



World Travel Trends Report 2006-07

The message from
The Pisa Forum 2006



November 2006

WORLD TRAVEL TRENDS REPORT 2006-07

Copyright © 2006 Messe Berlin GmbH

All rights reserved. The contents of this report may be quoted, provided the source is given accurately and clearly. Distribution or reproduction in full or in part is permitted for own or internal use only.

The presentation of material in this publication and the designations employed do not imply the expression of any opinions whatsoever on the part of Messe Berlin or any of its components or agents.

Prepared on behalf of ITB Berlin by:

IPK International
The World Travel Monitor Company
Gottfried-Keller Strasse 20
D-81245 Munich
Germany

Contact: Barbara Postel, Senior Consultant
Tel.: +49 89 8292 370
Fax: +49 89 8292 3726
Website: www.ipkinternational.com
Email: info@ipkinternational.com

Published and printed by:

Messe Berlin GmbH
Messedamm 22
D-14055 Berlin
Germany

Contact: Astrid Ehring, Press Officer
Tel.: +49 30 3038-2275
Fax: +49 30 3038-2141
Website: www.messe-berlin.de
Email: ehring@messe-berlin.de

World Travel Trends Report 2006-07

Contents

Foreword	1
World tourism in 2006	3
The overall picture	3
Air transport	5
Short- to medium-term prospects	7
Travel and tourism demand	9
Europe	9
Overview of main trends	9
Leading markets	10
Destination trends	11
Online travel	13
Low-cost/low-fare air travel	14
The case of Germany	14
Consumer climate in Europe	18
North America	21
Canada	21
USA	21
Emerging Asian Markets	23
Overview of current trends	23
Leading source markets	24
Kazakhstan: a new star is born	25
Pisa 2006: Key Issues and Trends	25
Summary of demand-side trends	25
Supply-side trends and issues	27
Areas for industry action	28

Foreword

The annual Pisa Forum ... This *World Travel Trends Report 2006-07* is based on the proceedings of the 14th Annual World Travel Monitor Forum – now more commonly known as the Pisa Forum – which was held from 1-4 November in San Giuliano Terme, near Pisa, Italy.

As usual, this year's Forum was organised by IPK International in co-operation with the World Tourism Organization, the European Travel Commission, the Pacific Asia Travel Association, the Travel Industry Association of America and the Office of Travel & Tourism Industries at the US Department of Commerce.

In addition, the 50 or so participants at the three-day meeting – all authorities on world tourism – comprised chief executives and heads of marketing and/or research of national tourism organisations (NTOs), research institutes, and private companies from travel and tourism and related sectors. These included Tourism Economics, a subsidiary of Oxford Economic Forecasting; Ascend, part of Airclaims Information and Consultancy; Ciset, the International Centre of Studies on the Tourism Economy at the University of Venice; GfK Marketing and Panel Services from Benelux and Germany; the University of Sciences North-West Switzerland; and Kuoni Travel.

... the 'think tank' of global tourism Participants came from more than 30 countries, representing all regions of Europe, North America, the Far East and Southeast Asia, Central Asia and Africa – as always, a multi-national, multi-disciplinary group of experts, who have given the Pisa Forum a growing reputation as the annual 'think tank' of the global tourism industry.

The primary objective of this year's meeting was to analyse the state of the industry in 2006 – identifying important demand trends in key and emerging source markets – and to assess prospects for 2007. But the value of the Pisa Forum to the travel and tourism industry is that it goes much further than mere analysis, converting 'information' into 'knowledge' through discussion and debate, and proposing a basic action plan for NTOs and the industry to address the challenges facing the industry. This summary report, commissioned from IPK International by ITB Berlin, highlights some of the main conclusions of three days of intensive discussion and debate.

ITB Berlin is delighted to be closely associated with the Pisa Forum again this year and, in co-operation with IPK International, we will be looking more closely at these different issues over the next few months, in the run-up to ITB in March 2007.

Meanwhile, we wish you all enjoyable reading!

Dr Martin Buck
Director
ITB Berlin

Rolf Freitag
President
IPK International

World tourism in 2006

The overall picture

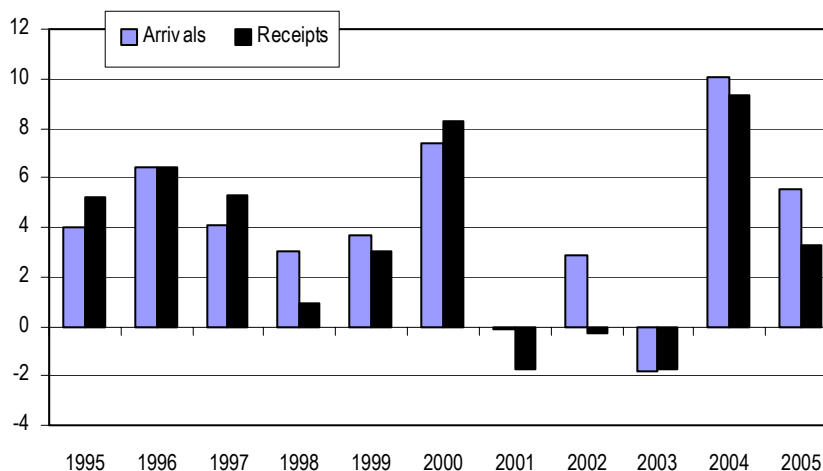
On track to achieve a third year of growth

As reflected in the data compiled by the World Tourism Organization (UNWTO) for the first eight months of 2006 in the *World Tourism Barometer* published in early November, the growth in tourism demand "continues to exceed expectations, showing resilience against external factors that defies all traditional logic".

In the first eight months of 2006, international tourist arrivals worldwide increased by 4.5% over the same period in 2005, in line with full-year forecasts. However, it must be remembered that these forecasts were made before the various negative events of 2006 became apparent. Nevertheless, it now looks certain that 2006 will be the third year of sustained healthy growth.

Although it is too early to make a reliable estimate for the growth in international tourism receipts worldwide, the trend of the past two years, as shown in the following chart, is likely to continue – ie with receipts rising more slowly than arrivals. This is largely attributable to the fact that most current growth in tourism demand is for shorter trips, using low-cost/low-fare airlines. So the average spend per trip is falling, and overnight volume is also showing much more modest growth.

International tourist arrivals and receipts^a, 1995-2005
(% annual change)



^a At constant prices, excluding international transport

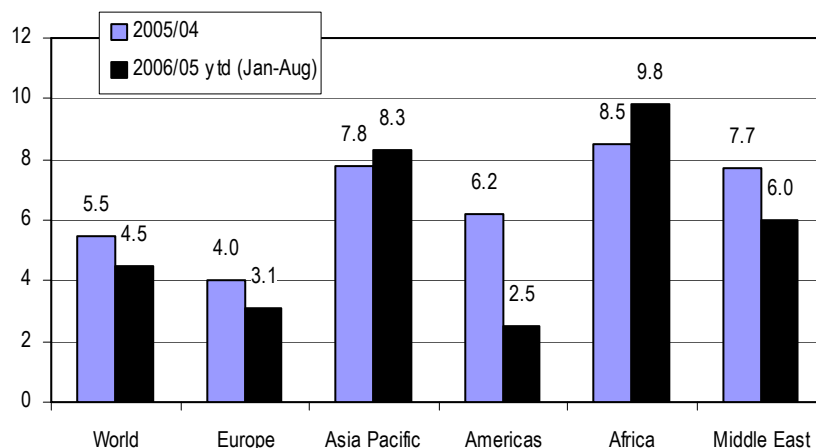
Source: World Tourism Organization (UNWTO)

Africa is the new star performer among the world's regions

Regional trends will undoubtedly change as new data becomes available, but UNWTO says that Africa is currently the star regional performer, recording an increase through August of 9.8%, ahead of Asia and the Pacific with +8.3% and the Middle East, +6.0%. Europe's 3.1% rise may seem modest, but it nonetheless represents some 10 million additional arrivals over the eight-month period – with Northern Europe (+6.0%) and Southern/Mediterranean Europe (+4.6%) achieving much better than average growth over the period.

