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EUROPEAN TOURISM 2009 – Trends & Prospects

Quarterly Report - Q3/2009

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM IN 2009: TRENDS & PROSPECTS

Quarterly Report (Q3/2009)

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

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ETC Market Intelligence Report

European Tourism in 2009: Trends & Prospects (Q3/2009)

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This report was compiled and edited by:
The Travel Business Partnership
on behalf of the ETC Market Intelligence Group

Cover: The Cliffs of Moher, County Clare, Ireland
Courtesy of Fáilte Ireland

Foreword

Signs of recovery – but at what pace?

This year has seen the worst economic recession since the 1930s and, although several key economies in Europe and other parts of the world started to register growth as early as the second quarter, the growth remains fragile.

Households, companies and governments are all set to go through an extended period of balance-sheet rebuilding, so the recovery is likely to be very gradual. Global GDP growth next year is expected to be modest as a result, and a second dip into recession early in 2010 (as temporary effects unwind) cannot yet be ruled out.

Travel demand is stabilising …

Travel demand fell significantly in the first half of 2009 and continued to decline in July and August. However the rate of decline slowed in the last two to three months, and demand for air transport and hotel accommodation also appears to be returning to levels comparable with that of 12 months ago – in volume, if not yet in value terms, since the recession has also driven down prices. International arrivals, which fell by 7% worldwide and by 8% in Europe in the first seven months of the year, according to the World Tourism Organization (UNWTO), are projected to stabilise over the last four months of 2009, perhaps even showing some growth, although this will be largely by comparison with the very depressed levels experienced in the second half of 2008.

… and 2010 could see some tentative growth …

In contrast to previous recoveries, there is not expected to be a strong rebound from this year's low demand. A number of factors will continue to constrain growth, suggesting that recovery will be subdued. On the positive side, travel is not expected to fall any further in 2010, although significant downside risks remain – not least the prospect of an escalation in the A(H1N1) influenza outbreak. While the first wave of infections had only a limited impact and vaccination programmes are being implemented in many countries, a new, more serious outbreak still remains a risk.

… but long-haul demand will remain constrained

The downturn in travel and tourism in 2009 has been especially noticeable for long-haul travel, with a move towards increased short-haul travel and leisure trips of shorter duration. This trend is expected to continue in the short term – or until economic recovery is entrenched.

Europe could benefit from this trend as travel from intra-regional sources – the bulk of all demand – will tend to remain within the region. Eurozone markets will continue to benefit from the favourable exchange rates, but demand from dollar-based economies, hit by the ever-strengthening euro, will continue to suffer.

Rob Franklin
Executive Director
European Travel Commission

Leslie Vella
Chairman
ETC Market Intelligence Group

Economic Trends and Implications

Better than expected, but with caveats

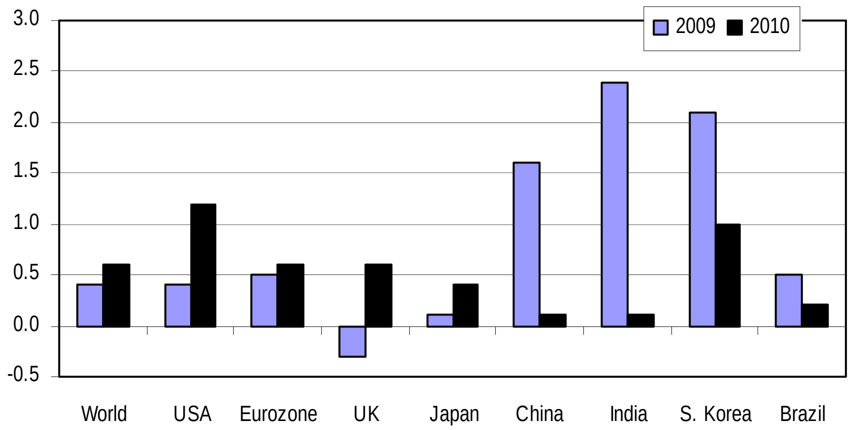
There have been a number of significant upside surprises on the growth front in the past month – in particular the positive figures for Q2 GDP in Germany and France. The improving trend in industry has for the most part been maintained, and parts of the service sector are picking up in response to the easing of financial stresses and the upturn in key asset prices. These surprises are reflected in a number of upward revisions to Oxford Economics' growth forecasts for 2010 – of 0.4% in the USA, eurozone, the UK and Japan, and 0.3% for the world overall.

Over the last few months, however, upward revisions to short-term growth forecasts have been much larger in emerging countries than in the major industrialised economies. This caution in terms of the latter group reflects uncertainty about the sustainability of the current rebound, and in particular the concern that much of the recent growth has been generated by government stimulus, while private demand remains very fragile.

The risks to consumer spending have been highlighted by further steep rises in unemployment in the USA and Japan and outright falls in consumer credit in the USA and UK. The outlook for investment also remains poor. The machinery sector has been sagging more than industry as a whole, suggesting weak equipment spending, and surveys of investment intentions remain downbeat.

The abundance of spare capacity, financial sector weakness and the need for consumers and businesses to reduce debt all point to a recovery that will be bumpy and slower than from 'normal recessions'. And although the likelihood of a strong 'V-shaped' recovery has certainly risen, Oxford Economics estimates it at no more than 20%, with higher probabilities for less favourable outcomes such as 'W-shape' and deflation scenarios.

Revisions to economic growth forecasts between May and September 2009
(% point changes in forecasts of real GDP)



Sources: Oxford Economics

Europe's Q2 GDP results were much improved …

Eurozone GDP fell by just 0.1% in Q2, which was a better result than expected and an encouraging indication that a stabilisation in economic activity is underway. This has led Oxford Economics to revise upwards its growth forecasts slightly. It now expects GDP to contract by 4% this year and to return to positive growth of 0.5% in 2010.

