QUARTERLY REPORT - Q4/2019

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM: TRENDS & PROSPECTS

QUARTERLY REPORT (Q4/2019)

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 2020

ETC Market Intelligence

EUROPEAN TOURISM: TRENDS & PROSPECTS (Q4/2019)

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Cover: Copenhagen, Denmark – The colorful facade of Nyhavn on September 2016 in Copenhagen. Nyhavn is a 17th-century waterfront, canal and entertainment district in Copenhagen, Denmark.
Image ID: 588446612

FOREWORD

Tourism remains a significant sector for the European economy and a catalyst for economic growth, income, employment and investment in the region, and social and cultural development. The most visited region worldwide saw its number of international tourist arrivals expand by 4% in 2019 compared to the previous year. Although the region's performance remains in positive territory, the rate of expansion was slower than previous years, as was the case across individual destinations. Some of the sources of encouragement continue to be travel demand from Europe's largest source markets (both intra-European and long-haul), increased air connectivity, bilateral business relations between destinations and key source markets, and positive economic conditions in the US spurring the value of the dollar against the euro and making Europe a more affordable travel destination.

European tourism is resisting the pull of global downside risks (e.g., worldwide economic slowdown, geopolitical woes, re-escalation of US-China trade disputes, global health crisis, climate disasters, etc.). Nevertheless, the vulnerability of the sector is becoming more apparent year after year inviting tourism experts to ask themselves: what are the most reliable and valuable measures of a tourism destination's success? Provided the importance of the tourism sector for a country's economy, the sustainable development of a destination is necessary for it to remain competitive in the long run and avoid being a victim of its own success.

It is clear that not all destinations share the same concerns. However, diversifying marketing and promotion strategies, addressing shifts in consumer behaviour, strengthening collaboration among destinations, and increasing measures to foster the sustainable development of tourism (e.g., ensure year-round tourism growth, alleviate pressure at destinations, foster cohesion between travellers and locals, etc.) could prompt an mitigating response from the threats faced by the industry.

The latest issue of the European Tourism Trends & Prospects quarterly report provides an overview of the European tourism sector and the macro-economic environment and closely looks into the extent to which external factors are weighing on the overall travel industry. This report includes a benchmarking and scenario analysis to understand the potential impact of the coronavirus outbreak in China and a special feature on tourism taxation focusing on recent taxes, the reasons behind their imposition, and the potential impacts.

Jennifer Iduh (ETC Executive Unit)

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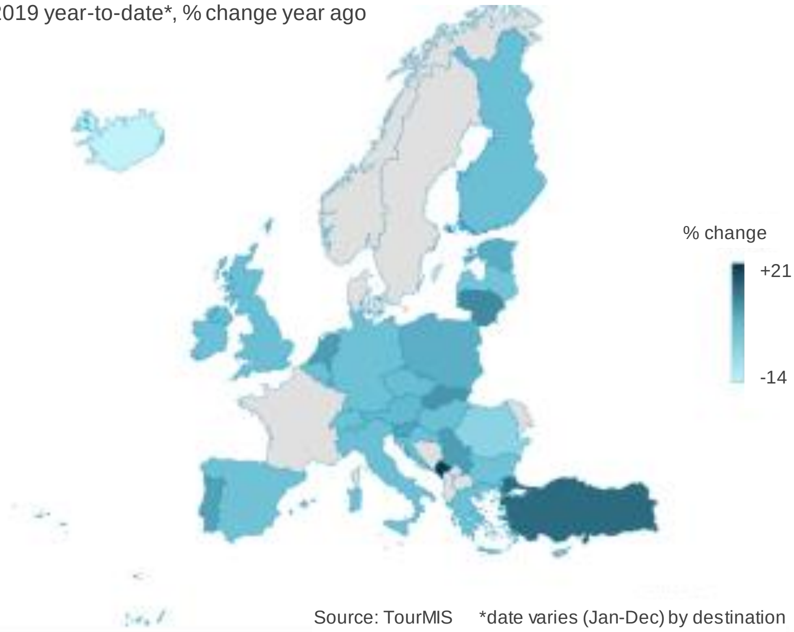
2019 ANOTHER POSITIVE YEAR FOR THE EUROPEAN TOURISM SECTOR

In 2019 European tourism expanded 4%, a more moderate pace of growth compared to 2018 (+6%)[1]. Factors that threaten to disrupt the tourism sector's outlook for 2020 include: continued trade and geo-political disruptions dragging down sentiment towards global trade; China's group-travel ban to curb the coronavirus outbreak and; weaker global economic activity.

International tourist arrivals to select destinations

2019 year-to-date*, % change year ago



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

Latest available data features positive numbers in terms of arrivals or overnights across most reporting destinations, although growth is slower than previous years. Only three destinations expanded in excess of 10%: Montenegro (+21%) enjoyed strong growth momentum shored-up by greater connectivity and infrastructure investment. Turkey (+14%) is set to invest heavily and diversify its tourism promotion activities throughout 2020 with the aim of increasing the volume and quality of tourists, thus boosting tourism revenues. Lithuania's strong performance (+10%) was fuelled by increased connectivity.

Slovakia (+9%) and The Netherlands (+8%) also outperformed the average. Serbia (+7%) enjoyed robust growth from the Chinese market owing to visa exemption policies and supportive bilateral political and economic relations. Portugal (+7%) became the first country to be awarded "Accessible Tourist Destination 2019"[2] reflecting the country's relentless efforts to promote accessible tourism. In Romania (-4%) continued challenges related to infrastructure and promotion remain growth-inhibiting factors. The demise of WOW Air and a strong krona explain the steep decline in arrivals to Iceland (-14%), the largest decrease across all reporting destinations.

MIXED PICTURE IN THE AVIATION AND ACCOMMODATION SECTORS

Year-to-date RPK[3] growth in Europe (+4.2%) has continued to slow, mirroring sluggish economic activity. This performance is matched by slowing capacity growth which are exacerbating record-high load factors.

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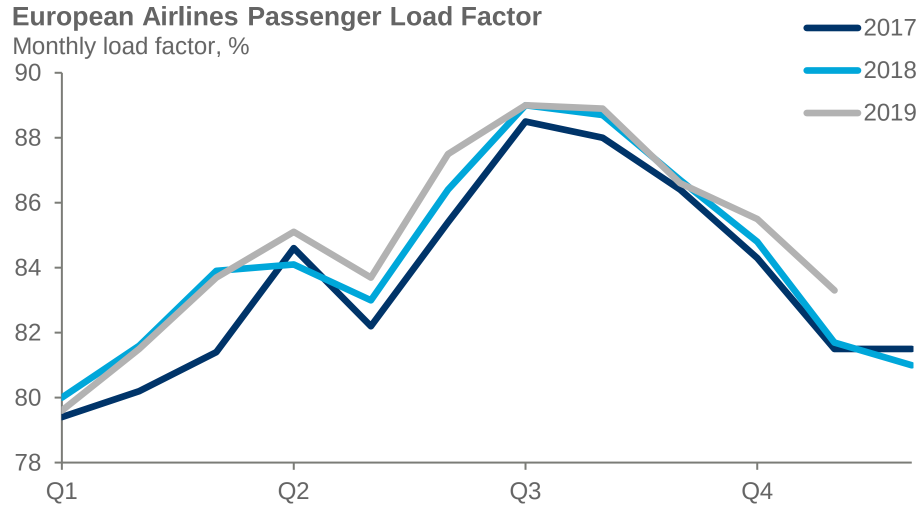
[1] UNWTO World Tourism Barometer. Volume 18 January 2020

[2] https://www.traveldailynews.com/post/portugal-wins-the-first-accessible-tourist-destination-award-by-the-unwto

[3] Revenue Passenger per Kilometre



Source: IATA

On the other hand, Europe's accommodation sector delivered a positive performance compared to 2018 with occupancy rates up 0.4% and ADR and RevPAR up 2.1% and 2.5% respectively[4]. Hotels in Southern Mediterranean Europe exhibited the fastest growth across these three key performance indicators.

BUSY START OF THE YEAR FOR THE TOURISM SECTOR DRIVEN BY UNWELCOME FORCES

The US-China trade dispute seems to be de-escalating following the signature of "phase-one" of the trade deal in mid-January. The truce is expected to help restore business confidence and the second round of negotiations is expected soon.

Nevertheless, in China, challenges show few signs of abating following the outbreak of the novel coronavirus around its Lunar New Year, a key travel season. Several measures have been taken to prevent the spread of the virus which are expected to take a toll on the tourism industry and have economic implications; International group travel was banned on 27th of January by the Chinese government. At time of writing, travel restrictions on Free Independent Travellers (FITs) are very limited. On the 24th of January, the Chinese Ministry of Culture and Tourism issued a notice addressed to all travel agencies established in mainland China giving instructions to fully suspend domestic and outbound tourism business until further notice. On the 29th of January, several European Airlines[5] have suspended flights to and from mainland China.

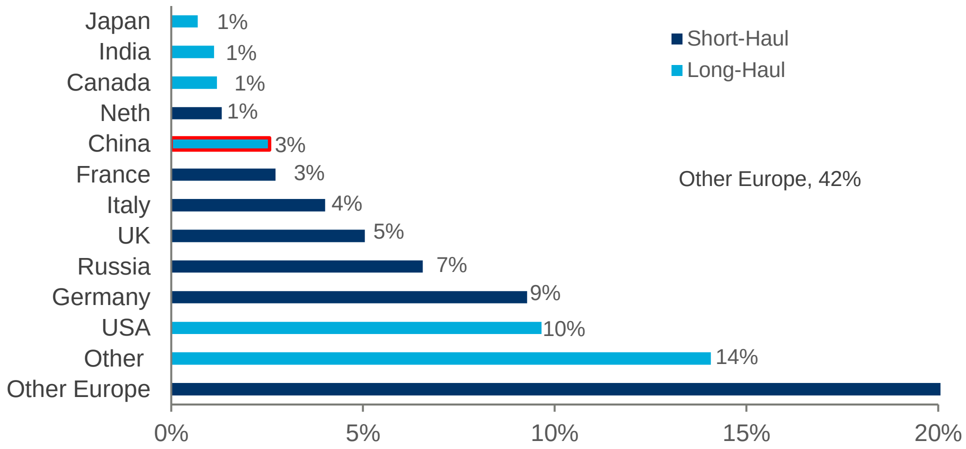
As one of the largest outbound source markets worldwide[6], such restrictions intensify the challenges and concerns about the coronavirus' impact on the global tourism sector. Based on latest available figures for 2019, a handful of European destinations enjoyed a soaring influx of Chinese travellers. Best-performing destinations were Montenegro (+83%), Serbia (+39%), and Monaco (+38%).

[4] Priced in Euro terms ADR (2.1%) and RevPar (2.5%)

[5] Air France, Austrian Airlines, British Airways, Iberia, Lufthansa, SAS, SWISS, and Virgin Atlantic

[6] China reported c.150mn outbound trips in 2018

Contributions to European growth market, 2019
Share of arrivals growth for European destinations by key source markets



Source: Tourism Economics

The US economy is signalling a moderate rate of expansion with GDP growth expected to slowdown in 2020[7]. Strong jobs growth brought record low unemployment rates. This, coupled with rising wages, have supported a significant uplift in consumption and consumer confidence. Travel demand has also been buoyed by the strengthening of the dollar against the euro making European destinations more affordable for US travellers. The US continues to be an important source of tourist arrivals for a handful of European destinations, particularly in the Southern Mediterranean and remains the largest long-haul source market to Europe. The vast majority of reporting countries recorded increased US tourist arrivals towards the end of 2019, with fastest growth registered in Turkey (+30%), Cyprus (+27%), and Montenegro (+26%).

Global economic growth is projected to edge up from an estimated 2.9% in 2019 to 3.3% in 2020[8]. However, despite reduced trade tensions and further clarity surrounding the UK's departure from the EU, heightened risks which may imperil the economic outlook should not be overlooked (e.g., geopolitical tensions, civil unrest, global health concerns, and climate disasters).

"The importance of the tourism sector for European economic and social development really cannot be overstated. ***Tourism is the third largest economic sector in the European Union*** *and the indirect impacts it has on ETC member countries is clear for all to see. As we see tourism continuing growing, European destinations have started to shift from growth driven strategies to sustainable management solutions."* said Eduardo Santander, Executive Director European Travel Commission (ETC).

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

[7] U.S. GDP growth is expected to slow to 2.0% in 2020 from 2.3% in 2019
[8] International Monetary Fund (IMF). World Economic Outlook (WEO)

TOURISM PERFORMANCE SUMMARY 2019

SUMMARY

- Travel to European tourism destinations continued to grow in 2019, despite the challenging external environment and slowing global economic growth. All but three destinations welcomed more tourists (based on available data for the bulk of the year).
- Montenegro was the fastest growing European destination in 2019 based on year-to-date figures, illustrating the benefits to be gained through developing a country's tourism industry.
- In contrast, Iceland suffered from a record decline in arrivals following the collapse of Wow Air and as it continues to struggle to maintain the impressive growth rates achieved since 2011.

Trade and geopolitical tensions continue to affect sentiment towards global trade, which has presented serious challenges for the European economy, with some knock-on effects to travel demand. The European industry, in particular the manufacturing industry, has suffered at the hands of this tempestuous external environment which has not favoured progressive trade developments. Germany, Europe's largest economy, is an export-reliant economy and has therefore endured sluggish growth in recent years, which is weighing heavily on Europe's economic prospects.

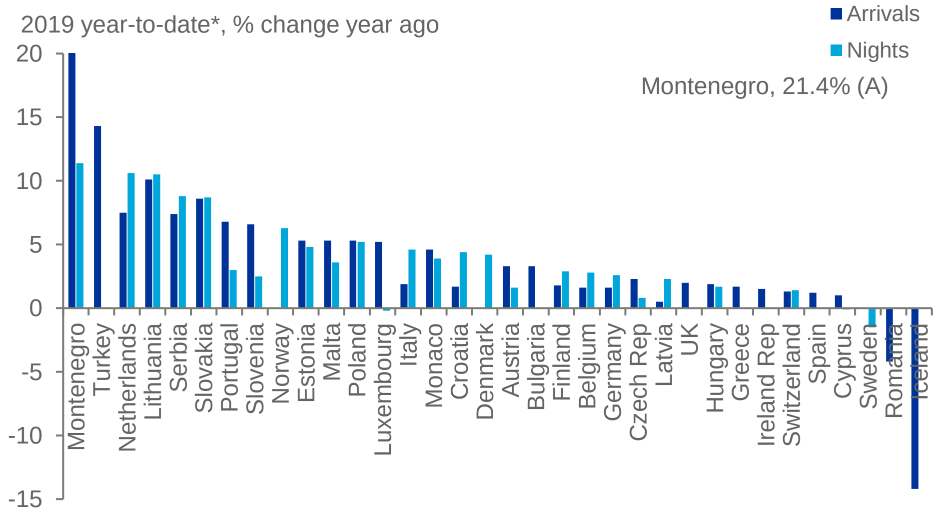
Nevertheless, there remains reason for optimism as service sector growth has continued while European labour markets are still strong, as unemployment continues to fall. On balance, a softening in economic growth has unsurprisingly trickled into travel demand, with arrivals and overnights growth continuing to slow from more rapid expansion in prior years.

European year-to-date growth remains steady at 3.5%

Growth in arrivals and overnights is reported in the majority of travel destinations for 2019. Final data are not yet available, but monthly data are obtainable for the majority of months and year-to-date growth of 3.5% on a weighted average basis is likely to be representative of full-year growth. However, this marks a slowdown in growth compared to the 4.5% growth achieved in 2018, mirroring the overall slowdown in the global economy.

Foreign visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

Montenegro enjoyed the fastest growth in arrivals, expanding 21.4% based on data to November. This represents a further increase in growth from what was previously reported based on data to August (+18.1%). In recent years, Montenegro has sought to develop its economy, and tourism development is one aspect of this. Infrastructure improvements and increased connectivity have facilitated growth and allowed Montenegro’s tourism sector to flourish, enabling the country to realise its potential as a travel destination.

Turkey remains a popular destination, with arrivals up 14.3% from the previous year based on data to November. Turkey has cultivated a diverse tourism industry, enabling the country to attract visitors for a variety of reasons. In particular, Turkey has been able to capitalise upon the growing industry of medical tourism, which provides the country with a consistent flow of visitors outside of the standard burst of arrivals during the summer months. These flows are further supported by the weak Turkish lira.

The latest available data to October shows that the Netherlands enjoyed robust growth in arrivals (+7.5%) and overnights (+10.6%) in 2019. However, the Netherlands tourist board is looking to regulate this strong growth as the country seeks to counter the escalating issue of over-tourism, particularly in Amsterdam.

In the Netherlands, “destination-management” policies are being pursued to deter visitors from travelling to traditional tourist spots – which are struggling to cope with tourist demand – and encourage travel to lesser-known areas. The government has announced plans to overhaul its international branding, with a view to removing any suggestion that Holland equates to the Netherlands. Traditionally, Holland, which encompasses two of the biggest provinces, North and South Holland, has been regarded as synonymous to the Netherlands from a global outlook. This association has not helped disperse tourism throughout the country as travel hotspots, such as Amsterdam and Rotterdam, are situated within these provinces. The government hopes that through this rebranding strategy the country as a whole will be promoted internationally and visitors will be attracted to other areas across the country.

Double-digit growth in tourism demand was reported in Lithuania, with arrivals up 10.1% and overnights up 10.5% based on data to October. Lithuania enjoyed a substantial increase in visitors from the Netherlands, with arrivals increasing 27.6% while visits from France were up 16.9%, signifying the importance of intra-European demand towards Lithuania’s arrivals growth and the benefits of greater connectivity between destinations.

Serbia, an often-overlooked travel destination within Europe, achieved substantial growth in the number of tourists visiting the country, with arrivals growing 7.4% and overnights growing 8.8% based on data to November. This is part of a longer-run trend as Serbia is gaining share of demand from key source markets. Visitor arrivals from China grew an impressive 39.4% compared to the same period last year, while arrivals from Russia increased 32.2%.

The tourism industry remains a major export sector for the Portuguese economy and continues to thrive, with arrivals up 6.8% based on data to November. In honour of Portugal’s continued efforts to encourage tourism accessibility, the World Tourism Organisation (UNWTO) gave Portugal the award for Accessible Tourist Destination 2019. In Europe there is a market of 90 million tourists with specific mobility needs meaning the award is an important milestone for Portugal and highlights its leadership in this field. Specifically, various initiatives were developed including accessible roadmaps made available at Visit Portugal, good practice guides for the tourism sector, and a specific financing line was launched to support accessibility projects in tourism. This was the first time the award has been presented.

Despite the challenges posed by the collapse of Thomas Cook, Cyprus managed to enjoy positive growth in arrivals of 1.0%. The decision made by Hays Travel to take over Thomas Cook’s stores provided some relief by closing the gap that was left behind through the demise of the UK’s oldest tour operator, which provided a significant share of tourists to Cyprus.

Looking forward, the Cypriot government has devised a 10-year strategic plan to enhance the country’s attractiveness as a travel destination, with the ambition for Cyprus to become one of the world’s top 30 travel destinations by 2030. In 2018, it was ranked as the 69th most visited destination in the world based on official arrivals data as reported by UNWTO and compiled by Tourism Economics’ for their Global Travel Service. The government is looking to showcase Cyprus as a year-round travel spot, improving the seasonality of tourism demand and to ensure that the gains of tourism are evenly shared across the country.

Overnights to Sweden have declined compared to the same period a year ago, but it is opening up access to less visited areas with its Scandinavian Mountains Airport, a privately-funded venture which is going to focus on promoting ski resorts. This may help support growth going forward.

