Outlook for Domestic and Inbound Tourism in 2023: A Report for ALVA Members

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Contents

1 Introduction
2 Public Health
3 Geopolitics
4 Global Economy
5 UK Economy
6 Inbound Tourism
7 Outbound Tourism
8 Domestic Overnight Tourism
9 Domestic Day Trip Tourism
10 Events Calendar
11 Visits to Attractions and Consumer Behaviour
12 Conclusions

1 Introduction

This report has been prepared for ALVA by Scattered Clouds.

The goal is to provide visitor attractions with a tool to help in their forward planning for 2023, exploring the outlook for tourism demand, both inbound and domestic, and for the factors that will shape that demand.

No precise forecasts are set out, in part because of the extreme uncertainty that prevails, but equally due to a lack of available data on the volume and value of tourism activity in 2022 or the preceding two years, most especially in relation to domestic tourism.

Section 2 summarises the outlook for public health as we head towards the third anniversary of the initial emergence of Covid-19 and Section 3 takes stock of a difficult geopolitical landscape.

In Sections 4 and 5 the economic outlook at a global and UK level are discussed before turning our attention to tourism trends and prospects. Inbound, outbound, domestic overnight and domestic day trip tourism are each covered in dedicated Sections before Section 10 takes a look at upcoming major international sporting and cultural events that could influence tourism demand.

In Section 11 trends in visits to visitor attractions and the panoply of ways in which consumer behaviour may adapt to changing economic circumstances is considered, before Section 12 endeavours to draw some conclusions regarding the outlook.

2 Public Health

The autumn booster programme for the over 50s is starting to be rolled out in readiness for an expected uptick in Covid-19 cases in the UK. Government data shows that as at the start of September 88.1% of the eligible population in Britain had received at least two doses of vaccine, with close to 70% having received a third or booster dose.

Vaccine take-up in the UK is ahead of many other countries, which is one reason why the numbers who become infected with coronavirus who go on to become seriously ill has fallen sharply, helped in no small measure by the latest variants of the virus being more infectious but less virulent than earlier strains.

The prevalence is continuing to fall too, with the latest ONS Coronavirus Infection Survey showing that around 1 in 60 of the population of England are likely to have been infected during the week ending 23 August. The rate in Wales is estimated to be marginally lower at 1 in 65 while in Scotland it remains a little higher at 1 in 55 and in Northern Ireland 1 in 50.

Since the onset of the pandemic, and widespread testing, around 165,000 Brits have died within 28 days of a positive test, with 419 deaths in the most recent 7 days for which data is available.

The situation is therefore far better than it was during 2020 and 2021, but coronavirus has not vanished. It is our good fortune that recent strains have been less virulent, there is no biological logic that guarantees any future variants will be equally as mild.

The recent ALVA Public Sentiment Research found that there are still lingering concerns felt by some among the attraction-visiting population in relation to Covid-19, especially related to visiting crowded spaces. For 15% of those surveyed their worries will prevent them from visiting some types of attraction, with those aged 55+ most likely to express concerns.

There are acute concerns regarding the upcoming winter in relation to the population's health. Regardless of the situation with Covid-19 there is an expectation that the flu season may be more problematic than in the past two years based on evidence from the southern hemisphere where the season both began around a month earlier than normal and has seen an increased number of cases.

The NHS is still overstretched attempting to deal with backlogs created by the pandemic and there are growing concerns that as a direct result of spiralling prices the most vulnerable in society may make decisions regarding their use of gas and electricity, as well as their diet, that will place them at much greater risk of becoming ill and requiring NHS treatment.

The UNWTO/IATA Destination Tracker reveals that in the middle of March this year there were just 8 global destinations that had no Covid-19 restrictions, whereas on 2nd September this tally had risen to 81, with 43 of these being in Europe. However, the world is not moving as one in relation to how it chooses to deal with an ongoing spread of the virus. In Asia Pacific four-in-five countries still have some or full restrictions in place. Indeed, at the start of September the Chinese authorities placed the entire city of Chengdu under lockdown.

The impact of continued restrictions in China on inbound tourism prospects will be discussed later, but to illustrate that travel is by no means as straightforward everywhere as it is (putting delays and cancellations to one side) for intra-European travel, the resumption of a weekly direct flight with Hainan Airlines from Beijing to Manchester was much hailed, but the coverage almost uniformly omitted to mention that the return flight operates to via Dailan, where all on board face a 7-day period of mandatory quarantine.

3 Geopolitics

Looking at a register of geopolitical risks is never going to be akin to a mug of Ovaltine before bedtime, but at present doing so is certainly going to risk a sleepless night.

Until a short few days before it actually happened most commentators did not expect Russia to invade Ukraine, but it did. Equally ill-informed commentators spoke of the Russian army taking Kiev within a couple of days, and yet as the war heads towards the end of its seventh month there is a stalemate.

The fact that little or no territory has changed hands in recent weeks has not diminished the enormity of the conflict on either geopolitics or the economy, most notably in a European context. The economic fallout will be discussed in the following sections in greater detail, but there are broader and equally as serious risks created by the war.

One risk is that a conflict between NATO and Russia could be sparked, perhaps more likely by accident than design. This is not a high risk but the chances of it happening which were seen as close to non-existent a decade or two ago are now very definitely back on the list of scenarios that military strategists will be working on.

So far there has been uniformity of endeavour among western leaders, but the longer the conflict rumbles on and the greater the hardship that its economic implications create for citizens in western nations the higher the chance that cracks will emerge. The first big test will be how successful Europe is in weaning itself off Russian gas this winter.

The upcoming elections in Italy could result in the election of a conservative government led by the far right Fratelli d'Italia. Such an eventuality could lead to discord between Italy and European institutions about fiscal and monetary reforms.

The next geopolitical risk relates to the continued cooling in relations between the West and China. China has in the past couple of decades become an integral part of global supply chains, a growing economic powerhouse and leading military force.

This is not an immediate risk but the extent to which the US and China can agree to 'play nicely' in their competition for global economic dominance will have implications, with a potential flashpoint being Taiwan. Many analysts believe that the possibility of China attempting to retake the island by force in the next 5 to 10 years is, while still low, on the rise. The success or failure of Russia's invasion of Ukraine may shape the willingness of China to embark on a military engagement with Taiwan at some point in the future.

As the world becomes ever more internet-dependent a further risk is that conflicts between nations will be of a cyber nature, with critical infrastructure, social media platforms and private enterprises being targeted.

Countries with an emerging economy face a perilous outlook at present, with shortages of food and fuel, rising prices and a slowing global economy. Recent upheaval in Sri Lanka might be a portent of further strife in countries less well placed to absorb the economic shock that is steadily unfolding.

Whether this section was being written ten, twenty or forty years ago it would have needed to make mention of tension in the Gulf region, and this remains the case today, whether in relation to the plight of Palestinians or the mistrust that exists between Iran and Saudi Arabia.

The combination of periods of lockdown and, one might suppose, successful surveillance and policing has meant that in recent years there has been a reduction in the scale and frequency of terrorist attacks in European countries. However, this should not be interpreted as the risk of a future attack having gone away, the threat from international terrorism persists.

Record breaking temperatures across many parts of Europe, drought resulting in streams drying up and major European rivers becoming unnavigable due to low water levels, wildfires destroying homes, not on the outskirts of Sydney but on the outskirts of London, cloudbursts causing parts of the New York subway to be submerged and excessive monsoon rains causing tens of thousands to be displaced in Pakistan. Each of these can be attributed to a weather event, but together they are emblematic of the ways in which the climate is changing.

Addressing climate change requires international cooperation, but the risk of gridlock exists as fractiousness between nations is trending higher not lower, and even within the US, a nation that will need to play a pivotal role if climate change is to be slowed, there is discord in relation to the strength of the link between emissions and the speed with which the climate is changing.

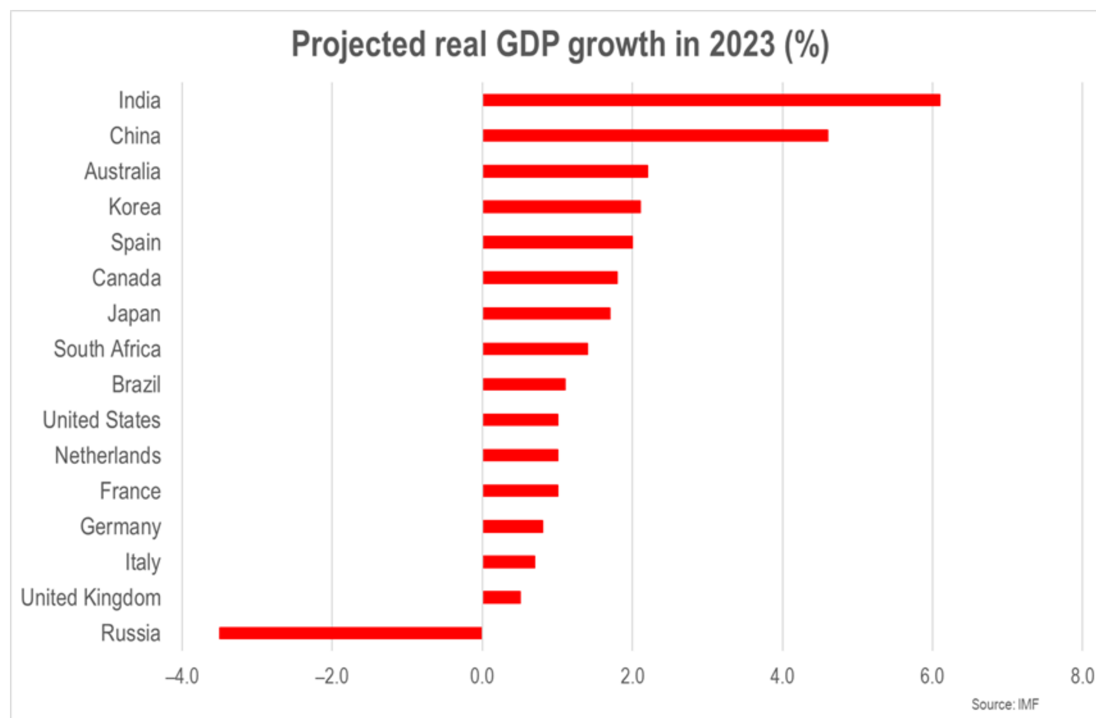
There does exist the possibility that the war in Ukraine will lead to an acceleration of decarbonisation as European countries race to find renewable alternatives to Russian oil and gas, but the spillover from climate change of reduced agricultural yields poses its own risks to stability in some parts of the world.

The extent to which geopolitical developments will shape tourism to and within Britain in 2023 can only be guessed at, and as is often the case with geopolitics it could just as easily be an event not mentioned above that ends up playing a pivotal role next year.

4 Global Economy

Since the invasion of Ukraine econometricians have been racing to update their forecasting models, and the results have been stark, predictions of much slower global growth and much higher inflation.

The following chart shows the latest IMF forecasts for a selection of countries next year, with these forecasts having been published in July. There is every chance that when the projections are next revised in the autumn growth will have again been downwardly revised, reflecting the growing likelihood of energy shortages hitting industrial output across Europe this winter and continued interest rate hikes in the US.



The forecast growth in India and China looks robust in comparison with other nations shown on the chart, but this is at a slower pace than had become the norm during the past two decades, and the ongoing determination to enforce a 'Zero-Covid' policy by the Chinese authorities, as demonstrated by the recent lockdown of Chengdu, looks set to supress Chinese economic growth during the coming months.

Time was that economists used the phrase 'When the US sneezes Europe catches a cold', well today we need to replace 'the US' with 'China' and 'Europe' with 'the world'.

The UK stands out as being at the bottom of the chart apart from Russia, but at the time of publication IMF was still anticipating the UK economy to expand in real terms next year. However, in its August 2022 Monetary Policy Report the Bank of England predicted that in calendar year 2023 UK GDP is set to decline by 1.5%, with a further fall of 0.25% in 2024.

While back in July the IMF had forecast that the German economy would see growth next year the tealeaves are now suggesting that a recession may well unfold. Germans are already being encouraged to cut back on their energy consumption and the nation's vital manufacturing sector fears that the limited supply, potential rationing, and the prevailing high cost of energy will necessitate cutbacks in activity. A faltering German economy will not just be bad news for Germans but for many Europeans.

There is heightened uncertainty around any economic projection at present as a result not just of the unknowns regarding the supply of energy from Russia to Europe, but equally due to the hiatus in announcements on

possible government interventions to support UK households and businesses as a result of the Conservative Party leadership contest.

Inflation is pernicious, eroding the spending power of households and the capacity of businesses to invest.

In all major economies prices are now rising at a rate not seen for a generation or more, and this will have tangible impacts on the decisions that consumers make regarding the expenditure. Holidays may be seen as sacrosanct to many western consumers who have become accustomed to (prior to the pandemic) taking multiple annual trips, but the amount of disposable income available for holiday trips, whether domestic or international, is set to be significantly squeezed over the next year.

Illustrating the scale of the inflationary challenge the following table illustrates the degree to which the cost of a wide array of commodities has changed in the three years from July 2019 to July 2022.

Change in unit cost (in $s) July 2019 to July 2022

Commodity	Change
Natural Gas (Netherlands TFF)	1322%
Fertiliser (Diammonium Phosphate)	151%
Maize	104%
Sunflower oil	101%
Wheat	96%
Milk	69%
Spot crude	69%
Poultry	65%

Source: IMF

The increased cost of natural gas is the standout figure in the table but were it not there a casual inspection of price rises in excess of 100% in three years for fertiliser, maize and sunflower oil would all cause alarm in their own right.

The focus of rising prices has largely been on energy bills in recent weeks, but in the UK and beyond the increasing cost of foodstuffs looks set to be equally worrying as we head into winter.

This applies to households of course, but equally to the global hospitality industry, a fundamental tenet of which is providing consumers with food and beverage. If input costs are increasing businesses have to figure out whether they can afford to keep prices pegged and see their profit margin decline, or must increase the price charged to consumers in order to remain afloat.

As businesses here and abroad mull over increasing costs of energy and food there is a very real risk that many will decide that continuing to trade is not viable, and while up until now labour market shortages have been a pinch-point the upcoming year could see this pressure ease, as fewer businesses are competing to recruit staff, with a consequent rise in unemployment if large numbers of businesses close their doors.

Another vital economic metric, especially for the competitiveness of a destination in attracting visitors, is the exchange rate.

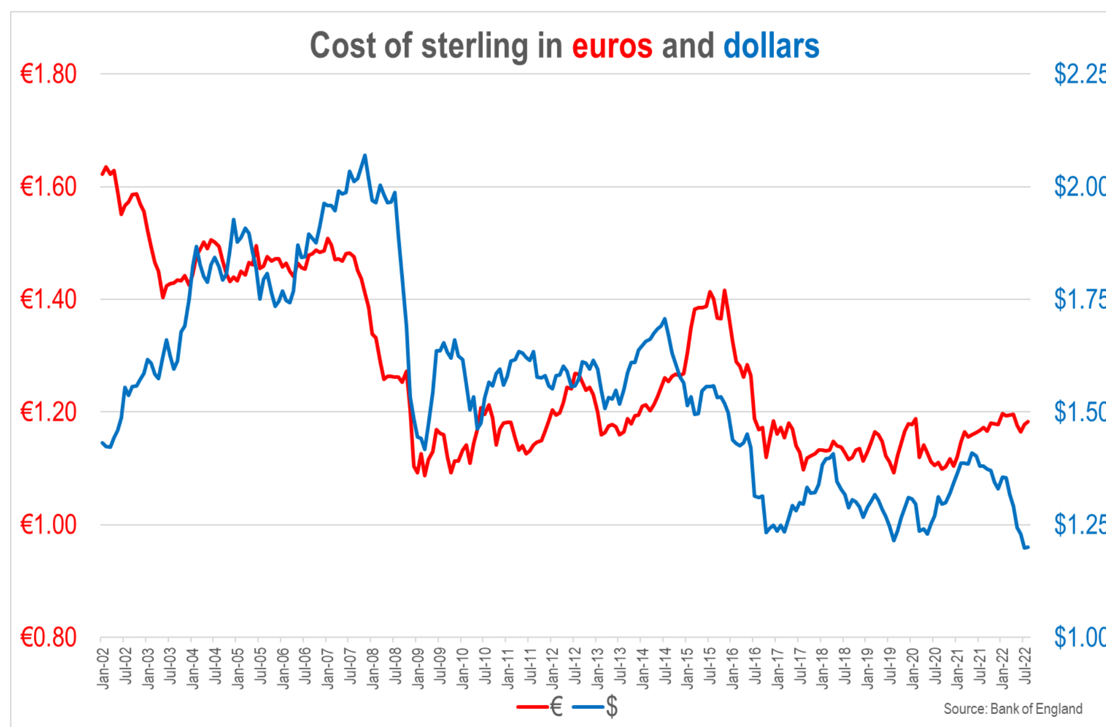
This will be discussed again in subsequent sections, but the following chart plots trends in the cost of sterling in both euros and US dollars over the course of the past two decades.

If the trend lines are heading downwards that means visitors to Britain from countries using either the euro or US dollar will be able to buy more pounds for the same amount of their home currency – in effect the cost of visiting Britain is falling. The converse of this is that for Brits heading overseas when the line on the chart is decline the cost they have to pay for that currency will be increasing.

The value of sterling fell substantially during the global financial crisis of 2008-9 and again after the Referendum on membership of the EU in 2016. Since then there's been relatively little change in the €/£ rate, but against the US dollar the pound has been on a downward slide in recent months.

There are many reasons for this, but one is that the US Federal Reserve has been, and looks set to continue to be, much more aggressive in increasing interest rates to stem inflationary pressures than has been either the Bank of England or the European Central Bank.

Interest rates are starting to edge up in Europe, and the Bank of England has now moved from upping rates by 25 basis points each time the Monetary Policy Committee makes a decision to 50 basis points at its most recent meeting.



In addition to trying to cope with the energy price shock brought about by the war in Ukraine, reduced agricultural yields, again due to the war and also drought, the global economy is still trying to adjust to a post-pandemic world, with supply chains still out of synch. Strikes at major ports such as Felixstowe and a continued penchant for lockdowns in China which hit industrial production all add further strains to an already stressed ecosystem.

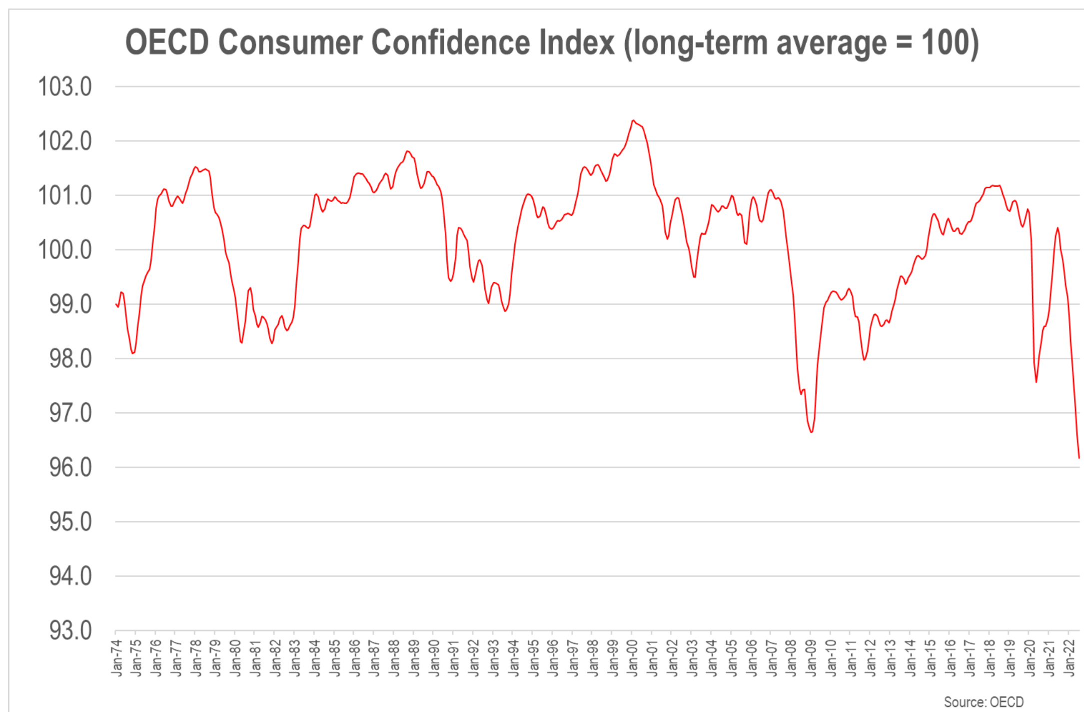
While not major source markets for the UK tourism sector the possibility of a growing number of developing countries struggling to pay their sovereign debts at a time of increased interest rates, rising prices and slowing global economic activity is a further headwind facing the global economy.

Global financial institutions are in a far stronger position to cope with the unfolding economic challenges than had been the case in 2008, but the magnitude of the challenges confronting the world's leading and developing economies in 2023 ought not be underplayed.

Consumers around the world are becoming increasingly concerned about the unfolding situation. Testimony to this assertion is what has been happening to consumer confidence across the 38-member OECD countries. The following chart plots overall consumer confidence across the OECD each month from the start of 1974 through to July of this year.

The message is stark, confidence is at its lowest ebb, not even the global financial crisis nor the onset of the pandemic saw consumers as gloomy as they are at present. This does not mean that consumers will cease to

travel internationally for leisure or for business, but it should be seen as an incontrovertible piece of evidence that the outlook for international tourism is highly uncertain.