Only the Americas has performed below target, achieving an average increase of only 2.5%, largely because of the weaker than expected results for North America (+0.4%). The Caribbean (+5.1%) and Central and South America (+8.7% and +8.1% respectively), meanwhile, performed better than the global average.

International tourism performance by world region, 2005 vs 2004 and Jan-Aug 2006 vs Jan-Aug 2005 (% change in arrivals)



Source: UNWTO

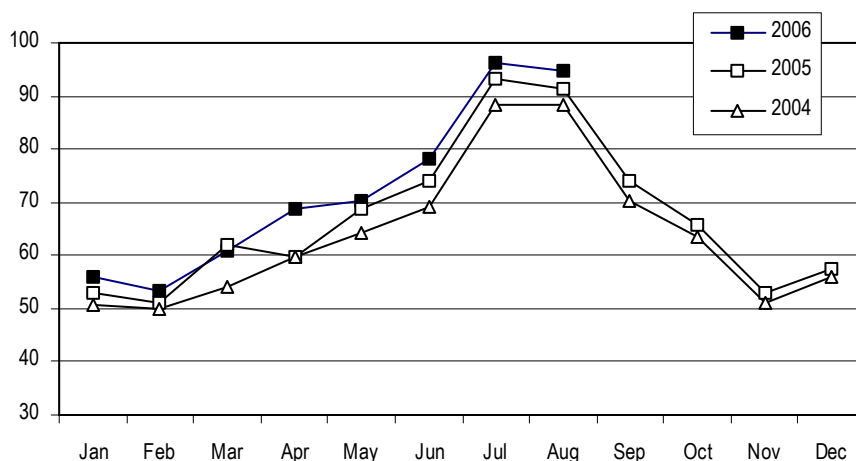
Returning to more normal levels of growth

Global tourism trends confirm that, although the year-to-date increase of 4.6% is very much in line with UNWTO's initial forecasts for the full 12 months of 2006, we are seeing a return to more normal levels of growth. The second quarter's 6.7% rise – up from 2.6% in the first three months – was in no small part due to Easter falling in April this year. Average growth for July and August was back down to around 3.3%.

Nevertheless, the fact that this is the third year of healthy growth worldwide confirms that travellers have generally been undeterred by external threats – whether terrorist attacks, health scares or rises in the price of oil. However, the Israel-Lebanon conflict clearly diverted tourism flows, and different terrorist alerts caused widespread disruption and frustration, as did isolated outbreaks of avian flu. A general feeling of uncertainty may have led to postponement of travel plans and increased late-booking patterns, but this will become clearer by the end of the year.

Meanwhile, the year has also been marked by several important events and positive developments, all of which have helped sustain demand for international tourism. Europe has been one of the major beneficiaries, thanks to its hosting the winter Olympic Games in Turin, the FIFA World Football Cup in Germany, and the Ryder Cup in Ireland.

Monthly growth trends in international tourist arrivals, 2004-06
(mn)



Source: UNWTO

Air transport

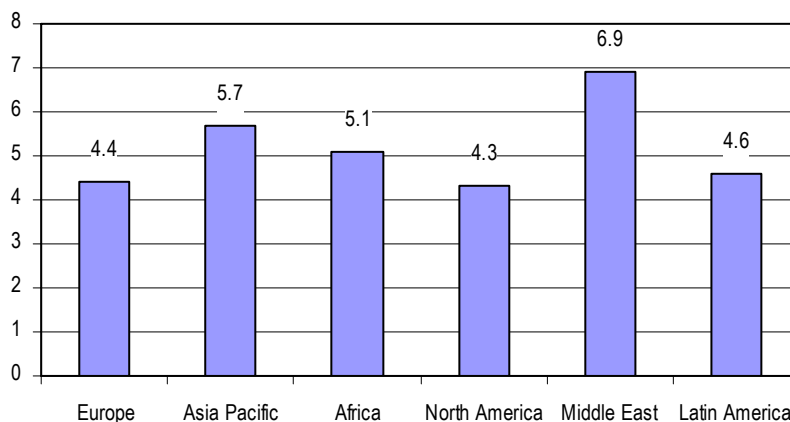
Better management of costs

Confirming the healthy growth trend that has characterised world air transport this year so far, the 261 member airlines of the International Air Transport Association (IATA) reported a 5.9% year-on-year increase in international passenger traffic from January through September. However, their combined results show that the growth in demand seems to be slowing: the monthly increases fell steadily from their peak in May. In fact, September recorded the smallest monthly passenger traffic increase since the end of 2003, marking the fifth consecutive month of declining growth in passenger demand.

As reported by UNWTO in its latest *World Tourism Barometer*, average seat load factor for September nonetheless remained at near record levels due to the strong revenue environment and careful capacity management. Airlines' efforts to meet demand and reduce costs have clearly paid off.

As a result, the operating loss earlier predicted by IATA for 2006 (US\$1.7 billion) will be smaller than expected, and a profit of US\$1.9 billion – the first positive result in six years – is projected for 2007. Meanwhile, average annual forecasts for traffic growth from 2005 to 2010 point to 6.9% for the Middle East, ahead of Asia Pacific with 5.7% and Africa with 5.1%.

Forecast growth in international air passenger traffic by world region, 2005-10
(annual % increase in RPK^a terms)



^a RPK = Revenue passenger-kilometres

Source: IATA

Moving into a new area of challenges

Despite its healthy traffic growth, the airline industry has had a roller-coaster ride over the past few years. It has suffered a number of economic and other shocks, as well as having to deal with – largely unforeseen – changes in business models. It has recovered from these successive ordeals, but it is now facing new challenges.

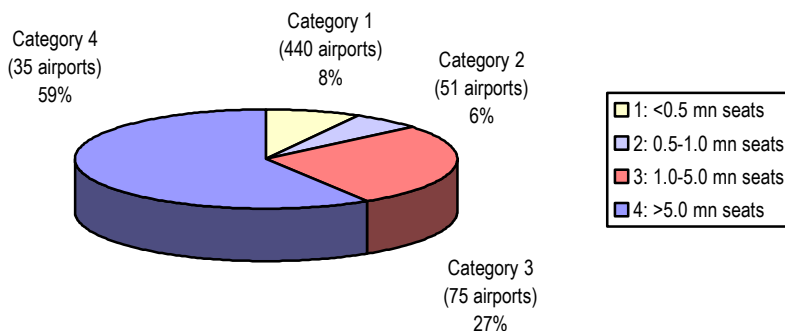
One of the main challenges facing legacy carriers is the competition from the fast-expanding low-cost airlines (LCCs), which have spread to almost all regions of the world and, against all rational expectations, extended their flight range to longer than just short-haul routes. The arrival and growth of LCCs have contributed to the fact that airline ticket prices have fallen consistently over the past 30 years.

It is interesting to highlight the share of airline seat capacity and respective growth at/from different sized airports in Europe (see the two graphs on the next page). The biggest growth rate (+45% over the past couple of years) has been from Category 3 airports – those handling between 1-5 million passengers a year. The growth at major hubs, meanwhile, is slowing, partly because of increasing congestion, which causes delays in take-off and landing.

Price is a greater driver of growth than GDP

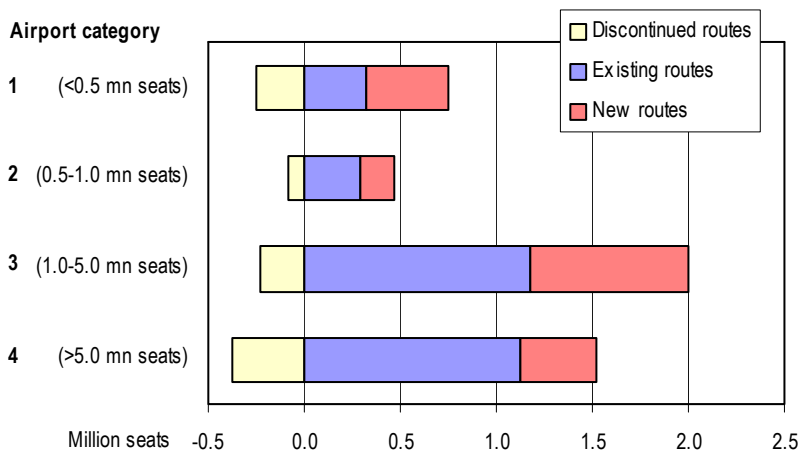
Pricing is clearly key to future airline traffic growth, and the market is expected to be increasingly deal-driven. New channels of distribution and greater customer control over making their travel arrangements will oblige airlines to adapt their business models further, putting additional pressures on their bottom lines.

