



**TOURISM  
ECONOMICS**

AN OXFORD ECONOMICS COMPANY

# **The Financial Crisis and Implications for European Tourism**

**Prepared for the European Travel Commission**

April 2009

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## Executive Summary

- As we enter the second quarter of 2009, the first signs are becoming visible that the global economy's rate of decline may be slowing. Yet significant headwinds to global growth remain. Asset prices remain weak, especially house prices, and unemployment is continuing to rise.

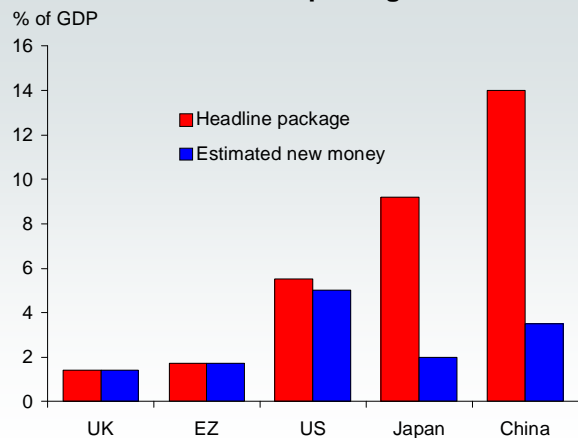
### The travel downturn is worsening...

- Travel demand is elastic. That is, it tends to exceed the growth of the overall economy in good times, and contract more severely when the economy falters. This is clearly evident in the pace of travel declines over the past few months.
- Air passenger demand continues to fall. In the last three weeks of March, demand was 10% lower than a year earlier. Indicators from the European hotel sector confirm the story as occupancy rates were 10% lower in January and February compared to last year.

### ...implying a slow turnaround

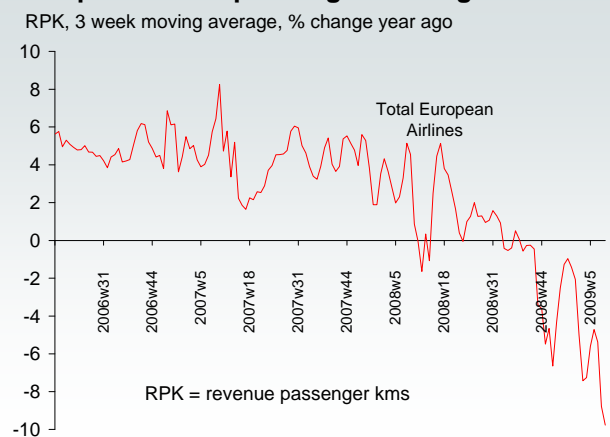
- Leisure travel will be constrained by job losses and weak consumer confidence. This compounds the huge losses in wealth over the past year. Most households will still travel but these trips will be marked by shorter length of stay, shorter distances, and bargain hunting.
- Corporate profits will remain weak into 2009, dampening business travel. This is particularly concerning in light of companies' apparent focus on travel as a cost cutting target.
- However, low fuel prices, industry price discounts, and strong government responses give reason for hope that by the third quarter, we may see travel demand begin to stabilise. Also, consumer confidence has time to rebound before the peak leisure travel season.
- The movement toward shorter haul travel and a stronger US dollar will bring relative stability to the intra-European market.
- Overall, visits to European destinations are expected to decline 3.8% this year. The recovery will be modest with a 1.7% increase in arrivals forecasted for 2010. This implies a two year recovery period to achieve 2008 levels.

#### World: Fiscal stimulus packages



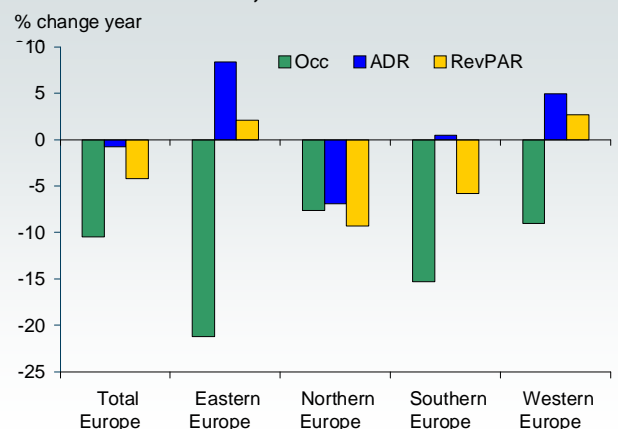
Source : Oxford Economics/Haver Analytics

#### European airline passenger traffic growth



Source: AEA

#### Hotel Performance, Jan-Feb 2009

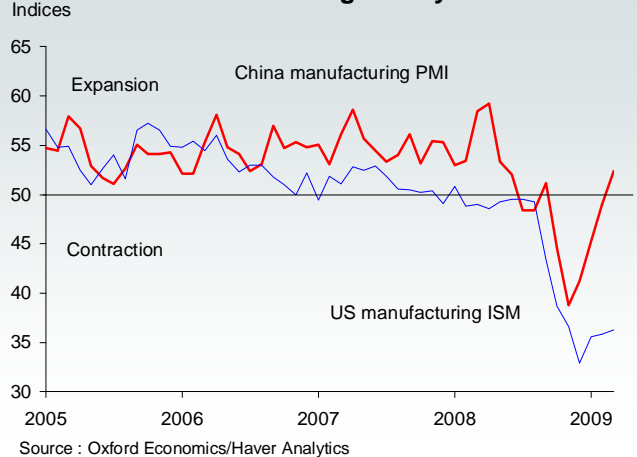


Source : STR Global

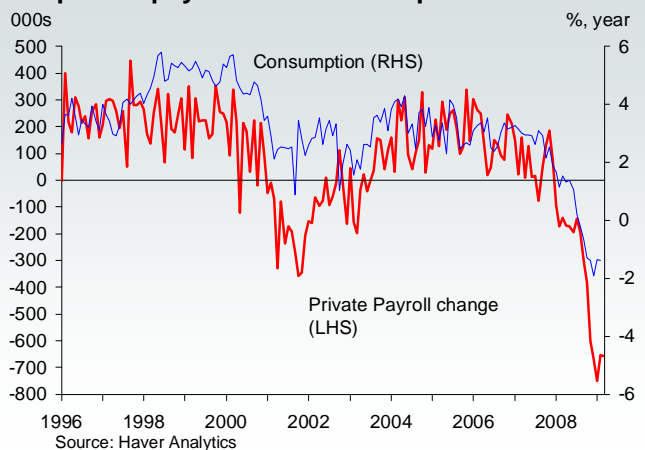
## Economic overview: first signs of light at the end of the tunnel?

- As we enter the second quarter of 2009, the first signs are becoming visible that suggest the rate of decline of global output may be slowing.
- In Asia, Japanese industrial output fell steeply in February but manufacturers' forecasts suggest small rises are likely in March and April. Meanwhile the Chinese PMI index edged back into positive territory in March for the first time since September.
- There have also been some signs of bottoming out in the US in housing, and consumer spending is likely to have grown slightly in the first quarter. In Europe too, the latest round of PMI surveys suggested some stabilisation, especially in the UK.
- In general, however, output is still falling and any stabilisation of sentiment is taking place at what remain very weak levels in absolute terms.
- The latest developments thus increase our confidence in our existing forecasts rather than indicating a need to upgrade them. Indeed, we have further downgraded forecasts for Italy and Germany this month.
- And significant headwinds to global growth remain. Asset prices remain weak, especially house prices, and unemployment is continuing to rise, with another large drop in US payrolls in March.
- The threat of a slide into deflation has also not yet subsided. Headline inflation has fallen to zero in the US and Japan and less than 1% in the Eurozone.
- The shift to quantitative easing has seen some improvement in monetary growth and lower bond yields in the US and UK, but fiscal concerns continue to pressure borrowing costs in the other direction.
- The major outcome of the G20 summit was greatly increased resources for the IMF, which should help stave off financial meltdowns among the weaker emerging market countries and give global confidence a modest boost.

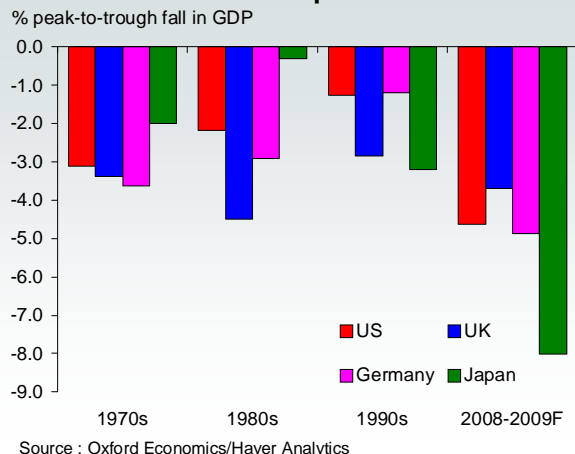
**US & China: Manufacturing surveys**



**US private payrolls and consumption**



**World: Recessions compared**



## European Economy

### Production plunges in Q1

- Production data for Q1 show that activity is collapsing at a faster rate than many expected: in Germany, industrial production in the first two months of the year was 19.3% lower than in the same period of 2008, with a similar figure for Italy.

### Interest rates fall...

- On April 2<sup>nd</sup>, the ECB cut the policy rate to 1.25%. The 300 basis point reduction since the end of September has been accompanied by an even steeper decline in interbank rates. Nevertheless, given the extreme weakness of domestic demand, the ECB is expected to engage in further measures in the following months, including further rate cuts and additional infusions of liquidity into the system.

