in the professional and business services sector. The ESC region ended the year growing 1.0%, ranking it toward the bottom half of the nine regions, surpassing only New England, Mid-Atlantic, and East North Central. Not surprisingly, the jobless rate climbed to 5.3% in December, marking the highest monthly level of 2007. On the upside, the leisure and hospitality and construction sectors thrived last year, growing at 2.9% and 3.5%, respectively.

Out of the nine regions, ESC has the second-highest concentration of manufacturing jobs relative to total employment. Needless to say, the nationwide reduction in manufacturing employment has hit this region particularly hard. There were 22,000 jobs cut (a decline of 1.9%) in 2007 and 250,000 lost since 2000. Alabama has been the exception, contracting just 1.2% because of rapid growth in transportation equipment manufacturing over the last decade: 3.3% in 2007 and 63.0% since 2000. Commercial construction projects and multifamily home starts were the catalysts for solid growth in construction, which registered 3.5% growth despite falling single-family housing starts of almost 22.0% for the region. The leisure and hospitality sector received a welcomed boost from Mississippi, which had 4.6% growth in 2007 after two years of contraction. Tourism in the state is strengthening again, more than two years after Hurricane Katrina. Alabama represents the region's healthiest economy, with a December unemployment rate of 4.0% and a payroll increase of 1.4% in 2007. Mississippi increased employment by 1.8% last year, the largest increase among the four states, but it also has the highest unemployment rate (6.8% in December). Tennessee and Kentucky both lagged behind, adding to payrolls by 0.8% and 0.6%, respectively.

The economic slowdown hinted at by recent data will take place during the first two quarters of 2008. Tightening credit and high inventories have caused housing starts to decline, and they are expected to stay low through the first half of 2008 as changes in the credit market shake out. The region's construction sector, which has thrived despite the housing slowdown, will succumb to market pressures in 2008 with flat employment growth. Tourism to the region will dampen this year, causing payrolls in the leisure and hospitality sector to grow at a moderate but reduced rate of 1.6%. Overall, employment growth will be flat or will decrease in all the major industries relative to their 2007 levels, with the exception of professional and business services; Tennessee is recovering from a dismal 2007 in that sector.

Total employment will increase by 0.7% in 2008, and looking further ahead, it should grow 1.1% in 2009. The strongest sectors over the next two years will be professional and business services and education and health services, both averaging better than 2% job growth.

West North Central



Travel Implications

- Depopulation and lagging personal income growth will limit longer term upside potential for international outbound travel from the West North Central region.
- For summer 2008, we expect 2.4% growth in international outbound travel from the region.

The West North Central (WNC) region fared reasonably well in 2007. Total employment managed year-over-year (y/y) gains in every month of the year, although growth slowed significantly in the last quarter. Indeed, the region's 0.6% job growth in December was lower than the nation’s 1.0% pace, and ranked the WNC region eighth among the nation's nine regions. Kansas and South Dakota led the region in employment growth, recording 2.2% and 2.1% y/y gains in 2007. Minnesota produced the region's smallest increase, a moderate 0.6% advance in 2007 and was the only state in WNC to have negative job growth in December.

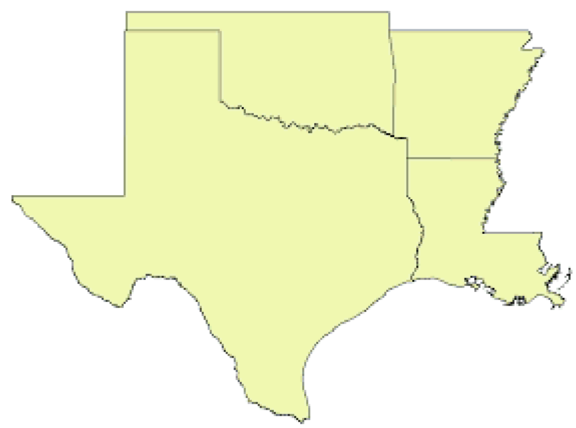
The region's manufacturing sector staged an impressive comeback in 2004, and that momentum was sustained until late 2006. Since then, the sector has wobbled back and forth between job gains and losses. In December 2007, the manufacturing sector lost nearly 18,700 jobs, or a decline of 1.5% y/y. Minnesota and Missouri each shed about 3.4% of their manufacturing jobs. South Dakota and Kansas are currently the two main states in the West North Central region creating a significant number of industrial jobs. Manufacturing job growth in both these states is positive and significantly above the national average. The education and health services sector continues its upward trend, adding more than 33,800 new positions in December (up 2.4% y/y). The information sector, meanwhile, continues its year-long declining trend, losing nearly 2,000 jobs (down 0.9%) in December. Employment growth in this sector was either negative or flat in all WNC states, with Minnesota being the worst hit. Macy's Inc. announced its plans to consolidate three of its major divisions, cutting 2,300 positions across the country. The result will be 850 job cuts in St. Louis, 950 job cuts in Minneapolis, and 750 job cuts in Seattle. This restructuring move is also expected to create about 250 new positions in its four regional offices located in Cincinnati, Chicago, St. Louis, and Seattle. This restructuring is expected be completed by the second quarter of 2008. The Sanford Health System is the largest employer in the Sioux Falls region, with 12,000 employees in the network of clinics and hospitals that spans four states. Sanford also gave $70 million to develop an underground science lab at the abandoned Homestake gold mine in Lead, South Dakota.