**Capacity on intra-European scheduled services by airport category, 2005
(% of departing seat capacity)**



Source: Ascend (Airclaims Information and Consultancy)

**Growth in capacity on intra-European scheduled services by airport category, 2005 vs 2004
(increases and decreases in departure seats per year)**



Source: Ascend

Short- to medium-term prospects

Growth will slow, but positive trend to continue through 2006 and 2007

The consensus of the Pisa Forum, after more than three days of deliberations, is that the positive growth trend will be sustained through the remainder of 2006 and, barring any major deterrents, should continue over 2007, albeit at a slower pace.

In line with UNWTO's forecasts, international tourist arrivals are projected to increase by just over 4.5% worldwide over the full 12 months of 2006 and by 2.5% to 3.0% in 2007. There is no firm consensus on whether the rise in

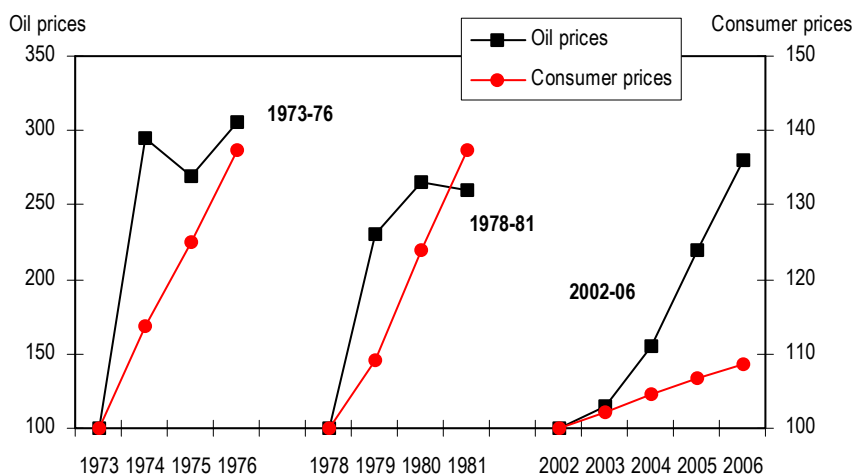
receipts will equal, or possibly even outpace, that of arrivals. But it seems likely that, given the continuing trend towards shorter and more frequent trips – fuelled in large part by the growth of low-cost/low-fare carriers – average spending per trip will not rise in the foreseeable future. However, in the medium term, assuming the renewed growth in long-haul travel gains further momentum, the growth in receipts will likely pick up more strongly.

**Continuing uncertainties,
but not enough to put
people off travel**

The forecast growth is nonetheless set against an uncertain economic outlook, with fears about job security in OECD countries, low real wage growth, higher interest rates (which could have a major impact on the housing market and, therefore, on disposable income for leisure travel), and fiscal tightening in some countries (eg Germany). There are also uncertainties over exchange rates – especially the US dollar vs the euro – and likely trends in the price of oil.

Nevertheless, there are a number of positive factors stimulating growth. First, travel has become an integral part of people's lives and is not likely to be sacrificed for whatever reason, although patterns of travel may change and travel frequency decrease. Second, the cost of travel continues to decline as new technologies result in increased efficiencies. One example is the price of oil. Dependence on energy has actually decreased over the years, so rises in oil prices and resulting fuel costs actually have less impact on consumer prices, as the following graph shows.

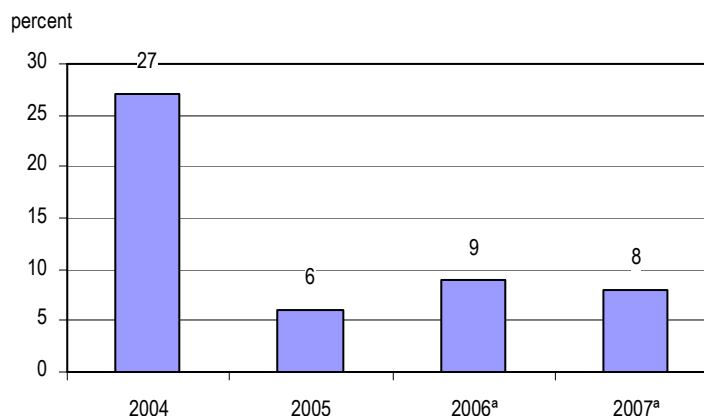
**Impact of oil price hikes on inflation, 1973-76, 1978-81 and 2002-06
(100 = initial price levels)**



Source: Tourism Economics

Asia Pacific will continue to outperform other regions of the world – not just in inbound, but also in outbound tourism growth. India, China and South Korea will drive the growth in outbound travel demand in the region, but there will be dynamic markets in other regions as well – notably Mexico and Brazil in the Americas and Russia, Spain, Italy and Norway in Europe.

Growth in Asian outbound travel, 2004-06



^a Forecasts. Actual results for the top eight outbound markets in the region for Jan-Aug 2006 was 10%.

IPK International's Asian Travel Monitor

Travel and tourism demand

The remainder of this report which, as already indicated, can only provide a glimpse of the depth and breadth of discussions in Pisa, focuses on outbound travel and tourism demand from key established and emerging markets worldwide.

More detailed information is available directly from either IPK International or ITB Berlin (see contact details on the inside front cover), and a series of press releases will also be issued over the coming three months to supplement the information in this *World Travel Trends Report 2006-07*.

Europe

Overview of main trends

Business and VFR travel increase at the expense of holiday trips

In 2005, European adults aged 15 years and over made 370 million trips abroad. Of these, 245 million (66%) were for holidays, 88 million (24%) for visits to friends and/or relations (VFR) and other leisure purposes, and 37 million (10%) for business.

Business travel, which had lost significant market share in recent years, rebounded in 2005, and the following table shows that the recovery was sustained in the first eight months of 2006, with business trip volume up a further 5%. VFR and other leisure trips – undertaken mainly for educational, medical and/or religious purposes – also showed a healthy 4% increase. By contrast, holiday travel showed no growth at all, although it still accounts for two thirds of all trips.

The stagnation in holiday travel is primarily due to a lack of growth in demand for sun & beach holidays, the dominant sector of the market across Europe. In fact, the only holiday sectors to show growth were touring and city breaks, which explains in large part the continued rise in the number of short trips, against a stagnation in long trips of four nights and more.

European outbound travel, 2005-06

	2005	% change 2005/04	% change Jan-Aug 2006/05 ^b
Trips ^a (mn)	370	4	2
Short trips (1-3 nights long)	96	10	10
Long trips (4+ nights)	274	2	0
Holiday	245	5	0
VFR and other leisure	88	2	4
Business	37	10	5
Overnights (mn)	3,500	2	1
Average length of stay (nights)	10	-4	-1
Spending (€ bn)	330	5	3
Spending per trip (€)	892	-2	0
Spending per night (€)	94	0	3

^a Trips made by adults aged 15 years and over ^b Based on trends for the leading 8-10 source markets, which account for nearly two thirds of European outbound trip volume

Source: IPK International's European Travel Monitor

Spend per trip stagnates, but spend per night rises

Total overnight volume, which reached 3.5 billion in 2005, increased by a modest 1% from January through August this year – half the rate of growth of trip volume. Expenditure, meanwhile, rose by 3%. The faster rise in spending than in trips and nights this year means that spending per night has increased by 3% – the same rate as for expenditure overall – while spending per trip has remained static, despite a fall in average length of trip.

Leading markets

Europe has a high share of mature markets

By comparison with other regions of the world, Europe's performance might appear rather lacklustre. Interestingly, as already indicated, inbound visits to Europe fared better in the first eight months of 2006, rising by 3% as against +2% for outbound trips. (This is of course probably due to higher-than-average increases from some long-haul markets into the region.)

However, it is important to note that several of Europe's leading markets are mature ones that are fast reaching a ceiling in terms of overall travel intensity. So any growth from these markets is due more to increases in trip frequency than to rising numbers of the population choosing foreign destinations for their travel.

