

FORESIGHT

Issue 67 May 2009



FORESIGHT is a monthly commentary on significant issues within the tourism sector. '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' studies the holiday attitudes of Europeans and 'Issue of the Month' considers the latest global and UK economic outlook.

Market Focus – Holiday intentions of Europeans

There has been much debate about how consumers will respond to the current economic downturn, and here we focus on investigating the findings of a European Commission survey covering roughly 1,000 consumers in each of the 27 European Union member states.

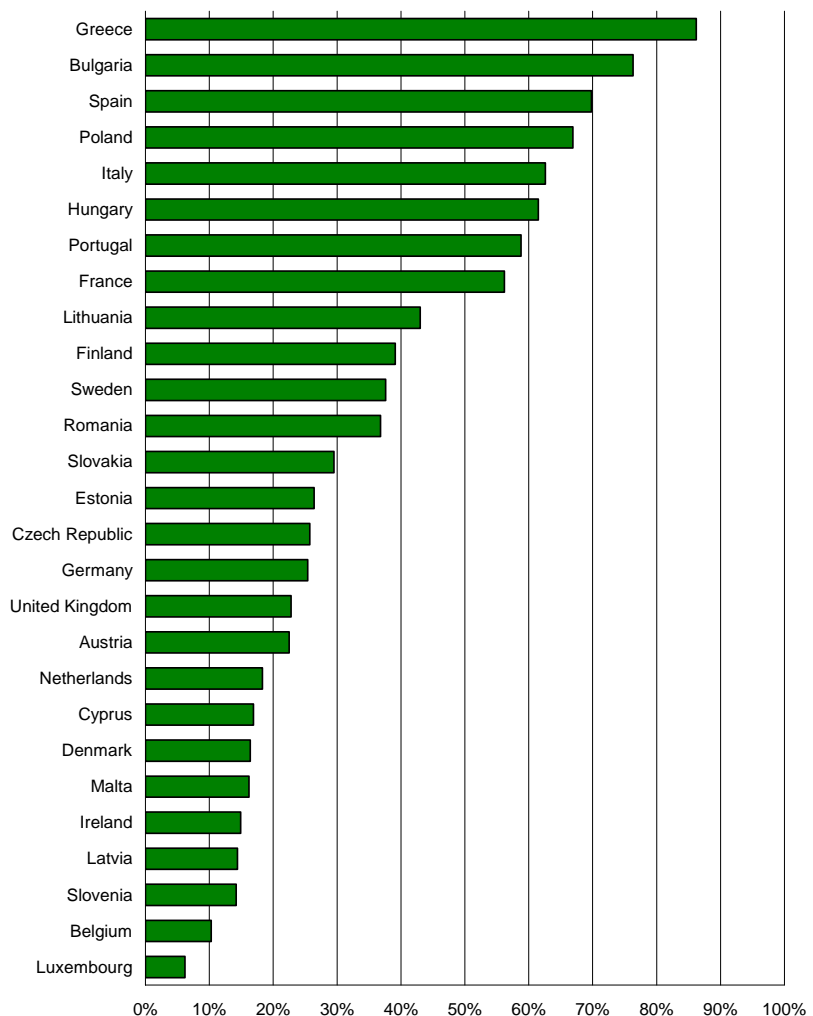
Habits in 2008

It is the intention of the European Commission to conduct this study on an annual basis, and this will certainly deliver insights into how the holiday habits and attitudes of Europeans are evolving over time.

We can however use the inaugural survey to take a look at what happened in 2008 versus expressed intentions for 2009.

Over a quarter, 27%, took no holiday or short private trip in 2008, but for those taking a holiday (4 or more nights away from home) the chart shows the percentage for whom the main holiday destination was their resident country. The average was 42.9% but ranging from 6% of Luxembourgers to 86% of Greeks. For Brits taking a holiday the UK was the destination of one-in-five 'main holiday' trips.

