

## VISITBRITAIN FORECASTS FOR INBOUND TOURISM 2010

MID-YEAR UPDATE – May 2010



### Summary

Each year VisitBritain publishes its main forecast for inbound tourism in November. A mid-year update of this forecast takes account of revised Office for National Statistics figures for the preceding year and indicates whether early figures for the current year suggest our forecast is on-track.

Our 2009 forecasts proved to be in-line with provisional full year estimates from the International Passenger Survey in terms of receipts, but overestimated the volume of visits slightly.

VisitBritain continues to expect 2010 to see receipts outperform volume as a weak sterling encourages growth in average spend per visit, but early indications are that this differential may be smaller than at first anticipated. Based on provisional IPS data for the first three months of the year and the extent of disruption resulting from the Icelandic ash cloud it is clear that the risks currently weigh on the downside for our forecast published last November.

It is therefore prudent to amend the forecast in light of emerging evidence and we now anticipate a **decline in the number** of inbound visitors coming to the UK, but with a potential **small increase** in the **value** of inbound visitor spending.

Based on data for the first three months of 2010 from the International Passenger Survey and analysis of airline data for April **our revised forecast is that full-year 2010 visitor numbers will decline by 0.7%. Spending is now forecast to increase by 1.3% in nominal terms.**

This means we expect total inbound visits to decline to 29.5 million, with inbound visitor spend increasing to £16.7bn<sup>1</sup>. If disruption due to the volcanic eruption persists there is a significant risk that inbound visits will decline by as much as 3%, which would deliver visitor numbers of just 28.8 million. This remains within the forecast range released in December 2009.

### Context

This is an aggregate forecast for the number of inbound visitors regardless of purpose of visit, the possibility remains that on a year-on-year basis business tourism might appear to have a strong 2010, but this in large part reflects the steep declines seen in 2009.

Office for National Statistics figures for the first three months of 2010 revealed that inbound visits declined by 1% compared to the same period of 2009, with visitor spending 7% lower than a year ago. IATA reported increases in global air travel in the first three months of the year, but these improvements were weaker in Europe than other regions, and reflect the steep falls a year ago as much as they do underlying strength.

Early indications are that UK airports handled around 20% to 25% fewer passengers in April 2010 than a year before due to the six day closure of UK airspace brought about by the volcanic eruption in Iceland. Although airspace reopened in 20 April there have subsequently been a number of closures of shorter duration effecting parts of the country.

Whenever VisitBritain issues a forecast we note that the forecasts are dependent on normal circumstances prevailing and do not factor in unexpected shocks caused by terrorism, health scares or other crises. This caveat is particularly salient at the present time with an ongoing risk that disruption resulting from volcanic ash may persist.

### Updated forecast for 2010

	(m/£bn)	growth	forecast range
Volume	29.5	-0.7%	-3.2% to +4.8%
Value (nominal)	16.7	1.3%	-0.2% to 7.8%

### Upside risks in 2010

Inbound tourism rarely performs entirely in line with the trajectory that historical trends might suggest, being buffeted not just by economic cycles or exchange rate fluctuations, but by a host of other less predictable events too.

#### Upside risks

- A number of Asian economies are growing strongly, as is the Australian economy. There are some encouraging signs that the North American economy is picking up too
- The expectation remains that the short-haul leisure market offers the most promise for the remainder of 2010, especially if sterling remains weak against the Euro
- Business tourism is on an upward track once more, but we are on the lower slopes of a recovery rather than being back at levels witnessed before the global economic downturn
- While thin on the ground there are some enhancements to air access planned in the coming months, for example Delta Airlines will add an extra daily flight from New York to Heathrow later in the summer

#### Downside risks

Since late 2009 there can be little doubt that the economic downside risks for European markets have increased as national debt worries in Greece result in an emergency bail-out by the EU and IMF and fears of 'contagion' to other economies mount. Combined with the ongoing economic worries the other most significant downside risk is the possibility of ongoing disruption brought about by the Icelandic eruption. Other downside risks include:

- Signs that the price of oil is responding to prospects of an improved global economy in 2010, and airlines may find fuel bills starting to increase by the end of this year
- Many airlines continue to shy away from enhancing capacity as traffic levels remain fragile
- Ongoing risk of terrorism, either direct attacks within Britain or in overseas markets resulting in a reluctance to travel
- Geopolitical events, for example the disruption to everyday life in Thailand
- Continued growth in new "low cost" destinations for international travel, including Vietnam, Croatia, India, Turkey and Morocco

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<sup>1</sup> In our forecasts published last November we forecast total visitor numbers in 2010 to stand at 30.4 million, with visitor spending at £17.1bn