

Notes on UK tourism

Summary

These notes are intended to give a quick survey of the issues involved with UK tourism including domestic tourism, inbound tourism, the tourism deficit, and the growth in air travel.

The UK runs a major balance of payments deficit in terms of the tourism deficit, around £20bn per year until last year.

Aviation and particularly the growth in low-cost, short-haul has actively increased this deficit, and also damaged the domestic tourism market.

The seaside tourism sector has fallen behind the economy as a whole.

Management of supply and demand of air transport will pay dividends in both sectors, reduce environmental impact and generate tax revenue.

The major beneficiaries of increased cheap air travel are those with higher than average incomes: it has not democratised travel. Using APD or a per plane tax to increase the tax burden for those who fly multiple times per year, but reducing it for those who have one or less return flights per year, would help to redress this.

As concluded in the new Seaside Tourist Industry report:

... the large British seaside tourist industry is deserving of policy attention – and probably support – in its own right. The industry is an important national asset. Furthermore, in so far as British seaside resorts are in competition with destinations abroad (which must to some extent be the case) an extra visitor to the British seaside rather than abroad is good for the national economy as whole. Because air travel carries a large carbon footprint, an extra UK visitor to the British seaside is also likely to be good news for the environment.

Recommendations

The most beneficial steps would be:

- a) increase the taxation of aviation and constrict its supply by presuming against expansion, eg increasing APD (or its equivalent) by £10 per departing passenger would raise roughly £1bn in revenue each year
- b) use part of the revenue to pay each UK citizen (through tax threshold, pension or child benefit) to cancel out the increased APD for 1 return flight to Europe per year - this benefits the poor most and allows them a free choice how to spend that money, most of which would be spent within the UK rather than abroad. This would cost around £600m each year
- c) use APD etc to effectively manage and cap passenger numbers whilst still not making the cost of a single holiday return journey any more expensive
- d) use another part of the revenue to establish a network of high quality video conferencing centres across the UK so that business people can avoid the time wasted on domestic business travel - and the need for high-speed rail is also reduced. This would cost around £100m (one-off capital investment) for a density of centres sufficient for most people to be within 10 miles of one (use would be charged and hence commercial, paying back the investment over time).
- e) use remaining revenue (~£400m) to reduce the deficit (remembering that by increasing domestic tourism, the deficit will be lower due to higher tax revenues and lower unemployment)

UK tourism spend vs GDP

The following shows that over the last decade, spending in the UK tourism sector has dropped as a fraction of GDP

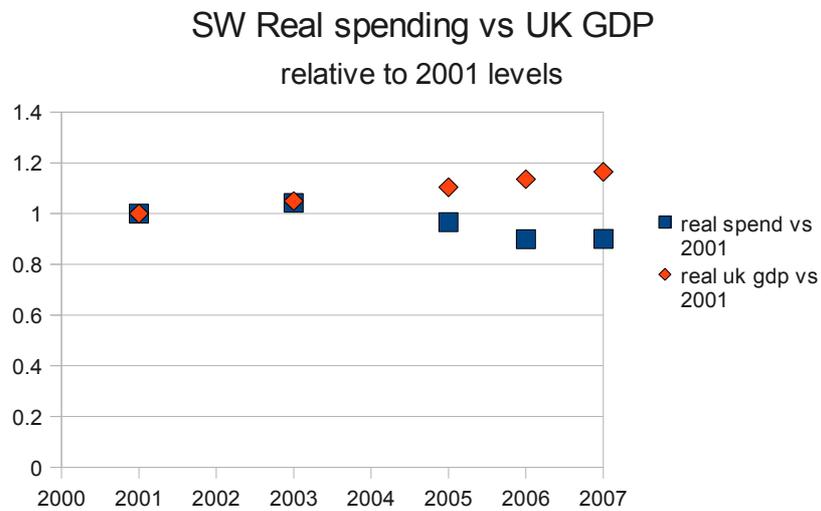


Illustration 1: SW tourism spend in real terms vs UK GDP real terms

Inbound and outbound spends

The following graph shows that outbound tourism spend through BIA has grown much more than inbound spend in terms of £, although in percentage terms the inbound has grown faster but from a very low base (and similarly for most UK airports, and all airports as a whole) . This means that the tourism deficit has also grown rapidly.