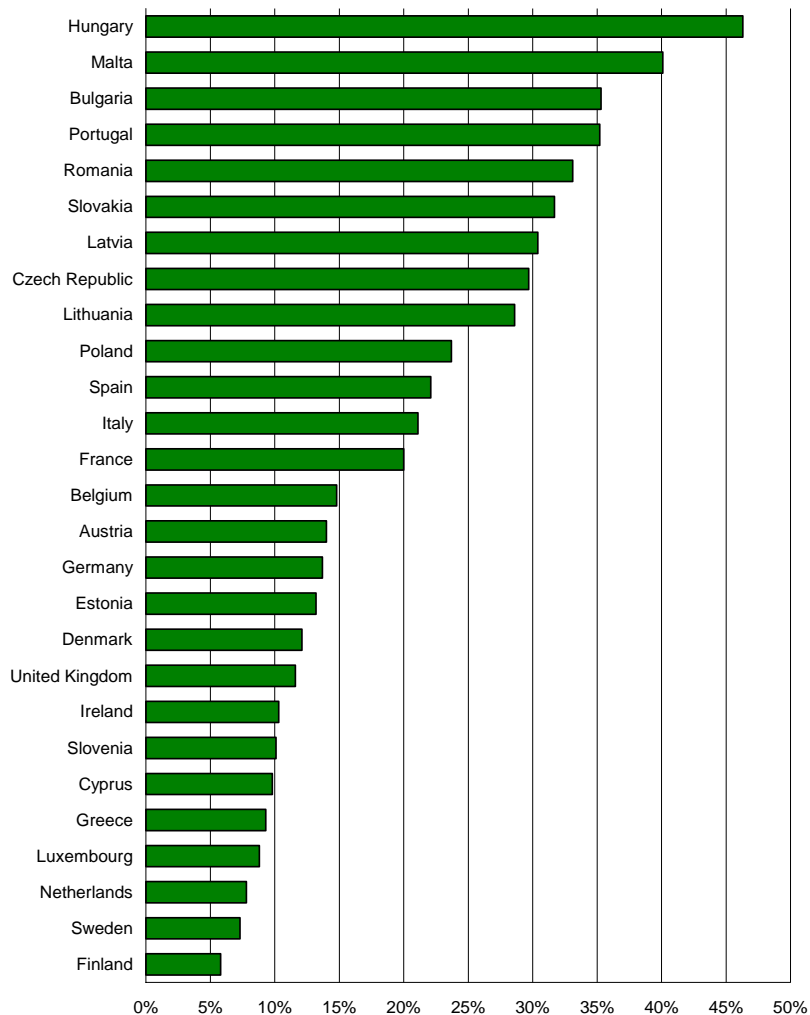
Destination for main 2008 holiday was country in which resident



Shifting the focus to the current year the survey asked about intentions for holiday trips during 2009, and although there is no guarantee that the intentions people express will be borne out in terms of action the chart highlights that not all in the EU are planning to take a holiday during this year.

There is certainly a loose inverse correlation between the intention not to take a holiday and income, or in other words those nations in the EU where disposable income per head is high are those where only a tiny minority stated their intention not to take any holidays in 2009 and vice-versa.

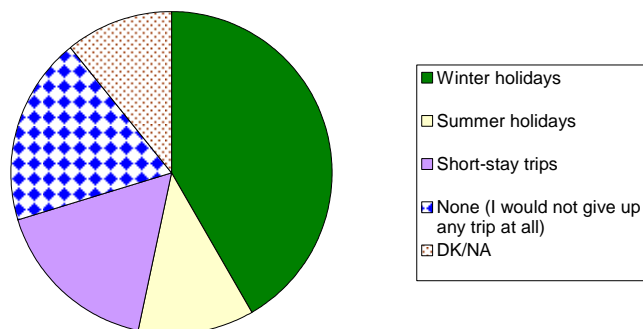
Proportion not planning to take a holiday in 2009



Forfeit

A number of questions were designed to provide an understanding of which types of holiday was most likely to be given up should the need arise. Taking respondents from all countries together the chart shows that 'winter holidays' got the most mentions whereas only one-in-eight would give up their summer holiday, and one-fifth said they were not prepared to give up any trips at all.

Type of holiday most willing to give up



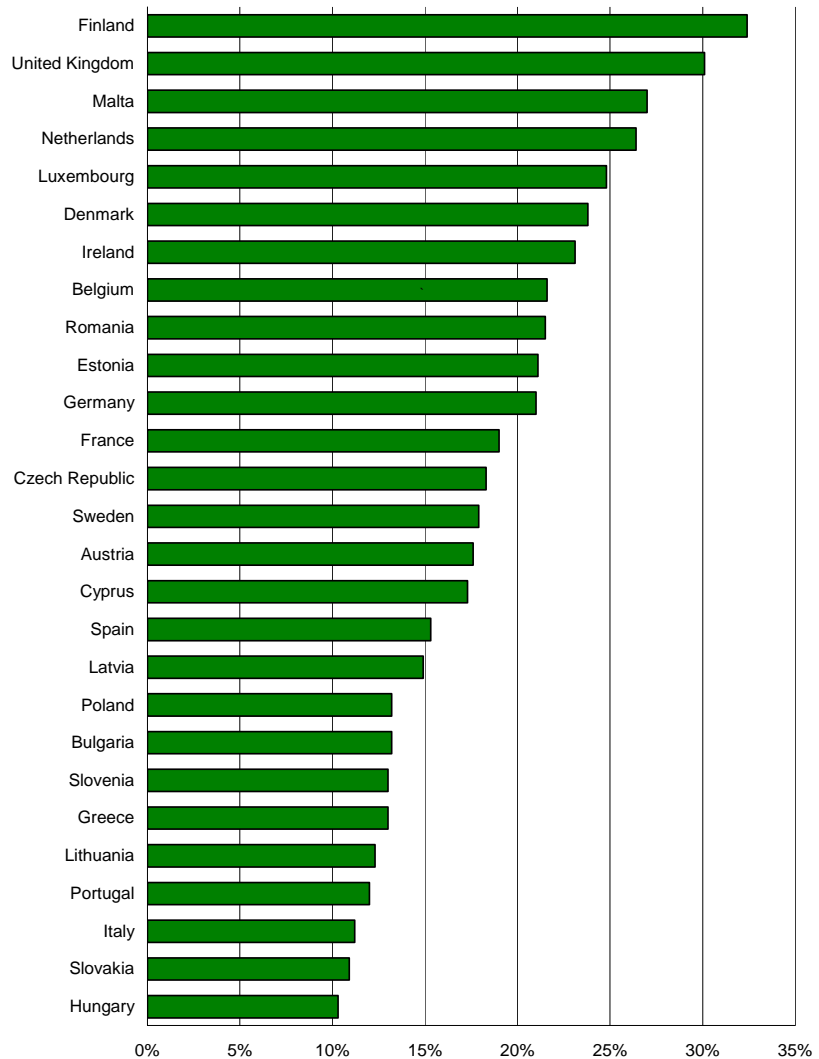
Continuing on this theme the chart shows the proportion, by individual country, who stated that they were unwilling to make any savings on their holiday budget.

