

# EUROPEAN TOURISM - TRENDS & PROSPECTS



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**QUARTERLY REPORT - Q2/2019**

**EUROPEAN  
TRAVEL  
COMMISSION**



# EUROPEAN TOURISM: TRENDS & PROSPECTS

## QUARTERLY REPORT (Q2/2019)

A quarterly insights report produced for the Market Intelligence Group  
of the European Travel Commission (ETC)  
by Tourism Economics (an Oxford Economics Company)

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## EUROPEAN TOURISM: TRENDS & PROSPECTS (Q2/2019)

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# FOREWORD

## EUROPEAN TOURISM HOLDS UP WELL DESPITE FALTERING GLOBAL ECONOMIC PROSPECTS

Demand for European tourism is expected to maintain an upward trajectory over 2019. However, growth rates by destination are slower than in previous years. The region will struggle to remain resilient as trade tensions disrupt the global economy. While Europe's largest long-haul markets continue to support tourism growth, the contribution from intra-European demand will become even more significant.

### Foreign visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Virtually all reporting destinations registered significant increases in tourist arrivals early in the year, although data into the summer months will provide a more stable picture of yearly performance. Balkan destinations' efforts to expand the tourism season, diversify the product offer, and develop niche marketing are bearing fruit: Montenegro (+50%) and Turkey (+12%) were the only destinations which have posted double-digit expansions so far this year. Star performers were also Slovenia and Greece (both +8%); following almost five years of solid growth, 2019 prospects for Greece are positive despite the return of competing destinations.

The demise of Iceland's low-cost carrier WOW Air in March, hasn't gone unnoticed, negatively affecting the country's economic outlook and tourism sector (-11%). Romania (-7%) also saw dwindling arrivals from a wide range of source markets. While relatively weak tourism infrastructure and accommodation capacity in Romania have had negative impact, strong domestic tourism provides some respite. Estonia saw a slight decrease (-2%) due to declines from one of its largest source markets, Russia (-9%).

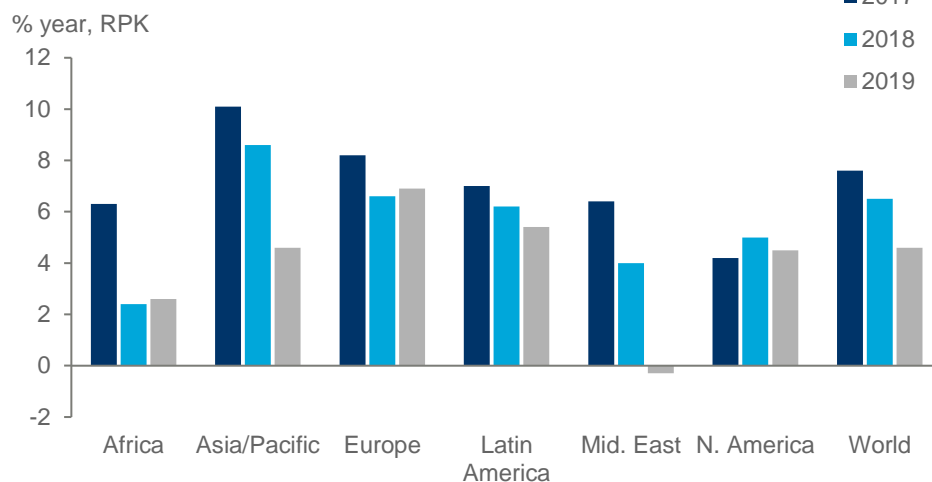
## CHALLENGES IN THE SKIES

European airline growth measured in RPK<sup>1</sup> (6.9%) outperformed global air passenger growth and that of other regions based on year-to-date data. However, storm clouds are gathering given increased demand and constrained air-traffic control capacity. Increasing delays and cancellations are expected to aggravate the situation over the 2019 peak summer travel months.

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<sup>1</sup> Revenue Passenger Kilometres

## Annual International Air Passenger Growth



Source: IATA

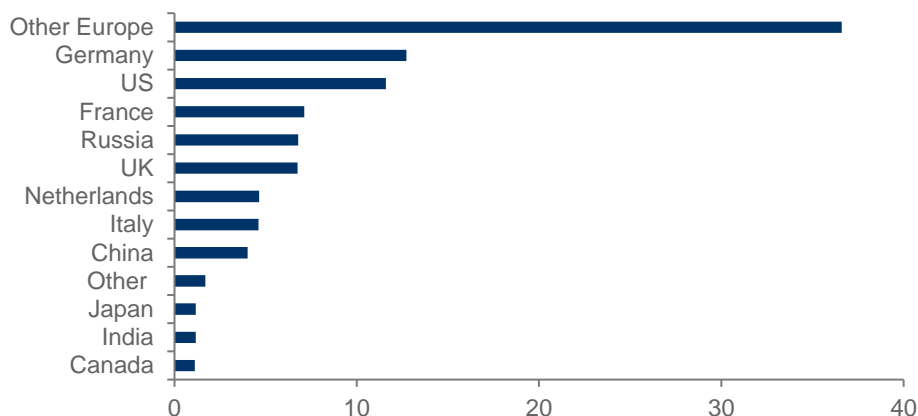
According to Eurocontrol, the cost to the EU economy of delays and cancellations was estimated at €17.6bn in 2018, while over half (60.4%) of the delays related to capacity and staffing. Asia/Pacific air passenger traffic growth (4.6%) and North America (4.5%) remains below that of Europe. According to ForwardKeys, Chinese bookings to Europe are 6.7% ahead compared to 2018 while Chinese booking to the US are down 3% the first five months of 2019<sup>2</sup>.

## DESPITE TRADE QUARRELS HEALTHY GROWTH IS REPORTED FROM EUROPE'S KEY LONG-HAUL MARKETS (US AND CHINA)

A handful of reporting destinations registered more falls from European source markets than from long-haul. Among Europe's key long-haul source markets, the US and China continue to stand out in terms of their contributions to European tourism growth accounting for a share of 11% and 4% respectively.

### Contributions to European growth by origin market

% contribution to growth, 2019



Source: Tourism Economics

Despite wobbly trade relationships between China and the US and a slowing Chinese travel demand, the vast majority (93%) of reporting destinations enjoyed growth from the Chinese market early in the

<sup>2</sup> ForwardKeys. *Chinese tourism is set to surge 7.6% this summer.* <https://bit.ly/2Xj9Miu>, June 2019

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year. Some staggering growth was concentrated mainly in Southern/Mediterranean destinations: Montenegro (+150%), Cyprus (+62%), and Croatia (+44%). Lithuania (+77%) was the second fastest destination in terms of Chinese arrivals.

A moderate slowdown in US GDP is expected to impact its outbound travel with US visitor arrivals to Europe expected to rise by 3.9% annually on average over the next five-year period. Nevertheless, Europe continues to be an attractive destination for US holidaymakers, supported also by a strong dollar against the euro and the pound. Greece (+47%), Turkey (+37%), and Cyprus (+33%) saw the strongest rates of growth from the US early in the year. Conversely, Iceland which used to register notable increases in tourist arrivals from the US has seen a steep decline (-22%) attributable to the collapse of WOW Air and capacity constraints on Trans-Atlantic routes via Iceland.

## **ECONOMIC CHALLENGES AND SLOWING TRAVEL DEMAND KEY FACTORS OF A BUMPY 2019**

In the Eurozone, solid domestic demand supports growth, while persistent downside risks continue to weigh on long-term development prospects. Following a solid performance in 2018 (+6%), international tourist arrivals to Europe are projected to grow 3.6% in 2019, a rate more in line with the annual historical average (2008-18)<sup>3</sup>.

Lower projections are associated to downside risks that remain in place: trade war impacts on the global economy, geopolitical tensions, growing concerns around unfolding Chinese economic slowdown, a potential US recession, Brexit, and persistent weakness in the Eurozone (e.g., German slowdown and Italian debt). Following the G20 Summit in Osaka, renewed trade talk between US and China seem to have alleviated tensions, although expert say the “ceasefire” is likely to be temporary.

“Europe must align its market mix and identify under-served segments and further expand its understanding of pan-European product development. Through the promotion of transnational experiences, the European Travel Commission (ETC) particularly seeks to raise visibility for the plethora of products available and to create awareness for the region’s diversity. An essential pillar to achieve the sustainable growth of European tourism are public-private partnerships following a focused approach with common and achievable goals.” said Eduardo Santander, Executive Director ETC.

Jennifer Iduh (ETC Executive Unit)

*with the contribution of the [ETC Market Intelligence Group \(MIC\)](#)*

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<sup>3</sup> UN World Tourism Organization (UNWTO)

# TOURISM PERFORMANCE SUMMARY 2019

## SUMMARY

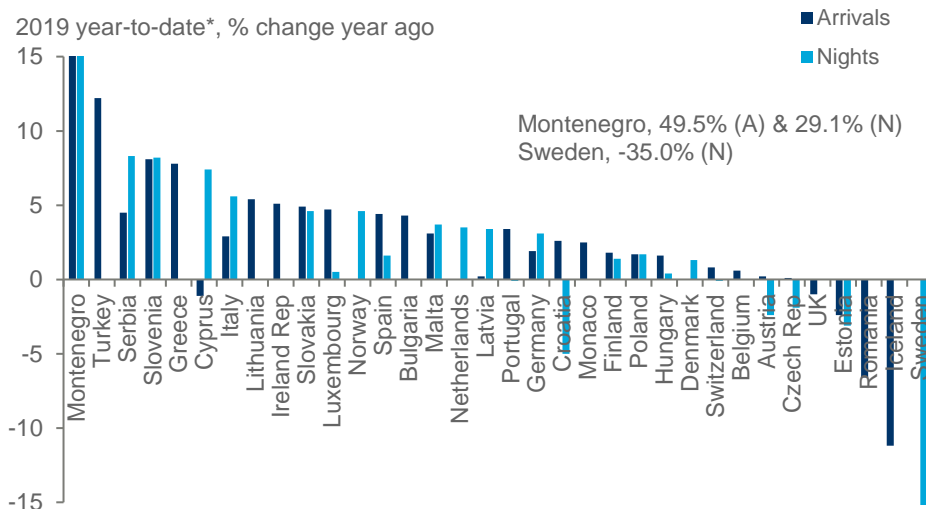
- Maintaining growth in 2019 will be more challenging than in 2018. The majority of destinations are currently reporting growth according to latest available data, but this is slower than in previous years.
- Montenegro is the fastest growing destination for which data are available, aided by new capacity and connectivity.
- For the first time since 2010 declines have been reported in Romania from many of its key source markets.

A vast majority of European destinations for which data are available have continued to enjoy growth amidst a weakening economic backdrop. Based on data presently available, the magnitude of growth being reported across destinations is below that observed in prior years, with significantly less destinations reporting double-digit arrivals or overnights growth this year compared to prior years, for example.

## Year-to-date growth in all reporting destinations was significantly slower than in the previous two years, up 3.5% on a weighted average basis

Year-to-date growth in all reporting destinations was significantly slower than in the previous two years, up 3.5% on a weighted average basis. However, a number of destinations have yet to report data for April, and the Easter-related demand therein will likely provide some boost to year-to-date performance for those destinations.

### Foreign visits and overnights to select destinations



Source: TourMIS \*date varies (Jan-May) by destination

Europe's top growth destination based on early-2019 data was Montenegro which actually saw demand growth tick upwards from earlier in the year. Arrivals in the first four months of the year grew 49.5% and overnights 29.1% compared to the same period a year ago. (This compares to arrivals growth of 40.6% and overnights growth of 23.6% based on data to February.) This momentum has been borne out of improved air transport accessibility and a number of activities which have been implemented to promote its tourism offering by the National Tourism Organisation and the Ministry of Sustainable Development and Tourism. Growth in the early part of the year demonstrates an expanded tourism season, with growth in January and February in particular owing to the development of winter tourism infrastructure which has added depth to Montenegro's tourism offering. In 2015 the government announced that it would invest some €60 million over a five-year period to improve winter sports facilities, and significant

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improvements have been made to the quality of accommodation, with a substantial number of 4- and 5-star hotels opened in recent years. These investments are now starting to bear fruit.

Demand to Turkey has also gathered some steam compared to earlier in the year, with arrivals up 12.2% in the first four months of the year compared to the same period a year ago. Arrivals growth for the first two months of the year was 7.4%. Growth was reported from all source markets for which data are available. In almost all cases growth was significant, however growth from China was somewhat subdued. Lingering weakness of the lira should support further growth into the peak summer tourism season.

Russia has been a key part of Turkey's recovery, and although arrivals growth has slowed slightly compared to earlier in the year (from 33.7% based on data to February compared to 26.5% at present), in absolute terms it remains substantial since Russia accounted for 15% of total foreign arrivals to Turkey in 2018. This makes it Turkey's largest source market.

Serbia was the third fastest growing destination based on latest on available demand data for 2019. This performance (as third fastest growing destination) was driven by overnights growth of 8.3%, but arrivals also grew at a robust rate of 4.5%, both based on data to March. This has been aided by a growing number of flights operated by Europe's low-cost carriers to and from Serbia.

Efforts to market Serbia to Asian tourist have started to bear fruit; in May, nearly 40 tourism agencies from 12 Asian countries including China took part in the workshop co-organized with Turkish Airlines and the Serbian Tourism Organization, the purpose of which was to showcase the tourism potential of various destinations within Serbia (i.e., not just Belgrade). Such efforts have already yielded significant demand growth from China, with arrivals up 55.6% based on data to March. Continued efforts in this regard will likely support further growth. More generally, Belgrade's designation as cheapest city in Europe to visit in Post Office's *Travel Money City Costs Barometer* last year has likely provided some impetus for demand growth from within Europe.

Slovenia has enjoyed robust growth in arrivals and overnights so far in 2019, with arrivals up 8.1% and overnights up 8.2% based on data to April. A recent win for Ljubljana and a runner-up spot for Bled at this year's ITB Berlin – the world's largest tourism trade fair – are indicative of efforts being made by Slovenia to attract demand, and such recognition of the success of these efforts suggest further growth is likely.

Estonia, Romania, and Iceland were the only markets which reported declines in demand. Estonia has reported a 2.4% decline in arrivals and a 3.1% decline in overnights based on data to April. Whilst arrivals were up from the majority of reported source markets, arrivals from Russia – one of its largest source markets – were down 8.7% and overnights 9.6% compared to the same period a year ago. Russia has accounted for around 10% of annual arrivals to Estonia over the past few years, which leaves Estonia's overall performance highly exposed to the whims of Russian sentiment.

At present, Romania looks set to report declines in arrivals for the first time since 2010. Based on data to April, arrivals are down 6.6% compared to the same period a year ago, with declines common from most reported source markets. It is possible that ground gained by other destinations in the region, such as Bulgaria and Serbia, have come at a cost to Romania. It has been suggested this decline is due to a lack of government measures to develop the tourism industry. Heavy-handed intervention by local police against protesters in Bucharest during the Diaspora protest against the Romanian government in August last year is another possible reason why it has been spurned.

Iceland has also reported declines for the first time since 2010 based on early-2019 data. Arrivals to Iceland began to slow in 2018 following a number of years in which significant growth was achieved, with supply shortages cited as being a key part of the slowdown. The recent collapse of Iceland's low-cost carrier WOW Air in March will have exacerbated these shortages. The reduced capacity on trans-Atlantic routes is evident in arrivals data with the largest falls in arrivals being from US and Canada.

## TOURISM PERFORMANCE, 2019 YTD

Country	International Arrivals		International Nights	
	% ytd	to month	% ytd	to month
Austria	0.2%	Jan-May	-2.4%	Jan-May
Belgium	0.6%	Jan-Mar	-	Jan-Mar
Bulgaria	4.3%	Jan-Apr		
Croatia	2.6%	Jan-May	-5.0%	Jan-May
Cyprus	-1.1%	Jan-May	7.4%	Jan-Apr
Czech Republic	0.1%	Jan-Mar	-1.9%	Jan-Mar
Denmark			1.3%	Jan-Apr
Estonia	-2.4%	Jan-Apr	-3.1%	Jan-Apr
Finland	1.8%	Jan-May	1.4%	Jan-May
Germany	1.9%	Jan-Apr	3.1%	Jan-Apr
Greece	7.8%	Jan-Mar		
Hungary	1.6%	Jan-Apr	0.4%	Jan-Apr
Iceland	-11.2%	Jan-May		
Republic of Ireland	5.1%	Jan-Apr		
Italy	2.9%	Jan-Mar	5.6%	Jan-Mar
Latvia	0.2%	Jan-Apr	3.4%	Jan-Apr
Lithuania	5.4%	Jan-Mar		
Luxembourg	4.7%	Jan-Mar	0.5%	Jan-Mar
Malta	3.1%	Jan-Apr	3.7%	Jan-Apr
Monaco	2.5%	Jan-Apr	-	Jan-Apr
Montenegro	49.5%	Jan-Apr	29.1%	Jan-Apr
Netherlands	-	Jan-Mar	3.5%	Jan-Mar
Norway			4.6%	Jan-May
Poland	1.7%	Jan-Mar	1.7%	Jan-Mar
Portugal	3.4%	Jan-Mar	-0.1%	Jan-Mar
Romania	-6.6%	Jan-Apr		
Serbia	4.5%	Jan-Mar	8.3%	Jan-Mar
Slovakia	4.9%	Jan-Mar	4.6%	Jan-Mar
Slovenia	8.1%	Jan-Apr	8.2%	Jan-Apr
Spain	4.4%	Jan-Apr	1.6%	Jan-Apr
Sweden			-35.0%	Jan-May
Switzerland	0.8%	Jan-Apr	-0.1%	Jan-Apr
Turkey	12.2%	Jan-Apr		
UK	-1.0%	Jan-Mar		

Source: TourMIS (<http://www.tourmis.info>); available data as of 3.7.2019

Measures used for nights and arrivals vary by country

# GLOBAL TOURISM FORECAST SUMMARY

Tourism Economics' global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of the Global Travel Service (GTS) model, which is updated in detail three times per year. Forecasts are consistent with Oxford Economics' macroeconomic outlook according to estimated relationships between tourism and the wider economy. Full origin-destination country detail is available online to subscribers.

