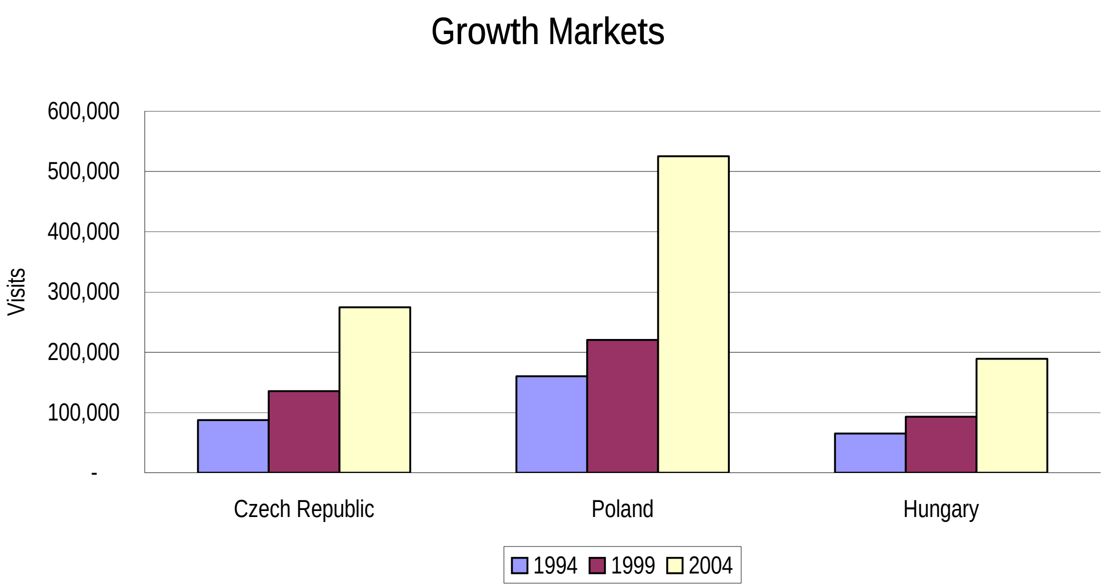
FORESIGHT
Issue 19 May 2005

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 Market Focus covers three countries celebrating their first year inside the EU - Poland, Czech Republic and Hungary and Issue of the Month discusses trends in the short and long-stay inbound study markets.

Market Focus – Poland, Czech Republic and Hungary

Last year witnessed a continuation of one of the most pronounced recent trends for inbound tourism to Britain – exceptionally strong growth from all three of these markets. Provisional data[1] reveals that Poland is now Britain's 13th largest inbound market by both volume and value. The Czech Republic is now the 18th and Hungary 23rd most significant market by volume, but with relatively low average spend per visit neither, as yet, makes it into Britain's top thirty most valuable markets.

The following chart demonstrates just how impressive the growth in visits has been during the past decade – with the number of visits from all three nations roughly trebling. Between them the three accounted for 3.6% of all inbound visits (989,000) in 2004 and 2.9% of all inbound visitor spend (£374m). The average spend per visit for visitors from Poland and Hungary exceeds £400 and is not too far short of the provisional global average of £466 for 2004. However, the average spend per visit by visitors from the Czech Republic was around half this amount at £237.

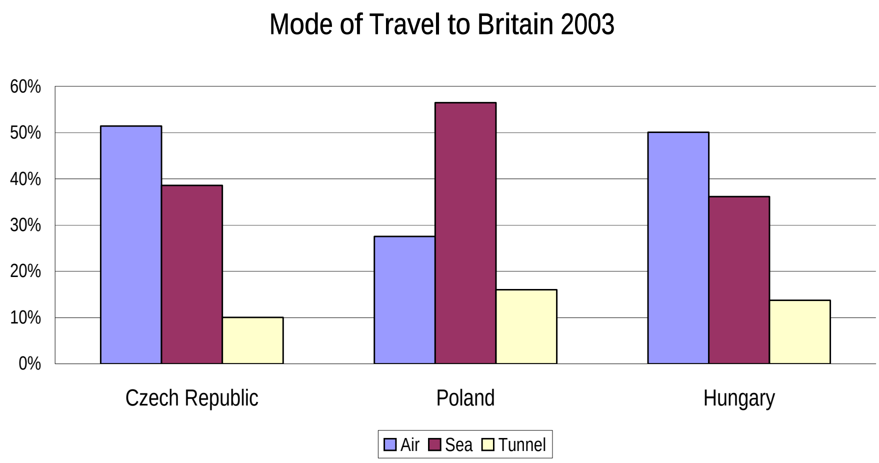


Why such strong growth?

