WORLD TRAVEL & TOURISM COUNCIL

The Authority on World Travel & Tourism

Economic Impact of Travel & Tourism:

Mid-Year Update October 2012

Travel & Tourism's performance in the first half of 2012, especially international arrivals, has been positive. World Travel & Tourism GDP is projected to grow by 2.7% in 2012. This is especially impressive as set against the wider global economic backdrop, many economies are slowing or are showing below-trend or negative growth. In the Eurozone, sovereign debt issues and austerity policies have reduced trade and spending considerably over the first half of 2012 impacting economies around the world. The pace of growth in emerging markets is faster than in advanced economies, however, they too are feeling the impact of Europe's financial troubles.

WTTC's annual Economic Impact research, published in March 2012, confirmed the resilience of the Travel & Tourism industry. Despite a tumultuous year of political upheaval, economic instability and natural disasters, in 2011 the industry's direct contribution to GDP grew by nearly 3% to US$2 trillion. Revised forecasts for 2012 predict growth for Travel & Tourism GDP of 2.7%, higher than the 2.3% growth now expected for global economy GDP, and only slightly downgraded from 2.8% that was expected for Travel & Tourism at the start of the year.

The long term prospects remain very strong, with Travel & Tourism growth expected at over 4% per year over the next ten years, higher than many other industry sectors including retail, financial and business services. Not surprisingly, as economic growth is so intrinsically linked to travel, it is among the emerging economies where the strongest growth in arrivals figures worldwide is being recorded.

The global macroeconomic picture since January

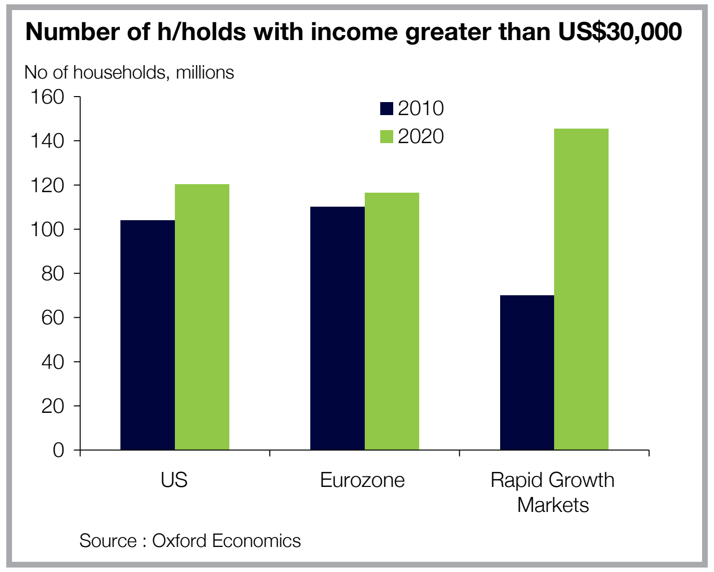
The latest economic data from our research partner, Oxford Economics, shows medium and long-term downgrade to the Eurozone growth forecasts, however little change in the long-run forecasts for growth elsewhere.

Despite austerity programmes and other public spending cuts throughout the Eurozone, public debt is still not expected to be back to the pre-crisis level by 2020, holding back growth recovery. Already being dubbed the 'lost decade' for Europe, unemployment is expected to rise further in the next two years, affecting over 25% of the population in both Greece and Spain and around 12% for the Eurozone as a whole. The latest economic data for GDP growth for 2011 to 2022 downgrades Europe by 0.2 percentage points to 1.9% annual average percentage growth and the Eurozone by 0.3 points to 1.4%.

Oxford Economics has moved its Eurozone break-up scenario forward to 2014 and puts the risk at being 30% likely and therefore the biggest downside risk to global growth. There is enormous political investment in saving the Euro, but any reform to prevent it from breaking up will be slow. Policies required to keep the Eurozone together will require changes in macro policy, more bailouts, and greater fiscal and banking union.

In the US, banks are much healthier than in Europe, but growth, at only 0.6% in Q1 2012 and 0.3% in Q2 has been disappointing. In September 2012, the Federal Reserve began a new programme of quantitative easing (QE3), this time focussed on mortgage backed securities and a commitment to continue with the stimulus policy "for a considerable period of time after the economic recovery strengthens". A potential risk to this strategy is the depreciation of the US dollar and higher unemployment. In the US, a looming 'fiscal cliff' and consequential economic slowdown is now a concern although the basline forecast is that these tax and spending issues will be largely resolved early in the next adminstration.

