

FORESIGHT

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In this the fiftieth edition of FORESIGHT we take a look ahead to 2008 and consider what is likely to happen to the volume and value of inbound tourism to the UK, and consider the likely impact of several factors set to influence trends over the coming year. These factors range from the handover of the Olympic torch from Beijing to London through to the introduction of biometric visas for visitors to the UK from key markets such as India and China.

Looking back before looking forward

To a greater degree than perhaps any year since 2001 inbound tourism during 2007 has been subject to the influence of external events, many of which were unforeseen back at the start of the year, and some of which may end up having an equally important role to play during 2008.

The weather has been in the news on numerous occasions, with some of the worst gales to hit Britain for a decade back in January, three consecutive months (May, June and July) in which rainfall totals were exceptionally above average for the time of year, and the largest storm surge in the North Sea for more than fifty years in early November. It is the rain that had the greatest impact on tourism due to the resultant flooding in parts of Yorkshire and the East Midlands in June, and across parts of the Midlands in July.

Agriculture is intertwined with tourism in rural areas, and during the course of 2007 Britain witnessed an outbreak of Foot and Mouth Disease, though thankfully restricted to a very small number of premises in Surrey, two separate outbreaks of the highly pathogenic H5N1 strain of avian flu on poultry farms in East Anglia and the emergence of Bluetongue disease, which spread across the North Sea from continental Europe.

There were two attempted terrorist attacks at the end of June and start of July, one in central London and the other at Glasgow Airport – fortunately neither was successful and no members of the public were injured, however, the attacks, particularly that at Glasgow Airport, did receive widespread global media coverage.

Aviation has again been topical throughout 2007, with a threatened cabin crew strike at British Airways in late January resulting in considerable disruption, a doubling of Air Passenger Duty in February, further hikes in airline 'fuel surcharges' as the price of oil continued to rise and an ongoing debate about aviation's impact on the environment. The Heathrow 'climate camp' in August did not cause any disruption to travel.

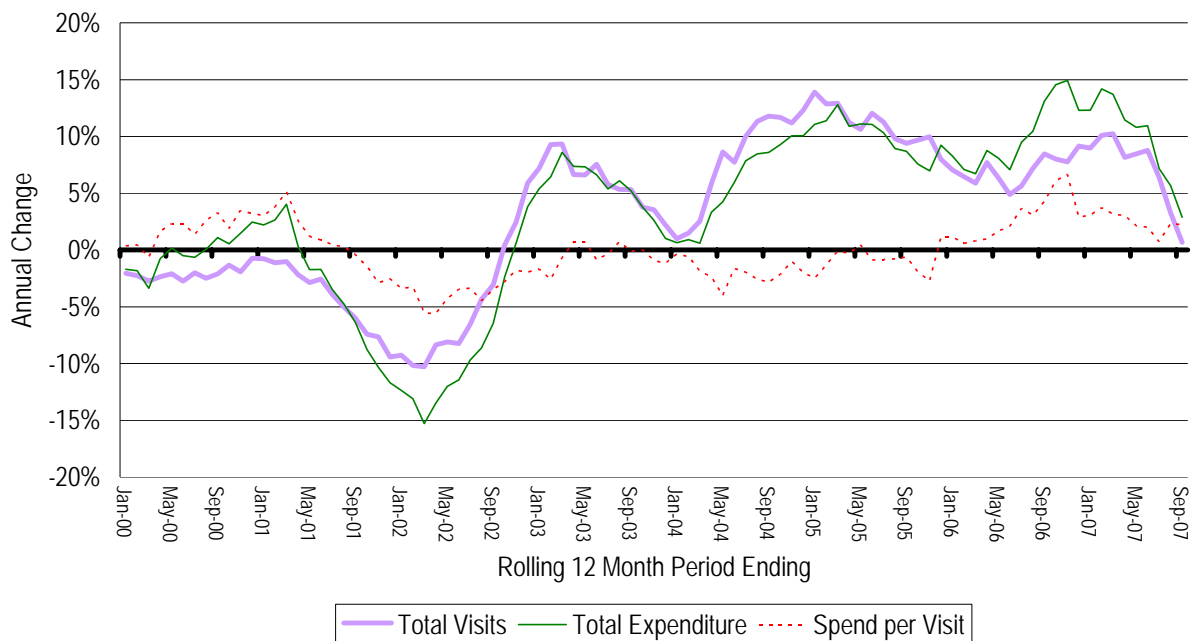
Forecast Headlines

VisitBritain forecast that the volume of inbound tourism in 2008 will be below that achieved in 2006. These forecasts, which we will review in May 2008, suggest that the second half of 2007 and early 2008 are likely to witness falling visitor numbers, but that the first signs of recovery will be evident by the middle of next year. Historical trends would suggest growth of three to

four percentage points per annum, but given the current global economic climate VisitBritain expect growth of just 2% in arrivals, with value static in real terms in 2008.