Air route expansion following EU Accession in May 2004 is one of the key reasons, as this opened up the aviation market in the three nations to existing and new low-cost operators. An analysis of CAA data shows that in March 2005 there were 13 scheduled routes operating between points in Poland and points in Britain, 12 from the Czech Republic and 6 from Hungary.

Despite the collapse of Air Polonia we now see Centralwings and SkyEurope both offering new services from Poland to various British airports and a continued expansion in the number of UK destinations served from Prague - CSA Czech Airlines estimate that there will be roughly 270 flights a week from the Czech Republic to the UK during summer 2005.

However, the chart highlights that “air” is by no means the only transport mode used to visit Britain. Sea is the dominant mode for visits from Poland and accounts for a third of all visits from Hungary and the Czech Republic.



A further explanation for the rapid growth tied to EU membership is the increased wealth being enjoyed by citizens of the three countries as investment from other parts of Europe flows in to take advantage of the relatively low labour costs on offer, creating new job opportunities.

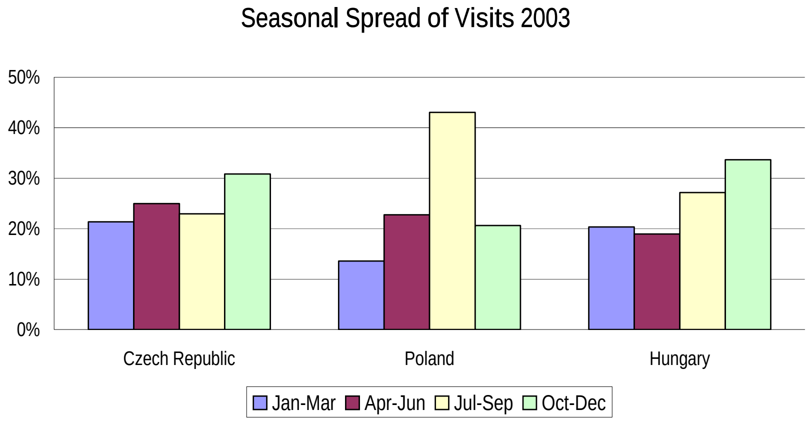
According to the latest IMF World Economic Outlook by 2006 the average income per head based on “purchasing power parity” (a method of adjusting income to take account of different costs of living in each country) will be $20,600 in the Czech Republic, $17,800 in Hungary and $14,100 in Poland. This represents an increase of nearly 50% in the past decade for those living in the Czech Republic, and an increase in excess of 80% for those in Poland and Hungary – by comparison near neighbours Germany has witnessed a rise in per capita income (again using the purchasing power parity method) of less than 40% in the past decade.

Despite the increasing prosperity for those living in these countries EU membership has also made it easier to travel to Britain and other EU countries in search of work. Whilst those who enter employment in Britain will not show up in the International Passenger Survey figures, they will no doubt undertake tourism activity during their stay, and potentially develop ties that will in time result in leisure trips to Britain after they return to live in their home country.

Home Office figures indicate that in the first eight months of EU membership 73,500 Polish residents applied to work in the UK, as did 8,900 Czechs and 3,700 Hungarians, the combined total of these figures represents two-thirds of applicants from all ten of the Accession States.

Seasonality

We find notable differences when looking at seasonal spread. Poland is fairly typical in seeing peak travel during July to September, but Hungary and the Czech Republic generate a steady level of visits across the year.



Travel arrangements

According to the European Travel Commission New Media review one-in-four have Internet access in Hungary and the Czech Republic, with the figure for Poland being one-in-five. Many of those with access will be using it to take advantage of the increasing number of low-cost airlines offering cheap travel to a range of foreign destinations. According to the International Passenger Survey 22% of visitors from Poland to Britain in 2003 are estimated to have travelled as part of an organised tour rather than independently, but around 90% of visitors from both Hungary and the Czech Republic travelled independently. With increased Internet access making travel planning and booking easier we can expect a growing proportion of visitors from these markets to make their own travel arrangements.

