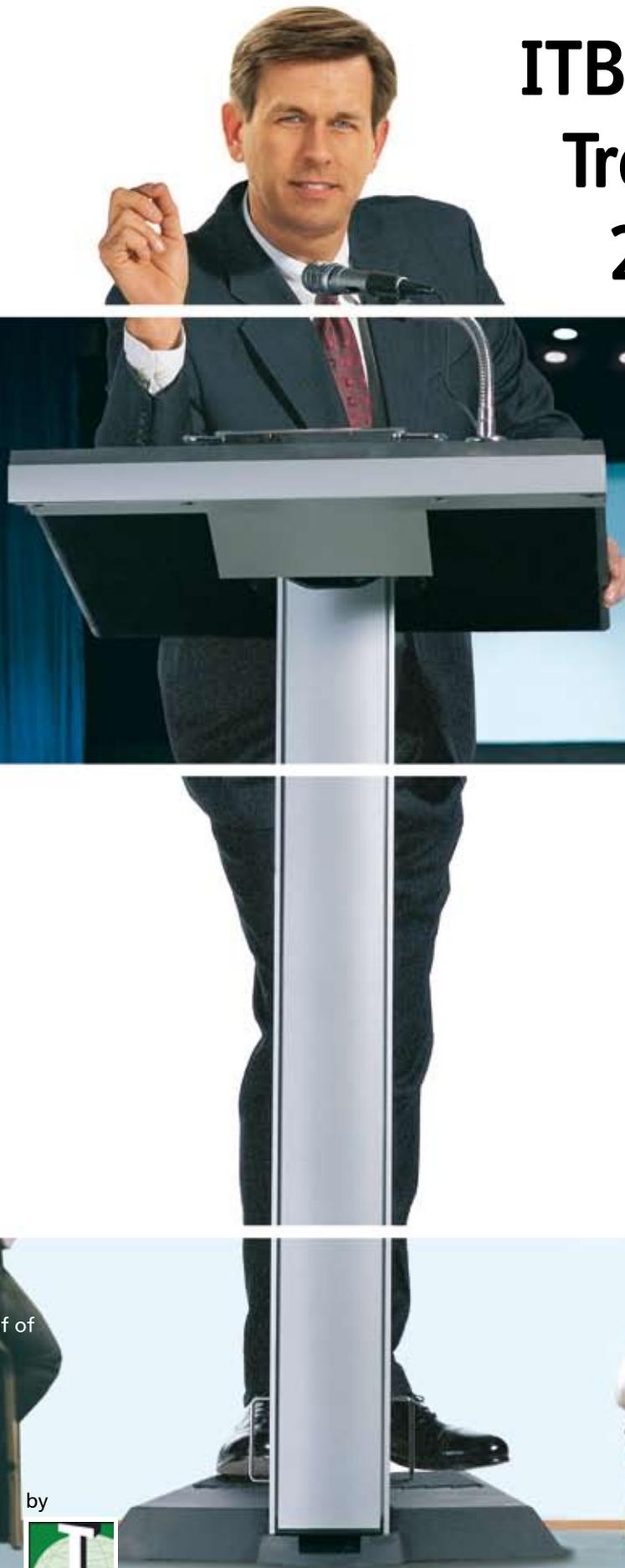


# ITB World Travel Trends Report 2008/2009



**ITB  
BERLIN**

**CONVENTION**

**THE LEADING  
TRAVEL INDUSTRY  
THINK TANK**

prepared on behalf of



by



# ITB World Travel Trends Report 2008/2009

## Message from the Pisa Forum 2008

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## Foreword

### *Tracking trends in world tourism demand ...*

This *ITB World Travel Trends Report*, which was once again commissioned by ITB Berlin from IPK International, organisers of the 16th annual World Travel Monitor Forum, tracks trends in outbound travel demand for the first eight to nine months of 2008, with estimates for the full 12 months of the year and preliminary forecasts for 2009.

Now more commonly known as the Pisa Forum – the 'think tank' of the annual tourism calendar – this two-day annual event was this year held on 6-7 November in San Giuliano Terme, near Pisa, Italy. As usual, the Forum was organised in co-operation with the European Travel Commission (ETC), attracting more than 60 participants from around the world.

All authorities on world tourism, the participants comprised heads of marketing and research of international tourism bodies such as the World Tourism Organization (UNWTO), as well as national tourism organisations from Europe, the Americas and Asia, regional tourism associations, international research institutes and private companies from travel and tourism and related sectors.

Representatives of the private sector included the Travel Industry Association of America (TIA), the Philadelphia-based economic forecasters Tourism Economics; HIS Global Insight Boston, Synovate Censydiam; the Department of Travel & Tourism Management at the Worms University of Applied Sciences; the Japan Travel Bureau (JTB) Foundation; the World Youth Student & Educational Travel Confederation; and ADV, the German Airports Association.

### *... and assessing the likely impact of the economic downturn*

The participants, who came from around 30 countries, represented all regions of Europe, plus North and South America, and Northeast and Southeast Asia – 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.

This summary report, commissioned by ITB Berlin, can only provide a brief overview of the wealth of information on travel and tourism demand exchanged by the participants in Pisa, but it highlights the main conclusions of more than two days of intensive discussion and debate.

ITB Berlin is delighted to be closely associated with the Pisa Forum for the fourth consecutive year and, in co-operation with IPK International, we will be looking more closely at the development of travel and tourism demand over the next few months, in the run-up to ITB Berlin in March 2009.

Meanwhile, we hope you will all find this report useful.

Dr Martin Buck  
Director  
ITB Berlin

Rolf Freitag  
President & CEO  
IPK International

## World Tourism in 2008

### Current trends

*A sharp slowdown in growth in recent months ...*

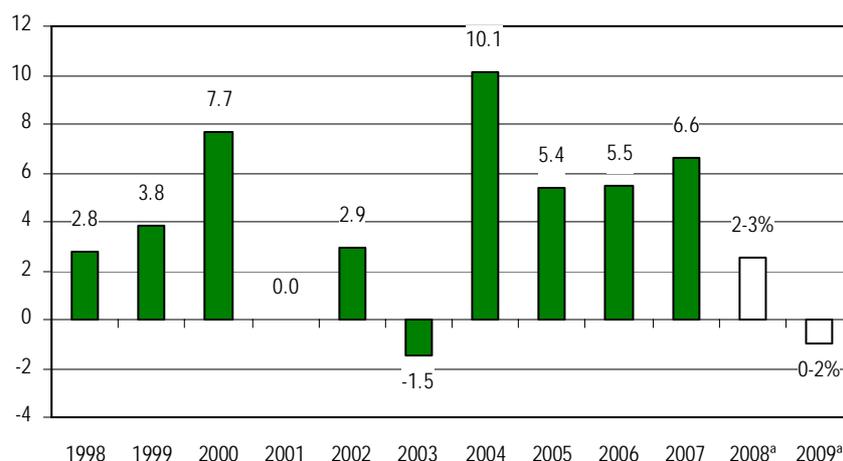
Data compiled by the World Tourism Organization (UNWTO) for the first eight months of 2008, and published in its October edition of the *UNWTO World Tourism Barometer*, shows a sharp slowdown in international tourist arrivals in recent months.

Arrivals rose by 8.3% in the first quarter of 2008 – even faster than the quarterly averages for the last three years of the recent four-year boom – but by only 2.6% in the second quarter and, according to the provisional figures so far available, by only 1-2% in July and August. Moreover, preliminary indications point to declines in the months of September and October.

As a result, arrivals worldwide are estimated to have risen by 3.8% in the first eight months of 2008, and UNWTO is now forecasting an increase of 2-3% for the full 12 months of the year – in line with the growth forecast by IPK International based on World Travel Monitor trends from January through August 2008. But 2009 could be significantly worse, as the following chart shows (IPK International forecasts a decline of 0-2%).

It is still too early to make a reliable estimate for the growth in international tourism receipts worldwide, but first impressions suggest they have been less affected than arrivals in terms of growth. Average spending per trip has certainly risen much faster than trip volume, according to the World Travel Monitor.

*International tourist arrivals worldwide, 1998-2007 and forecasts 2008-09 (% annual change)*

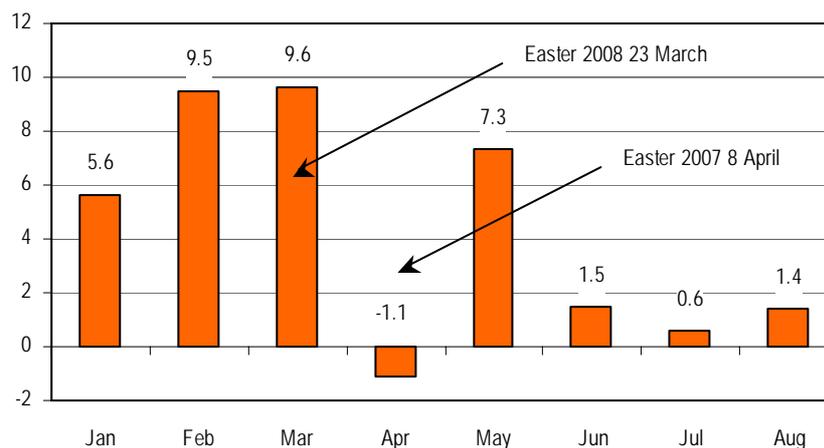


<sup>a</sup> Forecasts from IPK International (historical data from UNWTO)

Source: World Tourism Organization (UNWTO) and IPK International

The decline in the month of April, which distorts the general trend through the first five months of 2008, was related to the timing of Easter, which fell in April in 2007 and in March this year. Since the Easter period generates a significant amount of travel from the leading traditional source markets, the timing clearly has a big impact on growth in the individual months.

*Monthly growth in international tourist arrivals, 2008  
(% change on same month in 2007)*



Source: UNWTO

*... and a most uncertain  
outlook for 2009 ...*

After the recent turmoil in financial markets and the volatility in commodity and currency markets, the outlook for the world economy has become very uncertain, with the crucial question being not whether there will be a recession, but how widespread, how deep and how prolonged it will be.

