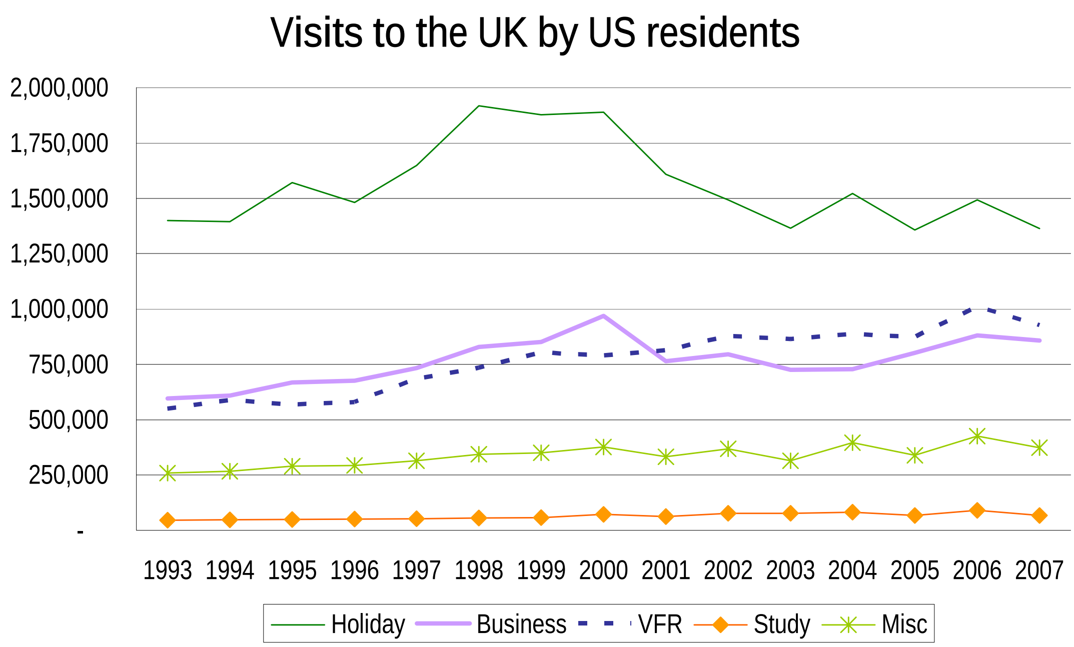
FORESIGHT
Issue 57 July 2008

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' is devoted to the USA, which despite a period of decline remains by far Britain's most valuable inbound market and 'Issue of the Month' investigates the true value of inbound visits to friends and relatives.

Market Focus – USA

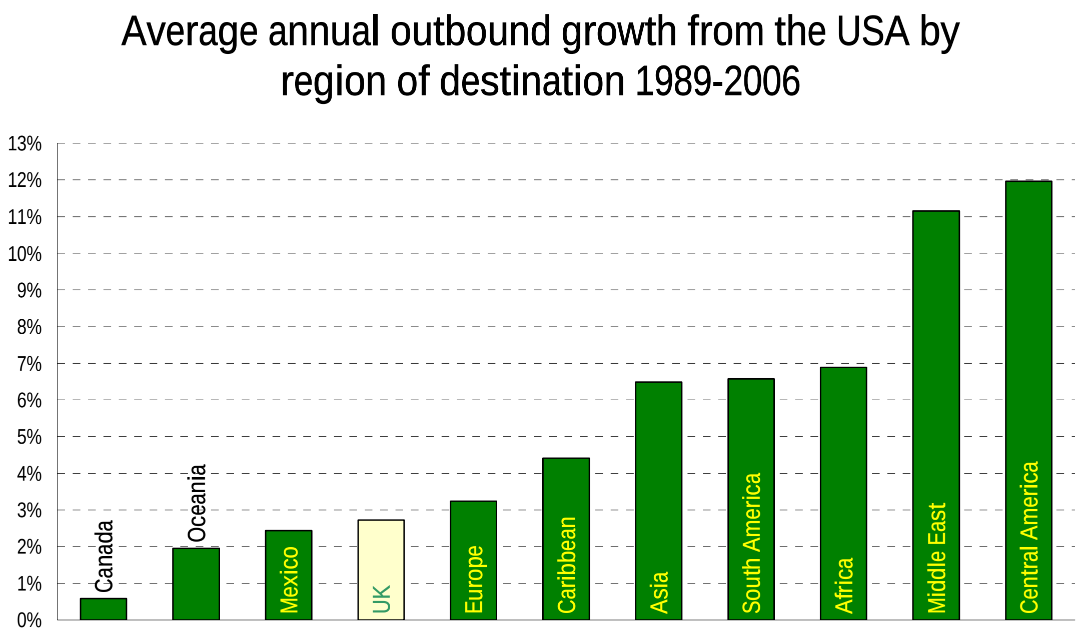
According to provisional International Passenger Survey[1] data for 2007 one in every nine inbound visitors to arrive in the UK last year was a US resident, amounting to some 3.6 million visits. Thanks to high spend per visit US residents contributed nearly a sixth of all inbound visitor spending, that's some £2.6bn, more than twice that of the next most valuable source market of Germany. However, we can see from the following chart that the number of visits has been contracting in recent years, indeed, in 2007 half a million fewer US residents visited than was the case back in 2000.



Trips with a primary purpose of 'holiday' remain dominant; accounting for 38% of all trips in 2007, but this is well down on almost 50% of all trips back in the mid 1990s. In fact there were 3% fewer holiday visits from the US last year than in 1993, whereas the number of business visits was 44% higher and trips to visit friends or relatives 68% up. The decline poses a number of questions, one of which is whether Americans are now simply less likely to travel abroad to any destination than was the case a decade or so ago?

