

Outlook for inbound and domestic tourism in 2023

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September 2022



Our journey will cover...

- Limitations
- Public Health
- Geopolitics
- Economics
- Inbound Tourism
- Domestic Tourism
- Conclusions

Limitations

- The International Passenger Survey offered limited coverage in 2021, and remained unable to interview at Eurotunnel in early 2022
- The most recent data only covers the period up until April, with May data due on 20th September
- Despite having resumed in April 2021, using a revised methodology, no volume or value data on either overnight or day trip domestic tourism has been released for 2021 or 2022 as yet

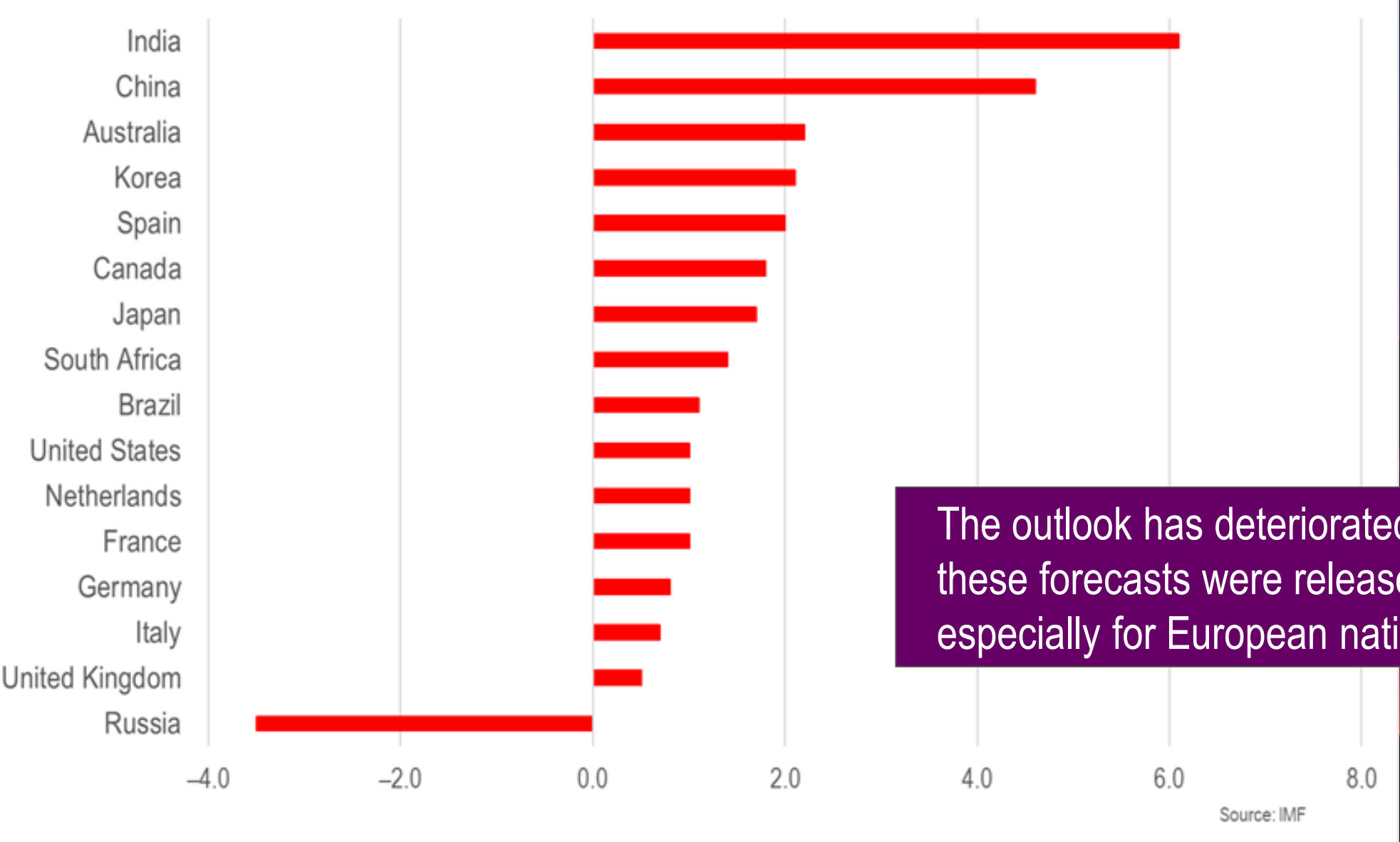
Public Health

- High vaccine take-up in the UK and recent coronavirus strains that are more transmissible but less virulent than earlier variants is an encouraging starting point
- 81 destinations around the globe now have no Covid-19 travel restrictions, with 43 of these in Europe
- Subject to no new variants that swerve vaccine immunity or that are more virulent, Covid-19 is not set to impact on domestic behaviours in a significant way in 2023 for the majority, though not all, in society
- The world is not moving as one in terms of coexisting with Covid-19, most notably in China where the Zero-Covid policy means lockdowns and arriving international passengers having to quarantine for 7 days

Geopolitics

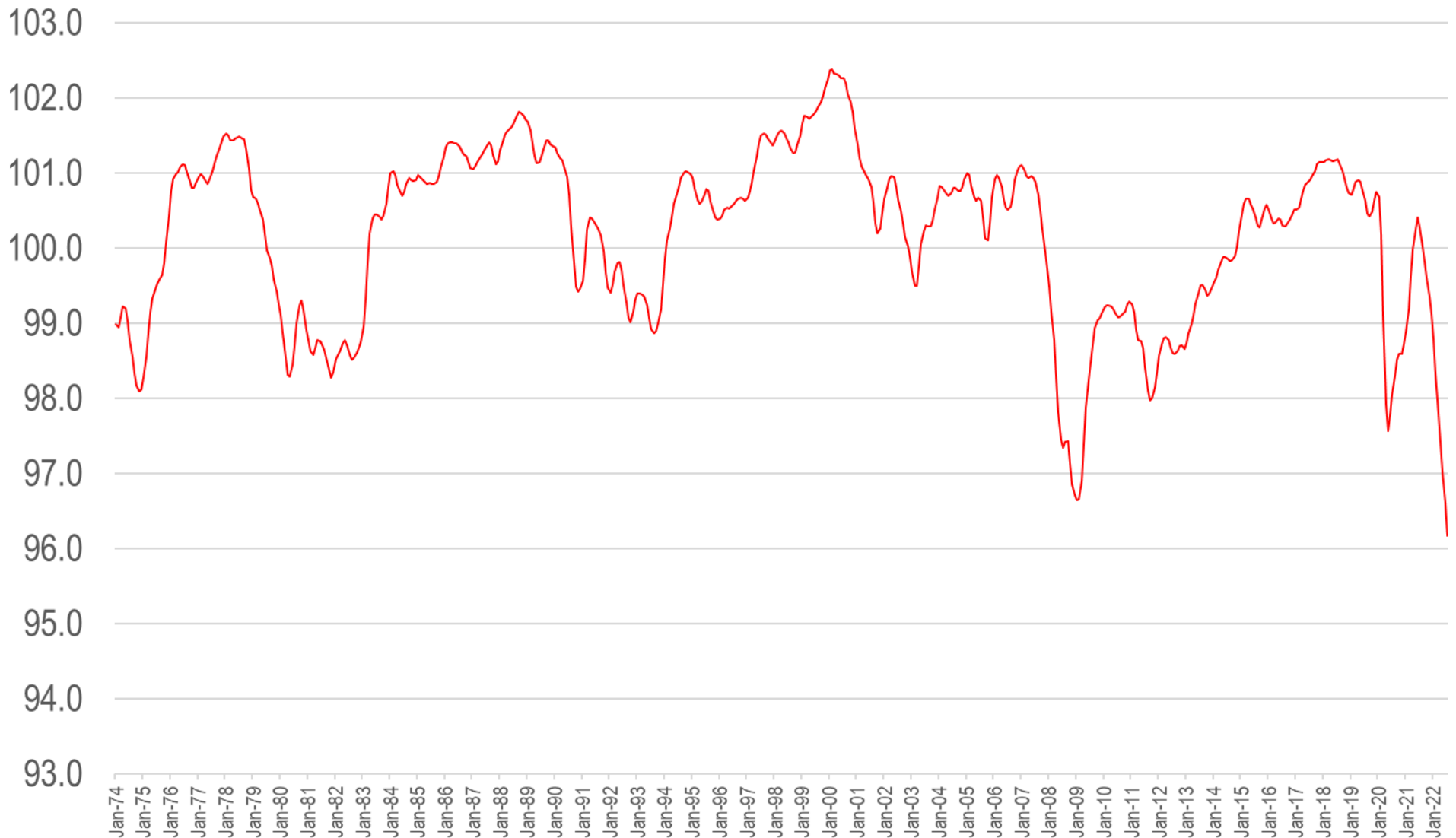
- The war in Ukraine looks set to rumble on, with geopolitical and economic consequences
- While the war's impact on international tourism flows has been limited thus far, in pre-pandemic times the inbound market from Russia was worth about £180m pa to the UK
- China (worth £1.7bn in inbound spending in 2019) has become integral to global supply chains, but its relationship with the West is cooling
- Instability in emerging market economies similar to that seen recently in Sri Lanka is a risk in 2023 as the global economy slows and inflation increases

Global Economic Outlook: Real GDP forecast growth in 2023



The outlook has deteriorated further since these forecasts were released in July, most especially for European nations