Romania struggled to grow tourism demand in 2019, with arrivals declining 4.2% based on data to November. Tourist arrivals from Japan suffered, with arrivals declining 22.8% while arrivals from India (-11.5%) and Netherlands (-11.4%) also fell considerably. This lack of demand is often associated with a poorly promoted tourism industry and the absence of developed tourist attractions.

Of the reporting destinations, Iceland has suffered the largest decline, with arrivals falling 14.2% in 2019. Tourism was fundamental in helping Iceland's economy in the wake of the global financial crisis, with record-breaking levels of growth achieved in the years following the economic crash, to the point of raising significant concerns regarding overtourism.

However, Iceland has struggled to retain the same level of interest and is now facing a starkly different outlook. Multiple factors have contributed to this decline in arrivals growth, with the collapse of Wow Air having a major influence. The decision of the budget airline to cease operations had significant knock-on effects to Iceland's tourism industry by cutting a major supply source of tourist arrivals. Moreover, the low-cost carrier helped make travel to an otherwise expensive destination, more cost-attractive to many visitors. Iceland represents one of Europe's most expensive travel destinations due to a strong krona, which combined with cooling global economic growth has hindered growth potential for Iceland's tourism industry. Nevertheless, visitor volumes in 2019 were still double the level experienced just five years earlier.

TOURISM PERFORMANCE, 2019 YTD

	International Arrivals		International Nights	
Country	% ytd	to month	% ytd	to month
Austria	3.3%	Jan-Oct	1.6%	Jan-Oct
Belgium	1.6%	Jan-Sep	2.8%	Jan-Sep
Bulgaria	3.3%	Jan-Nov		
Croatia	1.7%	Jan-Dec	4.4%	Jan-Dec
Cyprus	1.0%	Jan-Dec	-0.1%	Jan-Sep
Czech Republic	2.3%	Jan-Sep	0.8%	Jan-Sep
Denmark			4.2%	Jan-Nov
Estonia	5.3%	Jan-Nov	4.8%	Jan-Nov
Finland	1.8%	Jan-Nov	2.9%	Jan-Nov
Germany	1.6%	Jan-Nov	2.6%	Jan-Nov
Greece	1.7%	Jan-Sep		
Hungary	1.9%	Jan-Nov	1.7%	Jan-Nov
Iceland	-14.2%	Jan-Dec		
Republic of Ireland	1.5%	Jan-Nov		
Italy	1.9%	Jan-Sep	4.6%	Jan-Sep
Latvia	0.5%	Jan-Oct	2.3%	Jan-Oct
Lithuania	10.1%	Jan-Oct	10.5%	Jan-Oct
Luxembourg	5.2%	Jan-Oct	-0.2%	Jan-Oct
Malta	5.3%	Jan-Nov	3.6%	Jan-Nov
Monaco	4.6%	Jan-Dec	3.9%	Jan-Dec
Montenegro	21.4%	Jan-Nov	11.4%	Jan-Nov
Netherlands	7.5%	Jan-Oct	10.6%	Jan-Oct
Norway			6.3%	Jan-Nov
Poland	5.3%	Jan-Oct	5.2%	Jan-Oct
Portugal	6.8%	Jan-Nov	3.0%	Jan-Nov
Romania	-4.2%	Jan-Nov		
Serbia	7.4%	Jan-Nov	8.8%	Jan-Nov
Slovakia	8.6%	Jan-Sep	8.7%	Jan-Sep
Slovenia	6.6%	Jan-Nov	2.5%	Jan-Nov
Spain	1.2%	Jan-Nov	-	Jan-Nov
Sweden			-1.5%	Jan-Oct
Switzerland	1.3%	Jan-Oct	1.4%	Jan-Oct
Turkey	14.3%	Jan-Nov		
UK	2.0%	Jan-Oct		

Source: Visit Britain (UK only) and TourMIS (http://w w w .tourmis.info)

Measures used for nights and arrivals vary by country. Available data as of 3.2.2020

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 FORECAST, % CHANGE

	Inbound*					Outbound**				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
data/estimate/forecast	e	f	f	f	f	e	f	f	f	f
World	**5.9%**	**3.6%**	**2.9%**	**4.0%**	**3.8%**	**5.6%**	**3.3%**	**2.8%**	**4.0%**	**3.9%**
Americas	**2.5%**	**2.1%**	**2.8%**	**4.0%**	**3.6%**	**4.3%**	**2.4%**	**2.2%**	**3.3%**	**2.9%**
North America	3.6%	1.7%	1.3%	3.1%	3.0%	5.5%	3.1%	2.1%	3.1%	2.8%
Caribbean	-0.3%	6.4%	6.0%	5.1%	4.4%	1.3%	4.5%	1.8%	2.3%	3.0%
Central & South America	1.0%	1.2%	5.2%	5.9%	4.7%	0.1%	-0.5%	2.7%	4.4%	3.6%
Europe	**6.1%**	**3.5%**	**2.1%**	**3.3%**	**2.9%**	**5.6%**	**3.3%**	**2.4%**	**3.7%**	**3.3%**
ETC+3	5.9%	3.5%	2.0%	3.0%	2.6%	4.5%	3.3%	2.1%	3.4%	3.1%
EU	4.9%	2.8%	2.0%	2.8%	2.4%	4.8%	3.3%	1.9%	3.4%	3.1%
Non-EU	11.2%	6.4%	2.7%	5.0%	4.6%	8.6%	3.4%	3.9%	5.0%	4.3%
Northern	1.0%	2.3%	1.8%	2.8%	2.6%	-0.4%	1.4%	1.2%	4.1%	4.0%
Western	6.0%	2.6%	1.6%	2.7%	2.4%	5.4%	2.8%	2.3%	3.1%	2.8%
Southern/Mediterranean	7.9%	5.0%	1.5%	3.1%	2.9%	7.6%	5.7%	2.4%	2.7%	2.8%
Central/Eastern	4.1%	2.8%	4.1%	4.6%	3.7%	10.6%	5.1%	3.5%	4.8%	3.9%
- Central & Baltic	*5.3%*	*3.1%*	*4.7%*	*3.7%*	*2.4%*	*8.0%*	*5.7%*	*2.9%*	*4.2%*	*3.2%*
Asia & the Pacific	**6.5%**	**3.6%**	**3.9%**	**4.7%**	**4.9%**	**6.9%**	**3.5%**	**3.7%**	**4.9%**	**5.2%**
North East	6.1%	2.9%	4.3%	4.8%	4.9%	6.8%	2.8%	4.1%	5.1%	5.4%
South East	7.4%	5.0%	2.8%	4.1%	4.7%	8.1%	4.5%	1.8%	3.9%	4.2%
South	6.3%	1.6%	7.0%	7.3%	6.0%	5.6%	6.4%	5.8%	6.6%	6.3%
Oceania	3.8%	2.6%	3.4%	4.9%	5.3%	4.7%	3.3%	4.2%	3.8%	5.6%
Africa	**12.0%**	**6.8%**	**3.5%**	**5.2%**	**5.1%**	**6.1%**	**4.8%**	**3.3%**	**4.9%**	**3.9%**
Middle East	**4.5%**	**4.4%**	**4.9%**	**6.0%**	**6.0%**	**3.9%**	**4.5%**	**4.6%**	**5.1%**	**5.8%**

* 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

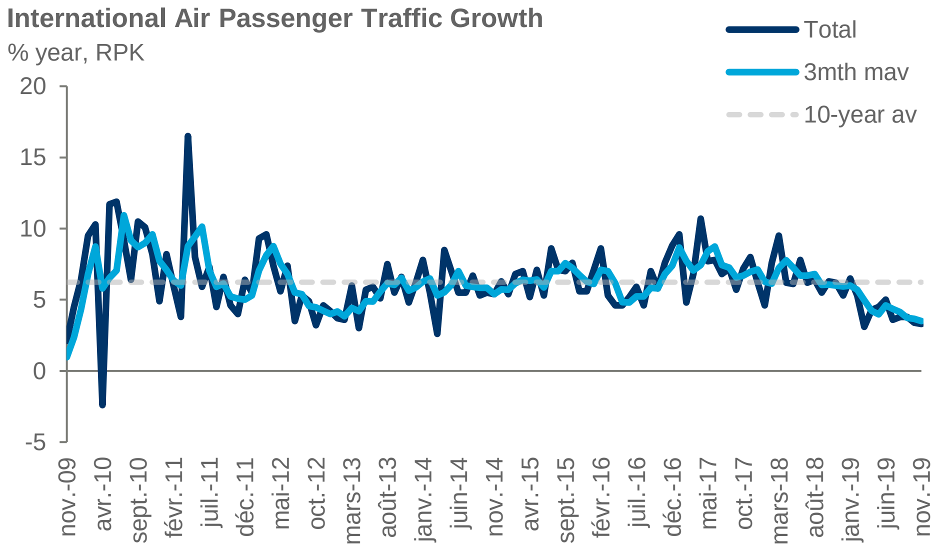
RECENT INDUSTRY PERFORMANCE

SUMMARY

- Year-to-date global revenue passenger kilometre (RPK) growth fell further in recent months, from 4.5% based on data to August to 4.2% based on data to November.
- November marked the fifteenth consecutive month that global RPK growth has ticked below this 10-year average growth rate of 6.2%.
- European hotels grew occupancy rates 0.4% in 2019. Average daily rates and revenue per available room also grew in euro terms, however this represented a decline when priced in US dollars.
- Hotels in Southern Europe were the best-performing in Europe with significant growth across the key performance indicators.

AIR TRANSPORT

The slowdown of international air passenger traffic in 2019 showed no sign of abating in the final months of the year. Year-to-date global revenue passenger kilometre (RPK) growth fell further, from 4.5% based on data to August to 4.2% based on data to November (IATA also estimate full-year growth at 4.2% in its latest financial reporting). This slowdown is a reflection of weaker global economic activity, geopolitical tensions, and various other industry disruptions. Recent developments suggest that the risks of an escalation in US-China trade tensions have eased, but it is unlikely this will deliver a significant boost to the global economy.

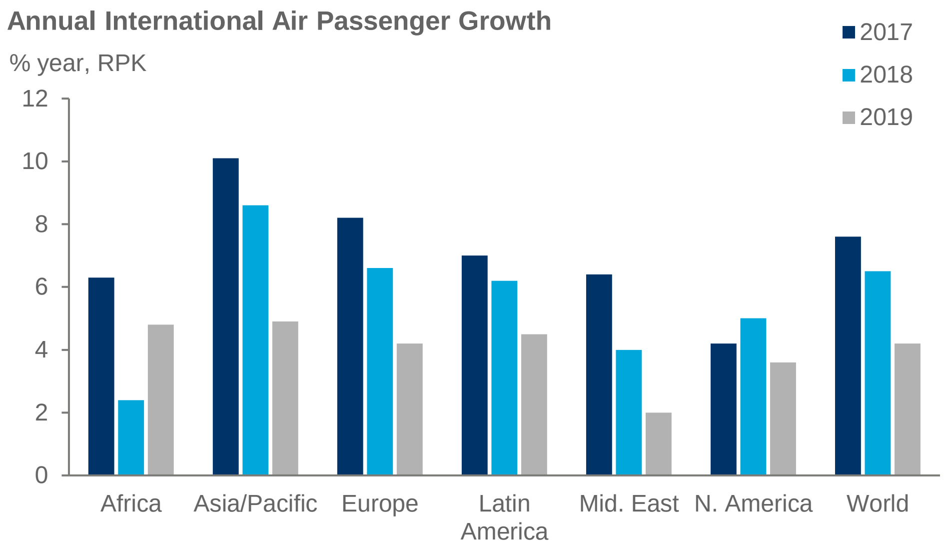


Source: IATA

Although global RPK growth remains positive, this continued slowdown has pushed growth further below its 10-year average of 6.2%. Three-month moving average growth in November was just 3.5% and this marked the fifteenth consecutive month that global RPK growth has lagged this 10-year average.

November marked the fifteenth consecutive month that global RPK growth has ticked below its 10-year average growth rate

Looking at the regional contributions to the annual industry-wide growth, Asia-Pacific contributed around half of the growth in November. The Middle East made its largest contribution in more than five years (~20% of the total). This contrasts with Europe which contributed just 10% of growth in volumes over the past year, despite accounting for 27% of overall passenger traffic. Europe's contribution to global RPK growth has now declined for the past three months.



Source: IATA

This prolonged slowdown is evident in all regions with the exception of Africa, which is currently on track to double the rate of RPK growth achieved in 2018. Difficulties within the South African market, including the national carrier's ongoing struggle for survival, have been more than offset by strong performances elsewhere in the region which gained some momentum into October and November following a fairly weak September.

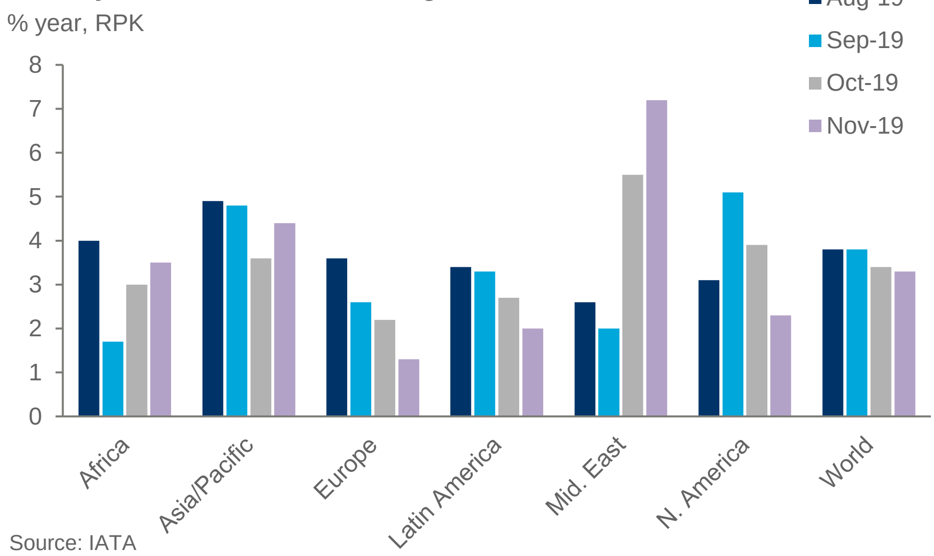
Ongoing protests in Hong Kong have weighed on air passenger demand in Asia Pacific, exacerbating weaker demand in the region in general. Based on data to November, growth is currently tracking under 5% for 2019 – a significant development given annual RPK growth in the region has not dipped under this mark since 2012. A recovery in Chinese import demand and the prospect of the US-China "phase one" trade deal should support regional activity, but the coronavirus outbreak in China may be an obstacle to recovery of air travel demand in the region.

Although year-to-date RPK growth in the Middle East has ticked upwards compared to earlier in the year, it is still tracking at just half the rate of growth achieved in 2018. This slowdown is the result of falling business confidence and geopolitical tensions in parts of the region combined with some airlines in region having gone through a process of structural change. Looking ahead, risks stemming from the flare-up in regional tensions following the killing of Iran's top general Qassem Soleimani by the US, and subsequent punitive military action by Iran may dampen demand further. A rise in oil price resulting from the uncertainty may serve as an offsetting factor, but the region would be vulnerable to any disruption to potential supply or transportation.

North American RPK growth has ticked downwards slightly in recent months to 3.6% for the year based on data to November. Despite this slowdown amid rising geopolitical tensions, recent economic data continue to point toward steady momentum entering 2020 as trade, fiscal, and monetary policy risks have been reduced. Consumer spending will be the main engine of growth.

In Europe, although RPK growth remains modest at 4.2% based on data to November, in recent months demand has slowed more sharply than other regions, shedding 1.2 percentage points (pp) compared with data to August. In November, RPK grew 1.2% year-on-year – the third consecutive monthly slowdown and the slowest month of growth since February 2013. This slowdown comes amid recent industrial action which disrupted operations for a number of airlines and dragged on demand growth.

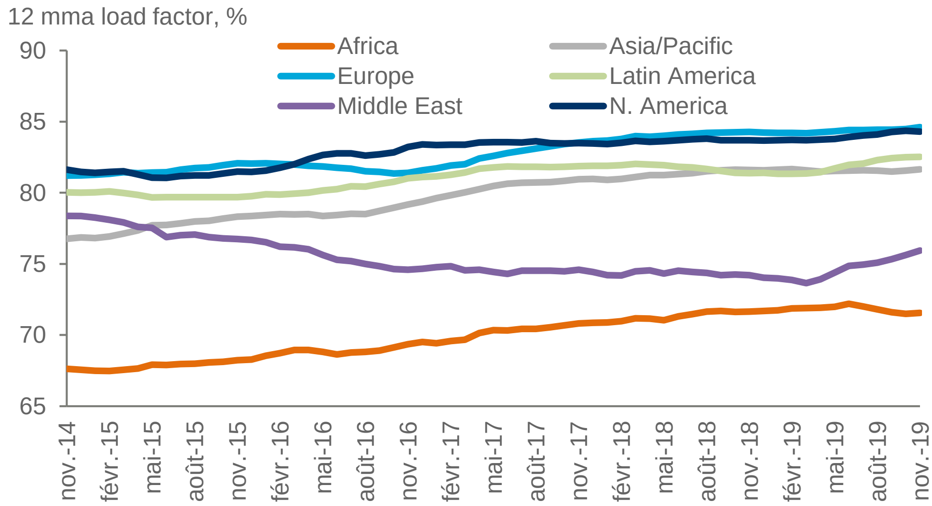
Monthly International Air Passenger Growth



Source: IATA

In broad terms, global passenger load factors (PLF) continue to grow as air passenger demand growth outpaces supply and airlines in major regions continue to use fleets more productively. Over the past 12 months only African airlines have seen load factors fall slightly, albeit from previous record-highs in early-2019 and a sustained period of growth prior. All other regions have seen load factors increase compared to a year ago.

International Air Passenger Load Factor



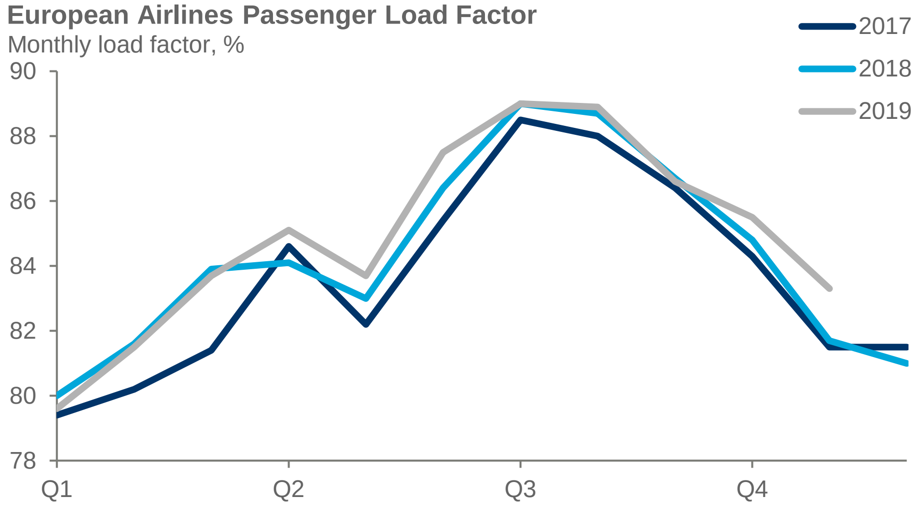
Source: IATA

Middle Eastern airlines saw the biggest uptick in PLF compared to a year ago, following a long period of decline as the region's airlines went through a process of structural change. Despite this uptick, current load factors in the region remain close to 3 pp below previous peaks.

Load factors on North American and European airlines are both at record-high levels, with Europe operating at an average factor of 84.6% over the past 12 months and North America at a factor of 82.5%. Load factors have been exacerbated by slow capacity growth which eased further in November to its slowest rate since February 2013.

