FORESIGHT
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FORESIGHT is a monthly commentary on significant issues within the tourism sector. Building on the December 2005 edition of Foresight covering the past twenty-five years of inbound tourism to Britain, this month we take a look at how Britain is faring in relation to global tourism trends, explore some of the key drivers of international tourism over the past few years, and take a look ahead to the remainder of 2006 and beyond.

Top destinations

Recently released figures from the United Nations World Tourism Organisation (UNWTO) reveal that Britain remains the sixth most visited destination worldwide, with just under 30 million overseas visitors in 2005. France is by far the most visited destination with 76 million arrivals, followed by Spain and the USA. China has cemented its fourth place and looks set to challenge the USA for third spot in the not too distant future. The arrival of Turkey in the top ten is of note.

International Tourist Arrivals

2005 Rank	Destination	Arrivals (m)	2004 Rank	2003 Rank	2002 Rank
1	France	76.0	1	1	1
2	Spain	55.6	2	2	2
3	USA	49.4	3	3	3
4	China	46.8	4	5	5
5	Italy	36.5	5	4	4
6	UK	30.0	6	6	6
7	Mexico	21.9	8	8	8
8	Germany	21.5	9	9	10
9	Turkey	20.3	not in top 10	not in top 10	not in top 10
10	Austria	20.0	10	7	9

The top ten destinations measured in terms of international tourism receipts has a slightly different complexion, though it should be noted that year-to-year comparisons are often influenced as much by exchange rate fluctuations as they are by real trends in the relative performance of each country.

Nevertheless, the USA is by far the largest earner from international tourism, with receipts totalling almost $82bn in 2005. Spain retains second place, followed by France, with the top three places having seen little change in recent years. Italy's inbound tourism generated around $5bn more than that of the UK in 2005, but if recent trends persist Italy may find its fourth spot under threat in the years ahead. The UK, China and Germany have been vying for fifth spot in the past few years, with the UK coming out on top in 2005. Some way behind at present, but both Turkey and Australia look set to gain ground on the more established destinations such as Austria in the future.

International Tourist Receipts

2005 Rank	Destination	US$bn	2004 Rank	2003 Rank	2002 Rank
1	USA	81.7	1	1	1
2	Spain	47.9	2	2	2
3	France	42.3	3	3	3
4	Italy	35.4	4	4	4
5	UK	30.4	5	6	7
6	China	29.3	7	7	5
7	Germany	29.2	6	5	6
8	Turkey	18.2	8	9	8
9	Austria	15.5	9	8	9
10	Aistralia	14.9	10	not in top 10	not in top 10

But what if money were no object?

The Anholt-GMI Nation Brand Index (NBI) enables to look not at the most visited destinations but at the countries people would most 'like' to visit if money were no object. The NBI is a quarterly on-line panel survey of around 1,000 consumers in each of 35 countries. From the table (based on Wave 2 2006 results) we can see that when asked to rank countries according to how likely the respondent would be to visit 'if money were no object' the UK is in seventh spot, not that far short of its arrivals and receipts global ranking.

What is most striking is that Australia is the most aspirational destination to visit, even though it fails to make it into the top ten destinations ranked by arrivals. Italy is in second spot in terms of aspiration to visit, a stronger performance than arrivals and receipts rankings indicate. In third, fifth and sixth places respectively are Canada, Switzerland, and New Zealand, three more countries that fail to make it into the top ten for either arrivals or receipts.

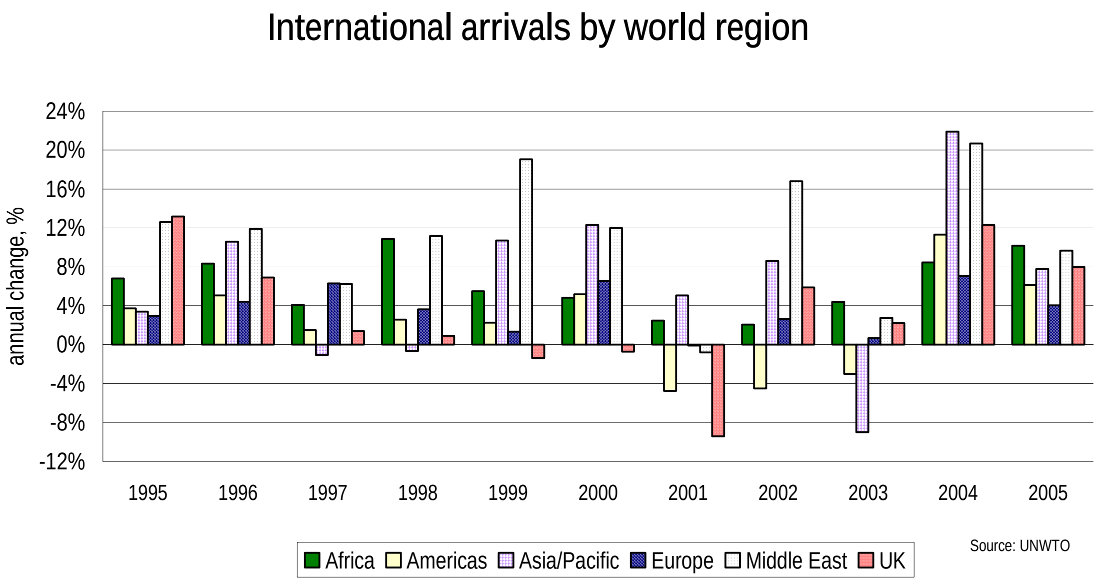
By contrast France only comes in at ninth (behind the UK) in terms of aspiration to visit if money were no object, and the USA is down in eleventh spot and Germany sixteenth, despite all three being in the top ten when measured by total arrivals or total receipts.

