FORESIGHT

Issue 31 May 2006

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 Central Europe with Issue of the Month considering the boom in the cruise line industry and how Britain can turn this, and its island status, to best advantage.

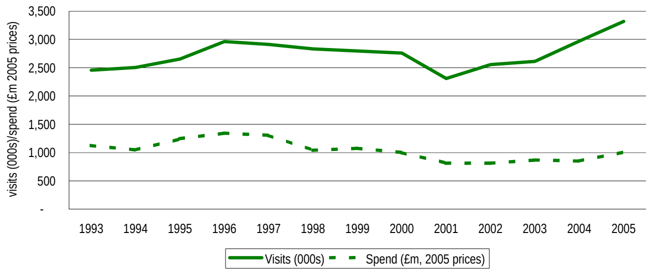
Market Focus – Germany, Austria, Switzerland, Slovenia and Slovakia

Central Europe is a key region for inbound tourism, across different types of journey purpose, for the UK visitor economy. Visitor spend in 2005 from the three established markets (Germany, Austria and Switzerland) increased by a very impressive £280m to reach a total of just under £1.5bn according to provisional data from the International Passenger Survey[1] - that's over 10% of all inbound visitor spend. The remaining two markets are definitely growing, but both Slovakia and Slovenia are at present well down the league table, generating an aggregate 202,000 visits last year, worth £75m.

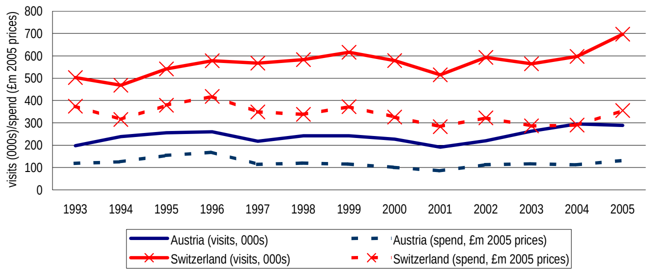
What about the long-term trends?

The two charts that follow put the growth in visits and spending from Germany, Austria and Switzerland experienced in the past couple of years in a historical context. We can see that the number of visits is at record levels, but the story is less rosy when we look at the value of visitor spending adjusted for inflation. As can be seen, the mid 1990s remain the time during which spending, in real terms, reached its best ever levels. So, in 2005 the UK visitor economy received £434m less spending from these three markets in real terms than was the case a decade ago. To put this figure in context it is equivalent to total visitor spending in the UK from Canada last year, and Canada is our 9th most important market in value terms.