Emerging economies have had a sharp weakening of exports, largely due to the financial woes of the Eurozone where their exports are focussed. The slowdown in the BRICs has been longer than originally expected and China's construction and housing markets have been cooling recently, bringing down inflation. A 'hard landing' brought on by rising oil and world food prices possibly could see China's growth falling below 5%.



There is much potential for growth in emerging markets. Debt as a proportion of GDP is very low in many emerging economies, however, and public finances would allow for fiscal stimulus. As can be seen from the chart left, the number of households in the rapid growth markets with incomes over US$30,000 is expected to overtake that of both the Eurozone and the US by 2020.

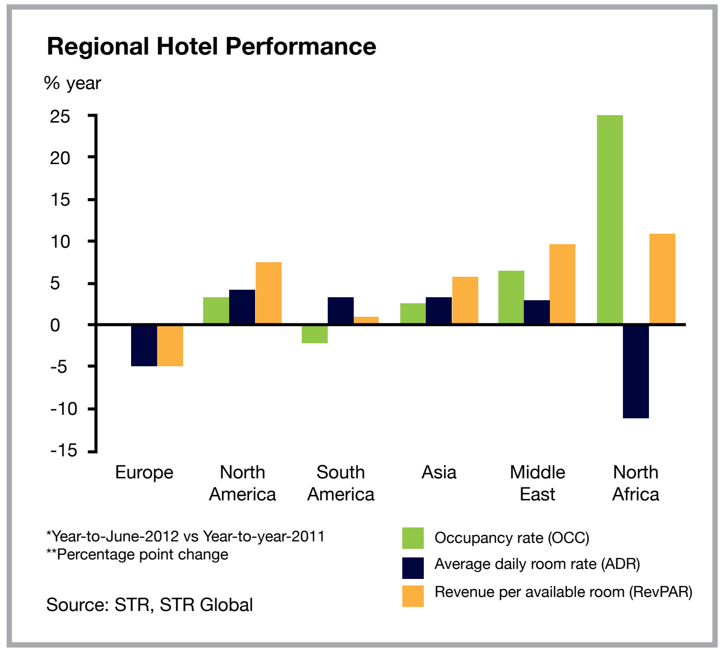
- US GDP growth is forecast at 2.2% this year, down from the 2.5% that was predicted in January. Growth of 2.5% is expected for 2013.
- In the Eurozone, growth is not expected at all in 2012 (-0.5% retraction from 2011), and only just recovering to 0.1% growth for 2013 before recovering slightly to 1.1% in 2014. Eurozone figures were downgraded from -0.2% for 2012 at the start of the year. Germany and France expecting 0.8% and 0% growth respectively in 2012, have both had their figures revised upwards by 0.2 percentage points since the start of the year.
- In Japan, GDP growth is expected to be 2% in 2012, an upwards revision from 1.4% in January. GDP has grown more strongly in Japan over the past 10 years than in any other G7 country.
- Emerging markets have performed more robustly than advanced economies, but exports have weakened sharply largely due to the Eurozone crisis. Brazil will have one of the lowest growth levels of the 25 fastest growing economies, 1.4% in 2012, before increasing to 4.5% for 2013 and 5.1% in 2014.
- Overall, we now expect world GDP growth to be 2.3% in 2012 and 2.6% in 2013, down 0.2 percentage points from the start of the year.