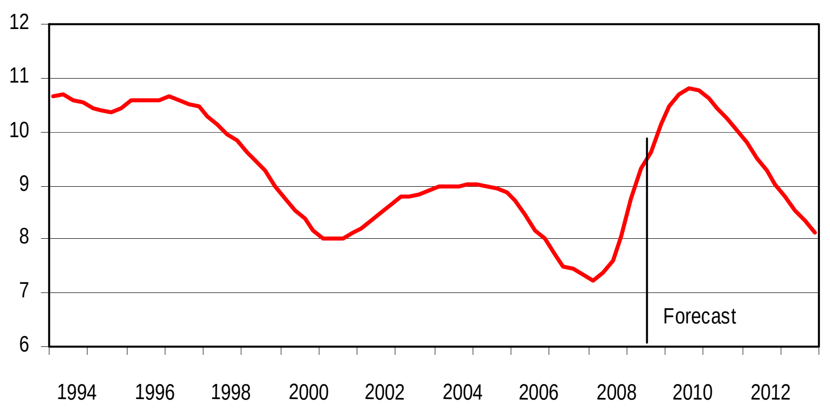
The first hard data for Q3 broadly confirms the improvement in the economic outlook, at least for the largest countries. In Germany, the pick-up in orders accelerated significantly in July, as the already strong demand from Asia was accompanied by a surge in orders from the rest of the eurozone. French industrial production rose for the third month in succession in July.

Positive signals were also evident in key survey indicators. The service sector index showed a more marked improvement than the manufacturing one, for example, led by a significant improvement in new business. This appears to reflect more optimistic expectations about the evolution of domestic demand in the months to come.

… but unemployment is likely to be a drag …

The pace of the recovery in the months ahead nevertheless remains uncertain, particularly in respect of consumer spending – so important to the travel and tourism sector. A major risk area is trends in the labour market. The unemployment rate in the eurozone climbed to 9.5% in July and is forecast to reach 10.2% at the end of the year and to stay well above 10% through 2010. In some countries unemployment has been kept in check by fixed-term government-financed jobs and 'short-hours' schemes. But many of these plans will expire by the end of the year, triggering a surge in the unemployment rate, in the absence of a significant pick-up in private demand or further policy measures.

Unemployment in the eurozone, 1994-2009 and forecasts 2009-2013
(% point changes in forecasts of real GDP)



Sources: Oxford Economics

This rise in unemployment is expected to have a significant bearing on consumption, which is forecast to contract by 0.8% this year and to increase by just 0.2% in 2010. The short-term prospects for domestic demand depend on how effective and long lasting the various governments' stimulus measures prove to be. The large plans enacted in France and Germany should help bring about a small positive growth in consumption this year, while in Italy the absence of any significant measures is set to contribute to a 1.7% fall.

… and some countries are doing better than others

There were significant differences in the pattern of economic growth among the larger eurozone countries in Q2. France and Germany posted positive quarterly growth rates, helped by fiscal measures that supported domestic demand, while economic activity in Italy and, above all, Spain continued to contract, albeit at a much slower pace than in Q1.

These divergences are likely to persist into next year. Fiscal stimulus plans and the pick-up in world trade will make it possible for France and Germany to post growth rates of around 1% in 2010 but, in Spain, the fallout from the property bust and an unemployment rate approaching 20% will lead GDP to shrink by 0.4%. In Italy, the structural weaknesses of the economy – especially the ongoing loss in international competitiveness and dismal productivity dynamics – is likely to limit growth to 0.2%.

Inflation and interest rates remain low

As expected, the European Central Bank (ECB) left its policy rate unchanged at 1% after its meeting on 3 September, citing the lack of inflationary pressures. In August inflation was -0.2%, and consumer prices are expected to increase by only 0.3% in 2009 as a whole, and by 1.1% next year. Concerns about the fragility of the economic recovery, and the problems faced by individual countries in the eurozone, suggest that the ECB will be cautious about implementing any exit strategy from its current highly accommodative stance.

In principle, these low interest rates should help businesses survive this difficult period, but in practice financing evidently often remains problematic. Similarly, low prices and low interest rates should encourage consumers to spend, but in practice their willingness to spend remains one of the great uncertainties about the coming months.

Other economies show an upturn …

Signs that the US economy has returned to positive growth continue to accumulate. But growth is still expected to be restrained – largely because unemployment continues to rise so fast. Oxford Economics expects the US economy to expand by 2.3% in 2010, after a decline of 2.7% in 2009.

All the leading Asian emerging economies showed accelerating recoveries in Q2. On a seasonally adjusted basis the quarter-on-quarter gains ranged from Indonesia at 1.4% (its economy never contracted, even at the height of the crisis) to Singapore's 4.8%. China's increase in the quarter is estimated at 4.2%. Given that Chinese exports scarcely improved while imports surged, its domestic demand growth was even more rapid. In contrast, the strength of the small- and medium-sized economies in Asia reflected both the boost from rising Chinese demand and a recovery in domestic demand, derived from less de-stocking, the boost from stimulatory monetary and fiscal policies, and a bounce in confidence.

… but recovery will not be smooth

The region is expected to continue to benefit from these trends in the second half of 2009. South Korea, Taiwan and Thailand all showed solid gains in industrial output in July. Despite this, the path of the recoveries in these countries over the next year is unlikely to be smooth. As an example, the year-on-year growth rate in both Korean retail sales volumes and equipment investment fell back in July after improving for three consecutive months, while exports dropped sharply in August.

The rest of the region is likely to be affected by the fact that Chinese domestic demand growth will not be maintained at the hectic pace seen in Q2, when the economy was benefiting fully from the fiscal boost and the government-guided surge in bank lending.

Meanwhile, growth in Japan is thought to have continued at a decent pace into Q3, given the further increase in industrial output and exports. As a result GDP is forecast to fall by 5.4% this year (less than earlier predicted), with 2010 growth now seen at +1.1%.