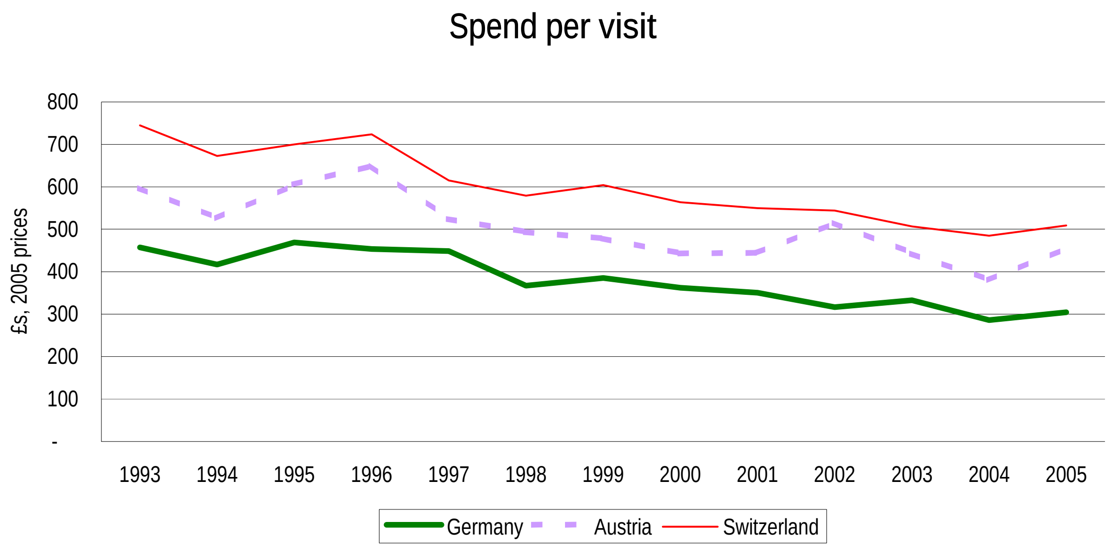
Trends in visits and spend from Germany



Trends in visits and spending: Austria & Switzerland



The explanation for record visits but reduced visitor spend in real terms becomes apparent from the following chart showing trends in the average spend per visit at 2005 prices for the period from 1993 through to 2005. The pattern is remarkably consistent, with a gradual decline in average spend, with visitors from Switzerland spending the most and those from Germany the least per visit throughout the period.



Market Profiles

New VisitBritain 'Market Profiles' are now available for all markets in which VisitBritain operates, and these can be downloaded from www.visitbritain.com/research. Below we provide a brief update on developments in the three major Central European markets, but with more extensive discussion on Slovenia and Slovakia, as these markets are not covered by the 'Market Profile' series.

Germany

Business confidence improved for the fourth consecutive month in April according to the 'Ifo' survey, taking it to its highest level since German reunification in 1991. This is good news for continued expansion in the number of German business visits to Britain (following on from a 10% jump in 2005), but German consumers remain less bullish. It is probable that the high rate of unemployment is a key driver of caution among German consumers.

British Airways recently withdrew its flights from Cologne to Heathrow and from Hanover and Munich to Gatwick.

Austria

Austrian's have a high standard of living with IMF forecasts suggesting per capita income in purchasing power parity terms in 2007 will be $36,409. The Economist predicts that a 'grand coalition' may be formed after the forthcoming elections in November. British Airways is to introduce flights from Salzburg to Gatwick in December.

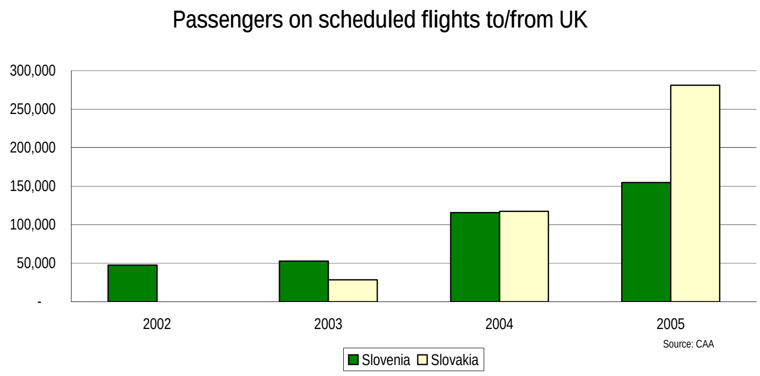
Switzerland

Persistently high oil prices are expected to have a marginal negative impact on economic growth, and to increase the rate of inflation in coming months, but unemployment is likely to remain below 4% for the foreseeable future. British Airways recently withdrew its service from Geneva to London City.

Slovenia and Slovakia

It is now two years since these two nations became members of the European Union and one of the most marked impacts of membership, as foreseen in the May 2004 edition of 'Foresight', has been for phenomenal growth in the number of air connections with other member states courtesy of rapidly expanding low-cost carrier networks. For example SkyEurope now serves two-dozen European destinations from its main base in the Slovak capital Bratislava.

The chart plots trends in passenger numbers on flights between the two markets and the UK. From nought in 2002 to over a quarter of a million passengers travelled between Slovakia and the UK in 2005, and passenger numbers to/from Slovenia trebled within the past two years.



Key Facts

A shade over two million people live in Slovenia, and latest figures from Eurostat show unemployment currently stands at a relatively healthy 6.3%. In Slovakia the resident population is much greater at 5.4 million, but unemployment is more of a problem as currently 15.8% of the labour force are out of work. According to the European Travel Commission 'New Media Review' 48.5% of the population have Internet access in Slovenia, again somewhat ahead of the situation in Slovakia where 42.3% of the population are thought to be on-line.

The International Monetary Fund recently released economic forecasts for 2006 and 2007. These projections show that in 'purchasing power parity' terms (that is taking into account the different cost of living from one country to another), the average per capita income in Slovenia in 2007 will be $24,600 whereas in Slovakia it will be $18,700. Using this yardstick the population of Slovenia has a similar living standard to Greeks, but are better off than those living in the Czech Republic, Hungary or Poland.

