



EUROPEAN TOURISM IN 2009: TRENDS & PROSPECTS

Quarterly Report (Q1/2009)

A quarterly insights report produced for the Market Intelligence Group
of the **European Travel Commission (ETC)**
by **The Travel Business Partnership**

Brussels, April 2009
ETC Market Intelligence Report

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European Tourism in 2009: Trends & Prospects (Q1/2009)

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Foreword

A need for more frequent monitoring of trends

It is now clear that the financial-sector blizzard that struck in the second half of 2008 is affecting the global economy. Every single OECD member country, and every single economy in Europe, is expected to suffer a contraction in GDP in 2009. Not many emerging markets, so many of which were booming in 2007-08, will be able to sustain any significant growth in 2009, either. And the downturn is expected to be more severe than any in recent memory.

Given the inevitable impact of the economic and financial crisis on business and consumer confidence, as well as on demand for travel and tourism, the European Travel Commission's (ETC's) Market Intelligence Group (MIG) decided that it was important to monitor trends affecting tourism demand on a more frequent basis. So we are pleased to present the first in a series of new quarterly reports, *European Tourism in 2009: Trends & Prospects*, which forms part of our regular reports monitoring developments in Europe's travel and tourism.

This new publication is a prime example of ETC's objective of consolidating its role as the authoritative voice of European tourism. ETC's MIG network brings together a distinguished team of tourism research professionals drawn from the association's membership – 39 national tourism organisations in Europe. The main value of the report is that it focuses very specifically on the European tourism dimension, as against other publications of a similar nature, which tend to dilute the European tourism perspective in favour of a wider global context.

The ability to produce a report such as this is also due to the involvement of the MIG's members with other events, partner associations and organisations, such as IPK International and its annual World Travel Monitor Forum in Pisa, the World Tourism Organization (UNWTO), European Cities Marketing (ECM), the European Travel & Tourism Action Group (ETAG), the European Tour Operators Association (ETOA) and the JTB Foundation. New among the MIG's partners this year is Tourism Economics, an Oxford Economics company, to whom we are indebted for much of the economic analysis and many of the tourism forecasts contained in this report.

Just as importantly, the data capture and display platform created specifically for ETC in the form of the TourMIS database continues to prove invaluable for the regular and timely provision of the data necessary for such a report.

Hoping that 2009 will prove better than predicted, we wish you happy reading.



Rob Franklin
Executive Director
European Travel Commission



Leslie Vella
Chairman
ETC Market Intelligence Group

Executive Summary

The decline in demand for travel and tourism is intensifying ...

As we enter the second quarter of 2009, the first signs are becoming visible that the global economy's rate of decline may be slowing. Yet significant headwinds to global growth remain.

Travel demand is elastic – that is, it tends to exceed the growth of the overall economy in good times, and to contract more severely when the economy falters. This is clearly evident in the pace of travel declines over the past few months.

Air passenger demand continues to fall. In the last three weeks of March, demand was 10% lower than a year earlier. And indicators from the European hotel sector confirm this story, as occupancy rates were 10% lower in January and February compared with the same months last year.

So far, only eleven countries in Europe have reported figures for arrivals or nights in the first two months of the year. But of these, only one (Austria) reports an increase. The others all report declines – often in double digits.

... implying a slow turnaround ...

Leisure travel will be constrained by job losses and weak consumer confidence, compounding the huge losses in wealth over the past year. But the majority of Europeans still have their jobs and some are benefiting from low interest rates reducing their monthly mortgage payments. Most households will still travel but their trips will be marked by a shorter length of stay, shorter distances and bargain hunting. Domestic tourism may benefit at the expense of international trips.

Business travel will continue to be the hardest-hit sector. Corporate profits will remain weak into 2010, but in addition to the need to cut costs, corporations are increasingly sensitive to public criticism of companies that have been bailed out, yet continue to send their staff on what are often seen as 'junkets'. So incentive travel is well down, as is demand for conferences and meetings of all kinds. The pressures on business travel are expected to have a growing impact on airlines' and hotels' premium rate business.

... although there are grounds for hoping for some stabilisation in the third quarter

However, low fuel prices, industry price discounts and strong government responses give reason for hope that by the third quarter, we may see business travel demand begin to stabilise. In addition, consumer confidence has time to rebound before the peak leisure travel season.

Tourism Economics currently predicts that visits to/arrivals in European destinations will decline by 3.8% this year. The recovery will be modest, it believes, with an increase of just 1.7% forecast for 2010. This implies a two-year recovery period to get back to 2008 levels.

Economic Trends and Implications

First signs of light at the end of the tunnel?

As we enter the second quarter of 2009, we are seeing the first signs that the precipitous decline in global output may be slowing. Worldwide, commodity prices have eased upwards. In the USA, there have been slight improvements in the housing markets and construction activity, and consumer spending is likely to have grown a little in the first quarter. In Asia, Japanese industrial output continued to fall steeply in February, but manufacturers' forecasts suggest that small rises are likely in March and April. This encourages hopes that the need for massive destocking, which led to the collapse in global trade and industrial production, is coming to an end. In Europe, too, there are some signs of stabilisation, especially in the UK.

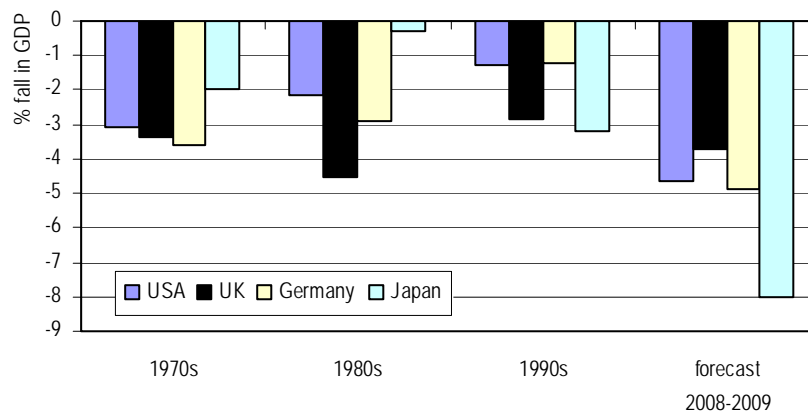
Perhaps – but it is a long tunnel

In general, however, output is still falling and any stabilisation of economic indices and confidence is taking place at what remain very weak levels. Although industrial production and trade may stabilise, capacity utilisation is very low and the recession is now led by investments, with capital spending dropping very fast. Nor has the threat of a slide into deflation subsided: headline inflation has fallen to zero in the USA and Japan and less than 1% in the eurozone.

As a result, Oxford Economics' growth forecasts for 2009 remain weak: -3.6% for the USA, -3.2% for the UK and the eurozone, and -5.4% for Japan. For most countries the recession will be the worst since WWII.

The outlook for 2010 has also dimmed. The major outcome of the G20 summit was the greatly increased resources for the IMF, which should help to stave off financial meltdowns among the weaker emerging market countries (in Central & Eastern Europe, for instance). But the pressures of recession are still intensifying and becoming more generalised throughout the world. Corporate retrenchment continues apace. Oxford Economics now expects GDP growth of just 1.5% in 2010 in the USA and 0.4% in the UK and the eurozone.

A comparison of world recessions (peak-to-trough % fall in GDP)



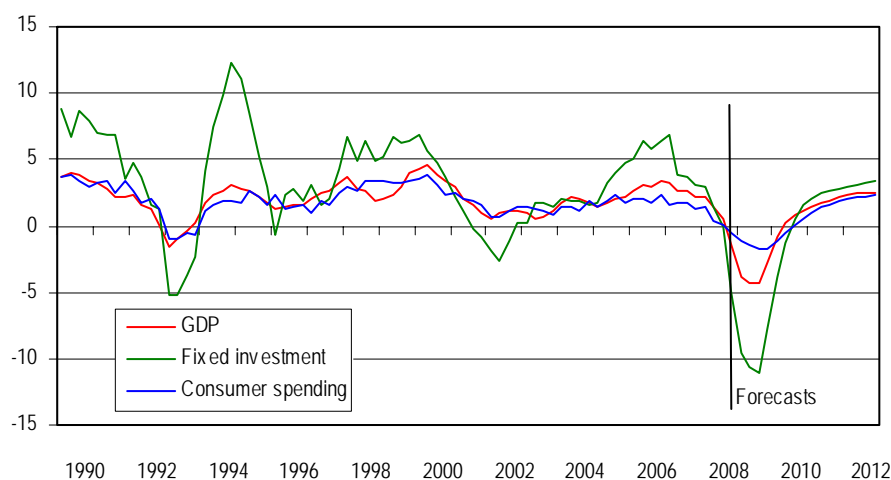
Sources: Oxford Economics; Haver Analytics

The pressure on consumers is intensifying

There is little doubt that in most European markets the pressure on consumers has barely begun. Unemployment is rising fast – in the eurozone it reached 8.3% in February and is expected to exceed 10% in 2010 – and the incomes of many of those in employment are likely to suffer in 2010-11. Although interest rates have been reduced to rock bottom, the shocking effects of the collapse of savings institutions and pension expectations, and of the decline in housing and equity asset prices, will make consumers very wary of borrowing more. Taxation is also likely to rise.

Much attention has been focused on government measures to stabilise financial systems, infuse liquidity into the system, and reduce the cost of credit (on 2 April, the European Central Bank cut its policy rate to 1.25%, and the Bank of England had cut its rate to 0.5% in March). But it is unlikely that, even if successful, these packages will provide a major boost to domestic demand before the end of the year.

Economic growth, fixed investment and consumer spending in the eurozone^a, 1990-2012
(% change over previous year)



^a 11 countries

Source: Oxford Economics

Despite these measures, credit growth to the private sector is decelerating, especially loans to businesses and for home purchase. In February the three-month annualised growth rate of loans to non-financial corporations in the eurozone dropped to just 1.8%. Household lending actually contracted 2.5% on a three-month annualised basis, with lending for house purchase especially weak. Retail sales in the eurozone fell more sharply than expected, by 4.0%, in February (compared with February 2008).

The worst for tourism is probably still to come

The outlook for tourism is therefore sombre. The best that can be hoped for is that, in the end, with a relatively rapid recovery in the corporate sector, the consumer experience will be moderately severe rather than catastrophic. But it seems certain to be prolonged. Oxford Economics does not expect consumer spending to turn up until the third quarter of 2009.

On the positive side, most people are still in employment, and most have not yet seen a decline in their disposable incomes. Indeed, with low interest rates, in countries such as the UK and Ireland, where variable interest rates predominate in the mortgage markets, many have seen their disposable incomes rise sharply. There is still time for consumer confidence to improve before it comes to booking summer holidays.

However, there is always the temptation to look for the 'green shoots' of recovery and, in the aftermath of President Obama's visit to Europe and the G20 Conference, it is possible to find some (as outlined above). But past recessions were littered with false dawns, warning us to be cautious.

Trends in Tourism to/within Europe

Overall performance in 2008

The world's weakest region in terms of growth

Preliminary statistics from the World Tourism Organization (UNWTO) point to a flat year for European tourism in 2008. Of all the world's regions, Europe achieved the weakest growth in terms of international tourist arrivals last year, currently estimated at 0%.

This average reflects a steady deterioration over the course of the year. Arrivals were still growing rapidly in the first quarter, by 6% – a figure that was flattered by an early Easter. The second quarter saw an increase of just over 1% (depressed by Easter) and the third a decline of 2%. For the fourth quarter, preliminary figures suggest a decline of nearly 4%.

