

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' profiles inbound visitors to Britain whose trip lasts for fifteen or more nights, and 'Issue of the Month' examines UK consumer trends as the 'credit crunch' continues to bite.

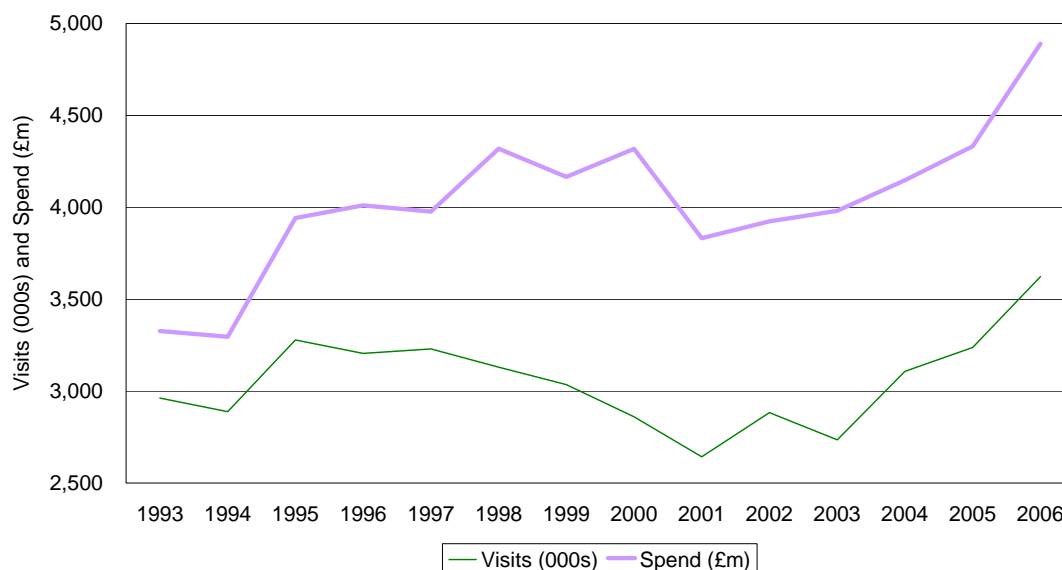
Market Focus – Inbound visitors staying 15 or more nights

According to figures taken from the 2006 International Passenger Survey¹ more than 3.6 million inbound visits to the UK lasted for fifteen or more nights, representing 11% of all visits. At first glance then this does not appear to be a market segment of huge importance, but if we look at the 'value' rather than 'volume' data we discover that long-stay visitors contributed £4.9bn to the UK's visitor economy in 2006, or 31% of total inbound visitor spending. Indeed, on another measure, namely total nights, this group of visitors accounted for more than half (56%) of all nights spent in the UK during 2006. Other key aggregate statistics for this segment include an average spend per visit of £1,350, that's nearly three-times the average for all inbound visits, and an average spend per night of just £32, slightly over half that for the typical inbound visitor.

Trends

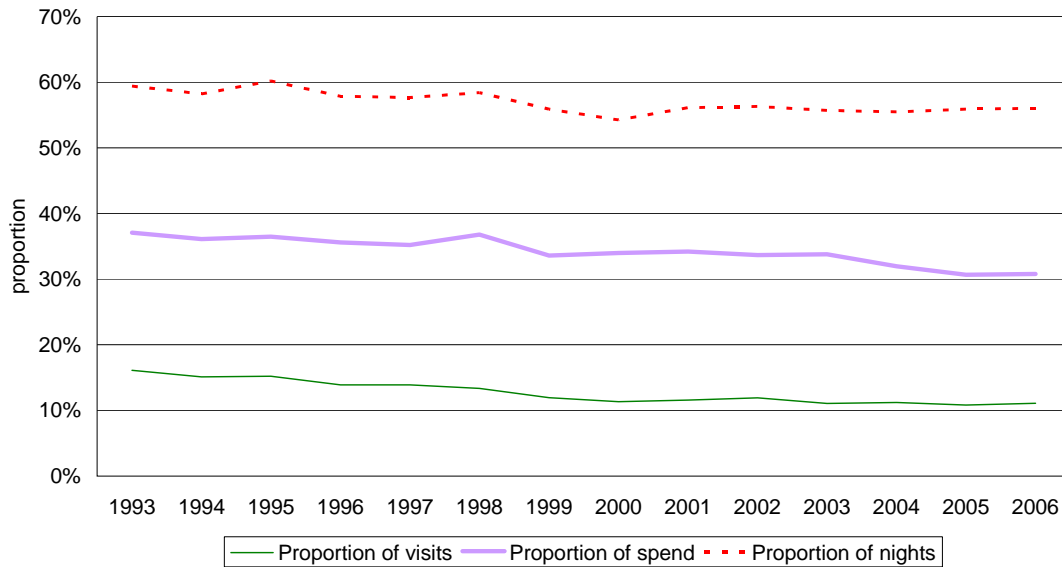
The following chart reveals that during much of the 1990s the number and value of trips that lasted for 15 or more nights witnessed little growth, but that the period since 2003 has been characterised by a steady increase.

