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EUROPEAN TOURISM 2010 – Trends & Prospects

Quarterly Report - Q1/2010

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM in 2010: TRENDS & PROSPECTS

Quarterly Report (Q1/2010)

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

Brussels, April 2010
ETC Market Intelligence Report

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European Tourism in 2010: Trends & Prospects (Q1/2010)

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on behalf of the ETC Market Intelligence Group

Photo: Basilica of Esztergom, Hungary / Courtesy of the Hungarian National Tourist Office.

Foreword

A fragile recovery is underway...

The recovery from the “great recession” is underway. Signs of a travel rebound emerged in the final months of the year as economies around the world strengthened. Yet this recovery, unlike those of more recent recessions, is expected to be tempered and fragile.

...after a dismal 2009

Overnight visits to European destinations declined 6% in 2009, erasing two years of gains, while international travel around the world fell an estimated 4.7% against the headwinds of the global recession.

Intra-European travel proved more stable in 2009 relative to long haul markets. This accounted for the relatively strong performance of destinations nearest their main source markets.

The industry is reporting positive signs on all fronts

As 2010 begins, the trends established in the latter portion of 2009 are continuing. European airlines are reporting higher load factors due to increased passenger enplanements rather than cuts to capacity. Hoteliers have seen higher occupancy rates across Europe and revenue appears to be growing in the first quarter despite lower prices. All of these observations point to renewed growth in tourist arrivals in the first quarter.

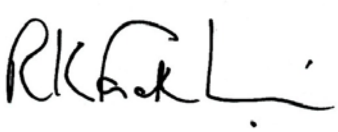
Key source markets are turning positive

Over the near term, tourism industry survey results are also pointing toward growing travel demand. A rebound from record lows is overdue from Japan while the US market also holds promise in the coming year. UK travellers are also likely to return to mainland Europe later in the year. Tourism Economics forecasts visits to European destinations to grow 2.4% in 2010 and then accelerate to 3.8% in 2011, when 2008 visitor levels will finally be regained.

Still, the outlook remains muted

Still, global and regional economies face ongoing burdens of high and/or rising unemployment and debt levels.

Though we have reason to be cautious given the challenges before us, we are also optimistic as we work together to ensure the best possible outcomes for each of our destinations and for all of Europe.



Rob Franklin
Executive Director
European Travel Commission

Leslie Vella
Chairman
ETC Market Intelligence Group

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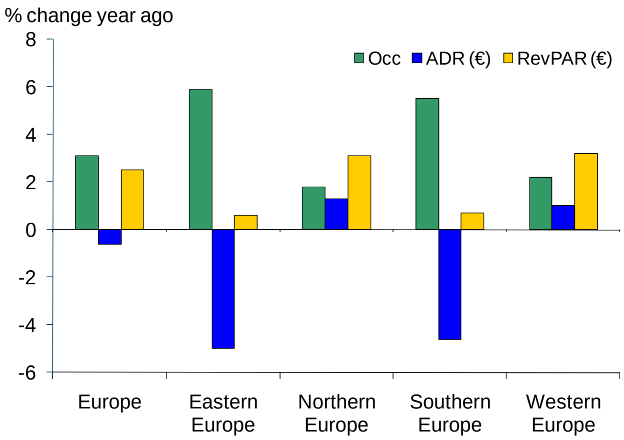
Executive Summary

- Overnight visits to European destinations fell 6% in 2009, erasing the growth of the previous two years.
- Intra-European travel proved more stable in 2009 relative to long haul markets. This accounted for the relatively strong performance of destinations nearest their main source markets.
- The most recent data indicate a recovery in travel to European destinations is underway.
- Both airlines and hotels are reporting higher demand in the first months of 2010. Service industry surveys also indicate growth in the first quarter.

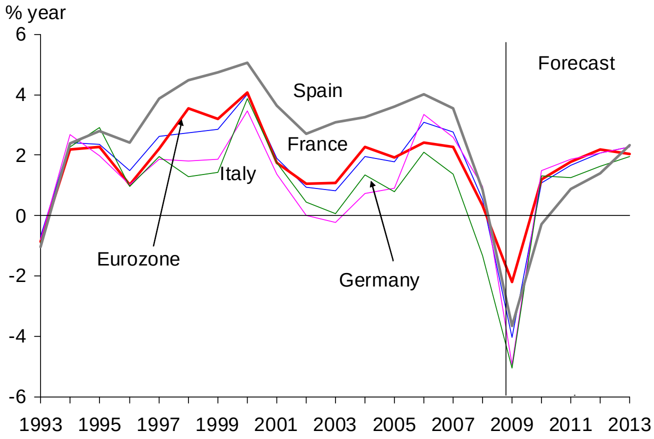
Hotel Performance, Jan-Feb 2010



Source : STR Global

- The emerging economies are leading the way in the economic recovery, with most industrialised companies expected to lag behind.
- The economic recovery in Europe is fragile – growing budget concerns could derail an already weak recovery.
- The travel recovery is expected to be modest, consistent with economic recovery. High unemployment and tepid consumer demand, especially within Europe, will weigh on the recovery of the travel industry.

Eurozone GDP growth

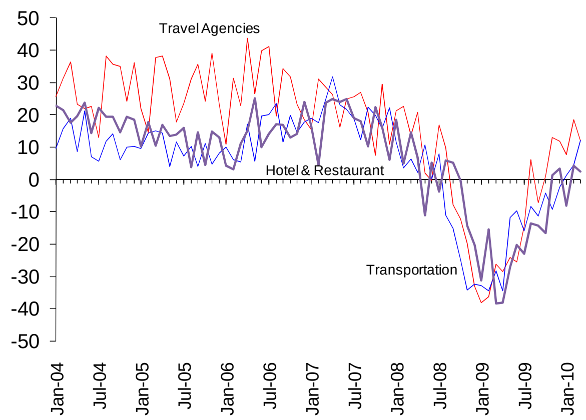


Source: Oxford Economics

- Near term expectations of travel related service industries indicate growing optimism in the coming months.
- A rebound from record lows is overdue from Japan while the US market also holds promise in the coming year. UK travellers are also likely to return to mainland Europe later in the year.
- Visits to European destinations are expected to grow 2.4% in 2010 and then accelerate to 3.8% in 2011, when 2008 visitor levels will finally be regained.

Service Industries Expected Demand

Next three months, % positive/negative balance.



Source : Eurostat

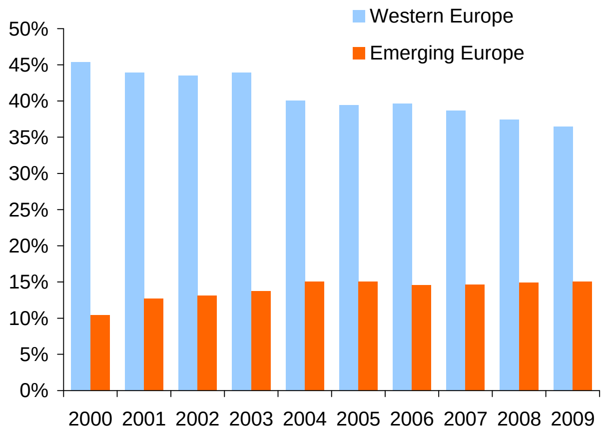
Looking Back at 2009

Erasing two years of gains

The losses incurred last year during the "great recession" erased the gains of the previous two years, taking European overnight arrivals below 2006 levels. Around the world, international visitation fell an estimated 4.7%. However, the losses were more severe in Europe which shed approximately 6% in visitor volumes. This marks a continuing trend of global market share losses for Western Europe, while Emerging Europe continues to gain market share. This trend can be observed in the most recent monthly data around the world, which shows Emerging Asia and Central & Eastern Europe to be recovering more quickly than the sum of all mature markets.

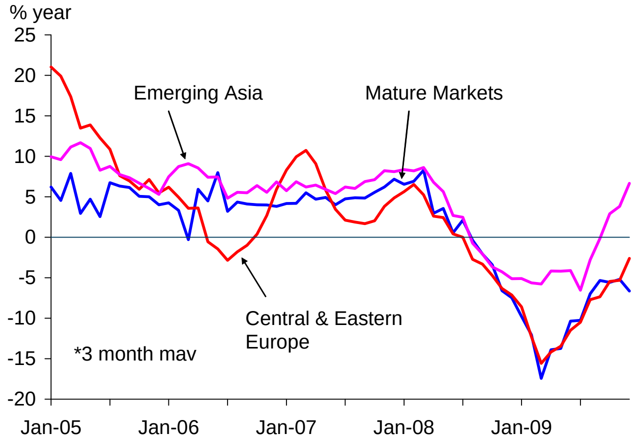
2009 erased two years of visitor growth to Europe.