Global Economic Outlook: Consumer Confidence in OECD nations



Source: OECD

Global Economic Outlook: Change in unit costs (\$s), July 2019 – July 2022

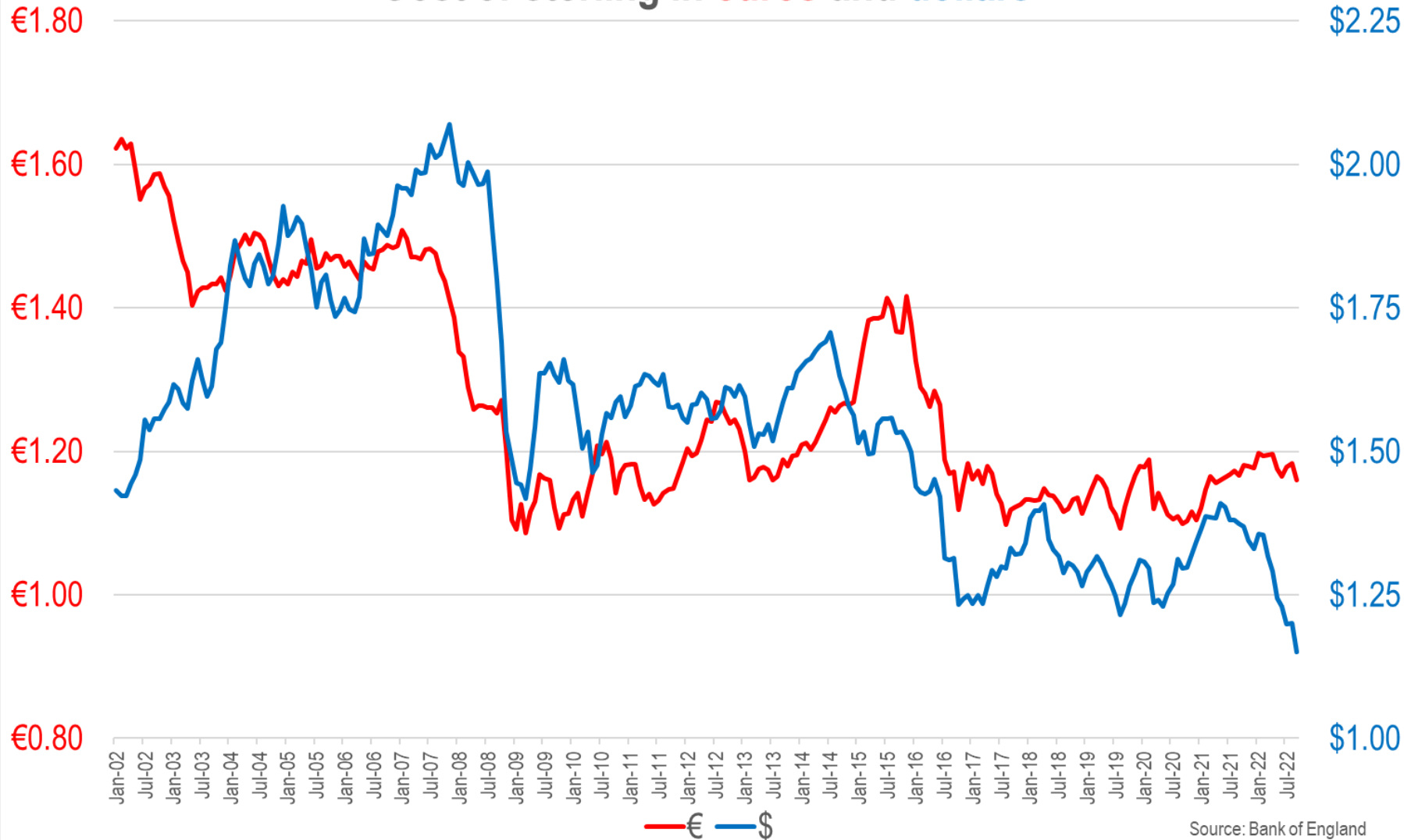
| | |
|-----------------------------------|-------|
| Natural Gas (Netherlands TFF) | 1322% |
| Fertiliser (Diammonium Phosphate) | 151% |
| Maize | 104% |
| Sunflower oil | 101% |
| Wheat | 96% |
| Milk | 69% |
| Spot crude | 69% |
| Poultry | 65% |

Source: IMF

The focus has been on rising energy costs, but of equal concern is the current, and likely future, increase in the cost of foodstuffs, both with regard to its impact on households but also the hospitality sector

UK Economic Outlook: Exchange Rate

Cost of sterling in **euros** and **dollars**



Source: Bank of England

The weakness of sterling may be a positive leading indicator for inbound visits from the USA in 2023 but it signals higher inflation as import costs rise, and likely higher base rates, impacting borrowing costs for consumers and businesses

UK Economic Outlook: Average of independent forecasts

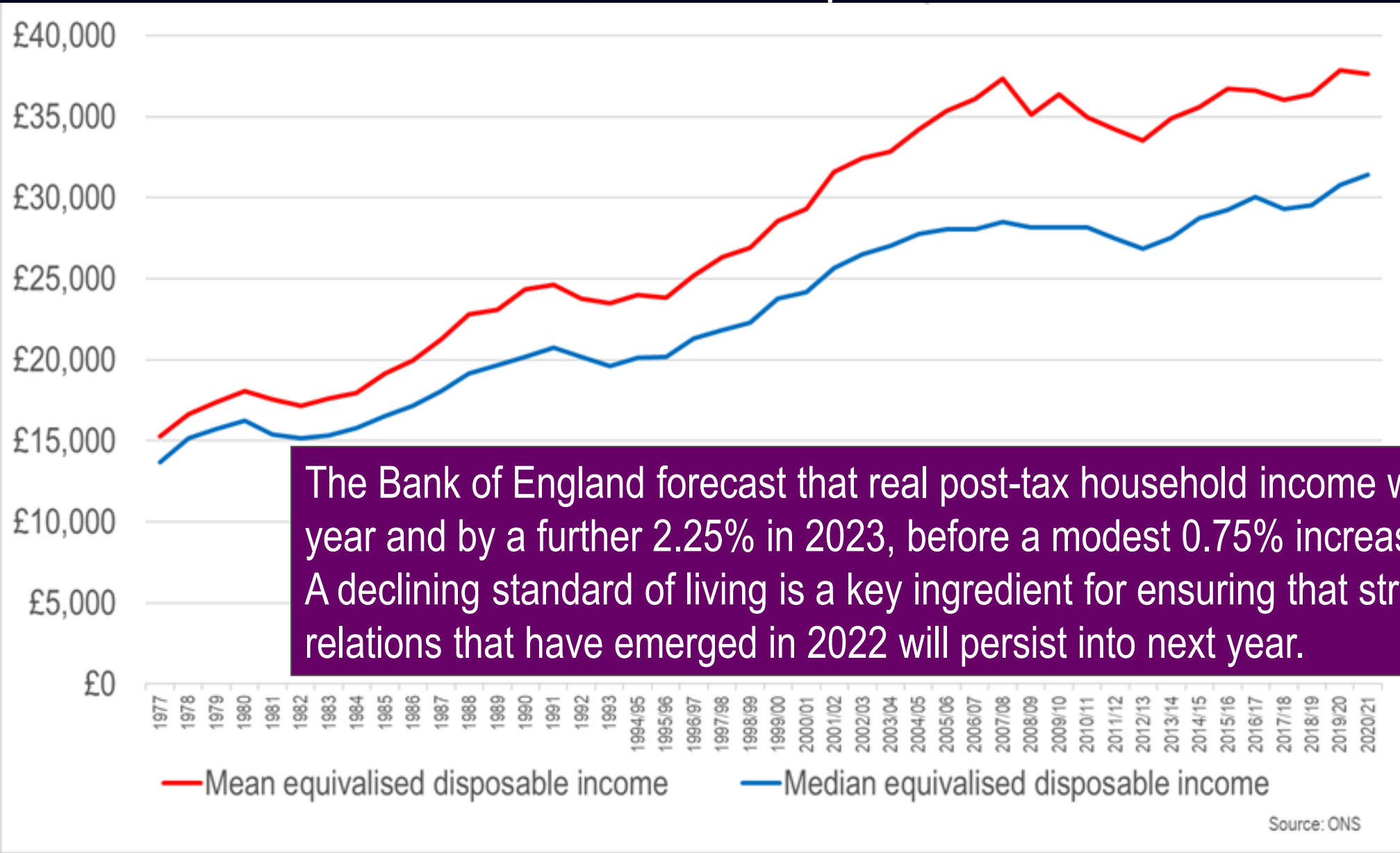
| | 2022 | 2023 | 2024 | 2025 | 2026 |
|-----------------------|------|------|------|------|------|
| GDP growth (per cent) | 3.8 | 0.6 | 1.5 | 1.8 | 1.8 |
| CPI (per cent) | 9.3 | 6.0 | 2.5 | 2.6 | 2.5 |
| LFS unemployment (%) | 3.9 | 4.2 | 4.0 | 3.8 | 3.9 |

