EUROPEAN TOURISM - TRENDS & PROSPECTS

QUARTERLY REPORT - Q4/2018

EUROPEAN
TRAVEL
COMMISSION

EUROPEAN TOURISM IN 2018: TRENDS & PROSPECTS

Quarterly Report (Q4/2018)

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

Brussels, February 2019
ETC Market Intelligence Report

European Tourism in 2018: Trends & Prospects (Q4/2018)

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FOREWORD

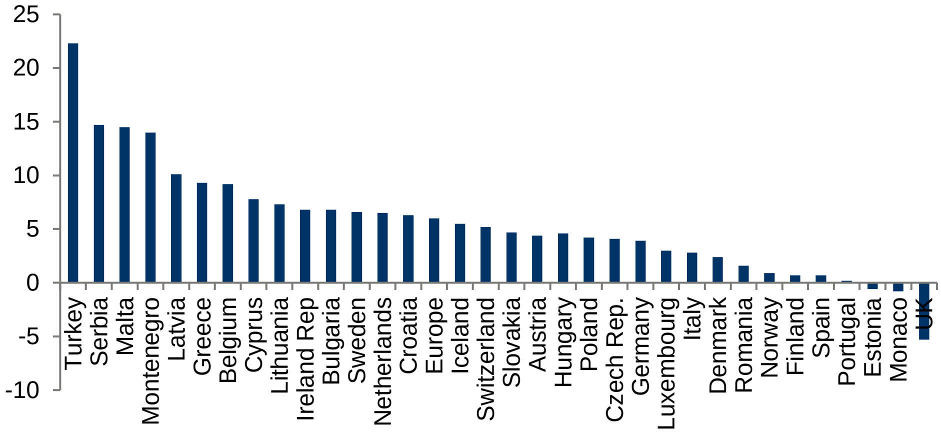
2018 DISPLAYED ANOTHER ENCOURAGING YEAR FOR THE EUROPEAN TOURISM SECTOR

European tourism demand remains on solid footing with a 6%[1] upswing in international tourist arrivals in 2018 over the year prior[2]. The most visited region in the world was able to sustain growth despite downside risks steaming from trade tensions, uncertainty surrounding Brexit and the economic slowdown in the Euro Area and China, all keeping 2019 growth prospects in question.

Virtually all reporting destinations (32 out of 33) registered some form of expansion. Travel to Turkey (+22%) remains stellar driven by a wide range of source markets and a depreciating Lira. Serbia continues to benefit from its visa-free access to Chinese passport holders while Malta's efforts to consolidate its position as a year-round destination are materialising (both +15%). Montenegro (+14%) saw solid results thanks to promotional activities carried out in priority markets and good air connections. Latvia (+10%) was the only Central/Eastern European destination that enjoyed double-digit expansion.

International tourist arrivals to select destinations

2018 year-to-date*, % change year ago



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

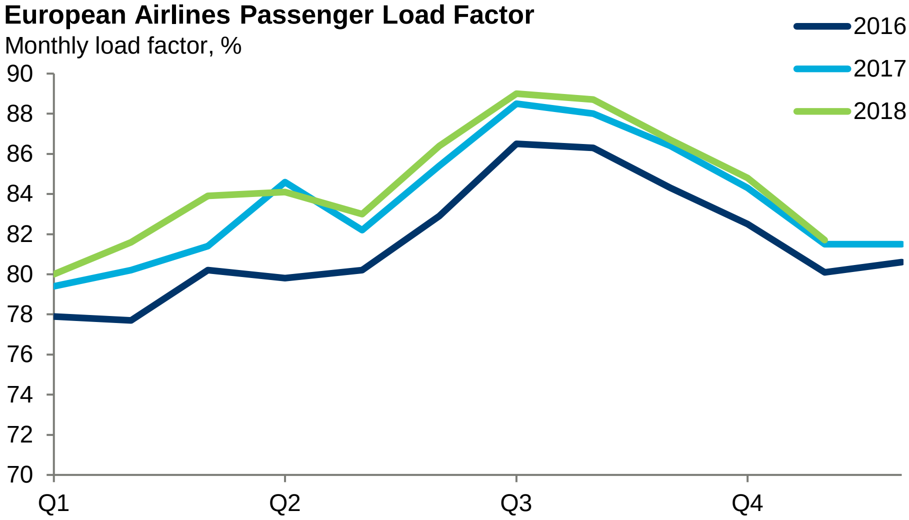
Following almost eight years of staggering growth, Iceland's tourism boom stabilised (+6%) in 2018. Spain (+1%) and Portugal (+0.2%) saw flat growth rate in foreign arrivals alongside Turkey's recovery. Healthier growth rates are expected in 2019 for both destinations. The UK (-5.3%) was the only market in negative territory.

[1] Based on preliminary data.

[2] UNWTO World Tourism Barometer Volume 17. January 2019.

EUROPEAN AVIATION GROWTH OUTSTRIPS WEAKENED GDP EXPANSION

2018 appeared to be a year of disruptions for the air travel sector (e.g., volatile fuel prices, delays caused by air traffic control deficiencies, strikes, etc.). Yet, industry-wide RPK[3] was 6.6% higher than a year ago supported by lower oil prices and solid, albeit slower, economic expansion. Passenger Load Factors in Europe outperformed all regions despite recent slowdown (81.7%). Air traffic in Europe saw a year-to-date RPK growth of 6.5%.



Source: IATA

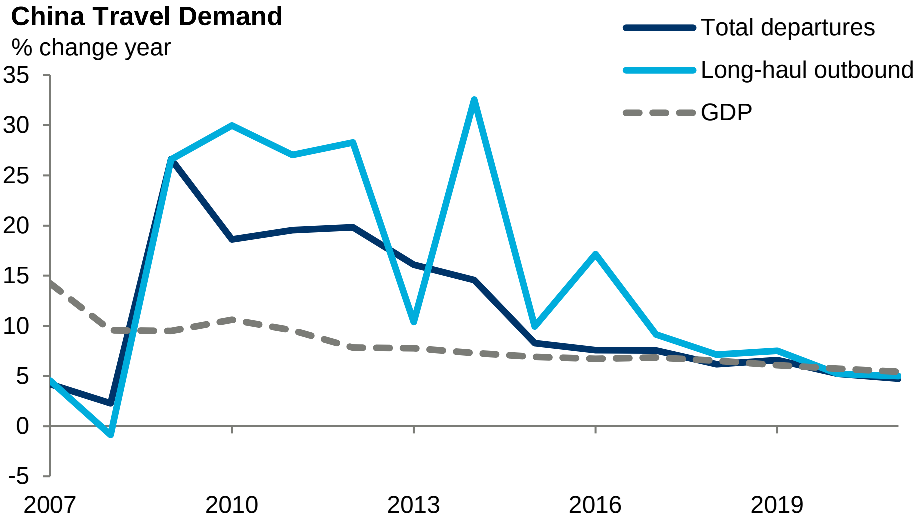
Encouraging trends were also echoed in the accommodation sector. Europe saw an increase in occupancy of 1.2% and an increase in ADR of 2.3% that ratcheted up RevPAR (3.5%).

LONG-HAUL SOURCE MARKETS CONTINUE TO DRIVE EUROPEAN TOURISM GROWTH

Travel demand from the US remains on firm footing. Growth from this market is fuelled by a strengthened US Dollar against the Euro and Sterling, both increasing Europe's affordability as a tourism destination. In 2018 European destinations welcomed around 33 million international tourist arrivals from this market, up 8% from the previous year. US outbound travel, however, is expected to slow down owing to its decelerating economic momentum and consumer spending. Lurking risks remain, including the trade conflict with China, the government shutdown and political uncertainty. Meanwhile, President Trump's plans to build a wall on the border with Mexico that led to the longest government shutdown in US history has affected about 800,000 federal workers, the country's aviation industry and main tourist attractions. Experts claim that if a new government shutdown follows, the risks of broader economic damage increase.

[3] Revenue Passenger Kilometres.

Economic growth in China weakened in 2018 (6.6%) marking the country's slowest rate of expansion since 1990. Prospects point at a reduced growth rate (6.2%)[4] in 2019 owing to the escalating trade war with the US. Nevertheless, soaring Chinese arrivals to Europe continue to support the region's tourism expansion. Growth drivers remain in place: China's expanding middle class with higher purchasing power; improving air connectivity; improved visa procedures. Chinese tourist arrivals to Europe increased 9% in 2018 accounting for 14% of the market's outbound travel.



Source: IATA

Growth projections for Russia are expected to remain strong supported by increased oil prices and domestic demand. Continued outbound travel growth is expected into 2019 from this market following its good performance in 2017. Europe hosted some 23 million Russian tourist arrivals in 2018 based on latest data available, a 14% increase from the previous year. Mediterranean and Northern European destinations are among the fastest growing in terms of Russians tourist arrivals.

A YEAR 2019 UNDER THE CLOUDS OF UNCERTAINTIES.

Expansion continues in the eurozone, however, adverse risks such as tensions in financial markets, uncertainty surrounding the UK's divorce plans from the EU and worrisome forward-looking indicators bear on growth prospects for 2019. Notwithstanding, the European tourism industry has yet again proved resilient in 2018 and accounts for over half (51%)[5] of worldwide tourist arrivals. Looking ahead, growth in international tourist arrivals to the region is expected to hover around 3% in 2019.

Jennifer Iduh (ETC Executive Unit)
with the contribution of the ETC Market Intelligence Group

[4] World Economic Outlook – October 2018
[5] UNWTO World Tourism Barometer Volume 17. January 2019

1. TOURISM PERFORMANCE SUMMARY 2018

EUROPEAN DESTINATIONS THRIVED IN 2018

- Despite an economic slowdown in the Eurozone – in Germany and Italy in particular – intra-regional demand was undeterred.
- Long-haul source markets continued to provide, from the US in particular which delivered arrivals growth in all but one reporting destination compared to a year ago.
- Turkey was the top performing growth destination in 2018, enjoying a record year for visitor arrivals volumes. But arrivals from some source markets are still recovering.

32

The number of European destinations reporting growth in 2018 to date

33 destinations have reported on tourism performance in 2018

Despite Europe's economic growth prospects faltering in recent months travel growth to, from, and within the region was robust in 2018, according to the latest available data. 32 out of 33 reporting destinations welcomed more arrivals and/or overnights compared to a year ago. Only the UK reported declines.

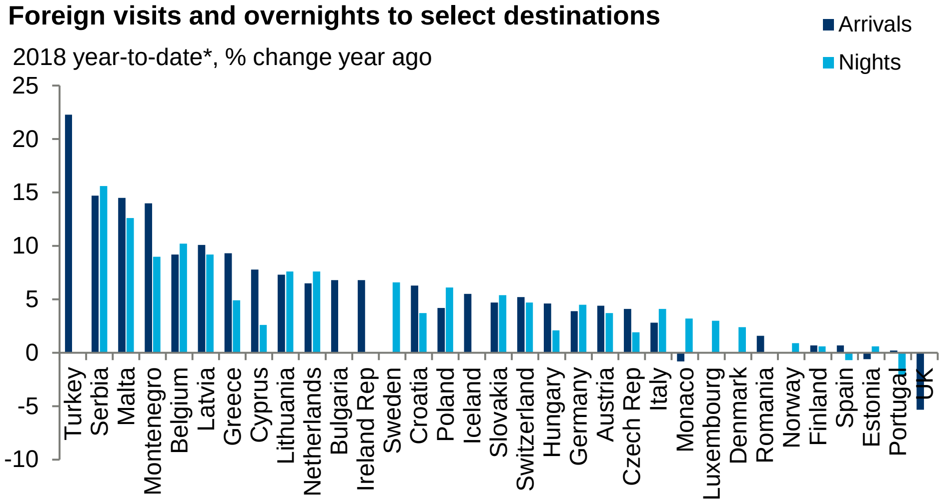
Year-to-date arrivals growth to Turkey has slowed only marginally (down 0.6 percentage points (pp) from 22.9% to 22.3%) based on data to November compared to data to August. This indicates that its recovery remains on-track and travellers continue to be enticed back, even out of the peak summer season. Indeed, hotels have been able to increase average room rates (ADR) in both Turkish lira and euro terms – in the month of December as well as in 2018 as whole – but Turkey remains amongst the cheapest destinations within the accommodation dataset.

Assuming year-to-date growth holds true for 2018 as a whole, arrivals to Turkey in 2018 will exceed 47 million – this would mark a new record for the destination in tourist arrivals terms, having never before exceeded 40 million. However, arrivals volumes to Turkey from many individual source markets remain below prior peak levels and will until 2019 based on current rates of growth (i.e., if year-to-date to November growth rates can be sustained throughout 2019). A significant increase in arrivals from Russia over and above its prior peak has offset the slower recovery from some of Turkey's other key source markets. Arrivals from Russia to Turkey, for example, are expected to be 1.7 million higher than prior peak levels in 2018 (6.4 million arrivals in total). But full-year 2018 arrivals from Germany, the United Kingdom, and the Netherlands, to name just a few, will all remain lower than prior peak levels.

Serbia was the next fastest growing European destination according to latest available data, with reported arrivals 14.7% higher in the year-to-November compared to the same period a year ago. Russia was the only source market from which arrivals declined (and only marginally). An improvement from earlier estimates of UK arrivals growth might have been helped by Belgrade's growing reputation as a top European city-break destination, and further cemented when it was named the cheapest city to visit in autumn 2018 in the *Post Office Travel Money City Costs Barometer*. Some strong growth from China stands out (101%

based on data to November), and this was undoubtedly helped by both Serbia's visa-free policy for Chinese tourists and the first direct airlink between the two countries which started operating in September 2017. However, during 2018, China's Hainan Airlines discontinued flights to Belgrade which may temper growth from China in 2019.

Malta has enjoyed some robust arrivals and overnights growth based on data to August, albeit with some minor slowdown compared to earlier in the year. Growth has been reported from a range of source markets, including significant growth from 4 of its 5 largest source markets (the UK, Germany, France, and Poland) all grew at double-digit rates based on latest available year-to-date data. Some growth can be attributed to Valletta being a designated European Capital of Culture for 2018. But a more concerted effort in general to position Malta as a year-round destination has also helped; for example, Finnair extended its schedule from Helsinki to Malta to include the winter season and Norwegian increased capacity on its Copenhagen-Malta route in late-2018.



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

Cyprus have enjoyed some strong arrivals growth according to full-year data for 2018. Arrivals from the UK – its top source market – grew 5.9%; given that UK arrivals accounted for more than one in three foreign arrivals to Cyprus in 2017, growth of this magnitude, although seemingly modest, is significant in absolute terms. Some strong growth from Sweden (12.5%) made it Cyprus' third largest source market in 2018. Despite declines from Russia (likely displaced to Turkey), it remains its second largest source market. Based on scheduled capacity for the past few seasons, Larnaca and Paphos airports (the only two on Cyprus which serve tourists) have achieved similar growth patterns during summer months as in winter, demonstrating that passenger demand is growing throughout the year, highlight Cyprus' potential as a year-round destination.

Continued development of tourism infrastructure in Montenegro and improved connectivity between it and an ever-increasing number of destinations has facilitated significantly arrivals growth based on data to November. As it stands, Montenegro has enjoyed arrivals growth in every year since 2000. Although modest in 2000, the unabated growth since means visitor volumes in 2018 are expected to exceed 2 million. In addition, the development of winter tourism infrastructure has added depth to the country's tourism offering, as well as helped to extend its season.

Belgium enjoyed some significant demand growth in the first 9 months of the year (+9.2%) compared to the same period a year ago. Arrivals growth suffered a setback in 2016 following a number of terror attacks within Belgium and neighbouring France. However, arrivals volumes fully recovered in 2017 to reach a new high – albeit, just above the previous high of 2015 – of 8.36 million. Robust year-to-date arrivals growth from all source markets for which data are reported point confirm this recovery. This momentum is being capitalised on by Brussels Airlines which has launched an initiative in the second half of 2018 to allow connecting passengers to visit different Belgian cities during a layover in Brussels without additional cost. Due to partnerships with Visit Flanders, Visit Brussels, Wallonie Belgique Tourisme, and 14 Belgian cities, the initiative includes free access to a number of tourist activities and museums.

Arrivals to Spain grew marginally based on the latest available year-to-date data and this is a positive development given some deep-seated concerns regarding so-called "over-tourism", particularly in Barcelona. Although the impact of "over-tourism" is typically localised, Barcelona's share of total visits to Spain is significant and thus declines can be sizeable at a country level. Some fairly lacklustre hotel data for the full-year suggest that 0.7% arrivals growth based on data to November suggest full-year arrivals growth is unlikely to stray from this. But at least this offers some momentum moving into 2019. The same cannot be said for Portugal. Market share analysis using Oxford Economics' Global Travel Service (GTS) database showed significant transfer of market share of arrivals from Western European source markets from Turkey to Spain and Portugal in 2017 relative to 2015. Spain and Portugal jointly gained 0.9 percentage points (pp) while Turkey lost 1.4pp over the same period, as political unrest and terror attacks drove Western European travellers towards these perceivedly safer European destinations. However, a reversion towards historical market share concluded in 2018 and more normal growth trends should resume in 2019.

UK arrivals volumes are lower in 2018 compared to the same period of 2017. Full-year arrivals will likely struggle to match those of 2017, during which arrivals grew 4% to a record 39.2 million, following several years of growth since 2010. More developed destinations can find it difficult to sustain higher rates of growth compared to developing ones. The picture has improved slightly according to data to September compared to data to June (up 1.5pp to -5.3% from -6.8%), but full-year hotel data are suggestive of further improvement with the year ending strongly – particularly in London.

Growth from intra-European source markets in general was strong across the full range of markets for which data are available, but the number of destinations reporting declines in arrivals from Norway, Denmark, and Sweden was notable. Data for each showed a clear preference in 2018 for Cyprus, Montenegro, and Turkey.

