TOURISM ECONOMICS

AN OXFORD ECONOMICS COMPANY

GLOBAL DESTINATIONS

The Outlook for Travel and Strategic Implications for the Caribbean

Prepared for the Caribbean Tourism Organisation
January 2009

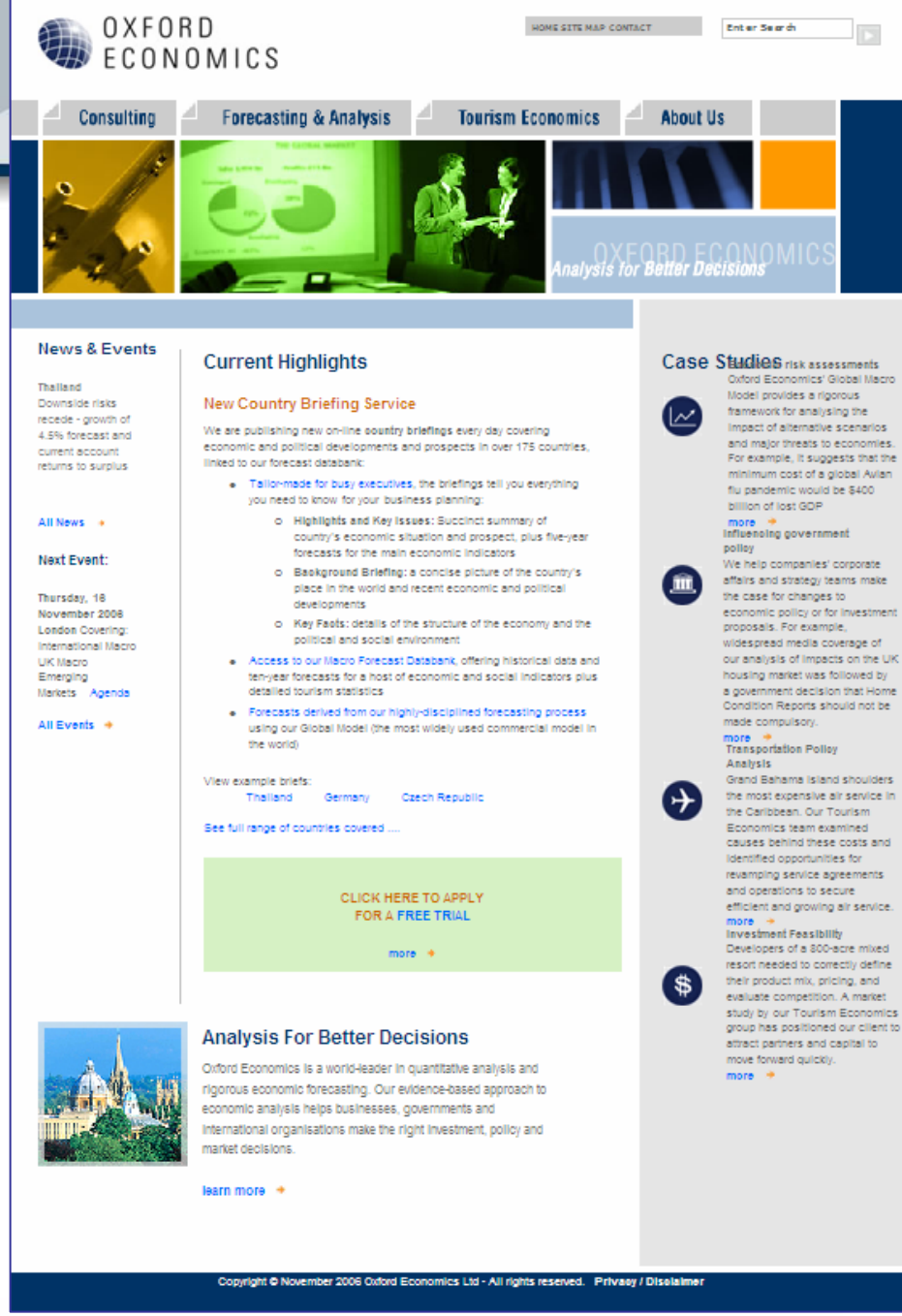
Adam Sacks

Michael Greve

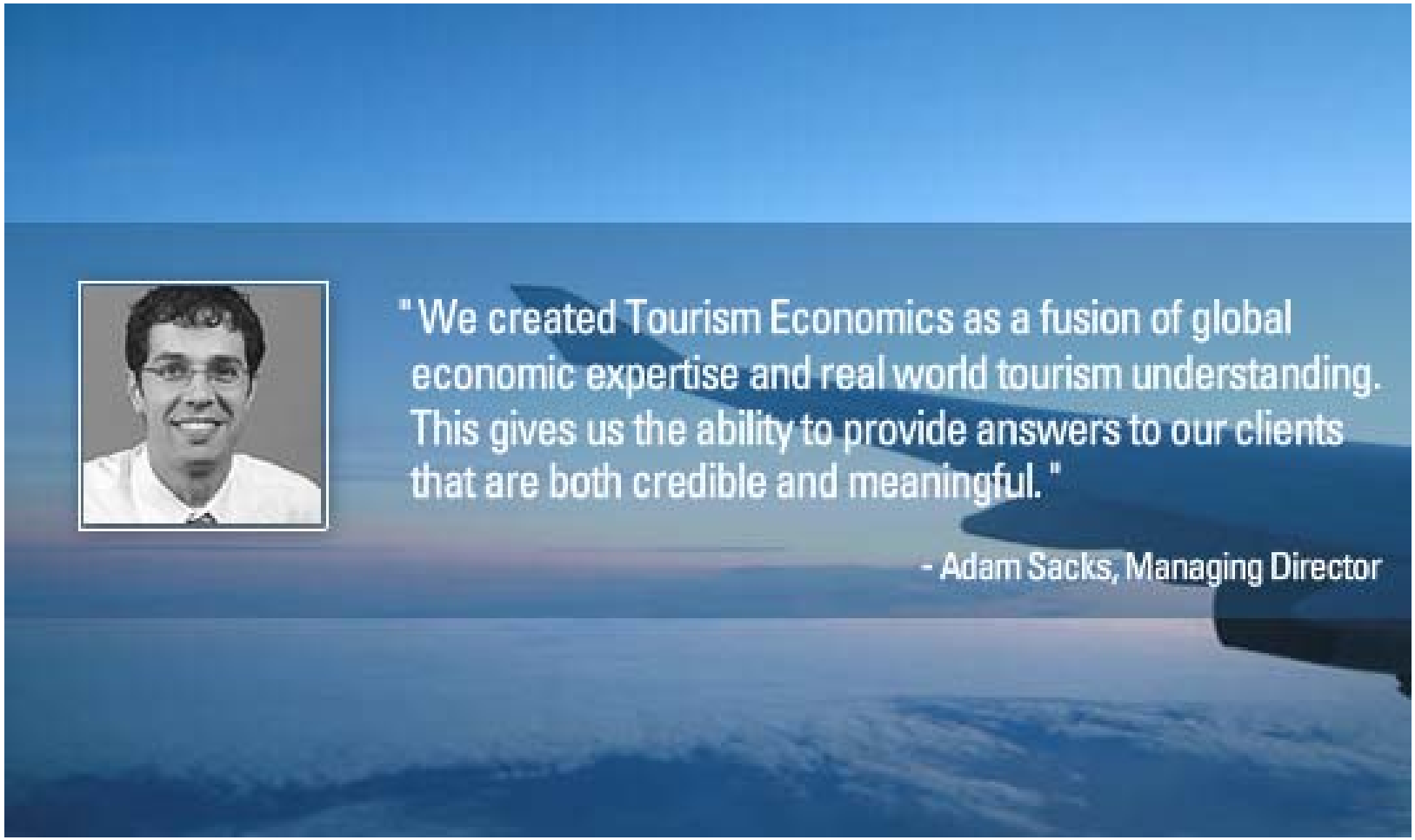
Prepared by:
Tourism Economics
121, St Aldates, Oxford, OX1 1HB UK
303 W Lancaster Ave. Wayne PA 19087 USA
☎: +44 1865 268900 / +1 610 995 9600
: www.tourismeconomics.com

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
- Offices in Philadelphia, Oxford, London, Belfast, Dubai, and Miami



Tourism Economics



Our focus

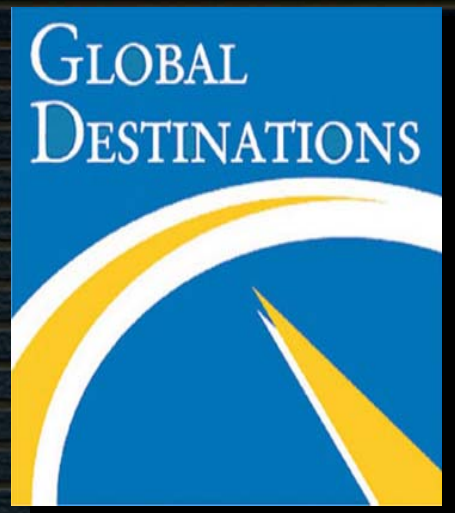
How can we help you?
- Feasibility Studies
- Market Assessments
- Impact Models (Tourism Satellite Accounts)
- Policy Analysis

Clients

Abu Dhabi Tourism Authority
Dubai Tourism & Commerce Marketing
New York City and Company
Singapore Tourist Board
Tourism Malaysia
Tourism Authority of Thailand
Discover America Partnership
London Tourism Authority
Travel Industry Association
Travel Business Roundtable
Grand Bahama Promotion
US Office of Tourism Industries

Gulf Air
Etihad Airways
InterContinental Hotels Group
Airbus
Hong Kong Tourist Board
World Travel & Tourism Council
Bahamas Ministry of Tourism
Visit Britain
Tourism Ireland
Canadian Tourism Commission
Hungary Ministry of Tourism
Kerzner International

Saudi Tourism Commission
Visit Scotland
Israel Ministry of Tourism
Marriott
Washington DC CVB
Alaska Tourism Office



