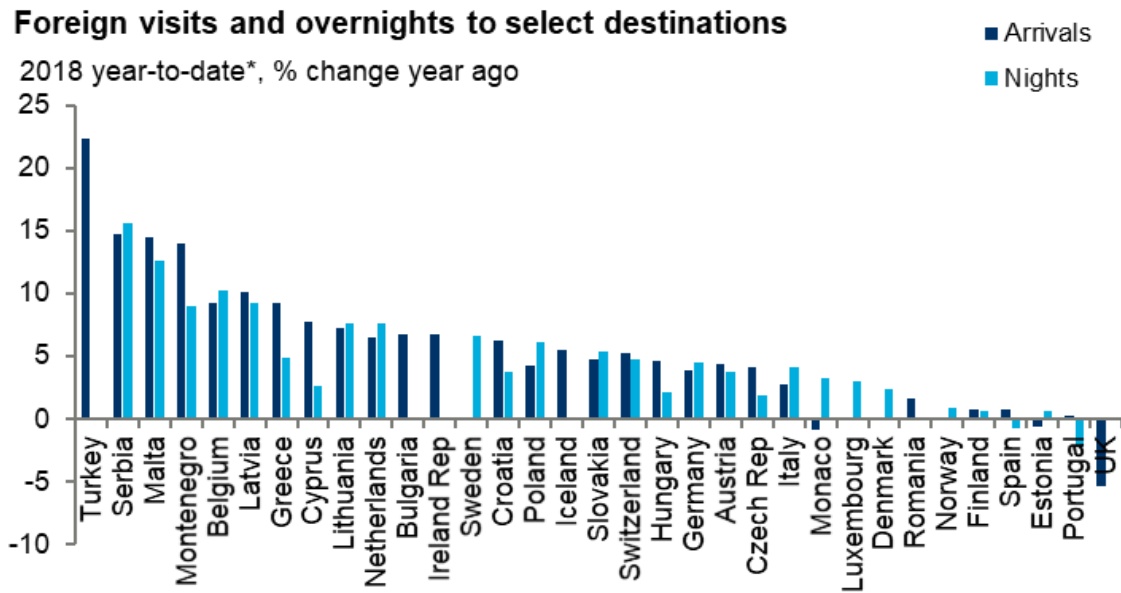


European Tourism – Trends & Prospects

Executive Summary

European tourism growth in 2018

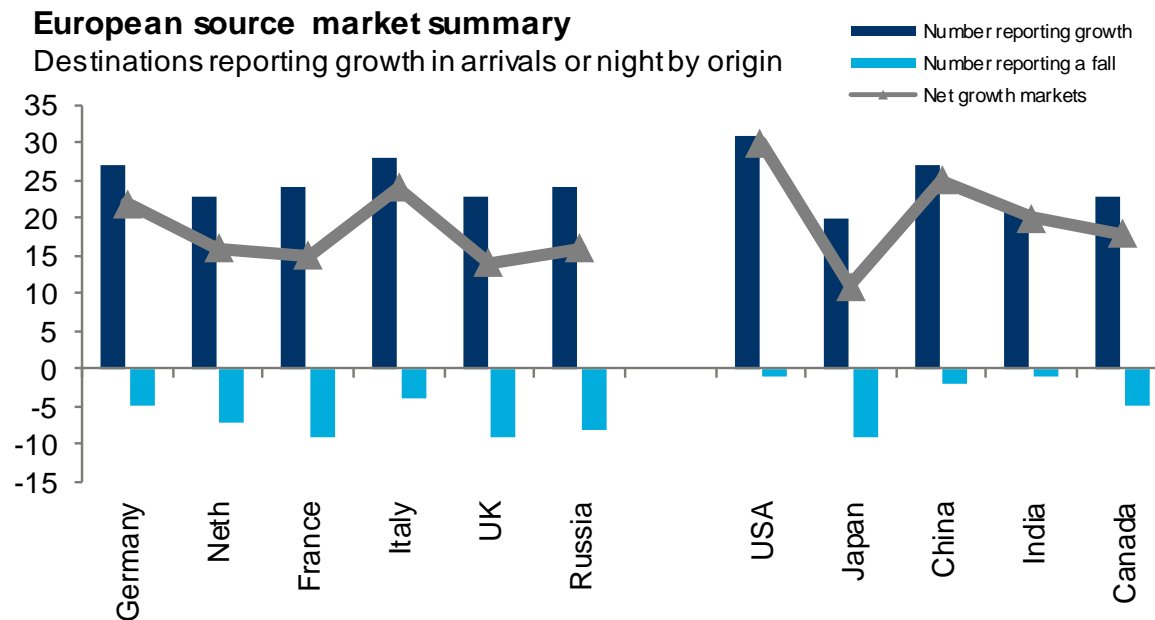
- European tourism demand remained on solid footing with a 6% upswing in international tourist arrivals in 2018 over a year ago, despite some downside risks steaming from trade tensions, uncertainty surrounding Brexit, and an economic slowdown in the Eurozone and China.
- Travel to Turkey (+22%) remains stellar driven by a wide range of source markets and a depreciating lira. Serbia continues to benefit from its visa-free access to Chinese passport holders while Malta's efforts to consolidate its position as a year-round destination are materialising (both +15%). Montenegro (+14%) saw solid results thanks to promotional activities carried out in priority markets and good air connections.



