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EUROPEAN TOURISM 2010 – Trends & Prospects

Quarterly Report - Q2/2010

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM in 2010:
TRENDS & PROSPECTS

Quarterly Report (Q2/2010)

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

Brussels, July 2010
ETC Market Intelligence Report

European Tourism in 2010: Trends & Prospects (Q2/2010)

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on behalf of the ETC Market Intelligence Group

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Foreword

Early data for this year show mixed results.

Industry data show we are on a gradual path to recovery

Europe is experiencing a recovery in travel from its low points last year. However, this recovery is unlike like past rebounds. Early data for this year show mixed results with nearly as many countries posting visitor declines as increases. International visits are barely positive in the first quarter. Still, industry data for aviation, lodging, and expectations show we are on an upward, though modest, path to recovery.

Part of the reason for the halting recovery is the Icelandic volcano ash cloud which affected 6 million European travellers in April and May, costing European airlines and destinations US €1.7 billion in net sales.

Hotel occupancy rates are improving across Europe

However, hotel occupancy rates through May indicate recovery is taking place across the region. However, this appears to reflect strength in domestic travel as well as the temporary demand from stranded passengers.

The economy is expected to weaken in the latter part of 2010

The global economic recovery is underway with emerging economies in Asia and the Americas exhibiting robust growth. However, growth in the second half of the year is expected to moderate as the rebound in manufacturing subsides and stimulus spending is removed. This will be especially true in Europe as fiscal conditions have necessitated austerity measures in a number of countries, dampening the prospects of an already weak recovery.

Nevertheless, we have reason to be cautiously optimistic for the remainder of the year. Both the euro and sterling have weakened significantly against the dollar, raising prospects for global visits to parts of Europe and increasing the incentive for intra-European travel.

In addition, the latest travel industry surveys show continued optimism over the very near term.

Price competitiveness and the underlying quality of our product grant us cautious optimism

Taking all this into account, Tourism Economics projects modest growth in international travel to European destinations this year. After a 6% decline in visits last year, international visitation is expected to grow roughly 3% in 2010. Growth will accelerate in 2011, when 2008 visitor levels will finally be regained.

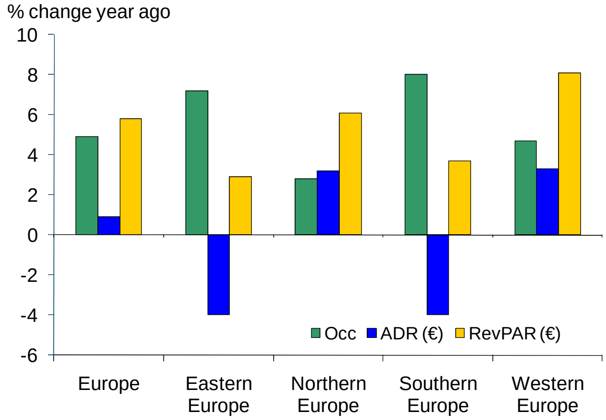
We are clearly facing a challenging external market environment. But the quality of the destinations we offer to the world gives us hope as we continue to work together.

Leslie Vella
Chairman
ETC Market Intelligence Group

Executive Summary

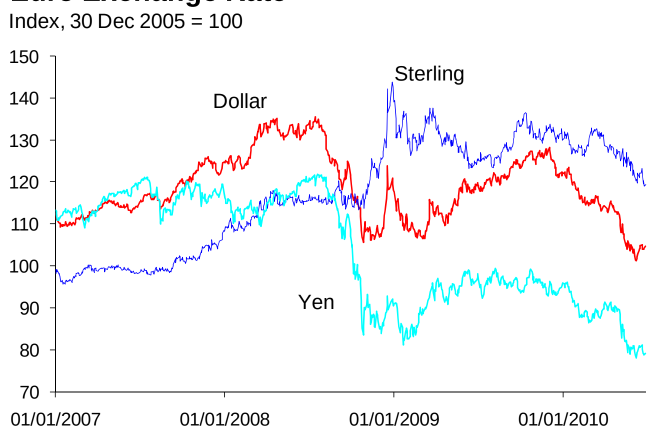
- Industry and destination data show improving, albeit mixed, market performance. Of the 28 countries reporting results for tourist arrivals in 2010, only 15 are posting growth over last year.
- Hotel occupancy rates through May indicate recovery is taking place across the region. In Northern and Western Europe, this improvement in room demand is translating into some recovery of room rates as well.
- Part of the mixed performance is related to travel disruptions as a result of the Icelandic ash cloud in mid-April through early May. The airspace closures affected 6 million European travellers and cost European airlines and destinations US €1.7 billion in net sales.
- Globally, economic recovery remains underway with emerging economies in Asia and the Americas exhibiting robust growth.
- However, growth in the second half of the year is expected to moderate as the rebound in manufacturing subsides and stimulus spending is removed.
- Fiscal conditions in European economies have necessitated austerity measures in a number of countries, dampening the prospects of an already weak recovery.
- Both the euro and sterling have weakened significantly against the dollar, raising prospects for global visits to parts of Europe and increased the incentive for intra-European travel.
- The latest available industry surveys show continued optimism over the very near term.
- Tourism growth this year is expected to be modest. After a 6% decline in visits last year, Europe will grow roughly 3% from the lower base in 2010.
- Growth will accelerate in 2011, when 2008 visitor levels will finally be regained.
- Still, lower room rates combined with generally weaker currencies make Europe a particularly attractive destination in the near term, posing upside growth potential beyond our baseline forecasts.

Hotel Performance, Jan-May 2010



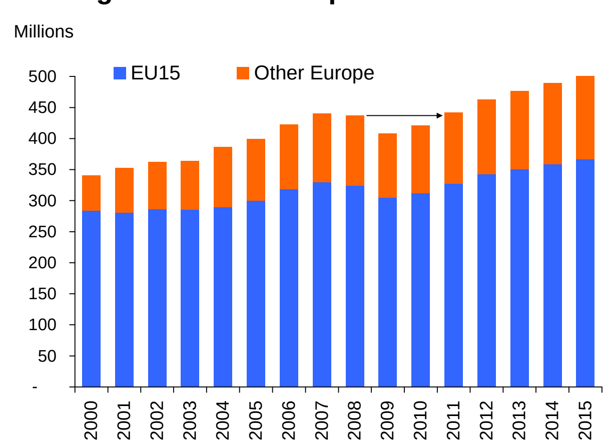
Source : STR Global

Euro Exchange Rate



Source : Oxford Economics/Haver Analytics

Overnight Visits to Europe



Source : Tourism Decision Metrics

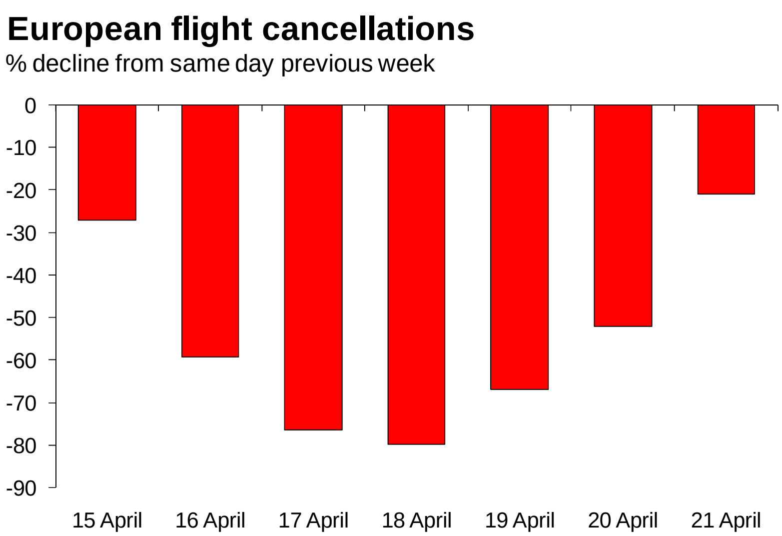
Effects of the Ash Cloud

The ash cloud from Iceland's Eyjafjallajokull volcano caused the largest European air space disruption since World War II.

On 14 April, 2010, Iceland's Eyjafjallajokull volcano spewed an ash plume which spread broadly across European airspace. Concerns over engine safety caused an interruption in global air traffic to an extent not seen since 11 September, 2001 and the largest breakdown in European civil aviation since World War II. The closure of large portions of European air space over the week 15-21 April (and subsequent, sporadic closures) disrupted global travel, trade and business. The effects of the crisis extend far beyond the direct impact on the air transport industry. The impact was felt acutely by travellers and destinations; exporters and those reliant on imported inputs; as well as general production and productivity. The following analysis highlights some key findings of these impacts from research conducted by Oxford Economics on behalf of Airbus.

Over 100,000 flights were cancelled, affecting six million travellers in Europe.

The European air space closure resulted in the cancellation of more than 100,000 flights through European airspace, more than half of the flights compared to the previous week. This left millions of air passengers stranded around the world and millions of would-be travellers at home. An estimated seven million passengers were affected by the disruption of air service. Nearly six million European air passengers were affected, with over one million travellers affected outside Europe.



Source : Eurocontrol

Stranded passenger spending as well as deferred and alternate travel helped to offset the magnitude of losses.

Many stranded travellers in Europe had the option of alternate modes of transportation, generally auto or rail (but some by sea), or to remain in their destinations until air service resumed. Would-be travellers (who had not yet begun their trips) also had the options of alternate modes of transportation, substituting destinations, or deferring travel to a later time.

While the gross impact from the lost arrivals of scheduled travels indicates a potential cost to European destinations of €2.0 billion, once allowances for other travel options and the spending of stranded travellers are made the net impact is significantly smaller. For example, even though some resort operators reported losses approaching €7.0 million per day at the peak, hotels in gateway cities and airport properties were reporting higher occupancy and charging higher rates. Data from STR Global showed revenue per available room more than doubling for the week ending 17 April at airport properties in Brussels and Frankfurt and more than 50% increases at other airport properties across Europe.