Trends in Tourism to/within Europe

Third-quarter arrivals and overnights

The worst performing region after the Middle East

Less than one third of European countries have filed their arrivals for August on TourMIS, or reported them to the World Tourism Organzation (UNWTO). And there is no clear growth trend among those that have. But UNWTO's estimated 4% decline in arrivals for July would seem to confirm that the negative trend has started to ease, although it is clearly too early to be sure of this. Arrivals in Europe from January through July 2009 fell by around 8% over the same period last year, as against a 10% decline in the first four months.

In the three months from May to July, according to UNWTO's count, arrivals were down 11%, 7.5% and 4%. Not surprisingly, these averages mask quite large differences across each of the sub-regions, as well as from one destination to another. With regard to the overall trend in the first seven months, however, no sub-region in Europe was spared: Central/Eastern Europe turned in the worst performance (-11%), followed by Northern and Southern/Mediterranean Europe (-8%), while Western Europe (-7%) did marginally better.

Few signs of positive growth

In Northern Europe, Iceland and Sweden were the only countries to report increases to UNWTO for the period (in arrivals for Iceland and overnight volume for Sweden), but in each case the increase was very modest. In Western Europe, there were declines all round, with one of the better performers, Austria, still recording a drop of 4% in arrivals and 5% in nights.

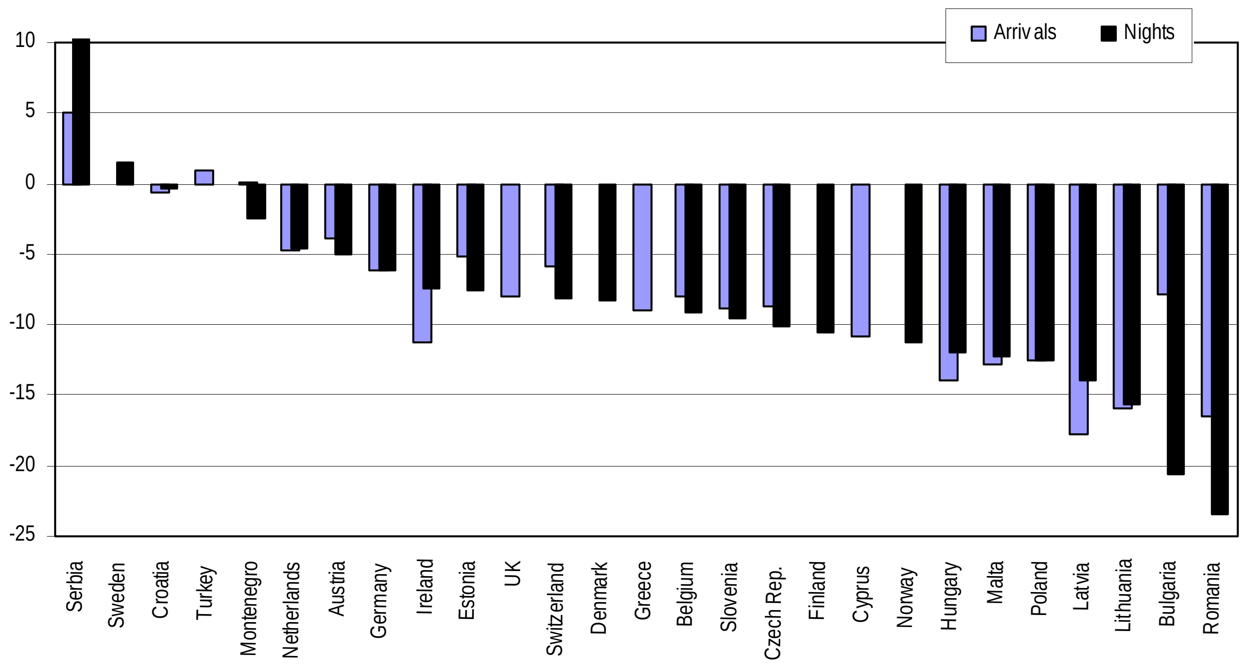
Most countries in Central & Eastern Europe suffered double-digit declines in arrivals, although not all have filed their results on TourMIS and there are significant gaps in the UNWTO's coverage of the region. In Southern/Mediterranean Europe, the Balkans turned in the best performances, led by the Former Yugoslav Republic of Macedonia. Serbia also showed healthy growth of 5% in arrivals and 11% in overnight volume for January through August. And Turkey, Croatia and Montenegro ended the first eight months at more or less the same level as in 2008.

Gaps in TourMIS coverage

Only about two thirds of ETC member national tourism organisations (NTOs) have filed any results for 2009 on TourMIS until now, so this makes the available estimates for regional and sub-regional trends unreliable – especially since leading destinations like France and Italy are missing.

Nevertheless, despite the caveats, TourMIS points to a 9% decline in overall arrivals so far in Europe this year – worse than UNWTO's estimate – with overnight volume down slightly more at -10%.

International arrivals and nights in European destinations, year-to-date 2009[a]
(% change on same period of 2008)



[a] Jan-May, Jan-Jun, Jan-Jul or Jan-Aug – measures used by the individual destinations vary

Source: National tourism organisations (NTOs), as posted on the TourMIS database by 10 Oct 2009. TourMIS, an information and marketing system, is a joint venture between the Austrian National Tourist Office (ANTO) and the Austrian Society for Applied Research in Tourism (ASNART), is supported financially by ANTO and ETC, and may be consulted free of charge at www.tourmis.info.

Leisure continues to outperform business travel

In line with trends seen in the first six months of the year, leisure has again outperformed business travel – but this is not surprising in the summer holiday period. It is too early to confirm the experiences reported by tour operators and retail travel agencies but, while domestic tourism undoubtedly showed better growth in the summer than international leisure trips, the poor weather in much of Europe in July and August encouraged a surge in last-minute outbound holiday bookings. As a result, many tour operators sold out their tour programmes this summer.

Nevertheless, the International Federation of Tour Operators says that package travel sales have continued to drop sharply in favour of self-tailored tours or independent travel – particularly in the UK market but also to a lesser degree in other countries. It must also be remembered that tour and airline seat capacity had been cut back quite dramatically in some markets at the beginning of the summer season.

