

World Travel Market 2005

UK & European Travel Report

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Foreword

For the past 26 years World Travel Market has acted as a barometer for the global travel and tourism industry as the future direction of the sector is debated, discussed and shaped.

In that time the industry has been faced with numerous challenges, as well as opportunities. Despite a difficult year, international tourism in 2005 continues to grow and this is reflected in the size and scale of this year's event, which brings together every creed, colour and culture to conduct business in a spirit of friendship, goodwill and trust.

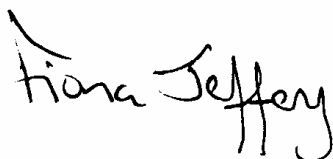
This is the third year in which World Travel Market has commissioned a report on travel and tourism trends from IPK International, organisers of the World Travel Monitor Forum, held annually in San Giuliano Terme, near Pisa, Italy. This year, we have focused specifically on the UK and European markets.

As the Pisa Forum is held one week prior to World Travel Market, the report is able to include the very latest trends and prospects for 2006. This makes it particularly useful and topical for World Travel Market exhibitors and trade visitors, as well as for the media.

The report, made available through our website at www.wtmlondon.com, enables everyone within the industry – from CEOs and managing directors to travel consultants and students – to benefit from a major research source in terms of developing business strategy and enhancing their knowledge base.

All who are involved with organising World Travel Market are passionate about the industry and about being major players in its future development. We hope that this report gives you a very real insight as to where the industry is in 2005 and where it is heading in future years.

Happy reading.



Fiona Jeffery
Group Exhibition Director
World Travel Market

IPK and the Pisa Forum

The 2005 Pisa Forum, which took place from 2-6 November, was organised in co-operation with a number of IPK and World Travel Market partner organisations – authorities on world tourism from both the public and private sectors. Among those represented through their heads of research, CEOs, or other high-level executives, were the World Tourism Organization (WTO), the European Travel Commission (ETC) and the Pacific Asia Travel Association (PATA).

Other participants, all of whom contributed to the three days of presentations and discussions, represented a wide range of different organisations. These included:

- DK Shifflet & Associates (DKS&A), the leading US consumer travel research company;
- Global Insight, USA-based economic forecasters;
- Japan Travel Bureau Foundation;
- Airclaims International, the transport and tourism consultancy;
- CISET, the International Centre of Studies on the Tourism Economy at the University of Venice;
- Synovate;
- GfK Marktforschung;
- RFH Consumer Insight;
- The Future Kitchen;
- Tourism Futures International; and
- SYTA, the (US) Student Youth Travel Association.

In all, the 2005 Pisa Forum – the 14th annual event of its kind – attracted some 60 participants from over 30 different countries in Europe, North America, Northeast, Southeast and Central Asia, Australia and Africa.

The prime objectives of this year's meeting were to analyse the state of the industry in 2005, to identify important trends in key and emerging source markets, to assess prospects for 2006, and to discuss challenges facing the industry that will have an impact on longer-term trends.

This report presents a brief overview of the Forum's findings.

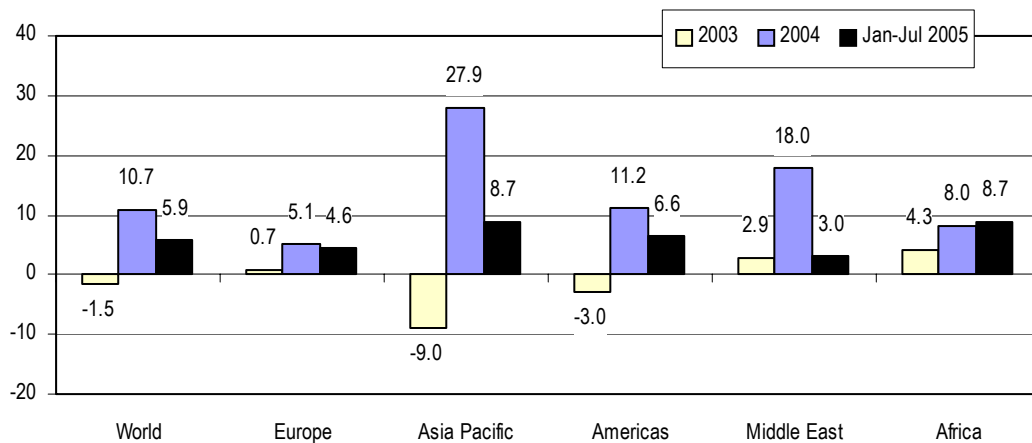
European tourism in 2005

Europe in the world context

Another good growth year

All things considered, Europe is enjoying another very good year in terms of tourism growth. In the first seven months of 2005, compared with the same period in 2004, international tourist arrivals in the region rose by 4.6% – as against 5.1% for the full 12 months of 2004. While the growth might appear modest at first glance, in comparison with trends in most other regions of the world, it represents a possible 19 million additional arrivals in Europe if the growth level is sustained through the remainder of 2005.

Figure 1
Growth in international tourist arrivals by region, 2003-05
(% change over previous year/period)

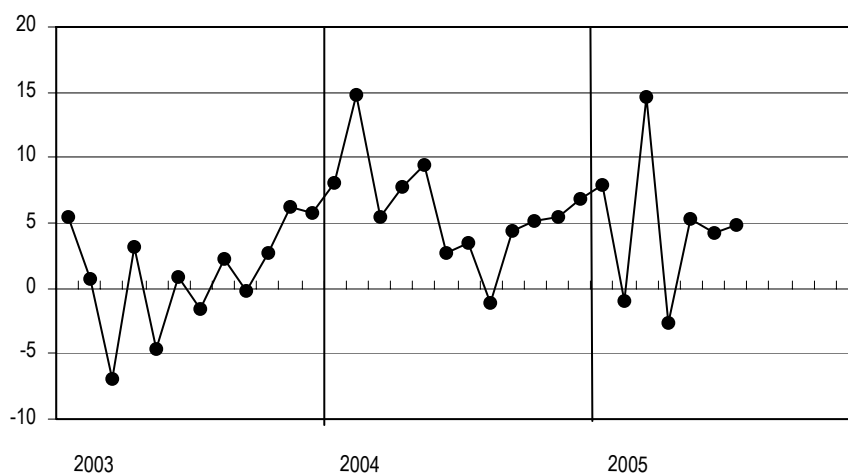


Source: World Tourism Organization (WTO)

In fact, the World Tourism Organization (WTO) is expecting a slowdown in European arrivals growth during the remainder of the year, to 3.5%, which would take the annual growth to 4.2% – compared with the forecast world average of 5.7%. But, for a mature tourism destination region, the increase is nonetheless extremely impressive, especially since the region has had its share of disasters this year – from terrorist attacks to floods, droughts and forest fires.

Since the beginning of 2005, only two months have seen declines in arrivals – February (-1%) and April (-3%) – and the downturn in April was simply due to Easter falling in March rather than April this year.

Figure 2
Growth of international tourist arrivals in Europe, 2003-05
 (% change over same month in previous year)



Source: WTO

Arrivals growth is generally better than that of receipts

Given that a major contributor to Europe's tourism growth this year has been the short, city-break sector, international tourism receipts are not expected to match the growth in arrivals in 2005. Although a few countries will prove exceptions to this rule of thumb, the trend is already evident in results for the first seven to eight months of the year.

