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EUROPEAN TOURISM 2011 – Trends & Prospects

Quarterly Report - Q4/2011

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM in 2011: TRENDS & PROSPECTS

Quarterly Report (Q4/2011)

A quarterly insights report produced for the Market Intelligence Group
of the **European Travel Commission (ETC)**
by **Tourism Economics (an Oxford Economics Company)**

Brussels, January 2012
ETC Market Intelligence Report

European Tourism in 2011: Trends & Prospects (Q4/2011)

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Tourism Economics (an Oxford Economics Company)
on behalf of the ETC Market Intelligence Group

Photo ©: Bruno Medley - Fotolia.com

Europe's tallest Christmas tree, Lisbon, Portugal.

Foreword

Travel in Europe recovered fully in 2011...

Last year will prove to have been a record year for travel to Europe. International visits are on pace to grow 6% for the year, surpassing the peak set in 2008. The recovery is broad, with nearly every destination posting growth for 2011.

... with airlines and hotels posting strong growth.

Through November, European airlines served 5% more passengers than in 2010 and continue to expand access by adding capacity. Hotels also indicate strong performance with a 3.2% gain in occupancy and a rate increase of 2.7% through November.

However, both Europe and the world are entering a period of economic weakness...

Not surprisingly, travel to European destinations has slowed in recent months. The combination of fiscal austerity and financial market stress brought about by the Eurozone debt crisis is affecting both consumer and business behaviour. And, as discussed in this report, the spectre of a global recession is not an insignificant risk as even emerging markets have begun to slow.

…presenting challenges that will require a concerted response.

As a result, both regional and long haul travel markets face stiff headwinds over the next two years. Tourism Economics now forecasts visits to all of Europe are expected to decline just over 1% in 2012 and with just moderate growth of 0.8% expected for 2013. Countries in the EU are expected to experience the brunt of the contraction, especially Western and Southern Europe.

In consideration, our partnership is all the more important as we navigate the turbulent road head. These challenges require our commitment to work together to promote all of Europe to the world.

We trust you will find the analysis in this report helpful as you track your own destination's performance and seek to anticipate future trends.

Best wishes,

Leslie Vella

Chairman

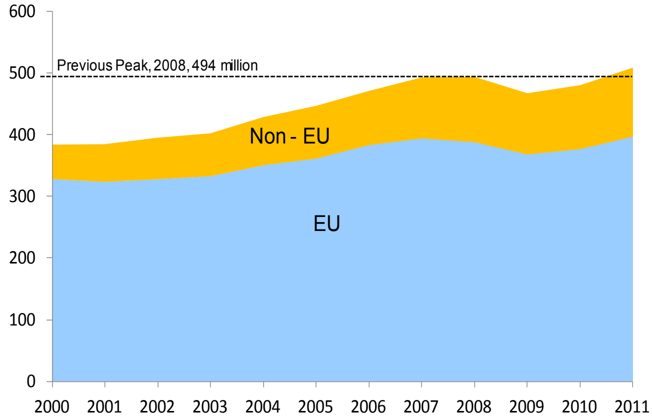
ETC Market Intelligence Group

Executive Summary

- Travel to European destinations in 2011 has exceeded the prior peak set in 2008.
- Impressively, 22 of 23 reporting countries show international visitor growth in 2011, ranging from 3% in the UK to more than 20% in Latvia and Lithuania. And 24 of 26 countries show gains in hotel occupancy in 2011.
- Total international visits are estimated to have surged 6% last year, while hotel occupancy rates rose 3.2%, indicating that domestic demand lagged behind international demand.
- While the travel recovery has been quite robust, signs of eroding gains began to appear, as expected, in the second half of 2011.
- Data on visitation and nights from TourMIS (http://www.tourmis.info/index_e.html) as well as hotel and airline industry data provide a consistent picture of the pullback on growth in recent months.
- Three forces converged to bring about this late-year trend: reversion to the mean from the ash cloud rebound in the first half of the year; the second half of 2010 was relatively stronger than the first half so comparisons in 2011 were to a higher base; and the Eurozone debt crisis began to affect both consumer and business behaviour.
- The financial crisis in the Eurozone has continued to worsen in recent months. Problems in sovereign debt markets have spread from Greece, Ireland and Portugal to Spain and Italy – posing a much more severe threat of global financial contagion.
- If the Eurozone authorities fail to arrest the alarming slide in financial and business confidence, the consequences would be severe. In the event of a Eurozone break-up, GDP could initially fall by around 10% in the exiting countries and the attendant financial disruption would plunge much of the world, including the United States, back into recession.

Europe: Overnight Visitor Arrivals

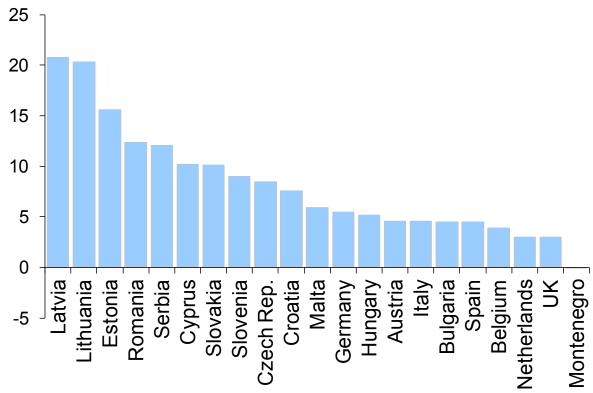
million



Source: Tourism Decision Metrics / UNWTO

Foreign Visits to Select Destinations

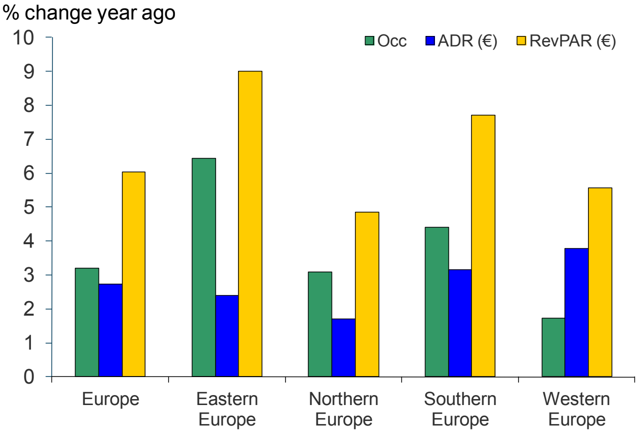
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Hotel Performance, Jan-Nov 2011

% change year ago



Source : STR Global

2011 Tourism Performance Summary

The expected late-year slowdown of travel to Europe came to fruition. Available data for visits and nights, and hotel and airline industry data all point to the same story: the recovery of travel and tourism across Europe is fading. Arrivals and nights growth has tailed off for approximately 75% of destinations. Hotel occupancy in Europe has increased 3.2% through November, but has slipped since August.

2011 Performance, Year to Date									
Tourist Arrivals and Nights						Hotel Performance, Jan-Nov			
International Arrivals			International Nights			Hotel Occupancy		Hotel ADR (LCU)	
Country	% ytd	to month	Country	% ytd	to month	Country	% ytd	Country	% ytd
Latvia	20.8	Sep	Bulgaria	19.9	Sep	Iceland	18.6	Turkey	29.8
Lithuania	20.3	Sep	Lithuania	19.5	Sep	Estonia	17.6	Lithuania	15.8
Estonia	15.6	Oct	Latvia	17.7	Sep	Lithuania	13.9	Estonia	11.5
Romania	12.4	Oct	Estonia	17.2	Oct	Slovakia	9.3	France	6.6
Ireland Rep	12.3	Jun	Sweden	14.7	Nov	Romania	8.5	Poland	6.5
Serbia	12.1	Nov	Spain	13.7	Nov	Czech Republic	6.7	Iceland	5.8
Cyprus	10.2	Nov	Serbia	13.6	Nov	Spain	5.7	Portugal	5.7
Slovakia	10.1	Sep	Montenegro	12.0	Nov	Hungary	5.5	Ireland	5.2
Slovenia	9.0	Oct	Portugal	11.2	Oct	Malta	5.5	Netherlands	5.0
Czech Rep.	8.5	Sep	Romania	10.5	Oct	Russia	5.4	Romania	4.4
Croatia	7.6	Aug	Finland	10.4	Oct	Poland	5.3	Austria	4.1
Malta	5.9	Nov	Slovenia	9.5	Oct	Norway	5.3	Belgium	3.7
Germany	5.5	Nov	Czech Rep.	8.9	Sep	Ireland	5.1	Italy	3.5
Poland	5.5	Jul	Luxembourg	7.3	Oct	Italy	4.5	Russia	3.4
Hungary	5.2	Nov	Croatia	6.4	Aug	Finland	3.0	Denmark	3.4
Austria	4.6	Nov	Slovakia	6.3	Sep	Greece	3.0	United Kingdom	3.3
Italy	4.6	Sep	Cyprus	5.7	Oct	Portugal	2.9	Greece	2.9
Bulgaria	4.5	Nov	Germany	5.5	Nov	Germany	2.9	Malta	2.8
Spain	4.5	Nov	Poland	5.1	Jul	Denmark	2.0	Finland	2.7
Belgium	3.9	Aug	Malta	4.7	Nov	United Kingdom	1.7	Norway	2.1
Netherlands	3.0	Dec	Netherlands	3.0	Dec	Belgium	1.3	Germany	1.3
UK	3.0	Nov	Norway	2.8	Nov	Netherlands	1.2	Spain	1.0
Montenegro	-0.1	Nov	Denmark	2.7	Nov	France	0.9	Hungary	0.7
			Hungary	2.3	Nov	Austria	0.4	Switzerland	0.3
			Belgium	1.7	Aug	Switzerland	-0.1	Czech Republic	-0.7
			Austria	1.4	Nov	Turkey	-0.8	Slovakia	-1.3
			Switzerland	-3.3	Nov				

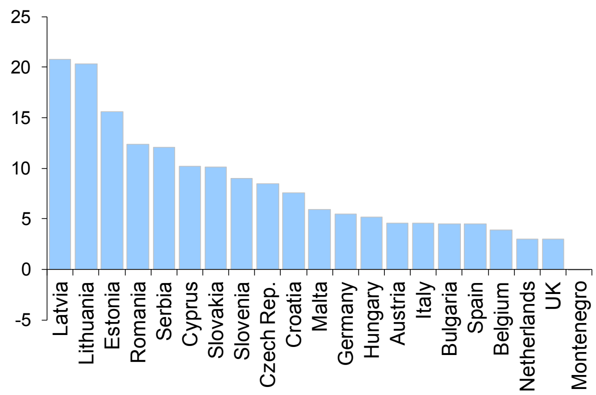
Sources: TourMIS, ETC, STR Global

Measures used for nights and arrivals vary by country

Based on data available through 16 January, 2012.

