EUROPEAN TOURISM - TRENDS & PROSPECTS

# QUARTERLY REPORT - Q3/2018

EUROPEAN
TRAVEL
COMMISSION

# EUROPEAN TOURISM IN 2018: TRENDS & PROSPECTS

## Quarterly Report (Q3/2018)

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

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

**European Tourism in 2018: Trends & Prospects (Q3/2018)**



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

Economic analysis and forecasts are provided by Tourism Economics and are for interpretation by users according to their needs.

Published and printed by the European Travel Commission
Rue du Marché aux Herbes, 61, 1000 Brussels, Belgium
Website: www.etc-corporate.org
Email: info@visiteurope.com

ISSN No: 2034-9297

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Tourism Economics (an Oxford Economics Company)
on behalf of the ETC Market Intelligence Group

Cover: Foggy autumnal sunrise at famous Hallstatt lakeside town reflecting in Hallstattersee lake. Location: resort village Hallstatt, Salzkammergut region, Austria, Alps. Europe
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# FOREWORD

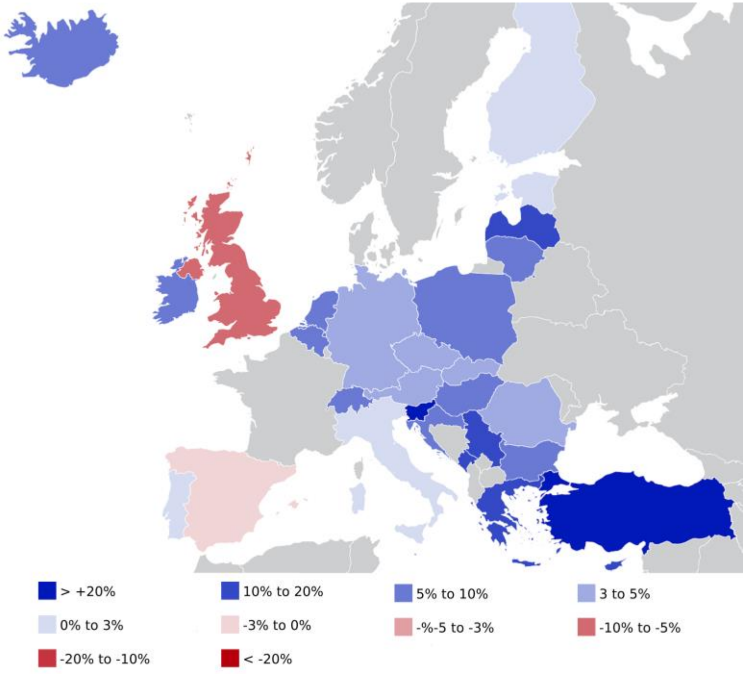
**SOUTHERN MEDITERRANEAN DESTINATIONS LEAD SUBSTANTIAL TOURISM GROWTH IN EUROPE OVER THE SUMMER**

European tourism enjoyed a sustained expansion amid less relaxed global financial conditions and risks of a disruptive trade war posing a threat to global economic growth. The region saw a +7% increase in international tourist arrivals in the first six months of the year compared to the same period in 2017[1]

Growth was synchronised with the positive economic conditions in Europe which boosted intra-regional demand and was supported by improved air connectivity, notably from China.

All but two reporting destinations delivered some form of growth, with 1 in 4 enjoying increases in excess of 10% in arrivals terms. Southern Mediterranean destinations outperformed; in Turkey (+23%), fading security concerns and the depreciation of the lira rendered the country more appealing to foreign holidaymakers. Greece (+19%) and Serbia (+15%) saw sizeable increases from a wide range of source markets particularly from China[2], while Malta's Valletta was declared Europe's Capital of Culture prompting an upsurge of arrivals (+16%). Belgium (+9%) continues to recover, and growth was further driven by the exceptionally warm weather in northern Europe.

**International tourist arrivals to select destinations in 2018**
2018 year-to-date*, % change year ago




Source: TourMIS *date (Jan-Sep) by destination

[1] UNWTO World Tourism Barometer (Volume 16. Issue 4. October 2018)

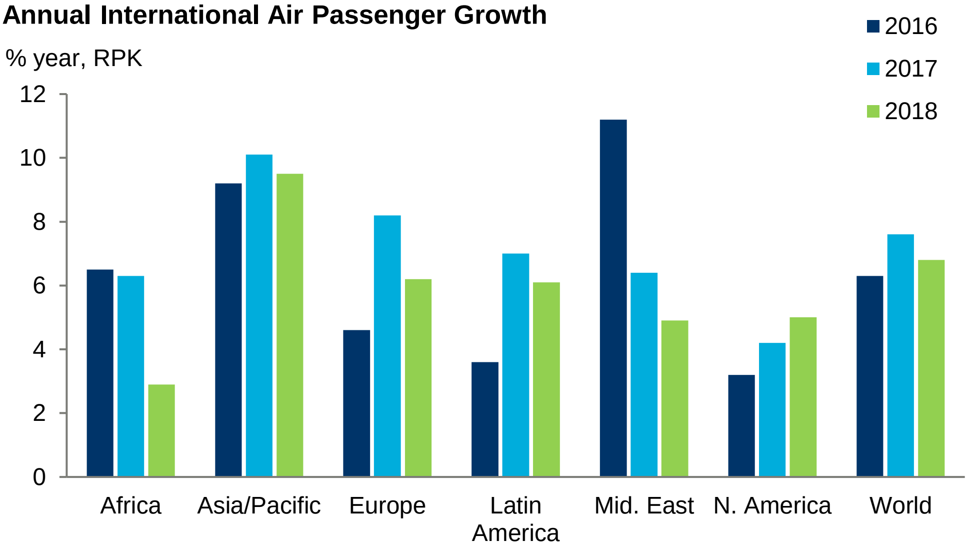
[2] https://ecty2018.org/download/4966/ and https://ecty2018.org/download/4970/

In Iceland (+6%) the substantial growth in arrivals from the US and Russia was able to offset the declines from a wide range of source markets. Spain (-0.1%) felt the pinch in some areas due to lingering concerns regarding "over-tourism", while the return of some "borrowed" market share to Turkey led to the destination's slowdown. Northwards, weaker sterling was not enough to stimulate arrivals growth in the UK (-7%).

**AIR TRAVEL DEMAND AND ACCOMMODATION INDICATORS REMAIN POSITIVE AND STABLE**

Air travel flight strikes and a mixed economic outlook appear to have had an impact on European air traffic growth with RPK[3] slowing to 6.2% based on year-to-date figures. Travel to and from Asia/Pacific registered the fastest growth with RPK 9.5% higher than a year ago. Chinese carriers continue to drive the accelerated openings of new flights between Europe and China.

**Annual International Air Passenger Growth**




Source: IATA

European hotels fared well when compared to other world regions with higher occupancy (1.1%) and Average Daily Rates (1.9%) yielding 3% growth in Revenue Per Available Room.

**ESCALATING TRADE WARS AND A VOLATILE GLOBAL ECONOMIC OUTLOOK. WHAT ARE THE IMPACTS ON TRAVEL FROM EUROPE'S LARGEST LONG-HAUL SOURCE MARKETS?**

Although the global economy is still growing[4], political discord and trade wars are starting to lean on growth prospects in advanced economies (except the US) and

[3] Revenue Passenger Kilometers

[4] IMF forecast for world GDP growth is projected at 3.7% for 2018

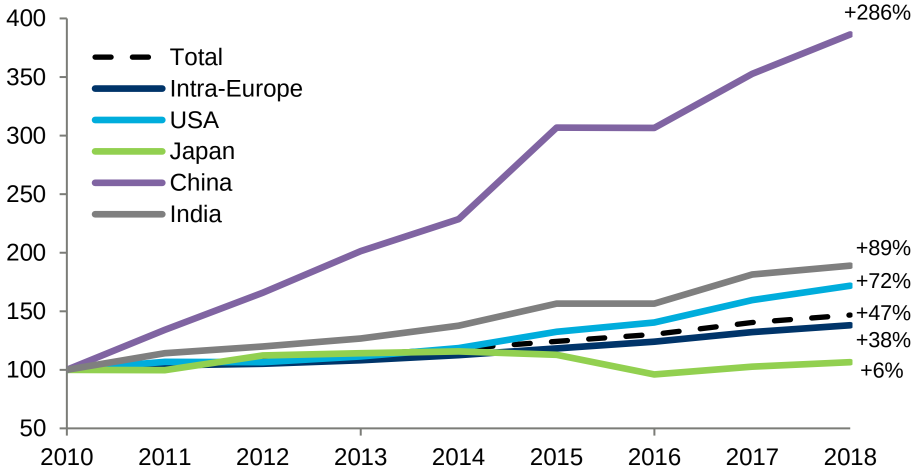
emerging markets, which are in the spotlight amidst volatile financial conditions[5]. While the US and China are embroiled in a trade war, travel demand from both markets remains strong based on latest data available. In the US, robust growth and low unemployment rates, aided by recent tax reform, is yielding a stronger dollar and is resulting in solid consumer confidence that has sustained income and consumption growth.

Europe hosted around 30 million US travellers in 2017 and current growth is estimated to have increased by +8% compared to the previous year. Although there are some concerns as to whether the US outperformance will continue after 2019, prospects for US arrivals indicate 5% annual average growth through to 2022.

Significant growth has been observed in **Chinese** arrivals to Europe helped by *Tourism Years* (EU and Turkey), visa relaxation policies, and better air connectivity. The 2018 Turkey-China tourism year effectively boosted Chinese arrivals to the transcontinental destination (+87%) while Serbia's strong performance (+104%) is attributed to better connectivity and its visa waiver programme[6]. Strong demand was also recorded in niche destinations such as Croatia (+41%), especially during the during the World Cup period[7] and Montenegro (+64%), fuelled by improved air connections. Although economic growth in China is set to soften somewhat in 2018 and 2019, increased visitor arrivals is expected at 7% on average by 2022.

**European tourism arrivals trends**

2010=100




Source: Tourism Economics

## STRATEGIC AND SMART INVESTMENT TO ENHANCE THE EUROPEAN TRAVEL EXPERIENCE

Europe continues to be a tourism powerhouse that acts as a catalyst for economic expansion, job creation, and social and cultural development. In 2017, the

[5] Further information can be found in the "Special Focus" of this report (page 20)

[6] Implemented for mainland Chinese travellers on 15 January 2017

[7] People.cn http://travel.people.com.cn/n1/2018/0720/c41570-30161091.html

region welcomed 671 million international tourist arrivals (50% of international tourism worldwide). This represented an 8% increase compared to the year prior. Although the region remains the world's number one tourism destination, the lack of dedicated attention to the specific challenges (visa facilitation, carrying capacity, increased competition, etc.) facing the tourism industry are enough to considerably weaken Europe's competitiveness. A shift towards more innovative and sustainable approaches are necessary to enhance the quality of tourism products services to exceed travellers' expectations in relation to the European travel experience.

*"To avoid further slowdown and capitalise on the potential of tourism to create jobs and to facilitate economic growth, the European Travel Commission (ETC) calls for better coordination of the instruments steering the European tourism industry. Tourism stakeholders and decision-makers, at all levels, should coordinate to invest wisely in more sustainable and innovative tourism products and services to improve the European visitors' experience"* said Eduardo Santander, Executive Director of ETC.

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

# 1. TOURISM PERFORMANCE SUMMARY 2018

**MOST DESTINATIONS CONTINUE TO REPORT SUBSTANTIAL GROWTH**

- Despite some slowdown within the economies of Europe, intra-European demand has remained robust.
- Growth from long-haul markets has been strong, particularly from China, confirmed also by year-to-date air passenger data.
- Turkey remains on course to recover a significant amount of market share lost to other European destinations in recent years.

32

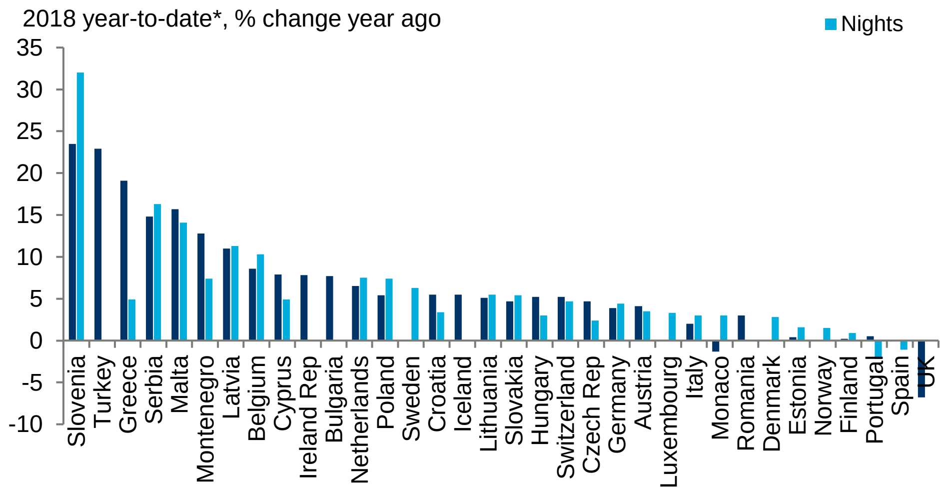
The number of European destinations reporting growth in 2018 to date

*34 destinations have reported on tourism performance in 2018*

Although economic activity remains broadly stable within Europe, an adverse external environment and rising political risks therein are posing an increasing threat to the outlook. Nonetheless, 32 out of 34 reporting countries have continued to see growth in international arrivals and/or overnights in 2018-to-date compared to the same period of 2017.

Economic growth in Europe has proven adequate to sustain intra-European demand, but notably, previous concerns that slower global economic growth was beginning to weigh on growth from long-haul source markets were perhaps premature; growth from Asian markets has been solid, particularly from China with year-to-date air passenger data confirming this. A number of destinations continue to report significant growth from India, but this is less widespread. Travel from the US to Europe has also shown itself to be strong according to latest available 2018 data.

**Foreign visits and overnights to select destinations**




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

Slovenia was the fastest growing European destination according to latest available 2018 data, with 23.5% growth in arrivals and 32% in overnights based on data to August. However, Slovenia's methodology of data coverage has been changed. From January 2018, monthly data include all accommodation establishments, including those with fewer than 10 permanent beds. Before 2018 these accommodation establishments were not included in monthly statistics, since they reported only once a year for the whole year. As such, data from January 2018 onwards are not directly comparable with data for reference months before this date. First estimates have shown that the impact of this change on implied arrivals and overnight growth in the first three months of 2018 is about 10 percentage points. Even so, this growth is at odds with relatively weak occupancy growth of 2% according to STR data to September.

Turkey continues to recover with arrivals up 22.9% compared to 2017 according to data to August. Double-digit growth has been reported for the full complement of source markets on which Turkey reports. In absolute terms arrivals from most markets remain below prior peak levels. However, at current rates of growth (i.e., those based on data to August) these levels should be restored by 2019. Indeed, at the total level, growth of 22.9% for 2018 as a whole would more than restore prior peak arrivals, but some individual markets will lag behind. Whilst the threat of terrorism and political unrest has undoubtedly eased, a significant driver of this growth has been the exchange rate and hotels have taken this opportunity to raise rates – up just 5.1% in euros, but 50% in lira – which points to an industry in relatively good health.

Market share analysis using Oxford Economics' Global Travel Service (GTS) database showed a marked uptick in Spain and Portugal's joint market share of arrivals from Western European source markets against a simultaneous decline in Turkey's in 2017 relative to 2015. Spain and Portugal jointly gained 0.9 percentage points (pp) in market share from Western European source markets, while Turkey lost 1.4pp over the same period from those same markets. However, a reversion to norms in terms of market share appears to be underway in 2018, with Spain and Portugal handing back to Turkey some borrowed market share from Western European source markets.

Although there are some concerns of "over-tourism" in some parts of Spain, it is hard to establish whether arrivals declined as a response to this or as an unwinding of the market share gains at the expense of Turkey's in 2016-17. Most likely, it will prove to be some combination of the two. In any case, year-to-date declines in international tourist arrivals were notable in both Canarias, Cataluña (where a significant amount of "over-tourism" activism has been focused), and the Balearics, down 3.0%, 2.7%, and 0.8% respectively according to data to August. As the largest three regions in terms of their share of total arrivals to Spain, declines in these regions are significant. Furthermore, year-to-date "growth" in every region of Spain has deteriorated (based on year-to-date data to August compared to earlier in the year), albeit arrivals growth was reported in all but the three regions noted above.

Greece has enjoyed some strong arrivals growth according to data to June. Much has been done to improve services in Greece and greater efforts are now being directed at becoming a more diverse destination in terms of both offering and seasonal appeal. This was reflected in some strong growth figures for the first three months of 2018, and again in the second quarter of 2018 with growth accelerating from 12.8% based on data to Q1 to 19.1% based on data to Q2. Asia has also been targeted and direct flights between Athens and Beijing since September 2017 have yielded significant air passenger growth between these two countries in the last quarter of 2017 and first half of 2018. Hotel data point to much weaker performance over peak summer months, further suggesting growth has benefitted from moves to address seasonality.

Serbia was amongst the fastest growing European destinations with arrivals reported to have grown 14.8% in the first eight months of 2018. With the exception of the US and the UK, arrivals from which fell compared to the same period of 2017, growth was notable from most source markets. However, at 104% based on data to August, growth from China surpassed all of these and this growth was undoubtedly helped by Serbia's visa-free policy for Chinese tourists and the first airlink between the two countries which started operating in September 2017.

Malta has reported some significant arrivals and overnights growth based on data to August, albeit with some minor slowdown compared to earlier in the year. Growth has been reported from a range of source markets, and from the US in particular. Some part of this growth can be attributed to Malta's capital city of Valletta being a designated European Capital of Culture for 2018.

Arrivals to the UK have taken a fall despite a (still) weaker sterling, down 6.8% in the first half of 2018 compared to 2017. However, it should be noted that 2017 was a particularly strong growth year for the UK, and visitor numbers in Q2 the second highest ever recorded for that quarter. But hotel demand growth for summer months was strong, a trend which is not yet included in arrivals data which are to June only.

Although arrivals growth to Iceland remains positive, declines in arrivals have been reported from an unusual number of key source markets including both intra-European and long-haul markets. Notably, arrivals from Germany – Iceland's second largest source market – were lower in 2018 to September compared to the same period in 2017. Supply issues have long been a limitation to Iceland's growth prospects, and with such unprecedented rates of growth over such a short period, a crunch was inevitable. However, arrivals growth from the US remained strong, and as Iceland's largest source market, growth has proven sufficient to offset declines from elsewhere.