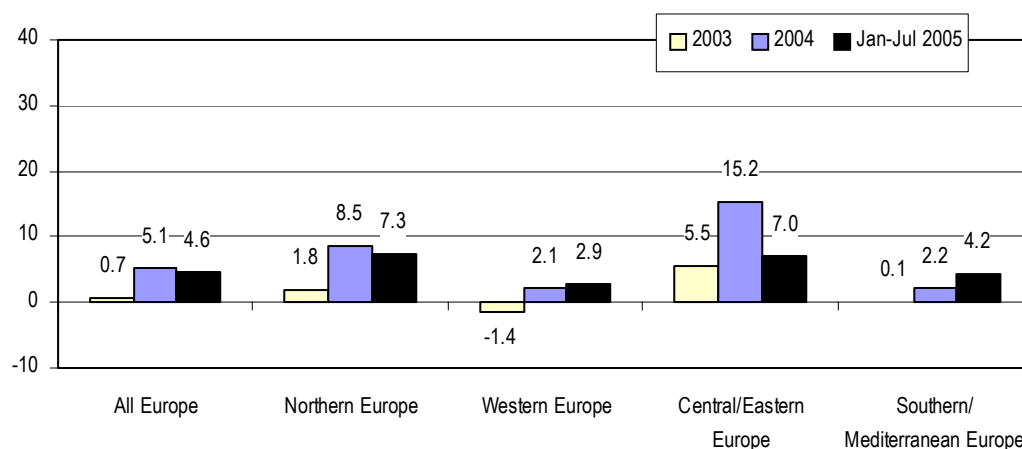
As an example, Spain recorded a 6% increase in international arrivals through the month of August, while its international tourism receipts for the same period rose just 1%, according to data gathered by WTO. And Austria's arrivals and receipts counts were +2% and -3% respectively for the same period. For the UK, the gap seems to be less marked, with arrivals up more than 11% and receipts up 10% for the year to date.

Northern and Central/Eastern Europe record the biggest increases

A breakdown of arrivals in Europe by WTO-defined sub-regions highlights the particularly strong performances of Northern Europe (the Nordic countries plus the UK and Ireland) and Central/Eastern Europe. By contrast, the growth for Western and – to a lesser extent – Southern/Mediterranean Europe has been disappointing. Above-average results for both Germany and the Netherlands have not been able to compensate for the slow recovery of France, the world's leading tourism destination, which is still expected to be down on its 2002 peak by the end of 2005.

Despite another year of decline for Italy, Southern/Mediterranean Europe's average growth has been boosted by double-digit increases in arrivals for Turkey, Israel, Greece and other smaller tourism destinations such as Serbia & Montenegro and the Former Yugoslav Republic of Macedonia.

Figure 3
Growth of international tourist arrivals in Europe, 2003-05
 (% change over previous year/period)



Source: WTO

ETC highlights recovery from long-haul markets ...

A survey conducted among the 34 members of the European Travel Commission (ETC) for the Pisa Forum highlights the better than expected results for European tourism in the first seven to eight months of 2005. The 2004 Pisa Forum had forecast a region-wide increase of between 3.5% and 4%.

Among the key reasons cited by ETC's member countries – 30 out of 34 responded to the survey – one of the most important was the recovery of long-haul markets such as the USA and Japan, as well as the emergence of new long-haul sources like China (see below). While the continuing strength of the euro has dampened demand to some extent, its major impact has been a redistribution of tourism flows.

New European Union member countries have continued to benefit from EU enlargement in 2005, although some – eg Cyprus and Poland – have suffered in certain markets like Russia because of new visa requirements for these markets as a result of their EU membership.

... but Europe is still heavily dependent on intra-European flows

Despite the recovery in long-haul markets, intra-European tourism is increasingly important, due in no small part to the huge growth in no-frills airline travel. This also explains why a number of Europe's cities appear to have performed better so far this year than their respective countries. Paris is a prime example – up 9% compared with France's 2% growth – but the trend is also true for other destinations, according to data filed by ETC and European Cities Tourism members on TourMIS. These include Budapest (+11% to Hungary's 7%), Hamburg (+10% to Germany's 6%), Valencia (13% to Spain's 6%) and Dubrovnik (22% to Croatia's 8%).

In general, arrivals have increased more than overnights this year so far, again reflecting the continuing trend towards shorter, more frequent trips.

UK inbound

Impact of the London bombings appears less significant than feared

Data from IPK International's European Travel Monitor (ETM), presented at the Pisa Forum, points to a growth of just under 10% in demand for the UK from Europe's nine other leading source markets in the first eight months of this year. (The January through August interim results cover 100,000 interviews in the top ten source markets, which account for at least 65% of all European outbound travel.)

This growth matches overall trends to the UK identified by the International Passenger Survey, although it should be noted that, according to VisitBritain, the destination has performed better than average out of Central/East European markets and some key long-haul sources such as South Africa, Australia and New Zealand. These markets are clearly not covered by the ETM.

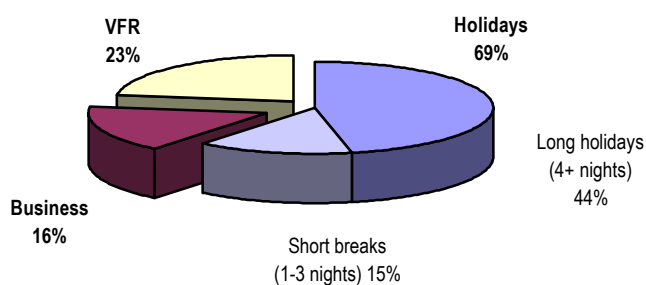
While anecdotal evidence suggests that London's tourism has indeed suffered badly as a result of the July bombings in the UK capital, the general conclusion so far is that international tourism demand for the UK has been less affected than domestic tourism. This would also seem to be confirmed by a number of local surveys carried out by organisations such as VisitLondon, Inbound UK and various hospitality consultants. Moreover, the UK capital itself has suffered most of the impact.

The UK enjoys higher than average business and VFR traffic ...

ETM data for 2004 and 2005 shows that, while holidays dominate demand with a 59% share of all trips by Europeans to the UK, the country enjoys a higher business travel and VFR share than most European destinations (see charts below on European purpose of trip) – 17% and 24% respectively. It should be noted, however, that this only relates to visits of a minimum one night in the UK, so same-day business trips are excluded from the count.

Of the total holiday share, 15% are for short breaks of one to three nights and 44% for longer holidays of at least four nights. City trips generate an astonishing 40% of all European holiday demand for the UK, while touring holidays account for a 25% share.

Figure 4
Inbound visits to the UK from the rest of Europe, 2004



Source: European Travel Monitor (ETM), IPK International

... and attracts plenty of online bookings

Some 52% of European trips to the UK involve the internet – either to gather information for the trip (14%) or for online booking (38%). This means that 38% of trips are at least partially booked online – eg flight and/or accommodation, and/or even car rental. Online booking is favoured almost equally by business and leisure visitors to the UK from the rest of Europe but, in terms of volume, leisure bookings are clearly much more important.

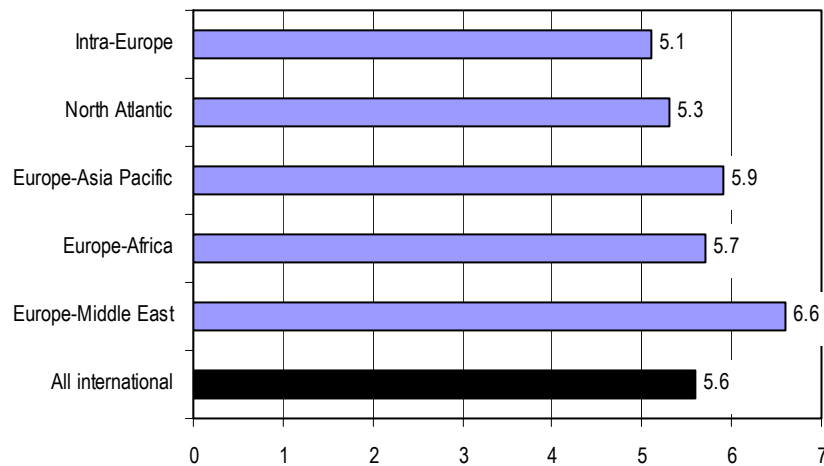
Air transport

Back to more stable growth ...

The International Air Transport Association (IATA) says that, in the first nine months of 2005, international traffic of its Europe-registered member airlines rose by 6.4% in revenue passenger-km (RPK). Although this was two points below the industry average, it was nonetheless a good result, especially as capacity (ASK) increased by only 4.6%.