## GTS VISITOR GROWTH FORECASTS, % CHANGE

	Inbound*					Outbound**				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
data/estimate/forecast	e	f	f	f	f	e	f	f	f	f
World	5.8%	4.2%	3.6%	3.8%	4.0%	5.2%	4.3%	3.6%	3.8%	4.0%
Americas	3.3%	4.0%	3.7%	3.8%	4.0%	4.4%	4.1%	3.0%	3.0%	3.3%
North America	4.1%	3.5%	3.4%	3.6%	3.8%	5.6%	4.1%	2.8%	2.7%	3.0%
Caribbean	-1.7%	4.8%	5.0%	4.4%	3.8%	2.4%	5.9%	5.6%	5.1%	5.5%
Central & South America	3.5%	4.9%	4.1%	4.2%	4.7%	0.7%	4.1%	3.4%	3.9%	4.2%
Europe	5.9%	3.6%	2.8%	3.2%	3.4%	5.2%	4.2%	3.3%	3.6%	3.7%
ETC+3	5.6%	3.5%	2.6%	2.9%	3.3%	4.6%	4.1%	3.2%	3.4%	3.6%
EU	4.5%	3.2%	2.4%	2.7%	3.1%	4.7%	3.9%	3.1%	3.3%	3.5%
Non-EU	11.6%	5.2%	4.5%	4.8%	4.5%	7.3%	5.6%	4.0%	4.6%	4.5%
Northern	0.7%	3.6%	2.5%	2.4%	3.0%	-0.1%	4.1%	3.6%	4.3%	4.7%
Western	6.4%	2.8%	2.0%	2.4%	2.8%	5.2%	3.9%	2.9%	2.9%	3.0%
Southern/Mediterranean	7.0%	3.7%	2.9%	3.4%	3.7%	8.5%	4.7%	3.5%	3.4%	3.8%
Central/Eastern	4.4%	4.5%	3.7%	4.1%	3.8%	9.7%	4.8%	3.5%	3.9%	3.8%
- Central & Baltic	5.1%	4.3%	3.1%	3.3%	3.2%	8.1%	3.8%	2.9%	3.2%	3.2%
Asia & the Pacific	7.0%	4.8%	4.6%	4.4%	4.4%	6.1%	4.7%	4.7%	4.7%	4.8%
North East	6.5%	4.5%	4.7%	4.3%	4.3%	5.7%	4.8%	4.6%	4.7%	4.7%
South East	8.1%	4.6%	4.3%	3.9%	4.2%	7.2%	3.1%	4.3%	4.0%	4.4%
South	7.2%	7.9%	6.0%	5.9%	5.7%	7.8%	8.0%	5.5%	5.7%	5.8%
Oceania	4.2%	4.8%	4.2%	6.3%	5.4%	4.8%	4.5%	5.3%	5.5%	5.3%
Africa	9.7%	6.5%	4.9%	4.9%	4.4%	7.0%	4.8%	3.6%	3.6%	3.6%
Middle East	2.7%	5.6%	5.8%	6.4%	6.3%	1.5%	4.2%	4.3%	5.4%	6.0%

\* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flow

\*\* Outbound is based on the sum of visits to all destinations

The geographies of Europe are defined as follows:

**Northern Europe** is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

**Western Europe** is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

**Southern/Mediterranean Europe** is Albania, Bosnia-Herzegovina, Croatia, Cyprus, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;

**Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine;

- **Central & Baltic Europe** is Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia;

**ETC+3** is all ETC members plus France, Sweden, and the United Kingdom

Source: Tourism Economics

# RECENT INDUSTRY PERFORMANCE

## SUMMARY

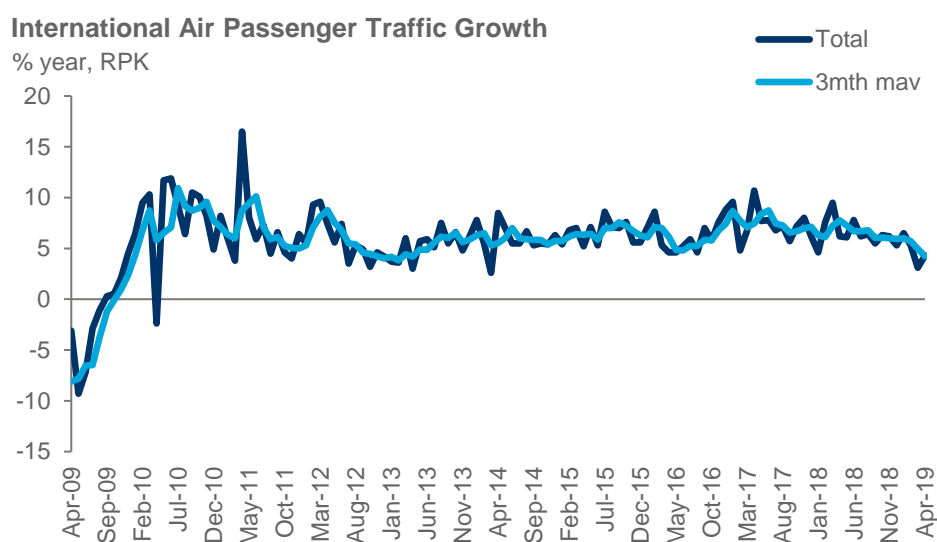
- Global air transport, measured in Revenue Passenger Kilometres (RPK), grew 4.6% in the first four months of 2019 compared to the same period a year ago.
- A recent uptick in RPK growth in Europe makes it the fastest growing global region with 6.9% growth, but capacity constraints remain a concern for the prospects of the region.
- Hotels in Europe grew RevPAR 2.1% in the first five months of 2019 compared to the same period a year ago. This represents a small improvement in growth relative to Q1 performance.
- ADR remains the chief driver of RevPAR growth across Europe except for in Eastern Europe.
- Relatively low hotel occupancy growth points to potential capacity constraints in hotels given the high occupancy levels and faster growth in other indicators of demand.

## AIR TRANSPORT

Global air passenger growth measured in Revenue Passenger Kilometres (RPK) sat at 4.6% according to year-to-date data to April. Whilst this remains within the bounds of what could be described as robust, it represents a slowdown compared to prior years. It is also markedly slower than suggested by year-to-date figures reported earlier in the year (according to data to February global RPK growth was 5.9%). For context, this is the slowest rate of air passenger growth for 10 years, when global RPK contracted in 2009 in the wake of the global financial crisis the year prior. This reflects a slowing global economic backdrop and some fraught trade relations which are having a clear impact on demand.

### Global air passenger growth hit a 10-year low in early-2019

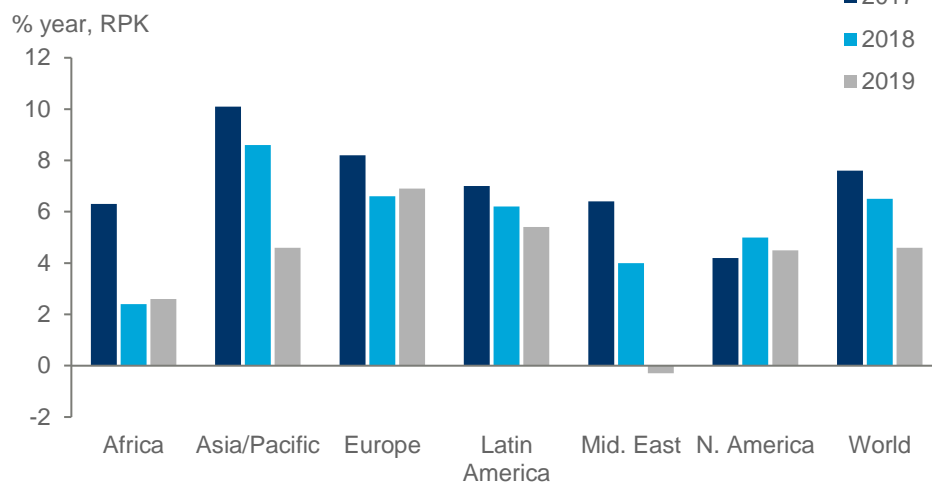
Nonetheless, global passenger load factor (PLF) remains relatively high (81.2% based on data to April). These capacity constraints coupled with airlines' limited ability to reduce already low air fares further may also have stifled demand in recent months.



Source: IATA

At the regional level, Europe appears unaffected by Brexit uncertainty or the softer economic outlook across the region; despite both contributing to markedly lower business confidence over the past year; so far this year it has outperformed all other regions, posting 6.9% growth in RPK in the first four months of the year compared to last year. While global growth is currently comparable to the slowdown experienced in 2016, it is notable that European airline growth remains faster than at that time.

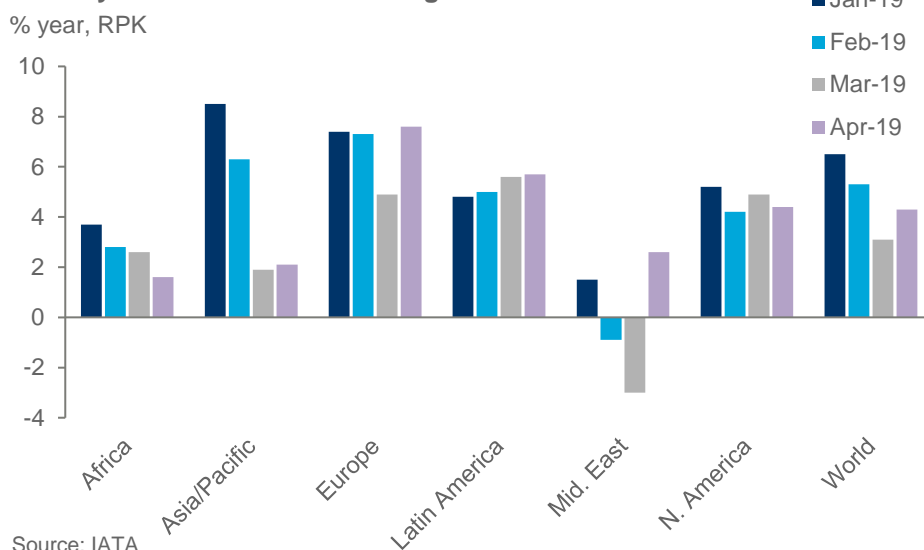
### Annual International Air Passenger Growth



Source: IATA

As it stands, only Europe and Africa are on course to outperform 2018 growth. However, year-to-date growth has slowed based on estimates made earlier in the year: Europe's year-to-date growth estimate for RPK has fallen by 0.4 pp, from 7.3% to 6.9%, and Africa's by 0.7 pp, from 3.3% to 2.6% based on data for the first four months of the year compared to the first two months.

### Monthly International Air Passenger Growth



Source: IATA

For the past two years airlines in Asia/Pacific had enjoyed the fastest rates of RPK growth. Indeed, this was also true based on year-to-date data to February. However, a sharp slowdown in March and April have shaved almost 3 pp off February's year-to-date estimate, down from 7.5% to 4.6%.

In 2018 Chinese exports collapsed, pointing to a significant slowdown in global trade growth and an increasing impact from US tariffs. Further tariffs imposed by the US in March of this year have clearly exacerbated the impact, with some notable slowing of travel demand in the region since, pulling growth well below its long-run average.

There was also a marked slowdown in RPK growth generated by Indian airlines due to the exit of Jet Airways from the market in April. This sizeable supply side interruption has not yet been filled by other carriers, but the eventual restoration of this supply should offer a boost to RPK growth in the region.

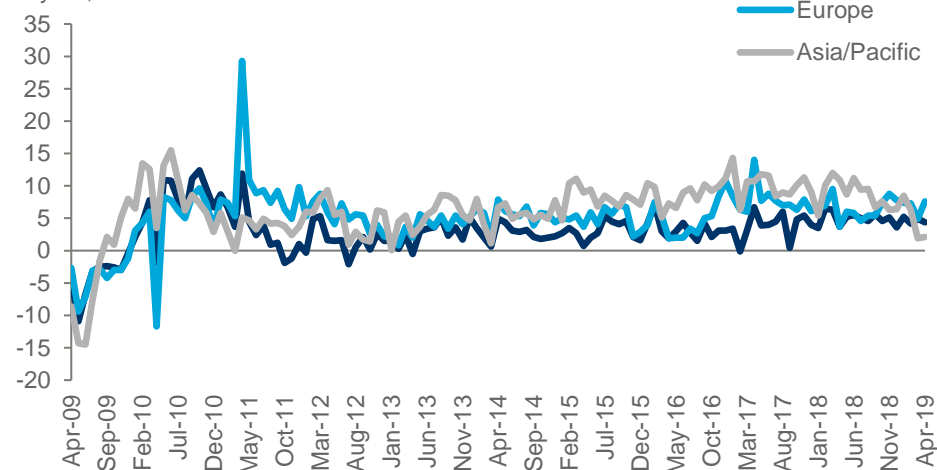
Whilst there was a pick-up in air passenger growth in the Middle East in April, in year-to-date terms it remains the only region in which demand has declined compared to a year ago. A downward trend in

data has been observed since mid-2018 and is likely to persist in the near-term while some broader structural changes in the industry are underway.

Africa is the second slowest growing region in RPK terms, and demand has got progressively slower with each passing month of 2019. Although currently poised to outperform 2018, the current trajectory of demand in the region looks likely to scupper such a performance. A moderate economic recovery is forecast for South Africa in 2019, but risks to the outlook have shifted to the downside amidst signs of a slowdown in global trade, issues surrounding electrical supply security, and a higher tax burden for consumers. Falling business confidence and rising concerns about economic and political conditions in other key economies in the region also persist.

### International Air Passenger Traffic Growth

% year, RPK

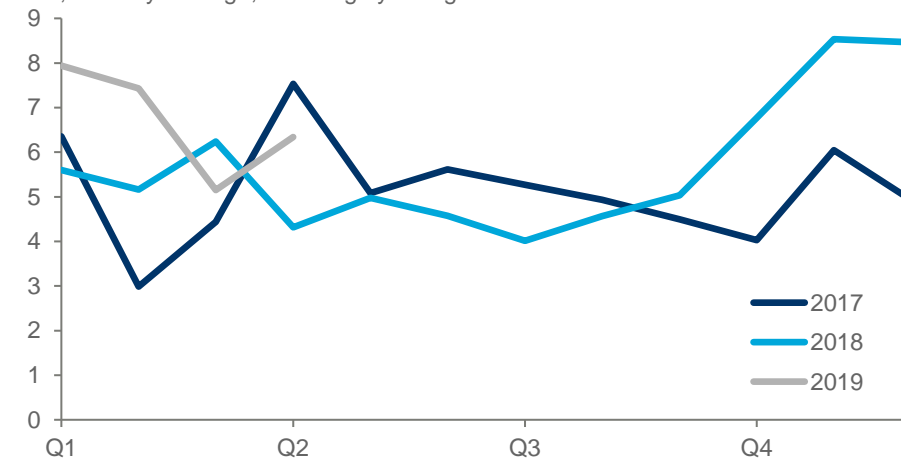


Source: IATA

In broad terms, for the first time in a number of years, Asia/Pacific air passenger traffic growth has begun to tick below that of Europe and North American. A trade deal with the US would go some way towards remedying this. It would also alleviate global growth concerns and provide a much-needed global confidence boost, to the benefit of air passenger traffic more generally. The sizeable supply side interruption caused by the collapse of India's Jet Airways once restored will also help close the gap. However, other carriers have not yet offset the shortage.

### European Airlines Capacity

ASK, monthly average, % change year ago



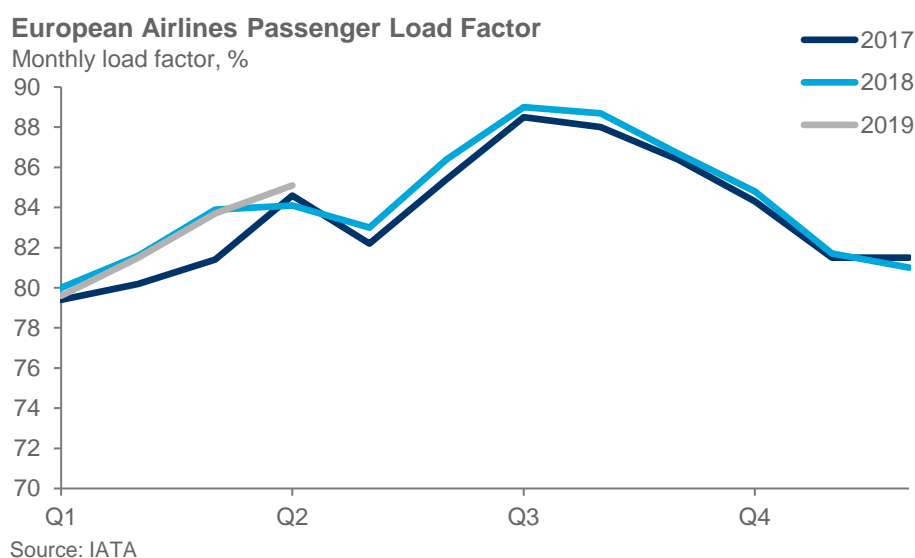
Source: IATA

Available Seat Kilometres (ASK) have continued to grow in Europe and had until March been sufficient to keep load factors in check. However, in April ASK grew around 6.3% to RPK's 7.6%, resulting in higher PLF on European airlines for the month.

This continued growth demonstrates that capacity constraints have not hampered demand to the extent that some feared. Nonetheless, capacity remains a major concern within Europe where load factors are higher than in any other region. The year-to-date load factor in Europe is 82.7%, but in April alone was 85.1%. While this was likely influenced by the timing of Easter which fell in April this year, this is the highest ever load factor observed in any March or April – the two months in which Easter typically falls – of the past 15 years.

### Slower capacity growth in Europe is applying upward pressure on load factors

This upward pressure on load factors is exacerbated by the slower capacity growth, with the industry clearly reluctant to grow capacity in the face of a weaker business environment. This shortfall may persist throughout 2019 given infrastructure limitations and lead times involved in planning new capacity. Airlines may also be seeking to bolster profitability by flying at higher load factors. The importance of sufficient capacity to destinations is evident in the recent data for Iceland following the collapse of WOW Air, whereas the strong growth performance in Montenegro has been aided by new routes.



## ACCOMMODATION

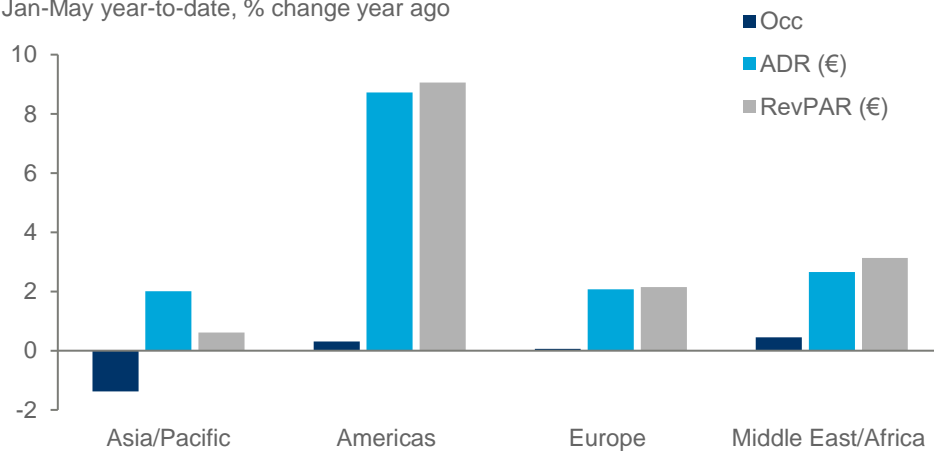
European hotel revenue per available room (RevPAR) grew by 2.1% in the first five months of 2019 compared to the same period a year ago, with this growth driven almost exclusively by rate hikes. The relative strength of the US dollar has driven a significant increase in hotel rates in the Americas when priced in euro terms, up 8.7%. Priced in dollar terms this increase was much more stunted at 0.9%.

### European hotel revenue per available room (RevPAR) grew by 2.1% in the first five months of 2019

In Asia/Pacific, average daily rate (ADR) increases were broadly comparable to those in Europe, however, declines in occupancy rates have dragged on RevPAR. Some weaker business confidence in the region may be to blame. In the Middle East/Africa the story is much the same as Europe whereby hotel operators have relied upon rate growth to grow RevPAR. At the same time, such low rates of RevPAR growth (between 2-3%) are sufficient only to offset inflation. This perhaps indicates some trepidation within the industry to push rates as alternative accommodation types such as Airbnb persist in gaining market share.

## Global Hotel Performance

Jan-May year-to-date, % change year ago



Source: STR

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# SPECIAL FEATURE: THE IMPACT OF “TOURISM YEARS”

## SUMMARY

- Tourism years appear to support growth between participating destinations. This growth is mostly in prior years as capacity expands to meet expected demand from the tourism year.
- The EU-China Tourism Year in 2018 had a clear impact on demand for both EU and non-EU ETC destinations.
- Tourism years can act as a catalyst for faster growth from developing and long-haul markets, but short-haul travel will ultimately remain key to Europe’s growth prospects in the near-term.