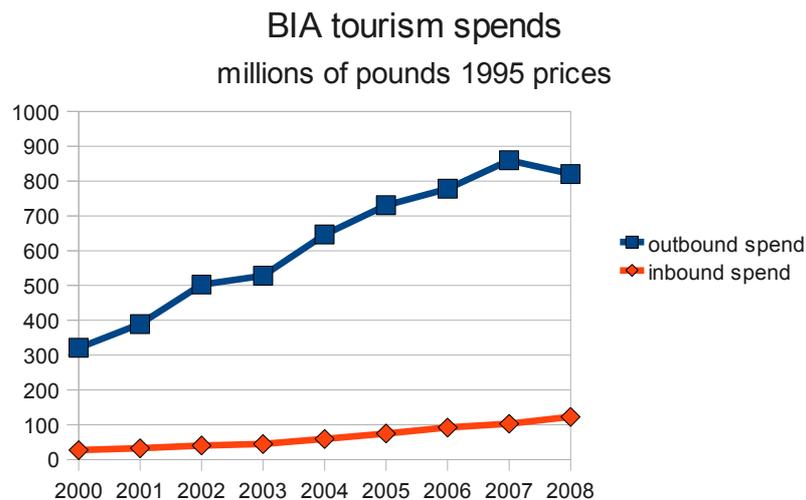
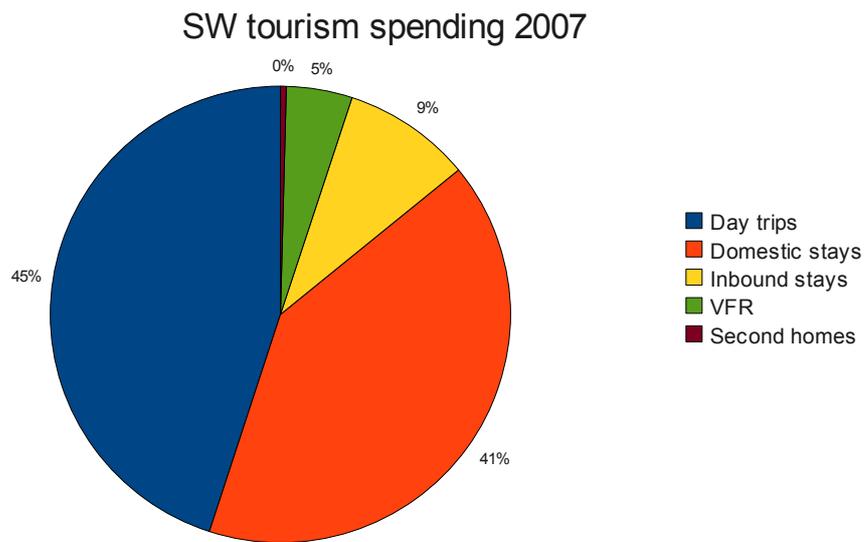


Illustration 2: BIA tourism spend in real terms

Breakdown of spending by purpose

The following shows that for the South West, only 9% of tourism spending is by inbound foreign

tourists. Far more comes from domestic spending, split equally between day trips and stays.



Tourism jobs over time

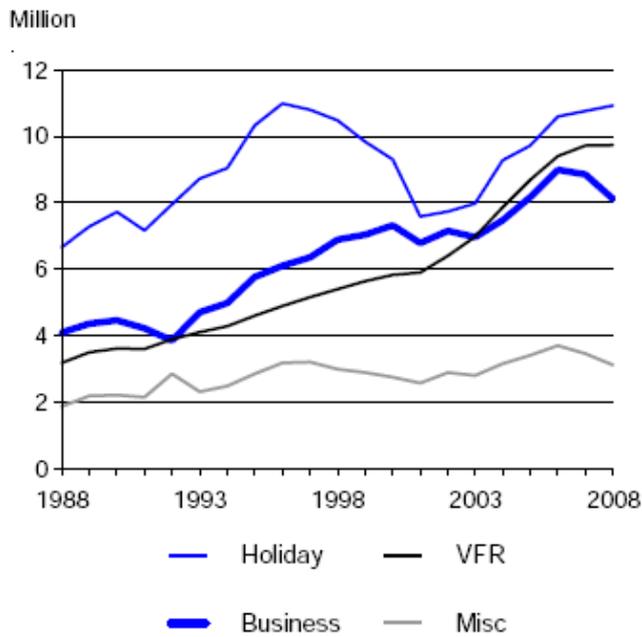
The following draws on Visit Britain surveys and shows jobs in the SW tourism industry over time. The direct jobs are most reliable, the 2002 numbers may be a little high due to an expected rise in daytrippers based on the trends of 1996 to 1998, and the 2004 may be low due to a changing attitude to phone surveys. But the overall message is that the total jobs has fallen or stayed static over the same time that UK citizens were spending far more on holidays, but mostly abroad. See data later on from the new Sheffield Hallam study.



