

**EUROPEAN
TRAVEL
COMMISSION**

European Tourism – Trends & Prospects Quarterly Report 4/2019

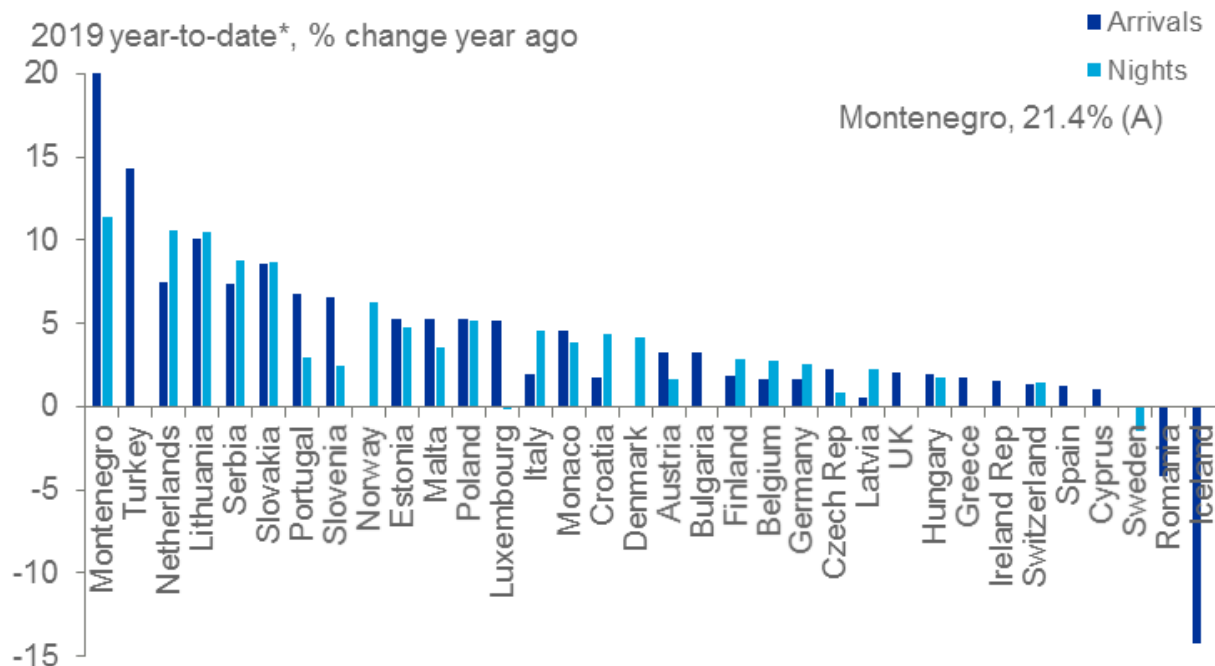
Executive Summary

European tourism growth in 2019

- Travel to European tourism destinations continued to grow in 2019, despite the challenging external environment and slowing global economic growth. All but three destinations welcomed more tourists (based on available data for the bulk of the year).
- Montenegro was the fastest growing European destination in 2019 based on year-to-date figures, illustrating the benefits to be gained through developing a country's tourism industry.
- In contrast, Iceland suffered from a record decline in arrivals following the collapse of Wow Air and as it continues to struggle to maintain the impressive growth rates achieved since 2011.

