



2009 MICHIGAN TOURISM PAST PERFORMANCE AND FUTURE EXPECTATIONS

Driving Tourism 2009, The Michigan Governor's Conference
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Dr. Sarah Nicholls and Dr. Donald Holecek
Department of Community, Agriculture, Recreation and Resource Studies
Michigan State University

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OUTLINE

- Overview of industry – global, national and Michigan
- 2008 Michigan tourism year-in-review
- 2009 Michigan tourism forecast

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TOURISM INDUSTRY: GLOBAL, NATIONAL AND MICHIGAN PERSPECTIVES



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TOURISM INDUSTRY ON THE GLOBAL LEVEL (I)

- The Travel & Tourism Economy (TTE) grew by 1% in 2008.
- The TTE is projected to contract by 3.5% in 2009, and to grow by 0.25% in 2010; but longer term prospects remain good, with an average growth rate of 4% per annum projected through 2019.
- The contribution of Travel & Tourism to Gross Domestic Product (GDP) is expected to rise from 9.4% (US\$5,474bn) in 2009 to 9.5% (US\$10,478bn) by 2019.
- The contribution of the TTE to employment is expected to rise from 219,810,000 jobs in 2008 (7.6% of total employment, or 1 in every 13.1 jobs) to 275,688,000 jobs (8.4% of total employment or 1 in every 11.8 jobs) by 2019.

Source: World Travel & Tourism Council http://www.wttc.org/bin/pdf/original_pdf_file/exec_summary_2009.pdf

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TOURISM INDUSTRY ON THE GLOBAL LEVEL (II)

Tourism in 2008

- Record 924 million international tourism arrivals
- World tourism increased by 2% over 2007
 - Jan-June +5%, July-Dec -1%
 - Fastest growth rate – Middle East: +11%
 - Slowest growth rate – Europe: 0%

Forecast 2009

- International tourism arrivals are projected to stagnate or slightly decline (-1 to -2%) in 2009. But the degree of uncertainty is high.
- The economic downturn, combined with extreme market volatility and declining consumer and business confidence, are expected to continue to take their toll on tourism demand in the short-medium term.

Source: UNWTO http://unwto.org/facts/eng/pdf/barometer/UNWTO_Barom09_1_en_excerpt.pdf

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TOURISM INDUSTRY ON THE NATIONAL LEVEL (I)

The Travel Industry Association of America's (TIA) statistics show that travel is ...

- One of the country's largest industries with
 - \$740 billion in direct travel expenditures
 - \$1.6 trillion in direct, indirect and induced travel expenditures
 - \$110 billion in tax revenue for local, state and federal governments
- One of the country's largest employers with
 - 7.5 million direct travel-generated jobs and
 - \$178 billion direct travel-generated payroll

Source: "Travel and Tourism Works for America," Travel Industry Association of America, 2008.

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TOURISM INDUSTRY ON THE NATIONAL LEVEL (II)

- 2008 will be the 20th consecutive year that the travel and tourism industry has generated a balance of trade surplus
- For Jan-Nov 2008 (relative to Jan-Nov 2007)
 - International visitors + 6%
 - Canadian visitors + 8%
 - Mexican visitors - 7%
 - Overseas visitors + 7%
 - International visitor spending + 19%

Source: The U.S. Office of Travel and Tourism Industries (OTTI), 2009.

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TOURISM INDUSTRY IN MICHIGAN

In 2007:

- Direct travel expenditures equaled \$18.1 billion, a decrease of 3.6% over 2006
 - Resident travel spending down 10.2%
 - Non-resident travel spending up 4.0%
- Approximately 192,000 employed statewide
- \$874 million generated annually in state taxes

Source: Travel MI/Michigan Economic Development Corporation.

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MICHIGAN TOURISM: A LOOK BACK AT THE YEAR 2008



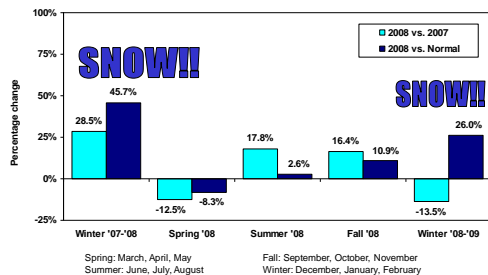
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MICHIGAN TOURISM: A LOOK BACK AT THE YEAR 2008

- Weather
- Traffic counts, bridge crossings and gas prices
- Sales and use tax
- Visits to attractions
- Hotel occupancy
- Assessments

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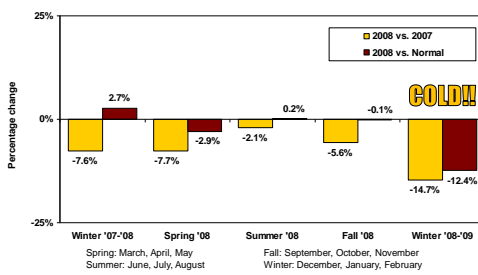
MICHIGAN TOURISM INDUSTRY INDICATORS: TOTAL PRECIPITATION BY SEASON



Source: Midwestern Regional Climate Center.

