EUROPEAN TOURISM - TRENDS & PROSPECTS

QUARTERLY REPORT - Q1/2019

EUROPEAN
TRAVEL
COMMISSION

EUROPEAN TOURISM:
TRENDS & PROSPECTS

QUARTERLY REPORT (Q1/2019)

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 2019
ETC Market Intelligence

EUROPEAN TOURISM: TRENDS & PROSPECTS (Q1/2019)

Data sources: This report includes data from the TourMIS database (http://www.tourmis.info), STR, IATA, Transparent, and UNWTO. Economic analysis and forecasts are provided by Tourism Economics (www.tourismeconomics.com) and are for interpretation by users according to their needs.

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Cover: Amazing wave lashed Kerry Cliffs, widely accepted as the most spectacular cliffs in County Kerry, Ireland. Tourist attractions on famous Ring of Kerry route.
Image ID: 1122121202

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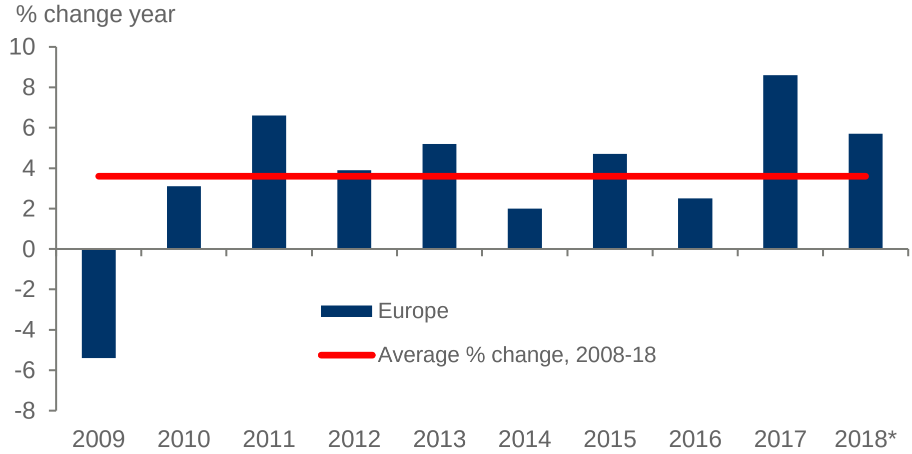
FOREWORD

MODEST PROSPECTS FOR 2019 AMIDST SLOWDOWN

2019 kicked-off on a positive note for the European tourism sector following the solid performance in 2018 (+6%).[1] A more moderate rate of expansion is expected for 2019 (around 3.5%). Despite resilient growth, and above-average expansion in recent years relative to the average rate of growth over the past decade, the region continues to lose market share against competing regions. Short-term risks, such as the slowing global economy, trade tensions, and political uncertainty, continue to weigh on growth projections.

Growth in international tourist arrivals in Europe, 2008-18



Source: UNWTO Barometer - January 2019

Enhanced air connectivity within Europe and between the region and key long-haul markets is facilitating the diversification of source markets, while the recovery of destinations previously avoided due to security concerns also support growth. Additionally, emerging destinations are increasingly portraying themselves as exciting and immersive alternatives to congested areas.

DESTINATION PERFORMANCES FEATURE A MIXED PICTURE FOR 2019

Montenegro (+41%), the only destination that reported a double-digit increase is luring more high-spending guests while improved winter infrastructure has allowed it to extend the tourism season. Turkey's path to recovery (+7%) has been resilient in the last two years and continues to be a bargain for international travellers. Strong growth will be supported from its largest source market (Russia) owing to the 2019 Turkey-Russia Culture and Tourism Year. Amidst the Brexit downturn, Ireland (+7%) is set to reduce reliance on its second largest source market through a market diversification approach.

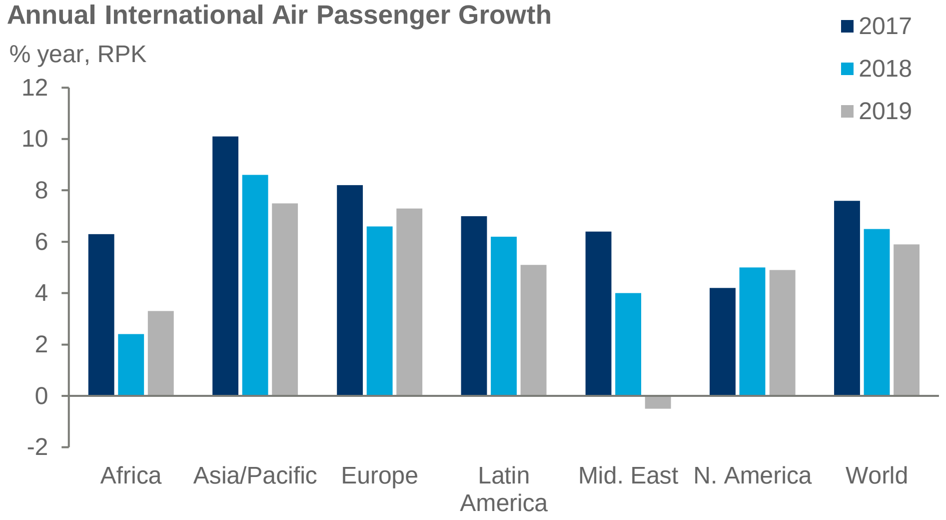
Large destinations Portugal (+6%) and Spain (+2%) broke arrival records in absolute terms early in the year and benefitted from increasing year-on-year tourism revenues. Iceland's tourism boom, which has averaged over 20% per annum growth in arrivals between 2010-18, might have bottomed out with arrivals down 5% early in 2019.

EUROPEAN PASSENGER GROWTH DEFIED WEAKENING FORECAST FOR GDP GROWTH

Global RPK grew above-average 5.9% based on year-to-date data. Although, slowdown fears remain a key downside risk, dwindling oil prices and slow yet steady economic growth are expected to boost

[1] UN World Tourism Organization (UNWTO)

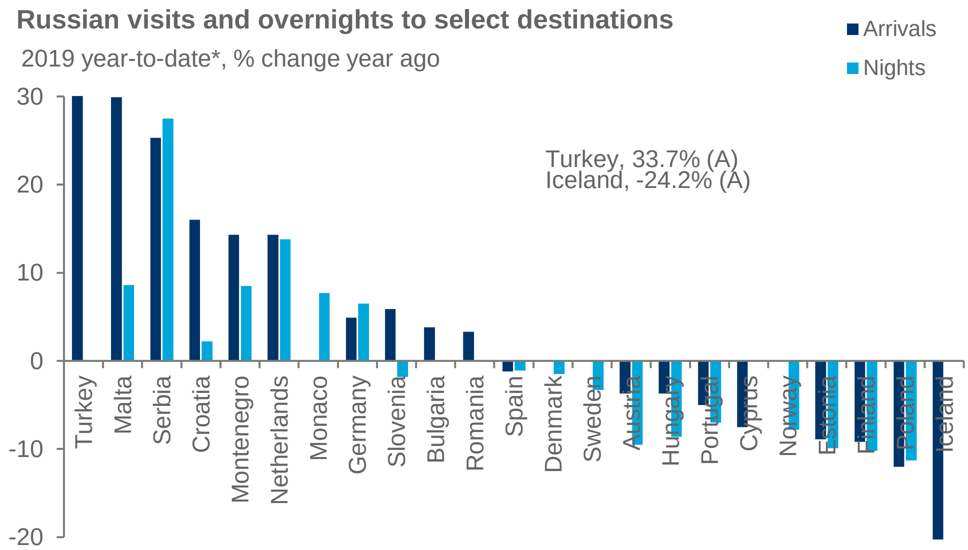
the global aviation industry profits according to the International Air Transport Association (IATA). Europe saw healthy passenger demand up 7.3% in RPK terms based on data to February. Asia/Pacific saw strongest RPK growth 7.5% compared to a year ago and based on data to February, supported by rising incomes in China and an increase in the number of airport pairs.



Source: IATA

EUROPE'S PERFORMANCE REFLECTS INCREASED DEMAND FROM OVERSEAS MARKETS

Travel facilitation reforms, improved transport capacity, investments in marketing and product development have been key drivers of growth from the Chinese travel market in the past years. Despite a slowing economy, 14.2 million Chinese tourist arrivals were recorded in Europe in 2018, a 5.7% increase compared to 2017. US arrivals to Europe were up 9.6% in 2018, with a similar rate of growth expected for 2019, despite an expected economic slowdown in 2019 and risks facing the US economy (e.g., weakened global economic conditions, trade policy uncertainty and tighter financial conditions). Russian arrivals growth to Europe has been sluggish with only half of reporting destination registering some form of increase. Turkey (+34%) saw the strongest rate of expansion, followed by Serbia (+25%), and Montenegro (+14%). Turkey-Russian relations are bringing numerous opportunities for bilateral tourism relations with 2019 declared as the mutual Year of Culture and Tourism between both countries.



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

UNLIMITED TOURISM DEVELOPMENT CALLS FOR UNIFIED EFFORTS TO ENSURE STABLE AND SUSTAINABLE TOURISM GROWTH

According to the World Travel and Tourism Council (WTTC) the total contribution of Travel and Tourism to European GDP was 9.7% in 2018. 2019 is set to be a year of economic challenges as globalisation is entering an era of sluggishness. The snail-paced growth in some economies, trade disputes, geopolitical tensions, and protectionist policies all pose a threat to global economic growth in 2019.

Despite recession fears European tourism continues to grow while destinations focus on other aspects to define tourism growth rather than just tourism volumes. Mature European destinations are focusing on quantity over quality and concentrating efforts on wooing market niches. "Every destination needs to consider the long-term implications of tourism in order to ensure that the right balance is achieved between economic growth, environmental impact and social value. Tourism growth can test the boundaries of the environment and the quality of life for the people who live in popular tourism destinations.", said Peter De Wilde President ETC. Rapid advancements in information technology and real time data allow for a more dynamic tourism management at a destination in order to anticipate tourist volumes. This approach will support destinations' strategic efforts and shed light on seasonality patterns and will enable more effective targeted marketing strategies to ensure year-round tourism growth.

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

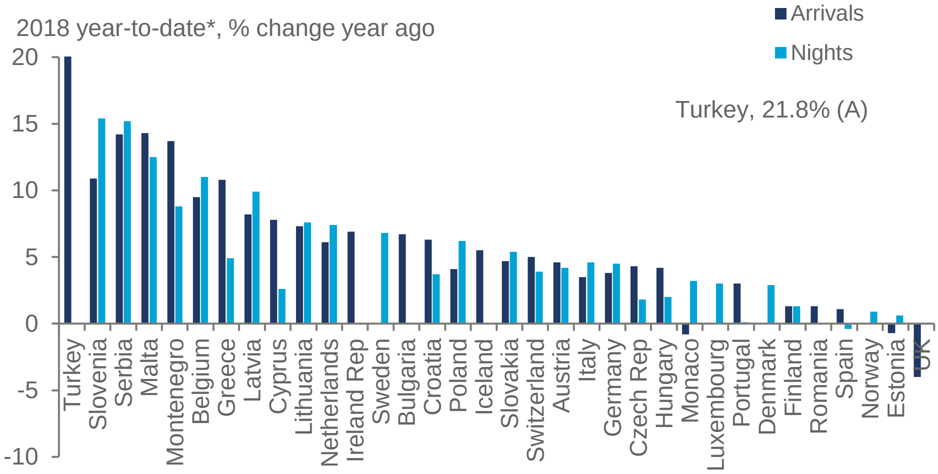
TOURISM PERFORMANCE SUMMARY 2018

SUMMARY

- Economic growth slowed across Europe as 2018 progressed, but travel demand was rampant across reporting destinations.
- The UK was the only reporting destination in which arrivals declines relative to the year before. However, growth in 2017 was strong on account of a weaker pound following 2016's Brexit referendum.
- Arrivals growth in Turkey was particularly notable as its recovery from declines in 2016 continued into 2018, following strong growth in 2017.

Europe's economic growth prospects weakened as 2018 progressed. GDP growth in 2018 is estimated to have been 1.8% in the Eurozone. Oxford Economics forecasts 2019 growth to be weaker at 1.3%, driven by slower export and stronger import growth (resulting in negative net trade), and despite solid domestic demand. In fact, the forecasts for the next few years are all below trend.

Foreign visits and overnights to select destinations



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

Despite Europe's economic growth prospects faltering in the second half of the year, travel growth to, from, and within the region was robust in 2018. All but one of the 34 reporting destinations welcomed more arrivals and/or overnights compared to a year ago. Only the UK reported declines. Some non-European source markets such as China remained important sources for arrivals growth for nearly all European destinations whilst there was a more mixed picture for travellers from Russia, the Netherlands and France.

Although Slovenia changed its methodology over the course of the year in question, growth in arrivals and overnights was strong at 10.9% and 15.4% respectively. However, Slovenia started 2019 on a poorer note on account of a lack of snow in that part of the Alps.

The greatest growth in arrivals was in Turkey (21.8%). Much of the growth has come from a limited number of large source markets, in particular, Russia (although there has been recovery from the German, French and Italian source markets as well) and there is potential for Turkey to increase tourism numbers further in 2019. As well as beach tourism, 2019 travel to Turkey will be influenced by the move of Istanbul's main airport from Atatürk Airport to the new Istanbul Airport (which opened in April 2019) and is one of the largest in the world.

Serbia and Malta – two very different travel destinations – represent the next highest growth in terms of either arrivals or overnights with both increasing arrivals by just over 14% over the course of the year. For Malta, this is a strong result for a mature destination – 2.6 million tourists arrived by the end of 2018. However, whilst 2018 was a record year, Malta faces renewed competition from destinations such as Turkey and Egypt, which may have been considered somewhat unsafe in recent years by many travellers but for which perceptions are now improving. Serbia's growth in inbound tourism has been dominated by interest from Chinese visitors. However, Serbia has also become a destination for French travellers and new air routes are opening in 2019 – for instance, Air France is introducing daily flights to Belgrade.

Montenegro also demonstrated impressive growth in tourist arrivals over 2018 with an increase over the year of 13.7%. Growth might be expected to continue into 2019 with the opening of the Porto Montenegro project which has converted a former shipyard into a luxury yachting destination.

Belgium continues to recover from a from the downturn caused by terrorist attacks. It managed strong growth over 2018 with an increase of 9.5% in arrivals and an even larger increase in overnights (of 11%).

For a mature travel destination, Greece's growth over the year was also solid with a 10.8% increase in arrivals. However, overnights increased by a smaller percentage, implying shorter average length of stay. The Greek tourism economy has been growing at three times the rate of the wider economy, which means that the Greek economy is becoming increasingly dependent on tourism. This marks the importance of tourism for some European economies, but such dependency is also a potential source of risk.

Cyprus saw a record-breaking year in terms of arrivals with an increase of 7.8%. However, the increase in overnights was far smaller at a mere 2.6%, possibly drawing attention to an increased focus on the cruise industry. Whilst some European source markets such as the UK and Scandinavia were especially robust, visits from Russia – a key source market for Cyprus – were down in the year.

Although arrivals growth in Iceland was positive at 5.5% in annual terms. This was far slower than growth in recent years, and to put this in perspective, was only slightly higher than that of some very mature Alpine destinations such as Switzerland and Austria (see below). Furthermore, the collapse of WOW Air will have a negative effect on 2019. A number of natural beauty attractions, such as Fjaðrárgljúfur, have been closed for environmental protection, which may also dampen growth in tourism.

Switzerland and Austria received growth of around 4% or 5% in both overnights and arrivals. Growth is likely to be supported in these countries in the coming year by policy changes. Swiss International Air Lines in collaboration with Switzerland Tourism is rolling out a series of stopover packages in 2019. 'Stopover Switzerland' will include all accommodation and public transport. Meanwhile, Austria is focusing on sustainability and digitisation of tourism, whilst Vienna Airport's third runway has been approved.

Larger Mediterranean destinations struggled over 2018 to maintain momentum in the face of increased competition from resurgent destinations such as Turkey, Tunisia, and Egypt. Nevertheless, Italy managed to record an increase of 3.5% in arrivals and slightly more in terms of overnights. Rome remains Italy's top cultural attraction but in 2019 there will be an increased focus on Matera, the European Capital of Culture for the year, where visits have increased strongly in recent years. Milan is also now directly connected to Los Angeles via air which should encourage more visits from the United States. Travel between the two cities has nearly doubled over the past two years. Italy is also increasingly focusing on the Chinese source market – among European destinations, Italy is currently behind only Russia in terms of Chinese visits.

Spain and Portugal fared far less well. Both managed small growth in arrivals over the year, but the number of overnights fell. Again, the recovery of Turkey – alongside the strong performances of Greece and Cyprus – may have contributed. Spain and Portugal both gained market share during a period of difficulty for the Turkish tourism sector, but with the latter now recovering, these Iberian destinations are facing challenges. Furthermore, the UK is an important source market for both and the prospect of

Brexit and the weakness of sterling have motivated UK travellers to looking for better value deals for sun-related holidays such as those offered by Bulgaria and Turkey (with the latter even cheaper due to the devalued lira).

Scandinavian destinations also struggled to attract much growth in tourism numbers. Sweden was the best performer amongst the group with 6.8% growth in overnights. Denmark managed 2.9% growth, Finland 1.3%, and Norway 0.9%. Nevertheless, Denmark is welcoming more tourists than ever before, and it has a challenging programme of hotel bed expansion in anticipation of supply needing to increase to meet demand.

The UK has been by far the weakest performer of any country included in the analysis, with arrivals over the year down by 5.3%. This is somewhat surprising given the weakness of the sterling against both the US dollar and the euro. However, sentiment towards travel to the UK has been negative. European visitors to the UK account for around two-thirds of arrivals, and research by VisitBritain has shown that European interest in visiting the UK since the Brexit referendum fell from 76% in August 2016 to 69% in autumn 2018. In addition to negative sentiment from the ongoing Brexit difficulties affecting European interest in visiting, the UK is also still seen as an expensive destination (despite the recent depreciation of the sterling). However, the poor performance of the UK in 2018 needs to be set in context against a very strong 2017.

