

Tourism: jobs and growth

The economic contribution of the tourism economy in the UK



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The tourism economy: contributing to UK growth*

TOURISM SPENDING HAS RECOVERED WELL ...**

£113_{bn}
spending in 2013



6.0%
Increase on 2012

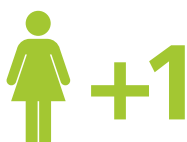


* 2013 figures are
provisional estimates

** based on nominal
estimates

... CREATING NEW JOBS IN THE UK ...

£54,000
extra spending required
to support a job



... AND AIDING THE RECOVERY

173,000
net increase in jobs
2010-12 (4.7% p.a.)



1/3

of all sector UK net
increase in jobs 2010-12



IN 2013, THE TOURISM ECONOMY ACCOUNTED FOR A SIGNIFICANT SHARE OF ECONOMIC ACTIVITY ACROSS THE UK ...

3.1m
total jobs in 2013



9.6%
of total UK jobs

£126.9_{bn}
UK GDP in 2013



9.0%
UK GDP in 2013

... WITH SIGNIFICANT REVENUES FROM OVERSEAS VISITORS ...

£24_{bn}
"export" earnings
in 2013



c.£6.7_{bn}
tax to HMRC in 2013
from international
visitors



... AND TO 2025, ABOVE AVERAGE GDP GROWTH IN TOURISM IS SET TO BE DRIVEN BY INTERNATIONAL VISITORS

+6.1%

international
demand
growth p.a.

+1.5%

outbound
demand
growth p.a.

+3.0%

domestic
demand
growth p.a.



Tourism GDP CAGR:

3.8%

0.8% higher than UK

potential for

630,000

more tourism jobs by 2025

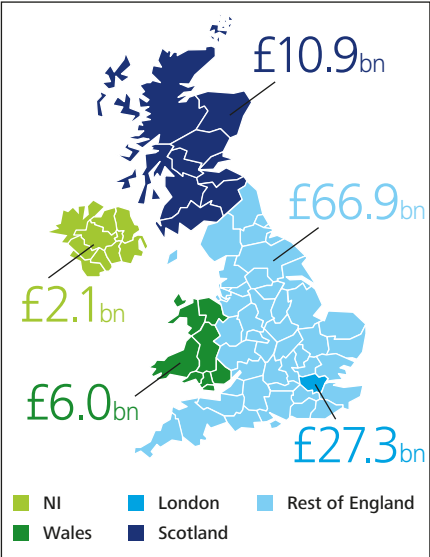
9.9%

UK GDP by 2025

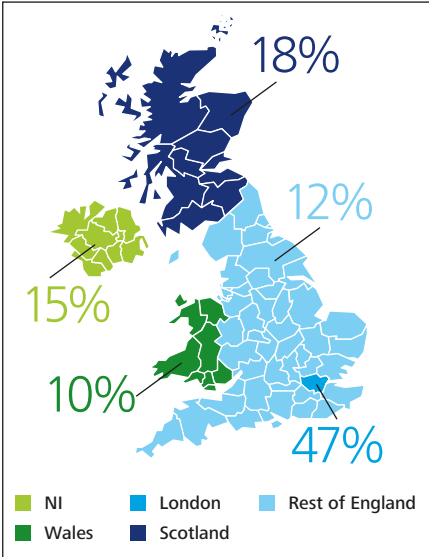


Tourism: Benefitting all of Britain

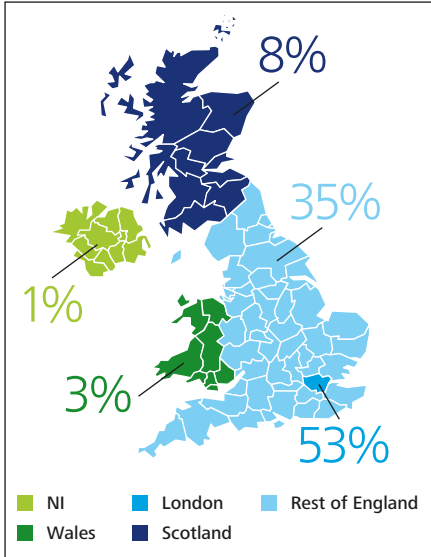
Total tourism spending



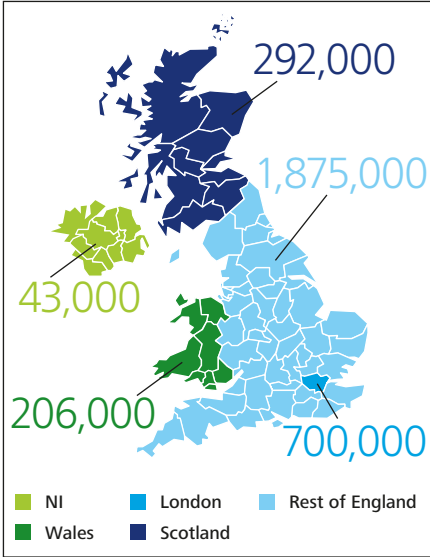
International tourism % of tourism spend in geography



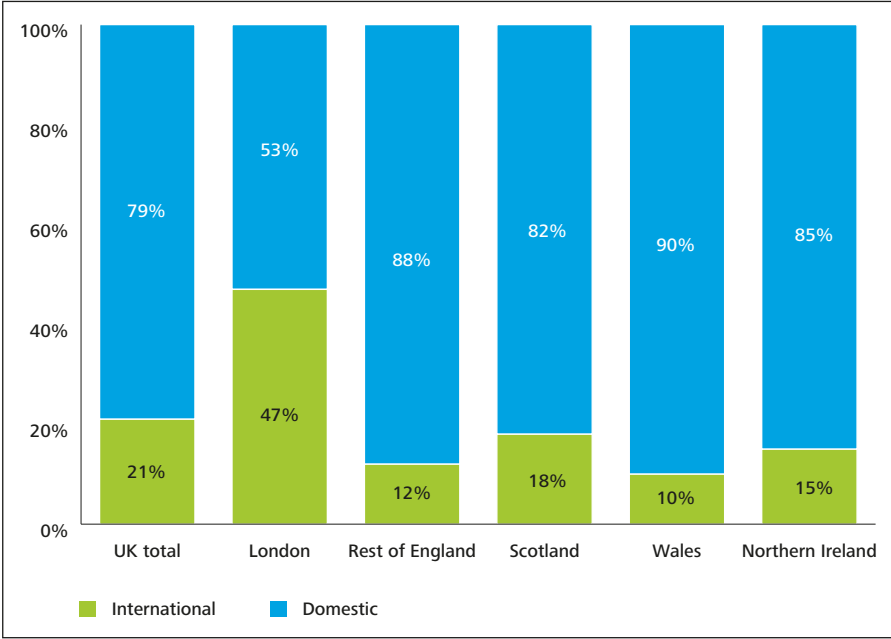
International tourism % of international tourism spend in UK



Number of tourism economy jobs



Spending breakdown by geography



Executive summary

Deloitte, with Oxford Economics as sub-contractors, were commissioned by VisitBritain (“VB”) to update and refresh previous analysis on the economic contribution of tourism in the UK. The objective of the study is to provide an in-depth quantitative and qualitative analysis of the contribution of tourism to the UK.

This report quantifies the economic contribution of tourism in terms of both direct impacts (from sectors directly related to tourism) as well as indirect impacts (from other sectors that rely on tourism through the supply chain, for instance). It also considers some further analysis of the sector including the recent performance of the industry relative to the rest of the economy, ‘tourism multipliers’, spending required for job creation, and broader contributions to the UK through taxation on tourism services.

Finally, the report highlights future opportunities and challenges facing the industry over the next decade and identifies key leverage points.

Current economic contribution

This study provides three measures of the contribution made by the tourism economy to the UK:

- **Direct industry** – the contribution made by visitor spending and tourism economy-related government spending, consistent with the UK TSA, and the UNWTO Tourism Satellite Accounting methodology;
- **Tourism economy** – includes direct industry as well as private and government investment in the travel and tourism sectors, and the domestic supply chains providing inputs for the direct industry; and
- **Total contribution** – includes the tourism economy and impact of spending by employees within the tourism economy.

The ‘direct industry’ (businesses providing tourism related goods and services) is 4.1 per cent of UK GDP

The tourism economy has continued to deliver a significant ‘direct’ contribution to the UK economy. It currently delivers £58.0 billion in GVA which accounts for 4.1 per cent of UK GDP. This takes into account value added¹ generated by the provision of tourism related goods and services. In employment terms, the direct industry supports over 1.75 million jobs. This economic activity is supported by spending in the tourism economy of £113 billion in 2013 – up from an estimated £107 billion in 2012.

The ‘Tourism economy’ (includes investment and effects of supporting businesses in the supply chain) is 9 per cent of UK GDP

There are significant indirect impacts of the tourism economy through its interaction with other businesses in the supply chain. The direct and indirect (excluding induced) impact of the tourism economy was equivalent to around £127 billion or 9.0 per cent of expected national GDP in 2013. These indirect impacts arise because activity and output in the tourism economy create and support jobs and growth in the wider economy as sectors sell to or purchase from the visitor economy. There are also further impacts through interactions with suppliers of investment goods to the tourism economy. Consequently, all of these other sectors – to some extent – benefit from the tourism economy. The Tourism economy supports around 3.12 million jobs.

The ‘Total Contribution’ of the tourism economy (including ‘Tourism economy’ and employee spending effects) is 11.4 per cent of UK GDP

There are significant indirect impacts of the visitor economy through its interaction with other businesses in the supply chain. The total contribution (i.e. direct, indirect and induced impacts) of the tourism economy is equivalent to around £161 billion or 11.4 per cent of expected national GDP in 2013. In addition to the impacts within the ‘Tourism economy’ contribution, this broader definition also includes the induced effects of employee spending. The total contribution of the tourism economy is over 3.79 million jobs.

The tourism economy has continued to deliver a significant contribution to the UK economy. It currently delivers £127 billion in GVA which accounts for 9.0 per cent of UK GDP.

¹ The value added of a sector is the difference between output and intermediate consumption in the sector. This is the difference between the value of goods and services produced and the cost of inputs which are used in production.

The wider contribution of the tourism economy

Previous studies² for VisitBritain identified and assessed the linkages between the tourism economy and other areas of the economy, concluding that tourism activities create spillover benefits for a number of sectors. They highlighted how the tourism economy also contributes to the wider policy agenda including economic and social inclusion, enterprise/business formation, sustainable development impacts and regeneration.

This study has considered wider contribution in the context of job creation, multiplier effects across the nations, and the tourism economy's broader contribution through tax receipts.

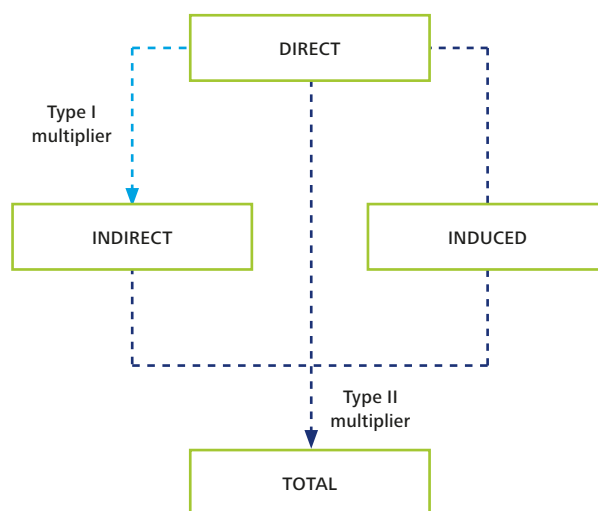
Job creation

The marginal revenue required to create a job in UK tourism is estimated to be around £54,000. This is based on regression analysis which suggests that the elasticity of employment with respect to expenditure in the Hotels and Catering sector is approximately 0.89. This indicates that for a 1 per cent increase in total expenditure in UK tourism, it might be expected that FTE employment will increase by 0.89 per cent.

This analysis builds on previous work by Caledonian Economics, updated to include the latest data and providing an alternative methodology to reflect the 'marginal' rather than 'average' impact. Updating the analysis from 2003 (Caledonian Economics), it is estimated that, on average, around £47,500 is required to support a job in tourism – defined as it was in 2003 on a narrow definition of hotels, catering and attractions. This represents a 19 per cent increase from the average value of £40,000 per job in 2000. However, this does not indicate the additional spending required to generate an extra job and therefore the preferred method is the alternative method developed in this study which provides a marginal value of £54,000.

Multiplier effects

This report has presented the contribution that the tourism economy makes directly (through activities in the sector) and due to spill-over effects (through supply chain and consumer spending that arise from the direct activity in tourism). The link from direct to indirect (supply chain) and induced (knock-on consumer spending) effects in the model is known as the 'multiplier effect'. Multipliers are a measure of the direct and wider (indirect or indirect and induced) effects relative to the direct effects, as illustrated below. The analysis suggests that for a £1 increment in GVA at the UK level, there is likely to be an additional £1.20 generated in the UK as a result of this activity due to the impact of supply chain effects. This is the Type I multiplier.³ The analysis suggests that for a £1 increment in GVA at the UK level, there is likely to be an additional £1.80 generated in the UK as a result of this activity due to the impact of both supply chain and consumer spending effects. This is the Type II multiplier.⁴



Leverage of foreign visitors for tax revenues

Export earnings for the UK from tourism amounted to some £22 billion in 2012, and a simplified analysis of tax-take suggests that around £6.7 billion is generated each year for the exchequer from this spending through APD, VAT, and resultant corporation tax, income tax and employee/employer national insurance contributions.

² 'The Economic Case for the visitor economy', Deloitte and Oxford Economics, 2008 and 'The economic contribution of the visitor economy: UK and the nations', Deloitte and Oxford Economics, 2010.

³ Type I multiplier – see Chapter 4 for more details.

⁴ Type II multiplier – see Chapter 4 for more details.

Future outlook and challenges for the tourism economy

This report has considered the future potential of the tourism economy and has assessed this alongside possible scenarios and future challenges over the next decade.

Forecast growth

In keeping with previous studies, the key drivers of the forecast for the UK tourism economy include:

- Bilateral exchange rates.
- Consumer spending.
- Overall macroeconomic performance.
- Investment.
- Destination attractiveness (although relative destination attractiveness between the nations remains unchanged over the forecast period).

The projected contribution of tourism to the economy will depend on the particular path forecast for these drivers, as well as the interaction among them and their wider implications for the rest of the economy.

Even on the narrowest measure, 'Direct Tourism Industry', tourism is expected to make a significant contribution. By 2025, the direct contribution in value added terms is expected to increase to £119 billion (4.6 per cent of forecast UK GDP). This would represent almost 2.1 million jobs.

The 'Tourism Economy' – the measure traditionally used in previous reports, is expected to increase to £257 billion in value added terms by 2025 (9.9 per cent of forecast UK GDP). This would represent almost 3.8 million jobs – a potential net increase from 2013 of c. 630,000 jobs.

On the broader (total) measure, tourism is again projected to play a greater role in the UK economy over the longer term, with a value-added contribution of £324 billion in 2025. This would represent 12.4 per cent of GDP. The modelling indicates that this contribution will support nearly 4.6 million jobs throughout the UK, meaning that tourism would be responsible for 13.2 per cent of UK employment.

Demand from international visitors is expected to grow at a particularly strong rate of 6.1 per cent annual growth in real terms (adjusted for inflation). Domestic tourism will see a 3 per cent real terms increase whilst the outbound market will grow at a slower real terms rate at just 1.5 per cent. The lower growth in outbound travel is likely to be driven by the sluggishness of the economic climate, which has dented and held back consumer confidence, as well as the relative price of travelling from the UK increasing with higher fuel costs and exchange rate trends. This has implications for a further UK renaissance in the 'staycation'.

Scenario analysis

The decision to travel can be influenced by numerous factors – many of which are beyond policy control – such as exchange rate sensitivities and changing international trends. Therefore, in order to give an indication of prospective alternative paths for the tourism economy this study considers hypothetical future scenarios with respect to an increase in the share of visitors the UK receives from emerging markets; and exchange rate changes (both a rise and fall in the value of the pound).

- **UK gets its 'fair share' of visitors from emerging markets:** Under a scenario where the UK captures a higher share of visitors from emerging market economies to match shares received by European competitors, the impact would be higher total spending in the tourism economy in the UK, and therefore a greater impact on the UK economy. This scenario sees spending by foreign visitors in 2025 projected to be £13.3 billion higher than the baseline expectation (which equates to around a fifth of baseline projections for spend by foreign visitors). The resulting impact increase to the total tourism economy contribution (including supply chain spending, investment, and spending by those employed in travel and tourism) is an additional £14.0 billion in GDP terms. To support this increased contribution, 201,900 additional workers would be employed under the scenario in 2025 within the tourism economy.
- **A fall in the foreign exchange value of the pound:** Under a scenario of a sustained change in exchange rates on the tourism economy of the UK (a permanent 10 per cent depreciation of Sterling relative to major international currencies), the UK becomes relatively cheaper to international visitors and travelling abroad becomes relatively more expensive for UK residents. The impact of this scenario is an increase of £5.8 billion in GDP terms to the total tourism economy and an additional 118,400 jobs to support this increased economic contribution.





Advances in digital capabilities will drive more activity at a global scale as geographical boundaries are broken..

- **A rise in the foreign exchange value of the pound:** Under this scenario, the cost of visits to the UK would increase, while UK residents will benefit from cheaper travel abroad. Spending by international visitors to the UK would fall by £1.5 billion compared to the baseline forecast. Cheaper travel abroad sees spending by UK residents overseas increase by £1.9 billion compared to the baseline in 2025, with an equivalent fall in domestic spending. As a result of these movements, the contribution of the tourism economy is forecast to fall by 1.4 per cent in GDP terms and 2.3 per cent terms of employment relative to baseline in 2025. This translates to a loss to UK GDP of £3.6 billion and almost 86,000 jobs in 2025.

Key trends over the next decade

There are a number of factors that will continue to affect the tourism economy over the next decade – providing a mix of opportunities and threats for the UK. Some key trends are likely to include:

- **The digital world:** To be successful over the next decade, organisations in the tourism economy must invest in technology. However the assessment of projected returns on that investment will need to be more rigorous than ever. Travel and tourism businesses will need to attract consumers through effective technology as well as the right products and prices. In future technology will be used more to segment and understand customers and offer them more relevant choices. This trend will affect both business and consumer behaviour. Advances in digital capabilities will drive more activity at a global scale as geographical boundaries are broken.
- **Opportunities from emerging markets in the longer term:** The overall contribution of emerging markets in terms of value will be relatively small throughout the period to 2020, compared with established markets. However, the UK Government recognises the significant long-term growth potential of emerging markets over the next 30 + years. In these countries, knowledge and perceptions of Britain as a holiday destination are weaker and time and resource-intensive engagement with the travel trade will be key to increasing visits. However, there is potentially less interest from the private sector in match-funding promotional activity. This poses strategic challenges for tourism promotion of Britain – how to balance resources to ensure continued revenue is delivered in the short-term while building a long-term position in markets that are key to Britain's future prosperity.
- **The cost of a trip:** The recent depreciation of the Pound has made the UK more attractive to international visitors from many of the UK's top source markets, while deterring some UK residents from travelling abroad and encouraging them to spend their holidays in the UK instead. As shown through the scenario analysis, the impacts of a sustained fall could benefit the tourism economy. However, the industry cannot rely on this and the UK continues to be viewed as a relatively expensive destination. In addition to this, the likely increase in fuel prices and impact of (environmental and other) legislation will also push up the cost of a trip.

Shaping future trends and opportunities

There are a number of opportunities in both the short and long-term. This report has assessed which future trends and opportunities are most susceptible to influence by policymakers, and which are likely to generate the greatest impact in terms of improving the performance of the UK's tourism industry. The areas in which, based on the analysis, investment is likely to generate the greatest rewards for the UK's tourism industry, include:

- **Investment in infrastructure:** Maintaining and improving the UK's international and domestic transport infrastructure will be critical to sustaining the strength of its tourism economy. Without strong road, rail and aviation infrastructure, it will become less accessible and attractive to visitors. The proposed solutions for enhanced airport capacity in the South East of England, outlined in the Davies Commission, are each likely to have significant ramifications for the UK tourism economy. Aviation (and other) policy must ensure that growth is environmentally sustainable.
- **Continued support for businesses in the sector:** to leverage opportunities such as the use of digital technologies, understand and exploit target markets and respond to changes in legislation.
- **Continued targeted marketing effort:** to address weaknesses and build on strengths. For instance, improving the UK's welcome and international perceptions of the UK brand will help it maintain its position in the face of strengthening competition for international tourists. There is an opportunity to tailor the UK's offer to attract visitors from emerging economies, a key growth market. However, the majority of the UK's visitors will continue to be from traditional markets in the developed world, meaning that these will remain an important focus for the UK's tourism economy. The UK can also respond to increasing desire for more 'authentic' and individual travel experiences by working with partner organisations in the business and cultural sectors to promote the UK's unique offer through targeted marketing efforts, e.g. through online channels and social media. This final point will be crucial to maintain and build awareness of the UK's strong tourism offer in the face of rising competition from other countries.

1. Introduction, definitions and methodology

This Chapter introduces the context and scope of this study and outlines the structure of the remainder of the report.

1.1 Context and study scope

The aim of this study is to update and extend Deloitte's previous analysis and provide an in-depth quantitative and qualitative analysis of the contribution of the tourism economy to the UK.

This study builds on Deloitte's previous reports:

- **'The Economic Case for the visitor economy'**, which provided an in-depth quantitative and qualitative analysis of the contribution of the visitor economy to Britain including estimates (at the time) for 2008.⁵
- **'The economic contribution of the visitor economy: UK and the nations'**, which provided an update to the first study and extended the analysis to the UK nations including estimates (at the time) for 2010.⁶

1.2 Definitions and key terms

There are a number of key terms that are used throughout this and subsequent chapters:

- **Value added** – the value added of a sector is the difference between the value of the goods or services produced and the cost of bought-in goods and services required to produce these outputs. The sum of the value added created by all sectors in an economy is, with some adjustments for taxes and subsidies, the relevant area's gross domestic product, or GDP;
- **Expenditure** – the value of spending by tourists, and by definition equal to the revenue received by operators in the sector;
- **Employment** – the number of people working in tourism. This incorporates full- and part-time workers at organisations in the sector as well as, the self-employed operating in the sector. In this report, employment, unless otherwise stated, is measured in terms of the number of jobs, rather than full-time equivalents, to facilitate comparison with employment data produced by the ONS; and
- **Current prices** – some of the data presented in this report is in current (or nominal) prices. Current prices are the prices at the time of the reporting period and do not include any adjustments for the effects of inflation.
- Three measures of the contribution of the tourism, incorporating a broader definition for each:
 - **Direct industry** – this measure considers the contribution made by visitor spending and tourism-related government spending. This measure is consistent with the concept used by the Office of National Statistics' Tourism Intelligence Unit in its compilation of the UK TSA, and the UNWTO Tourism Satellite Accounting methodology;
 - **Tourism economy** – this expands the definition of the direct industry to encompass private and government investment in the travel and tourism sectors, and the domestic supply chains providing inputs for the direct industry; and
 - **Total contribution** – the people employed by the industry and in its supply chains will make purchases using the wages they earn working in the sector. These purchases – predominantly in retail, leisure and entertainment sectors – support further activity and employment in the UK. The final definition of tourism's contribution to the UK includes the impact of this spending. This is an addition to the model for this edition of the study.

Definitions are also provided in the relevant chapters and in Appendix A.

⁵ This report was published in 2008.

⁶ This report was published in 2010.

1.3 Report structure

The remainder of the report is structured as follows:

- Chapter two – *Economic contribution of tourism* – which presents the direct and indirect economic impacts of tourism;
- Chapter three – *Dynamics and relative performance of tourism* – which highlights the performance of tourism in the context of other sectors and during the recession;
- Chapter four – *Wider contributions* – in terms of multiplier effects and tax contribution from inbound tourism;
- Chapter five – *Job creation in tourism* – considers the level of spending required to support and create a job in the sector;
- Chapter six – *Future outlook for tourism – quantified impacts and scenarios* – presents the quantified future outlook for the sector; and
- Chapter seven – *Future outlook for tourism – horizon scanning* – highlights future challenges and opportunities and potential economic leverage points.

2. Economic contribution of tourism

This chapter details the contribution that tourism is expected to make to the UK and its nations in 2013. Estimates of two standard definitions of tourism are presented, together with a further, wider definition not considered in previous editions of this report. A further addition to this analysis is an exploration of the contribution of tourism to London and the rest of England.

2.1 Overview of model

A bespoke model was developed by Oxford Economics for the 2008 study assessing the contribution of tourism to the UK. This model was updated and expanded (to include the UK's constituent nations) for the subsequent study in 2010. This model has again been used for this study and incorporates a number of new amendments.

For the first time the model includes the ability to measure the contribution of tourism to the economies of London and the rest of England. Additionally, the model has been aligned to the recent Tourism Satellite Accounts (TSA) for the UK produced by the Office for National Statistics.⁷

2.1.1 Model structure

The model used to estimate tourism's contribution to the UK employment and value added is a construction of interrelated equations, representing both behavioural relationships and identities. The model's framework is consistent with National Accounts.

The model contains over 400 variables that are distributed over three interconnected modules:

- Macroeconomic and industry;
- Tourism-related demand; and,
- tourism-related supply.

The variables are populated with data from a number of sources, including National Accounts (for both the UK and other countries), the International Passenger Survey and various surveys conducted by VisitBritain and national tourism bodies in the UK.⁸

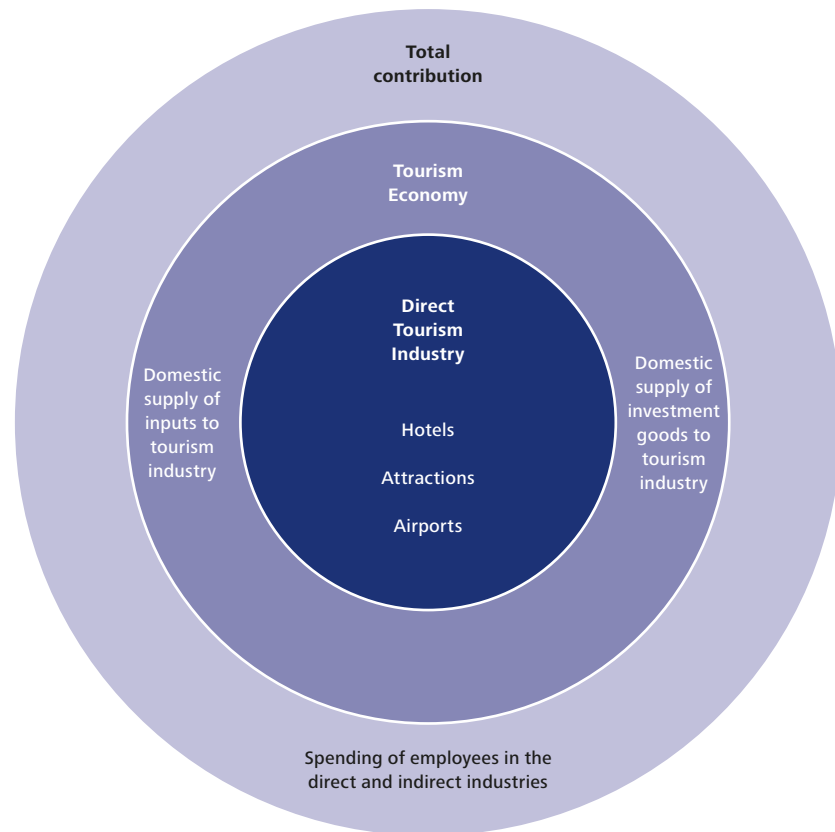
As discussed in the remainder of Chapter two, the model produces three measures of the contribution of tourism (Figure 2.1.1a), incorporating a broader definition for each:

- **Direct industry** – this measure considers the contribution made by visitor spending and tourism-related government spending. This measure is consistent with the concept used by the Office of National Statistics' Tourism Intelligence Unit in its compilation of the UK TSA, and the UNWTO Tourism Satellite Accounting methodology.
- **Tourism economy** – this expands the definition of the direct industry to encompass private and government investment in the travel and tourism sectors, and the domestic supply chains providing inputs for the direct industry.
- **Total contribution** – the people employed by the industry and in its supply chains will make purchases using the wages they earn working in tourism. These purchases – predominantly in retail, leisure and entertainment sectors – support further activity and employment in the UK. The final definition includes the impact of this spending. This is an addition to the model for this edition of the study.

⁷ The ONS's TSAs cover the period 2008 to 2011.

⁸ The model uses data from the *International Passenger Survey* and the *GB Tourism Survey* up to 2013 Q2. The most recent data from the UK Day Visits survey is up to July 2013, although Business Monitor indicators of the day visits over the summer holiday period are also used to inform forecasts.

Figure 2.1.1a Three measures of tourism



2.2 Current UK contribution

2.2.1 Spending

Using the latest available data, Oxford Economics estimate total spending in tourism will reach £113.1 billion in 2013 (Table 2.2.1a) This represents an 18 per cent real (i.e. adjusted for inflation) increase since 2010, when £91.9 billion was spent in the sector.

Spending by domestic residents is expected to total £89.0 billion in 2013, a share which has increased every year since 2010, when it accounted for £72.7 billion. Day trips remain the predominant form of domestic tourism, and are expected to account for £60.0 billion in spending in 2013 – up from £49.1 billion in 2010, a 17 per cent real increase. A similar rate of growth was witnessed in expenditure on overnight trips, which is expected to reach £24.4 billion in 2013.