Tourism Performance, 2018 Year-to-Date

| | International Arrivals | | International Nights | |
|---|---|---|---|---|
| Country | % ytd | to month | % ytd | to month |
| Austria | 4.1 | Jan-Sep | 3.5 | Jan-Sep |
| Belgium | 8.6 | Jan-Jun | 10.3 | Jan-Jun |
| Bulgaria | 7.7 | Jan-Aug | | |
| Croatia | 5.5 | Jan-Sep | 3.4 | Jan-Sep |
| Cyprus | 7.9 | Jan-Sep | 4.9 | Jan-Aug |
| Czech Rep | 4.7 | Jan-Jun | 2.4 | Jan-Jun |
| Denmark | | | 2.8 | Jan-Aug |
| Estonia | 0.4 | Jan-Aug | 1.6 | Jan-Aug |
| Finland | 0.2 | Jan-Aug | 0.9 | Jan-Aug |
| Germany | 3.9 | Jan-Aug | 4.4 | Jan-Aug |
| Greece | 19.1 | Jan-Jun | 4.9 | Jan-Jun |
| Hungary | 5.2 | Jan-Aug | 3.0 | Jan-Aug |
| Iceland | 5.5 | Jan-Sep | | |
| Ireland Rep | 7.8 | Jan-Aug | | |
| Italy | 2.0 | Jan-Jul | 3.0 | Jan-Jul |
| Latvia | 11.0 | Jan-Jun | 11.3 | Jan-Jun |
| Lithuania | 5.1 | Jan-Jun | 5.5 | Jan-Jun |
| Luxembourg | | | 3.3 | Jan-Aug |
| Malta | 15.7 | Jan-Aug | 14.1 | Jan-Aug |
| Monaco | -1.3 | Jan-Aug | 3.0 | Jan-Aug |
| Montenegro | 12.8 | Jan-Aug | 7.4 | Jan-Aug |
| Netherlands | 6.5 | Jan-Jul | 7.5 | Jan-Jul |
| Norway | | | 1.5 | Jan-Aug |
| Poland | 5.4 | Jan-Jul | 7.4 | Jan-Jul |
| Portugal | 0.5 | Jan-Aug | -2.2 | Jan-Aug |
| Romania | 3.0 | Jan-Aug | | |
| Serbia | 14.8 | Jan-Aug | 16.3 | Jan-Aug |
| Slovakia | 4.7 | Jan-Jul | 5.4 | Jan-Jul |
| Slovenia | 23.5 | Jan-Aug | 32.0 | Jan-Aug |
| Spain | -0.1 | Jan-Aug | -1.1 | Jan-Aug |
| Sweden | | | 6.3 | Jan-Aug |
| Switzerland | 5.2 | Jan-Aug | 4.7 | Jan-Aug |
| Turkey | 22.9 | Jan-Aug | | |
| UK | -6.8 | Jan-Jun | | |

Source: TourMIS, http://www.tourmis.info; available data as of 30.10.2018
Measures used for nights and arrivals vary by country
See TourMIS for further data including absolute values

# 2. GLOBAL TOURISM FORECAST SUMMARY

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

GTS Visitor Growth Forecasts, % change

| | Inbound* | | | | | Outbound** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| data/estimate/forecast *** | d | e | f | f | f | d | e | f | f | f |
| **World** | **3.9%** | **6.8%** | **5.2%** | **3.9%** | **3.9%** | **4.2%** | **6.4%** | **5.3%** | **4.1%** | **3.9%** |
| | | | | | | | | | | |
| **Americas** | **3.9%** | **4.6%** | **4.3%** | **4.2%** | **4.1%** | **4.2%** | **6.5%** | **4.7%** | **3.4%** | **3.1%** |
| North America | 2.7% | 4.6% | 3.8% | 3.5% | 3.7% | 3.3% | 6.3% | 4.8% | 3.3% | 3.0% |
| Caribbean | 4.9% | 2.0% | 1.8% | 5.3% | 4.8% | 9.5% | 13.2% | 2.2% | 4.4% | 4.3% |
| Central & South America | 7.0% | 6.2% | 7.3% | 5.6% | 5.1% | 6.9% | 6.4% | 4.6% | 3.6% | 3.5% |
| | | | | | | | | | | |
| **Europe** | **2.3%** | **8.2%** | **4.9%** | **2.8%** | **2.8%** | **3.7%** | **6.9%** | **5.4%** | **3.6%** | **3.4%** |
| ETC+3 | 2.3% | 8.7% | 4.9% | 2.5% | 2.6% | 4.5% | 5.9% | 5.3% | 3.5% | 3.2% |
| EU | 4.8% | 7.6% | 4.6% | 2.4% | 2.5% | 4.8% | 5.9% | 5.3% | 3.4% | 3.1% |
| Non-EU | -7.2% | 10.4% | 6.2% | 4.4% | 4.2% | -1.1% | 11.2% | 5.7% | 4.6% | 4.4% |
| | | | | | | | | | | |
| Northern | 6.5% | 4.8% | 3.6% | 2.9% | 2.5% | 5.6% | 3.6% | 3.4% | 3.1% | 3.5% |
| Western | -0.1% | 7.9% | 3.9% | 1.8% | 1.9% | 2.5% | 5.8% | 5.5% | 3.6% | 3.0% |
| Southern/Mediterranean | 1.1% | 10.9% | 6.0% | 3.1% | 3.2% | 4.1% | 8.1% | 7.8% | 4.0% | 3.7% |
| Central/Eastern | 4.6% | 5.9% | 5.0% | 3.1% | 3.7% | 4.2% | 12.7% | 5.9% | 3.9% | 3.4% |
| *- Central & Baltic* | *8.1%* | *8.5%* | *5.0%* | *1.8%* | *2.6%* | *9.2%* | *9.2%* | *4.9%* | *2.8%* | *2.4%* |
| | | | | | | | | | | |
| **Asia & the Pacific** | **8.4%** | **6.0%** | **5.6%** | **5.1%** | **4.9%** | **6.7%** | **5.9%** | **5.4%** | **5.3%** | **5.4%** |
| North East | 8.6% | 3.7% | 4.2% | 4.8% | 4.8% | 5.5% | 6.5% | 5.5% | 5.5% | 5.3% |
| South East | 7.7% | 7.9% | 6.7% | 5.2% | 5.2% | 9.9% | 3.8% | 5.6% | 5.4% | 5.7% |
| South | 10.3% | 14.1% | 10.8% | 7.5% | 4.4% | 9.3% | 8.1% | 4.8% | 5.0% | 6.3% |
| Oceania | 9.0% | 5.7% | 5.0% | 4.2% | 4.6% | 6.2% | 5.5% | 4.7% | 3.3% | 4.3% |
| | | | | | | | | | | |
| **Africa** | **-0.4%** | **10.2%** | **9.2%** | **6.7%** | **5.6%** | **5.3%** | **3.7%** | **7.2%** | **4.9%** | **4.9%** |
| | | | | | | | | | | |
| **Mid East** | **3.5%** | **0.7%** | **5.0%** | **6.0%** | **6.0%** | **-5.7%** | **5.4%** | **5.3%** | **4.3%** | **3.5%** |

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

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

The geographies of Europe are defined as follows:

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

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

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

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

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

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

Source: Tourism Economics

# 3. RECENT INDUSTRY PERFORMANCE

**2018 INDUSTRY PERFORMANCE IS ENCOURAGING SO FAR**

- 2018 is still likely to be another year of above trend growth but potential downside risks have been mounting. European RPK growth has been affected by strikes as well as a mixed economic outlook.
- Globally, passenger load factors (PLF) hit an all-time high in August of 85.3% and Europe's PLF remains the highest of any region, 88.7%.
- Hotels in Europe demonstrated a very strong performance when compared with other global regions, especially in Eastern Europe.

6.8%

The rate of World RPK growth in 2018 to date

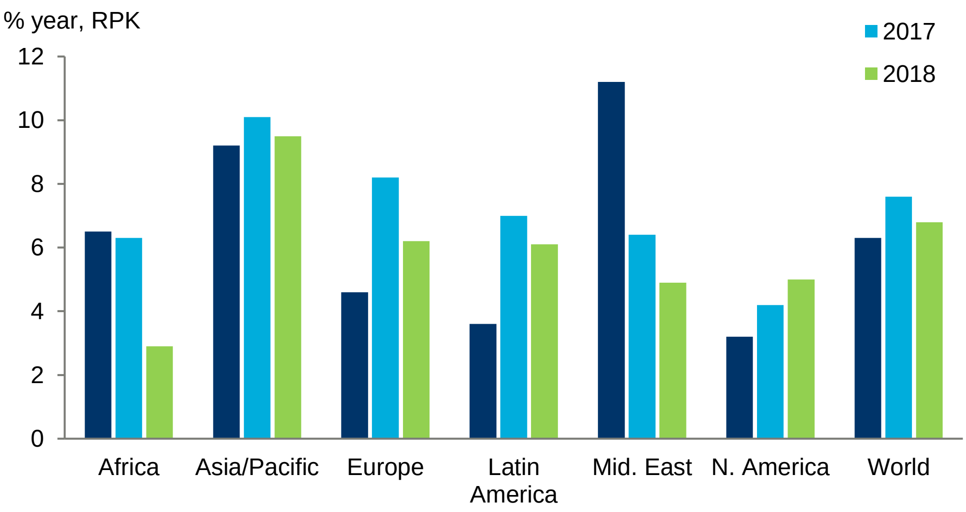
*YTD growth based on data to August*

### 3.1 AIR TRANSPORT

Global air transport, measured in Revenue Passenger Kilometres (RPK), grew by 6.8% this year-to-date compared to the same period in 2017, based on data through to August. Although this is a reduction in growth when compared to the Q2 2018 analysis, growth in 2018 remains marginally stronger than it was in 2016.

2018 is still likely to be another year of above trend growth but potential risks have been mounting over the summer. The 6.8% increase is broadly in line with the average growth over the past five years. However, fuel costs are currently around 30% to 40% higher than they were a year ago, driven primarily by supply concerns, and these are likely to seep into air fares, while labour cost pressures also tend to be rising.

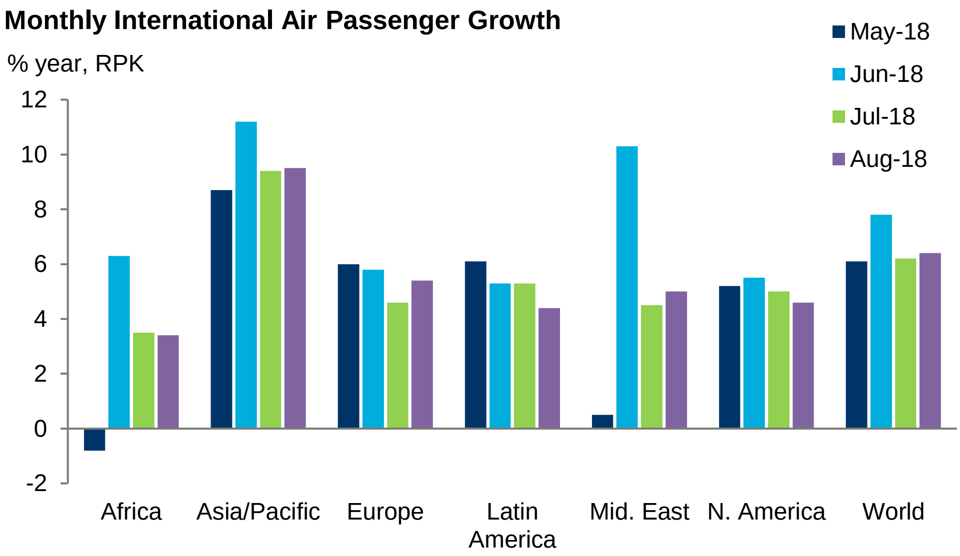
**Annual International Air Passenger Growth**




Source: IATA

Furthermore, whilst economic activity in the US is currently very strong, some other parts of the world are presenting a more mixed picture. In particular, business confidence in some emerging markets is a concern – especially in South Africa and Brazil but also more widely. Moderation in business sentiment sometimes reflects local concerns but is in part driven by worries over potential future trade restrictions and capital outflows to the US. This will limit the potential for major acceleration in RPKs in the near term.

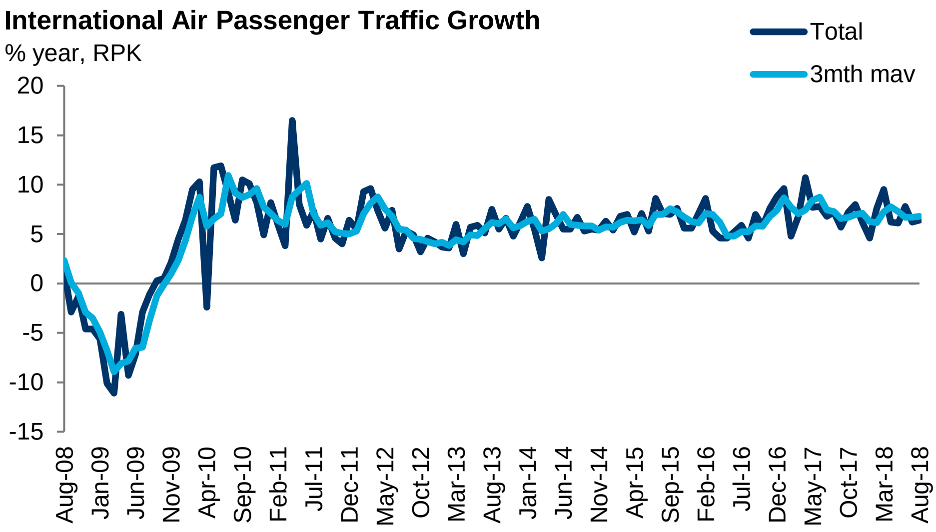
The Asia/Pacific region continued to experience the strongest rate of RPK growth (based on data to August) with air passenger demand to, from, and within the region 9.5% higher compared to the same period a year ago. Growth currently continues to be supported by strong regional economic and connectivity expansion. However, in the longer-term the US-China trade war is a threat to the Asia-Pacific region, as is discussed later in the special feature section of this publication.




Source: IATA

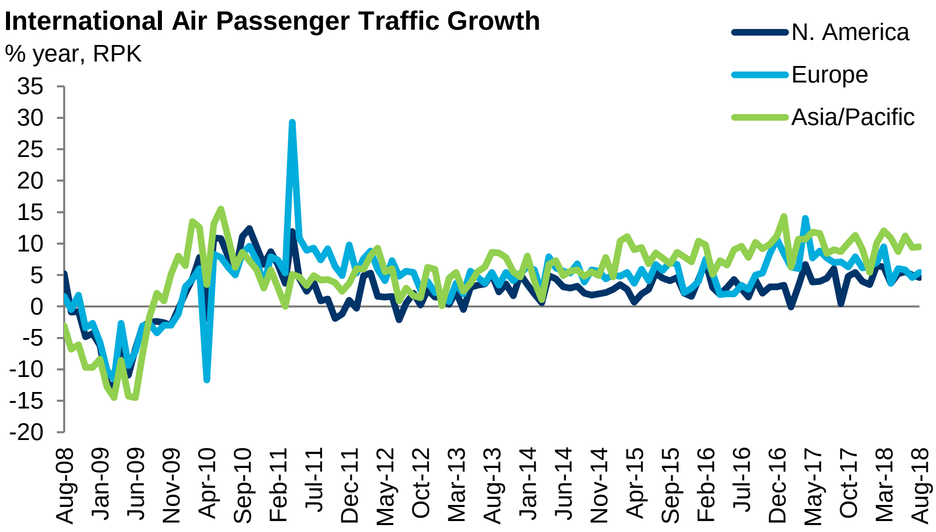
Africa remains the slowest growing of all the regions with year-to-date RPK growth of 2.9% based on data to August. Expected improvements as the year has progressed have largely failed to materialise, whilst the biggest economies in the region have tended to be downgraded – in some cases, markedly. Oxford Economics has continued to edge down its Nigerian GDP forecast for 2018 – now down to 1.8% growth - whilst the South African economy is now only expected to grow by 0.7% in 2018, following news that it plunged into recession in Q2 2018.

The Middle East is the next slowest growing global region with year-to-date growth to August of 4.9%. The blockade of Qatar remains one factor in the relatively slow regional RPK growth even though it has still managed to establish new connections. However, there are clearly other factors at play such as ongoing wars in the region.




Source: IATA

European RPK growth slowed to 6.2% growth year-to-date and, when seasonally-adjusted, has been relatively flat over the past few months, consistent with both the mixed economic outlook and Air Traffic Control strikes over the summer in France.

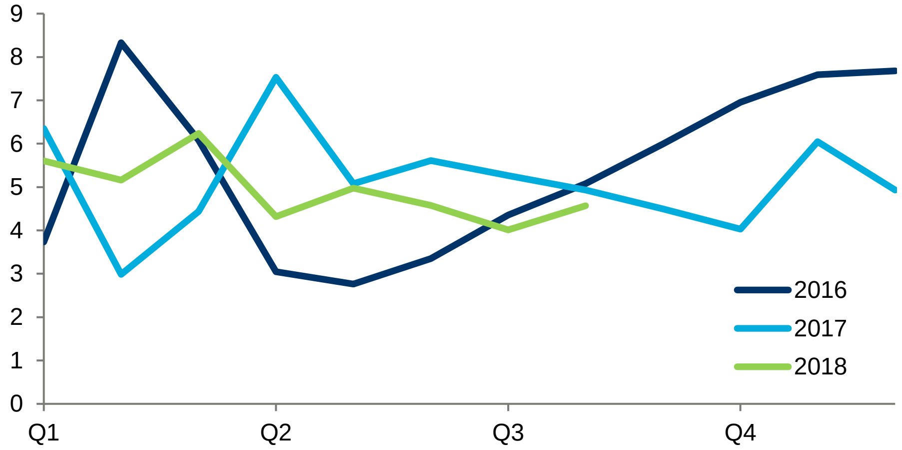



Source: IATA

North American traffic continues to pick-up from the levels of growth seen in 2016 and 2017. RPKs grew by 5.0% in the first eight months of the year. The US looks set to record similar growth to 2015 and solid fundamentals support this. However, the economy may well already have reached its growth peak with weaker growth forecast for 2019 and 2020. Furthermore, the Trump administration's tariffs on China are likely to exacerbate this slowdown.

Available seat kilometres (ASK) in Europe are currently up 4.6% on one year earlier (based on data to August). However, although growth in ASK started 2018 strongly, recent months have been more stagnant, resulting in a less impressive capacity growth picture.

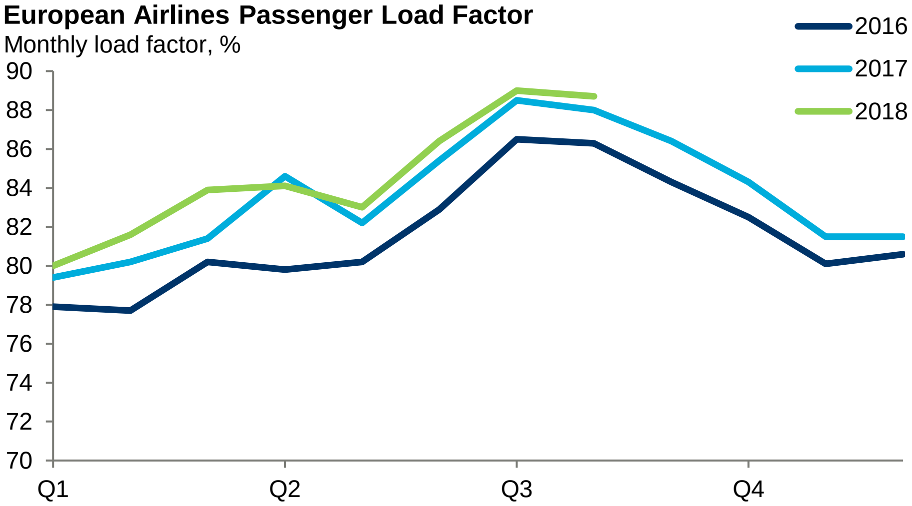
**European Airlines Capacity**
ASK, monthly average, % change year ago




Source: IATA

Globally, passenger load factors (PLF) hit an all-time high in August of 85.3% and Europe's PLF remains the highest of any region, now at 88.7%, and hints at potential capacity constraint unless supply of new seats can keep pace with demand growth. This does not appear to be happening based on ASK data, growth of which has shown signs of a slowdown as the year has progressed.