Europe's Share of World Arrivals



Source : Tourism Decision Metrics

Regions: Overnight visitor arrival growth*



Source: PATA, Haver, Eurostat, Oxford Economics

However, the results across Emerging Europe ranged wildly. The top four European performers in terms of overnight arrivals growth—Turkey, Montenegro, Serbia, and Bulgaria—are all within Central and Eastern Europe and posted near-flat performance last year. Yet the bottom four performers—Latvia, Slovakia, Lithuania, and Romania—are also from Emerging Europe and posted double-digit losses.

Results varied wildly with a general trend toward shorter length of stay across Europe.

Within Western Europe, the Netherlands, Austria, Germany, and Switzerland are on track to be the best performers in 2009—all registering losses between 2.4% and 4.1%. This relatively good performance is connected to the trend toward shorter trips, which has regionalised travel among these countries.

In select markets—including Serbia, the Netherlands, Spain, and Hungary—performance in terms of nights was better than arrivals. However, the majority of destinations confirm the trend toward shorter stays with declines in nights exceeding the declines in arrivals.

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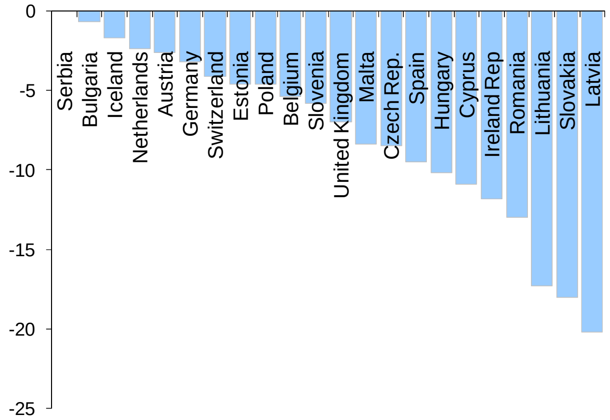
A Snapshot of 2009 Tourism Performance

Foreign Visits to Select Destinations

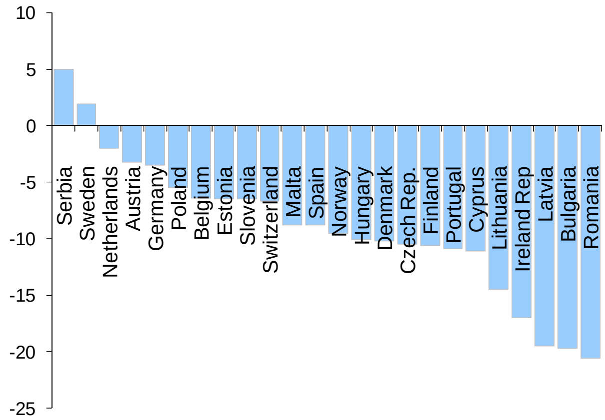
2009, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

Foreign Nights in Select Destinations

2009, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

2009 Performance Rankings									
Visitor Volume						Hotel Performance			
Foreign Arrivals			Foreign Nights			Hotel Occupancy		Hotel ADR (LCU)	
Country	% ytd	to month	Country	% ytd	to month	Country	to Dec	Country	to Dec
Turkey	0.9	Aug	Serbia	5.0	Dec	Sweden	-2.3	Iceland	22.4
Montenegro	0.0	Aug	Sweden	1.9	Dec	United Kingdom	-3.1	Hungary	-1.6
Serbia	0.0	Dec	Netherlands	-2.0	Oct	Malta	-3.8	Denmark	-2.6
Bulgaria	-0.7	Dec	Montenegro	-2.5	Aug	Germany	-4.3	Norway	-2.7
Iceland	-1.7	Dec	Austria	-3.2	Dec	Iceland	-4.6	Sweden	-3.3
Netherlands	-2.4	Oct	Germany	-3.5	Nov	Ireland	-4.8	Poland	-3.9
Austria	-2.6	Dec	Poland	-5.5	Dec	Italy	-6.0	United Kingdom	-5.4
Italy	-2.8	Jun	Belgium	-6.4	Nov	France	-6.1	Germany	-5.8
Germany	-3.2	Nov	Slovenia	-6.5	Dec	Greece	-6.9	Portugal	-7.2
Switzerland	-4.1	Nov	Estonia	-6.5	Dec	Denmark	-7.0	Monaco	-7.3
Estonia	-4.6	Dec	Switzerland	-6.7	Nov	Switzerland	-7.2	France	-7.5
Poland	-4.6	Dec	Spain	-8.8	Sep	Belgium	-7.4	Finland	-8.0
Belgium	-5.4	Nov	Malta	-8.8	Dec	Austria	-7.5	Belgium	-8.5
Slovenia	-5.8	Dec	Norway	-9.5	Dec	Finland	-8.0	Malta	-8.8
United Kingdom	-7.0	Dec	Hungary	-10.1	Nov	Norway	-8.0	Netherlands	-8.9
Malta	-8.4	Dec	Denmark	-10.2	Dec	Estonia	-8.4	Austria	-10.1
Czech Rep.	-8.5	Dec	Czech Rep.	-10.5	Dec	Poland	-9.0	Italy	-10.1
Greece	-9.0	Aug	Finland	-10.6	Dec	Spain	-9.4	Spain	-10.4
Spain	-9.5	Sep	Portugal	-10.9	Nov	Portugal	-9.5	Switzerland	-11.4
Hungary	-10.2	Nov	Cyprus	-11.1	Sep	Netherlands	-9.6	Luxembourg	-11.6
Cyprus	-10.9	Dec	Lithuania	-14.5	Dec	Luxembourg	-10.2	Romania	-14.1
Ireland Rep	-11.8	Dec	Ireland Rep	-17.0	Sep	Czech Republic	-11.2	Slovakia	-14.2
Romania	-13.0	Dec	Slovakia	-17.4	Sep	Hungary	-13.4	Czech Republic	-15.8
Lithuania	-17.3	Dec	Latvia	-19.5	Dec	Monaco	-14.1	Greece	-16.2
Slovakia	-18.0	Sep	Bulgaria	-19.7	Dec	Russia	-14.2	Ireland	-17.2
Latvia	-20.2	Dec	Romania	-20.6	Dec	Romania	-14.8	Estonia	-17.5
						Lithuania	-15.8	Lithuania	-18.2
						Latvia	-15.9	Russia	-18.3
						Slovakia	-28.3	Latvia	-28.6

Sources: TourMIS, ETC, STR Global

Economy Overview

Slow economic recovery expected

- A weak recovery is expected in the Eurozone as lingering unemployment and lacklustre confidence levels filter through to demand
- Recovery in Europe will be uneven as signs of divergence grow between core and peripheral countries
- The US recovery is aggressively underway, but will temper as the year progresses
- Emerging markets are leading the global recovery with robust growth in both exports and consumer demand.

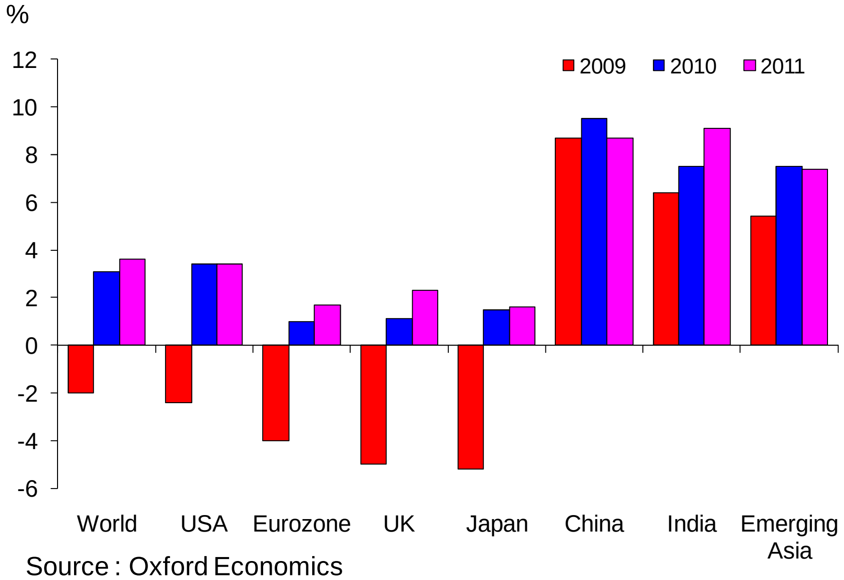
Global Overview

The rebound in growth in the main emerging market countries has significantly outpaced that seen in the main industrialised countries over recent months. Most strikingly, trade volumes in the emerging economies were rising at over 15% per annum at the end of 2009, while in the advanced economies they remained lower than a year before.

This uneven pattern has been further illustrated by the apparent faltering of growth in the major European economies around the turn of the year. Private sector GDP barely grew in the final quarter of 2009 in the Eurozone and the UK, and we expect German GDP to remain broadly flat in 2010Q1. Growth is also likely to slow sharply in Japan in Q1.