Source: HMT, August 2022

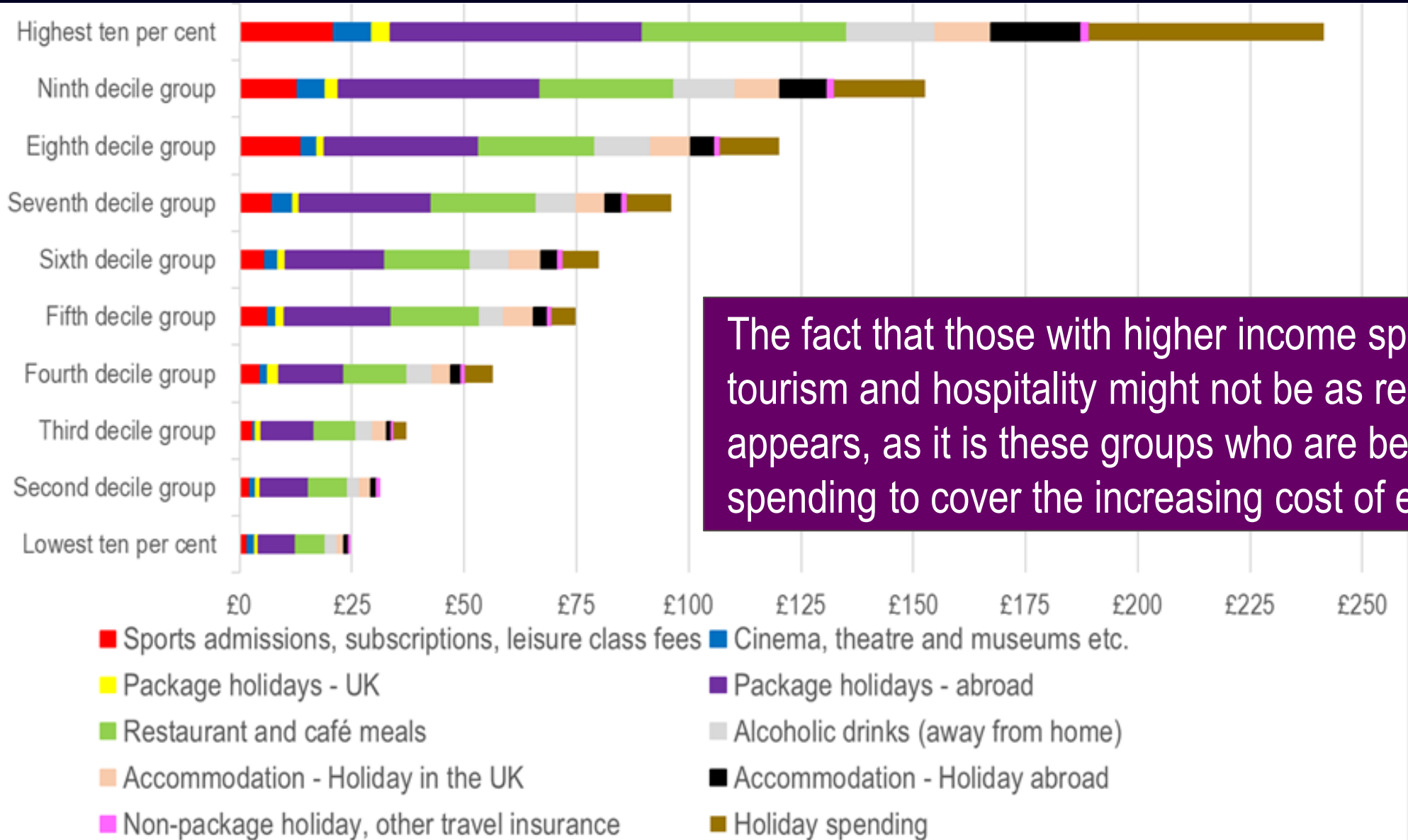
Forecasts are seeing more frequent and more dramatic adjustments than is traditionally the case.

The wider economic implications of the planned £2,500 cap on energy bills for the typical household for the next two years, and for businesses for six months, has yet to be fully understood, but inflation is set to peak sooner and at a lower rate than would otherwise be the case.

UK Economic Outlook: Household disposable income since 1977 (adjusted for inflation)

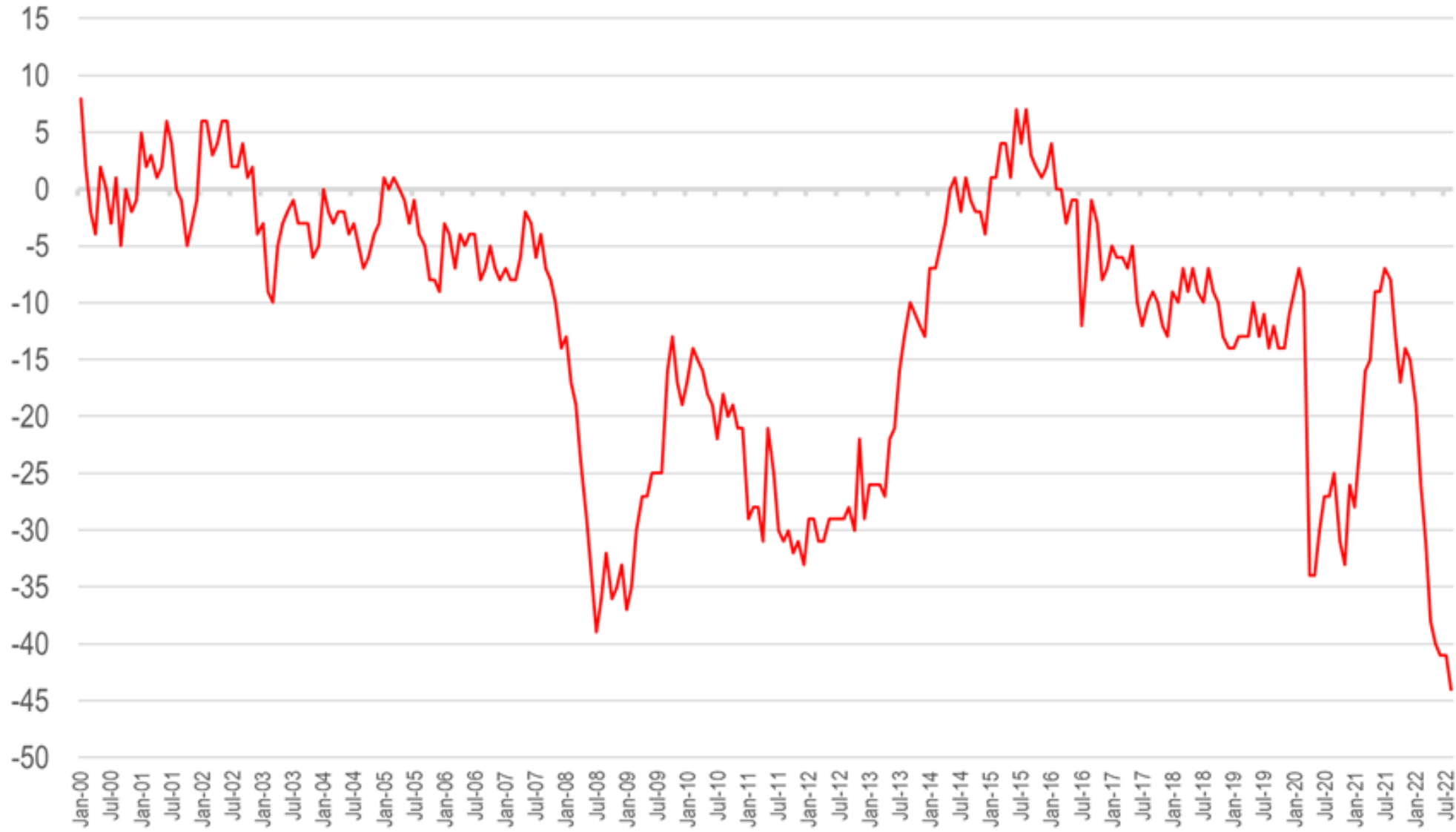


Weekly household tourism-related spending by income decile 2019/20



The fact that those with higher income spend more on tourism and hospitality might not be as reassuring as it first appears, as it is these groups who are best able to redirect spending to cover the increasing cost of essentials

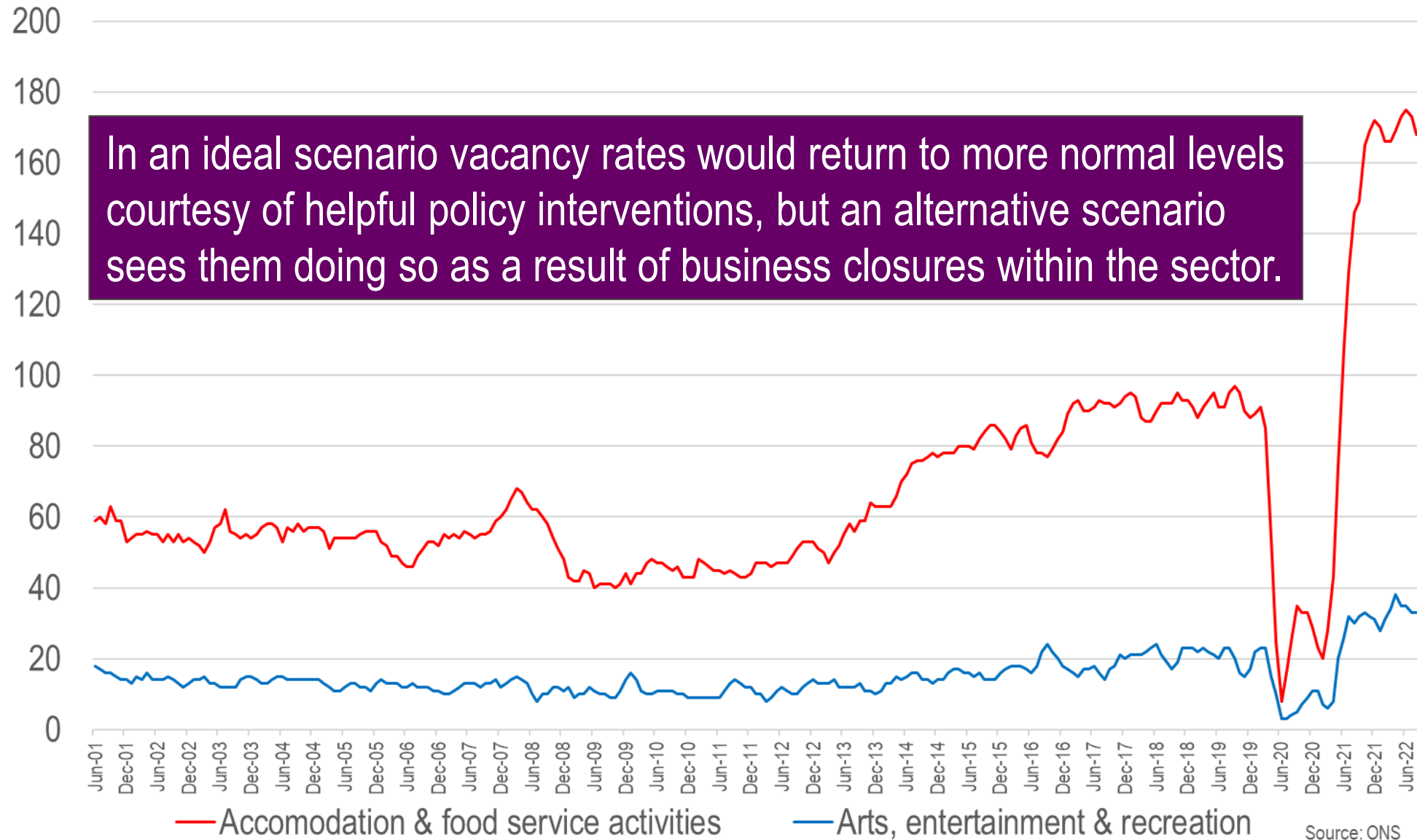
UK Economic Outlook: Consumer Confidence



