

Tourism Trends Quarterly is a new publication from VisitBritain providing a summary of the latest available tourism data for the UK, alongside an analysis of factors underpinning the latest trends.

Global Tourism Trends

Global tourism has faced something of an onslaught in the past year, with the record-breaking fuel prices in June 2008, the onset of a global financial crisis in late summer, political upheaval in Thailand and terrorist attacks in Mumbai.

It is far too early to make a judgment on what impact the recent outbreak of swine 'flu will have during 2009, but there is little doubt that travel to/from Mexico will have been dented, at least for a period of several weeks.

The United Nations World Tourism Organisation said at the start of the year that global international tourism may contract, and all the evidence so far would tend to support this projection. Initial forecasts indicated arrivals to Europe could decline by up to 3%, and this may prove to be on the optimistic side.

Looking at figures for the early months of 2009 we see a sea of red, with Austria the only European country reporting an increase in international visitors, and then only a 2% rise.

In the USA the Department of Commerce reports a 10% decline in inbound tourism for the first quarter and Tourism Australia report a 3% year-on-year decline in the first three months of the year.

According to IATA scheduled international air traffic fell by 11.1% compared with a year earlier in March, which once allowing for the movement of Easter represents a decline of around 9%, similar to that recorded in February (adjusted for the leap day in 2008). The Middle East is the only global region where air travel is rising, with the steepest falls in traffic to/from Asia Pacific.

IATA report short-haul traffic is being less hard hit than long-haul, and that the rate of decline is much steeper for business class travel than in economy, reflecting an absolute reduction in business travel and

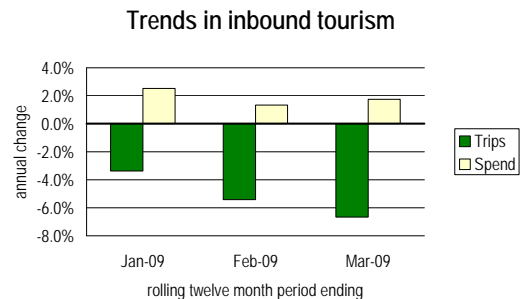
'trading down' as corporate travel budgets get squeezed.

The accommodation sector is not immune, with Starwood Hotels and Resorts Worldwide reporting a 35% year-on-year slump in pre-tax earnings in the first quarter of 2009.

Inbound tourism to the UK

Our best indication of what is happening to trends in the volume and value of inbound tourism to the UK comes courtesy of the International Passenger Survey, conducted by the Office for National Statistics.

Figures for the first three months of 2009 show that visitor numbers were 13% down compared with the first three months of 2008, though year-on-year comparisons are muddled by leap days and Easter falling in March in 2008 and April this year. The fall in volume was not mirrored in terms of spending, with inbound visitors contributing as much to the visitor economy in the period January to March as was the case in 2008.



Behind the headline figures we can clearly see that it is business tourism taking the biggest hit due to the economic downturn, falling by a quarter in the first three months of the year, whereas holiday visits were at similar levels to 2008.

Holiday spending in fact jumped 13%, a clear signal that visitors to Britain are taking advantage of favourable exchange rates by spending more (in Sterling terms). Short-haul markets are more resilient than long-haul (broadly speaking), but with a few notable exceptions, for example traffic from South America performed strongly in the first quarter.

While relating to total traffic rather than purely inbound tourism we do have a hint as to trends during April, with BAA reporting that the number of passengers handled by its seven UK airports was just 2.3% lower than twelve months before.

Meanwhile the Port of Dover witnessed a year-on-year increase in passenger volumes of 14% in April despite blockades of a number of French ports by protesting French fishermen.

Supporting the contention that visitors to Britain are taking advantage of favourable exchange rates comes through figures compiled by Global Refund on the amount of tax being reclaimed on retail purchases by visitors from overseas. In March sales were up by 41% compared with a year ago, with strong growth from the Middle East and much of Asia.

