EUROPEAN TOURISM - TRENDS & PROSPECTS

QUARTERLY REPORT - Q2/2022

EUROPEAN
TRAVEL
COMMISSION

EUROPEAN TRAVEL COMMISSION

EUROPEAN TOURISM: TRENDS & PROSPECTS

Quarterly report (Q2/2022)

A report produced for
the European Travel Commission
by Tourism Economics

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

Brussels, July 2022

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Tourism Economics (an Oxford Economics Company) on behalf of the ETC Market Intelligence Group.

Cover: Scenic sight in Spello, flowery and picturesque village in Umbria, province of Perugia, Italy
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FOREWORD

As we officially jump into the summer season, European tourism is expected to continue recovering in 2022. Covid-19 restrictions have been rolled back and people are eager to make up for two years of lost travel. However, the outlook is somewhat gloomy for a number of reasons. Strong pent-up demand and accumulated household savings during the pandemic are having to face high inflation and sky-high energy and food prices triggered by Russia's war in Ukraine, which is eroding consumers' living standards. Furthermore, a faster-than-expected travel demand across Europe has caught the aviation industry off guard causing airport chaos due to staff shortages and strikes. These factors coupled with stagnating economic prospects within the Eurozone, and a prolonged war in Ukraine will not only affect summer travel but will also slow down Europe's tourism recovery in 2022. At the same time, there are lingering concerns about how governments' responses to strengthening energy security will derail climate goals.

As we expect a buoyant summer season despite turbulent times, this comes along with some additional concerns, such as potential overcrowding and carrying capacity issues that put pressure on natural environments and local communities. In this regard, destinations should reinvent their business models to meet the needs of a more sustainable tourism ecosystem based on a low-impact principle. Achieving this sustainable growth requires balancing the sector's social, economic and environmental benefits, while improving its resilience. It is paramount that governments coordinate their actions in challenging times to drive Europe's green transition and enhance competitiveness, while supporting consumers and businesses to make more sustainable choices.

The latest edition of the *European Tourism Trends & Prospects* quarterly report provides an overview of current travel trends and the outlook for European travel recovery in 2022. It also addresses some of the most pressing issues within the tourism industry, including high inflation, rising travel costs, and staff shortages and the likely impacts from these headwinds, and why it is believed that these effects will be temporary and will not derail growth.

Jennifer Iduh
ETC Executive Unit

TABLE OF CONTENTS

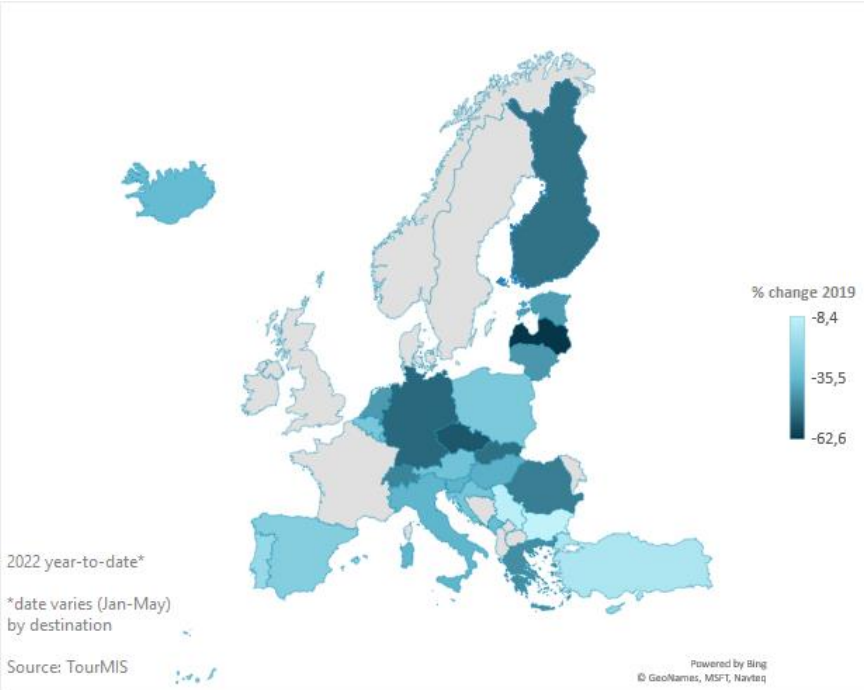
EXECUTIVE SUMMARY

STRONG PENT-UP DEMAND MEETS HIGH INFLATION AHEAD OF BUOYANT SUMMER SEASON

Destinations across Europe continue to relax travel restrictions as concerns over Covid-19 wither away, enabling the release of strong (short- and mid-haul) pent-up demand. However, skyrocketing energy prices are pushing travel costs yet higher, prompting people to travel closer to home or consider cost-saving options. It remains to be seen how households (especially lower-income earners) will make a trade-off on travel spending this summer amidst consumer price hikes and squeezed disposable incomes.

Worsening inflation, prolonged war disruption, the resurgence of the pandemic and economic turmoil continues to endanger the tourism outlook. Latest available data indicates that European tourist arrivals are 43% below pre-pandemic levels[1] between January and March this year, whereas prospects for the overall year 2022 suggest that the region would have recovered 70% of pre-pandemic travel demand[2].

Foreign visits growth to European destinations



Despite headwinds, willingness to travel this summer will prevail. The most recent data shows that across all reporting destinations over four in five posted declines below 50% over 2019 levels. Bulgaria (-8%), Serbia (-10%) and Turkey (-14%) saw the strongest rebounds. Monaco (-22%), Croatia (-30%), Iceland (-35%) and Slovenia (-37%) - the only destinations reporting data to May - also exhibited a strong recovery. At the other end of the spectrum, Latvia's geographical proximity to Russia is slowing the country's tourism recovery from the pandemic (-

[1] UNWTO World Tourism Barometer. Volume 20. Issue 3 (May 2022)

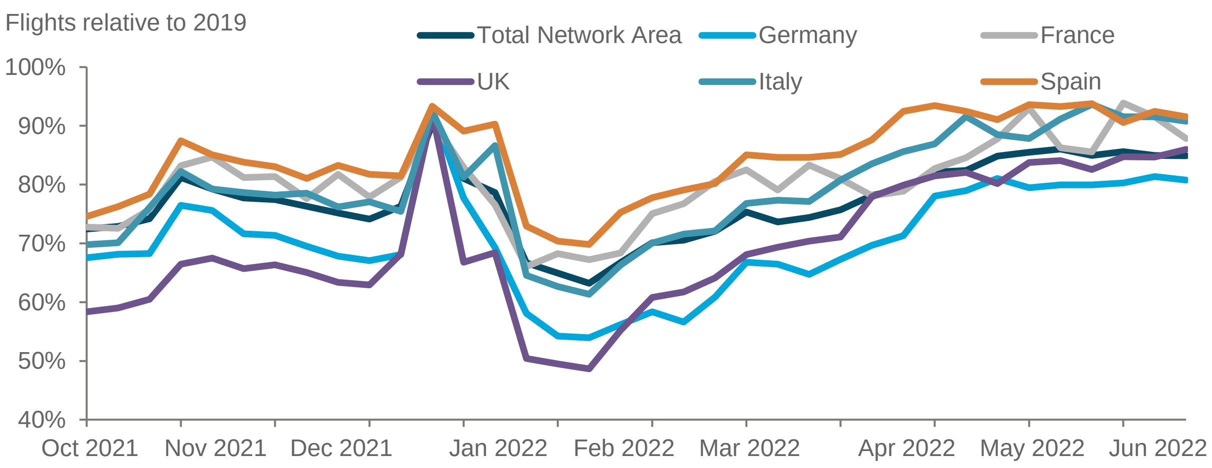
[2] Tourism Economics

63%) following mass hotel booking cancellations. Slovakia and the Czech Republic are among the Eastern European destinations exceeding the 50% decline.

AIRPORTS STRUGGLE WITH STAFFING SHORTAGES IN THE MIDST OF SURGING DEMAND FOR TRAVEL

Travel demand seems to be picking up faster than airlines can recover the labour force laid off during the pandemic. Airport understaffing and strikes have wreaked havoc on holiday-makers who are facing flight delays and cancellations, long check-in and security queues and piled up luggage. Airports such as Amsterdam Schiphol and London Gatwick are cutting back the number of flights to mitigate the travel chaos that is expected to continue into the summer months as several air carriers such as Ryanair and Easyjet announce strikes and cancel hundreds of flights over labour shortages.

Flight volumes relative to 2019 in European Network Area



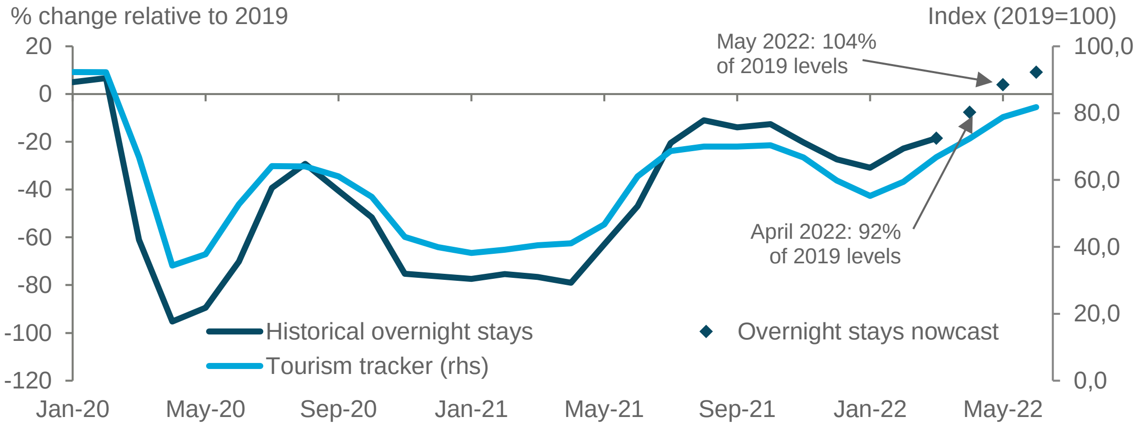
Source: Eurocontrol

FASTER THAN EXPECTED TOURISM REBOUND SHOULD FAVOUR TOURISM-RELIANT ECONOMIES THIS SUMMER

According to Oxford Economics' Tourism Tracker[3], overnight stays within the EU managed to reach pre-pandemic levels in May this year, with tourism hotspots such as Spain and Portugal featuring as star performers as they bounced back to pre-pandemic volumes. Both destinations are trailed by Italy (10% behind 2019 levels), and other destinations that are somewhat behind such as Greece, Croatia, and Malta.

[3] https://www.oxfordeconomics.com/resource/eurozone-tourism-to-enjoy-a-strong-year-despite-high-inflation/

EU: Tracker-based overnight stays nowcast



Source: Oxford Economics

This encouraging trend may continue well into the summer months supported by recent research carried out by ETC[4] among Europeans, according to which 73% of respondents plan to travel in the next 6 months. The same survey also disclosed that the ongoing Russo-Ukrainian war has had a limited impact on overall travel intention within Europe. Around 44% of respondents stated that the conflict did not affect their holiday plans at all, while it caused 31% to make changes to their original plans and led only 4% to completely cancel their trip.