However, there are some cautious grounds for optimism that the major economies may not be left hopelessly trailing behind in 2010. In the US, GDP rose strongly in the final quarter of 2009 despite a negative contribution from government, and while the housing sector continues to bump along the bottom,

Real GDP growth



Source : Oxford Economics

the early signals on consumer spending and industrial output for Q1 are positive. In Europe, orders data and surveys have tended to be stronger than output numbers, suggesting faster growth ahead – some of the recent weakness in output can be attributed to short-term factors such as weather and the winding down of car scrappage schemes.

Rapid emerging market growth will also provide a boost. The outlook here remains robust, although a few uncertainties have crept in about the sustainability of China's growth with monetary policy tightening and some surveys suggesting a slowdown in industry.

Overall, we continue to expect prospects in the advanced economies to improve through 2010 and especially in 2011. GDP in the G7 is forecast to rise 2.3% this year and 2.6% next year.

Summary of International Forecasts

	2008	2009	2010	2011	2012	2013
Real GDP						
North America						
United States	0.4	-2.4	3.2	3.3	3.3	3.0
Canada	0.4	-2.6	2.8	3.2	4.4	4.3
Europe						
Eurozone	0.5	-4.0	0.9	1.6	2.1	2.2
Germany	1.0	-4.9	1.5	1.9	2.1	2.3
France	0.3	-2.2	1.2	1.8	2.2	2.0
Italy	-1.3	-5.1	0.8	1.0	1.5	2.0
UK	0.5	-4.9	1.1	2.3	2.9	3.3
EU27	0.7	-4.1	0.9	1.9	2.4	2.6
Asia						
Japan	-1.2	-5.2	1.6	1.6	2.1	2.0
Emerging Asia, excl Japan	6.2	5.0	7.6	7.4	7.8	7.6
China	9.6	8.7	9.5	8.7	9.3	9.0
India	7.4	6.4	7.8	9.0	9.0	8.8
World	1.7	-2.0	3.1	3.6	4.0	3.9
World 2005 PPPs	3.0	-0.9	3.9	4.4	4.9	4.7
World trade	2.9	-12.8	8.3	8.0	8.3	8.1

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Recent Industry Performance

Recent indicators point to growth

- Passenger demand driving increased airline load factors
- Hotel occupancy and RevPAR ahead of last year
- EU travel agencies and transportation companies report stronger demand in recent months

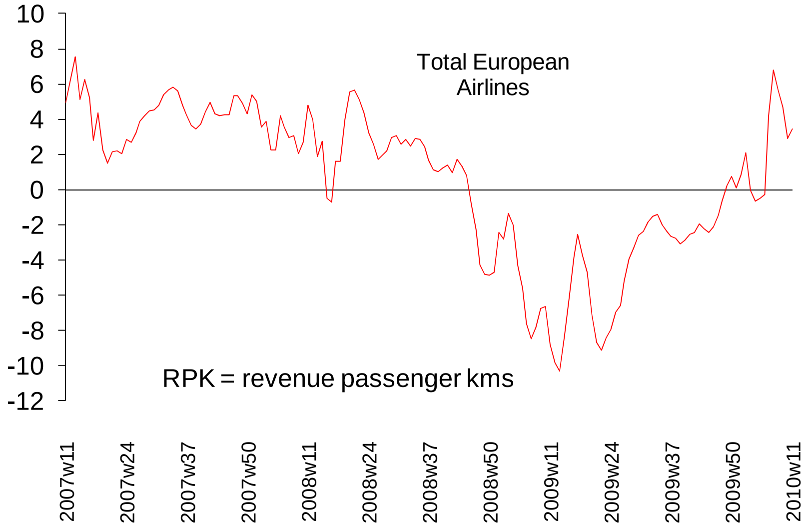
Air Transport

European airlines have posted consistent gains in Revenue Passenger Kilometres (RPK) for most of 2010. According to data from the Association of European Airlines (AEA), RPK has grown in eight of the first eleven weeks of 2010 compared to the year earlier and in 13 of the last 17 weeks. The trend is not limited to intra-European routes – routes between Europe and Asia and Europe and North America have experienced similar patterns of growth.

The recovery in air travel is strengthening, particularly against very weak demand posted in the early part of last year.

European airline passenger traffic growth

RPK, 4 week moving average, % change year ago



Source: AEA

Passenger load factors continue to increase as well. More encouraging, these increases are driven more from the demand side than the supply side. In January, the total number of passengers grew over the year earlier for the first time since June 2008. Over the past year, airlines cut capacity significantly. This trend has slowed significantly with some capacity recently added within Europe. However, total air passenger demand remains 10% lower than peak levels achieved in 2008. Still, recovery has to start somewhere and the aviation data point to the beginnings of visitor growth.

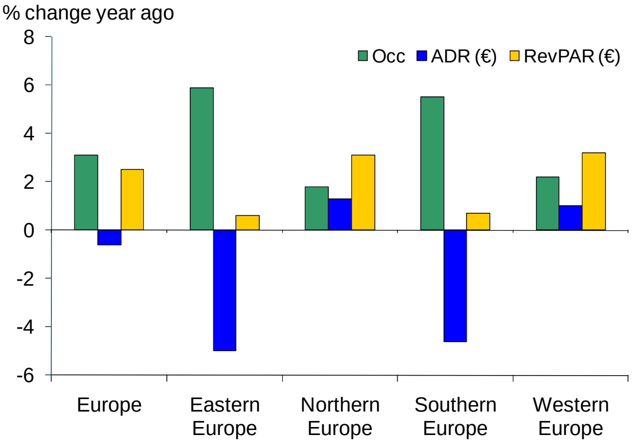
Rising airline load factors have been driven by higher demand rather than decreased supply.

Accommodation

Higher occupancy rates and RevPAR growth indicate room demand growth.

Hotel performance has also improved noticeably over the past few months, indicating that demand for overnight travel has grown. Occupancy rates for the first two months of 2010 rose 1.6 percent across Europe from the year earlier according to data from STR Global. While Eastern and Southern Europe show the largest increases, occupancy rates across all regions are higher than the same period a year ago.

Hotel Performance, Jan-Feb 2010

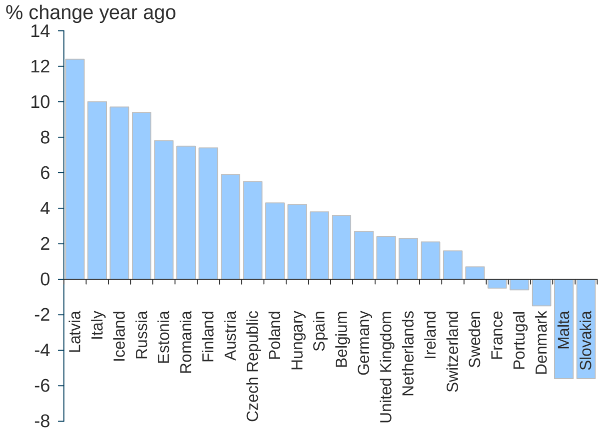


Source : STR Global

European hotels took a big hit on revenues last year as room rates plummeted. Pricing power appears to be returning to Northern and Western Europe and, as a whole, average daily rates (ADR) in Europe have stabilised, down only fractionally through February.

Revenue per available room (RevPAR) stands 2.5% above last year's level through February. Despite a drop in ADR for Eastern and Southern Europe, RevPAR is still positive due to strong demand growth in the first two months of 2010. The story across Europe is consistent: visitor demand is coming back but with the expectation of lower prices. Remarkably, 19 out of 24 countries are reporting occupancy growth in the first two months of 2010.

Hotel Occupancy, Jan-Feb 2010



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. The results are presented as the balance of positive versus negative responses. Differences across Europe are significant but notable improvements are evident since late last year. In particular, the United Kingdom, Denmark, Sweden, and the Slovak Republic are indicating relatively strong recent performance across all industry segments.