Overnight domestic tourism

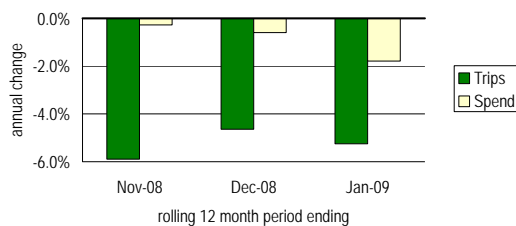
The United Kingdom Tourism Survey captures what is happening to the number and value of overnight domestic tourism trips within the UK.

Currently the only data for 2009 relates to January, but if we look at the twelve months to January we find that the number of trips has declined by 5% and spending by 2% (before allowing for inflation) compared to the twelve months to January 2008.

During 2008 the number of business trips was little changed compared to 2007, holiday trips fell by 3% and trips to visit friends and relatives by 8%. One possible explanation for declining 'vfr' trips may be the poor summer weather experienced in parts of the UK.

Many operators reported strong trading over the Easter period, helped by some fine spring weather, with forward bookings for the summer ahead of last year in some sectors.

Trends in overnight domestic tourism



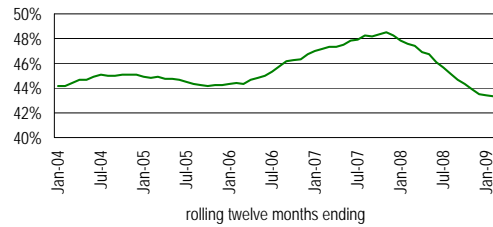
A signal that 2010 will continue to be tough for some parts of the inbound and domestic tourism industry came with the announcement that the 2010 International Motor Show would not take place; lengthy lead times for major exhibitions and events means that even when the economic situation starts to pick up it may be some time before all sectors of the tourism industry feel the benefit.

Sector Surveys

All manner of businesses are directly or indirectly supported by tourism, but the accommodation sector is in many respects tourism's coalface. By examining the health of the accommodation sector we get an insight into the current performance of the visitor economy.

The United Kingdom Occupancy Survey unearths occupancy levels across the whole of the serviced accommodation sector, with the most recent figures indicating that bed-space occupancy stood at 35% in February compared to 36% in February 2008. Taking a rolling twelve month average 43% of bed-spaces were occupied in the year to February, 4% down on the year to February 2008.

Bedspace occupancy in UK serviced accommodation



Although not capturing occupancy in all forms of serviced accommodation more recent data for chain hotels is provided by consulting firm PKF. In March hotel occupancy in London stood at 77.5%, with the figure for provincial hotels at 65.4%.

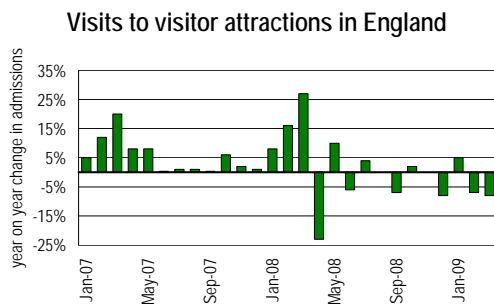
This represents a decline compared with March 2008, but perhaps of more importance is that room yield, that's the amount hoteliers are earning from each room, was declining faster than occupancy.

Attractions

The most recent VisitEngland 'England Attractions Monitor' provides an insight to how this sector performed during the first three months of 2009, though of course we need to recognise that this is not 'peak season' for attractions, and whereas in 2008 the period included Easter, this year that was not the case.

Looking at the headline figures, visitor attractions in England witnessed a year-on-year decline of 5% in visitor numbers in the period January to March. It would appear that 'free' attractions performed slightly better than 'paid' attractions, with the respective year-on-year declines being 3% and 6%.

Of particular note is the finding that while 59% of attractions expected higher visitor numbers over the April to June period than was the case last year, a smaller proportion, 46%, were optimistic about business prospects for the attractions industry generally. This may reflect gains in visitor numbers outpacing discretionary visitor spending, with customers perhaps not spending as much in the attraction's shop or café.



The next VisitScotland 'Visitor Attractions Barometer' will provide an indication of how the first four months of 2009 have gone, but figures for 2008 show a 4% annual decline in visits over the period January to October.

Outbound tourism from the UK

UK residents make nearly 70 million outbound visits each year, but recent trends reveal a steep decline in trip taking, with an annual 19% drop during the first three months of this year, with outbound spending 13% lower.