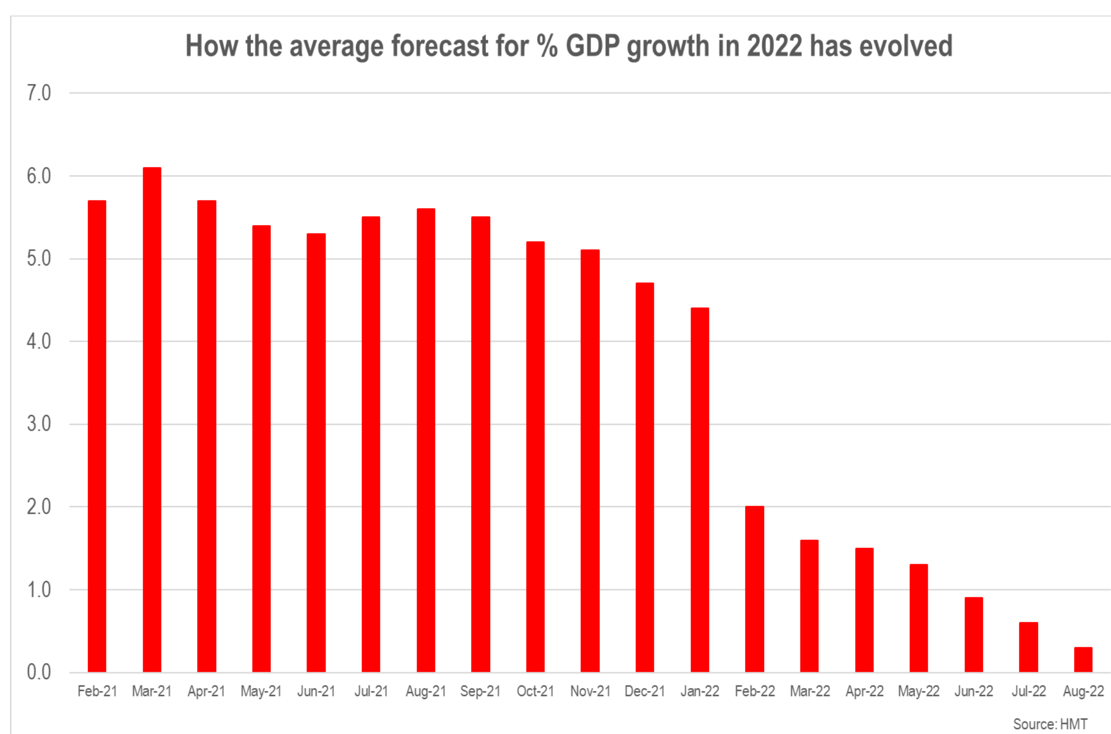


5 UK Economy

Whether a forecast is for the result of a football match, the weather next weekend, the volume of inbound visitors next year or the rate at which the economy is expected to grow, it should be viewed with a degree of caution. Forecasts tell us what may happen, not what will happen.

To illustrate this point in relation to the UK economy we can dive into the excellent monthly publication made available by HM Treasury that summarises all of the leading independent forecasts being made for key UK economic metrics.

The first chart below depicts the rate at which the UK economy is predicted to grow in 2022, with each bar representing that prediction at a different point in history from February 2021 through to August 2022. The degree to which the Russian invasion of Ukraine led forecasters to recalibrate their expectations in February of this year is evident, as too is the steady increase in gloominess since that time.



It is not just forecasts of GDP growth that has been subject to revision. Looking at the chart for the expected rate of Consumer Price Inflation during the final quarter of 2022 we can observe that every month between February 2020 and February 2021 forecasters plumped for a figure within spitting distance of 2%. Then in the spring of 2021 forecasts began to edge upwards, reaching 4% by the end of the year, when the forecast time horizon was just 12 months away.

This proves that expectations regarding inflation were on the rise before the war in Ukraine, but that conflict certainly turbocharged the rate at which CPI was expected to be increasing by the end of this year, with each new month bringing a tranche of forecasts that were higher than those they superseded.

The most recent projection, made in August, was for CPI to be in the region of 11% by the end of this year.

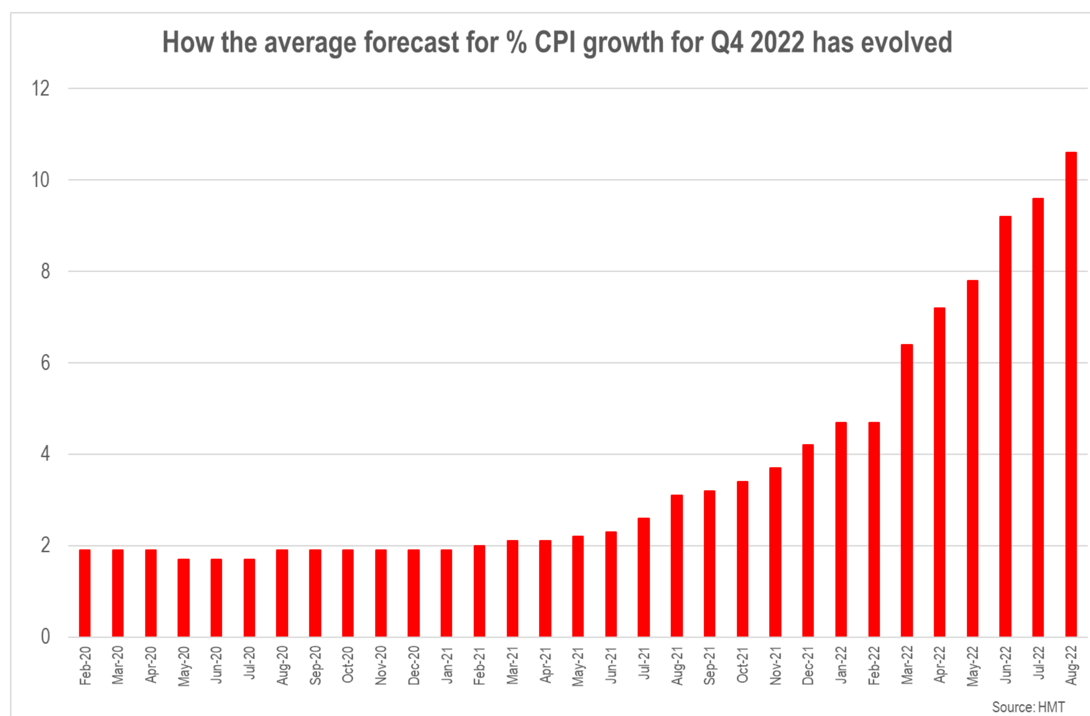
But the most recent Bank of England Monetary Policy Report went further still, suggesting that CPI will reach 13% at the end of this year. By summer 2023 the Bank expects inflation to be at an annual rate of 9.5%, gradually falling back to 2.0% by the summer of 2024.

Inflation is bad news for individuals and for businesses. In addition to squeezing the amount of income available to consumers for spending on goods and services and to businesses to invest, the emergence of inflation is correlated with a trend for central banks to raise base rates.

This then impacts consumers who have mortgages or other forms of loans, and equally businesses that are seeking to borrow in order to invest.

While only ever indicative in nature the latest Bank of England Monetary Policy report has a baseline scenario that sees the Bank Rate increase from an average 1.6% in the third quarter of this year to 3.0% a year from now, before falling back to 2.5% in Q3 2024 and 2.2% in Q3 2025.

While still low by historic standards many consumers and businesses have become dangerously accustomed to interest rates that are close to zero, so expectations about 'the cost of money' might require a rethink if base rates are now starting to 'normalise'.



While being mindful of the strong possibility that these forecasts will be revised, the following table presents the latest HMT summary of independent forecasts for GDP, CPI and unemployment across the next few years.

Average of independent forecasts for UK economy

	2022	2023	2024	2025	2026
GDP growth (per cent)	3.8	0.6	1.5	1.8	1.8
CPI (per cent)	9.3	6.0	2.5	2.6	2.5
LFS unemployment (%)	3.9	4.2	4.0	3.8	3.9

Source: HMT, August 2022

Most tourism activity will entail the spending of money, even if doing something free such as going for a walk by the coast or admiring architecture on a wander through an historic city centre it is likely that money will have been spent to reach that destination and on food and drink during the trip. As such the degree to which households have available to them disposable income really does matter to the outlook for tourism.

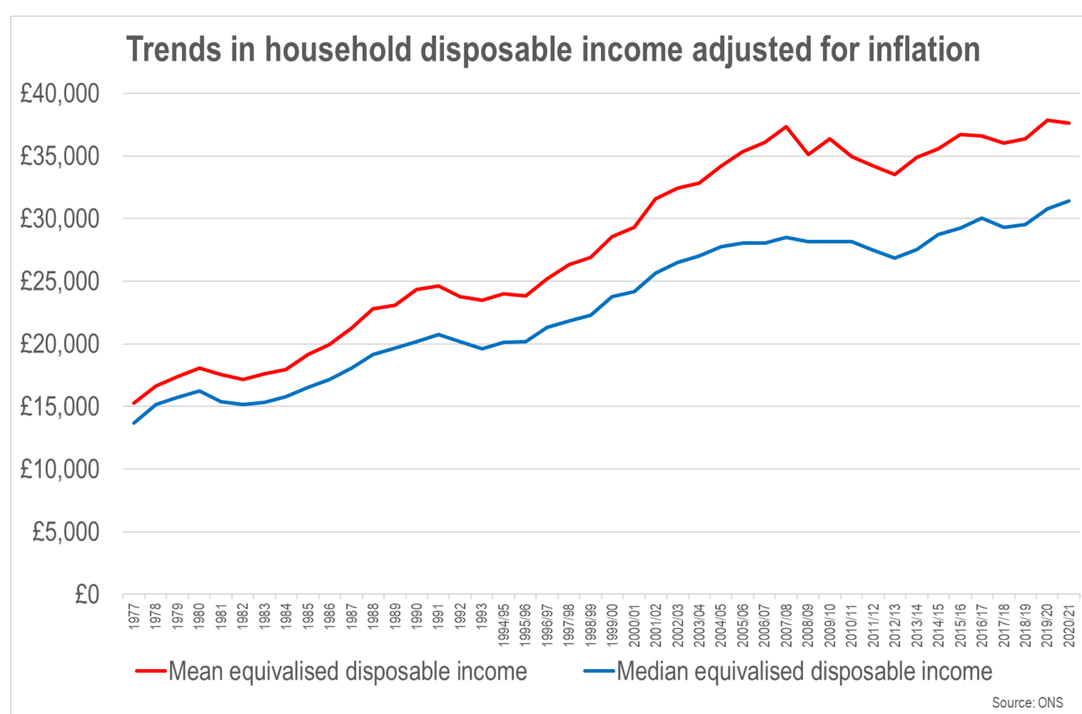
The following chart takes a very long-term look at how mean and median household income, adjusted for inflation, has evolved over the period 1977 to 2020/21 (the last full year for which figures have been published).

The mean figures represent the arithmetic average while the median figures show the value of the midpoint if the income of each household were ordered from lowest to highest. The term 'equivalised' indicates that the number of household members has been converted into equalised adults.

What we learn is that back in the early 1980s household incomes fell in real terms, but this decline was replaced by persistent growth during the latter stages of that decade. A recession in the early 1990s saw disposable income decline with a sharp rise in interest rates and inflation.

There then followed what might be termed a golden era for disposable household income from about 1993 to 2008 with both the mean and median figure increasing by about one-third in real terms.

Since 2009 the story for the next decade or was one of flatlining brought about by the global financial crisis and subsequent period of public spending austerity. There were signs of growth towards the end of the period covered by the chart, but it is a high-risk strategy to place a ruler on one part of a trend line to try and anticipate what might be coming next.



The latest provisional data covers January to March 2022 and reveals that per capita income after adjusting for inflation was just 0.7% up on the same period of last year, and this was prior to the surge in inflation relative to earnings and the increase in National Insurance Contributions.

We can again delve into the latest Bank of England Monetary Policy Report for an insight into the possible future trajectory for household incomes and the insight is not a rosy one.

Real post-tax household income is forecast to fall by 1.5% in 2022 despite the already announced government support aimed at lessening the impact of rising energy bills.

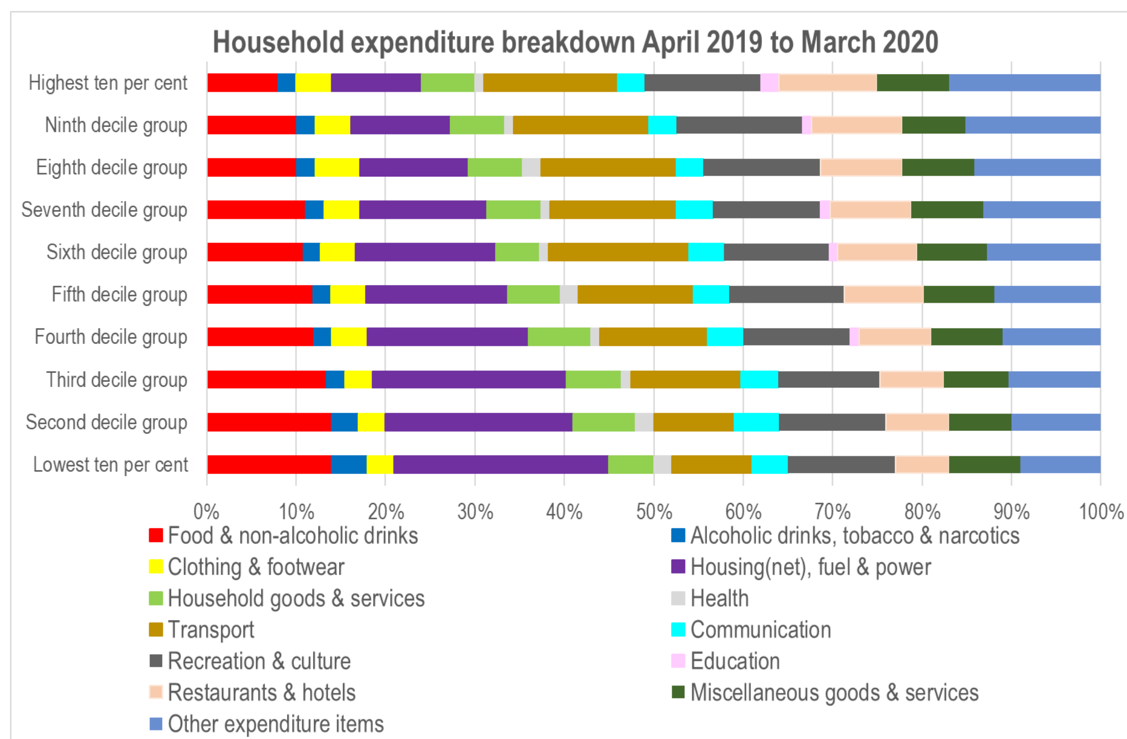
The situation is expected to deteriorate further in 2023 with household incomes falling by 2.25% before a lacklustre 0.75% increase in 2024. Overall consumer consumption is not expected to see declines quite as steep as overall household incomes, with the Bank anticipating that those able to do so will dip into their savings in order to help pay for the increased cost of living.

Domestic tourism trends will be discussed at length in later sections, but here we should take note of how households spend their income, the extent to which this is on tourism-related goods and services, and how this varies across different parts of society.

As spending has been heavily distorted by the pandemic the following chart utilises data for the year April 2019 to March 2020 to examine the breakdown of household expenditure by income decile.

We can see that around half of expenditure for those in the poorest income brackets is used on essential items such as food and housing, whereas for the highest income decile less than a quarter is spent on these items.

By contrast when looking at categories such as 'Restaurants and hotels' we can see that higher income households devote a higher proportion of their expenditure to this than do those in lower income groups. The mysterious 'Other' category includes expenditure on mortgage interest payments, licences and, crucially, holiday spending, with the top income deciles again devoting more of their spending to these items than is the case for poorer households.



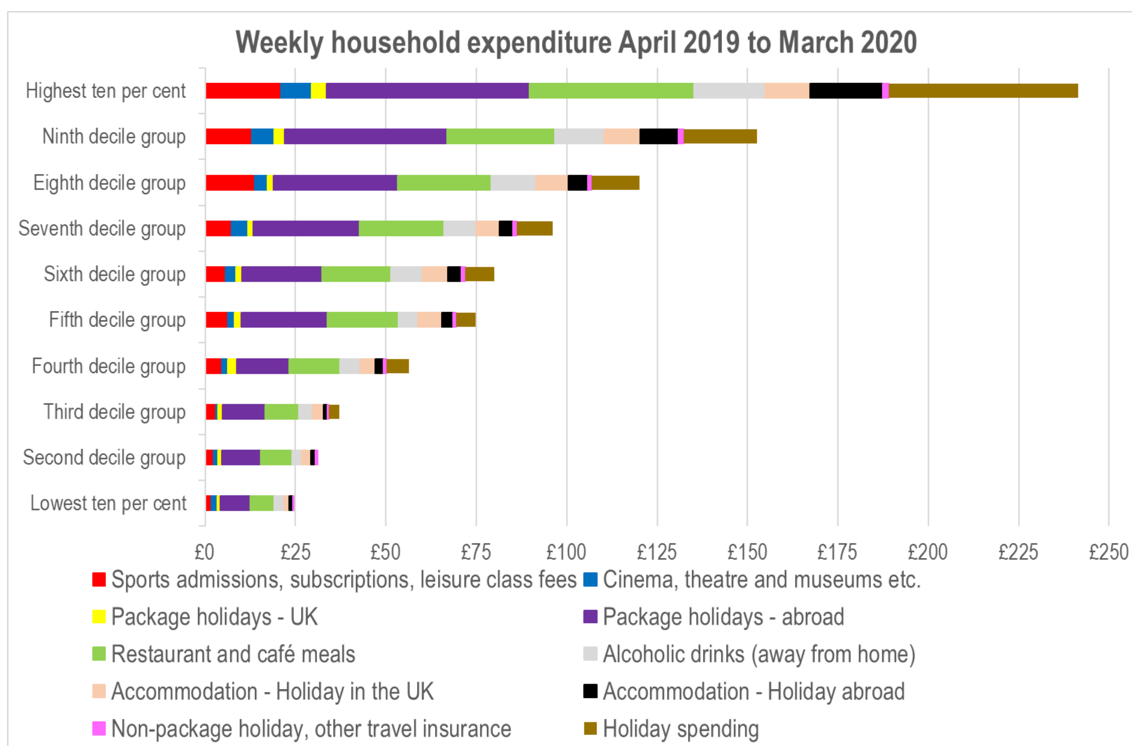
If we drill down further and look at the actual amount spent by a typical household in a typical week on key goods and services aligned with tourism, we can spot in the following chart that households in the highest income decile were spending almost ten times as much as were those in the lowest income decile.

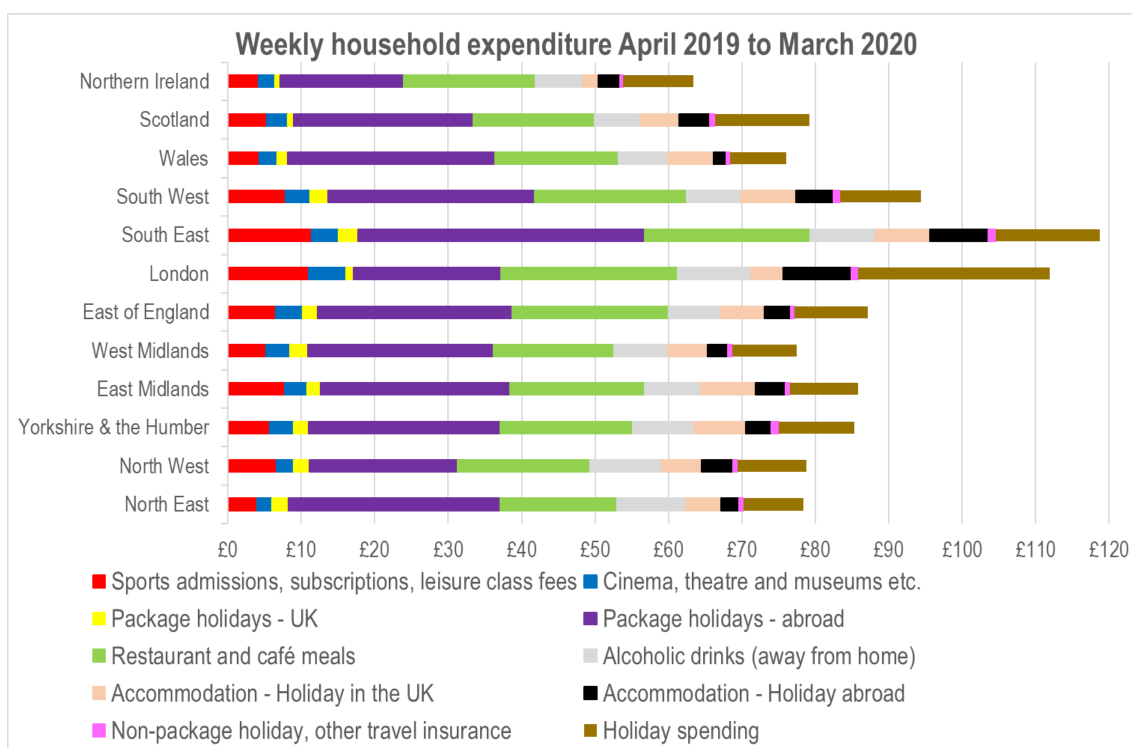
Major expenditure components for the households in the higher income brackets included foreign package holidays, restaurant and café meals and holiday spending. Note that among middle income deciles the amount being spent per week on holiday accommodation in the UK is broadly similar to that being spent on holiday accommodation abroad.