Trends in the volume and value of 15+ night stays



It is helpful to look at the proportion of visits, visitor nights and visitor spending that is accounted for by 15+ night trips, and the second chart highlights that the trend here is one of gentle decline in relative importance over time.

The relative importance of 15+ night stays



Top markets

It is simple enough to pose the question ‘which is the most important market for 15+ night stays’, but the answer depends rather crucially on how we define ‘important’. The following table summarises the ‘top twenty’ markets based on four separate measures. Firstly if we look at which markets, based on the visitors’ country of residence, generated the most 15+ night visits in 2006 we discover that the USA tops the table with almost 400,000 15+ night visits, followed by Poland and Australia.

However, if we look at the proportion of visits from each market (based on country of residence) that last for fifteen or more nights we find a very different picture. Over half (56%) of visits by residents of Pakistan last for 15+ nights, with Iran and Nigeria in second and third spot, followed by India and New Zealand.

The league table composition for visitor spending is very similar to that for visits, with the only changes among the top five being a trading of fourth and fifth place between Germany and France. The USA is a clear leader, with visitor spending on trips lasting fifteen or more nights totalling £661m in 2006.

Perhaps the most insightful league table is that for nationality, as it reminds us that when we look at IPS data in terms of the nationality of visitors rather than their country of residence British ex-pats suddenly becomes an important market segment. We see from the table that 745,000 15+ night visits to the UK in 2006 were by UK passport holders who live overseas; this represents 21% (more than one in five) of all 15+ night visits.

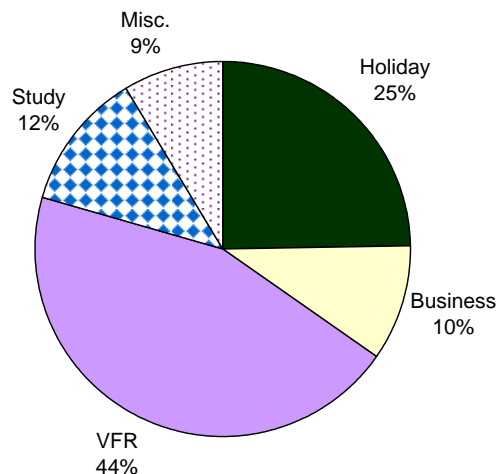
Country of residence	Visits (000s)	Country of residence	Proportion of visits	Country of residence	Spend (£m)	Nationality	Visits (000s)
USA	399	Pakistan	56%	USA	661	UK	745
Poland	312	Iran	45%	Poland	363	Poland	313
Australia	294	Nigeria	42%	Australia	354	USA	303
Spain	243	India	40%	Spain	268	Australia	224
France	226	New Zealand	37%	Germany	250	Germany	182
Germany	221	Taiwan	35%	France	247	France	162
Canada	165	Saudi Arabia	32%	India	195	India	148
India	145	Australia	31%	Canada	150	Canada	133
Italy	109	Thailand	31%	Italy	149	Spain	113
South Africa	86	Colombia	28%	Nigeria	144	Italy	103
Netherlands	83	United Arab Emirates	28%	South Africa	112	Netherlands	69
New Zealand	82	Chile	28%	Pakistan	101	Pakistan	63
Irish Republic	67	Brazil	25%	United Arab Emirates	89	Irish Republic	60
Pakistan	64	South Africa	25%	Russia	81	Nigeria	59
Nigeria	61	Egypt	24%	New Zealand	80	South Africa	57
Russia	52	Poland	24%	Brazil	76	Russia	55
Czech Republic	51	China	23%	Irish Republic	74	Czech Republic	54
United Arab Emirates	50	Russia	21%	Netherlands	72	New Zealand	49
Switzerland	46	Malaysia	21%	Switzerland	64	Japan	35
Japan	42	Argentina	20%	Japan	64	Switzerland	33