Education

Figures from the Universities and Colleges Admissions Service reveal that University entrants in 2004 included 499 Polish students, 148 from the Czech Republic and 119 from Hungary, in each case a significant rise on 2003.

Poland was the 7th most important English as a Foreign Language (EFL) market for Britain in 2002 with nearly 17,000 visits that included attendance at English language courses. More than 2,000 EFL visits were generated from both the Czech Republic and Hungary in the same year.

Poland

Poland faces a possible early election in June and there is uncertainty about who will win with a number of prominent politicians, including the current Prime Minister, announcing that they are to form a new political party.

After economic growth of 5.3% in 2004 the IMF expect slower growth in the next two years of around 3.5% per annum. Following a number of years of very high inflation during the 1990s prices are now increasing at just 3% a year, but unemployment still remains a problem with around one-in-five out of work according to the Economist.

Even before EU membership there were estimated to be 60,000 Polish born citizens living in Britain, but the population of Polish descent could be as high as 250,000, with 60% of these living in London according to the Federation of Poles in Great Britain. The Federation notes "there is now a vibrant and well established Polish Community in Britain with 113 Polish Community Centres, 82 Polish Catholic Parishes, and 67 Polish Saturday Schools attended by over 5,000 children". Furthermore, the Polish Daily newspaper has a circulation of more than 10,000. The existence of such a strong Polish community in Britain helps to explain the steady growth in the importance of VFR trips, now accounting for more than a quarter of all visits.

Czech Republic

In line with Poland the Czech Republic is going through some political turbulence at present, with the Prime Minister facing a vote of no confidence as former members of his Social Democratic Party desert him and the unelected President now wields the most political power in the country.

Unemployment is around half that in Poland at 10%, but economic growth rates of around 4.3% are being constrained by the continued high cost of oil. Many Eastern European economies have industrial sectors that are far less fuel-efficient than their counterparts in the west meaning that they are more exposed to fluctuations in fuel prices.

Hungary

Hungary's political difficulties presently centre on a dispute between farmers and the Government over the speed with which EU agricultural subsidies are being distributed, the expectation is that the Government will face a stiff battle to retain power in next years elections.

Around half of all trips to Britain from Hungary are business visits, and this helps to account for the large share of visits that fall in the October to December quarter apparent from the earlier chart – it is estimated by the Foreign and Commonwealth Office that there are around 500 British companies operating in Hungary. Many events took place during 2004 to mark Hungary's membership of the EU, including a series of visits to Britain by young Hungarian professionals, giving a fresh boost to business tourism prospects.

Promising prospects?

The one-off "step effect" of EU membership will start to wane during the second half of 2005 but there is a strong probability that each of these three markets has room to further expand over the next few years as foreign travel becomes easier and more affordable to the population.

Budget conscious visitors from these countries will favour the increasing availability of direct airlinks to a wide range of value for money UK destinations. With favourable signs for continued growth in business visits not only are these markets good news for spreading the benefits of inbound tourism across the regions of Britain, but should deliver a healthy seasonal spread too.

VisitBritain plans to exploit this growing market opportunity by expanding its work in Poland and in a new venture joining forces with the British Council to promote Britain in both Hungary and the Czech Republic over the next few months.

Issue of the Month – Inbound Study Visits

Inbound study market - key facts

In recent years there has been a steady decline in the number of inbound study visits, with the provisional figure for 2004 suggesting that there were 578,000 such visits (that's 2% of all visits), a fall of 19% since 1999. However, those coming to Britain on study visits stay a long time relative to all other journey purposes, the typical figure for recent years has been close to six weeks. Such visit longevity more than makes up for a low average spend per day (around £40), meaning that in 2004 study visits generated an estimated £1bn for the UK economy, equivalent to 8% of all inbound visitor spend.

The International Passenger Survey will not pick up all overseas students studying in Britain. The group that the survey does not cover are those engaged in long-term courses who opt to become permanently resident in the UK for a period that exceeds more than twelve months – the IPS only includes those staying in the UK for less than a year whose "permanent" place of residence is overseas.

Learning English

Every three years an additional question is included in the International Passenger Survey that focuses on those attending English language courses. Those asked the question have to be foreign residents who are staying in the UK for more than three nights, who do not hold a passport from an English speaking nation and who are aged five or older. The most recent full year figures available are for 2002.

