

FORESIGHT

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Marketing **British Tourism**



FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, there will be a spotlight focused on significant tourism issues. This month the markets Japan, Hong Kong, Philippines and Taiwan are examined and we analyse the cost of visiting Britain compared to other European destinations.

Market Focus – Japan, Hong Kong, Philippines and Taiwan

Japan and Hong Kong are highly established markets, whereas Philippines and Taiwan are emerging markets. Between them they generated half a million visits to Britain in 2003, that's 2% of all visits, but accounted for 4% (£0.5 billion) of all inbound visitor spend. The average length of stay was around 15 nights for visitors from these markets, well in excess of the overall average of 8 nights per visit. This is explained by the importance of the study market, accounting for 7% of visits from the four countries, but no less than 41% of visitor nights.

Japan

It is around 15 years since things started going awry in Japan. Since then a range of economic troubles have arisen; a depressed stock-market, corporate mismanagement (a particular problem in the banking sector), a weak labour market and, perhaps most troubling of all, persistent deflation dissuading consumers from parting with their income.

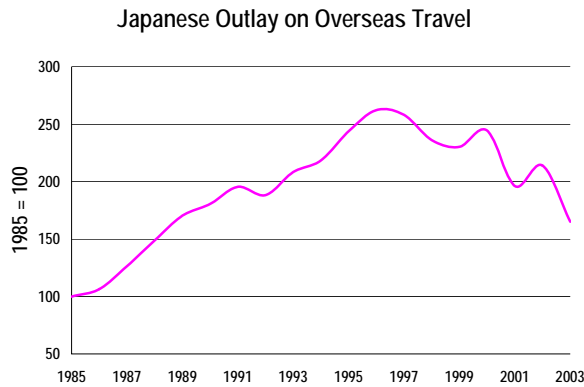
If consumers suspect prices will fall, and that their personal income will rise, or at least fall more slowly than prices, it is natural for the consumer to postpone their purchase. However, this of course reduces the demand for products, thereby encouraging suppliers to lower prices further in order to sell and a vicious deflationary cycle kicks in.

The IMF are forecasting that prices will fall by 0.4% in Japan in 2004 and by 0.1% in 2005 but the Bank of Japan has hinted that it believes prices may finally be about to rise. The very latest information is that consumer prices are unchanged compared with this time last year, with earnings 0.8% up on a year ago.

Are the Japanese travelling again?

The economic woes have fed through into a reduction in outbound travel to Britain, with the SARS outbreak of 2003 further hampering hopes of a recovery. Since 1989 the total number of inbound visitors to Britain has risen by almost 7.5 million a year, but the number coming from Japan has fallen by almost 200,000 a year. There have been occasional upswings, as in 1995 when a record 618,000 Japanese visitors came to Britain, but the 1997-8 financial crisis that swept South East Asia put pay to this upward trend. Last year only 314,000 visitors came to Britain from Japan, the lowest total since 1987, but this looks set to be a nadir.

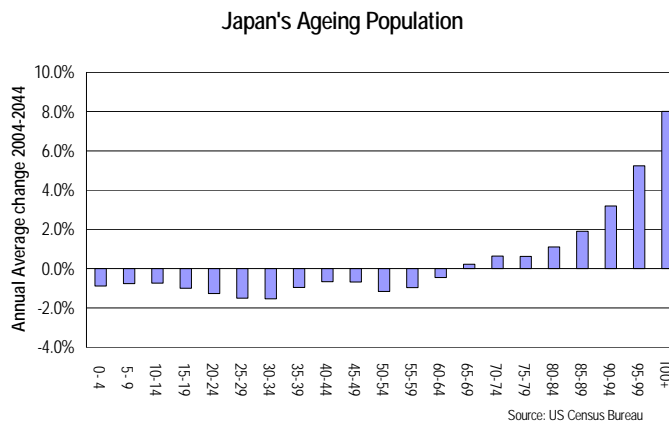
Figures for the first six months of the year reveal a 30% growth in inbound visitors to Britain. However, even if this growth rate persists throughout 2004 the number of visitors from Japan will still be 150,000 down on 2000 levels. Britain is by no means alone in experiencing growth in visitors from Japan; figures from the US show inbound from Japan to be 33% up in the first five months of 2004 compared with 2003.



Source: Bank of Japan

As can be seen from the graph, there is still a long way to go before the amount spent on overseas travel by the Japanese returns to the levels achieved in the mid 1990s. Last year the average visit to Britain from Japan generated £871 compared with a world average of £476, highlighting the importance of Japanese visitors to the British economy.

