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BUSINESS INTELLIGENCE

German Travel Consumer Report:
The German Consumer and Travel Market in 2018

By Alex Hadwick

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We bring together everyone in the travel industry, from small tech start-ups to international hotel brands, to form a community working towards a smarter and more connected travel industry.

Our mission is to be the place our industry goes to share knowledge and data so that travel and tech brands can work collaboratively to create the perfect experience for the modern traveler.

We do this through our network of global events, our digital content, and our knowledge hub - EyeforTravel On Demand.

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We believe the industry must focus on a business and distribution model that always puts the customer at the center and produces great products. However, to deliver an outstanding travel experience, the strength, skills, and resources of all partners in the value chain must be respected and understood.

At EyeforTravel we believe the industry can achieve this goal by focusing on a business model that combines customer insight with great product and, most importantly, places the traveler experience at its core.

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Introduction

It wasn't long ago that the casual observer would have said that the Eurozone seems to be struggling from one crisis to the next. The 2008 global financial crash left Europe's banks in tatters and vast debt burdens for a variety of economies, in some cases requiring bail-outs. This was followed by Britain rejecting the EU in its 2016 referendum. However, as we head into 2018, Europe is now seeing the highest growth and consumer and business confidence in 10 years, with Germany at this recovery's beating heart.

The engine of a revived Europe is the German economy. This has had a remarkable performance over the entire post-Recession period. After a brief series of rises in late 2008 and 2009, unemployment in Germany has steadily fallen quarter after quarter to just below 6% in Q4 2017, which marks it as the lowest point since Reunification. Similarly, labor force participation comfortably stands north of three quarters of the working age population, putting it ahead of all other major European economies aside from the UK. Unlike the UK, however, Germany has also seen steady increases in average real wages, which are now significantly ahead of pre-crisis levels.

It really is worth shouting about and makes Germany a key market in the global travel and tourism trade. This economic success, has led Germany to become an extremely well-developed market, with a stable rate of around eight of 10 consumers undertaking trips each year since the Recession.

However, this saturation and Germans' cautiousness and risk aversion leaves the market open to potential shocks. In 2016 and to a much lesser extent in 2017, Germans retreated from a variety of destinations, most notably Turkey. The outlook appears much brighter in 2018, with not just German but European growth and consumer confidence in great shape. German consumers finally feel free to spend and early booking indicators appear extremely positive. Similarly, in the long term, Germans of all ages are more interested in travelling than ever before and their growing wealth will help keep Germany's as the third largest international travel market in the world out into the 2020s.

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1.

The German Consumer and Travel Market in 2018: An Overview

Key points

- The German economy is in an excellent position as of early 2018. GDP growth has been consistently upgraded to a forecast of 2.3% in 2018, unemployment is at a record low of 5.8% and risks are receding.
- This is feeding through to the German consumer and therefore the travel market, with expectations of income growth at a record and consumer confidence generally very strong. This will help expand German spending in travel and the broader economy.
- Germany's trade surplus fell for the first time since 2009 even though export demand is robust, underlining growing domestic demand from German consumers.
- This builds on excellent performance on the post-Recession era, with wages growing steadily since 2009 and real wage gains of 0.8% in 2017, standing in stark contrast to many G7 peers.
- Expanding incomes make the German consumer even more powerful relative to European peers. In terms of Actual Individual Consumption (AIC) per capita, Germans spent EUR3,400 more than the European Area average of EUR21,100 in 2016. In purchasing power standard, the average German household had around 19% extra disposable spending per year over the Euro Area average in 2016.
- The greatest areas of concentration of consumer spending power are to be found in the Ruhr, and major urban centers, such as Hamburg, Frankfurt, Stuttgart and Munich. West Germany continues to be wealthier than the states of the former GDR.
- German consumers have also been helped by a rising euro. In terms of the Euro Currency Index, the euro had its strongest growth in 14 years in 2017, which will carry over to a degree in 2018.
- An ageing population should be good for travel spending, with older consumers willing to spend more. These consumers are also experiencing rapidly growing wealth, which will be combined with more leisure time to travel than younger demographics.
- We estimate that direct spend of German tourists domestically and internationally in 2016 was approximately EUR130 billion (+/- EUR5 billion). Within this, we estimate that around EUR75-80 billion was spent on international vacations and EUR50-55 billion was spent on domestic trips.
- Four out of five Germans take a leisure trip each year.
- The average German took 2.8 vacations per year but among those who had taken at least one trip in the 12 months prior to our survey, the average number of journeys is 3.6 – consisting of 1.9 journeys inside Germany and 1.6 international trips. This is a close match to the results presented by FUR's 2016 Reiseanalyse, whose respondents said that they took 3.73 trips per year in 2016.
- The German domestic accommodation market remains buoyant as of early 2018. It has regularly reached record highs year-on-year as the German domestic travel market remains strong and international visitors have increased.
- Average room rates increased 2% YoY from 2015 to 2016 and 2.5% in 2017 on the back of stable occupancy

rates at around 75% across each of three years, leading to gross operating profitability as a percentage of revenue improving slightly to 34.9% in 2017 according to data provided to EyeforTravel by Hotstats.

- However, in 2018, profitability is unlikely to substantially improve as demand growth from German travelers slows, room supply increases and costs grow.
- The air travel market is also growing strongly: Destatis reported that the number of passengers departing from German airports rose by 6.4% to 55.2 million in the first half of 2017, led by international flights, which rose 7.6% to 43.2 million
- However, 2017 also saw the fall of Air Berlin due to a highly competitive European budget airline market. An example of the competition and rise of low budget airlines can be seen in arrivals from the German market into Spain, where low cost airline arrivals rose by 20.3% in 2017, whereas those from traditional airlines fell by -4.8%
- Germany has one of the most generous holiday allowances in the EU of 29 days of paid leave when averaged out across the whole of Germany according to Die Welt and 30 days according to an Expedia study.

1.1 The German Economy

1.1.1 Gross Domestic Product (GDP)

Following reunification between West and East Germany, the country struggled to match GDP growth rates in comparable economies, such as France, the UK and the US. However, federal spending in the former East Germany helped the imbalance and West Germany benefitted from an enlarged market and cheap labor supplies. This was combined with the economic reforms of the early to mid-2000s, particularly in the labor market, that made Germany more competitive. The European Union and its enlargement has had a similar effect on German exports as reunification, with labor supplies and better market access aiding economic strength.

The introduction of the Euro also proved to be a major boon to German competitiveness and continues to aid GDP growth. Having weaker, less export reliant economies within the Eurozone meant that the euro largely traded at lower rates to major currencies than the preceding deutschmark. This acts as a subsidy for German exports, which have continued to perform extremely well throughout the last decade, despite the recession. In particular, strong trade links with emerging economies have helped to mitigate the lower growth rates in the developed world. It has also allowed Germany to maintain a vast balance of payments surplus. In 2016 Germany reached a record surplus of EUR248.9 billion. 2017 was the first year that the surplus has decreased since 2009, albeit that fall was by a tiny amount to EUR248.9 billion. However, this is a positive sign for the travel industry as it indicates robust domestic demand through rising imports demand created by a strong economy and German consumer that is willing to spend (Reuters, 2017a).

The adoption of the euro meant Germany operated in a European market for bonds and under the European Central Bank, which has recently operated a policy of massive fiscal stimulus. This has also had the effect of subsidizing Germany. Yields on German bonds have been incredibly low, even going negative for extensive periods in the recent past, allowing the German government to achieve a surplus and for the German taxpayer to be subsidized.

Overall, this has meant that Germany has been one of the best placed economies to weather the post-Financial Crash world. Over the last few years Germany has been, alongside the United States, one of the better performers in the G7 and European economies, marked by solid – if unspectacular – growth since 2009. In 2014 the economy grew by 1.6%, 1.7% in 2015, 1.9% in 2016 and an estimated 2.2% in 2017 (BVA, 2018). This means it has consistently outperformed the average for the Euro Area in every year from 2010 onwards and appears to be accelerating as the world economy picks up from the aftermath of the Recession.

Across 2017, GDP growth estimates have been consistently upgraded for that year and also into 2018. According to an average of GDP estimates, 2018 will see a further acceleration in the German economic growth, although only by 0.1% to an annualized rate of 2.3% (BVA, 2018). This still represents an excellent performance from Europe's most consistent economy.