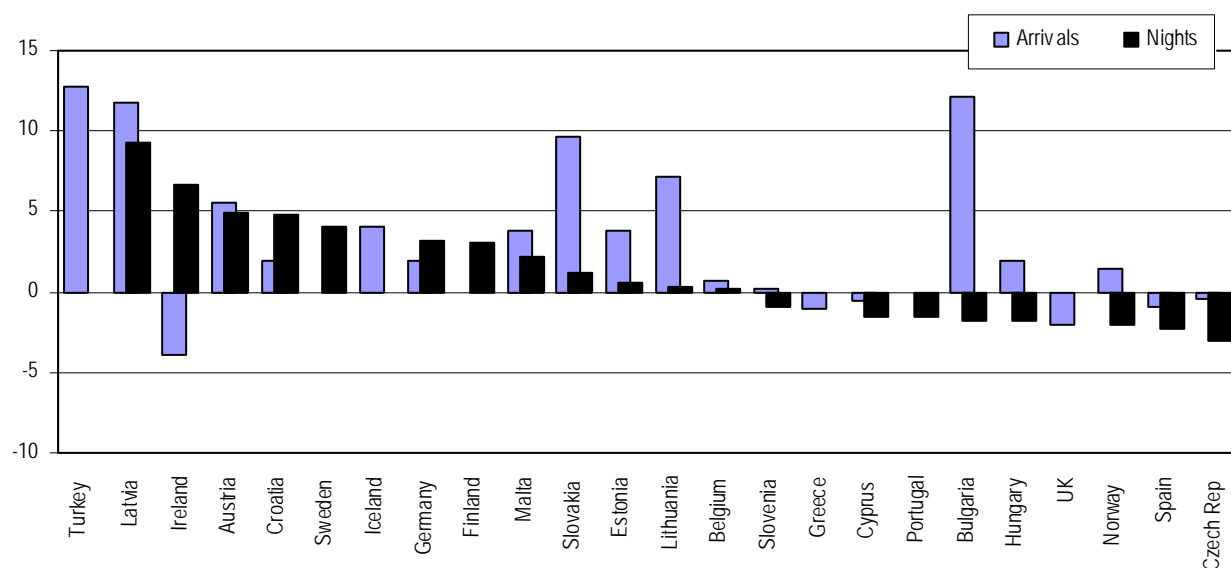
The overall stagnation in arrivals growth was primarily due to the negative performances of Northern (-2%, according to preliminary results) and Western Europe (-1%) – based on UNWTO's own, rather contentious geographical definitions. Arrivals in Southern & Mediterranean Europe were flat. Central & Eastern Europe (which also includes Central Asia) achieved a growth of 2-3%.

Growth in overnight volume was generally weaker than in arrivals

European countries generally gather data on overnights in addition to, or instead of, arrivals. The following graph shows the growth in both measures from international markets in 2008 – as filed by ETC member NTOs on TourMIS. (TourMIS is an information and marketing system operated as a joint venture between the Austrian National Tourist Office (ANTO) and the Austrian Society for Applied Research in Tourism (ASNART) and supported financially by ANTO and ETC. The data is available free of charge at www.tourmis.info.)

Unfortunately, data for at least nine months of the year is still not available from many important destinations, including France and Spain (the two leaders), Italy, Switzerland and Greece.

International arrivals and nights in European destinations, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 9, 10 or 11 months of the year

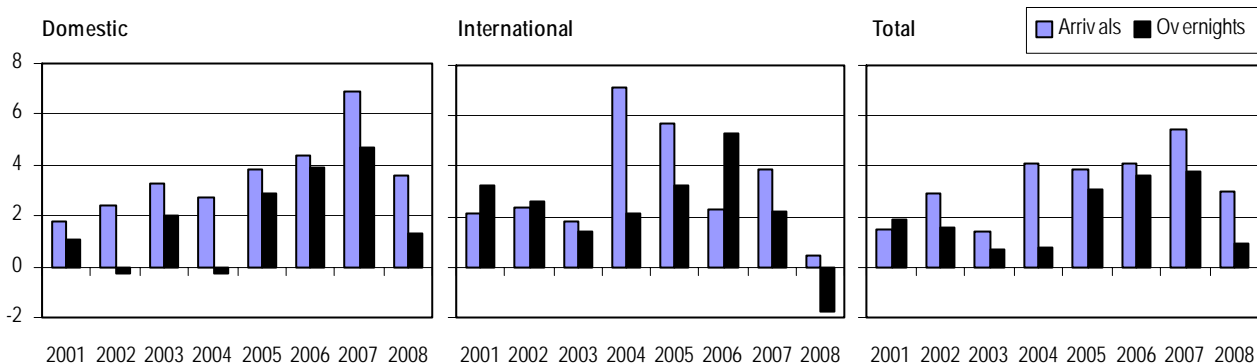
Source: National tourism organisations (NTOs), as posted on the TourMIS database by 6 April 2009

Domestic tourism outperforms international markets

Although caution must be taken in interpreting trends from the following graphs, since the results shown do not take account of the gaps in coverage for certain years (particularly 2008), they are interesting in that they show the general trends in arrivals and overnights over a long period – from 2001 to 2008.

As already indicated, the growth in nights tends to be weaker than that in arrivals, but it is also interesting to note that domestic tourism appears to have done better than international tourism in recent years.

Tourist arrivals and overnights in Europe, 2001-08
(% annual change)



Source: TourMIS

Preliminary trends for 2009

So far, only Austria has reported positive figures for the first months

Only a few countries have reported figures for international arrivals in 2009, and these mainly cover just January and February. Although not necessarily reflective of trends to every destination in Europe, the negative performance reported by most countries filing results does underline the general trend this year so far.

After an excellent start to the year, especially from the German winter sports' market, Austria's average growth fell to just 2% in terms of arrivals (-1.8% in overnights), but it remains one of just a small handful of countries reporting positive growth – and the only one among those filing results on TourMIS so far this year. The results available generally highlight the fact that arrivals are outperforming overnights as tourists cut back on average length of stay.

International arrivals and nights in European destinations, Jan-Feb 2009 (% change on same period in 2008)

Destinations	Arrivals	Nights	No. of months
Austria	2.0	-1.8	2
Cyprus	na	-15.2	3
Denmark	na	-19.2	2
Estonia	-2.6	-6.0	2
Finland	na	-8.9	2
Hungary	-12.0	-10.8	2
Ireland	-4.3	na	2
Malta	-15.1	-1.0	2
Romania	-18.2	-23.8	2
Serbia	-9.0	-13.0	2
Sweden	na	-11.7	2

Source: NTOs, as reported by 23 April 2009 – either on TourMIS or directly

The general trends in arrivals and overnight growth can best be seen in, and explained by, the performance of individual travel and tourism sectors – notably air transport and accommodation.

Air Transport

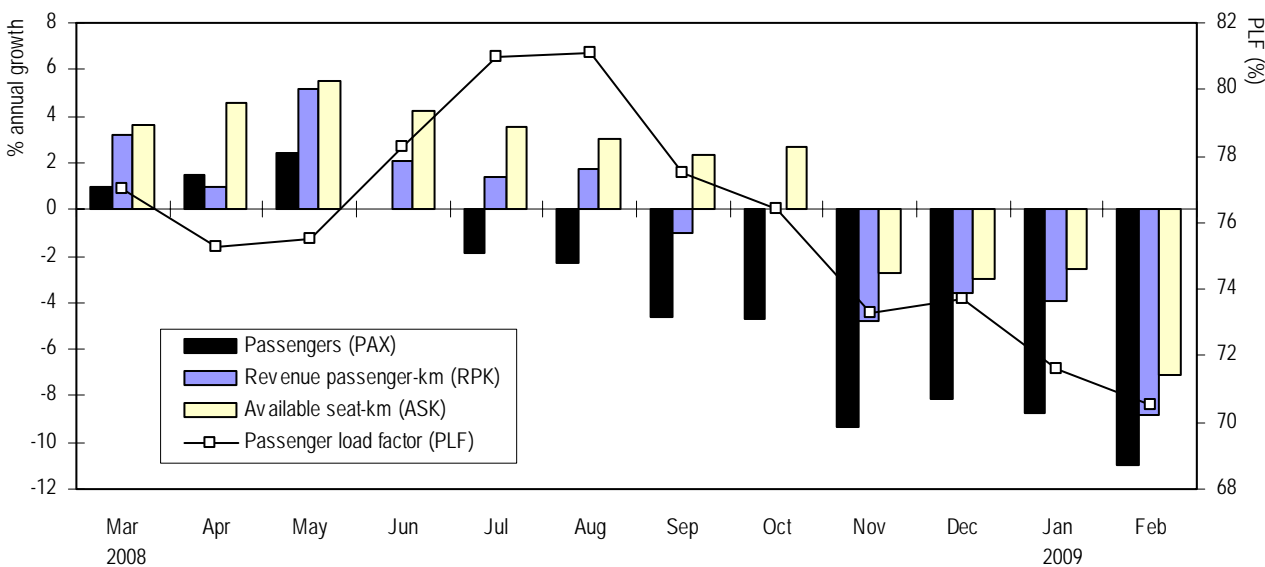
Four years of healthy growth comes to an end

At the beginning of 2008, airline passenger numbers were growing strongly throughout the world. By the end of the year, they were shrinking. The International Air Transport Association (IATA) reports that revenue passenger kilometres (RPK) flown by its members worldwide shrank by 4.6% in December 2008, 5.6% in January 2009, and 10.1% in February.

European airlines have shared in this downturn, with figures rather better than those for Asia Pacific, Africa and (recently) North America, but worse than those for Latin America and the Middle East. But this is no great comfort. Passenger numbers started to fall as early as July and RPK went into negative growth in September, and both have been in decline every month since then.

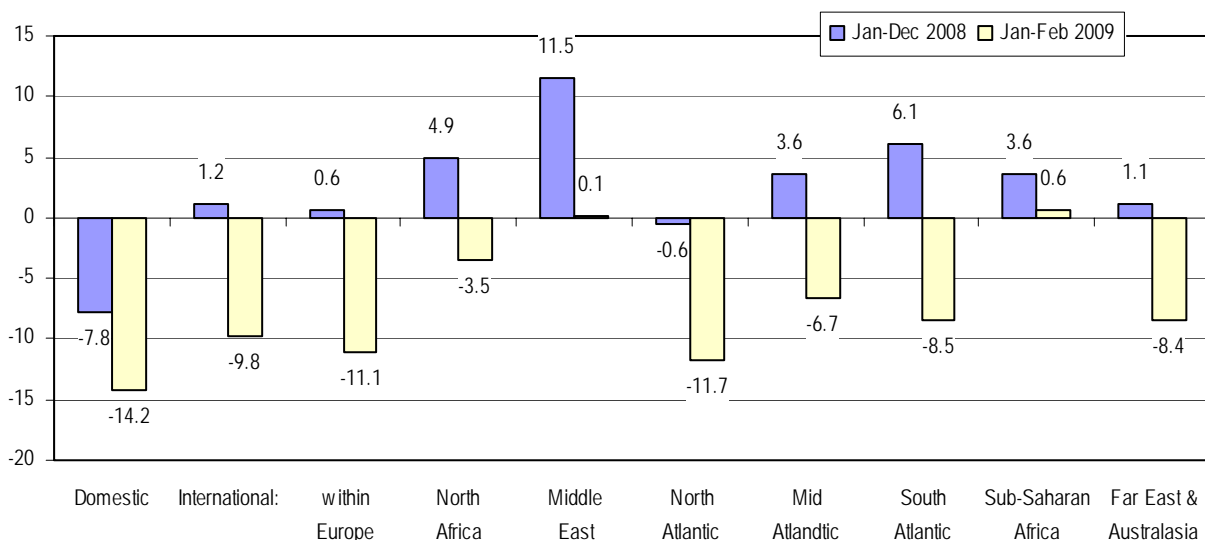
The Association of European Airlines (AEA) reports declines in RPK flown by its members of 3.5% in December, 3.9% in January and 8.8% in February. And because domestic and short-haul traffic from Europe has been particularly badly affected, passenger numbers declined even more strongly, by 8.0%, 8.6% and 11.0%, in those three months.

Monthly trends in European airlines' passenger operations, March 2008 - February 2009
(% change on same month in previous year)



Source: Association of European Airlines (AEA)

Trends in European airlines' passenger operations by region, 2008 and Jan-Feb 2009
(% change on same month in previous year)



Source: Association of European Airlines (AEA)

There was no significant growth in 2008 in international traffic within Europe and on the most important long-haul routes, to North America, the Far East and Australasia. However, traffic on routes to the Middle East, North and Sub-Saharan Africa, Central America and the Caribbean, and South America remained strong until the last months of 2008. By the first months of 2009, however, traffic was falling on all routes except those to Sub-Saharan Africa and the Middle East and, even on these routes, growth was negligible.

Capacity has been reduced ...

Just as significant as the traffic results were the capacity results in the last couple of months of 2008 and the first two months of 2009. Again, except on routes to/from the Middle East and Africa, AEA airlines have been cutting back on output, as measured by available seat-kilometres (ASK), across the board.

According to a recent UBS Investment Research report, France, Germany, Italy, the Netherlands, Spain and the UK have all experienced declining capacity on intra-European and intercontinental routes. British Airways and Alitalia have trimmed intercontinental capacity most noticeably for early 2009 and, along with SAS, have cut intra-European available seats by double-digit percentages, compared with the same season in 2008.