## BACKGROUND

“Tourism years” have become a more prominent feature of bilateral relations in recent years, with significant effort being made to forge partnerships with untapped and developing markets. China in particular has been a prominent partner in a number of recent tourism years.

Tourism years serve a valuable purpose: they provide an impetus for connectivity growth between countries and help destinations to broaden their appeal across source markets. Different source markets can be directly targeted in a tourism year. Crucially, they can demonstrate the potential demand that exists in a given source market and therefore help to justify policy decisions which focus on these markets.

### **Tourism years can demonstrate the potential demand that exists in a given source market**

A number of tourism years have been analysed to ascertain the impact of these on arrivals growth (including their significance in a broader context) and on outbound travel. Included in the review are a number of tourism years between European destinations and either China or Russia, as well as some between China and non-European destinations (for completeness). These are:

- 2012: Russia-China
- 2013-14: Italy-Russia
- 2016: United States-China, Spain-Russia
- 2017: Australia-China, Switzerland-China, Denmark-China
- 2017-18: Greece-Russia
- 2018: EU-China, Canada-China, Turkey-China
- 2019: Turkey-Russia, New Zealand-China, Laos-China

## THE IMPACT OF TOURISM YEARS ON ARRIVALS

In simple growth terms the impact of tourism years on arrivals is mixed. In the cases reviewed, there is typically arrivals growth in the three years leading up to the tourism year proper. Indeed, average growth over this period was often higher than that observed in the tourism year itself. A significant proportion of growth in prior years is directly attributable to directives associated with the tourism year. Hotels ready themselves, airlines add to capacity between the destinations in order that demand can be serviced within the tourism year itself. Promotion for the tourism year begins ahead of time, and this promotion alone can be a catalyst for growth by virtue of the additional awareness created.

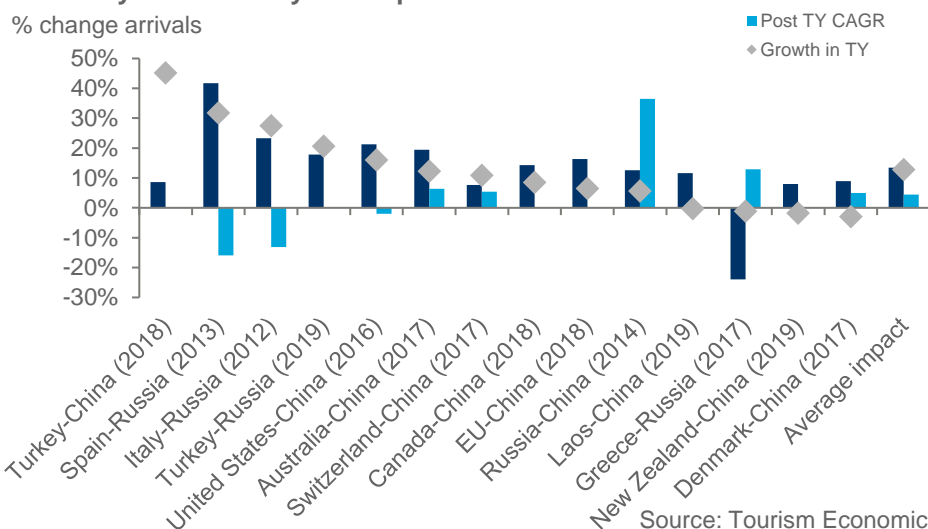
In most cases, tourism years also appear to have supported sustained tourism demand growth in the years immediately following. The connections forged by airlines in the lead-up to and during the tourism

year remain, as do the foundations laid elsewhere in the industry to cater for the additional demand growth during the tourism year. This encourages future travel, with the perceived success of a tourism year providing further incentive. Nevertheless, growth in the years immediately following a tourism year tends to be slower compared to before and during, albeit from the higher starting volume.

### In most cases, tourism years appear to have supported tourism demand growth in the years immediately before and after

There are, however, some exceptions. For instance, Greece’s tourism year with Russia failed to yield any significant return during the capacity building and preparation phase (arrivals actually declined by a notable amount). There was some growth in the post-tourism year period, but not enough to offset the previous decline. In addition, the tourism years between Italy and Russia (2012) and Spain and Russia (2013) saw a decline in arrivals following the tourism year, unwinding some of the increase seen in the year itself and years prior. However, it is difficult to disentangle the impact of other economic events from that of the tourism year in these cases, with Greece and Russia both suffering economic recessions prior to their tourism year, and Italy, Spain, and Russia experiencing downturns following their tourism years. Similarly, the deterioration of US-Chinese relations under the Trump Presidency likely restricted arrivals growth after the 2016 US-China tourism year.

#### Summary of "tourism year" impact



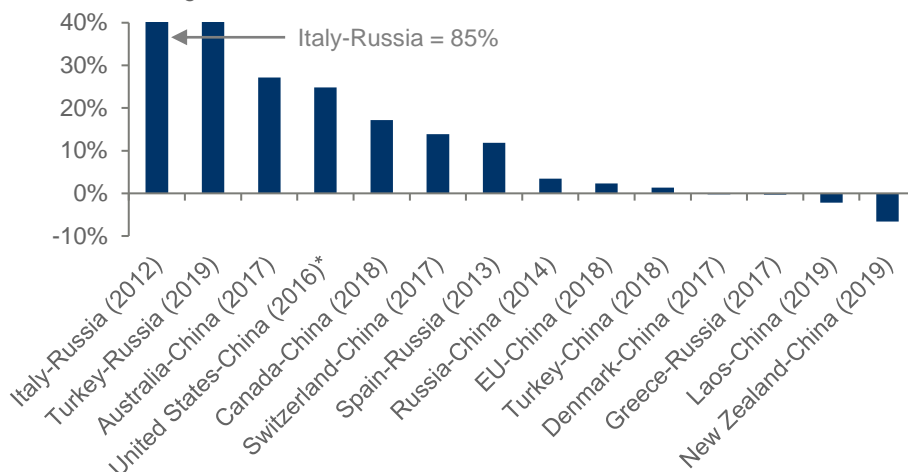
Source: Tourism Economics

In addition to simple arrivals growth, it is also worth considering the *contribution* of tourism years to growth in arrivals. Although Russian arrivals to Italy declined following their tourism year, the impact of the tourism year in 2012 was much more significant. In 2012, arrivals to Italy grew just 0.5%, and Russian arrivals accounted for 85% of this growth. This suggests that, if not for its tourism year with Russia, travel to Italy would have essentially stagnated, with the EU recession stifling demand growth from a number of Italy’s usual source markets. Russia has also made a significant contribution to Turkey’s growth in arrivals during their tourism year (this year). Similar to Italy, Turkey’s prospects may have been very different without Russia’s significant contribution to growth following renewed relations and cooperation between the two.

China’s contributions to EU arrivals growth during 2018’s EU-China Tourism Year were minor. However, given the size of the EU and the number of constituent destinations therein, the contributions of this growth are more evident at the destination level. This will be dealt with in more detail later.

### Contribution to growth in a "tourism year"

% contribution to growth



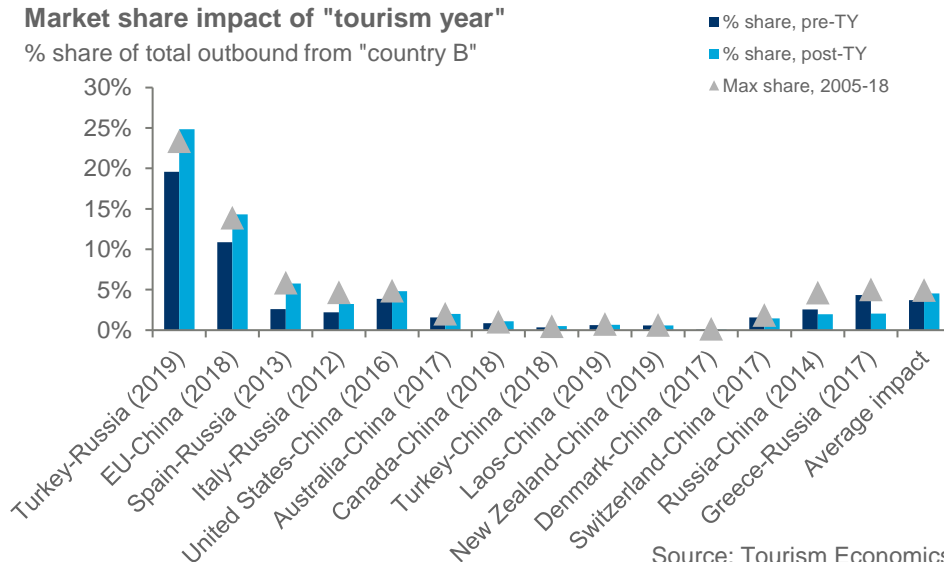
Source: Tourism Economics

### The market share impacts of a tourism year tend to be positive and suggest more lasting impacts than implied by a slowing rate of arrivals growth

The market share impacts of a tourism year have also tended to be positive and suggests a more lasting impact than might be implied by a slowing rate of arrivals growth. In the majority of cases a tourism year has resulted in higher market share of outbound travel from the source market in question. The only exceptions to this relate to the Russia-China tourism year in 2014 and the Greece-Russia tourism year in 2017. Some heightened security concerns in Russia following its 2014 annexation of the Crimean Peninsula are likely to have unwound some gains it made in obtaining a higher share of Chinese outbound in the run up to 2014.

### Market share impact of "tourism year"

% share of total outbound from "country B"

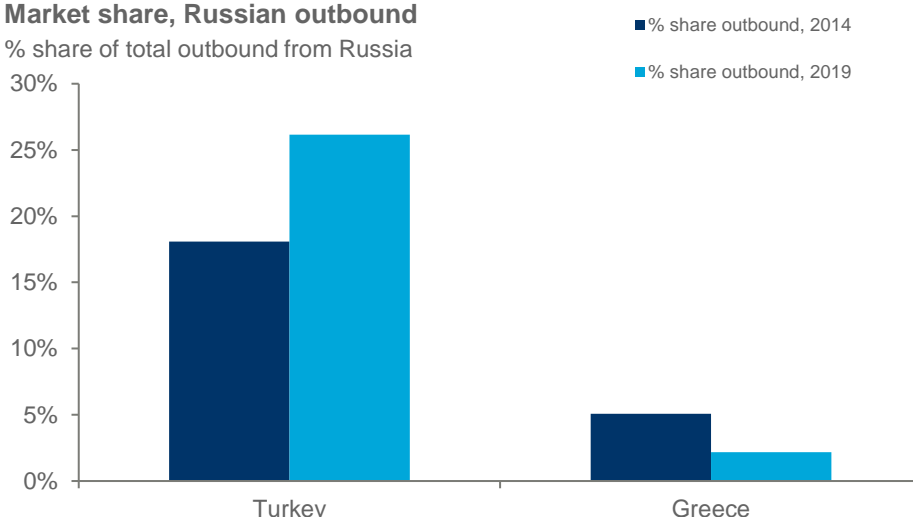


Source: Tourism Economics

The weak foundations laid in the run-up to Greece and Russia's tourism year (due to their respective recessions) left Greece poorly placed to capitalise and it failed even to recoup some the market share of Russia outbound lost during the recession years. Furthermore, Turkey's strong gains in Russian outbound have left little opportunity for any other destinations to gain share.

### Market share, Russian outbound

% share of total outbound from Russia

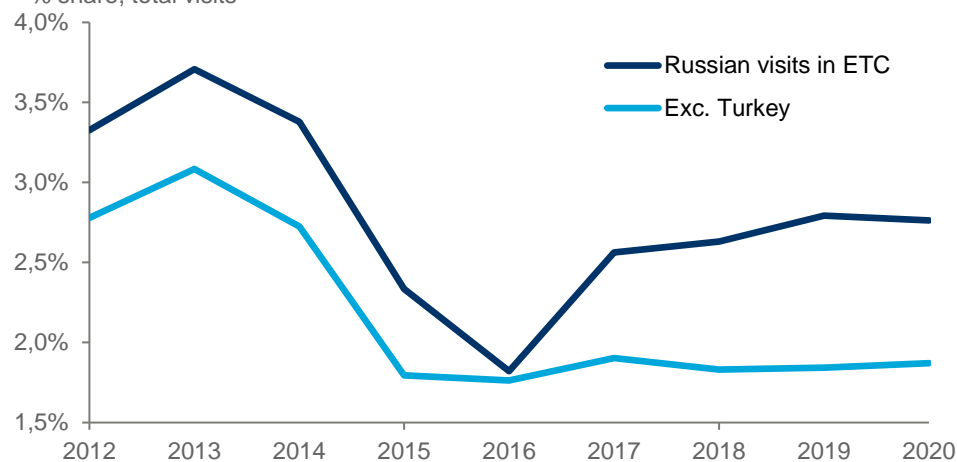


Source: Tourism Economics

Whilst Turkey has made significant gains in its share of Russian outbound at the expense of Greece, it has not been at the expense of Europe as a whole. Based on the share of Russian outbound demand held by ETC destinations in aggregate, Turkey's gains have actually ensured some sustained growth in the ETC's share of outbound during a period which otherwise might have suffered some declines of the same. The Turkey-Russia tourism year has primarily bolstered Russian arrivals growth in Turkey, but it has also succeeded in keeping Russian outbound travel demand within ETC destinations.

### Market share, ETC visits from Russia

% share, total visits



Source: Tourism Economics

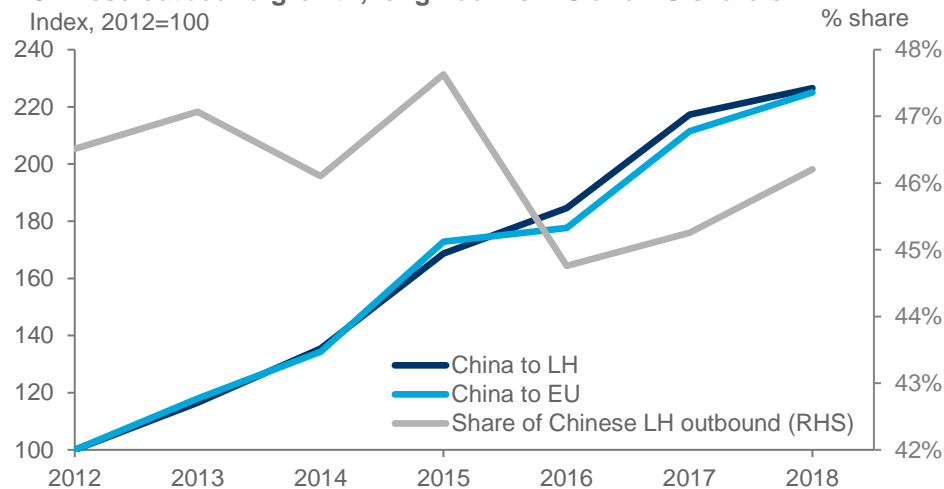
## EU-CHINA TOURISM YEAR 2018

The EU-China Tourism Year was agreed in 2016 by the Chinese Prime Minister and the President of the European Commission. ETC played a key role from the outset in what was a unique opportunity to attract more Chinese travellers, stimulate economic cooperation in the tourism sector, and give extra impetus to EU-China visa facilitation and air connectivity.

The EU-China Tourism Year in 2018 has proven successful on a number of fronts, not least because it succeeded in allowing EU destinations to recoup some loss of share of Chinese long-haul travel demand. Several high-profile terrorist attacks and negative headlines in Chinese media about Europe's "migrant crisis" both contributed to the declines in the EU's share of Chinese long-haul outbound travel. Nonetheless, capacity building continued (at least in air passenger terms), meaning the EU was primed to take advantage of the tourism year when it arrived. Whilst its share remains below 2015 levels, the

tourism year coincided with the resumption of an upward trajectory in market share. This contrasts with a slowdown in Chinese long-haul demand in general, suggesting the tourism year allowed the EU to buck the wider trend.

### Chinese outbound growth, long-haul vs. EU and EU share of LH

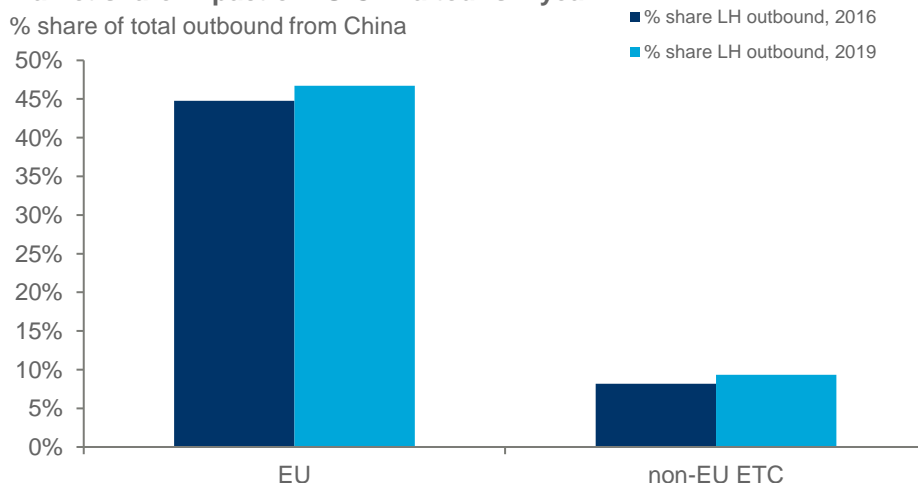


Source: Tourism Economics

### The EU-China tourism year corresponded with some market share growth for both EU and non-EU ETC destinations

In addition to helping EU destinations gain share of Chinese long-haul demand, the EU-China tourism year also corresponded with some market share growth for non-EU ETC destinations over the same period. This spill-over is a function of Europe’s compact geography and the relative proximity of many destinations, allowing long-haul travellers to maximise the value of their long-haul trip. Multiple destinations in the region can be visited with relative ease during the same trip.

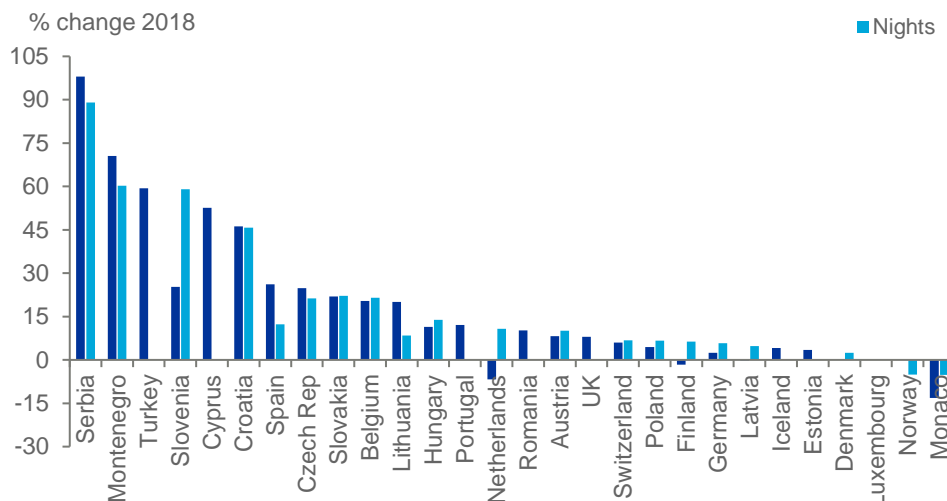
### Market share impact of EU-China tourism year



Source: Tourism Economics

However, other factors (beyond the tourism year) would have contributed to growth in Chinese arrivals to these non-EU destinations. For instance, Serbia – the recipient of the largest degree of growth from China in 2018 – relaxed visa requirements for Chinese visitors in early-2017 and direct air links between the two has facilitated some rapid demand growth from China since. This supports our long-held view that visa-free access is the ultimate tool with which to leverage travel demand from previously untapped source markets.