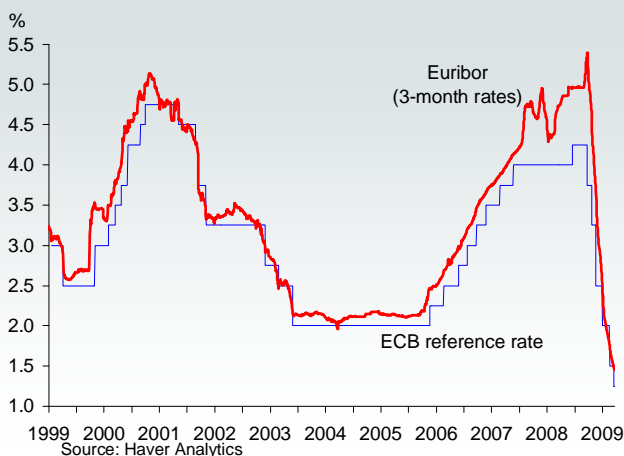
### ...but credit conditions remain tight...

- Despite the fall in interest rates and the measures to support the banking industry, credit growth to the private sector is decelerating, especially loans to businesses and for home purchase. In February the 3-month annualised growth rate of loans to nonfinancial corporations dropped to just 1.8%. Household lending actually contracted 2.5% on a 3-month annualised basis, with lending for house purchase especially weak.
- On top of the worsening credit conditions, firms face continuously weakening demand, both internationally and domestically. In the year to January, export values are estimated to have fallen by more than 13%, while the latest figures for export orders business surveys show international demand in free fall. We forecast a 9.5% fall in overall export volume this year and a very slow recovery (less than 2%) in 2010.
- The medium term outlook for investment is negatively affected by the rapid build-up of unused capacity: in 2009Q1 capacity utilisation fell to 75%.

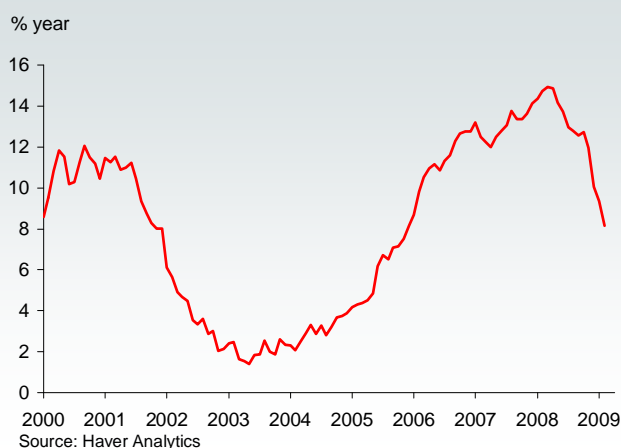
### ...weighing on domestic demand...

- Slowing activity is leading to a surge in unemployment, which reached 8.5% in February. Employers' hiring expectations are at historic lows in all sectors, indicating that the unemployment rate is likely to keep rising in the next months. In 2009 it is

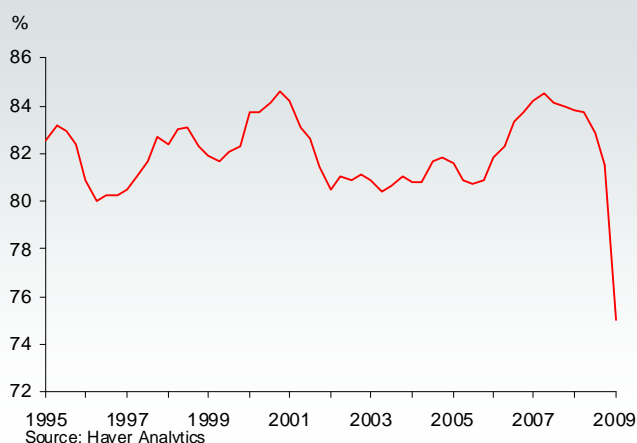
**Eurozone: Interest rates**



**Eurozone: Lending non-financial corporations**



**Eurozone: Capacity utilisation**

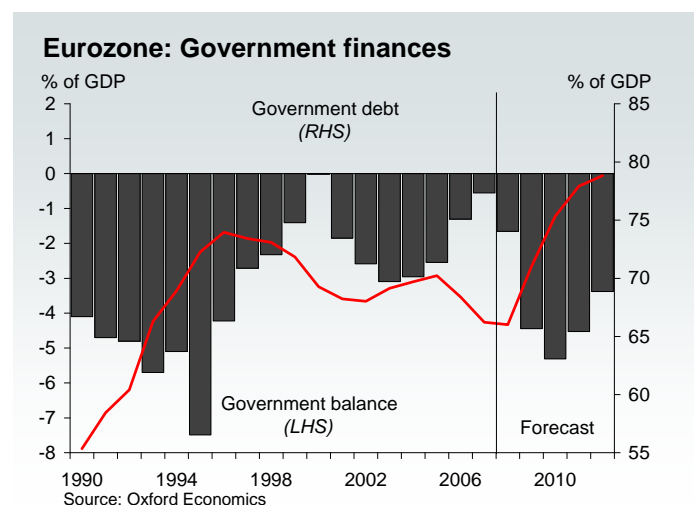
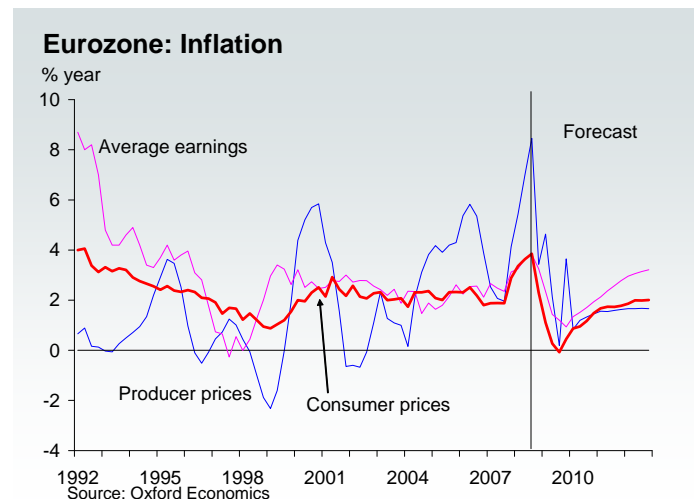
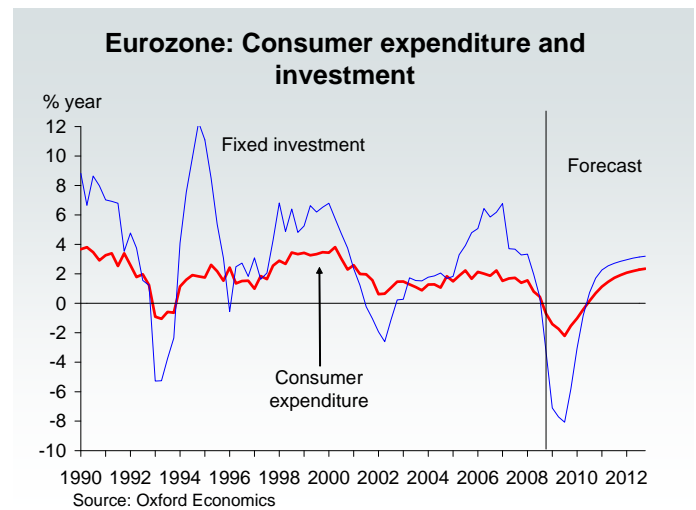


forecast to reach 9.3%, climbing to over 10% next year.

- The fallout on consumption is already visible. In January retail sales, excluding cars and construction, fell 3.5% year-on-year. We forecast household consumption to fall in both 2009 and 2010, by 1.7% and 0.1% respectively. In some countries, the sharp falls in car sales recorded in the last months of 2008 have been reversed by government incentive plans: in Germany, February's car registrations were up 32% year on year. However, this may be a sign of households shifting their expenditure from other goods into cars. Moreover, given the location of car production in Europe, a pick up in car purchases in Eurozone member states will increase imports well as consumption, reducing the positive effect on GDP.
- Collapsing demand and the fall in commodity prices pushed euro zone inflation to an all time low of 0.6% in March. Core inflation remains somewhat higher, standing at 1.7% in February, but a further decline in inflation is likely, and there is a high likelihood of a period of negative CPI readings. According to our forecast, inflation for 2009 as a whole is expected to average 0.5%, increasing to 1.1% next year.

## ...waiting for the fiscal stimulus.

- Almost all the Eurozone member states have in recent months introduced fiscal stimulus measures aimed at propping up domestic demand. The combined size of these amounts roughly to 1% of GDP. However, it is unlikely that the packages will provide a major boost to domestic demand before year-end, and their effect will be blunted if the proper functioning of the credit market is not restored.
- The fiscal stimulus measures and the normal operation of the automatic stabilisers will cause a sizeable deterioration in government fiscal balances. The euro area fiscal deficit is forecast to reach 4.3% of GDP this year and increase to 5% in 2010.
- Larger fiscal imbalances are putting pressure on sovereign bond spreads, especially for the countries with larger debts or in need of substantial government involvement to fix the banking system. In March, the spread between the yields of 10 year Italian BTPs and German bunds widened to 135 basis points, while the spread between Irish bond yields and German bund yields reached 260 basis points.