Nevertheless, in terms of percentage growth over the first eight months of 2006, one still finds a number of these so-called mature markets among the leaders, including Italy, France and the UK. It should be noted, of course, that the 2006 results are based on the top 8-10 markets in Europe only, so the higher growth expected from some of the region's smallest members is not yet evident and will only be confirmed after the year has ended.

Leading growth markets for European outbound travel^a, January through August 2006

> 6%	
Italy	Norway
Russia	Spain
2-5%	
France	Finland
Denmark	Sweden
UK	
No change	
Belgium	Germany

Source: IPK International's European Travel Monitor

Destination trends

Mix of positive and negative factors

European outbound travel this year has been influenced by a number of factors. On the positive side, the strong (and appreciating) euro, the continuing healthy economic situation in many countries, the expansion of low-cost/no-frills flights, and the good snow conditions in the Alps at the beginning of the year, as well as poor weather during the month of August, all stimulated demand for outbound travel in the first eight months of the year.

However, higher oil prices caused a rise in inflation and an increase in airfares, and the threat of avian flu added an element of gloom to the general atmosphere – as did the bomb threats to London in July. This was not helped by the Israeli-Lebanon crisis. And the FIFA World Football Cup and European heat wave in June and July, which stimulated travel to Germany from many markets, also had the opposite effect, encouraging many Europeans to stay at home and watch the matches on television, rather than take a holiday during that period.

The result was a slowdown in growth, or even stagnation, from some markets and a shift in demand from the eastern Mediterranean – notably Turkey – to tried and tested destinations in the western Mediterranean. Both Italy and Spain benefited from this shift, but some European destinations not listed in the following table have also proved big winners this year. The fact that they do not appear in the following table simply means that growth has largely been from source markets other than the top 8-10 in Europe.

Performance of different destinations in the European market, January through August 2006

> 10%

Thailand	China
Maldives	Latvia
Sri Lanka	Morocco

6-10%

Germany	Spain	Slovakia	Dominican Republic
Ireland	Portugal	Singapore	Philippines
Switzerland	Italy	India	
Netherlands	Poland	Vietnam	

Weak performance (negative or slightly positive trend)

France	Russia	USA
Denmark	Cyprus	Australia
Hungary	Turkey	
Malta	Egypt	

Source: IPK International's European Travel Monitor

Other winners and losers

Although Spain performed extremely well, especially in the segments for city breaks, culture and touring, it is increasingly beyond the budgets of the extremely price-conscious, low- to mid-market sun & beach package tour segments. Travellers from these socio-economic groups, who have swelled Turkey's numbers in the last few years, were more likely to opt for Croatia and Bulgaria, or even Tunisia and Morocco, this year. However, Morocco is also proving increasingly attractive to Europe's high-end sector.

Other winning short- to medium-haul destinations for Europeans in 2006 have been most of northern Europe (especially Ireland and Finland, but not Norway). Finland did particularly well out of the Russian market. The Netherlands, Germany and Portugal also turned in excellent results. Although neither Portugal nor Greece benefited from hosting their major events in 2004 (Euro2004 and the summer Olympic Games, respectively), both are finally seeing a return on their investments in these events, thanks to the positive publicity that enhanced the two destinations' tourism images. As for Germany, it looks as if its highly successful hosting of the FIFA World Cup will be reflected this year already in the performance of the national tourism industry (see below).

While parts of Central & Eastern Europe, led by Slovakia, have continued to achieve good growth in 2006, it is clear that the pent-up demand for these destinations among West Europeans has largely been satisfied.

Long-haul destinations continue to recover

Some 87-88% of total European outbound trips are for destinations in Europe and other Mediterranean countries. But travel to long-haul destinations, which had fallen in the two years after the events of 9/11, only recovering in 2005, again performed well in the first eight months of 2006, reflecting the pent-up demand among Europeans for more exotic destinations and their willingness to travel to regions that were earlier seen as regions of risk.

Not surprisingly, Asia Pacific benefited most – due to the fact that demand for much of the region was depressed in 2005 after the December 2004 tsunami. Thailand and the Maldives were the big winners. One of the few disappointing

long-haul destinations out of Europe was the USA, which has lost share, probably due to a weakening image – attributed to the government's policies regarding the Iraq war, confusion over passport and visa requirements, and inordinately long delays experienced by some travellers to the USA at immigration.

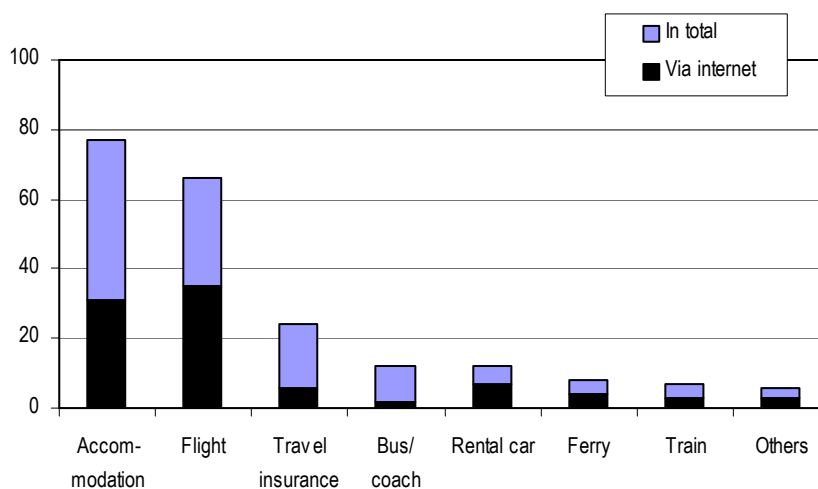
Online travel

Huge increase in bookings through the internet

Use of the internet for online booking as opposed to simply 'looking' – gathering information prior to booking a trip – is growing very fast in Europe, especially for flights and accommodation. This means that more than one third of total outbound trip volume in these markets now involves online booking for at least part of the trip, and it is over 50% in certain markets. The equivalent share was just 19% in 2003.

As might be expected, the internet is used most for the purchase of airline tickets, followed by accommodation but, as a percentage of the total volume of sales for each segment, car rental is in the lead, as the following chart shows.

Travel bookings in Europe, January through August 2006
(% of pre-bookings in total travel^a)



^a Multiple responses possible

Source: IPK International's European Travel Monitor

Clearly, the incidence of internet bookings among the smaller, less mature European markets is lower, but it is growing fast – much faster, in fact, than online travel 'looking'. The internet is now more than twice as important generally as travel agents as an information source, although the travel trade is still very important in terms of travel distribution. And, given the rise in dynamic packaging offered directly by tour operators to clients booking online, the travel trade is not about to lose its importance as a distribution channel.

Information sources used by European outbound travellers, January through August 2006

Source	% share ^a
Internet	45
Travel agency	20
Friends/relatives	17
Travel guide	8
Travel brochure	7
Newspaper	3
Tourist office	2
TV	2
Others	5

^a Multiple responses possible

Source: IPK International's European Travel Monitor

Low-cost/low-fare air travel

The 'no-frills' flights gain further share

There seems to be no end in sight for the boom in demand for low-cost/low-fare airline travel, more usually dubbed 'no-frills flights'. According to the European Travel Monitor, trips involving flights costing less than €150 return increased by 15% in volume in the first eight months of this year, with the result that they now account for more than one third of total trips abroad by air made by Europeans.

It should be noted that trips involving airline travel account for around half of all outbound trips made by Europeans, although this average clearly masks wide variations from one source country to another.

The case of Germany

Europe's leading outbound travel source

IPK International has been monitoring the German travel market since 1989, progressively increasing its scope and coverage. A total of 36,000 interviews are currently conducted every year, making it the largest single travel survey in the country, with interviews carried out on a weekly basis.

Germans made a total of 282 million trips in 2005 (up 3% on 2004), of which 73% were domestic. Outbound trip volume was around 76 million – 13 million more than for the UK market, which ranks second in Europe. Of these 76 million trips, 71% were for holidays, 19% for VFR and 10% for business, including incentive travel and trips to meetings, conferences and exhibitions (MICE travel).