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

Intra-regional and long-haul source markets both contribute

- A clear majority of destinations have reported growth from all key source markets according to latest available arrivals data.
- More destinations reported declines from the UK than from any other key source market. The weak pound due to ongoing Brexit-related uncertainty have had a clear impact on outbound travel demand
- Conversely, more destinations reported growth from the US than from any other key source market. Outbound travel growth from the US has been aided by various economic tailwinds, including a strong dollar, however these are dissipating.



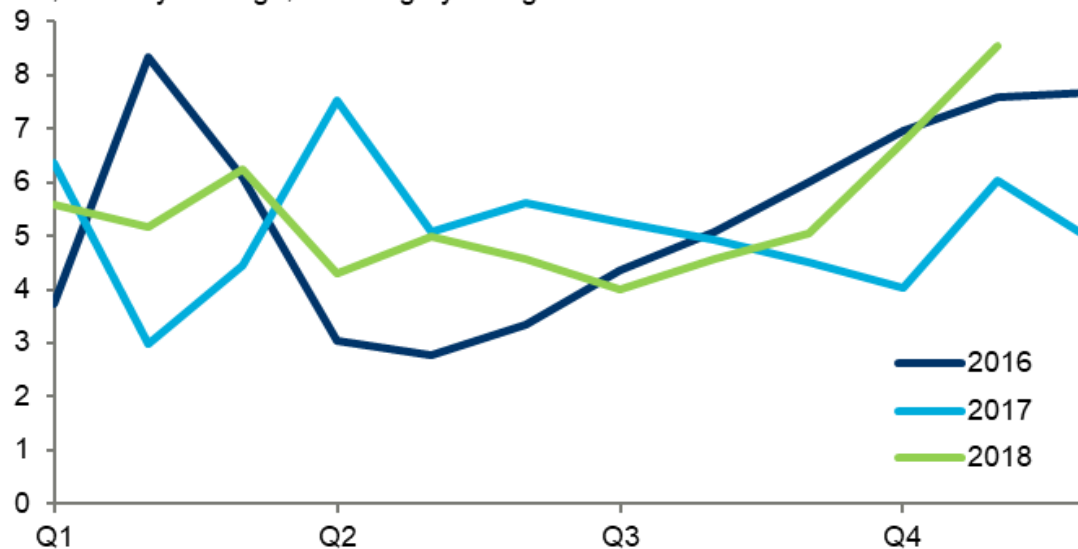
Source: TourMIS, Tourism Economics

Much needed air capacity growth

- Passenger load factors in Europe remain the highest of any global region, but some convergence on 2017 levels came at the end of 2018 through some much-needed ASK growth.
- This growth suggests that capacity constraints were not as bad as feared and further discounting is possible as Europe's low-cost carriers (which account for a significant proportion of ASK in Europe) vie for market share.
- European RPK growth accelerated to 6.5% growth against slowdown in economic growth. This suggests that the end of 2018 may have been a period of strong growth for Europe – in the absence of more concrete arrivals data to date.