Foreign Visits to Select Destinations

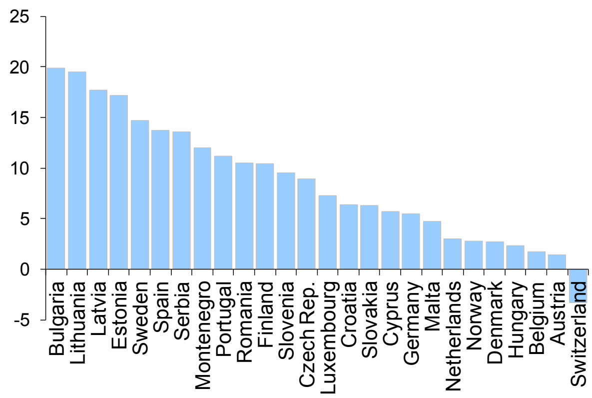
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Foreign Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago



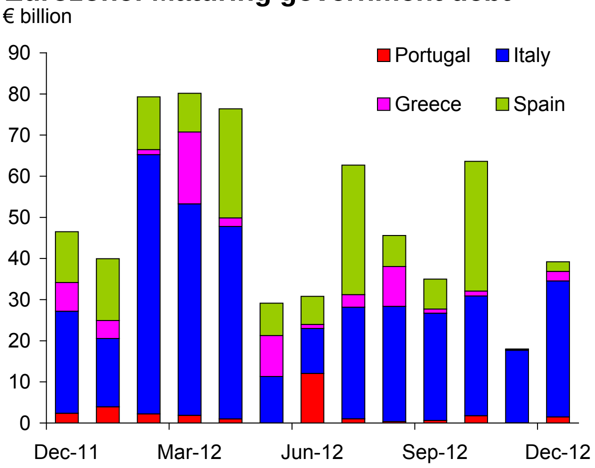
ource : TourMIS, ETC, *date varies (Aug-Dec) by destination

Global Outlook: Will the Eurozone crisis sink the global economy?

The financial crisis in the Eurozone has continued to worsen in recent months, despite a series of attempts by EU leaders to stem it. Problems in sovereign debt markets have spread from Greece, Ireland and Portugal to Spain and Italy – posing a much more severe threat of global financial contagion.

Spain and Italy's bond yields have risen sharply, to around 7% in the case of Italy – a level which is unsustainable in the medium-term – despite significant bond purchases by the ECB. Moreover, Italy and Spain need to refinance a very large volume of maturing government debt in the coming months and rolling this over will be very difficult unless market conditions improve substantially. Given the size of Italian and Spanish debt markets, the consequences of a failure to rollover this debt would be dramatic – in our view this 'rollover risk' now poses the single most serious threat to global financial stability.

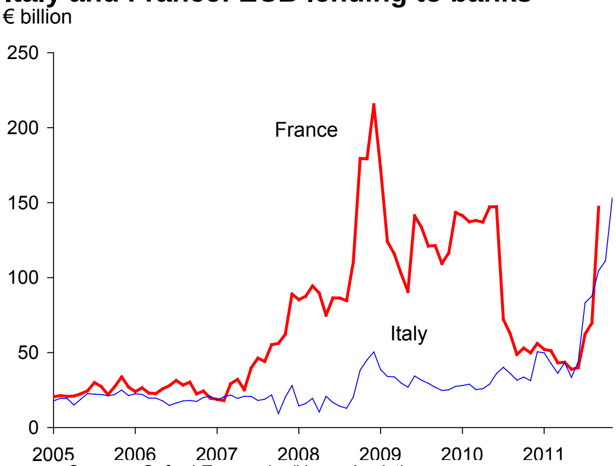
Eurozone: Maturing government debt



Source : Bloomberg

The financial crisis has also spread beyond the sovereign bond markets to broader Eurozone financial markets. The banking sector has come under particularly acute pressure, in part due to its exposure to sovereign debt. Funding pressures have become severe and medium and long-term debt issuance drying up. As funding markets have dried up, banks have become increasingly dependent on the ECB.

Italy and France: ECB lending to banks



Source : Oxford Economics/Haver Analytics

Banks in the four smaller 'peripheral' countries – Greece, Ireland, Portugal and Spain – have now borrowed €380 billion from the ECB in loans. In Greece, these loans are now funding almost a quarter of the banking system's assets. And this problem has spread beyond this group of countries as well to Italy and France, where the use of loans from the ECB has skyrocketed in recent months with banks in two countries now owing around €150 billion each.

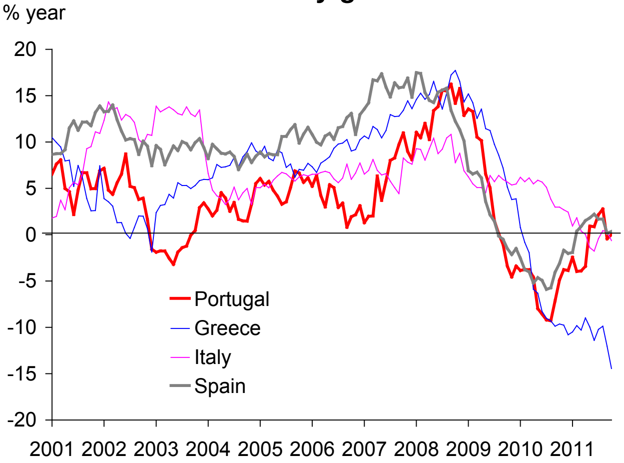
Against this background, there is a serious risk of significant bank failures. In 2011, Franco-Belgian bank Dexia failed as its short-term creditors pulled funding and this pattern could easily be repeated. Eurozone banks need to rollover some €600 billion of wholesale financing in 2012, which could prove very difficult indeed in current market conditions.

Disturbingly, there are also signs that depositors are losing faith in banks in some countries. In Greece, this process has been underway for some time – around 25% of private sector deposits have fled the banking system since the end of 2009. But these outflows have accelerated in recent months, and there have also been significant outflows in other countries including Ireland and, perhaps most worryingly, Spain. If unchecked, this process poses grave risks to financial and economic stability in the countries concerned.

The financial crisis has also spilled over to the real economy. In response to funding pressures, banks are reacting by pulling back from lending and/or accelerating deleveraging. Heightening risk aversion has also seen a notable widening in corporate bond spreads, raising borrowing costs in the economy.

The financial crisis in the Eurozone is now so severe that it threatens the integrity of the Eurozone itself. There are several ways in which the current situation could lead to one or more current Eurozone members exiting the euro: bank runs overwhelming the authorities, austerity fatige (the combination of fiscal austerity plus monetary collapse might lead a country to decide that growth can only be restored outside the Eurosystem),.donor fatigue (public finances are set to come under renewed pressure and this may lead to growing reluctance to finance bailouts), and Spain and Italy fail to roll over maturing debt.

Eurozone: Broad money growth



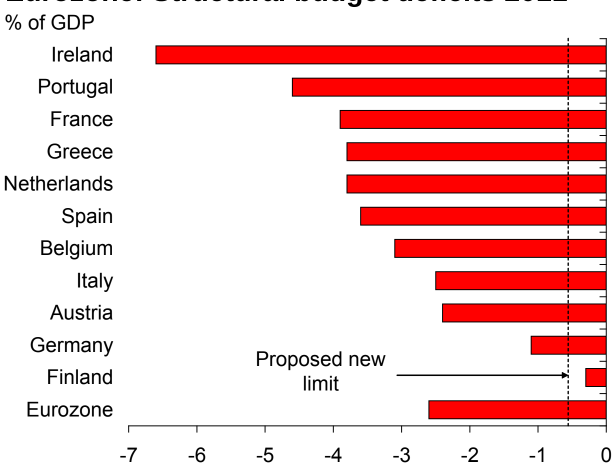
Source : Oxford Economics/Haver Analytics

EU leaders have attempted to stem the crisis in a series of summits, with the latest on December 8-9. This summit outlined a series of measures, most of them aimed at increasing fiscal coordination in the Eurozone. The main measures proposed were as follows: deficit limits, tougher enforcement mechanisms, early introduction of the European Stability Mechanism (ESM), and IMF loans.

Overall, this package of measures looks at best disappointing and at worst wholly inadequate, in the opinion of Oxford Economics. The new 'fiscal compact' of deficit limits backed up with penalties and correction mechanisms looks little more than a rehashed version of the failed Stability and Growth Pact (SGP).

Most importantly, what is being proposed is not the 'fiscal union' many market participants have been hoping for – and believe is necessary – but instead a 'stability union' based on trying to enforce austerity across the Eurozone. The difference between the two concepts is profound. A genuine fiscal union would involve the Eurozone countries taking joint responsibilities for each others' debts and should also include a system of fiscal transfers to redistribute funds from stronger to weaker areas of the currency union. These items are wholly absent from the latest proposals.

Eurozone: Structural budget deficits 2011



Source : Oxford Economics/OECD

In the absence of such mechanisms, the new proposals could actually increase the risk of sovereign failures in the Eurozone. Currently, all the Eurozone member states except Finland have structural deficits that exceed the new 'benchmark', many by a very substantial margin.

If all countries, including the more fiscally sound ones, try to meet the new rules this will add to the deflationary pressures in the Eurozone. For the troubled ‘peripheral’ countries, escaping their current debt traps would be harder still as growth in the rest of the Eurozone weakened.

Taking a longer-term view, if such proposals were eventually entrenched in the Eurozone, they would risk creating a permanent pro-cyclical bias in fiscal policy. Even countries with relatively low debt levels could be obliged to tighten fiscal policy in recessions. To avoid this, significant budget surpluses would have to be run in good times. It is difficult to imagine such a system operating in practice - the proposed ‘fiscal compact’ simply looks unworkable.