European Airlines Passenger Load Factor

Monthly load factor, %



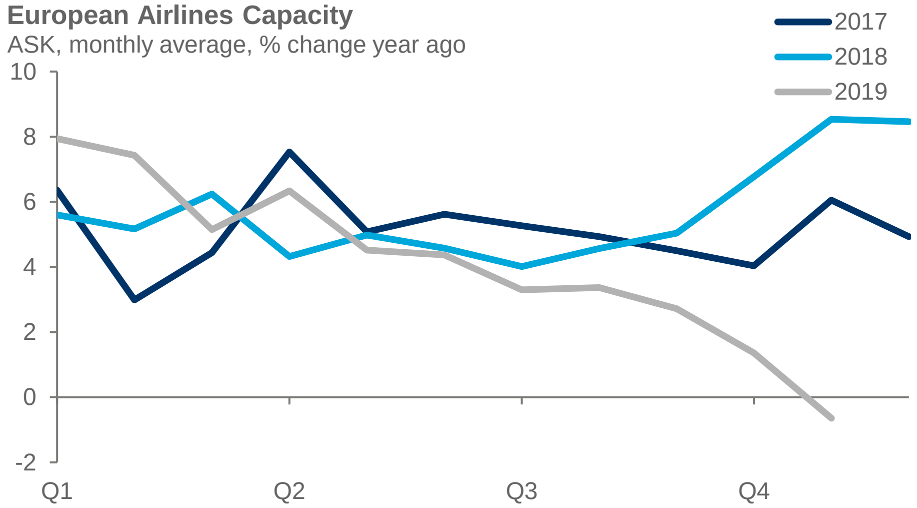
Source: IATA

Load factors in Europe have been growing steadily for a number of years despite some very robust capacity growth and were largely driven by increased demand. But increases in late 2019 are raising concerns as falling capacity is the key factor.

Capacity growth started to slow in the second half of 2019 and fell in November for the first time since November 2015. This reduction in capacity comes at a time when load factors in Europe are already at record-high levels – indeed, load factors observed in November 2019 were a record-high for the month. The reduction in capacity could be partly linked to the collapse of Thomas Cook and Adria Airways as the industry sets about restoring equilibrium. As was the case following the collapse of Monarch in October 2017, we expect capacity lost through the collapse of Thomas Cook and Adria Airways to return by early-2020, but the downward effects were larger in 2019 and worse than previously anticipated. This disruption would have had a more severe impact on actual flows if it came during peak season, but typically lower demand and load factors in Q4 means that airlines have some time to restore capacity on affected routes.

European Airlines Capacity

ASK, monthly average, % change year ago



Source: IATA

ACCOMMODATION

Global hotel performance in 2019 was quite mixed, but positive overall with all but one region enjoying growth in at least one measure of performance: hotel accommodation in the Americas saw occupancy rates decline compared to a year ago, however, in US dollar terms average daily rate (ADR) growth (+0.7%) was sufficient to prop up revenue per available room (RevPAR) which grew 0.6%. The strength of the dollar has made other regions cheaper for those travelling from the US, diverting potential "domestic" demand away from America. At the same time, the persistent strength of the US dollar means room rates in a number of destinations in America have grown when priced in most other currencies compared to the same period a year ago. This has made the US a less attractive destination, with travellers opting for destinations where they will have more spending power.

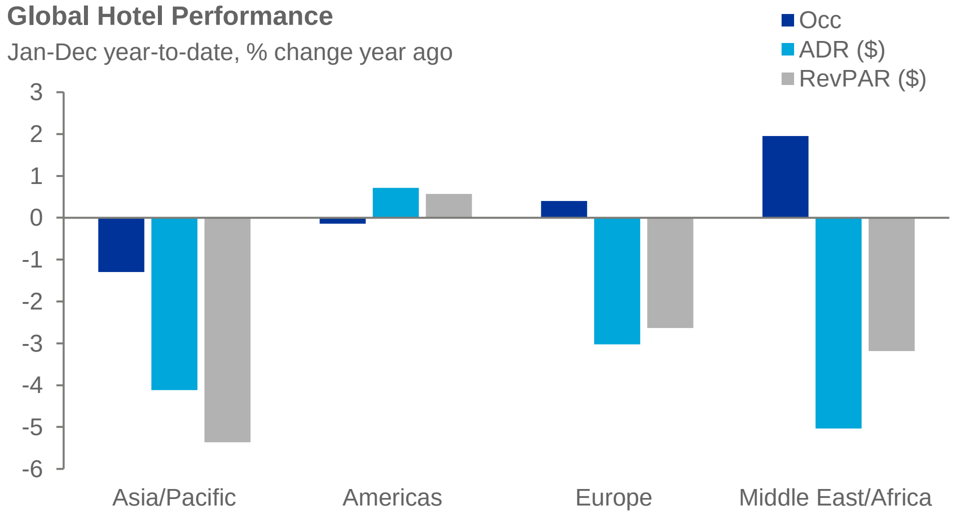
In Europe, hotels grew occupancy rates 0.4% compared to a year ago, however, ADR fell 3% in dollar terms, which resulted in a 2.6% decline in RevPAR compared to a year ago. (When priced in euro terms, both ADR and RevPAR grew). The strong dollar has made Europe a more attractive destination for long-haul travellers with the exchange rate yielding an effective real price decrease in ADR for those who travel on the US dollar (including currencies pegged to it). These price movements are also likely to have spurred some intra-European demand since the cost of travelling beyond Europe is relatively more expensive compared to a year ago.

Similarly, hotels in the Middle East and Africa reported higher occupancy rates compared to a year ago (up 2%), but both ADR and RevPAR were lower by 5% and 3.2% respectively when priced in US dollar terms. As with other regions, a stronger dollar has translated to lower ADR compared to a year ago. While this may have stifled demand from non-dollar travellers (ADR grew in euro terms, for example), the region may have benefitted from direct US demand, as well as from the fact that a number of key source markets within the region use dollar-pegged currencies.

Asia Pacific was the only region which saw all three measures of hotel performance decline compared to a year ago. Occupancy rates were 1.3% lower in 2019 than they were in 2018 and both ADR and RevPAR fell in US dollar terms by 4.1% and 5.4% respectively. Ongoing protests in Hong Kong have had a significant impact on hotel performance in the northeast Asian city-state and China's ongoing trade war with the US has weighed on demand and new restrictions on the online resale of products acquired overseas in China has stifled Chinese demand for shopping spree holidays. In Japan, trade restrictions on Korea and its removal from Japan's list of preferred trading partners resulted in campaigns to boycott Japanese goods and trips to one of their nearest neighbours. Recently, tensions between the two have eased which bodes well for their relationship in 2020.

Global Hotel Performance

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



Source: STR

CORONAVIRUS IMPACT ON CHINESE TRAVEL

Scenario analysis derived using and based on forecasts from Tourism Economics' Global Travel Service (GTS) model. Disclaimer: the opinions expressed in the forthcoming section are those of Tourism Economics ("we, us, our"). They do not purport to reflect the opinions or views of ETC or its members.

BACKGROUND

As of Thursday 6th February, there has been just under 30,000 confirmed cases and over 560 deaths related to the coronavirus that originated in the Chinese city of Wuhan. Containment of the virus is crucial to mitigating its impact on travel. Although efforts have been made on that front, the virus has spread beyond China to at least 20 other countries, albeit only on a limited basis.

The immediate impact on travel demand is likely to be significant given the proximity to the Chinese New Year, which is a key travel window for Chinese travellers. Officials have taken strong action to contain the outbreak with travel restrictions in and out of the Wuhan and Hubei province. In addition, the following actions have been taken that will limit travel:

- The China Association of Travel Services issued a memo to the hospitality industry requesting an abatement on all cancelation and change fees.
- The Chinese Ministry of Culture and Tourism issued a moratorium on all business group travel and package (hotel and flight) travel.
- Most airlines are cancelling routes due to significant declines in demand, including a number of European airlines which were operating direct links to China.
- Trip.com, China's largest travel services company, is allowing cancellations for bookings at 30,000 global hotels.
- A growing number of countries are shutting down all travel from China.

COMPARISON TO SARS

SARS is a relevant benchmark since it originated in China and this is where the majority of the 8,000 infections were documented. Early indications are that the mortality rate of SARS is much higher at nearly 10%. (Coronavirus is currently less than 5%.)

During the SARS outbreak which curtailed global travel demand, particularly in Asia, Europe experienced a 7% decline in visits from China and an 8% decline from other Asian markets.

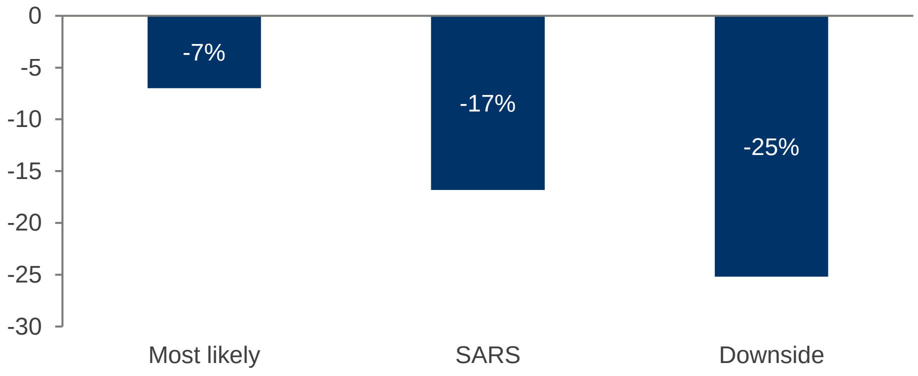
For Europe, Chinese demand's recovery from SARS was robust in 2004 with a 30% increase in visits to Europe from China. The Chinese travel market largely converged on its "counterfactual" scenario (its projected growth path in the absence of SARS) by 2004 – one year after the SARS crisis.

EXPECTED IMPACT

While significant uncertainty remains regarding efforts to contain the virus and shorten its impact, with SARS impacts as a guide, we anticipate European destinations will see Chinese arrivals in the range of 7% (most likely case) and 25% (downside case) lower in 2020 compared to the pre-crisis (counterfactual) forecast. We expect the most significant declines will be experienced in 2020 with recovery beginning in the latter part of this year. In absolute terms these impacts equate to between 1 million (most likely case) and 3.7 million (downside case) fewer Chinese arrivals in Europe in 2020 than would've been the case under the counterfactual forecast.

Our best case assumes that the coronavirus is contained in a shorter time frame than SARS, by end-February. Average monthly impacts remain broadly in-line with 2003. The “SARS” case assumes duration and average monthly impacts are broadly comparable to SARS in China in 2003. The downside case assumes that the coronavirus lasts longer and is more severe than SARS.

Chinese travel to Europe, counterfactual vs scenario impacts, 2020
% loss relative to counterfactual scenario (no crisis)



Source: Tourism Economics

Given the massive increase in the Chinese travel market, the impact in absolute terms will be much larger than from the SARS crisis. In the year before the SARS crisis Europe received 2.3 million visits from China and tourism spend from these visitors approximated $1.3 billion. In 2019 the number of visits Europe enjoyed from China was substantially bigger at around 15 million with spend of around $23 billion.

SPECIAL FEATURE: TOURISM TAXES

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

SUMMARY

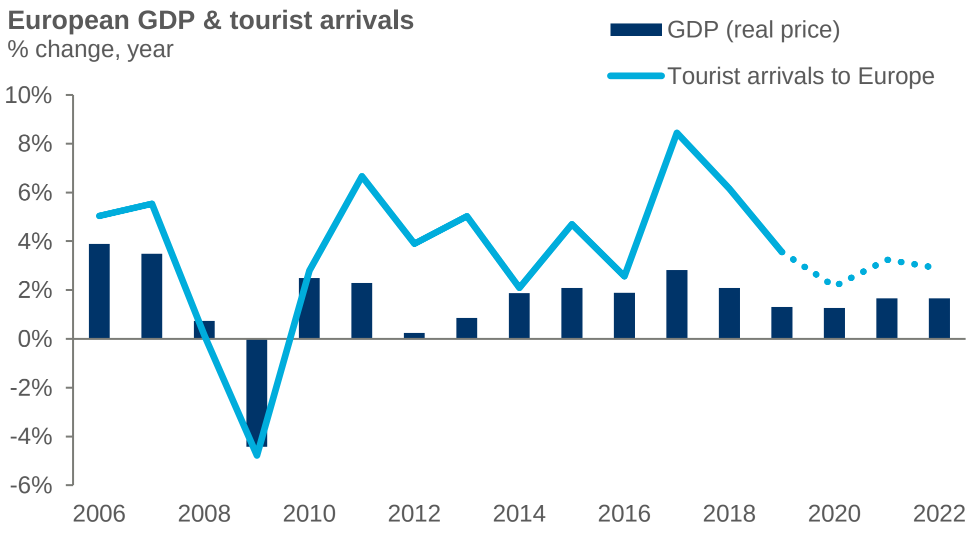
- There is a clear benefit to destinations which discount VAT for tourist accommodation.
- There are concerns about the environmental impact of tourism which can be addressed by taxes on polluting activities such as flying.
- Taxes are a means through which tourism flows to destinations can be controlled as demand for tourism tends to be very responsive to changes in price.
- Taxes need to be balanced with maintaining competitiveness.

INTRODUCTION

Low, and continued falls, in the price of travel have helped to support growth in the travel & tourism sector over the past ten years. Global tourist arrivals growth has surpassed that of European GDP in every year of the past decade, partly helped by faster growth in long-haul source markets, but also due to downward pressure on prices. The proliferation of low-cost air travel and online travel agencies have driven competition in the industry and kept air fares and room rates at low prices.

While there are signals that the era of cheap travel and price stimulation is coming to an end, with a notable slowdown in global tourist arrivals expected in the coming years, tourist arrivals will remain at record high levels. This is fuelling concern within some European destinations that tourism has become overdeveloped to the detriment of both authenticity and liveability. Tourism is also affected by rising environmental concerns related to carbon emissions.

Both of these issues could be addressed by new taxes. This discussion piece focusses on how such taxes could be levied in an environment where competition has all but eroded any other form of price stimulus. The potential impact of such taxes – intended or otherwise – is also discussed.



Source: Tourism Economics

Some benefits of tourism taxes to destinations include:

- Tourism-related taxes are an important source of government revenue and can be used to build and maintain tourism infrastructure and attractions, and to provide key services needed to sustain a healthy tourism sector and also support other destination services. Tax revenues can also support destination marketing activity.
- There are concerns about the environmental impact of tourism which can be addressed by taxes on polluting activities such as flying. Local taxes should also consider the cost of cleaning up pollution associated with tourism activities in that destination.
- Taxes are a means through which tourism flows to destinations can be controlled as demand for tourism tends to be very responsive to changes in price: by making travel more expensive, taxes levied on tourism could deter some visitors. A criticism of this policy is that it will make travel and tourism a more exclusive activity.

Taxes on the industry, either at a national or local level needs to be balanced with the intended outcome of the tax as well as any unintended repercussions that might follow. Destinations will need to manage tourist numbers carefully to ensure the industry remains sustainable and any negative impacts are offset.

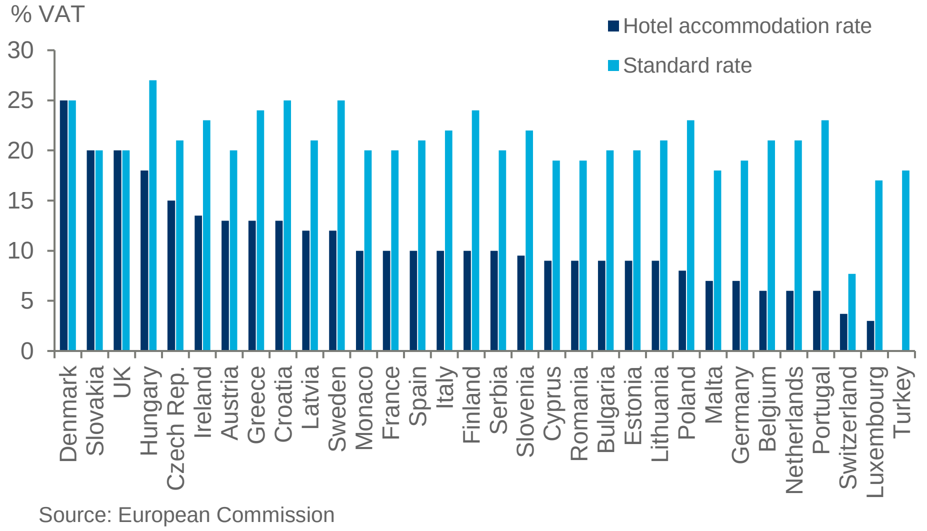
The use of taxes as a tool for destination management is becoming more prominent in Europe in particular, where a number of destinations are eager for a more sustainable rate of tourism growth. This should ensure that tourists shoulder some burden of their impact on the destination, rather than the burden falling solely on the shoulders of tax-paying residents.

GENERAL TOURISM TAXES

Value-add taxes (VAT) are among the most commonly levied consumer taxes in Europe. The rate of VAT payable tends to vary depending on the type of product or service. In the case of tourism related products and services, notably hotel accommodation, most countries within Europe apply a reduced rate of VAT.

With regard to hotel accommodation, Denmark, Slovakia, and the UK do not offer a reduced rate of VAT. VAT on hotel accommodation is highest in Denmark, currently set at 25% of the transaction value. In Slovakia and the UK, the rate is set at 20%. Turkey applies the lowest rate of VAT at essentially zero since tourists can claim back any VAT charges incurred during their visit. All other countries apply a reduced rate of VAT on hotel accommodation.

Rates of VAT on hotel accommodation across Europe



Source: European Commission

VAT rates have a large impact on hotel average daily room rates (ADR) and destination price competitiveness. Using STR data for 2019, there is a clear negative impact on competitiveness for destinations which levy a higher rate of VAT.

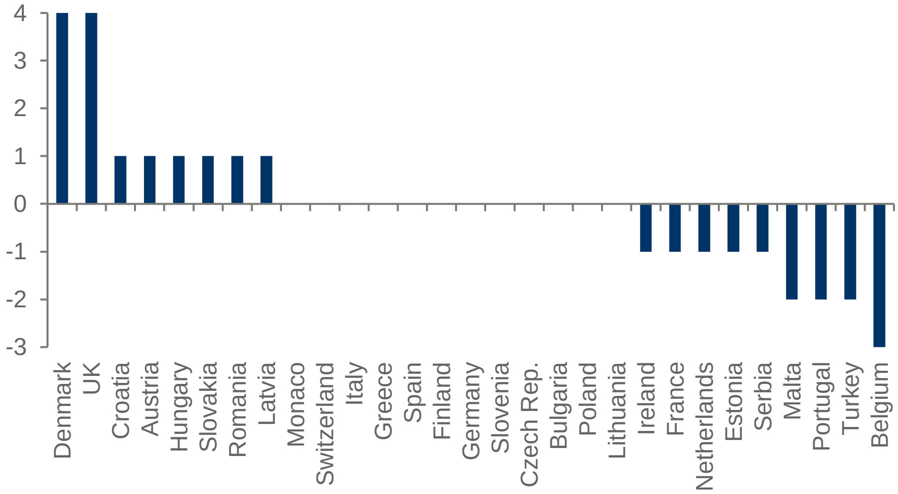
This difference is apparent when comparing the ranking of destinations based on pre-VAT ADR against their ranking post-VAT, with the varying rates of VAT charged across destinations facilitating some notable changes to ranking. When ranked from highest ADR to lowest, a lower rate of VAT tends to push a destination down the rankings (i.e., making it cheaper relative to other destinations), while a higher rate of VAT tends to push a destination up (i.e., making it more expensive relative to other destinations).

