

Global Travel Service

Global Highlights, November 2018

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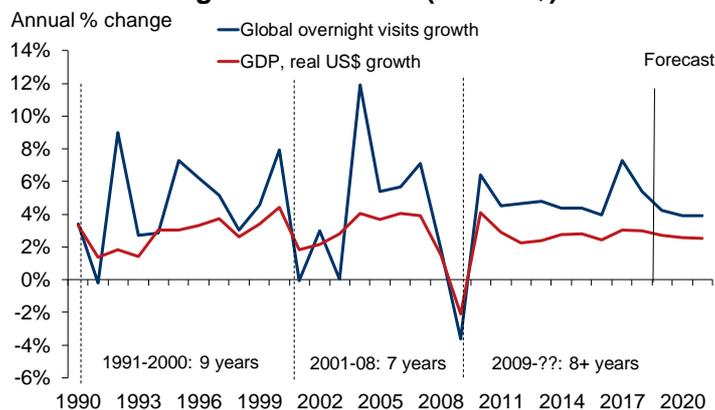
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Global travel demand is forecast to grow 5.4% in 2018, the fastest pace of growth since the recession that does not involve a rebound from negative / lackluster growth (2010 or 2017).

Global Travel & Tourism Trends

- Global travel demand is expected to grow 5.4% in 2018, representing the fastest pace of growth in a single year since the recession that did not involve a rebound from negative / lackluster growth in the previous year (2010 and 2017).
- Overall growth is supported by another year of robust economic growth. We estimate global GDP will grow 3.1% in 2018, driven by solid consumer expenditure growth and higher oil prices, despite a slowdown in global trade growth.
- Africa and Asia are the fastest growing regions in 2018. In Asia, travel demand growth is supported by a growing middle-class; with an acceleration in growth in 2018, partly aided by a rebound in South Korea arrivals following a sharp contraction in 2017 due to geo-political tensions. Africa, although representing a smaller share of global arrivals, is enjoying solid growth in visitor arrivals as security concerns and political unrest that hampered growth potential prior to 2017 have subsided.
- Europe and Americas arrivals are forecast to enjoy modest growth of 5.2% and 4.1% in 2018. In Europe, the rebound effects that propelled 2017 travel demand have eased, but some of the momentum has continued through to 2018, supported by steady economic growth. In the Americas, travel demand continues to expand in most major destinations, including the US. However, negative growth in hurricane affected islands in the Caribbean have exerted a drag on growth for the wider region.
- Signs are emerging that the pace of growth – both in terms of the economy and travel demand – are beginning to slow. The trade impetus from 2017 has dissipated, and higher inflation and tightening labour markets point to weaker real income and household spending growth. Protectionist-related uncertainty is also likely to weaken growth in 2019. A recession is not expected, however global arrivals are forecast to grow at a more moderate rate of 4.3% in 2019.

Global overnight visits & GDP (real US\$)



Source: Tourism Economics

Global GDP is expected to grow 3.1% in 2018, with a moderate slowdown forecast for 2019 to 2.8%.

Global Macroeconomic Outlook

We expect annual global GDP growth of 3.1% in 2018 and forecast a slightly lower growth rate of 2.8% in 2019. There remains a very low risk of recession for 2019 but there are increased vulnerabilities facing the global economy. A range of concerns have materialised so far in 2018 including the escalation of protectionist policies, the advancement of populism in Italy, higher oil prices and harsher conditions for emerging markets. These concerns are likely to play an influential role in the slowdown of growth and may make predictions more volatile.

Economic activity in the Eurozone has remained broadly stable and despite softer growth in Q3 we still expect GDP growth of 2% in 2018 with a slowdown anticipated in 2019 to 1.7%. After an excellent year in 2017, eurozone exports have suffered from a worsening global environment, with dangers presented by mounting protectionism and the threat of a potential trade war with the US. Political developments have engulfed the Eurozone in 2018 with the recent election of a populist government in Italy, the continued crisis surrounding the desire for Catalan independence in Spain and the lack of uncertainty which remains around Brexit. These threats are likely to carry on into 2019 with the Eurozone having to potentially cope with the possibility of a no-deal Brexit, which poses a substantial threat to the Eurozone's economic outlook.