Total employment in the WNC states is expected to grow 0.5% in 2008, and the region will average about 0.9% annual growth during 2008–13, slightly below the national average of 1.1%. Manufacturing payrolls are expected to decline 1.6% in 2008, but enter a period of stabilization over the forecast period, with payrolls remaining flat during 2010–13. Construction payrolls are expected to decline by 1.7% in 2008, significantly below the national average of 2.9% in that sector. This decline can be partially attributed to the recent slowdown in the housing market. The education and health services sector is projected to carry its strong growth into the first half of the forecast period, before slowing a bit in the second half; the sector will average 1.1% annual growth during the forecast period.

A major issue for the West North Central is depopulation. Residents have been slowly migrating from the region’s rural counties for decades, as technological advances in agriculture reduce the need for farm laborers, and younger generations lose interest in the farm as a business and a way of life. The pace of rural depopulation accelerated in the 1990s and again in the 2000s; 328 of the region’s rural counties lost population from 2000 to 2005 at a greater rate than during the 1990s. The tight regional labor market created by depopulation is projected to persist throughout the forecast period. Consequently, the regional employment forecast is constricted due to the shortage of available workers. In addition, slow population growth and rising interest rates are expected to diminish housing demand over the forecast period. The WNC unemployment rate is projected to average about 4.3% during 2008–13, slightly below the national average. The average nominal wage rate should climb at a compound annual rate of 3.5% during this period. Total wages are expected to grow 4.5% in nominal terms and 2.6% after adjusting for inflation, trailing the respective national rates of 4.7% and 2.8%. Personal income growth in the region will also lag the national rate during 2008–13, 4.8% versus 5.1% in nominal terms and 2.9% versus 3.2% in real terms. Nominal income variables in the WNC tend to trail the nation due to the region's aforementioned labor shortage and relatively lower cost of living.

West South Central

Travel Implications



- This region will be the country's shining star in terms of GSP growth this year with a 3.2% expansion expected.
- Strong GSP, employment and income growth will boost demand for outbound travel from the region by 4.7% this summer.

While a slowdown has blanketed the West South Central (WSC) region since 2007, its magnitude has been muted compared to other regions of the country. Job growth slowed to 1.9% (y/y) in the fourth quarter, after holding above 2.0% during the previous two quarters. The region has been relatively resilient (its job growth tops all regions, except the Mountain region), because it was not part of housing's boom and bust cycle, which had fueled job gains in housing construction and related sectors in coastal states like California and Florida and mountain states such as Nevada and Arizona. Still, economic growth in the West South Central region will slow further following the national trend in 2008. Total employment growth for 2007 measured 2.2%, compared with 2.4% in 2006 and 2.0% in 2005.

The ripple effects of the downturn in U.S. residential construction has burrowed its way into the West South Central, and drops in the region's construction payrolls attest to this. Starts of new homes fell 17% in 2007, with all states except Oklahoma experiencing double-digit declines in the fourth quarter of 2007. Despite strong employment growth in Texas and a rebounding Louisiana, builders have hit the brakes in many areas, either waiting for inventory levels to subside or the U.S. housing sentiment and credit markets to revive. Housing starts fell to their lowest level last year since 2002.

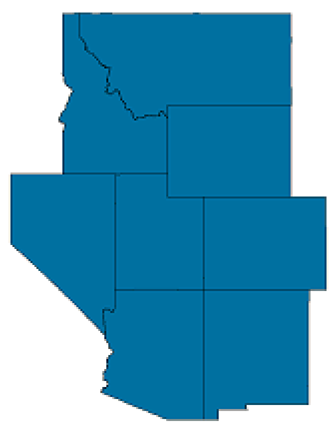
Moreover, the region did not get a boost in manufacturing payrolls during 2007, as it did 2005-06, when it entered positive territory for the first time this decade. Driven primarily by a homebuilding boom, high oil and natural gas prices, and strength in transportation equipment (aviation and shipbuilding), this resurgence appears to have run out of steam because of the weaker housing sector and softening high-tech and electrical equipment end-markets. Fortunately, manufacturing accounts for a little less than 10% of the region's total employment. Arkansas, which is the most dependent on manufacturing of all the WSC states, has been hit especially hard and is now experiencing the weakest economic growth of any state in the region.

