

## EUROPEAN TOURISM 2009 – Trends & Prospects

Quarterly Report - Q4/2009

EUROPEAN TRAVEL COMMISSION



# **EUROPEAN TOURISM IN 2009: TRENDS & PROSPECTS**

## **Quarterly Report (Q4/2009)**

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**

Brussels, January 2010  
**ETC Market Intelligence Report**

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### **European Tourism in 2009: Trends & Prospects (Q4/2009)**

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Published and printed by the European Travel Commission  
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ISBN No: 978-92-990050-9-5

This report was compiled and edited by:  
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Photo: Entrance to Icehotel with Arctic sunset, Jukkasjärvi, Sweden.  
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## Foreword

### Signs of recovery – but at what pace?

2009 saw 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, corporations and governments are all set to go through an extended period of balance sheet rebuilding, so the recovery is likely to be very gradual. As a result, global GDP growth this year is expected to be modest, and a second dip into recession early in 2010 (as temporary effects unwind) cannot yet be ruled out.

### Travel also shows signs of muted growth

Travel demand trends in the last three months of 2009 confirmed that the recovery was underway, although the growth was in large part due to comparisons with the low levels in late 2008. And the improvement, which benefited Europe less than most other regions of the world, came too late to make much difference to the final full-year results. In summary, for the travel and tourism industry, 2009 was undoubtedly a year to forget.

The outlook for growth in 2010 is more positive than it was three months ago – with more ‘risk’ to the upside. Europe's tourism performance in the first half of 2010 will of course be aided by comparisons with the depths of the recession in 2009. However, some significant downside risks remain, including security concerns and the possibility (although now deemed less likely) of a more virulent A(H1N1) pandemic.

Tourism Economics' forecast remains muted for 2010 – in contrast to the situation in some previous recoveries, it does not expect a strong rebound. This is confirmed by industry expectations, which have improved since September 2009. Expectations of demand over the next three months from hoteliers and restaurateurs in the European Union as a whole are neutral, as the outlook in most destinations has improved, but a small majority continue to be pessimistic about the short term.

A muted economic recovery along with weak consumer sentiment and an extended period of high unemployment will dampen the recovery in travel demand. But, on a positive note, travel and tourism demand is not expected to fall any further in 2010.



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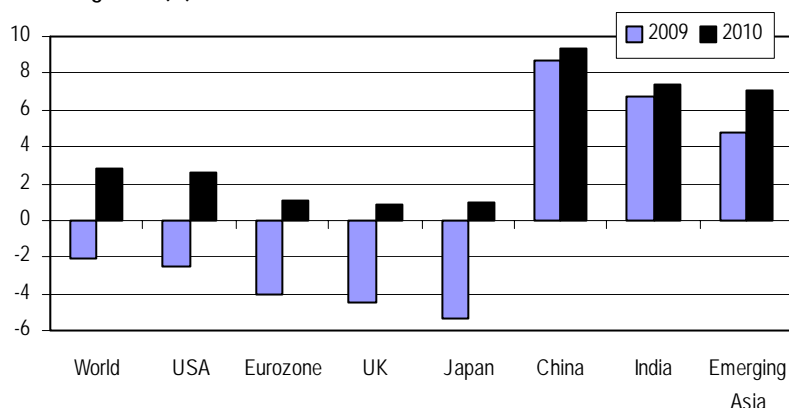
## Economic Trends and Implications

### The world economic recovery accelerates ...

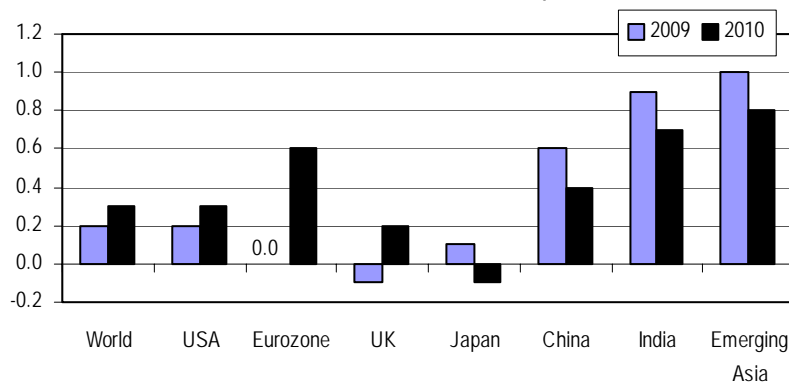
The global economic recovery, which was becoming evident in the third quarter of 2009, became more widespread and more entrenched in the fourth. Indeed, the vigour of the recovery is almost as astonishing as the speed and extent of the collapse in Q4 2008 – although it is of course much less dramatic in numerical terms. Forecasts for GDP growth in 2009 and 2010 are still being revised upwards for most countries in the world.

Forecasts of world economic growth, 2009 and 2010

Real GDP growth (%)



Revisions to forecasts between Oct 2009 and Jan 2010 (% points)



Source: Oxford Economics

### ... but remains slower in Europe

However, as these graphs show, although it is widespread, the recovery is unevenly distributed, and much slower in Europe than in the rest of the world. In China, India and the rest of 'emerging Asia', the ground lost in the first half of 2009 was almost fully recovered in the second half, and growth in 2010 is expected to be even higher than it was in 2008. In the USA (and in much of the rest of the world), while the recovery is slower, forecasts for the outcomes in 2009 are still being revised upwards and growth in 2010 is expected to make up for the residual declines in 2009. In Europe, however, little upwards revision has been made for the outcome in 2009 and the growth expected in 2010 will do little to make up for the decline in 2009.

Nevertheless, Oxford Economics has revised its 2010 forecasts for the European Union upwards since October, from 0.6% to 1.1%. Its forecast for the eurozone has similarly been revised upwards, from 0.5% to 1.1%, with increases from 1.0% to 1.6% for Germany, 0.9% to 1.3% for France, and 0.3% to 1.0% for Italy. These upwards revisions are quite substantial, but the overall growth expected in these countries (and in the EU as a whole) remains modest.