There is further good news in terms of risks. Political risks to the German economy have receded as of early 2018. A rising tide of populist movements across Europe were largely stymied in 2017 elections and the SPD and CDU have once again agreed to form a grand coalition, avoiding the risk of another election in Germany. Italy does still remain a political risk with a number of anti-European parties gaining strength in early 2018 elections,, however, and populist anti-European parties or high rates of Euroscepticism are also present in Poland, the Czech Republic, and Hungary.

Overall though, it appears the Eurozone is in the middle of its business cycle, with plenty of room yet to run. Growth has only recently begun to pick up in a variety of European economies, particularly around the periphery.

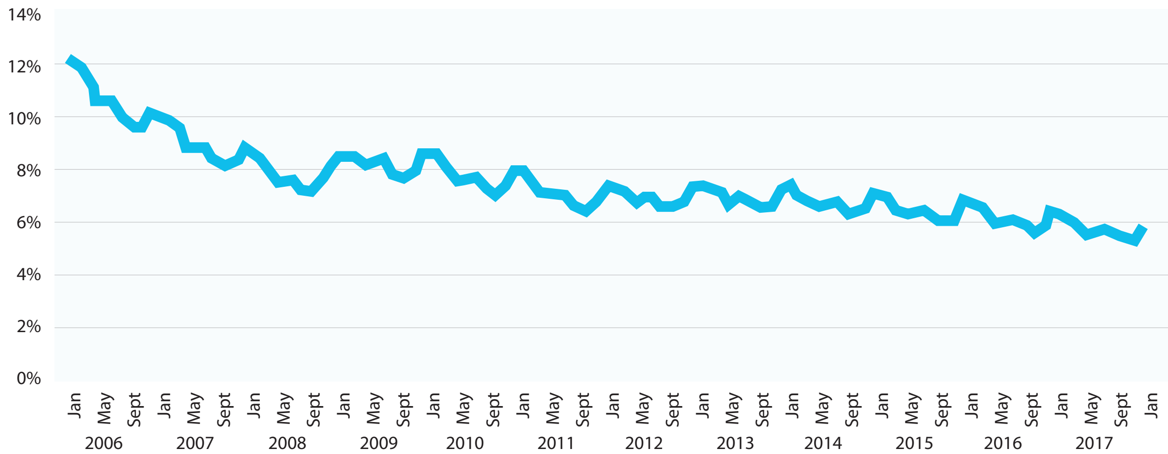
Currently, the main risks appear to be global, with record high equity valuations suggesting a bubble and there is a rapid accumulation of debt across numerous economies. This presents risks not only as many of these markets, such as the US and China, are huge export markets for Germany, but also within Germany to its banking sector. German banks have poor returns and high costs and are therefore fragile to shocks. Deutsche Bank has been in a longstanding state of semi-crisis, with shares performing very poorly. Q4 2017 results were below expectations and a falling credit rating putting the bank in an extreme state of weakness. Its failure would be a major issue for not just the German, but the European economy given its size and stance as a major issuer of debt. It could have a ripple effect across the German banking sector, which is one of the most fragmented in Europe and has a "cost to income ratio at 74.9 percent, the highest in the euro zone," according to Reuters (Reuters, 2017b).

TABLE 1: GERMAN GDP FORECASTS, 2016-2017

		2017 forecasts	2018 forecasts
Average of forecasts		2.2%	2.3%
Bundesbank	Forecast	2.6%	2.5%
EU	European Commission	2.2%	2.1%
IMF	International Monetary Fund	2.5%	2.3%
OECD	Organization for Econ. Cooperation and Development	2.5%	2.3%
BDI	Federation of German Industries	1.8%	
DIHK	German Chambers of Industry and Commerce	2.0%	2.2%
DIW	German Institute for Economic Research	2.2%	2.2%
Federal Government	Autumn Projection 2016	2.2%	2.4%
HWWI	Hamburg Institute of International Economics	2.2%	2.1%
ifo	ifo Institute for Economic Research	2.3%	2.6%
IfW	The Kiel Institute for the World Economy	2.3%	2.5%
IMK	Macroeconomic Policy Institute	2.3%	2.3%
IW Köln	IW Forecast	2.3%	2.0%
IWH	Institute for Economic Research Halle	2.2%	2.2%
Research Institutes	Joint Economic Forecast Autumn 2016	1.9%	2.0%
RWI	Rheinisch-Westf. Institute for Economic Research	2.3%	2.2%

Source: BVA, 2018

FIGURE 1: GERMAN UNEMPLOYMENT RATE 2006 TO 2018



Source: Destatis, 2018a

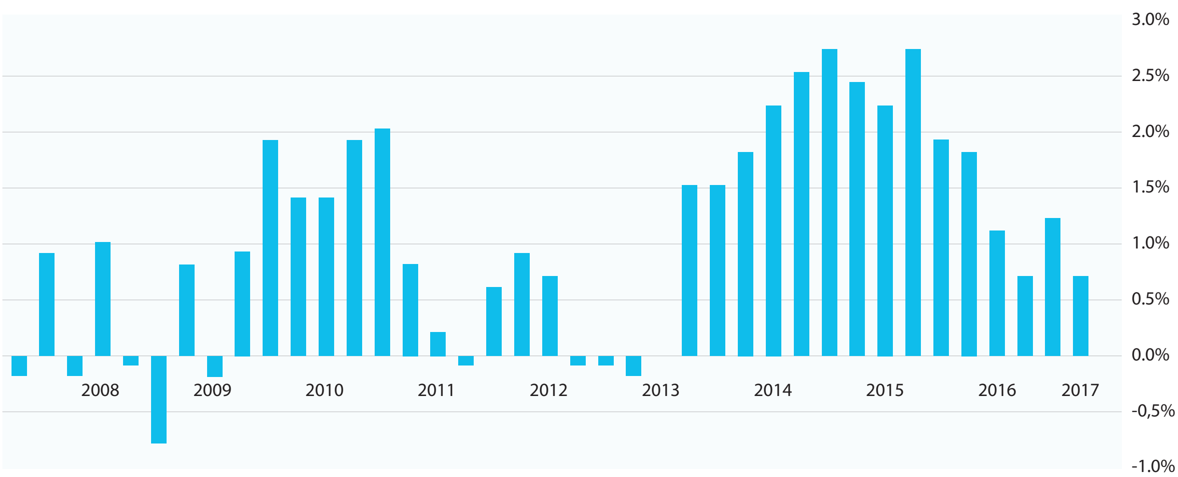
German banks are also exposed to the effects of Brexit, as are German exporters. There is very little clarity as to what the trading relationship will be at the time of writing and Brexit is already having a material effect on the UK economy. A disorderly Brexit with barriers to trade would be bad news for Germany as it is a net importer for German goods, importing GBP75 billion in 2016 (ONS, 2018).

1.1.2 Unemployment and Wages

After mass unemployment in the 1990s and early 2000s German unemployment rates have consistently dropped over the last decade, aside from the depth of the recession during the period from 2009 to early 2010. Even during this period, the rise was relatively modest compared to other countries, as legislation protecting worker's rights continue to be strong despite reforms. Mid-size and large German companies usually have significant worker representation on their boards, meaning German firms focused on flexible labor rather than lay-offs.

As of January 2018, the German unemployment rate stood at 5.8% - near to historic lows for post-Reunification Germany and five points below January 2017.

FIGURE 2: YEAR-ON-YEAR CHANGE IN GERMAN REAL WAGES – Q1 2007 TO Q2 2016



Source: Destatis, 2018b

Labor force participation hit 78% in 2014, and has remained stable since with the same level recorded by the OECD for 2016 (OECD, 2018a).

Real wages have performed relatively well since the start of 2014, averaging around 1.8% growth per quarter from Q1 2014 to Q3 2017. This marked an end to 10 quarters of sluggish wage growth and demonstrates how important the Eurozone's other economies are to German economic performance. In late 2011 and 2012 the scrutiny on heavily indebted Eurozone economies was strongest, requiring multiple bailouts and sending government bonds across struggling economies in the region surging. Receding concerns surrounding the Eurozone, alongside German economic strength, the introduction of a minimum wage, and very low inflation marked 2015 out as having the strongest wage growth since 1992 (Deutsche Welle, 2016). This has diminished in 2016 and 2017 but is still in solid positive territory for real wage gains, with real earnings increasing by 0.8% for the full year of 2017 (Destatis, 2018c). Income gains will increase again in 2018 as the labor shortages occur across the German market and workers feel confident to demand increases, especially as income expectations are at a multi-year high (see Section 1.2.1).