Foreign visits and overnights to select destinations

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



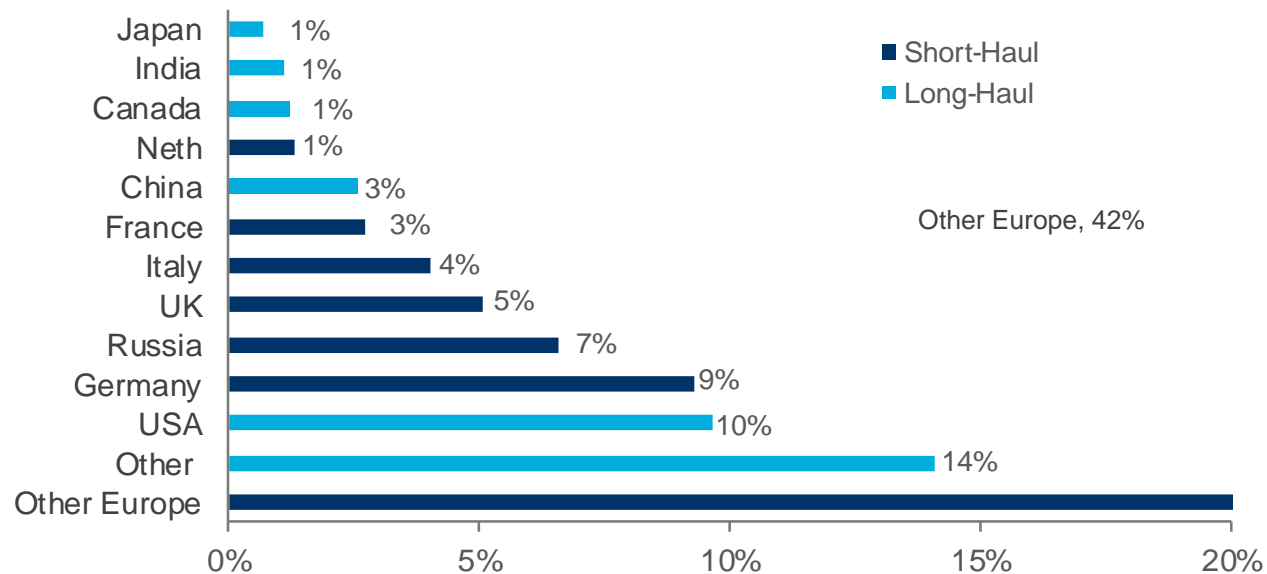
Source: TourMIS *date varies (Jan-Dec) by destination

Intra-regional and long-haul source markets

- Growth was mostly driven by intra-regional demand, with these origins expected to contribute more than 70% of arrivals growth in 2019.
- Long-haul source markets still made a significant contribution, particularly the US with the strength of the dollar against many other currencies making travel to Europe more affordable.
- Chinese appetite for European destinations was strong in 2019 despite economic slowdown. The ongoing coronavirus crisis represents a big downside risk for 2020.

Contributions to European growth market, 2019

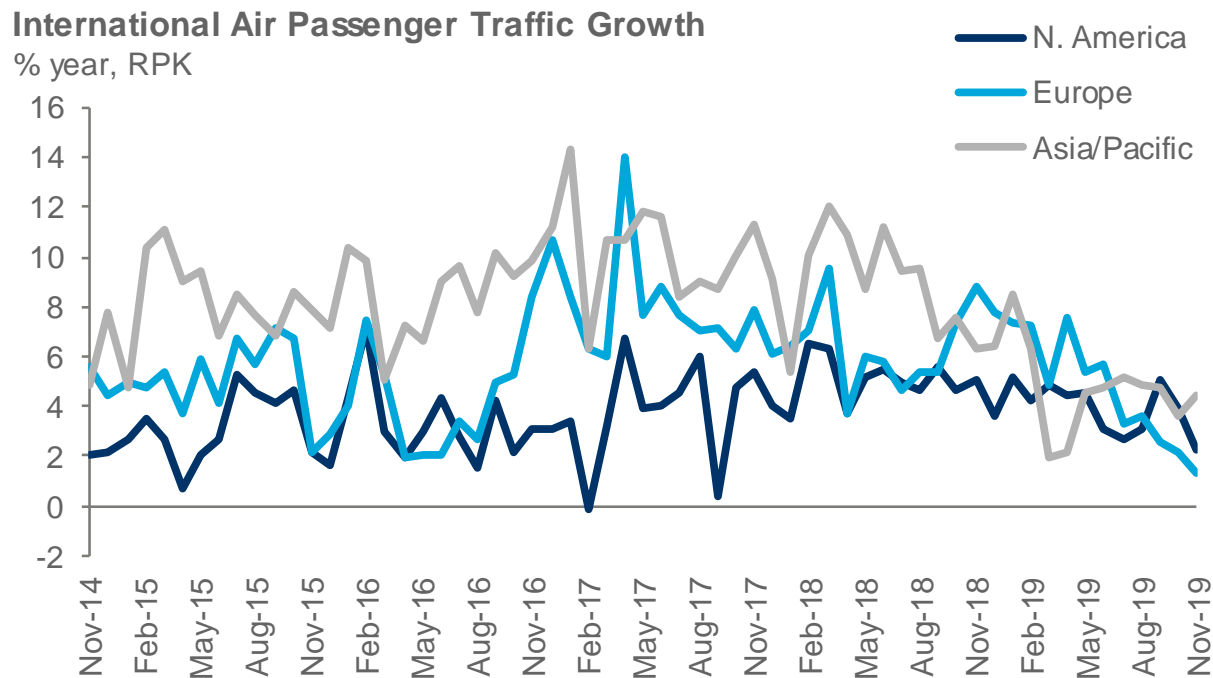
Share of arrivals growth for European destinations by key source markets