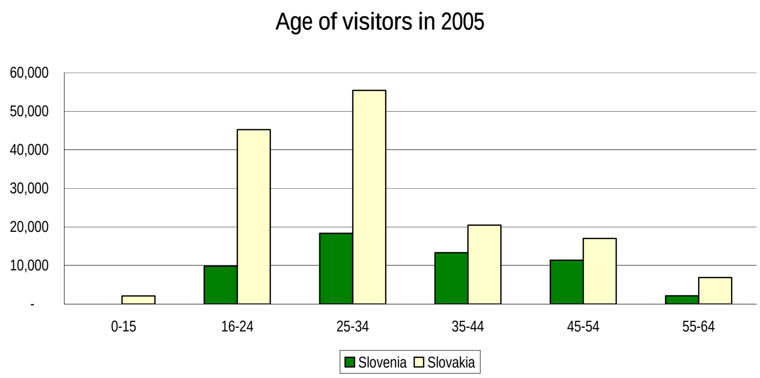
Slovakia may be some way behind Slovenia but has been catching up in recent years, having enjoyed faster economic expansion in each year since 2001, and the IMF forecast this trend to continue through to 2007. Between 2001 and 2007 Slovenia will have seen its Gross Domestic Product expand by 27%, but in Slovakia growth will have been 44%. Learning English at school is common in both countries, with figures from Eurostat showing that around 96% of pupils in upper secondary education are learning English as a foreign language. The British Council is active in both countries.

A number of leading UK companies now have offices in Slovenia according to the Foreign and Commonwealth Office, including PWC, Unilever and Shell. Indeed, it is estimated that the UK is the eighth largest direct foreign investor in Slovenia. Meanwhile in Slovakia the UK is the sixth largest foreign direct investor in the country and Tesco has become the top retailer with 32 hypermarkets and 5 department stores.

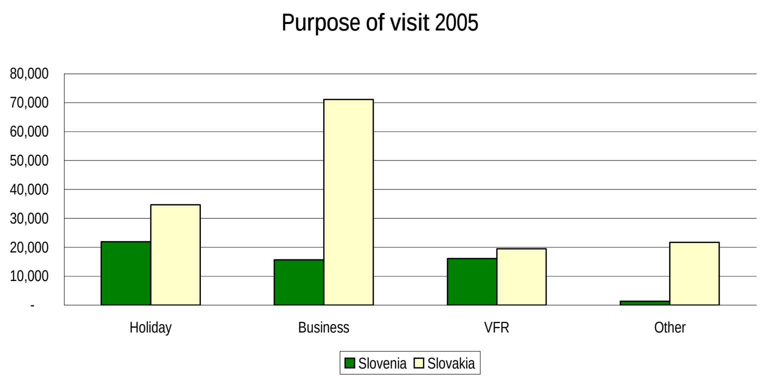
Visits to Britain in 2005

Sample sizes in the IPS for both markets are relatively small, but it is estimated that in 2005 more than 50,000 visits to the UK originated in Slovenia and more than 150,000 originated in Slovakia. The average spend per visit is markedly higher for visitors from Slovakia than for Slovenia, £415 compared with £261, but both markets fall short of the global average spend per visit in 2005 which is estimated to have been £472.

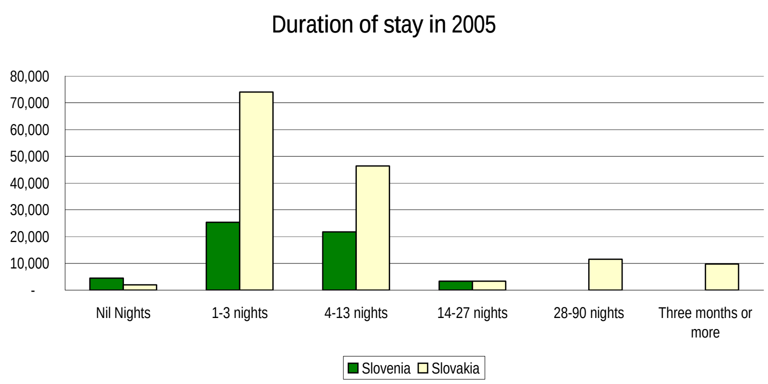
Two-thirds of visitors from these markets are male, and as we can see from the chart those from Slovakia have a relatively young age distribution with seven in ten visitors to the UK being under 35 years old. Visitors from Slovenia have a more typical age distribution, approximately half of all visitors being under 35.