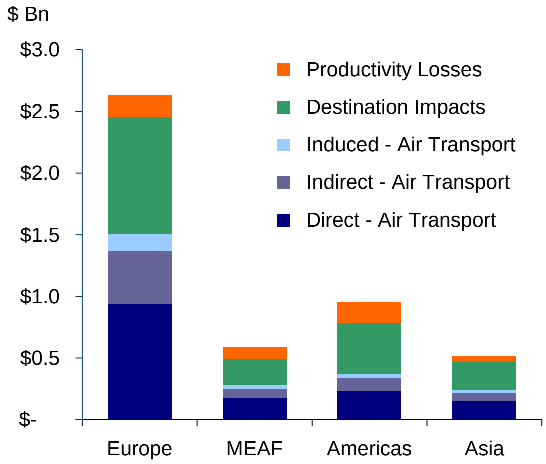
Thus, European destinations only felt an estimated 31% of the potential impact of lost visitation, amounting to €641 million in lost sales. Total losses for the aviation industry and destinations in Europe amounted to €1.7 billion for the week. The total GDP impact for Europe (for aviation and destinations) is estimated at €1.9 billion, including indirect impacts and lost worker productivity.

Impacts of Aviation Shutdown

		Europe
Passengers Affected (by destination)		4,391,337
Gross Aviation Impact		1,188,541,585
Net of…		-
Deferred Airfares		174,692,663
Net Aviation Impact	**€**	**1,013,848,922**
Gross Destination Impact		2,068,257,857
Net of…		-
Stranded Passenger Spend		958,343,971
Domestic Substitution Spend		152,061,445
Deferred Travel Spend		316,611,346
Net Destination Impact	**€**	**641,241,094**
Net Business Sales Impact	**€**	**1,655,090,015**
GDP Impacts		
Direct - Air Transport		693,230,375
Indirect - Air Transport		320,618,547
Induced - Air Transport		101,384,892
Destination Impacts		705,365,718
Productivity Losses		127,206,000
Total	**€**	**1,947,805,532**
Share of One-Week GDP		**0.67%**

The majority of global impacts (56%) were experienced by Europe as all affected flights touched the region. The Americas felt the effects of the shutdown with 20% of the global impact on aviation and destination sectors.

Total GDP Losses Around the World



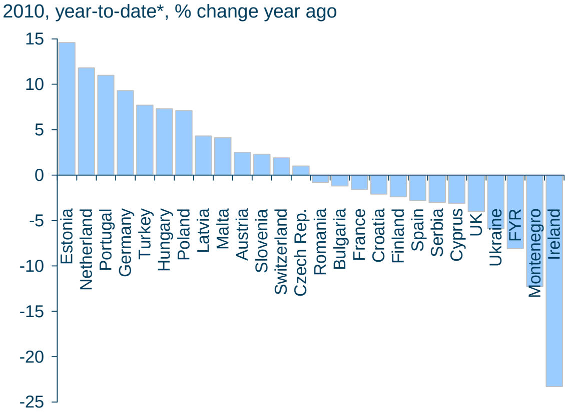
Source : Oxford Economics

2010 Tourism Performance Summary

- Of 28 reporting countries, just 15 have posted international tourist arrivals growth in the first several months of the year. This is remarkable given the declines experienced by most countries last year. Northern Europe in particular has continued to contract this year while Western and Southern Europe appear to have turned the corner.
- Inbound tourism spending (receipts) is generally underperforming visits as spending per visit remains below last year's levels. Of nine reporting countries, six have contracted further in 2010.
- However, lodging data tell a more encouraging story of improvements in visitor demand, including both domestic and international use. All but three countries report improvements in occupancy through May. However, pricing power remains weak with average rates still well below last year's prices for the vast majority of countries.
- Given this broad turnaround in occupancy rates, it is likely that domestic tourism is generating much of the growth across Europe.

Foreign Visits to Select Destinations

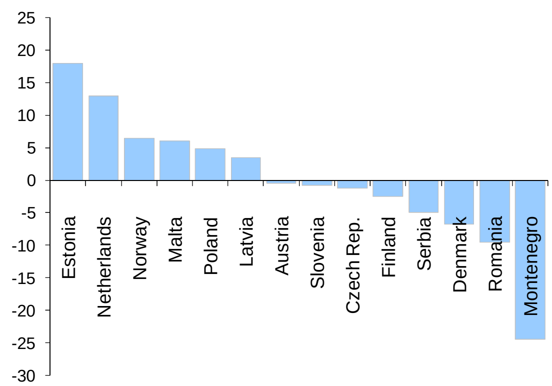
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

Foreign Nights in Select Destinations

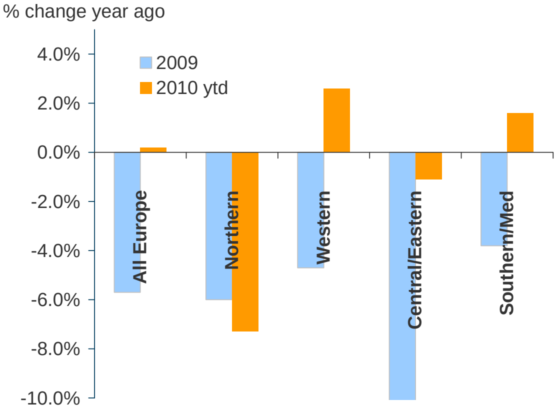
2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

International Tourist Arrivals

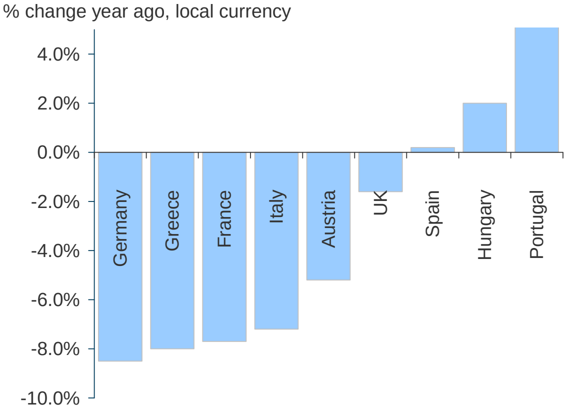
% change year ago



Source : UNWTO

Tourism Receipts, 2010 Jan-April

% change year ago, local currency



Source : IMF

2010 Performance, Year to Date									
Tourist Arrivals and Nights						Hotel Performance			
International Arrivals			International Nights			Hotel Occupancy		Hotel ADR (LCU)	
Country	% ytd	to month	Country	% ytd	to month	Country	to May	Country	to May
Estonia	14.6	Apr	Estonia	17.9	Apr	Latvia	17.4	Germany	9.5
Netherlands	11.8	Mar	Netherlands	12.9	Mar	Austria	12.2	Malta	7.1
Portugal	11.0	Feb	Germany	7.1	Apr	Turkey	11.1	France	1.2
Germany	9.3	Apr	Norway	6.5	Apr	Estonia	11.0	United Kingdom	0.8
San Marino	8.5	Feb	Malta	6.0	Apr	Russia	10.9	Sweden	0.3
Turkey	7.7	May	Hungary	3.9	May	Italy	9.6	Netherlands	-0.7
Poland	7.1	May	Poland	4.8	Mar	Romania	9.4	Norway	-1.2
Hungary	6.3	Mar	Latvia	3.5	Mar	Spain	8.5	Switzerland	-1.8
Latvia	4.3	Mar	Austria	-0.5	Apr	Czech Republic	7.1	Iceland	-2.4
Malta	4.1	Apr	Slovenia	-0.8	Apr	Finland	7.1	Belgium	-2.6
Austria	2.5	May	Czech Rep.	-1.2	Mar	Malta	6.7	Portugal	-2.6
Iceland	2.5	Apr	Finland	-2.5	Apr	Poland	6.3	Austria	-4.0
Slovenia	2.3	May	Serbia	-5.0	May	Hungary	6.1	Greece	-4.6
Switzerland	1.9	Apr	Denmark	-6.8	Apr	Belgium	5.2	Spain	-5.1
Czech Rep.	1.0	Mar	Romania	-9.5	Mar	Slovakia	5.2	Italy	-5.5
Romania	-0.8	Apr	Montenegro	-24.4	Apr	Ireland	5.0	Poland	-9.4
Bulgaria	-1.2	Apr				Netherlands	4.8	Finland	-9.5
France	-1.6	Mar				Switzerland	4.5	Estonia	-9.6
Croatia	-2.1	Apr				Germany	4.2	Ireland	-10.2
Finland	-2.4	Jan				United Kingdom	3.4	Romania	-10.2
Spain	-2.8	May				Denmark	2.7	Denmark	-11.1
Serbia	-3.0	May				France	2.7	Turkey	-12.0
Cyprus	-3.1	May				Sweden	1.7	Latvia	-12.6
United Kingdom	-4.0	Apr				Portugal	1.0	Slovakia	-13.6
Ukraine	-5.9	Mar				Lithuania	0.3	Hungary	-14.5
FYR Macedonia	-8.1	Apr				Norway	-4.9	Russia	-15.4
Montenegro	-12.3	Apr				Greece	-6.5	Lithuania	-16.9
Ireland Rep	-23.3	Apr				Iceland	-8.6	Czech Republic	-17.7

Sources: TourMIS, ETC, UNWTO, STR Global

Economy Overview

Weakening financial markets could dampen consumption

- The Eurozone debt crisis has spawned fears of a 'double-dip' recession
- Austerity measures and tax increases will weigh on already weak growth in the Eurozone
- Financial markets have come under recent pressure but remain in much better shape than during the financial crisis
- The majority of real economy indicators outside the Eurozone continue to show robust growth.

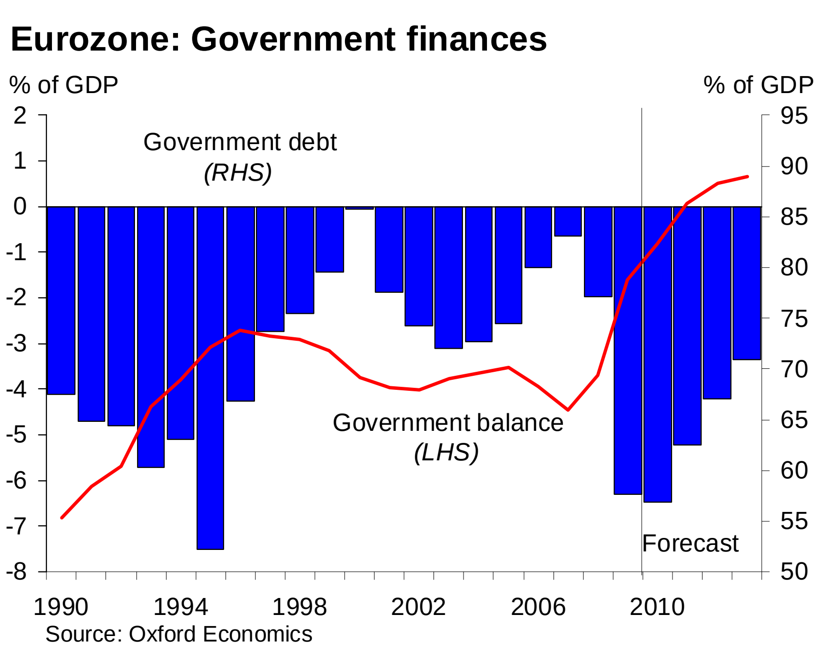
Global Overview

Speculation of a global double-dip recession is likely premature.