The economic downturn and weakness of Sterling are key drivers of this trend which will be of great concern to transport carriers as roughly seven-in-ten seats are filled by Brits making outbound journeys.

Business Surveys

The most recent wave of Visit England's Domestic Industry Panel took place during February and March and found that performance over recent months was considered to have been weak, with panellists reporting worse earnings/customer levels than at any point since the survey began; the economic slowdown is considered by the majority to have had a negative impact on business.

Panellists' outlook for the coming period is mixed – though expectations of earnings have fallen further compared to last autumn, expectations of customer

numbers are more positive than they were in October (though still down on earlier waves).

The overriding sense is one of volatility, making it hard for businesses to predict what the coming season will bring.

The leisure sector appears to be performing more strongly than the business tourism sector, but there is evidence of consumers 'trading down', reinforcing the need to offer value for money. There is evidence that bargain-hunting is leading to later bookings, as consumers wait for 'late deals'.

Visit Wales conduct a Tourism Business Survey five times each year and the latest research took place just after Easter and found that the Welsh tourism industry had a successful Easter, with only 13% of responding businesses saying they had fewer guests or visitors than Easter 2007; clearly Easter falling later, and enjoying fine weather will have been a factor.

Forward bookings for the summer are slightly down on this time last year, but this may reflect a trend towards late booking. The vast majority were confident about prospects for the summer season (36% very confident and 47% fairly confident).

VisitScotland recently launched an 'Economic Conditions Poll' and the March wave of the survey found that sentiment regarding performance in the early months of 2009 was mixed, with roughly equal numbers reporting conditions were 'good', 'poor' and 'average'.

Opinions about the forthcoming summer were more upbeat according to the VisitScotland research, with 58% of respondents 'optimistic' compared to 42% reckoning that summer would be a 'challenging' period for the tourism industry..

Accessibility round-up

The UK is undeniably one of the best connected countries for international tourism, with hundreds of air routes, dozens of sea routes and the Channel Tunnel.

A bright spot in recent months was the return of a full service through the Channel Tunnel after the fire last September. However, the combination of repair work and slowing economy resulted in Eurostar carrying 11.5% fewer passengers than a year earlier over the period January to March.

Visitors who require a visa to visit Britain found that the price increased to £67 at the beginning of April, and the requirement to have a visa was extended to a number of additional countries, the most important of which in terms of inbound tourism is South Africa.

In response to the downturn in demand for air travel the European Commission, supported by a vote in the European Parliament, has acted to temporarily suspend the '80/20 rule' which means airlines must use their slots at congested airports at least 80% of the time or face losing them.

It is probable that we will see frequent ad hoc flight cancellations as carriers take advantage of the revised rules by axing flights for which demand is particularly low.

In his Budget the Chancellor said nothing about Air Passenger Duty, which is due to increase, especially for long-haul flights, in November; for example, a visitor flying back to Argentina from Britain in economy class will have to pay £55 (up from £40) increasing to £85 in November 2010. By contrast the Dutch government recently abolished an equivalent tax on flights to/from Holland.

Ryanair has responded to the imposition of a similar tax by the Irish government by axing a number of routes from Dublin to airports in England.

A number of long-haul routes have seen reduced frequencies or complete cessation in recent months, with Virgin Atlantic suspending flights from Mumbai to Heathrow, Cathay Pacific cancelling 17 Hong Kong to Heathrow flights in May and Singapore Airlines reducing the number of flights per week to Manchester from five to three.

Better news comes in the shape of Air Asia X upping its frequency from Kuala Lumpur to London Stansted to daily and Akal Air announcing twice-weekly flights from Amritsar to Birmingham. Air Arabia has launched low-cost flights between Casablanca to London Stansted, operating four times per week and later in the year British Airways will commence daily flights from Las Vegas to Heathrow.

Despite petrol costing much less than a year ago figures from the Department for Transport reveal that car traffic in Great Britain was 3% lower in the first quarter of this year compared with twelve months earlier, suggesting that there are fewer leisure journeys being undertaken.

