

FORESIGHT is a monthly commentary on significant issues within the inbound tourism sector. 'Market Focus' discusses economic, social and political factors that underlie demand for tourism now and in the future. In line with tradition the December edition presents the VisitBritain forecast for the volume and value of inbound tourism in the year ahead and discusses the many influences that will help shape tourism in 2010.

Global tourism - a look back at the past year

The shockwaves from the collapse of Lehman Brothers had infiltrated nearly every corner of the world's financial markets by this time last year and it was already apparent that the 'real' economy was by no means immune. During 2009 millions of people have lost their job and consumer confidence hit rock-bottom, but as the year closes there is scope for hoping that 2010 will bring better, if not spectacular, economic news.

Tourism to most destinations around the world has taken a pounding as business travel is curtailed and leisure travellers seek out the most affordable holiday options, often plumping for a 'close to home' destination rather than committing to a long-haul trip.

Airlines welcomed the fact that oil fell from a peak of nearly \$150 a barrel in mid 2008 to less than \$40 early in 2009, but weak global demand for air travel and the price of oil rebounding to \$80 a barrel has ensured one of the worst years in history for global aviation, with IATA estimating that losses are running at \$1bn a month. More upheaval and airline restructuring is guaranteed in 2010 as was signalled by bmi's decision to axe five routes to Heathrow early in the new year resulting in 600 redundancies.

There are always unexpected events that impact on tourism flows to and from different parts of the world and 2009 was no exception. The development that presented the greatest risk to the sector over the past twelve months was the emergence of the H1N1 'swine flu' virus. The immediate fallout was felt by Mexico's tourism businesses, but despite the rapid geographic spread of the virus around the globe for the overwhelming majority catching the virus symptoms have been mild and the risk of serious complications slight. Add to this the fact that a vaccine is now available in a number of countries and we start to see why many of the 'pandemic' worries that confronted global tourism in the spring have dissipated.

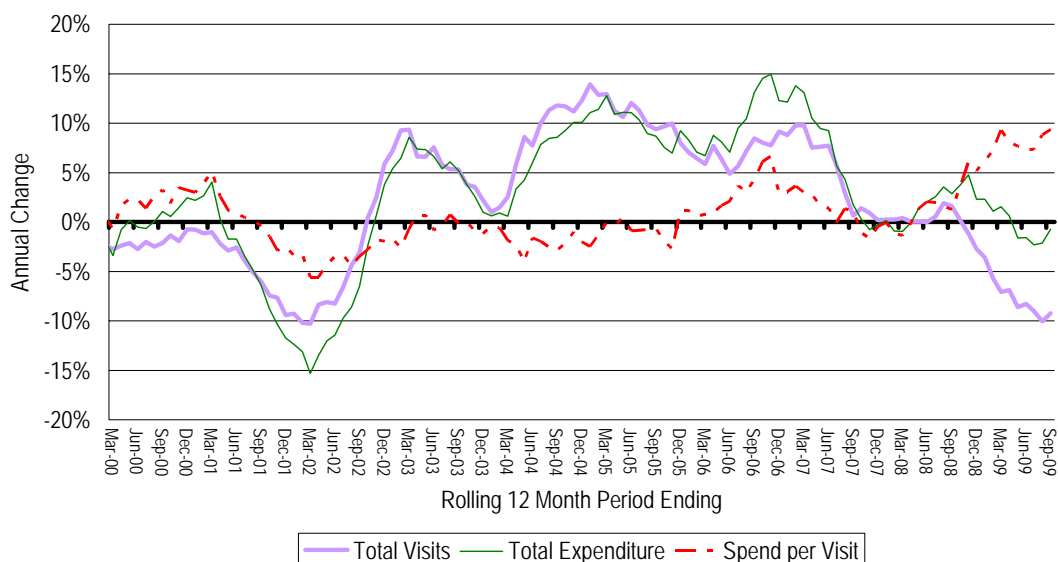
Inbound to the UK in 2010 - forecast summary

VisitBritain forecast that the volume of inbound tourism to the UK in 2010 will be 30.4 million, with inbound visitors spending of £17.1bn. These forecasts, which will be reviewed in May 2010, suggest that volume will increase by 0.8% on 2009 with value forecast to increase by 3.8% (before inflation).

The updated forecast for full-year 2009 is for a fall of 5% in visitor numbers, with visitor spend expected to increase 1% in nominal terms.

The following chart highlights recent trends in the volume and value of inbound tourism based on a 'smoothed' rolling twelve month basis. The chart reveals the trend for spending to outperform volume, and hints at the 'turning point' that VisitBritain forecast to have been reached in autumn 2009.