Outbound choices

The following chart (based on figures published by the Office of Travel and Tourism Industries) helps answer this question, presenting data on outbound tourism trends over recent years. It is quite apparent that average annual growth in trips to Canada, Mexico, Oceania and Europe has been decidedly sluggish, whereas 'emerging' destinations in Asia, Central and South America (for example Thailand, Costa Rica and Peru) have enjoyed strong growth in the number of US visitors that they welcome.



One of the most important factors sitting behind this trend relates to relative exchange rate movements, particularly in the past few years. The table reveals that a US Dollar will buy considerably less sterling now than six years ago, with the cost of Euros rising even faster.

US$1,000 buys			
2002	£666	€ 1,059	MXN 9,702
May 2008	£509	€ 643	MXN 10,439
Change	-24%	-39%	8%

By contrast Americans now enjoy increased 'purchasing power' in several destinations across Central and South America and Asia. This is of particular concern at a time when economic pressures are driving many Americans to think carefully about where they spend their vacation.

A tripadvisor web survey in May of this year found that around half of Americans said they were considering changing their summer travel plans due to the high cost of fuel and other staples such as food and heating, with many indicating that they would be holidaying 'close to home', hence emergence of the term 'staycation'. It looks likely that 2008 will be a challenging year for all destinations trying to attract visitors from the USA.

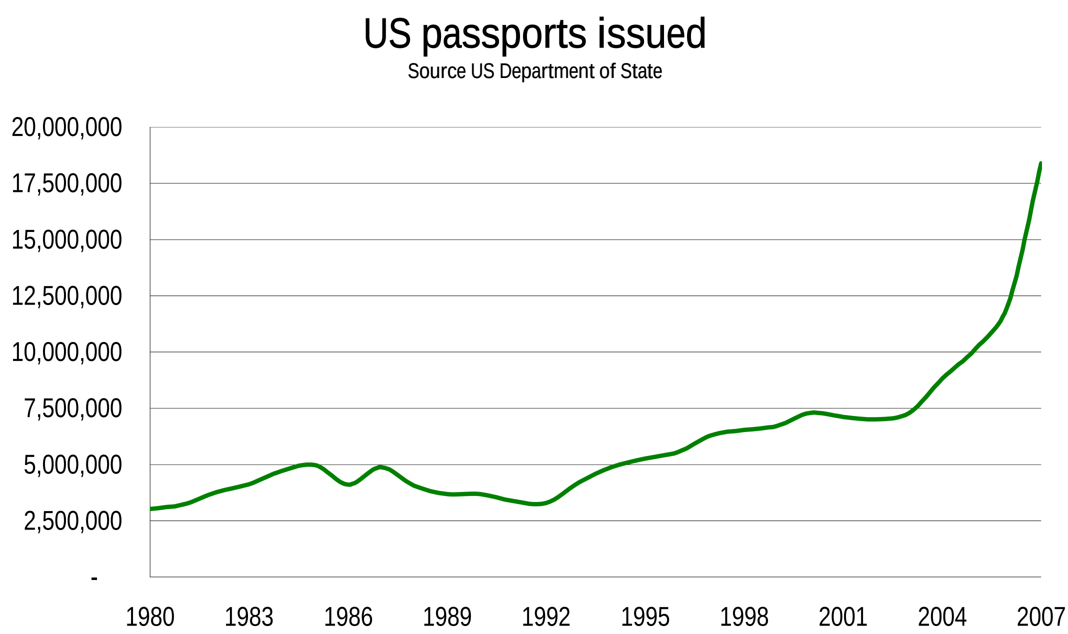
It would be hard not to have noticed that the US will be electing a new President later in 2008 and it is often claimed that Americans are less likely to travel abroad during an election year. However, analysis of the year-on-year growth in outbound travel from the US from 1989 to 2006 reveals that the reverse is true; average growth in an election year has been 7%, whereas in non-election years the average was just 0.4%. Looking in more detail the only regions to see measurably higher average outbound growth from the US in non-election than election years is the Caribbean.

Western Hemisphere Travel Initiative

One of a number of measures adopted by the US government following the 11th September terrorist attacks is the Western Hemisphere Travel Initiative. This means that all US persons travelling by air outside the United States are required to present a passport or other valid document to enter or re-enter the US.

At present US citizens travelling by land or sea are required to present either a passport, passport card or other 'compliant' documentation which can include government issued photo ID (such as a drivers licence) along with proof of citizenship. However, from June 2009 the US government will implement the full requirements of the land and sea phase of WHTI meaning that the overwhelming majority of travellers will require a passport or passport card.

The impact of these rule changes is resulting in a sharp rise in the number of US citizens applying for a passport. Around two-thirds of all outbound travel from the US is to Canada, Mexico or the Caribbean, and until recently such travel did not necessitate passport ownership regardless of whether travel was by land, sea or air. The following chart highlights the steep increase in the number of passports being issued in the past year or two, reaching 18 million in US fiscal year (year ending 30th September) 2007. The State Department estimated that 27% of Americans owned a passport in 2006 but clearly this figure is likely to be well over 30% by now.



The fact that a growing number of Americans are becoming passport owners is good news for Britain's visitor economy, as it means that one of the potential barriers that may have meant Britain was not on the travel radar (especially for 'spur-of-the-moment' trips) for some Americans is being dismantled.

Economic woes

The US Federal Reserve again pegged interest rates at 2% in June, having to walk a tightrope between staving off recession and preventing inflation from rising too strongly. Both the central bank and government have been making positive noises about a recession being averted, but whether their optimistic words are based more on 'hope' than actual 'expectation' remains to be seen. Oil having now touched nearly $142 per barrel (as at end June) the Federal Reserve may have no choice but to raise base rates in coming months from their current 2% level. Any such move could prolong weakness in the housing market and inhibit a wider economic recovery.