Source: Tourism Economics

Clear slowdown in European air passenger traffic growth

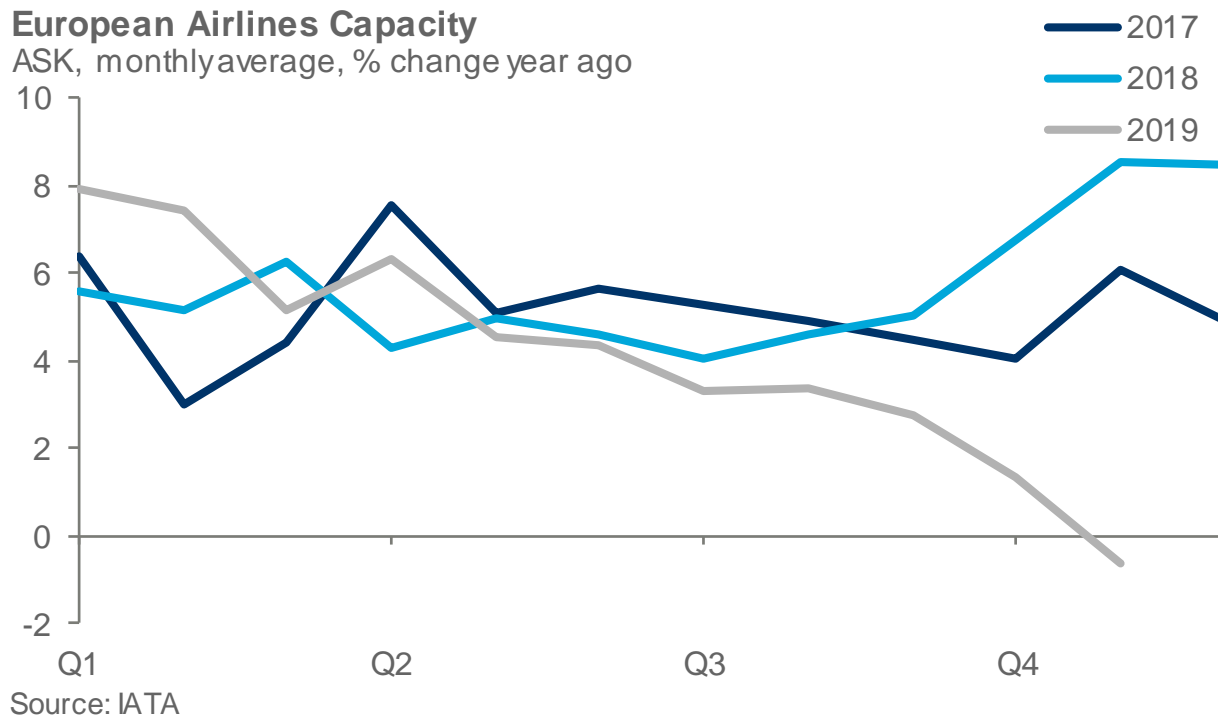
- The slowdown of international air passenger traffic in 2019 showed no sign of abating in the final months of the year. Year-to-date global revenue passenger kilometre (RPK) growth fell further compared to earlier in the year to 4.2% based on data to November.
- In Europe, although RPK growth remains modest at 4.2% based on data to November, in recent months demand has slowed more sharply than other regions, shedding 1.2 percentage points (pp) compared with data to August. In November, RPK grew 1.2% year-on-year – the third consecutive monthly slowdown and the slowest month of growth since February 2013.