The following chart highlights the scale of the recent decline even once the data is 'smoothed' on a rolling twelve month basis. Looking at monthly International Passenger Survey¹ data over the course of the past three decades a period of sharp year-on-year change in one year will typically result in a rebound the following year. Given the importance of the summer months it will only take a relatively small year-on-year recovery in summer 2008 (which is unlikely to see as many 'one off' negative influences as summer 2007) for the overall picture for 2008 to be modestly positive.

Trends in inbound tourism



Due to the time lag in publication of data from the International Passenger Survey we will not get provisional full year figures for 2007 until mid February, with subsequent revisions in April and again in August. As such it is necessary to forecast the full year picture for 2007 before focussing on 2008.

In summary, the VisitBritain forecast is that:

- The volume of inbound tourism to stand at 31.7 million visits in 2007, representing a decrease of 3.1% on 2006. A partial rebound, with an increase of 2.0%, is forecast for 2008, taking the total number of visits to 32.3 million, **still below the level achieved in 2006**
- The value of inbound tourism is forecast to fall by 1.3% in 2007 to £15.8 billion and then to increase by 2.4% in 2008 to £16.2 billion
- If accurate, these forecasts suggest that neither 2007 or 2008 will see record numbers of inbound visitors nor (in nominal terms) visitor spend, and that 2007 will be the first year in which the number of visitors to the UK has fallen since 2001
- The strongest growth in 2008 is expected to come from Asia, Eastern Europe and emerging markets, with the weakest inbound markets likely to be the Americas

- 'Downside' risks to this forecast outweigh 'upside' risks at present

These forecasts are based on both an analysis of statistical trends and the latest feedback from VisitBritain's network of overseas offices. The forecasts are dependent on normal circumstances prevailing and do not factor in unexpected shocks caused by terrorism, health scares and other crises. Perhaps the biggest risk at present is that of a global economic downturn during late 2007 and into 2008 - these forecasts reflect this risk, particularly in terms of visits from the Americas.

Forecast Methodology

Provisional monthly IPS data for September 2007 was published on 14th November. Monthly IPS data from 1978 to 2006 has been analysed to understand the percentage of full-year visits and spend that has accrued by each month of the year. These figures show that, on average, by September 78% of visits and 77% of spend has accrued. Looking at the "minimum and maximum" amount of visits and spend to have accrued by September shows ranges of 75%-81% and 75%-79% respectively (2001 is excluded as an outlier). With only three more months of data due to be published at the time of writing the 'most likely', or average, proportion of visits achieved thus far in 2007 has been adopted for these forecasts.

This forecast therefore assumes that during the final three months of 2007 visitor numbers will be 9% down on the final three months of 2006 – this is in line with the average decline during the July to September period.

Based on IPS data the average annual growth rate for the period 1994-2006 specific to visits and spend for each country (or group of countries) has been used to produce forecasts for 2008. The growth rates have been weighted, with rates from 2006 having a weight twice that given to the average growth rates in 1994 – a linear interpolation between the start and end weight has been applied. The forecasts for both visits and spend have then been "controlled" to ensure that they sum to the overall average growth rate that total visits and total spend have followed over the course of the past thirteen years.

Due to the anticipated global economic slowdown the forecast adopted here is at the bottom of the range within which historical trends would indicate. In particular growth figures for the Americas have been reduced to take account of the high value of the pound against the US Dollar.

Context

In the first nine months of 2007 the volume of inbound visits declined by 1% with inbound visitor spending increasing by 1% in nominal terms (once inflation is taken into account this represents a real terms decline of around 1%). The strongest growth during the first nine months of 2007 was from China, Czech Republic, Hungary and Iberia, with the weakest markets including the USA and Japan. There has been a sharp downturn in the four months to September.

As a benchmark for these forecasts, Global Insight forecast that the number of inbound visits to Britain will grow by 3.3% during 2008 and the United Nations World Tourism Organisation forecast that the long term trend growth for mature destinations such as Britain is in the region of 2% to 4% per annum.