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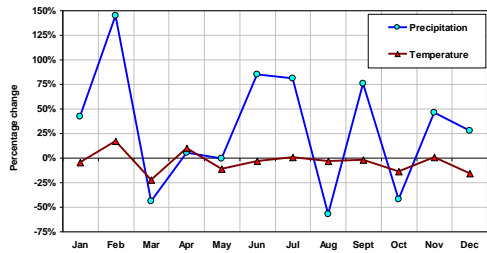
MICHIGAN TOURISM INDUSTRY INDICATORS: AVERAGE MAXIMUM TEMPERATURES BY SEASON



Source: Midwestern Regional Climate Center.

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**MICHIGAN TOURISM INDUSTRY INDICATORS:
2008 VS 2007 WEATHER BY MONTH**



Source: Midwestern Regional Climate Center.

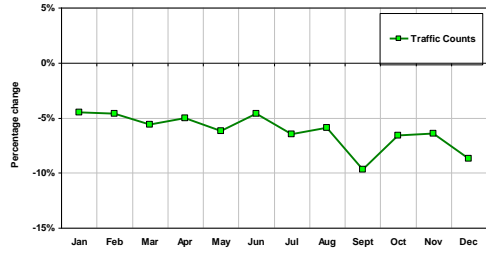
Annual Changes:
Precip. + 16.5% Temp. - 4.5%

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**MICHIGAN TOURISM INDUSTRY INDICATORS:
2008 VS 2007 HIGHWAY TRAFFIC COUNTS**



Source: Michigan Department of Transportation.

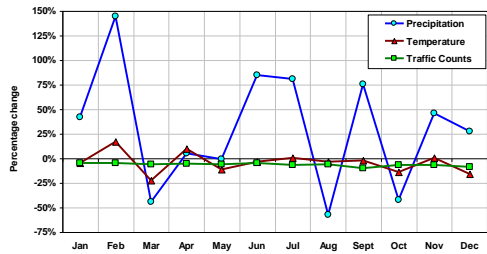
Annual Change:
- 6.2%

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**MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007
WEATHER AND TRAFFIC**



Source: Midwestern Regional Climate Center; Michigan Department of Transportation.

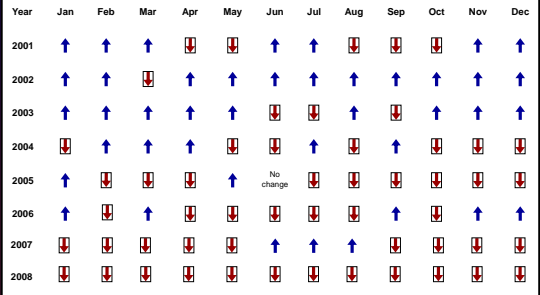
Annual Changes:
Precip. + 16.5% Temp. - 4.5% Traffic - 6.2%

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**MICHIGAN HIGHWAY TRAFFIC COUNTS
YEAR-TO-YEAR CHANGE**



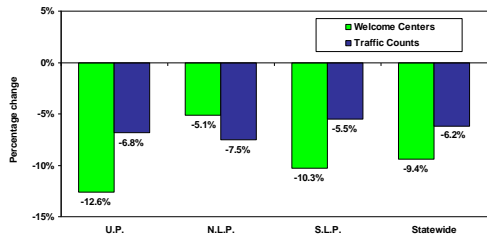
Source: Michigan Department of Transportation.

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**MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007
WELCOME CENTER VISITOR COUNTS & TRAFFIC COUNTS**



Welcome Centers: U.P. = Sault Ste. Marie, Marquette, St. Ignace, Ironwood, and Iron Mountain
N.L.P. = Mackinaw City and Clare
S.L.P. = Coldwater, Port Huron, New Buffalo, Monroes, and Dundee

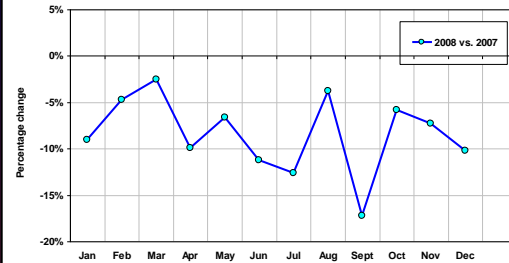
Source: Travel Michigan, Michigan Department of Transportation.

