FORESIGHT

Issue 22 August 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 a swathe of European countries from the Baltic to the Black Sea and Issue of the Month considers the nature of both inbound and domestic day visits to and within Britain.

Market Focus – Latvia, Lithuania, Estonia, Ukraine and Belarus

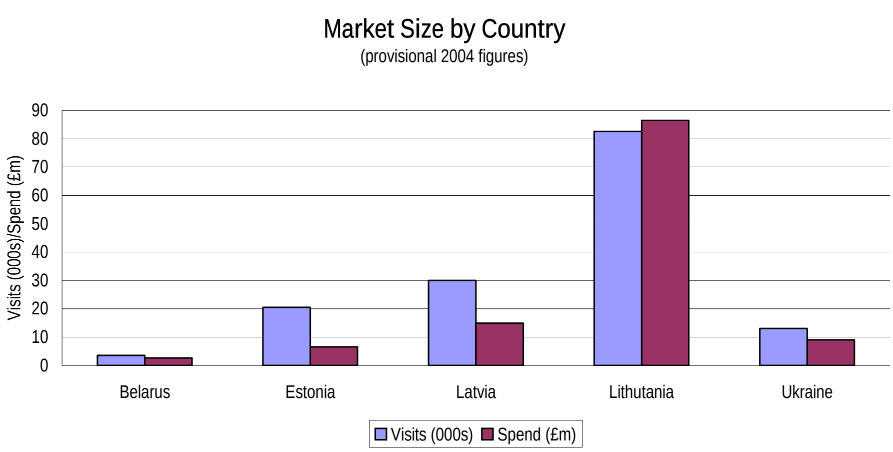
Hundreds of miles might separate Estonia on the shores of the Baltic Sea and the Black Sea coast of Ukraine, but all the countries we consider this month share one thing in common, the dilemma of whether to align themselves with countries to their west or remain under the influence of Russia to the east. For Latvia, Lithuania and Estonia the decision has been made, with each now well into their second full year of European Union membership. For Belarus and Ukraine the future of their political and economic direction has yet to be decided.

Trends and characteristics

Last year there were 150,000 visits to the UK from these five nations (0.5% of all visits) according to provisional figures from the International Passenger Survey[1], worth £120m (1% of total inbound visitor spend) to the British economy. This represents an increase of 105% over the past three years for visits and a 177% increase for spending. Despite this increase each of the markets covered this month being low volume, data from the IPS should be treated simply as a guide due to the very low sample sizes involved.

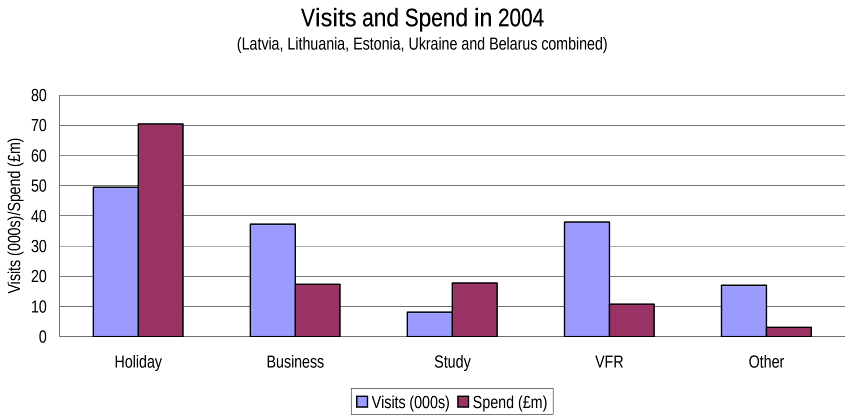
An analysis of visit characteristics reveals that the typical visit from these five markets in 2004 lasted on average 22 days, well above the global average figure of a little over 8 days. Of equal importance is that spend per visit amounted to some £798, again markedly higher than the global average of £466 per visit.

The following chart helps to illustrate the relative size of each of the five markets last year in terms of both visits and spending.



Moving on from the total market to look

at the journey purpose mix it is evident that the main motivator for visiting Britain is for a holiday, with business trips and visiting friends/relatives trips vying for second place.



The three new EU members

Among the most tangible impacts of EU membership is that it opens up the skies to low-cost airlines and takes away the need to apply for a visa in order to visit the UK. We can see from the chart just how seismic a change in the number of passengers travelling between Estonia, Latvia and Lithuania and the UK has taken place since the three entered the EU on 1st May 2004 from the following chart based on CAA data. It is clear that this step change in the level of access to Britain has had a very rapid impact, but it should be noted that there is very much a two-way flow of visitors, with Britons having easier access to three new destinations too.

