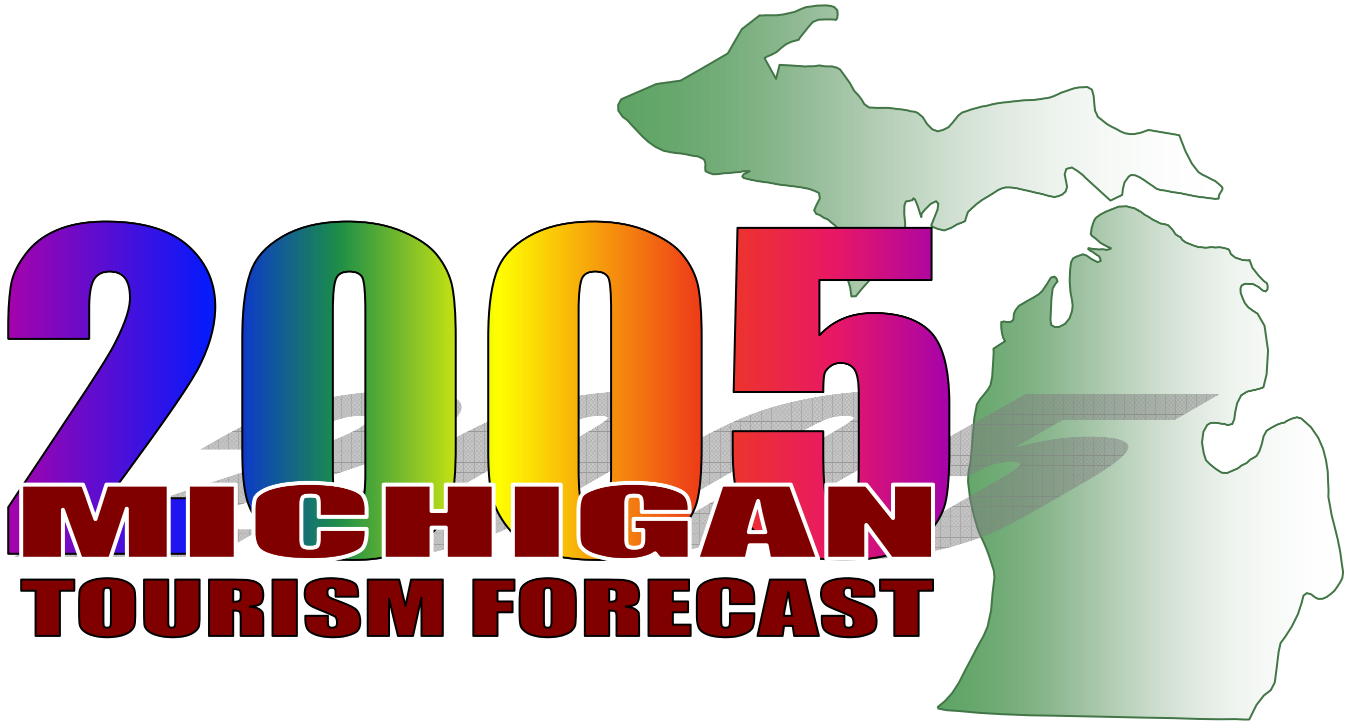


Michigan
Tourism Outlook and
Legislative Conference
Lansing, Michigan
May 3, 2005

Presented by:
Donald Holecek
Teresa Herbowicz
CARRS Tourism Resource Center
Michigan State University

HOW ACCURATE WERE TTRRC'S PROJECTIONS FOR MICHIGAN TOURISM IN 2004?

	Projected by TTRRC	Actual data
Travel volume	3-4%	0.5%
Travel spending	4-5%	0.6%
Travel prices	1-2%	1.1%

WHY 2004 RESULTS WERE BELOW LONG-TERM TREND?

- The U.S. economy rebounded, but job growth was anemic.
- Michigan's unemployment rate remained higher than projected.
- Consumers traveled, but spent less on their trips.
- Cheap deals on Internet continue to limit industry's pricing power.
- Rebound in business travel volume, but not in spending.
- Michigan travel promotion reduced.
- Minimum new product to stimulate Michigan travel.
- **Cool weather pattern across the peak summer travel season.**

STATEWIDE WEATHER HIGHLIGHTS: PRECIPITATION

	2004 vs 2003	2004 vs normal	Comments
Seasons:			
- Winter (Dec – Feb)	+61%	- 13%	
- Spring (Mar – May)	+36%	+50%	Very wet spring
- Summer (Jun – Aug)	+16%	- 9%	
- Fall (Sep – Nov)	- 30%	- 23%	
Warm season:			
- May	+72%	+141%	
- June	+46%	- 17%	
- July	- 14%	- 6%	Relatively dry peak travel season
- August	+32%	- 4%	
- September	- 70%	- 73%	

Source: Midwestern Climate Center.

STATEWIDE WEATHER HIGHLIGHTS: TEMPERATURES (MEAN DAILY HIGH)

	2004 vs 2003	2004 vs normal	Comments
Seasons:			
- Winter (Dec – Feb)	+1%	0%	
- Spring (Mar – May)	+3%	+2%	
- Summer (Jun – Aug)	- 4%	- 4%	Cool summer
- Fall (Sep – Nov)	0%	0%	
Warm season:			
- May	0%	- 3%	Cool
- June	- 2%	- 3%	Cool
- July	- 3%	- 4%	Cool
- August	- 8%	- 5%	Cool
- September	+7%	+9%	

Source: Midwestern Climate Center.

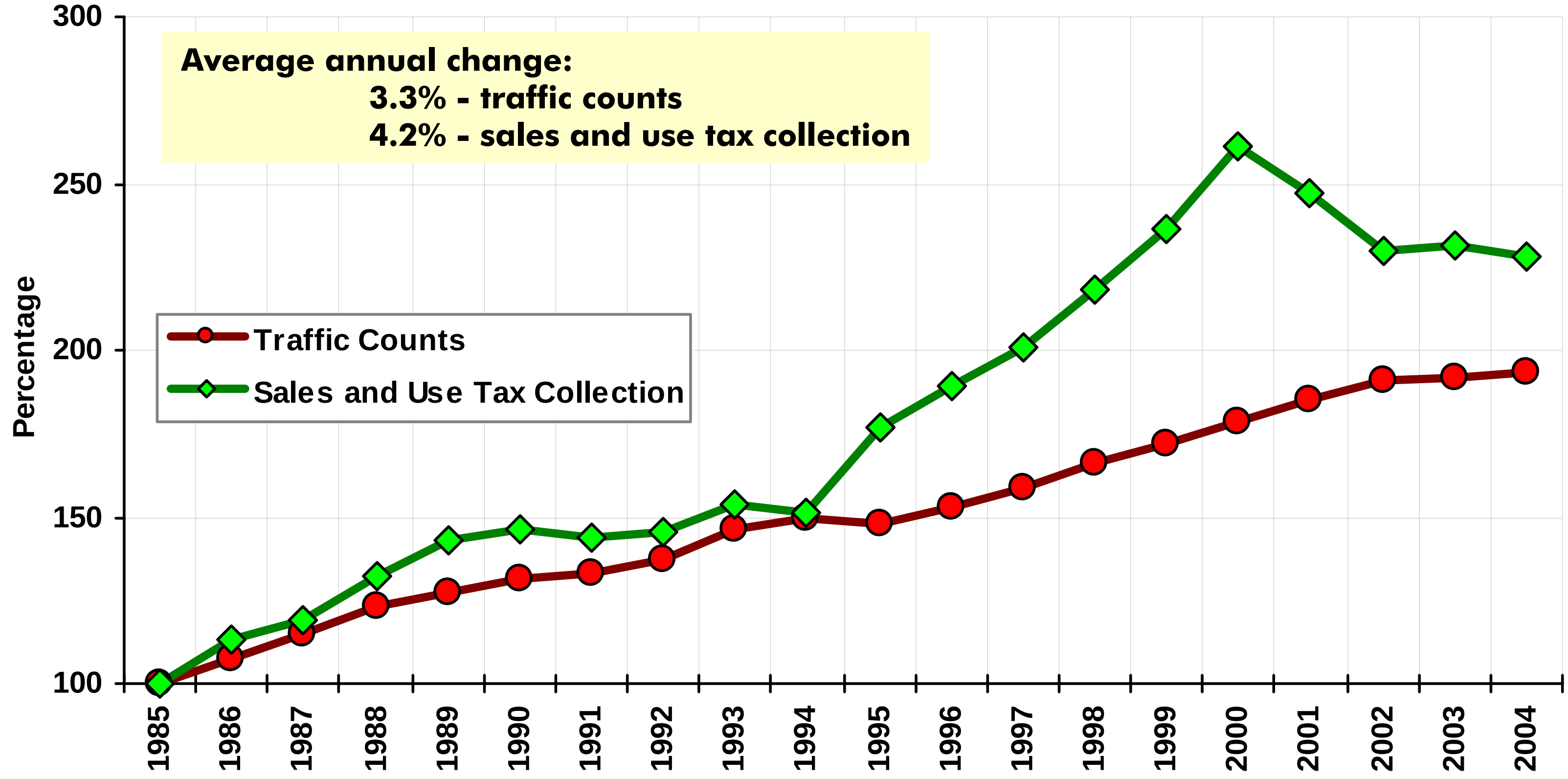
HOTEL SECTOR PERFORMANCE (1ST Q)