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**MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007
MONTHLY MACKINAC BRIDGE CROSSINGS**



Source: Mackinac Bridge Authority.

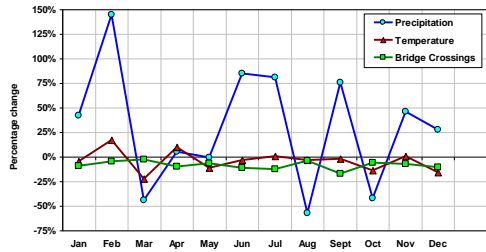
Annual Change:
- 8.9%

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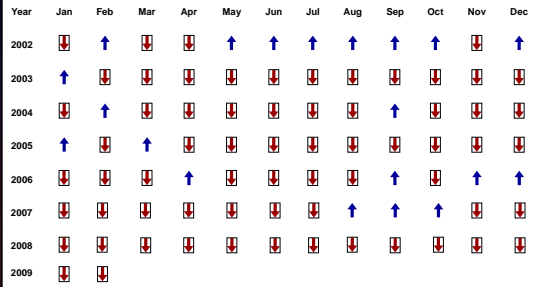
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MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007 WEATHER & MACKINAC BRIDGE CROSSINGS



Source: Mackinac Bridge Authority; Midwestern Regional Climate Center.

MACKINAC BRIDGE TRAFFIC COUNTS YEAR-TO-YEAR CHANGE



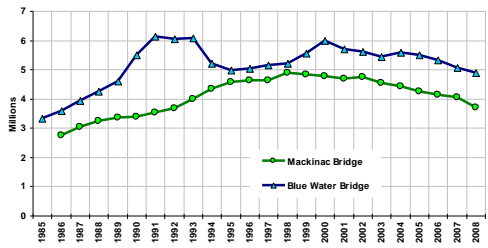
Source: Mackinac Bridge Authority.

MACKINAC BRIDGE TRAFFIC COUNTS YEAR-TO-YEAR CHANGE

Year	Count (million)	% from prev. year
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%
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%
2005	4.236	- 4.3%
2006	4.133	- 2.4%
2007	4.054	- 1.9%
2008	3.696	- 8.9%

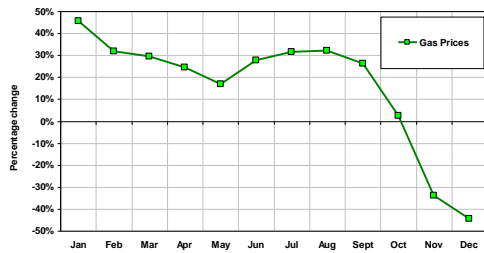
Source: Mackinac Bridge Authority.

TRENDS IN TRAFFIC COUNTS ON SELECTED MICHIGAN BRIDGES



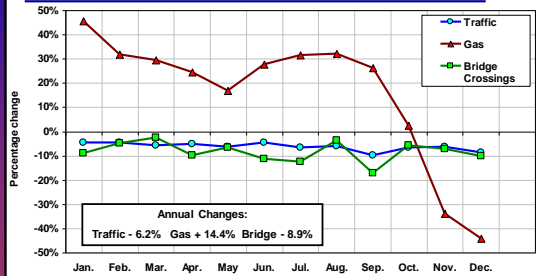
Source: Mackinac Bridge Authority; Blue Water Bridge Authority.

MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007 GAS PRICES



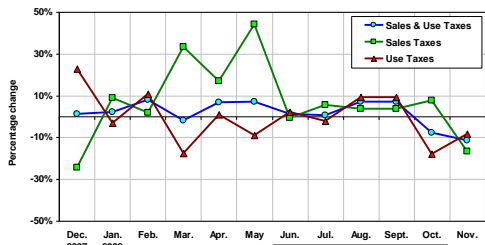
Source: AAA Michigan.

MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007 TRAFFIC, BRIDGE CROSSINGS & GAS PRICES



Source: Michigan Department of Transportation; AAA Michigan; Mackinac Bridge Authority.