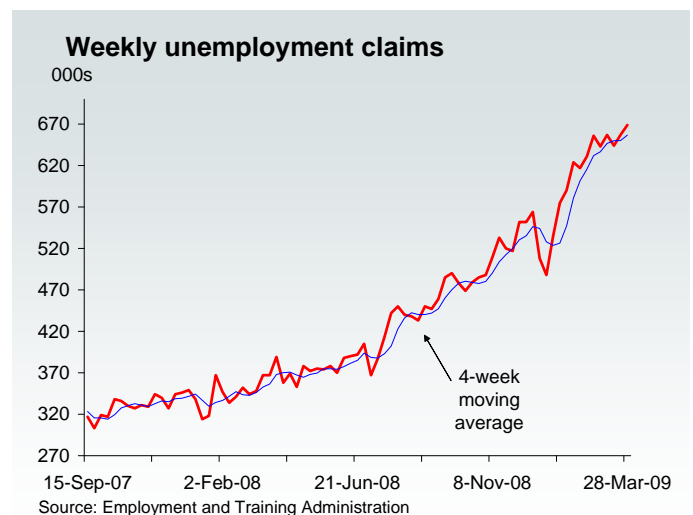
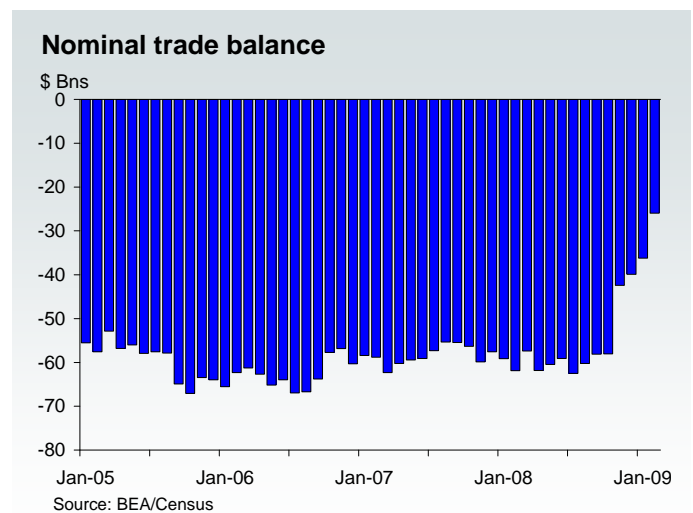
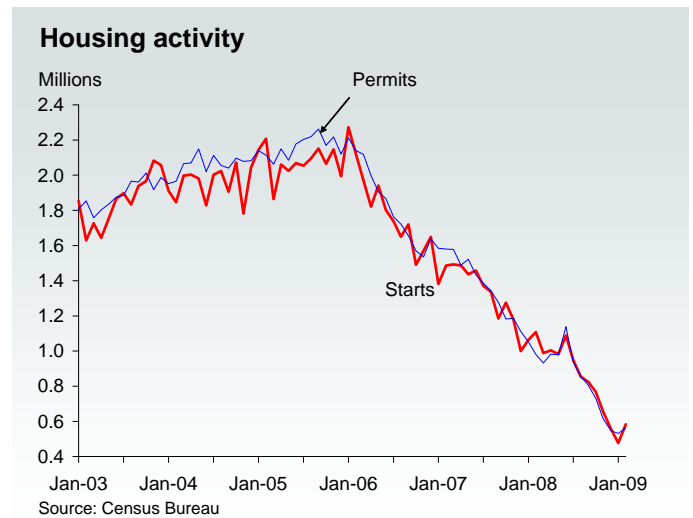


Summary of International Forecasts						
	2007	2008	2009	2010	2011	2012
<b>Real GDP</b>						
<b>North America</b>						
United States	2.0	1.1	-3.4	1.6	4.9	4.8
Canada	2.7	0.5	-2.7	2.0	5.8	4.8
<b>Europe</b>						
Eurozone	2.6	0.7	-3.8	0.3	1.8	2.4
Germany	2.6	1.0	-4.7	0.3	1.7	2.7
France	2.1	0.7	-3.0	0.2	1.7	2.2
Italy	1.5	-1.0	-4.5	0.1	1.3	2.0
UK	3.0	0.7	-3.4	0.3	2.1	3.1
EU27	2.9	0.9	-3.9	0.4	2.1	2.7
<b>Asia</b>						
Japan	2.4	-0.7	-5.5	1.3	2.0	2.2
Emerging Asia	8.9	6.2	1.5	6.7	8.0	7.9
China	13.0	8.9	5.8	9.6	9.7	9.2
India	9.2	7.4	3.4	6.8	8.8	9.1
<b>World</b>	3.8	1.9	-2.6	2.2	4.3	4.6
<b>World 2000 PPPs</b>	4.8	3.7	-2.0	2.8	5.0	5.3
<b>World trade</b>	6.0	3.1	-8.5	4.5	8.7	8.7
<b>Inflation (CPI)</b>						
<b>North America</b>						
United States	2.9	3.8	-0.5	1.5	2.6	2.9
Canada	2.1	2.4	1.0	2.1	2.3	2.4
<b>Europe</b>						
Eurozone	2.1	3.3	0.4	1.0	1.7	2.0
Germany	2.3	2.6	0.3	0.5	1.6	1.8
France	1.5	2.8	0.4	1.1	1.3	1.8
Italy	1.8	3.3	0.6	1.0	1.8	2.1
UK	2.3	3.6	1.5	1.3	1.0	1.5
EU27	2.4	3.7	0.8	1.1	1.6	1.9
<b>Asia</b>						
Japan	0.1	1.4	-0.5	-0.2	0.4	0.6
Emerging Asia	5.5	7.7	2.0	2.6	3.2	3.2
China	4.8	5.9	-1.1	1.3	2.7	2.9
India	6.5	7.8	7.1	4.7	4.8	4.6
<b>World</b>	3.9	5.6	1.5	2.7	3.3	3.5
<b>Exchange Rates</b>						
US\$ Effective	77.9	74.4	82.6	80.0	79.5	81.0
\$/€	1.37	1.47	1.32	1.40	1.40	1.34
¥/\$	117.8	103.4	95.4	103.2	101.8	100.8
<b>Commodity Prices</b>						
Brent Oil (\$/bl)	72.7	97.7	51.7	59.4	66.8	75.7

## US Economy

### The economic clouds lift a little...

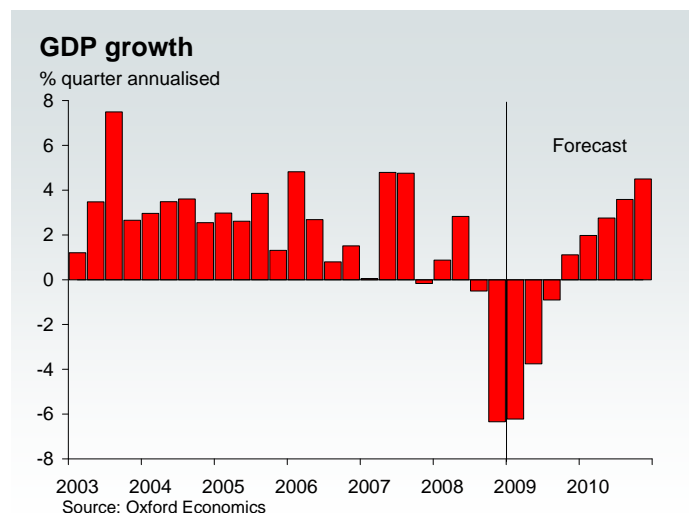
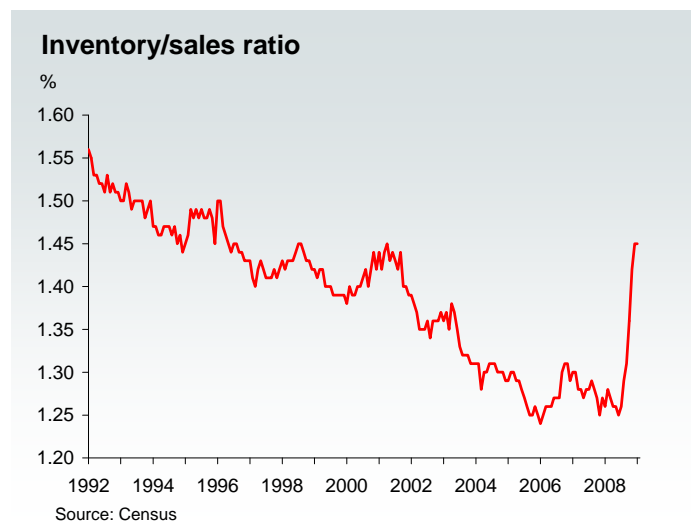
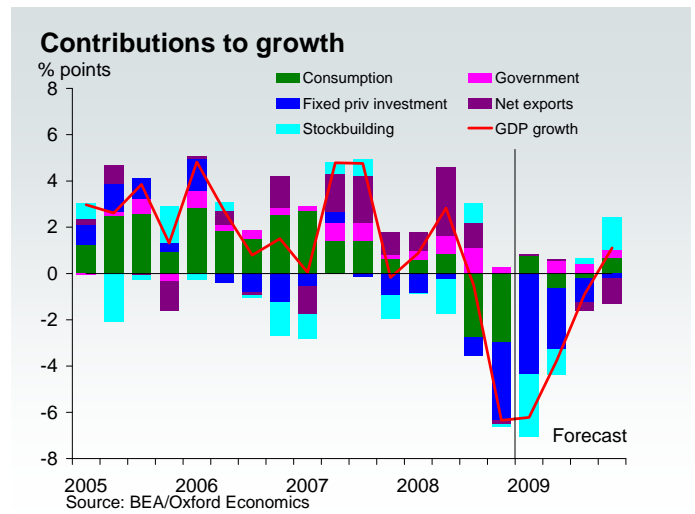
- Recently, there have been some more upbeat signals on the economy, suggesting that the worst of the recession may now be in the past. Housing starts rose 22% in February from January, with building permits up 6.2%. Both new and existing single family home sales rose more than 4% in February, while pending home sales rose 2.1%. Also in February, factory orders rose 1.8%, with the key category of nondefence capital equipment excluding aircraft up a more substantial 7.1%. The trade deficit narrowed sharply in February, by \$10.2 billion to \$26.0 billion. And in March, the ISM index for manufacturing and consumer confidence both rose slightly.
- However, while many of these indicators posted impressive gains on a month-to-month basis, all but the trade deficit pale in comparison to the lengthy and sharp declines that preceded them. For example, despite the February surge, housing starts were more than 47% below the year earlier level and more than 70% below the peaks reached in 2005. Similarly, both overall orders and orders for nondefence capital goods excluding aircraft remained about 18% below year-earlier levels in February. The gain in the trade deficit was impressive, but with demand exceptionally weak abroad and further cuts in imports on the scale of those in February unlikely, it is expected to be temporary.
- And there is no lack of indicators pointing to continued weakness. Businesses are continuing to shed workers – payrolls tumbled 663,000 in March, bringing the total job losses since the onset of the recession to 5.1 million. Initial claims for unemployment insurance have remained above 650,000 in recent weeks, consistent with continued large declines in payrolls. The unemployment rate climbed 0.4 percentage points to 8.5% in March. That was the fourth consecutive monthly rise of that magnitude, bringing the increase over the past year to 3.4 percentage points.
- Despite the March increase for the manufacturing index, both ISM indexes remain at levels consistent with deep recession. On the consumer side, confidence is still close to record lows, in part reflecting the climbing unemployment rate. Recent stock market gains may help, both as an indicator of



- economic recovery and also through the wealth effect. But house prices are still tumbling, and while that may be starting to bring out buyers, it is also further eroding household wealth.

