

Tourism Trends Quarterly is a 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

As the list of global economies that have emerged from recession gathers momentum there are tantalising signs that for global tourism the 'worst is over'. That is not to say robust growth is underway, or even just around the corner, but a far more stable environment appears to have arrived. In the first four months of this year the United Nations World Tourism Organisation reports that international tourist arrivals were 8% down on the same period of 2008, with the organisation fully expecting a decline for the whole year in the region of 4% of 6%.

Britain welcomed 9% fewer visitors in the first six months of this year than in 2008, and this is likely to end up being a fairly typical story for most destinations. There are virtually no destinations reporting positive flows for the current year, but many are reporting a situation more downbeat than is the case in the UK, with for example visits to Japan down by one-quarter, visits to destinations across Eastern Europe down roughly 15% and trips to the world's most visited destination, France, down by 12%.

According to IATA scheduled international air traffic fell by 7.2% compared with a year earlier in June, compared with a 9.3% fall in May. The raw passenger figures disguise a more alarming situation for airlines, as fares and yields remain under huge pressure as business class traffic either evaporates or shifts to the back of the plane, resulting in international airline revenue for June being some 25% down on 2008.

The Middle East is the only global region where air travel is rising, with the steepest falls in traffic continuing to be for Asia Pacific. Traffic to/from Europe declined by 7% in June compared with 2008.

Accommodation providers still face a challenging environment; Intercontinental Hotel Group reporting a \$50m pre-tax loss for the first half of the year and TRI Hospitality Consulting reporting that room revenues in some European cities fell by 28% in the six months to June.

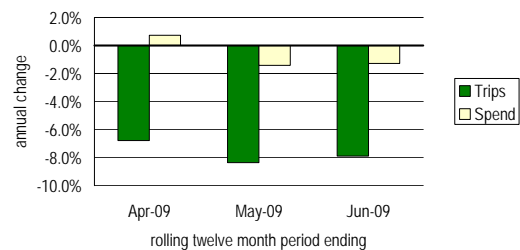
Inbound tourism to the UK

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.

There are early indications that just as was the case last year, 2009 will be a 'year of two halves' for inbound tourism. The story was persistently gloomy at first this year but the latest figures for June give reason for optimism with 5% more international visitors exploring Britain than was the case a year before.

Figures for the first six months of 2009 show that visitor numbers were 9% down compared with the first six months of 2008. The fall in volume was not mirrored in terms of spending, with inbound visitors contributing almost as much to the visitor economy in the period January to June as was the case in 2008.

Trends in inbound tourism



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 six months of the year, whereas holiday visits are 4% up.

Holiday traffic has been buoyant from a number of markets, with for example a 44% jump in holiday visits from Germany, and even a 6% rise in holiday visits from Japan.

Overall visits from a number of emerging markets including Mexico, Malaysia and the UAE are up significantly, whereas visits from Poland, Russia, South Korea and India have all registered sharp declines in the early months of 2009.

Despite the favourable exchange rate compared with a year ago visits from the USA remain subdued, with an 18% drop in the period January to June.

While relating to total traffic rather than purely inbound tourism we do have a hint as to trends during July, with BAA reporting that the number of passengers

handled by its seven UK airports was just 2.4% lower than twelve months before. Meanwhile the Port of Dover enjoyed a year-on-year increase in passenger volumes of 2.5% in July.

Ongoing evidence that visitors to Britain are taking advantage of favourable exchange rates by spending more per trip comes through figures compiled by Global Refund on the amount of tax being reclaimed on retail purchases by visitors from overseas. In July sales were up by 25% compared with a year ago, with particularly strong growth from the China, Hong Kong and South East Asia.

Overnight domestic tourism

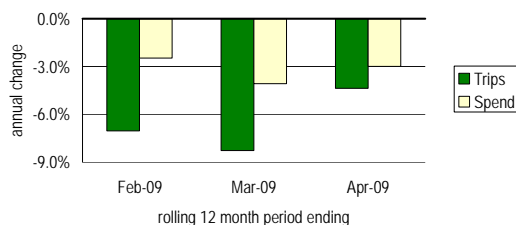
The United Kingdom Tourism Survey captures what is happening to the number and value of overnight domestic tourism trips that are taken within the UK.