Trends in inbound tourism



Detail

The following table summarises the revised 2009 forecasts, new 2010 forecasts along with forecast ranges.

	2008 actuals		2009 forecast			2010 forecast		
	(m/£bn)	growth	(m/£bn)	growth	forecast range	(m/£bn)	growth	forecast range
Volume	31.89	-2.7%	30.21	-5.3%	-10.4% to -3.5%	30.44	0.8%	-3.2% to +4.8%
Value (nominal)	16.33	2.3%	16.48	0.9%	-2.7% to 3.8%	17.11	3.8%	-0.2% to 7.8%

- If accurate, these forecasts suggest that neither 2009 or 2010 will see record numbers of inbound visitors or (in real terms) visitor spend
- The biggest risks in 2010 relate to whether the tentative signs of global economic recovery are a genuine indicator of what is to come or a false dawn, and whether H1N1 develops into a more serious global pandemic than current epidemiological evidence would indicate
- On the positive side prolonged weakness in the value of sterling could result in a stronger performance, particularly in visitor spend, than the central projection would indicate

These forecasts are dependent on normal circumstances prevailing and do not factor in unexpected shocks caused by terrorism, health scares and other crises.

Methodology

These forecasts were made based on provisional monthly IPS data up to August 2009. Monthly IPS data from 1978 to 2008 was analysed to understand the percentage of full-year visits and spend that has accrued by each month of the year. These figures show that, on average, by August 69% of visits and 66% of spend has accrued. Looking at the "minimum and maximum" amount of visits and spend to have accrued by August shows ranges of 66%-

71% and 65%-69% respectively (2001 is excluded as an outlier).

At the time of making the forecasts four more months of data were due to be published, and the data for September published after the forecasts were made indicate that we are on-track to meet the 2009 projection. The forecast full-year figure adopted for visitor spend is the 'most likely' outcome while for visitor arrivals the mid point between the 'best case' and 'most likely' has been adopted due to the atypical distribution of arrivals during 2008 (with an excessively weak final four months).

Based on IPS data the average annual growth rate for the period 1994-2008 specific to visits and spend has been used to produce forecasts for 2010. The growth rates have been weighted, with the weight applied to 'year t' being twice that applied to 'year t-1' and so on.

Context

Globally the United Nations World Tourism Organisation reports that in the period January to July international tourism declined by 7%. In the first nine months of 2009 the volume of inbound visits to the UK was down 8% on the same period of 2008 with inbound spend unchanged.

Only a handful of markets have delivered growth in 2009, including Malaysia, Mexico and United Arab Emirates. Markets seeing some of the steepest declines include Canada, USA, China, South Korea and EU Accession markets. Perhaps the most notable trend in 2009 has been for holiday visits to grow from the majority of markets while visits for business purposes witness steep falls. Indeed, during the first nine months of the year holiday visits overall were up 3% while business visits down 23%.

As always statistically based forecasts are just that, an extrapolation of historical trends, rather than a full reflection of what is likely to shape near-term prospects. Below are set out some of the many influences that are likely to shape inbound volume and value during 2010.

Economics²

Many of those economies that had been in recession are now emerging to a period of renewed growth for example Germany, France, Japan and Singapore. Others that never entered recession such as Australia, China and India are also enjoying a pick up in activity; indeed Australia recently became the first G20 economy to increase base rates. All this does not mean that the economic landscape is now benign, with recent events in Dubai providing a reminder that uncertainties have not entirely abated.

Over the past year unprecedented amounts of government and central bank funding has been injected into the global economy. With burgeoning public sector debt there is little chance of a repeat prescription being issued for the global economy in 2010 meaning that recovery will only become well established if businesses and consumers start investing, manufacturing, risk-taking, borrowing and of course shopping. This is not guaranteed as lenders are still risk averse and consumers remain nervous, not least because unemployment is continuing to rise in most parts of the world. Rather than being on the brink of recovery it remains a possibility that the current economic downturn will be a 'W' shaped recession.

The price of oil has fluctuated between \$70 and \$80 a barrel during recent months and forecasters including Oxford Economics anticipate a further increase in 2010. This is likely due to simple demand and supply. Demand, particularly from India and China will ramp up as global economic activity improves whereas no significant increase in supply is on the cards.

A crucial factor in determining how successful a year 2010 will be for inbound tourism to Britain is the exchange rate. Visitors from most countries have been able to spend more in sterling terms without it having cost them more in their local currency during 2009, and although it is a slow process the message is spreading across markets such as France and Germany.