Rank	Destination
1	Australia
2	Italy
3	Canada
4	Spain
5	Switzerland
6	New Zealand
7	United Kingdom
8	Sweden
9	France
10	The Netherlands
11	United States
12	Japan
13	Denmark
14	Norway
15	Portugal
16	Germany
17	Ireland
18	Belgium
19	Brazil
20	Egypt

Regional winners and losers

A myriad of stories emerge from the following chart showing year-on-year trends in the number of international arrivals by world region, alongside those to Britain. Firstly we can see that the UK was performing very strongly in the mid 1990s, but that our performance relative to most other regions waned towards the turn of the century and by 2001 the UK was experiencing a sharp decline thanks to the dual impact of Foot and Mouth Disease and September 11th.

However, on a more positive note Britain has outperformed the Europe in each of the past four years. We can see the impact of the Asian financial crisis of the late 1990s dampening the performance of Asia/Pacific, plus the devastating impact of SARS on travel to the region in 2003. The Americas are gradually rebuilding after three straight years of decline between 2001 and 2003, which allowed Asia/Pacific to overtake the Americas in terms of international arrivals. Although both Africa and the Middle East appear to be performing consistently well it is important to remember that each accounts for less than 10% of the annual number of international arrivals in Europe.



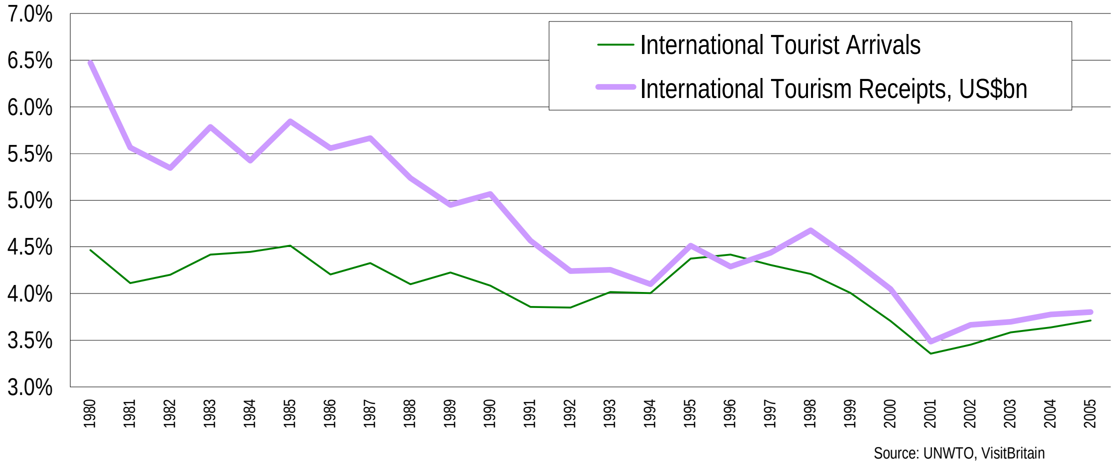
Britain's market share

So how well is Britain doing at attracting international visitors compared to the rest of the world? We can look at this in terms of our market share of international arrivals and of international tourism receipts, but it is important to recognise that exchange rate fluctuations as well as real differences in performance influence the latter measure.

As the chart shows, Britain's share of arrivals and receipts has declined since 1980 – at the start of the period 6.5% of all international tourism expenditure was in the UK, whereas in 2005 our share had fallen to under 4%.

The decline in market share for international tourist arrivals is less steep, dropping from around 4.5% during the early 1980s to a shade over 3.5% now. The good news here is that the UK's strong performance in the past three years has enabled us to buck the long-term trend and see our market share of both arrivals and receipts increasing slightly.