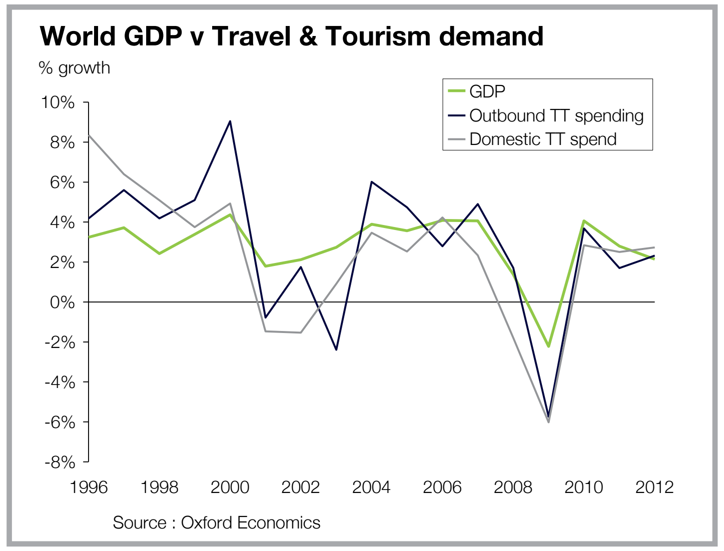
Travel & Tourism so far in 2012

The volume of Travel & Tourism movements has been positive so far in 2012 and has exceeded expectations from the start of the year. International tourist arrivals have grown 4.9% in the year from January to June, airline passenger traffic is up 6.8%, and hotel occupancy rates are up in many markets apart from Southern Europe.

The best performing countries for international tourist arrivals are those rebounding from difficult times in 2010 and 2011. In the period from January to June this year, Japan's arrival figures were up 44.4%, Tunisia was up 41.7% and Egypt was up 23.4%. South Korea, where visitors from its main market of Japan stayed home after the tsunami, has also been incredibly strong this year with arrivals figures increasing 21.8% YTD. South Korea's boom coincides with its self- designation of 2010-2012 as the "Visit Korea" years and strong international demand from its main two markets (Japan and China). Favourable exchange rates and a number of cultural, sporting and economic events such as Expo 2012 and the G20 Summit have also contributed to its booming Travel & Tourism growth.

Although international visitors arrival figures are looking robust, there is evidence of declines both in terms of average spend and hotel average daily room rates (ADRs) in some regions – notably Europe, Northern and Southern Africa. In weaker markets, especially Europe, the data is suggesting that the industry could be holding prices down in order to stimulate demand and consumers are choosing lower priced trips. In contrast YTD ADRs have risen in North America and large parts of Asia, where average international visitor spending has also held up better this year, and domestic demand is stronger.





Overall Travel & Tourism spending is broadly tracking cyclically with wider economy GDP and income, with the exception of Asia where Travel & Tourism spending is rising ahead of wider economic growth. As economies have weakened this year, demand has slowed at both domestic and international levels. This may become more evident when results of the northern hemisphere peak holiday season become available.

Revised forecasts for 2012

Although most economies are still growing, economic conditions are weak and growth is below trend as the Eurozone break-up remains a major risk in the short to medium term. Travel & Tourism GDP will closely track wider economy growth for 2012. Downgrades in this mid-year update have been modest , however, with Travel & Tourism now projected to grow by 2.7% in 2012, only a -.01% decline from the 2.8% growth that was predicted at the start of the year.

A slightly larger downgrade from 3.5% to 3.2% growth is expected for domestic Travel & Tourism spending, but this is more than offset by the increase in international visitor exports that is now expected to grow by 2.4% in 2012, compared to the 1.7% expected at the start of the year.

Looking at the data on a regional level, it is not surprising to see that the largest downward revisions are in the Middle East and Europe. In the Middle East, projections for Travel & Tourism GDP are still for growth overall, but as the region continues to struggle with further uprisings and on-going negative perceptions of safety and security, growth has been revised down to 1.8% from 3.1% in January. Lebanon's international tourist arrivals, showing -12.4% growth, has been an unfortunate casualty of the conflict in neighbouring Syria. Europe, on the other hand, is the only world region where negative Travel & Tourism GDP growth is expected. This mid-year update also further downgrades European Travel & Tourism GDP to -0.6% from -0.2% at the start of the year. In struggling Greece, Travel & Tourism contributed €12.4bn or 6.4% of GDP to its economy in 2011 but has experienced a 9% decline in visitor arrivals in the first half of this year. Italy's economic woes this year have clearly had an impact on its domestic tourism spend which has declined by nearly 4% in the year to date. Overall, Italy's Travel & Tourism GDP is expected to retract by -1.5% in 2012.