## Chinese visits and overnights to select destinations



Source: TourMIS

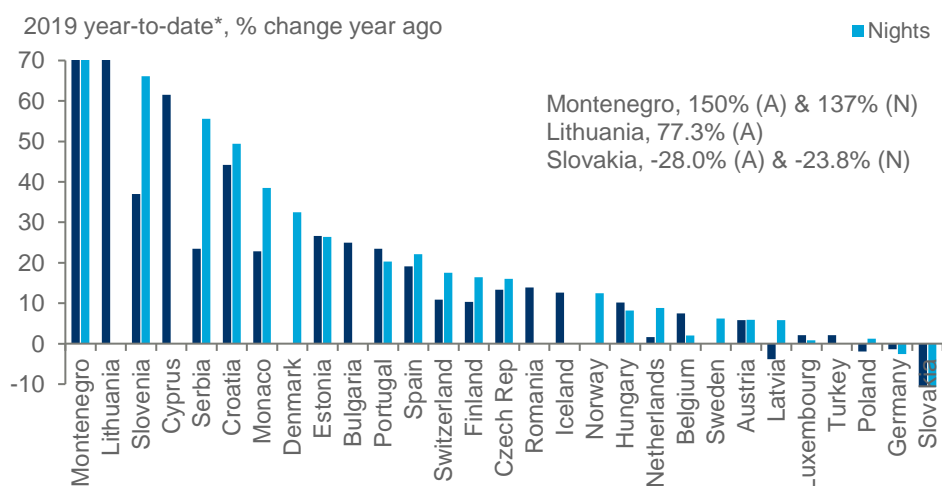
## VISA POLICY – A MORE EFFECTIVE LEVER OF DEMAND?

Chinese travel demand to Europe has been strong in recent years and the outlook remains promising. Although the EU-China Tourism Year is over, a number of EU destinations remain top of the agenda for growing numbers of Chinese travellers according to early-2019 data. This offers some evidence of the tourism year's success.

### Travel demand from China continues to be constrained by visa requirements

However, China is subjected to some of the most stringent visa requirements imposed by EU destinations, and this has ultimately constrained growth relative to many other destinations worldwide. Serbia's recent bold step to remove this barrier has shown the potential growth that can be achieved by relaxing visa restrictions.

## Chinese visits and overnights to select destinations



Source: TourMIS \*date varies (Jan-May) by destination

European destinations currently receive only a moderately larger share of Chinese outbound travel than in prior years, despite some rapid growth in Chinese travel demand over the same period. The EU-China tourism year has demonstrated that significant demand exists now – the events of 2014-16 (when

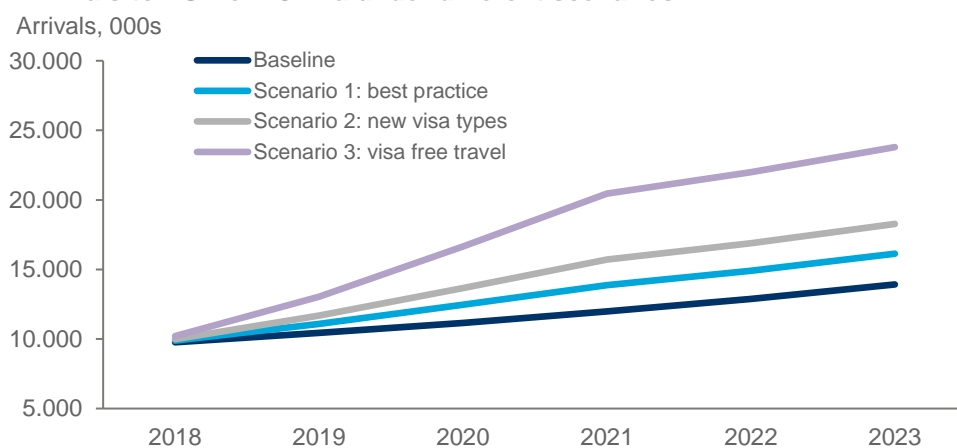
the EU's share of Chinese long-haul demand was falling) demonstrate travellers' willingness to go elsewhere if Europe is seen to be unattractive.

Numerous case studies demonstrate the benefits to travel demand via visa facilitation policies. Visas are viewed as a formal constraint by travellers, involving additional trip costs in terms of either monetary cost or indirect costs in the form of time spent waiting or completing complex application procedures.

Visa facilitation policy has clear benefits to destinations in the form of promoting ease of travel and raising visitor volumes. The relative attractiveness of a destination is raised allowing greater competition in global travel markets and gain of market share as well as potentially raising total international travel demand for source markets, depending on the existing level of constraints. Indeed, there remains a large opportunity for even faster travel demand growth from China in the coming years. The magnitude of this uplift, however, will depend on the specific policy approach adopted.

The market share gains made during the tourism year help to illustrate the growth opportunity from China. Ultimately this example may help to bring about a more facilitative visa policy to generate longer-run gains.

### Arrivals to EU from China under different scenarios



Source: Tourism Economics

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## KEY SOURCE MARKET PERFORMANCE

*Trends discussed in this section in some cases relate to period January to May, although actual coverage varies by destination. For the majority of countries, the latest available data point will be earlier than this. Further detailed monthly data for origin and destination, including absolute values, can be obtained from TourMIS (<http://tourmis.info>).*

### SUMMARY

- There was a mixed picture across European source markets with an unusually high number of destinations reporting declines from Germany – Europe’s largest source market and arguable indicator of the region’s economic prospects. But a higher proportion of destinations have reported growth from most of Europe’s other large source markets.
- In general, growth from many non-European source markets stood up better with only two destinations seeing no growth from the US and China. A higher than usual proportion of destinations have reported growth from Japan, with the strong yen aiding outbound travel.

### KEY INTRA-EUROPEAN MARKETS

Germany is Europe’s largest source market, accounting for a large share of total arrivals in many destinations. It may be of some concern that based on the latest available data half have reported declines. This is perhaps a consequence of Europe’s economic slowdown, much of which has been shouldered by Germany, particularly towards the end of 2018 wherein recession conditions were narrowly avoided. However, the German economy bounced backed in Q1 2019, the effects of which may seep into travel demand further into 2019. Some sizable drops have been reported in early-2019 by key summer destinations; whilst these do not bode well, such falls are not likely to be fully reflective of annual performance.

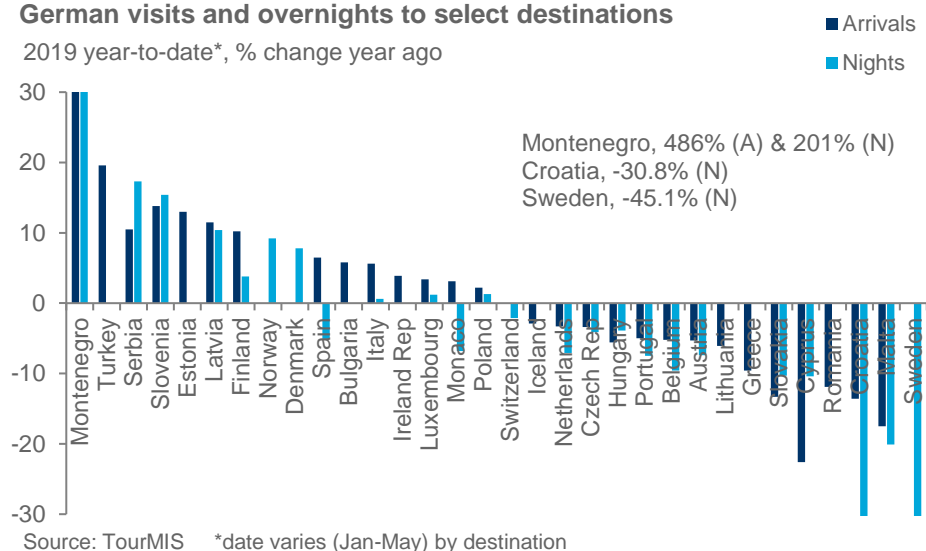
#### **Half of reporting destinations saw declines in arrivals from Germany in early-2019 data**

Montenegro was the fastest growing destination market for German arrivals according to latest available year-to-date data, with arrivals up 486% and overnights up 201% according to data to April. This growth represents a moderate slowdown compared to earlier in the year when rates of 520% and 266% were reported for arrivals and overnights respectively, reflecting stronger growth in January and February as a result of Montenegro’s efforts to broaden its tourism season. This has been facilitated by greater air connectivity between Germany and the Balkans, which continues to improve. As of April, Austrian low-cost airline Laudamotion is operating a service between Stuttgart and Podgorica, and Germany’s Lufthansa will launch a seasonal flight from Tivat to Munich and Frankfurt as part of the expansion of its network in the Balkans.

Slovenia has also continued to enjoy strong arrivals growth from Germany in early-2019, following some strong growth last year, serviced by greater air connectivity. In March the Slovenian government announced plans to subsidise airlines for the launch of new routes to and from Ljubljana in an attempt to improve the country’s air connectivity by 2021, with Germany identified as being a destination of strategic importance. This should support further growth from Germany. Spain has reported recovery in German arrivals which grew 6.5% according to data for the first four months of the year, following declines in 2018. Overnights have continued to fall, however.

## German visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Growth from the Netherlands was more widespread than from Germany, with 69% of reporting destinations claiming some degree of growth during the early-2019 period. But there are some worrying signs with falls reported in early in 2019 by some large destinations.

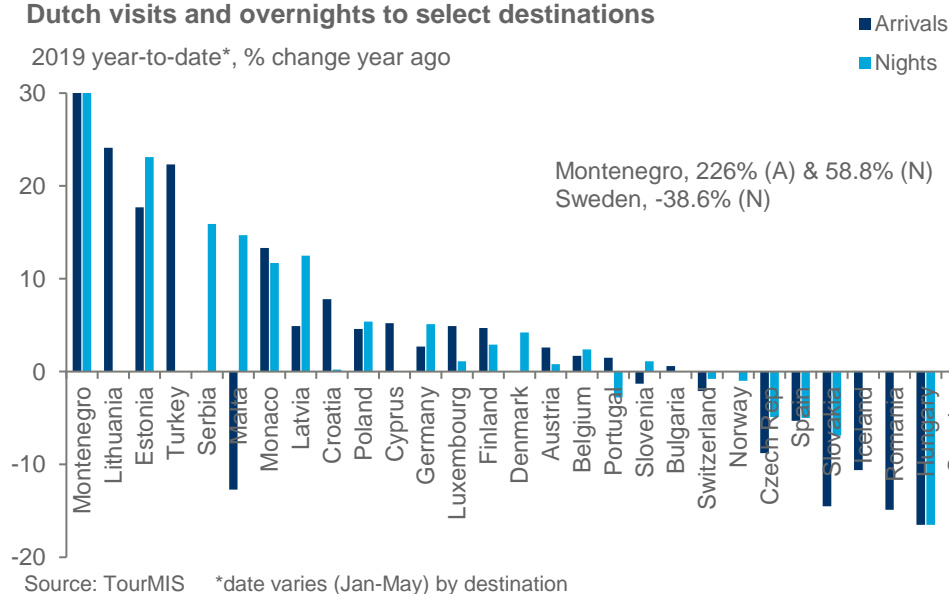
## Growth from the Netherlands was more widespread than from Germany

As was also the case with regards Germany, Montenegro was the destination which reported the greatest degree of growth. Arrivals have grown 226% and overnights 58.8% in the first four months of 2019 compared to a year ago. Whilst this represents a slowdown compared to growth earlier in the year, this is not linked to any underlying trend of slowing demand. Rather, it is reflective of Montenegro's broader tourism season which has begun to incorporate winter months.

Lithuania and Estonia have seen an increase in demand from Netherlands so far this year compared to last, and they may be jointly benefitting from Baltic tours which typically incorporate visits to Lithuania, Estonia, and Latvia. Turkey continues to enjoy strong growth from the Netherlands as it regains market share lost in previous years. In 2018 we suggested this market share was lost to Spain and Portugal; indeed, present declines in Dutch overnights in Spain and arrivals and overnights in Portugal are consistent with this suggestion.

## Dutch visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Almost two fifths (79%) of reporting destinations enjoyed some form of growth from France based on the latest available data.

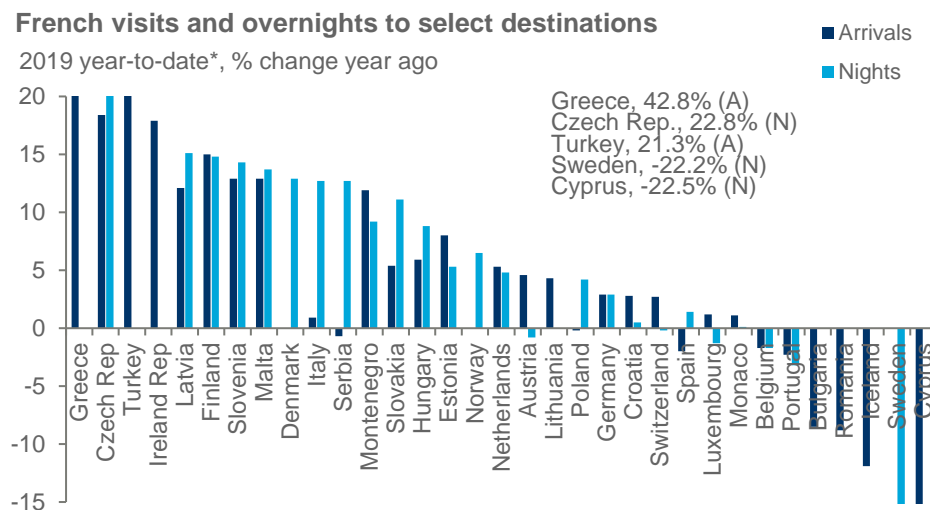
## Two fifths of reporting destinations enjoyed some form of growth from France

Earlier in the year just over 60% of reporting destinations had reported growth from France. Greece enjoyed the highest rate of demand growth from France according to data for the first quarter of 2019. This was driven by an increase in flights from France to Greece this year following discussions between Greece’s Tourism Minister and leading representatives of the French travel market in Paris last year in conjunction with tourism industry trade fair IFTM Top Resa 2018. Later this year, Greece is set to feature in a popular French travel programme with the backing of the Hellenic Tourism Organization (EOT), which should support growth further.

Significant growth from France was also reported by Ireland, wherein arrivals grew 17.9% based on data to April. This influx follows an extensive programme of promotions in France last year, including Tourism Ireland’s campaign with Promovacances – a leading French travel group – designed to grow visitor numbers from France.

### French visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Growth from Italy was enjoyed by just two thirds of reporting destinations based on the latest available data for 2019. Having stumbled into recession in H2 2018, and with stagnation set to continue this year, it is somewhat surprising that trends are not worse, and some large destinations continue to report growth. Cyprus enjoyed further growth in Italian arrivals off the back of a very strong growth year in 2018. This has been helped by new air links between the two, including Cyprus Airway’s first foray into the Italian market with its flight from Larnaca to Verona.

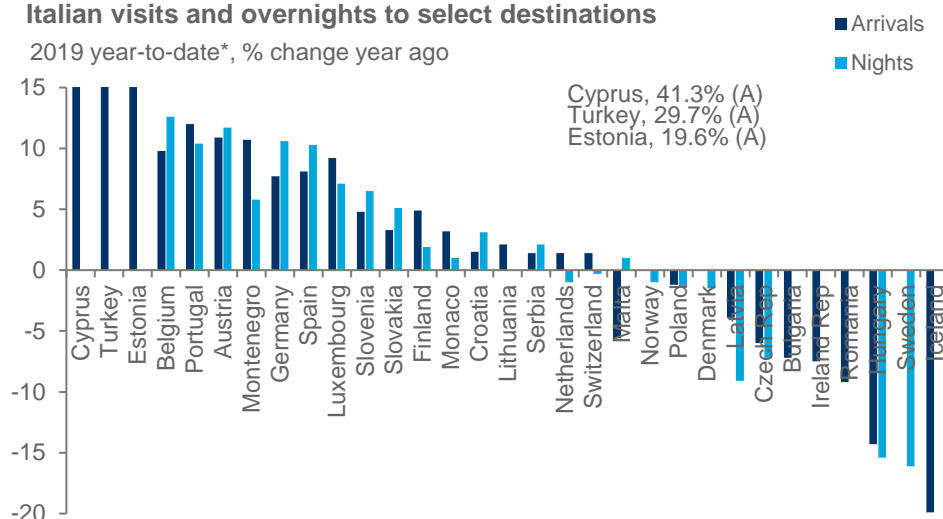
## Recession in Italy may upset outbound travel growth prospects

Turkey also continues to report significant growth from Italy as its reclamations of lost market share from 2015-17 continue (its share of Italian outbound was 1.1% in 2015 but fell to 0.4% in 2017). Consequently, Italian arrivals to Spain have declined in 2019 to date and overnights growth was weak, unwinding some of the growth in the share of the Italian market in prior years (which grew from 14% in 2015 to 14.8% in 2017, at some expense to Turkey).

Declines in Italian arrivals were reported by several Central European destinations (Poland, Czech Republic, Bulgaria, Romania, and Hungary), and some pricier Northern European destinations such as Norway, Denmark, Sweden, Ireland, and Iceland which may reflect the precariousness of Italy’s economy at present.

## Italian visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Amidst ongoing Brexit uncertainty and a weak pound versus the euro, there appears to be a clear preference towards destinations perceived as being price attractive. However, arrivals growth from the UK was claimed by more than three quarters of reporting destinations based on latest available data.

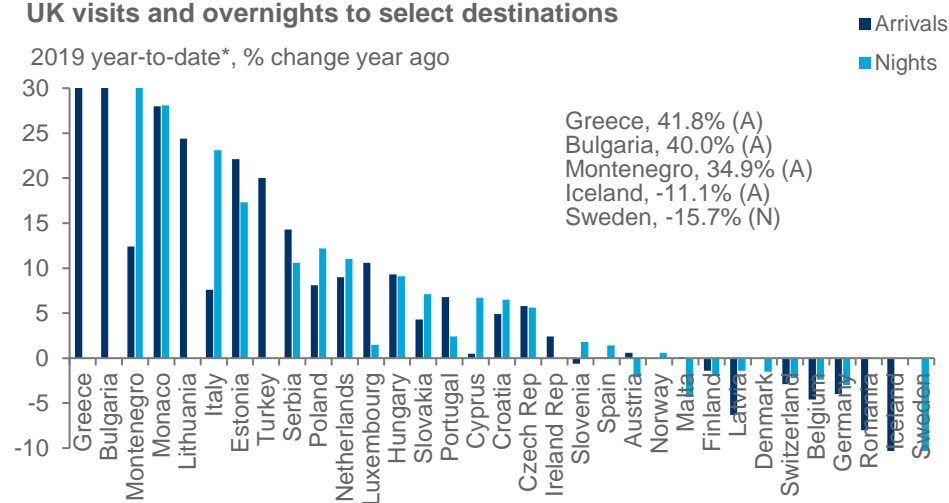
## Despite Brexit uncertainty more than three quarters of reporting destinations enjoyed arrivals growth from the UK

Greece was the strongest growing destination, with British arrivals up 41.8% in the first three months of the year. Plans by the GNT0 to hold a special tourism event in London in July aimed at British luxury holidaymakers, in collaboration with the Condé Nast Traveller magazine, may support some further growth. Albeit this may manifest itself more so in tourism receipts from the UK than arrivals. Bulgaria and Montenegro have also reported strong growth which may be indicative of UK tourists leaning towards relatively low-cost destinations to extract more value out of a weaker pound. For instance, some coastal resorts in Bulgaria have recently been shown to be the cheapest in Europe.

