

# UK TOURISM SCENARIO FORECASTS

*A report prepared by Tourism Economics for the Department for Digital, Culture, Media and Sport (DCMS)*

# Introduction and Caveats

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- These forecasts were procured by DCMS for the purpose of gaining a better understanding of the future landscape of recovery in the Tourism and Travel sector.
- This report is based on analysis conducted by Tourism Economics (an Oxford Economics company) in late March 2021. The findings are based on the most relevant data available during this period. Where possible, assumptions in the modelling has been aligned with the reopening roadmap announced by the Prime Minister on 22 February 2021.
- Due to the uncertainty over Tourism and Travel during the pandemic, three illustrative scenarios have been created to account for the range of uncertainty inherent in such a dynamic situation.
- This modelling is underpinned by Oxford Economics' (OE) own macroeconomic forecasts
- Although commissioned by DCMS, these are independent forecasts and not to be treated as official government statistics

# Key UK assumptions underpinning this analysis

	Baseline	Upside	Downside
Headline assumptions	<b>Vaccine</b> - rolled out over Q2/Q3 2021	<b>Vaccine</b> - rolled out over Q1/Q2 2021	<b>Vaccine</b> - limited effectiveness until 2022
	<b>Inbound</b> - recovery in late Q2, Q3 2021	<b>Inbound</b> - Recovery from Q2 2021	<b>Inbound</b> - limited, similar to 2020, rebound delayed until 2022
	<b>Domestic</b> - move to next stage of Roadmap from May, self-contained holiday accommodation open, no restrictions from 21 June onwards	<b>Domestic</b> - Roadmap advances earlier than anticipated with some domestic travel permitted from April. No restrictions from May onward	<b>Domestic</b> - slower advancement of Roadmap. Restrictions ease only slightly from July
	<b>Economy</b> - OE baseline	<b>Economy</b> - OE upside "rapid upturn"	<b>Economy</b> - OE downside, "limited vaccine effectiveness"

N.B. Although these assumptions were agreed with DCMS, the analysis was undertaken independently and are **not** to be treated as official government forecasts.

- This report is based on analysis conducted by Tourism Economics in March 2021. The findings are based on the most relevant data available during this period.
- A range of illustrative scenarios have been provided to account for the considerable uncertainty surrounding the outlook. Additional key assumptions include:
  - Quarantine restrictions will remain in force for arrivals from countries on the red list as of 16<sup>th</sup> February.
  - Supply impacts are not directly modelled, as it is difficult to accurately identify the scale and scope of closures. However, it is expected that there will be a degree of business failures in response to the demand shock borne out by the effects of the pandemic.

# Drivers of the travel outlook: baseline assumptions

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## PANDEMIC TIMELINE



Continued regional outbreaks occur throughout early-2021.

Partly mitigated by vaccine distribution operating in parallel and accelerating throughout 2021.

Distribution challenges mean widespread vaccination is unlikely until mid- to late-2021 in Advanced Economies, but Emerging Markets will lag.

## POLICY RESPONSE



Significant lockdown measures and travel restrictions remain in place until mid-2021.

Measures will be less stringent than in early 2020 as vaccine becomes more widespread.

International borders will be slow to reopen around the world, but with more rapid easing for domestic and short-haul travel.

## ECONOMY



Following recession in 2020, the recovery in 2021 will be the fastest in 40 years.

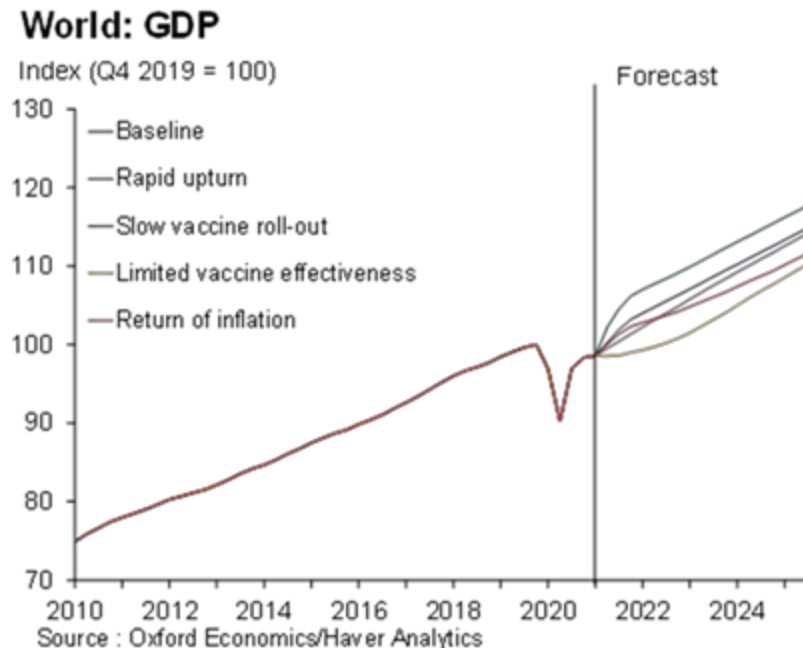
Global GDP forecast to grow 6.0% in 2021.