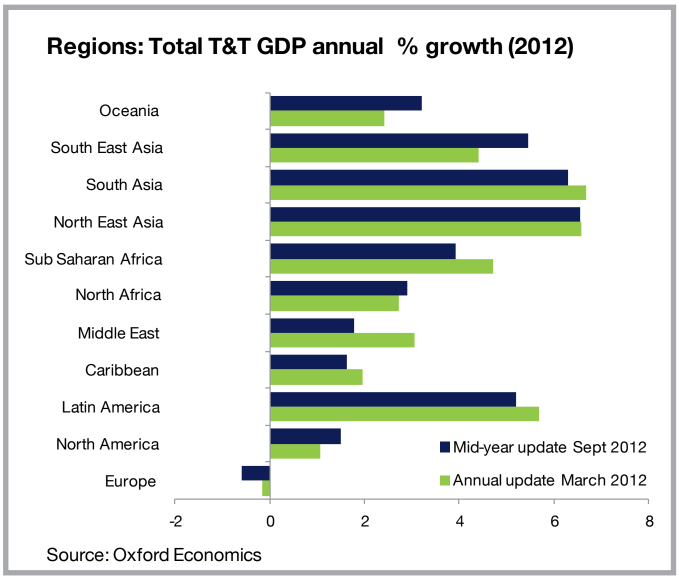
Small downward revisions have also been made for Sub Saharan Africa, Caribbean and Latin America.

On a positive note, upward projections have been forecast for Oceania (3.2% Travel & Tourism GDP growth up from 2.4% growth expected earlier in the year) and South East Asia (up 1.1 percentage points to 5.5%), with a smaller positive revision expected for North America (up 0.4% percentage points to 1.5%).

Global Travel & Tourism growth is still being driven by emerging economies, particularly those in Asia. China's Travel & Tourism GDP will grow 7.2% and India by 5.7% in 2012, although slight downward revisions have been made. The revision in China's Travel & Tourism growth by 1.2 percentage points is largely linked to a weaker export performance elsewhere in its economy as the struggling Eurozone is the destination for around 15% of China's exports. India's downgrade is the result of its major infrastructure problems contributing to power blackouts that affected half of its population in Q2 this year.

Long term potential of Travel & Tourism

Travel & Tourism performance year to date, especially international demand, remains resilient as it has largely exceeded expectations against a difficult economic backdrop. Despite some specific and regional downgrades to short-term economic and industry forecasts, the longer-term prospects for Travel & Tourism remain very positive, and continue to be boosted by strong growth and rising prosperity in emerging markets.



We expect the direct contribution of Travel & Tourism to global GDP to grow by an average of 4% per annum between 2011 and 2021 (in constant US$ prices and exchange rates) with North East Asia making up a growing share of the overall Travel & Tourism contribution to GDP. Global direct Travel & Tourism growth is forecast to be higher in the long term than many other industry sectors including retail and financial and business services.

Travel & Tourism is predicted to generate an extra 66 million net jobs between 2012 and 2022, including direct, indirect and induced employment. Although this is a decrease of three million jobs from our estimates at the start of the year, Travel & Tourism employment will help to bring down unemployment rates across the globe, contribute to the much desired sectoral rebalancing and export-led growth transition of economies, and reduce poverty in developing economies. Over three in five of these jobs are expected to be in Asia.

REGION	Contribution to World Travel & Tourism total GDP (2012)	Contribution to World Travel & Tourism total GDP (2022)	Contribution to World Travel & Tourism total Employment growth (2012-2022, 000s)
Europe	26%	22%	2,437
North America	24%	22%	4,709
North East Asia	20%	24%	23,947
Latin America	6%	6%	4,513
South East Asia	4%	4%	7,348
Middle East	3%	3%	1,413
Oceania	3%	2%	289
South Asia	2%	3%	9,820
Caribbean	1%	1%	465
North Africa	1%	1%	1,689
Sub Saharan Africa	1%	2%	3,197
Other	9%	10%	6,580

Source: Oxford Economics

The World Travel & Tourism Council (WTTC) is the global authority on the economic and social contribution of Travel & Tourism. Each year WTTC and research partner Oxford Economics produce data on the economic contribution of Travel & Tourism to the world, regional and national economies. Data for 181 countries and 20 regional groupings, released each year in March, is available for download at www.wttc.org. For enquiries please contact research@wttc.org.

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