	Occupancy rate		ADR*	
	2004	2005	2004	2005
MI	49.3%	48.4%	$71.27	$71.93
U.S.	62.6%	64.0%	$88.48	$91.96
MI rank		47		26

*) ADR – average daily rate.

Source: Smith Travel Research.

TAX COLLECTION AND TRAFFIC COUNT TREND IN MICHIGAN



Source: Michigan Department of Transportation and Michigan Department of Treasury.

TRENDS IN FACTORS THAT INFLUENCE TRAVEL (I)

Exchange rates

per $1.00 U.S.:	April 15 2005	April 15 2004	% change	U.S. $ is ...
Canada	1.24	1.35	-8%	weaker
Japan	108.16	108.72	-1%	weaker
Euro	0.78	.84	-7%	weaker
Mexico	11.36	11.31	0%	stable
J.P. Morgan Index	89.7	`~`94.4	-5%	weaker

Source: Currencies - www.oanda.com; J.P. Morgan Index - The Wall Street Journal.

TRENDS IN FACTORS THAT INFLUENCE TRAVEL (II)

	2005	2004	% change
Interest rates			
30-year mortgage (average)	5.37%	5.61%	-4%
20-year treasury bond	4.73%	4.93%	-4%
90-day treasury bill	2.79%	0.95%	+194%
Prime rate	5.75%	4.00%	+44%
Gasoline prices - April			
Unleaded regular - Michigan	$2.26	$1.80	+26%

Source: The Wall Street Journal; The New York Times; www.bloomberg.com; U.S. Department of Treasury; AAA Michigan

TRENDS IN FACTORS THAT INFLUENCE TRAVEL (III)

	2005	2004	% change
Consumer Confidence Index			
End of April	97.7	93.0	+5%
Unemployment (March; seasonally adjusted)			
U.S.	5.2%	5.7%	-9%
Michigan	6.9%	7.1%	-3%

Source: The Conference Board; Bureau of Labor Statistics; Michigan Department of Labor & Economic Growth

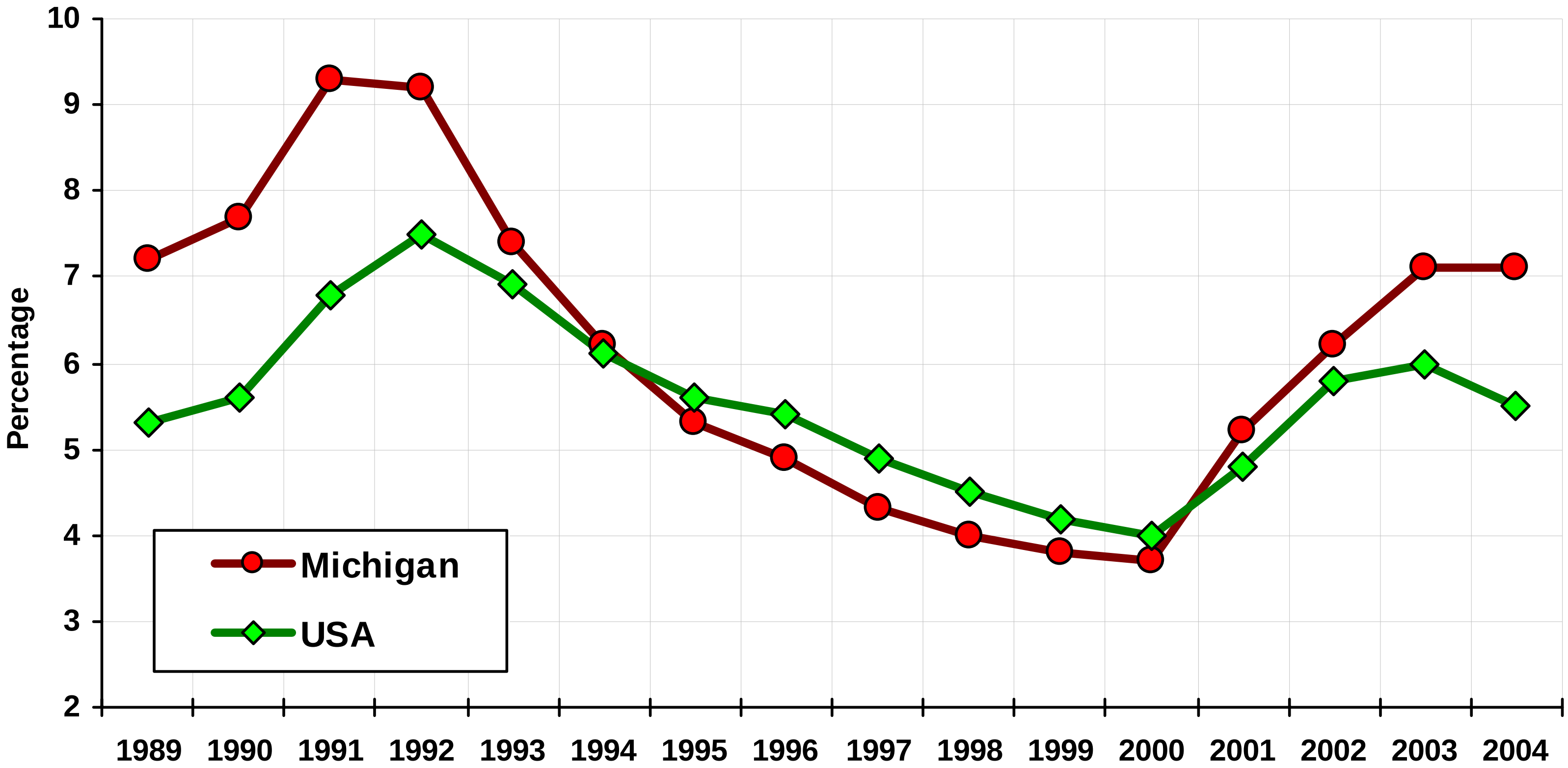
TRENDS IN FACTORS THAT INFLUENCE TRAVEL (IV)

Stock market

	Dow Jones Industrial Avg.	Nasdaq composite	S&P 500
April 15, 2005	10,088	1,908	1,143
April 15, 2004	10,397	2,002	1,129
12-month change	-309	-94	+14
% change (year-to-year)	-3%	-5%	1%
% change (year-to-date)	-6%	-12%	-6%
Record levels	11,722 Jan 2000	5,048 Mar 2000	1,500+ Mar 2000

