EUROPEAN TOURISM - TRENDS & PROSPECTS

# QUARTERLY REPORT - Q1/2018

EUROPEAN
TRAVEL
COMMISSION

# EUROPEAN TOURISM IN 2018: TRENDS & PROSPECTS

## Quarterly Report (Q1/2018)

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

Brussels, April 2018
**ETC Market Intelligence Report**

**European Tourism in 2018: Trends & Prospects (Q1/2018)**



Data sources: This report includes data from the TourMIS database (http://www.tourmis.info), STR, IATA, AEA, and UNWTO.

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Image ID: 232645621
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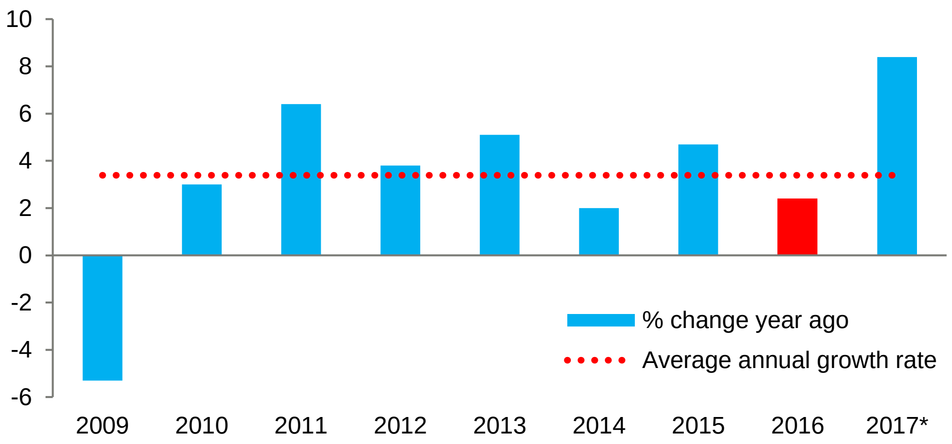
# FOREWORD

EUROPEAN TOURISM OFF TO A ROBUST START IN 2018

Early results show an encouraging performance in European tourism demand. Stronger economic activity in the Eurozone and in emerging markets underpin this growth coupled with a robust travel demand from major developing economies in Asia. ETC's outlook for international tourism appears promising and is expected to remain steady at around 4% in 2018.

Year-to-date results show healthy growth in all reporting destinations compared to the same period a year prior. Europe's notable showing is also a reflection of European destinations' efforts to mitigate seasonality and improved air connectivity. Having faced geopolitical instability and terror-related challenges in recent years, overseas visitors to Europe were undeterred and tourist arrivals have remained resilient since the pre-crisis period in 2009.

**International Tourist Arrivals to Europe**
% change year ago




Source: UNWTO *Provisional figure

UPSURGE IN VISITOR VOLUMES IN ALL REPORTING DESTINATIONS

Latest results show that tourism growth was strongest in Montenegro (+36%) led by improved air connections and strong demand from Asian source markets. Turkey's rebound (+35%) springs from a wide range of source markets besides Russia, perhaps a sign that safety concerns are starting to fade away. Iceland (+6%) saw a modest increase following seven years of sustained double-digit expansion. The Nordic island is struggling to divert travel to unexplored areas to spread tourist flows across the country. Nevertheless, this slowdown is expected to allow for a more sustainable tourism growth. Southern/Mediterranean destinations Croatia (+27%), Cyprus (+23%), Malta (+19%) and Serbia (+17%) enjoyed double-digit increases early in the year mirroring their efforts to ensure year-round tourism growth.

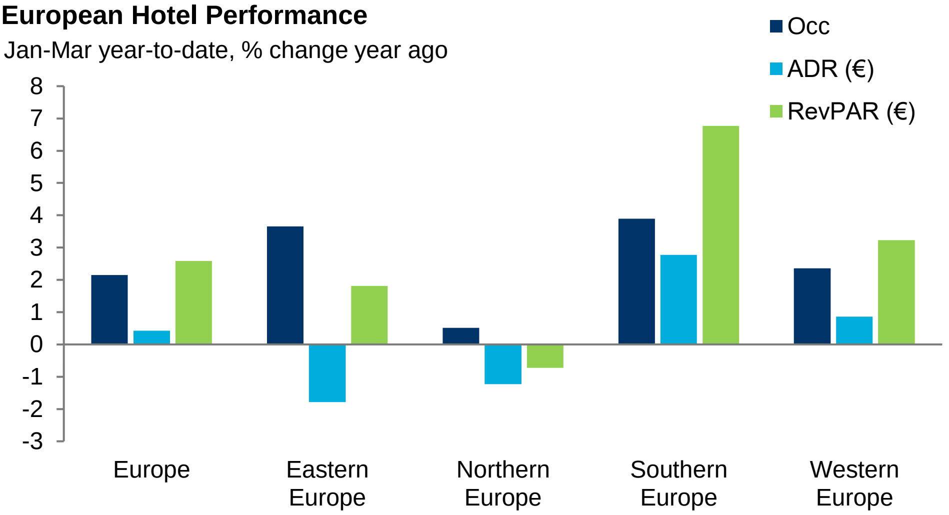
The first two months of 2018, saw revenue passenger per kilometre (RPK) surge by 6.7% in Europe. Both passenger load factor and European airline capacity were notably high so far this year, rising 1.3% and 5.2% respectively.

European travel to and from Asia/Pacific is expected to boom in 2018 partly thanks to the opening of new air routes in China, set to start in the first half of 2018. Strong transatlantic demand support European performance as the rise of competitive airfares incentivise demand for overseas travel.

The hotel industry also reported solid growth. Average daily rate (ADR) saw an increase of (0.4%) while occupancy rates and revenue per available room (RevPAR) remained positive at 2.2% and 2.6% respectively.

**European Hotel Performance**

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




Source: STR

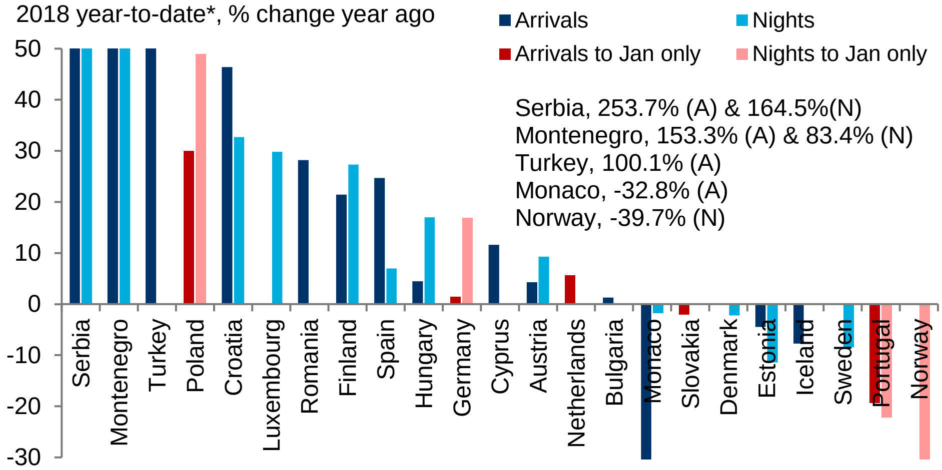
ENCOURAGING ECONOMIC CONDITIONS BOOST TRAVEL DEMAND FROM LONG-HAUL SOURCE MARKETS

The US continues to be Europe's major source of long-haul tourist arrivals and accounts for 5% of the share of international overnight visits. In 2017, Europe hosted 30.6 million tourist arrivals from this market, 12% more than the previous year. Growth stems from accelerated economic growth in the US, raising wages and thus increased household spending, as well as recent dollar strength. However, the present momentum in the US economy could face headwinds due to a more protectionist approach to trade and related tensions with China.

The picture in Asian source markets in general is promising. Latest results for Chinese tourist arrivals to European destinations do not yet reflect actual market demand as volumes are mainly dependent on the relatively late Chinese New Year (February 2018). The strong travel demand from this market is likely to continue in 2018.

A similar trend is observed in Japan, whose robust economic growth is driven by the expansion of domestic demand. Despite a mild slowdown last year, the 2018 economic outlook for India remains largely positive, benefitting from a resilient global economy and fuelled by a robust private consumption, public investment and ongoing structural reforms. Indian arrivals to Europe are estimated to increase by an average of 3.8% per year over the period 2018-2023.

**Chinese visits and overnights to select destinations**




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

EUROPEAN TOURISM PROVES RESILIENCE YEAR AFTER YEAR

Europe welcomed 671 million international tourist arrivals in 2017, up from 619 million the previous year, the most rapid growth (+8%) since 2009. European tourism has remained dynamic and resilient in the face of a variety of challenges in recent years. It continues to evolve amidst increased competition from fast-emerging destinations in Asia and the Pacific. The regions' attractiveness has overcome fears of terrorism, which are generally short-lived and have a localised impact, and continues to appeal to worldwide travellers.

Although some uncertainties and risks remain due to tourism sector's vulnerability to external factors, the economic outlook is good. In the Eurozone, private consumption will continue to boost growth, aided by increasing disposable incomes. Low unemployment and low levels of interest rates will contribute to the European tourism sector's success.

"Europe is set to remain the number one tourist destination in the world. It is crucial that tourism organisations at all levels to continue to strengthen collaboration under the umbrella of a common European approach and positioning. Destinations in Europe should be ready to provide more personalised experiences, eliminate travel barriers for overseas markets (visas, taxation, interconnectivity, consumer protection, etc.), and better address social, environmental and technological trends and challenges." said Eduardo Santander, Executive Director of the European Travel Commission.

Jennifer Iduh (ETC Executive Unit)
with the contribution of the [ETC Market Intelligence Group]

# 1. TOURISM PERFORMANCE SUMMARY 2017

Tourism growth in 2017 was enjoyed in all but one country according to latest available data. For all but six destinations 2017 growth is based on full year data. Economic growth in major source markets, and notably those within Europe where economic growth reached a decade high in 2017.

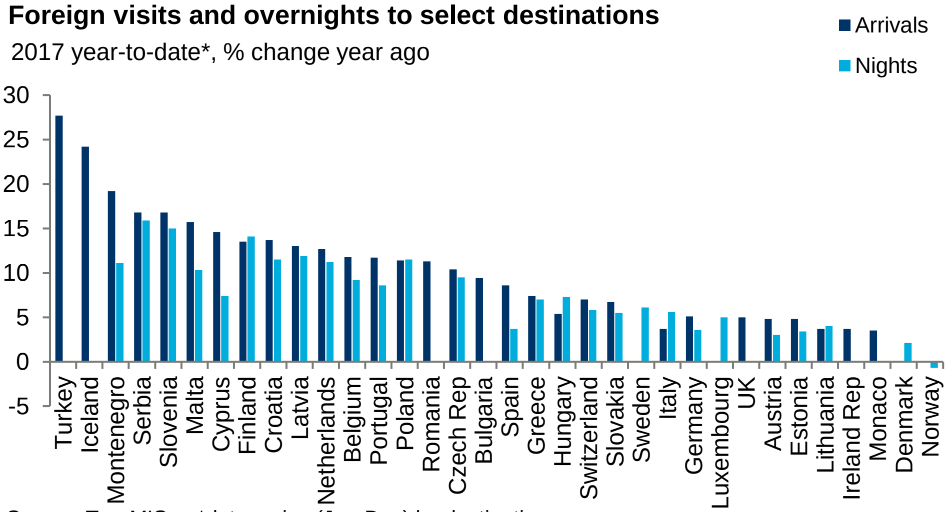
**33**

The number of European destinations that reported growth in 2017

34 destinations reported on tourism performance in 2017

**Foreign visits and overnights to select destinations**

2017 year-to-date*, % change year ago




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

Growth returned to Turkey (27.7%) in 2017 following a significant downturn starting in 2014. The reasons for this downturn are myriad, but a key part of the story in 2016 related to diplomatic difficulties between Turkey and Russia, and the resulting fall in the number of Russian arrivals was significant. But other headwinds hampered Turkey's performance and many travellers from other key source markets, such as Germany and the UK, gave it a wide berth on account of the perceived separate threats of terrorism and political unrest still lingering.

Iceland concluded 2017 with another 20% growth year in arrivals terms – its fifth such growth year consecutively. 2017 marked the first year since 2012 that Iceland was not the fastest growing European destination, with only Turkey's rebound depriving it of another year at the top. However, there are signs of a slowdown on the horizon, although 2018 growth is still expected to be in the enviable double-digit range. A slowdown was inevitable on account of such a sustained period of high demand. This has put immense pressure on Iceland's tourism infrastructure, the growth of which has struggled to keep up with that of demand. This has pushed prices up and has thus weighed on Iceland's relative competitiveness.

Fourteen other destinations reported double-digit arrivals growth in 2017. Amongst these were some developing destination markets. Montenegro was the fastest growing of these with arrivals 19.2% higher compared to 2016. Arrivals to Montenegro, and similar developing markets, currently represent a relatively small share of arrivals to Europe as a whole, thus they possess ample scope to grow further, subject to infrastructure constraints. This growth has been helped by a decreasing dependence on a relatively small number of source markets, with growth in recent years much more broad-based. Indeed, this demand has been supported by an increasing number of flights (as well as cruises in some case) from previously untapped source markets. Effective marketing and word of mouth has played a part in facilitating this growth from new markets and will likely continue to do so. Other similarly developing source markets which closed 2017 with double-digit arrivals growth include Croatia, Poland, Romania, Serbia, and Slovenia.

Malta and Cyprus both reported impressive rates of arrivals growth in 2017 (15.7% and 14.6% respectively), representing a continuation of growth from previous years. Growth to Malta was broad-based in source market terms (only arrivals from Denmark, Switzerland, and the UK did not grow by a double-digit rate) and was supported by a sizeable increase in the number of cruise visitors. Cyprus enjoyed similarly broad-based growth, with France the only source market from which arrivals declined compared to 2016. Since arrivals from France account for a very small proportion of total arrivals to Cyprus (~1.5%), this should not be of huge concern. Growth from the UK and Russia, its two largest source markets, was modest in relative terms (8.3% and 5.5%) but translates to sizeable increases in absolute terms. Similarly, strong growth in both Malta and Cyprus, as island destinations competing for market share from many of the same source markets, demonstrate ample scope for each to grow without hampering the other. This may have been facilitated by more targeted tourism strategies which have sought to capitalise on unique aspects of the destination rather than adopting a more generic approach.

Some more mature markets also reported double-digit growth for 2017, and notably Belgium, Netherlands, and Portugal. In the case of the latter two, growth in 2017 was partly a continuation of a recent trend but was also something of an uptick relative to average growth in recent years. These two destinations have benefitted from some displaced travel due to safety and security concerns in competitor destinations. Growth in Belgium involved a rebound from declines in 2016 as a result of high-profile terrorist attacks in Brussels, and in absolute terms arrivals are much lower than what they otherwise might have been.

Spain also remained an attractive destination and despite its maturity managed to grow its market share. It is also likely to have been a beneficiary of some displaced travel otherwise bound for Turkey. But political tensions in Catalonia in late 2017 weighed on an otherwise stronger performance. There were reported declines in arrivals to Catalonia in October and November compared to 2016 which contrast starkly to performance for the rest of 2017. With Catalonia accounting for almost one-fifth of all foreign visits to Spain it is by no means fantastical to suggest the impact of any decline in the region as being significant for Spain as a whole.

Finland stood out with 13.5% growth in arrivals in 2017 with especially significant growth from some of the larger emerging source markets. Estonia and Sweden reported similar trends, and these destinations may be jointly benefiting from a greater demand for multi-destination tours from long-haul markets, some of which could be cruise related.

Arrivals to the UK grew by 5% in 2017 based on data to October, which represents a significant slowdown compared to year-to-date growth to September which was 8% compared to the same period in 2016. Arrivals in October were lower compared to 2016 (down 6%), from both established European and North American source markets, signalling that the impact of currency movements has now faded. This slowing may also be partly related to the closure of Monarch Airlines, and to a lesser extent by gaps left by Ryanair's pared-down winter schedule in the wake of its dispute with its pilots. Although the gaps left by Monarch were duly filled by other airlines, the resulting uncertainty and general nuisance of its closure may have deterred some UK bound travel in the short-term.

Tourism Performance, 2017 Year-to-Date

| | International Arrivals | | International Nights | |
|---|---|---|---|---|
| Country | % ytd | to month | % ytd | to month |
| Austria | 4.8 | Jan-Dec | 3.0 | Jan-Dec |
| Belgium | 11.8 | Jan-Dec | 9.2 | Jan-Dec |
| Bulgaria | 9.4 | Jan-Dec | | |
| Croatia | 13.7 | Jan-Dec | 11.5 | Jan-Dec |
| Cyprus | 14.6 | Jan-Dec | 7.4 | Jan-Dec |
| Czech Rep | 10.4 | Jan-Sep | 9.5 | Jan-Sep |
| Denmark | | | 2.1 | Jan-Dec |
| Estonia | 4.8 | Jan-Dec | 3.4 | Jan-Dec |
| Finland | 13.5 | Jan-Dec | 14.1 | Jan-Dec |
| Germany | 5.1 | Jan-Dec | 3.6 | Jan-Dec |
| Greece | 7.4 | Jan-Dec | 7.0 | Jan-Dec |
| Hungary | 5.4 | Jan-Dec | 7.3 | Jan-Dec |
| Iceland | 24.2 | Jan-Dec | | |
| Ireland Rep | 3.7 | Jan-Nov | | |
| Italy | 3.7 | Jan-Dec | 5.6 | Jan-Dec |
| Latvia | 13.0 | Jan-Dec | 11.9 | Jan-Dec |
| Lithuania | 3.7 | Jan-Dec | 4.0 | Jan-Dec |
| Luxembourg | | | 5.0 | Jan-Dec |
| Malta | 15.7 | Jan-Dec | 10.3 | Jan-Dec |
| Monaco | 3.5 | Jan-Sep | | |
| Montenegro | 19.2 | Jan-Dec | 11.1 | Jan-Dec |
| Netherlands | 12.7 | Jan-Dec | 11.2 | Jan-Dec |
| Norway | | | -0.7 | Jan-Dec |
| Poland | 11.4 | Jan-Dec | 11.5 | Jan-Dec |
| Portugal | 11.7 | Jan-Dec | 8.6 | Jan-Dec |
| Romania | 11.3 | Jan-Nov | | |
| Serbia | 16.8 | Jan-Dec | 15.9 | Jan-Dec |
| Slovakia | 6.7 | Jan-Dec | 5.5 | Jan-Dec |
| Slovenia | 16.8 | Jan-Dec | 15.0 | Jan-Dec |
| Spain | 8.6 | Jan-Dec | 3.7 | Jan-Dec |
| Sweden | | | 6.1 | Jan-Dec |
| Switzerland | 7.0 | Jan-Nov | 5.8 | Jan-Nov |
| Turkey | 27.7 | Jan-Nov | | |
| UK | 5.0 | Jan-Oct | | |

Source: TourMIS, http://www.tourmis.info; available data as of 6.4.2018

Measures used for nights and arrivals vary by country

See TourMIS for further data including absolute values

# 2. TOURISM PERFORMANCE SUMMARY 2018

According to early 2018 data, arrivals were up in all reporting destinations relative to the comparable period. A strong economic outlook within most European source markets, as well as in longer-haul source markets, has allowed foreign travel to thrive. Notably, economic growth within the combined Eurozone economies hit a decade-high rate in 2017, boosting the disposable incomes of citizens. In the developing economies of Asia, the number of people enjoying the levels of wealth necessary to facilitate long-haul travel continue to grow at an immense rate. These factors should lend themselves to another very strong growth year for inbound travel to Europe in 2018.

