

CTO PERFORMANCE REVIEW

2005 CARIBBEAN TOURISM PERFORMANCE

We can perhaps describe the Caribbean tourism sector as “continuing to hold its own” in 2005.

Based upon the available returns from its 31 member countries, which encompass the English, French, Dutch, Spanish-speaking Caribbean as well as the US Virgin Islands and Puerto Rico, the Caribbean Tourism Organization (CTO) estimates that tourist (stay-over) arrivals to the region **increased** by 3.6 percent to reach 22.5 million in 2005.

During this period, cruise passenger visits to Caribbean destinations **declined** by an estimated 2 percent to 19.8 million.

In line with these results, Smith Travel Research, the international hotel performance analysts, reports that, based on their sample of Caribbean hotels, average room occupancy for 2005 stood at 68.6 percent compared to 68.4 percent for 2004, while average revenue per available hotel room increased by 8 percent to US\$101.99 in 2005.

These performances, according to our best (but very preliminary) estimates at this time, translates to a gross expenditure by these visitors of some US\$23 billion.

In terms of our major markets, according to our analysis of the available statistics, tourist arrivals from the United States grew by an estimated 2 percent in 2005 and those from Canada by 6 percent, while tourist arrivals from Europe grew by just over 7 percent.

This 3.5 percent growth in tourist arrivals in 2005 follows increases of 7.1 percent in 2003 and 6.9 percent in 2004. The increase in 2005 is slightly below the long term annual average of 3.8 percent per annum over the past 15 years

On the other hand, the 2 percent fall in cruise passenger visits compares with increases 12.7 percent in 2003 and 12.2 percent in 2004. Major reasons for this fall-off were the unusual slow growth of capacity in 2005 (2.2 percent versus an average of 8.1 percent over the previous 10 years) and the re-deployment of capacity to destinations outside of the region after three successive years of re-deployment to the region due to political instability elsewhere. With the post-9/11 tendency to base more capacity in Florida and the growing focus on shorter cruises, the more southerly cruise destinations in the region have recorded the sharpest decreases.

We should also note that 2005 was an extremely challenging year for regional tourism. The after effects of a very active hurricane season in 2004 and the projection of an equally active season in 2005, the rising cost of fuel with its impact on airline costs, and resurgence of competing destinations after the Gulf War and SARS have been distinct constraining factors.

The performances of the various sub-regions have also varied. Clearly the performances of Cuba (2.3 million tourists and a 13 percent increase) and the Dominican Republic (3.7 million tourists and a 7.2 percent increase) have made a considerable contribution to the regional increase although, in the Hispanic Caribbean, this would have been counter-balanced by the fall off in visitation to Cancun and Cozumel after the passage of hurricane Wilma.

In contrast, tourist arrivals to CARICOM countries has grown by a somewhat more modest 2.3 percent to 3.3 million in 2005, while cruise passenger visitation declined by 6.3 percent to around 7 million.

In comparison, the Dutch Caribbean countries (Aruba, Bonaire, Curacao, St Maarten, Saba and St Eustatius) grew by 1.9 percent, the US Caribbean (Puerto Rico and the US Virgin Islands) by 3.2 percent and the Other Caribbean (including Cuba and the Dominican Republic) by 5.3 percent.

According to the World Tourism Organization, world tourist arrivals during 2005 grew by an estimated 5.5 percent, or somewhat faster than for the Caribbean. These figures need further explanation, for the Caribbean recovered from the international fall-off in travel after 9/11 earlier than the rest of the world. Beset by the challenges of SARS, Bird Flu, the Gulf War and the threat of terrorism – world tourist arrivals in recorded a **decline** of 1.5 percent in 2003 compared to a 7 percent increase for Caribbean tourist arrivals in that year. In other words, there is still an element of “catch-up” in these figures. For the three-year period 2003-2005 combined, tourist arrivals to the Caribbean grew by just over 19 percent, compared to a 16 percent increase for overall world tourism..

Prospects for 2006

While we have not yet drawn up formal projections for 2006, we will venture to advance a perspective based upon our ongoing interaction with regional and market-based counterparts coupled with our own assessment of recent industry performance.

- In our most recent survey of leading wholesalers, tour operators' and airlines in our major markets (end-December 2005), which sought their views on the likely performance of the region in 2006, the unanimous view was that the Caribbean was expected to do well in the 2005/2006 **Winter season**. Feedback from regional destinations on their own Winter performances to date support this view.
- Increased competition out of the United States has had a positive impact on both airfares and accessibility. Information on advance bookings from one major carrier over the October 2005-March 2006 period show a much better picture than during the same six-month period in the previous year.
- There however remains considerable concern about the impact of the 2005 hurricane season and the forecast of another stormy year ahead. This will likely to result in reduced commitments and promotion to tourism interests in the Caribbean (and Florida & Mexico) for late summer/fall 2006
- Then there is the Football World Cup in Germany this year, which has traditionally provided an alternative destination or kept potential visitors at home to watch. This is expected to soften demand from Europe during the summer;

There are other **key issues**:

- **Economic** conditions in our major generating markets are expected to remain favorable. IMF's most recent growth projections (September 2005) placed world GDP growth for 2005 at 4.3 percent and projected a similar performance in 2006, with some major markets showing improved performance. Europe, whose growth rate slipped from 3.6% in 2004 to 2.5% in 2005, is expected to improve in 2006 (especially the UK and Germany);

- The robust growth in **international travel** is expected to continue: the World Tourism Organization has projected international travel to grow by 4.4 percent in 2006;
- **Energy:** After considerable upward movement in 2005 with consequent effect on airline costs, oil prices seem to be settling in the US\$55-US\$65 range, subject of course to continued stability. The situation in Iran and, to a lesser extent, Nigeria bear watching.
- **Currency:** Difficult to predict though this may be, the dollar seems to have settled into a trading range around the Euro/\$1.20. While there is no clear consensus amongst the currency watchers, it seems unlikely that swings will be significant enough in the short term to significantly influence discretionary travel purchases in our major markets in North America and Europe.

Putting all this together, our current expectation is for continuing moderate growth in 2006, perhaps in the 2.5 percent to 3.5 percent range, with more robust growth during the earlier part of the year but slowing as the year advances.