

TOURISM TRENDS QUARTERLY

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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

After a 7% jump in the number of international tourist trips last year the United Nations World Tourism Organisation has forecast growth of 4-5% this year which would mean the 'one billion trips' milestone would be within a whisker of being reached. However, as with 2010 it looks likely that the unexpected will impact on tourism flows again this year.

The combined share of global tourism accounted for by arrivals in North Africa and the Middle East is only 8.4%, but the events unfolding across these regions has the potential to influence tourism well beyond the borders of those nations directly affected.

By far the most significant indirect consequence of the changing political landscape is that the price of oil has risen sharply to nearly \$120 per barrel (an increase of about 50% on this time last year). Not only will this put upward pressure on travel costs for both international and domestic tourists, but risks denting the fragile global economic recovery in the weeks ahead if prices remain at or above current levels.

At the global level 2010 was in fact a better year for international tourism than was anticipated, but results were undeniably mixed, with Asia Pacific surging ahead while arrivals to many European destinations witnessed mediocre gains.

Figures from IATA paint a clear picture of the surprisingly energetic rebound in the volume of international business travel last year, with airlines seeing a 9.1% increase in premium class traffic in comparison to 5.9% growth in economy class.

Looking further ahead, IATA forecast that in 2014 there will be 3.3 billion air travellers (of which 2 billion will be travelling on domestic routes), up 800 million from of 2.5 billion in 2009. The organisation observes that 214 million of the additional trips will be associated with China, but as testimony to the fact that most travel is intra not inter-regional, 181 million of these will be domestic and 33 million international.

Inbound tourism to the UK

We now have our first glimpse of full year figures for inbound tourism in 2010 from the International Passenger Survey and these reveal that a quarter of a million fewer overseas residents visited the UK in 2010 than in 2009, a decline of 0.9%. This is the third straight year of decline in visitor numbers, the first such sequence for a decade.

The 29.6 million overseas visitors spent £16.67bn during their time in the UK last year, an increase of 0.5% on 2009 in nominal terms.

UK residents took 6% fewer overseas trips last year, and spent 3% less while abroad, meaning that the UK's international tourism balance of payments deficit reduced from £15.1bn in 2009 to a provisional estimate of £14.2bn in 2010 (its lowest level for more than a decade).

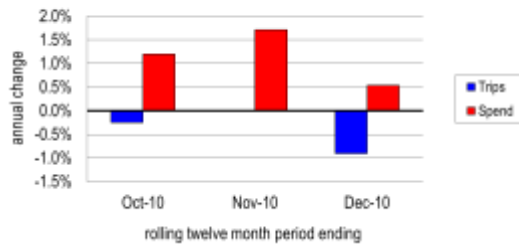
The number of visits from North America (-7%) and the twelve EU Accession nations (-5%) declined, while the number of visitors from other parts of Europe remained on a par with 2009. Overall there was growth (+2%) in the number of visits from remaining parts of the world, such as Asia Pacific, the Middle East and Latin America. Indeed, early indications are that all four of the so-called BRIC markets (Brazil, Russia, India and China) will have delivered double-digit percentage growth during 2010.

The number of holiday visits continued to show growth (+1%) and business tourism is making a steady improvement from its sharp declines of 2008 and 2009 (+3% in 2010). The number of trips to visit friends or relatives remains in the doldrums with a 5% decline in 2010.

There were a number of exceptional events during 2010 that dented progress towards a return to growth. It is likely that were it not for the disruption caused by the volcanic ash cloud, the severe winter weather and industrial disputes we would have been reporting visitor numbers that were on a par with 2009 rather than 0.9% down.

Many airports across north-west Europe faced operational difficulties in the run up to Christmas due to heavy falls of snow, with Britain's busiest airport, Heathrow, being effectively shut for several days. The impact on inbound tourism can be discerned from the following chart revealing that in the twelve months to December volumes dipped in comparison with the trend seen in preceding months.

Trends in inbound tourism



Looking at slightly more recent traffic data, in January BAA's six UK airports handled 3.8% more passengers than a year ago, although around half of this is due to the impact of snow in January 2010. Heathrow had its strongest ever January for long-haul traffic with healthy growth in traffic to/from both China and India.