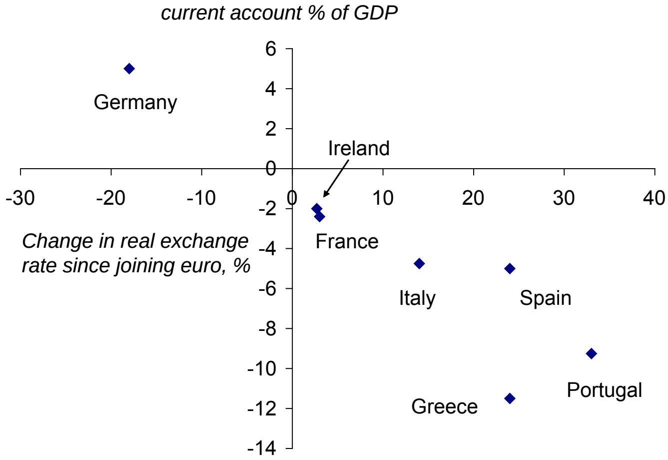
Other aspects of the latest proposals also look weak. The early introduction of the ESM does not amount to a great deal. While this supposedly means there will be two bailout funds running at once, the real question is how much firepower these funds can bring to bear. At present, the answer would appear to be ‘not nearly enough’. The apparent commitment to no longer pursue private sector restructuring if Eurozone states lose access to capital markets is also less than it seems. Most worrying of all, perhaps, is the absence of any measures to directly tackle the potential sovereign funding crunch at the beginning of 2012. The new fiscal compact, apart from looking structurally weak, may not come into force for a long period. It can do little to ease current pressures on the Italian and Spanish bond markets. Likewise, the EFSF/ESM are simply inadequate for this purpose.

The only aspect of the new proposals that might help is the proposed bilateral loans to the IMF. But it is not clear whether these are of sufficient scale or even whether they will necessarily be available to be on-lent to Spain and Italy if necessary – there are potential objections to this from the US and emerging countries.

Two policies that could perhaps tackle the short-term crisis would be a substantial mutualisation of Eurozone debt among the member states – a real fiscal union – or large-scale bond purchases by the ECB. But both options still appear to face major political obstacles.

If the authorities were to fail to prevent a Eurozone split, the consequences for economic and financial stability in Europe and beyond would be severe – especially in the near-term. The introduction of new currencies in the exiting countries would probably require dramatic expedients including the temporary closure of banks and financial markets, deposit freezes and even capital controls. This would cause huge economic disruption. There would also be substantial costs related to the redenomination of contracts from euros into the new currencies, including legal costs.

Eurozone: Competitiveness and current account



Source : Oxford Economics/Haver Analytics

Big swings in currencies would also be likely. Nominal exchange rates can be expected to move by even more than this. We would expect euro exiting countries to engage in an expansionary monetary policy to refinance banks and cover their budget deficits, which together with the initial currency depreciation would lead to a surge in inflation. This in turn would require a further round of nominal depreciation to get the required real depreciation. On top of all this, euro exiting countries would almost certainly see large-scale capital outflows initially, leading their exchange rates to 'overshoot' fair value.

The recent experience of Iceland is probably instructive in this regard – there, inflation rose to double digits in 2008 and 2009 as the currency and banking sector collapsed. The nominal effective exchange rate has depreciated by around 50% since end-2007 and the real exchange rate by around a third. Similar outcomes would be likely in countries such as Greece and Portugal if they exited the euro.

In the case of Greece, arguably, euro exit has been considered a genuine risk for a significant period of time now. Even if euro exit in Greece might perhaps be less traumatic for Greece than currently assumed, we have little doubt that a multiple exit of countries from the Eurozone in the near future would have a substantial negative impact on the world economy.

Our modelling using the Oxford Global Model suggests that in the event of a Eurozone split involving the exit of Greece, Portugal, Ireland, Spain and Italy, output would be likely to fall by a double digit amount in most of the exiting countries initially. A recovery would be unlikely to get underway for 2-3 years after exit. In the Eurozone as a whole, GDP could fall as much as 10% below the level in our 'baseline' economic forecast after two years – a severe recession.

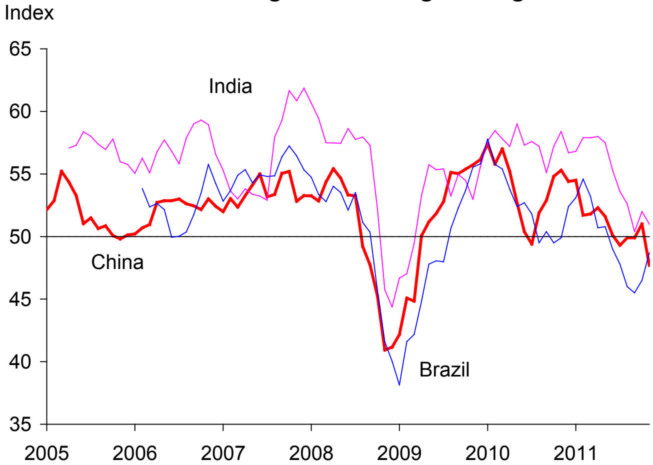
Eurozone break-up would create a financial shock that would be transmitted worldwide by the interconnectedness of banking systems and financial markets, so that even the large emerging countries would not be immune.

A Eurozone breakup would also negatively affect credit conditions and asset prices in the US by inflicting significant financial losses on some US financial institutions while sending others into a much more risk-averse posture. Such an outcome would likely bring to an end the relatively encouraging recent run of economic indicators in the US. Despite the more positive tone to recent data, the US recovery remains fragile thanks to chronic weakness in housing and an overhang of household debt that is restraining a consumer recovery. Our modelling suggests a Eurozone breakup would see the US re-enter recession in 2012 with no recovery until 2014.

The implications of a Eurozone break-up for the world economy have been further worsened by the recent slowdown of the key emerging economies. Brazil's growth slumped to zero in Q3 and India has seen a sharp slowdown in industrial output investment. The latter development is especially worrying given the importance of investment in fuelling India's economic 'take off' in recent years. With inflation still stubbornly high, India is also constrained in terms of the policy response it can bring to bear to tackle this slowdown.

The slowdown in the emergers has also spread to China. The November PMI surveys pointed to

BRICs: Manufacturing Purchasing Managers' Index



Source : PMI/Markit

contracting activity both in manufacturing and services, the latter implying that economic weakness might be spreading from the export dependent sectors and the property/construction area to what has until now been a very robust domestic market.

Although policy settings in the main emergers are now shifting from restrictive to more stimulative settings, it is unclear whether this can prevent a relatively weak period of growth over the next few quarters. As a result, this group now look vulnerable themselves to further financial shocks as well as less able to 'carry' the global economy.

For some of the smaller emergers, the crisis poses serious risks to financial stability. This is especially the case for countries heavily dependent on foreign capital inflows to fund banking sectors and current account deficits. A sharp contraction in global risk appetite could rapidly suck capital out of such countries, tightening domestic liquidity conditions and destabilising currencies. The first signs of this are already be visible with key emerging currencies having depreciated by up to 20% against the dollar since July.

This would be a repeat of the situation in 2008-2009 which saw serious problems of this kind in countries such as Russia and Hungary. Given their close links with the Eurozone, the developing countries of Central and Eastern Europe – including Turkey - would once again probably be most at risk.

Conclusion: World economy at a dangerous juncture

As 2012 commences, the global economy is therefore at a dangerous juncture. The deteriorating picture in the Eurozone poses a severe threat to global financial stability and the progress of the world economic recovery. Radical changes in policy look necessary to preserve the Eurozone, including a much expanded effort by the ECB. In the absence of these, other global economies may have to consider major policy shifts themselves to ease the economic fallout.

These would likely involve an extension of the expansionary monetary policy approaches seen since 2009, but a shift toward more unorthodox approaches can also not be ruled out. These could include heavy exchange rate intervention to hold down or weaken currencies (already seen in 2011 in Switzerland and to a much lesser extent in Japan), and an extension of asset purchase programmes to asset classes such as residential mortgages.

More damagingly, protectionism and exchange controls could also make a significant comeback, as could 'financial repression' – government action to obtain below-market financing costs for debt issuance. In the past, this was generally achieved through a mixture of regulation of domestic financial institutions and exchange controls. In the modern context, this might be replaced or supplemented by 'prudential' rules directing institutions toward purchasing government debt. The resurfacing of such approaches would unravel much of the globalisation of recent years.

Recent Industry Performance

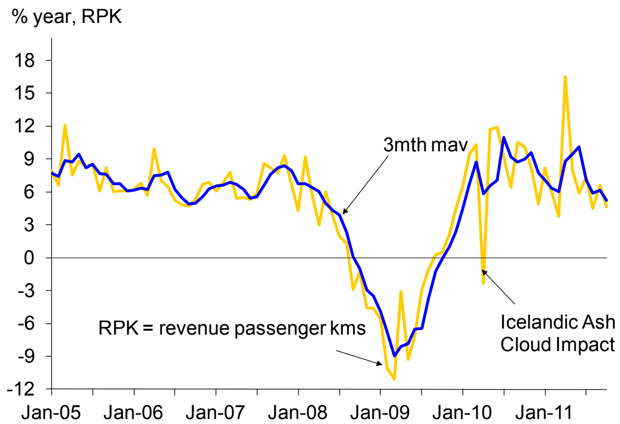
After the rebound, slowdown evident

- Both the hotel and airline industries posted a strong rebound from the ash cloud shutdowns of April 2010, inflating year-to-date numbers in the early part of the year. Unsurprisingly, data from May onward show slowing from these peak numbers as performance converged with prevailing trends.
- Comparing the data for September-November with June-August shows that, indeed, industry performance slowed in the latter portions of the year.
- Still, the pace of expansion yielded a strong 2011 in both the hotel and airline sectors even when discounting for the April rebound.

Air Transport

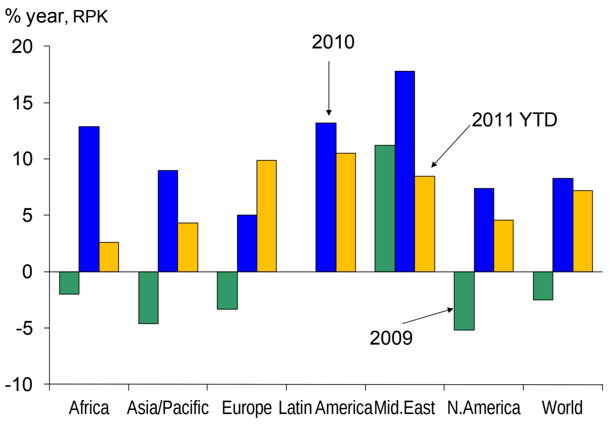
Global air passenger traffic continues to be a strong performer into the fourth quarter of 2011. However, the pace of growth has moderated in the six months leading up to October. October's 4.6% growth in Revenue Passenger Kilometers (RPK) was the lowest it had been in nearly nine months. Still, RPK was up a robust 7.2% for the January-October period. Load factors continue to ease as carriers increase capacity at a faster pace than demand.

