

Economic Impact of

Travel & Tourism

2015 ANNUAL UPDATE

SUMMARY



Global Performance 2014

- 2014 proved to be yet another successful year for the Travel & Tourism sector off the back of a modestly stronger economic backdrop. World GDP growth increased from 2.3% in 2013 to 2.4% in 2014. The direct GDP contribution of Travel & Tourism grew by 3.5%, up from 3.4% in 2013.

- The uplift in Travel & Tourism sector growth in 2014 was as predicted one year ago, though not by as much as forecast (4.3% forecast for 2014 versus the 3.5% outturn in 2014). World GDP growth of 2.4% was weaker than the 3.0% originally expected, with below expectations growth in Latin America, Japan, Mexico and Russia being the main sources for the world GDP downgrade. On top of this, other unexpected developments during 2014 contributed to weaker than otherwise Travel & Tourism performance: Ukraine-Russia conflict, Ebola in West Africa and political instability in Thailand. Countries like Syria and Libya remained highly unstable in 2014 and terror attacks in Nigeria and Kenya increased.

- During a year of particular exchange rate volatility when the US dollar appreciated against the majority of currencies, visitor exports still grew by a robust 4.1%, outpacing growth in domestic tourism spending of 3.1%. International tourist arrivals increased by 4.7%, the fifth year in a row growth has exceeded 4%.

- Various sector indicators support the view that Travel & Tourism performance was robust in 2014. Hotel performance was strong with higher occupancy rates and average daily rates in almost all regions. International air passenger demand grew by around 6%, measured in terms of revenue passenger kilometres, up from growth of 5.4% in 2013. Continued additions to seat capacity and expansion of routes, allied to some downward pressure on air fares from lower oil prices, should ensure that further growth in international air travel materialises in 2015.

- All major components of Travel & Tourism recorded growth in 2014, as did all world regions. Business and leisure spending grew by 3.4%, while Travel & Tourism investment increased by 3.9%. But in most cases growth was weaker than predicted one year ago in line with weaker than anticipated macroeconomic performance. Business spending growth was downgraded by more than leisure spending. Like last year, part of this may be attributed to continued efforts by Chinese authorities to clamp down on corruption by reducing business travel expenses on government related business.

- South Asia, led by India, and the Middle East, were the fastest growing regions globally in terms of Travel & Tourism's total contribution to GDP. Europe's growth was weakest but its performance is improving. In terms of visitor exports, Europe out-performed North America in 2014 and is forecast to continue to do so in the medium-term given the strength of the US dollar. With the exception of parts of Asia where there has been a notable economic slowdown in recent years, such as in China, and Latin America where domestic economic weaknesses abound, all major regions recorded faster growth in Travel & Tourism's total contribution to GDP in 2014 compared to 2013.

- Africa's Travel & Tourism performance in 2014 picked up, despite the negative impact of Ebola on the sector in the parts of Africa directly and indirectly affected. Africa's improved performance was driven by stronger than expected performance in recovering Egypt and international growth in other major destination markets. The one exception is Kenya where terror attacks and travel warnings have impacted negatively on inbound tourism.

- Visitor exports growth in 2014, in real terms, was fastest in the Middle East and Africa, but slowed in Asia from 8.1% in 2013 to 4.4% in 2014. Political instability and the declaration of martial law in Thailand was a major explanatory factor for South East Asia's slowdown. A number of sub-regions enjoyed visitor exports growth around or well in excess of 5%, which in many cases was also above expectations: South Asia, Latin America, North Africa, Middle East, North East Asia, Oceania and Sub-Saharan Africa (even with Ebola). Japan and South Korea continue to benefit hugely from strong outbound spending growth from China and 2014 was no different.

- There were a number of smaller country 'hotspots' for growth in 2014, like Armenia, Oman, Qatar and Sri Lanka, which grew even stronger in percentage terms than bigger, fast growth markets like China, India, Indonesia, South Korea, and Turkey.