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



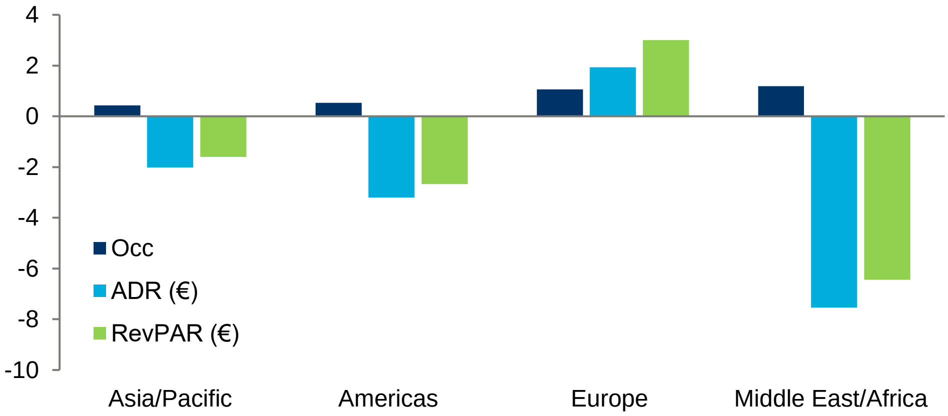

Source: IATA

### 3.2 ACCOMMODATION

When compared to the same months in 2017, the period January to September 2018 saw occupancy growth in all regions – albeit minimal in the case of both Asia/Pacific (0.4%) and the Americas (0.5%). Occupancy growth continues to be slower than in previous years for most destination regions with less spare capacity now evident. However, when denominated in euros, all regions other than Europe saw declining ADR and this far offset occupancy growth, driving declines in RevPAR – in the case of the Middle East/Africa, a relatively steep 6.4%. In dollar terms the Middle East/Africa was the only region in which ADR fell.

**Global Hotel Performance**

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




Source: STR

In the Asia/Pacific. Occupancy rates were 0.4% higher compared to the same period of 2017. When denominated in US dollar terms, ADR was 4.2% higher and RevPAR was 4.7% higher. However, in euro-denominated terms both ADR and RevPAR fell (by 2.0% and 1.6% respectively).

1.1%

Occupancy rate growth in Europe in 2018 to date

*YTD growth based on data to September*

Occupancy rates in the Americas were up 0.5% in the first nine months of 2018 compared to the same period of 2017. However, the occupancy increase was insufficient to offset lower rates (down 3.2%) which resulted in lower RevPAR (down 2.7%) when priced in euro terms.

The worst performing region was the Middle East/Africa. Occupancy grew by 1.2%, but whilst the decline in ADR was minimal in dollar terms and RevPAR actually ticked up, when expressed in euro terms both declined significantly: ADR falling by 7.5% and RevPAR by 6.4%.

Hotels in Europe demonstrated a very strong performance when compared with other global regions. Occupancy rates increased by 1.1% compared to the same period in 2017 which, when coupled with an increase in ADR (1.9%), yielded RevPAR growth of 3.0%. ADR growth has now returned as the chief driver of RevPAR growth in Europe. As well as Europe as a whole being positive on all three metrics, all subregions of Europe exhibited positive results on occupancy, ADR growth, and RevPAR growth.

# 4. SPECIAL FEATURE: A BURGEONING TRADE WAR

The trade dispute is now the most serious since the 1930s. This will hit global economic growth

**BACKGROUND**

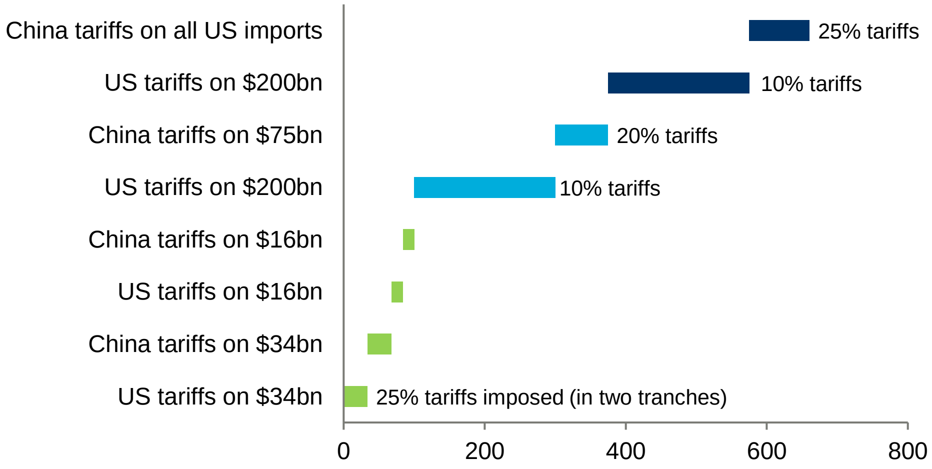
Recent events between the US and China represent a major escalation of trade conflict. Previous baseline forecasts had assumed that some of the threats over tariffs were mere rhetoric. Chinese exports continued to surge in early 2018 further fuelling global growth, even as the US imposed tariffs on some goods. 25% Tariffs were imposed on some goods from China amounting to $50 billion of US imports. China then responded with a comparable level of tariffs on imports from the US.

In September the Trump administration followed through on threats and imposed further trade tariffs covering some $200 billion of Chinese goods to which China immediately retaliated by imposing tariffs on an additional $75 billion of US goods.

The trade dispute is now the most serious since the 1930s. This will hit global economic growth beyond previous baseline forecasts while further tariffs are threatened by both sides on remaining goods flows. If all tariffs are imposed, this would mean that 3% of total world trade is covered by these new tariffs. The prospects for de-escalation in the short-term appear slim, while the latest round of tariffs is focused on a wide range of consumer goods. Significant impacts on total economic and tourism growth would be expected.

**US-China: Escalation towards a trade war**

$ billions




Source: Oxford Economics

Recent renegotiation of NAFTA (or United States-Mexico-Canada Agreement (USMCA) as it will be called after member state ratification) is a positive signal, while the trade relationship between US and the EU is back on a friendly footing ahead of announced renegotiation. In the summer the EU and US agreed to further their trade ties by breaking down tariffs as well as subsidies, marking a distinct shift from the far more protectionist tone the US had used in the run-up to the meeting.

However, the situation is an evolving one and it is not impossible that, over time, other trade blocs could be drawn in. The US has recently piled more pressure on China, going beyond accusations of currency manipulation to concerns over Beijing's alleged grip on its military and industrial supply chains.

Alternative economic assumptions from Oxford Economics' Global Scenario Service (GSS) have been entered into the Global Tourism Service model to provide an illustrative set of impacts on travel demand worldwide and specifically for European destinations.

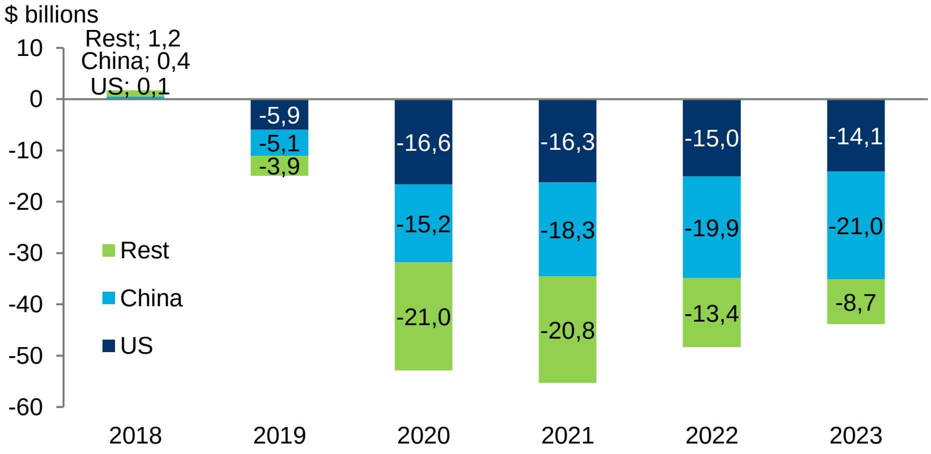
### TRADE WAR IMPACTS ON TOTAL TRAVEL DEMAND

Alternative assumptions applied in the GSS economic output are that the US imposes tariffs on China and other competing trading partners in Asia and elsewhere and notably on the automotive and metals sectors. This includes some tariffs imposed on EU goods, with retaliatory measures imposed on US goods.

These assumptions would have a significant impact on global economic activity as GDP growth in 2019 would grow just 2.4% rather than the 2.9% in the baseline outlook. Even if China were to be able to offset some of the impacts via looser policy, GDP growth in 2019 would likely slow significantly to 5.4% in 2019 and 5.0% in 2020. US growth would also be hit, and GDP would slow to 1.7% in 2019 and 1.0% in 2020 (compared to 2.2% and 1.5% in baseline).

The total impact on global travel spend between now and 2023 will be in the order of $214 billion, relative to baseline forecasts. Impacts will escalate into 2020 and 2021 following the usual lagged effects of economic activity and currency movements. Global travel demand will be almost 1% lower than our current baseline due to these assumptions. A larger impact (-1.5%) will be evident for both US and China, including on domestic travel demand.

**Overall tourism spend impact of Trade War scenario**

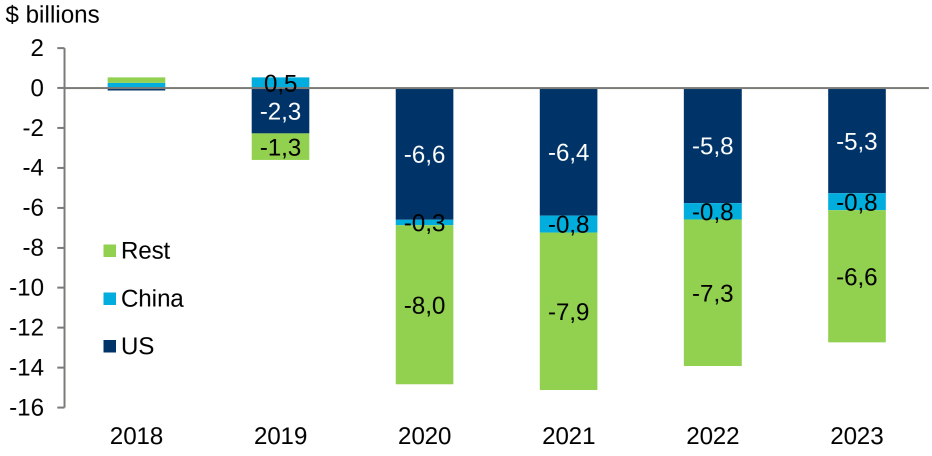



Source: Oxford Economics

## INTERNATIONAL TRAVEL WILL BE HIT FOR ALL DESTINATIONS

International travel impacts will vary by destination. Large impacts are expected for the US as some of its large source markets are negatively impacted by the imposition of tariffs. However, significant impacts are also likely for other countries as the effects of these tariffs seep into the global economy more generally and dampen international travel demand from major source markets. Actual impact by destination will depend upon the diversity of its source market mix.

**Inbound tourism spend impact of Trade War scenario**

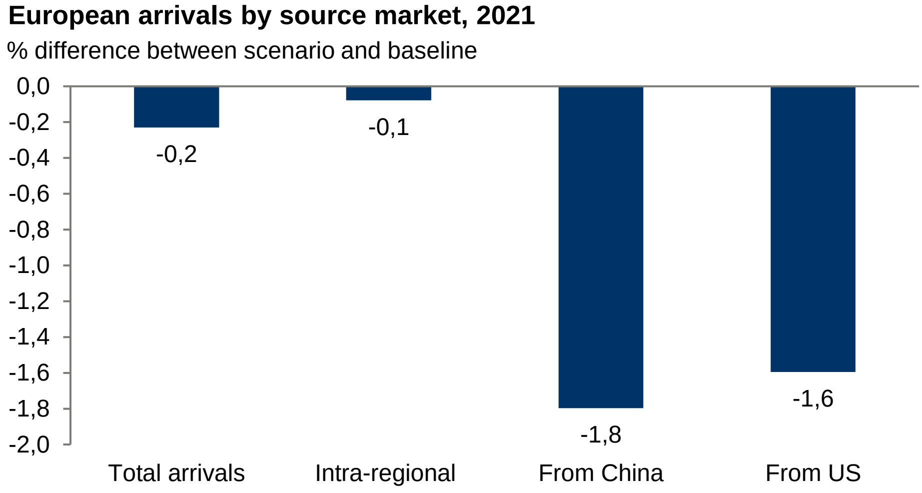



Source: Oxford Economics

European destinations will be hit by the weaker travel demand, but these impacts alone would not be sufficient to fully derail growth prospects. Annual average growth in European inbound travel over the coming years would be slower than under the baseline outlook. Intra-regional demand would become even more important as the impact on European economies would likely be minimal under the assumptions here.

Travel from long-haul markets, and notably from the US and China, would be more significantly affected by a trade war. Travel from China would slow in each year, in line with weaker economic activity, but travel demand should continue to outpace economic activity. By 2021, it is estimated that Chinese travel to European destinations will be 1.7% lower than would otherwise be the case.

Travel from the US will be more erratic under a trade war, with potential for some modest initial positive impact from the related currency movements. However, the overall expected impact over several years will be negative, with a sharp slowdown in US travel estimated by 2020 under these assumptions.




Source: Tourism Economics

**POTENTIAL WIDER IMPACTS**

A trade war alone would not likely be enough to tip the world into recession or to cause a downturn in travel demand. However, this could prove to be the catalyst for a re-evaluation of debt and risk leading to some larger economic and travel impacts in coming years.

Additional travel impacts are possible from any changes in sentiment. Modelled impacts here have been quantified by the observed relationships between economic indicators and travel demand. However, sentiment can be an important driver. For example, there are suggestions that Chinese bookings for travel to the US are falling as a result of these sentiment effects. Forward Keys reported that bookings by Chinese tourists to the US were down 8.4% in August year-on-year and suggests that this could cost the US economy as much as $0.5 billion in 2018. A separate report on Golden Week bookings via Skyscanner to the US showed a much steeper fall of 42%. However, this fall is at least partly due to the Golden Week being one day shorter in 2018 than 2017. Last year the Golden Week coincided with the Mid-Autumn Festival which extended public holidays to 8 days which would yield a disproportionate difference for such long-haul trips.

There could be a positive impact for Europe if travel normally bound for the US instead heads for Europe; indeed, Forward Keys reported a 5.5% rise in total Chinese bookings between August and December 2018.

Travel impacts could be exacerbated if oil prices continue to rise, affecting costs and ultimately travel prices. Airline businesses are already facing higher fuel bills, as well as rising labour costs and a protracted trade war would hit the business travel sector especially badly. However, weaker trade would reduce pressure on oil demand and pricing and could alleviate some of these cost concerns.

A potential trade war provides one reason for a cautious outlook, but the most likely manifestation of a trade war, by itself, does not appear to be sufficient to push the sector into a downturn.

# 5. KEY SOURCE MARKET PERFORMANCE

**2018: GENERALLY STRONG, BUT SOME LOSERS**

- The majority of European destinations have reported some form of growth except for Spain and the UK.
- Growth remains well-spread between intra-European and long-haul source markets.
- Signs of slowing global economy beginning to seep into tourism demand.

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

### 5.1 KEY INTRA-EUROPEAN MARKETS

Travel growth from Germany was reported by 27 out of 33 destinations based on latest available data for 2018, with some significant growth in a number of destinations, despite some slowdown in both the global and Eurozone economies.

27

out of 33 destinations reported arrivals growth from Germany

Montenegro was the fastest growing destination market for German arrivals according to latest available year-to-date data, up 57.5% and overnights up 71.6% based on data to August. This growth has been aided by an increase in the number of direct connections between the two countries, including a number of new flights by low-cost carrier Laudamotion from Stuttgart.

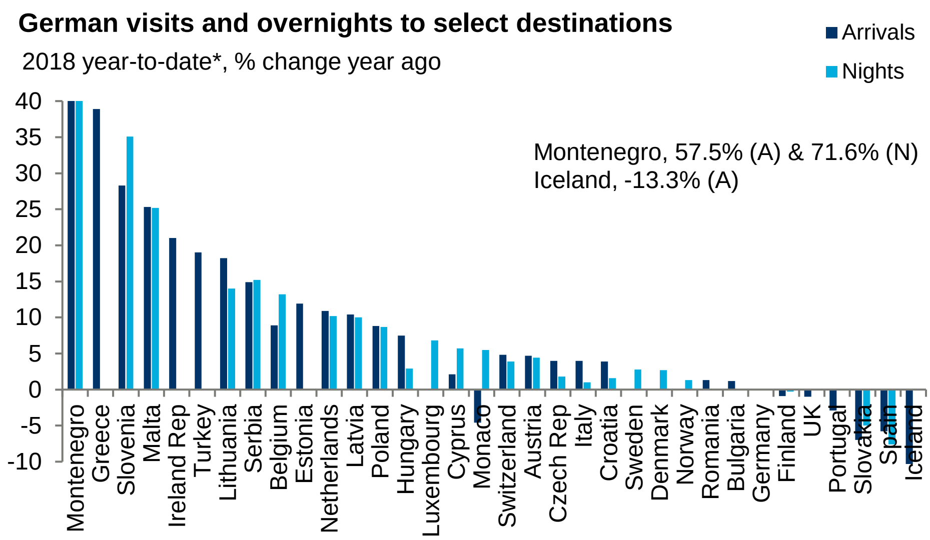
Greece has enjoyed significant arrivals growth from Germany based on data to June, and effort spent in extending the tourism season in Greece to include winter and spring will have played some part in this growth.

Croatia reported a very marked slowdown in German arrivals growth and overnights, down from 75.5% and 62.4% earlier in 2018 to 3.9% and 1.6% based on data to September respectively. This slowdown in peak summer is perhaps indicative of Croatia's success with regard to broadening its shoulder season compared to summer. Further efforts to that end should be supported by the ongoing expansion of programmes of major tour operators and a number of new flights, again including a number by low-cost carrier Laudamotion from Stuttgart.

Iceland has reported a decline in arrivals from Germany based on data for the first nine months of the year. Arrivals from Germany to Iceland have declined compared to the same period a year ago. Since Germany is Iceland's second largest source market after the US, any decline will be sizeable in absolute terms.