Current IATA forecasts project a 5.6% average annual growth from 2005 to 2009 for key passenger traffic routes within and to/from Europe, with routes to/from Asia Pacific expected to record the highest annual increases.

Figure 5
IATA forecasts for key passenger traffic routes to/from Europe, 2005-09
(average annual % growth)



Source: International Air Transport Association (IATA)

... thanks in large part to Central/Eastern Europe

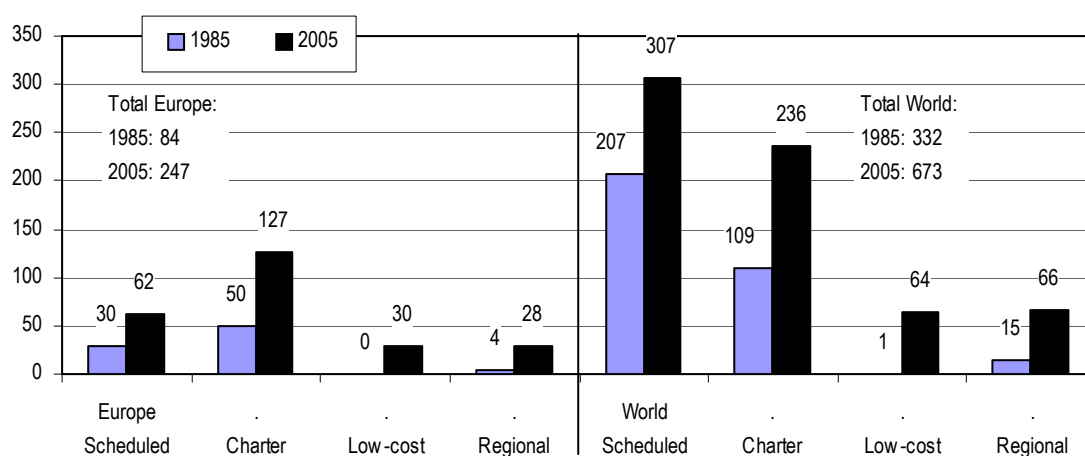
Nevertheless, in terms of individual countries, Poland is ranked at the top of IATA's growth list, forecast to record an average annual increase in passenger traffic of 11.2% over the next four years – ahead of China (9.6%). Two other European countries, the Czech Republic (9.5%) and Turkey (8.9%), are ranked third and fifth. Clearly, the growth forecast by IATA for these countries will boost air transport generally within Europe.

Huge increase in the number of passenger airlines

An analysis by the transport and tourism consulting group, Airclaims, provides some insight into the healthy annual increases in demand for air transport recorded in Europe. Despite the much publicised airline collapses in recent history, the actual number of passenger airlines in Europe has nearly trebled in the last 20 years (while the number of airlines worldwide has only doubled).

Not surprisingly, the main growth has been for low-cost airlines – up from zero 20 years ago to 30 today – and for regional carriers (up seven-fold from four to 28). But the number of charter carriers has also risen by 150% – from 50 to 127 – and traditional network airlines in the region have doubled from 30 to 62 over the period.

Figure 6
Changes in number and type of passenger airlines in Europe and the world, 1985-2005



Note: 'Scheduled' = traditional network carriers

Source: Airclaims CASE

The continued growth in air travel is related to the willingness of governments – despite continued protectionism – to allow competition with their national flag carriers and to free up airways. While there has been plenty of talk about consolidation among airlines – and an increasing number of actual amalgamations – and plenty of widely publicised airline bankruptcies, the reality is that this liberalisation has led to the creation of large numbers of competitive airlines eager to stimulate demand on new routes.

This of course does not imply that most of Europe's airlines are profitable, or will even survive in the medium to long term. Far from it.

Travel & tourism demand

Europe

Continuing trend towards shorter, but more frequent, trips

In 2004 European adults of 15 years and over made 356 million trips abroad of a minimum one night's stay, according to IPK International's European Travel Monitor (ETM). These generated 3.4 billion nights and €323 billion in spending.

Trip volume increased overall by 4% in the first eight months of 2005, according to the ETM. However, a 5% drop in average length of trip – which followed a 4% decline in 2004 – resulted in a much slower 1% rise in overnight volume.

Meanwhile, the increase in expenditure by Europeans on travel abroad was only 1% – compared with 4% in 2004 – and this in turn caused a 4% drop in spending per trip. Nevertheless, spend per night was up 2% since the growth in overnight volume was more modest than the rise in number of trips.

Long-haul outperforms short-haul demand

Of the total trip volume in 2004, 315 million trips (88%) were for short-haul destinations, while 41 million (12%) were for countries outside Europe and the Mediterranean. Demand for long-haul trips increased by 6% in the first eight months of 2005, as against a 4% rise in short-haul travel.

Figure 7
European outbound travel, 2004

	2004	% change on 2003	% change Jan-Aug 2005/04
Trips ^a (mn)	356	5	4
Short-haul	315	4	4
Long-haul	41	15	6
Overnights (mn)	3,436	2	1
Average length of stay (nights)	10	-4	-5
Spending (€ bn)	323	4	1
Spending per trip (€)	907	-1	-4
Spending per night (€)	94	2	2

^a Trips made by adults aged 15 years and over

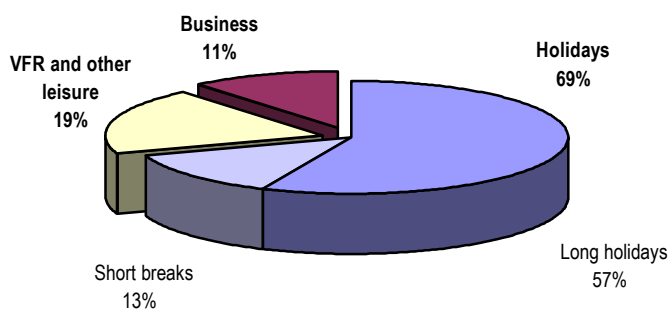
Source: ETM

Strong rebound in demand for business travel – finally

Holidays account for 69% of total European outbound trips (2004 data) – split 57% long holidays of four-plus nights and 13% short breaks of one to three nights long. Business travel, which has lost share over recent years, now accounts for a modest 11% of trips, while visits to friends and/or relations (VFR) and other leisure trips generate 19%.

ETM data for January through August points to a welcome rebound in business travel, up 8% over the same eight-month period of 2004. Demand for holiday travel rose by 3% and VFR and other leisure trips were up 4%.

Figure 8
Purpose of European outbound trips involving low-fare travel^a, 2004 (%)



^a Long holiday = 4+ nights; short break = 1-3 nights

Source: ETM

Finland and France show the strongest growth

Although a number of European markets recorded growth of more than 5% in outbound trip volume over the first eight months of this year, the highest increases – at least in percentage terms – came from Finland and France.

Germany and the UK have nevertheless retained their number one and two positions – well ahead of the rest of the market.

Figure 9
Leading European growth markets, January through August 2005

Austria	Germany
Belgium	Italy
Denmark	Norway
Finland	Sweden
France	UK

Source: ETM

Good growth for destinations in all regions of the world ...

A large number of destinations have benefited from the growth in European outbound travel in the first eight months of 2005. As many as 11 countries have attracted growth of 10% or more. Of these, four are in Europe (Poland, Slovakia, Turkey and the UK) two in South America (Brazil and Chile), one in Africa (Kenya) and four in Asia (Cambodia, China, Singapore and Vietnam).

A further 20 destinations, ten of which in Europe – and five in Central/Eastern Europe – have recorded growth of between 5-9%, according to the ETM. Again, Asia dominates the long-haul growth destinations, accounting for four of the remaining ten.

Destinations turning in weak performances include France and Russia in Europe, and Thailand, Sri Lanka, the Maldives and Nepal in Asia. The general consensus among the Pisa Forum participants was that demand for France is likely to remain subdued over the remainder of the year – especially given the current riots in France that appear to be spreading all over the country. Russia is also suffering from a number of problems, such as high crime rates and cumbersome visa procedures, which are dampening demand from abroad.