Strong growth in Turkey in the early part of 2019 should continue through the summer according to the *Thomas Cook Holiday Report 2019* which points to a surge in bookings for Turkey. Meanwhile, higher cost destinations such as the Scandinavian countries generally reported declines in UK visitors.

## UK visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

Generally favourable economic conditions supported by higher world oil prices have aided outbound travel demand from Russia in early-2019, but not all European destinations are benefiting. More than

half of all reporting destinations indicate lower travel from Russia in 2019 to date than in the same period of 2018.

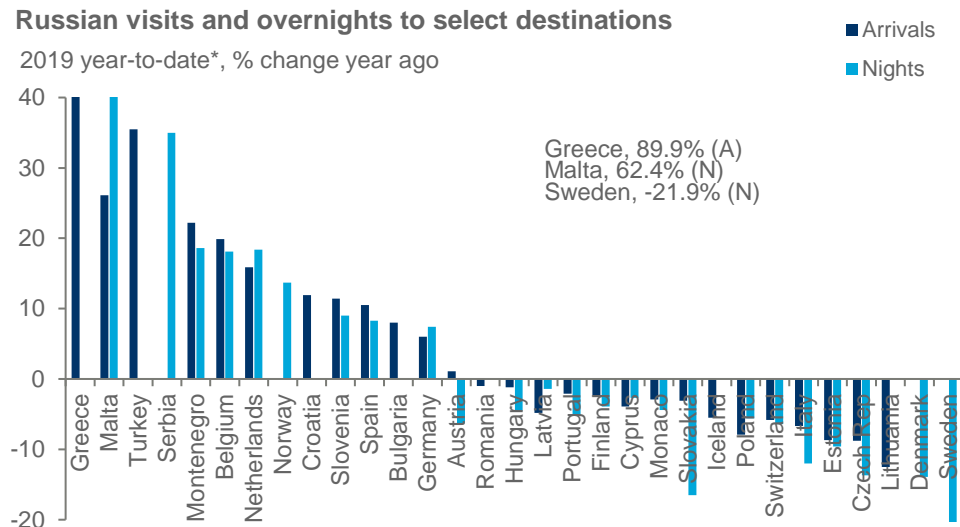
### Favourable economic conditions supported by higher world oil prices have aided outbound travel demand from Russia

Turkey has finally given way as the fastest growing recipient of Russian demand to Greece. The Greece-Russia Year of Tourism in 2017-18, as well as the conception of the Greek-Russian Tourism Business Forum, itself a legacy of the Greece-Russia Year of Tourism, have facilitated this growth as the two countries work together to grow tourism between them. Participation by Greece's Tourism Minister in the Moscow International Travel and Tourism Exhibition (MITT) earlier this year, in which the ministry's plans to attract new tourist flows from Russia, should ensure further growth throughout 2019 and beyond.

Turkey-Russia Culture and Tourism Year continues to support Russian demand growth in Turkey, and with talks underway to allow Russian citizens to travel to Turkey visa-free and without passports, growth should be stimulated further. Declining arrivals from Russia in some markets may be a consequence of the supernormal number of Russians travelling to Turkey at present. Currency swings over the past year, which have seen the rouble gain on the lira but not the euro have done little to help.

#### Russian visits and overnights to select destinations

2019 year-to-date\*, % change year ago



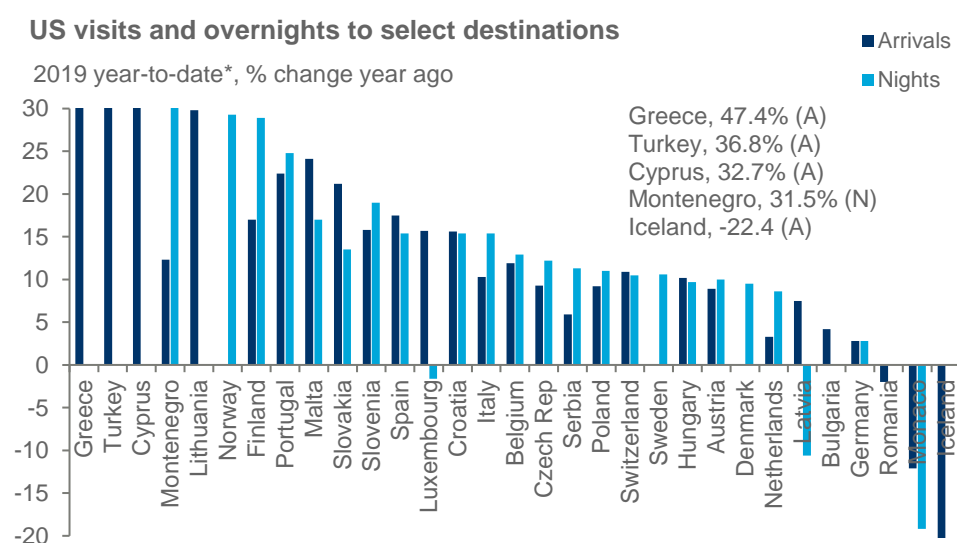
Source: TourMIS \*date varies (Jan-May) by destination

## NON-EUROPEAN MARKETS

Europe remains an attractive destination for US travellers on account of a strong dollar relative to both the pound and euro compared to a year ago. This makes much of Europe more affordable and attracts demand accordingly. Iceland is a notable destination reporting a large drop in US travel related to the collapse of WOW Air and capacity on transatlantic routes via Iceland.

### A strong dollar continues to support US travel demand to Europe

Greece, Turkey, and Cyprus were the fastest growing destinations for US demand, with all reporting arrivals growth in excess of 30% based on early-2019 data. This follows some very strong growth from the US in 2018, with arrivals from the US to Cyprus up 47.4%, Turkey up 32%, and Greece up just shy of 20%. Their simultaneous growth suggests their fortunes may be linked via their proximity to one another. The strength of the dollar as well as Norwegian's new non-stop service between Athens and New York should unlock and sustain further growth in the region. The introduction of flights between New York and Belgrade by Air Serbia in 2016 continues to bear fruit for Serbia, but also offers an indirect benefit to other destinations in the region by offering another gateway.



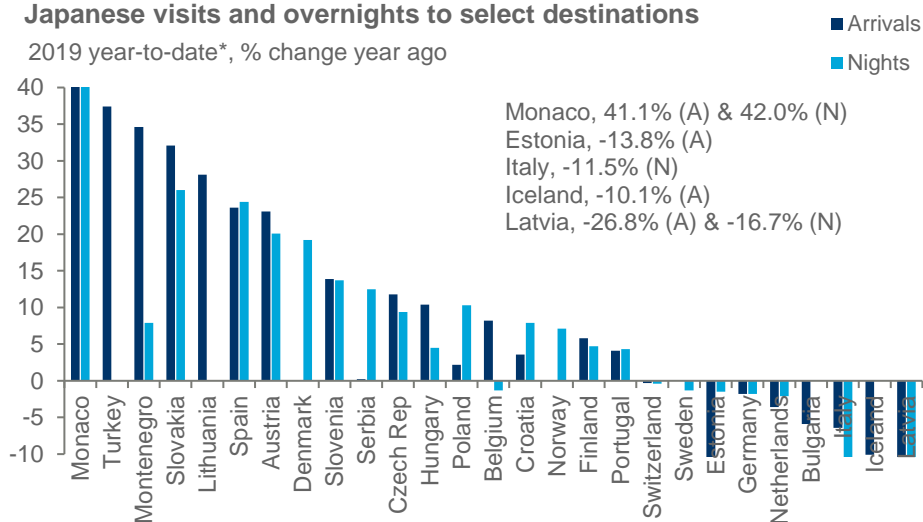
Demand from Japan has been buoyed by recent strength of the yen, with 67% of reporting destinations enjoying some form of growth in early-2019 data. Some destinations may have enjoyed a boost in demand from Japan in April and May thanks to an enforced 10-day additional holiday which straddled April and May to mark the abdication of Emperor Akihito.

### An enforced 10-day holiday in Japan boosted travel demand

Indeed, Monaco has reported a 41.1% increase in arrivals, Turkey has reported arrivals growth of 37.4%, and Montenegro 34.6%, all based on data to April. Some of this may be linked to this extra holiday period. Demand appears to have declined in some traditional European hotspots such as Germany, the Netherlands, and Italy. However, in each case data beyond March are not yet available and these destinations could see some benefit due to the holiday.

## Japanese visits and overnights to select destinations

2019 year-to-date\*, % change year ago



Source: TourMIS \*date varies (Jan-May) by destination

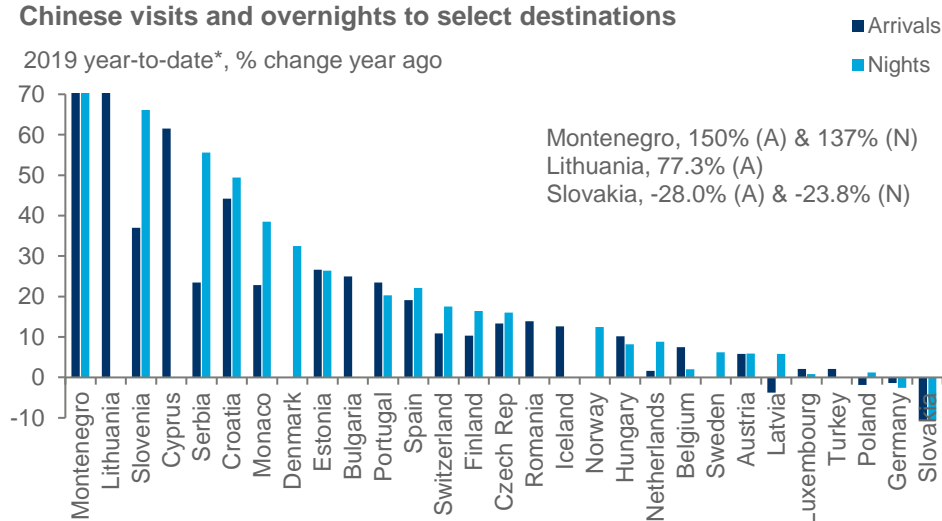
Despite the Chinese economy currently enduring some headwinds, largely due to its ongoing trade war with the US, it boasts the highest rate of markets reporting growth versus declines, with 93% of reporting destinations enjoying some form of growth. Montenegro was the fastest growing destination for Chinese travel demand based on data for the first four months with 150% growth in arrivals. Serbia has also reported some sizeable year-to-date growth based on data to March, continuing off the back of a very strong 2018, wherein Serbia was the fastest growing destination for Chinese demand in that year.

## 93% of reporting destinations enjoying some form of growth from China despite headwinds faced by its economy

Serbia's visa-free regime with China has made it an attractive destination, and demand has been serviced by direct flights between the two. Other destinations in the region, whilst not visa-free for Chinese travellers, such as Montenegro, have clearly benefitted as a result. Lower-cost indirect options; via Iran with Mahan Air, for example, have proven attractive avenues by which Chinese tourists can enter Europe. Further plans by Mahan Air to shuttle Chinese tour groups from Tehran to other visa-free destinations in the region, such as Bosnia-Herzegovina, should further bolster growth.

## Chinese visits and overnights to select destinations

2019 year-to-date\*, % change year ago



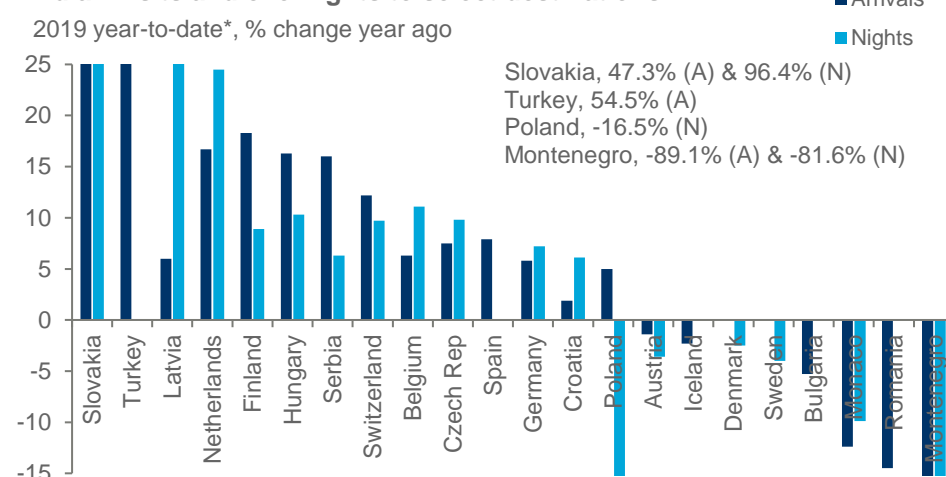
Source: TourMIS \*date varies (Jan-May) by destination

Slovakia was the fastest growing destination for Indian demand based on latest available data, with arrivals up 47.3% and overnights 96.4% according to data to March. This indicates that Indians are not only visiting Slovakia in much larger numbers compared to the same period a year ago but are also

staying significantly longer. There has been a growing demand for Slovakian visas in recent years, having proven very popular among Indians across various travel segments. This demand has been serviced by a new Slovakian visa application centre, meaning three centres are now available across India to provide Slovakian visas.

Turkey reported arrivals growth of 54.5% based on data to April, indicating hearty demand for the destination. Indeed, the Turkish-Indian Tourism Council & the Turkish Ministry of Culture and Tourism conducted a six-city 'Destination Turkey' roadshow across India, which should support further growth in 2019 and beyond.

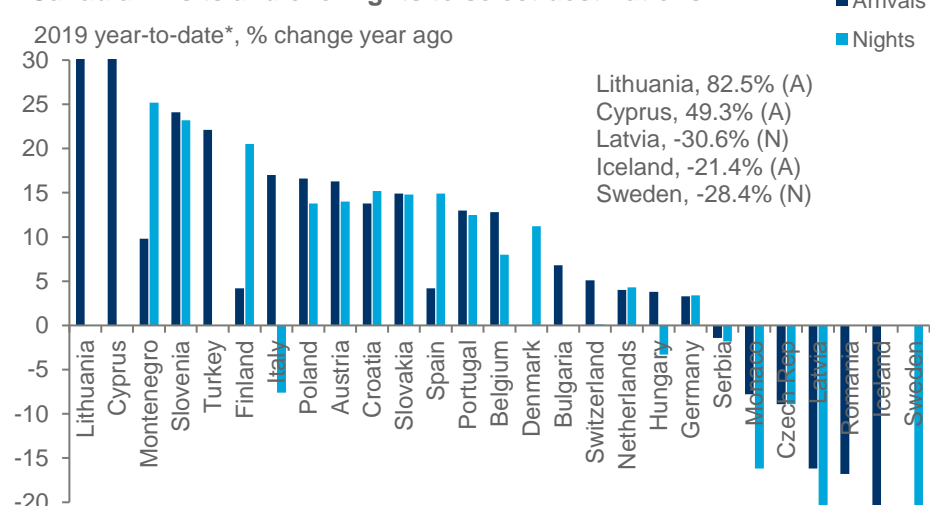
### Indian visits and overnights to select destinations



Source: TourMIS \*date varies (Jan-May) by destination

Just under three quarters (74%) of reported European destinations have enjoyed some form of growth from Canada in early-2019, according to latest available data. Lithuania was fastest growing recipient of Canadian travel demand with arrivals 82.5% higher in the first quarter of 2019 compared to the same period a year ago. Cyprus also enjoyed significant growth with arrivals up 49.3% according to data to May.

### Canadian visits and overnights to select destinations



Source: TourMIS \*date varies (Jan-May) by destination

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## ORIGIN MARKET SHARE ANALYSIS

Based on the Tourism Economics' Global Travel Service (GTS) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets. 2018 values are, in most cases, year-to-date estimates based on the latest available data and are not final reported numbers.

Data in these charts and tables relate to reported arrivals in all destinations as a comparable measure of outbound travel for calculation of market share.

For example, US outbound figures featured in the analysis are larger than reported departures in national statistics as long-haul trips often involve travel to multiple destinations. In 2014 US data reporting shows 11.9 million departures to Europe while the sum of European arrivals from the US was 23.4 million. Thus, each US trip to Europe involved a visit to two destinations on average.

The geographies of Europe are defined as follows:

**Northern Europe** is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

**Western Europe** is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

**Southern/Mediterranean Europe** is Albania, Bosnia-Herzegovina, Croatia, Cyprus, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;

**Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

## UNITED STATES

### US MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	119,443	-	4.3%	23.2%	-	47.5%	-
Long haul	71,947	60.2%	4.5%	24.6%	60.9%	42.1%	62.5%
Short haul	47,497	39.8%	3.9%	21.1%	39.1%	56.4%	37.5%
Travel to Europe	33,633	28.2%	4.1%	22.3%	27.9%	55.6%	26.7%
European Union	27,497	23.0%	4.9%	27.1%	23.7%	48.4%	22.9%
Northern Europe	8,111	6.8%	4.0%	21.9%	6.7%	63.1%	6.1%
Western Europe	11,757	9.8%	2.5%	13.3%	9.1%	49.5%	9.7%
Southern Europe	9,623	8.1%	4.4%	23.9%	8.1%	65.8%	7.2%
Central/Eastern Europe	4,142	3.5%	7.6%	44.5%	4.1%	39.5%	3.7%

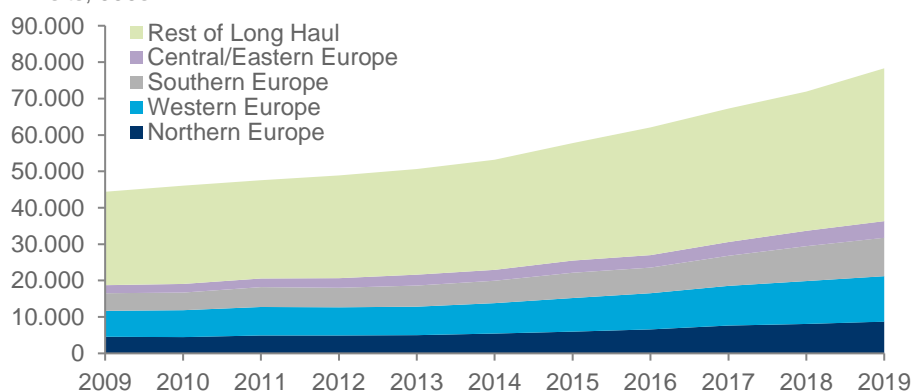
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### US Long Haul\* Outbound Travel

