

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' looks at recent trends in visits to visitor attractions while 'Issue of the Month' looks at aviation, some five years on from the 2003 Government White Paper to see what progress has been made and what more can be expected in the coming five years.

Market Focus – Visits to visitor attractions

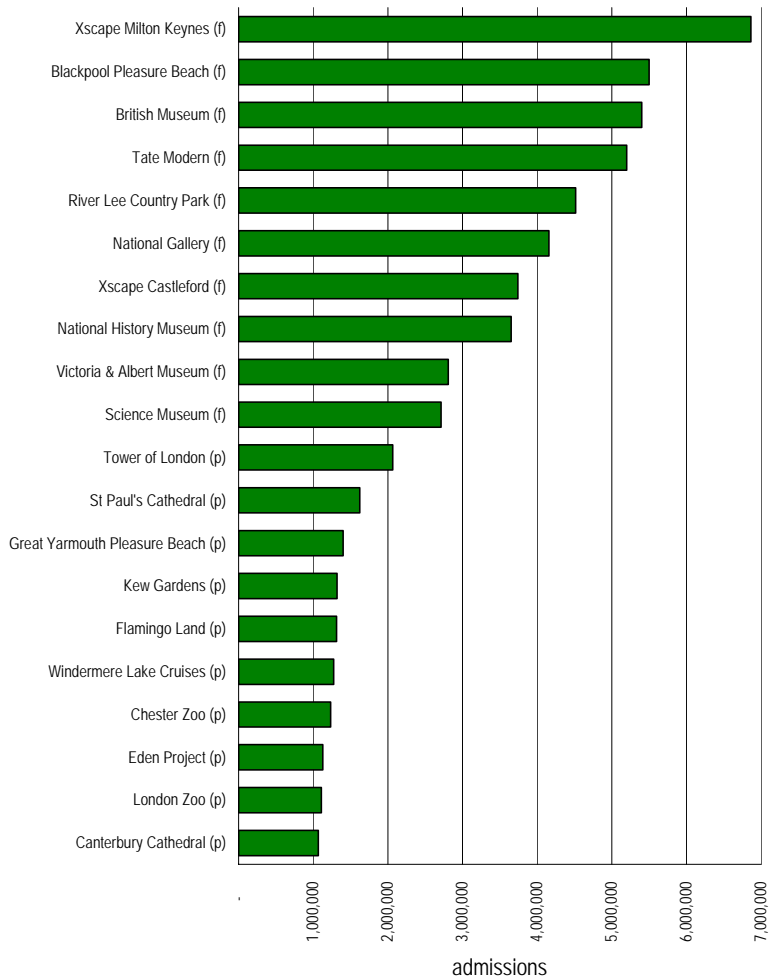
Top attractions in 2007

VisitBritain has released results from the Annual Survey of Visits to Visitor Attractions in England for 2007. It is important to recognise that the survey is a self completion survey, there is no obligation for any visitor attraction to supply data and VisitBritain does not verify data provided by an attraction beyond a basic 'sense check'. Attractions have the option of taking part anonymously, meaning not all attractions that participate in the survey necessarily appear in the chart.

The chart lists the top ten free attractions and top ten attractions with paid admission; it is important to recognise that although 'admission' may be free to some attractions listed in the top ten, actual participation in a leisure activity would incur a cost.

Top English visitor attractions in 2007

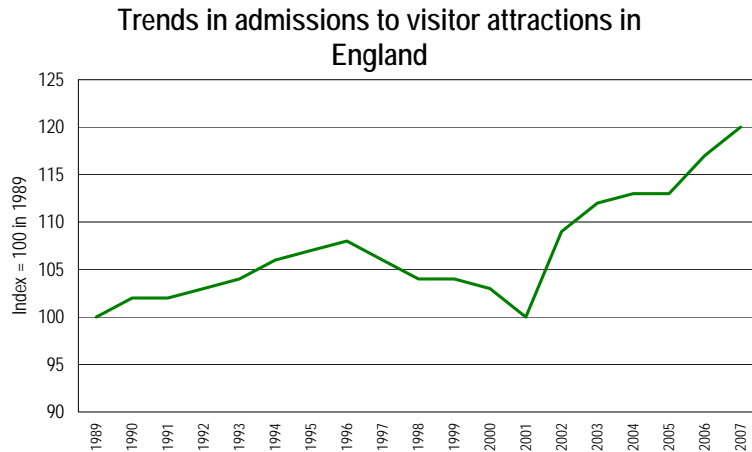
(f = free, p = paid)



