



**Written Testimony of
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Before the U.S. House Committee on Natural Resources
AAA**

***Written Testimony on “Harnessing American Resources to Create Jobs and
Address Rising Gasoline Prices:
Family Vacations and U.S. Tourism Industry”***

March 27, 2012

Thank you for the opportunity to testify at today’s hearing. My name is Mark Brown. As the executive vice president for AAA’s Association and Club services, I oversee AAA’s National office travel, automotive and strategic planning operations.

AAA is a not-for-profit, fully taxpaying federation of motor clubs in the U.S. and Canada. AAA provides more than 53 million members with travel, insurance, financial and automotive-related services. Since its founding in 1902, AAA has been a leader and advocate for the safety, security and mobility of all travelers.

AAA is well known for our Fuel Gauge reports, which provide national, state and local fuel price information updated daily, and weekly commentary on factors affecting fuel prices worldwide.

With 47 affiliated clubs in the US and Canada, and more than 1000 branch offices, AAA is one of the largest travel organizations in North America.

Once again, America’s motorists are caught in a squeeze and very confused as they try to understand what is happening at the gas pump. We view our role as arming consumers with factual information and unbiased perspective, without assigning blame or unnecessarily adding panic to the situation.

Since the beginning of 2012, the national average price of self-serve regular unleaded gasoline has jumped from \$3.28 per gallon to \$3.89 per gallon, an increase of 61 cents per gallon. At this price, the average household using 1,200 gallons of gasoline per year spends about \$4,668 annually, or about \$389 per month. *[these numbers are to be updated day of hearing with the daily average]* A historical representation of gas prices from 2008-2012 is attached.

Fresh in many motorists’ minds is the run-up in prices in the spring of 2011, which began in February and peaked on May 5 with the national average at \$3.98 per gallon. To begin 2011, this average was \$3.07; by March 27 this

price had increased by 50 cents to \$3.57. While the price this year is up 61 cents during this same period, it's worth noting that this year's run-up began earlier than last.

In terms of consumer response to high gas prices and impact on the travel industry, I'll share some perspective based on findings from a recent AAA survey of the public, and what we're hearing from AAA travel counselors.

During periods of fluctuating gas prices, AAA has conducted surveys to better understand how motorists are changing their driving habits/lifestyle as a result of increasing prices.

Our March 2012 survey found that 84 percent of respondents have already changed their driving habits or lifestyle in some way as a result of increased gas prices. Combining trips and errands was the most commonly reported cost-cutting tactic, with 60 percent of respondents reporting having already made this adjustment.

And 33 percent of the respondents said they planned to scale down their travel plans for spring break.

These results are consistent with data we've seen from previous surveys we conducted in 2008 and 2010 when we saw similar increases in gas prices. When prices climbed into the \$3.80 and up price-point, consumers started to modify their behavior. Our surveys showed that people combined shopping trips and errands, they tended to dine out less and delayed major purchases.

As I mentioned earlier, AAA has more than 1000 branch offices across the country and over 7,000 travel counselors who assist AAA members in making travel plans.

At this point what we are hearing from our travel agents is encouraging. A short poll of some of these agents suggests that members are not cancelling their vacation driving plans at this time BUT may scale back the distances and the number of destinations, staying within a surrounding state radius. Many of these travelers are "weekend warriors" who typically travel by vehicle over holiday weekends or take frequent short trips as opposed to longer more extensive vacations.

Some of our agents are reporting that consumers interested in purchasing only individual airline tickets are watching fares closely and waiting to book flights anticipating that fares may come down. Many of these travelers are visiting family or wish to enjoy destinations that are too far away to conveniently reach by automobile.

Conversely, of the top ten vacation packages booked at AAA for travel this summer, eight out of ten are destinations accessible from the United States by air (such as Hawaii) and the other two are accessible by road and air (such as Orlando and Anaheim). Seven out of the top ten are international destinations. Some of our agents report that this group of vacation loyalists has accepted rising costs as "the new norm" and those who can do so are still traveling.

Finally, as you may know, 5 times each year, AAA issues our Travel Forecast – estimating expected travel over each of the busiest travel holidays (Memorial Day, July 4, Labor Day, Thanksgiving, Year-End.) AAA works with IHS Global Insight to assess macroeconomic factors that may impact travel decisions, such as employment, output, household net worth, asset prices including stock indices, interest rates, housing market indicators, and variables related to travel and tourism, including the price of gasoline, airline travel, and hotel stays.

