Economic Insight

The summer vacation is back

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After two years of travel restrictions and health concerns, 2022 has the potential for a blockbuster summer season in the United States.

U.S. demand for airline tickets is soaring alongside expenditures on hotels and auto rentals, the highway system is packed (and sometimes bursting) with cars, and the national parks are near capacity.

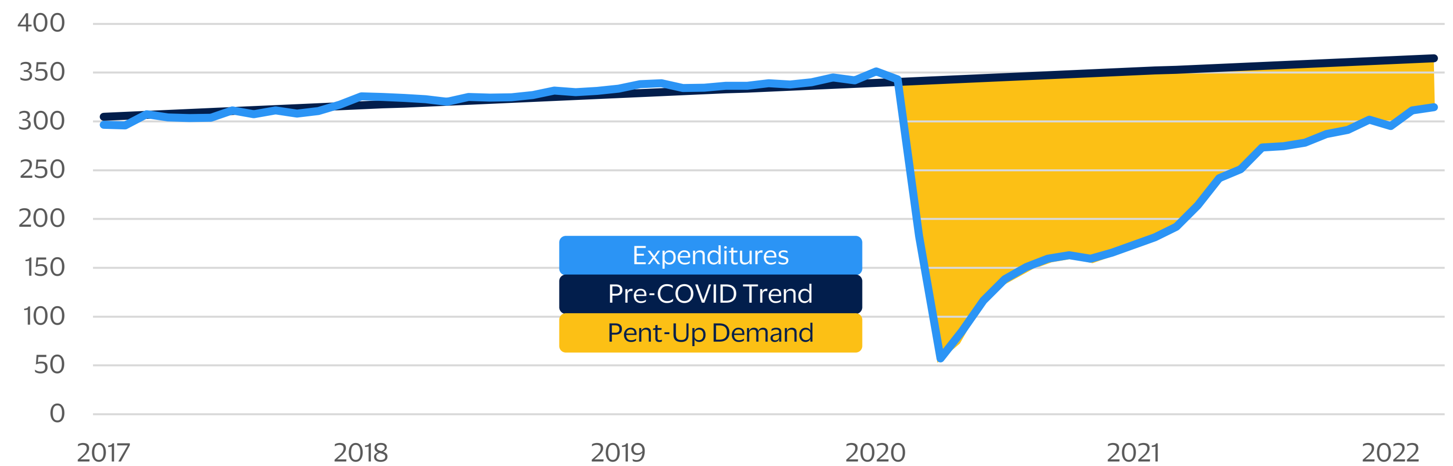
The U.S. economy has an estimated $300 billion in pent-up demand for travel, and during the pandemic the U.S. workforce left more than 30 percent of its vacation days unused.[1] Since we are firmly in the "year of getting on with life," there is strong momentum to recoup these missed opportunities. Based on recent trends, total consumer expenditures on domestic travel could reach a full recovery by mid-summer and enter an expansionary phase soon after.

Make no mistake, however, post-pandemic travel will look markedly different than the summer vacations of years past.

Key Points:

- Domestic travel may break records in the summer of 2022
- Consumers will likely remain resilient in the face of rising travel costs
- California has the most ground to make up

Fig. 1: Personal consumption expenditures on travel
($billions, SAAR)



Sources: Visa Business and Economic Insights and U.S. Department of Commerce

[1] Visa Business and Economic Insights and U.S. Travel Association

Due to high rates of inflation and the increasing cost of travel, some households may choose to stay closer to home, taking shorter trips than they did pre-COVID.[2] Others might travel to cheaper locations, hitting the beach instead of going to a major city. And evidence is mounting that some consumers will simply save less of their income if it means they can make up for missed opportunities.[3]

So how will tourism activity ultimately unfold in 2022? To understand where the industry is headed, we first need to explore where it has been.