UK's market share of international tourism

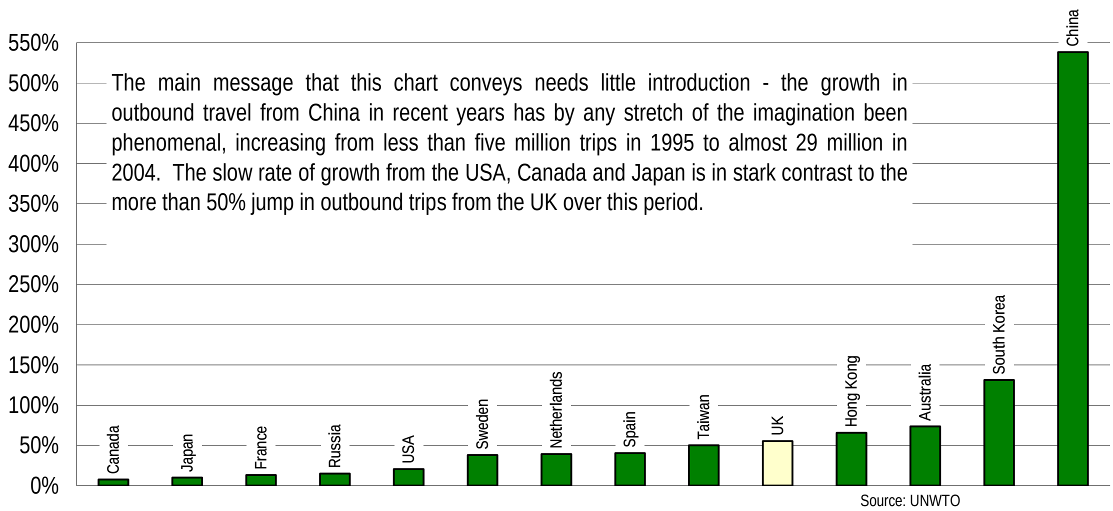


The outbound scene

Before an international tourist can arrive and start spending money in a foreign country they need to have departed from somewhere, so it is informative to take a look at trends in outbound tourism over recent years in order to understand who is driving growth in international travel.

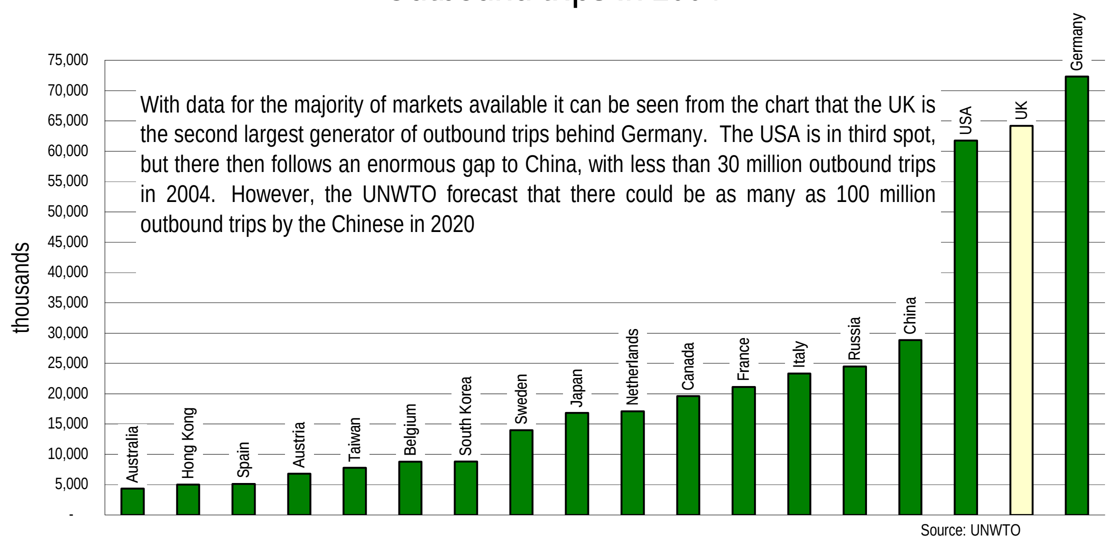
Throughout this section we need to take note of the fact that different countries estimate outbound visits through a variety of approaches. For example, in some cases same-day cross-border visits are included, and in other cases only overnight trips are counted. This means that direct country-by-country comparisons may be misleading and the information conveyed in the charts should be treated with caution.