Visits, 000s

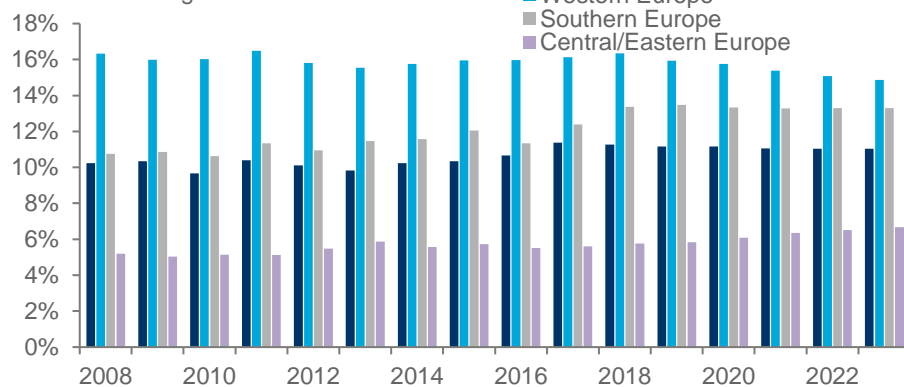


\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

### Europe's Share of US Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

## CANADA

### CANADA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	39,046	-	3.7%	20.2%	-	6.8%	-
Long haul	15,560	39.9%	4.4%	23.8%	41.0%	34.5%	31.7%
Short haul	23,485	60.1%	3.3%	17.8%	59.0%	-6.0%	68.3%
Travel to Europe	6,272	16.1%	3.1%	16.6%	15.6%	40.2%	12.2%
European Union	5,461	14.0%	5.1%	28.3%	14.9%	42.4%	10.5%
Northern Europe	1,305	3.3%	5.0%	27.6%	3.6%	28.5%	2.8%
Western Europe	1,909	4.9%	3.8%	20.7%	4.9%	13.8%	4.6%
Southern Europe	2,887	7.4%	1.8%	9.5%	6.7%	89.4%	4.2%
Central/Eastern Europe	170	0.4%	0.9%	4.6%	0.4%	-33.4%	0.7%

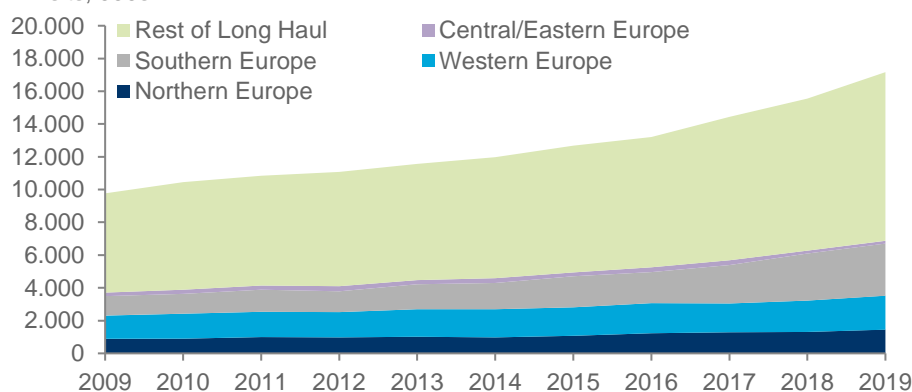
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Canada Long Haul\* Outbound Travel

Visits, 000s

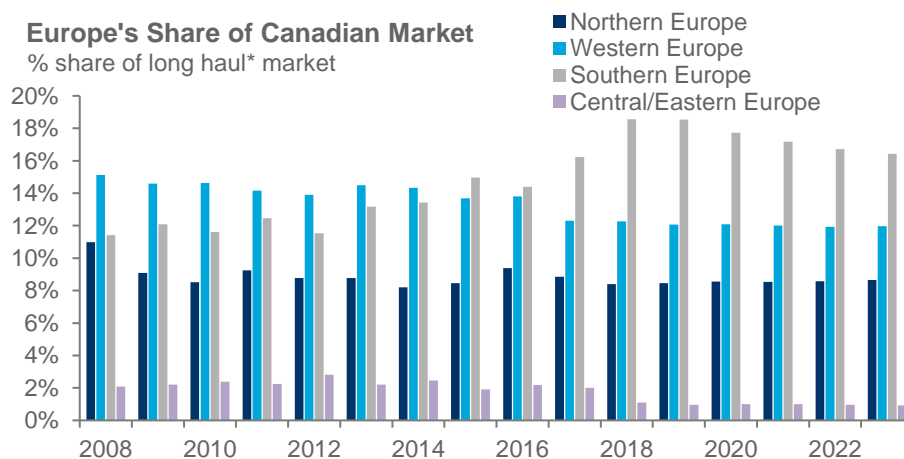


\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

### Europe's Share of Canadian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

## MEXICO

### MEXICO MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	22,558	-	3.8%	20.4%	-	33.9%	-
Long haul	3,376	15.0%	3.4%	17.9%	14.7%	57.0%	12.8%
Short haul	19,182	85.0%	3.9%	20.9%	85.3%	30.5%	87.2%
Travel to Europe	1,756	7.8%	2.2%	11.2%	7.2%	58.0%	6.6%
European Union	1,608	7.1%	1.7%	8.7%	6.4%	59.8%	6.0%
Northern Europe	148	0.7%	0.9%	4.5%	0.6%	34.0%	0.7%
Western Europe	799	3.5%	3.0%	16.1%	3.4%	74.9%	2.7%
Southern Europe	633	2.8%	1.4%	7.5%	2.5%	47.8%	2.5%
Central/Eastern Europe	176	0.8%	1.7%	8.5%	0.7%	51.6%	0.7%

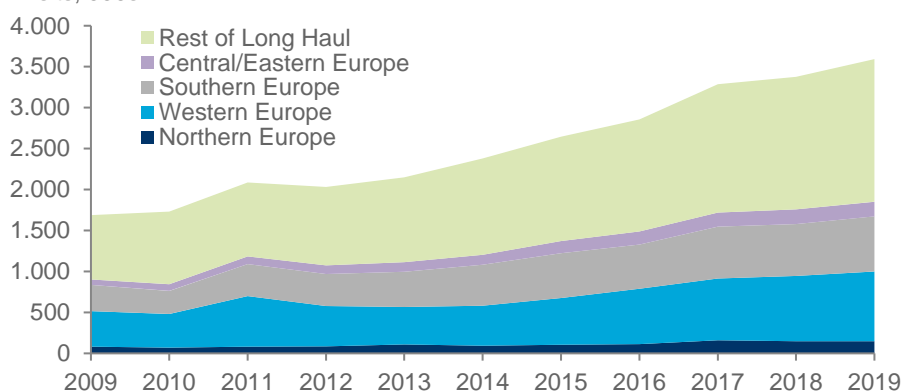
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Mexico Long Haul\* Outbound Travel

Visits, 000s

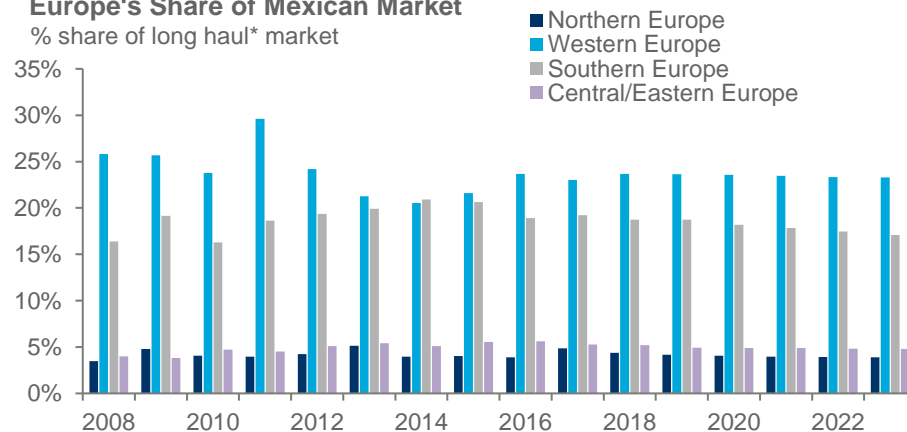


\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

### Europe's Share of Mexican Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

## ARGENTINA

### ARGENTINA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	13,059	-	0.1%	0.7%	-	69.5%	-
Long haul	3,794	29.0%	-2.4%	-11.3%	25.6%	62.5%	30.3%
Short haul	9,266	71.0%	1.1%	5.7%	74.4%	72.5%	69.7%
Travel to Europe	1,622	12.4%	-3.6%	-16.7%	10.3%	83.2%	11.5%
European Union	1,418	10.9%	-4.2%	-19.2%	8.7%	110.0%	8.8%
Northern Europe	141	1.1%	-0.3%	-1.3%	1.1%	22.2%	1.5%
Western Europe	77	0.6%	0.4%	2.1%	0.6%	69.5%	0.6%
Southern Europe	1,263	9.7%	-4.8%	-21.9%	7.5%	97.7%	8.3%
Central/Eastern Europe	140	1.1%	0.9%	4.8%	1.1%	64.1%	1.1%

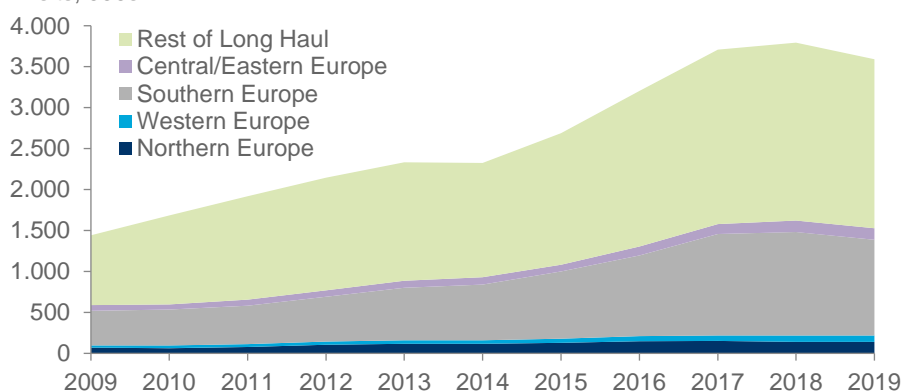
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Argentina Long Haul\* Outbound Travel

Visits, 000s

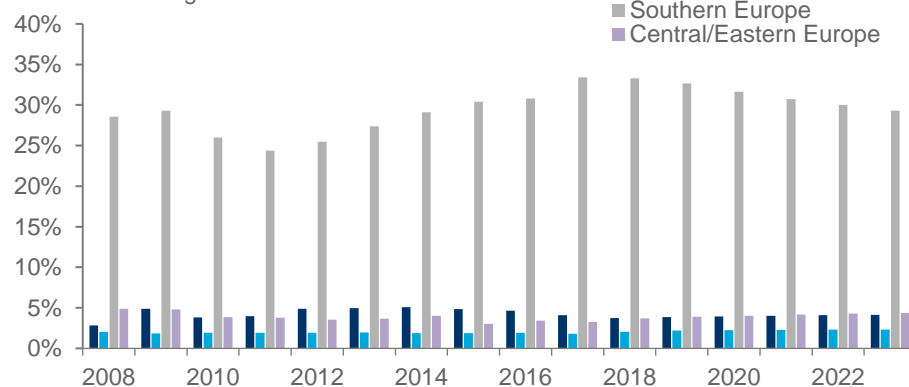


\*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

### Europe's Share of Argentinian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

## BRAZIL

### BRAZIL MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	10,945	-	3.6%	19.2%	-	12.9%	-
Long haul	8,213	75.0%	2.6%	13.6%	71.5%	14.5%	73.9%
Short haul	2,732	25.0%	6.3%	36.0%	28.5%	8.1%	26.1%
Travel to Europe	4,504	41.2%	1.5%	8.0%	37.3%	16.4%	39.9%
European Union	3,900	35.6%	2.0%	10.6%	33.0%	21.0%	33.2%
Northern Europe	260	2.4%	5.5%	30.4%	2.6%	-1.1%	2.7%
Western Europe	1,629	14.9%	1.5%	7.5%	13.4%	-10.1%	18.7%
Southern Europe	2,231	20.4%	0.7%	3.7%	17.7%	51.5%	15.2%
Central/Eastern Europe	384	3.5%	3.6%	19.3%	3.5%	19.2%	3.3%

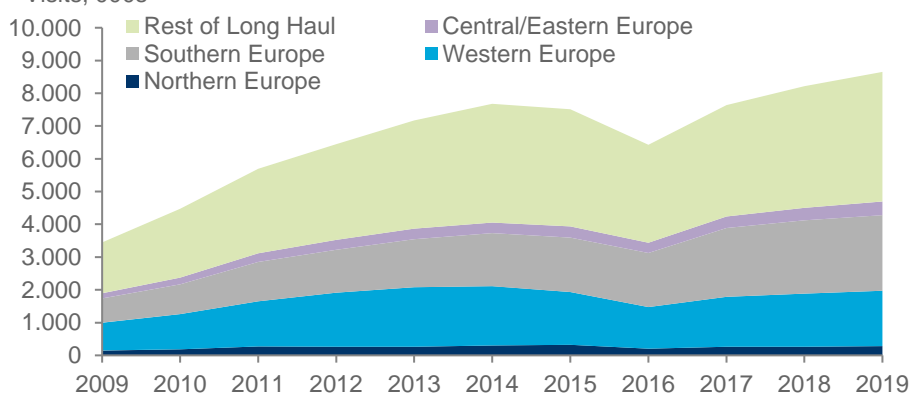
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Brazil Long Haul\* Outbound Travel

Visits, 000s

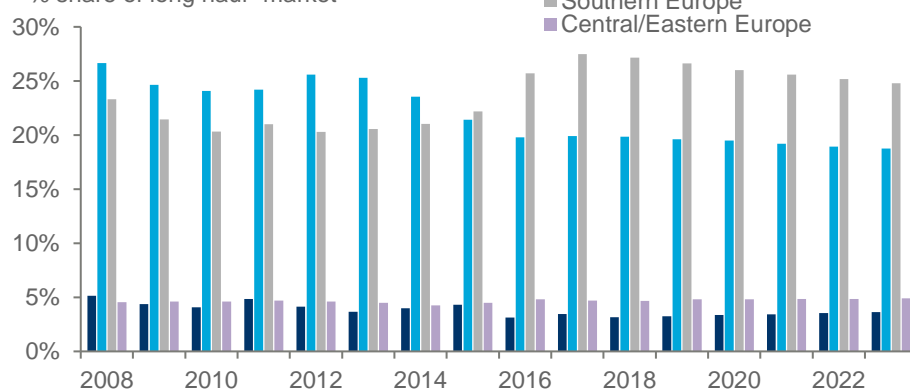


\*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

### Europe's Share of Brazilian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

## INDIA

### INDIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	19,911	-	7.1%	40.8%	-	55.8%	-
Long haul	19,047	95.7%	7.1%	41.1%	95.8%	56.3%	95.3%
Short haul	865	4.3%	6.2%	34.8%	4.2%	45.3%	4.7%
Travel to Europe	3,290	16.5%	5.7%	32.1%	15.5%	63.2%	15.8%
European Union	1,556	7.8%	4.9%	26.8%	7.0%	45.7%	8.4%
Northern Europe	564	2.8%	3.2%	17.0%	2.4%	42.4%	3.1%
Western Europe	1,097	5.5%	6.0%	33.5%	5.2%	77.4%	4.8%
Southern Europe	355	1.8%	7.4%	42.8%	1.8%	24.1%	2.2%
Central/Eastern Europe	1,273	6.4%	6.1%	34.6%	6.1%	78.0%	5.6%

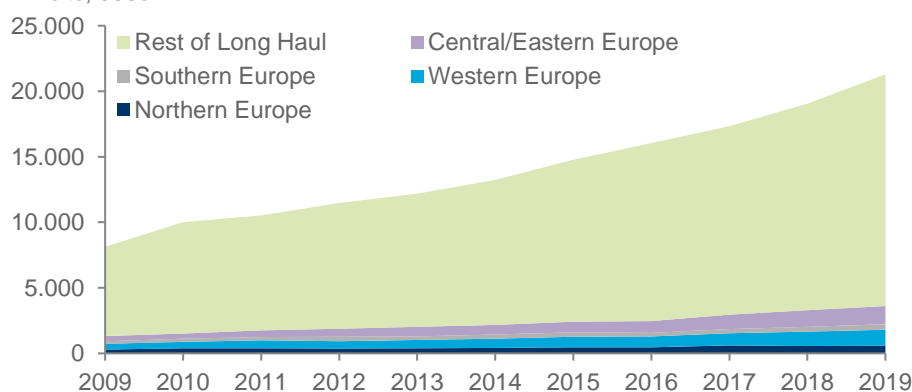
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### India Long Haul\* Outbound Travel

Visits, 000s

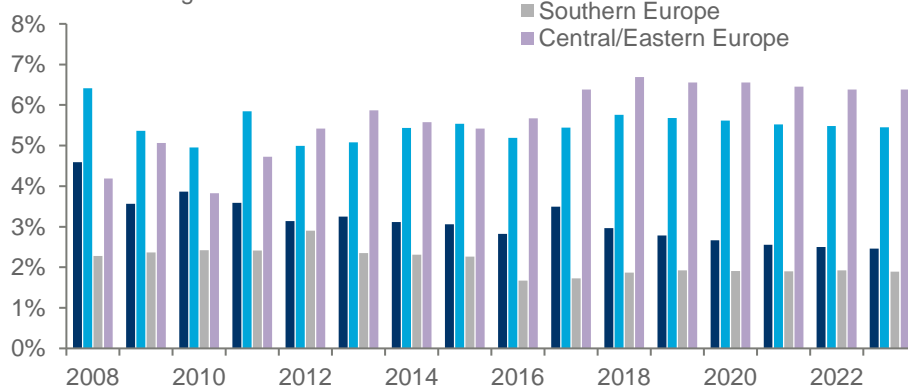


\*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

### Europe's Share of Indian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

## CHINA

### CHINA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	98,593	-	5.6%	31.2%	-	65.0%	-
Long haul	49,877	50.6%	6.1%	34.3%	51.8%	100.6%	41.6%
Short haul	48,716	49.4%	5.1%	28.1%	48.2%	39.7%	58.4%
Travel to Europe	14,102	14.3%	7.1%	41.1%	15.4%	91.0%	12.4%
European Union	7,769	7.9%	7.4%	43.2%	8.6%	109.6%	6.2%
Northern Europe	1,150	1.2%	7.7%	44.7%	1.3%	126.5%	0.9%
Western Europe	5,904	6.0%	8.0%	46.9%	6.7%	58.3%	6.2%
Southern Europe	1,118	1.1%	7.6%	44.3%	1.2%	110.7%	0.9%
Central/Eastern Europe	5,929	6.0%	6.0%	34.1%	6.1%	126.6%	4.4%

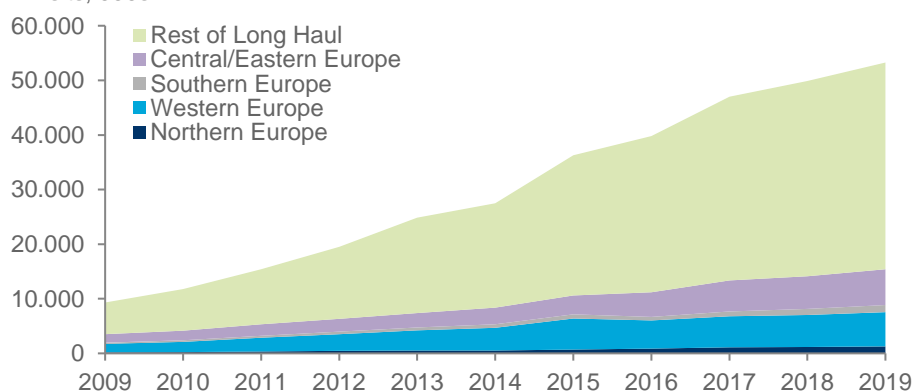
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### China Long Haul\* Outbound Travel