TOURISM PERFORMANCE, 2018 YTD

	International Arrivals		International Nights	
Country	% ytd	to month	% ytd	to month
Austria	4.6%	Jan-Dec	4.2%	Jan-Dec
Belgium	9.5%	Jan-Dec	11.0%	Jan-Dec
Bulgaria	6.7%	Jan-Dec		
Croatia	6.3%	Jan-Dec	3.7%	Jan-Dec
Cyprus	7.8%	Jan-Dec	2.6%	Jan-Nov
Czech Rep	4.3%	Jan-Dec	1.8%	Jan-Dec
Denmark			2.9%	Jan-Dec
Estonia	-0.7%	Jan-Dec	0.6%	Jan-Dec
Finland	1.3%	Jan-Dec	1.3%	Jan-Dec
Germany	3.8%	Jan-Dec	4.5%	Jan-Dec
Greece	10.8%	Jan-Dec	4.9%	Jan-Jun
Hungary	4.2%	Jan-Dec	2.0%	Jan-Dec
Iceland	5.5%	Jan-Dec		
Ireland Rep	6.9%	Jan-Dec		
Italy	3.5%	Jan-Dec	4.6%	Jan-Dec
Latvia	8.2%	Jan-Dec	9.9%	Jan-Dec
Lithuania	7.3%	Jan-Sep	7.6%	Jan-Sep
Luxembourg			3.0%	Jan-Oct
Malta	14.3%	Jan-Dec	12.5%	Jan-Dec
Monaco	-0.8%	Jan-Dec	3.2%	Jan-Dec
Montenegro	13.7%	Jan-Dec	8.8%	Jan-Dec
Netherlands	6.1%	Jan-Dec	7.4%	Jan-Dec
Norway			0.9%	Jan-Dec
Poland	4.1%	Jan-Dec	6.2%	Jan-Dec
Portugal	3.0%	Jan-Dec	0.1%	Jan-Dec
Romania	1.3%	Jan-Dec		
Serbia	14.2%	Jan-Dec	15.2%	Jan-Dec
Slovakia	4.7%	Jan-Jul	5.4%	Jan-Jul
Slovenia	10.9%	Jan-Dec	15.4%	Jan-Dec
Spain	1.1%	Jan-Dec	-0.4%	Jan-Dec
Sweden			6.8%	Jan-Dec
Switzerland	5.0%	Jan-Nov	3.9%	Jan-Nov
Turkey	21.8%	Jan-Dec		
UK	-4.0%	Jan-Sep		

Source: TourMIS (http://www.tourmis.info); available data as of 30.4.2019
Measures used for nights and arrivals vary by country

TOURISM PERFORMANCE SUMMARY 2019

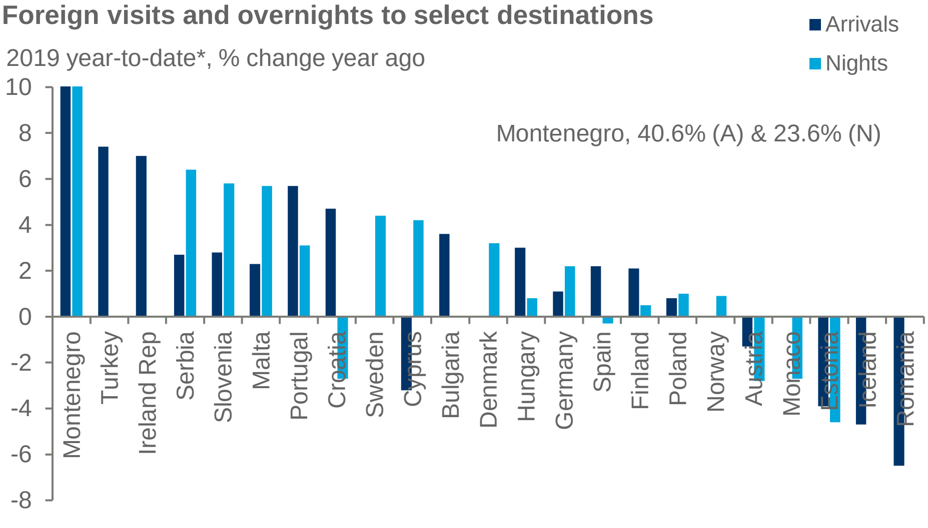
SUMMARY

- Maintaining growth in 2019 will be harder than 2018 but the majority of destinations are currently reporting growth.
- Montenegro is the fastest growing destination for which data are available.
- Declines have been reported in Iceland for the first time in long time, and this may suggest the end of its growth streak since 2011, during which arrivals grew an average 22% per annum.

With such strong growth across Europe in 2018, continued growth in 2019 should be harder to come by. Nonetheless, the majority of destinations which have been able to report data for early-2019 performance have shown continued growth in either foreign arrivals or overnights (or both).

Foreign visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

Montenegro was amongst the top growth-destinations in 2018 (arrivals grew 13.7%), and this momentum has continued into the first two months of the year, with data to February suggesting arrivals growth of 40.6% and overnights growth of 23.6% compared to the same period in a year ago. Much like growth achieved in 2018, this continued growth is a product of improved tourism infrastructure, as well as growing air connectivity between it and key European source markets. Growth in January and February demonstrates an extending tourism season and is a clear reward owing to the development of winter tourism infrastructure which has added depth to Montenegro's tourism offering. In 2015 the government there announced that it would invest some €60 million over a five-year period to improve winter sports facilities.

Malta, too, has continued to grow following a successful year during which Valletta was European Capital of Culture, with arrivals up 2.3% and overnights up 5.7% based on data to February compared to a year ago. A major €8 million air traffic control upgrade is planned for Malta International Airport which should augment future growth, including from some longer-haul destinations, to and from which routes are already in the pipeline, according to Air Malta. Following these upgrades, the airport is expected to equal the capacity of London Gatwick, with plans to overhaul the terminal building and build new parking facilities that can fit seven more aircrafts in the plans, the recently expanded airport will be even bigger capable of handling larger numbers of arrivals.

Turkey reported 7.4% growth in arrivals according to data for the first two months of 2019. Growth during these two months was significant from the majority of source markets for which data are reported and continued lira weakness should drive further growth into summer 2019. However, as Turkey's largest source market in 2018 (accounting for 15% of total foreign arrivals), growth from Russia is arguably the most significant, with arrivals up 33.7% compared to the same period a year ago.

With 2019 being declared Turkey-Russia Culture and Tourism Year, and Turkey having just appeared in a special 16-page publication prepared by one of Russia's most esteemed newspapers (Komsomolskaya Pravda), we should expect to see plenty more growth from Russia to Turkey.

Ireland saw arrivals grow 7% based on data to February compared to a year ago. Despite lingering weakness in the value of pound relative to the euro, growth from the UK was modest, but significant given the UK accounts for over 40% of total arrivals to Ireland. However, average daily rates in Dublin are amongst the highest in Europe, and an increase in the rate of VAT as of January may stifle growth if hotels choose to pass the increase onto consumers.

Estonia has reported declines in arrivals and overnights based on data to February despite seeing growth from all but a few source markets for which data are reported. Concerningly, amongst markets from which arrivals are reported to have declined was Russia. Arrivals from Russia were 8.9% lower and overnights 9.9% lower compared to the same period a year ago. Estonia has a relatively high-dependency on Russia (it accounted for around 10% of annual foreign arrivals over the past few years), meaning any declines will drag heavily on total performance. These declines are perhaps a consequence of more Russians travelling to Turkey and may be partly due to currency swings over the past year, with the rouble gaining against the lira but not the euro, as well as Turkey gaining more exposure in Russia through the Turkey-Russia Culture and Tourism Year.

Arrivals to Estonia from Sweden also fell in the first two months of 2019 according to data, and anecdotal evidence suggests large declines from Finland – Estonia's largest source market. However, Finnish arrivals data are not reported within TourMIS so the extent of these declines are as-yet unknown.

TOURISM PERFORMANCE, 2019 YTD

	International Arrivals		International Nights	
Country	% ytd	to month	% ytd	to month
Austria	-1.3%	Jan-Mar	-2.8%	Jan-Mar
Bulgaria	3.6%	Jan-Feb		
Croatia	4.7%	Jan-Mar	-2.7%	Jan-Mar
Cyprus	-3.2%	Jan-Mar	4.2%	Jan-Jan
Denmark			3.2%	Jan-Feb
Estonia	-3.9%	Jan-Feb	-4.6%	Jan-Feb
Finland	2.1%	Jan-Mar	0.5%	Jan-Mar
Germany	1.1%	Jan-Jan	2.2%	Jan-Jan
Hungary	3.0%	Jan-Feb	0.8%	Jan-Feb
Iceland	-4.7%	Jan-Mar		
Ireland Rep	7.0%	Jan-Feb		
Malta	2.3%	Jan-Feb	5.7%	Jan-Feb
Monaco			-2.7%	Jan-Feb
Montenegro	40.6%	Jan-Feb	23.6%	Jan-Feb
Netherlands	0.0%	Jan-Jan	0.0%	Jan-Jan
Norway			0.9%	Jan-Feb
Poland	0.8%	Jan-Jan	1.0%	Jan-Jan
Portugal	5.7%	Jan-Jan	3.1%	Jan-Jan
Romania	-6.5%	Jan-Feb		
Serbia	2.7%	Jan-Feb	6.4%	Jan-Feb
Slovenia	2.8%	Jan-Feb	5.8%	Jan-Feb
Spain	2.2%	Jan-Jan	-0.3%	Jan-Feb
Sweden			4.4%	Jan-Feb
Turkey	7.4%	Jan-Feb		

Source: TourMIS (http://www.tourmis.info); available data as of 30.4.2019
Measures used for nights and arrivals vary by country

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 Global Travel Service (GTS) 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.

GTS VISITOR GROWTH FORECASTS, % CHANGE

	Inbound*					Outbound**				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
data/estimate/forecast	e	f	f	f	f	e	f	f	f	f
World	**5.8%**	**4.2%**	**3.6%**	**3.8%**	**4.0%**	**5.2%**	**4.3%**	**3.6%**	**3.8%**	**4.0%**
Americas	**3.3%**	**4.0%**	**3.7%**	**3.8%**	**4.0%**	**4.4%**	**4.1%**	**3.0%**	**3.0%**	**3.3%**
North America	4.1%	3.5%	3.4%	3.6%	3.8%	5.6%	4.1%	2.8%	2.7%	3.0%
Caribbean	-1.7%	4.8%	5.0%	4.4%	3.8%	2.4%	5.9%	5.6%	5.1%	5.5%
Central & South America	3.5%	4.9%	4.1%	4.2%	4.7%	0.7%	4.1%	3.4%	3.9%	4.2%
Europe	**5.9%**	**3.6%**	**2.8%**	**3.2%**	**3.4%**	**5.2%**	**4.2%**	**3.3%**	**3.6%**	**3.7%**
ETC+3	5.6%	3.5%	2.6%	2.9%	3.3%	4.6%	4.1%	3.2%	3.4%	3.6%
EU	4.5%	3.2%	2.4%	2.7%	3.1%	4.7%	3.9%	3.1%	3.3%	3.5%
Non-EU	11.6%	5.2%	4.5%	4.8%	4.5%	7.3%	5.6%	4.0%	4.6%	4.5%
Northern	0.7%	3.6%	2.5%	2.4%	3.0%	-0.1%	4.1%	3.6%	4.3%	4.7%
Western	6.4%	2.8%	2.0%	2.4%	2.8%	5.2%	3.9%	2.9%	2.9%	3.0%
Southern/Mediterranean	7.0%	3.7%	2.9%	3.4%	3.7%	8.5%	4.7%	3.5%	3.4%	3.8%
Central/Eastern	4.4%	4.5%	3.7%	4.1%	3.8%	9.7%	4.8%	3.5%	3.9%	3.8%
- Central & Baltic	*5.1%*	*4.3%*	*3.1%*	*3.3%*	*3.2%*	*8.1%*	*3.8%*	*2.9%*	*3.2%*	*3.2%*
Asia & the Pacific	**7.0%**	**4.8%**	**4.6%**	**4.4%**	**4.4%**	**6.1%**	**4.7%**	**4.7%**	**4.7%**	**4.8%**
North East	6.5%	4.5%	4.7%	4.3%	4.3%	5.7%	4.8%	4.6%	4.7%	4.7%
South East	8.1%	4.6%	4.3%	3.9%	4.2%	7.2%	3.1%	4.3%	4.0%	4.4%
South	7.2%	7.9%	6.0%	5.9%	5.7%	7.8%	8.0%	5.5%	5.7%	5.8%
Oceania	4.2%	4.8%	4.2%	6.3%	5.4%	4.8%	4.5%	5.3%	5.5%	5.3%
Africa	**9.7%**	**6.5%**	**4.9%**	**4.9%**	**4.4%**	**7.0%**	**4.8%**	**3.6%**	**3.6%**	**3.6%**
Middle East	**2.7%**	**5.6%**	**5.8%**	**6.4%**	**6.3%**	**1.5%**	**4.2%**	**4.3%**	**5.4%**	**6.0%**

* 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+3** is all ETC members plus France, Sweden, and the United Kingdom*

Source: Tourism Economics

RECENT INDUSTRY PERFORMANCE

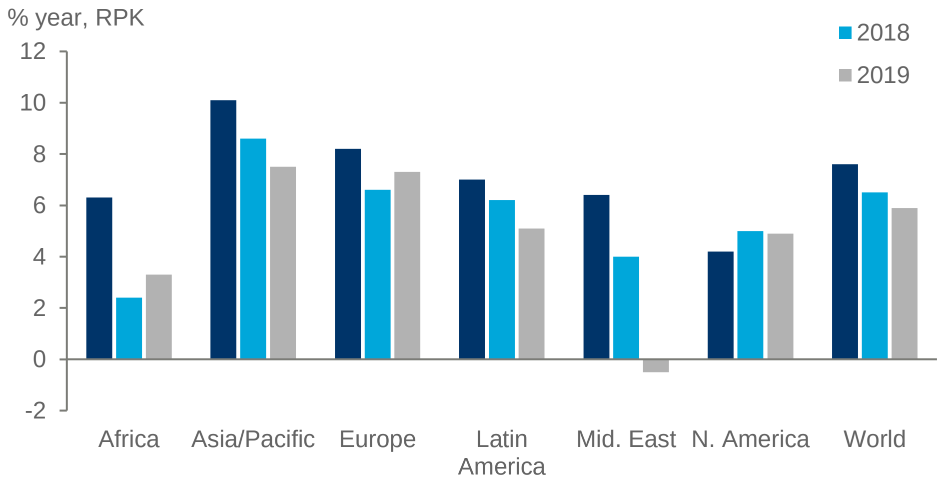
SUMMARY

- Global air transport, measured in Revenue Passenger Kilometres (RPK), has grown 5.9% in early 2019 compared to the same period in 2018. This is marginally lower than the average over both the last five years and the last decade.
- Europe is now the second fastest growing global region with 7.3% growth, only fractionally behind the Asia/Pacific region.
- Hotels in Europe recorded an increase in RevPAR of 1.3%. This was driven entirely by growth in ADR (1.6%), offset partly by a marginal decrease in occupancy rates fell by 0.2%.
- Relatively low hotel occupancy growth points to potential capacity constraints in hotels given the high occupancy levels and faster growth in other indicators of demand.

AIR TRANSPORT

Global air transport, measured in Revenue Passenger Kilometres (RPK), has grown 5.9% in 2019 year-to-date (i.e., to February) compared to the same period in 2018. This is marginally lower than the average over both the last five years and the last decade. The seasonally-adjusted trend in RPK has been moderating since the summer of 2018 and has become more evident in recent months. This slowdown reflects a variety of factors including softening in some leading economic indicators and broader concerns about the global economic outlook.

Annual International Air Passenger Growth

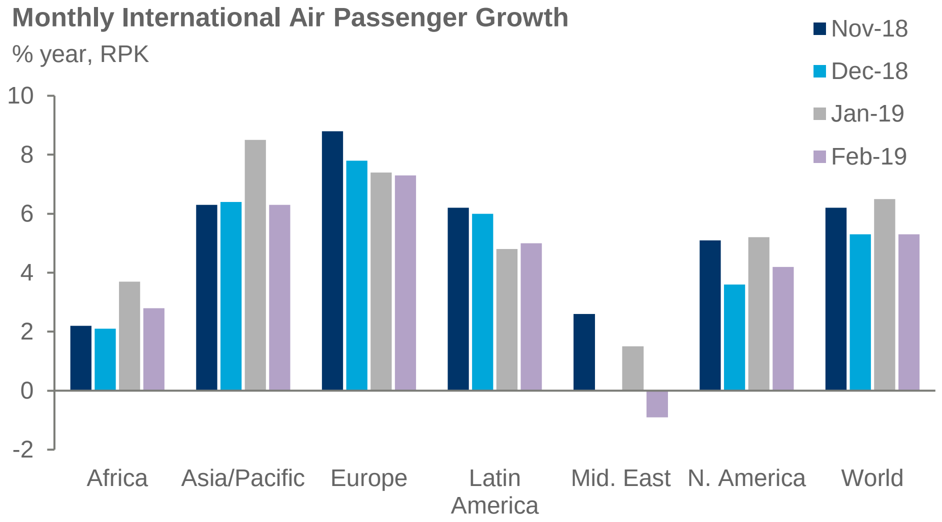


Source: IATA

The recent moderation in RPK growth accompanies indications that the pace of global GDP growth is decelerating, and global business confidence is continuing to weaken (as has been the case since mid-2018). This is notwithstanding the Global Composite PMI accelerating in March, with the rate of expansion in new business hitting a four-month high.

Despite a slowdown in China, the Asia/Pacific region continued to experience the strongest rate of RPK growth (based on data to February), slightly ahead of Europe. Air passenger demand to, from, and within the region was 7.5% higher compared to the same period a year ago. Chinese exports fell over 2018 pointing to a significant slowdown in global trade growth and an increasing impact from US tariffs. These factors may well continue to drag upon Chinese travel demand, though there would still be growth even under a 'worst case' scenario. However, there is also the more optimistic possibility that a major trade deal between the US and China could be settled over the coming weeks.

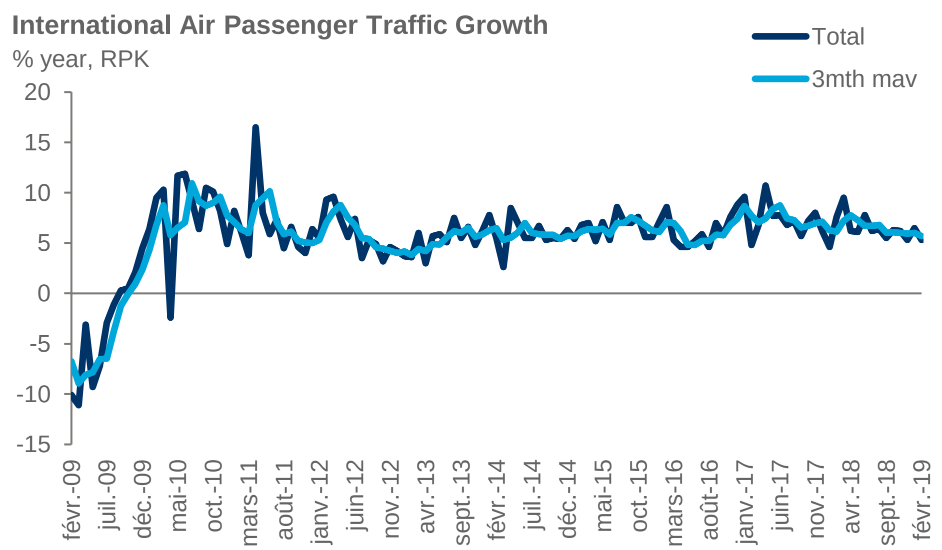
Europe is now the second fastest growing global region with 7.3% growth, only fractionally behind the Asia/Pacific region. In the second half of 2018, European passenger growth defied weakening forecasts for GDP growth. Further, growth for February 2019 over 2018 was higher in Europe than for any other region, as was also the case for November and December of 2018. European RPKs appear unaffected by uncertainty surrounding Brexit and signs of a softer economic outlook across Europe – both of which have contributed to a marked lowering of business confidence over the past year. It should be noted that some sources of growth outside the ETC membership area (such as the Russian domestic travel market) are exerting an upward influence on this figure.



Source: IATA

The Middle East is the only global region which has contracted with year-to-date change to February (-0.5%). This follows passenger volumes in the region recording little or no growth for more than the past year.

Africa continues to grow very slowly with year-to-date RPK growth of 3.3% based on data to February. Expected improvements failed to materialise over the course of 2018 and there are only minimal signs of this changing in 2019 so far (despite GDP growth forecasts for Nigeria being upwardly revised for 2019). A moderate economic recovery is still forecast for South Africa in 2019, but risks to the outlook have shifted to the downside, given mounting signs of a slowdown in global trade, issues surrounding electrical supply security, and a higher tax burden for consumers.

