EUROPEAN TOURISM - TRENDS & PROSPECTS

QUARTERLY REPORT - Q4/2022

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM: TRENDS & PROSPECTS

Quarterly report (Q4/2022)

A report produced for
the European Travel Commission
by Tourism Economics

Brussels, February 2023

ETC Market Intelligence Report

EUROPEAN TOURISM: TRENDS & PROSPECTS (Q4/2022)

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Cover: Icelandic landscape with a white house under the mountain at Arnarstapi village, Snaefellsness peninsula, Iceland
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FOREWORD

Travel enthusiasm remained strong in 2022, allowing European tourism to continue its path to recovery. However, this wasn't without challenges along the way, including a weaker economic environment, staff shortages, flight disruptions, inflationary pressures, geopolitical conflicts and elevated oil and food prices (among others). Therefore, what we can conclude is that people still want to, and will, travel regardless of what the economy brings. Exploring destinations has been prioritised and has become an integral part of people's lifestyles, especially following three years of travel isolation due to the Covid-19 pandemic.

Travel, however, might look slightly different as consumers will now plan carefully to navigate economic challenges. Foreseeable changes are reducing length of some trips, cancellation of secondary trips, opting for budget-friendly destinations, exploring ways to save during holidays (e.g., on type of accommodation, restaurants, etc.) and travelling during shoulder months.

Experts are confident that the strong tourism bounce back will continue well into 2023, although at a slower pace than expected. Europe's travel rebound will still be driven by short and medium-haul travel within the region. However, all eyes now seem to be on the recovery of long-haul markets. Transatlantic travel is expected to continue making significant contributions to European destinations while there is strong optimism around the return of Asia Pacific visitors. According to our most recent research, over 60% of potential travellers in Australia, Brazil, Canada, China, and the US intend to travel long-haul in 2023, and travel intention to Europe for the first four months of the year is significantly stronger than a year ago in China (+21 points) and Brazil (+13 points).

The most recent edition of the *European Tourism Trends & Prospects* quarterly report provides a comprehensive analysis of the region's latest tourism and macroeconomic developments. This issue covering the fourth quarter of 2022, analyses the ongoing challenges faced by travel and tourism and their impact on the tourism outlook for 2023 and beyond. Moreover, the special feature focuses on the return of overseas travel with special attention on Europe's largest long-haul source markets.

Jennifer Iduh
Head of Research & Insights
European Travel Commission (ETC)

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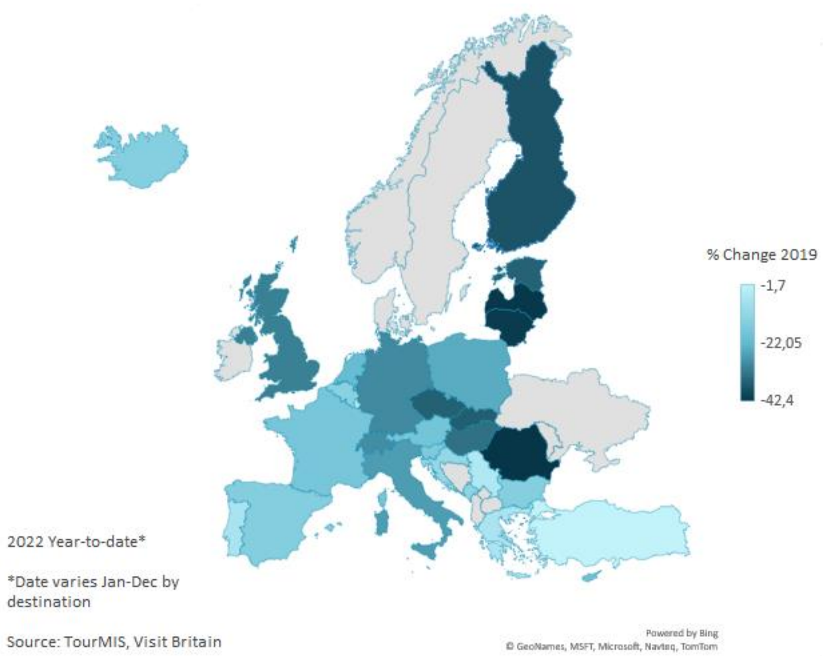
TRAVEL ENTHUSIASM HELD STEADY TOWARDS THE END OF 2022, ALTHOUGH EUROPEAN TOURISM IS NOT YET OUT OF THE WOODS.

European travel recovery persisted in the third quarter of 2022, held up by a strong pent-up demand that could have extended the summer season due to excess savings during the pandemic. Moreover, an unusually warm winter allowed households to reduce gas consumption, which favoured maintaining stocks in most European countries and drove down gas prices to pre-Ukraine war levels.

Foreign Visits to Select Destinations



Risks, however, remain skewed to the downside due to the ongoing war in Ukraine, the geopolitics-induced energy crisis, high and persistent inflation showing little signs of abating and a looming economic recession. Despite less favourable conditions, European tourism managed to weather the storm, with the latest data indicating a recovery of 75% of 2019 travel volumes in 2022. Looking forward, international travel to Europe is still forecast to achieve pre-pandemic levels in 2025, while domestic travel will do so in 2024.

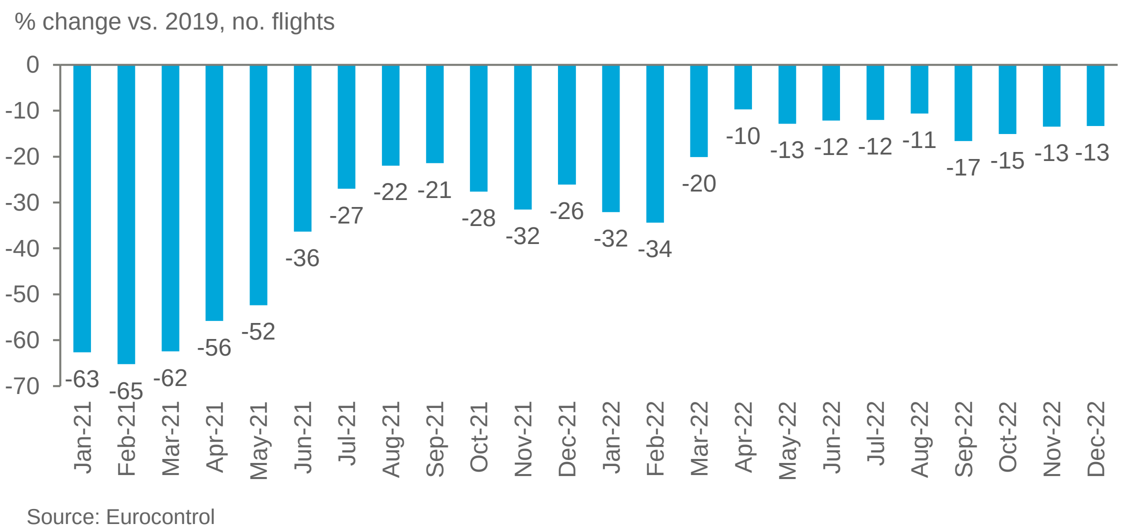
Year-to-date data shows that almost one in two reporting destinations have recovered more than 80% of their pre-pandemic foreign arrivals. Southern Mediterranean destinations posted the fastest recovery as the year ended. High prices spurred the attractiveness of more affordable destinations, with holidaymakers flocking to Türkiye (-2%) to benefit from a weaker lira. Serbia (-6%) and Portugal (-7%) are also approaching 2019 levels, the former supported by more relaxed entry rules attracting mostly Indian and Russian arrivals. Croatia (-11%), Monaco and Montenegro (both -12%) also saw a strong comeback. The heaviest drag to recovery in Eastern Europe continues to be the war in Ukraine and thus the lack of Russian visitors to destinations heavily reliant on this market. Sharpest declines are observed in Finland (-38%), Lithuania, Latvia, and Romania (all -42%).

EUROPEAN AVIATION AND HOTEL PERFORMANCE PROVED RESILIENT IN 2022 DESPITE HEADWINDS

The recovery of European air passenger volumes is still driven by domestic travel. However, international travel has been slowly narrowing the gap throughout 2022 as restrictions were lifted and air routes reopened.

European international air traffic showed a rapid improvement, with flight volumes 13% lower than in 2019 in November and December last year, already signalling some stability. Load factors spiked at 78% in November, while European RPKs[1] (down 17.1% over 2019) continued to outperform global RPKs (-26.3%) based on data to November. This is attributable to flight connections being restored and rapid capacity growth. However, North America is the best-performing region, with RPKs down by just 6.1% on 2019 levels.

Flight Volumes in European Network Area



Despite a slowing macroeconomic environment and a drop in purchasing power, European hotel performance was the best across world regions. High occupancy (49.4%) levels and ADR[2] (26.6%) returned an 89.2% RevPAR increase over the prior year.

OPTIMISM EMERGED THROUGHOUT 2022 IN ASIA/PACIFIC SOURCE MARKETS

Travel demand from Asia/Pacific to Europe is poised to rebound in 2023 as the region broadly reopened over the second half of 2022. Encouraging news came with the announcement of the end of the three-year-old "zero-covid" policy in China on 7 December 2022, although this should be treated with caution. The reopening of China could boost economic growth globally and support travel recovery in terms of volumes and expenditure. However, fears that the reopening could result in a rise in inflation and Covid-19 cases emerged, with some EU destinations implementing testing and other requirements on travellers from China.[3] Nevertheless, experts anticipate a gradual return of Chinese travellers, from the second

[1] Revenue Passenger per Kilometre

[2] Average Daily rates

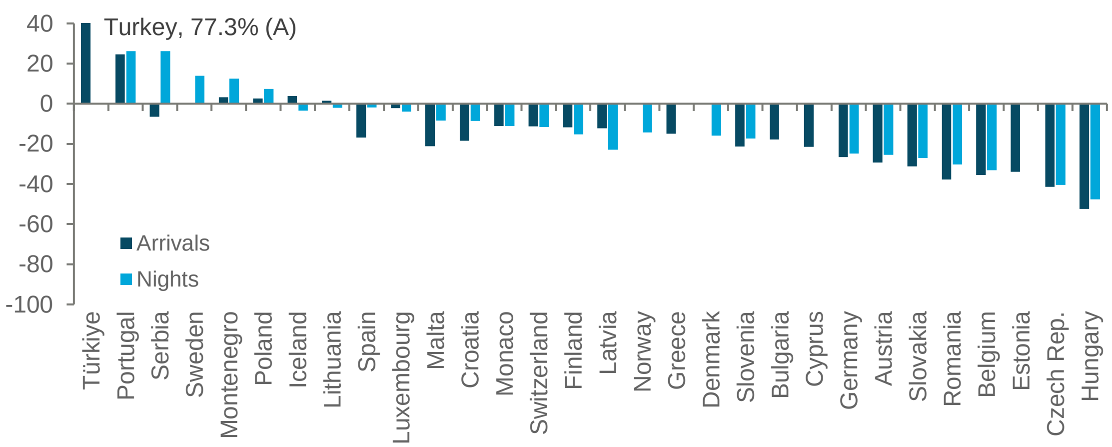
3 These countries include Cyprus, France, Germany, Greece, Italy, Latvia, the Netherlands, Portugal, Spain, and Sweden

quarter of 2023, who will have to face constraints in terms of visas, passports, and air connectivity[4]. According to the latest ETC Long-Haul Travel Barometer, the main barriers to travel in the next 4 months among Chinese respondents are still strongly related to Covid-19 (e.g., safety concerns and paperwork[5]).

The US continues to lead the recovery of long-haul travel to Europe owing to short-lived and fewer travel restrictions and the strength of the dollar. Based on year-to-date data, almost one in four of reporting destinations saw US arrivals exceed 2019 levels. Arrivals from this market to Europe have reached 25% below 2019 levels in 2022 and are expected to recover 82% of 2019 volumes in 2023. Growth, however, might slow as the economic outlook points to a mild recession due to challenges associated with inflation, labour markets and consumer and business confidence, among others.

US Visits and Overnights to Select Destinations

2022 year-to-date*, % change relative to 2019 levels



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

"It is encouraging to see that Europeans are still eager to travel despite financial concerns. The main challenge today is to encourage European destinations and businesses to keep sustainability front of mind. As we continue to navigate the risks brought about by global uncertainty, it is crucial to deliver on promises made during Covid-19. Europe has to rebuild a sector that puts local communities and the environment at the centre of development. Tourism should strive to be a force for good for everyone–travellers, workers and citizens." said Eduardo Santander, Executive Director European Travel Commission (ETC).

Jennifer Iduh (ETC Executive Unit)
With the contribution of the ETC Market Intelligence Committee

4 China Outbound Tourism Research Institute (COTRI)
5 ETC Long-haul Travel Barometer (LHTB) 1/2023

1. TOURISM PERFORMANCE SUMMARY 2022

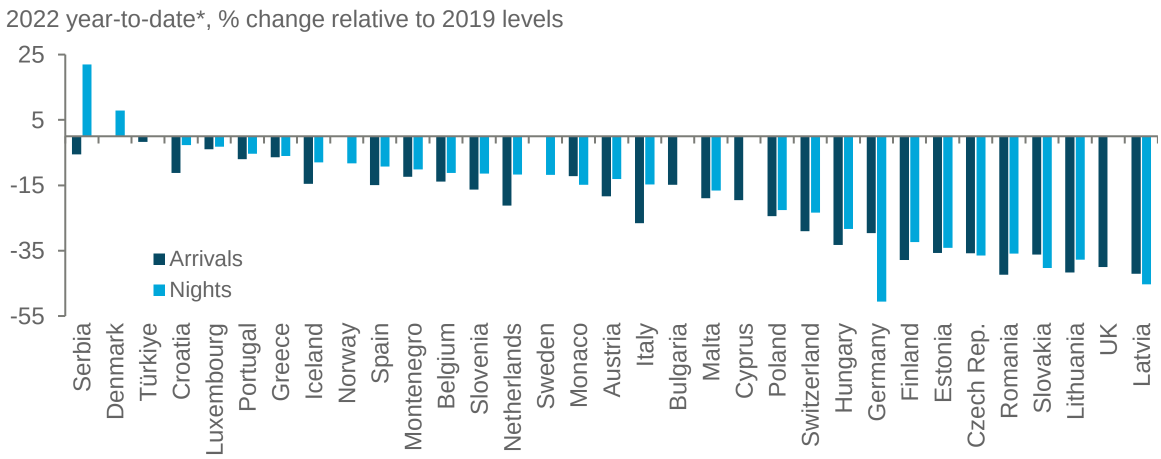
SUMMARY

- Travel continued to recover in late 2022 despite pricing concerns and a looming recession which is expected to have started in Q4 2022.
- The peak summer season was likely extended due to strong pent-up demand to travel as arrivals and nights remained strong through to Q4.
- Labour shortages across airline providers and strikes were the main cause of disruption throughout the second half of last year yet did not significantly dampen travel plans.
- The long-haul market, which continues to lag behind short- and medium- haul, saw a boost from the reopening of various borders during 2022. December's announcement of China reopening to international tourists should provide a further boost.

At the time of the last quarterly report, the European travel and tourism sector had experienced a more typical peak summer season and was firmly on the road to normalisation with most Covid-restrictions lifted. It was not without its challenges though, stemming from staff shortages across airlines, airports and hospitality establishments. A recent study by the ETC reported that 54% of surveyed holiday makers were affected , but for the majority such disruptions did not have a major negative impact on their holidays.

Over the last quarter of 2022 there has been an improvement in foreign arrivals. Out of the reporting countries, on average arrivals improved from -25.9% below 2019 levels to -20% below, reflecting a stronger outturn from September onwards. The data suggests that the summer season was extended, possibly due to strong pent-up demand for travel following years in lockdown and excess savings.

Foreign Visits and Overnights to Select Destinations



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

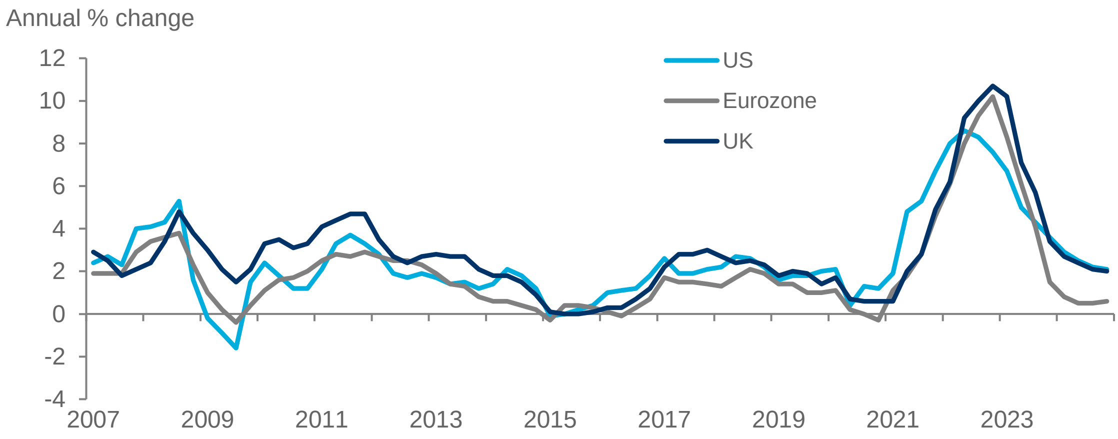
Within the reporting destinations, Serbia remains the outlier for both foreign nights and arrivals, building on its recovery from the last quarter. Some of this demand is likely coming from India due to its early adoption of more relaxed Covid-19 policies compared to the rest of the region. Further, circumstances in Ukraine had meant it has become a point of entry for

Russians wishing to avoid mobilisation. Türkiye remains a popular destination within Europe, with summer bookings benefiting from a weaker lira.

Last quarter's report highlighted the risk posed by inflation, particularly in terms of both energy costs (exacerbated very significantly by Russia's invasion of Ukraine) and necessities, such as food. Since then, inflationary prospects have slowly improved. A relatively warm winter across Europe has reduced the risk of gas rationing and has contributed to a slowdown in price rises.

Recent data suggests that peak inflation occurred in Q4 2022. eurozone consumer prices index (CPI) in December saw inflation fall below double-digit growth to 9.2%, down from 10.1% in November, representing a slower increase in prices than before. Higher prices will continue to impact the tourism sector through elevated jet fuel prices and higher operating costs for airlines and hospitality establishments. But this comes at a time when consumer discretionary spending is limited.

Headline CPI Inflation in the US, eurozone and UK



Source: Oxford Economics / Haver Analytics

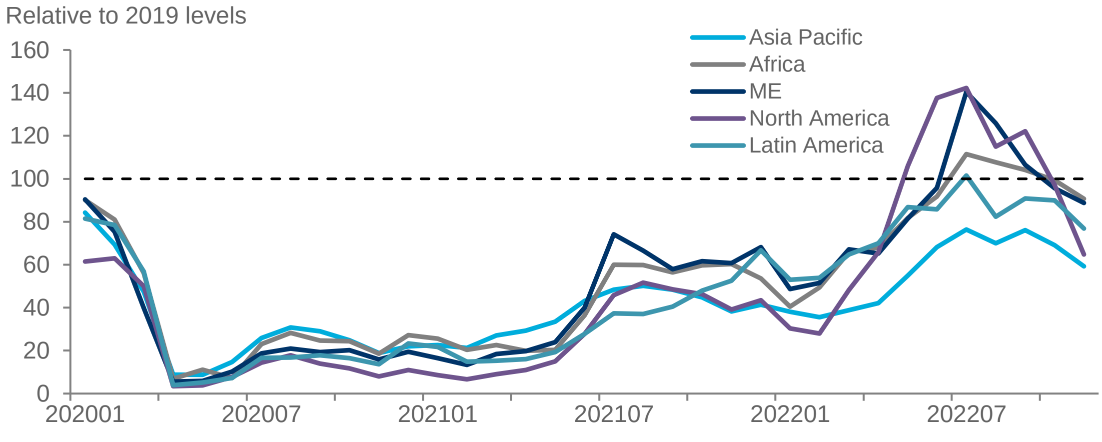
The recovery in travel has remained resilient overall in late-2022 due to strong pent-up demand following the pandemic and supported by excess savings accumulated during the same period. Despite the economic outlook becoming slightly more gloomy in the latter parts of the year, travel seemed shielded from this. A likely reason is that consumer spending preferences became more tilted towards the service sector and experiences as opposed to goods, a reversal of what we saw at the height of the pandemic. Even when inflation was gathering pace over the summer, survey data continued to highlight the resilience of the travel sector. As of September, 70% of Europeans said that they planned to travel in the following six months and more than half of respondents stated that they planned to travel at least twice.

The forthcoming mild recession in Europe adds to the wider impacts of the ongoing war in Ukraine in terms of economic risks and the squeeze on travel affordability. To date, the war has had a limited direct impact on European travel and tourism. Recovery of tourism demand within the Baltic States appears to be lagging that of other European destinations, largely due to the lack of Russian visitors accentuated in countries which have imposed visa restrictions on Russian visitors such as Finland.

Long-haul travel to Europe has been a key weakness to date in the post-pandemic rebound, driven by a delayed response among some Asia Pacific countries in reducing and removing Covid-19 restrictions. However, bookings data showed an uptick around the middle of last year which remained elevated through to November, largely originating from the Southwest Pacific and South Asia regions. Reopening in Australia in February 2022 came after a prolonged pursuit of zero-Covid and saw the most significant recovery in the second and third month as restrictions were dropped. This has had a positive impact on travel to Europe.