Growth in outbound tourism trips, 1995-2004

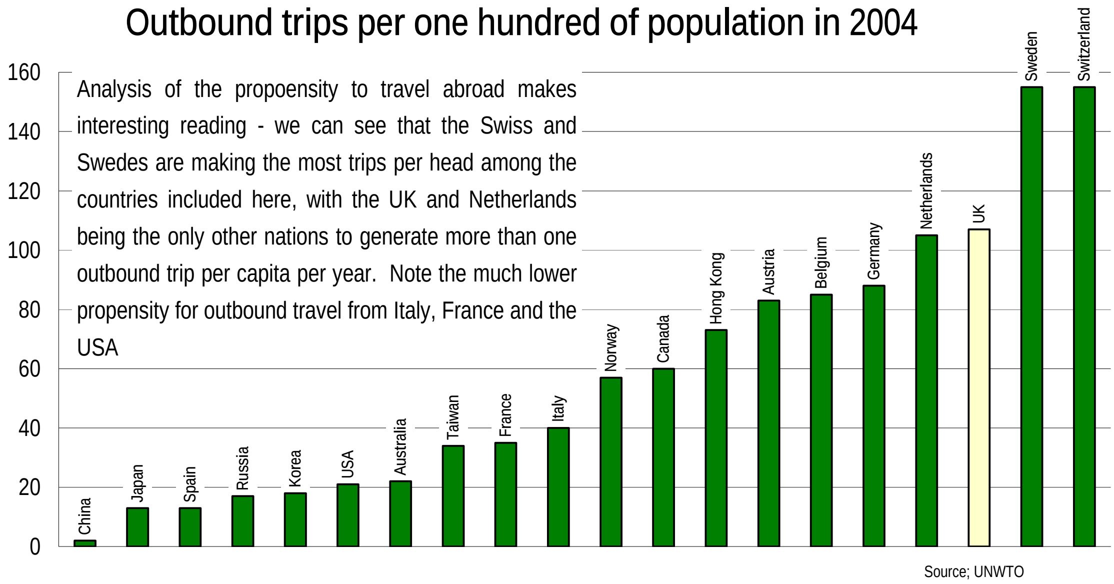


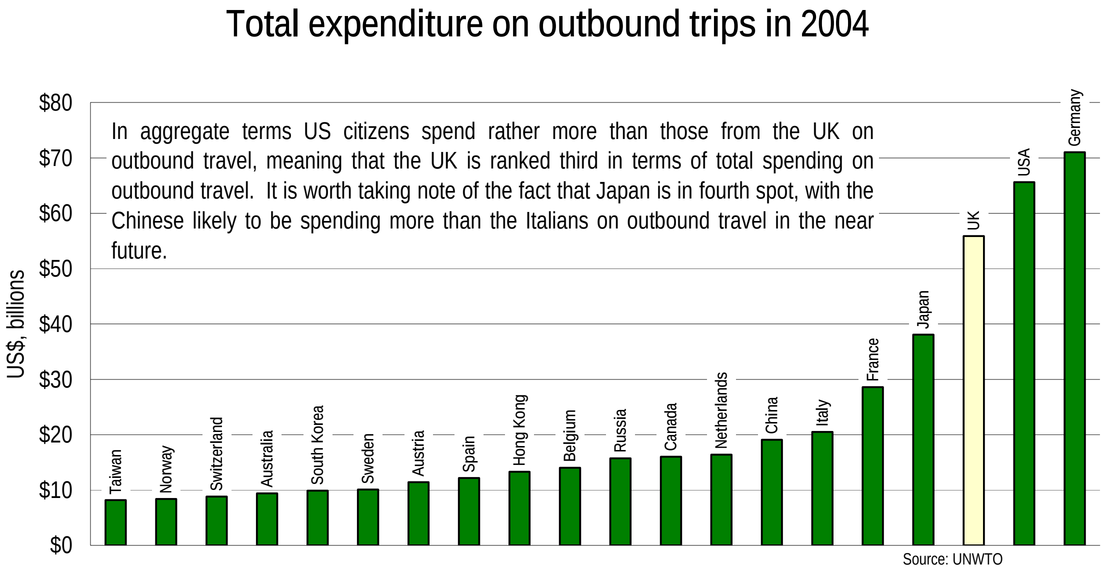
What might appear to be a simple question such as ‘which is the most important outbound market?’ can in reality be answered in many different ways depending on the method of measurement. The next four charts explore which outbound markets generate the most trips, the most trips per person, the most spending and finally the most spending per person.

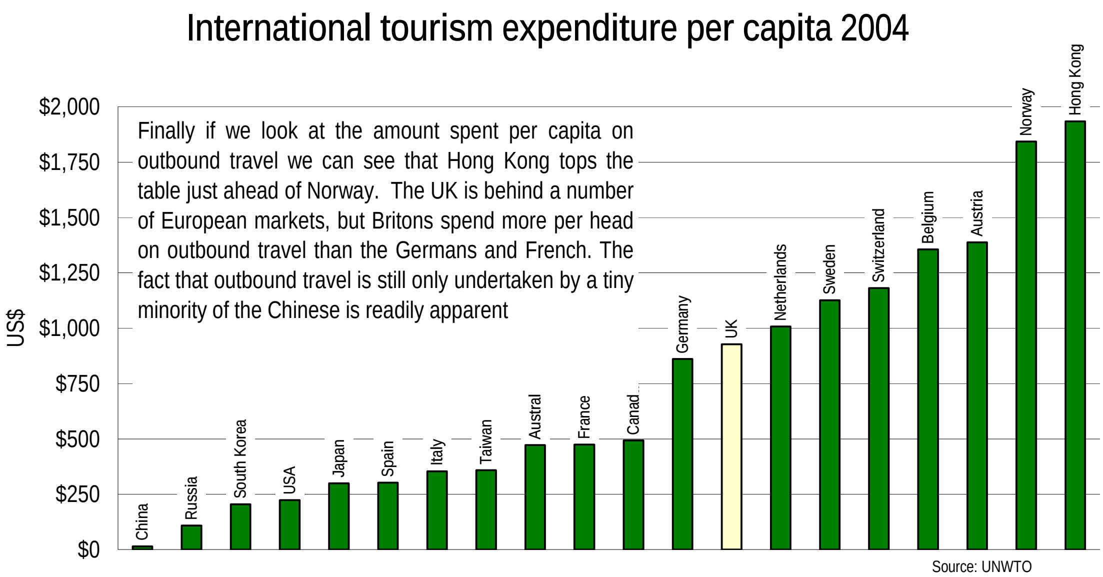
Outbound trips in 2004



Outbound trips per one hundred of population in 2004







Predicting the unpredictable?