Over the last 25 years international tourist arrivals have tended to grow about one percentage point faster than world real GDP. However, they have also tended to fluctuate more than GDP, with higher peaks in the 'good' years and deeper troughs in the 'bad' years. Arrivals may well stagnate or even decrease by as much as 2% in 2009. This forecast takes into consideration the fact that economic growth is expected to slow everywhere and will be concentrated in emerging and developing countries, where outbound travel is still a young and very fragile product.

However, it must also be stressed that today's travel and tourism industry is sailing in uncharted waters. It has no experience of financial systems on the brink of collapse, or of currencies (and assets and inputs necessary to the industry) fluctuating in value by 25% over the course of a few days. On the other hand, the boom in tourism, based on low-cost travel, globalisation, higher disposable incomes in emerging markets, and higher propensities to travel in developed markets, has been very resilient.

*... but the long-term outlook remains very positive*

Under these circumstances, forecasts can only be very tentative, especially regarding the depth and length of the current downturn. However, there was no doubt among the experts gathered in Pisa that, once the economic crisis is over, demand for tourism will recover quickly, reflecting the pent-up demand for travel that will be accumulated during the current downturn.

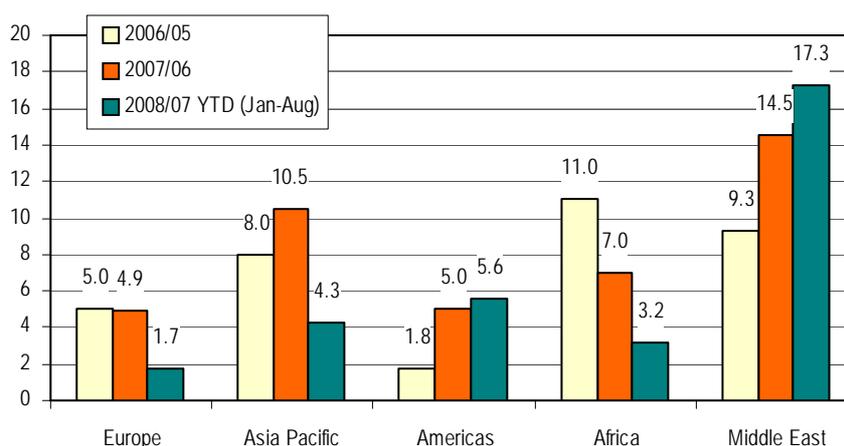
Other powerful factors that have been affecting, and will continue to affect, world tourism – not least international oil prices (which have been falling back from their historic peaks since the middle of 2008) and relative exchange rates (which have seen massive changes in the last couple of months) – will be discussed at greater length in the Current Outlook section of this report.

*Asia Pacific shows the most rapid decline*

Regional trends will undoubtedly change as new statistics become available, but the latest UNWTO data (as at the end of October) indicates that Asia Pacific has suffered the most rapid slowdown in demand since the middle of 2008, resulting in a sharp decline in arrivals growth from +10.5% in 2007 to +4% from January through August this year (compared with the same periods a year earlier). Oceania and Northeast Asia were the regions suffering the brunt of the downturn in demand.

Growth in Europe stagnated in the summer months, ending the eight-month period up less than 2% over the same period in 2007 – and all sub-regions were affected by the slowdown. Growth also slowed in Africa (to 3%), although North Africa continued to perform strongly. Thanks both to a sustained recovery in demand for travel to the USA, but also to continuing strong increases for Central and South America, the Americas has performed better than in 2007 – so far, at least (+5.5%). But the Middle East (+17%) was the world's star performer from January through August, recording growth almost three percentage points higher than in 2007, according to UNWTO.

*International tourism performance by world region, 2006, 2007 and 2008  
(% change in arrivals)*



Source: UNWTO

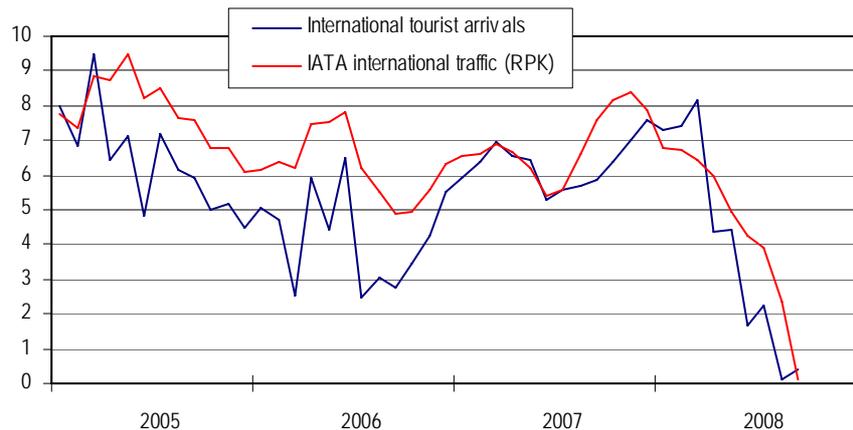
*Tourism growth curve closely tracks that of air traffic*

Not surprisingly, given the growing importance of air transport in total travel, 2008 tourism trends so far correlate closely with the trends in air traffic (expressed in revenue passenger kilometers), as reported by the International Air Transport Association (IATA). The worldwide trend over the first nine months of this year was a 3.3% increase in passenger traffic as against a 4.8% rise in capacity, with the passenger load factor for the period averaging 76.3%.

Africa was the only region to report a decline in traffic (-2.8%), but airlines based in Asia Pacific have also had a fairly flat year so far (+1.2%). Latin America has been the best performing region (+12.2%), followed by the Middle East (+7.6%), North America (+4.9%) and Europe (+2.5%).

For the first time since the SARS epidemic of 2003, IATA members suffered a decline in global passenger traffic for the month of September 2008. All regions except Latin America were affected by the negative trend, with Africa and Asia Pacific the hardest hit. According to IATA, the good news that the oil price has fallen to less than half its July peak is still not enough to offset the impact of the drop in demand.

*Growth in world visitor arrivals<sup>a</sup> and international air traffic<sup>b</sup>, 2005-08  
(3-month moving averages of % changes on same periods in previous year)*



<sup>a</sup> Based on monthly data covering 80% of world arrivals

<sup>b</sup> RPK = revenue passenger kilometres

Source: Oxford Economics, based on data from the International Air Transport Association (IATA), the Pacific Asia Travel Association (PATA), Haver and Eurostat

## Europe

### Overview of main trends in 2008

#### *Business travel again grows the fastest ...*

In 2007, according to IPK's European Travel Monitor, European adults aged 15 years and over made 409 million trips abroad. This represented an increase of 5% over 2006, and was followed by a 3% increase in the first eight months of 2008.

Of the 409 million trips made in 2007, 279 million (69%) were for holidays, 67 million (16%) were visits to friends and/or relations (VFR) and travel for other leisure purposes, and 63 million (15%) for business. Business travel, which had lost market share in previous years, has rebounded over the last three years, with growth rates consistently higher than the averages for all trips. Although the trend is now expected to reverse in the last few months of 2008 and in 2009 due to the economic slowdown, it was sustained in the first eight months of 2008, with business trip volume up a further 8%.

#### *European outbound travel, 2007-08*

	2007	% change 2007/06	% change Jan-Aug 2008/07 <sup>b</sup>
Trips <sup>a</sup> (mn)	409	5	3
Short trips (1-3 nights long)	100	-2	8
Long trips (4+ nights)	309	7	1
Holiday	279	5	4
VFR and other leisure	67	0	-5
Business	63	9	8
Overnights (mn)	3,900	5	3
Average length of stay (nights)	10	0	0
Spending (€ bn)	380	7	6
Spending per trip (€)	914	2	3
Spending per night (€)	97	2	2

<sup>a</sup> Trips made by adults aged 15 years and over <sup>b</sup> Based on trends in the first eight months of 2008 from the leading 11 source markets, which account for 65% of European outbound trip volume

Source: IPK International's European Travel Monitor

#### *... while holiday travel growth slows and VFR declines*

Holiday travel increased by 4% from January through August – much the same rate of growth as in the same period of 2007 – but most of this growth was concentrated in the first part of the year. Holiday travel was up 6% in the first four months (thanks mainly to a better winter sports season), but growth slowed to only 1% in May to August, according to the European Travel Monitor. And, with the exception of isolated markets, no growth is expected in the last four months of the year.

In contrast to business and holiday travel, VFR and other leisure trips (undertaken mainly for educational, medical and/or religious purposes) declined by 5% from January through August, sustaining a trend that first emerged in 2007.

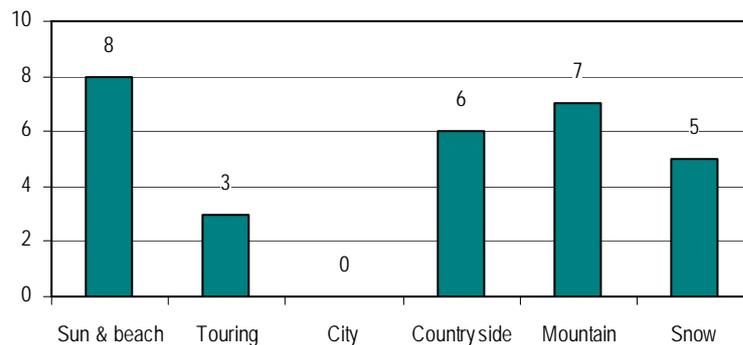
It should be noted that the estimates for the first eight months of 2008 are based on trends in 11 leading European markets, which, according to IPK International, account for roughly 65% of total European outbound trip volume.

*Sun & beach and other 'outdoor' holidays do well*

Sun & beach travel, which dominates the outbound holiday market in Europe, staged a recovery in the first eight months of this year (mainly through the peak summer months, of course), following three years of only modest growth. There were also impressive increases for mountain, countryside and snow holidays, but only a modest rise in demand for touring holidays (perhaps reflecting the high cost of motor fuels) and no growth at all in city breaks – the booming sector of the last few years.

The stagnation in demand for city breaks was attributed by some experts in Pisa to a reduction in demand for multiple secondary trips (many British, for example, have become accustomed to taking five or more a year) – in part due to reduced capacity on low-cost carriers. As discussed below, a number have collapsed this year and others reduced routes and frequencies following the rapid rise in the price of oil and, therefore, fuel prices earlier in the year.