Chinese travel to the EU remains a weak spot. But the impromptu announcement by China on 26 December 2022 to reopen its borders in January 2023 is in contrast to last quarter where the reopening was expected to be more gradual. Nevertheless, some European countries have again imposed mandatory testing of Chinese arrivals. Based on the experience of Australia and Japan reopening after prolonged closure, the weak data of 2022 is likely to improve, although skewed towards the middle and second half of the year as China contends with high volumes of Covid-19 cases. There is now a considerable upside risk to the forecast recovery of outbound travel from China to Europe going into 2023 and 2024, more so than expected last quarter.

Passenger Airline Bookings from Long-haul Destinations to Europe



Source: OAG

Summary Performance, 2022 YTD vs. 2019

Country	International Arrivals		International Nights	
	% YTD	to month	% YTD	to month
Austria	-18.4%	Jan-Nov	-13.1%	Jan-Nov
Belgium	-13.9%	Jan-Sep	-11.2%	Jan-Sep
Bulgaria	-14.8%	Jan-Nov		
Croatia	-11.2%	Jan-Dec	-2.7%	Jan-Dec
Cyprus	-19.5%	Jan-Dec		
Czech Rep.	-35.8%	Jan-Sep	-36.5%	Jan-Sep
Denmark			7.9%	Jan-Nov
Estonia	-35.7%	Jan-Nov	-34.1%	Jan-Nov
Finland	-37.9%	Jan-Nov	-32.4%	Jan-Nov
France	-18.0%	Jan-Dec	-23.0%	Jan-Dec
Germany	-29.6%	Jan-Nov	-50.6%	Jan-Nov
Greece	-6.4%	Jan- Sep	-6.0%	Jan-sep
Hungary	-33.3%	Jan-Dec	-28.4%	Jan-Dec
Iceland	-14.6%	Jan-Dec	-8.0%	Jan-Nov
Italy	-26.6%	Jan-Sep	-14.7%	Jan-Sep
Latvia	-42.1%	Jan-Oct	-45.3%	Jan-Oct
Lithuania	-41.7%	Jan-Nov	-37.8%	Jan-Nov
Luxembourg	-4.0%	Jan-Nov	-3.2%	Jan-Nov
Malta	-19.0%	Jan-Oct	-16.6%	Jan-Oct
Monaco	-12.2%	Jan-Dec	-14.8%	Jan-Dec
Montenegro	-12.4%	Jan-Nov	-10.1%	Jan-Nov
Netherlands	-21.2%	Jan-Nov	-11.7%	Jan-Nov
Norway			-8.3%	Jan-Dec
Poland	-24.4%	Jan-Oct	-22.6%	Jan-Oct
Portugal	-7.0%	Jan-Nov	-5.3%	Jan-Nov
Romania	-42.4%	Jan-Nov	-35.9%	Jan-Nov
Serbia	-5.5%	Jan-Nov	22.0%	Jan-Nov
Slovakia	-36.2%	Jan-Nov	-40.3%	Jan-Nov
Slovenia	-16.3%	Jan-Dec	-11.4%	Jan-Dec
Spain	-14.9%	Jan-Nov	-9.3%	Jan-Nov
Sweden			-11.8%	Jan-Nov
Switzerland	-29.0%	Jan-Nov	-23.4%	Jan-Nov
Türkiye	-1.7%	Jan-Nov		
UK	-31.0%	Jan-Aug		

Source: TourMIS (http://www.tourmis.info), Visit Britain

Measures used for nights and arrivals vary by country. Available data as of 1.2.2023

2. GLOBAL TOURISM FORECAST SUMMARY

Tourism Economics' global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of the Global Travel Service (GTS) model, which is updated in detail three times per year. Forecasts are consistent with Oxford Economics' macroeconomic outlook according to estimated relationships between tourism and the wider economy. Full origin-destination country detail is available online to subscribers.

GTS Visitor Growth Forecasts, % change year

	Inbound*					Outbound**				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
data/estimate/forecast	e	f	f	f	f	e	f	f	f	f
World	**-72.4%**	**8.0%**	**108.5%**	**15.5%**	**25.5%**	**-71.8%**	**6.3%**	**109.7%**	**15.9%**	**25.2%**
Americas	**-68.4%**	**9.2%**	**114.0%**	**12.9%**	**16.5%**	**-68.7%**	**10.8%**	**121.4%**	**11.6%**	**15.9%**
North America	-68.4%	1.8%	133.3%	12.5%	18.0%	-67.7%	11.6%	124.3%	11.6%	16.1%
Caribbean	-70.0%	89.3%	43.9%	13.5%	9.3%	-68.7%	37.3%	92.5%	12.8%	11.1%
Central & South America	-67.8%	-10.9%	125.5%	14.1%	16.2%	-72.3%	4.3%	112.2%	11.2%	15.6%
Europe	**-68.2%**	**24.0%**	**95.5%**	**4.0%**	**17.3%**	**-66.9%**	**19.2%**	**97.1%**	**6.1%**	**17.4%**
ETC+2	-67.4%	19.8%	107.3%	3.3%	16.2%	-66.0%	16.4%	108.2%	5.2%	15.7%
EU 27	-66.7%	13.7%	113.9%	4.9%	16.4%	-66.0%	14.9%	114.1%	5.6%	15.4%
Non-EU	-73.4%	71.1%	39.7%	-0.3%	21.5%	-70.7%	38.3%	33.4%	9.0%	28.8%
Northern	-69.8%	-6.6%	194.9%	1.9%	14.8%	-73.4%	-7.5%	232.7%	7.0%	16.3%
Western	-58.1%	-5.0%	101.9%	3.6%	20.0%	-60.9%	18.8%	89.4%	4.6%	14.0%
Southern/Mediterranean	-71.4%	58.7%	97.1%	1.2%	10.9%	-70.4%	24.8%	100.1%	9.4%	17.7%
Central/Eastern	-73.5%	34.4%	31.9%	16.0%	34.0%	-67.2%	37.9%	39.4%	3.6%	25.2%
- Central & Baltic	-72.4%	13.9%	97.9%	9.8%	24.8%	-62.1%	25.9%	77.9%	-0.4%	16.2%
Asia & the Pacific	**-83.6%**	**-64.6%**	**280.4%**	**94.4%**	**72.4%**	**-83.7%**	**-59.1%**	**236.3%**	**88.3%**	**70.3%**
North East	-87.4%	-49.9%	27.6%	215.6%	147.0%	-85.6%	-56.2%	99.8%	145.3%	108.7%
South East	-81.2%	-88.1%	1318%	81.1%	46.8%	-82.1%	-76.9%	727.8%	72.7%	40.3%
South	-76.0%	-29.9%	193.4%	33.6%	28.1%	-73.6%	-25.3%	159.7%	30.1%	25.8%
Oceania	-76.3%	-43.3%	229.9%	50.9%	31.0%	-82.7%	-67.7%	632.8%	44.2%	46.2%
Africa	**-74.0%**	**15.5%**	**86.1%**	**28.3%**	**24.9%**	**-70.4%**	**6.6%**	**82.0%**	**26.6%**	**22.8%**
Middle East	**-72.5%**	**15.0%**	**126.4%**	**21.2%**	**17.8%**	**-71.5%**	**48.4%**	**97.0%**	**17.5%**	**17.1%**

* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flows

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

The geographies of Europe are defined as follows:

Northern Europe is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

Western Europe is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

Southern/Mediterranean Europe is Albania, Bosnia-Herzegovina, Croatia, Cyprus, Greece, Italy, Malta, Montenegro, North Macedonia, Portugal, Serbia, Slovenia, Spain, and Turkey;

Central/Eastern Europe is Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovakia, and Ukraine;

Central & Baltic Europe is Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, and Slovakia;

ETC+2 is all ETC members plus Sweden, and the United Kingdom

Source: Tourism Economics based on GTS as of 1.2.2023

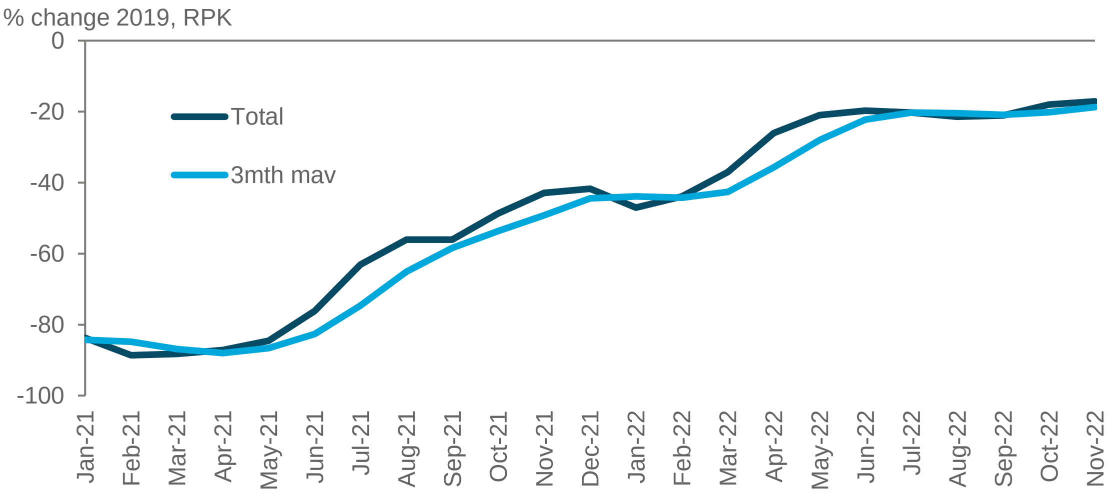
3. RECENT INDUSTRY PERFORMANCE

AIR TRANSPORT

Industry-wide revenue passenger-kilometres (RPKs) grew by 41.3% year on year in November 2022. That was slightly weaker than October but not on a seasonally adjusted basis. Globally, RPKs are now at 75.3% of 2019 levels. Focussing on international RPKs only, these are now at 73.7% of 2019 levels. The Asia-Pacific region, whilst still waiting to turn a corner, saw no further decline. Globally, passenger load factors (PLF) stayed above 80% in November, and this was true of both the international and domestic market segments.

Europe continued to perform above the global average. As of November, RPK volumes were only 16.3% beneath 2019 levels. European international RPKs were 17.1% lower than in 2019 in November. Load factors averaged 83.8% of what they were in 2019.

International Air Passenger Growth, Europe

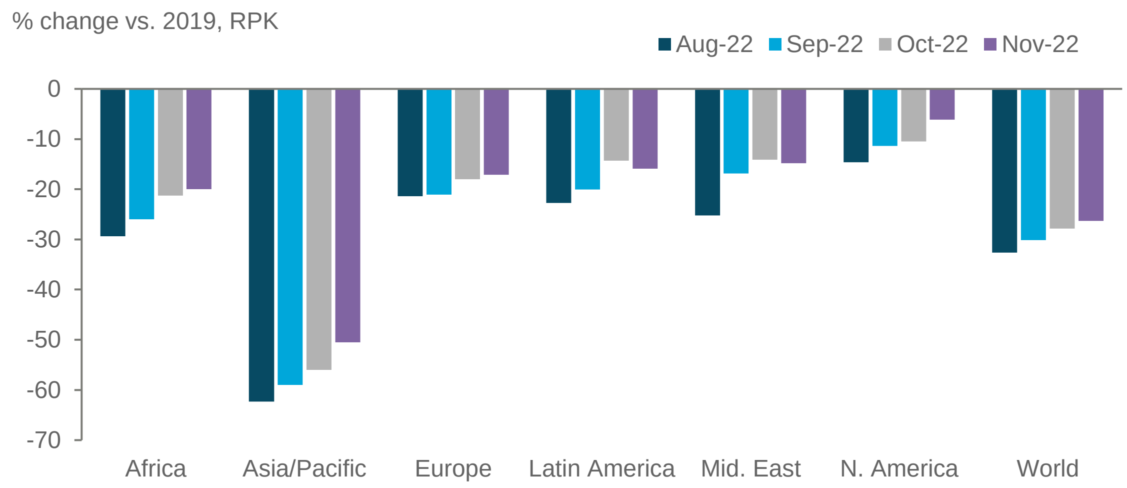


Source: IATA

By far the best performing global region was North America in terms of air passenger recovery. Passenger kilometers were at 97.3% of 2019 levels with the domestic sector around only 1% down on 2019 levels and the international segment 6.1% down.

Asia/Pacific remains the weakest region, still 49.1% below pre-pandemic levels (and with international RPKs 50.5% lower than in 2019). However, the recent re-opening of Chinese borders, following ending of restrictions in other markets in the region throughout 2022, should result in recovery in this region over the coming year, notwithstanding significant challenges in meeting this increased demand in terms of capacity.

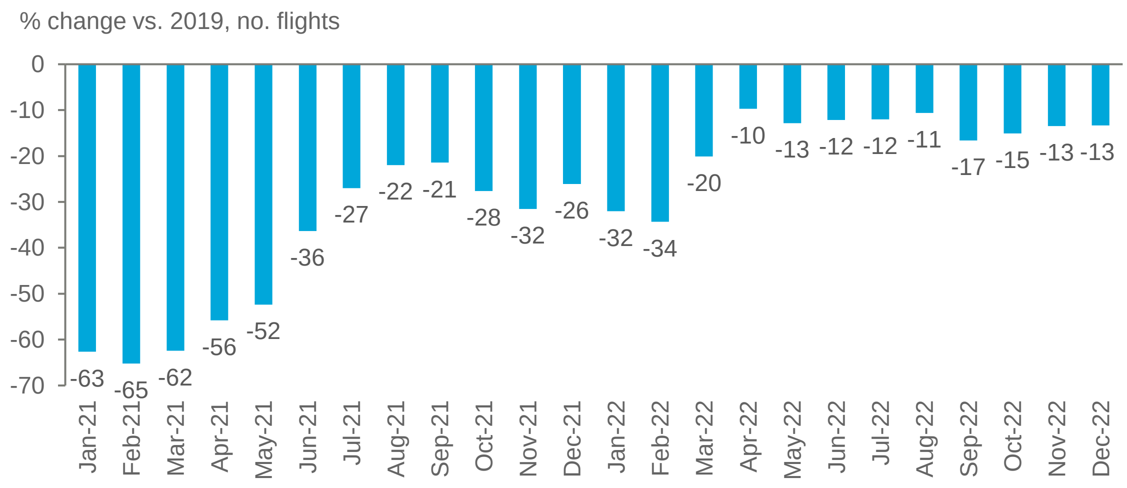
International Monthly Air Passenger Growth



Source: IATA

Data from Eurocontrol show that in December 2022 flight volumes were around 13% lower than in 2019, a ratio that has remained broadly static over the last three months. This is attributed to capacity which was restored rapidly in early 2022 and as a result was running ahead of demand growth. But, as shown by high load factors, demand has caught up with supply meaning that continued growth and recovery now depends on new supply, which is not evident in the latest data for 2022.

Flight Volumes in European Network Area

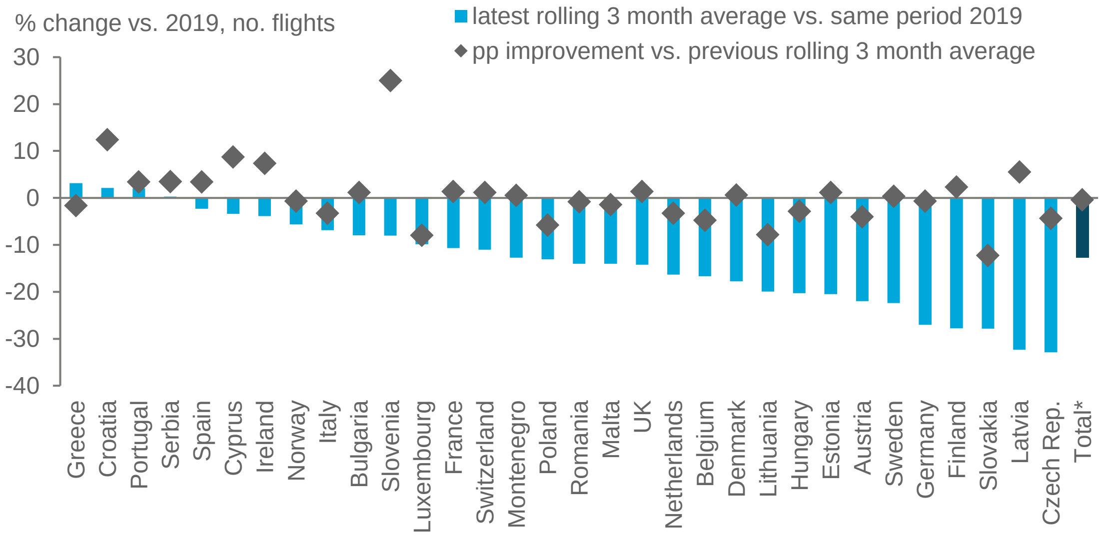


Source: Eurocontrol

There remains considerable divergence between European countries in terms of how well they have recovered. On a three-month rolling average basis, Greece, Croatia and Portugal are now all above 2019 levels. Slovenia, one of the weakest performers on this metric in the last quarterly report, has seen the greatest percentage point improvement since the previous three month rolling average, although Croatia also improved by 12.4 percentage points.

Outlier weak performers include many of the countries with previous strong linkages with either Ukraine or Russia, which have not been restored. However, some large air markets remain well below 2019 levels such as Germany, which is still 27% lower than the volume recorded in 2019. This can be partly explained by the more subdued recovery in business travel to date, as well as greater historic linkages to longer-haul markets, including those in Asia, which have not yet been restored.

European Air Traffic by Country, Total Flights Arriving and Departing

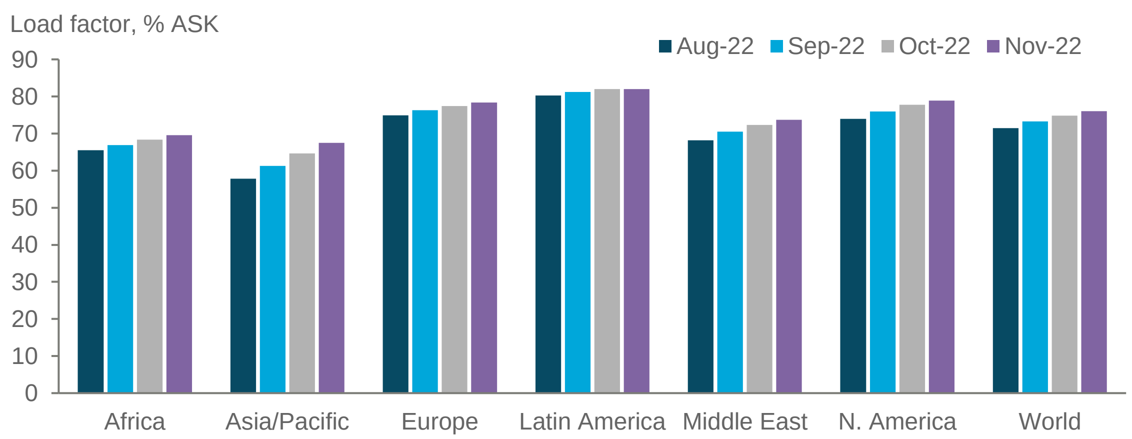


Source: Eurocontrol based on data to December 2022

Passenger load factors have continued to increase since the last quarterly report, although the rate of increase in some global regions has slowed (and this is already reflected in the moving average). In November, the 12 month moving average of the passenger load factors rose to 76.0% globally. Europe put in a stronger performance at 78.4%, similar to North America, but the strongest region was actually Latin America (82.1%).

Although Asia-Pacific continues to lag other global regions, there has been strong growth over the quarter and, with the forthcoming re-opening of China, this can be expected to continue.

Monthly Passenger Load Factor



Source: IATA

After the losses due to the pandemic and related travel restrictions, IATA expects the air travel industry to return to profitability in 2023. The strong US dollar continues to make most European countries cost effective destinations for North American travellers.

However, through 2023 there remain several serious risks to the downside, both to Europe and to the wider global economy. These include the ongoing war in Ukraine and its impacts, a now likely global recession in which advanced economies contract and even emerging economies will fail to maintain economic growth to match their population growth, inflation not falling as fast as expected, continued volatility of fuel prices and some potential new demand and supply imbalances created by China's return to mass travel.

Even without any escalation of the war in Ukraine, it remains a significant factor driving high levels of inflation and a reason for the subdued outlook for European GDP. Furthermore, limited refining capacity probably means that the historically elevated crack spread which emerged in 2022 between crude oil and jet fuel prices is likely to persist throughout much of 2023 adding further pressure on air fares and travel affordability.

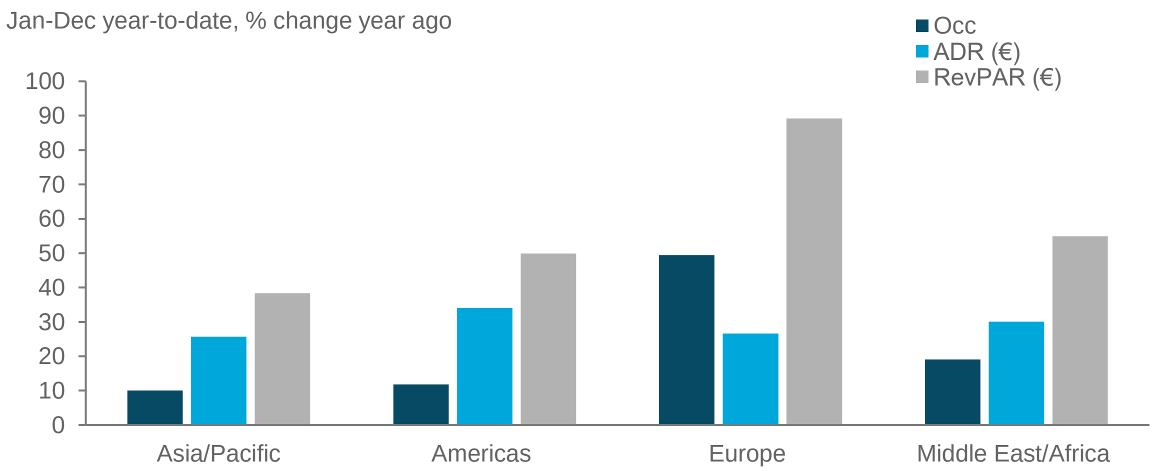
A key unexpected development is the timing of China's reopening for international travel. In the last quarterly report, we suggested that this was most likely to be in H2 of 2023 (and, quite possibly, even later). That has turned out not to be the case. And, while this clearly represents good news for the air industry, the type of problems seen in Europe when Covid-19 restrictions were lifted could be repeated in terms of staff shortages and logistics issues

The airline sector will face elevated costs on several fronts in the coming year with likely further increases in ticket prices. While traveller price sensitivity was relatively low in 2022, this can be expected to increase now in the context of a more difficult economic climate.