Tourism Performance, 2018 Year-to-Date

	International Arrivals		International Nights	
Country	**% ytd**	**to month**	**% ytd**	**to month**
Austria	4.4	Jan-Nov	3.7	Jan-Nov
Belgium	9.2	Jan-Sep	10.2	Jan-Sep
Bulgaria	6.8	Jan-Nov		
Croatia	6.3	Jan-Dec	3.7	Jan-Dec
Cyprus	7.8	Jan-Dec	2.6	Jan-Nov
Czech Rep	4.1	Jan-Sep	1.9	Jan-Sep
Denmark			2.4	Jan-Nov
Estonia	-0.6	Jan-Nov	0.6	Jan-Nov
Finland	0.7	Jan-Nov	0.6	Jan-Nov
Germany	3.9	Jan-Nov	4.5	Jan-Nov
Greece	9.3	Jan-Sep	4.9	Jan-Jun
Hungary	4.6	Jan-Nov	2.1	Jan-Nov
Iceland	5.5	Jan-Dec		
Ireland Rep	6.8	Jan-Nov		
Italy	2.8	Jan-Sep	4.1	Jan-Sep
Latvia	10.1	Jan-Oct	9.2	Jan-Oct
Lithuania	7.3	Jan-Sep	7.6	Jan-Sep
Luxembourg			3.0	Jan-Oct
Malta	14.5	Jan-Nov	12.6	Jan-Nov
Monaco	-0.8	Jan-Dec	3.2	Jan-Dec
Montenegro	14.0	Jan-Nov	9.0	Jan-Nov
Netherlands	6.5	Jan-Oct	7.6	Jan-Oct
Norway			0.9	Jan-Nov
Poland	4.2	Jan-Nov	6.1	Jan-Nov
Portugal	0.2	Jan-Nov	-2.2	Jan-Nov
Romania	1.6	Jan-Nov		
Serbia	14.7	Jan-Nov	15.6	Jan-Nov
Slovakia	4.7	Jan-Jul	5.4	Jan-Jul
Spain	0.7	Jan-Nov	-0.7	Jan-Nov
Sweden			6.6	Jan-Nov
Switzerland	5.2	Jan-Aug	4.7	Jan-Aug
Turkey	22.3	Jan-Nov		
UK	-5.3	Jan-Sep		

Source: TourMIS, http://www.tourmis.info; available data as of 21.1.2019
Measures used for nights and arrivals vary by country
See TourMIS for further data including absolute values

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

	Inbound*					Outbound**				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
data/estimate/forecast ***	d	e	f	f	f	d	e	f	f	f
World	**7.3%**	**5.4%**	**4.3%**	**3.9%**	**3.9%**	**7.4%**	**5.0%**	**4.2%**	**3.9%**	**3.9%**
Americas	**5.2%**	**4.1%**	**4.2%**	**4.2%**	**4.1%**	**6.9%**	**4.7%**	**3.7%**	**3.3%**	**3.3%**
North America	4.2%	4.2%	3.4%	3.8%	3.7%	5.7%	4.9%	4.2%	3.6%	3.4%
Caribbean	4.2%	-0.8%	5.4%	4.8%	4.7%	13.9%	-1.5%	4.3%	4.3%	3.9%
Central & South America	8.5%	6.5%	5.8%	5.1%	4.6%	10.7%	4.9%	1.9%	2.2%	2.9%
Europe	**9.1%**	**5.2%**	**3.3%**	**2.8%**	**3.0%**	**8.0%**	**4.6%**	**3.6%**	**3.2%**	**3.5%**
ETC+3	9.6%	5.4%	3.2%	2.6%	2.7%	7.0%	4.2%	3.3%	3.0%	3.2%
EU	8.5%	4.2%	2.6%	2.2%	2.5%	7.0%	4.1%	3.3%	2.9%	3.1%
Non-EU	11.5%	9.3%	6.0%	5.1%	4.9%	12.6%	6.5%	5.1%	4.5%	4.8%
Northern	5.7%	1.8%	3.0%	2.6%	2.7%	4.0%	-0.8%	2.8%	3.3%	4.4%
Western	7.8%	5.3%	2.1%	1.8%	1.8%	7.0%	5.2%	3.4%	2.9%	2.6%
Southern/Mediterranean	13.7%	6.8%	4.0%	3.3%	3.3%	9.5%	8.3%	3.6%	2.6%	3.3%
Central/Eastern	4.8%	4.2%	3.8%	3.4%	4.2%	13.2%	7.8%	4.9%	3.9%	3.9%
- Central & Baltic	*6.3%*	*5.2%*	*3.4%*	*2.1%*	*2.8%*	*10.7%*	*6.6%*	*3.9%*	*3.0%*	*3.0%*
Asia & the Pacific	**5.7%**	**6.3%**	**5.4%**	**5.3%**	**4.5%**	**7.9%**	**5.9%**	**5.4%**	**5.5%**	**4.7%**
North East	3.7%	5.2%	4.7%	5.0%	4.4%	8.7%	5.9%	6.0%	5.5%	4.6%
South East	8.2%	7.5%	5.8%	5.5%	4.1%	5.5%	6.5%	4.2%	5.6%	4.6%
South	7.7%	9.1%	9.1%	6.4%	6.2%	9.5%	5.0%	6.4%	6.5%	6.7%
Oceania	5.4%	5.1%	5.0%	4.9%	6.5%	6.0%	4.2%	2.6%	3.4%	3.6%
Africa	**10.4%**	**7.6%**	**6.4%**	**5.0%**	**5.5%**	**0.7%**	**7.5%**	**4.9%**	**4.9%**	**4.9%**
Mid East	**1.6%**	**4.8%**	**6.1%**	**6.2%**	**7.1%**	**2.6%**	**4.7%**	**6.6%**	**4.5%**	**5.4%**

* 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, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;
Central/Eastern Europe is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

Central & Baltic Europe *is Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia;*
ETC+3 is all ETC members plus France, Sweden, and the United Kingdom

Source: Tourism Economics

3. RECENT INDUSTRY PERFORMANCE

INDUSTRY PERFORMANCE IN 2018 IS HEALTHY

- Despite some pessimism earlier in the year, 2018 has been a strong growth year based on full-year hotel data and near full-year arrivals data.
- Whilst passenger load factors in Europe remain the highest of any global region, some convergence on 2017 levels towards the end of 2018 via available seat kilometers (ASK) growth may lead to further discounting or minimize any increase in air fares.
- Room rates the leading driver of RevPAR in European hotels as capacity constraints start to pinch.

3.1 AIR TRANSPORT

6.6%

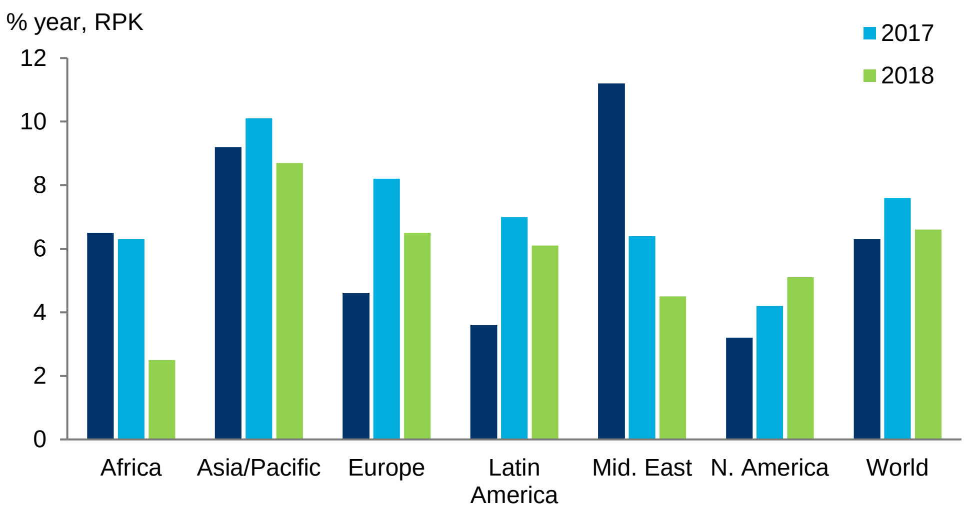
The rate of World RPK growth in 2018 to date

YTD growth based on data to November

Global air transport, measured in Revenue Passenger Kilometres (RPK), grew 6.6% in 2018 year-to-date to November compared to the same period in 2017. This remains slightly ahead of average RPK growth of the past decade (6.0%) but falls just shy of the five-year average of 7.1%. Growth in 2018 should conclude above trend, but the seasonally-adjusted trend in RPK has moderated considerably over the second half of 2018 with growth in the second half of the year annualising at around 6% compared to around 9% in the first half of 2018.

At the time of the last quarterly report jet fuel prices were putting pressure on the industry. However, in recent months oil prices have fallen sharply, driven by the combination of increased supply from Russia and Saudi Arabia and concerns about a weaker demand outlook. This should support air travel growth in late 2018 and into 2019

Annual International Air Passenger Growth



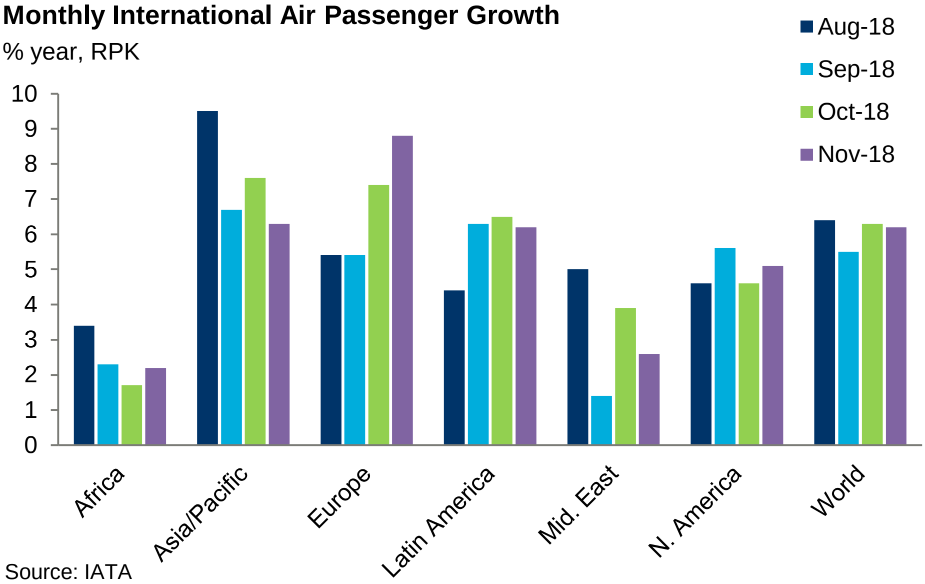
Source: IATA

The recent moderation in RPK growth accompanies strong indications that the pace of global GDP growth is also decelerating. The Global Composite PMI is usually a leading indicator of RPKs but recently recorded its lowest level in 28 months. The indicator remains consistent with RPK growth remaining broadly at its current pace, but it suggests that a sharp pick-up is unlikely. Forecasts by IATA for 2019 (released in December 2018) anticipate growth of 6.0% (i.e., the average for the decade).

Despite the slowdown in China, the Asia/Pacific region continued to experience the strongest rate of RPK growth (based on data to November) with air passenger demand to, from, and within the region 8.7% higher compared to the same period a year ago. This might have been higher still without the impacts from typhoons. However, the decelerating rate of growth can be clearly seen in the monthly percentage growth figures. Chinese exports fell over 2018 pointing to a significant slowdown in global trade growth and an increasing impact from US tariffs which will likely act as some drag on travel demand.

Monthly International Air Passenger Growth

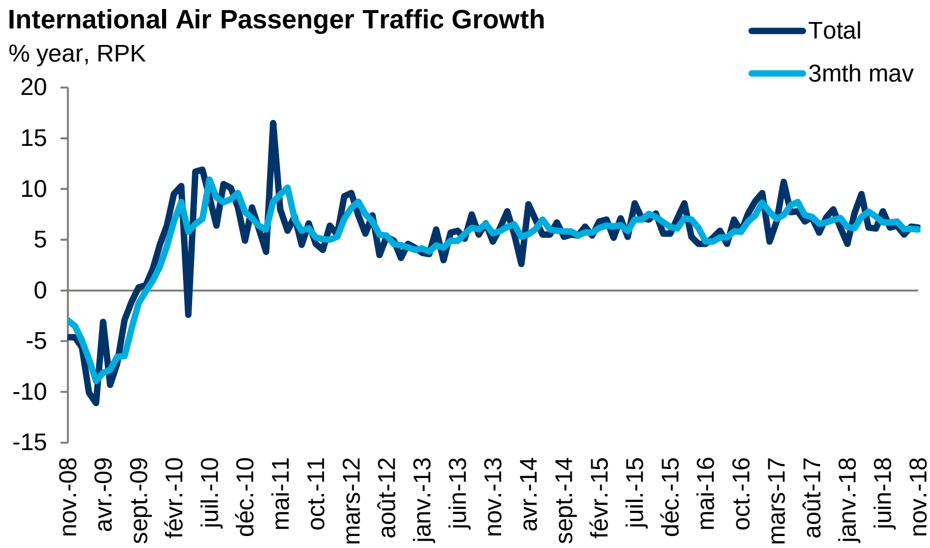
% year, RPK



Source: IATA

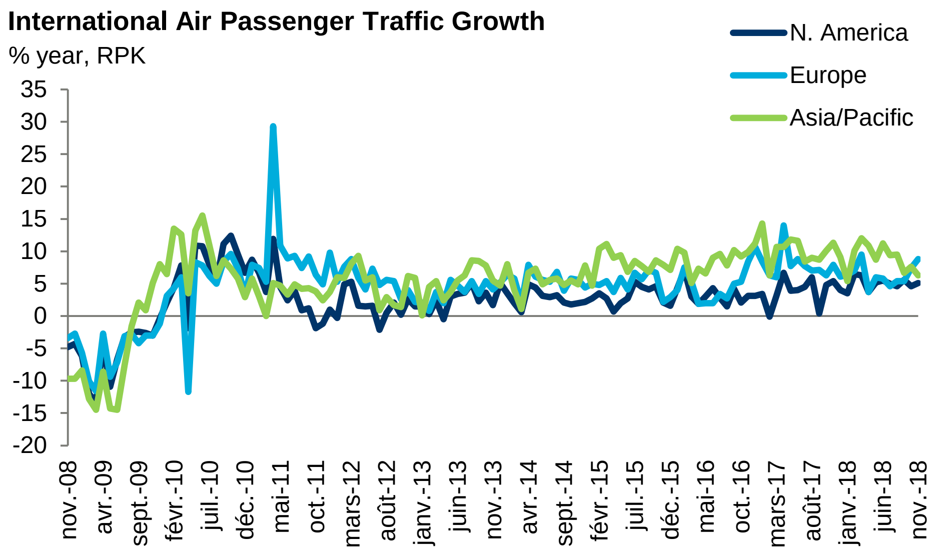
Africa remains the slowest growing of all the regions with year-to-date RPK growth of 2.5% based on data to November. Expected improvements as the year progressed have failed to materialise, with growth in the final quarter of the year appearing weaker still. Low confidence amongst South African consumers continues whilst lower oil prices could dampen any pick-up in Nigerian demand.

The Middle East was the next slowest growing region with year-to-date growth to November of 4.5%. This is consistent with the economic picture with PMIs for December falling in both the UAE and Saudi Arabia and private sector activity across the GCC remains lacklustre.



Source: IATA

North American traffic continues to pick-up from the levels of growth seen in 2016 and 2017. RPKs grew by 5.0% in the first eight months of the year. The US looks set to record similar growth to 2015 and solid fundamentals support this. However, the economy may well already have reached its growth peak with weaker growth forecast for 2019 and 2020. Until recently, economic activity in the US seemed to have strong momentum but the longer the Government Shutdown continues there, the more that will weigh on GDP growth. Furthermore, the Trump administration's tariffs on China are likely to exacerbate this slowdown.



Source: IATA

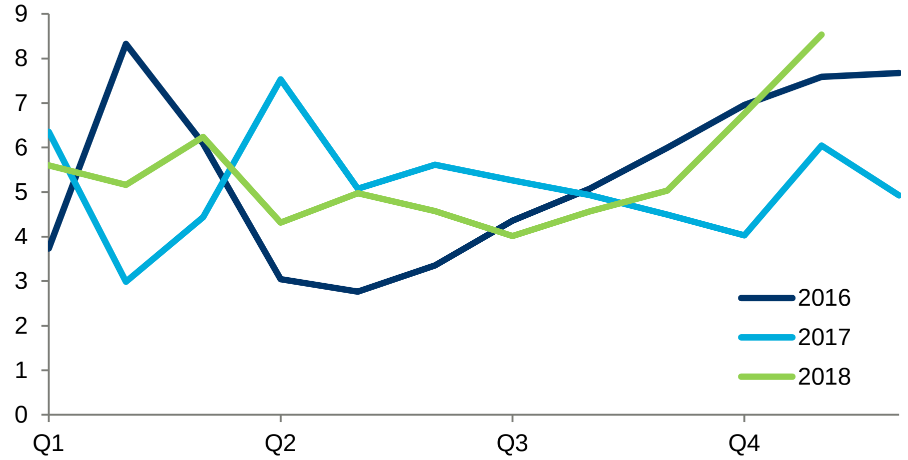
European RPK growth accelerated to 6.5% growth year-to-date despite the more mixed economic picture. Not only was it the fastest growing region in November, it was also the fastest on a three-month moving average basis. This suggests that the end of 2018 may have been a period of strong growth for Europe – in the absence of more concrete arrivals data to date. It would mean that the second half of 2018 saw aviation growth considerably outstrip weakening GDP growth. A number of key Eurozone countries saw a very soft end to 2018 although a pick-up in 2019 is likely as transitory factors are gradually removed.

Available seat kilometres (ASK) globally grew by 6.8% year-on-year in November. As a result, the industry-wide passenger load factor fell in year-on-year terms for only the third time in two years to 80.0% – but this was driven entirely by falls in the Middle East and Asia/Pacific regions.

In contrast, European ASK growth in November was up 8.8% compared to one year earlier. This is in line with anecdotal information which also points to capacity surging over the late summer and autumn of 2018. This growth suggests that capacity constraints were not as bad as feared and further discounting is possible as Europe's low-cost carriers (which account for a significant proportion of ASK in Europe) vie for market share.

