



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 who combine their visit to Britain with time spent in other countries. It is six years since the introduction of the Euro, a currency used by the majority of inbound visitors to Britain, and this month 'Issue of the Month' explores trends in the cost of Sterling for Eurozone citizens and what any eventual adoption of the currency here could mean for tourism.

Market Focus – Britain as part of a multi-country trip

During 2007 VisitBritain sponsored a new question on the International Passenger Survey¹ asking inbound visitors to the UK whether they were visiting more than just Britain during their current trip. The following discussion provides an overview of the results to help us better understand what differences or similarities there are between visitors on a trip to Britain and Britain only, versus those including other destinations on their itinerary.

Respondents were asked:

During your time away from your home country and
 a. before you arrived in the UK, did you spend at least one night in another country (excluding nights spent in transit) - Yes/No
 b. after you leave the UK, will you spend at least one night in another country (excluding nights in transit) - Yes/No

The question endeavoured to ensure that 'transit nights' were excluded, though needless to say it is possible that some visitors travelling by land may have spent a night in a country other than Britain before or after their trip and would not consider themselves to have been 'in transit'. As with all questions included in the survey it is important to recognise that the results provide us with a good guide to visitor characteristics but do not represent a definitive picture.

Key results

Not all respondents provided an answer to this question and the analysis presented here is based solely on those who did, representing roughly 90% of the sample. The headline figure is that nearly 5.6 million visitors to Britain during 2007 were on a multi-country trip; that is 19% of all visitors for whom information is available.

	Visits (%)	Nights (%)	Spend (%)	Nights per visit	Spend per night (£)	Spend per visit (£)
Yes, before visit to the UK	5%	4%	5%	6.2	80	495
Yes, after visit to the UK	7%	8%	8%	8.1	69	564
Yes, before and after visit to the UK	7%	6%	5%	6.6	56	366
No, UK only on this visit	81%	82%	81%	7.5	64	479

Note: figures exclude respondents for whom no information was available, some 10% of all records

It is worth noting from the above table, and this is perhaps unsurprising, that visitors who spend time in another country both before and after their stay in Britain tend to spend less while in Britain than do other visitors.

Top markets

Here we present a league table of visits by market for those visitors who are not combining a visit to Britain with any other countries and for those visitors who are on a multi-country trip.

It is evident that short-haul markets dominate the 'UK only' list (9 out of 10) whereas long-haul markets account for the top three 'multi-country' trip markets and five out of the top ten.

UK only		Multi country trip	
France	2,964,858	USA	1,327,537
Germany	2,867,771	Australia	616,112
Irish Republic	2,488,620	Canada	347,021
USA	1,988,611	Germany	245,703
Spain	1,679,474	Poland	216,999
Netherlands	1,647,427	Spain	215,894
Italy	1,160,272	France	161,779
Belgium	901,315	Irish Republic	153,488
Poland	756,741	New Zealand	149,050
Sweden	645,073	South Africa	136,987

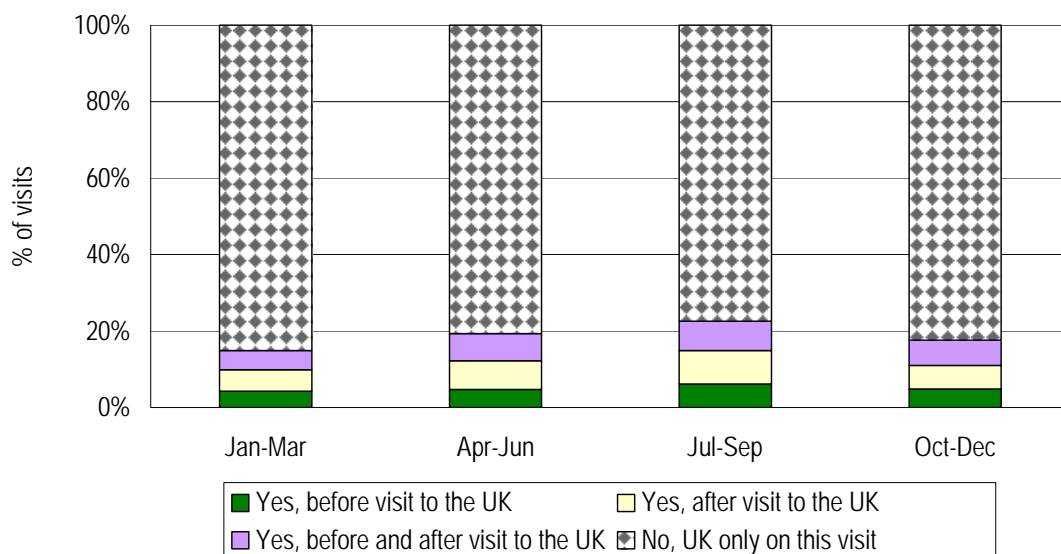
figures exclude 'don't know/not stated'