*Trends in European holiday travel by main type of holiday, January through August 2008  
(% change on same period in 2007)*



Note: the types of holiday are shown, left to right, in order of their importance

Source: IPK International's European Travel Monitor

*Average length of stay remains unchanged*

Total European overnight volume on trips abroad, which reached 3.9 billion in 2007, rose by 5% in the first eight months of 2008 – the same as the increase in trips, so the average length of stay remained unchanged at 9.6 nights. Nevertheless, according to the European Travel Monitor, there is estimated to have been an 8% increase in short trips (of 1-3 nights) in the first eight months of the year as against only a 1% increase in long trips (of 4 nights or more) – a trend that is difficult to reconcile with the unchanged overall length of stay, not to mention the stagnation in demand for city breaks.

*Expenditure per trip is scarcely keeping pace with inflation*

Total spending on travel rose by 6% in the first eight months of the year, but spending per trip was up 3% and spending per night 2% – not quite keeping pace with inflation. This is a trend which has been evident for the last couple of years. Among the 11 European markets closely monitored by IPK, spending per trip ranged from a high of € 1,147 among Spaniards and € 1,050 among Russians, to € 796 by the Finns and just € 724 for Belgians.

### *Leading markets*

*Slackening demand has spread across most markets*

The slackening demand in recent months seems to have spread across most European source markets, although there are of course big differences in the overall growth ranking in the first eight months of 2008. Russia was the leading market by far in terms of growth, ahead of Finland, with Norway and Spain lagging well behind in third and fourth positions.

According to the European Travel Monitor, Europe's two largest sources of foreign tourists, Germany and the UK (which together account for about 35% of total European outbound trips) achieved very modest growth in the first eight months of 2008, and the third largest, France, actually shrank by 4%. These trends are broadly confirmed by the arrivals and overnight statistics filed by European Travel Commission (ETC) members on TourMIS, which show very modest increases in arrivals from Germany and France and even a slight decline from the UK.

*Performance of selected European outbound travel markets, January through August 2008*

<i>Market</i>	<i>% change in trips</i>
Russia	15
Finland	9
Norway	4
Spain	4
Italy	3
Sweden	3
Germany	2
UK	2
Denmark	1
Belgium	0
France	-4

Source: IPK International's European Travel Monitor

In Germany's case, local experts present in Pisa pointed to the increasing impact of higher airfares, the real estate and financial crises in the USA, and a growing sense of economic unease. The stagnation in the UK market was blamed on a certain saturation in demand for secondary short breaks using low-cost carriers, the gathering crises in the housing and financial markets, the weakening pound and some well-publicised failures of tour operators and airlines. In France, there is a feeling that foreign travel may have been affected by fading confidence, which persuaded many consumers not to commit savings, let alone take on more debt.

It is also clear that destinations in the eurozone suffered from the strong euro, which diverted some of those Europeans who did decide to travel to cheaper non-European destinations. More detailed information on the performance of individual European destinations will be provided by ETC in its annual *European Tourism Insights*, which is expected to be published before ITB Berlin 2009.

### *Leading destinations for Europeans*

#### *Evidence of changes in the favourites' ranking*

The notion that relative exchange rates (in particular, in the first half of 2008, a strong euro, a weak US dollar and a weakening UK pound) had powerful effects on the choice of destination is only partially confirmed by the ranking shown below. No eurozone destination is listed among the fastest-growing destinations, but several (Germany, Austria, Portugal and Malta), and a number of other destinations in Northern and Central Europe and Scandinavia with strong currencies, did better than average, with arrivals growing by more than 5%.

However, the weak US dollar certainly contributed strongly to the USA's continued inbound recovery, with the result that it recorded one of the best rates of growth out of Europe of all destinations. Likewise, Turkey, Bulgaria, Thailand and Cambodia are also very price-competitive, which undoubtedly boosted demand for these countries. Japan (in spite of the weak yen for part of the year), China (in spite of, but perhaps mainly because of, the Olympics), Vietnam (stricken by inflation) and Kenya (stricken by war) fell out of the top ranking.

#### *Performance of selected destinations in the European market, January through August 2008 (% change on same period in 2007)*

<i>&gt; 10%</i>				
Turkey	Bulgaria	USA	Thailand	Cambodia
<i>5-10%</i>				
Sweden	Iceland	Germany	Austria	Portugal
Malta	Croatia	Slovakia	Latvia	Estonia
Morocco	South Africa	Cuba	Mexico	Indonesia
<i>1-4%</i>				
Denmark	France	Cyprus	Egypt	Tunisia
Canada	Switzerland	Chile	Dominican Rep.	China
Malaysia	India	Finland		
<i>Weak inbound performance (0% and below)</i>				
Norway	UK	Ireland	Netherlands	Belgium
Australia	Spain	Italy	Romania	Greece
Hungary	Czech Republic	Poland	Singapore	Sri Lanka
Maldives				

Source: IPK International's European Travel Monitor

## Transport

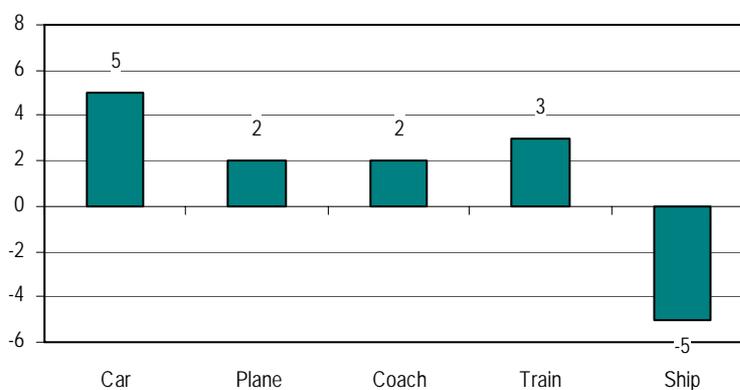
*Rise in travel by car and train, but the boom in air and sea travel falters*

So far in 2008, travel by car has grown the fastest, with an increase of 5% from January through August. The long-established trend for air travel to expand faster has – at least for the moment – come to an end. This is due in large part to the increase in airfares (including any fuel surcharges) caused by high international oil prices, but it also appears to be related to a growing awareness of the hassles and delays involved in travelling by air. Another factor was the retrenchment of low-cost airlines from routes on which they had expanded over-enthusiastically during the boom.

In fact, for the first time ever, there was a decline in the market share of low-fare flights. Trips using low-fare flights (36% of all trips by air) declined by 1%, while those on so-called 'traditional' airlines (64% of total flights) increased by 3%. However, as IPK points out, it is becoming increasingly difficult to draw a meaningful distinction between low-fare and traditional flights.

The recent increase in travel by rail on European outbound trips continued in the first eight months of 2008. This was attributed to the combination of the increased hassles and costs of air travel, the expansion of high-speed rail services in Europe, and perhaps a certain reawakening to the attractions of travelling by train. On the other hand, trips by ship and ferry declined by 5%.

*Trends in European outbound travel by means of transport, January through August 2008  
(% change on same period in 2007)*



Source: IPK International's European Travel Monitor

### Travel distribution

#### 41% of Europeans use the internet to book travel

Europeans who use the internet to help with their travel arrangements now outnumber those who do not. Indeed, the share of internet users increased from 50% in January-August 2007 to 55% in January-August 2008. And the use of the internet for online booking continues to rise much faster than its use for simply 'looking' – gathering information prior to booking a trip. The share of online bookings (for at least part of a trip) has risen from 19% of total trips abroad in 2003 to 41% this year.

#### European online travel trends, January through August 2007-08 (% of trips)

	Jan-Aug 2007	Jan-Aug 2008
Online booking	36	41
Online 'looking'	13	14
All internet users	50	55
Non-internet users	50	45

Source: IPK International's European Travel Monitor

Nearly half of all European travellers now use the internet for information about their trips, while the importance of the travel trade as a source of information continues to slide. But the most notable development in this year's responses to this question in the European Travel Monitor questionnaire is a four percentage point increase in those saying they pay attention to friends and relatives – to 19%.

#### Information sources used by European outbound travellers, January through August 2008

Source	% share <sup>a</sup>
Internet	47
Travel agency	23
Friends/relatives	19
Travel guide	8
Travel brochure	7
Newspaper	2
Tourist office	1
TV	1
Others	3
No information	17

<sup>a</sup> Multiple responses possible

Source: IPK International's European Travel Monitor

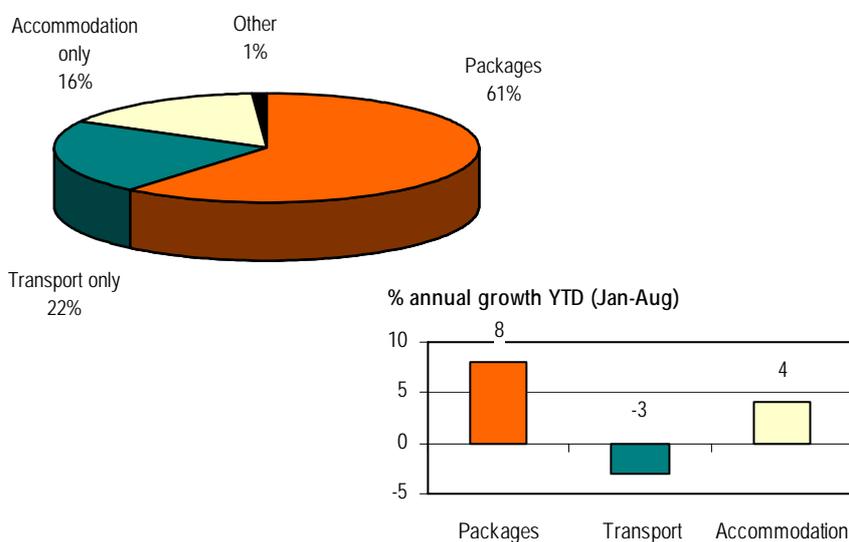
The growing ease of direct bookings through the internet is working to undermine the role of the retail travel trade, but at the same time the rise in dynamic packaging offered directly by tour operators to clients booking online is

working in the opposite direction. While nearly 40% of all bookings are made at least partly online, 25% involve travel agents, 10% are booked direct with hotels and 7% direct with transport companies. Just over a quarter of all European outbound trips do not involve any advance bookings at all.