The journey purpose mix for visitors from Slovenia is again unremarkable, whereas Slovakia is characterised by a very high share of business visits. However, digging deeper reveals that the bulk of these 'business' visitors are in reality lorry drivers, offering few opportunities to boost the value of inbound tourism.



The picture for duration of stay reveals that although 1-3 night stays dominate trips from Slovakia there are significant numbers of long-stay visits. By contrast the distribution of visits from Slovenia sees virtually all trips being for less than two weeks duration.



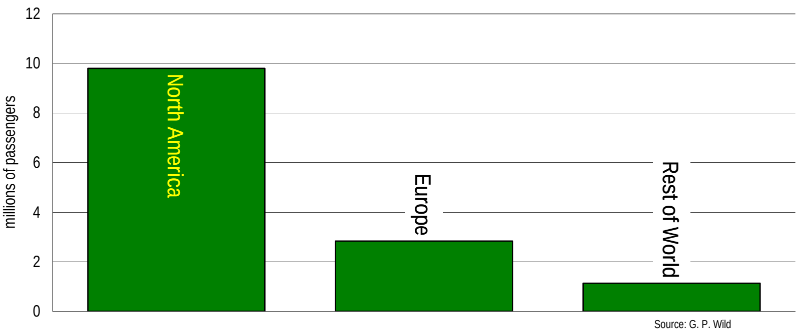
Issue of the Month – The cruise line boom

There can be little doubt that one of the fastest growing sectors in the global tourism market over the past decade or so has been in the number of people taking cruises. It is reckoned that this tourism market segment is growing at an annual rate of 8% globally, which over the longer term results in an industry capable of doubling its market size every nine years. Although not the Caribbean or Mediterranean in terms of destination type, the UK is in fact well placed to take advantage of this trend, being a key destination on the 'Northern Europe Circuit'.

Britain has some fabulous coastal scenery along its 11,000 miles of coastline that can be enjoyed by those onboard, but more importantly has a growing range of ports capable of handling cruise liners, thereby opening up possibilities for mid-cruise shore excursions or pre/post cruise activities by those starting or ending their cruise at a UK port. This results in clear benefits to numerous tourism businesses located both close to the port itself and within the wider region and economy.

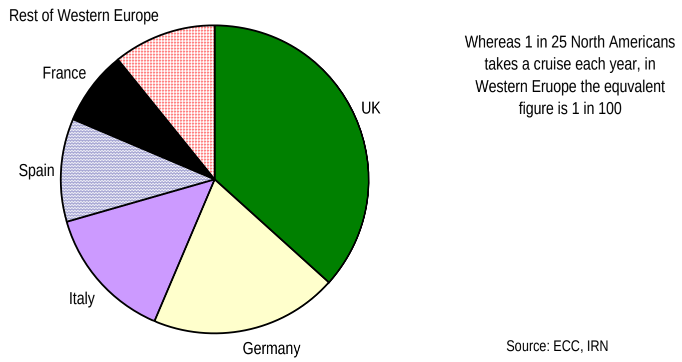
The global market

Global cruise market, 2004



North America is the undisputed world leader in generating business for the cruise line industry. We can see from the chart that North America accounted for more than 70% of all cruise passengers in 2004.

Western European Cruise Market by Country, 2004



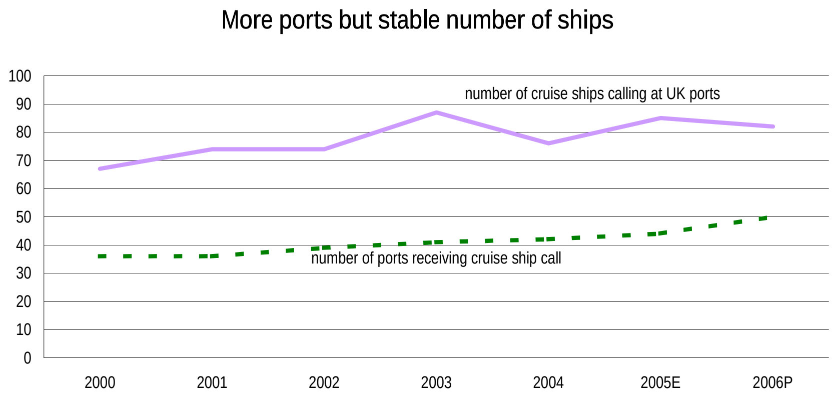
If we take a look at the cruise market in Western Europe in 2004 we find that the UK dominates, accounting for over one-third of all cruise passengers, followed by Germany with a 20% share. All major cruise lines made profits in 2004 and 2005.

