

FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month, there will be a market focus that will discuss economic, social and political factors that underlie demand for tourism now and in the future. In addition to the market factors, there will be a spot light focused on significant tourism issues. This month, the markets USA, Canada and Mexico and we consider the impact of the ageing UK population and how this will affect tourism patterns in the future.

Market Focus – USA, Canada and Mexico

Despite a drop in visitor numbers of almost half a million between 2000 and 2002 the US is still by far the most important market for inbound visitors to Britain. Some 3.6million Americans came to Britain in 2002 (half a million more than from France in second place) and earned the UK economy some £2.4bn. Almost 600,000 Canadians and 70,000 Mexicans came to the UK in 2002, generating a further £0.4bn for the UK economy. The number of Mexicans visiting Britain has doubled since the mid 1990s. The decline in visitors from North America has continued into 2003 with the period from January to August seeing a fall in visitor numbers of 10% compared to the same period of 2002 according to provisional IPS data.

A combination of factors have brought about this sharp decline, none more so than a fear of travelling overseas among US citizens due to the threat of international terrorism, especially following the US led war in Iraq. The situation has been further hampered by sluggish economic growth in the US and a host of corporate accounting scandals resulting in concerns about the value of private pension funds. Confidence in Canada has been hit by the SARS outbreak in Toronto and in Mexico there is growing unemployment and the Government is increasingly unpopular.

The big question is whether we are approaching a turning point that will see the resumption of strong year-on-year growth in travel from North America to Britain.

The USA

Many of the more quantifiable “fundamentals” look increasingly promising in the US. The US economy grew at an annual rate of 3.3% in the second quarter of 2003, compared to 1.4% in the first quarter, a rate somewhat higher than experienced in most EU countries. The Institute of Supply Management announced its manufacturing production index grew for the third consecutive month in September while overall economic activity grew for the 23rd consecutive month. However, ISM noted that further significant growth would be necessary before firms would be willing to rehire staff. The Federal Reserve's Industrial Production Index rose in September, but remains 0.6% lower than its level a year ago.

President Bush in a recent speech to trade unionists defended recent tax cuts, and with Presidential elections barely a year from now it is unlikely that there will be any fiscal tightening in the immediate future. The US stock market has been experiencing a modest improvement recently standing at around 9,600 in late October compared to 8,341 at the end of 2002, a rise of some 15%.

US consumers are becoming increasingly willing to spend money, with consumer credit increasing at an annual rate of 5.3% in August but they would appear to be nervous about the future, as the consumer confidence index fell from 81.3 in August to 76.8 in September, (1985=100). The US Conference Board believes that this uncertainty is driven by the continuing lack in improvement in the labour market.

The "leading indicator index" gives a clue about the probable direction of the US economy in the near future. After four consecutive months of growth the index fell back slightly in September, but still remains some 5% above its level this time last year.

The US Department of State has recently published data showing that the number of passports issued in the year to 30 September 2003 was a record 7.3 million, taking the total number of US citizens who own a passport to a new high of 59 million (21%). This is a strong indicator of a continued intention to undertake overseas travel among a significant proportion of the US population.

All of these indicators are pointing pretty much in the right direction, however an area where there is less reason for cheer is the labour market. Unemployment rose sharply when the hi-tech boom ended during 2000 and 2001 and has not recovered very quickly, with latest figures suggesting an unemployment rate of 6.1% in the US.

Even with a strengthening economy there are still hurdles to overcome before Americans will start travelling to Britain in the numbers seen a few years ago. First and foremost it will be necessary for US citizens to feel it is safe to fly. Willingness to fly across the Atlantic appears some way off according to recent US Department of Commerce figures that suggest the number of US citizens travelling to Europe was almost 10% lower this summer than a year before, and some 25% down on 2001. The most recent "Worldwide Caution" issued by the US Department of State warned US citizens of potential terrorist attacks that "may also involve commercial aircraft" – advice unlikely to encourage American's to consider a long-haul overseas destination for the next vacation.

On the positive side, the number of US visitors to most other European destinations have experienced steeper declines than seen in Britain – a likely consequence of the support given by Britain to the US in recent months. British Airways and American Airlines have recently reached a code-sharing agreement, making it easier, and potentially cheaper, for Americans from a number of cities to reach Britain.

Canada

Canada has suffered a number of "shocks" during 2003. There has been a significant outbreak of SARS in Toronto, the only such outbreak outside of Asia, "mad cow disease" has become a problem for the vital agricultural sector of the economy, resulting in the USA banning the importation of Canadian beef. There have been devastating forest fires in British Columbia and the Ontario electricity blackout to deal with.