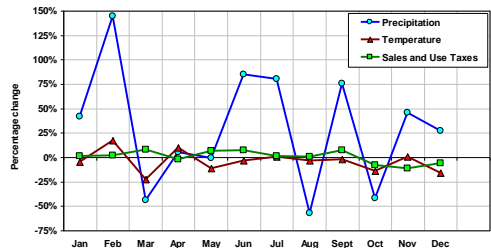
MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007 MONTHLY CHANGES IN HOSPITALITY TAXES (SIC 701)



Source: Michigan Department of Treasury, Office of Revenue and Tax Analysis.

Annual Changes:
Sales + 4.3% Use - 1.8%
Sales & Use + 0.5%

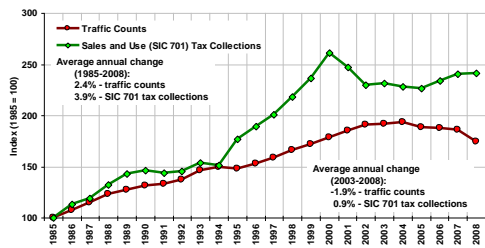
MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007 WEATHER AND TAXES



Source: Midwestern Regional Climate Center; Michigan Department of Treasury.

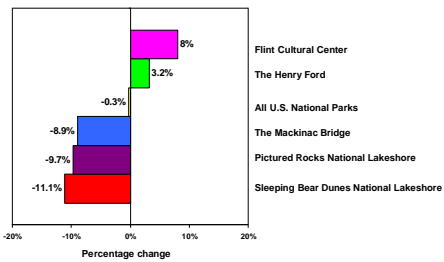
Annual Changes:
Precip. + 16.5% Temp. - 4.5% Taxes + 0.5%

HOSPITALITY TAX COLLECTION AND TRAFFIC COUNT TRENDS IN MICHIGAN



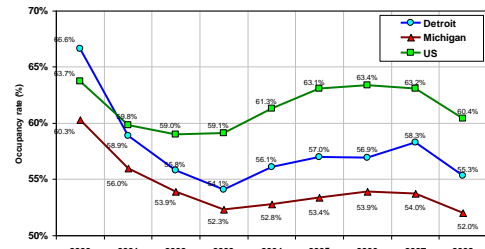
Source: Michigan Department of Transportation and Michigan Department of Treasury.

MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 vs. 2007 TOURISM ACTIVITY INDICATORS



Sources: Flint Cultural Center; The Henry Ford; Mackinac Bridge Authority; US National Park Service.

HOTEL OCCUPANCY: US/MICHIGAN/DETROIT 2000-2008



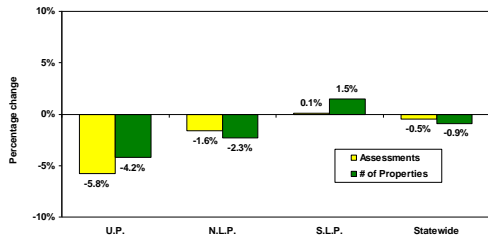
Source: Smith Travel Research, 2009.

MICHIGAN TOURISM INDUSTRY INDICATORS 2008 VS 2007 HOTEL DATA

	Occupancy	ADR	RevPAR
USA	-4.2%	+2.4%	-1.9%
Michigan	-3.2%	+1.5%	-1.7%
Detroit	-5.2%	+1.8%	-3.5%

Source: Smith Travel Research, 2009.

**MICHIGAN TOURISM INDUSTRY INDICATORS: 2008 VS 2007
PERCENT CHANGE IN ASSESSMENTS AND PROPERTIES**



Source: 2009 Dept. of CARRS Survey of Assessments.

CVBs Responding:
UP: 10, NLP: 12, SLP: 14 (36).

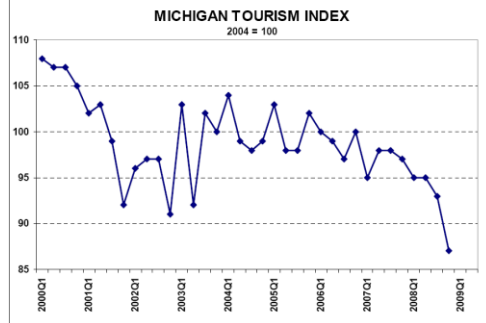
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**SUMMARY OF MICHIGAN TOURISM INDUSTRY
2008 VS 2007 INDICATORS**