We can see that 30% of UK respondents fell into this category, with only the Finish being less willing to say they would be prepared to forfeit some of their holiday budget.

The least resistant to the idea of making savings on their holiday budget tended to be southern and eastern Europeans, doubtless connected to prevailing income levels.

It will be fascinating to look at the results of the 2010 survey to see what proportion within each country opted to, or were forced to make savings in 2009.

Proportion unwilling to make any savings on their holiday budget



It is worth taking note of some of the findings that emerged from recent research conducted by VisitEngland and Visit London into the impact of the economic downturn at this point. Full details can be found through www.visitbritain.com/research, but in relation to making savings on holiday budgets the findings were clear; respondents had no appetite for making savings on the quality of the experience at their destination, but were very amenable to making savings on travel and accommodation, and to some extent food and drink at the destination.

Searching out 'special offers' or last minute deals was behaviour that was being adopted in order to ensure that financial savings could be made, but the bigger picture is that Britons would much rather make savings on small routine purchases than on their holiday budget.

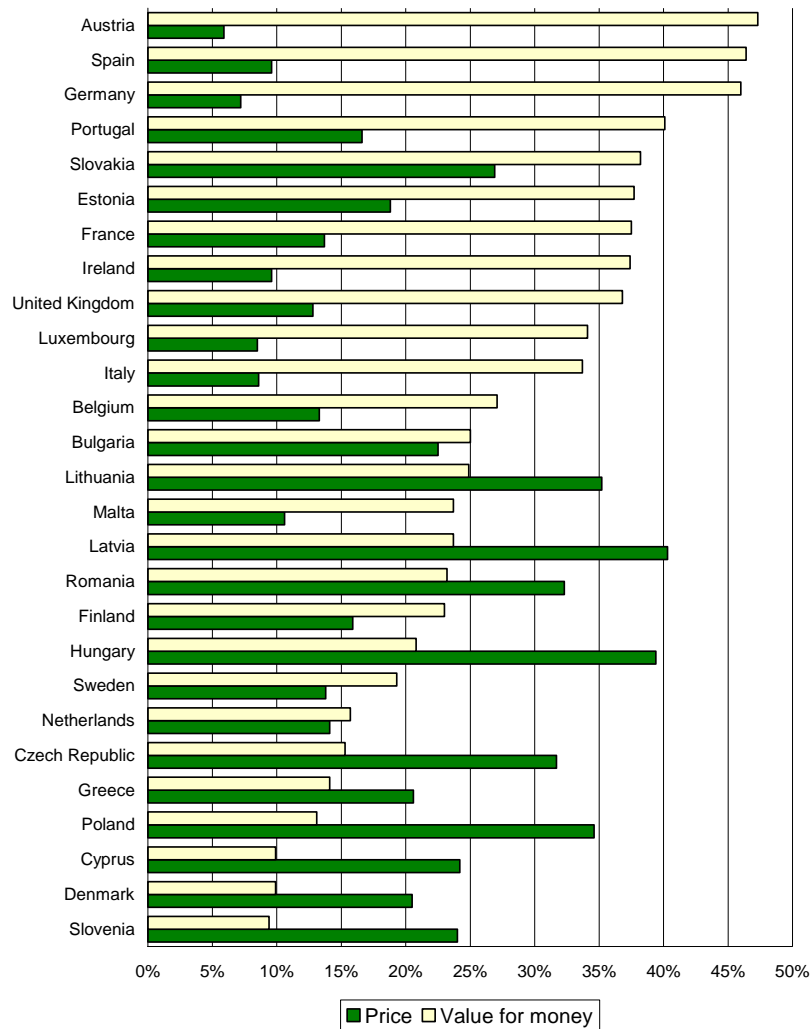
The EC survey can help us understand the priority placed on 'value' versus that of 'price'.

Respondents were asked: 'When you are deciding on a holiday trip, which of the following considerations are the most important in your decision making'.