Denmark, the UK, and Slovakia are at a competitive disadvantage since there is no VAT concession for hotel accommodation and the higher standard rate of VAT is levied. Denmark and the UK are both ranked four places lower for post-tax ADR than for pre-tax ADR.

There is a clear benefit to destinations which discount VAT more heavily for tourist accommodation: Belgium charges 6% VAT on hotel accommodation compared to its standard VAT rate of 21%. This reduction makes it three ranking places better off when VAT is included in ADR based on 2019 data. Turkey, Portugal, and Malta all benefit from two ranking places on account of their reduced VAT rates for tourist accommodation.

Impact of VAT on hotel room rates across Europe

Change in rank, pre-VAT ADR vs. post-VAT ADR



Source: STR, European Commission

AVIATION TAXES

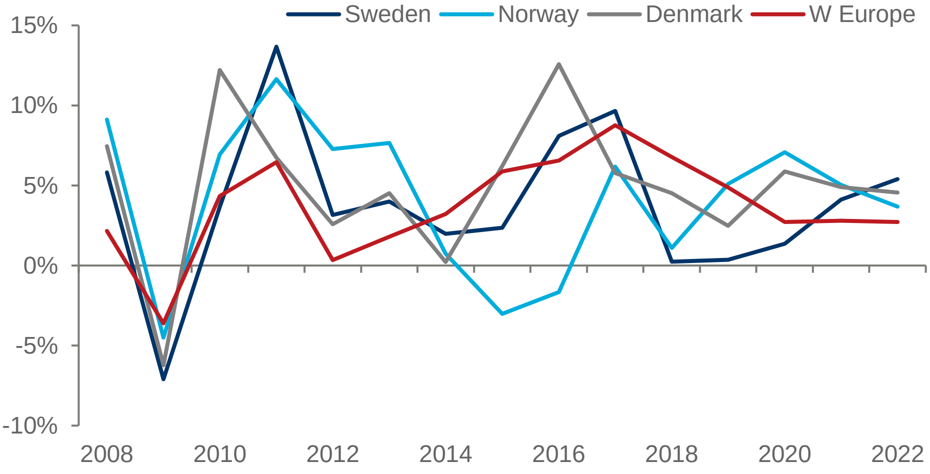
Since international air transport is a service provided to the end consumer outside any taxing jurisdiction, it typically enjoys relief from VAT. However, other taxes can be levied at the discretion of national governments. Indeed, taxes are levied on flights from and within several EU countries currently. For example, in the UK Air Passenger Duty (APD) is levied on passengers departing from a UK airport and varies by distance and flight class. Civilian passengers departing from Austria, Croatia, the Czech Republic, Germany, France, and Sweden also pay similar taxes, albeit these are typically much lower than APD as levied by the UK.

The new Swedish air passenger tax came into effect in April 2018 and resulted in a notable downward pressure on air passenger growth. Unlike most other air transport taxes levied in the EU, the tax levied by Sweden was primarily designed to encourage travellers to choose other methods of transport and therefore reduce air travel's carbon footprint. Prior to the imposition of this tax, air passenger growth in Sweden broadly tracked that of its Nordic peers, but there has been a notable decoupling since 2018 when the tax came into force. Although Swedish air passenger traffic has continued to grow in 2018-19, it has done so at a slower rate compared to its Nordic peers as well as Western Europe as whole.

This highlights the significant impact that taxation can have on travel behaviour. At present, such changes are generally viewed as positive and have become a priority for many. France and Germany are both planning on hiking current rates of air tax to both disincentivise air travel and make it more sustainable. However, recent experience in the UK demonstrates some risks. This is particularly true of high taxes imposed on airlines who struggle to fully pass on the tax burden to consumers given high levels of competition in the industry. This was a struggle reportedly faced by one of the UK's largest regional airlines Flybe, which required a deferment to its tax bill in order to avoid collapse in January. This has prompted the UK Government to consider cutting the rate of Air Passenger Duty on domestic flights to ensure the continuity of services provided by Flybe.

Nordic air passenger growth

Annual growth, %



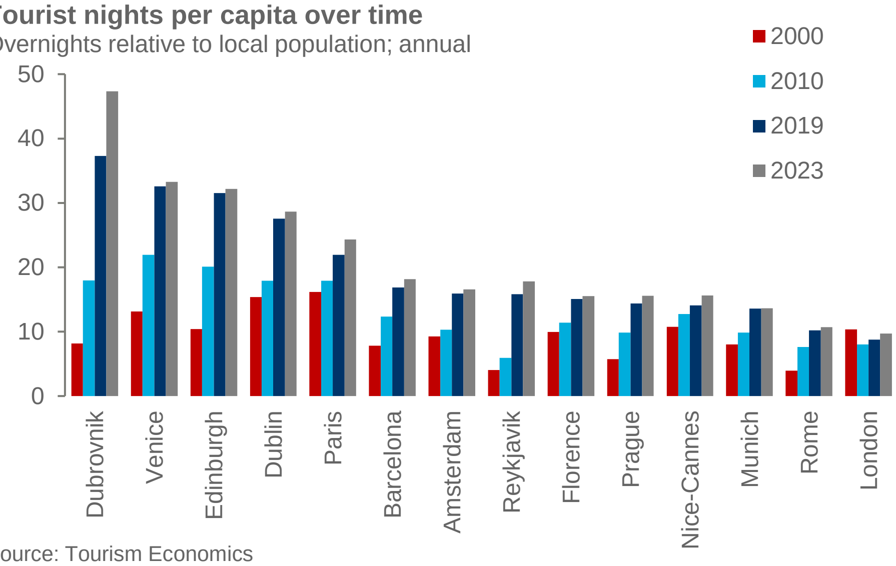
Source: Tourism Economics

CITY TAXES

As tourism demand continues to grow, the concentration of travellers in some cities is becoming a growing concern. Since 2017, several movements in European cities such as Barcelona and Venice have set out to 'reclaim' their cities from perceived overtourism. Tourism growth in recent years has involved an increased concentration of visitors in some 'must see' destinations. This has resulted in a rising perception of overtourism and some rising antipathy towards tourists, and even open antagonism as witnessed in Barcelona and Venice in 2017. Overtourism can be indicated by the ratio of visits or overnights per capita. The chart below shows a marked increase in these intensity ratios since 2010 across select European cities.

Tourist nights per capita over time

Overnights relative to local population; annual



Source: Tourism Economics

However, this measure alone does not provide a clear number of visitors or overnights that can be defined as being too high. Indeed, a high degree of seasonality can exacerbate overcrowding issues if all travellers need to be accommodated within a narrow space of time. Travel intensity is especially high in peak months and increases pressure on infrastructure and raise tensions with residents.

Taxation can be used to improve and maintain any facilities which are potentially overused by tourists, but can also deter some visitors by making travel more expensive.

In a bid to tackle overtourism, as of January 2020, foreign visitors to Amsterdam will be charged an additional tourism tax of €3 per person, per night, to stay in a hotel on top of the current 7% tax based on room rate. Stays in Airbnb accommodation will now pay an increased rate of 10% per night based on room rate.

Such taxation is one channel through which city halls across Europe are attempting to curb overtourism. However, given high economic dependence on tourism activity in many cities, the costs of overcrowding need to be viewed alongside the value tourism brings. Any overzealous reaction risks ‘killing the goose that lays the golden eggs’.

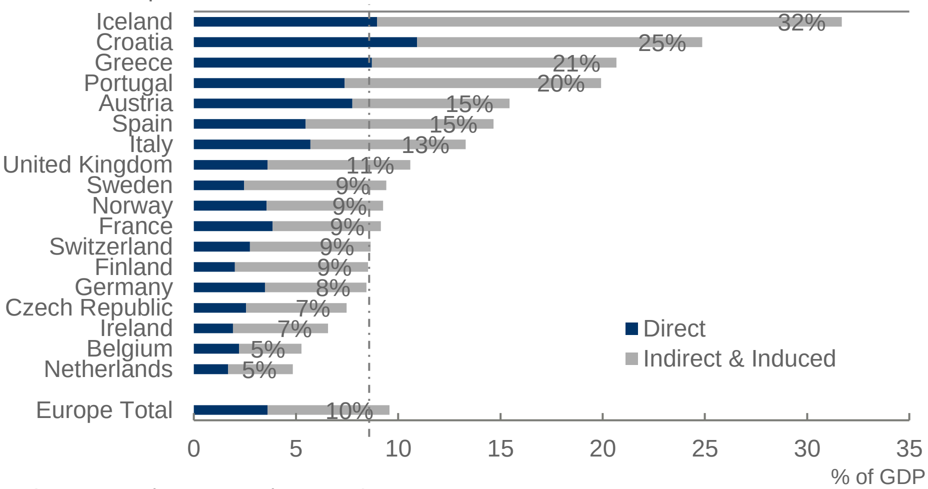
Diverse strategies must be pursued to maximise the return from tourism by attracting higher value visitors and smoothing visitor flows throughout the year and across destinations. In the Netherlands, references to Holland will no longer be used in marketing in the hope that tourists will venture to other regions and ease the burden on Amsterdam and Rotterdam. Encouraging visitors to travel outside of peak months could further alleviate any capacity issues. A tax during just the peak travel months could serve as a means of smoothing out high seasonality.

TAXES NEED TO BE BALANCED WITH MAINTAINING COMPETITIVENESS

Tourism has become an integral part of many European economies and is likely to remain so in the decades ahead. Whilst tourism growth needs to be managed in a sustainable way, its many benefits for economies are too lucrative to ignore.

Travel & tourism is an important economic sector, accounting for 10.4% of global GDP and supporting an estimated 321 million jobs worldwide in 2018. As an industry it proved crucial for many economies in the years following the 2008 financial crisis as a means of supporting a general economic recovery. This is particularly true for destinations in Europe, where travel & tourism accounted for 10% of GDP. Taxation is a potential tool to help achieve sustainable growth to balance the benefits and costs of tourism.

Travel & Tourism Percentage Contribution to GDP
Selected European Countries, 2018



Source: Tourism Economics, WTTC

KEY SOURCE MARKET PERFORMANCE

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).

SUMMARY

- Travel demand has held up despite a mixed economic picture across Europe.
- There has been a clear slowdown in demand growth from European source markets compared to last year.
- Growth from non-European source markets has been robust so far this year, although not all destination countries are benefitting equally.

KEY INTRA-EUROPEAN MARKETS

Germany continues to paint a mixed picture on the economic front. Surveys signal that industrial activity is bottoming out on the back of the car sector recovering and the inventory drag fading. But a plunge in October industrial production of 1.7% month on month means that risks to the outlook remain on the downside, although solid labour market numbers still point to resilient domestic demand.

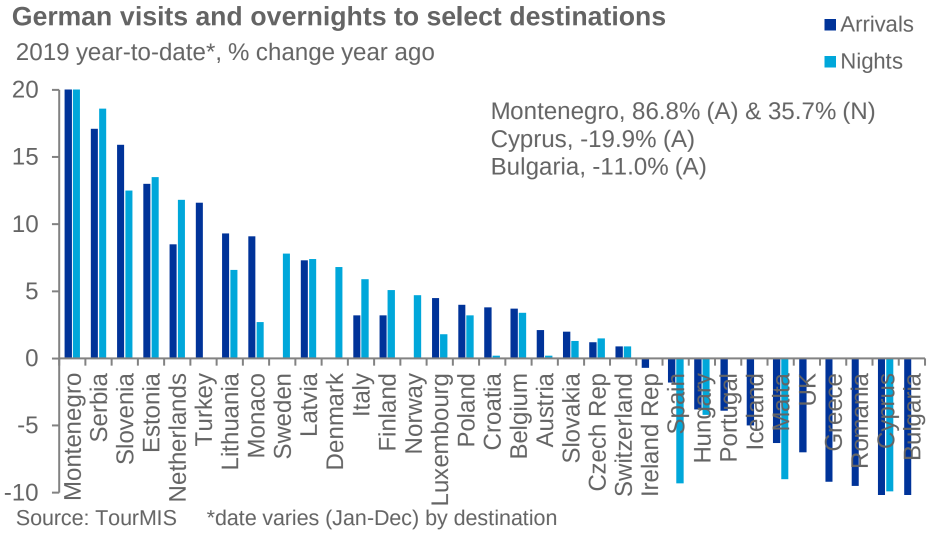
Southern/ Mediterranean Europe continues to see declines in German arrivals

Eleven countries saw declines in either nights and/or arrivals from Germany. Declines were particularly concentrated in Southern/ Mediterranean Europe with both Bulgaria and Cyprus showing double-digit declines in arrivals while Greece and Romania experienced declines in excess of 9% (significant since Germany was the most important European source market for Greece and second-most for Cyprus in 2018). Based on data to September, the UK was the next poorest performing destination, suggesting that, despite some increased clarity surrounding Brexit, there remains some poor sentiment.

Montenegro continued to see the strongest growth from Germany with arrivals up 86.8%, albeit from low volumes; arrivals from Germany account for about 3% of total arrivals to Montenegro. This represents some slowdown on growth earlier in 2019, while growth in nights was far lower at 35.7% and there is some volatility in data for smaller destinations flows. Serbia has overtaken Estonia as the second strongest growth destination for German visitors with an 18.6% increase in nights.

A number of Germany's immediate neighbours are always likely to struggle for spectacular growth in German visitors, but it is notable that growth is especially limited in a number of these destinations with Switzerland seeing only 0.9% growth in nights and arrivals and Austria seeing a mere 0.2% increase in nights.

Slovenia still performed strongly despite the recent collapse of Adria and its permits and licences, including its Air Operator Certificate (AOC), were put up for auction in January 2020. The Slovenian government is also planning on subsidising flights from Ljubljana to key Lufthansa group hubs – Frankfurt, Munich, Zurich, and Brussels – to increase existing frequencies.



For much of 2019 the Dutch economy surprised on the upside. However, at the end of 2019 the Dutch economy was increasingly characterised by a divide between a deteriorating business outlook and a robust private household sector. Despite downside risks, only a slight slowdown is expected over the next couple of years.

Strongest growth from the Netherlands seen in Montenegro and Lithuania

Montenegro showed the strongest growth in arrivals from the Netherlands but growth in nights now falls well short of a diverse range of countries: Monaco, Slovakia, Estonia, and even Sweden. 21 out of 32 reporting countries, registered some growth in Dutch travel.

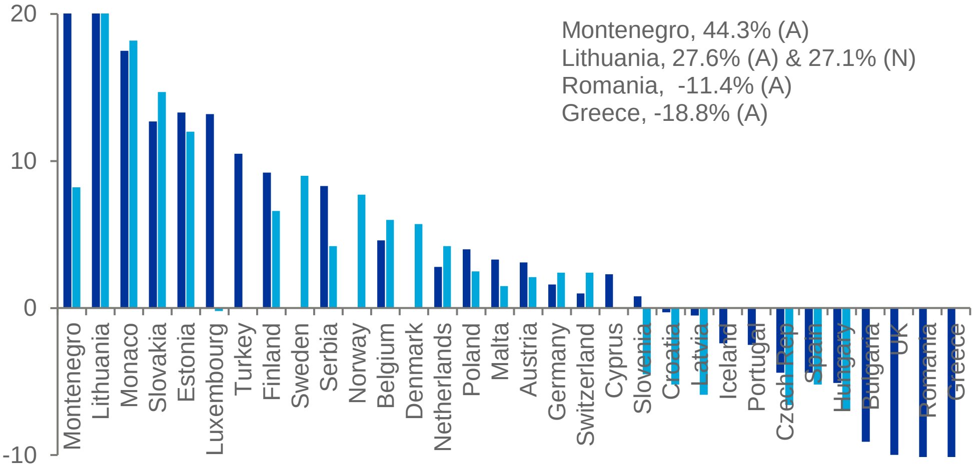
Countries with the most marked declines in Dutch visitors continued to be concentrated in Southern/ Mediterranean Europe with three of the largest four falls being in Greece, Romania, and Bulgaria. The exception is the UK, which, based on data to September, saw arrivals drop by 10%. The 18.8% decline in Greece is significant as over a million Dutch tourists visited Greece in 2019. Nevertheless, the Dutch tourism platform, Reisgraag.nl, has named Greece the best destination for 'fun and going out' in January 2020.

There was also a bloc of countries with significant falls in nights, but more stable arrivals: Slovenia, Croatia and Latvia. In the case of Latvia, this is in marked contrast to earlier in the year when it was amongst the top growth destinations for Dutch visitors. This reflects an overall slowing of inbound tourism growth in Latvia over the year. In response to this situation, Riga City Council plans a tourism tax to develop additional funding and focus on non-European source markets.

Dutch visits and overnights to select destinations

2019 year-to-date*, % change year ago

Arrivals
Nights



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

The French economy remained relatively solid at the close of 2019, but the lengthy strikes against the government's plans to reform the pension system is a threat to the near-term outlook. Oxford Economics forecast for GDP growth is 1.2% in 2020, before a modest pick-up to 1.4% in 2021, but the risks are increasingly on the downside. The re-emergence of social tensions could weigh on household spending.

Growth from France remains robust but consumer spending may weaken

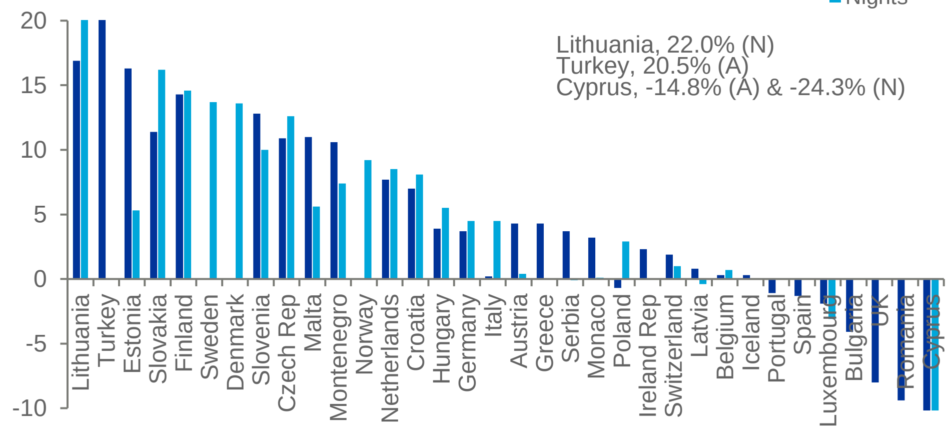
Nevertheless, only seven countries reported neither arrivals nor overnights growth. Of these, the biggest decline was in Cyprus which has lost nearly a quarter of its French overnights. While some of this decline still reflects the collapse of Cobalt Air, some French visitors may have switched to Turkey which has seen a 20.5% increase in arrivals in data to November.

Bulgaria, Romania, and the UK also saw significant falls in French arrivals. The UK saw an 8.0% decline in French visitors – which is less steep than earlier in 2019. The strongest performer was Lithuania with an increase of 22.0% in nights.