## Trends

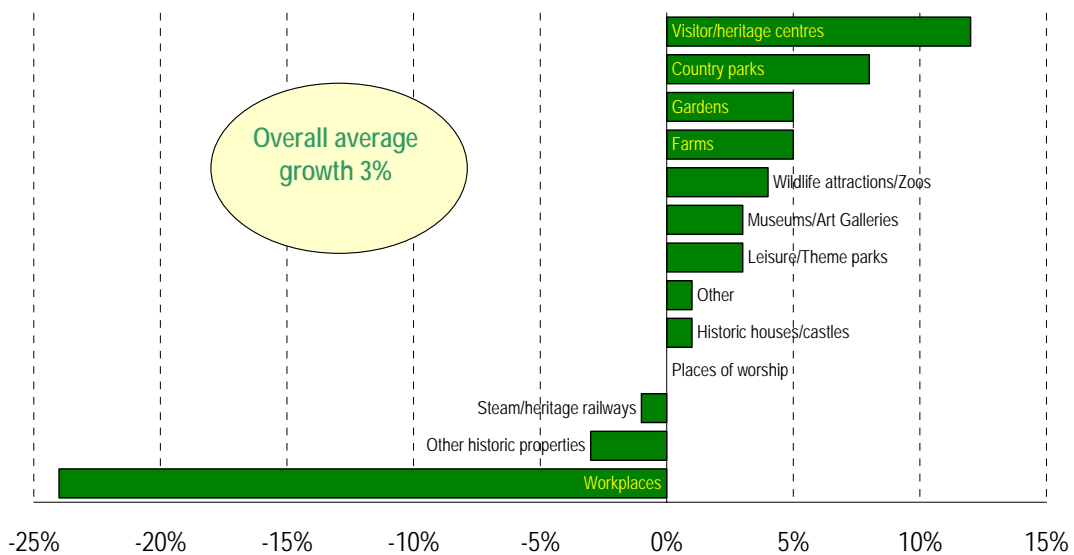
Each year participating attractions are asked about their admission numbers in each of the past two years, and it is therefore possible to construct a time-series of admissions, even though the 'sample' of attractions covered varies from year to year.

The chart shows that the first half of the 1990s brought steady growth but that by 2001, the year in which Foot and Mouth Disease led to a temporary closure of some rural attractions, numbers were back at their 1989 level. In recent years attractions have seen a bounce-back from 2001 and underlying growth; welcoming 20% more visitors in 2007 than 18 years earlier.



In 2007 2,010 attractions participated in the survey, representing a response rate of 35% of attractions invited to respond. Looking at attractions providing data on visitor numbers for both 2006 and 2007 (some 1,348 attractions) enables us to explore changes in admissions for different types of visitor attractions. We can see from the chart that an average annual growth of 3% in admissions masks some disparate trends across attraction categories. Visitor/heritage centres were the only category of attraction to enjoy double-digit growth in 2007 and perhaps surprisingly given the wet weather during the early part of summer 2007 many outdoor attraction categories performed strongly. The sharpest annual decline was in 'Workplace' attractions, but this is in large part due to a significant reduction in admissions at a single attraction.