During the initial coronavirus shock in 2020, when the public health crisis was in its most critical phase, travel volumes plummeted almost overnight as many individuals were reluctant to get on a plane and prohibited from hopping on a cruise. Total travel spending declined by 84 percent while U.S. consumers spent more on goods and dramatically increased the amount of savings in their bank accounts. Throughout 2020, the average worker took 5.8 fewer vacation days than before the pandemic, planting the first seeds of pend-up demand.[4]

Road trip revival

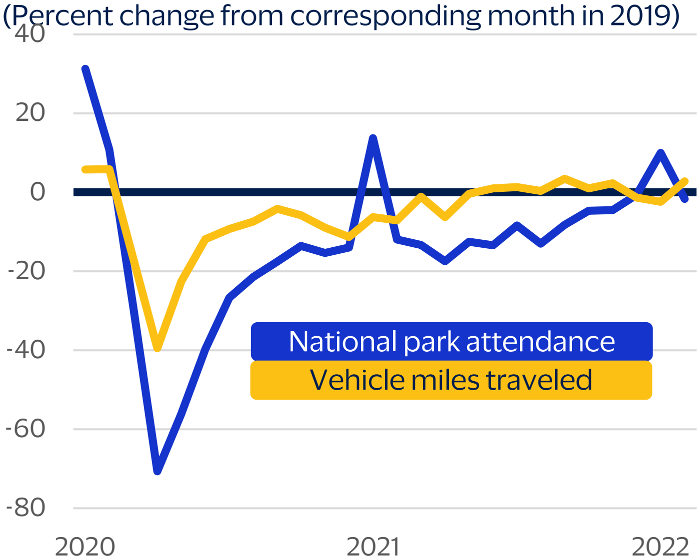
The travel bug is strong in our national psyche, and with limited options in the early days of the pandemic, households resurrected a time-tested tradition: the American road trip.

In no uncertain terms, 2020 was the year of the car. After an initial contraction in road usage, the number of vehicle miles on U.S. highways rebounded quickly, even though many of us stopped driving to work. Trips to national parks recovered at a similar rate, even though 1 in 8 parks were closed for part of the year. Google searches for “best road trips” and “best camping” surged to new highs, and there were countless reports of crowded conditions on hiking trails and waterways.

All told, the data are clear: Americans weathered the lockdowns by getting in their cars and enjoying the great outdoors.

Fig. 2: National park attendance and vehicle miles traveled

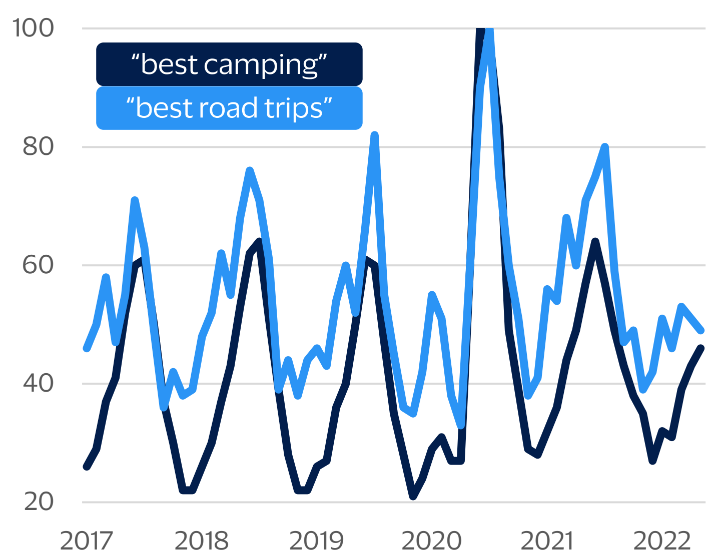
(Percent change from corresponding month in 2019)



Sources: Visa Business and Economic Insights, U.S. Department of Commerce, and U.S. Department of the Interior

Fig. 3: Google searches for travel-related terms

(Index, most active month = 100)



Sources: Visa Business and Economic Insights and Google

[2] Visa Business and Economic Insights and Bankrate
[3] Visa Business and Economic Insights and U.S. Department of Commerce
[4] Visa Business and Economic Insights and U.S. Travel Association

I'll fly... but only if it's too far to drive

Then came 2021, when lockdowns were lifted and vaccines were widely distributed.