... and the tsunami-hit destinations in Asia should recover this winter

However, demand for the tsunami-afflicted destinations in Asia should rebound strongly this winter. There are clear signs that one of the main reasons for the sharp drop in demand for the Maldives and the tsunami-affected areas of Thailand, such as Phuket, has been the drop in airline capacity. Now that capacity is being put back on the routes and new services are coming on line – Austrian Airlines has inaugurated a direct flight to Phuket from Vienna, for example – demand appears to be picking up again.

Figure 10
Leading growth destinations for European outbound travel^a, January through August 2005
(% annual change)

More than 10%

Poland	Kenya
Slovakia	Cambodia
Turkey	China
UK	Singapore
Brazil	Vietnam
Chile	

5-9%

Bulgaria	North Africa
Croatia	Canada
Cyprus	Dominican Republic
Czech Republic	Mexico
Estonia	USA
Germany	Japan
Greece	India
Slovenia	Malaysia
Sweden	South Korea
Switzerland	Australia

Source: ETM

Continuing boom in demand for city breaks

City trips – whether for holidays, business or VFR – have been the fastest growth sector of European outbound travel in recent years, doubling in volume from 2000 to 2004, and now accounting for a 38% share of total European outbound trip volume. More than two-thirds of city trips (68%) are holidays, 18% for VFR and 14% for business.

From January through August 2005, city trip volume grew by 15%, following a 12% increase in 2004, with some source markets (eg Austria) exceeding 10% growth and Italy showing a 20% rise. The only disappointing market was France, which registered a slight decline in demand for city breaks despite showing strong growth in outbound travel overall.

The second fastest growth market this year so far has been touring, up 6% (following a 13% rise in 2004).

Low fares stimulate air travel

Trips involving airline travel, which account for some 49% of total European outbound trip volume, rose by 9% in the first eight months of this year, maintaining the strong positive growth trend of recent years. But this was in very large part due to the increased availability of low fares for short-haul travel.

IPK's ETM measures all international airline trips taken by Europeans that cost €150 or less for a return journey. So, while actual low-cost airlines (LCCs) account for a significant share of these trips, they also include flights with any number of traditional network carriers offering no-frills flights and attractive fares. The share of these so-called 'low-fare' airline trips is now close to 34% of all trips involving airline travel, and their actual number increased by 27% from January through August 2005. This follows a 24% increase in low-fare trip volume in 2004 and an 18% rise in 2003.

The UK is by far the most important market in Europe – whether in terms of total flight trips (more than 45 million in 2004) or low-fare air trips (18 million). Germany comes second in the low-fare trip ranking, but with little more than one-third of the UK market's low-fare trip volume.

The following table shows the respective shares of low-fare airline trips in total air trip volume in selected markets. The shares are highest in Spain and Ireland (albeit on relatively low overall volume), and lowest in Russia and the Netherlands. The markets are listed according to overall size (low-fare trip volume).

Figure 11
Low-fare airline trips as a share of total air trip volume, 2004

Market	Low-fare share (%)
UK	40
Germany	21
France	22
Italy	37
Netherlands	18
Spain	47
Russia	14
Czech Republic	34
Ireland	47

Source: ETM

No-frills airline services are critical to European destinations' success

All the European destinations in Pisa represented through their national tourism organisations (NTOs) agreed that low-cost airlines are now the major factor dictating how European countries perform as tourism destinations. More than 50% of ETC's 34 member nations believe that attracting and maintaining no-frills services – preferably from well-known LCCs – is central to their current and future success.

This has been the major factor boosting tourism growth for Central/East European countries – such as Estonia (+77% growth this year overall), Poland

(+47%), Slovakia (46%), etc. Destinations such as Cyprus and Malta – both without a no-frills service – think they could well suffer as a result in future.

Spain is the all-out leader in terms of inbound low-fare air arrivals, generating 10.2 million in 2004. And growth for the first eight months of this year has been in double digits. The UK ranks second, with 5.2 million arrivals, ahead of France and Italy with 3.8 million and 3.5 million respectively.

Figure 12
Top five destinations for European low-fare airline travel, 2004

Destination	Trips (mn)
Spain	10.2
UK	5.2
France	3.8
Italy	3.5
Germany	3.0
Ireland	3.0

Source: ETM

High share of online bookings ...

Not surprisingly, trips involving low-fare airlines are more likely to be booked online than European trips generally. The respective shares in 2004 were 56% and 32%, according to the ETM, and both have increased this year.

... but little difference in overall spend ...

Nevertheless, low-fare trips do not necessarily incur a lower spend per trip than for European travel overall. In fact, ETM results show that low-fare travellers spent an average €430 per trip in 2004 as against €480 for the market generally.

One issue that is often at the centre of discussions and debates on the subject of low-cost or no-frills airline travel is whether the actual travellers also look for low-priced accommodation. The Pisa Forum participants were able to share some of the results of a recent survey conducted by RFH Consumer Insight into the travelling and spending habits of 11 different European markets at five airports. The five – Luton, Malaga, Geneva, Paris Orly and Frankfurt Hahn – all attract significant shares of LCCs, so the interviewees questioned for the survey were all LCC customers.

... and many are prepared to spend more when they get to their destinations

In fact, the perceived benefits of travelling on LCCs allows them to travel more frequently (up to 70% of responses, depending on purpose of trip), spend less on travel (65%), take more short trips (70%), and travel on the spur of the moment (60%). In general, savings do not automatically translate into greater spending in the destination than usual, but a significant share (up to 46%) say they spend more on dining out, shopping (44%) or accommodation (35%).

Only one-third of the airline passengers surveyed by RFH Consumer Insight said they paid for their accommodation themselves, although an additional 14% were travelling on business and their employers paid.

Some 37% stayed with family and/or friends at their destinations, 16% stayed in their own holiday or second homes, and 36% stayed in hotels. Interestingly, of the hotel guests, 31% opted for deluxe (four- to five-star) and 46% for mid-

market (three-star) hotels, highlighting the fact that budgets are not always tight for no-frills airline travellers in Europe.

Figure 13
Where do European low-cost airline customers stay?

Accommodation	% share
With family and/or friends	37
Own second/holiday home	16
Unidentified	11
Hotel	36
of which:	
Deluxe	31
Mid-level	46
Budget	18
Unidentified	5

Source: RFH Consumer Insight

Impact of no-frills airlines on domestic tourism

There was one word of caution on the subject of no-frills airlines for NTOs participating in the Pisa Forum. As highlighted by the case of Hungary, the huge growth in availability of no-frills airline service has not only attracted new tourists from abroad. It has also encouraged Hungarian nationals to travel abroad in ever-increasing numbers.

As a result, demand for domestic tourism is starting to suffer, and the trend is expected to intensify.

UK

The British continue to defy the odds

Europe's second largest travel and tourism source after Germany, the UK has nonetheless been a much more dynamic market over the past ten years or more than its continental European neighbour. Come rain or come shine, regardless of the unemployment level, inflation, interest rates or declines in disposable incomes, the British seem determined to go on holiday at least once a year. And many make multiple trips, even if many of them are done on credit. Travel now, pay later seems to be a motto for many within the lower to middle socio-economic groups.

Added to this the fact that the UK has the largest number of low-cost and no-frills airline services, and it is easy to understand why the market has been so buoyant.

In 2004 the British made 59 million trips abroad, according to the European Travel Monitor (ETM). Holidays accounted for two-thirds of the total (66%), VFR and other leisure for 24% and business for 10%. Again, it should be noted that same-day business trips are not included in this count.

Outbound trip volume has risen 5% this year so far, but the growth trend varies from sector to sector. VFR travel is down 2% in trip volume while holidays and business trips are up 7%. Average length of stay is stable at 9.3 nights.