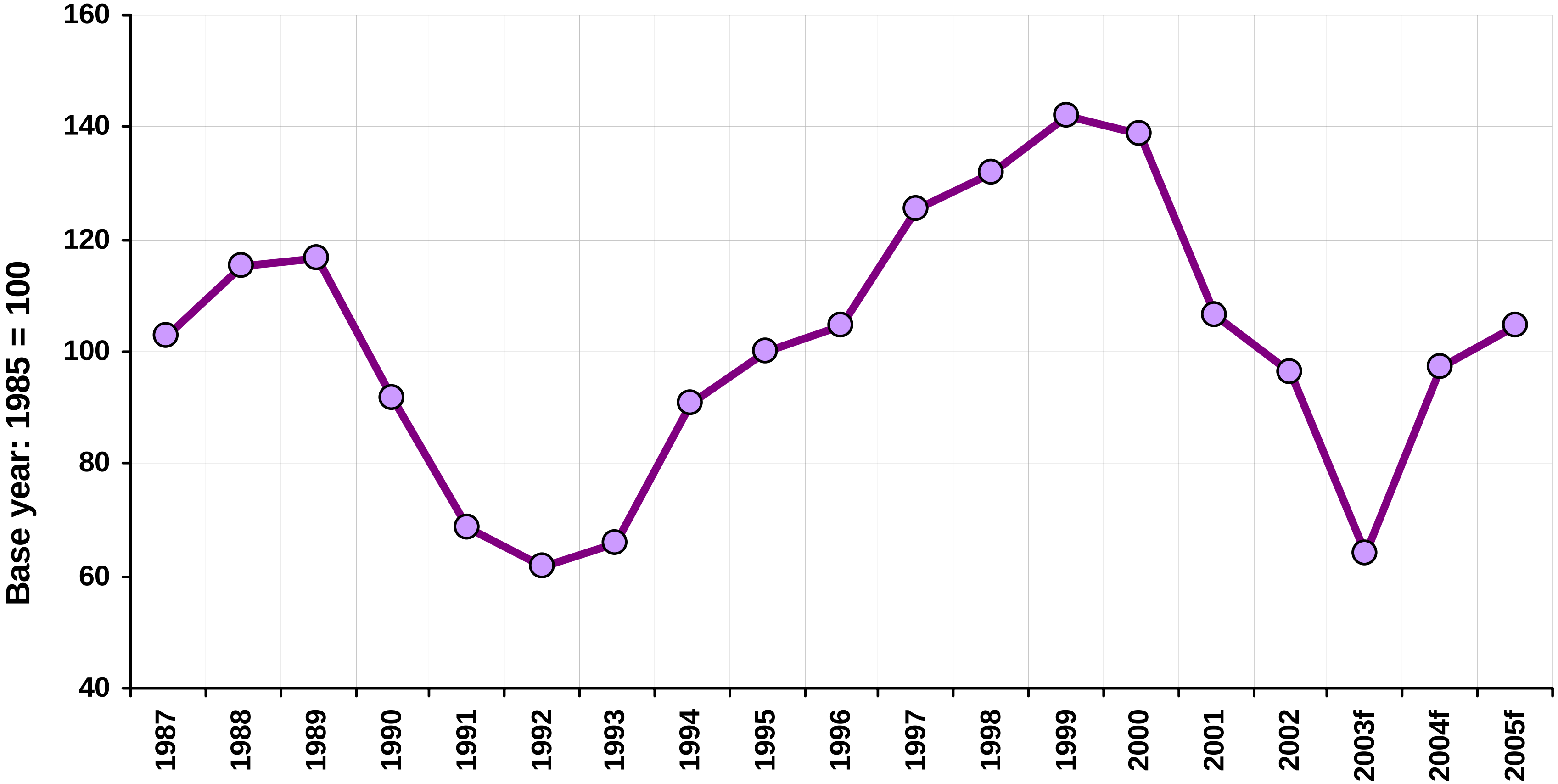
Source: www.Marketwatch.com

UNEMPLOYMENT RATES



Source: Michigan Department of Labor & Economic Growth, Office of Labor Market Information - LAUS Data;
U.S. Bureau of Labor Statistics