The chart shows the results for two of the possible answers, 'price' and 'value for money'. In the majority of countries 'value' far outstripped 'price', including in the UK where this was by a factor of three to one.

In 11 of 27 countries more than a third of respondents said 'value for money' was the most important consideration.

The importance of price versus value for money

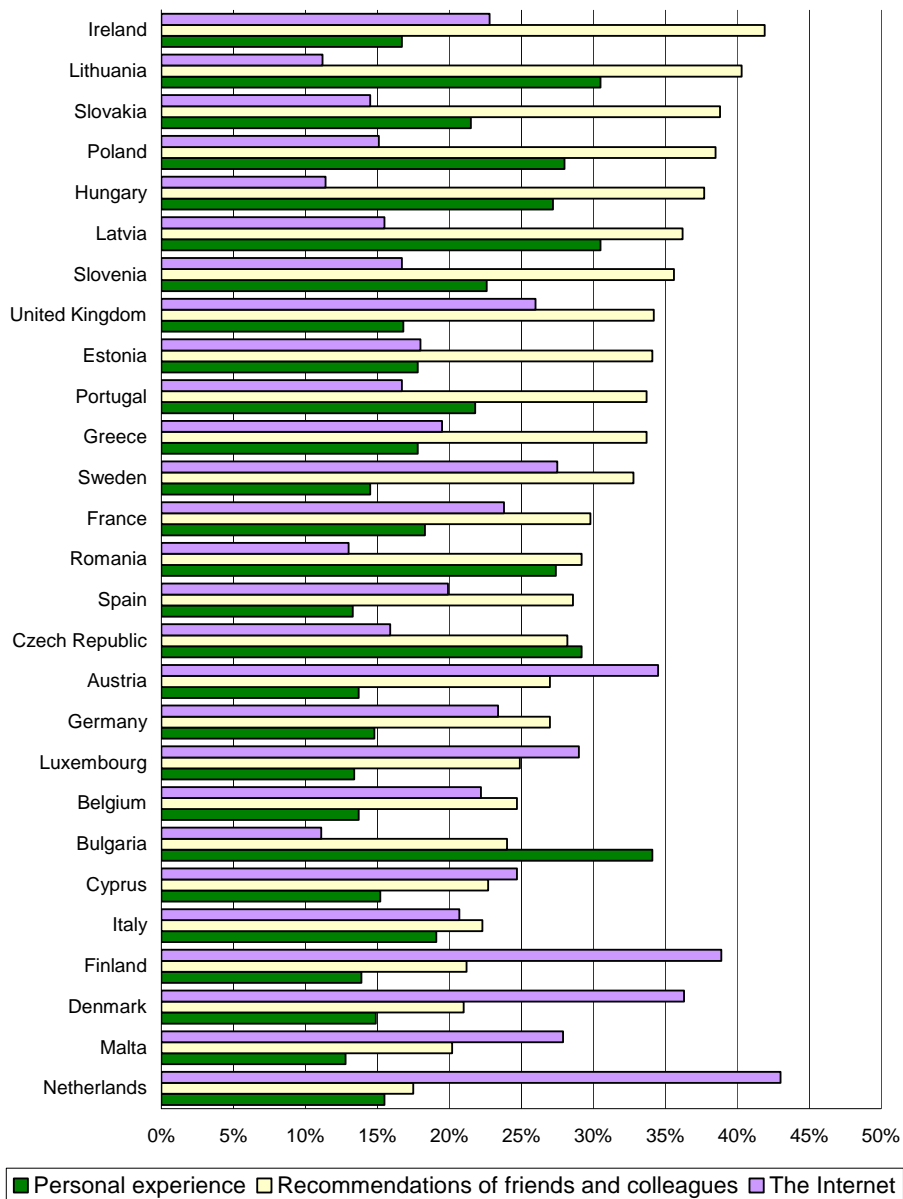


It is possible to use the survey to explore a wide range of other characteristics including what type of destination residents of each country tend to prefer and the type of information sources considered to be the most important when planning a trip.

The chart overleaf showcases selected results from the question covering information sources, and the message ties in neatly with findings from other research, namely that 'advocacy' is of enormous importance.

In two-thirds of countries recommendations of friends and relatives is more important than anything read on the Internet, with Netherlands and some of the Nordic countries being the only ones where the Internet was seen as markedly more important than what friends or relatives might have to say. Personal experience was slightly more important in developing parts of the EU than elsewhere.

Most important information source



Methodology and more information

Fieldwork was conducted over five days in mid February across all 27 EU Member States, with between 500 and 2,000 respondents (depending on size of country) aged 15 and over. Telephone interviews were conducted, though with some face-to-face interviews in countries with low fixed-line telephone coverage.

Hopefully this analysis has raised as many questions as it has answered, so to read the full 128 page report "Survey on the attitudes of Europeans towards tourism" visit the European Commission website: http://ec.europa.eu/enterprise/tourism/index_en.htm. VisitBritain will incorporate key results from individual countries into future editions of our Market and Trade Profiles.