Figure 14
UK outbound travel by purpose of trip, 2004-05

Purpose	Trips 2004 (mn)	% market share	% change Jan-Aug 2005/04
Holiday	39.3	66.3	7
VFR/other leisure	14.1	23.8	-2
Business	5.9	9.9	7
Total	59.3	100.0	5

Note: Trips of a minimum 1 night

Source: ETM

Sharp rise in spending on travel abroad

Overall spending on travel abroad by the UK market rose by 10% in the first eight months of 2005, resulting in a 10% increase in spending per night and a 5% rise in spend per trip.

The growth trend was partly due to the fact that long holidays of four-plus nights, which account for 85% of total holiday trip volume, increased by 14% in number, while short breaks declined slightly. This trend must be interpreted with caution, however, since the definition of short breaks is holiday trips of one to three nights long. In fact, the British are very enthusiastic about short holiday trips, but their trips tend to be of four to five nights long. Some 45% of all holiday trips out of the UK were for less than one week long.

Winners and losers

Bucking the trends again, the British were one of the few markets in the first eight months of this year to record a double-digit increase in trips to Italy. Other winners in the UK market were Turkey, Germany, Greece and Asia Pacific generally.

Demand for the Caribbean was stable, Spain attracted a 2% increase in visits from the UK, and the USA was up 3%. But France suffered a 4% drop in demand.

Number one in online booking

Some 45% of UK outbound trips involved online booking – ie for at least part of the trip – and a further 10% of trips were organised using the internet as an information source. So the 'online travel' share overall was 55%. This compared with just 30% for the German market and an average of 40% for the Scandinavian countries.

Non-European sources:

USA

Mixed results across Europe ...

The European Travel Commission's (ETC's) survey among its members shows some very different results for the US market from one European destination to another. For some, the US market has really bounced back. These include several Central/Eastern European countries, as well as France, Monaco, Switzerland, Sweden and Greece. But US arrivals are well down to the UK and Estonia and have stagnated in other destinations in the region.

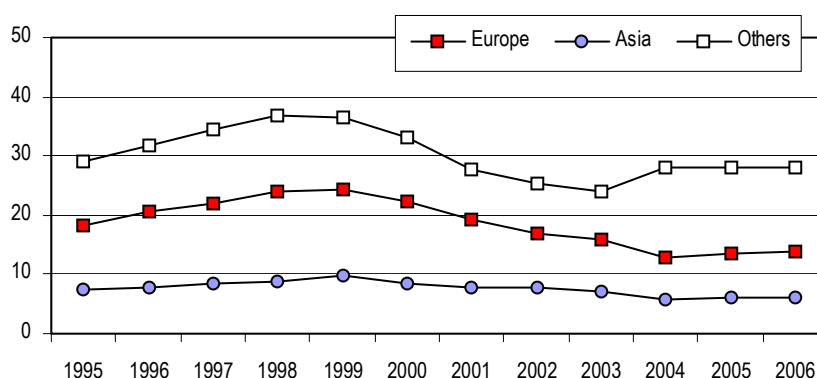
Part of the problem in trying to decipher trends is the difference in methodologies used to measure demand. European destinations count arrivals. Official data from the Office of Travel & Tourism Industries (OTTI) in the US Department of Commerce measures air trips to Europe. First half trends for 2005 appear rather more modest than the destination arrivals counts. The growth was only 2%, according to the OTTI – the weakest growth to any destination region in the world from the USA.

... and there is little optimism for the short to medium term

DK Shifflet & Associates' (DKS&A's) Performance Monitor – perhaps the most reliable source of long-term trends in the US market – is even more pessimistic. DKS&A measures roomnights booked and paid for by American travellers in hotel accommodation in the USA and abroad. This means that, if a party of five all stay in one room to save on costs – a growing trend, it would seem – it counts as just one roomnight.

Since 1995, according to DKS&A, the international share of total hotel roomnights booked has fallen from 9% to 5%, and has been flat since 2003. International roomnight volume has only increased by about 1.6% this year.

Figure 15
Total international roomnights (in paid hotels) by US residents, 1995-2004 and forecast 2005-06 (mn)



Sources: Office of Travel & Tourism Industries (OTTI), US Department of Commerce; DK Shifflet & Associates (DKS&A)

More importantly, Europe's share fell from 36% in 2000 to 30% last year and appears to be stagnating. And for individual countries in Europe, the trend is similar. The UK's share is down from 10% to 7%, and that for France and Italy down from 5% to 4%. Only Germany has bucked the trend, up to 4% from 3% in 2000.

Leisure is the only growth sector – and only thanks to the Generation X

There is more bad news. Leisure travel is the only sector showing growth in the US market, according to DKS&A's Performance Monitor, and most of this is thanks to a growth in travel demand among the Generation X age group – those born between 1965 and 1980. Baby boomers, from whom expectations were so high a few years ago, have actually recorded a decline in international hotel roomnights – due to a case of 'American Angst'.

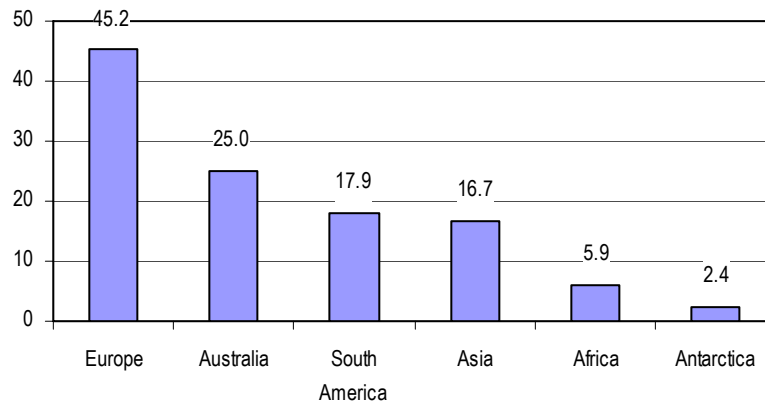
Terrorism, the Iraq war, economic challenges and the impact of oil price rises on household spending are just a few of the concerns plaguing potential American travellers today. Political instability, the perceived poor image of the USA abroad and airline industry problems – three of the seven largest airlines in the USA are in Chapter 11 bankruptcy – have compounded the problems.

... but the student/youth market seems to offer good growth potential

Despite these concerns, there are a number of segments that do offer growth potential, according to participants at the Pisa Forum. Generation X is one example, but the younger student/youth travel market is another often neglected by NTOs. According to the Student Youth Travel Association (SYTA), demand for group and individual trips is growing in double digits every year, and Europe currently accounts for a 45% share of demand.

This share has stagnated in recent years due to a lack of targeted marketing and research, but it is considered to offer significant growth potential, especially in the sports and music sectors.

Figure 16
Leading student travel destinations according to SYTA members, 2004 (%)

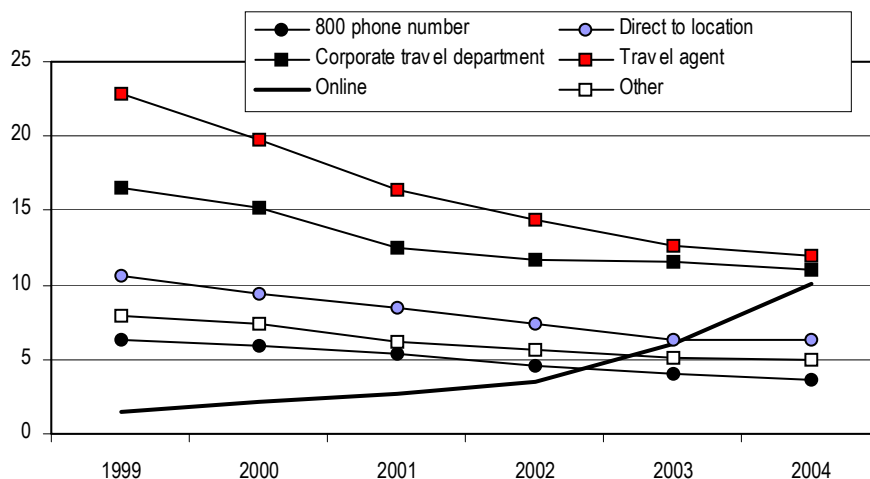


Source: Student Youth Travel Association (SYTA)

The internet is the only distribution channel showing growth

The DKS&A research also shows that there is only one sector showing growth in terms of distribution channels – the internet. The number of roomnights booked by US residents using all other booking methods, or distribution channels, has fallen steadily since 1999.