- **Weather:** 2008 was cooler (- 4.5%) and wetter (+16.5%) than 2007
- **Travel activity:** down
 - traffic counts - 6%, Mackinac Bridge crossings - 9%
- **Gas prices:** +14.4%
- **Sales and use tax:** +0.5%
- **Visits to attractions:** variable
 - urban/local ↑ but natural/remoter ↓
- **Hotel occupancy:** down 3-5%
- **Assessments:** down 0.5%

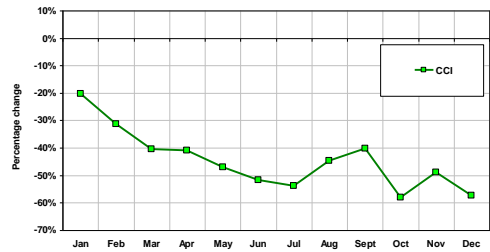
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**COMERICA BANK MICHIGAN TOURISM INDEX,
Q1 2000 – Q4 2008**



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**MICHIGAN TOURISM INDUSTRY INDICATORS:
2008 VS 2007 CONSUMER CONFIDENCE INDEX**



Source: The Conference Board, 2009.

Annual Change:
- 44.1%

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Michigan Film Production Incentive Program

- Enacted April 2008, provides a 42% tax credit
- In 2008
 - 32 productions completed
 - \$65.4 million in spending generated
 - 2,763 jobs created
- Great potential for film-induced tourism



Source: Miller & Abdulkadri, 2009.
http://www.michigan.gov/documents/filmoffice/MSU_Economic_Impact_Study_269263_7.pdf

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HOW ACCURATE WERE MSU'S PROJECTIONS FOR MICHIGAN TOURISM IN 2007 & 2008?

	2007		2008	
	Projected by MSU	Actual data	Projected by MSU	Actual data
Travel volume	+ 1-2%	- 1.5%	- 2%	- 6.2%
Travel spending	+ 3-4%	+ 2.8%	0%	+ 0.5%
Travel prices	+ 4-5%	+ 3.2%	+ 3-4%	+ 3.2%

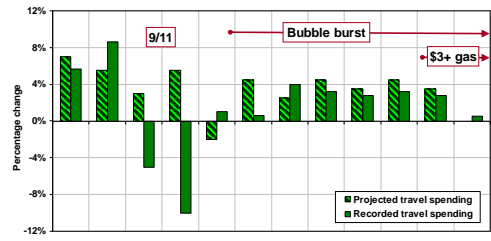
Source: MSU Department of CARRS; Michigan Department of Transportation; Michigan Department of Treasury.

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HOW ACCURATE WERE MSU'S PROJECTIONS FOR MICHIGAN TOURISM OVER THE YEARS?



Source: MSU Department of CARRS; Michigan Department of Treasury.

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WHY 2008 RESULTS WERE BELOW THE LONG-TERM TREND?

- Michigan's unemployment rate remained high
- Gasoline prices rose significantly (over \$4 during peak season)
- Housing crisis worsened – mortgage defaults, steep price declines
- Consumer spending slipped
- Limited new products were offered to stimulate Michigan travel
- Automobile industry, suppliers continued to suffer
- Major declines in stock markets

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DEVELOPING THE FORECAST – THEN

- Michigan travel activity was tracked by tourism researchers at MSU throughout the year
- Current data were added to extend the long-term trend
- We reviewed weather patterns, economic trends, and industry performance data for the previous year
- Trend data and economic forecasts were reviewed for their expected impacts – positive and negative
- We surveyed CVBs to collect performance data and their forecasts
- We reviewed the data and “tweaked” the long run trends up or down based upon feedback from the “Brain Trust”

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“I wouldn't say that I'm a heady optimist, but I think there is a danger of repeating the mistake that many of us made during the boom: extrapolating current trends to make decisions about the future, failing to take into account how rapidly economic circumstances change. There is a risk that we may again overshoot the mark: As the economy goes down, we could be overemphasizing the negative just as we exaggerated the positive on the way up.”

- John Cassidy – Condé Nast Portfolio – Feb. '09

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DEVELOPING THE FORECAST – NOW

- This year is different; Past trends are less meaningful and economic forecasts more unreliable.
- We decided to temper reliance on the past and forecasts with a healthy dose of subjective judgment.
- There is no doubt that 2009 will be a challenging year for Michigan's tourism industry, so we looked for opportunities to mitigate the challenges it is facing.
- Participants in 2009 “Brain Trust” meeting: Bill Sheffer, Dave Lorenz, Dave Morris, George Moroz, Tracy Padot, Dr. Don Holecek, Dr. Sarah Nicholls, Dr. Robert Richardson, Dr. Christine Vogt, Lori Langone and Dave Smyth