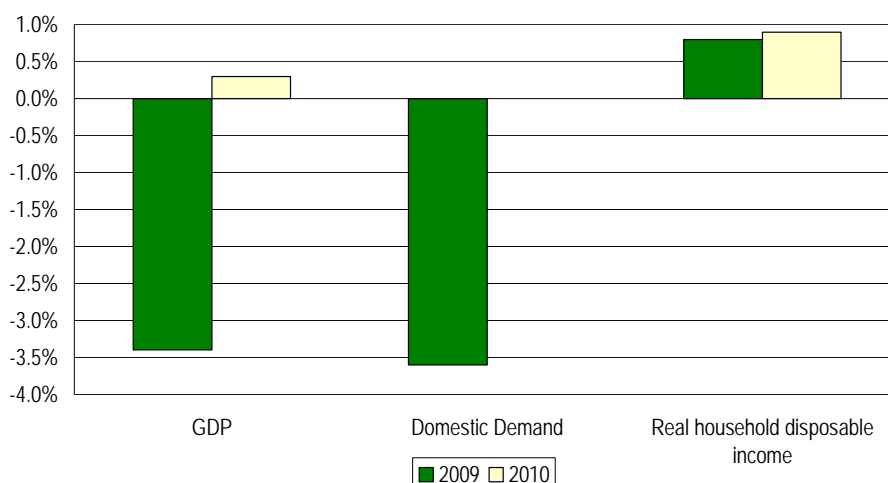
Issue of the Month – UK and global economic outlook

It is still less than two years since the phrase 'credit crunch' became common parlance among media economics correspondents, and only nine months since the 'crunch' morphed into a global financial crisis that has led to an unprecedented contraction in 'real' economic activity within virtually every country worldwide.

The home front

Each month HM Treasury compiles a compendium of economic forecasts covering measures such as Gross Domestic Product (GDP), unemployment and inflation. The 'average' forecast can be tracked from one month to the next to establish whether sentiment is becoming more optimistic or more pessimistic and in recent months the mood has shown no signs of improving.

Forecasts for the UK economy



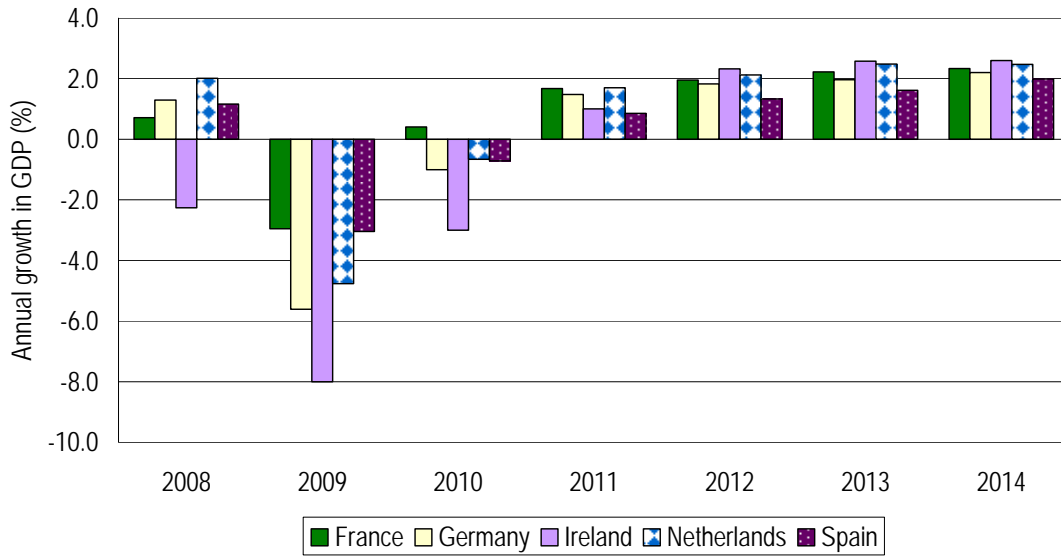
Taking the arithmetic average of all 'independent forecasts' presented by the Treasury's monthly round-up we can see from the above chart that the British economy is set to contract by 3.5% this year with barely any growth during 2010. When it comes to domestic demand (so excluding exports) we can see that no growth whatsoever is forecast in 2010. In the long run it is said that households get better off in real terms by about a couple of percent per annum, but we can see that the average forecast is that real household disposable income will grow at less than half this rate over the coming two years.

Global story

The World Bank, the OECD and IMF are all now saying that the world economy will shrink in 2009, with trade between countries contracting at its fastest rate since the 1930s. While we often think about the economic cycle and what it might mean for leisure tourism, the implications of the current global economic crisis has been felt most acutely in the business tourism sector, with for instance, airlines and Eurostar both reporting a 20% drop in year-on-year premium class travel.