## ...but recovery is still some way off

- In 2009Q1, the economy probably shrank at about the same rate as it did in 2008Q4 – 6¼%. However, the composition of the decline will change, and set the stage for a deceleration of the decline and an eventual upturn. In Q1, consumer spending is expected to have posted a moderate gain, after the 4.3% plunge in Q4. Low confidence and the need to rebuild savings will cause consumers to remain cautious and to rein in their spending again in Q2 and Q3, but these declines are expected to be quite mild in comparison to the second half of last year, in part reflecting the impact of the tax cuts in the stimulus package.
- Businesses have been destocking since the end of 2007, but in Q4, sales fell much faster, leading to a sharp upturn in the inventory/sales ratio. Businesses have responded by cutting production sharply to bring inventories back into line with sales. It appears that businesses are beginning to succeed in taming inventories. The auto manufacturers are reporting reductions in the days' supply of automobiles, for example. And wholesale inventories fell 1.5% in February, while sales rose 0.6%.
- The drag from fixed investment is also expected to peak in Q1. While we don't expect housing starts to begin to recover for at least another couple of quarters, they have probably fallen about as far as they can. There will always be some homebuilding going on, and with many homeowners not willing to sell at current prices, some will turn to additions and alterations to improve their living quarters. Nonresidential construction had held up well until recently, but now vacancy rates for offices and retail buildings are rising, and this sector may weaken further.
- The economy is expected to continue shrinking through 2009Q3, which would make it an exceptionally long recession at seven quarters. On an annual basis, the decline will measure 3.4% this year, and the recovery will lead to growth of 1.6% in 2010.

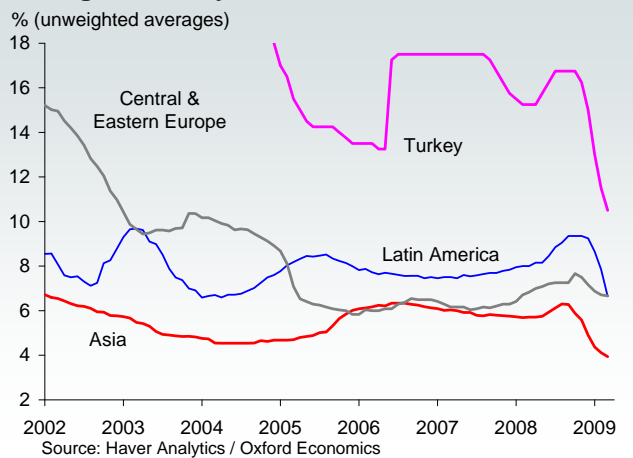


## Other Economies

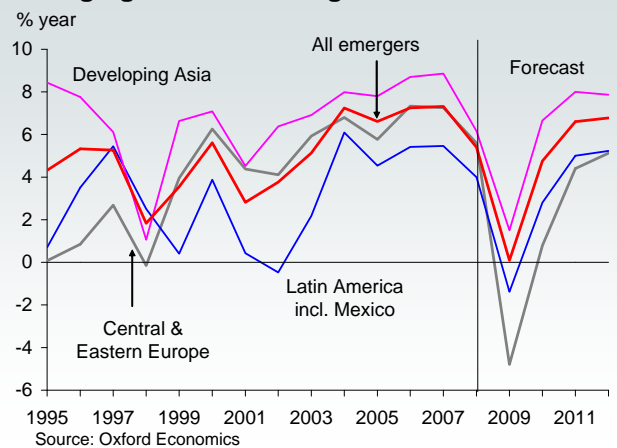
### Emerging Markets

- The final batch of Q4 national accounts data for the emergers released in March showed once again the disastrous impact of the crisis that started in the financial markets of the advanced economies. The Turkish economy, already fragile in the pre-crisis period, recorded a year-on-year contraction of 6.2%, Brazilian seasonally adjusted GDP shrank by 3.6% quarter-on-quarter, and Malaysian Q4 export volumes were lower than in the same period three years before.
- With Q4 having been so weak and little sign of any improvement in the US and EU in Q1, we now expect that 2009 GDP growth in the emergers will be zero – modest expansions in China, India and Indonesia will offset varying degrees of recession in the rest of Asia, Latin America and emerging Europe.
- But while recent data in some countries has remained very grim, in others there have been some tentative pointers to a possible improvement – a sharp pick-up in Chinese loan growth and a far stronger car sales performance in February/March in China, Brazil and India than that seen at end-2008. Moreover, policy continues to be relaxed and, importantly, the degree of downward pressure on exchange rates has eased.

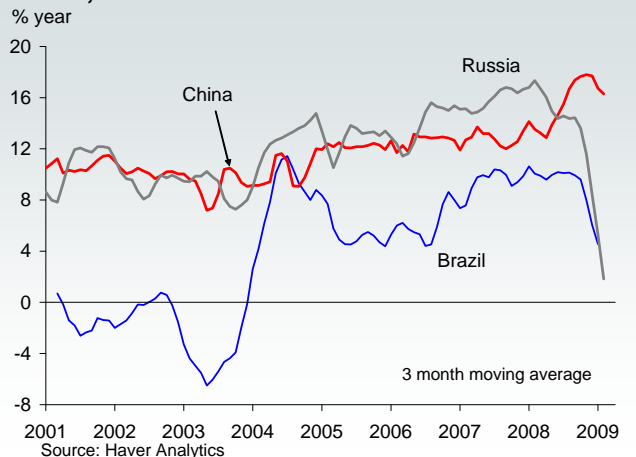
**Emergers: Policy interest rates**



**Emerging Markets: GDP growth**



**Brazil, Russia & China: Retail sales volumes**

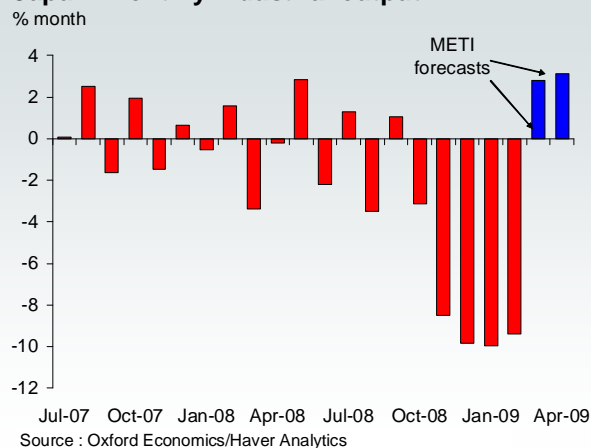


## Other Economies

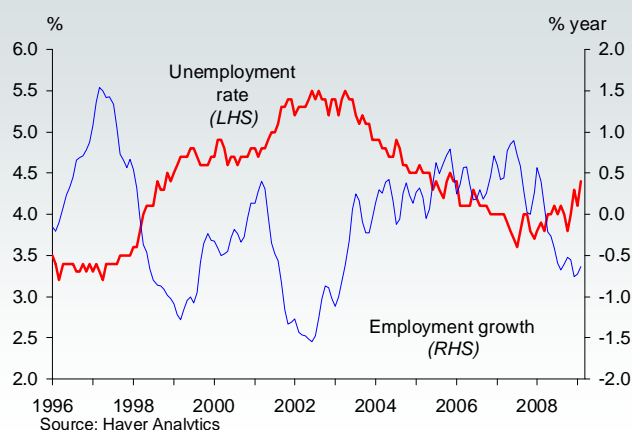
### Japan

- After precipitous falls in output over the last few months, the first signs have emerged that Japan's industrial sector may be stabilising. But with unemployment rising, consumer and business confidence weak, and the service and construction sectors under pressure we continue to forecast a 5.4% fall in GDP in 2009 and just 1.3% growth in 2010.
- Industrial output fell 9% in the month in February, the fourth successive fall on this scale with exports incredibly weak. PMI data and business confidence indicators remain very weak, but the METI forecasts for output in March and April both point to modest growth, suggesting the worst of the industrial correction may be over.
- The outlook for other sectors, however, remains bleak. Consumer spending continues to decline in the face of rising unemployment and negative wealth effects, which have sapped consumer confidence, and construction activity is also being scale back sharply.
- Japan is also on the brink of sliding back into deflation, with inflation having dropped zero, and this could prolong the recession by discouraging spending. In response, the Bank of Japan has increased purchases of government bonds, and the government has increased the size of its fiscal stimulus package – but the policy reaction remains relatively modest and hampered by political obstacles.