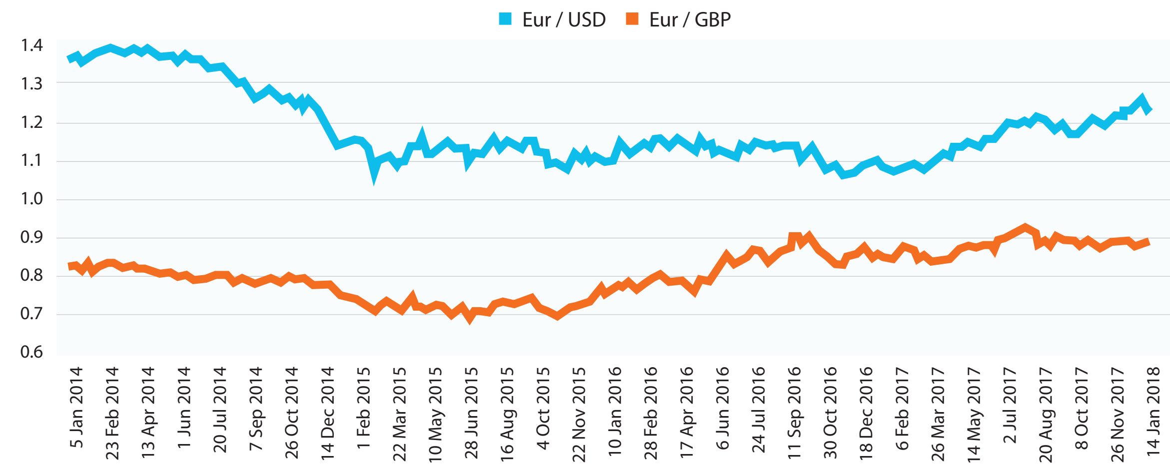
Germany's wage performance appears better still in the context of other developed countries. Since 2008 Germany's average wages have continued to grow steadily year-on-year. However, the OECD average has barely changed across the period, with the UK and Italy remaining below 2008 in constant terms according to the OECD (OECD,2018b).

The power of the German consumer is unlikely to be diminished in the medium term, as the German economy's inherent advantages remain intact, which will be combined with more generous public spending under the new coalition if SPD demands are enacted and stronger wage negotiation is conducted by German unions. The low unemployment and strong collective bargaining mechanisms in Germany provide more power to workers than in other European economies, which can be seen in the victory for workers of the IG Metall union in Baden-Württemberg, who secured a pay rise of 4.3% in January 2018 that may presage wider wage gains. German firms should also be more willing to accede to demands as productivity gains for the German economy are projected to be better than in 2017 (BVA, 2018).

1.1.3 Exchange Rates

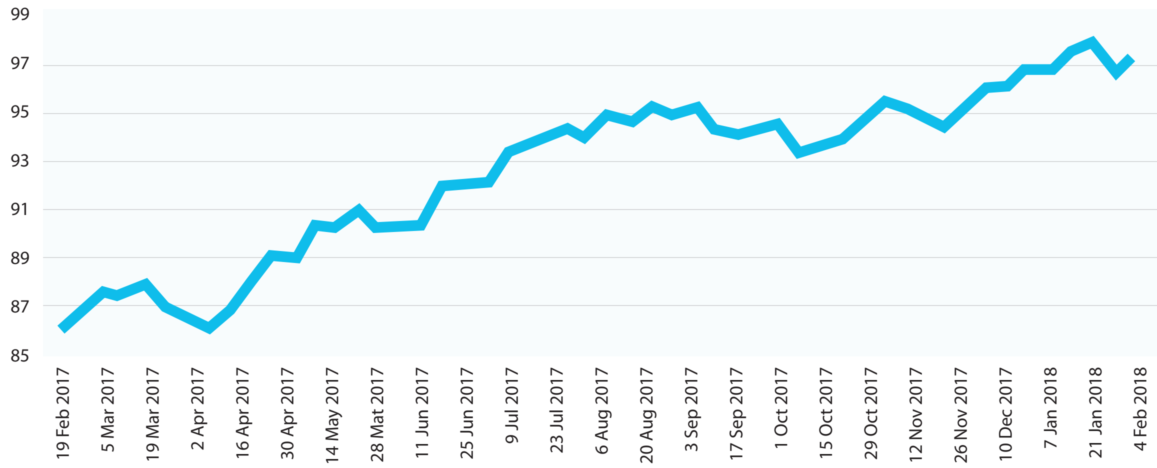
In 2014 and 2015 stimulus measures, very low interest rates, and concerns about the weaker economies within the EU served to drive the euro down against other major currencies. This trend reversed in 2016, with the euro making gains against the pound in 2016 in the wake of Britain's referendum on EU membership and

FIGURE 3: EURO (EUR) TO US DOLLAR (USD) AND POUND STERLING (GBP) WEEKLY SPOT PRICE JANUARY 2014 TO FEBRUARY 2018



Source: Investing.com, 2018

FIGURE 4: EURO CURRENCY INDEX, FEBRUARY 2017 TO FEBRUARY 2018



Source: Investing.com, 2018

against the dollar in 2017 as European economic data has improved.

This strong performance in the Eurozone economies has been particularly influential, allowing the euro to record its strongest growth in 14 years and its highest level against the dollar in three years (CNBC, 2017). This can be seen in Figure 4, which measures the Euro Currency Index, a basket of major currencies against the euro.

In the year to the time of writing (February 2018) the euro was broadly stable against the pound and had gained 3% against the dollar.

This has helped the spending power of German consumers travelling outside the euro area and should aid German outbound spending rates in 2018, especially as pent-up demand from caution in 2016 and 2017 comes to an end. Looking forward to 2018 there is a particularly difficult policy environment to unravel as the ECB looks to end asset purchases, making forecasts problematic. Overall, however, the euro seems likely to broadly maintain stability, with slight rises against the dollar as a messy political situation in the US deepens and the euro works its way up from a relatively low starting point, helped by a strong economic wind behind it.

1.2 The German Consumer

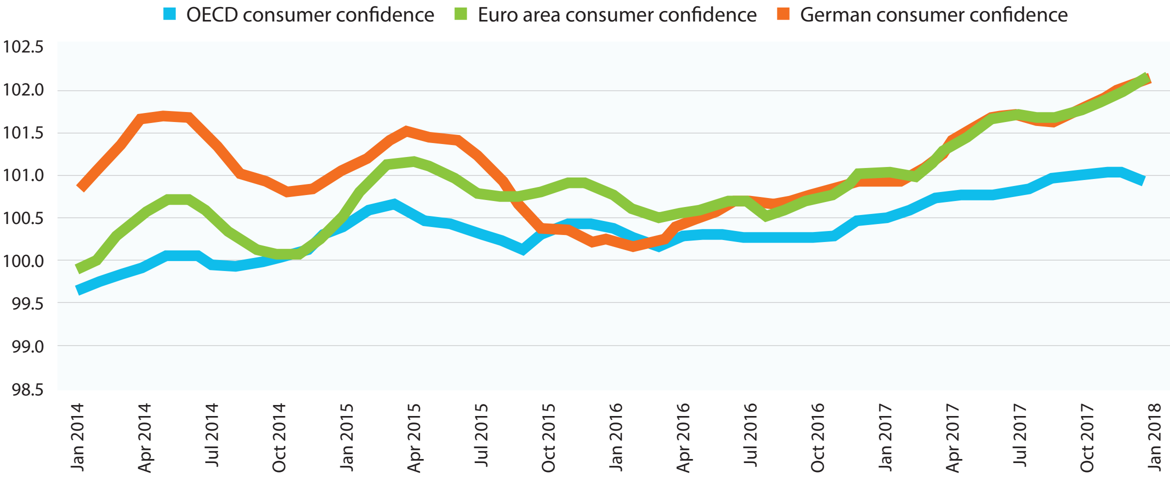
1.2.1 Consumer Confidence

As can be seen in section 1.2.2, the German consumer is an extremely powerful bloc in European and global terms. This means that the mood of the German consumer is not only vital for the German economy but also the entire European economy and is a useful way of determining German's willingness to spend, especially on travel.

Their confidence has been skyrocketing across 2017, with multiple measures recording record highs. OECD records of consumer confidence are now approaching levels last seen before the 2008 Recession broke, growing consistently in 2016 and 2017. This period of consistent growth has synchronized and marched in step with European consumer confidence across this time period, illustrating the link between European and German economic performance and consumer sentiment (OECD, 2018c).