But recovery will be uneven due to vaccine distribution, sectoral structure and government policy support.

# World Macroeconomic Forecasts

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- While the global economic outlook has improved, recovery remains fragile. Oxford Economics' baseline forecast shows a stronger rebound in 2021 than anticipated in late 2020. But this upgrade to the wider economic outlook does not translate to an upgrade for travel demand.
- In Oxford Economics' latest Global Risk Survey, there are significant concerns over the emergence of new, more transmissible forms of coronavirus and the potential for higher inflation to trigger market turmoil. Thus, Oxford Economics now judge that the risks around our baseline lie to the downside.



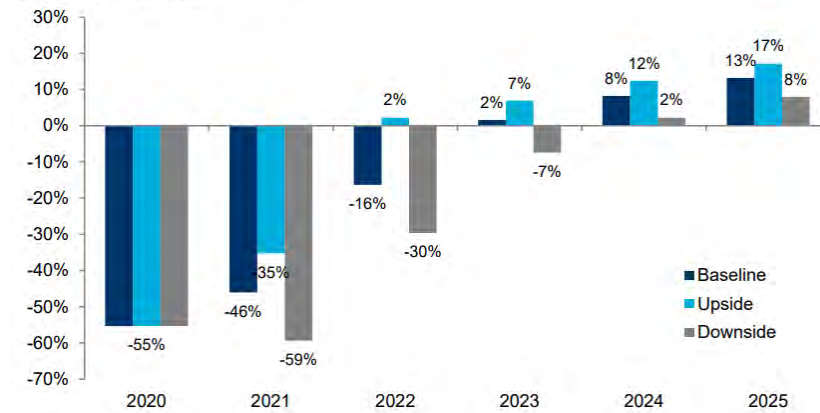
# Domestic Overnight Tourism

## Domestic travel assumptions

- The UK achieved the swiftest start to vaccinations in Europe and these continue at pace. This should facilitate the lifting of domestic restrictions by 21 June, providing greater hope for a stronger H2 2021.
- While the UK's appeal as a tourist destination will be uplifted by its vaccination progress, it will also simultaneously encourage countries to open borders to UK arrivals. The currently elevated domestic travel share will gradually drop as greater easing of foreign travel restrictions will release pent-up demand for overseas travel will be released after months of lockdown measures.
- Nonetheless, domestic demand should remain the key driver of overall UK demand in the near-term. The forecasts project that domestic travel will remain 46% below 2019 levels in 2021, but recover fully by 2023 in the baseline scenario.

