16 Nov 2018

OXFORD ECONOMICS

# Travel & Tourism | The Brexit Impact

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


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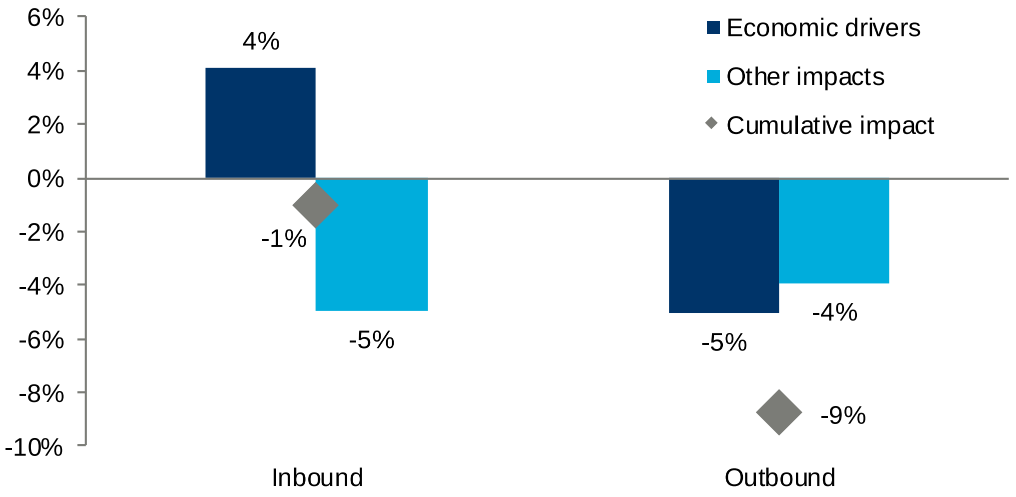
**UK inbound tourism would decline by 1% relative to baseline, accounting for a loss of some 2 million visitors. UK outbound tourism would decline by 9% relative to baseline.**


### Executive Summary

- The current status of the Brexit deal is uncertain. This article focuses on estimated impacts from a 'No Deal' scenario to illustrate what is potentially at stake for the Travel & Tourism sector.
- By 2020, UK inbound tourism would decline by 1% relative to baseline, accounting for a loss of some 2 million visitors. UK outbound tourism would decline by 9% relative to baseline with more than 8 million fewer outbound trips.
- A 'No Deal' Brexit would include a number of separate effects on tourism flows via economic impacts, including lower GDP growth, weaker sterling and higher prices.
- Purely through the economic impacts, Spain and Ireland are the two countries most affected by a 'No Deal' Brexit. Spain, as a key destination for British outbound tourists, would lose a million visitors a year by 2020. For the majority of European countries, the overall volume impact will be smaller.
- However, there are other potential issues which are harder to quantify such as changes in sentiment, passport and visa validity and potential disruption to market access and 'open skies'. Summary impacts have been estimated.


**Impact on UK Inbound & Outbound of 'no-deal' Brexit, 2020**

% 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.*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## Brexit: Deal or 'No Deal'?

At the time of writing, this remains an evolving situation. In principle a deal has been agreed between the EU and UK Government. However, there is no certainty of its implementation and 'No Deal' remains a real possibility. Oxford Economics' decision tree on the possible scenarios as at 8th November 2018 can be viewed here.

In this article, we focus on the 'No Deal' impacts to illustrate what is at stake. Most quantifiable impacts will affect the short-term outlook and alternative scenarios have been generated. However there remains some considerable uncertainty around these impacts. There is further uncertainty in the longer-run due to structural impacts on the supply-side for the sector, such as funding mechanisms and the stock of skills.

