The Outlook for Travel and Strategic Implications for the Caribbean

Prepared for the Caribbean Tourism Organisation
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Prepared by:
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Who are we?

- A subsidiary of Oxford Economics
- Founded in 1981
- Over 300 clients including blue chip companies and government agencies throughout the world.
- 50 staff - most with at least Masters qualifications in economics from top-flight universities around the world
"We created Tourism Economics as a fusion of global economic expertise and real world tourism understanding. This gives us the ability to provide answers to our clients that are both credible and meaningful."

- Adam Sacks, Managing Director
Our focus

How can we help you?
- Feasibility Studies
- Market Assessments
- Impact Models (Tourism Satellite Accounts)
- Policy Analysis
### Clients

<table>
<thead>
<tr>
<th>Abu Dhabi Tourism Authority</th>
<th>Tourism Malaysia</th>
<th>Travel Industry Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai Tourism &amp; Commerce Marketing</td>
<td>Tourism Authority of Thailand</td>
<td>Travel Business Roundtable</td>
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<tr>
<td>New York City and Company</td>
<td>Discover America Partnership</td>
<td>Grand Bahama Promotion</td>
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<td>Singapore Tourist Board</td>
<td>London Tourism Authority</td>
<td>US Office of Tourism Industries</td>
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<tr>
<td>Gulf Air</td>
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<td>Etihad Airways</td>
<td></td>
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<tr>
<td>InterContinental Hotels Group</td>
<td></td>
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<tr>
<td>Airbus</td>
<td></td>
<td></td>
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<tr>
<td>Hong Kong Tourist Board</td>
<td></td>
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<tr>
<td>World Travel &amp; Tourism Council</td>
<td></td>
<td></td>
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<tr>
<td>Bahamas Ministry of Tourism</td>
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<td>Visit Britain</td>
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<td>Tourism Ireland</td>
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<td>Canadian Tourism Commission</td>
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<td>Hungary Ministry of Tourism</td>
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<td>Kerzner International</td>
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<td>Saudi Tourism Commission</td>
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<td>Visit Scotland</td>
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<td>Israel Ministry of Tourism</td>
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<tr>
<td>Marriott</td>
<td></td>
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<tr>
<td>Washington DC CVB</td>
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<tr>
<td>Alaska Tourism Office</td>
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</tr>
</tbody>
</table>
Global Destinations Development, LLC
Michael R. Greve, Principal

Founded in 2001

Miami-based, exclusive to Caribbean Development consulting

Principal hotel development, primarily with Hilton Hotels Corporation

Current downturn viewed as an opportunity

New York and South American investors

Middle East
Outline of presentation

- Why is the global outlook deteriorating so sharply?
- What are the observed effects on travel already?
- What do our forecasting models indicate?
- How should the Caribbean respond to the current crisis?
Activity falls off a cliff…

World: Industrial production

% year

Europe
US
Japan
UK

Source: Haver Analytics
…with surveys pointing to worse to come

World: Purchasing managers' indices

% Balance

Source: Haver Analytics
Why such a rapid global downturn?

- The recent deterioration of the global economy has been remarkably rapid and synchronised. This reflects:
  - Increasing global interdependence - eg supply chains in industry, convergence in banking models in major economies
  - Widespread uncertainty over credit availability going forward
  - Problems with trade credit hampering world trade – spin-off from the credit crunch

- As a result, there has been a massive loss of business confidence globally and firms are moving rapidly to cut costs and conserve cash in the same way banks did earlier in the downturn
Business confidence slumps...

World: Business confidence
Standard deviations from mean

Source: Haver Analytics
...as banks are still tightening lending

Global credit standards surveys
Balance tightening (+)/loosening (-) credit

Source: Oxford Economics/Haver Analytics
The credit crunch – state of play

- The credit crunch appears to be moving into a new phase

- Credit restriction has become more intense for consumers and the corporate sectors. So:
  - Asset prices remain under pressure, especially house prices
  - A further round of failures/rescues among financial institutions is still a risk
Why are the bailouts not working?