Air travel began to recover, but the typical household still preferred road trips to nearby destinations.

Some of the big winners were towns like Santa Barbara, which is within driving distance of a major city and offers a variety of outdoor activities. By summer 2021, tourism activity exceeded pre-pandemic conditions in Santa Barbara and similar locations.

An air travel rebound progressed through the year, with passenger volumes slowly increasing. But flight activity had changed unexpectedly and unmistakably—the average flight got *longer*. Why? Because when traveling short distances, most consumers still chose to drive, with flights seen as an undesirable but tolerable necessity for longer trips.

Overall travel spending increased voraciously in 2021 but was still below normal. The typical U.S. worker took another 6.4 fewer vacation days than before the pandemic, and the pent-up demand continued to grow larger.[5]

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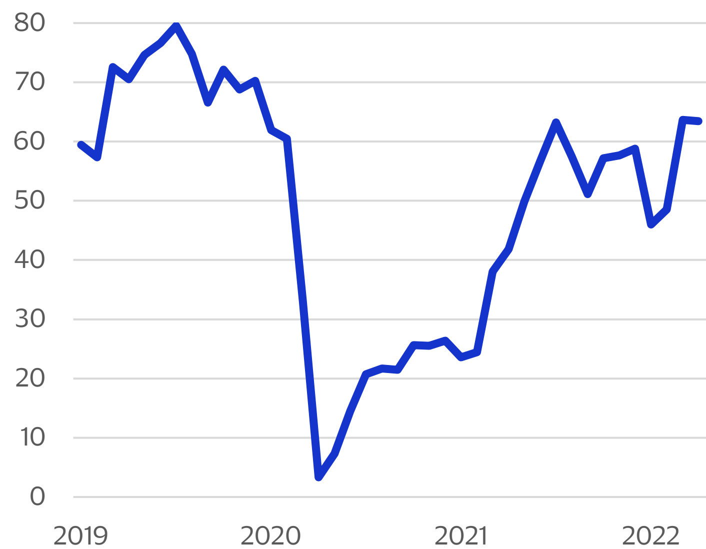
Fig. 4: Passengers at U.S. airports

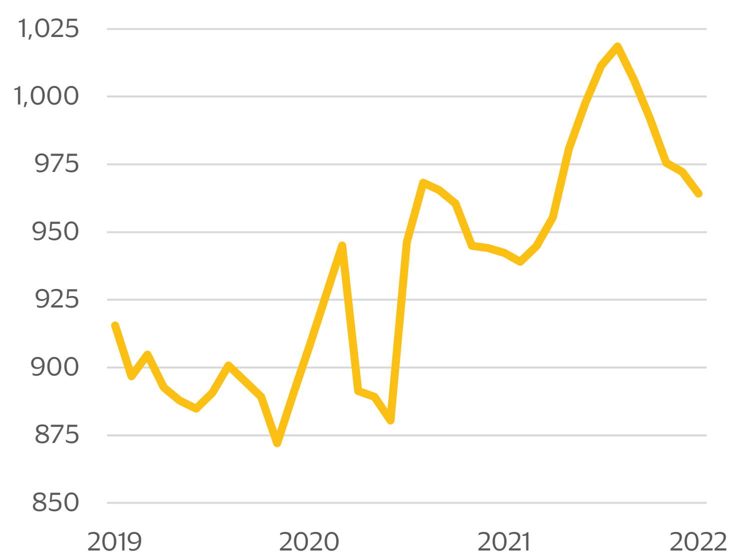
(Millions)



Sources: Visa Business and Economic Insights and U.S. Department of Homeland Security

Fig. 5: Average flight miles per airline passenger

(Three-month moving average)



Sources: Visa Business and Economic Insights, U.S. Department of Transportation, and U.S. Department of Homeland Security

[5] Visa Business and Economic Insights and U.S. Travel Association

Will inflation dent the travel expansion?

