



STATUS AND POTENTIAL OF MICHIGAN'S TOURISM INDUSTRY

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- The Michigan Travel, Tourism and Recreation Resource Center was established at MSU in 1985. It is now a unit within the newly formed Department of Community, Agriculture, Recreation and Resource Studies.
- The Center is funded in part by the Michigan Agricultural Experiment Station (MAES) and MSU Extension. All of us at MSU appreciate the support you have been able to provide under these extremely stressful financial circumstances
- The foresight of your predecessors was instrumental in creating the MSU Tourism Resource Center. Your continuing support has made it possible for us to provide research and technical support to Michigan's tourism industry for 20 years.



- Industry sales have declined markedly from their peak in 2000.
- Residents of Michigan annually spend nearly \$3 billion more on out-of-state trips than our industry captures from non-residents traveling in Michigan.
- Despite the recent set-back, the industry achieved an average annual growth rate in sales equal to 4.2%





- The consensus across the industry today is that Michigan's tourism industry is in trouble. This is an important development because:
 - Any consensus is rare for this industry.
 - Acknowledging that a problem exists is a necessary first step towards its solution.

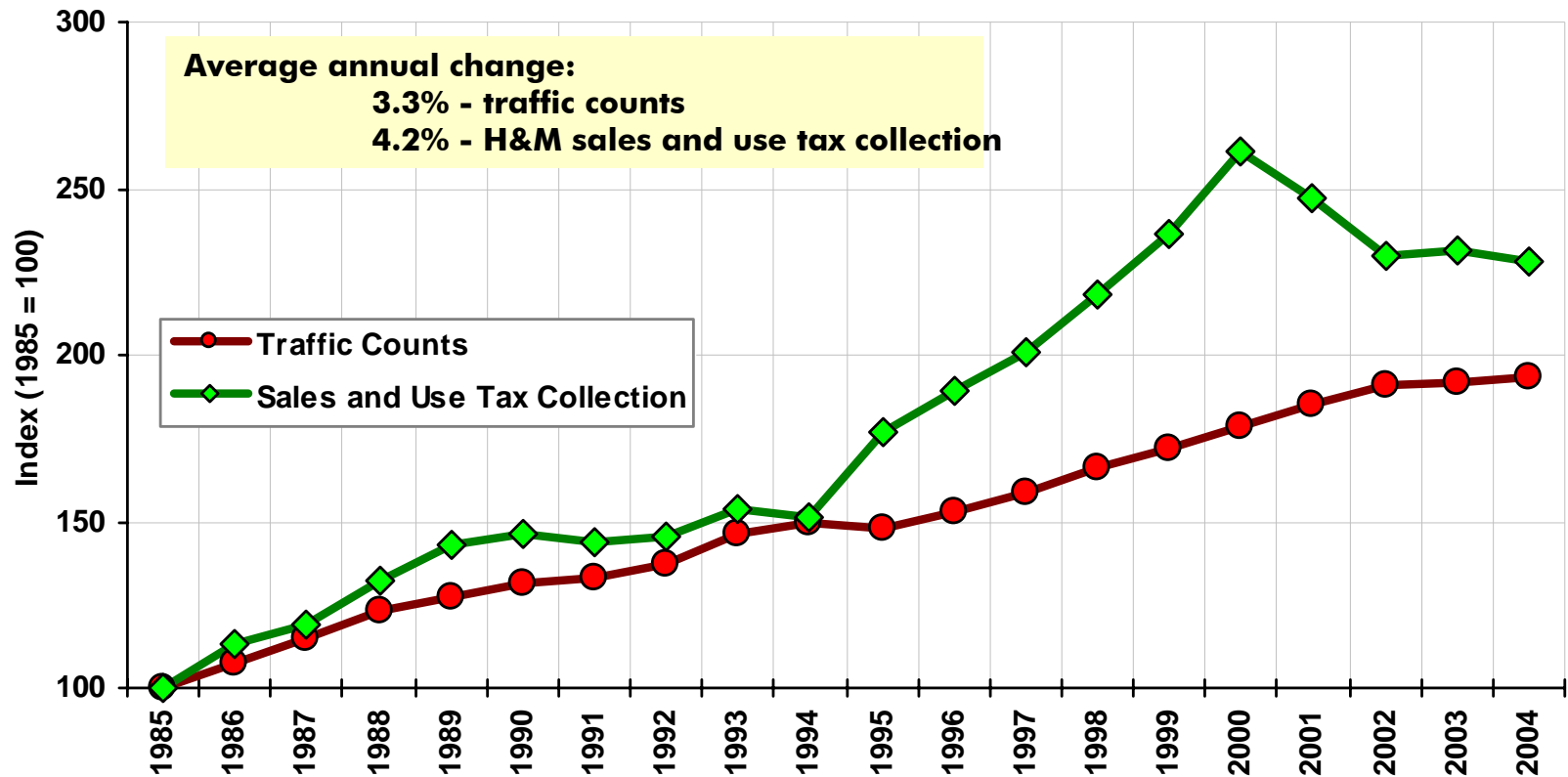




- Despite the bad news about the current status of the industry, I am very optimistic about its potential. The reason for my optimism rests on the consensus view that travel and tourism is a growth industry both nationally and globally. Our collective goal should be to position Michigan's tourism industry to capture its fair share of this growth.