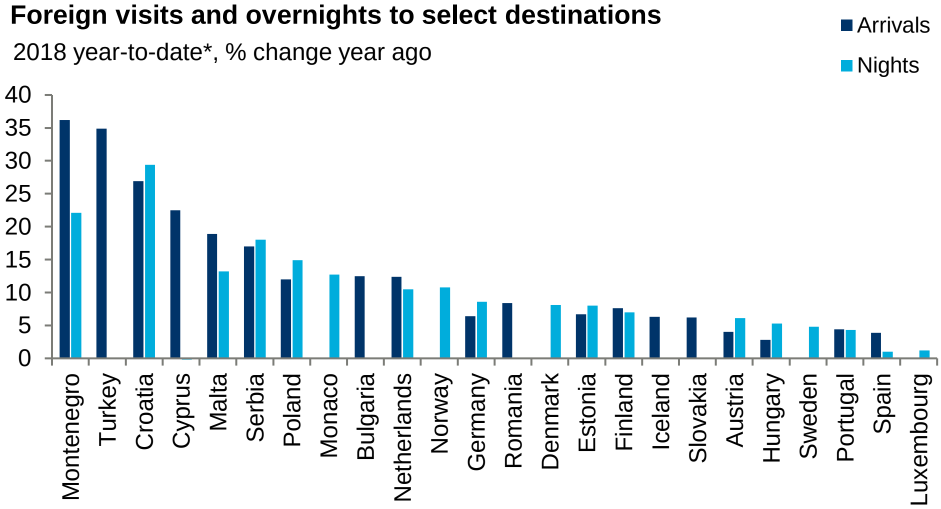
24

The number of European destinations reporting growth in 2018 to date

24 destinations have reported on tourism performance in 2018

**Foreign visits and overnights to select destinations**

2018 year-to-date*, % change year ago




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

Montenegro has continued on its strong and steady upward trend, supported by a near-perpetual stream of new flights, with many more to come. Notably, the German-based TUI group plans to launch multiple charter flights for tourists from the United Kingdom, France, Belgium, the Netherlands, Russia, Poland and the Scandinavian countries beginning in summer 2018.

Turkey's recovery continues with arrivals growth of 34.9% reported for the first two months of the year compared to the same period in 2017. Encouragingly, unlike 2017's recovery which was almost exclusively driven by growth from Russia, this year's recovery is more broad-based with growth coming from the full complement of source markets for which data are reported. This indicates that lingering concerns regarding tourist safety in 2017 are fading.

Expectations of an eventual slowdown in arrivals growth to Iceland are starting to materialise. Although still boasting enviable arrivals growth of 6.3% based on data to March, this falls far short of the rates of growth reported by Iceland in recent years. This slowing is indicative of some supply-side constraints which are now beginning to manifest themselves within the accommodation sector in particular, but also tourism infrastructure more generally, by pushing up prices and thereby squeezing Iceland's relative competitiveness.

Other destinations which have performed well so far in 2018 include some typically summer destinations such as Cyprus and Croatia, and growth outside of the peak summer season is becoming more commonplace in such destinations, demonstrating the effectiveness of a tourism strategy to target seasonality. An influx in the number of cruises has played a large part in this story. Malta has also seen some strong growth in 2018, it too benefitting from an increase in cruise visitors, and should expect further growth in the months ahead with its capital city of Valletta declared a European Capital of Culture for 2018.

Tourism Performance, 2018 Year-to-Date

| | International Arrivals | | International Nights | |
|---|---|---|---|---|
| **Country** | **% ytd** | **to month** | **% ytd** | **to month** |
| Austria | 4.0 | Jan-Feb | 6.1 | Jan-Feb |
| Bulgaria | 12.5 | Jan-Feb | | |
| Croatia | 26.9 | Jan-Mar | 29.4 | Jan-Mar |
| Cyprus | 22.5 | Jan-Feb | -0.2 | Jan-Jan |
| Denmark | | | 8.1 | Jan-Feb |
| Estonia | 6.7 | Jan-Feb | 8.0 | Jan-Feb |
| Finland | 7.6 | Jan-Feb | 7.0 | Jan-Feb |
| Germany | 6.4 | Jan-Jan | 8.6 | Jan-Jan |
| Hungary | 2.8 | Jan-Feb | 5.3 | Jan-Feb |
| Iceland | 6.3 | Jan-Mar | | |
| Luxembourg | | | 1.2 | Jan-Feb |
| Malta | 18.9 | Jan-Feb | 13.2 | Jan-Feb |
| Monaco | -0.1 | Jan-Feb | 12.7 | Jan-Feb |
| Montenegro | 36.2 | Jan-Feb | 22.1 | Jan-Feb |
| Netherlands | 12.4 | Jan-Jan | 10.5 | Jan-Jan |
| Norway | | | 10.8 | Jan-Jan |
| Poland | 12.0 | Jan-Jan | 14.9 | Jan-Jan |
| Portugal | 4.4 | Jan-Jan | 4.3 | Jan-Jan |
| Romania | 8.4 | Jan-Feb | | |
| Serbia | 17.0 | Jan-Feb | 18.0 | Jan-Feb |
| Slovakia | 6.2 | Jan-Jan | | |
| Spain | 3.9 | Jan-Feb | 1.0 | Jan-Feb |
| Sweden | | | 4.8 | Jan-Feb |
| Turkey | 34.9 | Jan-Feb | | |

Source: TourMIS, http://www.tourmis.info; available data as of 24.4.2018
Measures used for nights and arrivals vary by country
See TourMIS for further data including absolute values

# 3. GLOBAL TOURISM FORECAST SUMMARY

*Tourism Economics' global travel forecasts are shown on an inbound and outbound basis in the* following table. These are the results of the Tourism Decision Metrics (TDM) model, which is updated *in detail three times per year. Forecasts are consistent with Oxford Economics' macroeconomic* outlook according to estimated relationships between tourism and the wider economy. Full origin-destination country detail is available online to subscribers.

TDM Visitor Growth Forecasts, % change

| | Inbound* | | | | | Outbound** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| data/estimate/forecast *** | d | e | f | f | f | d | e | f | f | f |
| **World** | **3.6%** | **7.0%** | **4.8%** | **4.0%** | **3.9%** | **4.4%** | **7.2%** | **4.4%** | **4.0%** | **3.9%** |
| | | | | | | | | | | |
| **Americas** | **3.7%** | **5.1%** | **4.4%** | **4.5%** | **4.2%** | **4.6%** | **6.5%** | **4.3%** | **3.8%** | **3.5%** |
| North America | 2.4% | 5.1% | 3.7% | 3.8% | 3.8% | 3.9% | 6.3% | 4.4% | 3.7% | 3.4% |
| Caribbean | 4.9% | 2.6% | 4.1% | 3.9% | 3.8% | 9.1% | 19.6% | 5.7% | 5.0% | 5.1% |
| Central & South America | 7.0% | 6.2% | 6.9% | 6.5% | 5.7% | 6.8% | 6.2% | 4.1% | 4.4% | 3.8% |
| | | | | | | | | | | |
| **Europe** | **2.1%** | **8.0%** | **4.4%** | **3.0%** | **3.0%** | **3.4%** | **8.1%** | **4.3%** | **3.6%** | **3.4%** |
| ETC+4 | 2.3% | 8.5% | 4.3% | 2.8% | 2.7% | 4.4% | 6.2% | 4.2% | 3.5% | 3.3% |
| EU | 4.8% | 7.5% | 3.9% | 2.7% | 2.6% | 4.7% | 6.3% | 4.2% | 3.4% | 3.2% |
| Non-EU | -8.2% | 10.3% | 6.7% | 4.2% | 4.3% | -1.4% | 15.2% | 4.8% | 4.4% | 4.5% |
| | | | | | | | | | | |
| Northern | 6.9% | 6.1% | 3.2% | 2.7% | 2.7% | 6.0% | 4.2% | 3.5% | 3.4% | 3.6% |
| Western | -0.1% | 6.2% | 2.9% | 2.3% | 2.0% | 2.7% | 5.6% | 4.0% | 3.4% | 3.1% |
| Southern/Mediterranean | 1.1% | 11.3% | 5.8% | 3.2% | 3.1% | 4.8% | 9.1% | 5.9% | 4.1% | 3.6% |
| Central/Eastern | 3.5% | 5.8% | 4.8% | 3.8% | 4.0% | 1.1% | 17.5% | 4.3% | 3.7% | 3.5% |
| *- Central & Baltic* | *8.1%* | *8.3%* | *4.1%* | *2.7%* | *2.9%* | *6.7%* | *9.4%* | *3.3%* | *2.8%* | *2.6%* |
| | | | | | | | | | | |
| **Asia & the Pacific** | **8.5%** | **6.2%** | **4.6%** | **4.9%** | **5.1%** | **6.6%** | **6.1%** | **4.5%** | **4.9%** | **5.3%** |
| North East | 8.6% | 3.4% | 3.5% | 4.5% | 4.8% | 6.0% | 6.5% | 4.4% | 5.0% | 5.3% |
| South East | 8.1% | 8.7% | 5.3% | 5.4% | 5.5% | 8.1% | 4.6% | 4.6% | 5.1% | 5.4% |
| South | 10.3% | 13.7% | 9.7% | 6.8% | 6.2% | 8.8% | 6.2% | 5.0% | 5.0% | 6.0% |
| Oceania | 9.0% | 6.2% | 3.7% | 3.7% | 4.5% | 6.2% | 6.3% | 3.9% | 3.3% | 4.1% |
| | | | | | | | | | | |
| **Africa** | **-0.8%** | **11.5%** | **8.8%** | **6.7%** | **5.3%** | **13.7%** | **5.7%** | **6.2%** | **4.6%** | **3.8%** |
| | | | | | | | | | | |
| **Mid East** | **1.2%** | **2.2%** | **5.2%** | **4.9%** | **5.5%** | **-6.3%** | **9.0%** | **3.9%** | **4.0%** | **4.3%** |

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

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

The geographies of Europe are defined as follows:

**Northern Europe** is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

**Western Europe** is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

**Southern/Mediterranean Europe** is Albania, Bosnia-Herzegovina, Croatia, Cyprus, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;

**Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

***Central & Baltic Europe*** *is Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia;*

**ETC+4** is all ETC members plus France, the Netherlands, Sweden, and the United Kingdom

Source: Tourism Economics

# 4. RECENT INDUSTRY PERFORMANCE

EARLY-2018 INDUSTRY PERFORMANCE IS ENCOURAGING

- Early data for 2018 suggest continued strong passenger growth – albeit at slightly lower growth rates than those seen in 2017.
- The Middle East is currently the slowest growing of the global regions whilst Europe is only being outflanked in RPK growth by the Asia/Pacific region.

## 4.1 AIR TRANSPORT

Global air transport, measured in Revenue Passenger Kilometres (RPK), grew by 5.9% this year to date compared to the same period in 2017, based on data for the first two months of the year. Although weaker than 2017 or 2016, this is still above the 10-year average of 5.5% growth.

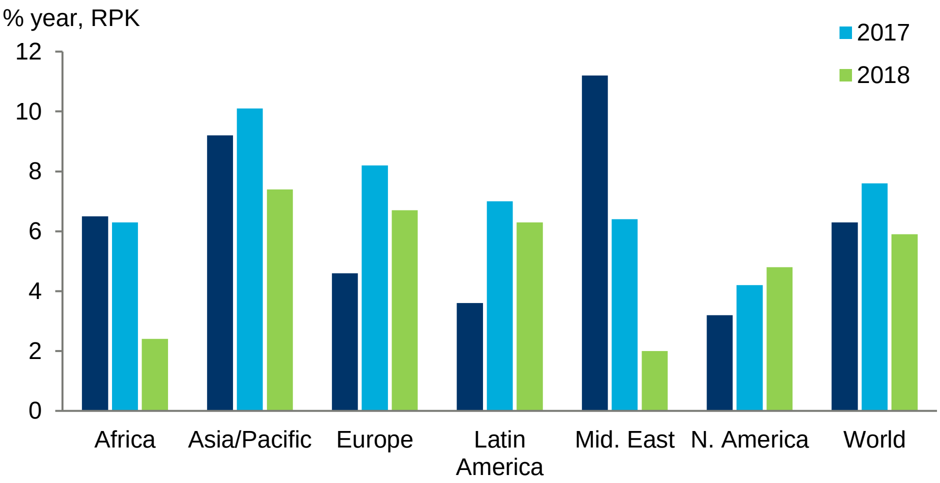
5.9%

The rate of World RPK growth in 2018 to date

YTD growth based on data to February

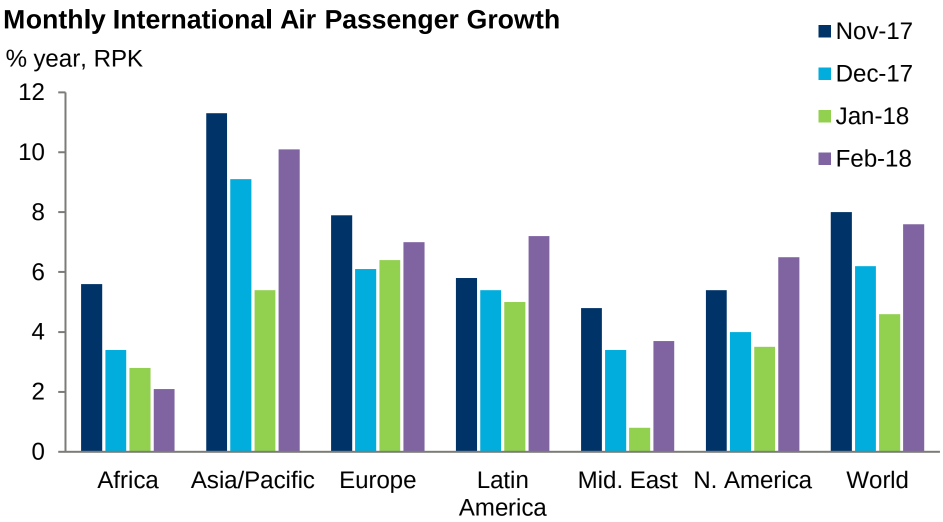
The strong demand trend in early 2017 is, of course, affecting the 2018 growth figures and IATA estimates that this has probably reduced the annual growth rate by around 0.6 percentage points. The economic backdrop remains strong, but the industry is experiencing increases in input costs – specifically fuel and, in some countries, labour costs.

**Annual International Air Passenger Growth**



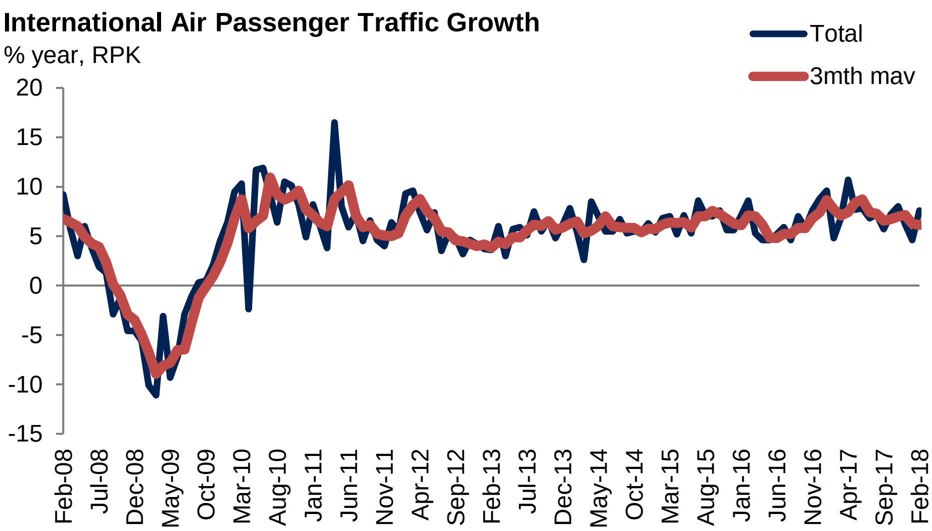

Source: IATA

Year-to-date RPK growth was strongest in Asia/Pacific region based on data to February as air passenger demand to, from, and within the region grew by 7.4%. Growth continues to be supported by strong regional economic expansion and ongoing increases in connectivity. January's anomalously low air passenger growth is largely the result of the timing of Chinese New Year in February 2018 relative to January 2017.




Source: IATA

The Middle East is currently the slowest growing global region in terms of RPK growth in 2018 with annual growth of just 2.0%. However, regional air passenger growth has recovered from its January low of 0.8% growth – the region's slowest growth since the global economic crisis of 2008. The ongoing blockade of Qatar since June 2017 is clearly one factor in the relatively slow regional RPK growth.

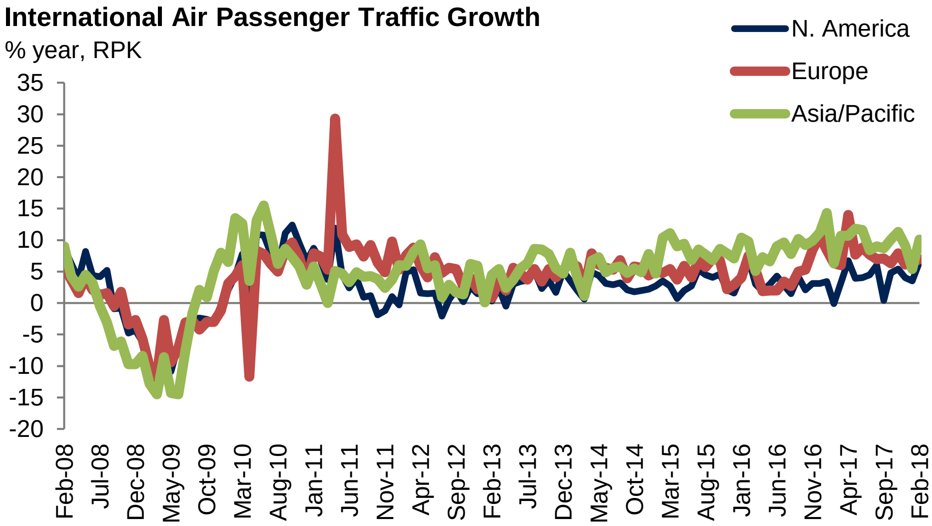



Source: IATA

In Africa RPKs grew by 2.4% in 2018 based on data to February. Monthly data demonstrates a continuing slowing of growth between November 2017 and February 2018. In part, RPK growth may look low due to the recovery in the year prior, however, we do expect this situation to improve as the year continues; Nigeria's Stanbic IBTC Bank's PMI hit a record high in March 2018, whilst in South Africa, Standard Bank's PMI signalled a modest improvement in business conditions.