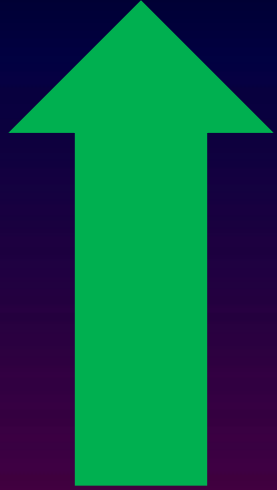
Source: GfK

The latest wave of the VisitBritain Domestic Sentiment Tracker found that in relation to the cost-of-living crisis 76% of Brits felt that the worst was yet to come.

UK Economic Outlook: Vacancies (000s, seasonally adjusted)

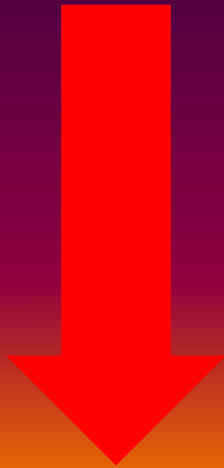


UK Economic Outlook: Public Spending



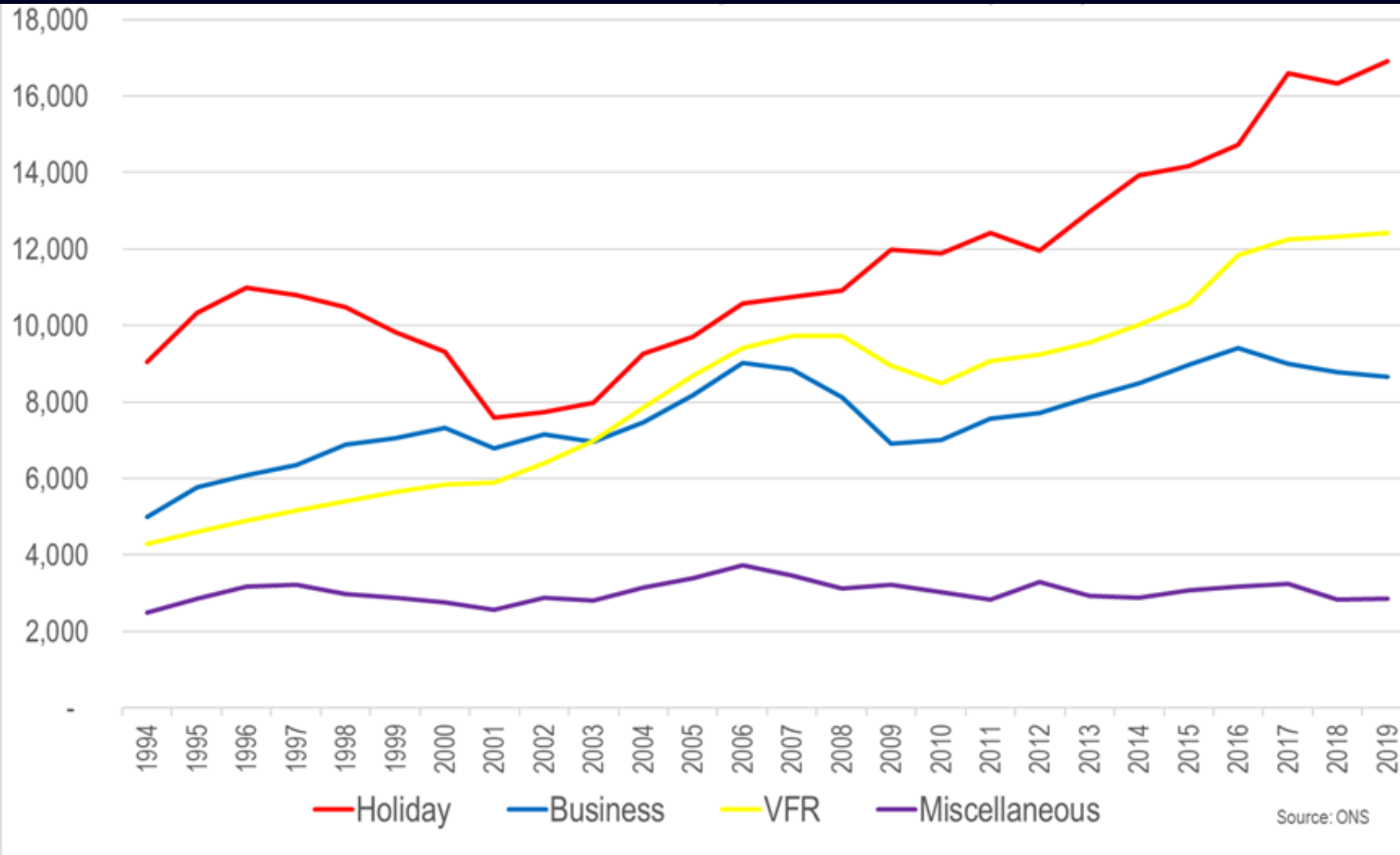
Government support for households and businesses in response to rising energy prices is to be welcome, but...

Public sector debt is approaching 100% of GDP and 10 year UK gilt yields are now over 3%, leading to difficult choices regarding the level of spending, taxation and borrowing



Securing public funding at either the national or local level for tourism entities and projects looks set to be exceptionally challenging over the next few years

Inbound Tourism: Visits by Journey Purpose (1994-2019, 000s)



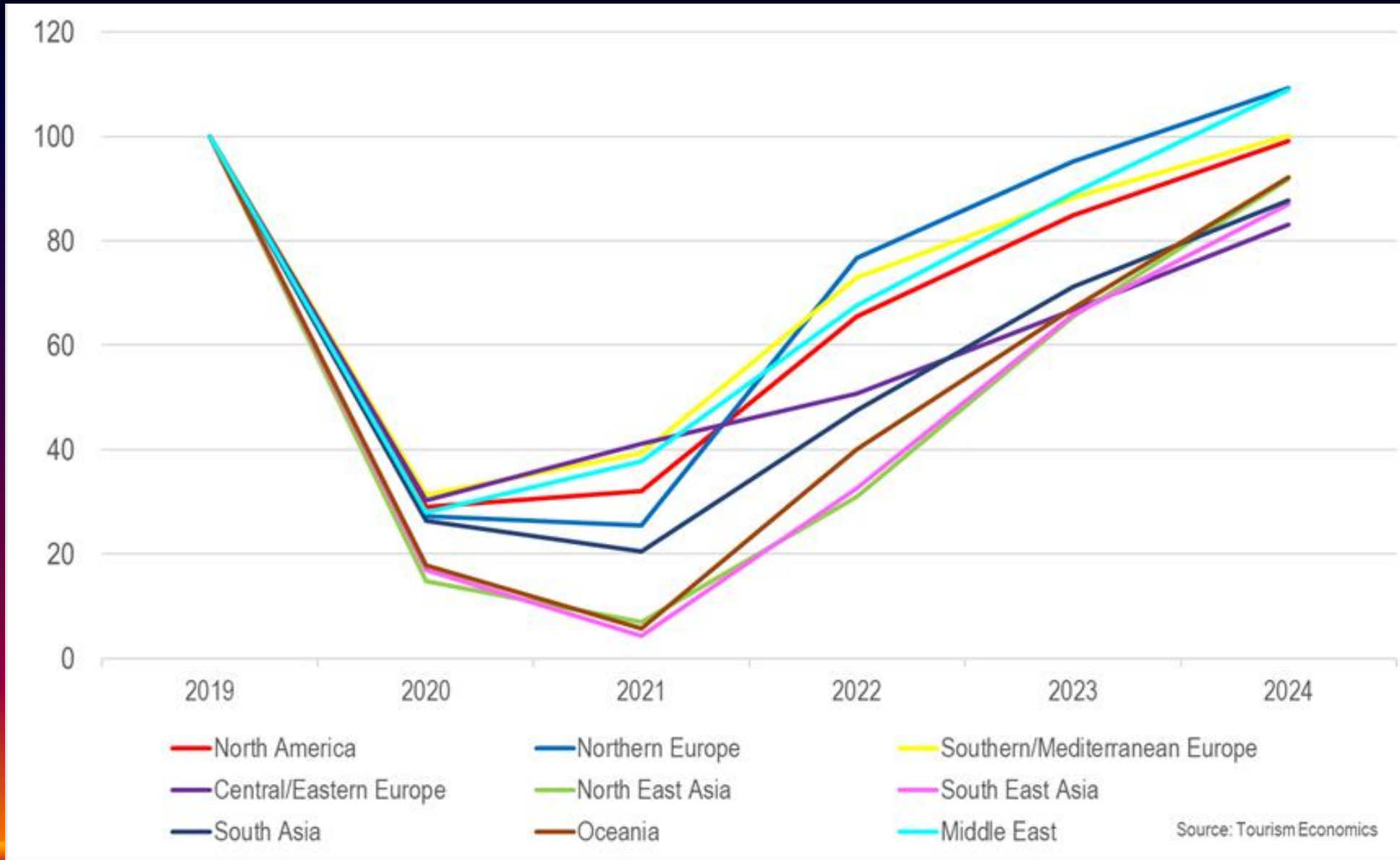
Growth in Holiday Visits was already slowing.