A further central impact of EU membership is that it opens up the respective economies to inward investment and international trade. Estonia is increasing its food and timber exports to the UK, exports from the UK to Latvia are now running at well over £100m per annum but Lithuania is our main trading partner with the Foreign and Commonwealth Office reporting trade between the two nations growing at around 25% per annum. A recent Wall Street Journal poll suggested Estonia came 4th in the world in terms of ease of doing business.

The result of all this additional economic activity can be found by studying figures from the IMF suggesting that by 2006 the average per capita income in each of Estonia, Latvia and Lithuania will have increased by more than 70% since the start of the century. However, unemployment remains around 8% in Estonia and Lithuania and 9% in Latvia according to Eurostat, but this compares favourably with figures for France and Germany.

Unlike in other parts of the EU there has not been a great deal of trouble in getting the new EU Constitution ratified, the Latvian parliament recently signalled its support for the document, but was beaten to the post by Lithuania which was the first nation to ratify. In theory EU membership brings with it a stable political environment. A new Government was formed in Estonia back in April and it is expected to be pro-privatisation, but Estonia's new political leaders will need to hold together a loose coalition with only a slim parliamentary majority if it wants to remain in power in the longer term.

New technology is widely available in these markets, if not quite in the same league as their larger Nordic neighbours – access to the Internet is lowest in Lithuania, with around a fifth of the population being on-line, but in Latvia it is around two-fifths and in Estonia almost one-in-two are Internet savvy according to figures from the European Travel Commission's New Media Review. Mobile phone ownership is put at 93% of the adult population in Estonia, 87% in Lithuania and 53% in Latvia.

Belarus

We have seen many times that a country's economy is a fundamental cornerstone in enabling outbound travel by its people, but Belarus is an example of where politics too can either enable or inhibit the possibility of foreign travel. The situation in Belarus is not conducive to generating the conditions for outbound travel to Britain or elsewhere. The population of around 10 million have little opportunity to form opposition to the current authoritarian Government leading to sanctions being imposed by some western countries such as the USA. There is virtually no foreign investment in Belarus, which is another reason for economic decline, and despite its mistrust of neighbours to the west the situation in Belarus has led the Russian leadership to criticise the economic policies being pursued. Minsk has very limited direct air access to the UK, so in brief Belarus is not on the radar when we are trying to identify the potential growth markets of the future.

Ukraine

Following Mr Yushchenko's election victory Ukraine looks set to press ahead with political and economic reform, but the Economist Intelligence Unit recently suggested that political infighting within the Government might stifle the pace of reform. Nevertheless, economic growth of 6-7% is forecast for the next couple of years. The "orange revolution" in Kiev was emblematic of the political and economic crossroads that has featured across this part of Europe over recent years. Ukraine's population of around 48 million was split along geographic lines in the bitterly fort elections at the end of last year, with the mining dominated east supporting the incumbent eastward leaning President and those living in the west being far more receptive to Mr Yushchenko's reformist agenda.

Worth watching in the future?

With further integration into the European Union we can expect a continued expansion in the opportunities for outbound travel from Estonia, Latvia and Lithuania. Within a decade Ukraine could be politically and economically far closer to the West than it is today, and this would be sure to stimulate outbound travel to Britain for both leisure and business. With a population of nearly 50 million (similar to that of Spain and Portugal combined), Ukraine could become too large a potential market to ignore in the longer term.

Issue of the Month – The Day Visit Market

Overlooking the importance of "day visits" to the tourism industry and wider visitor economy is inadvisable. Worth about £30bn per annum, tourism trips that do not involve an overnight stay away from home account for 40% of all tourism spending in the UK.

Domestic Leisure Day Visits

The most recent comprehensive survey of leisure day visits in Great Britain covers the period 2002/3. According to the Great Britain Leisure Day Visits Survey (GBLDVS) there were 5.2 billion trips worth an estimate £71bn – the survey is based on interviews with 6,600 adults living in Great Britain.

Before getting carried away by the scale of these numbers we need to take a reality check and sort out some definitions used in the survey. Within the GBLDVS a "trip" is defined as "round trips made from home for leisure purposes to locations anywhere in Great Britain". This is a fairly all-encompassing definition as there was no lower time limit for how long a trip needed to last, so trips to the gym after work were included if the respondent started off the day at home and ended up there too, as were trips undertaken simply to walk the dog.