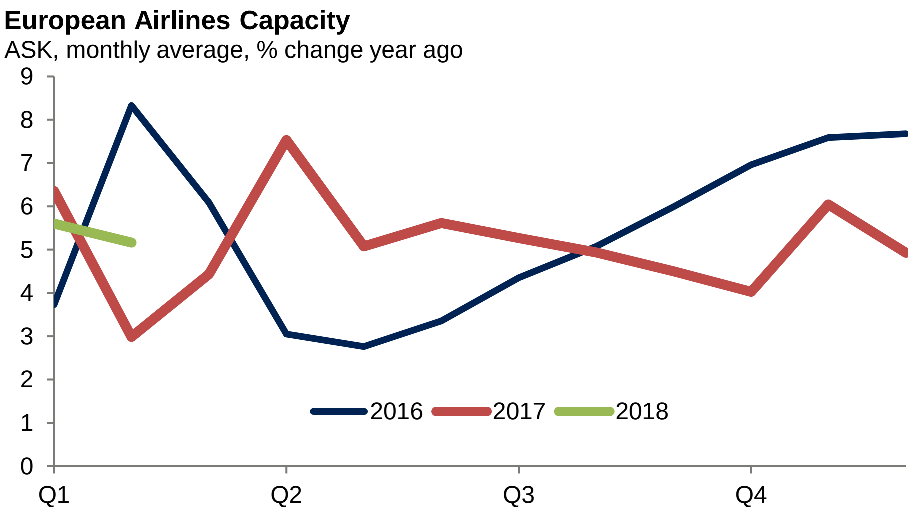
North American traffic shows some signs of a pick-up from a relatively sluggish 2016 and 2017. RPKs grew by 4.8% in the first two months of the year. This reflects a robust economic backdrop supporting outbound passenger demand whilst, at the same time, a relative weakening of the US dollar is encouraging more inbound passengers. However, some downside factors, such as President Trump's travel ban and imposition of trade tariffs, have tainted the image of the US as a welcoming destination and this may offset some of this weaker dollar impact.

Trans-Atlantic demand is lagging behind demand within Europe and Asia/Pacific but should continue to support European growth throughout 2018 despite exchange rate movements resulting in much of Europe being more expensive for US travellers compared to 2017.




Source: IATA

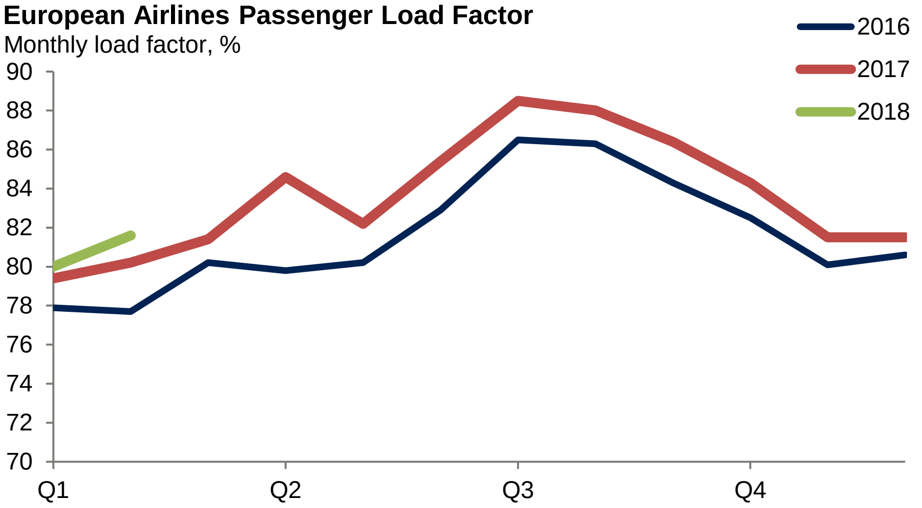
In Europe, RPK growth was 6.7% in the first two months of the year. Data for February was even stronger. 2017 was an exceptionally positive year for European air passenger growth and 2018 will be hard-pushed to match growth levels thanks to increasing fuel prices, ongoing consolidation, and some continued Brexit uncertainty.




Source: IATA

Available Seat Kilometres (ASK) in Europe are currently up 5.2% on one year earlier (based on data to February), but growth is failing to keep up with demand and load factors continue to rise; passenger load factors have started 2018 high when compared with either 2017 or 2016 – a notable feat given 2017 load factors reached all-time high levels.

**European Airlines Passenger Load Factor**
Monthly load factor, %

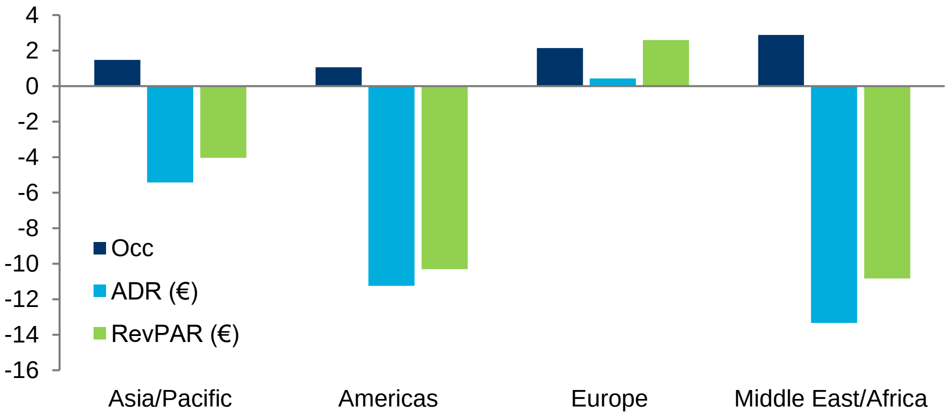



Source: IATA

## 4.2 ACCOMMODATION

Despite occupancy growth in all world regions, declines in ADR are evident, denominated in euros, resulting in reported RevPAR falls for the first quarter of 2018 for most regions. However, this is heavily influenced by strengthening of the euro over the same period and all measures of accommodation performance were positive in all world regions when priced in US dollars.

**Global Hotel Performance**
Jan-Mar year-to-date, % change year ago




Source: STR

The Middle East and Africa enjoyed the largest occupancy rate increase (2.9%) compared to the same quarter of 2017. Substantially lower average daily rates in euro terms as a result of the weakening US dollar – to which many Middle Eastern currencies are pegged – will have aided growth from non-US dollar markets and from Europe in particular. However, demand growth was not sufficient to offset lower room rates and RevPAR fell as a result when priced in euro terms.

The weaker US dollar has also led to relatively cheaper rooms in the Americas. Occupancy rates were up 1.1% in the first quarter of 2018 compared to the same period of 2017. This increase in occupancy, however, was not sufficient to offset lower rates which resulted in lower RevPAR when priced in euro terms.

The picture is similar in Asia/Pacific. Occupancy rates were 1.5% higher compared to the same period of 2017. ADR and RevPAR were both higher than a year ago when denominated in US dollar terms but were lower when denominated in euro terms.

**2.2%**

Occupancy rate growth in Europe in 2018 to date

YTD growth *b*ased on data to March

Hotels in Europe reported growth across all indicators for the first quarter of 2018 and were the only ones to do so in euro terms. Occupancy rates increased by 2.2% compared to the same period in 2018 which, when coupled with a marginal increase in ADR (0.4%), yielded RevPAR growth of 2.6%. This is something of a shift from previous periods, when ADR has been the more important growth factor for RevPAR. Lower pricing may be related to the euro appreciation and relative loss of competitiveness. It could also be explained by attempts to reduce seasonality with greater discounting in shoulder months.

# 5. SPECIAL FEATURE: RUSSIAN OUTBOUND TRAVEL

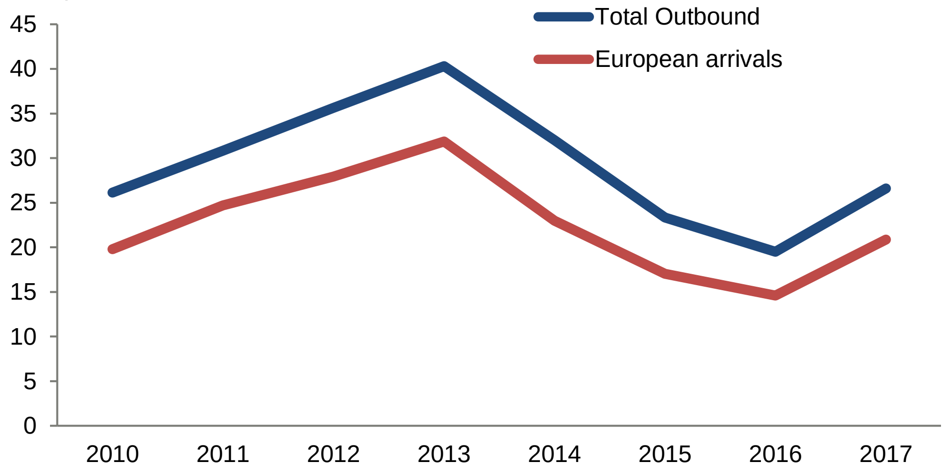
RUSSIAN DEMAND IN 2017

Strong growth in Russian travel in 2017 involved a partial rebound from falls in previous years

Travel from Russia to European destinations was particularly strong in 2017, with the vast majority of destinations reporting growth in arrivals, including a clear turnaround from earlier falls. Overall outbound trip volumes increased by 37% in 2017 while travel to European destinations was up an estimated 43%.

This strong 2017 performance followed a significant fall in 2016 when outbound travel from Russia was 52% below prior peak and travel to European destinations was 54% lower than in 2013.

**Russian outbound travel**
mns trips




Source: Tourism Economics

The 2017 rebound is particularly evident in travel from Turkey which was up by a massive 465%, following a large collapse (-76%) in 2016. With such large swings in visitor volumes it is instructive to consider the change in visitor volumes. Turkey received almost 3 million fewer Russian visitors in 2016 than in the prior year (when volumes were also lower than a year earlier). In 2017, there were almost 4 million more Russian visitors than in the prior year. This also offset the earlier falls to deliver a record year for Russian travel to Turkey.

Such large swings in Russian travel to Turkey were due to geopolitical developments, which culminated in a ban on charter flights from Russia to Turkey and which decimated the summer leisure market in 2016. Improvement in relations, and resumption of flights allowed the rebound. Lira weakness and increased price competitiveness also influenced the strength of the rebound.

Elsewhere in Europe, the rebound was not as rapid, and some destinations even reported modest falls in Russian travel in 2017. However, these destinations all experienced some earlier rebound in 2016; gaining market share due to likely displaced travel from Turkey. Bulgaria, Greece, and Montenegro reported moderate declines in arrivals in 2017 following growth in 2016. However, Montenegro also reported some continued growth in overnights in 2017. Italy and Cyprus reported growth in Russian arrivals in both 2016 and 2017, but saw a modest fall in overnights last year, indicating some shorter stays.

## REBOUND ONLY PARTLY OFFSETS PRIOR DECLINE

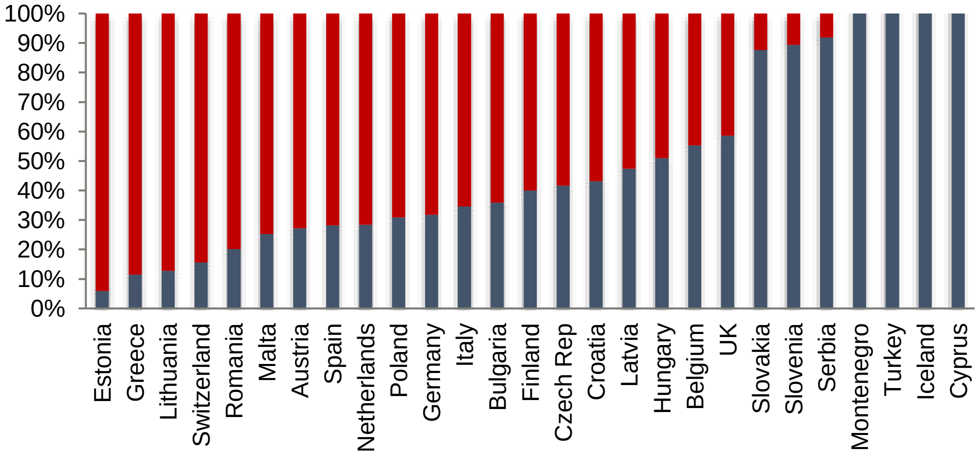
4

destinations have seen full recovery of previous peak Russian arrival volumes

The strong growth performance in 2017 only partly offsets prior declines for the vast majority of destinations. This implies that there is still some scope for further rebound to regain prior travel patterns. Indeed, initial 2018 data shows some strong growth rates in the early months of the year for Russian travel, although this may well moderate as the year progresses.

Recent growth fully offset the prior falls for only a handful of countries: Turkey, Montenegro, Iceland, and Cyprus. Having regained market share, relatively modest growth is likely for these countries in coming years. This is already evident for Montenegro and Cyprus which saw gains in 2016 and then more modest performance in 2017. There is also limited scope for further rapid growth in recovery in Slovakia, Slovenia, and Serbia where 2017 arrivals were close to prior peaks.

**Extent of recovery in Russian arrivals in ETC destinations**
Arrivals increase in 2017 (& 2016 in some cases) relative to prior falls




Source: Tourism Economics

Russian travel remains well below prior peak levels for most other European destinations, providing scope for continued recovery. Travel to all European destinations remained 35% below prior peak levels in 2017. This is notable for some traditionally large destinations for Russian travel such Spain, Greece, Italy, and Poland. Along with Turkey, these have traditionally been the 5 most visited countries by Russian travellers accounting for over half of European trips.

## GROWTH EXPECTATIONS

Although there is apparent scope for continued rapid growth for some destinations to regain prior peak levels, we only expect a modest increase in

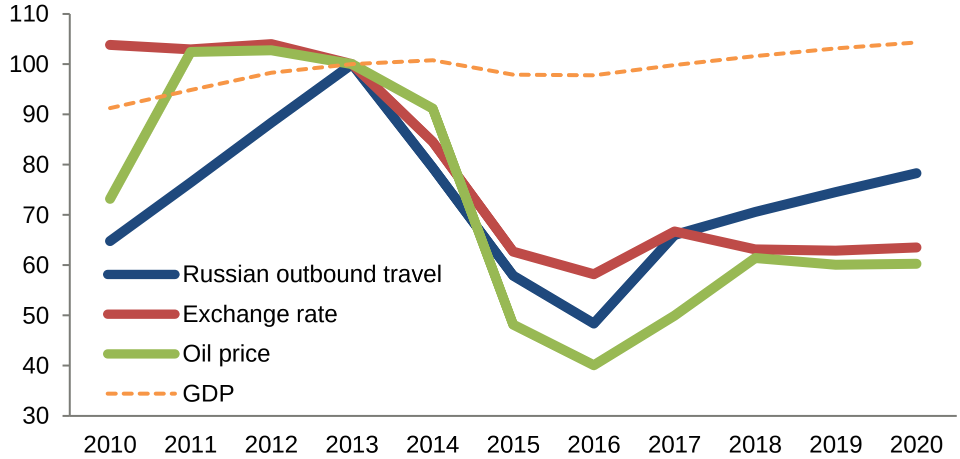
Russian travel in coming years, and much more subdued growth than in 2017 on average.

A return to rapid economic growth is not expected, with only modest growth in real incomes and consumer spending. These demand factors provide reason for a cautious outlook for Russian outbound travel. However, other factors have been more important in understanding Russian demand in recent years.

Modest growth is expected with lingering rouble weakness

Affordability is key, and the path of exchange rates in coming years will help to define travel growth. Rebound in the value of the rouble, along with rising oil prices, helped to support the outbound demand growth in 2017. The falls in prior years also followed a dip in oil prices and currency deprecation.

**Russian travel demand and key drivers**
2013=100



Source: Tourism Economics

Falling Russian travel also followed the imposition of sanctions, but the price effects were the more important factor. Imposition of travel bans and sanctions themselves had some limited impact in early 2014 when they were first imposed following the annexation of Crimea. But Russian travel only really began to fall significantly later in the year as oil prices dropped significantly, affecting capital flows and resulting in the drops in the value of the rouble.

The modest appreciation of the rouble in 2017 coincided with rising oil prices. With more stable oil prices expected in coming years we do not expect any significant currency appreciation (exchange rate shown in above chart is a weighted average index against currencies for major Russian destinations).

Additional sanctions, and any impact on exchange rates values, are a large risk to the outlook. The US imposed new sanctions on Russia in early 2018 which saw an immediate and large reaction in equity and currency markets. We expect these effects to moderate throughout the year, but imposition of further sanctions, including by European countries provides a risk of renewed depreciation.

The baseline outlook is for relatively modest outbound growth as European destinations are less affordable for Russian travellers than they were in 2013. By 2021 we expect that many European destinations will still be receiving fewer Russian visitors than in prior peak years.

Southern and Eastern European destinations will typically benefit the most from Russian growth as these remain the most favoured destinations with higher relative affordability. Travel trends also suggest returning demand for Mediterranean destinations in particular.

# 6. KEY SOURCE MARKET PERFORMANCE

**2018: ANOTHER STRONG GROWTH YEAR FOR EUROPE BECKONS**

- All destinations have enjoyed arrivals growth in early-2018.
- For most destinations growth came from a well-balanced mix of intra-European and long-haul source markets.
- Planned airline capacity growth throughout 2018 between many European countries should yield further growth.

Trends discussed in this section in some cases relate to the first three months of the year although actual coverage varies by destination. For the majority of countries January or February will be the latest available data point. Further detailed monthly data for origin and destination, including absolute values, can be obtained from TourMIS, http://tourmis.info.

## 6.1 KEY INTRA-EUROPEAN MARKETS

19

out of 23 destinations reported arrivals growth from Germany

The majority of reporting European destinations experienced strong growth in travel from Germany in 2018 to date. Of 23 countries reporting on German travellers, 19 reported growth in at least one metric. Some slowing of GDP proves to be of little consequence in the face of robust consumer spending growth which is more closely linked to outbound travel.

Croatia reported the greatest percentage growth in German arrivals (75.5%), although growth in overnights was a touch lower than this. Germany is Croatia's single largest source market and major tour operators are expanding programmes for 2018. Croatia's challenge is to diversify tourism into less familiar parts of the country and away from the peak season.

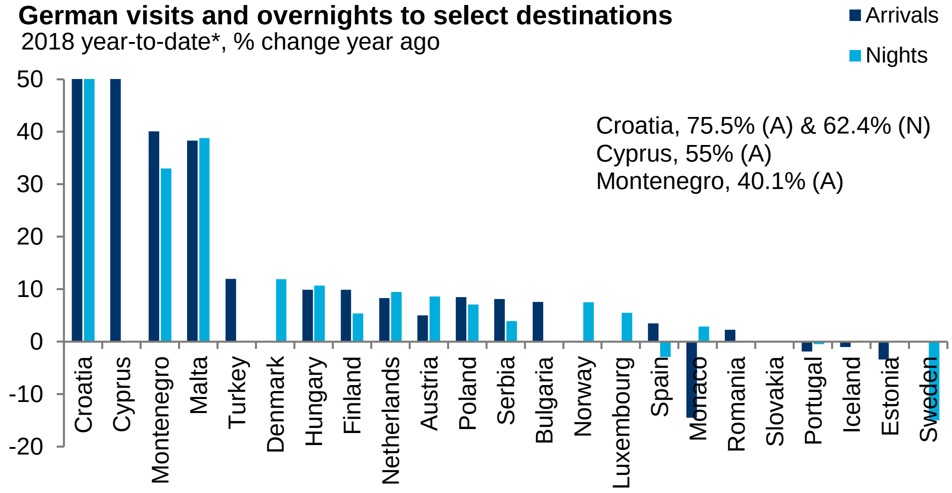
Cyprus and Malta are also benefitting from German demand, up 55% and 38.3% compared to one year ago in terms of arrivals. Germany is also an important source market for Montenegro, which saw an increase of 40.1% in German arrivals, aided by an increasing number of direct air connections – and German based travel group TUI plans to add even more flights between Germany and Montenegro for summer 2018.