VFR growth has lost the impetus it had thanks to immigration from the EU

Business tourism tied to global economic growth and now in the Zoom era

Changed passport rules act as a brake on youth / EFL visits from the EU

Trends and projections in outbound travel by world region (2019 = 100)



Inbound Tourism: Most valuable source markets in 2019

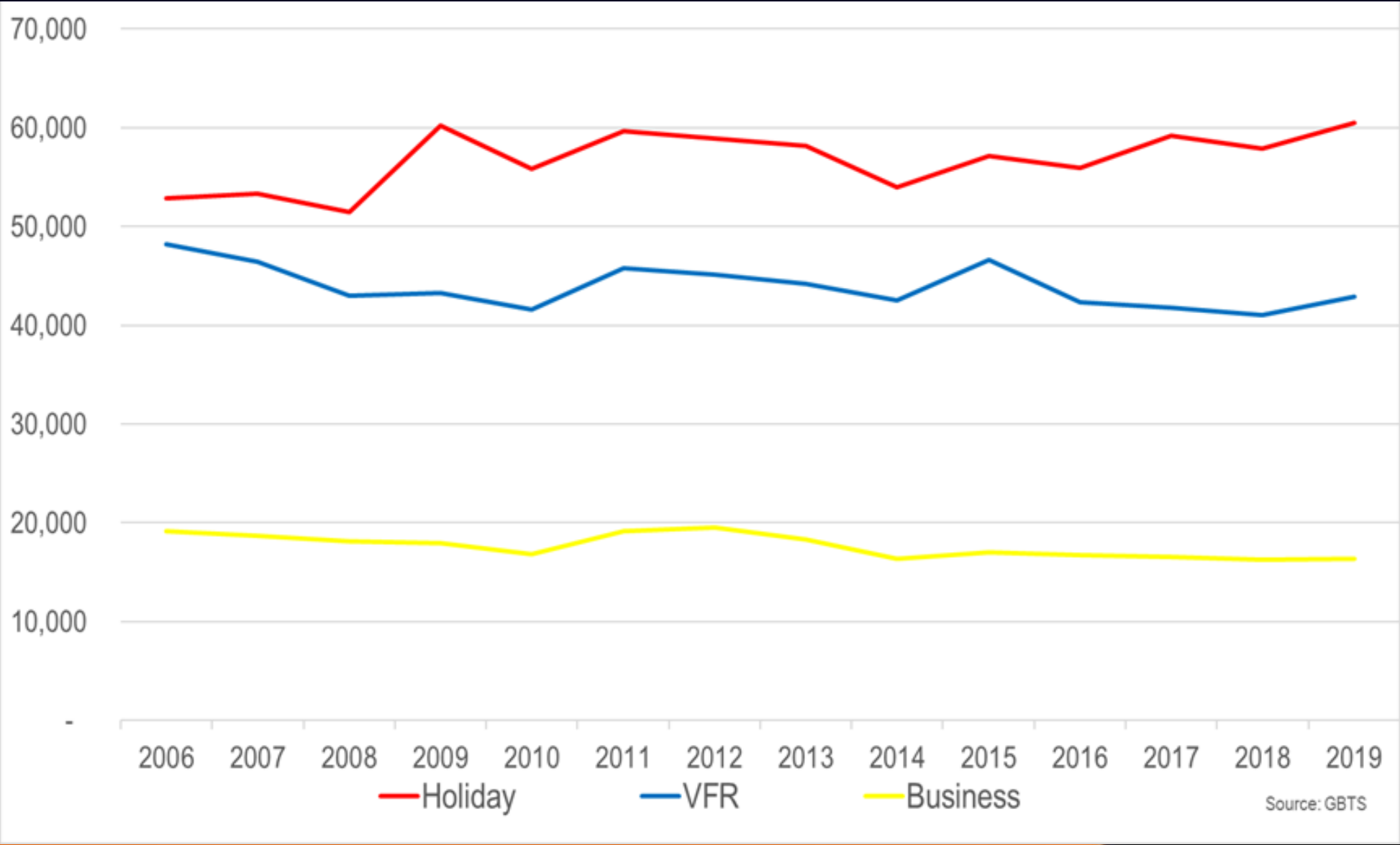
| | £m | Share of inbound spend in 2019 | | | |
|-----------------------|--------|--------------------------------|-----------------|----------|-------|
| | | London | Rest of England | Scotland | Wales |
| USA | £4,184 | 59% | 22% | 17% | 1% |
| China | £1,710 | 50% | 39% | 8% | 1% |
| Germany | £1,567 | 45% | 38% | 13% | 3% |
| France | £1,398 | 56% | 31% | 10% | 2% |
| Australia | £1,174 | 44% | 39% | 12% | 3% |
| Italy | £1,109 | 66% | 25% | 8% | 1% |
| Spain | £977 | 50% | 41% | 5% | 2% |
| Irish Republic | £958 | 29% | 49% | 7% | 3% |
| UAE | £869 | 64% | 26% | 9% | 0% |
| Netherlands | £796 | 40% | 44% | 12% | 2% |

The USA and China were the markets delivering the strongest growth in visits in the decade to 2019, but prospects for a near-term return to pre-pandemic volumes look upbeat in the former and negligible for the latter.

Inbound Tourism: Outlook

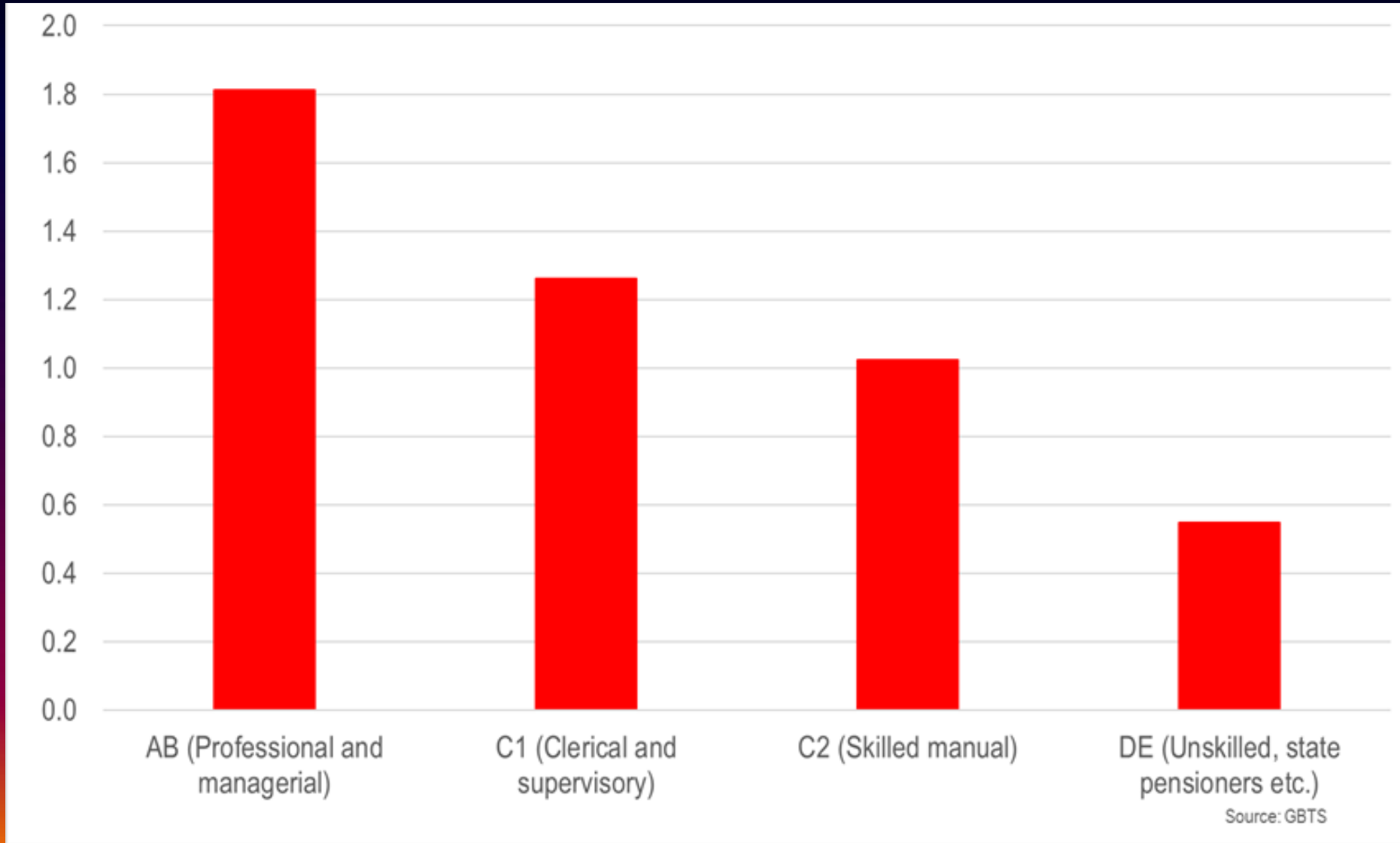
- The total number of inbound visits is not likely to return to 2019 volumes over the next two to three years for a variety of reasons:
- Growth had already shown signs of slowing ahead of 2020
- Pre-pandemic trends had not reflected the impact of Brexit on VFR or youth/EFL travel
- The cost of air travel is increasing sharply, as are hotel room rates
- The global economic outlook is for little or no growth in key source markets
- Covid-19 continues to be a factor dampening demand from some markets
- Markets offering a degree of optimism are the USA, Australia and New Zealand, whereas many East Asian markets look set to remain depressed