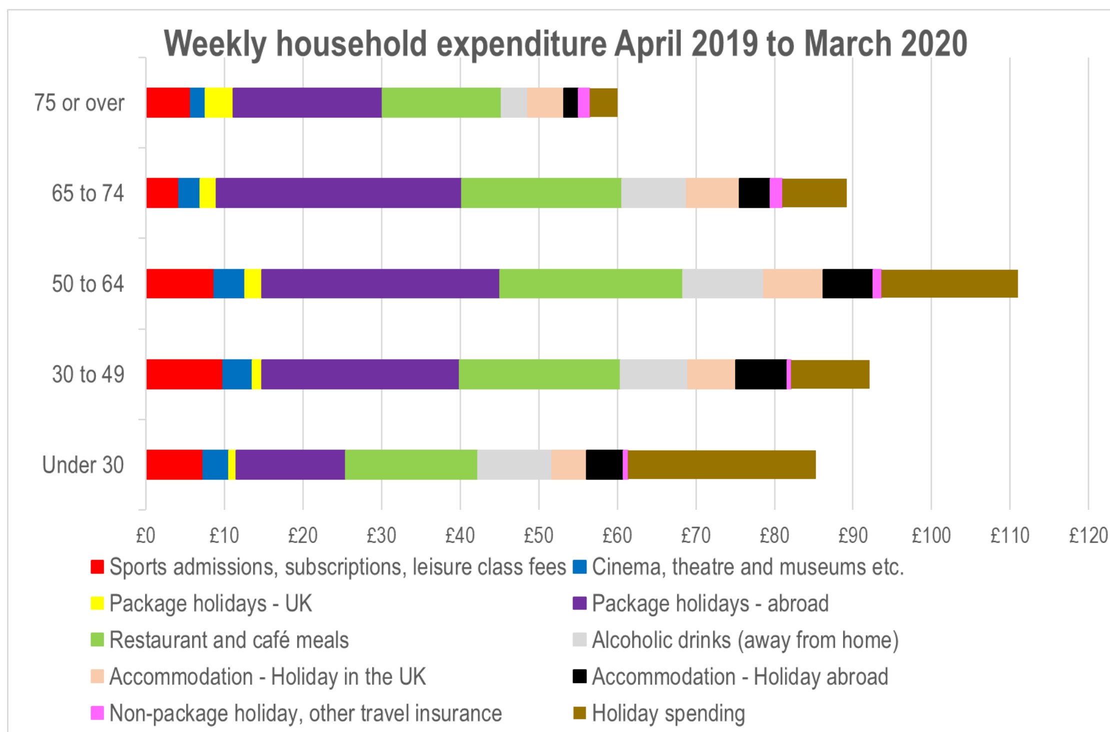
Another way in which we can cut this data is by geography, and the following chart shows that those residing in London and South East England spend on average more on items aligned with tourism than do those in other regions, with the lowest spenders being in Northern Ireland, Wales and the West Midlands.

We can also examine detailed weekly spending based on the age of the household reference person, and here we see that those aged 50 to 64 tend to be the biggest spenders on services aligned with hospitality and tourism, although with a hefty chunk of this expenditure devoted to foreign package holidays. Those in households where the reference person was under 30 saw the highest weekly 'Holiday spending' amount.

This data is not shown purely out of academic interest, it may help inform our expectations for the outlook for tourism in 2023 and this will be discussed in the later sections focussing on domestic tourism.

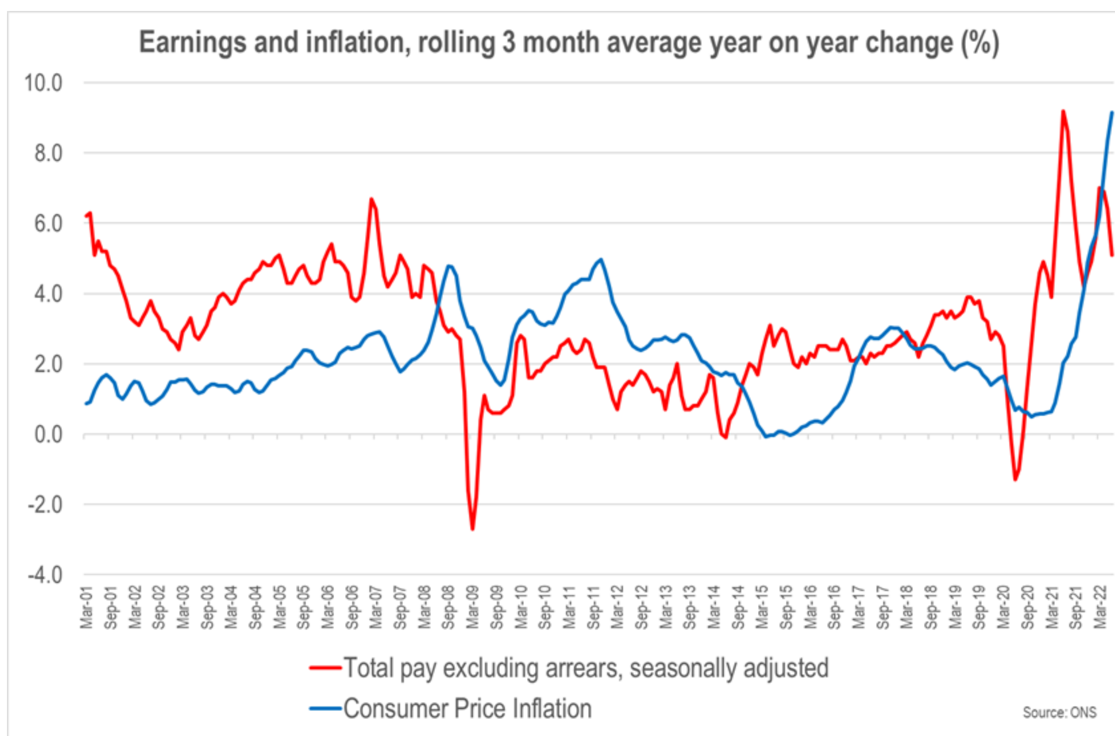

Weekly household expenditure April 2019 to March 2020
Highest ten per cent
Ninth decile group
Eighth decile group
Seventh decile group
Sixth decile group
Fifth decile group
Fourth decile group
Third decile group
Second decile group
Lowest ten per cent
£0
£25
£50
£75
£100
£125
£150
£175
£200
£225
£250
Sports admissions, subscriptions, leisure class fees
Cinema, theatre and museums etc.
Package holidays - UK
Package holidays - abroad
Restaurant and café meals
Alcoholic drinks (away from home)
Accommodation - Holiday in the UK
Accommodation - Holiday abroad
Non-package holiday, other travel insurance
Holiday spending


Weekly household expenditure April 2019 to March 2020
Northern Ireland
Scotland
Wales
South West
South East
London
East of England
West Midlands
East Midlands
Yorkshire & the Humber
North West
North East
£0
£10
£20
£30
£40
£50
£60
£70
£80
£90
£100
£110
£120
Sports admissions, subscriptions, leisure class fees
Cinema, theatre and museums etc.
Package holidays - UK
Package holidays - abroad
Restaurant and café meals
Alcoholic drinks (away from home)
Accommodation - Holiday in the UK
Accommodation - Holiday abroad
Non-package holiday, other travel insurance
Holiday spending



Another way to look at income trends is to examine the change in earnings relative to that of inflation.

The following chart does this for the past two decades and indicates that for the first eight or so years earnings were scampering ahead of inflation, but that this situation was thrown into reverse during the global financial crisis and subsequent period of austerity. The two spikes in the line for total pay in the spring of 2020 and 2021 are anomalies brought about by the pandemic, but our eye should not be drawn to these, rather to the rightmost points on the chart, showing that in the most recent period for which data is available prices increased by about 4% more than did pay – meaning that those in employment are seeing their purchasing power eroded.



The prospect of a prolonged period during which prices are increasing faster than wages is one of the drivers of the recent uptick in industrial disputes.

Britain is not an outlier in this regard, with the prevalence of industrial disputes on the increase in a number of countries, with travel and transportation often impacted as a result, for example engineers working for Qantas and Lufthansa pilots have recently taken strike action.

The strikes that have been most disruptive to the tourism sector in Britain over recent months have involved railway workers and there are few if any signs of a resolution to these disputes any time soon.

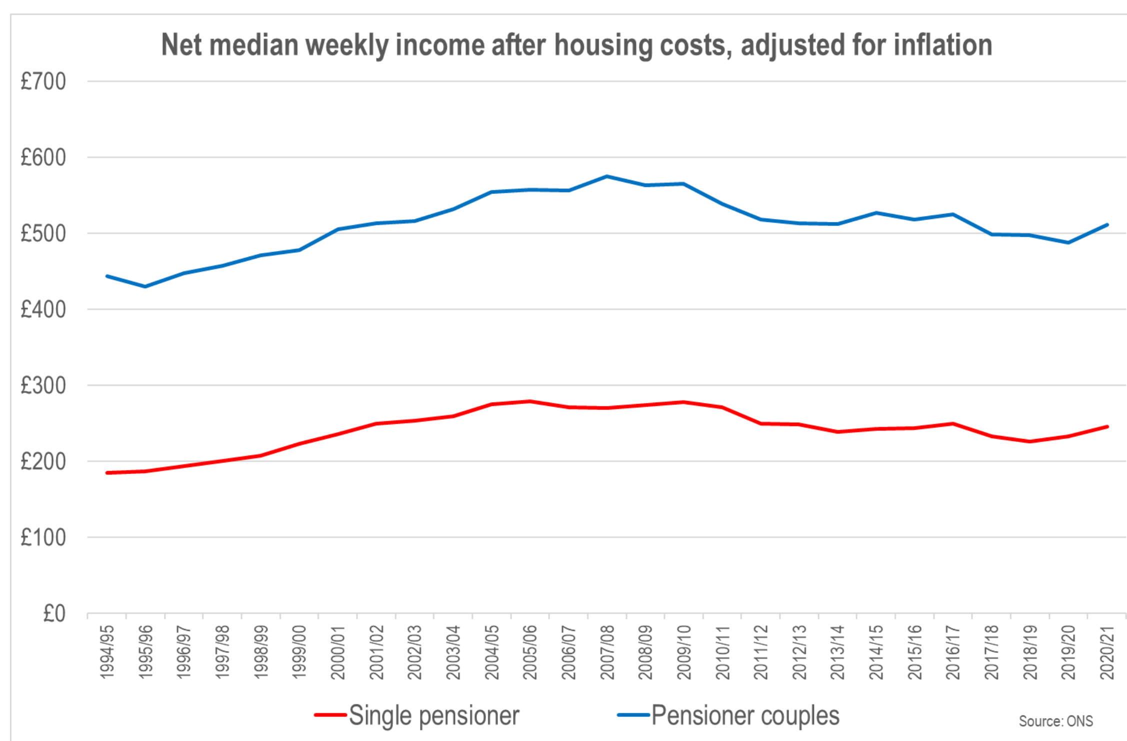
The possibility of more widespread industrial action during the autumn and winter has been mooted, which if it were to materialise could result in reductions in revenue for tourism businesses as consumers curtail their usual activities as a result of disruption to services.

But what about the livelihoods of those who are not in employment, in particular pensioners? The following chart shows the net median weekly income after allowing for housing costs for single pensioner and couple pensioner households, with the figures adjusted for inflation.

From the early 1990s until around 2008 the trend was for incomes to increase in real terms, whereas for the following ten years the reverse was true, although to a lesser extent. The uptick in the last couple of years for which there is data still leaves pensioner incomes after housing costs lower than they were fifteen years before.

The extent to which the support being offered to pensioners to help pay with rising energy bills may still result in pensioners seeing real terms falls in their income as other inflationary pressures mount, with pensioners tending to spend a disproportionate amount of their income on energy.

While temporarily suspended for the 2022/23 tax year the state pension is protected by the so-called 'triple lock' with an annual increased based on whichever is the higher of consumer price inflation, average earnings growth or 2.5%. The triple lock is set to be restored from April 2023 meaning that pensions will increase in line with CPI for September 2022, likely to be around, or even slightly above, 10%.



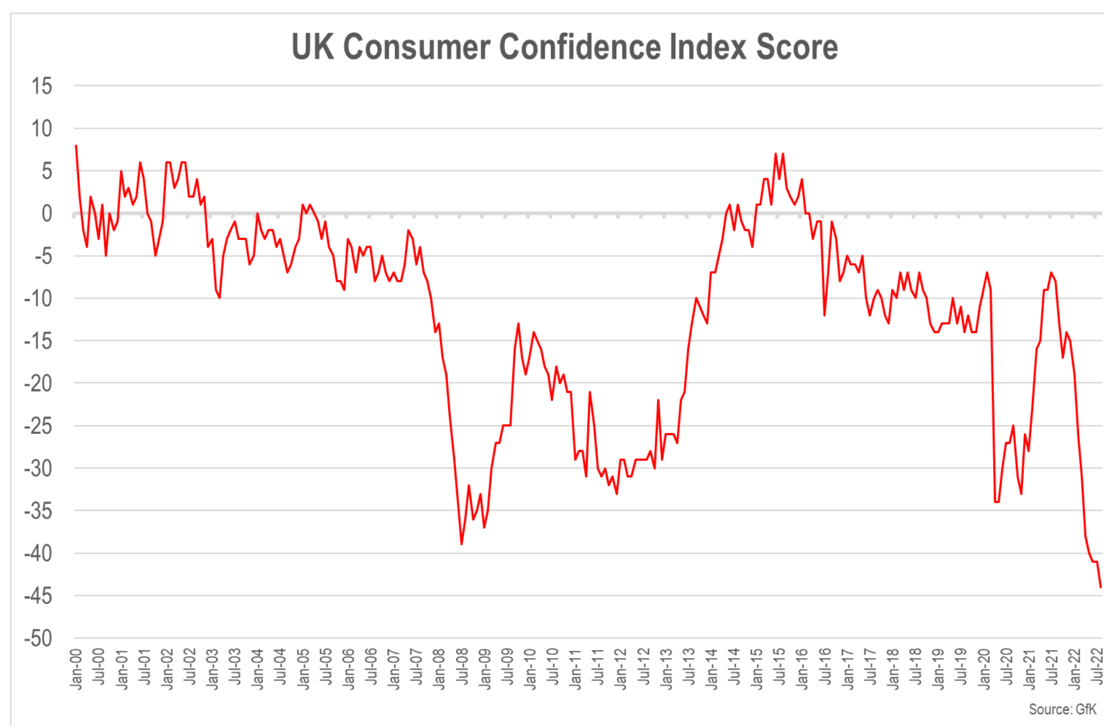
However, those pensioners who rely heavily on occupational pensions to supplement their state pension could be in for an unpleasant shock, with many schemes having an upper percentage cap on annual increases which

will not have been a concern during decades of low inflation but could result in increases that fall short of the rise in general prices over the next couple of years.

How UK consumers feel has been monitored on a monthly basis since 1974 thanks to the Consumer Confidence Index. The following chart plots the series from January 2000 and clearly shows the dip in confidence during the global financial crisis and subsequent period of austerity, followed by a growing sense of optimism through to 2015. Thereafter confidence ebbed away and then fell sharply at the onset of the pandemic in the early months of 2020.

But it is the precipitous decline in confidence in the past six months that stands out on the chart with the August Index Score of -44 not just being the lowest recorded during the period covered on the chart but also the lowest on record, telling us that in almost half a century British consumers have never been so queasy about their circumstances.

The extent to which the recent announcement that the typical household will see its energy bill capped at £2,500 for the next two years, as opposed to the £3,500 expected from this October, will help restore confidence is debatable. Furthermore, the sense among consumers that this is a time of great uncertainty and change will have been accentuated by the loss of Her Late Majesty Queen Elizabeth II. Uncertainty is the archenemy of confidence.



Results from the latest wave of the VisitBritain domestic sentiment tracker, with fieldwork undertaken during early August, indicate that when asked about their perceptions with regard to the cost of living crisis 76% of those surveyed said that they felt the worst was yet to come, with a further 13% saying they believed that things are going to stay the same. Of note is the fact that this survey was conducted prior to the announcement and extensive media coverage relating to the energy price cap that will take effect from October.

There is little to no prospect of consumer confidence showing marked signs of recovery in the next few months, with a distinct possibility that new record lows could yet be witnessed.

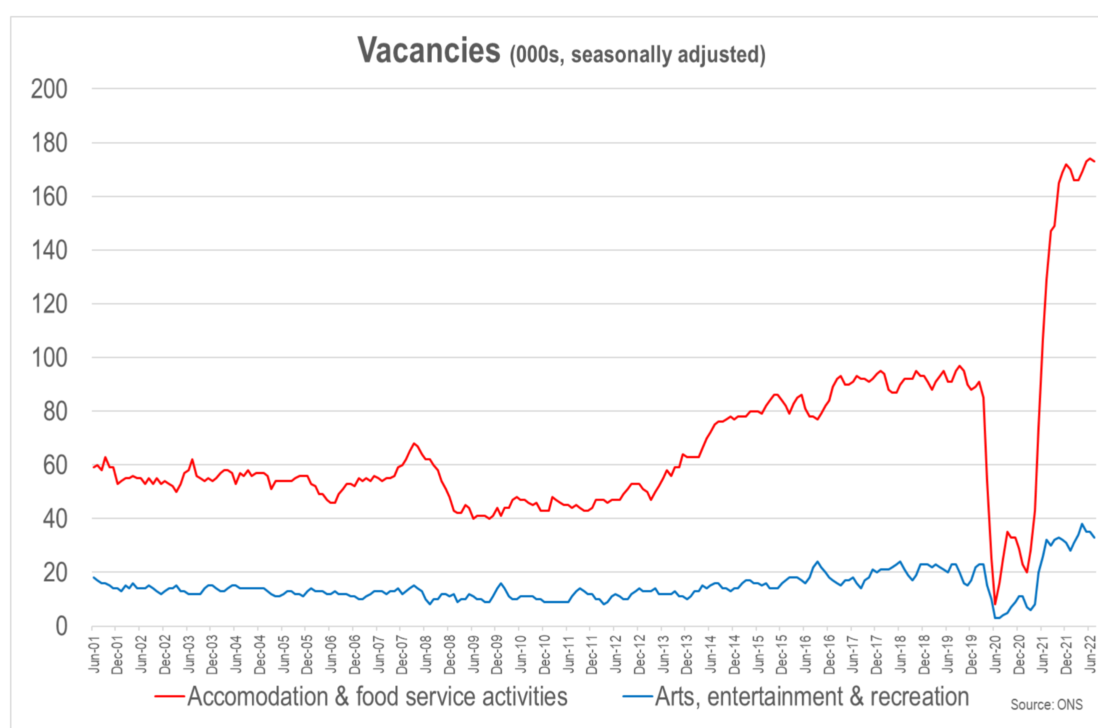
Despite all of the economic gloom one bright spot up until now has been the UK labour market. The latest ONS figures show that the rate of unemployment stands at 3.8%, with the initial talk of soaring unemployment in the early days of the pandemic being unfounded.

Low unemployment often means high vacancy rates, and this is certainly true at the present time. There is a robust debate as to the reasons for businesses finding it such a challenge to recruit the number and calibre of staff that they require, with many pointing to the absence of freedom of movement of labour from the EU to the UK following Britain's withdrawal from the bloc.

Regardless of the causes it is clear from the following chart that sectors associated with the visitor economy are reporting record vacancies since lockdown restrictions were lifted.

Tourism is an industry that has, and regardless of automation, always will entail interactions between humans, and very often it is these interactions that can transform a visitor's experience from the ordinary to the exceptional.

If tourism enterprises are unable to operate with a full complement of staff the quality of customer service can diminish, and there is considerable evidence that advocacy is one of the most powerful forms of marketing, with poor customer service experiences leading to consumers leaving as a detractor rather than a promoter of a business.



The aspiration has to be that ways are found of recruiting and retaining staff in sufficient numbers that vacancy rates return to those deemed to be 'normal'. However, an alternative method by which the number of vacancies will fall is if an increasing number of businesses conclude it is unviable to continue trading in the face of extortionate increases in their energy bills, rises in the cost of other inputs, especially foodstuffs, and pressure for wage increases by employees struggling to maintain their standard of living.

While given a cautious welcome by businesses, the announcement that they will get 'equivalent' support to that being offered to households, whereby the average household will see its energy bill limited to £2,500 for two years, there is concern that the support for businesses is expected to last for only six months and a lack of clarity as to how quickly businesses will benefit from the cap.

If significant numbers of enterprises closedown due to cost pressures even though there is relatively strong demand then the number of vacancies will be lower, but in turn unemployment could start to edge up, and with a denuded offer and declining real terms incomes consumers might be less inclined to make use of those tourism businesses that continue to trade.

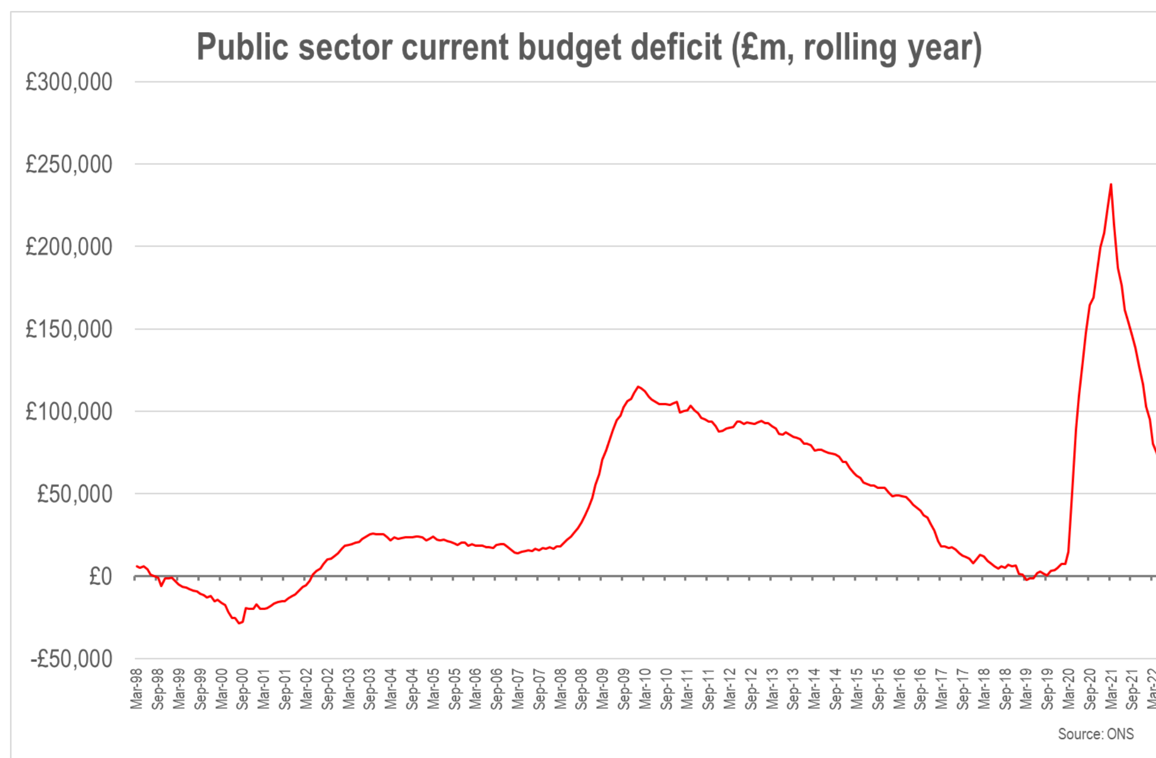
The state of the UK economy is not just of importance to individuals and businesses but also to public finances, with the amount of revenue generated through taxation and public spending each influenced by the health of the economy.

