



# EUROPE

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**EUROPEAN TOURISM 2011 – Trends & Prospects**

**Quarterly Report - Q2/2011**

**EUROPEAN TRAVEL COMMISSION**





# **EUROPEAN TOURISM in 2011: TRENDS & PROSPECTS**

## **Quarterly Report (Q2/2011)**

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

Brussels, July 2011  
**ETC Market Intelligence Report**

## **European Tourism in 2011: Trends & Prospects (Q2/2011)**

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Tourism Economics (an Oxford Economics Company)  
on behalf of the ETC Market Intelligence Group

Photo ©: iStockphoto / Arie J. Jager. St. Nicholas Cathedral seen from Prague's Charles Bridge, Czech Republic.

## Foreword

**Travel in Europe continues to move toward full recovery**

Travel in Europe continues to move toward full recovery. The first half of the year has produced encouraging results across all regions. It appears that—even if the market slows as expected—international visits will reach prior (2008) peaks in 2011.

**This rebound in travel has been experienced across nearly all of Europe**

The aviation sector is driving some of this growth with added capacity which has the dual benefit of improving access and lower fares over time. Air passenger demand is exhibiting sustained strength as the year progresses with North American and intra-European routes growing at a sustainable pace.

**Growth is expected to slow in the face of economic headwinds**

And the recovery has been widespread with the vast majority of destinations posting visitor arrivals growth thus far in 2011 and many at double-digit rates. Through the first 5 months of the year, every country in Europe has experienced an increase in occupancy rates and revenue per available room (RevPAR). For the year through May of 2011 occupancy rates grew 4.2% across Europe and RevPAR has increased by nearly 10%.

These encouraging trends appear set to continue, albeit at a slowing rate as comparisons are made to stronger performance in 2010 and the Eurozone debt crisis weighs on business and consumer confidence.

This edition of “Trends and Prospects” includes a special Oxford Economics analysis of the possibility of a “lost decade” for the world’s developed economies, similar to what Japan experienced in the 1990s. The analysis concludes that the recovery in the developed nations has now reached a stage where it is self-sustaining, particularly when set in the context of continued rapid growth in the Emerging Markets.

Clearly the recovery we are now enjoying will have to contend with significant headwinds. Fiscal tightening, private sector deleveraging, and a possible sovereign debt default all present significant risks to economic growth.

So while we are encouraged by the performance of our industry, the challenges we face require our commitment to work together to promote all of Europe to the world.

We trust you will find the analysis in this report helpful as you track your own destination’s performance and seek to anticipate future trends.

Best wishes,

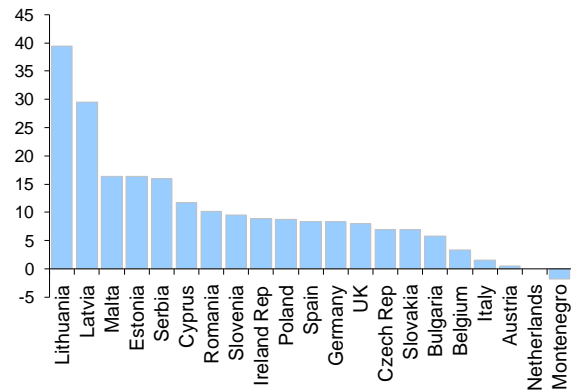
Leslie Vella  
Chairman  
ETC Market Intelligence Group

## Executive Summary

- Travel to Europe continued to exhibit strong growth through May as indicated by industry and arrivals data. Nearly all destinations report growth in arrivals for the first three to five months of the year.
- However, the heady growth numbers are due in part to a rebound effect resulting from comparison to data during the air space closures in April 2010. This effect will become less pronounced as the year carries forward.
- The most recent lodging and arrivals data are showing signs of moderating growth while data for European airlines shows a modest expansion in recent weeks. Available (and continually added) capacity should allow for competitive fares which could provide some added support to travel demand over the near term.
- Hotel occupancy slowed in Southern and Eastern Europe in May while the rest of Europe held relatively steady. Average Daily Rates continue to push up across Europe in response to demand and have displaced demand as the primary driver of hotel revenue growth.
- We expect the overall growth trend to slow in the remainder of 2011 as comparisons are made to stronger performance in 2010 and fight against the headwinds of an anaemic global economy.
- Only two years into the recovery and incoming data indicate that the global economy has weakened anew, raising doubts about whether the expansion in the advanced economies is sustainable.
- However, the softening of growth in Q2 likely reflected a number of temporary factors that are already fading. The recovery in the developed nations has now reached a stage where it is self-sustaining, particularly when set in the context of continued rapid growth in the Emerging Markets. Fears of a 'lost decade' resembling Japan in the 1990s are thus overlaid.

### Foreign Visits to Select Destinations

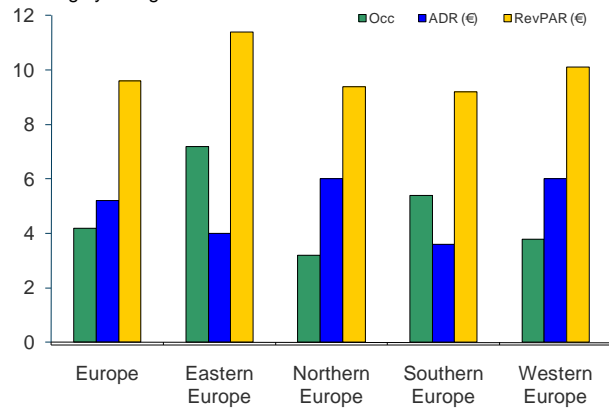
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

### Hotel Performance, Jan-May 2011

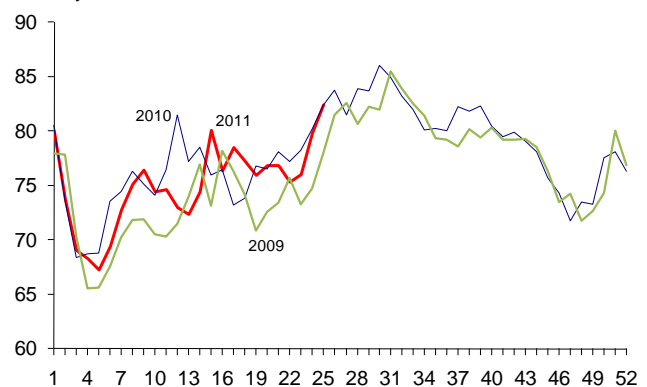
% change year ago



Source : STR Global

### European airlines passenger load factor

weekly load factor



Source: AEA

## 2011 Tourism Performance Summary

Foreign arrivals continue to perform solidly across most of Europe with 19 of 21 countries reporting year-to-date growth. And seven of these countries have posted growth of 10% or more. Visitor nights have not been quite as strong, with five destinations reporting declines in visitor nights and 9 of 16 destinations reporting slower gains in nights than arrivals. Add to this, year-over-year growth rates for most destinations will skew growth upward as those destinations will get a bounce from last April's air space closures.

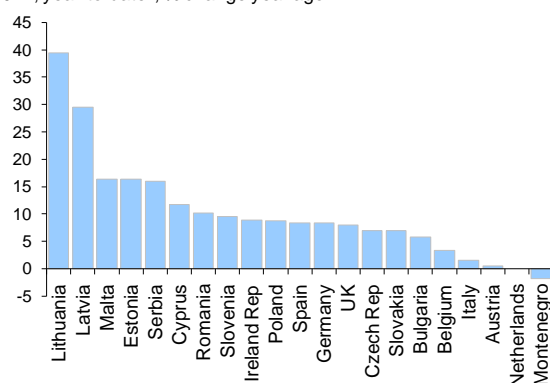
2011 Performance, Year to Date									
Tourist Arrivals and Nights						Hotel Performance, Jan-May			
International Arrivals			International Nights			Hotel Occupancy		Hotel ADR (LCU)	
Country	% ytd	to month	Country	% ytd	to month	Country	% ytd	Country	% ytd
Lithuania	39.4	Mar	Lithuania	29.1	Mar	Iceland	23.6	Turkey	27.5
Latvia	29.5	Mar	Estonia	18.5	Apr	Estonia	18.6	Estonia	11.3
Malta	16.4	May	Spain	18.5	Apr	Lithuania	18.3	Lithuania	9.1
Estonia	16.3	Apr	Serbia	17.7	May	Malta	12.1	France	8.6
Serbia	16.0	May	Latvia	14.7	Mar	Slovakia	10.1	Iceland	8.4
Cyprus	11.7	May	Malta	11.8	May	Denmark	9.1	Netherlands	6.6
Romania	10.2	Mar	Romania	10.8	Mar	Hungary	9.0	Slovakia	6.6
Slovenia	9.5	Apr	Hungary	10.7	Apr	Norway	8.9	Belgium	5.5
Ireland Rep	8.9	Mar	Portugal	10.3	Apr	Ireland	8.4	Austria	5.5
Poland	8.7	Apr	Slovenia	9.6	Apr	Romania	8.4	Sweden	5.0
Spain	8.4	Apr	Germany	9.3	Apr	Czech Republic	8.2	Russia	4.5
Germany	8.3	Apr	Poland	7.5	Apr	Russia	7.6	Ireland	4.4
UK	8.0	Apr	Czech Rep	7.1	Mar	Spain	6.9	Poland	4.4
Czech Rep	7.0	Mar	Belgium	2.7	Mar	Sweden	5.2	United Kingdom	4.3
Slovakia	7.0	Mar	Finland	2.4	Apr	Switzerland	5.0	Italy	4.3
Bulgaria	5.8	Apr	Montenegro	2.4	May	Germany	4.7	Germany	3.7
Belgium	3.3	Mar	Slovakia	2.4	Mar	Finland	4.7	Finland	3.7
Italy	1.5	Mar	Denmark	1.5	May	Italy	4.5	Denmark	3.7
Austria	0.5	May	Switzerland	-1.3	May	Turkey	4.3	Romania	3.4
Netherlands	0.0	Mar	Norway	-1.8	May	Netherlands	4.3	Portugal	3.2
Montenegro	-1.8	May	Bulgaria	-1.9	Mar	Belgium	3.7	Hungary	2.5
			Austria	-2.4	May	Poland	3.5	Norway	2.3
			Netherlands	-3.0	Mar	Greece	2.8	Spain	1.8
						Austria	2.5	Greece	1.8
						France	1.8	Switzerland	1.3
						United Kingdom	1.1	Malta	-0.1
						Portugal	0.3	Czech Republic	-3.1