French visits and overnights to select destinations

2019 year-to-date*, % change year ago

Arrivals
Nights



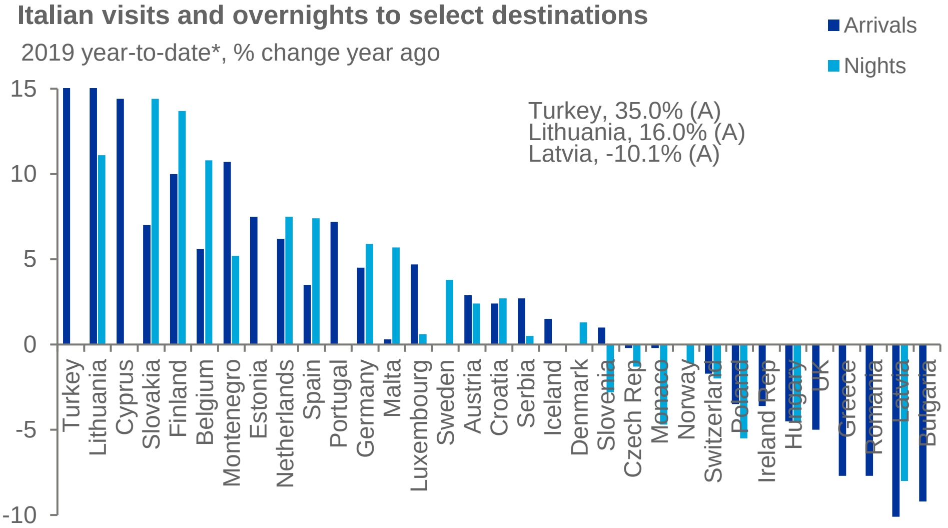
Source: TourMIS *date varies (Jan-Dec) by destination

Earlier in 2019 there was considerable political uncertainty in Italy. While there did seem to be greater certainty for a time, there remain some causes for concern and the outlook for the Italian economy is still gloomy. Real GDP grew only marginally over the last four quarters and the latest indicators suggest that this effective stagnation has continued. This is accompanied by the inherent fragility of the Five Star-PD coalition.

Italians continue to seek out some lower cost destinations, such as Lithuania and Turkey, up 16.0% and 35.0% in terms of arrivals. Vilnius' new tax on Airbnb properties may have an adverse impact on future growth if visitors are price sensitive.

A mixed picture from Italy after some political instability

But not all low-cost destinations are benefitting. Romania and Bulgaria were among the biggest declines, seeing arrivals fall by 7.7% and 9.2% respectively. In part, Bulgaria's decline can be explained by a recovery in market share for Turkey and other accessible low-cost destinations, such as Tunisia. The UK also continued to see a fall in arrivals from Italy, down 5.0% – a considerably less steep decline than earlier in the year. In total eleven countries saw no growth in either metric.



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

A clear result in the UK General Election has seen some political headwinds diminish, even though exchange rates have fluctuated since. There is more certainty surrounding the direction of the Brexit process. However, the last quarter of 2019 suggests stagnant GDP growth.

An improved picture from the United Kingdom

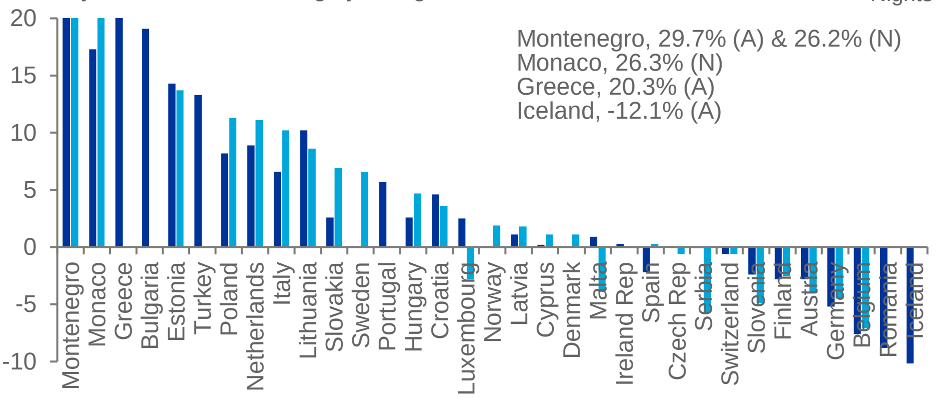
For UK visitors the proportion of destination countries reporting some form of growth was back above 50% with only nine destinations showing no growth in either arrivals or nights. However, a number of countries, such as Norway, Cyprus, and Ireland saw only marginal growth from the UK.

Some declines can be explained by destination specific factors, such as performance in Iceland and Romania. However, the falls to other destinations may be more of a concern, including the 5.2% drop in arrivals in Germany and the steeper fall of 7.6% in Belgium. Smaller declines were also seen in Austria, Finland, Slovenia, and Switzerland, while Serbia saw a 5.7% fall in nights.

The countries in which there was strong growth from the UK also tended to be different, including Greece and Bulgaria which were relatively weak performers for many other European source markets. Arrivals to Greece were up 20.3% and arrivals to Bulgaria up 19.1%. Some relatively mature destinations, such as the Netherlands also saw strong growth in arrivals from the UK.

UK visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

Economic momentum in Russia may be picking up, with signs of consumer demand recovering from the VAT-driven crunch earlier in 2019. It is likely that GDP growth will be significantly stronger in 2020.

In Russia consumer spending may now be ticking-up

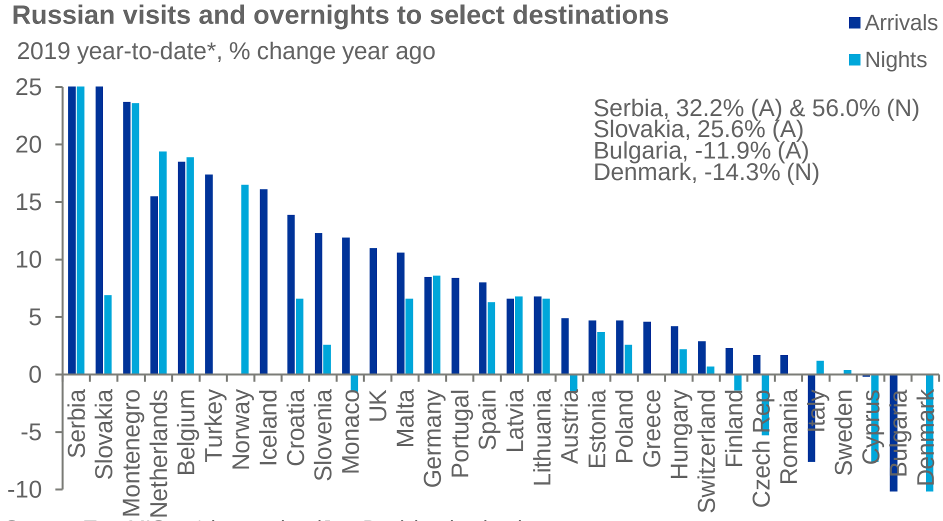
Only three countries (Cyprus, Bulgaria, and Denmark) saw no growth in tourism from Russia, although there was a very mixed picture in Italy with a significant fall in arrivals of 7.6%, despite some growth in overnight stays.

Serbia continued to see the strongest growth from Russia with an increase in nights of 56%, also seeing the strongest growth in arrivals. Turkey continued to see strong growth (+17.4%), as did the Netherlands and Belgium which showed 15.5% and 18.5% growth in arrivals from Russia respectively.

Earlier in the year, there was a marked fall in Russian visitors to the UK, but data to September show a much more positive picture with Russian arrivals up by 11%. New air routes between Luton and Moscow and St Petersburg should support future growth.

Russian visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

NON-EUROPEAN MARKETS

The US dollar has been strengthening against the euro broadly since the beginning of 2018. This makes much of Europe more affordable and continues to attract demand. However, despite recent strengthening of the British pound, its dollar exchange rate remains well below levels of 12 months ago.

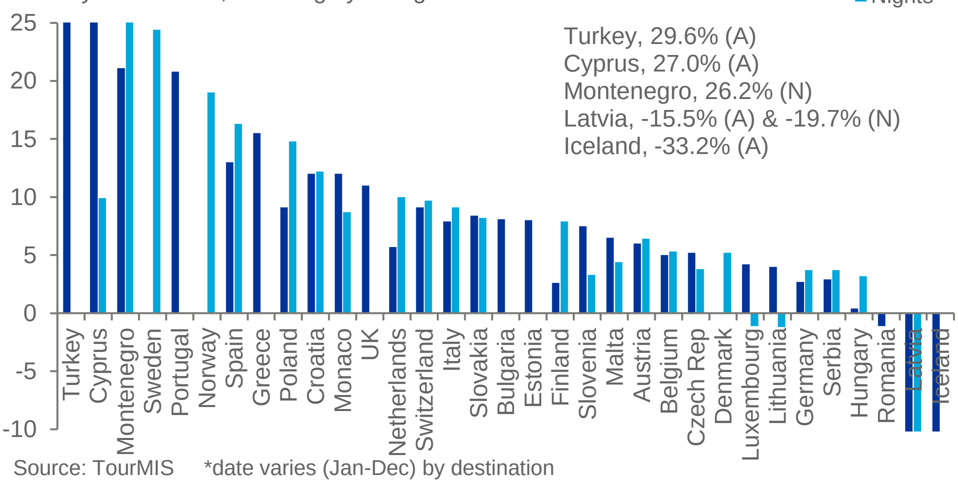
US travel growth to most parts of Europe remains strong

The US remains a very important long-haul market for most European destinations. Southern/ Mediterranean Europe continues to have the destinations with the fastest growth – in particular, Turkey, Cyprus, and Montenegro. The strongest growth in arrivals was seen in Turkey and Cyprus, while the most impressive growth in nights was in Montenegro and Sweden. Only three countries reported no growth whatsoever: Iceland – which continues to be affected by the collapse of Wow – Latvia, and Romania.

Overall, the healthy state of US outbound is demonstrated by the fact that 13 reporting destinations in Europe have at least one metric at or above 10% growth. The UK has also re-joined this group, having reported just a 1% increase in the last report (based on data to March).

US visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

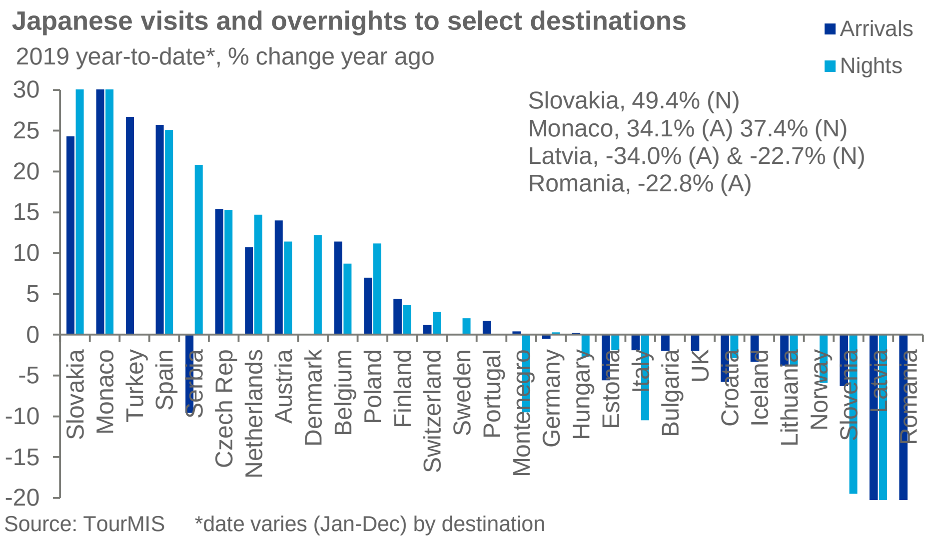
The Japanese economy continues to struggle against an uncertain external environment and weak domestic demand. With a higher consumption tax and weak wages weighing on household spending at a time when the external sector is still flagging. Risks are weighted to the downside.

A mixed picture for Europe from Japan

Measured in overnights, Slovakia had the strongest growth from Japan at 49.4%. However, Monaco enjoyed the strongest rate of arrivals growth, which were 34.1% higher for the full year compared to a year ago. Serbia showed a strange pattern with arrivals down but nights still firmly up, suggesting a longer length of stay by Japanese tourists.

However, overall, there is a weaker picture from Japan than there was earlier in 2019. Thirteen countries showed no growth in tourism at all and several more (for example, Montenegro, Germany, Hungary, and Switzerland) exhibited an unconvincing picture of growth, either because one metric fell or because growth was especially weak.

Latvia again showed one of the weakest overall performances with a fall of more than one third of all visits. This is despite bilateral business relations between the two countries having improved in recent years.

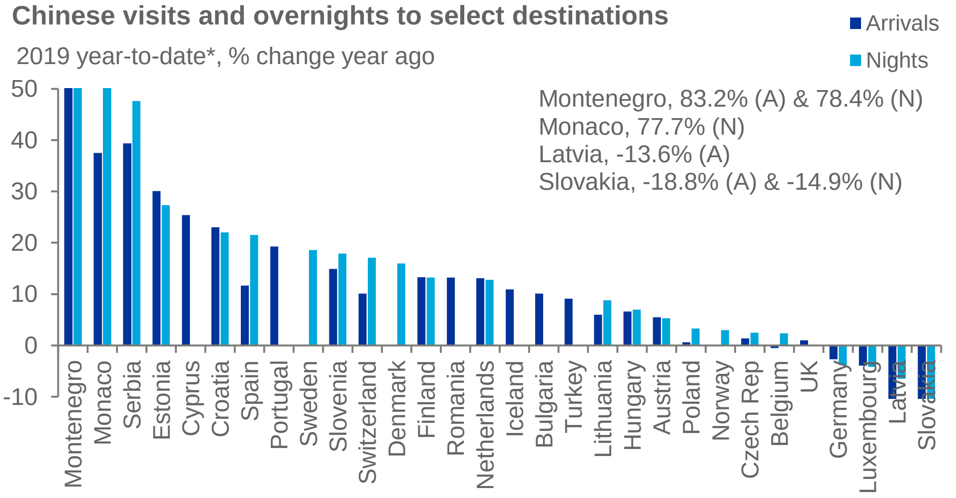


Source: TourMIS *date varies (Jan-Dec) by destination

Although China hit its economic growth target, challenges persist, including the ongoing trade headwinds, issues surrounding Hong Kong and a property slowdown. There was little sign of any slowdown in 2019 of Chinese outbound tourism to Europe. However, the emerging coronavirus concerns will curtail international as well as domestic travel moving into 2020.

Almost all European countries saw growth from China in 2019, with the exceptions being Slovakia, Latvia, Luxembourg, and Germany. Despite the visit of the Chinese culture minister to Riga in October 2019 to encourage closer tourism links, there are strong feelings in Latvia with regard to Hong Kong and this has led to a number of incidents including damage to a well-known religious site in apparent support of Hong Kong.

The strongest growth in arrivals from China was enjoyed by Montenegro (83.2%), although Monaco enjoyed a similar degree of overnights growth. Serbia also continues to see strong growth with joint Chinese-Serbian police patrols now in Belgrade to help cope with the growing number of Chinese tourists and workers. Serbia is a beneficiary of China's 'One Belt, One Road' project which aims to open up trade links for Chinese companies and involves the building of railways, roads, and power plants, using mostly Chinese workers.

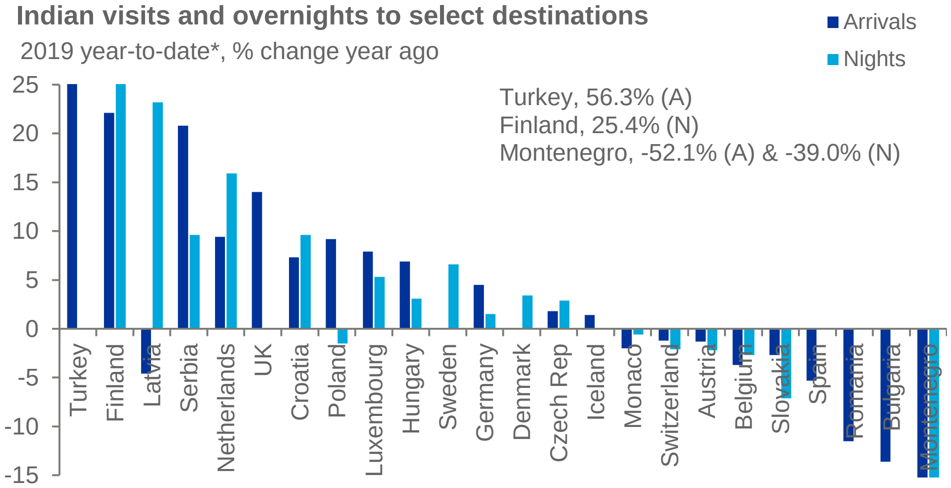


Source: TourMIS *date varies (Jan-Dec) by destination

Oxford Economics forecasts a stimulus-led recovery in India's growth trajectory in 2020. But, given the persistently weak data on private sector activity, it has downgraded 2020 GDP growth forecasts to 6%. 2021 is now forecast to see 6.9% growth.

Nine destinations saw no growth in tourism from India. Some of these also had relatively steep falls in the last quarterly report. However, they have been joined by Slovakia, which was formerly the fastest growing destination in the Q2 2019 report. Both nights and arrivals are now strongly in decline, based on data to September.

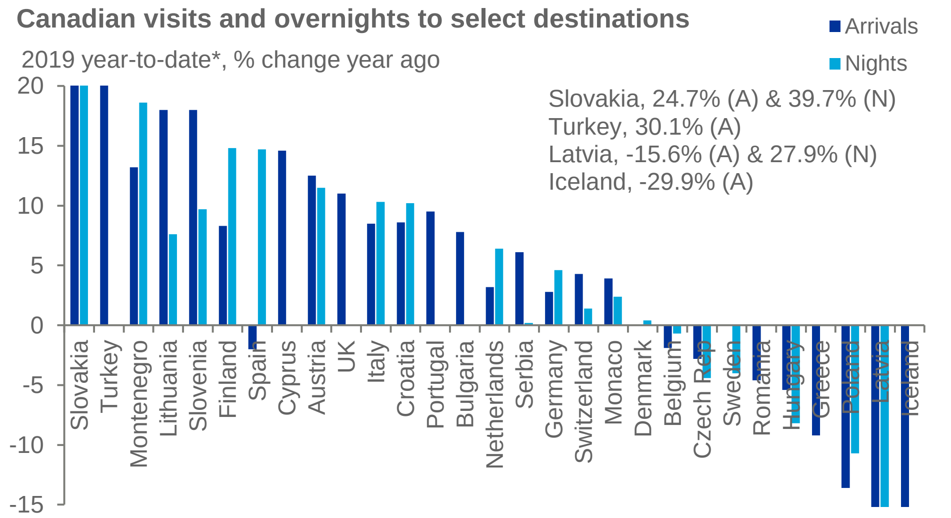
Turkey remains the fastest growing destination for Indians in Europe and saw an even higher increase in Indian arrivals than last quarter at 56.3%. Finland now shows the second strongest growth. However, it is from a low base with only around 51,000 Indians visiting the country in 2018. Nevertheless, a Memorandum of Understanding between India and Finland was signed in November 2019 for strengthening co-operation in the field of tourism.



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

There were some very steep falls in travel from Canada to European destinations. Iceland saw a drop of nearly 30% in arrivals and was almost matched by Latvia's decline of 27.9% on nights. Nine countries saw no growth in either arrivals or nights. Poland saw steep falls in both arrivals and nights, while Greece showed a drop of 9.2% in arrivals.

Slovakia maintained its place in having the strongest growth in nights (but not this time in arrivals – which was claimed by Turkey), still influenced by the impact of the Ice Hockey World Championship back in May. Montenegro also saw strong growth, albeit from a relatively small base.



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

ORIGIN MARKET SHARE ANALYSIS

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.

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 11.9 million departures to Europe while the sum of European arrivals from the US was 23.4 million. Thus, each US trip to Europe involved a visit to two destinations on average.

