

# Travel & Tourism | 'No Deal' Brexit Impact

## Quantifying the travel & tourism impacts of a 'No Deal' Brexit – an update

### Economists

Simon Kyte  
Senior Economist  
+44(0)1865 268935

David Goodger  
Managing Director of  
Tourism Economics, EMEA  
+44(0)1865 268928

Helen McDermott  
Director of Global  
Forecasting  
+44(0)2892 635404

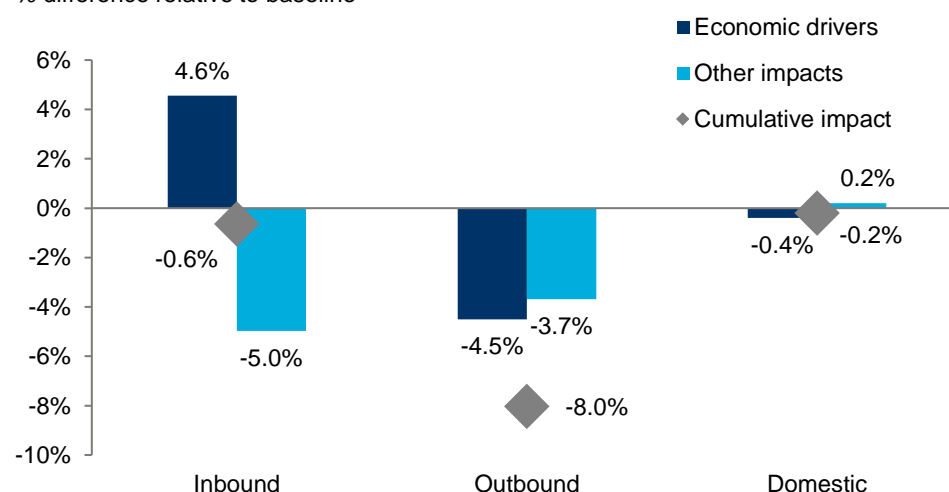
**Under 'no deal' UK  
outbound tourism  
would be 8% lower  
in 2021**

### Executive Summary

- The EU has agreed to an extension of the most recent deadline for Brexit until the end of January 2020, and while we consider an 'orderly' Brexit to be the most likely outcome, a 'no deal' Brexit remains a possibility.
- A 'no deal' Brexit would affect tourism flows through macroeconomic channels: lower GDP growth and weaker sterling. Additional 'non-economic' effects are expected through changes in sentiment, potential travel disruption and visa and passport validity impacts.
- UK outbound travel is estimated to be lower by 7% in 2020 relative to baseline, and 8% lower in 2021 as a result of a 'no deal' Brexit. Ireland and Spain would be the hardest hit from fewer UK visitors, as both are much more reliant on the UK as a source of demand than other destinations.
- A weaker pound is expected to attract more inbound visitors to the UK as a result of lower prices. But this is likely to be offset by sentiment effects in a 'no deal' scenario.
- Domestic tourism should benefit from substitution effects, as UK residents no longer taking outbound trips turn to 'staycationing'. However, this effect is more than offset by a reduction in UK consumer spending.

### Impact on UK Inbound, Outbound & Domestic of 'No Deal' Brexit, 2021

% difference relative to baseline



Source: Oxford Economics

- Other impacts for inbound represent negative sentiment effects.
- Other impacts for outbound represent air space restrictions and visa / passport disruption.

**Contact:** Simon Kyte | [skyte@oxfordeconomics.com](mailto:skyte@oxfordeconomics.com)

**The EU has agreed to extend the most recent deadline for Brexit from 31 October until the end of January 2020 – but ‘no deal’ exit is still possible**

## Current Situation

The EU has agreed to extend the most recent deadline for Brexit from 31 October until the end of January 2020. However, under this agreement the UK could leave the EU earlier if it completes the necessary ratification, leading some to refer to the delay as a ‘flexextension’. Oxford Economics continues to see an ‘orderly’ Brexit as the most likely outcome, but ‘no deal’ is still a possibility. This article updates the potential impact on UK inbound and outbound travel in the event of ‘no deal’.

The most recent delay follows a period of considerable uncertainty. The UK Government and EU tentatively agreed to the terms for a withdrawal agreement in recent weeks. However, Parliament refused to comply with the Prime Minister’s request to compress parliamentary scrutiny and debate of the withdrawal bill to a period of only 3 days. Previously, Parliament had passed a law requiring the Government to request an extension to Article 50 to avoid a ‘no deal’ Brexit on 31 October. This law, combined with Parliament’s refusal to comply with a shorter period to scrutinise the withdrawal bill, necessitated the ‘flexextension’.