Sources: TourMIS, ETC, STR Global

Measures used for nights and arrivals vary by country

### Foreign Visits to Select Destinations

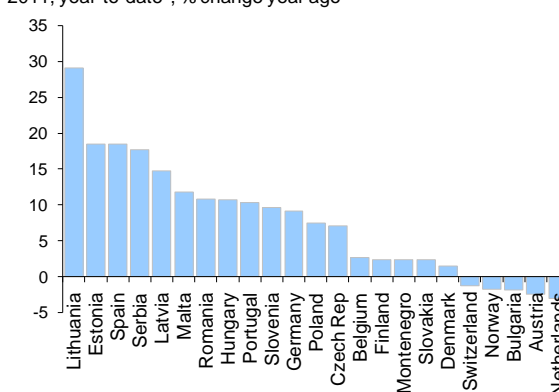
2011, year-to-date\*, % change year ago



Source: TourMIS, ETC, \*date varies (Mar-May) by destination

### Foreign Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago



Source: TourMIS, ETC, \*date varies (Mar-May) by destination

## Special Report: Are the advanced economies facing a lost decade?

Only two years into the recovery and incoming data indicate that the global economy has weakened anew, raising doubts about whether the expansion in the advanced economies is sustainable. So does this disappointing economic data indicate that we are already heading into another downturn, or is this merely a temporary softening of the global recovery? More generally, does the disappointingly sluggish pace of the recovery among the advanced economies signal that they are facing a 'lost decade' resembling Japan's experience in the 1990s?

Recent weeks have seen a slew of weaker-than-expected data releases from the major economies. The global composite PMI indicator for May showed manufacturing output growth slipped to a near two-year low, with national data pointing to slower rates of expansion in the US, the Eurozone and the UK. In the Eurozone, the manufacturing PMI fell sharply in both May and June to its lowest level in 18 months. National PMIs have signalled a broad-based slowdown in the pace of recovery, with headline indices retreating from their April levels in all the Eurozone member states covered.

In the United States, the latest employment report was very disappointing, showing labour market weakness through June with an increase in the unemployment rate to 9.2%. With higher prices eating into wages, consumer spending also stagnated in May and consumer confidence is very low. Data from the housing market also continued to be gloomy.

One reason for the apparent loss of momentum among the industrialised nations has been the moderation of growth in the emerging markets, which have been the engine of the global recovery. This slowdown had been foreseen, as many emerging market economies have been tightening monetary policy in response to rising inflation. And insofar as what we are seeing is the engineering of soft landing for the Emerging Markets, and the avoidance of overheating, it can be considered a positive development. By avoiding the risk of a boom-and-bust cycle, the scene would be set for a more sustainable long-term expansion.

Nonetheless, growth in the developed world has still disappointed expectations. Against this background, investors are worried that the global expansion may be faltering, recalling memories of the double-dip recession fears that were commonplace during the summer of 2010. While the slowdown last year proved no more than a temporary 'soft patch', there are concerns that the current lull could prove more protracted.

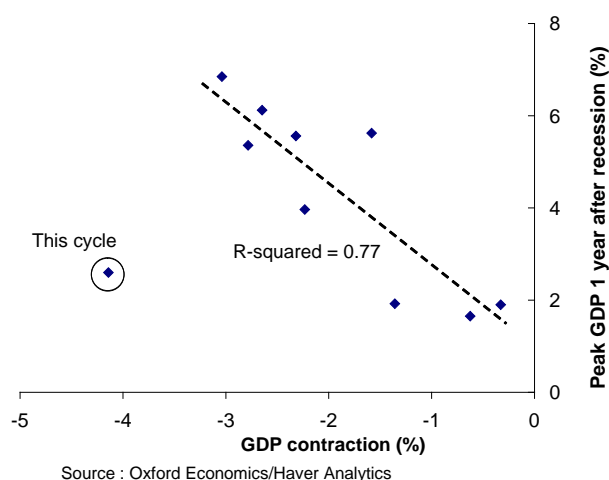
In fact, the consensus view is that the current slowdown will again prove to be short-lived, as the weakening trend in growth indicators can be linked to temporary adverse factors. First, supply chain disruptions from the Japanese earthquake and tsunami have had a direct impact on manufacturing and the auto industry in particular. Second, there was a sharp rise in oil prices of around \$40 per barrel between November 2010 and April 2011. Of itself, this would have been enough to have dampened global growth. But with oil prices having eased substantially in recent weeks, this should hopefully provide some relief to



consumers and businesses, helping to underpin a rebound of activity in the autumn.

While this reasoning offers some reassurance that the slowdown in the advanced economies will prove transitory in nature, the fact remains that the economic recovery in developed economies is proving unusually weak compared to other post-War cycles. An economy typically recovers to its previous peak output in less than a year. More importantly, history suggests that there is a close correlation between the depth of recession and the speed of the subsequent recovery. This relationship appears to have broken down following the recent recession, however, which has proved to be the deepest in the post-War period.

### US GDP troughs and rebounds



It seems that previous economic cycles may not provide a useful guide to the dynamics of the current cycle. But this may not be too surprising, as many features of the recent downturn are exceptional. More specifically, this recession combined a financial crisis within the world's largest economy with a synchronized global downturn. So it may be more instructive to examine how recoveries have unfolded in economies that have experienced financial and banking crises over the past few decades. Unfortunately, this does not give reason for optimism. A study of 15 post-War financial crises by Carmen and Vincent Reinhart concluded that they are typically followed by a lengthy period of retrenchment that lasts almost as long as the preceding credit surge.

This presents a rather bleak context for the medium-term outlook, especially when taking into account that both the US and Europe still face deep structural problems.

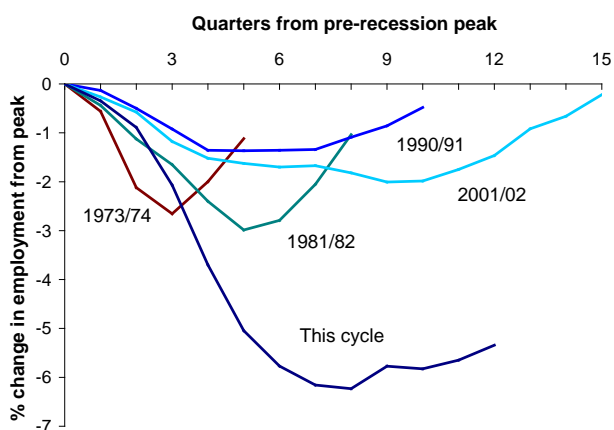
Disappointing payrolls data from the US also hint at deeper seated problems. Indeed, the current economic cycle has been unusual in terms of the differential impact on employment across the advanced economies. The rise in the headline unemployment rate has been particularly sharp in the United States, for example, while the number of job losses has been more muted among the core Eurozone economies.

Employment losses in the United States have also been exceptional when compared to past domestic cycles and job creation during the recovery phase has so far proved slower. As a result, the mean duration of unemployment in

the United States has now climbed to 40 weeks, twice the peak duration experienced in the past three recessions. As the unemployed tend to lose skills and motivation the longer they are without work, this raises the likelihood of a rise in structural unemployment – which thanks to a flexible labour market has not been a significant problem for the US economy during the post-War period.

In part, the large impact on unemployment in the United States may reflect the structural adjustments underway within the bloated construction and real estate sectors. It may also be a consequence of the increased flexibility of the US jobs market and the relative ease of shedding workers during a downturn (compared to labour markets in Europe). But this wage and price flexibility can also increase the risk of deflation in an economy faced with an overhang of debt, where deleveraging in the private sector has resulted in interest rates at their lower bound amid downward pressure on output.

### US employment in past downturns



Source : Oxford Economics/Haver Analytics

Policymakers are cognisant of the dangers posed by price deflation to a highly leveraged economy. Deflation increases the real burden of debt, prompting firms and consumers to rush to repay loans as credit dries up. This depresses demand, leading to additional price cuts that further inflate debt levels, potentially leading the economy into a deflationary spiral.

With interest rates at the zero bound, central bankers used unconventional monetary policy tools in the aftermath of the financial crisis to stimulate the economy and ensure that inflation remained in positive territory. These non-conventional policies included so-called quantitative easing (QE), which involves purchases of government securities.

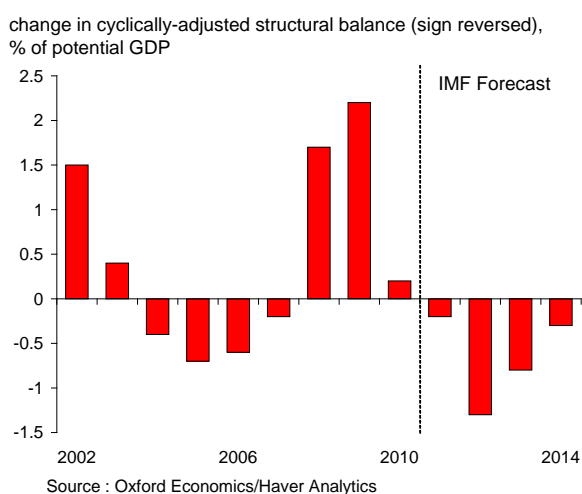
QE programs were designed to work by increasing the money supply, helping to inflate asset prices, thereby boosting wealth and confidence, leading to higher consumer spending. The programs also aimed to lower the value of the currency (helping to improve the trade balance), and raise inflation expectations (thereby lowering real interest rates).

