

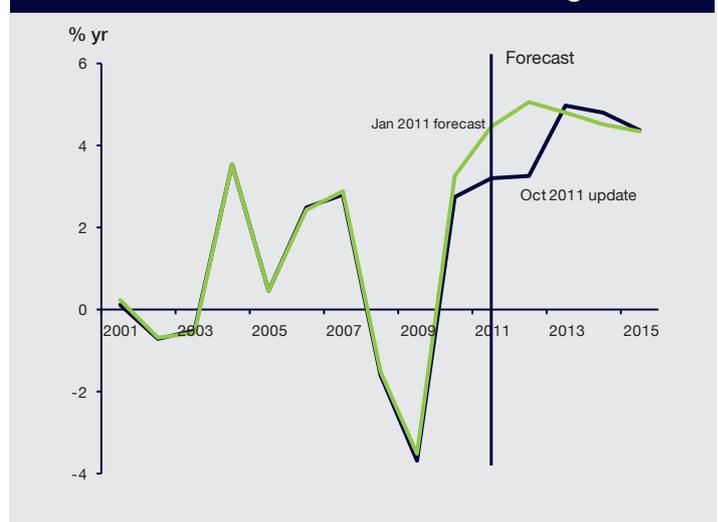
Economic Impact of Travel & Tourism Update November 2011

The global economic situation remains extremely challenging, with deteriorating financial conditions in Q3 2011, the continuing eurozone debt crisis and threat of a return to recession in the United States. Nevertheless, Travel & Tourism's positive growth, while lower than initially expected, will be maintained through 2011.

WTTC's annual research, published in March 2011, confirmed the recovery in Travel & Tourism in 2010, with the industry's direct contribution to GDP increasing by 3.3%, to US\$1.8 trillion. WTTC's latest forecasts for 2011 point to a sustained level of growth in both 2011 and 2012, at 3.2%, and 3.3% respectively. But these new forecasts represent a significant downgrading of prospects for the industry since March when initial forecasts were for 4.5% in 2011 and 5.1% in 2012.

Nevertheless, long-term prospects remain strong, with ten-year growth holding up at 4.0% per year between 2011 and 2021 – down only marginally from the 4.3% forecast in March, and due almost exclusively to downward revisions to growth in 2011 and 2012.

World: Travel & Tourism direct real GDP growth



The global macroeconomic picture

Latest economic data points to a slowdown in economic activity in the spring and summer of 2011. GDP growth in the USA is down from over 3% in Q4 2010 to around 1.5% in Q2 2011, with similar levels in the eurozone and growth as low as 0.5% in the UK in Q2 2011. On top of this, global financial conditions deteriorated sharply in Q3 2011. Global stocks are currently 15-30% off recent peaks, spooked by weak data, the eurozone sovereign debt crisis and the downgrade of the USA's AAA credit rating.

These developments alone could have serious negative effects on growth. However, if trends in equity and bond markets are symptomatic of a wider reassessment of short and medium-term growth prospects, this will also impact on business planning and, in particular, planning relating to investment and employment. The business sector was seen as the main driver behind the steady acceleration in growth expected over the next couple of years, and this now seems to be more laboured.

The eurozone debt crisis continues unabated. With little political will to implement significant reforms that would result in a permanent solution to the crisis, there is a risk that policy-makers could be overtaken by financial markets. At the same time, the risk of recession in the USA has increased. The weak labour market continues to weigh on household spending, while financial stress has taken its toll on business confidence.

Although they continue to outperform advanced economies, emerging markets also face challenges, including a 'hard landing' in the context of weak global demand, a potential surge in risk aversion and a sharp correction in asset prices. But, unlike their peers in the USA and eurozone, policy-makers in emerging economies have significantly more policy room to offset negative developments, and their governments and households are not saddled with the same levels of debt.

These latest developments have not only led to a lower central growth forecast for the world economy but have also increased the uncertainty surrounding that forecast.

Recent Data from Oxford Economics shows that:

- US GDP growth is now forecast at 1.6% this year and 2.2% in 2012, down from 3.2% and 3.5% respectively in January.
- The eurozone economy is forecast to grow by 1.6% this year and 1.1% in 2012, compared with 1.5% and 1.7% respectively at the start of the year.
- GDP growth in 2011 in Japan and North Africa has been revised down as a result of the tsunami and political crises.
- Growth in emerging markets has eased in line with monetary tightening to dampen inflationary pressures, but forecast down grades have been much more modest and forecast growth rates remain high.
- Overall, world GDP growth is expected to be 2.8% in 2011 and 3.1% in 2012, down from 3.5% and 3.9% at the start of the year.