Domestic overnight trips by scenario, UK

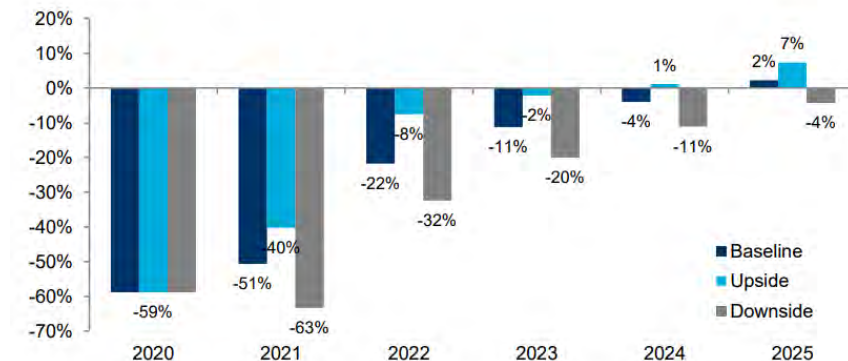
Relative to 2019 levels



Source: Tourism Economics

Domestic overnight expenditure by scenario, UK

Relative to 2019 levels



Source: Tourism Economics

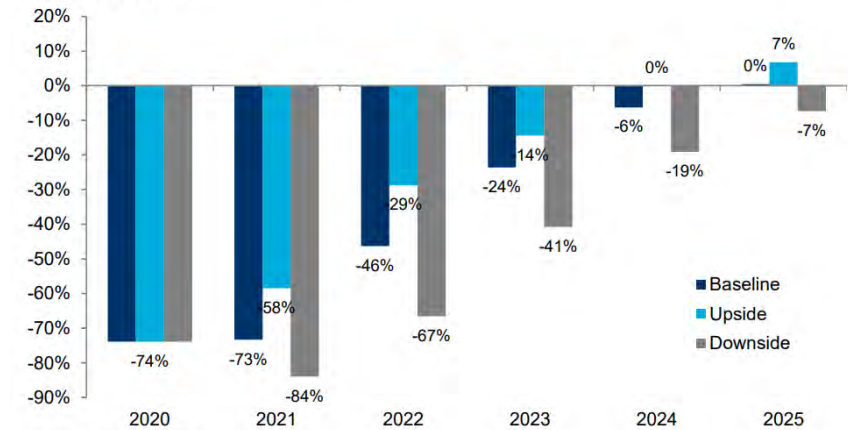
# Inbound Tourism

## International travel assumptions

- The soft start to the year has dampened expectations, compounded by slower vaccination progress across the EU. France has suffered from a slow start, with fears that the nation will struggle to meet EU's inoculation targets and may not be able to normalise activity until after summer, endangering demand from one of the UK's largest source markets over peak travel season.
- International visits in 2021 are expected to remain 73% lower than 2019 levels in the baseline scenario.
- Uncertainty hangs over the outlook, with new virus strains and longer-term economic effects likely to exert negative impacts on the travel demand, before an eventual pick-up in the medium term, allowing travel demand to return to 2019 levels in 2025 in the baseline scenario.

