

TOURISM TRENDS QUARTERLY

Issue 7 November 2010



Tourism Trends Quarterly provides a summary of the latest available tourism data for the UK, alongside an analysis of factors underpinning the latest trends.

Global Tourism Trends

In its latest 'Barometer' the United Nations World Tourism Organisation has declared that international tourist arrivals in the first eight months of 2010 were 7% up on last year, meaning that global tourism is now back to pre-downturn volumes.

The picture is one of great regional variations though, with arrivals in Europe up a mere 3% so far this year in contrast with 14% more tourists in the Asia Pacific region and 16% more in the Middle East.

Based on these trends UNWTO now forecast that global arrivals will increase by between 5%-6% this year with growth in 2011 of about 4%.

In its latest 'Quarterly Report on Trends and Prospects for European tourism' the European Travel Commission notes that the recovery has 'broadened and strengthened' in the past few months.

However, the report goes on to note that the outlook for the global economy has of late become 'much less certain', reminding us that it is all too easy to assume that a spurt of growth foretells a sustained period of expansion.

Destinations that have seen very strong growth in arrivals this year include Singapore, Japan, Egypt, Thailand and the USA. In Europe of the 'big hitters' Germany has reported the strongest performance with arrivals up 11% in the first seven months of the year, suggesting that the UK's position as the 6th most visited destination in the world will face a stiff challenge once full-year figures become available.

Destinations that are reporting a year-on-year decline in international tourist arrivals in 2010 include Spain, with the on-going reduction in outbound travel by Britons likely to be a major contributory factor, Denmark and Ireland.

So while the UK is not the only destination to find itself in negative territory, it is most definitely in a minority.

Inbound tourism to the UK

International Passenger Survey results for the first nine months of 2010 reveal a 2% drop in visitor numbers and 1% decline in visitor spend.

VisitBritain continues to hold with our forecast that inbound visitor volumes will decline by 0.7% this year while inbound visitor spend will increase by 1.3% before inflation.

Our forecast for 2011 is an increase of 1% in arrivals to the UK and a 2% increase (before inflation) in how much inbound visitors spend.

Trends in inbound tourism



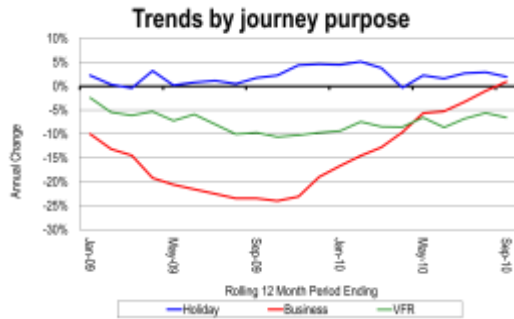
Looking at trends in visits to the UK from different world regions during the first nine months of the year indicates that visits from North America are down by 8% on a year ago, with this vital source market having seen a worrying 10% fall during the July to September period.

Visits from the EU15 countries are down just 1% so far this year, while visits from the twelve EU Accession states remain weak, down 4% during the period January to September. Visits from long-haul origin markets other than North America are on a par with this time last year.

There is still something to celebrate when we look at trends in inbound tourism by journey purpose, with the number of holiday visits in the three months to September being 4% up on the equivalent period of 2009.

Looking at business visits over the first nine months of 2010 we find an increase of 3%, but there is still a considerable way to go before business tourism has regained the losses suffered since the onset of the global economic crisis in summer 2008.

What had been for many years a segment for which the 'only way was up', trips to visit friends and relatives remain firmly in retreat, with a 6% drop in the first nine months of this year.



Looking at more recent traffic data, in October BAA's six UK airports handled 3.4% more passengers than a year before. Heathrow continues to be the star performer in the airport operator's portfolio with a 7.2% increase in passenger volumes.

Traffic on European scheduled routes rose 3.9%, on North Atlantic routes by 7.5% and on other long-haul routes by 3.2% during October according to BAA.