- Despite significant recapitalisation efforts, banks across the major economies have continued to tighten credit.

- This reflects the rapid emergence of a second wave of cyclically-driven losses:
  - Falling house prices and rising unemployment are generating further mortgage delinquencies and consumer loan defaults
  - Corporate defaults are also rising as weak final demand hits profits and firms struggle to refinance debt

- Financial institutions have announced US$800 billion of losses so far – but we estimate a further US$1 trillion are still to come.
2009 worst economic year since WWII...

World: GDP in the long run

% year

Source: Oxford Economics/Penn World Tables
...but where is the floor in the recession?

World: Recessions compared
% peak-to-trough fall in GDP

Source: Oxford Economics/Haver Analytics
...as collapse in asset prices...

**World: Stockmarkets**

Jan 1996=100

- DAX
- S&P 500
- FTSE 100
- MSCI Emerging Markets index

Source: Haver Analytics

**House Prices**

Index 2000=100

- Spain
- France
- UK
- US

Forecast

Source: Oxford Economics
...implies huge falls in household wealth...

### Household Wealth

<table>
<thead>
<tr>
<th>Country</th>
<th>Fall in household wealth (Eur tn)</th>
<th>Fall in household wealth (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>-1.3</td>
<td>-84</td>
</tr>
<tr>
<td>US</td>
<td>-13.3</td>
<td>-83</td>
</tr>
<tr>
<td>UK</td>
<td>-1.8</td>
<td>-77</td>
</tr>
<tr>
<td>Japan</td>
<td>-3.1</td>
<td>-69</td>
</tr>
<tr>
<td>France</td>
<td>-1.7</td>
<td>-64</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.0</td>
<td>-47</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.1</td>
<td>-33</td>
</tr>
</tbody>
</table>
...and threat of unemployment worsens
Fed has lowered borrowing costs...

**US: mortgage rates and bond yields**

- **30-year mortgage rates**
- **30-year bond yields**
- **AAA corporate bond yields**

Sources: Oxford Economics/Haver Analytics
Fiscal policy will also buttress demand…

World: fiscal stimulus packages

% of GDP

- **Headline package**
- **Estimated new money**

Source: Oxford Economics/Haver Analytics
Drop in commodity prices will also help...

World: Oil and food prices

Source: Oxford Economics
...boosting West’s terms of trade

<table>
<thead>
<tr>
<th></th>
<th>US$20</th>
<th>US$40</th>
<th>US$60</th>
<th>US$80</th>
<th>US$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>-100.9</td>
<td>-201.8</td>
<td>-302.6</td>
<td>-403.5</td>
<td>-504.4</td>
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<tr>
<td>EU</td>
<td>-91.0</td>
<td>-182.0</td>
<td>-273.0</td>
<td>-364.0</td>
<td>-455.0</td>
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<tr>
<td>China</td>
<td>-30.0</td>
<td>-60.0</td>
<td>-90.1</td>
<td>-120.1</td>
<td>-150.1</td>
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<tr>
<td>Russia</td>
<td>53.1</td>
<td>106.3</td>
<td>159.4</td>
<td>212.5</td>
<td>265.7</td>
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<tr>
<td>OPEC</td>
<td>180.0</td>
<td>360.1</td>
<td>540.1</td>
<td>720.1</td>
<td>900.1</td>
</tr>
</tbody>
</table>