This finding makes a great deal of sense; visitors from France, Germany or Ireland can easily take a short-break trip to Britain, whereas someone from New Zealand or Australia has to travel for twenty-four hours to reach Britain, so it is little wonder that they visit other countries in Europe or break their inbound or outbound journey at a midway point.

Profile

There are no stark differences between the profile of visitors staying only in Britain versus those on multi-country itineraries, but the following series of charts helps to paint a picture of some variations.

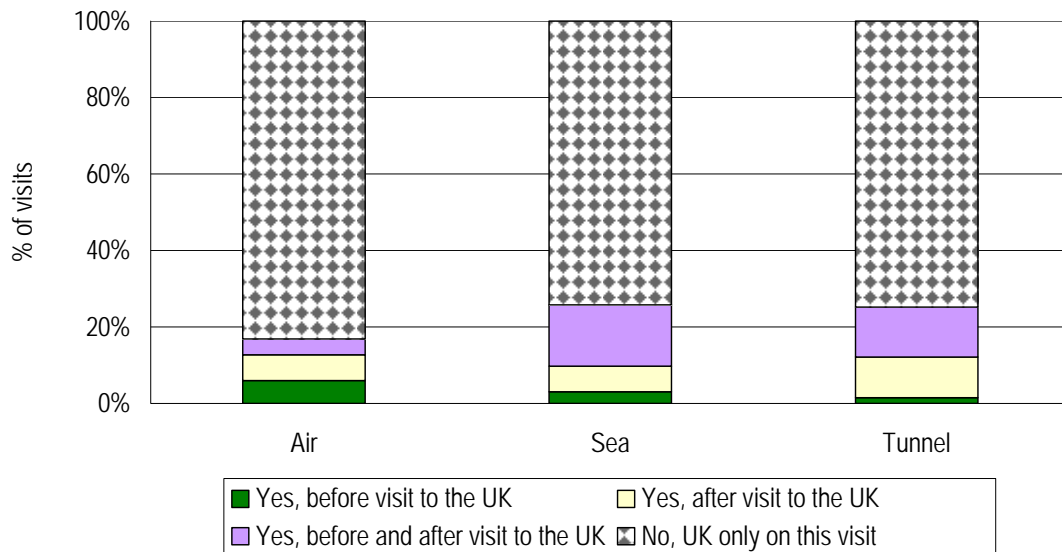
Seasonal variations



From the above chart we can see that the most popular time for multi-country visits is very definitely July to September, with nearly a quarter of all visitors to Britain engaging in such a trip, whereas the most popular time for 'Britain only' visits is January to March.

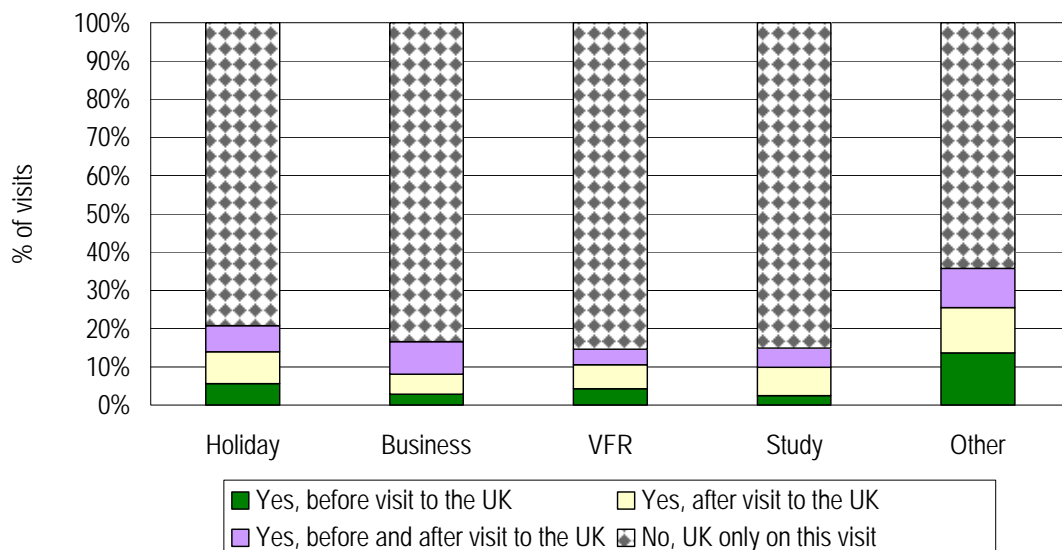
Looking at mode of travel we discover that visitors travelling by sea or through the Channel Tunnel are far more likely to combine visiting Britain with other countries than are those visitors opting to travel by air. Again this is in line with what one would expect, as ferry and tunnel visitors may well be driving their own vehicle with the flexibility of building a multi-country route.