Global Destinations Development, LLC
Michael R. Greve, Principal

Founded in 2001

Miami-based, exclusive to Caribbean

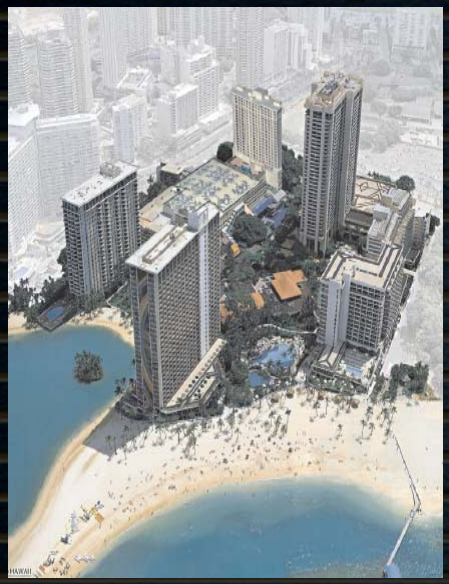
Development consulting

Principal hotel development, primarily with Hilton Hotels Corporation

Current downturn viewed as an opportunity

New York and South American investors

Middle East



Hilton Hawaiian Village

Government of the Bahamas

Turks and Caicos Islands

Government of ARUBA

Kalia Tower

GLOBAL DESTINATIONS

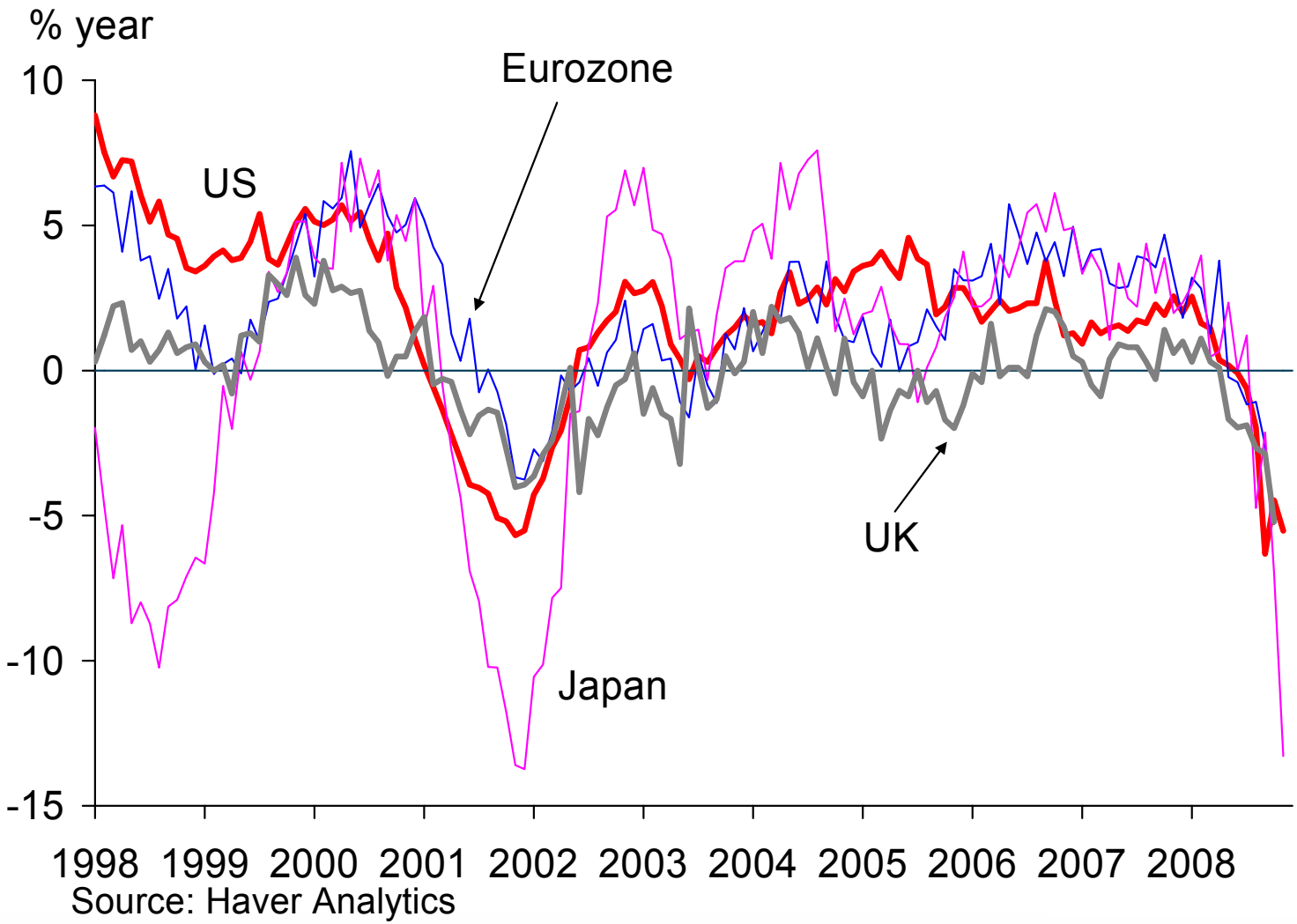
BOB MARLEY Freedom RESORT

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…

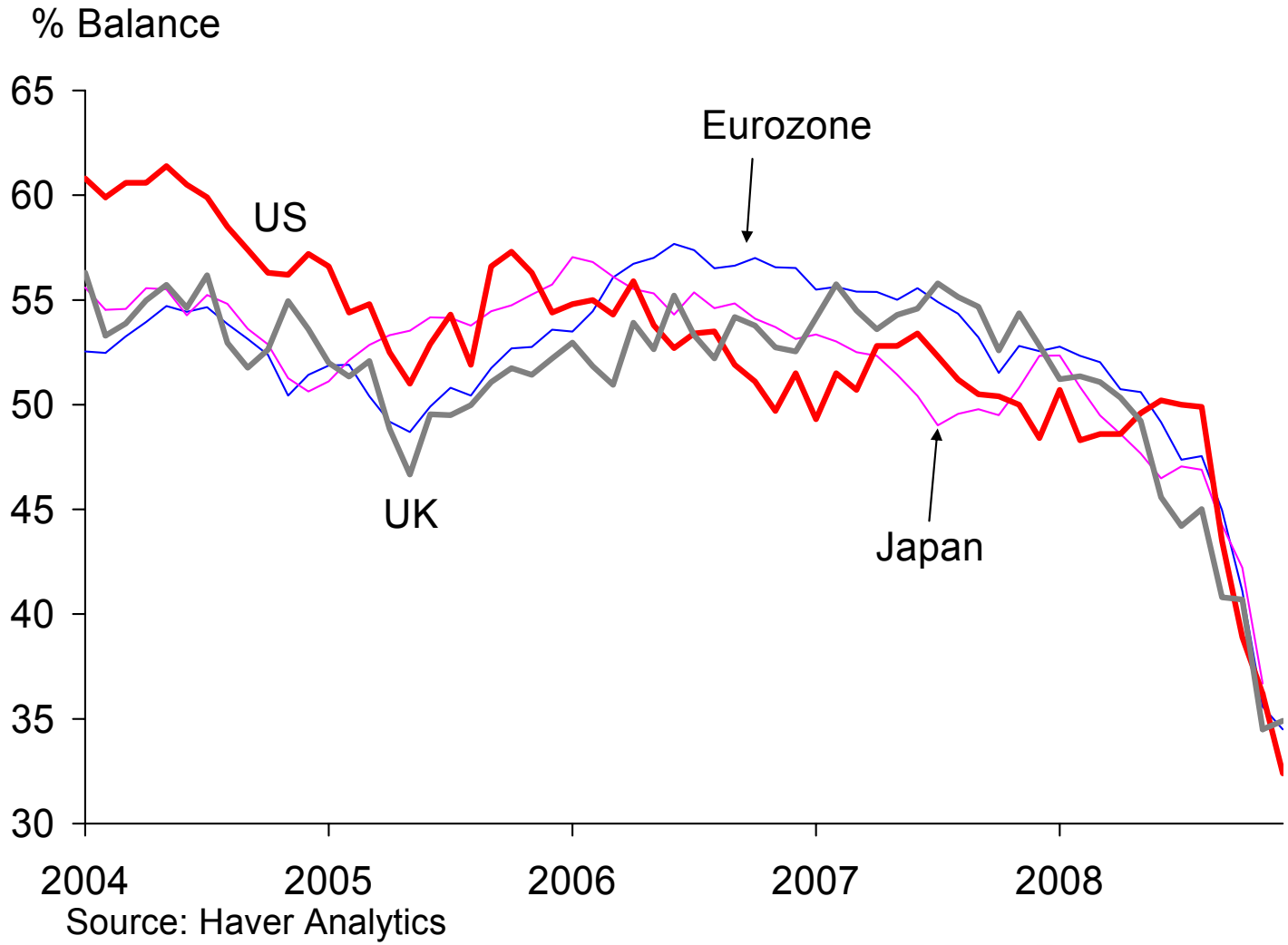
World: Industrial production



Source: Haver Analytics

…with surveys pointing to worse to come

World: Purchasing managers' indices



Source: Haver Analytics

Why such a rapid global downturn?

