FORESIGHT

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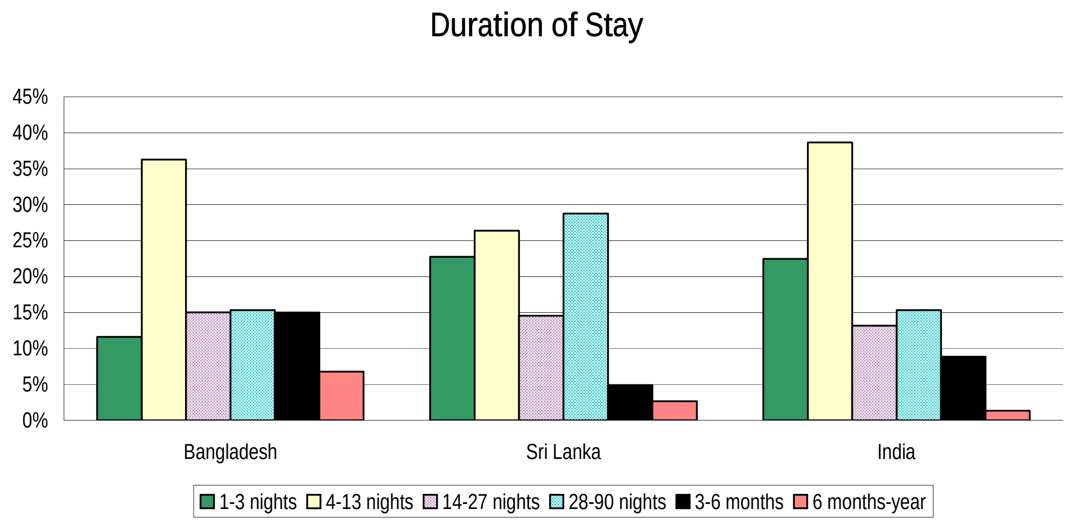
FORESIGHT is a monthly commentary on significant issues within the tourism sector. Each month "Market Focus" discusses economic, social and political factors that underlie demand for tourism now and in the future. In addition, a spotlight is focused on a significant tourism issue. This month Market Focus covers India, Sri Lanka and Bangladesh. As we near the end of 2005 we consider the outlook for trends in inbound tourism to Britain during 2006 in Issue of the Month.

Market Focus – India, Sri Lanka and Bangladesh

There has been no shortage of natural disasters in this part of the world in recent months, with the Boxing Day tsunami, monsoon flooding in Mumbai in July and the recent earthquake in northern India. Nevertheless this is a resilient part of the world, and prospects for growth in outbound visits over the medium term on the back of rapid economic growth remain healthy.

Together the three markets generated 292,000 visits to the UK last year[1], worth some £286m. Not surprisingly India is by far the dominant market, accounting for 87% of these visits and 83% of the spending. Overall the three constituted 1.1% of all visits to the UK and 2.2% of all inbound visitor spending during 2004.

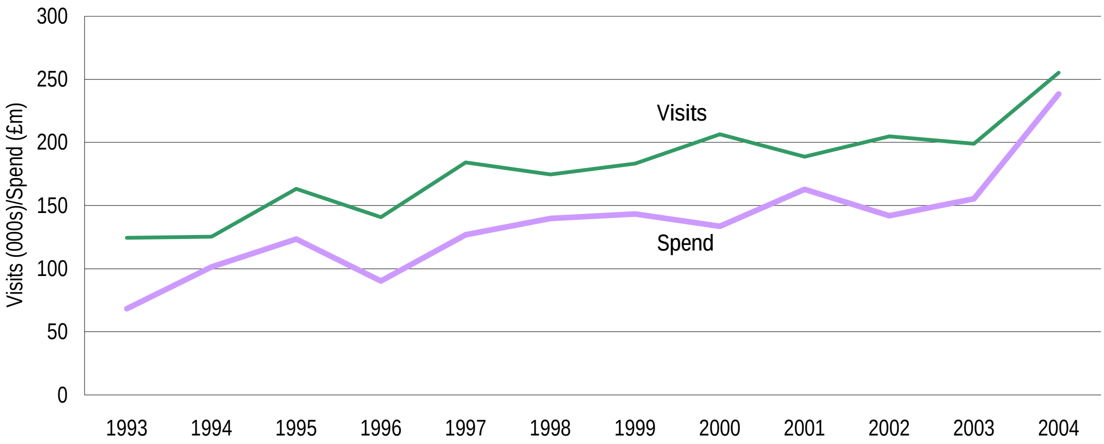
The markets all "over perform" in terms of spend per visit, a fact that is driven by the longevity of stays in Britain as revealed through the following chart.