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TRENDS IN FACTORS THAT INFLUENCE TRAVEL (I)

Currency Exchange Rates

Per US\$1	April 11 2008	March 6 2009	% change	US \$ is...	Value in 2000
Canada	1.02	1.29	+ 26.4%	Stronger	1.46
Euro	0.63	0.80	+ 27.0%	Stronger	n.a.
Pound	0.50	0.71	+ 42.0%	Stronger	0.64
Peso	10.57	15.40	+ 45.7%	Stronger	9.36
Yen	101.19	97.88	- 3.3%	Weaker	109.09
FRB Broad Index (Feb.)	86.16	96.19	+ 11.6%	Stronger	101.47

Source: Currencies - www.oanda.com; Federal Reserve Bank.

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TRENDS IN FACTORS THAT INFLUENCE TRAVEL (II)

Interest rates – March 6

	2008	2009	% change
30-year mortgage (average)	5.73%	5.19%	- 9.4%
10-year treasury bond	2.61%	2.94%	+ 12.6%
90-day treasury bill	1.29%	0.28%	- 78.3%
Prime rate	5.25%	3.25%	- 38.1%

Gasoline prices

Unleaded regular - Michigan (April)	\$3.38	\$2.01 (3/8/09)	- 40.5%
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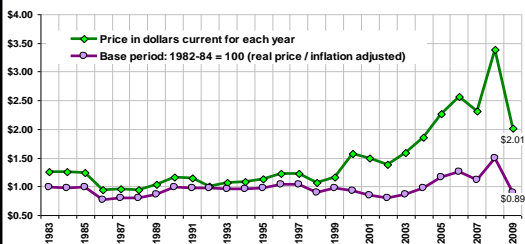
Source: WSJ 3/8/09; AAA Michigan.

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GASOLINE PRICES (Unleaded regular)



Source: AAA Michigan; Federal Reserve Bank of Minneapolis.

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TRENDS IN FACTORS THAT INFLUENCE TRAVEL (III)

Stock Market

	Dow Jones Industrial Avg.	Nasdaq Composite	S&P 500
April 11, 2008	12,325	2,290	1,332
March 5, 2009	6,594	1,300	683
12-month change	- 5731	- 990	- 649
% change (year-to-year)	- 46.5%	- 43.2%	- 48.7%
% change (year-to-date)	- 24.9%	- 17.6%	- 24.4%

Record highs	Apr 07: 13,089 Nov 07: 14,000	n.a.	Oct 07: 1,565
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Source: The Wall Street Journal.

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TRENDS IN FACTORS THAT INFLUENCE TRAVEL (IV)

Consumer Confidence Index – Another all time low

	2008	2009	% change
U.S.	March 64.5	Feb. 25.0	- 61%

Unemployment

U.S. (Feb.)	4.8%	8.1%	+ 69%
Michigan* (Jan.)	7.1%	11.6%	+ 63%

* Lowest unemployment rate in Michigan was 16.9% in March 2000

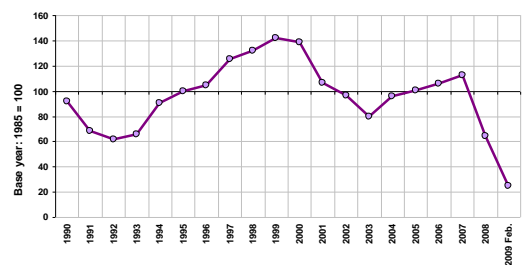
Source: The Conference Board; Bureau of Labor Statistics; Michigan Department of Labor & Economic Growth.

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CONSUMER CONFIDENCE INDEX U.S. RESIDENTS



Source: The Conference Board, 2009.

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Projected Change in Michigan Jobs by Sector – 2008 vs. 2009

Sector	2008-2009 Change (%)	Sector	2008-2009 Change (%)
Construction	- 10.1	Prof. & Business Services	- 8.3
Ed. & Health	- 0.4	Retail	- 2.6
Finance	- 6.0	Transport & Warehousing	- 3.1
Government	- 0.4	Utilities	- 1.2
Information	- 2.5	Wholesale Trade	- 4.6
Leisure & Hosp.	- 5.0	Total	- 5.0
Manufacturing	- 14.3		
Nat. Res. & Mining	- 5.8		
Other Services	- 1.8		

Source: Moody's Economy & USA Today.