The engine powering the Japanese economy over recent months has been the strong recovery in exports, with demand from China and the upturn in US economy being mainly responsible for this. For tourism prospects it is trends in consumer spending that is of greater importance, and there is mixed evidence here. A strong start to the year raised hopes that the long-awaited recovery was underway, but a 3% year on year decline in June has now cast doubt on this, but most analysts remain optimistic that, barring unforeseen setbacks, the corner has been turned.



Source: US Census Bureau

Japan faces a problem of paying for its growing elderly population. Figures from the US Census Bureau suggest that by 2008 Japan's population will be shrinking and within a decade one in three people in Japan will be aged over 60. We can expect more elderly Japanese with plenty of time on their hands for foreign travel in the years to come, but it is a moot point whether they will be as affluent as their present-day counterparts.

An all-purpose market

Holiday visits account for more than half of visits to Britain by the Japanese, but the flow of investment into Britain from Japan ensures a healthy market for business tourism. Around 37% of Japanese investment in Europe is destined for Britain, worth £17.4 billion according to the Bank of Japan. This resulted in more than 60,000 business related trips to Britain last year.

As is the case for all four of this month's markets, study visits from Japan are of great importance, with the Foreign and Commonwealth Office estimating that in any given year some 55,000 Japanese students will be in Britain on either full-time or short-term courses. It is

estimated that a further 55,000 Japanese live in Britain, making it the third largest Japanese community living abroad. This provides a substantive opportunity to grow the visiting friends and relatives market from the 43,000 such inbound visits achieved in 2003.

Next year Japan hosts Expo 2005 in Aichi. The event is expected to attract up to 15 million visitors, with the Foreign and Commonwealth Office estimating that around 2 million of these will pass through the British Pavilion during the six month event – representing a unique opportunity to showcase Britain in Japan.

Hong Kong

The SARS outbreak severely depressed outbound travel from Hong Kong in 2003, with the number of visits to Britain falling by 17% compared to 2002. The consensus view among analysts is that 2004 should see a strong rebound, with the number of outbound visits possibly breaking through the 8 million level, of which around 150,000 (2%) will be visits to Britain.

There are excellent air links between Hong Kong and Britain, but we should not be complacent with regard to market share as is evidenced by the introduction of new direct services from Hong Kong to New York and Toronto.

Figures from the Universities and Colleges Admissions Service help to illustrate the importance of the long term study market from Hong Kong. The autumn 2003 round of intakes to Higher Education establishments in Britain included some 2,200 students who were residents of Hong Kong – making it the third most important source market for long-term students. The number of applications from Hong Kong for entry in autumn 2004 is up by a further 3%. A clear opportunity exists to market British tourism destinations to these students during the period of their studies, and to encourage additional shorter stay inbound trips by their friends and relatives. VisitBritain will be working with the British Council in Hong Kong to develop this opportunity.

Tensions remain between the Hong Kong population and the mainland Government in Beijing. A huge pro-democracy rally took place in early July, but there is little sign of China giving way to demands for increased democracy. Nevertheless, Hong Kong remains a popular destination for mainland Chinese, with the number visiting the territory having doubled in five years.

As discussed in an earlier edition of Foresight, a large proportion of visitors to Britain from Hong Kong are British nationals. However, it should be remembered that the majority of these are not “ex-pats”, but instead holders of “British National Overseas” passports, of which there are some 4.5 million in Hong Kong (that’s around two-thirds of the population).

Philippines

This represents a small inbound market for Britain, with just 16,000 visits during 2003, despite the Philippines being home to more than 80 million people (equivalent to that of Germany). This does not mean there is not a large outbound market from the Philippines, as around 150,000 visits annually are made to the USA – a country with which the Philippines has strong historical ties.

A key insight is that some 20,000 Filipino nurses now work in Britain. Just as we noted in the case of overseas students, this represents a two-pronged opportunity, not only can Britain be

marketed to these workers during their stay, but also they can be encouraged to act as a conduit to bring about additional inbound visiting friends and relatives trips.

The IMF forecast continued strong growth in GDP per capita, at around 5% in 2004 and 4% in 2005. Despite a spell of considerable political uncertainty following the contentious election results in May the socio-political situation would again appear to be calm.