Mode of travel



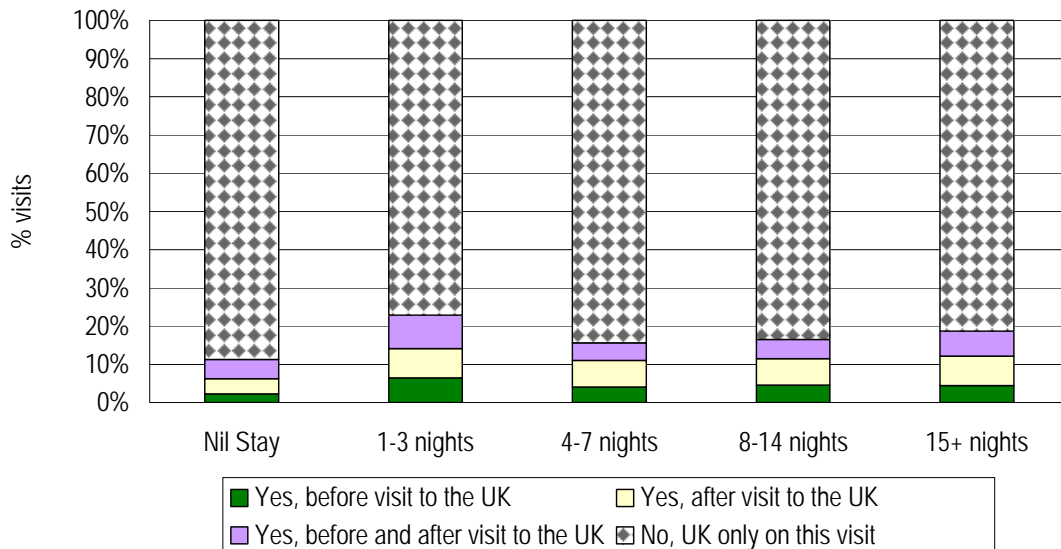
Are there any differences by journey purpose? The following chart tends to indicate that there certainly are, with holiday visitors more likely to be on multi-country trips than visitors coming to see friends and relatives. However, it is the 'other purpose' group who are most likely to stay in countries other than Britain before or after their time in Britain.

Journey purpose



Finally if we look at the duration of stay we find that it is visitors staying in Britain for between one and three nights who are the most likely to be on a multi-country itinerary and 'nil night' visitors who are most likely to be visiting Britain only.

Duration of stay



One might expect that multi-country travellers are more likely to be on a package tour than 'Britain only' visitors, but taking a look at the International Passenger Survey findings suggests that this is not the case, with only around 8% of those travelling 'independently' and those on part of an organised trip combining Britain with other countries.

Summing up

It is apparent that for some key long-haul markets, such as the USA and Australia, Britain is an ideal destination as part of a multi-country itinerary, a fact that underscores the importance of making access to Britain alongside other European countries as straightforward and affordable as possible. As visitors from emerging origin markets such as China, India and Russia grow in number this will become ever more critical, as unlike those from the US or Australia visitors from these markets require a visa to enter Britain as a tourist, and while this is also true for continental European destinations the Schengen Visa enables a visitor from an emerging market to visit more than a score of European countries, with a separate visa required in order to include Britain as part of the itinerary.