Based on 2007 consumption and production levels

*Source: Oxford Economics*
## World GDP Growth

<table>
<thead>
<tr>
<th>% Change on Previous Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2.0</td>
<td>1.3</td>
<td>-2.0</td>
<td>2.5</td>
<td>4.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>0.0</td>
<td>-2.2</td>
<td>0.6</td>
<td>1.5</td>
<td>2.0</td>
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<tr>
<td>Eurozone</td>
<td>2.6</td>
<td>0.9</td>
<td>-1.9</td>
<td>0.8</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Germany</td>
<td>2.6</td>
<td>1.2</td>
<td>-2.1</td>
<td>1.0</td>
<td>1.8</td>
<td>2.3</td>
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<tr>
<td>France</td>
<td>2.1</td>
<td>0.8</td>
<td>-1.6</td>
<td>0.5</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Italy</td>
<td>1.4</td>
<td>-0.5</td>
<td>-2.0</td>
<td>0.4</td>
<td>1.3</td>
<td>1.8</td>
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<tr>
<td>South Korea</td>
<td>5.0</td>
<td>3.2</td>
<td>-2.4</td>
<td>3.1</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>China</td>
<td>11.9</td>
<td>8.8</td>
<td>5.6</td>
<td>9.6</td>
<td>9.8</td>
<td>9.4</td>
</tr>
<tr>
<td>Other Asia</td>
<td>6.0</td>
<td>2.3</td>
<td>-0.6</td>
<td>3.4</td>
<td>4.8</td>
<td>4.9</td>
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<td>Mexico</td>
<td>3.2</td>
<td>1.9</td>
<td>-0.3</td>
<td>1.9</td>
<td>4.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>6.3</td>
<td>5.3</td>
<td>1.2</td>
<td>3.0</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>7.3</td>
<td>6.0</td>
<td>1.8</td>
<td>2.8</td>
<td>4.9</td>
<td>5.6</td>
</tr>
<tr>
<td>World</td>
<td>3.8</td>
<td>2.3</td>
<td>-0.4</td>
<td>2.9</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>World (PPP)</td>
<td>4.8</td>
<td>3.5</td>
<td>0.4</td>
<td>3.3</td>
<td>4.7</td>
<td>4.9</td>
</tr>
</tbody>
</table>
US to lead recovery...

GDP growth: US, Eurozone and UK

% year


F'cast

Source: Oxford Economics
Scenarios for the global economy

Policy effectiveness

- **Policy-makers save the world**
  - Significant additional fiscal injections globally, esp China and Germany
  - Aggressive (un)conventional monetary policy
  - Confidence restored quickly and banking frees up
  - Return to trend growth in 2009H2

- **Deep-V**
  - Consumers and business retrench sharply to reduce debt
  - Government fiscal stimulus is delayed, esp in Europe, but eventually larger
  - Conditions worsen again in financial/credit market as defaults rise more than expected
  - China falls into recession

- **Oxford Forecast**
  - Recession bottoms in Q3
  - Significant fiscal injections and further monetary stimulus
  - Oil prices remain low
  - Credit markets normalise by end-2009, helped by further bailouts
  - Confidence returns and growth picks up in late 2009/early 2010

- **Deflation**
  - Falling asset prices prove a further drag on recovery in banking sector
  - Unemployment rises sharply and large output gaps open
  - Monetary/fiscal policy are not effective as deflation grips
  - Protectionism measures enacted
  - Economy declines in 2010 and beyond
# Scenarios for the global economy

## Alternative GDP growth forecasts

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oxford forecast (40%)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>1.3</td>
<td>-2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0.9</td>
<td>-1.9</td>
<td>0.8</td>
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<tr>
<td>China</td>
<td>8.7</td>
<td>5.6</td>
<td>9.6</td>
</tr>
<tr>
<td>World</td>
<td>3.5</td>
<td>0.4</td>
<td>3.3</td>
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<tr>
<td><strong>Deep-V (30%)</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>US</td>
<td>1.3</td>
<td>-3.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0.9</td>
<td>-3.4</td>
<td>0.2</td>
</tr>
<tr>
<td>China</td>
<td>8.7</td>
<td>3.6</td>
<td>7.0</td>
</tr>
<tr>
<td>World</td>
<td>3.5</td>
<td>-1.2</td>
<td>2.1</td>
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<tr>
<td><strong>Deflation (20%)</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>1.3</td>
<td>-2.9</td>
<td>-1.2</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0.9</td>
<td>-2.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>China</td>
<td>8.7</td>
<td>4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>World</td>
<td>3.5</td>
<td>-0.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>
OUTLOOK FOR TRAVEL
Overview of recent trends

- Global overnight visitor arrival declines are steep
- The US market is particularly concerning for the Caribbean
  - Wealth and employment losses
  - Record low consumer confidence
  - Air capacity cutbacks
  - Move to short haul / drive destinations
- The outlook for Europe is also dire
  - Weaker euro and sterling
  - High and rising unemployment
  - Slower recovery
  - Confidence also low
Global tourism has slowed during 2008.