Projections indicate that international visitors will spend almost 260 million nights in the UK in 2013. Visitors from the Eurozone and North America accounted for 38 per cent and 12 per cent of this total, respectively. In total, international visitors to the UK are expected to spend £24.0 billion in the sector in 2013, a 20 per cent real increase since 2010. Of this total, £2.9 billion is forecast to be paid in fares to UK carriers. The remaining £21.2 billion will be spent at assorted businesses and establishments within the UK's tourism economy.

Figure 2.2.1a. UK expenditure in the tourism sector, 2010-2013, current prices

	2010 £bn	2011 £bn	2012 £bn	Projection 2013 £bn
Spending by overseas residents	19.2	20.6	20.9	24.0
Visits to the UK	16.6	17.7	18.3	21.2
Fares to UK carriers	2.6	2.9	2.6	2.9
Spending by domestic residents	72.7	79.6	86.3	89.0
Trips of 1+ nights	20.8	23.5	24.9	24.4
Tourism day trips for leisure	49.1	52.1	57.1	60.0
Rent for second ownership	2.7	4.0	4.4	4.7
Total spending	91.9	100.2	107.2	113.1
Real growth (year-on year)*	0.1%	7.8%	5.4%	3.9%

* Current figures deflated using the UK GDP implied deflator.

Source: Oxford Economics

2.2.2 Direct contribution

The results of the modelling analysis are presented in Table 2.2.3a. Oxford Economics estimates that the direct value-added contribution of tourism will amount to £58.0 billion in 2013. This means that in using the narrowest definition tourism represents 4.1 per cent of the UK's economy, up slightly from a 3.9 per cent share in 2010. To generate this contribution sector is estimated to directly support 1.75 million jobs: some 5.4 per cent of employment in the UK in 2013.

2.2.3 Tourism economy

The broader measure of tourism – when supply chains, and private and government investment in the sector are included – indicates that its contribution to the UK is £126.9 billion in value added in 2013, an 8.1 per cent real increase since 2010, and now equivalent to 9.0 per cent of UK GDP. Under this definition, the tourism economy supports 3.12 million jobs in 2013, equivalent to 9.6 per cent of UK employment.

Figure 2.2.3a: The economic contribution of UK tourism, 2010-2013, current prices⁹

	2010		2011		2012		Projection 2013	
	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total
Visitor Exports (inbound = travel spending + fares)	19.5		20.9		21.6		22.3	
Personal Travel & Tourism (domestic + outbound)	100.4		107.1		110.4		113.1	
Business Travel (domestic + outbound)	24.0		24.5		25.4		26.3	
Government Expenditures (individual + collective)	10.3		10.4		10.8		10.9	
Capital Investment	23.7		24.8		22.8		23.0	
Travel & Tourism Demand	177.9		187.6		190.9		195.6	
Outbound tourism spending (fares + travel)	31.8		31.8		33.1		33.5	
Direct industry contribution to GDP	50.3	3.9%	54.3	4.1%	55.8	4.1%	58.0	4.1%
Tourism economy contribution to GDP	112.5	8.6%	120.5	9.0%	121.9	8.9%	126.9	9.0%
Total contribution to GDP	142.7	10.9%	153.0	11.4%	154.7	11.4%	160.5	11.4%
Direct industry employment (000s jobs)	1,591	5.1%	1,708	5.4%	1,743	5.4%	1,748	5.4%
Tourism economy employment (000s jobs)	2,943	9.4%	3,083	9.8%	3,099	9.7%	3,116	9.6%
Total employment (000s jobs)	3,588	11.4%	3,755	11.9%	3,772	11.8%	3,787	11.7%

Source: Oxford Economics

⁹ Definitions of the terms presented in this table are detailed in Appendix A.

2.2.4 Total contribution

The final and broadest measure of tourism includes the impact of the wage-financed spending of those employed directly by the industry or in its supply chains. Using this wide definition, the total contribution is estimated to reach £160.5 billion (or 11.4 per cent of UK GDP) in 2013, and support 11.7 per cent of employment in the UK, equivalent to 3.8 million jobs.

2.3 Contribution by nation

To determine the contribution made by tourism in each of the UK's nations, this study uses seven methodologically consistent models (one for the UK, four for the UK's nations, and two sub-national models: one for London and one for the rest of England), each producing comparable metrics.

2.3.1 Spending

England is estimated to account for 83.3 per cent of all tourism spending in the UK in 2013. Total spending in England's tourism sector is expected to reach £94.2 billion, a real growth of 3.0 per cent compared to 2012. Of this total, £27.3 billion was spent in London – which alone accounted for 24.2 per cent of the UK total.

International visitors are expected to account for £21.1 billion (22.4 per cent) of visitor spending in England in 2013, including £2.5 billion in fares to UK carriers. These visitors are estimated to have spent 225 million nights in England, accounting for 87 per cent of the UK total, with the breakdown of visitors by origin closely matching that for the UK as a whole. London's attraction as an international destination is apparent in the fact that the city accounts for 53.3 per cent of spending by overseas visitors to the UK.

Day trips remain the major type of domestic tourism spending in England, with £50.3 billion spent in 2013 accounting for 68.9 per cent of UK residents' spending in the English tourism economy, and 44.5 per cent of all spending in the UK's tourism economy. The data indicates that the proportion of all domestic spending by the nation's own residents (including day trips and overnight stays but excluding rent for second ownership) is significantly higher in England (95.2 per cent) than in Scotland (69.7 per cent), Wales (52.1 per cent) or Northern Ireland (80.4 per cent).

Contrary to the high proportion of overseas visitors' spending it captures, London accounts for only 16.3 per cent of UK residents' domestic spending (£14.5 billion). Within this total spending on day trips dominates, accounting for 78 per cent of all UK residents' spending in the capital. Day trips also account for the majority of UK residents' spend in the rest of England, but are far less dominant than in London, with the £16.5 billion spent on overnight trips represent a far larger share of the total (28 per cent).

Figure 2.3.1.a. Expenditure in the UK tourism economy by nation, 2013, current prices

	UK		Total England		London		Rest of England		Scotland		Wales		Northern Ireland	
	Absolute		Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative
	£bn		£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total
Spending by overseas residents	24.0		21.1	87.9%	12.8	53.3%	8.3	34.6%	2.0	8.2%	0.6	2.6%	0.3	1.3%
Visits to nation	21.2		18.7	88.2%	11.4	53.9%	7.3	34.3%	1.7	8.2%	0.5	2.4%	0.3	1.2%
Fares to UK carriers	2.9		2.5	85.8%	1.4	49.2%	1.1	36.6%	0.2	8.2%	0.1	3.6%	0.1	2.3%
Spending by UK residents	89.0		73.1	82.0%	14.5	16.3%	58.5	65.7%	8.9	10.0%	5.3	6.0%	1.7	1.9%
Trips of 1+ nights	24.4		19.1	78.6%	2.7	11.0%	16.5	67.6%	3.1	12.7%	1.7	7.0%	0.4	1.8%
Nations residents			16.9	91.3%	2.2	12.0%	14.6	79.4%	1.1	6.0%	0.3	1.5%	0.2	1.1%
Other UK residents			2.3	38.7%	0.5	7.8%	1.8	30.9%	2.0	33.5%	1.4	23.9%	0.2	3.9%
Tourism day trips for leisure	60.0		50.3	83.9%	11.3	18.8%	39.0	65.1%	5.3	8.8%	3.2	5.4%	1.2	1.9%
Nations residents			49.3	85.9%	11.1	19.3%	38.2	66.7%	4.7	8.2%	2.3	4.0%	1.1	1.9%
Other UK residents			1.0	39.1%	0.2	8.8%	0.8	30.3%	0.6	21.3%	0.9	36.4%	0.1	3.2%
Rent for second ownership	4.7		3.6	76.4%	0.6	11.9%	3.0	64.5%	0.6	12.0%	0.4	8.8%	0.1	2.8%
Total spending	113.1		94.2	83.3%	27.3	24.2%	66.9	59.1%	10.9	9.6%	6.0	5.3%	2.1	1.8%
Real growth (year-on year)*	3.9%		3.0%		3.0%		2.2%		10.6%		6.3%		3.1%	

* Current figures deflated using the UK GDP implied deflator.

Source: Oxford Economics

Scotland is the second largest tourism economy in the UK accounting for 9.6 per cent of all UK tourism economy spending in 2013, with total spending growing year-on-year by 10.6 per cent in real terms since 2012.

Estimates for 2013 project that overseas visitors will spend 20.4 million nights in Scotland: around 8 per cent of the UK total. Visitors from Eurozone nations represent 46 per cent of the total nights, this differs to the UK as a whole where visitors from outside the Eurozone and North America represent the largest grouping. International visitors are estimated to contribute 18.1 per cent of the £10.9 billion spent in the Scottish tourism economy in 2013. In 2013, it is estimated that residents from the other UK nations will spend £2.5 billion on day trips and overnight stays in Scotland, representing 29.8 per cent of all spending by UK residents in nations other than their own. As in the other nations, spending by Scottish residents on day trips in Scotland is substantially larger than their spending on overnight stays; it is estimated that the £4.7 billion spent on day trips by Scots in 2013 will be more than four times greater than spending on overnight stays (£1.1 billion).

Total 2013 spending in Wales's tourism economy is expected to reach £6.0 billion, representing 5.3 per cent of the UK total, and an increase of 6.3 per cent since 2012. UK residents are expected to account for 89.7 per cent of visitor spending in Wales, with £3.2 billion and £1.7 billion spent on day trips and overnight stays respectively. The £5.3 billion spent by UK residents in Wales represented 6.0 per cent of all domestic visitor spending in the UK in 2013. Despite capturing 6.0 per cent of all domestic spending, the Welsh tourism economy accounted for only 2.9 per cent of total nights (7.6 million) and 2.6 per cent (£0.6 billion) of spending by foreign visitors to the UK. Visitors from outside the Eurozone and North America accounted for 43 per cent of the nights overseas visitors spent in Wales in 2013, and 47 per cent of overseas spending in the nation.

Visitor spending in Northern Ireland grew by 3.1 per cent in real terms in 2013, reaching £2.1 billion. Northern Ireland accounted for 1.8 per cent of all visitor spending in the UK in 2013. International visitors to Northern Ireland are expected to spend 6.3 million nights and £0.3 billion in 2013, equating to 1.3 per cent of all international visitor spending in the UK and 15.5 per cent of all visitor spending in Northern Ireland. Over half of international visitors to Northern Ireland are from the Eurozone, with a further third coming from North America. This represents a considerably different breakdown to that seen in the rest of the UK. Day trips are projected to account for two-thirds (£1.2 billion) of all UK residents' visitor spending in Northern Ireland in 2013, with 92.7 per cent of this spending by Northern Ireland's residents. Spending on overnight stays is more evenly split between Northern Ireland residents and those from other UK nations, with the £0.2 billion spent by visitors from other UK nations representing 52.7 per cent of total overnight spending by UK residents.

2.3.2 Economic contribution – England

Tourism directly contributed £48.3 billion in value added to the English economy, equal to 4.0 per cent of England's GDP. In generating this activity, the sector directly supported 1.44 million jobs in 2013, or 5.2 per cent of total employment in the nation.

When the tourism supply chains, and private and public travel and tourism investment are considered, the contribution of tourism to England's GDP increases to £106.0 billion: supporting a total of 2.58 million jobs. Under this definition, the tourism economy accounts for 8.8 per cent England's GDP and 9.4 per cent of employment in 2013.

The total contribution of tourism to England is calculated by including the wage-financed spending of the 2.58 million people employed directly by the industry or its supply chains. Under this wider measure, tourism contributes £134.1 billion to England's GDP in 2013, equivalent to 11.1 per cent of the nation's economy. In generating this contribution, 3.14 million jobs are supported in England.



Figure 2.3.2.a. The economic contribution of tourism to the UK's nations, 2013, current prices¹⁰

	UK			Total England		London		Rest of England		Scotland		Wales		Northern Ireland	
	Absolute £bn	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total
Visitor Exports (inbound = travel spending + fares)	22.3	25.5	72.6%	14.3	40.7%	11.2	31.9%	5.5	15.8%	3.3	9.5%	0.7	2.1%		
Personal Travel & Tourism (domestic + outbound)	113.1	94.9	84.0%	20.1	17.8%	74.9	66.2%	9.9	8.8%	5.4	4.8%	2.8	2.5%		
Business Travel (domestic + outbound)	26.3	22.1	83.7%	7.4	28.0%	14.7	55.7%	3.2	12.0%	1.0	3.9%	0.1	0.4%		
Government Expenditures (individual + collective)	10.9	7.9	72.7%	1.7	15.8%	6.2	57.0%	1.5	13.6%	0.9	8.3%	0.6	5.3%		
Capital Investment	23.0	19.5	84.5%	5.7	24.9%	13.7	59.7%	2.1	9.2%	0.9	3.7%	0.6	2.6%		
Travel & Tourism Demand	195.6	169.9	81.5%	49.2	23.6%	120.7	57.9%	22.2	10.7%	11.6	5.6%	4.8	2.3%		
Outbound tourism spending (fares + travel)	33.5	33.8	79.1%	8.9	20.8%	24.9	58.3%	4.4	10.3%	3.0	7.1%	1.5	3.5%		
Direct industry contribution to GDP	58.0	48.3	83.9%	15.9	27.6%	32.4	56.3%	5.4	9.4%	3.1	5.4%	0.7	1.3%		
Tourism economy contribution to GDP	126.9	106.0	84.1%	36.0	28.5%	70.0	55.5%	11.6	9.2%	6.9	5.4%	1.6	1.3%		
Total contribution to GDP	160.5	134.1	84.1%	45.5	28.5%	88.6	55.5%	14.7	9.2%	8.7	5.4%	2.0	1.3%		
Direct industry employment (000s jobs)	1,748	1,436	82.2%	304	17.4%	1,132	64.8%	167	9.6%	114	6.5%	31	1.8%		
Tourism economy employment (000s jobs)	3,116	2,575	82.6%	700	22.5%	1,875	60.2%	292	9.4%	206	6.6%	43	1.4%		
Total employment (000s jobs)	3,787	3,136	82.9%	852	22.5%	2,284	60.4%	354	9.4%	242	6.4%	52	1.4%		

Source: Oxford Economics

2.3.3 Economic contribution – London

London's attraction as an international destination is apparent in the fact that the city accounts for 53.3 per cent of spending by overseas visitors to the UK. It is estimated that London benefits from a direct value-added contribution of £15.9 billion as a result of tourism, accounting for 27.6 per cent of the direct industry contribution to UK GDP. Tourism directly accounts for 5.1 per cent of London's GDP in 2013.

Labour productivity in the direct industry is approximately a third higher in London than for the UK as a whole. This is reflected in ONS productivity data for the accommodation and restaurant sector, which reported a productivity of £24,400 per full-time employee per year for London as against an average of £18,200 for the UK. Similar productivity differentials are apparent for the overall economy: average labour productivity in London was £59,200 in 2012, compared to £43,300 for the UK as a whole.

Reflecting these productivity differentials, London accounts for a smaller share of England's direct industry employment (21.2 per cent) compared to its contribution to GDP (32.9 per cent). Nonetheless, the sector directly supports 304,000 jobs in London in 2013, equivalent to 5.9 per cent of all employment in the city.

When the definition of tourism is broadened to include investment and supply chains, the estimated value-added contribution to the London economy increases to £36.0 billion, or 11.6 per cent of the capital's GDP. This represents 28.5 per cent of the total contribution of tourism (under this definition) to the UK. Under this wider measure, the sector supports 700,000 jobs in London in 2013, equivalent to one job in every 7 in the city (defined as the 32 London Boroughs).

Expanding the definition of tourism to its widest – by including wage-financed expenditure by the people employed in the sector and its supply chains – sees the sector contributing 14.7 per cent of London's GDP (£45.5 billion) and supporting 852,000 jobs.

¹⁰ It should be noted that due to definitional differences individual series may not sum to the UK total, but balances across the model (before rounding). This is a result of tourism between the UK nations. At the UK level, visitor exports represent only spending by international visitors to the UK. However, at the nation level visitor exports includes the spending of visitors from other UK nations. Similarly, outbound spending at a nation level includes residents' spending in other UK nations and overseas, but at the UK level it only considers UK residents' spending overseas.

2.3.4 Economic contribution – Rest of England

tourism is estimated to directly contribute £32.4 billion to the economy in the rest of England. This represents 3 per cent of GDP, making tourism significantly less important to the rest of the nation than for the capital. However, the industry supports over 1.1 million jobs outside London – 4.2 per cent of total employment.

Expanding the impact of tourism to include supply chains and investments sees the tourism economy account for 6.4 per cent of GDP in the rest of England with a contribution of £70.0 billion. Under this wider definition, the tourism economy is estimated to support 1.9 million jobs in 2013, or 6.9 per cent of all employment throughout the rest of England.

The widest definition of tourism sees its contribution to the rest of England economy rise to £88.6 billion, equivalent to 8.1 per cent of GDP. The 2.3 million jobs the total contribution supports represent one job in every 12 in the rest of England.

2.3.5 Economic contribution – Scotland

The results from the Scottish model indicate that tourism made a direct value-added contribution of £5.4 billion to the Scottish economy, supporting 167,000 jobs. These estimates indicate that tourism directly accounted for 4.8 per cent of GDP and 6.3 per cent of employment in Scotland in 2013.

In Scotland, the tourism economy is estimated to contribute 10.3 per cent of GDP under the wider definition including supply chains and investment, or £11.6 billion in value added. The industry, its supply chains and related investments supports 292,000 jobs in 2013, or 10.9 per cent of total employment.

When the widest definition of the total contribution is considered, the contribution to Scotland's GDP reaches £14.7 billion in value added, supporting 354,000 jobs. This represents 13.0 per cent and 13.2 per cent of GDP and employment, respectively.

2.3.6 Economic contribution – Wales

The Welsh tourism sector is estimated to directly contribute £3.1 billion to Wales's GDP in 2013 – representing one pound in every 16 generated in the nation. An estimated 114,000 jobs were found in the direct contribution in 2013, 8.2 per cent of all jobs in Wales.

Using a wider definition increases the contribution of tourism to Welsh GDP to £6.9 billion, equivalent to 13.9 per cent of the economy in 2013. The number of jobs supported by the tourism economy also increases to reach 206,000 jobs or 14.9 per cent of total employment.

Incorporating the impact of wage-financed spending leads to a total contribution of £8.7 billion to Welsh GDP by tourism in 2013 (equal to 17.6 per cent of total GDP). Under this measure the total employment supported in Wales by the sector is 242,000 jobs.

2.3.7 Economic contribution – Northern Ireland

The Northern Irish economy benefits from a direct £0.7 billion value-added contribution from tourism, and 31,000 jobs in 2013. Therefore, tourism was directly responsible for 2.4 per cent and 3.9 per cent of Northern Ireland's GDP and employment in 2013.

The wider tourism economy contributed £1.6 billion to GDP and supported 43,000 jobs in 2013. This makes the tourism economy equal to 5.2 per cent of the Northern Ireland economy and responsible for one job in every 18 in the nation.

Finally, the total contribution of tourism to Northern Ireland in 2013 is £2.0 billion and 52,000 jobs. The total contribution therefore accounts for 6.6 per cent of the nation's economy, and one job in every 15 in the nation.

Figure 2.3.7.a. The relative contribution of tourism to the UK's geographies, 2013



	UK	Total England	London	Rest of England	Scotland	Wales	Northern Ireland
	% of UK Total	% of English Total	% of London Total	% of Rest of English Total	% of Scottish Total	% of Welsh Total	% of Northern Irish Total
Proportion of GDP							
Direct industry contribution to GDP	4.1%	4.0%	5.1%	3.0%	4.8%	6.3%	2.4%
Tourism economy contribution to GDP	9.0%	8.8%	11.6%	6.4%	10.3%	13.9%	5.2%
Total contribution to GDP	11.4%	11.1%	14.7%	8.1%	13.0%	17.6%	6.6%
Proportion of Employment							
Direct industry employment	5.4%	5.2%	5.9%	4.2%	6.3%	8.2%	3.9%
Tourism economy employment	9.6%	9.4%	13.6%	6.9%	10.9%	14.9%	5.4%
Total employment	11.7%	11.4%	16.6%	8.4%	13.2%	17.5%	6.5%

The tourism economy supports 3.1 million jobs – equivalent to 9.6 per cent of UK employment.

2.4 Conclusion

Tourism has performed well over the past few years following the initial shock of the recession.

Overall key findings for the quantified impact in the UK include:

- **Spending:** Total spending in the UK's tourism economy has increased and is expected to reach £113.1 billion in 2013. This is an 18 per cent real (i.e. adjusted for inflation) increase since 2010.
- **Value added:** On the narrowest definition, tourism is worth £58.0 billion in direct value-added in 2013. This represents a slightly bigger share of the UK's economy in 2013 at 4.1 per cent compared with 2010 when it was 3.9 per cent. Using the broader tourism economy definition the sector represents £126.9 billion in value added – 9.0 per cent of the UK total.
- **Employment:** To generate this contribution the sector is estimated to directly support 1.75 million jobs: some 5.4 per cent of employment in the UK in 2013. Using the broader tourism economy definition the sector supports 3.1 million jobs – 9.6 per cent of UK employment.

The positive change in recent years has been driven by favourable exchange rates (discussed more in the next chapter) as well as the impact of a slightly more prolonged slowdown that anticipated which has held down consumer confidence.

Across the nations, key findings include:

- **England:** GVA contribution is £48bn due to direct impacts of the industry, accounting for 84 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £134bn. This can be broken into:
 - **London:** GVA contribution is £15.9bn due to direct impacts of the industry, accounting for 27.6 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £45.5bn.
 - **Rest of England:** GVA contribution is £32.4bn due to direct impacts of the industry, accounting for 56.3 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £88.6bn.
- **Scotland:** GVA contribution is £5.4bn due to direct impacts of the industry, accounting for 9.4 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £14.7bn.
- **Wales:** GVA contribution is £3.1bn due to direct impacts of the industry, accounting for 5.4 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £8.7bn.
- **Northern Ireland:** GVA contribution is £0.7bn due to direct impacts of the industry, accounting for 1.3 per cent of the UK total. On the widest measure, which includes the impact of supply chain linkages and consumer spending effects, the GVA contribution is £2.0bn.

3. Retrospective and relative performance of tourism

This chapter summarises the key dynamics and performance of the UK's tourism in recent years as well as how it has performed relative to other sectors. It also considers the impact of recessions on the tourism, most notably the recent recession from which the UK is only just emerging.

3.1 Introduction

The previous reports assessed the market dynamics in great detail comparing and contrasting the features of tourism in each of the nations in terms of the 'offering', and in doing so considered the composition of employment, enterprise and visitor trips. This update is focused on key points that are relevant to this refresh report.

3.2 Recap on dynamics

Analysis on dynamics of tourism across the UK in the previous studies established that:

- Assets in the tourism economy range from natural and physical features and historic monuments/buildings and other attractions to hospitality offerings and towns and commercial centres.
- Outcomes in tourism are reliant on the interaction between:
 - demand for and supply of goods and services in tourism; and
 - assets and the support services in the tourism economy.
- Access (in terms of both information and travel) is critical to ensure the market functions effectively – with effective demand matching supply.
- Urban areas have higher levels of employment in tourism. Key cities across the UK with the greatest level of employment include the City of Westminster, Birmingham and Edinburgh.
- However, levels of employment in tourism relative to total employment tend to be higher in more rural and coastline areas. Although the concentration of employment is varied across the UK, the highest areas include Isles of Scilly, West Somerset and Forest Heath.
- The proportion of inbound visits is significantly higher in London compared with all the UK nations.

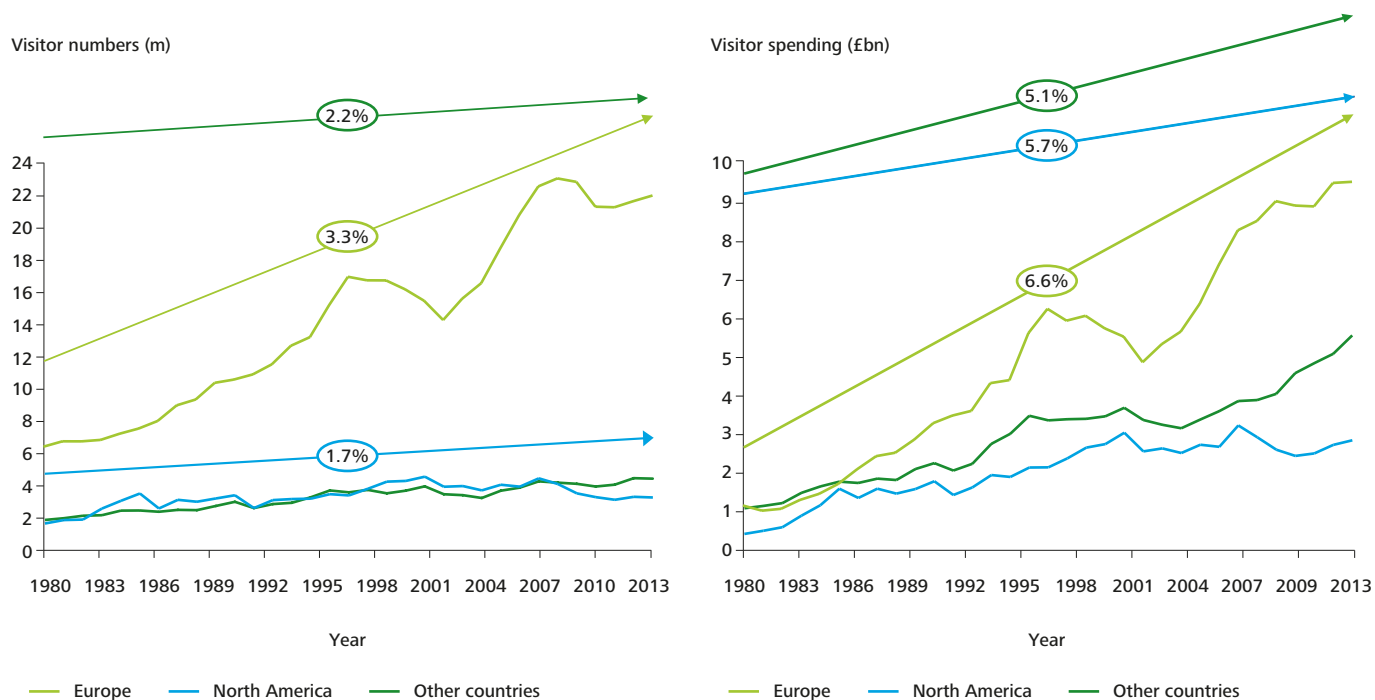
3.3 Retrospective trends and performance

This section presents historic trends and performance of UK tourism.

3.3.1 Visitor trends to date

Segmenting visitors by region shows that not only does Europe provide the UK with more visitors than the rest of the world combined, but also that numbers of European visitors have grown more rapidly than other regions since 1980. However, visitors from other regions spend disproportionately, which is only partly explained by the fact that Europe is closer to the UK and trips by Europeans are therefore likely to be shorter. Visitors from 'other countries' spend particularly heavily, reflecting the UK's draw for wealthy visitors from regions and countries such as the Middle East, Russia, and China.

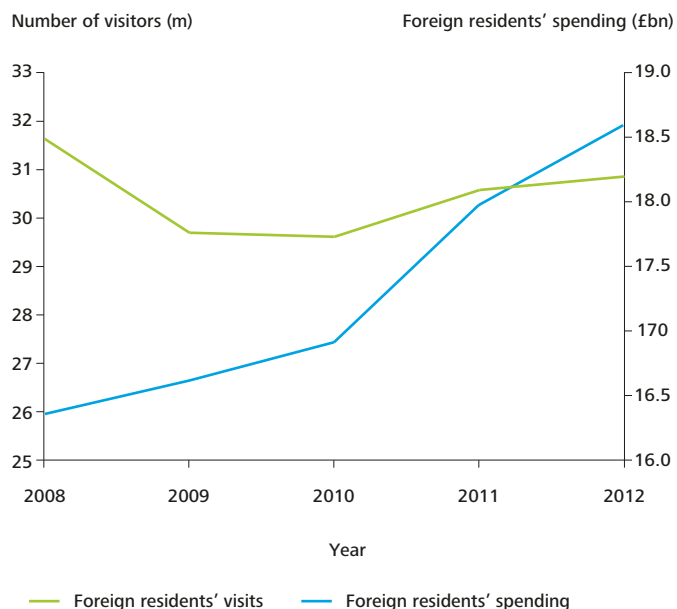
Figure 3.3.1.a. Visitor numbers and spend by region, 1980-2012 (millions of visitors)



Source: ONS and Deloitte analysis

Nonetheless, the UK has had significant success in generating higher levels of value from visitors overall. As the chart below indicates, while numbers of foreign visitors have fallen or remained more or less flat since 2008, spending has risen significantly over this period, meaning that the average spend per visitor has increased. This is a noteworthy achievement as it has occurred during a global recession which has affected many of the UK's top source markets (the United States and European countries such as France) particularly severely.