As can be seen by an analysis of individual destinations' results, lower-cost destinations like Turkey were the ones to benefit most from the last-minute surge in demand, while the sustained strength of the euro has continued to have a serious impact on traditional summer sun & beach favourites like Spain.

Air Transport

Slowdown in monthly traffic eases …

Air transport data generally mirrors the trends in arrivals and overnights seen in the first seven to eight months of this year. Global passenger traffic (measured in revenue passenger-km, or RPK) has of course remained under pressure in recent months, with data from the International Air Transport Association (IATA) pointing to a 12th month of negative growth in August.

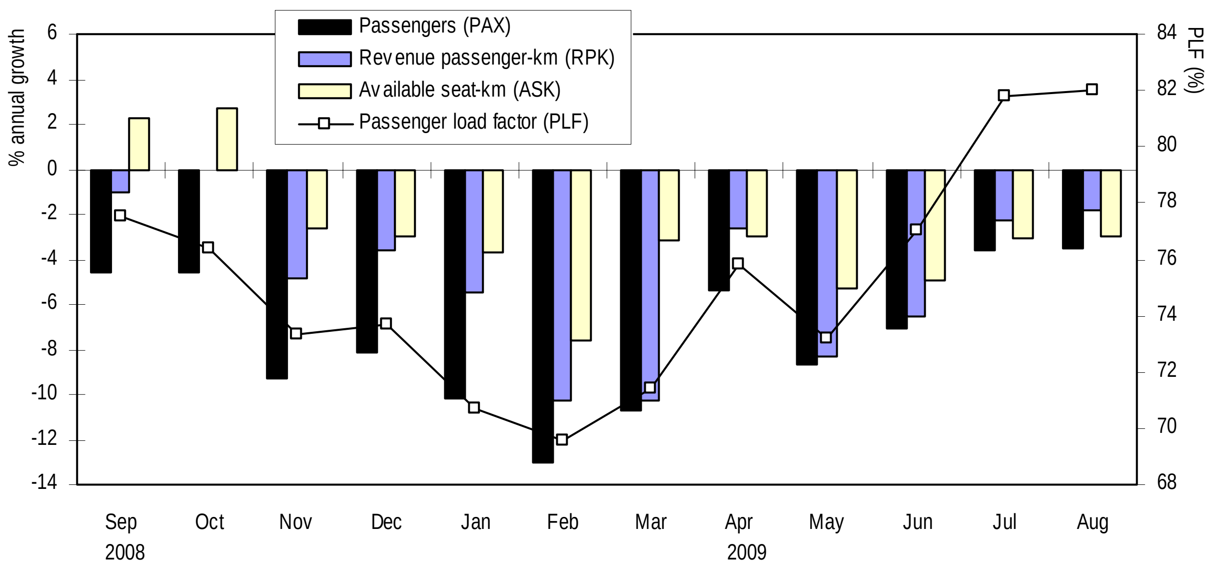
However, the rate of decline has fallen significantly from the double-digit figures seen earlier in 2009. The declines in July and August were only 3% and 1% respectively, with the three-month moving RPK average improving in each of the past three months.

… but Europe fares worse than average

IATA member airlines registered in Europe fared less well, however, recording a monthly decline for August of 3%. The region's worse-than-average results are also reflected in the data released by the Association of European Airlines (AEA), whose members suffered a 2% fall in RPK and a 3.5% drop in passenger embarkations in August.

Intra-European cross-border traffic was 4% down, the North Atlantic 3% and the Far East 2.5%. The only growth was on less important routes to Africa and the Middle East. Meanwhile, the preliminary outlook for September, based on weekly returns, is for a 3% decline – one percentage point worse than in August, thereby bucking the trend towards improvement.

Monthly trends in European airlines' passenger operations, September 2008 - August 2009
(% change on same month in previous year)



Source: Association of European Airlines (AEA)

Accommodation

Demand for hotel accommodation appears to have hit bottom …

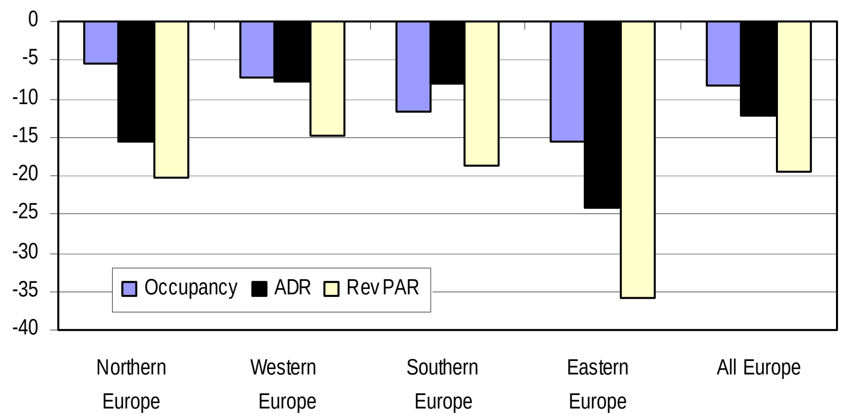
While some countries are claiming that non-hotel commercial sectors, such as camping, have held up well, hard data to substantiate this is missing. Data on hotel operations, on the other hand, shows the poor performance continuing pretty well across Europe.

Average occupancy fell through the first eight months of 2009 by 8%, according to Smith Travel Research's (STR's) HotelBenchmark Survey. Nevertheless, as was the case with arrivals, overnights and airline traffic, the rate of decline in July and August was much slower than earlier in the year. Moreover, some cities have done much better than average.

In terms of occupancy, London was only 1% down through the first eight months of 2009, according to STR (Note that the STR survey only covers four- and five-star properties), and there were much better occupancy levels than expected in Berlin (-2%), Rome (-5%) and Paris (-6%).