A further worry is that the period between a loan being taken out and the borrower defaulting can be many months, and with some of the most inadvisable lending taking place in 2006 and early 2007 there remains the possibility that the number of home repossessions in the US will not peak for some time to come.

A glance at figures for US consumer confidence paint a thoroughly gloomy picture, with the latest Conference Board survey published in late June showing that overall confidence is lower than at any time since 1992 and expectations about the future are at a record low. The recent deterioration in confidence comes hot on the heels of new figures showing that US unemployment jumped to 5.5% of the labour force in May, up from 5.0% the month before.

Aviation

Merger talks are definitely in the air within the US aviation sector as softening demand and rapidly rising fuel prices push many airlines to the brink of failure. As yet only one US to UK route has been axed, with United announcing it is to cease operating a Denver to Heathrow service from end October, but dozens of US domestic routes are being chopped, new charges for hold-baggage are being phased in and hundreds of pilots and cabin crew have been laid off.

Some had forecast that the US/EU Open Skies Agreement would lead to significant reductions in air fares, but this looks decidedly unlikely in the short-term with oil trading at over $140 per barrel. Indeed, a return long-haul flight from Los Angeles to Heathrow onboard a British Airways aircraft currently includes a 'fuel surcharge' of £218 in economy class with even higher charges in premium classes.

Since the end of 2007 all three 'start up' airlines operating a 'business class only' model between the US and Britain (MaxJet, Eos and Silverjet) have ceased operations due to the current economic climate. Nevertheless, British Airways plans to launch 'business class only' flights from New York to London City from 2009.

Outlook

With provisional figures for the first four months of 2008 indicating that 7% fewer US residents visited the UK than during the same period of 2007 there can be little doubt that businesses that are heavily dependent on US visitors face a tough year. Much depends on whether or not the US staves off a major economic downturn and the future course of oil prices; if prices remain stubbornly high the cost of air travel will rise further and airlines will be forced to cut flight frequencies or abandon some routes altogether. Despite the apparent gloom one thing remains certain; the US will be our most valuable inbound market for the foreseeable future.

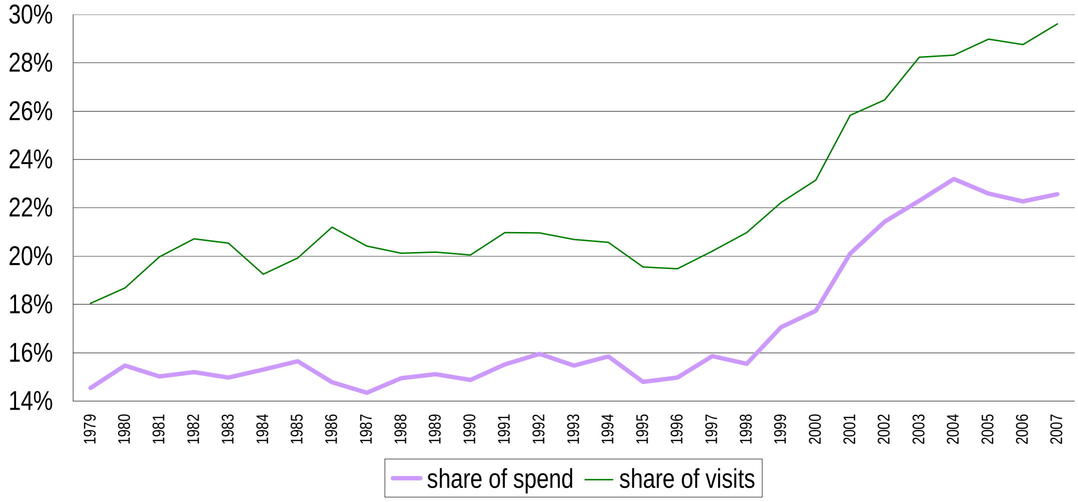
Issue of the Month – The value of inbound visits to friends and relatives

The inbound visitor economy takes many different forms, with some visitors opting to travel to Britain purely for a holiday, some coming because they are attending a Trade Fair, others because they want to study English. One set of inbound visitors whose true importance is sometimes unrecognised, partly because existing surveys do not record fully the economic impact of such trips, are those who are in Britain primarily to visit either friends or relatives.

Of growing importance…

The following chart delivers a clear message; the relative importance of visits to friends and relatives (VFR) trips has increased dramatically over the past decade in both terms of volume and value. Throughout the 1980s and early 1990s VFR trips accounted for about one-in-five inbound visits and one-seventh of inbound visitor spend. Sustained growth in more recent years means that in 2007, according to provisional International Passenger Survey figures, VFR trips had a 30% market share of volume and a 23% share of value. Stated differently visitors here to spend time with friends or relatives contributed £3.6bn to the UK's visitor economy.