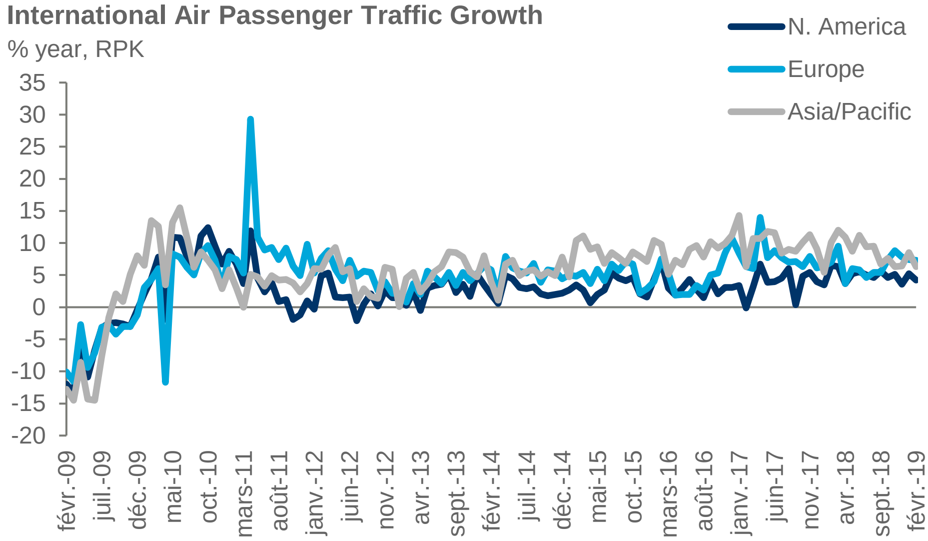


Source: IATA

North American traffic continues to grow at a rate close to those seen over both 2017 and 2018. RPKs grew by 4.9% in the first two months of the year. The US has seen recent economic data volatility but fears of recession that had been building have been somewhat calmed by the most recent jobs report – hiring rebounded in March following a disappointing February reading. A trade deal with China would help alleviate global growth concerns and provide a much-needed global confidence boost. However, underlying tensions pertaining to China's strategic ambitions, its industrial policy, and technological transfers may constrain the scope of any agreement.

International Air Passenger Traffic Growth

% year, RPK

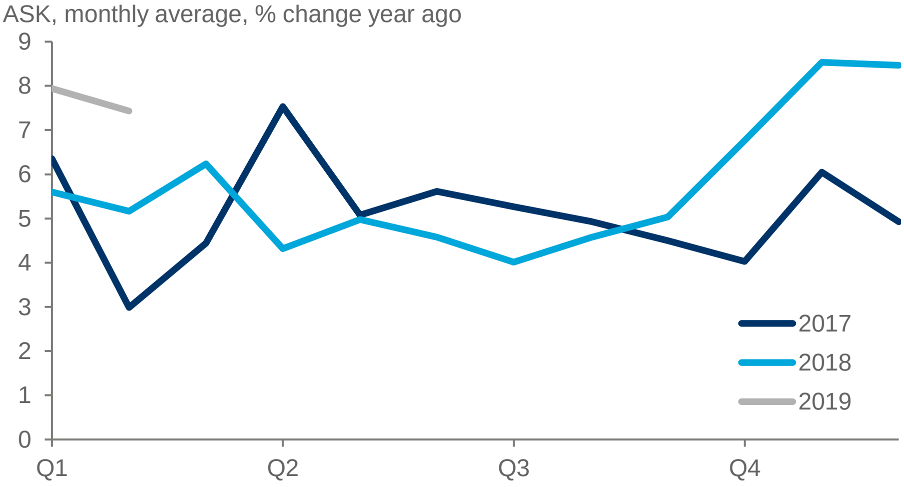


Source: IATA

Available Seat Kilometres (ASK) globally grew by 5.4% year-on-year in February – although there was huge divergence between the low ASK growth in the Middle East and Africa and much higher ASK growth in Asia/Pacific and Europe. As a result, the global Passenger Load Factor (PLF) dipped slightly compared with its level a year ago, but remains elevated, at 80.6%.

European Airlines Capacity

ASK, monthly average, % change year ago

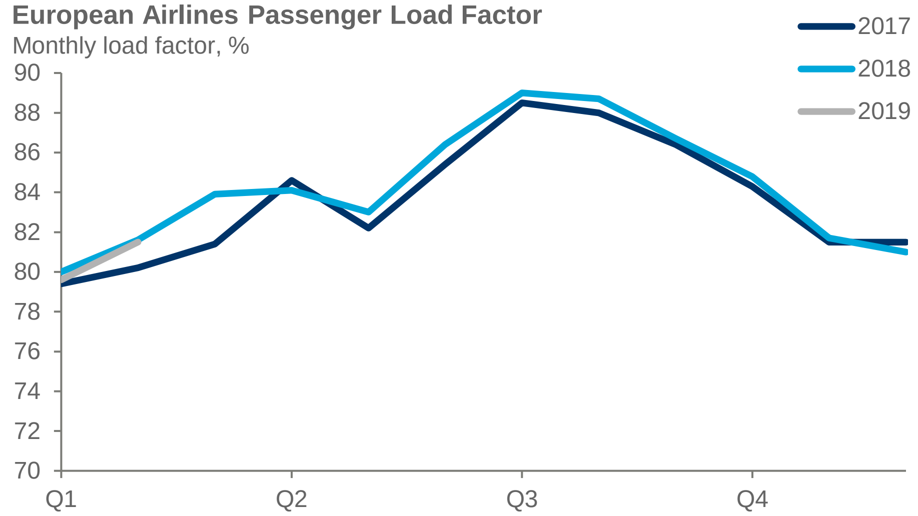


Source: IATA

European ASK growth in February was up 7.4% compared to one year earlier. This growth continues to suggest that capacity constraints were not as binding as had been previously feared. Further discounting is also possible as Europe's low-cost carriers (which account for a significant proportion of ASK in Europe) vie for market share. Passenger Load Factors (PLF) in Europe have started 2019 at similar levels to 2018, currently 81.5%.

European Airlines Passenger Load Factor

Monthly load factor, %



Source: IATA

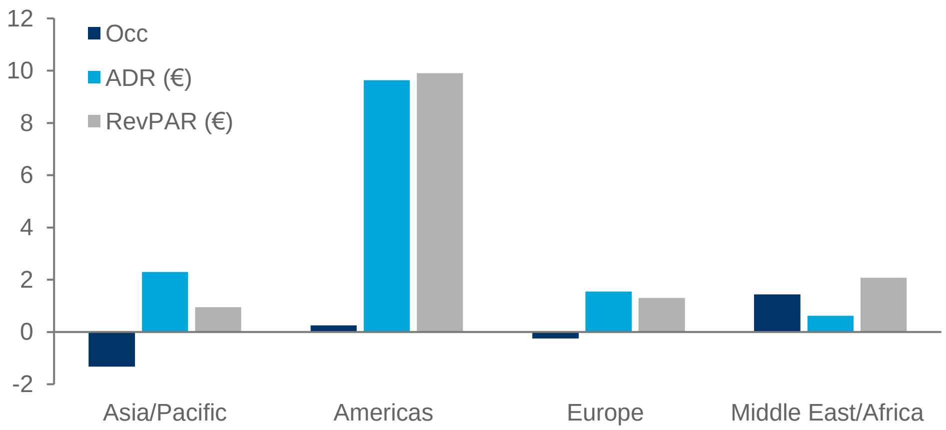
Globally, jet fuel prices are around 4% lower than they were one year ago – although the impact of this varies due to the widespread use of fuel price hedging across the industry. For example, the falls have been slightly less steep in the Americas.

ACCOMMODATION

When compared to the same months in 2018, the period January to March 2019 saw occupancy growth in the Middle East / Africa and a very marginal increase in the Americas. Occupancy in Asia/Pacific fell by 1.3% with a smaller decrease of 0.2% in Europe. RevPAR increased in all regions, but the driving factors varied.

Global Hotel Performance

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



Source: STR

There was strong growth in RevPAR in the Americas of 9.9%. This was driven almost entirely by the increases in ADR (9.6%), which dwarfed the growth in occupancy (0.2%). In the Asia/Pacific region, RevPAR was up by 0.9%, with an increase in ADR (2.3%) more than offsetting the decline in occupancy (of 1.3%).

In the Middle East / Africa occupancy grew by 1.4%, but growth in room rates was slower at 0.6% when priced in euros. When priced in US dollars, ADR fell by 7.5%. Nevertheless, in euro terms, RevPAR grew by 2.1%, actually making it the second-best performing region (which contrasts with its recent performance).

Hotels in Europe recorded an increase in RevPAR of 1.3%. This was driven entirely by growth in ADR (1.6%), offset partly by a marginal decrease in occupancy rates, which fell by 0.2%. Flat European occupancy in the first quarter of 2019 follows modest growth in 2018 and indicates capacity constraints in some major markets as occupancy levels are at historically high levels. Alternative accommodation provision is required in order to meet continued growth in demand and to complement the continued growth in transport capacity.

SPECIAL FEATURE: THE VACATION RENTALS MARKET IN EUROPEAN DESTINATIONS

SUMMARY

- The vacation rentals sector provides a large volume of capacity in addition to hotel beds; 60% of available bed spaces across Europe are in rental accommodation.
- Total capacity across Europe of the vacation rentals market is 14.3 million bed spaces compared with about 8.7 million bed spaces in hotels. However, occupancy is lower than for hotels and demand will be more balanced.
- France, Italy and Spain account for half of all capacity for the vacation rentals market across Europe.
- 91% of available capacity is accounted for by entire homes, with a significant minority available in individual rooms. Shares vary by country and individual rooms are notably more important in the UK.

THE EUROPEAN VACATION RENTALS SECTOR

Defining and quantifying the vacation rentals sector is a challenge for many destinations but is necessary to fully understand available capacity and total destination performance. The rentals sector provides an alternative to hotels, guesthouses and campsite but comprises a raft of property types from budget shared room accommodation through to luxury villas. However, on the ground, rental properties are usually unidentifiable from neighbouring properties and owners may have little concept of being part of a sector.

A number of trends have driven strong growth in the European vacation rentals sector. Consumer sentiment has shifted somewhat in favour of a more 'authentic' or 'local' experience. Furthermore, increased internet connectivity and the almost ubiquitous use of mobiles on holiday have facilitated new ways of booking and renting. Supply of rooms in traditional accommodation, and notably in hotels, also tends to be inelastic, at least in the short-run, and growth in alternative accommodation has enabled the observed rapid growth in demand in recent years.

Research by both the London School of Economics and Airbnb has indicated that those who stay in holiday rental accommodation may stay for longer periods and have a greater average spend per trip than those who stay in more traditional serviced accommodation[2].

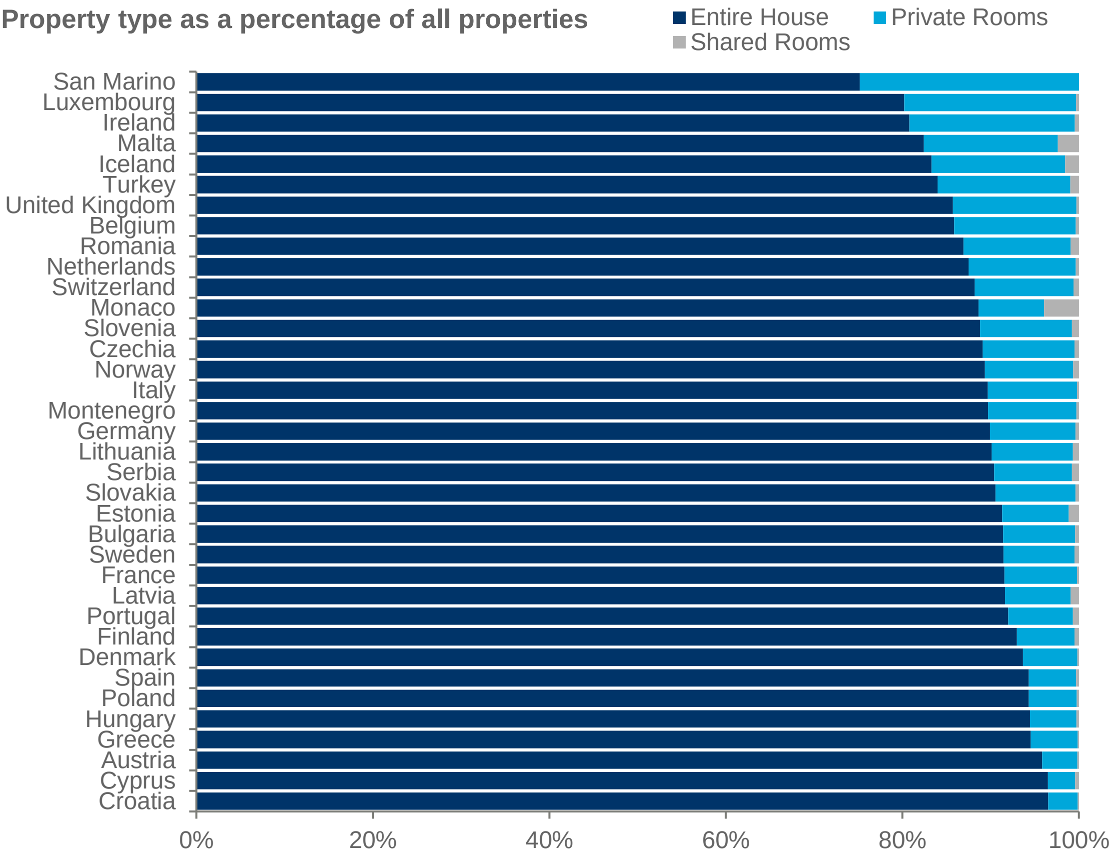
The analysis undertaken in this special feature is based on data from Transparent on deduplicated properties available across four online platforms – namely, Airbnb, Booking.com, HomeAway, and TripAdvisor.

PROPERTY TYPES

91% of capacity is accounted for by entire homes – that is, properties which are advertised as available to rent in full. This proportion is over 95% in Croatia, Cyprus and Austria but only 75% in San Marino, although most countries are fairly close to the average. The remainder are private rooms (advertised as available to rent independently inside properties with more rooms) and shared rooms.

[2] See *'The economic impact of holiday rentals in the UK: A project for HomeAway', London School of Economics (2014),* and *Airbnb Economic Impact* (https://blog.atairbnb.com/economic-impact-airbnb/)

Property type as a percentage of all properties



Source: Transparent, ETC, Tourism Economics

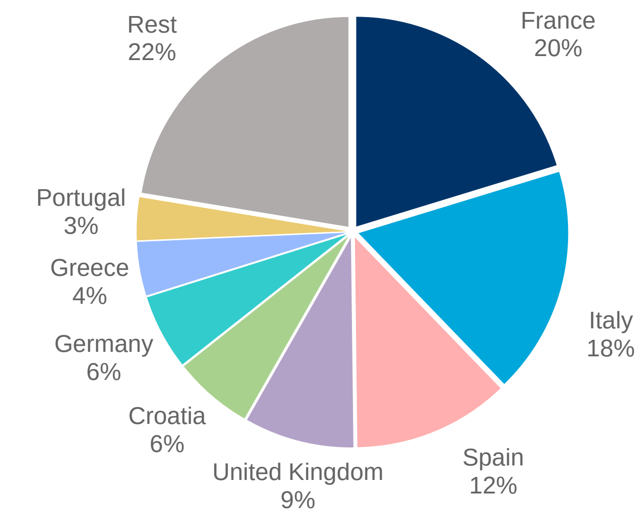
DISTRIBUTION OF TOTAL CAPACITY BY COUNTRY ACROSS EUROPE

France, Italy, and Spain account for half of all capacity across the region and the shares of entire properties are similar given the dominance of that property type in the market. This is not particularly surprising given the large travel markets for these destinations but confirms that the vacation rental market is facilitating demand here. However, the share of capacity is higher than the proportion of European overnights spent in these countries (43%) and may be explained by the relative importance of leisure travel.

By contrast, the share of rentals capacity in Germany is low relative to its importance as a European destination, especially including domestic travel. Germany accounts for an estimated 11% of all nights spent in European destinations but has just 6% of available rental capacity. The higher proportion of business travel in German cities, including large MICE events, likely explains the higher reliance on hotel capacity.

Croatia also stands out as having the fifth largest vacation rental capacity in Europe, with 6% of all available beds, comparable with capacity in Germany. This is despite receiving just 2% of all reported overnights in European destinations. By embracing vacation rentals Croatia has seemingly overcome some apparent hotel capacity limitations to grow share of regional leisure demand.

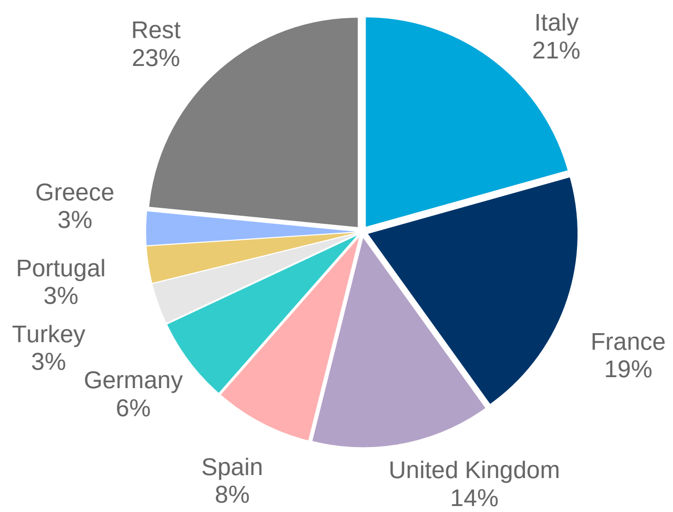
Total capacity distribution by country



Source: Tourism Economics, Transparent, ETC

Private rooms account for nearly 9% of all capacity and the distribution is marginally different with Italy having the largest single share (21%), followed by France (19%), with the United Kingdom (14%) replacing Spain in third (Spain ranks 4th). Nevertheless, the overall picture is similar with the aggregate of these four countries accounting for 62% of all European countries analysed (compared to 59% for the four countries across the distribution of all properties).

Private room distribution by country



Source: Tourism Economics, Transparent, ETC

Shared rooms account for a mere 0.3% of total capacity and, whilst there is a more even distribution amongst countries, it is an insignificant share of total capacity. Only in a very small number of countries did the share depart from this generalisation. In Monaco, shared rooms accounted for 4% of total capacity, whilst in Italy and Malta they accounted for 2%.

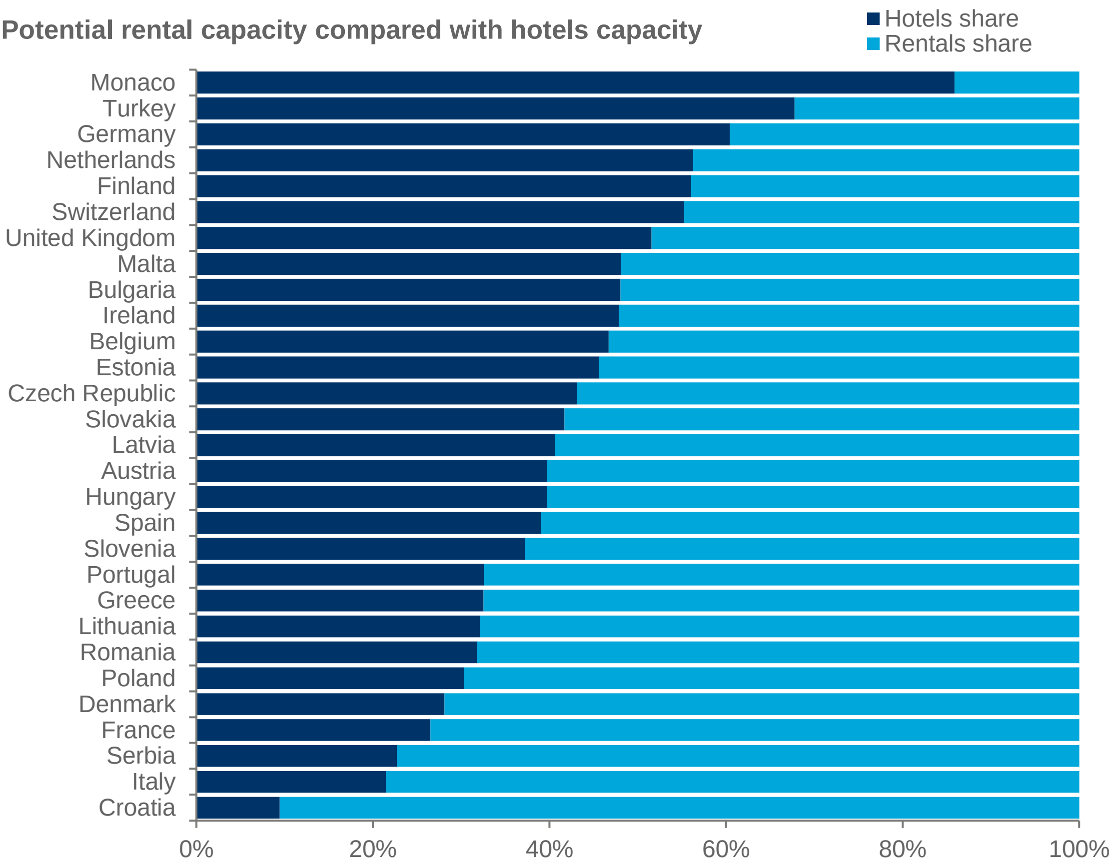
THE POTENTIAL CAPACITY OF EUROPEAN VACATION RENTALS

The potential total capacity across Europe of the vacation rentals market is 14.3 million bed spaces. This is very significant in scale. In comparison the hotels sectors accounts for about 8.7 million bed spaces. If we take the potential capacity at face value, vacation rentals account for 62% of capacity across Europe (excluding other sources of accommodation). However, this varies very dramatically across the continent. Monaco has the lowest share at 14%, whilst Croatia has the highest share at 91%.