CONSUMER CONFIDENCE INDEX



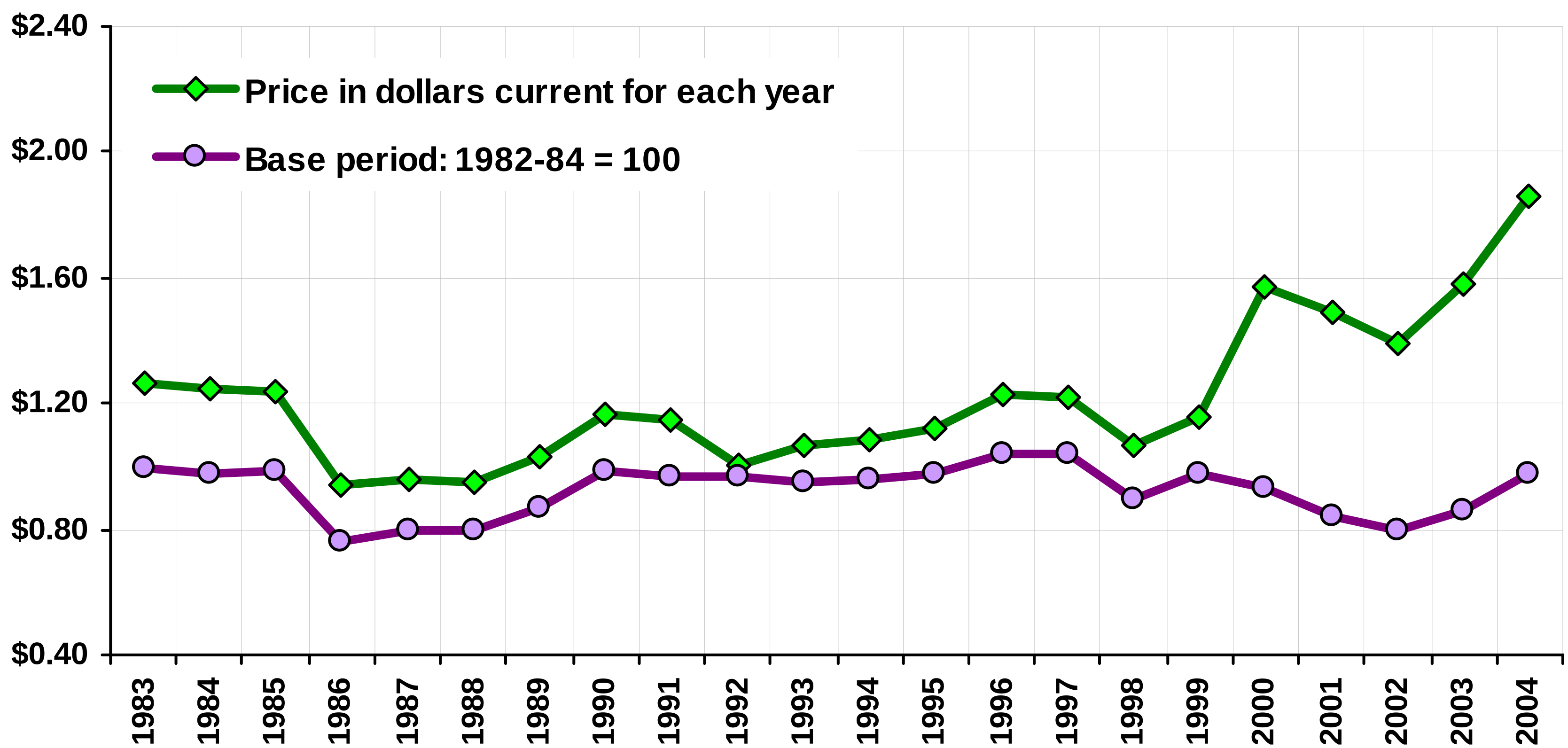
f- datum for February

Source: The Conference Board

CONSUMER CONFIDENCE INDEX

Source: The Conference Board

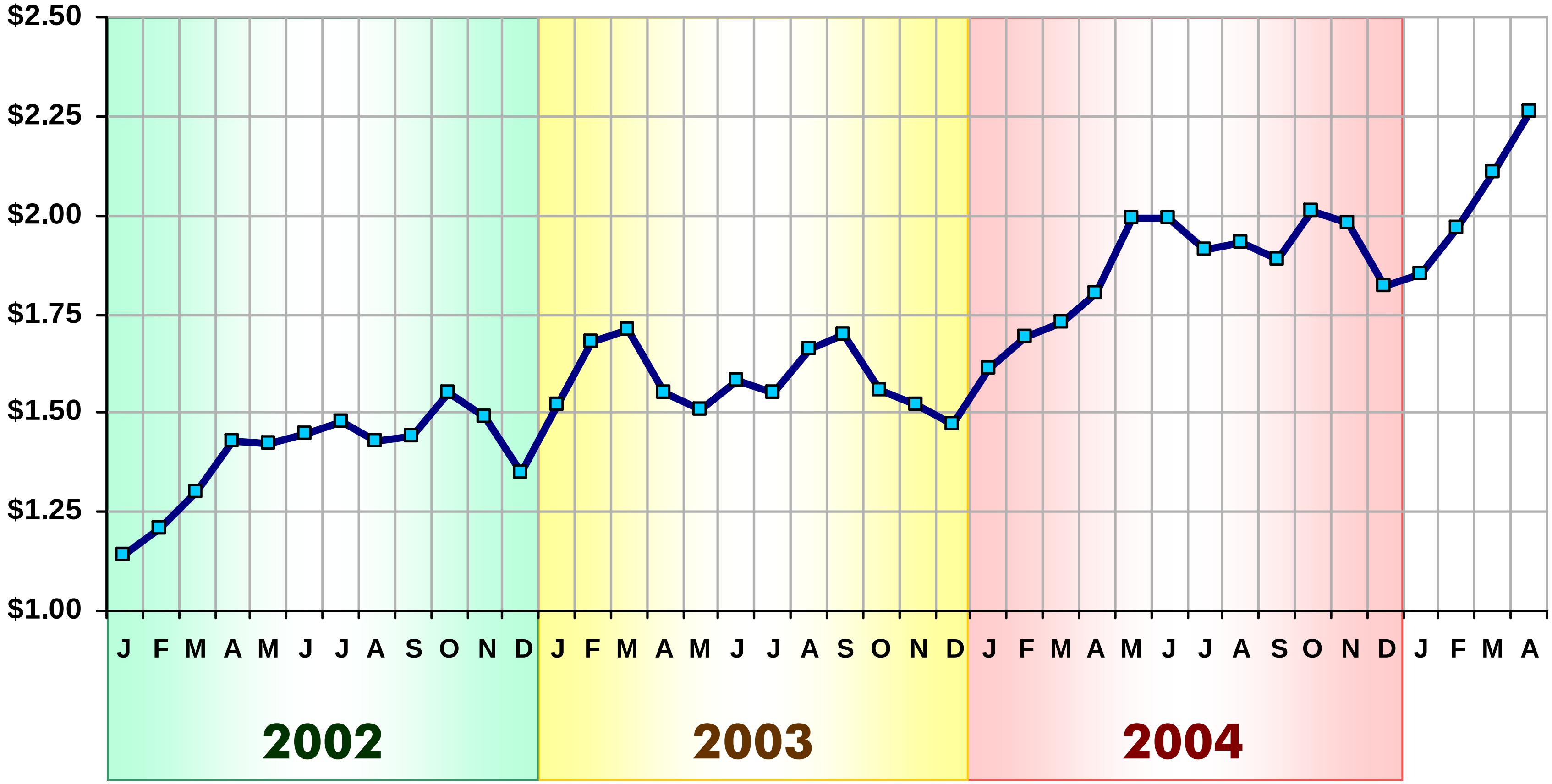
GASOLINE PRICES
(Unleaded regular)



Source: AAA Michigan; Federal Reserve Bank of Minneapolis.

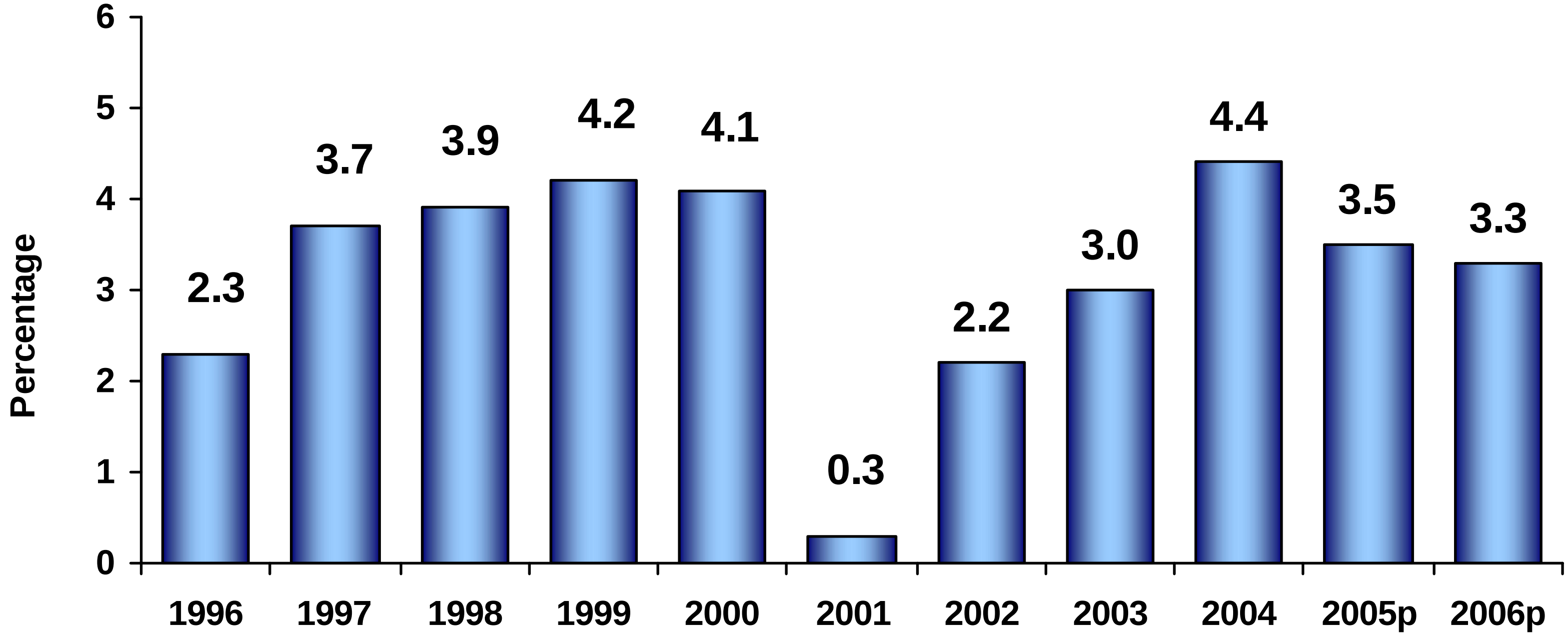

TOM'S SHELL
Self Serve
Cash or Credit
Regular
ARM 9
Plus
LEG 9
Premium
First Born 9

MICHIGAN GASOLINE PRICES
(Unleaded regular)