Global: GDP



Source : Oxford Economics/Haver Analytics

The US economy remains resilient following the recent mid-term elections. Real GDP is trending at 3% entering Q4, supported by solid economic fundamentals: consumer spend remains buoyant, trending at 3% and supported by real disposable income growth; and US labour markets continues to expand at robust rates. US-China trade tensions are elevated, though recent statements point to a possible easing of tensions ahead of the Trump-Xi meeting at the G-20 summit. Our baseline includes 25% tariffs on half of US imports from China, imposing a 0.2ppt drag on 2019 GDP growth, but the imposition of tariffs on all US imports from China is a real risk. Policy headwinds from reduced fiscal and monetary stimulus, alongside trade tensions with China, will curb the pace of growth in 2019. We forecast 2.9% growth in 2018, and 2.5% in 2019.

Emerging markets are expected to grow 4.4% in 2018, but signs of a slower pace of growth have emerged moving into 2019, which is now forecast to grow 4.2%. A slowdown in growth for China, higher oil prices and EM financial market weakness are the lead causes of the slower pace of growth in 2019. Growth remains very disparate between

countries, with some countries faring worse than others – notably in Turkey where there is a high risk of recession in 2019.

Global oil demand is forecasted to slow in 2019 to 1.5% (from 1.9% in 2018). There is some upside risk that the pace of growth could pick up in response to Iranian cutbacks, but we anticipate any increase to be temporary.

Global Travel & Tourism Outlook

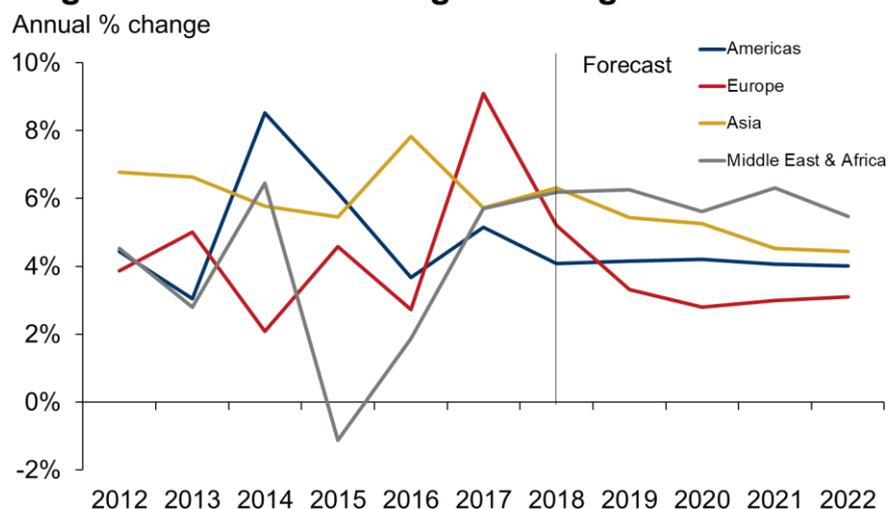
Global travel momentum has continued in 2018, bolstered by strong economic growth, with growth forecast at 5.4%. This marks the 9th consecutive year of growth, but represents a slowdown from visitor arrivals growth in 2017. However, it is the fastest pace of growth in a single year since the global recession that does not involve ‘rebound’ effects; only 2010 and 2017 saw a faster pace of growth (6.4% and 7.3%) while these years followed notable weakness in the prior year

Asia and MEA are the fastest growing regions in 2018 at 6.3% and 6.2%. While slower, the pace of growth in Europe and the Americas remains healthy at 5.2% and 4.1% in 2018.

The pace of growth is expected to slow to a more moderate pace in 2019 as the rebound from late 2017/2018 fades. At 4.3%, global visitor arrivals growth remains healthy, with the slower pace of growth more in alignment with macroeconomic expectations.

Asia & MEA are the fastest growing regions in 2018, at 6.3% and 6.3% respectively; Europe and Americas continue to post modest growth of 5.2% and 4.1%, albeit slower than in 2017.

Regional inbound overnight visits growth



Source: Tourism Economics

European travel demand is expected to grow 5.3%, down from the record year of growth in 2017 (9.1%), as the rebound effects from 2016 edge out of the trend. While economic growth has slowed across Europe in 2018, some momentum from 2017 has continued through to 2018. However, the slower economic growth is expected to drag on 2019 potential, with visitor arrivals forecast to grow 2.9%.

UK visitor arrivals are expected to fall 1.9% in 2018, reflecting monthly arrivals trends from the International Passenger Survey (IPS) as well as more timely indicators of demand. Monthly data show that arrivals declined 7% in the first 6 months of the year. While other high frequency aviation and accommodation indicators point towards a more positive trend

European arrivals are expected to grow 5.3% in 2018, down from 9.1% in 2017, as the rebound effects that propelled 2017 demand have eased.