Issue of the Month – The Euro

Economics was making the headlines on a regular basis during 2008 and as the year came to a close one of the most talked about topics was the exchange rate between Sterling and the Euro, with considerable attention being placed on what the weakness of the Pound might mean for both inbound and outbound tourism. This month we explore the history of £/€ exchange rates and what any eventual decision by the British Government and people to adopt the single European currency might mean for tourism.

Who uses it?

The Eurozone is the name given to those nations that have formally adopted the Euro as their unit of currency. The first twelve nations to solely use Euro notes and coins as their currency did so on 1st January 2002 and were; Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. Slovenia adopted the Euro at the start of 2007, as did Cyprus and Malta at the start of 2008, with Slovakia doing so on 1st January this year. The overseas territories of both the Netherlands and France have the Euro as their currency.

A number of other European Union nations have plans to adopt the Euro in the next few years provided they meet the economic criteria and the decision is approved by either parliament or a referendum. In economic terms the most significant new member in the coming years would be Poland which hopes to adopt the currency within the next four years.

There are a number of European Union countries who have not adopted the Euro but whose own currency is 'pegged' to the Euro, which means that its value moves in line with that of the Euro (to within a narrow margin). These countries include Bulgaria, Denmark, Estonia, Latvia, and Lithuania.

A number of nations in Africa formally ruled by France, Portugal or Spain have the CFA Franc as their currency which has a fixed exchange rate with the Euro, meaning that any appreciation or depreciation in the value of the Euro has the same impact on the CFA Franc. A further African nation, Morocco, has pegged its currency to the Euro.

Worldwide around half a billion people either use the Euro as legal tender or have a currency whose value moves in line with that of the Euro. Clearly then when the £/€ exchange rate changes significantly many potential inbound visitors to Britain find that the value for money that Britain offers has shifted, and the cost of visiting a multitude of potential outbound destinations for holidaying Brits shifts in the opposite direction.

A currency to be reckoned with

At times of economic crisis currency traders become increasingly 'risk averse' and shy away from investing in those economies (and thus currencies) considered most vulnerable. This is why during late 2008 the Icelandic and Hungarian currencies saw considerable weakening, and in December 2008 Sterling came under pressure. Meanwhile traders moved investments into the Euro, Yen and US Dollar. According to the International Monetary Fund around one-quarter of official foreign exchange reserves held around the world are in the form of Euros.

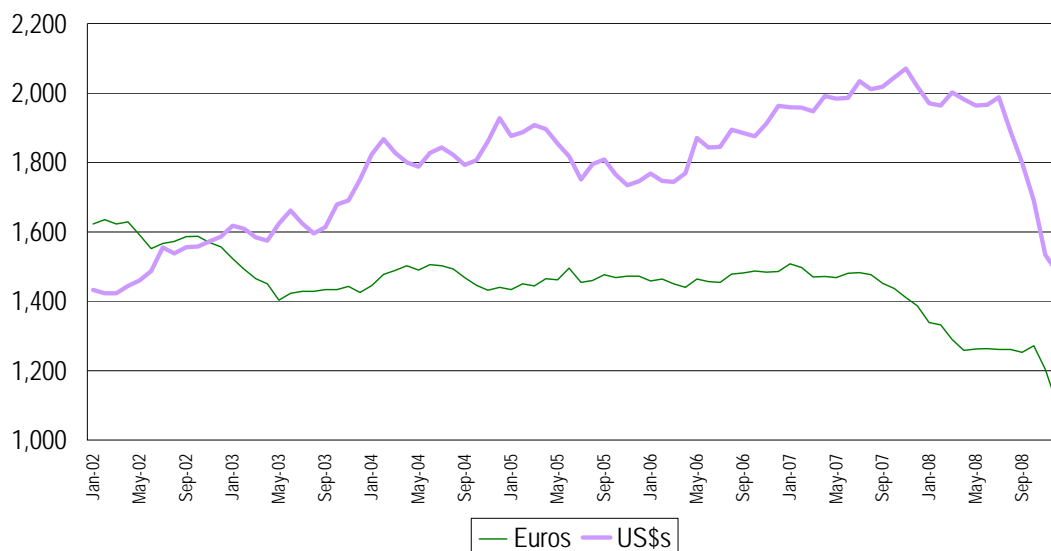
The Eurozone currency is considered more of a 'safe haven' than certain other currencies at the present time due to the size of the economy for which it is legal tender. Indeed, in Gross Domestic Product terms the Eurozone has one of the world's largest economies.