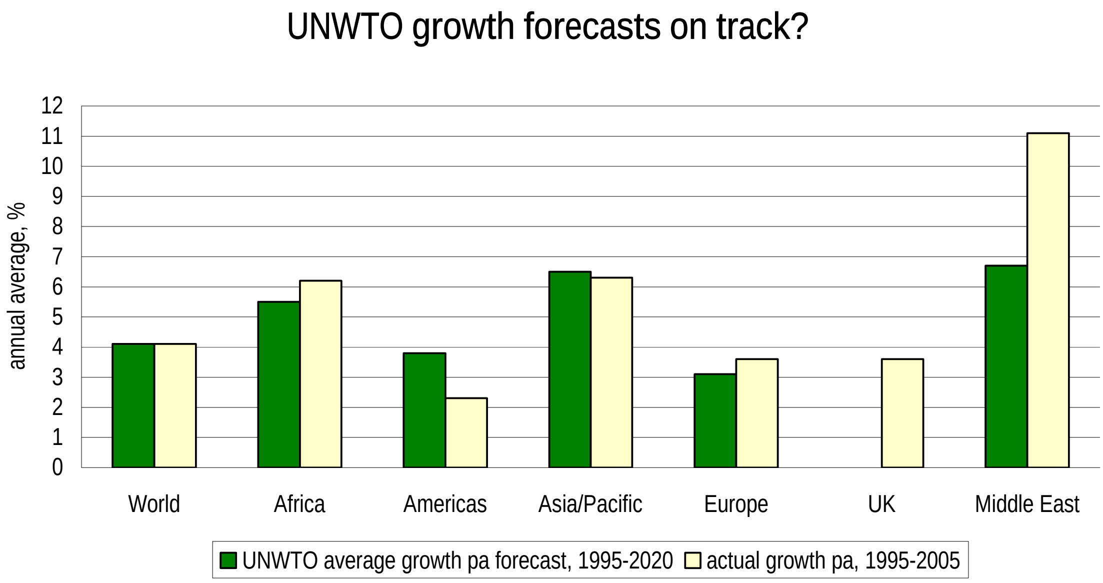
The list seems endless; Foot and Mouth Disease, 11th September, SARS, Avian Flu, bombings, floods, tsunamis, hurricanes, earthquakes and most recently the Israeli military assault on Lebanon, rarely is international tourism unhindered by factors beyond its control. However, the impact of these events tends to be relatively short-lived and localised.

If we take a step back and look at international tourism in the context of a longer time frame than one or two years trends start to emerge that enable forecasts to be made. For example, there is little doubt that despite the odd hiccup international tourism has grown significantly and consistently over the past few decades.

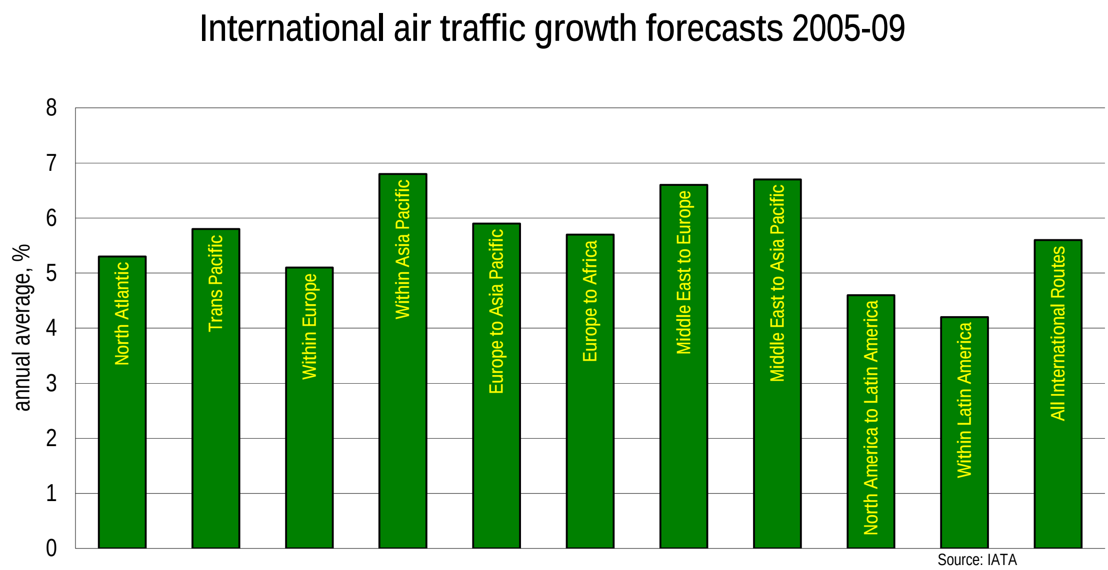
The UNWTO forecast this growth to continue through to at least 2020. As we can see from the following chart international tourism was forecast to expand at an average annual rate of approximately 4% between 1995 and 2020, and with the first ten years of this twenty-five year period complete this forecast appears to be spot on.