The following table summarises the VisitBritain forecasts:

	2006 Actual		2007 Forecast		2008 Forecast	
	Total	Total	% growth	Total	% growth	Total
Volume (m)	32.7	31.7	-3.1%	32.3	2.0%	32.3
Value (£bn)	16.0	15.8	-1.3%	16.2	2.4%	16.2

What will shape 2008?

Just as in 2007 there are bound to be one-off factors that will help to determine inbound tourism trends during the coming year, and below we endeavour to identify a few of these factors, though no doubt other unforeseen events will be just as influential.

Starting with some of the positive influences on inbound tourism over the next year, these look set to include:

- The EU/US Open Skies Agreement, although this could equally well be a negative risk as Americans and Europeans find more availability of direct flights between continental Europe and the US. On balance this should be a 'positive' rather than a 'negative', but a future edition of Foresight early in 2008 will take a detailed look at the likely implications of the deal
- Continued expansion in the number of short-haul air routes to Britain from Eastern Europe and Turkey – for example bmibaby recently announced new routes from Poland to Birmingham, Cardiff and East Midlands
- Increased passport ownership among US citizens as implementation of the 'Western Hemisphere Travel Initiative' continues
- Events to mark London becoming the next Olympic host city at the end of the Beijing Olympic and Paralympic Games
- Events to celebrate Liverpool being European capital of culture during 2008
- Emerging opportunities to grow the leisure market from China over the longer term as 'Approved Destination Status' beds in
- A spurt in growth from France and Belgium following the opening of the second phase of the Channel Tunnel high speed rail link in November 2007 that has reduced journey times from France and Belgium to the UK
- The opening of Terminal 5 at Heathrow at the end of March 2008 providing a step change in the quality of facilities experienced by inbound visitors flying with British Airways, and a reduction in flight delays thanks to aircraft being less likely to be held awaiting an available gate (Foresight will discuss this important development in more detail early in 2008)
- The gradual introduction of the Airbus A380 super-jumbo will enable higher passenger volumes per landing/take-off at Heathrow on selected routes over the course of 2008
- A relaxation in the stringent restrictions on the amount of hand baggage that air passengers can take through security checkpoints at UK airports (although one downside risk is that a greater proportion of available airline seats will be filled by those in airside transit rather than those completing/starting their trip in Britain)

Negative influences on inbound tourism over the next year might include:

- Continued high oil prices resulting in further fuel surcharges being imposed by airlines (British Airways recently upped their fuel surcharge, which now stands at £116 per return)

- long-haul flight to Britain)
- Further weakening of the US Dollar, which for most of summer 2007 has been trading at over \$2 to the pound - with some analysts, including the Centre for Economic and Business Research, forecasting \$2.25 to the pound by summer 2008
 - A slowing global economy on the back of financial market turmoil – a topic that was discussed in detail in the November edition of Foresight
 - Ongoing risk of terrorism, either direct attacks within Britain or in overseas markets resulting in a reluctance to travel
 - Avian flu (confined to birds) arriving in Britain or Western Europe deterring visits, or worse, a human flu pandemic causing widespread disruption to international travel
 - Further outbreaks of Foot and Mouth Disease and/or bluetongue disease disrupting visits to rural areas – but there is strong evidence that the impact of these disease outbreaks has been very limited in 2007
 - Continued growth in new “low cost” destinations for international travel, including Vietnam, Croatia, India, Turkey and Morocco
 - The introduction of biometric visas for all nationals who require a visa in order to visit Britain by early 2008, with the potential for further increases in visa fees

Economic Forecasts

Last month Foresight looked in detail at the ‘credit crunch’ and since that time the expectation that an economic slowdown is inevitable, especially in the US, has gathered even greater credence. The following table (overleaf) summarises the latest International Monetary Fund forecasts covering both growth rates in Gross Domestic Product per capita and unemployment rates during 2007 and 2008 for key inbound tourism markets for Britain.

It can be seen from the table that a number of European countries are forecast to continue experiencing relatively weak growth whereas many Asian economies are forecast to enjoy continued strong growth, with Japan’s modest recovery forecast to continue. These forecasts, although made in October 2007, may be rather too bullish given the ongoing ‘credit crunch’.

