TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

GLOBAL TRAVEL SERVICE

GLOBAL HIGHLIGHTS

JUNE 2018

Global Travel and Tourism Trends

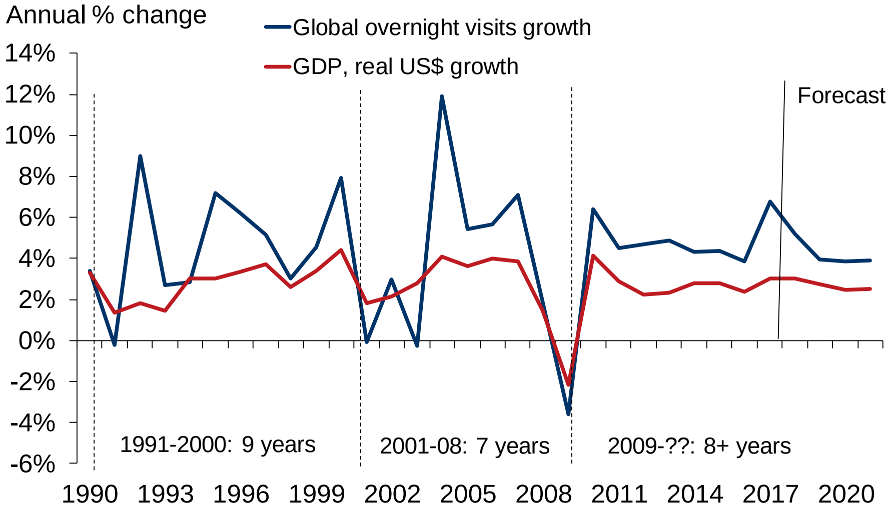
Global travel demand in early-2018 has continued to grow faster than wider economic growth, albeit at a slightly slower pace than last year. This slowdown in travel demand comes amid the general slowdown in global economic activity. 2017 travel growth also included some rebound from previous years which is fading.

A slowdown in global economic activity will weigh on travel growth beginning in 2018

Global tourism growth in 2018 is now expected to be 5.2%, helped by accumulated gains in income in recent years. But the global slowdown will erode some momentum; 2018 travel demand growth is expected to be lower in all regions compared to 2017 except for the Middle East.

Labour market strength should offer some respite as it continues to support household spending and travel demand. Global trade is slowing but should remain at a healthy rate compared 2012-16, and recession is not expected.

Global overnight visits & GDP (real US$)



Source: Tourism Economics

Higher oil prices will yield stronger CPI inflation; however, a sustained bout of high inflation is unlikely. Central banks are expected to look through any energy induced rise in inflation and remain on a path of cautious normalisation of policy. Recent travel demand growth was aided by lower travel costs, and higher prices will diminish this tailwind.

Global Macroeconomic Outlook

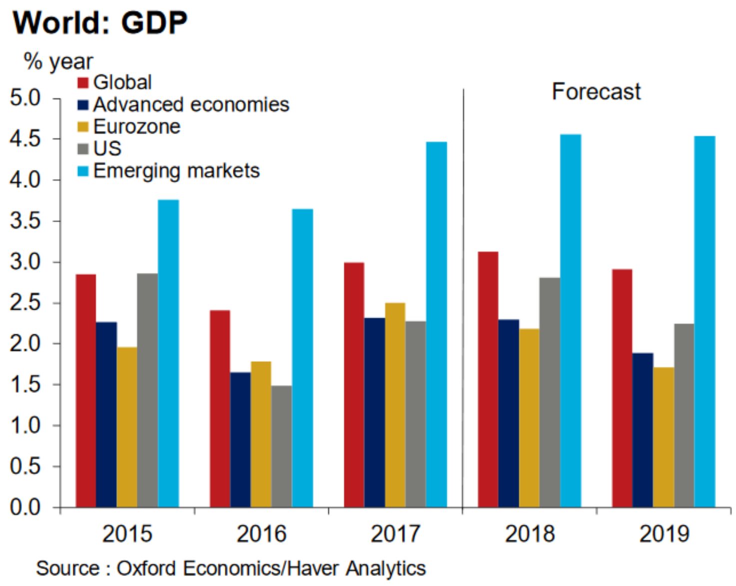
Growth continues, but slower economic activity is apparent in 2018

While the global economy ended 2017 on the crest of a wave, there are now concerns it will break sooner than previously thought. Recent survey data point to weaker global economic activity, albeit from a position of strength, and a gradual normalisation is more likely rather than a sharp decline.