Looking at regional forecasts, however, we can see that actual growth in arrivals in the Americas has been a good deal lower than forecast, whereas the Middle East has recorded an annual growth rate almost twice that forecast by UNWTO in the past ten years. Arrivals to Europe are running at a slightly higher rate than forecast, and we can see that the UK has, on average, kept pace with the European average growth rate over the past decade.

Asia Pacific and the Middle East are forecast to see the fastest growth in international arrivals during the next decade or so, with more mature destinations such as Europe and the Americas struggling to keep pace with the new destinations. A key driver of increased arrivals in the Asia Pacific and Middle East regions is growth in intra-regional travel as more and more residents in these areas start to enjoy the financial wherewithal to travel outside of their own country.

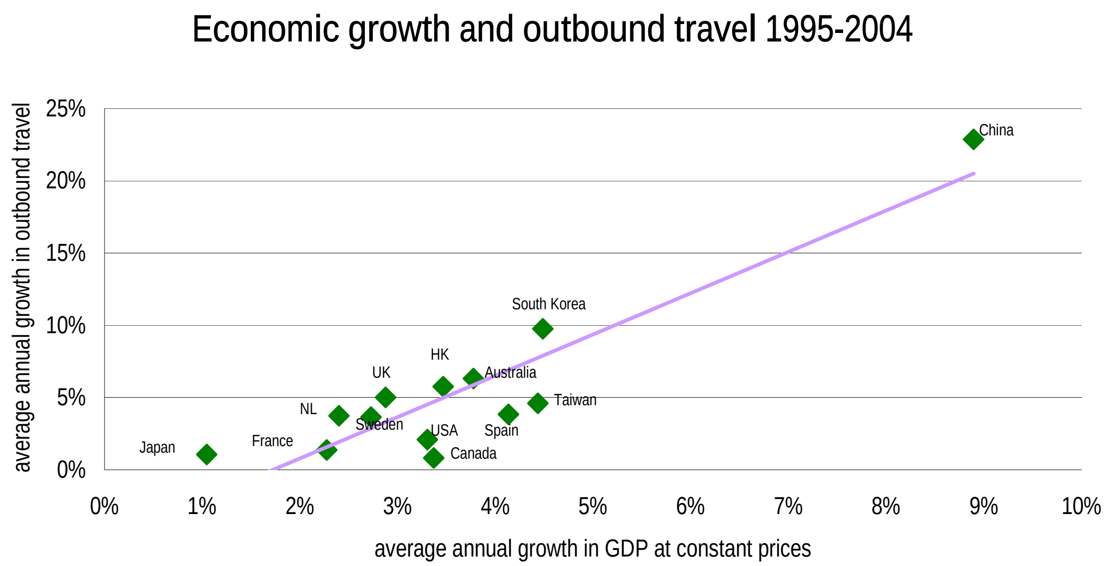


The International Air Transport Association (IATA), which represents 265 airlines responsible for 94% of all international air traffic, has published forecasts showing how they expect passenger air traffic to grow in the next few years. Once again we can see that the Middle East is forecast to be an important driver of growth, as is traffic within the Asia Pacific region – indeed, according to IATA passenger air traffic in China will grow at an annual rate of nearly 10% through to 2009.