**A 'No Deal' Brexit would have several separate impacts on tourism flows – both short-term and longer term.**

## Impacts of 'No Deal' Brexit on tourism activity in summary

| | Short-run impact | Long-run impact |
|---|---|---|
| **Economic activity** | UK GDP will be hardest hit affecting UK outbound tourism. Some sizable impacts on other European trading partners. | Lower than expected prior to referendum but largely included in current forecasts. |
| **Exchange rate** | Sterling to depreciate further boosting UK attractiveness. Travel will be more expensive for UK outbound. | |
| **Prices** | Related to exchange rates, there is expected to be a spike in inflation which will squeeze UK household incomes. | Potential structural impacts on import prices with large potential impacts on food prices. Health & insurance costs to rise. |
| **Market Access & Open Skies** | Secure for now even under 'No Deal'. ASAs need to be renegotiated but with a risk of grounded planes in Jan. 2020. | |
| **Sentiment** | Business travel, in particular, has been weak in line with investment leading to a loss of market share. | |
| **Passports & visas** | Imposition of greater passport checks will slow down travel and may compound sentiment. | Previous research shows that more impediments to border crossings reduce travel & tourism. |
| **Immigration** | | The UK tourism sector is heavily reliant on EU migrant labour. |
| **Funding** | | Development projects at risk with implications for infrastructure & tourism projects. |



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## GDP Impact

The impact on the UK economy of a 'No Deal' would be significant at a loss of 2.1% in the level of GDP by the end of 2020.

This analysis begins with the purely economic impacts of a 'No Deal'. Oxford Economics has already analysed the impact on GDP, primarily through trade effects – see the graph below.

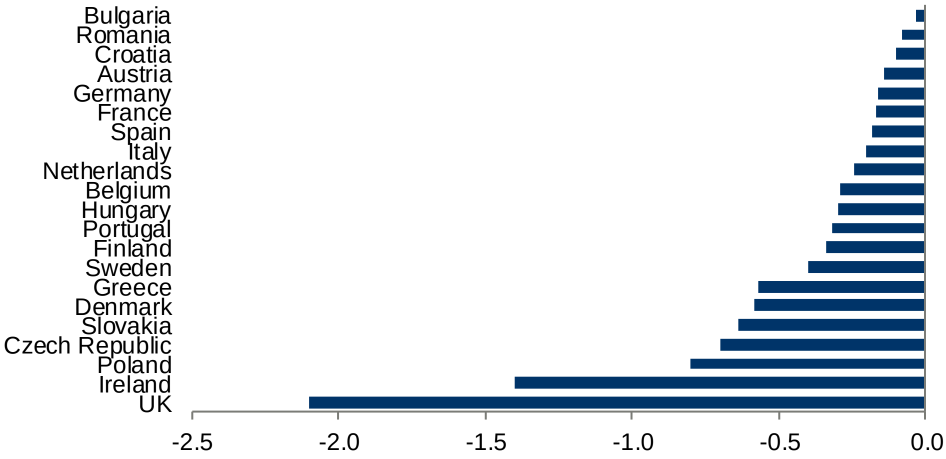
Travel & Tourism demand growth is usually closely related to growth in the economy overall. Therefore, anything that reduces GDP growth is likely to have a negative effect on the growth of Travel & Tourism. The impact on the UK of a 'No Deal' would be significant at a loss of 2.1% in the level of GDP by the end of 2020. UK domestic travel will be affected as well as UK outbound. For UK domestic tourism there will be a volume effect but also some substitution dependent on relative price movements.

Most EU countries are far less affected – but will still be impacted, implying that people in the EU will also have less money to spare to travel. Ireland and a handful of Central European countries are especially affected. UK inbound will also be hit to the extent major source markets are affected.

The UK as a destination may benefit from further affordability gain but UK outbound will be hit.

**Europe: Impact GDP of 'No Deal' Brexit**

% difference in level of GDP in Q4 2020 relative to baseline




Source: Oxford Economics

## Exchange Rates

A weaker sterling ought to encourage more inbound travel to the UK, as long as other things such as visa frameworks remain unchanged (which may not be the case). A 'No Deal' Brexit would knock 10% off sterling on a tourism-weighted basis, bringing the sterling / euro exchange rate almost to parity. Some beneficial impacts on travel demand will be felt less by EU tourists as the euro would be expected to depreciate as well attracting further visits from longer-haul markets. UK tourists may be forced to seek out cheaper destinations which would favour some emerging Eastern European destinations but potentially also 'staycationing' within the UK.