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Projected Regional Employment Change by Selected Sector – 2008 vs. 2009

(% Change)

	Manufacturing	Leisure & Hosp.	Ed & Health	Govt.	Total
Illinois	- 5.1	- 4.6	- 0.2	+ 0.7	- 3.0
Indiana	- 7.8	- 4.5	+ 1.7	+ 0.5	- 3.0
Michigan	- 14.3	- 5.0	- 0.4	- 0.4	- 5.0
Minnesota	- 3.3	- 3.9	+ 1.6	- 0.8	- 2.2
Ohio	- 6.3	- 3.8	- 0.7	- 0.5	- 3.6
Wisconsin	- 5.2	- 6.8	- 0.2	+ 0.5	- 3.0
U.S.	- 4.4	- 2.5	- 0.2	+ 0.4	- 2.5

Source: Moody's Economy & USA Today.

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How bad is it and when will it get BETTER??

- This recession – in its 15th month; longer than only two since WWII
- Unemployment - @ 8.1%, a 25 year U.S. peak
 - » Will increase further to 9-10% sometime next year
 - » Typically continues to rise a while into recovery
- Housing – Prices down 26% in last 18 months
 - » May fall 20% more before bottoming in late 2010
 - » Fell only 30% in Great Depression but no bubble then
 - » Slow recovery after bottoming
- Stock Markets – Down ~ 50%; dropped 89% in Great Depression
 - » Worst crash since 1929
 - » Typically recover 4-6 months before the economy
 - » Typically climb quickly; 40-50% possible
 - » But 50% rise would leave markets 25% off peaks

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- Unemployment – Currently higher than long term average; it has been much higher; it feels worse because we are coming off a period of historically low unemployment.
- Housing Prices – Have dropped 25% after a far faster than average period of growth in value.
- Markets – Indices have fallen about 50%; the "tried and true" market value measure price/earnings is below its historical average ~16.

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Always Try to See The Glass Half Full

A few months from now after we have clearly put this recession behind us, quantitative market analysts and economists are likely to see the last few months as a dramatic, but to be expected, time of: "reversion to the mean."

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Are We There Yet? (I)

"The only function of economic forecasting is to make astrology look respectable" (John Kenneth Galbraith)

Stocks – (We may be there or close to the bottom)

- Stock market hits bottom before the economy does
- The P/E ratio for the S&P 500 Stock Index adjusted for inflation on March 3, 2009 was 12.
- The average is 16.37 (1890-2009); was 7 in 1982; and was 44.2 in 1999.

Source: NY Times 3/15/09.

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Are We There Yet? (II)

Home Prices – (Probably not nationally but close in some regions)

- Prices have fallen by nearly one-third from 2006.
- But, an inflation adjusted home index reached 200 in 2006. It has varied between 110 & 120 since 1960. And, it is about 140 today.
- Will require still lower prices, easier lending & an improving economy to stabilize.

Source: NY Times 3/15/09.

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Are We There Yet? (III)

Consumer Spending – (Probably not until economy recovers)

- Spending fell 1% in second half of 2008; the first such decline since 1980.
- But, consumers still spend 98¢/dollar earned vs. 93¢/dollar on average since 1929.
- Consumers are still paying down accumulated debt, rebuilding retirement plans, and nervous about their jobs. (my view here)
- Latest retail sales data suggest that the decline has slowed, but growth will require earnings to increase as long as consumers are in a saving mode. (my view here)

Source: NY Times 3/15/09.

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Comerica Bank's Michigan Tourism Index

Comerica's Michigan Tourism Index fell to its lowest reading in 16 years (81). It stands 11% below its level last year at this time.

"Similar to so many other measures of economic activity, the decline in our tourism index accelerated markedly in late 2008. With the national and state economy still clearly contracting in early 2009, further declines in the Michigan Tourism index seem inevitable, as households and businesses cut back on discretionary travel. By mid-year, however, declines in tourism are likely to become less severe, as recessionary pressures begin to moderate."

- Dana Johnson, Chief Economist at Comerica Bank

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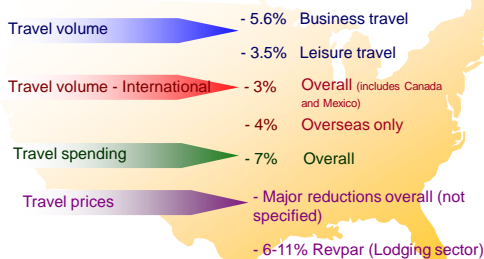
- World tourism is projected to decline in 2009 for the first time since 9/11.

	Tourism Spending Change Year to Year
2009	- 3.6%
2010	+ 0.3%

- Recovery in 2010 will be anemic; well below long-term growth trend.