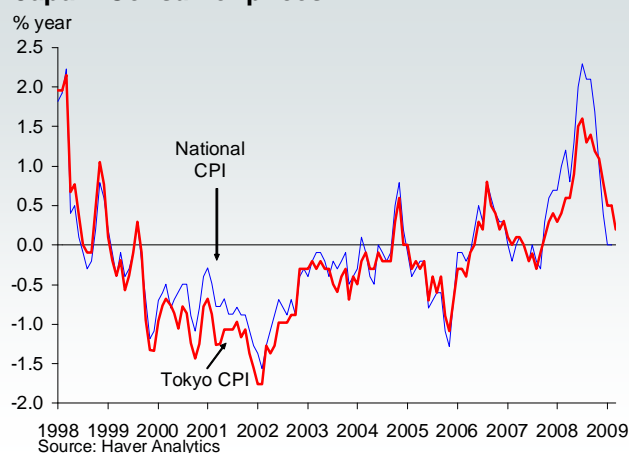
Japan: monthly industrial output



Japan: Employment and unemployment



Japan: Consumer prices

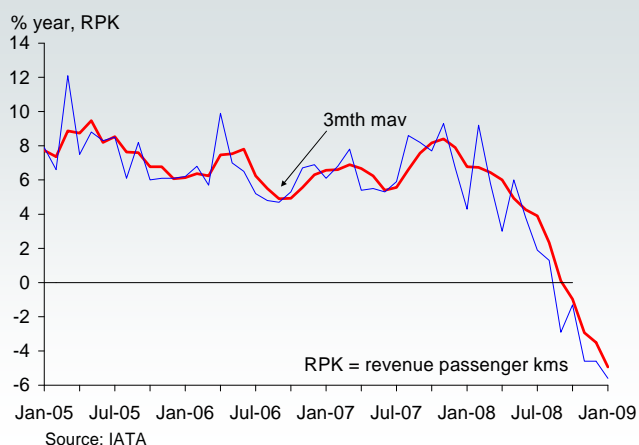


## Global Travel Dives

### Aviation is particularly affected

- World aviation performance continues to contract. In January, global revenue passenger kilometres (RPKs) were down nearly 6% from last year. This follows a consistent downward trend that began around the middle of 2008.
- Further deterioration in demand is expected in the coming months with a reasonable probability of double digit declines for the first and second quarter.

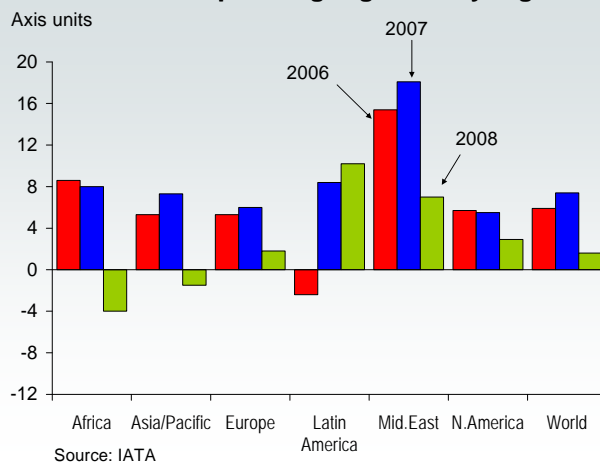
International air passenger traffic growth



### With nearly all regions down...

- Asian air passenger demand has staged a dramatic shift, going from 8% growth in 2007 to a 2% decline in 2008. As the contraction in world trade persists into 2009, Asian travel is likely to fall further.
- All regions, with the exception of Latin America, realized slowdowns in 2008 as well.
- Future bookings data suggest the market will keep contracting in 2009. Fares wars are now in effect to stimulate demand in all regions.

International air passenger growth by region



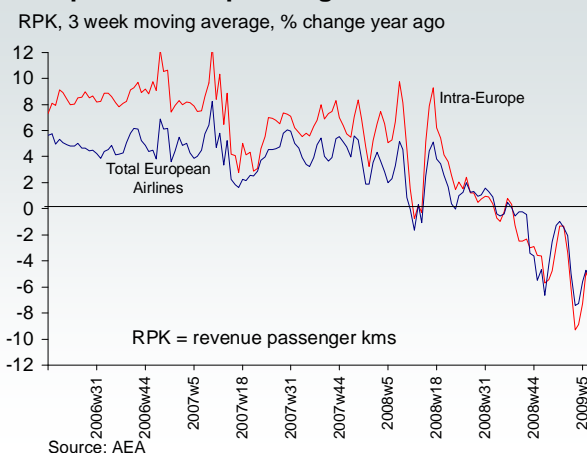
### European airline demand falls

- The trend which we observed at the end of 2008 has accelerated. Data through the end of March show 10% declines in air travel demand for European airlines. This tracks closely with the trend for intra-European routes. The last week of March marked the 20<sup>th</sup> consecutive week of negative year-over-year air passenger transport demand.
- Fares have come down significantly with lower fuel costs and flagging demand. This should help to stimulate demand in the third quarter as the economy stabilises. However, reduced service to secondary destinations will limit fare reductions and constrain overall tourism demand.

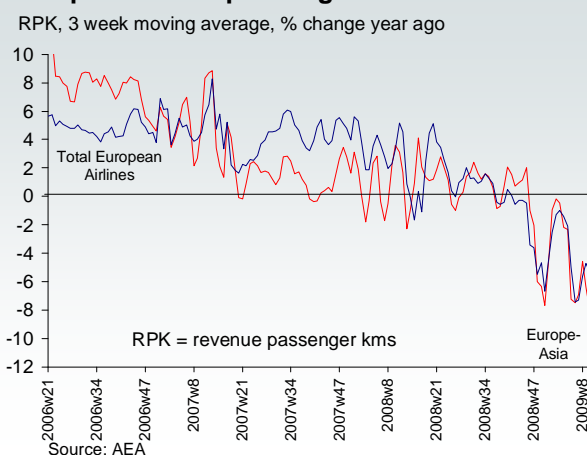
### as all routes are affected ...

- Both transatlantic and transcontinental route demand have fallen precipitously.
- Travel between Europe and Asia on European airlines has fallen throughout the first three months of the year reaching negative double digits at the end of March. The trend appears to be continuing.
- Travel demand between Europe and the North Atlantic has followed a very similar trend. Overall, travel between Europe and long haul markets is falling more briskly than intra-European travel.

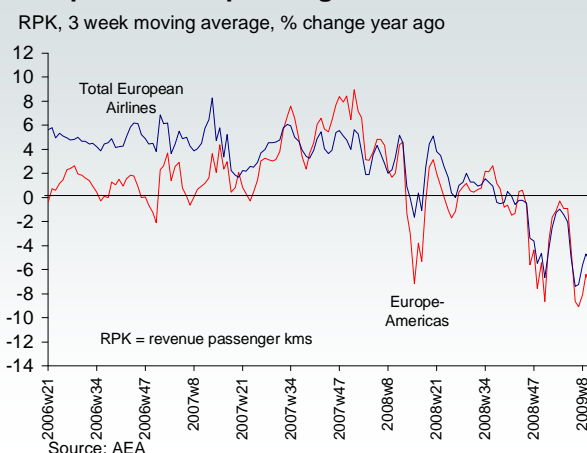
European airline passenger traffic



European airline passenger traffic



European airline passenger traffic



# Hotel Performance

## Lodging demand in crisis...

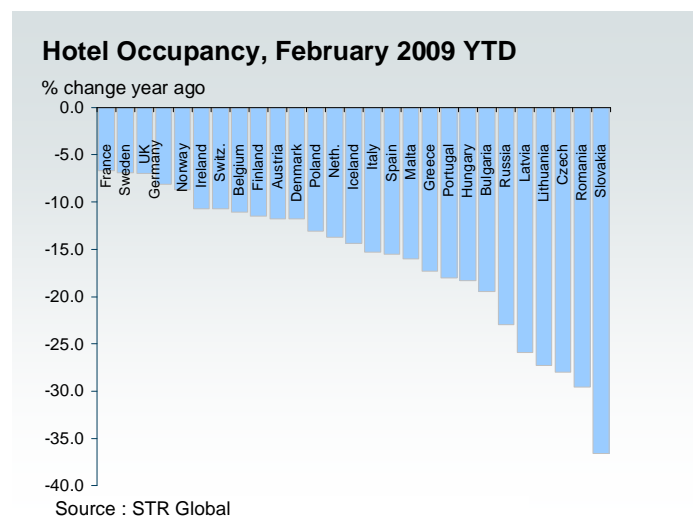
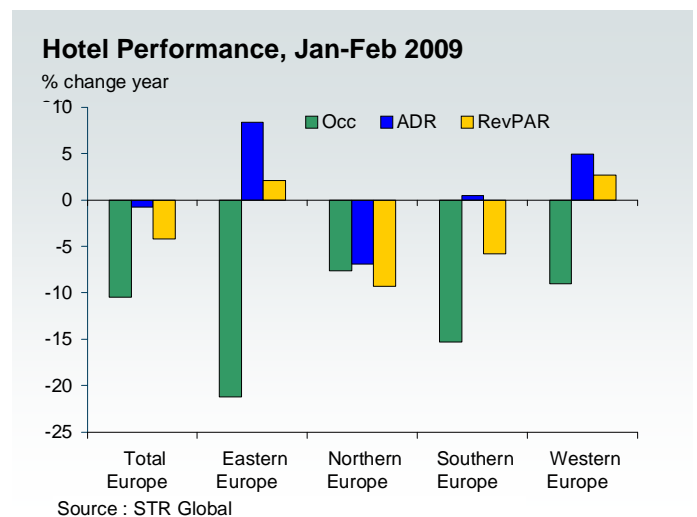
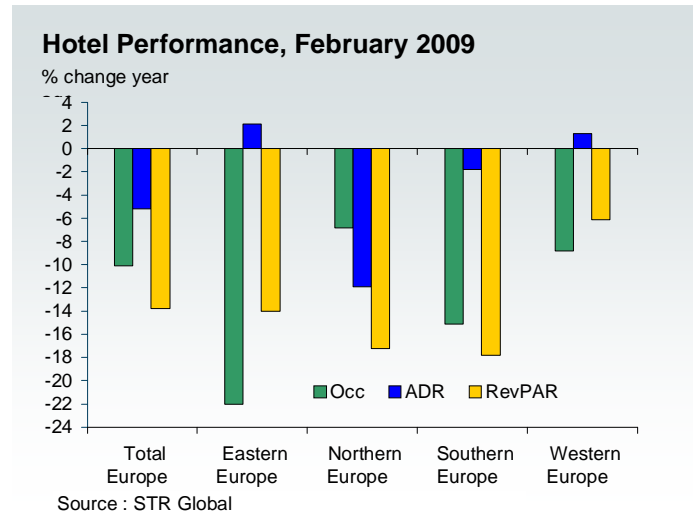
- Hotel performance has gotten progressively worse since our last report. Revenue per available room (RevPAR) registered double-digit declines in nearly every region of Europe in February. Western Europe is showing the most resiliency with a 6% decline in February and 3% increase over the first two months of the year.
- Lower room rates and occupancies each reflect a similar picture of a significant decline in overall room demand. For the year through February, occupancy rates are in negative territory for all regions with Eastern and Southern Europe showing the greatest strain.
- Average daily rates (ADR) data should be interpreted with caution as they are averaged using the euro as a common currency across all markets. Nevertheless, it is clear that rates are responding to the loss in room demand. It is unlikely to see any recovery in room rates as the year continues.