The forecast provides the most comprehensive and detailed understanding of holiday travel at both the national and regional levels. In addition, the regional travel sections in this report incorporate information about the state of the local tourism industries throughout the United States.

We're still in the process of evaluating 2012 data for Memorial Day travel. We expect to release those findings the week of May 14.

Looking back, intending travelers were asked about the impact of rising fuel prices on their travel plans prior to the Memorial Day, Independence Day and Labor Day holidays during 2011.

Prior to Memorial Day 2011, gas prices were \$0.84 higher than the previous year, a 33% increase; and 42% of those who were going to travel felt that rising fuel prices would impact their plans, with 30% of the respondents saying they would economize in other areas. This economizing was on top of an expectation of a 14% drop in spending during their trip. So travelers were already planning to spend less, and were forced to shift more of that shrunken budget towards fuel costs and away from aspects such as food, shopping or entertainment.

Prior to Independence Day 2011, gas prices were 37% higher than the year before, and 44% of those planning to travel said their plans would be impacted, with 31% planning to economize in other areas

Prior to Labor Day 2011, gas prices were 35% higher than the previous year, but just 29% of travelers felt it would impact their plans. At this point, the feeling was that travelers had been dealing with high gas prices for six months and had adjusted their budgeting accordingly; therefore, of those planning to travel, gas prices were less of an issue.

In 2010, gas prices fell significantly just prior to the Memorial Day holiday – falling \$0.20 from the first of May to Memorial Day – and consumer sentiment improved as well. The result was that the final travel volume for the holiday surpassed expectations as consumers had more money in their pockets and also felt empowered to splurge a bit as the savings rate took a brief dip during the month as well.

The impact of rising fuel prices on consumer spending is significant. IHS Global Insight studies have shown that an increase of \$0.24/gallon (\$10/barrel of oil) over the course of a year will result in lowering real disposable income by 0.26 percent. This impact on disposable income will have an impact on consumer expectations and sentiment and can translate into a decreased willingness to travel.

Gasoline currently makes up about 3.7% of consumer spending, and every additional \$0.24/gallon increase in prices results in roughly an additional \$30 billion in consumer spending shifted to gasoline, assuming no change in volume purchased.

According to IHS Global Insight, consumer expectations remain fairly upbeat, but that may change over the next 2 months as the impact of higher gas prices settles in. The most recent Consumer Sentiment survey shows a slight decrease in consumer expectations from the past 2 months, but the results are still an improvement compared to last year. The story is similar from the personal finances component of the Consumer Comfort survey, with the results better than a year ago, but trending downward recently.

We know that consumers are feeling the pinch. As reflected in the recently reported February 6.7% decrease in gasoline demand in the US, people are making more thoughtful driving decisions to minimize the “pain at the pump.” Many are combining errands, reducing the number of shopping trips and scaling back on their discretionary spending. Many are driving more fuel-efficient or alternative powered vehicles (electrics/hybrids). With the start of summer travel still a few months away, it is too early to tell if current prices will negatively impact the summer travel season. As I mentioned earlier, our summer travel forecast will be released in mid May, which will provide us with a more accurate snapshot of what to expect.

Sadly, the reality is that no single solution will lead to a decrease in U.S. gasoline consumption or achieve U.S. energy independence. There simply is no “silver bullet.” It is going to take a portfolio of policies to reduce dependence on foreign oil and provide alternatives.

Unlike others that frequently comment on gasoline pricing, AAA has no involvement in the regulation, refining, shipping, blending or sale of gasoline. We are here to provide a consumer voice and to try to help policymakers find a solution that will result in more stable, predictable prices. We also work to help motorists understand what is going on in the fuel markets, and in times of crises, to help them understand how their decisions can impact what happens in the market. Last, we support a balanced approach to improving our efficient consumption of fuels for all purposes (energy, transportation fuel, other). And, we seek solutions that will allow American consumers and businesses to continue to enjoy the basic freedom of mobility that we have all come to expect.

AAA remains committed to providing our members and the traveling public with accurate prices and consumer fuel conservation tips. Our “Gas Watchers Guide” stresses that *how* you use your car is just as important as *which* vehicle you use. Informed consumers are a necessary element in any strategy to reduce some of the demand side of this complex equation.\

Thank you for the opportunity to testify this morning. I look forward to answering any questions.

Historical Representation of Gas Prices