The English as a Foreign Language (EFL) market is a significant proportion of the overall study market, but there will be visitors who undertake some learning of English during their stay whose overall journey purpose is not classified as "study". So, most, but not all, of the 450,000 visitors who said they attended an English language course during their visit when this question was asked in 2002 will be included in the overall "Study Visits" figure of 682,000 for that year.

At a recent British Council conference on international education a report suggested that the number of people undertaking some formal learning of English could peak at 2 billion by 2010, meaning that there should be enormous potential for the UK to grow this particular segment of the overall study market, but of course as demand for a product increases, so too does the number of suppliers on offer. The UK faces increasing competition in attracting EFL students from countries such as the US, Australia, Ireland and Malta.

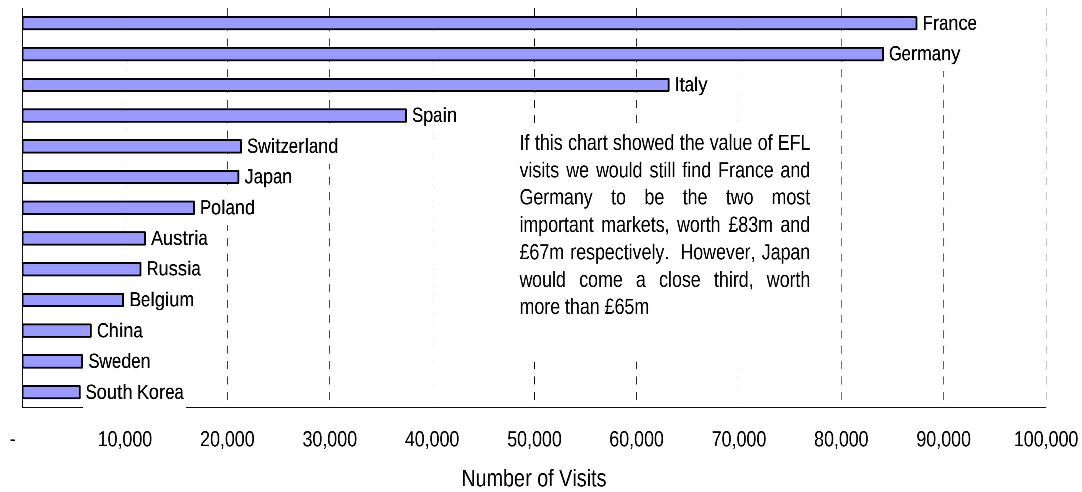
EFL visitor characteristics

We can see from the table that EFL visits are predominantly long-stay visits, with more than 60% lasting for 15+ nights, and a further quarter for between 8 and 14 nights. These visits are also heavily biased towards the July to September period, accounting for well over half of all EFL trips. Less than one in ten EFL visits take place between January and March.

	Number of Nights			
	4-7	8-14	15+	Total
Jan-Mar	3%	2%	4%	8%
Apr-Jun	4%	5%	7%	16%
Jul-Sep	2%	18%	36%	56%
Oct-Dec	4%	2%	14%	20%
Total	13%	27%	61%	100%

We can see from the following chart that in 2002 the top five EFL source markets were all near European countries.