## ...affecting all of 2009

- The current trends reflect a dramatic business travel response to the global collapse in trade and profits. For the year, occupancy rates will register declines across Europe, with Western and Northern Europe showing the most stability.
- As the economy finds its footing and rates stimulate demand, it is likely that leisure travel will improve performance by the third quarter of the year. Nevertheless, room demand will register steep declines for the year in the range of 5-10%.

## Downturn touches every country

- A few markets managed to achieve increases in room occupancy in 2008. For the first two months of 2009, all markets are now in contraction with most registering declines over 10%. Detailed lodging performance results are shown on the following page. These are the results of a hotel survey conducted by STR Global.



Lodging Performance - February 2009			
% change year ago	Occ	ADR	RevPAR
Austria	-12.6	3.4	-9.6
Belgium	-7.6	-4.6	-11.8
Bulgaria	-16.6	-2.6	-18.7
Czech Republic	-32.6	-1.6	-33.6
Denmark	-10.8	-2.4	-12.9
Finland	-15.9	-3.2	-18.6
France	-9.6	-12.7	-21.0
Germany	-7.4	-0.7	-8.1
Greece	-11.3	-6.8	-17.3
Hungary	-23.3	-1.3	-24.3
Iceland	-5.6	25.5	18.5
Ireland	-8.9	-6.8	-15.1
Italy	-13.0	-10.8	-22.4
Latvia	-31.9	-22.7	-47.3
Lithuania	-29.4	-12.2	-38.0
Malta	-12.3	7.9	-5.4
Netherlands	-12.3	-4.7	-16.4
Norway	-5.5	0.8	-4.7
Poland	-10.5	5.5	-5.6
Portugal	-19.7	2.9	-17.4
Romania	-26.1	-6.8	-31.1
Russia	-22.8	-5.0	-26.7
Slovakia	-41.5	-5.8	-44.9
Spain	-16.2	-6.4	-21.5
Sweden	-5.0	-3.0	-7.9
Switzerland	-10.5	-1.2	-11.6
United Kingdom	-6.4	-4.7	-10.7

Lodging Performance - Jan-Feb 2009			
% change year ago	Occ	ADR	RevPAR
Austria	-11.8	1.2	-10.7
Belgium	-11.1	-4.3	-14.9
Bulgaria	-19.5	-7.4	-25.5
Czech Republic	-28.0	0.7	-27.5
Denmark	-11.8	-2.1	-13.7
Finland	-11.5	-5.1	-16.0
France	-6.7	-9.8	-15.8
Germany	-8.1	-2.2	-10.1
Greece	-17.3	-6.6	-22.8
Hungary	-18.3	1.0	-17.5
Iceland	-14.4	25.1	7.1
Ireland	-10.7	-6.4	-16.4
Italy	-15.3	-9.7	-23.5
Latvia	-25.9	-23.3	-43.1
Lithuania	-27.3	-4.5	-30.5
Malta	-16.0	11.3	-6.5
Netherlands	-13.7	-4.9	-17.9
Norway	-8.7	0.6	-8.2
Poland	-13.1	4.0	-9.6
Portugal	-18.0	3.9	-14.8
Romania	-29.6	-4.9	-33.1
Russia	-23.0	-6.1	-27.7
Slovakia	-36.6	-4.3	-39.3
Spain	-15.5	-6.3	-20.8
Sweden	-6.9	-3.1	-9.8
Switzerland	-10.7	0.3	-10.4
United Kingdom	-7.0	-5.0	-11.6

Source: STR Global, Figures in local currency

# Industry sentiment worsens further

## Hospitality demand expected to decline...

- Each month Eurostat surveys businesses within key service industries to determine sentiment about current and expected business activity. The results are presented as the balance of positive versus negative responses.
- Since the end of 2008, expected demand for the next three months has worsened in the hotels & restaurants sector with the balance of positive and negative responses at -37% for EU27 and -32% for the Euro area. This effectively eliminates the more positive balance observed by the Euro area at the end of last year.

## Transportation expectations hold

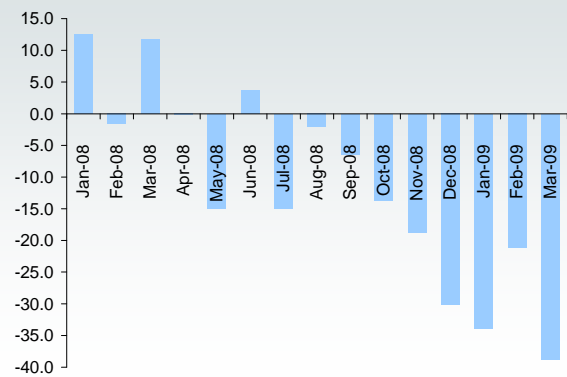
- In October of 2008, the EU27 reported a dismal transportation expectations balance of -34%. The relatively good news is that we appear to have hit bottom. Both the Euro area and EU27 are posting similar expectations balances in March of 2009.

## Travel agencies follow

- Following the trend of the hospitality and transportation sectors, travel agencies are feeling the downturn as well. However, after bottoming out in January at nearly -40%, expectations have begun to recover. The balance of negative to positive expectations was -27% in March.

### Hotels and Restaurants Expected Demand

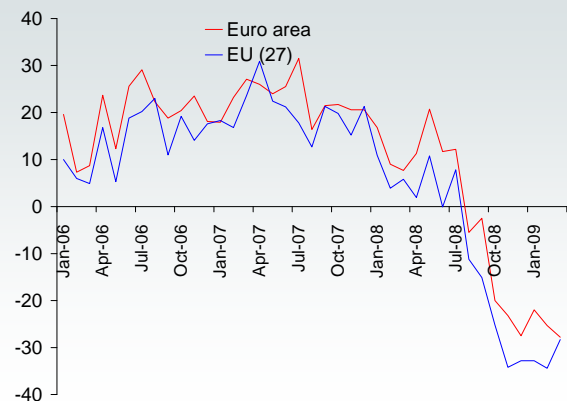
EU 27, Next three months, % positive/negative balance



Source : Eurostat

### Transportation Expected Demand

Next three months, % positive/negative balance.



Source : Eurostat

### Travel Agencies Expected Demand

EU 27, Next three months, % positive/negative balance



Source : Eurostat

## Country Sentiment Varies Greatly ...

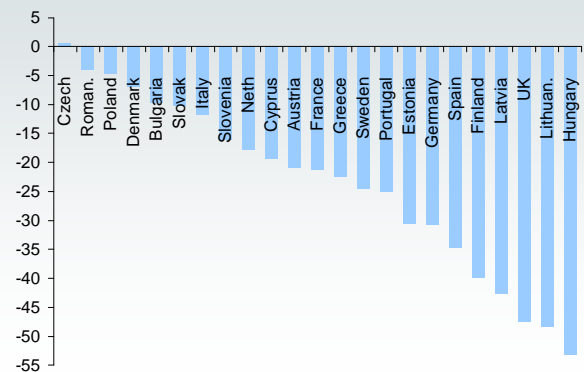
- In our last report, the September-November average sentiment varied greatly across countries. Roughly half of Europe remained positive with Central European countries registering the most positive expectations.
- The latest data yield a more consistently dour picture. All countries are in negative territory with the exception of the Czech Republic which is roughly in balance between positive and negative expectations for the hotels and restaurants sector.
- The hotel and restaurant sectors in Hungary, Lithuania, and the United Kingdom indicate the most negative expectations of the group.
- Within transportation sectors, the same conformity has emerged. Only Cyprus remains in positive territory.
- Travel agencies are conveying a similar outlook, although Bulgaria, the Czech Republic, and Denmark remain modestly positive on the balance of respondents.
- The standouts on the negative side remain the UK, Estonia, and Hungary. Care should be taken in drawing actual future performance conclusions from these data. The differences across markets reflect opinions which may be influenced by many factors aside from actual conditions.

## What is the trend?

- In our last report, we noted that the overall trend in expectations was downward and that the results would worsen in 2009. Now that this has been realised, there are reasons to believe expectations will stabilise over the coming few months and even improve in some markets.