As a result we will focus on a subset of the results that relate to "tourism day trips" defined as "visits which lasted three hours or more and were not taken on a regular basis". Using this rather more meaningful definition the GBLDVS found that in 2002/3 there were 1.1 billion tourism leisure day visits worth £29.8bn at 2002 prices. To put this figure in perspective the entire spend by inbound visitors in 2002 was £11.7bn, meaning that tourism leisure day visits undertaken by domestic residents were worth almost three times as much to the British tourism industry as inbound visitor spend. The average amount spent on a tourism leisure day visit in 2002/3 was £27.70.

Domestic Tourism Day Visits – Facts and Figures…

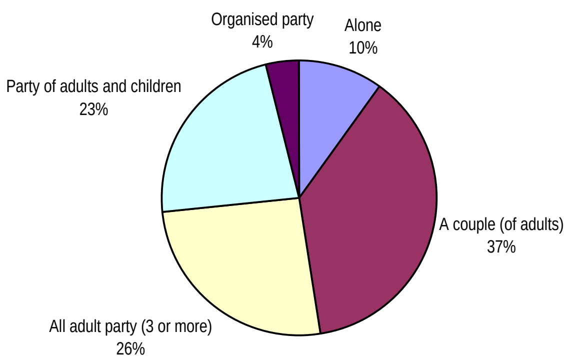
…who

Those in full or part time work accounted for just over half of all tourism day trips undertaken, with those who had retired from employment accounting for about a fifth - in each case these figures are not dissimilar to the proportion of the overall population represented by these socio-economic groups. Where those taking tourism day visits differed to the general population was in their propensity to have personal access to a car (80% of trip takers compared to 74% of the general population) and to be from ABC1 social grades (59% of trip takers, 51% of the general population).

…group size

The typical tourism day visit had a duration of 5½ hours, with the round-trip distance traveled averaging 35 miles. The average group undertaking a day visit consisted of 3.4 adults, or, if we include children, 3.9 people. We can see from the following pie chart that two adults traveling together are the most dominant group type, and that just 4% of visits consisted of organised parties.

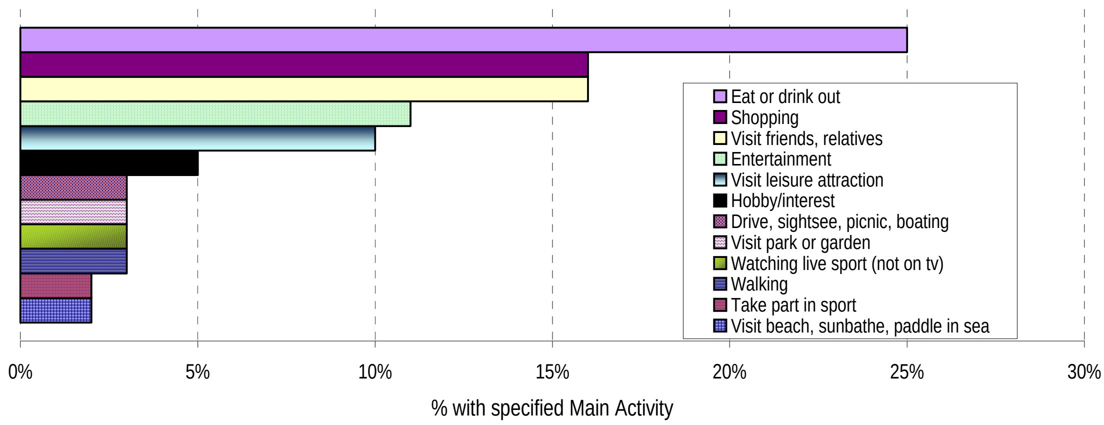
Party Composition



...types of activities undertaken

When on a tourism day visit it is possible to undertake a variety of activities, but the GBLDVS allows us to look at the "main activity" undertaken on the trip. We can see from the following chart that for 25% of day visits the main activity was having a drink or something to eat. Shopping and visiting friends and relatives are the next most popular activities, each featuring in around one in every six trips. Both "entertainment" and visits to leisure attractions were the main activity for more than 10% of all tourism day visits.