Recent weeks have seen a good deal of speculation about a possible 'double-dip' world recession. These concerns have resulted from the fiscal crisis in Europe, financial market developments and some weak economic data. While these may merit weaker growth forecasts going forward, a global 'double-dip' recession, while possible, remains less probable than the baseline forecast.

Nevertheless, the Eurozone will lag behind the global economy.

In the Eurozone, bond yields in the peripheral countries have been creeping up again due to lingering fears of default and investor concerns about the growth implications of recent fiscal packages. Austerity measures have also been introduced in France, Italy and Germany, implying a weaker growth picture in the hitherto relatively solid 'core' countries. With growth forecast at just 0.8% this year and 1.3% in 2011, the Eurozone will remain a drag on the world economy and is at risk of slipping back into recession.



There has also been a broader weakening in financial markets, with stock prices down around 10% in Q2 so far. Interbank spreads have risen, and overall financial stress levels are at their highest for six months.

Consumption is vulnerable to a loss in consumer confidence.

The May US employment report, which showed a worryingly weak level of private job growth, has also fuelled double-dip fears. More generally, weak income growth in the major economies leaves consumption vulnerable to any renewed loss of confidence linked to financial market developments. Nevertheless, it looks premature to be calling for a double-dip global recession. Financial stress levels remain well below the levels seen during the crisis, and the widening of interbank spreads is modest.

Indicators still point to robust growth across most of the world.

Real economy indicators also still mostly point to robust growth. Asian growth is moderating after an exceptional Q1, but Chinese May exports were strong and this month sees a sizeable upgrade to our Japan growth forecast. Industry also continues to post solid results in the US and Europe. The financial picture will have to deteriorate considerably further before a major impact on global growth becomes likely.

Summary of International Forecasts

	2008	2009	2010	2011	2012	2013
Real GDP						
North America						
United States	0.4	-2.4	3.2	3.7	3.5	3.0
Canada	0.5	-2.5	3.5	3.2	4.3	4.1
Europe						
Eurozone	0.4	-4.1	0.8	1.3	1.9	2.1
Germany	1.0	-4.9	1.7	1.7	1.9	2.2
France	0.1	-2.5	1.2	1.7	2.1	2.1
Italy	-1.3	-5.1	0.5	0.7	1.3	1.6
UK	0.5	-4.9	1.1	2.3	2.9	3.5
EU27	0.7	-4.2	0.9	1.6	2.3	2.6
Asia						
Japan	-1.2	-5.3	2.8	1.4	2.1	2.0
Emerging Asia, excl Japan	6.0	4.9	8.2	7.4	7.7	7.6
China	9.6	8.7	9.5	9.1	8.9	8.9
India	7.4	6.7	8.2	8.3	9.0	8.8
World	1.6	-2.0	3.4	3.6	4.0	3.9
World 2005 PPPs	2.9	-0.8	4.2	4.4	4.8	4.8
World trade	3.0	-13.0	11.6	7.1	8.2	8.0

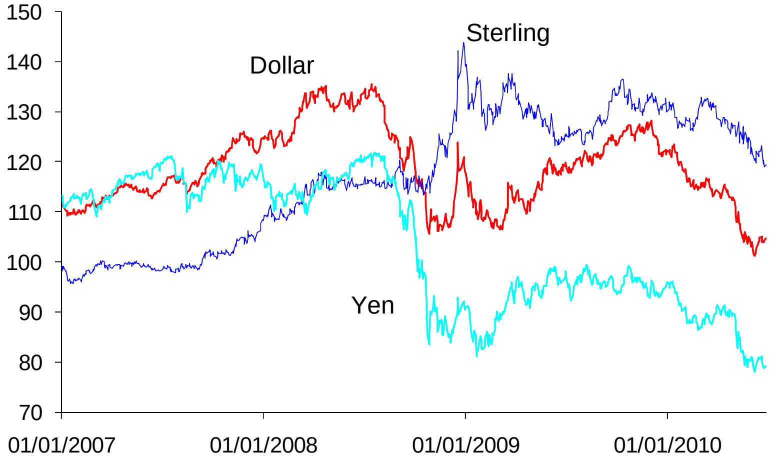
The Euro

The increased uncertainty about some Eurozone countries is weighing heavily on the euro, which was already burdened by the weak growth prospects for the Eurozone economy. On July 9, the euro was trading at 1.26 to the US$, 12% lower than at the start of the year. The weakness of the economy and ongoing uncertainty about the course of fiscal policy will lead the euro to slide further. We now expect the €/$ rate to fall to 1.05 by the end of this year.

The euro is expected to fall further against the dollar through year's end.

Euro Exchange Rate

Index, 30 Dec 2005 = 100



Source : Oxford Economics/Haver Analytics

For the Eurozone economy as a whole, a weaker euro will probably not do much to help lift Eurozone economic growth, as it is likely to be accompanied by a further increase in risk premia and higher borrowing costs, which will depress already feeble domestic demand. Moreover, the possible gains in terms of competitiveness from a lower euro would likely accrue mostly to economies such as Germany and the Benelux, which have more extra-Eurozone trade than the southern peripheral ones and whose fiscal situation is far less worrying than countries such as Greece, Spain and Portugal.

However, in terms of travel, the weaker euro has made European destinations relatively more attractive to most overseas travellers. Both the dollar and the yen are at multi-year highs relative to the euro. While the sterling has improved against the euro since the beginning of the year and is favourable compared to most of last year, it still remains low relative to 2007 and 2008. In addition, for Euro area residents, overseas destinations are now less attractive in terms of price, giving Europeans greater incentive to travel within the region.

The weaker Euro increases the price competitiveness of European destinations.

Recent Industry Performance

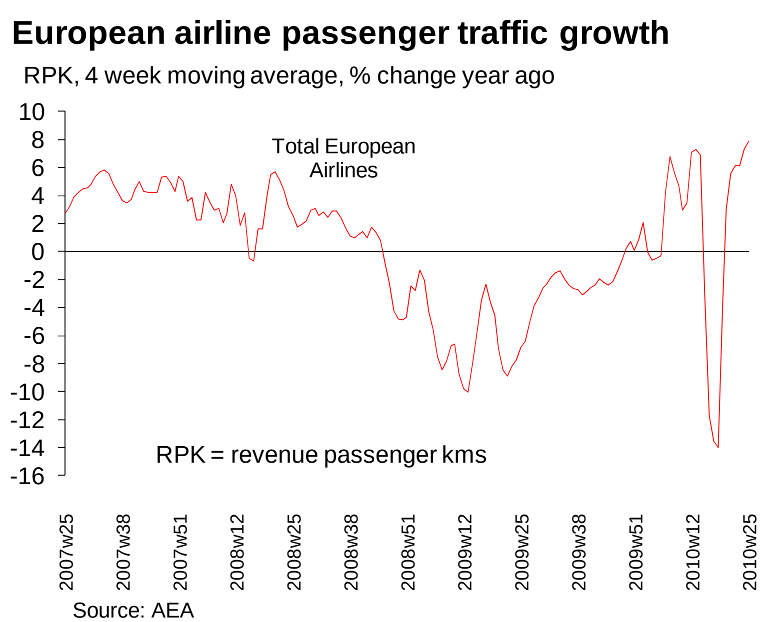
Latest Data Show Growth is Accelerating

- Apart from the effects of airspace closures, air passenger demand has been consistently strengthening in 2010
- Prices will begin to recover in response to growth in hotel room demand
- EU industry surveys continue to show growing demand.

Air Transport

Air passenger demand continues to improve in 2010.

With the exception of air service disruptions due to the volcanic ash cloud, European airlines have outperformed 2009 through the first half of the year. According to data from the Association of European Airlines (AEA), Revenue Passenger Kilometres (RPK) have grown in all but six weeks of the first half of the year. Three of those weeks in which RPK declined were severely impacted by the ash cloud. Since the peak of air space disruptions, RPK grew at a rate of 7% on average over the following weeks.



Supply of available seats has been increasing as a positive indicator of future demand.

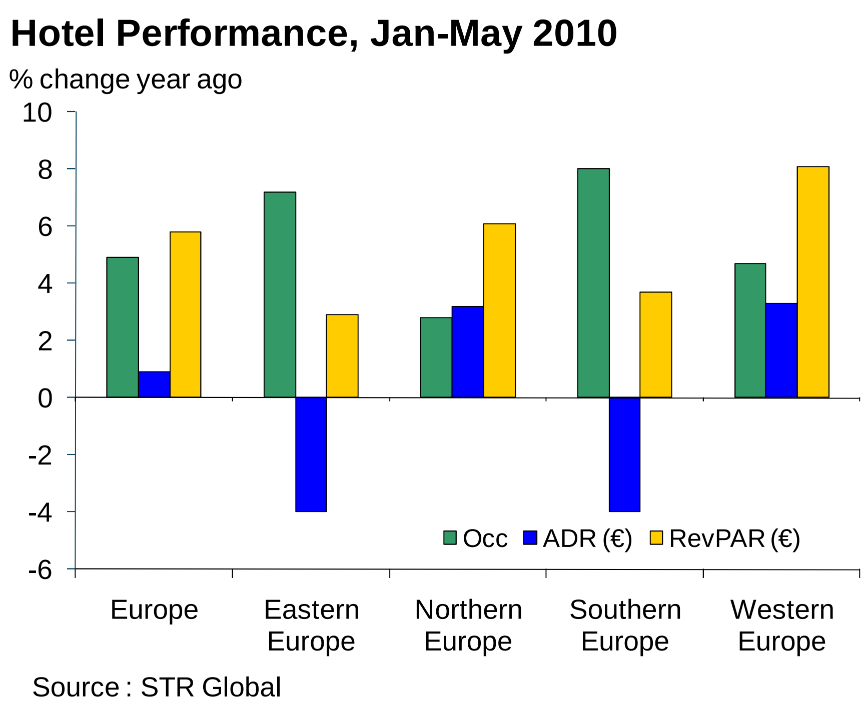
Demand continued driving passenger load factors. Load factors have generally increased over recent weeks while total Available Seat Kilometres (ASK) have also increased. Despite air service disruptions, air travel to and within Europe through the first half of the year shows marked growth over last year.