A recent twist to the trend towards more and more lavish cruise liners and itineraries common among many operators was brought about by the entry of easyCruise into the fray. Targeting a younger market than the traditional cruise industry easyCruise has for the past year offered flexible itineraries along the French and Italian coast with minimal onboard facilities.

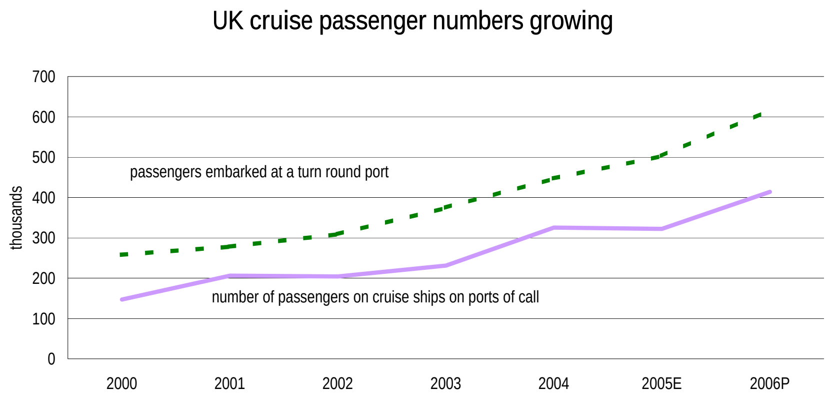
UK market trends

We can explore recent developments in the UK cruise market by taking a look at CruiseUK 'Cruise Port Statistics'. The annual compilation of figures from cruise liner handling ports enables us to uncover a picture of rapidly increasing numbers of cruise passengers and a much more modest increase in the number of vessels serving UK ports (courtesy of the trend towards larger, higher capacity, ships).

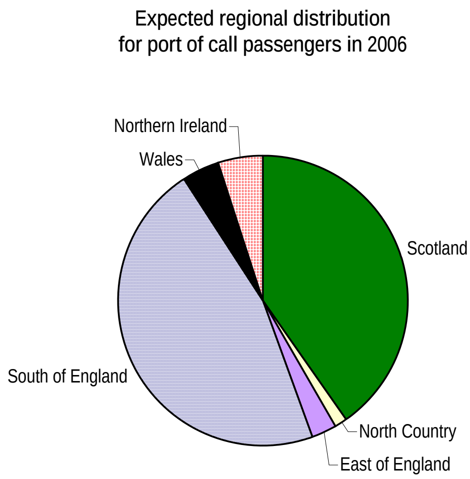
Starting with the number of cruise ships calling at UK ports we see an increase of 15 between 2000 and the expected number in 2006. The number of ports handling a cruise ships has risen from 36 to 50 over this period.



More passengers are embarking on a cruise at a UK 'turn round' port, with the market more than doubling in six years. Meanwhile the number of 'port of call' passengers at UK ports has virtually trebled to over 400,000.