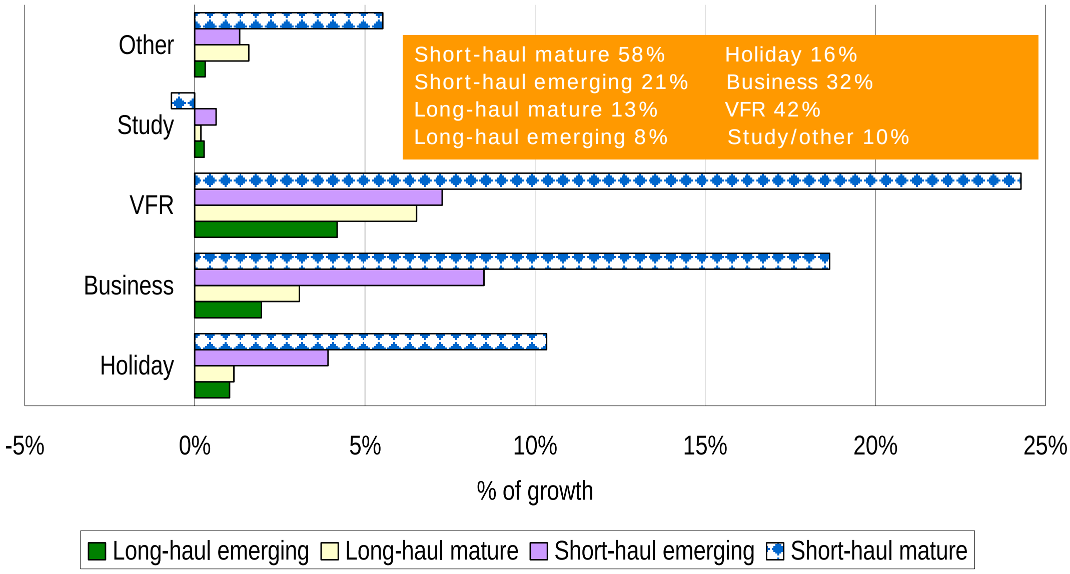
Share of inbound visits and visitor spend generated by visits to friends and relatives



Another way of demonstrating how VFR trips have grown in importance is to look at 'real' growth in visitor spending, that is to say taking inflation into account. If we do this we find that between 1979 and 2007 the real value of inbound 'holiday' visits increased by a rather modest 18% and that of trips for miscellaneous reasons increased by 23%. Business visits now generate 109% more spending in real terms than in 1979, but it is visits to friends and relatives that have recorded by far the largest increase at 138%.

The significant growth in the headline figures for the volume and value of inbound tourism over the past few years has been widely reported. If we look at where growth in visits since 1993 has come from in terms of both journey purpose and 'nature' of origin market (namely whether or not it is short-haul or long-haul and whether its economy is 'mature' or 'emerging') a fascinating story is uncovered, as can be seen from the following chart.

Contribution to growth in visits 1993 to 2007

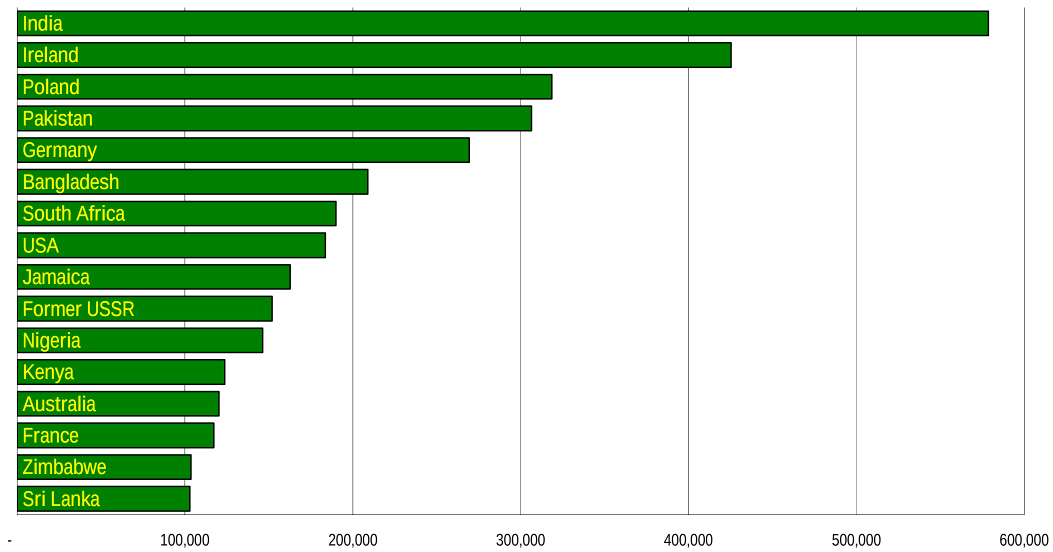


More than 40% of volume growth since 1993 comes courtesy of VFR trips, with very nearly 25% of volume growth being accounted for by such trips from short-haul markets with 'mature' economies (such as Spain and Ireland). Trips to visit friends and relatives have undeniably been one of the main locomotives of growth for the UK's inbound visitor economy during the past decade and a half.

Explaining the growth

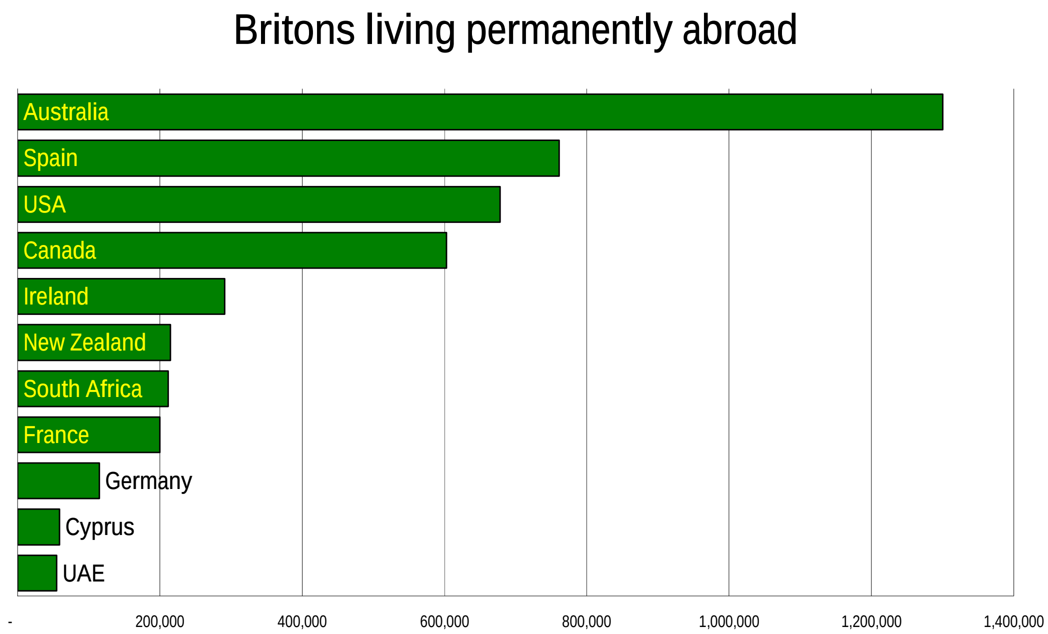
Why has the UK witnessed such strong growth in VFR trips? There is no single answer to this question but we can point to a number of contributory factors which taken together help provide an explanation. Firstly the UK population has become more diverse in recent years as is seen from the following chart based on IPPR estimates for overseas born residents as at end 2006.