The UK tourism industry has benefited from sterling depreciation since 2016. The initial boom that the British Travel & Tourism sector received from the country's vote to leave appeared to wear off at the beginning of 2018. However, since then the pound has fallen



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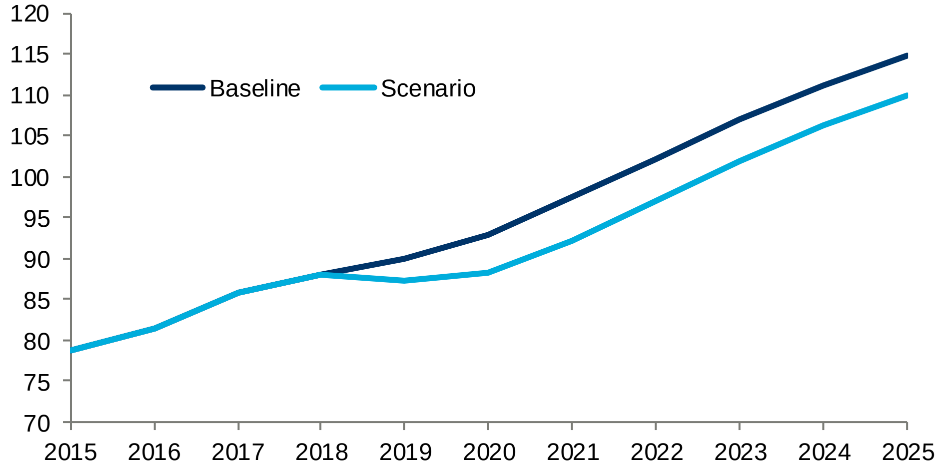
again. The net impact from a further fall in the pound should generate further gains in UK tourism with both more international arrivals and more domestic tourists. However, the latter may opt to spend less.

The overall impact of lower GDP, weaker sterling and increased inflation would be a permanent negative impact on UK outbound travel. However, impacts would be greatest in the short-term with the greatest difference from the current baseline in 2020. Some destinations are especially exposed to any downturn in the UK outbound travel market and the most exposed countries in Europe include the Republic of Ireland, Cyprus, Spain and Portugal.

**The impact through purely economic mechanisms would have a permanent negative impact on UK outbound tourism.**

**Outbound Travel from UK**

Visitors (mns) under baseline and 'No Deal' economic drivers




Source: Tourism Economics

## Prices

Related to exchange rates is a general effect on consumer prices. Combined with tariffs, exchange rate effects, would push UK inflation to 4%, squeezing discretionary consumer spending and negatively impacting on UK tourist spending. The rise in prices is likely to have significant knock-on effects including impacts on the UK Travel & Tourism sector:

- Food prices – The rise in food prices could be quite significant and sudden and hotels and restaurants will have to pass these on. That will counter some of the beneficial exchange rate effect. And the more the exchange rate falls, the more pronounced the impact on food prices will be. The UK imports around 50% of its food with 30% coming from the EU and a further 11% coming from non-EU countries where trade deals are currently negotiated by the EU. Senior Executives representing some of the largest supermarkets have estimated that there would be an overall 12% increase in food prices. Indeed, food alone is likely to lead to a 1 percentage point increase in the CPI and this will also be passed on through automatic mechanisms to rail fares, utility costs and pensions.
- High end luxury brands – Luxury goods which appeal to newer source markets are likely to become more expensive as imported goods become subject to higher tariffs. Chinese tourists might continue to choose Paris rather than London as a destination.



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- Airline fuel costs – Air fuel costs have been rising already due to increasing energy prices but the fact they are priced in dollars whilst the pound is depreciating will compound the increase.

However, there are also longer-run structural impacts. For example, the EU's ban on mobile roaming charges for voice, text messages and data has meant using a smartphone on the continent is the same cost as using it at home. But the House of Commons EU Scrutiny Committee said in a report that this is unlikely to remain in place for the UK following withdrawal. This means that network operators will decide whether to re-introduce roaming charges on UK customers, although many have stated that they have no current plans to do so. However, additional charges could be passed on to UK consumers indirectly anyway – for example, via increased contract costs. The UK Government has suggested that it may cap roaming charges.