ACCOMMODATION

Hotel performance data collected by STR demonstrates that Europe was the best performing region covering the whole of 2022. In Europe RevPAR was up 89.2%, driven mainly by increased occupancy, although there was also a significant increase in average daily rates. All other regions also saw increases in both occupancy and average daily rates.

Global Hotel Performance



Source: STR

Asia-Pacific was the poorest performing region. Tighter restrictions on travel in Asia-Pacific, most especially in China, will have played a critical role in this. With the return of Chinese tourism and an end to the zero-Covid policies of China, performance in this region can be expected to improve in the coming months.

Within Europe, Western Europe experienced the greatest increase in RevPAR, nearly doubling over the year (+99.0%). As in all European regions, the primary driver of this was an increase in occupancy (+60.9%). Average daily rates in the sub-region grew by 23.7%. Southern Europe also performed well with RevPAR increasing by 87.3%.

Both Northern Europe (which includes the Baltic States) and Eastern Europe (which includes countries bordering Ukraine such as Poland, Hungary and Slovakia) experienced weaker growth on account of closer proximity to the war between Russia and Ukraine and associated traveller perceptions of reduced safety.

Nevertheless, both regions enjoyed modest growth over the 12-month period with Northern Europe growing by 80.9% and Eastern Europe by 72.9%. It is worth noting that, despite generally lower occupancy growth, some countries in these sub-regions have had occupancy propped up by Ukrainian refugee presence in some accommodation stock.

In the case of Northern Europe, greater distance from the war in Ukraine meant less negative impact as observed in some markets which are closer to its epicentre. Ireland and the UK emerged as the two strongest performing countries in the sub-region. In contrast, the countries of Eastern Europe were universally among the weaker performers.

SHORT-TERM RENTALS

The dominant trends continuing through Q4 2022 and into 2023 for short-term rentals globally include elevated Average Daily Rates worldwide. While many were expecting this bubble to burst as the post-pandemic demand surge faded, these prices are so far sustained.

In terms of rural and urban supply, the gap between the two is growing, with rural supply outpacing that of urban. This is likely as a result of rural inventory growing more in terms of price and demand in the aftermath of travellers seeking a different type of stay post-pandemic. Despite this, urban short-term rental properties remain superior in absolute terms – a trend worth tracking.

Meanwhile, looking specifically at Europe, France, Italy, Spain, and Great Britain are seeing some high numbers in demand, with Great Britain peaking at 101%. This may correlate with the fact that International travel is bouncing back in several major countries, which is positive news for destinations dependent on international markets.

Through Transparent's Property Manager (PM) Survey, European PMs have indicated that inventory grew 33% in 2022 and is expected to grow 59% in the next 12 months. Revenue growth is even more encouraging - managers in Europe recorded 67% growth in 2022 and project 78% this year - underpinned by the aforementioned rate increases.

Lastly, we are seeing a drive for sustainability with the ever-present topic of global warming, rising energy/operational costs for property managers and owners, and the introduction of sustainable badge schemes from the biggest Online Travel Agents. Sustainable listings are already recording higher occupancy (47%) than their unbadged competition (45%), and in turn, more revenue.

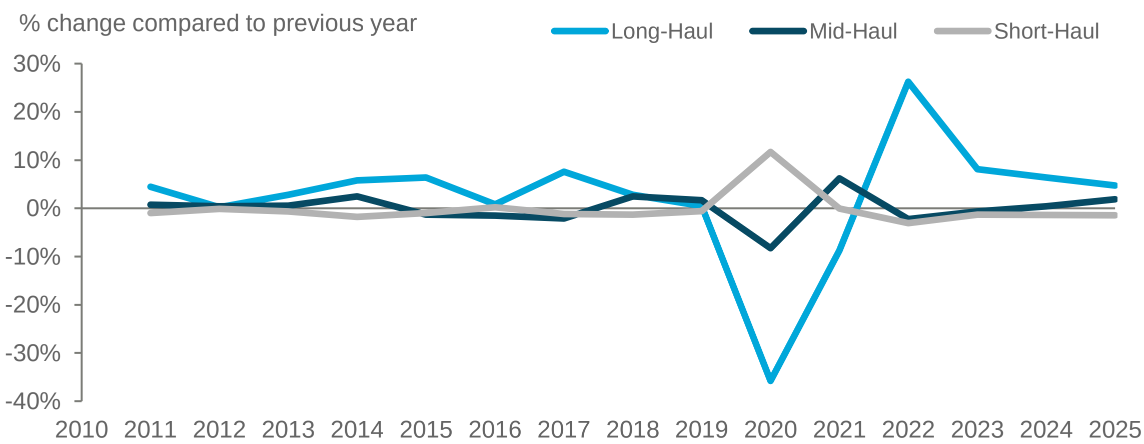
4. SPECIAL FEATURE: LONG-HAUL TRAVEL RECOVERY

SUMMARY

- Long-haul travel is beginning to recover, but higher prices means the road to recovery will be slower.
- North America's long-haul travel has been strong up to now but rising transport prices and recessionary pressures will begin to bite going into the new year, eased a little by the strong dollar.
- Asia's relaxing of Covid-19 restrictions is beginning to reflect in travel to Europe but expect a slower road to recovery than the Americas.
- China's surprise announcement to re-open its border in January does mean that more Chinese travel than previous years can be expected, but significant barriers remain to full Chinese outbound travel recovery

As European short-haul travel is well on its way to recovery, the travel industry's attention has turned to long-haul travel as we move into the later stages of the pandemic. Before the Covid-19 crisis, the share of long-haul travel into Europe was rising, nearly reaching equal levels with mid-haul travel as the pandemic struck. Longer-haul travellers tend to stay for longer, and as such provide a higher overall spend to destinations, and thus are higher value travellers. They are also likely to visit multiple destinations, spreading their spending between destinations, especially following Covid-19, where travellers will want to see and experience as much as possible in one trip.

Growth in Travel to Europe by Haul



Source Tourism Economics

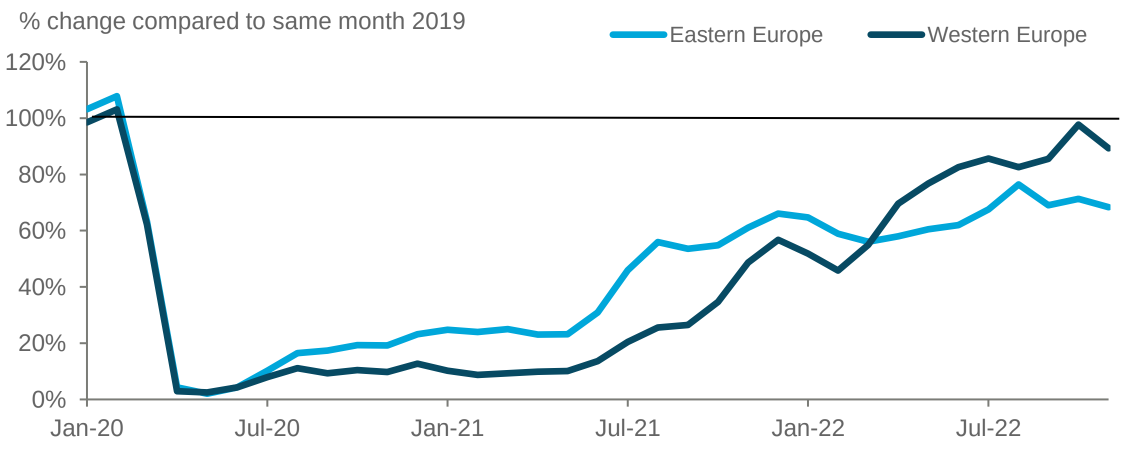
European destinations have particularly benefitted from the rise in long-haul travel prior to the pandemic, with the long-haul share of inbound visitors increasing from 13% of total inbound travel in 2010 to 17% in 2019. This is for a couple of reasons. First, Europe has lower-cost, well-connected travel networks operating between as well as within countries. Second, popular destinations are relatively close to each other, allowing multi-destination travel on long haul trips. The largest long-haul (non-European) source-markets for international arrivals to Europe in 2019 were the US (2.6% of total international visitors), China (1.1%), Canada (0.5%), Israel – which is included in long haul in the Tourism Economics database - (0.5%) and Australia (0.4%).

As we see short-haul travel in Europe returning to close to pre-pandemic levels, mid- and long-haul markets are trailing short-haul recovery for several reasons. First, long-haul travel tends to be more expensive, meaning the potential market is smaller and is the first to become unaffordable to travellers when financial constraints merge. Second, some hesitancy around the safety of long-haul travel persists – especially following the WHO's recent announcement that face masks are advised on long-haul flights.

North America heads the pack for recovery, with arrivals reaching a forecast 21% below 2019 levels in 2023. OAG bookings data from North America to Western Europe reached 98% of 2019 levels for the month of November last year. Travel to Eastern Europe is somewhat lagging Western Europe – with a slowing pace of recovery timed with the Russian invasion of Ukraine and reflecting a slight negative sentiment. Travel between the Americas and Europe is expected to account for almost one-quarter of international travel growth across the 2019-2030 period, the second largest contribution to growth of any region pair.

The US was the largest country in terms of visits to Europe from outside the region in 2019, they fully reopened their borders in November 2021 to permit widespread travel to and from the US, supporting a significant reinstatement of air capacity. Travel into Europe has picked up gradually since. Following some disruption related to the Omicron variant in early 2022, a relatively rapid recovery was observed. Arrivals from the US to Europe are expected to be 19% below 2019 levels in 2023. Though recovery is showing promise, the US is facing a modest recession this year. Consumers' excess savings will be reduced and outbound travel growth from the US is expected to slow as the year progresses. This impact may be slightly counteracted by the strong dollar, making Europe more affordable for US travellers, though it is likely to pale in comparison to personal finances being the key barrier to long-haul travel in 2023.

Total Estimated Passengers from North America to Europe



Source OAG

Canada is performing similarly to the US, if a little weaker, with arrivals from Canada to Europe looking to be 28% below 2019 levels in 2023. Canada is presently in the early stages of a recession which will continue through 2023, again reducing disposable incomes and dampening travel demand, especially for more expensive long-haul travel. This, coupled with the Bank of Canada's aggressive interest rates hikes hampering consumer spending, and frail confidence, gives a less optimistic view for outbound travel to Europe than that of the US.

Up to now, Asia has tended to lag the global trend for relaxing Covid-19 related restrictions, showing a quite significant divergence within the continent. Some countries were taking slower, more publicised routes to re-opening (Japan), some chose to open earlier to bolster the tourism sector and in turn economic recovery (Thailand) and finally China's re-opening has surprised the markets coming into 2023. The largest Asian source markets for Europe (China, Japan, South Korea and India) all opened their borders for travel fairly late, although we have since seen some initial recovery for travel into Europe.

In September 2022, Germany saw arrivals from China and Japan well below 2019 levels for the same month, 86% and 71% respectively, reflecting the recent re-opening for Japan and heavy travel restrictions remaining in place for China. For markets that had been open slightly longer, India and Australia recorded stronger recovery, at 25% and 38% below September 2019 levels. This shows a promising bounce-back in long-haul travel demand which should also be realised in due course from the other markets.

This degree of rebound will capture some pent-up excess demand (especially VFR-related) and a slight slowdown is expected as travel returns to more normal patterns. Hesitancy does remain around long-haul travel, especially within China and Japan, which accounted for 51% of Asian travel to Europe combined in 2019. As such, Asian travel to Europe is returning, just at a slower rate than the more elastic return to travel seen from North America to Europe.

The growth of Asian inbound travel to Europe pre-pandemic was significant, with the volume of travel from Asia to Europe doubling over the 2010 to 2019 period, and much of this growth coming from China as a growing source market. This trend is set to continue once travel recovers to more normal patterns, with a quarter of the projected growth in global long-haul visitors from 2019 to 2030 expected to be accounted for between APAC and Europe. As such, looking to the mid-term, Asia holds the key to travel growth for Europe, both in terms of spending and visitor volumes.

China's U-turn on its strong stance to zero-Covid policy came as a surprise to the international community. The announcement on 26 December 2022 was for a reopening of borders in just two weeks – on 8 January 2023. This short time frame was a stark contrast to the more traditional exits from lockdown strategies of widely publicised roadmaps extending over multiple months. This change came amid a wave of Covid-19 cases and also raised concern regarding a potential lack of preparation of the travel and tourism sector for the surge in travel demand.

Although this is the most positive move for China's re-entry to the global travel market since the pandemic began, there are major challenges to overcome. For outbound Chinese travel, most individuals will require both a visa to travel and may need to renew their passport. China stopped processing passport and visa applications at the beginning of the pandemic and as such a significant backlog will delay outbound visitors.

Many individuals in China are still hesitant about travel, given the resultant wave of Covid-19 cases following the relaxation of domestic restrictions in late November. This is further intensified by the flurry of European countries who announced pre-departure testing requirements for visitors from China, these countries include Germany, France, and the UK – three of the biggest markets for inbound Chinese travellers.

The lack of warning around re-opening has not allowed the travel industry around the world to prepare. The logistics around restoring flight routes to reconnect China to the rest of the world requires time. According to industry insiders, airports and airlines are favouring the 'wait-and-see' approach and as such this almost certainly ensures excess demand, at least in the short-term. Some airlines have allocated aircraft to other routes with considerable levels of pent-up demand and will be cautious about re-allocating to a still uncertain Chinese market.

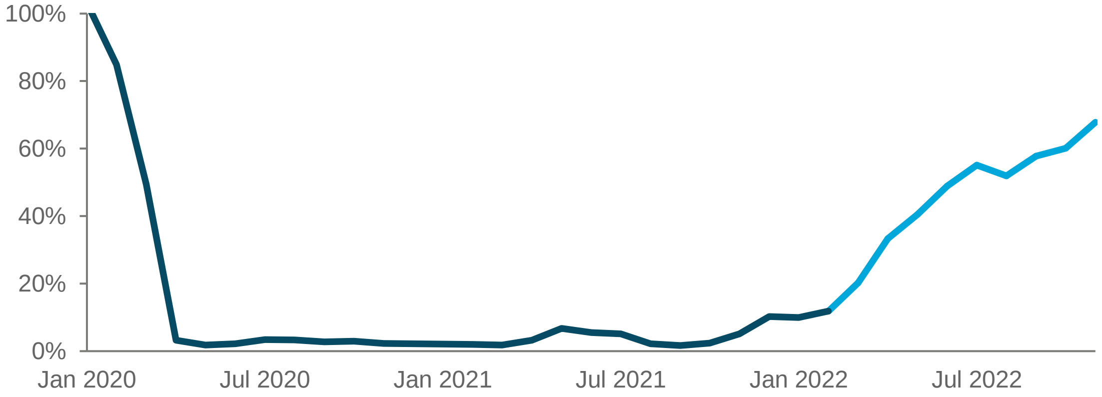
There is an upside to the outbound China forecast, which hinges on China's travel capacity being restored. Pre-pandemic, Chinese travel to Europe more than tripled in the 2010-19 period. Provided the barriers to travel are dealt with broadly in line with demand, China's travel recovery could be significantly stronger than the baseline forecast, especially in the first half of 2023.

As travel post-restrictions returned globally, the trend previously has been a stronger short-haul recovery in the short-term, with mid- and long-haul taking a little longer to recover. Although the re-opening is certainly a step in the right direction, it will likely be in the latter half of this year at the very earliest that some more significant recovery of outbound Chinese travellers to Europe will be seen.

Oceania's inbound travel to Europe is set to be 39% below 2019 levels in 2023, with primarily Australia and then New Zealand contributing to visitor flows to Europe. Australia was the 5th largest source market for Europe for extra-regional travel, with the highest travel volumes to UK, Italy and France. Australia dropped all its travel restrictions in February 2022, following a prolonged pursuit of zero-Covid policy. Since then, the volume of outbound travel has slowly recovered, although still being quite heavily skewed to the short haul, for trans-Tasman travel.

Australian Monthly Outbound Visitors

Relative to 2019 levels, colour change signifies borders re-opening



Source Autralian Bureau of Statistics

To conclude, long-haul travel to Europe has been recovering slowly over the past year. North America has led the way, although a slight slowdown this year due to looming recessions is expected. The re-opening of China will likely bump both visitor volumes and spending, provided they can overcome the logistical challenges to reinstating such high travel volumes. The wider potential of Asian source market growth in the next few years looks to be getting slightly more back on track, which comes as welcome news to the European travel market.

5. KEY SOURCE MARKET PERFORMANCE

Trends discussed in this section in some cases relate to the period January to December 2022, although actual coverage varies by destination. For most countries, the latest available data point will be earlier than this. Further detailed monthly data for origin and destination, including absolute values, can be obtained from TourMIS (http://tourmis.info).

SUMMARY

- Relative to the same period in 2019, arrivals across European destinations were an estimated 9.4% lower in 2022 based on the latest year-to-date data and representing a continued improvement on last quarter.
- There is considerable variation within European source markets with visitors from the Netherlands having a broadly even balance of destination countries reporting growth on 2019 levels and those continuing to register significant declines. In contrast, most destinations (apart from Türkiye) continue to report declines in British visitors.
- There are distinctly separate trends for reporting destinations in the eastern half of the continent, driven by concerns over the current situation in Ukraine.
- Visitors from Canada and the US continue to benefit from a stronger dollar relative to the euro. In the face of a mild recession and less disposable income, Europe remains a good value holiday destination.
- Serbia continues to be a popular destination for non-European source markets including India, Japan, Canada and Brazil. In some, travel volumes are already above 2019 levels.

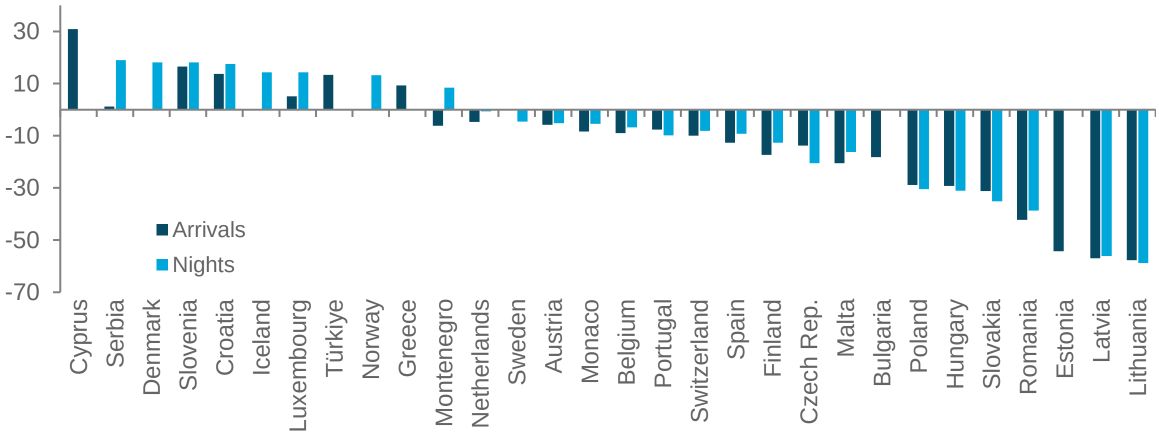
KEY INTRA-EUROPEAN SOURCE MARKETS

The broad overall trend is for continued recovery in intra-European travel but there is considerable variation within the performance from European source markets. Recovery from the Netherlands as a source market is most advanced with a broadly even balance of destination countries reporting growth and declines on 2019 levels. In contrast, most destinations (with the exception of Türkiye) continue to report declines in British visitors.

There are distinct trends for reporting destinations in the eastern half of the continent, driven by concerns over the current situation in Ukraine. Furthermore, the Russian source market continues to show very marked declines relative to 2019, given its political isolation from the rest of the continent. Only Serbia, amongst the reporting destination countries, represents an exception to this general pattern.