Figure 3.3.1b. Foreign residents' visits to and spending in the UK, 2008-2012 (millions of visitors and £bn)

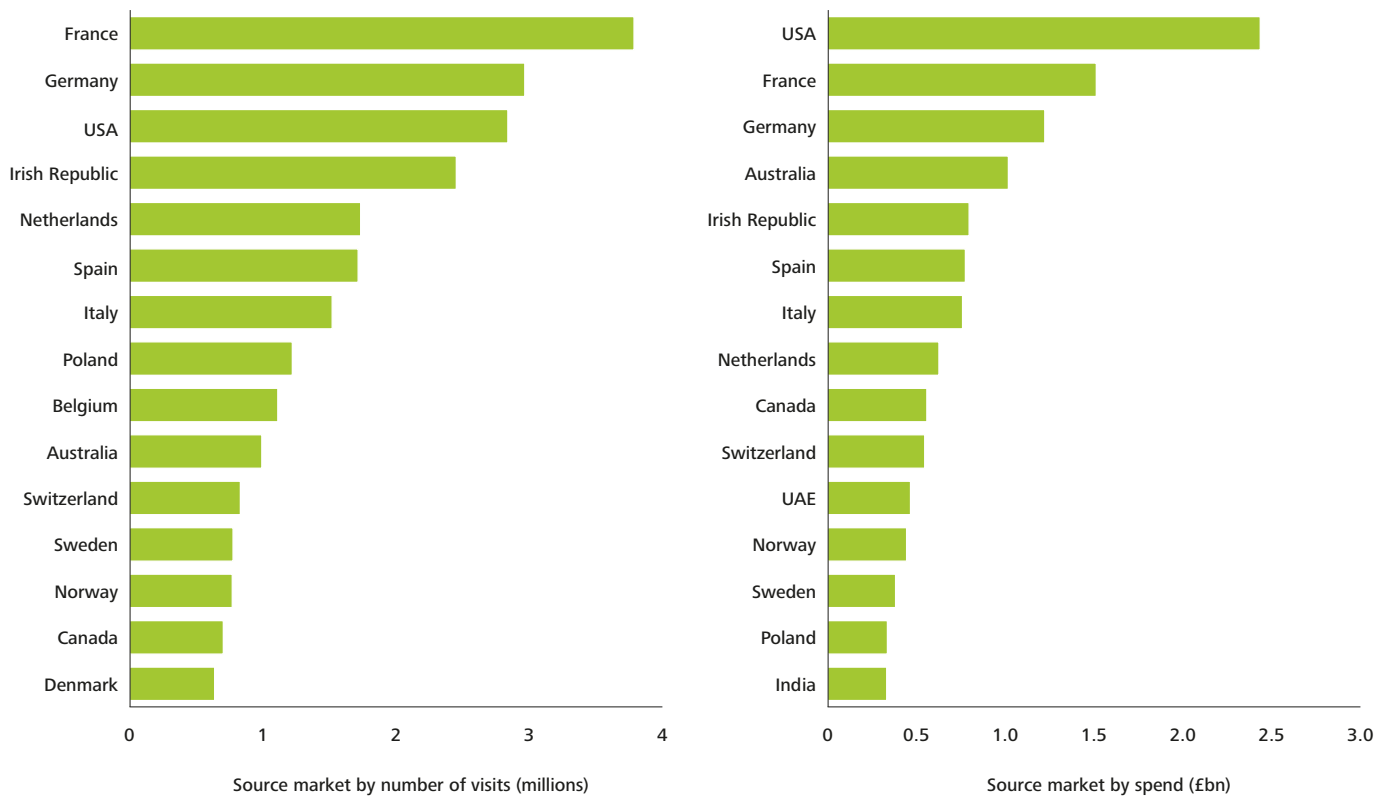


Source: ONS and Deloitte analysis



Figure 3.3.1c shows the top 15 markets by volume and value to illustrate where inbound visitors have originated from in the past year. It shows that a few key source countries account for the majority of visitors to the UK, with the top ten sources of tourists to the UK by numbers accounting for 70 per cent of total visitors in 2012. France dominates with 12 per cent of total visitors, while Germany and the USA come second and third respectively. Notably, 13 of the top 15 are European countries. The chart below shows the top 15 countries by number of visitors in 2012. In terms of expenditure, the USA ranks highest by a significant margin, accounting for 13 per cent of total visitor spend in 2012. This is partly owing to the longer average length of stay, partly driven by the greater distance and travelling time required.

Figure 3.3.1c. Top 15 markets by volume and value, 2012 (millions of visitors and £bn spend)

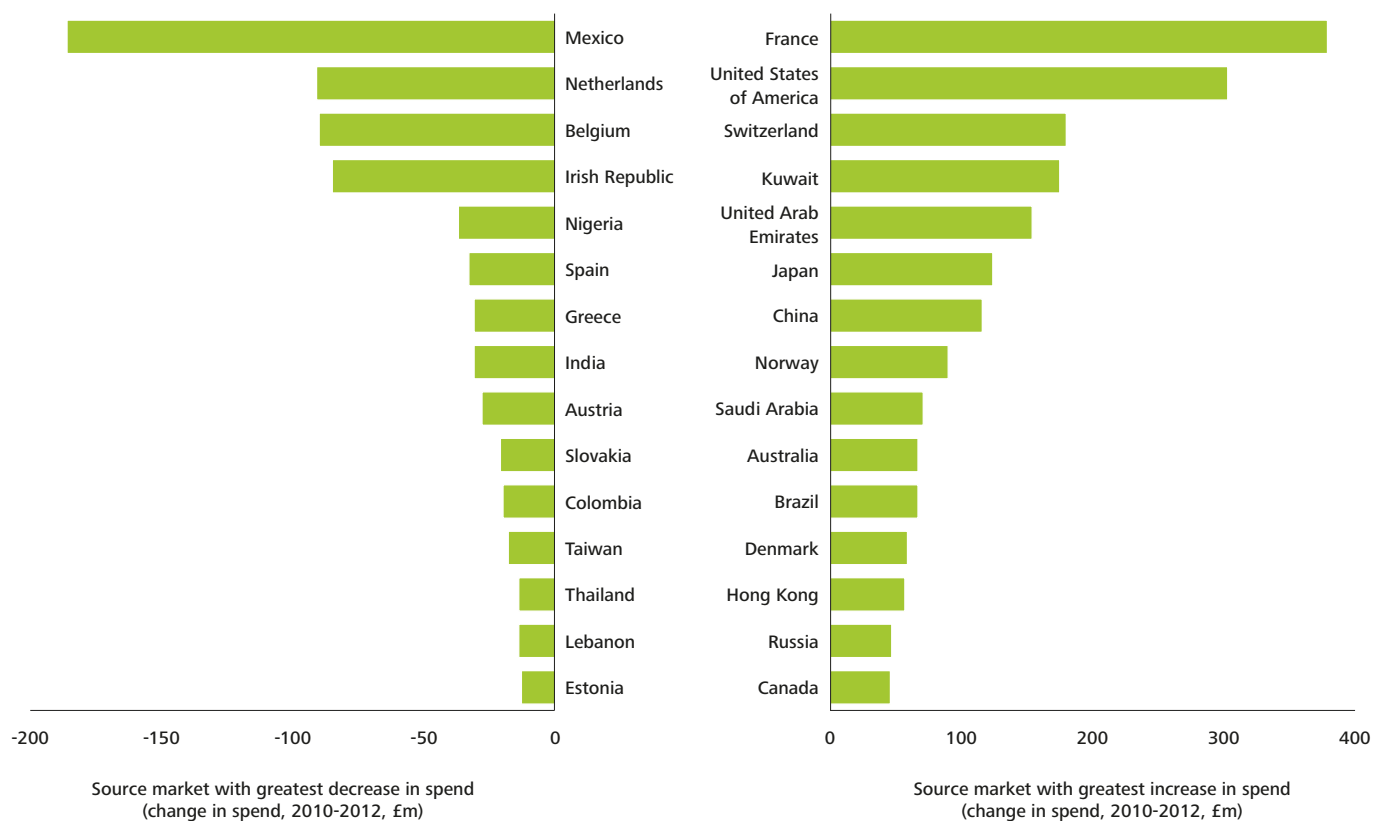


Source: ONS and Deloitte analysis



The charts below indicate in which markets the UK's total visitor numbers are declining, and where the UK is experiencing strongest growth in visitors. Notably, France and the USA were the source markets which had the greatest increase in the total level of tourist spending between 2010 and 2012. Other nationalities which tend to spend, on average, relatively high amounts per visitor – such as the United Arab Emirates – were also among the top 15 (by increase in spend). The presence of Brazil in this analysis indicates that the UK is experiencing some success in its efforts to attract visitors from emerging economies. In contrast, countries experiencing the biggest declines in numbers of visitors to the UK between 2010 and 2012 were a mix of countries – with the biggest falls from tourists originating from Mexico, Netherlands, Belgium and Ireland.

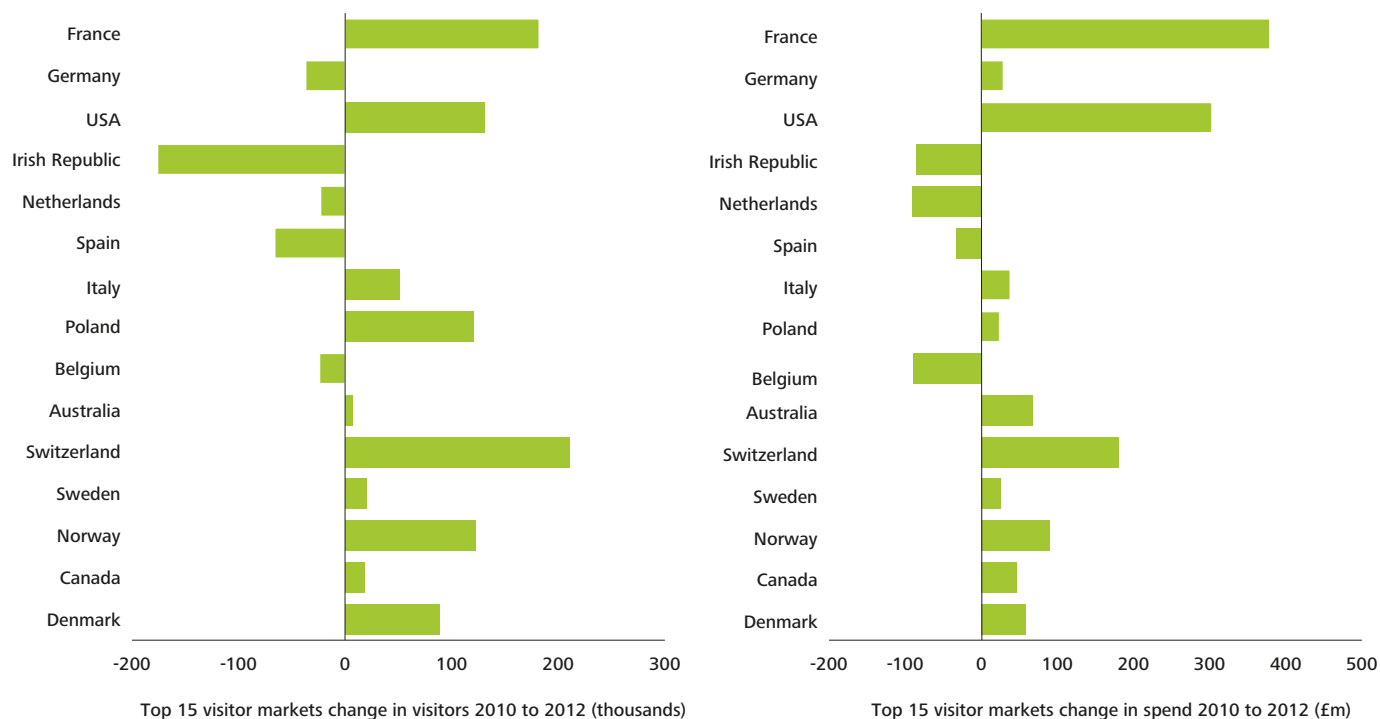
Figure 3.3.1d. Top 15 countries by growth and decline in spend to the UK, 2010-12 (change in spend, £m)



Source: Tourism Economics and Deloitte analysis

Figure 3.3.1e shows the short term trends (between 2010 and 2012) in visitor numbers among the UK's top source markets (as of 2012). Looking at the top 15 markets by visitor numbers, the picture is mixed with many of the UK's top source markets, such as France, Germany, the USA and the Irish Republic, showing declining or only slowly growing numbers of visitors between 2010 and 2012. However, some of the top 15 markets have experienced strong growth, notably Switzerland, Norway and Denmark. Looking at trends among the UK's top 15 source markets by expenditure, the top three countries experienced an increase in spend between 2010 and 2012.

Figure 3.3.1e. Short term trends in visitor numbers and spend (absolute change) among the UK's top 15 source markets, 2010-12

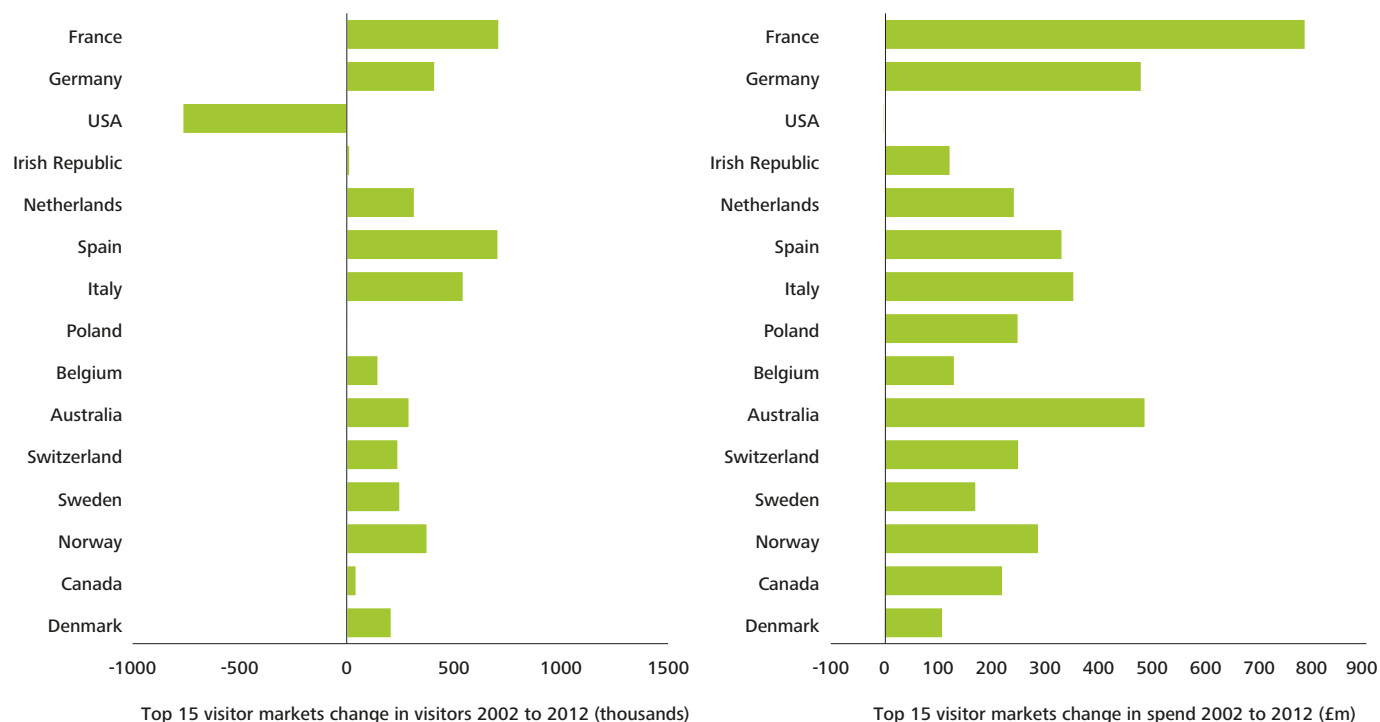


Source: International Passenger Survey data and Deloitte analysis

Figure 3.3.1f shows the longer-term trends (since 2002), presenting changes in visitor numbers and spend among the UK's top source markets (as of 2012) over the past decade. Many of the UK's top source markets have shown a significant increase over this period in visitor numbers.

The number of visitors from the USA, however, has declined over this period whilst spending in nominal terms has remained static. This means tourists from the USA are spending more on a per head basis. When inflation is factored in, there has been a real reduction in aggregate and per head spend by USA visitors.

Figure 3.3.1f. Long term trends in visitor numbers and spend (absolute change) among the UK's top 15 source markets, 2002-12

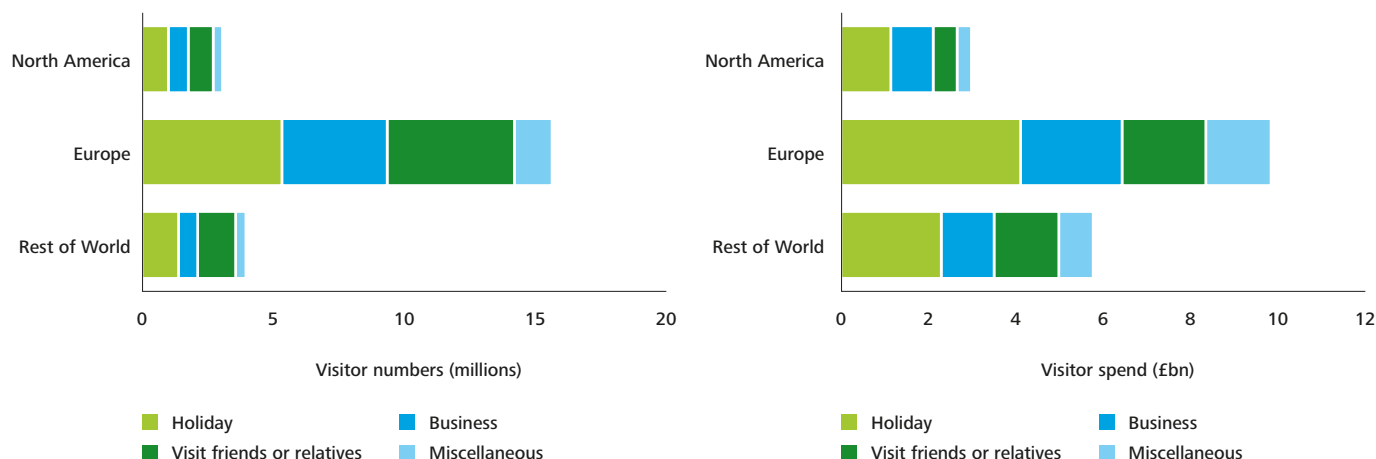


Source: International Passenger Survey data and Deloitte analysis

3.3.2 Visits and spend by purpose and region

In terms of purpose of visit, the UK attracts a diverse cross-section of visitors travelling for family, business and pleasure. The 2012 International Passenger survey reveals that across the regions, over 30 per cent of visitors came to see friends or relatives, with another third visiting the UK for a holiday. Figure 3.3.2a shows visits and spend by purpose of visits and region of origin. This highlights how the established European markets are important in terms of both spend and volume.

Figure 3.3.2a. Total visits and spend by purpose of visits and region of origin, 2012 (millions of visitors and £bn)



Source: ONS and Deloitte analysis

3.4 Relative performance

This section presents the relative performance of the direct industry contribution compared with other UK sectors during the recent recession and subsequent recovery.

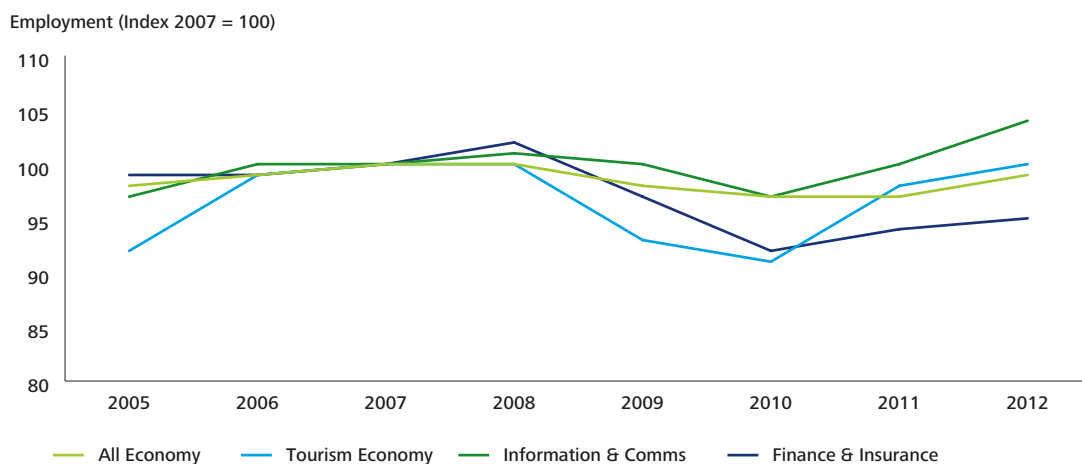
3.4.1 Changes through the 'Great Recession'

Over the period 2007-12, in real terms, direct industry contribution GVA contracted by 1.1 per cent per annum. Over the same period, UK all-sector GVA contracted by 0.5 per cent per annum. Thus, the tourism share of national output fell over this period.

In employment terms, direct industry contribution dropped but then recovered over the same period, whilst UK all sector FTE employment fell by 0.2 per cent per annum. The employment footprint of tourism therefore accounts for a higher share of UK employment now than in 2007.

However, as figure 3.4.1.a shows, tourism, had a 'game of two halves' during the recession and subsequent recovery. Since 2010, tourism has been the fastest growing sector in the UK in employment terms with c. 150,000 net jobs created. The broader Tourism Economy has created even more – some 173,000 jobs over the same period.

Figure 3.4.1.a. Changes in employment in the tourism economy and selected benchmarks, 2005-12



The initial decline in employment was much more severe than that seen for the economy as a whole, as a result of the numbers of and retrenchment by domestic and international tourists – hospitality is heavily affected by economic uncertainty as consumers rely on discretionary spending to meet their travel needs.

This decline was more pronounced than that seen in the financial services sector, but the bounceback in the tourism economy has been a good deal stronger in employment terms. Whilst the tourism economy is now back at pre-recession peak employment levels, employment in financial services remains more than 5 per cent below peak and UK employment as a whole is still 1 per cent below 2007 levels. The information and communications sector has been one of the UK's strongest performers coming out of recession, and is now 4 per cent larger than it was in 2007 in employment terms.

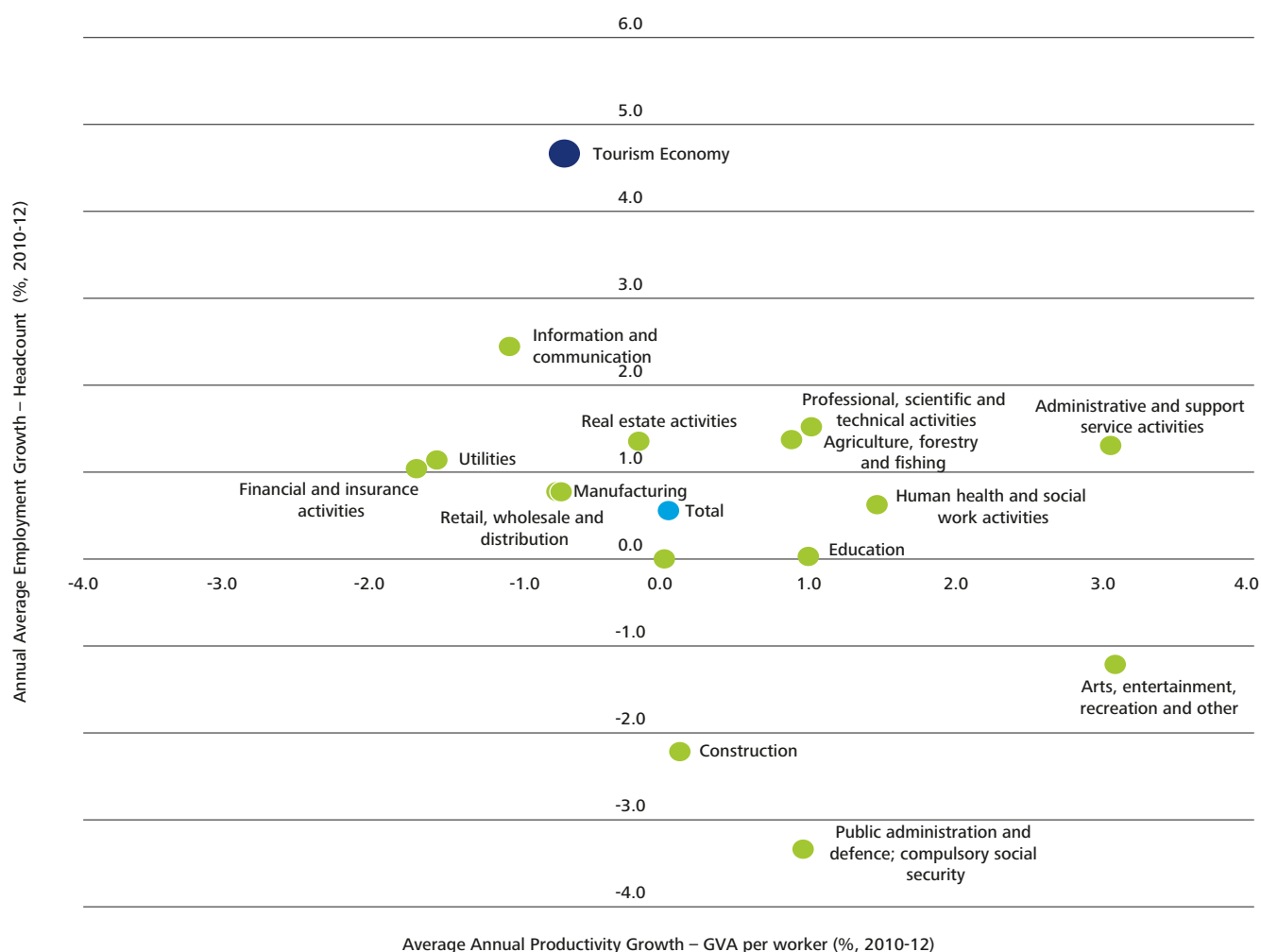
In productivity terms (GVA per person in employment), tourism economy productivity contracted by 1.1 per cent per annum between 2007 and 2012, reflecting a UK-wide trend. The decline is much more pronounced than the equivalent contraction across the UK economy, 0.3 per cent per annum.

Increasing per worker productivity in the tourism economy would serve to increase the GVA contribution back to pre-recession levels. As at 2012 tourism economy GVA in real terms was only 95 per cent of the 2007 peak, which, given the recent performance of the sector in generating jobs implies that per worker productivity has fallen by an equivalent amount of 5 per cent from peak.

3.4.2 Comparisons with other sectors

Figure 3.4.2.a. confirms that in comparison to other sectors, recent employment growth in the economy has been stellar. Productivity has been marginally lower in the tourism sector compared with the UK. This may have been driven by a shift in consumer demand down the value chain – mainly from midscale to budget options. Lower revenue for a lower value service are possibly linked with lower levels of operating profit and wages, which are the main constituents of GVA. Other drivers are likely to include a lack of investment and job hoarding, drivers which have also been evident across other sectors of the economy.

Figure 3.4.2.a. Employment and productivity growth comparisons by sector, 2010–12



Tourism economy replaces Hotels and Catering given the overlap between the two.

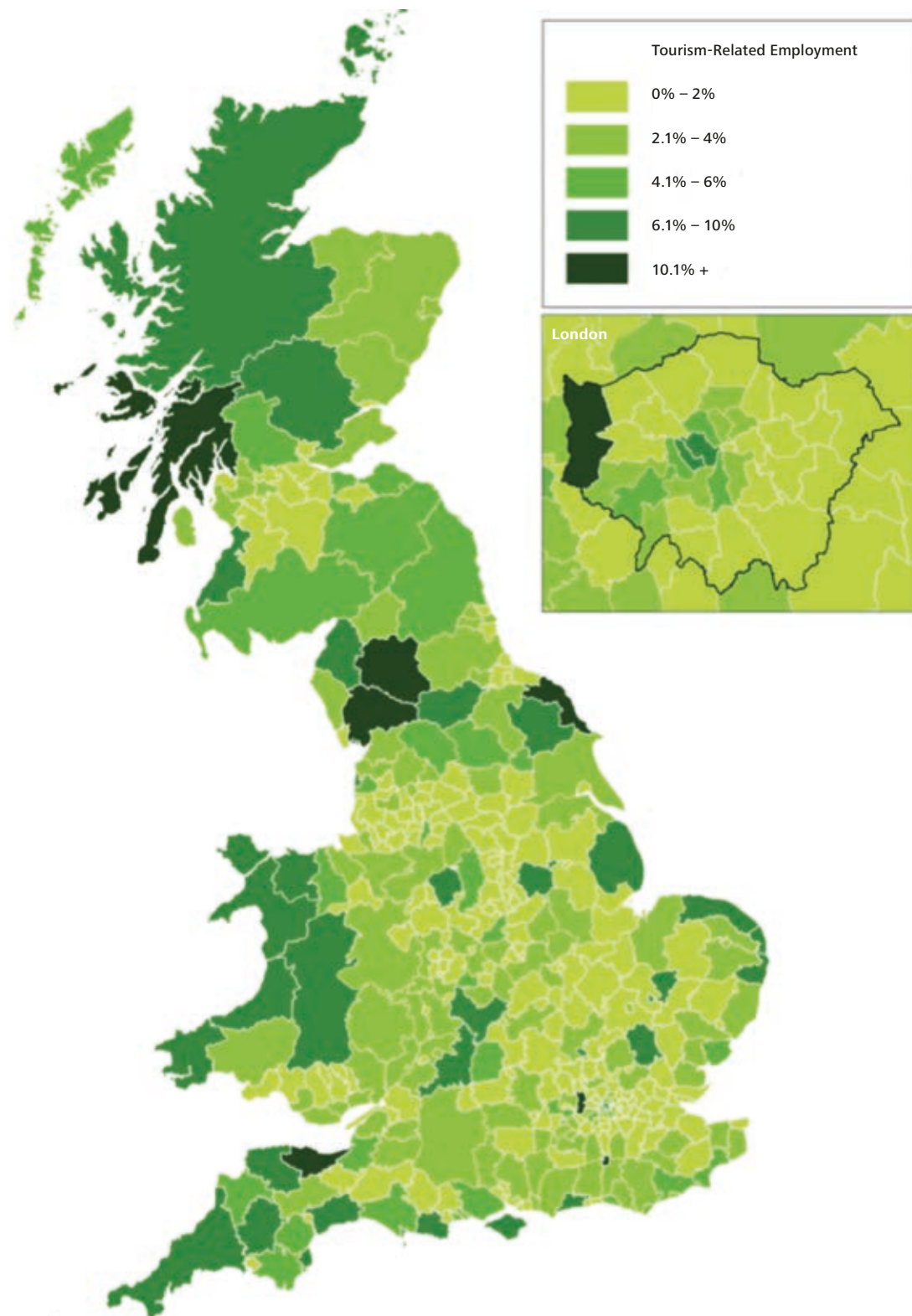
Source: Deloitte Analysis, Oxford Economics Model

The sector suffered more than average but has recovered faster than the wider economy in employment terms. In other words, the tourism economy has shown flexibility and 'bounce-back-ability'.