Taiwan

Just under 40,000 visitors from Taiwan came to Britain in 2003, that's less than a third of the number of visitors from Hong Kong, but the number of nights spent in Britain by Taiwanese visitors was some 33% greater than for visitors from Hong Kong. There is a simple explanation for this – 23% of visits from Taiwan were for study purposes (with high length of stay), whereas the equivalent figure for Hong Kong was 3%. Relatively low spend per visit for study trips ensures that the Hong Kong market is worth 70% more than that from Taiwan. It is estimated that Britain wins a third of the Taiwanese overseas study market.

President Chen was re-elected in March despite claims that his being shot hours before the election were staged. He has spoken of holding a referendum on independence from China; a tactic that might provoke an already tense situation, with China angered by recent Taiwanese plans to buy military equipment from the US. Most countries, including Britain, accept China's claim to sovereignty over Taiwan.

Taiwan's economy suffered badly from the downturn in the IT industry and the slow pace of the US economy around the turn of the century. However, things are improving and the Taiwan Institute of Economic Research believes that the domestic economy will beat expectations this year, with GDP set to grow by more than 5% in 2004 and unemployment fall to around 4%.

According to the Foreign and Commonwealth Office 70% of Taiwan's inward manufacturing investment in Europe is destined for Britain and many British companies are active in Taiwan, including Tesco, B&Q and MFI. This all means that around a fifth of visits to Britain from Taiwan are business related with a definite potential for further growth.

Summing up – some trends to watch

Forecasting what is going to happen to inbound tourism from Japan to Britain is a challenge. During the past decade or so the annual change has ranged from a decline of 34% through to growth of 26%. However, the scene looks set for a strong recovery during 2004 and 2005.

A slightly easier trend to forecast is the proportion of inbound visitors from Japan that are travelling independently (rather than on an organised group tour). In 1998 37% of Japanese visitors were travelling on an organised package, whereas by 2003 this had fallen to 23% (still well above the overall average for inbound visitors). With high levels of Internet access and usage in Japan the trend toward greater independent travel at the expense of package tours is set to continue.

Healthy study markets from Hong Kong and Taiwan should be here to stay, with Government and Higher Education establishments keen on promoting Britain as a place to study for overseas students. This ensures an ongoing opportunity to promote Britain to this market segment, and in turn to the friends and relatives of the students.

Issue of the Month – The cost of visiting Britain compared with other destinations

Is Britain really an expensive destination to visit for inbound tourists? There is no definitive answer to this, as how expensive somewhere is depends on not just the simple arithmetic of price comparisons, but equally on the quality of the product on offer. Low prices and value for money are not necessarily the same thing.

A distinction that has to be made is between the cost of living in Britain and the cost of visiting. The high cost of buying or renting a home, commuting and so on are frequently cited as damaging the quality of life of those living in Britain, but they are not the types of goods and services that appear on a typical inbound tourists' shopping list.

Additionally, we need to acknowledge that the chosen destination within Britain can play a major role in determining the overall cost of the trip, as the price of goods and services used by inbound tourists are not homogenous across the country. Evidence here comes from TripAdvisor Hospitality Consulting data for UK Chain Hotels. This shows that in June average room rates (the revenue per bedroom divided by the number of occupied bedrooms) was £92.34 in London, whereas for provincial hotels it was much lower, at £64.75.

This means that London can be 40% more expensive than the provinces in terms of hotel accommodation. The higher cost of London can be discerned from International Passenger Survey data for 2003, which shows that 38.8% of inbound visitor nights were spent in the capital, but that these nights accounted for 50.0% of all inbound visitor spend.

Survey evidence

The costs of twenty-one European holiday destinations were recently ranked by Holiday Which? Magazine on the basis of typical goods and services bought by tourists. The survey took place in London and other capital cities and major tourist destinations. Among the cheapest destinations were Malta, Czech Republic and Turkey.

The survey found Britain to be the most expensive destination, but once the cost of accommodation is removed from the basket of goods and services a very different picture emerges, with Britain the 14th most expensive destination out of the 21 surveyed. This reflects the high cost of London hotel accommodation relative to the cost outside London noted earlier – the survey didn't take account of the fact that more than three in five inbound visitor nights are spent outside of London.

A narrowing price gap

So if it is a mixed picture when we consider absolute cost levels in Britain compared to other destinations, what about relative changes over recent years? The following "league tables" are based on the Harmonised Index of Consumer Prices (HICP) compiled across Europe by Eurostat, the official statistical agency of the EU. The tables show how overall consumer prices, and key "tourist" prices such as transport, "recreation and culture", and "hotels and restaurants" have increased since 1996.

Looking first at the "All Items" index we see that only Germany has enjoyed lower inflation than Britain since 1996 (it should be noted however that the HICP excludes housing costs).