German Visits and Overnights to Select Destinations

2022 year-to-date*, % change relative to 2019



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

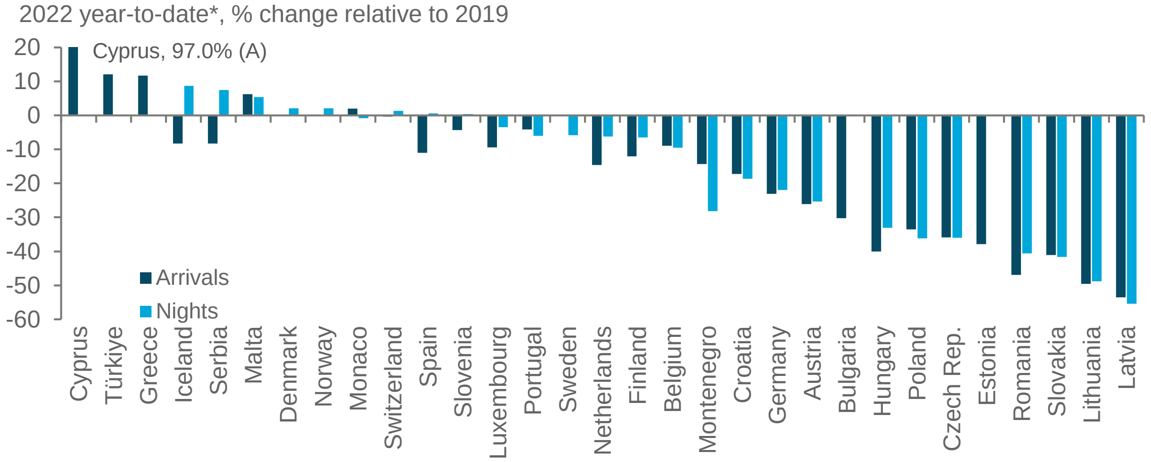
For German tourism, eleven reporting destination countries showed growth in at least one metric when compared with 2019. These represent a varied group of countries, but the Balkans and some Scandinavian countries were well represented.

Of all reporting destination countries, Cyprus, Serbia and Slovenia saw the strongest growth with notable increases in arrivals and nights of up to 31%. In spite of this, the majority of reporting destination countries continued to report lower levels of tourism from Germany. Furthermore, the overall picture was strongly weighed down by the Baltic States and those countries in Central Europe immediately bordering upon Ukraine. These countries continued to register declines of between 25% and 60% with the steepest declines concentrated in the three Baltic States.

There have been rapid rises in Germany's energy bills. Some Mediterranean countries – Greece and Spain included – have suggested that Germans struggling to pay bills this winter might consider spending at least part of the season abroad; an idea welcomed by some pensioner groups.

Germany's air travel recovery has lagged some of its neighbours, but a wide range of new routes are being launched in 2023. Amongst these are Icelandic PLAY's new route to Düsseldorf and the connection of Belfast George Best Airport to Frankfurt by Lufthansa. Lufthansa has also announced plans to start a new regional airline in Germany, which will operate together which its current regional subsidiary, CityLine.

French Visits and Overnights to Select Destinations



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

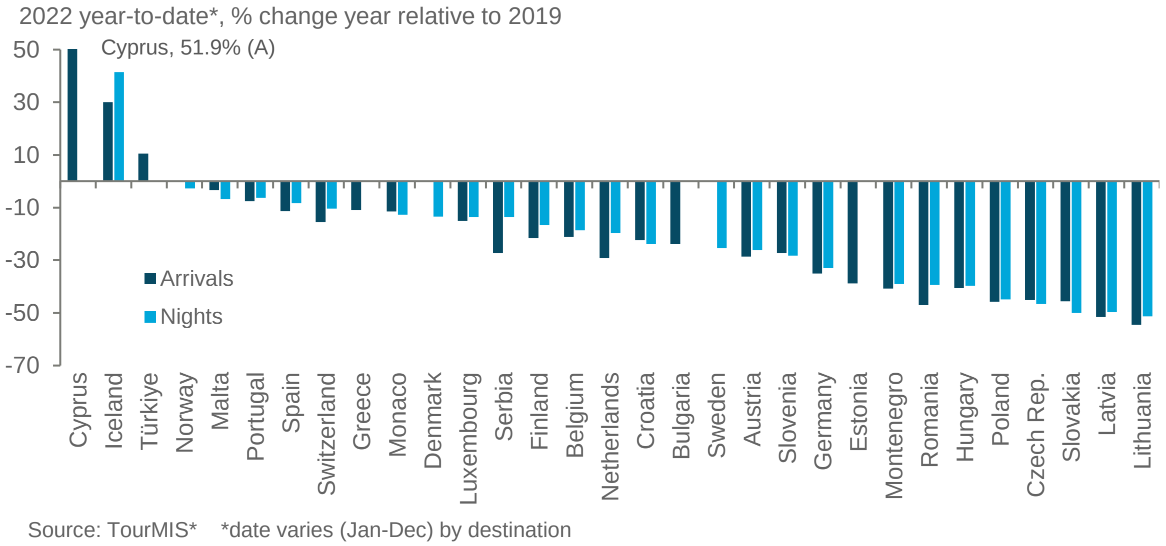
In terms of demand from France, Cyprus has emerged as the clear leader in the tourism recovery; reporting to December, arrivals were 97% higher than in 2019. This will be welcome news in Cyprus, which has been keen to demonstrate that it is not overly reliant on travellers from Russia. France is one of Cyprus' targeted growth markets (alongside Poland, Italy, Denmark and Austria). Türkiye, Greece, Iceland, Serbia and Malta also reported at least one metric significantly above 2019 levels, with Denmark, Monaco and Norway reporting more marginal increases in French tourism.

Destination countries deemed by French visitors to be too close to the war in Ukraine have continued to record the steepest falls when compared to 2019. Latvia – the worst performing destination saw a decline in French arrivals of 53.5% and a fall in nights of 55.4%.

While the overall picture beyond Central and Eastern Europe appears optimistic, there are clear risks to the recovery in French outbound tourism. First, travel could be affected by strikes. Second, while France is being forward-looking by implementing new quotas for sustainable aircraft fuels, this does involve additional costs to the consumer and Air France is bumping up ticket prices to reflect this.

While growth may slow due to the above factors, there is also potential for further expansion due to new capacity. Several airlines have announced new routes from French airports, including to destinations in the UK. Ryanair has announced five new winter routes from Bordeaux to Barcelona, Malta, Tenerife, Santiago de Compostela and Birmingham. Furthermore. young people from the Republic of Ireland will be able to travel to France on a single 'sail and rail' ticket from Summer 2023.

Italian Visits and Overnights to Select Destinations

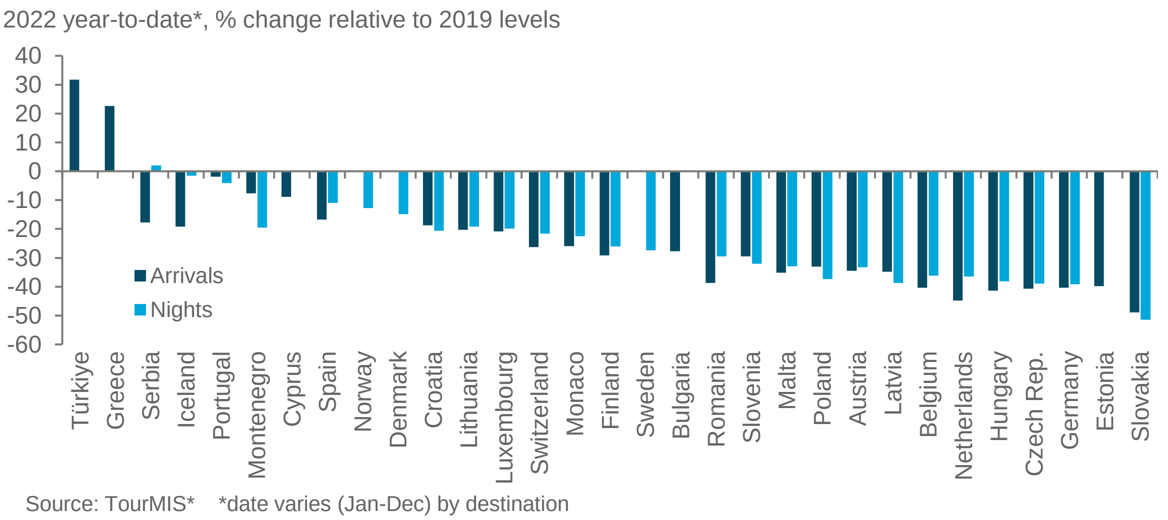


As with the French source market, Cyprus was the destination reporting the greatest increase in Italian arrivals – up 52% on 2019 levels. Iceland (with a 30% jump in Italian arrivals and an even stronger increase in nights) and Türkiye (up 10.5% in arrivals) were also above levels seen in 2019. Growth in arrivals from Italy in Iceland could reflect the continued expansion of transatlantic demand – for which Iceland has positioned itself as a stopover destination.

As with other Western European source markets, reporting destination countries in Central and Eastern Europe fared less well with both Latvia and Lithuania recording a fall in Italian arrivals of more than 50% compared to 2019.

Both Ryanair and Wizz Air are increasing routes from Italy in 2023. Italy topped the rankings for the number of new routes in 2022 with 410 new routes. This has facilitated improvement in both inbound and outbound travel over the past year for Italy and should support continued recovery and growth.

British Visits and Overnights to Select Destinations

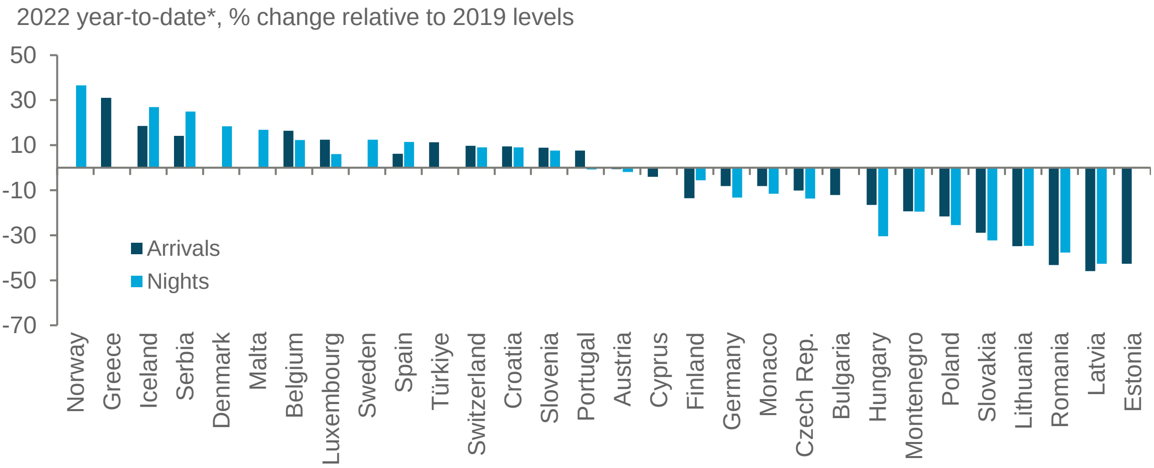


For arrivals from Britain, Türkiye currently tops the rankings with an increase of 31.7% compared to 2019. Other than Greece and a moderate increase in nights spent in Serbia, it is a story not reflected in other European reporting destinations, nearly all of which have continued to report declines in volumes relative to 2019 – averaging around one third over this quarter. Türkiye's success in attracting British travellers is likely to be on the basis of price as British travellers are hit by particularly high inflation. The Turkish lira has declined against sterling by 20% over the past twelve months, providing a real-terms affordability gain that is not evident in most other European destinations, as the euro has appreciated against sterling.

The poorest performing reporting destinations are not limited to the block of Central and Eastern European countries but also include some relatively close countries such as Germany, Belgium and the Netherlands. Some of this is likely to have been driven by increased costs concerns and a decline of sterling against the euro of around 5% over the past twelve months. Furthermore, the slower recovery of business tourism, possibly exacerbated by Brexit, is likely to have played some role.

British travellers will face some additional obstacles to travel in many European countries from later in 2023. The ETIAS visa is set to roll out later this year and British visitors will have to apply online at a cost of €7. The ETIAS visa will be valid for two years. The introduction of the biometric entry/exit system for non-EU countries has been delayed due to concerns about increased airport processing delays from a wide range of European countries.

Dutch Visits and Overnights to Select Destinations



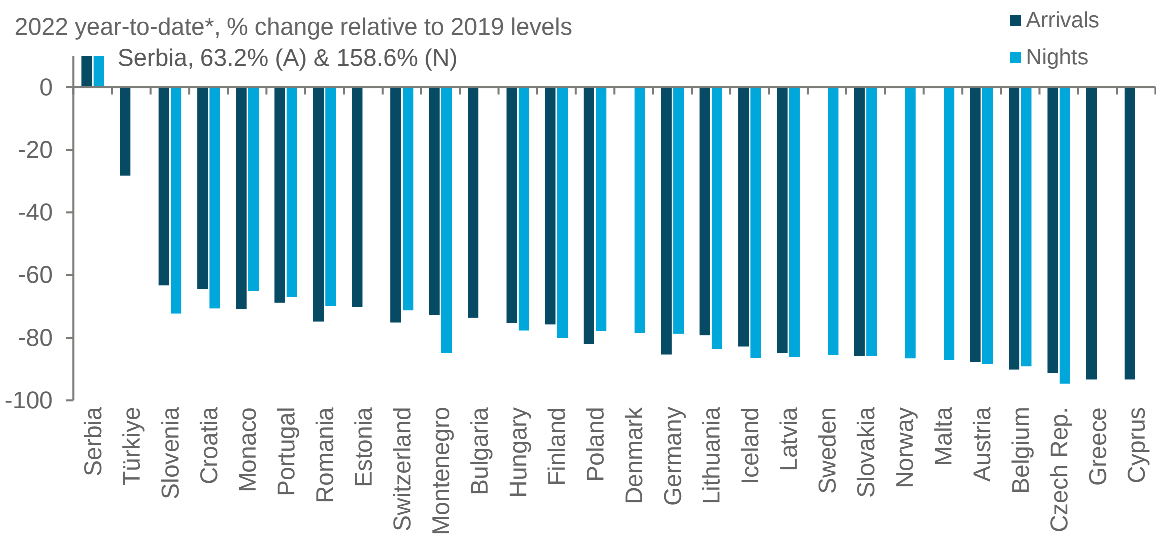
Source: TourMIS* *date varies (Jan-Dec) by destination

Broadly similar numbers of reporting destination countries registered growth in Dutch tourism relative to 2019 as reported declines. This makes demand from the Netherlands one of the strongest in terms of recovery at present.

A wide range of destination countries reported growth from Dutch visitors including key Mediterranean destinations such as Greece, Spain, Croatia, Portugal and Türkiye – although the strongest performer in terms of nights was Norway and Iceland also saw strong growth. Even in weaker performing Central and Eastern Europe, declines were less severe than for many European source markets with no destination country reporting a decline of over 50% in either metric compared to 2019.

In October, KLM launched a new route connecting the Netherlands with Katowice - the sixth Polish city from which KLM offers flights to Amsterdam – indicative of expanding capacity to facilitate demand. However, in 2022, Schiphol was still well below 2019 levels of flights. Royal Schiphol Group said that 52.5 million passengers travelled to, from or via Schiphol over the year, some 27% fewer than the 71.7 million annual passengers recorded pre-pandemic in 2019. This was at least partly the result of staffing shortages resulting in disruption and necessitating the airport's imposition of capacity limits.

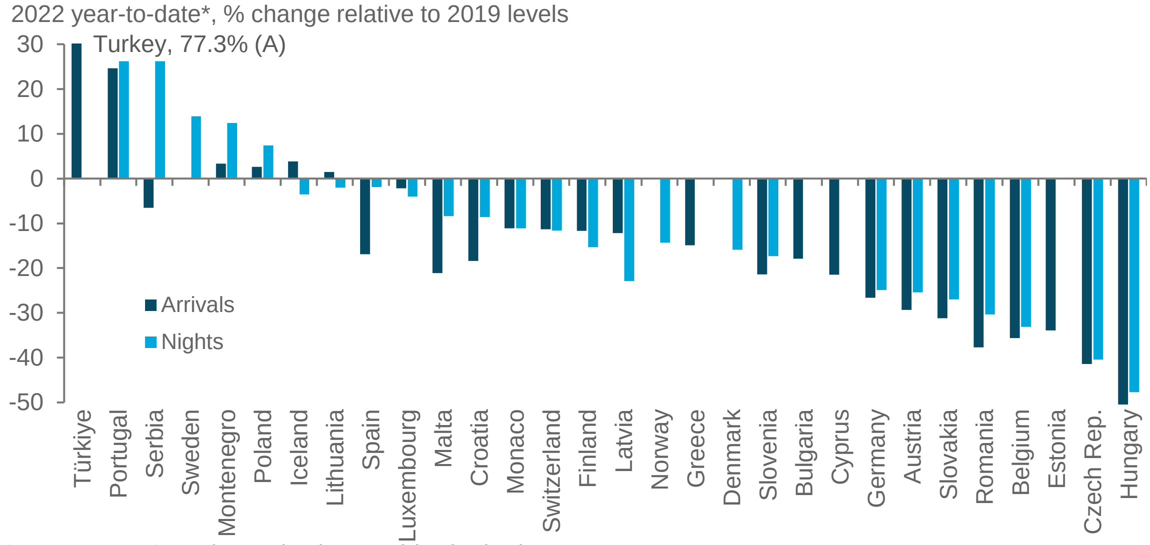
Russian Visits and Overnights to Select Destinations



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

Perhaps unsurprisingly, most European destination countries have continued to report major declines in arrivals from Russia. Only Serbia has seen growth in arrivals or nights. Serbia is not an EU member state and has consequently not been obliged to implement EU restrictions on Russian entry. Although not immediately obvious, one source of 'arrivals' to Belgrade from Russia may be Russian citizens wanting to avoid 'mobilisation'. Many choose Serbia because it is one of the few places that still allow Russian entry without a visa. The more modest fall in arrivals to Türkiye may also include some element of this as well.

US Visits and Overnights to Select Destinations

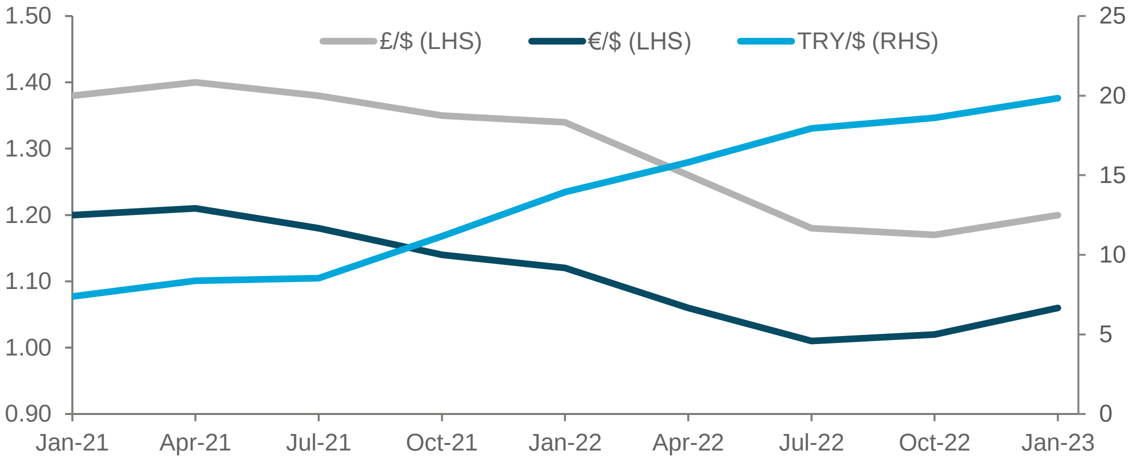


Source: TourMIS* *date varies (Jan-Dec) by destination

The recovery of US arrivals and overnights continued to pick up over the summer period as travellers became less anxious over prices in the second half of last year. Almost one quarter of reporting destinations saw US arrivals in the year-to-date surpass 2019 levels. The recovery in Iceland is ahead of most markets, possibly due to its role as a transatlantic hub for visitors and the popularity of its stopover programme, allowing visitors to stay for up to seven nights without additional airfare.

Türkiye continued to experience the fastest growth from the US with arrivals now 77.3% above the same period of 2019 (up from 61.1% last quarter), albeit 2019 does not represent the historical peak year for US arrivals in Türkiye. However, it looks likely that 2022 may represent a new peak year, in part due to the weaker Turkish lira where one US$ is now worth nearly 19TL compared to just 6.6TL at the start of 2020. So far it has shown no signs of reverting back to its historical norm given that it ended 2022 at a record level. The favourable exchange rate comes at a time when US consumers are more price conscious due to the economic backdrop but continue to have strong intentions to travel, making Türkiye a value-for-money long-haul destination. Portugal also demonstrated a strong performance with arrivals up 24.6% on 2019 levels.

European Exchange Rates Relative to US Dollar

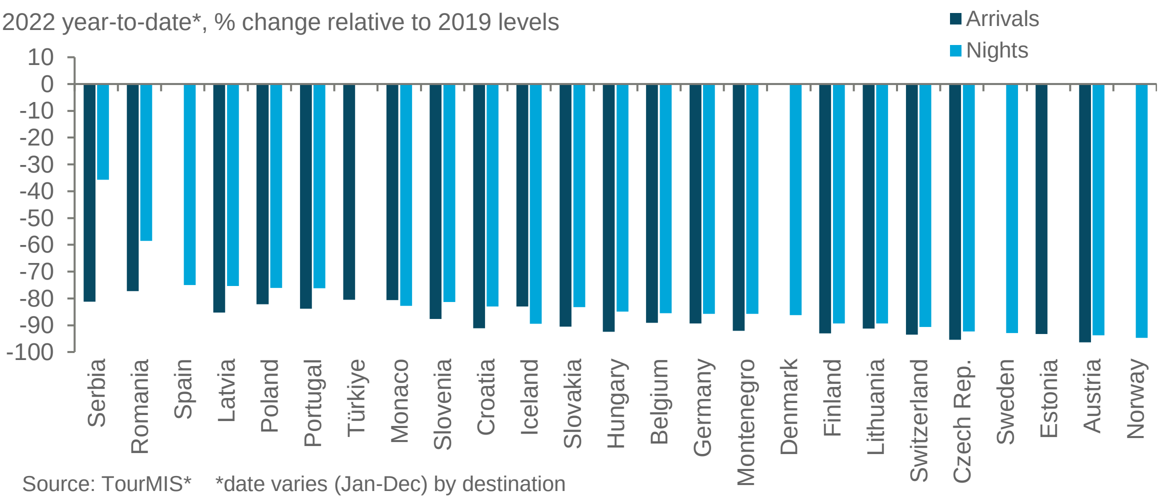


Source: Oxford Economics / Haver Analytics

Exchange rates remain favourable elsewhere for US-based travellers, despite some upward momentum in the £/$ and €/$ rates. This will help US-based travellers absorb rising prices across Europe as a whole, as well as in Türkiye.

