

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

The ash cloud has gone from the skies above northern Europe but global tourism continues to see disruption from other causes, including industrial action (for example Greek lorry drivers), forest fires in Russia, the oil spill in the Gulf of Mexico and flooding in northwest Asia.

According to the latest European Travel Commission Quarterly Report on 'Trends and Prospects for European tourism', European tourism is indeed improving from the declines seen a year ago, but recovery remains 'modest', and in part reflects strong domestic rather than cross-border travel.

External factors, for example austerity measures being adopted pretty much simultaneously in a number of European countries certainly pose a significant risk, but Tourism Economics who prepared the European Travel Commission report are reckoning on international tourism to Europe growing 3% in 2010 after a 6% decline in 2009. It will be 2011 before visitor numbers are back at 2008 levels.

Looking at destination data so far in 2010 we need to recognise that many European destinations suffered disruption due to the ash cloud. Joining the UK in negative territory when in comparison with 2009 are destinations such as France, Spain, Denmark and Canada, though none have seen a decline as sharp as that experienced in Ireland.

Destinations reporting healthy growth in international arrivals so far in 2010 include Singapore, Turkey, India, China and Australia.

According to IATA in June international air travel was 11.9% up on a year ago, though with sharp regional variations; traffic in Europe increased just 7.8% in comparison to 15.5% in Asia Pacific.

The organisation continues to note that the aviation sector is recovering faster than anticipated, especially outside of Europe. Long-haul business class travel

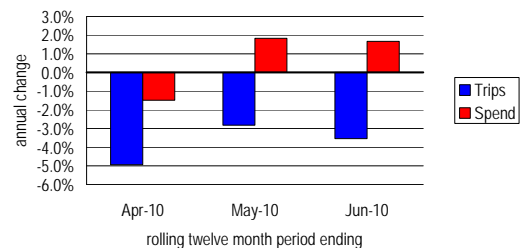
continues to outperform non-premium and short-haul traffic.

Inbound tourism to the UK

International Passenger Survey results for the first six months of 2010 reveal a 4% drop in visitor numbers while visitor spend was 1% lower than in the first six months of last year. The severe winter weather, ash cloud disruption and strike action hitting some British Airways flights are all factors that have contributed to the weak figures.

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.

Trends in inbound tourism

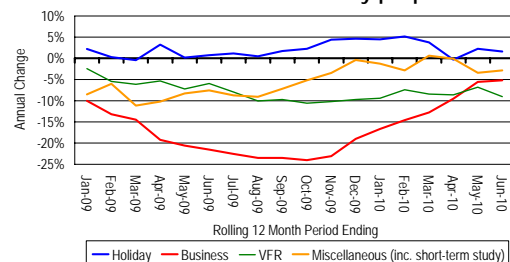


Looking at trends twelve visits to the UK from different world regions during the first half of the year indicates that visits from North America are down by 9% on a year ago, but traffic to/from this part of the world saw some of the heaviest declines as a result of the ash cloud.

Visits from the twelve EU nations that have joined the bloc since 2004 are down 5% in comparison to a 2% drop in visits from markets that were EU members before this date.

Inbound business tourism continues to make slow but steady improvements, with visits up 3% in the first six months of the year, while holiday visits have declined by 3%. Interestingly visits to friends and relatives remain sharply down, by some 10% in the period January to June.

Trends in inbound tourism by purpose



According to Global Blue sales to overseas visitors able to reclaim tax increased at an annual rate of 33% in June thanks to a 25% increase in the volume of transactions and a 6% rise in average spend per transaction.

Looking at more recent traffic data, in July BAA's six UK airports handled 0.3% more passengers than a year before. Passenger numbers on domestic and Ireland routes continue to fall, while there were very modest increases on other routes.

Worth noting is the fact that Heathrow had its busiest ever month with 6.7 million people making journeys through the airport in July, and Sunday 18 July was the busiest ever day at the airport with 232,000 passengers.

Overnight domestic tourism

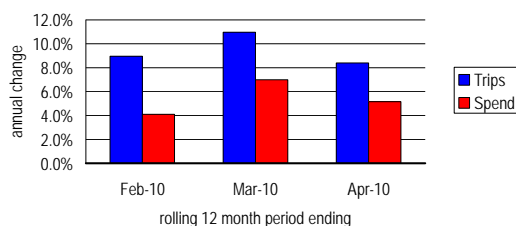
The United Kingdom Tourism Survey captures what is happening to the number and value of overnight domestic tourism trips that are taken within the UK.

The most up-to-date figures currently available are for April and show that trip volumes continue at higher levels than at the same time last year, though with spend not seeing such healthy growth.

In the year to April the number of overnight trips was up 8% on an annual basis, with spending (before allowing for inflation) up 5%.

Figures for May, the first of the crucial summer months, will be available in late August and will perhaps represent the first real test for the hypothesis that 2010 will be another 'staycation' summer.