Accommodation

Growing room demand is driving ADR and RevPAR higher.

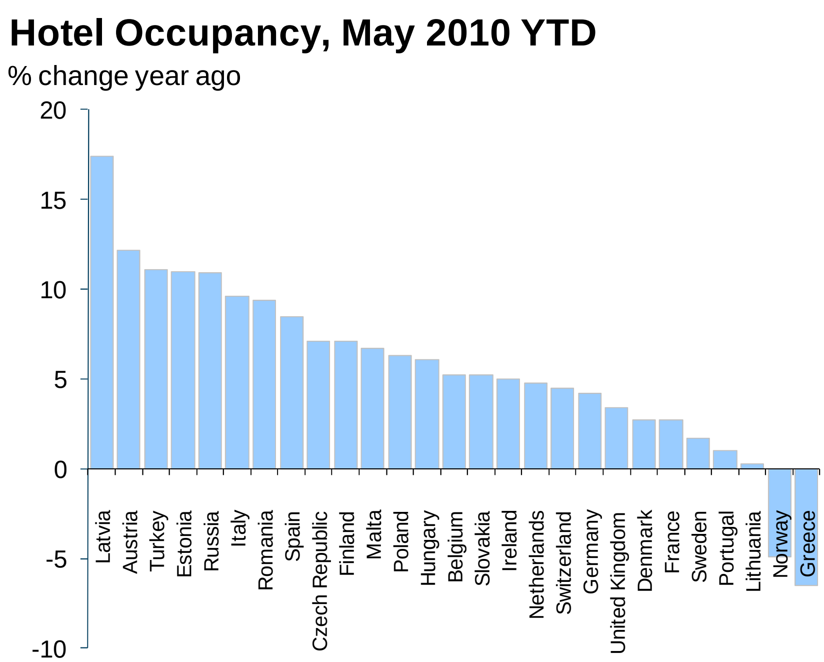
Hotel occupancy and RevPAR (revenue per available room) continue to grow in Europe as a whole, with growing room demand. In May, hotel performance extended the growth experienced earlier in the year across all parts of Europe. For the entire region, occupancy rates have increased nearly 7% compared to May of last year, with RevPAR gaining over 9%. Occupancy growth remains strongest in Eastern and Southern Europe, while Eastern and Northern Europe experienced the largest gains in RevPAR during the month. These results reflect strength in domestic as well international visitor activity.

For the year through May, occupancy rates and RevPAR have improved across every region. More encouraging, and a further sign of strengthening demand, is the return of growth in room rates which typically lag demand growth in a recovery. The Average Daily Rate (ADR) grew over 2% in May for the region, and is now up nearly 1% over last year for the year to date. While Europe has seen ADR increases as a whole, Eastern and Southern Europe are still lagging behind last year, though the declines in ADR have narrowed for both regions over recent months.



Revenue per available room (RevPAR) stands nearly 6% above last year's level through May. Despite the drop in ADR for Eastern and Southern Europe, RevPAR is still positive due to continued demand growth through the first five months of the year. Occupancy growth for the year to date has been strongest for Eastern and Southern Europe, while all regions within Europe have seen occupancy rates increase and the continent stands 5% above last year's levels through May with all but two countries reporting occupancy growth.

The below chart shows a striking contrast to the same chart for international tourist arrivals. Of the 27 countries with lodging data, 25 are showing growth in occupancy rates. This contrasts with what we noted for tourist arrivals where only 15 out of 28 reporting countries showed growth. Several points may be raised to help explain the disparity. First, domestic tourism is included in the lodging data and is likely improving hotel performance. Second, the declines in tourist arrivals may be greater for those not staying in paid accommodation (e.g. VFR) which would not affect the lodging figures. It should also be noted that the data from STR Global is based on a sample of hotel properties in each country. Its coverage tends to be strongest within the larger hotel management companies.



Source : STR Global

Recent performance according to industry surveys

Every month, Eurostat surveys businesses in key service industries to determine sentiment about recent business activity. Eurostat has recently revised the survey, and as such only data to April is currently available. The results are presented as the balance of positive versus negative responses. Differences across Europe persist, but improvements can generally be seen across most countries. One notable exception is a fairly large slip in the hotel & restaurant survey for the UK which could be linked to travel disruptions in April.

Performance Rankings					
Demand past 3 months (April survey)					
Hotels & Restaurants		Travel Agencies		Transportation	
Country	% balance	Country	% balance	Country	% balance
Denmark	34.3	Denmark	66.8	Denmark	32.1
Slovak Republic	21.0	United Kingdom	63.8	Germany	26.1
Sweden	14.7	Sweden	50.8	Belgium	22.8
Austria	13.6	Germany	42.8	Estonia	18.6
Czech Republic	9.5	Netherlands	37.8	Slovak Republic	15.8
Germany	7.5	Cyprus	33.5	Sweden	14.4
Estonia	4.5	Austria	32.1	Czech Republic	12.7
Cyprus	0.9	Italy	20.8	Lithuania	8.4
Finland	-2.9	Poland	13.2	Austria	7.6
France	-3.5	Slovak Republic	4.8	Bulgaria	6.3
United Kingdom	-4.8	Romania	4.4	Italy	5.8
Poland	-6.9	France	3.0	United Kingdom	4.5
Netherlands	-7.3	Latvia	0.5	Netherlands	3.6
Lithuania	-8.6	Slovenia	-4.1	Finland	-2.5
Romania	-11.1	Spain	-4.4	Romania	-3.5
Portugal	-12.3	Bulgaria	-6.5	Poland	-6.1
Slovenia	-14.8	Lithuania	-11.5	Portugal	-9.7
Italy	-16.1	Greece	-16.2	Slovenia	-10.0
Greece	-16.8	Estonia	-28.2	Latvia	-12.0
Latvia	-17.4	Finland	-31.3	Hungary	-12.6
Bulgaria	-33.7	Portugal	-44.9	Cyprus	-12.7
Spain	-38.8	Czech Republic	-54.5	Spain	-14.6
Hungary	-41.2			Greece	-19.3

Source: Eurostat

Key Source Market Performance

Intra-European travel positioned to grow

- Exchange rates are encouraging Europeans to travel close to home
- UK outbound remains flat, but a stronger second half is expected
- US outbound remains weak in the 1st quarter
- Europe welcomes a resurgence in arrivals from Japan and Russia

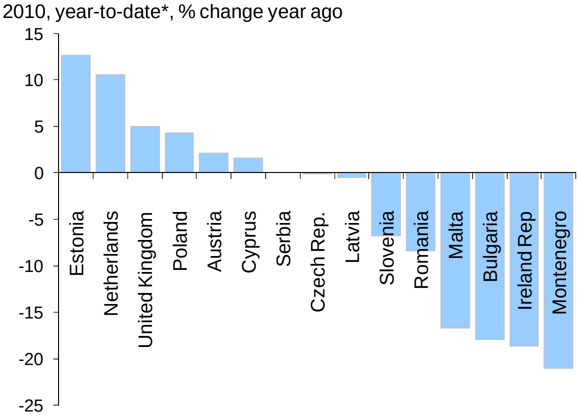
Key intra-European markets

German outbound travel is mixed so far this year with approximately half of reporting countries showing growth and half showing a decline in German visits. The trend of shorter holidays in distance and duration seems to be holding for the German traveller. The available data to date suggest Germans are favouring nearby destinations such as Austria, the Netherlands, and Poland. Data for nights is mixed, but on balance Germans seem to spending fewer nights abroad.

The trend of shorter holidays in distance and duration seems to be holding for the German traveller.

Visits from Germany to Select Destinations

2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

Travel from the Netherlands appears to be weaker than anticipated early in the year. Most destinations are reporting declines in arrivals and Netherlanders continue to spend fewer nights per trip relative to last year.

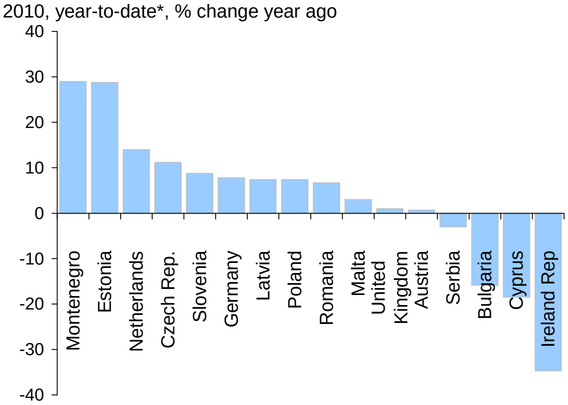
Netherlands outbound to Europe has been weaker than anticipated in the first months of the year.

France remains one of the better performing source markets so far this year, extending the growth seen in the latter part of last year. Additionally, the length of stay of French travellers is also on the rise. Italy, one of the other top performers of 2009 has not been as inspired this year and has decreased on balance. Travel from Italy to Austria and Spain has posted sizeable increases, however.

France is extending its growth from late last year while the Italian market has weakened.

Visits from France to Select Destinations

2010, year-to-date*, % change year ago



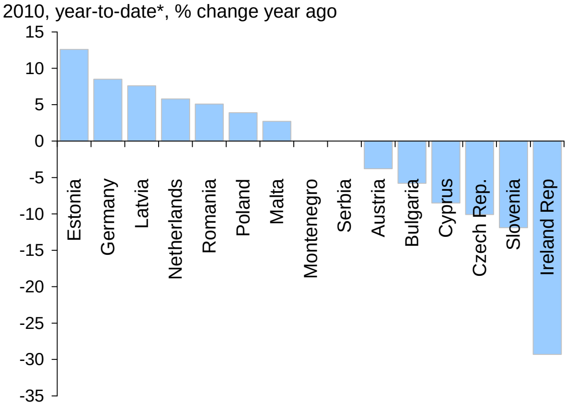
Source : TourMIS, ETC, *date varies (Mar-May) by destination

Hopes of at least a subdued recovery from the UK in 2010 remain intact with arrivals growth from the UK averaging flat across reporting destinations. Ireland has suffered the brunt of UK outbound declines, largely due to a weak sterling. However, nights spent by UK travellers have expanded in the opening months of the year. UK outbound will grow only modestly this year, but we still expect UK travel to the continent to improve over the second half of the year.

UK outbound to Europe has been flat for the year to date but some growth is expected as the year progresses.