Harmonised Index of Consumer Prices June 2004 (1996 = 100)

	All Items		Transport		Recreation and Culture		Hotels and Restaurants	
1	Hungary	211.1	Hungary	196.6	Hungary	190.0	Hungary	252.3
2	Slovak Republic	181.5	Poland	195.7	Poland	174.5	Estonia	181.1
3	Slovenia	173.9	Slovenia	189.5	Slovenia	168.7	Slovak Republic	181.1
4	Poland	171.2	Estonia	173.5	Slovak Republic	154.9	Poland	180.0
5	Estonia	147.0	Slovak Republic	167.9	Estonia	133.6	Slovenia	176.2
6	Czech Republic	136.7	Latvia	155.5	Ireland	129.8	Malta	162.5
7	Latvia	135.8	Lithuania	142.2	Greece	128.2	Greece	157.4
8	Greece	133.9	Portugal	137.9	Czech Republic	125.3	Cyprus	148.2
9	Ireland	129.7	Czech Republic	133.8	Latvia	124.9	Ireland	147.5
10	Malta	128.2	Ireland	126.3	Spain	116.5	Portugal	145.0
11	Portugal	127.2	Malta	126.0	Malta	115.4	Czech Republic	144.3
12	Cyprus	125.3	Greece	124.2	Finland	113.5	Spain	137.3
13	Spain	124.8	Spain	123.6	Luxembourg	113.0	Latvia	133.0
14	Netherlands	122.4	Netherlands	123.5	Italy	112.2	Netherlands	132.1
15	Italy	120.1	Denmark	123.4	Portugal	110.7	United Kingdom	131.2
16	Luxembourg	119.1	Norway	123.2	Denmark	110.3	Italy	130.1
17	Lithuania	118.9	United Kingdom	121.2	Norway	110.1	Norway	129.9
18	Norway	117.0	Belgium	120.4	Netherlands	108.4	Lithuania	126.9
19	Denmark	116.9	Italy	119.9	Cyprus	107.7	Euro-zone	125.8
20	Euro-zone	115.9	Euro-zone	118.9	Belgium	105.2	Luxembourg	123.6
21	Belgium	114.6	Luxembourg	118.9	Euro-zone	105.0	Belgium	122.6
22	France	113.5	Germany	118.8	Austria	105.0	Denmark	122.5
23	Finland	113.5	Austria	117.4	United Kingdom	103.6	Finland	121.6
24	Sweden	113.4	Sweden	115.7	Sweden	101.5	France	120.5
25	Austria	112.4	France	114.1	Lithuania	100.7	Sweden	119.6
26	United Kingdom	111.3	Finland	113.7	Germany	100.3	Austria	118.2
27	Germany	110.7	Cyprus	110.5	France	99.5	Germany	112.9

The price of transport in Britain has increased slightly more than the Eurozone average, but at a rate far below that seen in nine out of the ten Accession States, along with other countries such as Ireland and Portugal. One area of concern for tourism in Britain here is that data from Transport for London reveals that the cost of using a taxi in London has increased by 25% in real terms over the past decade.

Recreation and Culture (including sport and cultural events, photo processing etc) has experienced price increases in Britain below the Eurozone average, but prices in Germany and France have barely changed. Topping the table once again are Hungary and Poland, which have experienced a near doubling in the price of recreation and culture activities. Established tourism destinations such Ireland, Spain and Italy have all seen price rises far greater than has been the case in Britain.

The story is a little less favourable when looking at the change in hotel and restaurant prices. Prices have increased by around 31% since 1996 in Britain according to the HICP, compared to the Eurozone average of 26%. Germany and Austria have enjoyed the slowest pace of price increase, but France and the four major Nordic countries have also seen lower increases than Britain. At the other end of the league table once again we find far steeper price rises across Eastern European destinations, plus in Greece, Spain, Portugal and Ireland.

Air fares

Low cost airlines have made an enormous impact on European aviation during the past decade, and are now making an impression in Australasia and Asia. At present the focus is on short-haul markets, leaving traditional operators dominant on long-haul routes.