Forecasting exchange rates is fraught with difficulty, but at present the evidence would tend to indicate that economic recovery in the UK will lag that in the rest of the world and that Britain will be one of the most debt-laden economies. This all means that interest rates may stay low for a while yet and as a result that currency speculators are unlikely to be rushing to purchase sterling. So, there is now a good chance that Britain will be able to offer a strong value for money message for much of 2010.

This is perhaps truer for the Eurozone than for visitors whose home currency is the US\$ (or currency pegged to the dollar). The US also has an enormous public sector debt and if the price of oil does increase in the coming year the dollar can be expected to depreciate (with oil traded in dollars). If after the UK General Election in May or June next year an incoming government makes bold decisions in terms of cutting UK debt we could see a strengthening in the value of sterling.

Access

Terminal 5 at Heathrow is now delivering, with British Airways able to point to the best punctuality performance for more than 15 years in recent months. This is not solely down to the new infrastructure; it is partly due to a fall in demand for air travel resulting in a 3.1% year-on-year decline in aircraft movements at the airport during the first ten months of 2009 and hence reduced congestion.

Airlines remain under huge pressure, with demand having stabilised but showing little sign of a rapid recovery and premium demand substantially lower than a year or two ago. Japan Airlines has asked for a government bail out, British Airways has announced the equivalent of 1,700 redundancies and Aer Lingus is entering yet another period of restructuring. It is probable that some airlines bringing inbound visitors to Britain will struggle to survive in the coming year.

A further consideration is whether or not travel to, from and within Britain will be disrupted by industrial action during 2010, either by airline employees or public sector transport workers as pay negotiations prove fractious.

Orders for new aircraft have been thin on the ground in recent months, but nonetheless it is likely that increasing numbers of visitors to Britain will arrive on brand new Airbus A380s during 2010 and it is just about possible that a Boeing 787 will make its first commercial flight.

One of the most serious challenges to Britain's accessibility relates to the relative affordability of getting to, or more strictly from, Britain by air. Air Passenger Duty increased in November 2009 and will do so again, less any political change of mind, in November 2010. A four-tier

distance banding has been introduced with two rate levels for each tier depending on class of travel.

The cheapest Air Passenger Duty will be for those travelling to destinations such as Spain in economy class (£12 from November 2010 up from £10 prior to November 2009) while those in premium cabins (including 'Premium Economy') will see sharper increases, especially those returning to long-haul origin markets such as Australia, Argentina and Malaysia (£170 up from £80).

There are already significant indications of how visa requirements can impact on travel to Britain. Visas have been needed to travel to Britain from South Africa since April and in the three months to June visits declined by 17% on an annual basis, compared with a 6% decline across all markets). By contrast the requirement for a visa to visit Britain from Taiwan was lifted in April and from this market the number of visits in the three months to June was 35% up.

Geopolitics

The Obama administration has certainly resulted in an improvement in relations between the West and Russia, but there remain a number of 'flashpoints' around the world including the situation in Afghanistan and neighbouring Pakistan. The political situation in Thailand is now calmer than a year ago when travel to Britain from and via the country was disrupted by protests at Bangkok Airport.

Although out of the headlines the Middle East still faces challenges but perhaps the 'slow burning' geopolitical issue that could result in disruption to global travel over the coming year is Iran. The risk of conflict remains distinctly remote but increased tension may well lead to upward pressure on oil prices.

H1N1 'swine 'flu'

There has been plenty of 'good news' over H1N1 in recent weeks, with the arrival of a vaccine in time for the 'second wave' of the pandemic and courtesy of the fact that the overwhelming majority of those catching the virus have relatively mild symptoms. The risk that the virus will have a negative impact on international travel over the coming twelve months has, however, not completely vanished. There may well be a third wave and a low risk possibility exists that the virus will mutate with more serious health risks and/or infection rate. The fact still remains that this is a global issue and there is no reason to suppose that any single destination will be harder hit than others, unlike the case in 2003 when the SARS outbreak was limited to Hong Kong and parts of Canada.

2010 events

In addition to the regular events (Wimbledon, Edinburgh Festival etc) there are a handful of 'one-off' events worth noting for 2010. London will become the official next host of the Olympic and Paralympic Games early in 2010 after the Winter Games in Vancouver and Whistler. In October the Ryder Cup will take place in south-east Wales. Meanwhile the world's football fraternity will be focussed on South Africa for just over a month in the middle of 2010.

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 2009. Source: ONS

² The economic scenarios described in this section are not those of the Department for Culture, Media and Sport or HM Treasury

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