- It is important, however, to set growth in a single year in the context of longer-term trends, especially given the sometimes volatile nature of international tourism flows. Thailand, despite its difficulties in 2014, has still experienced a 55% real increase in visitor exports since 2007. In contrast, visitor exports in Egypt, which improved in 2014, remain 20% lower than pre-Arab Spring levels, and 50% down on 2008 levels before the onset of the global recession and eurozone crisis.

Economic Impact of Travel & Tourism: 2015 Annual Update - Summary

Travel & Tourism's direct contribution to world gross domestic product (GDP) and employment in 2014 was US\$2.4 trillion (2014 prices) and 105 million jobs respectively.

Taking its wider impacts into account, Travel & Tourism's total contribution to the global economy in 2014 was US\$7.6 trillion (2014 prices), which equates to 9.8% of total economy GDP in 2014.

2.1 million new jobs were generated directly in the sector in 2014, and in total 6.1 million new jobs were created as a result of total direct, indirect and induced activity.

The total contribution of Travel & Tourism to employment grew 2.3% in 2014, while the total GDP contribution grew 3.6%, faster than wider economy in 2014 and registering positive growth for the 5th successive year. This is again evidence that Travel & Tourism is a key engine for continued global growth and job creation.

Direct Travel & Tourism GDP growth in 2014 exceeded wider economic GDP growth in two-thirds (123) of the 184 countries covered by the annual economic impact research. Examples of countries where Travel & Tourism outperformed the wider economy include Greece and Sri Lanka. Since 2007, Travel & Tourism has significantly outperformed the wider economy in countries like Singapore, South Korea, Thailand, Turkey and UAE.

At a global level, Travel & Tourism out-performed growth in the majority of leading sectors in 2014, including automotive, public services, retail, ICT, financial services, aerospace and extraction. Its performance was only bettered by a small selection of booming sectors like consumer electronics and machine tools.

In total, Travel & Tourism supported 277 million jobs in 2014, 1 in 11 of the world's total.

Outlook 2015

- World total Travel & Tourism GDP growth of 3.7% will be stronger, again, than wider economy growth of 2.9%, exceeding wider economy GDP growth in over half of the 184 countries covered by the WTTC annual economic impact research. The sector's growth is forecast to again outperform growth in the majority of leading sectors in 2015 with only consumer electronics and aerospace forecast to have significantly stronger growth.

- Domestic Travel & Tourism spending growth is forecast to rise from 3.1% in 2014 to 3.7% in 2015, with global Travel & Tourism investment also rising from 3.9% to 4.8%. But world visitor exports growth is forecast to temporarily slow in 2015 from 4.1% to 2.8%, before returning to growth of +4% in 2016 and beyond and outpacing domestic spending growth.

- The slowdown in visitor exports growth in 2015 is in line with a similar slowdown in world trade growth, weaker travel fares growth (linked to lower oil prices and travel fares), a sharp fall in Russian outbound visitor spending (the world's 5th largest outbound market) and the strength of the US dollar /relative weakness of other currencies. But beyond 2015, visitor exports will continue to be driven by the appetite for travel beyond national borders, and the megatrend of an expanding middle-class, particularly from emerging markets.

- The sharp fall in oil prices, which roughly halved in the second half of 2014 and into early 2015, is forecast to have a significant impact on oil exporting and net importing economies. It will also have knock-on impacts to exchange rates (where currencies are not pegged to the US dollar) and outbound tourism spending. Growth of oil exporting economies like Saudi Arabia and UAE has been downgraded, even with OPEC's decision to maintain production levels. Russia is predicted to have a deep recession with GDP contracting by 6% on account of lower oil prices, sanctions, higher inflation from a substantially weakened rouble and the effects of the ongoing Ukraine-Russia conflict. Latin America's major economies, Brazil and Argentina, are again expected to struggle in 2015 with their growth downgraded from one year ago. Based on these developments, Travel & Tourism GDP growth in 2015 has been revised down for the Middle East, Latin America and Russia. Russian outbound spending is forecast to fall by a third in 2015 which will impact negatively on destinations within Europe, such as Turkey and Montenegro, and markets as far apart as the US, UAE and Thailand.