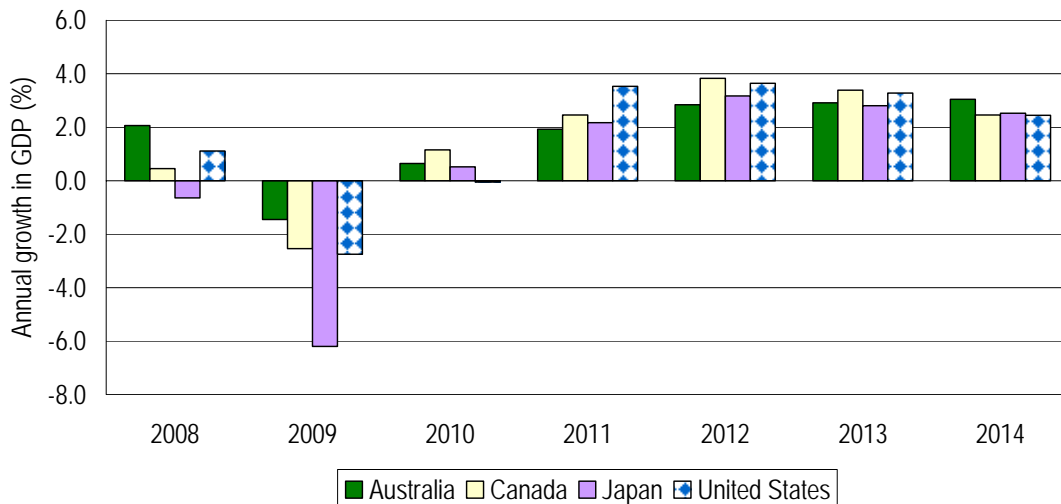
Twice a year the International Monetary Fund publishes its World Economic Outlook, providing an insight into what we can expect in the next few years for a host of economic indicators in just about every country worldwide. The following series of charts highlights a few of the projections for different regions of the world.

Major Eurozone markets economic growth



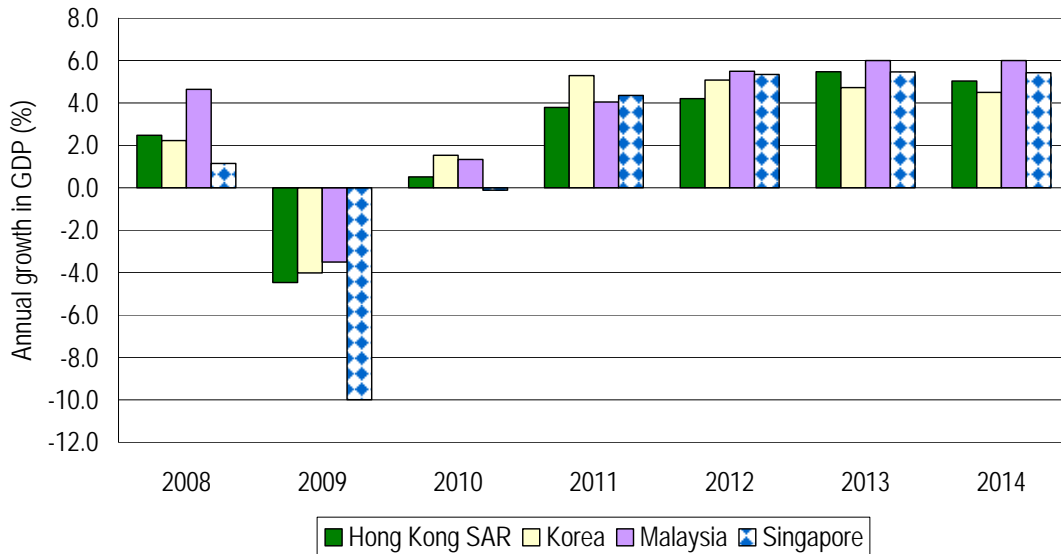
The depth and longevity of the forecast economic malaise in Ireland is clear from the chart, and although at first glance the IMF outlook for Germany might look surprisingly downbeat this is very much in line with the latest prognosis coming from the German government.

