

FORESIGHT

Issue 13 November 2004

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 we focus on prospects for the domestic market and take a look at the debate over smoking in public places in relation to the tourism industry.

Market Focus – Britain

This month Market Focus takes a look at what is happening on the domestic front, focussing on a variety of factors that help to determine the volume and value of domestic tourism activity. These factors include prospects for the British economy, consumer confidence, and trends in the scale and nature of overseas trips taken by Britons.

Economic Forecasts

Oil prices are now widely considered to be the most significant risk factor for short-term economic prospects, not just in Britain but across much of the developed world. To an extent Britain is well placed, being a major oil producer there are benefits, as well as costs, of continued high prices. Brent Crude has cost around \$50 a barrel for a number of months now, but in its most recent survey of forecasting experts the Treasury note that the average cost of a barrel during 2005 is expected to fall back to \$34.50.

Does any of this matter for tourism in Britain? The answer depends on how high oil prices peak, but more importantly the length of time for which they remain high. In recent analysis Oxford Economic Forecasting estimated that a sustained \$20 per barrel increase in prices could shave 0.8% off Britain's GDP in both 2004 and 2005. Oil prices, in real terms, are still a long way below the peaks reached in the 1970s and early 1980s, but the economic downturns that these earlier crises brought about in Britain act as a timely reminder of the importance with which we should monitor the situation.

According to the latest compilation of figures by the Treasury the average forecast for UK GDP growth in 2004 is 3.3%, falling back to 2.5% in 2005 (a figure that is considered to be in line with the long-run historical trend). Unemployment in Britain is forecast to remain steady over the next year, with the claimant count not exceeding 900,000. Average earnings during 2005 are forecast to grow by 4.5%, nearly 3% above the Consumer Price Index (the Government's preferred measure of inflation) – suggesting that Britons will enjoy greater spending power next year, subject to any changes in taxation that may be introduced at the time of the next Budget.

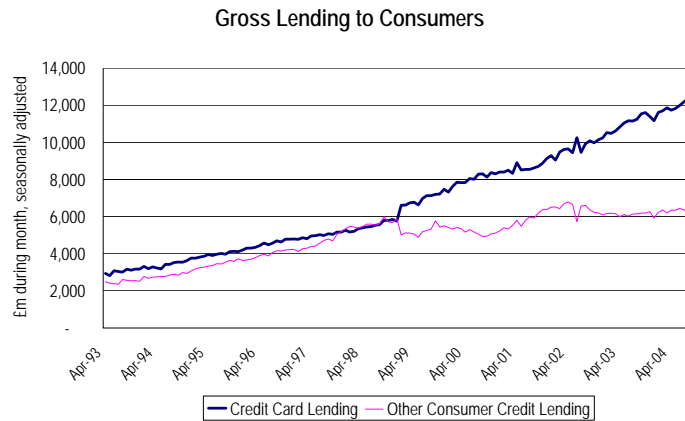
Money, money, money

The Bank of England's Monetary Policy Committee is charged with the task of setting interest rates. At their latest meeting on 3rd and 4th November the Committee opted to leave base rates unchanged at 4.75%, a decision that was in line with market expectations. It is felt that base

rates may now have peaked, or will rise by no more than a further ¼ point, however base rates are expected to remain close to 5% throughout 2005.

Complex linkages within the financial sector mean that changes to British base rates, and equally important, changes in market expectations about future interest rates, have an impact on Sterling exchange rates. In turn the exchange rate helps determine the affordability of Britain to potential inbound visitors, and the affordability of overseas destinations to Britons.

The chart, based on Bank of England figures, shows the relentless upward progress of consumer credit card borrowing during recent years. Non credit card borrowing has remained steady for the past five years. Latest figures hint at a slowdown in the growth rate of credit card lending as higher interest rates start to bite.



Consumer Confidence Trends

The last time Market Focus covered Britain we observed that consumer confidence finally seemed to be showing signs of an upswing, but sadly this proved to be a false dawn. Latest figures for October published by GfK Martin Hamblin on behalf of the European Commission indicate that consumers are now just as pessimistic as they were before the start of the Iraq war in early 2003. Drilling down further into the various components of the index we find that the balance of consumers agreeing with the statement “now is a good time to save” is now higher than at any time since January 2001.