The region's long- and short-haul capacity reductions are occurring "for the first time since the Gulf War in 2003", according to UBS, which expects full-year 2009 global demand to retreat by 3%.

The capacity reductions to, from and within the region include both European and non-European airlines. Overall, the largest cuts in available seats are in Ireland, Italy, the Netherlands, Spain and the UK, according to UBS research.

Among non-European carriers, Cathay Pacific, Delta Air Lines, Emirates, Singapore Airlines and US Airways are showing overall increases in capacity to Europe, according to UBS. But Air Canada, American Airlines, Continental Airlines, Thai Airways and, in particular, Northwest Airlines (-14%) and United Airlines (-13%) are showing overall declines.

... but not fast enough

The first signs of capacity reduction in Europe are encouraging, but it is not on the same scale as that seen in the USA – yet. In almost all cases, the capacity cuts have not matched the traffic losses and load factors have declined. During the first two months of 2009, average seat load factor on cross-border European routes of AEA airlines was down 1.9 percentage points, while on routes to the Far East it was down 1.2 points and on the North Atlantic 0.7 points.

Load factor losses of this magnitude would normally signal a substantial effect on profitability. In the present circumstances, this effect is amplified by a serious loss in premium air traffic.

ACI data reflects the general decline

After recording an increase of less than 2% in international passenger throughput in 2008, data gathered by Airports Council International (ACI) shows that European airports suffered an 11% drop in international passengers in the first two months of this year – the worst performance of all regions (albeit by a small margin). These figures confirm that it is not only European carriers that have been affected by the downward trend in traffic demand.

Accommodation

Lodging demand is now in crisis ...

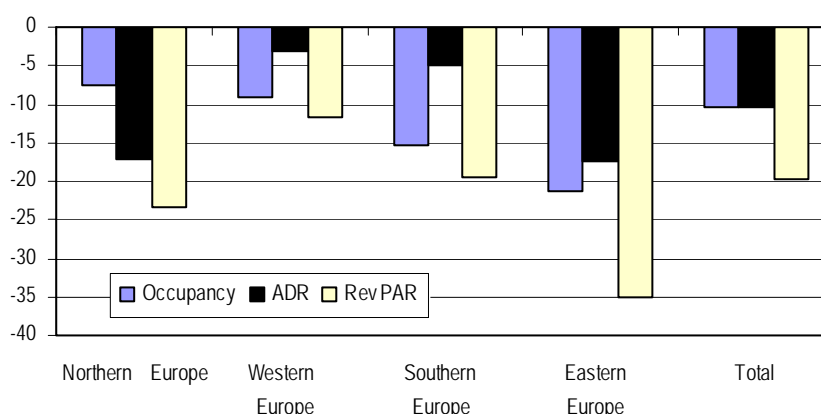
In 2008, according to MKG Hospitality, Europe's hotel industry recorded a 1.4% decline in revenue per available room (revPAR), reflecting a clear change in the hotel cycle. Hotel demand began declining in June. Average daily room rates (ADR) also experienced a progressive decline, with a slowdown in growth during the summer.

With a 12.2% drop in revPAR, November 2008 will go down as one of the worst months of the decade. MKG says that to find a two-digit drop in European revPAR, one must go back to April 2003, when there was a decline of -13.5%. Worse, over the last ten years, only two other months have suffered so badly: October and November 2001, due to 9/11.

The top category of hotels suffered the most last year, with international cities such as London, Amsterdam and Prague seriously affected by the lack of business tourism. The drop in activity accelerated at the end of the second half and demand for upscale hotels fell by 3.3 percentage points over the year as a whole. The mid-scale segment experienced a similar trend, albeit less marked, while the budget and economy categories fared better, benefiting to some degree from the crisis by capturing the midscale and upscale segments' clients, who have become more price-sensitive.

Hotel performance in Europe has continued to worsen since the beginning of 2009 – with the decline exacerbated by the fact that the period in question is being compared with a very strong first quarter 2008. RevPAR registered double-digit declines in nearly every region of Europe in February. Western Europe is showing the most resilience, with a 6% decline in February and 3% increase over the first two months of the year.

Hotel performance in Europe, Jan-Feb 2009
(% change on same period in previous year, in euro terms)



ADR = Average daily rate; revPAR = revenue per available room; both in euros

Source: Tourism Economics, from STR Global data

Lower room rates and occupancies each reflect a similar picture of a significant decline in overall room demand. For the year through February, occupancy rates were in negative territory for all regions, with Eastern and Southern Europe showing the greatest strain.

ADR statistics should be interpreted with caution as they are averaged using the euro as a common currency across all markets. Nevertheless, it is clear that rates are responding to the loss in room demand. And there is unlikely to be any recovery in room rates as the year continues.

... and this is expected to continue through 2009 ...

The current trends reflect a dramatic business travel response to the global collapse in trade and profits. For the full 12 months of this year, occupancy rates are forecast to register declines across Europe, with Western and Northern Europe showing the most stability.

As the economy finds its footing and lower room rates stimulate demand, it is likely that leisure travel will improve performance by the third quarter of the year. Nevertheless, room demand will register steep declines for the year in the range of 5-10%.

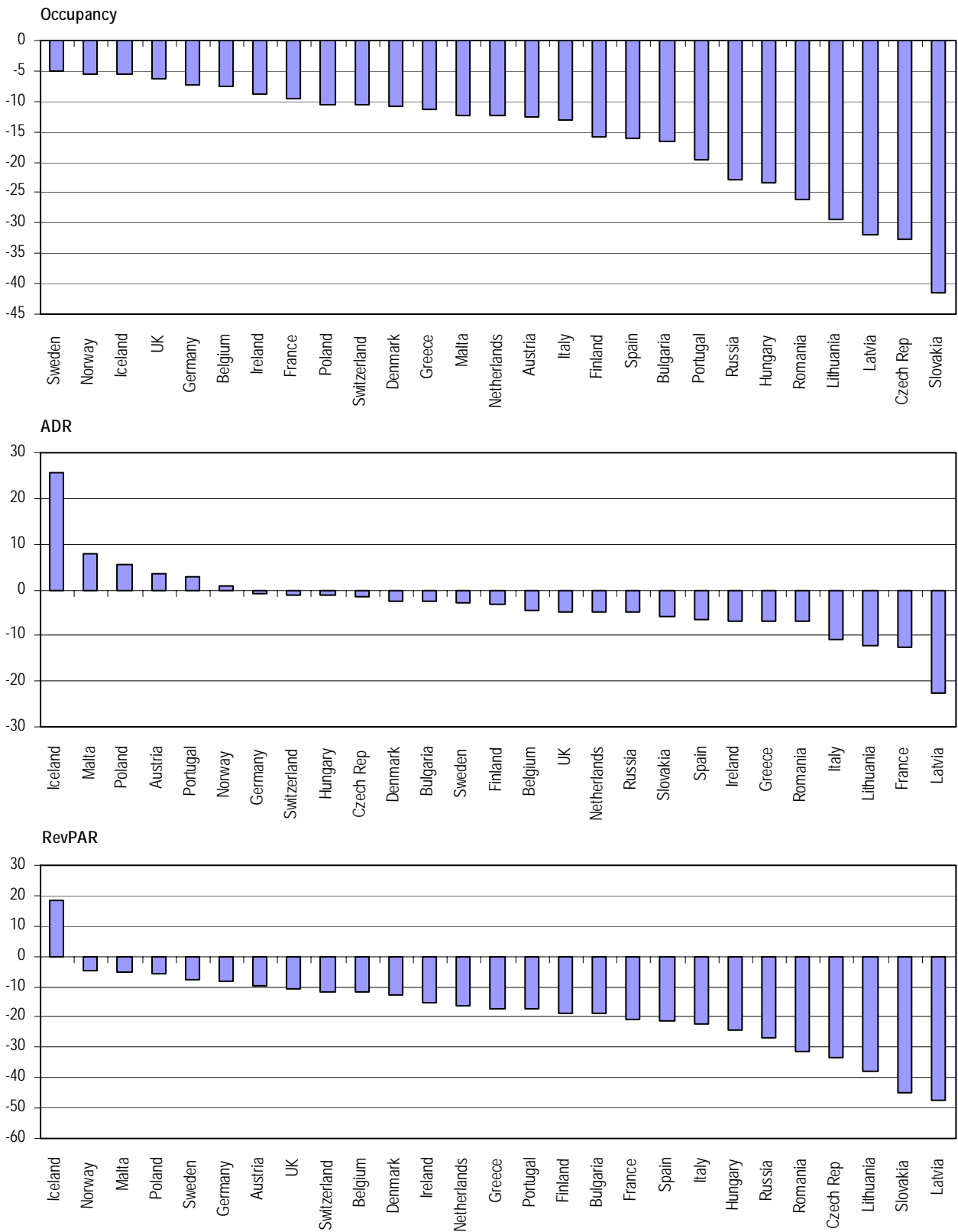
... affecting almost every country in the region

In 2008, a few countries/markets managed to achieve increases in room occupancy in 2008. Germany, Belgium and Northern Europe are prime examples. And Brussels and Berlin even performed quite well. Germany saw a revPAR increase similar to that of France, thanks in large part to its strong exhibitions sector, particularly in cities such as Hanover and Düsseldorf. But for the first two months of 2009, all markets were in contraction, with most registering declines of over 10%.

There is little reason to hope for a sudden change in direction for the European hotel industry. Although there are signs that, following several months of declining expectations, industry sentiment is stabilising and even starting to stabilise in some markets (see below), the business market and meetings segment will remain depressed.

As for leisure travellers, even if they do not cut back on their main holidays, they will undoubtedly be more cautious when it comes to taking secondary trips. Short breaks and city trips, two strong segments over the last few years, could see a sharp decline in activity in 2009.

Hotel performance in Europe by country, February 2009
 (% change on same period in previous year, in euro terms)



Source: STR Global

Individual Source Markets

General trends

Lack of data contributes to the confused outlook ...

2008 started strongly for most destinations but became progressively weaker over the course of the year. Of the 24 destinations that have reported trends for at least three quarters of 2008, 14 nevertheless showed positive growth, while six recorded a decline and four (Bulgaria, Hungary, Norway and Slovenia) posted an increase in arrivals and a decline in overnight volume (see the graph on page 6).

... but many leading destinations are among those in decline

Countries receiving fewer tourists included some of Europe's leading tourism destinations: Spain, the UK, Greece and, according to anecdotal evidence (or trends reported but not confirmed on TourMIS), France and Italy.

Data availability for 2009 is still very limited, as already seen. However, most indicators point to a broadening and deepening contraction in the first two months of the year, with little expectation of an improvement until the summer. (It should of course be stressed that first quarter results – and, to a lesser extent, those for Q2 as well – are being compared with strong performances in the first few months of 2008.)

Intra-European tourism

Good snow conditions sustain demand from neighbouring markets ...

Europe's winter sports' destinations, such as Austria, Switzerland and France, enjoyed a welcome boost from the good snow conditions before and since the start of the year. But in the case of Austria, a 13% increase in arrivals in January 2009 – mainly attributed to demand from neighbouring Germany – shrank significantly in February.

... but the general trend is negative so far this year

Among the eleven countries that had filed arrivals and/or overnights for 2009 on TourMIS by 23 April, the general trend seems to be a decline from all leading intra-European markets, with the exception of Italy and Russia, which are showing positive growth to some destinations. The Netherlands is also up to Cyprus. The UK, Germany and France are well down on 2008 – with double-digit declines in some cases.

The following series of graphs tracks the performance of leading intra-European markets to ETC member countries in 2008. IPK International's European Travel Monitor suggests that, of the top eight markets, France and Belgium were the only ones to record a decline in outbound trip volume in 2008, but most of the remainder also turned in mediocre performances. Only Russia (+10%) and the Netherlands (+5%) achieved healthy growth. And anecdotal evidence suggests that both suffered a slowdown in growth as the year progressed.