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FORECAST FOR U.S. TRAVEL IN 2009



Source: Travel Industry Association of America (Annual Travel Forecast).

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What Consumers are Saying About Their Vacation/Leisure Travel Plans for 2009 (Recent consumer poll findings)

- "A USA Today/Gallup Poll finds that 59% of people who normally take an annual vacation away from home will shrink their vacation spending this year – or just not go."
- D.K. Shifflet & Associates "...forecast Americans will spend 9.7% less on leisure travel in April, May and June, and 9.0% less in July, August and September than in 2008."
- The February travel horizons survey's U.S. Travelers' Sentiment Index rose to 90.2 from 78.2 last October due to the perceived affordability of travel (U.S. Travel Assn/Peter Yesawick/3/17/09).

Source: USA Today.

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Some Positive Trends – Near Term

- Lower gasoline prices
 - Reduces travel costs and boosts travelers' "psychology"
 - Functions as an overall multi- billion dollar stimulus
- Most things cost less which partially offsets income losses.
- Forced retirement, lay offs, shorter work hours provide increased leisure hours = more time to travel.
- People are seeking to escape the bad news, reduce stress.
- Federal stimulus spending will begin to impact.

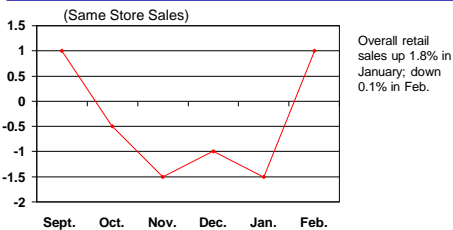
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Some Positives – Insights, Long Trends

- Aging population with high propensity to travel.
- 2008 was challenging but performance wasn't too bad.
- Retail sales have improved; people are spending but seek value.
- Michigan's travel product generally appeals in this value sensitive consumer environment.
- The pendulum has swung back from irrational exuberance to irrational pessimism across housing and the markets.

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Retail Shows Signs of Life



February Sales	
Walmart + 5.1%	Discount + 2.9%
Macy's - 8.5%	Department - 9.0%
Saks - 26.0%	

Source: WSJ 3/16/09.

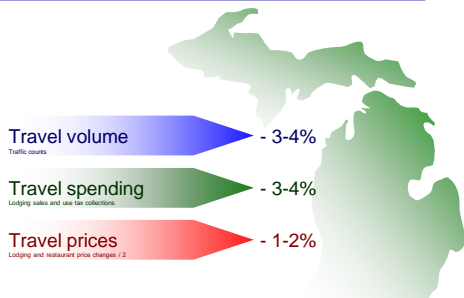
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Gaming – Thought to be Recession Resistant But Mixed Results in 2008

- Vegas and Atlantic City are experiencing major revenue declines and deeply discounting lodging
- Large operators experiencing major financial stress (bankruptcy?)
- Because they are overleveraged – they believed!
- Detroit casinos' revenues up 1.8% over 2007 but MGM and Motor City opened up their hotels
- Detroit casinos' revenues down 0.8% through February

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MSU GROWTH PROJECTIONS FOR MICHIGAN TOURISM IN 2009



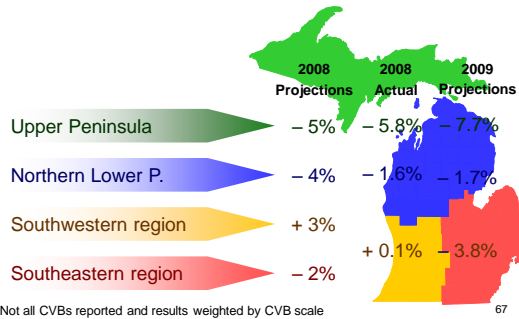
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THE WILD CARDS

- The economy
 - Housing
 - Employment
 - Energy prices
 - Inflation/deflation
 - Consumer spending
- Disruption in fuel supply and/or gasoline prices back to the \$3-4 range
- Weather variability

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Regional Revenue Projections and Actual Assessments – (CVB Survey Results)*



CONTACT INFORMATION

Dr. Sarah Nicholls (nicho210@msu.edu)
Dr. Don Holecek (dholecek@msu.edu)

Department of Community, Agriculture, Recreation and Resource Studies (CARRS)
 Michigan State University
 131 Natural Resources Bldg.
 East Lansing, MI 48824-1222

Phone: 517-353-5190
 Fax: 517-353-8994
www.carrs.msu.edu