"Cooperation becomes even more essential and valuable when we face joint challenges together, so we believe these difficult times for tourism have only strengthened our unity at ETC. We at ETC keep calling on the EU institutions to provide sufficient and timely financial aid and other support to the sector, especially to destinations heavily reliant on tourism from Russia and Ukraine. Following the devastating impact of Covid-19, travel businesses in affected regions cannot sustain another major crisis at their doors" said Eduardo Santander, Executive Director European Travel Commission (ETC).

Jennifer Iduh (ETC Executive Unit)
With the contribution of the ETC Market Intelligence Committee

[4] Monitoring Sentiment for Domestic And Intra-European Travel – Wave 12

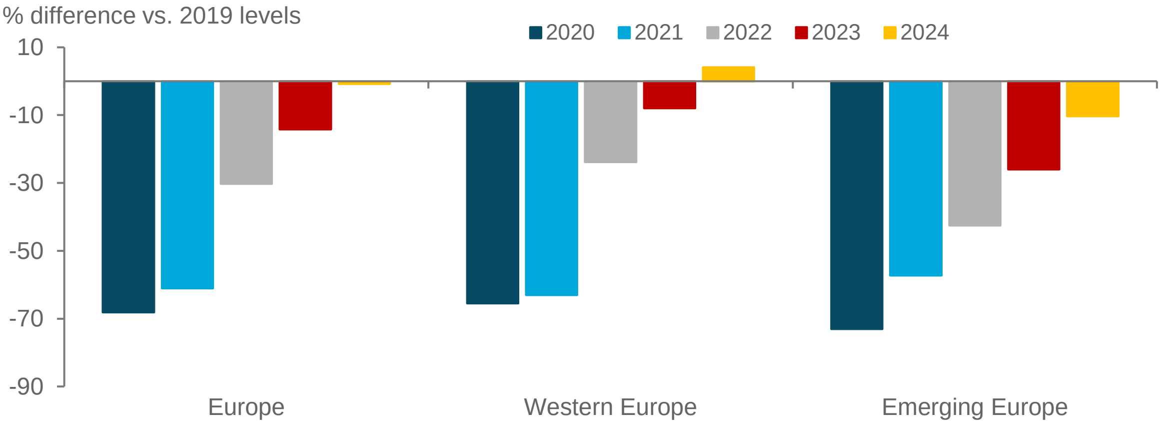
1. TOURISM PERFORMANCE SUMMARY 2022

SUMMARY

- Recovery looks to be in full swing going into the peak summer season of 2022, with savings accumulated through the pandemic supporting growth in the sector.
- However, the savings base which was expected to bolster growth has been eroded by the increasing cost of living due to energy and food price hikes, among other things.
- Steep fuel price increases also raise the cost of travel – with passengers potentially shifting preferences to closer holiday destinations and less costly modes of transport.
- Staff shortages pose serious challenges for the sector going into the summer months, with headlines already being dominated by impacts of the shortage and an inelastic supply of workers.
- The Russia-Ukraine conflict has seen little impact on travel to the rest of Europe.
- Long-haul travel into Europe continues to lag significantly behind short- and medium-haul recovery, although it shows promise for the future.

The combination of a successful vaccine roll-out and loosening of coronavirus restrictions have bolstered positive sentiment for European travel in 2022, following the downturn in travel in the closing months of 2021 due to the outbreak of the Omicron variant. The question now is whether the erosion of disposable incomes due to fuel price hikes combined with staff shortages and newly emerging Covid-19 subvariants may restrain travel into the peak summer period.

International arrivals by destination region, Europe



Source: Tourism Economics

Consumers face two opposing forces in the summer season of 2022. The desire to spend accumulated savings from the pandemic, spurred on by the first summer of European travel without Covid-19 restrictions points to this summer being significantly stronger than those of the past two years, albeit the benchmark is low. However, the savings base has been eroded by the increasing cost of living, with household budgets squeezed by a record energy and fuel price rises. As a result, the desire to spend accumulated savings has been dampened due to less disposable income, though this will likely have a greater impact in the winter months of this year when a greater proportion of household resources will need to be directed towards heating homes.

As well as squeezing disposable incomes, the steep acceleration in fuel prices also directly increases the price of travel, or more specifically transport. For consumers, the price hike will likely shift preferences to lower cost options, choosing domestic destinations or more affordable, alternative forms of transport to nearby countries. For airlines, carriers will find absorbing the additional costs difficult due to continued financial pressures post-Covid. These financial pressures are being exacerbated by staff shortages resulting in delayed or cancelled flights and consequently eating into profits. Borrowing throughout the pandemic begins to present as an issue too, though inflation favours debtors by eroding their debt.

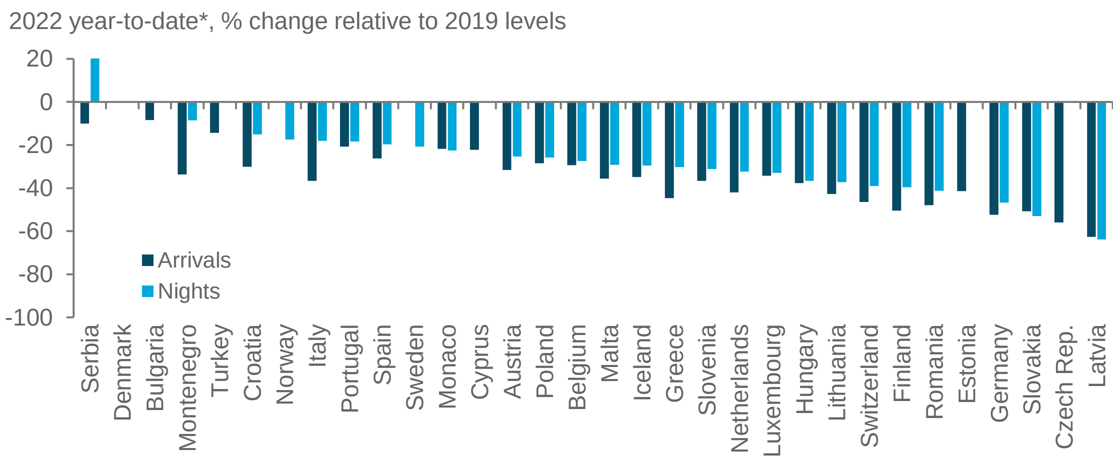
Given the sharp demand bounce-back going into 2022, the ongoing lag in labour supply is creating staff shortages across the European travel and tourism sector. Although in previous years, the hospitality sector has struggled to attract and retain staff, presently the aviation sector is dominating the headlines. Over the first weekend of June – a bank holiday for a number of European countries – the UK saw 4% of flights cancelled, compared to the usual rate of 1%, and issues extended across Europe for the same period, with cancellation rates of up to 11% in the Netherlands.

The reasons cited for the shortages focus on:

- The restricted pool of available workers due to changes to European visa requirements
- The sector being viewed as a more unstable employment opportunity post-Covid
- Longer lead times on worker checks between recruitment and employment.

As a result, staff shortages could pose a very real restraint to demand over the 2022 summer season, given how inelastic the supply of travel and tourism workers is at present, and with reports of falling wages, it will only appeal less. The impact of these staff shortages will likely be further exacerbated by transport strikes planned across most Western European destinations over the summer.

Foreign Visits and Overnights to Select Destinations



Source: TourMIS *date varies (Jan-May) by destination

For the 2022 to date, Serbia, Denmark and Bulgaria have been the best performing destinations, with Serbian nights sitting 21.3% above 2019 levels. Latvia, Czech Republic, Slovakia and Germany are still seeing arrivals figures at less than 50% of 2019 levels.

Long-haul travel into Europe is still significantly depressed, hampered by restrictions and lingering negative sentiment towards travel in Asia. Travel between Europe and APAC is expected to see the largest growth for any long-haul travel pair from 2019 to 2030, with most of the travel being inbound to Europe. However, this recovery is unlikely to be seen in 2022.

Europe's largely short-haul international travel split is particularly favourable for recovery post-Covid: for 2019, of all inbound overnight visitors, 65% of visitors were short-haul visitors, the largest percentage for any region. Domestic travel continues to strongly support recovery too, with arrivals having grown in Lithuania, Slovenia and Croatia. However, short-haul visitors also tend to spend less than their mid- and long-haul counterparts, so although visits will be returning to pre-2019 levels, spend is likely to lag visits recovery due to the profile of visitors.

Summary Performance, 2022 YTD vs. 2019

Country	International Arrivals		International Nights	
	% YTD	to month	% YTD	to month
Austria	-31.6%	Jan-Apr	-25.3%	Jan-Apr
Belgium	-29.4%	Jan-Mar	-27.4%	Jan-Mar
Bulgaria	-8.4%	Jan-Apr		
Croatia	-30.1%	Jan-May	-15.1%	Jan-May
Cyprus	-22.2%	Jan-Apr		
Czech Rep.	-55.9%	Jan-Mar		
Denmark			-0.2%	Jan-Apr
Estonia	-41.4%	Jan-Apr		
Finland	-50.4%	Jan-Apr	-39.6%	Jan-Apr
France	-20.0% (f)	Jan-Dec		
Germany	-52.4%	Jan-Apr	-46.8%	Jan-Apr
Greece	-44.6%	Jan-Mar	-30.3%	Jan-Mar
Hungary	-37.7%	Jan-Apr	-36.7%	Jan-Apr
Iceland	-34.8%	Jan-May	-29.5%	Jan-Apr
Italy	-36.6%	Jan-Feb	-18.0%	Jan-Feb
Latvia	-62.6%	Jan-Mar	-63.9%	Jan-Mar
Lithuania	-42.8%	Jan-Apr	-37.2%	Jan-Apr
Luxembourg	-34.3%	Jan-Mar	-32.9%	Jan-Mar
Malta	-35.6%	Jan-Apr	-29.2%	Jan-Apr
Monaco	-21.8%	Jan-May	-22.5%	Jan-May
Montenegro	-33.6%	Jan-Apr	-8.6%	Jan-Apr
Netherlands	-42.0%	Jan-Apr	-32.3%	Jan-Apr
Norway			-17.4%	Jan-Apr
Poland	-28.5%	Jan-Mar	-25.8%	Jan-Mar
Portugal	-20.8%	Jan-Apr	-18.4%	Jan-Apr
Romania	-48.0%	Jan-Apr	-41.2%	Jan-Apr
Serbia	-10.0%	Jan-Apr	21.3%	Jan-Apr
Slovakia	-50.7%	Jan-Apr	-53.0%	Jan-Apr
Slovenia	-36.7%	Jan-May	-31.1%	Jan-May
Spain	-26.2%	Jan-Apr	-19.7%	Jan-Apr
Sweden			-20.8%	Jan-Apr
Switzerland	-46.5%	Jan-Feb	-39.0%	Jan-Feb
Turkey	-14.4%	Jan-Apr		

Source: TourMIS (http://www.tourmis.info) (f) denotes forecast provided by member
Measures used for nights and arrivals vary by country. Available data as of 27.6.2022

2. GLOBAL TOURISM FORECAST SUMMARY

Tourism Economics' global travel forecasts are shown on an inbound and outbound basis in the following table. These are the results of the Global Travel Service (GTS) model, which is updated in detail three times per year. Forecasts are consistent with Oxford Economics' macroeconomic outlook according to estimated relationships between tourism and the wider economy. Full origin-destination country detail is available online to subscribers.