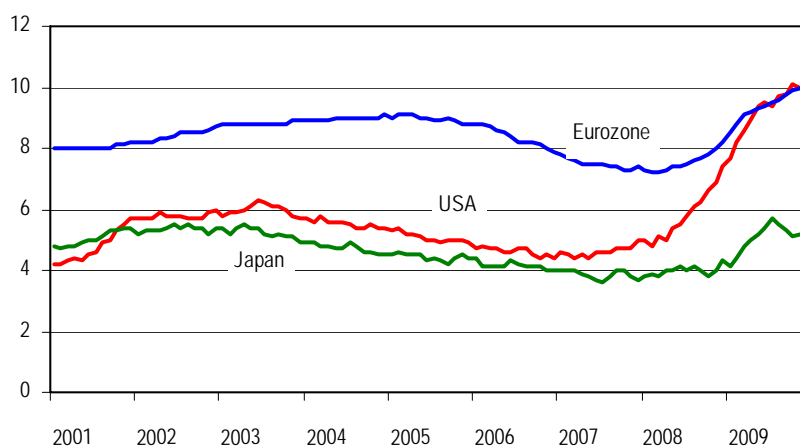
There is still much uncertainty about the prospects for 2010. Some of the employment and economic support programmes (such as car scrappage schemes) come to an end soon. What will be the effect of this? The International Monetary Fund (IMF) has been warning of the possibility of a 'double-dip recession' if the more general stimulus measures are withdrawn too soon, but some governments are under intense pressure to put their public finances in order. And the recent scare over the debts of Dubai World has reminded us of the continued fragility of the world financial system.

**Unemployment is expected to be a drag on consumer confidence**

While GDP in Europe has at least stabilised, the prospects for consumer confidence and consumer spending are still poor in some countries and uncertain in others. Generally, consumer credit conditions remain tight and property markets weak. In some countries (notably in Eastern Europe) there is a general awareness of the extent of the structural difficulties faced by their economies and the lack of scope for earnings growth. In others (especially the UK, Ireland, Spain and Greece), there is an awareness of the need for massive increases in taxation and cuts in public spending.

Perhaps the most powerful factor will be fears about unemployment, which reached 10.0% in the eurozone in November. It has recently been rising more slowly than had been expected, and much less steeply than in the USA, but it is nevertheless forecast to continue rising gradually to 10.5-11.0% some time in 2011 (with some countries affected much worse than others). High unemployment is thought to have a strong effect on the travel plans of people not directly affected.

Unemployment in the eurozone, USA and Japan, 2001-09 (%)



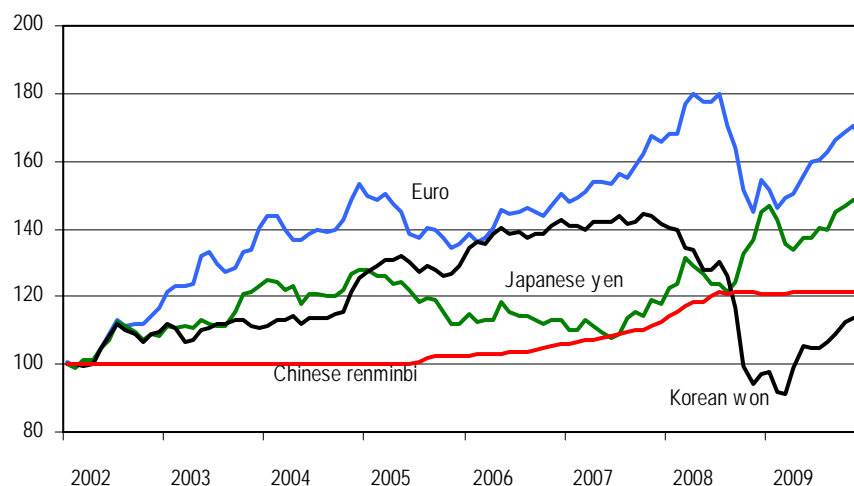
Sources: Haver Analytics

### Exchange rates out of balance

The IMF and others have also been warning of the need to 'rebalance' the world economy. One aspect of this is to reduce the large current account deficits of the USA and reduce the surpluses of China and the Asian 'tigers', which would involve a cheaper US dollar. For the moment, however, China has effectively re-fixed the yuan/renminbi to the US dollar, and in doing so has removed some of the pressure on other Asian countries to float their currencies. The upwards pressure has therefore been redirected onto the Japanese yen, the euro and the currencies of major commodities producers, including Australia, Canada and Brazil.

The strength of the euro is affecting relative international prices. It is in particular supporting outbound long-haul travel from the eurozone to destinations with weaker currencies (counterbalancing, in part, the tendency to travel closer to home during the recession), and reinforcing the decline in inbound long-haul travel.

Exchange rates against the US dollar, 2002-09  
(Q1 2002 = 100)



Sources: Haver Analytics

Within Europe, similar pressures are being generated by the weakness of the UK and Swedish currencies, encouraging inbound travel from the eurozone and discouraging outbound travel to the zone. In Eastern Europe, some countries have currencies fixed to the euro while their neighbours do not, creating flows of travellers to those with weak currencies and reducing the prices and profitability of the tourism industries in those with strong currencies. In Iceland, a dramatically weaker currency is helping the stricken economy, including the tourism industry (arrivals are sharply up), but Ireland and Spain do not have access to this automatic adjustment mechanism.

### Inflation remains subdued

The strong euro is also helping to keep inflation low in Europe. It is insulating the local tourism industry from the rise in international oil prices. In 2009 inflation averaged 0.3% in the eurozone and 0.8% in the EU as a whole, and (given the weakness of demand in Europe) it is expected to rise only slightly, to 1.1%, in 2010.