European Airlines Capacity

ASK, monthly average, % change year ago

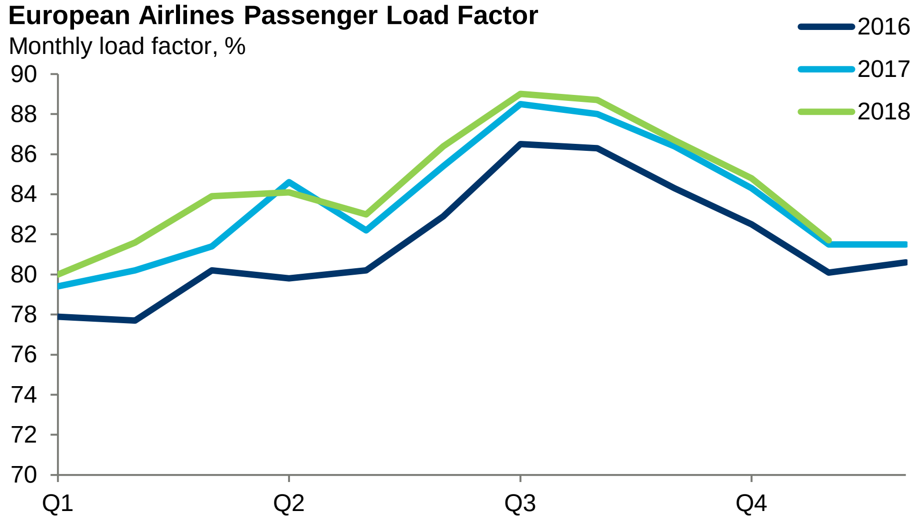


Source: IATA

Passenger load factors (PLF) in Europe remain the highest of any region, but these have fallen back in recent months, now down to 81.7% for the year to November 2018. Some convergence on 2017 levels are perhaps an early sign of much needed equilibrium within the market.

European Airlines Passenger Load Factor

Monthly load factor, %



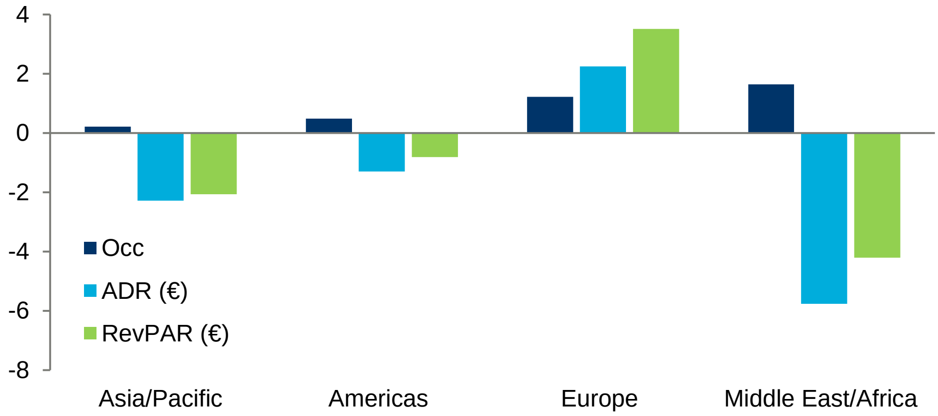
Source: IATA

3.2 ACCOMMODATION

2018 saw occupancy rates grow in all regions compared to a year ago – albeit marginally in the case of both Asia/Pacific (0.2%) and the Americas (0.5%). Occupancy growth continues to be slower than in previous years for most destination regions with less spare capacity now evident.

All regions except Europe saw lower ADR, denominated in euros, which offset occupancy growth, driving declines in RevPAR – in the case of the Middle East/Africa, a relatively steep 4.2%. However, for the Americas and Asia/Pacific, ADR was higher denominated in US dollars, which better reflects the underlying strength in these regions. For Europe an increase in occupancy of 1.2% and an increase in ADR of 2.3% yielded an increase in RevPAR of 3.5%.

Global Hotel Performance
Jan-Dec year-to-date, % change year ago



Source: STR

In the Asia/Pacific region, occupancy rates were 0.2% higher compared to the same period of 2017. When denominated in US dollar terms, ADR was 1.3% higher and RevPAR was up 1.5%. However, in euro-denominated terms both ADR and RevPAR fell (by 2.3% and 2.1% respectively).

1.2%

Occupancy rate growth in Europe in 2018

Growth based on full-year data to December

Occupancy rates in the Americas were up 0.5% in the period January to December 2018 compared to the same period of 2017. However, the occupancy increase was insufficient to offset lower rates (down 1.3%) which resulted in lower RevPAR (down 0.8%) when priced in euro terms. In dollar terms, both ADR and RevPAR rose, and performance was more comparable with European growth reflecting the relatively buoyant conditions in key long-haul markets.

The worst performing region was the Middle East/Africa. Occupancy grew by 1.6%, but whilst the decline in RevPAR was minimal in dollar terms (0.2%), when expressed in euro terms both ADR and RevPAR fell significantly: ADR by 5.8% and RevPAR by 4.2%.

Hotels in Europe performed well compared with other global regions and ADR growth has remained the chief driver of RevPAR growth in Europe. There are some apparent capacity constraints in key markets limiting scope for further occupancy growth as hotel demand lags arrivals growth. All subregions of Europe exhibited positive results on occupancy, ADR growth, and RevPAR growth with higher pricing driving performance.

4. SPECIAL FEATURE: IMPACTS OF A 'NO DEAL' BREXIT

SUMMARY

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

CURRENT SITUATION FOLLOWING PARLIAMENTARY AMENDMENT VOTES

The UK Parliament voted on a series of proposed amendments to the Withdrawal Agreement on 29th January 2019 after it was resoundingly defeated in an earlier vote. The majority of these amendments were defeated by various margins but two were passed. One of these was tabled by former Environment Minister, Caroline Spelman rejecting the prospect of a 'No Deal'. But the vote was only advisory and carries no legislative force. The other was that tabled by Graham Brady asking the Prime Minister to renegotiate the Northern Ireland backstop with the EU, reflecting Conservative Brexiteer concerns that an unlimited backstop might effectively lock the UK into perpetual Customs Union.

It is unclear that anything of material consequence has really changed since the Parliamentary votes of 29th January.

However, it is unclear that anything of material consequence has really changed as Brussels' view is that the backstop is not open for renegotiation. Although the majority of MPs are firmly against a 'No Deal' and even some hard-line Leavers have softened their positions, the risk of it remains as high as 35% according to Oxford Economics' decision tree.

Although the Prime Minister's deal with the EU was heavily defeated in the postponed 'meaningful vote' in Parliament, this deal or something similar to it may remain the most likely option. Oxford Economics' estimates a 60% probability of a version of the Withdrawal Agreement being accepted. All sides are firmly against a 'No Deal' exit, and the fact that this would lead to an unwanted hard border with Ireland will concentrate minds as the deadline approaches and may result in an acceptable negotiated solution.

The most likely outcome appears to be that a variant of the negotiated Withdrawal Agreement will be accepted.

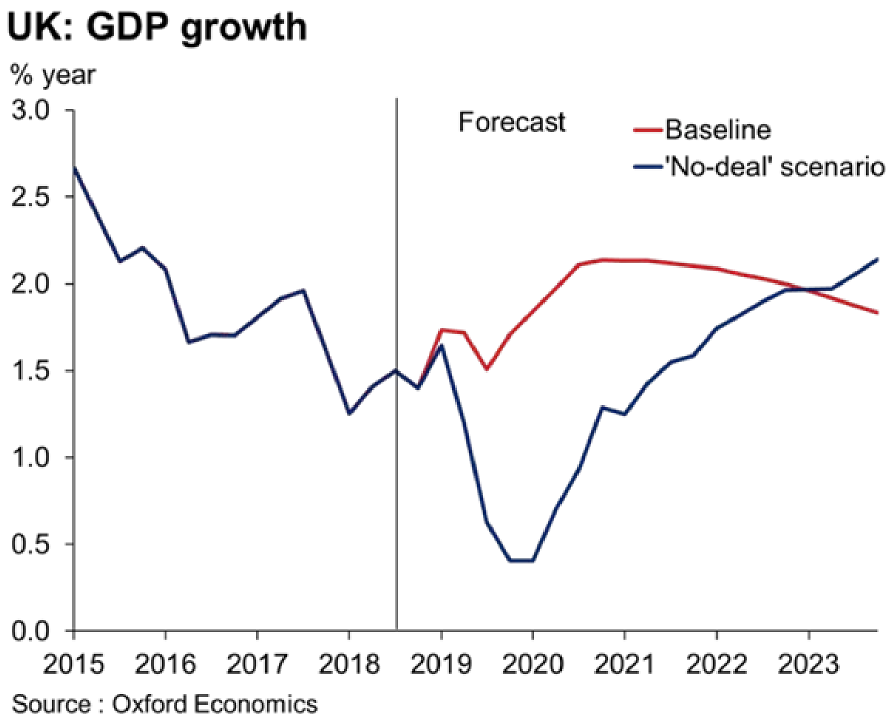
However, it would be fair to say, with only a few weeks to go until the March 29th deadline, the situation remains extremely uncertain. In this article, we focus on the 'No Deal' impacts to illustrate what is at stake.

THE POTENTIAL ECONOMIC IMPACT OF A 'NO DEAL' EXIT

Weaker economic growth will weigh on demand for travel & Tourism.

This analysis begins with the purely economic impacts of a 'No Deal'. Oxford Economics has already analysed the impact on GDP, primarily through trade effects.

Travel & Tourism growth is usually closely related to growth in the economy overall. Therefore, anything that reduces GDP growth is likely to have a negative effect on the growth of Travel & Tourism. The impact on the UK of a 'No Deal' would be significant at a loss of 2.1% in the level of GDP by the end of 2020 with growth being heavily impacted in H2 of 2019 and through 2020.



UK inbound Travel & Tourism would benefit from increased price attractiveness. But this could be completely offset by a change in sentiment.

It should be noted that the above modelling is based entirely on Oxford Economics' assumptions and scenario. Some other forecasters, such as the IMF, have arrived at markedly more pessimistic results, involving even greater tariff and non-tariff barriers to trade. The IMF has also cautioned that a 'No Deal' Brexit risks triggering a further slowdown in global growth, in an already turbulent year amidst existing trade tensions, especially between the US and China.

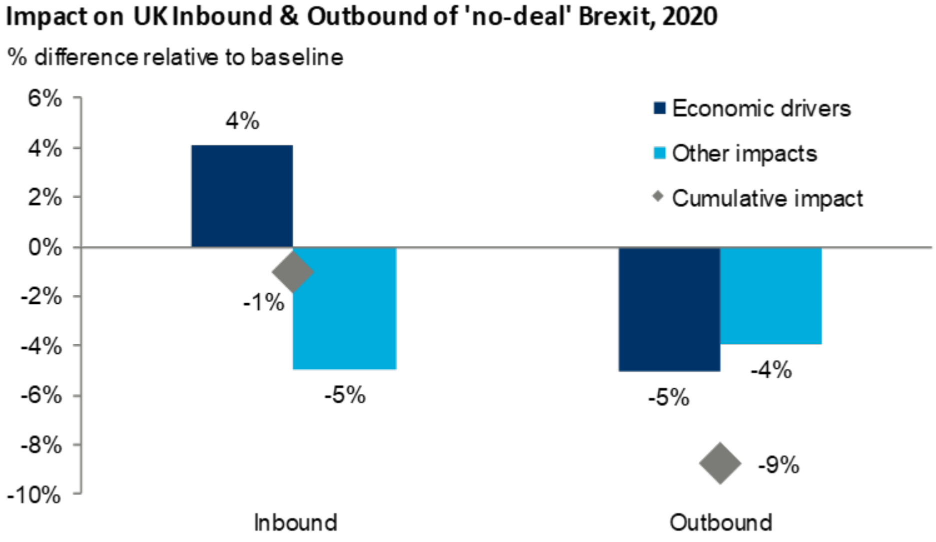
TRAVEL & TOURISM IMPLICATIONS OF A 'NO DEAL' BREXIT

Under a 'No Deal' Brexit, UK inbound Travel & Tourism would benefit from increased price attractiveness, relying on the estimated relationships in Oxford Economics' Global Travel Service modelling. However, this could be completely offset in 2020 by a change in sentiment. UK outbound Travel & Tourism will be impacted negatively on all fronts with negative impacts from both the economic drivers, airline disruption and increased passport regulation. A 'No Deal' Brexit would affect tourism flows through a series of macroeconomic channels, including lower GDP growth, a weaker sterling and higher prices. The net impact of these economic factors is likely to be positive for inbound visits (up 4%), largely due to the impact of a weaker pound.

Economic impacts would result in a fall relative to baseline of 4.7 million outbound visitors.

However, domestic UK travel will be hit hard as household incomes are squeezed by higher inflation. And with domestic spending making up five-sixths of total spending, this means that UK travel and tourism GDP would be $5.6 billion (or 2%) lower than our baseline forecast in 2020.

The impact will be strongly negative (down 5% in 2020) for UK outbound trips, reflecting the damage to UK consumer spending power and a weaker pound's effect on the affordability of foreign destinations.



Source: Oxford Economics

MECHANISMS IMPACTING ON TRAVEL & TOURISM UNDER A NO DEAL

We identify three channels through which these economic effects of a 'No Deal' scenario would materialise:

GDP: Travel and tourism demand growth is usually closely related to growth in the economy overall. The impact would come via both the tourism and business travel channels.

'No Deal' Brexit would trigger further sterling depreciation of around 10%.

- Weaker economic growth and lower household income will weigh on demand for both domestic tourism and holidays abroad.
- Business travel has historically been closely tied to trade volumes and investment growth. Both are expected to be significantly lower in a 'No Deal' scenario.

Exchange rates: UK tourism has benefited from the post-referendum sterling depreciation. Our modelling suggests that a 'No Deal' Brexit would trigger a further depreciation of around 10% on a trade-weighted basis. This should encourage more inbound travel to the UK, if other things such as visa frameworks remain unchanged. And UK residents would be encouraged to substitute domestic for foreign holidays.

Prices: The combination of the imposition of tariffs and the impact of a weaker exchange rate on the prices of imported goods would raise consumer prices. UK inflation would likely rise to 4% in 2019, further squeezing household spending power.

UK tourists would also likely be exposed to higher airfares, as UK-based airlines would face a rise in their input costs from a weaker pound and would be expected to pass on a portion of this in the form of higher prices. To a lesser extent, this would also be the case for eurozone consumers.

Combining these economic factors, we find that a 'No Deal' Brexit would result in UK outbound tourism being 5%, or 4.7 million visitors, lower than our baseline forecast in 2020 (which assumed that the Withdrawal Agreement or something very similar would be implemented, meaning that there would be a transitional phase during which trading arrangements remain unchanged until the end of 2020). And we do not expect the initial drop in outbound travel to be recouped in future years, so visitor numbers remain below our baseline forecast throughout.

POTENTIAL FOR ADDITIONAL TRAVEL DISRUPTION

Our quantitative analysis has focused on the direct economic effects of a 'No Deal' Brexit. But there is much uncertainty around the degree to which travel could be disrupted by regulatory barriers, particularly given the limited time available to establish agreements with the EU and other countries. Potential issues include:

Aviation agreements:

The EC has committed to a contingency agreement for aviation until the end of December 2019, regardless of whether a deal is reached.

The UK is part of the European Common Aviation Area (ECAA), which allows UK-based airlines to fly freely within a zone covering the EU and some neighbouring countries. When the UK leaves the EU, it will cease to be part of the ECAA. However, the European Commission has committed to a contingency agreement for aviation until the end of December 2019, regardless of whether a deal is reached with the UK. The EU has also negotiated "open skies" agreements with third-party countries, particularly with the US on behalf of its member states. These deals would have to be revisited but, in theory, could be resolved quickly.

Sentiment and its impact on business tourism:

It is harder to gauge the total impacts of changed attitudes, but we have looked at recent precedent. The first half of 2018 was characterised by weak business travel and indicated a loss of market share and we have used this as a basis for estimating further effects of sentiment changes.

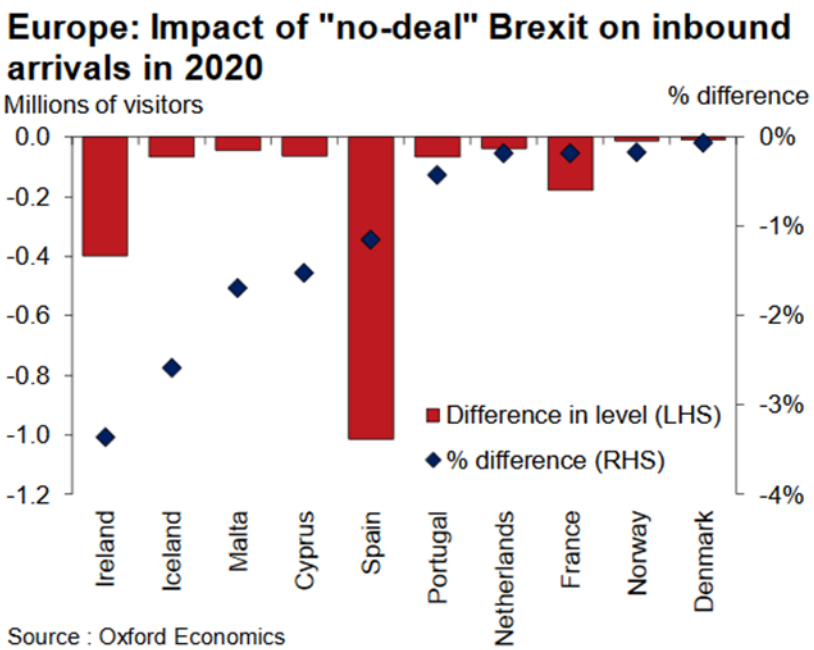
Any sentiment impact is likely to centre on business travel.

The most significant impact is likely to be on business travel which is closely tied to trade volume and investment growth. Impacts on UK inbound Travel & Tourism could more than completely wipe out any gains from the exchange rate effect.

OUTBOUND TRAVEL & TOURISM IMPACTS BY DESTINATION

Economic impacts alone leave a permanent loss to UK outbound travel (i.e., one which is not recuperated in subsequent years and this impact could be larger if non-economic impacts materialise).

However, the reduction in UK outbound would not affect inbound tourism in other countries equally, with the relative impact depending on the extent to which destinations rely on UK demand and scope to benefit from increased demand from longer-haul markets. Our modelling suggests that Spain would be the most heavily affected destination in volume terms, losing 1 million arrivals by 2020. In percentage terms, Ireland would take the greatest hit, with arrivals more than 3% lower. Other countries that are heavily reliant on UK outbound travel, such as Malta and Cyprus, would also experience significant impacts. Impacts on 2020 inbound arrivals are summarised below.



UK DOMESTIC TOURISM

UK domestic tourism sector may benefit to some extent via a substitution effect as higher costs make international travel less attractive. this substitution effects appears to be relatively small in our modelling based on past precedent.

The actual volume of domestic travel is still expected to fall on account of the much stronger negative volume effect.