ABTA has advised considering extra protection after 29th March 2019, but since events are beyond the control of travel companies, compensation for some travel costs could be unlikely. If there were to be a ''No Deal'' on EU medical cards, travellers will probably need more insurance or simply face higher premiums to travel to the UK and this would presumably be reciprocal.

## Market access & 'Open Skies'

Currently, the UK is part of the European Common Aviation Area (ECAA) which allows UK-based airlines to fly freely within a freedom of movement zone which covers the EU and some neighbouring countries. As matters stand, when Brexit happens the UK will cease to be part of the ECAA. There are at least four possible outcomes of negotiations:

- Staying in the European Common Aviation Area. Several non-Member nations are either part of the ECAA (for example, Macedonia), are currently ratifying it (Georgia, Moldova) or are part of an extended Euro-Mediterranean Agreement (Morocco, Jordan);
- A third party Open Skies deal with the EU – which could yield a similar outcome;
- Negotiating a single bilateral deal with the EU assuming that Member States gave the EU a mandate to negotiate on their behalf;
- An enhanced UK open skies deal.

Potential impacts from leaving the ECAA fall into the following categories:

### Impacts on flights between the UK and the EU

As with so many other aspects of the UK departure from the EU, Article 50 states that nothing is agreed until everything is agreed. This means that final arrangements for aviation specific regulatory systems will not be known until everything else is agreed.

**The EC has agreed that it will have a contingency agreement in place for aviation until end December 2019.**

The EC has agreed that it will have a contingency agreement in place for aviation until end December 2019, regardless of whether a deal is agreed with the UK Government or not. This signals a significant degree of goodwill and an agreement is most likely to extend beyond that even in the case of 'No Deal'. However, there is a lot at stake and we have modelled modest impacts in January 2020 based on assumptions of some minimal flight disruption – although we believe that the materialisation of such impacts is unlikely.

The UK Government has stated that it wishes the UK to continue to participate in the European Aviation Safety Agency (EASA), whilst recognising that the UK will need to accept the Agency's rules and also contribute to its costs. The UK regulator, the CSS, has



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stated that a completely independent national regulatory system is not an option. The EC has stated that at withdrawal all UK CAA issued approvals, certificates and licences will cease to be valid under the EU system. This is in spite of the UK Government committing to incorporate all current EU air transport safety regulations into UK law on March 29th.

If there were to be ‘No Deal’ a number of regulatory processes would need to be brought back into the UK regulatory system so that UK CAA was able to continue to regulate the sector. This would also generate some disruption to scheduled flights.

### Impacts on flights between the UK and ‘third-party’ countries

Impacts on flights between the UK and ‘third-party’ countries could also be significant. The EU has negotiated open skies agreements with third-party countries on behalf of Member States, particularly with the US. These deals would have to be revisited in the near future to make sure flights could continue between the UK and US. The UK thought that it might get preferential treatment from the Trump administration but in January 2018 the US offered it a far worse ‘open skies’ deal after Brexit than it currently has as an EU member. It is unconfirmed but suggested that the stumbling block was "substantial ownership and control" which would effectively have eliminated BA (IAG), Virgin and Norwegian UK for operating flights to the US.

The UK has independently negotiated 111 bilateral ASAs including with China, India and Brazil. However, there 17 non-EU countries with which air services to the UK are provided for by virtue of our EU membership. These are Albania, Bosnia-Herzegovina, Canada, Georgia, Iceland, Israel, Jordan, Kosovo, Liechtenstein, Macedonia, Moldova, Montenegro, Morocco, Norway, Serbia, Switzerland and the US. These may need to be renegotiated if not part of a deal.

## Sentiment and its impact on business tourism / MICE

**Trade volumes are expected to be lower in a post-Brexit scenario and, therefore, business travel is likely to be reduced.**

It is harder to gauge the total impacts of changed attitudes and perceptions but we have looked at an extension of recent precedent. The first half of 2018 was characterised by weak business travel and indicated a loss of market share. We have used that as a basis for estimating further sentiment effects.