Figure 17
Booking methods used by US residents for making international hotel reservations, 1999-2004 (mn roomnights)



Sources: OTTI; DKS&A

Japan

A maturing market, but growth continues to be constrained

After several difficult years, the Japanese market to Europe finally rebounded in 2004, with many destinations enjoying good increases in arrivals growth. More significantly, the market has changed and is now much more sophisticated than it was even five years ago. The FIT (independent travel) share of outbound trips, for example, rose to 45% in 2004 – from only 20% in 2000.

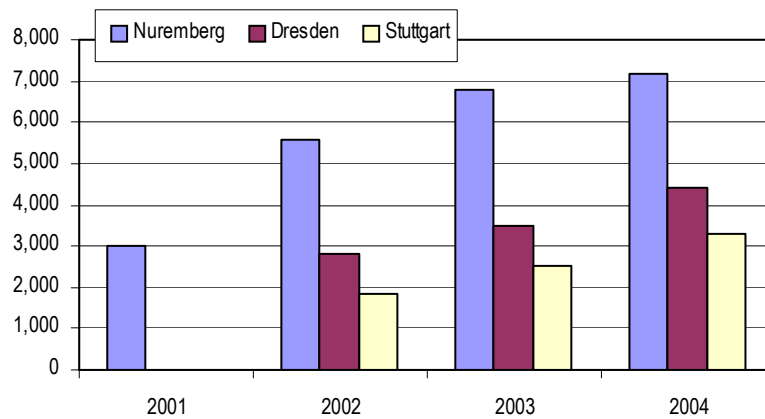
Nevertheless, the Japanese outbound travel market is a lot less predictable than it used to be. Only a few years ago, the growth in annual trip volume could be assessed based only on GDP growth and the exchange rate. This is no longer the case. One of the main reasons for this is that concerns about safety are widespread.

Carefully targeted marketing brings greater success

The JTB Foundation shared a number of case studies with the Pisa Forum participants, which demonstrated how tour operators in Japan have succeeded in developing successful tour programmes targeting different niche markets that offer better than average growth potential. These different tours offer Japanese the opportunity to experience the lifestyle of local people at the destinations they visit – a new requirement of the more mature Japanese traveller.

Among the most successful tour programmes have been tours to various Christmas-market cities in Germany, which have become increasingly popular with Japanese tourists. Even during the crisis years of 2001-03, when Japanese outbound travel declined and Europe lost share, these tour programmes attracted growing numbers of participants.

Figure 18
December traffic of Japanese tourists to three German Christmas-market cities, 2001-04 (overnights)

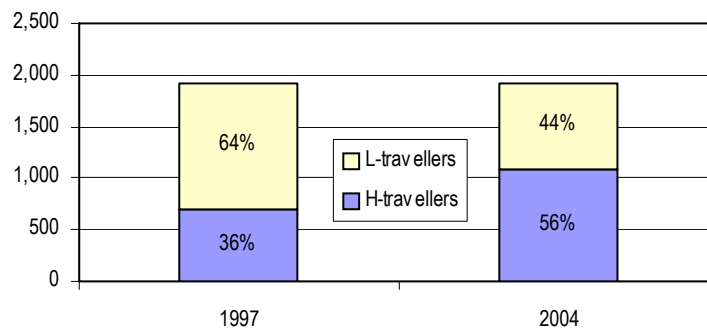


Source: JTB Foundation

Europe primarily attracts the more experienced, older female traveller ...

Structural changes in the Japanese outbound travel market have also been a major force dictating trends. In 1997, experienced Japanese travellers – ie those having made more than ten overseas trips and travelling overseas a minimum of once a year – accounted for just 36% of Japanese travellers to Europe. This share has now grown to 56%. H-travellers, as they are called by JTB, represent a majority of Japanese in many destinations.

Figure 19
Proportion of leisure travellers to Europe (L-travellers vs H-travellers), 1997 and 2004 (%)



Note: L-travellers = low-frequency travellers; H-travellers = high-frequency travellers (see text for further information)

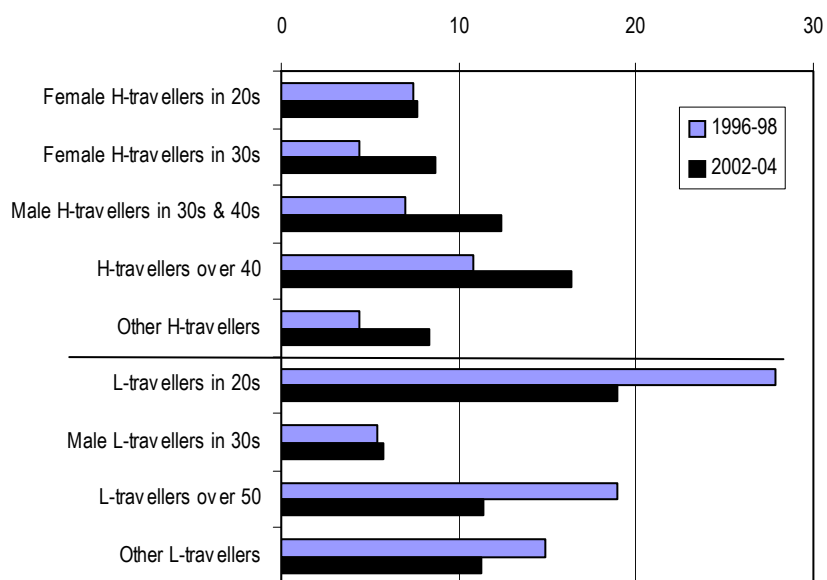
Source: JTB Foundation

... but France and Italy hold huge appeal for young Japanese

Nevertheless, there are differences from one destination in Europe to another. The Italian market is dominated by L-travellers aged over 50 or in their 20s, most of whom are visiting Italy for the first time. So an increase in travel to Italy – as has occurred this year – tends to be from less experienced travellers.

As far as France is concerned, the share of L-travellers aged over 50 is very small. France either attracts H-travellers in their 50s – most of whom are repeat visitors – or L-travellers in their 20s looking to shop.

Figure 20
Breakdown of L-travellers and H-travellers to Europe, 1996-08 and 2002-04 (%)



Source: JTB Foundation

Other long-haul markets

All eyes are on China ...

China overtook Japan as Asia's leading outbound source in 2002 and has continued to gain share ever since, with outbound trip volume up 43% in 2004. The first half of 2005 saw a further double-digit increase to overseas destinations (excluding Hong Kong and Macau), and there is little sign of a slowdown for the second half of this year.

Most European countries now have 'approved destination status' (ADS) from China and have been gearing up to receive what they hope will be hundreds of thousands of Chinese on group tours a year. But the competition is tough – around 100 destinations around the world have ADS – and yields in this sector of the market are low. The increasingly affluent Chinese are looking for the most attractive, value-for-money destinations among the growing choice of options open to them.

A number of European destinations claim to have recorded good growth out of China this year, albeit from a low base. France is the favourite destination in Europe among the Chinese, but growth – according to Maison de la France – has been disappointing, with ADS teething problems affecting demand. Other European NTOs cite the same problems. Clearly, it will be some time before China's full potential is realised.

... but other markets are also showing good growth potential

Apart from China, there are a number of other good growth markets in Asia, including India and South Korea. And Brazil and Argentina have also rebounded this year. As each of these so-called emerging markets becomes more accustomed to travel, Europe is also seeing a shift from demand for package tours to independent travel. And this in turn means greater internet usage and more online bookings.