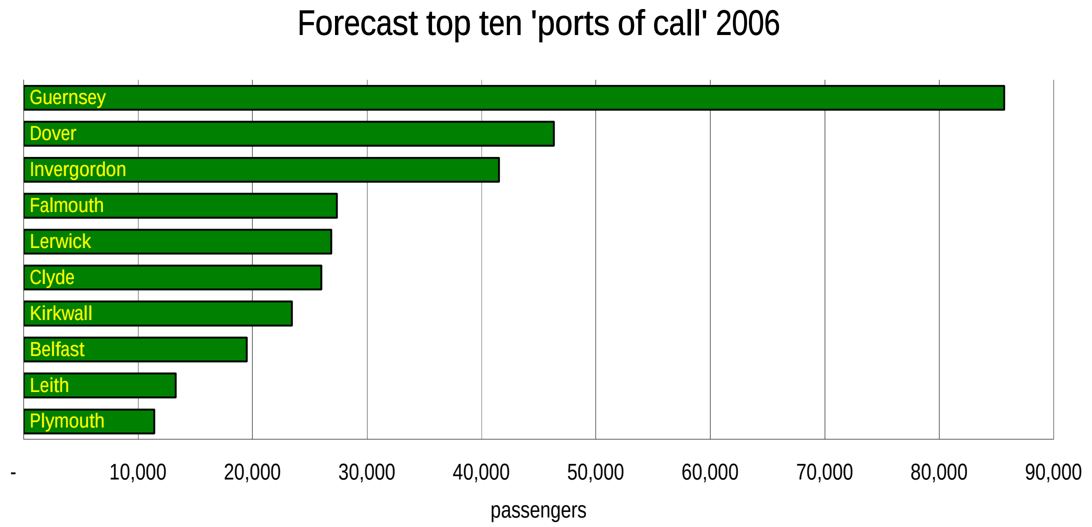


It is worth clarifying some definitions, a 'turn round' port is a port at which a ship commences or concludes a cruise, meaning that passengers make their own way to or from the port. A 'port of call' is a port at which a cruise ship arrives and departs with, generally, the same compliment of passengers. It is at these ports that 'shore excursions' are often available. Although based on small sample sizes it is estimated that in 2004 175,000 cruise ship passengers undertook a shore excursion from a UK port of call.



The regions with the lion's share of 'port of call' passengers during 2006 are forecast to be Scotland and the South of England.

Estimates for 2006 indicate that three UK ports will handle nearly 90% of all cruise ship embarkations during the year. Way out in front will be Southampton, handling almost 400,000 passenger embarkations, followed by Dover with 95,000 and Harwich with 44,000. Figures for 'port of call' passengers reveal a more even distribution among a number of ports throughout the British Isles.



Ports of call and shore excursions are vitally important if land-based tourism businesses are to benefit from the booming cruise industry. Research by Cruise Lines International Association (CLIA) in North America finds that cruising is an important vehicle for sampling destination areas, not only on the cruise but at a later date too. According to the CLIA figures 50% of cruise line passengers fully expect to return to the same geographical area for another type of holiday.

The majority, but by no means all, passengers expected to embark at a UK turn round port in 2006 are expected to be UK residents. CruiseUK figures indicate that 75% of the 617,000 embarkations will be by UK residents.

In deep water

As we can see from the chart Guernsey is forecast to be the port with the highest volume of 'port of call' passengers during 2006 and one key factor here is the availability of deep water sheltered anchorage. However an additional competitive edge that the Channel Islands enjoy is that being outside the European Union means there are favourable VAT refund issues that are extremely attractive to cruise lines when considering ports of call to include on itineraries.

Not only does the natural marine environment play a role, but so too does the nature of port infrastructure. If a port is incapable of accommodating a vessel and handling its passengers efficiently a cruise line is unlikely to consider it as a port of call. Numerous ports are investing, or planning to invest, in improved facilities in light of the growing popularity of cruises and the trend towards larger ships.

The Jersey Harbours Department is investigating how the island can capture more of the market by identifying possible anchorage sites, Liverpool is investing in a 350m extension to Princes Dock to ensure the world's largest liners can visit the city and local authorities in

Cornwall are considering how to fund the dredging of Falmouth Harbour necessary to ensure its continued attractiveness to cruise line operators. One sticking point when it comes to issues such as dredging is whether those bodies paying for it to take place will be able to fully benefit from the improved access that it delivers for the port and wider region.

The ripple effect

The most robust body of research into the wider economic benefits of the cruise industry covers the most mature market, namely North America. However, analysis by G. P. Wild (International) Ltd, gives a flavour for the importance of the industry in other parts of the world in terms of both industry and passenger spending and employment. The key underpinning assumption is that industry and passenger spending on US goods and services in 2004 was US$1,815 per passenger carried. In addition to this direct spending on goods and services we need to add the impact of shipbuilding and dry-docking for refits and major overhauls.

Despite North America creating the greatest demand for major new cruise ships at present all major new liners are being built in Western European shipyards. However, it is Italy, Germany and Finland rather than the UK who are the main beneficiaries according to analysis by G.P. Wild Ltd.