GTS Visitor Growth Forecasts, % change year

	Inbound*					Outbound**				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
data/estimate/forecast	e	f	f	f	f	e	f	f	f	f
World	**-72.5%**	**8.3%**	**97.9%**	**36.4%**	**20.8%**	**-72.3%**	**5.4%**	**102.0%**	**36.6%**	**20.8%**
Americas	**-68.4%**	**7.9%**	**91.0%**	**29.3%**	**16.4%**	**-71.0%**	**9.1%**	**101.0%**	**29.8%**	**16.7%**
North America	-68.4%	1.8%	102.5%	31.6%	17.3%	-71.0%	10.5%	104.3%	29.7%	16.7%
Caribbean	-68.5%	78.9%	30.6%	19.4%	10.5%	-68.1%	39.3%	43.4%	21.5%	15.7%
Central & South America	-68.4%	-13.4%	119.4%	28.5%	17.0%	-71.1%	0.2%	95.0%	31.3%	17.1%
Europe	**-68.1%**	**23.3%**	**78.1%**	**22.6%**	**15.6%**	**-67.1%**	**18.3%**	**81.8%**	**23.3%**	**15.6%**
ETC+2	-67.2%	19.0%	90.6%	20.5%	13.8%	-66.2%	14.2%	96.8%	21.5%	13.6%
EU 27	-66.6%	12.5%	98.6%	21.2%	13.5%	-66.2%	14.5%	96.8%	21.4%	13.5%
Non-EU	-73.6%	74.1%	16.1%	29.5%	25.4%	-70.9%	36.3%	22.7%	35.2%	27.8%
Northern	-69.9%	-6.7%	130.2%	31.9%	15.3%	-72.8%	-6.1%	200.5%	24.1%	14.7%
Southern/Mediterranean	-71.5%	58.3%	74.7%	16.5%	13.5%	-68.7%	25.7%	85.4%	21.1%	13.4%
Central/Eastern	-73.3%	33.3%	37.5%	40.7%	25.4%	-69.8%	36.0%	23.5%	31.7%	24.5%
- Central & Baltic	-72.2%	13.1%	102.3%	27.8%	16.7%	-65.5%	23.7%	56.6%	22.1%	16.0%
Asia & the Pacific	**-84.1%**	**-63.2%**	**450.3%**	**107.0%**	**37.1%**	**-83.7%**	**-55.6%**	**356.9%**	**99.9%**	**36.6%**
North East	-88.3%	-47.1%	405.0%	119.8%	39.8%	-85.2%	-53.1%	346.7%	111.5%	40.1%
South East	-81.4%	-86.4%	1080%	109.5%	37.3%	-83.1%	-74.0%	641.0%	102.4%	32.0%
South	-75.8%	-30.6%	167.3%	53.3%	23.9%	-73.6%	-22.1%	131.1%	49.9%	23.2%
Oceania	-76.3%	-43.6%	210.4%	79.9%	28.6%	-82.2%	-67.6%	594.6%	67.7%	37.1%
Africa	**-74.4%**	**21.6%**	**43.9%**	**53.3%**	**30.0%**	**-70.2%**	**-2.2%**	**53.5%**	**54.9%**	**29.8%**
Middle East	**-72.4%**	**14.5%**	**119.5%**	**29.1%**	**19.2%**	**-72.0%**	**35.0%**	**78.7%**	**32.1%**	**22.0%**

* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flows

** Outbound is based on the sum of visits to all destinations

The geographies of Europe are defined as follows:

Northern Europe is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;

Western Europe is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;

Southern/Mediterranean Europe is Albania, Bosnia-Herzegovina, Croatia, Cyprus, Greece, Italy, Malta, Montenegro, North Macedonia, Portugal, Serbia, Slovenia, Spain, and Turkey;

*Andorra, Liechtenstein, Monaco, San Marino, and Vatican City are not available within GTS, but regional forecasts are indicative.

Central/Eastern Europe is Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovakia, and Ukraine;

Central & Baltic Europe is Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, and Slovakia;

ETC+2 is all ETC members plus Sweden, and the United Kingdom

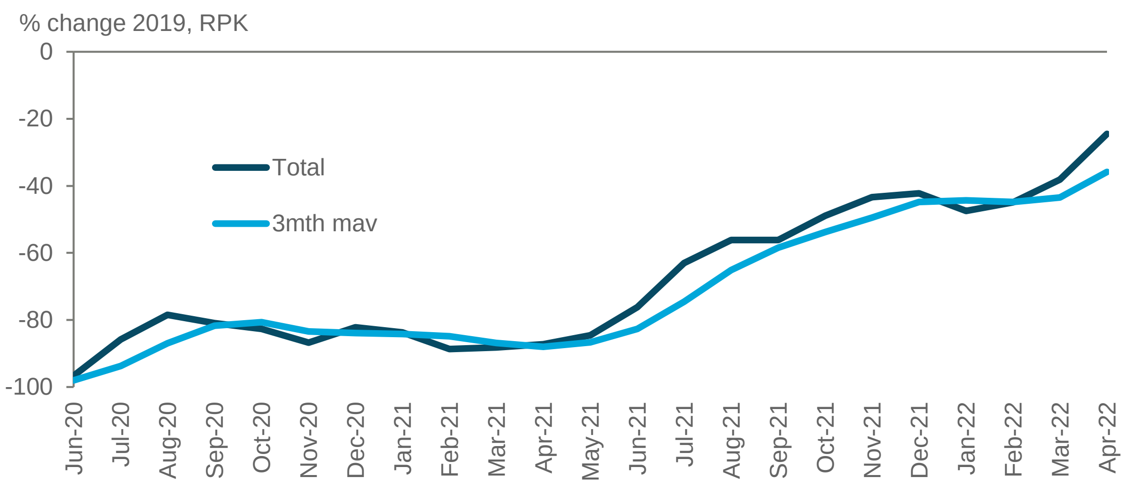
Source: Tourism Economics based on GTS as of 16.6.2022

3. RECENT INDUSTRY PERFORMANCE

AIR TRANSPORT

April saw strong recovery in air passenger transport – both globally and in Europe, despite potential headwinds from travel restrictions in China (which should soon begin to ease) and the war in Ukraine. Global RPKs increased strongly, recovering to 62.8% of April 2019's level.

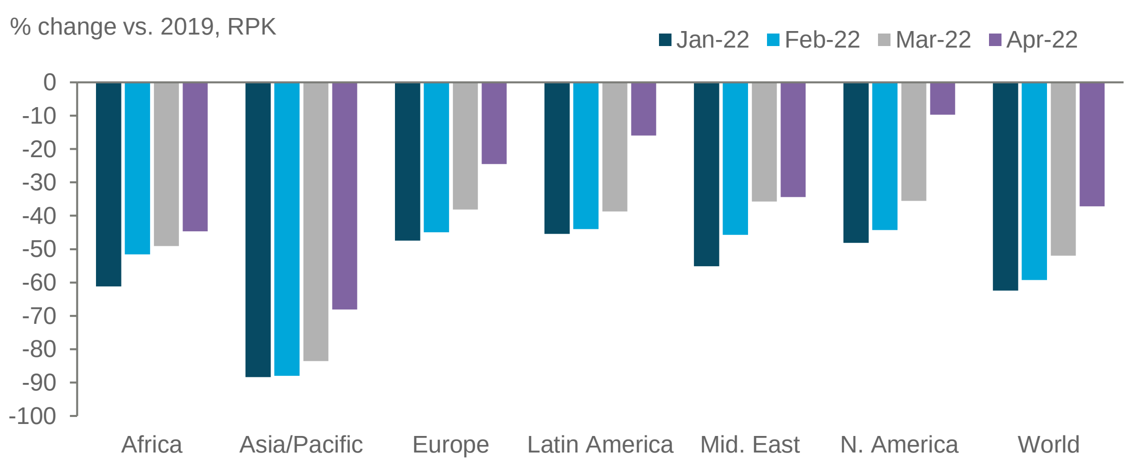
International Air Passenger Growth, Europe



Source: IATA

North America was the best-performing global region on this metric, at 90.3% of 2019 levels. Latin America was at 84.1% and Europe at 75.5% of 2019 levels. In contrast, Asia-Pacific was only at 31.9% of 2019 levels.

Monthly Air Passenger Growth



Source: IATA

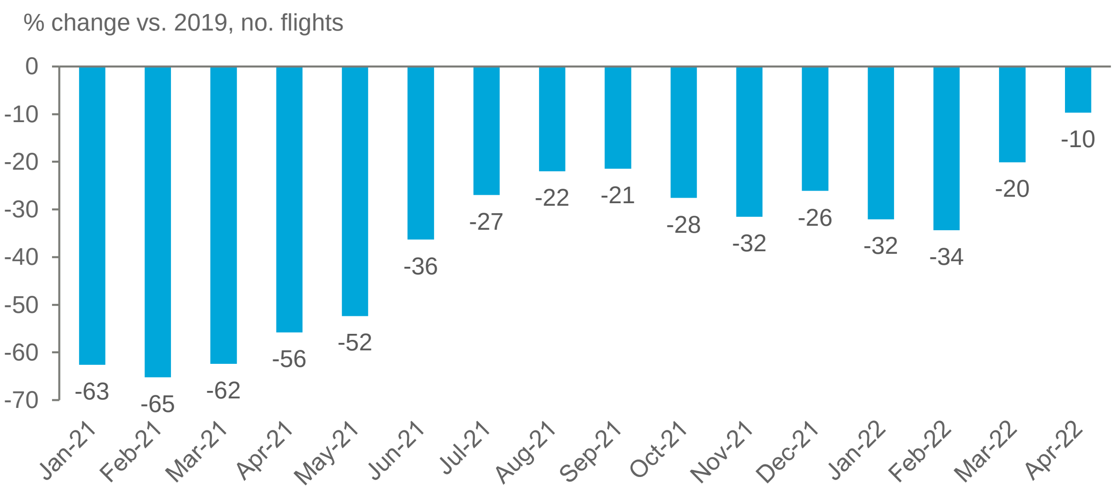
Until recently, recovery in air travel has largely been driven by domestic bookings. However, the diminishing burden of Covid-19 travel restrictions (in most parts of the world), combined with pent-up demand, has allowed international bookings to close the gap. Indexed to 2019 levels, in May, the international travel recovery was briefly ahead of its domestic counterpart.

Major European airlines have been bullish about the sharp improvements. IAG, which owns British Airways, Iberia, Vueling and Aer Lingus, forecasts passenger capacity to be around 80% of 2019 levels in the second quarter, rising to 90% by the end of the year. Lufthansa is hoping to return to an operating profit this quarter as demand for travel rises with the easing of Covid-19 restrictions in Europe. European airport body, ACI Europe, reported a two year high in Q1 for recovering airport traffic.