Governments can borrow to top up its day-to-day tax revenues, but this comes at a cost, and with global interest rates on the increase even if the amount being borrowed remained stable the interest payments would be set to rise.

The following chart plots trends (not adjusted for inflation) in the UK's public sector current budget deficit on a rolling 12-month basis. In effect this shows us whether when looking just at current (as opposed to capital) expenditure the public sector deficit is growing or shrinking. The data points on the far left of the chart tell us that back in the late 1990s all was looking well, with the deficit often being in negative territory, or in other words, in surplus.

The first eight years of the new century were characterised by a modest current budget deficit, typically around £20bn. This changed with the onset of the global financial crisis and by the end of 2009 the deficit had shot up to more than £110bn on a rolling 12-month basis. This was in part the genesis of the decade of public sector austerity which did see the deficit steadily decline, to the extent that by the spring of 2019 there was a small surplus.

The cause of the spike in 2020 needs no explaining but seeing its magnitude in comparison with the jump during the crisis of 2008 is compelling. Over the past year the deficit has been falling sharply, but nonetheless in the year to July it remained at around £70bn, and this does not yet reflect the recently announced additional support to households and businesses to cap energy bills, with some reckoning that the scheme could cost £150bn depending on wholesale gas prices.



Whenever there is a deficit in public sector spending the amount of national debt is increasing. The next chart presents data from April 2007 to July 2022 showing public sector net debt as a percentage of GDP. Before the global financial crisis this stood at about 40%, by 2010 it was at 65% and only stopped rising in 2015, by which time it had reached 80% of GDP.

Many argue that this is not of enormous economic consequence provided the jurisdiction with the debt is still viewed favourably by international markets and that debt interest payments are manageable. The dozen or so years from 2009 was an era of historically low interest rates, but that era would now appear to be coming to an end.

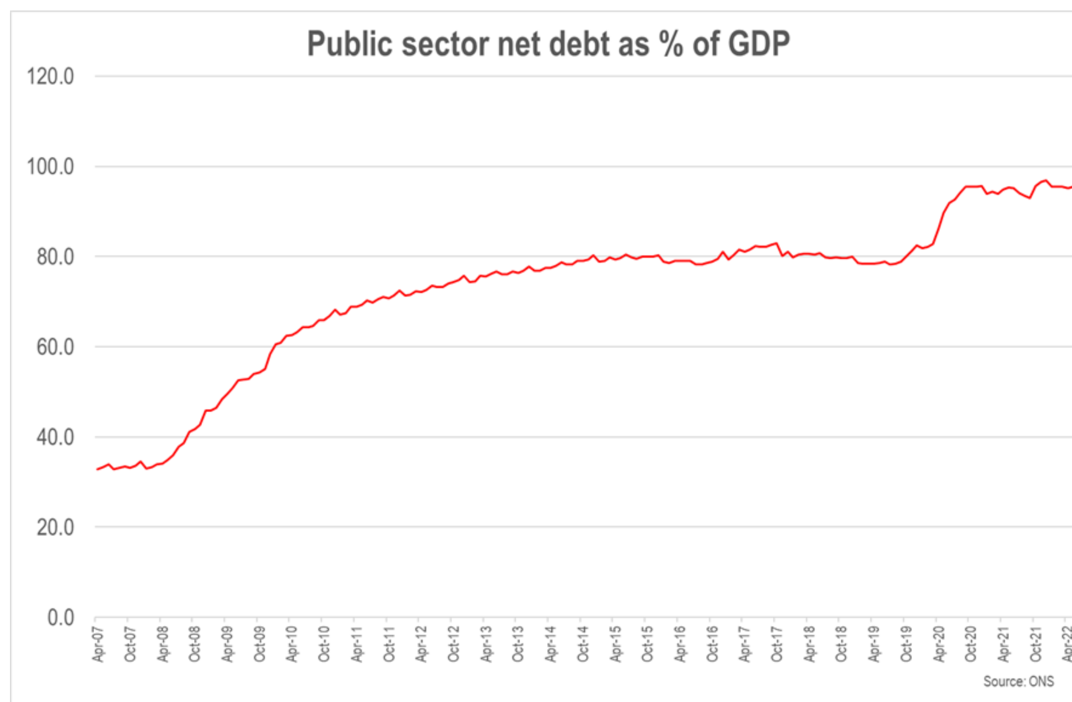
After remaining steady at around 80% for a number of years public sector net debt as a percentage of GDP was driven higher by pandemic-related spending, reaching a figure of 95% in recent months.

A government needs to take a view as to whether its spending plans at an aggregate level are realistically fundable through general taxation or if it must borrow in order to fund that spending. Much has been written about Britain's tax burden being at a 70-year high in recent months, but arguably there are good reasons for this, even if a strong case can be made for finding a more progressive regime than that which has been adopted.

The central issue here is that over the next few years, and not just the next few months, the government, of whatever hue it may be, will face very challenging decisions regarding taxation, spending and borrowing. The 10-year UK gilt yield has recently moved above 3% for the first time in several years, a clear signal that the cost of government borrowing is set to increase.

This matters to the tourism sector in very many ways. Public funding for tourism programmes whether at a national or a local level will face a potential squeeze if other areas of spending are deemed of greater importance, with those public bodies overseeing tourism assets potentially having to find supplementary revenue streams to compensate for any reduction in public funding. While finding ways to support households and businesses through a period of unprecedented increases in energy costs has to be the right thing to do, the more generous any such support scheme is potentially the less funding there is for other areas.

One of the few things that we can be reasonably sure of at a time of extreme uncertainty is that securing public funding for tourism is going to become tougher during the next eighteen months.



6 Inbound Tourism

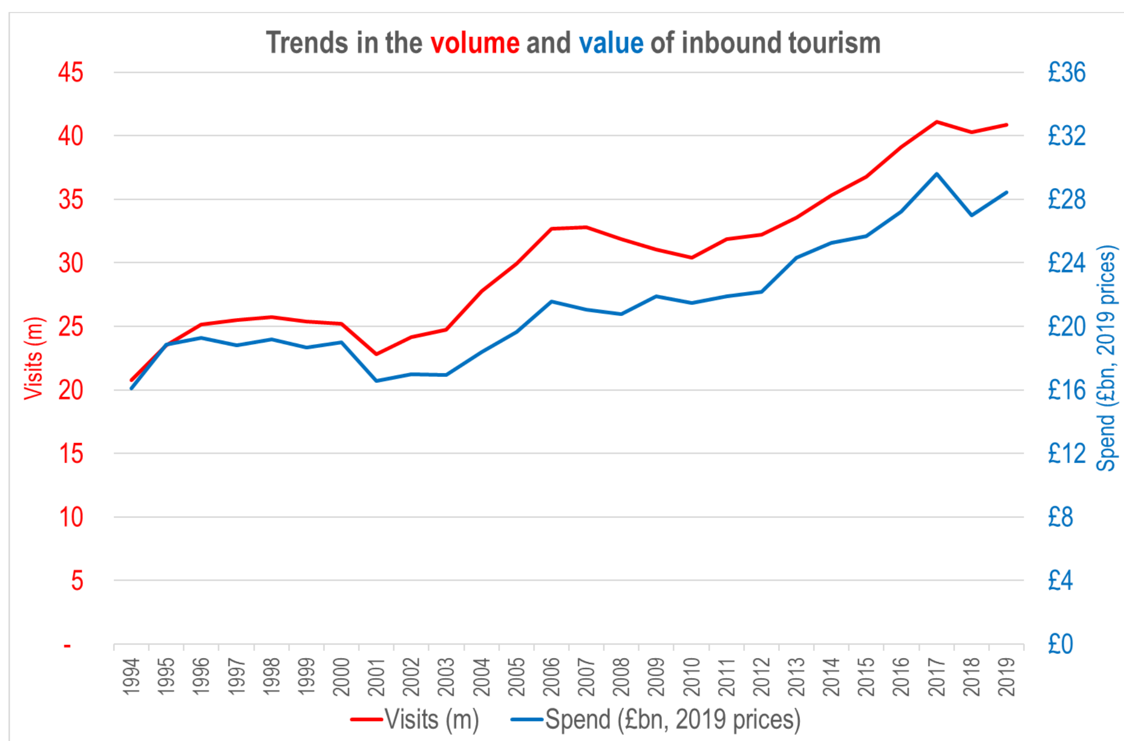
Rather than focus on what has happened to the volume and value of inbound tourism during the past two years the initial focus of this section is to take a look back at trends in the years prior to the pandemic. There are two broad reasons for this; one is that reliable data for the past couple of years is in limited supply and the other is that assuming Covid-19 plays a far more limited role in shaping how the world travels in the next year or so, we are well advised to take stock of the trends that had been shaping inbound tourism prior to 2020 when gazing into our crystal ball for 2023 and beyond.

The first chart below shows trends in the volume and value of inbound tourism across the quarter-century from 1994 to 2009. The spending figures have been adjusted for inflation.

The late 1990s saw both volume and value tread water, with the 1997 Asian financial crisis being partly to blame for the modest performance.

In 2001 the Foot and Mouth Disease outbreak across much of Britain in the early months of the year and the terrorist attacks in the USA on 11 September led to falls in inbound tourism. Recovery ensued later in that decade, but the global financial crisis again saw growth stutter to a halt. A period of substantial expansion commenced from 2011, with 2017 representing a high-water mark with more than 40 million inbound visits generating close to £30bn of expenditure at 2019 prices.

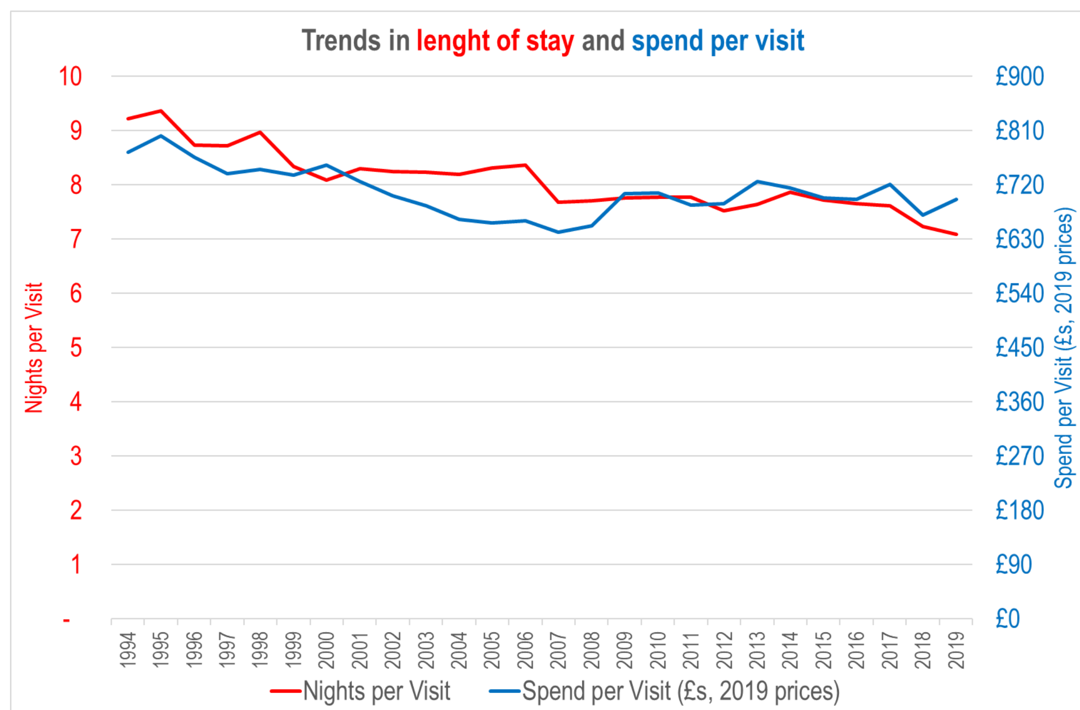
An important point to take away from the chart is that this era of growth appears to have come to an end in 2017, with each of the next two years seeing little of no change in the overall tally.



Once again taking a 25 year time horizon we can see form the following chart that the average length of stay for inbound visits has been on a gentle downward trajectory for much of the period under the spotlight, falling from around 9 nights to an average of 7 nights.

Limited data during the pandemic era would suggest a strong uptick in length of stay – extreme caution should be adopted when interpreting this finding, as it will more likely reflect the absence of the more spontaneous short-break leisure market and also business visits which traditionally act as a drag on average length of stay

courtesy of their brevity, while VFR visits and those on long-term study visits will have seen a less dramatic (though by no means insignificant) decline in volume.



In real terms the average amount that Britain earns from each inbound visit has largely tracked length of stay, with a gentle fall from £800 in the mid 1990s to £700 in 2019.

It is a mixed picture for inbound tourism by journey purpose, with the next chart indicating that it was Holiday visits that bore the brunt of the decline during the late 1990s and early 2000s, whereas Business and VFR remained more resilient.

A key explanation for the long-term growth in VFR traffic will have been the expansion of the EU in the early 2000s and accompanying growth in immigration to the UK from Eastern Europe.

With the prospect that immigration to the UK from EU countries will now take on a different trajectory there is a strong reason to suppose that this market segment will be much less of a locomotive for inbound growth during the next few years.

Returning to the story for Holiday visits – after the contractions seen around the turn of the century a period of almost uninterrupted growth unfolded.

The exchange rate was discussed in an earlier section of this report, and it was evident that for much of the past twenty years the pound has been trading at a very favourable rate from the perspective of a budding inbound visitor from either the US or a Eurozone country.

This was also a period of exceptional growth in the availability of low-cost flights to and from the UK, used for both Holiday and VFR purposes.

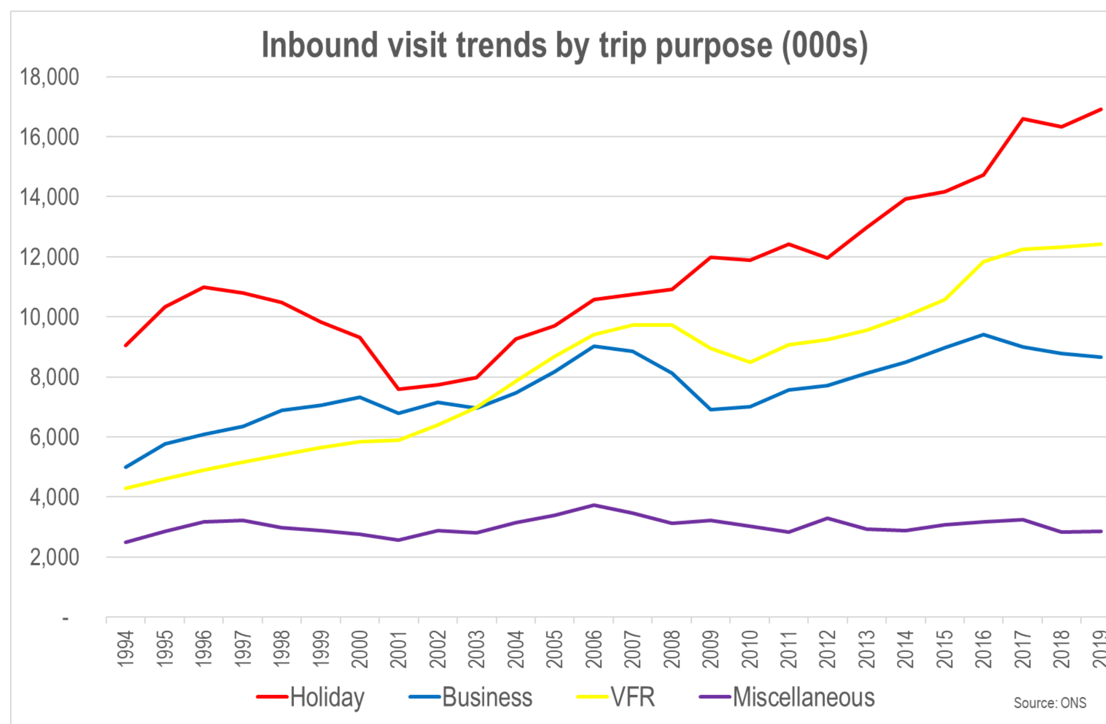
As was pointed out when discussing the aggregate picture, note should taken of the plateauing in Holiday visits from 2017 onwards, once more suggesting that organic growth was starting to slacken prior to the pandemic.

Among the three major journey purpose segments for inbound visits it is Business that saw the least growth across the 25 year period, with the volume in 2019 being lower than that a dozen years before.

The latest survey of 400 international business travellers conducted by STR found that when asked about their expected business trip propensity 'once the pandemic was finally over', 40% said they expected to be making

fewer trips than had been the case prior to the pandemic, with only 14% expecting to be making more trips than had been the case back in 2019.

There will be a multitude of factors behind these opinions, and we should not put complete faith in any survey of stated intentions, but the accelerated adoption of virtual meeting technology during the past two years will almost certainly result in some international business meetings that used to take place face-to-face in 2019 being routinely conducted through Zoom or Microsoft Teams for the foreseeable future.



Consistent data on a regional spread basis is available from 1999, and the following chart shows trends in the number of visits to London, other parts of England, Scotland, Wales and Northern Ireland, along with inbound day trips where the area(s) visited are not recorded.

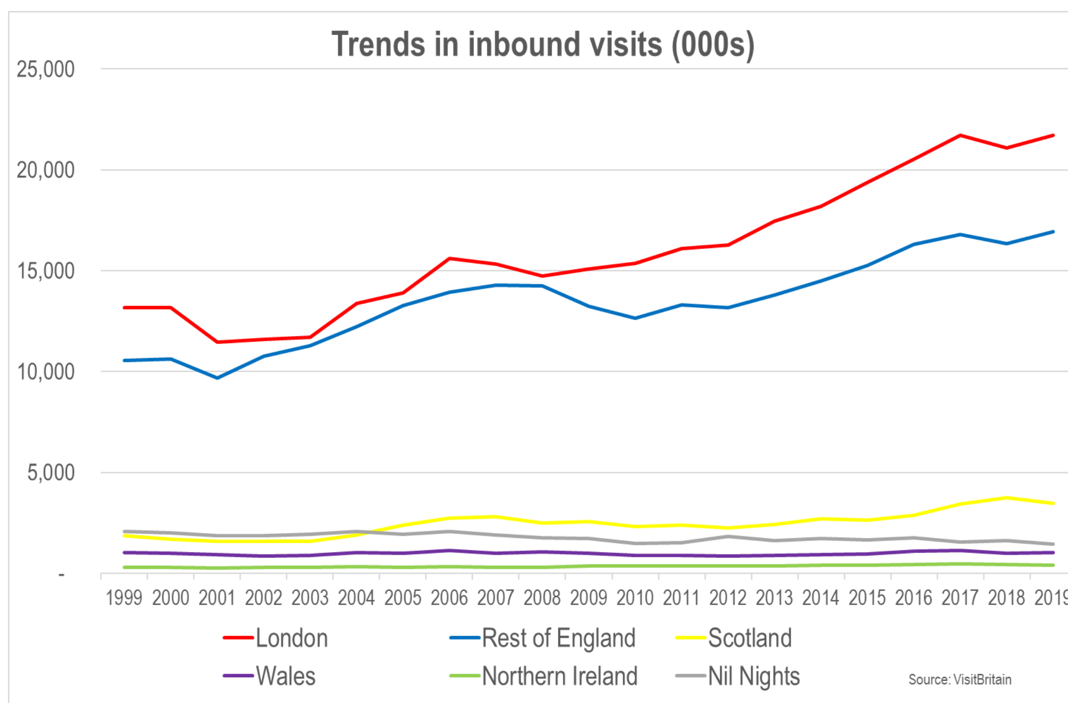
We can see that the dip in inbound visits at the start of the century was most pronounced for London meaning that in 2003 there were very similar volumes of overnight visits to the capital and other parts of England. London and the rest of England both enjoyed steady growth through to around 2008 but then a greater degree of divergence emerged, with visits to London continuing to grow while those to other parts of England fell back.

The gap which had emerged by 2012 then remained broadly constant through to 2019 with both regions experience a sustained period of growth until 2017 followed by a plateauing of the trend in the final two years shown on the chart.

The standout observation from the other areas of the UK is the growth in inbound visits to Scotland. The difference in magnitude between the Scottish tally and the lines shown for London and the rest of England goes some way to disguise just how strongly Scotland performed in attracting inbound visits, with growth of 66% between 2012 and the peak year of 2018.

As has been noted elsewhere in relation to journey purpose trends, it is important to spot that even Scotland saw a slight decline in 2019, suggesting that had it not been for the pandemic inbound tourism may well have been flatlining as opposed to expanding in the past couple of years.