There is also some sign of the beginnings of a recovery in German tourism to Turkey although there is a lot of ground to be made up – total arrivals from Germany to Turkey in 2017 were approximately 2 million below their 2015 peak. This means at the current rate of German arrivals growth (12%), arrivals from Germany will not reach 2015 levels until after 2020.

There was a more mixed picture for Spain with arrivals up but overnights down. Increasing connectivity between Germany and South-Eastern Europe has presented the more traditional destination with a challenge.

**German visits and overnights to select destinations**

2018 year-to-date*, % change year ago




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

Of the 23 countries reporting data on Dutch travellers, 17 reported growth on at least one metric.

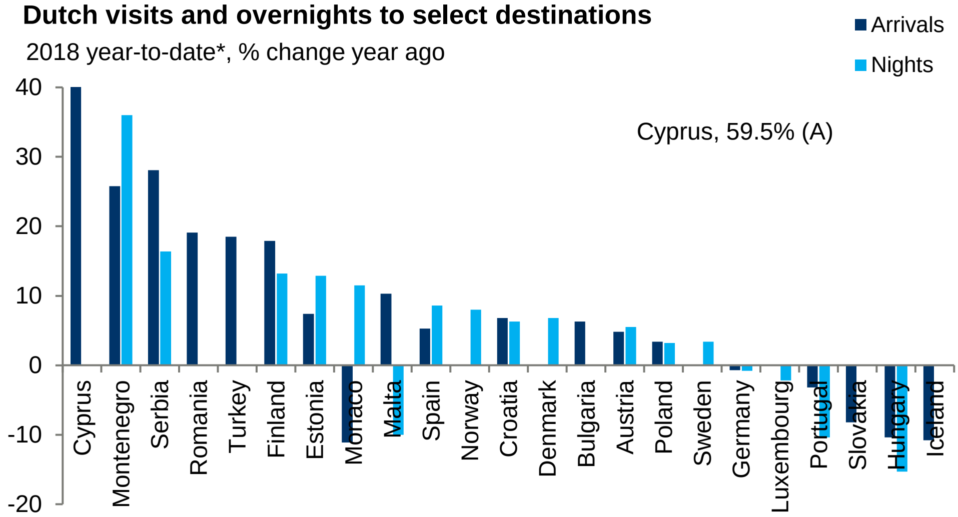
17

out of 23 destinations reported arrivals growth from Netherlands

Cyprus topped arrivals growth for travellers from the Netherlands (up 59.5% on a year ago). And South-Eastern Europe as a whole performed exceptionally well with Serbia, Montenegro, Romania and Turkey all showing arrivals growth between 18% and 29%. This growth was supported by the introduction of new air connections by Wizz Air at the end of 2017 and by new chartered flights by TUI. Again, in the case of Turkey, this represents recovery of a small amount of lost ground.

**Dutch visits and overnights to select destinations**

2018 year-to-date*, % change year ago




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

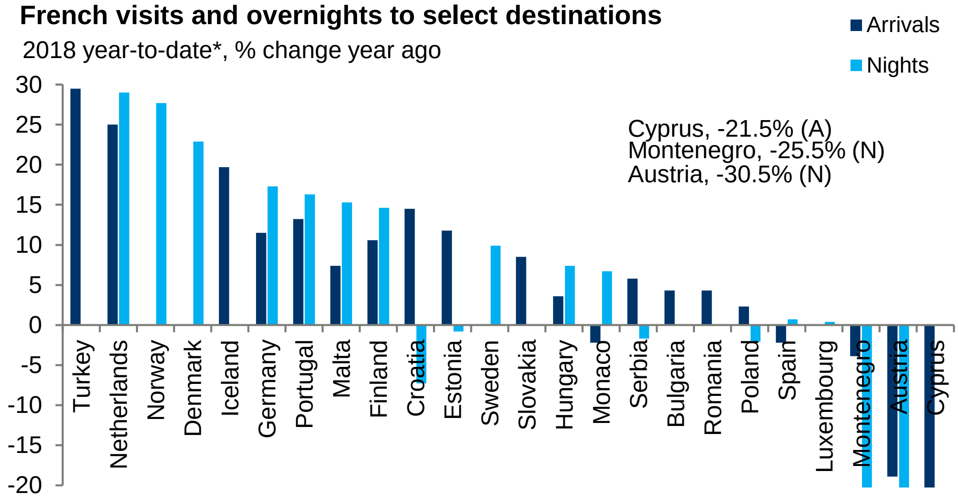
Of 24 countries reporting on the French source market, 21 had seen growth in either arrivals, overnights, or both. As a destination Turkey experienced the strongest growth in arrivals from France with 29.5% growth. Hungary and Denmark both saw very strong growth in overnights: 29.2% and 22.9% growth respectively on one year ago. For Hungary, although arrivals from France were less than those from Germany, the UK, Italy, and the Netherlands in absolute terms, TE forecasts suggest France will overtake the Netherlands in 2018 to

**21**
out of 24 destinations reported arrivals growth from France

become Hungary's 12th largest source market, reclaiming some ground lost over the last ten years (in 2008 France was Hungary's 9th largest source market, but by 2015 had slipped to 15th). Interestingly, whilst Iceland has slipped into negative territory for some key source markets, growth in arrivals from France remains very solid at 19.7%. Since 2010, arrivals growth from France to Iceland have been slower than from some other European source markets, notably in 2014 when growth was flat, which may be facilitating some catch-up.

Austria, Cyprus, and Montenegro were the worst performers as destinations for French travellers. Austria's ski season was affected by extreme winter weather across much of the Alps.

**French visits and overnights to select destinations**
2018 year-to-date*, % change year ago

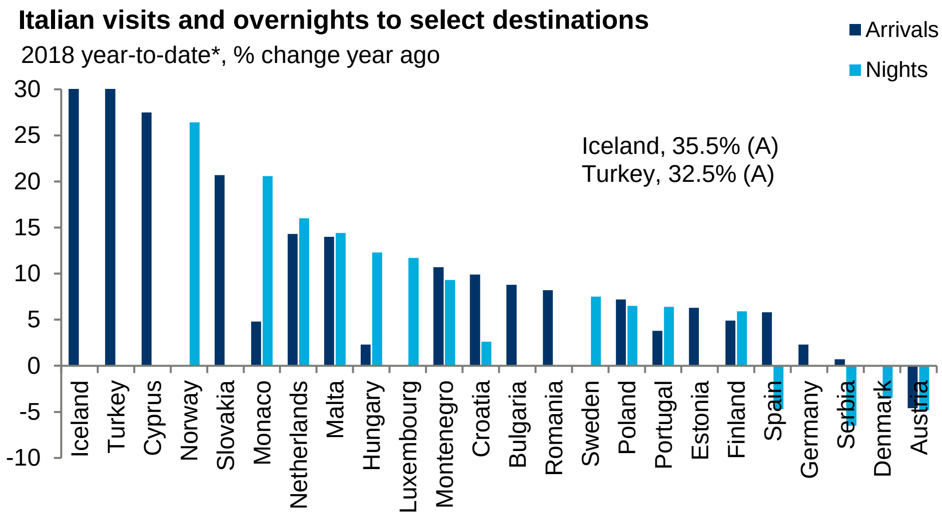



Source: TourMIS *date varies (Jan-Mar) by destination

Although still based on relatively low actual volumes, Iceland continued to top Italian arrivals growth with 35.5% growth on one year earlier. Turkey was not far behind though with an increase of 32.5%. All in all, of the 24 countries reporting on Italian travellers, 22 reported growth in one or both metrics.

**22**
out of 24 destinations reported arrivals growth from Italy

Interestingly, whilst Slovakia did not fare well amongst some other source markets such as the Netherlands, there was strong growth from Italy with arrivals increasing by 20.7%.



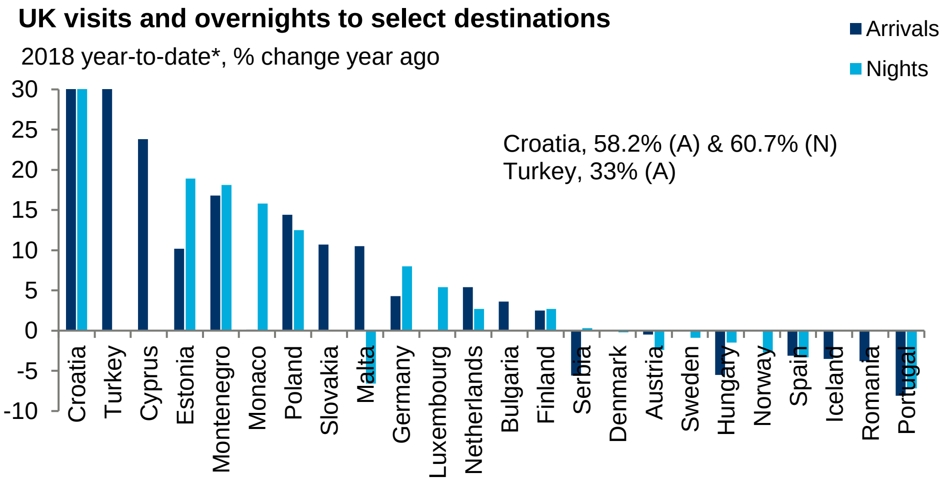

Source: TourMIS *date varies (Jan-Mar) by destination

**15**

out of 24 destinations reported arrivals growth from the UK

Of the 24 destinations reporting on growth from the UK, 15 indicated growth in either arrivals or overnights – or both. Four countries saw growth in UK arrivals of more than 20% with Croatia topping arrivals growth at a 58.2% increase when compared with one year earlier. The increase in overnights was even higher. Increased UK – Croatian connectivity has played a major role in this growth, but it is likely that the search for cheaper alternatives to Eurozone destinations also has. Other parts of South-eastern Europe also fared well with Montenegro, Turkey and Cyprus following on Croatia's heels. UK arrivals to Turkey in absolute terms remain well below peak 2014 levels (at the end of 2017 arrivals were almost 1 million below their 2014 level), but the current rate of UK arrivals growth (33%) could restore these levels by next year.

Where parts of the Eastern Mediterranean gained, competitors in the more traditional markets of the Western Mediterranean struggled to attract British tourists with both Spain and Portugal down in UK arrivals – by 3.1% and 8.1% respectively. That is of significance for Portugal since the UK is one of its largest source markets for international arrivals.




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

20

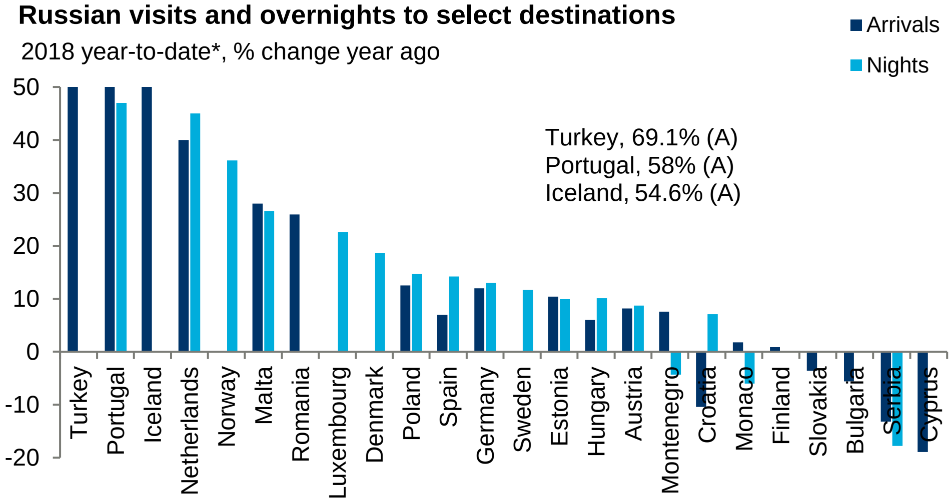
out of 24 destinations reported arrivals growth from Russia

Of the 24 destinations reporting on travellers from Russia, 20 reported some form of growth. Turkey topped arrivals growth with 69.1% growth in arrivals on a year earlier. However, this is a far smaller percentage than those appearing towards the end of 2017. A number of countries which probably benefited from displaced Russian tourism to Turkey during the diplomatic disputes now report arrivals declines, most notably Bulgaria and Cyprus. Russian arrivals to Croatia are also down even if nights are still up.

The UK enjoyed some strong arrivals growth from Russia in 2017, but although there is not yet any 2018 data available for UK arrivals by source market, it is hard to see this not being affected by the current embassy expulsions and the marked decline in the exchange rate value of the Russian rouble.

**Russian visits and overnights to select destinations**

2018 year-to-date*, % change year ago




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

## 6.2 NON-EUROPEAN MARKETS

In spite of recent weakening of the dollar, arrivals growth from the US continues for many European countries. Of the 23 countries reporting, 20 have reported some form of growth from the United States. 14 have reported double digit growth in either arrivals, overnights, or both.

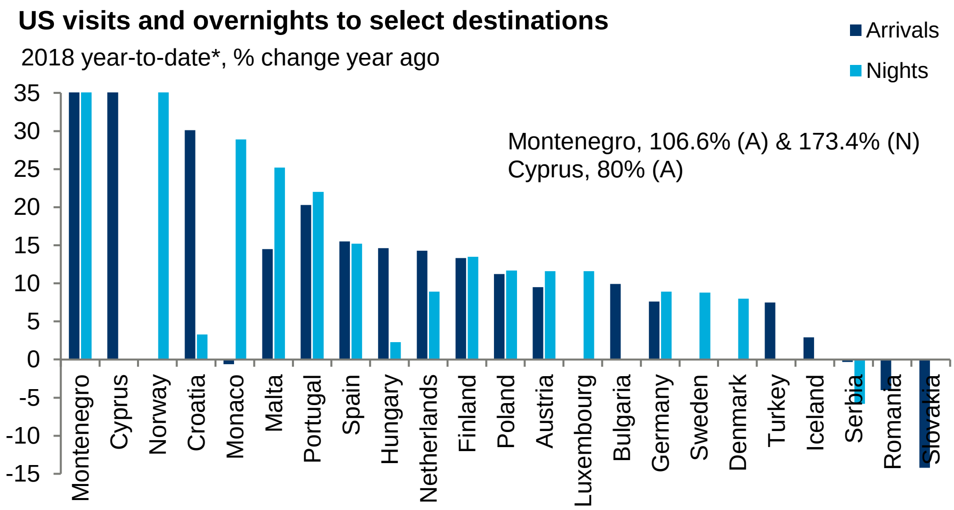
20

out of 23 destinations reported some form of growth from the United States

Although based on relatively small actual numbers, in percentage terms the strongest growth compared to one year ago was in Montenegro. Also, relatively small in actual numbers terms was an 80% increase in US arrivals in Cyprus. With no direct connections between the US and many developing European destinations, the implication of US growth in these markets signals the benefits of improved connectivity within Europe.

Only three destinations reported declines. Monaco reported a small decline in arrivals whilst also reporting a 28.9% increase in nights. Romania and Slovakia reported a decline in arrivals whilst Serbia reported declines in both metrics.

Also worthy of note is the beginnings of a recovery in US visitors to Turkey. This may have some association with the resolution of a short visa dispute spanning October to December 2017 which began when two employees of the US consulate in Istanbul were held on suspicion of ties to 2016's failed coup.



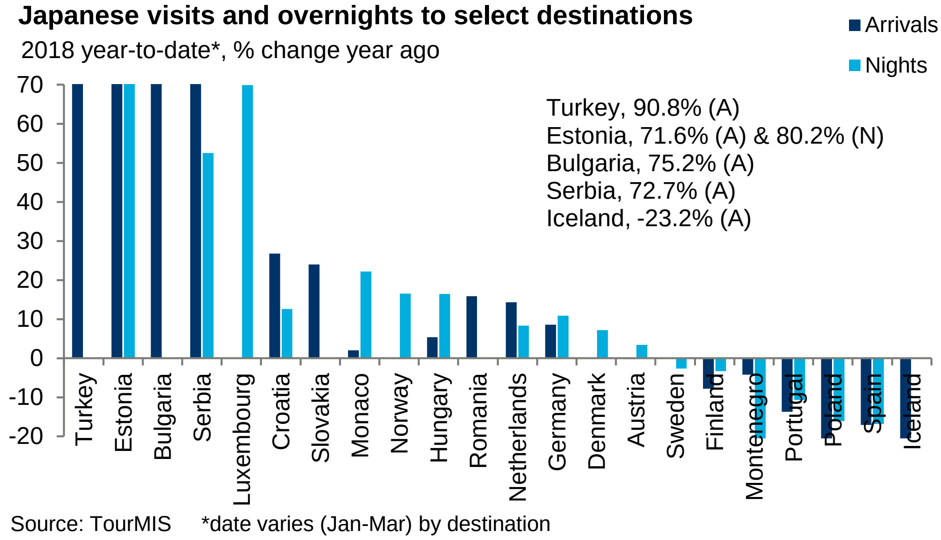

Source: TourMIS *date varies (Jan-Mar) by destination

Arrivals from Japan demonstrated genuinely divergent performances. Roughly one-third of the 22 destinations reporting indicated falling demand. Furthermore, this includes some of the larger destinations in terms of Japanese tourist numbers, such as the UK and Spain which each receive around 5% and 15% of Japanese arrivals to Europe respectively.

15

out of 22 destinations reported some form of growth from Japan

By contrast, there was double digit growth to some Central European countries including Croatia, Hungary, Slovakia and Romania. And there was 65%+ growth on one year ago for five countries: Turkey, Estonia, Bulgaria, Serbia and Luxembourg. Some lingering impact from Shinzo Abe's visit to Luxembourg in November 2017 may remain in early-2018 data. In some cases, such as Estonia, this is growth from relatively low numbers but suggests a shift towards more 'non-traditional' destinations for Japanese travellers. Turkey's strong growth as a destination amongst Japanese travellers may indicate the potential for the destination to broaden its appeal. A decline of broadly 17% on both metrics for Spain as a destination is significant since nearly half a million Japanese tourists went there in 2017. Japanese arrivals to Iceland were close to flat in 2017, following a number of strong growth years. However, they have turned in 2018 (down 23.2% in data to March) signalling that Japanese arrivals to Iceland may have peaked in 2017.




For 2017 as a whole, every country destination reported some form of growth from China with only Italy recording any kind of contraction. This is no longer the case in early data for 2018. Almost half of the reporting countries (8 out of 23) reported no form of growth, including some hefty declines in Chinese tourism. Monaco, for example, saw a 32.8% fall in arrivals on one year ago.