Chinese Visits and Overnights to Select Destinations

2022 year-to-date*, % change relative to 2019 levels

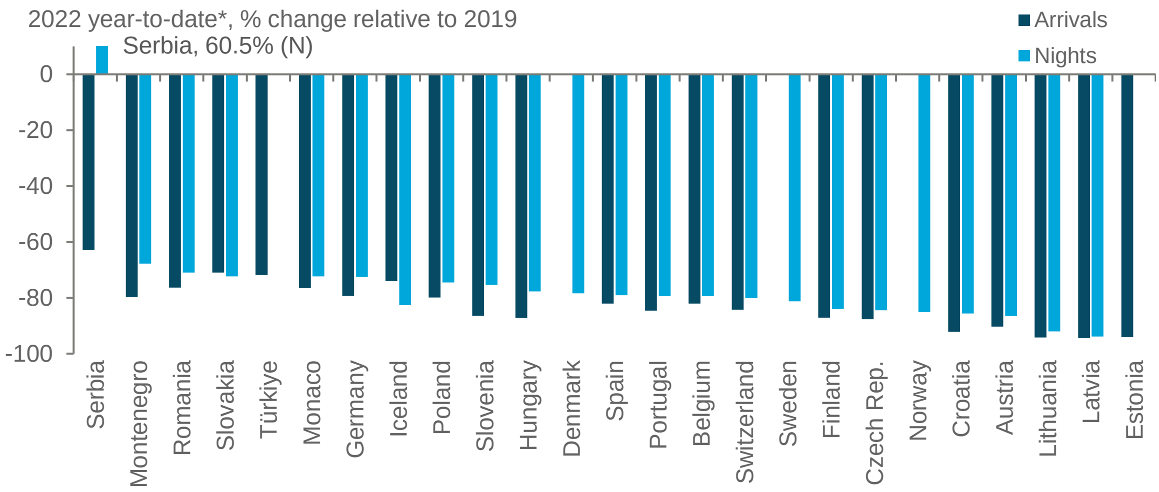


Source: TourMIS* *date varies (Jan-Dec) by destination

Strict lockdowns and foreign travel bans have remained a key feature of China's Covid-19 policy since early 2020. Consequently, no destination has reported growth in arrivals from China so far in 2022.

Following China's unexpected announcement on December 26 to reopen its borders in January 2023, some improvement can be expected in travel volumes across the Europe. This may not be significant until later in the year due to many European destinations re-imposing testing requirements on visitors from China while cases remain high.

Japanese Visits and Overnights to Select Destinations



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

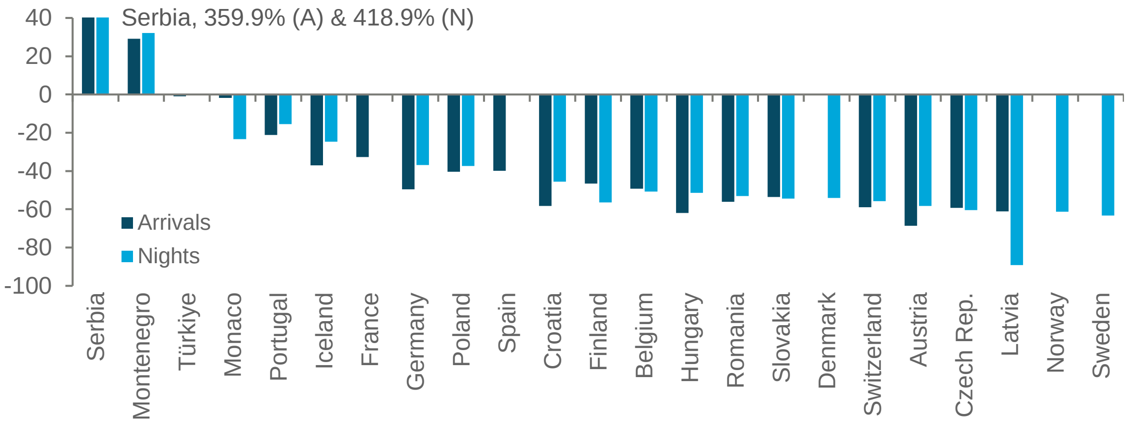
Serbia remains the strongest market for Japanese visitors across Europe, with overnights up 60.5% on 2019 volumes based on the data to November. This represents a slight decrease from September onwards whereas arrivals data has shown very little movement. Serbia is the only reporting destination country registering any growth in either metric from Japanese tourists. Nevertheless, arrivals are still 63% lower than in 2019.

Estonia, Latvia, and Lithuania remain the weakest markets in terms of both nights and arrivals from Japan through 2022 with overnights still around 94% below 2019 volumes, relatively unchanged from last quarter.

Currency shifts have remained unfavourable for outbound travel to Europe, pricing out Japanese travellers and thereby reducing travel demand. In recent months the Yen has weakened 3.6% against the Euro in Q4 2022 compared to the previous quarter.

The travel recovery has faced an additional set-back due to the closure of Russian air space as a result of the war in Ukraine. Airlines for routes from Europe to Asia have seen an increase in travel time and distance due to this diversion. Routes from Finland to Asia are disproportionately affected with flights to Asia increasing between one and a half and nearly four hours. These diversions will increase fuel usage and costs for airlines which is likely to have been reflected in the prices.

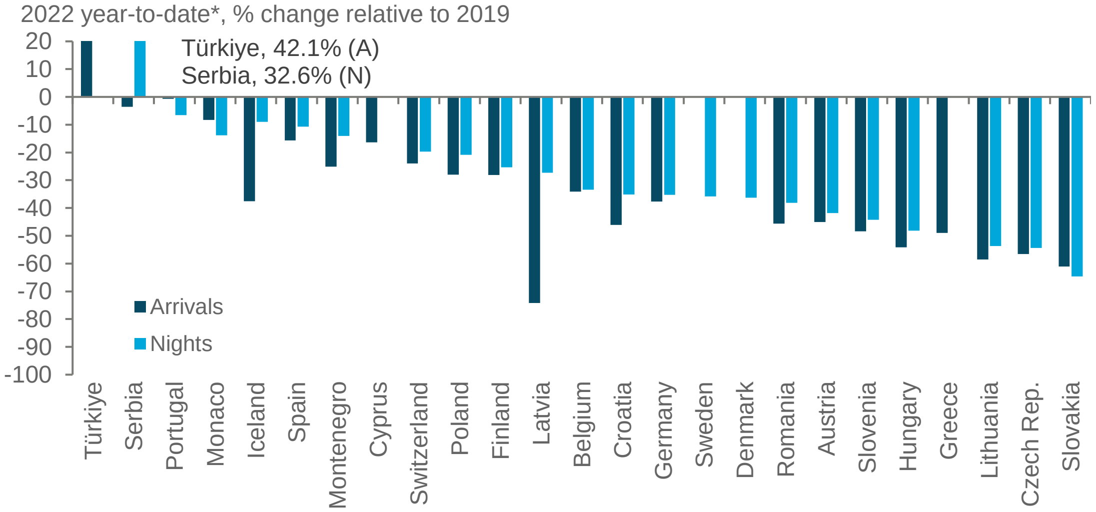
Indian Visits and Overnights to Select Destinations



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

Serbia continues to report exceptional growth in both arrivals and overnights from India for 2022. Growth was initially facilitated by a loophole in the travel requirements of other countries which allowed vaccinated travellers with a negative Covid-19 test to stay in Serbia visa-free. Indian arrivals to Serbia were up 359.9% (down from 371% last quarter). Due to the length of compulsory isolation periods, Indian overnights grew to a greater extent than arrivals by 418.9% (down from 463% last quarter). Both arrivals and nights have continued to slow throughout the year. This could indicate demand increasing for other European destinations now that restrictions have been lifted across the region.

Canadian Visits and Overnights to Select Destinations



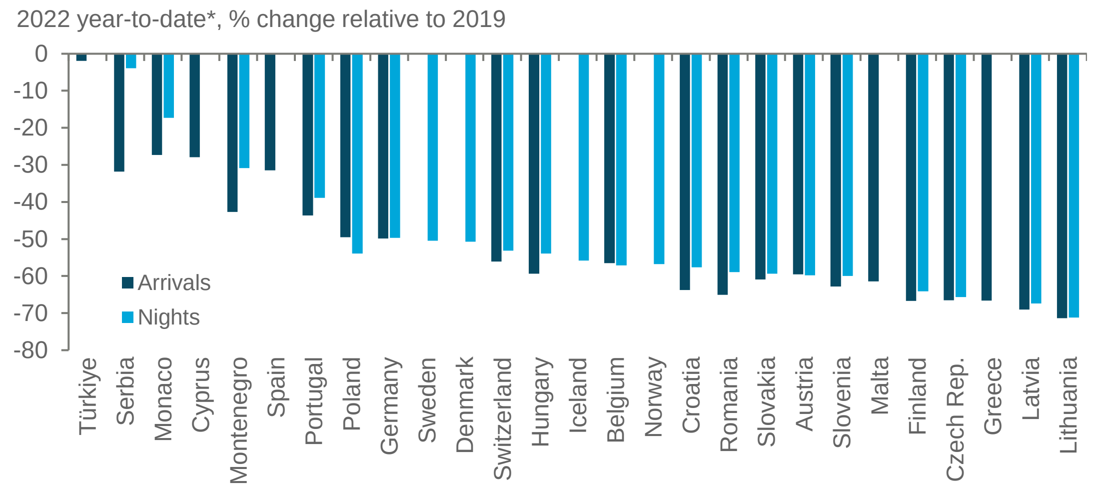
Source: TourMIS* *date varies (Jan-Dec) by destination

Türkiye was the only reporting destination country registering an increase in arrivals from Canada (up 42.1% on 2019 levels). In part this is likely to have been driven by the depreciation of the Turkish lira.

Serbia continues to lead the recovery in nights from Canada to European destinations, reporting volumes up 32.6% up to December, marking a slight improvement on last quarter from 31.1%. Like Türkiye, Serbia was another market which had more relaxed travel restrictions when compared to the rest of the region.

The disconnect between nights and arrivals in Latvia is evident with available data for both metrics. Nights from Canada are just 27.3% below 2019 levels, whereas arrivals are 74.2% below. This is contrast with most other markets where the recoveries are fairly consistent with one another, although Iceland also shows a steeper fall in arrivals than nights.

Australian Visits and Overnights to Select Destinations



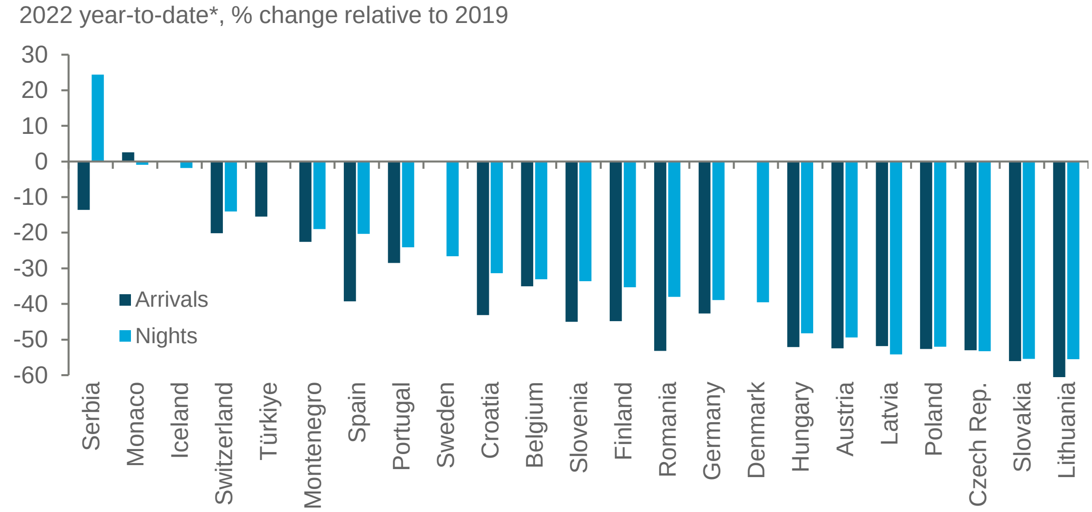
Source: TourMIS* *date varies (Jan-Dec) by destination

No reporting destination has registered either arrivals or nights to have increased on 2019 levels, although Türkiye is edging closer to pre-pandemic volumes, down just 1.9%.

The Nordics and Eastern Europe continue to fare worse relative to other destinations across Europe up to December, with Lithuania, Latvia, the Czech Republic and Finland amongst the poorest performers for both nights and arrivals. However, Greece also saw a 66.6% decline in arrivals from Australia.

Australian visitors will continue to face higher costs to travel to Europe as airlines push up prices due to fuel costs and pricing strategies to help recover some pandemic-induced losses, taking advantage of strong pent-up demand from potential tourists. This may see Australians favour cheaper destinations in the region going forward.

Brazilian Visits and Overnights to Select Destinations



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

Serbia and Monaco continue to be the only two destinations to enjoy growth from Brazil so far in 2022. Monaco remained the strongest performing country for Brazilian travellers in arrivals terms based on data to December, with arrivals up 2.6% against comparable 2019 levels. Although still in positive territory, this does reflect slightly weaker data in the last quarter of the year. Serbia continued to see growth in overnights, with volumes up 24.4%, slightly down from 28.4% last quarter.

With the exception of Serbia and Monaco, arrivals from Brazil averaged 40.1% below 2019 levels based on data from January to December with nights data slightly better at 36.9% on average across the same period. Iceland is one of the only other destinations that is close to fully recovering, with nights just 1.8% below 2019 volumes, not too dissimilar to Monaco.

Looking forward, as Lula begins his third term, we are expecting policy developments to lead to permanently higher inflation, resulting in income per capita only 0.5% higher by 2026 in real terms which could limit more expensive, long-haul trips.

6. ORIGIN MARKET SHARE ANALYSIS

Based on Tourism Economics' Global Travel Service (GTS) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets.

Data in these charts and tables relate to reported arrivals in all destinations as a comparable measure of outbound travel for the calculation of market share.

For example, US outbound figures featured in the analysis are larger than reported departures in national statistics as long-haul trips often involve travel to multiple destinations. In 2014, US data reporting shows 11.9 million departures to Europe while the sum of European arrivals from the US was 23.4 million. Thus, each US trip to Europe involved a visit to two destinations on average.

The geographies of Europe are defined as follows:

Northern Europe is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

Western Europe is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

Southern/Mediterranean Europe is Albania, Bosnia-Herzegovina, Croatia, Cyprus, North Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Türkiye;

Central/Eastern Europe is Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

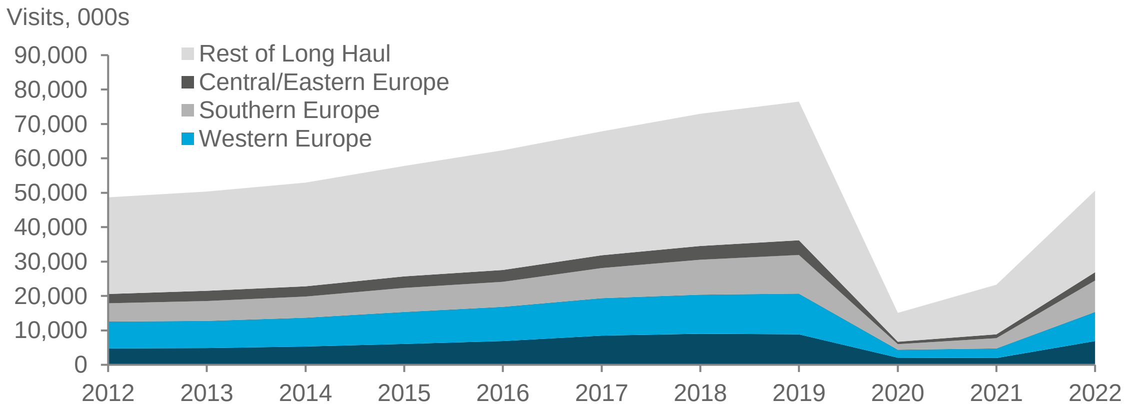
United States Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**44,038**	-	**27.1%**	**231.1%**	-	**-57.7%**	-
Long haul	23,282	52.9%	28.9%	255.5%	56.8%	-62.6%	59.9%
Short haul	20,756	47.1%	24.9%	203.6%	43.2%	-50.2%	40.1%
Travel to Europe	**8,860**	**20.1%**	**35.2%**	**351.0%**	**27.4%**	**-67.8%**	**26.5%**
European Union	6,107	13.9%	40.9%	455.5%	23.3%	-73.6%	22.3%
Northern Europe	1,986	4.5%	37.9%	397.8%	6.8%	-71.4%	6.7%
Western Europe	2,772	6.3%	35.9%	363.8%	8.8%	-72.0%	9.5%
Southern Europe	3,009	6.8%	33.2%	320.0%	8.7%	-58.6%	7.0%
Central/Eastern Europe	1,092	2.5%	33.2%	319.0%	3.1%	-68.3%	3.3%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

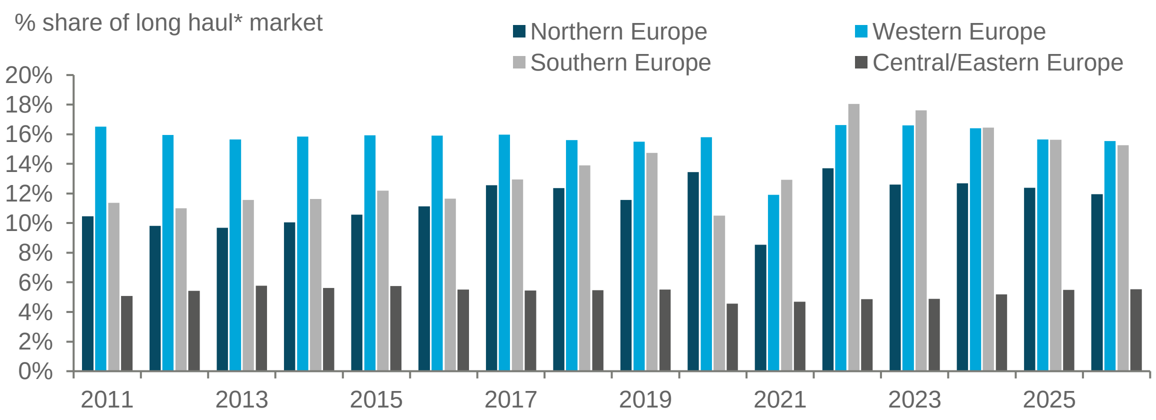
United States Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of American Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

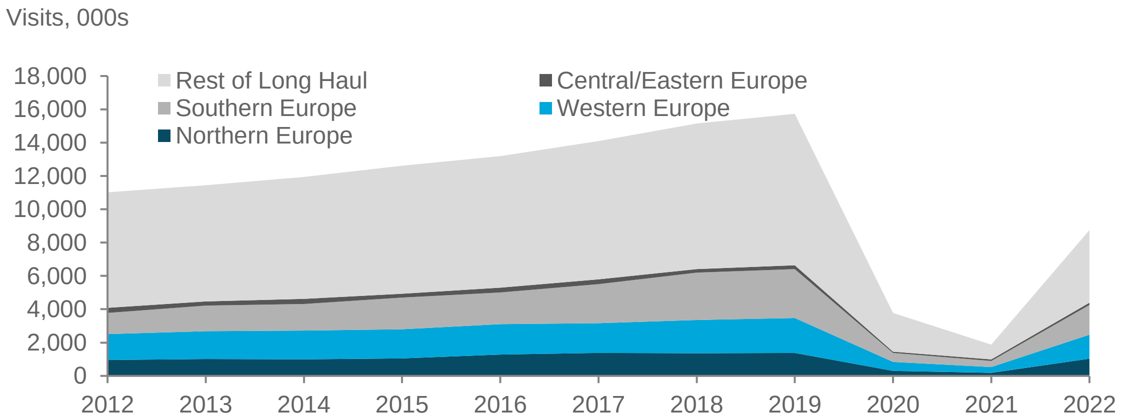
Canada Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**4,869**	**-**	**55.8%**	**816.8%**	**-**	**-85.8%**	**-**
Long haul	1,879	38.6%	55.1%	796.2%	37.7%	-85.8%	38.6%
Short haul	2,990	61.4%	56.2%	829.8%	62.3%	-85.8%	61.4%
Travel to Europe	**984**	**20.2%**	**47.2%**	**590.9%**	**15.2%**	**-81.4%**	**15.5%**
European Union	1,404	28.8%	34.5%	339.6%	13.8%	-70.3%	13.8%
Northern Europe	193	4.0%	51.4%	696.2%	3.4%	-85.0%	3.7%
Western Europe	338	6.9%	45.0%	542.1%	4.9%	-81.4%	5.3%
Southern Europe	366	7.5%	50.7%	676.0%	6.4%	-80.8%	5.6%
Central/Eastern Europe	87	1.8%	23.8%	190.4%	0.6%	-70.1%	0.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