However, international commodity prices (including food and oil) have been rising, and given the strength of demand in Asia and the developing world there is the possibility that they will rise more quickly in 2010. This would put pressure on some prices in Europe.

**Interest rates remain on hold**

Among the developed world's Central Banks, only Australia has yet made a move to raise its key interest rates from their abnormally low levels. The European Central Bank's (ECB's) remains at 1.0% and the Bank of England's at 0.5%. However, on 3 December the ECB announced that its liquidity financing operations would be scaled back in 2010: long-term refinancing operations will cease at the end of March, although short-term ones will proceed as scheduled. This is a reminder that at some stage Central Banks will begin raising interest rates to more normal levels.

What practical effect this will have on industry, including the travel and tourism industry, is not obvious. Central Bank and commercial interest rates have become divorced from one another. Lending to non-financial corporations in Europe continued to decline throughout 2009, but as usual it is not clear whether this is due to tight credit conditions or to lack of demand (or to put it another way, to lack of realistically profitable opportunities on which to borrow).

## Trends in Tourism to/within Europe

### Fourth-quarter arrivals and overnights

**The world's worst-performing region**

The World Tourism Organization (UNWTO) estimates that in the fourth quarter of 2009 international arrivals in Europe fell by 1.1%, compared with the same period in 2008. If confirmed, this would give Europe the world's weakest performance, not least because in Q4 2008 arrivals in Europe were already down more heavily than those in other regions of the world.

The 1.1% decline in Europe compares with a decline of 0.5% in the Americas and increases of 5.2% in Asia Pacific, 8.0% in Africa and 9.8% in the Middle East.

It was at least improvement on the 3.1% decline recorded in Q3, and a great improvement on the declines of 7.7% in Q2 and 13.2% in Q1. But only two sub-regions (using UNWTO's definitions) achieved positive growth, based on preliminary estimates: Western Europe (+1.4%) and Southern/Mediterranean Europe (+1.2%). Arrivals in Northern Europe fell by 5.7% and in Central/Eastern Europe by 5.2%.

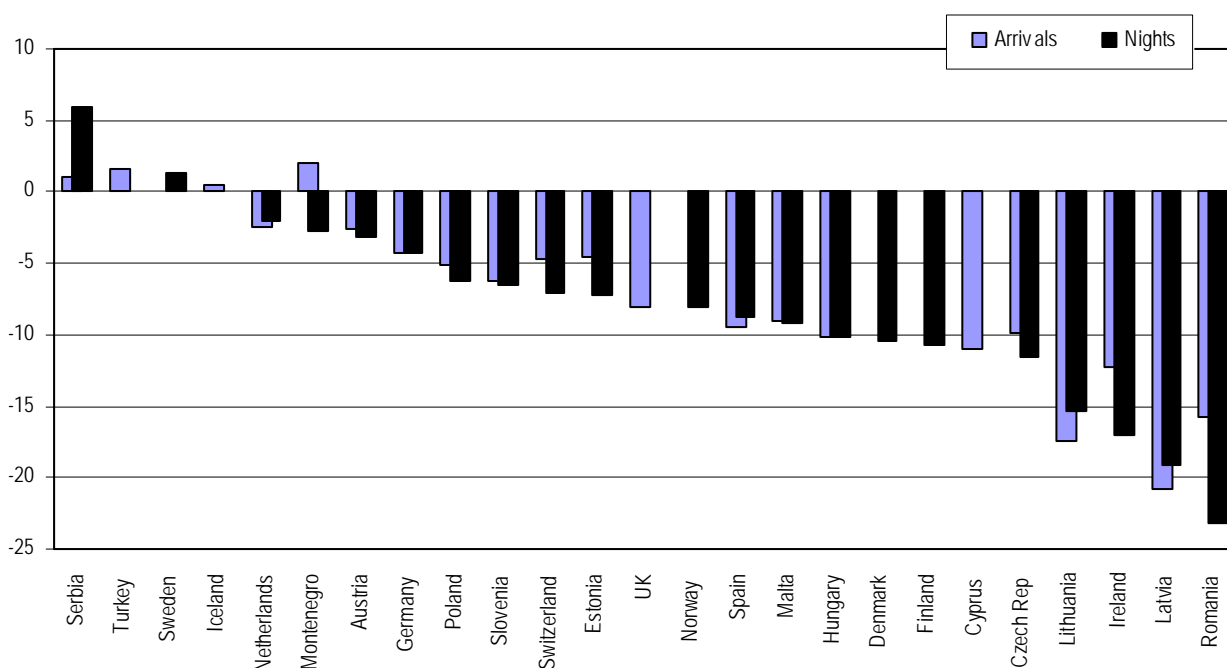
**Latest data filed on TourMIS confirms the declines in 2009 ...**

The graph on the following page shows the latest year-to-date data for international arrivals and overnights filed by the ETC member national tourism organisations (NTOs) on TourMIS. Note that only countries for which at least nine months' data is available are shown, and that several important destinations, including France, Italy, Greece and Portugal, are missing. Also, the definitions of arrivals and nights used by the individual destinations vary.



Very few European countries have reported increases in arrivals or nights in the first 9-11 months of 2009. Arrivals figures reported to UNWTO would add only Iceland and Macedonia FYR to those shown below. Most countries suffered declines in the range of 5-12%. Countries which suffered larger declines, in the 15-25% range, included Ireland, Lithuania, Latvia, Romania and (reportedly) Slovakia. Overall, the TourMIS figures (including a few more countries for which data for fewer than nine months is available), show a 6% decline in overall arrivals in Europe (in line with the -5.7% estimated by UNWTO) and a 9% decline in nights.