**World: Overnight visitor arrival growth†**

- **% year**
  - 15.0
  - 12.5
  - 10.0
  - 7.5
  - 5.0
  - 2.5
  - 0.0
  - -2.5
  - -5.0

- **Jan-05**
- **Jan-06**
- **Jan-07**
- **Jan-08**

†Based upon monthly data covering 80% of world arrivals

Source: PATA, Haver, Eurostat, Oxford Economics
Air passenger growth confirms decline

International air passenger traffic growth

% year, RPK

RPK = revenue passenger kms

Source: IATA
US Outbound Departures

Source: OTTI, US Dept of Commerce
Caribbean tourism faltering

- Cruise passengers down by -6% through Dec. 2008 YTD (winter up 4%, summer down 17%)
- Available data indicate growth of around 2.2% in stopover arrivals for 2008

- Canada has performed well to many destinations in 2008 but this is expected to soften as the C$ has weakened and the country enters into recession

- The overall trend turned down sharply in the fourth quarter. Nearly all destinations experienced a contraction beginning in September which is becoming progressively sharper
Outlook for the Caribbean

Stopover Visits to the Caribbean
% change

-10%  -5%  0%  5%  10%  15%  20%

2004  2005  2006  2007  2008  2009  2010

United States  Canada  Europe

-10% -5% 0% 5% 10%
STRATEGIC IMPLICATIONS
The Caribbean faces an urgent opportunity

- Our research of tourism marketing programs around the world show a consistent return on investment when the brand and product are strong behind the campaign
- In times of crisis, destinations which have invested have often gained significant market share

<table>
<thead>
<tr>
<th>Destination</th>
<th>Target Market</th>
<th>Amount Spent ($ mn)</th>
<th>Return Spending</th>
<th>Return Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>United States</td>
<td>$3.5</td>
<td>$64:$1</td>
<td>$5:$1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Global</td>
<td>$42.1</td>
<td>$47:$1</td>
<td>$5:$1</td>
</tr>
<tr>
<td>Canada</td>
<td>UK</td>
<td>$1.0</td>
<td>$13:$1</td>
<td>$2:$1</td>
</tr>
<tr>
<td>Hawaii</td>
<td>US</td>
<td>$15</td>
<td>$177:1</td>
<td>$3:$1</td>
</tr>
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<td>Canada</td>
<td>United States</td>
<td>$4.8</td>
<td>$23:$1</td>
<td>$3:$1</td>
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<td>Philadelphia</td>
<td>W. Europe</td>
<td>$1.2</td>
<td>$44:$1</td>
<td>$3:$1</td>
</tr>
<tr>
<td>United States</td>
<td>United Kingdom</td>
<td>$4.1</td>
<td>$117:1</td>
<td>$10:$1</td>
</tr>
</tbody>
</table>
In October 2008, Hawaii announced $12.5 million in emergency funding that has been devoted by the state and businesses to combat a double digit decline in tourism as airlines cut capacity to the islands.

After 9/11, the Philadelphia Convention & Visitors Bureau (PCVB) spent up to $2.2 million a year in Europe for 3 years. The campaign included such elements as participation in the Travel Industry Association of America’s cooperative advertising efforts. During this time period, U.S. visitation from these markets dropped 15%. In the targeted countries, Philadelphia's business grew 40%.
Regional collaboration: Europe

- The European Travel Commission’s mission is the worldwide marketing of Europe as a tourism brand
- In 2006, ETC launched the VisitEurope portal
- This provided visibility and branding for 'Destination Europe’ and along with vacation planning tools
- This facilitates cross-border and pan-European offers
- The program and other marketing is funded by individual DMO contributions relative to size of tourism
- Challenge: diversity of Europe has made brand establishment difficult
Welcome to visiteurope.com, your gateway to the hospitality of the 39 member countries of the European Travel Commission. Let this website be your personal guide for exploring the beauty and interesting diversity these countries have to offer. All the countries have joined together on visiteurope.com to provide you with a wonderful resource to obtain all the information you need to make your trip to Europe the trip of a lifetime.