Although capacity continues to ramp up, it is doing so less rapidly than load factors; global load factors on international flights climbed to 62.9% in April, up from 60.2% in March. Domestic load factors have exceeded international load factors over the pandemic – but the gap has been narrowing.

Data from Eurocontrol only extends to April but confirms the overall picture in Europe. Compared to April 2019, volume of flights was down just 10% (compared to 20% in March versus March 2019). Flight volumes have recovered more robustly than air passenger volumes as a result of lower than usual load factors, but it also implies continued new capacity to enable further growth in recovery.

Flight volumes in European Network Area

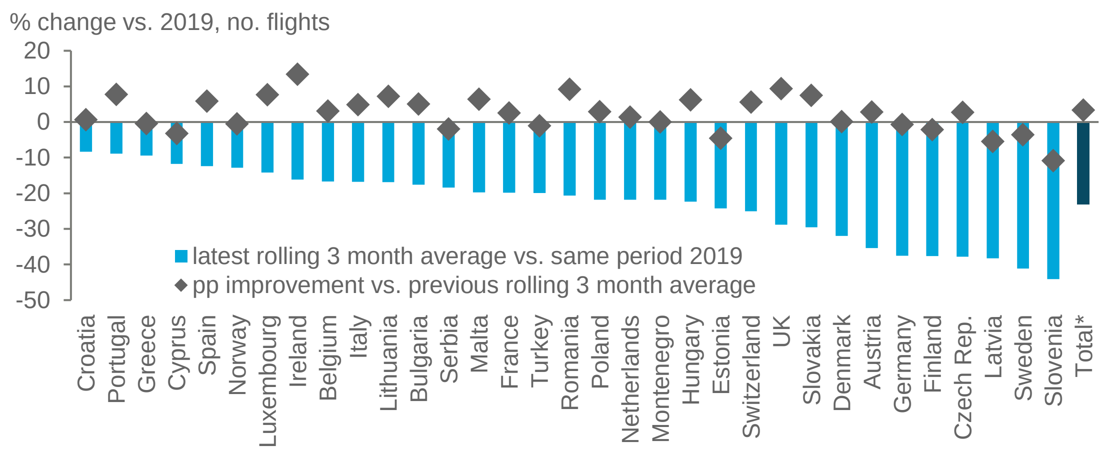


Source: Eurocontrol

Not all countries in Europe have performed equally well: based on a rolling three-month average, the best performing country was Croatia, with strong improvements observed in Ireland and Portugal over the same period.

Countries where performance has been poor include Slovenia, Sweden and Latvia. Latvia is among the countries most indirectly affected by the conflict in Ukraine. Furthermore, the results for countries such as Romania, Poland and Hungary need to be treated with some degree of caution. Generally, the war in Ukraine continues to have only minimal impacts on European air travel. However, immediately adjacent countries have seen a change in pattern thanks to refugees often taking outbound flights to another destination after arrival in one of Ukraine's neighbouring countries. Initially, this resulted in an unusual balance between outbound and inbound demand, although this quirk has subsequently waned.

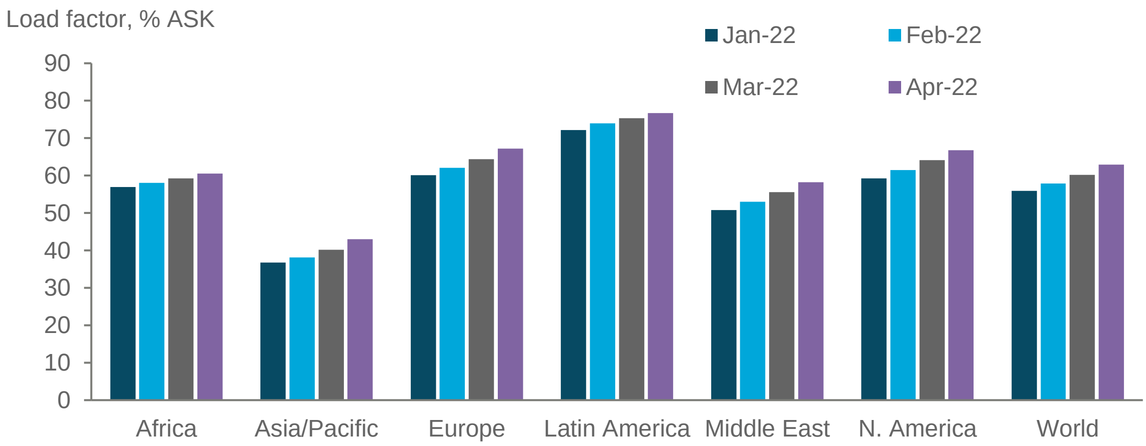
European air traffic by country, total flights arriving and departing



Source: Eurocontrol

Load factors have edged up further each month since the start of 2022. At 67.2%, European load factors continue to be notably higher than other regions with the sole exception of Latin America. Recovery in load factors continues to lag in the Asia-Pacific region (and, to a lesser extent, in the Middle East). In the case of the former, this reflects a slower shift in mentality in response to new waves of Covid-19. In the case of the latter, it reflects the region's role as an aviation hub and consequent reliance on longer-haul travel.

Monthly Passenger Load Factor



Source: IATA

While the overall picture for the aviation industry is now far more encouraging, that does not mean there are not some serious challenges for the sector. In the short-term the sector has been hit by staff shortages. Airlines have struggled to meet the sudden surge in demand. It is expected that this will be a relatively short-term issue.

Airlines are also facing rising costs, although whether this will feed through to ticket prices is a complex process. Airlines have taken on a lot of debt, and they may be forced to pass on some additional costs to passengers via air fares. Rising air fares could slow or stall the recovery. Accumulated savings over the pandemic period, combined with currently low rates of unemployment, are likely to benefit consumption in the near-term however rising prices and interest rate rises are likely to squeeze savings and disposable spending in the longer-term.

From the demand side, concerns over inflation are feeding into low – and generally, falling – consumer confidence in the advanced economies.

The fact that there is still volatility and uncertainty around has translated into shorter lead times for bookings. IATA has noted that over April and May, 92% of international and 96% of domestic bookings were for the travel no later than September. Within this, 43% of international and 63% of domestic bookings were for travel in April and May themselves. This reduction in the booking period reduces the opportunity for airlines to plan their operations and introduces a greater degree of uncertainty.

Surging inflation is not universally bad news for airlines themselves; potentially helping them deleverage debts. Although inflation is effectively a tax on savings and economic activity, it is a subsidy for debtors. Generally, nominal interest rates are still considerably beneath inflation rates, so it can be profitable to borrow – caveated by the potential for fluctuations in exchange rates.

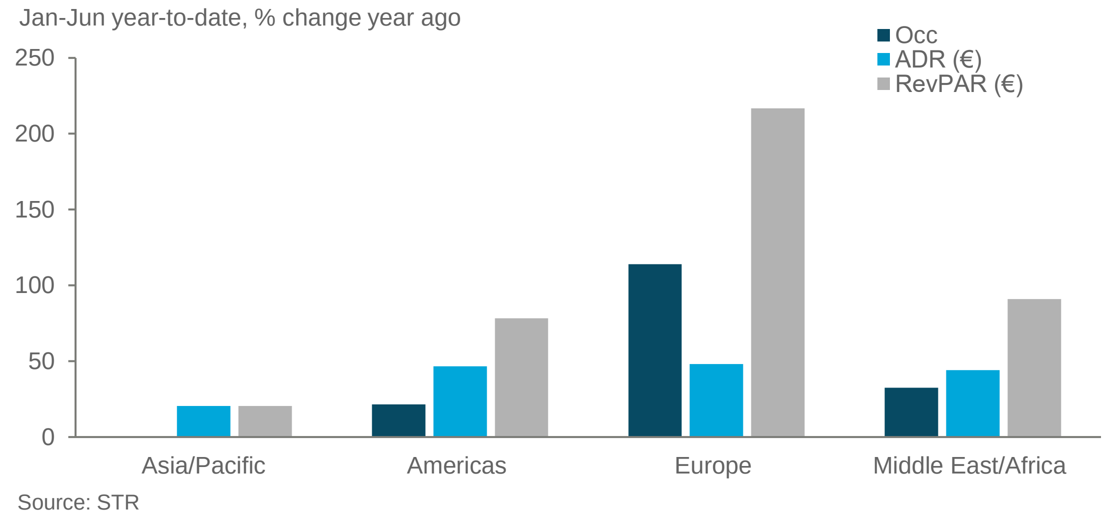
ACCOMMODATION

According to hotel performance data collected by STR, Europe was the best performing region based on year-to-date growth for the first five months of the year compared to the same period a year ago. The varying degree of Covid-19 travel restrictions in place across the world both over the first five months of this year and the same period of last year are a key part of this story.

Asia Pacific was the worst performing region due to strict lockdown measures and travel restrictions that have remained in place since 2020, providing little scope for recovery in the travel and tourism industry. On the other hand, while Europe was largely closed to tourism for the first five months of 2021, since July 2021 the introduction of the *EU Digital COVID Certificate* marked the start of Europe's travel recovery. European hotels as a whole reported occupancy growth of 114% based on year-to-date date to May compared to the same period a year ago.

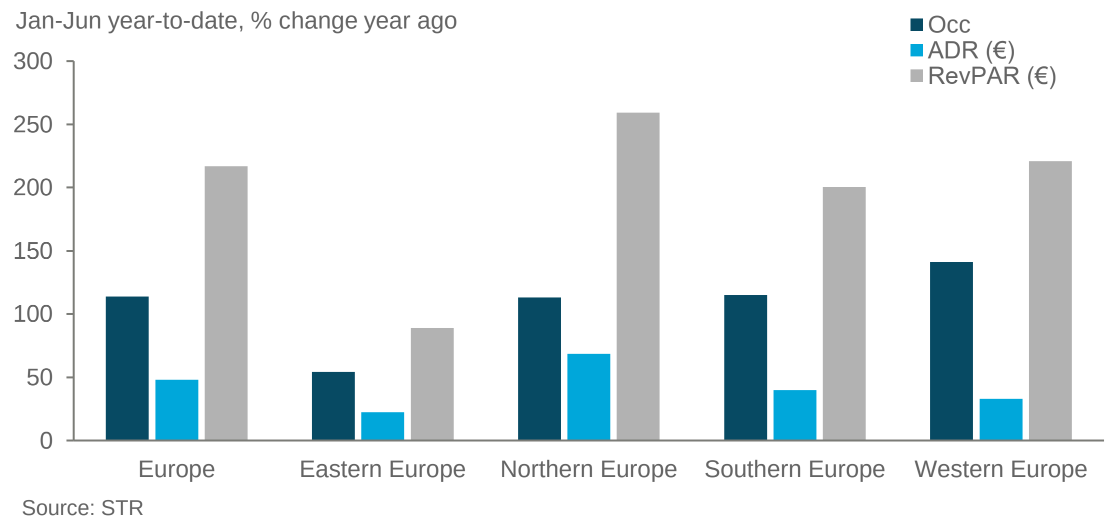
Average daily rates (ADR) were also higher (+48.1%), which yielded RevPAR growth of 217% for the region's hoteliers compared to the same period a year ago. Growth of this magnitude is notable since RevPAR growth in all other global regions remained in double-digit territory. While difficult to quantify, it is worth considering that the housing of some Ukrainian refugees in hotels across Europe will account for some portion of hotel demand across the region.