The Bank of Canada, which cut base rates by a quarter of a point in July expects the economic situation to start picking up by the end of 2003 and throughout 2004, with annual GDP growth of 3.3% in 2004. The main drivers of this improvement are expected to be household spending and business investment.

As is the case south of the border, the labour market remains sluggish, with the latest data suggesting an unemployment rate of 8%. Improvements during and beyond 2004 will, to some extent, depend on whether the rapid economic growth in the US proves to be sustainable beyond mid 2004.

From May 2004 new scheduled air services will commence from five Canadian cities to Glasgow and from six Canadian cities to Gatwick. There are strong family ties between Canada and Britain, and in particular Scotland and growth in both holiday and visiting friends and relatives trips can be expected following the introduction of these new routes. A risk is that the flows will be from Scotland and the rest of Britain rather than the other way round. However the Canadian dollar has appreciated by 10% against Sterling over the past twelve months making Britain a more affordable destination for Canadians and Canada a more expensive choice for Britons.

Mexico

Unlike the Canadian dollar, the Mexican Peso has depreciated by some 10% against Sterling since this time last year, making Britain a more expensive holiday option. The slowdown in the US economy during 2001 and 2002 has hit the Mexican economy very badly. Unemployment is now at a five year high and the Government performed very poorly at midterm elections having come to power in 2000 promising new jobs.

The North American Free Trade Agreement initially generated a large number of low-paid, low-skill jobs close to Mexico's border with the USA, but with a slackening demand, and perhaps more importantly increased competition from China many of these jobs have now been lost.

Oxford Economic Forecasting believe that, subject to the US and world economies performing as expected, Mexican GDP should grow by 3.7% in 2004 and 5.2% in 2005.

Britain is not a natural holiday destination for Mexicans, with cultural and historic ties meaning that Spain is an obvious European destination. Currently there are few scheduled air services from Mexico to the UK, although there are numerous transit opportunities at hub airports in the USA, so this need not be a major short-term barrier to future traffic growth.

Study visits play an important role in generating trips from Mexico to Britain, with more than 8% of trips being for education, a proportion three times greater than the average.

Summing up

Despite all the gloom, the number of North American citizens travelling to Britain is evidence that Britain is still seen as a highly attractive destination, but a good deal of hard work will be necessary to convince Americans that it is safe to visit. A sustained period with no terrorist atrocities is surely the key to unlocking growth rates witnessed in travel from North America to Britain the late 1990s. Subject to no such setbacks modest growth in the number of inbound visitors from North America to Britain can be expected in 2004.

Issue of the Month

Implications of an ageing population in Britain...

The good news for tourism

The number of people in the UK aged over 65 will exceed the number aged under 16 by 2014 according to the Government Actuary's Department. By 2025 there will be some 300,000 more over 65s than today, and they will account for one in every five people. This reflects the fact that post war "Baby Boomers" will be reaching retirement age over the coming decade and the fact that people are living longer.

A baby boy born in the UK in the year 2000 can expect to live until he is 75.3, some 4.5 years additional life than that expected for a baby boy born twenty years before. The life expectancy of a baby girl born in the UK in 2000 is 80.1 years, some 3.3 years more than a baby girl born twenty years earlier. By 2025 the life expectancy of a baby boy is projected to have risen by a further 4.7 years to stand at 79.0, and that for a baby girl to have risen by a further 3.1 years to stand at 83.2.

The length of time that we can expect to spend in good health is also increasing, but not as quickly as overall life expectancy. Between 1981 and 1999 it is estimated that "healthy life expectancy" increased by 2.2 years for both men and women. This means that men can now expect to spend an additional two years of life in poor health, and women an additional year in poor health.

Extra years of life, and in particular extra years spent in good health, generates an increased life span over which people can take leisure trips. The over 65s take an average of 1.5 overnight domestic holiday trips and 0.6 overnight domestic VFR trips a year according to "The UK Tourist". This suggests that someone reaching 65 today is likely to take between 4.6 and 9.5 additional overnight holiday/VFR trips during the course of their retirement compared to someone who reached 65 twenty years ago. The range reflects the fact that the number of additional trips will depend on gender and the extent to which being in poor health curtails trip-taking behaviour.

The number of healthy, active old people will continue to grow, but equally as important is the fact that the elderly tourist of the future will be very different to the elderly tourist of the past. It is likely that they will be more accepting of new technology (for example using the Internet to book travel), more accustomed to foreign travel, have access to their own car making them considerably more mobile and have higher and more demanding expectations as consumers.

There is a significant opportunity in the coming years for broadening the range of leisure activities and holidays that will appeal to the elderly of the future – no longer will it simply be a week by the sea in Torquay. According to recent research by MORI, four out of five baby-boomers expect to be taking more holidays and short-breaks once they retire than they do at present. This all seems very encouraging for the tourism industry, especially if domestic retailers can tailor their products to meet the needs of the increasingly active elderly with better effect than overseas competitors.