India

Last year witnessed a significant increase in visits to Britain from India; up 28% on 2003 with visitor spend growing at an even faster pace to reach £238m, up 53% on 2003. We can see from the chart that over the longer term visits and spend have both more than doubled since 1993, but that the story has not been one of continuous growth. With provisional data available for the first eight months of 2005 it would appear as though the year is set to be one of consolidation, with visits and spend broadly unchanged compared with the same period of last year. If we look at the number of visitors counted in the IPS who had Indian nationality (as opposed to looking just at those resident in India) the number visiting Britain in 2004 increases to 323,000, with a total spend figure of £286m.

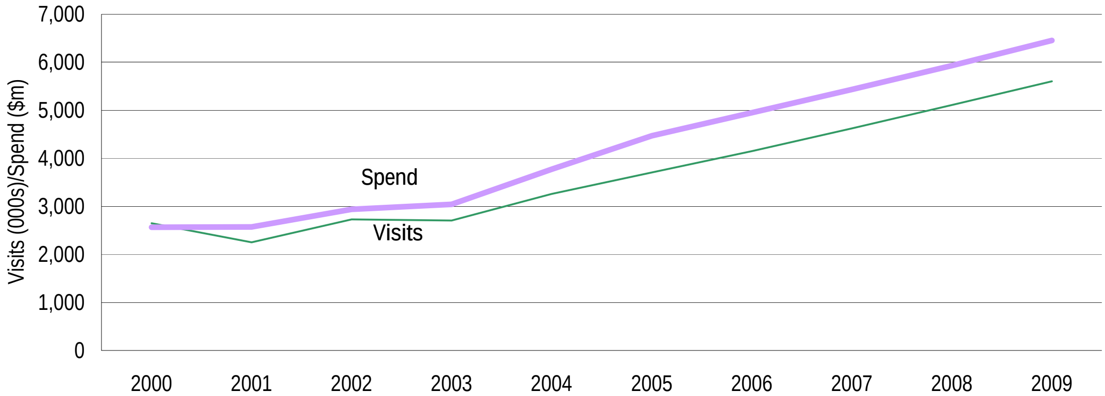
Volume and value of tourism from India to the UK



The average length of stay for visits from India in 2004 stood at 27 days, placing India in 3rd place for markets with the longest duration of stay (behind Mexico and Pakistan). Indeed, if we focussed on the number of visits from India, this market would represent Britain's 20th most important market. However, the length of time spent in the UK turns a very modest daily expenditure of £35 into a typical spend per visit of £932, double the global average for inbound visits to Britain. This all means that in value terms India was Britain's 12th most important market in 2004, and within the next few years it may well enter the top ten.

Global Insight forecast that the boom in outbound tourism from India is set to continue as can be seen from the chart showing recent trends, and forecasts through to 2009, for the total number of annual outbound visits to all destinations, along with the value of these visits.

All outbound visits and visitor spend from India
Global Insight Forecasts



The number of visits to Britain from India is forecast to increase by at least 66% between 2004 and 2009 according to Global Insight, taking total annual visits to well over 400,000, and, assuming that the average spend per visit remains steady, inbound visits from India would represent a total value of £400m for the UK economy by 2009.

An aviation boom...

The recent bilateral agreement between the UK and Indian governments has resulted in an explosion of new direct services between the two nations. British Airways flies daily from Delhi and twice daily from Mumbai to London, with three flights each week from Kolkata and six from Chennai. A recent addition is a 5 times per week service between Bangalore and London. In June 2006, the airline will start a double daily service from Delhi. Virgin Atlantic's service from Mumbai is due to operate daily from December, joining the existing daily service from Delhi. bmi currently offer four flights a week from Mumbai to London with plans for additional routes and capacity in the near future. Meanwhile Air India more than doubled its India to UK capacity in around seven months, with 21 weekly flights to London and 3 to Birmingham.