The first eight months were disappointing

Although the FIFA World Cup can be partially blamed for the 'stay-at-home' trend among Germans so far this year, the 2% decline in outbound trip volume over the first eight months of 2006 was nonetheless disappointing, as well as a bit surprising. True, the German market has not been one of the most dynamic in recent years. But it has recovered and was expected to show positive growth in 2006. This of course may well prove the case by the end of the year

as anecdotal evidence suggests that demand has picked up since the end of the peak summer period.

From January through August, both VFR and business travel increased but holiday trips stagnated, as did all forms of long-haul travel, according to IPK's German Travel Monitor.

Austria retains its number one slot, but Turkey falls out of the top five

Of the top five foreign destinations visited by Germans in 2005 – Austria (13% market share), Spain (13%), Italy (11%), France (9%) and Turkey (6%) – only Spain recorded an increase in German visits. The other four all suffered declines, with Turkey falling dramatically from 2005's level.

Dynamic packaging stimulates online travel bookings

As for other European destinations, Germans are increasingly using the internet to make their travel bookings. While online 'looking' – researching travel options before a trip – fell by 10% in 2005, online bookings actually increased by 35%. This took the share of trips involving online looking and/or booking to 43%, and that for online booking to 27%.

Further strong growth in online booking in the first eight months of 2006 means that these shares will undoubtedly have increased yet again, although actual internet-booked trips as a share of total trip volume is still well below that in the UK (50%). But one of the main factors influencing online travel demand, and one that can be expected to drive demand in the future, is the expansion of German tour operators' dynamic packaging capabilities. Booking online is easy, quick and often a lot cheaper than buying traditional tour packages.

Rapid rise in low-fare airline travel

In line with trends in the rest of Europe, Germans are also taking more and more low-fare flights – both for domestic destinations and abroad. The share of low-fare trips in total air travel volume reached 27% in 2005 and is rising fast. This is also one of the major contributors to the increase in online travel, since most low-fare flights are also booked through the internet.

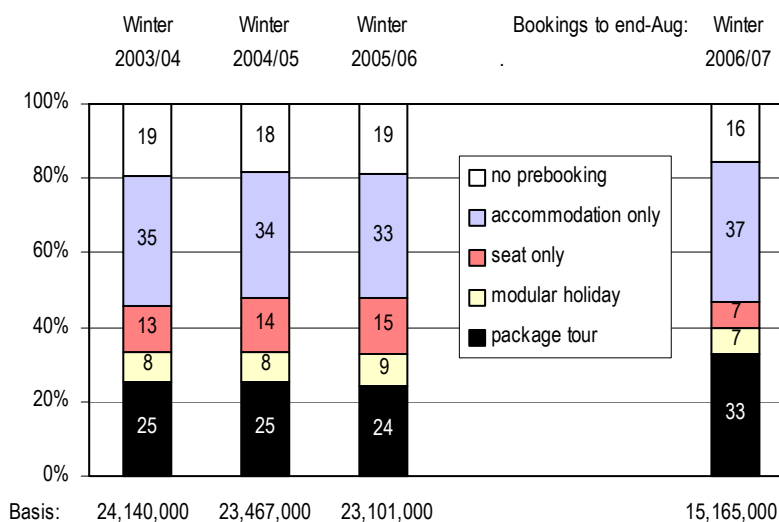
Current outlook

According to GfK's Travelscope, which is a marketing information system for the travel industry, the outlook for German outbound travel is not as bullish as many hope. The quarterly survey, which is based on a sample of the forward travel bookings of 20,000 German households, does point to some positive trends, namely an increase in short breaks (+3%) in winter 2006/07 (November 2006 through March 2007) and a growth in airline travel (+2%) at the expense of private car- and other ground transport-based trips (-3%).

However, longer trips of five days and more are projected to show a slight decline of 1% in winter 2006/07 – at least, according to booking patterns as at the end of August 2006.

Interestingly, bookings so far suggest that there will be a change in the type of holidays Germans take, with package holidays increasing from 24% of the total in winter 2005/06 to 33% and seat-only flight sales falling from 15% to 7%. However, as far as this last trend is concerned, seat-only sales tend to be very last minute, so there is plenty of time for the share to increase.

Booking patterns for German winter holidays, 2003/04-2006/07
(% of holidays of 5+ days)



Source: GfK Panel Services, Germany

Travel plans seen as overly optimistic

German travel plans for 2007 point to a healthy increase in long-haul trips and short-haul travel to the western Mediterranean. But the eastern Mediterranean is again likely to suffer, as are other short-haul destinations, and the overall trend is expected to be one of no-growth, or very modest growth.

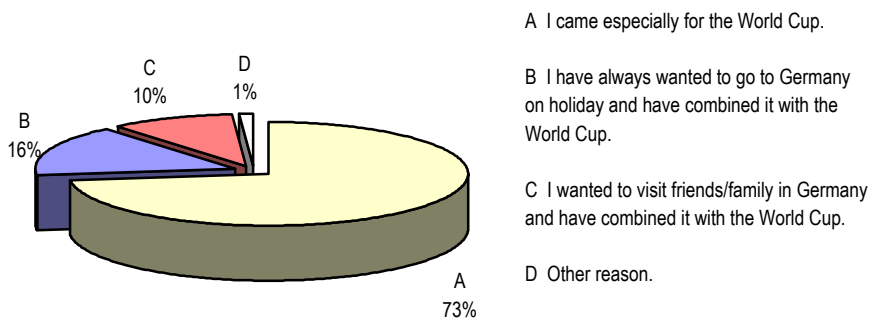
Measuring the impact of the FIFA World Cup on tourism performance ...

All the statistics gathered by the German National Tourist Board (DZT by its German initials), the local tourism industry, research groups from different countries and industry analysts concur that Germany's hosting of the FIFA World Cup was a huge success, both in terms of earnings, but also regarding the country's general image and of its attraction as a tourism destination.

In the first eight months of 2006, Germany attracted a 9% increase in foreign visitor arrivals, with a 10% rise in overnight volume. Some of the growth rates for arrivals from different markets over the two months June and July are quite staggering – +110% from Portugal, +256% from Brazil, and +405% from Central America/Caribbean. In terms of the increases in absolute volumes, the UK was the leading source, generating an additional 292,943 arrivals over the two months, while the USA, in second position, accounted for an additional 210,791 visitors.

DZT data shows that 73% of all visitors travelled to Germany specifically for the World Cup.

Proportion of visitors who travelled to Germany specifically for the World Cup, Jun-Jul 2006

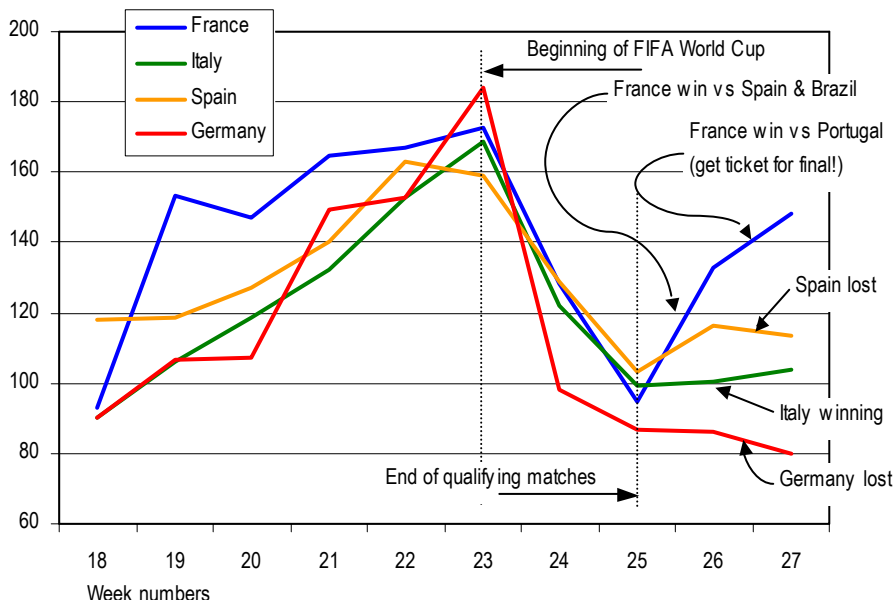


Source: TNS Infratest on behalf of the German National Tourist Board

... and tour operator sales

The impact on tour operator sales in different markets, including Germany itself, is clearly seen in the following chart, which tracks tour operator sales from weeks 18 to 27, 2006. Week 25 marks the end of the qualifying matches. Sales rose steadily until the start of the Cup, then falling sharply until week 25. After that point, it basically depended on which teams were still in the running as to whether their countrymen and women continued to book trips to Germany or not.