Trend in inbound and outbound trips

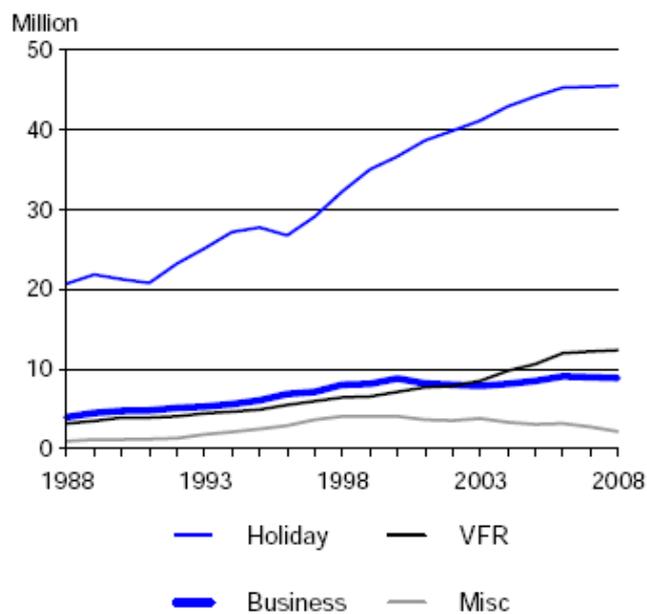
The following from the International Passenger Survey shows that over the last 20 years inbound visitor numbers have risen from around 16m trips per year to 32m (ie 100% growth), with a roughly even split between holiday, VFR and business trips.

Figure 3: Overseas residents' visits to the UK by purpose



In contrast, the next chart shows that outbound trips have grown from 30m trips to 68m trips (126% growth) with two thirds being for holiday. This means that the trip imbalance has grown, and as VFR spending is lower, the tourism deficit has grown even faster than the trip deficit, with there being roughly four times as many outbound tourists as inbound ones.

Figure 4: UK residents' visits abroad by purpose



Domestic tourism vs air passengers

This chart shows how domestic tourism trips, nights and spend have fallen as total air passengers have increased, and have shown the start of a recovery as passengers have decreased, despite being in the depths of a recession. The dip in 2004 is likely due to changing attitudes to phone surveys.