Germany

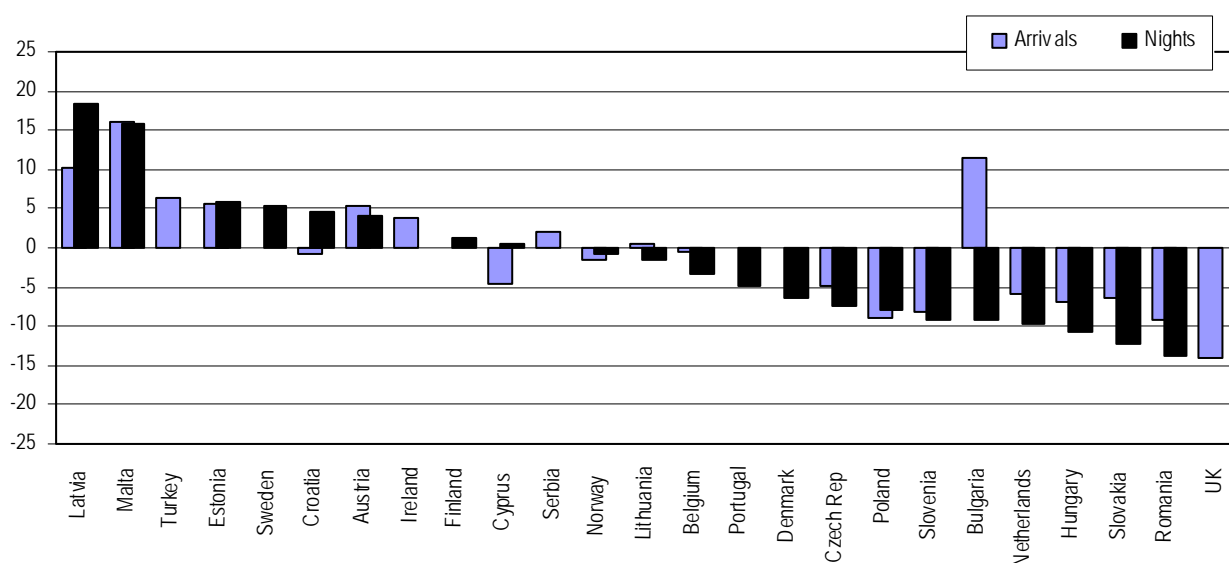
German demand is sustained mainly by business travel

Although Germany remains Europe's largest outbound market, there has not been any substantial growth in German outbound trips in recent years, and their number only managed to remain stable again in 2008, at 76 million. Some 730 million nights were spent abroad, producing an average length of stay of 9.6 nights (slightly more than in 2007).

Demand for foreign holidays increased by just 1% in 2008, while visits to friends and relations (VFR) and other private trips abroad fell by 6%. Outbound travel demand is therefore being sustained mainly by business travel, which increased by 6% in 2008. But the 10 million outbound business trips still represent only 13% of total outbound trip volume.

So far, only two destinations, Austria and Cyprus, have reported increases in arrivals and/or nights from Germany in January-February 2009. And the declines recorded by other countries are usually in double digits.

Arrivals and nights in European destinations from Germany, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

United Kingdom

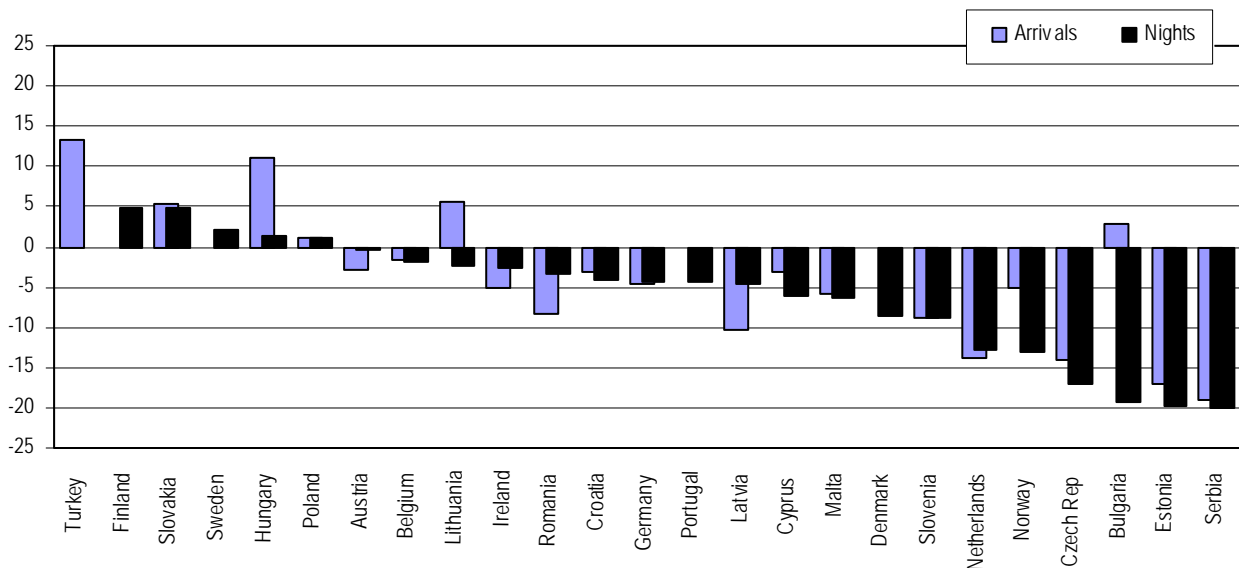
Weak pound discourages UK outbound travel – so far, at least

Few countries in Europe reported significant increases in arrivals or nights from the UK in 2008, although ETM data shows that the market was up 1% on 2007. Some major destinations – not shown in the following graph because more recent data is not yet available – also saw declines in travel from the UK. As an example, in the first seven months of the year, arrivals in Italy were down 12%, and arrivals and nights in Spain were down 1% and 7% respectively.

No country has yet reported an increase in travel from the UK in the first two months of 2009. And the declines recorded, attributed mainly to the weak pound rather than the current economic uncertainties, range from a relatively 'modest' -6.5% in arrivals in Ireland to -59% in nights in Serbia.

However, the outlook for the market is not as dire as might be expected. A number of UK householders have benefited from the sharp fall in interest rates, which has reduced their monthly mortgage payments. Some of the major tour operators are reporting good advance bookings for holidays, and consumer surveys indicate that Britons may well still decide to travel abroad for their summer holidays – especially if weather conditions in the UK are poor over the next couple of months. But short secondary breaks appear to be well down.

Arrivals and nights in European destinations from the UK, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

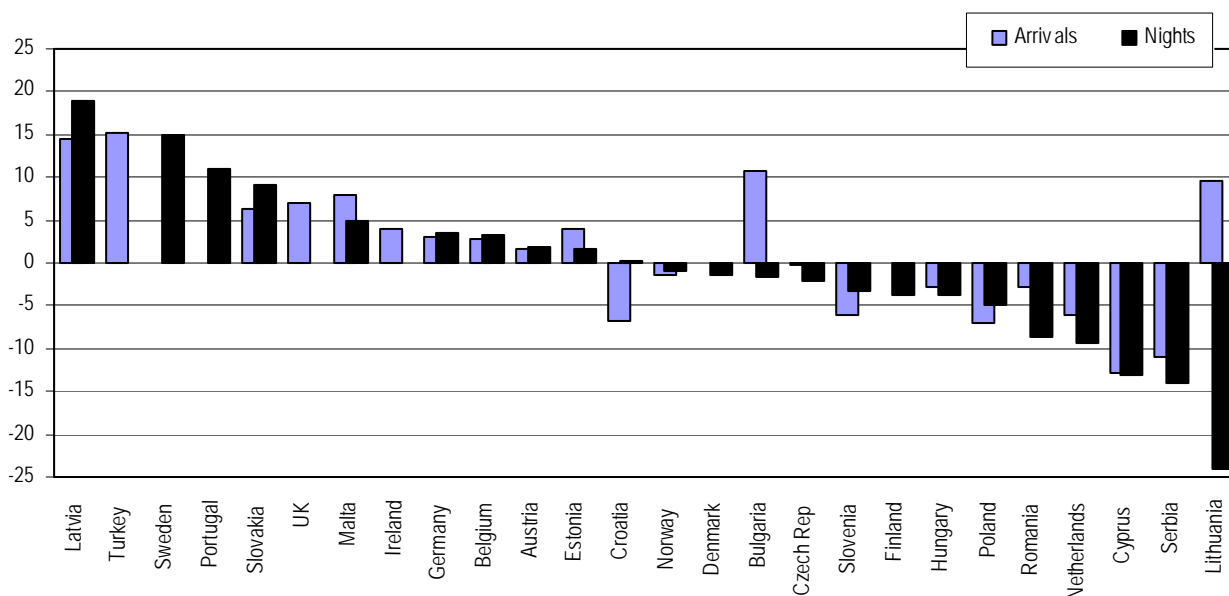
France

French demand for travel remains very sluggish

In 2008, French outbound travel fell by some 3% overall, but slightly more European destinations reported growth out of the market than declines. However, the outlook for 2009 has deteriorated. A recent survey conducted by IPSOS indicates that 51% of the French plan no holidays at all this year, and only 22% of those planning a trip say they will not cut back on their travel budget and/or length of trip. The young and middle classes appear to be the most affected by the economic situation.

Ireland reports a substantial increase in arrivals from France in January and February 2009 (+43%), but the only other European country showing growth is Denmark (+1.0% in nights). The remainder show declines, ranging from -0.8% for nights in Hungary to -26.7% for arrivals in Romania.

Arrivals and nights in European destinations from France, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

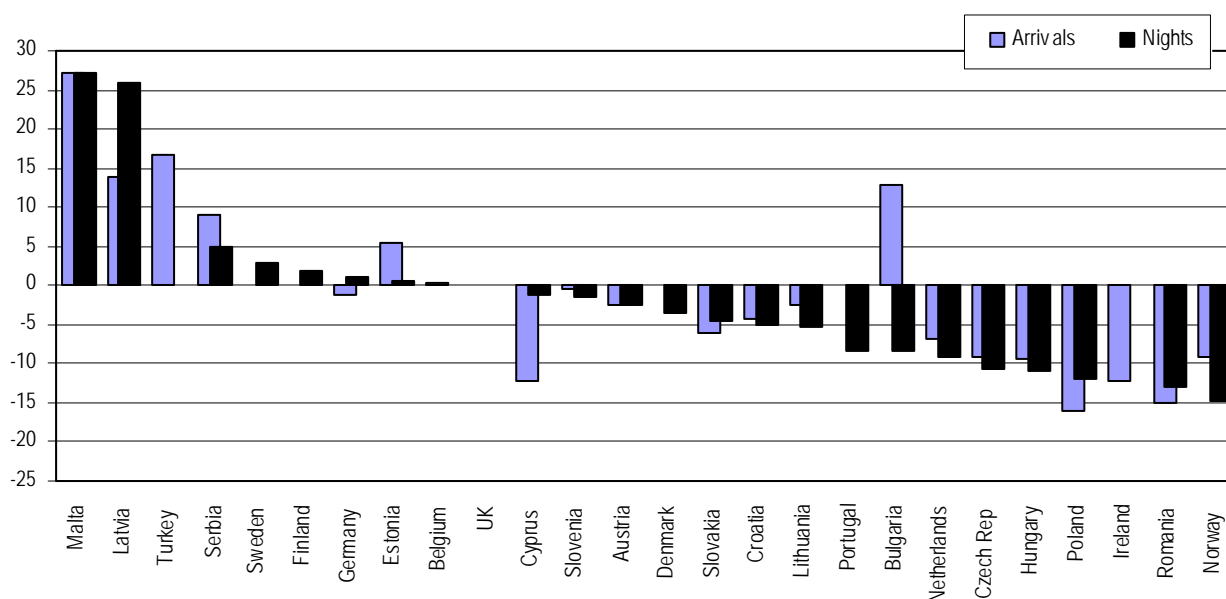
Italy

Italians dazzled by more exotic destinations

Although Italian outbound travel generally stagnated in 2008, Italian arrivals and overnights to most European destinations were either flat or down on 2007's level. Among the few destinations that recorded increases, Malta, Latvia and Turkey stand out. However, anecdotal evidence suggests that long-haul countries did far better.

The first reports for arrivals and nights out of Italy in Europe in 2009 show some surprising increases, quite against the general run of trends worldwide and within Europe. Cyprus and Ireland report double-digit increases in arrivals, of 20.9% and 13.5% respectively, and Malta (+28.3% in nights) is also well up on last year. The first two months were flat for Austria out of Italy in terms of arrivals, but overnight volume fell by 1.6%. The other destinations all report declines, although only two exceed -10%.