3.4.3 Employment in tourism related sectors

Tourism supports employment across all parts of the UK. Figure 3.4.3a shows the proportion of employment in tourism related sectors¹¹ for each local authority district within Great Britain.

Figure 3.4.3a. Share of employment in tourism related sectors to all employment in local authority, 2012

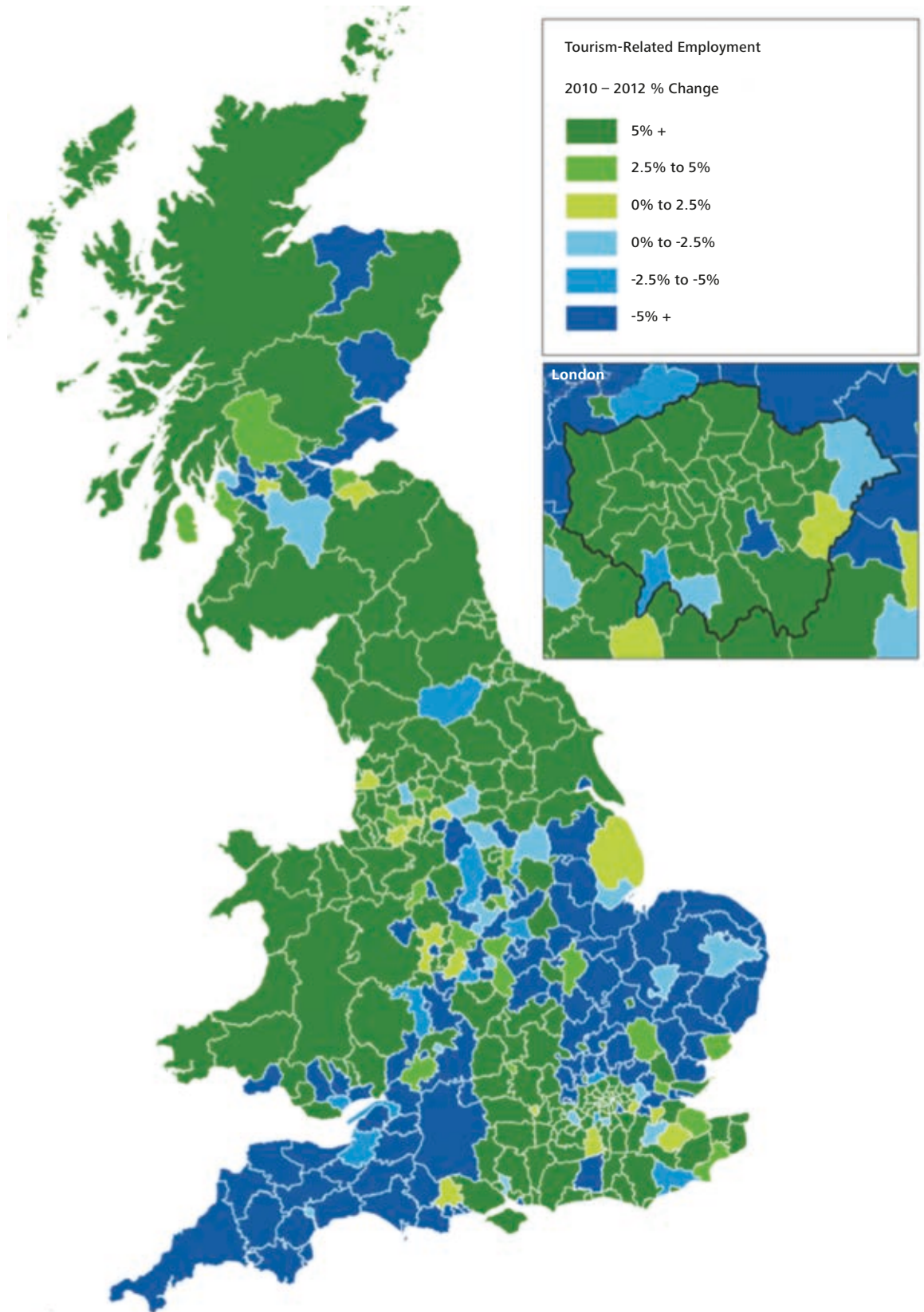


Source: ONS and Deloitte analysis

¹¹ These sectors include the following four digit Standard Industrial Classifications: Passenger air transport; Hotels and similar accommodation; Holiday and other short stay accommodation; Camping grounds, recreational vehicle parks and trailer parks; Other accommodation; Travel agency activities; Tour operator activities; Other reservation service and related activities; Performing arts; Support activities to performing arts; Artistic creation; Operation of arts facilities; Museum activities; Operation of historical sites and buildings and similar visitor attractions; Botanical and zoological gardens and nature reserve activities; Activities of amusement parks and theme parks; Other amusement and recreation activities.

Figure 3.4.3b shows how employment in tourism related sectors for each local authority district within Great Britain has changed since 2010. Many areas have experience growth in employment (indicated by the green shading), although there are some regions which have seen a reduction in tourism related employees (indicated by the blue shading).

Figure 3.4.3b. Change in tourism employment, 2010–2012 (% growth)



Source: ONS and Deloitte analysis

3.5 Productivity levers

The analysis in this chapter has shown tourism economy has made a significant contribution to the economy through the provision of jobs, especially over the last two years.

Productivity in the sector has historically been lower than other sectors and performance of late has been disappointing – in keeping with the wider economy. However, growth estimates suggest that productivity is expected to increase over the forecast period – increasing steadily with growth in real terms of over 2 per cent per annum¹² to 2020. In the context of HM Treasury's pre-recession long-term benchmark growth estimate for per worker productivity of 2 per cent – this is a strong rate of growth. In addition to this, the use of technology and more efficient processes in the sector will also provide future opportunities for productivity improvements. For instance, many organisations in the sector – from large multinationals to SMEs are making use of technologies such as online booking systems, mobile technology and online social networking interfaces.

Productivity gains are known to be driven by skills, investment, competition, innovation and enterprise. Within organisations such gains are therefore driven by training, processes, tools, physical layout, policies and technologies that govern work environments. These factors influence the way employees work and ultimately dictate how productive they can be. Organisations with better systems, processes, machinery and equipment, infrastructure, workforce training and human capital strategies are more productive than those less well equipped.

These potential productivity gains would have impacts on the tourism economy's contribution to UK GDP but could also generate broader impacts such as better service levels across the sector and lower waste emissions.

3.6 Conclusion

The established European markets continue to constitute the majority of visitors to the UK. So it will be important to continue marketing effort on this market so the UK does not lose ground here. However, as expected, there has been strong growth in some emerging markets which present future opportunities for the UK to exploit. This is discussed further in Chapter 7.

Data presented in this section shows that the tourism economy has come out of the recession in a stronger employment position than many other sectors. In summary it has been a 'game of two halves' with the sector being hit quite hard at the onset of recession, and taking a number of years to recover, yet the recovery has been very quick in employment terms, and certainly much quicker than the UK as a whole.

Focusing on the past few years, since 2010 the tourism economy has outperformed all other UK sectors in terms of employment growth. Productivity has slipped markedly since 2007 and should be a focus of policy, in common with all UK sectors, as the recovery gathers pace.

The tourism economy has shown strong 'bounce-back-ability' from the recession relative to other sectors, but the emerging challenge for the next few years is to raise productivity in the sector.



¹² This is for all three definitions of tourism: direct industry, tourism economy and total contribution.

4. Wider contributions

This chapter examines in more detail the wider contributions made by the tourism economy based on the multiplier outputs embodied in the modelling analysis in chapter two. It also considers taxation and inbound tourism, based on a review of recent and relevant literature.

4.1 Introduction and background

This chapter presents the wider contribution that tourism makes through taxation of tourism related services. Deloitte's previous studies demonstrated that wide reach of tourism. This chapter shows how the collective tax contribution across these areas is likely to be significant.

4.2 Multiplier effects from tourism

This section presents the wider economic contributions in terms of the multiplier effects that occur from an additional pound of tourism investment and/or visitor spending.

4.2.1 What is a multiplier effect?

The quantified outputs in Chapter 2 present the contribution that the tourism economy makes directly and spill-over effects through supply chain and consumer spending that arise from direct activity in tourism. The link from direct to indirect (supply chain) and induced (knock-on consumer spending) effects in the model is known as the 'multiplier effect'. Multipliers are a measure of the direct and wider (indirect or indirect and induced) effects relative to the direct effects. This section presents the Type I and Type II (defined below) multipliers for both employment and GVA.

Figure 4.2.1a. The multiplier effect in context

The existence of multiplier effects was initially proposed by early 20th century economists such as Ralph George Hawtrey and Richard Kahn (cited in Lütkepohl 2008), but the concept of using Input-Output tables to generate multipliers is credited to Wassily Leontief.

There are 2 key categories of multiplier:

- Type I: which takes into account the direct and indirect effects – i.e. it is the ratio of direct plus indirect effects to the direct effects. Type I multipliers measure change in output due to the change in final demand. Type I multipliers take into consideration all these direct and indirect effects generated due to first round of spending. Type I multipliers in this report relate to the relationship between the impacts in the 'Tourism Economy' and the 'direct' industry; and
- Type II: which, in addition to direct and indirect effects, captures the effects of spending by employees (induced effects) – i.e. it is the ratio of direct plus indirect plus induced to the direct effects. Type II multiplier takes into account, in addition to direct and indirect effects, the extra activities generated within the economy through the expenditure made by employees in a particular sector. Type II multipliers in this report relate to the relationship between the impacts in from the broadest definition of tourism ('Total Contribution') and the 'direct' industry contribution.

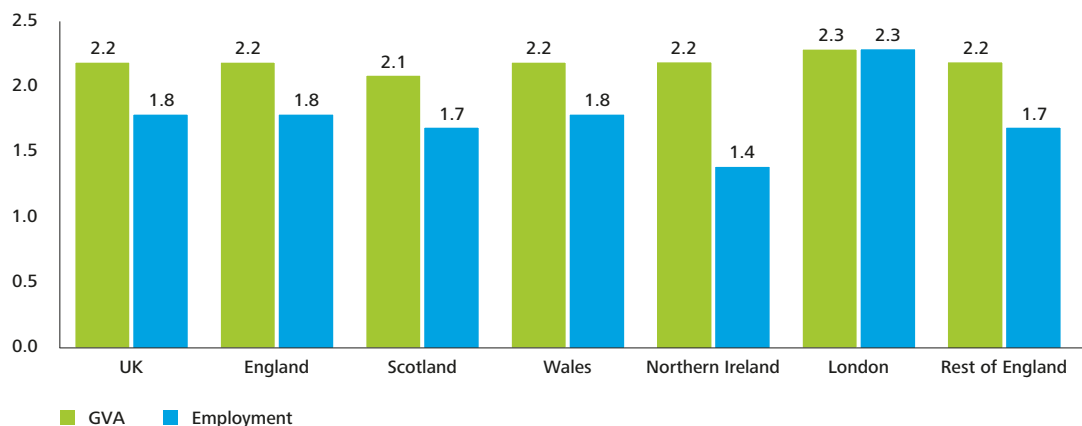
The multiplier effect continues until the money eventually 'leaks' from the economy through imports – the purchase of goods from other countries.

Source: Deloitte analysis

4.2.2 Estimates for multiplier effects in UK and UK nations

Figure 4.2.2.a shows the Type I multiplier for the UK and each UK nation. Scotland has the lowest GVA multiplier of the nations at 2.1 – but it is still relatively close to the other nations which range from 2.2 (England, Wales, Northern Ireland and Rest of England) to 2.3 (London). In London, for every £1 generated in direct GVA terms within the tourism economy, there is a further £1.30 on GVA that is supported elsewhere in the economy through the supply chain.

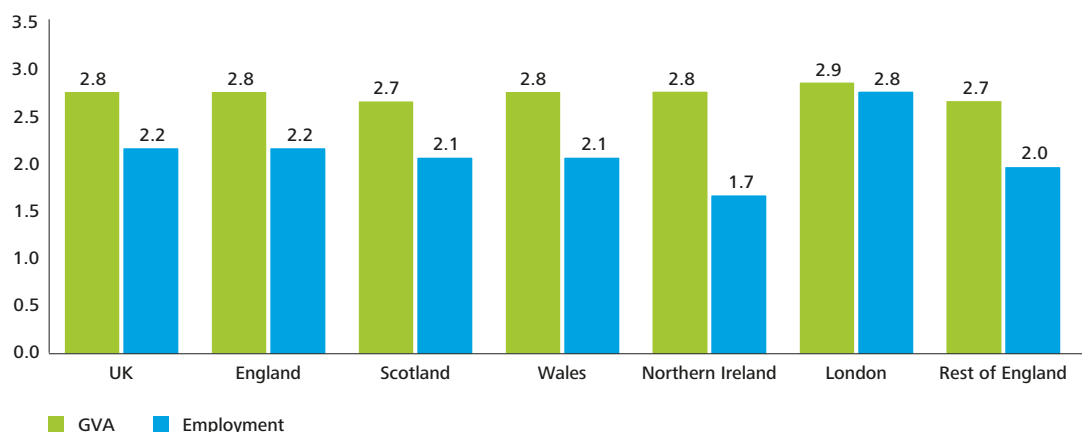
Figure 4.2.2a. Type I multiplier by nation, GVA and employment



Source: Oxford Economics Model, Deloitte analysis

Figure 4.2.2.b shows the Type II multiplier. Once again, Scotland has the lowest GVA multiplier of the nations – but it is still relatively close to the other nations. In London, for every £1 generated in direct GVA terms within the tourism economy, there is a further £1.90 in GVA that is supported elsewhere in the economy through the supply chain and consumer spending activities.

Figure 4.2.2b. Type II multiplier by nation, GVA and employment



Source: Oxford Economics Model, Deloitte analysis

The charts show that the UK multiplier is very similar/the same across the UK nations which implies that all impacts are contained in the relevant nations. However, it should be noted that the nation level multipliers differ from traditional multipliers as they add in the additional demand that is created in a particular nation due to the tourism economy in other nations within the UK. The model captures the flow of imports and exports that occur between the UK's nations (rather than these being 'unallocated' if each nation is considered in isolation); this approach is consistent with the model used in the last edition of the report. It should be noted that this does not impact the multipliers at the UK level, which will be the standard outputs for both Type I and Type II.

4.3 Tax contribution from inbound visitors

The diverse nature of tourism, means consumers and businesses within the sector are subject to various forms of taxation. This has an impact of price competitiveness (as discussed in Chapter 7), and there is an existing body of research which assesses the impact of taxation on visitor numbers and spend, but this chapter focuses on the current contribution from inbound tourism related tax receipts received by HMRC.

4.3.1 Approach used to estimate tax contribution from inbound visitors

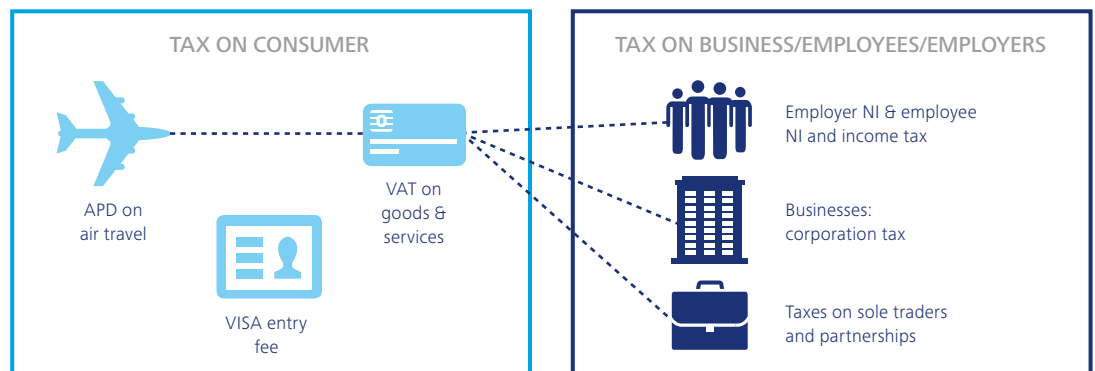
The approach used in estimating the tax contribution is based on evidence from the literature and adjustments to reflect the inbound element of tourism only. Key elements to the approach used in this chapter include:

- Identification of the relevant taxes;
- Review of literature to assess total tax contribution from each component; and
- Adjustments for the inbound element of tourism tax take.

4.3.2 Tourism related taxation

As outlined above, the analysis is focused on key elements of inbound tourism. It is not intended to be a comprehensive analysis of taxation as might be conducted using HM Treasury's economic model, and neither is it a dynamic analysis designed to show the effects of changes in tax policy like other studies. Rather it is aimed at demonstrating the potential contribution made by the sector which is not explicitly captured in the quantified outputs in Chapter two. Figure 4.3.2a illustrates the different elements assessed in this chapter covering how an inbound visitor will be affected, directly or indirectly, by taxation.

Figure 4.3.2a. How inbound tourism contributes to HMRC through tax receipts



Source: Deloitte analysis

The taxes shown in Figure 4.3.2a are outline briefly in turn:

- **Air Passenger Duty (APD):** is levied on the carriage of passengers flying from a UK airport. The rate is determined by the distance between London and the capital city of the destination country. It was introduced in 1994 with a £5 rate for the UK/EU and £10 elsewhere. Since its introduction APD has risen to between £13 and £376 per passenger, depending on the distance and class of travel.¹³
- **VISA application fee:** is required for entry clearance to grant some visitors permission to travel to or enter the UK. For simplicity this analysis is based on the cost of a short-term visit (up to 6 months) for visa national applicants visiting to see family, for entertainment/sports, for private medical treatment, and for Marriage or civil partnership visitor.¹⁴

13 Source: <http://www.hmrc.gov.uk/rates/apd.htm>

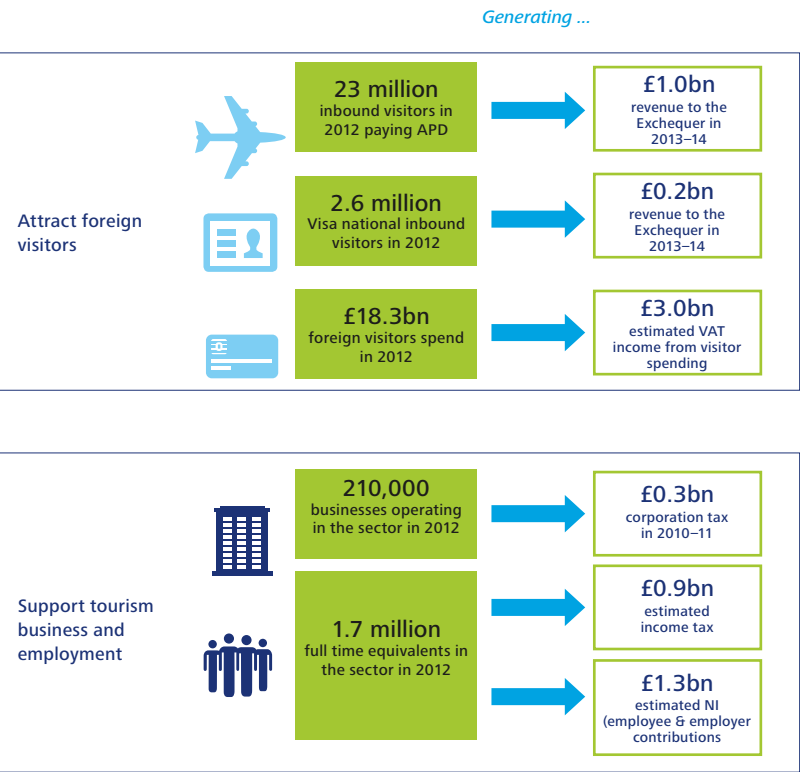
14 Non-visa nationals require a visa if they intend to stay in the UK for more than 6 months. This is excluded from the analysis.

- **VAT:** is charged on most goods and services that VAT-registered businesses provide in the UK. It is also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.
- **Business corporation tax:** is a tax on the taxable profits of limited companies and other organisations including clubs, societies, associations and other unincorporated bodies. Taxable profits for Corporation Tax include: profits from taxable income such as trading profits and investment profits (except dividend income which is taxed differently); and capital gains – known as ‘chargeable gains’ for Corporation Tax purposes.
- **Employee and employer National Insurance (NI) and income tax:** includes the Income Tax and National Insurance contributions from gross wages and National Insurance contributions from employers on the earnings they provide to employees. These taxes are ‘collected’ by organisations rather than ‘paid’, with the tax burden borne by employees, except in the case of employer NI contributions.
- **Taxes on sole traders and partnerships:** including small businesses that draw income in the form of dividends. It should be noted that this is excluded from the simplified analysis in the subsequent section given the complexities of this – it is not included as part of the corporation tax calculation.

4.3.3 Tax contribution from inbound visitors – results

Figure 4.3.3a shows the approximate amount of tax revenues raised due to tourism activities from inbound spending. It shows that the tax impact from inbound tourism is significant.

Figure 4.3.3a. Tax contribution relating to inbound tourism



Source: International Passenger Survey, HMRC, Home Office, existing literature and Deloitte analysis

Figure 4.3.3a illustrates that the total tax contribution relating to inbound tourism is around £6.7bn – almost 30 per cent of total UK tourism exports in 2013 of £24.0bn (see chapter two).

This is made up of the following elements (as defined in section 4.3.2):

- **£1.0bn in Air Passenger Duty (APD):** based on the share of £2.9bn APD receipts from international flights of inbound visitors only. APD is paid on both inbound and outbound trips. This has therefore been approximated based on inbound visitors accounting for 34 per cent of all trips;¹⁵
- **£0.2bn in Visa fees:** estimated based on the number of inbound visitors that are visa nationals and the average cost of a visa for a short term visit (at £80);¹⁶
- **£3bn in VAT receipts:** based on inbound tourist spend on goods and services;¹⁷
- **£0.3bn in business corporation tax:** based on business corporation tax paid by businesses in the Hotel and Catering sector only.¹⁸ These businesses will serve both domestic and international overnight visitors. This has therefore been approximated based on the share of inbound visitors relative to inbound and domestic overnight visitors; and
- **£2.2bn in Employee and employer NI and income tax:** consisting of £0.6bn from income tax and £0.9bn from employee and employer NI contributions. The income tax estimate is based on average (median) earnings for relevant industries (passenger transport, accommodation and food and beverage service activities) and application of the 20 per cent income tax rate and personal allowance as a simplification. Some will be below the income threshold for income tax and others will be higher rate tax-payers and the analysis assumes these cancel out in the aggregate. NI contributions are also based on average (median) earnings and application of the relevant NI rates for employees and employers. The employees and employers will serve both domestic and international visitors. This has therefore been approximated based on the share of inbound visitors relative to inbound and domestic overnight visitors.

The analysis in this chapter only includes the direct expenditure on tourism goods and services in the UK and has not been subject to multipliers from the model used in chapter two.

4.4 Conclusions

The tax contribution arising from the sector is significant with around £6.7bn in tax receipts from activities and services related to inbound visitors.

15 Based on data from the International Passenger Survey, 2012.

16 Based on data from the International Passenger Survey and the Home Office, 2012.

17 Based on estimates from previous research: *"The Impact of Reduced VAT Rates on British Visitor Accommodation, Attractions and the Wider Economy"*, Deloitte, Nevin and Wason – which estimated that 10 per cent of VAT is reclaimed. Therefore, the estimate used in this analysis deducts this element from the standard 20 per cent VAT rate.

18 Based on data from HMRC corporation tax receipts by sector.

19 *"The economic contribution of VisitBritain: Promoting investment, delivering value"* Deloitte 2010.

5. Job creation in tourism

This chapter assesses the marginal impact of tourism spending on job creation – the level of expenditure required to support and/or generate a (new) tourism job.

5.1 Background and methodology to the marginal impact of tourism

In 2003, Caledonian Economics estimated the level of expenditure required to support a tourism job at £40,000 per FTE job. This analysis was concerned with a narrow definition of tourism to include accommodation, restaurants and attractions and used data from 2000. This estimate was calculated as the total expenditure in the three sectors, divided by FTE employment in the same sectors.

As part of this report, Deloitte has reviewed this analysis and explored a new estimate based on:

- The latest data available;
- An alternative definition (which is more aligned to the analysis in this report); and
- An alternative methodology which assesses the ‘marginal’ impact.

The alternative method developed for this study which assesses the ‘marginal’ impact (presented in section 5.3) is an approach that builds on past work in this area and is the preferred measure of the spending required in the UK to create a new job in the tourism sector. However, suitable comparisons to the previous work by Caledonian Economics are also provided for completeness. The following section compares these two methodologies.

5.1.1 Comparison of methodologies

The table overleaf highlights key differences between the methodology adopted in the Caledonian Economics study and that used in the Deloitte study.



Figure 5.1.1a. Comparison of methodologies

	Caledonian economics	Deloitte analysis
Date of analysis and data used	• 2000 data, assessed in a 2003 study.	• Time-series data from 1980 to 2012 assessed as part of this 2013 report.
Definition	• Based on data for the following three sectors: – Accommodation – Restaurants – Attractions.	• Based predominantly on the Hotels and Catering sector (i.e. a subset (and therefore narrower definition) of the tourism definition used elsewhere in this full report but more comparable to the Caledonian Economics definition for consistency.
Methodology/benefits	• Estimates the average revenue (equivalent to average expenditure by tourists) in the industry (as defined above) per worker. Section 1.1.2 provides the distinction between average and marginal impacts.	• Estimates the marginal revenue (equivalent to marginal expenditure by tourists) in the industry (as defined above) per worker – alternatively the level of additional spending required to support a new job.
Limitations	• Simple calculation to provide a snapshot of average spend per employee – does not assess the additional spending required to generate more employment. • Definition reflects lower end of the tourism economy in terms of costs, revenues and value added.	• Time-series data used to estimate marginal impact using regression analysis over a significant time period. However, the estimate might be affected by behaviours of consumers and firms during recession. • Uses a narrower definition of the tourism economy definition than that used elsewhere in the full report – which includes, for example, air transport increases including such sub-sectors greatly the expenditure required to create a job due to the relative high costs/capital intensity in the sector.

Source: Deloitte analysis

5.1.2 Average versus marginal impacts

In practice, the additional expenditure required to support a job is ‘marginal’ expenditure, and will differ from average levels implied by the data, which is based upon the stock of tourism employment and activity accumulated through time. The difference between these concepts is outlined below:

- **Average expenditure impacts** – the **average** expenditure required to **support** a job, i.e. total spending in the sector per employee.
- **Marginal expenditure impacts** – the **additional** expenditure required to **create** an extra job, i.e. the amount of spending required to generate an additional job.

Prior expectations were that the marginal requirement to create an additional job in tourism is different to the average requirement to create an additional job in tourism.

Theory suggests that firms will employ additional labour where the marginal revenue from that labour exceeds the marginal cost of hiring and utilising the labour. The search costs of hiring mean that there are additional marginal costs above and beyond the average costs (and revenues) in utilising the existing workforce. Accordingly, simply dividing expenditure in tourism by the number of employees is likely to understate slightly the real revenue required to create an extra job. An alternative way of thinking about this, is that the marginal revenue ‘hurdle’ required to commit to another job is higher than the average revenue required to support each existing worker.

Conversely, where fixed costs are relatively high, additional employment costs could be lower than average due to economies of scale, though expectations are that the first effect discussed above will dominate.

5.1.3 Methodology to estimate the marginal expenditure impacts

This analysis is based on econometric modelling which uses an equation to measure the elasticity of employment with respect to expenditure in tourism. Time-series data for expenditure from 1980 to 2012 was used, controlling for a structural break (discontinuity) in the data in 2004. This analysis provides an estimate for the impact on employment (FTE) (percentage increase) of a given percentage increase in expenditure in tourism.

Using a more complete definition (as adopted in this study and TSA work) would mean including higher value added components of the sector, which if used on traditional spending might overstate the spending required to create a job. It would also be more difficult to reconcile this measure with the previous methodology adopted by Caledonian Economics. As a result, this analysis is based on the Hotels and Catering sector.

Further details about this methodology and the validity of the analysis are provided in Appendix C

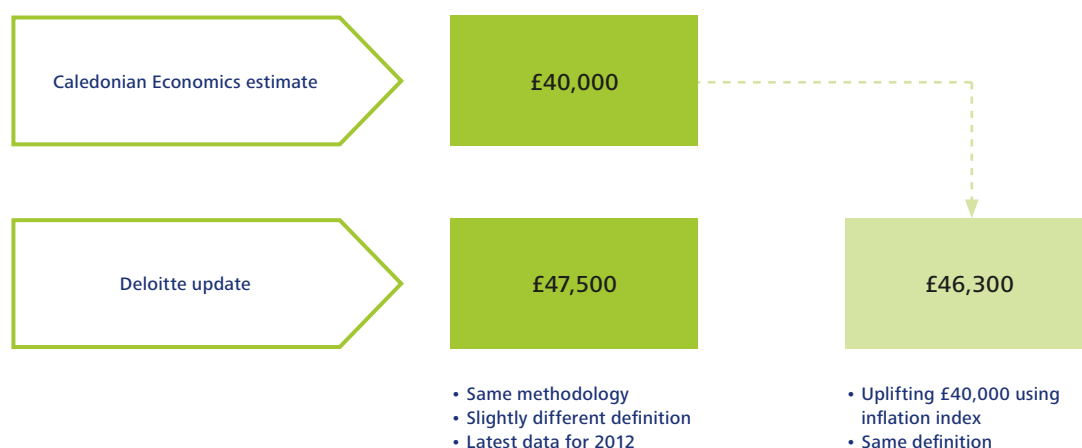
5.2 Average expenditure per job of tourism in the UK

This section presents the results of the analysis of the average expenditure impact of tourism on jobs in the UK. The preferred method (*marginal* impact of tourism) is presented in the subsequent section but the average expenditure is provided in order to demonstrate how this definition compares with the previous work.