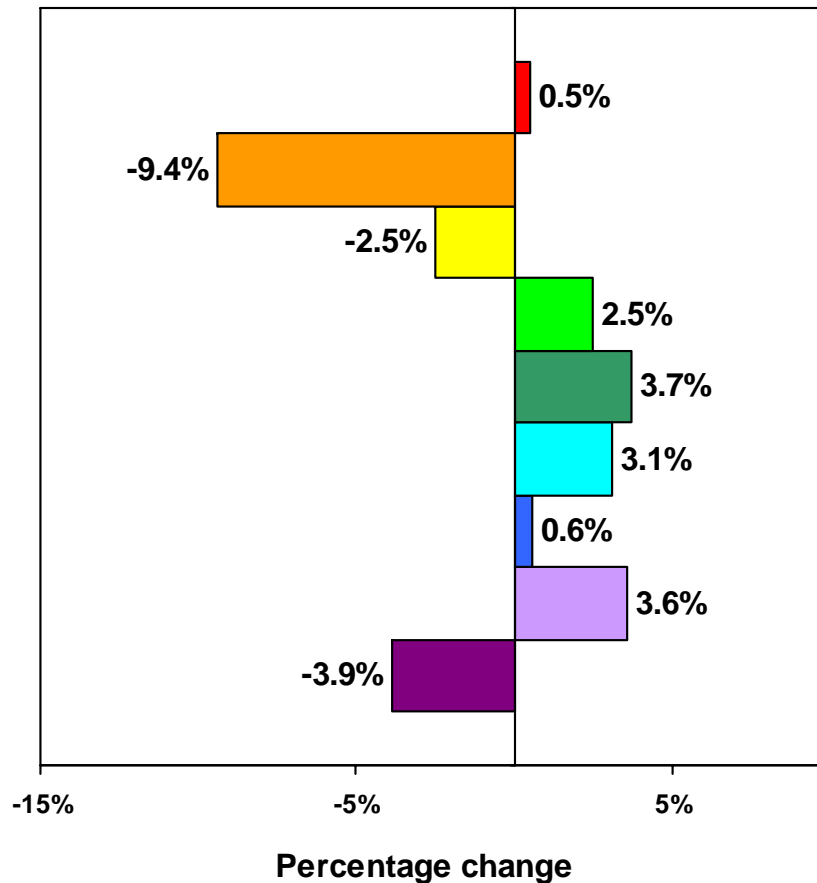


Tax Collection and Traffic Count Trend in Michigan



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

Michigan Travel Industry Indicators, 2004 vs. 2003, Travel Activity Indicators



Highway Traffic Counts (All Available Rural Stations)

State Park Overnight Stays (All Parks)

CVB Room Assessments, U.P. (8 CVBs)

CVB Room Assessments, N.L.P. (11 CVBs)

CVB Room Assessments, S.L.P. (13 CVBs)

CVB Room Assessments, Statewide (32 CVBs)

SIC 701 Hotel & Motel Sales + Use Taxes

SIC 701 H&M Use Taxes

SIC 701 H&M Sales Taxes

Source: Michigan Dept. of Transportation; Michigan Dept. of Natural Resources, Bureau of Parks and Recreation; CARRS Tourism Resource Center, MSU; Michigan Dept of Treasury, Office of Revenue & Tax Analysis.

Hotel Sector Performance (1st Quarter)



	Occupancy Rate		ADR*	
	2004	2005	2004	2005
Michigan	49.3%	48.4%	\$71.27	\$71.93
U.S.	62.6%	64.0%	\$88.48	\$91.96
Michigan's Rank		47		26

* ADR – average daily rate.

Source: Smith Travel Research.

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 the rank in 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 44 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 21 down year-to-year counts from the same month in the prior year.

Note: Only the major tourist routes, not all highways, are included in the formulation of these directional indicators.

Source: Michigan Department of Transportation.

Michigan's Ranking in 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.



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TIA survey finds state tourism budgets grow 10% in '04-'05 FY (06/22/2005)

Texas tapping most for domestic spending; Oregon sees biggest overall hike

WASHINGTON -- According to the Travel Industry Association's™ 2004-2005 Survey of U.S. State and Territory Office Budgets, Hawaii has the largest tourism promotional budget, spending at least \$21 million more than its nearest competitor -- Illinois.

Hawaii's™ budget for the fiscal year is \$69 million, followed by Illinois with a tourism budget of \$47.8 million. Rounding out the top five were Pennsylvania (\$33 million), Texas (\$30.6 million), and Florida (\$28.6 million).