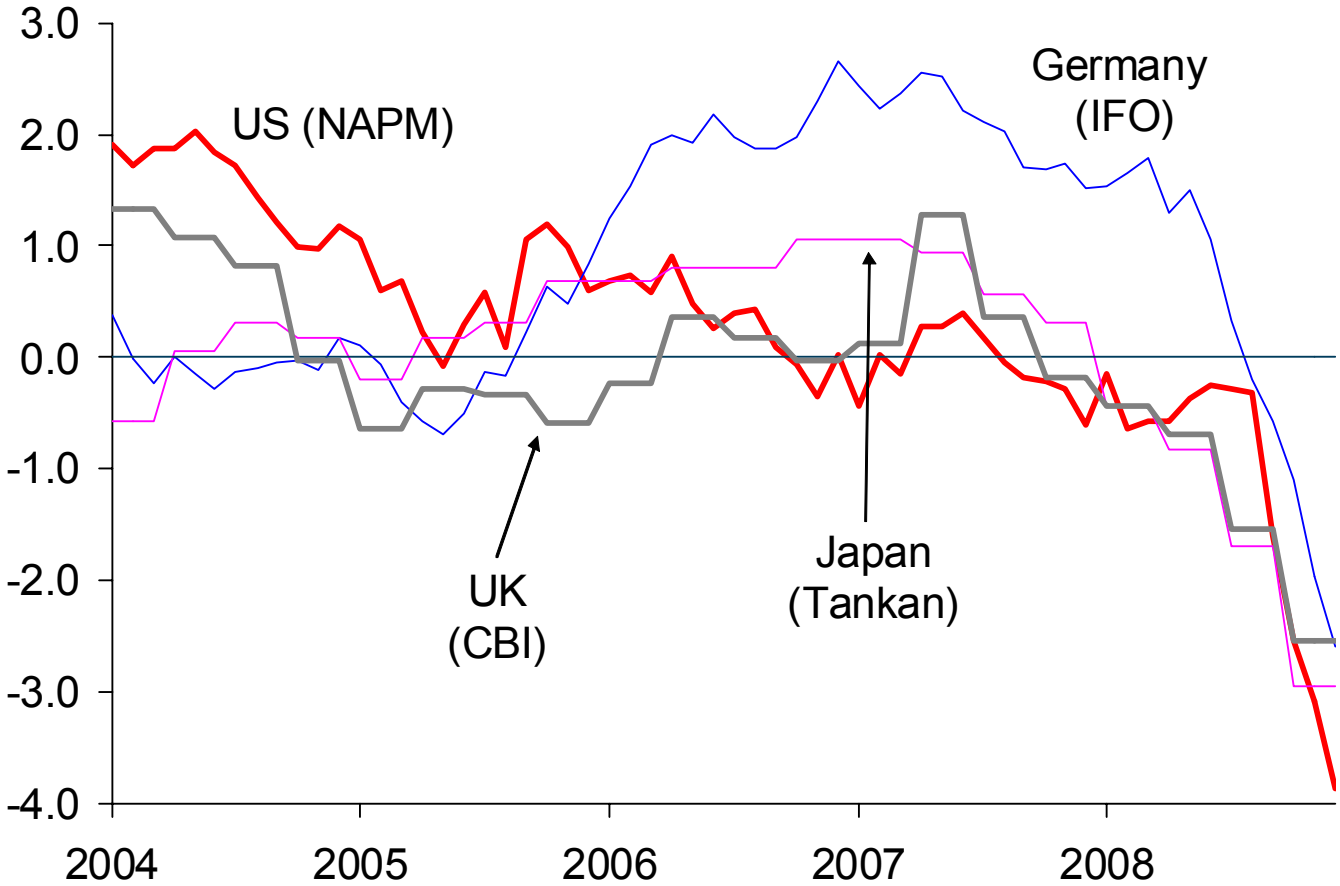
- The recent deterioration of the global economy has been remarkably rapid and synchronised. This reflects:
  - Increasing global interdependence - eg supply chains in industry, convergence in banking models in major economies
  - Widespread uncertainty over credit availability going forward
  - Problems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

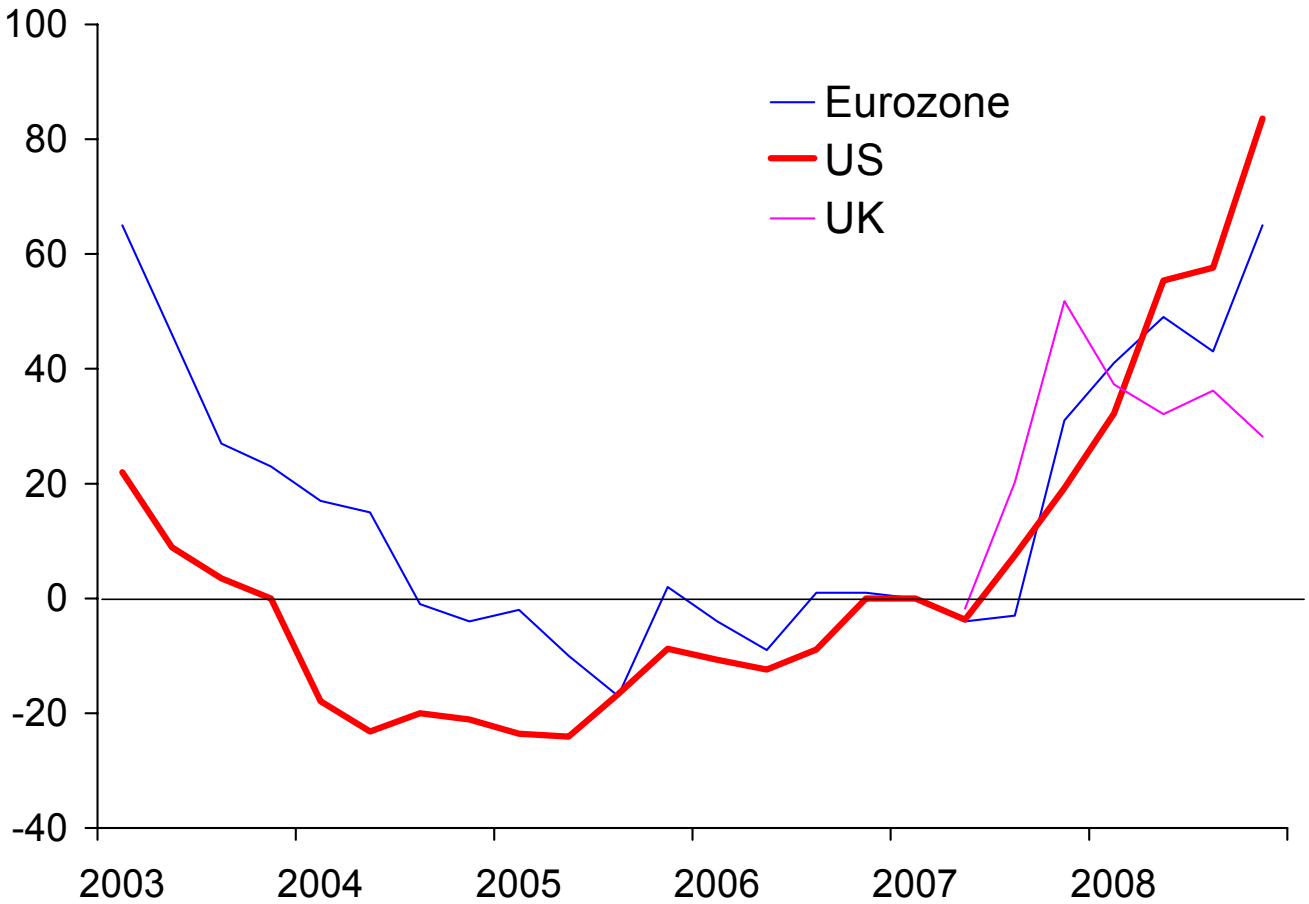


Source: Haver Analytics

…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

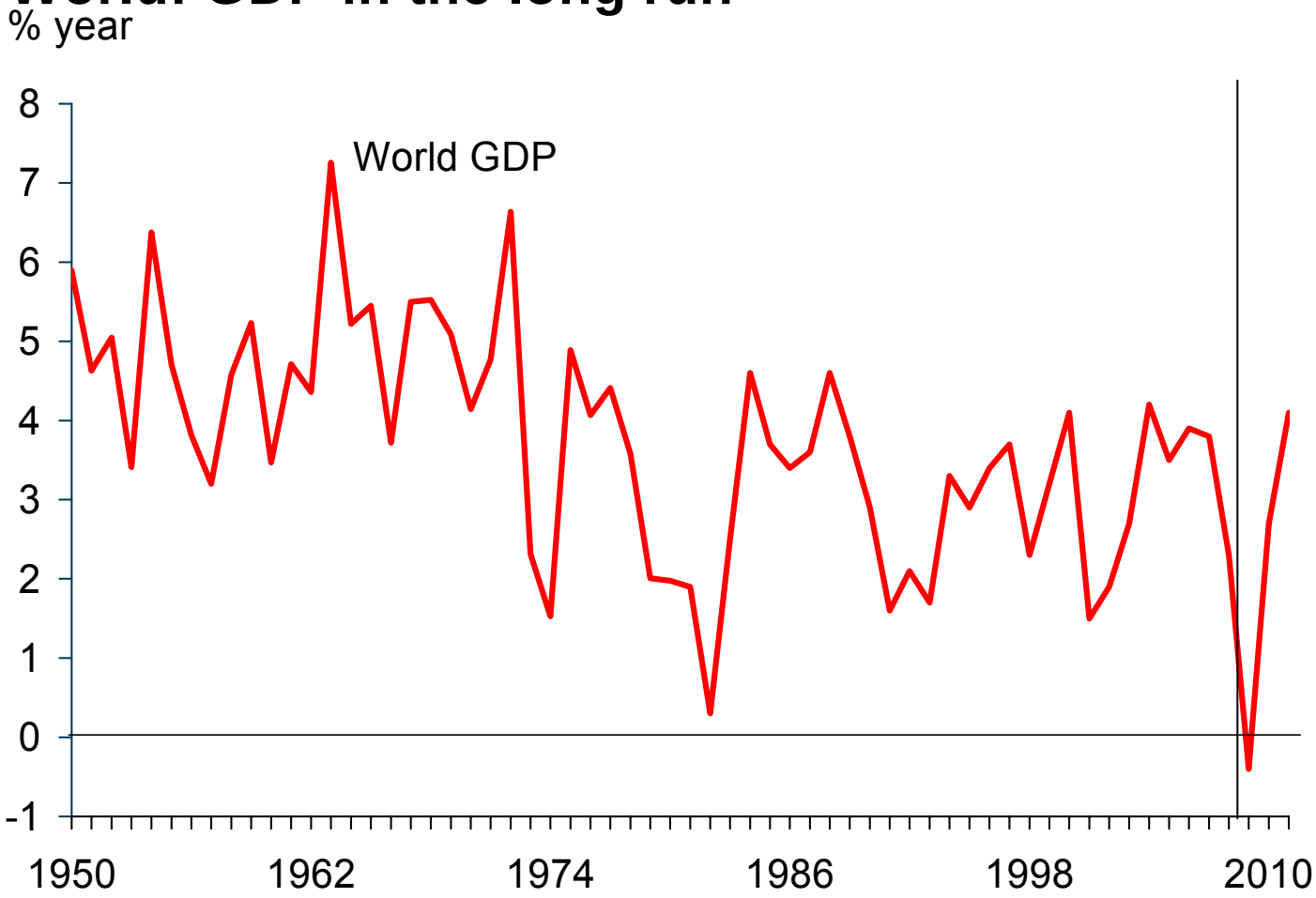
- The credit crunch appears to be moving into a new phase
- Credit restriction has become more intense for consumers and the corporate sectors. So:
  - Asset prices remain under pressure, especially house prices
  - A further round of failures/rescues among financial institutions is still a risk