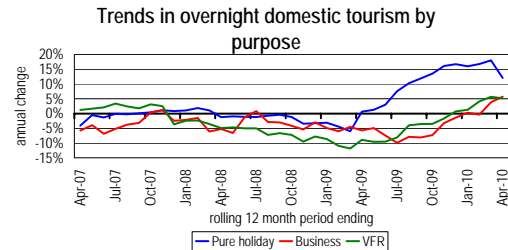
Trends in overnight domestic tourism



As the next chart shows, while overnight domestic business tourism continues to recover the upward march of overnight holiday trips appears to be losing some momentum.

By the next edition of Tourism Trends Quarterly we will know whether the mixed summer weather has had

an impact on holiday taking, and in particular the school summer break period.

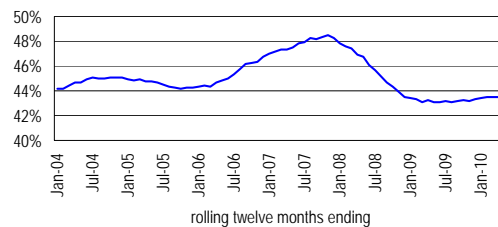


Accommodation

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 48% in May, up from 47% in May 2009.

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

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 a number of private sector organisations.

Figures from TRI Hospitality Consulting for June show chain hotel occupancy in London at 87.5% up from 84.1% a year ago, with revenue per available room £15 up on June 2009.

In the provinces occupancy stood at 75.0% in June this year, up from 72.3% a year earlier, with revenue per available room virtually unchanged.

London is outperforming major European competitors in terms of occupancy levels according to TRI, though room rates in London remain lower than those in Paris.

Just after the late May bank holiday VisitEngland asked 500 accommodation businesses a series of questions about their performance over the spring period. This indicated that business levels in April and

May were comparable to last year, with 32% reporting more visitors than last year and 33% fewer.

This was an improvement on the pre-Easter wave, when just 21% of businesses reported increased visitor numbers in the first three months of 2010.

There were however wide differences by sector, with camping and caravanning businesses and hotels outperforming B&B's/guest houses and self-catering businesses.

Confidence levels appear to be high with some 86% of businesses saying that they felt very or fairly confident about the summer. The proportion feeling "very confident" has increased over the course of this year.

In early June 404 interviews were conducted as part of the latest Visit Wales Business Confidence Survey. The survey quizzed respondents from both the attractions and accommodation sectors about their performance during May.

Some 31% of accommodation providers reported having more guests than last year but 38% reported fewer guests. Equal numbers of attractions reported higher and lower admission levels when compared with 2009.

Attractions

According to the VisitEngland Annual Survey of Visits to Visitor Attractions, the 1,806 attractions reporting data for both 2008 and 2009 witnessed an annual 5% increase in admissions, building on growth of 2% in 2008 and 3% in both 2006 and 2007.

Looking at 2009 across different types of attractions shows that Gardens and Historic Houses/Castles enjoyed double-digit growth of 10% and 12% respectively while by contrast admissions at Leisure/theme parks increased by just 1% in 2009.

Among responding attractions across England that charge an admission fee 2009 brought an average 4% increase in the amount charged to visitors. Courtesy of increased admission prices and admissions, gross revenues rose 8%.

In the latest wave of the Visit Wales Business Confidence Survey 79 attractions were contacted in early June and asked about performance during May. One-third of attractions said that visitor numbers were up on May last year, a third said they were down and the remaining third 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 June the number of visitors at the British Museum was 5% up on the same period of last year while visits to the National Gallery were 5% down.

Moving out of London Tate Liverpool welcomed 35% more visitors in the three months to June compared with the same period of 2009 while Duxford Air Museum witnessed a 4% decline in admissions.

Outbound tourism from the UK

The decline in outbound travel by UK residents that was a feature of 2009 appears to show no signs of abating. Figures for the first six months of 2010 reveal a 10% decline in outbound travel and 5% fall in spending on outbound trips.

The number of outbound holiday visits fell 10% in the period January to June compared with twelve months earlier, with outbound business visits 9% down and visits to friends and relatives 12% lower than during the first half of 2009.

Reinforcing the troubled times for outbound travel has been the collapse of two package holiday operators over the peak summer period, whereas in normal times if such businesses fail this does not happen until after the peak season..

The disruption due to strike action seen in Greece, a popular outbound destination, along with the potential for an air traffic controllers strike in Spain, looks set to ensure that outbound holiday travel from Britain will be lower in 2010 than it was in the year 2000.

Getting to and from Britain

Recovery from the volcanic ash disruption has been swift, with little evidence of any ongoing nervousness about booking air travel among consumers due to the possibility of further eruptions.

British Airways, American Airlines and Iberia have been granted regulatory permission to operate a joint business on Trans Atlantic flights with the airlines stating that this will allow them to offer customers a better choice of direct and connecting flights.