... and the economic boom goes on

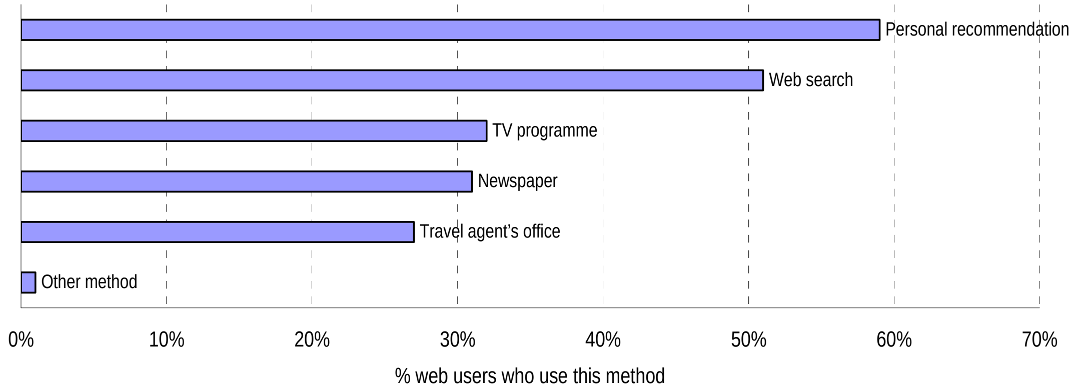
Once again India's economy is expected to grow by around 7% this year, with favourable monsoons boosting the agricultural sector – according to the Economist agriculture accounts for just under a quarter of GDP, but seven-in-ten Indians still live in the countryside. However there are fears that economic growth may be constrained due to the poor quality of infrastructure (electricity supplies have proved unreliable recently) and the slower pace of economic liberalisation that has bolstered the economy over recent years.

Internet

The latest estimates available through the European Travel Commission New Media Review suggest that there are at present 37 million Internet users across India, representing just 3.5% of the total population. However, the number of web users is forecast to top 100 million by the end of 2007 according to forecasts made by the Internet and Online Association of India (IOAI).

Other IOAI survey evidence suggests that 29% of Indian web users had bought airline tickets on-line, with 46% saying they were likely to do so in the future, with 20% having booked hotel rooms over the Internet. A fascinating insight emerging from a GMI survey of Indian Internet users concerns the preferred methods for obtaining travel information. We can see from the chart that even among the most web-savvy group in India "personal recommendation" remains the preferred method, but with web searches coming a close second.

Indian Internet Users:
Preferred Methods for Obtaining Travel Information



Sri Lanka

Sri Lanka has been working hard to recover from the devastating impact of last year's tsunami, but the nation recently suffered a new blow with the assassination of the Foreign Minister in August. As a result of this and a recent bomb in Colombo a state of emergency still exists in the country. Economic growth will be 5.3% this year according to the latest World Economic Outlook published by the IMF, increasing to 6.0% in 2006. Despite these respectable growth rates the average GDP per capita remains at little more than $1,100.

There were 27,000 visits to Britain from Sri Lanka in 2004, of which 49% were to visit friends and relatives, helping to explain why more than one-third of visitors from Sri Lanka were in Britain for over 28 days. The Foreign and Commonwealth Office estimate that there are 200,000 Sri Lankans settled in Britain.

Bangladesh

Bangladesh remains a very small market for UK tourism, with just 10,000 visits last year, worth an estimated £15m. More than one-in-three visits from Bangladesh are to visit friends and relatives, with around a fifth of trips being for a holiday and a further fifth for business. Trips to visit friends and relatives are no doubt so high due to the fact that the most recent Census identified 283,000 people of Bangladeshi heritage living in Britain. It is estimated that there are 154,000 Bangladeshi-born residents living in Britain, with 85,000 of these living in London. There are approximately ten flights a week between Dhaka and London.

A unique opportunity

Looking to the future India is set to play an increasingly important role in global economic activity, with Global Insight estimating that by 2040 India will have the world's 3rd largest economy in terms of sheer size of GDP, compared with its 9th position in 2000. Britain's strong historical ties with India provide an immense opportunity for UK tourism to benefit from the improved living standards and heightened expectations among many millions of Indians over the coming years.