Nonetheless, there are also concerns amongst policymakers that the effectiveness of QE may be waning. First, banks appear to be hoarding much of the cash injected into the economy, as demonstrated by the sharp increase in excess reserves of commercial banks held at the Federal Reserve (although this increase is distorted by the decision to pay interest on these reserves).

Second, the benefits of the Fed's QE policies to the economy were dampened by the rise in global commodity prices that is likely to have been partly related to these policies. As most commodities are priced in US dollars, a weaker dollar tends to push up the price of commodities. The QE regime also supported capital flows into alternative asset classes, including commodities, which further supported prices.

Expansionary fiscal policy has also been a key factor supporting the economic recovery in developed economies over the past two years. What makes the latest slowdown in growth particularly hazardous is that it is coinciding with the withdrawal of this policy stimulus. In fact, the IMF estimates that the removal of fiscal stimulus faced by the developed economies in 2012 will be the most severe since 1981.

### Fiscal stimulus in advanced economies



In Europe, governments have already embarked upon ambitious fiscal austerity programs to satisfy the financial markets that their public finances are on a sustainable path. Meanwhile, within the United States, there appears to be little appetite within Congress for additional fiscal stimulus given the present trajectory of the public debt ratio. The White House is negotiating deficit cuts of between \$1 trillion and \$4 trillion over the next decade to win the Republicans' agreement to raise the ceiling on federal debt. The current stand-off over raising the debt ceiling also raises the risk that the US will have to make more substantial short-term spending cuts.

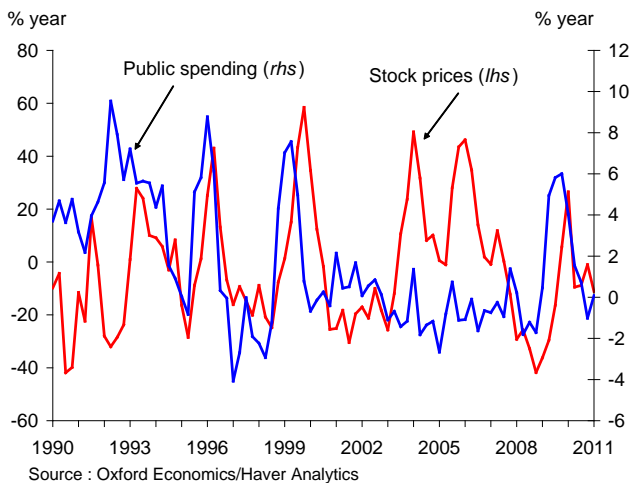
It is likely that a last minute compromise will eventually be reached on raising the debt ceiling. But it is clear that the US public sector is stretched to the point where it has become a source of risk itself. This was underscored by the ratings agency Standard & Poor's, after it cut the long-term rating outlook for US government debt from stable to negative in April, reflecting concerns over the lack of progress in cutting the budget deficit.

Against this background, the outlook remains uncertain as it is not clear how the private sector will cope when fiscal policy support is removed. Indeed, history suggests that policy tightening after financial crises can derail fragile recoveries. For example, the Japanese economy showed temporary signs of life when macroeconomic policy was supportive during the 1990s, but private activity soon faded when that policy support was withdrawn. Likewise, fiscal stimulus in Japan was associated with temporary rallies in the equity market during the

1990s, which subsequently proved illusory. Equity investors in the advanced economies could therefore be disappointed in coming months if Japan's experience provides a useful guide.

It should be borne in mind that the Japanese stock market was highly overvalued at the beginning of the 1990s, so the Japanese experience may not provide such a useful guide in this respect. Moreover, the Japanese government passed a series of fiscal stimulus packages in the 1990s that were often wound down very abruptly, before the economy had had time to strengthen. One example of such sudden fiscal tightening was the ill-fated decision to increase the VAT rate by 2 percentage points in 1997, which plunged the fragile Japanese economy back into recession.

### Japanese public spending and equity prices



Of course, it is difficult to know how much independent momentum the advanced economies can sustain until that policy support is withdrawn. If the recovery stalls, then US policymakers would likely set aside their differences and vote for a further round of (limited) fiscal stimulus spending. In contrast, the scope for another round of fiscal stimulus is much more limited in Europe and political opposition is likely to prove unyielding.

As the major economies emerged from recession in 2009 we warned that the recoveries in both the US and Europe were likely to be relatively bumpy and muted compared to recent historical experience. We highlighted how the normalisation of macro policy settings and a transition toward solid growth based on private final demand would require significant structural adjustments in many economies.

This view remains valid and we believe fears that the recovery in the advanced economies is coming to an end are exaggerated. The softening of growth in Q2 likely reflected a number of temporary factors that are already fading. In particular, oil prices have retreated from their highs, which should provide some relief to businesses, while the decline in petrol prices will help to support consumer spending.

Compared to the temporary slowdown in the summer of 2010, financial conditions are now more supportive. Labour markets in Europe are now far healthier and despite the disappointing employment report in May, the pace of US job creation so far in 2011 is nearly double what it averaged in 2010. The corporate sector is also better placed to withstand a temporary softening in

demand, following an additional year of expansion in profits, retained earnings and cash holdings.

Growth in the emerging markets should also remain a supportive factor. Although this has moderated of late this may well represent a 'soft landing' for these economies, which will allow the expansion to proceed on a more sustainable basis. Although slower growth in the Emerging Markets is currently being felt in the advanced nations, the avoidance of a boom-and-bust cycle in these economies has also markedly enhanced the sustainability of the recovery in the advanced economies. We expect the Emerging Markets to continue providing the main driving force behind the global recovery over the next few years.

Clearly the recovery in advanced economies will have to contend with significant headwinds relating to ongoing private sector deleveraging and the removal of policy stimulus. A sudden fiscal tightening in the US or a sovereign debt default in the Eurozone also present significant risks that would threaten financial markets and economic growth on both sides of the Atlantic. Notwithstanding these difficulties, we believe that the recovery in the developed nations has now reached a stage where it is self-sustaining, particularly when set in the context of continued rapid growth in the Emerging Markets. Fears of a 'lost decade' resembling Japan in the 1990s are thus overplayed.

## Recent Industry Performance

### Travel expansion continues

- Industry data show growth continuing at a steady pace across Europe.
- European airlines continue to add capacity and demand has remained relatively robust, even accounting for the ash cloud effect. Load factors are only fractionally below year ago levels and have improved in recent weeks.
- Occupancy rates increased across Europe over the first five months of the year, but slowed in Eastern and Southern Europe in May. ADR is now the dominant driver of lodging revenue growth.
- Strong year-over-year comparisons were realized in April due to the weak performance in 2010 brought about by the volcanic ash cloud. However, industry performance will likely slow in the second half of the year against the headwinds of anaemic economic growth and in comparison to the strongest periods of the travel recovery.

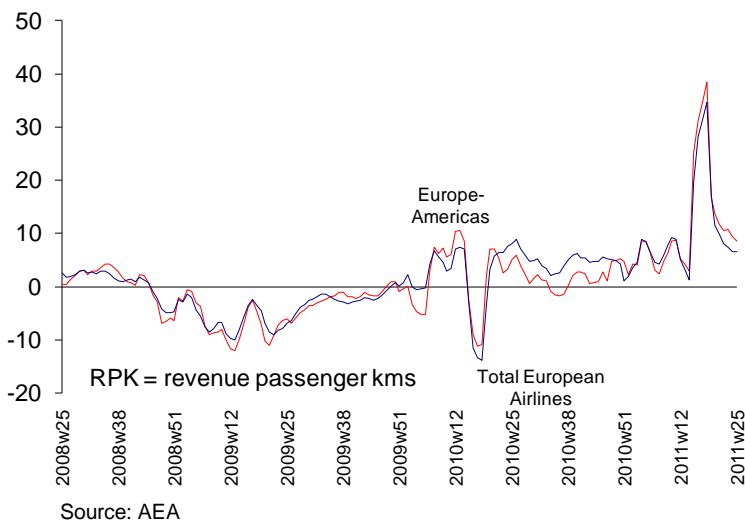
### Air Transport

Unsurprisingly, data from the Association of European Airlines show volatility in the early part of the second quarter as the rebound from air space closures in April 2010 was realised in late April. Discounting these outlying data points, European airlines have continued to post solid performance over recent weeks.

Overall, European Revenue Passenger Kilometres have consistently grown at a rate above 5% since April. Averaging over 7% in recent weeks, this measure of demand is exhibiting sustained strength. North American routes have produced the strongest performance in recent weeks and intra-European routes continue to be a key driver.

### European airline passenger traffic

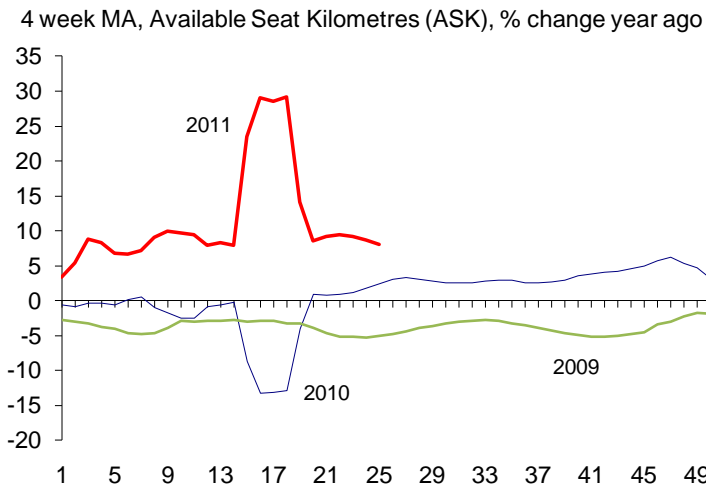
RPK, 4 week moving average, % change year ago



Capacity also continues to expand, even ignoring the extreme values produced compared to April 2010. Available Seat Kilometres (ASK) grew at an average

rate of 8.5% over recent weeks (the 9 weeks after week 16) compared to a 7.8% increase in Available Seat Kilometres (ASK) over the first 14 weeks of 2011. While load factors remain slightly softer than 2010, the performance of passenger traffic has helped load factors advance in recent weeks, averaging 78% over the past 9 weeks and topping 80% most recently.