Travel & Tourism so far in 2011

Despite the stuttering recovery in the global economy, Travel & Tourism's performance has been resilient so far in 2011. Results from H1 are better than might have been expected, at least in terms of 'volume' growth, although this may in part be due to the negative impact of the Ash Cloud on the 2010 figures. The growth in global air passenger traffic and international tourist arrivals has positive, continuing the recovery seen since H2 2009. Year-to-date (June) air passenger growth is only marginally behind the strong growth rate for 2010 overall.

International tourist arrivals increased by around 4.5% through the first eight months of 2011, according to data gathered by the World Tourism Organization (UNWTO) and Haver Analytics, and the growth in international tourism receipts (visitor exports excluding transport) does not seem to be lagging far behind.

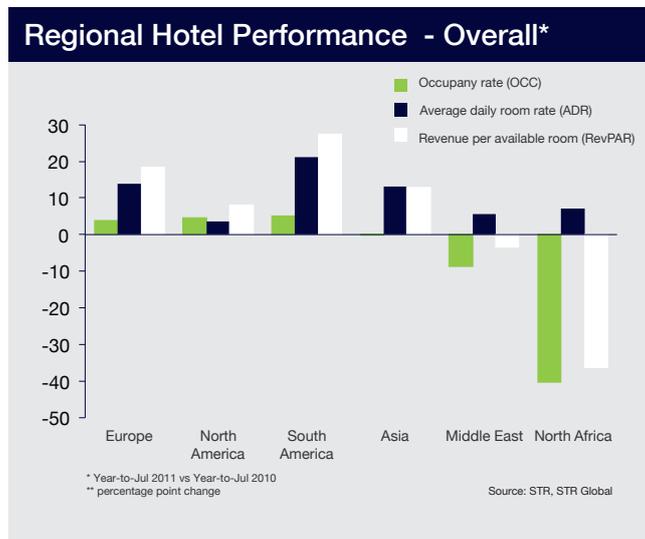
The best-performing regions this year so far, in terms of international arrivals, appear to be Europe and Asia Pacific – despite Japan's unsurprisingly weak results. While the rapid, and long-term growth in Asia's economies and tourism is now almost taken for granted, Europe has benefited from a switch back by European holidaymakers to destinations on the northern Mediterranean coasts – at the expense of North Africa and the Middle East. In terms of sub-regions, however, South America has recorded the strongest growth worldwide.

World: Short Term Tourism Indicators



Hotel occupancy and average daily room rates (ADR) have been higher in the first seven months of 2011 than in the same period in 2010 across most regions. And, in line with the trend in international arrivals growth, some regions have performed particularly strongly – notably Europe, Latin America and Southeast Asia. Performance in the Middle East and North Africa has, not surprisingly, been less strong.

However, while the data for the first half of 2011 has been largely positive, continued concerns around the state of the economy – particularly in the USA and Europe – means that confidence levels are low. As the global economic recovery loses momentum and impacts industry performance, the outlook for Travel & Tourism in H2 2011 is predicted to be weaker than H1.



Revised forecasts for 2011

Weak economic conditions and lowering expectations for short-term Travel & Tourism growth have led to downgrades to the forecast growth in Travel & Tourism's direct contribution to GDP across almost all regions of the world. On a global level, it is now projected at 3.2% in 2011 and 3.3% in 2012 (in constant US dollar prices and exchange rates), compared with the stronger forecasts of 4.5% and 5.1% published in March.

Looking at the data on a regional level, it is not surprising to see that the largest downward revision is in the Middle East, where growth in 2011 is now expected to be negative (-0.5% as against 4.7% in March). Negative growth is also now forecast for North Africa (-1.4% compared with 1.1%). This reflects the impact of the 'Arab Spring' on Travel & Tourism in the region in terms of lost business during uprisings, ongoing negative perceptions of safety and security, and concerns regarding the future political stability of newly democratised countries. This, in turn, has propped up the weak growth forecast for Europe, as destinations in the region benefit from displacement caused by the uprisings.

Travel & Tourism direct real GDP* October 2011 versus January 2011 (% annual change)							
	2010	2011 forecast			2012 forecast		
	Oct 11	Oct 11	Jan 11	pp chg	Oct 11	Jan 11	pp chg
WORLD	2.7	3.2	4.5	-1.3	3.3	5.1	-1.8
Western Europe	-1.8	4.6	4.6	0.0	3.1	4.9	-1.8
Eastern Europe	-1.4	3.3	4.3	-0.9	3.5	5.8	-2.3
USA	6.4	4.4	5.9	-1.5	1.1	4.8	-3.7
Latin America	0.6	5.2	5.2	0.1	6.1	6.0	0.0
Middle East	3.9	-0.5	4.7	-5.1	7.2	5.0	2.2
North Africa	3.2	-1.4	4.4	-2.5	5.5	4.7	0.8
Sub-Saharan Africa	0.8	4.0	1.1	-0.4	5.5	5.9	-0.4
Japan	1.8	0.0	1.4	-1.4	3.8	4.5	-0.7
China	4.5	12.3	12.6	-0.4	8.7	9.6	-0.9
India	6.5	5.1	8.7	-3.6	6.0	8.7	-2.7
South East Asia	2.4	6.4	5.1	1.3	7.5	8.0	-0.5
Oceania	3.0	-1.1	1.2	-2.3	1.6	3.5	-1.9