Recently released figures revealed that April was a particularly buoyant month for domestic overnight tourism after what had been a lacklustre start to the year. While this is in part explained by Easter having shifted from March 2008 to April this year there is clear evidence that this is not the sole explanation as April 2009 outperformed both 2006 and 2007 when Easter fell in this month.

Overnight domestic trips in the UK were up 35% in April compared to a year earlier, with spend up 18%. This means that during the first four months of the year trip volumes were down 1% and spending down 5% compared with 2008, implying a slight reduction in average spend per visit.

There is a clear dichotomy emerging between trends in overnight domestic trips taken for different types of journey purpose. The economic slowdown has contributed to business trips being 13% lower during the first four months of 2009, while holiday trips, boosted by the strong April performance, are up by an impressive 15%. Trips to visit friends or relatives witnessed a 7% decrease.

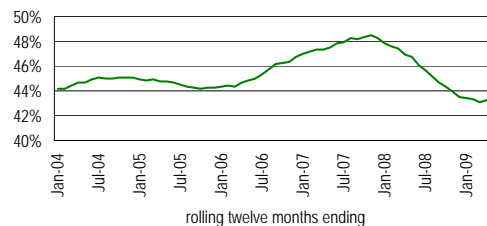
Trends in overnight domestic tourism



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 47% in May compared to 49% in May 2008. Taking a rolling twelve month average tells us that 43% of bed-spaces were occupied in the year to May, 4% down on the year to May 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 June hotel occupancy in London stood at 85.5%, with the figure for provincial hotels at 71.9%.

This represents a slight increase in occupancy rates for London compared to a year before, but a decline in regional hotel occupancy. Yield per available room was down 5% in London, but 13% lower in the regions.

According to the latest TRI Hospitality Consulting Hotel Confidence Monitor hotel general managers are increasingly confident about their hotel's trading performance with 51% 'optimistic' about the coming quarter and 4% 'very optimistic', a dramatic improvement on the situation back in January. However twice as many respondents expected occupancy during Quarter 3 of 2009 to be below that during the same months of 2008 and 82% forecast that room rates will be lower.

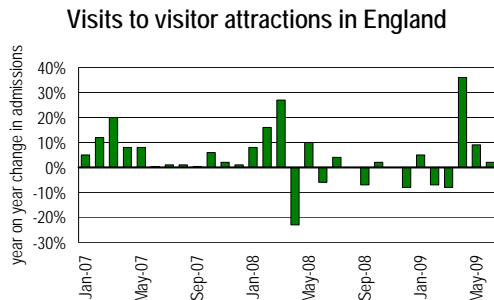
Attractions

The most recent VisitEngland 'England Attractions Monitor' provides an insight to how this sector performed during the three months to June 2009. We need to note that Easter fell in April this year whereas it was in March 2008.

Looking at the headline figures visitor attractions in England witnessed a year-on-year increase of 15% in admissions in the period April to June. When we

consider the picture for each month individually it becomes apparent just how important the timing of Easter is for attractions, with admissions up by 36% in April 2009 compared with a year before. Easter fell in April this year, March 2008 and April 2007 – the corresponding yo-yoing in visits to attractions in March and April each year is clear from the following chart.

Growth in visit to attractions in England over recent months is not purely the result of seasonal influences however, with figures showing growth in admissions of 9% in May and 2% in June.



VisitScotland regularly publish information taken from its 'Visitor Attractions Barometer' and the latest figures reveal that in June Scottish visitor attractions welcomed 6.8% more visitors than in June 2008, with the 'year-to-date' picture being a 2.4% rise. It is of interest to note that free attractions witnessed a volume increase of 8.8%, whereas attractions charging admission saw visitor numbers up just 3.0%.

The Association of Leading Visitor Attractions reports that among its members the British Museum saw the highest volume of admissions in 2008 with 5.9 million admissions, representing a 9.5% increase on 2007. The ALVA member that charges admission with the highest number of visits in 2008 was the Tower of London with 2.2 million admissions, again a near 10% rise on the year before.