Source: AAA Michigan

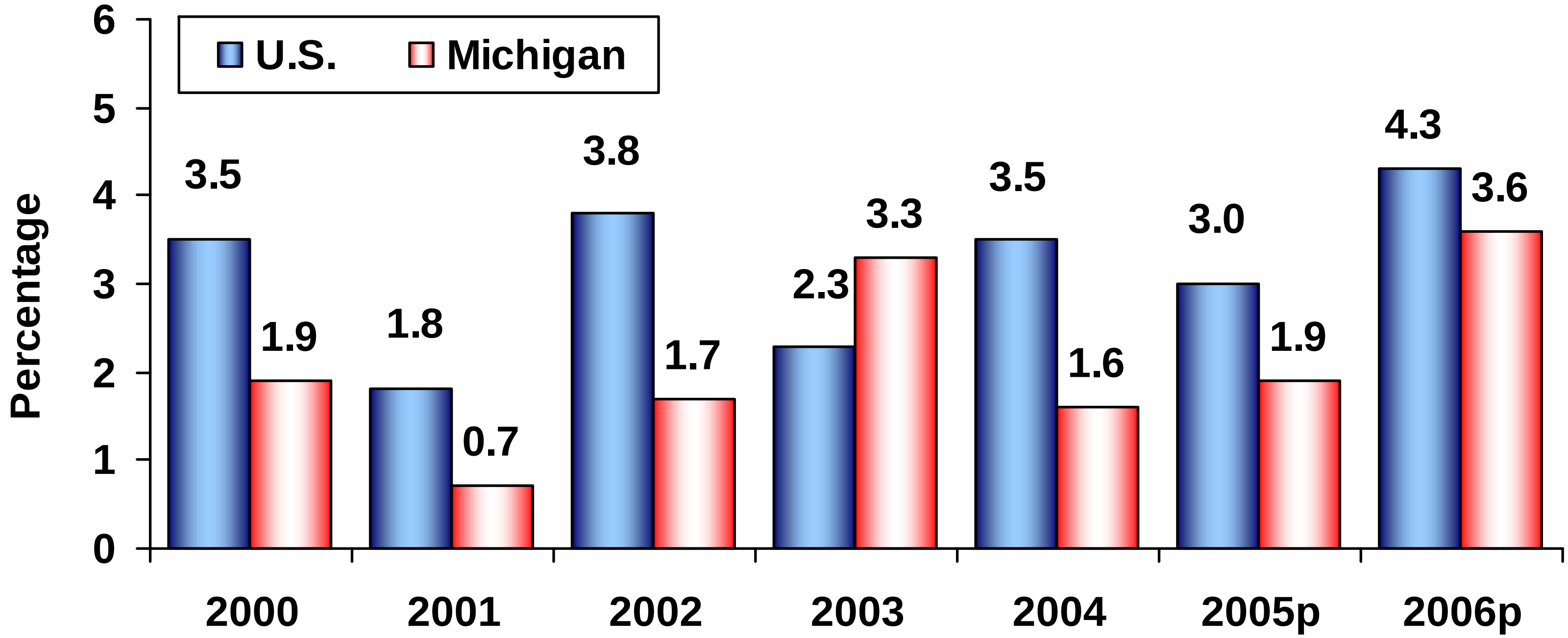
GROWTH OF REAL GDP
UNITED STATES



p = projected
as of March 11, 2005

Source: RSQE - University of Michigan

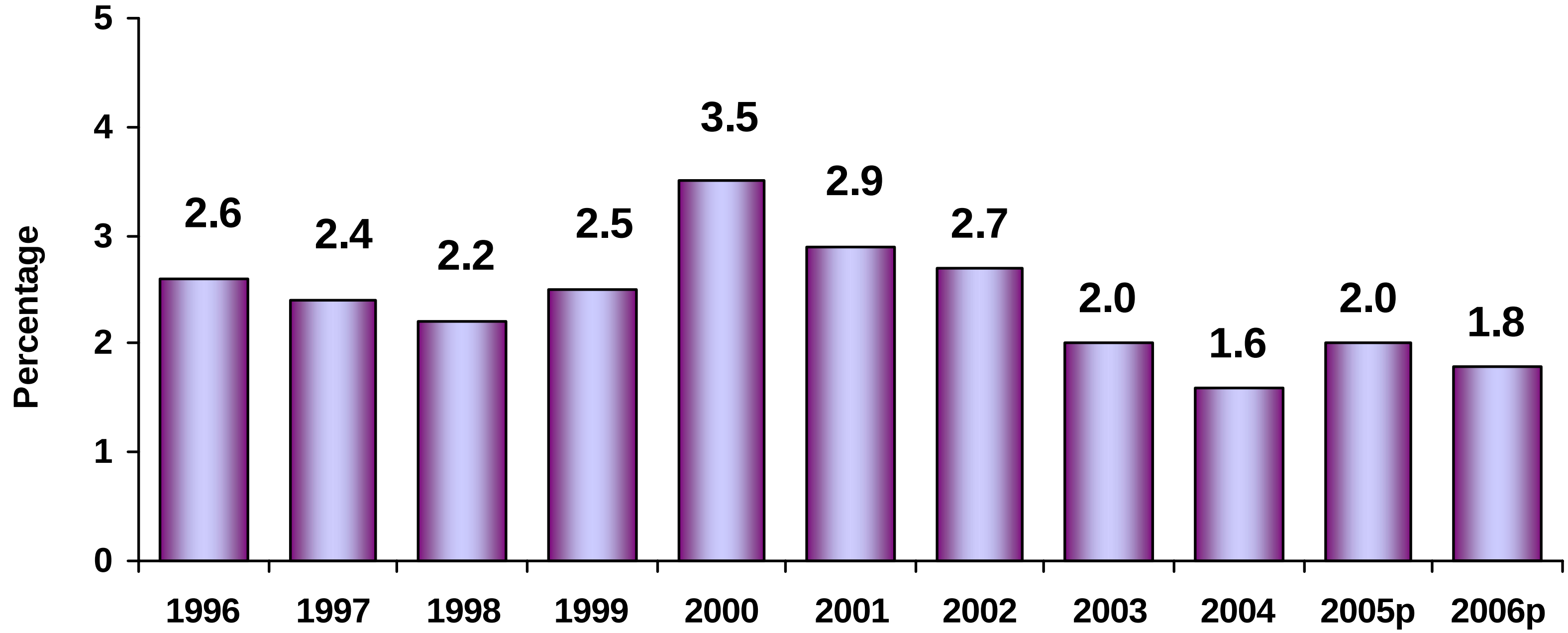
GROWTH OF REAL DISPOSABLE INCOME UNITED STATES VERSUS MICHIGAN



p = projected
as of March 11, 2005

Source: RSQE - University of Michigan

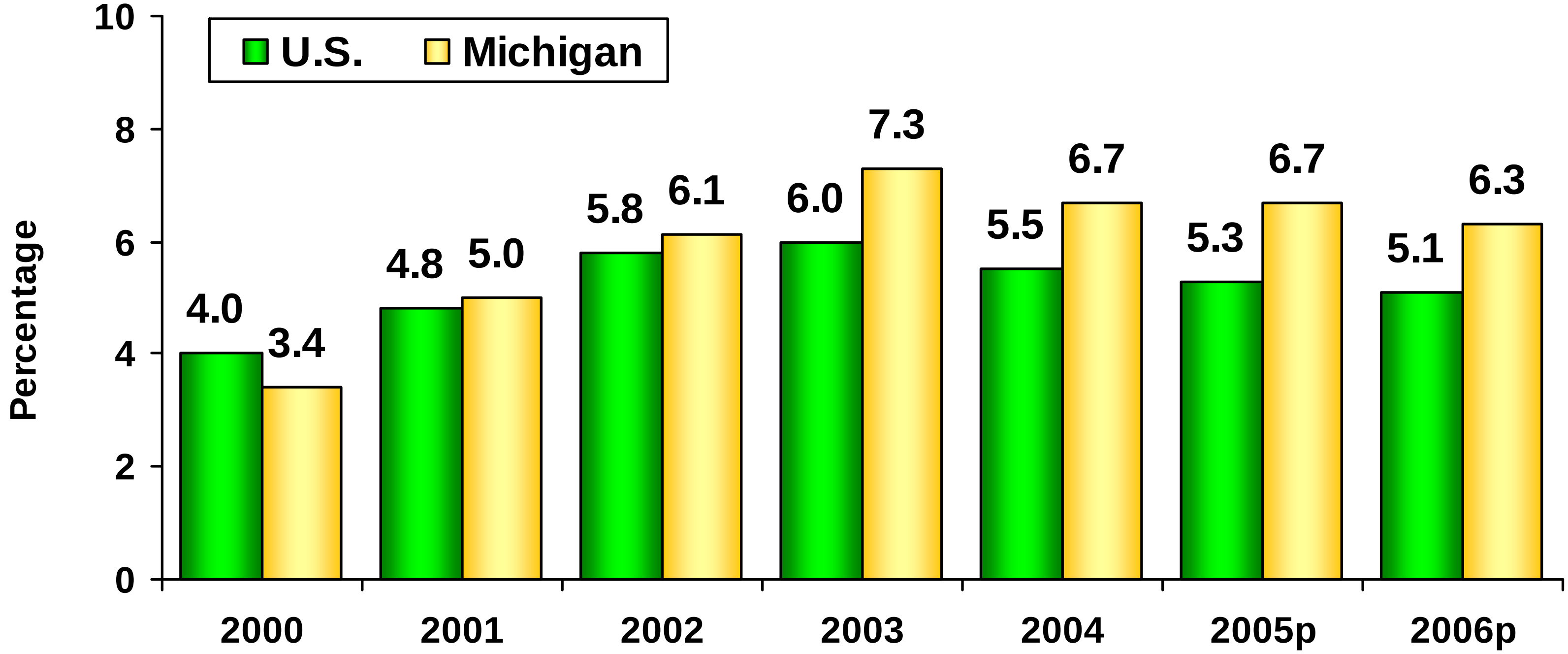
RATE OF INFLATION
DETROIT CPI



p = projected
as of March 31, 2005

Source: RSQE - University of Michigan

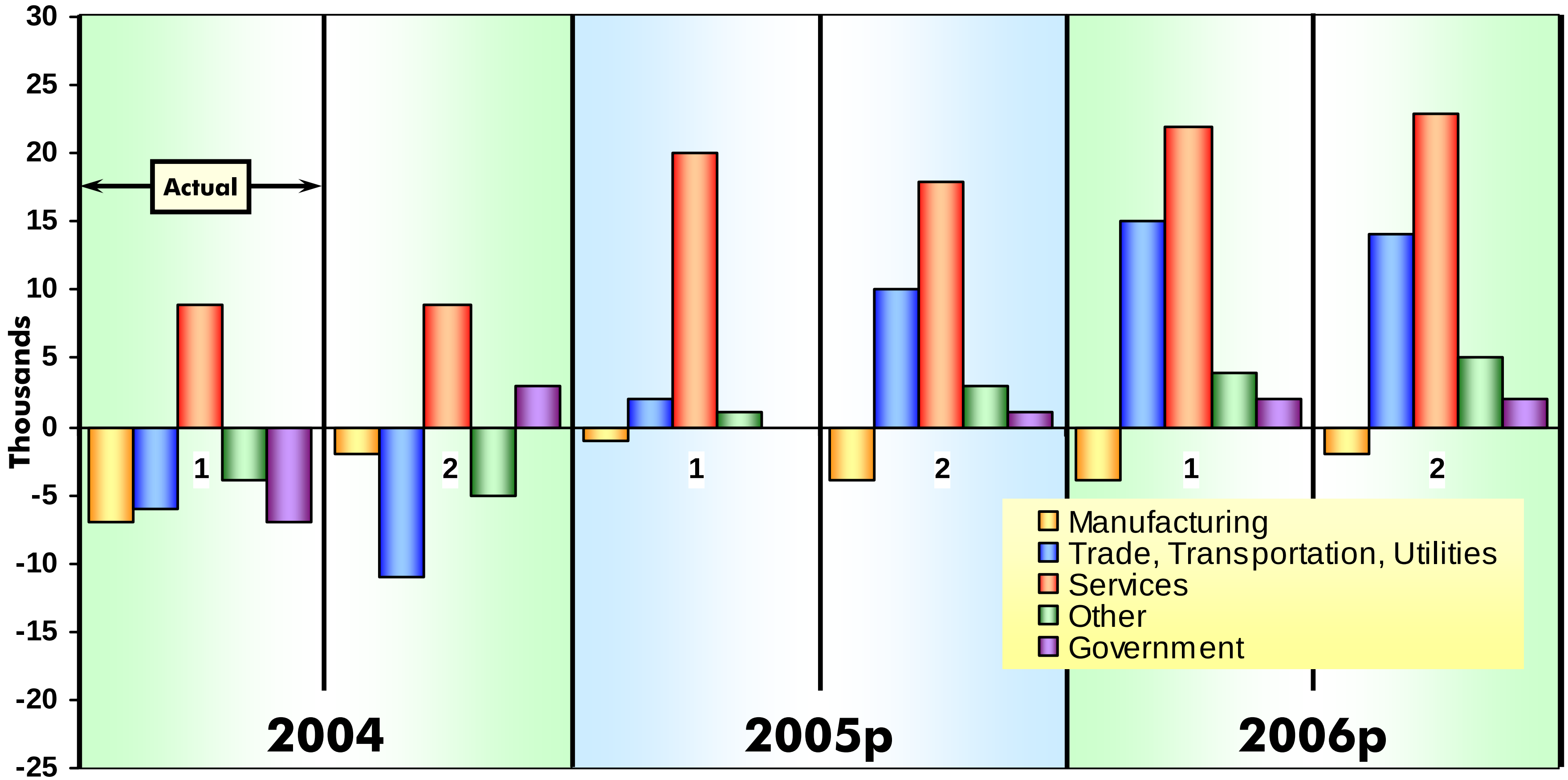
CIVILIAN UNEMPLOYMENT RATE
UNITED STATES VERSUS MICHIGAN



p = projected
as of March 11, 2005

Source: RSQE - University of Michigan

COMPOSITION OF CHANGES IN MICHIGAN EMPLOYMENT



Source: RSQE - University of Michigan

p = projected
as of November 2004

OVERALL TRAVELER SENTIMENT INDEX

Index – measure of travelers' financial and time-wise ability to travel, interest in leisure travel, perception of service quality, and affordability of travel.

Source: Travel Industry Association of America.

FORECAST FOR U.S. TRAVEL IN 2005

Travel volume	3.6%	Business travel
	2.0%	Leisure travel
Travel spending	5.0%	
Travel prices	2.7%	

Source: Travel Industry Association of America.

NEGATIVE INDICATORS 2005 (I)

- Unemployment is high in Michigan and in its prime travel markets, and it is projected to decline only slightly.
- Stock market indices are declining to flat and way below their peaks – negative wealth effect.
- Low interest rates hurting retiree incomes tied to money market, certificates of deposits, etc. (Rising trend will not help much this year.)
- Low-interest home refinancing income boost is waning.

NEGATIVE INDICATORS 2005 (II)

- Fear and inconvenience of air travel.
- State deficit – reductions in services and/or closings of premises.
- Pricing power is limited by lower prices offered on the Internet.
- Consumer confidence is declining.
- Continuing promotion budget slippage.
- Rising energy costs slowing overall economy and raising travel costs.