Comprehensive data on rental sales and occupancy is not available for analysis for all markets but occupancy tends to be far lower than for hotels. This is due to the concentration on entire houses in the market and the fact that these will often be filled under capacity even when they are occupied.

The share of total overnights spent in vacation rentals is likely to be much closer to the volume of hotel nights across Europe as a whole given this lower occupancy. The importance of the sector varies considerably by destination.

Potential rental capacity compared with hotels capacity



Source: Transparent, ETC, Tourism Economics

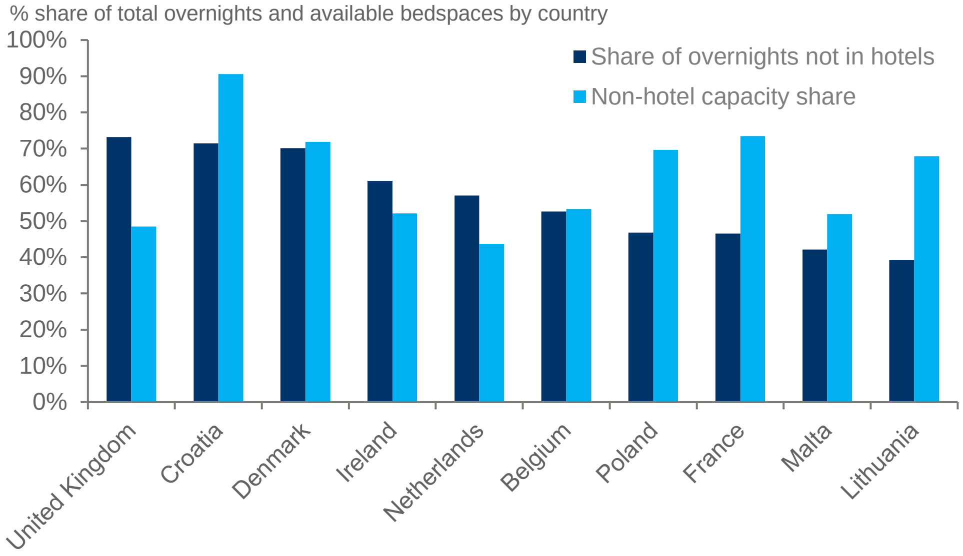
SHARE OF VISITOR BASE NOT STAYING IN HOTELS

On account of the relatively low occupancy in the sector, the rental property sector accounts for a more modest share of total demand, although this varies by destination. The importance of the non-hotel sector is illustrated by the share of non-hotel accommodation visitors to a number of key European destinations.

In each of these top destinations, between 5 and 7 in every 10 visitors does not stay in an hotel, while in most other European destinations the proportion is lower. However, it should be noted that some of this demand involves those Visiting Friends and Relatives (VFR), and this is definitely the case in data for UK.

The share of rental capacity follows a similar pattern to that for the share of non-hotel demand across key countries. The capacity share is higher in most countries, especially once VFR and other unpaid accommodation effects are taken into account. Available rental capacity can therefore be interpreted as a valid, albeit imperfect, indicator of the relative size of the rental market relative to hotels.

Share of overnights not in hotels relative to capacity



Source: Tourism Economics, Transparent, STR

RATE PER BED SPACE IN VACATION RENTALS

The vacation rental market comprises a large proportion of available capacity and a similarly large proportion of demand, having facilitated demand growth in recent years to overcome some potential capacity constraints in traditional accommodation. Initial analysis of room rates suggests that the rise in importance of rentals complements traditional accommodation rather than significantly affecting overall hotel performance in aggregate.

Advertised rates are available in the Transparent data set and can be compared against hotel ADR to understand how one may be affecting the other. Raw data are available for entire properties and rooms but have been converted to price per bed space basis to allow easier comparison. For all vacation rentals, the average advertised price is $39 per bed space.

For entire houses, the average cost across Europe was $183 per property or $41 per bed space (with an average 4.5 bed spaces per house), slightly higher than the average rate across all property types ($39). Monaco was an outlier with an average cost of $578 per house or $161 per bed space. Switzerland ($299 & $73), Iceland ($298 & $67) and the UK ($233 & $55) were also well above average. At the other end of the scale were Serbia, Bulgaria, Romania and Lithuania: all at $25 or under per bed space.

For private rooms, the average cost across Europe was $92 per property or $35 per bed space. Monaco was again the outlier at $238 per bed space but also much higher than average was Iceland ($58), the Netherlands ($49) and Switzerland ($48). Bulgaria, Romania, Slovakia, and Serbia all came in at $18 or less per unit.

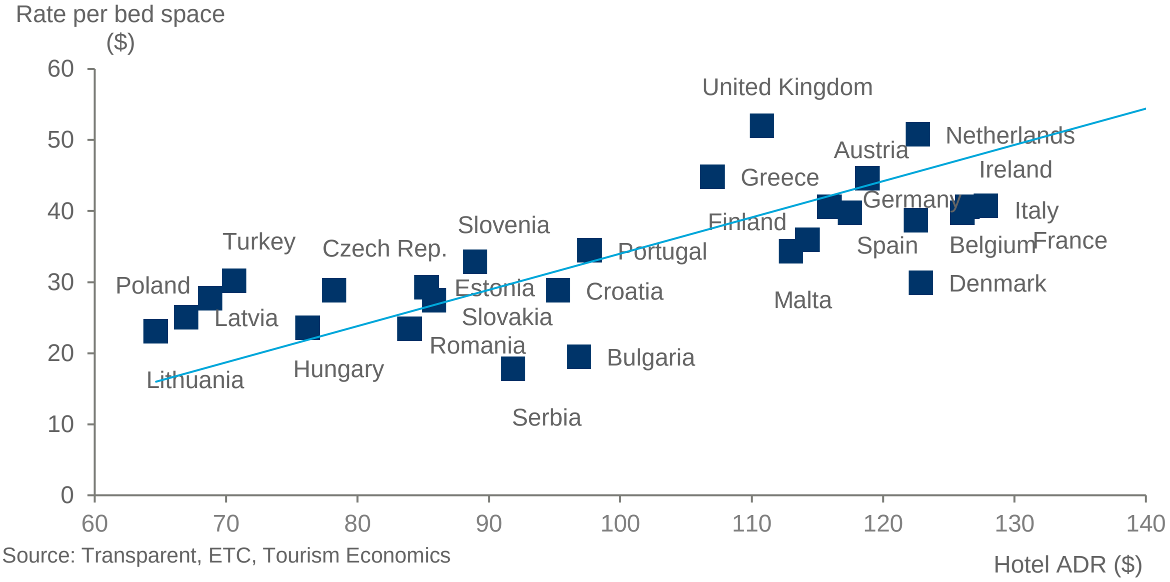
Greater variation between destinations for shared room rates suggests that we may not be dealing with 'like-for-like' as shared rentals could vary from almost self-contained units to dormitory accommodation. Some, but not all, of this difference is reflected in the median sizes of shared rooms in terms of bed spaces. However, these types of rentals account for a small proportion of capacity and do not skew the overall average.

COMPARISON WITH HOTEL ADR RATES

A comparison with hotel rates shows a strong correlation between prices for the different forms of accommodation. Those countries which tend to have higher rates for hotels also tend to have higher rates for vacation rentals as relative destination costs are apparently the most important factor for the different types of accommodation.

Serbia and Bulgaria have lower vacation rental rate rates than would be expected from their hotel rates. However, this might easily reflect the quality mix within vacation rentals. The other outlier is Monaco, whose rate in the vacation rentals sector is more than twice what might have been expected from the hotel ADR rate – and which has been omitted from the graphic along with Luxembourg.

Hotel ADR ($) in Q1 2019 compared to all vacation rental properties' price per bed space



Source: Transparent, ETC, Tourism Economics

There is no apparent evidence in this data set that vacation rentals and hotels compete with each in terms of cost; the presence of rentals within a market do not appear to be an important factor in understanding hotel ADR. For example, further estimation and analysis compared, the share of rental capacity, relative hotel occupancy and hotel ADR. Hotel occupancy remains the most important explanatory factor in determining ADR while a higher rental share does not appear to influence hotel pricing. This is consistent with other existing Tourism Economics modelling of hotel performance.

With the current conditions there is sufficient demand for both hotels and vacation rentals in the majority of markets. And rentals are important for destinations to realise continued demand growth and the reap the economic benefits of further tourism spending. However, the over-tourism debate shows that there are other potential issues related to this capacity which destinations must consider against these tourism benefits.

KEY SOURCE MARKET PERFORMANCE

Trends discussed in this section in some cases relate to period January to March, although actual coverage varies by destination. For the majority of countries, the latest available data point will be earlier than this. Further detailed monthly data for origin and destination, including absolute values, can be obtained from TourMIS (http://tourmis.info).

SUMMARY

- There was a mixed picture across European source markets with 17 out of 23 destinations seeing growth from Germany, 14 out of 23 growth from France and a similar proportion seeing growth from the Dutch source market.
- In general, growth from many non-European source markets stood up better with only two destinations seeing no growth from the US source market and 17 out of 22 destination countries seeing growth from China.

KEY INTRA-EUROPEAN MARKETS

Travel growth from Germany in terms of either arrivals or overnights was reported by 17 out of 23 destinations based on latest available data for 2019. This growth was significant in a number of destinations, despite concerns about a European and global economic slowdown.

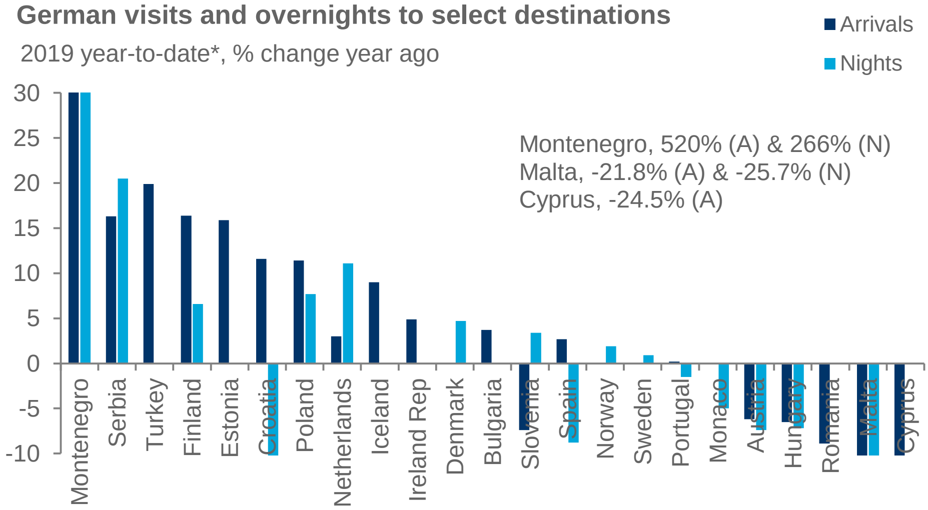
Montenegro was the fastest growing destination market for German arrivals according to latest available year-to-date data, up 520% (and overnights up 266%). This continues to reflect the increase in routes between Germany and the Balkans. Austrian low-cost airline Laudamotion is starting a service linking Stuttgart to Podgorica in April.

Finland, Serbia, Turkey, and Estonia saw the next largest increases in visits from Germany. Overall visits to Estonia fell making Germany a more significant source market in terms of share.

However, a significant bloc of countries saw either visits or overnights (or both) fall. The hardest hit were Malta and Cyprus, which saw declines in arrivals in excess of 20% from Germany based on data to February and March respectively. There were smaller – but still significant – falls in German tourism to Hungary, Romania, Monaco, and Austria. Overnights to Portugal fell 1.5% based on preliminary actual values to January 2019. Spain and Slovenia also saw a fall in one of the metrics.

German visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

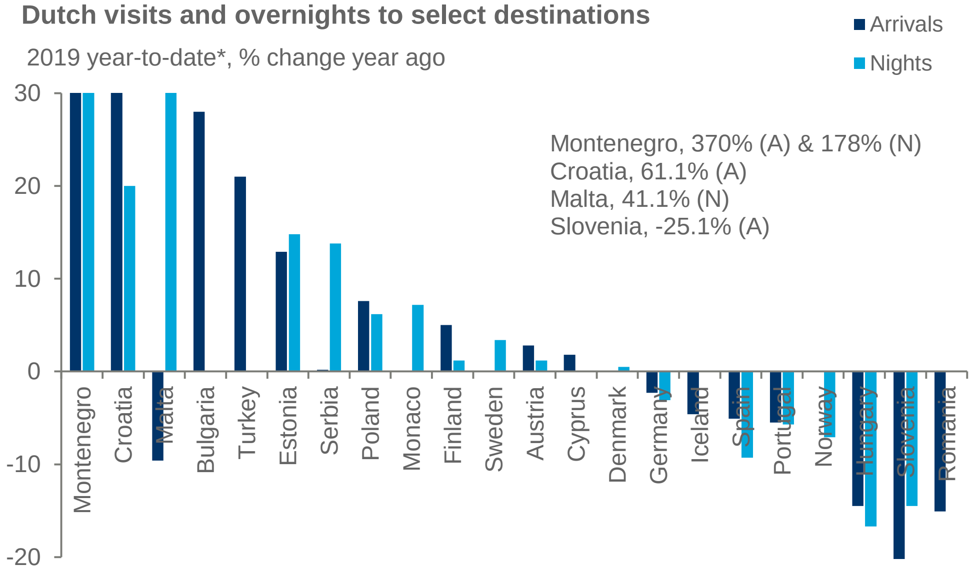
The Netherlands provided a source of either arrivals or overnights growth for 14 out of 22 reporting destinations based on latest available data – a relatively low ratio of growth versus declines compared to other source markets for which data are reported.

As in the case of Germany, the greatest growth was seen in travel to Montenegro. Arrivals from the Netherlands were up 370% and overnights increased by 178%. Croatia reported some significant arrivals and overnights growth from the Netherlands. Bulgaria and Turkey continued to see strong growth. In the latter case, this represents some recouping of market share lost in previous years (earlier in 2018 we suggested that Turkish market share was lost to Spain and Portugal).

Both Spain and Portugal have recorded reductions in both arrivals and overnights in the period to January/February. There were several other countries which saw both overnights and arrivals fall, and/or a decline in the one metric that they reported. Hungary, Slovenia, and Romania saw the biggest falls. There was a reversing of previous strong growth in Dutch travel to Slovenia. Austria, Germany, and some of the Scandinavian countries (Norway, Denmark, and Iceland) also registered declines. An unusual result was recorded by Malta – although arrivals fell 9.6%, overnights increased 61.1%. This will yield a longer average length of stay.

Dutch visits and overnights to select destinations

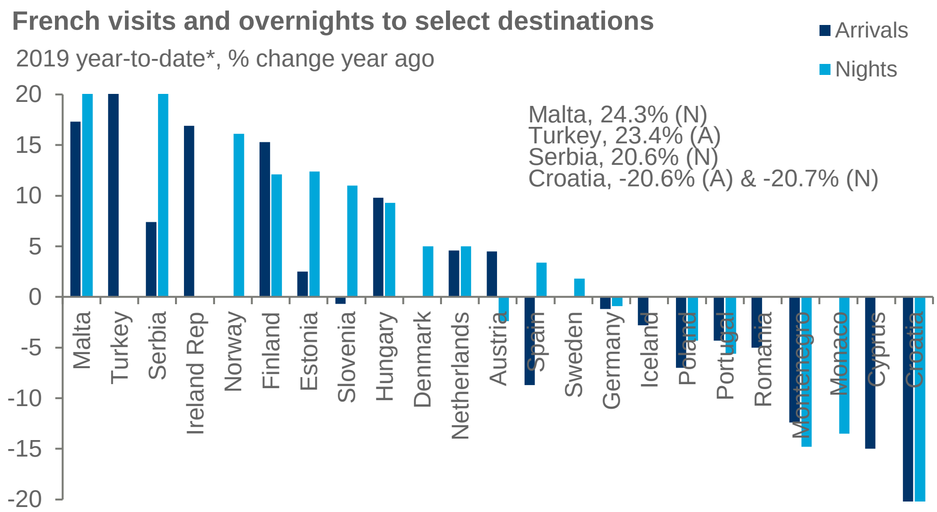
2019 year-to-date*, % change year ago



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

Just over 60% of reporting destinations (14 out of 23) reported positive growth in arrivals and/or overnights from France. Malta and Turkey saw the strongest growth from France. Arrivals from France to Malta increased by 17.3% whilst overnights grew by even more (24.3%) based on data to February. Again, yielding a longer average length of stay for visits from France to Malta compared to a year ago. Turkey only reported data on arrivals, and these were up 23.4%. Serbia also saw a 20.6% increase in overnights.

Nine destinations saw no growth whatever from France. Mediterranean destinations were badly affected, with the biggest falls being in Cyprus, Monaco, Montenegro and Portugal. Spain saw a decline in the number of arrivals but simultaneously enjoyed some modest growth in overnights from France.

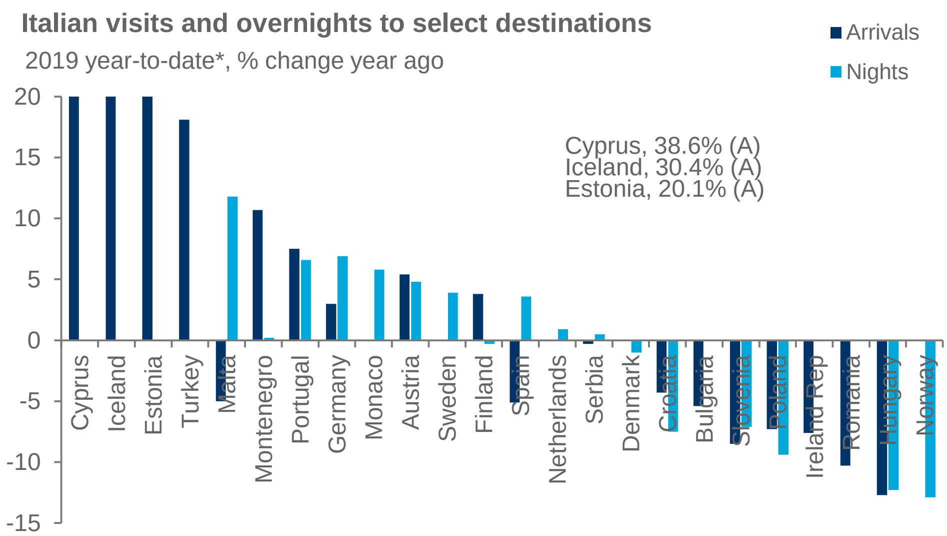


Source: TourMIS *date varies (Jan-Mar) by destination

15 of 24 reporting destinations saw some form of growth from Italy based on the latest available 2019 data. Arrivals from Italy to Cyprus rose by 38.6% based on data to March (in contrast to the declines seen from France). Iceland (30.4%), Estonia (20.1%), and Turkey (18.1%) all saw very strong growth in arrivals.