Market share analysis using Oxford Economics' GTS database show a marked uptick in Spain and Portugal's joint market share of arrivals from Germany against a simultaneous decline in Turkey's in 2017 relative to 2015. Spain and

Portugal jointly gained 0.7pp in market share from 12.2% to 12.9%, while Turkey lost 2.3pp, (5.5% to 3.2%) over the same period. A reversion to norms in terms of market share appears to be underway in 2018, with Turkey regaining market share. Based on latest available year-to-date growth figures, Spain and Portugal's joint share of German arrivals will be smaller in 2018 compared to 2015.



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

The Netherlands provided a source of arrivals growth for 23 out of 31 reporting destinations based on latest available 2018 data. Turkey has continued to win back some market share lost, perhaps, to Portugal and Spain (arrivals from the Netherlands to which have fallen). Montenegro also reported some significant arrivals growth, aided by an increasing number of direct flights between the two.

**23**

out of 31 destinations reported arrivals growth from Netherlands

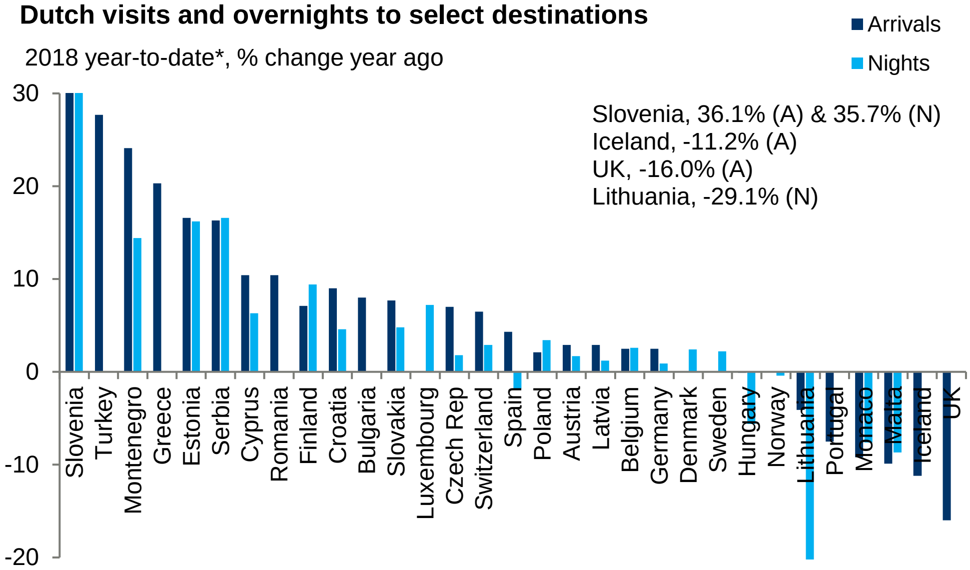
At the end of September Ryanair scrapped some flights from its Eindhoven base due to strike action by pilots and cabin crew, but it is unclear how many and what the impact will be. Ryanair operated around 50 flights per day from Eindhoven, almost half of which were flown by Dutch pilots. As in similar situations before, Ryanair is likely to bring in pilots from elsewhere to help minimise the impact.

**23**

out of 34 destinations reported arrivals growth from France

**Dutch visits and overnights to select destinations**

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



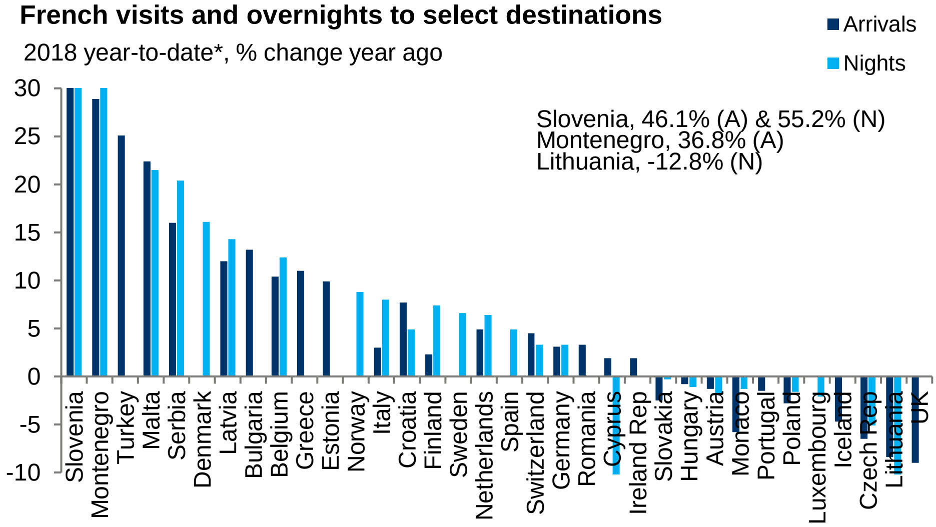

Source: TourMIS *date varies (Jan-Sep) by destination

A significant number of countries have reported some very strong arrivals and/or overnights growth from France, albeit with some deterioration in performance compared to earlier in the year as more data have become available. Slovenia reported some of the strongest growth in arrivals from France, however, as noted earlier in this report, a change in Slovenia's methodology of data coverage means that data from January 2018 onwards are not directly comparable with data for reference months before this date.

Montenegro enjoyed particularly strong arrivals growth from France based on data to August, much of which has been facilitated by increased connectivity with western Europe. Indeed, some of Europe's largest tour operators have been keen to include Montenegro in their summer 2018 schedules. Accordingly, an increase in the number of chartered flights and arrivals from France has followed.

**French visits and overnights to select destinations**

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




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

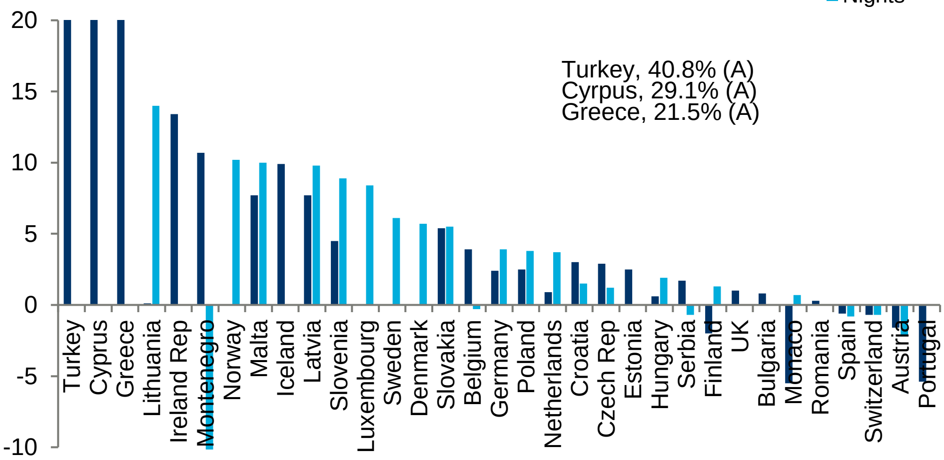
29 of 33 reporting destinations saw some form of growth from Italy based on the latest available 2018 data. Turkey reported the fastest growth as it recoups some market share lost between 2015-17. Over this period Turkey lost some share of Italian outbound (1.1% in 2015 falling to 0.4% in 2017) while Spain and Portugal together saw their share of Italian outbound grow from 14% in 2015 to 14.8% in 2017. Therefore, as Turkey recoups some of this share, Spain and Portugal appear to be losing some, and are two of only a few markets which have reported declines from Italy in 2018-to-date.

Cyprus and Greece have also reported significant arrivals growth from Italy so far this year, up 29.1% and 21.5% based on data to September and June respectively, with growth aided by the increasing number of short, affordable, and direct flights to the country.

An increasing number and frequency of flights between Italy and Montenegro has facilitated shorter trips, with arrivals growth far outstripping overnights growth based on data to August. This imbalance may also be due to the popularity of cruises between Italy and Montenegro, since a cruise visitor will not need overnight accommodation.

**Italian visits and overnights to select destinations**

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




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

**25**

out of 33 destinations reported arrivals growth from the UK

**28**

out of 31 destinations reported arrivals growth from Italy

Arrivals from the UK grew in 25 out of 33 reporting destinations according to latest available data for 2018, with a significant number of these reported double-digit growth arrivals and/or overnights.

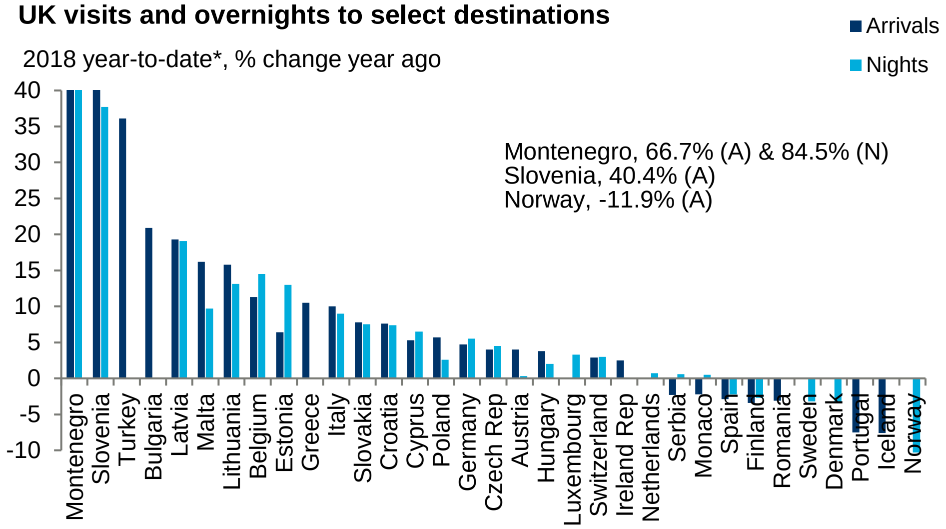
Montenegro enjoyed the strongest growth in UK arrivals based on data to August and much of this growth has been facilitated by increased connectivity between the UK and this region, with numerous flights between the UK and Montenegro chartered by some of the largest tour operators in the UK for summer 2018. The number of flights provided by low-cost carriers such as Ryanair and EasyJet have also increased significantly in 2018.

Spain and Portugal have struggled to attract British tourists, both failing to secure growth in either arrivals or overnights in the year to August. In Spain arrivals from the UK were 2.9% lower compared to the same period a year ago, and in Portugal 7.5% lower; declines in UK arrivals for either of these destinations are significant given the share of total arrivals made up by the UK.

The current weakness of sterling is a major factor, reflected by arrivals growth across a number of relatively cheaper European destinations. But “over-tourism” fallout in Spain and cabin crew strikes within both Portugal and Spain (resulting in a number of cancelled flights) will also have impacted.

**UK visits and overnights to select destinations**

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




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

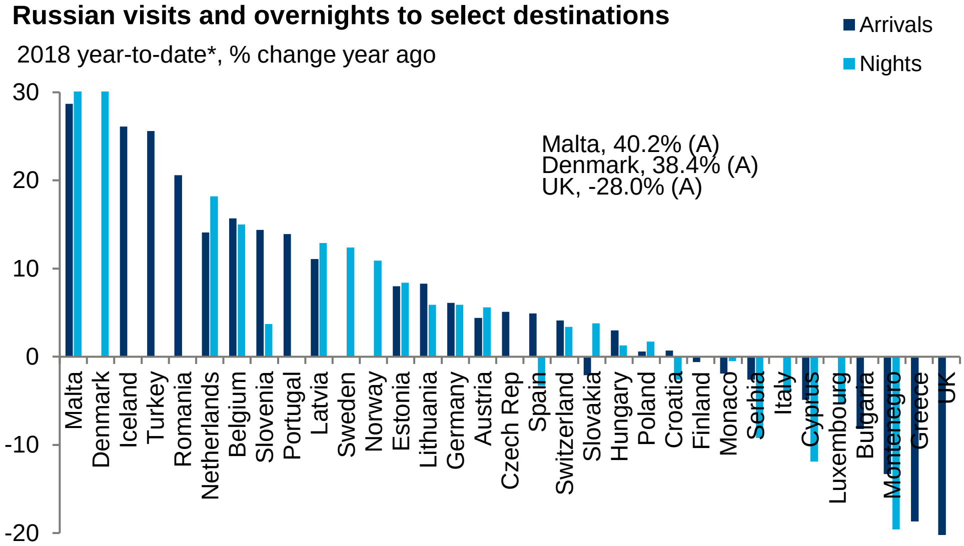
**24**

out of 33 destinations reported arrivals growth from Russia

Strong growth from Russia was reported in Malta based on data to August. As well as being better value compared to some other European destinations, heavy promotion of year-round festivals and cultural events celebrating Valletta as European Capital of Culture for 2018 have also helped.

Portugal and Spain continue to report growth from Russia, further benefitting from infrastructure put in place by travel operators to provide alternatives to Turkey when it was declared a no-go destination. As a result, authorities in Spain and Portugal are now directing efforts towards attracting more Russian tourists. However, although the process is relatively straightforward, the need for Russians to obtain a Schengen visa to travel to much of Europe will likely inhibit growth.

The UK has reported some significant declines in Russian travel for the first half of 2018 which may be in part linked to the UK government’s response to alleged Russian espionage in the UK in March. However, travel to the UK was weak in Q2 in general, and some hotel data for Q3 suggest that some growth may materialise. Cyprus and Montenegro also stand out as destinations on the ascendency from a vast majority of other source markets, yet all have reported some large declines from Russia as the lure of Turkey returns. Adding to this appeal is Turkey’s visa-on-arrival offer for Russian visitors.



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

### 5.2 NON-EUROPEAN MARKETS

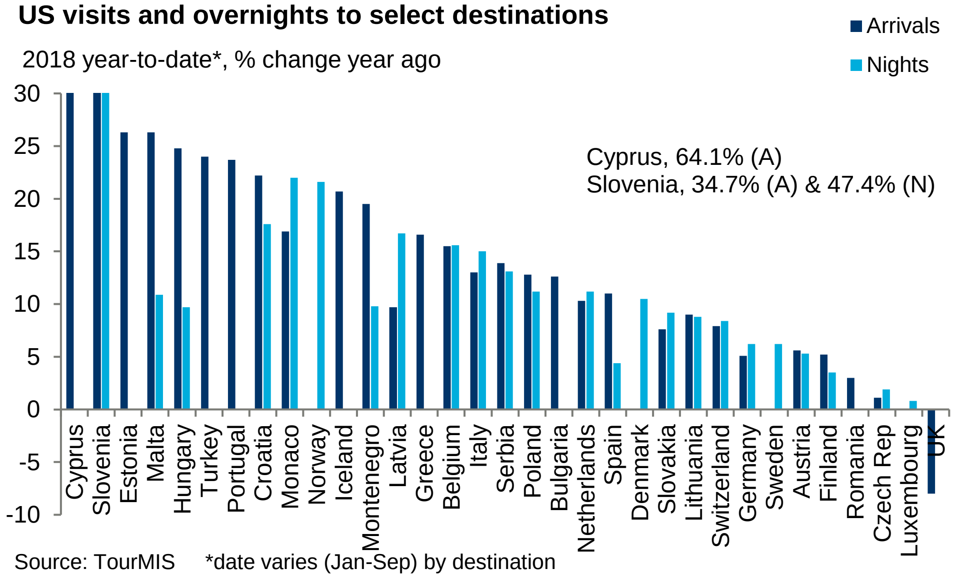
Although over the period July 2017 to July 2018 the trading value of the US dollar against the euro barely changed, there are likely some lingering benefits for US travel to Europe owing to the lagged nature of exchange rate impacts.

32

out of 33 destinations reported some form of growth from the United States

Cyprus and Slovenia recorded the highest rates of growth from the US source market. Arrivals in Cyprus were up 64.1% on 12 months earlier. Arrivals growth was in excess of 20% in Estonia, Malta, Hungary, Turkey, Portugal, Croatia and Iceland. Significantly lower nights growth in Malta may suggest some influence from cruise arrivals.

32 of 33 reporting destinations recorded growth from the US source market with only the UK (based on data only to June) reporting a decline in arrivals from the US. Potentially, this is a really significant decline since the US is the UK's second largest source market (behind only France) in terms of number of visits. However, there are signs that July and August were especially strong months for UK tourism and that the current decline in US arrivals in the UK was driven by an unsustainable boom over the summer of 2017. The Q2 report showed Lithuania to be enduring the largest decline in US arrivals, but growth has since returned with arrivals up 9% based on data to June.




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

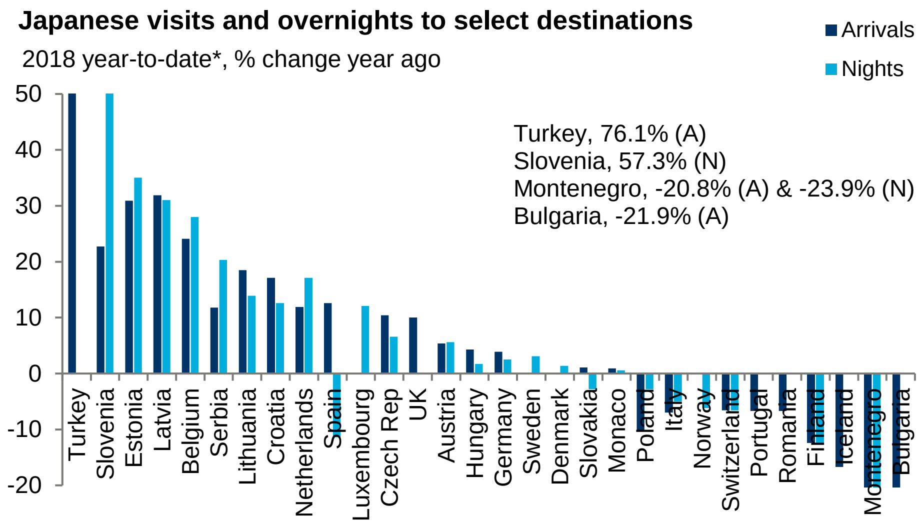
Demand from Japan shows more of a mixed picture. Of the 30 reporting European destinations, 20 reported some form of growth from the Japanese source market. As well as those countries reporting outright declines – such as Poland, Switzerland, Iceland and Montenegro – there were others where the overall picture conflicted between nights and arrivals (for example, Spain and Slovakia) or where growth was clearly positive but still muted (such as Monaco or Germany).

20

out of 30 destinations reported some form of growth from Japan

Turkey recorded the strongest growth in arrivals at 76.1% with the Baltic countries continuing to perform well after the Abe visits and pact in January. Latvia and Japan are now examining possibilities for direct flights.

However, it was a different story for Finland, Iceland, Montenegro, and Bulgaria – which all recorded significant losses in arrivals. In some cases, these were also from relatively small bases.




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

24 out of 30 destination countries showed some sort of growth from the Chinese source market – exactly the same proportion as last quarter.