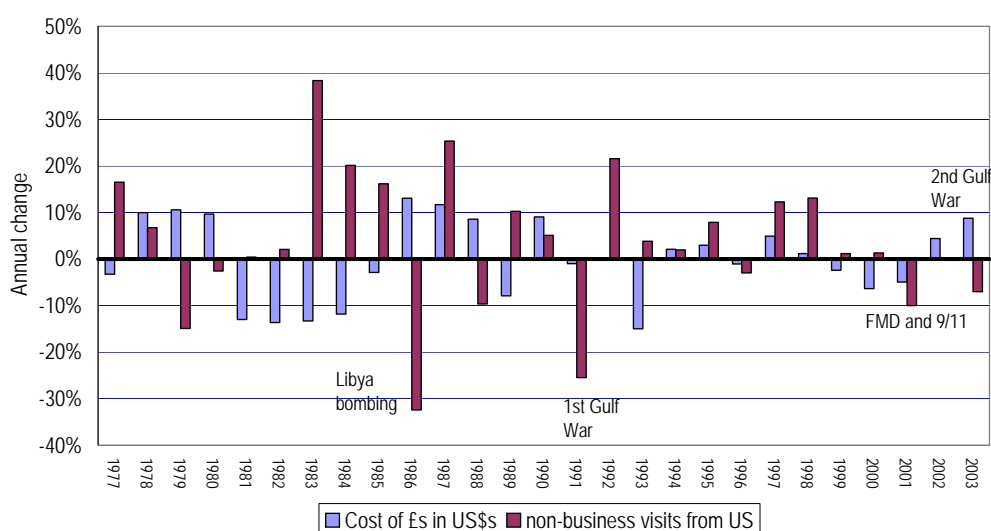
Britain was one of the first European destinations to benefit from the lower prices that these operators brought to the marketplace, with a further benefit being the regional spread of destinations served throughout Britain. There is no room for complacency however, as more and more low cost operators spring up across Europe, (including in those countries that recently joined the EU) and existing low cost operators expand their point-to-point networks across mainland Europe.

Not only does this mean that potential short-haul visitors to Britain can now reach more and more other European destinations on low cost carriers, but expanding networks offer up new destinations to the British. A risk is that domestic short-breaks will be substituted by trips to cities such as Ljubljana and Bratislava that have direct airlinks for the first time. Nevertheless, the fact that so many low cost operators serve airports across Britain from countries is an enormous bonus in helping to keep the cost of visiting Britain competitive.

Exchange rate trends

Even if prices themselves are stable in Britain, the cost of visiting can still change substantially from one year to the next due to exchange rate fluctuations. Indeed, for Eurozone citizens Britain is 6% more expensive now than this time last year due to the strength of Sterling. Taking the exchange rate between Sterling and the US Dollar serves as an example over the longer term of how the exchange rate can play a significant role in determining trends in the volume of non-business related inbound tourism.

£/\$ Exchange Rate and Non-Business US Visitors



There are many factors that determine the volume of non-business related travel, including both exceptional events (the bombing of Libya in 1986, 11th September) and ongoing factors (unemployment, airfares, the perceived attractiveness of the destination relative to alternatives). However, it is clear that in years when Sterling became more expensive in terms

of US Dollars there is a tendency for the volume of non-business travel from the US to Britain to fall, and vice versa.

The domestic story

Looking at the choices facing British consumers when considering how to spend their income a number of concerns emerge. Firstly if we consider the relative change in the cost of tourism related services in Britain we find that throughout the past year the cost of domestic travel, accommodation services and restaurants have typically been increasing faster than overall consumer prices. Meanwhile, the cost of travelling abroad from Britain by air has been falling in absolute terms (a trend that may be reversed as fuel surcharges introduced by airlines feed through to the consumer price index) as has the cost of package holidays.

Conclusions

Provisional figures from the International Passenger Survey for the first six months of 2004 recently released by the Office for National Statistics show that Britain attracted a record number of inbound visitors for the January to June period (almost 12.5 million). However, visitor spend remains 5% down on the same period of 2000. To help address the fact that more visitors are coming to Britain, but that they are spending less whilst here, VisitBritain recently launched "So British" magazine, targeting key high spending visitors from markets such as the USA and Russia by highlighting the breadth of top quality experiences available throughout Britain.

As we have discussed, low cost carriers have revolutionised air travel in Europe, and it could be that the accommodation sector is set for a period of change, with increasing numbers of no-frills hotels springing up and easyGroup having purchased its first London hotel.

Britain is enjoying a period of sustained low inflation, even if some tourist prices are rising a little faster than other consumer prices, and subject to no major economic shocks stable prices are here for the foreseeable future. Meanwhile many other European destinations are seeing far steeper price increases across a host of tourism goods and services, ensuring price differentials between Britain and competitors such as Spain, Ireland and the Czech Republic are diminishing.

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