Source: IATA

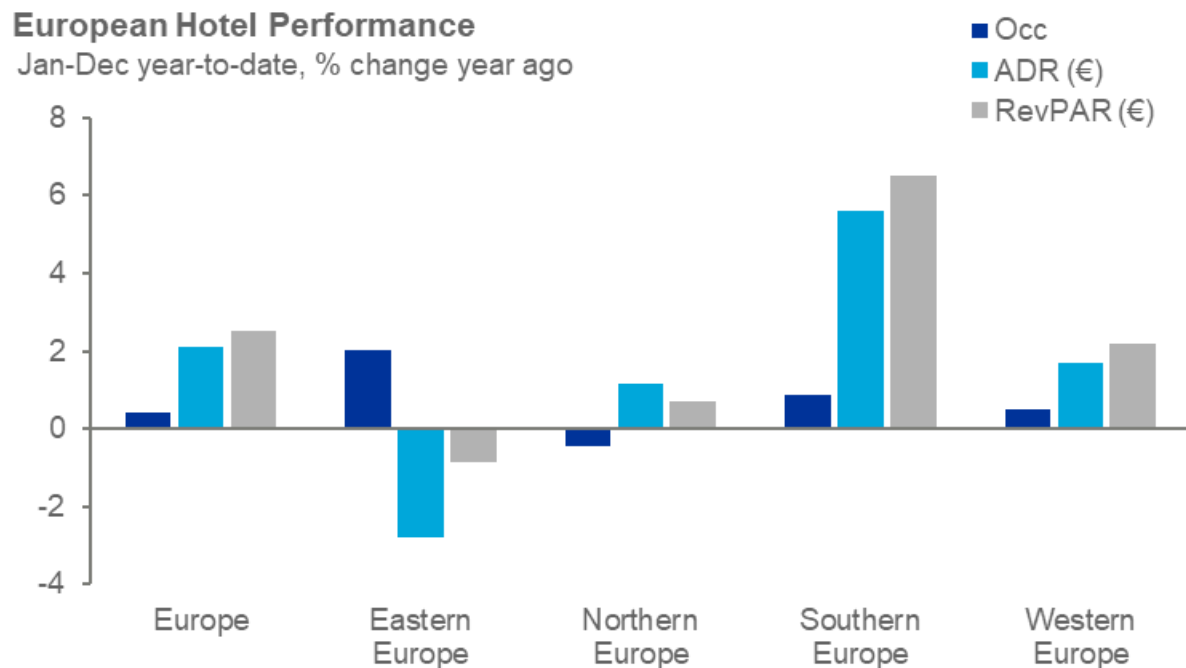
Slow airline capacity growth exacerbating load factors

- Load factors in Europe have been growing steadily for a number of years despite some very robust capacity growth and were largely driven by increased demand.
- But increases in late 2019 are raising concerns as falling capacity is the key factor. Load factors on European airlines are at record-high levels, with airlines operating at an average factor of 84.6% over the past 12 months. Capacity growth eased further in November to its slowest rate since February 2013, exacerbating load factors further.



European hotel performance positive

- In euro terms, Europe's performance is positive: ADR and RevPAR were both higher compared to a year ago, up 2.1% and 2.5% respectively. In both cases, this rate of growth represents an uptick in performance for the final quarter of the year.
- Southern Europe was the best-performing region with significant growth across the three key performance indicators.