Visits from UK to Select Destinations

2010, year-to-date*, % change year ago



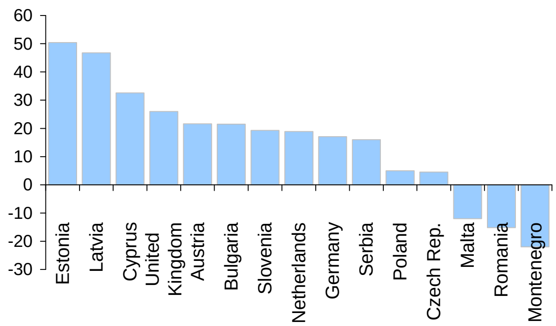
Source : TourMIS, ETC, *date varies (Mar-May) by destination

Russia shows continued improvement from late last year, with dramatic improvement representing a "V-shaped" recovery for destinations which previously suffered large declines. Russian visits and nights for the year-to-date have grown for nearly every reporting destination. Given the strength in the latter part of last year and a subdued growth forecast for Russian outbound in general, we expect some moderation as the year progresses.

Russia is rebounding from its lows of 2009.

Visits from Russia to Select Destinations

2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

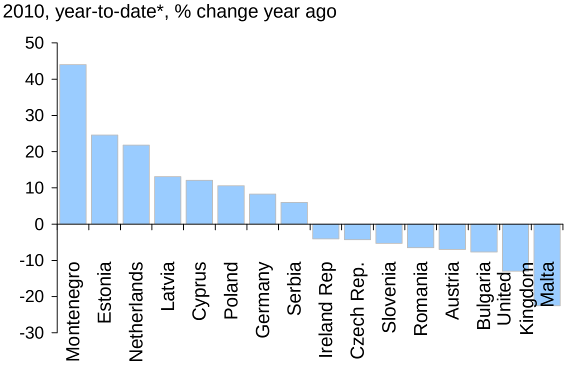
Non-European markets

US travel to Europe in the first quarter of 2010 followed the lacklustre performance of the 4th quarter last year, according to data from the US Department of Commerce. TourMIS data is indicating a similar trend in arrivals to the beginning of the year, with nights underperforming visits for most destinations. While the US is not yet in recovery mode, we still expect to see travel to Europe pick up in the remainder of the year, helped by favourable exchange rates. March data offers a glimmer of hope with 1% growth in US travel to Europe.

US arrivals disappoint in the 1st quarter, but weaker euro should help for the remainder of the year.

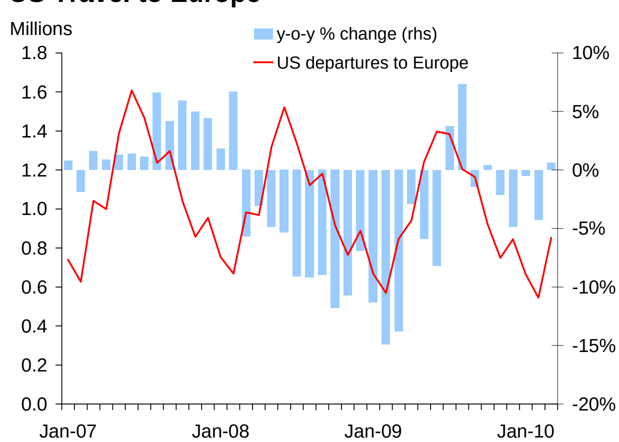
Visits from US to Select Destinations

2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

US Travel to Europe



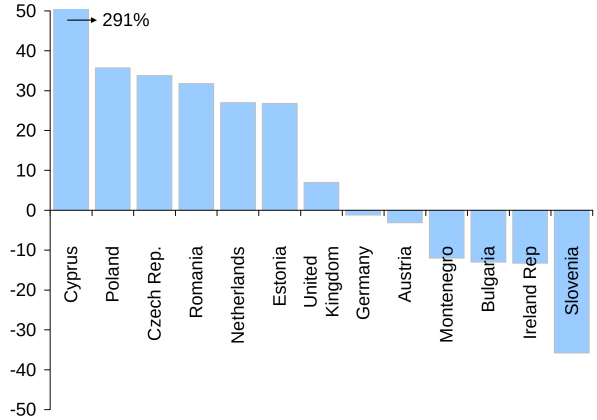
Source : OTTI, US Dept of Commerce

Japan shows signs of a long-awaited recovery.

The early data from 2010 is also showing hopeful signs of the return of the Japanese traveller which has been disappointing outside Asia in recent years. The median growth rate for reporting countries is 7% for the year, with more than half of those countries seeing growth from Japan. Japanese outbound is now expected to be more robust growing over 10% this year, with risk remaining to the upside.

Visits from Japan to Select Destinations

2010, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Mar-May) by destination

Prospects for European Tourism

A mixed and modest recovery is underway

- Early data for the year indicate the beginnings of a modest recovery
- Industry sentiment continues to be optimistic for the near term
- Overnight arrivals to Europe are now expected to grow 2.9% for 2010
- However, 2008 levels will not be recovered until 2011
- The current sovereign and bank debt situation places downside risk for remainder of the year and next year

Industry sentiment

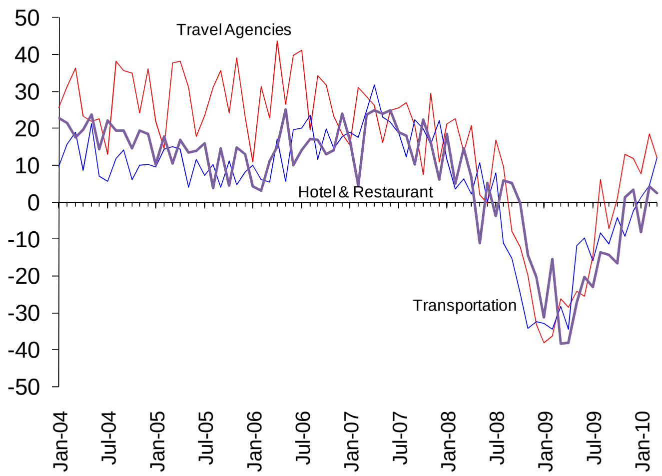
Industry sentiment remains moderately positive for the short run.

Eurostat surveys businesses in key service industries each month 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. These surveys have been recently revised by Eurostat and only data through April were available at the time of publication.

All three service industries remain positive about near term prospects as of the April 2010 survey. Industry expectations in both in the Eurozone and EU are generally consistent in each of the industries surveyed. Travel agencies and transports remain the most positive about demand expectations in the next 3 months.

Service Industries Expected Demand

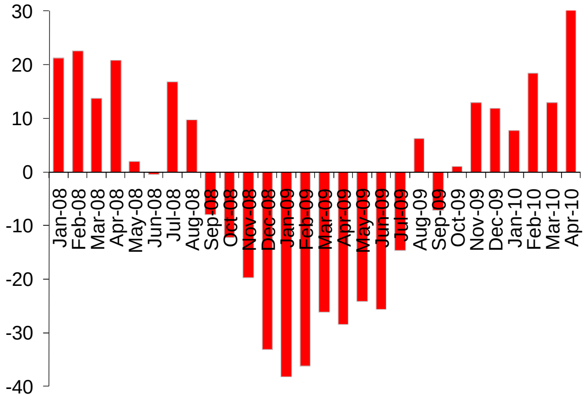
Next three months, % positive/negative balance.



Source : Eurostat

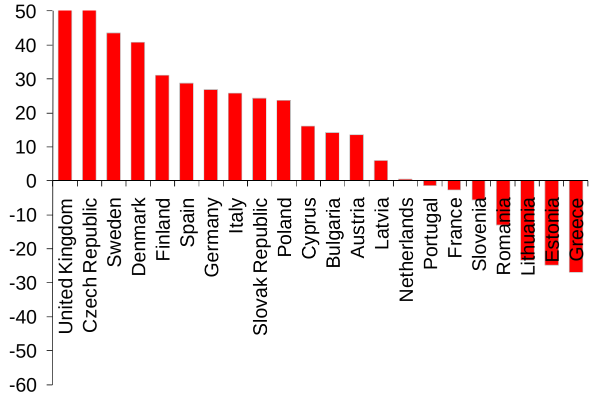
Hoteliers and restaurateurs remain less certain and sentiment slipped marginally in the last month. Yet among the countries surveyed, most were positive on the near term outlook for demand and all countries were decidedly more positive than at the same time last year.

Travel Agencies Expected Demand
EU 27, Next three months, % positive/negative balance



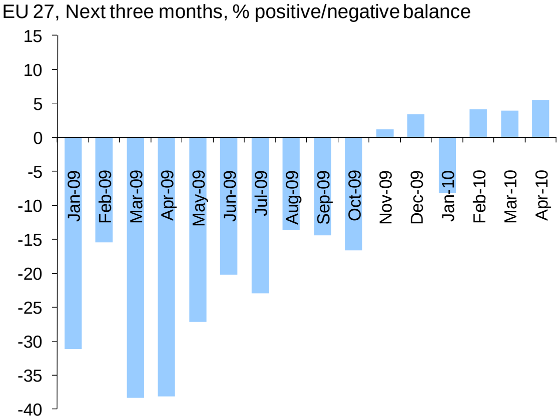
Source : Eurostat

Travel Agencies Expected Demand
Next three months, % positive/negative balance, April 2010



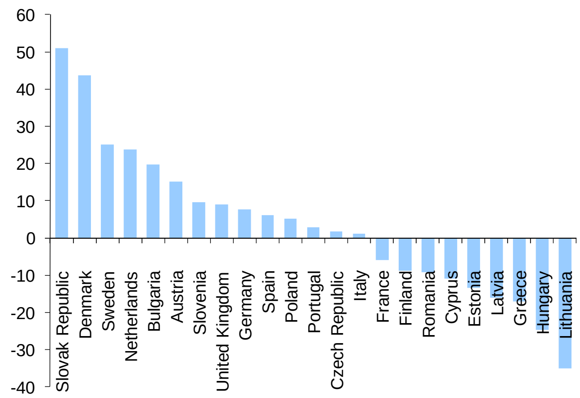
Source : Eurostat

Hotels and Restaurants Expected Demand
EU 27, Next three months, % positive/negative balance



Source : Eurostat

Hotels and Restaurants Expected Demand
Next three months, % positive/negative balance, April 2010



Source : Eurostat

Short-term Outlook

Given the data available to date, the recovery of tourism in Europe has gained momentum despite the travel disruptions of April, which bodes well for the remainder of the year. However, it is important to remember these figures are compared to the weakest portions of 2009. The second half of 2010 is expected to see tempered growth as year-over-year figures will be compared with relatively higher levels in the second half of the year.