Performance Rankings					
Demand past 3 months (March survey)					
Hotels & Restaurants		Travel Agencies		Transportation	
Country	% balance	Country	% balance	Country	% balance
United Kingdom	32.2	Denmark	72.4	Germany	24.7
Slovak Republic	18.4	United Kingdom	61.3	Denmark	22.3
Denmark	16.7	Sweden	51.4	Belgium	19.6
Sweden	13.6	Slovak Republic	40.8	Czech Republic	16.0
Austria	9.3	Germany	27.4	Slovak Republic	11.6
Germany	-2.5	Austria	15.3	Sweden	10.8
Estonia	-3.6	Romania	8.0	Netherlands	8.9
Portugal	-4.7	Poland	7.2	Italy	7.9
France	-7.8	Netherlands	4.0	United Kingdom	5.5
Czech Republic	-10.9	Finland	2.9	Estonia	3.4
Poland	-11.5	Greece	-2.1	Bulgaria	2.2
Cyprus	-11.9	Latvia	-2.3	Lithuania	-0.7
Netherlands	-12.2	Spain	-3.9	Portugal	-4.3
Lithuania	-19.4	Bulgaria	-5.9	Austria	-6.5
Romania	-20.7	Cyprus	-6.5	Romania	-7.7
Slovenia	-21.8	Italy	-7.1	Finland	-8.3
Italy	-22.8	France	-11.8	Poland	-9.2
Finland	-24.9	Slovenia	-15.2	Spain	-9.8
Bulgaria	-27.7	Lithuania	-28.7	Hungary	-9.8
Latvia	-29.0	Estonia	-34.6	Cyprus	-16.5
Greece	-33.0	Portugal	-42.6	Slovenia	-21.5
Spain	-38.3	Czech Republic	-61.8	Latvia	-23.3
Hungary	-50.2			Greece	-26.8

Source: Eurostat

Key Source Market Performance

Intra-European travel still dominant

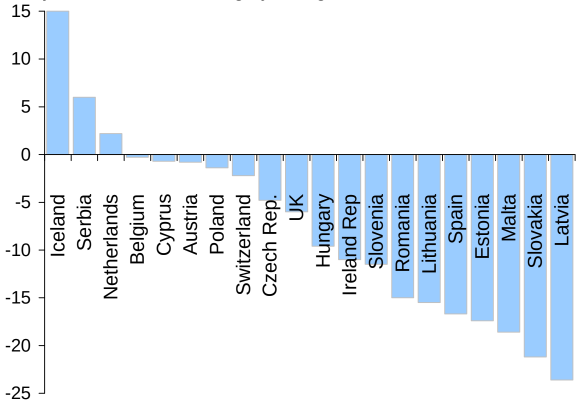
- Travel remains close to home with shorter trips
- UK outbound off to slow start, Russia outlook remains weak
- US outbound slips in 4th quarter, but will recover
- Japanese arrivals decrease again, potential upside in 2010

Key intra-European markets

One of the overarching themes of travel in 2009 was that travellers tended toward shorter holidays in both distance and duration. The German traveller was no exception. German travel performance was generally more favourable to nearby destinations in 2009. Neighbouring countries generally realised more modest declines in arrivals from Germany (with the Netherlands receiving an increase in German tourists). However, the length of trips declined more forcefully. Most of Europe experienced declines in German arrivals with two (Slovakia and Latvia) falling more than 20%. Tourism Economics expects German outbound travel to rebound in 2010 growing at nearly 4%.

Visits from Germany to Select Destinations

2009, year-to-date*, % change year ago



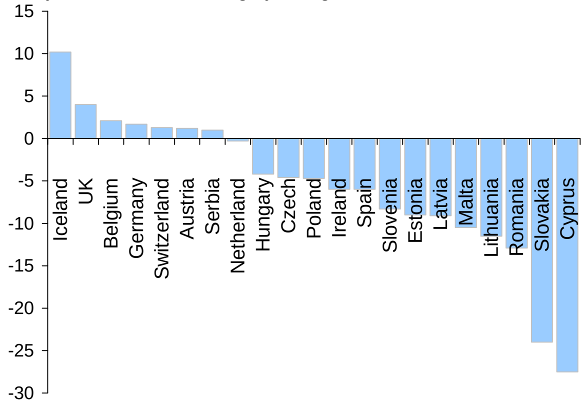
Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

Similar to Germany, Netherlanders tended to travel closer to home in 2009 and outbound travel picked up in the second half the year. Still, a number of European destinations suffered declines of over 10% in arrivals from the Netherlands in 2009. While arrivals from the Netherlands have increased fractionally early in 2010, they continue to spend fewer nights abroad.

As the year ended, both France and Italy continued to be among the stronger performers as source markets and continued to improve over the last few months of the year. Nearby destinations performed best from the French market - especially the UK, on account of a weak sterling. To date for 2010, arrivals from France are 2% below last year while Italian arrivals are only fractionally lower. However, both French and Italian travellers are spending more time on holiday as bednights from both origins have increased.

Visits from France to Select Destinations

2009, year-to-date*, % change year ago

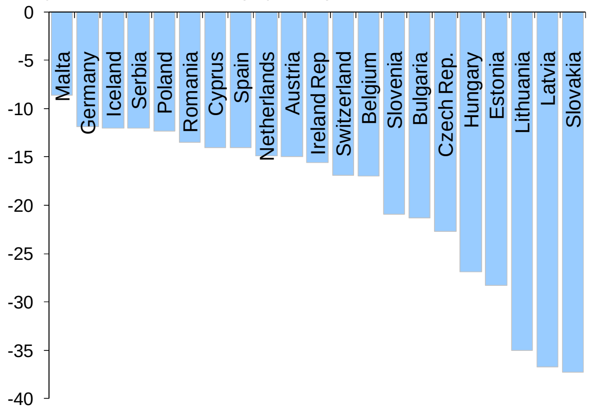


Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

In the face of a recession and a weaker sterling, the UK was perhaps the most disappointing European travel market in 2009 - nearly every destination experienced double-digit declines in arrivals. While UK outbound travel is expected to grow 4% in 2010, early results for European destinations continue to fall short with arrivals down nearly 2% for the year to date.

Visits from UK to Select Destinations

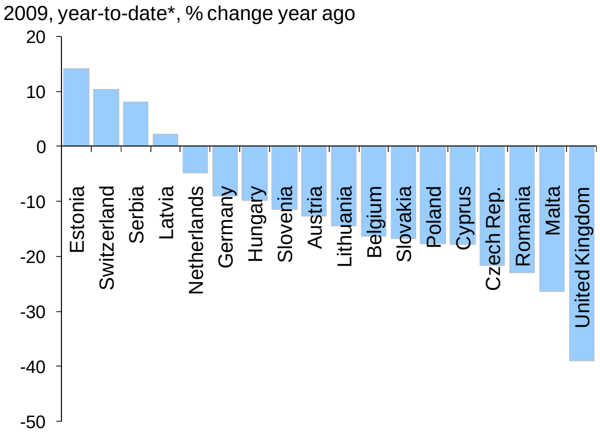
2009, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

Russia did show some signs of improvement late in the year. Still, one of the best performing source markets of recent years produced double-digit declines for more than half of reporting destinations while Estonia, Switzerland, and Serbia saw strong growth from Russia. With total outbound growth expected to fall more than 2 percent in 2010, a recovery from Russia is likely another year off for many destinations.

Visits from Russia to Select Destinations



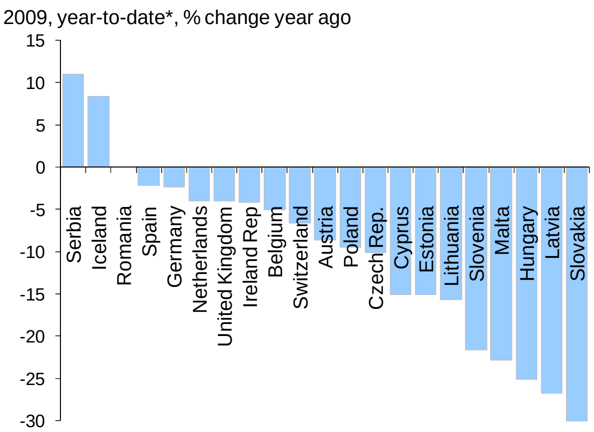
Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

Non-European markets

US arrivals stumbled late in 2009 after a strong 3rd quarter.

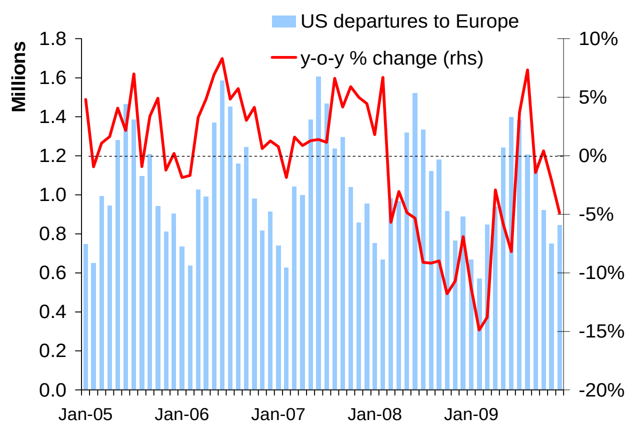
After a strong performance in the third quarter, US travel to Europe fell 2% in the fourth quarter to end the year down nearly 4%, lower than total outbound travel from the US (-3.3%), according to data from the US Department of Commerce. Still, all but two European countries reported declines from the US for 2009 with few signs of improvements in the latter months of the year. Destinations lying east of the Danube tended to suffer greater declines than those to the west. US arrivals to Europe are fractionally positive for the first two months of the year as the US is emerging more quickly from the recession and is expected to grow 2% in 2010 based on the Tourism Decision Metrics forecast model.