Purpose mix

No doubt tied in with the fact that such a high proportion of long-stay visits are by Britons, we can see from the pie chart that 44% of all 15+ night visits are to visit friends or relatives, with one-in-four trips being for a holiday and only one-in-ten being for business.

If we look at the proportion of all visits by journey purpose that are 15+ nights in duration we find that these long-stay visits are most important in the study market, accounting for 62% of all visits in 2006, whereas only 17% of 'VFR' trips in 2006 were 15+ nights long.

Journey purpose mix for 15+ night visits



Demographics

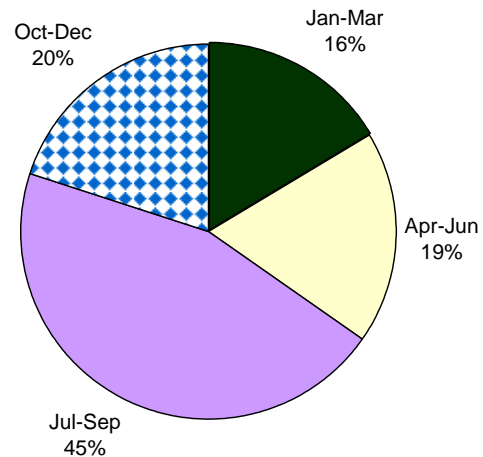
Looking at the proportion of 15+ night inbound visits by age and gender reveals that those aged 16 to 34 accounted for 45% of all such visits during 2006, with the older age groups of lesser importance – the over 55's accounted for less than one-in-four long-stay trips. The fact that one-in-eight such visits is for 'study' purposes helps to explain the relatively youthful demographic.

Age	Male	Female
0-15	3%	3%
16-24	10%	14%
25-34	10%	11%
35-44	7%	7%
45-54	6%	7%
55-64	5%	7%
65+	5%	5%

Time of year

Compared with the total inbound market in 2006 long-stay visitors were far more likely to visit in the July to September period and slightly less likely to undertake their trip during remaining parts of the year. We can see from the pie chart that 45% of all long-stay visits took place during the three peak summer months (compared with 31% of all inbound visits taking place at this time of year). The importance of study visits will be one of the key explanatory factors behind this skewed seasonal distribution.