Personal income grew the most of any region in 2007—7.6%—according to the latest data available from the Bureau of Economic Analysis. Wages and salary disbursements, which account for the majority of personal income (53%), increased 8.0%, with the greatest growth coming from the strength in the Texas economy and a rebounding Louisiana. Upward pressure on wages have been particularly notable in Texas, where firms reported difficulty finding workers in professional and technical services and in the Gulf Coast's energy industry.

Nevertheless, the Gulf Coast reconstruction effort will not be enough to stop the slowing economic growth during 2008, particularly in Texas, where a steady housing market and stellar nonresidential construction growth had negated the losses in homebuilding. And despite the high energy prices that have benefited the oil-rich states of Texas and Oklahoma, as well as Louisiana's natural gas industry, new hiring has ramped down from the levels seen in 2006.

We are projecting total job growth of 1.7% in the West South Central region during 2008. The main drags on growth are expected to be manufacturing (down 1.1%) and much weaker gains in construction (managing only 20% of its 2006 growth). Most other sectors will see higher employment, but weaker gains than last year. The growth leaders should be mining (up 4.9%) and education and health services (up 3.4%), given the still-high oil prices and the region's still-positive demographics. Total personal income is expected to grow 5.9% in nominal terms, but just 3.7% after correcting for inflation. Nominal wage growth is expected to be 4.0%, the strongest of any U.S. region.

Mountain



Travel Implications

- The Mountain region will post the second-strongest gains in GSP in 2008.
- In conjunction with strong employment and income growth, the region will post a 3.4% gain in international outbound travel this summer.

The Mountain region posted the second-highest growth rate among the nine Census regions in December 2007, growing 1.8% from its year-earlier levels. The fastest growing region was the West South Central, at 2.0%. The nation's top three growth states are located in the region—Utah, Montana, and Wyoming—while Colorado ranks seventh. The strongest growth sectors of the regional economy were natural resources and mining (up 7.3% year-over-year), and educational and health services (up 3.9%). Two sectors posted declines over the year: manufacturing (down 0.6%) and construction (down 3.0%). The main drag on the regional economy currently is the construction sector, which is posting larger declines as the housing market adjusts from a boom period, which left a significant amount of excess supply in the market, in conjunction with a slowing national economy. Combined, these factors have led to very little demand for new construction, mainly on the residential side. While nonresidential construction has been strong in most of these states, it will not increase enough to offset the declines in the residential sector. States, like Arizona and Nevada, which saw large run-ups in prices and demand are the ones being hit the hardest, with construction employment declines in December of 9.7% and 5.6%, respectively.

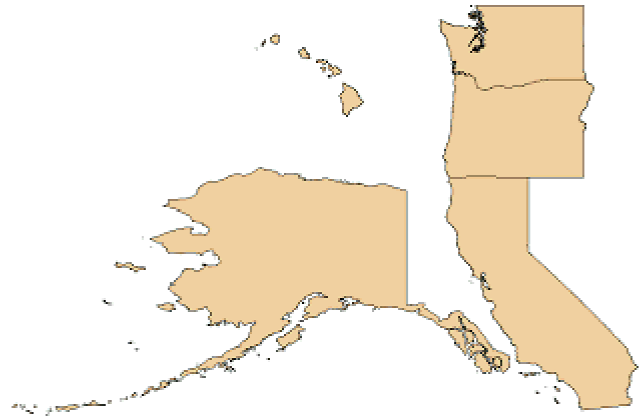
In contrast with other regions, the Mountain region's natural resources and mining sector is significantly stronger due to the abundance of resources such as coal and oil shale, and potential development sites, across the region. The Mountain region has the second highest concentration of natural resource and mining employment among the nine Census regions, with 17% of the nation's jobs. This is behind the West South Central region, which is home to 44% of the nation's natural resource and mining jobs. In December 2007, growth in the Mountain region was 7.3%; the next fastest-growing region was the West South Central, with an increase of 6.6%. Late in 2007, the Bureau of Land Management (BLM) set aside nearly 2 million acres of land in Colorado (360,000 acres), Utah (631,000 acres), and Wyoming (one million acres) as oil shale sites. The land will be made available for potential development of this largely untapped resource. It is estimated that the region holds more than 18 trillion barrels of oil, trapped in the shale, which is three times the proven reserves of Saudi Arabia. Approximately 800 billion barrels are considered to be recoverable, although the catch is how to extract it. As of this time, there is no method clearly proven to recover the oil. Across the region, Arizona, Colorado, and Idaho continue to post double-digit gains in employment in this sector, while the remaining states have seen employment growth decelerate through 2007.