To date, Visit Britain finds little ‘sentiment impact’ – i.e. Brexit is not affecting interviewees’ decisions to travel to Britain for leisure. Furthermore, most Europeans still see Britain as a welcoming destination and it will be important that all parties continue to spread that message. But, once Brexit has happened, attitudes might change further, especially when combined with the practical realisations of travelling to a non-EU country without a complete set of arrangements in place.

The most significant impact is likely to be on business travel. Historically, business travel has been closely tied to trade volume and investment growth. Trade volumes are expected to be lower in a post-Brexit scenario and, therefore, business travel is likely to be reduced. The MICE travel market is also likely to respond very differently to the leisure market. AMEX Meetings & Events Key Supplier Survey 2015 demonstrates that currency movements have very little impact. Issues such as ease of access to a location (which could be extended to include regulatory requirements) are much more important. Therefore, business travel’s changing patterns might well be driven more by sentiment than exchange rate movements.



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**For UK inbound travel, Tourism Economics believes that negative sentiment might completely wipe out any gains from exchange rates.**

However, business travel will certainly be affected if European companies are not actually doing any business in the UK. The Meetings Industry Association has said that it has already seen negative impacts identified through its benchmarking tool, 'miaTouchstone'.

Tourism Economics has modelled the impact of these 'sentiment-related' impacts and believes that for UK inbound Travel & Tourism they could more than completely wipe out any gains from the exchange rate effect based on recent market share movements.

## Immigration

The UK hospitality and tourism sector is disproportionately reliant on migrant labour and will be significantly affected by the end of free movement. The British Hospitality Association estimates that around 700,000 people currently working in the hospitality sector in the UK are EU nationals. A survey of members of the trade association for the hotel booking agency, apartment and venue community, HBAA, suggests that in the first year after the Brexit vote there was only limited impact on recruitment but that the following year showed a very different picture. In June 2017 only 2.3% of respondents said Brexit vote had had a major impact on staff recruitment. By July 2018 this had risen to 9.6%.

The increased employment costs for businesses will be too much for some parts of the hospitality sector. However, one upside is that it will provide greater incentives for capital investment in improving productivity in the sector. These are potential challenges for the sector in the longer run.

## Replacing EU funding

**Museum funding** – England's museums have received £33 million funding from EU organisations since 2007 via research grants and ERDF funding which is now at risk. International loans of artefacts and artworks could also be affected. This could have a major impact on 'blockbuster' scale exhibitions as these are often planned years in advance and would reduce attractiveness for some museums and destinations.

**Regional funding** - Between 2014 and 2020, both Cornwall and West Wales will receive over €1,000 (equivalent to around £800 at the time but now worth even more) per person from the EU Structural and Investment Fund - similar to that received by Romania and Bulgaria. These regions are much more reliant on EU funding and also much more dependent on tourism as a share of their economies than the remainder of the UK and will be exposed to greater risk in the longer run.

## Passports & visas

Passports will still work. However, in the event of a 'No Deal', UK travellers will need to have a minimum of six months' validity remaining on their passports for travel in the EU. The issue of an EU travel visa for UK tourists has also been raised. However, the UK Government has proposed a reciprocal 'visa free' arrangement. Nevertheless, this proposal involves a Registered Traveller Scheme which has not been agreed, involves additional costs and would definitely be at risk under 'No Deal'.