Impact of FIFA World Cup on tour operators' sales to Germany from France, Italy, Spain and Germany, 2006 (100 = average of first four months of 2006)



Source: GfK Marketing Services

Consumer climate in Europe

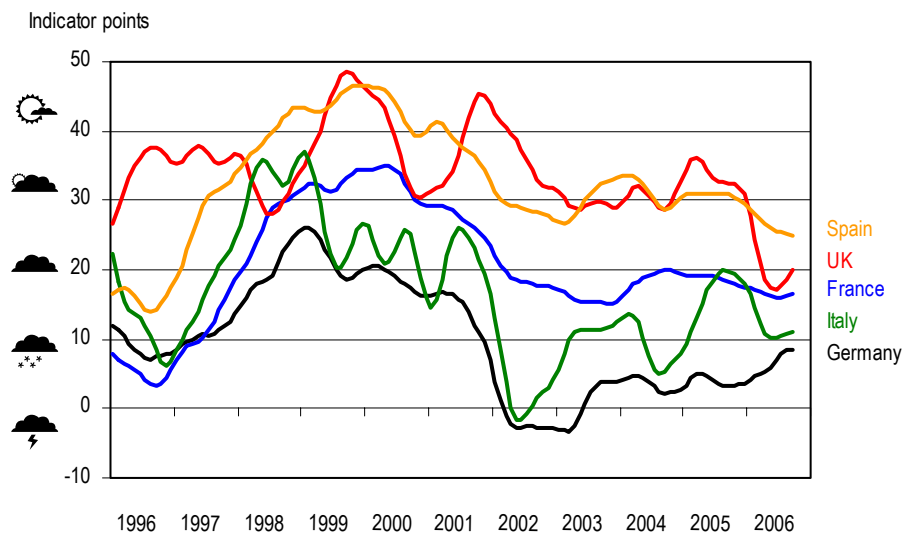
Sharp variations in consumer confidence levels across Europe

Research by a separate subsidiary/division of GfK for the European Commission confirms the German outbound travel prospects, and highlights the sharp differences in consumer confidence and 'willingness to buy' levels in five key European countries – France, Germany, Italy, Spain and the UK. The research, based on 2,000 interviews monthly, also shows that consumer confidence strongly influences private consumption and willingness to buy.

Over the past eleven years, Spain and the UK have remained consistently at the top of the GfK ranking, as far as consumer confidence is concerned – similarly as for household consumption expenditure – with the UK losing ground to Spain in recent months. This apparent fall in confidence among UK consumers is attributed to a whole range of increasing uncertainties regarding the costs of energy, the housing market, disposable incomes and pensions, not to mention terrorist threats.

However, the main difference from the situation last year is that there is a much smaller gap between Spain and the UK and the three other European countries surveyed: France, Italy and Germany. Germany remains at the bottom of the list, in terms of consumer confidence, despite positive trends in the last 12 months.

EU Consumer Climate Indicator: Consumer confidence, 1996-2006



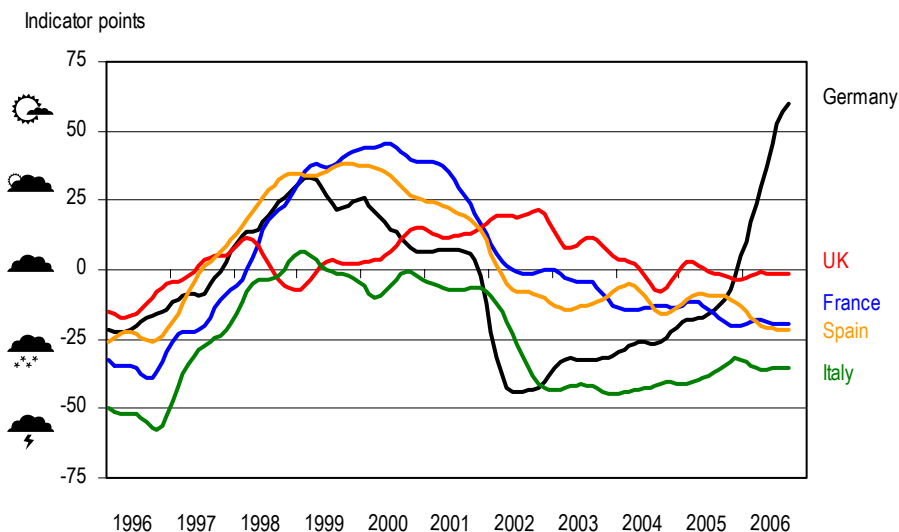
Source: GfK Marktforschung, for EU Commission

Big increase in Germans' willingness to buy ...

While GfK's 'willingness to buy' indicator has remained fairly stable over the past 12 months in the UK, France and Italy, it has fallen in Spain – even dropping behind France. In Germany, in contrast, it has shot up since the end of 2005, reaching its highest level in five years in October 2006. Two main reasons are attributed to this trend. On the one hand, Germans have now been living for a year with the 'big coalition' in Berlin, which, in the early part of

the year, raised hopes that necessary reforms might finally be able to be implemented in the country.

EU Consumer Climate Indicator: Willingness to buy, 1996-2006



Source: GfK Marktforschung, for EU Commission

These hopes had evaporated by the spring but, by then, consumer sentiment was supported by the overall recovery in the economy and by falling unemployment. More importantly, however, Germans have also been anticipating the imminent increase in VAT, which is due to rise from 16% to 19% in January 2007.

A separate survey conducted by GfK in October 2006 among 2,050 German consumers reveals that around 20% of Germans did indeed bring forward spending to avoid higher consumption tax next year (see next page). Most have bought consumer goods or carried out renovations to their homes, but some 12% have also brought forward travel spending, even though the real impact of the VAT increase on travel costs is supposed to be marginal.

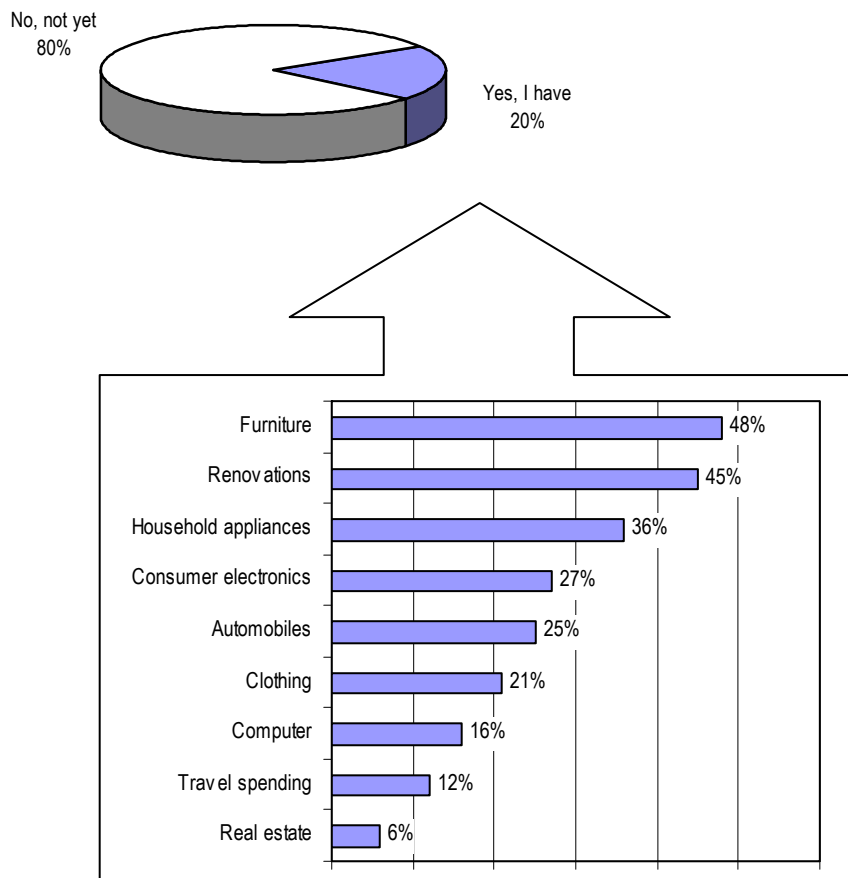
... which may be short-lived

What will happen in 2007 is still uncertain. GfK expects the real effects of price increases on retail sales and travel to be marginal, partly because some retailers have already increased prices for a number of goods this year to avoid higher prices in 2007. But the perceived impact of VAT could well have a negative effect on willingness to buy – at least in the early months of the year.