Domestic Tourism: Overnight Trips by Journey Purpose (000s)



2019 was as strong a year for domestic overnight holidays as the classic staycation year of 2009

Domestic Tourism: Overnight Holiday Trips per head in 2019

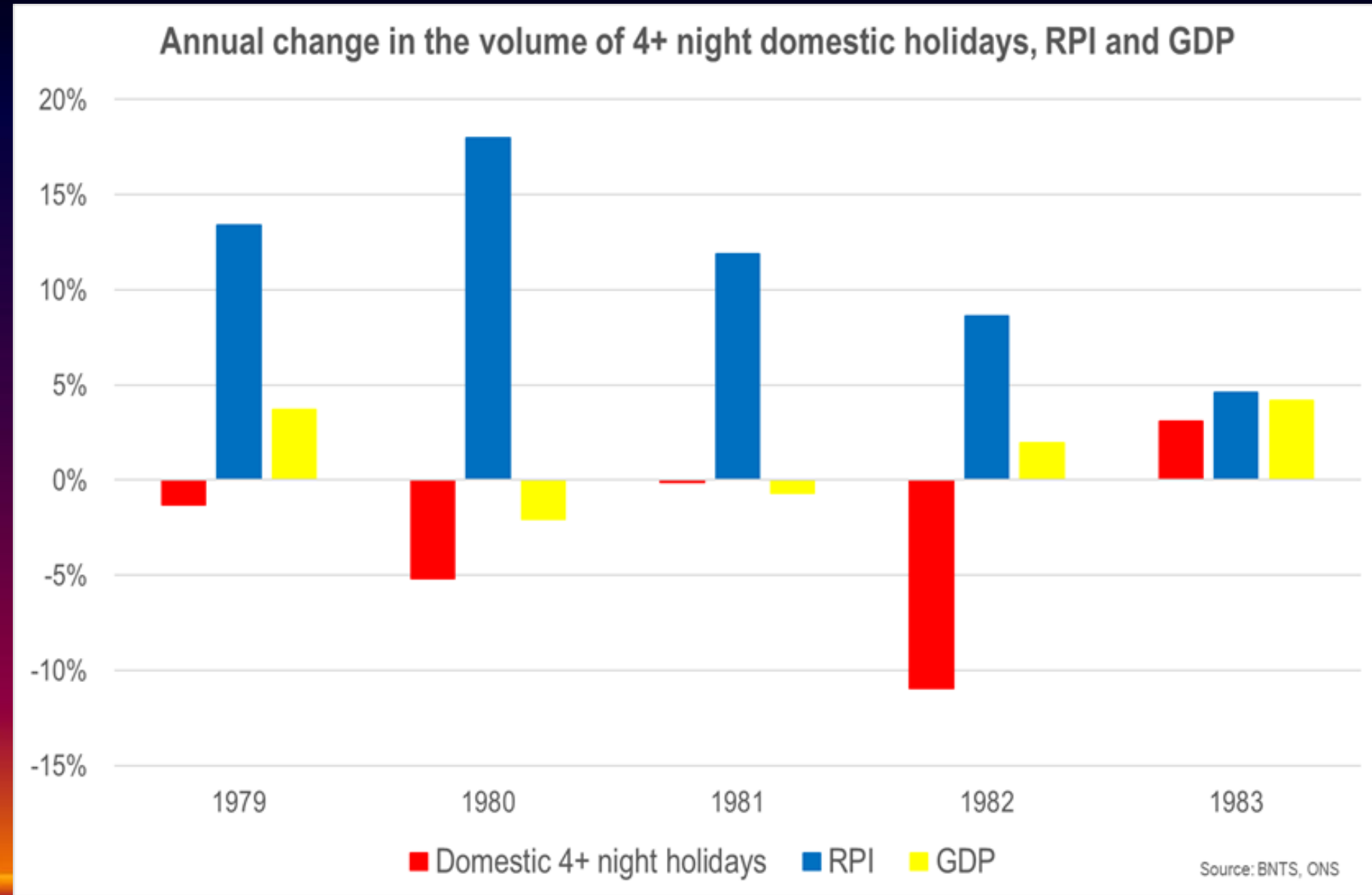


As noted earlier, higher income cohorts spend the most on tourism activity - they are also the most intense trip takers.

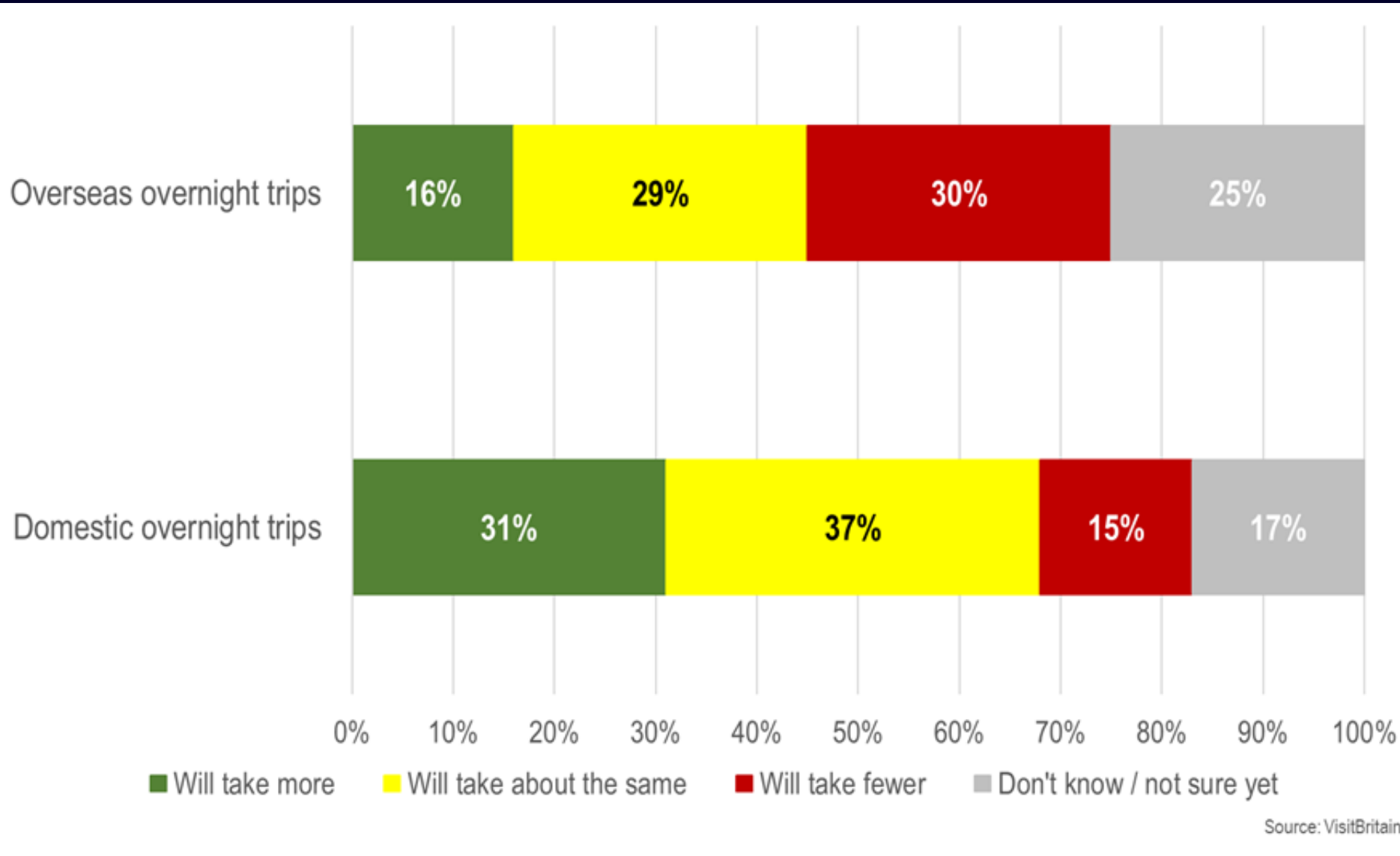
While best able to absorb the rising cost-of-living they may opt to curtail some domestic tourism activity to meet other expenses.

Domestic Tourism: Overnight Holiday Trips – a lesson from history?

Neither the global financial crisis of 2008/9 nor the recession of the early 1990s saw inflation at today's levels combined with economic contraction, but back in the early 1980s such a cocktail saw declining volumes of longer domestic holiday trips.