- Lower oil prices will benefit net oil importing economies and this is already being felt through falling inflation which is boosting real disposable incomes and consumer purchasing power. India and the UK's GDP growth forecasts for 2015 have been upgraded, while the US economy is expected to pick up with GDP growth of 3.3% in 2015. On the downside for the US, its economic strength will also be reflected in the strength of the US dollar, which is forecast to appreciate against all major currencies including the yen, euro and sterling. This will lead to slower growth in US visitor exports and faster growth in outbound spending in 2015, with Mexico, Canada and other major US outbound travel destinations set to benefit.

- We expect Travel & Tourism in 2015 to generate in the region of 7.2 million new jobs in total, with 2.1 million new jobs directly created within the sector. This represents growth rates of 2.6% and 2.0% respectively.

- All major regions are forecast to enjoy both Travel & Tourism GDP and employment growth in 2015, assuming no unforeseen events, such as major natural disasters, significant escalation of conflict and sanctions, terrorism attacks or any reversal of the relative political stability. Travel & Tourism growth is expected to continue to recover in Europe and North Africa, and pick up in South East Asia following Thailand's difficulties in 2014.



Ten-Year Outlook and New World Order: 2015-2025

- Total Travel & Tourism GDP is set to grow on average by 3.8% per year from 2015-2025, a slight downgrade on the 4.1% forecast one year ago.

- The main reason for the downgrade is weaker long-run economic growth in China. Factors explaining why China will struggle to maintain high past growth rates, include: demographics, diminishing investment returns, a less favourable external backdrop and slower productivity growth as the economy structurally transforms and rebalances.

- Nonetheless, growth in Travel & Tourism is expected to continue to exceed that in the wider economy and WTTC expects components of Travel & Tourism to continue to outpace their macro economy counterparts, as well as the majority of other sectors in the long-run.

- Over the course of this long-run period, we expect Travel & Tourism to provide a total of 72.9 million new jobs, 23.2 million of which will be provided directly within the sector.

- The contribution of total Travel & Tourism GDP to the wider economy is expected to rise from 9.8% in 2014 to 10.5% in 2025, and from 9.4% to 10.7% for employment. Key to this increased contribution is expected strong growth in demand from emerging markets and a rising share of consumer spending likely to go on Travel & Tourism. In addition we assume sufficient investment by governments and the private sector to meet the sector's infrastructure and talent requirements.

- South Asia will be the fastest growing sub-region for total Travel & Tourism GDP long-run growth to 2025 (7.0%) as India outpaces China. The next tier of sub-regions, with growth of 4.6%-5.6%, includes South East Asia, Sub-Saharan Africa, North East Asia, North Africa and the Middle East. Next follows North America, the Caribbean and Latin America with growth of 3.3%-3.6%, followed by Oceania (3.1%) and Europe (2.6%). Raising growth in Europe will depend on the performance of markets with the strongest growth potential like Turkey, and an improving macroeconomic environment to boost domestic spending.

- The fastest growing major countries for total Travel & Tourism GDP to 2025 will be India, China, Thailand, Indonesia, Peru and Kenya, and amongst the smaller economies, Myanmar, Montenegro, Angola, Tanzania, Bangladesh, Cambodia and Mozambique.

TRENDS TO LOOK OUT FOR OVER THE NEXT TEN YEARS INCLUDE:

- The prospect that China will overtake the United States in terms of Travel & Tourism investment – but remain second behind the US in terms of Travel & Tourism total GDP, direct GDP, domestic spending and visitor exports.

- UK, Mexico, India, Indonesia, Thailand, Myanmar and Montenegro will make noticeable moves up the global league table for total Travel & Tourism GDP.

- China will move up two places to 2nd for visitor exports, overtaking Spain and France, with Thailand moving up six places to 4th, overtaking France, Germany and the UK.