The number of day trip visits to the UK fell by close to one-third between 1999 and 2019, with one potential explanation being the reduction in the number of Cross Channel ferry routes offering easy access to foot passengers.



Switching out attention now to individual inbound markets, with the table below showing the top ten inbound markets back in 2019 measured in terms of visitor spending, with the table also showing the share of spend from each market that accrued in London, other parts of England, Scotland and Wales.

The top ten features four long-haul markets; USA (top), China (2nd), Australia (5th) and UAE (9th). The remaining six markets by value are all EU nations. A vital insight is just how far ahead the USA is of other markets, with spending of £4.2bn in 2019, so the extent to which Americans feel confident about travelling internationally will be a major determinant in the renaissance of inbound tourism.

In terms of the regional spread of spending in 2019 the Irish Republic stands out as having the lowest share destined for London, with an above average propensity for spending in other parts of England. With 17% of spending destined for Scotland it is clear that the recovery in outbound US tourism is of particular importance here.

Top 10 inbound markets by value in 2019

		Share of inbound spend in 2019			
	£m	London	Rest of England	Scotland	Wales
USA	£4,184	59%	22%	17%	1%
China	£1,710	50%	39%	8%	1%
Germany	£1,567	45%	38%	13%	3%
France	£1,398	56%	31%	10%	2%
Australia	£1,174	44%	39%	12%	3%
Italy	£1,109	66%	25%	8%	1%
Spain	£977	50%	41%	5%	2%
Irish Republic	£958	29%	49%	7%	3%
UAE	£869	64%	26%	9%	0%
Netherlands	£796	40%	44%	12%	2%

Inbound visitors do not all behave in the same way as one another, with the following table illustrating the propensity of Holiday visitors from each of the ten most valuable markets to partake in a range of activities.

Putting the Irish Republic to one side as being rather different to the other nine markets shown we can say with confidence that sightseeing famous monuments and buildings is a bread and butter activity for inbound Holiday visitors to Britain, but we can also see how vital heritage, nature and cultural attractions are, with more than half of visits from most of the leading markets featuring a visit to a castle, a garden and/or a museum or gallery.

It is no surprise that it is the English-speaking markets of the USA and Australia that demonstrate the highest propensity to go to a theatre or musical performance during their holiday.

Holiday visitor participation rate

	Sightseeing famous monuments / buildings	Visit castle / historic house	Visit parks / gardens	Visit museum / gallery	Theatre / musicals / opera / ballet
USA	79%	61%	54%	59%	23%
China	81%	55%	55%	57%	15%
Germany	71%	60%	55%	47%	10%
France	72%	46%	49%	51%	10%
Australia	73%	57%	61%	57%	22%
Italy	61%	45%	50%	50%	8%
Spain	66%	46%	52%	51%	14%
Irish Republic	45%	21%	26%	20%	11%
UAE	64%	38%	49%	45%	16%
Netherlands	70%	50%	48%	43%	10%

Just as there has been variation in the growth of tourism by journey purpose and region visited, so too has there been in how different inbound source markets performed during the decade prior to the pandemic.

The following chart shows the ten markets to have delivered the swiftest growth (in absolute terms) between 2009 and 2019. The USA was far ahead of any other market, with an uptick in visits of 1.75 million across the decade, which sounds like a remarkably impressive performance.

But two important pieces of context; first is that the 2019 tally of visits from the USA was 130,000 lower than the record figure from 2017, and second, when comparing growth from time period A to time period B it is important to understand what might have been going on around the time of period A.

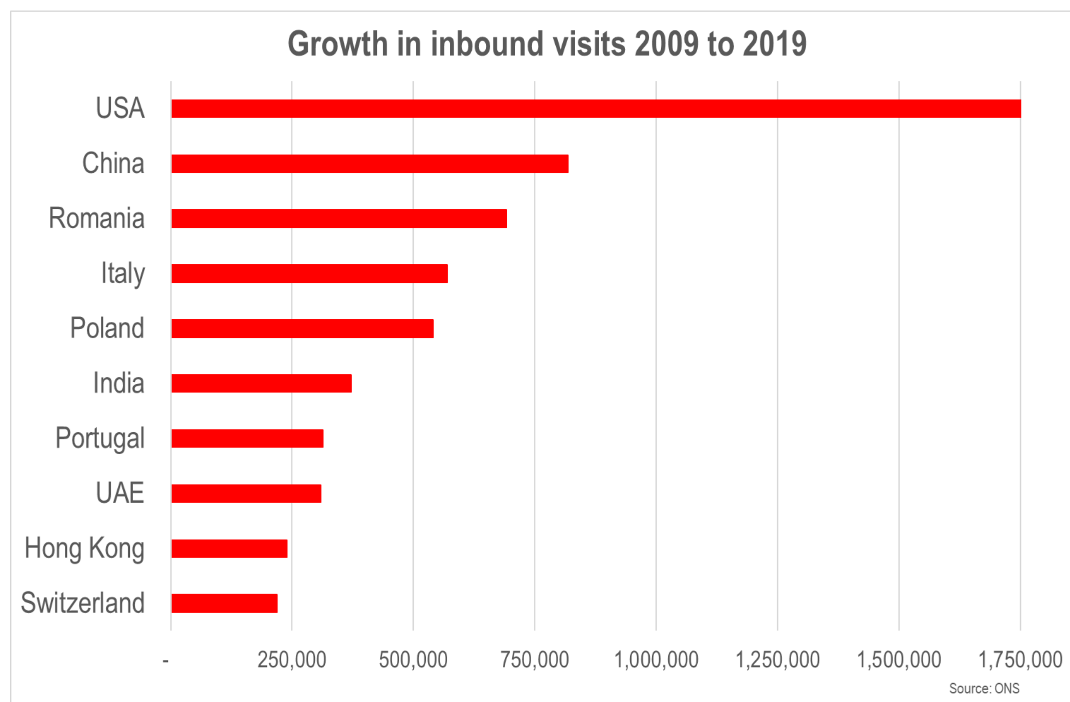
The global financial crisis was impacting travel back in 2009 meaning that visits from the US were lower than they had been in earlier years, plus the market had not fully recovered from the downturn in travel resulting from the September 11 attacks.

In 2019 Britain welcomed 4.5 million visitors from the US, which was indeed 1.75 million above the 2009 figure, but back in 2000 total arrivals amounted to 4.1 million, meaning that in 2019 the market was only around 10% up on where it had been two decades earlier.

There is less of a need to look back over decades of data when it comes to reaching a conclusion about the second bar on the chart, with visits from China having truly come from the territory of ‘negligible’ in the late 1990s to ‘highly significant’ by 2019. As was evident from the earlier table China had become the UK’s second most valuable source market by 2019 thanks to a high spend per visit and underlying growth in the number of visits.

There are three additional long-haul markets featuring among the ten fastest growing in the decade to 2019, namely India, UAE and Hong Kong.

The expansion of the EU and resulting ease of movement to the UK for leisure or to take up employment opportunities sits behind the growth in visits that came each of Romania and Poland over the course of the decade.



So, what of prospects for inbound tourism?

A prerequisite for there to be inbound tourism is that there is outbound travel from origin markets. The following chart presents the most recent forecasts made by Tourism Economics for the European Travel Commission relating to year-on-year changes in the volume of outbound travel from different world regions.

These estimates and projections relate to outbound travel to anywhere in the world from these regions and so should not be viewed as a forecast for the track of inbound tourism to Britain from these areas, however, it provides a useful starting point for considering where we might be heading.

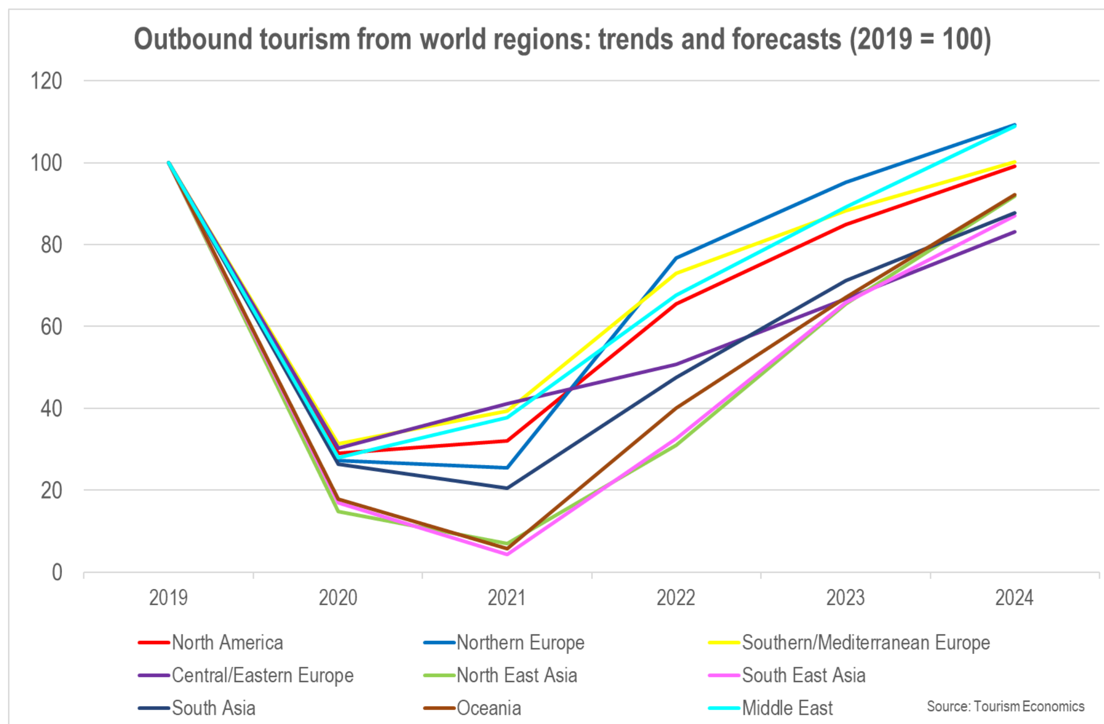
All of the regions are indexed to 100 in 2019 thereby enabling the relative performance of each to be easily compared and contrasted. The cliff-edge nature of the decline in 2020 is not surprising but note the evident divergence in 2021 with regions across Asia and Oceania continuing to fall back whereas outbound travel from Europe, the Middle East and North America either remained steady or showed tentative signs of rejuvenation.

It will be several more months before we get any full-year data for 2022 but the projections would suggest that no world regions are expected to see outbound travel back to levels witnessed in 2019. The strongest rebound is expected to be in outbound travel from Northern and Southern Europe, the Middle East and North America, with volumes at around 75% to 80% of those achieved three years ago.

By contrast outbound travel from North East and South East Asia is not expected to reach even 40% of its 2019 volumes by the end of 2022, with only a slightly rosier picture for outbound travel from Oceania.

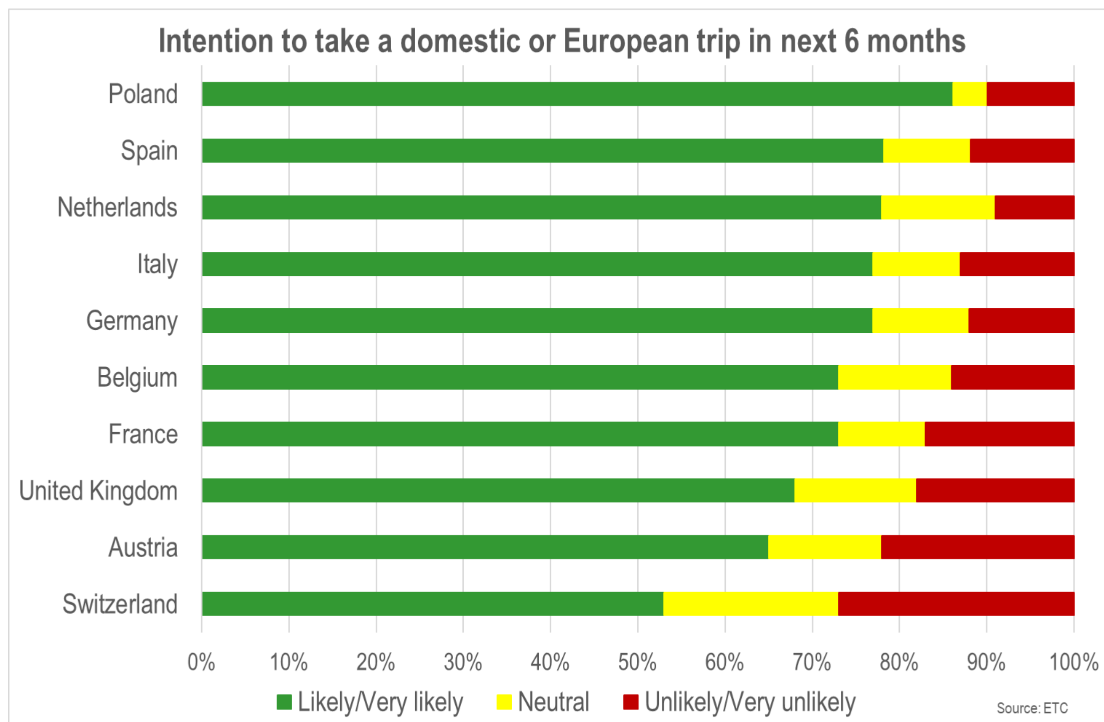
The gap between regions is expected to narrow as we move through 2023 and 2024 with key generating markets in Europe, North America and the Middle East potentially returning to where they were ahead of the pandemic, while Oceania is set to see the swiftest rebound among the other world regions. Although painting a more promising picture it is clear that outbound travel from much of Asia is still expected to be about 20% lower than it was in 2019 by 2024.

It should be noted that these forecasts while made after the invasion of Ukraine do predate the recent deterioration in the global economic outlook.



There are other sources we can turn to when trying to get to grips with what the outlook for inbound tourism to Britain might look like. One is the regular European Travel Commission survey of the intentions of Europeans to travel, either within their own country or to other destinations in Europe.

The analysis is based on a sample of Europeans who have taken at least two overnight trips within the past three years, and one of the key questions asked relates to their trip intentions over the upcoming six months.



We can see from the chart that more than half of those quizzed in each of the ten markets covered by the study said they were either 'Likely' or 'Very likely' to be making a trip in the next six months, with the fieldwork having taken place in May of this year.

Germany, France, Italy and Spain are hugely valuable source markets for the UK, so it is encouraging to see that around three-in-four of those residing in these countries were highly likely to be travelling.

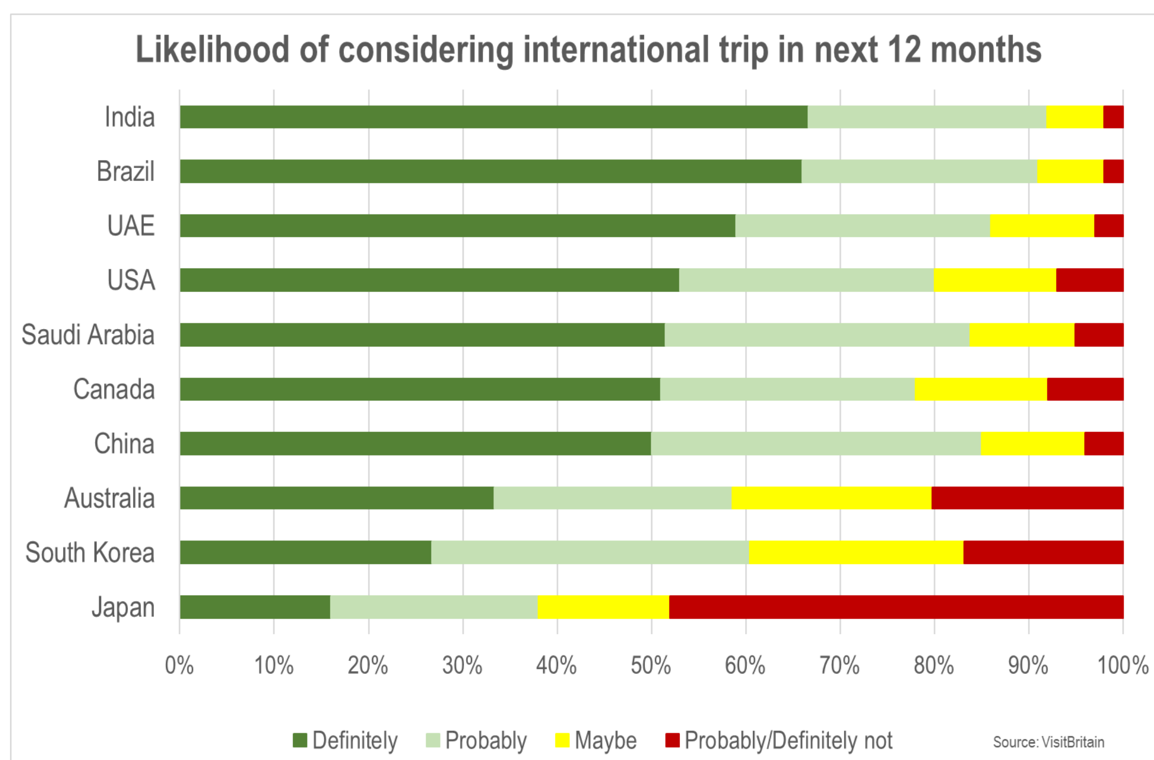
Analysis by VisitBritain helps shine a light on how those in key long-haul source markets for the UK feel about travelling internationally, although it should be noted that the most recent wave of the study to be published saw fieldwork in February.

Those surveyed must have travelled internationally within the past five years with the following chart showing how respondents replied to a question asking them how likely they were to consider an international trip in the next twelve months.

We should be clear that just because someone says they are open to considering something is not a signal that they will definitely do it. What's more, there are cultural differences in the way that survey questions are responded to, so the following chart should be seen as a broad indication as opposed to a statement of fact.

In general terms the outlook back in February was promising, with seven out of the ten markets covered seeing half or more of respondents indicate that they would 'definitely' consider an international trip over the upcoming year.

The markets with the highest proportion of respondents saying they would 'probably or definitely not' consider an international trip were Australia, South Korea and especially Japan.



The most recent VisitBritain forecasts for inbound tourism were released in August, but at this stage relate solely to 2022 rather than next year. The forecast suggests that the 2022 volume of inbound visits will remain around 35% lower than that seen back in 2019, but visitor spending is set to be just 24% down on three years before.

The forecast is more bullish about the 2022 inbound performance from Europe and North America and more pessimistic about the picture from East Asia.

The difference between the recovery rate for volume and value is down to an assumption that the extended length of stay seen during the past year or so will persist through 2022 as well as being a function of inflation.

Particular caution may be wise in reckoning that the average length of stay for inbound visits will continue to be higher than was the case back in 2019. If we assume that international travel is broadly normalising then short-breaks will re-emerge as an integral part of travel, leading average length of stay to revert to a more typical pattern.

One counter argument for why length of stay might truly remain at a higher level is that short-stay business visits could be permanently lower due to the adoption of virtual meeting technology, thereby driving up average length of stay by virtue of their absence.

The volume of inbound visits that Britain attracted in the final few years of the last decade does not look set to be exceeded in the next two or three years.

There are several reasons for this assertion. First of all is the fact that prior to the pandemic there was a clear signal that the period of growth seen in inbound volume post global financial crisis had petered out. Second is that the longer-term impacts from Brexit had not had opportunity to manifest themselves in the data through to 2019, with the UK not having actually left the bloc. Markets at particular risk from this development being VFR due to reduced immigration, and also youth travel, for example to attend EFL courses, due to changed passport requirements.

Third, the cost of travel, whether the price of air tickets or nightly hotel room rates, has risen sharply, potentially dampening demand altogether for some potential visitors and/or leading to decisions about length of stay for others. For example, London is highly dependent on inbound tourism and yet despite volumes remaining markedly down on where they were three years ago the average daily room rate for hotels in the capital in June 2022 stood at £208.86 according to the VisitEngland Occupancy Survey, representing an increase of 18% in nominal terms and 5% in real terms (so adjusting for inflation) on the rate for June 2019.

Fourth, the prevailing global economic backdrop is at its most worrying since the global financial crisis, and while there is evidence that international travellers are keen to cling on to their travel experiences, they may choose to forfeit secondary trips in order to retain their ‘main’ holiday. If Britain is not seen as the main annual holiday destination then a trip could easily be put off to another, more financially opportune, year.

Fifth, for some important source markets Covid-19 travel restrictions continue to play a pivotal role in deterring travel. It is not that Britain continues to make visiting a challenge due to Covid-19 protocols, but that returning home may be a problematic, as referenced earlier in relation to the restoration of a direct flight from Beijing to Manchester operating its return leg via Dailan, where all on board are required to undertake a seven night period of mandatory quarantine.

It is markets in East Asia that are the least likely to be generating inbound visits at anywhere close to the levels seen prior to the pandemic in the next couple of years, and as we have seen China was a key driver of inbound growth up to 2019.

Britain remains easily reached from mainland Europe and will remain a strong contender for short-break or longer leisure trips for Europeans, but inbound VFR from Europe looks set to stagnate following Brexit and post-Brexit passport rules are set to act as a drag anchor on short stay youth / study visits from the bloc. There is of course one non-EU European market from which Britain can expect to see few if any visits in the immediate future, Russia, which back in 2019 generated close to 200,000 visits worth £182m.