GfK's measure for consumer confidence indicates a similarly buoyant mood. Their Consumer Climate measure exceeded 2017 highs at the beginning of 2018, reaching a level last seen in 2001. Income expectations within the measure are at an even stronger level, reaching a high not seen in the post-reunification era. They estimate that private consumption rose 2% across 2017, suggesting that if confidence levels remains, then

FIGURE 5: GERMAN, EURO AREA, AND OECD CONSUMER CONFIDENCE JANUARY 2014 TO JANUARY 2018



Source: OECD, 2018c

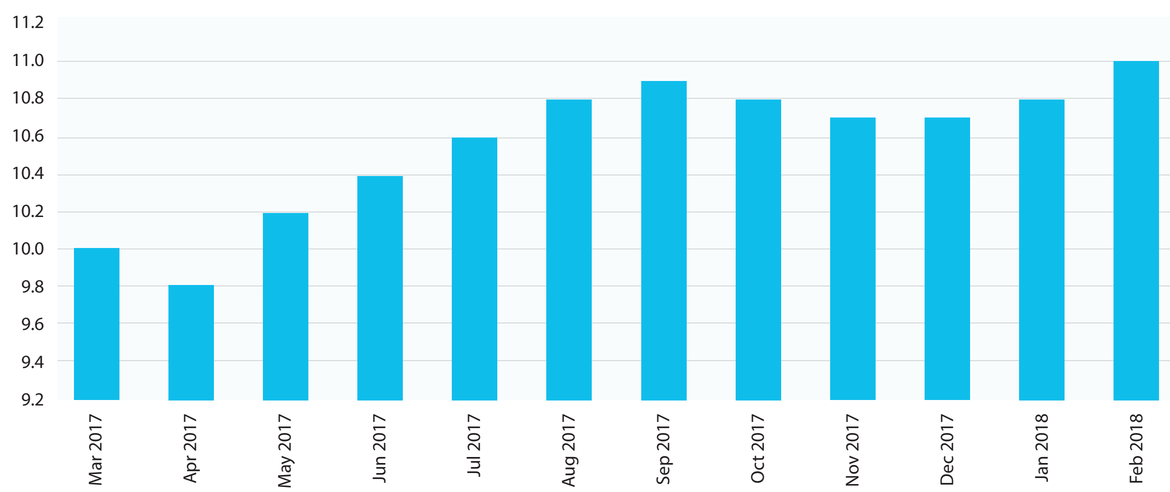
2018 will see more consumer spending, helping to further bolster the German economy (GfK, 2018a).

Business confidence is likewise extremely strong. The manufacturing sub-measure in the Ifo Business Climate Index reached a record high in January 2018 and the overall business index is at a post-Recession high (Ifo, 2018).

1.2.2 Household Wealth and Discretionary Spending

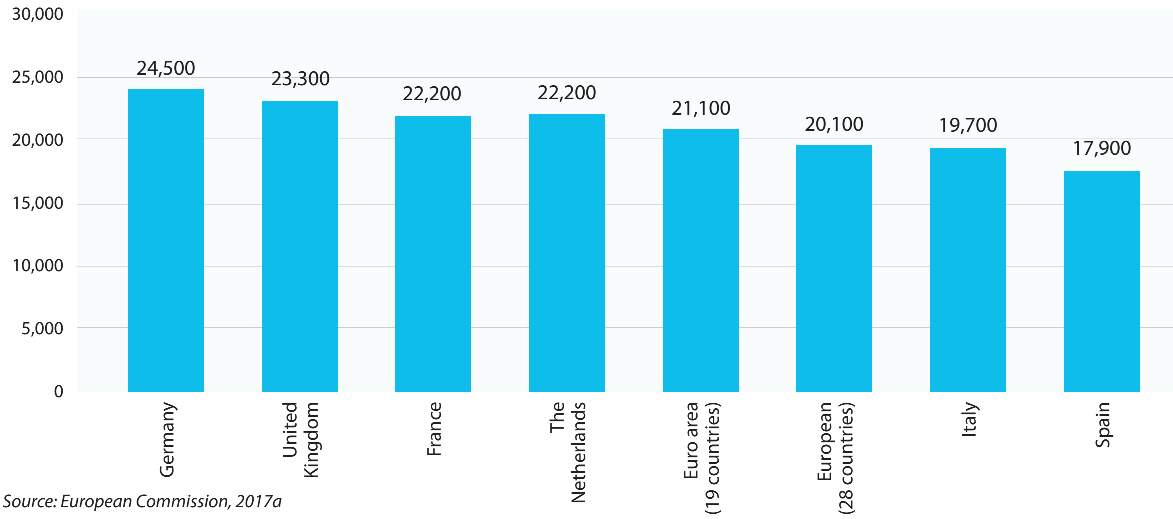
German consumers are a huge component of the European economy. They have enormous collective purchasing power as the EU's most populous country but as individuals they are amongst the most wealthy as well. In terms of Actual Individual Consumption (AIC), a measure of all goods and services consumed by households or individuals, Germany is comfortably ahead of other major EU economies. Per capita, Germans spend EUR3,400 more than the euro area average of EUR21,100. That is equivalent to 16% more spending than the Eurozone and when in a combined household, the extent of Germany's greater consumer power is even wider. Even against other wealthy EU members, such as the Netherlands, France and the UK, Germany is well ahead, with more than EUR24,500 per

FIGURE 6: GFK CONSUMER CLIMATE INDEX, MARCH 2017 TO FEBRUARY 2018



Trading Economics/GfK, 2018

FIGURE 7: ACTUAL INDIVIDUAL CONSUMPTION PER CAPITA IN MAJOR EU ECONOMIES IN 2016 (EUR)



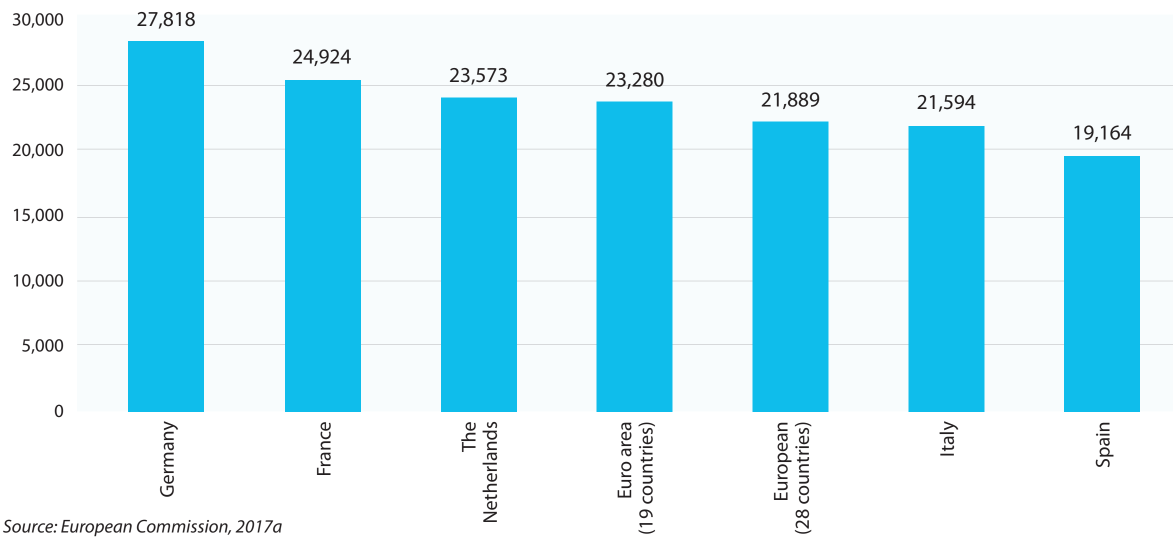
Source: European Commission, 2017a

capita of consumption in 2016, EUR1,200 ahead of its nearest major EU economy, the UK, a gap that is likely to have widened in 2017 (European Commission, 2017a).

In pure monetary terms, GFK estimates that German households had an average discretionary spending per household of EUR22,239 in 2017. This is modest growth from 2016 when GFK estimated an average spending of EUR21,879 per household. The greatest areas of concentration of consumer spending power are to be found in the Ruhr, and around Hamburg, Frankfurt, Stuttgart and Munich (GfK, 2016).