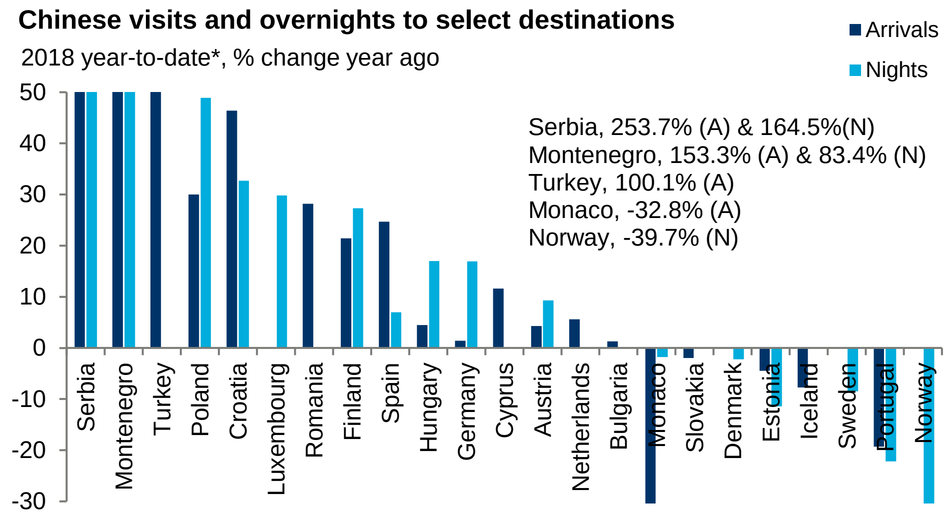
**15**

out of 23 destinations reported some form of growth from China

It should be noted that there was a clear relationship between latest month reported and arrivals and overnights growth. Those countries reporting only to January were the more likely to have experienced declines, whilst those reporting to February or March were more likely to have seen strong growth. This is the result of the distortion caused by the shifted timing of the Chinese New Year.

Serbia and Montenegro continue to be the top growth destinations with reported arrivals growth of 254% and 153% respectively. However, both are from low levels. In that light, a 100% increase in Chinese arrivals to Turkey is, perhaps, more interesting. Arrivals increases of 46.4% and 30%from China to Croatia and Poland respectively is also very significant.

The EU-China tourism year, the opening ceremony for which was in Venice in January, will aim to support further growth as well as joint investment in tourism.




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

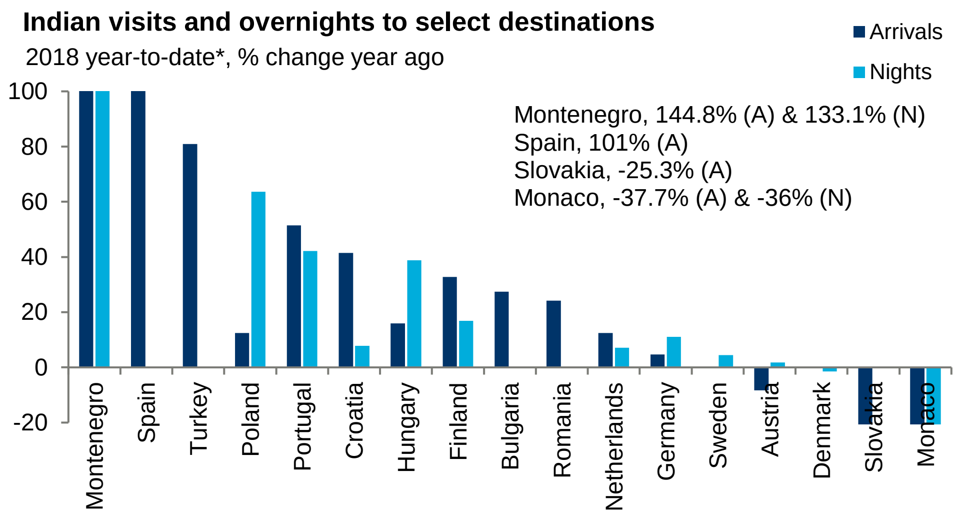
14 out of 17 reporting destination countries reported some form of growth in travel from India.

**14**

out of 17 destinations reported some form of growth from India

In percentage growth terms Montenegro also managed to top the growth destinations league from Indian visitors with an increase of 145% in arrivals on a year ago. However, although this signals the benefits of indirect capacity, it is important to stress that this will be based on relatively small absolute numbers. The doubling of arrivals numbers in Spain is likely to be much more significant. Turkey and Croatia also recorded strong Indian visitor numbers growth.

Germany and France are the countries with the largest numbers of Indian tourist arrivals, Germany saw arrivals up a more modest 4.7%. Only Denmark, Slovakia and Monaco reported no growth in either metric.




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

Of the 20 countries reporting on Canadian travellers, six reported no form of growth. The strongest growth in arrivals was recorded from Cyprus (115%) and Croatia (63.7%). Croatia has become the largest Emerging European destination for Canadians, whilst Cyprus builds on a strong performance in 2017 for attracting travellers from Canada.

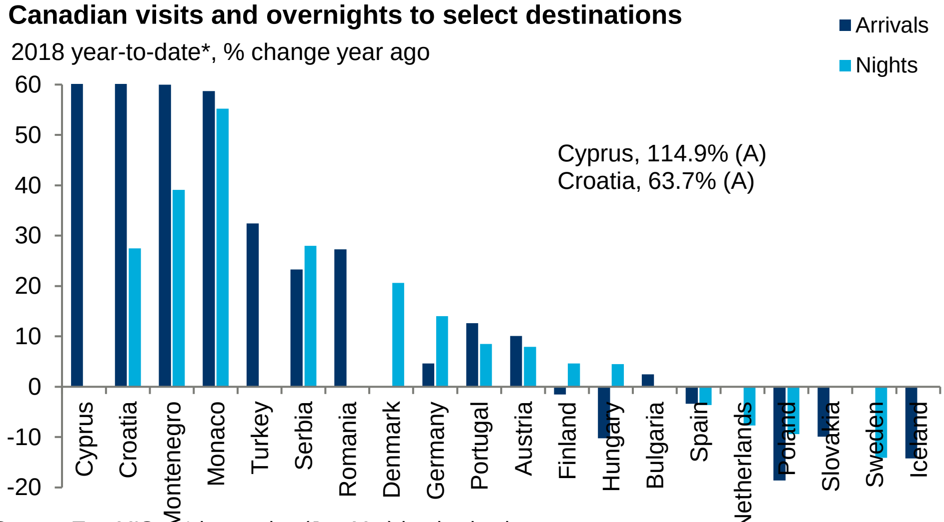
**14**

out of 20 destinations reported some form of growth from Canada

In 2017 Iceland was a strong performer amongst Canadian tourists, aided by the increase in hub traffic on Trans-Atlantic flights. The latest data shows a very changed picture with a fall in arrivals of some 14.2% when compared with a year ago. In contrast, arrivals to Turkey have picked up by nearly one third.

**Canadian visits and overnights to select destinations**

2018 year-to-date*, % change year ago




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

# 7. ORIGIN MARKET SHARE ANALYSIS

**METHODOLOGY**

Based on the Tourism Decision Metrics (TDM) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets. 2015 values are, in most cases, year-to-date estimates based on the latest available data and are not final reported numbers.

Data in these charts and tables relate to reported arrivals in all destinations as a comparable measure of outbound travel for calculation of market share.

For example, US outbound figures featured in the analysis are larger than reported departures in national statistics as long-haul trips often involve travel to multiple destinations. In 2014 US data reporting shows 11.9m departures to Europe while the sum of European arrivals from the US was 23.4m. Thus, each US trip to Europe involved a visit to two destinations on average.

The geographies of Europe are defined as follows:

**Northern Europe** is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

**Western Europe** is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

**Southern/Mediterranean Europe** is Albania, Bosnia-Herzegovina, Croatia, Cyprus, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;

**Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

## 7.1 UNITED STATES

US Market Share Summary

| | 2017 | Growth (2017-22) | | | Growth (2012-17) | | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 115,522 | - | 4.8% | 26.4% | - | 45.4% | - |
| Long haul (000s) | 69,097 | 59.8% | 5.3% | 29.4% | 61.2% | 41.6% | 61.4% |
| Short haul (000s) | 46,425 | 40.2% | 4.1% | 22.0% | 38.8% | 51.5% | 38.6% |
| | | | | | | | |
| Travel to Europe (000s) | 30,670 | 26.5% | 4.7% | 26.1% | 26.5% | 48.3% | 26.0% |
| Northern Europe (000s) | 8,166 | 7.1% | 4.0% | 21.9% | 6.8% | 65.2% | 6.2% |
| Western Europe (000s) | 10,543 | 9.1% | 2.6% | 13.7% | 8.2% | 36.4% | 9.7% |
| Southern Europe (000s) | 8,147 | 7.1% | 6.4% | 36.5% | 7.6% | 52.7% | 6.7% |
| Central/Eastern Europe (000s | 3,813 | 3.3% | 8.0% | 46.8% | 3.8% | 42.9% | 3.4% |

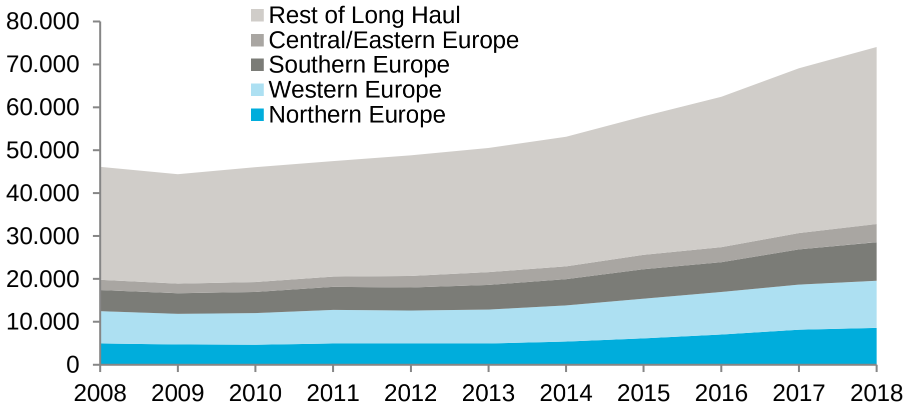
*Shows cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**US Long Haul* Outbound Travel**

Visits, 000s

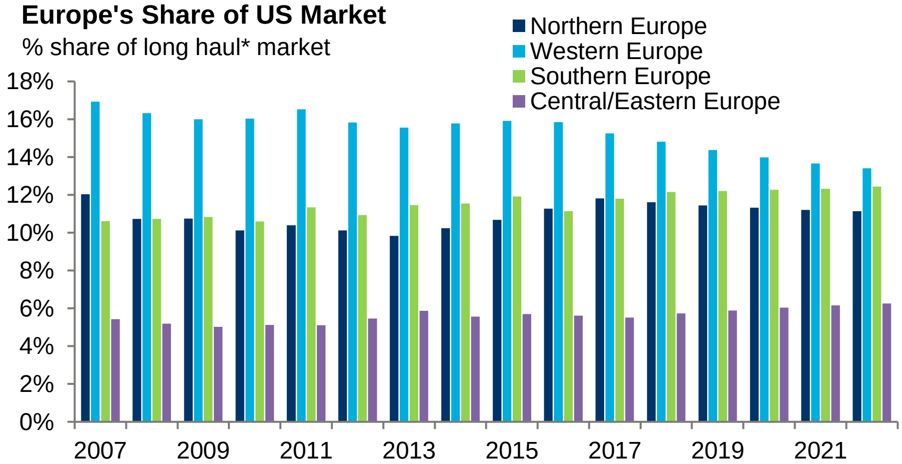



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

**Europe's Share of US Market**

% share of long haul* market




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

Source: Tourism Economics

## 7.2 CANADA

Canada Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 36,303 | - | 3.6% | 19.6% | - | 2.8% | - |
| Long haul (000s) | 14,090 | 38.8% | 4.2% | 22.9% | 39.9% | 27.5% | 31.3% |
| Short haul (000s) | 22,213 | 61.2% | 3.3% | 17.5% | 60.1% | -8.4% | 68.7% |
| | | | | | | | |
| Travel to Europe (000s) | 5,437 | 15.0% | 2.9% | 15.5% | 14.5% | 32.7% | 11.6% |
| Northern Europe (000s) | 1,317 | 3.6% | 4.6% | 25.4% | 3.8% | 35.5% | 2.8% |
| Western Europe (000s) | 1,808 | 5.0% | 2.5% | 13.2% | 4.7% | 17.4% | 4.4% |
| Southern Europe (000s) | 2,046 | 5.6% | 2.7% | 14.3% | 5.4% | 60.6% | 3.6% |
| Central/Eastern Europe (000s) | 266 | 0.7% | -1.7% | -8.1% | 0.6% | -14.0% | 0.9% |

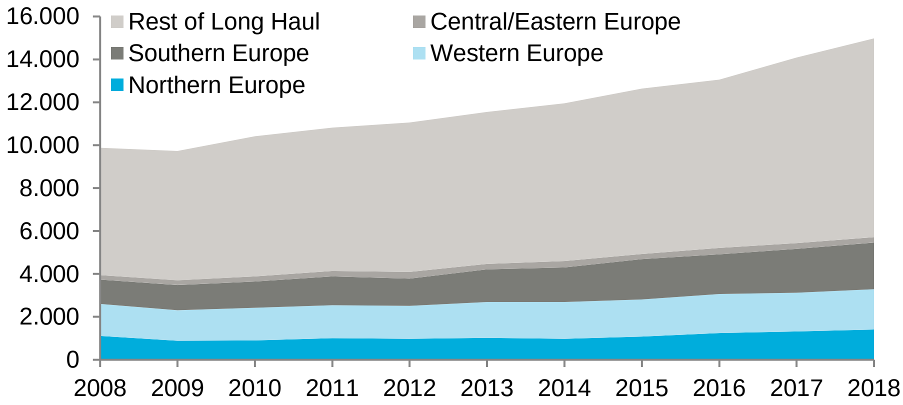
*Show s cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**Canada Long Haul* Outbound Travel**

Visits, 000s

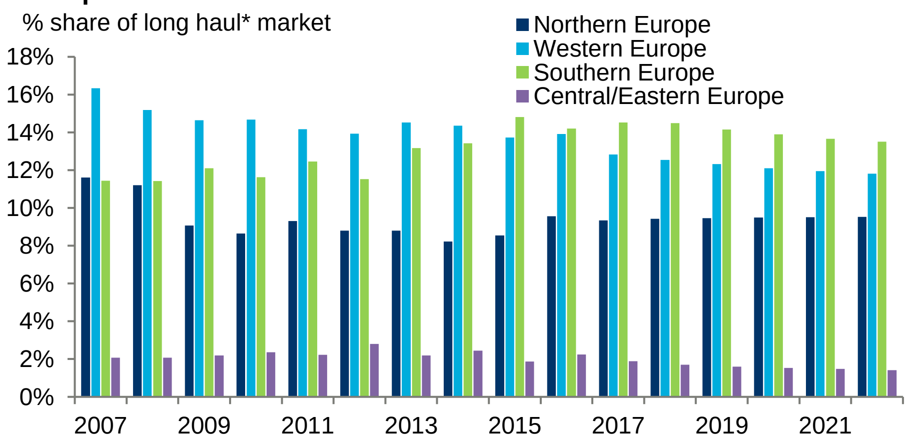



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

**Europe's Share of Canadian Market**

% share of long haul* market




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

Source: Tourism Economics

## 7.3 MEXICO

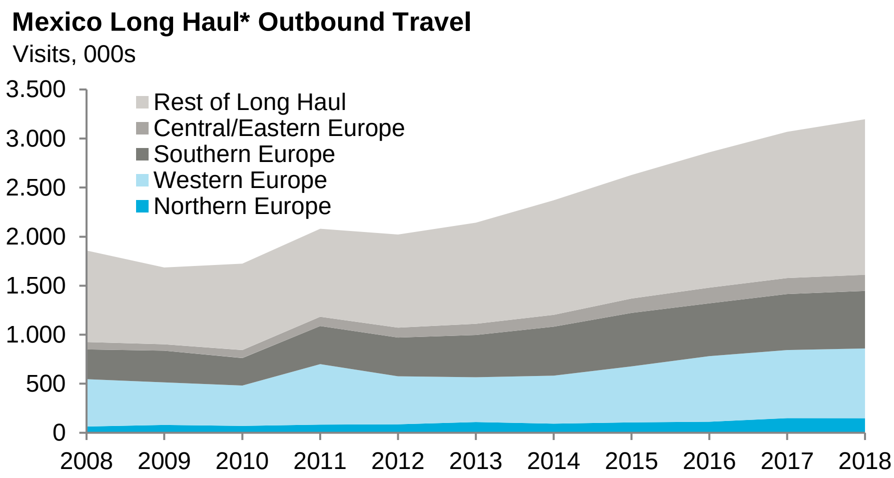
Mexico Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 21,103 | - | 3.4% | 18.0% | - | 29.0% | - |
| Long haul (000s) | 3,069 | 14.5% | 4.4% | 24.3% | 15.3% | 51.7% | 12.4% |
| Short haul (000s) | 18,033 | 85.5% | 3.2% | 17.0% | 84.7% | 25.8% | 87.6% |
| | | | | | | | |
| Travel to Europe (000s) | 1,579 | 7.5% | 2.6% | 13.7% | 7.2% | 47.2% | 6.6% |
| Northern Europe (000s) | 150 | 0.7% | 0.5% | 2.5% | 0.6% | 74.2% | 0.5% |
| Western Europe (000s) | 693 | 3.3% | 3.4% | 18.0% | 3.3% | 41.1% | 3.0% |
| Southern Europe (000s) | 573 | 2.7% | 2.4% | 12.7% | 2.6% | 45.9% | 2.4% |
| Central/Eastern Europe (000s) | 163 | 0.8% | 1.8% | 9.4% | 0.7% | 58.2% | 0.6% |

*Show s cumulative change over the relevant time period indicated

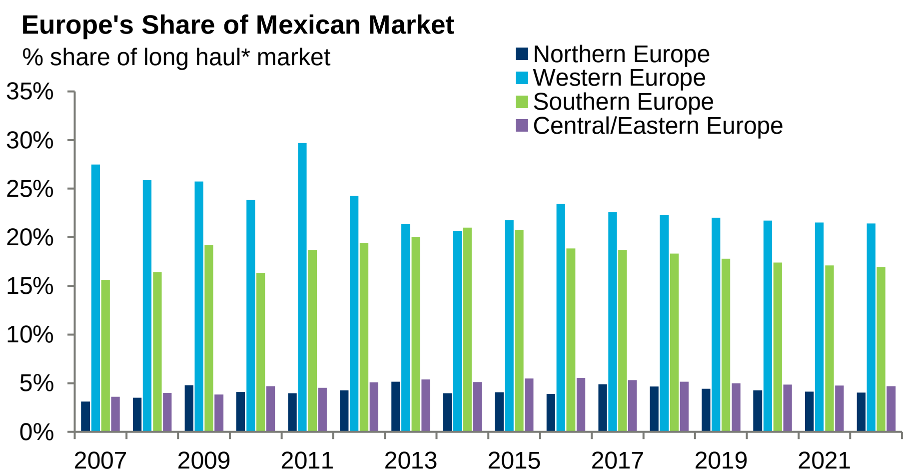
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 7.4 ARGENTINA