That brings us to 2022, which is full of opportunity.

Through April, total spending on domestic travel had returned to 91 percent of pre-pandemic levels, with several categories—like car rentals and museum admissions—advancing to new highs.[6]

Some additional categories could see huge upswings in the coming months, including amusement parks and ocean cruises, both of which have been severely depressed by government regulation and consumer hesitation.

The largest expenditure categories—airfare and hotel fees—have almost entirely returned to pre-pandemic levels and could easily set new records.

If current trends simply continue their recent trajectories, pre-pandemic travel spending will be eclipsed by June, leading to an expansionary phase by July, which is a huge milestone.

As long as consumers can manage the high rates of inflation and escalating travel costs that could impact their budgets, surpassing a full recovery and recouping the $300 billion in pent-up demand appears likely over the next few years.

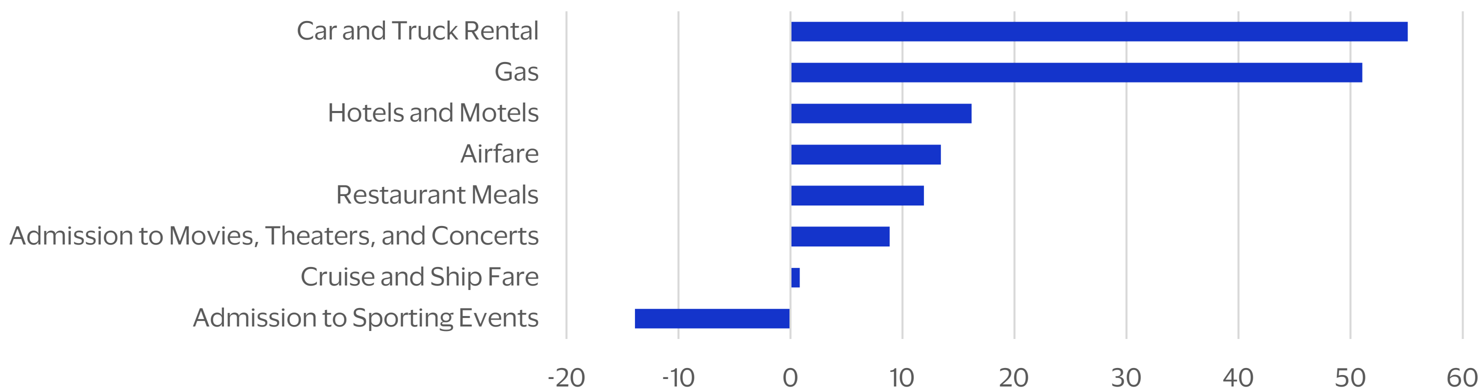
Since the start of the pandemic, travel costs have increased steeply, with some goods and services up by more than 50 percent.

At the same time, economy-wide inflation has begun to outpace wage gains, with non-discretionary expenses accounting for a growing share of average household income.

Under these circumstances, consumers will need to save less of their incomes in order to maintain their spending habits and take advantage of post-pandemic consumption opportunities. Early evidence suggests that consumers are likely to do just that, pushing through inflationary pressures to engage in some form of travel this summer, even if it means taking a shorter trip or going to a cheaper destination.

During most of the pandemic, consumers spent less on travel and other services, spent more on goods, and also built up their savings.[7] That trend is now reversing, with spending on services and experiences taking top priority.

Fig. 6: Consumer price inflation for travel-related goods and services
(percent change from January 2020 to April 2022, SA)



Sources: Visa Business and Economic Insights and U.S. Department of Labor

[6] Visa Business and Economic Insights analysis and U.S. Department of Commerce
[7] Visa Business and Economic Insights analysis and U.S. Department of Commerce

As of April 2022, the personal savings rate had fallen to just 4.4 percent, its lowest level since 2008.

Inflation has become a meaningful factor in the average monthly budget, but rather than tighten their belts, many individuals are deciding to save less and spend more. The travel industry could be a major beneficiary of this trend.