Unlike airlines, the hotel industry is of course not able to respond to lower demand by cutting supply. In fact the growth in supply in a number of countries has been surprising this year. Some projects underway, facing less competition for scarce labour resources, have been completed ahead of schedule. Credit constraints have also limited the number of conversion projects taking hotel properties out of the market for other purposes.

Hotel performance in Europe, Jan-Aug 2009
(% change on same period in previous year, in euro terms)



ADR = Average daily rate; revPAR = revenue per available room; both in euros

Source: Tourism Economics, from STR Global data

…but revenues continue to fall …

However, if occupancies are seen to be bottoming out, this is not the case with revenues. Average daily rate (ADR) across Europe was down 22%, STR says, and revenue per available room (revPAR) 28%. Again, the declines for some destinations have been easing month by month, but this is no guarantee that the trend will continue.

As is usual in times of downturn, hoteliers have competed on prices. Room rates have fallen ahead of price and wage inflation in order to retain competitiveness. Rates are likely to remain subdued until the recovery in occupancy – forecast for some time in 2010 – is well established.

… affecting all European countries

In general, the declines in ADR and revPAR have been more marked in Central & East European countries, although even here the worst appears to be over as the rate of decline in occupancy slowed in the summer.

Individual Source Markets

General trends

Business travel and long-haul markets are hardest hit

With minor exceptions, travel and tourism demand in the third quarter of 2009 appears to have been in line with projections. While not the subject of this report, domestic travel has benefited in a number of countries, although the poor weather in the peak months of July and August in northern Europe helped to sustain demand for foreign holidays – also boosting last-minute bookings. Tour operators may have benefited from the trend, although it is too early to be sure.

As predicted, business travel – including the meetings and incentive travel segments – suffered much more than leisure, and Europeans have axed secondary trips in favour of their main summer holidays. However, these also appear to have been reduced in length and Europeans have favoured destinations closer to home, while destinations outside the eurozone (like Turkey and Morocco) have gained at the expense of those priced in euro.

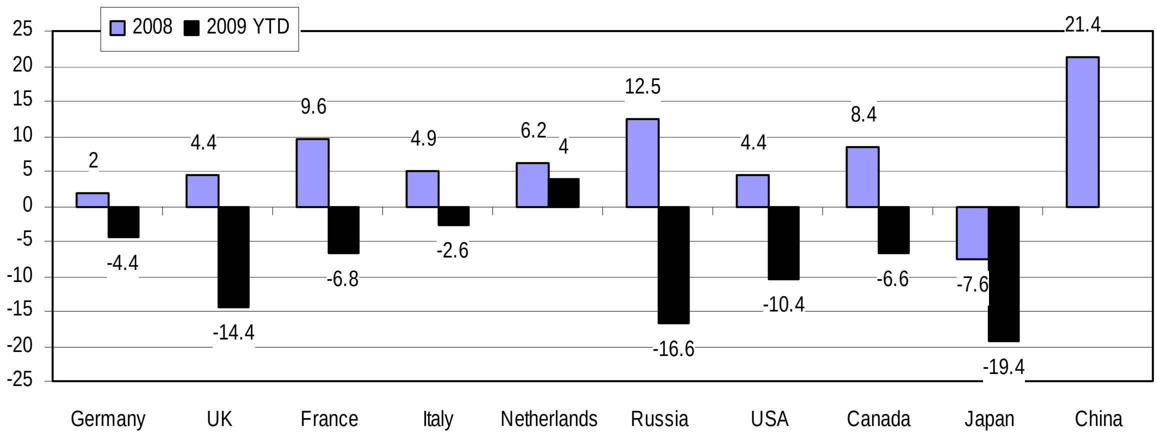
While travel within Europe generally has fallen throughout the year, the rate of decline has been much lower than for long-haul markets. These have fallen dramatically in 2009 for most origins and European destinations, exacerbated by the strong euro as well as by tighter visa conditions and more costly visas for a number of countries. The statistics clearly confirm the trend.

Spending on travel falls across all major markets

Statistics gathered by UNWTO from countries' central banks suggest that, of all the world's leading travel and tourism source markets, only the Netherlands has recorded an increase in year-to-date spending on travel abroad. Data from the Chinese and Indian markets is not yet available, and it is worth noting that these markets are also expected to have shown some positive growth – or will do before the end of 2009 – but the outlook for all other key markets is far from bullish.

Declines in spending for the year to date (6-8 months) range from -3% for Italy, -4% for Germany and -7% for France and Canada, to -14% for the UK (due to the weakness of sterling as well as the economic recession), -18% for Russia and -19% for Japan.

International travel expenditure, 2008 and Jan-Jun 2009[a]
(% change on same period in previous year)



Jan-Jul for UK, USA and France

Source: UNWTO

Key intra-European markets

Germans favour domestic holidays

As might be expected from the traditionally 'sensible' German market, reining in spending on travel has become the order of the day for most of the population, half of whom reportedly decided to stay in their home country for their annual holidays. For those going abroad, Spain remained the first choice (albeit down in number of trips), followed by Greece, Turkey and Italy. But no arrivals figures from those countries are available yet to confirm the trends. According to leading tour operator TUI, over half of all Mediterranean holidays out of Germany were inclusive package tours – thereby bucking the trend in Europe away from organised trips.

Among the ETC member NTOs that have filed German arrivals on TourMIS, Serbia, Cyprus, the Netherlands and Sweden have all seen increases (extremely modest in Sweden's case), but the majority have recorded big declines – in some cases of more than 20%.

The positive news is that, with the country having moved out of recession in Q2, German firms – and, to a lesser extent, consumers – are at their most confident since the spectacular collapse of US banking giant Lehman Brothers in September 2008. And the rally in business sentiment is likely to continue in the short term, given the positive mood after the elections and successful campaign of Chancellor Angela Merkel. But, as is the case with all other European markets, optimism is tempered by the fact that, while the near term looks bright, there are still at least two impediments to a real recovery -– the worsening labour market and a possible credit crunch.