Main Activity Undertaken on Tourism Day Visits



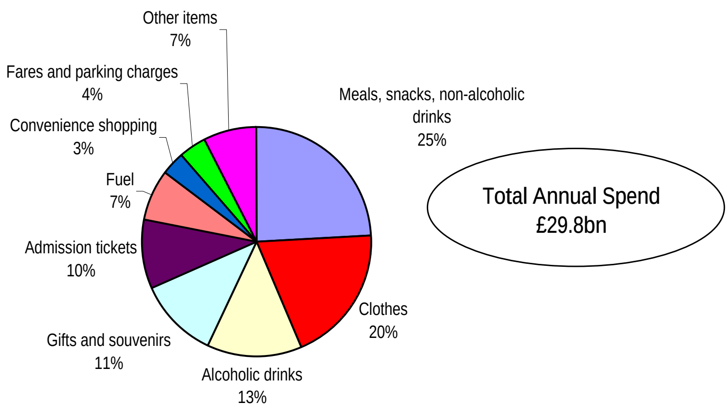
In addition to the 16% of tourism day visits that were to see friends and relatives a significant finding from the survey reaffirms the importance that visiting friends and relatives trips has on the wider visitor economy - namely that one-in-ten of all tourism day visits undertaken by those starting and finishing the day at their own home were accompanied by friends and relatives on the trip who were themselves staying away from home. It is likely that many of these day trips would not have been undertaken were it not for the presence of the staying friends or relatives.

...spending

We have seen that the average spend on a tourism day visit was a shade under £28, but this amount varied depending upon the type of destination for the trip. Trips to towns and cities involved an average expenditure of almost £31, whereas for those to the countryside the typical figure was a little under £21 and for those to the seaside or coast it was £18.50.

From the following chart we can see that eating and drinking are the main areas on which tourism day visitors spend money, followed by clothes, accounting for a fifth of all spending. These figures sit comfortably with those seen in the earlier chart looking at the main activity undertaken on a tourism day visit. It is evident that spending on admission tickets by tourism day visitors generates nearly £3bn for the British tourism industry annually.

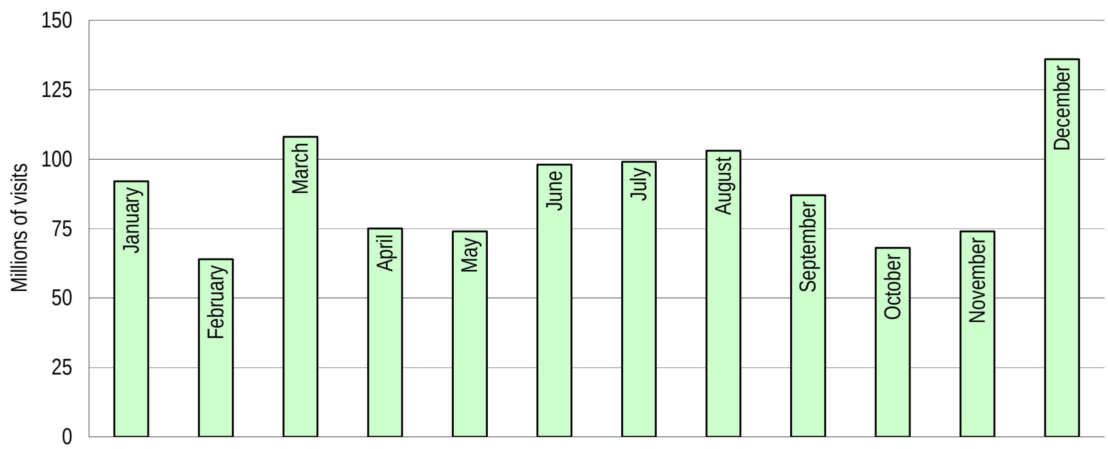
Tourism Day Visit Spend by Category



...and finally, when?

The quietest months of the year for tourism day visits are February and October as can be seen from the following chart, whereas the peak months fall around Easter, Christmas and the school summer holidays. It is especially noteworthy that December accounts for an eighth of all tourism day visits, being bolstered by special shopping trips and visits to friends and relatives.

Tourism Day Visits by Month



Inbound Day Visits

Provisional figures for 2004 taken from the International Passenger Survey suggest that there were almost 2.1 million inbound day visits to the UK, representing 7.5% of all inbound visits. These visits generated £178m for the British economy, that's a little over 1.3% of all inbound visitor spend.