European Airlines Capacity

ASK, monthly average, % change year ago



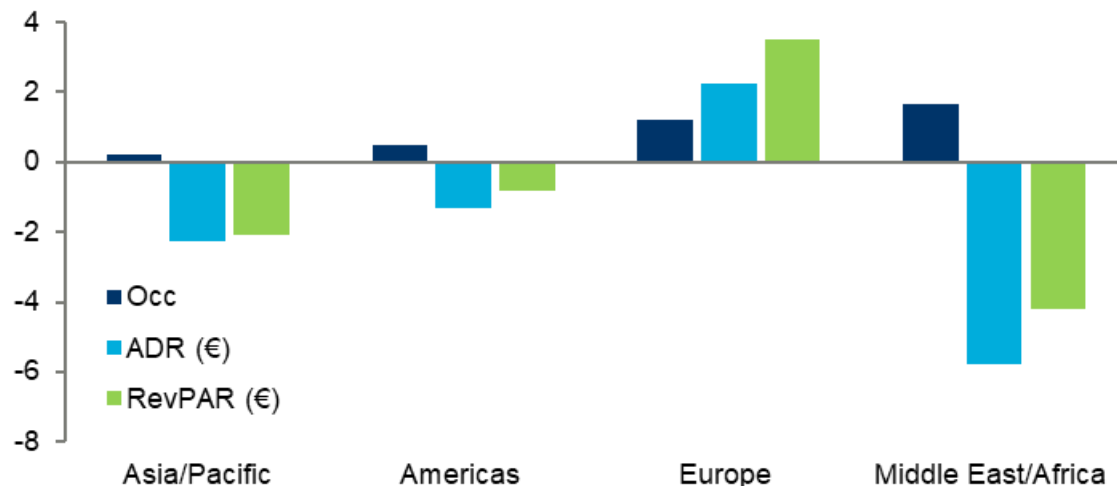
Source: IATA

Europe outperforms

- Europe was the only world region to report growth across all key hotel performance indicators based full-year data for 2018 (and priced in euro terms). Occupancy grew 1.2% and ADR grew 2.3%, yielding 3.5% growth in RevPAR compared to 2017.
- Lower pricing was evident in shoulder months to drive demand in these periods, however, ADR growth has now returned as the chief driver of RevPAR growth in Europe, as some apparent capacity constraints in key markets limit the scope for further occupancy growth as hotel demand lags arrivals growth.