International air passenger traffic growth



Source: IATA

International air passenger growth by region



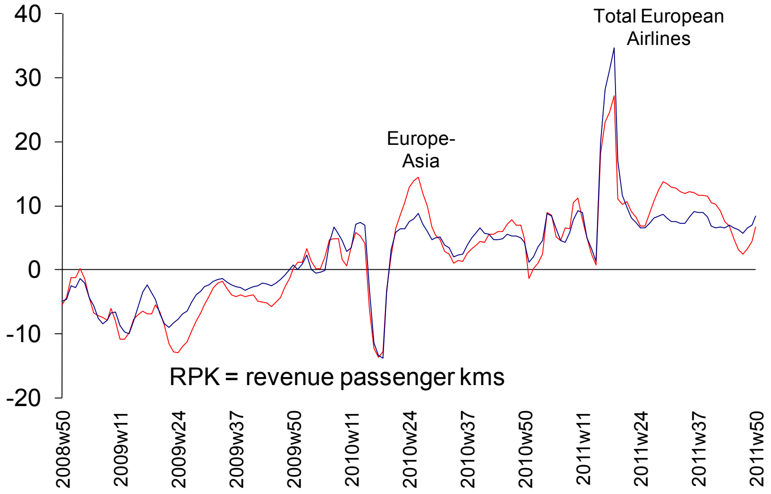
Source: IATA

While every region of the world has experienced growth, a slowdown is evident in all but Africa and the Middle East. Growing at 2.6% for the year through October, Africa is recovering from this past spring's political upheaval in North Africa. Similarly, Middle Eastern routes have held fairly steady in recent months, averaging growth of 8.5% through October. Latin American routes fell below double-digit growth for the first time this year in August and October but still averaged over 10%. Europe was just behind, averaging nearly 10% for the year through October. While year to date comparisons for North America show an increase of 4.6%, the slowdown has been most apparent there. Granted the region experienced robust growth in the same period of 2010, but North American routes exhibited the weakest performance in August through October, posting a decline in October.

Weekly data from the Association of European Airlines shows some evidence of slowing. However, growth has remained fairly robust with weekly RPK averaging 7.2% over the 14 weeks to mid-December, compared to 8% the prior 14 weeks. Asian routes have tended to be t he weakest over this period. Performance has also been more volatile over this period, that is, the weekly growth rates have exhibited greater fluctuations which typically occur around turning points. That said, improved performance was posted in the opening two weeks of December.

European airline passenger traffic

RPK, 4 week moving average, % change year ago

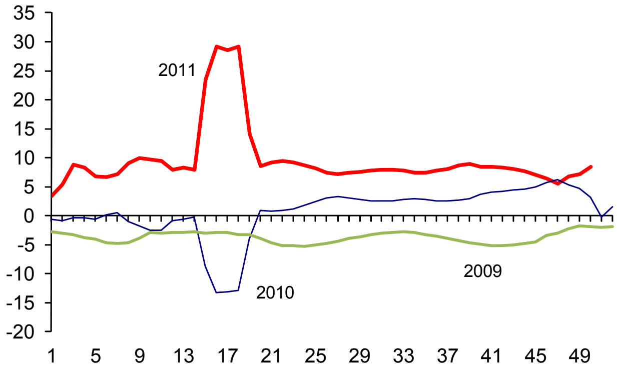


Source: AEA

Load factors declined only fractionally over the 14 weeks to mid-December compared to the same period in 2010. While airlines continue to boost capacity, the rate has slowed and is converging toward the growth in demand. This result is beneficial to the tourism market on two fronts as it provides both continued access to Europe while at the same time keeps pricing competitive.

European airlines capacity

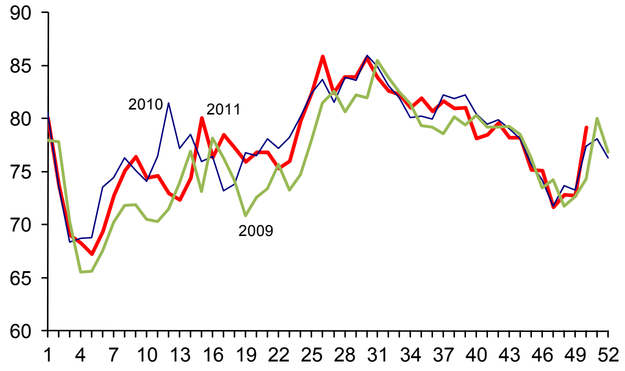
4 week MA, Available Seat Kilometres (ASK), % change year ago



Source: AEA

European airlines passenger load factor

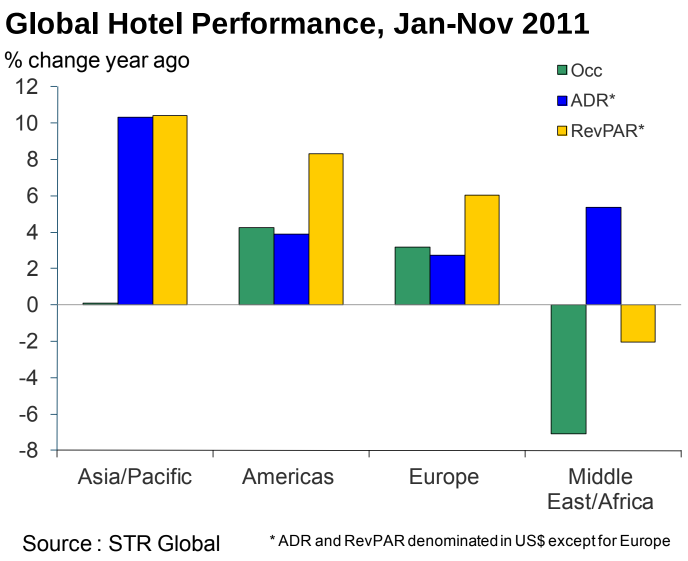
weekly load factor



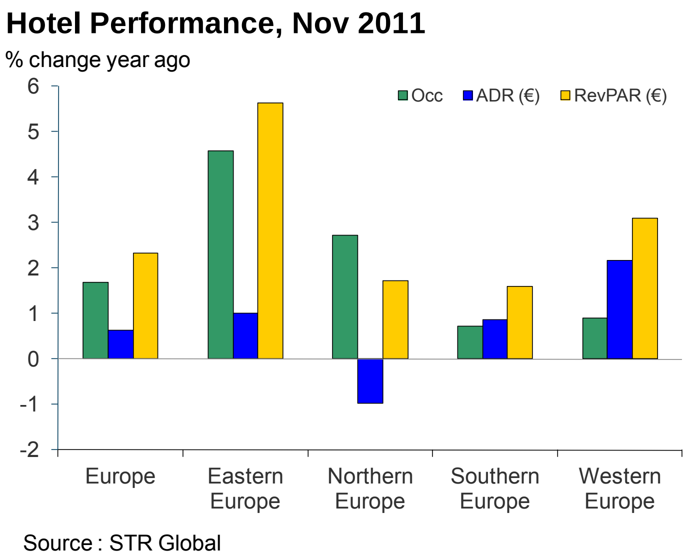
Source: AEA

Accommodation

The hotel sector enjoyed broad based growth in 2011. Demand, measured by occupancy rates, increased in the Americas and Europe by 4.2% and 3.2%, respectively. Asian occupancy rates held steady while rates surged 10.3%. However, hotel demand and ADR growth are showing initial signs of softening.



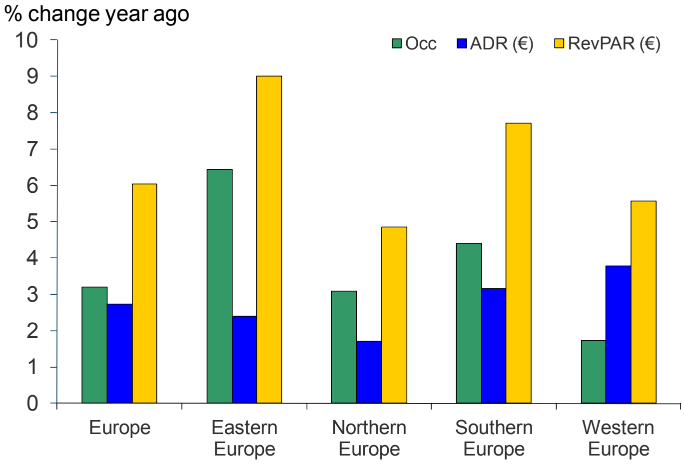
Across Europe, occupancy and ADR have continued to improve through November 2011. However, growth was more muted in November as comparisons to strong growth in 2010 also had an effect. Occupancy rates within Europe increased 1.7% in November, led by Eastern Europe at 4.6% while both Southern and Western Europe occupancy rates rose less than 1%. ADR growth slowed to 1.7% as well. Western Europe had rate increases of 3.3% while Northern Europe barely surpassed 2010 rates gaining only 0.1%.



Through November 2011, occupancy was up 3.2% for the whole of Europe. Occupancy gains have been strongest in Eastern and Southern Europe and Northern Europe has kept pace with the average. While rates in Western

Europe have been particularly buoyant, all regions have shared in the rebound of rates. Thus, Revenue per available room (RevPAR) has been strong across Europe, averaging 6.0% for the first eleven months of 2011.

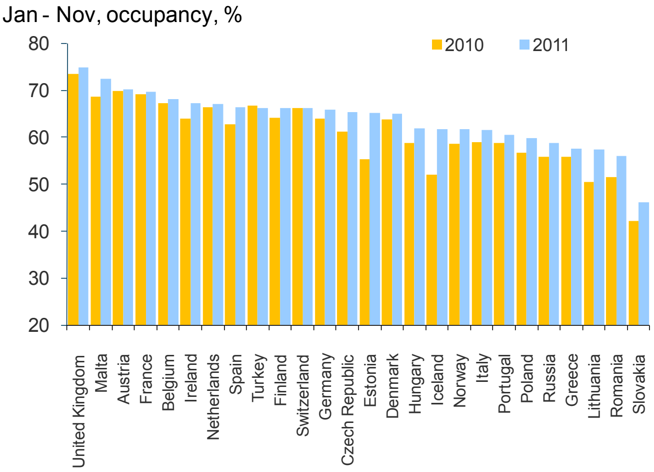
Hotel Performance, Jan-Nov 2011



Source : STR Global

January-November comparisons now show just two countries (Switzerland and Turkey) trailing 2010 occupancy rates. However, it should be noted that European occupancy gains are becoming more subdued. Of the countries reporting data to STR Global, occupancy rates in 23 o f 28 countries have started to level off.

Hotel Occupancy Rates



Source : STR Global

ADR through November remains higher than in 2010 for all countries except the Czech Republic and Slovakia. However, over half of the countries reporting show ADR growth decelerating since August, as 6 countries (Greece, Iceland, Slovakia, Spain, Switzerland and the UK) reporting ADR declines in November. Despite the recent pullback, 2011 will turn out to be a positive year for hoteliers. RevPAR for all counties is in positive territory through November as rate increases have buoyed revenues, even in those countries with weak occupancy growth.