We expect annual global GDP growth to slow gradually to 3.0% over the next year; a small downgrade from our previous forecast. 2019 growth will slow further but will be supported by US fiscal stimulus and continued emerging market demand.

Advanced economies are, on average, expected to slow, yet growth should remain above trend. Economic activity in the eurozone is slowing this year but we still expect the euro to appreciate against the dollar over the next 18 months in response to rising US twin deficits. US fiscal stimulus should facilitate peak GDP growth in 2018, after which these benefits will begin to fade.

Slowdown is most noticeable in advanced economies, although US fiscal stimulus is still a positive factor



The US decision to impose steel and aluminium tariffs on the EU, Canada and Mexico will, on its own, have only marginal direct economic effects, but it raises the risk of a series of tit-for-tat action that could prove far more damaging. The worrisome outcome of June's G7 meeting further adds to concerns that trade relations between advanced economies will get worse before they get better. Our baseline remains that a major escalation will be avoided. But the uncertainty created could well lead to weaker investment in the short term and limit the degree to which both the US and the eurozone bounce back after their disappointing starts to the year.

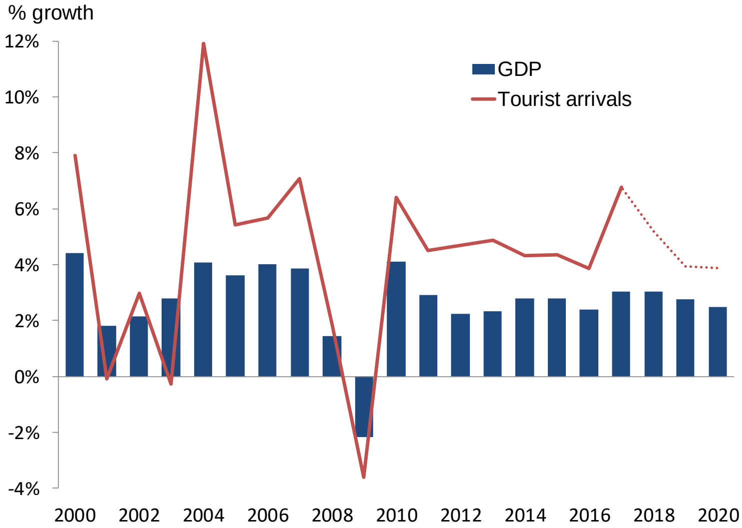
Emerging markets are expected to grow by around 4.5% in both 2018 and 2019 but growth is very disparate between countries. However, risks around the outlook for emerging markets have intensified. Rising oil prices and tighter financial conditions due to a stronger dollar and higher US interest rates have coincided with increasing trade risks and slowing activity in some advanced economies.

Solid global oil demand, supply cuts in Iran and Venezuela and pipeline constraints in the US will support a firmer oil price environment in the near term. Higher energy prices will erode household discretionary incomes and weigh on consumer spending, though stronger energy sector investment is likely to provide some offset.

Global Travel and Tourism Outlook

Global travel enjoyed the eighth consecutive growth year in 2017 with estimated arrivals growth of 6.8%. This also marked the strongest growth year since 2004. This performance was due in part to some rebound from a slowdown in 2016 and realisation of pent-up demand. The strongest growth in travel was experienced in Europe and Africa. However, due to the sheer volume of travel to Europe, its growth made the largest contribution to global growth.