There are some bright spots worthy of note, of which one would appear to be the potential of the US market in the next two years. The exchange rate is exceptionally favourable for Americans considering a visit, having fallen below $1.15 against the pound and some analysts even mooting the idea of a rate close to parity. There are strong signals that US citizens are comfortable with the idea of travelling to destinations that are once again easy to reach (in terms of Covid-19 protocols), and many of the pre-pandemic Trans-Atlantic air routes are being

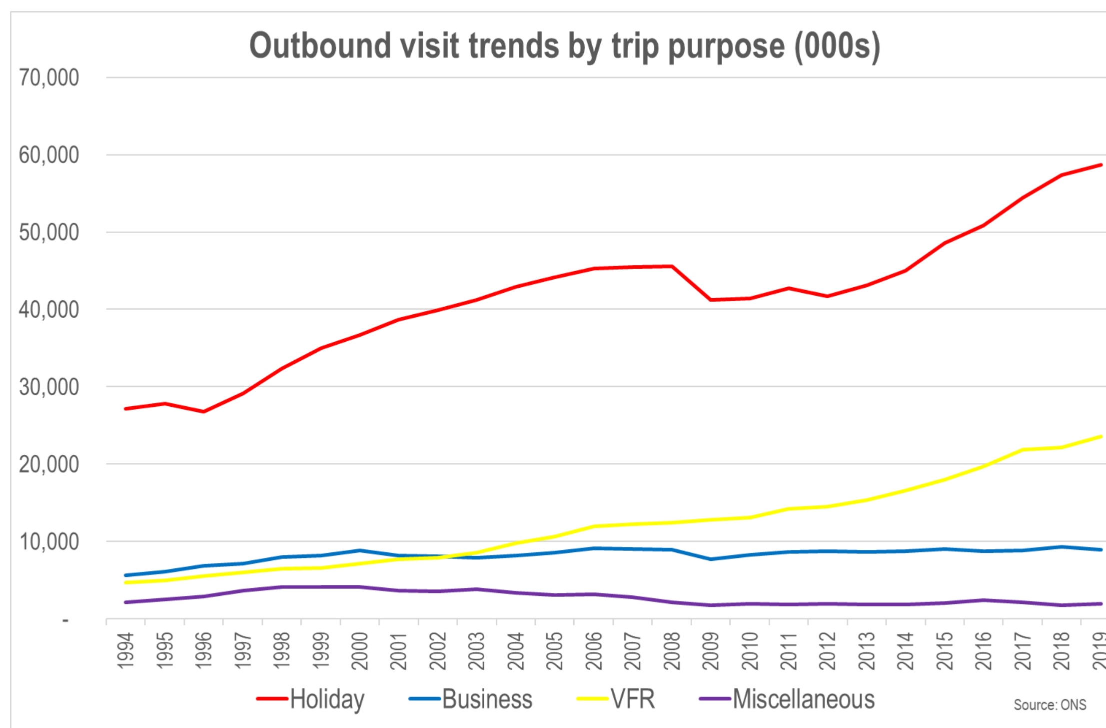
restored. In addition, Jet Blue is starting to compete with existing carriers on routes to the UK, helping to stifle some of the upward pressure on air fares, at least from key Eastern Seaboard cities.

Next year could equally be strong for visits to Britain from Australia and New Zealand, which between them generated almost 1.3 million inbound visits back in 2019 worth in excess of £1.3bn. Visits from these markets tend to be planned many months in advance, and with restrictions on outbound travel from these Pacific nations having only been eased during the early part of this year, 2023 marks the first real opportunity for a visit to Britain during the Northern Hemisphere summer months since 2019.

The global media spotlight has fallen on Britain following the death of Her Late Majesty Queen Elizabeth II. This will act to remind the world of the nation's heritage and traditions, leading to Britain potentially being more front-of-mind in the destination choice process for budding international travellers in the coming months.

7 Outbound Tourism

For the decade leading up to the global financial crisis of 2008 the only way was up when it came to Brits propensity to make outbound trips, with Holiday and VFR journeys leading the uplift in volumes as can be seen from the following chart.



Outbound travel is a competitor to the domestic tourism sector, although of course in some ways supports it, with those heading abroad often overnighting at hotels close to an airport ahead of an early morning departure.

A less obvious way in which outbound travel supports the tourism sector in the UK is through the viability that it delivers to a host of international air routes that are available to both inbound as well as outbound travellers. There may not be much inbound demand on routes such as those to Santorini or St Kitts, but this is the case for routes serving the likes of Stockholm or Sydney.

With the lifting or substantial easing of travel restrictions accompanied with the widespread availability of future travel vouchers being redeemed it would appear to have been a strong summer for outbound travel, despite the widely publicised delays and cancellations at some, though not all, airports and widely reported tailbacks at the Port of Dover.

Unless superseded by a fiscal event this autumn it is expected that from April 2023 a new Air Passenger Duty band for ultra long-haul flights will be introduced, set at £91. This rate will apply to flights of more than 5,500 miles, while those of between 2,001 and 5,500 miles will see a rate of £87. Short-haul international flights will incur a £13 levy.

Many of the most visited countries by Brits travelling abroad are within the EU, and from November 2023 UK citizens will need to register under the ETIAS (European Travel Information and Authorisation System). An ETIAS will be valid for three years from the time of approval (or until the expiry date on the traveller's passport if this is earlier).

In addition to adding another layer of bureaucracy to outbound travel this will add an additional cost, expected to be €7 for anyone aged between 18 and 70.

Subject to no new Covid-19 variants that substantially erode the effectiveness of current vaccines, and that are both highly transmissible and virulent, it is reasonable to suppose that health-related issues will not substantially impact on outbound trends over the upcoming 18 months or so.

However, the weakness of sterling (discussed earlier) accompanied by declining disposable income, rising air fares and the introduction of ETIAS all suggest that in 2023, and probably 2024, outbound travel will not have fully recovered to its 2019 levels.

8 Domestic Overnight Tourism

In the earlier section on inbound tourism it was noted that looking back at trends prior to the pandemic was perhaps more important than trying to analyse what had happened during the pandemic.

This same argument applies to domestic overnight tourism, but with the added ingredient that even if we wanted to look at trends during the pandemic we would find it tough to do so due to an absence of data.

Understandably the main survey for measuring the volume and value of domestic overnight tourism was suspended during the early part of the pandemic, but by chance this coincided with a change in the survey methodology.

Fieldwork recommenced in April 2021, but for reasons that are not entirely apparent no data has been released since that time. At present it is stated that data for the period April to December 2021 will be released in mid October “barring any unforeseen circumstances”. It is not clear when any data for 2022 might be published.

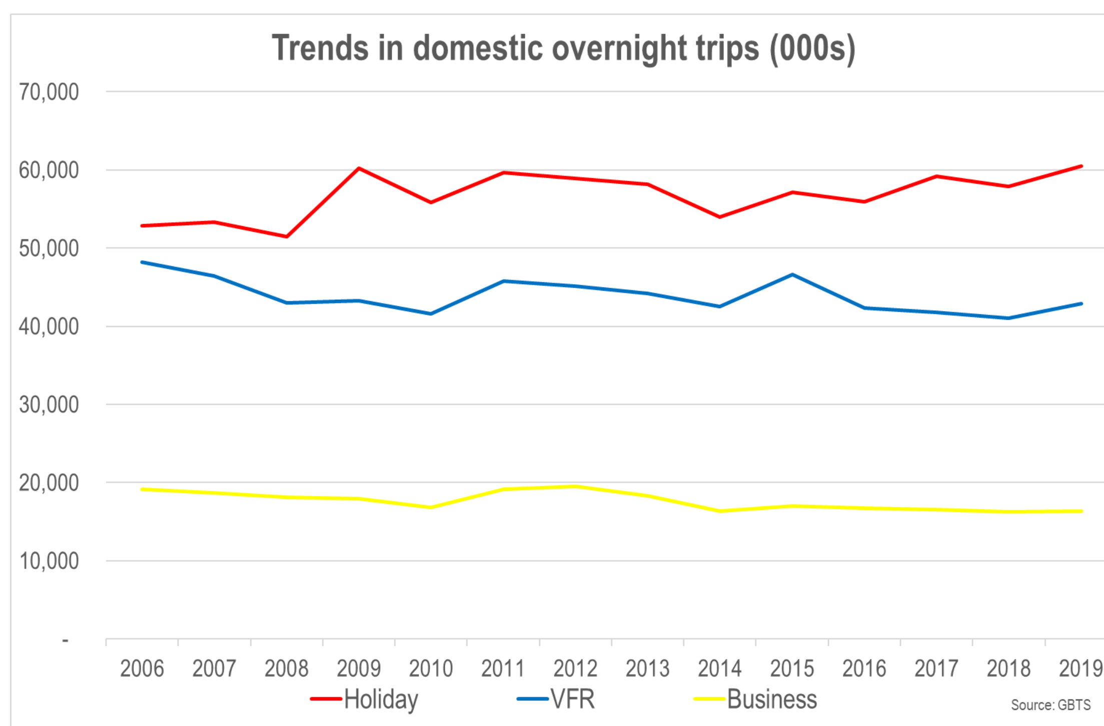
Despite this recent data blackhole we can still gain many insights by looking back at how domestic overnight tourism was performing prior to 2020.

The first chart below looks at trends in the number of trips by journey purpose for the period 2006 to 2019.

Changes over time are for the most part negligible and subtle. There has been a gradual reduction in the volume of overnight Business trips, with the same holding true for VFR trips.

It is trends in Holiday trips that will be of most interest to visitor attractions, and while the route from 2006 to 2019 was not a smooth one we can see that their volume ended the period more than 15% up on where it had been at the start.

Much of this uplift took place in 2009 at the height of the global financial crisis and dramatic fall in the value of sterling, making foreign travel significantly more expensive than it had been before. The decade thereafter largely saw the volume of overnight domestic Holiday trips trace out a shallow decline before an equally shallow recovery, meaning that in 2019 volumes matched those in the classic staycation year of 2009.

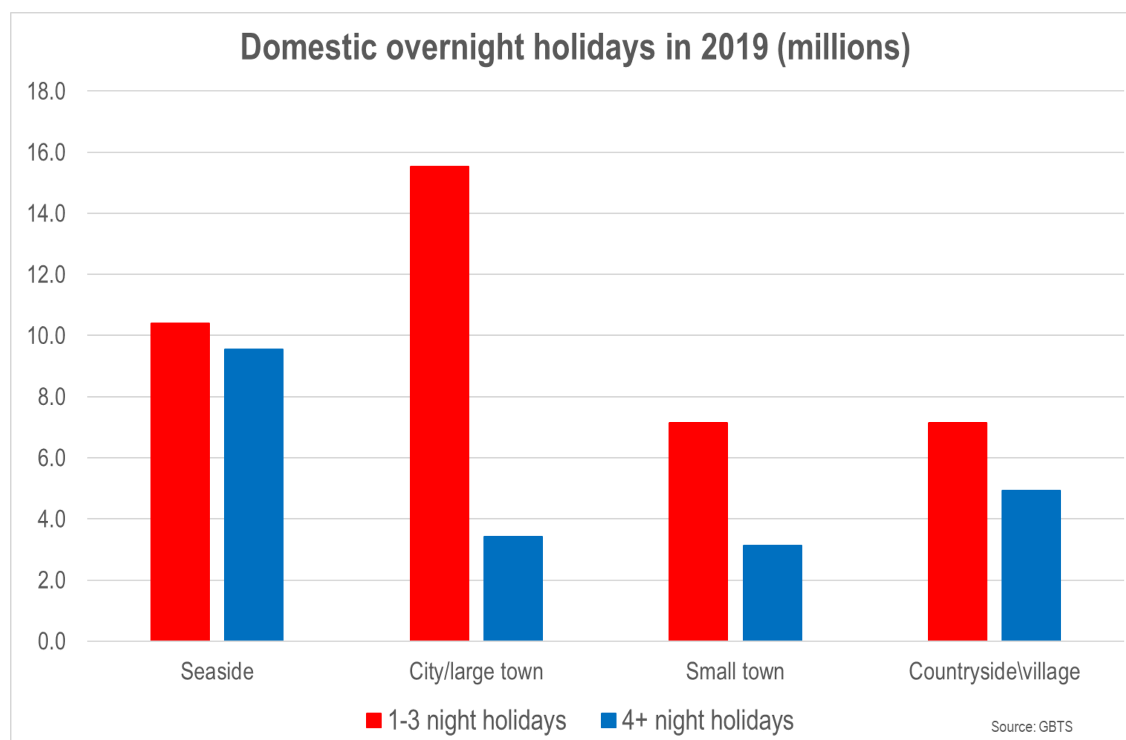


Looking at the destination of domestic overnight holiday trips in 2019 we can see that the story is rather different for short trips (1-3 nights) than for longer trips.

The lion's share of longer holiday trips were to a seaside destination, whereas for shorter trips (which make up the majority of domestic holidays) it was city or large town destinations that attracted the greatest share.

When data for 2021 is finally released we might readily expect that longer stay holidays will have gained ground, and also that seaside and countryside destinations will have benefited at the expense of city and large town destinations.

The tendency for consumers to seek out open spaces during the pandemic was extensively reported, but it could be an error of judgement to assume that this behaviour has persisted now that restrictions have been removed and no longer does the nation wait in trepidation for the 4pm Downing Street press conference and Professor Chris Whitty to utter the inimitable phrase of 'next slide please'.



The earlier section on the UK economy discussed in some detail income distribution for different groups in society, so it is helpful to explore the extent to which different cohorts choose to take domestic overnight holiday trips.

The first of the next two charts shows the number of 1-3 night and 4+ night holiday trips in 2019 by socioeconomic group.

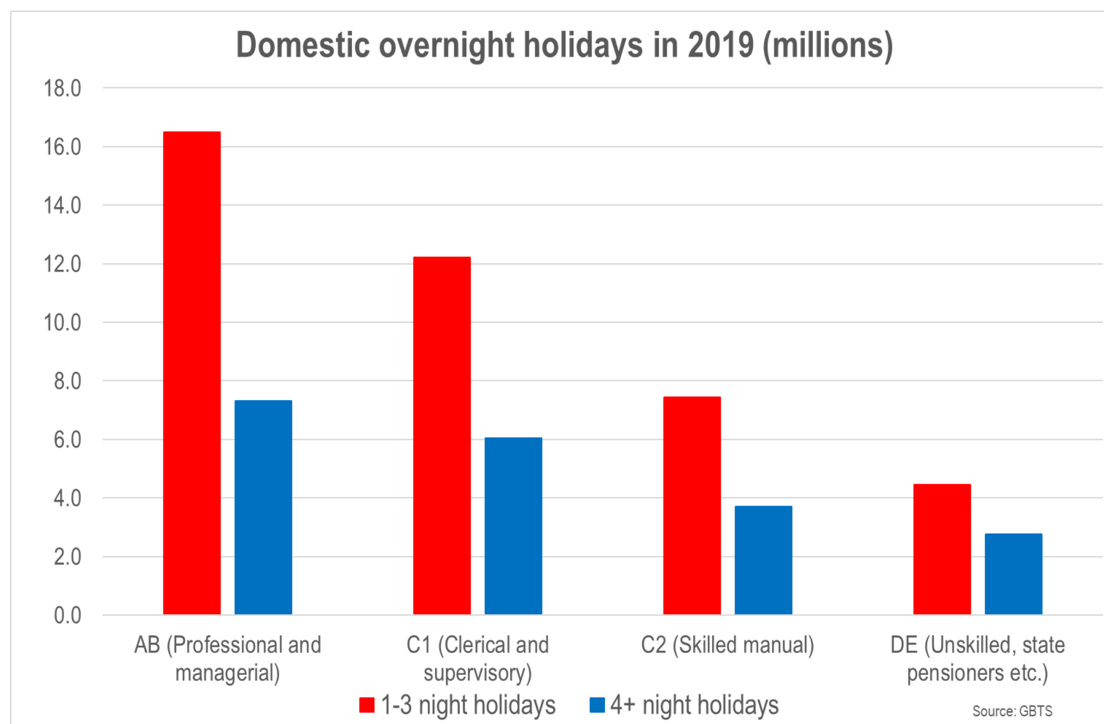
The number of trips declines as we move through the socioeconomic groups, being greatest for AB and lowest for DE for both short and longer holidays. But might this purely be a function of how many people there are in these cohorts?

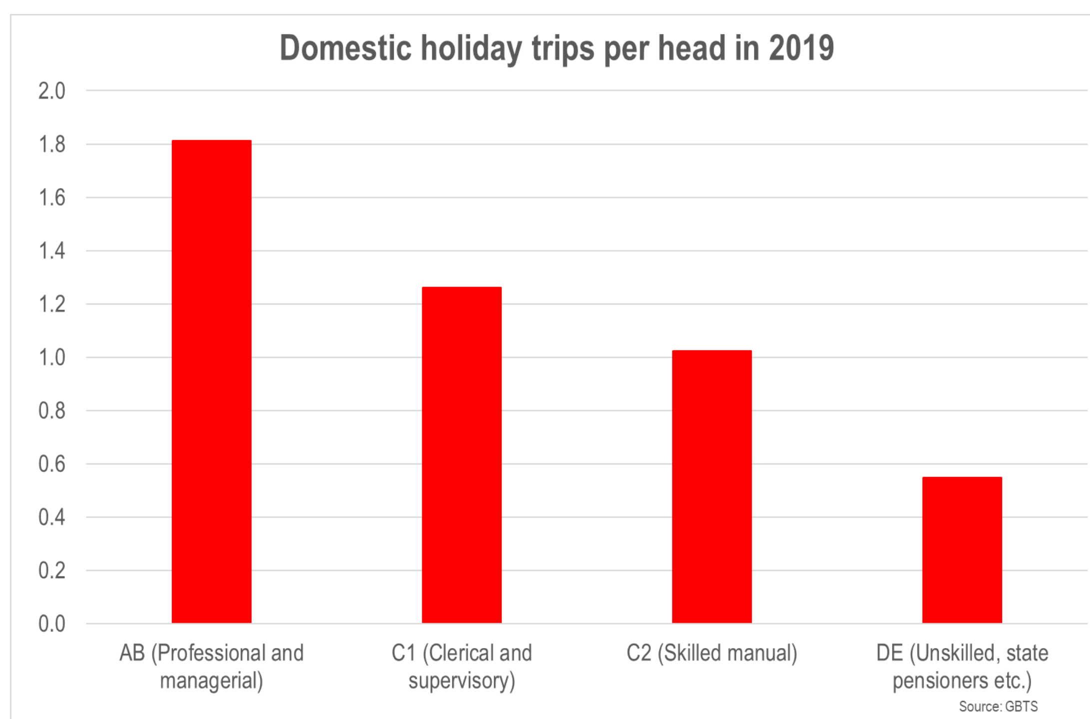
The second of the two charts confirms that the answer is very definitely 'no'. This shows the number of domestic holidays per annum per head of population for each socioeconomic group. For those classified as being in socioeconomic group AB the figure is about 1.8 while for DE it is a shade below 0.6.

At a time of contracting disposable income one might at first conclude that the greater propensity for those in higher socioeconomic groups to take domestic overnight holidays is a good thing as they are best placed to absorb the rising cost of energy and food. The drawback to this argument is that given the scale of increase in

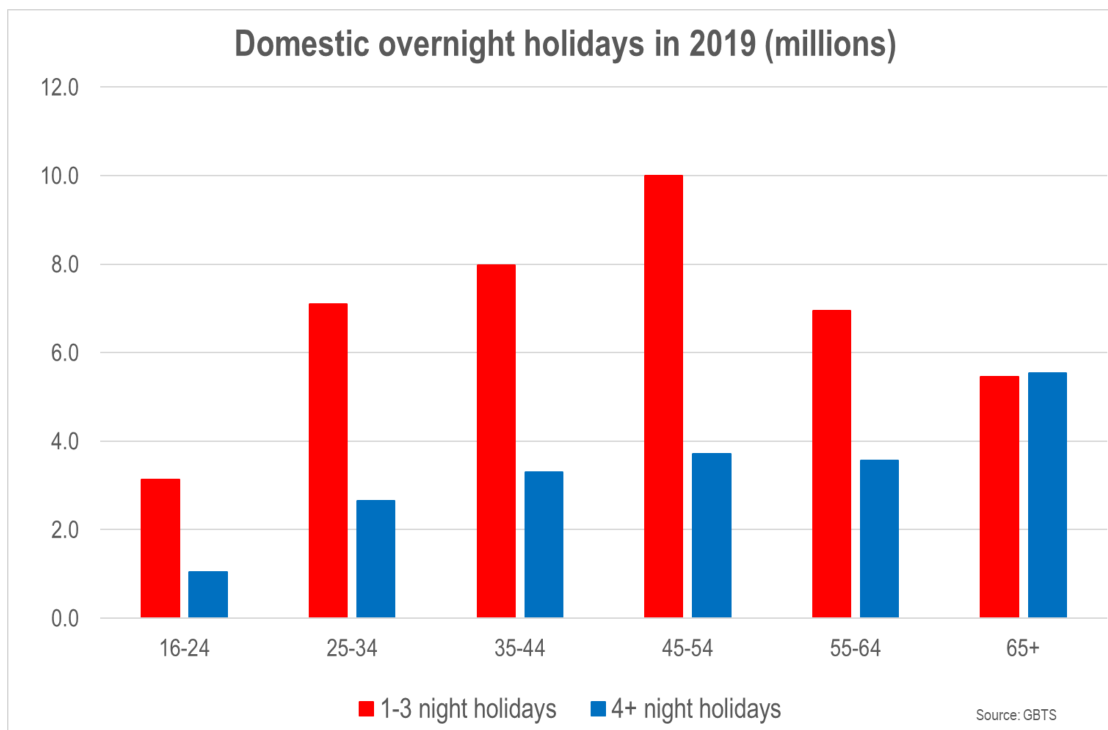
energy and food bills and the targeting of government support towards the most vulnerable, those in socioeconomic groups ABC1 will be the groups most likely to switch their spending from discretionary goods and services to cover the increased cost of essentials.

That potentially means the socioeconomic market segments of greatest value to the tourism industry when it comes to domestic overnight holidays will also be the segments most able to redirect spending on these types of activity towards more pressing priorities.