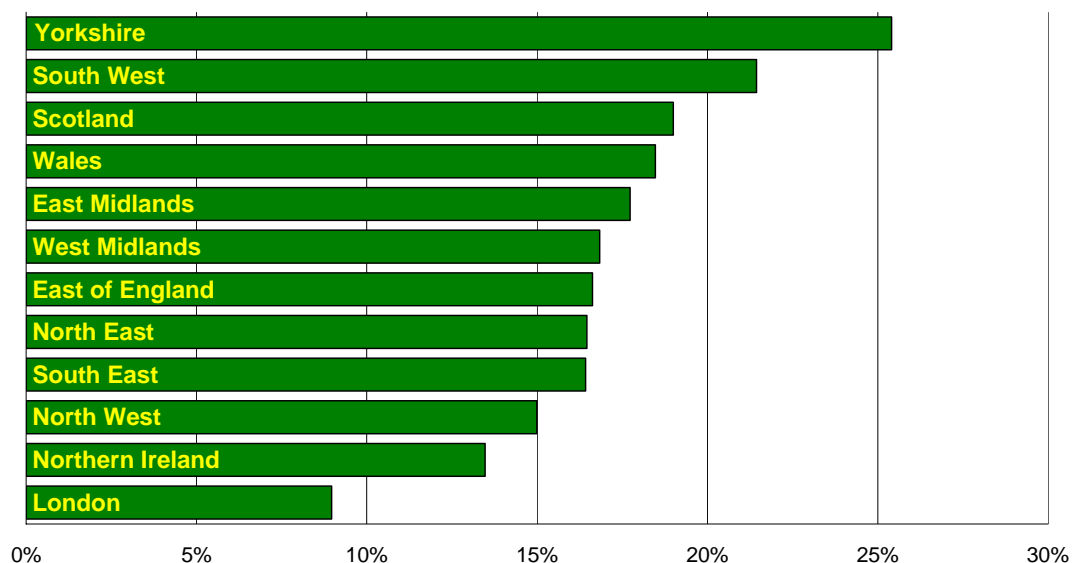
Seasonal spread of 15+ night visits



Regional differences

Turning now to where long-stay visitors spend their time in the UK, we can see from the following chart that one-in-four visits to Yorkshire and the Humber are for 15+ nights, whereas less than one-in-ten visits to London are long-stay trips. Outside of these extremes, only around 15% of inbound visits to most parts of the UK last for fifteen or more nights.

Proportion of visits 15+ nights in duration by region



What do long-stay visitors do?

Thanks to a VisitBritain sponsored question included in the International Passenger Survey in 2006 we can now look at what visitors to Britain did during their stay. Although only covering a handful of activities (further sets of activities have been included in the 2007 and 2008 surveys) the 2006 question helps us understand both the relative importance of long-stay visitors for different types of activity, and the overall 'activity mix' during a trip lasting 15+ nights.

The following table summarises, for each activity covered, the proportion of all inbound visitors saying that they undertook the activity whose trip duration was 15+ nights, and the proportion of 15+ night visitors whose trip included the activity.

Activity	% of all visits including this activity that were 15+ night stays	% 15+ night stays involving this activity
Castle, church, monument, historic house	16%	43%
Visiting parks or gardens	18%	38%
Visiting zoo, aquarium or wildlife attraction	28%	10%
Going to the theatre, ballet, opera, concert	19%	17%
Museum, art gallery	17%	34%
Sporting activity	25%	25%
Shopping eg fashion, design, home, antiques	15%	57%
Nightclub	22%	17%
Visiting coastline, countryside	26%	34%
Visiting literary, music, film, tv locations	33%	7%
Watch a sporting event	22%	9%

Taking a few examples of how to interpret the table, we can see from the first column of percentages that a third (33%) of trips that included a visit to a literary, music, film or TV location was a 15+ night visit, whereas only 16% (or one-in-six) trips that involved visiting a castle, church, monument or historic house was a long-stay visit. From the second column of percentages we can glean that over half (57%) of 15+ night trips to Britain involved shopping for fashion, design, home or antiques, whereas only 9% of long-stay trips included watching a sporting event.

A second new question in 2006 sponsored by VisitBritain captured information about the composition of the respondent's travelling group, enabling us to discover that nearly half (46%) of long-stay visitors to the UK were travelling on their own (compared with 38% of visitors staying less than 15 nights). Some 18% of long-stay visitors were travelling with their spouse/partner (but no children) and 8% were visiting with both their spouse/partner and children.

Distinctive characteristics

A great deal of the focus, and rightly so, when discussing inbound tourism trends over recent years has been on the growing importance of short-stay visits, but as we have seen nearly £1 in every £3 spent by inbound visitors to the UK in 2006 came courtesy of a visitor staying for fifteen or more nights. We have also seen how important British ex-pats are, accounting for more than a fifth of all long-stay inbound visits, and we should not overlook the value generated by those coming to the UK for a lengthy period of studying, be this an English Language course or other formal tuition.