Our forecast for long haul markets is little changed, with growth expected to improve in line with the economic recovery. Intra-European travel represents 89% of all visits to European destinations. The advantages of present currency values are balanced by current economic risks. The retraction of fiscal stimulus and increased taxation will constrain growth potential of tourism within Europe. Should fiscal problems tip the financial markets back to crisis mode, the recovery could easily reverse by the end of the year.

Nonetheless, given the strength of the recovery to date, our forecast has improved over the near term. Growth for overnight visits to Europe is now expected to hit 2.9% for 2010. While this represents an upward revision in the forecast, this recovery will still not be enough to regain the losses of 2009. Growth is expected to accelerate in 2011 when 2008 levels will be regained for most European destinations.

The industry sentiment indices confirm recent results for the region. As of the April 2010 survey, a majority of countries across all related tourism sectors were expecting improvements over the coming three months. Due to revisions of the surveys by Eurostat, currently there are no similar data available to give us insight into industry expectations as of May or June.

Expectations Rankings							
Demand next 3 months (April survey)						Destination Opportunity Index	
Hotels & Restaurants		Travel Agencies		Transportation			
Country	% balance	Country	% balance	Country	% balance	Country	% change 2010
Slovak Republic	51.0	United Kingdom	92.2	Germany	34.7	Italy	2.9
Denmark	43.7	Czech Republic	61.2	Denmark	32.5	United Kingdom	2.9
Sweden	25.1	Sweden	43.6	Netherlands	24.6	Germany	2.7
Netherlands	23.8	Denmark	40.9	Slovak Republic	21.6	Denmark	2.4
Bulgaria	19.8	Finland	31.2	Belgium	19.1	Norway	2.3
Austria	15.1	Spain	28.8	Sweden	19.1	Switzerland	2.3
Slovenia	9.6	Germany	26.8	Estonia	17.1	Finland	2.3
United Kingdom	9.0	Italy	25.9	Bulgaria	8.1	Greece	2.2
Germany	7.7	Slovak Republic	24.4	Spain	6.4	Belgium	2.2
Spain	6.1	Poland	23.7	Lithuania	5.3	Sweden	2.2
Poland	5.2	Cyprus	16.1	Austria	5.2	Iceland	2.2
Portugal	3.0	Bulgaria	14.3	Slovenia	3.2	Luxembourg	2.2
Czech Republic	1.8	Austria	13.5	Poland	3.1	Netherlands	2.2
Italy	1.1	Latvia	6.0	Cyprus	2.7	Portugal	2.0
France	-5.9	Netherlands	0.4	Italy	2.5	France	2.0
Finland	-8.8	Portugal	-1.4	Finland	2.2	Czech Republic	1.9
Romania	-9.1	France	-2.7	United Kingdom	0.4	Austria	1.9
Cyprus	-10.8	Slovenia	-5.7	Romania	-0.1	Spain	1.7
Estonia	-13.4	Romania	-13.0	Czech Republic	-2.6	Bulgaria	1.6
Latvia	-16.0	Lithuania	-23.3	Hungary	-5.6	Poland	1.6
Greece	-17.0	Estonia	-24.8	Portugal	-10.8	Malta	1.4
Hungary	-24.7	Greece	-26.9	Latvia	-13.0	Cyprus	1.3
Lithuania	-35.0			Greece	-17.3	Slovenia	1.2

Sources: Eurostat, Tourism Economics

Further, Tourism Economics constructs a Destination Opportunity Index for each destination as a weighted average of expected performance for its respective source markets. This index is predicting growth across all of Europe in 2010. Note, that this index is the pure weighting of econometrically-modelled outbound travel forecasts. So a destination's growth is a function of its particular origin market mix but is not reflective of recent performance, exchange rates, or destination attractiveness. These factors are considered in the more detailed forecasts from Tourism Decision Metrics. However, the index tells a story of broad and modest growth in 2010.

Global Forecast Tables

TDM Visitor Volume Forecasts, Millions

	Inbound*						Outbound**					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
World	**1,713.2**	**1,724.0**	**1,634.9**	**1,708.5**	**1,799.3**	**1,860.5**	**1,038.3**	**1,086.1**	**1,046.6**	**1,091.7**	**1,145.5**	**1,195.5**
Americas	**250.3**	**251.1**	**237.1**	**249.4**	**260.4**	**270.4**	**136.9**	**138.1**	**135.3**	**142.7**	**150.8**	**157.5**
North America	178.5	176.8	164.4	173.8	180.8	187.0	104.3	105.2	101.7	106.8	111.8	116.0
Caribbean	36.5	36.6	36.2	37.0	38.4	39.7	8.3	7.3	7.3	7.5	8.0	8.3
Latin America	35.3	37.7	36.5	38.6	41.2	43.7	24.4	25.7	26.2	28.4	31.0	33.2
Europe	**1,042.9**	**1,044.6**	**978.2**	**1,012.1**	**1,069.3**	**1,104.5**	**567.6**	**587.4**	**558.3**	**572.5**	**599.0**	**627.7**
EU15	551.3	549.5	509.7	525.7	558.6	577.8	297.5	301.4	284.5	288.6	299.7	311.9
Eastern Europe	448.3	448.3	422.1	439.1	461.0	475.1	240.9	256.0	244.3	252.7	266.5	281.9
Asia	**298.0**	**292.2**	**289.1**	**311.4**	**330.0**	**344.2**	**242.0**	**250.9**	**251.6**	**271.0**	**287.1**	**300.4**
North East	206.0	202.0	197.2	211.0	222.4	230.9	161.4	164.4	165.0	179.0	188.8	196.6
South East	72.1	70.1	72.5	80.1	86.2	90.6	57.2	62.6	64.4	68.4	73.0	76.8
South	8.2	8.4	7.9	8.6	9.0	9.5	15.7	15.7	14.7	15.7	16.9	18.1
Oceania	11.7	11.7	11.4	11.8	12.5	13.1	7.7	8.1	7.5	8.0	8.5	8.9
Africa	**67.3**	**72.5**	**71.4**	**74.6**	**77.2**	**78.4**	**35.6**	**38.1**	**37.0**	**38.4**	**39.3**	**39.5**
Mid East	**54.7**	**63.6**	**59.1**	**61.0**	**62.4**	**62.9**	**56.0**	**71.6**	**64.5**	**66.9**	**69.3**	**70.4**

Based on July 2010 TDM forecast

* Inbound is based on the sum of the country visits and includes intra-regional flows

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

TDM Visitor Growth Forecasts, % change

	Inbound*						Outbound**					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
World	**4.3%**	**0.6%**	**-5.2%**	**4.5%**	**5.3%**	**3.4%**	**7.9%**	**4.6%**	**-3.6%**	**4.3%**	**4.9%**	**4.4%**
Americas	**0.2%**	**0.3%**	**-5.6%**	**5.2%**	**4.4%**	**3.8%**	**4.3%**	**0.9%**	**-2.1%**	**5.5%**	**5.6%**	**4.4%**
North America	-1.9%	-1.0%	-7.0%	5.8%	4.0%	3.5%	3.9%	0.9%	-3.3%	5.0%	4.7%	3.7%
Caribbean	2.3%	0.3%	-1.1%	2.2%	3.8%	3.2%	0.5%	-12.1%	1.2%	2.6%	5.8%	4.7%
Latin America	10.1%	6.8%	-3.0%	5.6%	6.8%	6.1%	7.3%	5.2%	2.1%	8.4%	9.1%	6.9%
Europe	**3.4%**	**0.2%**	**-6.4%**	**3.5%**	**5.6%**	**3.3%**	**6.4%**	**3.5%**	**-5.0%**	**2.5%**	**4.6%**	**4.8%**
EU15	2.1%	-0.3%	-7.2%	3.1%	6.3%	3.4%	2.6%	1.3%	-5.6%	1.5%	3.8%	4.1%
Eastern Europe	4.3%	0.0%	-5.8%	4.0%	5.0%	3.1%	11.5%	6.3%	-4.6%	3.5%	5.5%	5.8%
Asia	**8.8%**	**-2.0%**	**-1.1%**	**7.7%**	**6.0%**	**4.3%**	**10.4%**	**3.7%**	**0.3%**	**7.7%**	**5.9%**	**4.6%**
North East	8.7%	-1.9%	-2.4%	7.0%	5.4%	3.9%	8.8%	1.9%	0.3%	8.5%	5.4%	4.2%
South East	10.2%	-2.7%	3.4%	10.4%	7.7%	5.1%	13.1%	9.5%	2.8%	6.1%	6.8%	5.3%
South	10.4%	2.4%	-5.6%	8.3%	4.6%	6.2%	18.3%	0.4%	-6.4%	6.5%	7.5%	7.6%
Oceania	1.5%	-0.3%	-2.3%	3.2%	5.9%	5.1%	9.1%	4.5%	-7.7%	6.6%	6.8%	4.6%
Africa	**13.4%**	**7.7%**	**-1.5%**	**4.5%**	**3.4%**	**1.7%**	**21.5%**	**7.0%**	**-3.1%**	**4.0%**	**2.3%**	**0.5%**
Mid East	**7.8%**	**16.4%**	**-7.1%**	**3.2%**	**2.3%**	**0.8%**	**14.3%**	**27.7%**	**-9.9%**	**3.8%**	**3.5%**	**1.6%**

Based on July 2010 TDM forecast

* Inbound is based on the sum of the country visits and includes intra-regional flows

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

Economic Outlook for Key Markets

Eurozone

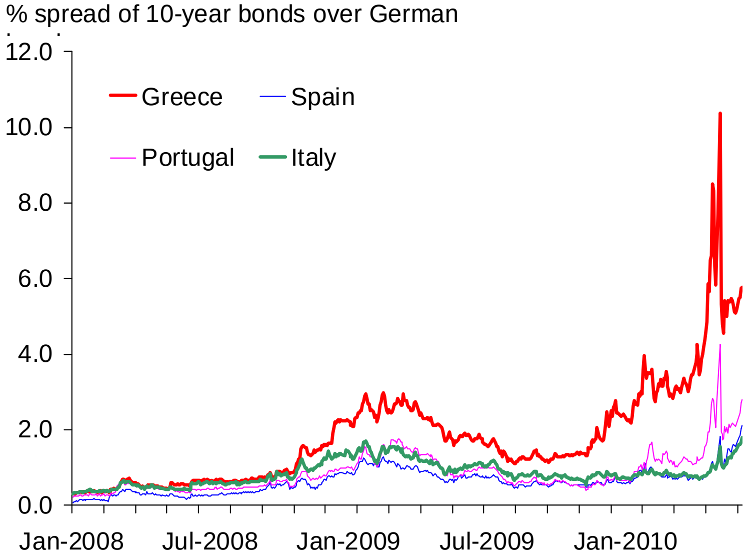
The announcement of a €750bn EU rescue plan initially eased tensions on the financial markets. But the respite was only temporary and yield spreads for peripheral Eurozone countries have started to climb again, indicating that confidence about the efficacy of fiscal consolidation plans is weakening. The situation appears particularly troubling for Spain, where yield spreads are now higher than at the peak of the Greek debt crisis in May.