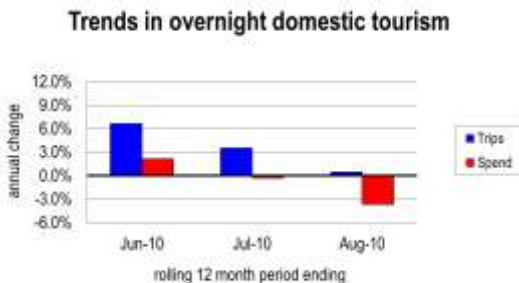
Overnight domestic tourism

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

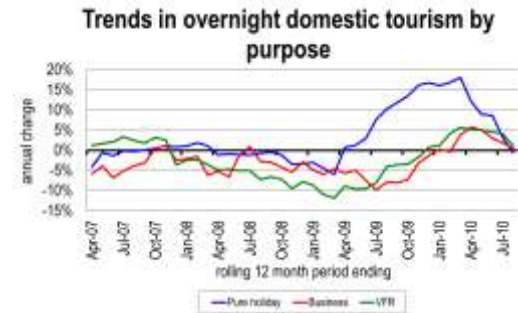
The most up-to-date figures available are for the all-important month of August which typically accounts for an eighth of annual trips, and reveals a 10% decline on August 2009. In fact this is the fourth consecutive month during which UK domestic overnight tourism volumes were lower than a year ago, indicating that 2009 may well have been a high-water mark thanks to the 'staycation' effect.

During the first eight months of 2010 UK residents took 3% fewer overnight domestic trips, with spending 7% down (equivalent to £1bn).

Interestingly the fact that spending has fallen more markedly than volume is not because of a lower spend per night, rather, it is due to a slight reduction in the average length of stay per trip.



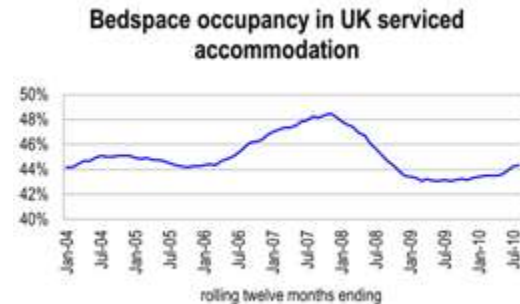
Looking at the rolling twelve months to August we can see that for all three main journey purpose groupings the number of trips was on a par with the twelve months to August 2009.



Accommodation

The United Kingdom Occupancy Survey unearths occupancy levels across the whole of the serviced accommodation sector, with the most recent figures indicating that bedspace occupancy stood at 59% in August, up from 58% in August 2009.

If we take a rolling twelve month average of bedspace occupancy it is evident that there has been a slight but discernible upward trend over the past year.



Although not capturing occupancy in all forms of serviced accommodation more recent data for chain hotels is provided by a number of private sector organisations.

According to TRI Hospitality Consulting London chain hotel occupancy during October stood at 87.8%, up from 85.2% a year ago, while occupancy in the provinces was 74.0% in comparison with 73.5% in October last year. The average room rate in London in October was £132.56 (up £14.02 on a year ago) and in the provinces it was £69.74, up 69p on a year ago.

Looking to next year TRI forecast that London will 'go from strength to strength' with occupancy forecast to increase from an average 82.0% in 2010 to 83.0% in 2011 while room rates rise from £121 to £124.

In the provinces market conditions are set to be 'tough' for chain hotels, with TRI forecasting that neither occupancy nor room rates will see any improvement, in part due to the growing market penetration of the budget hotel sector.

According to TRI Hospitality Consulting the number of branded budget hotel rooms in the UK has increased from 10,555 in 1993 to 109,528 at the end of 2009, a ten-fold increase. Premier Inn accounts for 38% of rooms and Travelodge 25%. These figures remind us that it is not just the airline industry that has been transformed by the advent of the Internet in the past dozen or so years.

In its most recent 2010 Business Wave Survey Visit Wales found that over the summer period accommodation providers had had a 'mixed' performance, with the serviced and self-catering sectors down while camping and caravanning continued to see growth. Advance bookings for the autumn were well down on expectations, but there was hope that this was due to the trend towards last minute booking.

More recently VisitEngland's Business Confidence Monitor provides an insight from 500+ accommodation businesses across England. The survey took place after the October half-term and found that for half-term week itself one-quarter of respondents reported more guests than during the same week last year, one-quarter fewer guests and 51% reported little or no change.