Arrivals and nights in European destinations from Italy, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

Netherlands

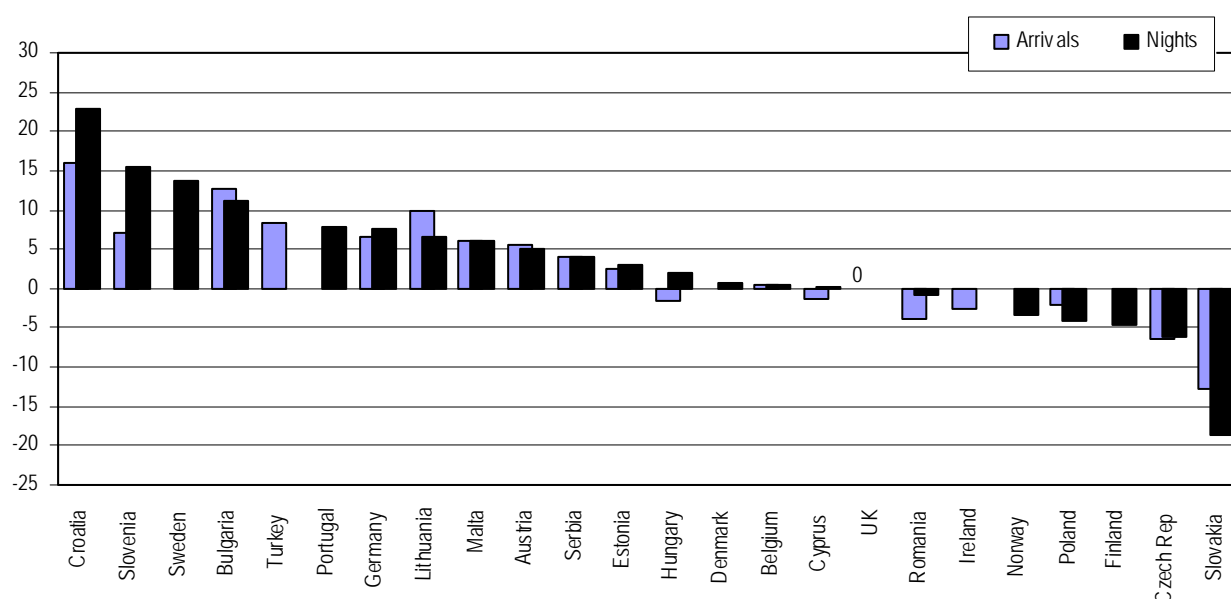
Mixed results so far this year after a strong 2008

The Netherlands was one of Europe's strongest growth markets in 2008, but the picture for 2009 remains uncertain. In terms of actual results, the first reports for arrivals and nights from the Netherlands in January and February show increases only for Cyprus (+8%) and Ireland (+7%). A 5% increase in arrivals is reported by Austria, but this compares with a 3% decline in nights. The worst declines were suffered by Hungary – -30% in nights and -33% in arrivals.

Meanwhile, statistics from GfK on ANVR tour operator package sales to February show a strong decrease in comparison with the same period last year. Total summer bookings for package holidays are down 18.3% – as much as -27.4% for air packages and -9.2% for car based holidays. Bookings for long-haul destinations are down even more sharply, by 33.3%.

However, holiday intention research by the Netherlands Board of Tourism & Conventions (NBTC) suggests there are still a lot of summer bookings to be expected.

Arrivals and nights in European destinations from the Netherlands, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

Russia

The tide could be turning for the Russian market

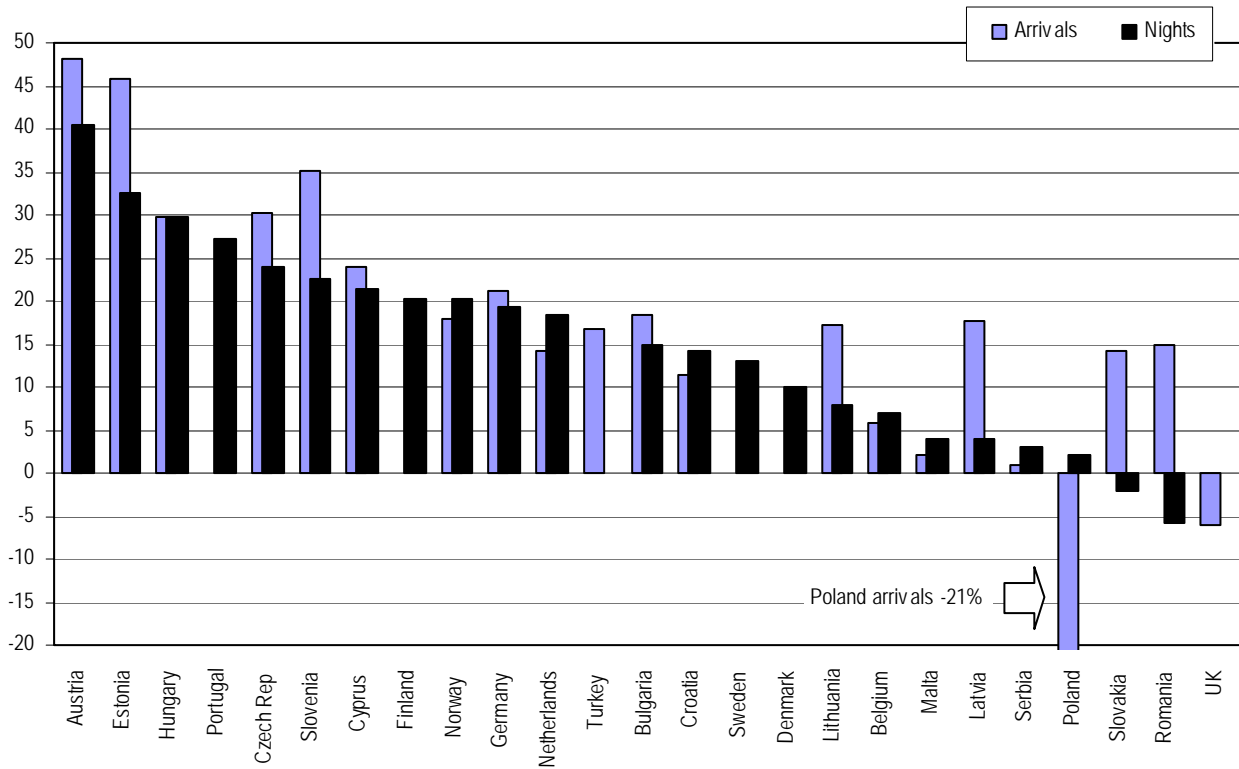
Russia has, of course been one of the most dynamic emerging markets in recent years, and European destinations continued to see very large increases in arrivals from Russia through most of 2008. Russian outbound travel overall increased by 10% in terms of trip volume. But not all destinations benefited. Thus, in Central & Eastern Europe, Bulgaria, Estonia, Hungary and the Czech Republic saw large increases in both arrivals and nights, but Poland did not. And several, including Latvia, Lithuania, Romania and Slovakia, saw large increases in arrivals, but not in nights.

Among the Nordic countries, Finland and Norway were more strongly favoured than Denmark and Sweden. There were large increases to Germany and the Netherlands, but not to the UK and Belgium. (In the UK's case, this was attributed to the increased cost and difficulty of obtaining visas.) In Southern/Mediterranean Europe, Cyprus and Turkey continued to receive growing numbers of Russians, but so did Portugal – not hitherto regarded as a favourite destination for Russians. The strongest growth so far reported among European destinations in 2008 was for Austria – and it is unlikely that any country still to post its results will surpass Austria's 47% increase in arrivals.

Given the severity of the economic reversal in Russia, a moderation in travel growth out of Russia is inevitable this year. In the first two months of 2009, among the seven countries for which figures are available, most (including

Austria, Cyprus, Finland, Serbia and Sweden) report more moderate figures. However, only two (Sweden and Romania) report actual declines in numbers.

Arrivals and nights in European destinations from Russia, 2008 (% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

Non-European markets

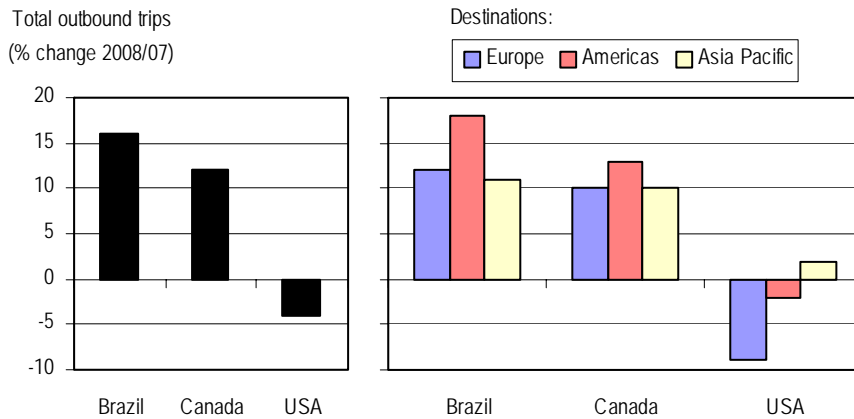
Impact of the crisis is greatest on long-haul markets

As seen in the air transport data quoted in this report, long-haul travel has been falling the most dramatically. High oil and fuel prices were the main reasons in 2008 and, despite the sharp drop in the price of oil, the cost of a long-haul flight as a share of total trip costs is proving a big deterrent to demand for Europe from the main non-European source markets. The strong euro does not help, either.

The only long-haul source markets that appear to be growing to Europe this year are Brazil (and possibly some other Latin American sources), as well as some of the smaller Asian markets – but from very low bases.

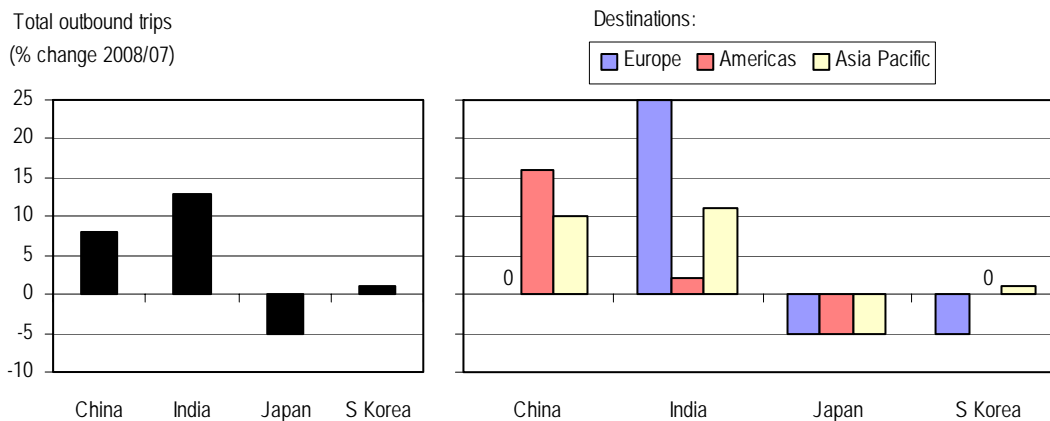
The following two graphs highlight the strength of different long-haul sources to Europe last year, based on data from IPK International's World Travel Monitor.

Growth in outbound travel from selected markets in the Americas, 2008



Source: ITB *World Travel Trends Report*, March 2009, from IPK International

Growth in outbound travel from selected markets in Asia Pacific, 2008



Source: ITB *World Travel Trends Report*, March 2009, from IPK International

USA

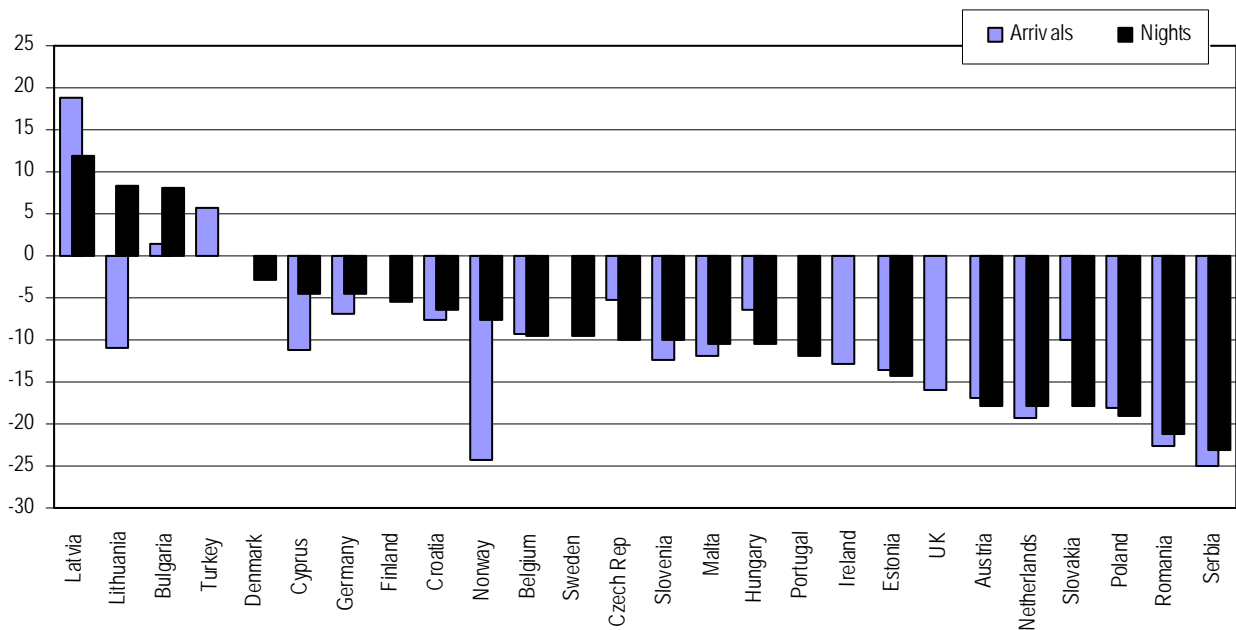
Strengthening dollar may not make much difference to US demand

US travel to Europe last year fell by more than 6% in terms of trips, according to data from the Office of Travel & Tourism Industries in the Department of Commerce. Arrivals in Europe contracted for all but four destinations – Latvia, Lithuania, Bulgaria and Turkey – and first indications for 2009 do not suggest an improvement. Among the 11 countries that have reported figures from the USA for January and February, all show declines – ranging from -1.5% in arrivals and -3% in nights to -39% for arrivals and -44% for nights in Hungary.