## Growth in admissions 2006 to 2007

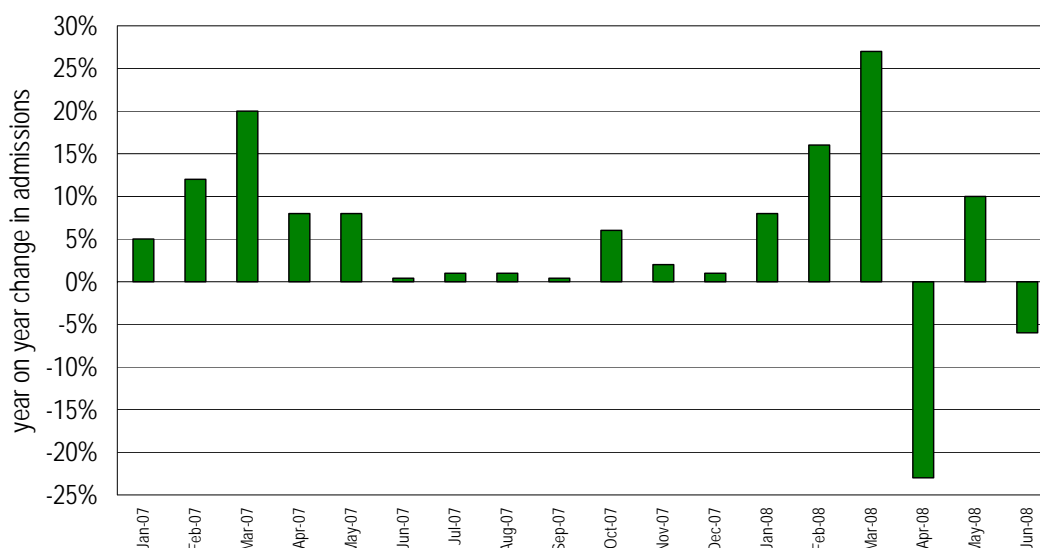


## The story so far in 2008

Our best source of information about current attraction trends is the England Attractions Monitor (conducted by TNS) which is a quarterly survey that commenced in 2006. In addition to capturing information about visitor trends since 2007 the survey has incorporated questions about business confidence for the forthcoming quarter. Approximately 500 attractions take part in the survey each quarter, including some 300 plus National Trust and English Heritage properties (who provide visitor numbers only).

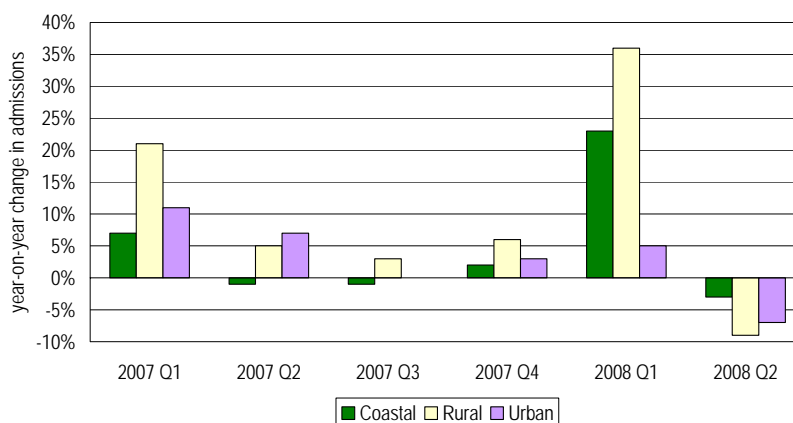
The following chart shows the month-by-month story for participating attractions in England over the past 18 months. In only two months, April and June 2008, has the survey found an annual decline in admissions, with the most likely explanation being the early Easter (falling in March 2008) and the onset of high fuel prices in June (especially over the weekend during which some tanker drivers took industrial action) deterring discretionary travel. The only English region to see annual growth in the three months to June 2008 was the North West, possibly boosted by numerous events tied in with Liverpool being European Capital of Culture.

### Visits to visitor attractions in England



We can look at the performance of attractions across many dimensions by using the England Attractions Monitor, with the following chart exploring trends based on type of location; although there are few longstanding trends to spot, it does appear that rural attractions have tended to out-perform urban and

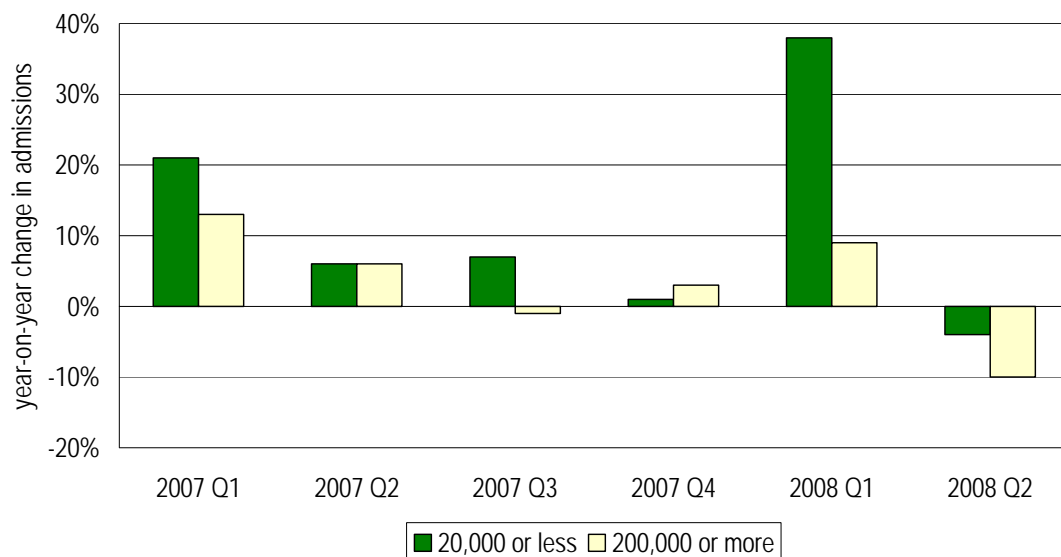
### Attraction location



coastal attractions with the exception of the most recent quarter during which rural attractions experienced a sharp year-on-year decline in admissions.