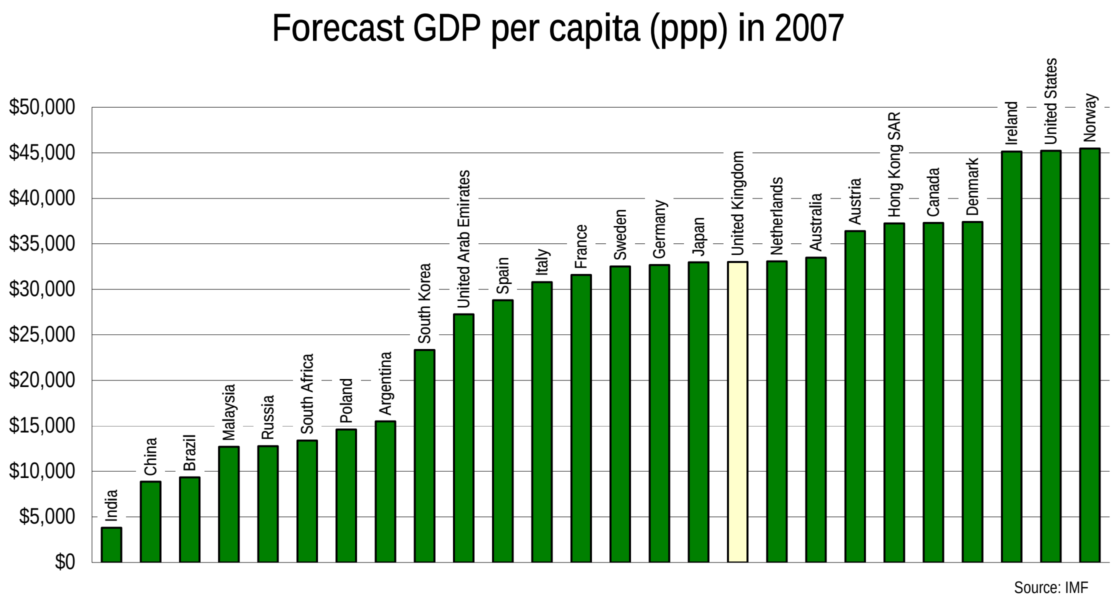
Economic growth and outbound travel

However many airline seats are put on the market they can only be filled if there is sufficient demand. Perhaps the most important driver in demand for international travel is the rate of economic growth, as with economic growth comes better levels of prosperity and sufficient disposable income to partake in tourism and other leisure pursuits.



The relationship between economic growth and trends in outbound travel is apparent from the above chart, showing that broadly speaking the faster the rate of economic growth the faster outbound travel will expand. It is to be hoped that the apparent renaissance of the Japanese economy will soon feed through to an improved growth rate for outbound travel from Japan.

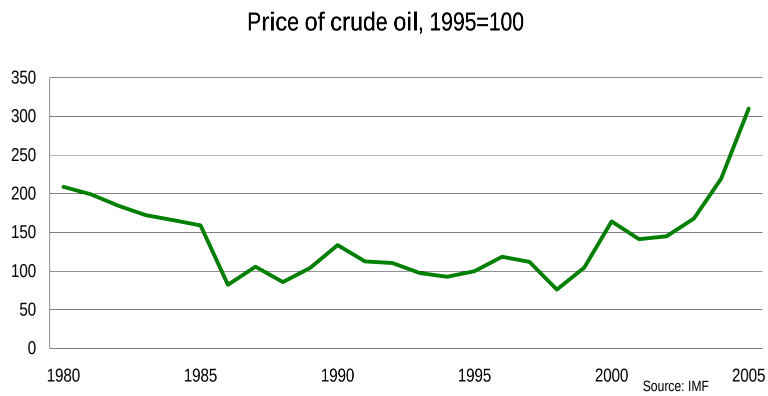
The rate of economic growth is not the only consideration, the absolute level of per capita income matters too. We can look at this in terms of what is called 'Purchasing Power Parity' (PPP) which is an attempt to overcome the fact that the cost of living in one country will vary from that in another. On such a 'PPP' basis we can see that the International Monetary Fund reckon that despite being renowned for their fast rate of economic growth, the population of 'BRICs' (Brazil, Russia, India and China) countries will continue to have an income well below that enjoyed by the population of more developed countries.



Oil

In recent years a new phrase has become common in travel and tourism parlance, namely 'fuel surcharge'. The reason for the emergence of this new phenomenon becomes clear when we take a look at the chart showing the indexed price of crude oil over the past quarter of a century. The price fell by more than a half between 1980 and 1995, before increasing towards the late 1990s.

The first six years of this century have been characterised by an initial steady decline in the price of oil followed by a dramatic increase in 2004 and 2005 resulting in the price of oil being three times that of a decade ago.



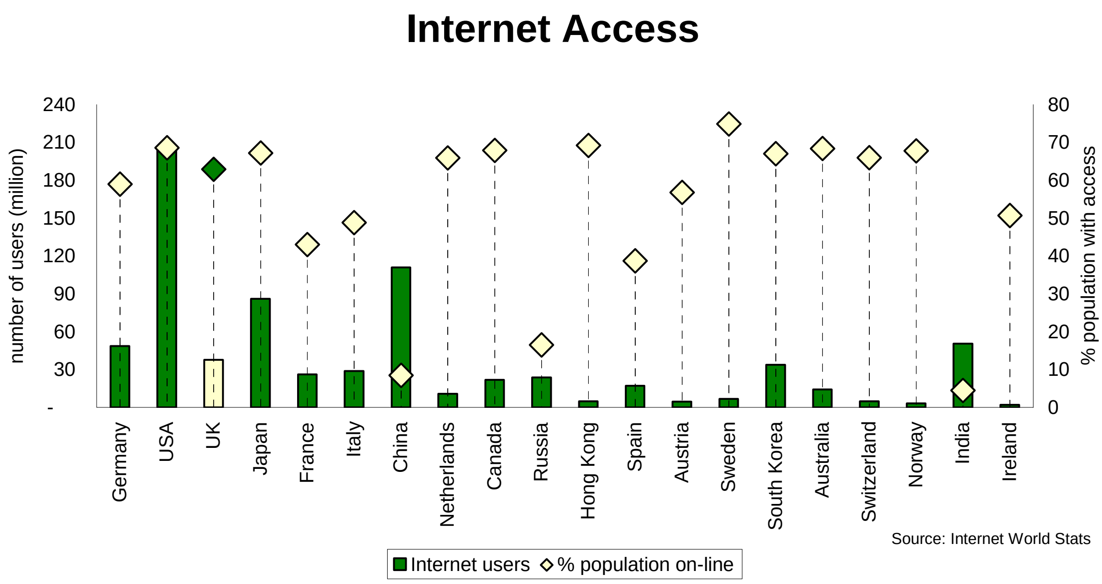
Events thus far in 2006 have added to the pressure on oil prices, with the Israeli military offensive in Lebanon resulting in the price reaching $78 a barrel in recent weeks. Nevertheless, despite the typical long-haul fuel surcharge now being around $100 the price of air travel has been kept in check over recent years.