... and the bad news is?

However, there's a downside – and not just that the future elderly will consider overseas trips as far more viable than did their parents. Pensioner couples saw their household income increase by 22% in real terms between 1994/5 and 2000/01, but will the elderly of the future be as affluent as those of today?

Current trends would suggest not, unless there is a dramatic change in attitudes towards saving, or stock market performance improves dramatically. Neither scenario seems terribly likely in the short term.

The pensions "crisis" has arisen due to a number of factors. Demography is of fundamental importance, as not only are people living longer, but also the age distribution of the population is changing. This means that with every passing year the ratio of pensioners to those in work increases. At present for every 1,000 members of the workforce there are 300 pensioners, but the Government Actuaries Department estimates that by 2026 this will have increased to 341 and have mushroomed to 404 by 2036 as the 1960s wave of baby-boomers reach retirement age.

Around three-quarters of companies have closed their "final salary" pension schemes to new members in recent years as the value of stock markets has tumbled, replacing them with "money purchase" schemes that are unlikely to provide scheme members a comparable pension. Many consumers have been deterred from purchasing private pensions to compensate for the unavailability of quality occupational schemes following a number of "miss-selling" scandals during the 1990s. Furthermore, low returns on private savings and investments in recent years will feed through into reduced wealth at the disposal of tomorrow's pensioners. The state pension will continue to decline in value when measured against average earnings of those in employment.

The Association of British Insurers estimates that more than a third of the UK workforce are not saving enough for their pension, with around 8 million individuals making no pension contributions at the present time – the majority of whom are under 35. Experts believe that there is a £27bn shortfall between the amount people are saving and the amount needed for their pension expectations to be realised.

So will the elderly be so poverty stricken in the future that holiday taking will become an unaffordable luxury? Almost certainly not, as a number of measures gradually come into force that will address the "pensions black hole".

One of the most effective means of solving this problem is for people to retire later, a process that will start with the pension age for women increasing from 60 to 65 between 2010 and 2020. Research by the Future Foundation suggests that this is just the beginning, as by 2020 there will be some two million over 65s actively engaged in the workforce. The Government in its Green Paper has spoken of incentives to encourage people to work beyond state retirement age, and from 2006 it has raised the retirement age for new recruits to the public sector from 60 to 65. A state retirement age of 70 may be on the agenda for those currently in their twenties and thirties.

At first sight it may seem as though having to work until later in life will reduce the opportunity for holiday-taking. However, this may well have the opposite effect, as the over 65s in the workforce continue to make the most of their annual leave and salaries by taking holidays as

part of an active lifestyle. Indeed, data from the "UK Tourist" suggests that those just below retirement age take 30% more trips and holidays than those over retirement age.

Part-time working is likely to be very popular among the over 65s which should have the dual benefits for tourism of sustaining the level of disposable income but increasing the availability of leisure time.

One asset that hasn't shrunk in value over recent years is that of property, and it is estimated that retired homeowners are currently sitting on assets worth some £700bn. An increasingly noticeable trend, and one that the financial services sector are keen to exploit to the full, is for retired homeowners to unlock these assets rather than view them as a nest-egg for the children. "Equity Release Schemes" provide pensioners with the opportunity of supplementing their pension, or to have access to a lump sum.

What will pensioners do with this extra cash? On balance it would appear as though the funds would be used to enhance lifestyle rather than for paying routine household bills. If so, holidays are likely to be seen as an obvious use for the additional money. The danger is that those opting for a lump sum will decide to use it for a "once in a lifetime" overseas holiday. Nevertheless, it should be possible to illustrate the benefits of utilising some of this newfound wealth for enjoying Britain through carefully targeted messages.

The over 60s of the future will need to look to new sources of income to sustain the lifestyle that they have become accustomed to during their working lives, either by continuing to participate in the labour market or by using part of the value of their home. Value for money will be vital to this group when considering purchasing holidays and other goods and services. The urge to use available wealth to provide personal fulfilment, in addition to being an inheritance for their children, should ensure future pensioners take a more adventurous mix of holidays than did their parents.

The UK is in fact much better placed to cope with the financial implications of an ageing population than many of our European partners who have extremely generous state pension schemes at present. Governments across Europe are attempting to force through legislation that will lessen this burden, but have been met by widespread strikes and protests. There have been national strikes in Austria and Italy, and the recent announcement that pensions will be frozen in Germany during 2004 has heightened the chance of industrial strife in an economy already beset with difficulties. The UK may find that its future pensioners are better off than those in other parts of Europe, the danger of which is that UK pensioners continue to travel overseas while other European pensioners holiday at home.