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

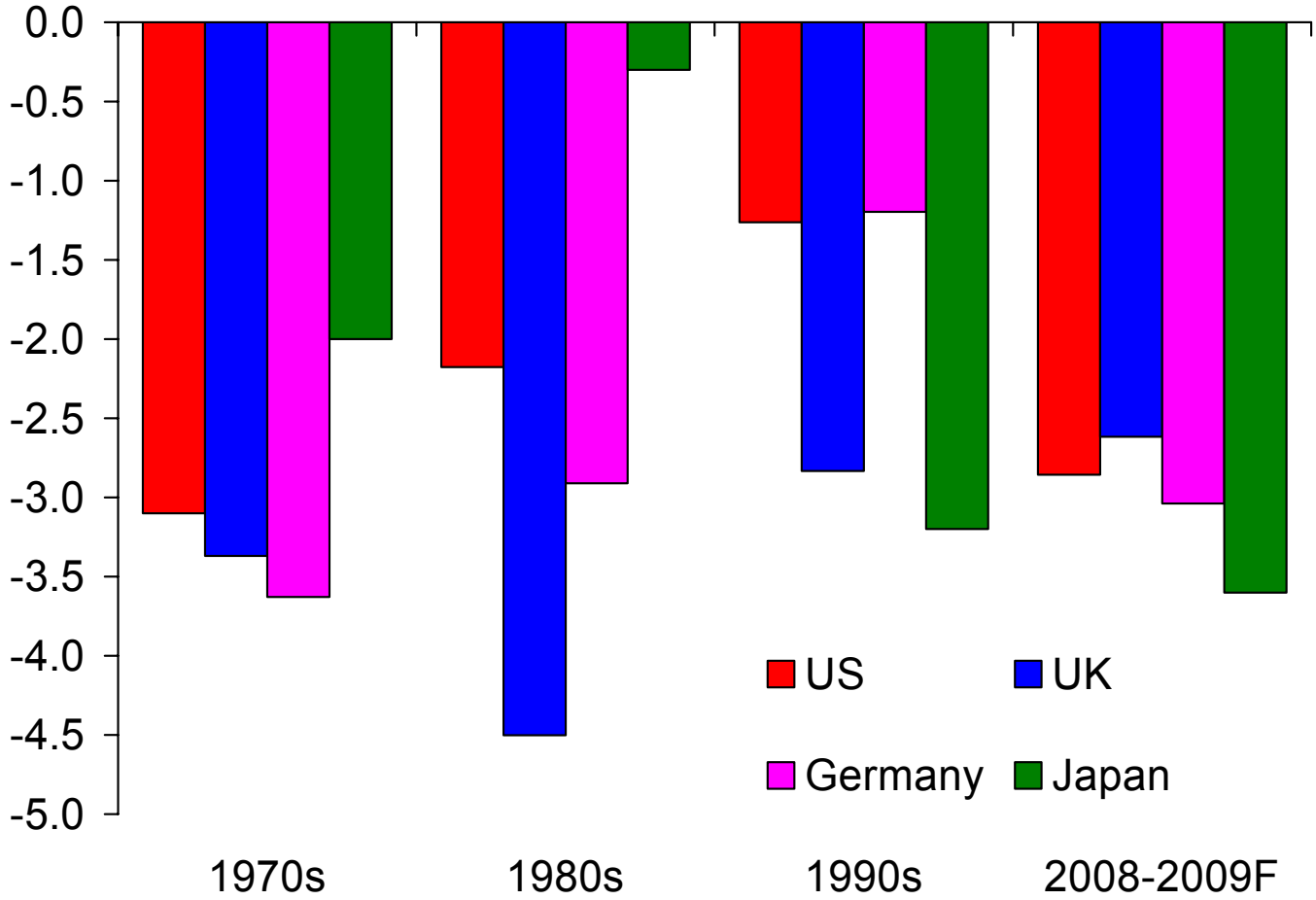


Source : Oxford Economics/Penn World Tables

…but where is the floor in the recession?

World: Recessions compared

% peak-to-trough fall in GDP

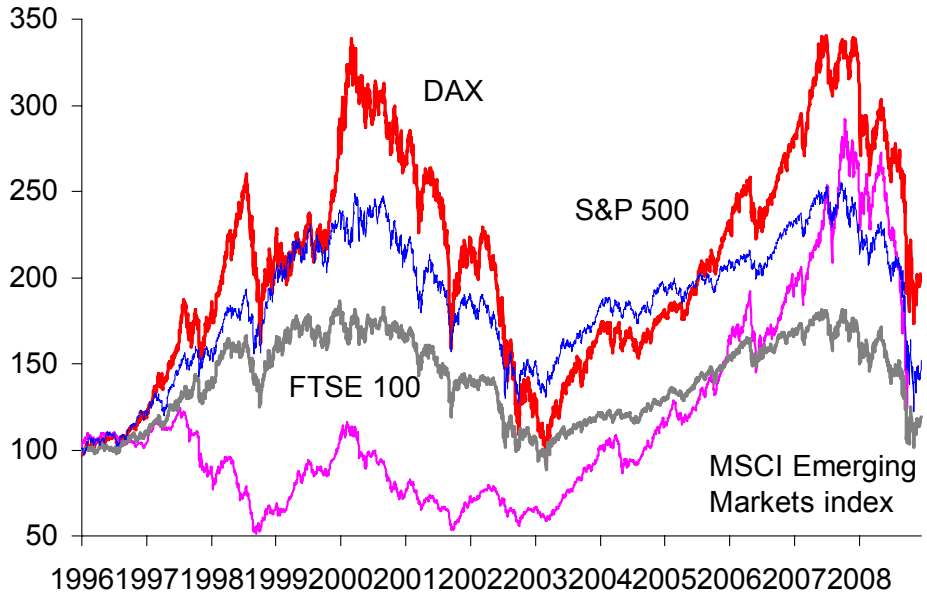


Source : Oxford Economics/Haver Analytics

…as collapse in asset prices…

World: Stockmarkets

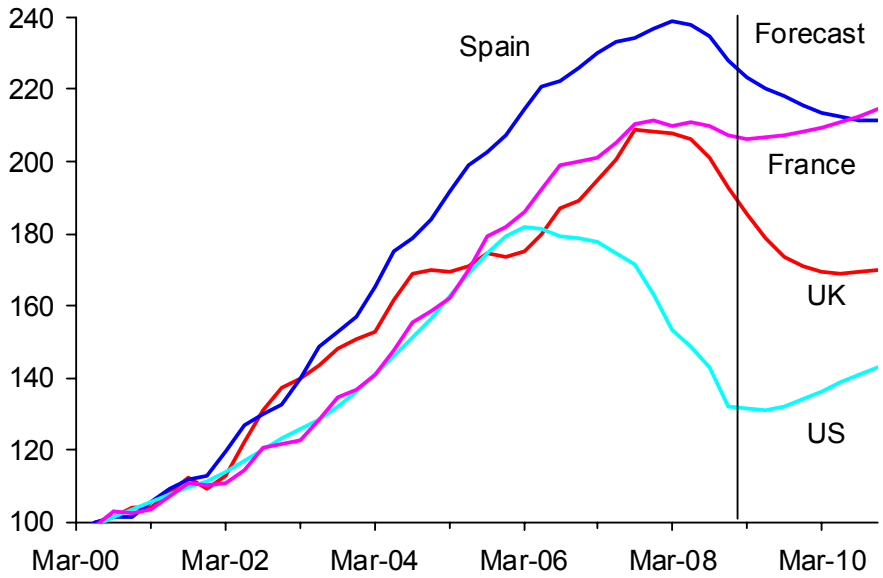
Jan 1996=100



Source: Haver Analytics

House Prices

Index 2000=100

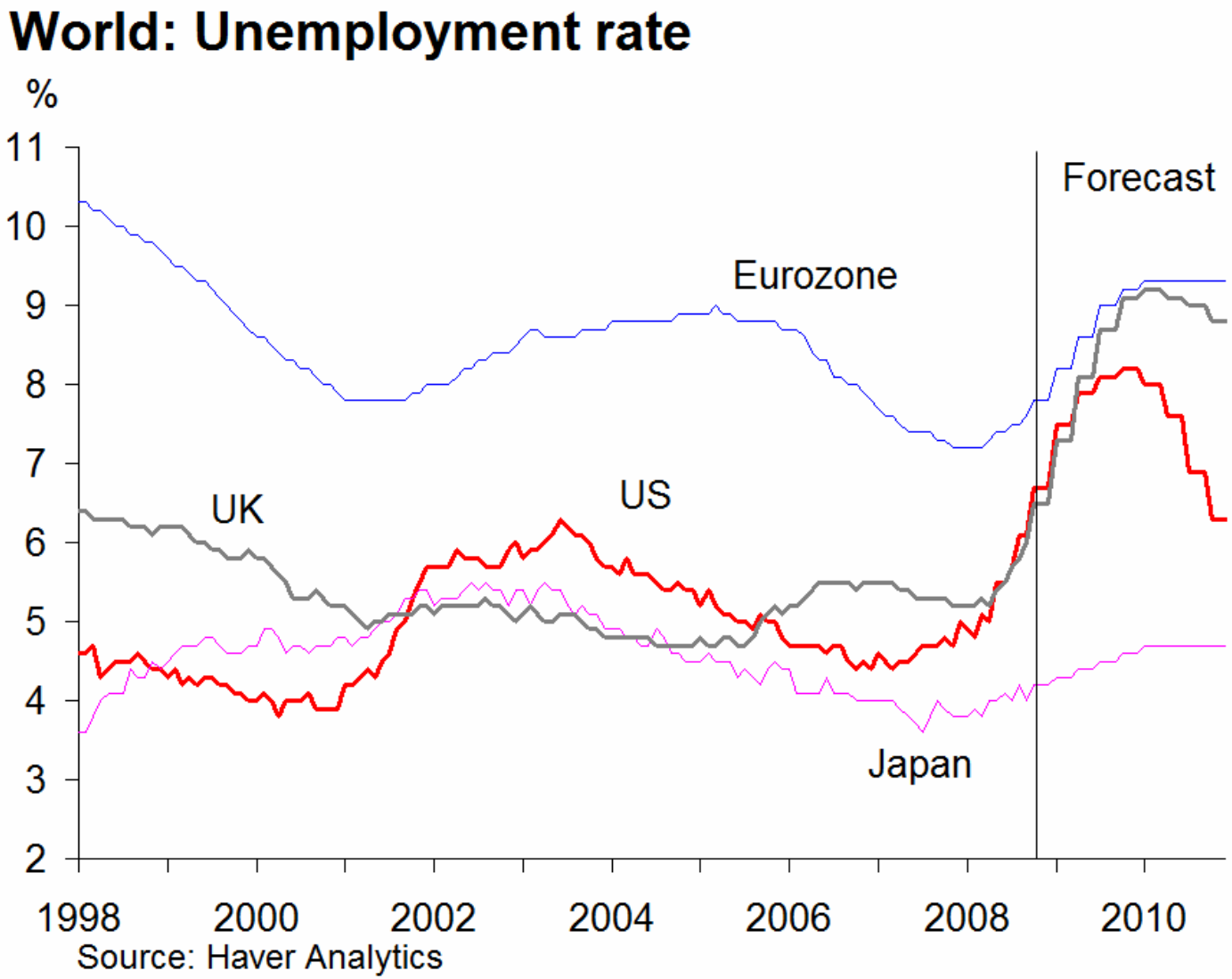


Source : Oxford Economics

...implies huge falls in household wealth...