A lost year for UK outbound

The UK has clearly benefited as a destination this year from the weakness of sterling, and arrivals from France have reached new highs. However, as an outbound market, the UK has proved a major disappointment as the usually travel-crazy British have cut back on foreign travel. Admittedly, the signs are that most of the 'lost' trips have been secondary short breaks, but the overall impact has been dramatic.

Not one destination that has filed its year-to-date results on TourMIS has reported an increase. Indeed, the registered declines in arrivals from the UK are all in double digits, with several destinations losing around one third of the total number of British tourists recorded in the same period of 2008.

These trends are also reflected in the official UK outbound statistics from the International Passenger Survey, which point to a 16% drop overall in UK outbound trips through the first seven months of 2009. The good news is that Europe as a destination was down 'only' 15%, as against a 28% drop in trips to North America.

The Dutch market holds up better than most

Although arrivals from the Netherlands across Europe show that the Dutch market has also shrunk this year, the declines are a lot less dramatic than for some other markets. And a few destinations have even seen growth, or only modest decreases. But in general, overnight volume is down more than arrivals.

Data from the Dutch Association of Travel Agents (ANVR) suggests that the decline in the number of advance bookings (-18% at the beginning of the year) has eased in the past few months. Some sectors have performed quite well. Bookings for car-based holidays, for example, are down only 2%. Long-haul destinations were far less popular for the summer. The trend to last-minute booking, which re-emerged this summer, is expected to continue through the coming winter season.

A mixed picture from France and Italy …

Arrivals data filed on TourMIS shows a very mixed performance for the French and Italian markets, but the gaps in coverage make any analysis unreliable. Serbia, Latvia, Denmark, Ireland and Norway have all recorded increases from these two markets, while other destinations have suffered significant falls. Estonia, Finland, Lithuania, Poland and Romania, for instance, recorded double-digit, or near double-digit, declines from both markets. The UK reports a substantial increase in arrivals from France, but a large decline from Italy. Conversely, Malta and Slovenia report large declines from France, but not from Italy.

The French tour operators' association, CETO, says that its bookings fell by 11% from May through August, although there was growth for Mediterranean destinations (especially for North Africa). Package tour sales have dropped 6%, although they represent a minor share of the total market. Business trips, meanwhile, are reportedly down 28%, according to a survey by Mondial Assistance and DéplacementsPro.com presented at the recent Top Resa travel fair.

Italians appear to have bucked the European outbound holiday trend, continuing to opt for long-haul destinations. But a number of European destinations have also seen rises in Italian arrivals and/or nights, including Sweden, Serbia, Slovenia and Denmark.

… and a confused outlook for Russia

Although it is far too early to be certain, there are signs that Russian outbound travel demand may be starting to pick up, according to the Russian Travel Industry Association (RST). And looking forward, RST believes that some destinations in Europe will be recession-proof. These include the UK, Germany, Latvia, Finland, Bulgaria and Cyprus.

However, it should be noted that, for the year to date, the picture is very different. While there have been increases in arrivals and/or nights for Switzerland, Estonia, Latvia, Serbia and Slovenia, most other destinations that have recorded results on TourMIS have seen sharp declines. The Russian market to the UK, for example, is down 35%. Furthermore, the stringent visa requirements are likely to continue to take their toll on numbers. And the market has also been affected by various fiscal measures taken by the Russian Government, such as reducing the allowance for importing duty-free goods into Russia.

Non-European sources

Little justification for optimism about the US market

July 2009 recorded the first increase (of just 1%) in monthly outbound trips taken by Americans since May 2008. But travel to Europe from the USA was still down 7% through the first seven months. Admittedly, this was an improvement on the -10% recorded from January to April, confirming that recent declines for several key destinations have not been as severe as those earlier in the year. Nevertheless, Serbia and Denmark are the only destinations to have seen positive growth out of the USA in the year to date.

Moreover, Tourism Economics' forecasts suggest that there is little growth potential from the market in the short term, primarily because of the unfavourable exchange rate for US travellers. If there is a recovery before year-end, demand will most likely be for dollar-based destinations closer to home, such as the Caribbean and Latin America.

Prospects for Canada better than for most other long-haul sources

With the exception of Serbia, Denmark and Finland, the Canadian market has under-performed this year as far as Europe is concerned. Nevertheless, while the outlook remains uncertain, as for most other outbound travel source markets, the Canadian economy is expected to weather the recession relatively easily, which should help to sustain outbound travel. Indeed, prospects for the Canadian market would seem to be better than for other developed economies.

Prosperity and a strong currency have encouraged the 'travel habit' among Canadians in recent years, and this habit has helped to sustain growth in overseas travel in the current recession. However, since prosperity and the effects of the recession are unevenly distributed throughout Canada, the generalisation is not necessarily valid for all the individual provinces.

Europe remains high on the destination wish list of Canadians, despite growing travel to South America and Asia, with Australia and New Zealand the main competitors in terms of aspirations. This augurs well for the region in the medium to longer term, especially given that nearly 50% of Canadians hold valid passports. Canada's ageing population will also probably favour Europe.

Japan continues to disappoint

Slovenia is the only destination in Europe to have recorded an increase in arrivals from Japan this year so far. For Europe as a whole, the market is well down and there is little hope of a recovery in the short term, although Japanese tour operators claim that interest in Europe remains high.

Apart from the economic situation and continuing political uncertainties (although these have eased since the elections), the Japanese have been more affected than most markets by fears about the H1H1 influenza 'pandemic'. But the main reasons for the fall in demand remain economic ones, and any recovery will undoubtedly favour intra-regional destinations in Asia, especially South Korea (whose currency is also very weak).

The Chinese market recovers – but not to Europe

Destinations recording increases in arrivals and/or overnight volume from the Chinese market include Belgium (through May), Bulgaria, the Czech Republic, Hungary, Lithuania, the Netherlands, Norway and Switzerland – a sizeable share of those countries that have filed their results on TourMIS. In contrast, among the leading destinations in Europe for Chinese tourists, the trend was strongly negative. The UK and Germany both suffered big declines and, while there is no data to substantiate the trend, France, Italy and Spain are also thought to have seen a drop in Chinese visitors so far this year.