Summing up

Britain has enjoyed a sustained period of growth in the volume and value of inbound tourism over the period 2002 to 2006, with a strong ‘bounce back’ from the events of 2001 and the opening up of Eastern European markets courtesy of European Union expansion. It was always a safe bet that growth rates would eventually return to those ‘typical’ of a mature destination, but the slowdown in 2007 may have been exacerbated by a series of one-off factors, plus the widely publicised ‘credit crunch’ which has been a particular concern in the US, our most valuable inbound market by a factor of three.

The fact that the second half of 2007 has delivered very weak inbound data does not mean that continued contraction in visits throughout the entirety of 2008 is inevitable, and on balance very modest year-on-year growth is anticipated, though with downside risks outweighing upside risks. It is forecast that 2008 will deliver fewer visitors, and lower visitor spending (in real terms), than was the case back in 2006.

Forecast for GDP per capita ppp US\$s in 2008		Forecast for GDP growth in 2008		Forecast for inflation in 2008		Forecast for unemployment in 2008	
Country	US\$s	Country	growth %	Country	%	Country	%
Luxembourg	88,529	China	9.5	Japan	0.8	Iceland	2.3
Ireland	49,939	India	7.8	Switzerland	1.0	Singapore	2.6
Norway	47,270	United Arab	7.2	Singapore	1.5	Switzerland	2.8
United State	47,050	Turkey	6.0	Finland	1.6	Norway	3.0
Hong Kong :	43,279	Russia	5.9	Germany	1.6	Korea	3.1
Iceland	42,767	Malaysia	5.8	Austria	1.7	Netherlands	3.1
Switzerland	40,178	Argentina	5.5	Belgium	1.8	Japan	4.0
Denmark	39,532	Hong Kong :	5.0	France	1.8	Hong Kong :	4.2
Austria	39,002	Poland	5.0	Denmark	1.9	Austria	4.3
Canada	38,150	Thailand	4.8	Canada	2.0	New Zealan	4.4
Finland	37,855	South Africa	4.5	Italy	2.0	Australia	4.6
Netherlands	37,613	Korea	4.4	Saudi Arabi:	2.0	Ireland	4.7
Sweden	37,074	Czech Repu	4.3	Sweden	2.0	Luxembourg	4.8
Belgium	36,840	Brazil	4.2	Ireland	2.1	Denmark	4.9
Singapore	35,909	Luxembourg	4.1	Luxembourg	2.1	Sweden	5.0
Australia	35,707	Saudi Arabi:	4.0	Netherlands	2.1	United State	5.0
Japan	35,377	Ireland	3.7	Norway	2.2	Canada	6.2
Germany	33,346	Greece	3.5	China	2.3	Italy	6.8
France	33,124	Mexico	3.5	Hong Kong :	2.3	Portugal	7.3
Italy	32,718	Spain	3.4	Portugal	2.4	Finland	7.4
Spain	29,444	Australia	3.3	Slovenia	2.4	Belgium	7.6
United Arab	29,193	Hungary	3.0	Korea	2.5	Germany	7.6
Greece	28,702	Canada	2.9	Malaysia	2.5	Spain	7.7
New Zealan	27,281	Norway	2.8	Thailand	2.5	France	7.8
Korea	26,958	United State	2.8	United State	2.5	Greece	8.5
Czech Repu	26,237	Finland	2.7	New Zealan	2.6		
Portugal	24,366	Netherlands	2.7	Spain	2.7		
Hungary	21,943	New Zealan	2.6	Australia	2.9		
Saudi Arabi:	18,737	Sweden	2.5	Poland	2.9		
Argentina	18,018	Austria	2.4	Czech Repu	3.0		
Poland	16,921	France	2.4	Iceland	3.0		
Russia	14,368	Denmark	2.2	Greece	3.2		
South Africa	14,149	Portugal	2.1	Mexico	3.5		
Malaysia	13,377	Belgium	2.0	Hungary	3.8		
Mexico	12,292	Germany	1.9	Brazil	4.1		
Thailand	10,220	Iceland	1.9	India	4.3		
Turkey	10,177	Japan	1.9	Turkey	4.3		
Brazil	9,966	Switzerland	1.8	United Arab	4.6		
China	9,431	Italy	1.7	South Africa	4.9		
India	4,336			Russia	7.5		
				Argentina	12.7		