Global Hotel Performance



Eastern European hotels exhibited the weakest levels of growth based on year-to-date data to May. This should come as no surprise with Russia and Ukraine included in these performance data. Russia's ongoing conflict in Ukraine has so far done little to dampen hotel demand within Russia itself; a greater reliance on domestic demand has offered some protection against widespread travel bans which are preventing travel to and from Russia. In stark contrast, in Ukraine the conflict has had a significant impact on hotel demand and tourism demand more generally. It is also highly likely that the impact of the war has seeped into neighbouring countries, with some travellers keen to avoid travel to destinations deemed too close to the conflict's epicentre.

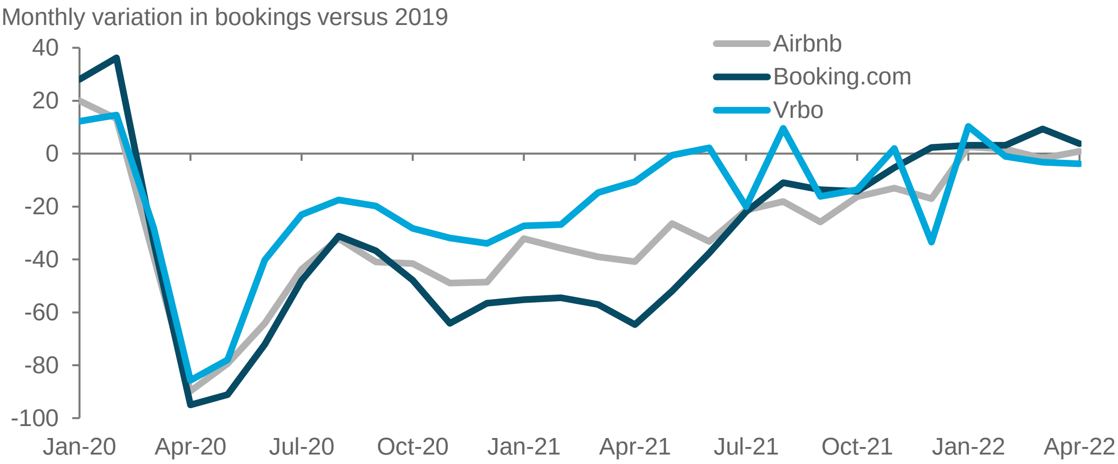
European Hotel Performance



SHORT-TERM RENTALS

Globally speaking, short-term rentals are well into the light at the end of the tunnel, with all major OTAs experiencing global demand within 4% of 2019 levels.

Variation in OTA Reservations vs. 2019



Source: Transparent

As of week 23, Europe itself is enjoying reservations only 12% lower than the same week of 2019, and furthermore, on the books occupancy through summer looks especially positive. Short-term rentals across major cities are 29% higher in occupancy for June, July and August on average, compared with hotels, which are 9% improved.

This demand is coming in slightly new shapes, with more bookings in non-urban inventory, and in terms of visitor origin, European nations mostly still experiencing a heightened proportion of domestic guests[5] relative to 2019. However, this is dwindling as we come into Summer: Spain has posted a higher percentage of international guests in June 2022 compared to 2019 for the first time post-pandemic.

Globally, this resurgence in demand is holding average daily rate significantly (24%) higher than 2019, and across European destinations there is a sharp increase in rates advertised this Summer. In turn, this escalation in demand and return is encouraging supply to increase in Europe, and professional inventory[6] in particular is growing. Untrodden ground in terms of demand trends, rate strategy and competitive professionalisation is bringing more weight to visibility through 2022.

[5] MX: Mexico, CN: Canada, AU: Australia, US: United States of America, GB: Great Britain, ES: Spain, FR: France, IT: Italy
[6] Professional inventory refers to professional managed inventory as opposed to individual hosts

4. SPECIAL FEATURE:

STAFF SHORTAGES WITHIN THE TRAVEL INDUSTRY

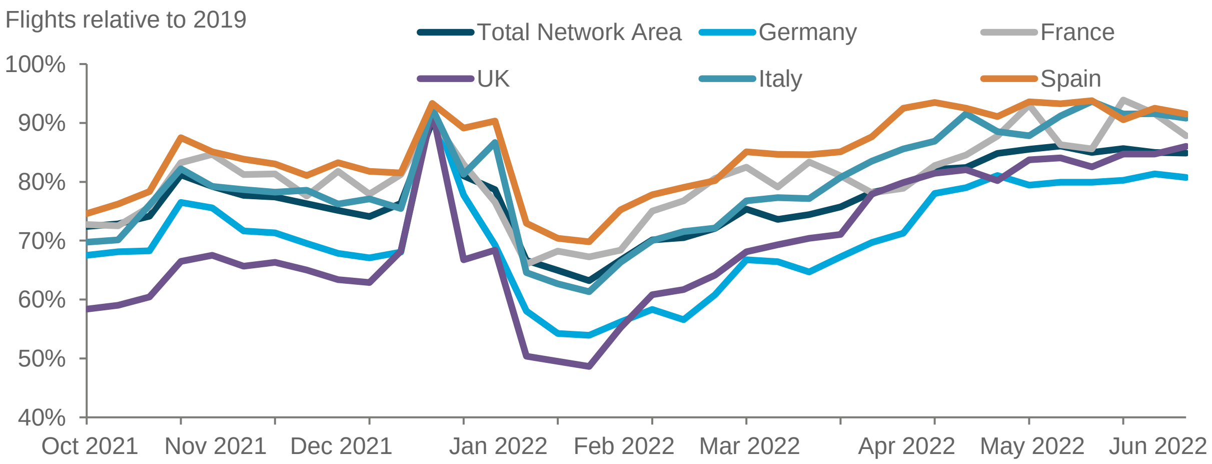
SUMMARY

- The return of demand across Europe has been quicker than many in the industry expected or had planned for.
- The impact of coronavirus on travel and tourism employment was proportionally more severe than across the economy as a whole, with many workers leaving the industry for jobs in other sectors.
- Labour markets are tight across Europe and there is not a large pool of workers ready to step into vacancies.
- Several compounding reasons, such as smaller worker pools, skills shortages and negative sentiment towards the industry, are driving the staff shortages.
- Traditionally, shortages have previously been concentrated in the hospitality sector, but following mass layoffs during the pandemic, bottlenecks are appearing in transport sector.

The removal of Covid-19 restrictions Europe-wide in the first half of 2022, increased traveller confidence and pent-up demand for travel has brought about a sudden surge in short-haul European travel. Up until this quarter, European travel and tourism has been propped-up by domestic travel. Long-haul travel remains constrained but, after a pessimistic start to the year with the Omicron wave, international arrivals figures are showing promise for a strong summer season ahead.

Most European destinations have seen rapid recovery with arrivals from major source markets reaching between 60% and 95% of 2019 levels. Although load factors remain below normal levels, Eurocontrol data suggests that the number of flights in April was closer to normal levels than peak summer of last year. (However, flight cancellations over the summer could push load factors higher.)

Flight volumes relative to 2019 in European Network Area

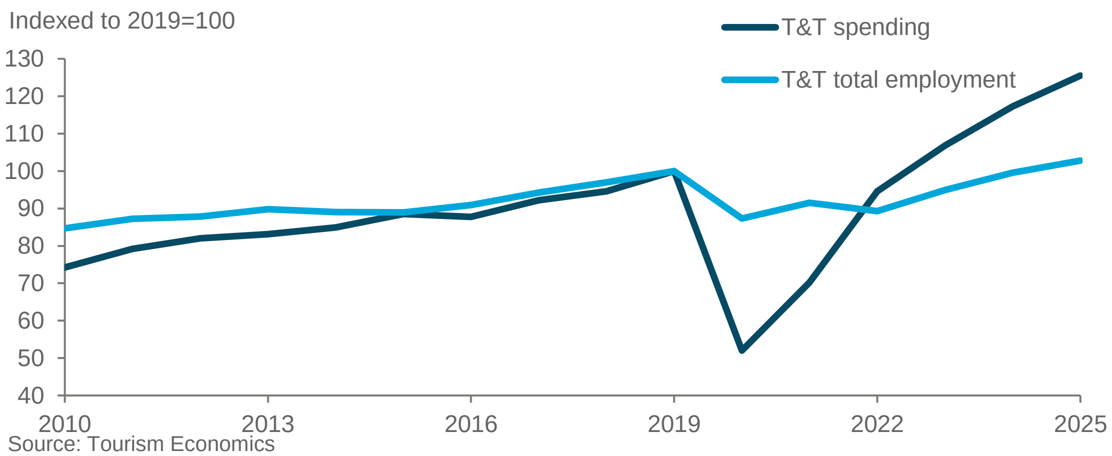


Source: Eurocontrol

ForwardKeys has indicated that as of 27 May, all bookings for May, June and July from the UK were at 93% of 2019 levels. That is likely to suggest that the growth seen in recent months are destined to continue over the summer – pent-up demand is supported by accumulated household savings and there is a distinct desire for a return to travel. That is a much faster rebound than most airlines and travel businesses in Europe had been expecting, and a lack of capacity may prove to be an obstacle for a more complete recovery.

Coronavirus had a disproportionate impact on the tourism sector, with restrictions on movement grinding the sector to a halt. The World Travel and Tourism Council (WTTC) cited that tourism employment in Europe fell by 9.3% by the close of 2020, equating to a loss of 3.6 million jobs. With the removal of job retention schemes in the latter half of 2021 (ref. Italy and France), staff previously protected by such schemes may then have been laid off. Then, due to the further drop in travel demand in Q4 of 2021, due to the outbreak of the Omicron variant, demand for workers in tourism reduced significantly.

Travel and tourism spending and employment



Source: Tourism Economics

As the previous two summers were well under 2019 levels, the impact of the layoffs had not been fully realised. With reports of understaffed airlines mass-cancelling flights and restaurants being unable to fill vacancies despite significantly increasing wages, it seems the true impact of the mass lay-offs are only now being fully understood. Fáilte Ireland (The National Tourism Development Authority in Ireland) surveyed the sector and found that 88% of businesses have had difficulty in recruiting new staff, and 68% have had difficulty in rehiring, and with the issues extending Europe-wide, staff shortages are clearly hampering the sector.

Following Europe-wide relaxation of travel restrictions in the spring of 2022, demand for travel has grown sharply, with growth being particularly notable in international travel and air travel. Domestic travel kept the sector buoyant for the preceding summers but was little in comparison to pre-Covid levels. This domestic substitution also gave more support to accommodation and hospitality sectors than transport, due to the composition of spend of domestic visitors.