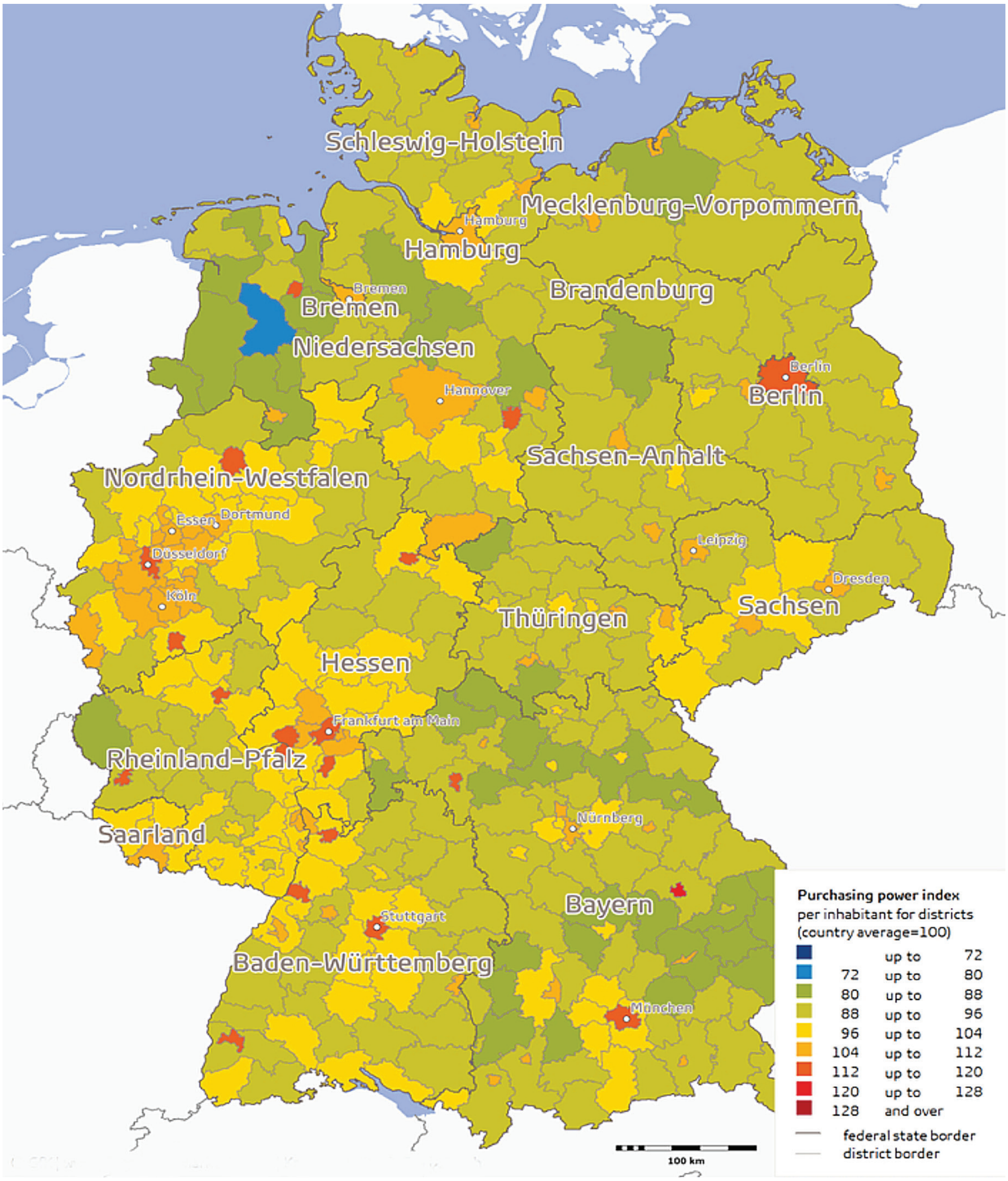
Another measure is purchasing power standard, a Eurostat measure that attempts to equalize out incomes for relative national purchasing power, and apply that to households' disposable income, we can once again see the enormous spending power Germany has within Europe. Under this measure, the average German household has around 19% extra disposable spending per year over the Euro Area average (European Commission, 2017a). This comparatively high figure is aided by the cost of living in Germany, which is lower than in most North Western European counterparts.

FIGURE 8: ADJUSTED GROSS DISPOSABLE INCOME OF HOUSEHOLDS PER CAPITA, IN 2016 PURCHASING POWER STANDARD (PPS)



Source: European Commission, 2017a

FIGURE 9: GFK PURCHASING POWER FOR TRAVEL IN GERMAN 2017

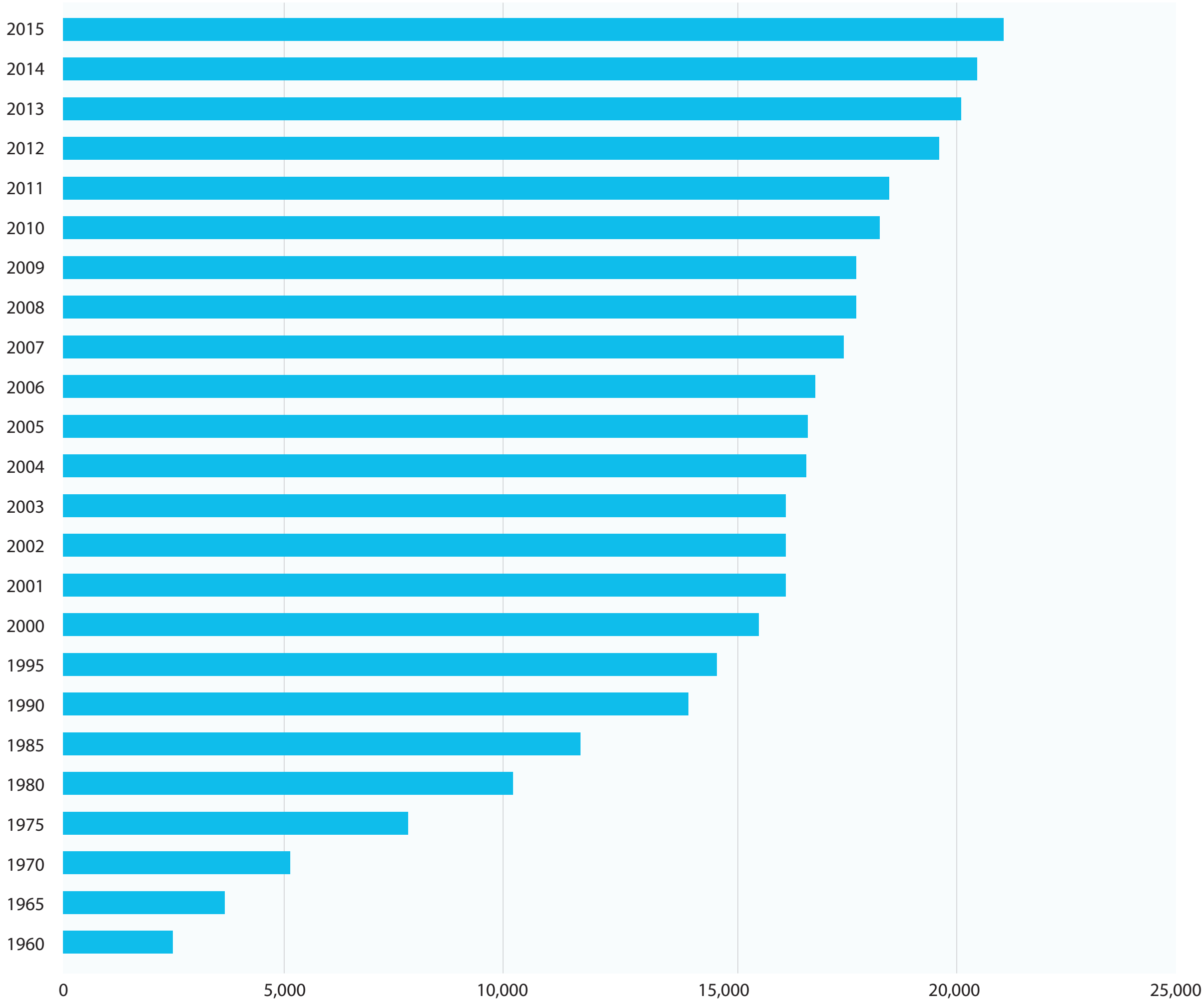


Source: GfK, 2017

GfK estimates that in 2017 4.6%, or EUR1,020 per inhabitant, was spent by Germans on vacation travel. This is slightly lower than the likely spend from other estimates and that we obtained in our results (GfK, 2017).