Looking at results based on volume of visits, and focussing in on the smallest and largest attractions, delivers a fascinating insight; during most of the past eighteen months attractions with fewer than 20,000 annual visitors have enjoyed stronger growth than attractions with more than 200,000 visitors, with this trend being especially noticeable during the first half of 2008. It may well be that high fuel costs have resulted in visitors opting to visit smaller local attractions rather than larger regional attractions requiring a longer, and thus more expensive, journey.

### Attraction by volume of annual visits



### Prospects

Looking ahead to the key summer period for attractions 39% of respondents anticipated higher visitor numbers than during the same period of 2007 with only 24% reckoning on a decline. However, this position is somewhat more cautious than was the case a year ago when looking forward, suggesting that operators have become increasingly concerned about how the wider economic slowdown and increasing costs will impact on their business.

When asked to cite different influences on their business optimism 61% cited a negative influence (39% mentioned a positive influence). The three most quoted negative influences were 'tourism/economic market changes' (mentioned by 46%), 'weather' (18%) and 'increasing fuel costs' (18%). An additional question included in the latest wave of the survey explicitly sought respondents' views regarding the likely impact of the current economic slowdown and 'credit crunch'. Only 8% of attractions believed that the economic climate would result in more admissions during the remainder of 2008, whereas 42% forecast that the slowdown would negatively impact admission numbers (33% said it was too early to tell and the remainder said there would be no impact or that they did not know).

There is little doubt that the coming months will be challenging for the attractions sector. Even if expectations for customer demand prove overly pessimistic operators will need to find ways of setting admission charges and the price they levy for other saleable products and services at affordable levels for price-conscious consumers at a time when there are significant inflationary pressures on operating costs which, in normal times, would be passed on to the customer.

## Issue of the Month – Five years on from the Aviation White Paper

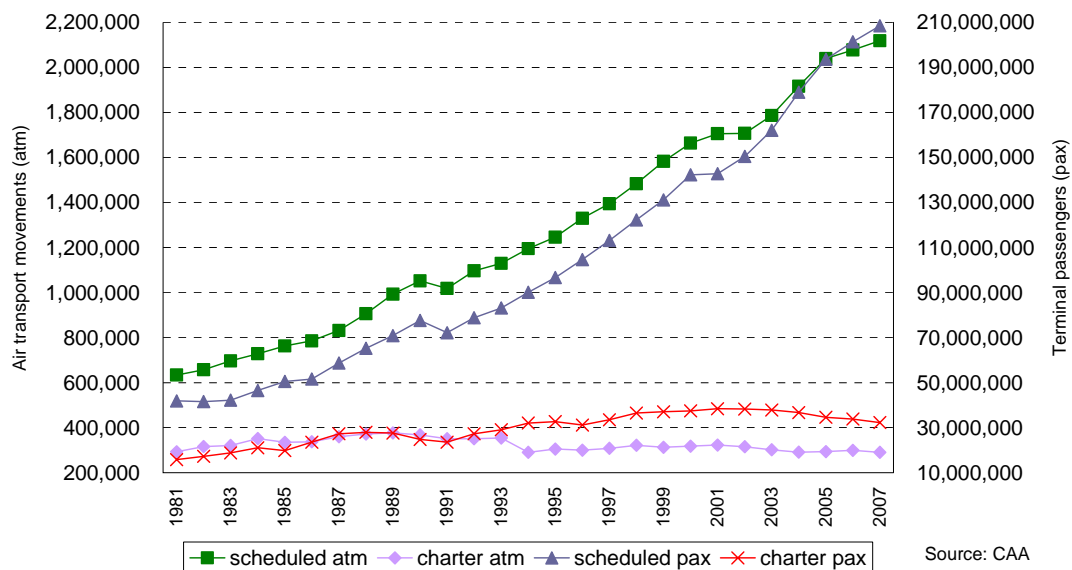
In the December 2003 edition of *Foresight* we took a look at airport capacity in Britain as the Government prepared to release its Aviation White Paper, so, five years on, what progress has been made in ensuring that Britain is able to compete successfully for international visitors who wish to travel by air, and what developments should we expect in the near future?

### Aviation trends and forecasts

It is always tempting to look at a line on a chart that has a persistent upward trend and assume that this trend will continue indefinitely. The longevity of the boom in air travel, tempered only briefly by the impact of the first Gulf War and economic downturn of 1991, pays testament to this fact, with the following chart (based on Civil Aviation Authority data) showing the number of air traffic movements and terminal passengers at UK airports from 1981 through to 2007.