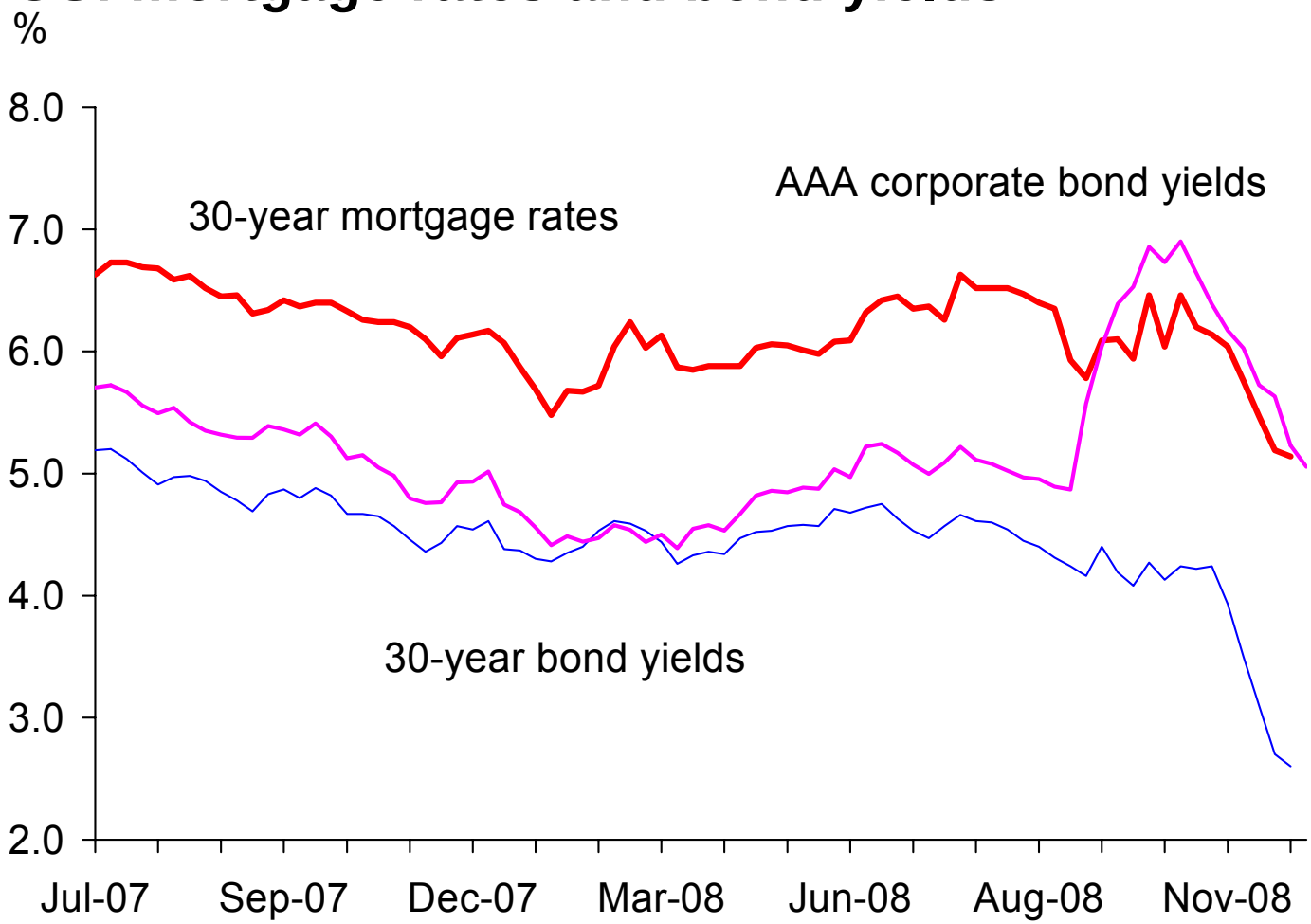
Household Wealth		
	Fall in household wealth Eur tn	Fall in household wealth % of GDP
Spain	-1.3	-84
US	-13.3	-83
UK	-1.8	-77
Japan	-3.1	-69
France	-1.7	-64
Italy	-1.0	-47
Germany	-1.1	-33