Somewhat encouraging is the fact that US trips to Europe are beginning to stabilise as the dollar has strengthened and the initial shock of the financial crisis has worn off. Recently, there have been some upbeat reports about the US economy, including (in February) increases in housing starts, in housing sales, in factory orders and in consumer confidence.

But it is important to stress that these increases pale in comparison to the declines that preceded them (housing starts, for instance, were still more than 47% below those in February 2008 and more than 70% below the peaks of 2005). In addition, house prices are still falling, and businesses are still shedding over 600,000 jobs a month. Oxford Economics expects the US economy to continue shrinking through the third quarter of 2009 – and it will be a while beyond that before consumers see much benefit.

Arrivals and nights in European destinations from the USA, 2008 (% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

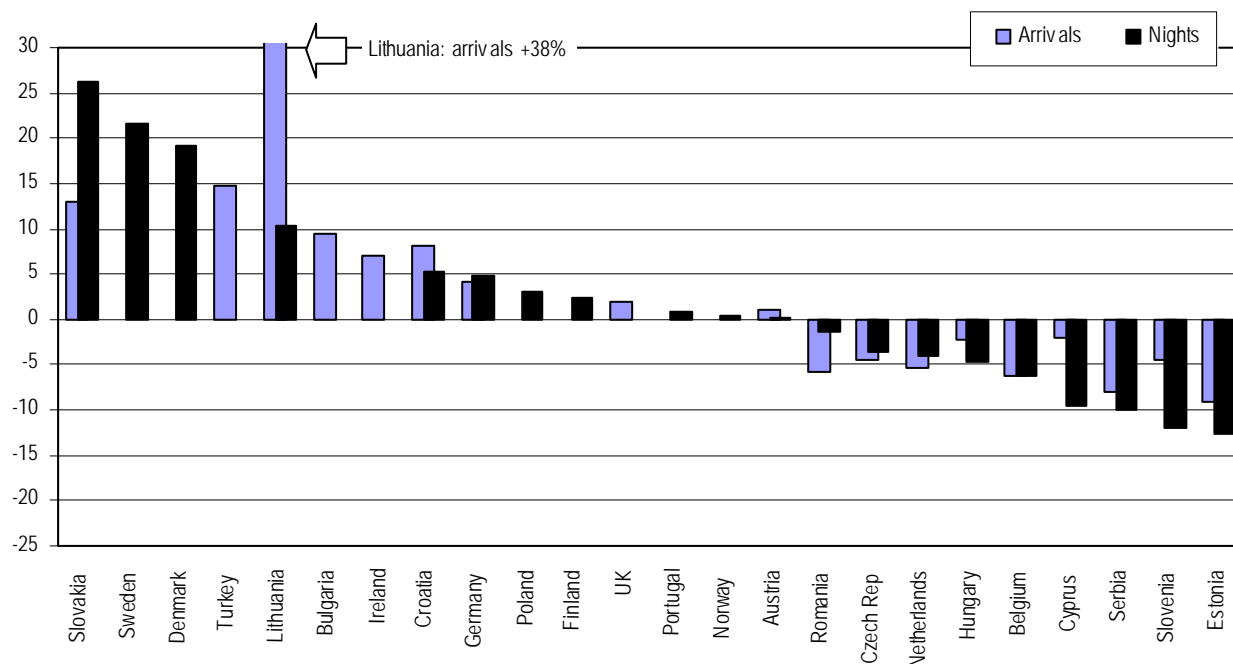
Canada

More ups than downs, but the outlook for 2009 is uncertain

The strength of the Canadian dollar had sustained outbound travel in 2005-07. It was not until the second half of 2008 that it began to slip against the US dollar – and even then the euro and sterling were slipping even faster. Furthermore, the Canadian economy has seemed to be weathering the economic turmoil better than most. Canada therefore remained a relatively strong market for European tourism in 2008.

In the first two months of 2009, Ireland reports a 1% increase in arrivals from Canada. Otherwise, all destinations report declines. But anecdotal evidence of the market's performance this year is so far scarce.

Arrivals and nights in European destinations from Canada, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

Japan

Signs of a turnaround, but not for Europe

Japan turned in a very disappointing performance for Europe in 2008, but the prospects are much worse for 2009 as the economy faces a severe and possibly protracted recession.

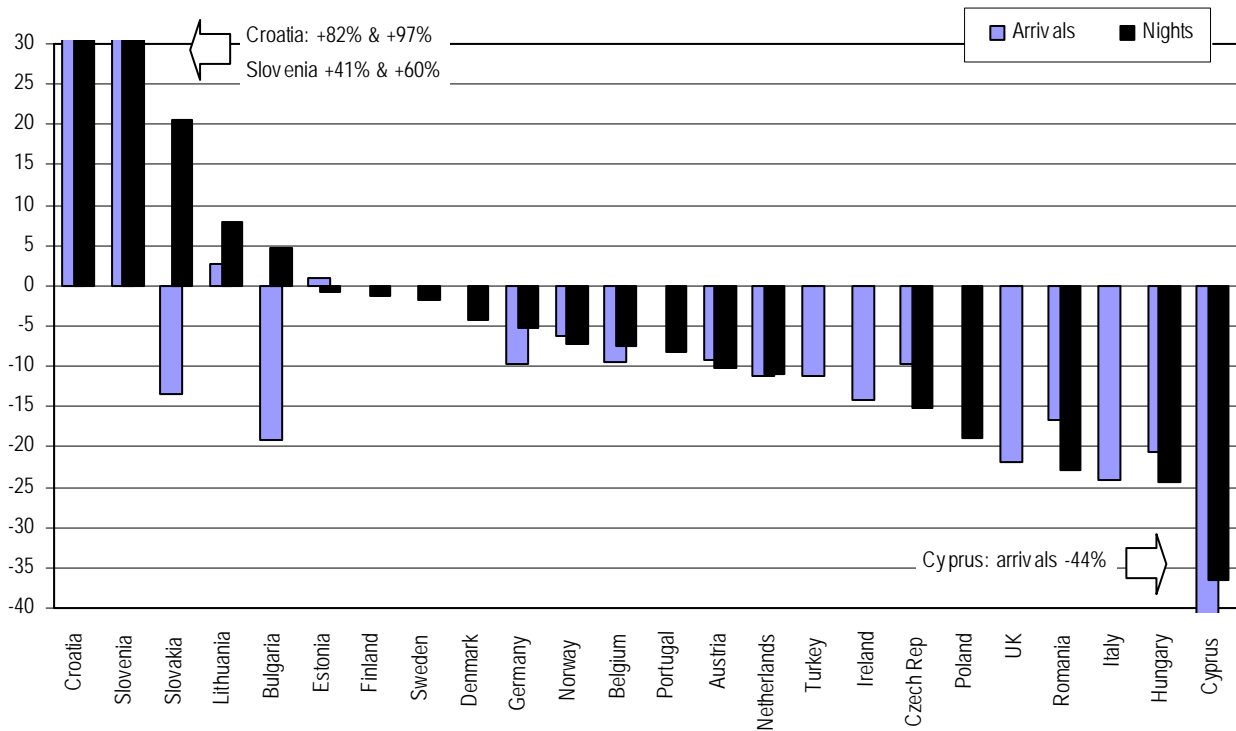
The Japanese long-haul market has been very weak for several years, and this trend was not reversed in 2008, in spite of the growing strength of the yen in the second half of the year. The relatively modest declines in arrivals in many European destinations in 2008 therefore represented further declines on figures which were already weak. However, at least two destinations, Croatia and Slovenia, saw extraordinary increases from Japan – albeit on low bases.

In the first two months of 2009, while Cyprus reports a 110% increase in arrivals from Japan, and Denmark 29% in nights, Ireland shows a 65% decline. All other destinations are in decline, if not by as much as Ireland. Meanwhile, trends reported by the Japan Association of Travel Agents (JATA) for package tours sold by the country's seven leading travel agency groups point to a 15% drop in sales to Europe for January, a 3% decline in February and an 8% drop in March. Advance reservations look more promising, with bookings to Europe from April through June up 13-17%.

By comparison, the Japanese market to short-haul destinations in Asia appears to be recovering strongly. Package tour holiday sales to South Korea more than doubled in the first quarter of 2009.

However, with unemployment rising, consumer and business confidence weak, and the service and construction sectors under pressure, Oxford Economics is still forecasting a 5.4% fall in GDP in 2009 and just 1.3% growth in 2010. Consumer spending traditionally declines in the face of rising unemployment and negative wealth effects. Japan is also on the brink of sliding back into deflation, and this could prolong the recession by discouraging spending.

Arrivals and nights in European destinations from the Japan, 2008 (% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

China

China still looks promising, although outbound travel growth slows

The headline growth rates from China are even more extravagant, in both positive and negative directions, than those from Russia. In one case, in fact, they are so large that the country in question has been omitted from the following graph: Slovakia reported increases of 2,525% in arrivals and 59% in nights in 2008! Clearly, the base was very small.