**Inbound arrivals by scenario, UK**

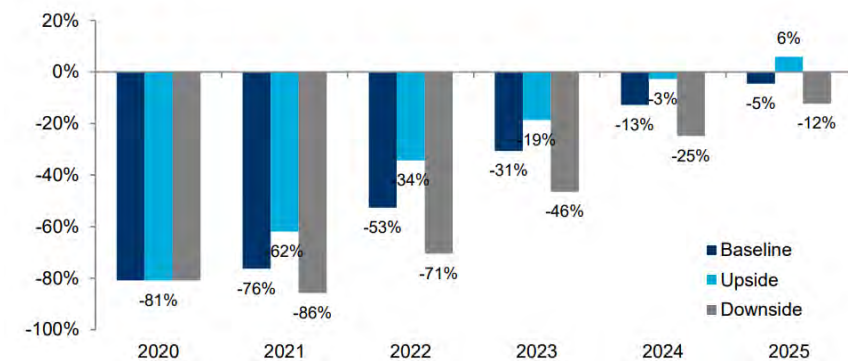
Relative to 2019 levels



Source: Tourism Economics

**Int'l spend by scenario, UK**

Relative to 2019 levels

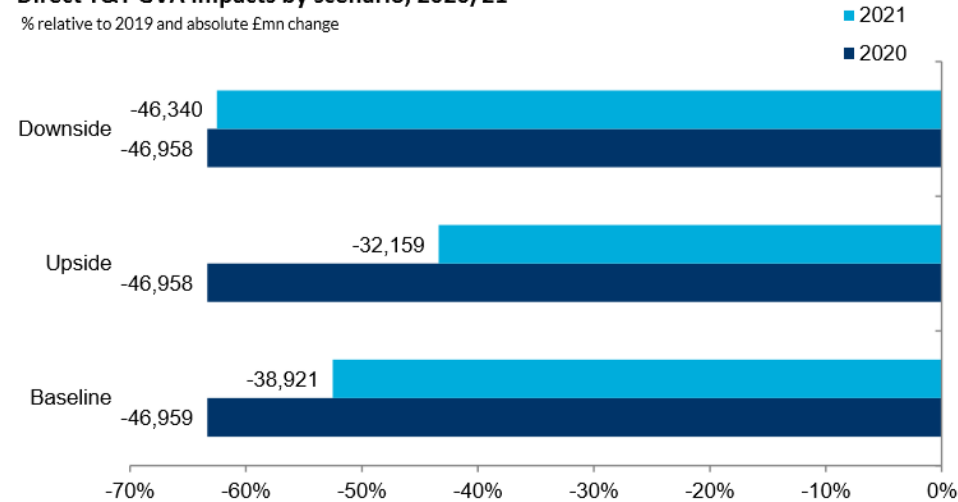


Source: Tourism Economics

# TSA sector impacts – GVA impacts

**Direct T&T GVA impacts by scenario, 2020/21**

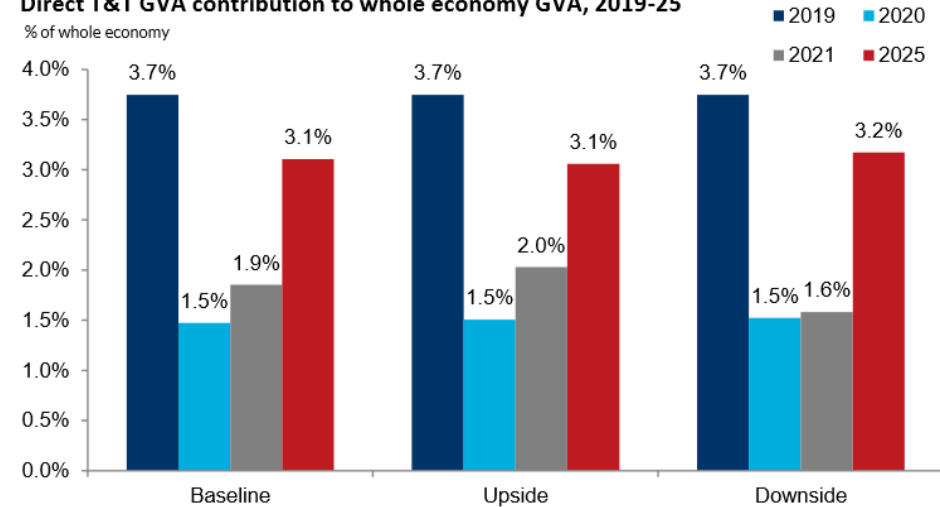
% relative to 2019 and absolute £bn change