With a growing tendency for visitors keen to immerse themselves in the culture and daily life of destinations, combined with an awareness that one or two longer trips per year may be 'greener' than several short duration trips, there is a good chance that the fifteen plus night market will remain hugely valuable to the UK's inbound visitor economy for many years to come.

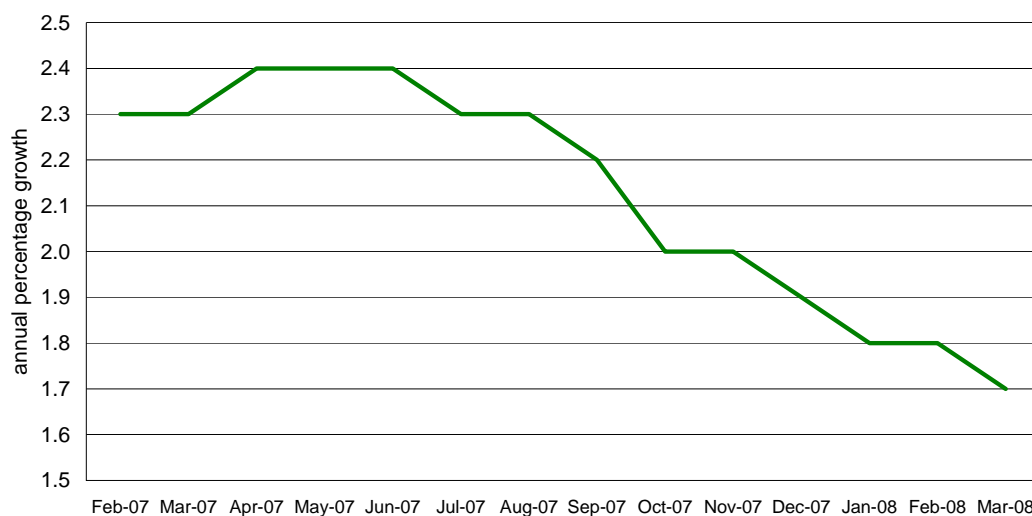
Issue of the Month – UK consumer trends and the ‘credit crunch’

Back in November *Foresight* looked at the background to the ‘credit crunch’ and investigated the relationship between inbound tourism to Britain and global economic trends. Nearly six months later the ‘credit crunch’ is still making the headlines, so this month we consider the latest evidence concerning the UK economy, and in particular for domestic tourism prospects, how the UK consumer is responding to a gloomier economic outlook.

A pessimistic economic forecast

Each month the Treasury provide a handy summary of what ‘experts’ are forecasting will happen to the British economy over the next couple of years, and the following chart demonstrates just how much the ‘experts’ change their mind as the months go by. The chart shows the ‘average’ forecast for UK Gross Domestic Product growth during 2008 made by independent forecasters each month from February 2007 through to March 2008. We can see that early last year most were upbeat about prospects for 2008, expecting growth of about 2.3%. As the months passed forecasters became more gloomy, and the 1.7% forecast of March 2008 will doubtless be reduced further in the next two or three months.

Average of independent forecasts for 2008; GDP growth



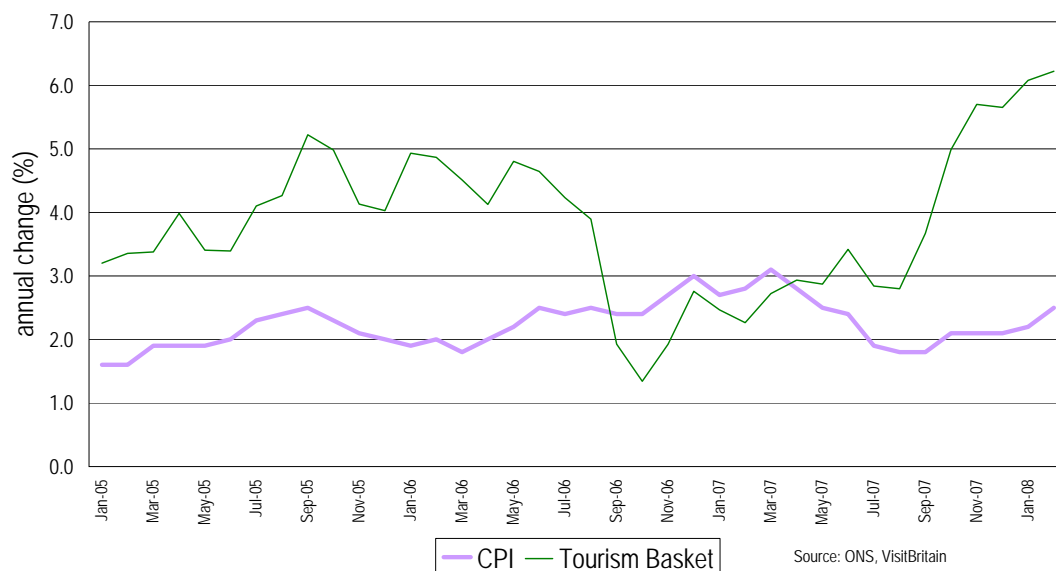
Is inflation the real enemy?