…and threat of unemployment worsens



Fed has lowered borrowing costs…

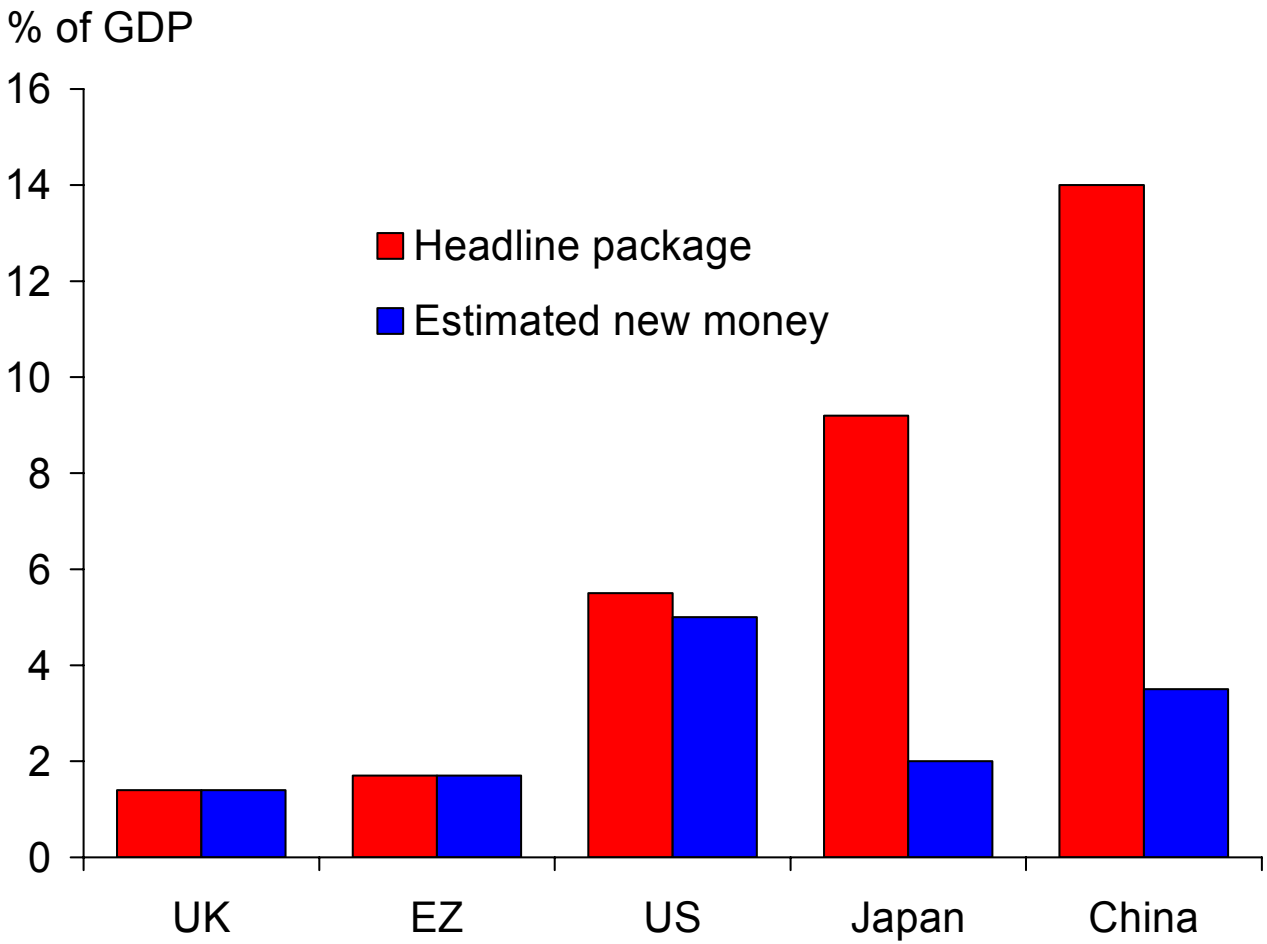
US: mortgage rates and bond yields



Source : Oxford Economics/Haver Analytics

Fiscal policy will also buttress demand…

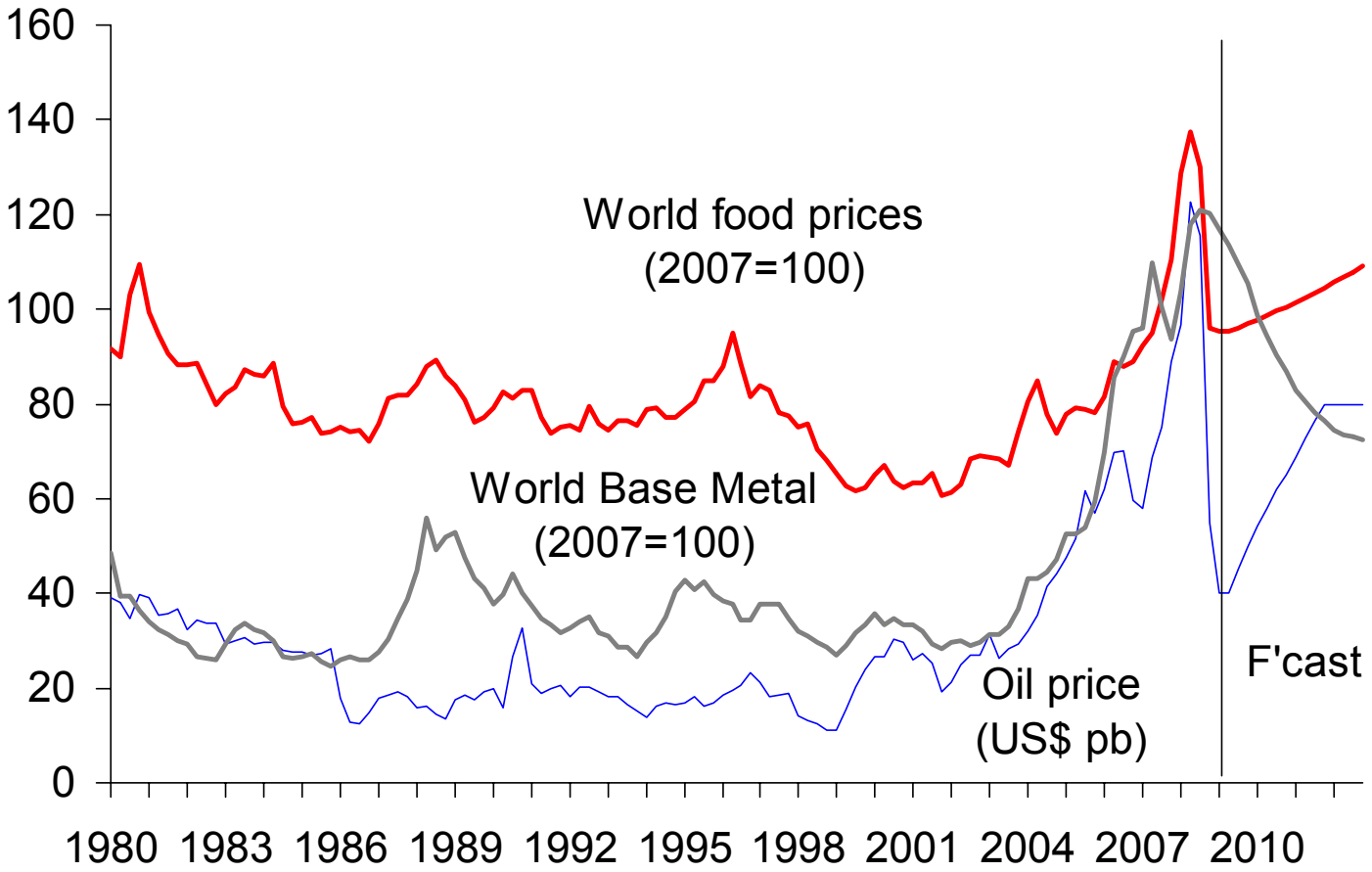
World: fiscal stimulus packages



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

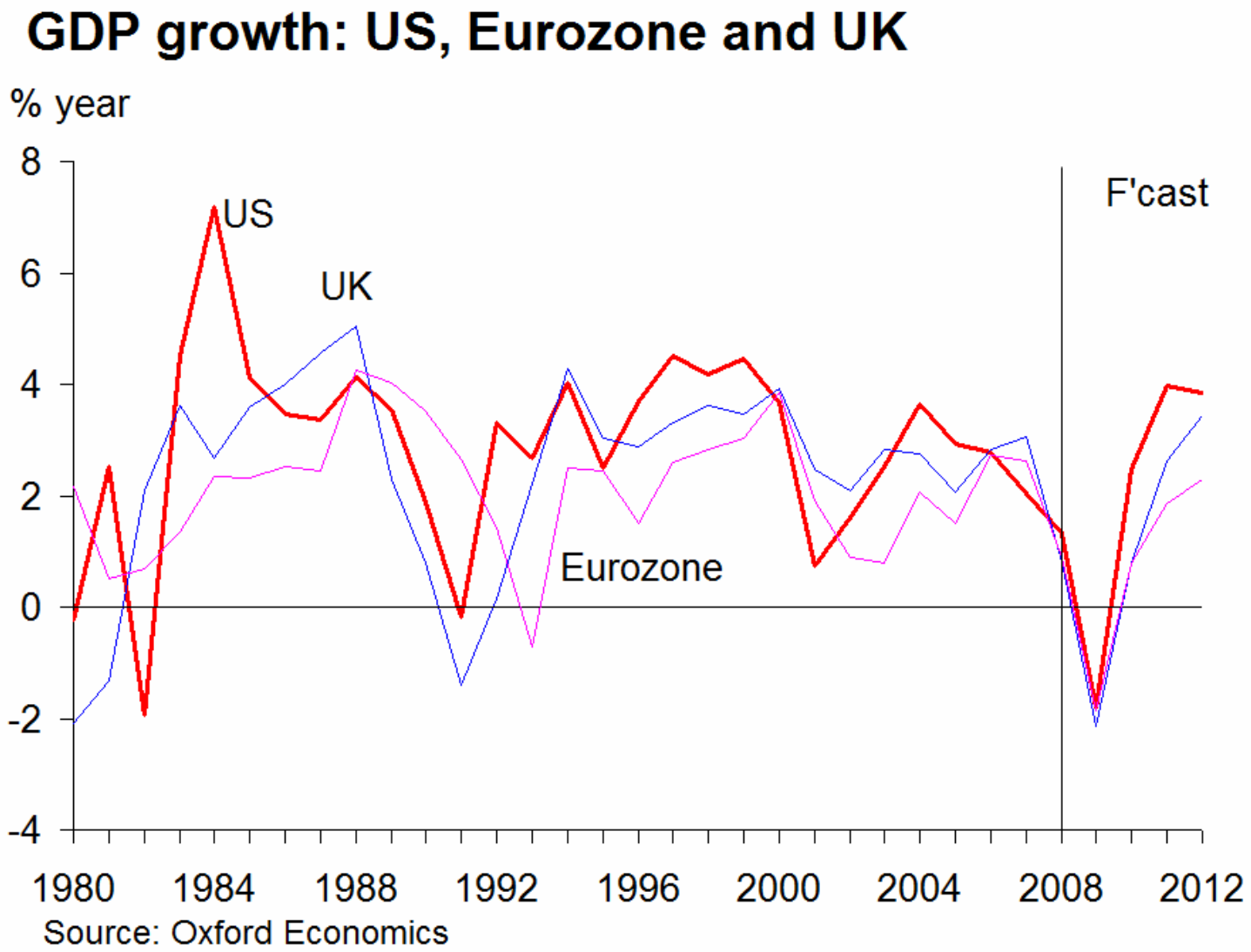
Net oil trade at different oil prices (US$bn)					
	US$20	US$40	US$60	US$80	US$100
US	-100.9	-201.8	-302.6	-403.5	-504.4
EU	-91.0	-182.0	-273.0	-364.0	-455.0
China	-30.0	-60.0	-90.1	-120.1	-150.1
Russia	53.1	106.3	159.4	212.5	265.7
OPEC	180.0	360.1	540.1	720.1	900.1
Based on 2007 consumption and production levels					