When asked to think about the autumn as a whole 39% reported more guests than last year compared to 26% saying they had fewer guests.

Looking just at businesses that would be open during the coming months 71% were either 'very' or 'fairly' confident about the upcoming winter period. Looking further ahead respondents were asked about their confidence for 2011 and 25% were 'very' confident while 56% were 'fairly' confident.

Attractions

According to the VisitEngland 'England Attractions Monitor' the average annual change in admission numbers across 632 attractions surveyed during the period July to September was fractionally up on a year ago thanks to a 3% increase in July followed by two consecutive 1% declines in August and September.

When asked about their confidence for the period October to December 2010 slightly more attractions

(29%) were less optimistic than at this time a year ago while 22% were more optimistic.

In the latest wave of the Visit Wales Business Confidence Survey 79 attractions were contacted in early September and asked about performance during the summer. Some 44% of attractions said that visitor numbers were up on last year, 27% said they were down and the 28% that there had been no change.

Figures published by the Department for Culture Media and Sport provide an insight to recent trends in admissions to selected museums across the country. These show that in the three months to September the number of visitors at the British Museum was 6% up on the same period last year (that's growth of nearly 100,000).

Looking outside of London the National Museums based in Liverpool welcomed 17% more visitors in the three months to September than during the same period of 2009.

Outbound tourism from the UK

In the month of August, by far the busiest month of the year for outbound travel by Brits, there were 7.5 million trips abroad, a remarkable 1.1 million fewer than in the same month of 2008.

Looking at the first nine months of this year Britons made 7% fewer overseas visits, with trips to Europe down 8%, North America 10% and other destinations 2%. These figures would indicate that there is a continuing trend for UK residents to be favouring emerging destinations such as Egypt and Morocco over more traditional favourites such as Italy and Spain.

By journey purpose the number of outbound trips during the first nine months of the year for a holiday declined 7%, those for business reasons fell 5% and trips to visit friends or relatives were 10% lower.

Another recent casualty of the weak outbound holiday market from Britain was the collapse of Crown Currency Exchange.

Getting to and from Britain

Starting for a change with the Channel Tunnel, as there has been a rash of exciting announcements in the past three months; the German rail operator Deutsche Bahn says that from 2013 it hopes to run three trains per day from Amsterdam and Frankfurt (combining in Brussels) to London, Eurostar has

ordered ten new train-sets in order to expand its route network further into Europe, and the Government has sold a 30 year lease to operate 'High Speed 1' to a Canadian consortium for £2.1bn.

Domestic rail travel on services run by long-distance train operators increased at an annual rate of 7% in the three months to September which is in contrast to a 1.8% reduction in the amount of car journeys made in Great Britain during the same period.

In each of the three months to October the volume of traffic passing through the Port of Dover increased by between 1% and 5% in comparison with 2009, while the number of vehicles conveyed through the Channel Tunnel in the three months to September was up 15% on a year ago.

Having now reached its first birthday the British Airways cabin crew dispute remains unresolved after a settlement negotiated by the Unite leadership was rejected by BASSA, the union branch that represents the majority of cabin crew.

The past few months had been quite a success for BA, with a return to profit for the first time in two years, the completion of the tie-up with American Airlines and Iberia and the announcement of several new routes. These routes include the reinstatement of flights from San Diego to Heathrow, the introduction of a Haneda (close to Tokyo's business district) to Heathrow route and capacity improvements on services from Latin America.

At the global level air travel continued its healthy recovery over the summer months with IATA again revising upwards its aggregate profits forecast for the sector, but as a note of caution the body has observed that once adjusted for seasonality growth does now appear to be levelling off. What's more, it is carriers based in the Asia Pacific or Middle East who are enjoying the healthiest rebound, while European carriers report far more modest improvements.

Looking to next year American Express's annual Global Business Travel Forecast suggests that short-haul flight prices in Europe will increase by between 4% and 9% with long-haul flight prices to/from Europe set to rise by between 5% and 9%.

Air Passenger Duty increased on 1 November 2010 meaning that economy class passengers pay between £12 and £85 depending on distance travelled while those in premium cabins pay between £24 and £170.