However, while the 2012 forecasts for the Middle East and North Africa have both been revised upwards, showing an expected recovery in the region next year, the prospects for Europe are not so positive – down by nearly two percentage points– driven by the ongoing sovereign debt problems.

Similarly, the USA is still expected to show strong growth in 2011 (down only 1.5 percentage points to 4.4%) but the prospect for 2012 is less good with growth of only 1.1% forecast (down 3.7 percentage points from the March 2011 forecast of 4.8%).

Forecasts for Japan have been downgraded due to the impact of the Tohoku earthquake and tsunami, as well as the subsequent nuclear crisis. For more details on this, please read WTTC's report *The impact of the Tohoku Earthquake and Tsunami on Japan's Travel & Tourism*, which is updated quarterly and available on WTTC's website (www.wttc.org).

Global Travel & Tourism growth is still being driven by emerging economies such as China (12.3% in 2011 and 8.7% in 2012) and India (5.1% in 2011 and 6.0% in 2012), although slight downward revisions have been made. The relatively small revision in China (down 0.4 percentage points for 2011 and 0.9 for 2012) is driven by economic concerns around the surge in building investment and the associated risk of loans going bad. The downward revisions to India's forecasts are higher (3.6 percentage points for 2011 and 2.7 for 2012) as a result of a rapid slowdown in growth in consumer prices.

Other regions which have maintained or increased expected growth levels are Latin America (remaining at 5.2%) and Southeast Asia (up 1.3 percentage points to 6.4%), both buoyed by ongoing economic growth and strong Travel & Tourism demand, which is expected to continue into 2012.

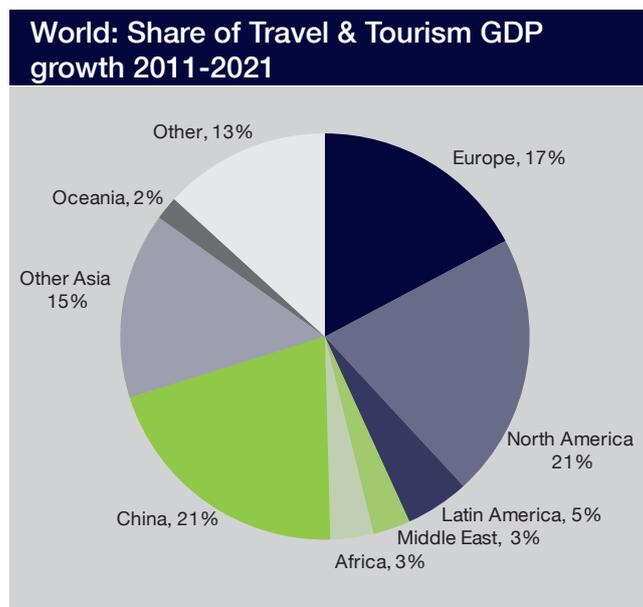
It should be noted that given the wider economic uncertainties these forecasts are themselves subject to increased levels of uncertainty, with significant downside risks.

Long term potential of Travel & Tourism

Despite the downgrade to short-term economic and industry forecasts, the longer-term prospects for Travel & Tourism remain very positive, and continue to be boosted by strong growth and rising prosperity in emerging markets.

We expect the direct contribution of Travel & Tourism to global GDP to grow by an average of 4% per annum between 2011 and 2021 (in constant US\$ prices and exchange rates). This is down only marginally from the 4.3% forecast earlier in the year, and is due almost exclusively to downward revisions to growth in 2011 and 2012.

This means that Travel & Tourism is predicted to generate an extra 69 million net jobs by 2021, including direct, indirect and induced employment. This will help to bring down unemployment rates across the globe, contribute to the much desired sectoral rebalancing and export-led growth transition of economies, and reduce poverty in developing economies. Almost 4 in 5 of these jobs are expected to be in Asia (excluding Japan), Latin America, the Middle East and Africa.



The World Travel & Tourism Council (WTTC) is the global authority on the economic and social contribution of Travel & Tourism. Each year WTTC and research partner Oxford Economics produce data on the economic contribution of Travel & Tourism to the world, regional and national economies. Data for 181 countries and 20 regional groupings, released each year in March, is available for download at www.wttc.org. For enquiries please contact research@wttc.org.