GfK results for travel purchasing power also show a similar pattern to overall disposable income, with the highest purchasing power for vacations in major urban centers and around the Ruhr. Interestingly, despite Berlin's reputation for being relatively poor for a major

FIGURE 10: DISPOSABLE INCOME IN GERMANY, IN EUR



Source: Statista, 2016

city in Germany, GfK found that it had the second highest purchasing power for travel in the country, behind Regensburg and just ahead of Munich (GfK, 2017).

Disposable income has continuously grown in almost every year since 1960 (see Figure 10). Brief moments of stagnation were recorded at the turn of the millennium and also in 2009. This is a remarkable achievement for an advanced economy, especially given the costs and turmoil of Reunification.

Furthermore, there is additional room to grow, even as numerous other countries' consumer incomes in the developed world stagnate. As noted in Section 1.1.2, German's are in-line for pay rises this year and also they have begun to show signs of more spending, which they have capacity to do, as generally consumer consumption has been a smaller part of the economy than in comparable countries.

Although income inequality in Germany is not considered to be as severe as in other countries, it is a growing concern. Under the commonly used Gini coefficient, which measures income inequality, Germany sits midtable amongst European nations.

However, in raw terms the upper 10% own 63.7% of the country's wealth, whilst the poorest 50% only own 2.5% (Spiegel, 2015). As the disparity between rich and poor has increased significantly over the past 20 years, with the upper 10% increasing their wealth by 6%, questions have been raised as to whether the level of inequality might damage economic and political development in the long term (FAZ, 2016).

1.2.3 Income and Wealth Distribution by Age and Geography

In terms of geographic income divisions, the most important is between east and west. Generally, the average income in Western Germany is significantly higher than in the East, with EUR5.30 more earned per working hour. This means that the average income in Western Germany is above the average at EUR2,611 per month, but then it falls significantly in the formerly socialist East with average salary coming in at EUR2,260 per month. This pay gap is only slowly narrowing at a rate of 1.7% per year and is therefore estimated to last for several decades to come (Spiegel, 2016).

While certain areas in Eastern Germany like Berlin, Dresden or Leipzig are doing well after the reunion, large areas of the former GDR have been left behind in comparison. Furthermore, the East continues to have a markedly older average age of its population, which it may struggle to remedy as it is the most opposed to immigration, which could offer one solution. However, due to the different political history, extremely low and extremely high incomes are significantly rarer in Eastern Germany even today than in West Germany.

Germany's population is ageing. Despite the recent wave of immigration, 17.3% of Germans were over 65 at the last national census in 2011. This is estimated to have risen to 22% in 2018 according to Destatis (Destatis, 2018e). In terms of future demographic patterns, Germany's ageing seems set to continue without some major unforeseen factors or extremely high immigration. Research from the Hamburg Institute of International Economics (HWWI) found that Germany's birth rate per 1,000 inhabitants was even lower than Japan's during 2010 to 2015, at an average of 8.2 to 8.4 children (BBC, 2015).

Therefore, there is already a premium on reaching older German consumers due to the pure volume of individuals in this large and growing demographic cohort. This is especially so for travel markets more reliant on these consumers, such as the Canary Islands or for cruise travel.

However, there is also an income argument for carefully considering Germany's ageing population on the basis of their growing wealth. The average monthly income for married retired couples was EUR2,543 in 2015 and for singles it was EUR1,473. Retired men have higher incomes from their pensions, with 124% of the average income but women have just 84% (Tagesspiegel, 2016). This can be ascribed to a long-term trend of female participation in the German workforce being noticeably lower than in the UK and France, for example. This has only begun to be closed recently as the German labor market has tightened, with consistently lower YoY unemployment since the Recession

Pensions are also expected to further increase older cohorts' spending power in the medium term, so the trend of increasing wealth among older Germans should continue. German state pensions experienced their biggest ever rise in 2016, estimated at 4-5%, and there were further increases of 3.6% in 2017 (The Local. de, 2015; Reuters, 2017c). Pension reforms across the 2013 to 2017 parliament have improved pensioners' ability to access their pension and increased the income they receive. Germans can now retire at 63 if they have worked for 45 years or more and mothers are also receiving higher payments.

This all adds up to older German travel consumer having more means to travel and should see the segment grow strongly in the medium term.

The major downside to this is that it will be problematic for Germany to support. Even with the increase in the statutory retirement age to 67, the weight of pensions as currently constructed is likely to become unsustainable as German employees already have the third highest tax burden in the OECD (Fortune, 2016). Under a high immigration scenario this might be mitigated to a degree, but even with this some reform is likely to be required in the long term.

1.3 The German Travel Industry in 2018

Germany boasts a large and dynamic travel industry but it is also a market that is well-saturated.

According to our survey results, 78.9% of adult Germans had taken a vacation within the last 12 months. This tallies well with other studies, with the Forschungsgemeinschaft Urlaub und Reisen (FUR) study into German travelers estimating that 77% of Germans took a vacation of five days or more in 2016 and the European Commission estimating that 76% of Germans adults participated in tourism in 2016 (FUR, 2017; European Commission, 2017b).

This data appears to suggest that there is a relatively stable proportion of the population (around four fifths) that choose to go on a leisure vacation each year and that this is unlikely to change in the near future.

1.3.1 Market Size

The total size of the German leisure travel market makes it comfortably one of the world's largest. As Europe's most populous country it already has considerable purchasing power. When this is combined with high – and rising – average incomes, this has propelled German into one of the largest leisure travel markets in the world.

We estimate that the direct spend of German tourists domestically and internationally in 2016 was approximately EUR130 billion (+/- EUR5 billion).

Within this, we estimate that around EUR75-80 billion was spent on international vacations and EUR50-55 billion was spent on domestic trips. This is due to international vacations having a higher rate of average spending and also these trips are of greater length on average. A host of research has found that Germans tend to take vacations of five days or more outside of Germany, leaving the domestic market largely for short vacations. This means that although there are a greater number of domestic trips taken in the German market per person annually, it is of lower overall value.

In comparison, the Germany Trade & Invest (GTAI) organization estimates Germans spent EUR144 billion, up from EUR139.6 billion in 2014, which is equivalent to percentage change of 3.2% across the two years, representing a slow and steady pace of growth. This consisted of EUR73.2 billion of spending on trips abroad and EUR70.8 billion on domestic tourism (GTAI, 2018). The DRV estimates that Germans spent EUR72 billion on foreign trips in 2016, but the UNWTO believes the figure is USD79.8 billion (approximately EUR71 billion at 2016 exchange rates) and Visa estimates that spending in 2015 was around USD74 billion (DRV, 2018; Bloomberg, 2018; Visa, 2016).

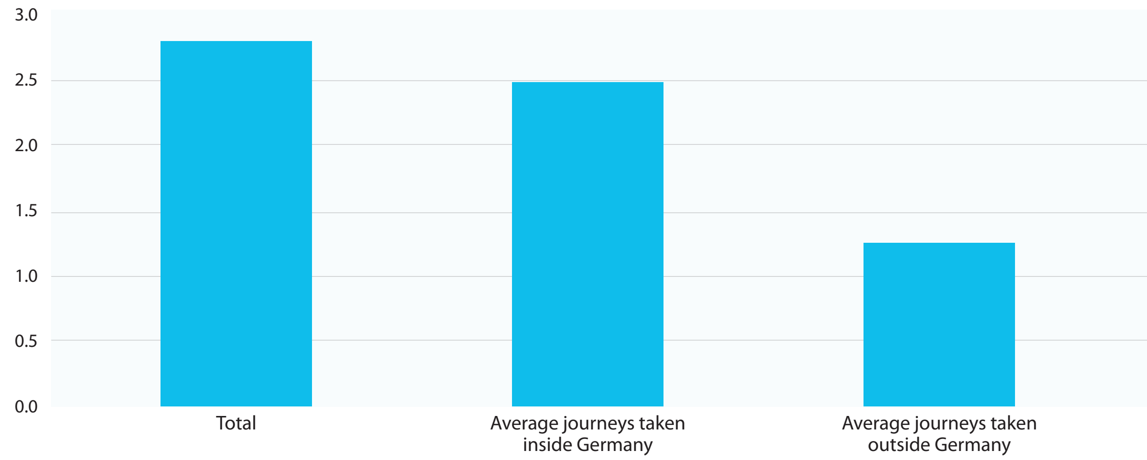
1.3.2 Average Number of Days Taken for Vacation

German federal legislation provides for a legal minimum of 20 days of vacation per year. In addition, depending on the federal state, there can be up to an additional 10 days of public holidays. This gives Germany one of the most generous allowances for holiday in the EU and means 29 days of paid leave when averaged out across the whole of Germany according to Die Welt and 30 days according to an Expedia study. Die Welt reports that Germans do not fully utilize their allowance, however, leaving an average of three days unused per employee. Part time and younger workers take less leave than this average, as do workers in smaller companies. Nonetheless, it remains one of the higher averages in Europe, and also the world, allowing German consumer considerable time to engage in leisure activities.