International arrivals and nights in European destinations, year to date 2009<sup>a</sup>  
(% change on same periods in 2008)



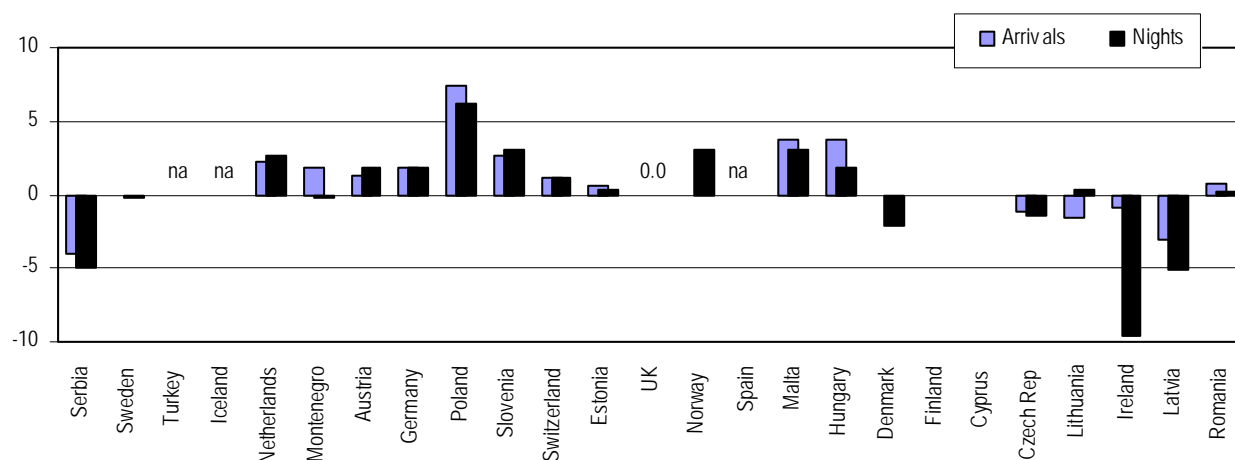
<sup>a</sup> Jan-Sep, Jan-Oct or Jan-Nov – measures used by the individual destinations vary.

Source: National tourism organisations (NTOs), as posted on the TourMIS database by 17 Jan 2010. 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](http://www.tourmis.info).

### ... and the continued weakness in recent months

The next graph shows the difference between the figures reported three months ago and those reported this month. Note that it shows a comparison between year-to-date figures (eg January-October with January-July), and not the growth between the latest quarter and the same quarter a year ago (the absolute figures required for this calculation are not yet available to us). It is therefore not a very scientific or exact graph, but it does give a general idea of recent trends. On this basis, ten of these countries have reported improvements in recent months (most notably Poland) and six have reported deteriorations (notably Ireland, Latvia and Serbia). Six have reported little change.

Comparison of 2009 year-to-date figures reported by European destinations in October 2009 and January 2010 a  
(% point change on figures reported three months ago)



<sup>a</sup> Usually Jan-Sep compared with Jan-Jun, or Jan-Oct compared with Jan-Jul, or Jan-Nov compared with Jan-Aug. The countries listed are shown in the same sequence as in the previous graph.

Source: NTOs, as posted on the TourMIS database by 17 Jan 2009.

### Travelling closer to home ...

The economic recession in 2008-09 has been strongly associated with a tendency (even a fashion) to take holidays at home or in neighbouring countries. Anecdotally, this trend is widely reported across Europe, with many local variations. In general, however, it is more intense in Northern and Western Europe than in Central and Eastern Europe, where the local economies have sometimes been so badly affected that even local travel has been curtailed. This might help to explain some of the renewed declines reported in recent months in Central and Eastern Europe, which are neither close enough to Western European markets to count as local, nor prosperous enough to benefit from domestic and cross-border tourism.

### ... and spending less

People have not only been travelling less often and less far, but they have been spending less, taking shorter trips and 'trading down'. They have been delaying their bookings until the last moment, as well as searching the internet, to be sure of securing discounts. Many also reduced their frequency of travel, especially in terms of short breaks, in order to protect their main holidays. This partly explains the recent weakness in the European figures. People may now be foregoing short breaks in order to protect their winter holidays (early bookings in many ski resorts are said to be good).

Corporate travel was of course much more seriously affected than leisure travel in 2009 as companies reduced travel budgets in line with a general belt-tightening to address the impact of the economic crisis. American Express Global Travel Services says that some of its corporate clients cut their travel budgets by as much as 70%.

## Air Transport

### Crossing the threshold

After more than a year of declines, international airline passenger traffic (measured in revenue passenger-km, or RPK, on the same period in the previous year) turned positive in September and has remained there. However, air traffic for European airlines – ie for members of the Association of European Airlines (AEA) – did not move into positive territory until the last week in November. These recent increases (both European and worldwide) are very slight and are of course calculated on base figures for 2008 that were already moving downwards quite quickly. They are nevertheless welcome.