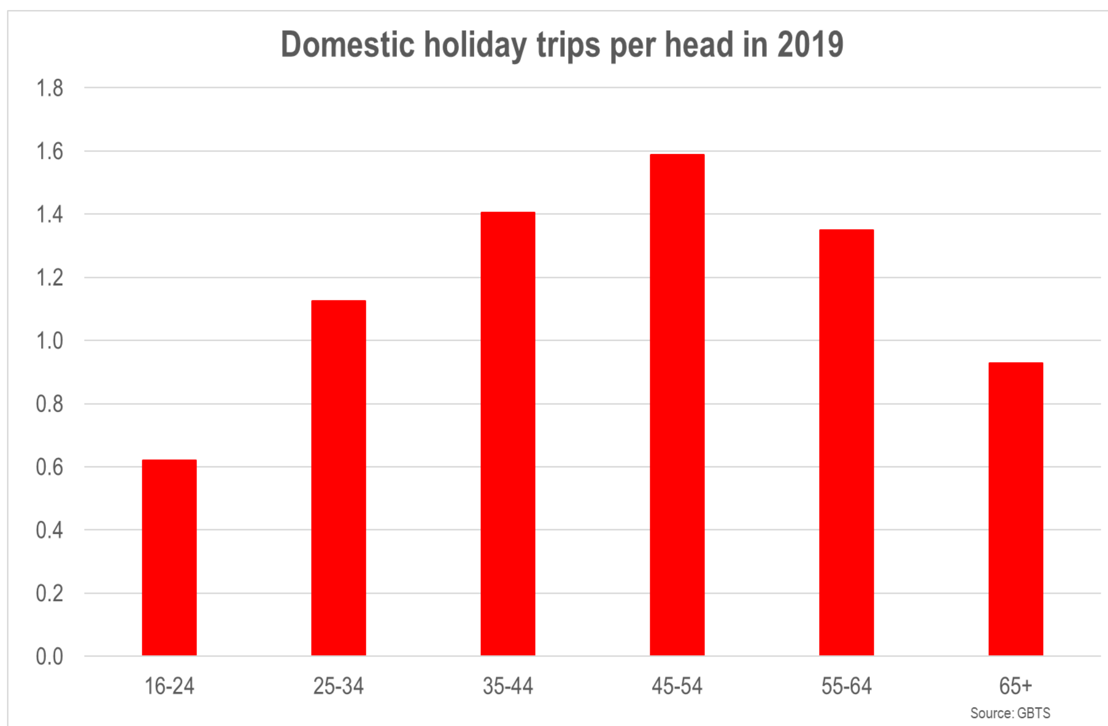


It is also possible to slice the cake in terms of age cohorts and we can observe from the next chart that there is a difference in the story for 1-3 night and 4+ night holidays. For the former we find that those aged 45-54 make the highest number of trips in aggregate terms, while for 4+ night trips it is the 65+ cohort that hold this mantle.



Combining short and long holidays and looking at the number of such trips per annum per capita we discover that it is those aged 45-54 who lead the way with 1.6 domestic holiday trips per person during 2019, and those aged 16-24 making the fewest at a rate of 0.6.

All age groups look set to feel the effects of inflation eroding their spending power in the coming year, but domestic overnight tourism is at particular risk from those in middle and older age cohorts juggling their household finances in order to cover the cost of essentials, as we found in the earlier section it is those aged 50-64 who have the greatest scope to lower their spending in these areas (given its higher base).



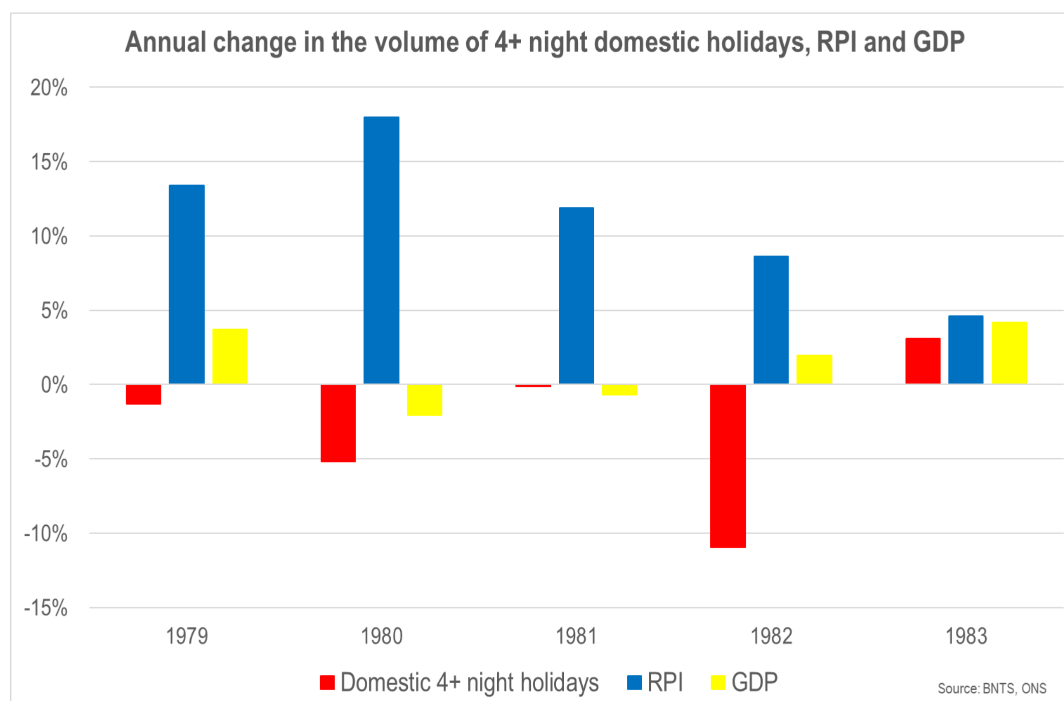
Can we take any lessons from history to second-guess what implications a period of rapid price increases and dwindling incomes might mean for domestic overnight tourism?

The global financial crisis may have entailed a significant economic shock, but inflation was not a major factor. What's more, much of the fillip that domestic overnight tourism enjoyed was attributable to the change in exchange rates, with Brits suddenly finding that popping across the English Channel to a favoured European destination had become a far pricier affair, while the pound has fallen in value against the US dollar in recent times it has been broadly stable against the euro.

The world was a very different place forty years ago, but we can see similarities in terms of inflationary and economic activity patterns.

The following chart plots year-on-year change in the volume of 4+ night domestic holidays, the Retail Price Index and GDP for the period 1979 to 1983. We can see that during a period of high inflation and weak or contracting economic activity the volume of domestic holidays was retreating, and we cannot assign this decline to Brits jetting off courtesy of low-cost airlines – it was another ten to fifteen years before domestic tourism faced that form of competition. After the sustained inflation and economic malaise of the previous three years domestic holiday volumes fell by 10% in 1982 alone.

We cannot assume that the unfolding picture for domestic overnight holiday tourism in the next year or two will by default mirror that of forty years ago, but the chart acts as a clear signal that at times of high inflation and an economy that is in recession the domestic overnight holiday industry risks seeing demand contract.



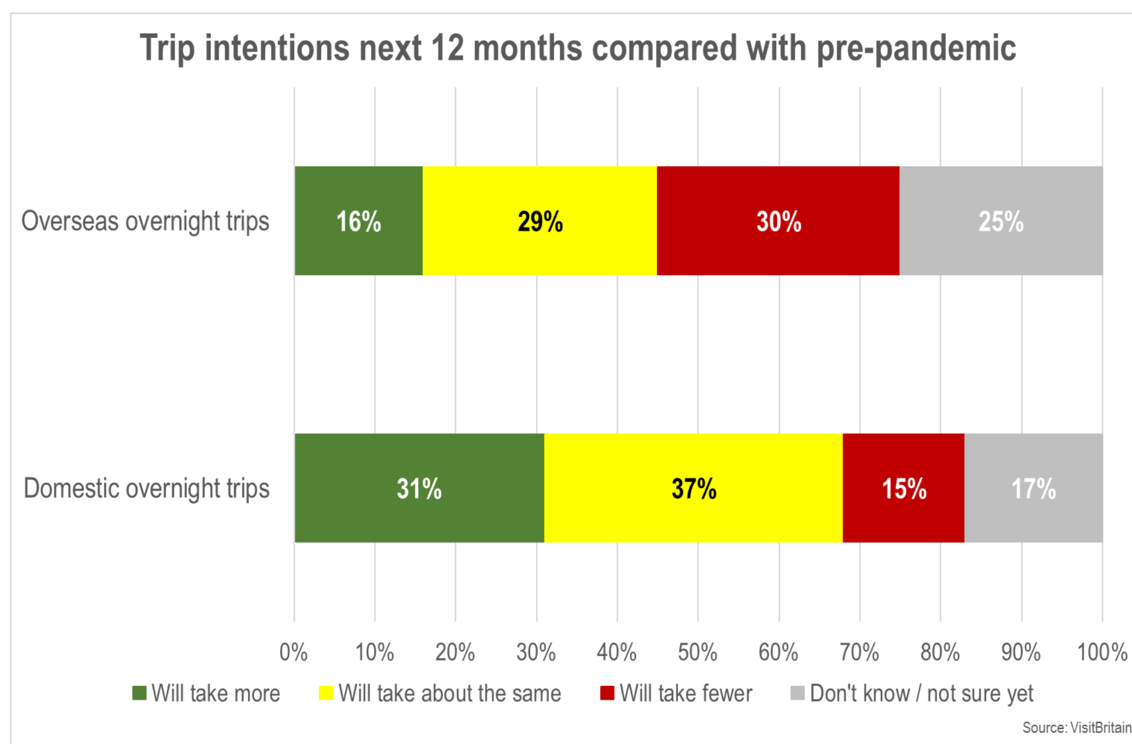
Looking to the coming months there is not much we can foresee with certainty, but unless superseded by any fiscal events that may take place this autumn it is expected that from April 2023 there will be a new band for Air Passenger Duty for flights within the UK set at £6.50, this being half the rate for short-haul international flights.

While comparatively few domestic overnight trips are made by air this change may encourage some switching away from rail or car for long distance domestic trips, whether for business or for leisure. There is of course no certainty that airlines will fully pass on the reduced APD rate through lower fares, indeed, many analysts anticipate the average ticket price to remain on the upward trajectory that has been evident since the easing of travel restrictions.

One extremely helpful source we can consult when trying to assess prospects for domestic tourism is the VisitBritain domestic sentiment tracker. The most recently published wave of the survey saw fieldwork being undertaken during early August and one of the most insightful questions asked respondents about their trip intentions for the next twelve months compared with a time before the pandemic.

The following chart sends out a positive signal, suggesting that roughly twice as many say they will be taking more domestic trips than fewer domestic overnight trips in the next year compared with pre-pandemic times (31% versus 15%), while the reverse is true for overseas overnight trips (16% expect to be taking more and 30% fewer).

Some caution is of course required as stated intention is not a guarantee of actual future behaviour, plus note the fairly large grey shaded area in relation to overseas overnight trips, with one-in-four saying that they either don't know or are unsure about their foreign travel plans during the forthcoming year. But taking the findings at face value would hint at the possibility of some trip switching from overseas to domestic during 2023.



Another question in the same study demonstrates that it is by no means plain sailing for domestic tourism in the coming months, with consumers being asked about potential barriers which may deter them from taking domestic overnight trips during the next six months.

The chart shows that 18% still cite concerns about catching Covid-19 as a barrier to travel, but this has slipped well down the league table of potential barriers in recent months, with factors associated with the cost of living crisis coming to dominate, with 37% mentioning the rising cost of living, 28% personal finances and the cost of fuel and 27% the rising cost of holidays / leisure.

As and when a further wave of fieldwork is undertaken it will be of considerable interest to see the extent to which the announcement that energy bills will be capped at £2,500 for the typical household for the next two years, as opposed to the more than £3,500 that had been expected from October, will have on sentiment. One might imagine this will go some way to easing consumer trepidation, but we should not be under any illusion about the pressure that remains on household finances as energy bills will remain substantially higher than a year ago and the cost of other essentials, most particularly food, continue to increase sharply.

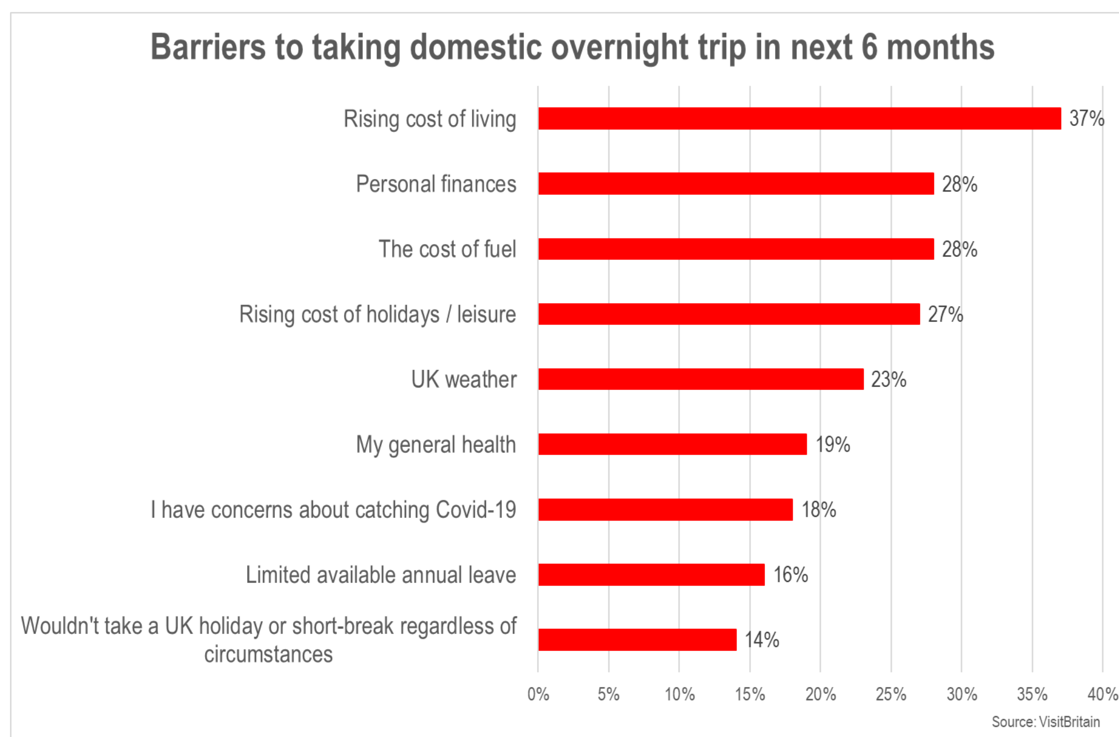
The cost of taking a domestic holiday has already seen an increase, both in relation to fuel for getting to and from a destination but also when it comes to the cost of accommodation. As one illustration of this the average daily room rate in South West England in June 2019 was £84.31 according to the VisitEngland Occupancy Survey, and by June of this year it had reached £101.30, representing an increase of 20% in nominal terms, and once we adjust for inflation, a rise of 6% in real terms in the space of three years.

We can expect that the vast majority of those who feel financially able to take domestic (or foreign) holidays in 2023 to be extremely price sensitive, and that their choices will largely not be dictated by concerns relating to Covid-19 unless a fresh more virulent variant emerges.

One might anticipate that, assuming no return to any form of Covid-19 restrictions, domestic overnight holiday and VFR tourism has the potential to return to pre-pandemic volumes in 2023, whereas a pivot to virtual meetings and prospects of a recession will see business visits remain at a lower than pre-pandemic level.

The amount that is spent on overnight domestic tourism will almost certainly be higher in nominal terms in 2023 than it was in 2019 as a result of inflation, but in real terms earnings may fall short of those achieved in 2019 as consumers make trade offs in their choices regarding where they stay, where they eat and what activities they undertake during a trip.

The extent to which financial pressures entice those who would otherwise travel abroad to opt for a domestic holiday instead will be a key determinant of domestic volumes next year.



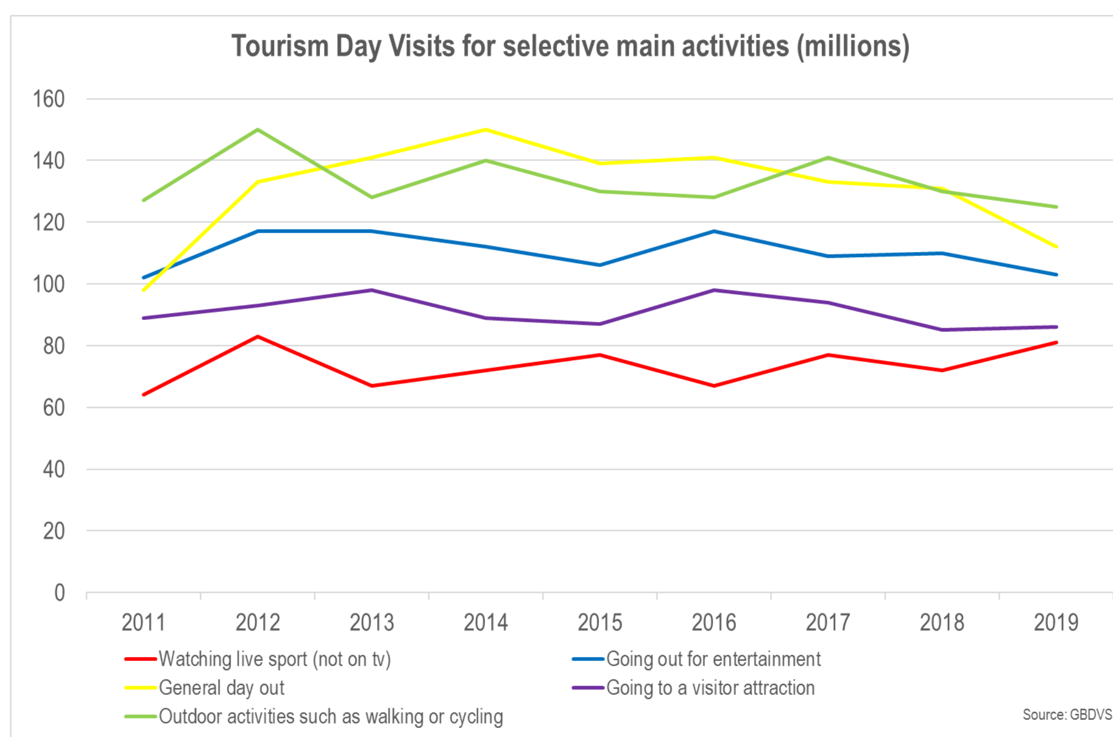
9 Domestic Day Trip Tourism

Domestic tourism day visits are always the bridesmaid and never the bride despite representing a very substantial share of overall tourism spending in the country.

As with the case for domestic overnight tourism there has been a lengthy hiatus in the provision of meaningful data, with the latest information suggesting that data for April to December 2021 will be released in mid December 2022, and no confirmation as to when any more contemporary data will see the light of day.

In the absence of recent data we should again take stock of trends that existed ahead of the pandemic, and we can do this for a set of 'main activities' undertaken on these trips that will be of most interest to the visitor attractions sector.

The following chart has the air of a series of gentle waves on the sea, meaning in essence that there has been no discernible trend, either upwards or downwards, in the volume of Tourism Day Visits featuring these activities in the period 2011 to 2019.

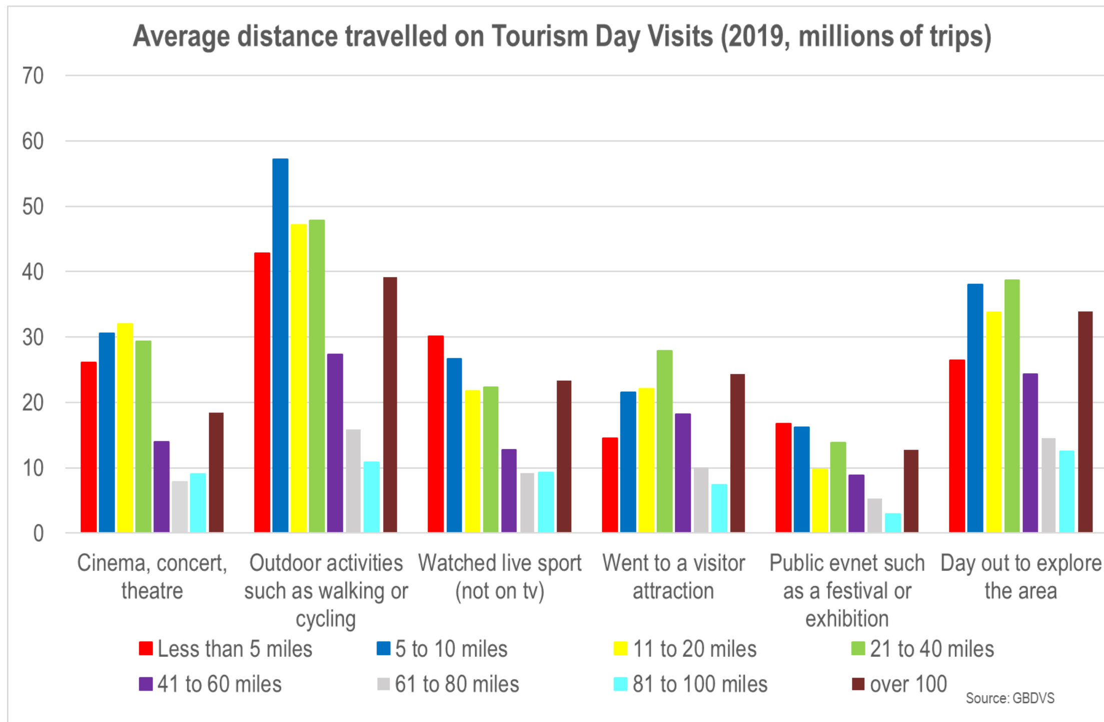


Day trip tourism is nearly always local in nature, and we can see this from the next chart which shows the average round-trip distance for visits with each of the main activities being featured in this section. For 'Visiting an attraction' the most common distance band was 21 to 40 miles. Bearing in mind that this is the round-trip distance it is telling us that for many visitor attractions their day-trip market will have travelled from a place no further than 20 or so miles away.