We can see that in 2007 UK airports handled some 241 million terminal passengers, representing a four-fold increase on the 1981 total of 58 million. The chart also drills home the fact that it is scheduled rather than charter air traffic that has seen a dramatic rise in popularity; in 2007 there were 234% more air transport movements (arrivals and departures of aircraft) than in 1981, whereas the number of charter air transport movements was 1% lower in 2007 than 26 years earlier. Another insight emerging is that for both the scheduled and charter markets the average load factor (that's the number of people onboard the plane) has risen.

### UK aviation trends



It is looking probable that 2008 will see a rather different trend to recent years, with NATS (the National Air Traffic Control Service) recently reporting that in July the number of flights through UK airspace had fallen on an annual basis for the first time since the aftermath of 11<sup>th</sup> September 2001. Figures for the first seven months of this year reveal a 1.1% rise in the volume of air traffic, but with BAA reporting that its seven airports handled 3% fewer aircraft movements in August than a year ago and the majority of airlines announcing a reduction in flights for the upcoming winter, 2008 looks set to be a year during which negative aviation growth is recorded in the UK.

In 2006 the Department for Transport (DfT) updated its long-term aviation forecasts reflecting; the most recent aviation demand data, revised forecasts for oil prices, updated UK and global economic activity projections, the latest published airport plans for enhancements to capacity and improved forecasting methodologies.

The DfT forecasts include two distinct scenarios, one in which capacity is unconstrained, the other in which capacity constraints kick-in. The second of these two scenarios supposes, perhaps rather ambitiously, that all additional capacity supported in the 2003 White Paper (see later section) is delivered, generating a projected increase in the number of air passengers per annum from 228 million in 2005 to 480 million in 2030, equivalent to an increase of 110%.

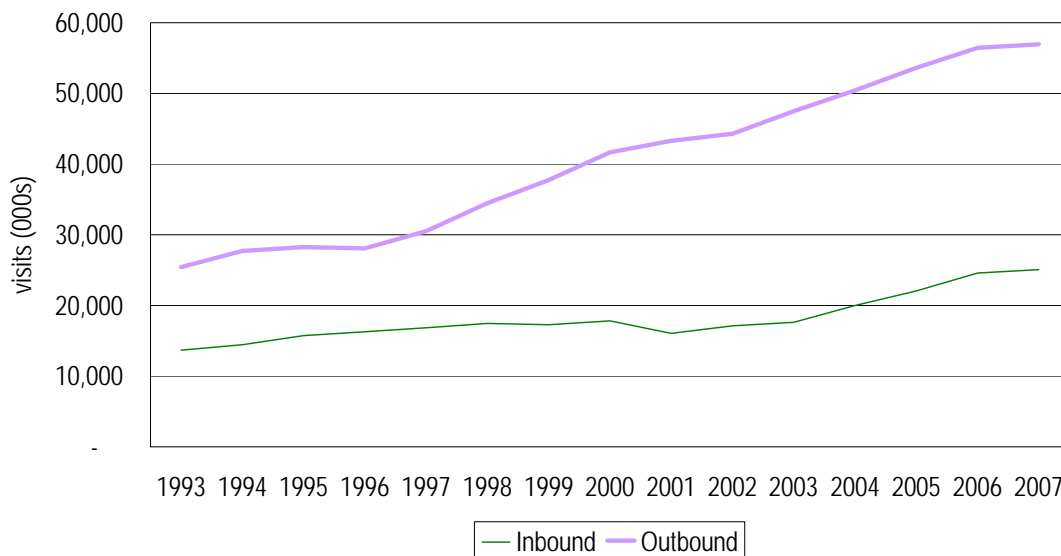
This projection sits within a forecast 'envelope' of 450 to 505 million passengers per annum. Clearly if oil prices remain at levels reached over the past year and not all of the White Paper capacity enhancements are on-stream demand is likely to be markedly lower.

### Use of air travel for tourism

People use airports for a whole host of reasons and not all are 'tourists', either inbound or outbound, as some will simply be in airside transit (and therefore not entering the UK) and others in the course of migrating to or from Britain. The following chart shows the number of inbound and outbound visits by air to/from the UK from 1993 through to 2007 based on International Passenger Survey figures<sup>1</sup> and once again it is clearly a story of sustained growth, but with Britons on outbound visits making 124% more trips by air last year than in 1993, whereas the equivalent figure for inbound visits is growth of 83%. Around four in every five outbound and inbound visits were made by air during 2007.