Network Rail and Gatwick Airport are to invest in improvements to the airport's railway station including the construction of a new platform and larger station concourse, however work will not commence until after the 2012 Olympic and Paralympic Games.

Looking at airline seat capacity at UK airports in the three months to November this year based on figures from www.capstats.com reveals a 3.1% decline on the equivalent period of 2009.

However, in the upcoming three month period seat capacity is set to be 2.2% up on the same three months of last year.

Economic round-up

So another G20 Summit has come and gone, and this time the leaders have struggled to present a united front on matters macro-economic, with the threat of 'currency wars' having hung over the gathering.

The concern is that protectionist attitudes are gaining the upper hand in some countries, which the majority of economic pundits believe will eventually backfire, but not without damaging 'innocent bystanders'.

At first it was China that was in the firing-line, with claims that its insistence on keeping its currency pegged to the US dollar was leading to global trade imbalances, but the recent announcement of more 'quantitative easing' by the US Federal Reserve has turned the tables, with China being joined by, among others, Germany and Brazil in leading a chorus of criticism that this is a round-about way of the US protecting its businesses at the expense of its trading partners.

With unemployment stubbornly close to 10% in the US the Federal Reserve taking a 'domestic' rather than an 'international' view of what constitutes the best medicine is perhaps not surprising.

In Europe the Irish government finally gave in to mounting international pressure and agreed to a massive international loan in order to keep the nation's banks afloat, and prevent the growing danger of 'contagion' to other 'weak' Eurozone economies.

There is still enormous political uncertainty in Ireland and the true extent of the fallout from the current wave of economic turmoil for Ireland, the Eurozone and exchange rates is far from clear.

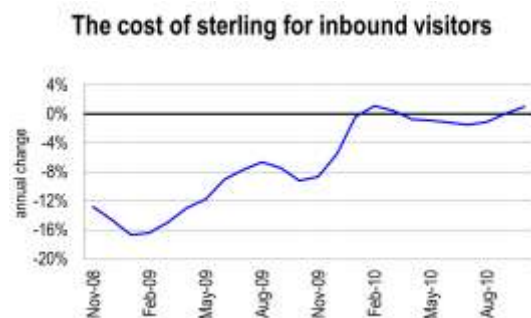
Meanwhile some Eurozone nations, most notably Germany, continue to enjoy a healthy rate of

economic recovery with unemployment falling, so it is definitely not uniform gloom across the markets that account for the bulk of visits to the UK.

Here at home the Bank of England has yet again said that inflation will remain above target for longer than previously forecast, but that this is in part due to the planned hike in VAT at the start of 2011. In past times inflation above target equated to strong economic growth, but not now. The Bank has warned that while a 'double dip' recession is unlikely, the rate of economic growth experienced in the UK during 2011 will be very modest.

Upward price inflation is still correlated with a strong economy in some parts of the world, with inflation in China running at an annual rate of 4.4% while industrial output was an astonishing 13.1% higher than in the same month of 2009.

On the currency markets sterling has been fairly stable in recent weeks, trading at around \$1.60 and just over €1.15, meaning that, on average, inbound visitors to Britain are getting about the same, very favourable by historic standards, deal on their currency as was the case this time last year.



Weather

November gales have stripped the remaining leaves from the trees heralding the onset of winter, but what has the weather been like over the past three months?

Met Office figures show that in August temperatures were close to seasonal norms, amounts of sunshine were below average and rainfall totals above average; regionally East Anglia had twice as much rain as normal and for southeast and central southern England it was the fourth dullest August on record.

September temperatures, rainfall and sunshine totals fell slap dab where they should have for the time of year, while in October we enjoyed well above average amounts of sunshine and below average rainfall.

Topsy-turvy temperatures evened out to deliver an 'average' for the entire month.

Ski resorts in Scotland are perhaps among only a handful of businesses across the tourism sector that are keeping their fingers crossed that this winter will be just as snowy as last winter, with an early cold snap and heavy falls of snow in late November suggesting their wishes may come true.

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 following chart clearly comes with a hefty health warning, with the 'scoring' of each factor being as much art as it is science.



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