Soft Landings

Mervyn King, Governor of the Bank of England, recently stated that Britain may be entering a “softer patch”, following a period of sustained economic growth. This does not mean that the British economy is expected to go into reverse, simply that the rate of growth will slow in the coming months – a slowdown purposefully engineered by the Bank through its gradual increase in the cost of borrowing over the past year.

Outbound Tourism from Britain

Normally in Market Focus we take a look at figures relating to inbound markets to Britain. However, this month a few trends in outbound travel from Britain are highlighted as these can help the tourism industry better understand the nature of travel experience that British residents are seeking, enabling domestic tourism products to be better aligned with consumer choice.

Back in 1993 UK residents made 36.72 million overseas visits, whereas in 2003 the figure stood at 61.42 million, an increase of 67%. In comparison, inbound visits to Britain increased by 24% during the same period.

Holiday visits account for two-thirds of all overseas visits taken by UK residents, with business trips responsible for one in every eight trips. Outbound travel from Britain to visit friends and relatives has increased by more than 90% over the past decade, a growth rate well ahead of that for other trip purposes. Interestingly there has been a 17% decline in Britons travelling abroad for study visits since 1993.

The average length of an outbound visit from Britain in 2003 stood at 10 days, compared with just less than 12 days in 1993. This is evidence of the well-accepted argument that people are taking more trips, but that these are becoming shorter in nature.

What about spending? Britons travelling overseas spent an average £46 a day in 2003; this compares with a figure of £58 a day spent by inbound visitors to Britain. Despite this differential the greater volume of outbound travel compared with inbound travel means that in aggregate terms Britain's effective tourism "balance of payments" deficit has grown from £3.485 billion in 1993 to £16.695 billion in 2003.

The DIY culture

The proportion of outbound travel that was arranged independently, rather than being a "package", stood at 62% in 1993, and it will be of little surprise that this had increased markedly to 68% of outbound visits by 2003 thanks to the enthusiasm with which British consumers have embraced the Internet.

Figures for the first nine months of 2004 from the IPS show that the number of visits abroad by UK residents has increased by 2% compared with the same period of 2003. Meanwhile expenditure is up by 4%. These are fairly modest increases given the strength of the economy and growth in availability of low cost air routes. It is worth noting that data released by BAA shows charter passenger traffic from its seven UK airports fell at an annual rate in excess of 5% during the peak summer months.

Where we go

As can be seen from the following table, there have been some changes in the top five destinations visited by Britons over the past decade.

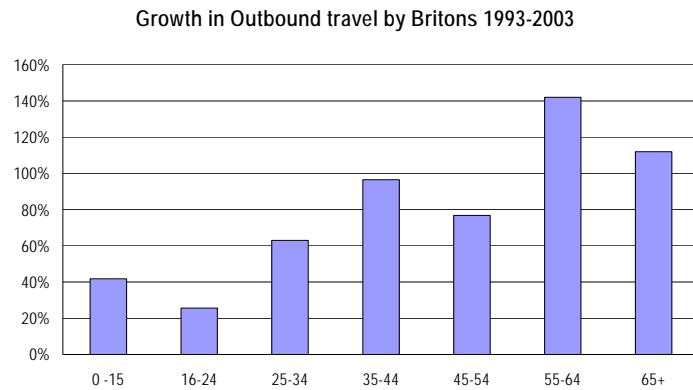
2003	1993	
Spain	France	Spain has swapped places with France as the most popular destination for outbound travel, and Ireland has replaced the USA in third place. Meanwhile Italy is now the fifth most popular destination, a position previously held by Greece which has moved down to sixth place.
France	Spain	
Irish Republic	USA	
USA	Irish Republic	
Italy	Greece	

There are some notable changes in the destinations lower down the league table, with Mexico having seen a ninefold increase in visitors from Britain over the past decade, attracting nearly ¼ million visits in 2003. The Former Yugoslavia is another destination that has become far more popular now that the Balkan conflict of the early 1990s is fading from the public mind. The United Arab Emirates has seen a fivefold increase in visitors from Britain, now attracting 274,000 annual visitors. The Czech Republic and Turkey both played host to well over 400,000 more British visitors in 2003 than had been the case ten years earlier, demonstrating the clear trend towards visiting "new" destinations.