Global Tourist Arrivals & GDP



Source: TDM, UNWTO

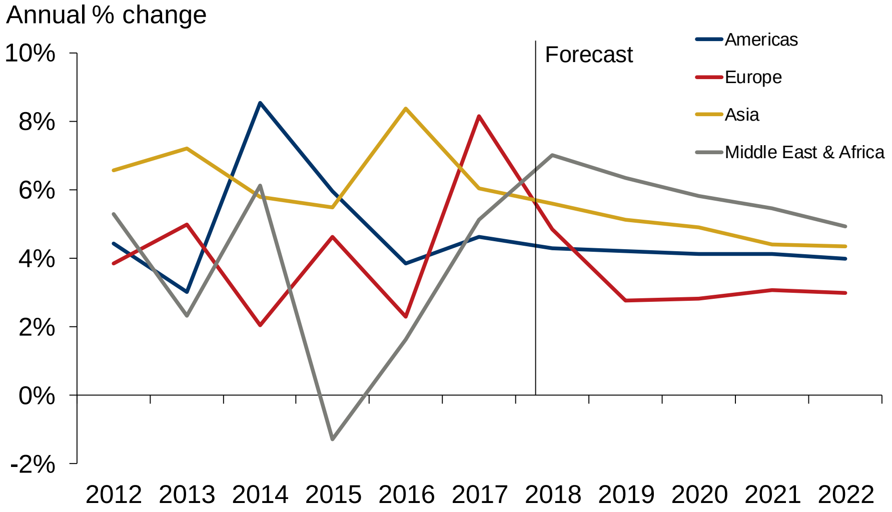
European arrivals grew 8.2% in 2017, with slower growth apparent in 2018 to date.

European travel growth was particularly robust in 2017. Estimated growth of 8.2% was aided by the synchronised global economic upturn and by some rebound from weak demand growth of just 2.3% in 2016. Travel demand growth is expected to slow to 4.9% in 2018 as these rebound effects subside. In addition, Europe has started to feel the pinch from the slowing global economy through weaker exports, and this is also likely to weigh on performance.

For now, the economic growth in Europe remains strong enough to support continued intra-European demand. But the effects of a slowing global economy are apparent in early-2018 growth trends from some long-haul source markets with weaker than usual growth being reported by many European destinations.

Turkey enjoyed an outstanding year of growth in 2017, and this recovery has continued into early-2018 according to data for the first four months of 2018. Unlike its Russian-centric recovery in 2017, growth so far this year has come from a wide-range of source markets, with some notable growth from long-haul markets including China and Japan.

Regional inbound overnight visits growth



Source: Tourism Economics

Arrivals to Spain from several source market arrivals have declined according to early-2018 data, including from the UK, Germany, and France – the three largest source markets. This is partly due to travellers returning to Turkey in greater numbers, but loud opposition to mass/over-tourism in Spain has been gathering steam in 2018 which is likely to deter some travellers. Nonetheless, we expect travel demand to Spain to grow in 2018, but at a slower rate compared to recent years.

Arrivals to the Americas grew 4.6% in 2017 with 4.3% growth expected in 2018

In the **Americas,** arrivals grew 4.6% in 2017, and growth of a similar magnitude (4.3%) is expected in 2018. Official US government arrivals data suggest that visitor arrivals fell in 2017, however it is now acknowledged that these preliminary estimates may include some undercounting of overseas visitors and revisions are underway. Travel data from other sources consistently point to expansion for 2017 and Tourism Economics have estimated an alternative series for US arrivals. Our latest estimate for US arrivals in 2017 suggests growth of 1.3%.

Growth in the US is consistent with a weaker US dollar which has improved affordability for travel to the US. This should continue to aid arrivals growth in 2018 also.

Hurricane damage affected performance in some Caribbean destinations in 2017. However, declines in affected destinations were largely offset by growth in others, including some displacement. Overall, arrivals grew 2% in 2017, and similar growth is expected in 2018 (1.8%).

Central & South America enjoyed arrivals growth of 6.2% in 2017 and should build on this momentum into 2018 with growth of 7.3% expected for the year.

However, economic woes are a near-constant feature within the region (with Argentina being the latest to demonstrate signs of a looming recession) which pose a downside risk to the travel demand outlook.

Asian travel demand remains robust and South Korea is recovering

Travel demand across **Asia** remained solid in 2017, as emerging markets remain key sources of global and regional travel growth. Visitor arrivals to Asia are estimated to have grown 6% in 2017, with a handful of destinations (Indonesia, Nepal, and Vietnam) reporting visitor arrivals growth above 20%. Further growth of 5.6% is expected in the region in 2018, slightly slower than in 2017.