Turkey continues to recapture some market share of Italian outbound lost between 2015-17 (share was 1.1% in 2015, falling to 0.4% in 2017); Italian arrivals to Spain declined and overnights growth was weak following some growth in its share of the Italian market, from 14% in 2015 to 14.8% in 2017, at the expense of Turkey.

There was a significant bloc of countries for which there was an evident decline in tourism from the Italian source market. These included some Central European countries (Hungary, Romania, Poland, Bulgaria) as well as Norway and Ireland.

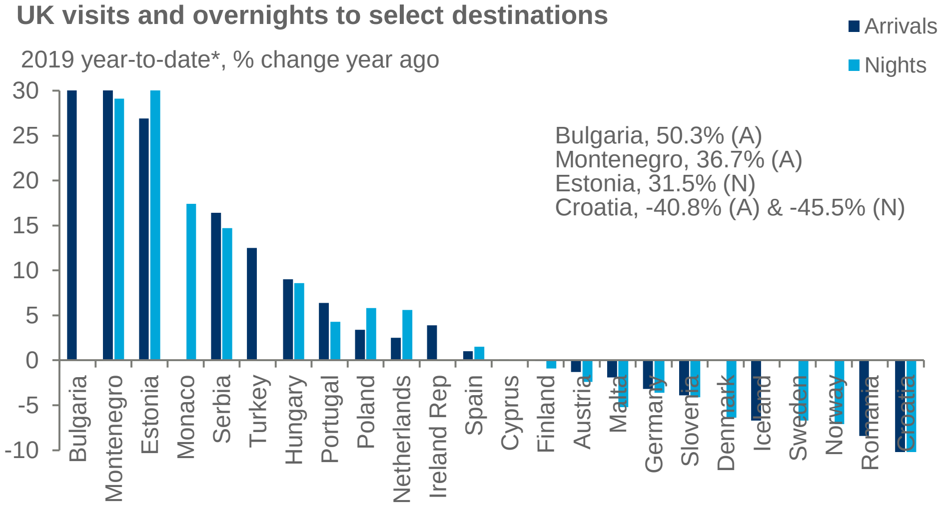


Source: TourMIS *date varies (Jan-Mar) by destination

Arrivals from the UK grew in 13 out of 24 reporting destinations according to latest available data for 2019, with six of these reporting double-digit growth arrivals and/or overnights.

Bulgaria enjoyed the strongest growth in arrivals from the UK, up 50.3%. Bulgaria was followed by Montenegro and Estonia – suggesting that UK tourists are seeking out relatively low-cost destinations. For instance, some coastal resorts in Bulgaria have recently been shown to be the cheapest in Europe.

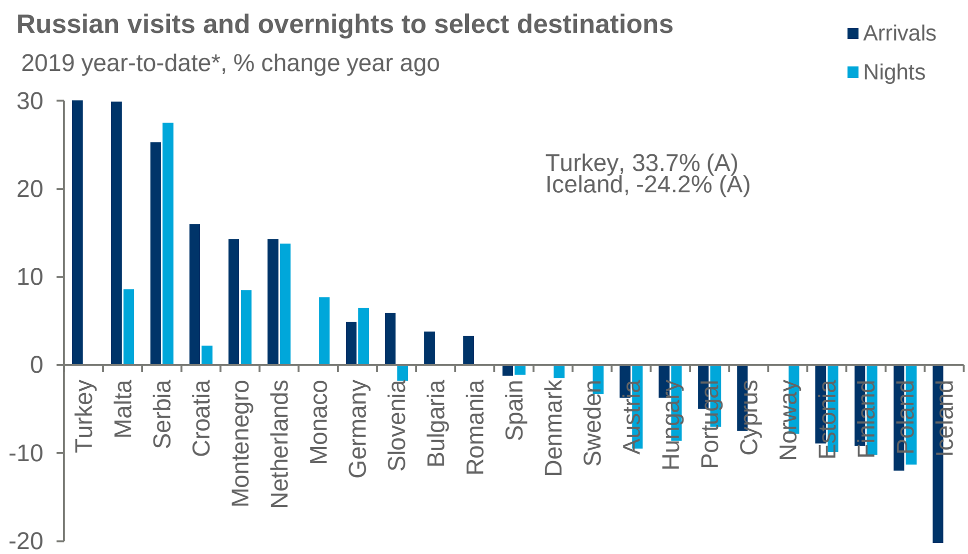
Whilst there was strong growth in UK arrivals in both Turkey and Cyprus, some other Mediterranean destinations are struggling to generate much growth from the UK market, including Portugal, Spain, and Malta. Indeed, the *Thomas Cook Holiday Report 2019* suggests a surge in bookings for Turkey, as well as Tunisia and Egypt. Higher cost destinations such as the Scandinavian countries generally reported declines in UK visitors.



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

Whilst IATA shows that growth in air traffic from Russia has been especially strong in recent months, not all European destinations are benefiting. Turkey has continued to see strong growth from the Russian source market, with arrivals up 33.7%, helped by publicity in influential Russia press (for example, Turkey appeared in a special 16-page publication prepared by one of Russia's most esteemed newspapers, Komsomolskaya Pravda). 2019 has been declared the Turkey-Russia Culture and Tourism Year, and talks are underway to allow Russian citizens to travel to Turkey visa-free and without passports. This should stimulate growth further.

Serbia also saw strong growth in both arrivals (25.3%) and overnights (27.5%). Growth in arrivals from Russia was strong in Malta (29.9%), but this was not matched by overnights growth – this may suggest an increase in cruise-related tourism or more frequent but shorter trips. However, more than half of the destination countries saw no increase in either arrivals or overnights from Russia. Iceland saw the biggest declines in relative terms but declines in Cyprus are more significant in levels terms on account of the fact that visits from Russia account for around 20% of total visits to Cyprus.



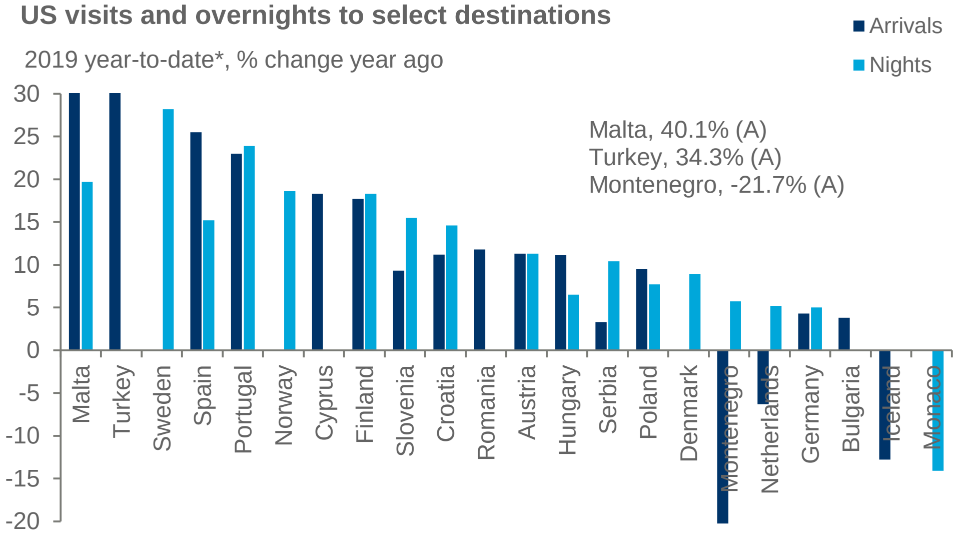
Source: TourMIS *date varies (Jan-Mar) by destination

NON-EUROPEAN MARKETS

The US dollar is considerably stronger against both UK sterling and the euro than it was a year ago. This continues to make much of Europe a more affordable destination for US tourists. Therefore, it is unsurprising that most European destinations saw continued strong growth in travel from the US.

In contrast to what was seen over much of 2018, the strongest gains in arrivals have tended to be in relatively mature Mediterranean destinations, including Malta and Turkey (which were the strongest growth destinations with 40.1% and 34.3% growth in arrivals respectively), and Spain, Portugal, and Cyprus. Sweden, Norway, and Finland only report overnights growth, but this was strong in all cases, as it was in Denmark.

Only two countries showed no growth in US tourism metrics: Monaco and Iceland. However, Montenegro also showed a fall in arrivals. Growth in US tourism to both Bulgaria and Germany, although positive, was relatively weak.

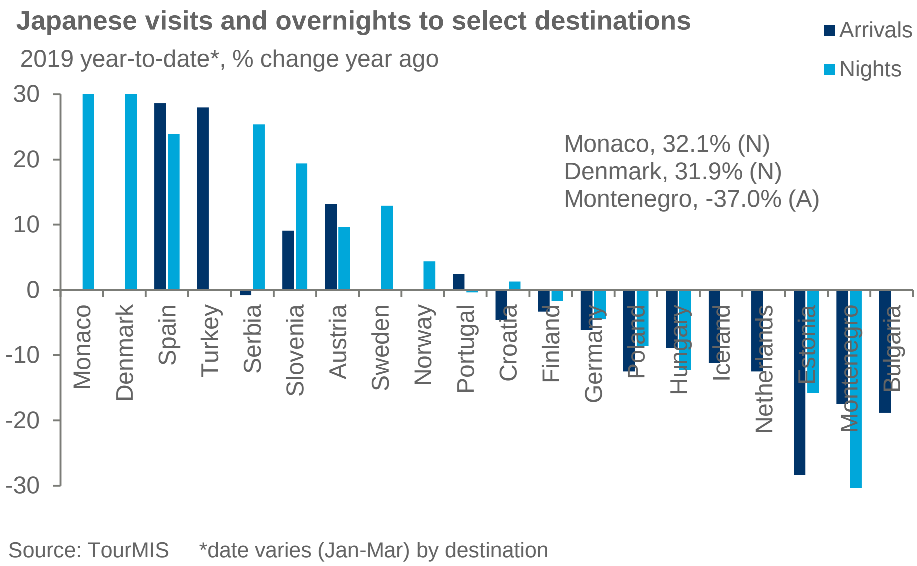


Source: TourMIS *date varies (Jan-Mar) by destination

Demand from Japan continued to show a much more mixed picture than many other source markets (as has been the case now for some time). Of the 20 reporting European destinations, 11 reported some form of growth from Japan.

In terms of overnights from Japan, the strongest growth was in Monaco (32.1%), closely followed by Denmark (31.9%). Spain and Turkey both recorded growth in arrivals of over 28%. Serbia registered a slight decline in arrivals numbers but very strong growth in overnights.

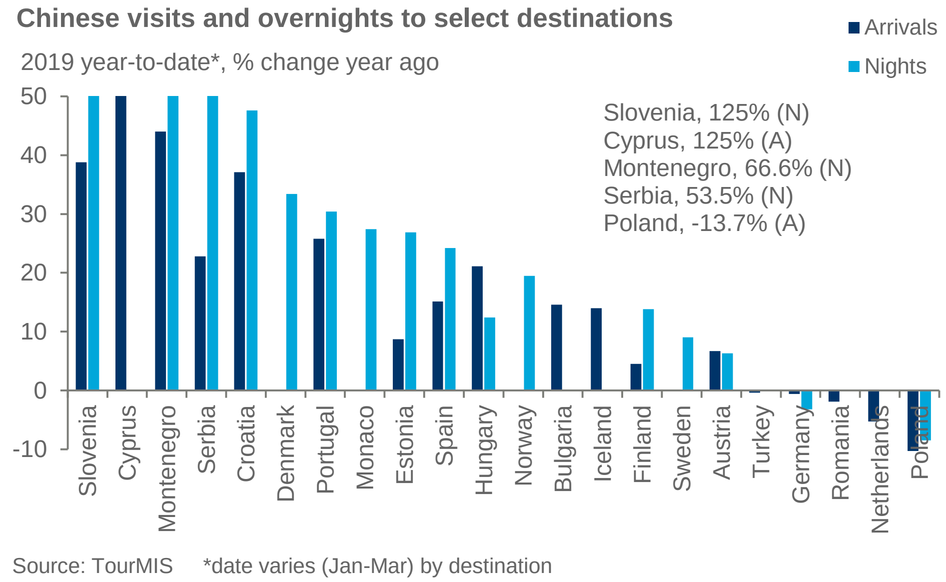
Japan faces an enforced 10-day additional holiday straddling April and May to mark the abdication of Emperor Akihito to make way for his son, Naruhito, and this is likely to increase outbound tourism.



17 out of 22 destination countries showed some sort of growth from China. As at the end of December 2018, Chinese bookings for the EU for the first four months of 2019 were up by 16.9% (compared to a global trend of 9.3%). This figure was actually weighed down by the inclusion of the UK, without which growth would have been 17.7%.

Whilst Cyprus saw the strongest growth in arrivals (125%), growth in overnights was led by Slovenia (125%, though it has changed its methodology) and Montenegro (66.6% growth). Serbia fell back to being behind these three competitor destinations but still managed 53.5% growth in overnights from China

Whilst in 2018 Turkey benefitted from China's identification of the year as 'Turkey Tourism Year', going into 2019 this effect appears to have ceased, with no growth. Only Germany, Romania, and Poland saw declines in Chinese arrivals and/or nights.



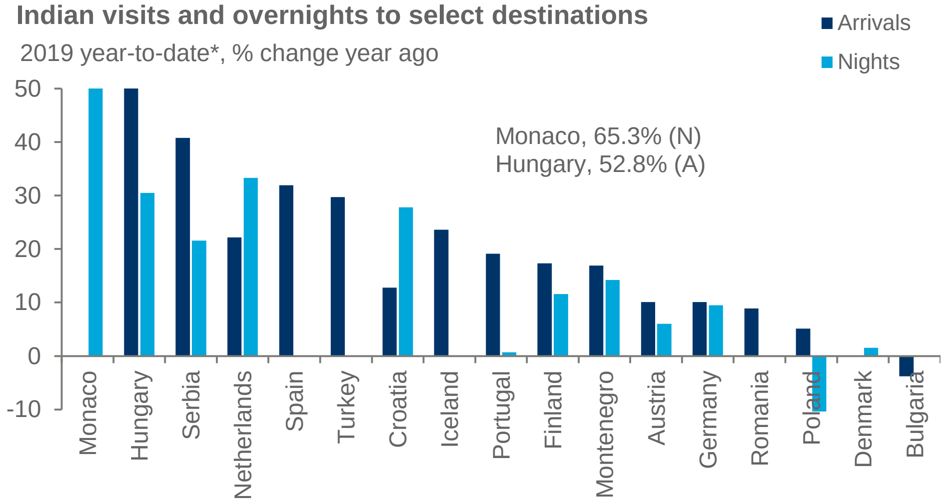
16 out of 17 reporting countries saw some form of growth from India. The biggest increase in Indian arrivals was in Hungary at 52.8% (although this was from a low base). Monaco saw a greater increase in nights (65.3%) compared to Hungary.

Serbia, Spain, Turkey, Iceland, Austria, and Montenegro all saw growth in arrivals of more than 15%. Turkey has been targeting the Indian wedding tourism market in particular. In addition, the Turkish-

Indian Tourism Council & the Turkish Ministry of Culture and Tourism has conducted its six-city 'Destination Turkey' roadshow across India, which may yield dividends in the form of further growth in the months ahead. The only countries to report no growth from India was Bulgaria.

Indian visits and overnights to select destinations

2019 year-to-date*, % change year ago



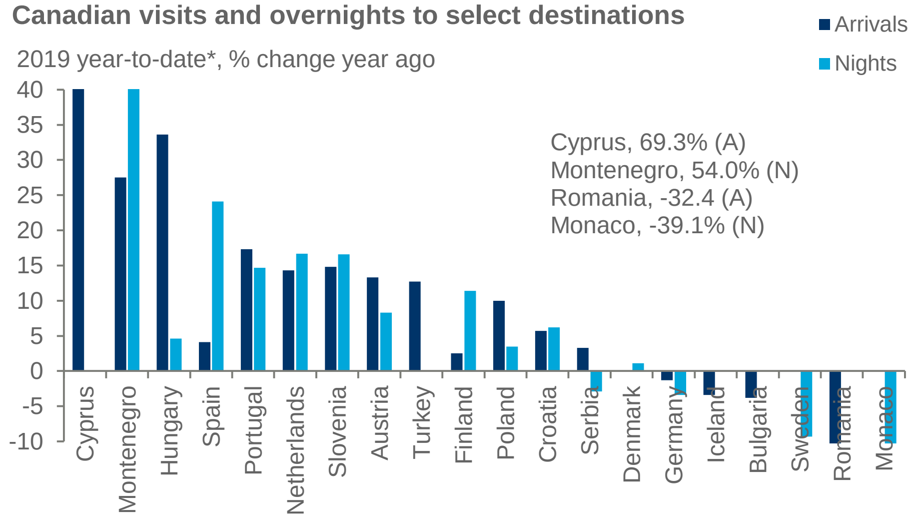
Source: TourMIS *date varies (Jan-Mar) by destination

Growth from Canada was reported in 14 out of 20 reporting destinations based on latest available 2019 data. Cyprus continued to be a top performer with growth of 69.3% in arrivals. Montenegro and Hungary also saw exceptional growth.

However, many destination countries saw more modest growth in Canadian arrivals of between 4% and 15%. Finland saw a decline in arrivals but an increase in nights. The increase in nights was also shared with some other Northern European countries such as Sweden and Denmark.