Visits from US to Select Destinations



Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

US Travel to Europe



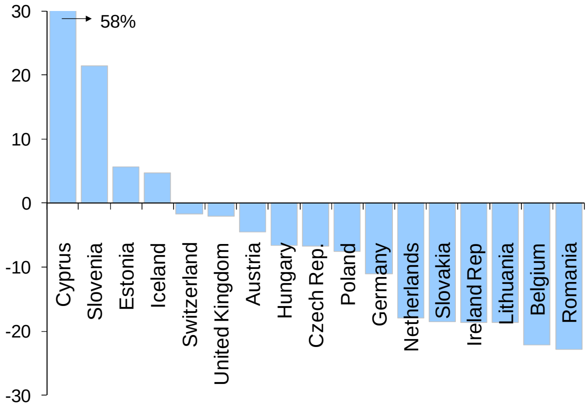
Source : OTTI, US Dept of Commerce

Japanese travel continued to contract in 2009. Several smaller destinations did enjoy increased visitors from Japan (Cyprus and Slovenia grew at double-digit rates), but decreased flows of travel from Japan persisted for most destinations. The early data for 2010 are no more encouraging, with arrivals down 18%. However, there remains a large amount of pent up demand in Japan and the risks for Japanese outbound most likely favour the upside. Because of this, Japanese outbound is expected to grow 6% in 2010.

Declines from Japan persist, but upside potential exists from pent-up demand

Visits from Japan to Select Destinations

2009, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Sep-Dec) by destination

Prospects for European Tourism

Near term prospects

- The growth trends established in late 2009 are strengthening in early 2010.
- Travel and tourism industries are expecting increased demand over the next three months.
- Travel to/within Europe is expected to grow over 2% in 2010.
- Intra-European travel is forecasted to outperform long haul again as consumer confidence and the labour market remain weak.

Industry sentiment

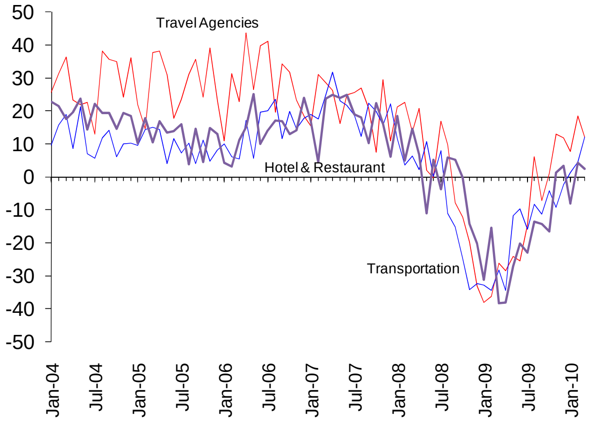
Every month Eurostat surveys businesses in key service industries to determine sentiment about current and expected business activity. The results are presented as the balance of positive versus negative responses. The travel and tourism industry is represented in these surveys by three sectors: the transport industry, hotels and restaurants, and travel agencies.

Travel and tourism service industries expect demand growth over the next 3 months.

All three service industries are more positive about near term prospects as of the March 2010 survey. Industry expectations in both in the Eurozone and EU are generally consistent in each of the industries surveyed. Travel agencies and transports are 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 have only turned slightly positive in the last month. That said, across the countries surveyed, less than half of hotels and restaurants remain negative on balance. Of those 11 countries, only two (Greece and Estonia) are more negative than in December of last year.

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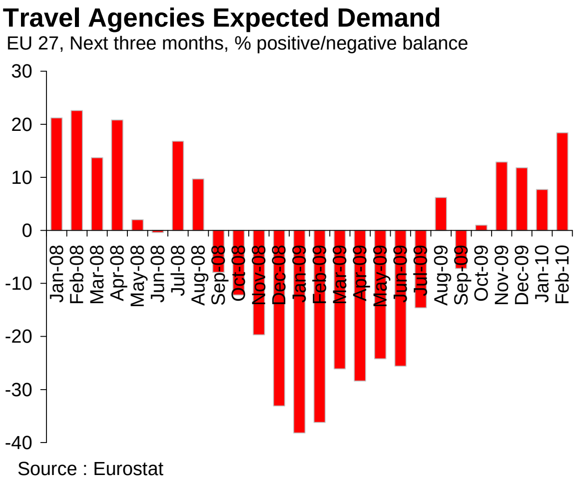

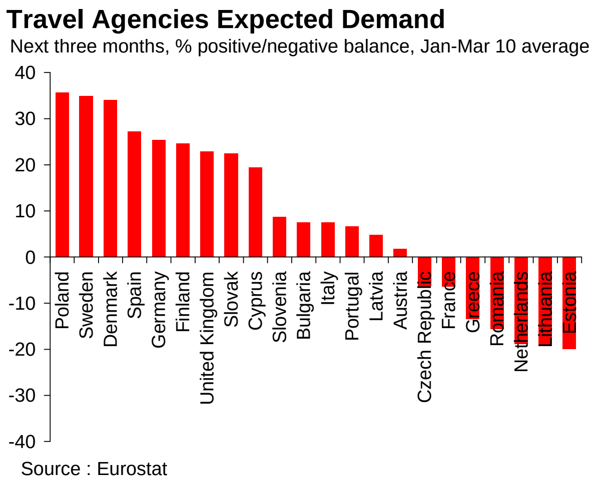

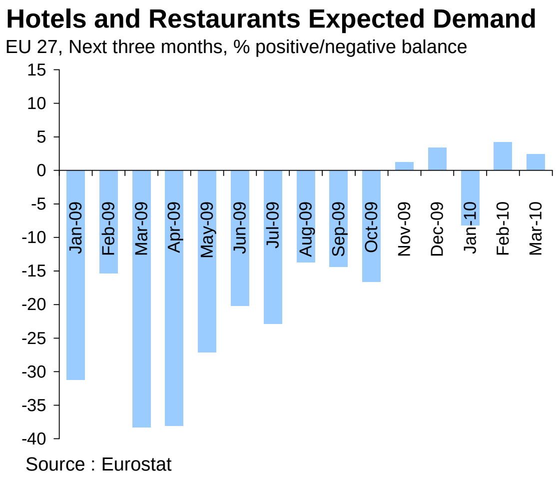

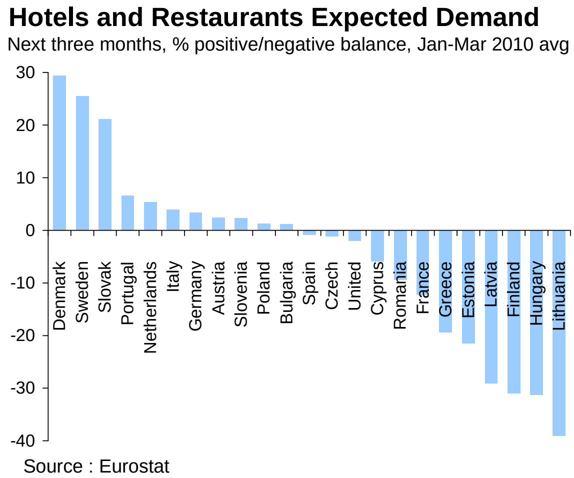

Short-term Outlook

Nearly all of the data collected in recent months indicate that the recovery of tourism in Europe is underway. The trends established in the latter portion of 2009 are carrying into 2010. These early results, though positive, will be compared with the lowest levels of 2009 in the first half of the year.

While long haul markets are expected to improve in line with the economic recovery, we expect that trends within Europe will continue to drive results for 2010. While intra-European travel should buoy most destinations, any shock to already fragile European economies could reverse the recovery within the year. Among the important risks is the unwinding of fiscal and monetary stimulus and the risk of increased taxation as governments try to get budgets under control.

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Travellers continue to hold off on advance planning in the hopes of finding travel deals. Thus, knowledge gained from advance bookings is of limited use beyond the month ahead. If the travel recovery is unable to gain momentum into the beginning of the peak summer season, growth will be tenuous for the second half of the year. Nonetheless, travel to European destinations is expected to grow a moderate 2.4% for the year.

The industry sentiment indices confirm our current outlook for the region. As of the March 2010 survey, a majority of countries across all related tourism sectors were expecting improvements over the coming three months.