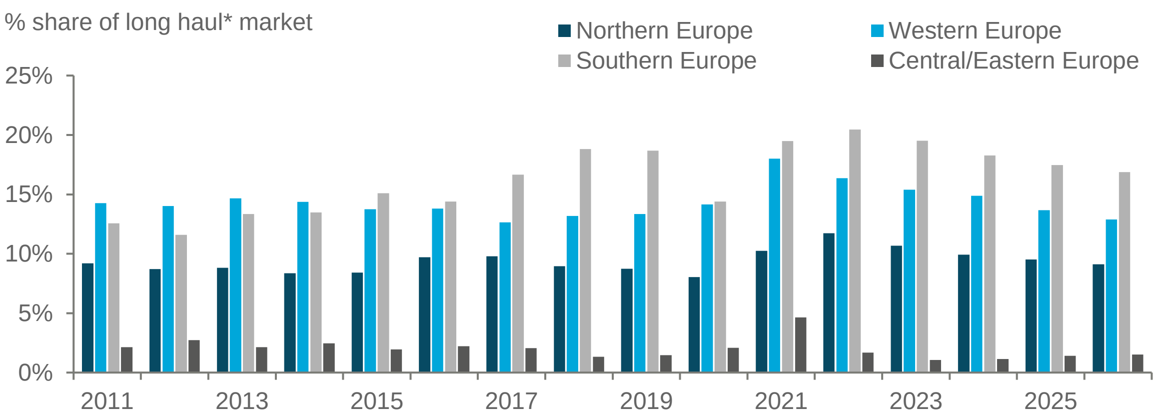
Canada Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of Canadian Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

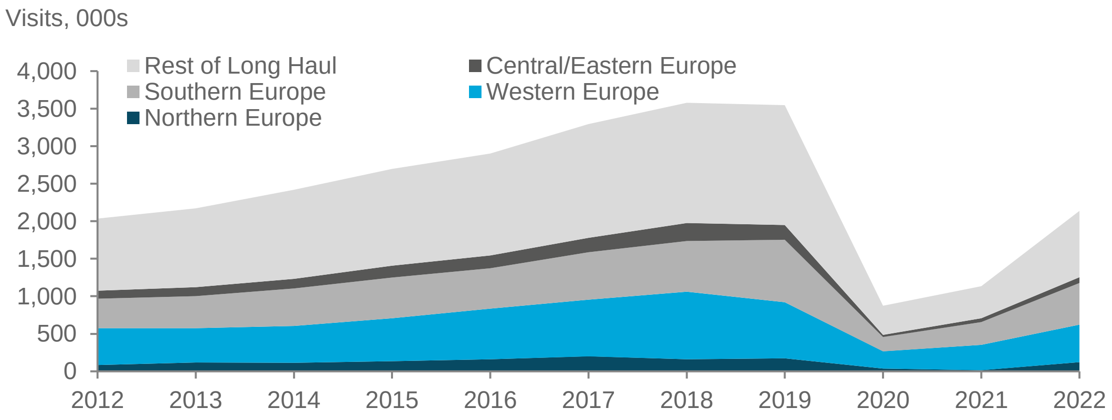
Mexico Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**11,613**	-	**15.6%**	**106.1%**	-	**-47.5%**	-
Long haul	1,134	9.8%	23.0%	181.7%	13.4%	-60.9%	13.1%
Short haul	10,478	90.2%	14.6%	97.9%	86.6%	-45.5%	86.9%
Travel to Europe	**706**	**6.1%**	**20.2%**	**151.4%**	**7.4%**	**-54.3%**	**7.0%**
European Union	458	3.9%	27.5%	237.0%	6.4%	-64.7%	5.9%
Northern Europe	14	0.1%	66.2%	1166.3%	0.7%	-91.2%	0.7%
Western Europe	341	2.9%	14.9%	100.0%	2.8%	-49.5%	3.1%
Southern Europe	303	2.6%	20.8%	157.7%	3.3%	-43.9%	2.4%
Central/Eastern Europe	48	0.4%	22.8%	179.8%	0.6%	-71.9%	0.8%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

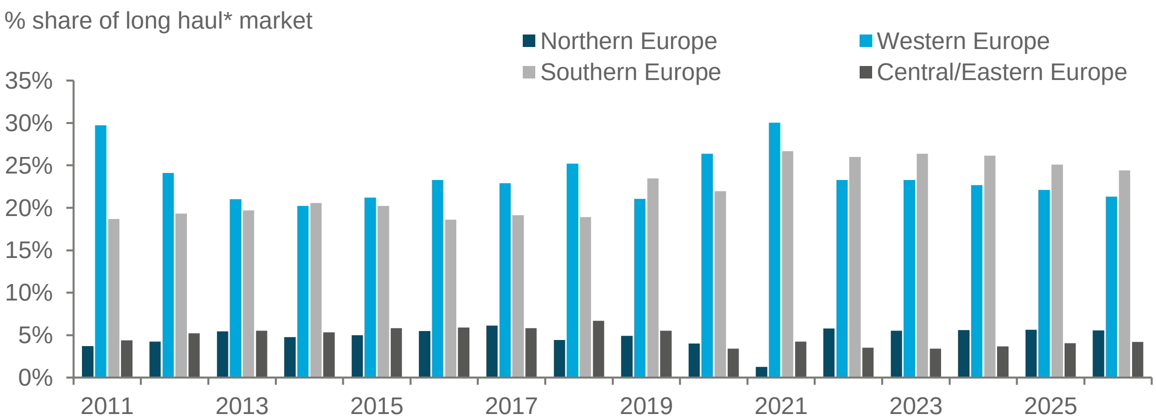
Mexico Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of Mexican Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

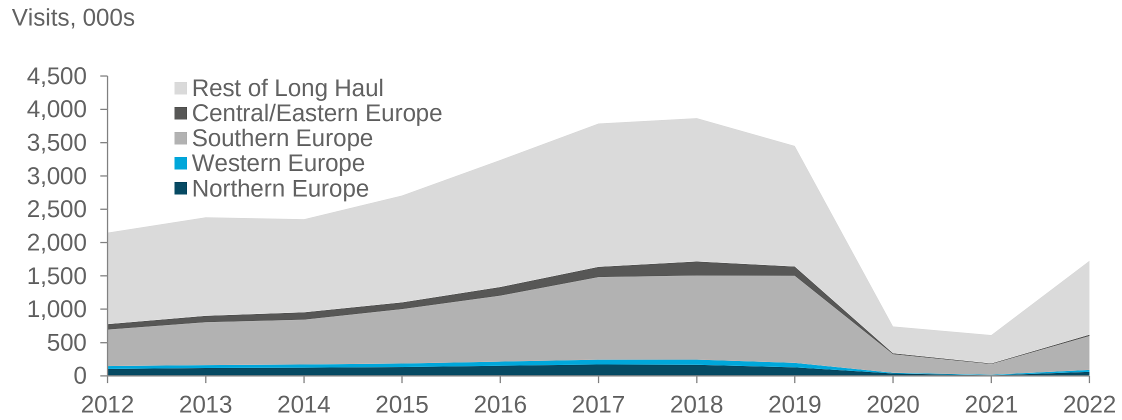
Argentina Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**2,034**	-	**33.2%**	**318.8%**	-	**-82.8%**	-
Long haul	612	30.1%	36.2%	369.5%	33.7%	-81.1%	27.4%
Short haul	1,423	69.9%	31.8%	297.1%	66.3%	-83.4%	72.6%
Travel to Europe	**188**	**9.2%**	**46.1%**	**566.8%**	**14.7%**	**-85.9%**	**11.3%**
European Union	319	15.7%	25.2%	207.4%	11.5%	-65.9%	7.9%
Northern Europe	10	0.5%	68.9%	1275.2%	1.6%	-93.5%	1.3%
Western Europe	6	0.3%	55.9%	819.6%	0.7%	-89.6%	0.5%
Southern Europe	161	7.9%	43.1%	499.3%	11.3%	-83.7%	8.3%
Central/Eastern Europe	11	0.5%	54.4%	776.2%	1.1%	-92.0%	1.1%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

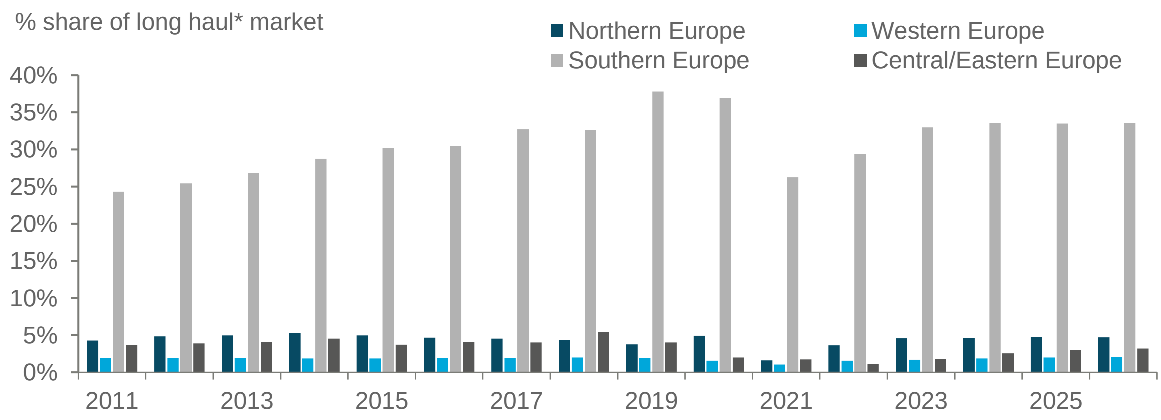
Argentina Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

Europe's Share of Argentine Market



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

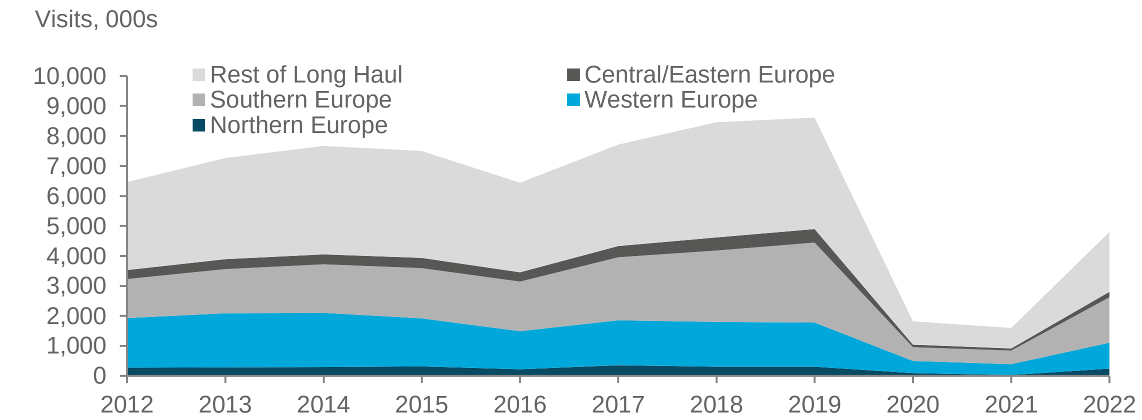
Brazil Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**2,017**	-	**41.7%**	**471.0%**	-	**-77.8%**	-
Long haul	1,598	79.2%	38.2%	403.8%	69.9%	-75.2%	71.0%
Short haul	419	20.8%	52.6%	727.9%	30.1%	-84.1%	29.0%
Travel to Europe	**916**	**45.4%**	**37.8%**	**396.3%**	**39.5%**	**-73.5%**	**38.1%**
European Union	945	46.9%	32.5%	308.4%	33.5%	-73.6%	39.5%
Northern Europe	27	1.3%	69.2%	1286.2%	3.2%	-87.8%	2.4%
Western Europe	360	17.9%	31.3%	289.5%	12.2%	-71.7%	14.0%
Southern Europe	459	22.8%	40.0%	436.9%	21.4%	-72.3%	18.2%
Central/Eastern Europe	70	3.5%	34.6%	341.2%	2.7%	-77.7%	3.5%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

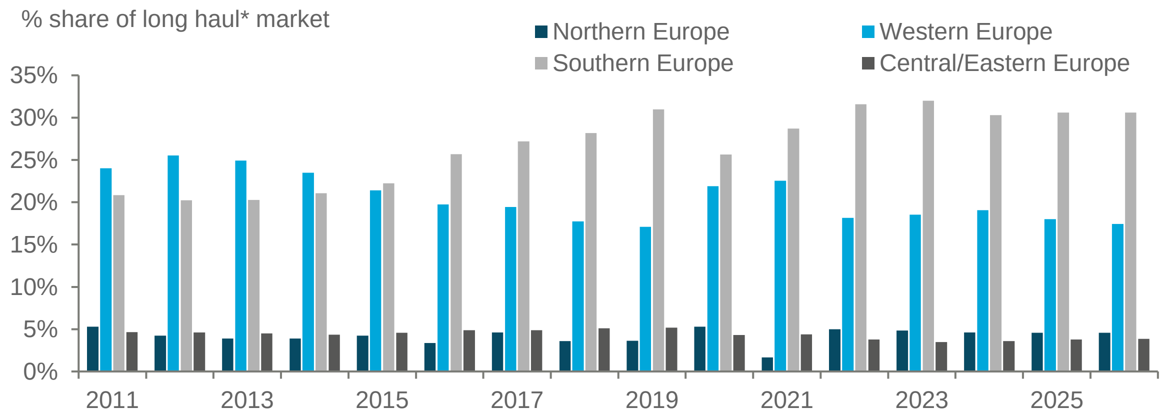
Brazil Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

Europe's Share of Brazilian Market



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

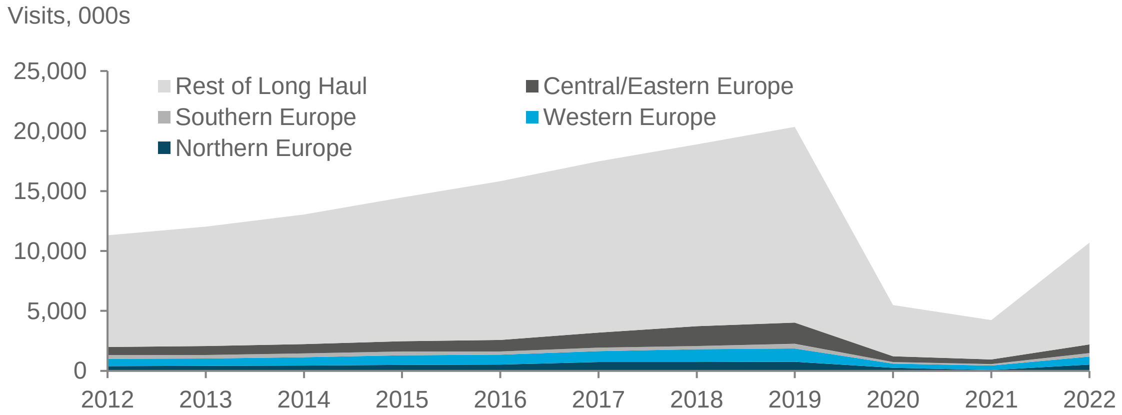
India Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**4,615**	-	**38.2%**	**403.4%**	-	**-72.7%**	-
Long haul	4,241	91.9%	38.6%	412.3%	93.5%	-73.2%	93.6%
Short haul	373	8.1%	32.1%	302.1%	6.5%	-65.7%	6.4%
Travel to Europe	**957**	**20.7%**	**33.0%**	**316.6%**	**17.2%**	**-62.9%**	**15.3%**
European Union	712	15.4%	19.3%	141.2%	7.4%	-46.3%	7.8%
Northern Europe	72	1.6%	62.4%	1029.7%	3.5%	-86.2%	3.1%
Western Europe	376	8.1%	24.0%	193.6%	4.7%	-54.2%	4.9%
Southern Europe	117	2.5%	35.6%	358.9%	2.3%	-56.4%	1.6%
Central/Eastern Europe	393	8.5%	31.4%	291.0%	6.6%	-59.7%	5.8%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

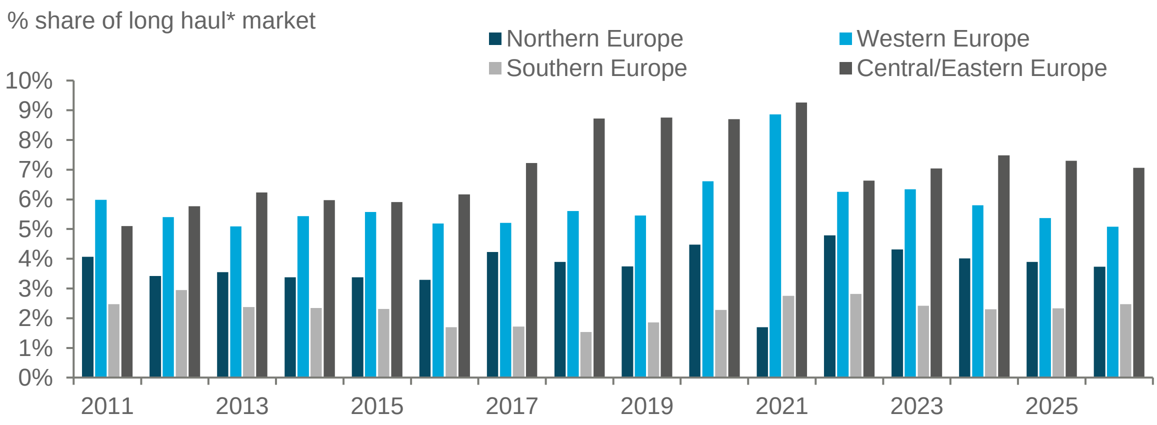
India Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

Europe's Share of Indian Market



*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

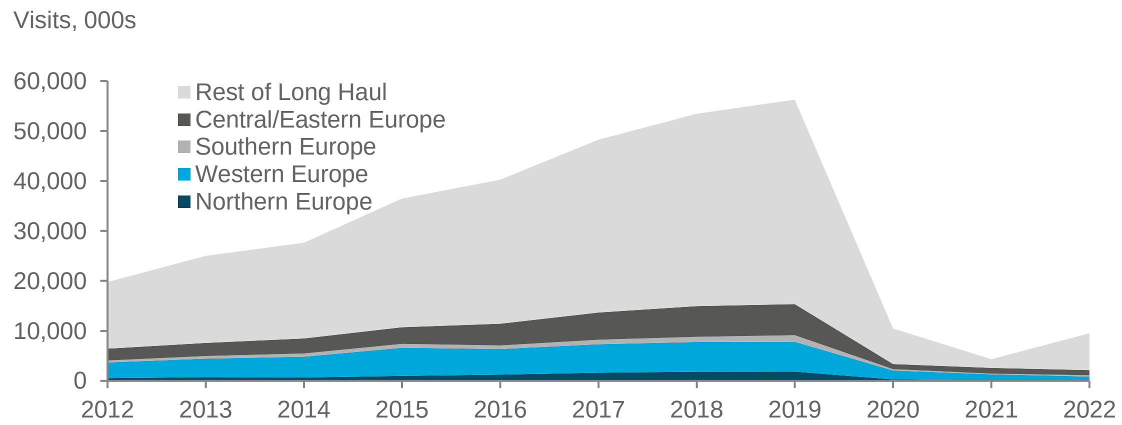
China Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**8,089**	-	**73.6%**	**1475.7%**	-	**-90.6%**	-
Long haul	4,359	53.9%	69.8%	1312.2%	48.3%	-89.2%	46.8%
Short haul	3,729	46.1%	77.6%	1666.9%	51.7%	-91.8%	53.2%
Travel to Europe	**2,614**	**32.3%**	**38.6%**	**412.4%**	**10.5%**	**-77.2%**	**13.3%**
European Union	2,360	29.2%	25.7%	214.3%	5.8%	-64.5%	7.7%
Northern Europe	96	1.2%	79.3%	1754.9%	1.4%	-92.4%	1.5%
Western Europe	1,218	15.1%	32.9%	315.1%	4.0%	-76.3%	6.0%
Southern Europe	159	2.0%	48.5%	623.1%	0.9%	-76.0%	0.8%
Central/Eastern Europe	1,142	14.1%	36.5%	373.9%	4.2%	-74.0%	5.1%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

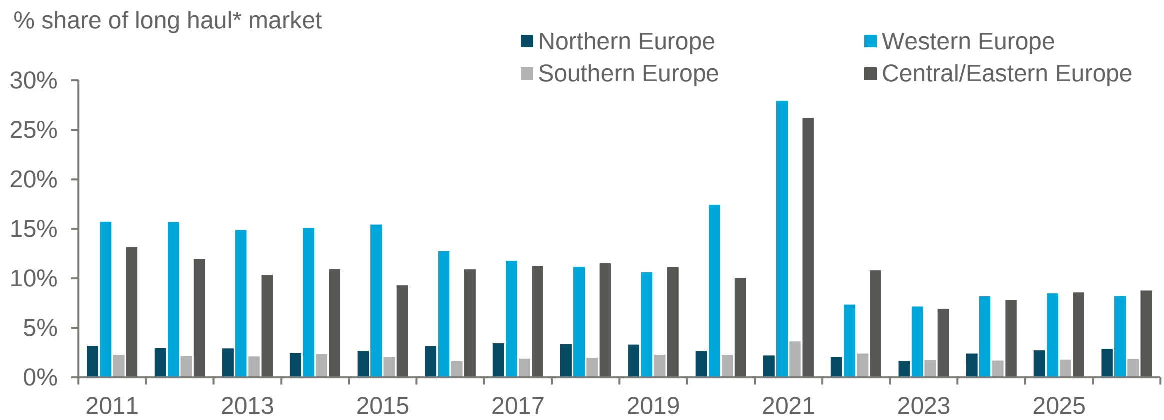
China Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Europe's Share of Chinese Market