Canadian visits and overnights to select destinations

2019 year-to-date*, % change year ago



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

ORIGIN MARKET SHARE ANALYSIS

Based on the Tourism Economics' Global Travel Service (GTS) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets. 2017 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 11.9 million departures to Europe while the sum of European arrivals from the US was 23.4 million. 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.*

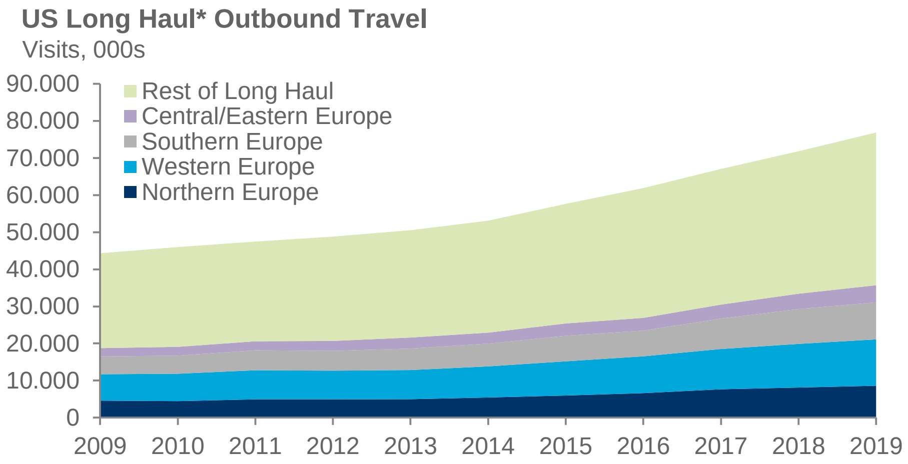
UNITED STATES

US MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	119,494	-	4.2%	22.9%	-	47.7%	-
Long haul	71,813	60.1%	4.6%	25.1%	61.2%	42.1%	62.5%
Short haul	47,680	39.9%	3.6%	19.5%	38.8%	57.0%	37.5%
Travel to Europe	33,407	28.0%	3.9%	21.3%	27.6%	54.7%	26.7%
European Union	27,364	22.9%	4.7%	25.8%	23.4%	47.8%	22.9%
Northern Europe	8,118	6.8%	3.6%	19.2%	6.6%	63.3%	6.1%
Western Europe	11,759	9.8%	2.3%	12.2%	9.0%	49.5%	9.7%
Southern Europe	9,403	7.9%	4.4%	24.1%	7.9%	62.4%	7.2%
Central/Eastern Europe	4,127	3.5%	7.7%	44.6%	4.1%	39.0%	3.7%

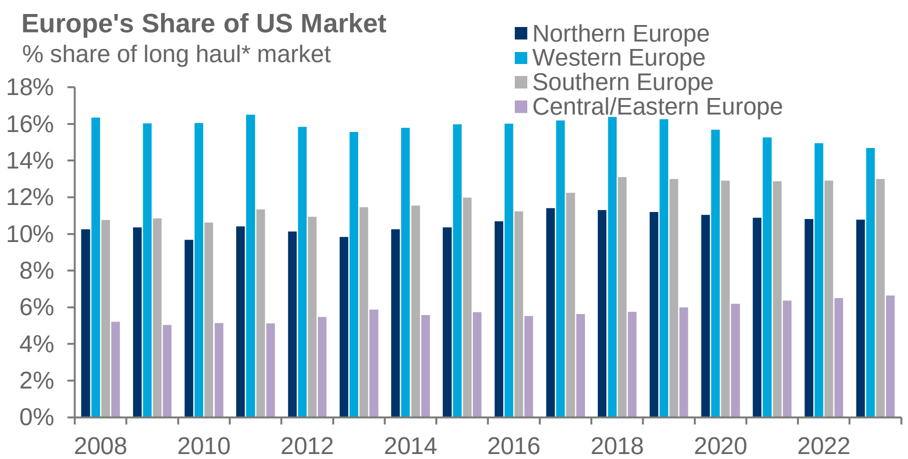
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

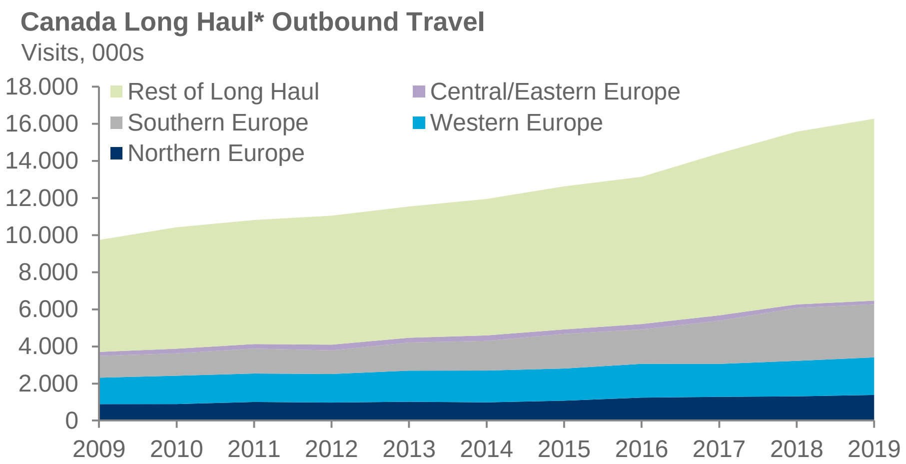
CANADA

CANADA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	38,982	-	3.1%	16.5%	-	6.7%	-
Long haul	15,575	40.0%	3.5%	18.6%	40.7%	34.9%	31.6%
Short haul	23,407	60.0%	2.9%	15.1%	59.3%	-6.3%	68.4%
Travel to Europe	6,263	16.1%	2.2%	11.6%	15.4%	40.2%	12.2%
European Union	5,447	14.0%	4.2%	23.0%	14.8%	42.3%	10.5%
Northern Europe	1,307	3.4%	4.0%	21.7%	3.5%	28.7%	2.8%
Western Europe	1,913	4.9%	3.2%	17.3%	4.9%	14.0%	4.6%
Southern Europe	2,853	7.3%	0.8%	4.2%	6.5%	88.1%	4.2%
Central/Eastern Europe	189	0.5%	-0.8%	-3.8%	0.4%	-26.3%	0.7%

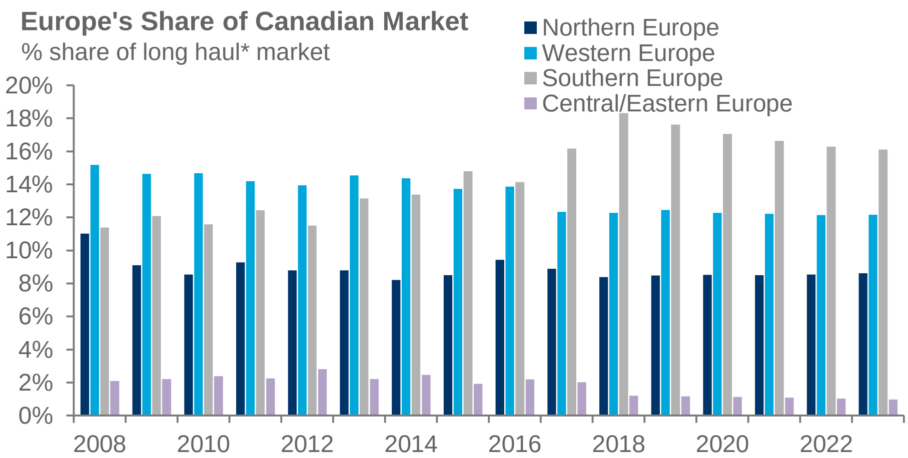
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

MEXICO

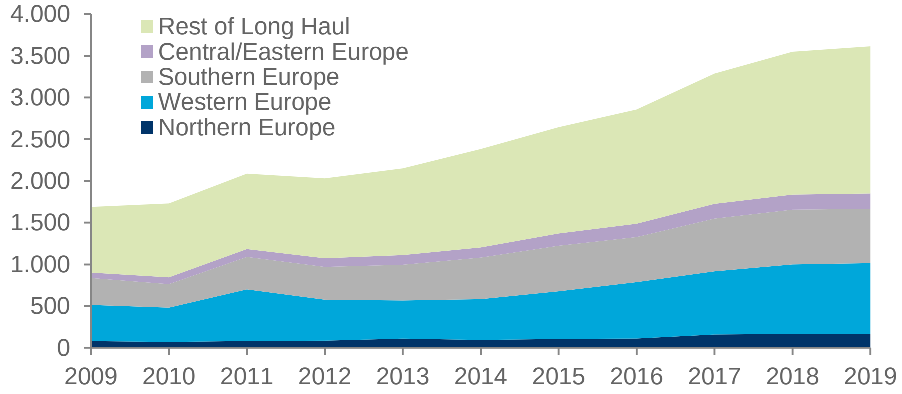
MEXICO MARKET SHARE SUMMARY

	2018	Growth (2018-23)			Growth (2013-18)		
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	22,729	-	3.3%	17.7%	-	34.9%	-
Long haul	3,548	15.6%	2.4%	12.8%	15.0%	65.0%	12.8%
Short haul	19,182	84.4%	3.5%	18.6%	85.0%	30.5%	87.2%
Travel to Europe	1,836	8.1%	1.4%	7.4%	7.4%	65.1%	6.6%
European Union	1,610	7.1%	1.8%	9.4%	6.6%	59.9%	6.0%
Northern Europe	167	0.7%	0.4%	1.8%	0.6%	51.4%	0.7%
Western Europe	832	3.7%	2.2%	11.6%	3.5%	82.2%	2.7%
Southern Europe	656	2.9%	0.5%	2.7%	2.5%	53.1%	2.5%
Central/Eastern Europe	180	0.8%	1.9%	10.0%	0.7%	55.3%	0.7%

*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics

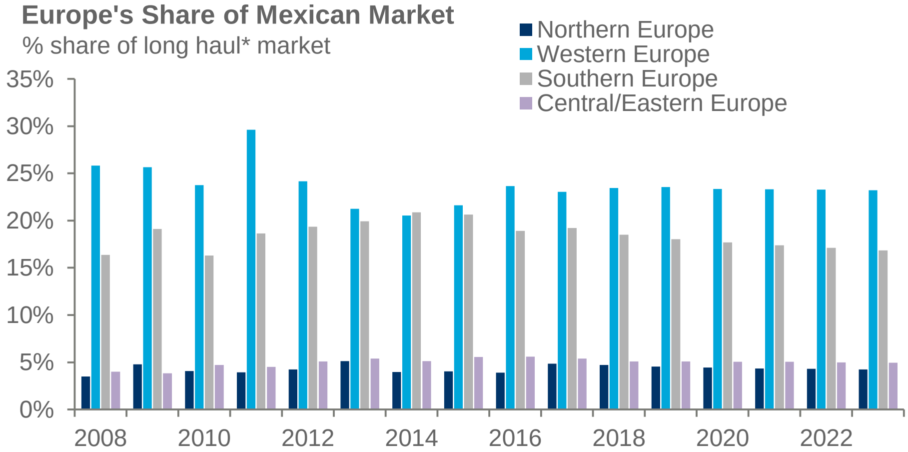
Mexico Long Haul* Outbound Travel
Visits, 000s



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

Source: Tourism Economics

Europe's Share of Mexican Market
% share of long haul* market



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

Source: Tourism Economics

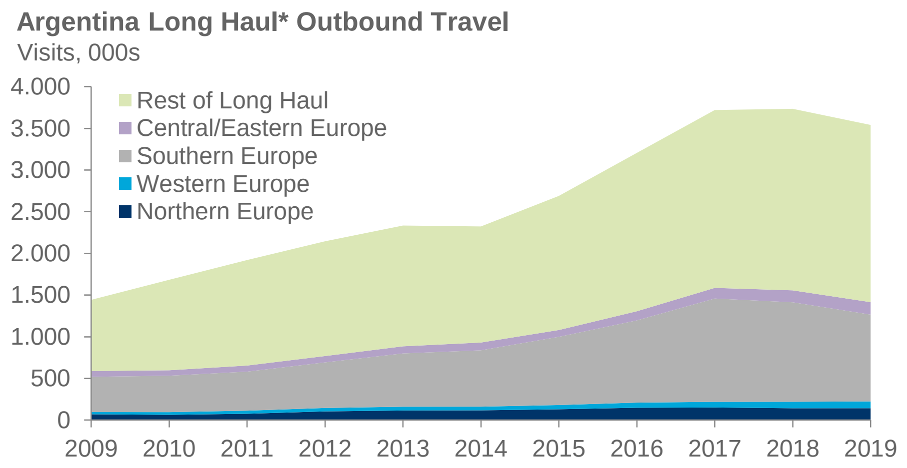
ARGENTINA

ARGENTINA MARKET SHARE SUMMARY

	2018		Growth (2018-23)			Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	13,089	-	0.8%	3.8%	-	69.9%	-
Long haul	3,734	28.5%	-1.9%	-9.2%	24.9%	60.0%	30.3%
Short haul	9,355	71.5%	1.7%	9.0%	75.1%	74.2%	69.7%
Travel to Europe	1,557	11.9%	-5.2%	-23.6%	8.8%	75.8%	11.5%
European Union	1,419	10.8%	-7.0%	-30.5%	7.3%	110.2%	8.8%
Northern Europe	143	1.1%	1.3%	6.4%	1.1%	23.3%	1.5%
Western Europe	78	0.6%	1.8%	9.5%	0.6%	71.6%	0.6%
Southern Europe	1,193	9.1%	-8.0%	-34.2%	5.8%	86.8%	8.3%
Central/Eastern Europe	143	1.1%	3.2%	16.9%	1.2%	67.2%	1.1%

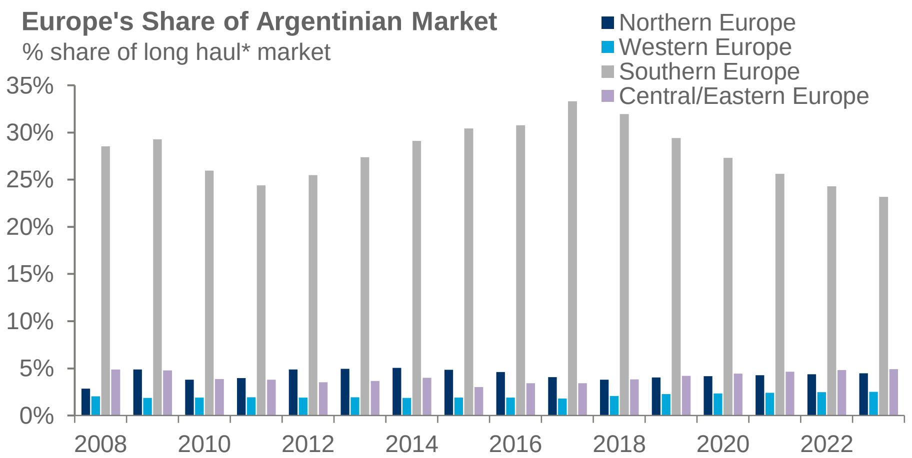
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

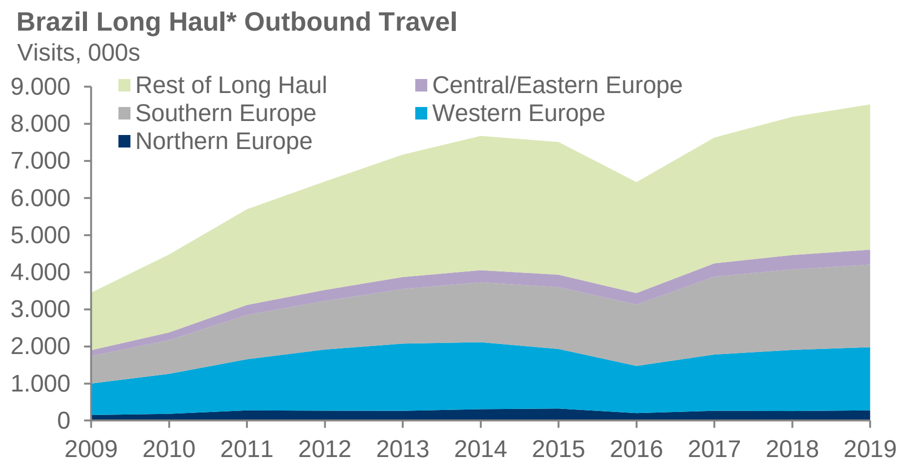
BRAZIL

BRAZIL MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	10,874	-	4.8%	26.6%	-	14.7%	-
Long haul	8,189	75.3%	3.9%	20.8%	71.9%	14.2%	75.6%
Short haul	2,686	24.7%	7.6%	44.0%	28.1%	16.1%	24.4%
Travel to Europe	4,463	41.0%	2.8%	15.0%	37.3%	15.3%	40.8%
European Union	3,896	35.8%	2.9%	15.3%	32.6%	20.9%	34.0%
Northern Europe	258	2.4%	6.9%	39.7%	2.6%	-2.1%	2.8%
Western Europe	1,647	15.1%	2.5%	13.2%	13.6%	-9.1%	19.1%
Southern Europe	2,172	20.0%	2.2%	11.5%	17.6%	47.5%	15.5%
Central/Eastern Europe	386	3.5%	4.8%	26.2%	3.5%	19.9%	3.4%

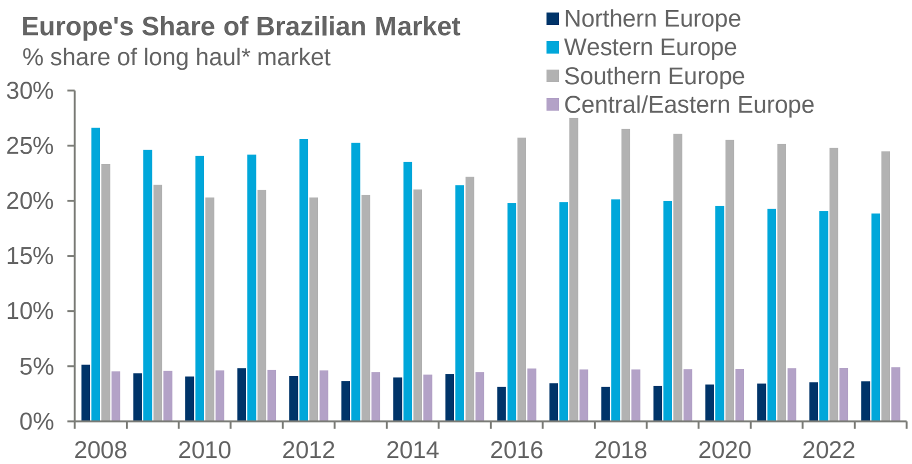
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

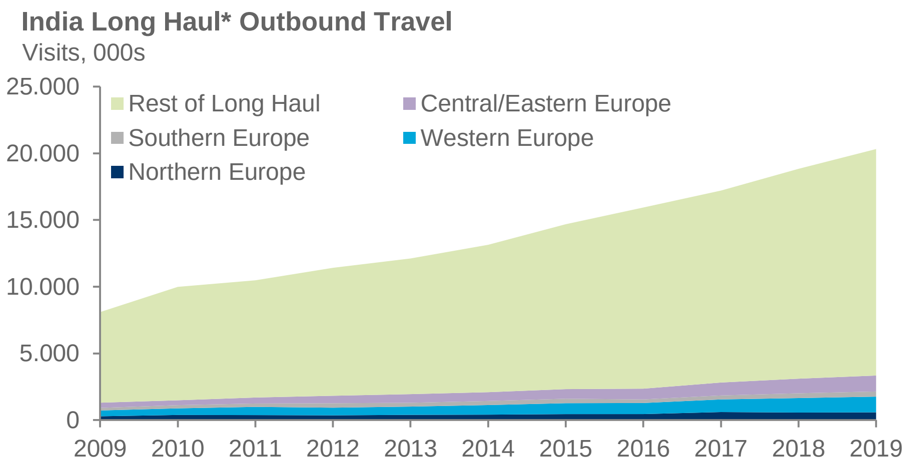
INDIA

INDIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	19,691	-	6.8%	38.9%	-	54.9%	-
Long haul	18,839	95.7%	6.8%	39.2%	95.8%	55.4%	95.3%
Short haul	852	4.3%	5.9%	33.4%	4.2%	43.2%	4.7%
Travel to Europe	3,107	15.8%	5.7%	31.9%	15.0%	59.4%	15.3%
European Union	1,559	7.9%	4.8%	26.7%	7.2%	46.0%	8.4%
Northern Europe	570	2.9%	3.1%	16.3%	2.4%	43.9%	3.1%
Western Europe	1,083	5.5%	6.0%	33.9%	5.3%	75.1%	4.9%
Southern Europe	358	1.8%	7.5%	43.4%	1.9%	25.2%	2.3%
Central/Eastern Europe	1,096	5.6%	6.1%	34.4%	5.4%	69.1%	5.1%