These figures are for 'visits', whereas the earlier CAA data was for 'terminal passengers', and not only does the latter include the additional types of trip described previously but each arrival **and** departure counts towards the total; a visitor from New York who flies into Heathrow then on to Edinburgh and retraces their steps a week later counts as a single 'visit' but contributes 4 to the tally of 'terminal passengers' (one for each leg of their journey).

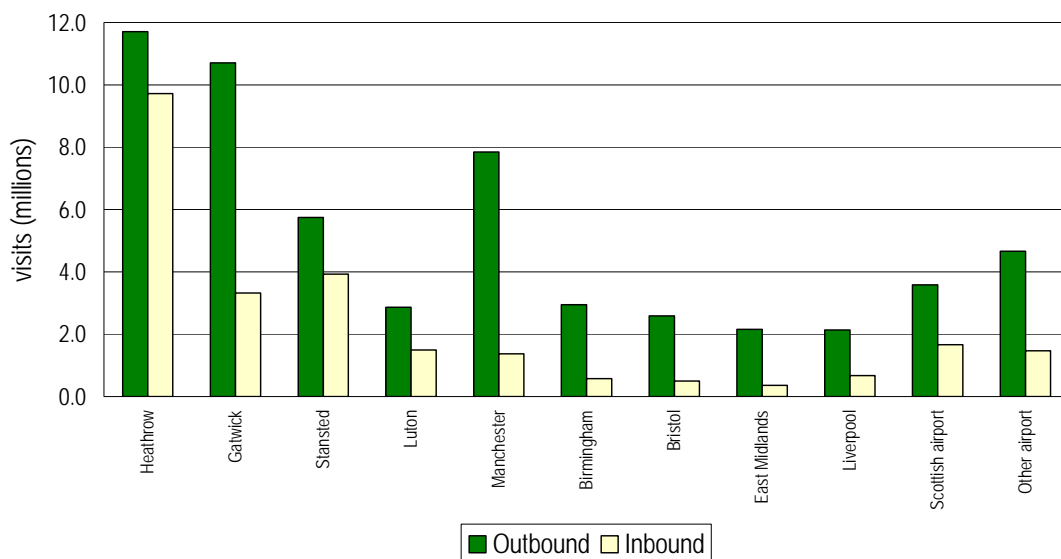
### Inbound and outbound travel by air



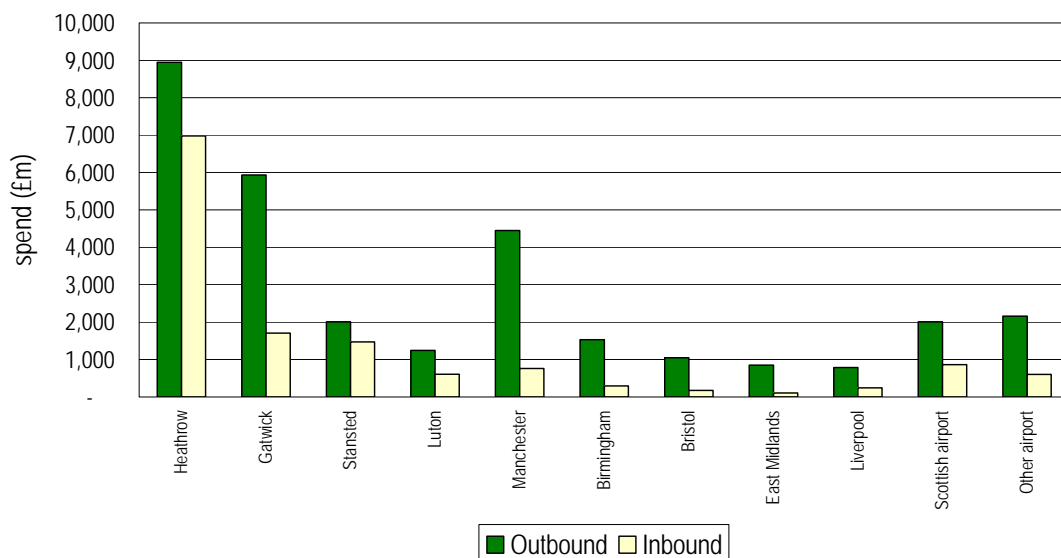
## Airport mix

The next two charts provide a snapshot of the volume and value of outbound and inbound tourism flows through each of the major airports during 2007. Starting with the number of visits it is apparent that Heathrow, Gatwick and Manchester are the most popular ports of departure for Brits travelling abroad, whereas for inbound visits Heathrow is even more dominant with Stansted and Manchester in second and third spots. When it comes to expenditure the top three airports for outbound travel are again Heathrow, Gatwick and Manchester, but in the case of inbound spending Heathrow certainly has the lion's share with Gatwick in second place just ahead of Stansted.