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

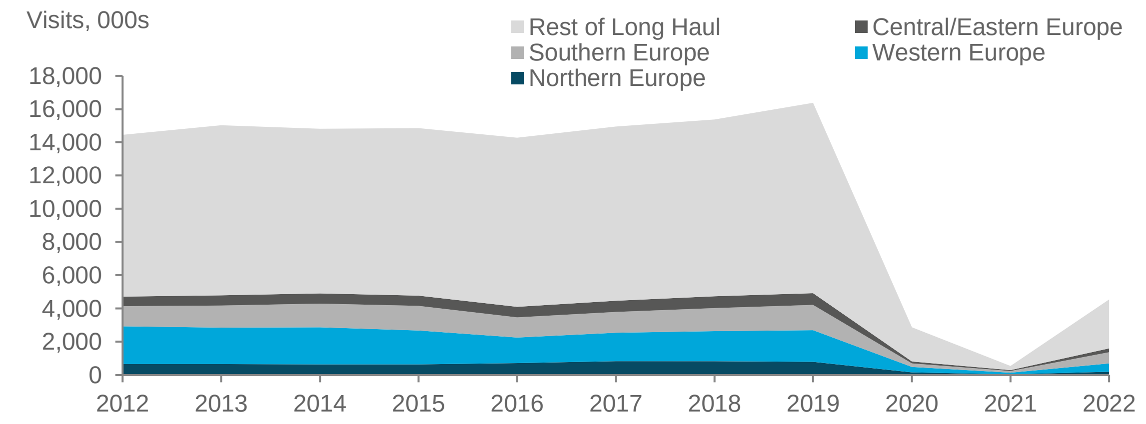
Japan Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**663**	-	**113.2%**	**4305.9%**	-	**-97.0%**	-
Long haul	556	83.8%	101.8%	3245.6%	63.6%	-96.1%	65.2%
Short haul	108	16.2%	150.6%	9778.4%	36.4%	-98.6%	34.8%
Travel to Europe	**298**	**44.9%**	**77.6%**	**1667.8%**	**18.0%**	**-92.7%**	**18.8%**
European Union	754	113.6%	40.4%	445.2%	14.1%	-82.3%	19.5%
Northern Europe	38	5.7%	86.9%	2182.3%	3.0%	-94.7%	3.2%
Western Europe	106	16.0%	80.2%	1799.0%	6.9%	-93.1%	7.0%
Southern Europe	97	14.7%	73.7%	1480.2%	5.3%	-92.0%	5.6%
Central/Eastern Europe	57	8.5%	71.9%	1399.4%	2.9%	-91.0%	2.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

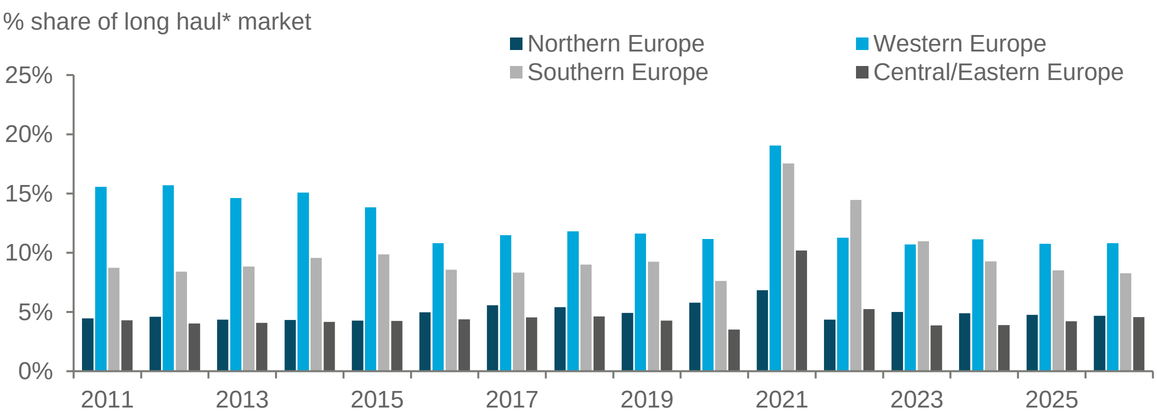
Japan Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Europe's Share of Japanese Market



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

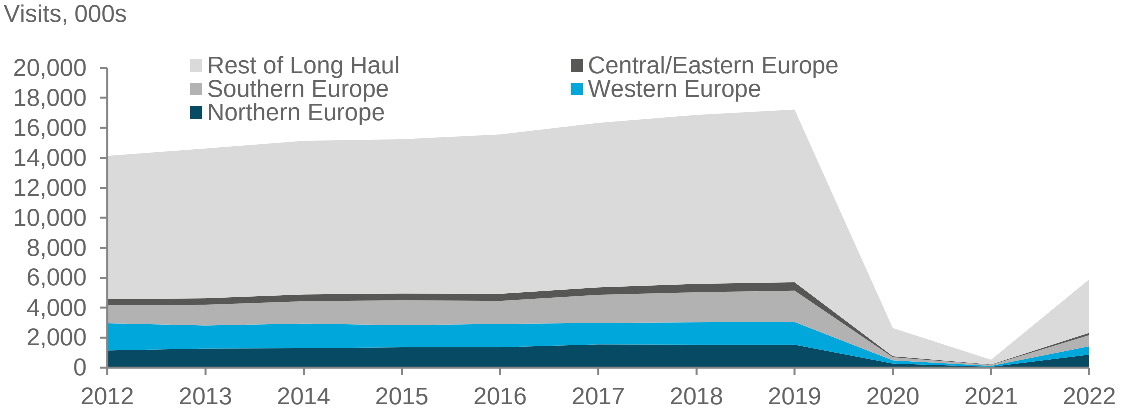
Australia Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**604**	-	**105.7%**	**3581.4%**	-	**-96.3%**	-
Long haul	531	88.0%	109.7%	3950.6%	96.8%	-96.6%	95.6%
Short haul	72	12.0%	57.6%	873.5%	3.2%	-90.0%	4.4%
Travel to Europe	**212**	**35.1%**	**98.8%**	**3003.2%**	**29.6%**	**-95.7%**	**30.2%**
European Union	709	117.5%	50.8%	680.1%	24.9%	-84.4%	28.0%
Northern Europe	51	8.5%	101.3%	3203.3%	7.6%	-96.2%	8.4%
Western Europe	59	9.8%	93.7%	2625.1%	7.3%	-96.2%	9.6%
Southern Europe	74	12.3%	105.9%	3601.1%	12.3%	-95.2%	9.4%
Central/Eastern Europe	27	4.5%	80.5%	1818.1%	2.3%	-94.2%	2.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

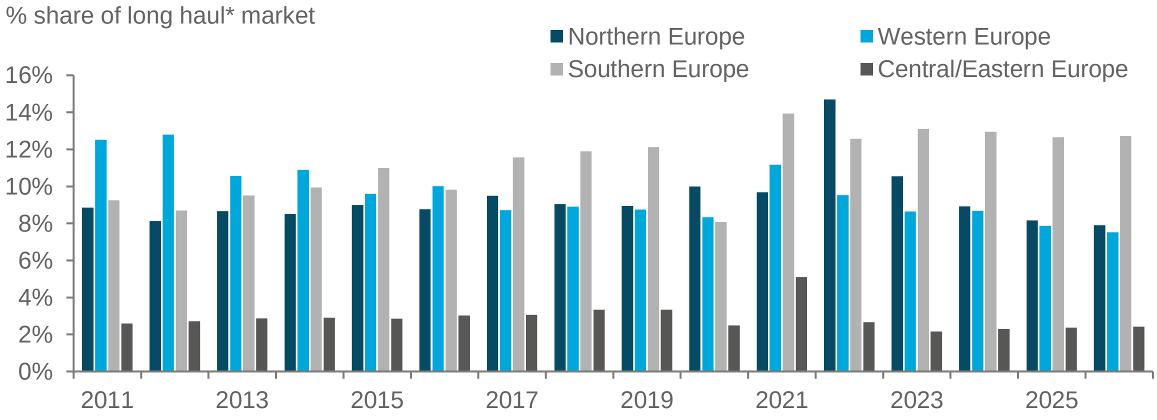
Australia Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

Europe's Share of Australian Market



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

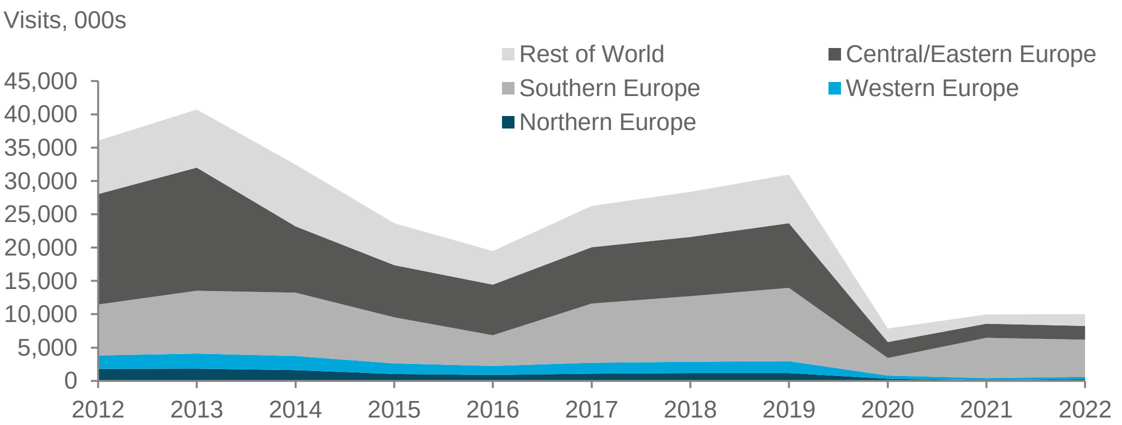
Russia Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**9,954**	-	**23.9%**	**192.2%**	-	**-48.9%**	-
Long haul	1,362	13.7%	37.8%	397.1%	23.3%	-73.1%	26.0%
Short haul	8,592	86.3%	21.0%	159.7%	76.7%	-40.4%	74.0%
Travel to Europe	**8,592**	**86.3%**	**21.0%**	**159.7%**	**76.7%**	**-40.4%**	**74.0%**
European Union	2,209	22.2%	22.8%	178.7%	21.2%	-72.9%	41.8%
Northern Europe	95	0.9%	53.2%	742.8%	2.7%	-89.6%	4.6%
Western Europe	310	3.1%	36.9%	380.6%	5.1%	-76.8%	6.9%
Southern Europe	6,060	60.9%	10.3%	63.3%	34.0%	31.9%	23.6%
Central/Eastern Europe	2,127	21.4%	36.6%	376.3%	34.8%	-72.0%	38.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

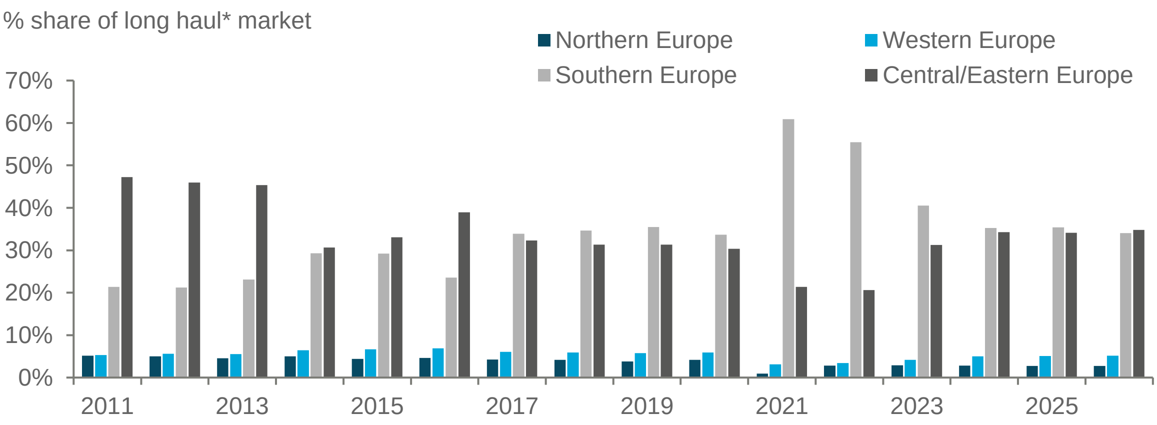
Russia Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

Europe's Share of Russian Market



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

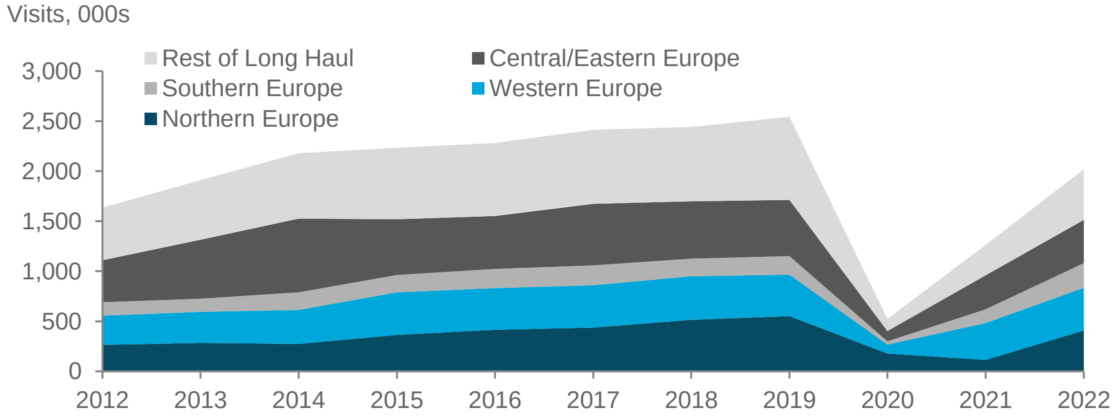
United Arab Emirates Market Share Summary

	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**1,983**	-	**24.0%**	**193.5%**	-	**-48.1%**	-
Long haul	1,264	63.8%	15.3%	103.8%	44.3%	-44.6%	59.7%
Short haul	719	36.2%	35.2%	351.3%	55.7%	-53.4%	40.3%
Travel to Europe	**961**	**48.4%**	**12.4%**	**79.6%**	**29.6%**	**-38.1%**	**40.6%**
European Union	280	14.1%	28.1%	245.0%	16.6%	-65.7%	21.4%
Northern Europe	113	5.7%	38.5%	409.4%	9.9%	-72.8%	10.9%
Western Europe	370	18.7%	3.6%	19.4%	7.6%	-10.6%	10.8%
Southern Europe	136	6.8%	5.3%	29.6%	3.0%	-29.1%	5.0%
Central/Eastern Europe	341	17.2%	9.2%	55.4%	9.1%	-35.4%	13.8%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

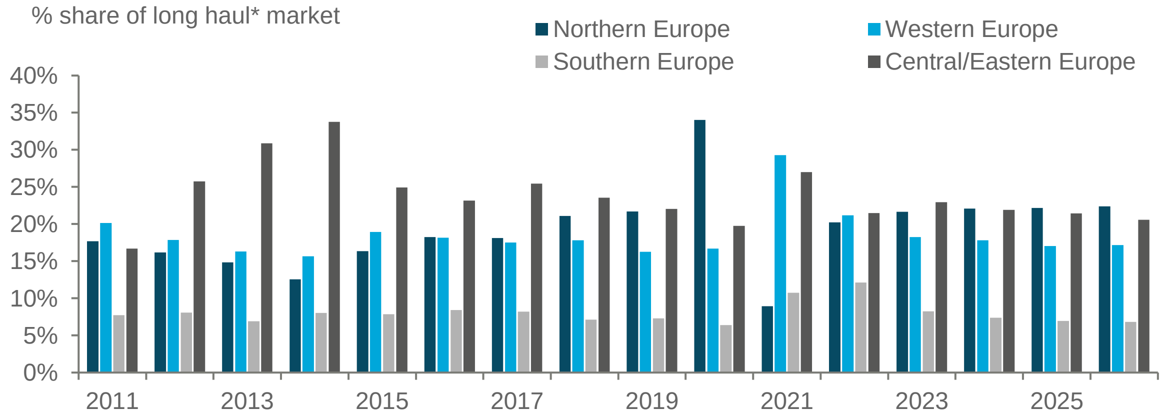
United Arab Emirates Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

Europe's Share of Emirati Market



*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

7. ECONOMIC OUTLOOK

Assessing recent tourism data and industry performance is a useful way of directly monitoring the key trends for travel demand across Europe. This can be complemented by looking at key trends and relationships in macroeconomic performance in Europe's key source markets, which can provide further insight into likely tourism developments throughout the year.

The linkages between macroeconomics and tourism performance can be very informative. For example, strong GDP or consumer spending growth is an indication of rising prosperity with people more likely to travel abroad. It is also an indication of rising business activity and therefore stronger business travel. Movements in exchange rates against the euro can be equally important as it can influence choice of destination. For example, if the euro appreciated (gained value) against the US dollar, the Eurozone would become a more expensive destination and therefore potentially less attractive for US visitors. Conversely, depreciation (lost value) of the euro against the US dollar would make the Eurozone a relatively cheaper destination and therefore more attractive to US travellers.

Disclaimer: the opinions expressed in the forthcoming section [Economic Outlook] are those of Oxford Economics ("we, us, our"). They do not purport to reflect the opinions or views of ETC or its members.

OVERVIEW

While some of the shocks that took a toll on the world last year appear to be beginning to ease, they have been replaced by other obstacles to growth. Most notably, fiscal and monetary policy combined look set to have a bigger negative impact on global growth in 2023 than 2022. Against this backdrop, it's hard to be too positive about the economic outlook for this year. Our economic forecasts reflect this. We expect global GDP growth to slump to just 1.3% in 2023, down from 3.0% last year.

Economic data continues to paint a relatively downbeat picture, but it doesn't suggest that economies are entering a deeper slump. It is likely that the weakest period in this economic cycle has passed us in Q4 2022. A key factor behind this is the recent resilience demonstrated by economic data, easing headline inflation and reduced risk of winter energy rationing in Europe due to warmer winter temperatures.

Looking past the raft of adverse shocks last year, three very different forces are shaping the three key regions of the global economy in 2023. Excess demand in the US, the Russia-Ukraine conflict's impact on Europe, and China's broken growth model are each powerful forces in their own right. Judging their combined impact and timing is difficult, adding to the uncertainty and volatility in the global outlook. But we expect that combined, these shocks will produce an era of low growth, elevated inflation in the short term and low medium-term inflation.

Meanwhile, although our Chinese GDP growth forecast for 2023 is little changed from a month ago, the ending of the country's zero-Covid policy has prompted us to shift our expectations for the shape of growth in 2023 with a possible upward revision to Q1 on the cards. But overall, normalisation in economic activity will take some time after the dismantling of most Covidcontrols in China in recent weeks. although private consumption has traditionally borne the brunt of a Covid-driven slowdown in growth, any subsequent recovery will very likely be asymmetric given that the Chinese consumer is climbing from a deep trough and the pullback in retail spending has been increasingly broad-based.

Overall, we now expect that the balance of risks is now less tilted to the downside and that risks of a substantial global economic slump have diminished over the past three months. This is summed up by easing inflation as central banks start to take control, supply-chain disruptions fading and the lesser threat of energy shortages because of the war in Ukraine which remains ongoing and likely long-lived.

Summary of economic outlook, % change*

	2021					2022				
Country	GDP	Consumer expenditure	Unemploy-ment**	Exchange rate***	Inflation	GDP	Consumer expenditure	Unemploy-ment**	Exchange rate***	Inflation
UK	7.6%	6.3%	0.2%	2.7%	2.6%	4.1%	4.9%	-1.7%	0.9%	9.1%
France	6.8%	5.3%	-0.2%	0.0%	1.6%	2.5%	2.5%	-0.5%	0.0%	5.2%
Germany	2.6%	0.4%	-0.2%	0.0%	3.1%	1.7%	4.7%	-0.4%	0.0%	7.9%
Netherlands	4.9%	3.6%	-0.6%	0.0%	2.7%	4.2%	6.1%	-0.8%	0.0%	10.6%
Italy	6.7%	5.1%	0.2%	0.0%	1.9%	3.8%	4.4%	-1.4%	0.0%	8.2%
Spain	5.5%	6.0%	-0.7%	0.0%	3.1%	5.3%	2.4%	-2.0%	0.0%	8.4%
Russia	4.7%	9.5%	-1.0%	-5.4%	6.7%	-2.9%	-2.5%	-0.9%	20.1%	13.8%
US	5.9%	8.3%	-2.7%	-3.4%	4.7%	2.1%	2.9%	-1.7%	12.4%	8.0%
Canada	5.0%	5.0%	-2.2%	3.4%	3.4%	3.3%	4.6%	-2.2%	8.0%	6.8%
Brazil	5.3%	3.7%	-0.5%	-7.7%	8.3%	3.0%	4.2%	-3.8%	17.5%	9.3%
China	8.1%	12.3%	0.0%	3.1%	0.9%	2.7%	1.1%	0.2%	7.8%	1.9%
Japan	1.7%	1.3%	0.0%	-6.2%	-0.2%	1.5%	2.9%	-0.2%	-6.0%	2.5%
India	8.3%	9.3%	-1.2%	-3.2%	5.1%	6.8%	10.1%	-1.5%	5.7%	6.7%

Source: Tourism Economics based on GEM as of 13.01.2023

* 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.

EUROZONE

The eurozone economy has shown remarkable resilience recently. The savings ratio has remained broadly stable, meaning the strong increase in consumption did not come from excess savings being spent in Q3 last year, but from the strength in the labour market and large support from fiscal policy.