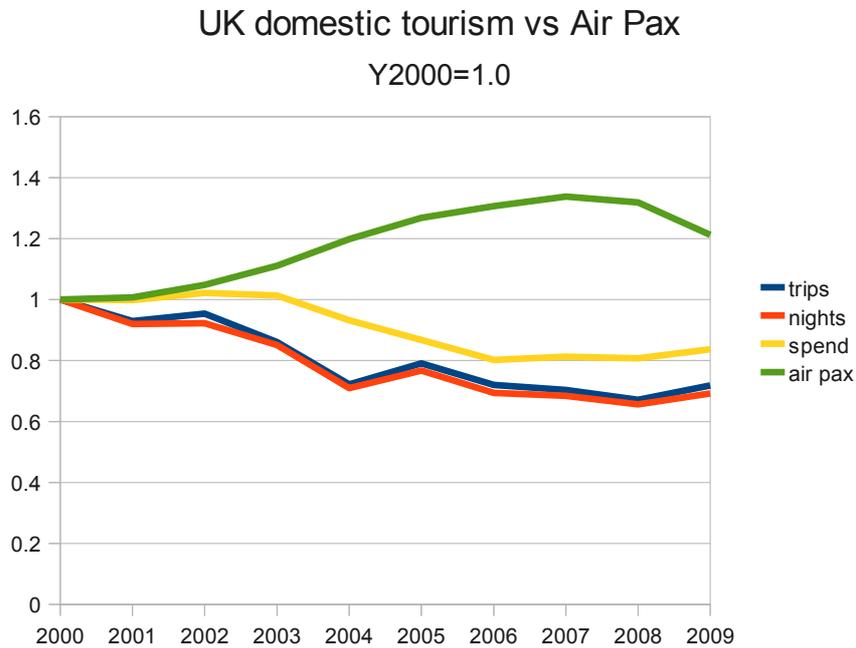


Illustration 3: UK Tourism survey

Tourism deficit vs air passengers

This shows the total tourism deficit vs total UK air passengers (note that there are non-tourists included in the passengers and no-air tourists included in the deficit, but both of these terms are relatively small and/or constant). The tourism deficit rose in line with passenger numbers, then accelerated as low-cost airlines caused a change in behaviour, with more well-off people flying more times per year, with more of the total holiday budget being spent abroad rather than on flights.

UK Tourism deficit (1995 prices) and Air Passengers
(2009=1.0)

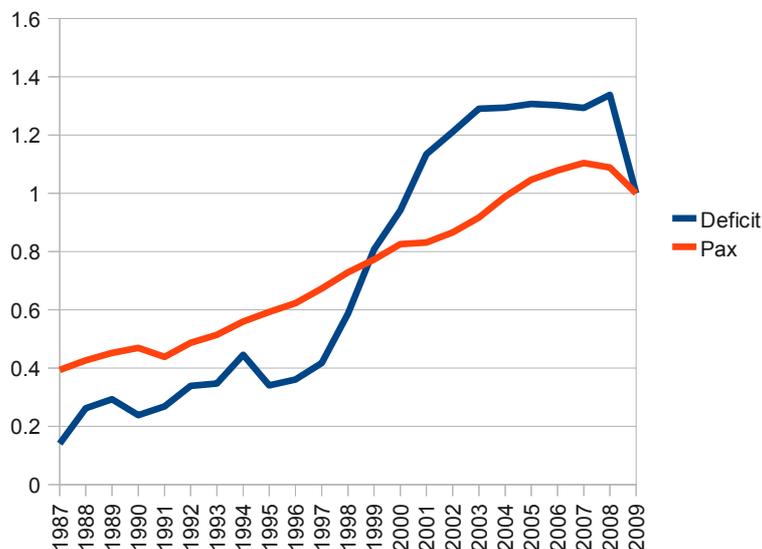
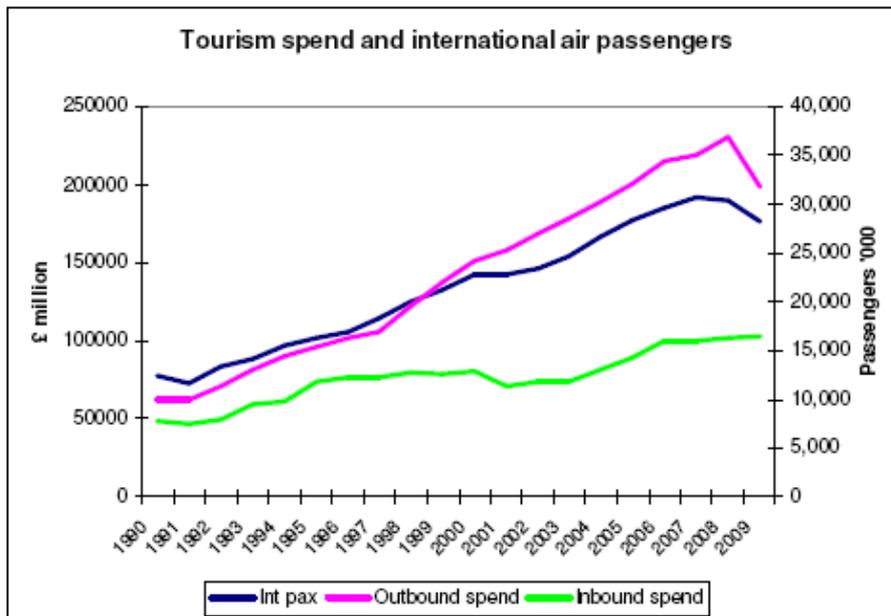


Illustration 4: ONS tourism spending figures

The deficit reached a plateau – indicating more trips but less days and spending per trip. As the recession and weak pound took effect, passengers dipped by around 10% but the deficit dropped by nearer 30%