Major developed long-haul inbound markets economic growth



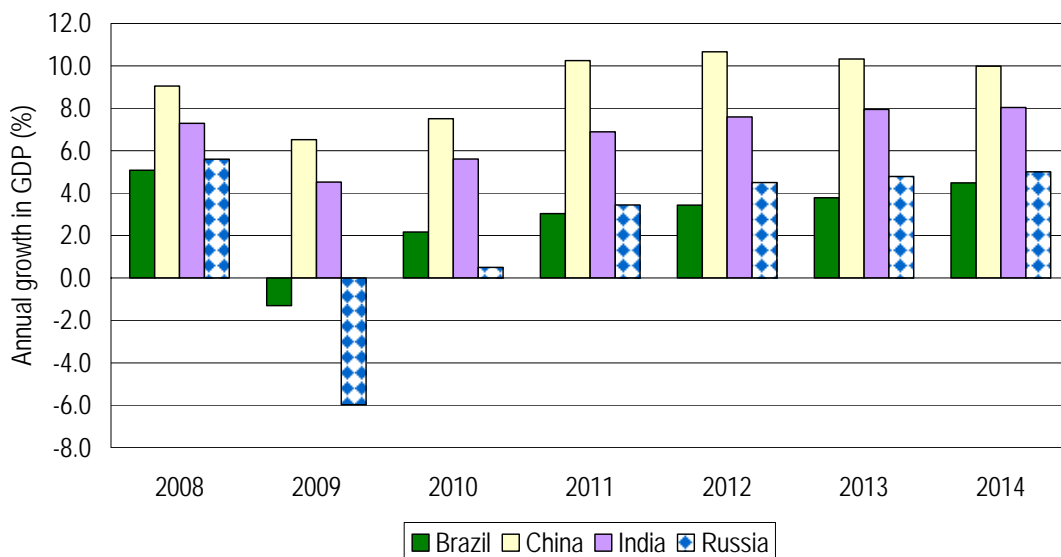
It has been a long while since the Japanese economy was problem free, and as is evident from the chart 2009 and 2010 look set to be exceedingly tough years. Despite the Obama stimulus plan the IMF are forecasting that the US economy will not see any year-on-year growth until 2011, but growth of around 4% is then forecast in both 2011 and 2012.

Long-haul Asia markets economic growth



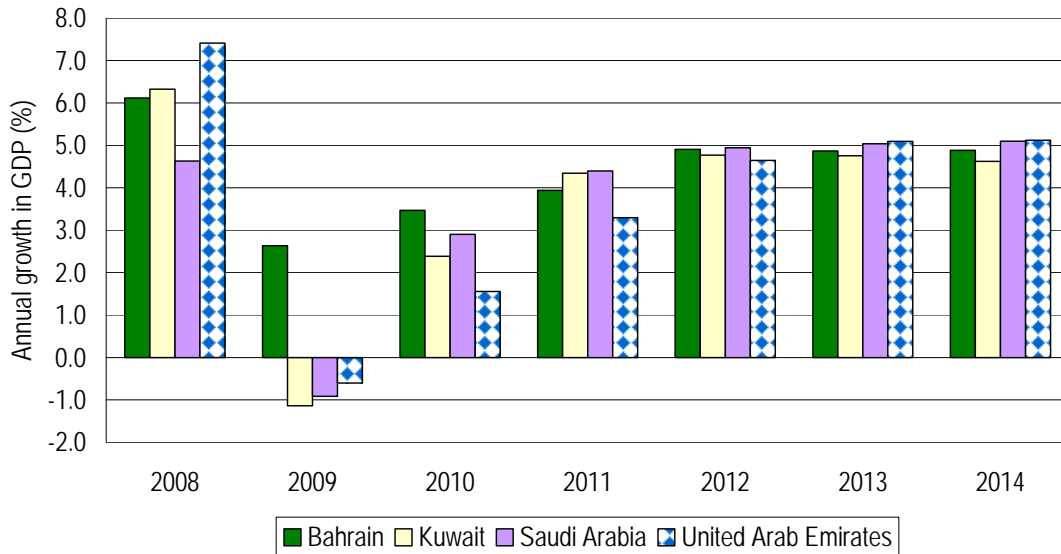
Official figures for the first quarter of 2009 certainly support the message emerging from the above chart; Singapore's economy is going to witness a dramatic contraction during the current year. Malaysia is forecast to see a less severe downturn than many other countries in this region of the world.

BRIC economic growth



In statistical terms at least we can see that it is the 'B' and 'R' rather than the 'IC' that will enter recession in 2009, with this being severe in Russia, where the economy is expected to shrink by some 6%. Growth of 6% in China and 4% in India may be the envy of many countries in the West, but by the standards of the past decade this represents a dramatic slowdown, and some analysts reckon that if China's growth underperforms the current projection social tensions will mount.