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 cover October and reveal that this was the sixth consecutive month during which fewer overnight domestic trips were taken than in the same month a year before.

The upshot of these declines is that in the year to October there were 2% fewer trips than twelve months before. The amount that UK residents spent on overnight trips in the year to October was 4.2%, or £0.9bn, down on a year before suggesting that 2009 was indeed a high-water mark for domestic overnight tourism.

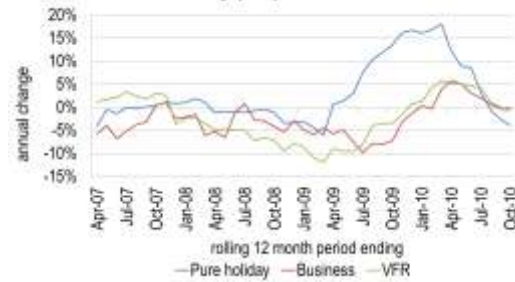
Trends in overnight domestic tourism



When we look at trends by journey purpose we discover that in the twelve months to October there was no year-on-year change in the volume of business or visiting friends and relatives trips, but there has been a 4% reduction in the number of pure holiday trips, representing a decline of 2.4 million.

It is likely that the severe weather during December may feed through to weaker figures in the final month of 2010 than would otherwise have been the case.

Journey purpose trends

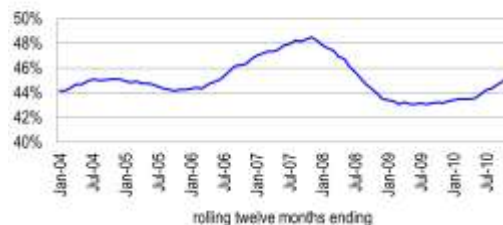


Accommodation

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 41% in November, up from 37% in November 2009.

If we take a rolling twelve month average of bedspace occupancy it is evident that the gradual improvement has shown sustained momentum over the past year.

Bedspace occupancy in UK serviced accommodation



According to STR Global UK hotel occupancy in January 2011 stood at 56.7%, up from 56.1% a year earlier, with average daily rates 4.2% up on January 2010 at £77.43. Not all parts of the UK enjoyed growth in occupancy rates with STR Global noting that occupancy in Cardiff hotels slipped 5.1 percentage points to 49.0% and in Manchester by 3.8 percentage points to 59.0%.

The latest VisitEngland's Business Confidence Monitor provides an insight from 500 accommodation businesses across England as to how they assessed recent business performance and prospects as at early January. More than one-third, 37%, said that they had fewer guests over the Christmas and New Year period than a year ago while only 19% had more guests.

When asked about their forward bookings for spring and Easter 29% of respondents said they were 'not as good as normal' with 16% saying they were 'better than normal'. The situation varies by type of

accommodation, with a mere 13% of caravan and camping businesses reporting advance bookings lower than normal in stark contrast to guesthouses and B&Bs with 43% reporting below-par forward bookings.

In its most recent Hotel Confidence Monitor TRI Hospitality Consulting found that, among the 267 UK chain hotel managers responding to the survey undertaken at the start of February, 61.8% said they were optimistic about the next three months and just 28.1% said they were pessimistic.

When asked to think about room occupancy levels over the next three months 63% of London hotel managers anticipate levels up on a year ago compared with 47% of general managers in the provinces expecting an increase.

There are a couple of nuggets relating to the future of the hotel sector that are well worth pointing out here. Firstly, according to PwC by 2012 London will have an additional 2,400 'deluxe' hotel rooms, representing a 27% increase in inventory, and secondly, according to STR Global at the end of December 14,061 hotel rooms were 'in construction' in the UK, with 38% of these rooms being in London. The number of rooms being constructed in the UK is almost double that of Russia, which sits in second place in the construction league table.

Attractions

According to the VisitEngland 'England Attractions Monitor' the average annual change in admission numbers across 600 attractions surveyed during the period October to December was a decline of 1%, however this average disguises significant variation across the quarter, with admissions 2% up in October, 7% up in November but 15% down in December, providing yet more evidence of the negative impact that the heavy snow and freezing temperatures had on many parts of the visitor economy.