As far as travel plans are concerned, this is already apparent, since plans for spending on travel next year, as discussed above, are still below the long-term projections, albeit slightly above their level of 12 months ago.

Effects of impending VAT rise in Germany on consumers' spending decisions, 2006

As you know, at the beginning of 2007 VAT will be increased by 3 percentage points. Have you already brought forward major purchases in 2006 because of this increase?



Source: GfK-Nürnberg e.V. 2006

Likely outbound trends are difficult to assess

For the other markets, the outlook looks reasonably positive, but several factors could affect outbound travel demand. Spain, the UK and France seem to have the best prospects for outbound travel of the five. Spain is one of Europe's least mature outbound travel markets and still has a long way to reach its ceiling. The same is true of France, at least in terms of propensity to travel, although 2007's presidential elections may encourage the French to 'wait and see' before bookings their holidays.

As for the UK, while outbound travel growth has slowed in recent months, it is not a market that can be dismissed lightly. The travel industry may see a decline or slowdown from one sector, but there is always another sector ready to emerge. And holidays are a major priority.

North America

Canada

Outbound travel demand is buoyant

The first eight months of 2006 saw further solid growth in Canadian outbound travel, according to the Canadian Tourism Commission (CTC), with trips reaching an all-time high of 16.2 million for that period of the year. Trip volume to the USA was up 6.5% to 11.3 million – almost 70% of the total – while overseas trips totalled 4.9 million, also up 6.5%.

Demand was boosted by the strong Canadian dollar, stable interest rates and inflation, which have resulted in high levels of consumer confidence. This means that Canadians are expected to continue to travel abroad in record numbers for the foreseeable future.

Top overseas destinations (ie excluding the USA) are, in order of importance: the UK, Mexico, France, Cuba, the Dominican Republic and Italy. In 2005, Italy recorded the biggest increase in spending by Canadian tourists.

USA

Outbound outperforms inbound

Although US outbound travel has risen by less than 4% overall since 2000, it has performed much better than US inbound travel. 2005 was a record year in terms of outbound trip volume overall, as well as for overseas trips (excluding travel to Canada and Mexico), with total trip volume up 3% and overseas trips up 5%.

Outbound travel from the USA, 2005

Destination	2005 ('000)	% change on 2004
Canada	14,391	-5
Mexico	20,325	5
Overseas	28,787	5
of which:		
UK	3,829	4
France	2,217	-8
China/Hong Kong	2,217	23
Italy	2,044	7
Germany	1,670	-5
Japan	1,497	40
Dominican Republic	1,439	50
Jamaica	1,353	8
Total	63,503	3

Source: Office of Travel & Tourism (OTTI), US Department of Commerce

Moreover, preliminary results for the first eight months of this year point to further growth of 4% in overall trip volume and 6% in overseas trips. The Caribbean has performed the best (up 10%), followed by Asia and South America (+7% and +6% respectively). Europe's growth, at 5%, was slightly lower than average, but still well above the trend since 2001.

Outbound airline trips from the USA, January through August 2006

Destinations	Jan-Aug 2006 (^{'000})	% change on Jan-Aug 2005
Canada	2,664	-2
Mexico ^a	3,957	1
Overseas ^a	20,680	6
Europe	8,952	5
Caribbean	4,109	10
Asia	3,432	7
South America	1,520	6
Central America	1,654	2
Total	27,301	4

^a Air traffic only, non-stop port-to-port

Sources: Travel Industry Association of America (TIA); OTTI

Big spenders on foreign travel, but sensitive to safety and security threats ...

Despite its modest performance over the past five years, the USA is still the most important outbound travel market in the world in terms of expenditure on foreign travel, recording US\$69.2 billion in 2005 – well ahead of its closest contender, Germany. In terms of outbound trip volume, however, it ranks only third, after Germany and the UK – having been ousted from second place by the UK in 2001.

This is primarily due to the fact that American travellers have been much more sensitive to perceived threats to their safety and security than travellers from other leading markets. In addition, consumer confidence in the national economy – which fell to record lows after 9/11, due to increased job losses and company bankruptcies – plays an extremely important role in dictating travel trends.

... and level of triptaking is still very low ...

In addition, according to the Travel Industry Association of America (TIA), only 47% of Americans even take up their holiday entitlement – 421 million vacation days were left unused last year. Some 18% used 50% or less and 24% do not use any at all for travel.

To put things more clearly in perspective, it should be noted that 2005's 63.5 million outbound trips represented a mere 0.2 trips per capita – a very modest share compared with equivalent figures of 1.0 trips per capita for the German and UK markets, and 0.5 for the French.

The good news, according to TIA, is that there has been a 7% increase in passport adoption over the last five years, and nearly 30% of Americans now hold valid passports. This share should rise to 50% by 2009.

... but the market offers good growth potential for the future

Forecasts by Global Insight project some 18% growth in US outbound trip volume between 2005 and 2010, with some destinations well exceeding this level. These include China, Hong Kong and the Bahamas. But it is not only the growth potential of the market that is so attractive.

US travellers tend to book their trips well in advance – up to 92 days, with 60 being the median – and average trip length has actually increased over the past six years – from 15.4 nights to 16.4. Niche markets are also providing growing opportunities for travel and, while fast-growing internet usage has resulted in a decline in sales through travel agencies, the travel trade remains an important distribution channel in the USA. So all this augurs well for destinations and industry suppliers.

Emerging Asian Markets

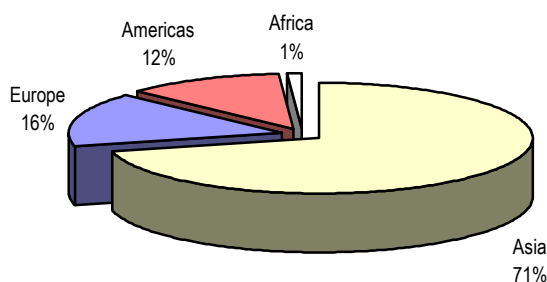
Overview of current trends

The world's fastest growing source region

Results from the Asian Travel Monitor, part of IPK International's World Travel Monitor, concur with data gathered by the Pacific Asia Travel Association (PATA), which shows that Asia is the fastest growing outbound source region in the world. The top eight markets alone generated some 64 million trips in 2005, and 545 million overnights, resulting in a total spend of €96 billion.

Intra-Asian travel accounts for the highest share of all trips (71%). Europe takes second place in the destinations ranking, with a 16% share, ahead of the Americas with 12%.

Asian outbound travel by region, 2005



Source: IPK International's Asian Travel Monitor

Holidays dominate outbound travel demand

Of the total trip volume, holidays account for more than two thirds (65%), with other leisure travel (including VFR) generating a 24% share and business travel 11%.

The favourite types of holidays involve touring (44%) – travelling to several different destinations, of which mainly cities – followed by city breaks (13%) and sun & beach trips (13%).

Leading source markets

China is expected to overtake Japan in the near future

Despite sluggish growth since 9/11, Japan is still the region's most important outbound travel source, accounting for some 17.1 million outbound trips in 2005, according to the Asian Travel Monitor. These compare with official Japanese statistics showing 17.4 million. Nevertheless, Japan Travel Bureau Foundation, IPK International's partner in Japan, expects less than 2% growth in the Japanese market this year, and most of this will come from females aged 50 years and more – who are the most interested in long-haul travel – and the younger generation opting for short-haul trips in East Asia.