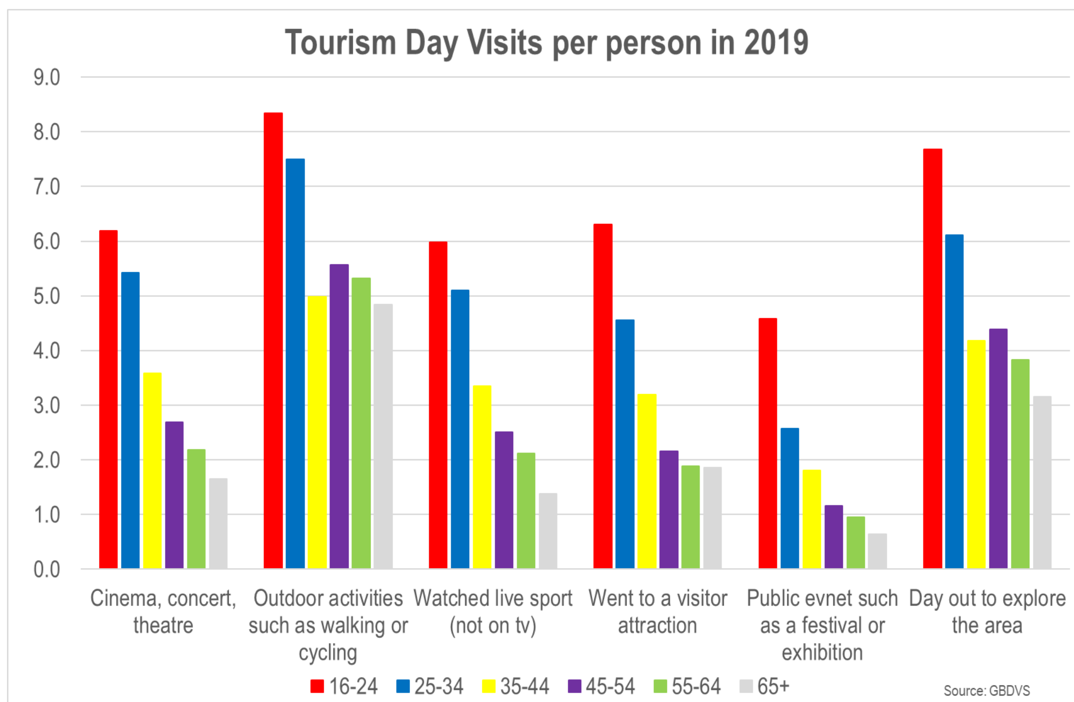
There are exceptions, and we can see that around 25 million Tourism Day Visits in 2019 where the main activity was visiting an attraction entailed a round-trip distance of 100+ miles (akin to someone living in London taking a day trip to Oxford or vice-versa).

The typical distance travelled is important in thinking about prospects, as given that fuel costs have been increasing visitors may be ever more inclined to seek out leisure opportunities that are close by. Furthermore, the ongoing dispute impacting rail travel, and the fact that several rail operators are yet to restore their full pre-

pandemic timetable, may be acting as a deterrent to those who would otherwise opt for a day out at a visitor attraction.

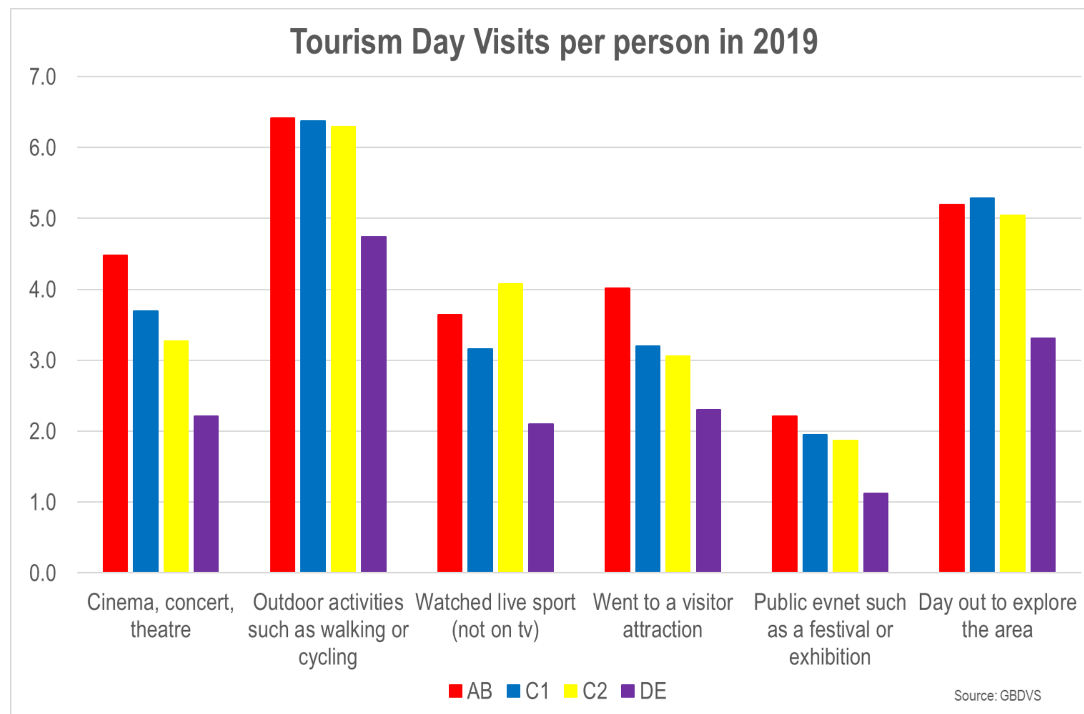


We can see from the next chart that it is the younger age cohorts that undertook the highest number of Tourism Day Visits per annum in 2019 where the main activity was one being focussed on here. For going to the cinema, concert or theatre, watching live sport and going to a public event there is a distinct correlation between youthfulness and propensity. This applies to other of the activities too, but rather less in relation to outdoor activities such as walking or cycling.



Variances in the number of trips per person in 2019 for each of the activities and socioeconomic group can be spotted in the following chart, particularly with regard to going to the cinema, concerts or theatre, and visiting an attraction, with a tapering of the trip rate as we move through the various socioeconomic groups.

By contrast there is much similarity in the trip rate for groups AB, C1 and C2 when it comes to undertaking outdoor activities such as walking or cycling or having a day out to explore the area.



The outlook for 2023 will be shaped by the extent to which those who would routinely be in the market for taking day trips for leisure feel sufficiently well off to commit to such a venture. As such we might suppose that higher income groups will be more resilient in their trip behaviour, but families might be particularly elastic in their decision making with regard to days out if the planned activities would incur a cost per head, for example the need to buy four rail tickets or four entry tickets to an attraction.

10 Events Calendar

Now that restrictions have been lifted the majority of events that have always featured in Britain's sporting and cultural life have recommenced. There are challenges facing event organisers regardless of the scale of the event, and whereas in 2021 these largely centred around Covid-19, today the issues are much more to do with economic viability with rising costs and demand that is highly price sensitive.

From time-to-time events of an international calibre can disrupt the normal pattern of holidays, and more especially day trip behaviour.

Looking ahead to the next 18 months or so events of this nature include the FIFA Men's World Cup taking place in Qatar between 20 November and 18 December. Matches will kick-off between lunchtime and early evening UK time, with both England and Wales competing in the tournament.

The FIFA Women's World Cup is scheduled to take place between 20 July and 20 August 2023 in Australia and New Zealand. England will participate in the tournament with matches likely to be taking place between breakfast time and lunchtime UK time.

There is also the next Men's Rugby Union World Cup taking place in France 2023 between 8 September and 28 October, but ahead of that the Rugby League World Cup – Men's, Women's and Wheelchair tournaments, will be taking place at stadia across England between 15 October and 19 November this autumn.

The 2023 Eurovision Song Contest is also being hosted by the UK on behalf of Ukraine in May 2023 with a decision as to which of the seven shortlisted cities bidding to host the event has been chosen due later in the autumn. The seven contenders are Glasgow, Newcastle, Liverpool, Manchester, Sheffield and Birmingham.

Looking further ahead to 2024 there are major sporting events taking place in Europe, with the UEFA Euro 2024 tournament being hosted by Germany between 14 June and 14 July and the Olympic and Paralympic Games being hosted by Paris from late July until early September.

The state funeral for Her Late Majesty Queen Elizabeth II will receive widespread global coverage and will see very atypical visitor behaviours on the day of the funeral. In due course the coronation of King Charles III will mark a major milestone in the nation's history and be an event attracting widespread international attention.

11 Visits to Attractions and Consumer Behaviour

Just as we did for inbound and domestic tourism before looking ahead it is helpful to look back at trends to ALVA sites in recent years. The following chart shows trends in the number of visits to different types of attraction between 2000 and 2021 with each category being indexed to 100 back in 2000. Note that in order to prevent churn in the number of sites providing data from influencing the results the change from one year to the next is based solely on those ALVA members providing data for both years.

Although the routes they take to get to their 2019 destination follow different paths, it can be noted that Museums & Galleries and Heritage & Cathedrals end that period with roughly 75% more visits (on a like-for-like basis) than they saw back in 2000.

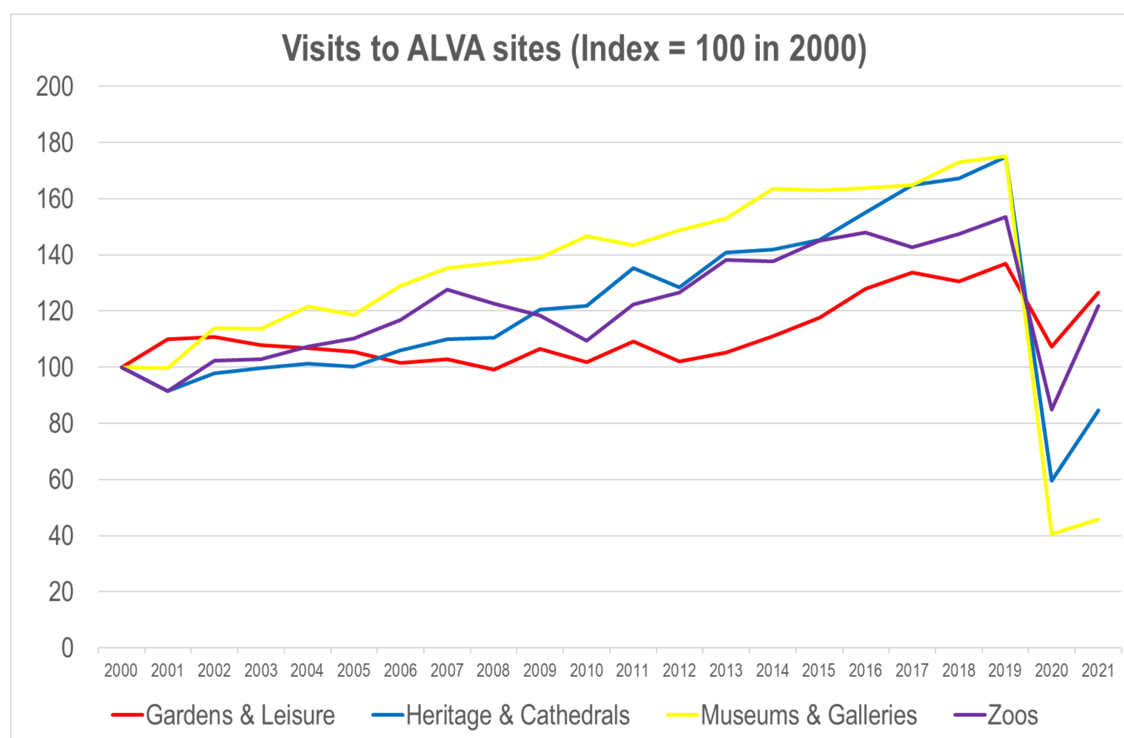
The impact of free entry to DCMS-sponsored museums (in addition to national museums in Scotland) is evident with a sharp uptick in 2002, while it is across the decade from 2010 that Heritage & Cathedrals enjoyed a swifter growth rate than did Museums & Galleries.

The story for the Gardens & Leisure category was one of little change up until 2012, but with the exception of 2018, a period of fairly swift growth then ensued through to 2019, by which time visits were 36% up on their 2000 levels. The Zoos category is based on comparatively few sites which helps explain some volatility in the series, but the underlying trend was an upward one, with visits more than 50% up in 2019 compared with in 2000.

It is interesting to note that in no single year did all four categories suffer declines, and that the only years in which all four categories enjoyed growth exceeding 1% were 2007, 2013 and 2019.

Dramatic differences emerge in performance during the past two years, with Heritage & Cathedrals and Museums & Galleries seeing the steepest declines in 2020 and the latter category the weakest rebound in 2021.

This means that in comparison with 2000 the number of visits in 2021 was 55% down at Museums & Galleries and 15% down at Heritage & Cathedrals. Although the remaining categories each languish below their 2019 level it is evident that this is to a lesser degree. In comparison with 2000 (on a like-for-like basis) visits to both Zoos and Gardens & Leisure attractions were around 20% higher in 2021, despite the dip in visits in 2020.



The trends on view for 2020 and 2021 reflect both the enforced closure of many attractions during periods of lockdown but equally changes in consumer behaviour, with a pivot away from indoor attractions in favour of those with plenty of outdoor space.

The imperative to avoid indoor settings has now faded considerably for the vast majority of people meaning that the competitive advantage this urge bestowed on attractions such as gardens in 2020 and 2021 largely no longer exists. In fact, during the upcoming winter there may be some consumers drawn to public indoor environments on the basis that these will be heated courtesy of an energy bill that they don't personally have to pay.

The extent to which attractions will be able to take advantage of higher footfall and/or extended dwell times during periods of cold weather will depend on the extend of visitors' secondary spend while on site. Given that the price of food is increasing sharply as well as that of energy there is perhaps an opportunity for cafes to offer hearty and affordable options to tempt visitors to spend more money as well as more time on site.

At least in the next few months a plausible hypothesis to put forward is that attractions or sites with a strong connection to Her Late Majesty Queen Elizabeth II will see an increase in the number of visits that they receive.

Feedback received from ALVA members in July and early August indicated that attractions continued to see visitor numbers lower than was the case back in 2019 – some attractions were on a par, others as much as 50% down, with an overall average decline of 30%. Attractions highly dependent on inbound tourism tended to be performing less well than those whose customers were typically domestic residents.

A more widespread concern that was expressed related to changing visitor habits brought on by the increasing cost of living, with attractions in remote areas observing a decline in visits as consumers responded to higher fuel costs while free to enter attractions appear to be gaining at the expense of paid attractions.

The rising cost and often limited supplies of some foodstuffs are having a detrimental impact on the ability of attractions to maintain their usual food and beverage offering – a key concern given that this is often a vital source of revenue.

Attractions making capital investments have observed startling increases in the cost of building materials, denting the ability of the sector to both restore and enhance key facilities that underpin a positive visitor experience.

Engaging with staff is often a highlight for those visiting an attraction, but ALVA members continue to face an acute struggle to recruit and retain staff, with growing alarm at the prospect of higher energy bills in the autumn adding further cost pressures at a time when limited supply of labour is driving up salary expectations.

In addition to the challenges created by lower than pre-pandemic demand, most especially in relation to inbound visits, and persistent worries about recruitment and inflation, the sector has also had to contend with disruption brought about by the rail strikes and excessive heat during the peak summer period.

As we head into the autumn, winter and indeed 2023, headwinds from rising inflation denting consumer demand and constraining the ability of attractions to invest in staff and stuff are going to grow stronger. The strained industrial relations hitting both national rail and London Underground services may deteriorate further before a resolution is finally achieved, and the impacts of climate change will shift from excessive heat to the risk of flooding caused by excessive rain.

We cannot be certain as to how consumers will adapt their tourism behaviour in the face of sharply increasing prices for the essentials of food and energy, and inevitable reduction in the income available to them to spend on discretionary goods and services that these price increases will cause, but we can at least speculate.

The following grid illustrates the types of trade-offs that consumers could make during the rest of 2022 and throughout 2023.

Some of the boxes contain suggestions that are less impactful on the UK's visitor economy than others, for example opting for a budget hotel brand as opposed to a more full-service brand still sees a trip taking place. There are even instances where a net gain may result for UK tourism, with for instance the box mooting a weekend trip to Berlin being substituted by one to Bristol.

What have come to be called 'fintech' solutions could equally benefit those tourism suppliers able to offer these options, while if deemed to offer value for money annual membership schemes could entice some consumers.

Staying closer to home is another trade-off, whether that is for an overnight trip by someone living in London that is taken to Kent instead of to Yorkshire, opting just to do day trips from home rather than staying overnight at a destination, or in the most extreme staycation scenario the choice to sit at home and watch box sets.

Fly with Ryanair instead of BA		Weekend break instead of a 7-night holiday		Self-catering instead of hotel		McDondald's instead of Pizza Express	
	Hire a bike instead of hailing a taxi		Economy cabin instead of Premium Economy cabin		Stay at home and watch box sets		Weekend break in Bristol instead of Berlin
Self-guided walk instead of using a Tour Guide		Use friends and family as a holiday base		Opt for 'All-inclusive' instead of PAYG holidays		Avoid travel in school holidays	
	Avoid overnight stays on Fridays and Saturdays		Use fintech solutions to spread the cost		Take day trips from home instead of overnight stays		Seek out free to visit attractions
Go to Turkey instead of Florida		Take a packed lunch instead of finding a café		Use loyalty points / membership benefits		Premier Inn instead of Marriott	

Much has been written about how consumer habits and lifestyles changed during the initial lockdown period, but many of the claims regarding the longevity of newfound hobbies or behaviours has perhaps been more guesswork than based on solid evidence.

Sales of Peloton equipment that soared in 2020 have now plummeted. John Lewis is reporting the sales of formal attire have been rejuvenated while loungewear sales fall back from their lockdown highs.

There have been suggestions that some now look back on lockdown as a period of enforced change to their everyday habits and are rejecting some of those behaviours on the basis that they have an association with a period of collective unhappiness and uncertainty.

It is always a risk to generalise, and the most recent ALVA Public Sentiment research certainly found that there are still those in society whose willingness to return to pre-pandemic behaviours is inhibited by a lingering fear of being exposed to coronavirus.

Putting to one side changes that actual or potential visitors will adopt in 2023 due to the prevailing economic backdrop we can say that, on balance, most will behave much more like a visitor from 2019 than a visitor from 2020 or the early months of 2021.

12 Conclusions

Nobody with knowledge of the tourism or hospitality sector is in any doubt as to just how grim a period the pandemic gave rise to. With Covid-19 rates now declining and the latest variant being highly transmissible but much less virulent than its predecessors it would be nice to think that 2023 will be an auspicious year, with droves of domestic and inbound visitors thronging attractions and tourist boards being able to proclaim that volumes have returned to pre-pandemic levels.

In reality 2023 looks set to be exceptionally tough. Disequilibrium has been the watchword for the relationship between tourism demand and tourism supply since early 2020. First supply was closed down by edict, then only partially allowed to reopen, meanwhile demand was uneven and tentative.

The release of the much-heralded pent-up demand as we moved into 2022 combined with global supply-chain disruption and acute labour shortages led to a sector not able to deliver the customer service that visitors and travellers rightly expect.

The prospect of challenges on the supply-side being overcome quickly was never a realistic expectation, but few anticipated that consumer demand might be at risk of diminishing, not because of some new variant of Covid-19, but because of double-digit inflation eroding household spending power in a manner not seen for forty years.

The weather always plays a role in where visitors choose to go and what they choose to do, with visitor attraction managers ever mindful of the day's forecast, but the nature of the weather during the upcoming winter has taken on an added importance.

It is not just what the weather is like in Britain that will matter; if the winter sees temperatures that are markedly colder than normal for a protracted period of time across Europe and North East Asia then supplies of gas will be put under great strain, with it now looking all but certain that Russia will supply little or no gas to Europe.

Industrial facilities in Germany are already reducing their energy consumption due to high costs, but the spectre of enforced rationing of supplies to the manufacturing sector is seen as a realistic scenario. The public in many nations are already being encouraged to adapt their behaviour to reduce energy consumption, thereby helping to protect supplies for the winter ahead.

In Britain the dialogue has mainly been about energy costs rather than energy consumption, but a particularly cold winter may scupper claims that no form of energy rationing, whether to heavy industrial users or domestic users, will be countenanced.

The recently announced cap on household energy bills for the next two years, and for businesses for six months, will go some way to lessening the sense of unease among bill payers, but if government interventions mean that price is not acting to supress demand to the extent that wholesale gas prices would imply, then a shortfall in supply relative to demand will resolve itself through shortages.

As discussed during the early months of the pandemic there are 3 M's that make up the essential ingredients of a prosperous tourism outlook; motivation to travel, money to spend and a means of transport.

Motivation to travel never went away and for a lot of people during the pandemic a lack of money wasn't why they refrained from travel, rather it was because going anywhere was illegal and as a result the means of transport to get to places either didn't exist or wasn't usable for other than 'essential reasons'.

By and large means of transport is now available to budding visitors, even if operating at a subpar standard at many airports and intermittently on Britain's rail network, but the middle 'M', that's money to spend, has taken centre stage as to why tourism demand in 2023 will be supressed.

Holidays will still be taken, and days out will still be had in 2023, but the importance of providing value for money to visitors has become more vital than ever.

Ending on a less gloomy note, we can take solace in the fact that Britain remains a destination with tremendous international transport connectivity, our built heritage, cultural heritage and contemporary culture are rightly admired in both mature and emerging international source markets, as are our vibrant city destinations such as London and Edinburgh, and, unlike the rest of the world, most Brits know we have wonderful countryside and landscapes on our doorstep. Our tourism fundamentals are strong, but despite that now is very definitely not a time for complacency.