Expectations Rankings							
Demand next 3 months (March survey)						Destination Opportunity Index	
Hotels & Restaurants		Travel Agencies		Transportation			
Country	% balance	Country	% balance	Country	% balance	Country	% change 2010
Denmark	40.0	Czech Republic	51.2	Sweden	30.7	Ireland	4.6
Sweden	32.3	Poland	37.5	Denmark	27.6	Cyprus	4.3
Slovak Republic	30.7	Sweden	35.7	Belgium	26.9	France	4.2
Bulgaria	17.9	Cyprus	31.0	Germany	26.0	Portugal	4.1
Netherlands	17.2	Denmark	29.3	Spain	23.1	Denmark	4.0
Germany	14.1	Germany	26.3	Italy	19.3	Malta	3.9
Italy	12.4	Spain	24.2	Slovenia	19.2	Sweden	3.9
Portugal	9.6	Netherlands	22.7	United Kingdom	18.9	Spain	3.9
Slovenia	9.4	United Kingdom	14.8	Netherlands	14.6	Switzerland	3.8
Poland	5.4	Finland	12.7	Bulgaria	11.9	Austria	3.8
Austria	4.1	Latvia	10.0	Cyprus	10.7	Norway	3.8
Spain	2.8	Italy	9.3	Portugal	10.1	Luxembourg	3.7
Cyprus	-3.9	Slovak Republic	8.5	Slovak Republic	7.0	Italy	3.6
United Kingdom	-6.3	Austria	3.7	Estonia	4.0	Belgium	3.6
Czech Republic	-7.1	Slovenia	3.7	Finland	2.5	Germany	3.5
Romania	-15.4	Bulgaria	-0.9	Austria	1.5	Bulgaria	3.4
Latvia	-17.3	Portugal	-5.2	Hungary	0.3	Iceland	3.4
Estonia	-17.8	France	-13.2	Poland	-0.2	Netherlands	3.2
France	-18.0	Romania	-18.7	Romania	-2.9	Finland	3.2
Greece	-24.0	Greece	-19.2	Czech Republic	-3.1	Czech Republic	3.1
Hungary	-25.8	Lithuania	-28.4	Lithuania	-8.5	Slovenia	3.0
Finland	-28.1	Estonia	-28.5	Greece	-17.1	Poland	2.5
Lithuania	-37.3			Latvia	-21.2	Greece	2.4

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.

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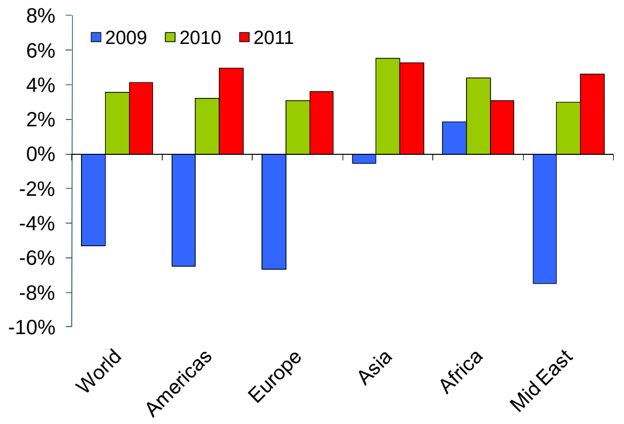
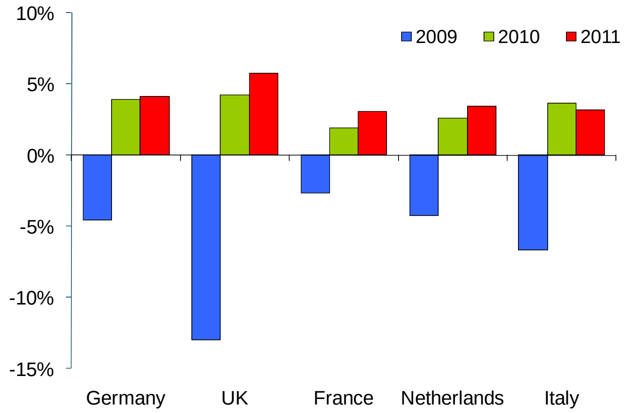
Forecast Charts

Inbound Travel Growth by Region (visits)
Annual % growth

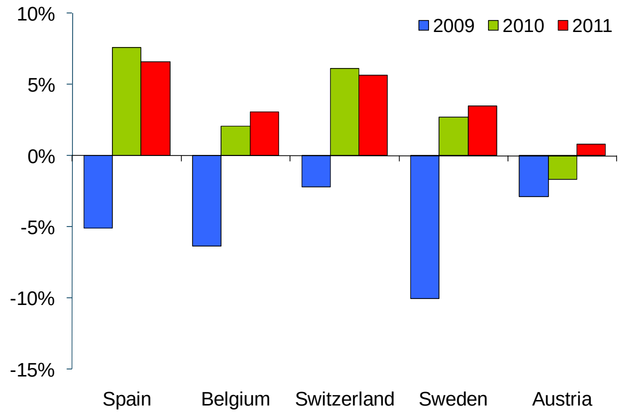


Visits by Origin Market: Western Europe (1)
annual % growth



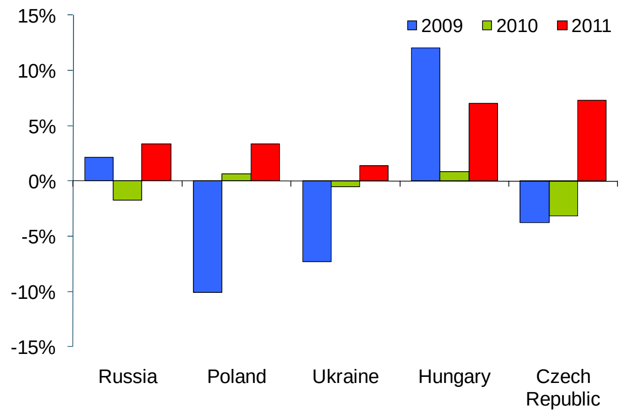
Source : Tourism Economics

Visits by Origin Market: Western Europe (2)
annual % growth



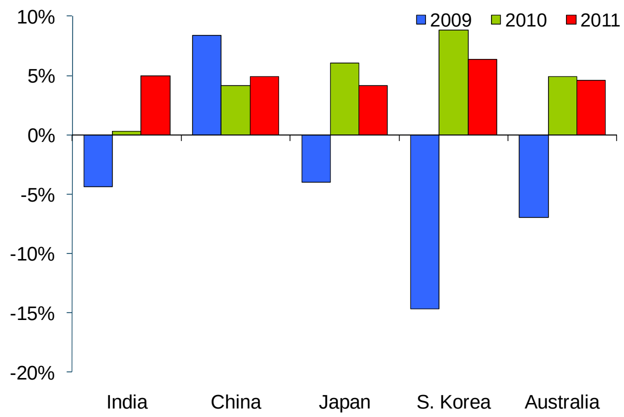
Source : Tourism Economics

Visits by Origin Market: Eastern Europe
annual % growth



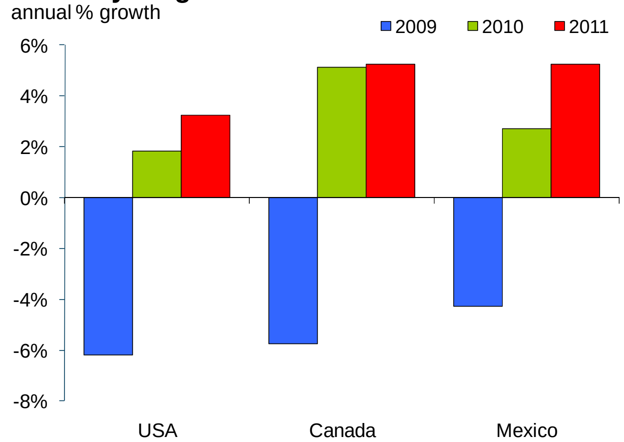
Source : Tourism Economics

Visits by Origin Market: Asia Pacific
annual % growth



Source : Tourism Economics

Visits by Origin Market: North America
annual % growth



Source : Tourism Economics

Economic Outlook for Key Markets

Eurozone

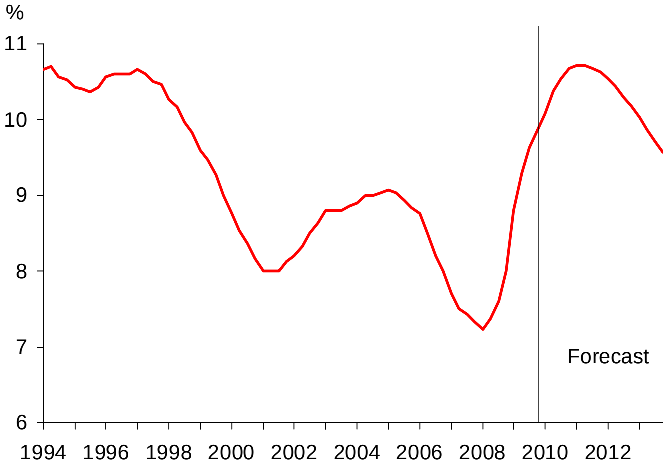
Weak economic growth is expected in the short term on account of unemployment and the end of stimulus measures

Detailed figures confirmed GDP growth for 2009Q4 at 0.1%, a marked slowdown from the 0.4% rise in the previous three months. They further revealed that domestic demand made a negative contribution to growth, as household consumption remained flat and investment contracted by 0.8%.