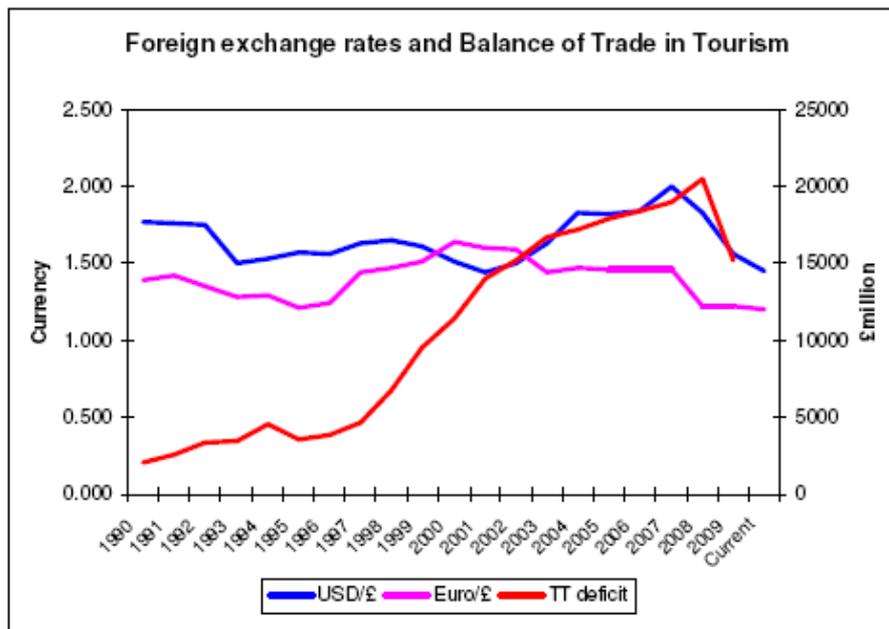


Source: IPS visitor spend and CAA annual data

Exchange rates vs Tourism Deficit

The following comes from the MTRU report shows that the tourism deficit grew against relatively flat exchange rates, potentially made worse by a strong pound versus the dollar and euro, but has dropped steeply as the pound has weakened in the last couple of years. So despite the a given foreign trip costing more in pounds, the drop in trips has more than made up for this.

Chart 6



Source: IPS, OANDA historical interbank rates

Modes of arrival for visitors

The two charts below show how domestic and foreign visitors arrive in the South West. It is clear that airports are largely irrelevant to domestic tourism arrivals (other than by competing to send UK citizens abroad) and that the major regional airport only supplies one seventh of the inbound

passengers. Sea routes are popular to foreign visitors as it allows them to bring their own car, surfboard, camping equipment etc which fits with what many northern European tourists want to visit the South West for.

Domestic visits to South West 2007

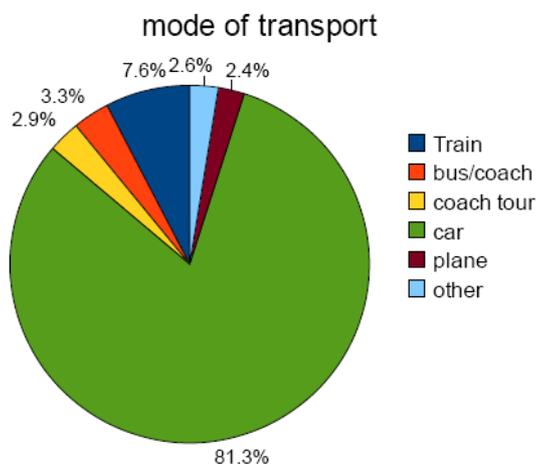


Illustration 10: Mode of transport for domestic visitors 2007

Overseas arrival route 2003

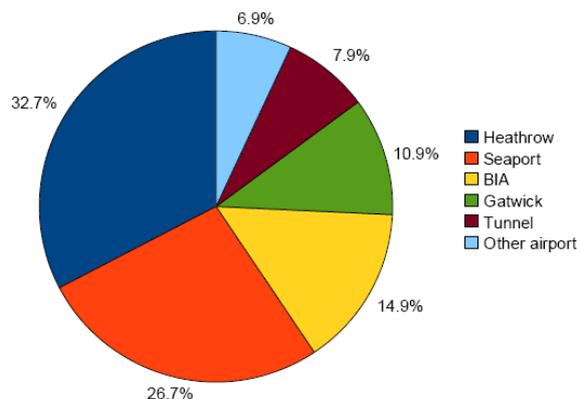


Illustration 11: Arrival route for overseas visitors to South West in 2003

“Democratisation of travel”