Austerity measures to repair budgets will weigh on growth for the remainder of the year.

The large exposure of European banks to sovereign debt and the weak growth prospects are increasing banking sector counterparty risk. The Euribor rate is now slowly but steadily rising, and banks are increasingly turning to the ECB for refinancing. In addition, the cost of buying insurance against a default is increasing fast for the banking sector; between the beginning of April and the first half of June, credit default swap (CDS) rates for the banking sector have soared by 60%.

Eurozone: Credit spreads

% spread of 10-year bonds over German



Source : Oxford Economics/Haver Analytics

With the fiscal problems mounting, Eurozone GDP increased by just 0.2% in Q1 and the rest of the year will see only very subdued growth, which will result in GDP growing by a mere 0.8% in 2010 overall. A very modest pick-up to 1.3% growth is forecast for 2011.

With fiscal problems mounting, Eurozone GDP will grow by a mere 0.8% in 2010. A very modest pick-up to 1.3% growth is forecast for 2011

Domestic demand will constitute the main drag on growth going forward. We expect a 2.9% contraction in investment, as spare capacity remains high and non-financial corporations are cutting back on spending in order to reduce debt. A significant downside risk is constituted by a deterioration of credit conditions; according to the latest Bank Lending Survey, in Q1 banks tightened their standards for business credit to a lesser extent than in the past, but a weakening in banks' balance sheets following the debt crisis could lead to a renewed contraction in credit.

Consumption will be flat this year as government incentives such as the car scrapping schemes give way to fiscal retrenchment. Moreover, despite some improvement in countries like Germany, the overall labour market situation continues to worsen; in April, the harmonised unemployment rate edged up again to 10.1% and we a expect a further rise to a peak of 10.6% by mid 2011. Worries about unemployment are also depressing consumer confidence, with the European Commission index dipping again in May after a tentative rise in April.

The overall labour market situation continues to worsen along with consumer confidence.

The prospects for domestic demand growth will be further damaged by the series of fiscal tightening packages being implemented across Europe. Following the fiscal austerity measures in Greece and Portugal, Spain is enacting a further ambitious consolidation package aimed at reducing its fiscal deficit to 6% of GDP in 2012 from 11.3% posted in 2009. The plan encountered fierce opposition in parliament and is leading to social unrest, raising some doubts about full implementation of the plan, which is essential in order to reduce the risk of a debt crisis in the Eurozone's fourth largest economy. The Italian government has presented a smaller fiscal adjustment plan and some austerity measures have also been announced by Germany and France.

Not surprisingly given the sluggish growth, inflation at just 1.5% in April and the heightened financial market tensions, the ECB kept its refi rate unchanged at the historical low of 1% at its 10 June meeting. The ECB also stated that the purchase of government and private securities would continue. The extreme weakness of the economy and the high level of unemployment make any domestic inflationary pressures very unlikely. As a result, we do not expect interest rates to rise before H2 2011.

UK Economy

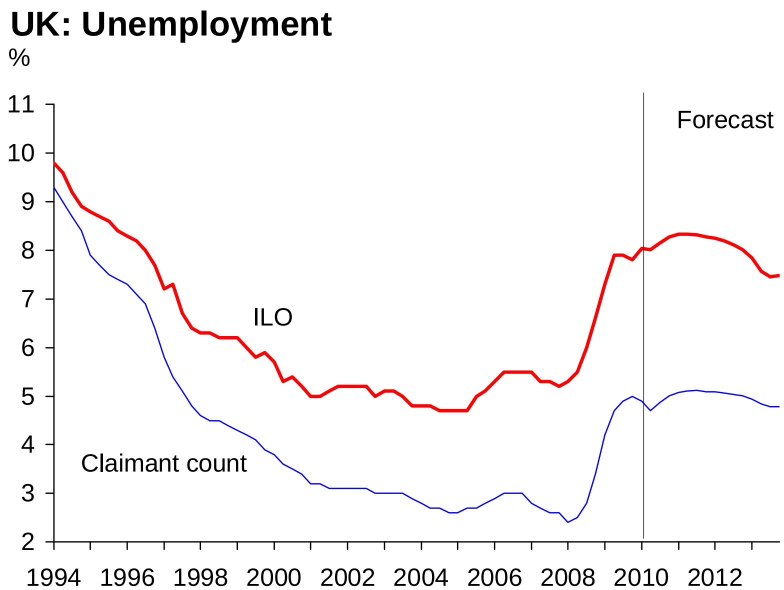
Recent data continues to point to a steady – but unspectacular – pace of recovery. GDP growth for Q1 was revised up from 0.2% to 0.3%, slightly slower than the outturn for 2009Q4. The PMI surveys point to a stronger outturn for GDP growth in Q2, with manufacturing likely to provide the main impetus.

Outlook for the UK remains muted based on recent surveys and rising unemployment.

However, the PMI services survey reports more worrying trends, with growth in new business at its slowest for nine months in May. The main source of weakness has been consumer services, which chimes with a range of other indicators. Retail sales have been broadly flat since early autumn, while the CBI distributive trades survey reported a surprise drop in sales in the year to May. In addition, net unsecured lending has turned negative again, while consumer confidence has edged down for the last three months.

The consumer outlook remains bleak. Though the claimant count measure of unemployment has fallen in recent months, the picture is more downbeat across almost all other labour market indicators, with inactivity and ILO unemployment rising and further declines in hours worked. We expect the impending public sector cuts to keep ILO unemployment above 8% for the next couple of years. Furthermore, the combination of persistently weak earnings growth and above target inflation also means there is likely to be no real wage growth this year, on the back of declines in each of the two previous years.

With little support from the labour market, a higher tax bill for top earners and no repeat of last year's drop in interest rates, real incomes are forecast to fall modestly this year. Consumer sentiment remains fragile and with households showing no sign of wishing to re-leverage, we anticipate that consumer spending will make only modest positive contributions to growth this year and next.



Source: Oxford Economics

However, progress is unlikely to be smooth and we still expect growth for 2010 as a whole to be just over 1%, accelerating to 2.3% next year. Not only will there be little support from consumers, and a significant drag from the public sector, but investment is unlikely to make a significant contribution to growth in the short term either.

US Economy

Recovery in US is still robust, but growth will slow in second half with added risk from exposure to Europe.

The economy continues to exhibit signs of a solid rebound from the recession. Industrial production rose 0.8% in April and is now 5.2% above its year-earlier level. Manufacturers' orders have risen for eight consecutive months and order backlogs have started to edge higher, suggesting that even higher production will be necessary to meet current demand. The ISM indexes have also been signalling strong growth in both the manufacturing and non-manufacturing sectors for several months.

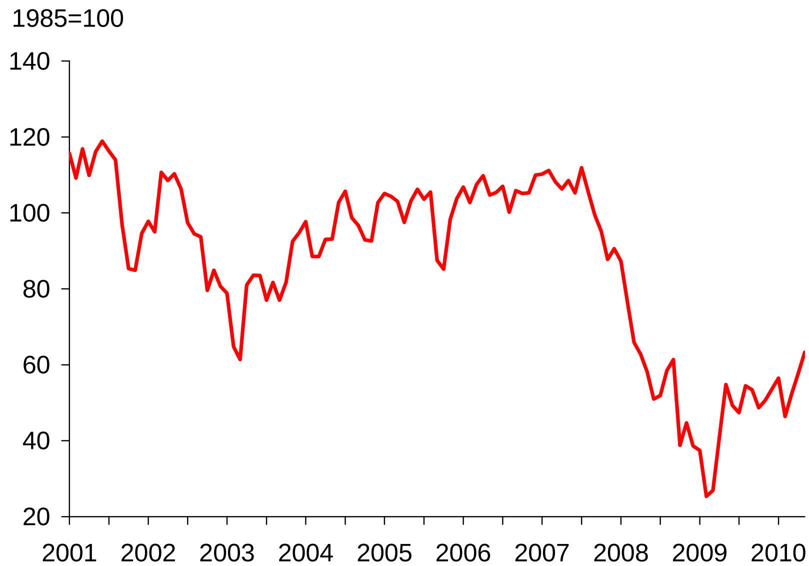
There have, however, also been some surprisingly weak monthly statistics. But it is too soon to be sure whether these represent a change in trend or mere volatility. Real consumer spending was flat in April, but that followed two monthly readings of 0.5% growth - a 0.3% average monthly growth rate for consumption is actually quite strong. With confidence modestly rising (though still low) and car sales stronger than anticipated in May, the April consumption figure seems less worrisome.

The weak reading on private employment in May is another case in point. Private payrolls expanded only by 41,000 in May, a disappointing figure. Yet, since the end of last year, private payrolls have risen 0.5%, not a bad outcome.

And the average workweek rose again in May, suggesting that demand for labor continues to increase.

Low inflation and low interest rates are also supporting the economy. The Federal Reserve continues to hold short-term interest rates at extremely low levels and even when it does begin to raise them, it will take a considerable time before they reach restrictive levels. And recently long-term rates have fallen, which will support business investment, personal consumption of durable goods and home purchases.

Consumer confidence



Source: Conference Board

There are a number of factors that will be leaning against the economy. While the housing market has shown signs of life, some of that improvement has been dependent on the homebuyers' tax credit, which has now expired. Foreclosures remain an issue, and there is excess supply of homes for sale. Similarly, while conditions for consumers have improved, confidence is recovering very slowly and remains quite low. And even though federal stimulus spending continues, state and local governments remain under budgetary pressure and are cutting spending. And the strong dollar is eroding US trade competitiveness and will constrain export growth while promoting imports.

While conditions for US consumers have improved, confidence is recovering very slowly and remains quite low.