Visits, 000s

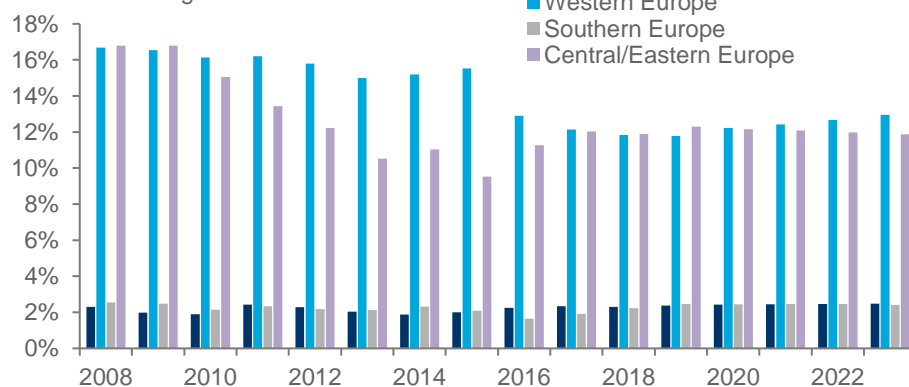


\*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

### Europe's Share of Chinese Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

## JAPAN

### JAPAN MARKET SHARE SUMMARY

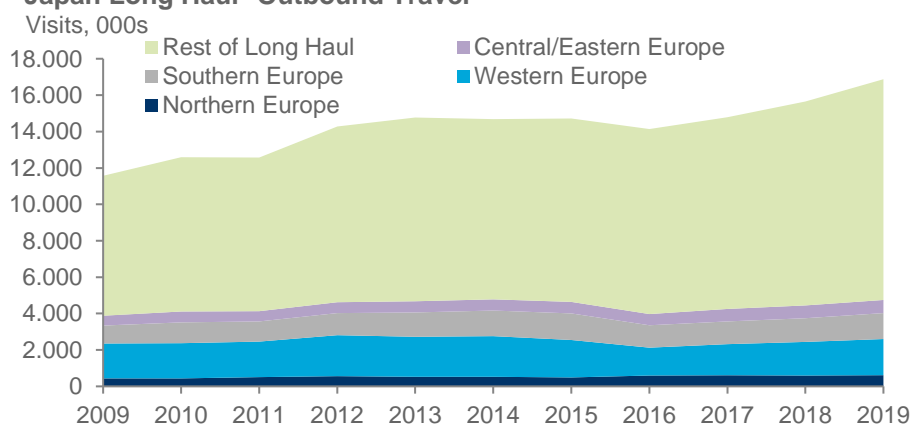
	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	24,717	-	3.7%	19.7%	-	8.5%	-
Long haul	15,641	63.3%	3.9%	21.1%	64.0%	5.9%	64.9%
Short haul	9,076	36.7%	3.2%	17.2%	36.0%	13.4%	35.1%
Travel to Europe	4,451	18.0%	4.4%	23.8%	18.6%	-4.9%	20.5%
European Union	3,756	15.2%	4.5%	24.4%	15.8%	-4.6%	17.3%
Northern Europe	593	2.4%	0.8%	3.8%	2.1%	11.5%	2.3%
Western Europe	1,852	7.5%	6.0%	33.8%	8.4%	-15.8%	9.7%
Southern Europe	1,305	5.3%	4.4%	23.9%	5.5%	-1.3%	5.8%
Central/Eastern Europe	700	2.8%	2.6%	13.9%	2.7%	11.8%	2.8%

\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

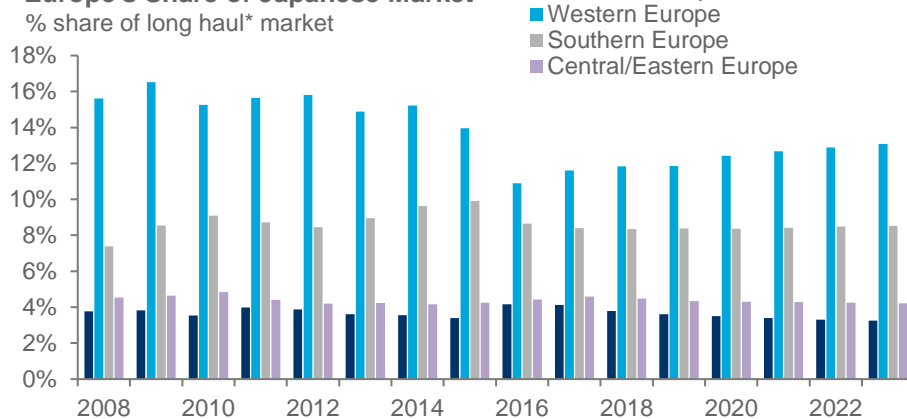
### Japan Long Haul\* Outbound Travel



\*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

### Europe's Share of Japanese Market



\*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

## AUSTRALIA

### AUSTRALIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	18,604	-	6.3%	35.6%	-	24.0%	-
Long haul	17,975	96.6%	6.3%	35.7%	96.7%	24.6%	96.2%
Short haul	629	3.4%	5.7%	32.1%	3.3%	9.6%	3.8%
Travel to Europe	5,944	31.9%	5.4%	30.0%	30.6%	27.8%	31.0%
European Union	5,114	27.5%	5.9%	33.0%	27.0%	17.7%	29.0%
Northern Europe	1,449	7.8%	5.0%	27.4%	7.3%	7.6%	9.0%
Western Europe	1,787	9.6%	2.3%	11.8%	7.9%	16.0%	10.3%
Southern Europe	2,172	11.7%	7.2%	41.3%	12.2%	60.3%	9.0%
Central/Eastern Europe	535	2.9%	8.8%	52.2%	3.2%	31.4%	2.7%

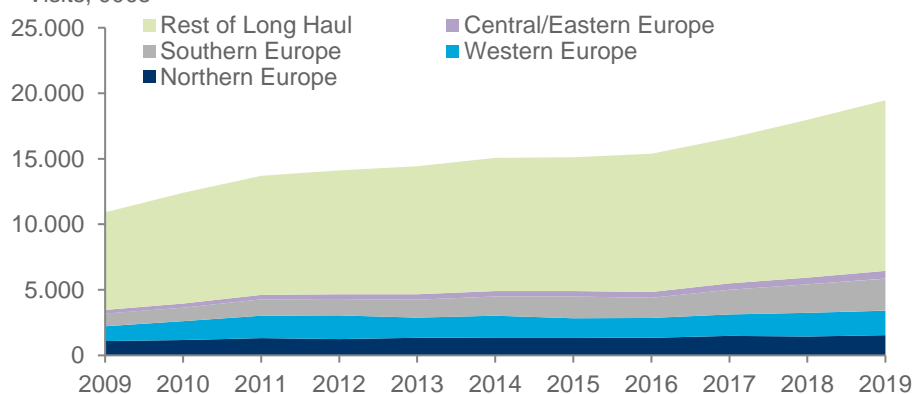
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Australia Long Haul\* Outbound Travel

Visits, 000s

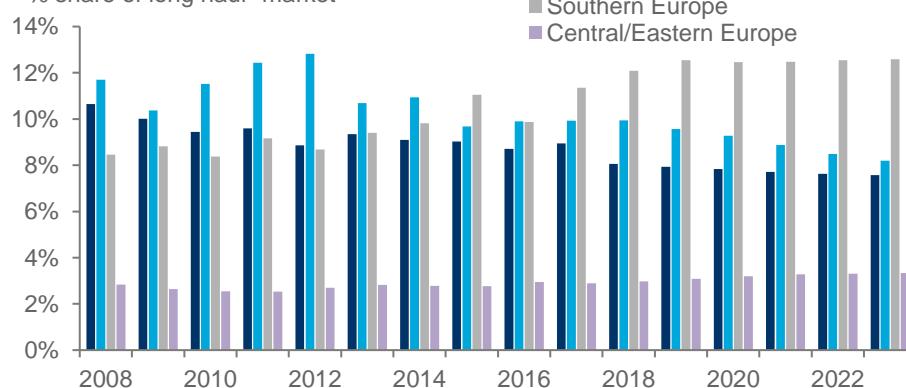


\*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

### Europe's Share of Australian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

## UNITED ARAB EMIRATES

### UNITED ARAB EMIRATES MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	3,118	-	6.0%	33.6%	-	11.4%	-
Long haul	1,914	61.4%	1.9%	10.0%	50.5%	41.3%	48.4%
Short haul	1,204	38.6%	11.4%	71.2%	49.5%	-16.7%	51.6%
Travel to Europe	1,170	37.5%	1.2%	6.1%	29.8%	42.1%	29.4%
European Union	790	25.3%	1.4%	7.4%	20.4%	35.2%	20.9%
Northern Europe	389	12.5%	0.7%	3.6%	9.7%	28.0%	10.8%
Western Europe	408	13.1%	1.5%	8.0%	10.6%	29.1%	11.3%
Southern Europe	194	6.2%	0.5%	2.7%	4.8%	47.2%	4.7%
Central/Eastern Europe	179	5.7%	2.1%	10.9%	4.8%	150.0%	2.6%

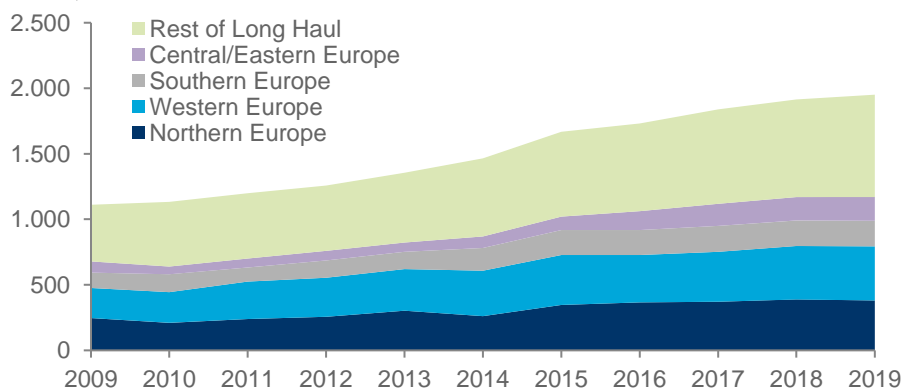
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### UAE Long Haul\* Outbound Travel

Visits, 000s

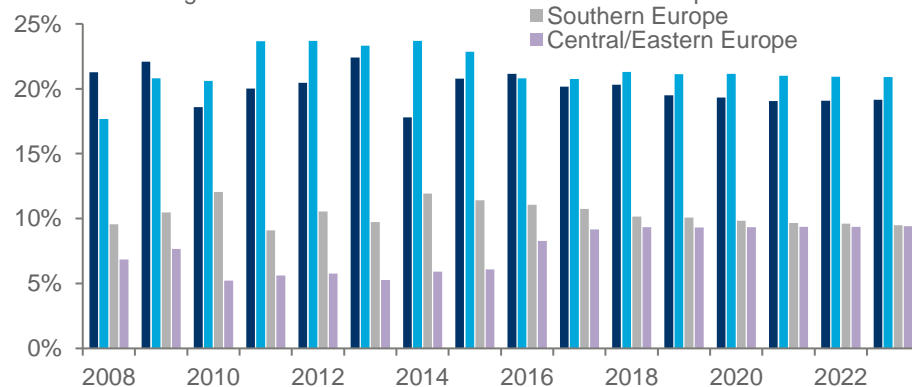


\*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

### Europe's Share of Emirati Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

## RUSSIA

### RUSSIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	29,729	-	5.8%	32.3%	-	-26.3%	-
Long haul	7,334	24.7%	4.8%	26.6%	23.6%	-13.2%	20.9%
Short haul	22,395	75.3%	6.1%	34.2%	76.4%	-29.8%	79.1%
Travel to Europe	22,395	75.3%	6.1%	34.2%	76.4%	-29.8%	79.1%
European Union	9,853	33.1%	4.6%	25.4%	31.4%	-13.0%	28.1%
Northern Europe	1,395	4.7%	6.5%	36.8%	4.9%	-20.6%	4.4%
Western Europe	1,702	5.7%	4.9%	26.8%	5.5%	-24.7%	5.6%
Southern Europe	10,159	34.2%	4.7%	25.8%	32.5%	7.9%	23.3%
Central/Eastern Europe	9,139	30.7%	7.7%	44.6%	33.6%	-50.5%	45.8%

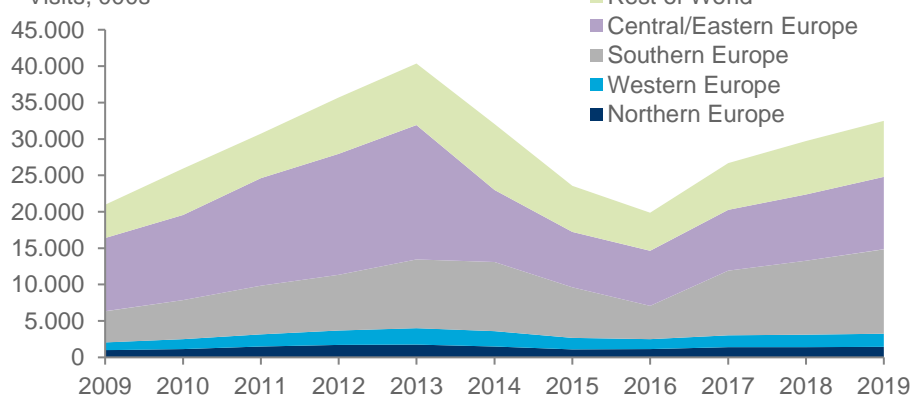
\*Shows cumulative change over the relevant time period indicated

\*\*Shares are expressed as % of total outbound travel

Source: Tourism Economics

### Russia Long Haul\* Outbound Travel

Visits, 000s

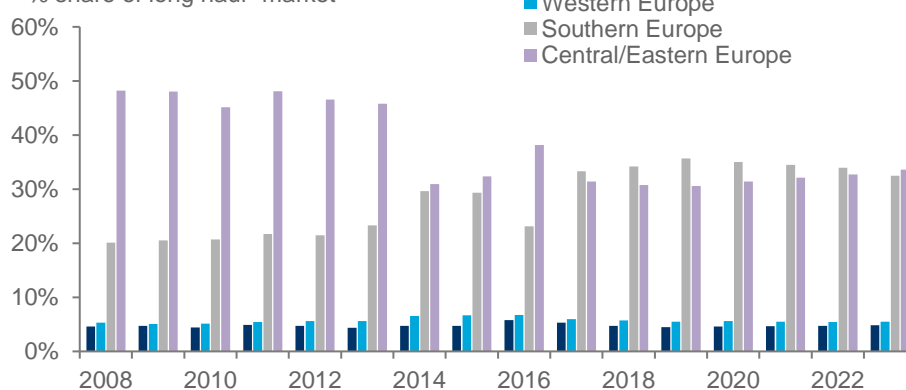


\*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

### Europe's Share of Russian Market

% share of long haul\* market



\*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

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## ECONOMIC OUTLOOK

*Assessing recent tourism data and industry performance is a useful way of directly monitoring the key trends for travel demand across Europe. This can be complemented by looking at key trends and relationships in macroeconomic performance in Europe's key source markets which can provide further useful insight into likely tourism developments throughout the year.*

*The linkages between macro and tourism performance can be very informative. For example, strong GDP or consumer spending growth is an indication of rising prosperity with people more likely to travel abroad. It is also an indication of rising business activity and therefore stronger business travel. Movements in exchange rates against the euro can be equally important as it can influence choice of destination. For example, if the euro appreciated (gained value) against the US dollar, the Eurozone would become a more expensive destination and therefore potentially less attractive for US visitors. Conversely, depreciation of the euro against the US dollar would make the Eurozone a relatively cheaper destination and therefore more attractive to US travellers.*

*Disclaimer: the opinions expressed in the forthcoming section [Economic Outlook] are those of Oxford Economics ("we, us, our"). They do not purport to reflect the opinions or views of ETC or its members.*

### OVERVIEW

The direct effect of the US decision to open a new front in its trade wars will be small, but it raises the risk of more substantive measures further down the line. Combined with the sombre tone of recent economic data, this has led us to become slightly more pessimistic about the near-term outlook. Despite the generally negative narrative, at a global level our quarterly GDP growth estimate for Q1 has been revised up again and, at 0.7%, is now almost 0.2 pp higher than we assumed a couple of months ago.

But we do not expect this strength to have extended into Q2. Indicators of global trade continue to paint a downbeat picture – our world trade indicator has fallen to its lowest since mid-2009. Meanwhile, the global composite PMI edged closer to its 2016 trough, reflecting a weakening in both manufacturing and services.

Equally important, the likely damage to world growth from trade tensions has worsened over the past month or so. True, the new US-China tariff measures, the restrictions on Huawei and the recent threat to impose tariffs on Mexico if immigration flows to the US are not curtailed will have a modest, rather than significant, impact on global growth. But these developments may dash hopes that some kind of détente had been reached. Even if this turns out to be the high-water mark for tariffs, the latest measures have added to downside risks and are likely to curtail investment.

In response, we have cut our end-2019 forecast for Brent crude from \$73 pb to \$67 pb and expect more dovish central bank behaviour, with the US cutting rates by 25 bp in Q4. But we see US dollar strength lasting longer due to the more uncertain outlook, which at a global level may offset the benefits of lower oil prices and interest rates.

Overall, for 2019 we have lowered our global GDP growth forecast by 0.1 pp from a month ago to 2.7%. We see 2020 growth remaining at 2.7%, down slightly from last month and still well below the 3.2% gains of 2017 and 2018.

## SUMMARY OF ECONOMIC OUTLOOK, % CHANGE\*

Country	2019					2020				
	GDP	Consumer expenditure	Unemployment**	Exchange rate***	Inflation	GDP	Consumer expenditure	Unemployment**	Exchange rate***	Inflation
UK	1.3%	1.8%	0.6%	0.7%	1.9%	1.6%	1.7%	0.1%	0.2%	1.8%
France	1.4%	1.3%	-0.3%	0.0%	1.2%	1.5%	1.3%	-0.2%	0.0%	1.3%
Germany	1.0%	1.9%	-0.3%	0.0%	1.4%	1.5%	1.7%	-0.1%	0.0%	1.6%
Netherlands	1.5%	1.6%	-0.5%	0.0%	2.0%	1.5%	1.9%	0.1%	0.0%	1.6%
Italy	0.0%	0.3%	-0.1%	0.0%	0.8%	0.4%	0.4%	-0.1%	0.0%	0.9%
Russia	1.0%	1.7%	-0.4%	0.8%	4.7%	2.4%	1.8%	-0.3%	1.1%	4.1%
US	2.4%	2.4%	-0.3%	4.9%	1.9%	1.6%	1.9%	-0.2%	-0.7%	2.0%
Canada	1.1%	2.0%	-0.2%	1.6%	1.9%	1.3%	1.6%	0.1%	0.3%	2.0%
Brazil	1.0%	1.5%	-0.3%	-1.6%	4.0%	2.0%	2.0%	-0.9%	-0.9%	4.1%
China	6.2%	6.7%	-0.2%	2.0%	2.4%	5.9%	6.4%	0.0%	0.5%	2.5%
Japan	0.5%	0.4%	0.0%	6.1%	0.8%	0.2%	0.0%	0.0%	-0.2%	1.1%
India	6.8%	7.1%	0.0%	2.8%	3.4%	7.1%	6.9%	0.1%	-0.7%	4.9%

Source: Tourism Economics

\* Unless otherwise specified

\*\* Percentage point change

\*\*\* Exchange rates

## EUROZONE

Growth in Q1 was driven by household spending and investment, confirming the notion that robust domestic demand continues to support growth. But persistent weakness in the industrial sector and external threats cloud the outlook for the eurozone. Our 2019 GDP growth forecast remains unchanged at 1.3% but we now see growth at 1.4% for 2020 (down from 1.5% previously).