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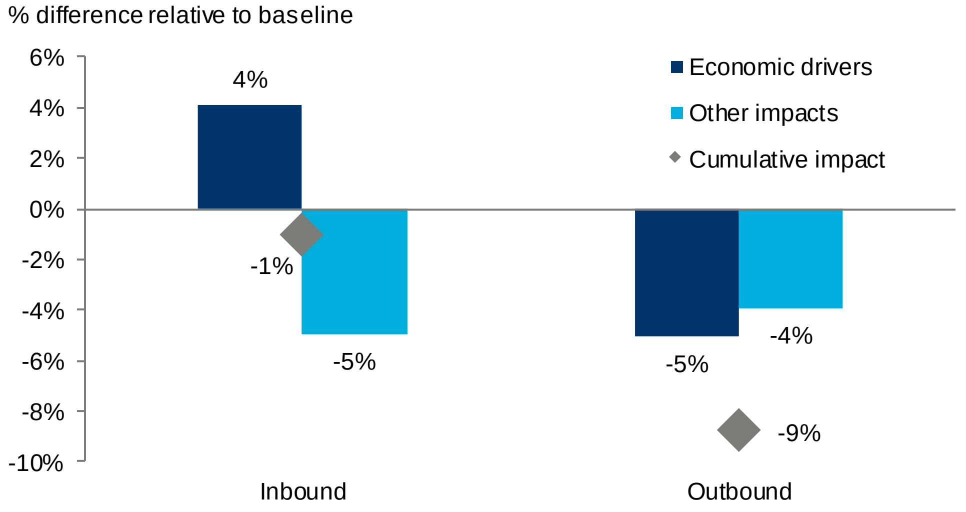
## Estimated impacts

Under a 'No Deal' Brexit, UK inbound Travel & Tourism would benefit from increased price attractiveness. However, our modelling suggests that this could be completely offset in 2020 by a change in sentiment.

**Impact on UK Inbound & Outbound of 'no-deal' Brexit, 2020**

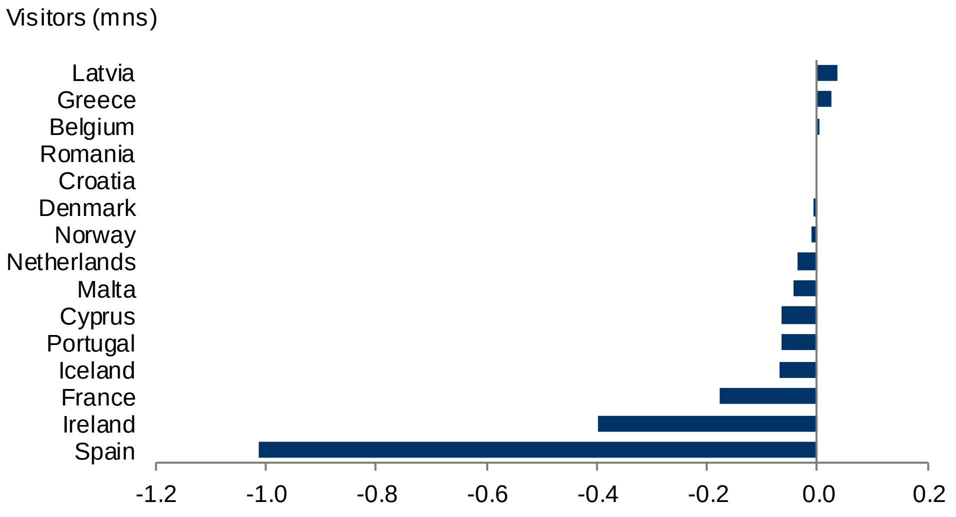



Source: Oxford Economics

UK outbound Travel & Tourism will be impacted negatively on all fronts with large impacts from both the economic drivers, airline disruption and increased passport regulation. Even the economic impacts alone leave a permanent loss to UK outbound travel which is not recuperated in subsequent years. Impacts by destination have been estimated under alternative economic drivers.