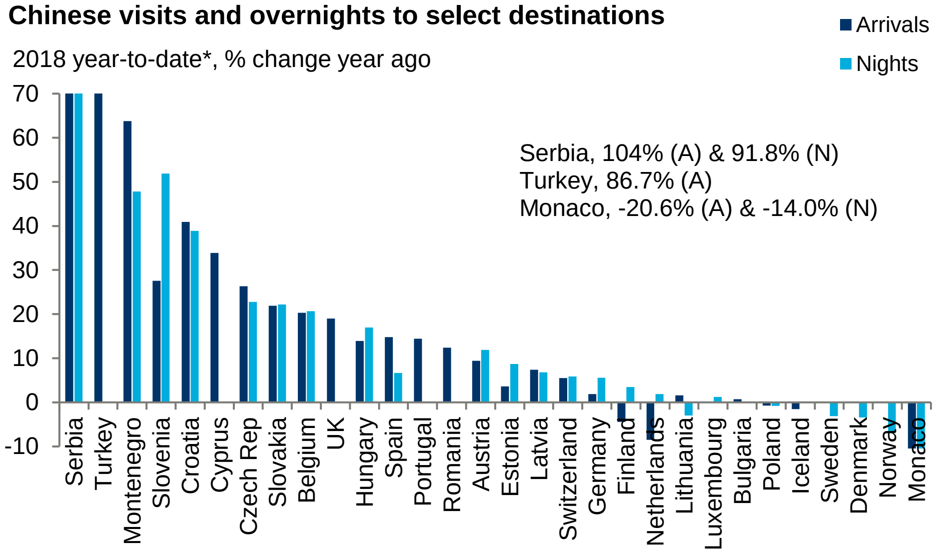
**24**

out of 30 destinations reported some form of growth from China

Turkey continued to benefit from China's identification of 2018 as 'Turkey Tourism Year' with arrivals up by 86.7% on a year earlier. A number of Balkan nations have recently identified China as a key source market and, although from a rather small base, Serbia actually topped growth from the Chinese source market with 104% growth in arrivals and 91.8% growth in nights. Anecdotal evidence on the Golden Week destinations and increasing economic ties between Serbia and China suggest that this growth is likely to continue into the coming months. Serbia has a visa-exempt policy for Chinese visitors and China has become a destination for Serb emigration. Montenegro, Croatia, and Slovenia also saw strong growth in Chinese arrivals; indeed, the prospects of a number of neighbouring European countries are tied owing to growth from joint tours.

Growth to other central and eastern European destinations, such as Czech Republic and Slovakia, has been strong in 2018 from China. A conference of tourism ministers and experts from China and 16 central and eastern European countries in September 2018 demonstrate a desire for further co-operation in the tourism sector. This should in turn yield further growth to the region from China in the months and years ahead.

Six countries saw no form of growth at all from China. Monaco was the worst performing but most of the declines were concentrated in Scandinavia.




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

22

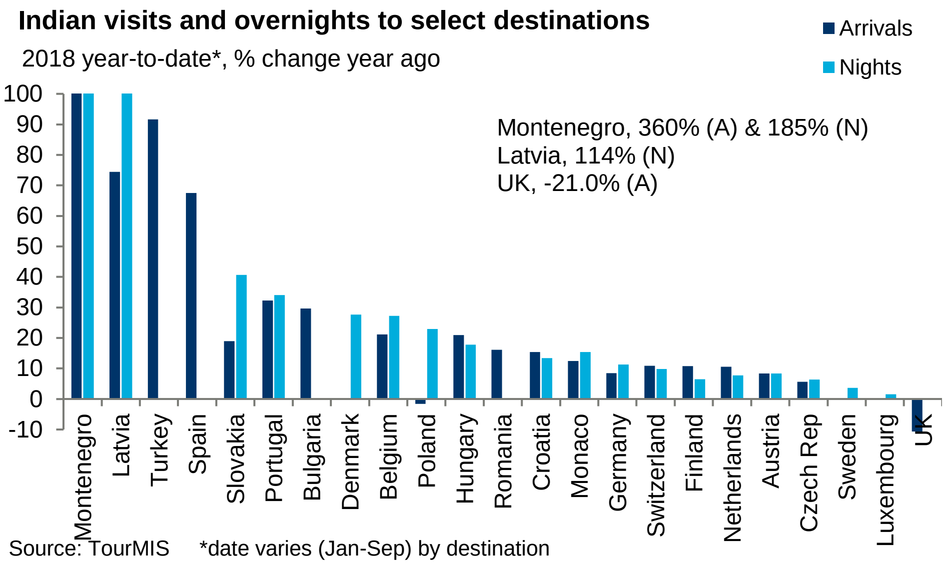
out of 23 destinations reported some form of growth from India

Arrivals from India have increased in all reporting destinations according to latest available 2018 data, with the sole exception of the UK, which saw a marked drop in arrivals over 21% on one year earlier. This may simply reflect the surge of Indian tourists in London in 2017.

As with most non-European source markets, there was strong growth in Indian arrivals in Turkey with growth in arrivals of 91.6%. Turkey is targeting the Indian wedding tourism market in particular. This is a market which has expanded rapidly in recent years thanks to rising household income and a propensity in the country to spend a significant proportion of personal wealth on wedding functions.

Montenegro continued to be the top growth destination for Indian visitors – but it is important to keep in mind the fact that absolute numbers are small and that reported growth from India for larger markets, such as 67.5% in Spain, is more significant. Growth from Latvia was also especially strong (74.4% growth in arrivals and 113.7% growth in nights) – but again this is from a relatively small base of numbers.

At the weaker end of growth from the Indian source market were both Sweden and Luxembourg.

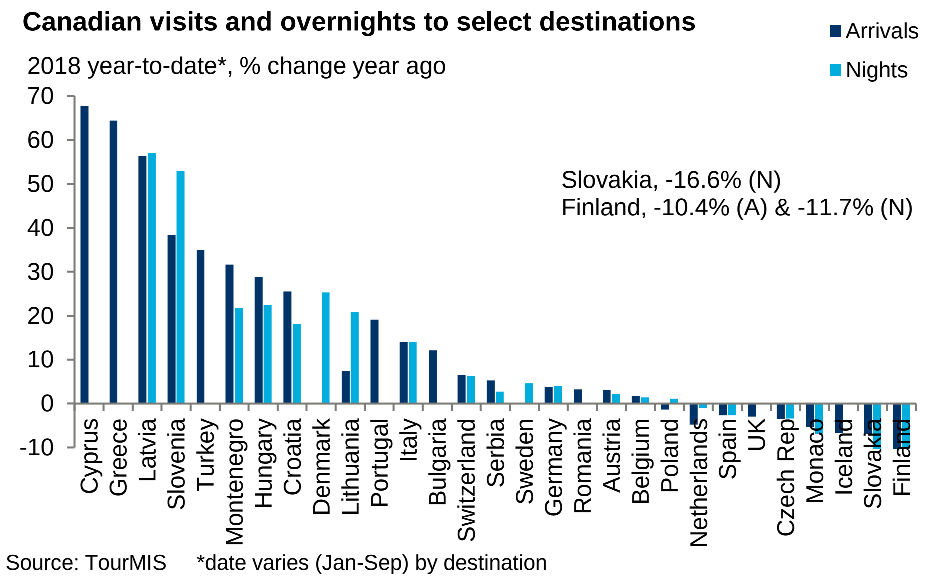



Growth from Canada was reported in 21 out of 29 reporting destinations based on latest available 2018 data.

**21**

out of 29 destinations reported some form of growth from Canada

The fastest rates of growth were in Cyprus and Greece and cruise travel may have played some part here, although it is difficult to assess the impact as neither country reported nights growth. Latvia was the third fastest growing destination for Canadian visitors. However, a fair number of European destinations reported relatively muted growth (for example, Belgium) whilst some Central European destinations such as Hungary saw strong growth.



# 6. ORIGIN MARKET SHARE ANALYSIS

**METHODOLOGY**

Based on the Tourism Economics' Global Travel Service (GTS) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets. 2018 values are, in most cases, year-to-date estimates based on the latest available data and are not final reported numbers.

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

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

The geographies of Europe are defined as follows:

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

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

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

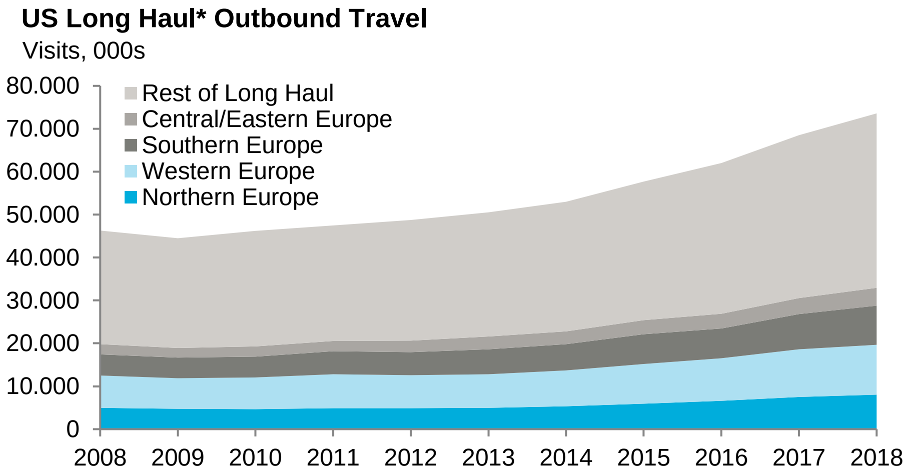
**Central/Eastern Europe** is Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, and Ukraine.

## 6.1 UNITED STATES

US Market Share Summary

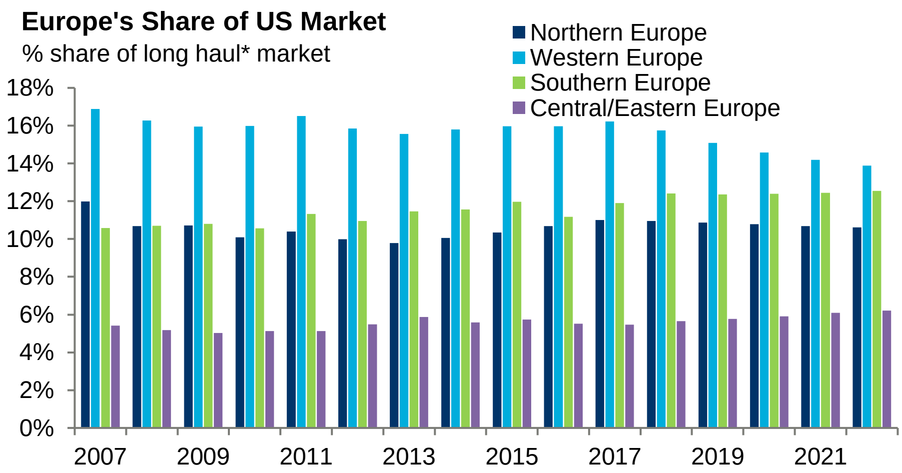
| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 113,870 | - | 4.9% | 27.0% | - | 43.8% | - |
| Long haul | 68,506 | 60.2% | 5.6% | 31.0% | 62.1% | 40.5% | 61.6% |
| Short haul | 45,364 | 39.8% | 3.9% | 21.0% | 37.9% | 49.1% | 38.4% |
| Travel to Europe | 30,547 | 26.8% | 4.9% | 27.1% | 26.8% | 48.2% | 26.0% |
| European Union | 27,526 | 24.2% | 4.8% | 26.3% | 24.0% | 49.2% | 23.3% |
| Northern Europe | 7,540 | 6.6% | 4.8% | 26.3% | 6.6% | 54.8% | 6.2% |
| Western Europe | 11,112 | 9.8% | 2.3% | 12.2% | 8.6% | 43.8% | 9.8% |
| Southern Europe | 8,150 | 7.2% | 6.7% | 38.1% | 7.8% | 52.7% | 6.7% |
| Central/Eastern Europe | 3,744 | 3.3% | 8.3% | 49.0% | 3.9% | 40.0% | 3.4% |

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




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.2 CANADA

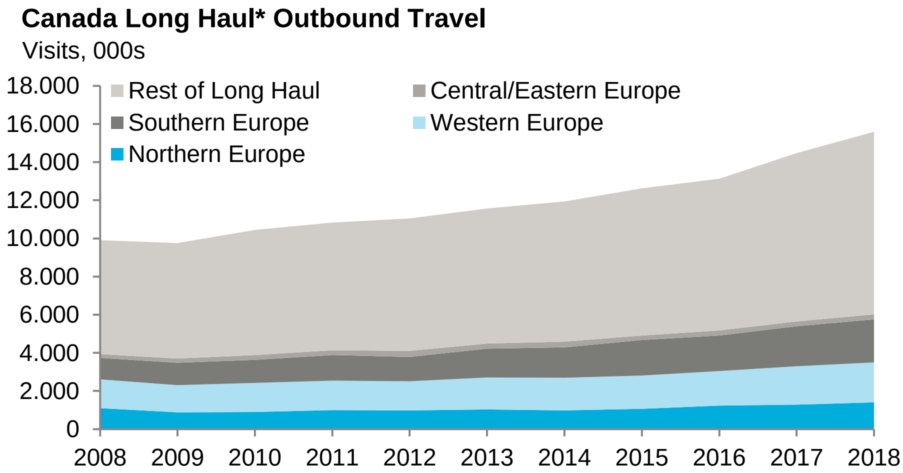
Canada Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 36,608 | - | 3.2% | 16.9% | - | 3.7% | - |
| Long haul | 14,468 | 39.5% | 3.7% | 20.2% | 40.6% | 30.8% | 31.3% |
| Short haul | 22,140 | 60.5% | 2.8% | 14.8% | 59.4% | -8.7% | 68.7% |
| Travel to Europe | 5,656 | 15.5% | 2.2% | 11.4% | 14.7% | 37.9% | 11.6% |
| European Union | 5,462 | 14.9% | 2.4% | 12.7% | 14.4% | 42.4% | 10.9% |
| Northern Europe | 1,290 | 3.5% | 4.2% | 23.0% | 3.7% | 32.1% | 2.8% |
| Western Europe | 2,010 | 5.5% | 1.1% | 5.5% | 5.0% | 30.4% | 4.4% |
| Southern Europe | 2,094 | 5.7% | 2.5% | 12.9% | 5.5% | 64.3% | 3.6% |
| Central/Eastern Europe | 263 | 0.7% | -2.4% | -11.5% | 0.5% | -15.4% | 0.9% |

*Shows cumulative change over the relevant time period indicated

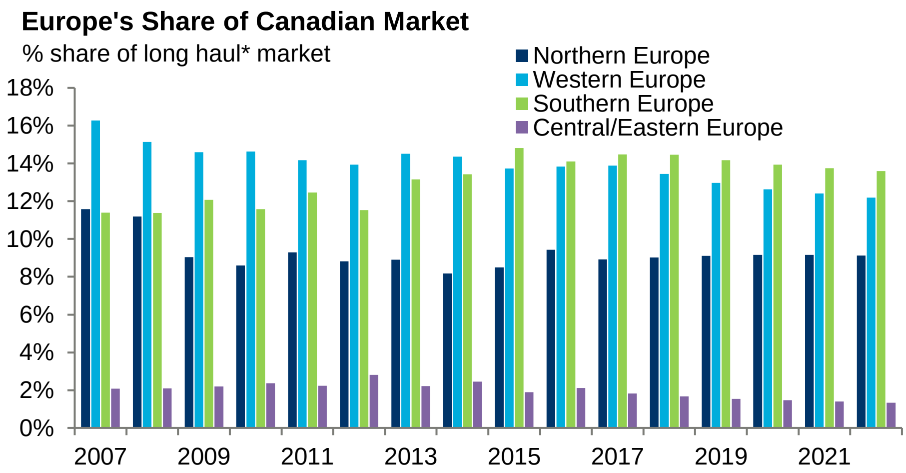
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

### 6.3 MEXICO

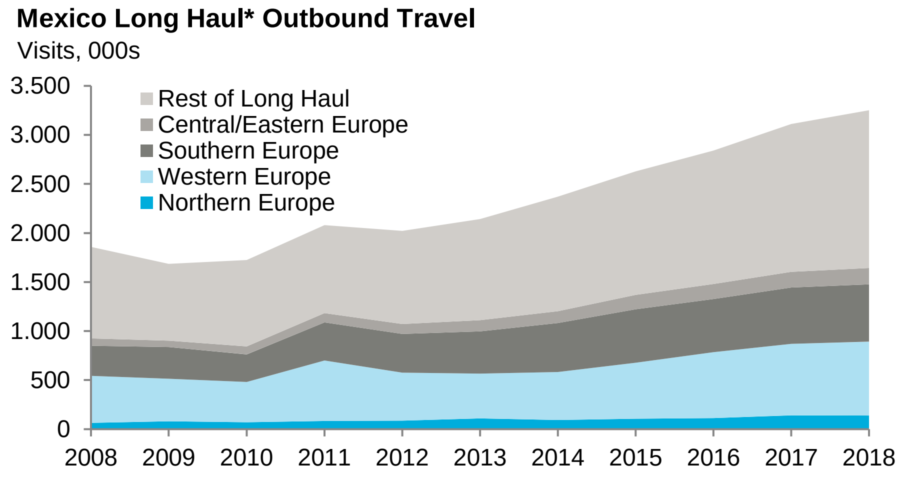
Mexico Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 21,286 | - | 3.3% | 17.4% | - | 30.1% | - |
| Long haul | 3,111 | 14.6% | 4.2% | 22.9% | 15.3% | 53.8% | 12.4% |
| Short haul | 18,175 | 85.4% | 3.1% | 16.4% | 84.7% | 26.7% | 87.6% |
| Travel to Europe | 1,602 | 7.5% | 2.4% | 12.3% | 7.2% | 49.3% | 6.6% |
| European Union | 1,504 | 7.1% | 2.3% | 11.9% | 6.7% | 49.4% | 6.2% |
| Northern Europe | 141 | 0.7% | 0.2% | 0.9% | 0.6% | 63.7% | 0.5% |
| Western Europe | 730 | 3.4% | 2.8% | 14.9% | 3.4% | 48.8% | 3.0% |
| Southern Europe | 572 | 2.7% | 2.3% | 12.1% | 2.6% | 45.5% | 2.4% |
| Central/Eastern Europe | 160 | 0.8% | 2.2% | 11.4% | 0.7% | 54.4% | 0.6% |