This has been due to increased competition from low-cost carriers and legacy airlines eliminating many of their own costs simply in order to survive declining patronage in the immediate aftermath of September 11th. A clear example of how important low-cost carriers have become is that back in 1997 the combined number of passengers carried by Ryanair and easyJet stood at 5 million, but by 2005 it had reached 57 million.

Internet

The nature of booking international travel has changed enormously in the past decade for millions of people worldwide as the Internet enables people to research and book transportation, accommodation and much more besides from the comfort of their own home. In addition to making price comparisons much easier, and thereby ensuring value for money, it is possible for an increasing proportion of those travelling to check-in for their flight at home and even print their own boarding pass.

It will not be that much of a surprise to learn that the percentage of those living in China and India who enjoy web access is only a fraction of that seen in countries such as the USA or Japan, but if we focus on the absolute number of people in each country able to access the Internet then we discover that China and India are both home to tens of millions of web users, indeed, China has more people who are on-line than any other country with the exception of the USA. The following chart summarises web access in some twenty countries worldwide.



Emerging inbound and outbound markets

The formation of new European countries such as Croatia, Estonia and most recently Montenegro over the past couple of decades has resulted in the universe of possible holiday destinations expanding, at least in terms of popular perception. This ramping up in the number of destinations on offer has been partly due to the rapid expansion in low-cost carrier air routes mentioned earlier. According to figures from OAG, back in March 2001 4% of airline seats in Europe were provided by low-cost carriers, but by March this year this had jumped to 23%.

The EU's 'open skies' policy has enabled a growing number of city pairs to be linked, putting places like Bratislava and Krakow on the short-break map for many European travellers for the first time. Not only is it Central and Eastern Europe experiencing improved access though, with a recent agreement between the EU and Morocco being quickly followed by easyJet, Ryanair and British Airways all announcing additional routes to the North African country.

The aviation sector in both China and India is expanding at an astounding rate with the Chinese government recently announcing it plans to invest $17bn expanding airport infrastructure over the next five years, including the construction of a second international airport for Beijing. In India a recent survey by SpiceJet found that no fewer than 40% of those onboard its aircraft were making their first ever flight, demonstrating the rate at which flying is becoming increasingly accessible to Indian citizens.

Looking forward

We have seen that after a sustained period of gradually losing global market share the UK has successfully captured a larger slice of the international tourism cake in the past three years, but is this trend set to continue? According to UNWTO figures the number of international tourist arrivals worldwide was 4.5% up in the period January to April 2006 compared with a year ago, whereas during these four months the UK witnessed a 9% jump in arrivals. Britain's performance looks even more impressive when we contrast it with the overall European start to the year with arrivals up just 2.5% between January and April. Results for May indicate that the rate of growth in arrivals to the UK is slowing, and this is in line with the latest VisitBritain forecast of 31.3 million overseas visitors during 2006, or an annual increase of around 4.5%.

The strong start to the year means that, subject to no unforeseen events unfolding between now and December, the UK looks set to retain our current share of global tourism, and stands a realistic chance of improving on the 6.8% share of arrivals to Europe that were destined for Britain in 2005.

The longer term is more of a challenge. An increasing number of destinations across Asia, Latin America, Africa and the Middle East will be opened up by rapidly expanding airline networks and the governments of these countries will undoubtedly ensure sufficient investment in their tourism industries in order to vie for the attention of international tourists. With an increasing proportion of international tourists coming from Asia or the Middle East as economies such as China and India grow ever more important on a global stage, and the bulk of international tourism being intra-regional rather than inter-continental, Britain will be doing exceptionally well if by 2020 its market share is at today's levels. That said Britain has enormous opportunities to build on our recent strong performance, not least through staging the London 2012 Olympics, an event that will provide an unrivalled chance to showcase Britain to a global audience running into billions.

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