Middle East markets economic growth



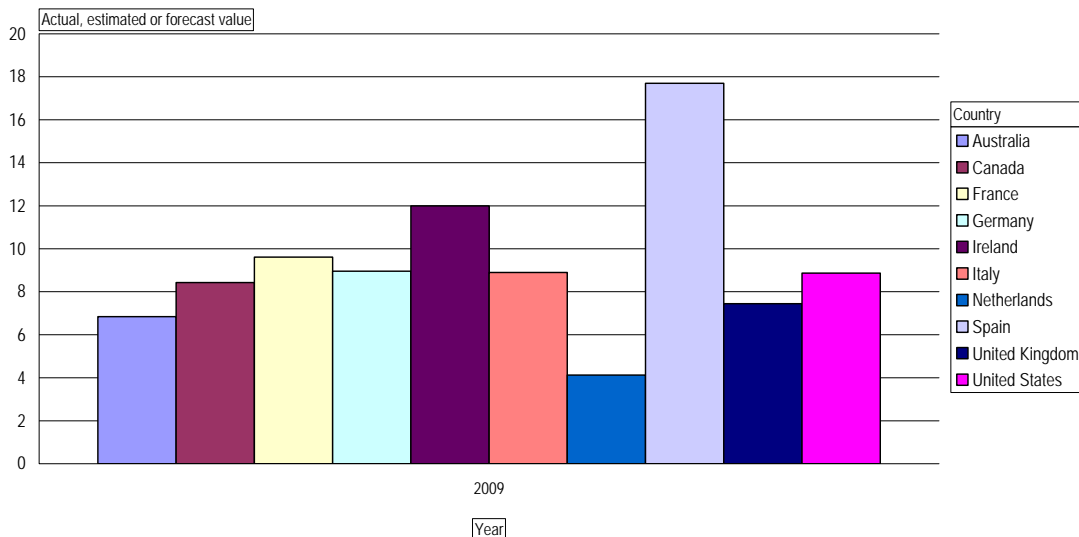
Thanks to high oil prices for much of the year 2008 was a year of very strong growth in the Middle East, and we can see that although economic contraction is forecast for many in this part of the world in 2009 the current forecast is for 2010 to deliver a healthy bounce-back with the exception of in the United Arab Emirates. There has been a significant decline in property prices in Dubai, the best known of the Emirates, and this feeds through to a weakening in the construction sector which has been one of the main locomotives of growth in recent times.

Jobs

The following chart presents the outlook for unemployment in the UK and some of our most valuable inbound markets for 2009. We can see that the Netherlands is set to enjoy the lowest rate of unemployment, whereas in Ireland it is set to reach one-in-eight of the labour force and in Spain nearly one-in-five.

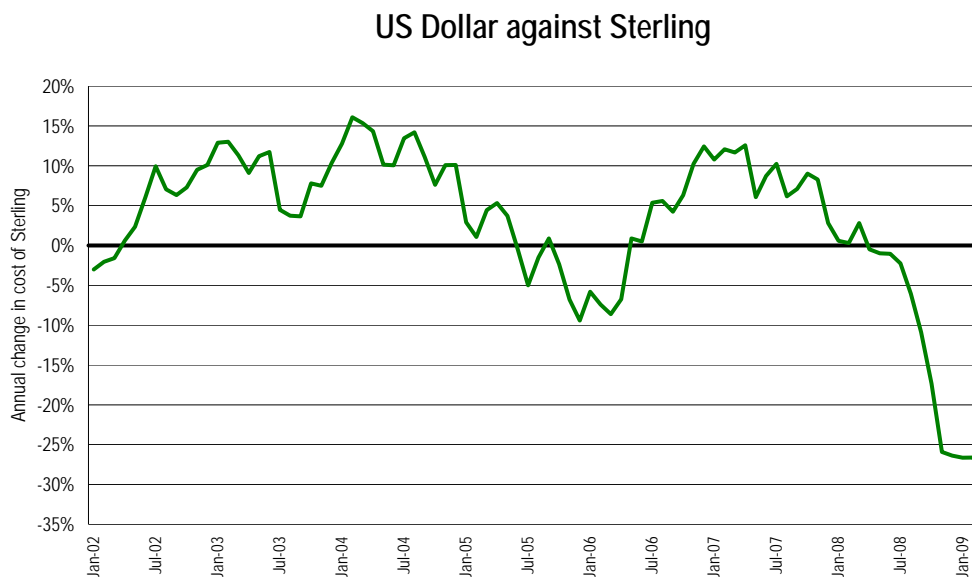
Measure | Unemployment rate, %

Data from IMF World Economic Outlook, April 2009



Exchange rates

Research carried out by VisitEngland and Visit London has demonstrated clearly that few people overseas know what the exchange rate between their own country and the pound sterling is, and many of those who think they know it believe sterling to cost more than it currently does.



The fall in the cost of visiting Britain for Americans in the past year is clear from the above chart, but what is also clear is that exchange rates fluctuate, so the opportunity must be grasped while it exists.

The upturn

The million-dollar question is of course when skies will brighten, and pundits are it seems almost as much in the dark as the population at large, though with a growing consensus that we will have to wait until 2010 before there is anything worth truly celebrating in the economic data.

In the UK the Chancellor recently forecast that GDP would be growing before the end of 2009, but the Centre for Economic and Business Research reckon this will be no more than a 'dead cat bounce'; inventories have been run down over the past nine months and we may well see output increase at the end of 2009 in order for restocking to take place rather than as a result of increased demand. For the UK to see a true recovery the housing market will have to stabilise, consumers will need to feel much more confident than they do now and the financial sector's woes will need to be overcome.

We have seen unprecedented loosening of monetary policy in the past nine months with base rates tumbling, and it is often said that it takes a good 18 months for a change in interest rates to have its full impact on the 'real economy', which is why spring 2010 looks like the point at which a corner may truly have been turned. One final note of caution however, although it is deflation that is being spoken of as a worry in the coming few months, by late 2010 and into 2011 there is a significant risk that as the recovery gains momentum inflation will again become a problem needing to be tackled.

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