Key Source Market Performance

A robust recovery giving way to modest growth

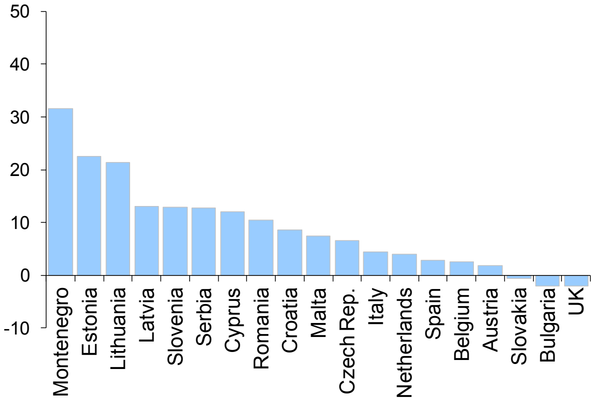
- Early 2011 strength is shifting into tempered growth across key source markets. Nevertheless, travel from Europe's key source markets has been quite robust.
- With double-digit performance, Russia has been a star performer.
- Japanese travel to Europe has continued to recover as 2011 progressed.

Key intra-European markets

German travel has slowed in recent months to just over half of reporting destinations while core markets for German travellers such as Austria, Italy and the Netherlands have benefited. Still, German arrivals are up in over 80% of reporting destinations for the year.

Visits from Germany to Select Destinations

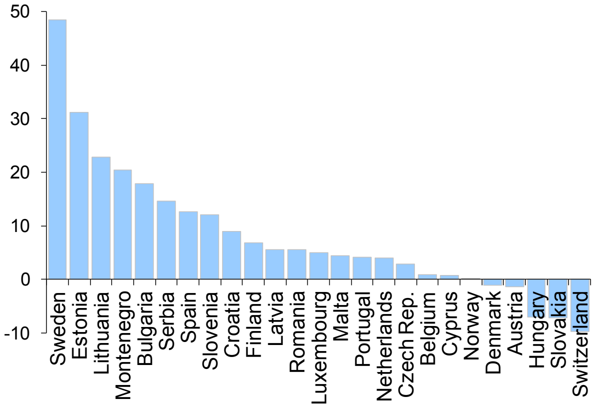
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

German Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago

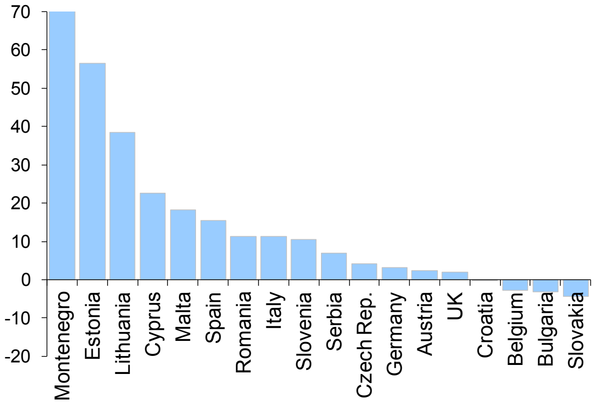


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Similarly, just under half of reporting destinations experienced a slow down in Dutch arrivals over recent months. But again, nearly 80% of markets report an increase in arrivals for the year and 64% report an increase in guest nights.

Visits from Netherlands to Select Destinations

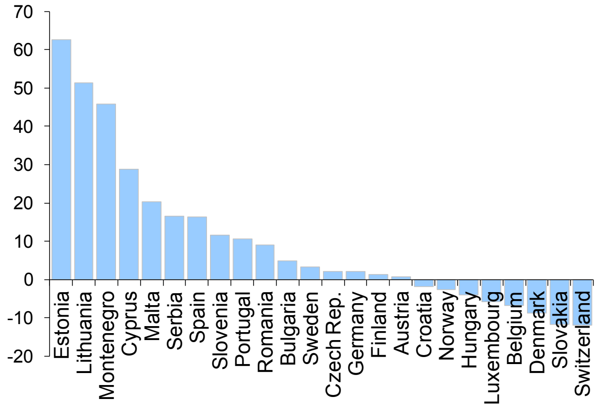
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Netherlands Nights in Select Destinations

2011, year-to-date*, % change year ago

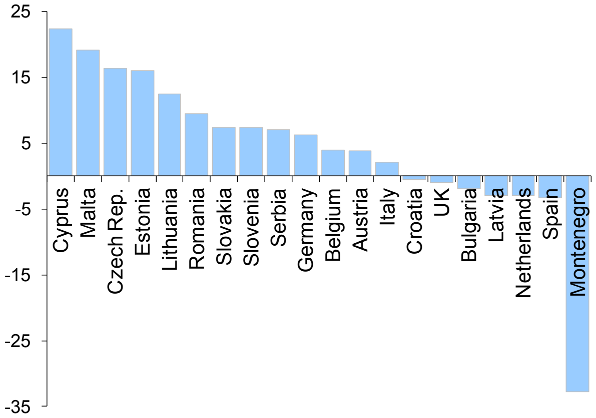


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

French travel has been more mixed, with 16 of 22 destinations reporting an increase in French arrivals in 2011 while over half have experienced slowing growth as the year progressed. Yet, French visitors are staying longer in over half of reporting destinations than in 2010.

Visits from France to Select Destinations

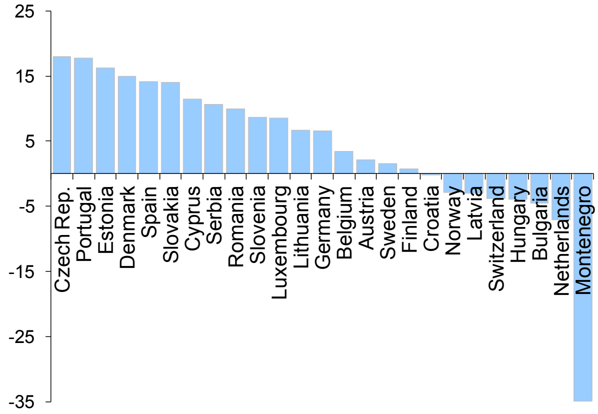
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

French Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago

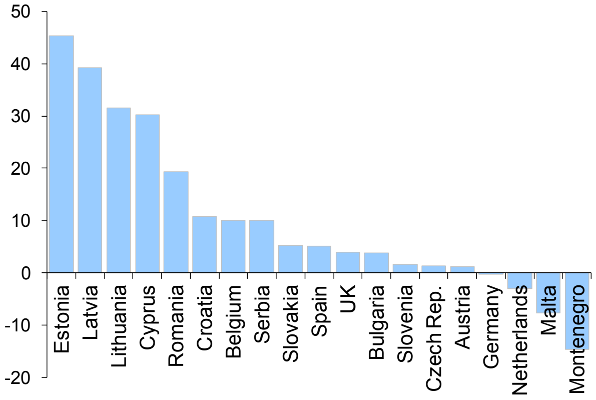


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Italian traveller trends have also been mixed with signs of slowing in recent months. Of reporting destinations, 14 of 20 show slowing arrivals growth with four markets now reporting declines for 2011. Length of stay has also decreased broadly, with only three destinations showing an increase of length of stay for the year.

Visits from Italy to Select Destinations

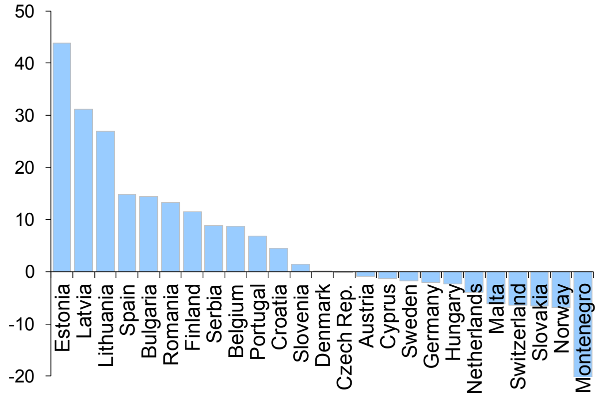
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Italian Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago

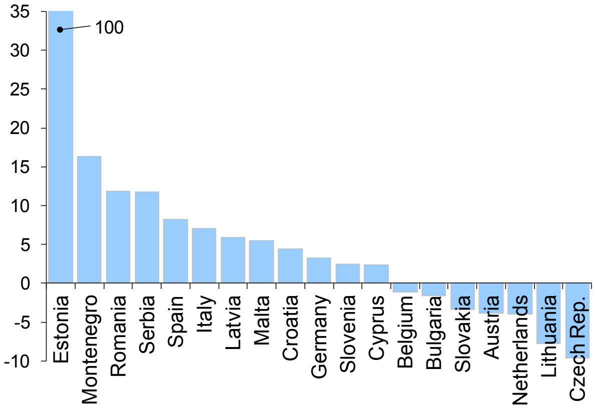


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Travel from the UK remains mixed but positive on balance. While over 60% of destinations report an increase in arrivals, just of 50% report an increase in nights of British travellers. British travellers are also spending less time in a majority of destinations. British travel has slowed since our last report in more than half of reporting destinations.

Visits from UK to Select Destinations

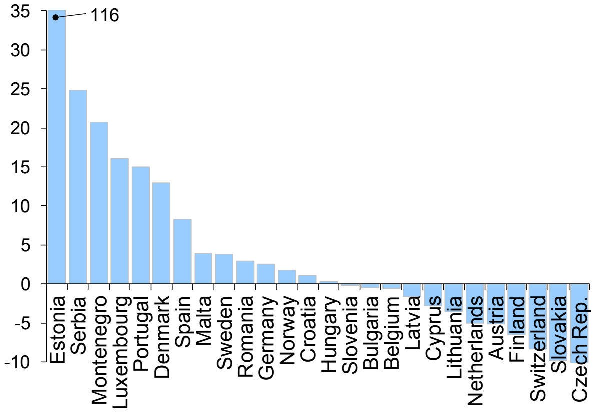
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

UK Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago

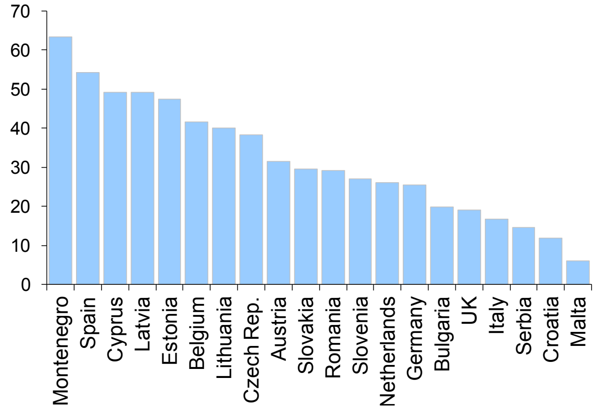


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Russia remains the top performing source market for European destinations. Growth in Russian arrivals is reported in every destination for 2011. More impressive is that all but one destination has hosted at least 10% more Russian visitors in 2011. On balance, length of stay appears slightly lower for the year, but has actually expanded for most destinations over recent months.