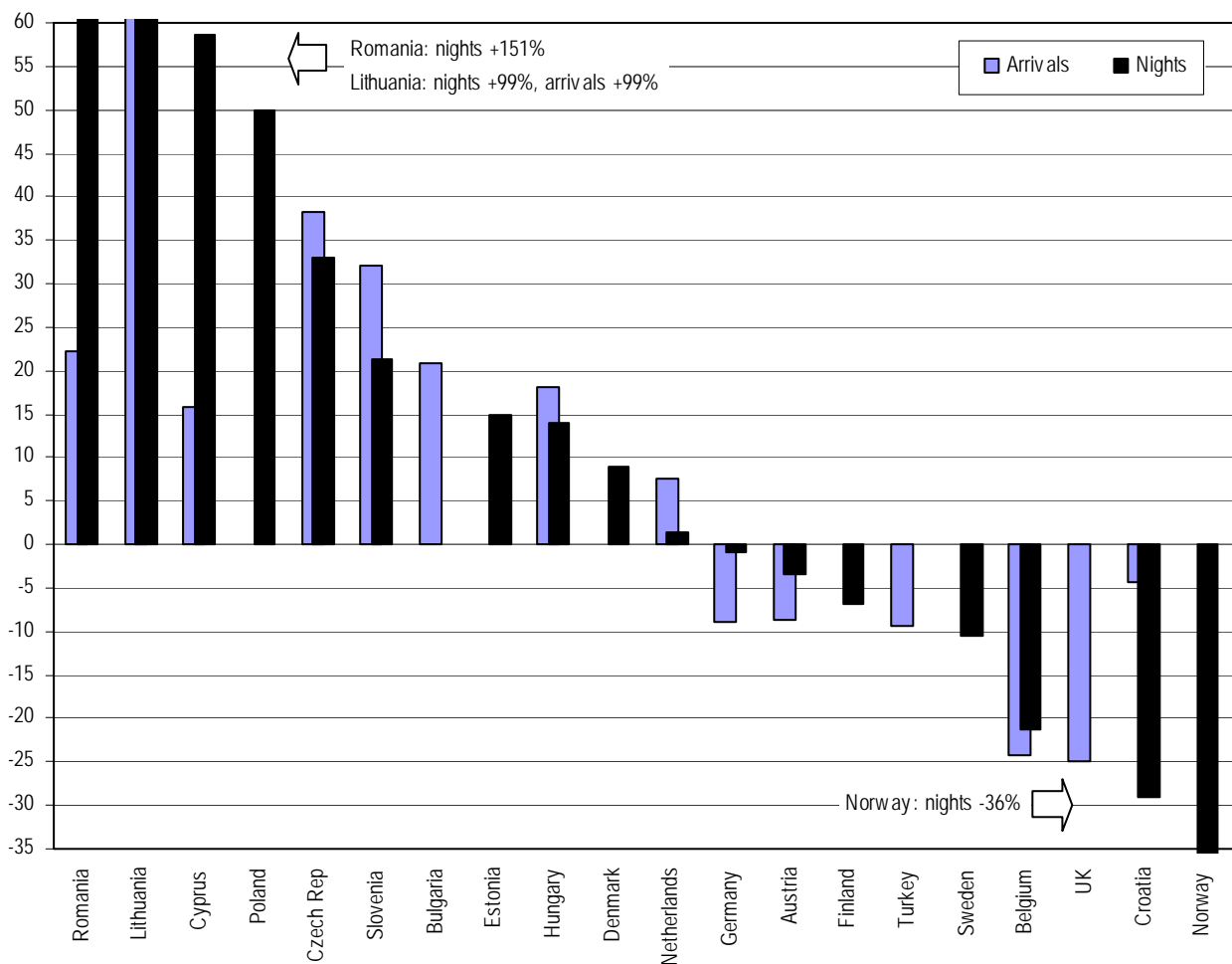
Nevertheless, this extreme pattern is not untypical. Although China is one of the world's largest and fastest-growing markets for tourism, much of its growth is concentrated in parts of Asia Pacific, and to the limited extent that Europe is sharing in the growth, it tends to be focused on a few destinations – generally the more important ones. Minor European destinations can therefore post

huge increases (or decreases), in percentage change terms, from one year to another, which are not very significant in terms of the business generated.

Preliminary indications from the China National Tourism Administration (CNTA) point to a 5% increase in Chinese outbound trips in the first quarter of 2009, following a 12% rise in 2008 overall. But there is no guarantee of any growth for Europe this year. As with the Japanese market, short-haul trips are increasingly being favoured over long-haul travel.

Only seven destinations have posted figures for the Chinese market in the first two months of 2009. Finland and Sweden report declines of 19% and 7% in nights. Austria is down 15% in arrivals and 22% in nights. And there are also declines for all other destinations, if less spectacular ones.

Arrivals and nights in European destinations from China, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

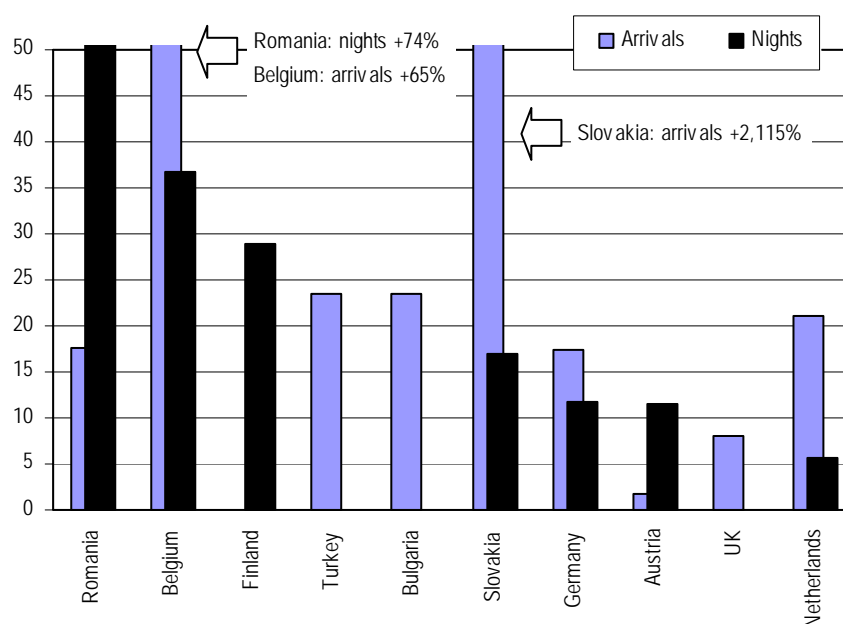
India

India was one of Europe's star performers in 2008

India is also one of the famously fast-growing emerging markets, but few European destinations are yet specifically measuring arrivals from that country. Again, small base figures can result in extraordinarily large percentage increases. To go with a 25-fold increase in arrivals from China, Slovakia reported a 21-fold increase in arrivals from India. Extraordinarily (in the context of 2008), among those European countries that have reported arrivals or nights from India, not one reported a decline.

Industry expectations (at least, those of Indian tour operators) predict a marked slowdown in 2009 but, for the first two months of the year, there are mixed results. Finland reports an unwonted 25% decline in nights from India, and Romania's decline (in both arrivals and nights) is even worse – at more than 30%. Austria, meanwhile, has seen a decline of 16% in nights, but an 8% increase in arrivals. Cyprus reports a 12% increase in arrivals.

Arrivals and nights in European destinations from India, 2008
(% change on 2007)



Notes: Measures used by the individual destinations vary; in a few cases data represents only the first 10 or 11 months of the year

Source: NTOs, as posted on the TourMIS database by 6 April 2009

Industry Sentiment

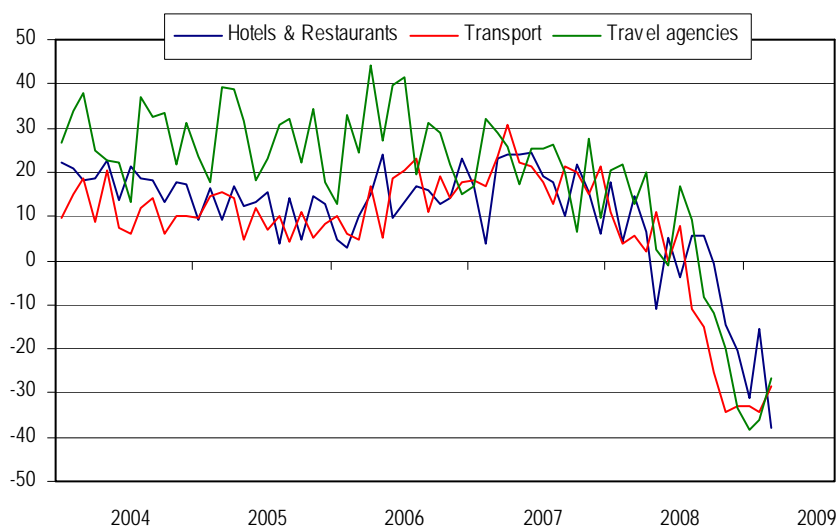
More than just a matter of confidence

Each month Eurostat conducts surveys of businesses in key service industries to determine sentiment about current and expected business activity. The results are presented as the balance of positive versus negative responses.

These indicators have of course plunged since the middle of last year. The latest available figures, for March 2009, show that the balance of responses in the EU as a whole has fallen to -38% among hotels and restaurants, -28% among transport companies, and -27% among travel agents (which have in the past often been more optimistic than those in the other two sectors).

In the eurozone, the figures for transport companies and travel agents are very similar, but hotels and restaurants are slightly more optimistic, with a negative balance of 'only' 32%.

Demand expectations for the next three months^a, Jan 2004 - Mar 2009
(% balance of positive/negative responses)

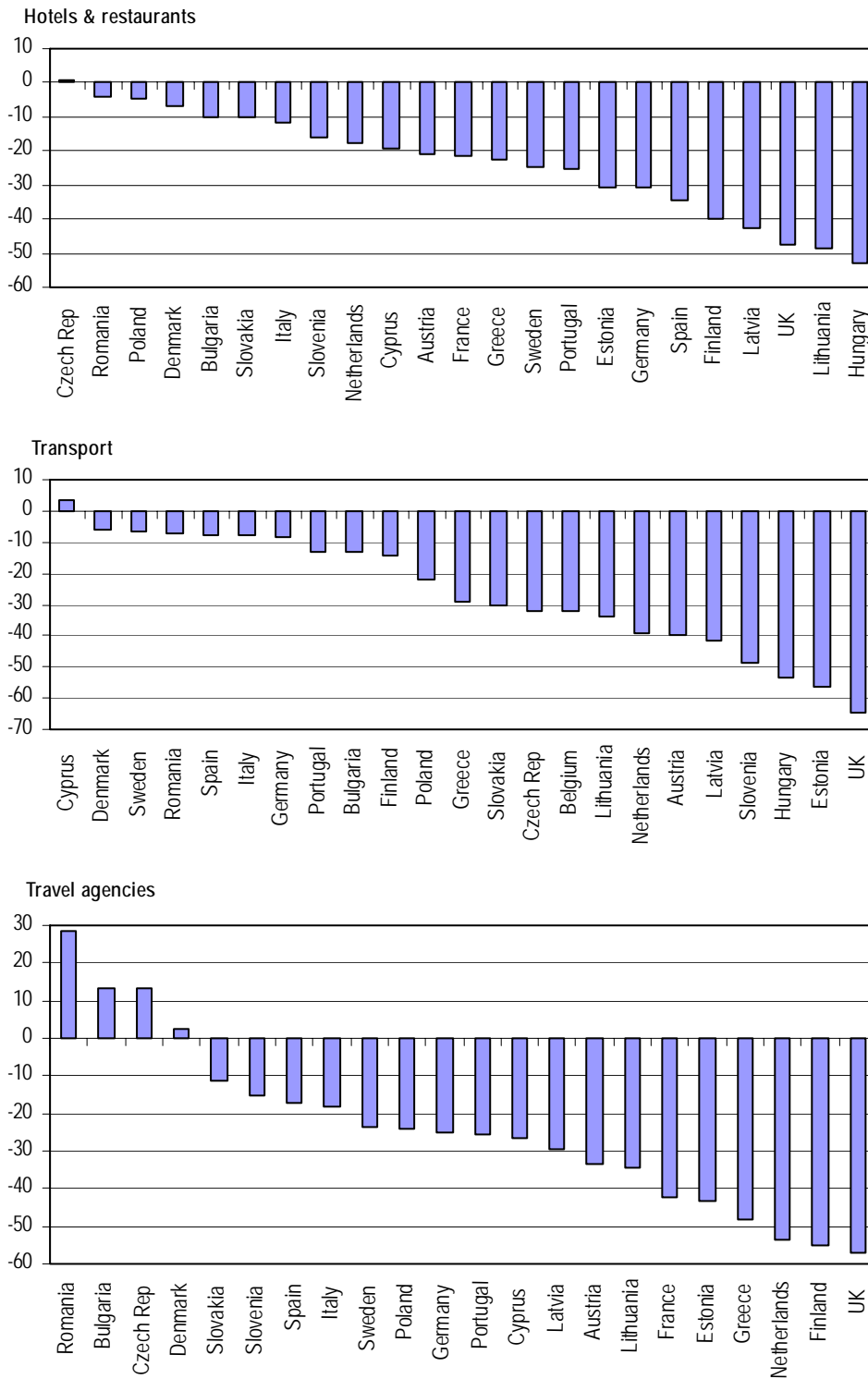


^a In the three service industries shown, in the EU (27 countries)

Source: Tourism Economics and The Travel Business Partnership, from the Eurostat EC Business & Consumer Survey

In the hotels and restaurants sector, the average balance of responses in January to March 2009 varied from +0.6% in the Czech Republic to -53% in Hungary. Until the end of 2008, many countries in Europe (especially those in Central & Eastern Europe) remained in positive territory, but just a few months later all except the Czech Republic were negative.

Demand expectations for the next three months in the three industry sectors – average of Jan-Mar 2009 responses (% balance of positive/negative responses)



Source: Tourism Economics and The Travel Business Partnership, from the Eurostat EC Business & Consumer Survey

Among the five major destinations, Italy (-12%) is the least pessimistic, followed by France (-21%), Germany (-31%), Spain (-35%) and, close to the bottom, the UK (-48%). However, some caution is required in making these comparisons between countries, as the responses are influenced by cultural and other factors: respondents in some countries seem to be perennially more optimistic or pessimistic than in others.