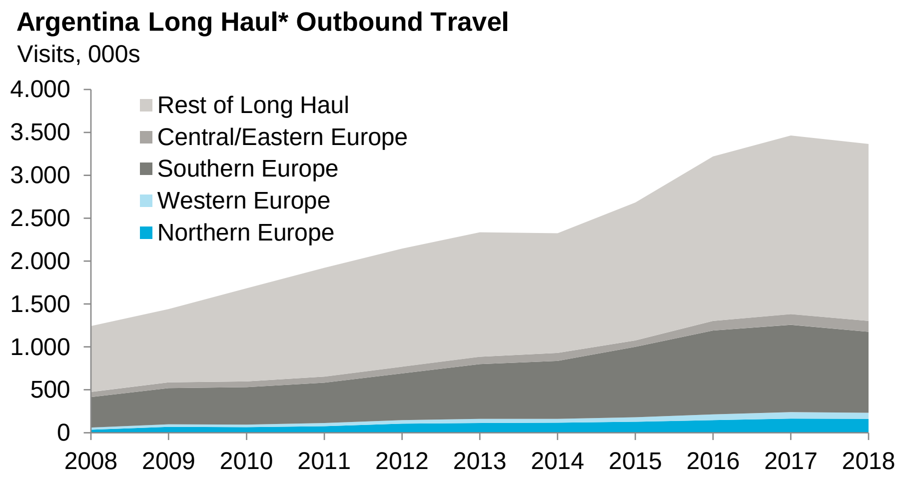
Argentina Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 12,632 | - | 2.0% | 10.2% | - | 67.2% | - |
| Long haul (000s) | 3,464 | 27.4% | 0.1% | 0.5% | 25.0% | 61.4% | 28.4% |
| Short haul (000s) | 9,169 | 72.6% | 2.6% | 13.9% | 75.0% | 69.4% | 71.6% |
| | | | | | | | |
| Travel to Europe (000s) | 1,383 | 11.0% | -2.1% | -9.9% | 8.9% | 80.0% | 10.2% |
| Northern Europe (000s) | 165 | 1.3% | 0.6% | 2.8% | 1.2% | 57.0% | 1.4% |
| Western Europe (000s) | 74 | 0.6% | 0.2% | 0.9% | 0.5% | 80.5% | 0.5% |
| Southern Europe (000s) | 1,019 | 8.1% | -3.5% | -16.3% | 6.1% | 86.3% | 7.2% |
| Central/Eastern Europe (000s) | 126 | 1.0% | 3.4% | 18.4% | 1.1% | 66.0% | 1.0% |

*Show s cumulative change over the relevant time period indicated

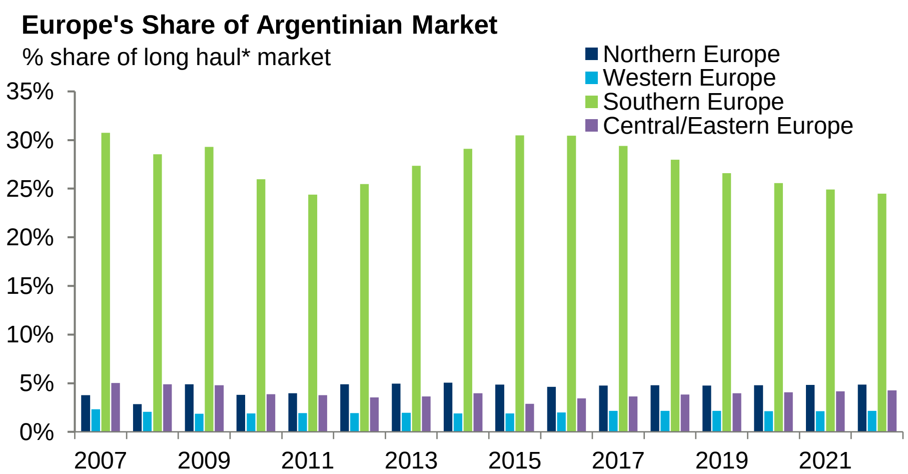
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 7.5 BRAZIL

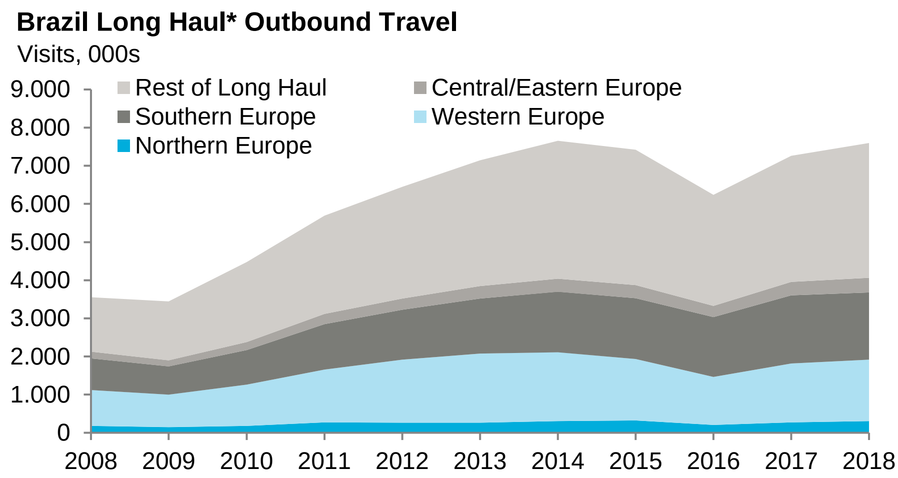
Brazil Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 9,937 | - | 4.2% | 22.6% | - | 11.0% | - |
| Long haul (000s) | 7,259 | 73.1% | 2.7% | 14.5% | 68.2% | 12.7% | 72.0% |
| Short haul (000s) | 2,678 | 26.9% | 7.6% | 44.6% | 31.8% | 6.6% | 28.0% |
| | | | | | | | |
| Travel to Europe (000s) | 3,959 | 39.8% | 0.1% | 0.6% | 32.7% | 12.4% | 39.3% |
| Northern Europe (000s) | 271 | 2.7% | 6.4% | 36.2% | 3.0% | 1.6% | 3.0% |
| Western Europe (000s) | 1,543 | 15.5% | 1.6% | 8.1% | 13.7% | -6.4% | 18.4% |
| Southern Europe (000s) | 1,789 | 18.0% | -3.3% | -15.5% | 12.4% | 36.7% | 14.6% |
| Central/Eastern Europe (000s) | 356 | 3.6% | 4.1% | 22.3% | 3.6% | 19.4% | 3.3% |

*Shows cumulative change over the relevant time period indicated

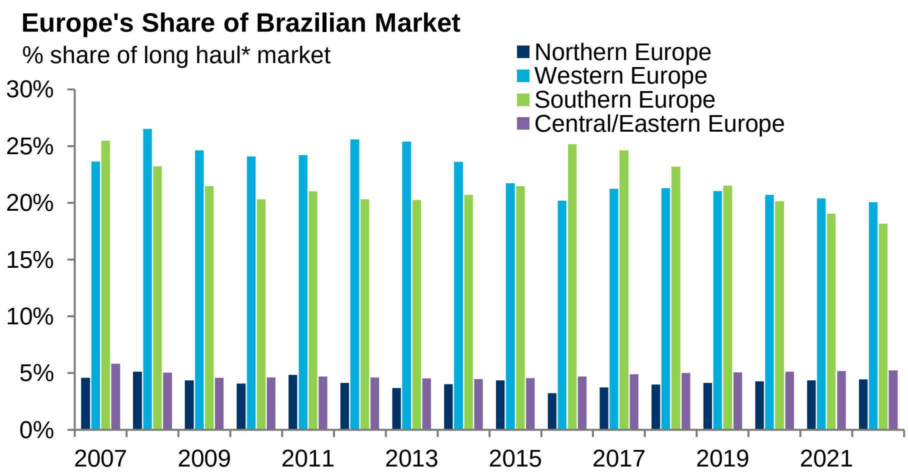
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 7.6 INDIA

India Market Share Summary

| | 2017 | Growth (2017-22) | | | Growth (2012-17) | | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 17,655 | - | 5.9% | 33.5% | - | 47.3% | - |
| Long haul (000s) | 16,957 | 96.0% | 5.9% | 33.3% | 95.9% | 48.2% | 95.5% |
| Short haul (000s) | 698 | 4.0% | 6.8% | 38.8% | 4.1% | 28.2% | 4.5% |
| | | | | | | | |
| Travel to Europe (000s) | 2,714 | 15.4% | 3.6% | 19.2% | 13.7% | 48.3% | 15.3% |
| Northern Europe (000s) | 587 | 3.3% | 1.3% | 6.9% | 2.7% | 62.8% | 3.0% |
| Western Europe (000s) | 902 | 5.1% | 3.6% | 19.4% | 4.6% | 57.3% | 4.8% |
| Southern Europe (000s) | 326 | 1.8% | 4.9% | 27.0% | 1.8% | -2.2% | 2.8% |
| Central/Eastern Europe (000s) | 899 | 5.1% | 4.4% | 24.3% | 4.7% | 59.7% | 4.7% |

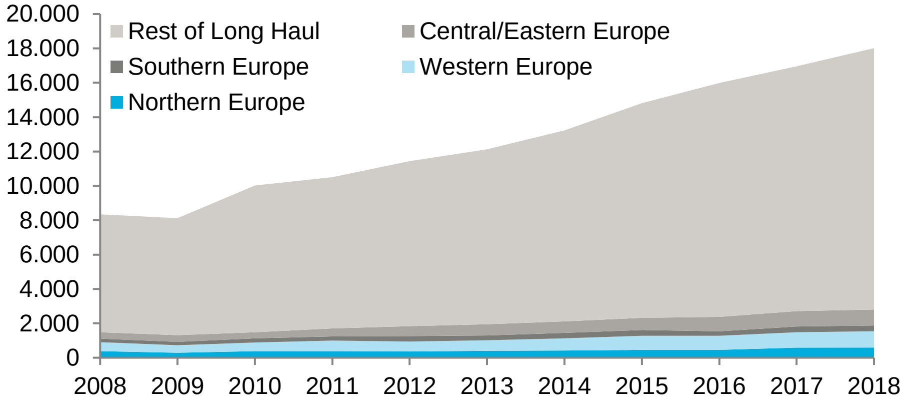
*Show s cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**India Long Haul* Outbound Travel**

Visits, 000s

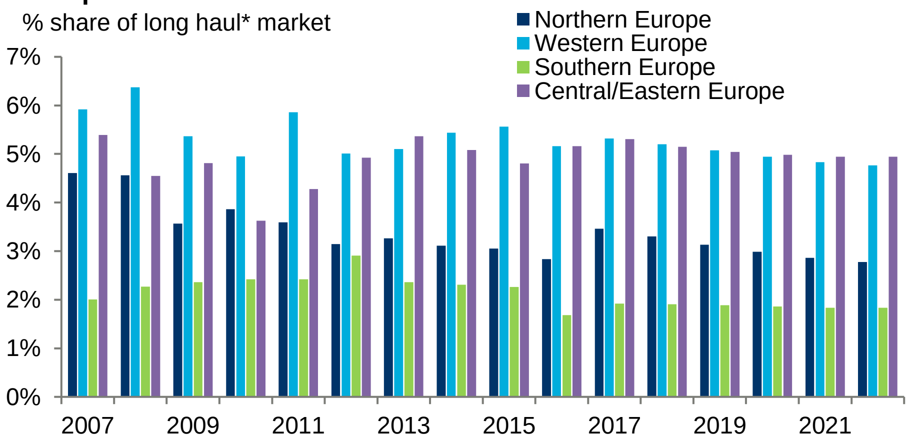



*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

**Europe's Share of Indian Market**

% share of long haul* market




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

Source: Tourism Economics

## 7.7 CHINA

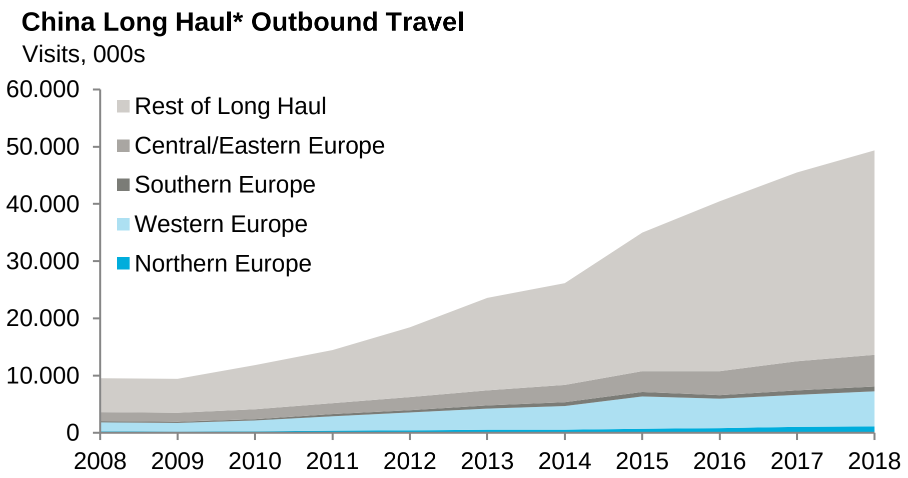
China Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 90,018 | - | 6.4% | 36.3% | - | 86.1% | - |
| Long haul (000s) | 45,527 | 50.6% | 7.2% | 41.3% | 52.4% | 146.7% | 38.1% |
| Short haul (000s) | 44,491 | 49.4% | 5.6% | 31.3% | 47.6% | 48.7% | 61.9% |
| | | | | | | | |
| Travel to Europe (000s) | 12,503 | 13.9% | 7.5% | 43.6% | 14.6% | 100.6% | 12.9% |
| Northern Europe (000s) | 1,023 | 1.1% | 7.2% | 41.8% | 1.2% | 129.4% | 0.9% |
| Western Europe (000s) | 5,600 | 6.2% | 8.3% | 49.1% | 6.8% | 81.5% | 6.4% |
| Southern Europe (000s) | 780 | 0.9% | 6.3% | 35.7% | 0.9% | 83.8% | 0.9% |
| Central/Eastern Europe (000s) | 5,099 | 5.7% | 6.8% | 39.2% | 5.8% | 124.0% | 4.7% |

*Shows cumulative change over the relevant time period indicated

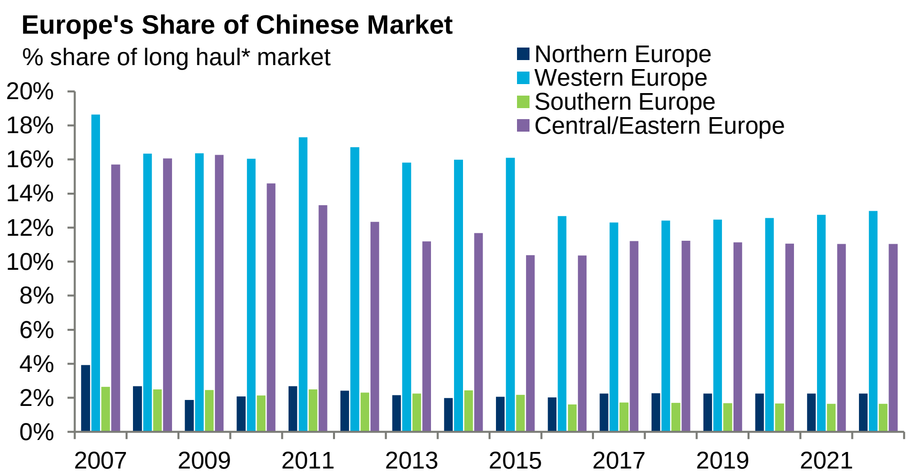
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 7.8 JAPAN

Japan Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 23,186 | - | 3.7% | 20.0% | - | -2.0% | - |
| Long haul (000s) | 15,212 | 65.6% | 3.7% | 19.8% | 65.5% | 6.7% | 60.3% |
| Short haul (000s) | 7,973 | 34.4% | 3.8% | 20.4% | 34.5% | -15.1% | 39.7% |
| | | | | | | | |
| Travel to Europe (000s) | 4,433 | 19.1% | 3.8% | 20.8% | 19.2% | -3.6% | 19.4% |
| Northern Europe (000s) | 599 | 2.6% | 0.4% | 2.0% | 2.2% | 8.2% | 2.3% |
| Western Europe (000s) | 1,889 | 8.1% | 4.7% | 25.8% | 8.5% | -16.4% | 9.6% |
| Southern Europe (000s) | 1,287 | 5.6% | 4.6% | 25.3% | 5.8% | 6.9% | 5.1% |
| Central/Eastern Europe (000s) | 657 | 2.8% | 2.8% | 14.6% | 2.7% | 13.1% | 2.5% |

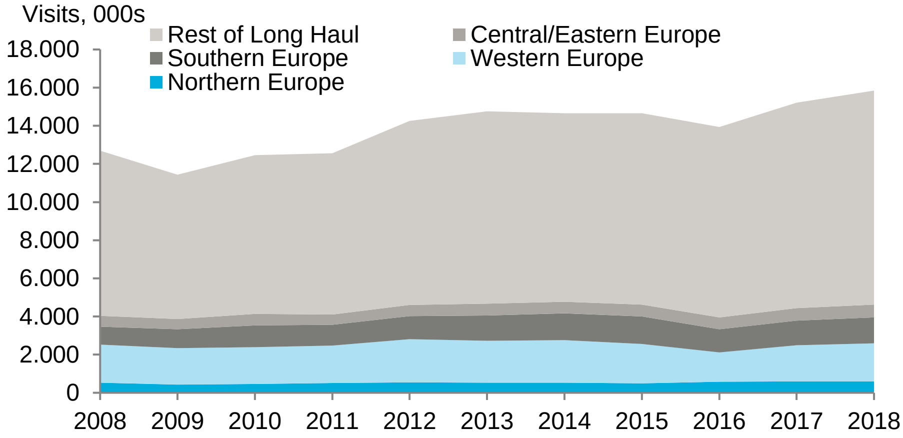
*Shows cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**Japan Long Haul* Outbound Travel**

Visits, 000s

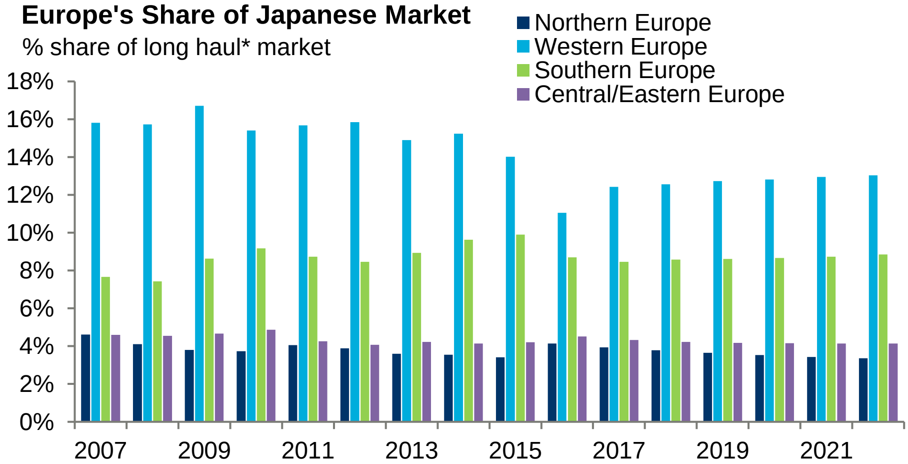



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

**Europe's Share of Japanese Market**

% share of long haul* market




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

Source: Tourism Economics

## 7.9 AUSTRALIA

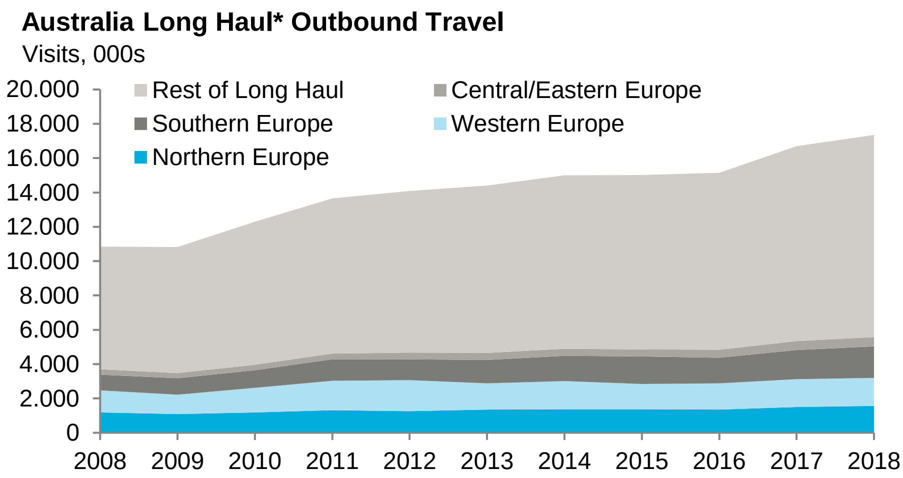
Australia Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 17,454 | - | 4.0% | 21.8% | - | 19.8% | - |
| Long haul (000s) | 16,699 | 95.7% | 4.0% | 21.9% | 95.7% | 18.5% | 96.7% |
| Short haul (000s) | 754 | 4.3% | 3.8% | 20.4% | 4.3% | 55.4% | 3.3% |
| | | | | | | | |
| Travel to Europe (000s) | 5,333 | 30.6% | 3.7% | 19.7% | 30.0% | 14.3% | 32.0% |
| Northern Europe (000s) | 1,510 | 8.6% | 3.3% | 17.8% | 8.4% | 20.7% | 8.6% |
| Western Europe (000s) | 1,614 | 9.2% | 0.5% | 2.6% | 7.8% | -10.9% | 12.4% |
| Southern Europe (000s) | 1,702 | 9.7% | 6.2% | 35.0% | 10.8% | 38.8% | 8.4% |
| Central/Eastern Europe (000s) | 508 | 2.9% | 5.0% | 27.8% | 3.1% | 34.3% | 2.6% |