Overall, TIA said tourism budgets for all states amounted to \$602 million, up 10% from the 2003-2004 fiscal year. Oregon was singled out the state with the largest budget hike for the fiscal year. Its budget went from \$3.9 million to \$9.34, an increase of 134%.

TIA said its annual survey found Texas intends to spend the most on domestic advertising (\$13.7 million) followed by Florida (\$10.8 million), Pennsylvania (\$9.0 million), New Jersey (\$8.7 million), and Arizona (\$8.5 million).

Meanwhile, tourism offices overall intend to spend \$21.2 million on international advertising and sales promotion for 2004-2005, up 27.8% from the previous fiscal year.

To contact the reporter who wrote this article, send e-mail to Michael Milligan at mmilligan@travelweekly.com.

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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.

TTRRC / MSU Projections for Michigan Tourism in 2005



Travel volume

Traffic counts

2-3%

Travel spending

Use and sales lodging tax

2-3%

Travel prices

Lodging and restaurant price changes / 2

3-4%



- The Michigan forecast is:
 - 1) for slower growth than that expected for the U.S. industry and
 - 2) below the Michigan tourism industry's long-term growth rate.
- Growth over last year is projected largely because exceptionally cool weather during the peak summer season depressed the industry's performance last year. But, local economic factors are not favorable for more robust industry growth this year.





Coping Strategy Considerations: Short Term



Coping Strategy Considerations: Short Term (1)



1. Invest more in marketing Michigan as a travel destination:
 - Travel Michigan's budget has declined in nominal terms in comparison to the competition's, and even more when inflation is considered.
 - My own research confirms the findings of Longwoods International that Travel Michigan's program is yielding a return of \$3 to the state's treasury for every \$1 it is investing in advertising.
 - We are leaving money on the table when we don't invest more in travel advertising.



Coping Strategy Considerations: Short Term (2)



2. Support post Labor-Day school opening legislation:

- Starting the school year after Labor Day is projected to increase state tax revenue by as much as \$10 million per year.
- Extending the peak travel season will make a disproportionately large contribution to tourism businesses' bottom lines, because the revenue increases will accrue after fixed costs are covered.
- The increased profits will be a stimulus for new investment in the industry.



Coping Strategy Considerations: Short Term (3)



3. Support efforts to renew access to the county level tax receipts data from the Dept. of Treasury.
 - Data to track the status of this industry at the regional level are generally sparse and are non-existent for most of state's 83 counties.





Coping Strategy Considerations: Long Term



Coping Strategy Considerations: Long Term (1)



1. Design an alternative mechanism for funding Travel Michigan that is more responsive to market conditions.
 - The current funding system isn't working.
 - There are alternatives to the current system.
 - Determine which system is the best for Michigan (e.g., a statewide room assessment, a fuel tax increase, the "Missouri model", etc.) and implement it.



Coping Strategy Considerations: Long Term (2)



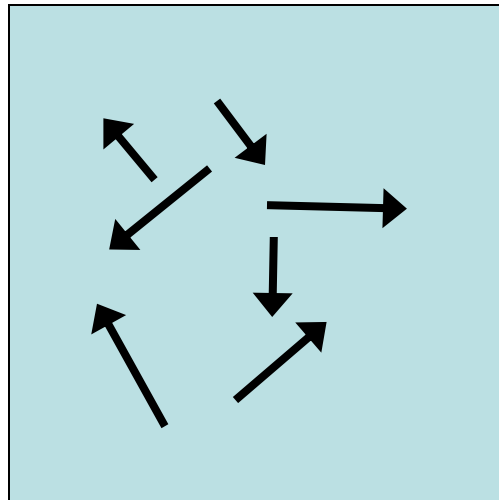
2. Develop a statewide strategic plan to position the industry to meet its challenges and to exploit its opportunities.

- Michigan's tourism industry is a \$16 billion a year business, which operates without a business plan.
- A plan is needed to:
 - Coordinate efforts across state government;
 - Expand education and training of industry employees;
 - Expand access to sound research and effective technical assistance;
 - Facilitate partnerships; and
 - Stimulate the investment needed to be competitive with other destinations.

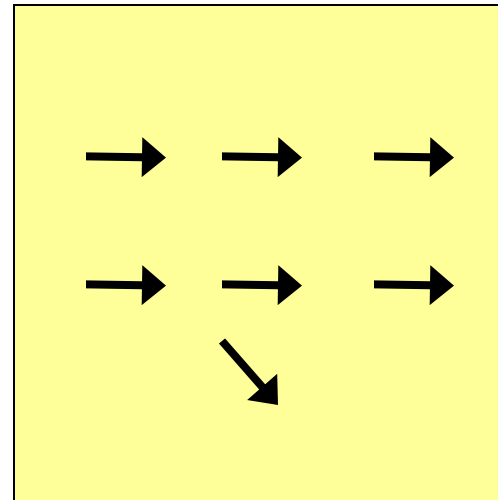




Current situation



Desired situation



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