Trends in key Euro exchange rates

The following series of charts shows trends in the exchange rate between the Euro and Sterling, Euro and US Dollar and Sterling and US Dollar over the past seven years. The charts present how the purchasing power of a typical pot of holiday money has changed for Britons, Eurozone citizens and Americans.

Starting with the situation for those living in the UK and planning a holiday to either the Eurozone or US on a budget of £1,000 we can see that for most of 2002 this amount of Sterling would buy you more Euros than Dollars, but the reverse has been true ever since. The period 2004 to 2006 brought stability, with £1,000 typically buying either \$1,800 or €1,450. During 2007 the cost of a trip to the US fell considerably, with £1,000 purchasing over \$2,000 for a few months, meanwhile the cost of Eurozone trips was increasing fractionally by late 2007.

£1,000 buys

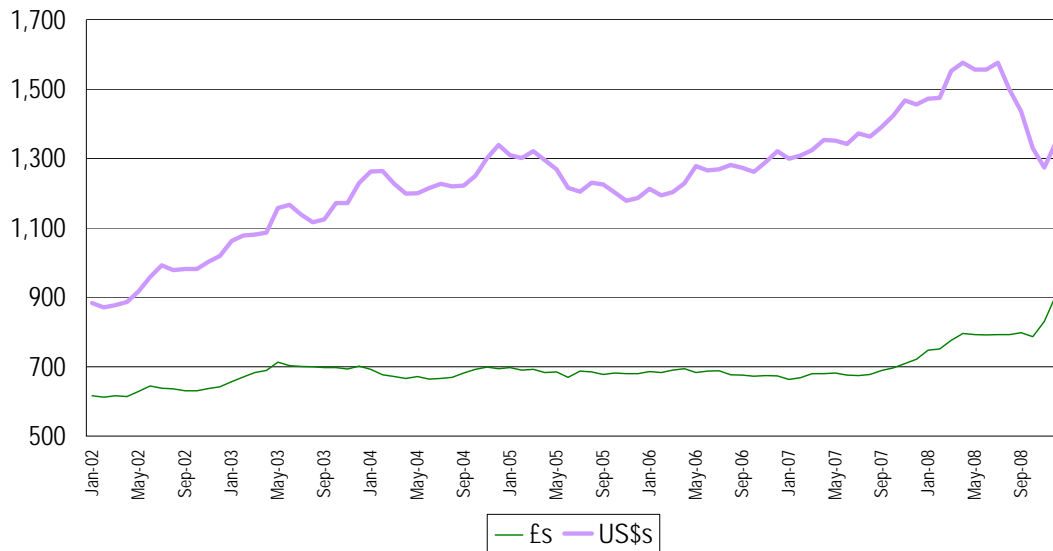


It is clear that exchange rates wobble around to some extent, but the drama that was the global financial crisis of autumn 2008 is vividly portrayed in the abrupt movements in the purchasing power of £1,000 in recent months. By the end of 2008 the 'holiday fund' would buy less than \$1,500, a 25% fall compared with the start of 2008, and no more than about €1,100, again nearly 25% less than twelve months earlier. Indeed, as the Pound continues to weaken against the Euro the prospect of an exchange rate of less than €1 to the Pound is a realistic prospect, and, as tourist rates are less favourable than market rates, a reality for many Britons travelling to Eurozone destinations for winter breaks.

The second chart explores what someone in France, Spain or any other Eurozone nation would have been able to buy by way of Sterling or US Dollars over the past few years. The line showing how much Sterling could be purchased reveals the opposite pattern to that showing how much £1,000 would purchase in terms of Euros from the earlier chart. So for Europeans Britain became a bit less expensive during 2002, remained very stable in cost terms through to 2007 and has seen a dramatic improvement in its value for money offer during 2008 with