North East Asia, however, should enjoy some uptick in 2018 compared to 2017. This will remedy the slower growth of 2017 due to tensions on the Korean peninsula. The inter-Korean summit held in April and the US-North Korea summit in June have sent clear signals that tensions have deescalated, and arrivals growth should follow. Indeed, data for 2018 to May indicate growth, but declines from China – South Korea's largest source market – have continued.

Middle East and African travel growth is being supported by steady oil price rises

Middle East inbound travel grew 0.7% in 2017. This represents a significant downgrade on our previous estimate of 2.2%. The blockade of Qatar by neighbouring countries is ongoing and has had a negative impact on arrivals since the dispute began in June 2017. Inbound arrivals to Qatar are estimated to have fallen 23% in 2017, with large falls concentrated in the second half of the year and further declines have been reported in early 2018. However, rising oil prices will benefit oil exporting countries and will support some modest growth (5%) within the region.

African arrivals grew 10.2% in 2017, with strong growth reported in destinations where there had been declines related to either terror acts or political protests in 2015 and 2016. Higher oil prices will facilitate some travel from oil-exporting countries in Africa. But the region will not be immune to the global slowdown with slower travel demand growth compared to 2017 (of 9.2%) expected for 2018.

Forecast Summary Table

TDM Visitor Growth Forecasts, % change

	Inbound*						Outbound**					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
data/estimate/forecast	d	d	d	e	f	f	d	d	d	e	f	f
World	**4.4%**	**3.9%**	**6.8%**	**5.2%**	**3.9%**	**3.9%**	**3.8%**	**4.2%**	**6.4%**	**5.3%**	**4.1%**	**3.9%**
Americas	**6.0%**	**3.9%**	**4.6%**	**4.3%**	**4.2%**	**4.1%**	**5.2%**	**4.2%**	**6.5%**	**4.7%**	**3.4%**	**3.1%**
North America	5.5%	2.7%	4.6%	3.8%	3.5%	3.7%	4.5%	3.3%	6.3%	4.8%	3.3%	3.0%
Caribbean	8.1%	4.9%	2.0%	1.8%	5.3%	4.8%	16.0%	9.5%	13.2%	2.2%	4.4%	4.3%
Central & South America	6.4%	7.0%	6.2%	7.3%	5.6%	5.1%	7.0%	6.9%	6.4%	4.6%	3.6%	3.5%
Europe	**4.6%**	**2.3%**	**8.2%**	**4.9%**	**2.8%**	**2.8%**	**2.1%**	**3.7%**	**6.9%**	**5.4%**	**3.6%**	**3.4%**
Western Europe	4.7%	3.9%	7.1%	4.2%	2.5%	2.5%	3.5%	4.4%	5.4%	5.4%	3.5%	3.2%
Eastern Europe	5.7%	5.8%	7.3%	5.4%	3.1%	3.7%	-3.1%	2.4%	11.5%	5.8%	3.8%	3.7%
Asia & the Pacific	**5.5%**	**8.4%**	**6.0%**	**5.6%**	**5.1%**	**4.9%**	**7.1%**	**6.7%**	**5.9%**	**5.4%**	**5.3%**	**5.4%**
North East	4.3%	8.6%	3.7%	4.2%	4.8%	4.8%	7.8%	5.5%	6.5%	5.5%	5.5%	5.3%
South East	7.8%	7.7%	7.9%	6.7%	5.2%	5.2%	5.2%	9.9%	3.8%	5.6%	5.4%	5.7%
South	1.5%	10.3%	14.1%	10.8%	7.5%	4.4%	9.6%	9.3%	8.1%	4.8%	5.0%	6.3%
Oceania	7.2%	9.0%	5.7%	5.0%	4.2%	4.6%	3.9%	6.2%	5.5%	4.7%	3.3%	4.3%
Africa	**-5.0%**	**-0.4%**	**10.2%**	**9.2%**	**6.7%**	**5.6%**	**1.8%**	**5.3%**	**3.7%**	**7.2%**	**4.9%**	**4.9%**
Mid East	**2.3%**	**3.5%**	**0.7%**	**5.0%**	**6.0%**	**6.0%**	**1.3%**	**-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

Source: Tourism Economics

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