Visits from Russia to Select Destinations

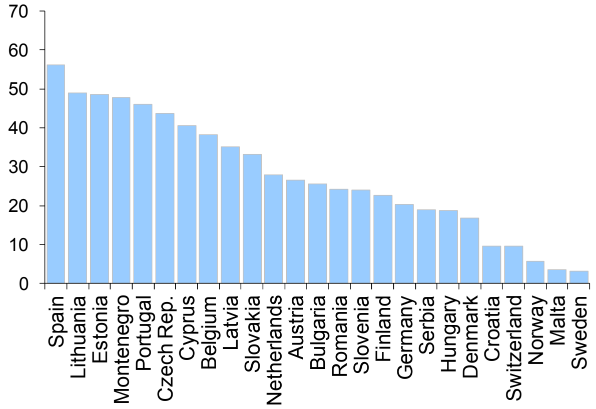
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Russian Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago



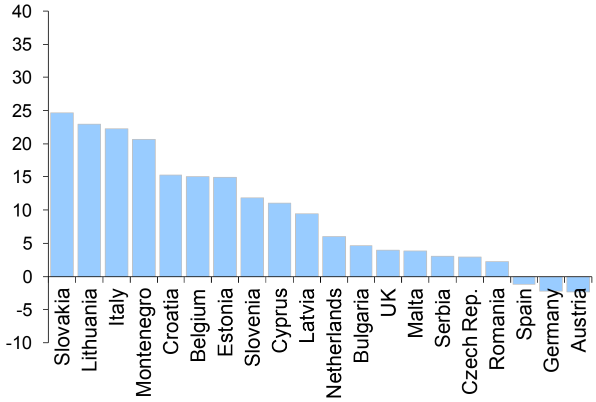
Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Non-European markets

Travel from the US has increased for over 80% of destinations in Europe during 2011. However, volume and length of stay have slowed in recent months across 80% of destinations.

Visits from US to Select Destinations

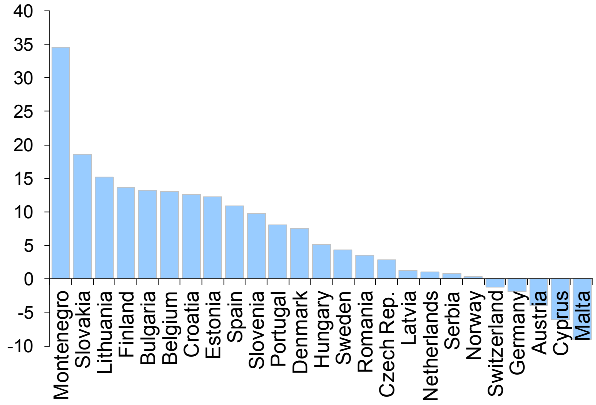
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

US Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago

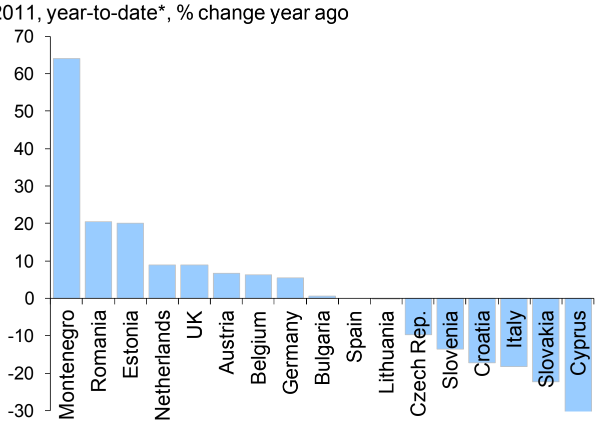


Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

There continues to be a rebound in Japanese travel after the catastrophic earthquake, tsunami, and nuclear disaster in early 2011. Japanese arrivals and nights show strengthening growth in a majority of destinations. Nearly half of European destinations are reporting growth for the year.

Visits from Japan to Select Destinations

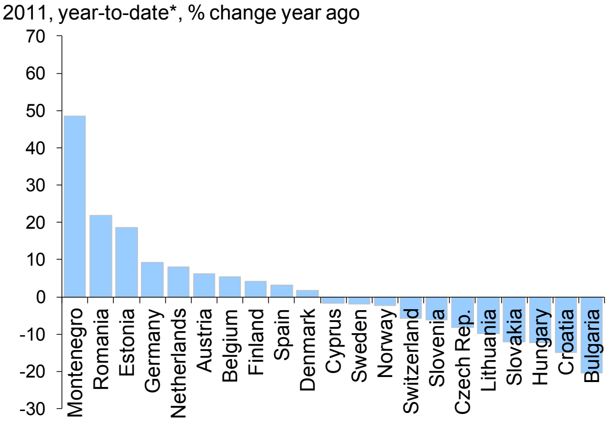
2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Japanese Visitor Nights in Select Destinations

2011, year-to-date*, % change year ago



Source : TourMIS, ETC, *date varies (Aug-Dec) by destination

Global Tourism Forecast Summary

Tourism Economics' global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of the Tourism Decision Metrics (TDM) model, which is updated in detail three times per year. Full origin-destination country detail is available online to subscribers.

TDM Visitor Growth Forecasts, % change

	Inbound*					Outbound**				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
World	**-4.0%**	**6.3%**	**4.6%**	**1.3%**	**2.5%**	**-2.4%**	**7.2%**	**5.3%**	**1.8%**	**2.7%**
Americas	**-4.9%**	**6.4%**	**4.4%**	**2.1%**	**3.5%**	**-2.8%**	**6.7%**	**5.3%**	**2.2%**	**3.2%**
North America	-5.8%	6.6%	3.5%	0.7%	3.4%	-3.3%	5.7%	3.7%	0.8%	2.6%
Caribbean	-2.8%	2.9%	3.7%	3.1%	3.2%	-2.3%	3.4%	3.8%	3.9%	5.7%
Central & South America	-3.6%	7.9%	7.5%	5.6%	3.9%	-1.0%	11.8%	11.4%	6.9%	4.5%
Europe	**-5.4%**	**2.8%**	**6.0%**	**-1.1%**	**0.8%**	**-4.5%**	**3.5%**	**4.5%**	**-0.2%**	**1.5%**
EU	-5.2%	2.3%	5.4%	-1.3%	0.1%	-4.4%	0.6%	4.4%	-0.4%	1.7%
Non-EU	-6.2%	4.4%	7.9%	-0.3%	3.1%	-4.7%	14.8%	5.1%	0.6%	1.1%
Northern	-5.2%	0.7%	6.1%	1.8%	0.4%	-12.4%	-1.8%	5.4%	-0.8%	1.1%
Western	-3.0%	3.3%	2.6%	-1.6%	-0.5%	1.0%	1.5%	3.6%	-1.1%	0.9%
Southern/Mediterranean	-3.7%	2.8%	7.6%	-2.3%	1.1%	2.4%	7.1%	2.1%	-0.8%	0.3%
Central/Eastern	-11.5%	3.1%	8.2%	0.0%	2.2%	-8.7%	7.6%	7.0%	1.8%	3.5%
- Central & Baltic	*-9.4%*	*3.9%*	*8.2%*	*-0.5%*	*0.8%*	*-11.2%*	*-0.4%*	*8.6%*	*3.1%*	*6.4%*
Asia & the Pacific	**-1.5%**	**12.7%**	**5.9%**	**5.5%**	**4.8%**	**-0.2%**	**12.9%**	**5.3%**	**4.5%**	**4.8%**
North East	-2.9%	13.8%	2.3%	6.8%	5.7%	-0.9%	11.1%	4.3%	4.5%	4.6%
South East	0.8%	12.3%	11.5%	4.1%	3.8%	-0.6%	19.5%	6.9%	5.2%	5.1%
South	-3.5%	13.0%	11.6%	5.5%	4.8%	5.4%	8.9%	9.0%	4.5%	7.5%
Oceania	-0.8%	4.5%	2.6%	1.4%	2.6%	6.3%	8.0%	5.7%	-0.5%	1.1%
Africa	**2.0%**	**9.0%**	**-7.9%**	**4.6%**	**5.7%**	**-12.3%**	**7.2%**	**4.7%**	**5.0%**	**4.7%**
Mid East	**-3.8%**	**13.5%**	**2.3%**	**2.6%**	**2.9%**	**9.7%**	**10.6%**	**9.4%**	**1.4%**	**0.0%**

* 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

EU = Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sw eden, UK
Non-EU Europe is all European countries (listed below) outside EU

Northern Europe = Denmark, Finland, Iceland, Ireland, Norw ay, Sw eden, UK
Western Europe = Austria, Belgium, France, Germany, Luxembourg, Netherlands, Sw itzerland
Southern/Mediterranean Europe = Albania, Bosnia-Herzogovina, Croatia, Cyprus, FYR Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, Turkey
Central/Eastern Europe = Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyzstan, Lativia, Lithuania, Poland, Romania, Russian Federation, Slovakia, Ukraine
of w hich
Central Europe & Baltic countries = Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia

Economic Outlook for Key Markets

Can policymakers rise to the current challenges?

- A large default of Greek state debt now appears to be unavoidable and is expected as part of our central forecast.
- Financial stress is rising accordingly within the Eurozone and globally leading to tighter borrowing conditions and weaker expected growth.
- There remain significant downside risks to the lowered central forecast if Eurozone policymakers do not take decisive action. This should include a larger EFSF and greater willingness to intervene in capital markets, as well as lower interest rates.
- There are some encouraging signs within recent US data but only modest growth is expected within our baseline and even this will require some cooperation between political parties.
- Some strong growth is expected in Japan but this is largely limited to a rebound from the natural disaster induced slump and the outlook has deteriorated.
- Growth is still expected for Emerging markets but at a slower pace than in previous forecasts amid investor concerns of export demand

Global Overview

2012 has begun where 2011 left off, with global growth prospects under threat from a deteriorating situation in financial markets.