### European airlines capacity

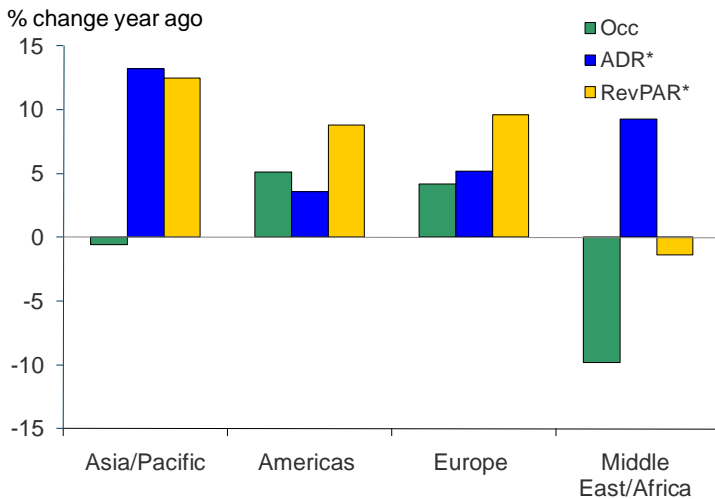


Source: AEA

## Accommodation

The global lodging recovery is showing signs of slowing. Due to civil unrest across the Middle East and Northern Africa, occupancy rates in MENA hotel performance has plummeted in the first half of the year. Occupancy in Asia/Pacific is fractionally below rates set in 2010 through May while the Americas and Europe have held relatively steady for the year with small improvements in May. Average Daily Rate (ADR) continues to push higher across the globe driving Revenue per Available Room (RevPAR) higher in most regions.

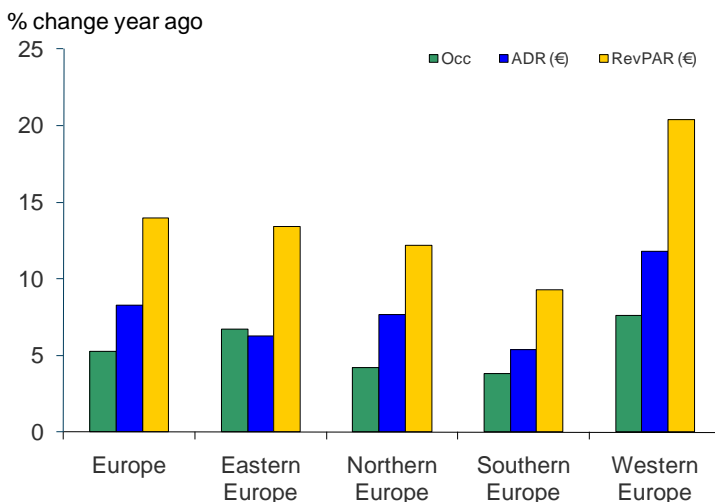
### Global Hotel Performance, Jan-May 2011



Source : STR Global \* ADR and RevPAR denominated in US\$ except for Europe

The European lodging sector continued to expand in May, although Eastern and Southern Europe experienced some slowing in occupancy rates. Overall, each sub-region realized growth in the three metrics (occupancy, ADR, and RevPAR). Encouragingly, ADR growth has continued to accelerate across Europe.

### Hotel Performance, May 2011

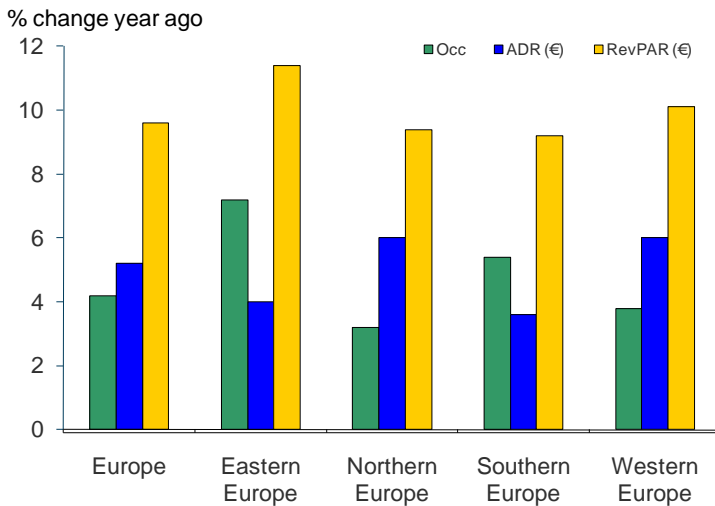


Source : STR Global



For the year through May of 2011 occupancy rates grew 4.2% across Europe as Eastern Europe experienced the highest growth despite cooling off in May. ADR continues to strengthen in response to demand, outpacing occupancy growth in Northern and Western Europe. RevPAR, consequently, continued to push higher and is also strongest in Eastern Europe.

### Hotel Performance, Jan-May 2011

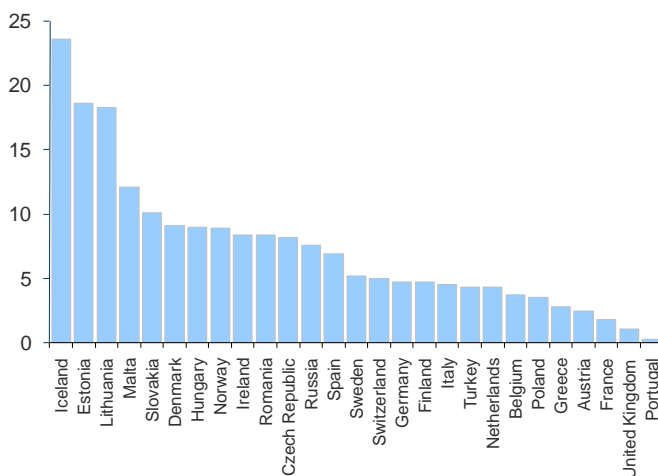


Source : STR Global

Through the first 5 months of the year, every country in Europe (as reported by STR Global) has experienced an increase in occupancy rates. Only two countries (Czech Republic and Malta) have experienced a decline in ADR for the year through May. But given higher occupancy rates, RevPAR has increased in all countries through May.

### Hotel Occupancy Rates

Jan-May YTD, % change year ago



Source : STR Global

## Key Source Market Performance

### Long haul and regional markets shine

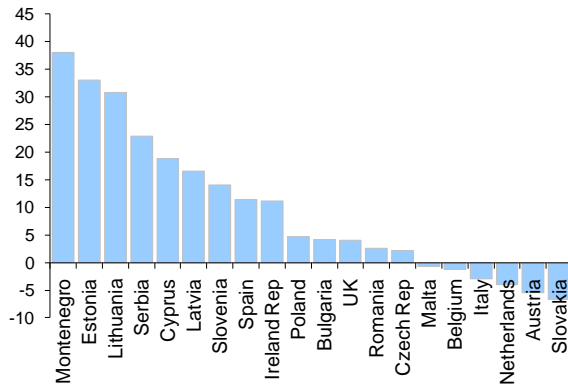
- Russia and France lead intra-European source markets
- US arrivals have been particularly robust
- There are some signs of slowing in the most recent data as the rebound effect from the volcanic ash cloud in April 2009 becomes less pronounced

### Key intra-European markets

German travellers are venturing beyond their core travel area in greater numbers. Arrivals in the Netherlands and Austria have declined through this point in the year, but 15 of 19 destinations report increases in German arrivals. Additionally, nights spent in destinations by Germans have increased for half the 16 destinations reporting both nights and arrivals.

#### Visits from Germany to Select Destinations

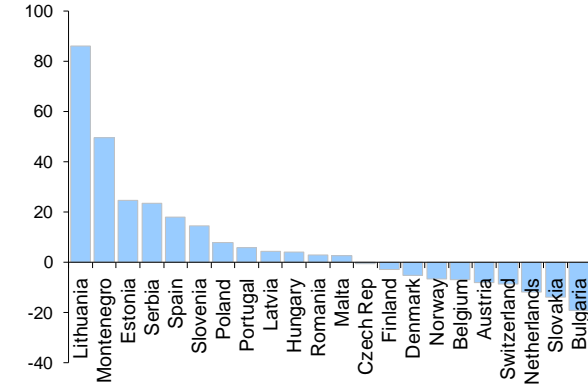
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

#### German Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago

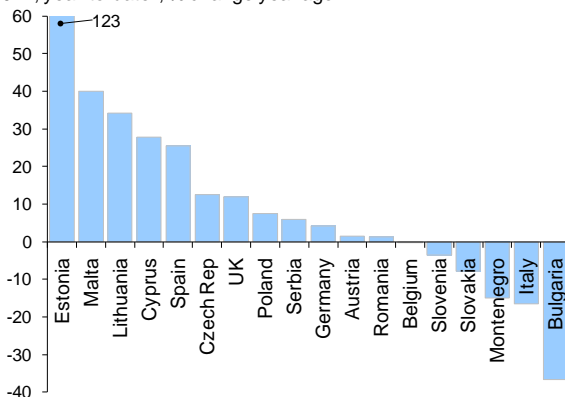


Source : TourMIS, ETC, \*date varies (Mar-May) by destination

More than half of the reporting European destinations indicate growth in arrivals of Dutch travellers and a majority of those reported double-digit growth as late as May of this year. Dutch visitor nights abroad have also increased for half of reporting destinations. In some markets, visits have increased while nights have fallen, indicating a declining average length of stay.