Global Hotel Performance

Jan-Dec year-to-date, % change year ago

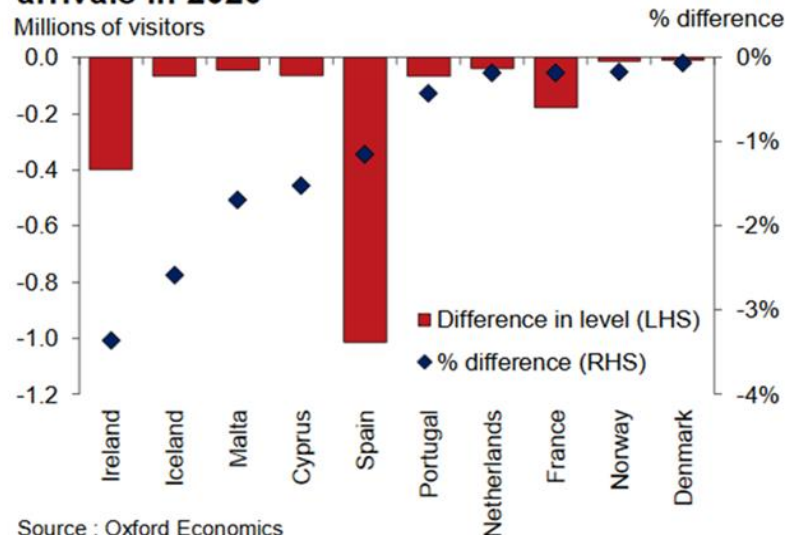


Source: STR

Impacts of a 'No Deal' Brexit

- Following the heavy Parliamentary defeat of the Prime Minister's Withdrawal Agreement on the 15th January 2019, the current status of Brexit is uncertain. The default position remains that the UK will leave the European Union on 29th March; a negotiated exit currently remains the most likely outcome, but there remains a high probability of a 'No Deal' exit.
- Weaker sterling under 'No Deal' could mean that UK tourism inflows would be 4% higher. However, with additional impacts included from sentiment and disrupted market access, Oxford Economics (OE) foresee a net negative impact.
- Including the effects of additional impacts, UK outbound tourism would decline by 9% relative to baseline with more than 8 million fewer outbound trips. Spain and Ireland are the two countries most affected by a 'No Deal' Brexit. For the majority of European countries, the overall volume impacts would be smaller

Europe: Impact of "no-deal" Brexit on inbound arrivals in 2020



Economic outlook

- Global travel demand has continued to grow faster than economic growth in 2018, with a clear uptick in air travel demand in late-2018. But some slowdown compared to prior years is evident, inline with global economic activity. While the downside risks to the global GDP growth outlook have clearly risen, OE maintain the baseline forecast for 2019 is little changed at 2.7%, down from 3% in 2018.

Summary of economic outlook, % change year ago*

Country	2019					2020				
	GDP	Consumer expenditure	Unemployment *	Exchange rate***	Inflation	GDP	Consumer expenditure	Unemployment **	Exchange rate***	Inflation
UK	1.7%	1.5%	0.1%	1.0%	1.7%	2.0%	1.8%	-0.1%	2.1%	1.7%
France	1.6%	1.4%	-0.5%	0.0%	1.3%	1.7%	1.3%	-0.5%	0.0%	1.4%
Germany	1.4%	2.0%	-0.3%	0.0%	1.7%	1.6%	1.9%	0.0%	0.0%	1.8%
Netherlands	1.8%	1.6%	-0.2%	0.0%	2.0%	1.6%	1.6%	0.1%	0.0%	1.7%
Italy	0.3%	0.4%	0.0%	0.0%	0.9%	0.8%	0.7%	-0.1%	0.0%	1.6%
Russia	1.4%	1.0%	0.0%	-3.7%	5.2%	1.6%	1.9%	-0.1%	-2.1%	4.3%
US	2.5%	2.8%	-0.3%	0.5%	1.7%	1.9%	2.0%	-0.1%	-4.1%	2.0%
Canada	1.6%	1.6%	0.0%	1.4%	2.3%	1.2%	1.6%	0.1%	-3.1%	2.4%
Brazil	2.3%	2.2%	-0.8%	-1.1%	3.6%	2.6%	2.9%	-1.5%	-4.3%	4.1%
China	6.1%	6.8%	0.1%	-2.7%	2.1%	5.8%	6.5%	0.0%	-0.4%	2.4%
Japan	1.0%	1.2%	-0.1%	3.4%	1.1%	0.3%	-0.2%	0.1%	-4.0%	1.6%
India	7.3%	7.2%	0.0%	-0.4%	4.2%	7.0%	7.3%	0.1%	-3.6%	5.4%

Source: Tourism Economics

* Unless otherwise specified

** Percentage point change

*** Exchange rates measured against the euro. A positive change indicates stronger local currency against the euro and therefore a positive impact on outbound tourism demand. A negative change indicates weaker local currency against the euro and therefore a negative impact on outbound tourism demand.