Economic round-up

'Deeper and more prolonged' is the phrase that accompanies every revision to the economic outlook. All leading global bodies that make projections now agree that 2009 will see the worst recession since the end of World War II, with the global economy contracting and world trade declining at its fastest rate for eighty years.

The consensus view would appear to be that the UK economy will shrink by around 4% in 2009 (a figure recently released by the European Commission), with very little if any growth in 2010.

Whereas in Britain, Ireland, Spain and the US one of the factors pulling the economy down has been the bottom falling out the housing market, elsewhere it is the drying up for consumer demand for goods that is an issue, for example the German and Japanese economies are set to contract by 5.6% and 6.2% respectively according to the IMF (Japan's economy shrank at an annual rate of 15% in the first three months of this year, the worst performance on record).

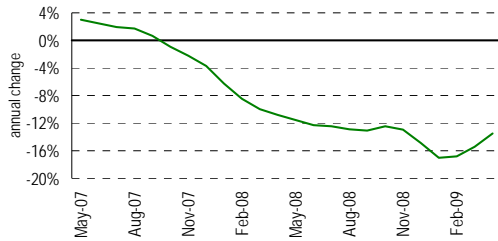
Business travel is certainly being hit by the economic downturn, but the picture for leisure travel is rather more complex as people reappraise where to go for holidays.

It is possible that Britain will see an upturn in domestic leisure travel in 2009 thanks to the economic situation and an unfavourable exchange rate for Britons considering an outbound trip. However, rising unemployment is a concern, with UK unemployment at 2.1 million, some half a million up in the space of twelve months.

It is not just in Britain where joblessness is on the increase, more than 5 million Americans have lost jobs in the past year, the European Commission expect 8.5 million to lose their jobs in Eurozone countries this year. No matter how good the exchange rate, having no monthly pay cheque significantly constrains international travel.

Sterling is costing the majority of our inbound visitors significantly less now than a year ago. This is particularly true for those travelling to Britain from the USA, Japan and Eurozone countries. The chart below shows the 'average' change in the cost of Sterling based on the share of visitors who use each currency.

The cost of Sterling for inbound visitors



Weather

The weather can play a crucial role in shaping tourism behaviour – the ice cream seller on the Prom does well on hot sunny days, but the indoor attraction a few miles away benefits from tourists escaping a rainy day. So, what has the weather been like over the past three months?

February brought the heaviest snow for many parts of the UK for eighteen years, but temperatures were in fact close to average and precipitation exceptionally below average, though sunshine was in short-supply. The same wasn't true in March with exceptionally above average hours of sunshine, indeed the weather was kind to the tourism sector with below average precipitation and above average temperatures.

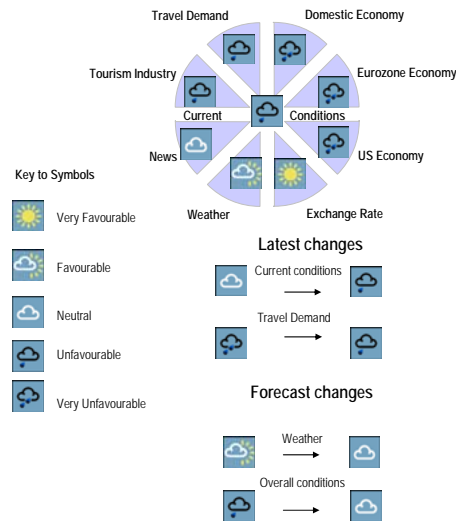
Easter fell in April this year and broadly speaking 'west was best' in terms of sunshine and temperatures. Overall, April brought above average amounts of sunshine, exceptionally above average temperatures and below average rainfall.

According to the Met Office summer (that's June to August) is set to bring above average temperatures and below, or close to, average precipitation, so a promising outlook compared with the past two summers.

Trends in a picture

It is often said that 'a picture paints a thousand words' and below we have tried to summarise current trends in the factors driving tourism. Based on an analysis of over forty different series, grouped into eight 'segments', the chart clearly comes with a hefty health warning, with 'scoring' each factor is as much art as it is science.

Factors contributing to tourism trends in Britain, May 2009



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Feedback

Tourism Trends Quarterly is a new publication, and we would very much welcome any feedback, email any comments to vb.research@visitbritain.org.