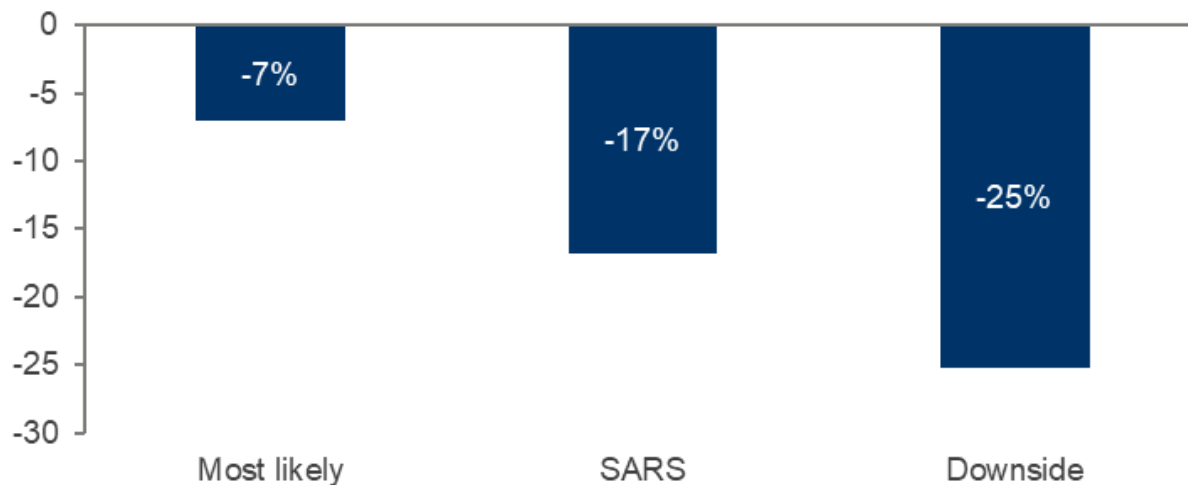
Source: STR

Coronavirus impact on Chinese travel

- As of Thursday 6th February, there has been just under 30,000 confirmed cases and over 560 deaths related to the coronavirus that originated in the Chinese city of Wuhan. Containment of the virus is crucial to mitigating its impact on travel.
- While significant uncertainty remains regarding efforts to contain the virus and shorten its impact, with SARS impacts as a guide, we anticipate European destinations will see Chinese arrivals in the range of 7% (most likely case) and 25% (downside case) lower in 2020 compared to the pre-crisis (counterfactual) forecast. In absolute terms this equates to between 1 and 3.7 million fewer arrivals from China in 2020.

Chinese travel to Europe, counterfactual vs scenario impacts, 2020

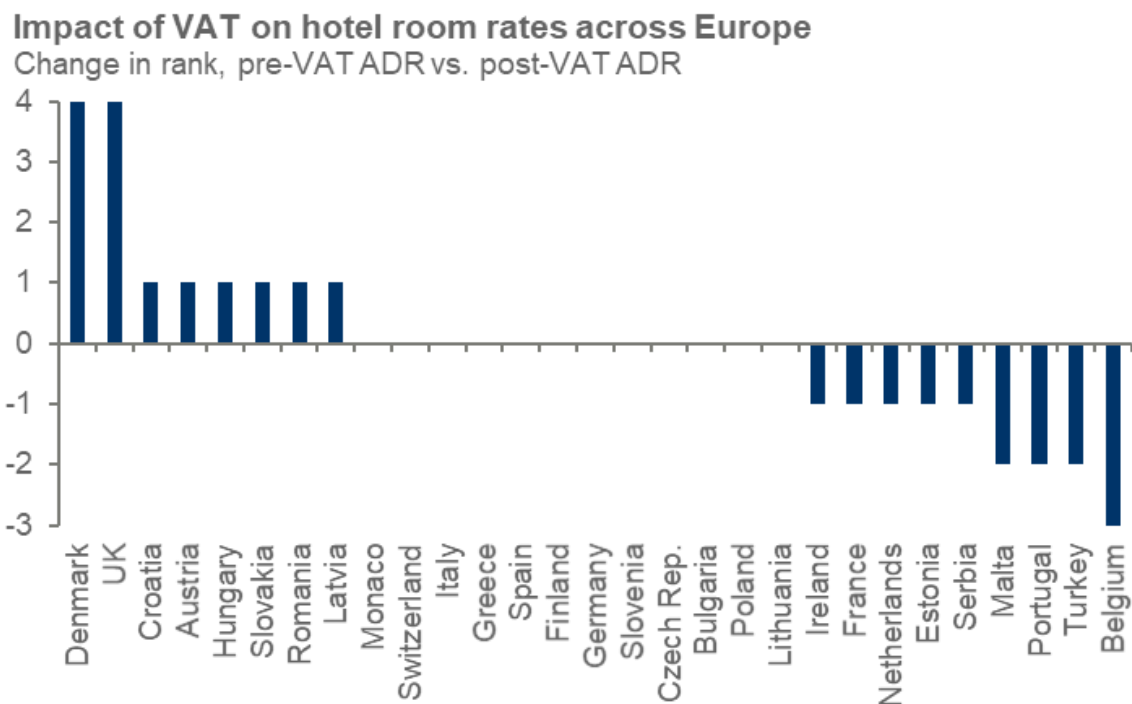
% loss relative to counterfactual scenario (no crisis)