*Shows cumulative change over the relevant time period indicated

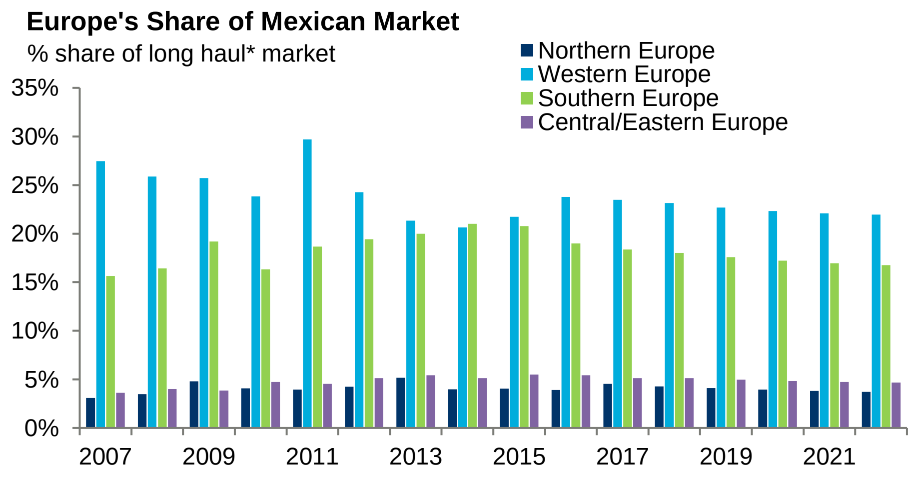
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.4 ARGENTINA

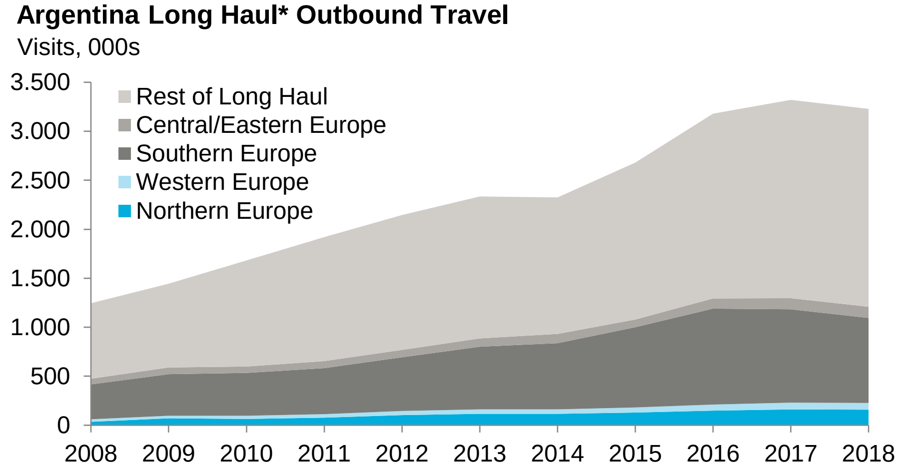
Argentina Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 12,317 | - | 0.8% | 4.1% | - | 63.0% | - |
| Long haul | 3,321 | 27.0% | -1.7% | -8.4% | 23.7% | 54.7% | 28.4% |
| Short haul | 8,996 | 73.0% | 1.7% | 8.8% | 76.3% | 66.3% | 71.6% |
| Travel to Europe | 1,297 | 10.5% | -3.9% | -18.1% | 8.3% | 68.7% | 10.2% |
| European Union | 1,146 | 9.3% | -4.9% | -22.1% | 7.0% | 69.7% | 8.9% |
| Northern Europe | 161 | 1.3% | -0.9% | -4.5% | 1.2% | 53.8% | 1.4% |
| Western Europe | 69 | 0.6% | 0.0% | 0.2% | 0.5% | 66.9% | 0.5% |
| Southern Europe | 954 | 7.7% | -5.6% | -25.1% | 5.6% | 74.5% | 7.2% |
| Central/Eastern Europe | 113 | 0.9% | 2.0% | 10.4% | 1.0% | 48.2% | 1.0% |

*Shows cumulative change over the relevant time period indicated

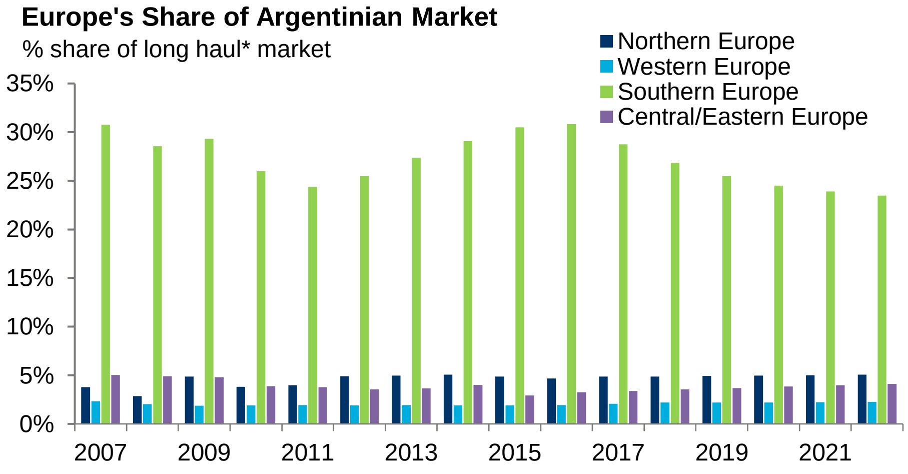
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.5 BRAZIL

Brazil Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 10,076 | - | 3.3% | 17.5% | - | 12.5% | - |
| Long haul | 7,347 | 72.9% | 2.0% | 10.4% | 68.5% | 14.0% | 72.0% |
| Short haul | 2,729 | 27.1% | 6.4% | 36.5% | 31.5% | 8.6% | 28.0% |
| Travel to Europe | 3,987 | 39.6% | -0.9% | -4.6% | 32.1% | 13.2% | 39.3% |
| European Union | 3,659 | 36.3% | -1.3% | -6.5% | 28.9% | 13.6% | 36.0% |
| Northern Europe | 260 | 2.6% | 5.6% | 31.3% | 2.9% | -2.7% | 3.0% |
| Western Europe | 1,591 | 15.8% | 0.3% | 1.6% | 13.7% | -3.5% | 18.4% |
| Southern Europe | 1,781 | 17.7% | -4.2% | -19.5% | 12.1% | 36.1% | 14.6% |
| Central/Eastern Europe | 356 | 3.5% | 3.0% | 16.1% | 3.5% | 19.8% | 3.3% |

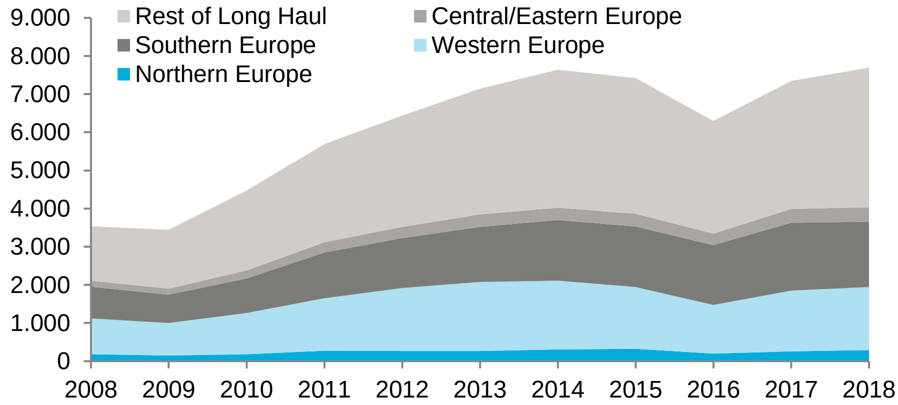
*Shows cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**Brazil Long Haul* Outbound Travel**

Visits, 000s

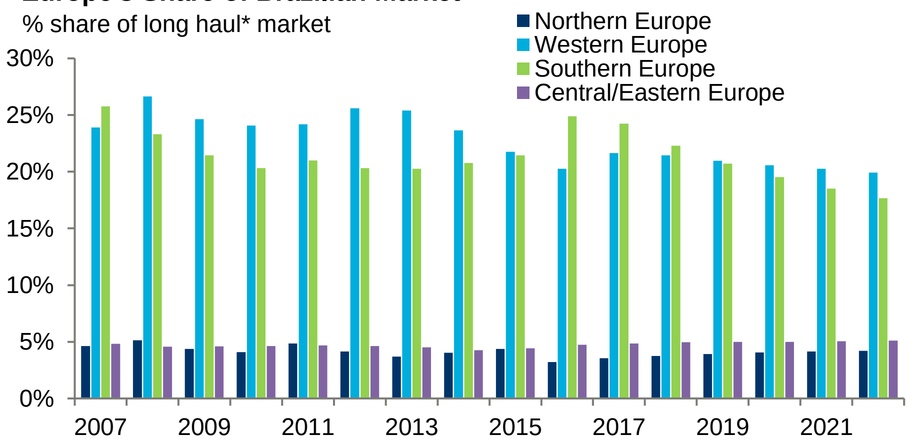



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

**Europe's Share of Brazilian Market**

% share of long haul* market




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

Source: Tourism Economics

## 6.6 INDIA

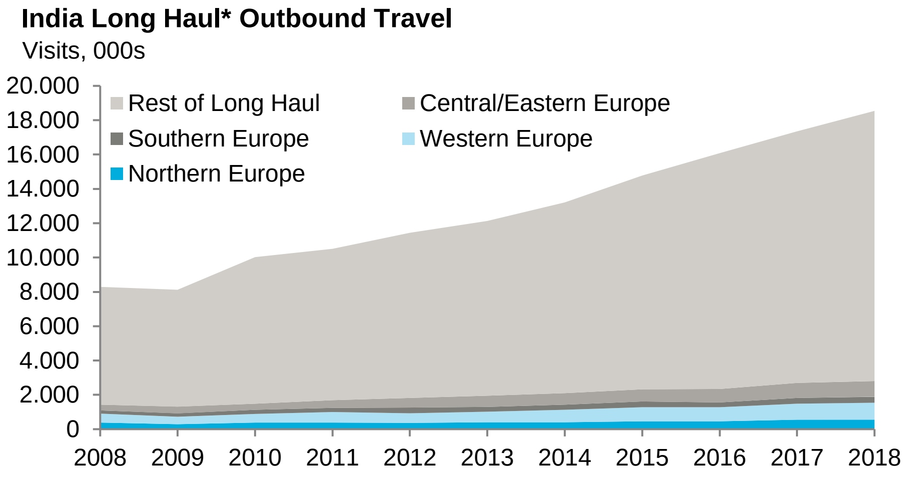
India Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 18,086 | - | 6.0% | 33.8% | - | 50.9% | - |
| Long haul | 17,354 | 96.0% | 6.0% | 33.8% | 95.9% | 51.7% | 95.5% |
| Short haul | 732 | 4.0% | 6.3% | 35.8% | 4.1% | 34.6% | 4.5% |
| Travel to Europe | 2,698 | 14.9% | 3.2% | 17.3% | 13.1% | 47.7% | 15.2% |
| European Union | 1,518 | 8.4% | 2.9% | 15.6% | 7.2% | 42.2% | 8.9% |
| Northern Europe | 550 | 3.0% | 1.5% | 7.7% | 2.4% | 52.6% | 3.0% |
| Western Europe | 942 | 5.2% | 2.9% | 15.6% | 4.5% | 64.4% | 4.8% |
| Southern Europe | 324 | 1.8% | 5.2% | 28.6% | 1.7% | -2.9% | 2.8% |
| Central/Eastern Europe | 883 | 4.9% | 3.9% | 21.0% | 4.4% | 57.5% | 4.7% |

*Shows cumulative change over the relevant time period indicated

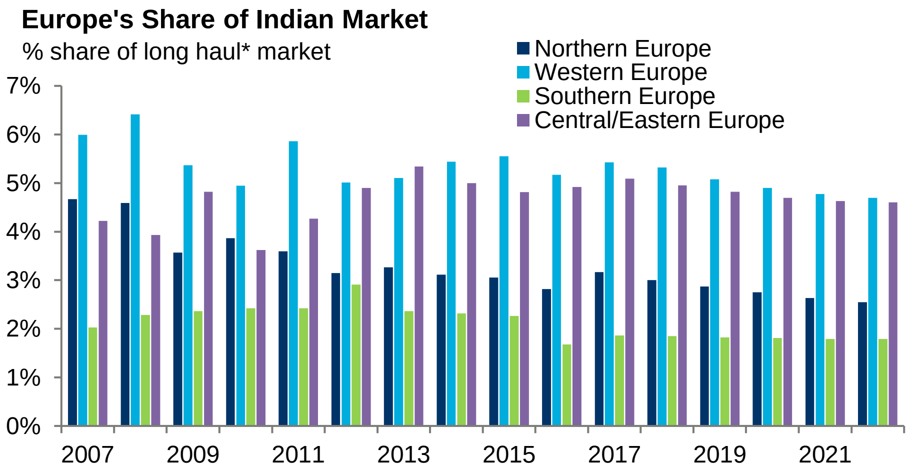
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.7 CHINA

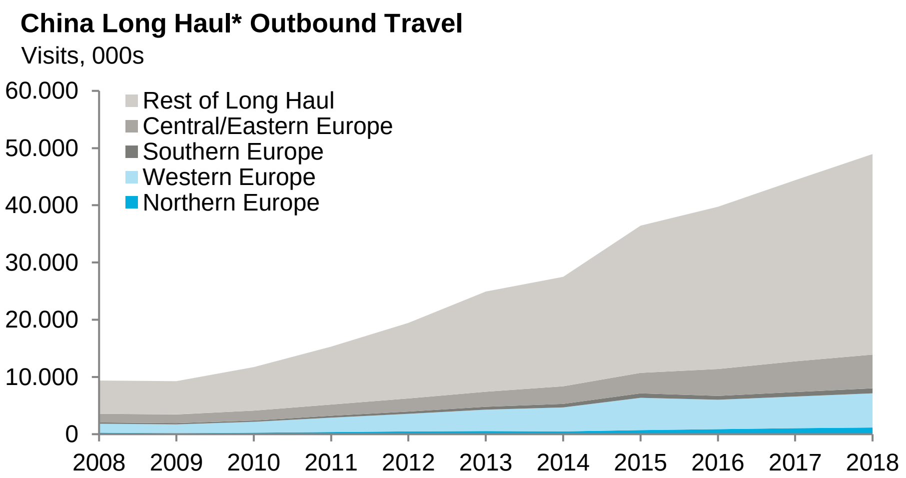
China Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 88,858 | - | 5.9% | 33.1% | - | 80.1% | - |
| Long haul | 44,368 | 49.9% | 6.9% | 39.7% | 52.4% | 128.5% | 39.4% |
| Short haul | 44,490 | 50.1% | 4.8% | 26.4% | 47.6% | 48.7% | 60.6% |
| Travel to Europe | 12,760 | 14.4% | 6.6% | 37.9% | 14.9% | 104.7% | 12.6% |
| European Union | 7,467 | 8.4% | 6.8% | 39.2% | 8.8% | 100.7% | 7.5% |
| Northern Europe | 1,058 | 1.2% | 6.6% | 37.5% | 1.2% | 129.8% | 0.9% |
| Western Europe | 5,527 | 6.2% | 7.5% | 43.5% | 6.7% | 79.1% | 6.3% |
| Southern Europe | 794 | 0.9% | 6.3% | 35.7% | 0.9% | 87.1% | 0.9% |
| Central/Eastern Europe | 5,381 | 6.1% | 5.8% | 32.6% | 6.0% | 137.8% | 4.6% |

*Shows cumulative change over the relevant time period indicated

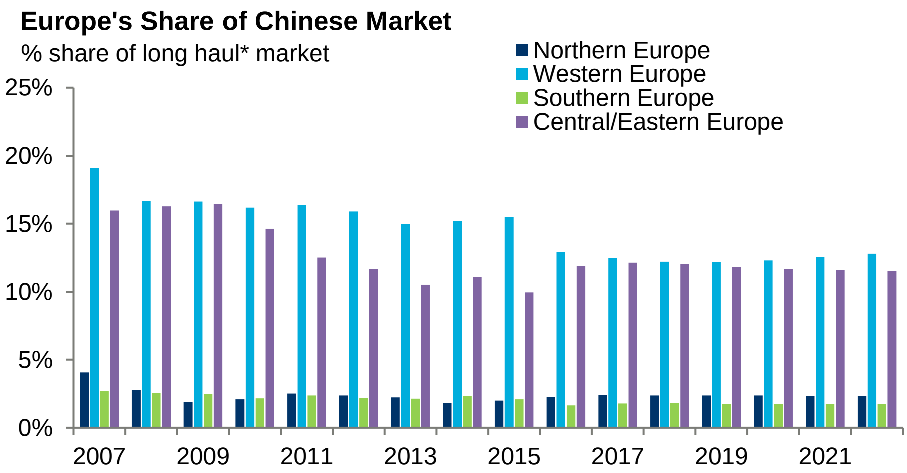
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.8 JAPAN

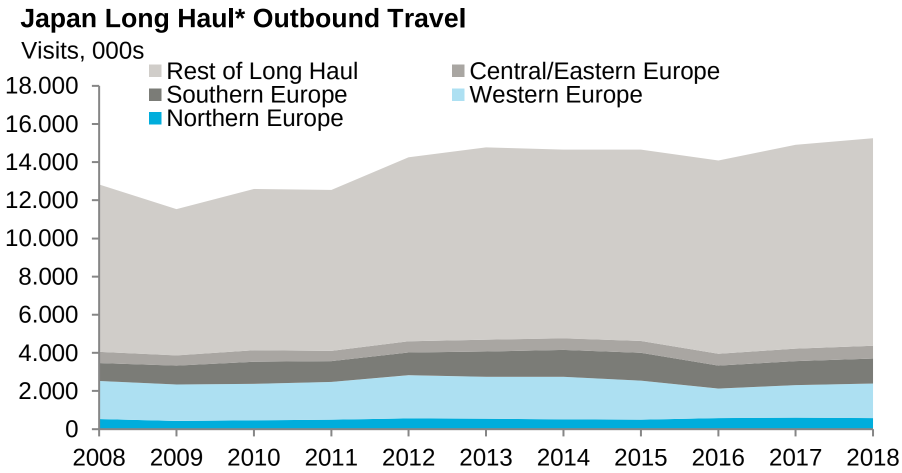
Japan Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 22,949 | - | 3.6% | 19.1% | - | -3.0% | - |
| Long haul | 14,904 | 64.9% | 3.4% | 17.9% | 64.3% | 4.5% | 60.3% |
| Short haul | 8,045 | 35.1% | 3.9% | 21.4% | 35.7% | -14.4% | 39.7% |
| Travel to Europe | 4,219 | 18.4% | 3.8% | 20.6% | 18.6% | -8.5% | 19.5% |
| European Union | 3,757 | 16.4% | 3.9% | 21.4% | 16.7% | -4.7% | 16.7% |
| Northern Europe | 607 | 2.6% | -0.3% | -1.3% | 2.2% | 7.7% | 2.4% |
| Western Europe | 1,695 | 7.4% | 5.6% | 31.1% | 8.1% | -24.9% | 9.5% |
| Southern Europe | 1,273 | 5.5% | 4.0% | 21.5% | 5.7% | 5.6% | 5.1% |
| Central/Eastern Europe | 644 | 2.8% | 2.2% | 11.6% | 2.6% | 10.5% | 2.5% |