## Summary of Impacts

The impacts of a ‘no deal’ scenario on travel and tourism demand can be separated into economic and other non-economic effects. For the economic impacts, two key channels are identified (outlined more fully in articles from November and December 2018<sup>1</sup>):

- Gross Domestic Product (GDP) – forecast to be 1.8% lower than the baseline under ‘no deal’ in 2021 relative to the baseline forecast (the baseline assumes the withdrawal agreement is implemented and a transition period follows).
- Exchange rates – sterling is anticipated to depreciate and approach parity with the euro, and both are expected to fall against a basket of other currencies.

A significant negative impact on UK outbound travel is anticipated, driven by both economic (GDP and exchange rate) and non-economic channels (airline disruption, increased passport regulation and border delays).

We estimate that the combined effect of the economic and non-economic factors reduces UK outbound travel by 7% relative to baseline projections in 2020, and 8% lower in 2021. This equates to approximately 8mn fewer outbound trips by UK residents in 2021, compared to baseline expectations.

By comparison, the impact on UK inbound travel is estimated to be much smaller, with the positive economic impact from a weaker sterling (and lower prices for inbound visitors) partly offsetting negative sentiment effects. However, in net terms the negative sentiment effects on UK inbound travel are expected to outweigh the positive gains through economic factors.

The impact on domestic travel & tourism in the UK are also relatively small. While reduced UK outbound travel should stimulate domestic travel through increased ‘staycations’, this will be more than countered by weaker consumer spending.

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<sup>1</sup> This article provides an update on previous analysis by Tourism Economics on a ‘no deal’ Brexit in November 2018 / December 2018 which can be found [here](#) and [here](#).

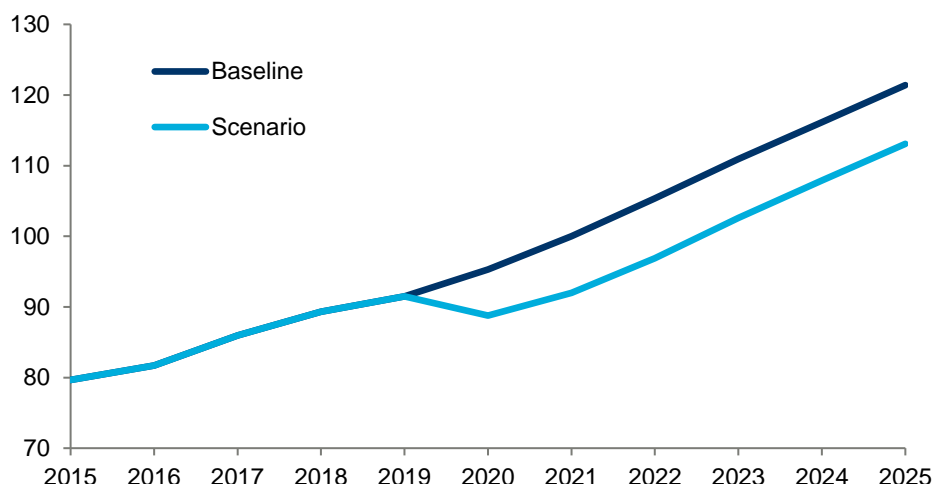
## UK Outbound Travel

**The impact from a 'no deal' Brexit would leave a permanent loss to UK outbound travel**

A 'no deal' Brexit is expected to have an immediate and sharp downward impact on UK outbound travel, with a decline in outbound travel in 2020. While a return to positive growth is expected in 2021, the pace of growth is well below baseline expectations. By 2021, UK outbound travel would be 8% lower than the baseline, equating to 8mn fewer outbound trips. By 2023, estimated growth is marginally higher than under the baseline, but with lower GDP levels and a still-weak pound, a rebound in UK outbound travel will remain elusive in the long term.

### Outbound Travel from UK

Visitors (mns)