Total employment in the Mountain region was 2.6% higher in 2007 than it was in 2006, down from the 4.1% gain in 2006. In all, more than 251,000 jobs were created in 2007. The professional and business services sector accounted for the largest percentage of these (23.1%), adding more than 58,000 new jobs. The next largest gains were in the trade, transportation, and utilities sector and the educational and health services sector, which posted respective employment increases of 51,400 and 37,900. Two other sectors added more than 20,000 jobs: leisure and hospitality, and government. The construction sector has seen the largest decline in share of jobs. In 2005, new construction employment accounted for 21.6% of jobs added, and in 2006 that share fell slightly to 19.5%. In 2007, the share of new construction jobs was down to 2.8% of jobs added, the lowest share of all sectors with the exception of manufacturing and information, which were negligible.

Employment growth is expected to decelerate sharply in 2008, with a 0.9% rate of increase projected; it will then average 1.7% annually through 2013. Some of the same sectors that dominated economic growth in 2007—natural resources and mining, and educational and health services—will continue to do so in 2008. Growth in construction employment will be negative this year, though, as the housing market in the region, as well as nationally, continues to work through an excess of inventory that resulted from too much building during the boom and the subsequent foreclosure crisis. Employment in professional and business services will climb at a slower 1.7% rate during 2008, down from 4.6% in 2007, as it is also affected by the contraction in the housing market and slower general economic conditions. Manufacturing payrolls, which saw a small gain in 2007 (less than 1%), will decline in 2008, also a result of a national downturn. All other sectors will see more moderate, but steady, job growth over the next five years.

Pacific

Travel Implications



- The Pacific region will post the lowest growth of the regions in 2008, with only a 1.2% gain in GSP expected.
- The region, particularly California, is being hit hard by the housing crisis which will have a negative impact on international outbound travel this summer.
- The region will post only a 1.8% gain in international outbound travel during summer 2008.

The Pacific Region finished 2007 with sharply decelerating economic growth as it headed toward a likely recession in the first half of 2008. Job growth for the region slowed to 0.9% year-over-year (y/y) in the fourth quarter, completing eight straight quarters of decelerations. Total growth for 2007 measured 1.4% compared with 2.1% in each of the previous two years.

The slowdown in job growth is largely a direct effect of the turnaround in the construction and real estate sectors, but the ripple effects are beginning to appear too. Starts of new homes collapsed by 29% in 2007. In the fourth quarter, starts were down 41% y/y as California (which contributes more than 60% of the total) fell to its lowest level of activity since 1982. The region is seeing depressed activity for both single-family and multifamily units.

As a result of the depressed building activity, jobs declined in the construction sector in the second half of the year and are expected to fall more sharply in 2008. The housing situation has hit the financial sector as well. The collapse of the subprime-mortgage market led to immediate and sharp job declines for the financial-activities sector in Southern California, and hence, for the region. The ensuing credit crunch affected lenders of all kinds throughout the region. The ripple effects of the housing collapse showed up in the fourth quarter, when employment in the retail trade sector declined. Global Insight expects employment growth to slow sharply in 2008 as the regional economy enters a mild recession in the first half of the year.

The slowdown in job growth has been a drag on personal income growth, as wages and salaries make up more than half of total income. In 2007, nominal wage and salary disbursements in the region grew just 5.7% compared with 6.8% in 2006. That slowdown brought the growth rate of total personal income down from 6.8% to 6.2%. Growth in the nonwage components of personal income held steady at growth of 6.7% in 2007. As the regional economy enters a recession, though, those non-wage categories are expected to slow sharply along with continued slowdowns in wage and salary, leading to much lower total income growth in 2008.

The outlook for the Pacific economy is somewhat sobering heading into 2008. The national economy is expected to endure a mild recession in the first half of the year. The principal cause of the downturn is the dismal housing sector, which is especially bad news for the Pacific region because of California. That state contributes about three-quarters of total employment in the region and is being hit hardest by the housing downturn. Oregon and Washington, however, are not being hit nearly as badly. On the positive side, international exports are expected to be one of the few bright spots for the U.S. economy going forward, thanks mostly to a devalued U.S. dollar. The region is strong with regard to its export industries, whether it be high-dollar industries such as semiconductors and aerospace, or intermediate products such as metals and chemicals.

We are projecting total job growth of 0.4% in 2008 in the Pacific region. The main drags on growth are expected to be construction (dropping 5.8%), finance (down 1.7%), and manufacturing (declining 0.6%). Most other sectors will show growth, but it will be much decelerated compared with 2007 because of the recession. The growth leader is expected to be education and health services (2.6%), which is not nearly as cyclical as other sectors, but is primarily driven by demographics. Total personal income is expected to grow 4.3% in nominal terms, but just 2.1% after correcting for inflation. Nominal wage growth is expected to be 3.6%.