Outbound tourism from the UK

While there have been reports of a last minute surge in bookings most indications are that UK residents will be making far fewer outbound trips in 2009 than was the case last year. According to figures for the first six months of 2009 from the International Passenger Survey Brits made 17% fewer trips abroad and spent 18% less on foreign travel; the UK's international balance of payments deficit is set to reduce in nominal terms during 2009 for the first time since 1995.

It would appear as though North America is the destination seeing the sharpest contraction in visits from Britain with a 28% decline during the first half of

the year, while visits to Europe are down by 16%. The 'double-whammy' of weak demand for Trans-Atlantic travel on both sides of the Ocean and shift towards more frugal business travel behaviour will be of particular concern to airlines reliant on this normally lucrative market.

Business Surveys

The most recent wave of Visit England's Domestic Industry Panel took place during June and July and found a very mixed picture with equal numbers expecting summer 2009 to be better than last year or worse than last year.

It is worth noting that even those optimistic about the summer are concerned about the coming autumn and winter as unemployment remains high and disposable income limited. A concern for 2010 relates to whether or not Brits who rediscovered Britain on a 2009 holiday will have found a product and experience that matched their expectation.

Leisure tourism is proving far more resilient than business tourism so far this year but even within the leisure sector it tends to be businesses offering lower cost options, such as camping and caravanning, that are seeing the healthiest demand.

Visit Wales conduct a Tourism Business Survey five times each year and the latest research took place in May and found that the Welsh tourism industry had a mixed month, with 33% of responding businesses saying they had fewer guests or visitors than in May 2008 and 34% more guests or visitors. Caravan and campsites were the most likely to report numbers that were up on last year.

When asked 'How confident are you for the summer season' some 56% of Welsh businesses responded 'Confident' and a further 23% 'Very confident'.

In its June 2009 Tourism Barometer the Northern Ireland Tourist Board found that in the first five to six months of this year more than half of accommodation providers reported bed-nights down on last year with roughly a further fifth saying there had been no change. The only accommodation sector reporting a positive picture was 'Caravan and Camping' with 50% saying bed-nights were up and one-quarter that they were on a par with last year.

More 'Activity Providers' reported a downturn in demand than reported growing demand, but there were exceptions for example water sports providers.

Accessibility round-up

Despite the lack of risk taking when it comes to introducing new routes at the present time the UK remains one of the best connected countries for international tourism, with hundreds of air routes, dozens of sea routes and the Channel Tunnel.

Despite outperforming most airlines Eurostar saw an annual 1.6% decline in traffic during the period April to June, but reports exceptionally strong growth in through traffic from cities across Northern Germany and Holland as more travellers shift from air to high speed rail.

A positive aviation sector story over the past few months has been the green light for London City Airport to expand capacity from 80,000 to 120,000 flights per annum. The airport will also host its first long-haul route from the autumn when British Airways launches its double-daily New York JFK to London City flights.

A number of airlines plan to reduce flight frequencies or axe routes altogether in the coming month as demand remains weak, with Delta ceasing to operate from Cincinnati to Gatwick and from New York to Edinburgh, Virgin Atlantic axing its Chicago to Heathrow route, and British Airways ceasing to fly to London City from both Lyon and Barcelona.

Ferry routes have not been unscathed with LD Lines deciding it will no longer operate between Dieppe and Dover.

More airline failures seem possible as the peak of summer demand reaches its end; in recent weeks no carriers flying to/from Britain have folded, but the future of some operating to the UK from Eastern Europe remains precarious.

Despite all this there have been some new route announcements of late, with Hellenic Imperial Airways introducing weekly flights from Jeddah to Birmingham and Ryanair to fly to Leeds Bradford from Krakow, Nantes and Pisa.

There have been a few noteworthy stories relating to Britain's railways recently, with the Government announcing that it is to take the East Coast Main Line franchise back under state control and that it plans to electrify the railway from Bristol, Swansea and Oxford to London. In the three months to June the number of long-distance rail journeys undertaken in Britain was 2.3% down on the same period of 2008.