### Hotels and Restaurants Expected Demand

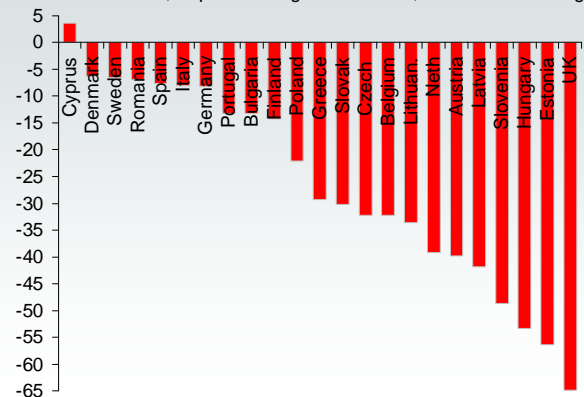
Next three months, % positive/negative balance, Jan-Mar 2009 avg



Source : Eurostat

### Transportation Expected Demand

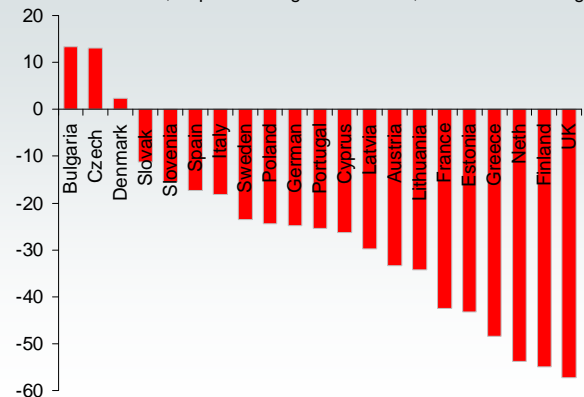
Next three months, % positive/negative balance, Jan-Mar 09 average



Source : Eurostat

### Travel Agencies Expected Demand

Next three months, % positive/negative balance, Jan-Mar 09 average



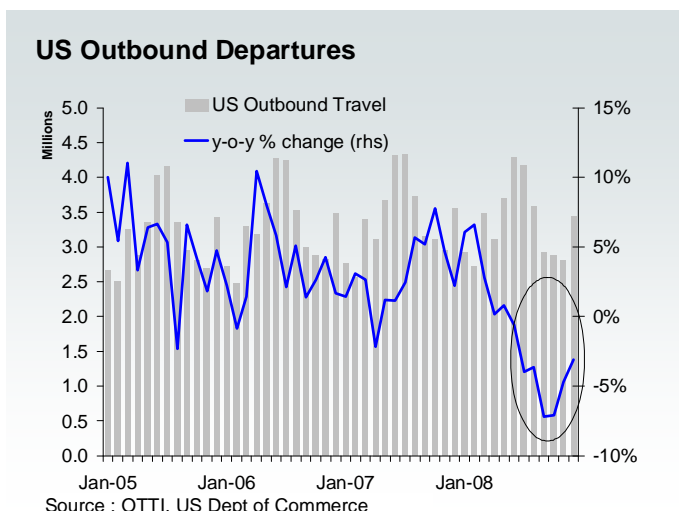
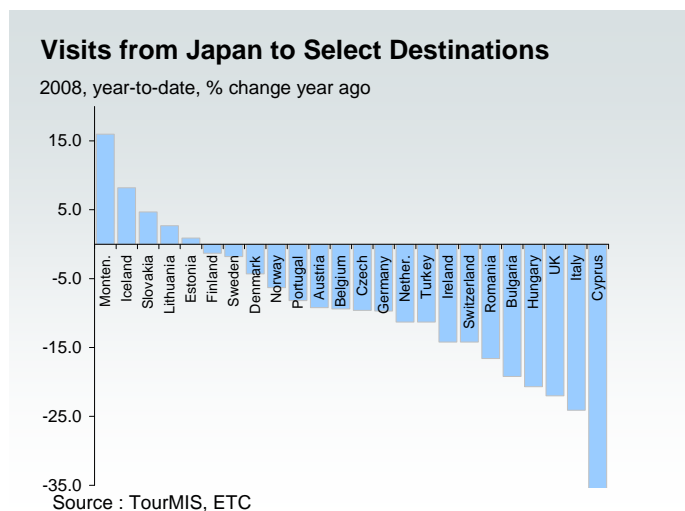
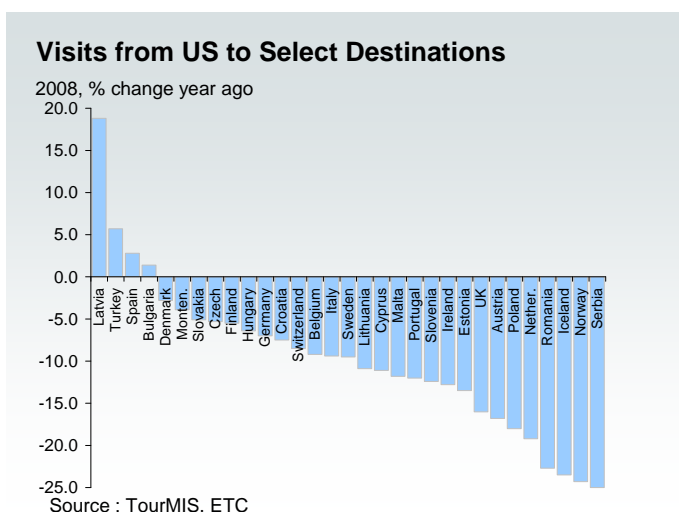
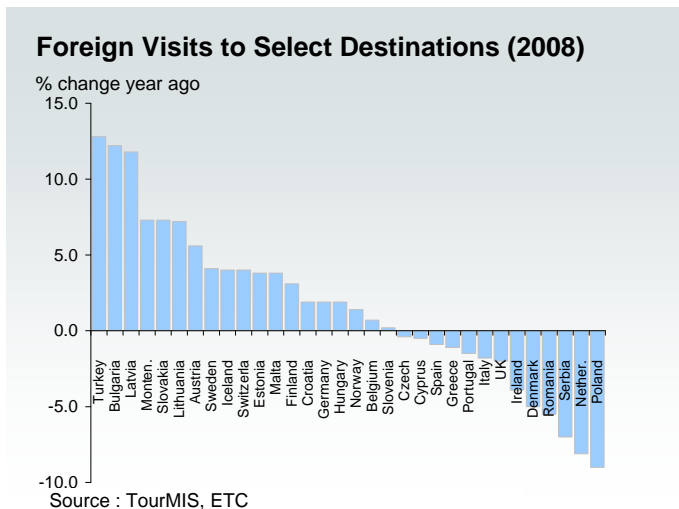
Source : Eurostat

# Destination Performance

- 2008 started strong for most destinations but progressively weakened over the course of the year. The majority of destinations in Europe posted growth for the year, although Spain, Italy, the UK, and Greece are among those who received fewer visitors.
- Data availability for 2009 is still limited for destinations. However, most indicators point toward a broadening and deepening contraction in the first two months of the year.

## Long haul market performance

- As seen in the aviation data, long haul travel is waning the most dramatically. Visits from the US to Europe contracted for all but four destinations. Somewhat encouraging is that US trips to Europe are beginning to stabilise as the dollar has strengthened and the initial shock of the financial crisis has worn off.
- Japan also performed badly in 2008 but the prospects are much worse for 2009 as the economy faces a severe and possibly protracted recession.
- Emerging markets are mixed. India performed exceptionally well in 2008 while results from China were mixed across destinations.



### Regional market performance

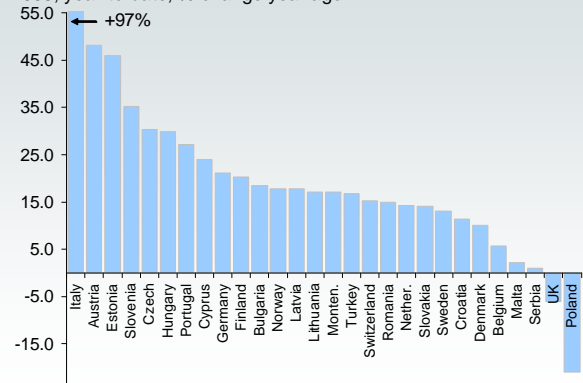
- Overall, European source markets have been more stable. In 2008, Russia generated double-digit growth to most destinations in Europe as the Russian economy enjoyed record commodity prices. Limited data for 2009 show continued strength in the Russian market.
- France and Germany posted similarly mixed results in 2008. The majority of destinations realised increases from these bellwether markets. The UK did not perform as well, with declines realised by the majority of destinations. However, in 2009 all three markets are retrenching.

### Business travel under pressure

- When profits languish, business travel has historically responded severely. Recent surveys substantiate this.
- According to a December 2008 survey by Orbitz, 55% of business travelers anticipate traveling less in 2009 and 41% are tightening travel policies.
- Travelocity Business' research of its corporate travel bookings in the first quarter of 2008 showed that about 40% of air ticket spending was for internal meetings. But in the last six months, the amount has been cut nearly in half.
- In a December survey by Rearden Commerce, 71% of corporate travel managers reported a decline in the overall number of business trips. Another 88% said business travel approval requirements have skyrocketed in recent months.