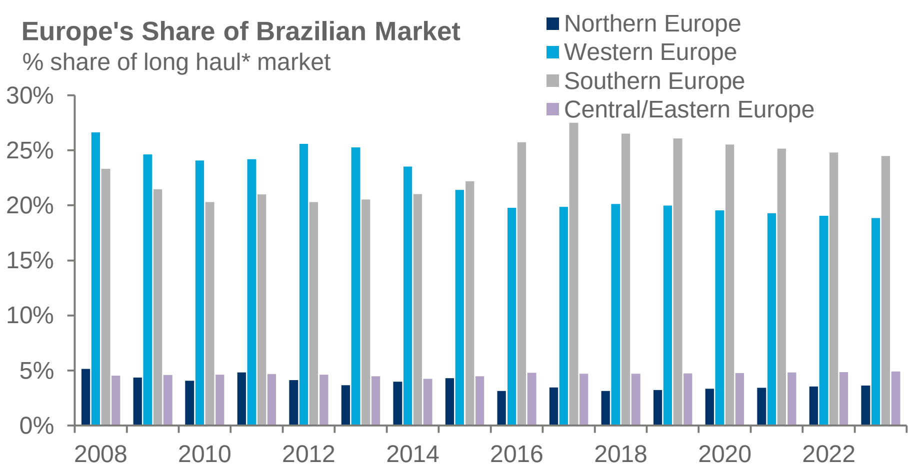
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



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

Source: Tourism Economics



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

Source: Tourism Economics

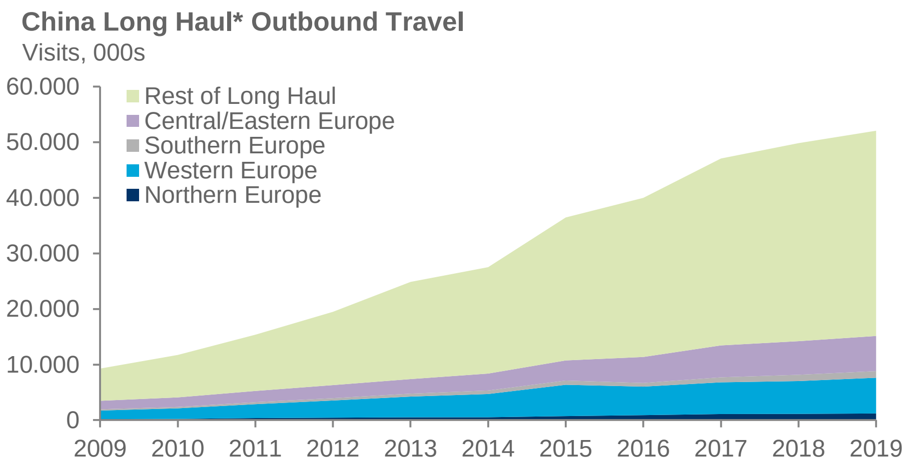
CHINA

CHINA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	98,499	-	4.9%	26.7%	-	64.9%	-
Long haul	49,834	50.6%	5.4%	30.4%	52.0%	100.4%	41.6%
Short haul	48,665	49.4%	4.2%	23.0%	48.0%	39.5%	58.4%
Travel to Europe	14,206	14.4%	6.4%	36.3%	15.5%	92.3%	12.4%
European Union	7,769	7.9%	6.8%	38.9%	8.6%	109.6%	6.2%
Northern Europe	1,127	1.1%	6.8%	39.2%	1.3%	121.9%	0.9%
Western Europe	5,898	6.0%	7.8%	45.5%	6.9%	58.2%	6.2%
Southern Europe	1,134	1.2%	6.2%	35.0%	1.2%	113.8%	0.9%
Central/Eastern Europe	6,047	6.1%	4.9%	27.1%	6.2%	130.7%	4.4%

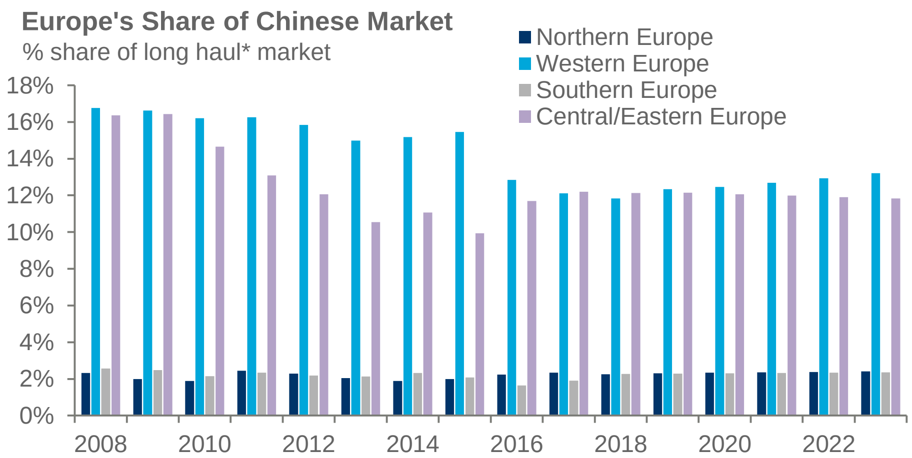
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

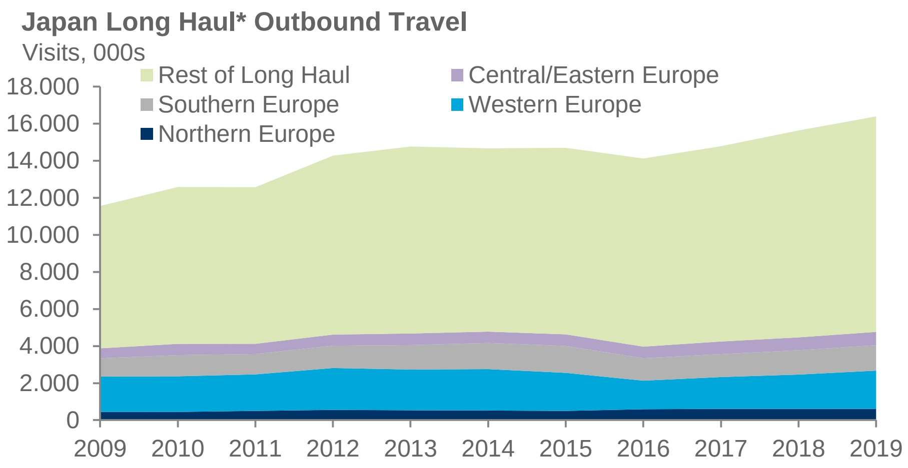
JAPAN

JAPAN MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	24,660	-	2.9%	15.3%	-	8.3%	-
Long haul	15,634	63.4%	3.2%	17.1%	64.4%	5.9%	64.9%
Short haul	9,027	36.6%	2.3%	12.2%	35.6%	12.8%	35.1%
Travel to Europe	4,466	18.1%	3.9%	21.1%	19.0%	-4.5%	20.5%
European Union	3,752	15.2%	4.2%	22.8%	16.2%	-4.6%	17.3%
Northern Europe	607	2.5%	-0.2%	-1.0%	2.1%	14.1%	2.3%
Western Europe	1,852	7.5%	5.7%	31.9%	8.6%	-15.8%	9.7%
Southern Europe	1,310	5.3%	3.9%	21.2%	5.6%	-0.7%	5.8%
Central/Eastern Europe	697	2.8%	2.2%	11.8%	2.7%	11.2%	2.8%

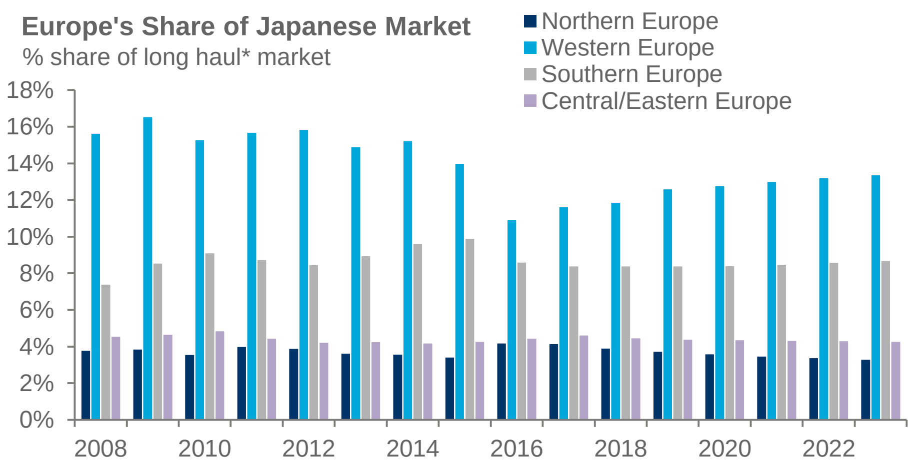
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

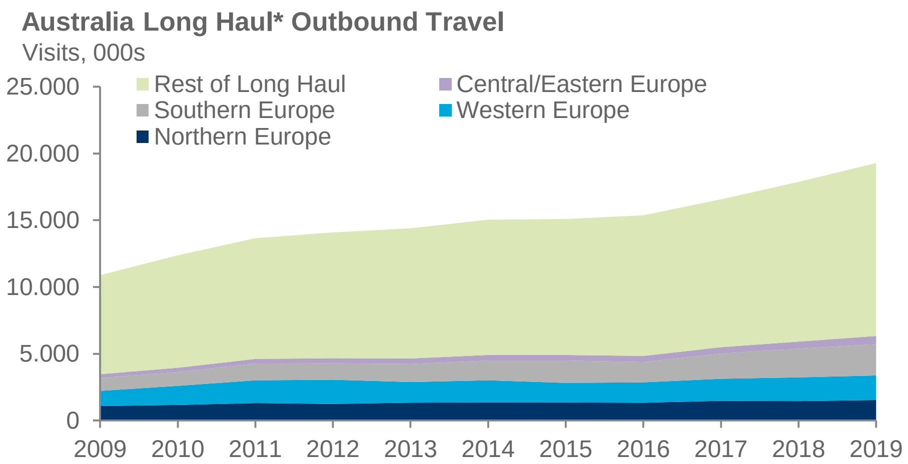
AUSTRALIA

AUSTRALIA MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	18,499	-	6.2%	35.3%	-	23.5%	-
Long haul	17,871	96.6%	6.3%	35.5%	96.7%	24.1%	96.2%
Short haul	628	3.4%	5.5%	30.6%	3.3%	9.6%	3.8%
Travel to Europe	5,915	32.0%	5.3%	29.6%	30.6%	27.2%	31.1%
European Union	5,114	27.6%	5.6%	31.4%	26.9%	17.6%	29.0%
Northern Europe	1,459	7.9%	4.7%	25.8%	7.3%	8.3%	9.0%
Western Europe	1,778	9.6%	2.0%	10.2%	7.8%	15.4%	10.3%
Southern Europe	2,148	11.6%	7.3%	42.2%	12.2%	58.5%	9.1%
Central/Eastern Europe	529	2.9%	9.0%	53.6%	3.2%	29.9%	2.7%

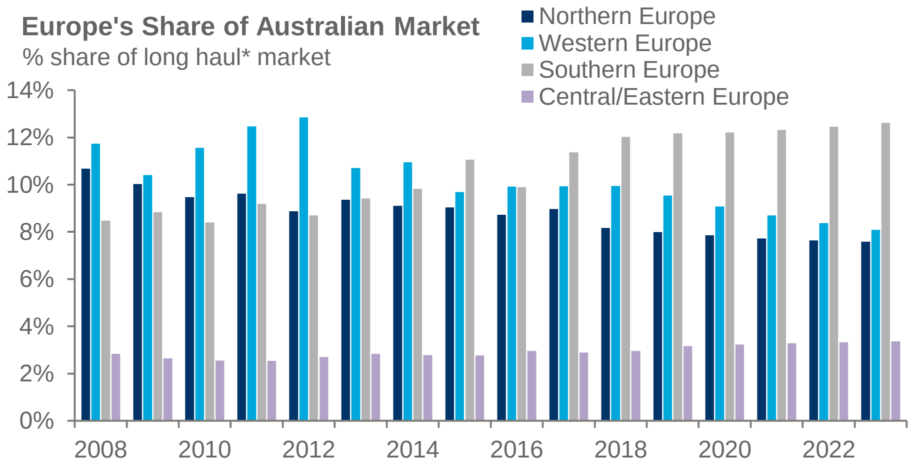
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

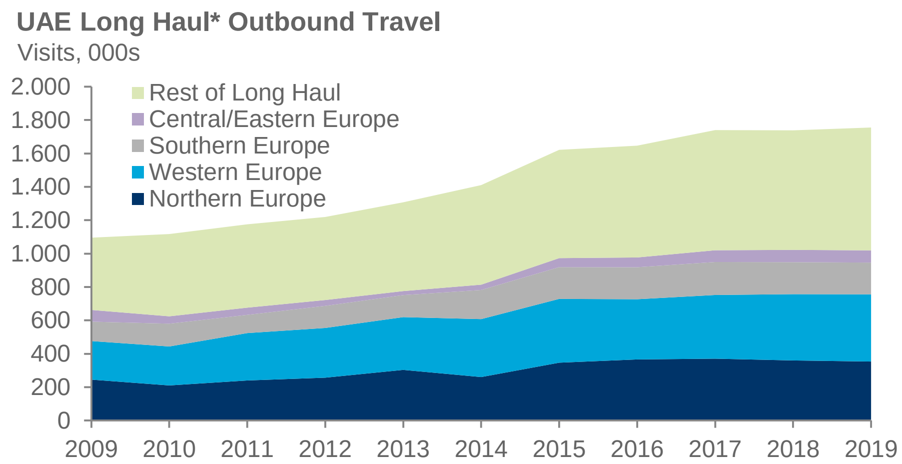
UNITED ARAB EMIRATES

UNITED ARAB EMIRATES MARKET SHARE SUMMARY

	2018	Growth (2018-23)				Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	2,932	-	6.2%	35.1%	-	6.5%	-
Long haul	1,739	59.3%	2.3%	11.8%	49.1%	33.0%	47.5%
Short haul	1,193	40.7%	11.1%	69.1%	50.9%	-17.4%	52.5%
Travel to Europe	1,023	34.9%	1.4%	7.1%	27.6%	31.8%	28.2%
European Union	790	26.9%	0.4%	2.2%	20.4%	35.1%	21.2%
Northern Europe	360	12.3%	1.1%	5.5%	9.6%	18.6%	11.0%
Western Europe	397	13.5%	1.7%	8.9%	10.9%	25.7%	11.5%
Southern Europe	192	6.5%	1.2%	6.4%	5.1%	45.2%	4.8%
Central/Eastern Europe	73	2.5%	1.4%	7.1%	2.0%	205.9%	0.9%

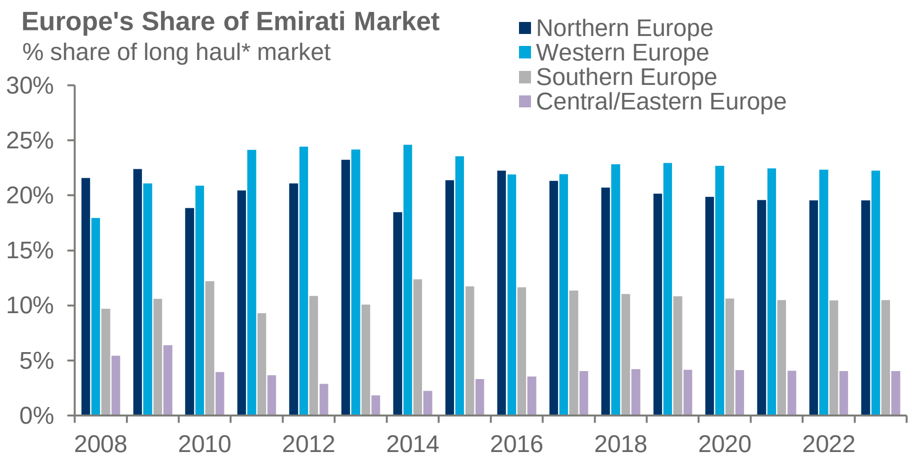
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

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

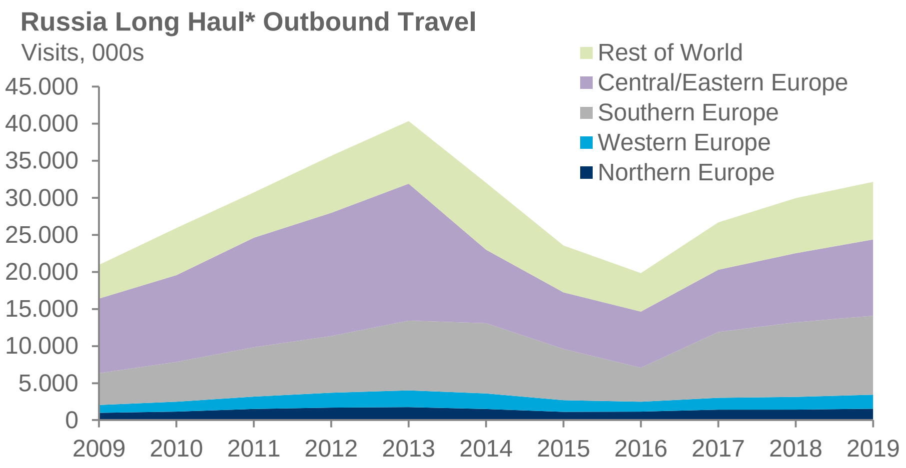
RUSSIA

RUSSIA MARKET SHARE SUMMARY

	2018		Growth (2018-23)			Growth (2013-18)	
	000s	Share**	Annual average	Cumulative growth*	Share 2023**	Cumulative growth*	Share 2013**
Total outbound travel	29,956	-	5.2%	28.6%	-	-25.8%	-
Long haul	7,430	24.8%	3.7%	20.2%	23.2%	-12.0%	20.9%
Short haul	22,525	75.2%	5.6%	31.4%	76.8%	-29.4%	79.1%
Travel to Europe	22,525	75.2%	5.6%	31.4%	76.8%	-29.4%	79.1%
European Union	9,853	32.9%	4.6%	25.5%	32.1%	-13.0%	28.1%
Northern Europe	1,423	4.7%	6.1%	34.8%	5.0%	-19.0%	4.4%
Western Europe	1,714	5.7%	4.3%	23.2%	5.5%	-24.2%	5.6%
Southern Europe	10,072	33.6%	4.2%	23.1%	32.2%	7.0%	23.3%
Central/Eastern Europe	9,317	31.1%	7.2%	41.3%	34.2%	-49.6%	45.8%

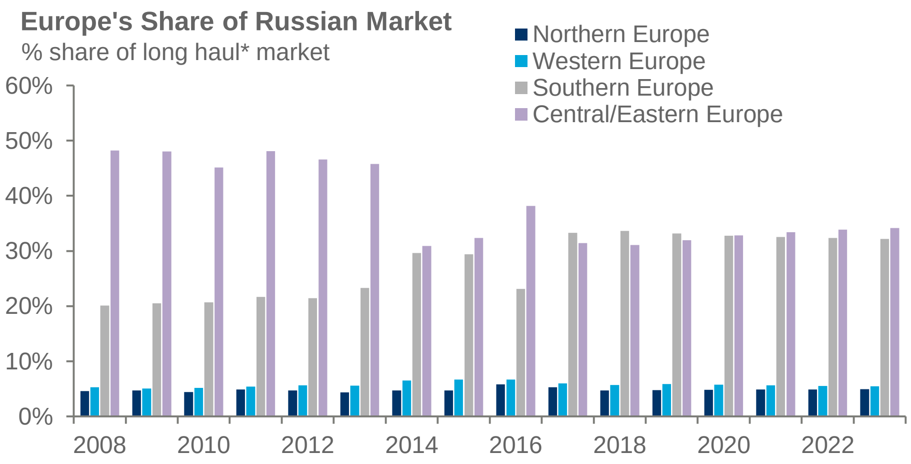
*Shows cumulative change over the relevant time period indicated
**Shares are expressed as % of total outbound travel

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

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.

OVERVIEW

Prospects for early-2019 remain downbeat, but latest data offer some glimmers of hope that growth is beginning to stabilise. Oxford Economics (OE) continue to expect easier financial conditions and other policy support to trigger a modest acceleration in global GDP growth in the latter part of 2019.