Roughly 190,000 European aviation workers were made redundant over the pandemic. Although airlines are reacting with recruitment drives, it is unlikely the industry will be able to respond in time, at least within this peak summer season. The industry is citing staff shortages as the biggest issue facing air travel in the near-term. Given the Europe-wide disruption over the Easter weekend, which involved mass delays and flight cancellations, it seems doubtful the sector will fill these shortages by this year's peak summer season. The concentration of issues in the air industry also has a more immobilising impact than the more traditional hospitality staff shortages, as an understaffed aviation infrastructure may mean travellers are not able to travel at all.

Another major factor is how European labour markets have gone from record increases in lay-offs– necessitating a variety of job retention schemes across Europe in 2021 – to record tight labour markets with very low unemployment in 2022. The improvement in the labour market has been especially strong among young people, given that youth unemployment has been a problem across much of Europe for decades.

This labour market situation has resulted in workers in most countries across Europe being in high demand – across a broad variety of sectors, both within services and manufacturing. Worker shortages in the Eurozone have been most acute in Germany and France. According to the German Federal Employment Agency, in order to deal with labour shortages, the country will need around 400,000 new workers every year. Spain now plans to relax work permit immigration rules to fill vacancies in sectors such as construction.

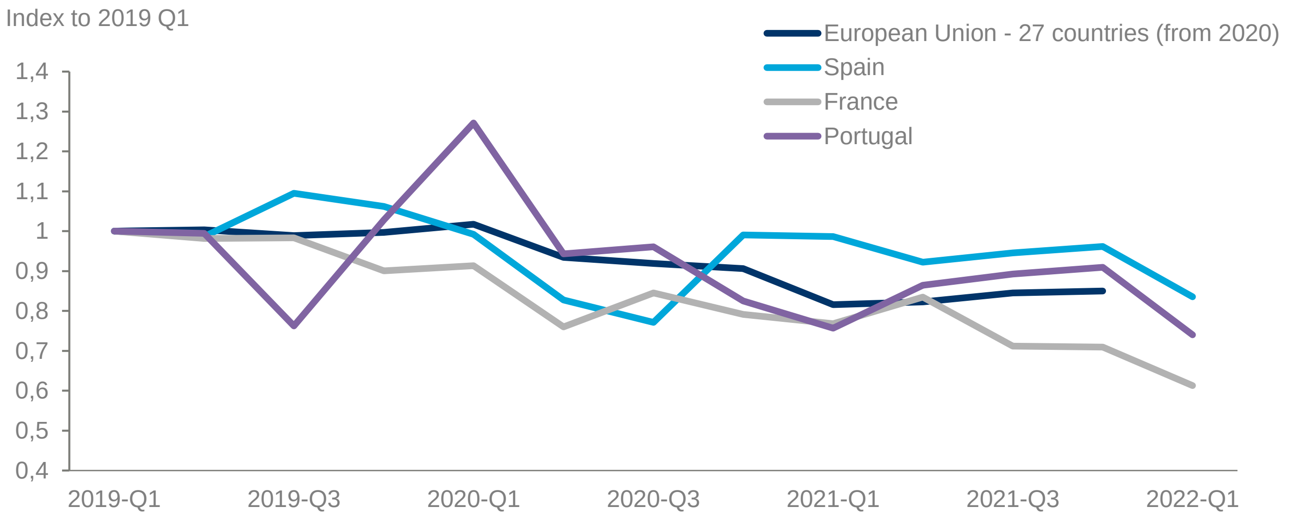
The above makes it especially difficult for the travel and tourism sector to tempt people back or to recruit new staff, simply because they are faced with so many other opportunities. One might expect this situation to ameliorate as economic growth across Europe begins to weaken. In Spain, the latest vacancies data for Q1 of 2022 saw a greater than 20% increase in services sector vacancies on the previous period. Therefore, it may be the case that over the summer European labour markets will also begin to turn. For now, there will be an increased burden on those presently employed within the industry.

The staff shortages faced by the tourism sector have several compounding factors: a reduced pool of potential workers, workers previously employed in the sector having taken up employment in other sectors, skills shortages, low pay, long lead times on security clearance and the perception of the industry as unstable post-Covid.

In the wake of the pandemic, the perception of employment in the travel and tourism industry has been damaged. Many individuals working within the sector changed jobs when made redundant, and now the tourism sector's attractiveness as an employer is not great enough to tempt them back. Job security has become far more important to individuals than it was pre-pandemic. The consultancy firm Deloitte undertook a study of European worker employee sentiment and found that 36% of individuals expected increased job insecurity post-Covid and as a result perceived job security was of more importance when considering employment.

Some inter-relating impacts will be specific to single countries. The UK will fully feel the impacts of Brexit on the available pool of workers, with a large proportion of staff previously being hired from EU countries. The minimum earnings requirement of the visa system poses challenges for recruitment of part-time and seasonal workers. However, anticipated changes to the Europe-wide visa requirements (ETIAS), which is to be fully effective by May 2023 will stilt the worker pool in the mid-term. Respondents to Fáilte Ireland's survey expressed frustration around an inability to find willing Irish staff, and yet are unable to recruit willing overseas workers due to being hampered by work permit restrictions.

Employment in Air Transport by Quarter



Source: Eurostat

For the aviation industry in particular, regulation is causing significant lead times between recruiting new workers and having them on the ground in airports. In general, the trend for employment in air transport is negative over the pandemic period for EU 27. The vetting process for staff is taking considerably longer than usual, often requiring clearance from the country's aviation body and government. The clearance issues are also being exacerbated by the fact that many ground staff at airports (baggage handlers, check-in staff, etc.) are outsourced, which is all but out of the control of airlines. Although in the long-run this may be more efficient, in the short term it is adding an extra complication in adapting quickly to the significant hike in demand. The sector has also been severely troubled with staff sickness due to Covid, particularly in the early months of this year. When Covid-19 isolation regulations were still in place, staff sickness caused staff shortages. This was felt most strongly at the beginning of 2022, when demand began to return coupled with the particularly virulent Omicron variant.

Skills shortages within certain jobs have hindered the sector since pre-pandemic. Following the migration of workers to other sectors due to the subsequent lockdowns, these shortages have been severely exacerbated. Chefs are a frequently cited example, with the intense working conditions, low pay and long hours making the role already some-what undesirable. A report published by the Centre for London in 2019 highlighted that the hospitality sector struggled with both recruitment and retention, as well as a reliance on an international workforce, with 10% of workers leaving the sector every year even pre-pandemic. Lockdowns forced chefs into other forms of employment, such as the delivery sector. With the new job offering potentially better working conditions, earning a similar wage for a shorter shift makes the change back into hospitality undesirable, especially given the perceived insecurity of the sector. Skills shortages take time to rectify, as more skilled roles require investment in education and securing an education pipeline.

Given the press coverage of shortages in the early months of this year, questions are being raised as to whether the shortages can be addressed in time for the peak summer season. The answer is likely to be sector specific. For hospitality, offering higher wages and more flexible contracts is having some beneficial impact on bringing more individuals to the sector.

One suggestion has been offering employment to Ukrainian refugees. Though this may face some initial barriers, hospitality jobs can often offer accommodation as well as employment, providing some level of stability and income for displaced individuals.

For air travel, carriers are already urged to cancel flights they do not feasibly think can be flown, to reduce both pressure and cancellations; in response to the chaotic scenes which have unfolded across a number of airports. Both Heathrow and Schiphol Airport recently announced that airlines would be forced to cut back summer flight volumes to reduce the future prospect of such scenes.

Across Europe, although there has been an active recruitment drive across the air transport sector, the time required to upskill individuals, as well as pass the required regulations, is longer than the month to peak travel season. As a result, peak summer season may see some enforced domestic travel substitution, with travellers deterred by the prospect of long wait times and the increased potential of cancelled flights. Transport strikes through summer across Europe will also have a negative effect on already strained staffing levels, as well as likely making the transport sector less appealing to new recruits. The domestic sector is likely to sustain its uplifted share of travel for the summer, and although European demand for international travel is at its highest since the pandemic, it is likely that staff shortages will restrict its maximum potential.

5. KEY SOURCE MARKET PERFORMANCE

Trends discussed in this section in some cases relate to the period January to May 2022, although actual coverage varies by destination. For most countries, the latest available data point will be earlier than this. Further detailed monthly data for origin and destination, including absolute values, can be obtained from TourMIS (http://tourmis.info).

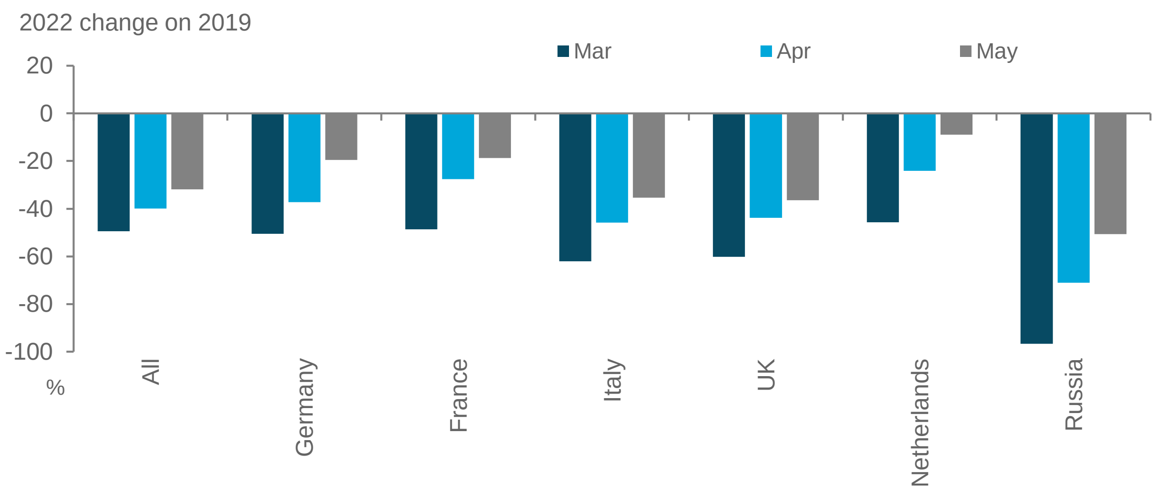
SUMMARY

- Most European source markets saw some improvement over the quarter. Those destinations reporting to May are based on too few countries.
- Some reporting destinations are now seeing levels higher than in 2019 from some source markets. However, many are still way behind 2019 levels.
- There is a marked division between long-haul countries which have witnessed significant recovery in recent months – such as the United States – and those, like Japan and China, which have struggled to start the recovery of travel to Europe.

KEY INTRA-EUROPEAN SOURCE MARKETS

Relative to the same period in 2019, arrivals across European destinations were an estimated 32.4% lower based on the latest year-to-date 2022 data. Although most countries continue to exhibit declines relative to 2019, some countries are now reporting data from specific source markets firmly above 2019 levels.