In the Hotels and Catering sector alone²⁰, the average expenditure per job is around £47,500 in 2012. This estimate would represent growth of 2 per cent per annum in nominal terms from the £40,000 estimate from the Caledonian Economics work for the year 2000.

Although it uses a slightly different definition, this estimate is broadly comparable to the Caledonian Economics work: extrapolating the £40,000 estimate using the H&C Producer Price Index²¹ yields a value of £46,300. This appears to be comparable given the recent performance of the sector in productivity terms (presented in Appendix C). Given productivity fell for a number of year recently and wages remained flat in nominal terms over that period the £40,000 estimate is not expected to have grown significantly over the intervening period.

Figure 5.2a. Update of average expenditure impact



Source: Deloitte analysis

5.3 Marginal expenditure per job of tourism in the UK

This section presents the results of the analysis of the marginal impact of tourism on jobs in the UK. It is the preferred method for estimating the spending required to generate an additional job in the tourism sector.

Using this methodology and applying the same data used in the average expenditure calculations (Section 4.2), the marginal requirement is around £54,000 per job at current (2013) prices. This is 14 per cent higher than the average estimate presented in the previous section.

The results have been tested using differing regression specifications to exclude recent years from the sample (to examine the effects of changing spending and job creation in the downturn) and to include all years to date. However, as the equations show a good fit in every case, there is no basis to exclude recent years from this analysis.

The model shows that the elasticity of real spending in the Hotel and Catering sector with respect to employment is c. 0.89. This means a 1 per cent rise in real spending is associated with a 0.89 per cent rise in FTE employment.

²⁰ Based on data extract from Oxford Economics.

²¹ An inflation index to adjust for price changes over the period.

DEFINITION: WHAT IS ELASTICITY?

Elasticity is a measure of a variable's sensitivity to a change in another variable. It allows the estimation of marginal impacts.

There are various types of elasticities used in economics which measure the degree to which individuals (consumers/producers) change their demand/amount supplied in response to price or income changes.

In this instance, the elasticity measure refers to the degree to which employment in tourism is likely to change in response to a change in the level of spending by consumers.

As a final step, using the 2012 levels for expenditure and FTE employment in the tourism economy in conjunction with the elasticity, and increasing spending by 1 per cent, yields the estimate of £54,000 to generate an extra job in the hotels and catering sector.

5.4 Conclusion

This analysis shows that marginal spending requirement is around £54,000 per job at current (2013) prices – i.e. an additional £54,000 of spending is associated with the creation of an extra job in the sector.

The estimates presented are based on an alternative definition of the tourism economy to that used elsewhere in the full report, but the benefits of this analysis are that it offers:

- a near²² like-for-like comparison with the earlier work by Caledonian Economics in 2003 (Section 1.1.2);
- a very good fit on the equation due to the large time series (sample size); and
- sensible estimates which are in keeping with expectations of what has happened in the sector.

The results of the analysis used to determine the level of expenditure that supports a job in tourism are particularly sensitive to definitions used. However, as outlined above, the measure that best reflects the impact of additional spending on the creation of an extra job is the marginal expenditure impact approach presented in section 5.3.



²² Not like-for-like given slightly different definition used in the average expenditure impact analysis in Section 5.1.2.

6. Future outlook for tourism – quantified impacts and scenarios

This chapter quantifies the future prospects for the tourism economy in the UK to 2025. To provide an indication of prospective alternative paths for the tourism economy, it also assesses hypothetical future scenarios with respect to an increase in visitors (and spend) from emerging economies and alternative sustained change in exchange rates – changing the relative cost of visiting the UK.

6.1 Future UK contribution

6.1.1 Developing the forecast

The models of tourism in the UK, its nations, London and the rest of England have been constructed in a manner that enables forecasts at each geographic level to be driven by UK trends. How these trends impact on each model will depend on the relative importance of different forms of tourism in each area. For example, as London captures around two-thirds of all spending by international visitors to England, it is to be expected that a change in the drivers of international tourism (for example exchange rates) would have a greater impact on the capital than on the rest of England.

At a UK level there are five key drivers of the forecast:

- Bilateral exchange rates;
- Consumer spending;
- Overall macroeconomic performance;
- Investment; and,
- Destination attractiveness (although relative destination attractiveness between the nations remains unchanged over the forecast period).

The projected contribution of tourism to the economy will depend on the particular path forecast for these drivers, as well as the interaction among them and their wider implications for the rest of the economy.

For instance, in the short-term, exchange rate movements and consumer spending both influence travellers' decisions, subsequently impacting on the economic contribution of tourism. A weakening of the Pound relative to the Euro, for example, will reduce outbound travel by UK residents, but at the same time it provides a strong incentive for residents of the Eurozone to visit the UK. The net effect on domestic travel by UK residents is theoretically ambiguous, but simulations show that it tends to increase domestic travel slightly.

Changes in consumer spending have the potential to result in opposing effects on the UK tourism market. Simulations show that an increase in UK consumer spending (keeping constant the exchange rate and other macroeconomic variables) would result in a small drop in the UK tourism market, largely due to a switch from domestic to overseas travel.

Regarding the impact of a change in overall GDP on the tourism economy, a fall in the growth rate of UK GDP would bring about several effects. Foreign visitors would increase slightly due to a weaker Pound (driven by the fall in GDP), while the spending of UK residents in the UK would decline. The net effect is an overall decline for the UK tourism market. If the fall in (the growth rate of) GDP is maintained over several years, the net loss for the UK tourism market would increase in magnitude (largely as a result of lower domestic spending).

Overall investment is modelled to have a direct link to the expansion of tourism infrastructure (e.g. hotels and transport infrastructure). However, additional investment spending on tourism is not included in measures either of tourism expenditure or of direct industry contribution to GDP; though it is included in the tourism economy and the total contribution measures.

Destination attractiveness is a composite index that is set to reflect developments in a number of factors such as tourism infrastructure, regulatory framework, business environment and policy support. The model assumes that this driver remains constant over the forecast period; that is, that there are no major changes in terms of the attractiveness of the UK as a tourism destination relative to its main competitors.

In the short to medium term, drivers that influence demand conditions dominate the forecast. This is the case for exchange rate fluctuations, consumer spending, and prospects for economic activity in the UK and the main origin markets. In the longer term, the health and development of the tourism industry largely depends on supply side factors, such as the expansion of infrastructure and the relative attractiveness of the destination.

Finally, there are residual factors with the potential to shape the forecast. Among them are changes in economic conditions (e.g. GDP or private consumption) in the main origin markets for the UK (e.g. US, Germany, France), or changes in price differentials. And there is always the potential of unexpected crises affecting visitors' confidence (examples include the 2001 foot & mouth crisis and the July 2005 London attack). However, unforeseen events are not modelled here.

6.1.2 Spending

Under the latest forecasts of UK economic performance from Oxford Economics, spending in the UK's tourism economy is forecast to reach £119.5 billion in 2014, before growing at an average real (i.e. adjusted for inflation) rate of 4.3 per cent through to 2020, when spending will amount to £173.6 billion in nominal (i.e. unadjusted for inflation) terms. Following this, growth is forecast to slow slightly, to an annual average real rate of 3.7 per cent, with spending estimated to reach £235.0 billion in 2025 (Table 6.1.2a).

This forecast of strong total spending growth is driven by significant projected increases in spending by overseas visitors. The model forecasts that spending by overseas visitors to the UK will reach £63.3 billion by 2025, a real growth of 102 per cent compared to 2013, or 6.1 per cent per year. Although UK economic performance is expected to strengthen, with GDP growing by an annual average of 3.0 per cent in real terms between 2013 and 2025, the model forecasts that domestic visitor spending by UK residents will grow at an even faster real annual rate of 3.3 per cent, reaching £171.7 billion in 2025. Strong performance is projected for spending on overnight stays in particular, with the forecast of £49.8 billion in spending in 2025 representing a real annual growth rate of 3.8 per cent from 2013.

At the same time, outbound tourism spending by UK residents (i.e. money spent abroad and thus not contributing to UK GDP) is projected to grow at only a 1.5 per cent real annual rate, to reach £51.9 billion in 2025 (Table 6.1.4a). The differential between the growth of inbound and outbound spending is forecast to lead to the UK returning to a position of surplus in the international tourism section of the balance of payments. This is projected to occur in 2023, almost forty years since the UK last reported a surplus in 1985.



Figure 6.1.2.a. Forecast of UK expenditure in the tourism economy in 2013, 2014, 2020 and 2025, current prices

	Estimate 2013 £bn	2014 £bn	Forecast 2020 £bn	2025 £bn
Spending by overseas residents	24.0	25.7	40.8	63.3
Visits to the UK	21.2	22.7	36.4	57.0
Fares to UK carriers	2.9	3.0	4.4	6.3
Spending by domestic residents	89.0	93.8	132.7	171.7
Trips of 1+ nights	24.4	26.6	39.5	49.8
Tourism day trips for leisure	60.0	62.2	86.2	112.8
Rent for second ownership	4.7	5.0	7.1	9.1
Total spending	113.1	119.5	173.6	235.0
Real growth (year-on year) ^{1,2,3}	3.9%	3.7%	4.3%	3.7%

1 Current figures deflated using the UK GDP implied deflator.

2 2020 figure shows average annual real growth over the period 2014–2020.

3 2025 figure shows average annual real growth over the period 2020–2025.

Source: Oxford Economics

6.1.3 Direct contribution

The modelling indicates that the direct contribution of tourism is expected to remain broadly stable (in terms of percentage of total GDP and employment) in 2014 at £61.1 billion (4.2 per cent of GDP) and 1.8 million jobs (5.5 per cent of employment). Over the medium term, the tourism economy's direct contribution is expected to increase as a share of GDP to 4.4 per cent in 2020 and 4.6 per cent in 2025 (contributions of £88.0 billion and £119.3 billion, respectively). The proportion of UK employment directly supported by tourism is forecast to increase to 6.0 per cent by 2025, representing almost 2.1 million jobs.

6.1.4 Tourism economy

The forecast of the wider contribution of the tourism economy – including supply chains and investment – indicates that the contribution is projected to increase from 9.0 per cent of GDP in 2013 to 9.9 per cent of the UK economy by 2025, with a contribution of £257.4 billion. This contribution is forecast to support over 3.7 million jobs in 2025, equal to almost 11 per cent of total UK employment, and over 600,000 more jobs than in 2013.

Figure 6.1.4a. Forecast economic contribution of the UK tourism economy in 2013, 2014, 2020 and 2025, current price²³

	Estimate 2013		2014		Forecast 2020		2025	
	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total
Visitor Exports (inbound = travel spending + fares)	22.3		23.8		37.8		58.7	
Personal Travel & Tourism (domestic + outbound)	113.1		118.3		160.4		205.8	
Business Travel (domestic + outbound)	26.3		27.9		37.7		47.9	
Government Expenditures (individual + collective)	10.9		10.8		12.4		16.2	
Capital Investment	23.0		24.4		35.0		44.3	
Travel & Tourism Demand	195.6		205.2		283.2		372.9	
Outbound tourism spending (fares + travel)	33.5		34.6		42.1		51.9	
Direct industry contribution to GDP	58.0	4.1%	61.1	4.2%	88.0	4.4%	119.3	4.6%
Tourism economy contribution to GDP	126.9	9.0%	133.6	9.1%	191.2	9.6%	257.4	9.9%
Total contribution to GDP	160.5	11.4%	168.8	11.5%	240.6	12.0%	324.1	12.4%
Direct industry employment (000s jobs)	1,748	5.4%	1,772	5.5%	1,944	5.7%	2,069	6.0%
Tourism economy employment (000s jobs)	3,116	9.6%	3,155	9.7%	3,510	10.4%	3,745	10.9%
Total employment (000s jobs)	3,787	11.7%	3,835	11.8%	4,269	12.6%	4,559	13.2%

Source: Oxford Economics

23 Definitions of the terms presented in this table are detailed in Appendix A.

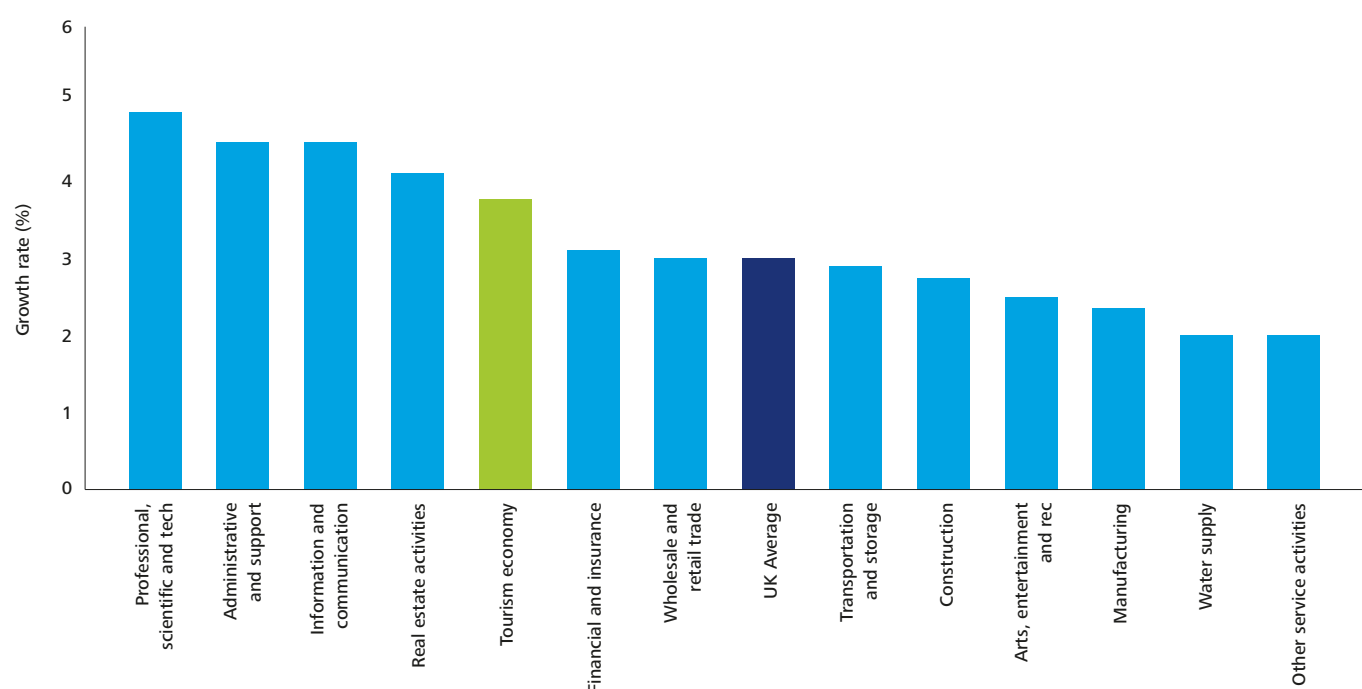
6.1.5 Total contribution

Under the broadest definition of its contribution, which includes all of the above spending in the tourism economy as well as spending by those directly and indirectly employed by the tourism economy, the tourism is forecast to account for 11.5 per cent of GDP and 11.8 per cent of employment in the UK in 2014 – relatively unchanged from 2013. However, tourism is projected to play a greater role in the economy over the longer term, with a value-added contribution of £234.1 billion in 2025 representing 12.4 per cent of GDP. The modelling indicates that this contribution will support nearly 4.6 million jobs throughout the UK, meaning that tourism will be responsible for 13.2 per cent of UK employment.

6.1.6 Relative performance

The tourism economy's increased share of GDP over the forecast period reflects the fact that it is projected to grow faster than the UK economy as a whole. The extent of this performance can be seen in Figure 6.1.6a, which presents the average real annual growth rate for the tourism economy against UK sector growth forecasts from the Oxford Economics Global Macro Model for the period 2013-2025. The direct industry contribution, that is the value added just in the travel and tourism sector, is growing slightly faster (3.9 per cent) than the larger tourism economy (3.8 per cent), which includes supply chain spending and investment; while both are growing significantly faster than the overall UK economy (3.0 per cent).

Figure 6.1.6a. Average annual growth rate of the tourism economy against UK sector forecasts



Source : Oxford Economics

6.2 Contribution by nation

As for the 2013 numbers presented in chapter 2, the 2025 forecasts in this chapter are broken down into seven regional models: one for the UK as a whole (presented above), one each for the UK's four nations, and two sub-national models, one for London and one for the rest of England. These results are produced by seven methodologically consistent models and are additive within category of spending.

6.2.1 Spending

England is forecast to account for 83.6 per cent of all spending in 2025 (Figure 6.2.1a), similar to its 83.3 per cent in 2013 (c.f. Table 2.3.1a). Total spending in England's tourism is expected to reach £196.4 billion in 2025, the result of 4.0 per cent average annual real growth from 2013; £58.7 billion of this spending is forecast to occur in London. International visitors are expected to account for £55.8 billion (28.4 per cent) of this spending in 2025, including £5.4 billion in fares to UK carriers. International visitors to London are forecast to spend £30.9 billion in 2025 – 48.8 per cent of the UK total. Day trips will continue to be the major type of domestic tourism spending in England, with the £94.6 billion spent on such trips accounting for 67.3 per cent of UK residents' spending in the English tourism economy, and 48.2 per cent of all spending in England's tourism economy. The proportion of all domestic tourism spending by the nations' own residents (both day trips and overnight stays but excluding rent for second ownership) will remain higher in England (95.1 per cent) than in Scotland (68.7 per cent), Wales (51.1 per cent) or Northern Ireland (79.6 per cent).

Figure 6.2.1a. Forecast expenditure in the UK tourism economy by nation, 2025, current prices

	UK	Total England		London		Rest of England		Scotland		Wales		Northern Ireland	
		Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative
	£bn	£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total	£bn	% UK total
Spending by overseas residents	63.3	55.8	88.1%	30.89	48.8%	24.9	39.3%	5.2	8.1%	1.6	2.5%	0.8	1.3%
Visits to nation	57.0	50.3	88.3%	29.47	51.7%	20.9	36.6%	4.6	8.1%	1.3	2.4%	0.7	1.2%
Fares to UK carriers	6.3	5.4	85.8%	1.42	22.5%	4.0	63.3%	0.5	8.2%	0.2	3.6%	0.1	2.3%
Spending by UK residents	171.7	140.7	82.0%	27.82	16.2%	112.9	65.7%	17.3	10.1%	10.3	6.0%	3.3	1.9%
Trips of 1+ nights	49.8	39.1	78.6%	5.46	11.0%	33.7	67.6%	6.3	12.7%	3.5	7.0%	0.9	1.8%
Nations residents		34.5	91.3%	4.52	12.0%	29.9	79.4%	2.3	6.0%	0.6	1.5%	0.4	1.1%
Other UK residents		4.7	38.7%	0.94	7.8%	3.7	30.9%	4.0	33.5%	2.9	23.9%	0.5	3.9%
Tourism day trips for leisure	112.8	94.6	83.9%	21.21	18.8%	73.4	65.1%	9.9	8.8%	6.1	5.4%	2.2	1.9%
Nations residents		92.7	85.9%	20.79	19.3%	71.9	66.7%	8.9	8.2%	4.3	4.0%	2.0	1.9%
Other UK residents	9.1	1.9	39.1%	0.43	8.8%	1.5	30.3%	1.0	21.3%	1.8	36.4%	0.2	3.2%
Rent for second ownership		6.9	76.4%	1.14	12.6%	5.8	63.8%	1.1	12.0%	0.8	8.8%	0.3	2.8%
Total spending	235.0	196.4	83.6%	58.7	25.0%	137.7	58.6%	22.5	9.6%	11.9	5.1%	4.1	1.8%
Compound average real growth¹	3.7%	4.02%		4.3%		3.9%		3.92%		3.66%		3.75%	

1 Current figures deflated using the UK GDP implied deflator, over period 2013–2025.

Source: Oxford Economics

Scotland, with the UK's second largest tourism economy, is forecast to account for 9.6 per cent of all UK visitor spending in 2025, with spending growing at an average real annual rate of 3.9 per cent between 2013 and 2025. Visitors from overseas are forecast to contribute 23.0 per cent of the £22.5 billion spent in the Scottish economy in 2025, a significant increase from the 18.1 per cent they contribute in 2013. It is forecast that residents of other UK nations besides Scotland will spend £5.1 billion on day trips and overnight stays in Scotland, representing 30.0 per cent of all spending by UK residents in nations other than their own. It will remain the case that Scots will spend more on day trips in Scotland (£8.9 billion) than on overnight stays in Scotland (£2.3 billion).

Tourism economy spending in Wales is forecast to grow slightly more slowly than in the other UK nations, at an annual average of 3.7 per cent in real terms, to reach £11.9 billion in 2025, or 5.1 per cent of the UK total. UK residents are expected to account for 86.8 per cent of visitor spending in Wales, with £6.1 billion and £3.5 billion spent on day trips and overnight trips respectively. The £10.3 billion forecast to be spent by UK residents in Wales represents 6.0 per cent of all 2025 domestic tourism spending, but the £1.6 billion forecast to be spent by foreigners in Wales represents only 2.5 per cent of forecast spending by foreign visitors to the UK.

Forecast to grow at an average real annual rate of 3.8 per cent, the Northern Irish spending will still account for only 1.8 per cent of the total UK tourism economy, or £4.1 billion, in 2025. International visitors to Northern Ireland are forecast to spend £0.8 billion, or 1.3 per cent of all international visitor spending in the UK in 2025, and 19.5 per cent of all visitor spending in Northern Ireland. Day trips are projected to account for 65.6 per cent (£2.2 billion) of all UK residents' visitor spending in Northern Ireland, with 92.7 per cent of this spending by Northern Ireland's residents. Domestic spending on overnight stays in Northern Ireland will be more evenly split, with 52.7 per cent of this spending coming from residents of other UK nations.

6.2.2 Economic contribution – England

In 2025, the tourism economy is forecast to directly contribute £99.9 billion in value added to the English economy, equivalent to 4.4 per cent of England's GDP. In generating this activity, the tourism economy will directly support 1.70 million jobs in England in 2025, equivalent to 5.8 per cent of total employment in the nation.

When the supply chains of the tourism economy, and private and public travel and tourism investment, are considered, the anticipated 2025 contribution of the tourism economy to England's GDP increases to £216.5 billion. This is estimated to support 3.10 million jobs. Under this definition, the tourism economy is expected to account for 9.6 per cent of England's GDP and 10.5 per cent of its employment.

The total contribution of the tourism economy to England is obtained by including the wage-financed spending of the 3.10 million people employed directly by the industry or its supply chains. Under this wider measure, the tourism economy is expected to contribute £272.6 billion to England's GDP in 2025, or 12.0 per cent of the nation's economy. In generating this contribution, 3.80 million jobs will be supported, or 12.9 per cent of the English total.

Figure 6.2.2a. Forecast economic contribution of the tourism economy to the UK's nations, 2025, current prices ²⁴

	UK	Total England		London		Rest of England		Scotland		Wales		Northern Ireland	
	Absolute £bn	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total
Visitor Exports (inbound = travel spending + fares)	58.7	63.3	75.3%	35.4	42.2%	27.9	33.1%	12.2	14.5%	6.9	8.2%	1.7	2.0%
Personal Travel & Tourism (domestic + outbound)	205.8	172.6	83.9%	31.9	15.5%	140.7	68.4%	18.2	8.8%	10.0	4.8%	5.0	2.4%
Business Travel (domestic + outbound)	47.9	40.0	83.3%	13.4	27.9%	26.6	55.4%	5.9	12.3%	1.9	4.0%	0.2	0.4%
Government Expenditures (individual + collective)	16.2	11.8	72.7%	2.6	15.8%	9.2	57.0%	2.2	13.6%	1.3	8.3%	0.9	5.3%
Capital Investment	44.3	37.6	84.8%	8.7	19.7%	28.9	65.1%	4.0	9.0%	1.6	3.7%	1.1	2.5%
Travel & Tourism Demand	372.9	325.3	81.7%	92.0	23.1%	233.3	58.6%	42.5	10.7%	21.8	5.5%	8.8	2.2%
Outbound tourism spending (fares + travel)	51.9	54.7	77.8%	9.6	13.7%	45.1	64.1%	7.7	10.9%	5.4	7.7%	2.6	3.7%
Direct industry contribution to GDP	119.3	99.9	84.3%	35.4	29.9%	64.5	54.4%	11.0	9.3%	6.0	5.1%	1.5	1.3%
Tourism economy contribution to GDP	257.4	216.5	84.6%	77.4	30.2%	139.2	54.4%	23.1	9.0%	13.2	5.1%	3.2	1.3%
Total contribution to GDP	324.1	272.6	84.6%	97.4	30.2%	175.2	54.4%	29.1	9.0%	16.6	5.1%	4.0	1.3%
Direct industry employment (000s jobs)	2,069	1,703	82.3%	391	18.9%	1,312	63.4%	200	9.7%	129	6.2%	38	1.8%
Tourism economy employment (000s jobs)	3,745	3,104	82.9%	698	18.6%	2,407	64.3%	349	9.3%	236	6.3%	55	1.5%
Total employment (000s jobs)	4,559	3,789	83.2%	852	18.7%	2,938	64.5%	422	9.3%	278	6.1%	65	1.4%

Source: Oxford Economics

6.2.3 Economic contribution – London

It is forecast that in 2025 the London economy will benefit from a direct value-added contribution of £35.4 billion and 391,000 jobs as a result of tourism. Tourism will directly account for 6.8 per cent of London's GDP in 2025 and 6.8 per cent of jobs in the city.

When the definition of tourism is broadened to include investment and supply chains, value-added forecast contribution to the London economy increases to £77.4 billion, equivalent to 12.8 per cent of the capital's GDP in 2025. This represents a 30.2 per cent share of the total contribution of the tourism economy (under this definition) in the UK.

Expanding the definition to its widest – by including wage-financed expenditure by the people employed in tourism and its supply chains – the tourism economy is forecast to contribute 14.8 per cent of London's GDP (£97.4 billion) in 2025. This contribution is projected to support 852,000 jobs in the city in 2025.

6.2.4 Economic contribution – Rest of England

Tourism is projected to directly contribute £64.5 billion to the economy in the rest of England, equivalent to 3.9 per cent of GDP. It is forecast to directly account for over one job in every 20 in the rest of England in 2025, with a total of 1.3 million jobs supported.

Addition of supply chains and investment leads to a forecast employment contribution by the tourism economy of 2.4 million jobs in 2025, representing 10.2 per cent of all employment in the rest of England. Together these jobs are expected to generate a value added contribution of £139.2 billion contribution to the economy of the rest of England, representing 8.4 per cent of its projected GDP in 2025.

Under its broadest measure, the tourism economy is forecast to contribute £175.2 billion to the rest of England's GDP and support almost 3 million jobs in 2025. Under these projections, the tourism economy is forecast to be equivalent to 10.6 per cent of GDP and 12.4 per cent of all jobs in the rest of England in 2025.

²⁴ It should be noted that due to definitional differences individual series may not sum to the UK total, but balances across the model (before rounding). This is a result of tourism between the UK nations. At the UK level, visitor exports represent only spending by international visitors to the UK. However, at the nation level visitor exports includes the spending of visitors from other UK nations. Similarly, outbound spending at a nation level includes residents' spending in other UK nations and overseas, but at the UK level it only considers UK residents' spending overseas.

6.2.5 Economic contribution – Scotland

The forecasts from the Scottish model indicate that tourism will make a direct value-added contribution of £11.0 billion to the Scottish economy in 2025, supporting 200,000 jobs. These estimates indicate that tourism will directly account for 5.5 per cent of GDP and 7.2 per cent of employment in Scotland.

In Scotland, the tourism economy is expected to contribute 11.5 per cent of GDP in 2025 under the wider definition including supply chains and investment, equal to £23.1 billion in value added. The industry, its supply chains and supporting investment will be responsible for 349,000 jobs in 2025, or 12.6 per cent of total employment.

When the widest definition of the tourism economy's contribution, including spending by those employed by the tourism economy, is considered, the contribution to Scotland's GDP increases to £29.1 billion in value added in 2025, supporting 422,000 jobs. This represents 14.4 per cent and 15.3 per cent of GDP and employment, respectively.

6.2.6 Economic contribution – Wales

The Welsh tourism economy is forecast to directly contribute £6.0 billion to Wales's GDP in 2025, or 6.9 per cent of the national totals. An estimated 129,000 jobs will be directly supported by tourism in 2025, 9.1 per cent of all jobs in Wales.

Using the wider tourism economy definition including supply chain and investment spending increases the contribution of the tourism economy to Welsh GDP to £13.2 billion, equal to 15.0 per cent of the economy in 2025. The number of jobs supported by the tourism economy will reach 236,000 jobs or 16.6 per cent of total employment.

Incorporating the impact of wage-financed spending leads to a total contribution of £16.6 billion to Welsh GDP by the tourism economy in 2025 (equal to 18.9 per cent of total GDP). Under this measure the total employment supported in Wales by tourism is 278,000 jobs, or 19.6 per cent of the total.

6.2.7 Economic contribution – Northern Ireland

The Northern Ireland economy is expected to benefit from a direct £1.5 billion value-added contribution from tourism, and 38,000 jobs, in 2025. Therefore, the tourism economy will be directly responsible for 2.8 per cent and 4.6 per cent of Northern Ireland's GDP and employment in 2013.