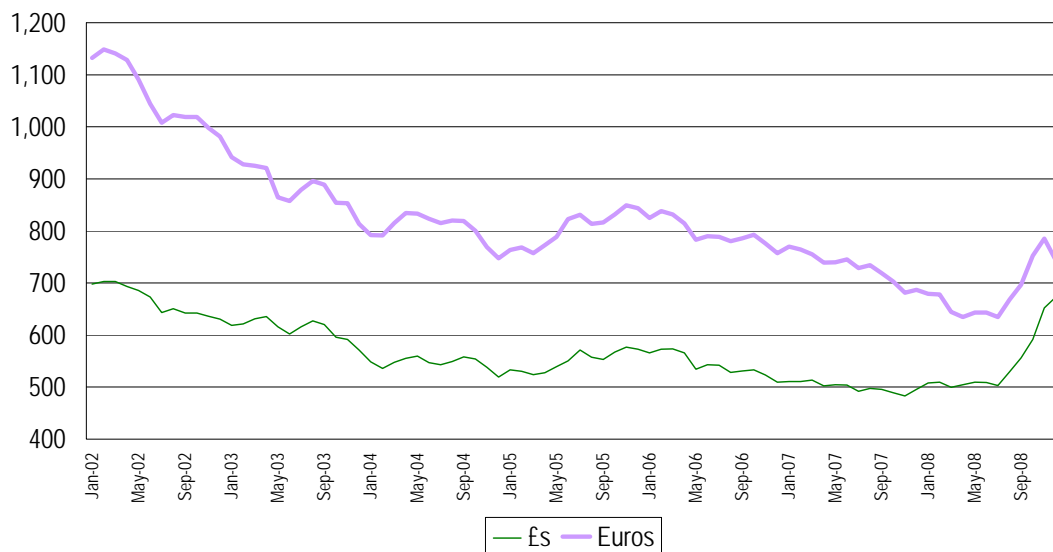
€1,000 buying more than £900, which is nearly £200 more than was the case just a year earlier. Looking at the second line on the chart it is evident that the USA has become much more affordable as a destination for Eurozone citizens, with €1,000 buying \$900 back in 2002 and over \$1,500 by mid 2008, although with this figure declining to around \$1,300 by the end of the year.

€1,000 buys



The final chart looks at what \$1,000 buys. No prizes for spotting that over the past few years Americans have found that Britain and Eurozone destinations have been getting more expensive in relative terms as \$1,000 bought fewer and fewer Pounds or Euros. This situation went into reverse in the final few months of 2008 as the Eurozone and the UK suddenly became much more affordable destinations with \$1,000 buying just over €700 and nearly £700.

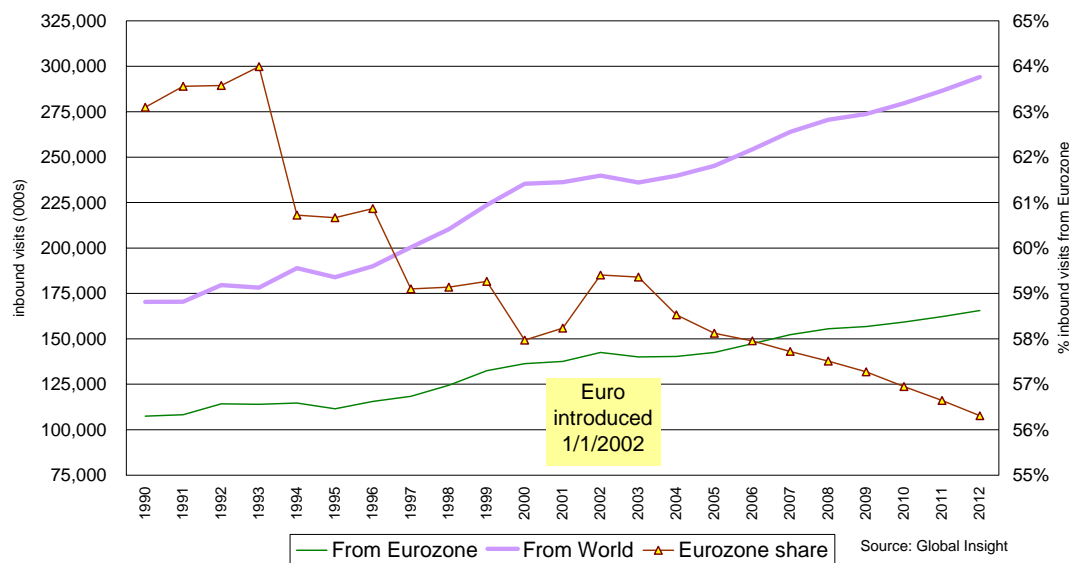
\$1,000 buys



Impact on Eurozone tourism

Exchange rates are definitely one of the more important factors in influencing destination choice for leisure travel, though of course there are countless other factors too. The following chart presents trends in the volume of inbound tourism to the original twelve Eurozone countries from 1990, with Global Insight forecasts through to 2012. It can be seen that up until adoption of the Euro on 1st January 2002 by the Eurozone bloc of countries there was a tendency for the share of inbound visits to the Eurozone that originated inside the bloc to decline, whereas in the period after 2002 this figure has stabilised at around 58%.