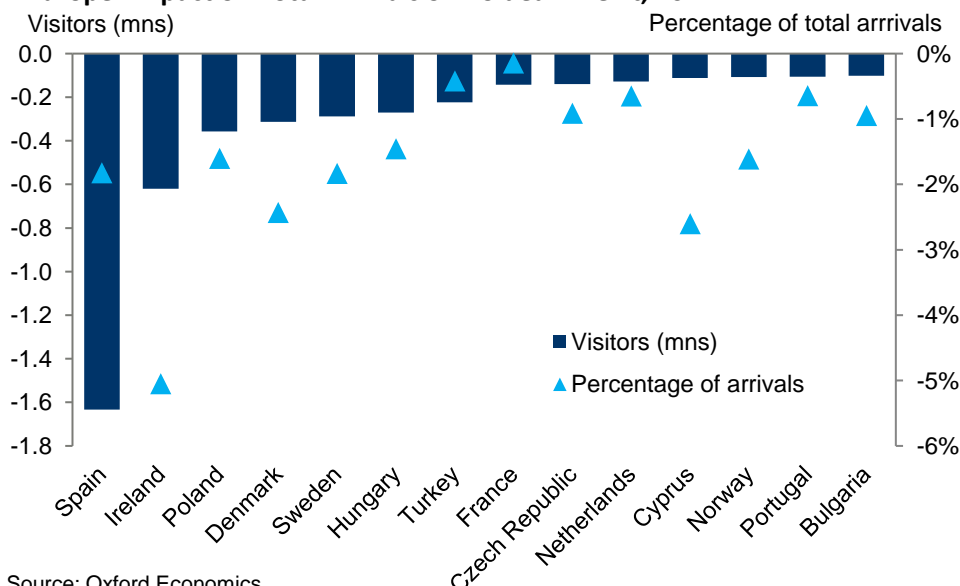
Source: Oxford Economics

The impacts of this reduced UK outbound travel will not be experienced uniformly across European destinations. The most heavily affected countries are those for which the UK is an especially prominent source market.

In volume terms Spain is the most heavily impacted country in 2021, with an estimated 1.3 million fewer UK arrivals to the country relative to baseline projections, plus a knock-on effect of around 300,000 fewer visitors due to slower growth elsewhere in Europe. This follows an impact of around 0.9 million fewer visitors from the UK in 2020, leading to a total reduction of more than 2 million trips from the UK over the two years.

**In volume terms the most heavily impacted country would be Spain – although Ireland sees the biggest percentage impact**

### Europe: Impact on Total Arrivals of 'no deal' Brexit, 2021



Source: Oxford Economics

**Contact:** Simon Kyte | [skyte@oxfordeconomics.com](mailto:skyte@oxfordeconomics.com)

In percentage terms Ireland is the most heavily impacted with arrivals 5% lower in 2021 relative to the baseline forecasts and 3.5% lower in 2020; almost two-thirds of this can be attributed to lower arrivals from the UK.

	Europe: Impact of 'no-deal' Brexit on Global Arrivals & Arrivals from the UK					
	2021 baseline (mns)		2021 'no-deal' Brexit (mns)		% difference in 2021 relative to baseline	
	Total Arrivals	Arrivals from UK	Total Arrivals	Arrivals from UK	Total Arrivals	Arrivals from UK
World	1,581.7	100.0	1,579.7	92.0	-0.1%	-8.0%
Europe	785.4	73.3	781.9	68.3	-0.4%	-6.9%
Western Europe	515.0	61.2	512.8	57.5	-0.4%	-6.1%
Eastern Europe	270.3	12.2	269.1	10.8	-0.5%	-11.1%
Ireland	12.3	5.2	11.7	4.8	-5.0%	-8.3%
Iceland	2.6	0.3	2.5	0.2	-2.7%	-8.3%
Cyprus	4.3	1.5	4.2	1.3	-2.6%	-9.8%
Denmark	12.9	1.2	12.6	1.1	-2.4%	-7.9%
Malta	2.9	0.7	2.8	0.7	-2.4%	-10.5%
Sweden	15.7	1.1	15.4	1.0	-1.8%	-7.4%
Spain	89.6	19.7	87.9	18.4	-1.8%	-6.5%
Norway	6.6	0.3	6.5	0.3	-1.6%	-7.2%
Poland	22.4	1.9	22.0	1.7	-1.6%	-11.7%
Hungary	18.6	0.9	18.3	0.8	-1.5%	-12.3%
Bulgaria	10.8	0.5	10.7	0.5	-0.9%	-11.6%
Czech Republic	15.3	0.8	15.2	0.7	-0.9%	-11.6%
Switzerland	11.5	0.8	11.4	0.8	-0.7%	-6.5%
Netherlands	19.8	2.5	19.7	2.4	-0.6%	-5.7%
Portugal	16.6	2.4	16.5	2.3	-0.6%	-5.8%

Source: Tourism Economics

## UK Domestic Travel

Net impacts for domestic travel are far smaller than for UK outbound. These net impacts reflect the combination of two effects, acting in different directions. First, with the weakening exchange rate value of sterling – not only against the euro, but also against other currencies - some substitution takes place as British travellers replace foreign holidays with domestic 'staycationing'.

However, this is not enough to offset the negative impact of reduced consumer spending. Therefore, there are net negative impacts for both years – although the scale of these net impacts is relatively small (-0.6% for 2020 and -0.2% for 2021).