*Show s cumulative change over the relevant time period indicated

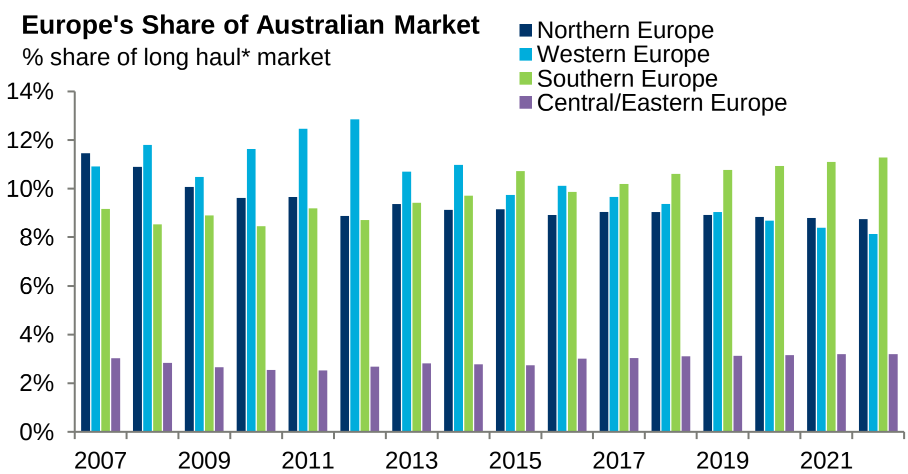
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics




*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

## 7.10 UNITED ARAB EMIRATES

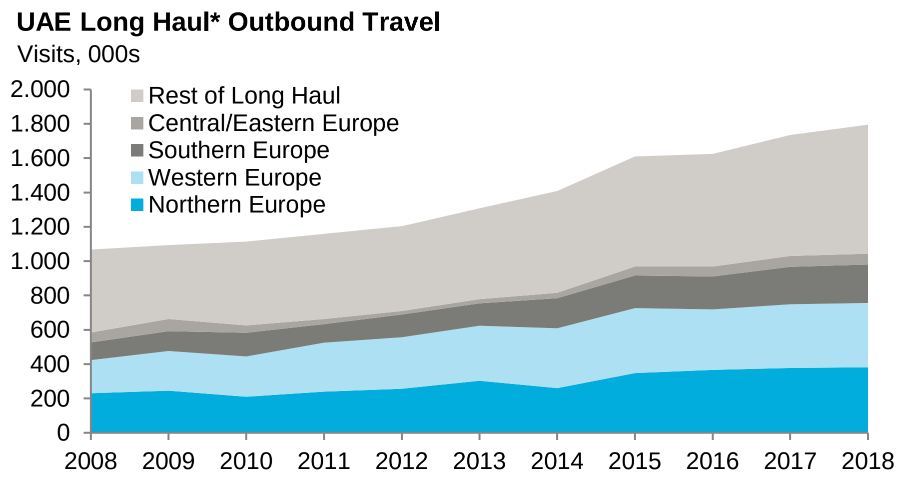
United Arab Emirates Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 3,283 | - | 6.1% | 34.2% | - | 4.2% | - |
| Long haul (000s) | 1,735 | 52.8% | 2.6% | 13.7% | 44.8% | 44.1% | 38.2% |
| Short haul (000s) | 1,549 | 47.2% | 9.5% | 57.1% | 55.2% | -20.5% | 61.8% |
| | | | | | | | |
| Travel to Europe (000s) | 1,031 | 31.4% | 1.2% | 6.3% | 24.9% | 45.1% | 22.5% |
| Northern Europe (000s) | 378 | 11.5% | 1.1% | 5.8% | 9.1% | 46.9% | 8.2% |
| Western Europe (000s) | 371 | 11.3% | 0.7% | 3.4% | 8.7% | 24.2% | 9.5% |
| Southern Europe (000s) | 218 | 6.6% | 2.6% | 13.5% | 5.6% | 64.8% | 4.2% |
| Central/Eastern Europe (000s) | 63 | 1.9% | 0.4% | 2.0% | 1.5% | 191.1% | 0.7% |

*Shows cumulative change over the relevant time period indicated

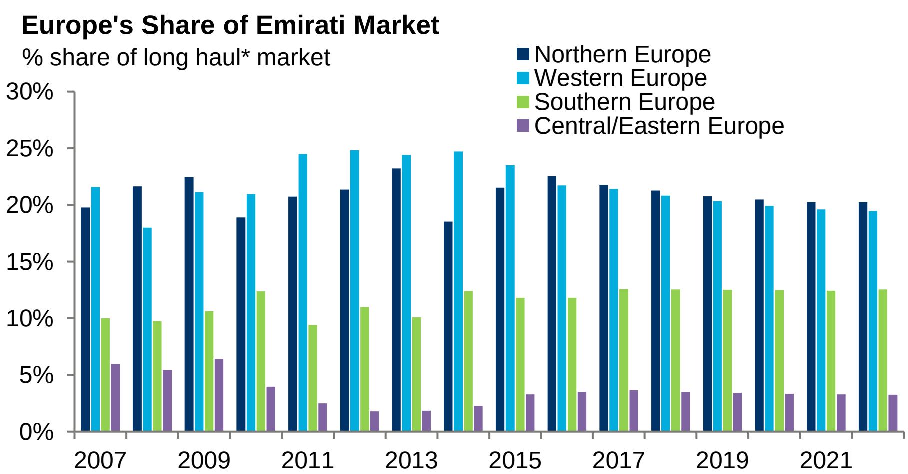
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 7.11 RUSSIA

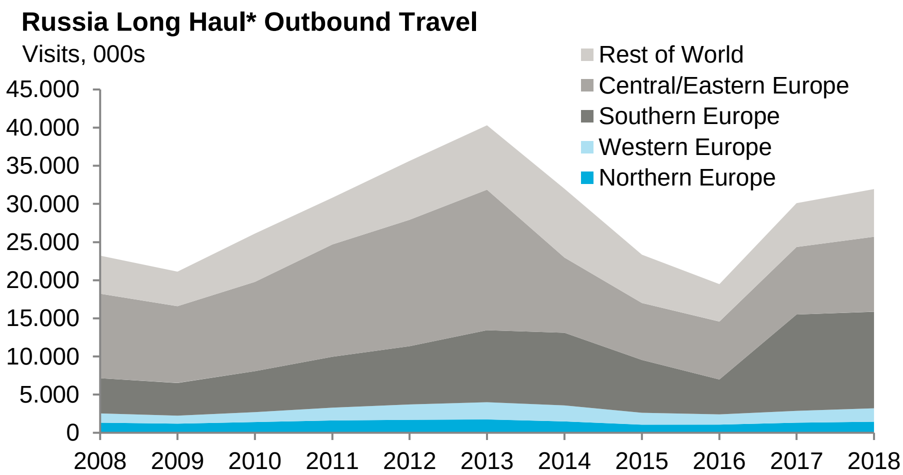
Russia Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | Level | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel (000s) | 30,105 | - | 4.8% | 26.6% | - | -15.5% | - |
| Long haul (000s) | 5,746 | 19.1% | 7.0% | 40.4% | 21.2% | -25.3% | 21.6% |
| Short haul (000s) | 24,359 | 80.9% | 4.3% | 23.3% | 78.8% | -12.8% | 78.4% |
| | | | | | | | |
| Travel to Europe (000s) | 24,359 | 80.9% | 4.3% | 23.3% | 78.8% | -12.8% | 78.4% |
| Northern Europe (000s) | 1,305 | 4.3% | 7.5% | 43.3% | 4.9% | -22.8% | 4.7% |
| Western Europe (000s) | 1,584 | 5.3% | 5.6% | 31.2% | 5.5% | -21.2% | 5.6% |
| Southern Europe (000s) | 12,595 | 41.8% | 0.9% | 4.5% | 34.5% | 64.6% | 21.5% |
| Central/Eastern Europe (000s) | 8,874 | 29.5% | 7.8% | 45.6% | 33.9% | -46.4% | 46.5% |

*Show s cumulative change over the relevant time period indicated

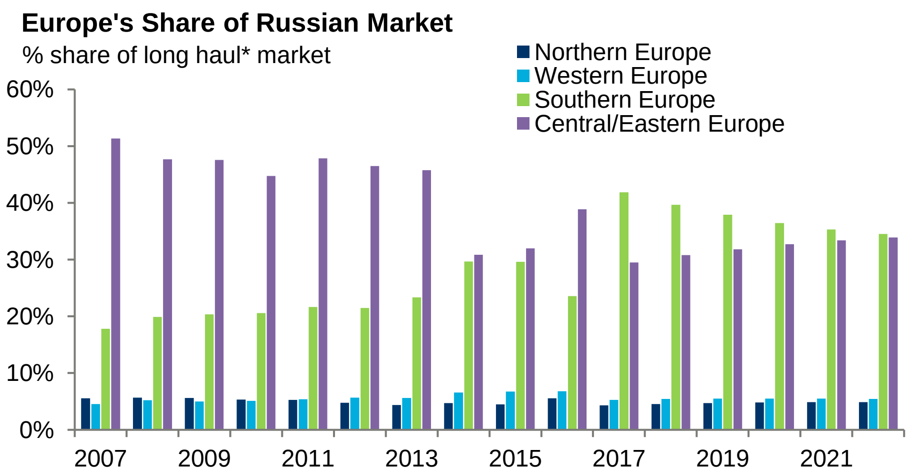
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics




*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

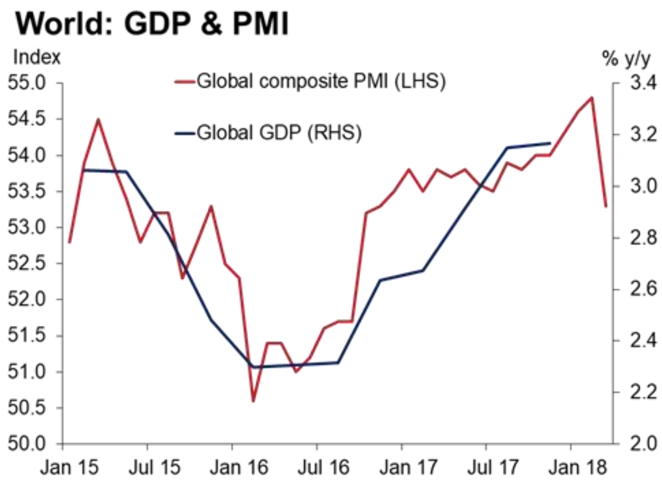
# 8. ECONOMIC OUTLOOK

Assessing recent tourism data and industry performance is a useful way of directly monitoring the key trends for travel demand across Europe. This can be complemented by looking at key trends and relationships in macroeconomic performance in Europe's key source markets which can provide further useful insight into likely tourism developments throughout the year.

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

## 8.1 OVERVIEW

Despite the mounting threat of more protectionist trade measures, Oxford Economics (OE) expect the impact on global growth and trade to be mild. Given this, and the still fairly solid underlying economic picture, OE has left its global GDP growth forecasts for 2018 and 2019 unchanged at 3.2% and 3.0% respectively.



Source : Oxford Economics/Haver Analytics/Markit

Although economic data in Q1 painted a pretty solid picture, there are signs that the global expansion may lose momentum in Q2. Most notably, the global PMI fell sharply in March, more than offsetting the gains of the previous three quarters or so. Some of the decline may reflect an over-reaction to recent trade threats and could be reversed in April and despite the drop, the surveys still point to strong growth. But the fall highlights the risk that lingering trade tensions could damage confidence and prompt firms and consumers to delay investment and major spending plans.

On a more positive note, China's economic growth picked up markedly in early 2018, which could provide a fillip to global trade growth in the near term. Given the better-than-expected start to the year, OE made no change to its 2018 China GDP growth forecast (of 6.4%) despite the probable negative effects of trade measures.

Meanwhile, most advanced economies remain in the late expansionary stage of the cycle. And those that show signs of slowing, such as the Eurozone, are doing so from multi-year highs. While OE has nudged down its 2018 Eurozone GDP growth forecast slightly to 2.2%, the pace is expected to remain well above trend. It judges the impact of US tariffs and counter-measures on the US economy to be subdued and has lowered its GDP growth forecasts for 2018 and 2019 by just 0.1pp.

For now, it sees further solid growth for the world economy this year even in the environment of rising protectionism. While there is a risk that a further escalation of trade tensions could trigger a sharper slowdown in global GDP growth, OE still sees the risks of a full-blown and damaging trade war as limited and the chances of protectionism leading to recessions as smaller still.

Summary of economic outlook, % change year ago*

| | 2018 | | | | | 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | GDP | Consumer expenditure | Unemploy-ment * | Exchange rate*** | Inflation | GDP | Consumer expenditure | Unemploy-ment ** | Exchange rate*** | Inflation |
| UK | 1.7% | 1.0% | 0.0% | -0.8% | 2.3% | 1.7% | 1.1% | -0.1% | 0.9% | 1.6% |
| France | 2.1% | 1.5% | -0.8% | 0.0% | 1.4% | 1.9% | 1.7% | -0.5% | 0.0% | 1.5% |
| Germany | 2.3% | 1.5% | -0.5% | 0.0% | 1.6% | 1.8% | 1.7% | -0.3% | 0.0% | 2.1% |
| Netherlands | 2.5% | 1.7% | -0.8% | 0.0% | 1.5% | 1.7% | 1.7% | -0.2% | 0.0% | 1.7% |
| Italy | 1.5% | 1.0% | -0.6% | 0.0% | 1.0% | 1.1% | 0.9% | -0.4% | 0.0% | 1.6% |
| Russia | 1.8% | 3.0% | 0.1% | -6.5% | 3.2% | 1.4% | 2.8% | -0.1% | -2.7% | 4.0% |
| US | 2.8% | 2.6% | -0.5% | -10.1% | 2.6% | 2.4% | 2.1% | -0.3% | -2.7% | 2.0% |
| Canada | 1.8% | 2.4% | -0.2% | -9.4% | 2.2% | 2.1% | 1.9% | 0.2% | -2.1% | 2.0% |
| Brazil | 2.4% | 2.5% | -0.7% | -13.2% | 3.1% | 3.2% | 3.2% | -1.3% | -6.0% | 3.6% |
| China | 6.4% | 7.4% | 0.0% | -3.2% | 2.4% | 6.0% | 6.9% | 0.0% | -1.3% | 2.6% |
| Japan | 1.5% | 1.0% | -0.3% | -7.0% | 1.0% | 0.9% | 1.0% | 0.0% | -6.8% | 1.1% |
| India | 7.3% | 7.8% | 0.1% | -9.2% | 5.3% | 7.0% | 7.6% | 0.0% | -1.9% | 5.5% |

Source: Tourism Economics

* Unless otherwise specified

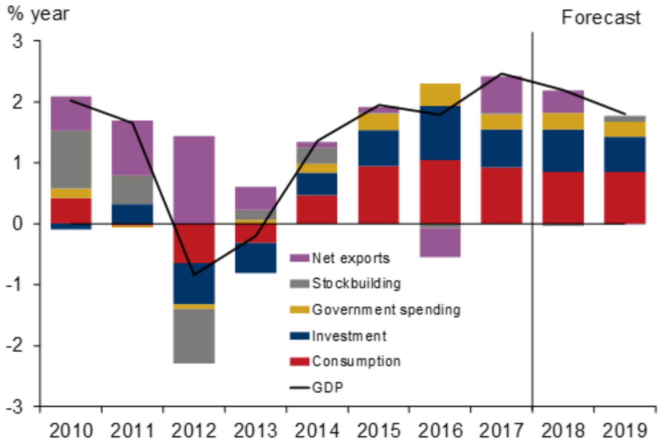
** Percentage point change

*** Exchange rates measured against the euro. A positive change indicates stronger local currency against the euro and therefore a positive impact on outbound tourism demand. A negative change indicates weaker local currency against the euro and therefore a negative impact on outbound tourism demand.

## 8.2 EUROZONE

The Eurozone economy continues to show signs of having hit a speedbump in Q1. Adding to a widespread decline in surveys, the latest hard data also points to a slowdown in economic activity, leading OE to cut its Q1 GDP growth forecast to 0.4%. But it expects some of this weakness to be transitory and still anticipates a strong year for the Eurozone economy with 2.2% GDP growth, albeit down from its previous forecast of 2.3% and 2.5% in 2017.

**Eurozone: Contributions to GDP growth**




Source: Oxford Economics

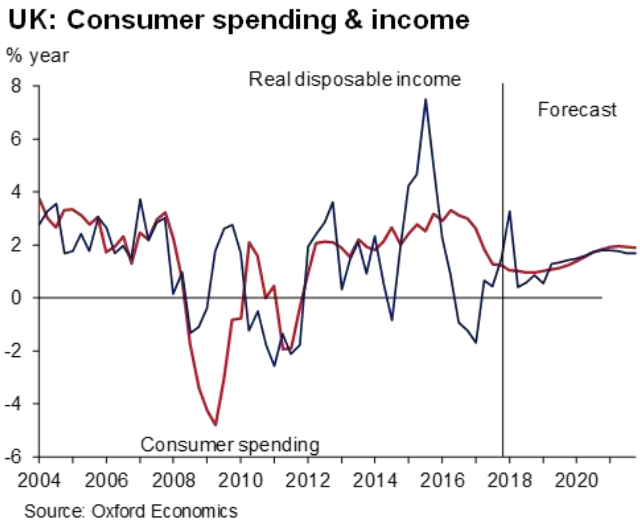
The realignment between soft and hard data continues with a widespread fall in survey indices, but OE are not yet particularly concerned as they remain consistent with robust growth. Manufacturing surveys point to capacity constraints rather than demand weakness, while services surveys indicate a healthy domestic economy, with employment growth showing no signs of slowing yet.