*Over 60% of Europeans opt for a package, or create their own*

The share of trips involving full packages continued to rise in the first eight months of this year – by 8%, compared with a 4% increase in the number of 'accommodation only' bookings and a 3% decline in 'transport only' bookings. These full packages include packages self-tailored online, primarily as dynamic packages. Interestingly, although accommodation-only pre-bookings rose only moderately, pre-bookings direct with hotels rose sharply, implying that travel agents and other intermediaries lost some market share in hotel bookings.

#### *Breakdown of European pre-bookings, January through August 2008*



Source: IPK International's European Travel Monitor

Among the full packages, there was a 5% increase in accommodation plus flight bookings, a 7% increase in accommodation plus coach bookings, a remarkable 20% increase in accommodation plus train bookings, and an equally remarkable 16% increase in accommodation plus other bookings. The 'others' might include travel insurance, car rentals, ferries, cruises and excursions.

Among transport-only pre-bookings, coach bookings rose by 6% and train bookings by 3%, but flight and 'other' (presumably mainly ferry and cruise) bookings were both down 4%.

# Americas

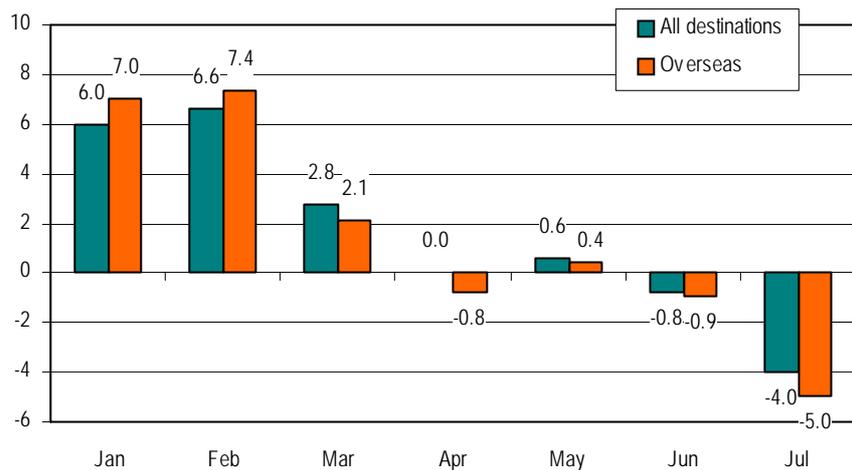
## USA

*US outbound travel growth moves into negative figures*

After a strong start to 2008, the growth in US outbound travel slowed fairly dramatically from March, moving into negative figures from June. As a result, outbound trip volume was up only 1% through the first seven months of this year.

Demand for overseas trips (i.e. to long-haul destinations) was already down in April, although this had a lot to do with the timing of Easter. But there were renewed declines in outbound travel in June and July, and the Travel Industry Association of America (TIA) does not expect the figures for August and September to show any reverse in this trend.

*Monthly trends in US outbound air travel<sup>a</sup>, January through July 2008 (% change on same period in 2007)*



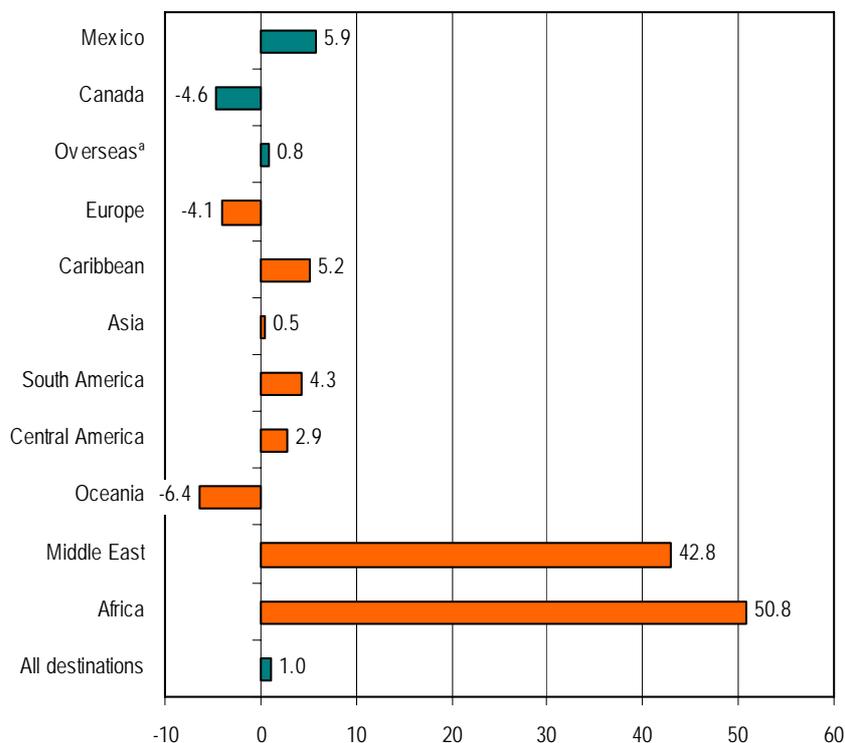
<sup>a</sup> Preliminary figures

Source: Office of Travel and Tourism Industries (OTTI), US Department of Commerce (US DOC)

*Long-haul continues to record better growth than short-haul*

It should be remembered that 2007 was a record year for US outbound travel – the first since 2000 – generating 64.1 million trips overall, thanks largely to strong demand for overseas destinations (+16%). Although Europe and Oceania suffered declines from January through July 2008, and Asia stagnated, all other long-haul destinations enjoyed better than average growth. The Middle East was up 43% and Africa 51%, albeit from low bases.

*Outbound travellers by air from the USA, January through July 2008  
(% change on same period in 2007)*



<sup>a</sup> Overseas destinations listed below in order of importance

Source: OTTI, US DOC

The US air travel market to Mexico was also pretty buoyant in the first seven months of 2008, but the weak US dollar over the same period – not to mention the Western Hemisphere Travel Initiative (WHTI) – had a negative impact on demand for travel to Canada.

*Trading down but not out*

Although there are not yet any statistics to support the anecdotal evidence of a continued downturn in demand through the third quarter of 2008, the perceived trend through the summer travel season was that Americans were choosing to trade down in terms of destinations and types of trip. Business travel (especially travel for meetings and conventions) was the weakest link, according to TIA.

For leisure travel, the preference among Americans (not unexpected, of course) has increasingly been to take shorter trips closer to home. The destination is almost irrelevant, says TIA – it depends on the overall deal available. And, as can be seen in the Current Outlook section of this report, this trend is likely to continue through 2009.

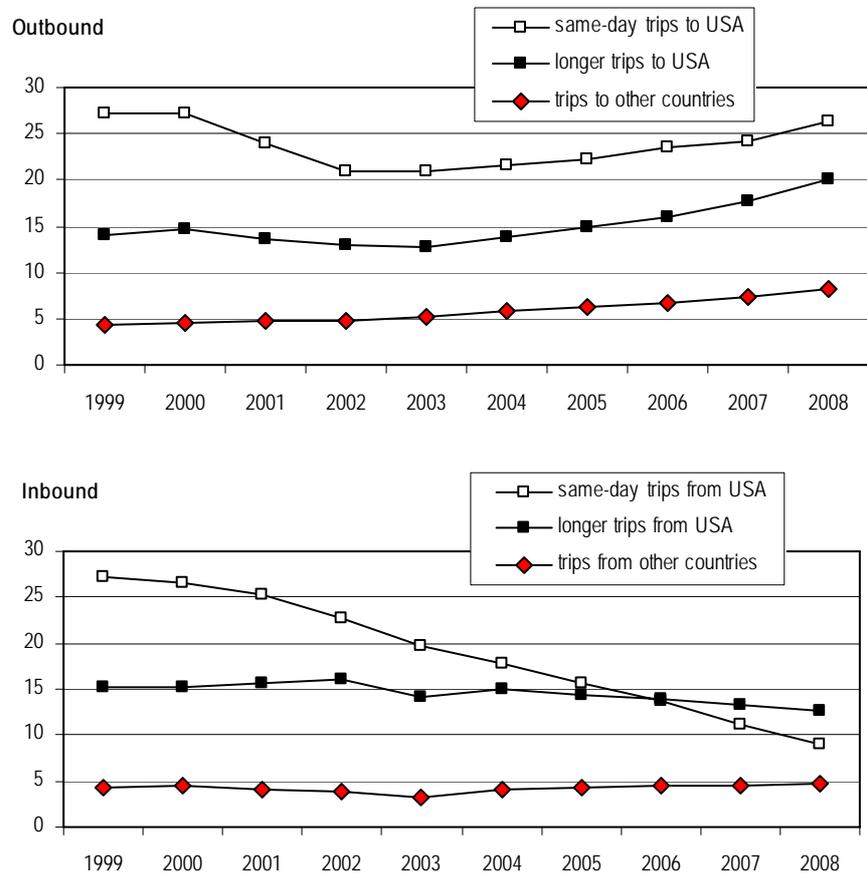
### Canada

*Outbound and inbound going in opposite directions*

By far the most important component of travel in the Americas are the flows between the USA and Canada – which (even excluding same-day visits) account for about 22% of total arrivals and 30% of total inter-regional arrivals in the region. And the pattern of these flows has changed steadily but quite dramatically over the last few years.

Same-day visits from the USA to Canada have declined by two thirds since 1999, while those in the opposite direction have recovered almost fully from the decline in 2001-03. Longer trips from the USA to Canada have fallen by a fifth over the last ten years, while those from Canada to the USA have risen by two fifths. And these trends have been sustained so far in 2008, as has already been indicated in the case of USA to Canada travel.

*Long-term trends in Canadian outbound and inbound travel, 1999-2008<sup>a</sup> (mn trips)*



<sup>a</sup> Data for 2008 projected at growth rate for January-August.

Source: Canadian Tourism Commission (CTC)

Travel to and from the rest of the world has shown similar, but less dramatic, trends. The numbers of outbound trips have nearly doubled over the last ten years, while inbound visits have risen only slightly.