#### Visits from Netherlands to Select Destinations

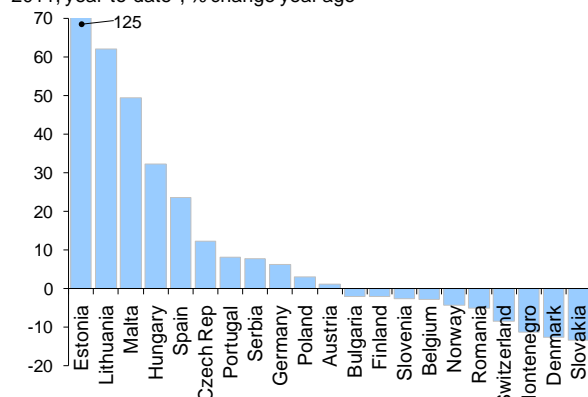
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

#### Netherlands Nights in Select Destinations

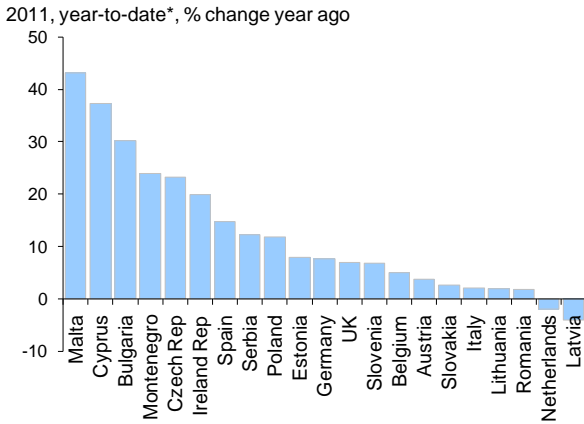
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

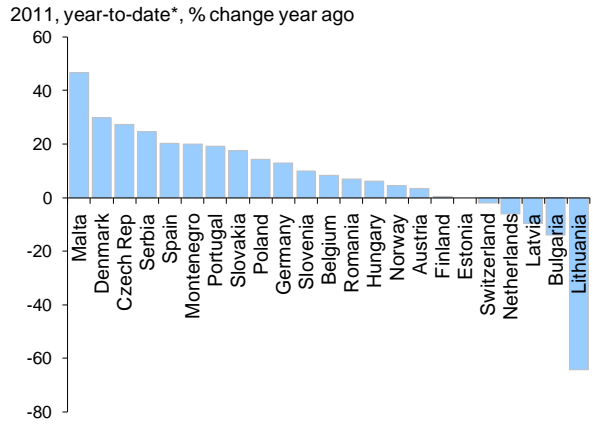
France remains a top performing source market. Arrivals of French travellers grew in the majority of markets. In addition, French travellers are spending more nights abroad in most of these destinations.

**Visits from France to Select Destinations**



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

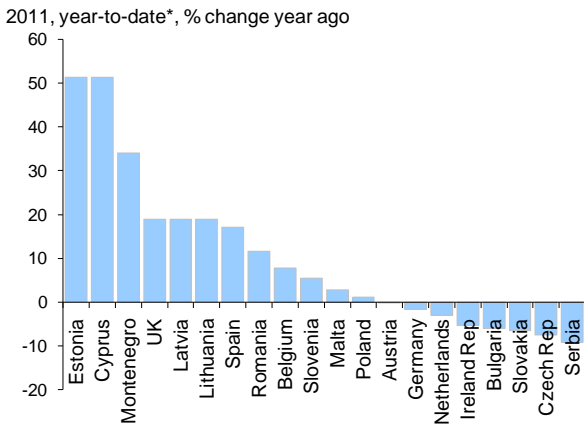
**French Visitor Nights in Select Destinations**



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

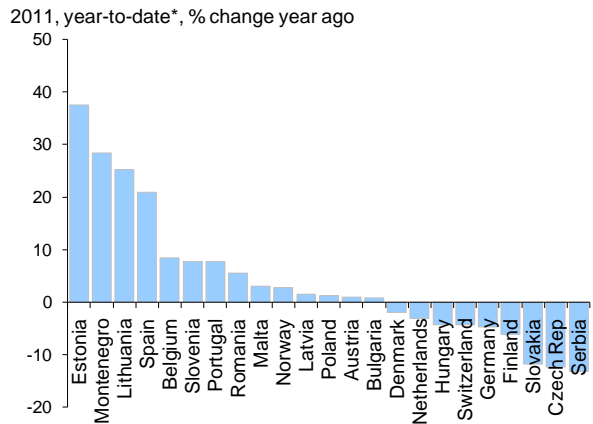
Italy continues to rebound from its low points last year. More than half of 21 destinations reported growth into the second quarter of 2011 and growth remains relatively robust. Nights abroad are also growing across most European destinations outpacing arrivals in half of the reporting destinations.

**Visits from Italy to Select Destinations**



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

**Italian Visitor Nights in Select Destinations**

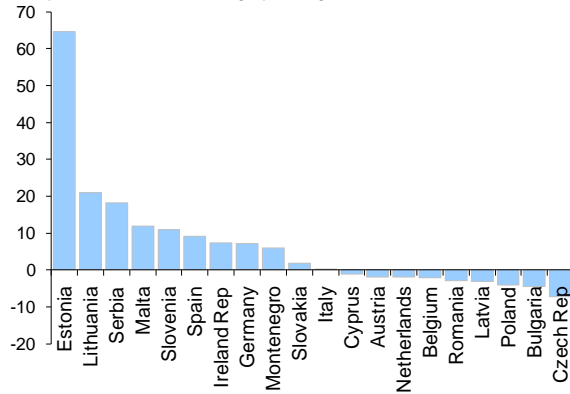


Source : TourMIS, ETC, \*date varies (Mar-May) by destination

Arrivals and nights of British travellers have increased for a little more than half reporting destinations this year. While these are welcome additions given UK outbound travel over the past two years, nights data indicate that British travellers are shortening their trips somewhat.

### Visits from UK to Select Destinations

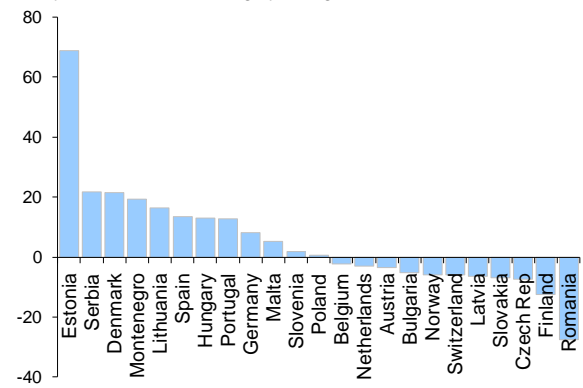
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

### UK Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago

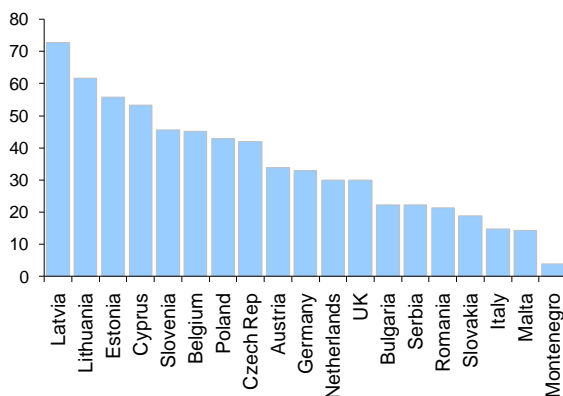


Source : TourMIS, ETC, \*date varies (Mar-May) by destination

Russia continues to shine as a leading source market. Early 2011 data indicate continued, robust growth of Russian travel as arrivals have increased in all reporting destinations. Russian visitor nights have declined in only two destinations thus far, but there are indications that length of stay is slipping for Russian travellers.

### Visits from Russia to Select Destinations

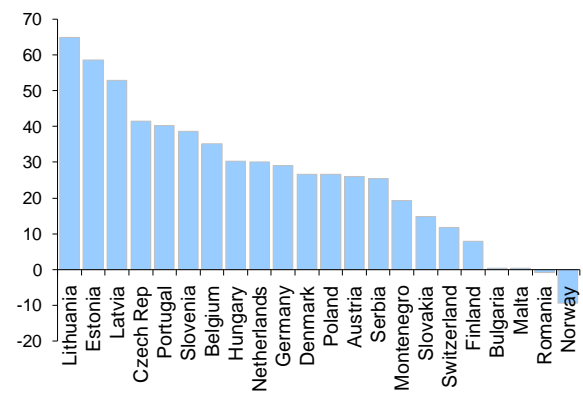
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

### Russian Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago



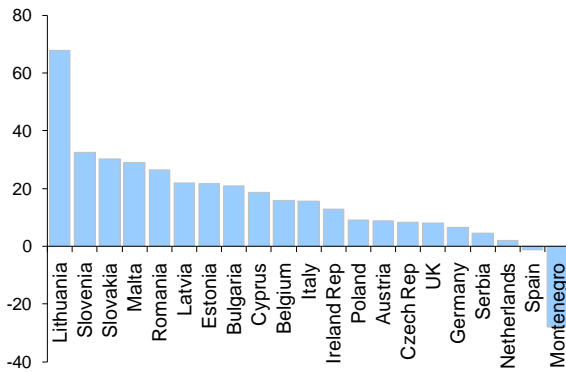
Source : TourMIS, ETC, \*date varies (Mar-May) by destination

## Non-European markets

US travel to Europe is continuing to expand in 2011. All but two destinations have reported growth in arrivals from the US and most report quite robust growth. Visitor nights have also increased in all but two destinations, but like many other source markets, length of stay is under pressure.