UK residents born overseas



According to analysis of Labour Force Survey data undertaken by the Institute for Public Policy Research there were nearly 580,000 Indian born UK residents at the end of 2006, with some 550,000 'A12' nationals living in the UK (that is nationals of those countries which have joined the European Union since May 2004). These figures only cover UK residents born overseas, and clearly there are large numbers of UK-born nationals whose ancestry is non-British.

As we found in the January 2007 edition of *Foresight* more UK residents are opting to own a second home abroad (thought to be around 250,000) but of more importance in understanding why VFR trips are growing so strongly is the number of Britons who now live permanently abroad. According to IPPR analysis there are approximately 5.6 million Brits who live permanently abroad, and who would be counted by the International Passenger Survey as an 'overseas resident' when making trips back to the UK. The following chart reveals that 1.3 million Britons live in Australia and more than half a million in each of Spain, USA and Canada.



One further factor is the rapid increase in the number of foreign students studying at UK universities. In 1996 27,504 overseas residents were accepted onto full time courses, but in 2007 this figure had risen sharply to 48,811. Long-term students at British academic institutions stand a strong chance of being visited by members of their family or some of their friends during the time that they are studying.

If a single phrase conveys why VFR trips have grown in importance over the past few years it is Britain's central position in an emerging 'global village' society.

Visits to friends and visits to relatives

We can analyse IPS figures according to whether the visitor was in the UK to visit friends, or to visit relatives and the table summarises key figures for each group.

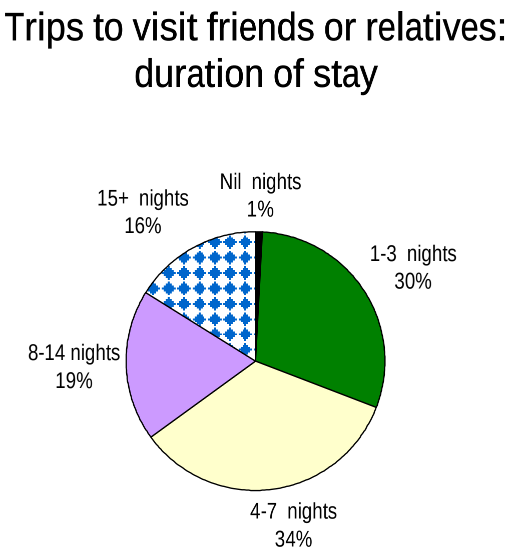
	Visits (000s)	Nights (000s)	Spend (£m)	Spend per night	Spend per visit	Nights per visit
Visiting friends	2,217	15,915	683	£43	£308	7
Visiting relatives	7,423	82,805	2,916	£35	£393	11
Total visiting friends or relatives	9,640	98,720	3,599	£36	£373	10
Total all journey purposes	32,558	250,232	15,955	£64	£490	8

Characteristics

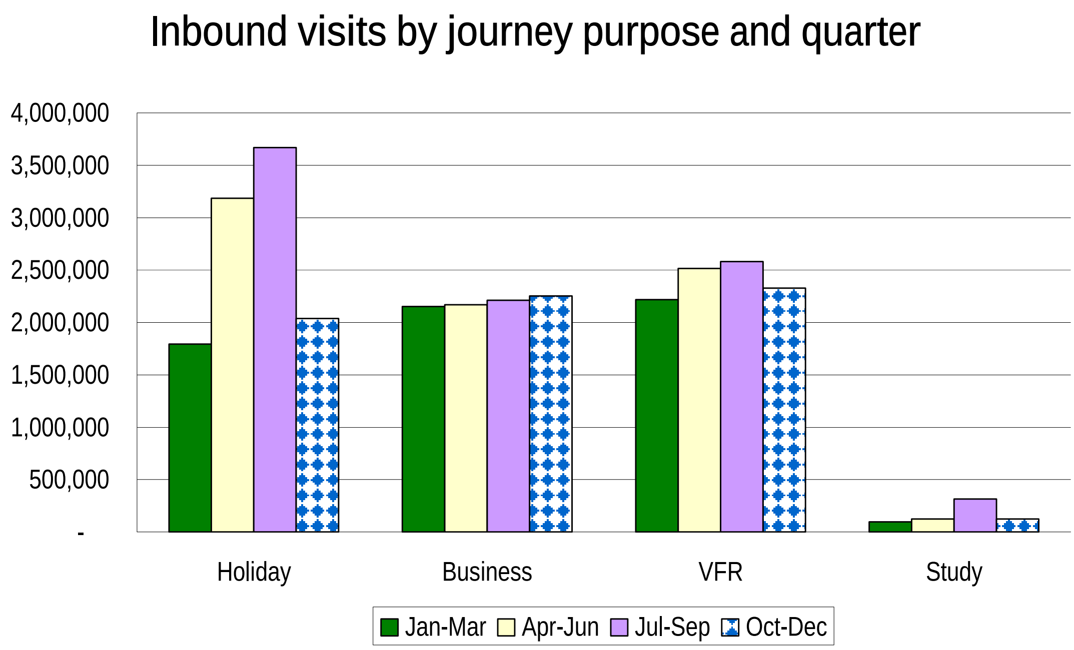
Those coming to visit friends tend to be in the UK for less time than those who are visiting relatives, but spend rather more per night. The majority (77%) of VFR trips are visiting relatives and this group accounts for 81% of inbound VFR spend.