*Exchange rates largely to blame*

The principal factor behind this trend has been relative exchange rates, although there have been others, such as the implementation by the USA of stricter border procedures with the WHTI (so far only applicable to air travel).

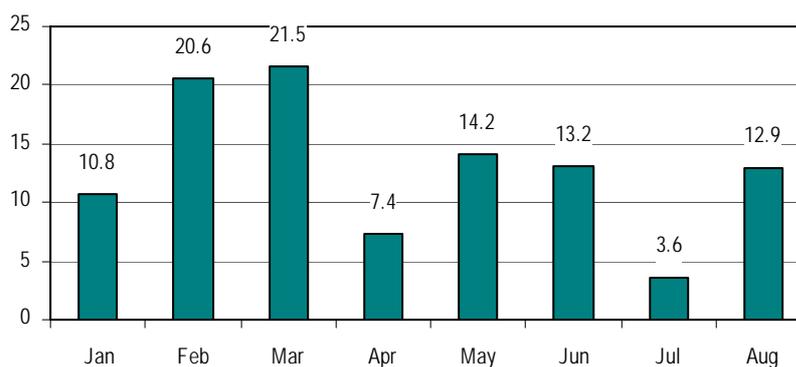
However, the Canadian dollar's steady rise against the US dollar – from C\$1.55:US\$1.00 in 2001-02 to, briefly, an unaccustomed parity with the US dollar at the end of 2007 – made Canada a relatively expensive destination, and made outbound travel correspondingly attractive to Canadians. The USA has not been the only destination to have benefited, either.

*A booming outbound market – so far this year at least*

The Canadian dollar remained strong through the first half of 2008, which explains the 13% growth in outbound trip volume in the first eight months of this year. Trip volume to the USA increased by 14%, while trips to overseas destinations rose by 11%. It should be noted that, as a result of the strong euro and pound sterling in 2007 and for much of 2008, Europe has been losing share in the Canadian market.

Given that, over a few hectic days in October, the Canadian dollar lost up to 25% of its value against the US currency, the outlook for the remainder of the year is not so bullish. (It lost even more against the Japanese yen and rather less against the euro, but held its value against, for instance, the pound sterling and the Mexican peso.) But it is still anyone's guess as to how the currency markets will perform over the next few months.

*Monthly trends in Canadian outbound travel<sup>a</sup>, January through August 2008 (% change on same period in 2007)*



<sup>a</sup> Trips of one night or more although, strictly speaking, outbound figures represent residents returning to Canada after their trips

Source: CTC

## South America

### *A fast-growing travel region*

South America appears to have been one of the fastest growing markets in the world for outbound tourism in the first six to eight months of 2008. The three principal outbound markets are, in order of trips, Argentina, Brazil and Chile, and in order of spending, Brazil, Argentina and Chile. Peru – currently the fastest growing economy in the region – is now the fourth largest market in terms of trips, but is far outdistanced in terms of spending by Colombia and Venezuela (and nearly matched by Uruguay, a country with barely one tenth the population).

Travel intensity (outbound trips per 100 persons) is much higher in Argentina (11 trips) and Chile (8) than in South America as a whole (4) and in Brazil (2) – a vast country which (like the USA) looks very much to itself for its leisure and business travel requirements.

### *Sources of outbound travel from South America, 2007-08*

<i>Source market</i>	<i>2007 Trips (mn)</i>	<i>Share (%)</i>	<i>Trips per 100 persons</i>	<i>Trend in 2008 (% increase)</i>
Argentina	4.3	30	11	6-10
Brazil	3.4	23	2	>10
Chile	1.3	9	8	0-5
Peru	1.1	8	4	0-5
Other	4.4	30	4	0-5
Total	14.5	100	4	6-10

Source: IPK International's South American Travel Monitor

Indications from IPK International's South American Travel Monitor suggest that the growth in outbound trips from Brazil will be more than 10% in 2008, while trip volume from Argentina will increase by 6-10%, with other South American countries up 0-5%.

### *Intra-regional travel predominates*

Of the total estimated 14.5 million trips taken by residents of South America in 2007, almost two thirds (63%) were for other destinations in the region. Intra-regional trips and trips to North America are expected by IPK International to grow the fastest in 2008, by over 10%. Trip volume to Europe will rise by and estimated 5-10% – with rather faster rates for Brazil and Argentina than the average for the rest of South America – while trips to Central America will show the slowest growth, of less than 5%.

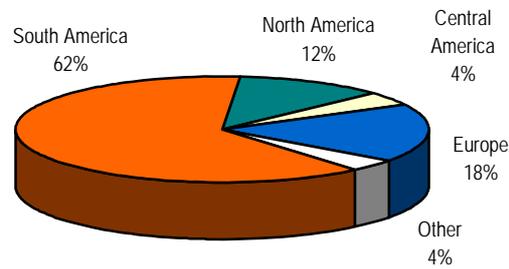
It should be noted that, in terms of purpose of trip by South Americans, holiday travel accounts for as much as 65% of trip volume, while business/corporate travel generates around 25% and 'other leisure' 14%.

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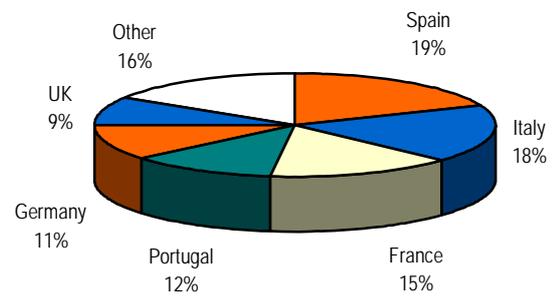
*Destinations of outbound travel from South America, 2007*


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Breakdown of trips by region



Breakdown of trips to Europe



Source: IPK International's South American Travel Monitor

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*Spain is the favourite European destination, followed closely by Italy*

Perhaps not surprisingly, given the ethnic and linguistic links, Spain attracts the highest share of South American trips to Europe (19%), according to the South American Travel Monitor by IPK International. But Italy is hot on its heels (with an 18% share), followed by France (15%), Portugal (12%) and Germany (11%). The UK comes sixth in the ranking with 9%.

## Asia

### Overview of regional trends

#### *Disappointing regional arrivals ...*

As reflected in the UNWTO results for the first eight months of 2008, one of the most surprising trends to come out of the Pisa Forum this year was the much sharper than expected downturn in international tourist arrivals in Asia Pacific. The UNWTO data showed a 9% increase in the first quarter of the year, which fell to 3% in the second. And, based on preliminary results for the months of August and September, quarter three was expected to record a slight decline.

#### *... due to faltering growth in leading Asian markets*

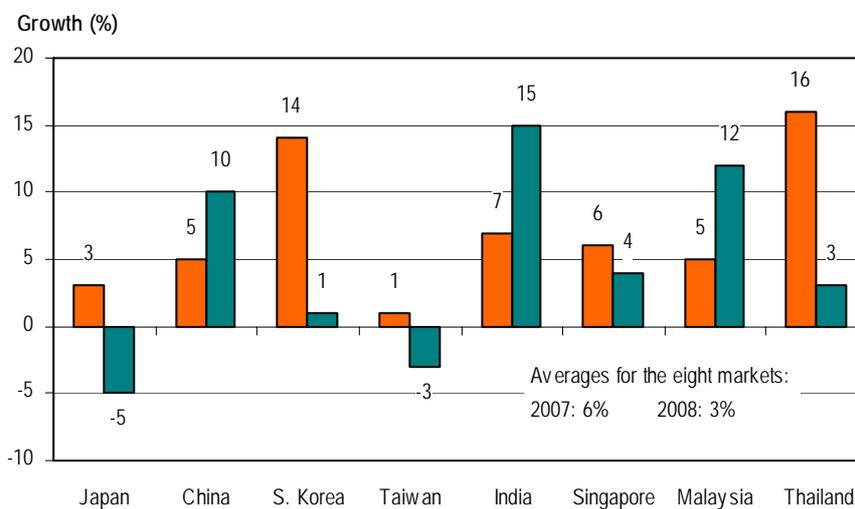
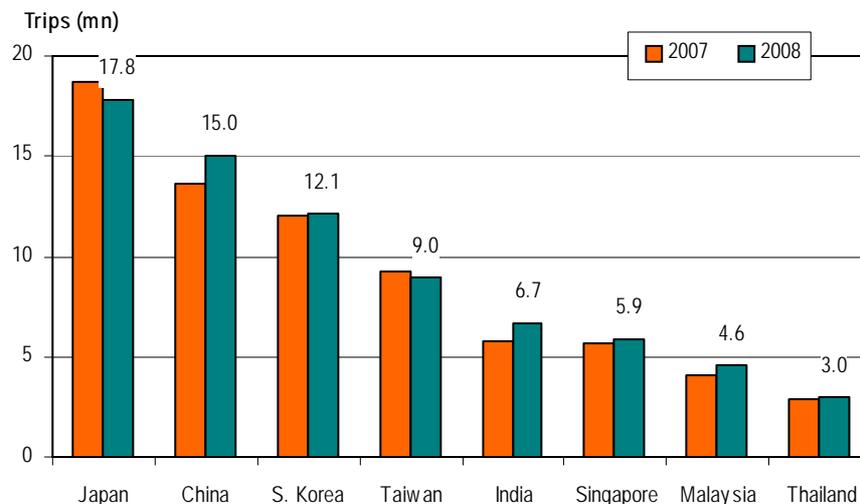
The trend was attributed to a number of different factors, as already explained – such as tightened security for the Beijing Olympics, increased visa restrictions, airline surcharges due to increased oil and fuel prices, and significant airline capacity cuts. But the main results of all these factors were marked slowdowns and even declines in intra-regional travel from leading source markets.

In the first eight to nine months of 2008, official figures point to decreases in outbound trips from Japan (-6% through the month of September), South Korea (-4% to September) and Taiwan (-3.5% to August). China's outbound travel growth slowed in the first half of the year, as a result not just of the upcoming Olympic Games but also of the earthquake in Szechuan Province and heavy snowfalls during the peak February Golden Week holiday period. However, it has since picked up and is expected to end the year on a positive note.