Outlook for 2006

Economic and operating environment

No more 'normal' years

One of the most important messages to come out of Pisa is that the industry can no longer expect a 'normal' year for travel and tourism. Every new year brings new uncertainties and new challenges.

Terrorism and war, natural disasters, health crises and even pandemics, exchange rate and oil price fluctuations, economic downturns, safety and security, legal and tax issues – these are just some of the risks facing the industry in the short, medium and longer term. The next big thing could well be Avian flu and the travel and tourism industry, like other sectors of the economy, is quietly preparing for the worst scenario. But the issue is simply too big to factor into industry growth forecasts.

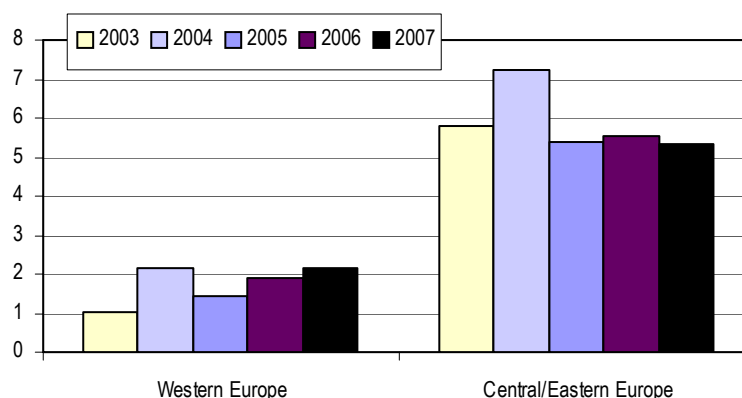
Weak economic recovery in Europe

Data from the International Monetary Fund (IMF) highlights the fact that Europe is not showing clear signs of a recovery, due in large part to weak consumer demand. The IMF forecasts growth of 2.5% in 2005 overall, and 1.2% for the eurozone. Slow growth is also forecast for some key tourism destinations, such as France, Belgium, Germany, the Netherlands and Italy. But better growth is expected for Spain, Sweden and Austria. The UK's performance is also still above average, although growth has slowed markedly since 2004.

By contrast with Western Europe, the less mature economies remain comparatively robust. The Central/Eastern European countries (excluding the CIS) are expected to grow almost twice as fast as Western Europe – albeit at a slightly lower rate than the Russian Federation or Turkey.

The IMF forecasts are largely in line with projections presented at the Pisa Forum by Global Insight. In Western Europe, growth is expected to improve by 2006 and 2007, Global Insight says, but it will remain more stable in Central/Eastern Europe – albeit at a much higher level. Things could get worse if oil prices rise again, although this looks less likely now. And one piece of good news is that hurricane Katrina should have little or no impact on economic growth in Europe.

Figure 21
Economic growth in Europe, 2003-04 and forecasts 2005-07
(% change in real GDP)

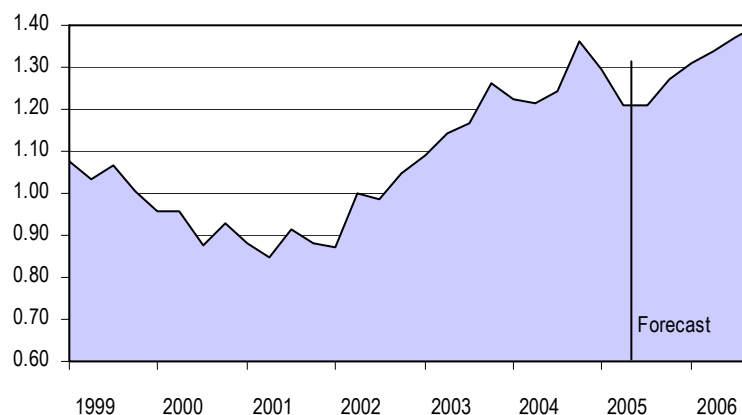


Source: Global Insight

The euro is expected to appreciate further

The persistently strong euro could be both positive and negative for Europe. It could deter long-haul visitors from dollar-based economies, but should stimulate demand from markets within the eurozone.

Figure 22
Exchange rate of the euro, 1997-2005 and forecast 2005-2006
(US\$ per €)



Source: Global Insight

Nevertheless, the perceived high costs of tourism services and products in the eurozone are increasingly encouraging nationals who usually holiday at home to venture abroad. The French are the prime example, but less mature markets from Southern/Mediterranean Europe, such as Greece and Portugal, are also showing above-average growth rates for outbound travel.

Weaker dollar will impact negatively on US travel demand

Although some national tourism organisations (NTOs) represented in Pisa are fairly bullish about the US market's potential, the forecast weak dollar is likely to discourage Americans from travelling abroad. And, even if they do, Europe will not be a major beneficiary.

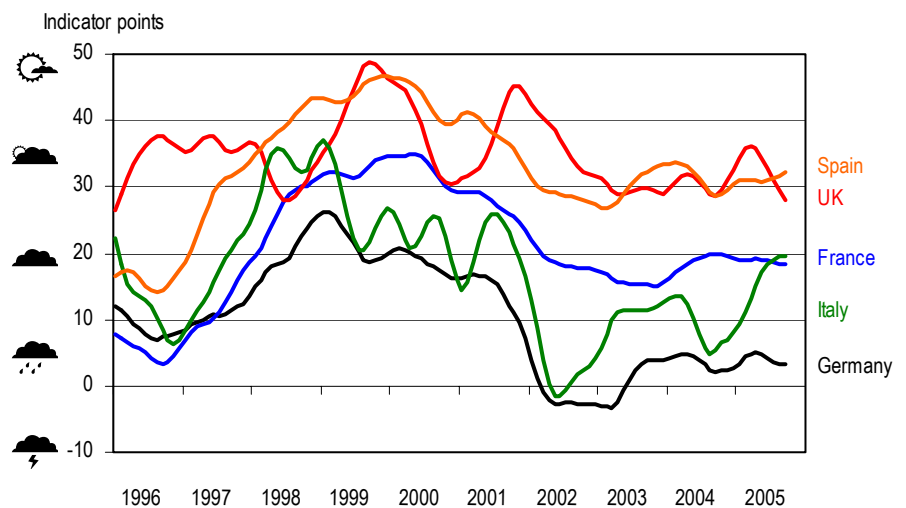
Asia offers the best growth prospects of all long-haul markets – in the short, but especially the medium term.

Consumer climate

Sharp variations in consumer confidence levels across Europe

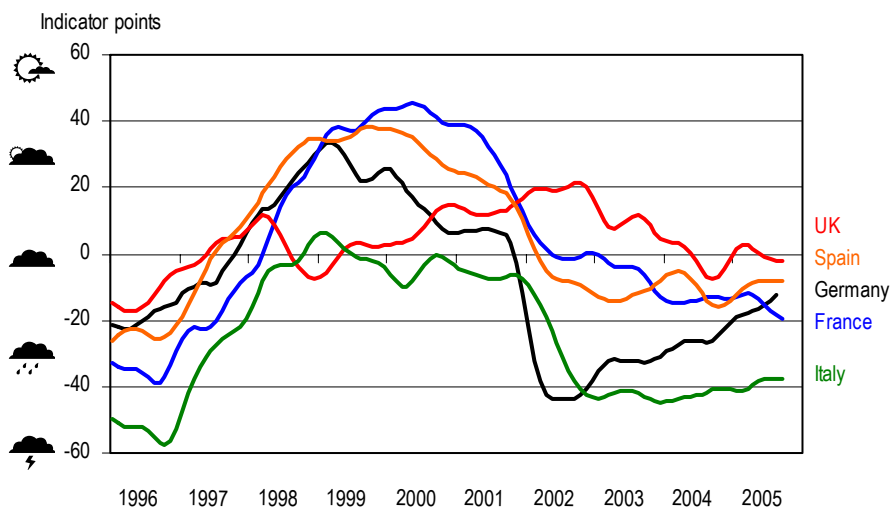
Research by GfK for the European Commission highlights the differences in consumer confidence levels in five key European countries – France, Germany, Italy, Spain and the UK – all of which have a strong influence on travel demand. The research, based on 2,000 interviews monthly, also shows that consumer confidence strongly influences private consumption and willingness to buy.