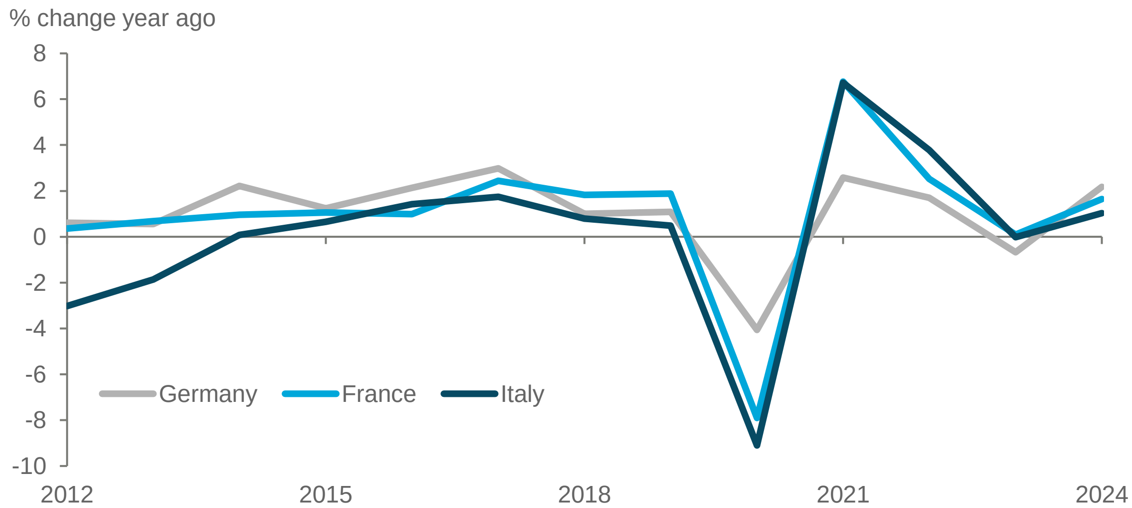
We expect eurozone GDP to decline for two consecutive quarters, starting in Q4 2022, when we anticipate GDP shrank by around 0.5% on the quarter, with the decline at the start of 2023 more modest than in Q4. The most recent surveys of eurozone economic activity support our belief that sentiment bottomed out in Q4. The composite PMI for the eurozone picked up to 49.3 in December, up 1.5pts from November. It's the highest figure recorded since July, suggesting that the decline in activity is moderating.

In terms of energy supply, Europe has started the new year in a better position than anticipated a few months ago, when Russia cut gas supplies. The warm weather in recent weeks and the resulting lower gas consumption mean that eurozone countries have been, on net, adding rather than withdrawing gas from storage. This is consistent with our view that eurozone countries will avoid gas rationing this winter and next.

But difficult times remain ahead for the consumer as households face a combination of large declines in real income and sentiment as inflation remained close to double-digit growth in December. Although inflation looks to have peaked, it is expected to moderate and remain high for much of this year, averaging 4.9%. While the substantial drop in gas prices represent a downside risk with respect to our call, there is a possibility that core inflation will remain more entrenched than assumed despite rate hikes by the ECB set to continue.

We expect the eurozone economy will grow modestly as 2023 progresses, but this remains conditional on inflation slowing and the labour market faring relatively better than in previous recessions. Overall, we see the eurozone economy contracting by nearly 1% from peak to trough, with some countries, such as Germany, showing larger declines.

Economic performance in key eurozone economies, real GDP



Source: Oxford Economics

UNITED KINGDOM

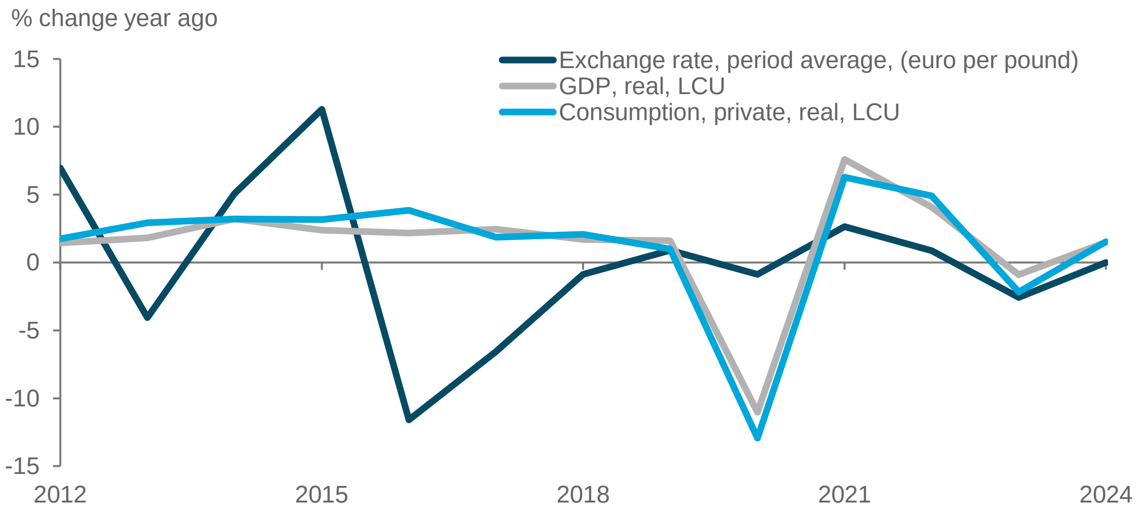
Early data for the rest of Q4 have been soft. Retail sales fell in November, after October's post-bank holiday rebound, while the PMIs suggest activity declined throughout the quarter. We expect that GDP was flat or fell slightly in Q4 2022 and moving forward the economy is set to be in a recession for most of this year.

The MPC raised interest rates to 4.0% at its February meeting. The decision to hike was based on concerns that a tight labour market could help to ensure that domestic wage and price pressures prove persistent. But while we don't expect much improvement in labour supply in the near term, labour demand is weakening and the downturn in activity should accelerate this process.

A quick pivot towards rate cuts is unlikely, despite a poor growth outlook. Weak supply will limit the extent to which labour market conditions loosen, while inflation is set to remain sticky. CPI inflation has likely passed its peak, while falling food commodity prices suggest food inflation should soon follow, and base effects will increasingly come into play. But April's rise in the energy price guarantee, the continued pass-through of higher energy costs for firms, and the weaker pound will slow the descent. We expect CPI inflation will still be above 4% at end-2023, and the MPC is unlikely to cut interest rates until inflation is closer to the 2% target.

High inflation will eat into household spending power this year, but tighter fiscal policy will also add to the strain on households as the Autumn Statement reduced the generosity of the energy price guarantee by £500 in April. As a result, we expect real household income to fall by more than 4.5% between the Q3 2021 peak and its forecast trough in Q4 2023. There's some scope for households to cushion the blow by taking on new credit and spending a portion of the excess savings they accumulated during the Covid-19 pandemic in 2020-2021. But that scope looks limited given that the distribution of those savings, and that many mortgagors facing a steep rise in their debt servicing costs are likely to save more in an attempt to better absorb the higher payments.

United Kingdom economic outlook



Source: Oxford Economics

UNITED STATES

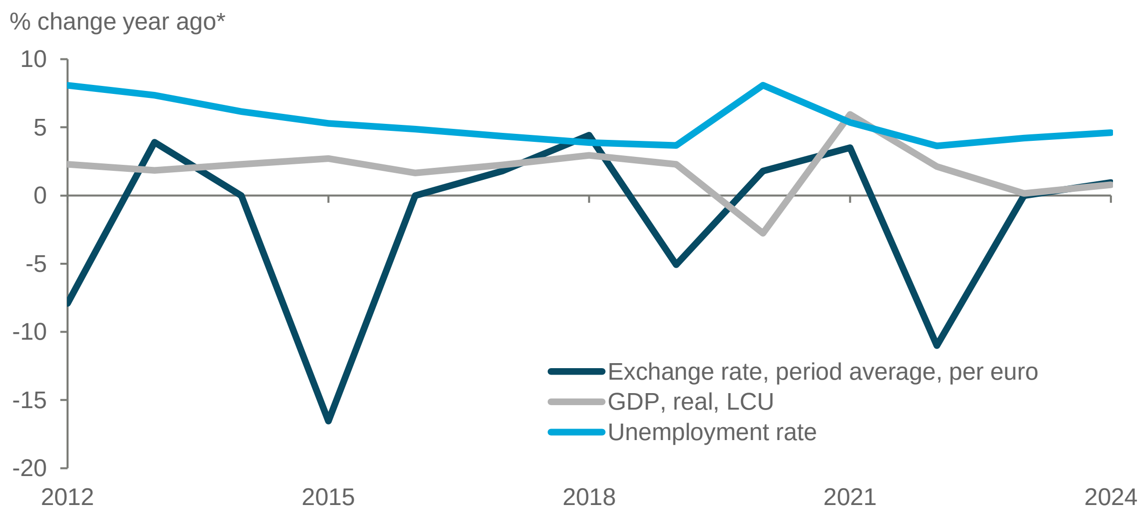
The economy has a lot of momentum heading into this year but that doesn't warrant an immediate change to the near-term forecast for a recession to start in the second quarter. Several challenges are ahead, testing whether the Fed can engineer a soft landing. Given the Fed's willingness to err on the side of raising rates too much rather than too little to tame inflation, we don't think a soft landing is likely. Past rate hikes by the Fed, tighter financial market conditions and a weaker global economy will take its toll on the US economy in the first half of this year.

Considering the momentum in the economy, the January baseline has the recession starting in Q2 2023. The peak-to-trough decline in GDP is still around 1% and a roughly a 1ppt increase in the unemployment rate. The combination of persistently high inflation, aggressive Fed monetary policy tightening, negative spill-over effects from slower global activity, and weaker corporate earnings will weigh on consumers' and businesses' willingness to spend and will push the economy into a mild recession.

The labour market is a bright spot for the economy. The December employment report painted a picture of a still healthy labour market with some easing of wage pressures. Both jobs growth and annual earnings remain above the pace the Fed sees as consistent with slowing inflation, leaving the Fed on track to continue to raise interest rates. The FOMC opted to boost the Federal funds target range by 25bps on 1 February. We see the risk tilted toward further rate increases, particularly if financial market conditions ease, complicating the Fed's efforts to bring down inflation.

However, the economy could skirt a recession, but it will require a little bit of luck. If more of the remaining excess savings which is nearly $1.5 trillion is spent, that would provide a cushion to the economy next year. The economy could also be less sensitive to fluctuations in real interest rates than we estimate and the easing in supply-shocks could cause inflation to fall quickly, taking pressure off the Fed to tighten.

United States economic outlook



Source: Oxford Economics *Unemployment rate is absolute

JAPAN

We've cut our 2023 annual GDP growth forecast for Japan to 0.7%, following a 1.5% expansion in 2022. Although the outlook for the real economic environment has not changed significantly since last month, the Bank of Japan's (BoJ) surprise decision led us to revise our growth outlook.

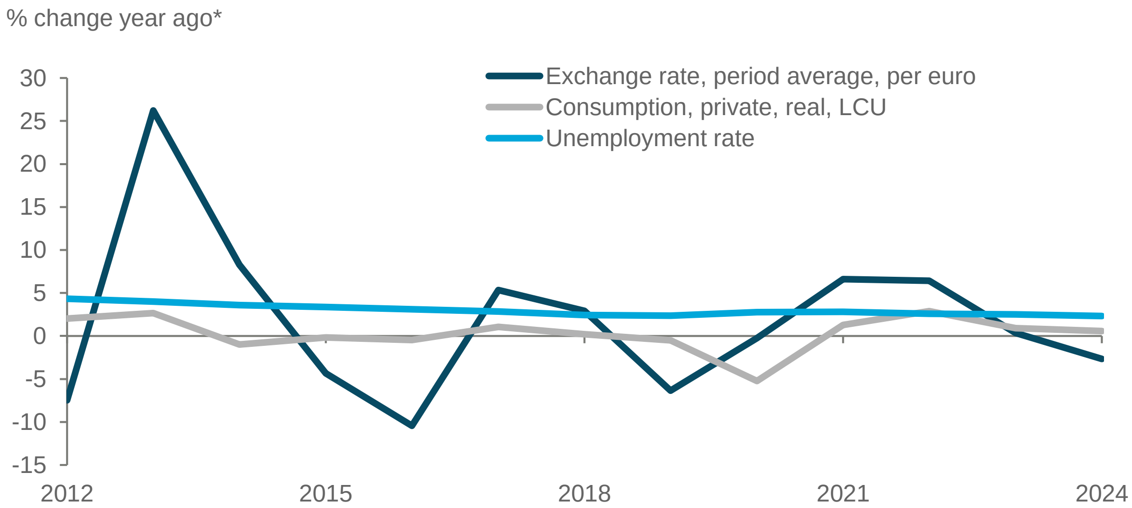
The BoJ surprisingly widened its allowance corridor for the 10-year JGB yield target at its December meeting. As expected, it resulted in effective monetary tightening, though it was explained that move was meant to enhance the sustainability and effectiveness of YCC policy. The 10-year JGB yield has remained close to the BoJ's new upper limit of 0.5%. We expect it to stay around the current level in H1 2023 and think speculation about further tightening is likely to persist. We project the upward pressures on long-term rates will gradually recede only in H2 2023 with the help of the slowdown in inflation and decline in global yields.

The BoJ's action fuelled a yen appreciation trend. However, we believe that the extent of further yen appreciation will likely be limited by persistent real rate differentials, and we forecast the yen will stay at around USD130/JPY throughout 2023. We have therefore cut our 2023 CPI outlook to 1.2% on the year as we expect more moderate import price increases ahead than previously thought.

Higher yields will weigh on corporate activity and exports will be somewhat hindered by a stronger yen, both of which will lead investment growth to plateau in H1 2023. However, such negative impacts on the real economy will be partially counterbalanced by upward revisions to consumption, with the improvement led by service expenditures with support from domestic travel subsidies.

Looking ahead, we expect the consumption recovery to continue despite the recent surge in Covid cases, supported by pent-up demand and savings. Although the deteriorating terms of trade will continue to weigh on consumption, we now expect it will be partially mitigated by more moderate yen weakness than previously thought.

Japan economic outlook



Source: Oxford Economics *Unemployment rate is absolute

EMERGING MARKETS

GDP growth forecast for EMs is set to grow by 3.3% this year. December PMIs confirmed widespread weakness in EM economic activity, which we expect to continue in the coming months as several economies will be hit by recessions. Demand should recover after mid-2023, when easing inflation will boost confidence and real incomes.

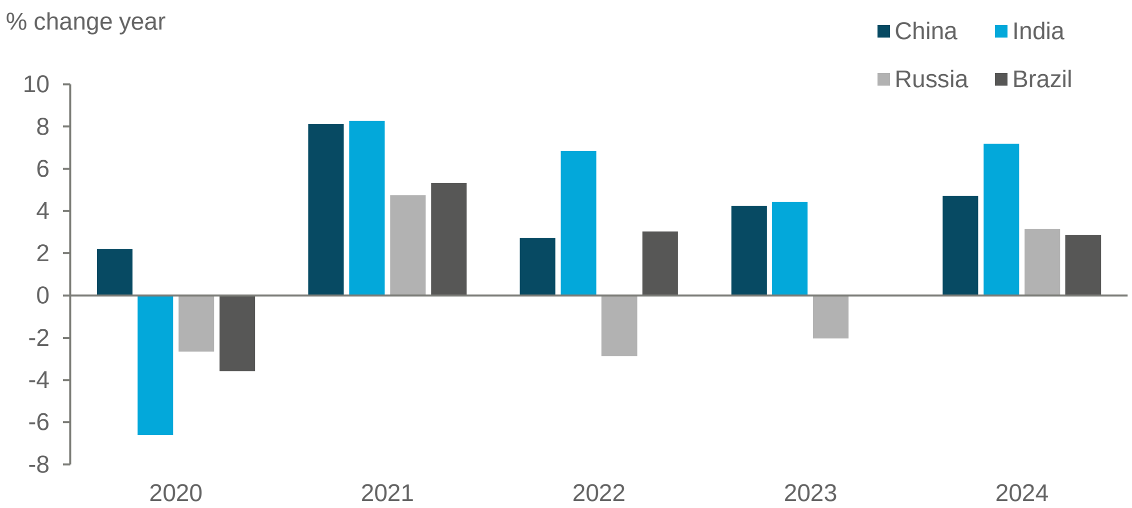
China's sooner-than-expected reopening has led some to pencil in a more robust rebound in 2023, we remain cautious given that the authorities may amplify the disruptions associated with reopening. Although the economic recovery should start in Q2 as sentiment gradually improves, the health crisis triggered by the rushed ending of Covid-related restrictions will disrupt near-term activity.

We expect India to be among the best performing Asian economies in 2023, bit will still be affected by the global slowdown in terms of the strong US dollar and elevated energy prices. However, inflationary pressures are set to ease with global supply chains improving, supporting growth as the year goes on.

The outlook for Russia is the bleakest due to the ongoing war in Ukraine. We expect the economy has been in recession since Q1 2022, and we expect it will continue to shrink in early 2023 following the EU oil price embargo and the EU-G7 oil price cap, prompting a drop in oil exports.

Brazil is facing stagnation this year following on from a broad-based loss of momentum in Q4. The start of a third Lula da Silva administration this month will result in a U-turn in economic policies and aside from this resulting in higher inflation, the key component of this new economic model will be structurally higher interest rates which will limit growth going forward.

Economic growth in select Emerging Markets, GDP real



Source: Oxford Economics

APPENDIX 1

GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS

AIRLINE INDUSTRY INDICATORS

ASK – Available Seat Kilometres. Indicator of airline supply, available seats * kilometres flown;
RPK – Revenue Passenger Kilometres. Indicator of airline demand, paying passenger * kilometres flown;
PLF – Passenger Load Factor. Indicator of airline capacity. Equal to revenue passenger kilometres (RPK) / available seat kilometres (ASK);
Xmth mav – X month moving average.

HOTEL INDUSTRY INDICATORS

ADR – Average Daily Rate. Indicator of hotel room pricing, equal to hotel room revenue / rooms sold in a given period;
Occ – Occupancy Rate. Indicator of hotel performance, equal to the number of hotel rooms sold / room supply;
RevPAR – Revenue per Available Room. Indicator of hotel performance, equal to hotel room revenue / rooms available in a given period.

CENTRAL BANKS

BoE – Bank of England;
MPC – Monetary Policy Committee of BoE;
BoJ – Bank of Japan;
ECB – European Central Bank;
Fed – Federal Reserve (US);
RBI – Reserve Bank of India;
OBR – Office for Budget Responsibility;
PBoC – People's Bank of China.

ECONOMIC INDICATORS AND TERMS

BP – Basis Point. A unit equal to one-hundredth of a percentage point;
Broad money – Key indicator of money supply and liquidity including currency holdings as well as bank deposits that can easily be converted to cash;
CPI – Consumer Price Index. Measure of price inflation for consumer goods;
FDI – Foreign Direct Investment. Investment from one country into another, usually by companies rather than governments;
GDP – Gross Domestic Product. The value of goods and services produced in a given economy;
LCU – Local Currency Unit. The national unit of currency of a given country, e.g., pound, euro, etc.;
PMI – Purchasing Managers' Index. Indicator of producers' sentiment and the direction of the economy;
PPI – Purchase Price Index. Measure of inflation of input prices to producers of goods and services;
PPP – Purchasing Power Parity. An implicit exchange rate which equalises the price of identical goods and services in different countries, so they can be expressed with a common price;
QE – Quantitative Easing. Expansionary monetary policy pursued by central banks involving asset purchases to reduce bond yields and increase liquidity in capital markets;
G7 – Group of seven industrialised countries comprising the United States, the United Kingdom, France, Germany, Italy, Canada, and Japan.

APPENDIX 2

ETC MEMBER ORGANISATIONS

Austria – Austrian National Tourist Office (ANTO)
Belgium: Flanders – Visit Flanders, Wallonia – Wallonie-Belgique Tourisme
Bulgaria – Bulgarian Ministry of Tourism
Croatia – Croatian National Tourist Board (CNTB)
Cyprus – Deputy Ministry of Tourism, Republic of Cyprus
Czech Republic – CzechTourism
Denmark – VisitDenmark
Estonia – Estonian Tourist Board – Enterprise Estonia
Finland – Business Finland Oy, Visit Finland
France – Atout France
Germany – German National Tourist Board (GNTB)
Greece – Greek National Tourism Organisation (GNTO)
Hungary – Hungarian Tourism Agency Ltd.
Iceland – Icelandic Tourist Board
Ireland – Fáilte Ireland and Tourism Ireland Ltd.
Italy – Agenzia Nazionale del Turismo (ENIT)
Latvia – Investment and Development Agency of Latvia (LIAA)
Lithuania – Ministry of the Economy and Innovation, Tourism Policy Division
Luxembourg – Luxembourg for Tourism (LFT)
Malta – Malta Tourism Authority (MTA)
Monaco – Monaco Government Tourist and Convention Office
Montenegro – National Tourism Organisation of Montenegro
Netherlands – NBTC Holland Marketing
Norway – Innovation Norway
Poland – Polish Tourism Organisation (PTO)
Portugal – Turismo de Portugal, I.P.
Romania – Romanian Ministry of Economy, Entrepreneurship and Tourism
San Marino – State Office for Tourism
Serbia – National Tourism Organisation of Serbia (NTOS)
Slovakia – Slovakia Travel
Slovenia – Slovenian Tourist Board
Spain – Turespaña – Instituto de Turismo de España
Switzerland – Switzerland Tourism
Ukraine – State Agency for Tourism Development of Ukraine (SATD)