While much of the focus has been on the potential fallout from the squeeze on credit over the past few months, inflationary pressures, both at home and abroad, have been mounting. All manner of commodities have reached record highs; oil, wheat, gold, rice and so on. The latest Consumer Price Index shows that in the year to February prices rose by 2.5%, and even the Governor of the Bank of England has acknowledged that he may well have to write to the Chancellor of the Exchequer later in 2008 to explain why inflation has topped 3% (1% above the Government’s target), as he did in March 2007.

The 'average' independent forecast for consumer price inflation by the final quarter of 2008, according to HM Treasury's analysis, is 2.4%, but with the most pessimistic forecast being that prices will be rising at 3.0% even at the end of the year.

Headline inflation figures can always hide contrasting price trends for different types of goods and services that households buy – for example the Retail Price Index (which excludes mortgage interest payments) is forecast to be rising at an annual rate of 2.7% at the end of this year. The following chart plots trends in headline consumer prices inflation against a 'basket' of goods and services that can be considered relevant for tourism. The choice of categories is by necessity subjective and should only be considered as indicative, but nonetheless shows that for much of the past three years the cost of tourism goods and services (for example transportation costs, hotels, restaurants etc) has increased at a faster rate than overall consumer prices.

Inflation on the rise



Once inflation takes hold it is hard to get back under control, which is one reason why the Bank of England (whose job it is to ensure the Government's inflation target is achieved) has been reluctant to cut UK base rates as aggressively as the Federal Reserve has done in the USA.

So why are prices rising? There is no single answer to this question, but in large part it is a simple case of supply and demand, reinforced by the current trend for investment companies choosing commodities as a 'safe haven' rather than the riskier alternative of lending to organisations or individuals who may not be able to afford to repay the loan, let alone interest payments.

The emergence of China and India as economic powerhouses has been much heralded, but the result has been to drive up demand for products as diverse as steel and bacon, and more manufacturing leads to more employment, which in turn leads to more consumption by households. Consumption per head in China is far below that in the West, but the situation is changing fast as newly 'rich' Chinese wish to trade in their bicycle for a car, own televisions and mobile phones and eat a more varied diet than was previously possible. According to the Independent if car ownership in China was equivalent to that seen in the West there would be 1.1 billion cars in China, compared with the world fleet of about 800 million today. The

increased demand for resources will inevitably lead to higher prices unless productivity and technology can deliver a parallel increase in supply – at present demand is very much outstripping supply.

There is no likelihood that the UK will return to anything like the inflation rates seen in the 1970s, or even the early 1990s when prices briefly rose at more than 10% per annum, but the overall wellbeing of the UK economy could still be undermined if inflation continues to creep upwards in the months ahead. In Britain it is not just the cost of tangible goods and services that has increased in price of late, so too has the cost of borrowing, despite the Bank of England having reduced base rates from 5.75% last summer to 5.25% now, with many lenders choosing to up their prices in order to discourage more risky potential customers from borrowing.