If these assumptions hold water then in 2004 Europe's 2.84 million cruise passengers resulted in direct spending on goods and services worth US$5.15bn. Adding in shipbuilding and maintenance brings the total economic benefit of the cruise industry in Europe in 2004 up to US$10.47bn, supporting more than 110,000 jobs.

We can take the analysis undertaken by G. P. Wild one step further to generate an indicative estimate as to the value to the UK of direct spending by cruise lines and passengers. It has been widely reported that more than a million Britons now take a cruise each year, but many of these passengers are flying off to a foreign port to do so. Figures from CruiseUK show that in 2006 we can expect 617,000 cruise ship embarkations at UK ports. The arithmetic here suggests that this is equivalent to direct spending by passengers and the cruise industry itself worth US$1.1bn, or more than £600m to the UK economy.

Routine ship maintenance and businesses responsible for restocking onboard supplies might not be the roles our imagination instantly conjures up as frontline 'tourism' jobs, but they are jobs that rely on tourism, if slightly less directly than the jobs of the crew for example. The 'supply chain' involved in operating the ship will result in local, regional and even national economic benefits as well as revenues that will accrue to the Government in the form of taxes.

More mainstream visitor economy businesses onshore can of course attract revenue from passengers, for example many passengers will stay overnight in the locality of the embarkation port prior to the cruise, or following disembarkation. The bulk of passengers will leave the ship for a while at each port of call, many taking part in planned half or full day excursions, thereby ensuring attractions within an hour or two's drive from a port are a feasible destination on a cruise line's itinerary. Tourism businesses out of sight of the sea should not ignore the potential of cruise passengers to become their customers, especially if they enjoy good transport infrastructure to the closest port and are able to handle potentially large groups travelling on organised excursions.

Size matters

One of the most noteworthy trends in the global cruise industry is for the size of vessels to be increasing year after year, a trend that poses a very definite challenge for the UK in terms of the investment in port facilities that the next generation of cruise liners will require if they are to consider the port for inclusion on an itinerary.

The recently launched "Freedom of the Seas" is designed to accommodate 4,375 passengers and is 1,112 ft long and 184 ft wide and, for the moment, is the world's largest cruise ship. Meanwhile work has started on the latest Cunard ship being built in Italy. The Queen Victoria will have Southampton as her home port and carry 2,000 passengers with a maiden voyage towards the end of 2007. Royal Caribbean recently awarded the contract for construction of what will be the next vessel to be 'the world's largest', capable of carrying 5,400 passengers.

There is a very simple explanation for the tendency for cruise ships to get bigger and bigger – the construction costs per berth for a super-cruiser are not dissimilar to those for much smaller liners, at around $230,000 according to Royal Caribbean, and the actual operating costs drop as the size of the ship increases due to economies of scale.

This does not, however, exclude the possibility of highly successful operations using smaller ships able to attract niche market segments willing to spend an above average amount on a cruise in order to enjoy a more personalised or tailored experience.

Future success - need for investment, co-operation and co-ordination

Britain has a tremendous array of maritime assets from the Needles to the Old Man of Hoy along with a vibrant menu of ports of call from which cruise line operators can select when putting together itineraries. However, even if the global cruise market continues its relentless expansion there's no guarantee that British tourism will benefit unless many sectors, not just tourism, recognise and respond to the opportunities on offer.

Success will require investment by port authorities in delivering facilities that are capable of handling the increasing size of vessels entering the market along with the higher volumes of passengers that larger ships carry. Co-ordination between port authorities and cruise line operators is an obvious prerequisite for the successful operation of an itinerary, but port authorities and cruise lines need to engage with other shore-based authorities to enable off-boat excursions to operate smoothly. For example if many hundreds of passengers are to be bussed to a special event, festival or an attraction it might be necessary for highway authorities and others to be onboard at an early stage of the planning process. Cruise lines loyalty to a particular port of call critically depends on their customers' expectations ahead of a shore excursion or port visit being fully met.

The next decade will see an increasing number of people taking a cruise holiday if current trends persist, and as an Island nation with diverse onshore destinations Britain is well placed to take advantage of this trend providing it can offer modern port facilities and top quality land based experiences for those taking shore excursions.

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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. Source: ONS