*Shows cumulative change over the relevant time period indicated

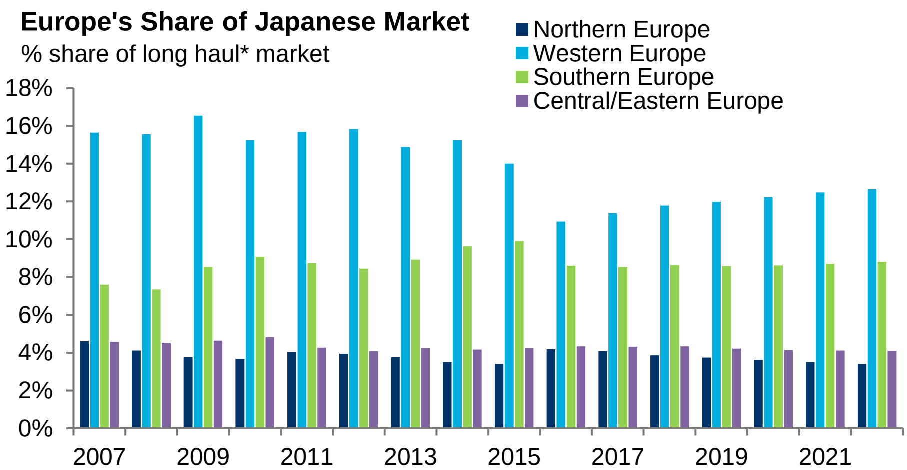
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.9 AUSTRALIA

Australia Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 17,308 | - | 3.7% | 19.8% | - | 18.7% | - |
| Long haul | 16,563 | 95.7% | 3.7% | 19.8% | 95.7% | 17.5% | 96.7% |
| Short haul | 744 | 4.3% | 3.7% | 20.0% | 4.3% | 53.4% | 3.3% |
| Travel to Europe | 5,204 | 30.1% | 3.3% | 17.9% | 29.6% | 11.4% | 32.0% |
| European Union | 4,867 | 28.1% | 3.3% | 17.7% | 27.6% | 11.9% | 29.8% |
| Northern Europe | 1,436 | 8.3% | 2.9% | 15.5% | 8.0% | 14.3% | 8.6% |
| Western Europe | 1,657 | 9.6% | 0.1% | 0.6% | 8.0% | -8.5% | 12.4% |
| Southern Europe | 1,620 | 9.4% | 6.2% | 34.9% | 10.5% | 32.1% | 8.4% |
| Central/Eastern Europe | 492 | 2.8% | 4.9% | 27.3% | 3.0% | 29.7% | 2.6% |

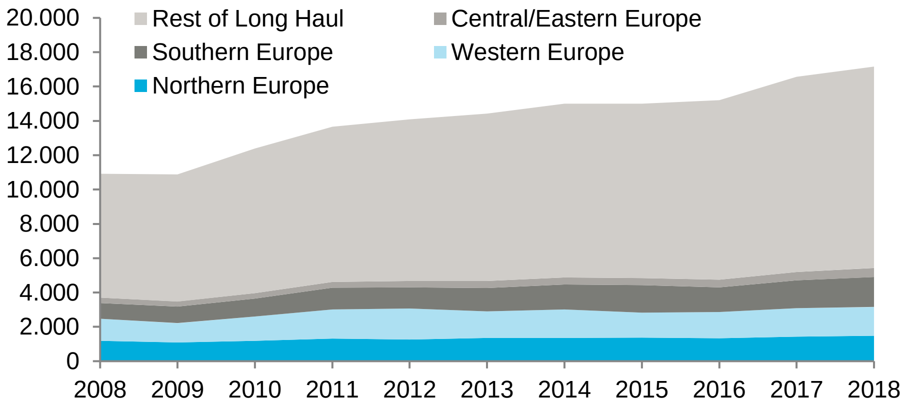
*Shows cumulative change over the relevant time period indicated

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

**Australia Long Haul* Outbound Travel**

Visits, 000s

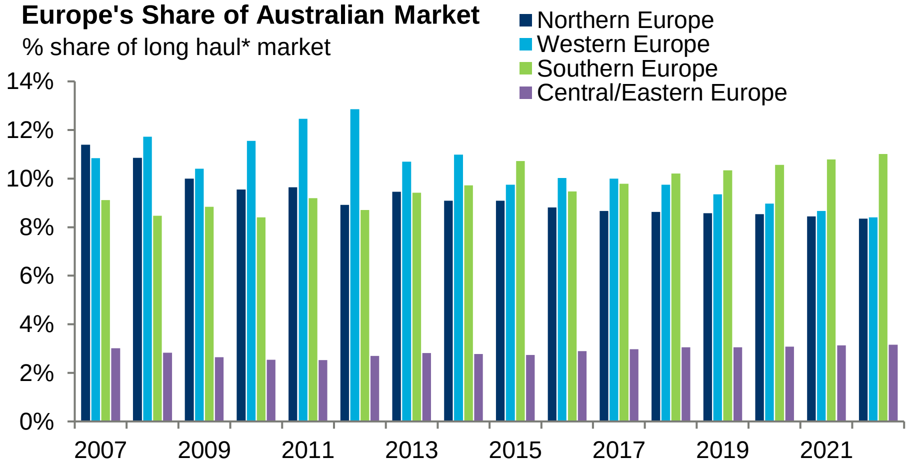



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

**Europe's Share of Australian Market**

% share of long haul* market




*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

## 6.10 UNITED ARAB EMIRATES

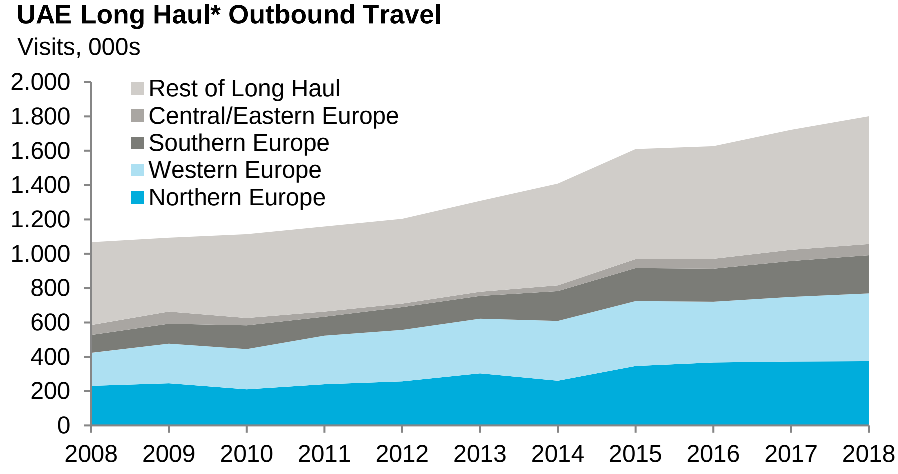
United Arab Emirates Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 3,269 | - | 6.3% | 35.6% | - | 3.7% | - |
| Long haul | 1,722 | 52.7% | 2.6% | 13.4% | 44.1% | 43.0% | 38.2% |
| Short haul | 1,547 | 47.3% | 9.9% | 60.3% | 55.9% | -20.5% | 61.8% |
| Travel to Europe | 1,022 | 31.3% | 1.3% | 6.8% | 24.6% | 43.9% | 22.5% |
| European Union | 797 | 24.4% | 1.3% | 6.6% | 19.2% | 36.0% | 18.6% |
| Northern Europe | 371 | 11.4% | 1.0% | 5.0% | 8.8% | 44.5% | 8.2% |
| Western Europe | 378 | 11.5% | 0.9% | 4.5% | 8.9% | 26.2% | 9.5% |
| Southern Europe | 209 | 6.4% | 3.0% | 15.7% | 5.5% | 58.0% | 4.2% |
| Central/Eastern Europe | 64 | 2.0% | 0.3% | 1.7% | 1.5% | 195.5% | 0.7% |

*Shows cumulative change over the relevant time period indicated

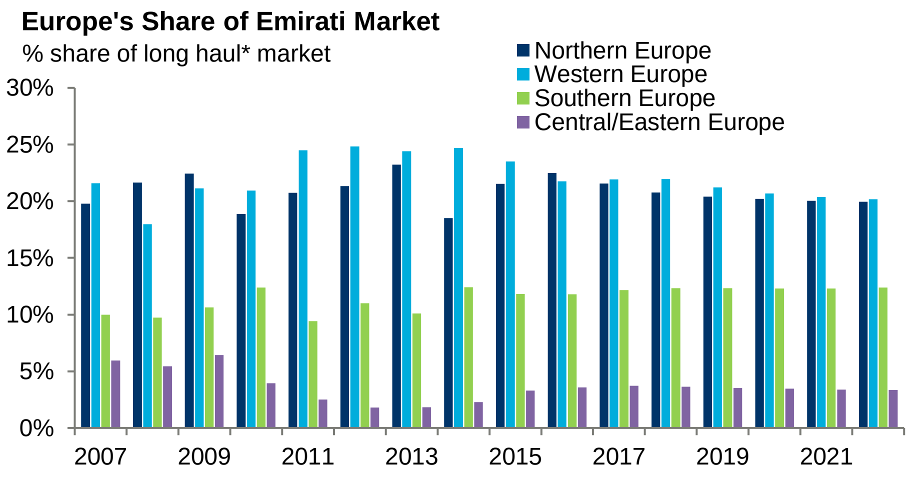
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




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

Source: Tourism Economics




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

Source: Tourism Economics

## 6.11 RUSSIA

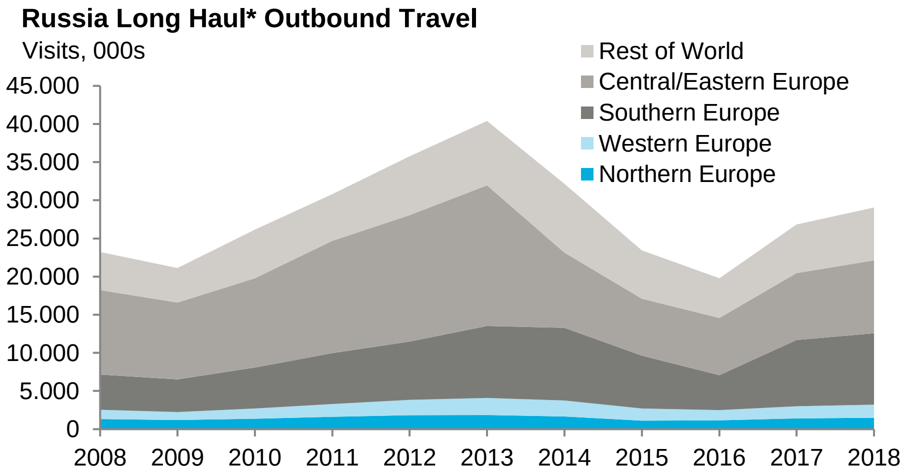
Russia Market Share Summary

| | 2017 | Growth (2017-22) | | | | Growth (2012-17) | |
|---|---|---|---|---|---|---|---|
| | 000s | Share** | Annual average | Cumulative growth* | Share 2022** | Cumulative growth* | Share 2012** |
| Total outbound travel | 26,815 | - | 5.2% | 28.5% | - | -25.0% | - |
| Long haul | 6,345 | 23.7% | 4.8% | 26.6% | 23.3% | -17.5% | 21.5% |
| Short haul | 20,470 | 76.3% | 5.2% | 29.1% | 76.7% | -27.0% | 78.5% |
| Travel to Europe | 20,470 | 76.3% | 5.2% | 29.1% | 76.7% | -27.0% | 78.5% |
| European Union | 9,657 | 36.0% | 5.3% | 29.4% | 36.2% | -15.5% | 32.0% |
| Northern Europe | 1,391 | 5.2% | 5.9% | 32.9% | 5.4% | -23.7% | 5.1% |
| Western Europe | 1,602 | 6.0% | 4.0% | 21.5% | 5.6% | -20.3% | 5.6% |
| Southern Europe | 8,697 | 32.4% | 3.7% | 20.2% | 30.3% | 13.6% | 21.4% |
| Central/Eastern Europe | 8,779 | 32.7% | 6.8% | 38.8% | 35.4% | -47.0% | 46.3% |

*Shows cumulative change over the relevant time period indicated

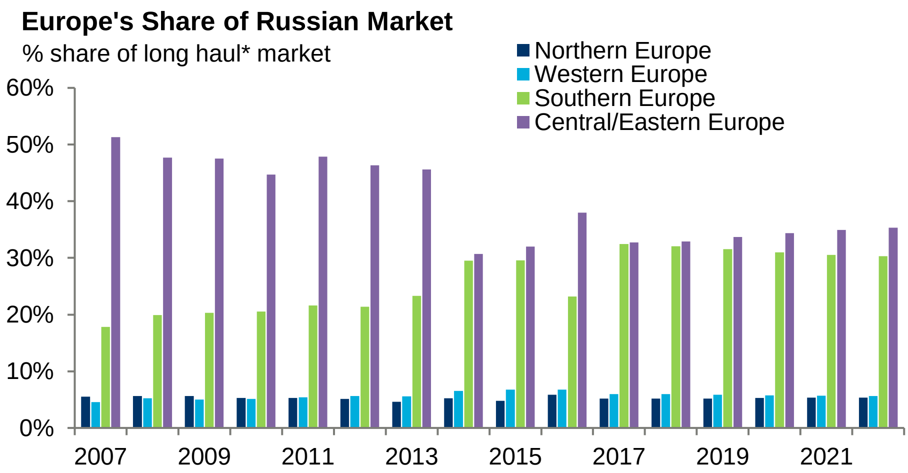
**Shares are expressed as % of total outbound travel

Source: Tourism Economics




*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics




*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

# 7. ECONOMIC OUTLOOK

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

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

### 7.1 OVERVIEW

Protectionism, tightening global liquidity and emerging market concerns remain key threats to the global economic expansion. But while these factors may trigger slower growth in 2019 and beyond, there is little compelling evidence of a significant loss of growth momentum. Oxford Economics (OE) continue to expect global GDP growth to ease gently from 3.1% this year to 2.8% in 2019.

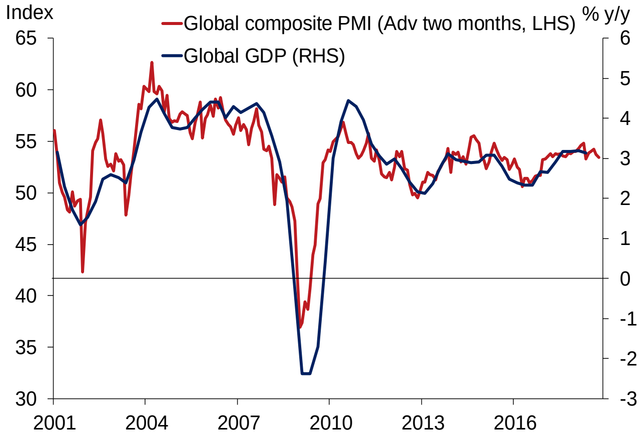
Potential growth threats have certainly surfaced this year, but OE's current estimates for global GDP growth in H1 2018 show no clear loss of momentum relative to 2017. While the global composite PMI fell for a second month running in August to 53.4 – just 0.1pp above its February low – it still points to global GDP growth of around 3%.

Looking to 2019, OE see some loss of momentum in the advanced economies after a couple of years of exceptional growth. Higher inflation and tightening labour markets are likely to lead to weaker real income growth and thus household spending growth too. And, despite investment holding up well in H1, protectionism-related uncertainty is expected to weaken growth in the second half of the year and 2019. Nonetheless, the support from US fiscal policy will stretch into 2019 and financial conditions remain accommodative so growth in the region should remain pretty solid.

With Chinese GDP growth also likely to slow gradually, global trade growth, which has recently been soft, may continue to ease. This will make conditions more challenging for manufacturers, particularly those in emerging markets (EMs).

Of greater concern for EMs is perhaps the persistent strong dollar and declining global liquidity, in the light of the build-up of debt in some economies over recent years. Nonetheless, OE do not see Turkey's and Argentina's problems as being symptomatic of a wider malaise in EMs – fundamentals are generally stronger than a decade ago in most EMs. For now, a wider EM crisis seems unlikely, particularly if, in line with our baseline view, the dollar begins to weaken again and global growth remains solid.

**World: GDP & PMI**




Source : Oxford Economics/Haver Analytics/Markit

Summary of economic outlook, % change year ago*

| | 2018 | | | | | 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Country | GDP | Consumer expenditure | Unemploy-ment * | Exchange rate*** | Inflation | GDP | Consumer expenditure | Unemploy-ment ** | Exchange rate*** | Inflation |
| UK | 1.3% | 1.2% | 0.3% | -1.1% | 2.5% | 1.5% | 1.0% | 0.0% | -0.2% | 2.1% |
| France | 1.6% | 0.8% | -0.4% | 0.0% | 1.9% | 1.7% | 1.1% | -0.6% | 0.0% | 1.6% |
| Germany | 1.8% | 1.4% | -0.5% | 0.0% | 1.9% | 1.6% | 2.0% | -0.3% | 0.0% | 1.8% |
| Netherlands | 2.7% | 2.4% | -1.1% | 0.0% | 1.7% | 1.7% | 1.4% | -0.2% | 0.0% | 1.8% |
| Italy | 1.2% | 0.9% | -0.5% | 0.0% | 1.4% | 1.1% | 0.9% | -0.2% | 0.0% | 1.8% |
| Russia | 1.8% | 3.1% | -0.2% | -12.0% | 3.0% | 1.4% | 2.7% | 0.2% | -6.7% | 4.4% |
| US | 2.9% | 2.6% | -0.5% | -5.2% | 2.5% | 2.5% | 2.6% | -0.2% | -0.7% | 2.1% |
| Canada | 2.0% | 2.2% | -0.4% | -4.9% | 2.1% | 1.7% | 1.8% | 0.2% | -1.7% | 2.0% |
| Brazil | 1.1% | 1.5% | -0.3% | -18.5% | 3.8% | 2.3% | 2.1% | -0.9% | -2.0% | 4.4% |
| China | 6.5% | 6.9% | 0.0% | -2.5% | 2.2% | 6.1% | 6.6% | 0.0% | -1.2% | 2.5% |
| Japan | 1.1% | 0.6% | -0.4% | -3.3% | 1.1% | 1.1% | 1.4% | 0.0% | -0.4% | 1.0% |
| India | 7.6% | 7.5% | 0.1% | -9.5% | 4.8% | 7.2% | 7.3% | 0.0% | -4.7% | 5.1% |

Source: Tourism Economics

* Unless otherwise specified

** Percentage point change

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

### 7.2 EUROZONE

Final Q2 GDP data confirmed that growth was stable at 0.4%. Surveys suggest the Eurozone economy is expanding at a similar pace in Q3 but continue to point to external risks despite the easing of trade tensions with the US in recent weeks. Overall, OE GDP growth forecasts remain unchanged at 2.0% for this year and 1.7% for 2019.