1.3.3 Average Number of Vacations Taken per Year

In our survey results the average German took 2.8 vacations per year in 2016. This is notably below the average found in our UK survey, where our respondents reported an average of 3.4 vacations per year. In terms of those who had actively travelled within the last

FIGURE 11: AVERAGE NUMBER OF JOURNEYS TAKEN PER YEAR

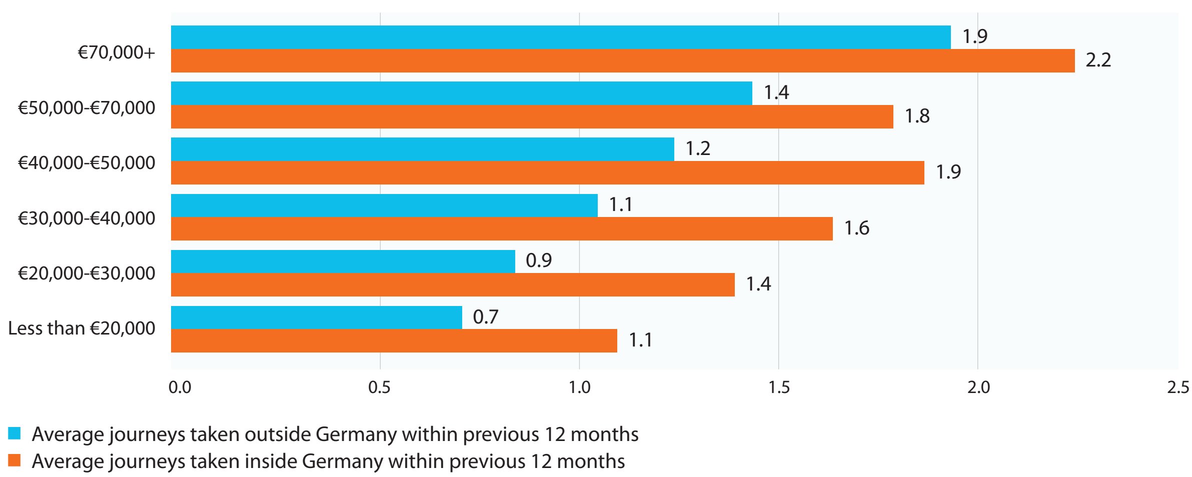


Source: EyeforTravel's German Travel Consumer Survey, 2016

12 months (e.g. removing those who reported no domestic or international travel), then the average number of journeys taken rises to 3.6 – consisting of 1.9 journeys inside Germany and 1.6 international trips (EyeforTravel's Germany Travel Consumer Survey, 2016). This is a close match to the results presented by FUR's 2016 Reiseanalyse, whose respondents said that they took 3.73 trips per year in 2016, made up of 1.29 trips of five days or more and 2.44 trips of two to four days (FUR, 2017). This is a slight rise from their 2014 results, which estimated that German an average of 1.29 trips of 5 days or more and 2.32 trips of 4 days or less per year. This adds up to a total of 3.61 trips per year in 2014, once again presenting a picture of a slowly expanding market.

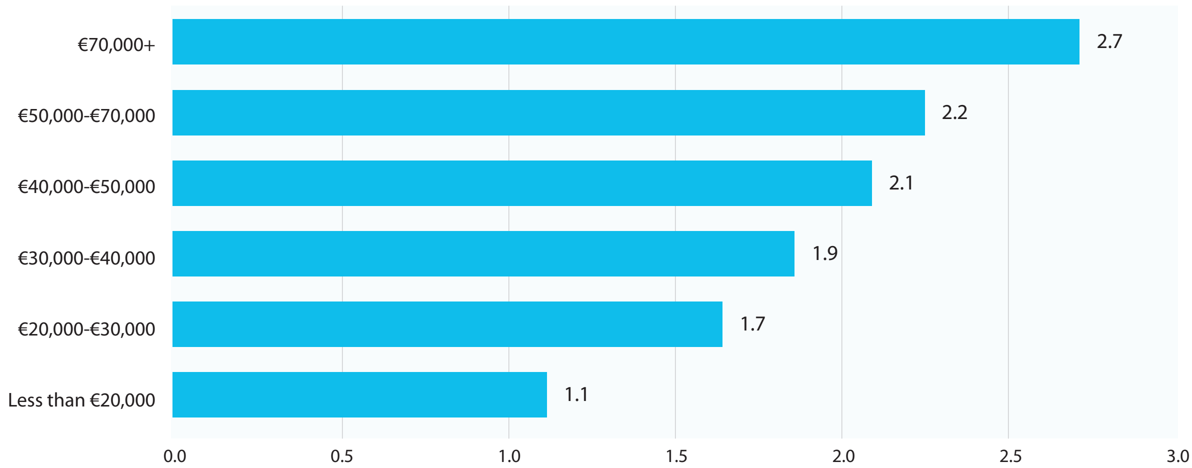
As in all of our country studies of travel consumers conducted so far, there is a clear and direct link between income and the rate of travel, with higher income households travelling significantly more (see Figure 12). In those households with an income of less than EUR20,000. The average rate of travel was 1.8 journeys a year, consisting of 1.1 trips inside the country and 0.7 outside. In the highest income bracket of EUR70,000 or more in household income, the rate of leisure travel rises to 4.2 journeys per year, with 2.24 occurring in

FIGURE 12: NUMBER OF TRIPS TAKEN BY GERMAN TRAVELERS PER YEAR BY INCOME



Source: EyeforTravel's German Travel Consumer Survey, 2016

FIGURE 13: NUMBER OF JOURNEYS PLANNED BY HOUSEHOLD INCOME



Source: EyeforTravel's German Travel Consumer Survey, 2016

Germany and 1.94 outside. Our top income group takes 267% more trips abroad than the lowest.

Looking at ratios of domestic trips to international trips the average household with an income of EUR20,000 or less will take 1.53 domestic trips for every international trip. However, for the top income group, for every international journey the household will take 1.16, demonstrating that rising income also creates proportionately more opportunities for international travel, which usually requires a higher spend per trip.

Income also strongly correlates with the number of journeys that are respondents were looking to take, with the top bracket looking to take 2.7 journeys in the 12 months following the survey, compared to 1.1 for households with incomes of less than EUR20,000.

In our survey results households with children also reported a higher rate of vacations than households without children. Those living with children and that took at least one vacation in the 12 months before the survey reported that they take 4.1 vacations per year, compared to 3.4 vacations per year for those who do not have children.

1.3.4 Accommodation

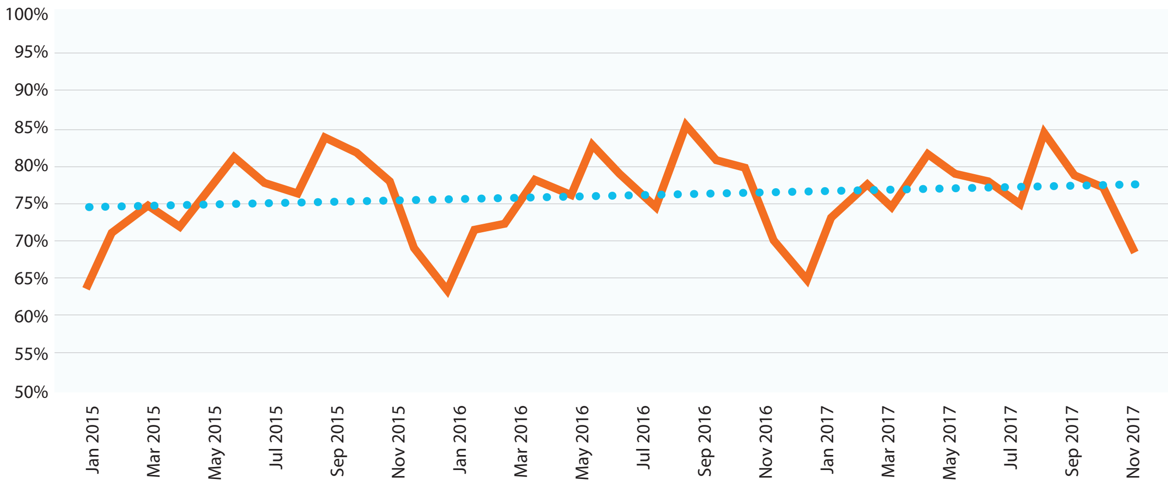
The German accommodation market remains buoyant as of early 2018. It has regularly reached record heights year-on-year as the German domestic travel market remains strong and international visitors have increased. In 2015 there were an estimated 436.4 million overnights stays in accommodation establishments with 10 or more beds, which has since risen to 459.6 million in 2017, demonstrating steady growth (Destatis, 2018d).