The following pie chart reveals that three-in-ten Visiting Friends or Relatives trips to the UK in 2007 lasted for between one and three nights, with one-third lasting for between 4 and 7 nights, only a tiny minority of VFR trips (1%) are 'same day' visits.

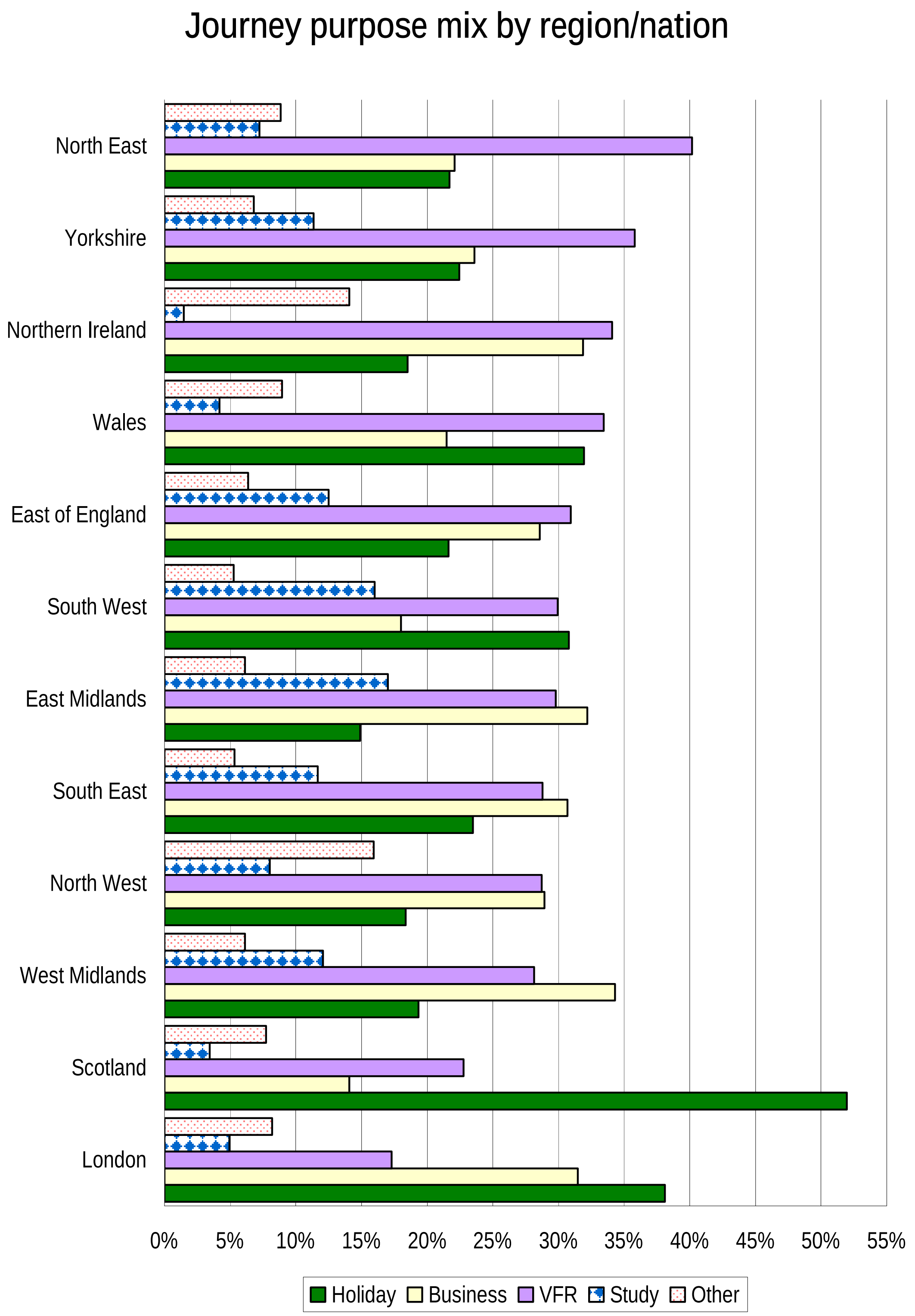
Unlike inbound trips whose primary purpose is either for a holiday or business reason, there are large numbers of VFR trips with an extended duration. Indeed, one-fifth of all trips last for between one and two weeks, with one-in-six lasting for 15 or more nights.



It can be seen from the following chart that compared with other types of inbound visit, most notably those for a holiday or study reasons, the seasonality of VFR trips is very favourable. Some 47% of VFR trips took place outside of the April to September period in 2007, with the equivalent figure for holiday trips being 36% and for study trips just 34%.