Source: Tourism Economics

**Direct T&T GVA contribution to whole economy GVA, 2019-25**

% of whole economy



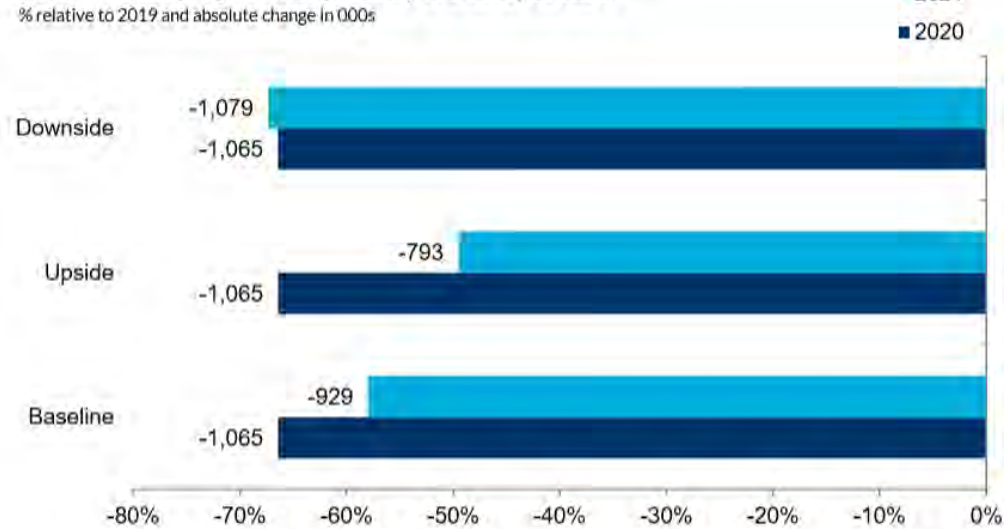
Source: Tourism Economics

- GVA impacts are derived by applying value-added/output (VO-A) ratios by Tourism Satellite Account (TSA) sector based on the UK TSA (latest 2018) and travel expenditure modelling to the estimated expenditure impacts.
  - In 2020, baseline direct Travel & Tourism (T&T) GVA fell by 63% relative to 2019 levels, with the contribution to wider economic activity falling to 1.5%pts (down from 3.7%pts in 2019). The loss in T&T GVA accounts for 36% of the total GVA contraction in the UK in 2020, demonstrating the disproportionate impact of the pandemic on travel & tourism activity.
  - In 2021, direct T&T GVA will begin to recover but will remain 53% below 2019 levels, contributing 1.9%pts to the wider economy. Prolonged restrictions on the T&T sector through the first half of 2021 will put the sector further behind the wider economic recovery, with the loss in T&T GVA accounting for half of the GDP losses between 2019 and 2021.
- The loss in GVA within the travel & tourism sector ranges £32.2-46.3 billion across the three illustrative scenarios and contribute 1.6-2.0% to wider economic activity in 2021.