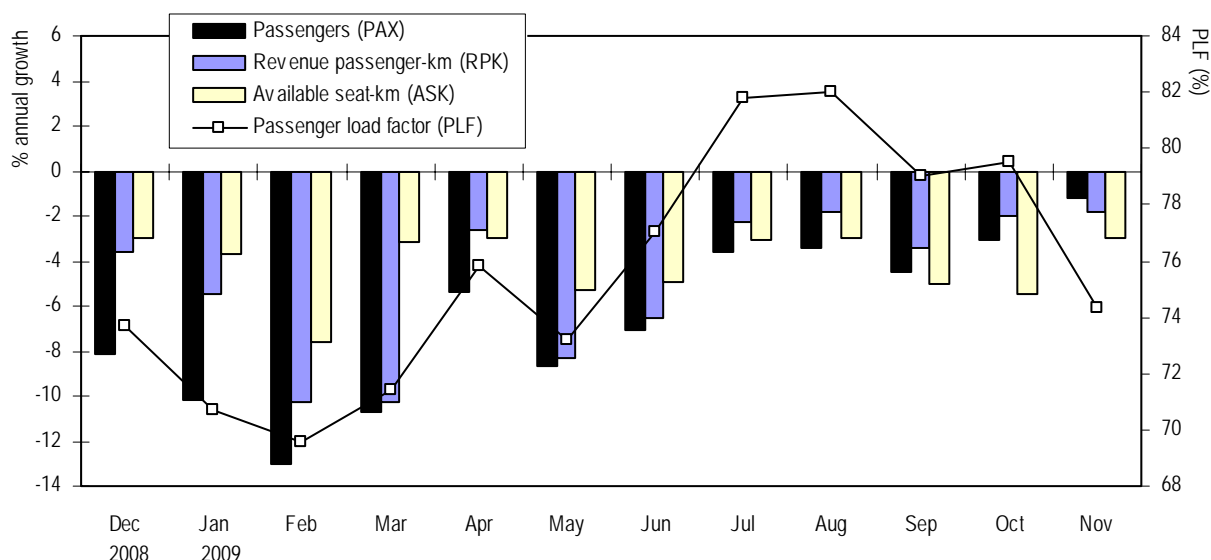
For much of 2009, and for much of the last three months, AEA-member traffic on long-haul routes has been slightly stronger than traffic on intra-European routes. It has often been stronger on transatlantic routes than on Far-Eastern routes.

### Capacity cuts continue

Capacity cuts continued right through to the end of the year. Aggregate available seat-km (ASK) have been falling (compared with the same period in the previous year) for 15 months. Generally, capacity cuts have outpaced passenger demand, keeping load factors high – but load factors have recently fallen a little. This may have been related to the withdrawal, in October, of the temporary airport-slot entitlement waiver, allowing airlines to hold onto slots that they were not using.

Low-cost carriers have continued to put pressure on traditional airlines, but the real damage to traditional airlines' profitability has been not so much the decline in traffic and economy airfares, but the collapse in premium ticket sales on long-haul routes.

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



Source: Association of European Airlines (AEA)

## Accommodation

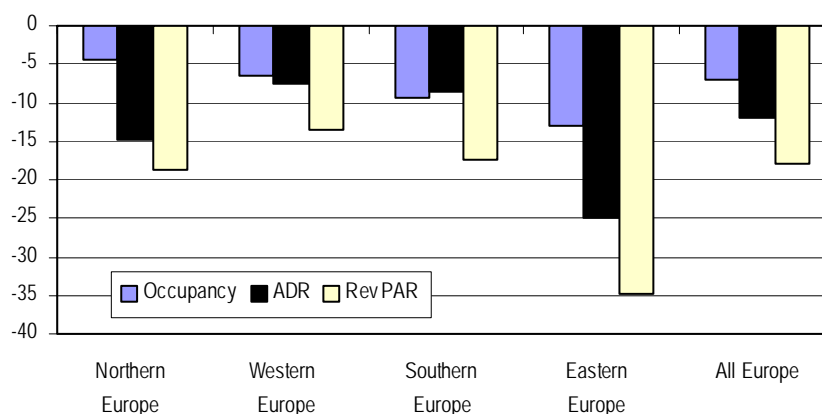
### Demand for hotels remains weak ...

Anecdotal reports that non-hotel forms of commercial accommodation, such as camping and rented apartments/villas, have done well in Europe this year continue to be heard, but hard data to substantiate this is missing. Data on hotel operations, on the other hand, shows the poor performance continuing through November.

In the last three months there has been some improvement (ie smaller declines) in occupancy rates throughout Europe: they fell by 2% in November (compared with November 2008), thus bringing the average decline for the year down to 6.9%, according to Smith Travel Research's (STR's) HotelBenchmark Survey. Overall they remain more heavily down in Eastern Europe, and more moderately down in Northern Europe.

One factor affecting occupancy rates is the fact that supply has not been reduced as much as in previous recessions. This was partially due to the scarcity of credit preventing rooms from being converted to other purposes or taken down temporarily for renovation.

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



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

Source: Tourism Economics, from STR Global data

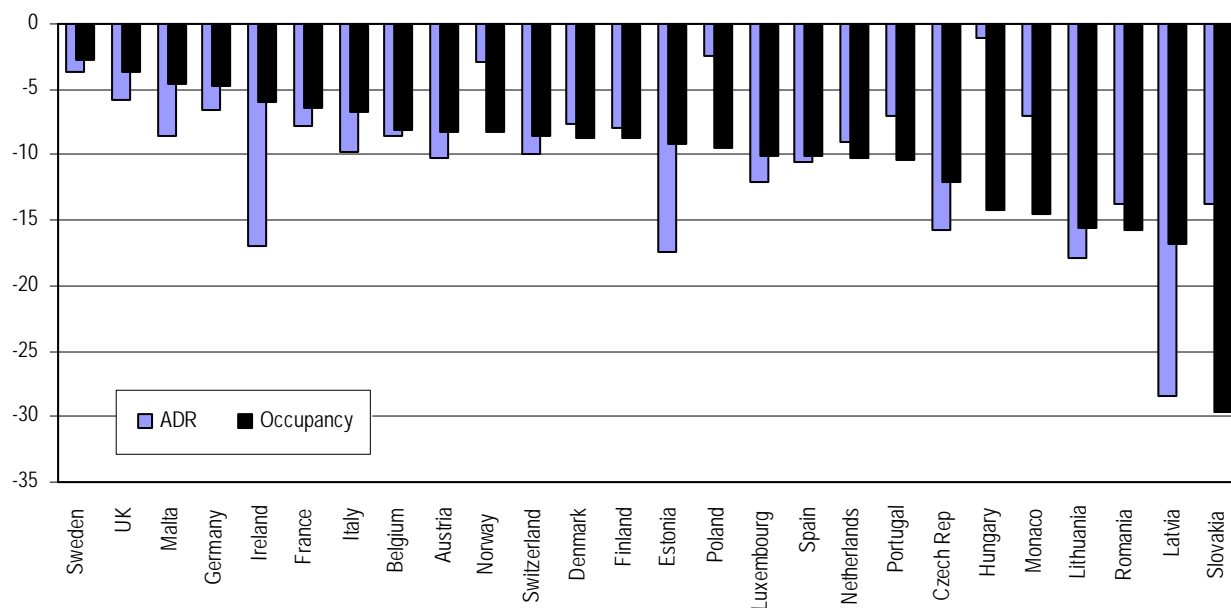
### ... with inevitable effects on revenues