Looking at airline seat capacity at UK airports in the three months to August this year based on figures from www.capstats.com reveals a 0.2% decline on the equivalent period of 2009.

However, in the period September to November this year, seat capacity is set to be 1.3% up on the same three months of last year.

On the short-haul route scene Gothenburg is set to see access to Britain improve markedly with a new double-daily service to Heathrow operated by British Airways due to commence in November

At the time of writing the future of Mexicana hangs in the balance with the airline having stopped taking new bookings on its website. The airline has been operating around 18 flights per month from Mexico City to London Gatwick.

The British Airways cabin crew dispute remains unresolved but has not resulted in any industrial action since June. A looming risk is that a number of workers at BAA's six UK airports may take strike action later in August.

On the high seas, during the past three months the Port of Dover handled slightly more passengers than during the same period of 2009, while later in the autumn Stenna Line will introduce a second 'superferry' on its Hook of Holland to Harwich route, with a capacity of 1,200 passengers.

Eurostar carried around 7% more passengers in the second quarter of 2010 than over the same period of last year, but around half of this growth can be attributed to higher traffic levels during the ash cloud disruption to air travel.

The German rail operator Deutsche Bahn is expected to run a test train through the Channel Tunnel this autumn in readiness for a possible future direct train service from Germany to London St Pancras.

In a sign that the UK's economic recovery is still in its infancy figures on the number of car journeys made in Great Britain over the period April to June reveal a 1% decline on the same time last year.

Economic round-up

The most pressing economic question has, for the moment at least, shifted away from the possibility of a Eurozone member defaulting on its sovereign debt to whether or not the US economic recovery is about to shudder to a halt.

Recently the Chairman of the US Federal Reserve observed that the economic outlook remains 'unusually uncertain', and while the US unemployment rate remained stable at 9.5% in July the economy

shed 131,000 jobs in, the second month in a row that jobs have been lost.

In Europe there continues to be outbreaks of industrial action in protest at austerity measures, with Greek lorry drivers and Spanish air traffic controllers among those to have either downed tools or threaten to do so, in both cases the disputes had, or has the potential, to disrupt international tourism.

The International Monetary Fund has warned Hungary that it must do more to tackle its national debt, and credit ratings agency Moody's has downgraded Ireland's sovereign bond rating.

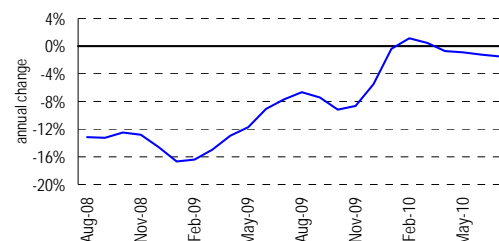
The German economy is bucking the trend with record growth between the first and second quarters of 2010, helped by a surge in construction activity after the harsh winter and a weak Euro stimulating export demand.

Looking at Asia the tea leaves seem to reveal a more upbeat economic outlook, at least for the remainder of the year, with for instance latest figures showing that in India car sales rose 38% in the year to July, with the Reserve Bank of India continuing its fiscal tightening, putting base rates up to 5.75%.

Meanwhile India's neighbour China has reported that economic expansion in the second quarter of the year stood at 10.3%.

On the currency markets sterling has been fairly stable in recent weeks, trading at just under \$1.60 and just over €1.20, 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.

The cost of sterling for inbound visitors



Turning to the home front the Governor of the Bank of England has indicated that the economic waters will be 'choppy'. In its latest Inflation Report the Bank reported a downgrading of economic growth prospects in 2011 alongside the likelihood of inflation being higher than previously anticipated, partly due to the planned increase in Value Added Tax to 20% at the

start of 2011, but also reflecting the possibility of higher grocery prices on the back of the 50% rise in wheat prices since June.

The risk of inflation gathering pace in the coming months should in theory indicate an early increase in base rates which have been held at a record low of 0.5% for well over a year now, but the inflationary risk might be offset by the need for interest rates to stay low in order not to choke off the fragile economic recovery.

One spot of good news is that for the moment the trend in unemployment in the UK appears to be downward, but many analysts forecast that these declines may be short-lived as austerity measures start to bite later in the year.

Weather

While statistically speaking many parts of the UK have had the driest first six months of the year since 1929 statistics, and especially 'averages', can be deceiving. So far July and August, months that are crucial for domestic overnight and day trip tourism, have seen mixed weather, with rainfall and cloud cover particularly prevalent in parts of the west and north of Britain.

Taking the UK as a whole, Met Office figures show that rainfall was exceptionally below average in June and exceptionally above average in July while amounts of sunshine were well above average in June but fell to below average during July.

Despite the trend towards damp and dull conditions temperatures have remained above seasonal norms throughout the past few months. It is probably true to say that so far the weather has not really 'played ball' during the peak summer months.

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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