### Visits from US to Select Destinations

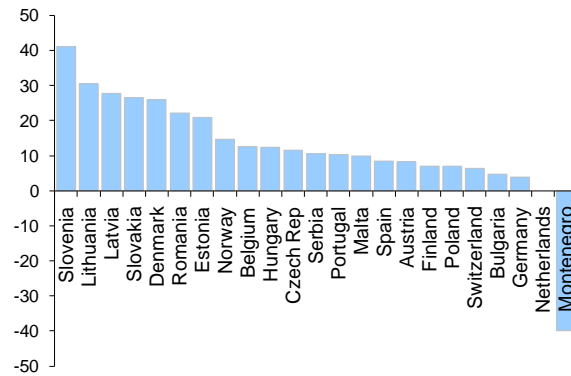
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

### US Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago

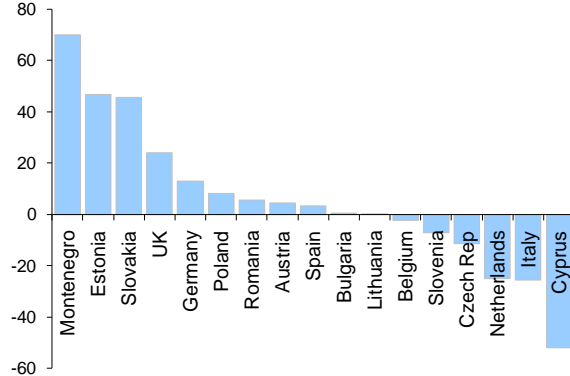


Source : TourMIS, ETC, \*date varies (Mar-May) by destination

Japanese travel to Europe is showing some expected signs of weakening after the catastrophic earthquake, tsunami, and nuclear disaster disrupted the Japanese economy in March. Many destinations are still reporting gains in arrivals and/or nights from Japan. However, those destinations reporting data through May are already experiencing weaker arrivals.

### Visits from Japan to Select Destinations

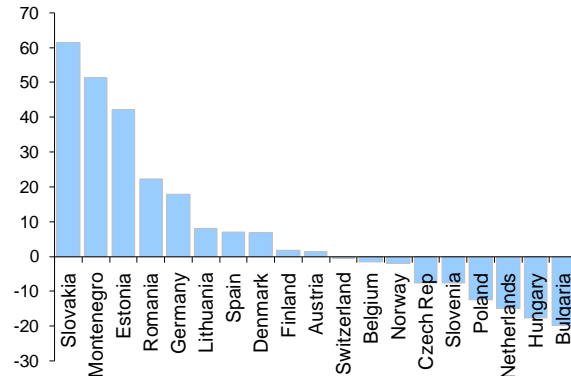
2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

### Japanese Visitor Nights in Select Destinations

2011, year-to-date\*, % change year ago



Source : TourMIS, ETC, \*date varies (Mar-May) by destination

Our global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of the Tourism Decision Metrics (TDM) model, which is updated in detail three times per year. Full origin-destination country detail is available online to subscribers.

## Global Tourism Forecast Summary Table

TDM Visitor Growth Forecasts, % change												
	Inbound*						Outbound**					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
<b>World</b>	<b>1.9%</b>	<b>-4.4%</b>	<b>6.6%</b>	<b>2.9%</b>	<b>4.8%</b>	<b>3.9%</b>	<b>3.0%</b>	<b>-4.4%</b>	<b>7.2%</b>	<b>3.7%</b>	<b>5.1%</b>	<b>4.1%</b>
<b>Americas</b>	<b>2.7%</b>	<b>-4.9%</b>	<b>6.1%</b>	<b>4.3%</b>	<b>4.9%</b>	<b>4.3%</b>	<b>0.7%</b>	<b>-2.3%</b>	<b>6.7%</b>	<b>4.2%</b>	<b>5.2%</b>	<b>4.2%</b>
North America	2.6%	-5.8%	6.7%	3.5%	4.7%	4.2%	0.7%	-3.3%	6.8%	2.3%	4.2%	3.5%
Caribbean	0.9%	-3.3%	3.2%	4.4%	4.2%	3.2%	-12.4%	3.6%	-2.7%	9.4%	8.3%	7.0%
Latin America	4.5%	-3.1%	5.9%	6.9%	6.2%	5.5%	5.2%	-0.1%	8.9%	10.2%	8.0%	5.8%
<b>Europe</b>	<b>0.0%</b>	<b>-6.0%</b>	<b>3.1%</b>	<b>2.6%</b>	<b>3.9%</b>	<b>3.3%</b>	<b>0.6%</b>	<b>-6.0%</b>	<b>5.6%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>3.9%</b>
EU15	-1.8%	-5.9%	2.7%	2.4%	3.6%	2.7%	1.4%	-3.1%	3.1%	2.7%	3.4%	3.0%
Eastern Europe	2.6%	-8.7%	3.5%	4.0%	5.2%	4.8%	-0.5%	-10.5%	8.5%	6.7%	5.1%	5.2%
<b>Asia</b>	<b>1.2%</b>	<b>-1.5%</b>	<b>12.6%</b>	<b>4.3%</b>	<b>6.9%</b>	<b>4.7%</b>	<b>3.6%</b>	<b>0.0%</b>	<b>10.5%</b>	<b>4.8%</b>	<b>7.0%</b>	<b>4.2%</b>
North East	0.0%	-2.9%	13.8%	3.1%	8.1%	5.4%	1.9%	-1.1%	9.2%	4.4%	6.8%	3.9%
South East	3.5%	0.9%	12.0%	6.0%	5.3%	3.6%	9.3%	3.8%	13.2%	5.6%	7.3%	4.4%
South	3.6%	-4.2%	13.8%	9.2%	7.9%	4.4%	0.4%	-6.0%	12.7%	4.5%	10.1%	7.5%
Oceania	-1.2%	-0.6%	4.4%	2.3%	3.2%	4.2%	4.5%	5.2%	11.1%	4.3%	2.7%	2.5%
<b>Africa</b>	<b>7.6%</b>	<b>2.2%</b>	<b>10.5%</b>	<b>2.0%</b>	<b>5.1%</b>	<b>4.1%</b>	<b>6.9%</b>	<b>-5.7%</b>	<b>6.7%</b>	<b>-2.7%</b>	<b>5.6%</b>	<b>4.8%</b>
<b>Mid East</b>	<b>16.7%</b>	<b>-4.9%</b>	<b>14.2%</b>	<b>-2.4%</b>	<b>4.9%</b>	<b>4.1%</b>	<b>27.5%</b>	<b>-10.8%</b>	<b>9.6%</b>	<b>-3.3%</b>	<b>4.8%</b>	<b>4.1%</b>

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

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

## Economic Outlook for Key Markets

### Is the global recovery losing momentum?

- Moderating growth in the emerging markets, which have been the engine of the recovery up until now, provides one reason for the apparent loss of momentum in the recovery.
- Short-term supply chain disruptions arising after the March disaster in Japan have likely contributed to softening the global economy in Q2.
- The core countries continue to drive the Eurozone recovery and aggregate GDP in these countries has now reached pre-crisis levels.
- In the US, economic headwinds remain formidable. Consumer confidence is very low and government spending is under pressure due to budgetary constraints.
- There is a good chance GDP losses will be regained quite quickly in Japan as reconstruction begins.

### Global Overview

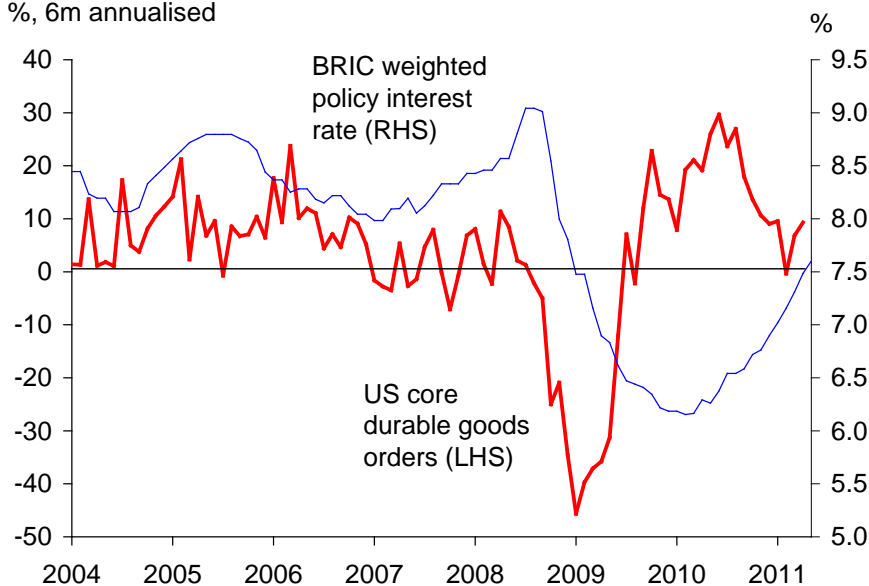
Over the last month, global stock markets have fallen by around 5% with investors increasingly concerned that the world economic recovery may be stalling. This has followed a series of weaker than expected data releases in the major economies, and while these partly resulted from temporary effects from disruption in Japan, more enduring factors are also present.

This has been reflected in a number of forecast downgrades. We now see US growth at 2.5% this year and 2.9% next, compared to 2.7% and 3.1% last month with the UK and Japanese forecasts also revised down.

One reason for the apparent loss of momentum is moderating growth in the emerging markets, which have been the engine of the recovery up until now.

### BRIC interest rates and US durable goods

%, 6m annualised



Source : Oxford Economics/Haver Analytics

Rising interest rates in the key emergers appear to have started to curb investment demand, with notable moderations over the last year in countries like Brazil, India and Korea. The steep rise in oil prices also appears to have had an impact, sapping consumer real incomes and damaging energy-intensive sectors.

Meanwhile, the major economies do not appear capable of taking up the slack. This is unsurprising given the weak growth of real income. Household disposable income growth in the US, Eurozone, UK and Japan – together 60% of global consumption – is either shrinking or growing at an anaemic rate.

Against this background the corporate sector in the major economies is likely to stay cautious about ramping up employment and investment and the global economy will remain very vulnerable to further financial shocks – for example a disorderly end to the long-running Eurozone sovereign debt crisis.

There seems little doubt that downside risks to global growth have increased over the last month. And in a longer perspective, it is notable that some of our current baseline forecasts – especially for the US – have moved significantly towards what was considered a ‘sub-par’ growth outcome six months ago.