Printed in Lansing State Journal on May 2, 2005.

POSITIVE INDICATORS 2005 (I)

- Moderately positive economic forecasts.
- Moderate inflation so far, but…???
- Strong auto travel probable: new car sales, less air travel, reduced travel budgets.
- Underlying demand is growing (e.g., the baby boomer effect).
- Weaker dollar, especially versus Canadian currency.
- A Michigan trip is available to Canadians and Europeans at a 10% discount over last year.
- Weak dollar will make upscale travel to Paris less attractive.

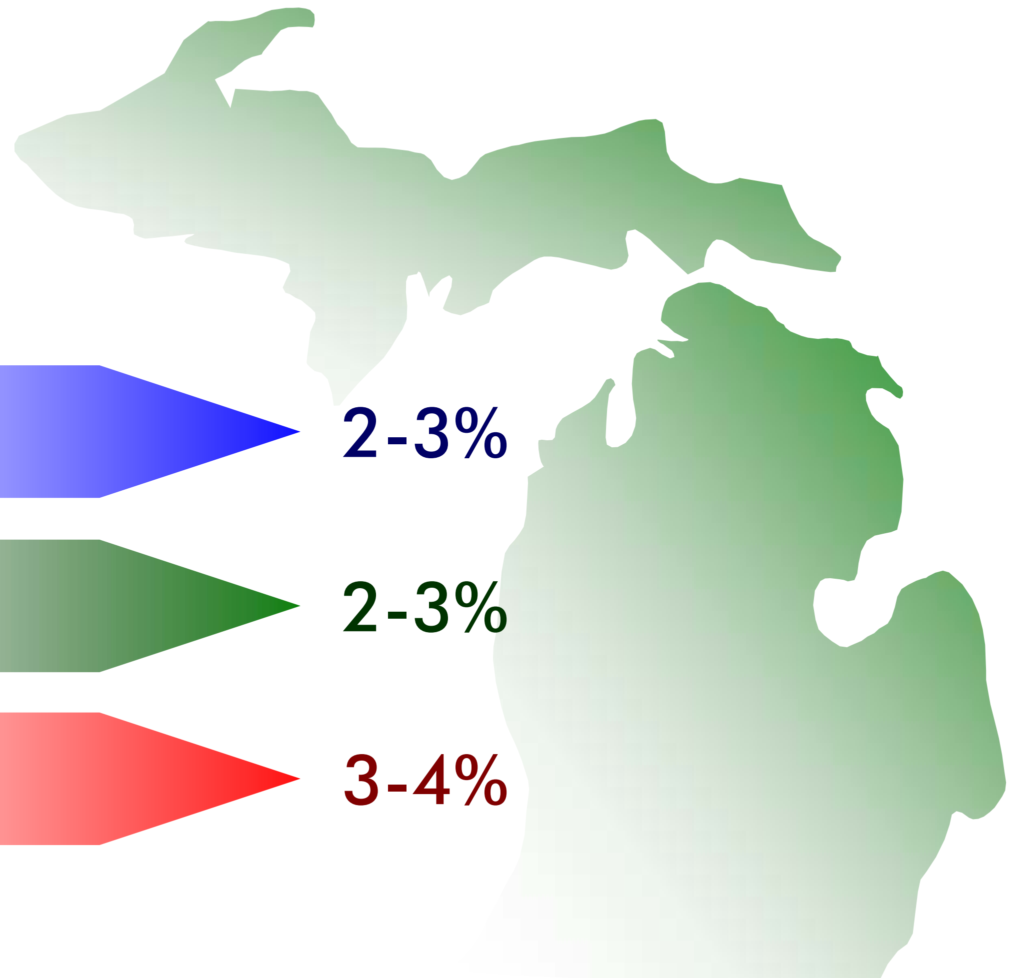
POSITIVE INDICATORS 2005 (II)

- Continuation of consumers’ tendency to limit air and long-distance travel.
- Strong sales of RVs.
- Negative psychology may be unwarranted and/or overblown.
- National travel forecast improved over last year.
- Business and conference travel is rebounding.
- Business profits strong – more investments, more travel.

THE WILD CARDS

- Terrorism – will it strike again this year? Where?
- Disruption in fuel supply.
- Gasoline prices above $3.00?
- Weather – rarely "normal" in Michigan.