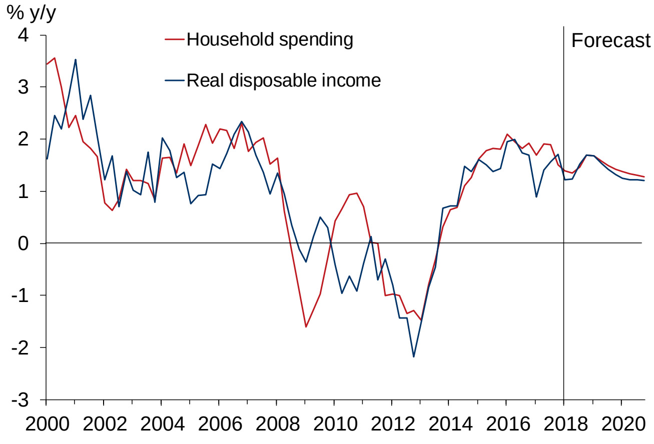
The detailed GDP breakdown by components confirmed OE's expectations that household spending was very weak in Q2 and that net trade posted a negative contribution to growth for a second consecutive quarter despite a mild rebound in exports. Fixed investment, on the other hand, rebounded strongly from a weak Q1.

Leading indicators continue to suggest stable growth in the second half of the year. The composite PMI was virtually unchanged in August and its average in Q3 looks likely to be very similar to that of Q2. OE expect the Eurozone economy to maintain the current 0.4% pace in Q3 and Q4.

Inflation edged down to 2.0% in August, but remains close to the highest in six years, primarily a result of high energy prices. Core inflation remains significantly lower (currently at 1%), but OE still expect it to start rising as wage growth climbs across the region. It sees headline inflation remaining close to 2% over the coming months, resulting in an average of 1.8% for 2018, before easing slightly to 1.7% in 2019.

It is thought the ECB could raise interest rates earlier than expected. However, QE purchases are still on track to end this year, and OE do not expect the first interest rate hike until H2 2019, with a very gradual pace of tightening thereafter.

**Eurozone: Consumption and real income**

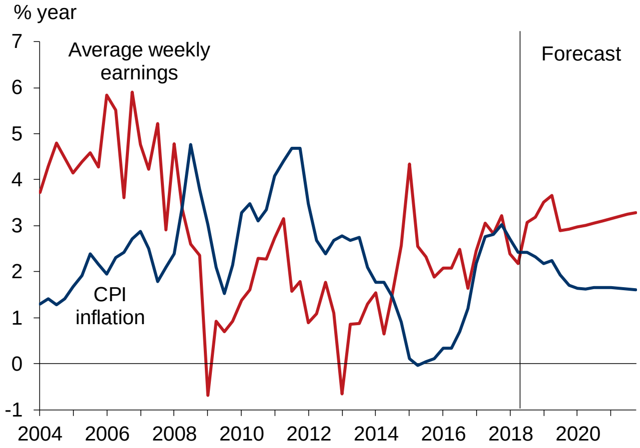



Source : Oxford Economics/Haver Analytics

### 7.3 UNITED KINGDOM

OE GDP forecasts for 2018 and 2019 are unchanged at 1.3% and 1.4% respectively, though a strong outturn for GDP in July has placed some upside risk on their near-term projections. OE expects soft underlying inflationary pressures to mean a maximum of one 25bp rate hike next year. But the outcome of Brexit negotiations remains a major source of uncertainty for both the short- and long-term forecasts.

**UK: Earnings & inflation**




Source: Oxford Economics

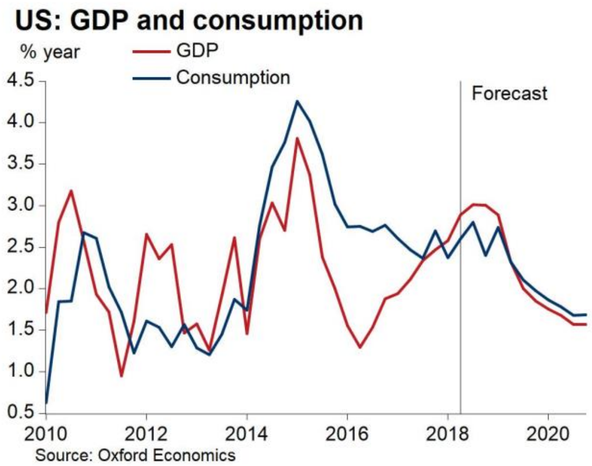
With GDP rising by 0.1% on the month in June, the first estimate for quarterly growth in Q2 as a whole is 0.4%, in line with OE's expectations. But while this was a stronger outturn than Q1, when bad weather and the collapse of construction firm Carillion weighed on activity, it only took growth back to the pace it was for much of 2017 and suggests that little of the Q1 losses were recouped. The early data for Q3 hinted at better fortunes, with monthly GDP growth of 0.3% in July taking the three-monthly rate to 0.6%. But this was flattered by comparison with the snow-related disruption, so the rolling three-month rate is likely to slow in the rest of the quarter. The composite PMI also points to Q3 seeing a similar pace of growth to Q2, so OE's forecast assumes quarterly growth of 0.4%, with the risks skewed towards a slightly stronger outturn.

Sterling weakened again over the summer months, briefly touching a 13-month low of $1.27 in mid-August before recovering some of the lost ground. Much of the recent decline reflects a combination of the persistence of Brexit-related uncertainty and heightened geopolitical risk, which has boosted the dollar. These factors look likely to remain influential in the near term, but OE remains of the view that sterling is heavily undervalued and that it will recover if the UK and EU successfully complete and ratify a withdrawal agreement.

### 7.4 UNITED STATES

The economy appeared to be firing on all cylinders this summer with real GDP growth approaching 3% y/y and the labor market continuing to deliver robust job growth. Strong consumer outlays, solid business investment, sturdy export growth and firming government outlays remain supportive of growth. However, risks are appearing on the horizon, including rising inflation, threatening protectionism, slowing emerging markets growth and a more hawkish Fed.

As the midterm elections approach, it appears solid economic momentum prior to this administration was boosted by the passage of the Tax Cuts and Jobs Act and the Bipartisan Budget Act as well as gradual business deregulation. However, as these tailwinds gradually dissipate, and new headwinds appear in the form of rising inflation, rising interest rates and rising trade tensions, OE expect real GDP growth will moderate towards the 2.0-2.5% range in the coming quarters.




The economy added 201,000 jobs in August while wage growth rose to 2.9% y/y – its strongest since 2009 – and the unemployment rate remained at a low 3.9%.

On the policy front, trade developments have been encouraging for NAFTA. On China the US has confirmed they are imposing tariffs on another $200 billion of imports from China, and the president has threatened imposing tariffs on all imports from China. Meanwhile, Congress focused on passing a spending bill at the end of September to avoid a government shutdown. On the political front, recent publications have exposed the chaos within the White House and will continue to draw the ire of Trump.

With PCE inflation trending near the Fed's 2% target, OE foresee two more interest rate hikes in 2018, for a total of four this year. In 2019, OE expect another two rate hikes as Fed Chair Powell puts his new doctrine of "risk management" to the test.

### 7.5 JAPAN

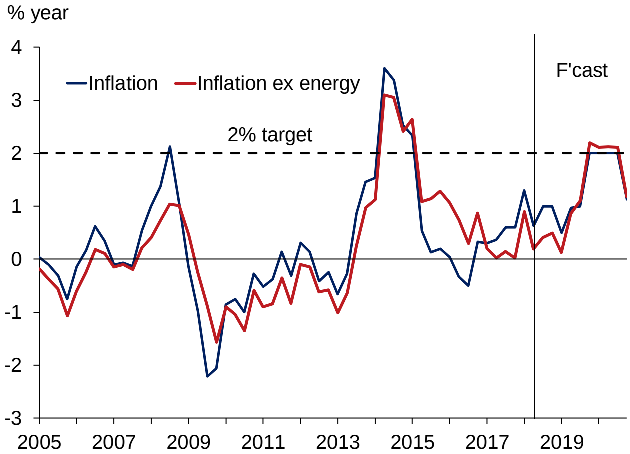
A solid outlook for domestic demand will support growth in 2018 and 2019, despite the risk of protectionism. Consumption will be helped by a robust labour market and a pick-up in wage growth, while investment will be supported by high utilisation rates and industrial upgrading. Export growth will slow, but the deceleration should be modest given strong demand for Japanese capital goods. Overall, OE expect GDP to grow by 1.0% in 2018 and 1.1% in 2019.

Reasonable domestic momentum will continue to support growth in H2 2018. OE expect record-low unemployment and a pick-up in wage earnings to bolster consumption and incentivise investment in labour-saving technology. Meanwhile, the investment outlook is also bolstered by high utilisation rates and industrial upgrading, driving increased demand for capital goods. In addition, the 2020 Tokyo Olympics is providing positive momentum.

The most notable downside risk to the outlook is protectionism, which may weigh on trade via the Asian supply chain and undermine sentiment, possibly amplified by a slowdown in global growth. In particular, the threat of US tariffs on Japanese cars may dampen confidence and investment spending. At home, the planned consumption tax increase in October 2019 will weigh on growth, but Prime Minister Abe has made it clear that he is ready to provide additional stimulus to offset the negative impact.

With inflation well below the Bank of Japan's (BoJ) 2% target, monetary policy is committed to remain expansionary for longer. To make the easing stance more sustainable, the BoJ tweaked policy in late July, allowing for greater movement of 10-year JGB yields and more flexibility on its ETF purchases. Meanwhile, OE continue to look for an end to this year's dollar rally in the coming months and see the Japanese yen averaging 108-109 per dollar in 2019.

**Japan: Inflation measures**



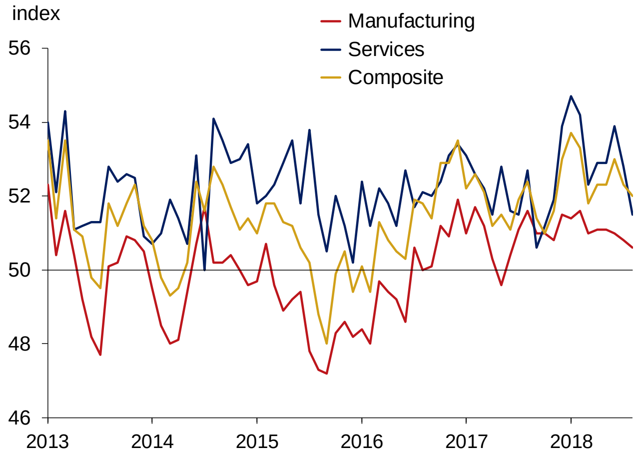
Source: Haver Analytics / Oxford Economics

### 7.6 EMERGING MARKETS

#### CHINA GROWTH HOLDS UP

Economic growth held up in China in July, underpinned by better exports and resilient housing activity. But overall investment momentum weakened, and household consumption eased. OE expect growth to cool in the rest of 2018 amid slower credit growth and an intensifying trade conflict with the US. Indeed, the latest Caixin Composite PMI and the import data suggest that China's domestic economy has started to slow. Overall, OE expect full-year real GDP growth to ease to 6.5% and further to 6.1% in 2019.

**China: Output PMI**



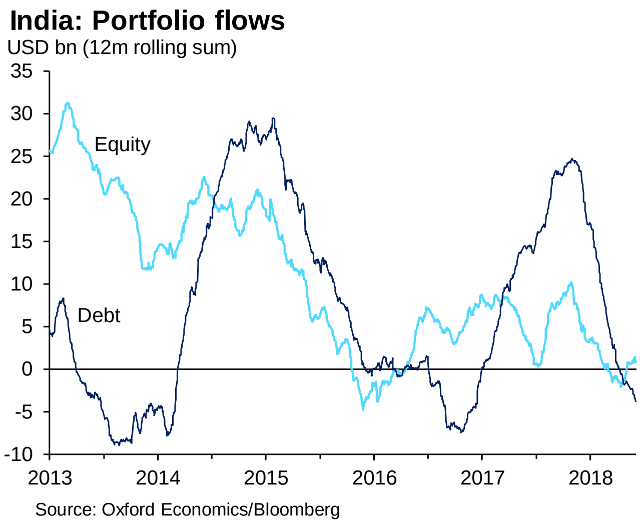
Source: Oxford Economics/Markit/Caixin

In line with OE's expectations, China's policymakers have taken significant measures in recent months to dampen the pressure for CNY depreciation. Looking forward, OE's CNY/USD forecast continues to rely heavily on its global view for the US$. Although the US$ has strengthened recently, OE continue to expect the greenback to give up ground globally through end-2019. Against this backdrop, it expects the CNY to appreciate somewhat, from around 6.85 now to 6.7 by end-2018, and to strengthen further to 6.3 by end-2019.

#### GROWTH IN INDIA LIKELY PEAKED IN Q2

India posted a stellar growth outcome in the second quarter, with real GDP growth topping 8% for the first time in two years. This was partly due to a favourable base effect, but sequential momentum also surprised on the upside. Growth was primarily driven by private demand. Consumer spending growth rose to 8.6% y/y (versus 6.7% in Q1), while investment spending growth remained resilient at 10% (after 14.4% in Q1) and the drag from net exports lessened. The acceleration in private sector output was corroborated by the industry breakdown.

Despite the positive Q2 outcome, OE remain cautious with expectations. It maintains that the real effects of elevated oil prices will likely be felt more meaningfully in the coming quarters and, along with global trade tensions, will weigh on growth in H2. A steadily weakening INR also warrants monitoring, as the anticipated inflationary consequences may lead to pre-emptive tightening from the RBI. In our baseline forecast, OE expect slowing growth to dampen the upside pressure on core inflation and allow the RBI to pause its tightening for the rest of this year and assess the economic impact of the 50bp of policy rate hikes implemented so far.

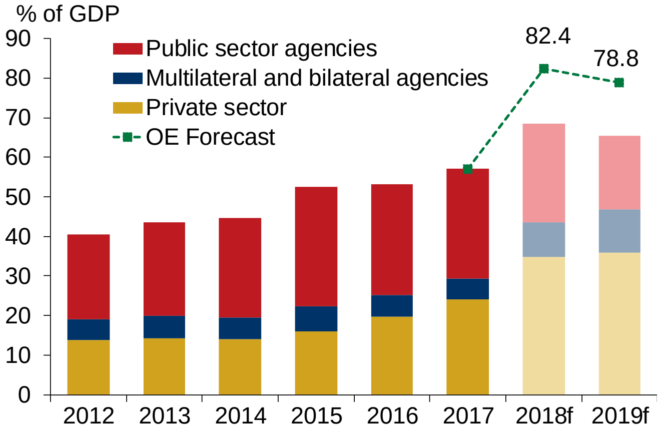



## CURRENCY CRISIS IN ARGENTINA

The rapid depreciation of the peso (ARS) has not only exposed Argentina as one of the most vulnerable EMs to episodes of risk reversal but will also derail the gradual disinflationary process that was underway. Even more importantly, it threatens to raise public debt to unsustainably high levels. OE now expect inflation to accelerate to at least 37% in early 2019, which will result in a deeper and longer recession than it had previously anticipated. OE forecast GDP to contract by 1.4% this year and only recover by just 0.1% in 2019 (last month it expected 0% and 1.5% respectively).

The government has pledged to cut its primary fiscal deficit to zero by 2019, a year earlier than previously planned, mainly through the imposition of a temporary export tax (2019-2020). In addition, the IMF seems likely to agree on a faster disbursement schedule of the Argentina-IMF program funds. These measures seek to reassure investors that the country will be able to cover its large financing needs through 2019. Thus, OE think a credit event before the October 2019 election is extremely unlikely. However, as two-thirds of Argentina's public debt is denominated in US dollars the rapid depreciation will raise the public debt-to-GDP ratio above 80% before year-end, from 53% in 2017 and just 41% when President Macri was elected in 2015. In the medium term, restoring debt sustainability without restructuring will require the governing Cambiemos coalition to get re-elected and the peso to appreciate in real terms, which can only be achieved by restoring market confidence.

**Argentina: Gross public debt by holder**

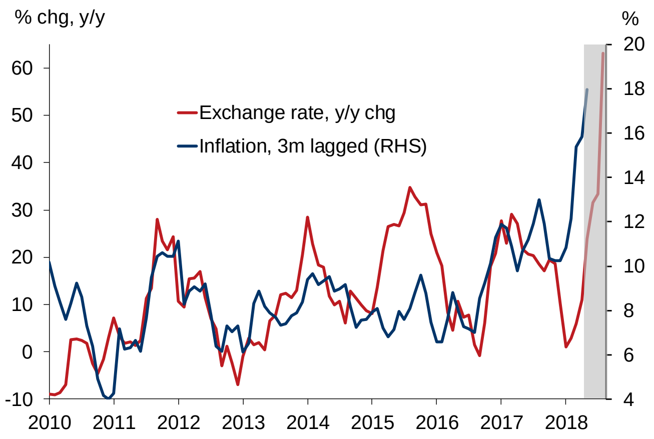



Source : Ministerio de Finanzas, IMF Staff Report (adverse scenario), Oxford Economics

## ECONOMIC POLICY VACUUM IN TURKEY

Turkey has also come under extreme selling pressure, albeit its vulnerabilities are of a slightly different nature than Argentina's, in that its FX debt build-up is concentrated in the private sector rather than on the sovereign balance sheet. The risk for Turkey is the sharp increase in FX debt repayment costs associated with the collapse of the lira in August, and the seeming lack of action to firmly shore up confidence. While the lira's fall will generate higher exports and a sharp compression of imports that will see the current account deficit move close to balance by 2020, at risk is still around US$150 billion in short-term debt that is due within the next 12 months. And high exchange rate pass-through in Turkey means that OE now expect inflation to peak at 22.5% in Q1 2019, which will necessitate higher interest rates and drive the economy into a technical recession, with growth falling to 1.2% next year (whereas last month OE expected 2.9% in 2019).

**Turkey: Exchange rate pass through to inflation**




Source : Oxford Economics/Haver Analytics

# 8. APPENDIX 1

**GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS**

**Airline industry indicators**

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

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

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

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

**Hotel industry indicators**

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

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

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

**Central Banks**

**BoE** – Bank of England;

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

**BoJ** – Bank of Japan;

**ECB** – European Central Bank;

**Fed** – Federal Reserve (US);

**RBI** – Reserve Bank of India;

**OBR** – Office for Budget Responsibility;

**PBoC** – People's Bank of China.

**Economic indicators and terms**

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

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

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

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

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

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

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

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

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

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

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

# 9. APPENDIX 2

**ETC MEMBER ORGANISATIONS**

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

**Belgium:** Flanders – Visit Flanders

Wallonia – Wallonie-Belgique Tourisme (WBT)

**Bulgaria** – The Ministry of Tourism of the Republic of Bulgaria

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

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

**Czech Republic** – CzechTourism

**Denmark** – VisitDenmark

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

**Finland** – Visit Finland - Finpro ry

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

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

**Hungary** – Hungarian Tourism Agency

**Iceland** – Icelandic Tourist Board

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

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

**Latvia** – Investment and Development Agency of Latvia

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

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

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

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

**Montenegro** – National Tourism Organisation of Montenegro

**Netherlands** – NBTC Holland Marketing

**Norway** – Innovation Norway

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

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

**Romania** – Romanian Ministry of Tourism

**San Marino** – State Office for Tourism

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

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

**Slovenia** – Slovenian Tourist Board

**Spain** – Turespaña - Instituto de Turismo

**Switzerland** – Switzerland Tourism

**Turkey** – Ministry of Culture and Tourism