### Outbound and inbound visits by airport



### Outbound and inbound spend by airport

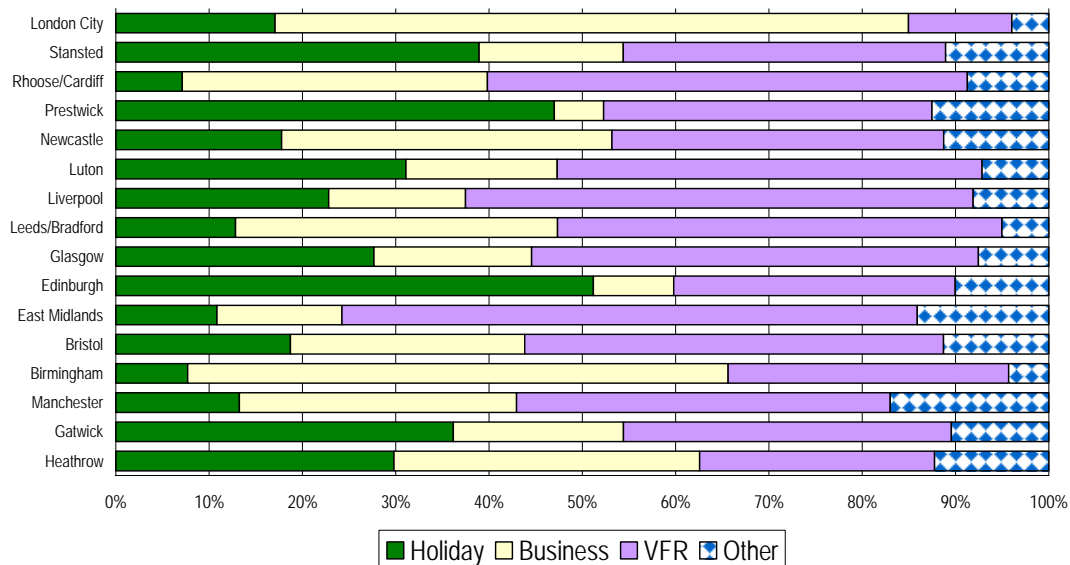


Given the amount of attention that gets placed on Heathrow it is worth labouring one of the key insights emerging from the above charts, namely that the west London airport is responsible for bringing 30% of all inbound visitors to the UK (it accounts for just 17% of outbound visits) and accounts for 44% of **all** inbound spending (25% of outbound spending).

More than 200,000 planes touch down at Heathrow from overseas destinations during a typical year, and we can therefore deduce that each and every aircraft is set to generate an average £34,000 worth of revenue for the UK's inbound visitor economy, courtesy of the fact that the average international visitor arriving through Heathrow spending £718 during their stay.

What is the explanation for each visitor arriving through Heathrow contributing so much more than the average inbound visitor? The answer is two-fold; firstly Heathrow attracts a disproportionately high proportion of long-haul long-stay visitors compared with other ports of entry to the UK (57% of inbound visitors using Heathrow are from beyond Europe, whereas only 16% of visitors using other ports of entry are non European), and secondly the airport is popular for business trips, with one-in-three international arrivals being for business, whereas at Gatwick the equivalent figure is one-in-five and Stansted only around one-in-seven. The following chart shows the journey purpose mix for inbound visits by airport (for many of the smaller airports figures are based on limited sample sizes and should be treated as nothing more than an indicative guide). It is interesting to note the predominance of business trips at London City and the popularity of Edinburgh airport among inbound holiday visitors.

### Inbound travel by purpose and airport



### The Future of Aviation 2003 White Paper

At the end of 2003 the Government published what it termed a sustainable long-term strategy for UK aviation through to 2030. The strategy had four key pillars that:

- committed the Government to ensuring that aviation reflects the full costs of its climate change emissions
- put in place tough local environmental conditions for the UK's most environmentally sensitive airport, London Heathrow

- recognised that aviation brings real benefits to the lives of ordinary people and to business
- rejected proposals for new capacity at several airports and at new Greenfield locations, and instead promoted making much better use of existing airport capacity

The relationship between aviation and climate change was covered in detail in the September 2007 edition of *Foresight* and is not dealt with here.

The White Paper supported the early construction of a new runway at Stansted and (at a later date and subject to environmental constraints) at Heathrow. Updated analysis undertaken in 2006 by the Department for Transport found that the development of new runways at Stansted and Heathrow (subject to noise and air quality conditions) as supported in the 2003 White Paper would result in a net economic benefit of £22bn (net present value, 2006 prices).