The financial market situation has already spilled over to the real economy in the Eurozone to the extent that we now forecast renewed recession there, with GDP declining by 0.2% this year. The question now is whether 2012 could be a recession year across a wider set of the major economies.

In the UK, with close trade and financial linkages to the Eurozone, we now forecast a mild technical recession covering the final quarter of last year and the first of this. Similar outcomes are also expected in some of the central and eastern European economies.

In the US and the large Asian economies, forecasts for 2012 remain in positive territory. However, these economies are also vulnerable in case the financial crisis ends in a Eurozone breakup or a sequence of sovereign defaults - which would create a global financial shockwave similar to that seen in 2008-2009.

US data have remained resilient and we have upgraded our GDP forecasts slightly to 2.5% for 2012 and 2.7% for 2013. The pace of recovery is modest, however, with the consumer upturn still sluggish. In Japan the recovery is even weaker, with growth for 2012 now seen at just 1.4%.

Disorderly Eurozone outcomes would also exacerbate the slowdown in the emerging world. Brazil, where GDP growth halted in 2011Q3, and India where investment has slowed markedly look most vulnerable. But there is significant scope for some emergers, including China, to loosen policy to support growth.

The scale of risks is sufficient that our central forecast, in which global recession is avoided with world growth at 2.5% this year, has a probability of just 45%. Downside outcomes, featuring somewhat weaker world growth, have an equal probability.

Summary of International Forecasts

	2010	2011	2012	2013	2014	2015
Real GDP						
North America						
United States	3.0	1.7	2.5	2.7	3.0	3.0
Canada	3.2	2.4	2.1	2.6	2.7	2.7
Europe						
Eurozone	1.8	1.6	-0.2	1.1	1.8	2.0
Germany	3.6	3.1	0.6	1.7	2.1	2.0
France	1.4	1.6	-0.2	1.4	2.0	2.0
Italy	1.4	0.4	-1.0	0.0	0.8	1.4
UK	2.1	0.9	0.3	1.9	2.8	2.8
EU27	1.9	1.6	0.0	1.6	2.4	2.5
Asia						
Japan	4.5	-1.0	1.4	3.1	2.2	1.4
China	10.4	9.0	8.2	9.1	8.8	8.3
India	8.7	7.1	6.5	8.7	9.2	8.6
World	3.9	2.8	2.5	3.5	3.8	3.7
World 2005 PPPs	4.6	3.7	3.3	4.4	4.6	4.5
World trade	14.3	6.5	4.4	7.2	7.4	7.1

Risks to Oxford Economics' forecast

Oxford forecast (45%)

- Eurozone avoids disorderly default and steps taken to shore up banks
- Risk premia fall, and consumer and business confidence gradually recover
- But recovery in advanced economies limited by high debt, weak job growth and fiscal retrenchment
- Emerging markets robust as policy eases and growing middle class support consumer spending and trade

Disorderly Eurozone default (30%)

- Eurozone (EZ) authorities fail to agree on a credible solution to tackle the crisis
- Pushes one or more country into a disorderly default
- Run on banks, share prices plunge, credit conditions tighten
- Business and consumer confidence dives, deep recession ensues
- 10% probability on a full EZ break-up

Corporate reawakening (10%)

- Strong corporate liquidity feeds into investment
- This raises business and consumer confidence
- Banks' balance sheets improve and credit conditions loosen
- Strong growth helps fiscal consolidation and lowers bond yields

China hard landing (15%)

- Commercial property crash & external weakness leads to banking sector stress
- Flight from risk leads to falling share & property prices
- Investment slumps in China as government recapitalises banks
- Asian supply chain affected as domestic engine of growth stalls

Government stress

Corporate stress

Eurozone

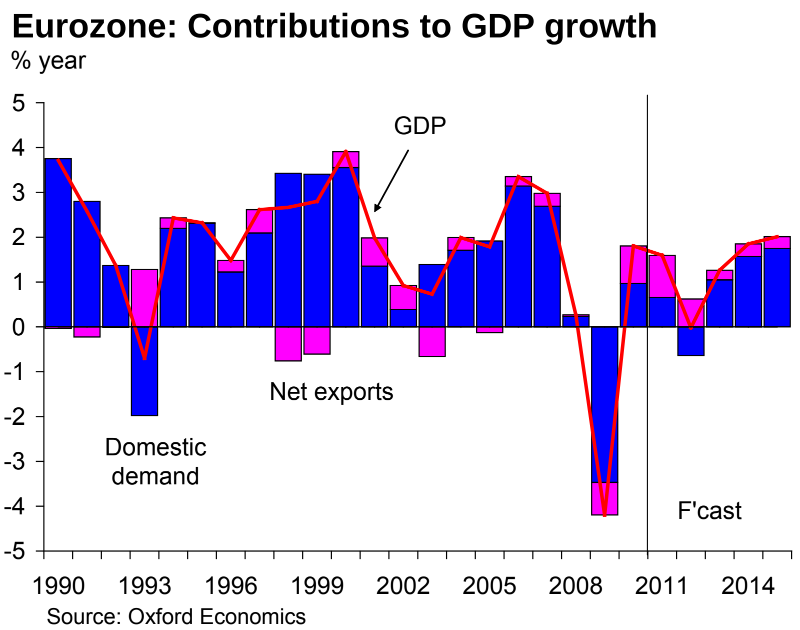
In the face of growing concerns about the condition of the banking sector and the risk of a severe credit crunch, the ECB acted in December by offering three-year loans to banks and loosening collateral requirements.

Overall it is estimated that the ECB injected about €190 billion of liquidity with these operations. This should ease funding pressures on banks but may have less impact in terms of improving broader credit conditions. Counterparty risk and economic uncertainty remain very high so that banks may prefer to hoard cash instead of lending it to businesses and households.

A severe credit crunch would be likely to result in a rather deeper recession than we currently forecast for 2012. We expect GDP to decline 0.2% this year and grow by 1.1% in 2013.

Our current forecast suggests a recession less severe than in 2008-2009 mainly because of the expected resilience of the global economy and of parts of the Eurozone such as Germany.

Ahead of a summit at the end of January, Eurozone officials are currently drafting the amendments to the Lisbon Treaty, aimed at strengthening the fiscal rules that apply to Eurozone members. These talks are, however, unlikely to do much to ease the current tensions in financial markets given that their main focus is on avoiding future crises.



UK Economy

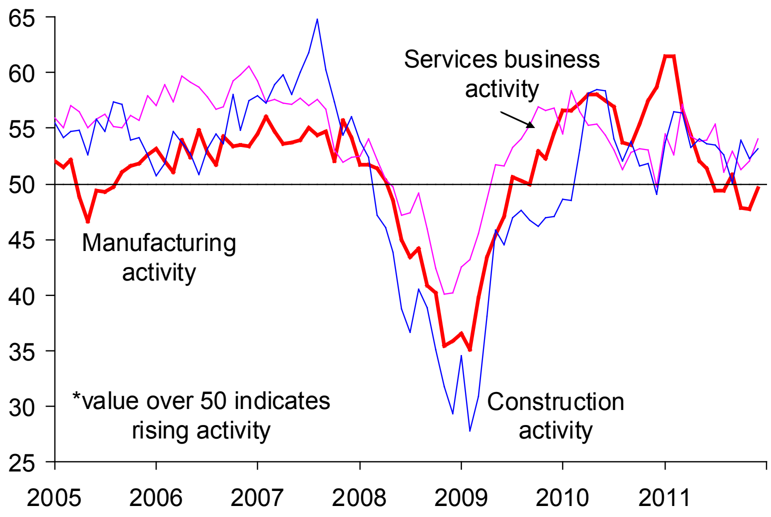
Recent data on the UK has sent conflicting signals. On one hand, official output data for October saw output in both manufacturing and services fall 0.7% month-on-month meaning that, in the absence of substantial upward revisions, the economy is likely to have contracted in 2011Q4. However, survey data for December was much improved, with all three of the PMI surveys strengthening.

In our view we are likely to see a mild technical recession from 2011Q4-2012Q1 but, assuming that the Eurozone authorities are able to agree a solution which contains the financial crisis, recovery should follow thereafter, supported by increased spending associated with hosting the Olympic Games in the summer.

However, downside risks continue to dominate. The Eurozone crisis has already had a significant impact on confidence, but any further escalation of the crisis would risk a much deeper UK recession due to the strong trade links and the potential for spillovers into the UK banking system. The labour market is a key source of domestic risk, with the private sector increasingly struggling to create sufficient jobs to offset the cuts in the public sector.

Against this fragile backdrop it would be a major surprise were the Bank of England not to authorise a further round of QE, once the current tranche of purchases is completed. We expect the Bank to authorise a further £75bn of asset purchases in February.

UK: Purchasing managers surveys



Source : CIPS/Markit

US Economy

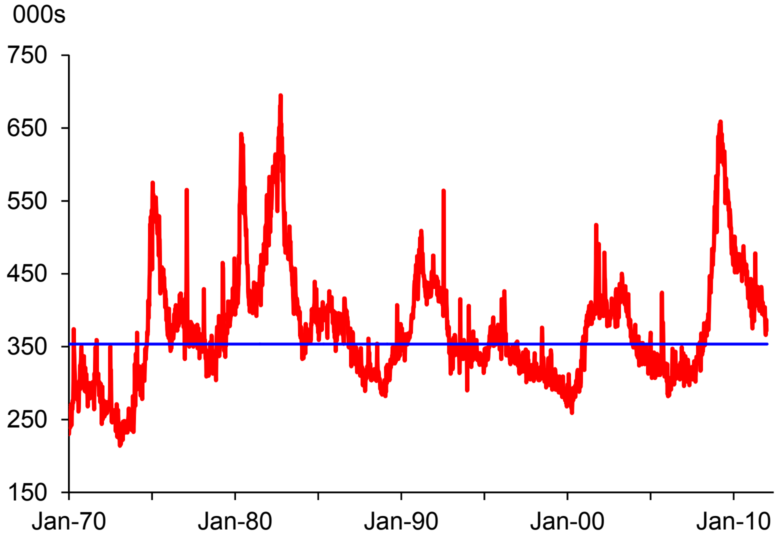
The US economy continues to show signs of building strength. The most prominent of these is the apparent improvement in the labor market, but there are also positive readings on the consumer sector, business, international trade, and even the housing market.

However, there are still some significant constraints on the economy, including major uncertainties over the European financial crisis, and US fiscal policy. And even with improvements there is still a long way to go before consumer confidence, the labor market or the housing sector can be said to be healthy. All remain weak enough that even a relatively mild shock could send them back to the depths plumbed during the recession.