Despite petrol costing much less than a year ago figures from the Department for Transport reveal that car traffic in Great Britain was 1% lower in the second quarter of this year compared with twelve months earlier, suggesting that there are fewer leisure journeys being undertaken.

Economic round-up

The list of economies that emerged from recession in the second quarter of 2009 is growing; France, Germany, Hong Kong, Singapore and Japan to name just five.

Recession is a technical term used by economists and the restoration of growth in Gross Domestic Product does not necessarily mean that economic woes are all behind us.

Indeed, unemployment tends to lag economic growth so looks set to continue to rise in many countries around the world over the remainder of 2009.

Currently unemployment in the US and Eurozone is approaching 10% of the labour force. Stock markets are certainly more upbeat about potential future corporate earnings and restocking by companies is now boosting demand, but for discretionary tourism trips it is consumer sentiment that really matters.

The evidence regarding consumer confidence is mixed; in both the UK and Eurozone consumers are on balance less pessimistic than at the start of 2009, but worries about job security over the coming year remain, and there is still clear evidence that consumers are cautious about making major purchases over the next twelve months. Among US citizens consumer confidence is much improved from an historic trough in February, but has retreated in the past two months.

Looking ahead the International Monetary Fund have revised their forecast for the scale of the 2009 global economic contraction to 1.4%, with growth set to resume next year at 2.5%, a somewhat healthier performance than was thought possible back in April.

The prognosis for the UK economy is gloomier, with the OECD recently warning that the UK economy will contract by 4.3% in 2009 and see zero growth during 2010. In the three months to June the UK economy contracted at an annual rate of 5.6%, a worse performance than many analysts had anticipated.

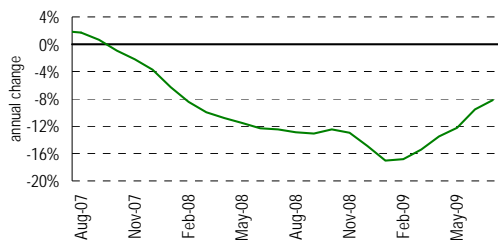
There is a clear read-across between the economic downturn and business class international travel, with

IATA reporting demand in June to be 21.3% down on a year ago.

Sterling still costs the majority of our inbound visitors significantly less now than a year ago but the differential is starting to narrow.

The cost savings are greatest for those visiting from the USA, Japan and Eurozone countries, but as we saw earlier the evidence suggests that it is only the Europeans who are taking full advantage by visiting Britain for a holiday in far larger numbers than at this time last year. 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, has there been any evidence of a 'barbecue summer' over the past three months?

May brought well above average rainfall across the UK, but as compensation both temperatures and amounts of sunshine were above average. June saw a promising start to the summer with below average rainfall, above average temperatures and well above average hours of sunshine, as was evident from the lack of interruptions to play at Wimbledon.

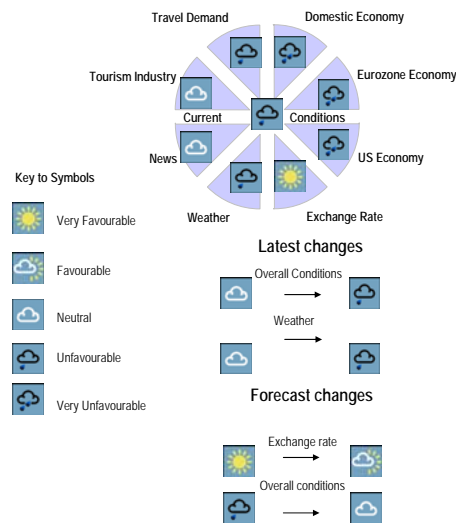
July was not as favourable, while temperatures and amounts of sunshine were both close to average the UK experienced exceptionally above average rainfall, with many areas having their wettest July on record.

According to the Met Office the coming winter (that's December to February) is set to bring above average precipitation but temperatures that are less chilly than those experienced last winter.

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, August 2009



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