Major EFL Markets in 2002

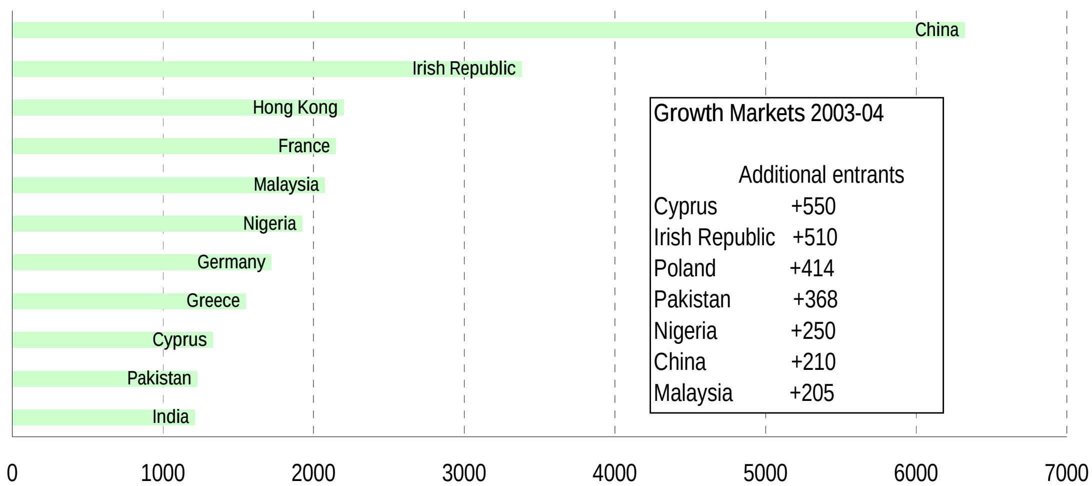


Study for qualifications

Many overseas students come to Britain not to learn English, but to gain a range of academic or professional qualifications. This is an important trend not just for British Universities (with Universities UK recently stating that fees from students outside the EU constitute 7% of the Higher Education budget) but also for the British tourism industry.

In 2004 more than 43,000 overseas students accepted offers to enroll on courses at British Universities according to figures released by the Universities and Colleges Admissions Service (UCAS), with this representing a 7% increase on 2003. The demand for places is substantial, with UCAS figures showing that there were more than 300,000 overseas applicants in 2004.

UK University Entrants 2004



The above chart highlights the importance of students from China with more than 6,300 enrolling at British Universities in 2004, that's one-in-seven of all overseas entrants. However, some of the fastest growing markets came from the EU Accession States, with around 500 more entrants from both Cyprus and Poland in 2004 than in 2003.

Early indications are that the rate of increase in the number of applications from overseas students for entry during 2005 has slowed, with an actual decline in the number of applicants from China. The apparent slowdown is at its sharpest among postgraduate applications - it is estimated that a third of all research postgraduate students are from overseas.

These figures only incorporate those entering into their first year of a University Degree or Higher National Diploma courses at UK Universities. The total population of overseas students living in Britain is estimated to be around 275,000 – equivalent to the entire population of Nottingham.

Concerns

In recent months University Vice Chancellors and UK Universities have voiced their concerns about this slowdown and future prospects for the number of overseas students applying to British Universities. This is not just due to the stiff competition they face from overseas academic institutions, but also due to worries about increased restrictions on the availability of visas and a mooted Government plan to raise the cost of a study visa from £36 to £85 from July this year.

UK Visas, part of the Foreign Office, say that the demand for study visas is increasing by 15% a year and that the increased price is necessary to cover escalating costs. However there are also concerns that increased scrutiny of visa applications is leading to a greater number of study visa applications being rejected.

Role of the tourism industry

The international education market is forecast to boom in the coming years. A recent report presented at a British Council conference highlighted the fact that demand for international student places in the "Main English Speaking Destinations" is expected to grow from 1 million in 2003 to 2.6 million by 2020. But Britain cannot sit back and wait for a flood of international students – the prospect of strong growth means there is tough competition from the US, Australia and Malta for the EFL market, plus competition from many Asian countries including Singapore and Malaysia for longer term study. There are thought to be more than 100,000 international students enrolled in Malaysian academic courses according to the British Council.

Evidence compiled by the British Council suggests that a host of factors determines the magnetism of a destination in attracting international students, not just the quality of the educational product on offer but also the usefulness of the resultant qualification, the affordability of living in the host country, historical ties with the country and the perceived quality of the destination for non study-time experiences.

This is where the British tourism industry can play a role in helping to ensure that it makes the most of the immediate and longer term potential to boost tourism activity undertaken by overseas students – benefits that can be reaped not just during the study period but potentially well into the future.

By working in partnership with the many academic institutions hosting overseas students the tourism industry can communicate very effectively with the students themselves - highlighting the varied opportunities that exist for fun and affordable leisure activity across Britain.

Through such engagement with academia the British tourism industry can illustrate its many products to an audience set to enjoy relatively high incomes during their later life, and thus able to afford frequent foreign travel. If these students develop a positive perception of the tourism experience on offer in Britain during their studies then there is a very healthy chance that they will return in the future as leisure visitors, with family, friends and considerable spending power.

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[1] Data from International Passenger Survey has been made available by the Office for National Statistics and has been used by permission. The ONS do not bear any responsibility for the analysis or interpretation of the data reported here. Crown Copyright 2005. Source: Office for National Statistics