Exploding a myth

The chart should act as a wake-up call for anyone within the tourism industry who thinks they can rely on those of a more mature age behaving in the same way as former generations and taking their holidays in Britain year after year. By far the strongest growth in outbound travel in the past decade has been seen among those aged 55 and over. The slowest growth

is among 16-24s. Evidence such as this reflects the discussion about “healthy ageing” and its consequences for British tourism covered back in Issue 1 of Foresight. In brief, not only is the average life expectancy of the typical Briton increasing, but so too is the number of years in which we enjoy good health during old age, thereby extending the period during which tourism, and all other active pursuits, can be enjoyed.



Tourism employment in Britain

Figures from the Office for National Statistics reveal that at the end of 2003 there were some 2,151,300 people employed in tourism related industries within Great Britain, including 170,000 who were self employed. This means that nearly 8% of those in employment are dependent upon the British tourism industry for their livelihood.

Prospects for 2005

The coastline and waterways of Britain are a vital tourism asset, especially for domestic tourism. According to the Department for Environment, Food and Rural Affairs, England and Wales has 1,553 kilometres of Heritage Coastline. To help demonstrate the importance of our relationship with the sea, and to mark the 200th anniversary of the Battle of Trafalgar, “SeaBritain 2005” is a national maritime celebration on a grand scale, with festivities and events throughout 2005 and beyond. This will prove an ideal focus for encouraging domestic tourism to Britain’s coastal areas, be they rural or urban.

The slower rate of economic growth, persistence of apprehensive consumer confidence and memories of a very wet summer in 2004 will help make 2005 a challenging year for domestic tourism. However, the economy is still fundamentally in a very sound shape, and provided budding domestic tourists are offered a product that can compete on quality and price with overseas destinations 2005 should deliver stability in the volume and value of domestic tourism.

VisitBritain will be working hard to boost domestic tourism to England throughout 2005 through active marketing, including its watersideEngland and tasteEngland campaigns and supporting numerous SeaBritain events.

Issue of the Month – Smoking in public places

The debate

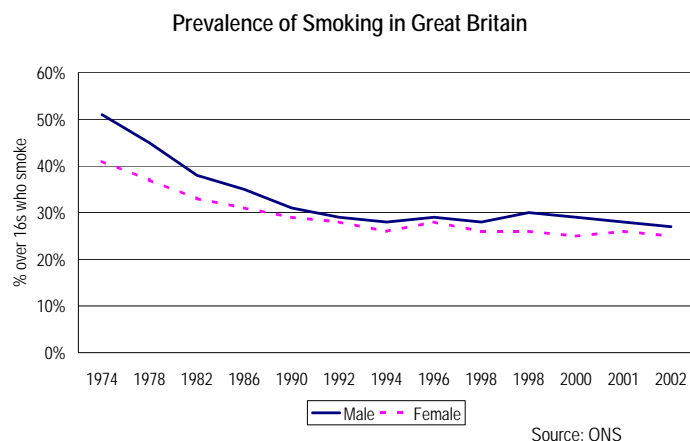
This is an issue that excites high emotion and strong opinions in equal measure from those seeking a smoke free environment and those who believe that an outright ban would be an infringement of their rights. An eagerly awaited White Paper on Public Health is expected to clarify the Government view regarding future legislation in this area in the very near future.

Here we take a look at some facts and figures relating to the distribution of smokers among the domestic and inbound visitor populations and consider what is being done in other leading tourism destinations in terms of banning smoking.

The debate is not just about accommodating changing social trends in relation to attitudes towards smoking in public places, but increasingly about the rights of those working in establishments such as pubs and restaurants.