Figure 23
EU Consumer Climate Indicator: Consumer confidence, 1996-2005



Source: GfK Marktforschung, for EU Commission

Figure 24
EU Consumer Climate Indicator: Willingness to buy, 1996-2005



Source: GfK Marktforschung, for EU Commission

Over the past ten years, Spain and the UK have remained consistently at the top of the ranking, as far as consumer confidence and household consumption expenditure are concerned, with the UK losing ground to Spain in recent months as consumer confidence has fallen somewhat. This is attributed to a whole range of increasing uncertainties regarding the costs of energy, the housing market, disposable income and pensions, and terrorist threats. Consumer confidence and private consumption remain at a higher level in Spain, partly due to continuing low interest rates.

The consumer climate in Italy has improved significantly since last year, but there are doubts that this can be sustained, GfK says. Meanwhile, confidence is falling in France, and in Germany it remains at a very low level, resulting in a continued stagnation in domestic demand.

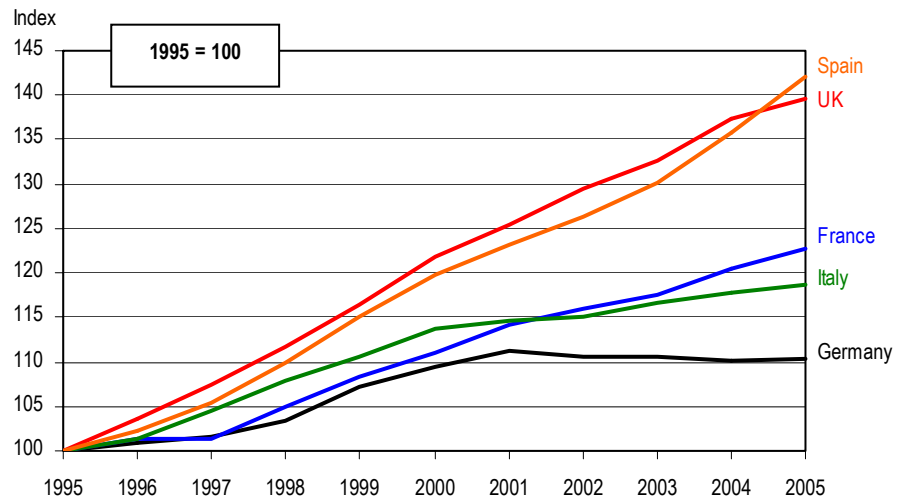
**Weak private
 consumption growth
 discourages
 German travel**

While private consumption has quadrupled in the UK and Spain over the last ten years, it has risen by 20% in Italy and France and only 10% in Germany. This helps to explain why Germans have remained very cautious about spending generally, and why outbound travel growth has been very subdued.

This will be the first time since World War II, for example, that private consumption in Germany will have declined for the fourth successive year. And this has resulted in a growth in panic saving. As far as travel demand is concerned, the market is forecast to show only modest growth this year of 1-2%. Next year might be slightly better, but the FIFA World Football Cup could encourage Germans to forego foreign holidays.

Moreover, the change in government does not appear to have lifted consumer confidence – in contrast to business confidence – unemployment is high and still rising, and the positive effects of income tax reform are expected to be wiped out by rising social contributions.

Figure 25
Household final consumption expenditure in Europe, 1995-2004 and forecast 2005
(constant prices)



Source: GfK Marktforschung (forecast from IMF)

Moreover, the change in government does not appear to have lifted consumer confidence – in contrast to business confidence – unemployment is high and still rising, and the positive effects of income tax reform are expected to be wiped out by rising social contributions.

UK outbound trends are more difficult to assess ...

Willingness to buy is falling in France, which suggests that 2006 could see a decline in outbound travel – or at least a slowdown in growth, and it is stagnating in the UK, Spain and Italy. Prospects for 2006 are nonetheless quite good for Spain, GfK maintains, but the UK and Italy are more difficult to assess.

One thing is very clear. While outbound travel growth has slowed slightly out of the UK in recent months, it is not a market that can be dismissed lightly. The travel industry may see a decline or slowdown from one sector, but there is always another sector ready to emerge.

... but watch out for the 'Chavellers'

One such sector are the 'Chavs', who are no longer consuming just things, but also experiences such as travel, according to research presented at the Pisa Forum by Synovate. While young middle-class Brits are foregoing their traditional working break between school and higher education because of fears over university fees and student debts, their place in the sun is being taken over by 'Chavellers', who feel more able to quit their poorly paid jobs or trades such as plumbing, knowing they can pick up where they left when they return home. Chavs tend to live at home with parents, so they have greater disposable income to spend on travel as well as the freedom to take time off.

One downside for traditional short-haul and long-haul destinations – the trend has had a knock-on effect on the UK's well-travelled middle classes, who are now seeking out new destinations and experiences to avoid the jobs.

Pisa 2005: Summary of key issues and trends

European growth forecasts

- European inbound and outbound tourism is expected to grow by 4% in 2005, in terms of trip volume, and by 2-3% in 2006.
- The growth in international tourism receipts and expenditure on travel will be slightly lower due to the forecast continuation of the trend for shorter, but more frequent trips.
- The industry can no longer expect a 'normal' year for travel and tourism. Terrorism, natural disasters, health crises and other challenges are now part of our daily lives.
- Major events in Europe, such as the FIFA World Football Cup in Germany and the Winter Olympics in Turin, Italy, should boost tourism in 2006. But past experience has shown that big events often have the opposite effect.

Purpose of travel

- Leisure travel continues to be the main driver of growth, thanks in large part to the no-frills airlines, with city trips/breaks expected to increase their dominance of the European short-haul market.
- Business travel is recovering, but there are big changes in the market. Decisions are increasingly being taken by financial rather than marketing directors, and there are signs that the value of business tourism is declining in some countries.
- Incentive travel is increasingly combined with business meetings to justify costs, save on tax and maximise employee motivation.

No-frills airline travel

- Low-cost/no-frills airlines have changed the face of the industry and are now one of the major factors dictating how European countries perform as tourism destinations.
- Airports with no-frills airline services are expanding their catchment areas, since low-fare travellers are prepared to travel longer distances t/from airports to save costs.
- Countries without low-cost/no-frills airline services risk looking less attractive to holidaymakers and investors.
- But there are downsides. No-frills airline services are attracting growing numbers of inbound visitors to traditional and emerging tourism

destinations but, since they tend to stay in the cities, outlying rural areas are losing business. At the same time, more and more nationals from Central/Eastern Europe are taking advantage of no-frills airlines to travel abroad, so domestic tourism is suffering.

Impediments to tourism growth

- Visas continue to be a major impediment to growth – not just the requirement for visas, but also the lengthy bureaucratic procedures and high costs involved in obtaining visas.
- Increased online booking has resulted in tour operators in some markets downsizing their hard copy brochures. And this has primarily affected smaller destinations in Europe that have been dropped from the brochures.

Messages for NTOs

- It is time to start talking of the 'visitor economy' rather than simply the tourism business, so as to communicate better the potential economic contribution of travel and tourism to politicians and the public.
- Even markets showing declines or stagnation over several years – such as the USA and Japan – offer growth potential from some segments, but more research and more targeted marketing is essential to tap the opportunities.
- The new European Tourism Destination Portal, which will be launched in 2006, will provide a platform for the European Travel Commission's e-marketing and enhanced customer relationship marketing by its members. But it will also, hopefully, encourage greater co-operation between NTOs and between the public and private sectors of travel and tourism.
- Although there are several examples of co-operation between European countries and regions on an ad hoc basis – such as between the Alpine regions, in the Tyrol and Lapland – the three Scandinavian countries are the only ones to have set up permanent offices together abroad. The signs are that other NTOs are looking to follow suit in order to find more cost-effective ways of entering new markets.