5. KEY SOURCE MARKET PERFORMANCE

2018 ANOTHER STRONG YEAR FOR EUROPEAN TOURISM, DESPITE ECONOMIC CONCERNS

- Although the global economic activity slowed in 2018, European tourism demand held firm with all but one reporting destination enjoying some form of demand growth.
- The US proved to be one of the most reliable source markets for growth, with more destinations reporting growth from the US than any other market.

Trends discussed in this section in some cases relate to period January to December, although actual coverage varies by destination. For the majority of 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.

5.1 KEY INTRA-EUROPEAN MARKETS

27

out of 32 destinations reported arrivals growth from Germany

Travel growth from Germany in terms of either arrivals growth or overnights growth was reported by 27 out of 32 destinations based on latest available data for 2018, with some significant growth in a number of destinations, despite concerns about a European and global economic slowdown.

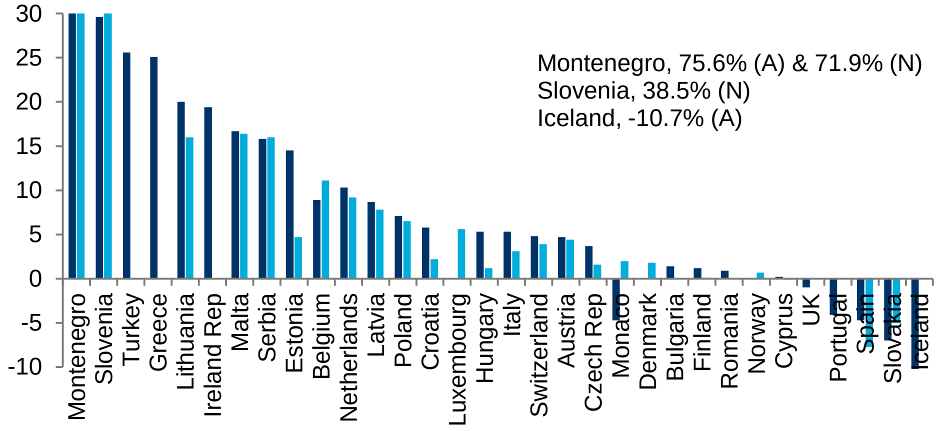
Montenegro was the fastest growing destination market for German arrivals according to latest available year-to-date data, up 75.6% and overnights up 71.9% based on data to November. This continues to reflect the increase in routes between Germany and the Balkans.

Greece has enjoyed significant arrivals growth from Germany based on data to September with arrivals up 25.1%.

German arrivals and overnights growth to Croatia continued to slow compared to growth reported earlier in the year. Nevertheless, arrivals were still up 5.8% over January to December 2018 compared to the same period in 2017. Condor Air plans to open its third route between Germany and Croatia, adding Zadar to Dusseldorf. Despite this, Croatia expects some stagnation in arrivals from traditional European source markets such as Germany over 2019.

Iceland reported a decline in arrivals from Germany of 10.7% based on data for January to December 2018. Since Germany is Iceland's second largest source market after the US, any decline is sizeable in absolute terms and this reflects in the weakest growth in total arrivals to Iceland for some years.

The reversion to norms in terms of market share of Mediterranean destinations outlined in the last quarterly report appears to be continuing, with Turkey continuing to regain market share. The country saw growth in arrivals from Germany of 25.6% over January to November 2018 compared to the same period in 2017 and Turkey is expecting record German arrivals in 2019 although it has imposed an additional security tax as of January 2019. Both Portugal and Spain reported declines in arrivals from Germany over the period compared to year ago.



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

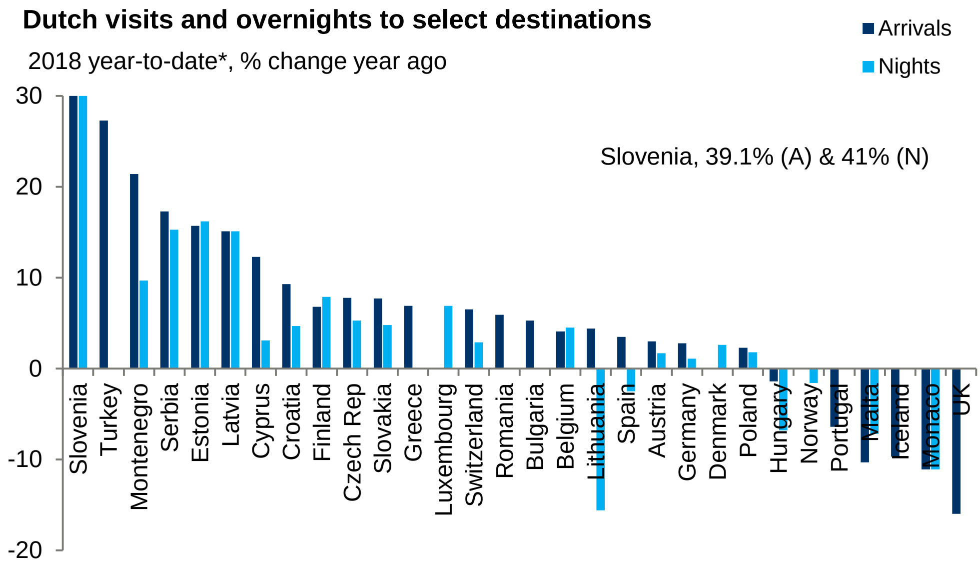
23

out of 30 destinations reported arrivals growth from Netherlands

The Netherlands provided a source of arrivals growth for 23 out of 30 reporting destinations based on latest available 2018 data. Turkey has continued to win back some market share. Although we have suggested that market share was lost to both Spain and Portugal in the previous quarterly report, whilst Portugal's arrivals from the Netherlands have fallen over 2018 based on data to November (down 6.4%), arrivals to Spain have now risen by 3.5% (although overnights are still in negative territory when compared to 2017).

Slovenia registered the strongest growth in both overnights and arrivals (41.0% growth in the case of the former and 39.1% in the case of the latter). However, it should be noted that Slovenia has changed its calculation methodology since the 2017 comparator period – a factor which needs to be considered in all source market comparisons.

The UK registered the biggest percentage fall in Dutch tourists (16.0%). However, this is only based on data to June and the UK appears to have had a strong summer.



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

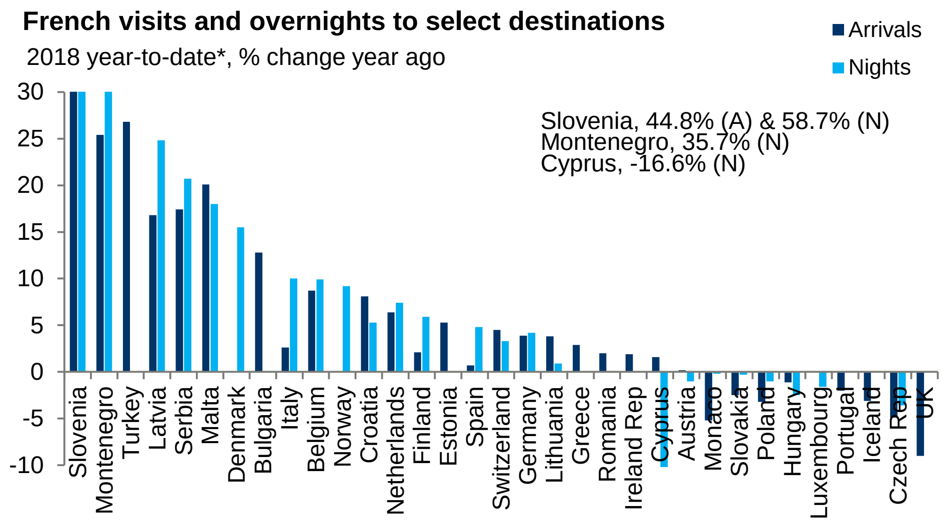
23

out of 32 destinations reported arrivals growth from France

A significant number of countries have reported some very strong arrivals and/or overnights growth from France. 23 out of 32 reporting countries reported growth in arrivals, overnights, or both. Again, a change in Slovenia's methodology of data coverage means that data from January 2018 onwards are not directly comparable with data for reference months before this date. Nevertheless, the results still probably imply strong growth in arrivals from France in Slovenia.

Concerted efforts to improve Montenegro's tourism offering and increased air connectivity have boosted demand from France. Overnights growth from France was particularly strong (up 35.7%) based on data to November. Arrivals from France also increased in Turkey by 26.8% based on data to November.

Once again, the UK had the biggest fall in arrivals from France, but this was based only in data to June. Iceland, Portugal and Czech Republic also saw falls as did a number of other Central European destination countries.



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

27

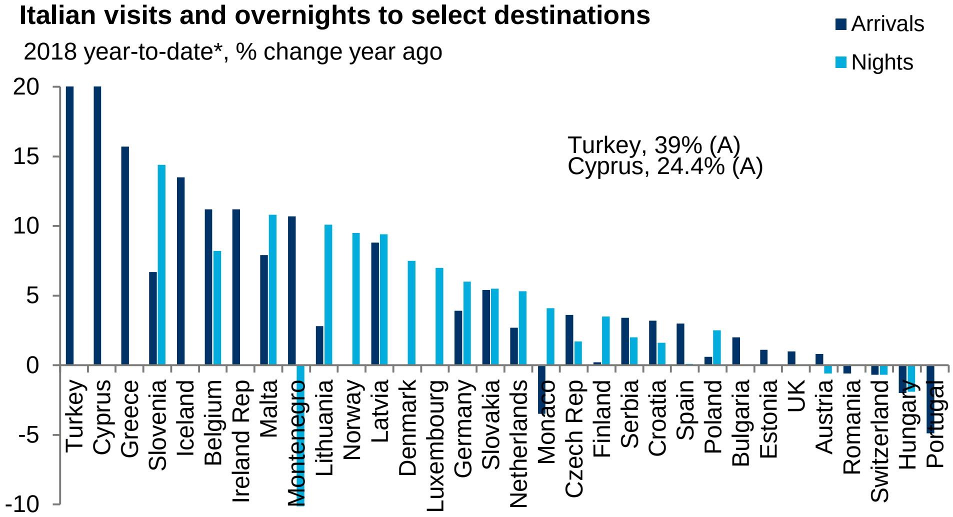
out of 31 destinations reported arrivals growth from Italy

27 of 31 reporting destinations saw some form of growth from Italy based on the latest available 2018 data. Turkey reported the fastest growth as it recoups some market share lost between 2015-17. Over this period Turkey lost some share of Italian outbound (1.1% in 2015 falling to 0.4% in 2017) while Spain and Portugal together saw their share of Italian outbound grow from 14% in 2015 to 14.8% in 2017. As Turkey recoups share, Portugal continues to lose arrivals from Italy, having the sharpest fall off in arrivals (-4.9%). Greece and Cyprus do not appear to be losing share. Based on data to September, arrivals in Greece from Italy were up 15.7%. Whilst over January to December arrivals from Italy to Cyprus were up 24.4% on the same months in 2017.

The imbalance between the growth in Italian arrivals to Montenegro and the decline in overnights continued to widen based on data to November. This may well indicate an increasing proportion of arrivals by cruise ships.

Italian visits and overnights to select destinations

2018 year-to-date*, % change year ago



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

23

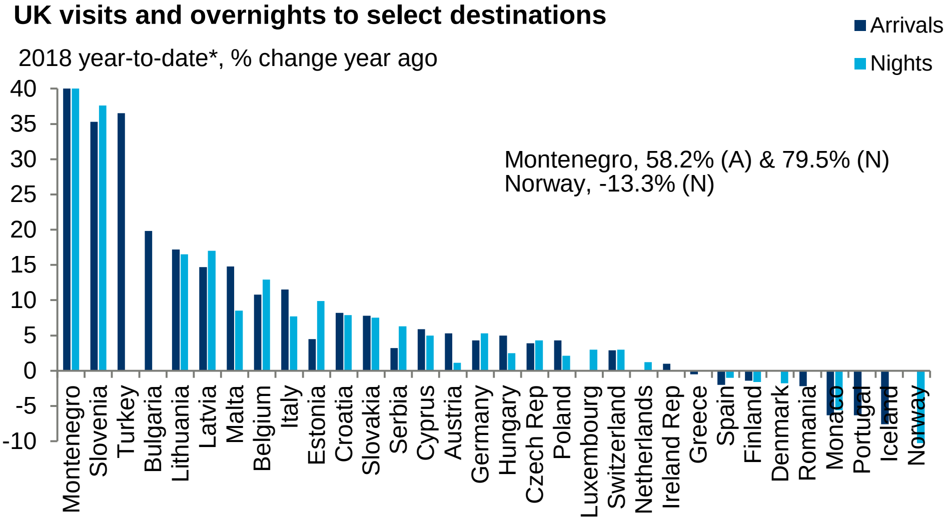
out of 32 destinations reported arrivals growth from the UK

Arrivals from the UK grew in 23 out of 32 reporting destinations according to latest available data for 2018, with a significant number of these reporting double-digit growth arrivals and/or overnights. However, this is a lower proportion than most of the other key European source markets.

Montenegro enjoyed the strongest growth in UK arrivals based on data to November (up 58.2%). Montenegro claims to have had a strong winter season thanks to the snowy weather. However, much of the drive to find new destinations by British tourists has been driven by the relatively low value of sterling through much of 2018.

Spain and Portugal have struggled to attract British tourists, both failing to secure growth in either arrivals or overnights in the year to November. In Spain arrivals from the UK were 2.0% lower compared to the same period a year ago, and in Portugal 6.3% lower. Declines in UK arrivals for either of these destinations are significant given the share of total arrivals made up by the UK.

British tourists have also flocked back to Turkey with the lira falling in value more than sterling. Arrivals were up 36.5% in the period January to November compared to the same months in 2017. Destinations such as the Baltic States and Bulgaria also performed well.



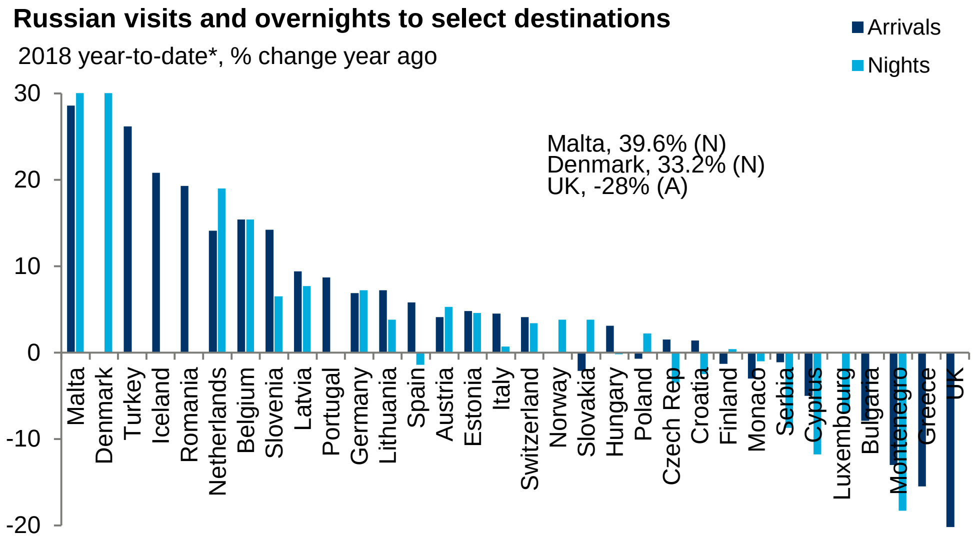
Source: TourMIS *date varies (Jan-Dec) by destination

24

out of 32 destinations reported arrivals growth from Russia

Malta had the strongest growth from the Russian source market both in terms of arrivals (28.6%) and overnights (39.6%) based on data covering the period January to November. Valletta's period in 2018 as European Capital of Culture may have helped, and this raises prospects for both Matera (Italy) and Plovdiv (Bulgaria) for 2019.

Perhaps more surprising has been growth in Russian overnights in Denmark, up 33.2%, ranking it the second destination for Russian outbound in 2018 on the basis of growth. This makes Russia Denmark's fastest growing key source market at present. Turkey has enjoyed some significant growth at the expense of Cyprus. Belgium has enjoyed some significant growth from Russia according to latest available 2018 data, however arrivals remain well below their 2013 peak levels. EU sanctions against Russia in 2014, a subsequent recession within Russia, and terror attacks within Belgium all contributed to these declines, but some strong growth in 2017 marked the turnaround.



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

31

out of 32 destinations reported some form of growth from the United States

5.2 NON-EUROPEAN MARKETS

Over 2018, the US dollar strengthened against both the euro and sterling which has made much of Europe a more affordable destination for US tourists. Therefore, it is unsurprising that most European destinations saw continued strong growth in travel from the US.

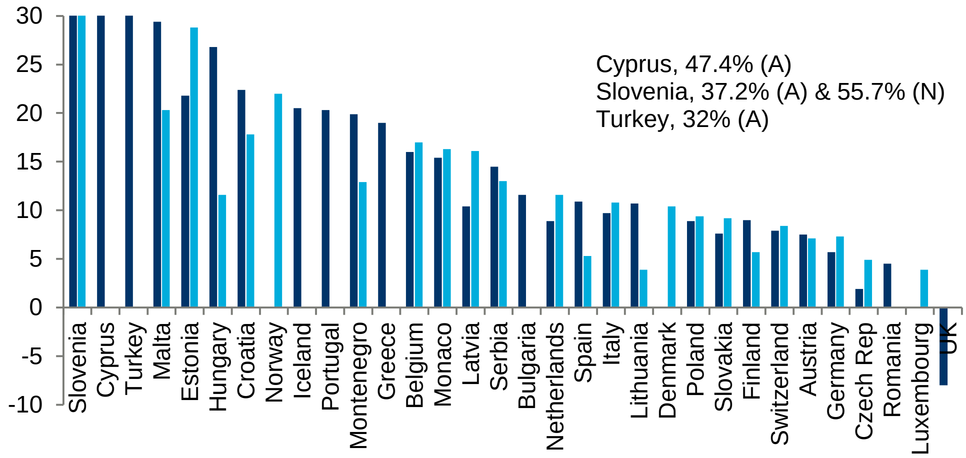
Once again, Slovenia and Cyprus recorded the highest rates of growth from the US. Arrivals in Cyprus were up 47.4% on 12 months earlier based on data to December. Slovenia topped the growth rankings in terms of overnights, up 55.7% albeit for data to July.

31 of 32 reporting destinations recorded growth from the US source market with only the UK (still based on data only to June) reporting a decline in arrivals from the US. But some early arrivals data for Q3 suggest growth from North America to the tune of +9%.