The early indications for 2010Q1 suggest growth remained modest. The overall PMI index was unchanged in February after easing in January, and domestic demand remains lacklustre; January retail sales were down 0.3% and the February services PMI (which closely tracks consumption) continued to decline after the sharp fall in January – which had marked the end of a six month run of increases.

We expect domestic demand growth to remain weak in the months ahead and to be a major drag on the recovery in 2010. Stubbornly high unemployment and the end of some of the stimulus measures will depress disposable income, and consumption is expected to recover very weakly starting in the second half of this year. Consumer spending will remain flat for the year as a whole, after the 1% fall posted in 2009.

Eurozone: Unemployment



Source: Oxford Economics

Investment, too, will recover only in H2 but will remain 1% below its 2009 level in 2010 as a whole. Despite the recovery in industrial production seen during the second half of 2009, capacity utilisation in 2010Q1 remained at 72%, not far from the all time low reached in 2009Q3 - and well below the level consistent with a rapid pickup in capital spending.

The manufacturing sector looks to be in good condition, thanks in large part to export demand. January industrial output rose 1.7% on the month, and in November and December foreign orders increased by over 3% per month on average. A further pick-up in external demand during the year should lift exports, and the recent depreciation of the euro may provide some additional help.

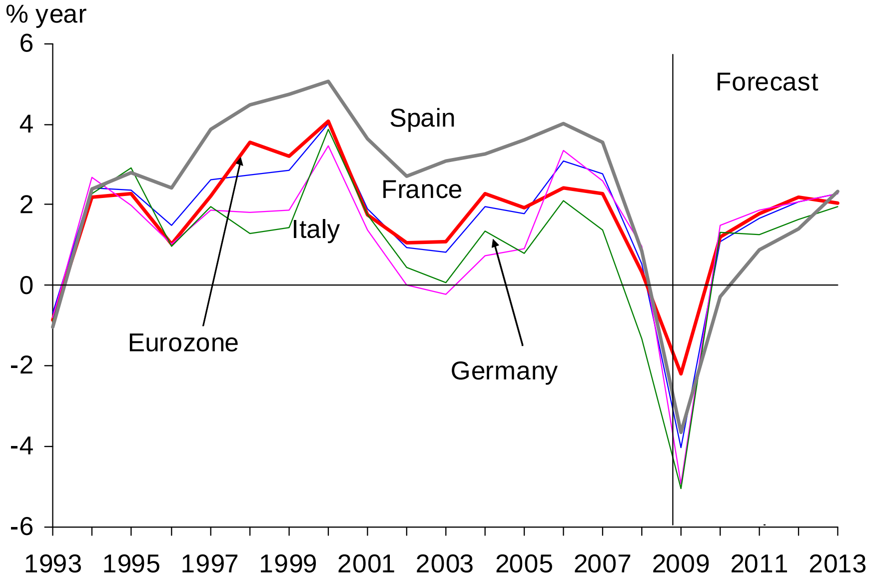
We forecast GDP to expand by 0.1% during Q1. Growth should gather momentum during the second half of the year, driven mainly by net trade, but for 2010 as a whole we foresee GDP expanding by just 1%.

Increasing signs of divergence between 'core' countries and southern 'peripheral' members

There are increasing signs of divergence between the growth paths of the core Eurozone countries and the southern 'peripheral' members. The overall PMI indices for France and Germany have recovered all the losses suffered during the slump and are at levels consistent with reasonable economic growth. Meanwhile, the Spanish PMI still points to a contraction in output, while the PMI for Italy points to only very weak growth.

Our forecast for 2010 expects Germany and France to post growth rates of 1.5% and 1.2%, respectively, as the positive effects of fiscal stimulus are progressively augmented by an expansion in exports and a gradual strengthening of domestic demand.

Eurozone GDP growth



Source: Oxford Economics

The prospects for Spain and Portugal are less optimistic. The collapse of the property sector is proving a bigger-than-expected drag on Spanish domestic demand, overwhelming the large fiscal stimulus. As a result, Spain is forecast to post another year of negative growth in 2010, with GDP contracting 0.3%. Should bond market jitters induce a faster-than-expected fiscal consolidation, even this outcome could be undershot. Meanwhile, subdued domestic demand will limit Portugal's growth to 0.8%.

Italian GDP is expected to grow by just 0.8%. Historically weak real income growth, compounded by rising unemployment, will drag down consumption. This will not be offset by any fiscal stimulus, as the high level of debt has obliged the government to maintain a very cautious fiscal stance. Like the other southern European countries, weak cost competitiveness will also prevent exports fully benefitting from the recovery in world trade.

The uneven path of recovery across the Eurozone countries could be exacerbated by monetary policy decisions going forward. While the ECB will be

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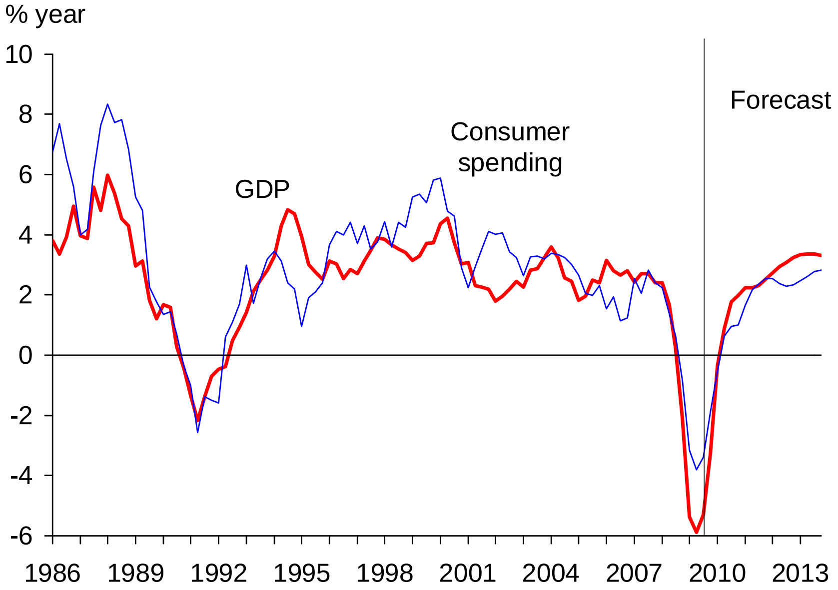
obliged to start raising rates based on developments in the Eurozone as a whole, the tightening of policy could well come 'too soon' for the peripheral states.

UK Economy

Recovery in the UK will trail that of the early 1990's recession

We continue to expect a gradual upturn, weaker than the recovery from the recession of the early 1990s. UK GDP is expected to grow a tepid 1.1% in 2010. With consumers continuing to retrench, businesses having little incentive to invest and the fiscal squeeze on the way, a strengthening export performance will be key to the recovery becoming entrenched.

UK: GDP and consumer spending



Source: Oxford Economics

Though retail sales, trade and manufacturing output were all disrupted by January's poor weather, surveys reported a strong rebound in February. We expect to see a similar profile to previous cold snaps where initial disruption is followed by a period of catch up, with the net effect on output being negligible.

The ONS has revised up its estimate of growth in 2009Q4, bringing it a little closer to the strong survey data, but in general a sizeable gap between the business surveys and official output estimates remains. And downward revisions to previous quarters mean that the peak-to-trough decline in output is now estimated to have been 6.2%.

CPI inflation hit a fourteen-month high of 3.5% in January, driven upwards by the impact of the VAT rise and base effects related to petrol prices. However, RPIY – which excludes indirect taxes – fell sharply, suggesting weaker underlying price pressures. We expect inflation to drift down as the massive amount of spare capacity exerts an increasing influence. This should allow interest rates to remain on hold for the remainder of this year.

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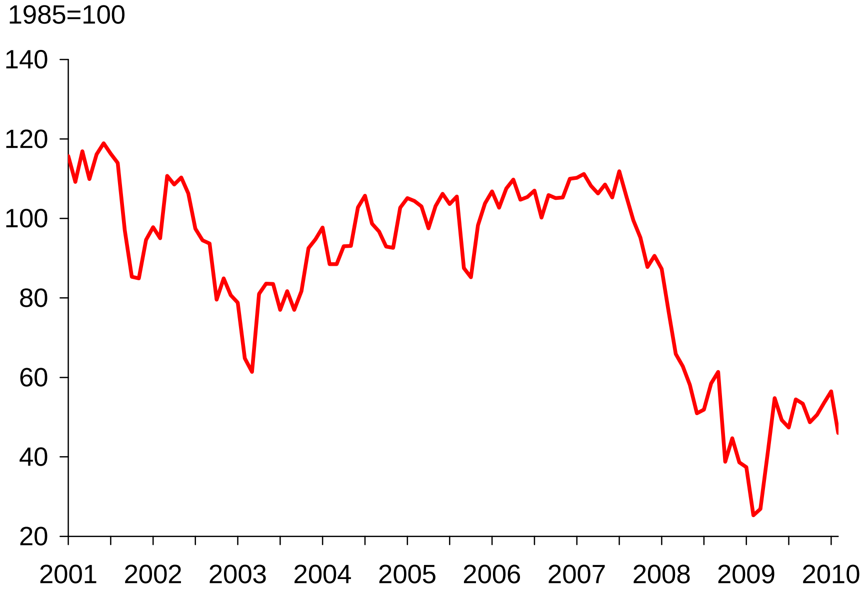
US Economy

The inspired growth seen in the last quarter of 2009 will moderate through this year.