With so much spare capacity available, prices inevitably suffered: they were on average down 12% in Europe, and as much as 25% in Eastern Europe and 15% in Northern Europe. In the last three months (September through November) there were slight improvements in the average daily rate (ADR) in Northern and Western Europe, but slight deteriorations in Eastern and Southern Europe: overall, the average decline in ADR improved very slightly, from 12.2% in Jan-Aug to 11.9% in Jan-Nov. Revenue per available room (revPAR) improved from -19.4% to -17.9% in the same periods – still representing hefty declines.

### Hotels in the UK and Sweden benefit from cheap currencies

The smallest declines in occupancy are reported by the UK and Sweden: weak currencies diverted outbound travellers to the domestic market and brought in visitors from neighbouring countries (including, in London, a great many shoppers from the eurozone). Malta, Germany, France, Italy and Belgium also did relatively well. The 6% decline in Ireland was modest in relation to the decline in international arrivals, but was bought with very large price cuts. Ireland, Malta, Switzerland and the UK achieved small increases in occupancy rates in November.

Hotel performance in European destinations, January - November 2009  
(% change on same period in 2008)



Source: Tourism Economics, from STR Global data

## Individual Source Markets

### Key intra-European markets

#### Germans favour local holidays

Throughout Europe one can find groups of neighbouring countries within which leisure tourism is holding up well. Germany is at the centre of one such group, which includes Austria, Switzerland, Belgium, the Netherlands and Denmark. Arrivals from Germany in these countries in 2009 (more accurately for the first 8-11 months of 2009) showed small increases or small decreases. Elsewhere in Europe arrivals from Germany were generally down by anything from 10% to 25% (exceptions with better figures included Cyprus, Italy, Norway and Sweden). Overall, the figures so far filed on TourMIS show declines of 6% in arrivals and 9% in nights. In spite of the diversion of holidaymakers to the

domestic market (resorts on the Baltic coast which cater largely for German holidaymakers are said to have done particularly well), domestic arrivals were up only 0.5%. With the relative strength of the German economy, outbound travel (business and leisure) is believed to have picked up slightly in recent months and Tourism Economics expects it to rise by about 4% in 2010.

**France and Italy perform well ...**

The French and Italian markets appear to have performed well in 2009, with relatively small declines and no clear pattern of a preference for neighbouring markets. Only Cyprus, Malta and Romania showed double-digit declines in arrivals from France. There have been modest improvements (more modest in the case of Italy than France) in arrivals in most European destinations in recent months. Overall in 2009, the TourMIS database shows declines of just 4% in arrivals and 2% in nights from France, and 2.5% in arrivals and 3% in nights from Italy. Tourism Economics estimates that overall outbound travel (worldwide) from these countries was down 1% and 5% in 2009, respectively, but expects only a modest improvement in 2010, with an increase of 2.5% from Italy but a flat year for French outbound travel.

**... and the Dutch market not quite so well**

The TourMIS database shows arrivals and nights from the Netherlands in European destinations falling a little more heavily, by 8% and 7%, but again there has been an improvement in most destinations in recent months (especially in nights). Trips to the 'local cluster' (Austria, Germany, Belgium (and, reportedly, France) held up well, but there were also increases to Cyprus, Iceland and Norway and, recently, to Poland, Slovenia, Malta and perhaps a few other countries. Most other destinations in Europe suffered double-digit, or close to double-digit, declines. Tourism Economics expects a partial recovery in 2010 (+2% after -4% in 2009) in outbound travel to worldwide destinations.

**The UK a lost cause – for the time being, at least**

Arrivals from the UK throughout Europe were little short of disastrous in 2009. The TourMIS database shows average declines of 17% in arrivals and 19% in nights. This was particularly serious for the countries whose economies depend heavily on tourism, many of which rely on the UK market. Very few escaped double-digit declines from the UK and the only country so far reporting an increase was Montenegro. Again there has been some improvement in the figures for most destinations in recent months, but (partly because of the weakness of sterling against the euro) Tourism Economics expects little further recovery in 2010. It should be noted that leading tour operators are more confident of a recovery in the market – not least because the British see foreign travel as a high priority. And luxury travel has held up well over the past 12 months.

**The Russian market loses its shine**

Russia has been one of Europe's more dynamic market in recent years, but most destinations saw double-digit declines in arrivals and/or nights in 2009 and, while anecdotal evidence suggests the opposite, the figures (for Europe, anyway) seem to have deteriorated further in the last few months. Even Cyprus, one of the main beneficiaries in recent years, suffered an 18% decline in arrivals in the first eleven months of the year. A few destinations have seen continued increases, including Estonia (+14%), Montenegro (+14%) and +9%. Serbia. Finland also reports a continued flow of visitors (including shoppers) from St Petersburg in recent months, but also that bookings for Christmas and New Year from Russia were weak.

## Non-European markets

### **The US market picked up in Q3, but faltered again in Q4**

According to the US Department of Commerce, US trips to Europe were down 4.0% in the first ten months of 2009, matching exactly the average decline for total outbound trips from the USA (Asia did a little worse, Latin America, the Caribbean and Oceania a little better, and Africa and the Middle East – much less important destinations for the US market – very much better).