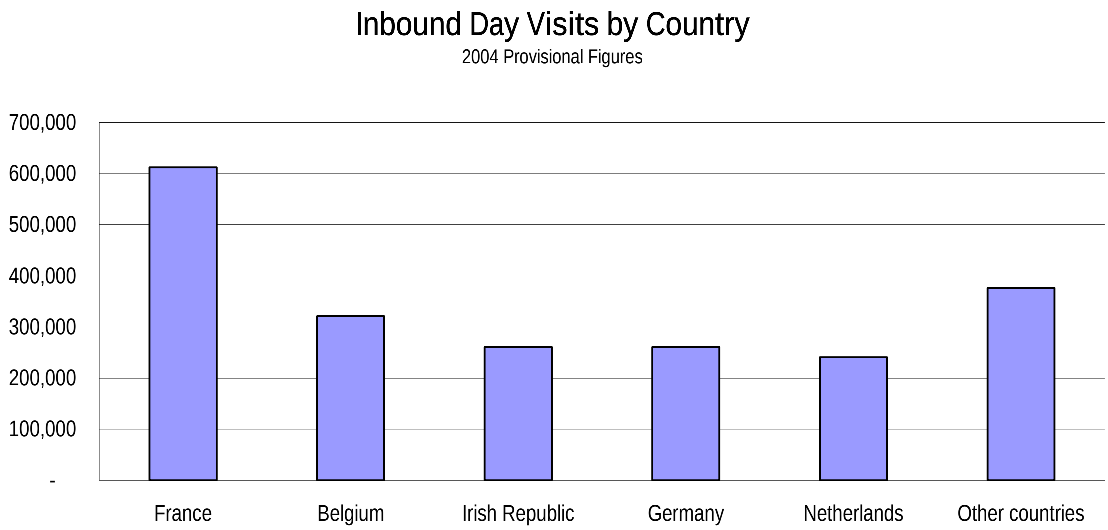
It is immediately evident then that spend per visit is far lower than for visits involving an overnight stay. However, when we look at how much is spent during the course of a typical day, those who do not stay overnight spend around £86, whereas those who do stay overnight had a typical daily expenditure of £57 in 2004. The accommodation sector clearly does not reap any reward from inbound day visitors, but other sectors of the visitor economy, for example transport operators, restaurants and visitor attractions, definitely do benefit.

The predominant underlying journey purpose for inbound day visits is "business", which accounts for 55% of all such visits, with "holiday" representing 31% and "miscellaneous" 11%. The dominance of business visits highlights the need for the tourism industry to do all that it can to improve the propensity of business visitors to extend their trip in order to include leisure as well as work time.

Inbound day visits occur throughout the year – indeed the period from October to December accounted for 29% of all visits last year, a bigger share than in any other quarter. In terms of how the day visitors traveled to and from the UK, IPS data shows that nearly half, 47%, traveled by air, with 35% traveling by sea and the remaining 18% using the Channel Tunnel (either Eurostar or Le Shuttle).

Neighborliness

France generates twice as many day visits to Britain as any other nation, at around 600,000 visits in 2004. As one would expect, all the other top ranking countries for inbound day visits enjoy close proximity to the UK, making day visits feasible.



Demographics

Looking at demographic characteristics of inbound day visitors we can see from the table that more than two-thirds are male, with virtually one-in-four being a male aged between 35 and 44. The only age group for which female visitors outnumber male visitors is for those aged 16 to 24.

Over 55's generate 11% of inbound day visits, but 16% of all inbound visits.

Age	Male	Female
0 -15	4%	4%
16-24	4%	5%
25-34	14%	7%
35-44	23%	7%
45-54	17%	5%
55-64	5%	3%
65+	2%	1%
All inbound day visits	68%	32%

Ups and Downs

It is possible to identify some very real opportunities for future growth in inbound day visits over the coming years, most significantly the Channel Tunnel High-speed link is due to open in 2007. This will encourage day visits from both France and Belgium, which as we have seen are the two highest volume markets for day visits, with Eurostar journey times to London from Paris and Brussels being cut to 2 hours 15 minutes and 1 hour 53 minutes respectively. The downside risk here is that in addition to generating new traffic the faster journey times could alleviate the need for overnight stays in the UK for some visitors.

A key risk for domestic tourism day visits with shopping as their main purpose centres on consumer confidence. We have seen from both official figures and surveys undertaken by the Confederation of British Industry that High Street traders are seeing their quietest trading period for many months. Most notable is that hardest hit by this slowdown are retailers who fall into the "discretionary" rather than "essentials" category. As such this may result in sluggish growth for shopping tourism day visits over the coming months.

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