Growth of US arrivals in Turkey was also very strong at 32.0% based on data to November. Malta saw far stronger growth in arrivals than in overnights suggesting some influence from cruise tourism.

US visits and overnights to select destinations

2018 year-to-date*, % change year ago



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

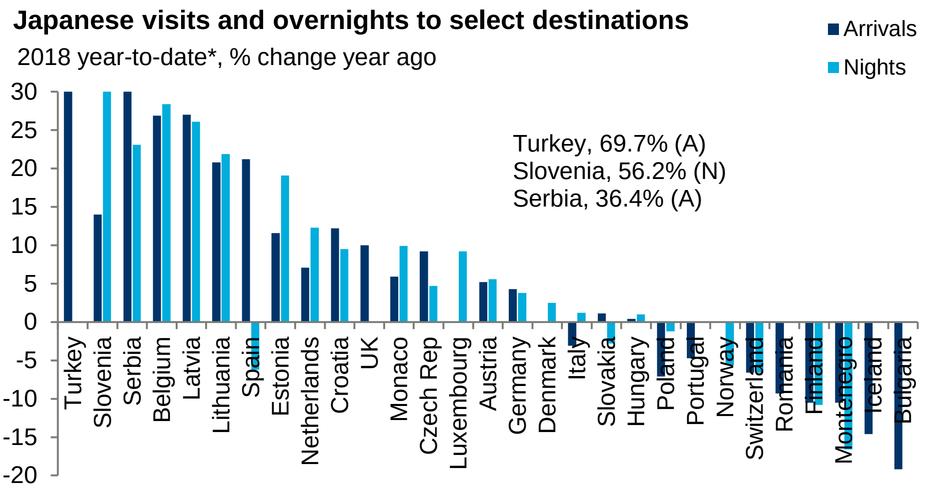
20

out of 30 destinations reported some form of growth from Japan

Demand from Japan continued to show a more varied picture. Of the 30 reporting European destinations, 20 reported some form of growth from the Japan but even within this, some countries reported growth in one metric whilst simultaneously reporting decline in another. The most extreme example was Spain which registered an increase of 21.2% in arrivals based on data to November, whilst overnights for the same period declined by 6.2%. The relationship between the two metrics was reversed in Italy.

Many of the countries which reported outright declines in arrivals such as Poland, Romania, Montenegro, Iceland and Bulgaria are based on relatively small tourism flows. However, there are also more significant destinations in terms of flows which also recorded relatively weak growth – such as Germany.

Turkey recorded the strongest growth in arrivals at 69.7%. Alongside the Baltic and some Balkan countries, Belgium was notable in showing strong recovery from terror attacks in early-2016.



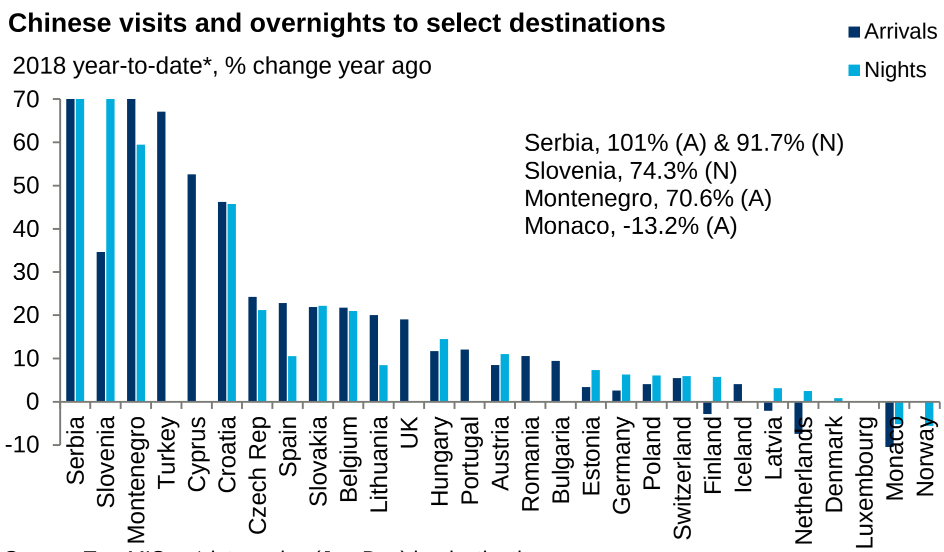
Source: TourMIS *date varies (Jan-Dec) by destination

24

out of 30 destinations reported some form of growth from China

24 out of 30 destination countries showed some sort of growth from China. Serbia once again topped the growth rankings with over 100% growth in arrivals, reflecting increased economic ties with China. The top 5 most Chinese-visited sites in Serbia are in Belgrade. It is clear that other neighbouring countries are often combined with the trip to Serbia. In fact, the growth rankings are now dominated by neighbouring countries with Slovenia seeing strong growth in overnights and Montenegro seeing stronger growth in arrivals. China's Hainan Airlines' discontinuation of flights to Belgrade at the end of 2018 might hamper future growth in the near-term.

Turkey continued to benefit from China's identification of 2018 as 'Turkey Tourism Year' with arrivals up by 67.1% on a year earlier.



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

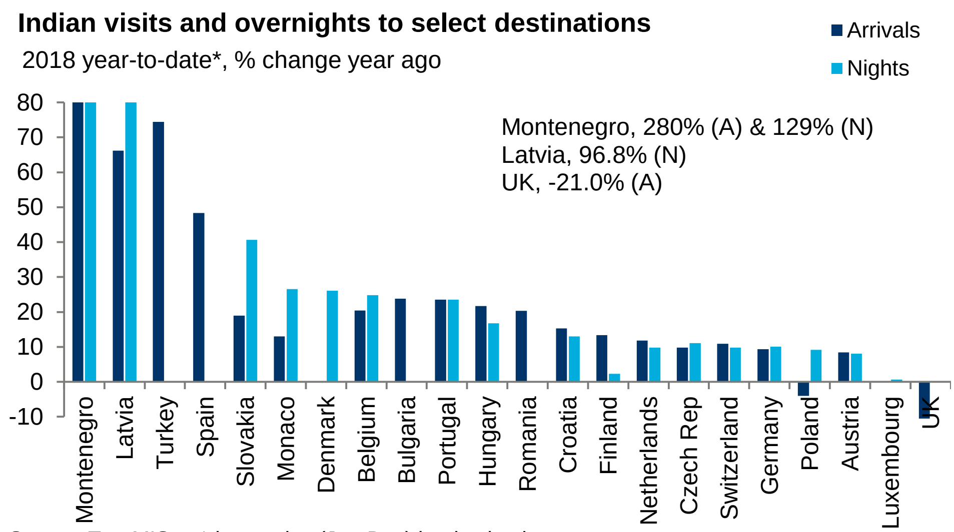
22

out of 24 destinations reported some form of growth from India

All reporting destinations, apart from the UK (which is still only reporting to June), saw some form of growth from India Indian arrivals growth in Montenegro substantial, but the rate of arrivals growth (+280%) was more than double that of overnights (+129%) according to data to November, meaning an average trip is shorter compared to a year ago. It is also worth noting that volumes involved are relatively small.

As with most non-European source markets, there was strong growth of 74.4% in Indian arrivals in Turkey. Turkey has been targeting the Indian wedding tourism market in particular.

Growth in Latvia was also especially strong (66.2% growth in arrivals and 96.8% growth in nights) – but again this is from relatively low volumes.



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

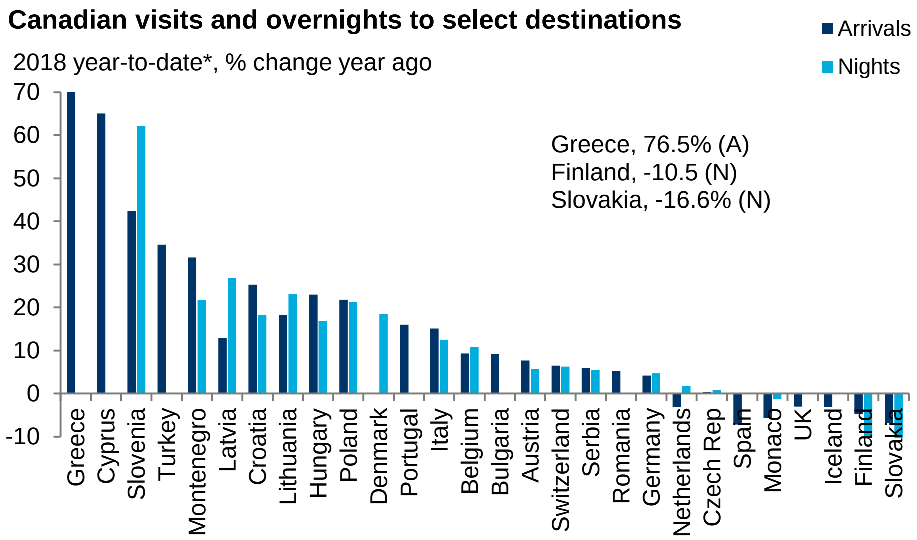
Growth from Canada was reported in 21 out of 29 reporting destinations based on latest available 2018 data.

21

out of 29 destinations reported some form of growth from Canada

The fastest rates of growth continued to be in Greece and Cyprus. Greece has made promoting tourism within Canada a priority and data from the Bank of Greece suggests that in the first nine months of 2018 receipts from Canadian tourists were up 94.2%, or more than €300 million. Growth in visits to Greece looks set to continue given Canadian interest in Greek food programmes and opportunities for increased film productions.

Aside from Slovenia’s growth, induced by a change of methodology, both Turkey and Montenegro performed well as destinations. Latvia has slipped down the growth rankings a little since the Q3 report but has still exhibited some strong growth, especially in overnights terms.



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

6. ORIGIN MARKET SHARE ANALYSIS

METHODOLOGY

Based on the 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. 2017 values are, in most cases, year-to-date estimates based on the latest available data and are not final reported numbers.

Data in these charts and tables relate to reported arrivals in all destinations as a comparable measure of outbound travel for 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 11.9m departures to Europe while the sum of European arrivals from the US was 23.4m. 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, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;

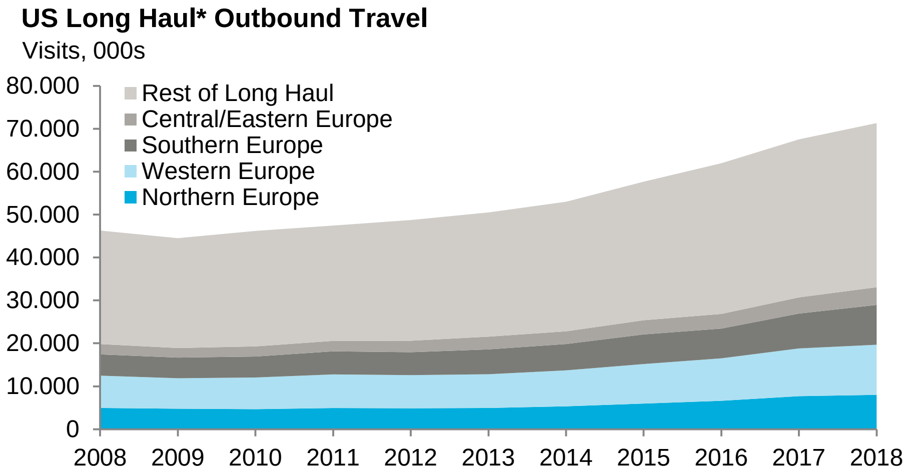
Central/Eastern Europe is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

6.1 UNITED STATES

US Market Share Summary

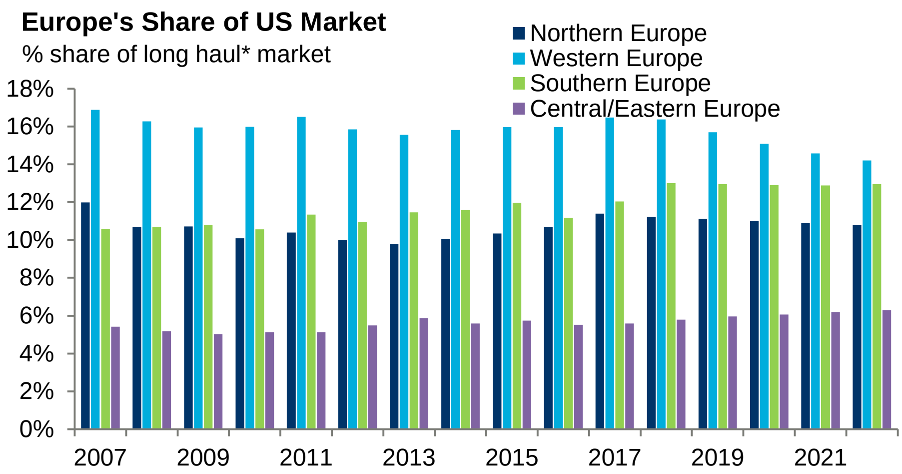
	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	113,144	-	4.9%	27.2%	-	42.9%	-
Long haul	67,541	59.7%	5.8%	32.4%	62.1%	38.6%	61.6%
Short haul	45,602	40.3%	3.6%	19.6%	37.9%	49.9%	38.4%
Travel to Europe	30,720	27.2%	5.2%	28.7%	27.5%	49.1%	26.0%
European Union	27,670	24.5%	4.9%	27.1%	24.4%	50.0%	23.3%
Northern Europe	7,694	6.8%	4.6%	25.3%	6.7%	57.9%	6.2%
Western Europe	11,126	9.8%	2.7%	14.2%	8.8%	44.0%	9.8%
Southern Europe	8,130	7.2%	7.3%	42.4%	8.0%	52.4%	6.7%
Central/Eastern Europe	3,770	3.3%	8.3%	49.3%	3.9%	40.9%	3.4%

*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel
Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.2 CANADA

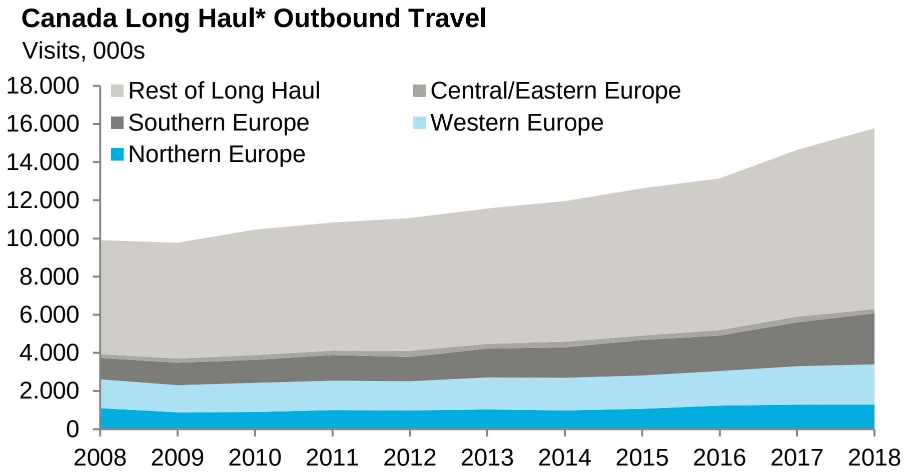
Canada Market Share Summary

	2017	Growth (2017-22)			Growth (2012-17)		
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	36,806	-	3.6%	19.3%	-	4.2%	-
Long haul	14,636	39.8%	3.5%	18.9%	39.6%	32.2%	31.4%
Short haul	22,170	60.2%	3.6%	19.5%	60.4%	-8.6%	68.6%
Travel to Europe	5,895	16.0%	1.8%	9.5%	14.7%	43.8%	11.6%
European Union	5,686	15.4%	2.2%	11.2%	14.4%	48.4%	10.8%
Northern Europe	1,280	3.5%	2.9%	15.6%	3.4%	31.1%	2.8%
Western Europe	2,015	5.5%	0.9%	4.3%	4.8%	30.8%	4.4%
Southern Europe	2,311	6.3%	2.9%	15.5%	6.1%	81.9%	3.6%
Central/Eastern Europe	289	0.8%	-6.5%	-28.5%	0.5%	-7.2%	0.9%

*Shows cumulative change over the relevant time period indicated

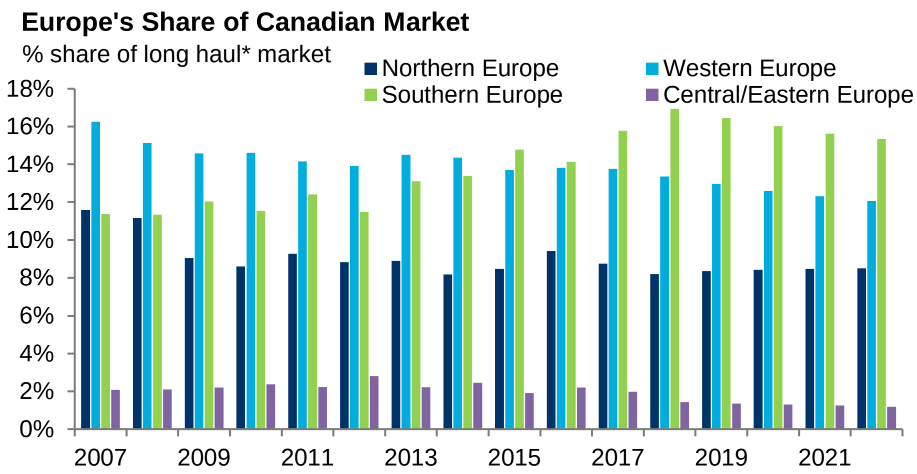
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.3 MEXICO