If travel to the Special Administrative Regions (SARs) of Hong Kong and Macau are excluded from the China outbound travel count, the total trip volume was only 12.2 million in 2005, according to IPK International, but the market is nevertheless showing double-digit annual growth.

This is also the case with South Korea, India and Malaysia, with the first two of these seen as having major growth potential over the short to medium term.

Asia's major outbound travel source markets, 2005-06

Market	Trips 2005 (mn)	% change Jan-Aug 2006/05
Japan	17.1	5-9%
China ^a	12.2	>10%
South Korea	9.8	>10%
Taiwan	8.7	5-9%
Singapore	5.3	0.0%
India	4.9	>10%
Malaysia	3.4	>10%
Thailand	2.5	5-9%

^a Excludes travel to Hong Kong and Macau

Source: IPK International's Asian Travel Monitor

Spending per trip

Although spending per trip varies quite sharply from one source market to another, Asians are among the world's biggest spenders on travel abroad. Average spend, according to the Asia Travel Monitor, was €1,518 in 2005 – giving an average spend per night of €184 – but the two biggest spenders were Japan and China, accounting for €1,891 and €1,882 respectively.

By way of comparison, Koreans and Singaporeans are the least generous when it comes to spending on travel abroad – averaging €1,046 and €956 respectively. It should be noted, of course, that this is still well above the level

of many leading Western markets, which tend to make more short trips to neighbouring countries.

Kazakhstan: a new star is born

Quietly growing, showing strong double-digit annual increases

Although the Republic of Kazakhstan is more in the news currently because of the film 'Borat!', which has (controversially) caused huge interest in the destination and its inbound tourism and investment potential, it will not be long before the world recognises the equally significant potential of the country's outbound travel.

In 2005, Kazakhs made more than one million trips abroad, of which around 800,000 were to CIS countries (the former members of the Soviet Union), and just 200,000 trips to other countries. But it is these non-CIS countries that are growing the fastest, as Kazakhs develop a taste for travelling further afield. Turkey is the favourite destination for holidays and business, followed by Germany, China, Thailand, Malaysia, the United Arab Emirates, India and Europe. Average length of trip is ten days and spending per trip €1,250.

Clearly, we will be hearing a lot more about this exciting market in years to come.

Pisa 2006: Key Issues and Trends

Summary of demand-side trends

Growth forecasts

- The industry can no longer expect a 'normal' year for travel and tourism. Terrorism, natural disasters, health crises and other challenges are here to stay. But most people – both the well-travelled and new aspiring travellers – are learning to live in a world of uncertainties and threats, and are prepared to take risks rather than sacrifice their desire for travel.
- As a result, and barring any major disasters, world tourism demand is expected to be sustained in 2007, although growth will return to more 'normal' rates – in line with long-term forecasts.
- The growth in international tourism receipts and expenditure on travel will continue to lag behind the growth in arrivals and trips in most parts of the world, due to the expected continuation of the trend for shorter, but more frequent trips.
- The most dynamic source markets for tourism will comprise the BRICs countries – Goldman Sachs's acronym for the world's fastest growing economies to 2050: Brazil, Russia, India and China – but other established and emerging markets are also forecast to sustain double-digit growth rates. These include Mexico, South Korea, Malaysia, Thailand and, in Europe, Norway, Spain and Poland.

Purpose and nature of trips

- Business travel has confirmed its recovery in 2006, although leisure travel will continue to be the main driver of growth, thanks in large part to the low-cost/no-frills airlines.
- The growth and spread of low-cost/no-frills airlines means the trend towards shorter and more frequent trips will also spread to the less developed tourism regions of the world.
- Similarly, this will stimulate intra-regional travel more than long-haul, inter-regional, trips, although new forms of low-cost/no-frills carriers – operating medium- and long-haul services – may help to change this pattern in the longer term.
- Online travel booking will continue to increase – 36% of Europeans now book their holidays online as against 23% in 2004.

Traveller/tourist profiles

- Today's leisure travellers comprise more singles, more female travellers, more grandparents travelling with their grandchildren, and more large family units (several generations).
- The increased desire for healthy living and the need to escape highly pressured working environments has stimulated the demand for niche and mainstream products such as spa/wellness tourism, outdoor activities, cruises, educational trips, etc.
- More and more people are 'cash-rich and time-poor', so they have less time to travel but want to ensure their trips create a memorable experience.
- It is nevertheless paradoxical that consumers generally demand better quality tourism products, but constantly look for 'price deals'. Pricing remains key.
- Consumers also want more control in organising their trips, especially when travelling for leisure, and technology has provided them with the means to assume this control and customise their own travel plans. This trend is even apparent in China, where young, educated Chinese are rebelling against the inflexibility of ready-made, organised package holidays.
- Today's tourists are much less concerned about which destination they visit – and less loyal to destinations than they ever were in the past – and much more interested in the tourism products and experiences on offer.
- Authenticity is increasingly important to holidaymakers, who want more interaction with local people and a more emotional and cultural link to the people and communities they visit.
- Fewer travellers are prepared to believe the 'marketing and PR hype' from professionally written reviews of destinations and, thanks to the democratisation of technology and the spread of Web 2.0, they no longer have to. Only 38% of American travellers read professionally written reviews, while one in three reads traveller reviews of destinations, and two in three read travellers' hotel reviews.

Supply-side trends and issues

The low-cost/no-frills airline phenomenon

- Low-cost/no-frills airlines have changed the face of the industry and are now one of the major factors dictating how countries perform as tourism destinations.
- Countries without low-cost/no-frills airline services risk looking less attractive to holidaymakers and investors.
- But there are downsides. No-frills airline services are attracting growing numbers of inbound visitors to traditional and emerging tourism destinations but, since they tend to stay in the cities, outlying rural areas are losing business. In addition, domestic tourism is suffering in some countries as locals who have never before been able to afford to fly abroad are taking advantage of the availability of low fares to enjoy the experience.
- Airports with no-frills airline services are expanding their catchment areas, since travellers seeking low-fare flights are prepared to travel longer distances to/from airports to save costs.

Technological advances

- The growth of broadband and mobile devices is stimulating new consumer interaction and encouraging travellers to share their experiences of destinations and suppliers with other internet users.
- The rise in the cost of fuel in 2006, caused by the increase in oil prices, has been passed on to the consumer in the form of airline surcharges and additional taxes. The good news is that these have had little effect on travel demand.
- Increased concerns over global warming and climate change are putting pressure on government to take actions to encourage a reduction in energy usage. Air transport is likely to suffer an imposition of taxes that may have a major impact on prices.

The visa issue

- Visas continue to be a major impediment to growth – not just the requirement for visas, but also the lengthy bureaucratic procedures and high costs involved in obtaining visas.
- In the case of the USA, it is more the confusion surrounding new passport and visa requirements – introduced in the name of safety and security – that have discouraged foreigners from visiting the country.

Areas for industry action

- Climate change in the environment is likely to induce a major 'climate change' in the structure of the travel and tourism industry. In Europe alone, there could be a fundamental shift in holiday destinations in less than 25 years from now, with the possible death of the traditional Mediterranean package and a reversal of the North-South annual migration that accounts for 70% of European outbound travel. And similar changes in travel patterns will undoubtedly occur in other regions.
- The industry must waste no time in making a serious assessment of the threats, managing the risks, and developing a crisis response management system.
- Tourism ministries and inter-governmental tourism bodies must try to ensure that travel and tourism is part of the process of addressing global warming and climate change and that it has an input into all decision-making.
- In order to raise the profile of tourism further, so that governments at the highest level recognise the importance of tourism to their national economies, it is time to start talking of the 'visitor economy' rather than simply the tourism business.
- The industry must continue to lobby their governments to ensure that travel advisories are fair and that the needs of safety and security do not overly complicate visa procedures, which risk turning away visitors and having a long-term negative effect on a country's tourism growth.
- In today's increasingly competitive marketplace, getting the consumer's attention is critical to attracting visitors. Nation branding will help a destination get onto the tourists' radar, as well as ensure it is captured in meta-search engines.
- National tourism organisations need to work with industry partners to draw up an action plan as to how they can stand out from their competitors and attract potential travellers to their websites, as well as to convert interest into bookings.