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in the summer months, we do not expect this to be sufficient to offset the weak outturn in H1. The weakness in early 2018 is somewhat surprising as the pound remains weak, however business demand remains subdued due to continued uncertainty around Brexit. Arrivals growth from the EU has also deteriorated in early 2018, suggesting that negative sentiment effects are biting.

The impact of Brexit poses a key threat to UK tourism with still no certainty on the final agreement and its impact on travel arrangements. Potential impacts of restrictions on passports and air space access present very stark prospects, on top of the potential economic demand effects. Our central forecast expects that a deal will still be reached between the UK and Europe before the 29th March 2019 deadline, but the risk of a 'no-deal' scenario is far from insignificant.

Turkey continues to enjoy robust growth in visitor arrivals with 2018 forecast to grow 22%, following 28% growth in 2017. The strong 2018 growth reflects some continued impetus from 2017, but also involves some uplift as a result of the weaker Turkish Lira making it a more affordable destination. However, the weak currency effects which benefit inbound travel have a contrasting effect on outbound travel. Turkish outbound travel is now expected to fall 0.3% in 2019. The weaker currency alongside deteriorating economic trends poses a further downside risk for 2019, as Turkey finds itself on the brink of recession – further downgrades in outbound travel cannot be ruled out.

In contrast, arrivals to Spain and Portugal have slowed in 2018, growing 0.9% and 1.9%. This slowdown follows several years of significant growth; notably in 2016 and 2017 where both destinations saw a marked increase in market share. The gains in market share for Spain and Portugal in recent years, were largely to Turkey's detriment, as many visitors that stayed away from Turkey due to safety concerns travelled to these destinations instead. Over the period 2015-17, Spain and Portugal jointly gained 2.3pp in market share from Western European source markets, while Turkey lost 1pp market share from the same markets during the same period. In 2018, some reversion in market share is evident, with Turkey having regained 1.4pp in market share, while Spain and Portugal lost 0.7pp in market share – less than gains over the previous 2-year period. Thus, both Spain and Portugal have seen an upward shift in market share, despite the slow pace of growth in 2018.

In the **Americas**, visitor arrivals are expected to grow 4.1% in 2018, down from 5.2% in 2017, with the Caribbean in particular exerting a drag on growth as Hurricane damaged islands feel the after effects. While non-affected islands enjoyed some moderate acceleration in growth in 2018 arrivals through displacement effects, the negative impact for affected islands is a dominating factor. Overall, Caribbean visitor arrivals are forecast to fall 0.8% in 2018. In late 2018, we expect the worst-affected islands to enjoy some rebound in visitor arrivals, which will ripple through to 2019, which is forecast to grow 5.4%.

In the US, the NTTO I-94 data has been released for 2017, and confirms our analysis from a year ago that international travel to the US continued to grow with overseas visits growing 2% and total visits (including Canada and Mexico) grew 0.7%. Monthly data for 2018 points to continued expansion, with strong gains from Canada, Mexico, Brazil and several European markets. However, the pace of growth is slowing as the year progresses, and weakness is becoming evident from Germany and some top Asian markets – notably China, South Korea and Japan. Overall, we forecast 2018 visitor arrivals to grow 4.5% in 2018, and 3.9% in 2019 as global economic growth moderates.

Turkey continues to enjoy robust growth in arrivals of 22% in 2018, while Spain and Portugal are experiencing slower growth (0.9% and 1.9%), pointing to some 'rebalancing' of market share.

US arrivals are expected to grow 4.5% in 2018.

Additionally, the ongoing threat of trade wars presents a danger that the US may be vulnerable to retaliation from other countries in the form of a travel ban. Geopolitical factors will play a significant role in performance of the US and its tourism industry.

Travel to Central and South America enjoyed arrivals growth of 6.5% in 2018, outpacing the wider Americas average of 4.5%. While this represents a moderate slowdown from 2017, which marked a record year of growth of 8.5%, momentum within the region remains healthy, and is likely continue in 2019. Overall, we expect visitor arrivals to grow 5.8% in 2019.

Travel demand across **Asia** is forecast to grow at a solid pace of 6.3% in 2018, up from 5.7% in 2017, supported by continued growth in the number of middle-class income households across the region. The acceleration in growth is particularly evident in North East Asia and South Asia (5.2% and 9.1%). Travel demand across the region is forecast to moderate in 2019, as economic growth is expected to slow down, notably in China. We forecast visitor arrivals to Asia to grow 5.4% in 2019.