#### *Outbound trip growth expected to slow to half 2007's level*

IPK International's Asian Travel Monitor, which indicates estimated trends for the whole of 2008, shows similar trends for the four leading source markets in the region. But it forecasts much stronger growth for India (+15%) – one of Asia's fastest-growing markets over the past few years – and Malaysia (+12%), with positive growth also for Singapore and Thailand (+4% and +3% respectively). And its forecast for the region as a whole, in terms of outbound trip volume in 2008, is 3% – only half the level of growth in 2007, but nevertheless positive.

## Major sources of outbound travel from Asia, 2007-2008



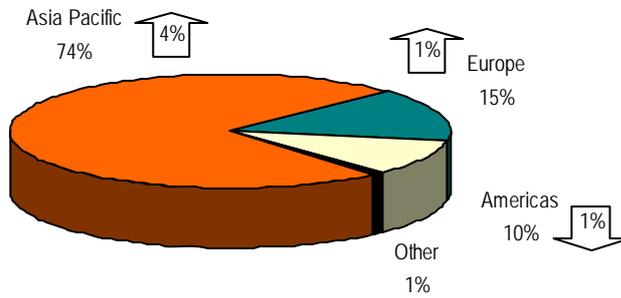
Source: IPK International's Asian Travel Monitor

*Intra-regional travel strengthens at the expense of long-haul*

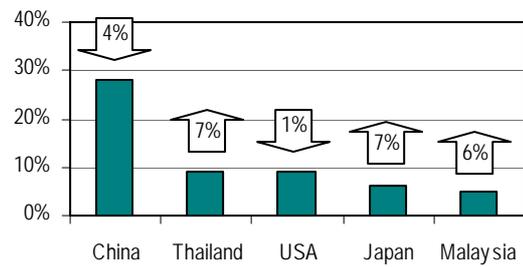
Some three quarters of all Asian outbound trips are for destinations in the region – a share that appears to be growing, according to IPK International's Asian Travel Monitor. Europe attracted a 15% share in 2007 and, based on trends so far, is expected to grow by the same percentage as intra-regional trips (+3%). But the USA's 10% share will decline due to a predicted 1% drop in demand for the destination this year among Asians. Africa, meanwhile, will likely retain its modest 1% share of total trip volume.

*Breakdown of outbound travel by destination from the major Asian markets, 2007*

**Breakdown (and expected trend in 2008) of trips by region**



**Major destinations**



Source: IPK International's Asian Travel Monitor

China is expected to remain the favourite destination for Asian outbound travellers in 2008, despite a predicted 4% decline in trips. Among the other four leading destinations, Thailand (in number two slot) and Japan (number four) should increase their market share, as will Malaysia (number five). But the share of the USA, in third position in the ranking, is expected to decline, with a 1% decline in the number of trips from Asia.

## *Japan*

### *The decline continues and intensifies*

By whichever measure the market is analysed – e.g. IPK's Asian Travel Monitor, or arrivals trends gathered by ETC, UNWTO and other organisations – the Japanese outbound travel market is continuing to decline. And few of the traditional factors attributed to such a decline seem to be relevant as the market goes into free fall.

However, in the context of a study presented in Pisa by the Japan Travel Bureau (JTB) Foundation, some interesting trends have emerged that help to explain the continued decline in demand from this much prized source market and provide some lessons for the future.

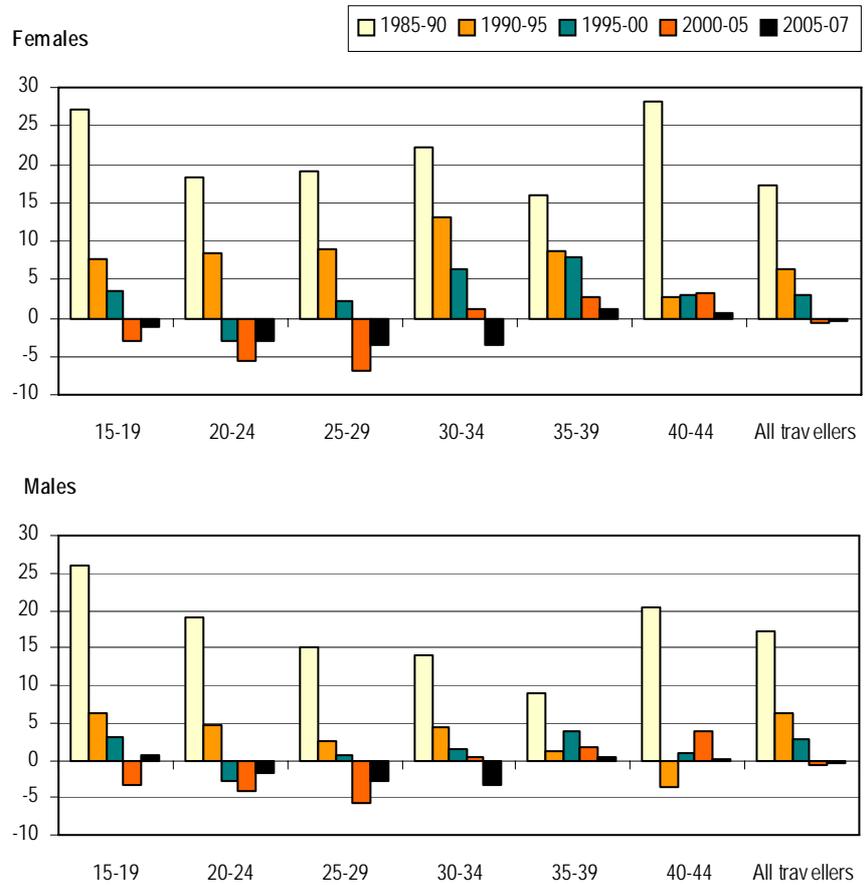
The Japanese market has been under-performing for quite some time now. The long list of reasons given have ranged from different financial crises, the surge in fuel prices and wild fluctuations in the exchange rate of the Japanese yen, to more local issues like pensions – and, in particular, a total lack of confidence among older Japanese in the national pension system – the ageing of the Japanese population coupled with declining birth rates, and a collapse in confidence in Chinese tourism products and services, which has had a significant impact on the Japanese market to China.

JTB Foundation now believes that too much emphasis has been placed on the economy – as the primary driver of outbound travel demand – and that general social factors, such as work and leisure, marriage and family, education and social disparity, as well as gender issues, are actually more important.

### *Decline greatest among young Japanese*

As the following charts show, the decline in demand for outbound travel has come very largely from among the younger generations, such as the 'young office ladies' in their 20s who were such a fast-growing market in the late 1980s.

*Long-term trend in Japanese overseas travel by selected age groups, 1985-2007*  
 (% annual change in trips by age group)



Note: 'All travellers' includes other age groups

Source: Japan Travel Bureau (JTB) Foundation

The interesting thing is that it is not only demand for travel that has suffered, but also demand for many of the leisure pursuits traditionally enjoyed by the Japanese public, such as skiing and golfing and participation in other hobbies and social activities. Over the same period, in line with the more difficult economic climate in Japan and the end of the 'one job for life' environment, young people have become much more serious about their education (eg going to university), life-long learning and finding secure employment, as well as about saving for the future. So outbound travel for travel's sake – just for pleasure – is much lower down their list of priorities.

*New products needed to stimulate demand*

Unfortunately, in part because of the travel industry's blinkered focus over the last decade on the potential of mature travellers, and especially mature female travellers, it has lost touch with the needs of younger Japanese, whether male or female, and have not adapted their tourism products and services to suit. It remains to be seen whether a change of tourism products, as well as the recent

appreciation of the yen, will be enough to stimulate demand in the current difficult environment.

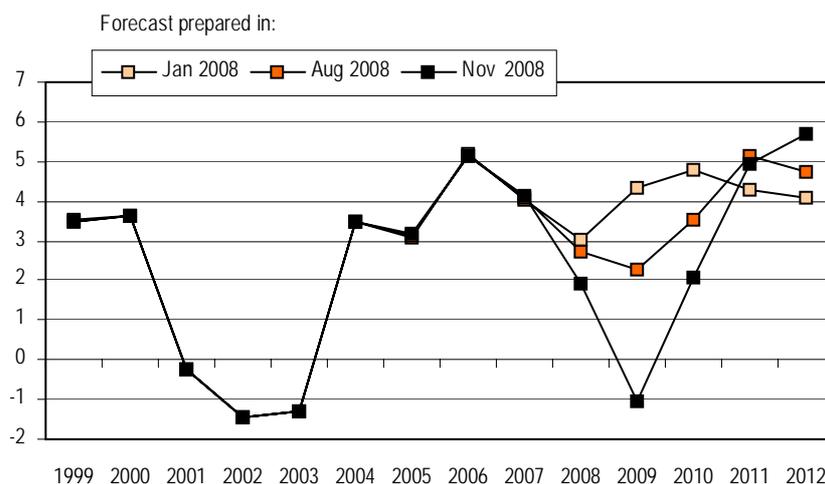
## Current Outlook

### Main drivers of tourism growth

*Economic factors will remain important ...*

As shown in the following graph, the deterioration in the macroeconomic environment and the marked slowdown in the most recent monthly indicators of tourism activity now point towards a more pronounced cycle in 'Travel & Tourism Economy GDP' than envisaged in January, to use Oxford Economics' Tourism Satellite Account (TSA) terminology.

Forecasts of world 'Travel & Tourism Economy GDP' growth, 2008-12 (% annual change)



Source: Oxford Economics

The impact in future years is expected to be greater. Travel & Tourism Economy GDP is now expected to contract by 1% in 2009 and to grow by just 2% in 2010, or at half its trend growth rate. The good news is that this points to a stronger recovery in tourism demand in 2010-12.