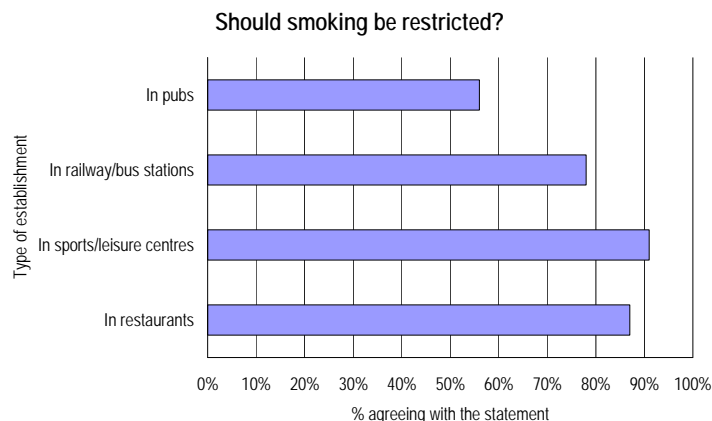
Domestic market: facts and figures

We can see from the chart that the prevalence of smoking in Britain declined steadily during the 1970s and 1980s, but has remained fairly steady at around 30% of the adult population since 1990. Smoking is more prevalent among males than females, but the gap has been narrowing. In the 16-24 age band a greater proportion of women than men now smoke.



Attitudes

The chart shows some of the findings of a recent survey undertaken by the Office for National Statistics covering public attitudes towards smoking in public places. As can be seen there is a majority in favour of smoking being restricted in public places, but that this figure varies from a little over half of those asked when considering a ban in pubs, through to 90% who feel a ban in sports and leisure centres is acceptable. It should be noted that the sample included both smokers and non-smokers.

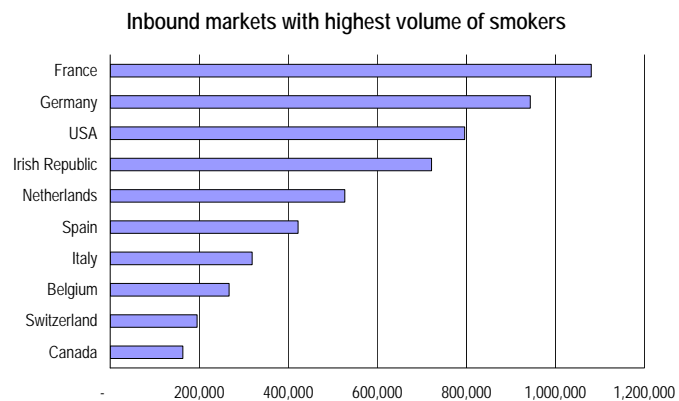


Only 8% felt that there should be no restrictions at all on smoking in pubs, with 20% saying there should be an outright ban. However, virtually everybody (92%) favoured restrictions on smoking in public places where children were likely to be found.

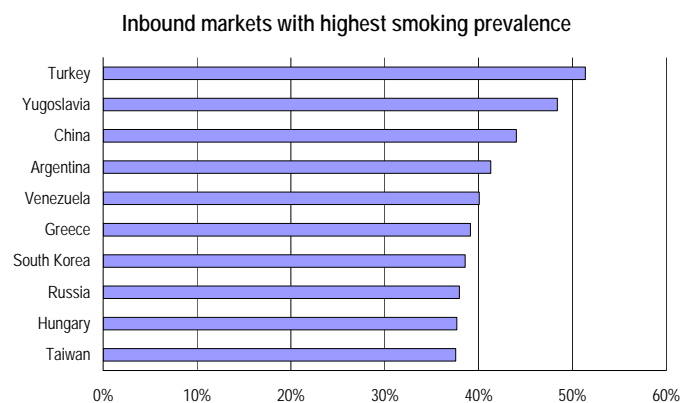
Inbound markets: facts and figures

The following analysis is based on smoking prevalence figures for adults published by the World Health Organisation. In estimating the prevalence of smoking among inbound visitors to Britain weighted totals have been found, based on separate male and female rates of smoking, and applying these rates to the number of male and female visitors from each country (based on International Passenger Survey totals for 2003). By necessity it has been assumed that those visiting Britain are representative of their home country's population in terms of smoking behaviour.