The good news is that the market is in recovery mode: the first half of 2009 saw a 1% increase to 22.5 million outbound trips and, if Hong Kong and Macau are excluded from the count, the increase was 11.5% to 9.2 million. But, unfortunately, most of the growth expected in the second half of this year will be for Asian destinations.

Gaps in data coverage make it difficult to analyse Indian trends

As usual, there is too little available data from the Indian market to be able to make a meaningful analysis of trends out of the Indian market. With the exception of Poland and Austria, the few destinations that have filed their results have mainly seen declines from India, as has been the reported trend to the rest of the world.

However, Indian tour operators are fairly bullish about prospects for the last quarter of 2009 and 2010, and stress the fact that Europe is high up the Indian traveller's destination wish list. It remains to be seen whether the potential is fulfilled.

Prospects for European Tourism

Industry sentiment

Will the eurozone lead the recovery?

Every month Eurostat surveys businesses in key service industries to determine sentiment about current and expected business activity. The results are presented as the balance of positive versus negative responses.

According to the latest Eurostat survey, the travel industry across the EU is not expecting recovery yet but has become less pessimistic about the short term.

The largest improvements in sentiment have come from countries in the eurozone.

As always, care should be taken in drawing conclusions about future performance from the Eurostat data. The differences across markets reflect opinions that may be influenced by many factors apart from actual conditions. And it is to be expected that some businesses remain cautious about the future, having recently experienced large falls in demand.

Hotels, transport companies and travel agents remain cautious

Expected demand in the hotels and restaurants sector remains negative for both the EU as a whole and the eurozone. Nevertheless, expectations have improved in most countries, but not to the extent of a rapid recovery.

Expected demand in the transport sector has stabilised in the last four months, at a low level, across the EU and the eurozone. Opinions in the eurozone appear to be less negative than those in the rest of the EU, where currency volatility may be affecting the situation.

Travel agency expectations have generally remained negative in recent months, but this sector has seen the strongest improvement in sentiment. Expected demand for the EU27 as a whole turned positive briefly in August and growth is expected in a sizeable minority of countries.

But industry sentiment remains mixed across the European region …

In all three travel and tourism sectors covered by the survey, more countries are reporting negative than positive expectations. However, expectations are generally less pessimistic than earlier in the year, and in some countries they have improved noticeably .

The majority of the 'optimistic countries' fall within the eurozone. Currency union may be protecting these destinations from some uncertainty by eliminating exchange rate fluctuations within the zone, and reducing those against other currencies liable to be suffered by individual countries. Another country that has shown real improvement is Denmark, whose currency is pegged to the euro, with similar beneficial effects.

However, some of the recent improvement has been in countries which have suffered the largest declines in travel and tourism demand. In these cases the relative optimism is based on a very low level of demand and it will take several years for peak levels to be regained.

A(H1N1) influenza

Industry waits for a second or even a third wave of infections

The effects of the A(H1N1) influenza 'pandemic' on global travel and tourism demand have been limited until now, although some destinations suffered disproportionately in the early stages (notably Mexico, where the virus first emerged). It has also clearly affected confidence in some travel source markets, primarily those in East Asia and the Middle East.

At the start of the Northern Hemisphere winter season, there are signs that the number of cases of A(H1N1) has risen quite sharply but, so far at least, one cannot talk about a severe outbreak and there is no evidence to suggest that the virus has become, or will become, more virulent in this second phase.

However, it clearly poses a significant downside risk to the current outlook – if not with regard to number of fatalities, at least in terms of a likely increase in the fear factor influencing travel demand and, even more importantly, the possible impact on suppliers' business continuity.

Nevertheless, there are several reasons to be cautiously optimistic about the likely effects of A(H1N1) on travel in the coming months. First, the fatality rate is quite low and the effect on consumer confidence and, therefore, travel is not expected to be as pronounced as it was for SARS. Second, the virus is treatable with standard anti-virals. And third, the vaccine is becoming readily available – at least in key travel source markets – so that those who want to travel can do so without risk of contracting A(H1N1). (Of course, it should also be mentioned that many are reluctant to be vaccinated because of possible, as yet unidentified, side effects.)

The main concern is that the likely impact of a resurgence in A(H1N1) cases on the behaviour of governments and airport authorities remains unpredictable. This could become a major factor influencing demand.

Airline traffic and capacity

Some growth is likely in Q4 – calculated on the weak figures for Q4 2008

Demand for air transport began to fall heavily in September 2008 and, with a low base on which to make calculations, growth is now more than likely in the fourth quarter of this year. Nevertheless, the picture is far from bright.

Capacity has been cut significantly in response to falling demand and load factors have increased in recent months. On a four-week average basis, load factors have reached the highest level in over five years and there is a risk that reduced capacity may constrain growth in the short term.

In August 2009, passenger demand was down 1% compared with the same month in 2008 – a further improvement compared with the 3% decline in July – and passenger load factors improved by 1.2 percentage points to 80.9%. Yet, despite the tighter supply and demand conditions, average fares continue to be depressed (-22% for premium seats and -18% for economy-class fares, compared with fares in the same month last year).

To match capacity with demand, airlines have reduced daily aircraft utilisation in recent months. By way of example, average daily hours for the global Boeing 777 fleet dropped by 3% to 11.1 hours per day through the first eight months of the year. Lower utilisation helps load factors, but spreading fixed asset costs over fewer hours in the air pushes up unit costs.

Moreover, even if demand continues to improve, as predicted by industry analysts, profitability remains as distant as ever. Fares have stabilised, but at profitless levels. Meanwhile cost pressures are mounting from reduced aircraft utilisation and rising oil prices. Although still well down on levels of 12 months ago, the price of a barrel of oil is back at over US$70 and fuel surcharges are beginning to be commonplace in all regions. The industry is clearly not out of the woods yet, which does not augur well for the travelling public.