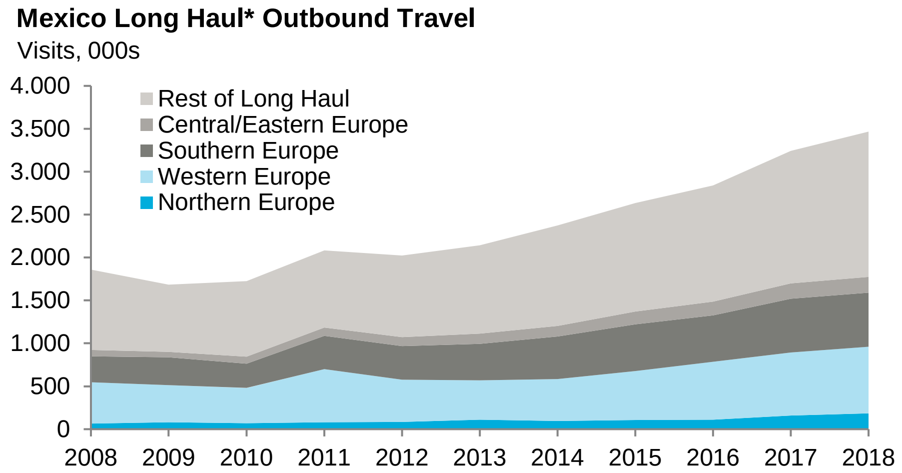
Mexico Market Share Summary

	2017	Growth (2017-22)			Growth (2012-17)		
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	21,418	-	4.3%	23.5%	-	30.9%	-
Long haul	3,241	15.1%	4.0%	21.6%	14.9%	60.1%	12.4%
Short haul	18,177	84.9%	4.4%	23.8%	85.1%	26.8%	87.6%
Travel to Europe	1,699	7.9%	2.0%	10.3%	7.1%	58.3%	6.6%
European Union	1,588	7.4%	1.8%	9.3%	6.6%	57.7%	6.2%
Northern Europe	160	0.7%	3.2%	16.9%	0.7%	85.7%	0.5%
Western Europe	734	3.4%	2.8%	14.7%	3.2%	49.6%	3.0%
Southern Europe	626	2.9%	0.8%	4.0%	2.5%	59.3%	2.4%
Central/Eastern Europe	179	0.8%	1.7%	8.6%	0.7%	72.8%	0.6%

*Shows cumulative change over the relevant time period indicated

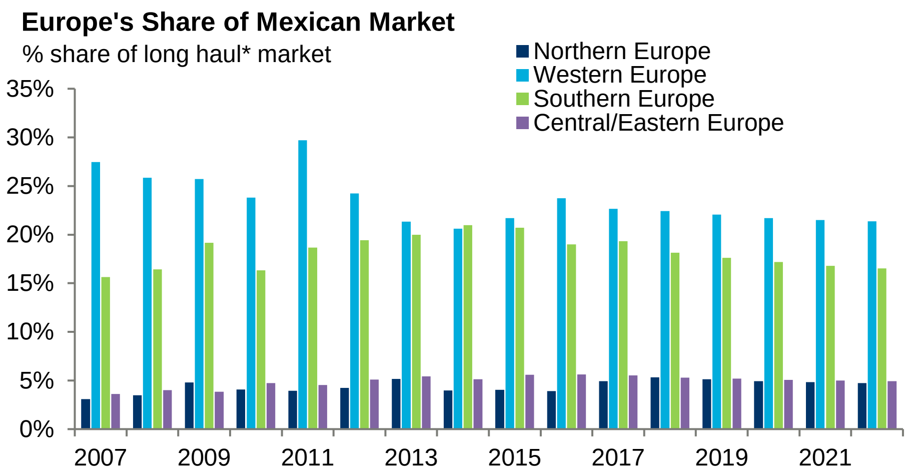
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.4 ARGENTINA

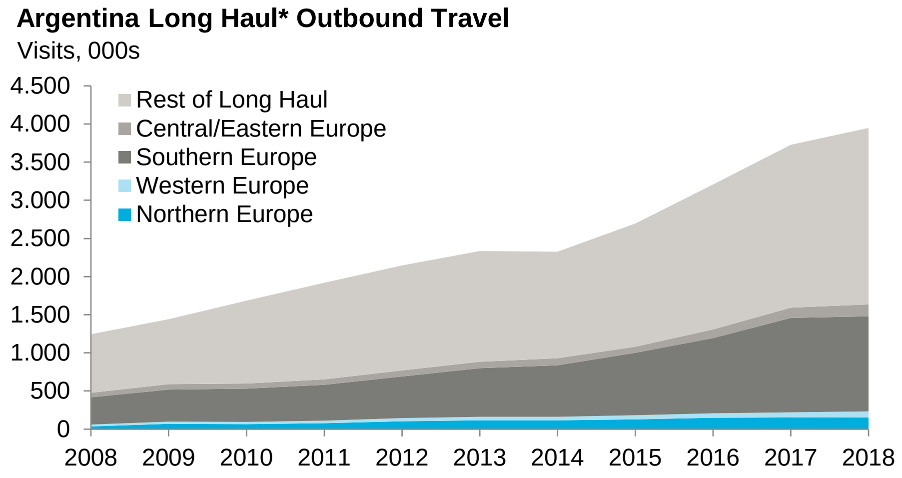
Argentina Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	13,965	-	-1.2%	-6.0%	-	84.8%	-
Long haul	3,726	26.7%	-5.4%	-24.3%	21.5%	73.5%	28.4%
Short haul	10,239	73.3%	0.1%	0.6%	78.5%	89.2%	71.6%
Travel to Europe	1,593	11.4%	-9.8%	-40.2%	7.3%	107.2%	10.2%
European Union	1,424	10.2%	-11.3%	-45.1%	6.0%	110.9%	8.9%
Northern Europe	152	1.1%	-5.8%	-25.8%	0.9%	44.9%	1.4%
Western Europe	69	0.5%	-2.8%	-13.0%	0.5%	66.6%	0.5%
Southern Europe	1,240	8.9%	-12.0%	-47.2%	5.0%	126.8%	7.2%
Central/Eastern Europe	133	0.9%	-1.1%	-5.2%	1.0%	74.2%	1.0%

*Shows cumulative change over the relevant time period indicated

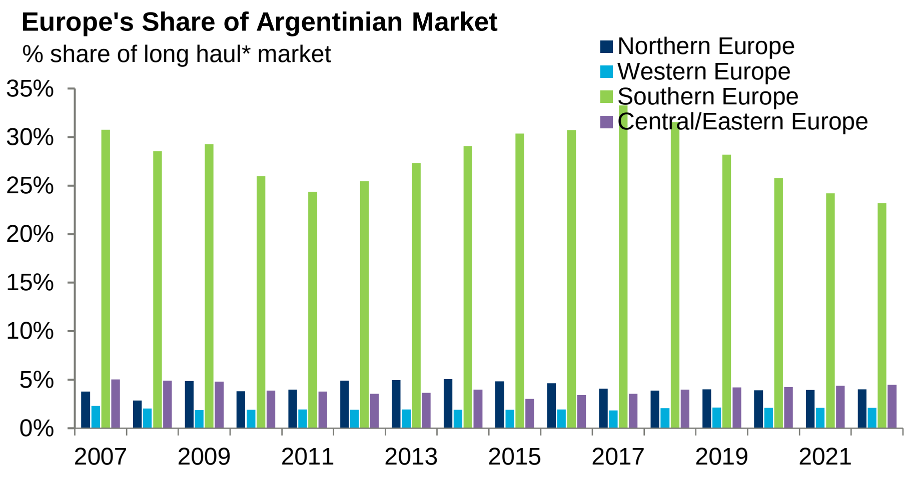
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.5 BRAZIL

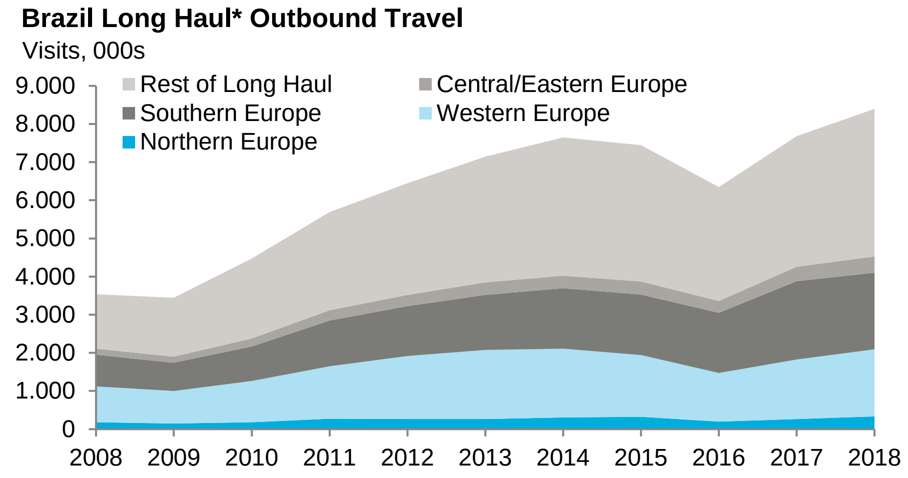
Brazil Market Share Summary

	2017	Growth (2017-22)			Growth (2012-17)		
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	10,333	-	3.9%	20.8%	-	15.4%	-
Long haul	7,681	74.3%	2.1%	11.0%	68.3%	19.2%	72.0%
Short haul	2,653	25.7%	8.3%	49.3%	31.7%	5.6%	28.0%
Travel to Europe	4,256	41.2%	-0.8%	-4.1%	32.7%	20.8%	39.3%
European Union	3,916	37.9%	-1.4%	-7.0%	29.1%	21.5%	36.0%
Northern Europe	264	2.6%	7.5%	43.5%	3.0%	-1.1%	3.0%
Western Europe	1,560	15.1%	1.8%	9.1%	13.6%	-5.4%	18.4%
Southern Europe	2,055	19.9%	-5.5%	-24.6%	12.4%	57.0%	14.6%
Central/Eastern Europe	377	3.7%	3.6%	19.4%	3.6%	26.9%	3.3%

*Shows cumulative change over the relevant time period indicated

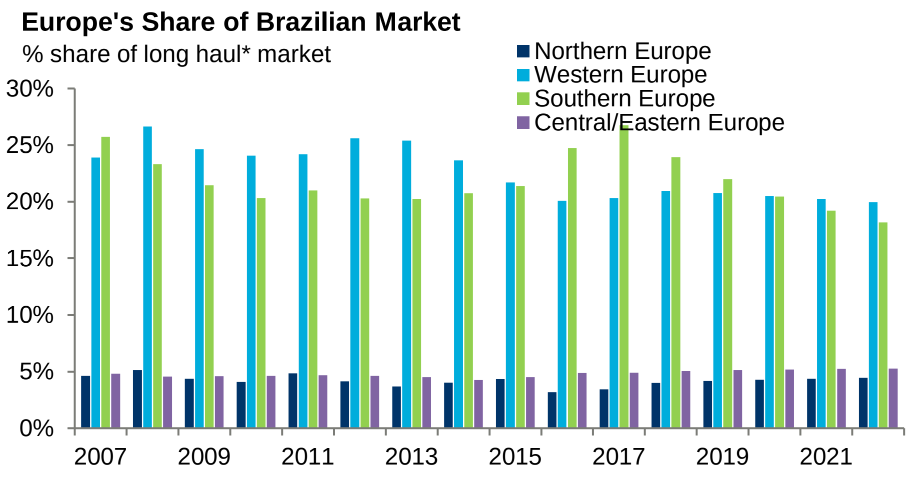
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

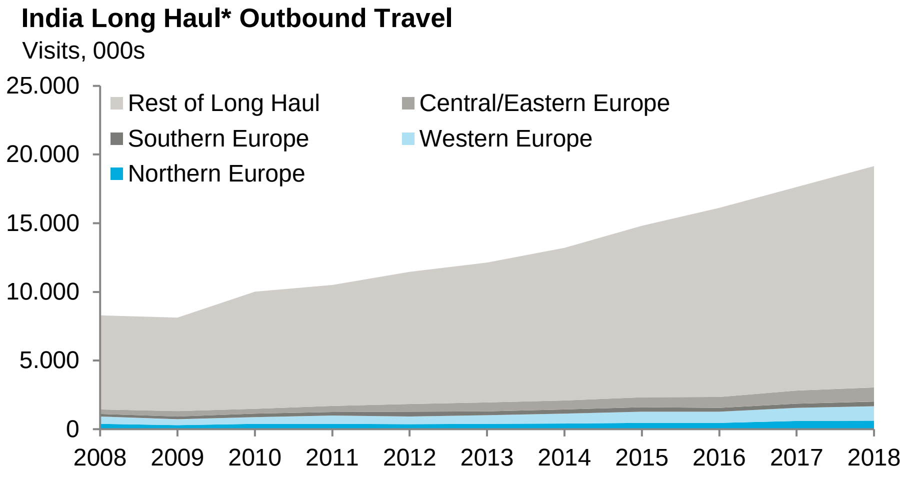
Source: Tourism Economics

6.6 INDIA

India Market Share Summary

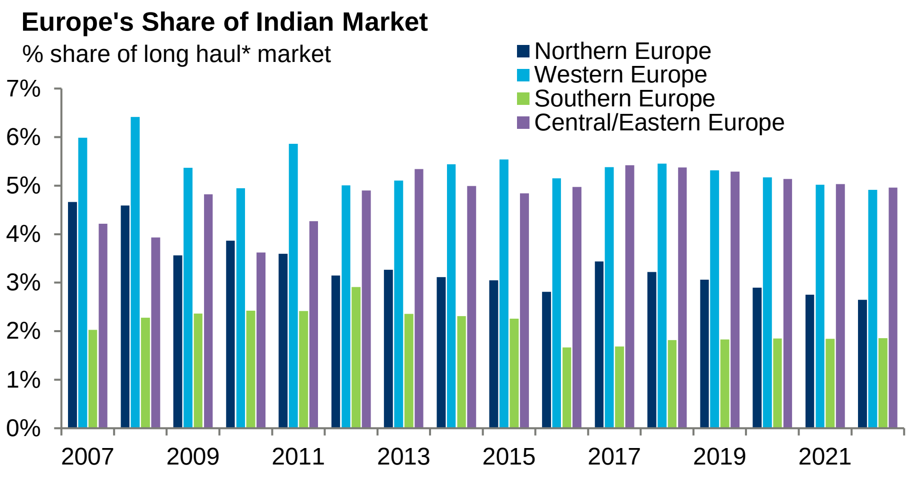
	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	18,396	-	7.3%	42.4%	-	53.4%	-
Long haul	17,637	95.9%	7.3%	42.5%	95.9%	54.1%	95.5%
Short haul	759	4.1%	7.3%	42.1%	4.1%	39.5%	4.5%
Travel to Europe	2,806	15.3%	5.2%	28.7%	13.8%	53.6%	15.2%
European Union	1,561	8.5%	4.3%	23.2%	7.3%	46.2%	8.9%
Northern Europe	606	3.3%	1.9%	9.9%	2.5%	68.1%	3.0%
Western Europe	948	5.2%	5.4%	30.2%	4.7%	65.5%	4.8%
Southern Europe	297	1.6%	9.5%	57.3%	1.8%	-10.9%	2.8%
Central/Eastern Europe	955	5.2%	5.4%	30.3%	4.8%	70.4%	4.7%

*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel
Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.7 CHINA

China Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	92,738	-	6.0%	34.1%	-	85.7%	-
Long haul	47,041	50.7%	6.8%	38.9%	52.5%	141.6%	39.0%
Short haul	45,697	49.3%	5.3%	29.2%	47.5%	50.0%	61.0%
Travel to Europe	13,373	14.4%	6.8%	39.0%	14.9%	112.8%	12.6%
European Union	7,621	8.2%	7.4%	42.9%	8.8%	104.8%	7.5%
Northern Europe	1,108	1.2%	8.1%	47.8%	1.3%	140.7%	0.9%
Western Europe	5,546	6.0%	8.0%	46.8%	6.5%	79.7%	6.2%
Southern Europe	898	1.0%	8.9%	52.8%	1.1%	111.4%	0.9%
Central/Eastern Europe	5,820	6.3%	5.0%	27.8%	6.0%	151.5%	4.6%

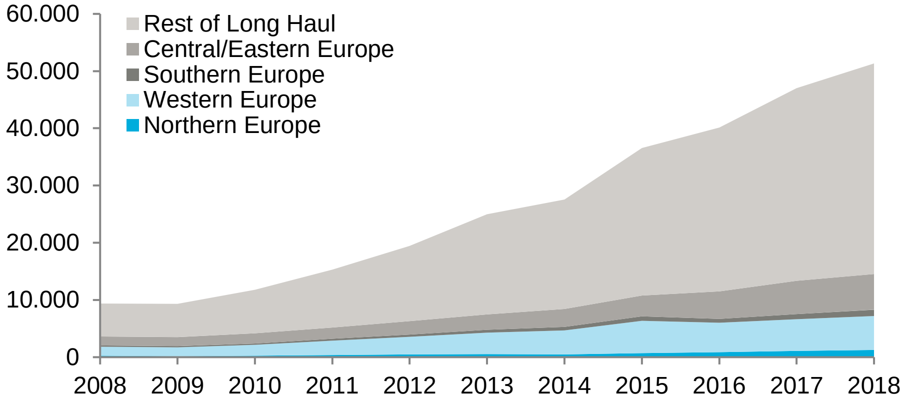
*Shows cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

China Long Haul* Outbound Travel

Visits, 000s

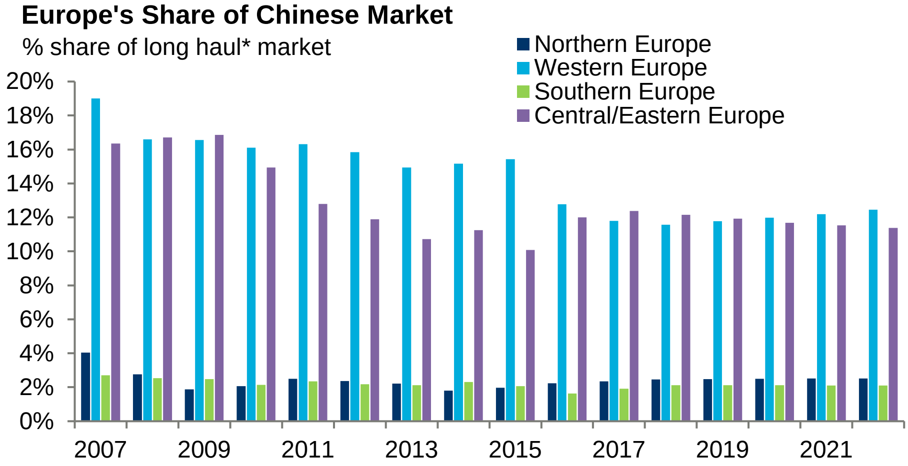


*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Europe's Share of Chinese Market