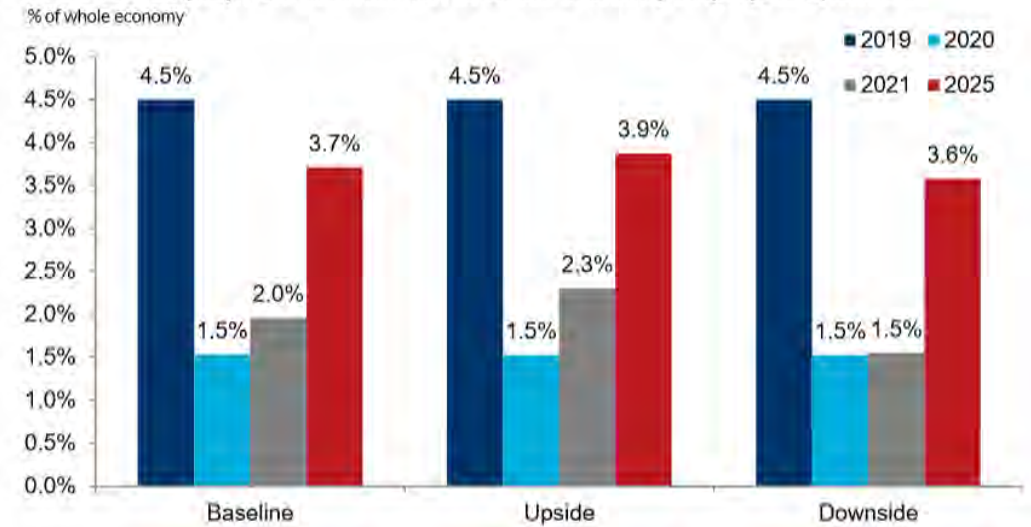
# TSA sector impacts – jobs at risk

Direct T&T employment impacts by scenario, 2020/21



Source: Tourism Economics

Direct T&T employment contribution to whole economy employment, 2019-25



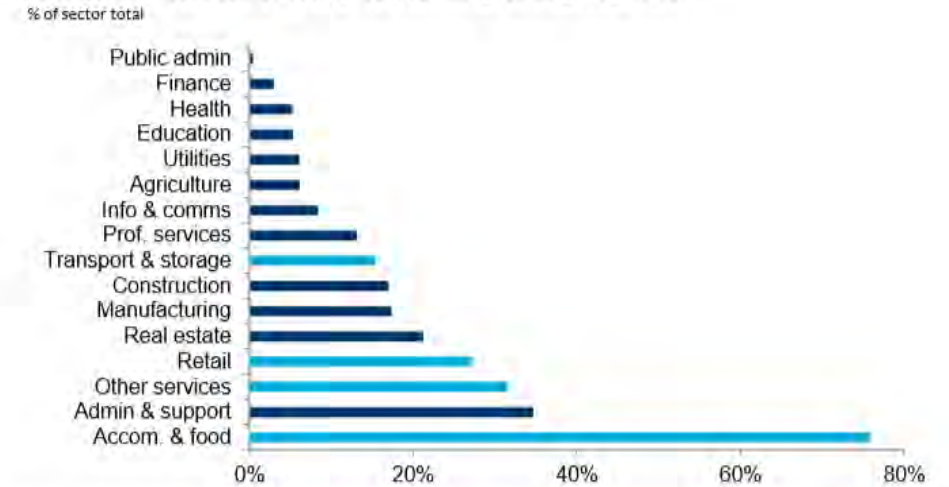
Source: Tourism Economics

- A large degree of uncertainty exists around employment impacts during the current crisis due to labour hoarding and the furlough scheme. Jobs at risk are identified by applying counterfactual productivity rates to sectoral GVA.
  - In 2020, an estimated 1.1 million travel & tourism jobs were cumulatively at risk (i.e. this is the amount of jobs that is approximately equivalent to the loss in output for that year) in 2020 as a result of the reduced travel activity. Not all of these jobs will be lost (due to government support schemes and employers wanting to keep labour even if they are not fully employed) but they are all vulnerable to persistent weak demand.
  - In 2021, when recovery gets underway, the cumulative jobs at risk estimate will shrink, ranging 793,000 – 1,065,000 jobs.

# Jobs at risk vs estimated jobs losses

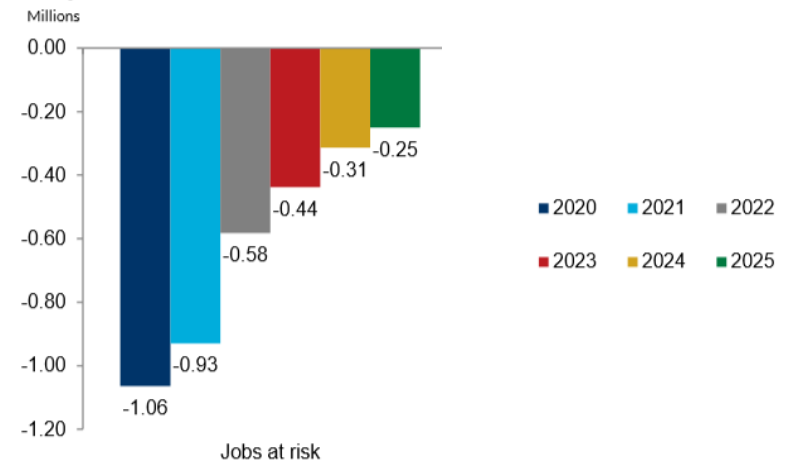
- Employment impacts are difficult to fully quantify due to a significant proportion of furloughed jobs across the UK, and this is disproportionately felt in tourism related sectors.
- The accommodation & food services sector has the largest proportion of employees estimated to be on furlough – almost 80% of all jobs in the sector. Although only a proportion of these jobs directly serve the travel & tourism sector.
- Detailed sector analysis alongside furloughed jobs information and tourism demand losses has been used to determine an estimate the number of cumulative job losses.
- An estimated 140,000 direct T&T jobs were cumulatively lost in 2020 as result of the pandemic – more than 10% of the jobs at risk with many protected by the furlough scheme.
- As demand returns, furlough fully unwinds and labour hoarding ends, the number of cumulative jobs at risk is projected to remain above pre-pandemic levels in the medium term.

Furloughed jobs % sector total jobs (including furloughed), 2020



Source: HMRC, CJRS and PAYE Real Time Information, Oxford Economics

T&T jobs at risk



Source: Tourism Economics

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# Annex: Global Travel Service Methodology

# GTS model overview

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- The Global Travel Service is the most comprehensive historic and forecast dataset of its kind, delivered as an easy-to-use online query system. The GTS database is an integral source of market information on travel trends, competitive destination performance, and economic fundamentals—including 10-year forecasts. Clients include the largest companies in the travel industry within the lodging, theme park, tour operator, financial services, and aviation sectors. In addition, national tourism offices across the world subscribe to GTS.
- GTS is a dynamic tool for international market analysis with data and reports covering 185 countries. The database includes 10-year forecasts based on Oxford macroeconomic model for every major origin and destination pair.
- Over 100,000 indicators of tourism activity with details on purpose of trip and visitor spend. The completeness of the dataset is based on data sharing agreements with the UNWTO, CTO and ETC, as well as our relationships with tourism offices around the world.