Travel spending is expected to be particularly strong among two groups: business travelers and affluent consumers.

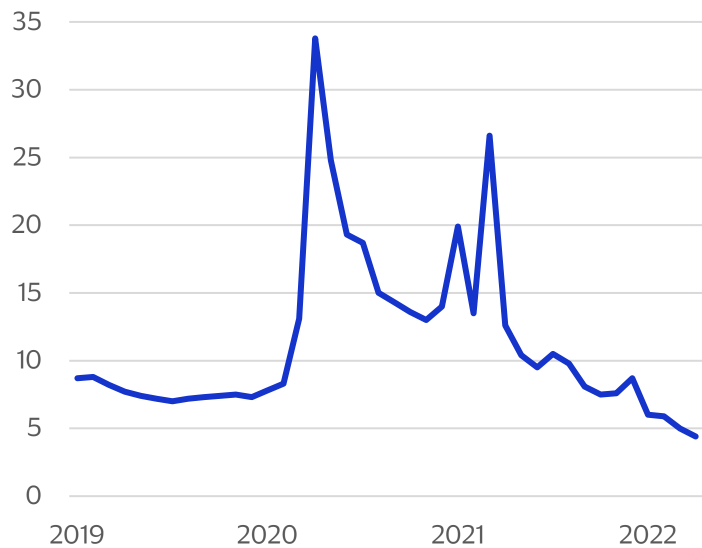
According to Visa's data on credit and debit card activity, the share of business cards with a travel transaction has almost completely recovered to its pre-pandemic rate.[8] In Las Vegas, one of the most prominent cities for business travel, attendance at corporate conventions is up by an astounding 2,034 percent from last year.[9] Surveys show that businesses are eager to get their teams out of video conferences and back on the road,[10] and high levels of corporate profits in 2021 should lead to generous travel budgets in 2022.

For affluent consumers, the travel recovery could be even more brisk. Across the board, affluent individuals are now carrying the momentum in consumer spending. They have larger budgets for travel and can more easily absorb rising costs. They express a greater desire for summer trips and can more easily find the time to get away.[11]

Affluent individuals account for only 27 percent of the population but conduct 47 percent of overall consumer spending. They are largely baby boomers and Gen Xers, but millennials are becoming affluent at rapid rates. And affluent households have an astounding amount of savings in the bank, allowing them to easily fund their upcoming travel experiences. During 2022, affluent individuals expect to increase their spending very quickly on travel-centric categories like transportation, recreation, and dining.[12]

Fig. 7: Personal savings rate

(Savings as a percent of disposable personal income)



Sources: Visa Business and Economic Insights and U.S. Department of Commerce

The U.S. travel industry is expected to reach a full recovery when it returns to pre-pandemic levels of activity—approximately $350 billion in annual travel expenditures.

Beyond that, a period of above-trend growth will be needed to recoup the $300 billion in pent-up demand accrued during the pandemic. It will take at least 18 months of above-trend activity for affluent consumers to recoup their share of the pent-up demand. Under this scenario, the tourism industry would be partially restored by early 2024.

For middle- and lower-income households, a full restoration of travel spending will likely take a little longer. Middle- and lower-income travelers are expected to hit their stride next year, when inflation will likely subside and household budgets might be more forgiving. By then, all types of consumers would be contributing to above-trend growth, although it could take until sometime in 2025 or later for spending to catch up to the full $300 billion in pent-up demand.

[8] Visa Business and Economic Insights and VisaNet
[9] Visa Business and Economic Insights and Las Vegas Convention and Visitors Authority
[10] Visa Business and Economic Insights and U.S. Travel Association
[11] Prosper Analytics consumer survey on behalf of Visa Business and Economic Insights, April 2022
[12] Visa Business and Economic Insights and Federal Reserve Bank of New York

Where will travel opportunities rebound the fastest?

During the upcoming travel season, the states with the highest potential upside are also some of the largest.