% share of long haul* market



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

Source: Tourism Economics

6.8 JAPAN

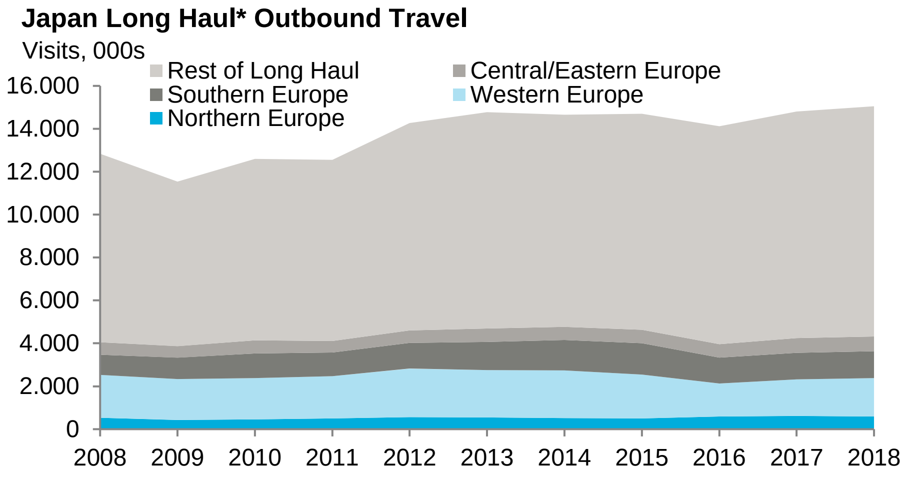
Japan Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	22,906	-	4.3%	23.2%	-	-4.5%	-
Long haul	14,801	64.6%	4.2%	22.6%	64.3%	3.8%	59.5%
Short haul	8,105	35.4%	4.5%	24.4%	35.7%	-16.5%	40.5%
Travel to Europe	4,239	18.5%	4.5%	24.7%	18.7%	-8.1%	19.2%
European Union	3,743	16.3%	4.6%	25.1%	16.6%	-5.1%	16.4%
Northern Europe	617	2.7%	0.2%	1.0%	2.2%	9.6%	2.3%
Western Europe	1,700	7.4%	6.3%	35.8%	8.2%	-24.7%	9.4%
Southern Europe	1,241	5.4%	5.0%	27.4%	5.6%	3.0%	5.0%
Central/Eastern Europe	681	3.0%	2.6%	13.5%	2.7%	16.6%	2.4%

*Shows cumulative change over the relevant time period indicated

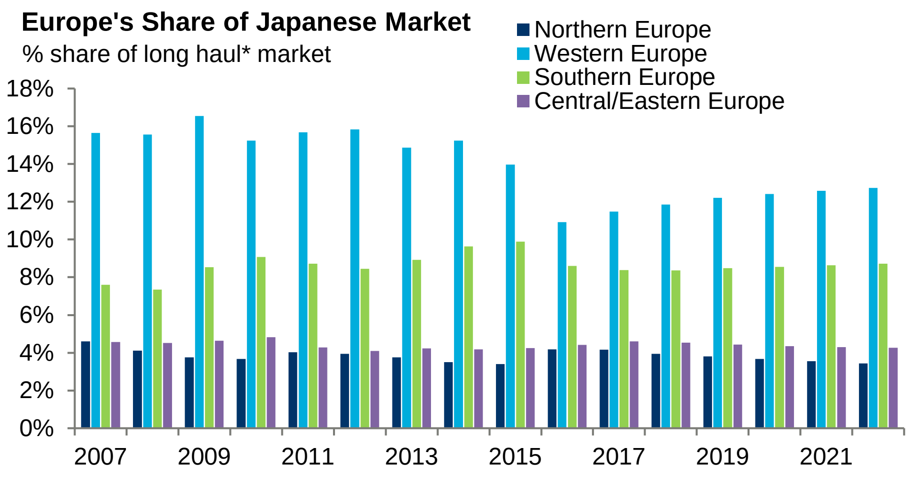
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.9 AUSTRALIA

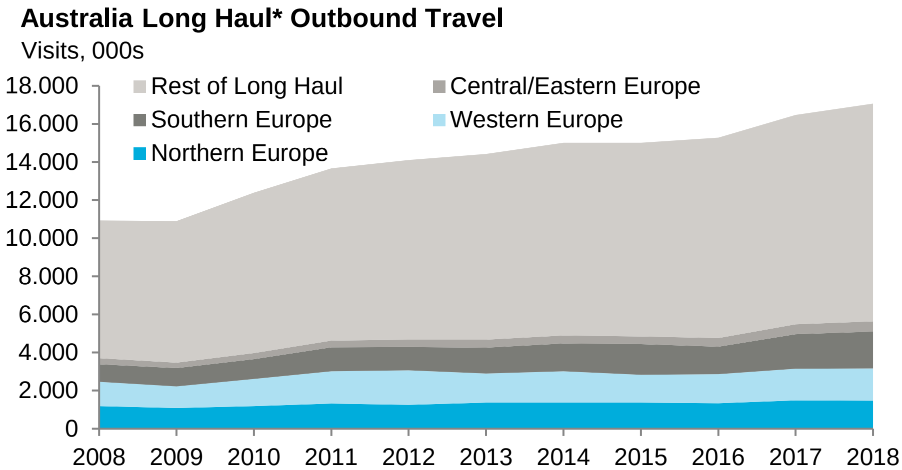
Australia Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	17,105	-	3.4%	18.4%	-	17.2%	-
Long haul	16,466	96.3%	3.4%	18.4%	96.3%	16.7%	96.7%
Short haul	640	3.7%	3.2%	17.2%	3.7%	31.8%	3.3%
Travel to Europe	5,477	32.0%	2.5%	13.0%	30.6%	17.2%	32.0%
European Union	5,113	29.9%	2.3%	11.9%	28.3%	17.5%	29.8%
Northern Europe	1,486	8.7%	1.9%	9.6%	8.0%	18.3%	8.6%
Western Europe	1,665	9.7%	-0.4%	-1.7%	8.1%	-8.1%	12.4%
Southern Europe	1,812	10.6%	4.9%	26.9%	11.4%	47.8%	8.4%
Central/Eastern Europe	513	3.0%	4.1%	22.1%	3.1%	35.2%	2.6%

*Shows cumulative change over the relevant time period indicated

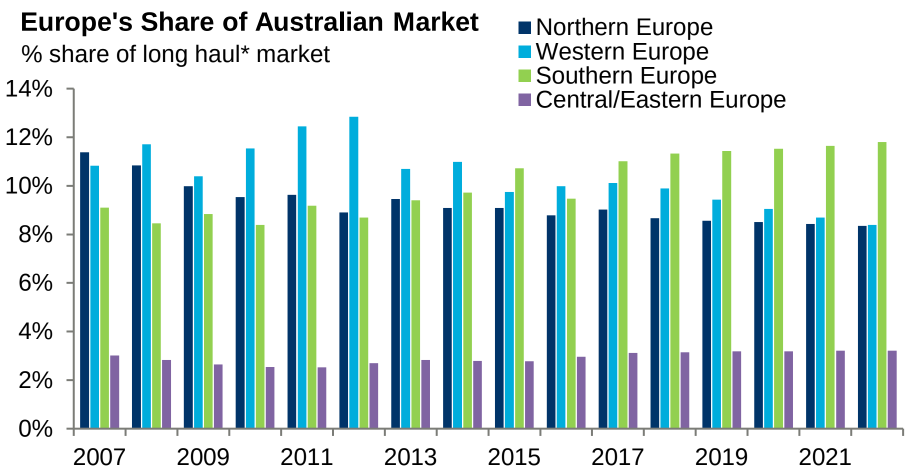
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

6.10 UNITED ARAB EMIRATES

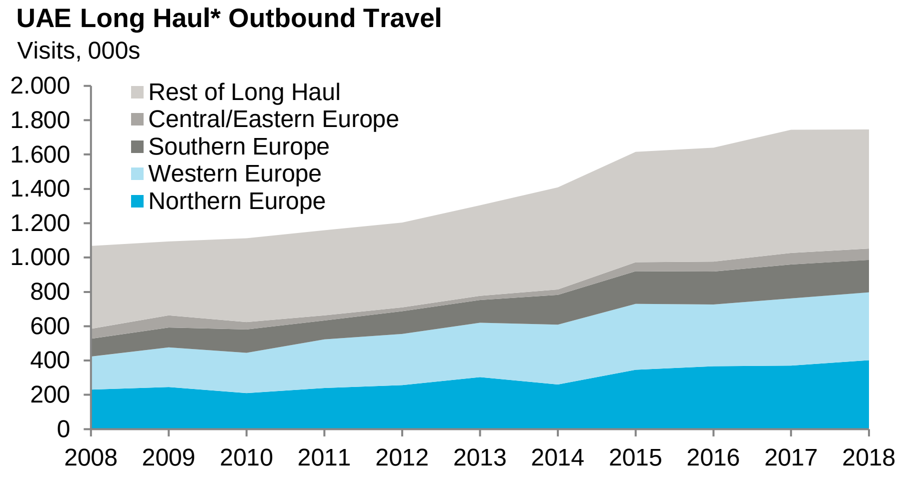
United Arab Emirates Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	2,880	-	6.8%	39.1%	-	-8.6%	-
Long haul	1,744	60.6%	0.5%	2.3%	44.6%	45.0%	38.2%
Short haul	1,136	39.4%	14.4%	95.6%	55.4%	-41.7%	61.8%
Travel to Europe	1,027	35.7%	0.0%	-0.2%	25.6%	44.9%	22.5%
European Union	798	27.7%	-0.3%	-1.3%	19.7%	36.6%	18.6%
Northern Europe	371	12.9%	1.3%	6.8%	9.9%	44.3%	8.2%
Western Europe	391	13.6%	-0.7%	-3.5%	9.4%	31.3%	9.5%
Southern Europe	198	6.9%	-0.7%	-3.5%	4.8%	49.2%	4.2%
Central/Eastern Europe	68	2.4%	-2.0%	-9.4%	1.5%	211.9%	0.7%

*Shows cumulative change over the relevant time period indicated

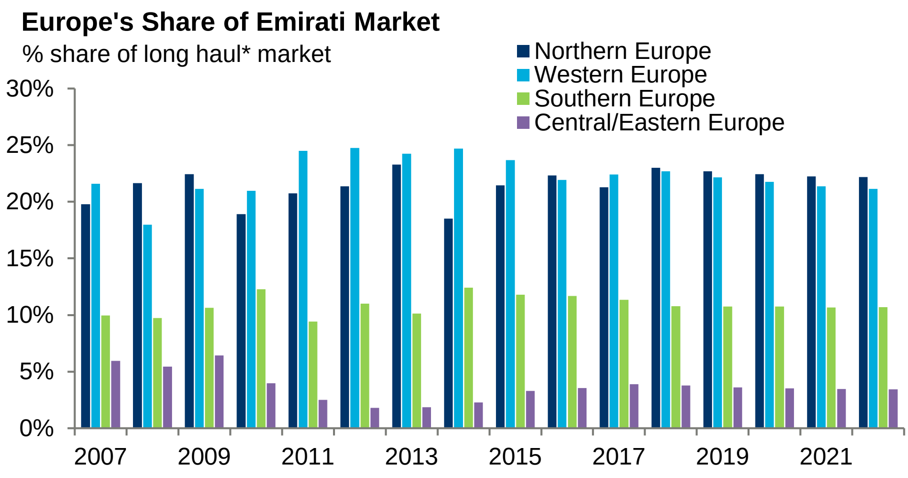
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

6.11 RUSSIA

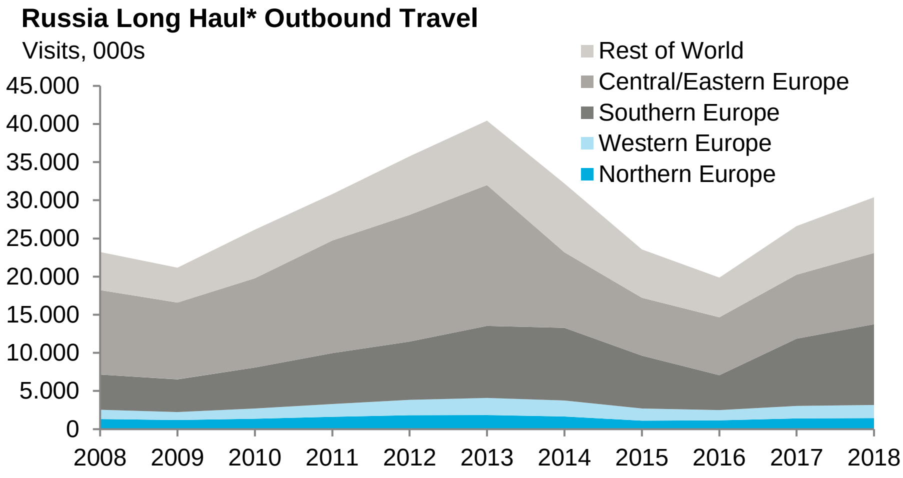
Russia Market Share Summary

	2017	Growth (2017-22)				Growth (2012-17)	
	000s	Share**	Annual average	Cumulative growth*	Share 2022**	Cumulative growth*	Share 2012**
Total outbound travel	26,613	-	6.8%	39.0%	-	-25.6%	-
Long haul	6,373	23.9%	5.9%	33.2%	23.0%	-17.2%	21.5%
Short haul	20,240	76.1%	7.1%	40.8%	77.0%	-27.9%	78.5%
Travel to Europe	20,240	76.1%	7.1%	40.8%	77.0%	-27.9%	78.5%
European Union	9,873	37.1%	4.6%	24.9%	33.3%	-13.9%	32.0%
Northern Europe	1,430	5.4%	4.9%	27.2%	4.9%	-21.6%	5.1%
Western Europe	1,609	6.0%	4.1%	22.2%	5.3%	-20.0%	5.6%
Southern Europe	8,802	33.1%	7.5%	43.5%	34.2%	15.0%	21.4%
Central/Eastern Europe	8,400	31.6%	7.5%	43.8%	32.7%	-49.4%	46.4%

*Show s cumulative change over the relevant time period indicated

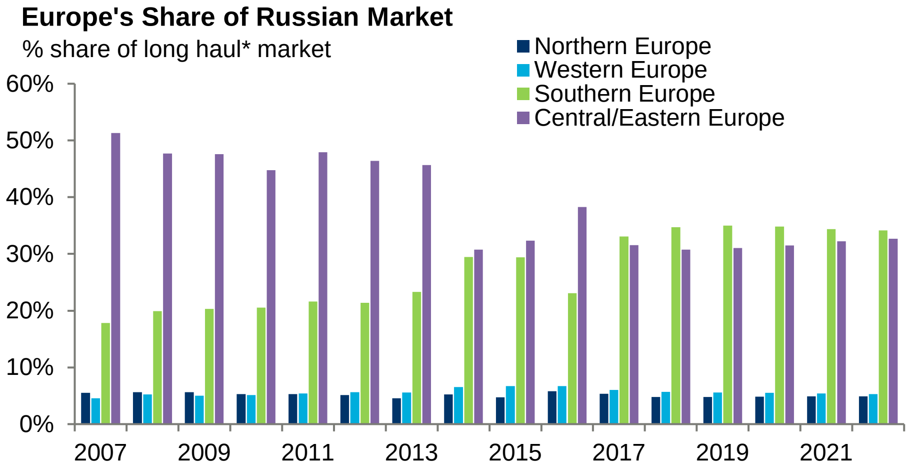
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

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 useful insight into likely tourism developments throughout the year.

The linkages between macro 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 of the euro against the US dollar would make the Eurozone a relatively cheaper destination and therefore more attractive to US travellers.

7.1 OVERVIEW

Financial market moves in recent months suggest that there is increasing concern about a substantial global growth slowdown or even a recession. But OE (Oxford Economics) continue to see this as an over-reaction to the weakening economic data; while the downside risks to the global GDP growth outlook have clearly risen, OE maintain the baseline forecast for 2019 is little changed at 2.7%, down from 3% in 2018.

Recent economic news confirms that the Q3 economic soft patch appears to have spilled over into Q4, particularly in the industrial sector which has seen a broad-based loss of momentum in many economies coinciding with a further slowdown in global trade growth. But while surveys of service sector activity have also moderated, the falls have been rather less abrupt, suggesting that overall global GDP growth is slowing albeit not alarmingly so.

On balance, OE think that the weaker data do not provide compelling evidence that global growth is slowing more sharply than the December forecast. Although the financial market sell-off and associated tightening in financial conditions will impinge on growth, this may at least be partly offset by weaker inflation in response to lower oil prices, now seen at US$61pb in 2019. This combined with the continued strength of labour markets and the likelihood of further moderate wage growth, points to a further period of solid household spending growth.

Nonetheless, the risk of a sharper slowdown has risen. Cyclical risks have increased over the past couple of years as spare capacity has diminished. And uncertainty over the economic and financial market impact of the unwinding of central balance sheets have added to the risk of policy mistakes. Although OE take a central view in that the recent financial market correction will not morph into something rather nastier, further sustained weakness (particularly if accompanied by dollar strength) would have more significant implications for activity and could see world growth falling below the 2016 post-crisis low of 2.4%.

Summary of economic outlook, % change year ago*

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

Source: Tourism Economics

* Unless otherwise specified

** Percentage point change

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

7.2 EUROZONE

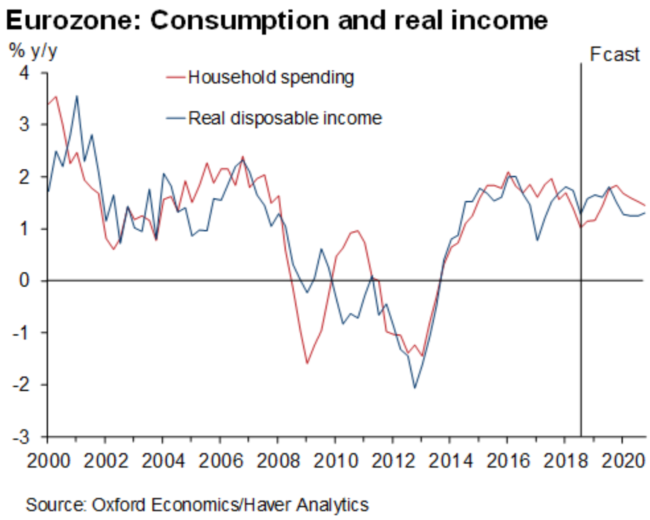
Horrid industrial output figures are showing for Germany which have erased hopes of a rebound in the Eurozone in Q4. OE however still expect economic activity to recover this year to a pace closer to potential as domestic fundamentals continue to remain solid, particularly consumer spending. But risks to the outlook remain high given the weakness in forward-looking indicators, political risks and tensions in financial markets. The weak end to 2018 mechanically lowers OE's forecast for this year, which is for 1.5% (1.6% previously), but growth of 1.6% is still forecast for 2020.