It has been argued that increasing the cost of air travel will punish the “hard working British family”. But this is not borne out by the data. As stated in “Predict and Decide”:

Data from the Civil Aviation Authority’s 2004 survey also showed that, of 62,849 leisure passenger trips terminating at Gatwick, Heathrow, Luton, Manchester and Stansted, 76% of passengers were from socio-economic groups A, B and C1, and only 24% were from groups C2, D and E (DfT, 2005a). Similar findings have emerged in data from the British Social Attitudes survey (DfT, 2005a). This shows that, for example, in 2003, over half of those in semiroutine or routine occupations had not flown in the previous year, whereas nearly half of those in higher managerial and professional occupations had flown three or more times.

How many air trips in the last year?	None	One	Two	Three +	Base Number
Higher managerial and professional occupations	21%	17%	17%	46%	106
Lower managerial and professional occupations	36%	20%	19%	26%	311
Intermediate occupations	41%	20%	24%	14%	126
Small employers and own account workers	49%	21%	11%	19%	86
Lower supervisory and technical occupations	41%	29%	16%	14%	140
Semi routine occupations	55%	23%	8%	15%	183
Routine occupations	56%	25%	11%	6%	168
Never worked and long term unemployed	74%	11%	15%	0%	33

Source: 2003 British Social Attitudes Survey (DfT, 2005a)

A reform of aviation taxation, particularly APD, in such a way that the cost of one return trip to Europe is no more costly than today, but more than one would be more expensive (ie rebate the equivalent tax for one return trip through other mechanisms) would directly benefit lower paid families and allow them to choose to fly abroad for a Summer holiday, or to spend the money in other ways, whilst increasing the tax burden on aviation overall.

More detailed notes

1) expanding airports will increase outbound tourism far more than inbound in absolute numbers even if the % of inbound increases it will be far lower than the % outbound, hence deficit would grow. Eg BIA has around 5 times as many outbound tourists as inbound ones. Only LCY is balanced, LHR is near balance (1.5 times as many outbound)

2) every extra net outbound passenger costs the UK £560 in spending abroad alone, ignoring the costs of the flight

3) *CAA assumes that elasticity of tourism is roughly -1 ie n% increase in total cost of holiday equates to n% decrease in number taken [although I think the CAA only looked at airfares which is a bit daft as they are often lower than the cost of the taxi, and much lower than the total cost]. This means increasing the cost of flying through APD, VAT, fuel duty, slot charges etc will reduce outbound tourism flights but because the fare is a small fraction of the total cost, a doubling of the charge would not halve flights and hence the measure would be revenue positive. Business demand for flights is inelastic ie raising the price will not deter business fliers (much).*

4) Every extra domestic tourist spends £173 within the UK, hence a net improvement of £733 to UK plc (relative to going abroad), of which around 20% (£146) would end up as taxation.

5) To demonstrate this, in 2009 due to currency fluctuations the cost of a trip to the EU was 14% higher than in 2008, the number of air passengers fell by 8%, the number of domestic visitors rose by 7%, bringing £774m to the UK domestic tourism industry, and tourism deficit fell by around £5bn.

Olympics – not a boon?

We do NOT need to expand any airports for the Olympics – there is plenty of capacity already and by making swift travel easier it is more likely to make stay lengths shorter hence total tourism benefit lower and emissions higher. Evidence shows that no host venue in the last 20 years has seen a net increase in tourism during the Olympic year – the extra Olympic traffic does not compensate for the normal tourists who stay away to avoid the congestion etc caused by the Olympics. For instance in Beijing, the number of foreign visitors in 2008 was 8.9% down on 2007, and even domestic tourists were down 3.8%.

(**European Tour Operators Association** researched visitor arrival statistics for the past Olympics in Beijing ('08), Athens ('04), Sydney (2000), Atlanta ('96), Barcelona ('92) and Seoul ('88) and stated that the tourism benefits of hosting the Olympic Games is “wholly illusory”.)

New seaside tourism report

A report much covered at the end of June implied that the UK seaside tourism industry was healthy and growing. The following summarises and critiques the report.