There is no doubt that the economy is in recovery – expansion at an annual rate of 5.9% in 2009Q4 after 2.2% growth in Q3 certainly qualifies as such. The recovery continues to progress at an uneven pace across sectors. The manufacturing sector appears to be leading the rest of the economy in the upswing, while construction remains a particular problem. Consumer spending is picking up, despite very low levels of confidence, and while state and local government spending remains constrained, federal spending is expected to rise.

Consumer confidence



Source: Conference Board

The housing market has probably bottomed, but while there have been some improvements in home prices and sales there has been no recovery in homebuilding. Meanwhile nonresidential construction has now turned down and with vacancy rates high as a result of bankruptcies and business closures during the recession, the downturn has further to go.

With core inflation quite low and the economy still vulnerable, the Federal Reserve is expected to keep its target rate extremely low for several more months. However, it has been removing many of the extraordinary measures it had put in place during the crisis, and will want to return rates to more normal levels. That process is expected to begin by the end of the summer.

Economic growth is expected to moderate in 2010 from the pace in 2009Q4. This will reflect a fading contribution from stockbuilding, even as stockbuilding finally turns positive. In addition, while fiscal stimulus spending will continue, it will not increase, and so its impact on growth will decline. And as the economy recovers, demand for imports will strengthen, leading net exports to become a mild drag on growth in the second half of 2010. GDP is expected to advance at a 3.8% annual rate in 2010Q1, 3¼% in Q2, and between 2.5% and 3% in the second half. For 2010 as a whole, growth is expected at 3.4%.

Emerging Markets

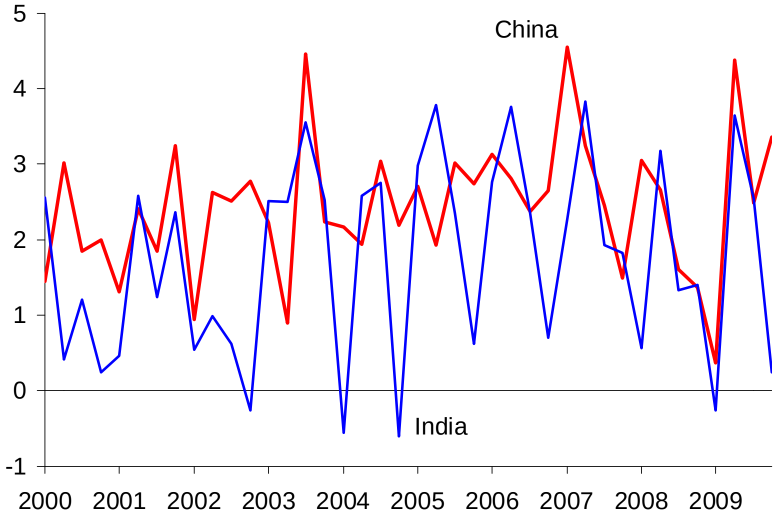
The latest economic data from Asia continue to suggest that the region-wide recovery remains intact.

Chinese data may be rather volatile during the first half of 2010 as the economy adjusts to less accommodative macro policies. However, the latest information from the other Asian economies – many of which are now very heavily influenced by developments in China – continues to suggest that the region-wide recovery remains intact. Although levels of seasonally adjusted industrial output in Korea, Taiwan and Thailand did not rise in January, the considerable gains seen in December were largely maintained. And business confidence measures continue to point to ongoing optimism about prospects. In addition, having fallen in January, Korean exports bounced back in February.

This follows on from generally much stronger-than-expected GDP growth in Q4; Taiwan grew by 4.2% on the quarter, Thailand 3.6% and Hong Kong 2.3%. And in all three, consumer spending grew by more than 2% on the quarter, while investment also rose significantly in several countries in the region, including Korea. However, with the pull from China likely to moderate somewhat, and the pick-up in trade with developed economies expected to occur at only a steady pace, quarterly GDP growth will be more modest during 2010 than was the case in 2009Q2-Q4. Notwithstanding this, positive base effects should ensure that

China and India: GDP

Quarterly % change (seasonally adjusted)



Source: Haver Analytics / Oxford Economics

many countries in the region achieve 5-6% growth in 2010.

By contrast, Indian GDP growth was weaker than anticipated in Q4, up only 6% year-on-year compared with 7.9% in Q3. However, this slowing should not be over-interpreted, as the quarterly GDP numbers are fairly erratic and growth for calendar 2009 was a still more than respectable 6.4%. Moreover, data on industrial production, the PMI surveys, car sales and imports all suggest a strong start to 2010 and, unlike in East Asia, growth should actually gain

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momentum through the year, particularly if food price-driven inflation falls back (which would boost consumers' purchasing power).

Turkey and Brazil continue to show reassuring signs of recovery.

Brazilian GDP figures for Q4 have yet to be released, but retail sales volumes and industrial output were up 2.5% and 3.8%, respectively, pointing to a solid rise in GDP. Meanwhile, falling unemployment in January and sharply rising external trade flows (particularly imports) suggest healthy momentum at the start of 2010. Having been one of the hardest-hit leading emergers, Mexico saw GDP bounce back strongly in H2, growing by 2.5% on the quarter in Q3 and 2% in Q4.

Turkey, another emerging economy severely battered by the global crisis, continues to show reassuring signs of recovery – in particular rising bank lending and business confidence (though heightened tension between the government and the military is a concern). But as in Brazil and India, the pick-up has also led to deteriorating external accounts. If this development persists, it is likely to at least blunt the impact on exchange rates of the tightening in interest rates expected in all three later this year.

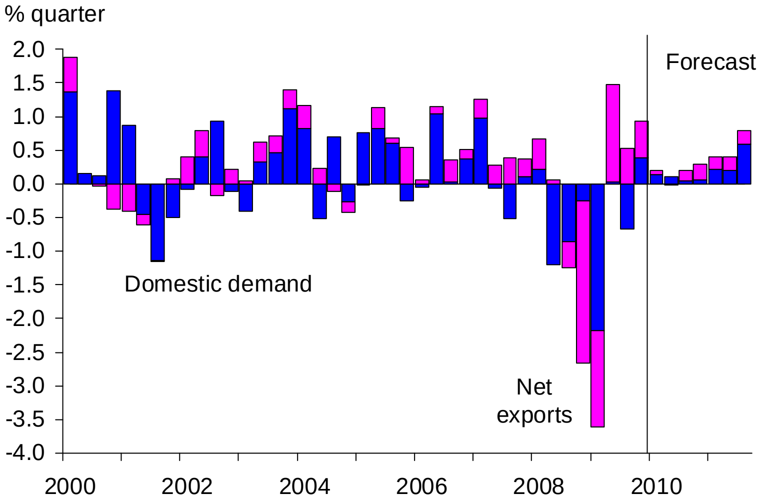
Compared to Asia, Latin America and even South Africa, the situation in CEE remains much more subdued. Although the two largest economies, Russia and Poland, both probably grew in Q4, many other countries in the region struggled under the combined influence of faltering Eurozone demand and tightening fiscal policy. GDP fell on the quarter in Czech, Hungary and Romania, while weakness in retail sales volumes was even more widespread (with only Russia bucking the trend in recent months).

Japan

The pace of growth in Japan will moderate this year to 1.5% with 1.6% GDP growth expected in 2011.

Japanese GDP growth for 2009Q4 was revised down slightly to 0.9%, but remained relatively robust. This was due to strong exports and improved private consumption. January saw improved readings for a number of key aggregates, but we still doubt that the pace of growth seen at the end of 2009 can be sustained, and expect growth this year at a moderate 1.5% with 1.6% growth in 2011.

Japan: Contributions to GDP growth



Source: Oxford Economics

With external demand still strong thanks to rapid growth elsewhere in Asia, industrial output rose a solid 2.7% on the month in January. But the PMI index for February and manufacturers' forecasts suggest some deceleration in growth is likely in the rest of 2010Q1. If export demand remains strong, this should eventually seep into an improved trend for investment. For the moment, however, capital spending remains weak in the face of substantial spare capacity.

Outside manufacturing, the picture remains less upbeat, although recent indicators have been mixed. Consumer spending is showing some signs of recovery, and will be helped by an improving trend in the labour market. But the services PMI still points to sluggish business conditions. Deflation remains a major issue, with the government putting renewed pressure on the Bank of Japan in recent weeks to loosen policy further. The Bank of Japan, meanwhile has urged fiscal restraint.

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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

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