Progress since publication of the White Paper includes BAA's plans for a second runway at Stansted going to a Public Inquiry starting in April 2009 (and expected to conclude in 2010), with a new runway unlikely to be operational until 2015. Meanwhile at Heathrow, Terminal 5 opened in March 2008, though BA's staggered move to the new facility is still ongoing, the delay in which means that BAA's original plan for Terminal 1 and 2 to be replaced with a 'like-for-like' Heathrow East Terminal by 2012 seems ambitious.

A public consultation on 'mixed mode' operation at Heathrow has been undertaken, but the Department for Transport is not expected to make a policy decision on this topic until later in the year. If the go-ahead is given both runways could be used for landings and take-offs, thereby reducing delays at peak times for aircraft on the ground and those currently forced to circle before final approach. In theory 'mixed mode' operation would enable the airport to handle up to 60,000 more flights per annum, but the Government has made it clear that BAA would need to lodge a planning application before being able to use 'mixed mode' operation as a means of increasing the number of flights beyond the current 480,000 annual limit.

For the longer term BAA's latest master-plan for the airport includes a short third runway north of the current perimeter to be operational by 2017, along with an additional passenger terminal. It is estimated that with a third runway the airport would be capable of handling 702,000 flights per annum, a 46% increase on the present situation.

Elsewhere around the country the operators of both Edinburgh and Birmingham airports have stated that despite the White Paper having supported the creation of additional runways neither is forecast to require an additional runway before 2020. However, plans do exist for a 400m extension to the runway at Birmingham and a 300 metre extension at Aberdeen airport.

### **Ownership and economic regulation under the spotlight**

BAA's so-called 'monopoly' of the UK airport scene has been under scrutiny for some while. The company, which was recently bought by a Spanish based business, runs Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen and Southampton airports. This situation looks set to change in the near future, with the recent Competition Commission report indicating that BAA should be forced to sell three of its seven airports; one of either Glasgow or Edinburgh and two of its three airports in South East England.

Although a final ruling is not expected until April 2009 following a period of consultation, BAA has announced that it plans to sell Gatwick airport 'immediately'. The operator has made it clear that it has no intention of selling Heathrow.

It is not just ownership of the main airports in the South East that has been generating intense debate; the Civil Aviation Authority (CAA) announced in March that BAA could increase landing fees in 2008/9 by 23.5% (in real terms) at Heathrow and 21% at Gatwick. In each of the four years from 2009/10 onwards landing fees at Heathrow will be allowed to increase by up to 7.5% above the rate of inflation and at Gatwick by 2% above inflation. A decision on the cap to be set on landing fees at Stansted is expected in March 2009. The higher charges are being permitted in order to pay for investment that should improve the customer experience, but airlines have reacted with dismay at the scale of the planned increases.

In July 2008 the Department for Transport published its 'Strategic Review of the UK Civil Aviation Authority', covering the CAA's legal and governance framework, but perhaps of more interest to airlines and indeed air passengers in the longer-run will be the findings from another review set up by DfT to investigate the 'Economic Regulation of UK Airports'.

Although any review recommendations will not feed through to the level of price caps set at regulated airports until April 2013 at the earliest the review will investigate how best to provide incentives to improve the passenger experience, encourage appropriate and timely investment in additional capacity to help deliver economic growth and address the wider environmental impact of airport development.

### **Bumpy ride ahead**

The earlier analysis highlighted the apparent reduction in capacity over the summer months, and it is not only down to airlines choosing to offer fewer flights. The persistence of high oil prices and a slowing of passenger demand has resulted in more than two-dozen airlines going bankrupt around the world during the first two-thirds of the year, with a number of airlines operating to/from the UK included in this tally; MaxJet, Eos, Silverjet, Zoom and most recently XL. Aviation analysts forecast that further bankruptcies are likely in the coming weeks.

The coming winter, a time at which demand for air travel traditionally drops, will be crucial in determining the future shape of the aviation market, but more airline mergers are on the cards, with speculation that bmi will be sold, and BA, American Airlines and Iberia having agreed the terms of a three-way tie up (subject to regulatory approval).

On a brighter note for visitors to the UK liberalisation of air routes, for example the EU/US Open Skies Agreement, may help keep fares at competitive levels and the recent sharp fall in the price of oil may enable airlines to lower fuel surcharges. However, the dramatic turbulence seen in global financial markets during September 2008 is likely to further dampen demand for business travel, traditionally a lucrative source of income for many airlines during the quieter months of the year for holiday travel.

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<sup>1</sup> 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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