Press releases:

<http://www.ukwirednews.com/news.php/70757-British-seaside-tourism-growing>

<http://www.britishresorts.co.uk/tourismfacts.aspx>

Report:

http://www.shu.ac.uk/_assets/pdf/cresr-seaside-tourism-report.pdf

“The Seaside Tourist Industry in England and Wales”
 Prof Steve Fothergill, Sheffield Hallam University, 2010

This states:

- *The seaside tourist industry directly supports some 210,000 jobs, spread across six sectors of the local economy*
- *Since the late 1990s, employment in the seaside tourist industry is estimated to have increased – by around 14,000 in the principal seaside towns (and possibly as much as 20,000 overall) or by a little more than one per cent a year.*
- *The value of the economic output (Gross Value Added) associated with this employment in seaside tourism is estimated to be £3.4bn in 2007 (or £3.6bn in 2009, adjusting for inflation). This is low in relation to the industry’s substantial employment because of the prevalence of low-wage and part-time employment in much of the industry.*

However some caution is needed here:

- 1) commissioned by British Resorts and Destinations Association, which has at least coloured some of the spin eg “*The report’s findings also explode important myths about the industry. Far from being in terminal decline as a result of the rise of foreign holidays, a substantial British seaside tourist industry remains alive and well and seems even to have been growing over the last decade.*”
- 2) the 121 places identified have a population of 3.7m (41 principal, popn 3.1m; 50 smaller popn, 0.21m; 16 other, popn 0.4m; 14 holiday parks, popn 0.034m) yet only 210,000 jobs are found
- 3) these are not full-time equivalent jobs, so many might be part-time, seasonal, or with one person holding several jobs (eg a cleaner in the day being bar staff at night)
- 4) the use of ABI data which was gathered off-peak (December or September) then fudging this for a guess at the seasonal variation leads to potentially large errors particularly in estimating growth over 10 years
- 5) only goes back to 1998, ie just after start of low-cost flights, and midway between the recession in the early 1990's and the dotcom bubble burst ie GDP grew by 30% after this point. The employment rate in 1998 was 73.4% and in 2008 was 74.5% (the depth of the 1990s recession on this basis was 1993 at 70.3%)¹

Year	Employment level	Employment rate	Extra jobs	Extra jobs %
1993	25.299m	70.30%	-1.495m	-5.58%
1998	26.794m	73.40%	0	0
2008	29.442m	74.50%	2.648m	9.88%

On this basis, the workforce has grown almost 10% in 10 years, whereas the seaside tourism jobs have only grown 6.67%, or at only two thirds of the general rate. This would indicate that even if the industry has not crashed, it has fallen behind the economy as a whole.

6) WsM on this basis had 2500 jobs extra due to tourism as measured in 2007, or around 7% of all jobs in the town. Even within the “tourism related sectors” (eg taxis, restaurants etc) it only accounts for 26% of the jobs. Blackpool by comparison has roughly twice these percentages, and 19,400 tourism jobs. [2800 in Avon, 3800 in Somerset, 18900 in Devon, 17700 in Cornwall, 61,000 in South West]

7) For all of the relevant areas in England and Wales, the 210,000 jobs is only 12% of the total employment.

8) The £3.4bn estimate of GVA (£0.86bn for the South West, £44m for WsM) – this is only 0.3% of the UK total GVA, due to only £11k per job vs £36.5k for the economy as a whole.

¹ ONS – table MGUH for % and MGTM for level

9) most of the extra jobs over the decade (8,900 out of 14,000) were added in the South West, thus the SW increase was 17%, but elsewhere was only 3.4%, with the East region shrinking by 5%

10) note that the 210k jobs is more than double the direct employment in the “air transport” sector, and more than the total given by OEF as seen in the ATWP

11) it states the SW has benefited from rising car ownership – there is a risk that it will suffer disproportionately as the cost of motoring rises unless the cost of rail is controlled and the cost of air travel reflects its true costs and is proportionately taxed

Sources

The data has come from various sources including:

The International Passenger Survey, published as Travel Trends each year

The Office for National Statistics for such items as employment, GDP, GVA, RPI

The Civil Aviation Authority for passenger numbers and individual airport passenger surveys

Visit Britain visitor surveys

“Predict and Decide: aviation, climate change and UK policy”, ECI, Oxford 2006

“The Seaside Tourist Industry in England and Wales”, Sheffield Hallam University, June 2010

A soon to be published report by the Metropolitan Transport Research Unit