We can consider how important smoking is for Britain's inbound tourism market in two ways. Firstly looking at the absolute size of the inbound visitor population who are smokers we can see that the greatest number are French and Germans, with US citizens in third place. The size of the inbound market from the US, 3.3 million visitors in 2003, means that even though less than a quarter smoke this represents a large absolute number.



Another way of looking at the importance of smoking across different inbound market segments is to consider the relative prevalence of smoking in each market. The league table here is very different to that for the volume of smokers. Turkey tops the table with more than half of visitors likely to be smokers.



A key insight that we can take from this chart is that smoking is far more common among visitors from many markets that are forecast to experience strong growth in the coming years than in our more mature markets. For example, Russia, China and Hungary all feature in the "top ten" as do Turkey and Greece.

Overall we can estimate that 25% of inbound adult female visitors to Britain are likely to be smokers, with the figure for adult males being higher at 35%, giving an overall average of 30% which is only a little higher than the figure for Britons.

What's happening elsewhere?

There is growing evidence that governments across the world are devolving responsibility for decisions to the local level. For example, those using Manly beach in Sydney are no longer permitted to smoke, but many other beaches close by remain open to smokers and non-smokers alike. A ban on smoking in restaurants has been spreading across many parts of Australia over the past year.

In the Netherlands a ban in restaurants and bars is expected to come into force during the next year, unless these establishments sign up to a voluntary code to provide a smoke free environment. The Norwegian government have imposed a ban on smoking in restaurants and bars across the country.

New York authorities banned smoking in bars and restaurants 18 months ago – and very stringent restrictions exist relating to smoking in all public places across California.

Much closer to home Ireland banned smoking in pubs and restaurants in March this year on grounds of Health and Safety. Following the introduction of the ban cigarette sales have fallen, and recently the Drinks Company Diageo claimed that the ban had resulted in a reduction in sales of Guinness.

Unfortunately there is rather more froth regarding the impact on tourism businesses as a result of smoking restrictions than there is hard evidence, with the majority of schemes having only been introduced in the recent past.

And in Britain?

Here in Britain the situation is evolving quite swiftly. Councillors in Liverpool decided to make the city the first in the country to ban smoking in public places in late October, but will need Parliamentary approval before such a ban can be made legal. London looks set to be heading down the same road, with the Mayor having already announced a ban on smoking inside all licensed taxis.

In Scotland Ministers have unanimously backed a plan to bring forward legislation that will ban smoking in enclosed public places, the move follows extensive public consultation on the issue.

Not all of the changes being imposed are on the edict of Local Authorities, in some instances tourism businesses themselves have been proactive in adjusting their policy relating to smoking in public places. For example, Ramada Jarvis, operator of 58 hotels across Britain, has recently announced that it is to ban smoking in its hotel restaurants, all public areas and in three-quarters of its bedrooms. It will retain designated smoking areas within its bar and lounge areas.

In its response to public consultation ahead of the Public Health White Paper the British Hospitality Association said that the Government had two feasible options, either to continue with the current voluntary approach (favoured by the BHA) or to introduce a blanket ban on smoking in the workplace. The British Beer and Pub Association recently claimed that within the next year smoking will be banned in the area close to the bar in more than a third of all pubs and bars across the country.

Litigation and Legislation

There is a very active debate about the possible detrimental health impacts of “passive smoking”, with recent evidence from Finland suggesting that being exposed to cigarette smoke might be a factor in causing, rather than simply exacerbating, asthma. Many businesses in the tourism sector employ a workforce routinely exposed to a smoky environment.

This means an increased likelihood of employees who develop health problems that they consider to be related to their working environment resorting to legal action against their employer. As such, it might be that the threat of future legal action is as significant as public opinion in driving change in the extent to which smoking is permitted in public areas.

Public Health officials will be watching bans closely to assess whether they are effective in changing smoking behaviour within the population, whereas what will be crucial for the tourism industry is the impact that bans might have on future revenue streams. At present the many experiments in imposing a smoking ban have not been in existence for long enough to establish whether they are effective in their public health objectives, or harmful to the health of tourism businesses.

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