With the German economy flirting with recession in H2 2018, OE expects a rebound in Eurozone growth has been dashed therefore now see GDP expanding just 0.2% in Q4, dragged down by the weak industrial sector, and 1.8% in 2018 overall.

OE see Eurozone growth picking up this year as some of the transitory factors that caused the sharp slowdown in the second half of 2018 are gradually removed. But leading indicators still show a worrying lack of momentum in the Eurozone moving into 2019. Furthermore, sharp declines in both the composite PMI and the EC's Economic Sentiment Indicator in December suggest a slowing economy at the end of last year, although again, OE suspect temporary factors may be overstating this weakness.

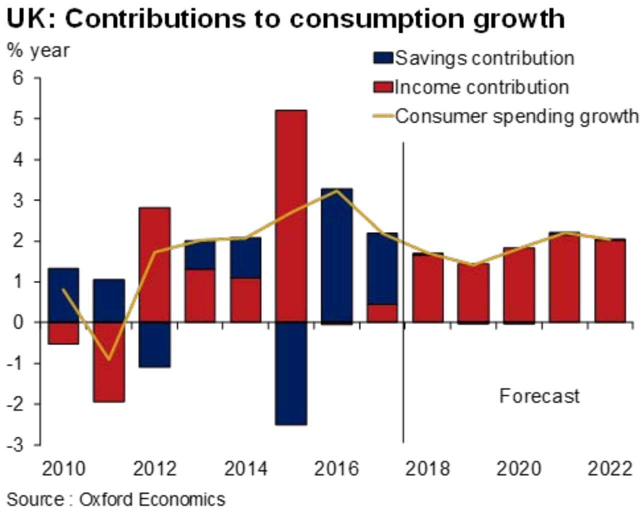
Inflation fell sharply to 1.2% in December as a result of lower oil prices. Although OE still expect core inflation to trend upwards as wage growth strengthens, lower energy prices will keep headline inflation subdued this year. OE see headline inflation averaging only 1.4%, which should help prop up real disposable incomes.

As expected, the ECB ended QE purchases in December. But given an increasingly adverse outlook, OE do not expect the first interest rate hike until Q4 2019, with a very gradual pace of tightening thereafter.



7.3 UNITED KINGDOM

OE expect strengthening household spending power and looser fiscal policy to underpin an acceleration in GDP growth from 1.4% in 2018 to 1.7% this year and 2.0% in 2020. This projection still assumes an 'orderly' Brexit, which OE judge the most likely outcome. But now that the no confidence vote has arose, there is a larger chance of a "no deal" outcome.



The economy has suffered a loss of momentum since mid-2018. GDP rose by 0.1% in October, after being flat in the previous two months, while in Q4 the composite PMI was at its lowest since Q3 2016. Manufacturing surveys have reported evidence of firms engaging in precautionary stockbuilding to guard against potential supply chain disruptions in the event of a "no deal" Brexit. But in services, firms have reported that Brexit-related uncertainty has weighed on business-to-business demand. OE's short-term model points to quarterly GDP growth of just 0.3% in Q4 2018.

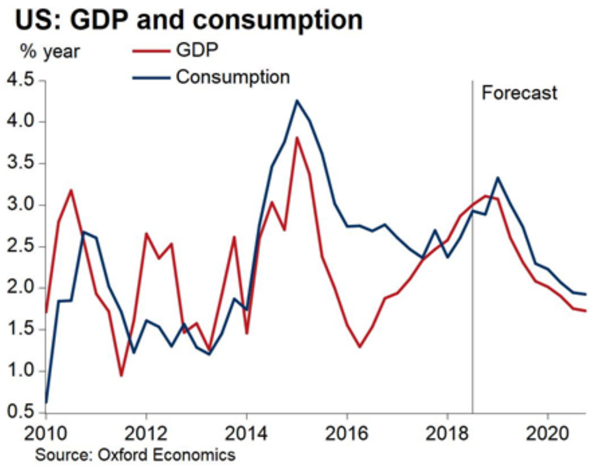
Lower inflation and a looser fiscal stance should support an acceleration in activity through 2019, but this relies upon the UK achieving an 'orderly' exit from the EU. Parliament voted on the withdrawal agreement on 15th January, OE was correct to expect the government to suffer a heavy defeat, as a large amount voted against the deal. The PM survived the resulting vote of confidence on the 16th January and so the UK remains between the prospect of a new deal or a "no deal" Brexit.

The minutes of December's MPC meeting reiterated the message that everything is on hold pending Brexit developments. In the event of an 'orderly' Brexit, the MPC appears determined to pursue a hawkish approach, but we think that the incoming data on wages and inflation will prevent more than one 25bp rate hike this year.

7.4 UNITED STATES

The US economy is poised to cool, but not roll over in 2019, as the expansion remains on track to become the longest on record. Fading fiscal stimulus and tighter financial conditions will contribute to slowing economic momentum over the course of this year. Still, OE expect growth at the end of 2019 to remain slightly above potential, with y/y growth in Q4 at 2.1%, down from 3.1% in Q4 2018.

The US economy added a whopping 312,000 jobs in December, far exceeding market expectations and a timely reminder that, despite financial market turbulence, economic fundamentals remain strong. Average hourly earnings also surprised to the upside, increasing 3.2% y/y, the fastest pace yet in this economic cycle. And while the unemployment rate rose 0.2pp to 3.9%, it increased for the "right" reasons as the labor force participation rate increased to its highest level since September 2017.



Nonetheless, the economy has to contend with myriad risks. The trade conflict with China continues to pose downside risks to US growth. While the mid-level talks appear to have yielded some progress, the President has maintained to impose a tariff of 25% on Chinese goods. Meanwhile, the government shutdown is the longest on record. OE expect the shutdown to have a negative impact on GDP but think it will be limited due to the partial nature of the shutdown. Moreover, political uncertainty will be ongoing, with a confrontation over the debt limit on the horizon later this year.

OE expect the Fed to hike interest rates just twice in 2019, with the first increase coming in May. Fed officials have gone to great lengths to assure investors that they are "listening" to the signals from financial markets and will be patient before hiking rates again.

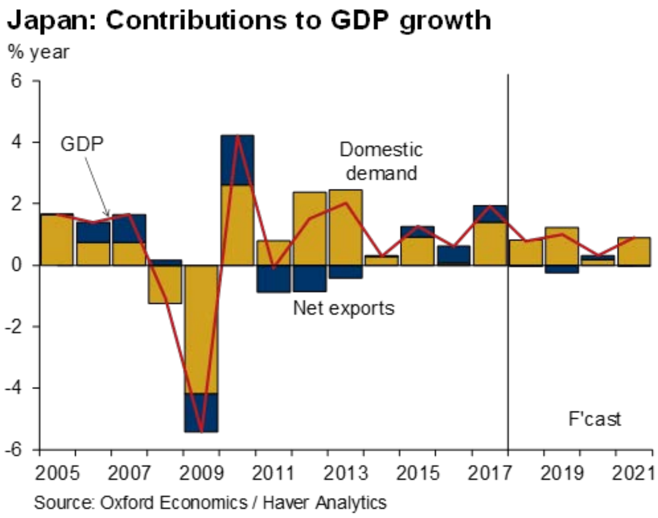
7.5 JAPAN

Despite the recent financial market turmoil, OE maintain a reasonably optimistic outlook for the Japanese economy. Consumption will be bolstered by a robust labour market while investment will remain solid as firms continue to expand capacity and spend more on research and development. However, OE expect weak export growth to carry over into 2019, in line with slowing global trade. OE forecast 0.8% in 2018 and 1.0% in 2019 for GDP growth, before a slowdown to just 0.3% in 2020 due to the impact of the consumption tax hike planned for Q4 this year.

While growth in 2018 was held back by weather-related contractions in Q1 and Q3, fundamentals remain solid and OE expect domestic demand to support growth in 2019. Survey data continue to point to healthy business sentiment while a robust labour market will help consumption. But export growth is set to remain soft, in line with slowing global trade momentum.

Despite OE's reasonably optimistic baseline, risks are on the downside. Concerns over slowing global growth momentum, reflected in recent financial market turmoil, may affect sentiment. OE also expect the consumption tax hike in Q4 2019 to dampen growth but, compared with past hikes, the impact should prove relatively mild given the smaller size of the tax increase and the offsetting measures planned by the government. Protectionism also remains a key risk.

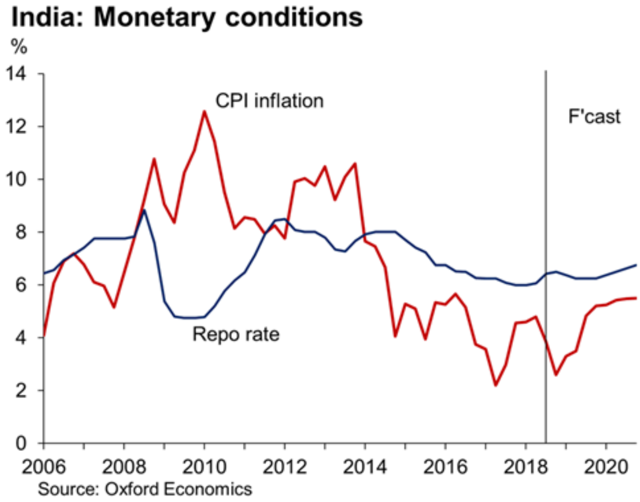
With inflation well below the Bank of Japan's (BoJ) 2% target, monetary policy is committed to remain expansionary. Indeed, a sharp drop in 10-year government bond yields and a fall in equity prices in recent weeks have put an end to speculation about monetary policy tweaks. Meanwhile, financial market turmoil has pushed the yen higher; OE now see it averaging 107 yen to the US dollar in 2019.



7.6 EMERGING MARKETS

INDIA: RBI TO CHANGE STANCE TO 'NEUTRAL'

Headline CPI inflation fell near to the lower bound of the RBI's 2-6% inflation target range in November, with food prices contracting sharply. This, along with a dovish assessment of the new RBI Governor, strengthens the prospect that the next move from the RBI is likely to be a 25bp cut in Q1.

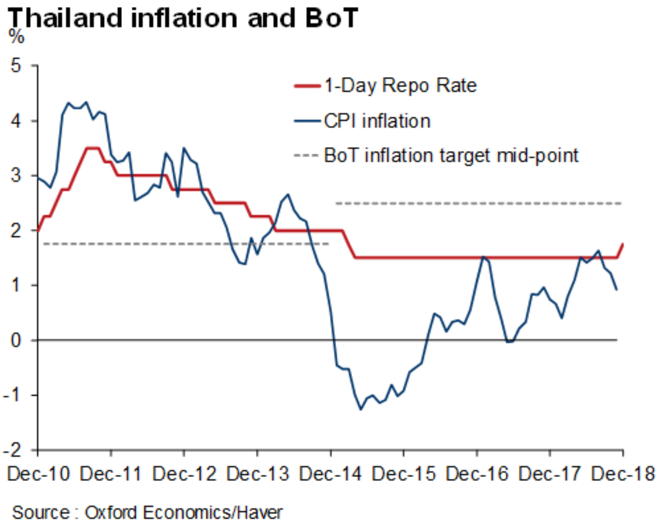


While 'core-core' inflation (excluding food, fuel and motor fuels) remains elevated at 5.6%, this partly reflects the lagged pass-through of earlier cost pressures and OE think risks on this front have now receded, given the more benign outlook for oil prices and the INR in 2019. Downside risks to growth (largely from the financial sector), on the other hand, have risen, which are likely to act as a drag on core inflation further out.

THAILAND: BoT OFF THE MARK, BUT TIGHTENING CYCLE WILL BE SLOW

Concerns that low interest rates pose financial stability risks, as well as a desire to build policy space, persuaded Thailand's Monetary Policy Committee (MPC) to raise its policy rate by 25bp at its December meeting – its first rate hike in seven years. With high frequency data suggesting that growth rebounded somewhat in Q4, after Q3's sharper than anticipated slowdown, the prospect of an additional 25bp rate hike is likely to remain part of the MPC's deliberations in H1 2019. That said, going forward, OE think the BoT will tighten monetary policy at a slower pace than during previous tightening cycles.

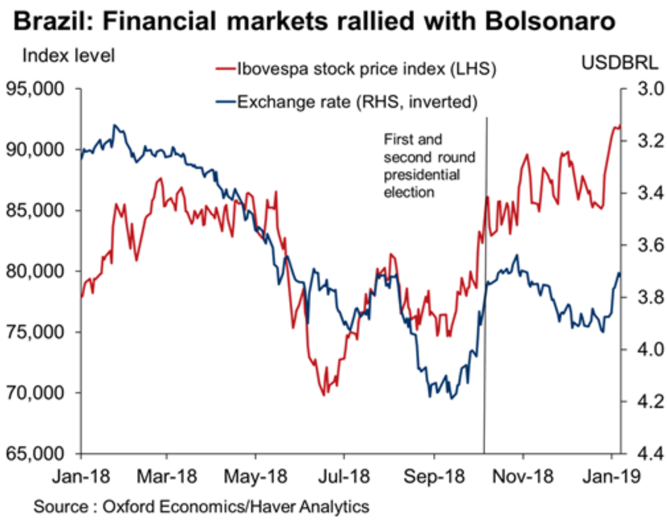
Indeed, OE expect the MPC to revert to a more patient stance in the face of below-target inflation and easing growth momentum – OE forecast GDP growth slowing to 3.4% in 2019 from 4.2% last year. Furthermore, renewed uncertainty around the timing of this year's general election has the potential to raise political tensions in the short term and intensify headwinds to growth.



BRAZIL RISES AGAINST THE GLOBAL TIDE

Jair Bolsonaro was inaugurated as Brazil's president in the first week of 2019, with the new government planning to restore fiscal sustainability and boost growth, based on three key pillars – approving a pension reform, speeding up privatizations and simplifying and cutting taxes, as outlined by new Economy Minister Paulo Guedes. Plans to improve the ease of doing business through consolidation of "seven or eight" federal taxes into one will follow once pension reform or expenditure de-indexation has been passed by Congress.

This will be followed by measures to open the economy to foreign competition by slashing taxes on capital goods imports from 36% to 20%. While the aim to reduce Brazil's tax burden to 20% of GDP appears unrealistic, Bolsonaro's team seems to have sensible proposals to solve Brazil's problems. If the government's relationship with Congress allows these measures to pass faster than during the previous two administrations, OE predicts upside risks to our 2019 GDP growth forecast of 2.3%.

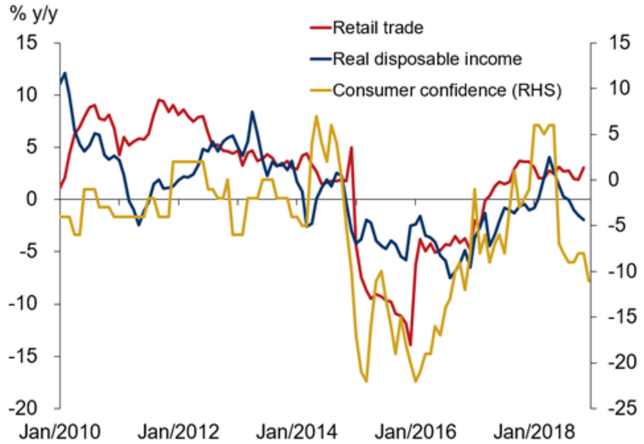


RUSSIA: PRESSURE ON RUB TO PROMPT MORE RATE HIKES

High frequency data suggest that Russian activity picked up in Q4, as expected, after a significant slowdown in Q3, driven mostly by higher oil and mineral output and higher exports (up 30% y/y in dollar terms in October). With domestic demand continuing to struggle, OE are skeptical as to how ready Russia will be to cut oil output in 2019, following on from the latest OPEC+ deal. OE expects that it will implement moderate cuts in H1, but will aim to compensate lost output in H2, which is why OE maintain a forecast of 1.4% GDP growth for 2019.

Meanwhile, as OE were expecting, but not the consensus, the central bank hiked the policy rate again in December, taking it up to 7.75%. As lower oil prices continue to put pressure on RUB and earlier depreciation is still passing through into higher consumer prices, combined with the inflationary impact of the 2pp VAT hike in January, OE now see two 25bp policy rate hikes this year, in Q1 and Q2.

Russia: Real disposable income and retail trade



Source : Oxford Economics / Haver Analytics

8. APPENDIX 1

GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS

Airline industry indicators

ASK – Available Seat Kilometers. Indicator of airline supply, available seats x kilometers flown;

PLF – Passenger Load Factor. Indicator of airline capacity. Equal to revenue passenger kilometers (RPK) / available seat kilometers (ASK);

RPK – Revenue Passenger Kilometers. Indicator of airline demand, paying passenger x kilometers flown;

3mth mav – Three 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 form 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.

9. APPENDIX 2

ETC MEMBER ORGANISATIONS

Austria – Austrian National Tourist Office (ANTO)

Belgium: Flanders – Visit Flanders, Wallonia – Wallonie-Belgique Tourisme

Bulgaria – The Ministry of Tourism of the Republic of Bulgaria

Croatia – Croatian National Tourist Board (CNTB)

Cyprus – Republic of Cyprus, Deputy Ministry of Tourism

Czech Republic – CzechTourism

Denmark – VisitDenmark

Estonia – Estonian Tourist Board - Enterprise Estonia

Finland – Visit Finland - Finpro ry

Germany – German National Tourist Board (GNTB)

Greece – Greek National Tourism Organisation (GNTO)

Hungary – Hungarian Tourism Agency

Iceland – Icelandic Tourist Board

Ireland – Fáilte Ireland and Tourism Ireland Ltd.

Italy – Italian Government Tourist Board – Agenzia Nazionale del Turismo (ENIT)

Latvia – Investment and Development Agency of Latvia (LIAA)

Lithuania – Ministry of Economy of the Republic of Lithuania, Lithuanian State Department of Tourism

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 Tourist Organisation (PTO)

Portugal – Turismo de Portugal

Romania – Romanian Ministry of Tourism

San Marino – State Office for Tourism

Serbia – National Tourism Organisation of Serbia (NTOS)

Slovakia – Ministry of Transport and Construction of the Slovak Republic

Slovenia – Slovenian Tourist Board

Spain – Turespaña - Instituto de Turismo

Switzerland – Switzerland Tourism

Turkey – Ministry of Culture and Tourism