When asked about their confidence for the period January to March 2011 21% of attractions expected visitor numbers to be higher than a year ago while 19% anticipated lower admission levels. Looking across 2011 the biggest threat to business performance perceived by attractions is a worsening in the economic climate.

In the latest wave of the Visit Wales Business Confidence Survey 80 attractions were contacted in early January and asked about performance over Christmas and New Year. Some 51% of attractions

said that visitor numbers were down on a year ago with a further 30% reporting no change – the heavy snow was a significant factor in driving down admissions.

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 December the number of visitors at the National Portrait Gallery was 26% down on a year ago with a 6% decline at the Natural History Museum.

However, the Imperial War Museum welcomed 18% more visitors at its London site and the National Museums in Liverpool witnessed a 26% jump in visitor numbers.

The Association of Leading Visitor Attractions recently published figures for 2010 showing that ,among attractions belonging to ALVA, the British Museum was the most visited site with 5.8 million admissions, up 5% on 2009. The Tower of London was the most visited attraction that charges for admission, with 2.4 million visits, up 1% on 2009.

Outbound tourism from the UK

In 2010 provisional figures from the International Passenger Survey tell us that Brits made 54.9 million overseas visits, a 6% reduction on the year before, meaning that outbound travel has fallen for four consecutive years from its 2006 peak of 69.5 million, a reduction in foreign travel of more than one-fifth.

How much UK residents spent abroad fell to £30.9bn last year, down 3% on 2009 in nominal terms, resulting in the UK having an international tourism balance of payments deficit of £14.2bn.

Four out of five trips that UK residents take abroad are to a European destination, and two in every three overseas trips are for a holiday.

Across all major destination regions and journey purpose categories there were fewer foreign trips by UK residents last year than the year before, with the number of foreign holidays taken each year having fallen by some 9.5 million in the space of two years.

Getting to and from Britain

During 2010 9.5 million people used Eurostar trains, representing a 3% rise on 2009, although some of this increase will have been due to the closure of airspace for six days in April last year, as figures for the final

quarter of the year show zero growth. In common with airlines, Eurostar enjoyed robust growth in business class travel over the past twelve months.

The number of cars transported through the tunnel rose 11% across the year but fell 5% in the final quarter, while the respective figures for coaches were +4% and +1%.

Looking at the amount of passenger traffic passing through the Port of Dover over the past three months paints a picture of annual declines, ranging from 12% in December (with the wintery weather on either side of the Channel a factor) to 2% in January. One other piece of ferry news is that DFDS has announced the axing of its Dublin to Liverpool route.

We can point the finger of suspicion at the snow for the 4% decline in car travel within Great Britain during the final three months of the year, but it is also likely that the rising cost of petrol may be deterring some journeys.

The saga of the dispute between British Airways and some of its cabin crew continues, with Unite set to re-ballot its members during March, following the airline pointing to possible irregularities with the ballot conducted during December.

Looking at recent route announcements bmi has confirmed the withdrawal of flights between Glasgow and Heathrow and a reduction in flights from Manchester to Heathrow, citing increased passenger levies being imposed by airport operator BAA on domestic passengers as a contributory factor.

On a more positive note Qatar Airways will be adding a second daily flight from its Doha hub to Manchester from 1 June and from April Manchester will additionally see new Ryanair flights from Madrid.

In the last edition of Tourism Trends Quarterly we noted the increase in Air Passenger Duty that was implemented at the start of November. Recently the Irish government announced plans to temporarily reduce its airport departure tax from €10 to €3 from March 2011 through to the end of the year.

A feature of the early weeks of 2011 has been the trickle of announcements from airlines that they are increasing their fuel duty surcharges due to the escalating price of oil.

Qantas recently increased its fuel surcharge on a return ticket from Australia to the UK by Aus\$100 to Aus\$290, and British Airways has upped the

surcharge on long-haul tickets by £12 for non-premium and £17 for premium class travel.