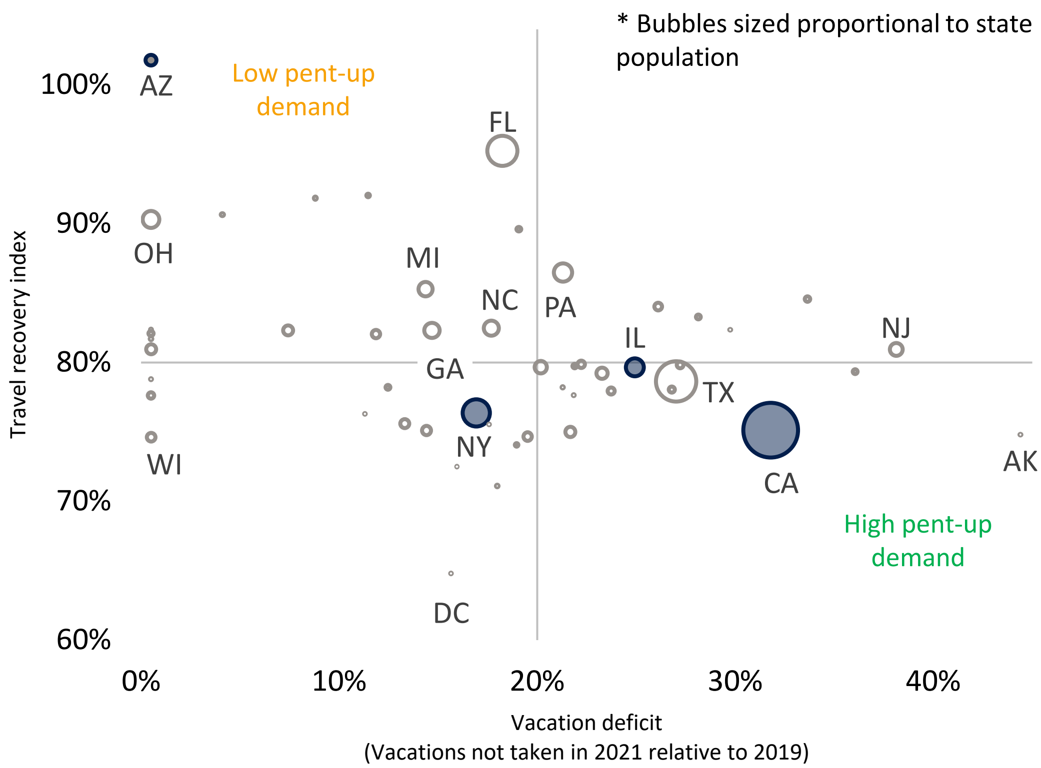
In particular, California has a huge amount of pent-up demand, with residents still taking 32 percent fewer vacations than in 2019 and local tourism businesses still only 75 percent recovered.[13] The state's tourism industry is approximately $50 billion below pre-covid revenues, so a meaningful California recovery could account for a large portion of any upcoming travel surge.[14]

And a rapid California rebound appears increasingly likely. In the first quarter of 2022, approximately 13.2 million passengers traveled through Los Angeles International Airport—more than double the figure during the previous year.[15] San Francisco International Airport has served 7.5 million passengers so far in 2022, which is almost triple the number in 2021.[16]

The state with the lowest potential upside is Arizona, largely because it has already done very well. There, the travel recovery index is above 100 percent and the vacation deficit is down to 1 percent.[17] By these metrics, Arizona was an early leader in the nationwide travel rebound and has very little ground to make up.

And then there are states like New York and Illinois, which have prominent cities that typically attract a lot of visitors. Both are near the middle of the pack in travel recovery and vacation deficits, leaving these states with an even balance of risk and opportunity. What type of activity can they expect in 2022? That may just depend on our collective appetite to leave the house and explore.