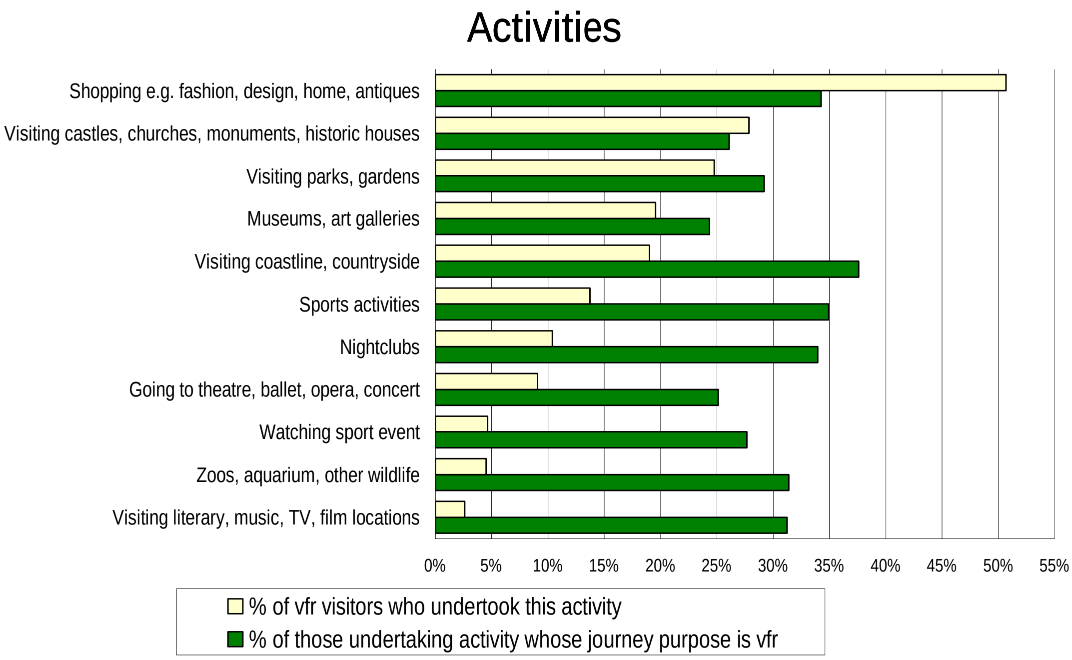
When it comes to 'regional spread' VFR trips certainly deliver a more even distribution than other types of inbound visit. According to provisional 2007 figures 60% of VFR spending by inbound visitors accrued outside London, whereas the figure for holiday visits was just 40%. The following chart (overleaf) shows the relative share of visits to each region for each of the main journey purpose categories. The regions/nations are listed according to the relative share of visits accounted for by VFR trips. We can see that whereas two-in-five visits to North East England were to visit friends or relatives just one-in-six trips to London had VFR as its primary purpose. Other insights emerging from the chart include the fact that holiday visits are relatively most important in Scotland (52% of inbound visits) and business visits are relatively most important in the West Midlands (34%).



What do they do?

It would be a mistake to assume that inbound visitors in the UK to spend time with friends or relatives do not engage with a wide range of 'tourism' activities. Thanks to VisitBritain sponsored questions included in the International Passenger Survey from 2006 onwards (2007 data will be available later in the summer) we can now start to piece-together what inbound visitors actually do during their stay. Far from spending all the time sitting around chatting to friends or relatives during 2006 inbound VFR visitors undertook numerous activities, including 1.8m visits to museums and galleries, 2.6m visits to a castle, church or historic house and over 800,000 visits to a theatre, opera or ballet.

The following chart presents the data in two distinct ways. Firstly the yellow bars show the percentage of VFR visitors who undertook each activity. We can see that more than one-in-two VFR visitors shopped and more than a quarter of VFR visitors went to castle, church or historic house, or to a park or garden, whereas only 3% of VFR visitors visited a literary, music, TV or film location. The green bars show the percentage of inbound visitors undertaking each activity whose primary journey purpose was VFR. Nearly two-in-five visits to countryside or coastline was undertaken by someone in the UK to visit friends or relatives, whereas only 24% of inbound visitors to a museum or gallery had VFR as their journey purpose.



Sleeping for free?

It is true to say that a large proportion of inbound visitors in the UK to spend time with friends and relatives stay in 'free' accommodation courtesy of their hosts, but this is not the case for all such visitors. Taking a look at the type of accommodation in which visitors stayed reveals (according to 2006 IPS data) that visitors whose main journey purpose was to visit friends or relatives spent eight million nights in paid forms of accommodation. Imagine a hotel capable of accommodating 22,000 guests each night of the year; that is the scale of the market for paid accommodation accounted for by inbound VFR trips.

Missing piece of the jigsaw

We have seen that the share of inbound visitor spend accounted for by VFR is considerably lower than the share of inbound visits, which of course means that VFR generate rather less money for the UK visitor economy per trip than is the case for a holiday or business visit. However, these figures do not tell the whole story as they fail to capture additional expenditure on behalf of the host family or friends. Whenever someone 'comes to stay' the propensity to go out for a meal, visit a local tourist attraction or relax in a nearby park with a picnic increases, and none of the mainstream tourism surveys captures the fact that this spending happens, and that it would probably not happen were it not for the VFR trip.

Top markets

The table reveals that Ireland generated the most inbound VFR trips in 2007 with 1.1 million visits, but linking back to the earlier discussion about Britons living abroad we can see that when ranked according to nationality a clear leader with 2.5 million VFR trips (26% of all VFR trips) were British nationals. The inbound VFR market based on country of residence generating the greatest 'value' is the USA, with spending of nearly £400m.