Source: Oxford Economics

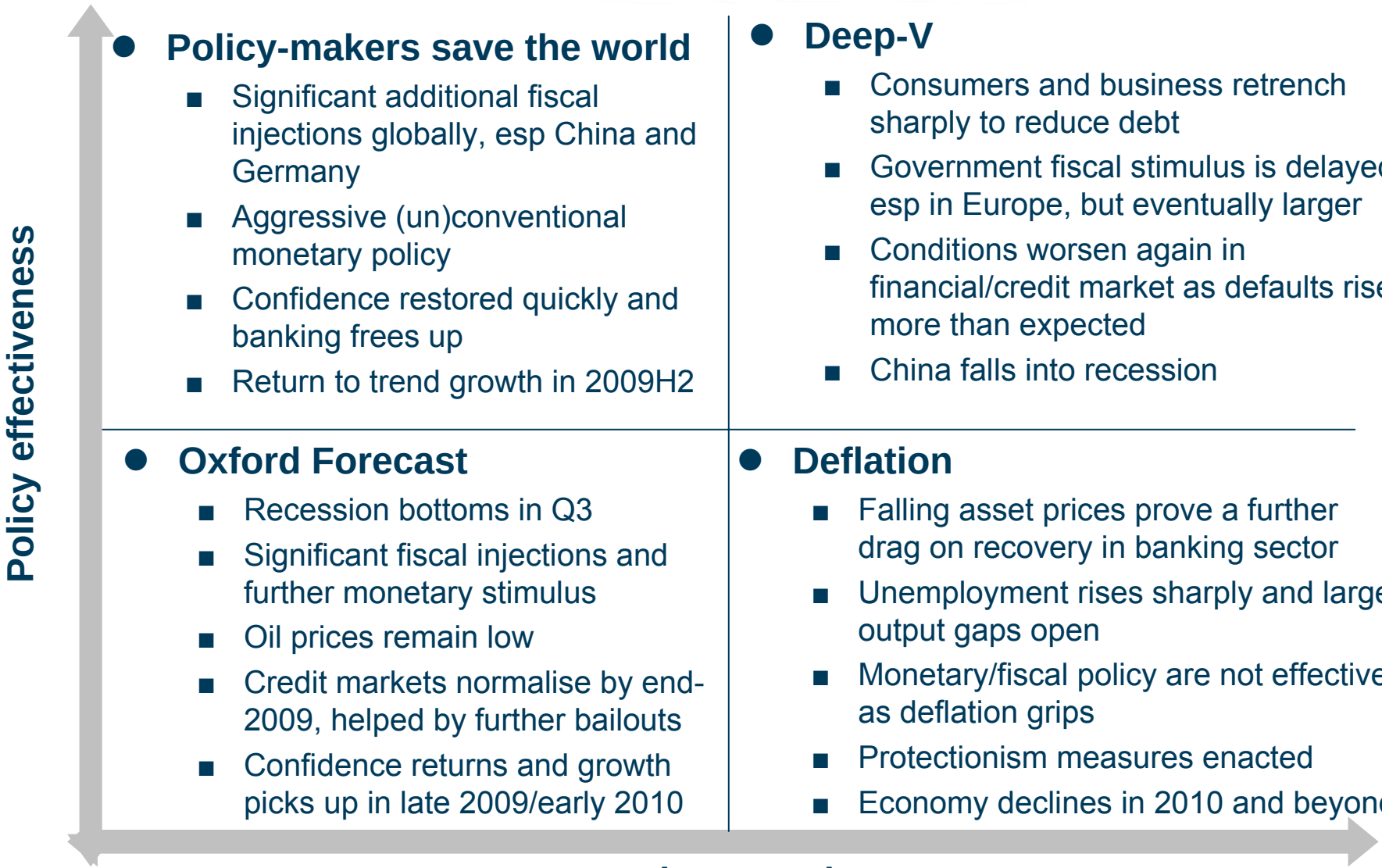
The Oxford Economics base forecast

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

US to lead recovery…



Scenarios for the global economy



- **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

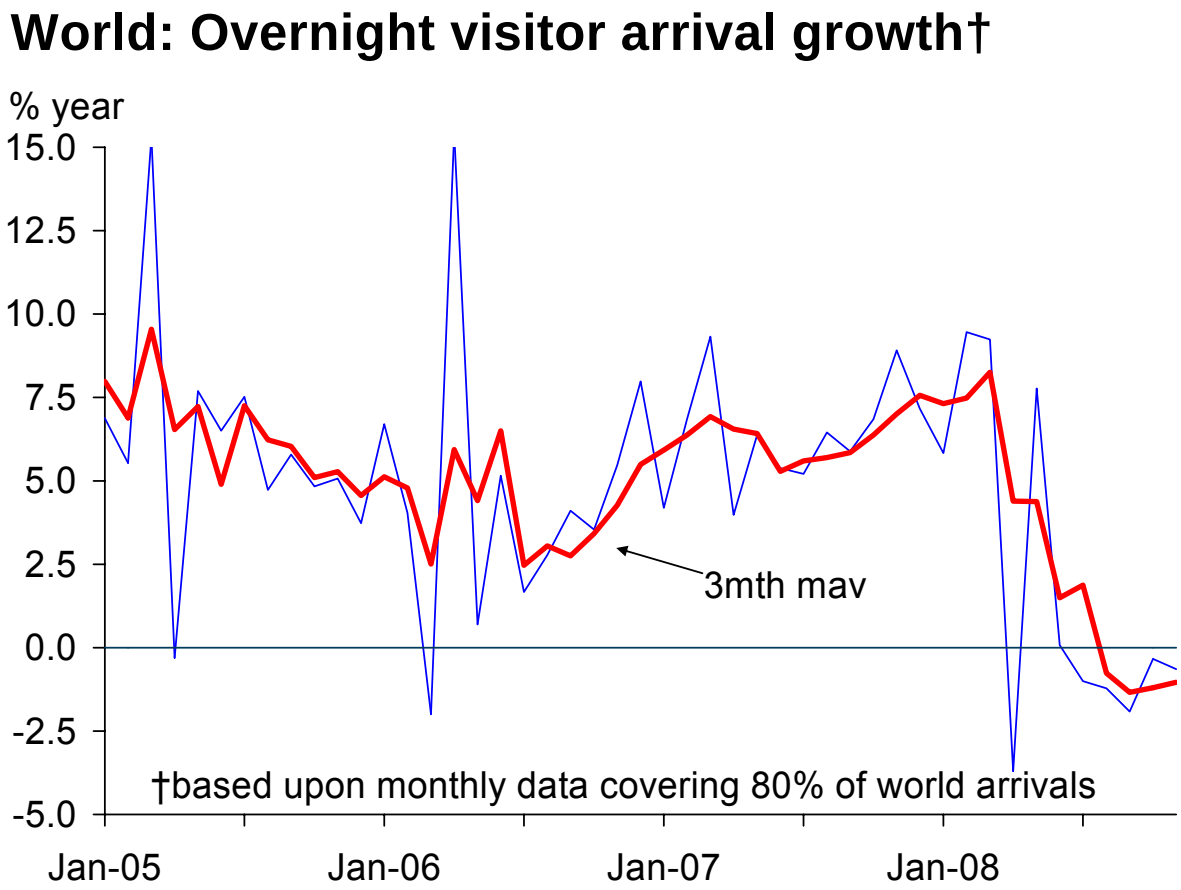
Alternative GDP growth forecasts	2008	2009	2010
Oxford forecast (40%)			
US	1.3	-2.0	2.5
Eurozone	0.9	-1.9	0.8
China	8.7	5.6	9.6
World	3.5	0.4	3.3
Deep-V (30%)			
US	1.3	-3.5	1.4
Eurozone	0.9	-3.4	0.2
China	8.7	3.6	7.0
World	3.5	-1.2	2.1
Deflation (20%)			
US	1.3	-2.9	-1.2
Eurozone	0.9	-2.2	-1.0
China	8.7	4.5	5.5
World	3.5	-0.3	0.4

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

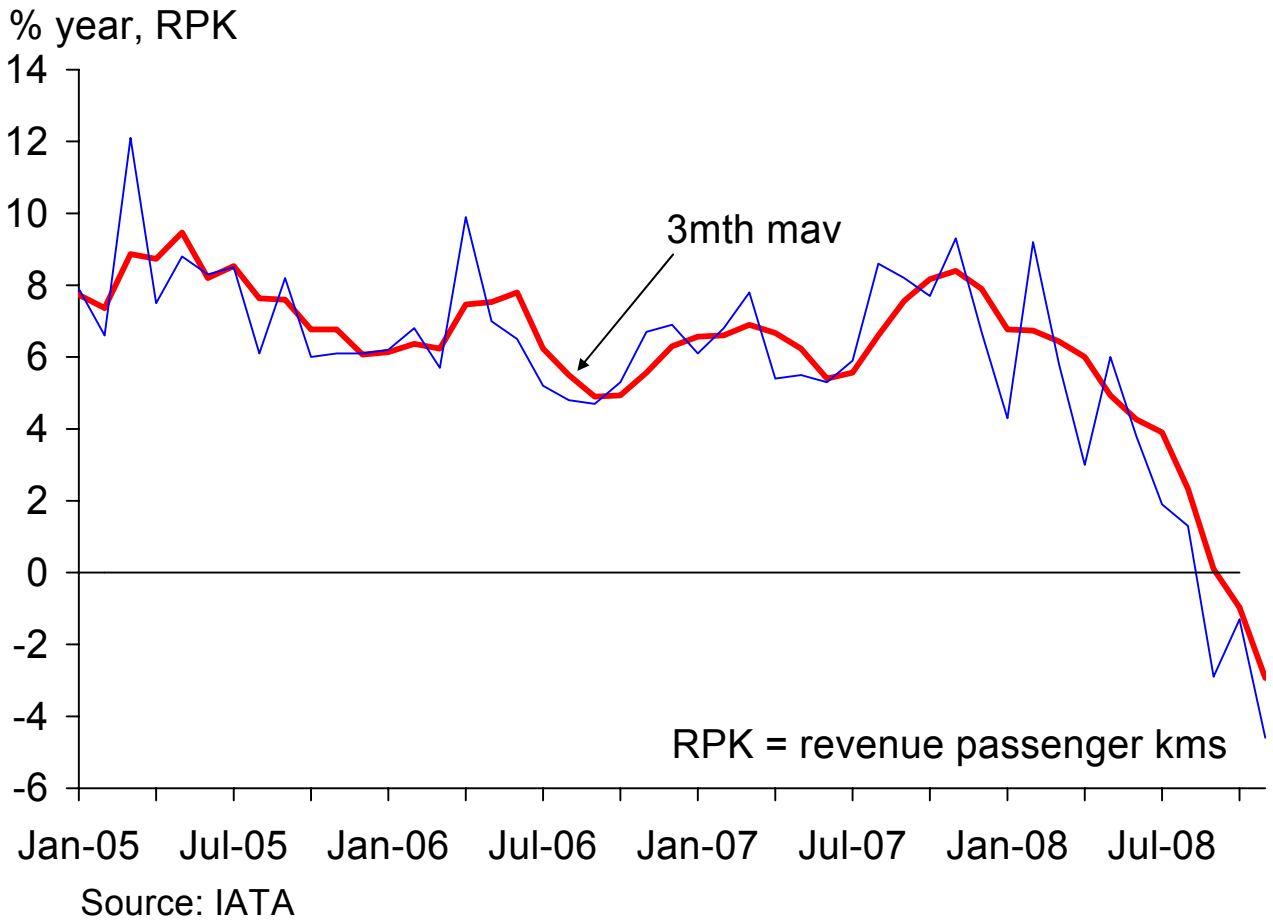
Global tourism has slowed during 2008



Source: PATA, Haver, Eurostat, Oxford Economics

Air passenger growth confirms decline

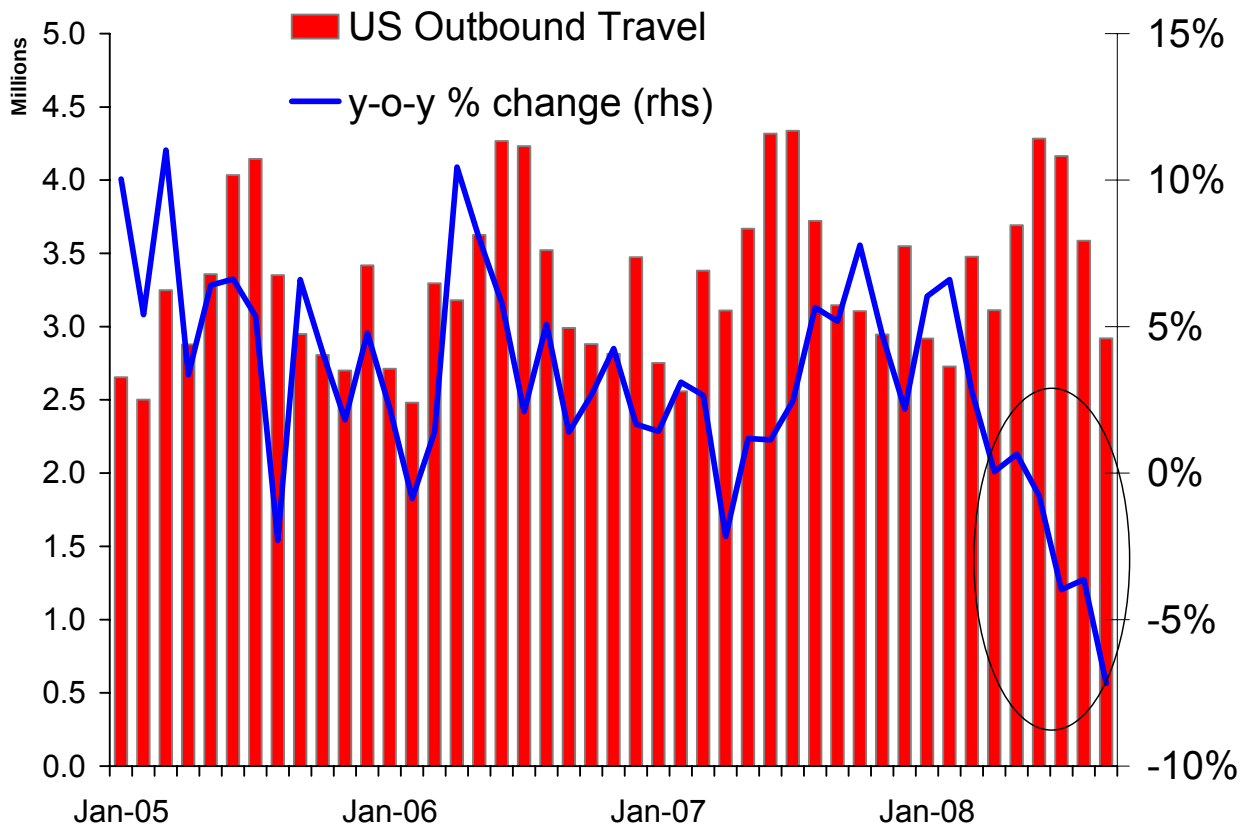
International air passenger traffic growth