Fig. 8: Vacation deficit and travel recovery index by state
(3 months ending in March 2022)



Sources: Visa Business and Economic Insights, U.S. Department of Labor, and VisaNet

[13] Visa Business and Economic Insights, U.S. Department of Labor, and VisaNet
[14] Visa Business and Economic Insights and California Travel Forecast from Tourism Economics provided by Visit California
[15] Visa Business and Economic Insights and Los Angeles International Airport
[16] Visa Business and Economic Insights and San Francisco International Airport
[17] Visa Business and Economic Insights, U.S. Department of Labor, and VisaNet

Accessibility Notes

Figure 1: Line graph showing domestic travel expenditures starting at $296.5 billion in January 2017, reaching $343.1 billion in Feb-2020, then plummeting to a low of $57 billion in April 2020 (relative to the travel trendline of $342.4 bil.) but nearly recovering to $319.5 billion by April 2022 relative to the trend at $365.6 bil. The pent-up demand for travel was at 57 bil. in Apr-2020, but has been on an upward trend since then to reach an estimated $319.5 billion in Apr-2022.

Figure 2: Line graph showing national park attendance increased 31.3 percent in February 2020 relative to February 2019, then dropped 70.7 percent in Apr-2020 vs. Apr-2019 and remained mostly negative after that except in Jan-21 (up 13.7%) and Jan-22 (up 10%). As of Apr-2022, national park attendance was down 14.3 percent vs Apr-2019. Another line shows the number of vehicle miles traveled in Apr-2020 declined 39.5 percent relative to April 2019, rebounding by Sep-2021 (+3.4%), and showing positive gains again in Feb-2022 at +2.8%.

Figure 3: Line graph indexed to 100 in June 2020 when the search term “best camping” was most active on Google, with the line starting at 26 in Jan-2017, dropping to 64 in Jun-2021 and finishing at 46 in May-2022. Another line is indexed to 100 in Jul-2020 when the search term “best road trips” was most active, with the line starting at 46 in Jan-2017, dropping to 80 in Jul-2021 and ending at 49 in May-2022.
Figure 4: Line graph showing passenger numbers increasing from 59.4 million in January 2019 to reach a high of 79.5 million in Jul-2019, plunging to a low of 3.3 million in Apr-2020. Passenger numbers rebounded to 63.2 million in Jul-2021 and were at 63.4 million as of April 2022.

Figure 5: Line graph displaying flight miles per airline passenger as a three-month moving average, starting at an average of 915 miles in Jan-2019, dropping to a low of 872 in Nov-2019, then hitting a high of 1,018 in Aug-2021. The average decreased to 964 as of January 2022.

Figure 6: Bar chart showing the percent changes in consumer prices for travel-related goods and services from January 2020 to April 2022. Car and truck rentals experienced the highest inflation rate at 55 percent; followed by gasoline at 51 percent; hotels and motels at 16.1 percent; airfare at 13.4 percent; restaurant meals at 11.9 percent; admission to movies, theaters and concerts at 8.8 percent; and cruise and ship fare at 0.8 percent. Admission to sporting events had a negative inflation rate of 13.9 percent.

Figure 7: Line graph depicting savings as a percentage of disposable personal income at 8.7 percent in Jan-2019, climbing to a high of 33.8 percent in April 2020 and falling to a low of 4.4 percent in January 2022.

Figure 8: Bubble chart illustrating vacation deficits relative to the travel recovery index by state for the three months ending March 2022. California has the highest amount of pent-up demand, with residents taking 32 percent fewer vacations than in 2019 and local tourism businesses 75 percent recovered. Other states with high pent-up demand include Iowa, Arkansas, Texas, Oklahoma and Alaska, which had a 44 percent vacation deficit, the highest of all the states. Arizona has the least amount of pent-up demand, with a 1 percent vacation deficit and a 102 percent travel recovery index. Other larger-population states with low pent-up demand include Ohio, Florida, Michigan and Georgia. Illinois and New York are in the middle of the pack, with a 25 percent vacation deficit and 80 percent travel recovery score for Illinois, and a 17 percent vacation deficit and 76 percent travel recovery score for New York.

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