Looking at airline seat capacity at UK airports in the three months to February this year based on figures from www.capstats.com reveals a 1.0% decline on the equivalent period a year earlier. However, in the upcoming three month period seat capacity is set to be 6.5% up on the same three months of last year, although it should be noted that this figure is bolstered by the volcanic ash disruption of April last year.

Economic round-up

As 2011 began there were clear risks to the global economic recovery, ranging from the sovereign debt crisis in a minority of Eurozone nations through to rising inflation and a potential property market bubble in parts of Asia.

However, two months into the new year it is clear that in the short-term at least by far the most serious risk facing the fragile global economic recovery from the financial crisis of 2008 is the instability across much of North Africa and the Middle East, with the consequent dramatic impact on the price of oil.

As we have seen in the previous section airlines have already upped their fuel surcharges this year, and these announcements were made before the crisis spread to Libya, which accounts for 2% of global oil output.

The price of a barrel of Brent Crude stood at between \$75 and \$80 a barrel this time last year, but at the time of writing is trading at nearly \$120, representing an increase of around 50%.

The potential damage that sustained high oil prices could have on global tourism flows is of great concern, with all forms of travel seeing cost increases. It is possible that we will see further increases in air fares which would slow growth in international travel, but the price of petrol at the pumps could influence the decisions that domestic consumers make regarding both leisure days out and where in the UK they drive to for domestic holidays as the Easter and May bank holidays beckon.

At the 'macro' rather than 'micro' level is the potential for sustained high oil prices to damage the global economic recovery which in turn would have a negative impact on international business travel, airline revenue streams and consumer confidence.

As oil is traded in US dollars historically there has been some tendency for the dollar to weaken as oil prices increase, which, were it to happen, would make foreign travel more expensive to Americans considering visiting a destination where the currency was not pegged to the dollar, for example the UK or a Eurozone country.

Focussing just on the UK economy there was a surprise 0.5% reduction in Gross Domestic Product in the final quarter of 2010, with the severe winter weather being a contributory factor. It is probable that the first three months of 2011 will see a bounce-back as postponed activity gets underway, but there remain concerns that the retail sector will feel the cold wind of higher VAT rates.

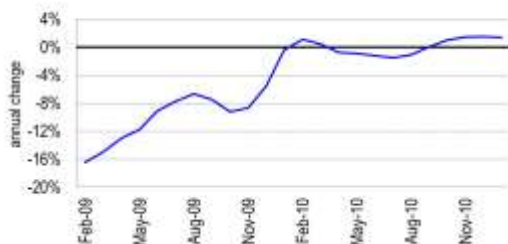
With inflation rising around the globe there is now considerable agreement among analysts that the Bank of England will need to increase base rates sooner rather than later from their historic low of 0.5%.

Published before forecasters had time to digest the likely fallout from the unrest in the Middle East the compendium of forecasts published by HM Treasury every month indicates that in mid-February the 'consensus' view for economic growth in the UK during 2011 stood at 1.9%, with a range of 0.9% to 3.1%.

Globally it is worth noting that in 2010 China overtook Japan to become the world's second largest economy after the USA, but the authorities in Beijing have grown increasingly concerned about the need to put a lid on rising commodity prices, and in neighbouring Hong Kong new measures are being adopted to cool the recent rapid increase in property prices.

On the currency markets sterling continues to enjoy fairly stable conditions, trading at around \$1.62 and just over €1.18, 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



Weather

Of the past three months of weather December is clearly the one that will stick in the memory for longest, being the coldest December for more than a century. With cold temperatures came snow for many, but in fact across the UK as a whole it was the driest December since 1963, with exceptional amounts of sunshine recorded.

The snow had a major impact on transport networks as discussed earlier, and as we have seen the attractions sector appears to have experienced a weather-related dip in admissions too.

By comparison January was distinctly uneventful, with temperatures close to average, above average amounts of sunshine and below average precipitation.

February data is not yet available but half-term week brought little in the way of sunshine, although on a positive note the month has been mostly free from weather of a disruptive nature in most areas, although Scotland has seen further falls of snow.

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.



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