The geographies of Europe are defined as follows:

> ***Northern Europe** is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;*
>
> ***Western Europe** is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;*
>
> ***Southern/Mediterranean Europe** is Albania, Bosnia-Herzegovina, Croatia, Cyprus, North Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;*
>
> ***Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.*

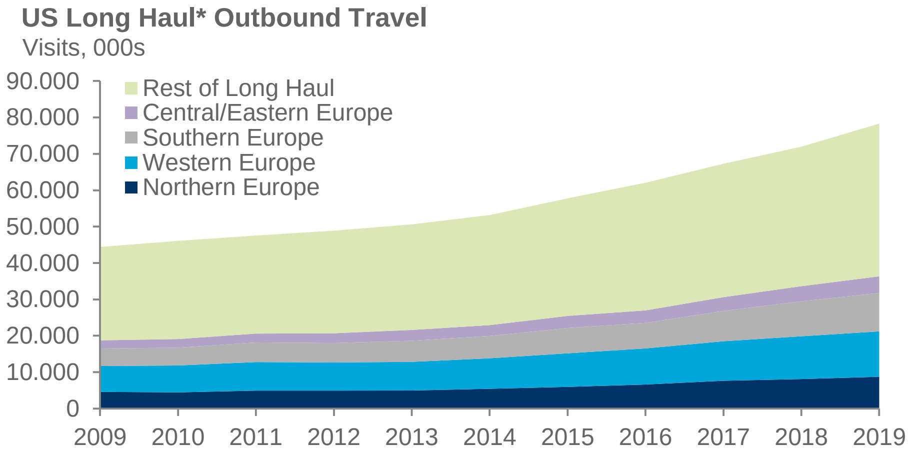
UNITED STATES

US MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	119,443	-	4.3%	23.2%	-	47.5%	-
Long haul	71,947	60.2%	4.5%	24.6%	60.9%	42.1%	62.5%
Short haul	47,497	39.8%	3.9%	21.1%	39.1%	56.4%	37.5%
Travel to Europe	33,633	28.2%	4.1%	22.3%	27.9%	55.6%	26.7%
European Union	27,497	23.0%	4.9%	27.1%	23.7%	48.4%	22.9%
Northern Europe	8,111	6.8%	4.0%	21.9%	6.7%	63.1%	6.1%
Western Europe	11,757	9.8%	2.5%	13.3%	9.1%	49.5%	9.7%
Southern Europe	9,623	8.1%	4.4%	23.9%	8.1%	65.8%	7.2%
Central/Eastern Europe	4,142	3.5%	7.6%	44.5%	4.1%	39.5%	3.7%

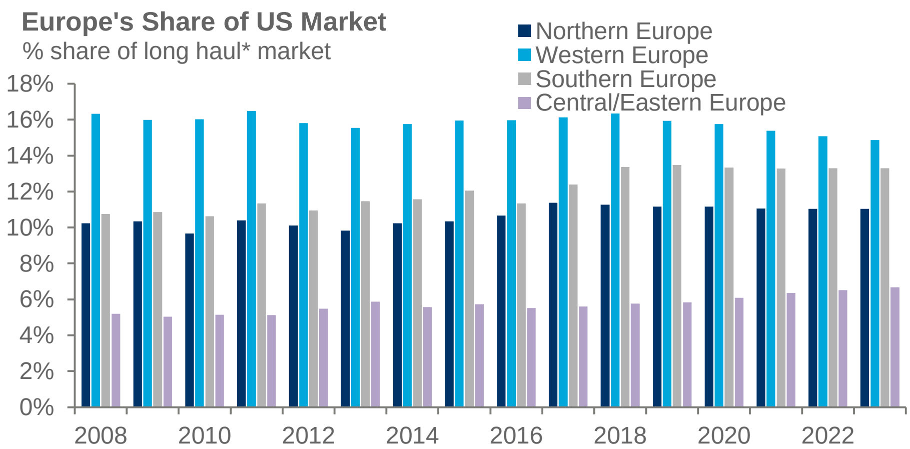
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

CANADA

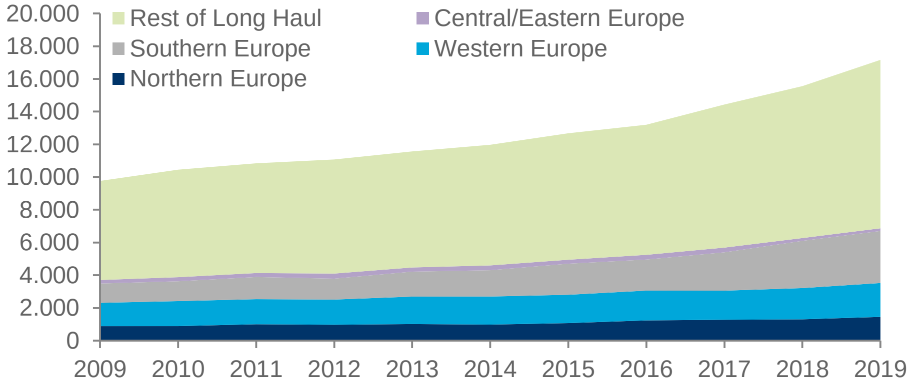
CANADA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	39,046	-	3.7%	20.2%	-	6.8%	-
Long haul	15,560	39.9%	4.4%	23.8%	41.0%	34.5%	31.7%
Short haul	23,485	60.1%	3.3%	17.8%	59.0%	-6.0%	68.3%
Travel to Europe	6,272	16.1%	3.1%	16.6%	15.6%	40.2%	12.2%
European Union	5,461	14.0%	5.1%	28.3%	14.9%	42.4%	10.5%
Northern Europe	1,305	3.3%	5.0%	27.6%	3.6%	28.5%	2.8%
Western Europe	1,909	4.9%	3.8%	20.7%	4.9%	13.8%	4.6%
Southern Europe	2,887	7.4%	1.8%	9.5%	6.7%	89.4%	4.2%
Central/Eastern Europe	170	0.4%	0.9%	4.6%	0.4%	-33.4%	0.7%

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

Source: Tourism Economics

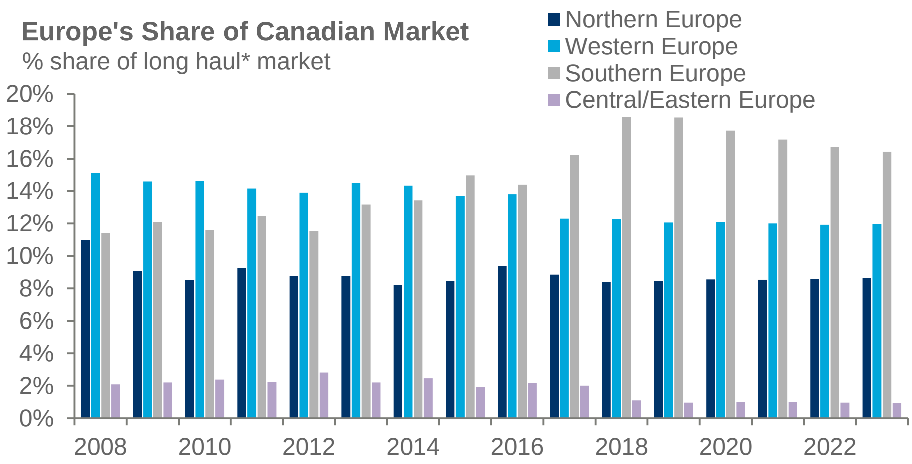
Canada Long Haul* Outbound Travel
Visits, 000s



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

Source: Tourism Economics

Europe's Share of Canadian Market
% share of long haul* market



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

Source: Tourism Economics

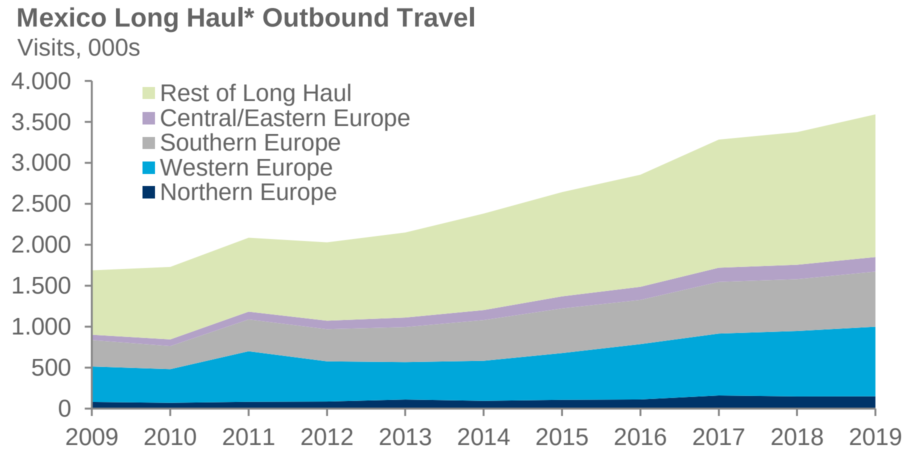
MEXICO

MEXICO MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	22,558	-	3.8%	20.4%	-	33.9%	-
Long haul	3,376	15.0%	3.4%	17.9%	14.7%	57.0%	12.8%
Short haul	19,182	85.0%	3.9%	20.9%	85.3%	30.5%	87.2%
Travel to Europe	1,756	7.8%	2.2%	11.2%	7.2%	58.0%	6.6%
European Union	1,608	7.1%	1.7%	8.7%	6.4%	59.8%	6.0%
Northern Europe	148	0.7%	0.9%	4.5%	0.6%	34.0%	0.7%
Western Europe	799	3.5%	3.0%	16.1%	3.4%	74.9%	2.7%
Southern Europe	633	2.8%	1.4%	7.5%	2.5%	47.8%	2.5%
Central/Eastern Europe	176	0.8%	1.7%	8.5%	0.7%	51.6%	0.7%

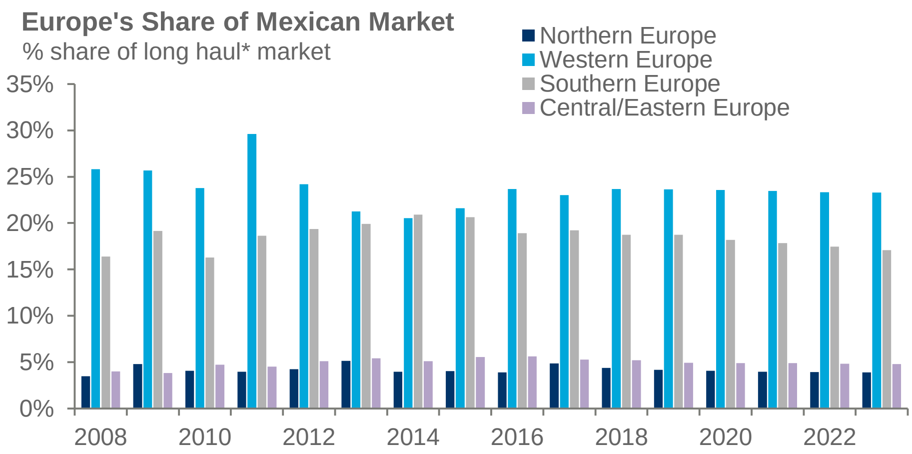
*Show s cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

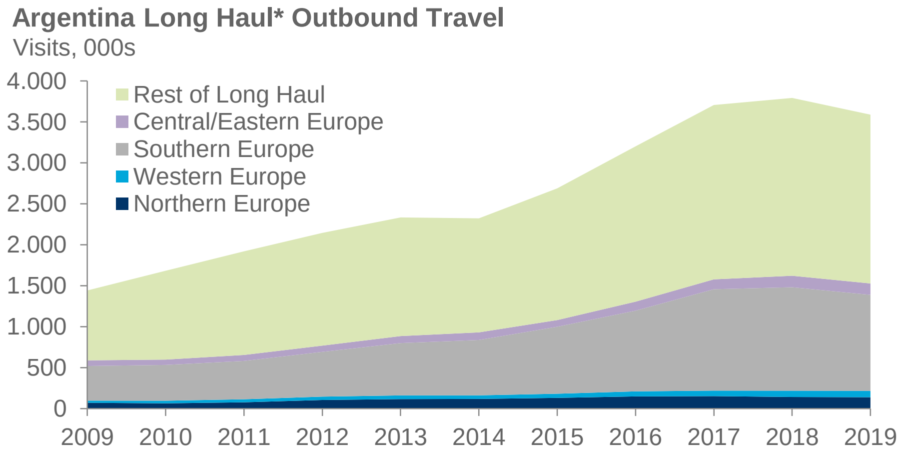
ARGENTINA

ARGENTINA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	13,059	-	0.1%	0.7%	-	69.5%	-
Long haul	3,794	29.0%	-2.4%	-11.3%	25.6%	62.5%	30.3%
Short haul	9,266	71.0%	1.1%	5.7%	74.4%	72.5%	69.7%
Travel to Europe	1,622	12.4%	-3.6%	-16.7%	10.3%	83.2%	11.5%
European Union	1,418	10.9%	-4.2%	-19.2%	8.7%	110.0%	8.8%
Northern Europe	141	1.1%	-0.3%	-1.3%	1.1%	22.2%	1.5%
Western Europe	77	0.6%	0.4%	2.1%	0.6%	69.5%	0.6%
Southern Europe	1,263	9.7%	-4.8%	-21.9%	7.5%	97.7%	8.3%
Central/Eastern Europe	140	1.1%	0.9%	4.8%	1.1%	64.1%	1.1%

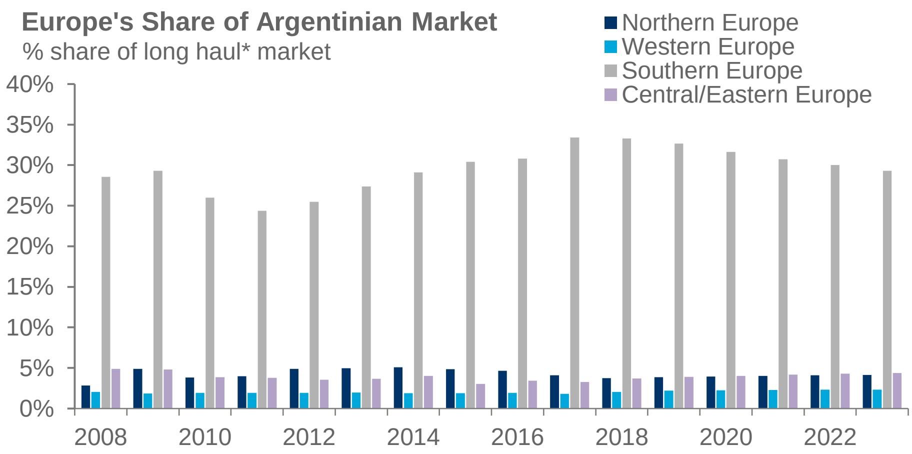
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

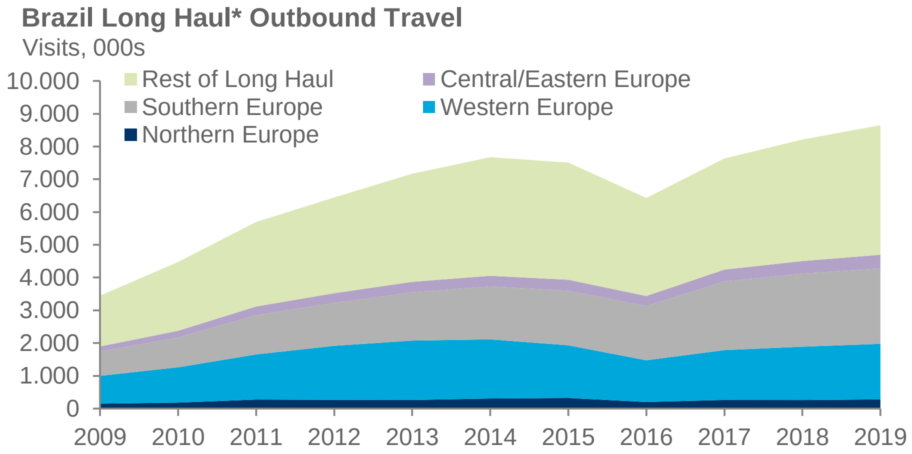
BRAZIL

BRAZIL MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	10,945	-	3.6%	19.2%	-	12.9%	-
Long haul	8,213	75.0%	2.6%	13.6%	71.5%	14.5%	73.9%
Short haul	2,732	25.0%	6.3%	36.0%	28.5%	8.1%	26.1%
Travel to Europe	4,504	41.2%	1.5%	8.0%	37.3%	16.4%	39.9%
European Union	3,900	35.6%	2.0%	10.6%	33.0%	21.0%	33.2%
Northern Europe	260	2.4%	5.5%	30.4%	2.6%	-1.1%	2.7%
Western Europe	1,629	14.9%	1.5%	7.5%	13.4%	-10.1%	18.7%
Southern Europe	2,231	20.4%	0.7%	3.7%	17.7%	51.5%	15.2%
Central/Eastern Europe	384	3.5%	3.6%	19.3%	3.5%	19.2%	3.3%

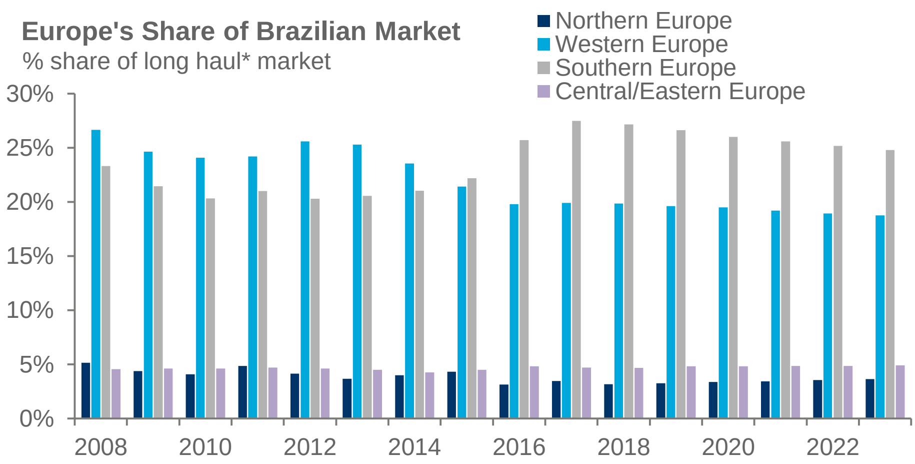
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

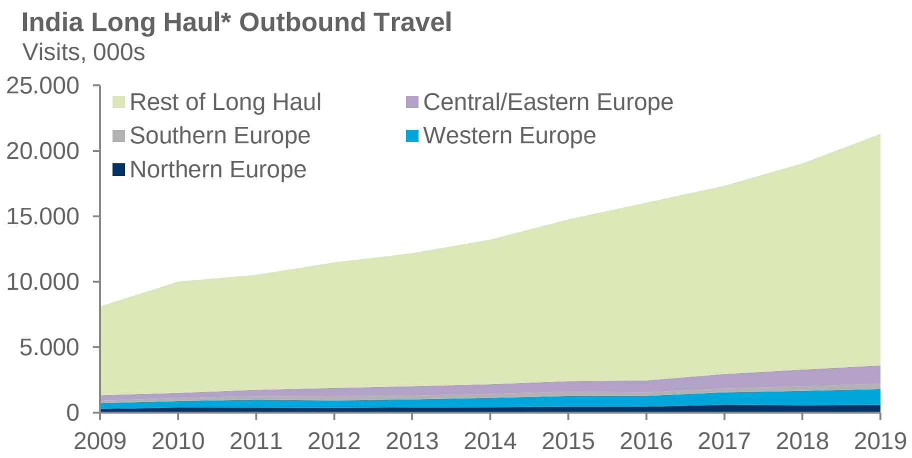
INDIA

INDIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	19,911	-	7.1%	40.8%	-	55.8%	-
Long haul	19,047	95.7%	7.1%	41.1%	95.8%	56.3%	95.3%
Short haul	865	4.3%	6.2%	34.8%	4.2%	45.3%	4.7%
Travel to Europe	3,290	16.5%	5.7%	32.1%	15.5%	63.2%	15.8%
European Union	1,556	7.8%	4.9%	26.8%	7.0%	45.7%	8.4%
Northern Europe	564	2.8%	3.2%	17.0%	2.4%	42.4%	3.1%
Western Europe	1,097	5.5%	6.0%	33.5%	5.2%	77.4%	4.8%
Southern Europe	355	1.8%	7.4%	42.8%	1.8%	24.1%	2.2%
Central/Eastern Europe	1,273	6.4%	6.1%	34.6%	6.1%	78.0%	5.6%