Summary of International Forecasts						
	2009	2010	2011	2012	2013	2014
<b>Real GDP</b>						
<b>North America</b>						
United States	-2.6	2.9	2.5	2.9	3.6	3.5
Canada	-2.8	3.2	2.7	2.7	3.0	2.7
<b>Europe</b>						
Eurozone	-4.1	1.7	2.0	1.6	1.9	2.0
Germany	-4.7	3.5	3.5	1.9	2.1	2.1
France	-2.6	1.4	2.2	1.9	2.0	2.0
Italy	-5.2	1.2	0.9	1.3	1.2	1.4
UK	-4.9	1.3	1.4	2.2	2.9	2.8
EU27	-4.2	1.8	2.1	2.0	2.3	2.3
<b>Asia</b>						
Japan	-6.3	4.0	-0.5	3.4	2.4	1.9
Emerging Asia, excl Japan	5.4	9.0	7.2	7.2	7.7	7.2
China	9.2	10.3	9.0	8.4	9.1	8.6
India	7.0	9.0	7.6	8.4	9.4	8.4
<b>World</b>	-2.1	3.9	3.2	3.7	4.0	3.8
<b>World 2005 PPPs</b>	-0.8	4.8	4.0	4.5	4.8	4.6
<b>World trade</b>	-12.7	13.9	7.2	7.6	8.1	7.6



## Eurozone

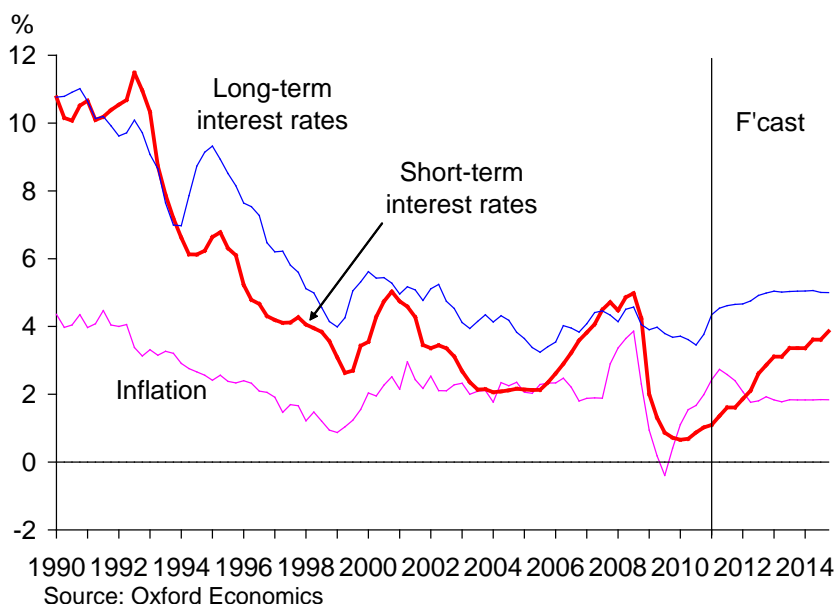
Eurozone GDP growth was robust in Q1 at 0.8% on the quarter, as investment in particular expanded strongly. The core Eurozone continues to drive the recovery and aggregate GDP in these countries has now reached pre-crisis levels.

It is unlikely that the strong pace of growth in the core Eurozone will be maintained. The Purchasing Managers' Index (PMI) points to a slowdown in GDP growth in Q2 in these countries as export growth tapers off and investment is hampered by the uncertain economic outlook and financing constraints in some countries. We expect GDP growth to average 2% this year and 1.6% next year.

Prospects in the peripheral countries remain dire with tensions still high in peripherals' sovereign debt markets. It now seems likely that the Eurozone is set to bail out Greece for a second time, but arguments continue over whether this should be accompanied by debt restructuring.

Nevertheless, the ECB signalled a rate increase next month and we expect at least one further rate hike before the end of the year as the ECB remains more concerned by inflation in the core than by growth in the periphery. Although commodity prices are likely to keep inflation above target for a while yet and this year's VAT hikes in a number of countries are also pushing up headline inflation, the chances that this will translate into broader-based price pressures are low.

### Eurozone: Interest rates and inflation



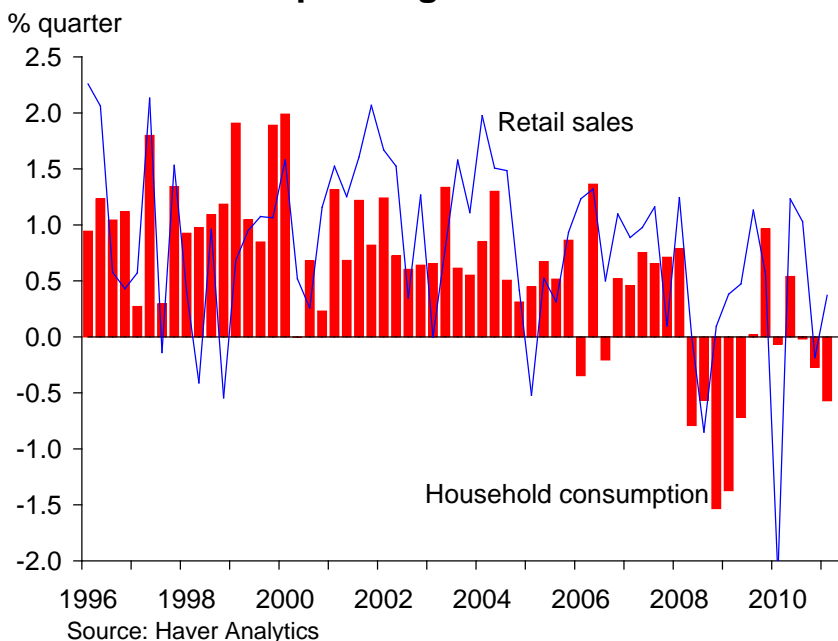
## UK Economy

Q1 GDP growth was unrevised at 0.5% in the second release, but the question marks over data quality not only remain unresolved, but have intensified, in light of some odd movements and apparent inconsistencies in the expenditure components. The sharp decline in consumer spending looks particularly odd in the context of modest growth in retail sales in Q1 and a strong rebound in distribution output.

The likely outturn for Q2 is difficult to call. On one hand the April retail figures appear to have been boosted by the extra Bank Holiday but, on the other, we are hearing anecdotally that workers have used the unusual pattern of Bank Holidays to take more holiday than they would typically take at that time of year, while motor vehicle output appears to have been hindered by supply chain disruptions arising from the Japanese disaster. Given the extent to which the PMI surveys have slowed in recent months, we expect to see Q2 GDP growth come in weaker than Q1.

Inflation rose sharply in April but remained steady in May with core price pressures easing a little. We expect inflation to move higher in the summer, as commodity price rises continue to feed through the supply chain, but it should slow sharply in early-2012 as the VAT rise falls out of the calculation. Given the fragility of the growth outlook, the first rise in interest rates is still likely to be some way off. We expect the first move to come in November.

### UK: Consumer spending



## US Economy

The weakness of the first quarter of 2011 appears to have extended into the second quarter. This was apparent in data for consumer spending, industrial production and the labor market in April and May.

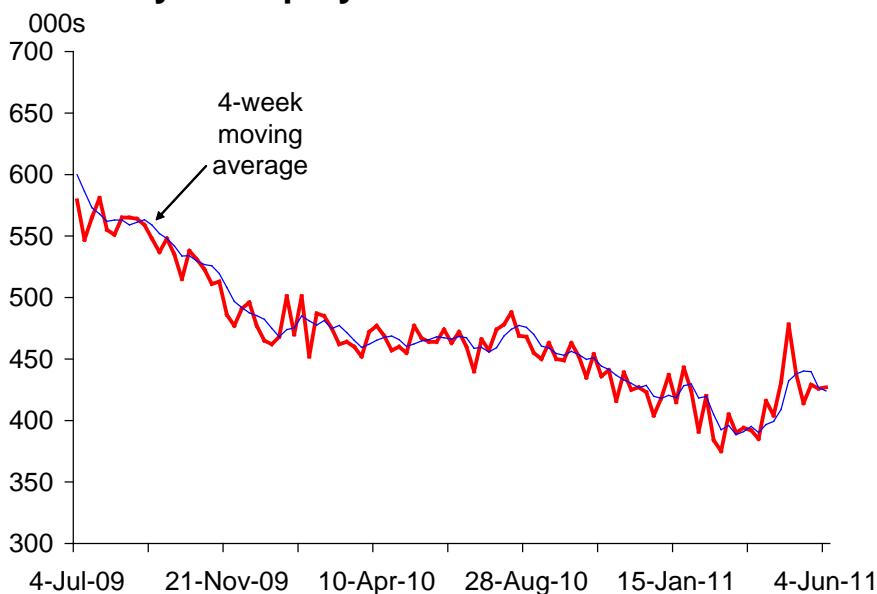
Economic headwinds remain formidable. Consumer confidence is very low and given current conditions is likely to remain so for some time. There is as yet no sign of a recovery in the housing sector and government spending is under pressure due to budgetary constraints.

Still, growth is expected to pick up over the second half of the year and in 2012. Some of the current weak patch can be attributed to temporary factors and the underlying trend in employment remains positive. In addition, businesses have ample cash flow to support investment and hiring.

The battle over raising the federal debt ceiling is intensifying. Agreement on an increase combined with either a package to reduce the deficit or a mechanism to force fiscal restraints if targets are not met is expected before the end of July, but there is some risk that negotiations will fail.

The Federal Reserve's bond-buying program is ending this month and is unlikely to be extended. We continue to expect the Fed to keep the federal funds rate near zero through the end of the year.

### Weekly unemployment claims



Source: Employment and Training Administration

## Japan

After a severe slump in March following the massive earthquake and tsunami in the north of the country, Japan's economy showed signs of stabilising in April and May.

Industrial output rose slightly in April after a 15% drop in March, and the May PMI suggested recovery continued last month as plants reopened and supply chains started to be restored. We expect further rebounds in output in the coming months, despite continued power supply disruptions.

The consumer side of the economy has also shown some signs of a rebound, although confidence remains weak. Investment indicators meanwhile remain subdued with reconstruction spending not yet providing any significant impulse.