Average change in tourist arrivals by reporting month by source market, 2021

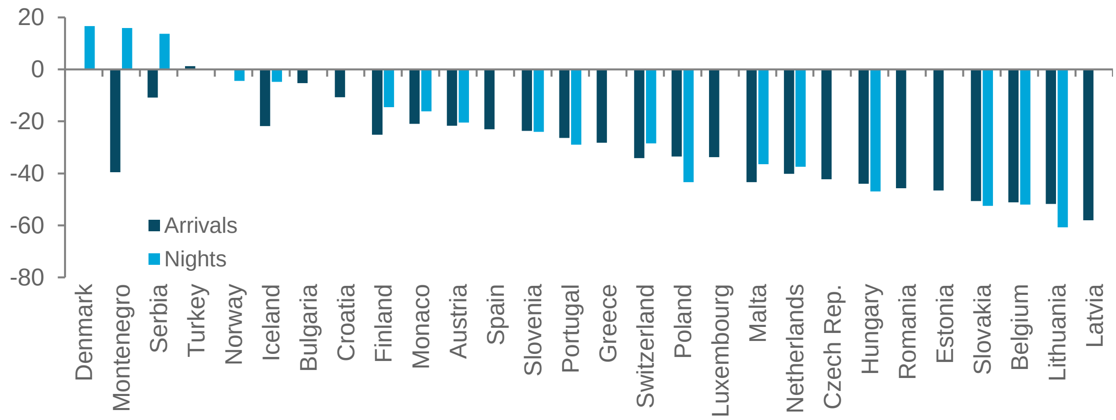


The graph above shows the average decline in tourist arrivals to European destinations by source market and reporting month compared to 2019. However, it should be noted that May as the latest month is a simple average between Monaco, Croatia, Slovenia and Iceland. It should also be noted that 'All available markets' includes all source markets for which data were reported, not just those listed and includes non-European source markets.

With the latest TourMIS update, February is the latest reporting month for only two countries in the dataset. February aside, there is a clear strong and positive relationship between the latest month of reported data and the relative recovery in visitors from most source markets. For obvious reasons, outbound travel from Russia to European destinations has recorded the worst performance among European source markets.

German Visits and Overnights to Select Destinations

2022 year-to-date*, % change relative to 2019



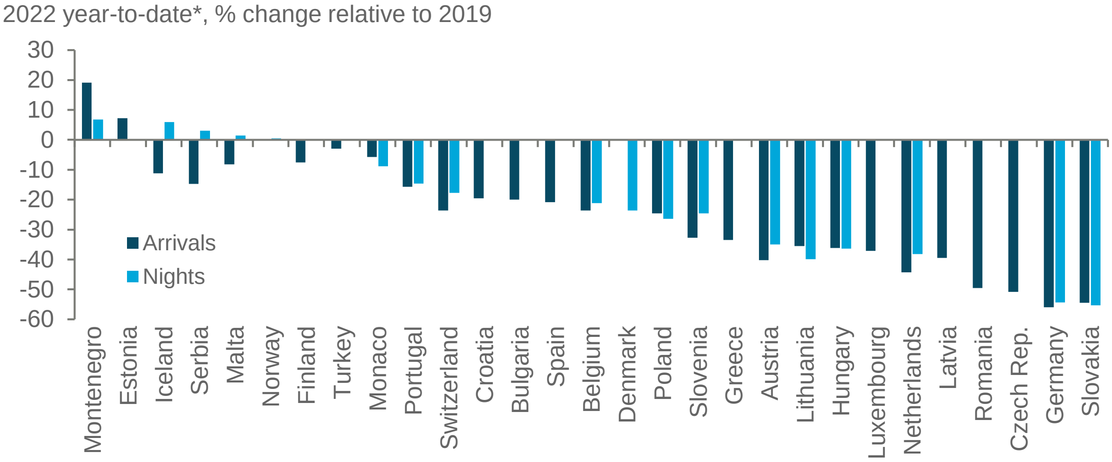
Source: TourMIS *date varies (Jan-May) by destination

Four reporting destinations have seen arrivals or nights from Germany increase relative to 2019 levels: Denmark, Montenegro, Serbia and Turkey – although in two of those cases arrivals were down while nights increased. This implies that while less tourists are visiting, those that do visit are staying longer on average. Another group of countries are now exhibiting only relatively moderate declines in nights when compared to 2019, including Norway, Iceland, Finland and Monaco. There were also strong performances in terms of arrivals for Bulgaria (-5.3%) and Croatia (-10.7%). Arrivals from Germany have improved in most months with April 37.2% down on 2019 and May down only 19.5%.

The Baltic States were among the poorest performers, possibly due to their proximity to Russia, Belarus and Ukraine. The steepest declines in German arrivals were in Latvia and Lithuania – all recording falls of over 50%. Belgium (-51.1%) and Slovakia (-50.6%) also saw arrivals decline over 50%.

The expansion of new routes from airports such as Nuremberg may well help accelerate German outbound recovery over the summer. The airport has 25 new routes, 13 operated by Ryanair following a relaunch as its base, as well as British Airways, Corendon, Eurowings and Turkish Airlines. However, data provider, OAG, has noted that in terms of overall capacity added, Germany lags many other European countries.

French Visits and Overnights to Select Destinations



Source: TourMIS *date varies (Jan-May) by destination

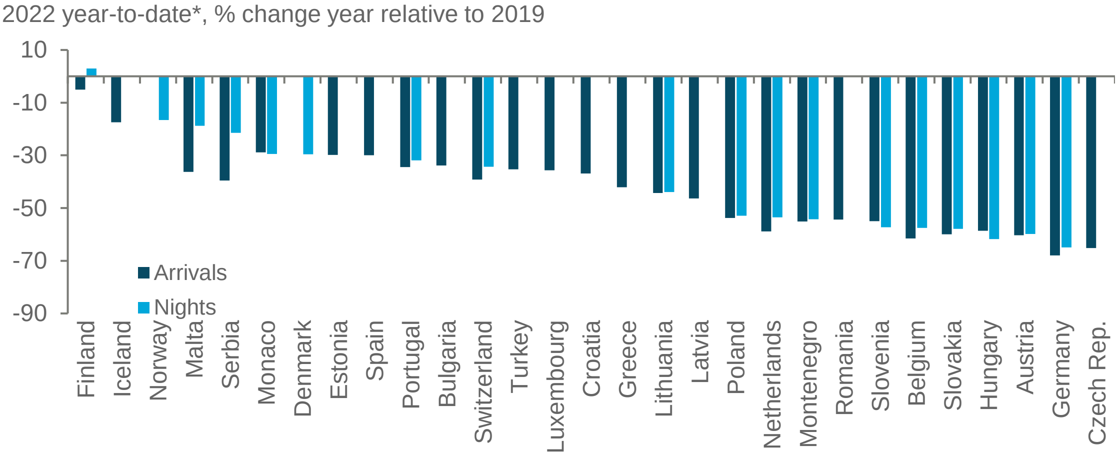
The French source market also recorded some increases on 2019 levels, particularly in Montenegro. French arrivals to Montenegro were up by nearly one fifth (19.1%). Iceland, Serbia and Malta saw French arrivals fall on 2019 levels but they stayed longer. Estonia also clocked a positive performance with arrivals up 7.2% and nights in Norway were 0.5% above 2019 levels. Romania, Slovakia, Germany and the Czech Republic were the poorest performers.

Over the past quarter, the French outbound market has shown a strong recovery with levels being only 27.6% below 2019 in April (and only 18.7% below in the countries reporting to May – although it should be noted this includes Monaco).

While the picture from the French market would seem generally optimistic, there must also be concerns over co-ordinated strike action in the transport sector. Airport workers have already called a strike in July and, more recently, French Ryanair crews have voted for 'unlimited' strike action over summer, potentially affecting flights from a range of countries including Morocco, Italy, Spain, Portugal, Greece, the UK and Ireland.

Spanish airline Vueling has announced that it will open a new route between Orly (FR) and Shannon (IE) in September. Aer Lingus had previously been expected to operate the route, but the pandemic deferred these plans. This should help improve connectivity between France and Ireland.

Italian Visits and Overnights to Select Destinations



Source: TourMIS *date varies (Jan-May) by destination

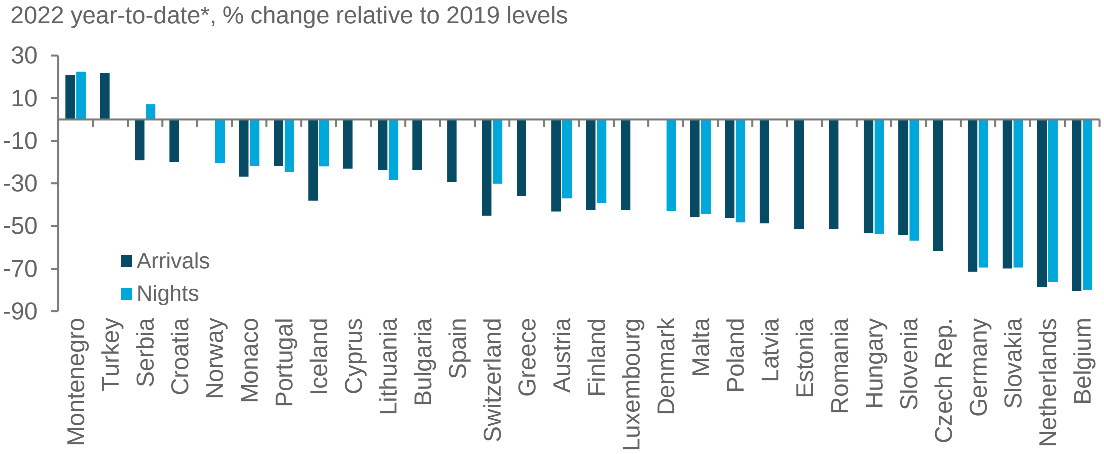
The recovery in Italian outbound tourism has been slow to start. Of all the reporting destinations, only Finland (2.9%) and Iceland (0.3%) managed to register a very slight increase in nights from Italy. Visits from Italy were still down 35.4% in April and those countries reporting to May reported an average decline of 45.8%

Among the least severe declines in visits and nights are Iceland, Norway and Malta. But visits and nights to approximately 40% of reporting countries are still down more than 50% on 2019.

Like France, Italy is also facing a potential summer of strikes. On June 8, several air traffic controllers walked out for 24 hours, disrupting travel to and from Italy and other European countries and bringing operations in several major Italian hubs to a halt.

On a more positive note, Croatia has been keen to recapture a larger share of the Italian market and several new routes are coming on stream. For example, Croatia Airlines has announced a new route between Milan and Split twice a week from the first half of June 2022, while Ryanair is introducing two new services, between Brindisi and Zagreb, and Turin and Zadar. This is on top of the re-establishment of pre-existing transport links that effectively ceased to operate during the pandemic.