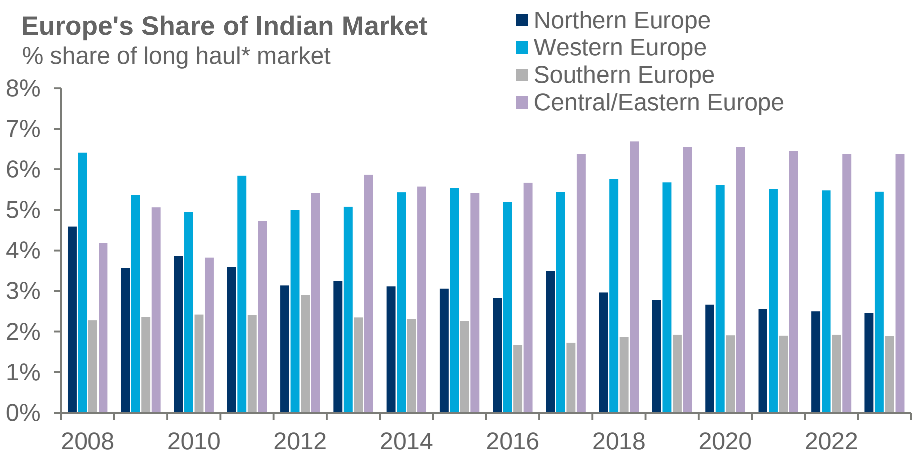
*Show s cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

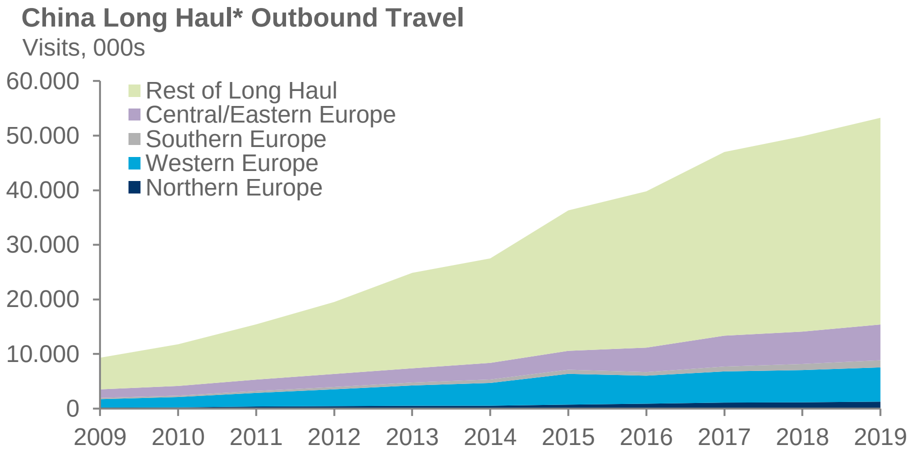
CHINA

CHINA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	98,593	-	5.6%	31.2%	-	65.0%	-
Long haul	49,877	50.6%	6.1%	34.3%	51.8%	100.6%	41.6%
Short haul	48,716	49.4%	5.1%	28.1%	48.2%	39.7%	58.4%
Travel to Europe	14,102	14.3%	7.1%	41.1%	15.4%	91.0%	12.4%
European Union	7,769	7.9%	7.4%	43.2%	8.6%	109.6%	6.2%
Northern Europe	1,150	1.2%	7.7%	44.7%	1.3%	126.5%	0.9%
Western Europe	5,904	6.0%	8.0%	46.9%	6.7%	58.3%	6.2%
Southern Europe	1,118	1.1%	7.6%	44.3%	1.2%	110.7%	0.9%
Central/Eastern Europe	5,929	6.0%	6.0%	34.1%	6.1%	126.6%	4.4%

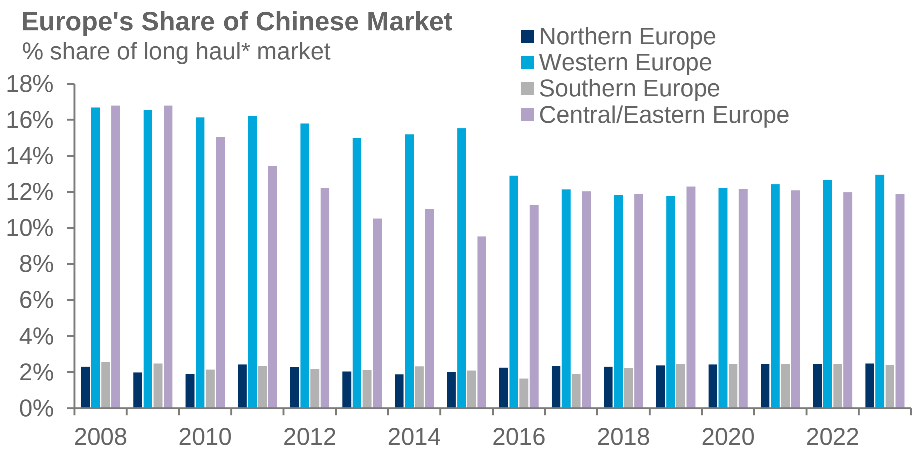
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

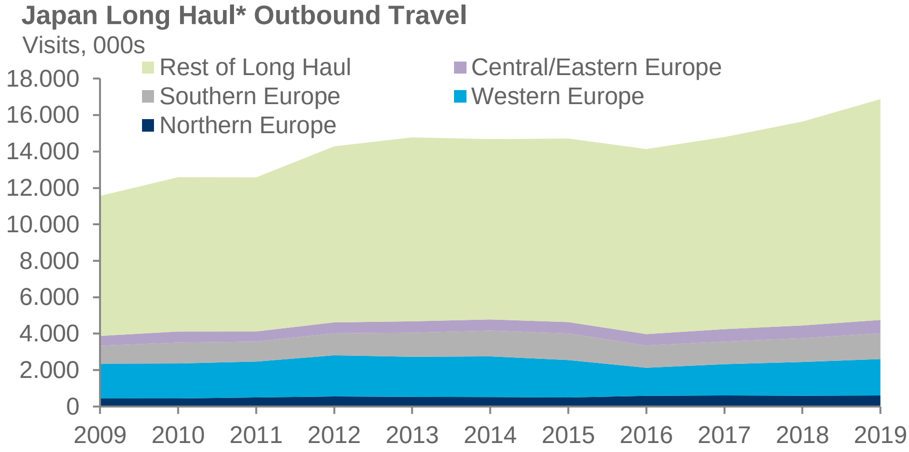
JAPAN

JAPAN MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	24,717	-	3.7%	19.7%	-	8.5%	-
Long haul	15,641	63.3%	3.9%	21.1%	64.0%	5.9%	64.9%
Short haul	9,076	36.7%	3.2%	17.2%	36.0%	13.4%	35.1%
Travel to Europe	4,451	18.0%	4.4%	23.8%	18.6%	-4.9%	20.5%
European Union	3,756	15.2%	4.5%	24.4%	15.8%	-4.6%	17.3%
Northern Europe	593	2.4%	0.8%	3.8%	2.1%	11.5%	2.3%
Western Europe	1,852	7.5%	6.0%	33.8%	8.4%	-15.8%	9.7%
Southern Europe	1,305	5.3%	4.4%	23.9%	5.5%	-1.3%	5.8%
Central/Eastern Europe	700	2.8%	2.6%	13.9%	2.7%	11.8%	2.8%

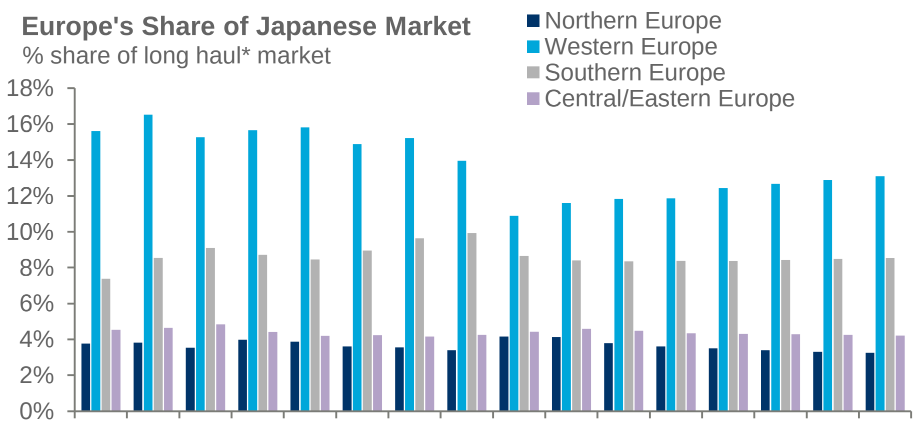
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

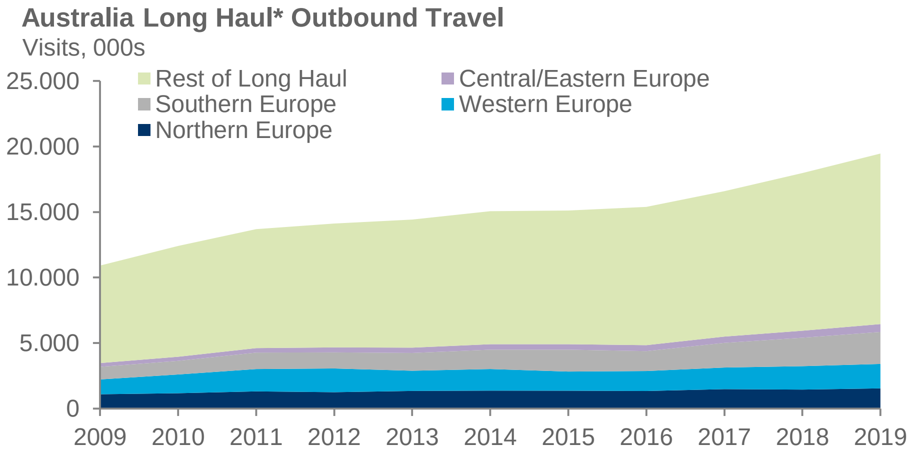
AUSTRALIA

AUSTRALIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	18,604	-	6.3%	35.6%	-	24.0%	-
Long haul	17,975	96.6%	6.3%	35.7%	96.7%	24.6%	96.2%
Short haul	629	3.4%	5.7%	32.1%	3.3%	9.6%	3.8%
Travel to Europe	5,944	31.9%	5.4%	30.0%	30.6%	27.8%	31.0%
European Union	5,114	27.5%	5.9%	33.0%	27.0%	17.7%	29.0%
Northern Europe	1,449	7.8%	5.0%	27.4%	7.3%	7.6%	9.0%
Western Europe	1,787	9.6%	2.3%	11.8%	7.9%	16.0%	10.3%
Southern Europe	2,172	11.7%	7.2%	41.3%	12.2%	60.3%	9.0%
Central/Eastern Europe	535	2.9%	8.8%	52.2%	3.2%	31.4%	2.7%

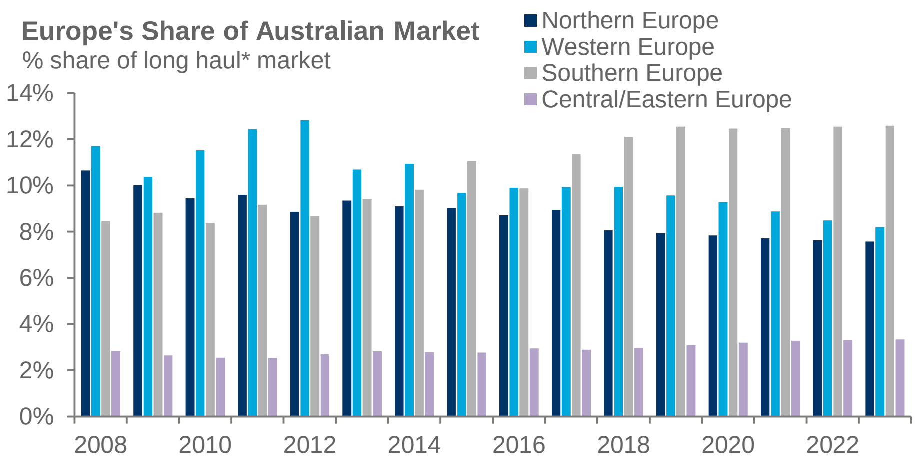
*Show s cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

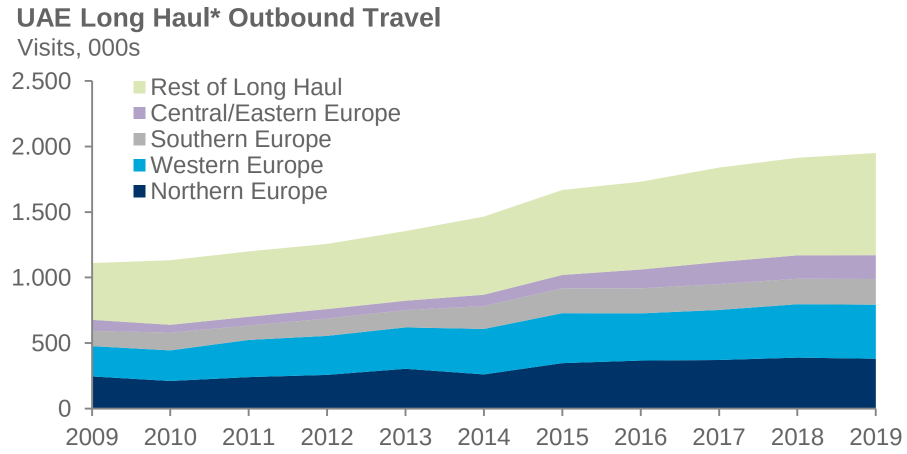
UNITED ARAB EMIRATES

UNITED ARAB EMIRATES MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	3,118	-	6.0%	33.6%	-	11.4%	-
Long haul	1,914	61.4%	1.9%	10.0%	50.5%	41.3%	48.4%
Short haul	1,204	38.6%	11.4%	71.2%	49.5%	-16.7%	51.6%
Travel to Europe	1,170	37.5%	1.2%	6.1%	29.8%	42.1%	29.4%
European Union	790	25.3%	1.4%	7.4%	20.4%	35.2%	20.9%
Northern Europe	389	12.5%	0.7%	3.6%	9.7%	28.0%	10.8%
Western Europe	408	13.1%	1.5%	8.0%	10.6%	29.1%	11.3%
Southern Europe	194	6.2%	0.5%	2.7%	4.8%	47.2%	4.7%
Central/Eastern Europe	179	5.7%	2.1%	10.9%	4.8%	150.0%	2.6%

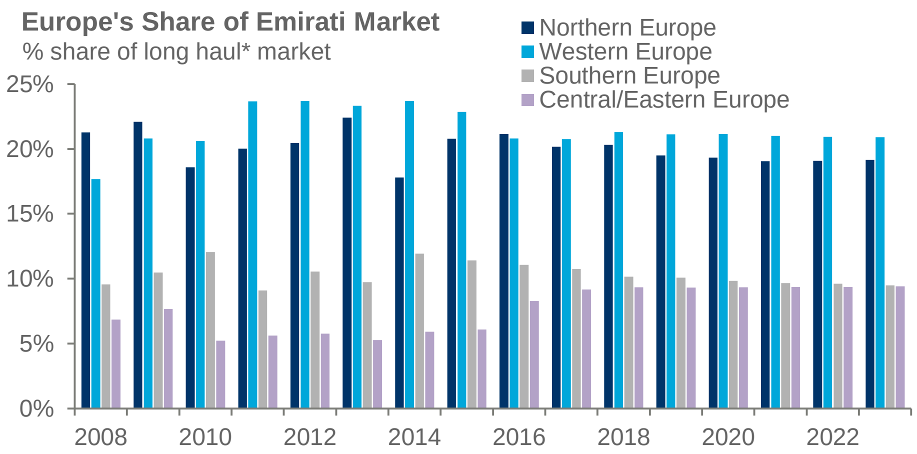
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

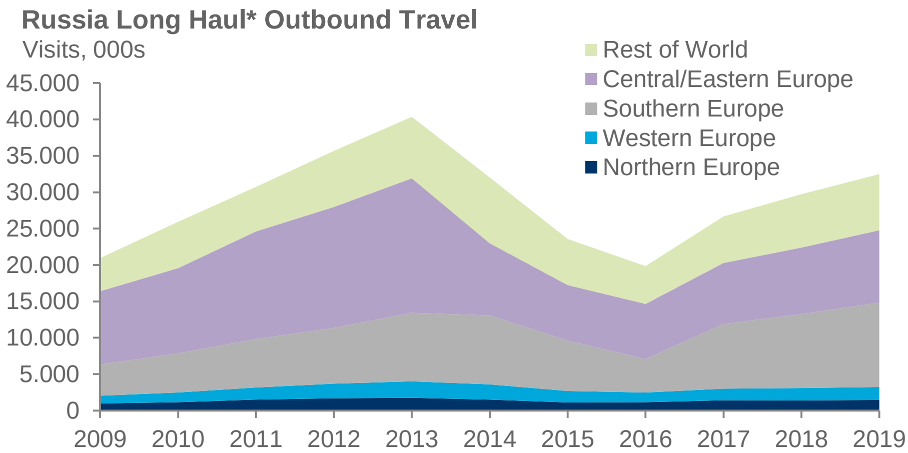
RUSSIA

RUSSIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	29,729	-	5.8%	32.3%	-	-26.3%	-
Long haul	7,334	24.7%	4.8%	26.6%	23.6%	-13.2%	20.9%
Short haul	22,395	75.3%	6.1%	34.2%	76.4%	-29.8%	79.1%
Travel to Europe	22,395	75.3%	6.1%	34.2%	76.4%	-29.8%	79.1%
European Union	9,853	33.1%	4.6%	25.4%	31.4%	-13.0%	28.1%
Northern Europe	1,395	4.7%	6.5%	36.8%	4.9%	-20.6%	4.4%
Western Europe	1,702	5.7%	4.9%	26.8%	5.5%	-24.7%	5.6%
Southern Europe	10,159	34.2%	4.7%	25.8%	32.5%	7.9%	23.3%
Central/Eastern Europe	9,139	30.7%	7.7%	44.6%	33.6%	-50.5%	45.8%

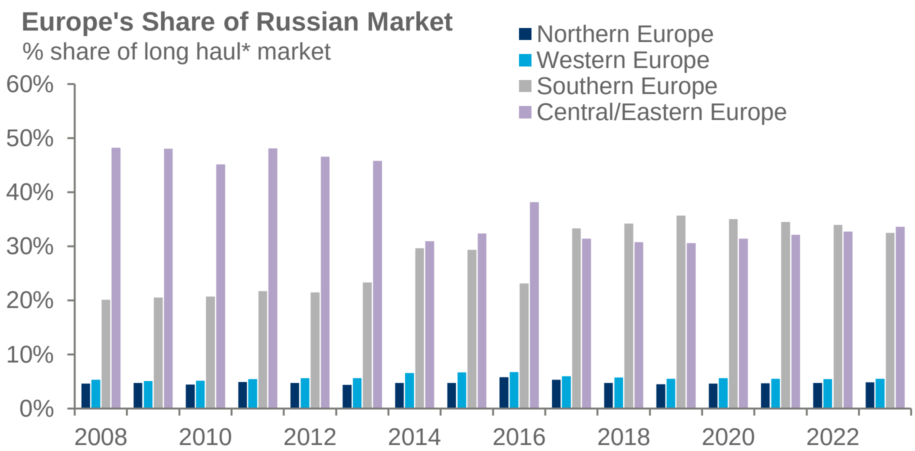
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

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

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

OVERVIEW

Although recent developments suggest that the risks of an escalation in US-China trade tensions have eased, we doubt this will deliver a significant boost to the global economy. We still expect world GDP growth of just 2.5% this year, the weakest since the global financial crisis, after an estimated 2.6% in 2019. But the risks around the forecast now seem less skewed to the downside.