The forecast depends on several key assumptions: that Europe manages to contain its financial crisis; that the federal government refrains from shutting down and from imposing more fiscal drag; that oil and other commodity prices remain relatively stable; and that consumers and businesses remain relatively cautious.

We believe that growth picked up to about 3.0% in 2011Q4, but that it will slow to an average of just 2½% during the first half of 2012. Although we expect acceleration in the second half, increased fiscal austerity will likely cause a stumble at the start of 2013, limiting annual growth to 2.7%, up only slightly from the 2.5% expected for 2012.

Weekly initial unemployment claims



Source: Employment and Training Administration

Japan

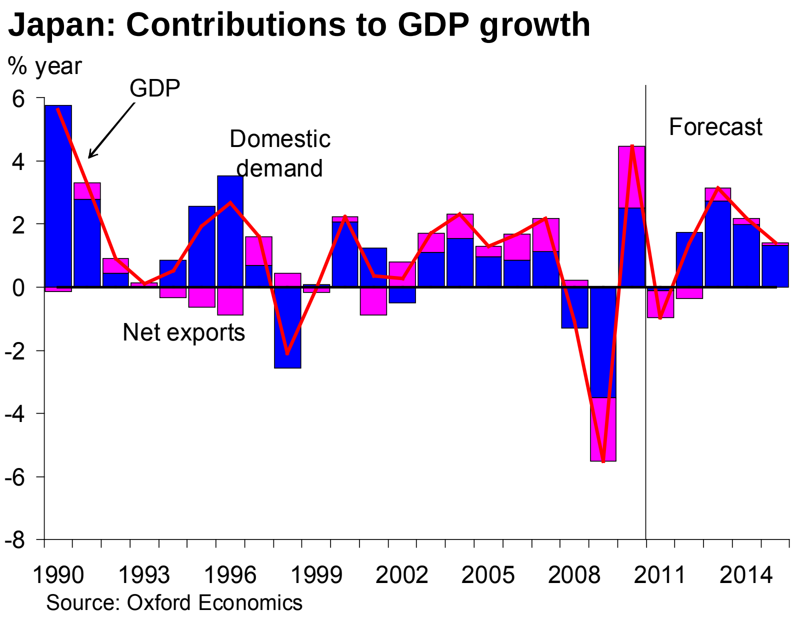
Japan's GDP is likely to have shrunk in the final quarter of 2011, with the recovery from natural disasters earlier in the year running out of steam. GDP for the whole year is estimated to have contracted by around 1%.

Industrial activity has been volatile in recent months, in part reflecting external factors such as floods in Thailand. The underlying picture remains of a sector under pressure, however, with dwindling orders resulting from the slowdown in the global and regional economy.

Against this background, investment activity remains weak. Business investment fell in 2011Q3 for the fourth straight quarter and government investment is likely to have declined in 2011 despite the reconstruction needs resulting from last March's natural disasters.

Consumer indicators have also fluctuated, but overall look subdued. Retail sales were weak in November and the labour market is not supportive with cash earnings continuing to decline and employment broadly flat. We forecast a rise in consumer spending of just 1.5% in 2012.

Our forecast now looks for growth of 1.4% in 2012, rising to above 3% in 2013. But downside risks are substantial, especially given the international financial situation and uncertainties in China. We expect the authorities to continue to hold down the yen through intervention, and further stimulus measures may also be needed.

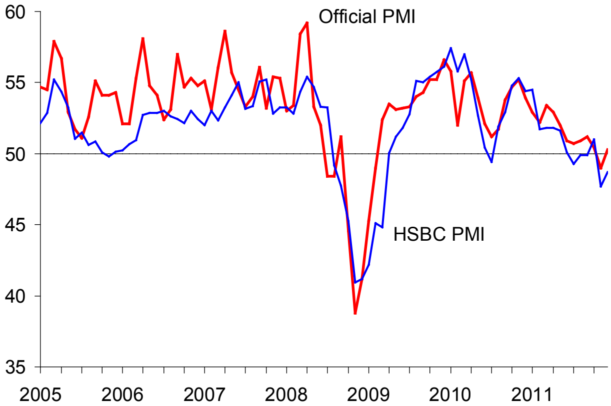


Emerging Markets

After a very weak set of survey data in November, the Chinese PMI readings in December showed an improvement – albeit remaining well below trend levels. This information, together with the declines in house prices reported throughout 2011Q4 and the decision by the central bank at the end of November to cut banks' reserve requirement ratios for the first time since the end of 2008, suggests that the Chinese economy is currently going through one of its weakest patches of the last decade. However, year-on-year GDP growth is only expected to slow to just under 8% in the first half of 2012. The robust performance of retail sales in November indicates that domestic demand remains fairly resilient. And with inflation pressures declining noticeably in recent months (particularly in manufactured goods) monetary policy is likely to be eased further in the next few months, which should limit the downside risks to growth.

China: Manufacturing PMI

50 = expansion / contraction line



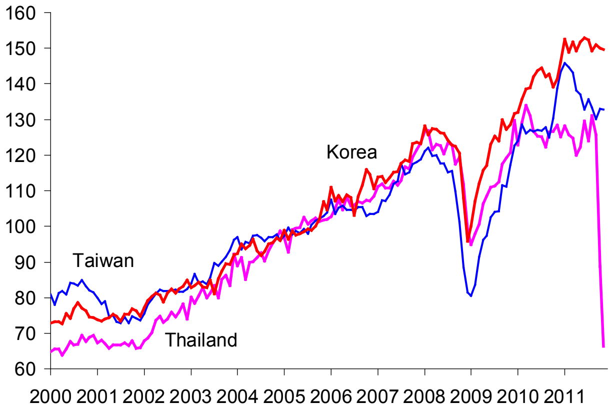
Source: China Federation of Logistics and Purchasing / Markit

A strong performance in December by estimated seasonally adjusted Korean exports, over a quarter of which go to China, is also a reassuring sign. However, other recent information on Korea is more worrying; its PMI fell further into negative territory in December and the inventories to shipments ratio rose significantly once again in November, suggesting that industrial output is likely to be under heavy downward pressure in Q1 (at the same time as domestic demand is growing only modestly). Against this background, it now seems likely that Korean GDP growth will struggle to exceed 3% in 2012.

Though a much smaller economy, the consequences of the flooding in Thailand cannot be ignored even if they will largely be temporary. Seasonally adjusted Thai manufacturing output in November was 47% down on that of September, while monthly exports were over US$5bn lower than in Q3 (causing significant disruption to some regional supply chains). It now seems likely that GDP in 2011 will undershoot already slashed forecasts, putting further pressure on the central bank to cut interest rates again.

Korea, Taiwan & Thailand: Industrial output

2005=100 (seasonally adjusted)

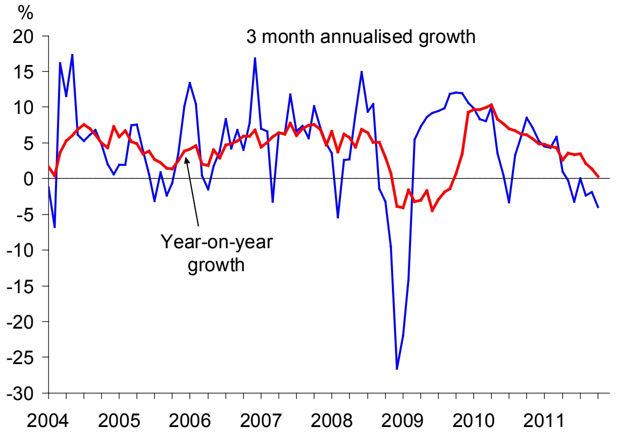


Source: Haver Analytics / Oxford Economics

While both manufacturing and services PMIs picked up in December, it remains the case that the Indian economy is also experiencing one of its weakest periods of growth since 2002. High interest rates and inflation, combined with the impact of a faltering global economy on business sentiment and a lack of confidence in the central government, have depressed private investment, which before the 2008 crisis had been the key driver of India's major improvement. We expect most of these headwinds to diminish through the course of 2012, facilitating a recovery in the second half, but not before GDP growth has slowed to 5.5% in 2012Q1. And cuts in interest rates will have to await a decisive fall in inflation – so the risks surrounding the growth outlook later in the year and early 2013 are skewed to the downside.

Meanwhile, year-on-year GDP growth in Brazil slowed to just 2.2% in 2011Q3, with activity falling marginally on the quarter (as did both consumer spending and investment). And the monthly proxy of GDP fell again in October, suggesting that the Q4 performance will also be very weak. However, this could be the low point as the PMIs were less gloomy in November and December. Moreover, the 150bp cumulative cut in the key interest rate since the end of August (with further reductions likely in the next few months), a significant rise in the minimum wage this year and moderating inflation should help to ensure that domestic demand starts to pick up through 2012, particularly as unemployment remains very low.

Brazil: Monthly economic activity indicator

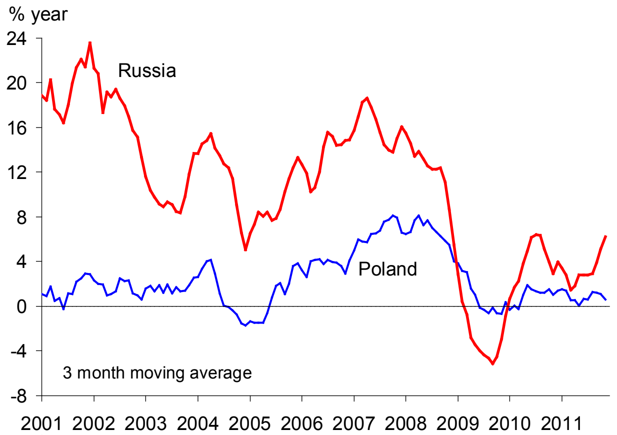


Source: Haver Analytics

Mexico has fared better since mid-2011, with rising domestic demand in Q3 limiting the impact of stagnant exports. And the latter may pick up soon if the improvement in the US persists, with the background for exports further boosted by the widespread fall in investor appetite for emerging assets taking the peso to very competitive levels.

Although Russia's PMIs fell back in December, they continued to point to a reasonable pace of expansion. The economy is still receiving a boost from high oil prices, facilitating a fiscal stimulus, while real wage growth in November reached its fastest pace since 2008 and credit growth remained strong in October. But this generally positive background could easily be derailed by a surge in domestic political uncertainty or a sharp fall in the oil price.

Russia & Poland: Real Wages



Source: Haver Analytics

Notwithstanding the gloomy news in the Eurozone in Q4, Polish industrial output continued to rise quite strongly during the period and was 2.6% higher in October/November than in Q3. However, December's PMI was the weakest since October 2009, so a significant slowdown still seems likely.

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