Carry on shopping

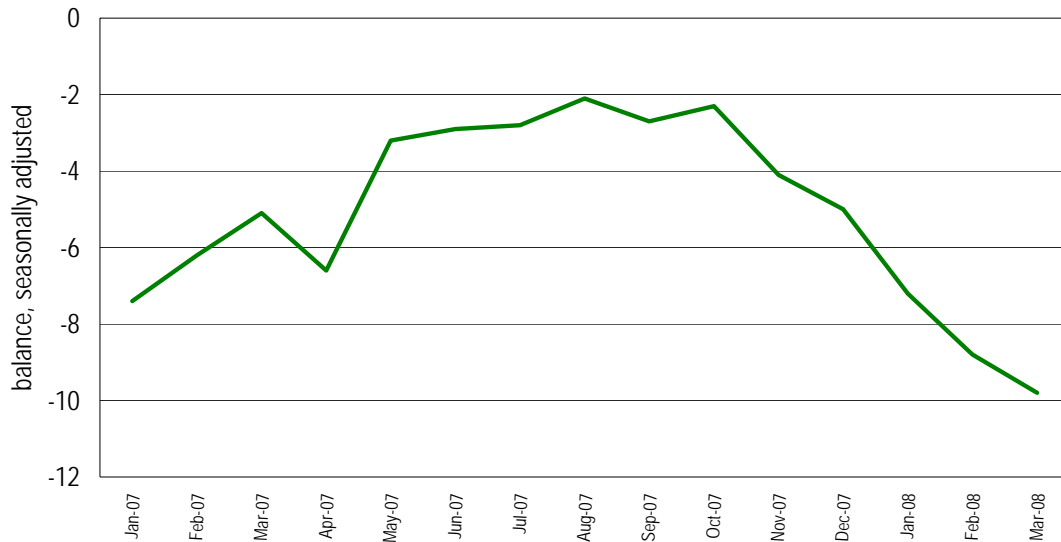
Figures relating to 2007 would not seem to indicate that Britons were falling out of love with shopping in order to save more of their income due to a potential economic slowdown, with the 'savings ratio' (that is the proportion of total available household resources devoted to savings) standing at just 2.9% in 2007, the equivalent figure back in 2005 was 5.6% according to the Office for National Statistics. However, things may be changing, according to the Building Societies Association savers paid in £1.35bn to Building Societies during February 2008, more than in any month since February 1997.

The latest figures on consumer borrowing published by the Bank of England indicate that in February the number of new mortgages approved was 39% down on February 2007, but other types of lending such as bank loans and overdrafts rose to record levels, resulting in suggestions that consumers were using such loans to help pay for mortgage deposits and pay for higher utility bills.

In the three months to February 2008 the total volume of retail sales was 4.7% up on the equivalent period a year ago, with sales at predominantly non-food stores seeing a 5.3% jump in volume and predominantly food stores a 2.0% increase. So there is no immediate evidence that consumers feel the need to stop buying things in shops, and the 'economic fundamentals' are fairly healthy, with unemployment steady at about 5.2% of the labour force and average earnings increasing by between 1% and 1.5% above inflation. However, the outlook for consumer expenditure may be decidedly uncertain if the available information on consumer confidence is to be believed, and a lack of confidence feeds through to a contraction in spending as worries over debt, higher taxes, rising utility and food bills and job security cause a shift in consumer behaviour towards thriftiness, of which February's strong Building Society savings figures may be a leading indicator.

The following chart, overleaf, tracks consumer confidence levels based on monthly data published by Eurostat, and it is clear that after becoming more upbeat in the early months of 2007 Britons are now feeling increasingly uncertain about future prospects, and confidence is at its lowest ebb since March 2003 (coinciding with the US-led invasion of Iraq). With the latest Nationwide House Price Index showing that annual growth in the year to March was just 1.1% compared with double-digit growth in Spring 2007, the spectre of negative equity in the coming months may further dent consumer confidence.