Source: IATA

US Outbound travel plunging

US Outbound Departures



Source : OTTI, US Dept of Commerce

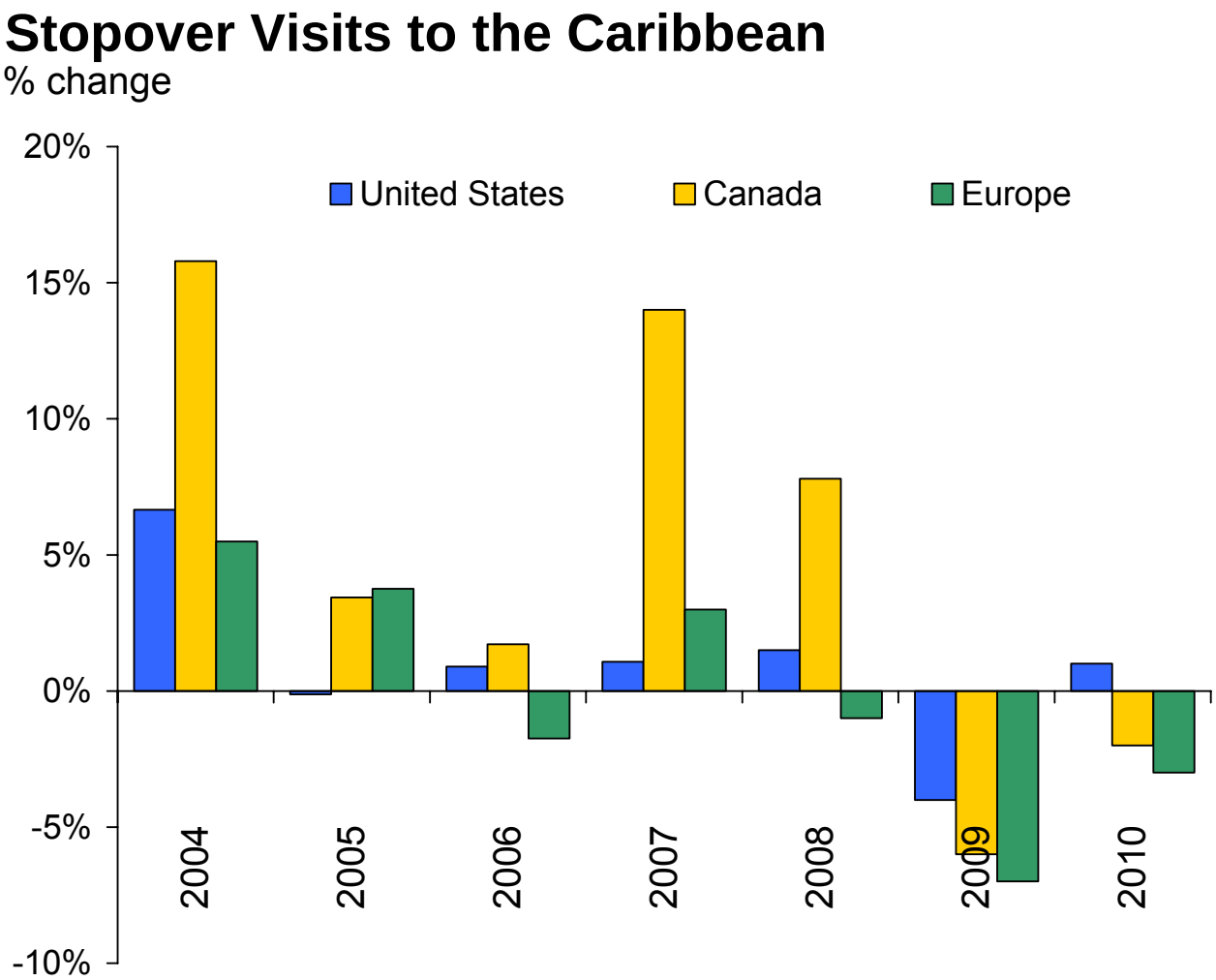
Caribbean tourism faltering

- 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



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

Destination	Target Market	Amount Spent ($ mn)	Return Spend-ing	Return Taxes
Australia	United States	$ 3.5	$64:$1	$5:$1
United Kingdom	Global	$ 42.1	$47:$1	$5:$1
Canada	UK	$ 1.0	$13:$1	$2:$1
Hawaii	US	$ 15	$177:1	$3:$1
Canada	United States	$ 4.8	$23:$1	$3:$1
Philadelphia	W. Europe	$ 1.2	$44:$1	$3:$1
United States	United Kingdom	$ 4.1	$117:1	$10:$1

Investing into a crisis

- 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

HOME

NEWS FROM ALL OVER EUROPE
VIDEO CONTEST

MAP OF EUROPE

Visit our interactive map of Europe for more information on European countries, cities and our brand new section on regions of Europe!

Home

EUROPE a never-ending journey

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.

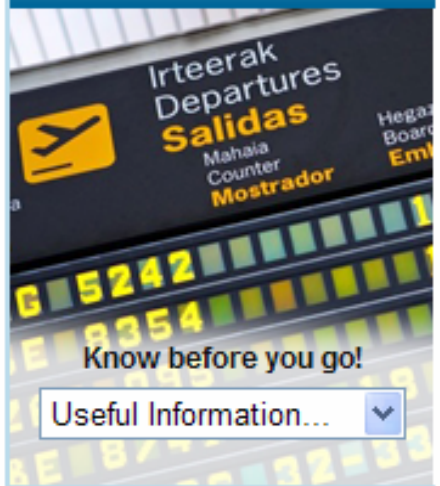
Then explore your options more in depth through the direct links to the countries' individual websites.
Enjoy the experience of a Europe without boundaries!

Google™ Custom Search

Search visiteurope.com

Live Support
Offline

Useful Information



Useful Information...

Activities
Culture
Nature
Routes

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

DISCOVER AMERICA™

THE OFFICIAL TRAVEL AND TOURISM WEBSITE OF THE UNITED STATES

Login / Register | Search

Places | Activities | Stories | About USA | Entry | Booking

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

Discover More Great U.S. Destinations

Discover All U.S. Destinations

Interactive Map ▶

Explore the United States by region, state or city and learn about the destinations that interest you!

Sign up for our newsletter

Keep up on what's happening at your favorite destinations, learn about special offers, and more.

Enter your email ▶

The opportunity

- 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

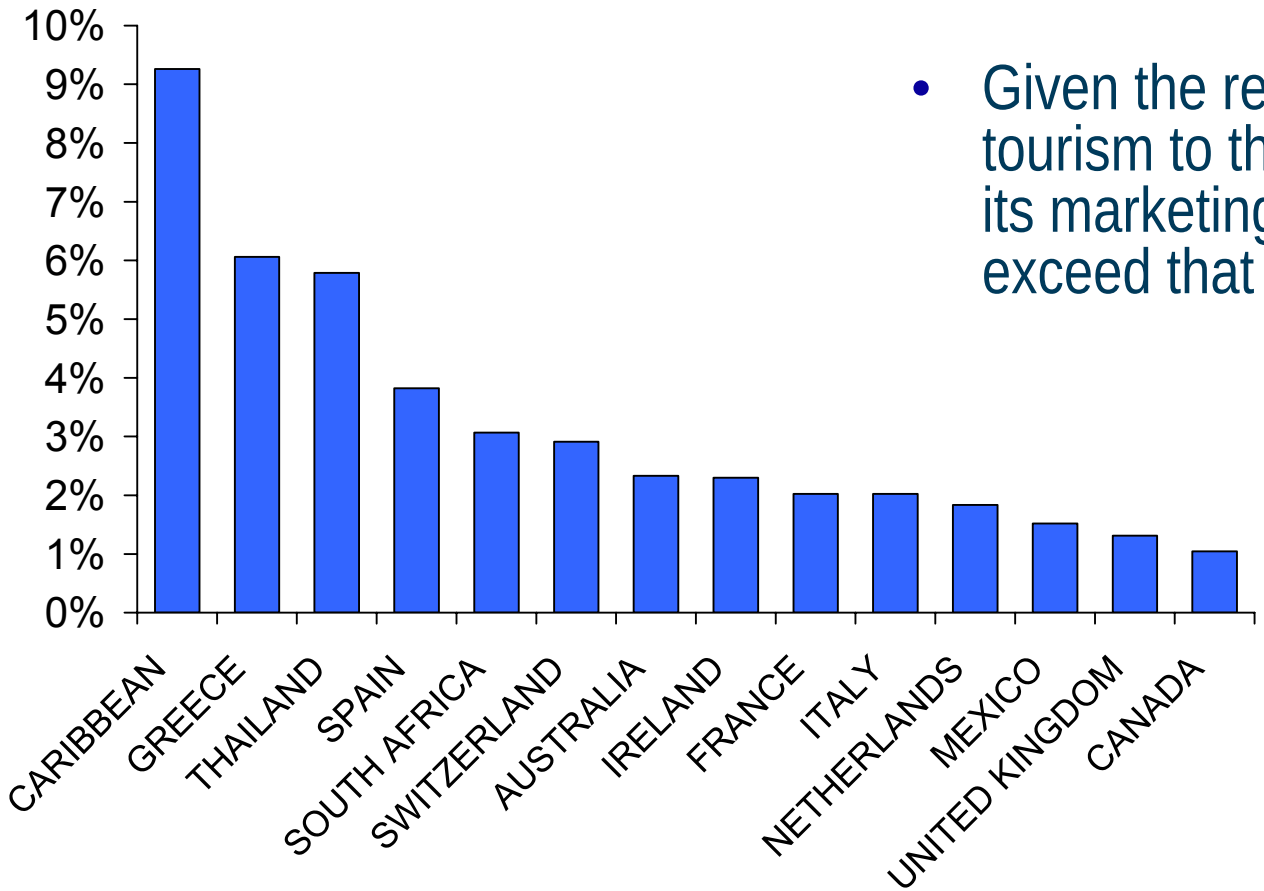
Degree of marketing support

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

Competitor benchmarking

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

For more information:

Adam Sacks, Managing Director, Tourism Economics

+1.610.995.9600, adam@tourismeconomics.com.

Michael Greve, President, Global Destinations Development

+1.305.323.1819, mgreve@globaldd.com