Source: IMF 'World Economic Outlook', autumn 2007

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Issue 1	November 2003	Market Focus	Issue of the Month
Issue 2	December 2003	USA, Canada and Mexico	Implications of an ageing population in Britain
Issue 3	January 2004	France, Italy, Portugal and Spain	Airport capacity in Britain
Issue 4	February 2004	Poland, Russia, China and South Korea	Visits to Britain by British Nationals living overseas
Issue 5	March 2004	Britain	School holidays and their impact on seasonal spread
Issue 6	April 2004	Australia and New Zealand	West Nile Virus
Issue 7	May 2004	The EU Accession States	The Internet Part 1: Consumers
Issue 8	June 2004	South Africa, Nigeria, Kenya and Ghana	The Internet Part 2: Businesses
Issue 9	July 2004	India and Pakistan	Trends in Cross-Channel Travel Behaviour
Issue 10	August 2004	Belgium, Netherlands, Luxembourg and Ireland	Cost of visiting Britain compared with other destinations
Issue 11	September 2004	Japan, Hong Kong, Philippines and Taiwan	What might climate change mean for tourism in Britain
Issue 12	October 2004	Brazil, Argentina, Chile and Venezuela	London's Olympic Bid – implications for British Tourism
Issue 13	November 2004	Norway, Sweden, Denmark and Finland	Smoking in public places
Issue 14	December 2004	Britain	Outlook for inbound tourism to Britain in 2005
Issue 15	January 2005	UAE, Saudi Arabia, Kuwait and Iran	Inbound tourism and the value of Sterling
Issue 16	February 2005	Germany, Austria and Switzerland	Britain's ethnic diversity
Issue 17	March 2005	Malaysia, Thailand and Singapore	Britain's transport infrastructure
Issue 18	April 2005	Greece, Romania, Bulgaria and Croatia	Foreign Direct Investment & inbound business tourism
Issue 19	May 2005	Israel, Egypt and Turkey	Inbound study visits
Issue 20	June 2005	Poland, Czech Republic and Hungary	Low-cost Airlines
Issue 21	July 2005	USA, Canada and Mexico	Weddings, Stag Weekends and Hen Weekends
Issue 22	August 2005	France, Italy, Spain and Portugal	The Day Visit Market
Issue 23	September 2005	Latvia, Lithuania, Estonia, Ukraine and Belarus	Quality
Issue 24	October 2005	Russia and China	Daylight Saving
Issue 25	November 2005	Australia, New Zealand and South Africa	Outlook for Inbound Tourism in 2006
Issue 26	December 2005	India, Sri Lanka and Bangladesh	Twenty-five years of Inbound Tourism
Issue 27	January 2006	Benelux and Ireland	Tourism Satellite Accounts
Issue 28	February 2006	Japan, South Korea and Hong Kong	Tourism and the Disability Discrimination Act
Issue 29	March 2006	Brazil, Argentina and the Caribbean	Tourism and the National Lottery
Issue 30	April 2006	Nordic region and Iceland	Next generation aircraft
Issue 31	May 2006	Central Europe	The cruise line boom
Issue 32	June 2006	UAE, Kuwait, Bahrain and Oman	The power of football
Issue 33	July 2006	North Africa, Malta and Cyprus	Wind Farms and the Visitor Economy
Issue 34	August 2006	Inbound tourism - the global context	International tourism balance of payments deficit
Issue 35	September 2006	Singapore, Malaysia and Thailand	Inbound visitor decision lead times
Issue 36	October 2006	Greece, Turkey, Bulgaria and Romania	Seasonality
Issue 37	November 2006	Inbound visits by the over 55's	Outlook for Inbound Tourism in 2007
Issue 38	December 2006	USA and Canada	Second homes
Issue 39	January 2007	Ferry passenger visitors	Accommodation choices
Issue 40	February 2007	What will shape tourism in the next decade?	Holiday activity perceptions (Part 1)
Issue 41	March 2007	The value of tourism in the UK	Holiday activity perceptions (Part 2)
Issue 42	April 2007	India and Japan	The role of nature and wildlife in UK tourism
Issue 43	May 2007	Inbound holiday visitors	The changing face of overnight domestic tourism
Issue 44	June 2007	Inbound visitors using the Channel Tunnel	The impact of the Channel Tunnel Rail Link
Issue 45	July 2007	Inbound visitors aged 16-24	Climate change and what it might mean for UK tourism
Issue 46	August 2007	Special edition: Inbound visitors' travel group composition and 'activity mix	
Issue 47	September 2007	Poland, Czech Republic and Hungary	The Credit Crunch
Issue 48	October 2007		
Issue 49	November 2007		

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