More worryingly, some of the hard data at the start of the year have been surprisingly negative. Industrial production had a horrid January and is unlikely to have bounced back in February given the available national data. Meanwhile, retail sales have been surprisingly weak despite high consumer confidence and falling unemployment rates across the continent. While some of this weakness is likely to be temporary, this has led OE to cut its Q1 GDP growth forecast to 0.4%.

Inflation rose to 1.4% in March, but the rise was mostly driven by one-off calendar effects and is likely to be partially reversed in April. Core inflation remained flat at 1% for a third consecutive month, indicating that the Eurozone is still far from showing convincing signs of upward price pressures. OE expect both headline and core inflation to rise gradually as the year moves on, but this should still leave plenty of room for the ECB to maintain a very prudent approach to its exit strategy.

## 8.3 UNITED KINGDOM

OE nudged down its forecast for 2018 GDP growth to 1.7% from 1.8% in March, reflecting an expectation that the snow in late-February/early-March will have caused some modest disruption to activity. The economy will benefit from a recovery in household spending power this year, but the boost from net trade will fade steadily as the pound strengthens. OE still expect the MPC to hike interest rates twice this year, at its May and November meetings.



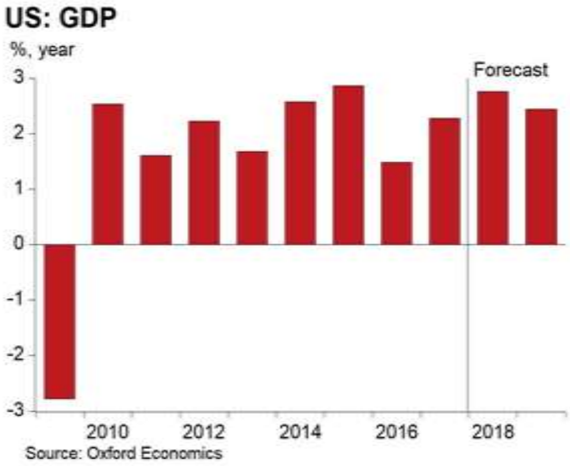

Data for Q1 2018 have been mixed. On the plus side, industrial production rebounded strongly in January, following the reopening of the Forties pipeline that carries 40% of North Sea oil and gas after being closed for much of December. And the services PMI rose to a four-month high in February. But the collapse of Carillion saw construction output plunge in January, while retail sales have been soft. And a spell of poor weather weighed on the services and construction PMIs in March.

The minutes of the March MPC meeting gave a clear signal that the Committee is likely to raise Bank Rate to 0.75% in May. With the MPC becoming ever warier of the prospect of an escalation of domestic inflationary pressures, its default position appears to be to hike rates at regular intervals unless there is a clear reason not to.

The UK and EU have reached agreement on a Brexit transition period, which will effectively maintain current trading arrangements until the end of 2020. But the deal on transition is part of the wider withdrawal agreement and this could still fail unless there is agreement on a 'backstop' solution for the Irish border. The two sides are also some way apart on their views on the post-Brexit trading relationship. The EU has argued that, given the UK's 'red lines', a Canada-style free-trade agreement (FTA) is the only option. The UK would like an agreement that goes much further than a standard FTA, but OE expect the EU to hold firm on this point.

## 8.4 UNITED STATES

While economic momentum has picked up in early Spring, trade tensions have escalated. OE believe the economy will grow 2.8% in 2018, with a quarter of the growth coming from tax cuts and increased government spending, and the rest coming from solid fundamentals. A trade war remains an important risk, but OE expect the threatened tariffs will be dialed back in the coming weeks. PCE inflation should reach 2% in 2018, prompting a total of four rate hikes this year.




While the economy only added 103,000 jobs in March, this follows two solid months in January and February, and the data were likely restrained by poor weather. Overall, the 12-month moving average gain is a solid 188,000 jobs, the unemployment rate is at a 17-year low of 4.1%, and wage growth is rising gently at 2.7% y/y.

OE's GDP tracker points to real GDP growth of around 1.5% in Q1, but it sees growth of more than 3% in Q2. While household and business confidence readings have come off their highs, they continue to point to resilient private sector activity.

Trade tensions between the US and China have escalated recently, with tariff threats reaching a cumulative $200bn in bilateral trade. President Trump's threatened tariffs on $150bn of imports could impact 30% of total imports from China while China's response of $50bn could impact 40% of US exports to China. If these are implemented, both economies could witness a 0.3% GDP loss in 2018-2019.

OE expect headline and core PCE inflation to firm to 2.1% by Q4 2018 from 1.7% and 1.5%, respectively, at the end of 2017. As Governor Powell indicated in his first official speech as Fed Chair, data dependency remains key. Given the Fed's desire to proceed with "further gradual" rate hikes, OE anticipate a total of four 25bp increases in the federal funds rate in 2018.

## 8.5 JAPAN

Exports will continue to support growth in early 2018 but less rapid demand from China this year will soften momentum in the coming quarters. OE expect investment to remain firm, given healthy profits and construction for the 2020 Tokyo Olympics, while fiscal and monetary policies should continue to support growth. OE has revised down its forecast for GDP growth to 1.5% this year, as global growth momentum peaks and protectionism weighs on sentiment. For 2019, it forecasts growth will ease further to 0.9%, given the expected slowdown in construction and the planned consumption tax hike.

**Japan: Exports and world trade**


Source: Oxford Economics

Export volumes in January-February 2018 grew by 5.2% y/y, a slowdown compared to the pace seen in 2017 (a trend that is expected to persist). However, OE forecast overall growth to become more broad-based in 2018, as business investment will be supported by high levels of confidence and PMIs (above their averages for 2017).

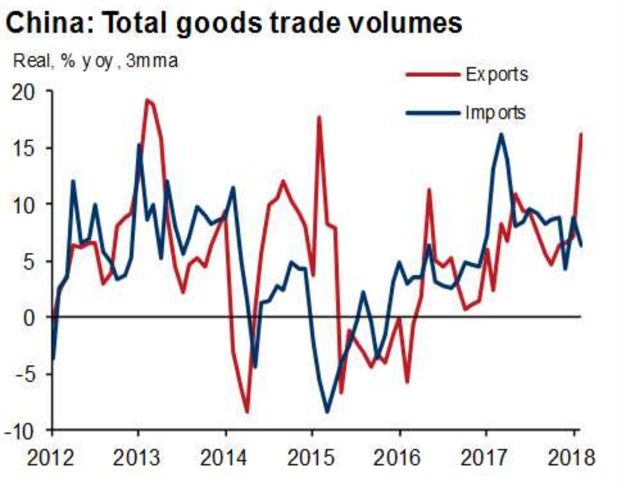
Despite the broadly positive outlook, there are downside risks. The latest Tankan results for large manufacturers and the PMI's recent decline from its January's peak suggest that growth momentum is levelling off. Indeed, protectionism may undermine sentiment and dampen investment going forward, although the impact of protectionism on Japan should be limited. In addition, recent government scandals and falling approval ratings may endanger efforts to push for structural reform.

Speculation about a change of monetary policy is premature. Without more substantial wage growth, inflation is unlikely to pick up, so the BoJ will likely miss its 2% target for the foreseeable future, and so will persist with its current policies. The March spike in the yen was a temporary event, but underlines that the exchange rate is prone to safe-haven pressure. OE sees the yen averaging 108/US dollar in 2018.

## 8.6 EMERGING MARKETS

### RESILIENT CHINESE MOMENTUM BUT TRADE TENSION

Growth in the Chinese economy appears to have stayed solid in Q1, supported by stronger exports and investment. In light of only a modest change in how policymakers plan to balance growth with reform and deleveraging, OE maintains its GDP growth forecast of 6.4% this year, after 6.9% in 2017. While data for the first two months of the year suggest some upside risks to our 2018 economic outlook, these are balanced by downside risks from trade friction with the US.



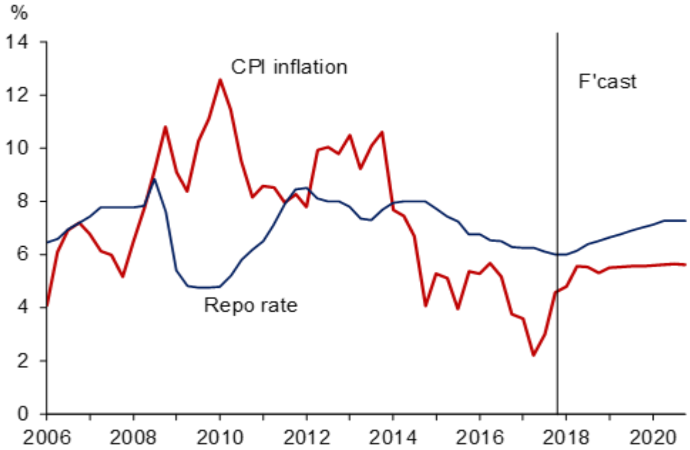

Source: Oxford Economics, CEIC Data

In response to the US's recent tech-focused tariffs on US$50bn worth of Chinese exports to the US, China has threatened to impose duties on a similar amount of US exports to China. That said, China's response was more an opening salvo in a negotiation than a definitive move, and there is room for the extent of the tariffs imposed by both sides to be negotiated down in the coming six weeks or so. Even if that does not happen, OE's simulations suggest that a 25% US tariff on US$50bn worth of Chinese exports, with comparable retaliation, would reduce China's GDP growth by a modest 0.05 ppt in 2018 and 0.07 ppt in 2019, with the impact on the US slightly less. However, given the possible dynamics in such a high stakes game, there are risks of much more serious trade friction. Moreover, the technology focus of the US measures suggests risks of a broader economic and technological confrontation.

### RBI LOWERS INFLATION FORECAST IN INDIA

The RBI remained on hold at its April policy meeting, in line with OE's expectations and those of the consensus. However, it unexpectedly lowered the FY19 (April 2018 – March 2019) inflation forecast, while retaining a positive outlook for growth. The RBI's inflation forecast downgrade largely reflects the benign trajectory of food prices so far this year, as well as prospects of a normal monsoon season. However, a clearer picture on food inflation will only emerge once the impact of revised MSPs (Minimum Support Prices) can be ascertained. So, a focus on underlying inflation dynamics is warranted, and key factors here include a narrowing output gap, strong fiscal slippage risks, a weaker currency and the possibility of a greater pass-through from global oil prices to domestic fuel prices. These all point to rising inflationary pressures, so we think that headline inflation will likely be comfortably above 4% throughout FY19. Hence it would be premature to write off the prospect of an interest rate hike just yet.

**India: Monetary conditions**




Source: Oxford Economics

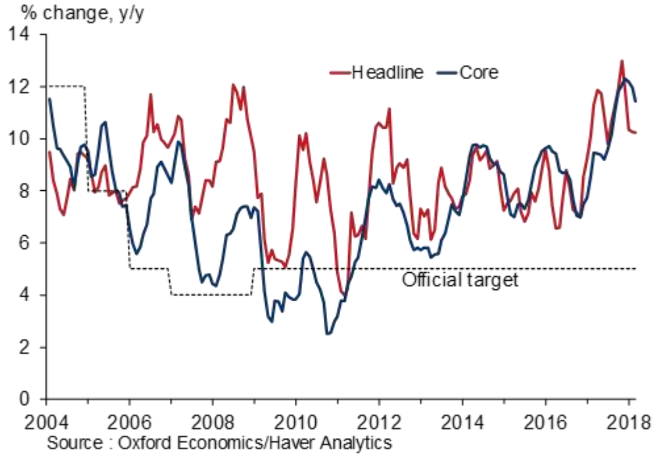
DIVIDED CONGRESS MAY AFFECT COLOMBIA OUTLOOK

Congressional elections in Colombia yielded no majority for any bloc in either house of Congress. Yet, polls for the first round of the presidential election in May show centre-right candidate Iván Duque leading by 14-16 points ahead of left-wing Gustavo Petro, lowering the risks of a populist presidency. OE's research shows that Colombia's next government will likely miss its fiscal targets this year and next, albeit with the fiscal deficit narrowing from 3.3% of GDP in 2017 to below 2% of GDP by 2021. However, with the divided Congress focusing on the peace process, Colombia may be more vulnerable to negative external shocks. If oil prices were to average $55pb for five years GDP growth would be 0.2ppt lower than baseline in each of those years, which combined with lower oil-related revenues would result in a fiscal deficit of 2.3% of GDP in 2022.

CONCERNS OF OVERHEATING IN TURKEY HEAT UP

Mounting concerns that the economy is overheating have collided with less favourable external conditions to send the lira (TRY) to record lows against the EUR and the USD. Markets have become worried that high and sticky core inflation and a widening current account deficit are leaving Turkey exposed to shifts in investor sentiment. And there are already signs of the latter, with the TRY being swept up in the flight from risky assets that accompanied President Trump's tariff announcements. But while the economy grew by a rapid 7.4% in 2017, we expect the withdrawal of various stimulus measures to result in growth moderating to 4.3% in 2018. However, the increasing possibility of early elections this year are an upside risk to the forecast, insofar as it maintains the authorities' pro-growth bias, albeit this would be at the expense of worsening macro fundamentals.

**Turkey: Headline vs core inflation**

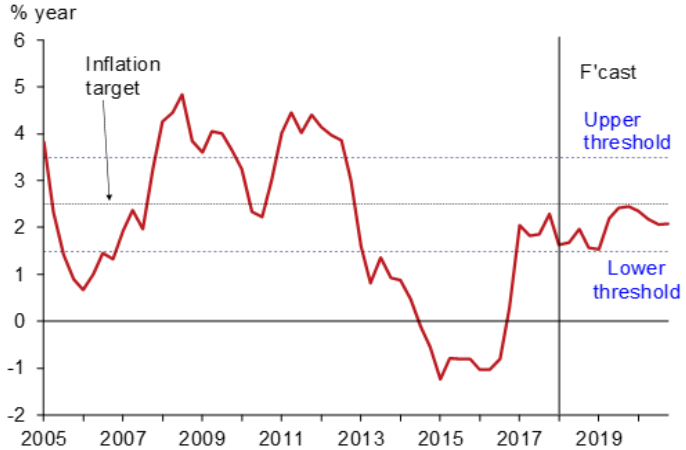



Source : Oxford Economics/Haver Analytics

POLISH INFLATION SURPRISES TO THE DOWNSIDE

Momentum remains strong in the CEE region, so far defying the headwinds seen in the Eurozone. Industrial output and PMIs have softened slightly, consistent with softer external demand, but less than the scale of deceleration seen in the Eurozone. Meanwhile, inflation prints have surprised to the downside, particularly in Poland, where a 1.3% reading in March undershot the NBP's forecast of 1.7%. The new trajectory means that CPI inflation is unlikely to reach the central bank's latest forecast of 2.1%, which will reinforce its ultra-dovish stance. OE has revised down its 2018 inflation forecast from 2.5% last month to 1.7%, and its 2019 forecast from 2.4% to 2.1%, and no longer expects the NBP to hike rates in 2019, with chances rising that policy normalisation may not begin until late 2020.

**Poland: Inflation and target**




Source: Oxford Economics

# 9. APPENDIX 1

**GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS**

Airline industry indicators

**ASK** – Available Seat Kilometers. Indicator of airline supply, available seats x kilometers flown;

**PLF** – Passenger Load Factor. Indicator of airline capacity. Equal to revenue passenger kilometers (RPK) / available seat kilometers (ASK);

**RPK** – Revenue Passenger Kilometers. Indicator of airline demand, paying passenger x kilometers flown;

**3mth mav** – Three month moving average.

Hotel industry indicators

**ADR** – Average Daily Rate. Indicator of hotel room pricing, equal to hotel room revenue / rooms sold in a given period;

**Occ** – Occupancy Rate. Indicator of hotel performance, equal to the number of hotel rooms sold / room supply;

**RevPAR** – Revenue per Available Room. Indicator of hotel performance, equal to hotel room revenue / rooms available in a given period.

Central Banks

**BoE** – Bank of England;

**MPC** – Monetary Policy Committee of BoE;

**BoJ** – Bank of Japan;

**ECB** – European Central Bank;

**Fed** – Federal Reserve (US);

**RBI** – Reserve Bank of India;

**OBR** – Office for Budget Responsibility;

**PBoC** – People's Bank of China.

Economic indicators and terms

**BP** – Basis Point. A unit equal to one hundredth of a percentage point;

**Broad money** – Key indicator of money supply and liquidity including currency holdings as well as bank deposits that can easily be converted to cash;

**CPI** – Consumer Price Index. Measure of price inflation for consumer goods;

**FDI** – Foreign Direct Investment. Investment form one country into another, usually by companies rather than governments;

**GDP** – Gross Domestic Product. The value of goods and services produced in a given economy;

**LCU** – Local Currency Unit. The national unit of currency of a given country, e.g., pound, euro, etc.;

**PMI** – Purchasing Managers' Index. Indicator of producers' sentiment and the direction of the economy;

**PPI** – Purchase Price Index. Measure of inflation of input prices to producers of goods and services;

**PPP** – Purchasing Power Parity. An implicit exchange rate which equalises the price of identical goods and services in different countries so they can be expressed with a common price;

**QE** – Quantitative Easing. Expansionary monetary policy pursued by central banks involving asset purchases to reduce bond yields and increase liquidity in capital markets;

G7 – Group of seven industrialised countries comprising the United States, the United Kingdom, France, Germany, Italy, Canada, and Japan.

# 10. APPENDIX 2

**ETC MEMBER ORGANISATIONS**

**Austria** – Austrian National Tourist Office (ANTO)

**Belgium:** Flanders – Tourism Flanders
Wallonia – Wallonie-Belgique Tourisme (WBT)

**Bulgaria** – Bulgarian Ministry of Tourism

**Croatia** – Croatian National Tourist Board (CNTB)

**Cyprus** – Cyprus Tourism Organisation (CTO)

**Czech Republic** – CzechTourism

**Denmark** – VisitDenmark

**Estonia** – Estonian Tourist Board - Enterprise Estonia

**Finland** – Business Finland Oy

**Germany** – German National Tourist Board (GNTB)

**Greece** – Greek National Tourism Organisation (GNTO)

**Hungary** – Hungarian Tourism Agency Ltd.

**Iceland** – Icelandic Tourist Board

**Ireland** – Fáilte Ireland and Tourism Ireland Ltd.

**Italy** – Italian Government Tourist Board

**Latvia** – Latvian Tourism Development Agency (TAVA)

**Lithuania** – Lithuanian State Department of Tourism under the Ministry of Economy

**Luxembourg** – Luxembourg for Tourism (LFT)

**Malta** – Malta Tourism Authority (MTA)

**Monaco** – Monaco Government Tourist and Convention Office

**Montenegro** – National Tourism Organisation of Montenegro

**Netherlands** – NBTC Holland Marketing

**Norway** – Innovation Norway

**Poland** – Polish Tourist Organisation (PTO)

**Portugal** – Turismo de Portugal, I.P.

**Romania** – Romanian Ministry of Tourism

**San Marino** – State Office for Tourism

**Serbia** – National Tourism Organisation of Serbia (NTOS)

**Slovakia** – Ministry of Transport and Construction of the Slovak Republic

**Slovenia** – Slovenian Tourist Board

**Spain** – Turespaña - Instituto de Turismo de España

**Switzerland** – Switzerland Tourism

**Turkey** – Ministry of Culture and Tourism