#### Visits from Russia to Select Destinations

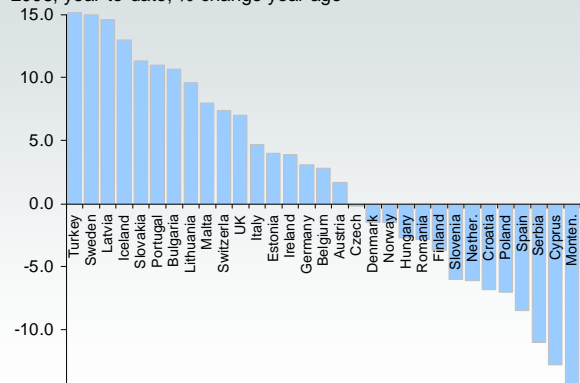
2008, year-to-date, % change year ago



Source : TourMIS, ETC

#### Visits from France to Select Destinations

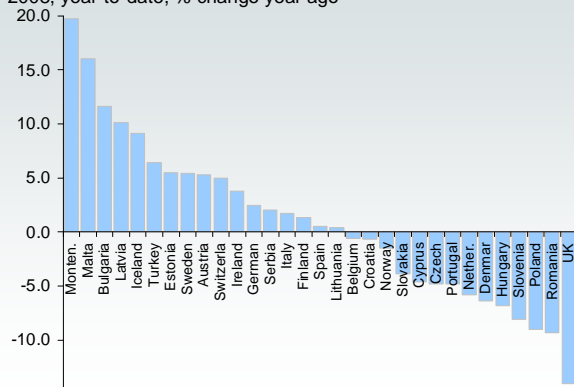
2008, year-to-date, % change year ago



Source : TourMIS, ETC

#### Visits from Germany to Select Destinations

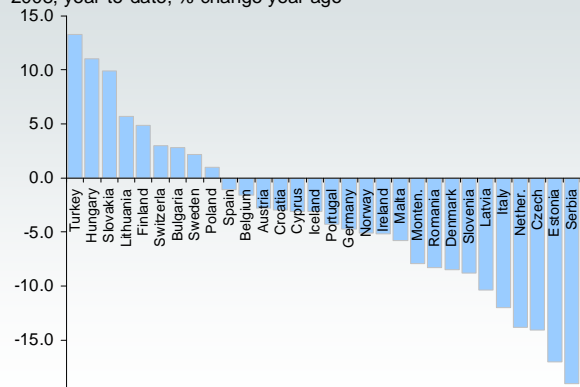
2008, year-to-date, % change year ago



Source : TourMIS, ETC

#### Visits from UK to Select Destinations

2008, year-to-date, % change year ago

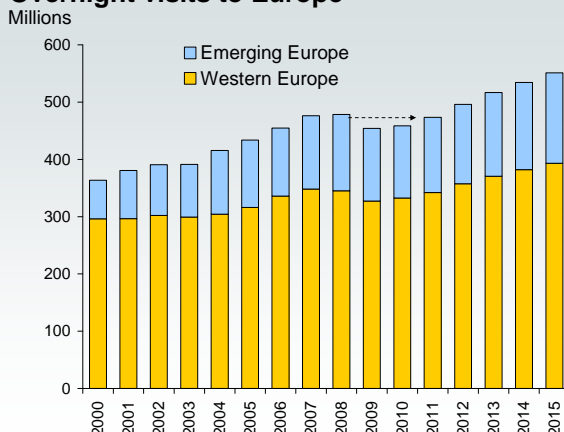


Source : TourMIS, ETC

## Concluding Remarks

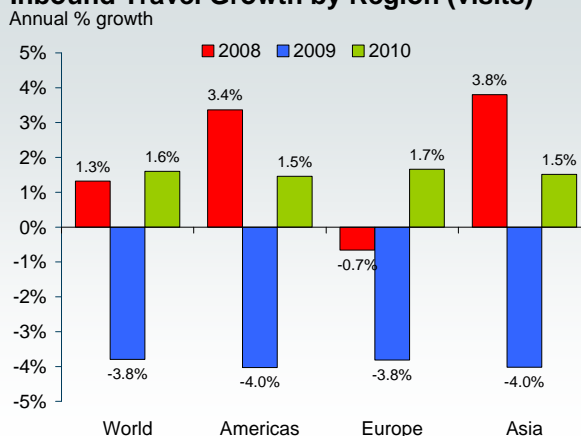
- We now have the benefit of a fairly clear view of 2008, early indicators for 2009, and a fresh baseline economic scenario. On these bases, a full-year retrenchment in travel to and within Europe seems inevitable.
- Leisure travel will undoubtedly be constrained by job losses and weak consumer confidence. This compounds the huge losses in wealth over the past year. Most households will still travel but these trips will be marked by shorter length of stay, shorter distances, and bargain hunting.
- Corporate profits will remain weak into 2009, dampening business travel. This downturn is particularly concerning in light of companies' apparent focus on travel as a cost cutting target.
- Several positives stand out for the outlook, however. Low fuel prices, industry price discounts, and strong government responses give reason for hope that by the third quarter, we may see travel demand begin to stabilise. Also, consumer confidence has time to rebound before the peak leisure travel season.
- In addition, the recent strengthening of the US dollar (and weakening of the Euro) will shift the flow of visitors back into the Eurozone and restrain outbound travel from the region. Overall, the movement toward shorter haul travel will increase the intra-European market.
- Travel outbound generated by European markets is predicted to contract 4.2% in 2009 based on Tourism Economics' Tourism Decision Metrics model. However, intra-European travel will be more stable. Overall, visits to European destinations are expected to decline 3.8% this year.
- The recovery will be modest with a 1.7% increase in arrivals forecasted for 2010. This implies a two year recovery period to achieve 2008 levels.
- On an outbound basis, North America will weaken further although declines in travel to Europe will be mitigated by the strengthened dollar.
- And Asia, an expected source of continued growth in the medium term, will pause in 2009.

### Overnight visits to Europe

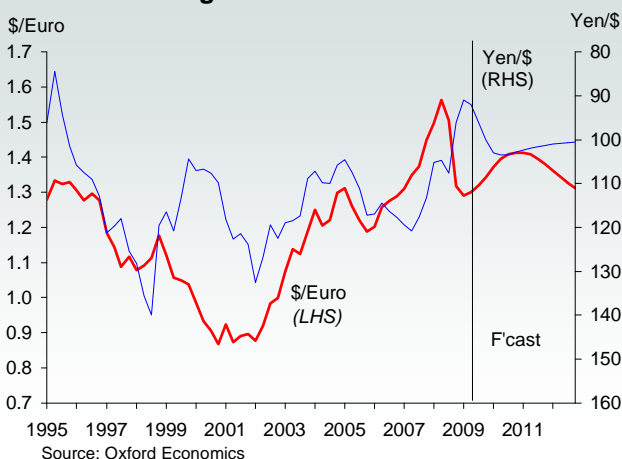


Source : Tourism Economics

### Inbound Travel Growth by Region (visits)



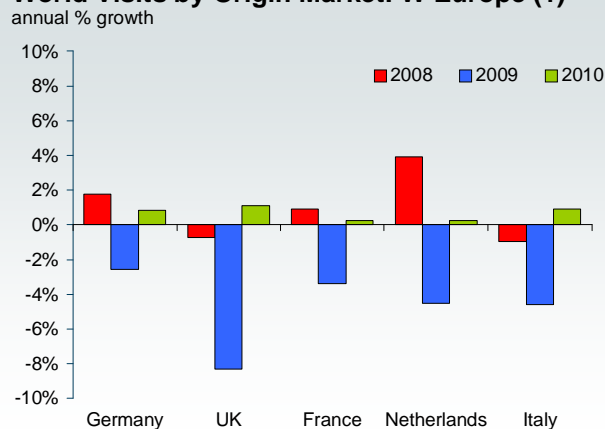
### World: Exchange rates



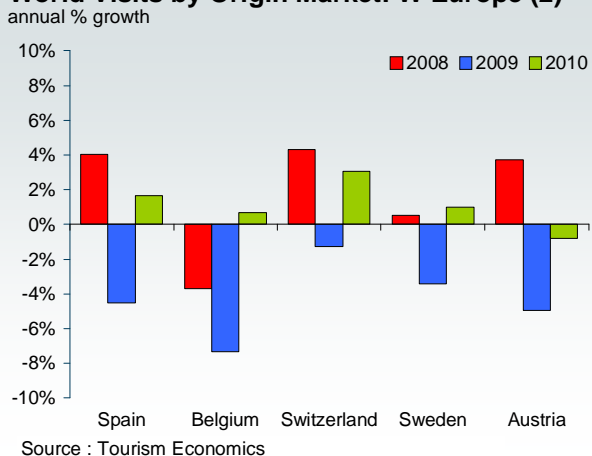
Source: Oxford Economics

- These charts display our latest forecasts for key origin markets. The levels are based on the sum of visits to all reporting destinations around the world. Some standout findings follow.
- The UK is expected to contract significantly as the weak sterling reduces purchasing power.
- After strong performance in 2008, Emerging European outbound travel will retrench.
- Asia Pacific travel has also begun to decline. India is expected to be the most stable of the major markets.
- In North America, the US is predicted to fall 5%. A relatively low base of travel to Europe in 2008 should minimise losses this year—particularly as the dollar has recouped much of its value.

## World Visits by Origin Market: W Europe (1)



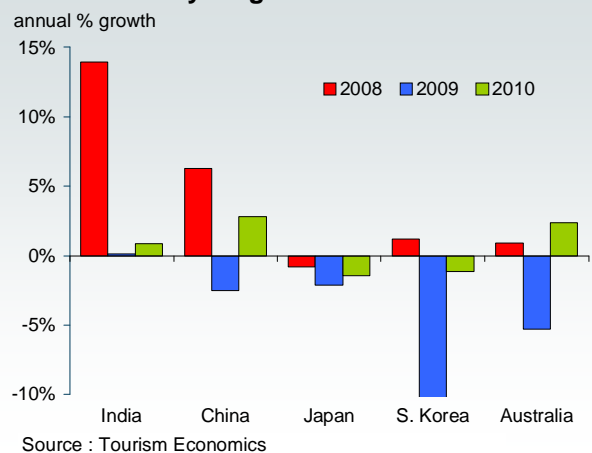
## World Visits by Origin Market: W Europe (2)



## World Visits by Origin Market: E Europe



## World Visits by Origin Market: Asia Pacific



## Visits by Origin Market: North America