Top markets for visiting friends and relatives trips					
Country of residence	Visits	Nationality	Visits	Country of residence	Spend (£m)
Irish Republic	1,139,291	UK	2,542,366	USA	398
France	969,661	Irish Republic	841,372	Irish Republic	302
USA	925,823	USA	710,414	Australia	257
Germany	793,900	France	595,563	Spain	233
Spain	786,813	Germany	535,561	France	183
Poland	512,536	Poland	529,178	Germany	179
Netherlands	433,644	Spain	329,509	Canada	159
Australia	381,908	Netherlands	327,335	Poland	151
Italy	354,374	Australia	298,793	Switzerland	107
Canada	349,833	Canada	297,341	Italy	96

Loyalty

We have seen that VFR visitors are of growing importance in terms of the volume and value of inbound visits to the UK, that they represent an important vehicle for delivering both seasonal and regional spread, and that it is definitely not the case that they never use paid accommodation or visit tourist attractions.

One final observation has to be that VFR visitors are extremely loyal to the destination, admittedly this is in part due to the fact that this is where their relatives or friends reside, but nonetheless, even in the crisis year of 2001 when the volume of inbound tourism to the UK fell by nearly 10%, the number choosing to travel to the UK in order to visit friends or relatives increased by 1%. The true value of the inbound VFR market should not be under-estimated.

Download earlier editions of FORESIGHT: www.visitbritain.com/research

		Market Focus	Issue of the Month
Issue 1	November 2003	USA, Canada and Mexico	Implications of an ageing population in Britain
Issue 2	December 2003	France, Italy, Portugal and Spain	Airport capacity in Britain
Issue 3	January 2004	Poland, Russia, China and South Korea	Visits to Britain by British Nationals living overseas
Issue 4	February 2004	Britain	School holidays and their impact on seasonal spread
Issue 5	March 2004	Australia and New Zealand	West Nile Virus
Issue 6	April 2004	The EU Accession States	
Issue 7	May 2004	South Africa, Nigeria, Kenya and Ghana	The Internet Part 1: Consumers
Issue 8	June 2004	India and Pakistan	The Internet Part 2: Businesses
Issue 9	July 2004	Belgium, Netherlands, Luxembourg and Ireland	Trends in Cross-Channel Travel Behaviour
Issue 10	August 2004	Japan, Hong Kong, Philippines and Taiwan	Cost of visiting Britain compared with other destinations
Issue 11	September 2004	Brazil, Argentina, Chile and Venezuela	What might climate change mean for tourism in Britain
Issue 12	October 2004	Norway, Sweden, Denmark and Finland	London's Olympic Bid – implications for British Tourism
Issue 13	November 2004	Britain	Smoking in public places
Issue 14	December 2004	UAE, Saudi Arabia, Kuwait and Iran	Outlook for inbound tourism to Britain in 2005
Issue 15	January 2005	Germany, Austria and Switzerland	Inbound tourism and the value of Sterling
Issue 16	February 2005	Malaysia, Thailand and Singapore	Britain's ethnic diversity
Issue 17	March 2005	Greece, Romania, Bulgaria and Croatia	Britain's transport infrastructure
Issue 18	April 2005	Israel, Egypt and Turkey	Foreign Direct Investment & inbound business tourism
Issue 19	May 2005	Poland, Czech Republic and Hungary	Inbound study visits
Issue 20	June 2005	USA, Canada and Mexico	Low-cost Airlines
Issue 21	July 2005	France, Italy, Spain and Portugal	Weddings, Stag Weekends and Hen Weekends
Issue 22	August 2005	Latvia, Lithuania, Estonia, Ukraine and Belarus	The Day Visit Market
Issue 23	September 2005	Russia and China	Quality
Issue 24	October 2005	Australia, New Zealand and South Africa	Daylight Saving
Issue 25	November 2005	India, Sri Lanka and Bangladesh	Outlook for Inbound Tourism in 2006
Issue 26	December 2005	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	
Issue 35	September 2006	Singapore, Malaysia and Thailand	International tourism balance of payments deficit
Issue 36	October 2006	Greece, Turkey, Bulgaria and Romania	Inbound visitor decision lead times
Issue 37	November 2006	Inbound visits by the over 55's	Seasonality
Issue 38	December 2006	Outlook for Inbound Tourism in 2007	
Issue 39	January 2007	USA and Canada	Second homes
Issue 40	February 2007	Ferry passenger visitors	Accommodation choices
Issue 41	March 2007	What will shape tourism in the next decade?	
Issue 42	April 2007	The value of tourism in the UK	Holiday activity perceptions (Part 1)
Issue 43	May 2007	India and Japan	Holiday activity perceptions (Part 2)
Issue 44	June 2007	Inbound holiday visitors	The role of nature and wildlife in UK tourism
Issue 45	July 2007	The changing face of overnight domestic tourism	
Issue 46	August 2007	Inbound visitors using the Channel Tunnel	The impact of the Channel Tunnel Rail Link
Issue 47	September 2007	Inbound visitors aged 16-24	Climate change and what it might mean for UK tourism
Issue 48	October 2007	Special edition: Inbound visitors' travel group composition and 'activity mix	
Issue 49	November 2007	Poland, Czech Republic and Hungary	The Credit Crunch
Issue 50	December 2007	Outlook for Inbound Tourism in 2008	
Issue 51	January 2008	Inbound 1-3 night visits	The British Weather
Issue 52	February 2008	Lesser known Asian markets	Heathrow Terminal 5
Issue 53	March 2008	The Middle East	The EU/US Open Skies Agreement
Issue 54	April 2008	Inbound visitors staying 15+ nights	Domestic consumers and the 'credit crunch'
Issue 55	May 2008	Special edition: Business tourism	
Issue 56	June 2008	The DCMS 'Taking Part' Survey	

[1] Data from International Passenger Survey has been made available by the Office for National Statistics and has been used by permission. The ONS do not bear any responsibility for the analysis or interpretation of the data reported here. Crown Copyright 2008. Source: ONS

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