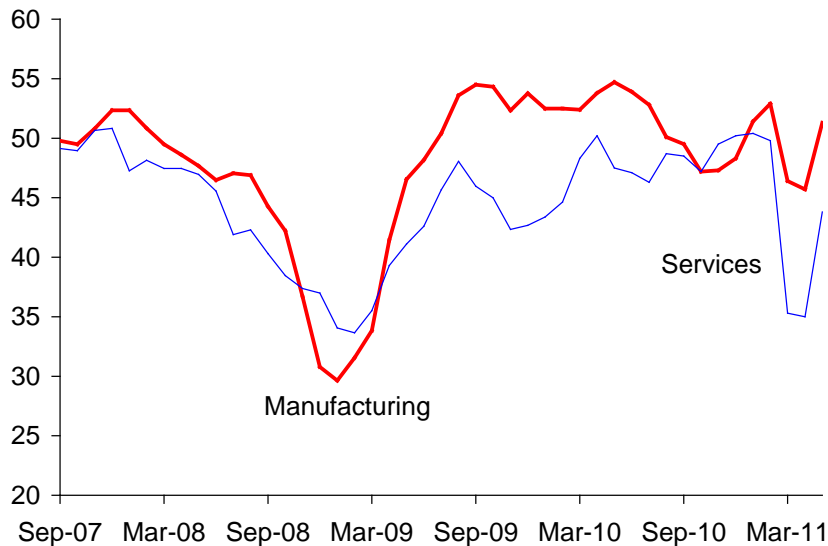
GDP dropped by 0.9% in the first quarter thanks to the impact of natural disasters, putting Japan back in recession. A further, more moderate, decline is also likely in Q2.

But there is a good chance these GDP losses will be regained quite quickly as reconstruction begins. We expect activity to pick up significantly from Q3 and while we expect the economy to contract 0.5% this year we see growth of over 3% in 2012.

Political manoeuvrings in recent weeks have retarded progress on reconstruction, with PM Kan's position now looking shaky. One possible outcome is now the formation of a grand coalition government which might possibly ease parliamentary gridlock.

### Japan: PMIs

Index



Source : Markit

## Emerging Markets

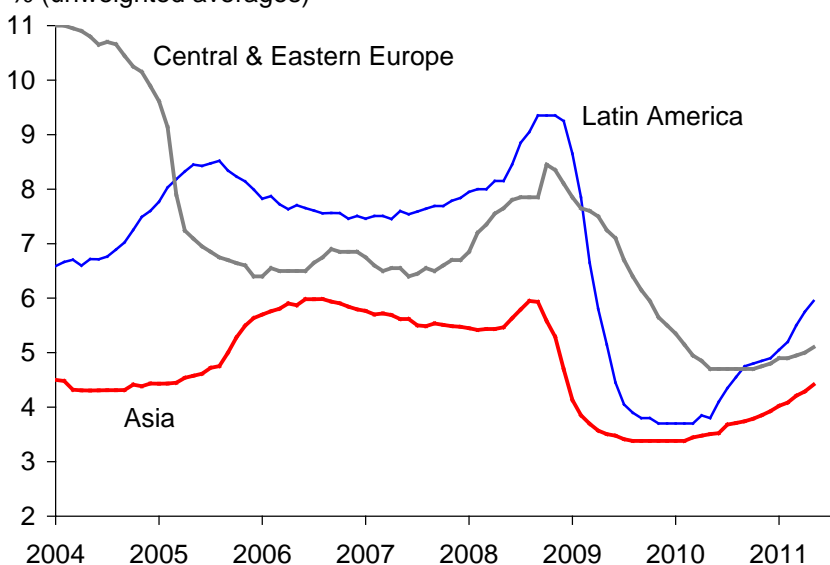
China's manufacturing PMIs edged down in May, continuing the pattern of recent months, but remained above the 50 expansion-contraction line. Doubtless this reflects the impact of the various tightening measures over the last year and anticipation of further moves given the authorities' emphasis on the importance of controlling inflation. And though some sectors have slowed quite sharply, most areas of the economy appear to have decelerated much less. And although the tightening process will continue in the face of a rise in the CPI to 5.5% in May, there are no reasons yet for the authorities to make sudden changes of policy, which lessens the danger of triggering a sharp slowdown.

In addition to the impact of tighter policy and high commodity prices, the growth of Chinese industrial value added in April was probably also dampened by the disaster in Japan. Industrial output fell in that month in Korea, Taiwan, Thailand and Singapore, hindered by disruption at key Japanese suppliers. But this headwind is likely to be temporary and largely contained to Q2. Taiwanese export orders in April were 10.1% up on a year earlier, with those to the US growing strongly, while estimated seasonally adjusted Korean exports rose slightly on the month in May and the country reported its fastest annual import growth in four months, suggestive of reasonable domestic demand as well as high import prices. Indicating a confidence in the underlying economic outlook, the Thai central bank raised interest rates by another 25bp on 1 June, continuing its policy of normalisation in the face of limited spare capacity and rising input costs. For some particularly energy-intensive industries, this year's jump in oil prices is likely to hit profitability sufficiently hard that it leads to lower investment, but in the main the rise is probably not yet large enough to trigger a general deterioration of business and consumer confidence. The latter would be a lot more likely if the oil price was to rise to US\$150 or even higher, particularly as this development would have serious repercussions for emergers' exports to the still fragile US and EU economies.

Year-on-year GDP growth in India slowed to 7.8% in Q1, resulting in an 8.5%

### Emergers: Policy interest rates

% (unweighted averages)



Source: Haver Analytics / Oxford Economics

expansion for all of fiscal 2010/11. We expect a moderation to 7.6% in 2011/12 as consumer spending and investment growth are undermined by rising interest rates and high inflation (domestic fuel prices are likely to rise further in the next few months as the subsidy costs become too much for the government to bear). Car sales growth eased to 13% in April and 7% in May from 24% in Q1. However, the manufacturing PMI edged down only fractionally in May and was still at the high level of 57.5, suggesting that the economy should be able to withstand the further tightening in monetary policy (a 25bp rate hike is expected in June) needed to control inflation expectations.

In contrast to the situation in Asia, where PMIs fell only marginally in May, those in Central and Eastern Europe declined more sharply; in Russia, the PMI fell to its lowest level in a year, while those in Poland and Czech also moved down noticeably. In the case of the latter two, this development is likely to reflect May's weakening of industrial sentiment in the core Eurozone in response to the escalation of the area's debt crisis, while in Russia subdued domestic demand is likely to be the main factor – though with high energy export revenues and an improving banking sector further downside risks should be limited. The Polish central bank raised interest rates by 25bp in both May and June and we expect further tightening in H2. In other countries in the region, where much larger amounts of spare capacity are dampening the pass-through of cost increases, the pressure for higher rates is much less. And if May's weakening in core Eurozone industrial activity developed into a trend this would be a major blow to countries such as Romania and Hungary, whose modest recoveries have been overwhelmingly driven by exports.

In Brazil, domestic demand growth does not appear to be as dynamic as in most of 2010, with retail sales more subdued and consumer confidence dropping in each of the last three months (albeit still at high levels). However, the labour market is at its tightest in years and credit is still expanding – so the outlook for growth remains reasonable. In addition, investment is being buoyed by the surge in FDI inflows this year (previously considered the main factor keeping the BRL strong). In contrast to other regions, the recoveries in the smaller countries of Central and Eastern Europe have still not made up for the drops suffered in the 2008/09 recessions. Moreover, these recoveries have been overwhelmingly export-driven so any deterioration in the main Eurozone countries would be a huge blow.

## ETC Member Organisations

<b>Austria</b>	Austrian National Tourist Office (ANTO)
<b>Belgium</b>	Flanders: Tourist Office for Flanders Wallonia: Office de Promotion du Tourisme de Wallonie et de Bruxelles (OPT)
<b>Bulgaria</b>	Bulgarian State Agency for Tourism
<b>Croatia</b>	Croatian National Tourist Board (CNTB)
<b>Cyprus</b>	Cyprus Tourism Organisation (CTO)
<b>Czech Republic</b>	CzechTourism
<b>Denmark</b>	VisitDenmark
<b>Estonia</b>	Estonian Tourist Board - Enterprise Estonia
<b>Finland</b>	Finnish Tourist Board (MEK)
<b>France</b>	Atout France - France Tourism Development Agency
<b>FYR Macedonia</b>	Agency for Promotion and Support of Tourism
<b>Georgia</b>	Department of Tourism and Resorts of Georgia
<b>Germany</b>	German National Tourist Board (GNTB)
<b>Greece</b>	Greek National Tourism Organisation (GNTO)
<b>Hungary</b>	Hungarian National Tourist Office (HNTO)
<b>Iceland</b>	Icelandic Tourist Board
<b>Ireland</b>	Fáilte Ireland and Tourism Ireland Ltd.
<b>Italy</b>	Italian State Tourism Board (ENIT)
<b>Latvia</b>	Latvian Tourism Development Agency (LTDA)
<b>Lithuania</b>	Lithuanian State Department of Tourism
<b>Luxembourg</b>	Luxembourg National Tourist Office
<b>Malta</b>	Malta Tourism Authority (MTA)
<b>Monaco</b>	Department of Tourism and Conferences
<b>Montenegro</b>	National Tourism Organisation of Montenegro
<b>Netherlands</b>	Netherlands Board of Tourism & Conventions (NBTC)
<b>Norway</b>	Innovation Norway
<b>Poland</b>	Polish National Tourist Office (PNTTO)
<b>Portugal</b>	Turismo de Portugal, I.P.
<b>Romania</b>	Ministry of Tourism
<b>San Marino</b>	Ministry of Tourism
<b>Serbia</b>	National Tourism Organisation of Serbia
<b>Slovakia</b>	Slovak Tourist Board
<b>Slovenia</b>	Slovenian Tourist Board (STB)
<b>Spain</b>	Turespaña - Instituto de Turismo de España
<b>Sweden</b>	VisitSweden
<b>Switzerland</b>	Switzerland Tourism
<b>Turkey</b>	Ministry of Culture and Tourism
<b>Ukraine</b>	National Tourist Office
<b>United Kingdom</b>	VisitBritain