Consistency in demand has meant occupancy, room rates and operating profits in German hotels have drifted upwards across the previous three years, according to data provided to EyeforTravel by Hotstats (see figures 14, 15, and 16).

Average room rates increased 2% YoY from 2015 to 2016 and 2.5% in 2017 on the back of stable occupancy rates at around 75% across each of three years, leading to gross operating profitability as a percentage of revenue improving slightly to 34.9% in 2017 (Hotstats, 2017). The data paints a picture of a well-developed market that is in a solid position.

In 2018, profitability is unlikely to substantially improve as demand growth from German travelers slows, room supply increases and costs grow. Demand growth from domestic German consumers is likely to be slower as Germans rediscover their love of international travel and feel confident to book previously shunned destinations. Already this effect was occurring in 2017, with a wider

FIGURE 14: OCCUPANCY IN GERMAN HOTELS, JANUARY 2015 TO DECEMBER 2017



Source: Hotstats, 2018

number of destinations seeing arrivals grow but the trend will likely accelerate in 2018 given the high level of consumer confidence and rising disposable income.

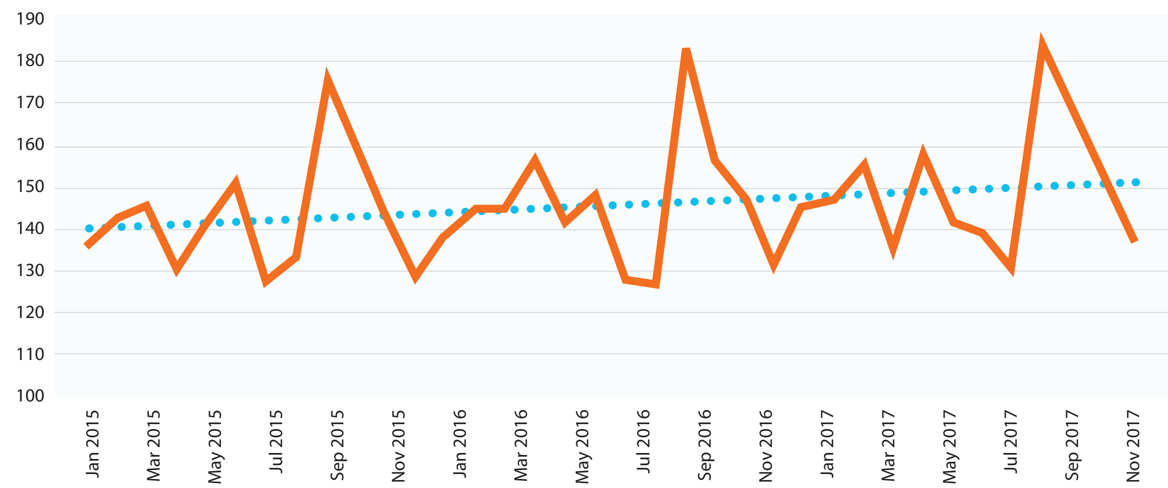
In terms of growing room supply, Lodging Econometrics estimates that as of late 2017 the German market has the second biggest pipeline after the UK, with more than 36,000 rooms under construction (Hotel Online, 2017).

Cost pressures can similarly be expected to grow if economic forecasts are realized. Record low German unemployment coupled with growing confidence to negotiate for wage rises will push up staffing costs for accommodation providers operating in the German market as they struggle to source employees. This comes on top of increases to the minimum wage in 2017.

This paints a picture of a slightly more challenging 2018 for accommodation providers in terms of driving better profitability, despite the strong performance of the German and European economy.

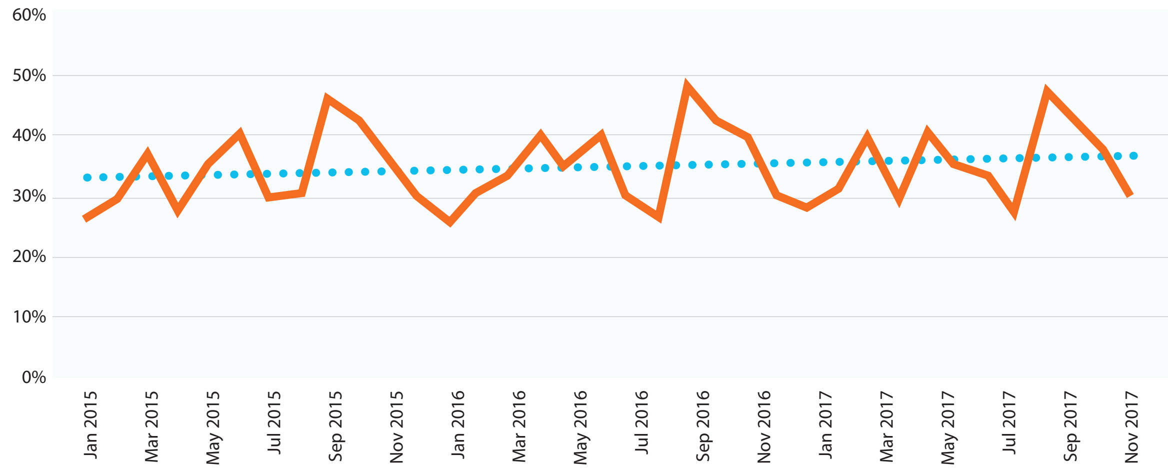
Pablo Alonso, HotStats' CEO notes that "Historically Germany has always been an attractive market for hotel investment due to the stability of headline performance levels, which provide a consistent income.

FIGURE 15: AVERAGE ROOM RATE IN GERMAN HOTELS IN EUROS, JANUARY 2015 TO DECEMBER 2017



Source: Hotstats, 2018

FIGURE 16: GROSS OPERATING PROFIT AS A PERCENTAGE OF TOTAL REVENUE FOR GERMAN HOTELS, JANUARY 2015 TO DECEMBER 2017



Source: Hotstats, 2018

"However, profit levels at hotels in Germany will be challenged in the short term as payroll costs are on the rise as the jobless rate in Germany is at a record low and a 4% increase in minimum wage was implemented in January 2017. Additionally, inflation rates in Germany are at their highest level since 2013, which is driving up Cost of Sales."

1.3.5 Air

The German air travel market saw strong growth in 2017 but the collapse of several airlines has run contrary to the overall performance of European air travel, reflecting a highly competitive market place.

Air Berlin has been the major collapse, which folded in August and has cost the German government an estimated EUR200 million. Some of its subsidiaries were then to be funded by Lufthansa, which subsequently withdrew funding, causing the collapse of airline Niki. Both of these came after the collapse of British airline Monarch.

These come in the face of high growth in the market. Destatis reported that the number of passengers departing from German airports rose by 6.4% to 55.2 million in the first half of 2017, led by international flights, which rose 7.6% to 43.2 million (Destatis, 2017a).

The fall of these European airlines appears to be the result of fierce price competition, with German consumers appearing to favor low-cost airlines for intra-European travel and with no signs of this growth slowing. According to Spain's statistics organization, arrivals from the German market into Spain from low cost airlines rose by 20.3% in 2017, whereas arrivals from traditional airlines fell by -4.8% (Turespaña, 2018).

In terms of the largest markets, Hessen has the highest number of departures, measured at more than 30 million in 2016, largely helped by being home to the country's largest and busiest airport of Frankfurt. It was followed by Bavaria at 23 million, and North Rhine Westphalia at just over 20 million (Destatis, 2017b).

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