## UK Inbound Travel

The impacts of UK inbound travel are more marginal than the outbound impacts but far more significant than the domestic impacts. The largest annual impact for UK inbound is expected in 2020 (-2.7%) rather than in 2021 (-0.4%).

The lower value of sterling makes the UK a more affordable - and therefore more attractive - destination country for tourists, with inbound visitor arrivals expected to be 2.5% higher in 2020 and 4.6% higher in 2021 compared to the baseline. However, negative sentiment effects in a 'no deal' scenario will more than offset the positive gains from the economic effects.

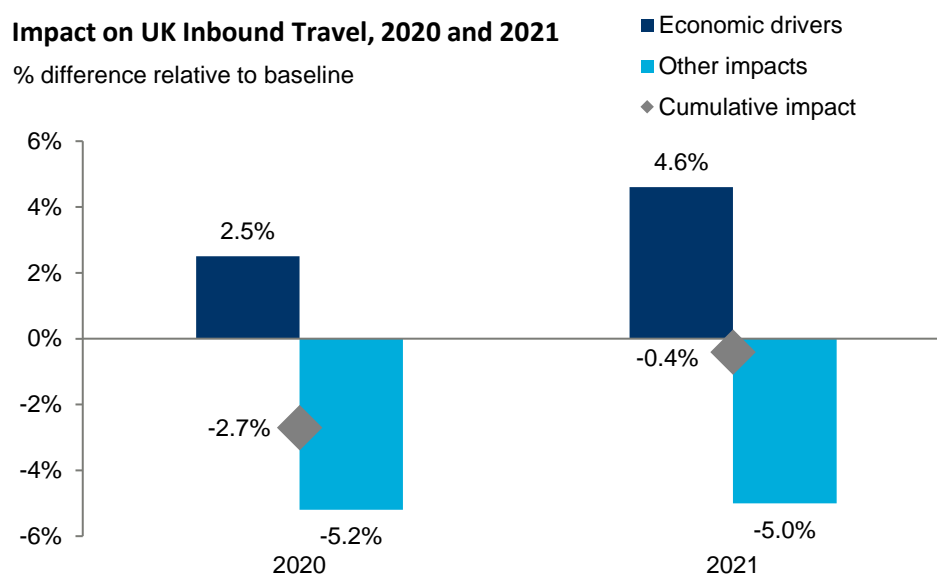
Both the leisure and business segments will be affected, with business travel in particular impacted by lower trade volumes in the UK post-Brexit in a 'no deal' environment.

**Increased staycationing is not enough to offset the impact from lower consumer expenditure**

**Weaker sterling should make the UK a more attractive destination but negative sentiment and reduced business travel more than offset this**

## Impact on UK Inbound Travel, 2020 and 2021

% difference relative to baseline



Source: Oxford Economics

## Potential Additional Travel Disruption

In addition to the economic and negative sentiment impacts, two additional non-economic impacts have been modelled in this analysis:

- **Market access:** the UK is part of the European Common Aviation Area (ECAA), which allows UK-based airlines to fly freely within a zone covering the EU and some neighbouring countries. When the UK leaves the EU, it will cease to be part of the ECAA, and under 'no deal', UK carriers would need to be 50% European-owned to access the Area. However, the European Commission has committed to a contingency agreement covering basic air connectivity until 24 October 2020, even in the event of 'no deal'. However, airlines have been dealing with these complex issues and modelling assumes only limited, temporary disruption at the end of 2020.
- **Passports and travel documentation:** passports should work even if there is 'no deal' but there are several obstacles which may make travel less straightforward. UK citizens travelling to the EU and associated countries should have six months left on their passport (and a passport less than ten years old), and the European Parliament has agreed that a visa will not be needed to visit the EU, Iceland, Liechtenstein, Norway or Switzerland. However, healthcare EHICs may not be valid in a 'no deal' Brexit. Drivers will also need an International Driving Permit or some other permit (depending on country), Green Cards for car insurance and a 'GB' sticker. In addition, in some countries, UK visitors will require the use of separate queuing lane to citizens of the EU, meaning potentially longer wait times to pass through immigration, although both Spain and Portugal have decided that this will not be the case there.

## Longer Term Concerns

Longer term there will also be issues regarding the labour market (even if the UK leaves with a deal) as EU nationals are disproportionately represented in the UK hospitality workforce. Brexit could leave the UK hospitality sector with even greater skills gaps and labour market shortages than it currently faces. Beyond the simple end to free movement of labour, there could be further impacts from a declining perception of the United Kingdom from EU countries.

**While there are complex issues about airline ownership, airlines have been dealing with these**

**An end to free movement and declining perceptions will create labour shortages in hospitality**