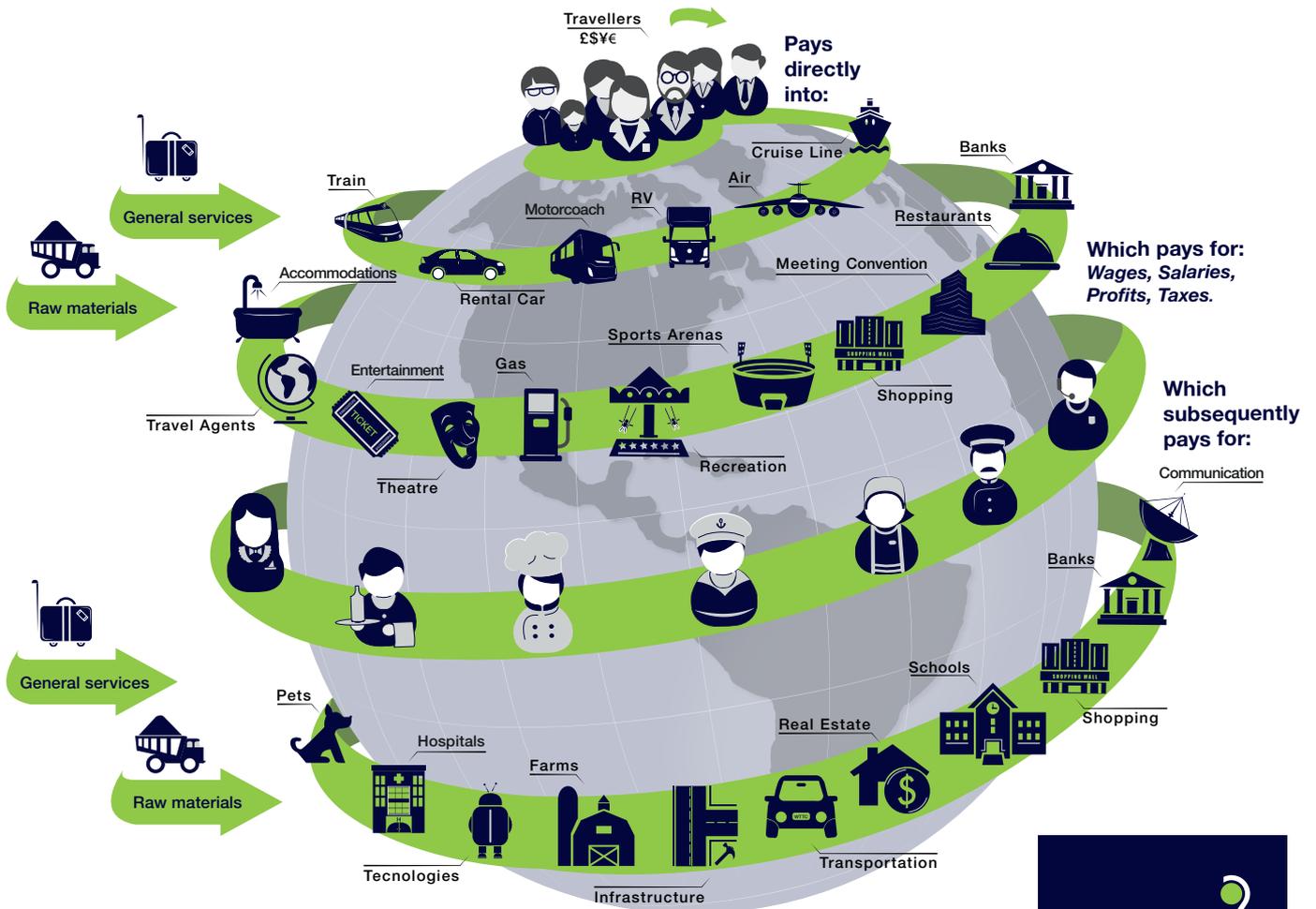
- China, US, Germany and the UK will retain the top four spots by 2025 for outbound spending (in that same order). Although approximately half of Chinese outbound spend today is to Hong Kong and Macau – adjusting for this in 2014 would shift its ranking today down to 3rd behind the US and Germany.

- Singapore, Hong Kong, India, Indonesia, Malaysia, Qatar, Saudi Arabia, South Korea and Taiwan, will make noticeable moves up the global league table for outbound spending.



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