The most serious risk to the forecast is the European debt crisis. That crisis is already having an impact on the US economy, as it is a key cause of both the rise in the dollar and the fall in long-term interest rates. In addition, Europe is a key market for US exports, and as its prospects dim, so do hopes that trade will be a significant source of US growth. The biggest issue, however, is the possibility that the financial system could be stressed again. Concerns about Eurozone debt markets have already contributed to a drop in stock prices, and in the event of a debt restructuring in parts of the Eurozone or other major credit event, US banks would face possible losses on debt holdings and concerns about counterparty risk would rise sharply – risking a renewed 'freezing' of credit markets.

Emerging Markets

Asian economies continue to expand though signs of slowing are evident.

After edging down in April, both the HSBC Chinese services and manufacturing PMIs fell more noticeably in May, albeit to levels (56.4 and 52.7 respectively) that still pointed to a reasonable pace of expansion. Meanwhile the estimated seasonally adjusted trend in imports flattened out in April and May, having surged in the previous ten months. This may reflect a combination of factors – the impact of the authorities' efforts to tighten credit conditions to avoid overheating, both in general and in the property market in particular; the fading of the boost from re-stocking; and renewed worries about the health of the global economy. The latter factor is likely to delay the first interest rate rise and the "unpegging" of the CNY, provided that inflation does not rise too quickly over the next few months (from 3.1% in May).

Some signs of moderation after rapid growth in Q1 are also apparent in the latest surveys and data from other parts of East Asia. The trend in Korean exports to China and the rest of Asia is not as dynamic as it was at the end of last year, although on the plus side sales to the US have definitely accelerated in recent months (Chinese exports to the US also rose very strongly in May). And provided the latter development continues and sales to China hold up, then output and investment should continue to expand. But whereas most countries in the region recorded quarterly growth in the region of 2-4% in Q1, figures of 0.5-1% are more likely during the remainder of the year (with the probable exceptions of Indonesia on the upside and Thailand on the downside).

India also grew strongly in Q1, up 8.6% year-on-year, driven by robust manufacturing and sharply improving private services. And while the HSBC services PMI fell in May, the manufacturing PMI actually climbed to its highest level since February 2008. Moreover, the latter survey pointed to concerns about capacity constraints. Against this background, and with wholesale price inflation above 9% (albeit largely down to a supply-side shock from food prices), the Reserve Bank of India has less room for manoeuvre than its Chinese counterpart. It will have to continue to tighten monetary policy over the next few months.

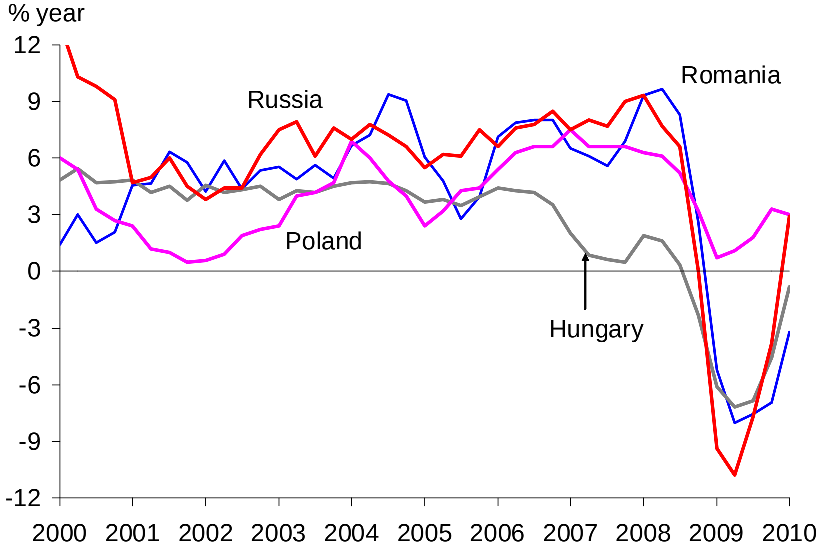
Brazil has been one of the "hotspots" of global growth over the last year. But the latest surveys point to moderating growth in the future.

Along with emerging Asia, Brazil has been one of the "hotspots" of global growth over the last year. GDP grew by 2.7% on the quarter in Q1 and 8.9% on the year, with expansion in Q1 driven by consumer spending and investment. But despite its relatively low exports to GDP ratio, the latest surveys also point to moderating growth in the future. This may reflect businesses factoring in tighter monetary policy. The central bank raised the key Selic rate by 75bp in April and by another 75bp in June – the latter increase was widely anticipated given the steady rise in inflation expectations so far this year. By contrast, the inflation risks in Mexico appear to have ebbed in the last few months. This has given the country's central bank more scope to keep policy relaxed for a longer period and so help support the recovery – which temporarily stalled in Q1. However, provided the US economy continues to grow, sucking in Mexican exports, the domestic headwinds should ease eventually.

Despite some encouraging signs this year, Russia's industrial output in April was still 8.3% lower than in the same month of 2008.

Data for Q1 confirm a much more modest recovery is under way in emerging Europe; with the exception of Poland, levels of activity are generally significantly down on those of two years earlier. For example, despite some encouraging signs this year, Russia's industrial output in April was still 8.3% lower than in the same month of 2008, while bank credit has yet to pick up. And although Russian export volumes will suffer much less than countries in central Europe from stagnating Eurozone demand, the crisis in the region over the last few months has been a contributory factor in dampening oil prices.

Central & Eastern Europe: GDP



Source: Haver Analytics

Central and Eastern European economies are at risk from the Eurozone crisis.

But the countries most vulnerable to the negative impacts of the Eurozone crisis are those in emerging Europe that are currently having to implement significant fiscal tightening this year (both Romania and Bulgaria were still in recession in Q1), as these economies will no longer be able to count on support from an improving export outlook. Moreover, the diminished appetite for risk among global investors makes it imperative that countries show continued and unambiguous commitment to their fiscal adjustment programmes. However, the new Hungarian government has not done this. In the last month, its bond yields have risen significantly and the HUF has dropped to its lowest level in nearly a year. This could hit confidence and undermine the encouraging economic performance seen in Q1.

Japan

Japan has entered into what appears to be a period of sustained economic growth.

Revised Q1 GDP data showed growth unchanged at a very healthy 1.2% on the quarter, led by another strong performance by exports and a more modest recovery in private consumption.

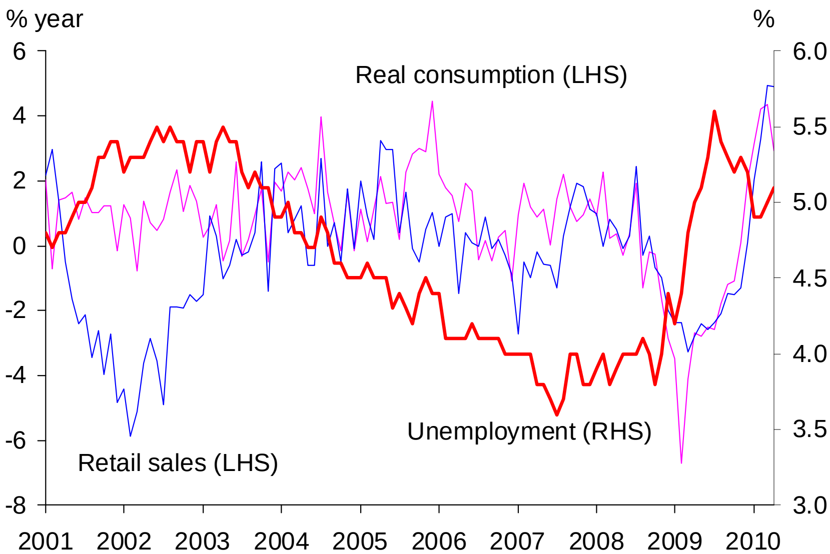
With upward revisions to previous quarters as well, we now forecast GDP growth of 2.8% for 2010 even though we expect the pace of growth to slow somewhat over the coming quarters.

Inventory building has so far contributed little to the Japanese recovery, possibly indicating a continued degree of caution on the part of firms about future demand prospects. In addition, capital spending is lagging the strong rebound in exports, also suggesting a cautious business sector.

Industrial output growth looks set to ease over the coming months, and the recent rise in retail sales is also likely to tail off as consumer incentive schemes expire. Wage growth has recovered into positive territory, but unemployment is edging up again and may be a further headwind to consumption.

Consumer prices continue to fall, prompting further moves by the Bank of Japan to ease monetary conditions. But the measures look modest in the context of a large output gap.

Japan: Consumer spending & unemployment



Source : Oxford Economics/Haver Analytics

ETC Member Organisations

Austria	Austrian National Tourist Office (ANTO)
Belgium	Flanders: Tourist Office for Flanders
	Wallonia: Office de Promotion du Tourisme de Wallonie et de Bruxelles (OPT)
Bulgaria	Bulgarian State Agency for Tourism
Croatia	Croatian National Tourist Board (CNTB)
Cyprus	Cyprus Tourism Organisation (CTO)
Czech Republic	CzechTourism
Denmark	VisitDenmark
Estonia	Estonian Tourist Board - Enterprise Estonia
Finland	Finnish Tourist Board (MEK)
France	Atout France - France Tourism Development Agency
FYR Macedonia	Agency for Promotion and Support of Tourism
Georgia	Department of Tourism and Resorts of Georgia
Germany	German National Tourist Board (GNTB)
Greece	Greek National Tourism Organisation (GNTO)
Hungary	Hungarian National Tourist Office (HNTO)
Iceland	Icelandic Tourist Board
Ireland	Fáilte Ireland and Tourism Ireland Ltd.
Italy	Italian State Tourism Board (ENIT)
Latvia	Latvian Tourism Development Agency (LTDA)
Lithuania	Lithuanian State Department of Tourism
Luxembourg	Luxembourg National Tourist Office
Malta	Malta Tourism Authority (MTA)
Monaco	Department of Tourism and Conferences
Montenegro	National Tourism Organisation of Montenegro
Netherlands	Netherlands Board of Tourism & Conventions (NBTC)
Norway	Innovation Norway
Poland	Polish National Tourist Office (PNTO)
Portugal	Turismo de Portugal, I.P.
Romania	Ministry of Tourism
San Marino	Ministry of Tourism
Serbia	National Tourism Organisation of Serbia
Slovakia	Slovak Tourist Board
Slovenia	Slovenian Tourist Board (STB)
Spain	Turespaña - Instituto de Turismo de España
Sweden	VisitSweden
Switzerland	Switzerland Tourism
Turkey	Ministry of Culture and Tourism
Ukraine	National Tourist Office
United Kingdom	VisitBritain