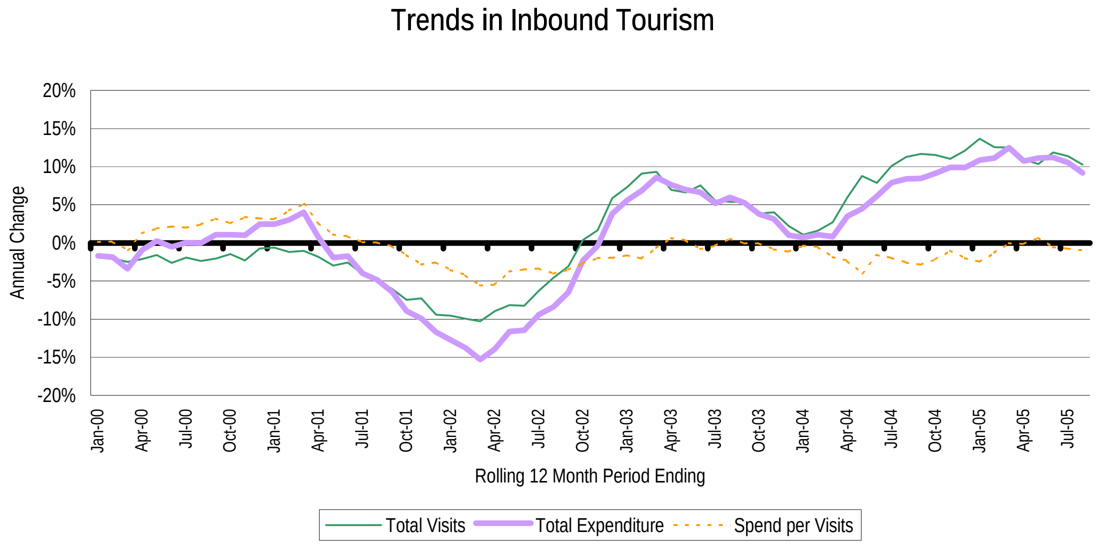
The rapid growth in the availability of direct air routes to Britain from India will help ensure that the growing demand for international travel from India can feed through into Britain welcoming many first time visitors over the coming years. VisitBritain is set to dramatically increase its marketing effort in India, with a new office scheduled to open in Bangalore during 2006. In conjunction with the inaugural BA flight from Bangalore a contingent of more than seventy corporate house heads from Bangalore, senior government officials and members of the media will visit Britain, enjoying sightseeing excursions and attractions.

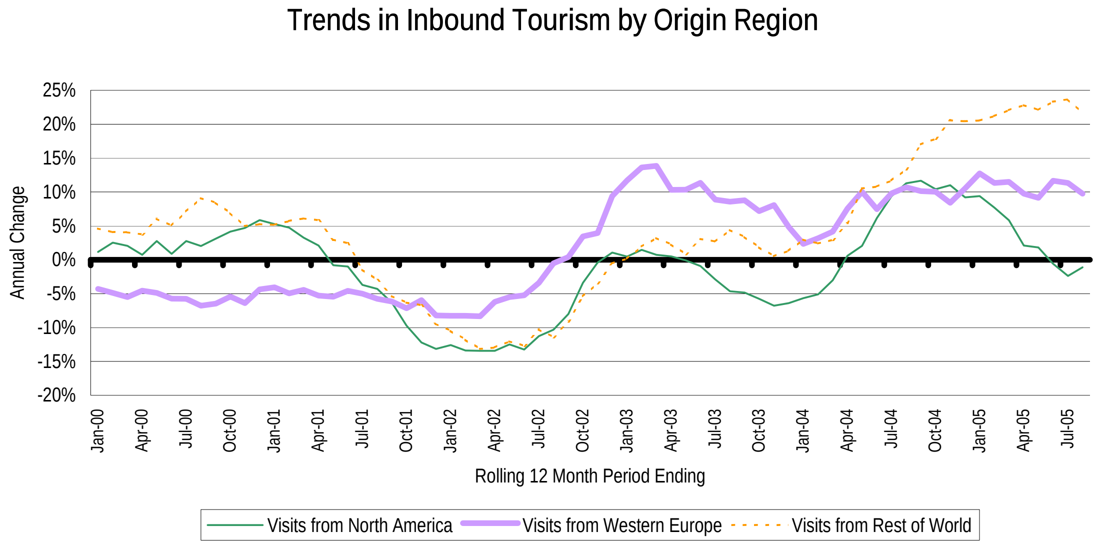
Issue of the Month – Outlook for Inbound Tourism in 2006