The wider tourism economy will contribute £3.2 billion to GDP and support 55,000 jobs in 2025. This means tourism will be responsible for 5.8 per cent of the Northern Ireland economy 6.7 per cent of jobs in the nation.

Finally, the total contribution of the tourism economy to Northern Ireland in 2025 is forecast to be £4.0 billion and 65,000 jobs. The total contribution in Northern Ireland will therefore account for 7.4 per cent of the nation's economy, and 7.9 per cent of its employment.

Figure 6.2.7.a: The relative contribution of the tourism economy to the UK's nations, 2025

	UK % of UK Total	Total England % of English Total	London % of London Total	Rest of England % of Rest of English Total	Scotland % of Scottish Total	Wales % of Welsh Total	Northern Ireland % of Northern Irish Total
Proportion of GDP							
Direct industry contribution to GDP	4.6%	4.4%	5.9%	3.9%	5.5%	6.9%	2.8%
Tourism economy contribution to GDP	9.9%	9.6%	12.8%	8.4%	11.5%	15.0%	5.8%
Total contribution to GDP	12.4%	12.0%	16.1%	10.6%	14.4%	18.9%	7.4%
Proportion of employment							
Direct industry employment	6.0%	5.8%	6.8%	5.5%	7.2%	9.1%	4.6%
Tourism economy employment	10.9%	10.5%	12.2%	10.2%	12.6%	16.6%	6.7%
Total employment	13.2%	12.9%	14.8%	12.4%	15.3%	19.6%	7.9%

Source: Oxford Economics

6.3 Hypothetical future scenarios

The forecasts discussed above are based on Oxford Economics' Macroeconomic Forecasting Service. A consistent view of the global outlook is used to produce internally consistent forecasts within the TSA framework.

In order to give an indication of prospective alternative paths for the tourism economy this section considers two hypothetical future scenarios with respect to:

- An increase in the share of visitors the UK receives from emerging markets; and
- Exchange rate changes.

6.3.1 Scenario 1: An increase in the share of visitors the UK receives from emerging markets

This scenario concerns the traveling patterns of residents of emerging market countries. Figure 6.3.1a shows that, as of 2013, the UK receives a smaller fraction of the foreign trips by residents of each of the four BRIC countries, as well as from an aggregate of other emerging market countries, than France; and a smaller share from Brazil, Russia, and China than Germany. Under the baseline forecast, the relative shares of emerging market visitors who travel to these three countries are expected to remain roughly similar in 2020.

Figure 6.3.1a. Share of all trips from various emerging market countries that destined for the UK, France, and Germany

	Market share by destination							
	2013				2020 Baseline forecast			
	UK	France	Germany	Average Fr & Ger	UK	France	Germany	Average Fr & Ger
Origin country								
China	0.4%	3.1%	1.8%	2.5%	0.5%	3.7%	2.2%	2.9%
India	3.1%	3.4%	1.5%	2.5%	2.2%	3.4%	1.4%	2.4%
Brazil	3.0%	11.6%	3.1%	7.4%	3.3%	8.2%	2.4%	5.3%
Russian Federation	0.6%	0.9%	2.8%	1.9%	0.5%	0.8%	2.6%	1.7%
Other emerging market	1.2%	2.1%	0.8%	1.5%	1.1%	1.8%	0.6%	1.2%

Source: Oxford Economics

Under this scenario, the share of visits residents of emerging market countries make to the UK, as a fraction of their total number of foreign visits, increases from 2014 to reach the average of the share they take to France and Germany by 2020. Following 2025, the UK's share of visitors remains at the average of the shares of France and Germany. So under the scenario, for example, residents of Brazil increase their share of visits to the UK from the baseline value of 3.3 per cent in 2020, to the average of the share of visits they make to France and Germany, or 5.3 per cent.

The scenario holds constant the number of nights visitors spend in each country, as well as their spending per night. It is driven by the demand-side effects of the increased spending by foreign visitors; that is, it does not take into account supply-side limitations in UK tourist infrastructure, or consequent changes in prices or additional investment in infrastructure that would result from higher demand.

Overall, the higher share of visitors from emerging market economies under the scenario will lead to higher total spending in the tourism economy in the UK, and a larger economic impact on the UK economy. Figure 6.3.1b presents the differences, both absolute and as a percentage of the baseline values, from the baseline forecast under this scenario.

Under the scenario, spending by foreign visitors in 2025 is projected to be £13.3 billion higher, which is equivalent to 20.9 per cent of foreign spending in the UK under the baseline forecast. This will increase the direct contribution of tourism by 5.1 per cent compared to the baseline. The total tourism economy contribution, including supply chain spending, investment, and spending by those employed in travel and tourism, to UK GDP will increase by £14.0 billion, or 4.3 per cent of the total contribution to UK GDP, including impacts from both foreign and domestic travel and tourism spending. To support this increased contribution, 201,900 additional workers are employed under the scenario in 2025, or 4.4 per cent of the baseline total employment by the tourism economy.

Figure 6.3.1b. Emerging markets scenario UK results

	Absolute difference from base			Relative difference from base		
	2014 £bn	2020 £bn	2025 £bn	2014	2020	2025
Spending by overseas residents	0.7	8.2	13.3	2.6%	20.2%	20.9%
Visits to UK	0.6	7.3	11.9	2.6%	20.2%	20.9%
Fares to UK carriers	0.1	0.9	1.3	2.7%	20.5%	21.2%
Direct industry contributions to GDP	0.3	3.8	6.1	0.5%	4.3%	5.1%
Tourism economy contribution to GDP	0.6	6.8	11.1	0.4%	3.6%	4.3%
Total contribution to GDP	0.7	8.6	14.0	0.4%	3.6%	4.3%
Direct industry employment (000s jobs)	8.9	83.2	105.6	0.5%	4.3%	5.1%
Tourism economy employment (000s jobs)	13.6	129.7	165.8	0.4%	3.7%	4.4%
Total employment (000s jobs)	16.6	157.7	201.9	0.4%	3.7%	4.4%

Source: Oxford Economics

Note that the marginal expenditure per job in this scenario is some £66,000, which differs from the £54,000 presented in Chapter five due to it being a future estimate rather than for 2013, and that the definition of tourism in the model is wider.

6.3.2 Scenario 2: Long-term changes in the exchange rate

The second scenario considered examines the potential impacts of a sustained change in exchange rates on tourism in the UK. First, this scenario investigates the impact of a permanent 10 per cent depreciation of Sterling relative to major international currencies. The impact of an equivalent appreciation of Sterling is also explored for completeness.

Significant changes in exchange rates are not uncommon – between the end of 2007 and the end of 2009 Sterling depreciated by 25 per cent against the US Dollar – and therefore such a decrease represents a plausible scenario for the tourism economies of the UK and its four nations. Table 6.3.2a displays the scenario results of a 10 per cent depreciation of Sterling, both in absolute and relative terms, as a change from the baseline forecast presented earlier in this chapter.

The UK model projects that, attracted by relatively cheaper visits to the UK, international visitors increase their spending by £1.8 billion per year (an increase of 2.9 per cent) by 2025. At the same time, as travelling abroad becomes more expensive for UK residents, the model indicates that domestic visitor spending by UK residents will increase by £2.1 billion (a 1.2 per cent increase), while spending by UK residents abroad decreases by £2.0 billion (or 3.9 per cent) relative to the baseline.

The total effect of these changes on UK GDP is an increase of £4.1 billion or 1.6 per cent in the contribution from the tourism economy.²⁵ An additional 97,200 jobs would support this increased economic contribution, or 2.6 per cent of tourism economy total employment.

²⁵ Measured as the direct industry contribution plus supply chains and investment.

Figure 6.3.2a. Exchange rate depreciation results

	Absolute difference from base			% difference from base		
	2014 £bn	2020 £bn	2025 £bn	2014	2020	2025
Spending by overseas residents	0.5	1.3	1.8	1.8%	3.1%	2.9%
Visits to UK	0.6	1.7	2.1	0.7%	1.3%	1.2%
Fares to UK carriers	-0.6	-1.6	-2.0	-1.8%	-3.9%	-3.9%
Direct industry contributions to GDP	0.8	1.9	2.4	1.3%	2.1%	2.0%
Tourism economy contribution to GDP	1.1	3.1	4.1	0.9%	1.6%	1.6%
Total contribution to GDP	1.6	4.4	5.8	0.9%	1.8%	1.8%
Direct industry employment (000s jobs)	32.2	75.2	77.0	1.8%	3.9%	3.7%
Tourism economy employment (000s jobs)	38.2	94.2	97.2	1.2%	2.7%	2.6%
Total employment (000s jobs)	46.5	114.5	118.4	1.2%	2.7%	2.6%

Source: Oxford Economics

Alternatively, if Sterling was to experience a 10 per cent appreciation compared to the baseline forecast, the cost of visits to the UK would increase, while UK residents will benefit from cheaper travel abroad. Under this scenario, spending by international visitors to the UK is forecast to fall by £1.5 billion (2.4 per cent) compared to the baseline forecast. Cheaper travel abroad sees spending by UK residents overseas increase by 3.6 per cent (£1.9 billion) compared to the baseline in 2025, with an equivalent fall in domestic spending. As a result of these movements, the contribution of the tourism economy is forecast to fall by 1.4 per cent in GDP terms and 2.3 per cent terms of employment relative to baseline in 2025. This translates to a loss to UK GDP of £3.6 billion and almost 86,000 jobs in 2025.

Figure 6.3.2b. Exchange rate appreciation results

	Absolute difference from base			% difference from base		
	2014 £bn	2020 £bn	2025 £bn	2014	2020	2025
Spending by overseas residents	-0.4	-1.1	-1.5	-1.5%	-2.6%	-2.4%
Visits to UK	-0.6	-1.6	-2.0	-0.6%	-1.2%	-1.1%
Fares to UK carriers	0.6	1.5	1.9	1.7%	3.6%	3.6%
Direct industry contributions to GDP	-0.7	-1.7	-2.1	-1.2%	-1.9%	-1.8%
Tourism economy contribution to GDP	-1.0	-2.8	-3.6	-0.8%	-1.5%	-1.4%
Total contribution to GDP	-1.4	-4.0	-5.2	-0.8%	-1.7%	-1.6%
Direct industry employment (000s jobs)	-28.5	-66.5	-67.5	-1.6%	-3.4%	-3.3%
Tourism economy employment (000s jobs)	-34.0	-83.6	-85.6	-1.1%	-2.4%	-2.3%
Total employment (000s jobs)	-41.3	-101.7	-104.2	-1.1%	-2.4%	-2.3%

Source: Oxford Economics

7. Future outlook for tourism – horizon scanning

This chapter considers the future prospects for tourism in the UK. In particular it focuses on future trends and opportunities which can be leveraged by industry and policy makers to build on the UK's successful tourism industry and strengthen its position. It offers a viewpoint as to the key areas of focus in order for the UK to build on its successes in tourism and achieve the ambitious targets set by VisitBritain.

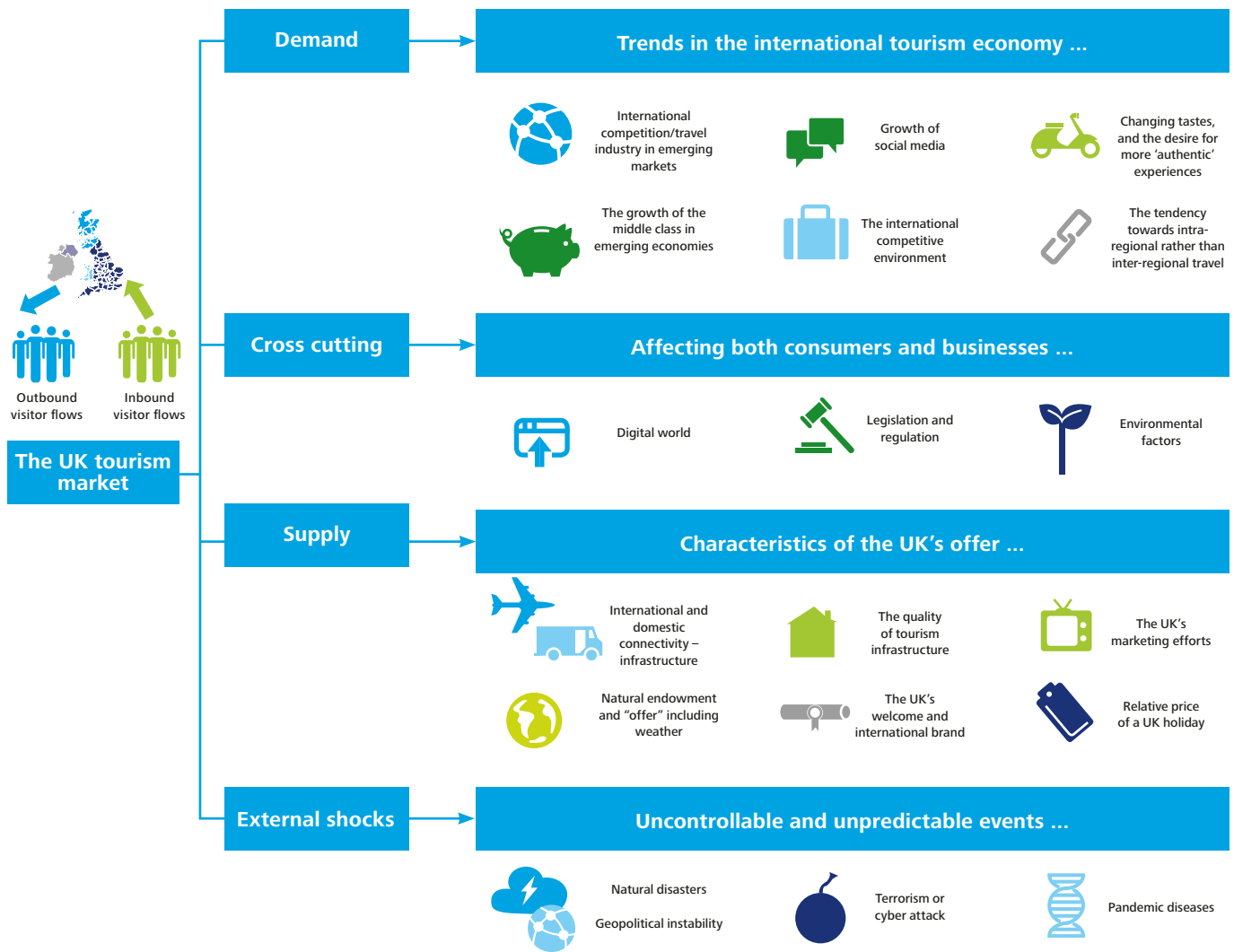
7.1 Horizon scanning framework

This chapter presents a qualitative horizon scanning analysis. It highlights the key emerging trends in terms of both opportunities and threats to the UK tourism industry, as well as some thoughts as to how the UK could position itself to take advantage of the opportunities and mitigate the risks.

The assessment is based on insights from previous studies for VisitBritain and additional research in the context of new emerging trends and the future outlook. This report is not intended to duplicate the existing body of research but to provide an independent analysis of the key points for consideration at present and over the next decade.

The driver tree below presents a framework for understanding the factors that drive the number and type of visitors to the UK. The drivers are divided into the themes of demand (trends in the international tourism market), supply (the UK offer), cross cutting issues (that affect both demand and supply) and external shocks (which could have a sudden and unexpected impact on the market).

Figure 7.1a. The drivers of the UK tourism market



Source: Deloitte analysis

Based on these market drivers, the remainder of this chapter offers a brief analysis of trends in the international market and the UK's offer in the context of opportunities over the next decade. More detail and supporting analysis can be found in the previous studies as outlined in the appendices.

7.2 Trends in the international market – demand outlook

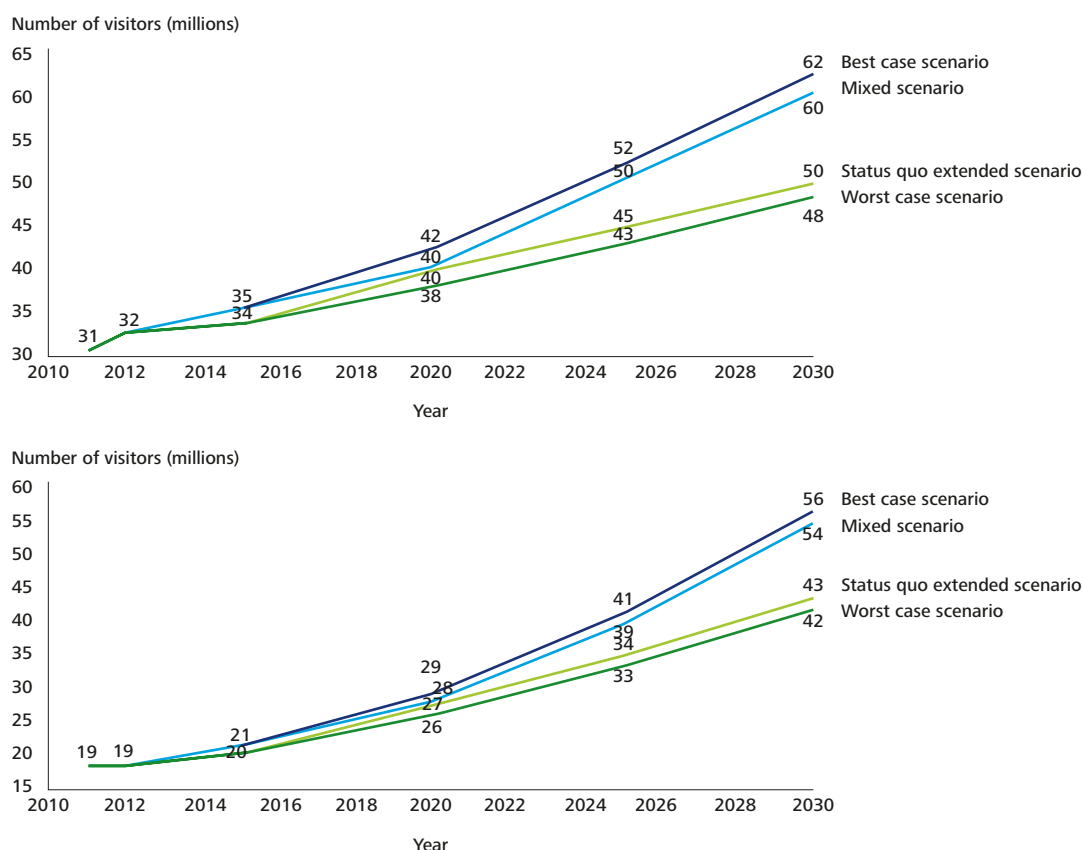
The international market for tourism is competitive, with visitors choosing destinations for a range of reasons. This section further analyses who visits the UK, trends in visitor numbers and how the tourist demographic is likely to evolve, and the competition Britain faces from other countries.

7.2.1 Current expectations for the UK's future visitors

Chapter 3 presented the current dynamics and historic trends in visitors to the UK. This section considers the profile of future visitors. Tourism Economics (a subsidiary of Oxford Economics) estimates that the UK's total visitor numbers and spend to 2025 will continue to increase as shown in Figure 7.2.1a.

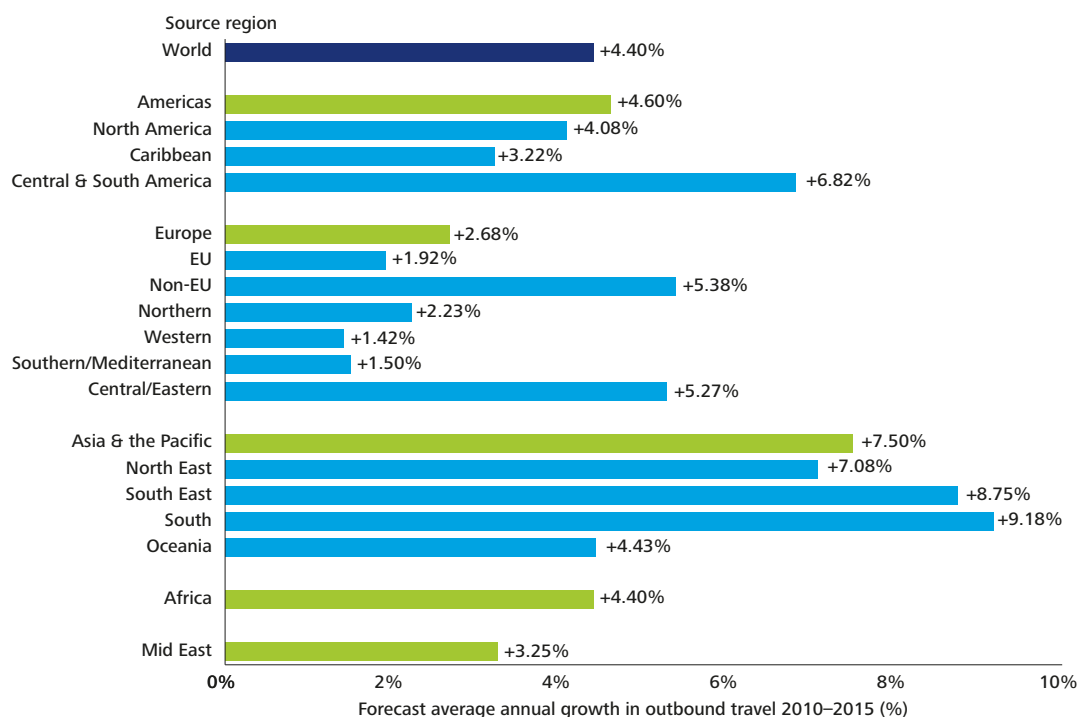
Predictions from Tourism Economics are for all regions across the world to experience strong growth in outbound travel between 2010 and 2015. The anticipated growth rates vary across the regions with the strongest growth coming from Asia and the Pacific and more sluggish growth from Europe. Clearly not all of these travellers will be destined for the UK and indeed intra-regional travel is becoming more common with many Asian travellers travelling within Asia, for instance. However, there is an opportunity for the UK to benefit from this growing demand from emergent economies as presented through the scenario analysis in Chapter 6.

Figure 7.2.1a. Forecast visitor numbers and spend, UK, 2010–2012 (millions of visitors and £bn)



Source: Tourism Economics and Deloitte analysis

Figure 7.2.1b. Average annual growth forecasts for outbound travel by region, visitors, 2010–2015 (%)



Source: Tourism Economics and Deloitte analysis

7.2.2 Demographic and economic drivers

Trends in numbers of visitors and spending from source markets are driven, amongst other factors, by demographic and economic developments. Increasing numbers of visitors from emerging markets reflect both population growth in these regions, and perhaps more importantly the relative enrichment of growing segments of the population in emerging economies such as China, India and Brazil. This makes foreign travel affordable and desirable for an increasingly significant segment of the population. Assuming that the development of these economies continues as forecast, appetite for foreign travel should continue to grow in emerging economies as incomes rise.

At the other end of the spectrum, an ageing population in many developed economies means that an increasing proportion have both the leisure time and resources to travel extensively. This trend is likely to continue as the baby boomer generation retires. The effect is likely to be particularly pronounced given the concentration of wealth among this generation, in the form of property (buoyed by rising prices) and other assets, often supplemented with generous pension schemes now closed to younger members. This might have both positive and negative effects for the UK as older and more affluent foreign visitors swell the UK's tourism receipts, but the UK's 'grey pound' may be increasingly spent overseas.

In addition, the UK attracts significant numbers of high-spending visitors from regions such as Russia, the Middle East and North Africa. These visitors are generally attracted by London as a cosmopolitan centre of consumer culture. They are likely to remain a significant presence at the elite end of the tourism market, although such visitors are inherently globally mobile and influenced by fashions and trends, and their future behaviour is therefore difficult to predict with certainty.

While emerging markets provide strong growth in relative terms, the absolute numbers of visitors from these markets remain relatively low when compared to visitors from the UK's more established developed country markets; most notably the USA, France, Germany and Australia. Not only do these markets provide the most visitors to the UK, but also some of the most valuable visitors in terms of spend.

Clearly, established markets should not be neglected given the absolute size of inbound visitors and spend associated with these visitors. However, the analysis in this chapter and based on recent trend presented earlier (Chapter 3) shows that there are opportunities from both established and emerging markets to be exploited.

Between 2008 and 2012 the Euro was worth over 25 per cent more against Sterling compared to pre-recession values. The value of the Pound has also declined against the Dollar over this period. The effect of the Pound's relative depreciation was to make the UK a more affordable destination for visitors from many of the UK's top source markets, as well as making it more expensive for Britons to travel to these countries, encouraging them to take 'staycations'.

Figure 7.2.2a illustrates these exchange rate changes between January 1999 and September 2013.

Case study: Opportunities from Brazil

Brazil has a young and rapidly expanding population. This is coupled with socio-economic transformation, namely a rapid increase in the size of its wealthier AB class and emerging middle 'C' class (socio-economic groups – SEG). Today, more Brazilians than ever are able to travel overseas for the first time owing to a strong currency and easier access to credit.²⁶ The United Nations World Tourism Organisation report that the volume of outbound trips from Brazil grew by 62 per cent between 2000 and 2010, with expenditure growing at an even faster rate of 325 per cent.²⁷ Britain has benefited from this as 2011 was a record year for visits and spend from Brazil. According to the International Passenger Survey, in 2011 Britain welcomed 276,000 visitors from Brazil spending £302 million.

In 2012 the Brazilian economy slowed and growth in outbound travel spend fell but remained in positive territory. That year Brazilians spent US\$22.2 billion while travelling abroad, an increase of 4.6 per cent against growth of 29.5 per cent in 2011 and 50.5 per cent in 2010. In 2012, concurrent with a slowdown in the Brazilian economy, spend and visits from Brazil to Britain declined but it was still the second best year for both measures.²⁸

2013 sees Brazil continue to face a number of economic challenges including high inflation, rising unemployment, a depreciating currency and slowing external demand for its exports. Combined with social unrest, these issues came to a head in the middle of 2013 with widespread protests breaking out across Brazil.²⁹

Yet the Brazilian economy is expected to grow at an annual rate of just over 2 per cent in the next two years and estimates suggest that socio-economic transformation will continue – by 2014 the AB and C class populations are forecast to be around twice the size they were in 2003.³⁰ Furthermore, Tourism Economics forecast that by 2020 Britain could be welcoming around 450,000 visits a year from Brazil, worth just under £500 million.

26 Brazil market and trade profile, VisitBritain, 2013.

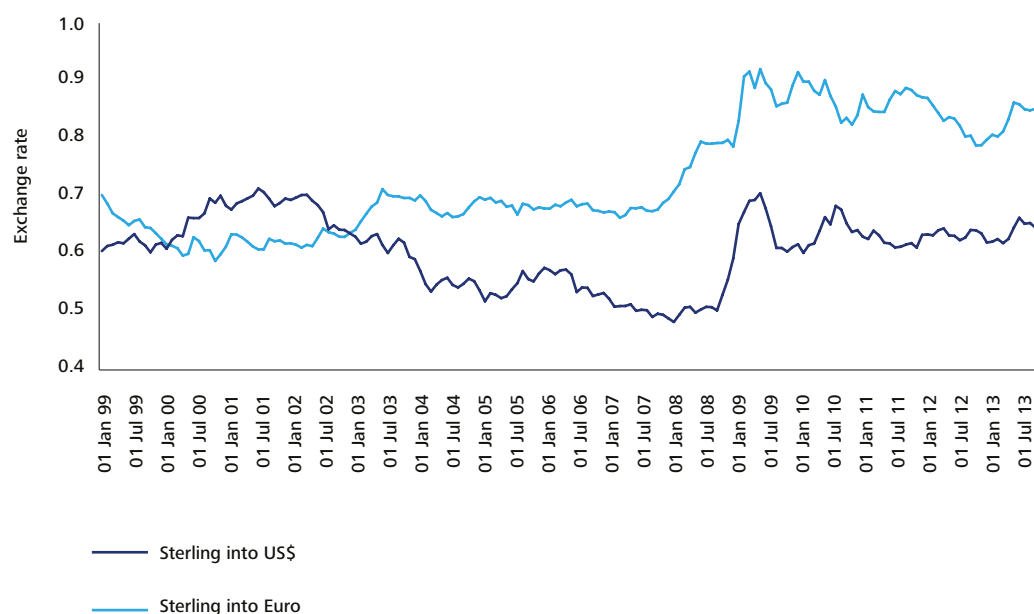
27 Understanding Brazilian outbound tourism: what the Brazilian blogosphere is saying about Europe, United Nations World Tourism Organisation (UNWTO) and the European Travel Commission, 2013.

28 Brazil market and trade profile, VisitBritain, 2013.

29 Ibid.

30 Ibid.

Figure 7.2.2a: Monthly average, spot exchange rate, Sterling to Euro and Dollar



Source: Bank of England and Deloitte analysis

Some of this exchange rate advantage was lost during 2012, as a result of the sovereign debt crisis in the Eurozone, meaning that the Pound gained in value against the Euro by around 10 per cent. If the UK's economic recovery which appears to be gathering pace in 2013 continues, and especially if the Eurozone experiences persistent low growth, the relative appreciation of the Pound is likely to continue. This could erode some of the UK's competitive advantage. The potential impact of a sustained change in exchange rates effects and the impact on the tourism economy is discussed in more detail in the scenario presented within Chapter Six.

Regardless of whether a rise in the value of the Pound has a deleterious effect on the attractiveness of the UK to international visitors, there is little that policymakers can do to influence this in a way that would not have other negative effects on the UK's economic wellbeing.

However, there is a future opportunity, in the long run, if the supply of North Sea oil and gas continues to fall and leads to the Pound becoming much weaker than currently, as demand could decline as it ceases to be a 'petro-currency'. However, the timescales and effects of these changes are highly uncertain. The recent development of fracking and other techniques for accessing fossil fuel deposits which were previously uneconomic demonstrates that the status of the UK as an energy producer in 10 or 20 years is difficult to predict.