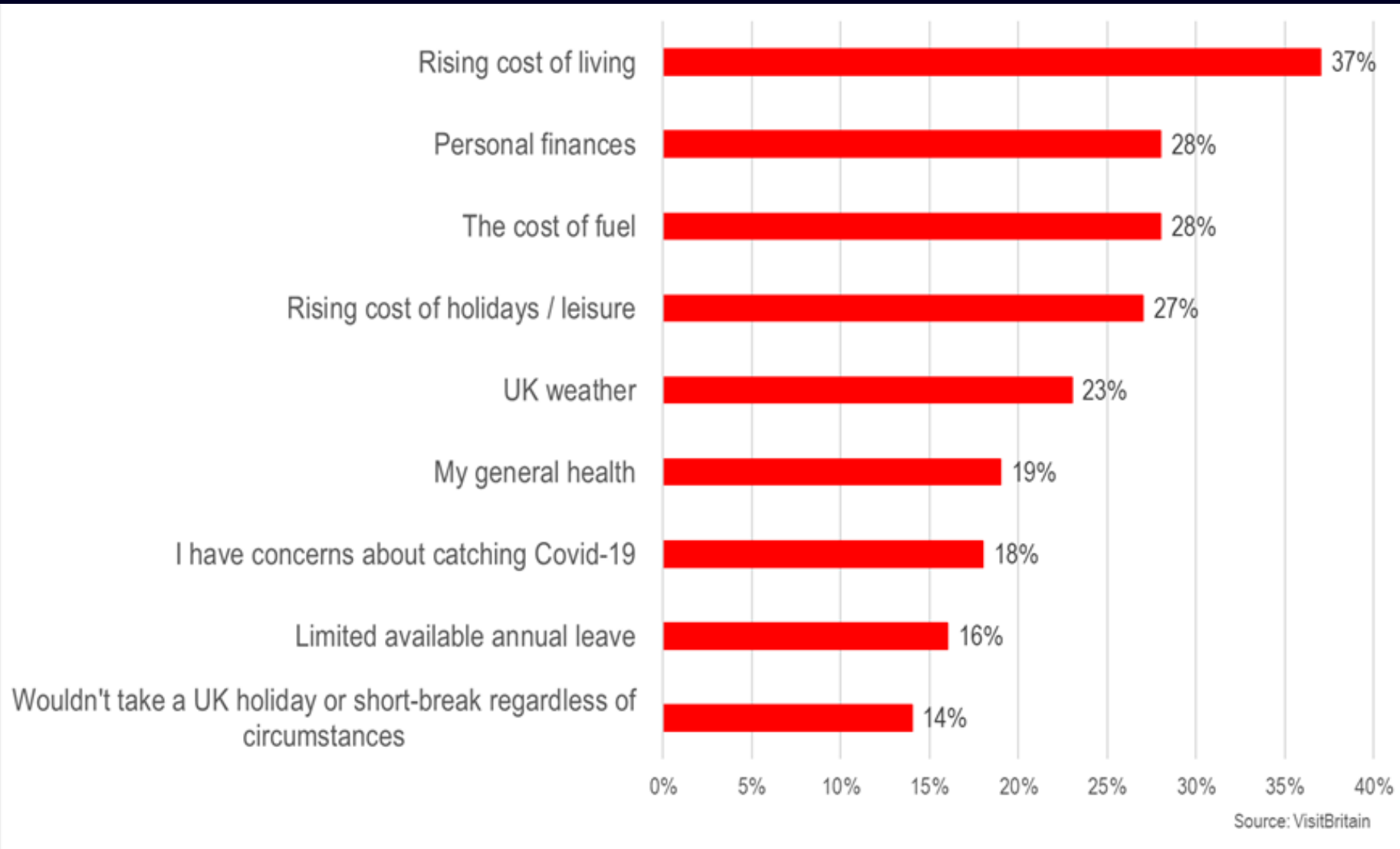


Domestic Tourism: Overnight Trip Intentions in next 12 months



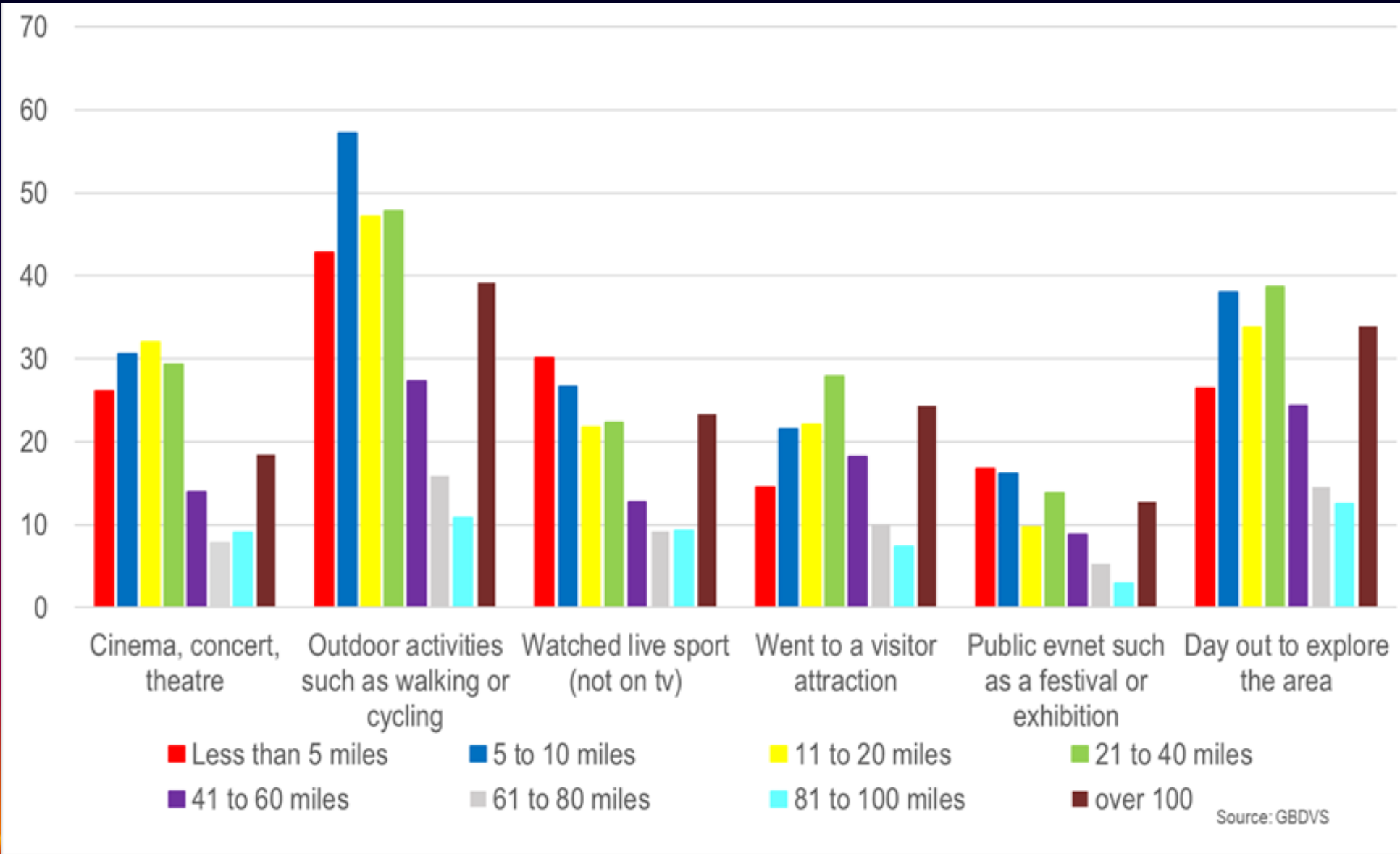
This potentially signals trip switching from overseas to domestic, but one-in-four don't know what their future plans will entail in terms of overseas trips.

Domestic Tourism: Barriers to taking a domestic overnight trip



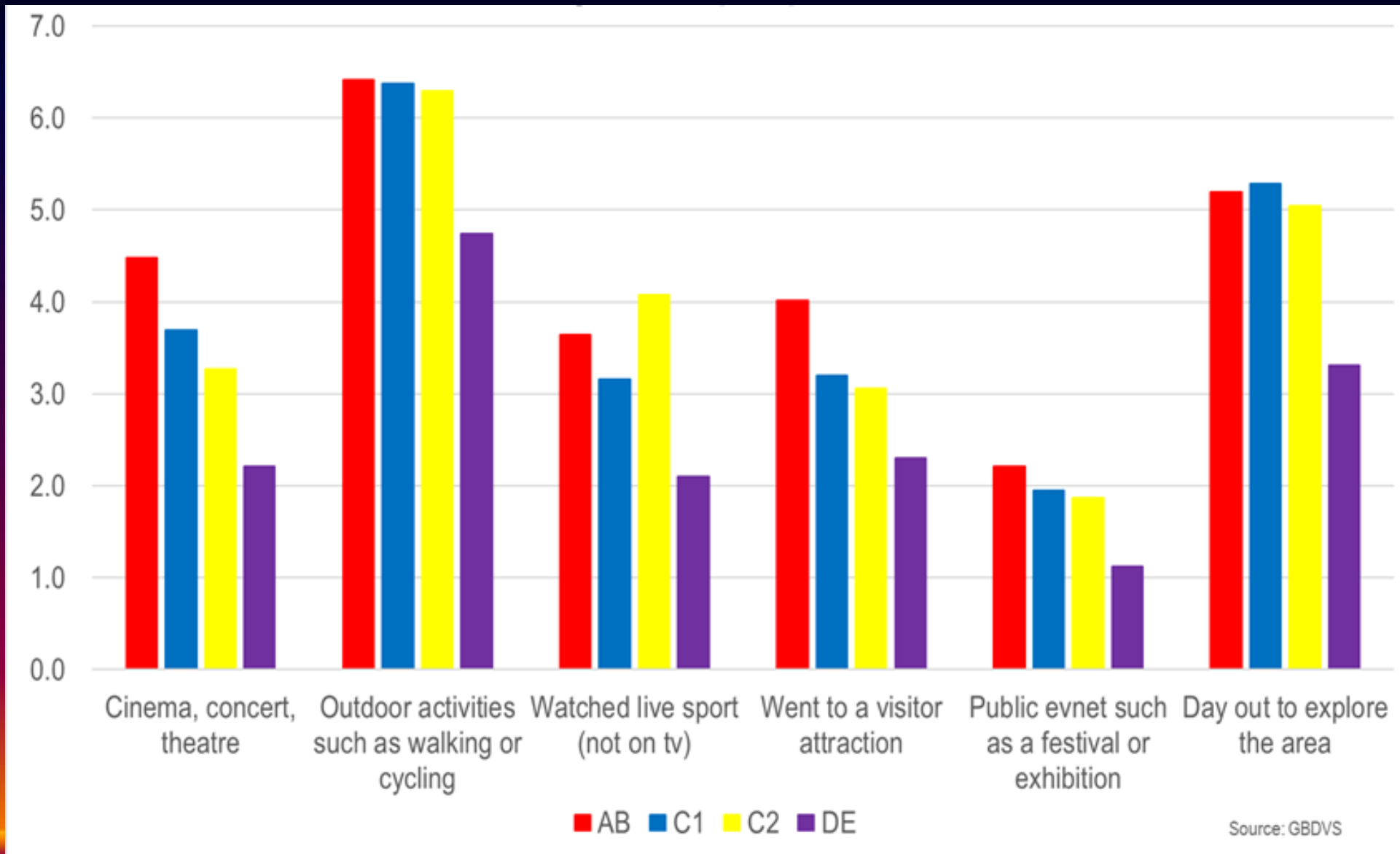
Financial rather than health issues are now the leading barriers to taking overnight trips.