TTRRC / MSU PROJECTIONS FOR MICHIGAN TOURISM IN 2005

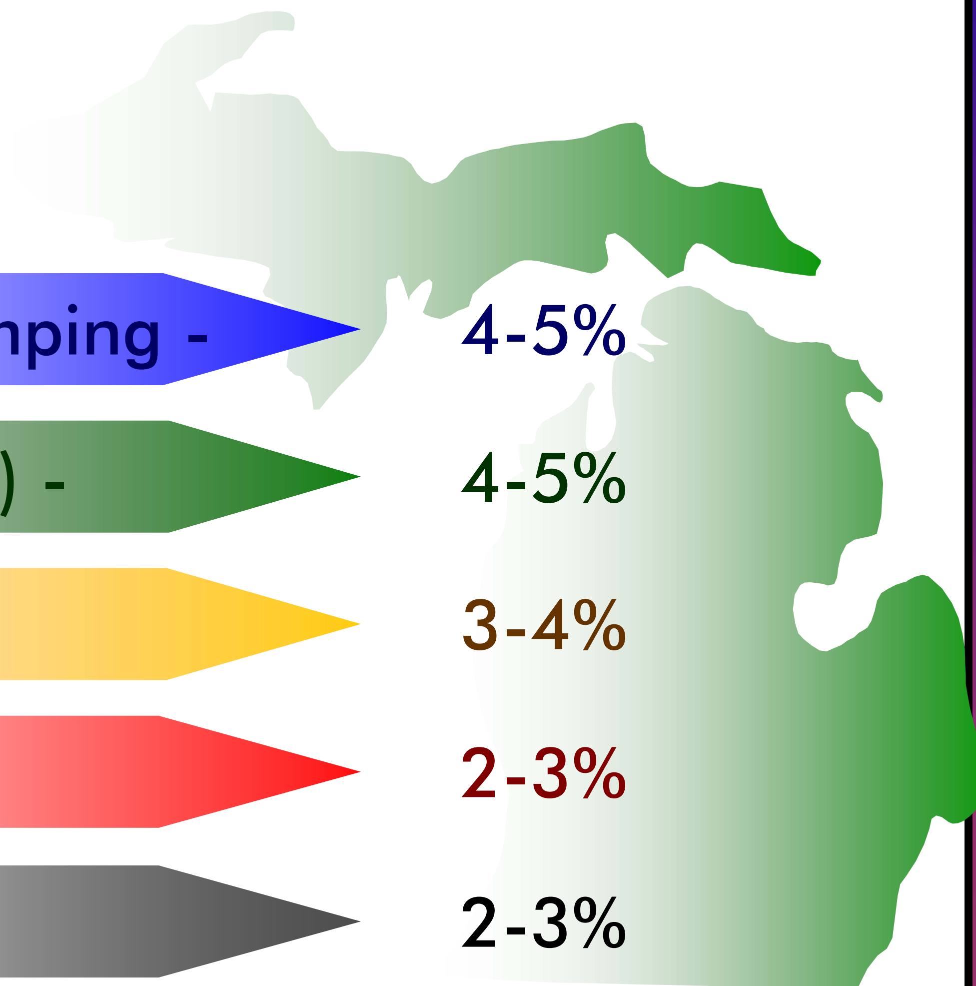


Travel volume — 2-3%
Traffic counts

Travel spending — 2-3%
Use and sales lodging tax

Travel prices — 3-4%
Lodging and restaurant price changes / 2

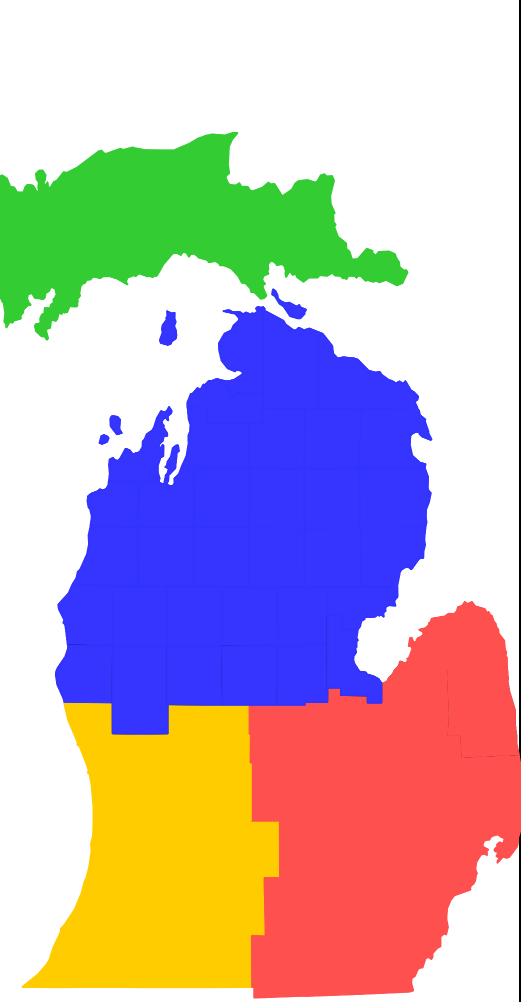
TTRRC/MSU PROJECTIONS FOR MICHIGAN TOURISM IN 2005 BY SELECTED SEGMENT



Outdoor recreation/camping -	4-5%
Golfing (upscale resorts) -	4-5%
Gaming -	3-4%
Shopping -	2-3%
Lodging -	2-3%

TTRRC/MSU PROJECTIONS FOR MICHIGAN TOURISM IN 2005 BY REGION

Upper Peninsula	3-4%
Northern Lower P.	3-4%
Southwestern region	2-3%
Southeastern region	2-3%



MICHIGAN'S RANK IN CAPTURING TRAVELERS' EXPENDITURES

	Rank in captured expenditures	
Year	Domestic*	International*
1985	8	12
1995	13	14
1999	13	16
2002	13	16

*) Balanced trade in travel (i.e., dollars in versus dollars out) is achieved when rank of captured expenditures is about equal to the state's population rank. Michigan is the eighth most populated state in the U.S.)

Source: Travel Industry Association of America; U.S. Census Bureau.

MACKINAC BRIDGE TRAFFIC COUNTS YEAR-TO-YEAR CHANGE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓	↑	↓
2001	↓	↓	↑	↑	↓	↓	↑	↑	↓	↓	↑	↑
2002	↓	↑	↓	↓	↑	↑	↑	↑	↑	↑	↓	↑
2003	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
2004	↓	↑	↓	↓	↓	↓	↓	↓	↑	↓	↓	↓
2005	↑	↓										

Note: There are 41 down year-to-year counts from the same month in the prior year.

Source: Mackinac Bridge Authority.

MICHIGAN HIGHWAY TRAFFIC COUNTS YEAR-TO-YEAR CHANGE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓
2001	↑	↑	↑	↓	↓	↑	↑	↓	↓	↓	↑	↑
2002	↑	↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑
2003	↑	↑	↑	↑	↑	↓	↓	↑	↓	↑	↑	↑
2004	↓	↑	↑	↑	↓	↓	↑	↓	↑	↓	↓	↓
2005	↑	↓										

Note: There are 18 down year-to-year counts from the same month in the prior year.

Source: Michigan Department of Transportation.

MACKINAC BRIDGE TRAFFIC COUNTS YEAR-TO-YEAR CHANGE

Year	Count	% from prev. year
1985	2,583	
1986	2,753	6.5%
1987	3,033	10.2%
1988	3,229	6.5%
1989	3,350	3.7%
1990	3,390	1.2%
1991	3,535	4.3%
1992	3,678	4.0%
1993	3,993	8.6%
1994	4,333	8.5%

Year	Count	% from prev. year
1995	4,557	5.2%
1996	4,625	1.5%
1997	4,626	0.0%
1998	**4,891**	5.7%
1999	4,836	-1.1%
2000	4,756	-1.7%
2001	4,676	-1.7%
2002	4,733	1.2%
2003	4,529	-4.3%
2004	4,427	-2.2%

Source: Mackinac Bridge Authority.

MICHIGAN RANKING (I)

Category	Rank
Number of hotel and motel rooms	13
Length of fresh water shoreline	1
Number of registered boats	2
Number of public golf courses	1
State land available for recreation (acreage)	5

Source: Smith Travel Research; The Office of Ocean and Coastal Resource Management; Michigan Boating Industries Assoc.; National Golf Foundation; "Travel and Tourism in Michigan: A Statistical Profile", Michigan State university, 1991, 2nd Edition.

MICHIGAN RANKING (II)

Category	Rank
Population	8
Payroll generated by domestic travel	13
Jobs generated by domestic travel	13
Domestic travel expenditures	13
Domestic travel expenditures per capita	48
Vacation cost	27

Source: U.S. Census Bureau; Travel Industry Association of America; AAA.

MICHIGAN RANKING (III)
STATE TOURISM OFFICE BUDGET

Year	Rank
1990	7
1995	12
2000	20
2004	27
2005	31

Year 2005	Rank
IL	2
MI	31
MN	26
OH	34
WI	15

Source: Travel Industry Association of America.

DEFICIT IN MICHIGAN'S BALANCE OF TRAVEL TRADE

- Michigan ranks 45th among 50 states in tourist expenditures captured per resident (TIA, 1999)
- In terms of volume, Michigan's domestic travel trade deficit is 11.8 million household trips (U.S. Travel Census, 1995)
- In dollar terms, Michigan's domestic travel trade deficit is about $1.6 billion (Holecek in "Michigan at the Millennium", Michigan State University Press, 2003)
- In dollar terms, Michigan 's international travel trade deficit is about $1.3 billion (Holecek in "Michigan at the Millennium", Michigan State University Press, 2003)
- Thus, Michigan's total travel trade deficit approaches $3 billion.

WHY THE DEFICIT

- Geography:
  - Great Lakes barriers to east –west traffic
  - Minimal population base and attractions north of the state
- Climate:
  - Long winters
  - Cool springs
- Policies
  - K-12 school calendars promote out-of-state travel (long winter and spring breaks) and shorten the peak travel season when climate is ideal for outdoor recreation
  - Lack of coordinated product development strategy / policy emphasis
  - Promotion budget not linked to ROI or to market conditions

TO REDUCE DEFICIT IN MICHIGAN'S BALANCE OF TRAVEL TRADE WE NEED TO: (I)

- Protect natural and cultural assets.
- Tap new markets – Canada, growth states, minorities, overseas.
- Develop new products – tourism as an economic development priority.
- Invest more in promotion – will probably require disconnecting promotion budget from the appropriations process, and expanding partnerships.
- Strengthen infrastructure – highways, airports, welcome centers, parks, "cool cities", etc.

TO REDUCE DEFICIT IN MICHIGAN'S BALANCE OF TRAVEL TRADE WE NEED TO: (II)

- Invest in human resources – leadership development, training, education.
- Invest in research and program evaluation to maximize return on investment across all programs.
- Embrace new technologies and support their timely adoption.
- Develop a coordinated economic development strategy for growing Michigan's tourism industry.

- **Recognize that there are no simple, short-range solutions. It will take years, a lot of resources, cross-industry cooperation, and objective, research-driven efforts on multiple fronts to begin to reduce Michigan's balance of travel trade deficit.**

CONTACT INFORMATION

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Web site: www.imakenews.com/tourism/