The double-digit declines to Europe were concentrated in the first quarter of the year. The declines eased in the second quarter and were reversed temporarily in the third: there were increases of 3.7% in July and 7.3% in August. But they fell again in September by 1.4% and rose by just 0.4% in October – months in which trips to Europe in 2008 were already falling by 7%. However, some European destinations (including the UK and France) report signs of a tentative improvement in arrivals from the USA in Q4 2009.

The TourMIS database suggests that arrivals and nights in Europe from the USA were down more heavily in 2009, by 7% and 11%, but confirms a substantial improvement from the middle of the year, spread across most destinations. Hardly any destinations saw increases in arrivals from the USA, and in general the minor destinations seem to have suffered more than the major destinations in Western Europe, including the UK and Ireland.

Although the economic recovery is stronger in the USA than in Europe, consumer confidence remains weak and the focus in 2010 is expected to be very much on domestic travel. The strong euro and higher airfares will also discourage travel to Europe. Oxford Economics expects a further slight decline in US outbound travel in 2010.

### **The Canadian market looks more promising**

The Canadian market performed well in 2009, with the assistance of a strong local currency. Outbound trips were down just 1.0% in the first ten months of the year, and just 0.7% to 'overseas destinations' (ie excluding the USA and Mexico). However, although Europe is high on the destination wish list of Canadians, travel to Asia, Oceania and South America has been growing more rapidly. The TourMIS database shows some heavy declines to Europe, including four of the most important destinations – the UK (-21%), Ireland (-21%), Germany (-17%) and Portugal (-31% in nights). Tourism Economics is bullish about the prospects for outbound travel from Canada in 2010, with a forecast of +5%, but is not specific about likely trends to Europe.

### **Japan continues to disappoint**

The Japanese market has been notoriously weak in recent years, and focused very much on travel within Asia. Outbound trip volume in 2009 is expected to have fallen to its lowest level since 2003 and a number of NTOs, like Tourism Australia, have sharply reduced their marketing activities until there are signs of a recovery in demand. The yen rose strongly in 2009, but apparently this did little to encourage long-haul travel. The TourMIS database suggests arrivals in Europe were down a further 8%, and nights down 15%. However, it also shows an increase of 5% in arrivals in Italy in the first six months of the year, and increases in some non-traditional destinations extending later into the year, including Cyprus (+55%), Estonia (+5%), Iceland (+9%) and Slovenia (+24%). France also reports a recent upturn in arrivals from Japan.

Detailed figures are not available, but the very weak currency also seems to have dampened travel demand for Europe from South Korea in 2009, although the problem eased towards the end of the year. Much of Southeast Asia (notably Indonesia and Malaysia) continued to prosper, presumably sustaining demand for Europe – but at relatively low levels. The Australian and New Zealand outbound markets are also reported to have been relatively strong.

**Mixed figures  
from China...**

But the focus of attention remains on China and India. Not enough countries report their arrivals from China and India to permit estimates of arrivals in Europe from these countries, but overall outbound trips from China increased by 4% in 2009. Tourism Economics estimates that outbound trips from India fell by 8.5%, although Asian analysts suggest the decline was more modest.

From China, there were substantial increases in arrivals and/or nights for Denmark, Hungary, Iceland, Lithuania, the Netherlands, Norway and Slovenia, and Switzerland remains a very popular European destination for the Chinese, with an increase of 40% in arrivals in the first ten months of the year. However, there were also large declines for Cyprus, Germany, Italy, Poland, Romania and the UK, and the importance of some of these destinations confirms reports that the focus of Chinese outbound travel has also been (like Japan's and those of many other markets in the region) on Asia rather than Europe. Generally, the figures for recent months were much stronger than those for the first half of the year, which is only to be expected given the pattern of the economic downturn and recovery in Asia.

**... and very weak ones  
from India**

In spite of the continued economic growth in India, the available figures for travel to Europe in 2009 are extremely weak. Double-digit declines for arrivals and/or nights, ranging up to 50%, were recorded for Belgium, Cyprus, Finland, Germany, Greece, Italy and Romania; arrivals in the UK, a key destination in Europe, were down 26%. Only Poland recorded a substantial increase (20%), concentrated in the three months to October.

## Prospects for European Tourism

### Industry sentiment

**Signs of greater  
optimism ...**

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. The travel and tourism industry is represented in these surveys by three sectors: the transport industry, hotels and restaurants, and travel agencies.

Based on the responses to Eurostat's November 2009 survey, the travel and tourism industry across the EU has become decidedly more positive about short-term prospects, yet each sector has different views of the near future. The rest of Europe has caught up with the higher expectations of eurozone countries held earlier in 2009.

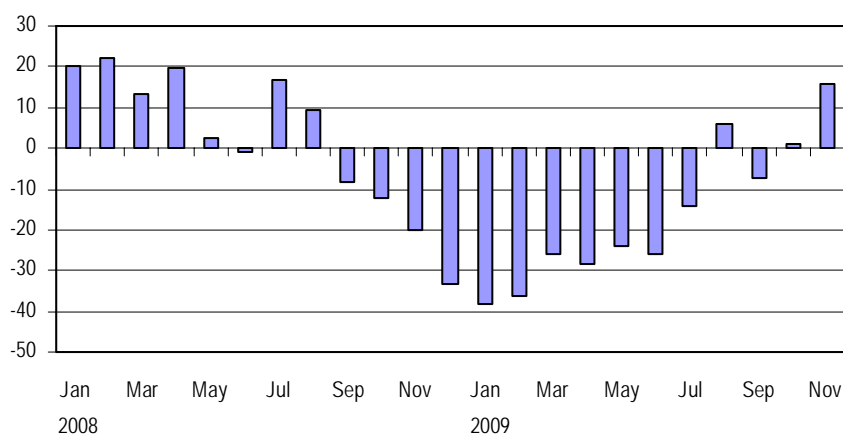


Responses from hotels and restaurants in November were balanced between positive and negative expectations about demand in the next three months. This was nevertheless a vast improvement in expectations, which have been decidedly negative for the past year. While transport companies in the eurozone have a brighter outlook than the EU countries overall, most expectations were for lower demand in the three months from November 2009.