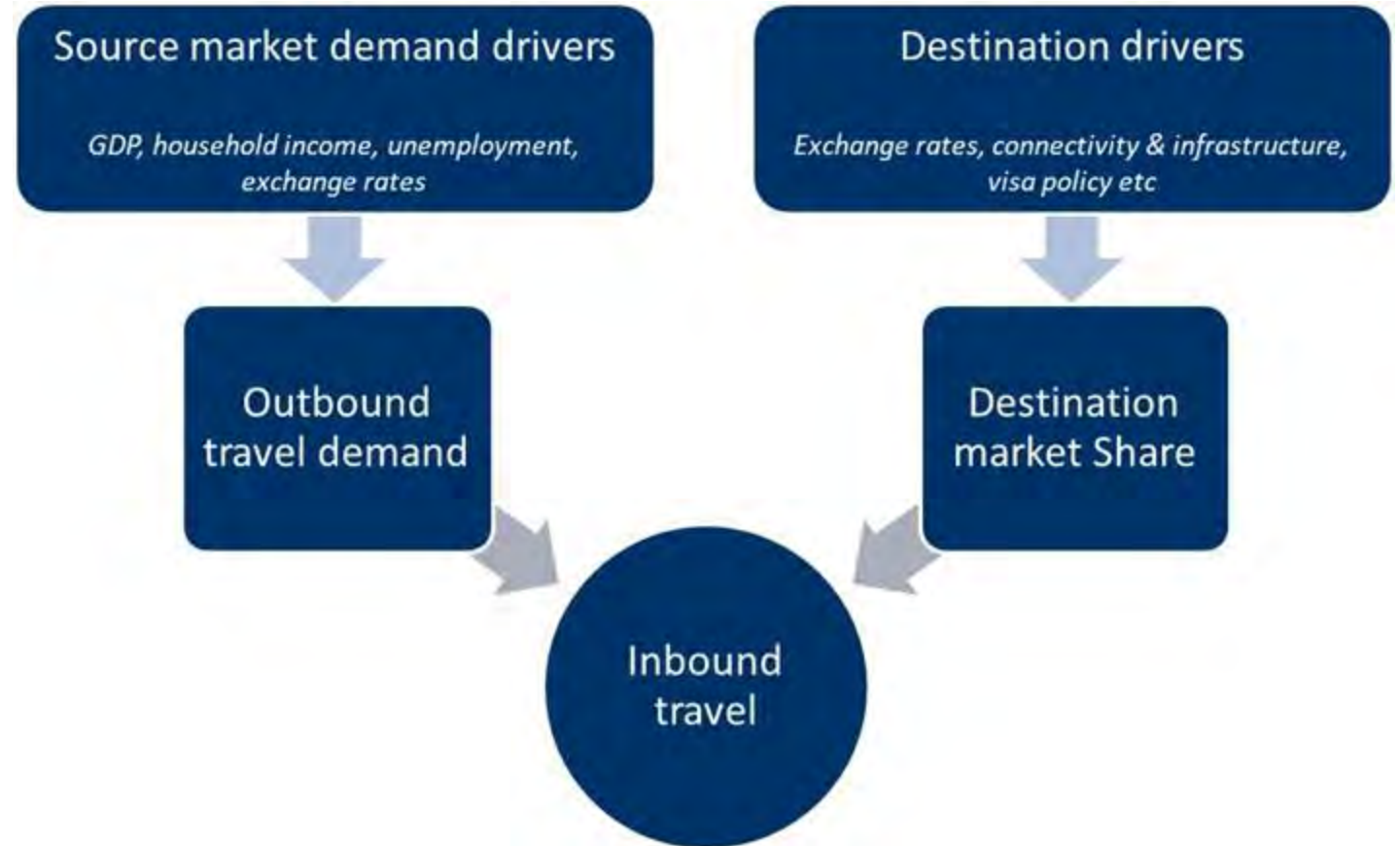
# GTS data coverage

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- Data are grouped according to the following groupings:
  - Country Metrics – includes key indicators of tourism performance by destination and origin as well as key drivers used to calculate the forecast
    - Drivers - economic, demographic, price and competitiveness drivers underlying the forecast taken from Oxford Economics' global macroeconomic model
    - Travel segmentation – includes international arrivals split by day/overnight, mode of transportation and purpose of trip as well as overnights in hotels and other accommodation
    - Travel spending – inbound, outbound, and domestic travel spending divided between business and leisure trips and reported in US\$, Euro as well as local currencies
    - Tourism economic impact – key measures of the importance of tourism
  - Arrivals by origin - total visitor flows (on overnight trips) by origin-destination pair, including regional aggregation
  - Nights by origin - total night flows by origin-destination pair, including regional aggregation
  - Spend by origin – travel spend flows by origin-destination pair, including regional aggregation
- Any combination of indicators and countries can be easily selected and analyzed within the intelligence software.