Source: Tourism Economics

Special focus: Tourism taxes

- There is a clear benefit to destinations which discount VAT for tourist accommodation. Lower taxes mean that final prices paid by travellers are lower. Destinations should balance this competitiveness with the need to raise revenue or manage demand.
- There are concerns about the environmental impact of tourism which can be addressed by taxes on polluting activities such as flying.
- Taxes are a means through which tourism flows to destinations can be controlled as demand for tourism tends to be very responsive to changes in price.



Source: STR, European Commission

Economic outlook

- Although recent developments suggest that the risks of an escalation in US-China trade tensions have eased, its unlikely this will deliver a significant boost to the global economy with world GDP growth of just 2.5% expected this year, the weakest since the global financial crisis.
- While our view remains that global GDP growth is likely to have softened further around the turn of the year, the decline remains gradual. And latest survey-based measures of activity and sentiment show tentative signs that prospects are beginning to improve, consistent with the long-standing view that the low point for global growth will be in Q1 2020.

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%	1.2%	0.7%	0.9%	1.8%	1.0%	1.6%	0.3%	6.0%	1.4%
France	1.3%	1.2%	-0.4%	0.0%	1.1%	1.2%	1.3%	-0.2%	0.0%	1.2%
Germany	0.6%	1.6%	-0.2%	0.0%	1.4%	0.7%	1.5%	0.0%	0.0%	1.6%
Netherlands	1.7%	1.4%	-0.5%	0.0%	2.6%	1.3%	1.4%	0.2%	0.0%	1.2%
Italy	0.2%	0.5%	-0.7%	0.0%	0.6%	0.3%	0.4%	-0.1%	0.0%	0.7%
Russia	1.3%	2.6%	-0.3%	1.9%	4.5%	1.8%	2.1%	0.1%	5.4%	3.7%
US	2.4%	2.6%	-0.2%	5.5%	1.8%	1.8%	2.3%	-0.2%	2.4%	2.1%
Canada	1.7%	1.6%	-0.2%	3.0%	1.9%	1.4%	1.5%	0.1%	3.9%	1.9%
Brazil	1.2%	2.0%	-0.3%	-2.4%	3.7%	2.2%	2.4%	-0.9%	-1.6%	4.2%
China	6.1%	6.7%	-0.2%	0.9%	2.9%	6.0%	6.7%	0.0%	3.3%	3.1%
Japan	1.0%	0.5%	-0.1%	6.8%	0.5%	0.3%	-0.3%	0.1%	4.6%	0.6%
India	4.9%	5.2%	0.0%	2.4%	3.7%	5.6%	5.9%	0.0%	0.1%	4.8%

Source: Tourism Economics

* Unless otherwise specified

** Percentage point change

*** Exchange rates