**... especially among travel agencies**

Most travel agencies see demand increasing over the short term. This optimism has emerged since late summer 2009, supporting the view that leisure travel has held up much better than corporate travel through the recession.

Travel agencies' expected demand in next three months<sup>a</sup>, January 2008 - November 2009 (% positive/negative balance)



<sup>a</sup> Travel agencies in EU (27 countries)

Source: Tourism Economics, from Eurostat

**Country sentiment improves**

In each of the sectors, the number of countries with positive outlooks rose over the three-month period September through November. In general, those countries with a more negative outlook are less negative than they were in mid-2009. Averaged over the three months, expectations in the hotel and restaurant sector improved in nearly 80% of countries. Bulgaria, Denmark and Sweden all had positive demand expectations across all three sectors.

As always, care should be taken in drawing actual future performance conclusions from these statistics. The differences across markets reflect opinions which 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. Nevertheless, as 2010 unfolds, we expect the trend of improving expectations to continue as the recovery kicks into gear.

## Short-term Outlook

### **The recovery in Europe will be very gradual ...**

As end-of-year data become available for 2009, we will see the worst year in recent memory come to a close on a better footing than it began. Instead of looking ahead at a recession, we now look forward to recovery. In general, all indicators suggest the recession is losing hold as the rate of decline slows broadly, with some pockets of growth coming to the fore very late in the year.

The first half of 2010 will of course be helped by comparisons with a very weak first half of 2009. Recovery is more likely to be bumpy as 2010 begins (the low season for European tourism), although some winter sports' destinations are enjoying a good start to the year. As the new year progresses, the recovery will become more stable, but at lower rates than in previous post-recession recoveries. The most recent economic data gives some reason to consider an upward revision to forecasts. These upside risks are gaining strength over downside risks, but the downside risks remain, causing some caution.

The extent of the downturn in 2009 and the muted growth expected in 2010 will keep visitor volumes below the peak set in 2008. International tourist arrivals in Europe are not expected to recover previous peak levels until 2011.

### **... and not necessarily smooth**

Risks of a relapse into a W-shaped recession remain for both the global economy and travel demand, although they are less likely than at the time of our Q3 2009 report. Some analysts are now also talking of the possibility of a square root recovery – ie one in which demand picks up slightly and then plateaus over an as yet undetermined period.

Exchange rates remain important for the travel and tourism outlook. By way of example, the UK as a destination should benefit (although it continued to lose inbound business tourism in 2009 despite sterling's weakness), while outbound travel from the UK is expected to remain subdued.

### **Intra-European tourism will outpace travel from long-haul sources**

Intra-European travel is expected to provide a stable source of demand as long-haul markets recover from dramatic recession-period lows. After declining sharply in 2009, key Asian markets are likely to remain elusive in the first part of 2010 as travellers from the region opt for intra-regional travel. But there may be exceptions, such as Australia (from which demand has remained relatively strong), China and India.

In North America, US travel has fallen significantly but rebounded in the latter half of 2009. However strong recovery in long-haul demand is still not expected.

### **Little scope for recovery in business travel ...**

With the recovery in world trade and the general improvement in the business climate, one might expect an improvement in corporate travel. However, this is currently deemed unlikely – at least from European markets – as budget cuts continue. The longer-term recovery in demand may depend to some extent on how entrenched the habits of using video-conferencing and other forms of electronic communication in place of personal travel have become.

**... and some uncertainty about leisure travel** The prospects for leisure travel (particularly beyond the next three months) depend very much on how much media attention is given to unemployment, to the withdrawal of fiscal and monetary support packages, and to cutbacks in government spending and increases in taxation. In the UK, for instance, quite serious measures seem likely soon after the impending general elections. In Germany, France and many of their close neighbours, in contrast, there is less reason to expect gloomy news of this nature and consumer confidence may well grow. In the individual countries of Eastern Europe there are greater upside and downside risks: note for instance, the recent optimism in Poland and pessimism in Romania and Bulgaria.

Likely trends in European leisure travel demand will only become clear from advance bookings and, since last-minute booking is now the order of the day, this may take some time – especially with regard to peak summer travel. Meanwhile, recent trends have served to highlight the structural problems facing some destinations in the region, which may continue to dampen tourism demand.

**Risk is part of life ...** The IMF has called 2010 the Year of Transformation, which applies equally well to the travel and tourism industry as to the global economy. Key to renewed growth will be destinations' and companies' ability to understand, and to adapt their products and services to, the post-crisis marketplace, characterised notably by a search for greater value for money and authenticity.

There are three serious challenges facing the industry in 2010, not least in Europe: unemployment; public deficits, causing governments to pull their stimulus packages too quickly or to impose unfair taxes; and the possible resurgence of the A(H1N1) influenza pandemic, but in a more virulent form.

The threat of terrorism is now permanently with us, and there is no telling when or where the next attack will come, and how bad it will be. The new security measures at airports being introduced after the failed suicide bombing on 25 December seems certain to cause further inconvenience, and some offence, to travellers, and to deter some potential travellers.

The scale of the disaster in Haiti tempts us to forget that Europe, where such enormous disasters are blessedly rare, is not immune. A few years ago Europe was suffering from a series of less serious catastrophes, including livestock epidemics, floods, droughts, fires and earthquakes, which were locally damaging to tourism.

**... but surprises can be pleasant** Nevertheless Europe and the world are in recovery mode, and during a recovery it is reasonable to expect at least some of the surprises to be pleasant.

## ETC Member Organisations

(January 2010)

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