While browsing through our pages or the map of Europe you will find many interesting articles about the countries, their exciting cities and the regions of Europe, as well as a list of events taking place during your stay. Discover a broad range of practical tourist information and a series of useful tools, such as weather conditions, the currency converter, brochure downloads or the opportunity to send e-cards of various countries to your friends and family.

Then explore your options more in depth through the direct links to the countries’ individual websites. Enjoy the experience of a Europe without boundaries!
Regional collaboration: USA

- Last year, the Travel Industry Association of America launched a marketing platform for the various destinations of the US which typically compete against each other.
- This allows international travelers to access information across a range of state and city destinations.
- Travelers build itineraries, find information, book deals.
- Enormous success as destination partners contribute content.
- Funding based on amount of content per destination.
Orlando
FLORIDA

Long before "It's a Small World" echoed through the palmetto scrub, other theme parks tempted visitors away from the beaches into the heart of central More...

- Discover
- See all Attractions
The CTO and its members are actively considering the formation of a pan-Caribbean marketing and branding campaign. This initiative could re-write the way the Caribbean presents itself to its markets and holds promise for significant returns.
Challenges

• Given these objectives, the CTO must meet three challenges in considering the value of its collective marketing investment:

1. The Caribbean is a broad region with diverse offerings
2. Its key source markets span Europe, Canada, and most of the US
3. Significant funds are required to gain “share of voice” amidst competitor marketing
4. Amidst the current economic uncertainty, the region has an opportunity to mitigate the effects of adverse economic conditions.
The value of collaboration

● This is be a pivotal time for Caribbean tourism as it faces a bleak outlook for the next 18 months

● An injection of marketing and collaboration among members could produce significant results despite market conditions

● A collective approach to the market would provide:
  ■ Brand establishment
  ■ Economies of scale

● This is a particular opportunity for the Caribbean as it is more homogenous than Europe or the United States. Travelers often consider the Caribbean – and then a particular destination

● This will drive strong results across the entire region
## Marketing spend as % of visitor spend

<table>
<thead>
<tr>
<th>Destination</th>
<th>Actual marketing budget, $US mn</th>
<th>Total visitor spend, $US mn</th>
<th>Marketing share of spend, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>$80</td>
<td>$16,866</td>
<td>0.5%</td>
</tr>
<tr>
<td>Canada</td>
<td>$44</td>
<td>$13,584</td>
<td>0.3%</td>
</tr>
<tr>
<td>France</td>
<td>$44</td>
<td>$42,276</td>
<td>0.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>$22</td>
<td>$29,204</td>
<td>0.1%</td>
</tr>
<tr>
<td>Greece</td>
<td>$67</td>
<td>$13,731</td>
<td>0.5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>$54</td>
<td>$4,800</td>
<td>1.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>$32</td>
<td>$35,398</td>
<td>0.1%</td>
</tr>
<tr>
<td>Mexico</td>
<td>$32</td>
<td>$11,803</td>
<td>0.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$32</td>
<td>$10,475</td>
<td>0.3%</td>
</tr>
<tr>
<td>South Africa</td>
<td>$56</td>
<td>$7,327</td>
<td>0.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>$75</td>
<td>$47,891</td>
<td>0.2%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$35</td>
<td>$11,040</td>
<td>0.3%</td>
</tr>
<tr>
<td>Thailand</td>
<td>$175</td>
<td>$10,108</td>
<td>1.7%</td>
</tr>
<tr>
<td>UK</td>
<td>$42</td>
<td>$30,669</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Midpoint</strong></td>
<td></td>
<td></td>
<td><strong>0.9%</strong></td>
</tr>
</tbody>
</table>
Importance of Tourism Across Competition

Receipts share of GDP

• Given the relative importance of tourism to the Caribbean region, its marketing support should exceed that of its competitors.
Thank you

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