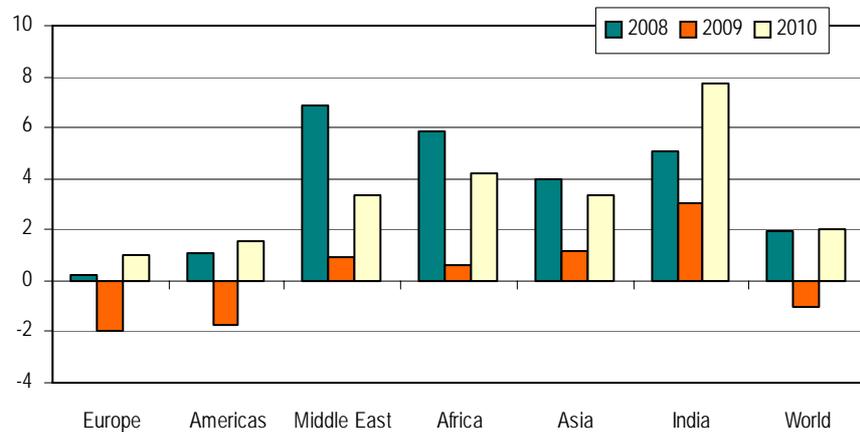
But it goes without saying that this forecast – like macroeconomic prospects generally – carries downside risks if the credit crunch generates a longer-term, worldwide, economic slowdown extending through the whole of next year.

*... although actual performance will vary from region to region*

The latest forecasts from Oxford and Tourism Economics produced initially for WTTC show that the 1% decline predicted for global Travel & Tourism Economy GDP in 2009 can be attributed to declines for Europe and the Americas. However, the growth trend for the Middle East, Asia and Africa will remain positive next

year, and all regions of the world are expected to turn in positive performances in 2010 – assuming the downside risks do not materialise.

*Forecasts of regional 'Travel & Tourism Economy GDP' growth, 2008-10  
(% annual change)*



Source: Tourism Economics; WTTC

*Uncertain outlook for  
oil prices*

The volatility of oil prices, and hence airline fuel prices, has been a major influence on demand for air travel over the past few months – and this is not to mention the impact of the prices of other types of fuel on travel generally and on household spending. Yet, after peaking at US\$146 a barrel in July, the price of oil fell sharply to around US\$60 in only three weeks, and it has since fallen to under US\$50.

Global oil demand and supply have been in near balance in recent years, with developed nations accounting for more than half of the world's total oil demand. However, the gap between oil consumption in OECD countries and in the rest of the world is now narrowing. By the end of 2009, according to Global Insight, non-OECD countries are expected to account for over 45% of the world's oil consumption – up from less than 42% in 2007.

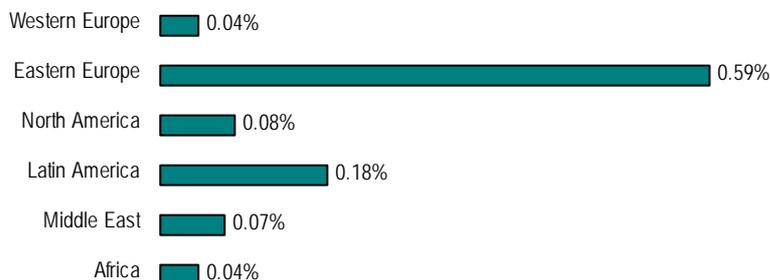
The economic downturn from mid-2008 resulted in a slackening of demand for oil that helped to push prices down. And a deeper economic recession could intensify the trend, especially if inventories rise before OPEC cuts output. Global Insight says that a 1% increase in oil prices will tend to decrease arrivals in each region by differing amounts, as shown in the following chart.

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*Effect of international oil prices on global travel in selected regions*


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A 1% increase in oil prices decreases arrivals in each region by:



Source: Global Insight

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Owing to the prevalence of short-haul travel, oil prices have little effect on arrivals in Western Europe, but they have the greatest influence in Eastern Europe and Latin America, where destinations are farther apart and incomes are generally lower. Oil's effect on arrivals in North America and the Middle East fall somewhere in between. Travel distances are greater but the regions are helped by higher incomes.

For the moment, the low price of oil is good news for air travellers as well as airlines, although many airlines locked into prices well above current levels when hedging for the future after prices were soaring earlier in 2008. There is little doubt that oil prices will again escalate in the future, but when and by how much are still unanswerable questions.

*Low-cost carriers have benefited most from the oil price drop*

As reflected in IPK International's European Travel Monitor results for January through August 2008, low-fare airline travel actually declined in the first eight months of this year for the first time ever. And similar trends have been seen in other regions of the world, especially Asia.

The main reason for this is that low-cost carriers (LCCs) were harder hit than full-service airlines when oil prices rose earlier in the year, because fuel accounts for a higher share of their total costs. The fall in oil prices has been good news for LCCs, although there have been a number of failures and shrinking demand is likely to see more collapses. At the same time, market failures among full-service carriers may lead to new opportunities.

*Still plenty of room for growth from LCCs*

The following tables highlight the importance of LCCs in Europe, but also in the rest of the world. Capacity on LCCs in Europe nearly tripled from November 2004 to July 2008 and, while some markets have no doubt reached a ceiling in terms of demand, there is still plenty of room for growth in other markets.

*Development of low-cost carriers in Europe, 2004-08*

	<i>Routes</i> <i>Routes</i>	<i>Flights</i> <i>per week</i>	<i>Available seats</i> <i>per week</i>	<i>Share of</i> <i>total seats (%)</i>
Nov 2004	1,916	15,208	2,200,000	na
May 2005	2,301	20,152	3,000,000	na
Dec 2006	2,916	24,046	3,723,104	24
Jul 2007	4,290	34,625	5,266,530	28
Jul 2008	5,292	40,037	6,234,862	30

Source: *Low Cost Monitor*, German Airports Association (DRV)

The US LCC, Southwest Airlines, operated nearly 23,000 flights weekly in September 2008 – serving 64 airports on 434 routes. This highlights the huge potential for growth of LCCs in regions such as Asia Pacific.

*Operations of selected low-cost carriers, September 2008*

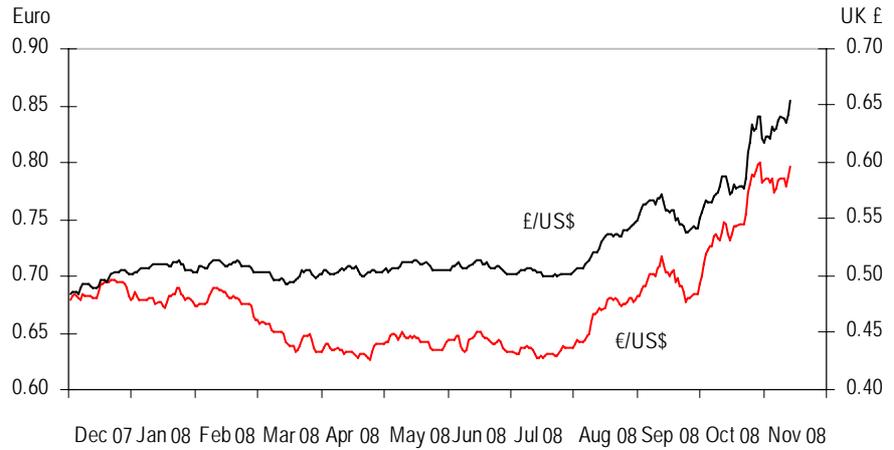
	<i>Routes</i>	<i>Airports served</i>	<i>Flights per week</i>
Ryanair	629	139	7,848
Southwest Airlines	434	64	22,884
EasyJet	354	96	6,922
Gol	122	56	4,082
JetBlue	120	51	3,443

Source: DRV

*Currency markets are also extremely volatile*

Although they usually have a lagged effect, experience has shown that exchange rate fluctuations also have strong impacts on demand for travel and tourism. And there is little doubt that the huge appreciation of the US dollar against many key currencies in September and October (the Brazilian real and South African rand, for example, lost one third of their value against the dollar over the period), as well as the sharp fall in sterling and the equally sharp rise in the yen, will be felt in the respective markets.

Exchange rates of the US dollar against the euro and sterling, December 2007- November 2008



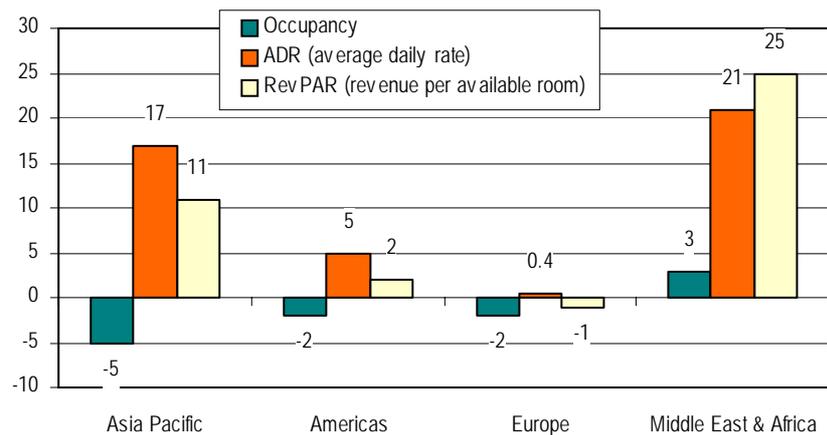
Source: The Travel Business Partnership, from OandA.com

However, the full impact will take time to be seen and other factors, such as relative inflation, will also play their part.

*Accommodation:  
can demand keep up  
with supply?*

Statistical trends from Smith Travel Research, analysed by Ernst & Young for the Pisa Forum, showed that the Middle East & Africa was the only region to escape a downturn in demand for hotel accommodation. Asia Pacific, the Americas and Europe all suffered declining occupancies and revenue per available room (revPAR) was also down in Europe.