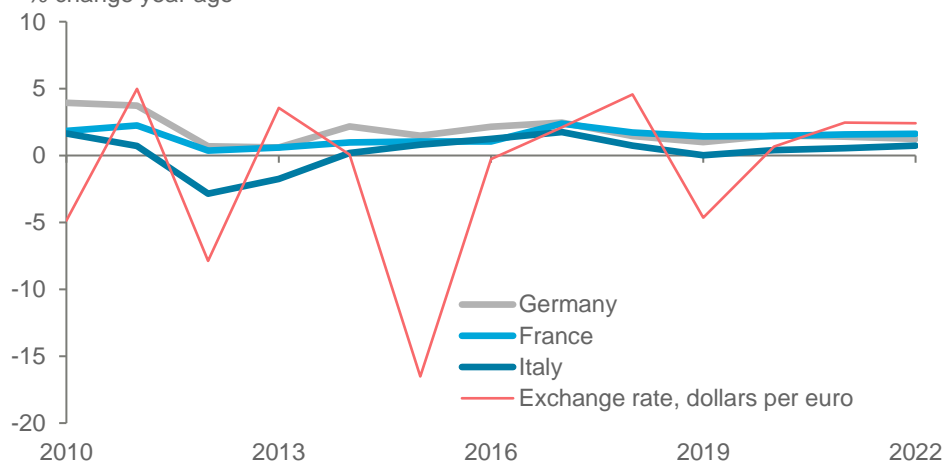
Details for Q1 GDP corroborated our expectation that household spending was solid, expanding 0.5% on the quarter. Fixed investment was the other main driver behind the expansion, but net trade also contributed to growth as exports rose modestly despite the adverse global trade conditions.

But the latest data suggests that growth will be a bit softer in Q2. Despite a rise in the Economic Sentiment Indicator in May, it remains firmly below its Q1 average. Meanwhile, the PMIs suggest stable growth but at relatively modest levels, constrained by a manufacturing sector that remains firmly in contractionary territory. The large gap between manufacturing and services continues to highlight the dual nature of current economic conditions in the eurozone. We see growth at 0.3% in Q2 and then settling at a pace of 0.4% a quarter in H2.

As expected, inflation slowed to 1.2% in May, as the impact of seasonal factors that had boosted prices in April faded. Although we still expect core inflation to rise gradually in H2 this year as wage growth strengthens, we see headline inflation averaging just 1.3% this year. The weak growth and inflation outlook prompted the ECB to deliver a dovish package at its last policy meeting, announcing favourable conditions for its TLTRO programme and extending forward guidance to H2 2020.

### Economic performance in key Eurozone economies, GDP real

% change year ago



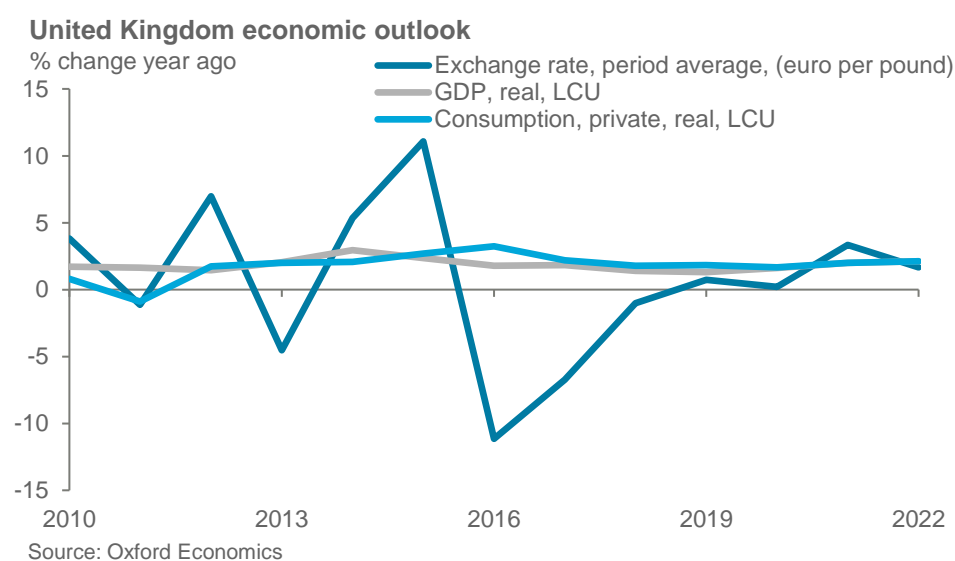
Source: Oxford Economics

## UNITED KINGDOM

We now expect the Article 50 period to be extended to March 2020, meaning that the drag from Brexit-related uncertainty on investment and sterling will linger for longer. With the global backdrop continuing to soften and GDP falling sharply in April, we have lowered our forecast for GDP growth to 1.3% in 2019 and 1.6% in 2020 from 1.5% and 1.7% last month.

The resignation of Theresa May as Prime Minister and the EU election results, which saw success for parties at the two extremes of the Brexit debate, mean that it looks increasingly difficult to form a parliamentary consensus for an 'orderly' Brexit by end-October. The next Prime Minister is likely to come from the 'hard Brexit' wing of the Conservative party but, given that any push for a 'no-deal' Brexit would probably trigger a general election and a loss of power, we think that the new premier will ultimately decide to seek another extension to the Article 50 period. The EU would probably be willing to grant one more extension, until March 2020, but at that stage parliament would be forced to finally confront the three options available – 'deal', 'no deal' or 'no Brexit'. Faced with these three options, we still think that the majority of MPs would view the Withdrawal Agreement as the 'least-bad' option.

Recent data has confirmed our view that the strong Q1 was largely due to noise and precautionary stockbuilding. Indeed, with GDP having fallen by 0.4% in April as firms started to run down the inventories, it now looks likely that the economy will endure a modest contraction in Q2 as a whole. Though this is likely to prove a blip, the prospect of a further delay to Brexit will extend the drag from uncertainty on investment intentions and sterling. And we think it likely that the MPC will not want to raise interest rates again until an 'orderly' Brexit has been completed, so we now expect the next rate hike in May 2020.



## UNITED STATES

As we approach the 2019 halfway mark, we believe that solid economic fundamentals will prevent a hard landing, with GDP growing 2.4% this year. Solid job growth and resilient confidence will support consumer outlays and business investment through the year. However, with fiscal stimulus dissipating and trade tensions escalating, the risk of a more pronounced slowdown in H2 is non-negligible – indeed, the financial markets seem to be betting on recession.

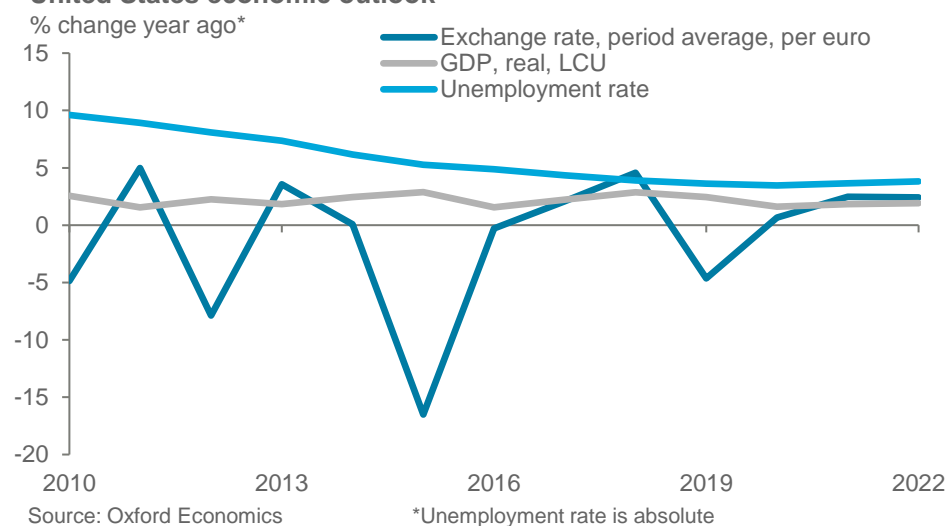
Employment growth cooled markedly in May with only 75,000 jobs added. While the weak jobs report is sure to feed the recession bias, we believe it reflects more a gradually softening economy and reduced labour market slack rather than an impending recession. Wage growth cooled a tick to 3.1% y/y in May on softer economic momentum, but it stayed above the 3% mark for the 10th consecutive month. Meanwhile, the unemployment rate was stable at its 50-year low of 3.6%.

The administration's decision in May to raise tariffs on imports from China to 25% will cost the US economy \$62bn by 2020, or 0.3% of GDP, relative to a no tariff baseline. While the possibility of a China "deal" remains, a further escalation of trade tensions would have dire consequences – costing the economy at least 0.5% of GDP in 2020.

While the threat of tariffs on EU autos has been pushed back into 2020, and the menace of tariffs on Mexico has been suspended for 90 days after President Trump said that an agreement had been signed with Mexico on migration, implementation of such tariffs could push the economy into the "danger zone" of sub-1% growth in 2020.

Tariffs may temporarily lift inflation, but the core inflation undershoot relative to the Fed's 2% target will linger through the year. With the Fed slowly coming to terms with this structural undershoot, and economic momentum slowing faster than it anticipates amid rising trade tensions, we now foresee a 25 bp rate cut in December.

### United States economic outlook



## JAPAN

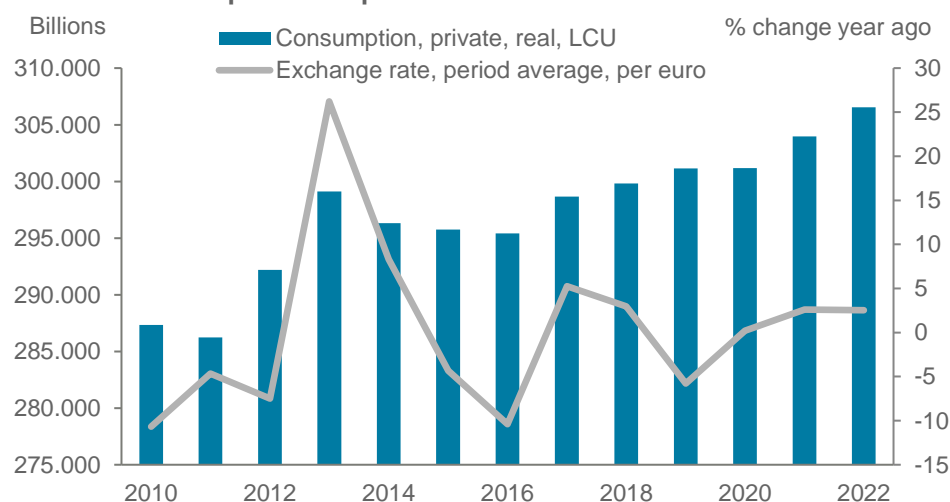
The Japanese economy will expand only modestly in 2019, with growth constrained by weak exports and a cyclical deceleration in capital spending. With headwinds to the external outlook rising again, we expect real GDP to grow only 0.5% in 2019. In 2020, we forecast GDP growth of just 0.2%, due to the impact of the scheduled consumption tax hike in Q4 2019.

According to the second estimate of the national accounts, GDP grew 0.6% q/q in Q1 2019. While business investment was revised up to show continued growth (0.3% q/q), we caution against seeing the Q1 print as cause for optimism. Trade was the key factor behind the deceptively strong outturn in Q1, contributing 0.4 ppt to growth, but only because imports fell much more than exports on the quarter. More recently, domestic activity stayed weak in April, particularly in sectors related to machinery and IT, reflecting sluggish external demand and the ongoing downturn of the IT sector.

Risks remain on the downside. Concerns over slowing global growth momentum, heightened by weak demand from China and a marked deceleration in the IT sector, may affect business sentiment. We also expect the consumption tax hike in Q4 2019 to dampen growth, although its impact, compared with past hikes, should prove relatively mild given the smaller size of the tax increase and the offsetting measures planned by the government.

The Bank of Japan (BoJ) clarified its forward guidance stance in April, announcing that it will maintain the current levels of short- and long-term rates until at least next spring. It also adopted measures to improve the operational sustainability of its current policy framework. Amid decelerating growth momentum and stagnant core price momentum, we expect inflation to continue to fall short of the BoJ's 2% target. Meanwhile, we see pressure towards a stronger yen and expect the currency to average 109 yen to the US dollar in 2019.

### Private consumption in Japan



Source: Oxford Economics

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## EMERGING MARKETS

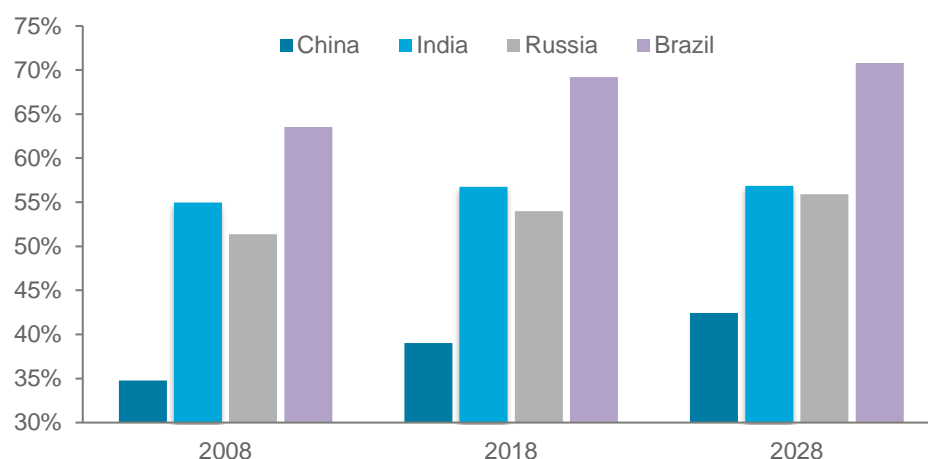
Emerging Markets (EM) have seen a number of downward revisions to growth projections over the past month following disappointing Q1 figures, which showed stagnating or contracting GDP. In addition, the renewed outbreak of global trade hostilities looks set to temper the recovery in H2, even as EM growth fundamentals are showing signs of improvement. Overall, our aggregate 2019 GDP growth forecast has been reduced by 0.1 percentage point, to 4.2%.

Our new baseline forecast assumes higher US tariffs on China will remain in place for the foreseeable future. Even though we expect more stimulus from the Chinese authorities in response, we have lowered our 2019 GDP growth forecast, to 6.2%, from 6.3%. The negative turn in sentiment and weaker growth momentum in China will take a further toll on activity across Asia, notwithstanding some reprieve from lower oil prices. Latin America witnessed a synchronised slowdown at the start of the year and the contractions in Brazil and Mexico in Q1 have prompted cuts to their respective growth forecasts, but we still expect Argentina's recession to be over in Q2. Meanwhile, Turkey may see another q/q decline in Q2, with recovery delayed into H2.

Monetary policy has become more dovish across many EM, taking its cue from global trends. India has continued its easing cycle in the face of faltering growth with a third rate cut this year – and we pencil in a further reduction in August. Over the last month, interest rates were also lowered in Sri Lanka, the Philippines and unexpectedly in Chile. Rate cuts still seem a little way off elsewhere in Latin America, but they are now in our baseline for Brazil and are a possibility for Mexico in late H2.

### Propensity to consume in key Emerging Markets

% share, private consumption / GDP



Source: Oxford Economics

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# APPENDIX 1

## GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS

### AIRLINE INDUSTRY INDICATORS

**ASK** – Available Seat Kilometers. Indicator of airline supply, available seats x kilometers flown;

**PLF** – Passenger Load Factor. Indicator of airline capacity. Equal to revenue passenger kilometers (RPK) / available seat kilometers (ASK);

**RPK** – Revenue Passenger Kilometers. Indicator of airline demand, paying passenger x kilometers flown;

**3mth mav** – Three month moving average.

### HOTEL INDUSTRY INDICATORS

**ADR** – Average Daily Rate. Indicator of hotel room pricing, equal to hotel room revenue / rooms sold in a given period;

**Occ** – Occupancy Rate. Indicator of hotel performance, equal to the number of hotel rooms sold / room supply;

**RevPAR** – Revenue per Available Room. Indicator of hotel performance, equal to hotel room revenue / rooms available in a given period.

### CENTRAL BANKS

**BoE** – Bank of England;

**MPC** – Monetary Policy Committee of BoE;

**BoJ** – Bank of Japan;

**ECB** – European Central Bank;

**Fed** – Federal Reserve (US);

**RBI** – Reserve Bank of India;

**OBR** – Office for Budget Responsibility;

**PBoC** – People's Bank of China.

### ECONOMIC INDICATORS AND TERMS

**BP** – Basis Point. A unit equal to one hundredth of a percentage point;

**Broad money** – Key indicator of money supply and liquidity including currency holdings as well as bank deposits that can easily be converted to cash;

**CPI** – Consumer Price Index. Measure of price inflation for consumer goods;

**FDI** – Foreign Direct Investment. Investment from one country into another, usually by companies rather than governments;

**GDP** – Gross Domestic Product. The value of goods and services produced in a given economy;

**LCU** – Local Currency Unit. The national unit of currency of a given country, e.g., pound, euro, etc.;

**PMI** – Purchasing Managers' Index. Indicator of producers' sentiment and the direction of the economy;

**PPI** – Purchase Price Index. Measure of inflation of input prices to producers of goods and services;

**PPP** – Purchasing Power Parity. An implicit exchange rate which equalises the price of identical goods and services in different countries, so they can be expressed with a common price;

**QE** – Quantitative Easing. Expansionary monetary policy pursued by central banks involving asset purchases to reduce bond yields and increase liquidity in capital markets;

**G7** – Group of seven industrialised countries comprising the United States, the United Kingdom, France, Germany, Italy, Canada, and Japan.

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## APPENDIX 2

### ETC MEMBER ORGANISATIONS

- Austria** – Austrian National Tourist Office (ANTO)
- Belgium:** Flanders – Visit Flanders, Wallonia – Wallonie-Belgique Tourisme
- Bulgaria** – The Ministry of Tourism of the Republic of Bulgaria
- Croatia** – Croatian National Tourist Board (CNTB)
- Cyprus** – Cyprus Tourism Organisation (CTO)
- Czech Republic** – CzechTourism
- Denmark** – VisitDenmark
- Estonia** – Estonian Tourist Board - Enterprise Estonia
- Finland** – Visit Finland - Finpro ry
- Germany** – German National Tourist Board (GNTB)
- Greece** – Greek National Tourism Organisation (GNTO)
- Hungary** – Hungarian Tourism Agency
- Iceland** – Icelandic Tourist Board
- Ireland** – Fáilte Ireland and Tourism Ireland Ltd.
- Italy** – Italian Government Tourist Board – Agenzia Nazionale del Turismo (ENIT)
- Latvia** – Investment and Development Agency of Latvia (LIAA)
- Lithuania** – Ministry of Economy of the Republic of Lithuania, Lithuanian State Department of Tourism
- Luxembourg** – Luxembourg for Tourism (LFT)
- Malta** – Malta Tourism Authority (MTA)
- Monaco** – Monaco Government Tourist and Convention Office
- Montenegro** – National Tourism Organisation of Montenegro
- Netherlands** – NBTC Holland Marketing
- Norway** – Innovation Norway
- Poland** – Polish Tourist Organisation (PTO)
- Portugal** – Turismo de Portugal
- Romania** – Romanian Ministry of Tourism
- San Marino** – State Office for Tourism
- Serbia** – National Tourism Organisation of Serbia (NTOS)
- Slovakia** – Ministry of Transport and Construction of the Slovak Republic
- Slovenia** – Slovenian Tourist Board
- Spain** – Turespaña - Instituto de Turismo
- Switzerland** – Switzerland Tourism