While our view remains that global GDP growth is likely to have softened further around the turn of the year, the decline remains gradual. And latest survey-based measures of activity and sentiment show tentative signs that prospects are beginning to improve, consistent with our long-standing view that the low point for global growth will be in Q1 2020.

Just as importantly, the likelihood of the US and China formally signing off a phase one trade deal in mid-January has reduced the chances of a further flare-up in trade tensions between the two economies. However, this has to some degree been offset by the troubling events recently unfolding between the US and Iran.

We remain sceptical that the global economy is set for a major growth boost. Any healing in US-China relations may quickly be unwound and a full reversal of the tariffs already implemented remains a distant prospect. Furthermore, some of the associated growth boost is likely to be offset by less policy support. As a result, we have raised our 2020 GDP growth by just 0.1pp in the US but by a more significant 0.3pp in China.

Meanwhile, although the ongoing and broad-based monetary policy loosening in both advanced and emerging economies should start to feed through to growth this year, we doubt this will be a game-changer. Not only is policy loosening at a global level set to be fairly muted, limited spare capacity, the rising stock of global debt and elevated asset prices are likely to reduce the positive impulse from policymakers' actions.

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SUMMARY OF ECONOMIC OUTLOOK, % CHANGE*

	2019					2020				
Country	GDP	Consumer expenditur	Unemploy-ment**	Exchange rate***	Inflation	GDP	Consumer expenditur	Unemploy-ment**	Exchange rate***	Inflation
UK	1.3%	1.2%	0.7%	0.9%	1.8%	1.0%	1.6%	0.3%	6.0%	1.4%
France	1.3%	1.2%	-0.4%	0.0%	1.1%	1.2%	1.3%	-0.2%	0.0%	1.2%
Germany	0.6%	1.6%	-0.2%	0.0%	1.4%	0.7%	1.5%	0.0%	0.0%	1.6%
Netherlands	1.7%	1.4%	-0.5%	0.0%	2.6%	1.3%	1.4%	0.2%	0.0%	1.2%
Italy	0.2%	0.5%	-0.7%	0.0%	0.6%	0.3%	0.4%	-0.1%	0.0%	0.7%
Russia	1.3%	2.6%	-0.3%	1.9%	4.5%	1.8%	2.1%	0.1%	5.4%	3.7%
US	2.4%	2.6%	-0.2%	5.5%	1.8%	1.8%	2.3%	-0.2%	2.4%	2.1%
Canada	1.7%	1.6%	-0.2%	3.0%	1.9%	1.4%	1.5%	0.1%	3.9%	1.9%
Brazil	1.2%	2.0%	-0.3%	-2.4%	3.7%	2.2%	2.4%	-0.9%	-1.6%	4.2%
China	6.1%	6.7%	-0.2%	0.9%	2.9%	6.0%	6.7%	0.0%	3.3%	3.1%
Japan	1.0%	0.5%	-0.1%	6.8%	0.5%	0.3%	-0.3%	0.1%	4.6%	0.6%
India	4.9%	5.2%	0.0%	2.4%	3.7%	5.6%	5.9%	0.0%	0.1%	4.8%

Source: Tourism Economics

* Unless otherw ise specified

** Percentage point change

*** Exchange rates

EUROZONE

The eurozone economy gained a bit of momentum at the end of 2019 but continues to grow at a weak pace. Although geopolitical tensions are adding uncertainty, some forward-looking indicators are now trending upwards, supporting a moderately optimistic view for the start of the year. Our growth forecasts remain unchanged at 1.2% for 2019 and 1.0% in 2020, before a slight pick-up to 1.2% in 2021.

Latest data suggests that eurozone growth continues to stabilise around recent levels. The composite PMI rose to its highest in four months in December amid stronger services activity, but the Q4 average was still below that of Q3, suggesting another quarter of weak economic activity. The Economic Sentiment Indicator paints a similar picture, with a rise in November but still below the levels seen in the previous quarter.

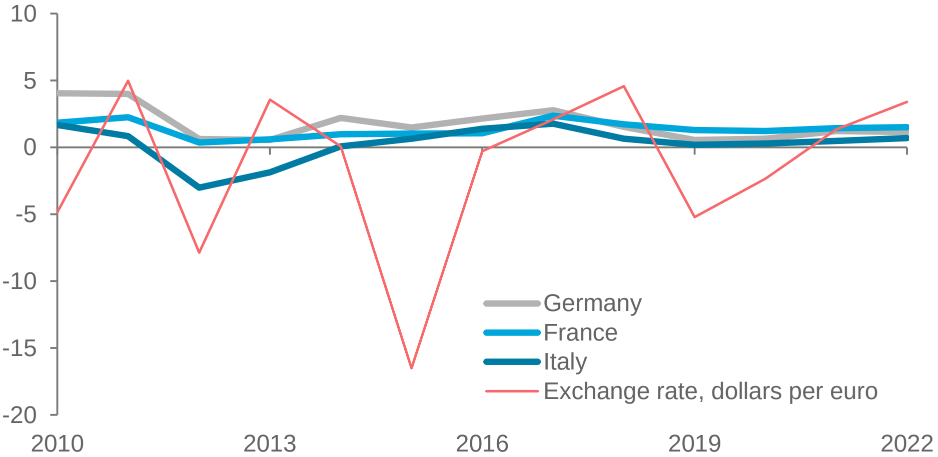
Manufacturing activity remains depressed but is offering some incipient signs of stabilisation. The uptick in some forward-looking indicators offers some hope that the economy may gather some momentum at the start of this year.

We expect the external sector to remain under pressure given the continued uncertainties and a global economy that will remain weak in 2020. The recent rise in geopolitical tensions in the Middle East is likely to add further uncertainty. Domestically, employment growth has slowed substantially, a trend we expect to continue over the next few quarters given subdued forward-looking employment intentions (i.e., the proportion of employers saying they need new staff to meet increased demand, based on survey data).

Inflation rose to 1.0% in November, driven by a moderate pick-up in core inflation. Nevertheless, we expect inflation pressures to remain muted and core inflation to continue to hover around its current level this year.

Economic performance in key Eurozone economies, GDP real

% change year ago



Source: Oxford Economics

UNITED KINGDOM

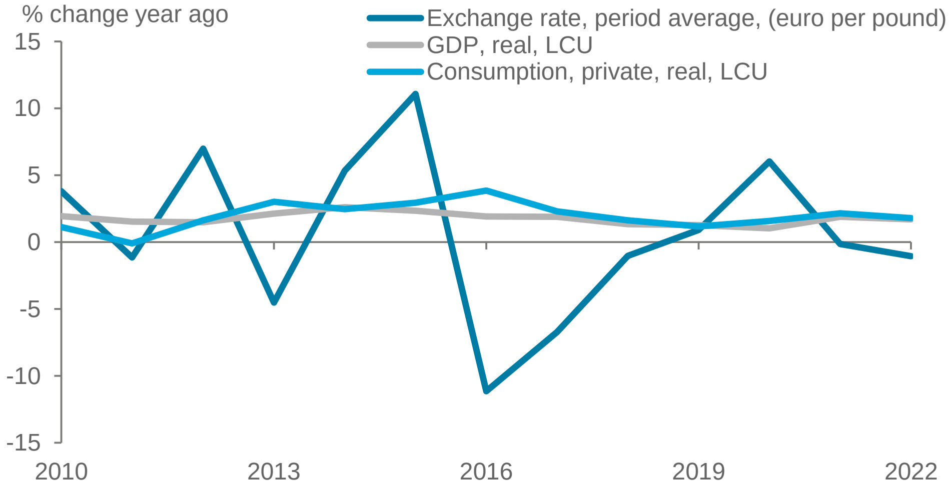
After an estimated 1.3% in 2019, we forecast GDP growth of 1.0% this year and 1.9% in 2021. A looser fiscal stance and stronger household spending power should help to generate a gradual pick-up in quarterly growth rates through this year. We expect Bank Rate to remain at 0.75% throughout 2020 and for policy to be tightened only very gradually thereafter.

The national accounts for Q3 2019 saw quarterly GDP growth raised from 0.3% to 0.4%, but the economy is likely to have flatlined in Q4. The monthly data showed that output fell in August and September and was flat in October, while the business survey data has been even weaker, with the composite PMI in contractionary territory in both November and December.

The Conservatives won December's general election with a majority of 80 seats. This should enable the ratification of the Brexit withdrawal agreement in time for the UK to leave the EU on 31 January. The government has vowed to complete a free trade agreement with the EU by the end of 2020, but this aim looks unrealistic and our forecast assumes the transition period will be extended until the end of 2022. The Conservatives' victory provides some upside risk to our forecast from the possibility of looser fiscal policy. Though their manifesto proposed a very limited package, we think there is a good chance they will loosen policy further, particularly with proposed new fiscal rules offering room to further increase capital spending.

One of the first acts of the new government was to appoint Andrew Bailey as the new Governor of the Bank of England, with his term starting in March. Though Bailey was previously a deputy governor, he has never sat on the MPC and we know little about his views on monetary policy. But the increased likelihood of an orderly Brexit has reduced the chances of the MPC cutting interest rates in early-2020.

United Kingdom economic outlook



Source: Oxford Economics

UNITED STATES

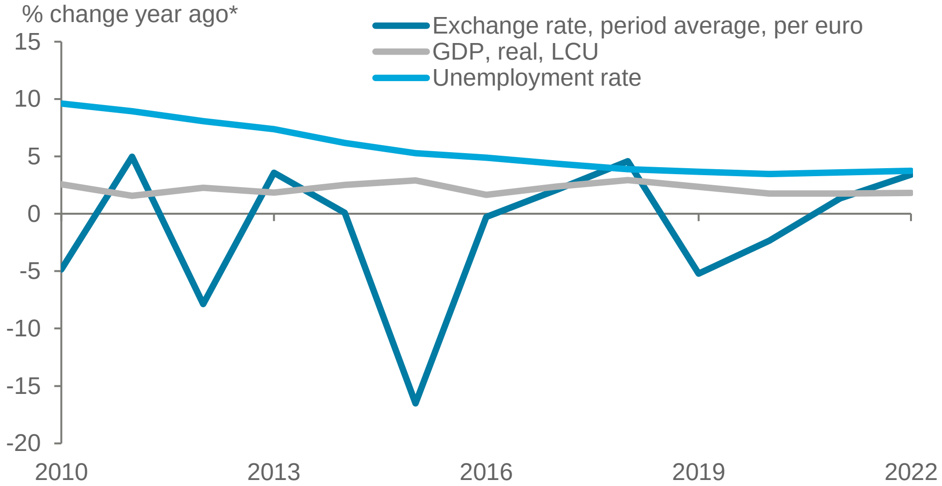
Despite rising geopolitical tensions, recent economic data continue to point toward steady momentum entering 2020 as trade, fiscal, and monetary policy risks have been reduced. We foresee real GDP growth cooling from 2.3% in 2019 to 1.7% in 2020. Consumer spending will be the main engine of growth while business investment and trade will remain constrained. Downside risks to our baseline forecast persist, but the skew is less pronounced. Accordingly, we have lowered our recession odds for 2020 to 25%.

Outside of manufacturing, the economic data over the past month have generally been tilted to the upside. The November payroll report was stellar all around, with job growth accelerating, wage growth firming, and the unemployment rate ticking down to a 50-year low. The December ISM nonmanufacturing index showed purchasing managers adopting a cautious but positive view on 2020. And, while retail sales offered little holiday cheer in November, consumer spending remains on a firm footing, supported by steady income growth and elevated savings. Consumer confidence readings confirm that households are generally upbeat.

Trade tensions between the US and China will continue to jeopardise global growth in 2020. Nonetheless, the truce brought by the phase-one deal should prevent a further escalation of the dispute that would have had serious consequences – not only for the two main protagonists but also for the rest of the world.

The Fed is in a 'wait-and-see' stance after reducing the policy rate by a cumulative 75 basis points last year. Policy makers are cautiously confident that monetary policy and the economy are in a good place, also recognising that downside risks persist, and that inflation and inflation expectations remain muted. We expect one additional rate cut in mid-2020 to accommodate for slower-than-anticipated growth and inflation.

United States economic outlook



Source: Oxford Economics *Unemployment rate is absolute

JAPAN

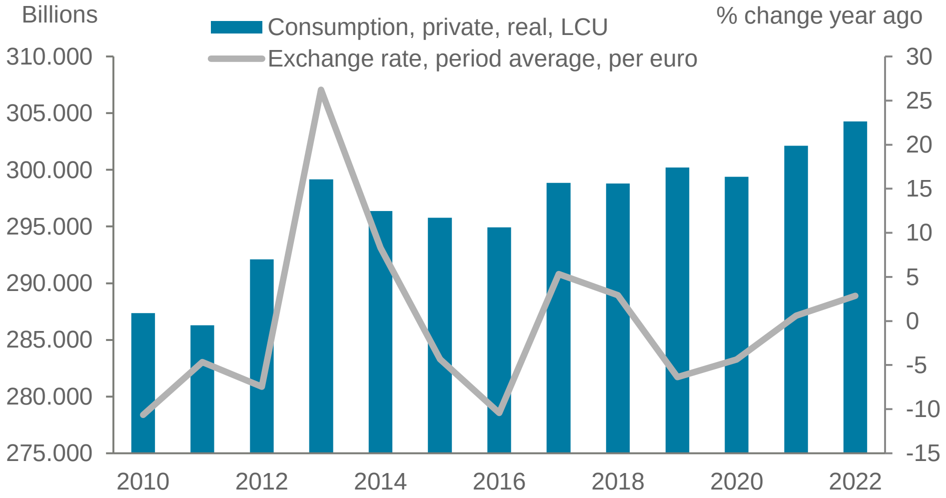
The economy continues to struggle against an uncertain external environment and weak domestic demand. With a higher consumption tax and weak wages weighing on household spending at a time when the external sector is still flagging, we forecast that real GDP will grow by only 0.3% in 2020 (after an estimated 1.0% expansion in 2019), before recovering to 0.8% in 2021.

Slowing domestic demand and weather-related supply chain disruptions affected activity and trade in the first two months of Q4. Industrial production registered a sharp drop, falling 6.6% y/y in October-November combined (compared to -1.1% in Q3). Meanwhile, in the same period, real exports fell 2.4% y/y on the back of declining shipments (particularly of capital goods, cars, and IT-related products). With the PMI remaining weak at 48.4 in December (after 48.9 in November), the prospects for a marked near-term recovery in production are low.

Risks are skewed to the downside. Protectionism and slow global growth may further depress sentiment and investment, adding to the downward pressures on growth at a time when the economy is struggling with a loss of domestic momentum after the consumption tax hike. That said, the government's planned stimulus package, which aims to improve resilience to natural disasters and support firms affected by trade tensions, should help put a floor under growth in 2020.

The BoJ at its latest monetary policy meeting announced that it was leaving monetary policy unchanged as it sees global risks to growth abating and bond yields have trended closer to the 0% target. While the BoJ continued to stress its determination to move if needed, we maintain that the Bank will only act if a further slowdown in global growth leads to more aggressive easing by major central banks and yen appreciation. We currently see the yen at 106 to the dollar by the end of 2020.

Private consumption in Japan



Source: Oxford Economics

EMERGING MARKETS

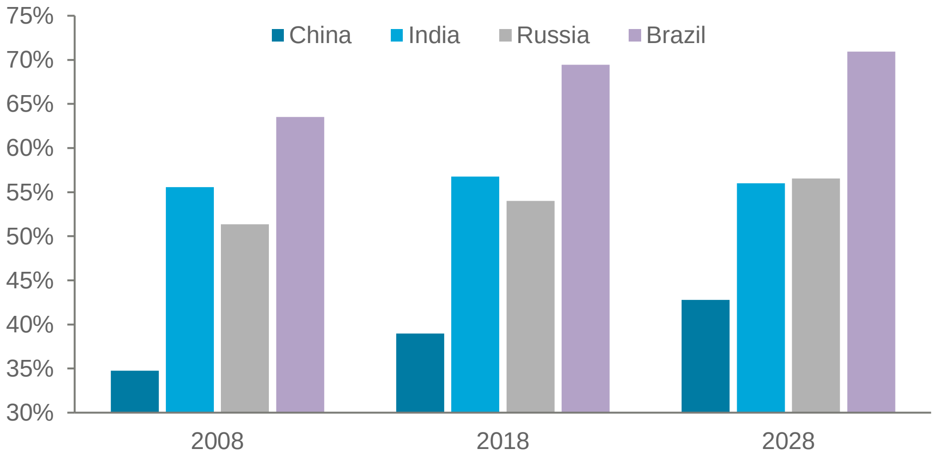
Fears of an all-out US-Iran conflict have dimmed optimism regarding Emerging Market (EM) assets. But while external headwinds remain in place, the latest PMIs provide a more encouraging read on EM growth prospects, albeit with considerable divergence between countries. In aggregate, we have nudged our 2019 and 2020 growth forecasts up by 0.1%, to 4% and 4.4% respectively.

Signs of stabilising growth have prompted us to raise our 2020 growth projection for China to 6%, from 5.7% previously, underpinning the upward revision in the overall EM forecast. A recovery in Chinese import demand and the prospect of the US-China “phase one” trade deal should support regional activity. However, India remains a drag relative to what might have been expected six months ago, but the tide may be beginning to turn with December signalling improving momentum in manufacturing and retail. Elsewhere, severe power cuts will extend South Africa’s weakness, while many oil producers will remain burdened by the weight of ongoing production cuts.

As we enter 2020, EMs will likely continue to use policy to support growth, with central banks in Russia, Brazil and Mexico most able to ease monetary policy further. However, other countries will have to confront higher/rising inflation, not least given the upside risks to oil prices from a possible further escalation in Middle East tensions. Our forecasts factor in some fiscal stimulus, which several countries are already carrying out, especially in Asia, which should help recovery along.

Propensity to consume in key Emerging Markets

% share, private consumption / GDP



Source: Oxford Economics

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;
***X*mth mav** – *X* month moving average.

HOTEL INDUSTRY INDICATORS

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

CENTRAL BANKS

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

ECONOMIC INDICATORS AND TERMS

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

APPENDIX 2

ETC MEMBER ORGANISATIONS

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

Bulgaria –Bulgarian Ministry of Tourism

Croatia – Croatian National Tourist Board (CNTB)

Cyprus – Deputy Ministry of Tourism, Republic of Cyprus

Czech Republic – CzechTourism

Denmark – VisitDenmark

Estonia – Estonian Tourist Board – Enterprise Estonia

Finland – Business Finland Oy, Visit Finland

Germany – German National Tourist Board (GNTB)

Greece – Greek National Tourism Organisation (GNTO)

Hungary – Hungarian Tourism Agency Ltd.

Iceland – Icelandic Tourist Board

Ireland – Fáilte Ireland and Tourism Ireland Ltd.

Italy – Italian Government Tourist Board

Latvia – Investment and Development Agency of Latvia (LIAA)

Lithuania – Ministry of the Economy and Innovation, Tourism Policy Division

Luxembourg – Luxembourg for Tourism (LFT)

Malta – Malta Tourism Authority (MTA)

Monaco – Monaco Government Tourist and Convention Office

Montenegro – National Tourism Organisation of Montenegro

Netherlands – NBTC Holland Marketing

Norway – Innovation Norway

Poland – Polish Tourism Organisation (PTO)

Portugal – Turismo de Portugal, I.P.

Romania – Romanian Ministry of 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 de España

Switzerland – Switzerland Tourism