7.2.3 The impact of competition on demand

International competitiveness is in part a function of factors that are beyond a country's control, such as the global supply of international tourists and the inherent characteristics of that country – the 'endowment' – for example, weather and natural environment. For example, France enjoys natural advantages including hot summers and both a Mediterranean and Atlantic coastline, attracting sun seekers; some of the best skiing in Europe; and diverse inland scenery ranging from mountains and lakes to forests, as well as its strong cultural draw. This makes France a year-round destination for a wide variety of tourists ranging from families to students, helping explain how it is able to attract the equivalent of its population again in annual visitors. In some respects it will always be difficult for the UK to compete with these natural advantages. Notwithstanding this, there is strong evidence that investment in tourism can significantly enhance a country's relative competitiveness in the international tourism market.

The WEF ranks the UK 40th for 'prioritisation of travel and tourism', although within this it gains 21st place for 'effectiveness of marketing and branding to tourists'. VisitBritain's GREAT campaign is an example of an effective and focussed marketing campaign, which VisitBritain estimates to have potentially attracted £200 million of additional visitor spending in its first year alone.³¹ However, this strategy also recognises that such efforts need to be maintained: ground gained can as easily be lost as competitors invest more heavily in their own marketing. For example, Tourism Australia is currently spending £13 million in China alone, while VisitBritain's 2012/13 marketing spend in China was £1 million.³²

31 VisitBritain strategy document.

32 VisitBritain strategy document.

Funding for agencies such as VisitBritain who have a critical role in promoting the UK to overseas visitors is being squeezed and is also low relative to competitor destinations. This has implications for the relative future offer. Competitiveness is not just about spending, however. It is also, as the VisitBritain strategy observes, about working with the travel trade to promote the UK's offer – getting Britain into travel brochures, developing an effective product and distribution strategy, and promoting business visits and events in the UK. In other words, it is about presence on the ground in target markets and effective packaging and promotion of the UK's tourism product.

7.3 The UK's offer (supply side)

The quality of the UK's offer also plays a significant role in determining its attractiveness to international visitors. These supply side factors are in many cases more easily influenced than external (demand side) factors. This section evaluates those aspects of the UK's offer that are considered most salient in determining its fortunes in the international tourism market.

7.3.1 Transport infrastructure

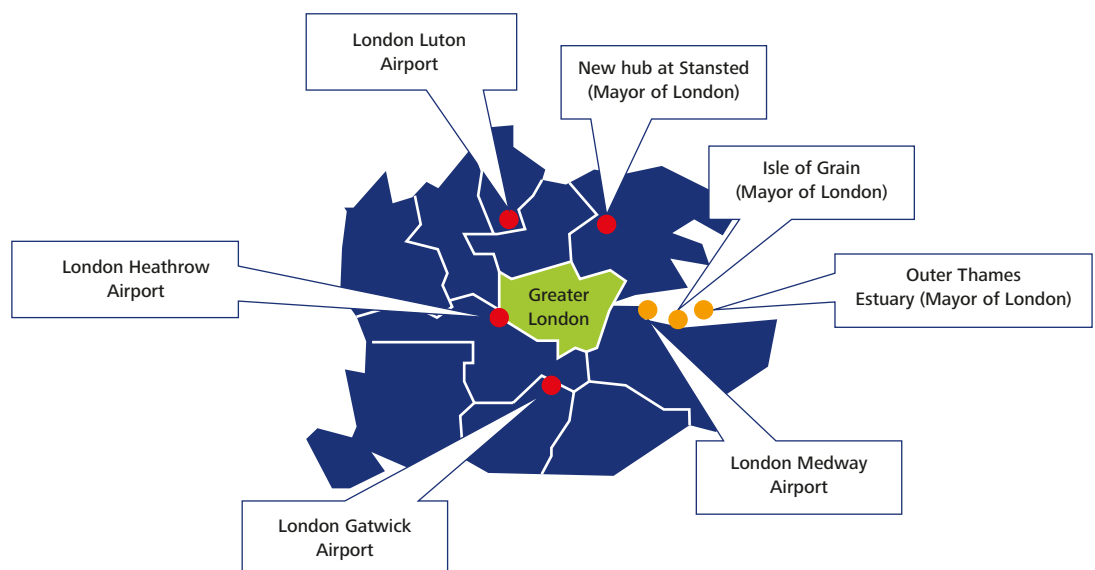
WEF scores the UK highly for transport infrastructure, ranking it 5th globally for air transport and 13th for ground transport infrastructure. It scores particularly highly for number of international airline seats, number of operating airlines and international air transport network. This reflects the UK's beneficial position at the heart of international air traffic routes, with Heathrow Airport acting as a global hub. However, this position relies on the maintenance of sufficient airport capacity to meet growing demand.

The latest forecast from the Department of Transport (January 2013) suggests that demand for air travel is to increase within the range of 1 and 3 per cent per annum up to 2050. While this is lower than historic growth rates (of around 5 per cent over the last 40 years), the central forecast still predicts an absolute increase in passengers from 219 million in 2011 to 315 million in 2030 and 445 million by 2050. The forecasts also show that the major South East airports will be full by 2030. While there is variability around this central projection, under all scenarios Heathrow airport remains full. With no additional runways, it is forecast that by 2050 Britain would have capacity to receive 32 million fewer international visitors than would be likely to arrive without capacity constraints.³³ There is thus a strong economic case for expanding the aviation capacity of the UK.

The Government recognising these capacity challenges set up an independent Airports Commission to examine the need for additional UK airport capacity, and to outline recommendations on how this need can be met in the short, medium and long term.

In August 2013, the Commission published a summary of over 50 stakeholder responses – some of the key options proposed are illustrated on the map of Greater London and the South East. The Airports Commission will report in 2015 on options for new airport capacity in the South East.

Figure 7.3.1a Proposals for aviation expansion in the South East

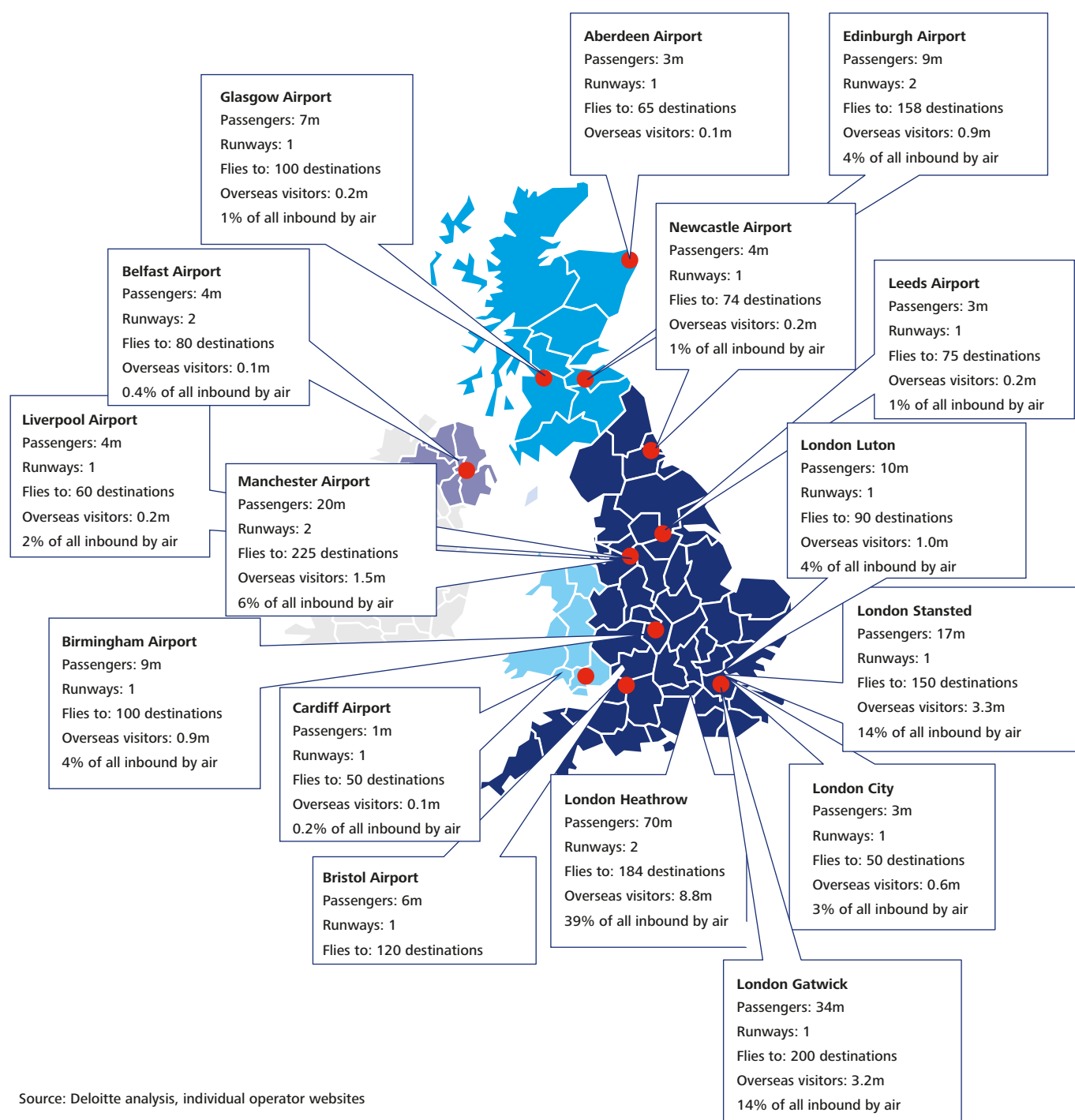


Source: Deloitte analysis

One option to tackle this capacity crunch is to expand the use of regional airports. This also offers the chance to break the concentration of tourism in London and the Southeast, encouraging tourists to take up a 'London+' package. The map below illustrates key regional airport links and current levels of traffic. The option to make greater use of regional airport capacity is likely to be boosted by further investment into other elements of the UK's transport infrastructure, notably HS2 which is due to link Birmingham to London by 2026, and is subsequently planned to extend to Leeds and Manchester, cutting journey times substantially.

In the long term new airport capacity in the South East is essential to accommodate more tourism growth and ensure that Britain remains a competitive destination for airlines and their passengers. In the shorter term, encouraging new routes between UK and overseas regional airports may offer a way to increase seat capacity without new capacity on the ground. And this should be aligned with a strong domestic flight schedule to enable transfers at key airports.

Figure 7.3.1b Selected UK airports: passenger numbers per annum and destinations



Source: Deloitte analysis, individual operator websites

Additionally, increasing numbers of visitors are entering the UK using means other than air transport, largely driven by the opening of the HS1 link from the Channel Tunnel to London St Pancras International. However, international visitors arriving by non-air mode remain a relatively small proportion of the total, emphasising that air capacity remains critical for the international tourism economy.

7.3.2 Supply of accommodation and other tourist infrastructure

The quality and suitability of accommodation and other tourist infrastructure will be critical to support the future buoyant pipeline of demand in the sector.

The UK is currently rated 22nd for its tourism infrastructure by WEF. This includes a ranking of 30th for the number of hotel rooms per 100 population. However, these figures do not capture the full picture. Tourists value not only availability of hotel accommodation, but also its price, quality and suitability to their needs. VisitBritain notes that while the UK's luxury hotels are world-leading, it is rated less well than competitors on value for mid-range hotels. This may to some extent reflect the more expensive London hotel market, as well as Britain's reputation as a relatively higher cost destination.

There has been a shift in the structure of supply with an increase in the supply of budget chain hotels and a subsequent increase in demand for this type of accommodation at the expense of other types. Recent Deloitte research showed that the budget/mid-scale hotel sector experienced slower growth in early 2012 compared with other segments. However, there is likely to be a continued shift in demand for towards mid-market and budget products which cater more for the growing middle classes of domestic travellers within highly populated emerging markets as demand from these countries grows.

In future, hotels will also need to adapt their products and services to cater for the cultural needs of visitors from emerging markets. Relatively minor changes can often make hotels feel more welcoming to foreign visitors. For example, some larger hotels have begun to provide some familiar comforts to Chinese visitors.³⁴ One area where the Government could contribute to this process is by providing guidance to hoteliers on customising their offer to different nationalities, allowing them to focus on particular target markets. This in turn could improve the overall reputation of the UK for its tourism infrastructure and welcome among target nationalities.

The view of major hotel operators is that key issues for the future market are shown in Figure 7.3.2.a.

Figure 7.3.2a Issues facing the UK hotel market according to hotel operators



Source: 'UK hotel performance and investment, Brighter skies ahead?', Deloitte analysis

³⁴ For instance, In an article early in 2013, The Economist noted that "Hilton's Huanying programme, which operates in six British hotels, gives guests Chinese teas, slippers, at least one Chinese television channel, a Chinese breakfast and a full-time Chinese-speaker. At the Novotel London West, in Hammersmith, Chinese noodles are served at breakfast and a Chinese television channel is available."

According to a recent survey by Deloitte³⁵, the key focus for hotel operators in 2013 was refurbishment/capital expenditure of existing estates (38 per cent), and expanding their portfolios through management contracts (33 per cent). In contrast, the key focus of CFOs was refinancing (32 per cent) and revenue management (14 per cent) with only 3 per cent of respondents felt that CFOs should focus on maintaining the estate.

The supply side offer of tourist infrastructure also extends to attractions, and standards in this area can have a significant influence on the appeal of the overall tourism offer of the UK. Some of Britain's most well-known attractions have long suffered from inadequate infrastructure, such as parking, visitor centres, and museums and educational facilities. It will be important for Britain to maintain and improve in this infrastructure as competitor destinations invest in infrastructure which may risk diverting visitors away from the UK.

7.4 Cross-cutting themes

This section discusses issues that are likely to affect both tourism consumers and tourism businesses over the next decade.

7.4.1 Brand strengthening

The importance of brand is likely to differ widely across different segments. Social media will present new challenges for brand consistency and continue to open up new forms of dialogue with the consumer. Tools such as Facebook, TripAdvisor and Twitter play an increasingly important part in the traveller's pre-departure research. As many as one in five travellers are now using these sites prior to departure, while up to one in ten travellers are actually contributing to the sites. Social media offers opportunities to build brand awareness and community, but can highlight brand inconsistency which could be detrimental. Brand perception is more often influenced by experience than by product. It is therefore likely to have a strong, growing influence over consumer choice at the upper end of the market and a smaller, declining role in the large mass-market, more product-driven segments.

The 'one-size-fits-all' approach to business – treating all consumers in the same way – has become redundant but the industry has also become more advanced in the way it relates to consumers. The implications for the future are that consumers will continue to drive the market. Market segmentation by generational characteristics has become a catalyst for a smarter approach to business with multiple benefits.

7.4.2 Advances in the digital world

The use of technology in tourism is also changing and this needs to be addressed throughout the visitor's experience. Mobile technology will increasingly be at the heart of the consumer-brand interaction and offers a plethora of opportunities for customisation, communication, promotion and loyalty.

Developing these capacities will enable businesses in the sector to create a greater degree of loyalty, by ensuring their services can respond to the needs of the 'on the move consumers' of today's and the future. Social media is likely to become further integrated in the sector and will represent both opportunities and threats for businesses and organisations in the sector, depending on how they respond to the digital world. Advances in the use of digital technologies in the sector will mean that tourism distribution becomes more global and will change the way businesses operate.

However, the overall spend on technology in the tourism sector still lags behind other sectors according to Deloitte research in the Tourism Hospitality Report 2015: Game Changers of Spectators. In recent years, technology spending in Tourism has declined as a percentage of revenue and investment has often failed to deliver the efficiencies or returns that were promised. This highlights the need to focus on the appropriate investments in the digital world to exploit opportunities and mitigate risks.

Key areas of technological development to benefit businesses in the sector are likely to be online booking and mobile technology, Customer Relationship Management (CRM), smart card technology, online social networking, data security, Artificial Intelligence (AI), self-healing technology and in-room product innovation. Keeping up with technology is no longer an optional decision for the industry; technology and the business are inseparable.

To be successful over the next decade, organisations in the tourism economy must invest in technology, with the assessment of projected returns on such investments needing to be more rigorous than ever. If successful in these endeavours, there will be a direct link back to productivity growth at the aggregate tourism economy level.

Smaller organisations in the sector can benefit greatly from technology as a means to interface with the consumer, even if some of the above developments might not apply for those with a limited number of facilities.



³⁵ UK hotel performance and investment, *Brighter skies ahead*.

7.4.3 Legislation and regulation

A Tourism Regulation Taskforce was formed in 2011 to look at rules and regulations which impact tourism and discern whether amendment or removal was suitable, feasible and achievable. The proposals for changes to regulation were evaluated on the basis of whether they would benefit growth and employment, reduce cost and time to business, create a positive impact on customer experience, be in the public interest, preserve (where appropriate) historic character, culture and sustainability and be in support of the Government's Tourism Policy. Proposals³⁶ have been wide ranging and covered areas such as planning, visas, travel insurance, food labelling, health and safety rules, employment restrictions in the tourism sector, licencing and many other areas of concern to the industry. These are currently being considered across Government, and some proposals have already been taken forward, for instance improvements for the UK visa regime for applicants.

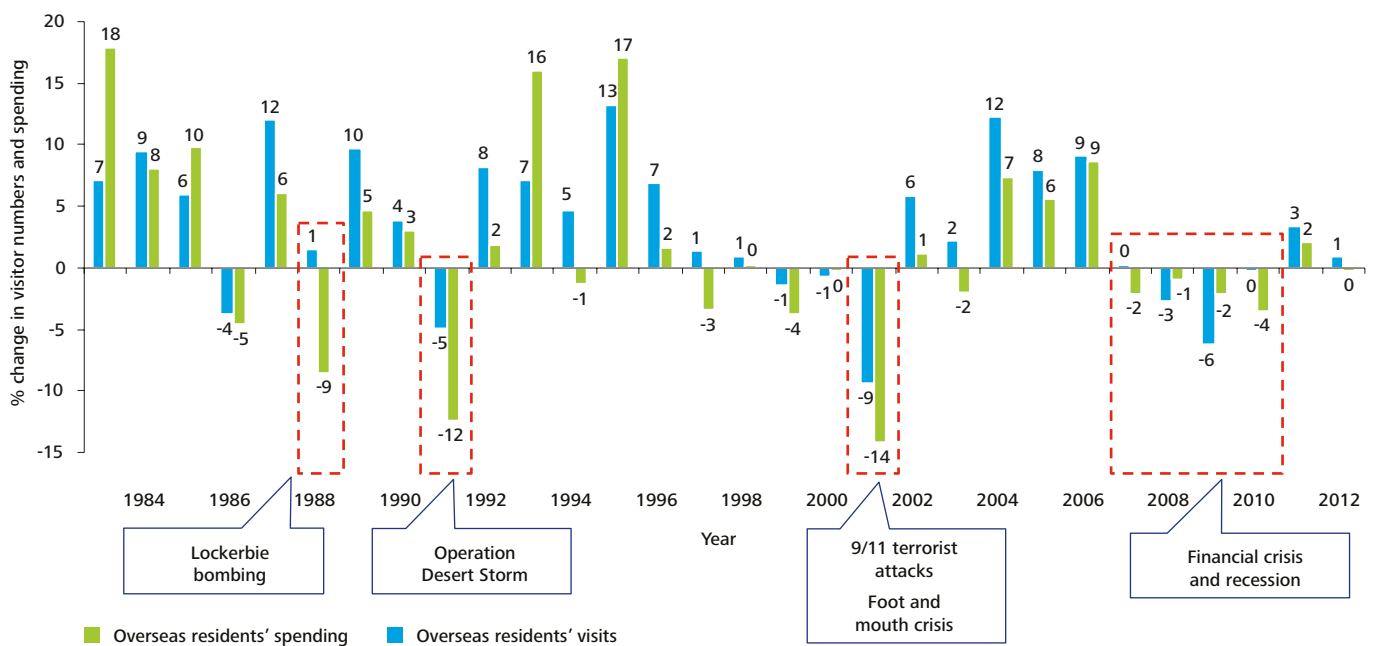
Businesses in the tourism economy must keep pace with government regulation as well as changing social views and new business norms. Hospitality is a discretionary purchase, as highlighted by volatility in the recent recession. For instance, in future, the consumption of goods and services seen as environmentally irresponsible is likely to be challenged by social norms. Luxury items that fall into this category risk being seen as increasingly unacceptable.

7.5 Shocks: the risk of economic and natural disasters

Many aspects of the tourism economy can be planned and many contingencies foreseen and prepared for, but the industry will always be susceptible to financial and operational impact from unpredictable exogenous events and cycles.

External shocks that tourism is vulnerable to may include economic crisis, pandemic disease, natural disasters, war, terrorism, and cyber-attack or geopolitical crises such as a breakup of the Eurozone, the exit of the UK from the EU, or ramifications of geopolitical instability such as concerns about US borrowing and continued tensions in the Middle East. Arguably, these shocks may become increasingly likely and impactful in an interconnected world. For example, international travel now spreads disease much more quickly than previously, meaning that a pandemic could spread from Asia to Europe and North America in a matter of days. Equally, it has been suggested that a cyber-attack could paralyse a country's transport infrastructure of electricity grid, crippling its economy.

Figure 7.5.a. Overseas residents' visit and spending in the UK and major international events, % change on previous year, 1983-2012



Source: ONS data and Deloitte analysis

³⁶ "Smart Regulation and Economic Growth: Seizing the Tourism Opportunity", Tourism Taskforce, 2012.

A survey of patterns in visitor numbers and spending between 1983 and 2012 indicates the degree of sensitivity of tourism to exogenous events. Terrorism and wars appear to have a particularly adverse effect on tourism, with the greatest decline in visitor numbers and spending occurring in the wake of the attacks on the twin towers on September 11th 2001. In contrast, economic downturns appear to have a more muted, if prolonged, effect. The financial crisis and subsequent recession has caused a decline in visitor numbers and spending, but this has been less marked than might have been anticipated given the gravity of the downturn. The chart below illustrates these trends and their correlation with major international events (although, of course, causality cannot be proved).

Policymakers have zero control over such external shocks, but can develop methods of responding to and managing crises which minimise the impact. The key to surviving unpredictable shocks and minimising their impact is to establish appropriate responses, protocols and risk management programmes in advance. Businesses also need to capitalise on the new opportunities that may present themselves in challenging times.

7.6 Conclusion

The preceding sections have analysed the trends and pressures influencing the UK tourism industry from both the supply and the demand side.

The table below illustrates a summary of the key trends and factors likely to affect the tourism economy over the next decade, as discussed over the course of this chapter.

Figure 7.6.a. Summary of findings

Theme	Drivers	Implications for tourism economy over next decade
DEMAND	- Demographic & economic drivers. - Competition and competitiveness.	- Strong growth in global demand – opportunity for UK. - Changing visitor profile – opportunities from emerging markets and retired ‘baby boomer’ generation. - Strong competition may divert potential future visitors.
SUPPLY	- Transport infrastructure. - Aviation strategy. - Accommodation stock.	- Capacity constraints might limit/hinder potential of the tourism economy. - Opportunity for expansion in the South East of England and UK regions.
CROSS CUTTING	- Impact of digital advances. - Legislation and regulation.	- Strength of brand more transparent. - Businesses much invest in technology. - Cost of travel likely to increase – may be passed onto consumer or absorbed by business.
EXTERNAL SHOCKS	- Economic crisis. - Pandemic disease. - Natural disasters. - War, terrorism or cyber attack. - Geopolitical crises.	Businesses must have risk mitigation strategies in place to deal with any external shocks effectively.

Source: Deloitte analysis

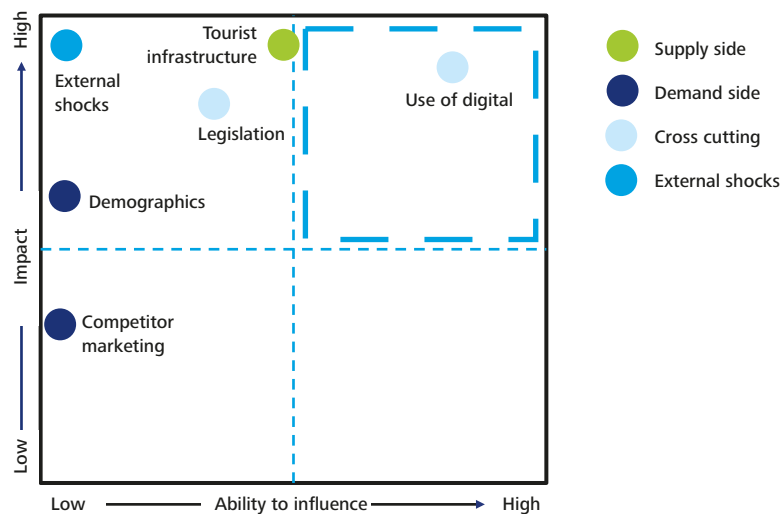


Figure 7.6b presents a 2x2 matrix which plots each of the drivers from figure 7.6a in terms of their ability to influence and potential impact.

Clearly, there are some categories – such as demographics and competitor marketing which are extremely difficult or impossible to influence directly. For instance, the analysis shows that while supply side factors, such as changing global demographics and the levels and distribution of wealth in emerging economies, may exert a powerful sway on the fortunes of the UK’s tourism industry, these are trends over which UK policymakers can exercise little direct influence. Equally, therefore, resources are therefore best focussed on improving those aspects of the UK’s offer over which policymakers can exert an influence, so as to ensure it enjoys the best possible position both to take advantage of global opportunities in tourism, and to weather potential threats.

Therefore in addition to generating demand through focused marketing it will also be important to improve supply side factors and influence cross cutting themes such as legislation and use of technology to boost efficiency and productivity in the sector.

Figure 7.6.b. Impact and influence matrix: UK policy makers and stakeholders



Source: Deloitte analysis

The areas in which, according to our analysis, investment is likely to generate the greatest rewards for the UK’s tourism industry, include:

1. An opportunity to tailor the UK’s offer to attract visitors from emerging economies, a key growth market. However, **the majority of the UK’s visitors will continue to be from traditional markets in the developed world**, meaning that these will remain an important focus for the UK’s tourism economy.
2. Maintaining and **improving the UK’s international and domestic transport infrastructure** is key to sustaining the strength of its tourism economy. Without strong road, rail and aviation infrastructure, it will become less accessible and attractive to visitors. Proposed solutions for enhanced airport capacity in the South East of England, outlined in the Davies Commission, are each likely to have significant ramifications for the UK tourism economy.
3. **Building on the UK’s welcome and addressing areas of weaknesses in international perceptions of the UK brand** will help it maintain its position in the face of strengthening competition for international tourists.
4. The UK can respond to increasing **desire for more ‘authentic’ and individual travel experiences** by working with partner organisations in the business and cultural sectors to **promote the UK’s unique offer through targeted marketing efforts**, e.g. through online channels and social media.
5. Measures to increase the accessibility of Britain, such as **streamlining visa requirements and reducing taxes and duties** would improve the competitive position of the UK vis-à-vis international competitors.
6. Finally, and crucially, investment in targeted marketing and information provision campaigns, to maintain and build awareness of the UK’s strong tourism offer in the face of rising competition from other countries. Advertising the UK as a destination is little different than advertising any other product or service to end-consumers. At the extreme, if competitors advertise and the UK does not, market share will be lost.

These areas are most susceptible to influence by policymakers, and which are likely to generate the greatest impact in terms of improving the performance of the UK’s tourism industry.

Appendix A: Definitions

There are a number of key terms that are used throughout this report:

- **Value added** – the value added of a sector is the difference between the value of the goods or services produced and the cost of bought-in goods and services required to produce these outputs. The sum of the value added created by all sectors in an economy is, with some adjustments for taxes and subsidies, the country's gross domestic product, or GDP;
- **Expenditure** – the value of spending by tourists, which equals the revenue of the businesses operating in the sector;
- **Employment** – the number of people working within the sector. This incorporates full- and part-time workers, the self-employed operating in the visitor economy, and the employees of companies in the sector. This is measured in terms of the number of jobs, rather than full-time equivalents, to facilitate comparison with employment data produced by the ONS; and
- **Current prices** – some of the data presented in this report is in current (or nominal) prices. Current prices are the prices at the time of the reporting period and do not correct for the effect of inflation.

Throughout the report the contribution of tourism is presented in tables similar to that displayed below.