The first eight months of 2005

In the first eight months of 2005 the volume of inbound visits to the UK grew by 10.5% with inbound spend increasing by 10.0%. The strongest growth was from Eastern European markets, with a small decline in the number of visits from North America. During the early months of the year the typical growth rates for individual months were running at over 15%. However the year-on-year growth rate in July was 7% and in August 3% following the impact of the July terrorist attacks, with August further hit by industrial action disrupting BA flights to Heathrow.

The following chart puts Britain's performance so far this year, in terms of visits, spend and spend per visit, in an historical perspective. One striking feature of the chart is that the average spend per visit has been either static or declining consistently now for around four years.





The overall performance masks divergent trends in the number of visits from different regions of the world. The rate of growth in visits from North America was slowing well before the July terrorist attacks. Visits from Western Europe have been increasing at an annual rate of around 10% for more than a year now, but it is visits from remaining parts of the world (Eastern Europe, certain parts of Asia etc) that have witnessed the sharpest increases, with the "step effect" of enlargement of the European Union in May 2004 being readily apparent.

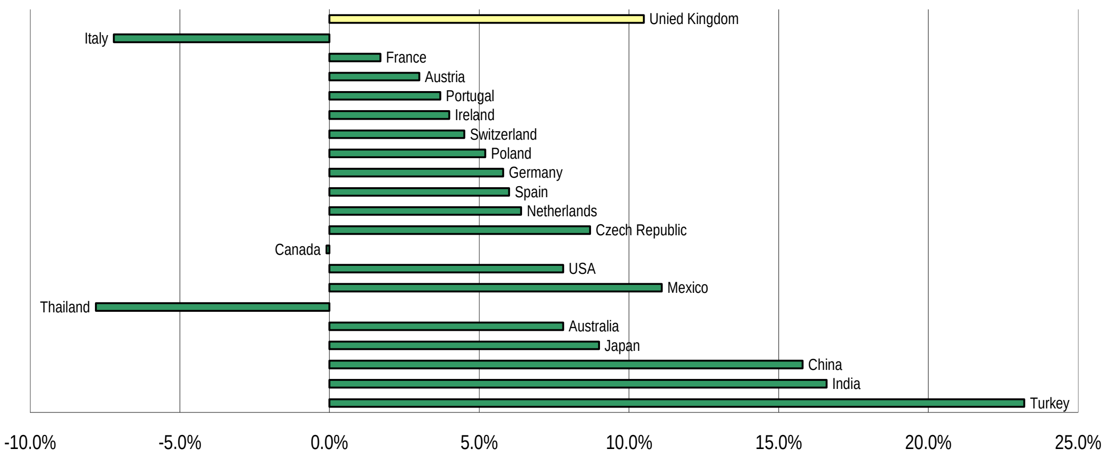
VisitBritain expects the remaining months of 2005 to be characterised by a much slower rate of growth than was the case during the first part of the year. However, we still anticipate that 2005 will be a record year for inbound visits and visitor spend in the UK. Our central projection is for the number of visits to end 2005 at 29.3 million, an increase of 5.5% on 2004, with inbound visitor spend ending the year at £13.9 billion, or 6.2% up on 2004.

The global picture

In its latest World Tourism Barometer the World Tourism Organisation has compiled "year to date" performance figures for major international tourism destinations. We can see from the following chart that the UK was leading the way in Europe during the first half of 2005, but we can expect the year-end picture to show a more modest increase in visits. After a poor year in 2004 Italy continues to struggle to attract increased numbers of visitors, with France, the most visited country, registering only modest increases. On the margins of Europe Turkey continues to power ahead with arrivals up 23% on 2004 levels despite a series of small terrorist attacks.

In Asia India and China both report double-digit increases, with Japan showing an improved picture. Thailand has suffered a decline in visitor numbers following the impact of the Boxing Day tsunami. In North America Mexico remains the best performing major destination.