On the face of it, OE's latest forecasts suggest a move towards a more upbeat about the outlook for the global economy. It now forecasts world GDP will rise by 2.7% this year and 2.9% in 2020, after last year's 3.2% gain, upward revisions of 0.2pp for both 2018 and 2019 and 0.1pp for next year. But these revisions largely reflect a change in the GDP base year from 2010 to 2015. This has increased the weights of faster-growing economies such as China at the expense of slower-growing economies, in turn boosting world GDP growth.

There are plenty of reasons to remain cautious in the near term. For instance, trade indicators have continued to weaken recently, while the global manufacturing PMI has fallen to only just above the 50 no-change level.

However, there are some signs that both trade and manufacturing data (at least outside the eurozone) may be beginning to stabilise. Just as importantly, the global services PMI has picked up in the early stages of this year. In the past, sustained global slowdowns have tended to see the services PMI follow the manufacturing PMI down. Meanwhile, European retail sales have continued to expand in early-2019.

Beyond the short term, OE remain cautiously optimistic that GDP growth will pick up again. Chinese credit data, which leads hard activity data, has recently improved and, although uncertainties over US-EU trade relations remain, global trade tensions seem to be waning. Last but not least, more dovish central banks – OE no longer expect the Fed to hike rates again in this cycle – and the resultant loosening in financial conditions should support growth in both the advanced and emerging economies.

SUMMARY OF ECONOMIC OUTLOOK, % CHANGE*

	2019					2020				
Country	GDP	Consumer expenditur	Unemploy-ment**	Exchange rate***	Inflation	GDP	Consumer expenditur	Unemploy-ment**	Exchange rate***	Inflation
UK	1.4%	1.6%	0.4%	0.9%	1.8%	1.8%	1.6%	-0.1%	0.3%	1.8%
France	1.4%	1.2%	-0.3%	0.0%	1.2%	1.5%	1.4%	-0.2%	0.0%	1.4%
Germany	1.1%	1.6%	-0.2%	0.0%	1.5%	1.6%	2.0%	0.0%	0.0%	1.5%
Netherlands	1.6%	1.9%	-0.4%	0.0%	2.0%	1.5%	1.6%	0.2%	0.0%	1.8%
Italy	-0.1%	0.3%	0.1%	0.0%	0.9%	0.4%	0.4%	-0.3%	0.0%	0.9%
Russia	1.7%	2.0%	0.1%	-1.1%	4.7%	1.6%	1.8%	-0.1%	-1.7%	3.9%
US	2.3%	2.2%	-0.2%	3.4%	1.6%	1.8%	2.0%	-0.2%	-3.9%	1.9%
Canada	1.1%	1.3%	0.0%	1.2%	1.9%	1.2%	1.6%	0.1%	-1.8%	2.1%
Brazil	1.7%	2.1%	-0.8%	1.1%	3.6%	2.7%	2.8%	-1.5%	-3.5%	4.1%
China	6.2%	6.8%	0.0%	2.3%	2.0%	5.9%	6.5%	0.0%	-1.7%	2.3%
Japan	0.5%	0.9%	-0.1%	2.9%	0.9%	0.4%	-0.2%	-0.1%	-3.0%	1.2%
India	7.1%	7.3%	0.0%	1.3%	4.1%	7.0%	7.2%	0.1%	-3.9%	5.4%

Source: Tourism Economics

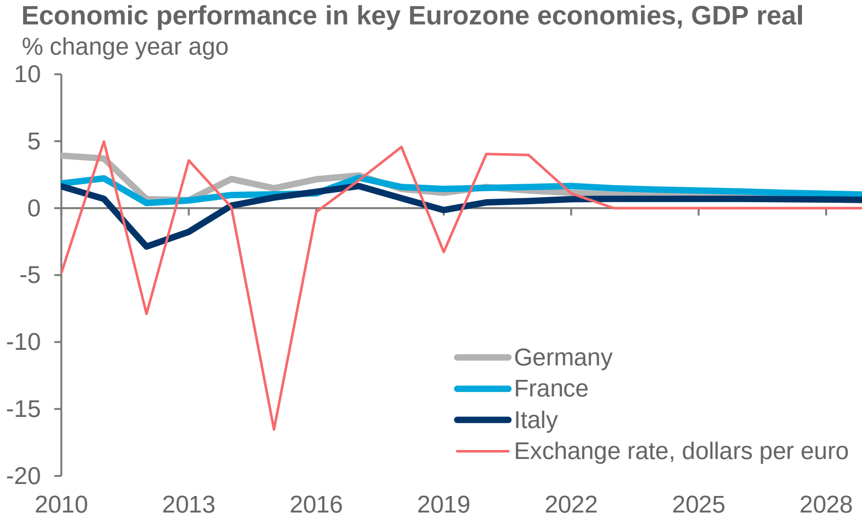
* Unless otherwise specified

** Percentage point change

*** Exchange rates

EUROZONE

The divergence between resilient services and struggling manufacturing continues to be the defining feature of the eurozone economy. But improving survey data and latest industrial figures from Germany offer hope that the eurozone economy may have finally found a floor. OE still expect economic activity to strengthen in quarterly terms this year, but risks to the outlook persist given mounting signs of a slowdown in global trade. OE's eurozone GDP growth forecasts remain unchanged at 1.3% for 2019 and 1.5% for 2020.



Source: Oxford Economics

Survey data in the eurozone is starting to recover. Most notably, the strong rise in the services PMIs in March bodes well for the resilience of the domestic economy. OE still see quarterly growth recovering to a pace around 0.4% per quarter this year as some of the transitory factors that exacerbated the slowdown in H2 2018 continue to fade.

But the adverse global environment and the persistence of potential external shocks continue to be reflected in a horrid performance in the manufacturing sector. The gap between the manufacturing and services PMIs is now at its widest since the financial crisis, highlighting the dual nature of current economic conditions in the eurozone.

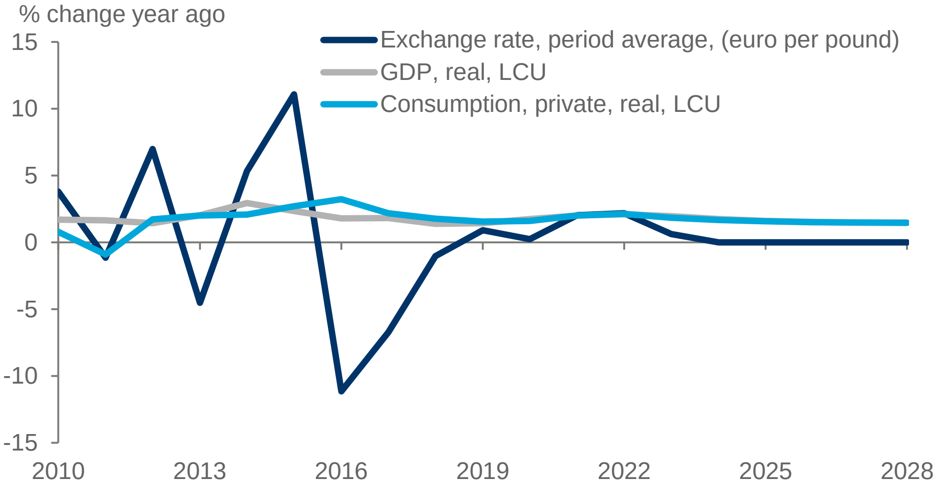
Inflation edged down to 1.4% in March. Inflationary pressures remain very muted, with core inflation stuck at around 1%. Although OE still expect core inflation to rise gradually in H2 this year as wage growth strengthens, low energy prices will keep headline inflation subdued in 2019, still seen averaging just 1.3%.

OE expect the ECB to announce more details about its upcoming TLTRO programme in June. In addition, minutes from the March policy meeting suggest the ECB may extend its forward guidance, which currently indicates no rate hikes this year.

UNITED KINGDOM

It looks likely that there will be a lengthy delay to the UK's departure from the EU, probably until at least the end of 2019, in an attempt to ensure that Brexit is 'orderly'. This will delay the anticipated recovery in the value of sterling and prolong the drag from uncertainty on business investment. While OE still expect GDP growth of 1.4% this year, its forecast for 2020 has been revised down to 1.8% from 2.0% last month.

United Kingdom economic outlook



Source: Oxford Economics

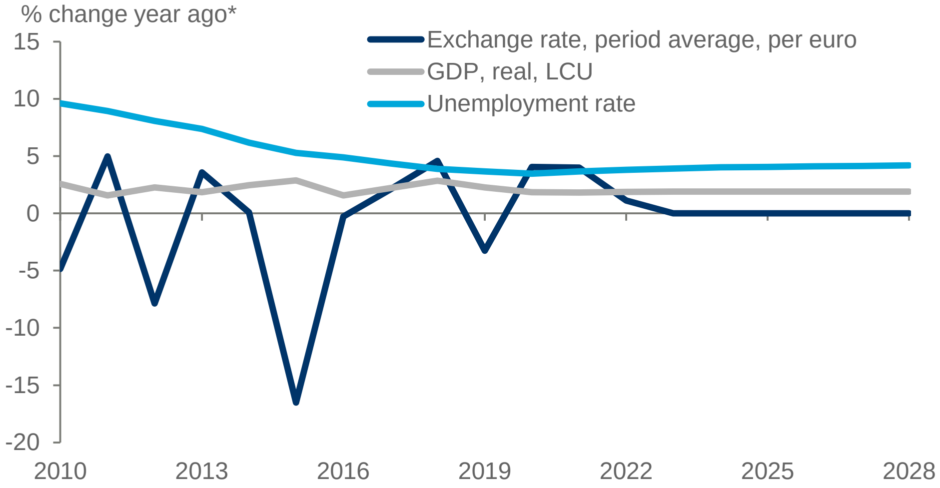
The economy has endured a soft patch around the turn of the year, which is likely to reflect the global slowdown and Brexit-related uncertainty. GDP growth slowed to just 0.2% in Q4 2018, while OE's short-term model points to growth of 0.3% in Q1. The business survey data has suggested a more pronounced slowdown, with the March composite PMI consistent with a stagnating economy. But OE thinks that the surveys probably overstate the weakness given their tendency to undershoot in periods of high uncertainty and that data for the retail sector – which is not covered by the CIPS surveys – has been firmer.

Having failed to gain parliamentary approval for the Brexit Withdrawal Agreement, the government secured an extension to the Article 50 period from the EU which moved the date of the UK's departure from the EU from 29 March to 12 April. The UK has since requested a further extension, which the EU will consider at an emergency meeting on 10 April. OE think it likely that the EU will agree to an extension of up to a year, with the option of shortening the period if ratification is possible sooner. OE's baseline forecast assumes that the extra time yields changes to the (non-legally binding) political declaration around which a parliamentary majority can be formed, allowing the UK to leave the EU by the end of 2019. But with the two main parties still deeply divided on Brexit, a general election is an increasing risk.

UNITED STATES

The combination of global headwinds, weak domestic activity in Q1 and an extreme dovish pivot by the Fed have brought back recession fears. However, while the yield curve temporarily inverted for the first time since 2008, OE believe this recession bias is misguided. Economic momentum is slowing due to reduced fiscal stimulus, tighter monetary policy, subdued global activity and lingering trade tensions, but the US economy should still post a respectable 2.3% advance in 2019. Elevated private sector confidence, a solid labor market and looser-than-expected Fed policy should prevent a hard landing this year.

United States economic outlook



Source: Oxford Economics *Unemployment rate is absolute

The economy added 196,000 jobs in March, while the three-month nonfarm payroll moving average was quite solid at 180,000. The unemployment rate held steady at 3.8% while wage growth remained firmly anchored above 3.0% y/y.

The US and China are said to be nearing a trade agreement which would feature promises by China to import more goods from the US, allow greater access to its markets and enforce intellectual property rights. A trade agreement would provide a welcome boost to private sector confidence and trade flows globally, but logistical, ideological and strategic hurdles mean that the risk of a short-lived trade truce is real.

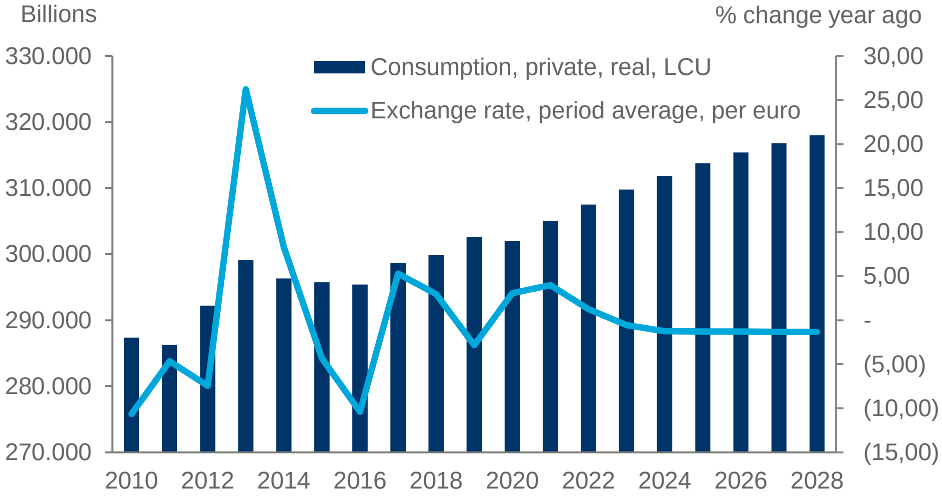
Low inflation has been a key characteristic of the post-recession decade. OE believes inflation will continue to undershoot the Fed's 2% target, reflecting weakening growth dynamics, a more subdued wage-unemployment trade-off, globalization, corporate concentration, and increasingly low and anchored inflation expectations.

OE believe the Fed has reached its terminal policy rate, at 2.25-2.50%, for this business cycle, with the fed funds close to our estimate of the 2.75% neutral rate. The Fed will taper its balance sheet normalization process from May through September, ending with a balance sheet of $3.5 trillion and bank reserves worth $1.3 trillion.

JAPAN

The Japanese economy will expand only modestly in 2019, with growth constrained by weak exports and a cyclical deceleration in capital spending. Industrial activity remained weak in Q1 amid a clouded external outlook and OE now expect GDP to register a slight decline on the quarter. Overall, it expects real GDP to grow 0.5% in 2019 (previously 0.7%) before slowing to 0.4% in 2020 due to the impact of the consumption tax hike in Q4 2019.

Private consumption in Japan



Source: Oxford Economics

Industrial production remained weak in February (about 1% lower than a year earlier), particularly in sectors related to machinery and IT and, judging by a still-weak manufacturing PMI, is unlikely to recover much ground in March. Machinery orders, a leading indicator of capital spending, also remained soft in January. However, investment plans among large manufacturers remained surprisingly robust according to the latest Tankan survey, albeit the latter also show marked declines in sentiment.

Risks are on the downside. Concerns over slowing global growth momentum, heightened by weak demand from China and a marked deceleration in the IT sector may further affect business sentiment. OE also expect the consumption tax hike in Q4 2019 to dampen growth, although its impact, compared with past hikes, should prove relatively mild given the smaller size of the tax increase and the offsetting measures planned by the government. Protectionism also remains a key risk.

Amid decelerating growth momentum and stagnant core price momentum, OE forecast inflation to stay well below the Bank of Japan's 2% target. Despite this, it does not expect any change in monetary policy given the consumption tax hike in Q4 and limited room for further easing. Meanwhile, 10-year government bond (JGB) yields hover below 0% and equity prices are struggling to establish positive momentum. In addition, market developments suggest less appreciation pressure on the yen in the near term; OE see it averaging around 111 yen to the US dollar in 2019.

EMERGING MARKETS

Despite the weak start to 2019, disappointing Eurozone data and global growth concerns, OE remain sanguine about prospects for Emerging Markets (EM). Specifically, evidence of Chinese growth stabilisation is welcome and bodes well for the outlook. Overall, OE is forecasting GDP growth of 4.3% this year (using 2015 as the base year, as opposed to 3.9% in previous months using 2010). OE expect looser Chinese policy and dovish global central banks to support the recovery.

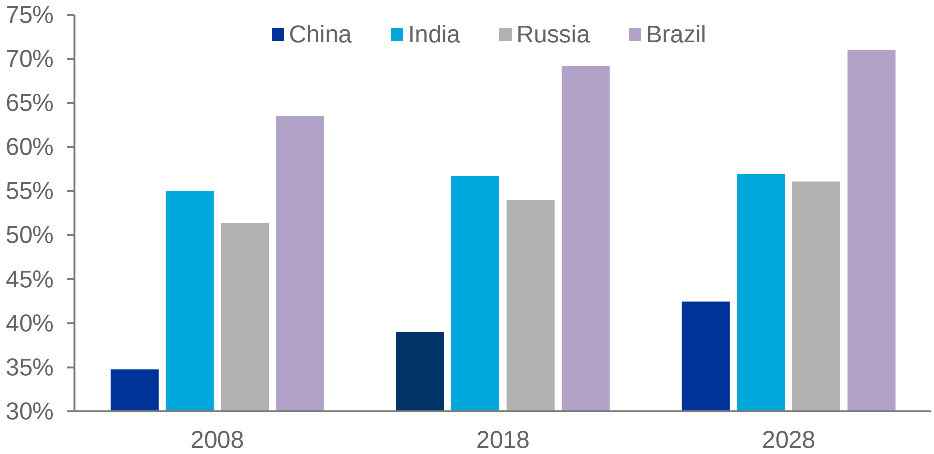
The slowdown in Chinese demand is still weighing on the rest of Asia's exports but the outlook should improve as China's economy finds a floor in Q2, particularly with the threat of a trade standoff with the US having receded. By contrast, the recovery in Latin America is on shakier ground, after a hefty downgrade to Brazil's outlook, while momentum in Mexico has also proved weak. Argentina's recession is on the road to recovery, but Turkey's may hit setbacks once pre-election stimulus is dialled back.

Inflation remains low and contained across most EM, which is giving more central banks scope to ease policy this year (for example, India, the Philippines, Mexico, and below-target inflation suggests the possibility of a rate cut in Brazil as well). But not all countries have the luxury of being able to support growth; Turkey's credibility concerns imply no shift on rates until at least June, and in Argentina inflation has picked up again, compelling the central bank to employ an even tighter policy stance.

Following votes in Turkey and Ukraine, the next month or so is heavy with more elections (India, Indonesia and South Africa), sustaining the fog of uncertainty over reform and economic outlook more broadly in a number of key EM.

Propensity to consume in key Emerging Markets

% share, private consumption / GDP



Source: Oxford Economics

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.

APPENDIX 2

ETC MEMBER ORGANISATIONS

Austria – Austrian National Tourist Office (ANTO)

Belgium: Flanders – Visit Flanders, Wallonia – Wallonie-Belgique Tourisme

Bulgaria – The Ministry of Tourism of the Republic of Bulgaria

Croatia – Croatian National Tourist Board (CNTB)

Cyprus – Cyprus Tourism Organisation (CTO)

Czech Republic – Czech Tourism

Denmark – VisitDenmark

Estonia – Estonian Tourist Board - Enterprise Estonia

Finland – Visit Finland - Finpro ry

Germany – German National Tourist Board (GNTB)

Greece – Greek National Tourism Organisation (GNTO)

Hungary – Hungarian Tourism Agency

Iceland – Icelandic Tourist Board

Ireland – Fáilte Ireland and Tourism Ireland Ltd.

Italy – Italian Government Tourist Board – Agenzia Nazionale del Turismo (ENIT)

Latvia – Investment and Development Agency of Latvia (LIAA)

Lithuania – Ministry of Economy of the Republic of Lithuania, Lithuanian State Department of Tourism

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

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

Switzerland – Switzerland Tourism