In the transport sector, the average responses varied between +4% in Cyprus and -65% in the UK. There are great differences between the responses in the transport and hotels/restaurants sectors. For instance, in the transport sector, respondents were more positive in Sweden, Spain, Italy, Germany and Finland, and more negative in the Czech Republic, Poland, Slovakia, the Netherlands, Austria and Slovenia.

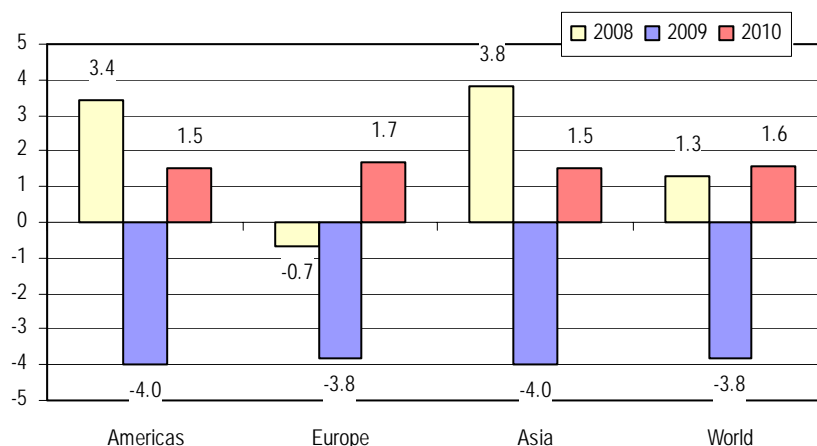
Among travel agents, there was an even greater spread in responses, ranging from +29% in Romania to -57% in the UK. By comparison with their counterparts in the hotels/restaurants and transport sectors, travel agents in Finland, the Netherlands and Greece were notably pessimistic, but respondents in the UK were strongly negative in all three sectors.

Prospects for European tourism

There is no doubt that arrivals will shrink in 2009

Tourism Economics is currently forecasting a 3.8% drop in international arrivals in/visits to Europe in 2009, based on its Tourism Decision Metrics model. It expects a recovery of 1.7% in 2010, but it does not expect arrivals to return to their 2008 levels until 2011. This year's predicted decline compares with 4.0% drops in demand for the Americas and Asia.

Growth in inbound travel by region, 2008 and forecasts 2009-10
(% change in arrivals)



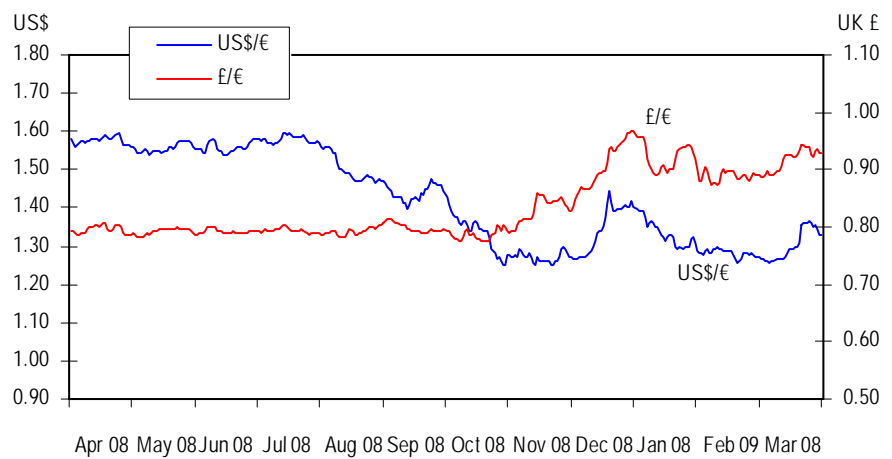
Source: Tourism Economics

We now have the benefit of a fairly clear view of 2008, early indicators for 2009, and a fresh baseline economic scenario. According to these indicators, a full-year retrenchment in travel to and within Europe seems inevitable.

Fares have come down significantly with lower fuel costs and flagging demand. This should help to stimulate demand in the third quarter as economies stabilise. However, airline capacity cuts – especially reduced service to secondary destinations – will limit fare reductions and constrain overall tourism demand.

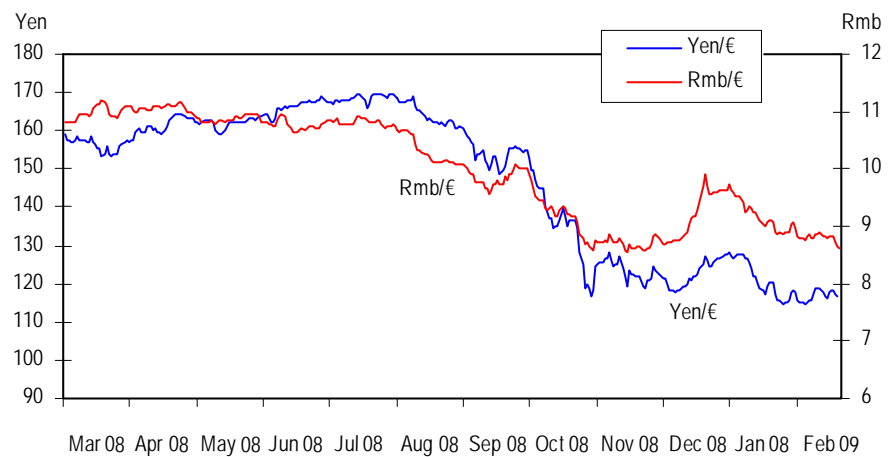
Another key factor is exchange rates. Although the US dollar shows signs of strengthening, the euro is still very strong and the resulting price rises for foreign visitors from outside the eurozone are extremely high, and considered excessive in some markets.

Exchange rates of the euro against the US dollar and sterling, April 2008-March 2009



Source: The Travel Business Partnership, from OandA.com

Exchange rates of the euro against the yuan/renminbi and yen, April 2008-March 2009



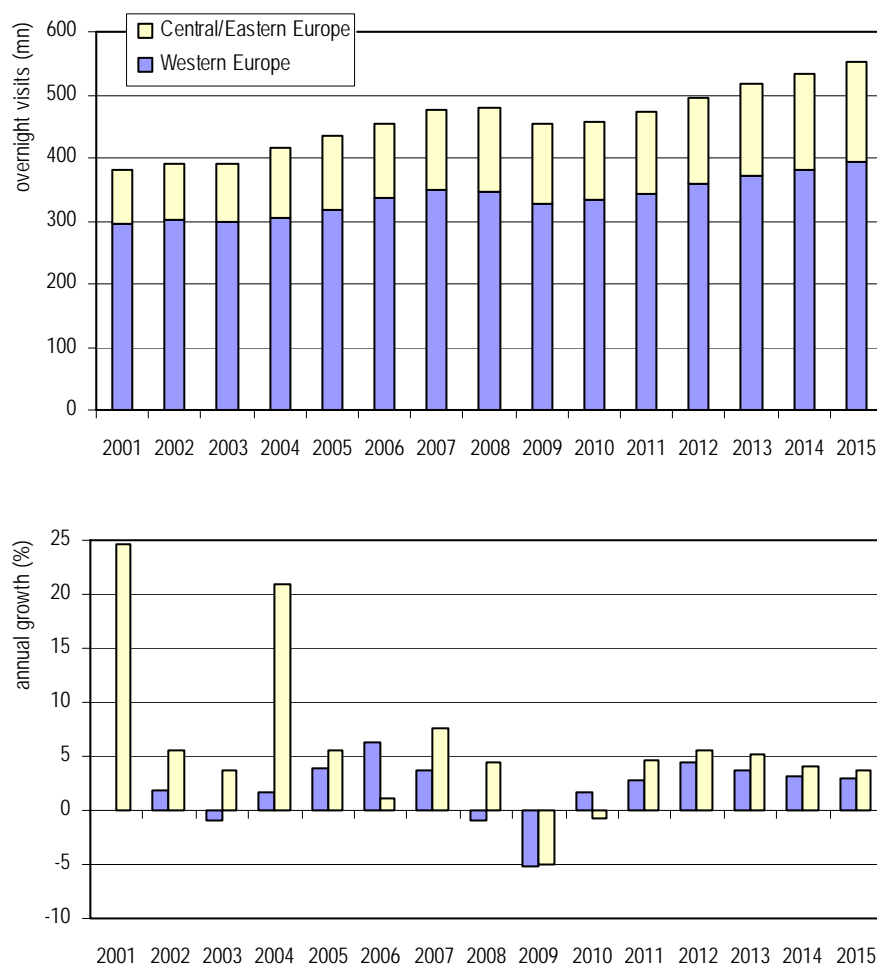
Note: rising lines show a stronger euro

Source: The Travel Business Partnership, from OandA.com

Business travel will continue to come under pressure ...

When profits languish, business travel has historically responded severely, and recent surveys substantiate this – as well as trends from airlines, whose premium-class bookings have dropped sharply. According to a December 2008 survey by Orbitz, 55% of business travellers anticipate travelling less in 2009 and 41% are tightening travel policies. In addition, company research into corporate travel bookings in the first quarter of 2008 showed that about 40% of air ticket spending was for internal meetings. But in the last six months, the amount has been cut nearly in half. In a December survey by Rearden Commerce, 71% of corporate travel managers reported a decline in the overall number of business trips. Another 88% said business travel approval requirements have skyrocketed in recent months.

International tourist arrivals in Europe, 2001-08 and forecast 2009-15



Source: Tourism Economics' Tourism Decision Metrics model

... although leisure travel demand will be less constrained

Leisure travel will undoubtedly be constrained by job losses and weak consumer confidence, compounding the huge losses in wealth over the past year. But, as already indicated, most people still have their jobs and a significant number in countries like the UK and Ireland are benefiting from low

interest rates reducing their monthly mortgage payments. Most households will still travel, but their trips will be marked by shorter length of stay, shorter distances, and bargain hunting. And some destinations will see a concomitant increase in domestic tourism.

Several positives stand out for the outlook, however. Low fuel prices, industry price discounts, and strong government responses – if not across the board – give reason for hope that, by the third quarter of this year, we may see travel demand begin to stabilise. Moreover, consumer confidence has time to rebound before the peak leisure travel season.

In addition, the recent strengthening of the US dollar (and weakening of the euro) could help to shift the flow of visitors back into the eurozone and restrain outbound travel from the region. Overall, the movement toward shorter-haul travel will increase the intra-European market, which already accounts for more than an 80% share of all arrivals.

ETC Member Organisations

(April 2009)

Austria	Austrian National Tourist Office (ANTO)
Belgium	Flanders: Tourist Office for Flanders (TV) Wallonia: Office de Promotion du Tourisme Wallonie-Bruxelles (OPT)
Bulgaria	Bulgarian State Tourism Agency
Croatia	Croatian National Tourist Board (CNTB)
Cyprus	Cyprus Tourism Organisation (CTO)
Czech Republic	CzechTourism
Denmark	VisitDenmark
Estonia	Estonian Tourist Board (ETB)
Finland	Finnish Tourist Board (MEK)
FYR Macedonia	Ministry of Economy
France	Maison de la France (MDLF) / French Government Tourist Office
Georgia	Department of Tourism & Resorts
Germany	German National Tourist Board (DZT)
Greece	Greek National Tourism Organization (GNTO)
Hungary	Hungarian National Tourist Office (HNTO)
Iceland	Icelandic Tourist Board
Ireland	Tourism Ireland and Fáilte Ireland
Italy	Italian State Tourist Board (ENIT)
Latvia	Latvian Tourism Development Agency
Lithuania	Lithuanian State Department of Tourism
Luxembourg	Luxembourg National Tourist Office (ONT)
Malta	Malta Tourism Authority (MTA)
Monaco	Monaco Government Tourist Office
Montenegro	National Tourism Organisation of Montenegro
Netherlands	Netherlands Board of Tourism & Conventions (NBTC)
Norway	Innovation Norway
Poland	Polish Tourist Organisation (POT)
Portugal	Turismo de Portugal (Portugal Tourism)
Romania	Ministry of SMEs, Trade, Tourism & Liberal Professions
San Marino	Ministry for Tourism, Sport, Transport, Telecommunications & Economic Cooperation
Serbia	National Tourism Organisation of Serbia
Slovakia	Slovak Tourist Board
Slovenia	Slovenian Tourist Board
Spain	Spanish Tourist Office (Turespaña)
Sweden	VisitSweden
Switzerland	Switzerland Tourism
Turkey	Ministry of Tourism
UK	VisitBritain
Ukraine	National Tourist Organization of Ukraine