Eurozone inbound tourism



The following matrix looks at trends in arrivals for some of the major Eurozone tourism destinations. There is no consistent trend; in eleven cases the five years before adoption of the Euro generated faster annual growth than the following five years, whereas in eight cases the reverse was true. The figures may understate post-Euro cross-border traffic that is for 'day trips', for example shopping expeditions.

Annual growth in arrivals by origin-destination pair pre and post Euro		Origin									
		France		Germany		Italy		Portugal		Spain	
		1997-01	2002-07	1997-01	2002-07	1997-01	2002-07	1997-01	2002-07	1997-01	2002-07
Destination	France			1%	0%	7%	2%	5%	9%	1%	12%
	Germany	1%	6%			5%	6%	1%	12%	5%	10%
	Italy	5%	2%	3%	-1%			3%	2%	7%	11%
	Portugal	5%	1%	0%	0%	5%	2%			5%	-1%
	Spain	10%	6%	3%	-1%	2%	7%	9%	7%		

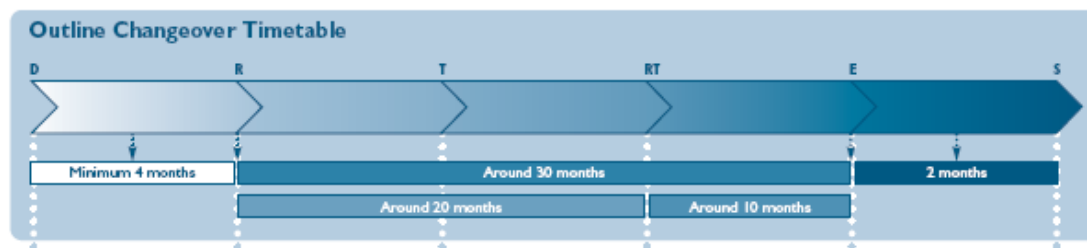
The UK and Euro membership

The current UK Government policy is to join the Euro if Government, Parliament, and the people, in a referendum, all agreed that it would be the right thing to do. Back in 1997 when Labour took office there was considerable debate about when Britain would adopt the single

currency, but until the recent slide in the value of Sterling the issue had taken something of a back seat.

Come the next general election, probably some time in 2010, the main political parties will all set out their plans with regard to the Euro, but any decision on membership still seems several years distant. That is not to say that the current government is not working to ensure that should the decision to join be made we would be ready to do so.

The following chart and text based on official HM Treasury Guidance sets out an indicative timetable from the point at which the Government made a firm decision that it wanted Britain to adopt the Euro.



D – Decision

If the Government decided that it would be in the UK's national economic interest to join the Euro, there would be a vote in Parliament and then a referendum would be called.

R – Referendum

The people would vote on whether the UK should join the Euro, with this being at least four months after Parliament had voted to join.

T – UK joins

The exchange rate between Sterling and the Euro would be fixed. The exact date of joining, and exchange rate would be agreed with European partners. Even though the UK would have joined the Euro at this stage, there would be few changes to everyday transactions for most businesses and citizens. The official, **fixed six significant figure** conversion rate would have to be used when converting Sterling to Euro, or vice versa.

RT – Retail Transition

This would take place around two years after the initial vote in Parliament to adopt the Euro. Banks would start offering full Euro services to customers. From this point, banks would begin converting accounts from Sterling to Euro denominations. Account holders could make and receive payments in either Sterling or Euros. Transactions would be clearly displayed in bank statements.

Businesses and other organisations would need to begin converting internal accounts and systems to Euro, and ready themselves for the introduction of Euro cash on E day.

E - E day

UK Euro notes and coins would be introduced around ten months after Retail Transition. Euro cash would become legal tender in the UK. **The UK Government's preferred date for E day is 6 April in the relevant year.**

Both Sterling and Euro cash could be used for two months after E day. However, the

Government would expect Euro cash to become the main currency after a few weeks, as happened in the Euro area in 2002. Non-cash transactions would be in Euro currency only from E day onwards.