Outlook for the remainder of 2009 and 2010

Current trends in line with expectations

As predicted, travel to European destinations in the third quarter of 2009 was lower than in 2008, although the decline eased somewhat during the peak summer season. This is evident for virtually every destination in the region except Serbia. Nevertheless, all indicators suggest that the rate of decline is slowing and that there may even be some positive growth before year-end.

Growth will of course be boosted by comparisons with lower base values in the final quarter of 2008, which marked the main period of the downturn in economic activity and travel and tourism. In other words, we are likely to see 'a dead cat bounce'.

A time for caution

Some believe that the last quarter of 2009 should mark the end of the downturn in travel as the global recession has come to an end with Q3 marking the first period of renewed economic growth for many countries. However, the end of the recession, technically speaking, does not mean an end to unemployment, fiscal and budgetary pressures, the continued credit squeeze and other factors unfavourable to the growth in travel and tourism demand.

Even the economic recovery remains fragile. Output, household disposable incomes and employment remain at low levels. It will take time to recover previous highs in economic activity. So international arrivals Europe are not expected to recover to their previous peak levels until 2011.

The risks of a further downturn (i.e. a W-shaped recession) remain for both the global economy and travel demand. And the A(H1N1) influenza virus could still mutate and become more deadly or more widespread, which in turn could adversely affect confidence in travel and cause a new downturn.

Expect more of the same trends

Long-haul travel in particular will remain subdued in the early stages of recovery. Trips will continue to be of shorter duration and closer to home – an extension of current trends. Exchange rates remain important for the travel and tourism outlook. An obvious example is the UK, which will benefit as a destination, while outbound travel from the UK will remain subdued.

Leisure travel will be the main focus for tourism this year and next, as business travel budgets are expected to remain tight. The financial pressures on companies have forced them to be much more stringent about granting permission for their staff to travel. Business travel has also been constrained by scrutiny and adverse public opinion in some quarters. Eventually, a return to higher levels of corporate profitability should help to realise some pent-up demand, but it is also possible that a degree of 'hysteresis' – the tendency for recent behaviour patterns to become entrenched – will continue to dampen demand.

Oil prices could rise

"Immediate oil demand is in the doldrums," to quote the International Energy Agency (IEA). Although it seems to be firming, the global market is still weak amid concerns over economic recovery and its impact on energy consumption next year. The IEA expects the price of a barrel of oil to average around US$75 dollars next year in line with the economic recovery, but "there is a wide range of risk in how the groggy oil market will recover and the oil price is unlikely to rise much."

Worldwide, oil at US$75 a barrel is much more expensive than airlines were used to in the recent boom. Within Europe, however, the strength of the euro in part offsets higher oil prices. Although some airlines have reintroduced fuel surcharges, this is not seen as a major issue likely to affect travel and tourism demand in the short term.

Airlines in search of new routes and new partnerships with NTOs

Given that the corporate travel market is expected to take much longer to recover than leisure travel demand, airlines have cut their 'business-travel routes' more extensively than their leisure travel routes.

At the recent world Routes Development Forum in Beijing, it was made patently clear that airlines have huge spare capacity and are looking for new routes offering growth potential. This offers NTOs and local suppliers the opportunity for some creative marketing partnerships with airlines and airports.

Opportunities to boost online travel

Another opportunity increasingly opening up for NTOs is in online travel. More and more tour operators and retail travel agencies are using the internet to reach out to new clients, and destinations and suppliers should be positioning themselves to do the same. The rapid development of technology means that the investment costs in setting up a system to capture this growth market are falling all the time, making it viable even for small travel agents.

We live in interesting times. Surviving them requires some fresh thinking on the opportunities they offer.

ETC Member Organisations

(October 2009)

Austria	Austrian National Tourist Office (ANTO)
Belgium	Flanders: Tourist Office for Flanders (TV) Wallonia: Office de Promotion du Tourisme Wallonie et de Bruxelles (OPT)
Bulgaria	Bulgarian State Agency for Tourism
Croatia	Croatian National Tourist Board (CNTB)
Cyprus	Cyprus Tourism Organisation (CTO)
Czech Republic	Czech Tourist Authority (Czech Tourism)
Denmark	VisitDenmark
Estonia	Estonian Tourist Board (ETB)
Finland	Finnish Tourist Board (MEK)
FYR Macedonia	Ministry of Economy
France	Atout France / Agence de Développement Touristique de la France
Georgia	Department of Tourism and Resorts of Georgia
Germany	German National Tourist Board (DZT)
Greece	Greek National Tourism Organization (GNTO)
Hungary	Hungarian National Tourist Office (HNTO)
Iceland	Icelandic Tourist Board
Ireland	Tourism Ireland and Fáilte Ireland
Italy	Italian State Tourist Board (ENIT)
Latvia	Latvian Tourism Development Agency
Lithuania	Lithuanian State Department of Tourism
Luxembourg	Luxembourg National Tourist Office (ONT)
Malta	Malta Tourism Authority (MTA)
Monaco	Monaco Government Tourist Office and Convention Authority
Montenegro	National Tourism Organisation of Montenegro
Netherlands	Netherlands Board of Tourism and Conventions (NBTC)
Norway	Innovation Norway
Poland	Polish Tourist Organisation (POT)
Portugal	Turismo de Portugal
Romania	Ministry of SMEs, Trade, Tourism & Liberal Professions
San Marino	Ministry for Tourism, Sport, Transport, Telecommunications & Economic Cooperation
Serbia	National Tourism Organisation of Serbia
Slovakia	Slovak Tourist Board
Slovenia	Slovenian Tourist Board
Spain	Instituto de Turismo de España – Turespaña
Sweden	VisitSweden
Switzerland	Switzerland Tourism
Turkey	Ministry of Culture and Tourism
UK	VisitBritain
Ukraine	National Tourist Organization of Ukraine