International Tourism Trends in 2005



Upside risks in 2006

Inbound tourism rarely performs entirely in line with the trajectory that historical trends might suggest, being buffeted not just by economic cycles or exchange rate fluctuations, but by a host of other less predictable events too. Before looking at possible downside risks during

2006 what are some of the potential “favourable” influences on inbound tourism during the year ahead?

Increased capacity being added to air routes from both China and India to Britain should act as a significant stimuli for travel, but it should be noted that whilst there will undoubtedly be generated traffic, some visits from India using these new direct services will be traffic that in the past has been routed via the Middle East. Generating shorter-stay visits, but nonetheless resulting in rapid growth in inbound tourism, are the increasing number of direct, low-cost, services from Eastern Europe to many regional airports across the UK.

Odd though it might seem, US airlines that recently entered Chapter 11 Bankruptcy are planning to expand their international route networks, moving capacity away from the overcrowded US domestic market. For example, Delta Airlines recently announced plans for daily services from Atlanta to Edinburgh and from New York to Manchester. In 2006 we may well see growth in the availability, and greater price competitiveness, for trans-Atlantic aviation.

On the economic front it is hoped that the Japanese economy will finally register healthier growth rates, the number of visits to Britain from Japan in 2004 was 270,000 down on that achieved in the mid 1990s. The IMF forecast continued strong growth across much of Asia, most notably in China, India and South Korea.

Downside risks in 2006

There remains a risk that international terrorism, either within the UK or elsewhere in the world, may harm prospects for inbound tourism over the coming months and years. Greater resilience among travellers may go some way to diminishing the impact of any future events.

A different sort of risk to international travel is that of health scares, most notably the possibility of avian flu within the bird population in the short term, but of much greater concern the possibility of a human flu pandemic at some point in the future. The impact of any human pandemic would depend on the geographic spread and severity of the virus, along with the effectiveness of international measures to counter the threat.

Economically the main risks are that the Eurozone remains weak, with economic reforms grinding to a halt in Germany, and after a series of major hurricanes the US economy also entering a period of slower growth. There seems little prospect that China’s economy will slow in 2006, with latest figures suggesting growth remains at around 9.4%. The high price of oil remains a risk factor for global economic prospects, with the cost remaining stubbornly above $60 a barrel despite regular forecasts that it will soon be back to $30-$40 per barrel. If the price does fall we can look forward to airline fuel surcharges falling – at present the typical “surcharge” for a long-haul return trip to Britain stands at £60.

Inbound forecasts for 2006

Subject to no major unforeseen shocks we expect inbound visits to increase by 4.4% during 2006, taking the total number of visits to 30.6 million. Inbound visitor spend is forecast to grow by 4.3% to £14.5 billion. These forecasts represent our “central” view, with the following table summarising the range of possible outcomes we consider realistic for 2006.

	2006 Volume		2006 Value	
	Total (m)	Yr-on-Yr (%)	Total (£bn)	Yr-on-Yr (%)
Pessimistic	29.6	2.9	13.9	2.8
Central	30.6	4.4	14.5	4.3
Optimistic	31.6	5.9	15.1	5.8

If these forecasts are achieved, 2006 will represent the fifth consecutive year of growth for both the volume and value of inbound tourism to Britain, a feat last achieved in 1998 for volume and in 1996 for value.

The world regions expected to generate the largest increase in visitors to Britain in 2006 include Asia and Eastern Europe. Emerging markets are likely to prove the fastest growing for some years to come, as in the more "mature" markets the number of people able to afford international travel remains fairly steady from one year to the next. In markets such as India, China and Russia the numbers able to travel overseas is increasing significantly as the population becomes more affluent. A key area of concern in growing emerging markets is not just the availability of direct access to Britain, but also the increase in the cost of visas imposed earlier in 2005.

In line with the now well-established trend, still apparent during the first six months of 2005, trips to visit friends and relatives are forecast to grow somewhat faster than those for holiday and business purposes during next year, reflecting both Britain's multi-cultural society and the growing number of British citizens living overseas. Nevertheless, we still expect 2006 to bring increased numbers of business and holiday visitors from both mature and emerging markets.

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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