S - Sterling stops

Sterling notes and coins would have been withdrawn from circulation. After this point the Euro would be the only legal tender in the UK. Any remaining Sterling could still be exchanged for Euros in banks. Sterling would not be accepted as payment for goods or services. Sterling cheques dated before E day would be valid for six months from the date of issue.

If Britain joined...

There are multiple issues that could be discussed here, but below we present just a few considerations for businesses and consumers.

In the first instance it will be tourism businesses that would be required to adapt their processes to take account of a change in the currency. There are likely to be additional business costs associated with the transition from one currency to another but good forward planning would help keep these to a minimum.

One of the simplest rules for businesses looking to keep any potential costs to a minimum is to ensure that it assigns responsibility to someone within the company for managing a possible changeover. Putting together a 'changeover plan' would help identify what would need to be done and by when, for example establishing whether existing IT systems would operate successfully once the currency unit had switched to the Euro. Indeed, good planning will mean that the resources needed to accommodate the Euro can be quantified.

The Government advises that organisations that use electronic payment systems should consider when these payments would be converted to Euros. Organisations should also consider when their internal accounting procedures should be changed from Sterling to Euro. Other considerations include the potential impact on their supply chain. When would suppliers invoice in Euro and when would customers accept invoices in Euro?

Tourism businesses that handle cash should think about when Euro cash would become available, and how they would obtain and store Euro cash. Additionally businesses would need to think about how they would show prices in both Sterling and Euro during the dual display period.

This issue takes us to what is euphemistically called 'Euro friendly prices', or in other words the possibility that the price charged for goods and services will be 'rounded up' following conversion. Should Britain eventually adopt the Euro there is little doubt that the media will scrutinise businesses across all sectors of the economy to establish whether the 'real' cost to consumers is being altered. The official Government advice on displaying 'dual prices', that is making sure the customer can tell how much the purchase costs in terms of both Sterling and Euros, is that this should start at least four months before 'E day' and continue until 'S day'.

For tourists the biggest immediate change would centre on price transparency. Whereas until such time as Britain adopts the Euro Britons considering a visit to a Eurozone nation and Eurozone citizens considering the UK as a destination have to factor in the exchange rate when attempting to estimate how much a holiday will cost, once the Euro is adopted this will

cease to be an issue. So, someone in Ljubljana or Lisbon will be able to make direct cost comparisons with 'home' when visiting Liverpool or London. Equally true is the fact that Britons will be in a position to directly compare how much they are being asked to pay for accommodation or entrance to a tourist attraction here in Britain as is the case in, for example, Italy or Greece.

Not only does this mean that tourists will be able to make direct comparisons between the cost of holidaying in Britain versus well over a dozen other European destinations, but it also indicates that an absolutely crucial issue for whether adopting the Euro would be 'good' or 'bad' for inbound or outbound tourism is the exchange rate at which Sterling will convert to Euros. This rate will be agreed between the UK government and European partners to 'six significant figures'. Clearly if Britain had adopted the Euro in the middle of 2007 when £1 bought €1.48 the tourism outcomes would be significantly different from those that would follow from adopting the Euro at the current market rate (as at mid January) of €1.10.

Value for money

Results from VisitBritain sponsored questions included in the Anholt GfK Nations Brand Index Survey in 2008 confirm that Britain is perceived weakly in terms of its 'value for money' offer. Respondents were asked to state how far they agreed with the statement 'Britain offers good value for money as a holiday destination' on a scale of 1 to 7 where 1 = 'Totally Disagree' and 7 = 'Totally Agree'; respondents in France gave a rating of 3.8, those in Germany 3.6 and Italy 3.5 suggesting that 'value' is very much a concern for Eurozone citizens when considering Britain for a holiday.

The survey was undertaken in summer 2008 when £1 cost €1.26, so it will be interesting to see whether this perception has shifted if by the 2009 survey the exchange rate remains at around €1.10 to £1.

Britain adopting the Euro as its currency remains a fairly distant prospect but cannot be ruled out in the longer term. Any such development would have an impact on tourism businesses and tourists. Whether or not adopting the Euro would be a positive or negative influence on inbound tourism and Britain's overall international tourism 'balance of payments' will depend, in the first couple of years at least, on the 'conversion rate' that is chosen. In the meantime, those businesses that ready themselves for potential adoption of the Euro will be those best able to minimise changeover costs.

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