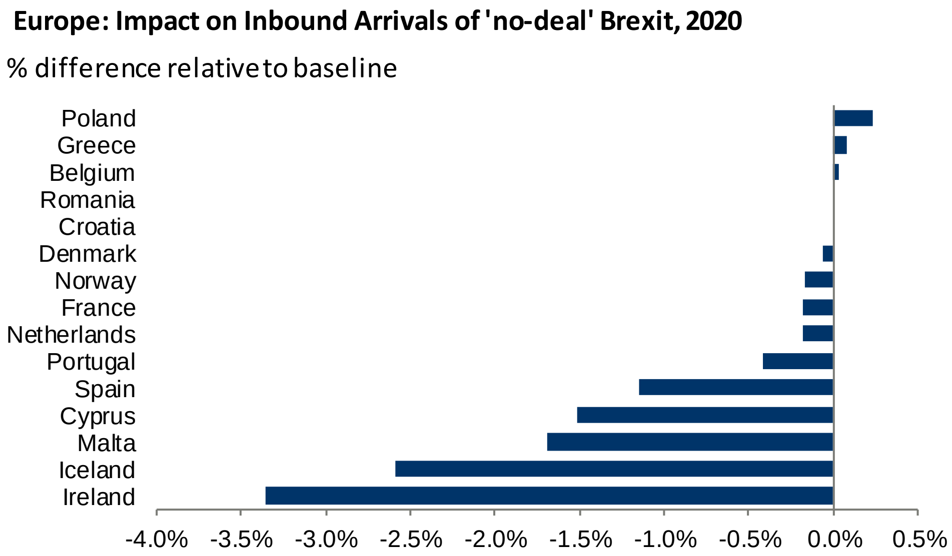
The 5% reduction in UK outbound varies considerably by destination according to reliance on UK demand, and also reliance on potentially offsetting demand increases from longer-haul markets.

**Europe: Impact on Inbound Arrivals of 'no-deal' Brexit, 2020**




Source: Oxford Economics

In volume terms, Spain would be the most heavily affected destination on account of its reliance on UK outbound tourism, losing 1 million arrivals by 2020. In percentage terms, Ireland would take the greatest hit, at more than 3% of arrivals. Other countries which are heavily reliant on UK outbound such as Malta, Cyprus and Portugal, would also experience a significant impact.




Source: Oxford Economics

| | Europe: Impact of 'no-deal' Brexit on Global Arrivals & UK Outbound Travel | | | | | |
|---|---|---|---|---|---|---|
| | 2020 baseline (mns) | | 2020 'no-deal' Brexit (mns) | | % difference in 2020 relative to baseline | |
| | Total Arrivals | Arrivals from UK | Total Arrivals | Arrivals from UK | Total Arrivals | Arrivals from UK |
| **World** | **1,538.5** | **92.9** | **1,538.7** | **88.2** | **0.0%** | **-5.1%** |
| | | | | | | |
| **Europe** | **760.6** | **68.8** | **761.5** | **65.9** | **0.1%** | **-4.2%** |
| Western Europe | 502.2 | 57.9 | 503.0 | 55.8 | 0.2% | -3.8% |
| Eastern Europe | 258.4 | 10.8 | 258.5 | 10.2 | 0.1% | -6.3% |
| Ireland | 11.9 | 5.2 | 11.5 | 4.9 | -3.4% | -5.3% |
| Iceland | 2.6 | 0.3 | 2.5 | 0.3 | -2.6% | -6.1% |
| Malta | 2.6 | 0.7 | 2.6 | 0.6 | -1.7% | -6.9% |
| Cyprus | 4.2 | 1.4 | 4.2 | 1.3 | -1.5% | -6.3% |
| Spain | 88.5 | 19.4 | 87.5 | 18.6 | -1.1% | -4.0% |
| Portugal | 15.3 | 2.2 | 15.3 | 2.1 | -0.4% | -3.7% |
| Netherlands | 19.6 | 2.3 | 19.6 | 2.3 | -0.2% | -3.5% |
| France | 97.5 | 12.1 | 97.3 | 11.7 | -0.2% | -3.6% |
| Norway | 6.6 | 0.3 | 6.5 | 0.3 | -0.2% | -3.6% |
| Denmark | 12.3 | 1.0 | 12.3 | 1.0 | -0.1% | -3.3% |
| Romania | 5.5 | 0.3 | 5.5 | 0.3 | 0.0% | -6.8% |
| Croatia | 18.3 | 0.9 | 18.3 | 0.8 | 0.0% | -6.6% |
| Belgium | 9.4 | 1.1 | 9.4 | 1.0 | 0.0% | -3.3% |
| Greece | 31.9 | 3.0 | 31.9 | 2.9 | 0.1% | -3.4% |
| Poland | 20.7 | 1.6 | 20.8 | 1.5 | 0.2% | -6.2% |

Source: Tourism Economics

Note here that the countries above are the 25 European destinations which are most reliant on UK travel ranked by the Brexit impacts.



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