Consumer Confidence



The all important holiday

We have established that consumers still seem to be shopping despite waning consumer confidence, but what about future holiday plans? According to recent analysis appearing in TNS Travel and Tourism News, UK consumers were in fact more likely to say they were planning a holiday away from home in March of this year (68%) than back at the start of January (62%). This would tend to indicate that the financial squeeze is not, as yet, resulting in Britons deciding that they need to make significant changes to how leisure time (and disposable income) is spent.

However, what these figures don't reveal is whether or not UK consumers are now planning (consciously or otherwise) to 'trade down' their holiday plans for the remainder of 2008, for example choosing shorter, less expensive breaks, or to stay in cheaper forms of accommodation when on holiday than would be the case were the economic storm clouds not to be gathering so ominously.

The esteem in which Britons now hold leisure travel, particularly holidays abroad, is revealed by figures recently released by the Office for National Statistics showing that in 2006 package holidays abroad accounted for 2.9% of average weekly household expenditure, making this the sixth most important commodity or service purchased by households. The top performing 'domestic' tourism expenditure category was money spent on restaurants and cafes which came in seventh spot, accounting for 2.8% of expenditure. Clearly not all foreign travel is categorised as a package holiday, and 'money spent abroad' was the 9th most important household expenditure category in 2006, accounting for 2.7% of spending.

Looking now at the latest available figures on how many tourism trips Britons are taking we find a somewhat mixed picture. Provisional figures from the International Passenger Survey for 2007 show that UK residents took an estimated 70.15 million overseas trips, just 1% up on 2006, but that expenditure on visits abroad increased by 4% to £35.68bn, the equivalent of around £600 per person.

By contrast early estimates for the number of overnight domestic trips taken by UK residents in 2007 taken from the United Kingdom Tourism Survey reveal a year-on-year decline of 2%, to 123.5 million. Spending on these trips is estimated at £21.2bn, up 1% on 2006 in nominal terms, and equivalent to around £350 per person. Another measure that we can look at to see whether or not Britons are cutting back on their tourism trips is VisitBritain's 'England Attractions Monitor'.

According to figures from this survey the number of visits to attractions in England in the final three months of 2007 rose at an annual rate of 4% (almost 600 attractions participated in the survey), with 56% of attractions seeing higher visitor numbers than a year earlier and only 36% reporting a decline. As we are interested in the potential tourism implications of the economic slowdown it is worth noting that 'paid' attractions (3% annual growth) did less well than 'free' attractions (5% growth) in the final quarter of 2007, perhaps providing a hint of what is to come during 2008.

What next?

Early findings emerging from the latest wave of VisitBritain's Domestic Industry Panel survey tend to suggest that many tourism businesses are feeling nervous about the likely impact of an economic slowdown, but at present the area of most concern to panellists is business tourism rather than holiday tourism. Many businesses, especially in the financial services sector, are in the process of tightening their belts, and recently the CBI forecast that 10,000 jobs will be cut by financial services firms in the coming three months.

It is not just jobs being cut, but so to are the number of product launches, large scale meetings and conferences, all of which may result in slower growth, or contraction, in the volume and value of business tourism. Next month *Foresight* will take an in-depth look at the latest business tourism trends in Britain, including an analysis of the provisional figures for both inbound and domestic business tourism in 2007.

It is still too early to say with any certainty what the credit crunch will mean for domestic tourism in 2008, but, provided the economic slowdown is modest, unemployment remains stable and house prices do not tumble, then more frugal consumer spending patterns might benefit domestic tourism at the expense of more pricey foreign trips, especially with the Euro now costing around 15% more in Sterling than this time last year. A sharp slowdown in the economy, or outright recession, would mean a rather different scenario, with all sectors of the economy, including tourism, likely to witness the impact of consumers reappraising what they can, and what they cannot afford.

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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	The Credit Crunch
Issue 47	September 2007	Poland, Czech Republic and Hungary	Outlook for Inbound Tourism in 2008
Issue 48	October 2007	Inbound 1-3 night visits	The British Weather
Issue 49	November 2007	Lesser known Asian markets	Heathrow Terminal 5
Issue 50	December 2007	The Middle East	The EU/US Open Skies Agreement
Issue 51	January 2008		
Issue 52	February 2008		
Issue 53	March 2008		

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