# GTS forecast model (1)

- The model driving GTS's travel forecasts is built on Oxford Economics' global macroeconomic model. In this structure, forecasts of origin market economic growth and currencies drive outbound spending and visits projections.
- Destination forecasts are then predicted on the basis of their weighting of origin markets and a "tourism competitiveness index" developed by the World Economic Forum and adjusted by Tourism Economics.
- This is a true global model, driven by rigorous econometric relationships and also rooted in the real world.



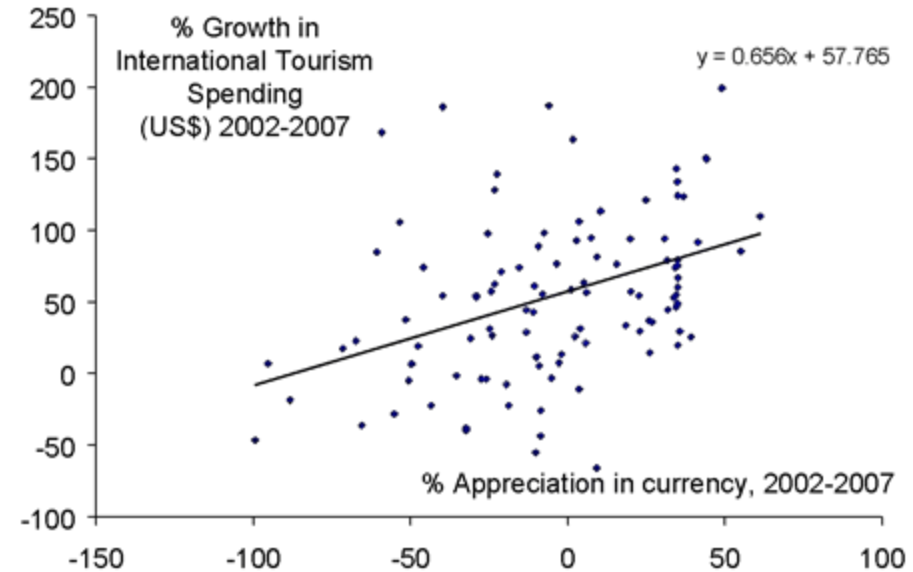
## GTS forecast model (2)

### Business visits, investment and profits



Source : Tourism Economics

### Exchange Rate and Tourism Spending



Source : Tourism Economics, IMF

- Within this framework, forecasts for all destinations are comparable and consistent, based on outbound travel trends for major markets. Destination forecasts are not carried out in isolation as market share is an integral part of the model; faster growth for one destination must be offset by weaker growth elsewhere.

## GTS forecast model (3)

- The model identifies the relationships between the economic and price indicators and travel demand. Company investment and profits are strong indicators of business travel demand while exchange rates and real disposable income explain much of the changes in leisure travel.
- The model produces 10-year forecasts which are consistent with the latest results of Oxford Economics global macroeconomic model. These forecasts are among the most accurate in the industry, as shown in this table.

<b>Oxford Economics</b>				
<b>Forecast performance compared</b>				
<b>2012-2016</b>				
<small>(average absolute forecast divergence for real GDP growth)</small>				
	US	Eurozone	UK	Japan
<b>Oxford Economics</b>	0.4	0.4	0.7	0.8
<b>EIU</b>	-	0.6	-	0.9
<b>Global Insight</b>	0.4	0.2	0.7	1.0
<b>IMF</b>	0.5	0.7	0.7	0.6
<b>OECD</b>	0.4	0.4	0.7	0.7
<b>Consensus Economics</b>	0.3	0.4	0.6	0.7

Note: Forecasts made in December for year ahead.

Figures for Consensus, EIU and IHS Global Insight are taken from Consensus Economics