Domestic Tourism: Round-trip istance travelled on Tourism Day Visits



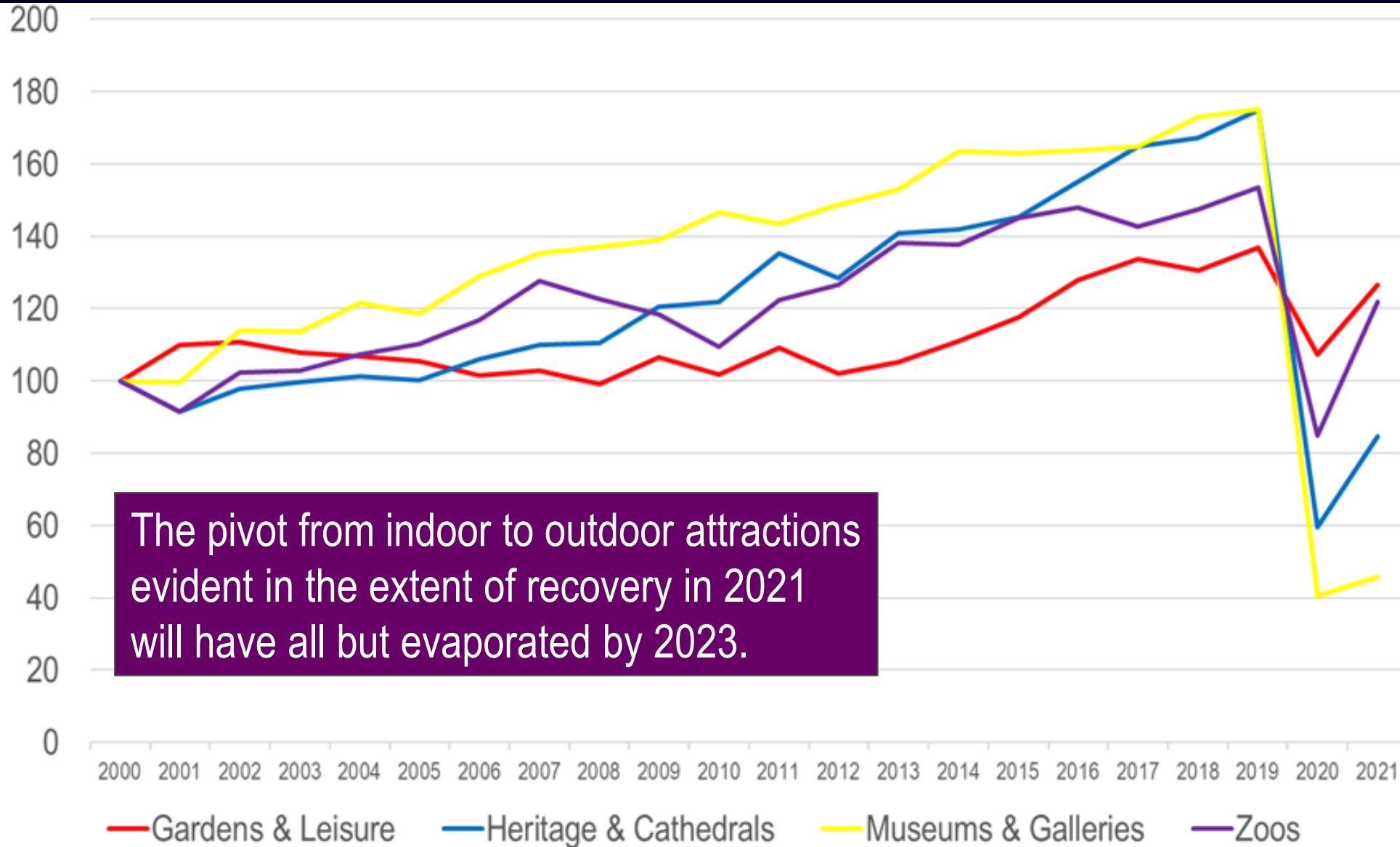
Rising travel costs will likely encourage greater localism in 2023.

Domestic Tourism: Day Visits per head in 2019 by socioeconomic group



Again there is dependence on those in higher socioeconomic groups for intense Tourism Day Visit activity.

Domestic / Inbound Tourism: Visits to ALVA sites (2000 = 100)



Attractions with a high dependence on visits from Asia will face stiffer headwinds than those with a more diverse customer mix.

Free to visit attractions will have a competitive edge over paid attractions.

The pivot from indoor to outdoor attractions evident in the extent of recovery in 2021 will have all but evaporated by 2023.

Domestic / Outbound Tourism: Trade-offs due to economic situation

| | | | | | | |
|--|--|---|--|--|---|--|
| Fly with Ryanair instead of BA | | Weekend break instead of a 7-night holiday | | Self-catering instead of hotel | | McDonald's instead of Pizza Express |
| | Hire a bike instead of hailing a taxi | | Economy cabin instead of Premium Economy cabin | Stay at home and watch box sets | | Weekend break in Bristol instead of Berlin |
| Self-guided walk instead of using a Tour Guide | | Use friends and family as a holiday base | | Opt for 'All-inclusive' instead of PAYG holidays | | Avoid travel in school holidays |
| | Avoid overnight stays on Fridays and Saturdays | | Use fintech solutions to spread the cost | | Take day trips from home instead of overnight stays | Seek out free to visit attractions |
| Go to Turkey instead of Florida | | Take a packed lunch instead of finding a café | | Use loyalty points / membership benefits | | Premier Inn instead of Marriott |

Some trade offs represent a net gain for domestic tourism.

Some trade offs see certain operators gain at the expense of others.

Some trade offs represent a net loss for the domestic tourism sector

Domestic Tourism: Outlook

- The volume and value of domestic tourism is unlikely to be manifestly impacted by Covid-19 in 2023
- Demand will be highly price sensitive, with consumers adapting their choices while still keen to protect their holiday and leisure time experiences
- A key determinant will be the extent to which financial pressures entice those who would otherwise holiday abroad to opt for a domestic break instead
- Leisure demand has the potential to be at pre-pandemic levels, whereas anemic economic growth and a pivot to virtual meetings will limit the volume of business tourism
- A realistic hypothesis is that attractions and sites that have strong connection to Her Late Majesty Queen Elizabeth II will see an uptick in visitor numbers

Conclusions (1)

- Soon one thousand days will have elapsed since the start of the 2020s, and rarely can there have been a span of days full of so much turmoil and uncertainty for the tourism sector and indeed society in general
- Disequilibrium has been the watchword for the relationship between supply and demand since the onset of the pandemic and eventual lifting of restrictions
- The burst of pent-up demand would have decayed naturally, but inflation and resultant decline in consumer spending power heighten the risk of persistent sluggish demand during 2023
- The energy crisis, as well as energy price shock, are a particular risk for the upcoming winter

Conclusions (2)

- Motivation to travel, money to spend and means of transport, the 3Ms, are essential ingredients for a prosperous outlook for tourism
- Motivation never went away, and while consumers will adapt how they satisfy this desire due to financial constraints we can be confident of its persistence in 2023
- Means of transport have not fully returned to their pre-pandemic scale in terms of route connectivity or frequencies, and customer experiences have been blighted by delays and cancellations, but a lack of this 'M' is no longer a significant factor holding the sector back
- It is the threat to the middle 'M', money to spend, that poses the biggest risk in 2023, with this threat being more acute for domestic than inbound tourism

Conclusions (3)

- Despite financial constraints holidays will still be taken and days out enjoyed in 2023, and while it has always been an important driver of visitor experience, next year value for money will be critical
- Although not reasons for complacency, there are aspects of our tourism offer that should provide some comfort in challenging times...
- Britain remains extraordinarily well connected to a host of inbound markets, our built heritage, cultural heritage and contemporary culture are highly regarded, as are our vibrant cities and sporting offer, and even if unknown to many inbound visitors most Brits recognise we have wonderful countryside and landscapes
- But no amount of sugar coating can disguise the fact that 2023 will be tough

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