In North East Asia, the main impetus in 2018 is evident in South Korea, as the tensions with China that hampered 2017 growth no longer drag on growth. Following a 22.7% decline in visitor arrivals in 2017, 2018 is forecast to grow 9.1% in 2018. With China ending its travel ban in August 2018, some continued momentum is expected in 2019, with total arrivals forecast to grow 9%.

The uptick in travel demand growth in South Asia, is attributable to three destinations that are all enjoying faster growth in visitor arrivals in 2018: Pakistan (14.3%), Sri Lanka (9.8%) and India (8.6%). Weaker currency effects in Pakistan and India have been a key factor in the pick-up in growth; while Sri Lanka is enjoying a rebound from a lacklustre outturn in 2017.

Middle East inbound travel is expected to grow 4.8% in 2018, up from 1.6% in 2017. The faster growth reflects a rebound in visitor arrivals in Saudi Arabia following a decline in 2017 and is supported by higher oil prices which provided a boost to incomes across the region. 2017 growth was also notably weak as a result of the blockade imposed upon Qatar, which resulted in a sharp contraction in visitor arrivals in the second half of the year and into 2018. These negative effects are now edging out of the annual cycle and inbound arrivals growth is forecast to accelerate in 2019 to 6.1%, for the region. Rising oil prices, and the resumption of annual bonus payments in Saudi Arabia to state employees will also contribute to travel demand across the region in 2019.

African arrivals are expected to grow 7.6% in 2018, down from 2017 (10.4%). This represents relative stability across the region, following security concerns and political instability in previous years. Higher oil prices will facilitate some travel from oil-exporting countries in Africa, and the benefits of higher oil prices should seep into these economies, as well across the African economy more generally. Visitor arrivals are forecast to grow 6.4% in 2019.

Asia travel demand is expected to grow 6.3% in 2018, up from 5.7% in 2019, with South Korea, Pakistan, Sri Lanka and India all enjoying an acceleration in growth in 2018.

Middle East travel demand remains robust at 4.8% in 2018, and 6.1% in 2019.

Forecast Summary Table

TDM Visitor Growth Forecasts, % change

data/estimate/forecast	Inbound*						Outbound**					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
	d	d	d	e	f	f	d	d	d	e	f	f
World	4.4%	4.0%	7.3%	5.4%	4.3%	3.9%	4.0%	4.9%	7.4%	5.0%	4.2%	3.9%
Americas	6.2%	3.7%	5.2%	4.1%	4.2%	4.2%	5.3%	4.3%	6.9%	4.7%	3.7%	3.3%
North America	5.7%	2.7%	4.2%	4.2%	3.4%	3.8%	4.5%	3.3%	5.7%	4.9%	4.2%	3.6%
Caribbean	8.1%	4.9%	4.2%	-0.8%	5.4%	4.8%	16.3%	16.2%	13.9%	-1.5%	4.3%	4.3%
Central & South America	6.4%	6.0%	8.5%	6.5%	5.8%	5.1%	7.8%	6.8%	10.7%	4.9%	1.9%	2.2%
Europe	4.6%	2.7%	9.1%	5.2%	3.3%	2.8%	4.1%	-0.4%	2.0%	5.0%	8.0%	4.6%
Western Europe	4.8%	3.8%	8.6%	3.8%	2.5%	2.2%	1.9%	1.3%	3.5%	6.1%	6.4%	3.6%
Eastern Europe	4.2%	0.5%	10.1%	8.3%	5.0%	3.9%	10.3%	-4.8%	-2.3%	1.6%	13.2%	7.3%
Asia & the Pacific	5.5%	7.8%	5.7%	6.3%	5.4%	5.3%	7.8%	6.9%	7.9%	5.9%	5.4%	5.5%
North East	4.3%	8.6%	3.7%	5.2%	4.7%	5.0%	7.7%	5.6%	8.7%	5.9%	6.0%	5.5%
South East	7.7%	6.2%	8.2%	7.5%	5.8%	5.5%	8.7%	10.5%	5.5%	6.5%	4.2%	5.6%
South	1.5%	10.3%	7.7%	9.1%	9.1%	6.4%	9.7%	10.1%	9.5%	5.0%	6.4%	6.5%
Oceania	7.1%	8.8%	5.4%	5.1%	5.0%	4.9%	3.9%	6.2%	6.0%	4.2%	2.6%	3.4%
Africa	-5.0%	0.4%	10.4%	7.6%	6.4%	5.0%	2.4%	4.2%	0.7%	7.5%	4.9%	4.9%
Mid East	2.6%	3.2%	1.6%	4.8%	6.1%	6.2%	2.0%	-6.6%	2.6%	4.7%	6.6%	4.5%

* 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