Global hotel performance, January through August 2008 (% change over same period in 2007)



Note: Selected markets in each region – % changes in Asia Pacific, Americas and Middle East & Africa expressed in US dollars; Europe in euro

Source: Ernst & Young, from Smith Travel Research

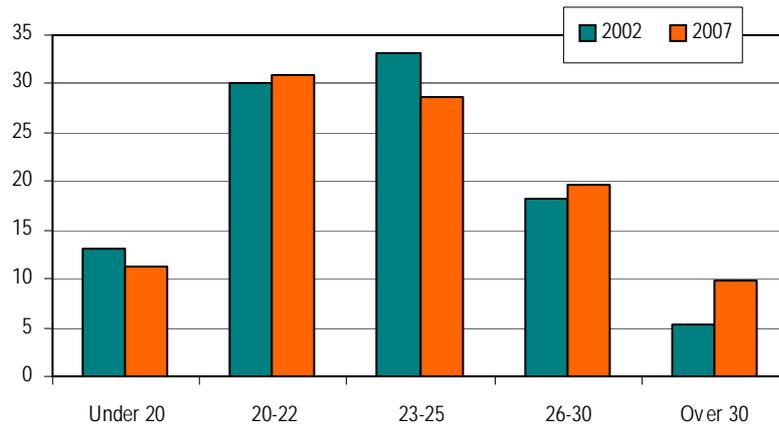
However, there are big questions as to whether demand can be sustained in the Middle East to maintain such high occupancies and average room rates when supply has been expanding so fast in the region. In fact, the industry is beginning to see the cancellation of many new hotel projects currently in the early stages of planning. These projects would not have been coming on stream in 2009-10, anyway, but their absence may eventually be felt when demand catches up, perhaps in 2011-12.

*The 'youth segment' is more about one's state of mind than age*

A study for UNWTO suggests that youth travel is one of the fastest-growing segments of the tourism market and offers huge growth potential for the future. It accounts for some 20% of international tourist arrivals worldwide – 160 million arrivals in 2005 – and the total is expected to rise to around 300 million by 2020.

The World Youth Student & Educational Travel Confederation (WYSETC), which carried out the study, also says that the age sub-segment with the greatest growth potential is the oldest – i.e. those over 30 years old, for whom the share of youth travellers doubled in the five years from 2002 to 2007. The trend, which is expected to continue, shows that youth travel is more about lifestyle and state of mind than actual age.

*Breakdown of 'youth travellers' by age groups, 2002 and 2007 (% shares)*

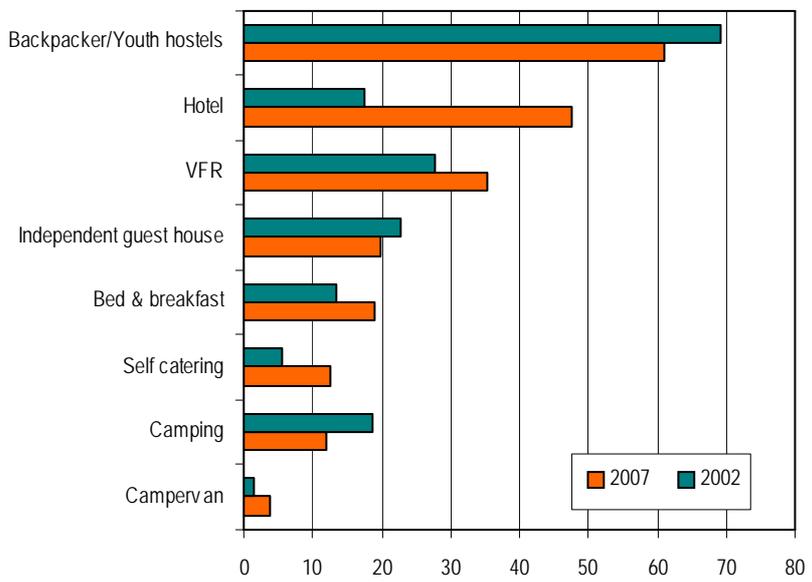


Source: World Youth Student & Educational Travel Confederation

*Youth travellers trading up in terms of accommodation*

According to the WYSETC, while youth hostels are still the accommodation of choice for youth travellers around the world, they have been trading up in recent years – a trend that is expected to continue in the short to medium term. Hotels, and particularly budget hotels, are gaining ground, as the following graph shows.

*Accommodation of choice for 'youth travellers', 2002 and 2007  
(% shares)*



Source: World Youth Student & Educational Travel Confederation

*Shifting demographics and changing lifestyles*

Much of the discussion and debate at this year's Pisa Forum centred on the likely profile of the changed market that will emerge after the current crisis. Shifting demographics (mainly the ageing of different populations) and changing lifestyles are a fact of life, and in the world of travel and tourism major economic crises do tend to result in shakeouts that accelerate the natural transition of markets.

One important influencing factor for tourism in the future will be the 'new middle classes' in emerging markets like China and India. In addition, the fact that 50% of the world's population now lives in cities – a share that is rising rapidly – is also expected to have a positive impact on travel demand from traditional and new markets.

In line with trends over the past decade, people will be looking for more authentic tourism destinations and products. Slow food is one example because it allows people to enjoy the taste of different cuisines, reflecting local cultures and respecting the rhythm of the seasons. More and more travellers are starting to ask "why should we eat fast".

**The travel of the rich and ultra-rich**

For the first time at the Pisa Forum, experts from Switzerland, USA and Brazil discussed the travel requirements of the ultra-rich and the rich. Although they represent only 2% of the world travel market, their travel spending now exceeds 10% of total international travel spending. Trips costing 5,000 euro per night are quite normal in this segment. Very few destinations have so far managed to attract and satisfy these ultra-rich travellers. The criteria for attracting them were presented and discussed during the Pisa meeting.

It was mentioned, for example, that for many tourists the definition of luxury travel is changing – moving away from exclusivity and status symbols to pleasure for the sake of pleasure and the freedom to choose what one wants. For some people this will be about nature and/or restoring one's inner balance; for others, it might be a desire to push one's physical limits.

But whatever the differences from one market to another, or even from one individual tourist to another, travel and tourism have clearly become a major priority for mature source countries around the world. And the emerging economies are fast catching up.

### *Looking beyond the short term*

*2009 will be a tough year ...*

Given the events of the last few months and the generally gloomy economic outlook, the prospects for travel and tourism in the short term – at least to the end of 2009 – are not very positive. There are no quick or easy fixes to the current crisis, which was many years in the making, and the situation is almost certain to get worse before it gets better.

As a result, experts gathered in Pisa for the 16th World Travel Monitor Forum agreed that, whether in terms of international tourist arrivals or trip volume, 2009 will be at best be a year of stagnation, and more probably will show a slight global decrease of one or two percent. Europe and North America will probably suffer the most from the point of view of travel and tourism demand, with results at the lower end of the forecast scale. Business travel might suffer more than leisure travel.

But the forecast is not only one of doom and gloom. Some parts of the world, notably Asia Pacific and Latin America, could see the start of a recovery before the end of 2009, thanks to sustained demand from a number of emerging markets, especially China and India. This will nevertheless be more likely to benefit short-haul destinations, at the expense of long-haul points.

Meanwhile, opinions on 2010 are mixed. There is no doubt that one of the main driving factors of the recovery will be the global economy, but other influences could also prove critical. But, given the rapidly changing situation, not to mention conflicting indicators and uncertainty about specific influences, the picture is very clouded, which makes it almost impossible to predict with any assured degree of accuracy when that recovery might take place.

IPK International and the many experts in Pisa believe this will become much clearer by ITB Berlin in March 2009, after which the next *ITB/IPK World Travel Trends Report* will be published.

*... but it is not too early to plan for the recovery*

Despite the uncertainties, it is clear from discussions in Pisa and other anecdotal evidence that the travel and tourism industry is not taking the current situation lying down. It will clearly take time to re-establish the optimum balance between supply and demand, but destinations around the world appear to be working with the private sector to identify new markets and market segments offering the best growth potential.

There is no time like a downturn to plan new marketing and development strategies, although a supportive policy framework from government is also essential.

*80% of Europeans claim they will travel at least as much as before*

In response to questions posed by IPK International in autumn 2008 in the context of the European Travel Monitor about Europeans' travel intentions over the next 12 months, the following surprisingly positive answers were given. Some 48% of respondents said that they would definitely travel in 2009, and maybe more often than in the last 12 months; 32% said yes, they would travel as often as in the last 12 months; 14% said yes, but maybe less often; and 6% said they

would rather not travel. Respondents in Norway and Finland were more positive about their intentions, while those in the UK and Italy were more negative.

*US outlook may not be as bad as many imagine ...*

While American experts in Pisa were rather negative about prospects for US outbound travel in 2009, things may not be as bad as they predict. The Conference Board index of US consumer confidence crashed in October to its lowest reading on record, and the TIA/YPartnership *Travelhorizons* Traveller Sentiment Index (TSI) has been slipping to ever lower levels. So, given the recent turmoil in financial markets and the chorus about the current/upcoming recession, it would be easy to conclude that the prospects for US outbound travel in 2009 are dismal.

However, having knocked itself and then the rest of the world off-balance, the US economy now appears better placed than many to stay on its feet. The new government, like the old one, seems intent on providing massive support to the economy and to consumers. And in its role as a currency of last refuge, the US dollar seems set to insure the nation's consumers against a decline in their purchasing power abroad. This is a welcome reversal, for US travellers, of the trend in 2002-07, when trips abroad became ever more expensive. Finally, the penalty imposed by high oil prices is shrinking much more rapidly for US consumers than for those in countries with weaker currencies.

*... but a change for the worse is expected for Canadians*

For Canada, on the other hand, things do not look quite so optimistic in terms of outbound travel, which remained remarkably buoyant into the third quarter of 2008. The Canadian Tourism Commission, taking as assumptions that the Canadian dollar will depreciate further against both the US dollar and the euro, and that the Canadian economy will remain resilient, regaining momentum in the second half of 2009, forecasts that total outbound travel will fall by 7.2% in the fourth quarter of 2008 and 4.5% in the whole of 2009.

*Asians and Latin Americans may experience mixed fortunes*

Meanwhile, although forecasts for Asian outbound travel remain fairly subdued – IPK International's are among the most positive at +3% in outbound trip volume for 2008 and about the same for 2009 – there are a number of factors that could help boost demand, assuming that oil prices do not rise again to this year's peak levels.

It should also be noted that a flat year is predicted for Japan outbound travel, and this has contributed strongly to lowering the overall growth forecasts for the region. Indeed, Global Insight projects 6.5% for the rest of Asia but only 3.5% if Japan is included in the equation. Oxford/Tourism Economics are rather more pessimistic – for the time being at least.

Forecasts for Latin America outbound are more bullish, although some of these forecasts were made before the sharp currency fluctuations, e.g. in the Brazilian real to US dollar, that could make travel so much more expensive in 2009. But just as the real slumped in a matter of a few weeks, the reverse may also happen.

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