	Projection							
	2010		2011		2012		2013	
	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total	Absolute £bn	Relative % UK total
Visitor exports (inbound = travel spending + fares)	19.5		20.9		21.6		22.3	
Personal travel & tourism (domestic + outbound)	100.4		107.1		110.4		113.1	
Business travel (domestic + outbound)	24.0		24.5		25.4		26.3	
Government expenditure (individual + collective)	10.3		10.4		10.8		10.9	
Capital investment	23.7		24.8		22.8		23.0	
Travel and tourism demand	177.9		187.6		190.9		195.6	
Outbound tourism spending (fares + travel)	31.8		31.8		33.1		33.5	
Direct industry contribution to GDP	50.3	3.9%	54.3	4.1%	55.8	4.1%	58.0	4.1%
Tourism economy contribution to GDP	112.5	8.6%	120.5	9.0%	121.9	8.9%	126.9	9.0%
Total contribution to GDP	142.7	10.9%	153.0	11.4%	154.7	11.4%	160.5	11.4%
Direct industry employment (000s jobs)	1,591	5.1%	1,708	5.4%	1,743	5.4%	1,748	5.4%
Tourism economy employment (000s jobs)	2,943	9.4%	3,083	9.8%	3,099	9.7%	3,116	9.6%
Total employment (000s jobs)	3,588	11.4%	3,755	11.9%	3,772	11.8%	3,787	11.7%

The data series included in this table are defined as follows:

- **Visitor exports** are calculated as the sum of non-resident travel spending in the country, plus their travel fares to the country. Non-UK spending data are sourced from the International Passenger Survey (IPS) for England, Scotland, and Wales, and the Northern Ireland Passenger Survey (NIPS) for Northern Ireland. To ensure consistency with the UK model, these raw data are scaled to total UK Visitor Spending from the UK model. UK travel fare data were sourced from the UK Balance of Payments, presented in the Pink Book, consistent with the UK model. These are allocated to the nations by pro rata on a GDP basis.
- **Personal Travel & Tourism spending** is defined as all non-business travel and tourism spending by residents, both domestically and abroad. Residents' domestic spend data are sourced from the GBTS for the UK model. To allocate to nations, it is necessary to adjust the UK total domestic spending for the internal movements, such as a resident of Wales travelling to Scotland. In UK terms this movement is seen as domestic, but at a national level it is an import by Wales and an export by Scotland. Domestic spending at the national level is, for example, Scottish people in Scotland and Welsh people in Wales. Consequently, when allocating UK level domestic spending all internal movements need to be removed from the UK domestic spending total to generate a value equivalent to the sum of domestic spending across the four nations (English in England, Scottish in Scotland, Welsh in Wales, Northern Irish in Northern Ireland). Intra-UK spending data were sourced from the GBTS for England, Scotland, and Wales, and NIPS for Northern Ireland.
- **Business Travel spending** is defined as all business travel spending by residents, both domestically and abroad. Residents' domestic spend and intra-UK spend data are sourced from the UKTS and NIPS for the UK model. To ensure consistency with the UK model the sum of domestic and intra-UK business spend for each nation is scaled up to guarantee the sum of the four nations domestic and intra-UK spend equals the domestic business spend variable in the UK model. UK data for residents' business spending outside the UK is sourced from the UK Balance of Payments, consistent with the UK model. This value is allocated to each nation using IPS and NIPS percentage shares.
- **Government expenditure** is defined as current spending by government on travel and tourism, excluding business travel. UK-level total government spending data is sourced from UK government accounts, and includes all spending by the Scottish Parliament, Welsh Assembly, and Northern Ireland Executive. This passed through the UK model to determine travel and tourism level of government spending. This is allocated to the nations according to the share of government spending on recreation and culture in each, sourced from UK Government PESA accounts.
- **Capital investment** is defined as investment in travel and tourism by both government and the private sector. UK level total government investment data is sourced from UK government accounts, and is passed through the UK model to determine travel and tourism level of government investment. This is allocated to the nations according to the share of government investment in recreation and culture in each, sourced from UK Government PESA accounts. UK level private investment data are sourced from Oxford Economics' estimates for the World Travel and Tourism Council. These values are allocated to each nation by pro rata on a GDP basis.
- **Travel and tourism demand** represents the total spending (including government and investment) made by visitors to the UK, and the UK's residents – irrespective of where UK residents make their spending.
- **Outbound tourism spending** represents tourism imports, and is defined as residents' spending in other UK nations and outside of the UK. Spending in other UK nations data are sourced from UKTS and NIPS, and is equal to the sum of residents' spending in other UK nations in the Personal Travel and Tourism spending and Business Travel spending variables detailed above. Spending outside UK is calculated as the sum of the residents' spending outside the UK in the Personal Travel and Tourism spending and Business Travel spending variables detailed above.

- Three measures of the contribution of tourism, incorporating a broader definition for each:
 - **Direct industry** – this measure considers the contribution made by visitor spending and tourism economy-related government spending. This measure is consistent with the concept used by the Office of National Statistics' Tourism Intelligence Unit in its compilation of the UK TSA, and the UNWTO Tourism Satellite Accounting methodology;
 - **Tourism economy** – this expands the definition of the direct industry to encompass private and government investment in the travel and tourism sectors, and the domestic supply chains providing inputs for the direct industry; and
 - **Total contribution** – the people employed by the industry and in its supply chains will make purchases using the wages they earn working in tourism. These purchases – predominantly in retail, leisure and entertainment sectors – support further activity and employment in the UK. The final definition of tourism's contribution to the UK includes the impact of this spending. This is an addition to the model for this edition of the study.

Appendix B: The Model

Data/previous work

The model feeds from two main data sources:

Macroeconomic data on the UK economy. The first group covers the key elements of aggregate demand and supply conditions – including employment, the current account, and key monetary variable such as exchange rates, prices etc. Here, also the model takes into account macroeconomic variables of the origin markets for UK visitors that drive outbound demand in those countries.

Tourism-related data. These include available tourism statistics, including series on international arrivals, spending of foreign visitors and average stay, and basic information on domestic tourism demand (e.g. number of trips, spending and same-day visits).

Sources:

Inbound spending

For the purpose of calculating VisitBritain's UK Tourism Market, spending of international visitors is sourced from the International Passenger Survey (IPS). In addition, passenger fares will be limited to air transport.

However, to be consistent with the methodology guidelines of the ONS's TSA – as well as the UNWTO and WTTC TSA approaches – inbound spending is sourced from the UK Balance of Payments data.

Domestic spending

Spending by UK residents in the UK is sourced from VisitBritain, with a breakdown into: same-day visits (as reported by VisitEngland), overnights and second home rents. The aggregation of these three components gives the total resident travel and tourism spending (a variable called VBRSDTT! in the model). Spending during same-day visits is sourced from the Day Visitor Survey (Visit England).

Due to the methodology differences in the processing of the data on domestic tourism, the first data point is 2005. Prior to that year, we apply the rate of growth of Oxford Economics' existing estimates for domestic tourism to complete the historical series.

Other variables/parameters

When appropriate, we take into account in the estimation process valuable information included in the ONS's UK TSA.

Measurements/definitions

We approach the measuring of the tourism contribution from the demand side and, in a second step, translate demand-side estimates into supply-side measures such as employment and labour compensation, operating surplus and net indirect taxes and subsidies. In particular, the model for the UK takes account of the following aspects of the tourism contribution:

Private consumer demand for travel and tourism. This includes spending by UK residents attributable to travel and tourism, both at home and abroad.

Business travel. This comprises both government and corporate travel expenditures (at home and overseas).

Foreign visitor spending in the UK and overseas travel by UK residents. These items have traditionally been recorded in the UK tourism statistics, and form a clearly identifiable part of the balance of payments accounts.

Imports of tourism-related goods. Visitors to the UK buy goods imported from abroad while tourism-related businesses (such as travel agencies and hotels) purchase imported materials and capital goods such as automobiles, aircraft, etc in order to provide services to their customers.

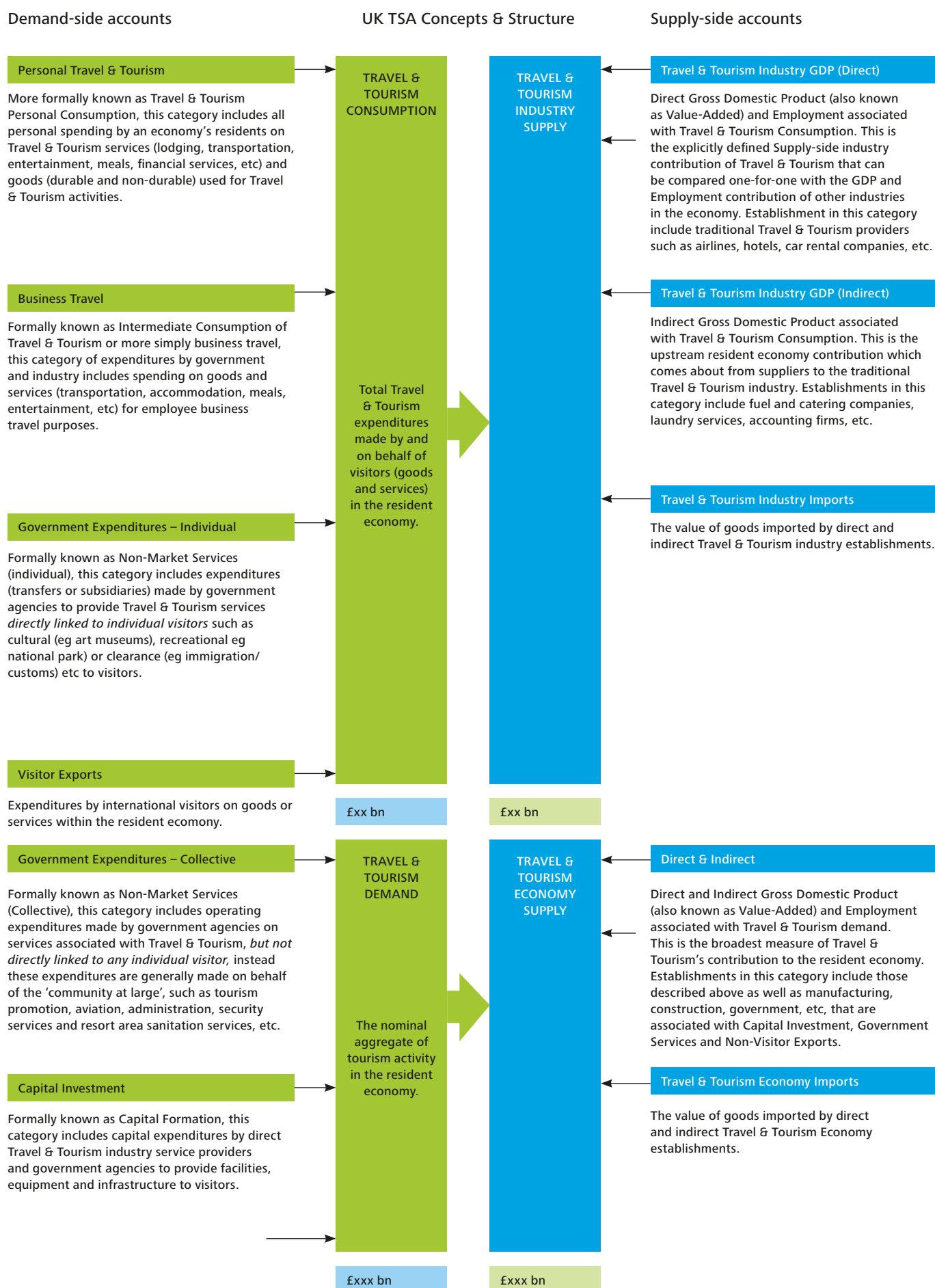
Government spending on tourism. This includes the resources devoted by the central government, regional government, local authorities and other public sector bodies to support travel and tourism in the country.

Tourism-related investment. This estimate takes into account both residential structures such as vacation properties and non-residential structures such as hotels and convention centres; equipment items such as airplanes, passenger trains and ships, and rental cars; and infrastructure spending such as on roads, airports, amusement parks and other tourist amenities.

Tourism-related value added and employment

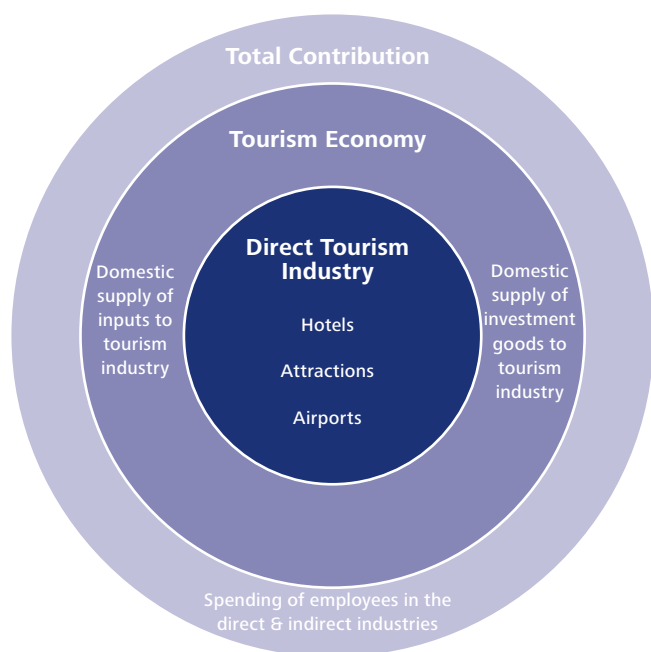
The following figure describes the process to derive value added and employment estimates from aggregate demand components.

Fig A1 – TSA concepts, demand and supply accounts



Estimates for the value added and employment contributions are provided according three different measures. First, a core tourism concept that focuses on the direct contribution of tourism activities (i.e. the value added generated by the provision of tourism-characteristic good and services). This measure is in line with the concept use by the UNWTO TSA methodology. Second, a broader measure that also takes into account indirect effects (via the supply chain), as well as the impact of capital investment and collective government expenditure on behalf of the tourism industry. Finally, the model calculates the impact of the wage-financed consumption by the individuals employed within the tourism economy; this is an addition to the model since the previous edition. Figure A2 illustrates the different concepts.

Fig A2 – Key TSA concepts



Tourism employment measures

The UK Tourism Model has three main measures of employment matching those of value added: the narrower Direct Industry Employment, the broader Economy Employment, and total employment contribution – which includes the impact of wage-financed consumption. Note that employment figures refer to jobs (including both employees and self-employed).

The estimation process relies on UK Input-Output information (I-O) - this is sourced from Oxford Economics' Industry Model. The crux of the procedure is to calculate tourism weights by industry from tourism-related final demand and output. Where final demand aggregates are allocated across industries with the use of the I-O framework. These weights are then used to calculate employment, indirect taxes, wages and salaries.

Model structure

The model consists on an interrelated set of equations (behavioral relationships and identities) to estimate, within a framework consistent with the National Accounts, the tourism contribution to the overall economy in terms of value added and employment and taxation. Broadly speaking, there are four main modules containing over 400 variables interconnected by an equal number of equations or identities.

1. Macroeconomic and industry variables

This module includes a detailed set of macroeconomic variables including:

Aggregate demand components

Overall GDP and value added by industries

Employment, overall and by industries

Overall wages, profits, taxes and subsidies

Key prices such as CPI, exchange rates and interest rates

Both the historical data and the forecast for the above variables originate in Oxford Economics' macroeconomics and industry models and are fed into the UK Tourism Model. The macro and industry variables are exogenous to the tourism model.

2. Tourism-related demand variables

This is a key module containing relevant tourism data for visitors' flows and spending. When no complete hard evidence exists (e.g. spending by residents on business trips, and tourism-related imports of goods), the model implements a procedure to make an estimate.

Consumption variables, including:

- Inbound and outbound flows (spending and number of trips/nights)
- Domestic tourism (same-day, overnights and second-home rents)
- The above three concepts define the size of the tourism market (as defined by VisitBritain)
- In addition to this, the model includes the following demand items:
- Government spending in support to the tourism industry – split into individual and collective.
- Investment and Imports of goods

3. Tourism-related supply variables

These variables are generated with the help of Input-Output analysis. They are calculated according to the "Industry" and "Economy" definitions (differentiating between direct and indirect effects).

- Value added/GDP
- Employment
- Labour compensation
- Operating surplus
- Depreciation
- Net taxes

4. Other

The key tourism measures are presented in current and constant prices (using 2000 as the base year) as well as a share of comparable macroeconomic variables (e.g. share of tourism employment in total employment).

Equation specification

In this section, we concentrate on the description of the logic and the specification of the forecast of inbound/outbound spending and the domestic tourism – as these are crucial for the estimation of the tourism contribution (narrow concept) and the scenario analysis.

The approach adopted to the forecast of international tourism flows reconciles origin trips (the base for estimating potential demand) and destination visits (competitive-based supply).

There are key points to highlight:

Tourism Demand for each market is derived from macroeconomic trends and forecasts from the Oxford Economics global forecasting model. Each destination's share of the total global outbound demand is calculated according to both price (bilateral exchange rates) and non-price competitiveness factors (e.g. income in each origin market).

The aggregation of all outbound spending by country over the forecast period provides a measure of growth potential of tourism demand worldwide. The UK outbound spending is estimated together with other origin markets.

Once the size of the expected "tourism cake" is estimated, then the model allocates it to competing destinations according to competitiveness and supply factors. Inbound travel spending is calculated for each market as each destination takes a share of outbound spending accordingly. This gives the estimation for UK inbound spending.

The economic rationale here is that each destination/country competes to attract a given overall spending of potential visitors. Two main factors are considered:

- i) the destination's exchange rate (inbound spending is inversely correlated with the strength of that destination's currency);
- ii) and the destination's attractiveness.

The latter is measured by an index developed in conjunction with the World Competitiveness Forum which tracks a series of factors relating to attractiveness over time. Finally, visitor flows are derived from inbound spending by market incorporating both short-run and long-run relationships.

Outbound Spending equation

The UK outbound demand is forecast according to the following generic equation:

$$\text{Outbound Spending Growth} = \text{Growth in Economic Drivers} - 0.4 * (\text{Last period} - \text{long-run estimate})$$

(Consumer Spending)	(Consumer Spending)
(GDP (GDP))	(GDP (GDP))
(Exchange Rate)	(Exchange Rate)
(External Shocks)	

This equation implies that:

Personal sector income and expenditure is strongly correlated with outbound leisure tourism expenditure.

The influence the business spending component of outbound spending is represented within the model by GDP, which also shows strong correlation with outbound spending.

Exchange rate movements are modelled to account for changes in wealth accumulated within an origin. The equation includes long-run and short-run dynamics to allow both growth and levels of spending to be consistent with the fundamental economic relationships.

- i) Short-run. Spending growth in the first years of the forecast period is dominated by growth rates in key identified economic drivers.
- ii) Long-run. Forecast growth rates in the medium to long-term are consistent with spending levels according to the fundamental economic relationships.

Inbound Spending equation

UK inbound spending is forecast according to the following equation:

$$\text{Inbound Spending Growth} = \text{Growth in Drivers} - 0.4 * (\text{Last period} - \text{long-run estimate})$$

("Potential" Spend)	(Consumer Spending)
(Exchange Rate)	(Exchange Rate)
(External Shocks)	(Attractiveness)

Two points to highlight:

The real exchange rate in each destination is included to determine the value of wealth derived in key origin markets relative to that in the destination. This takes into account differences in price levels in destinations.

The inclusion of the destination attractiveness indicator (jointly developed by the World Economic Forum and Oxford Economics) makes it possible to monitor the relative attractiveness of the UK as a tourist destination over time and to quantify the impact of any improvements made in policy, tourism infrastructure etc.

Domestic demand equation

Visitor spending by residents in the UK is forecast according to the following equation:

$$\text{Domestic spending} = \text{Overall consumption} + \text{Relative prices (services/non-services)} + \text{Exchange rate effect}$$

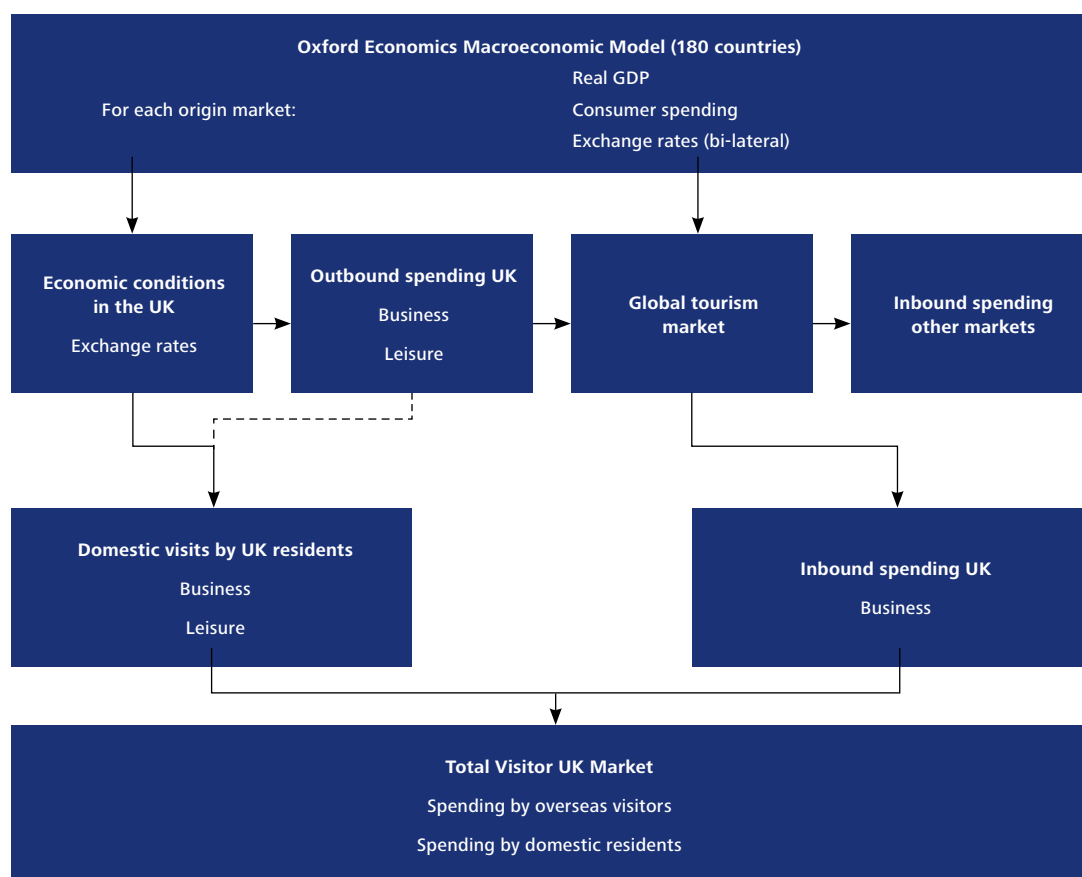
The equation incorporates three key factors determining domestic tourism demand:

First is the overall level of consumption (determined in the macroeconomic model). Other things being equal, a higher overall private consumption is to translate into higher visitor spending by UK residents at home. The relative cost between the service sector (as a proxy for the cost of tourism-related services) and the non-service sector of the economy. This accounts for substitution effects affecting UK residents' spending decisions.

The exchange rate effect. Other things equal, a depreciation of the pound relative to the currencies of the UK main origin and destination tourism markets is likely to result in a weaker demand for outbound tourism and higher demand for domestic tourism. An appreciation of the pound will generate an effect in the opposite direction.

The following diagram shows how the three tourism spending flows (inbound, outbound and domestic) are related in our modelling approach. Note that there is a link between outbound spending and domestic spending (dash line), reflecting the exchange rate effect.

Fig A3 – Modelling approach to the estimation of the UK tourism market



Source: Oxford Economics

Aligning with the Tourism Satellite Account produced by the Tourism Intelligence Unit

Since the publication of the previous edition of this study, the ONS has released its own estimates of the contribution of the tourism economy to the UK in its Tourism Satellite Accounts. It is important therefore to highlight the similarities and differences in the methodology used for the measurement of the tourism economy's contribution to the UK in this report and the ONS' TSAs.

A number of amendments were made to the methodology used to define variables in the Oxford Economics model to align the model with the ONS' TSA. These included: the measurement of rent from second homes and the value of outbound visitor spending while in the UK (spending at airports). **As a result of these changes, the contribution of tourism measured by the ONS' TSA is consistent to the direct industry contribution measure presented in this report.**

However, by examining the value of UK supply chains, and travel and tourism investment, this report moves beyond the TSA definition to present the tourism economy contribution to the UK. This measure is consistent with that presented in the previous report.

The final measure presented in this report – the total contribution of tourism – is a new addition to the model.

Appendix C: Estimating the spending required to generate an extra job in tourism

Rationale

Expanding on the rationale provided in chapter 5 of this report, there are a number of ways of arriving at an estimate of how much expenditure might be required in the UK to support an additional job in tourism.

These include options:

- 1) A simple average using the aggregate expenditure on a measure of tourism, divided by the level of employment on the same measure of tourism – the main approach used by Caledonian Economics in the 2003 study;
- 2) An econometric approach which considers how expenditure and employment move together over time, and assumes that causality flows from expenditure to jobs – the approach considered here; and
- 3) A survey-based approach which asks organisations operating in the tourism economy questions regarding the drivers of employment creation in their organisation.

There are clear pros and cons to each approach.

Option 1 is particularly cost effective but is likely to overstate the level of employment created for a given level of expenditure due to search costs (as identified in chapter 5). Option 2 is reasonably cost effective as an approach and has the benefit of tests of statistical significance, though it is still subject to the same issues with regard to data quality feeding into the analysis. Option 3 is a high cost option which is precluded here due to the associated time and resource cost to gain a representative sample of sufficient size, and the fact that in surveys of this nature, different organisations may answer the same questions from a different perspective.

We feel that the adopted approach is likely to be an improvement on the 2000 estimate of £40,000 from the 2003 study, because as a macro specification it controls for both search costs and economies of scale. Option 3 was beyond scope, and we feel would have needed a very large sample size to be successful.

The definition of tourism used

After experimenting with a number of definitions, it became obvious that by limiting the analysis to the Hotels and Catering sector, gave a number of clear benefits:

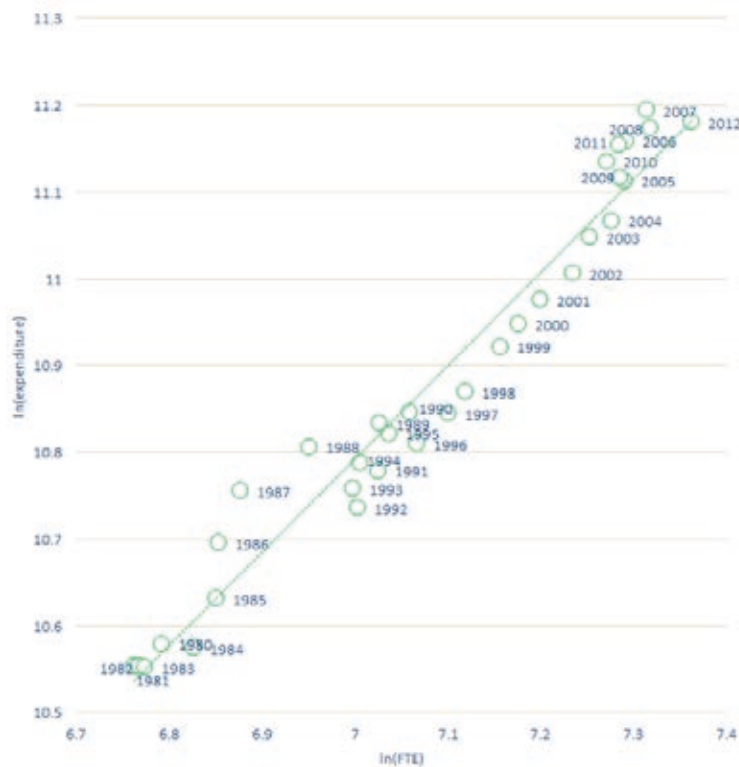
- The longest time series available for econometric analysis;
- Reasonably consistent results on a definitional basis with the 2003 estimate from Caledonian Economics;
- An easy appreciation of how the estimate might be applied to a standard definition; and
- By including higher value added jobs seen in some of the TSA sectors, the estimates became much higher than the 2003 estimates, due to the greater capital intensity in certain sectors.

Accordingly, it is worth pointing out that the estimate of £54,000 in 2013 prices arrived at by the study is likely to be suitable for application to spending in specific and well understood sectors of the tourism economy such as, accommodation, catering, retail and attractions, but not, for instance air passenger transport services.

The data

Data regarding full-time equivalent employment and expenditure in the Hotels and Catering sector was provided to Deloitte by Oxford Economics for the period 1980-2012, giving 33 observations.

A scatterplot of the data in natural logarithm form is provided below. Natural logarithms are used as they provide an easy to interpret equation output which allows the parameters of the model to be interpreted in elasticity form.



From an observation of the data in natural log form it is evident that a strong and positive relationship exists between levels of expenditure in tourism and levels of employment in tourism.

There are clear periods where the level of employment per unit of expenditure have been above or below the line-of-best-fit, but in each case there has been reversion to the trend, most recently in 2012. As borne out in the rest of the report, employment fell significantly during the recession, but by 2012 the labour market situation in the tourism economy had improved significantly.

Whilst we are comfortable with the assertion that expenditure (revenues to organisations) will drive hiring plans and thus employment, it is not clear how this relationship works in practice. In reality each business in tourism is likely to have different *modus operandi*. Some organisations will hire in anticipation of increasing revenue to gain first mover advantage, whereas others will hire only when they have seen revenues increase.

In any case the effects seem to balance out, in that the relationship between expenditure and employment seems to be a contemporaneous one. Alternative specifications examining lags in the data with each of $\ln(\text{expenditure})$ and $\ln(\text{FTE})$ as the dependent variable returned poor fit in the aggregate and for each parameter.

Final equation specification

Below is the regression output from the elasticity model used to estimate the marginal impact of spending on job creation for tourism in the UK.

The regression shows a more than reasonable fit in aggregate, and each of the constant and coefficient on expenditure are highly significant.

Specification

$$\ln(\text{FTE employment}) = \alpha + \beta \cdot \ln(\text{Expenditure}) + \varepsilon$$

Parameters

	Coefficient	t Stat	SE	P-Value
α : constant	-2.64	-7.48	0.35	0.00
β : $\ln(\text{Expenditure})$	0.89	27.53	0.03	0.00

Fit

n	33
R ²	0.96
Adj. R ²	0.96
Equation SE	0.04
F-stat	757.79
F-critical value	4.16
F-sig	0.00

Results

The estimate of £54,000 expenditure per job is based on the outputs of the regression model above, and the application of actual data for 2012 to the parameters of the model. This is then extended to 2013 using estimates of inflation for this year.

Sense-checks were applied on the basis of extending the 2003 analysis to 2013 prices using producer prices in the Hotels and Catering sector.

As anticipated, the marginal impact as modelled here is higher than the implied average impact in 2013 from the same dataset of £47,500 and also of the extended 2003 analysis to 2013 prices of £46,300.

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