British Visits and Overnights to Select Destinations



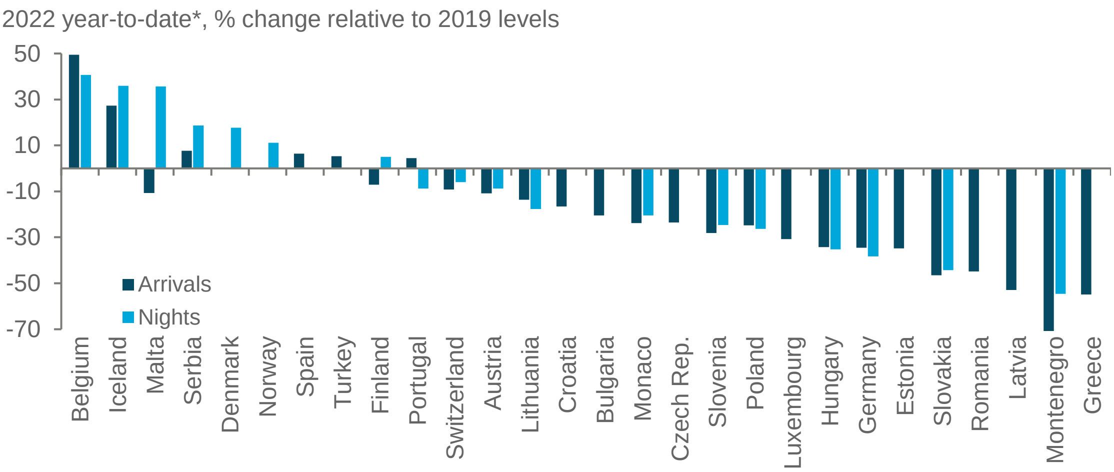
Source: TourMIS *date varies (Jan-May) by destination

As in the last quarterly report, the UK managed to provide some destinations with growth on 2019. Turkey continued to be among these but has now been joined by Montenegro and Serbia. IATA has undertaken a specific analysis of Turkey currency depreciation and its impacts on inbound travel. A year ago, there were around 12 Turkish lira to the pound sterling; now there are around 21, which offsets Turkey's inflation rate of 73.5%.

However, many reporting destinations continue to register steep falls in comparison to 2019. Both Belgium and the Netherlands reported more than 75% fewer British travellers. Some of this deficit will be Brexit-related; a portion of demand in 2019 would have been for reasons related to EU membership, and since the UK is no longer a member of the EU, this portion of demand will never return (unless the UK re-joined the EU). With the number of countries reporting to May being too small for any reliability, whereas those countries reporting to April saw an average decline in UK visitors of 31.2% compared to 2019.

While not unique to the UK, there have also been delays and cancellations at airports, primarily connected with staff shortages, with lack of access to EU workers has exacerbated the issue. The UK Airport Operators Association (AOA), the trade association representing the interests of airports across the UK, believes that the surge in demand was always going to be difficult as travel restarted. However, they are confident in the sector's ability to recruit new staff but this may not occur over the course of 2022.

Dutch Visits and Overnights to Select Destinations

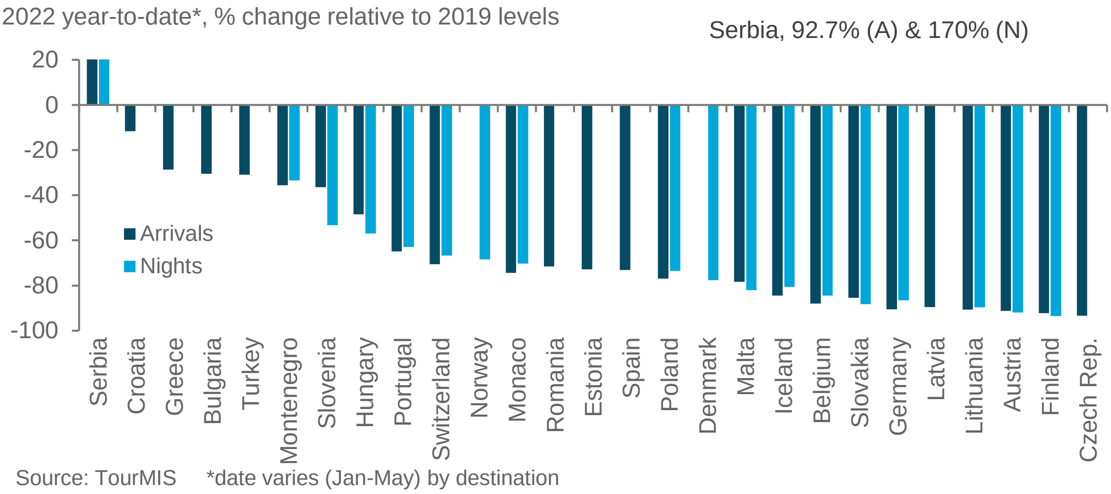


Source: TourMIS *date varies (Jan-May) by destination

For Dutch outbound tourism, countries reporting to May saw an average decline on 2019 volumes of just 8.9%. Those countries reporting to April recorded a drop on 2019 of 24.1%. Destinations recording an increase on 2019 in at least one metric now include neighbouring Belgium, Iceland, Serbia, Malta, Denmark, Norway, Spain, Turkey, Finland and Portugal. Greece, Montenegro and Latvia were the worst performing destinations for the Dutch market.

The Dutch Government is also investing in hydrogen conversion with an eye to long-term increased environmental sustainability. It has given its backing to a Dutch consortium's plan to develop a hydrogen-electric propulsion system for retrofit regional turboprops. The consortium targets having aircraft ready to fly routes between the Netherlands and London in 2028.

Russian Visits and Overnights to Select Destinations



As might be expected at present, reporting countries are very much divided along the sanctions regimes and restrictions being placed on Russian travellers. Most countries are now reporting up to at least February, so at least some impact from the war should be evident in most destinations. The EU (or rather, most countries within it) and Russia have mutual entry bans in place. Only Serbia shows growth on 2019.

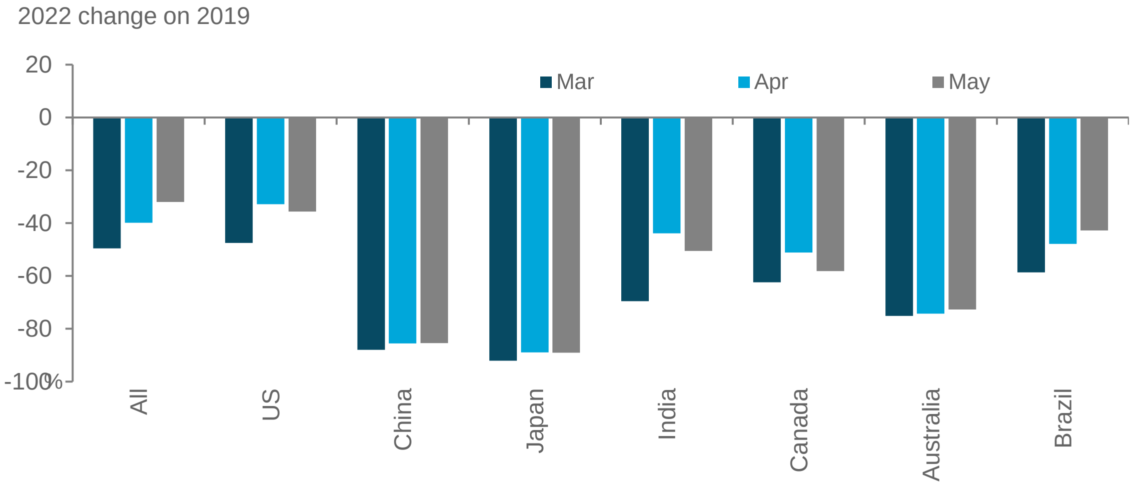
In the last quarterly report, Turkey, which has also remained open to Russian visitors, had shown growth in Russian tourism. Its location may not have helped attract Russian visitors (many Russian visitors used to arrive by charter flight and that is no longer possible) and many worry about potential currency restrictions in the country. Turkey has also become a destination of choice for Russian dissidents, and this may have altered perceptions of the country in Russia, alongside the possibility of encountering Ukrainian refugees in Turkey. Most other reporting destinations have shown steep falls in Russian visitors with some countries still recording falls in arrivals greater than 90% on 2019 levels.

Countries reporting to May show a more moderate fall in Russian arrivals because this group includes both Croatia and Slovenia, which have seen some of the most marginal declines.

NON-EUROPEAN SOURCE MARKETS

The chart below shows the average decline in tourist arrivals to European destinations by long-haul source market and reporting month. Again, it should also be noted that the *All* category includes all source markets for which data was reported, not just those listed and also comprises European source markets.

Average Decline in Tourist Arrivals by Reporting Month by Source Market, 2022

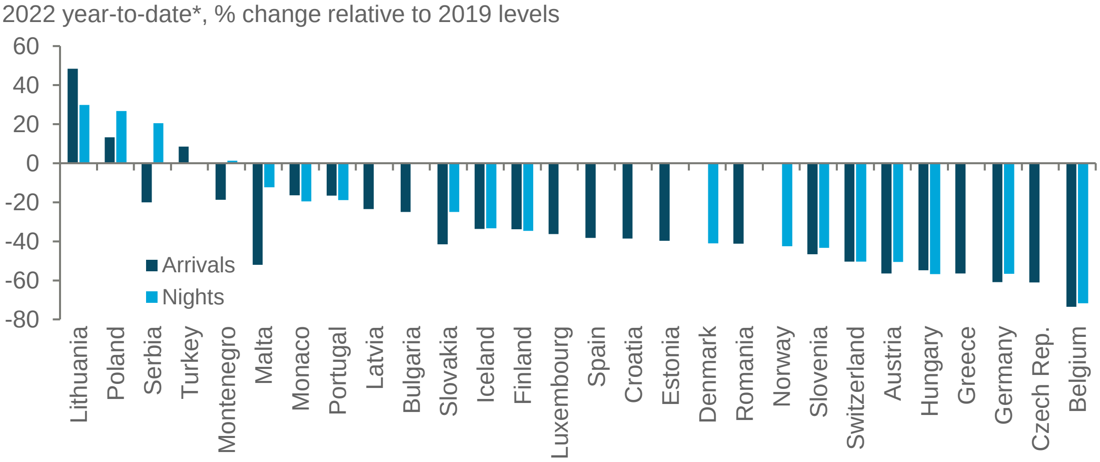


In this quarter there is a marked division between long-haul countries which have witnessed significant recovery in recent months – such as the United States (although it has gone slightly into reverse in May) – and those, like Japan and China, which have struggled to start re-visiting European destinations. India is also in a better position relative to where it was in the early months of 2022. However, Australia has struggled to make significant progress in travel recovery to European destinations.

In the last quarterly report, Serbia and Lithuania reported some of the smallest declines in terms of tourism arrivals from the United States. Lithuania now has US arrivals 48.4% above comparable 2019 levels and Poland has also recorded growth over 2019 in both nights and arrivals. Serbia reported a strong performance on nights even with fewer US visits than in 2019. Arrivals for Turkey were also up on where they were in 2019.

Some larger destinations such as Portugal (down 16.6%) recorded relatively moderate declines. There were moderate performances for Montenegro (arrivals: -18.7%; nights: +1.3%); Monaco (arrivals: -16.4%; nights: -19.6%) & Malta (-12.4% nights). No country recorded a decline in excess of 75% – although Belgium approached this and some other large destinations such as Germany were among the poorest performers.

US Visits and Overnights to Select Destinations



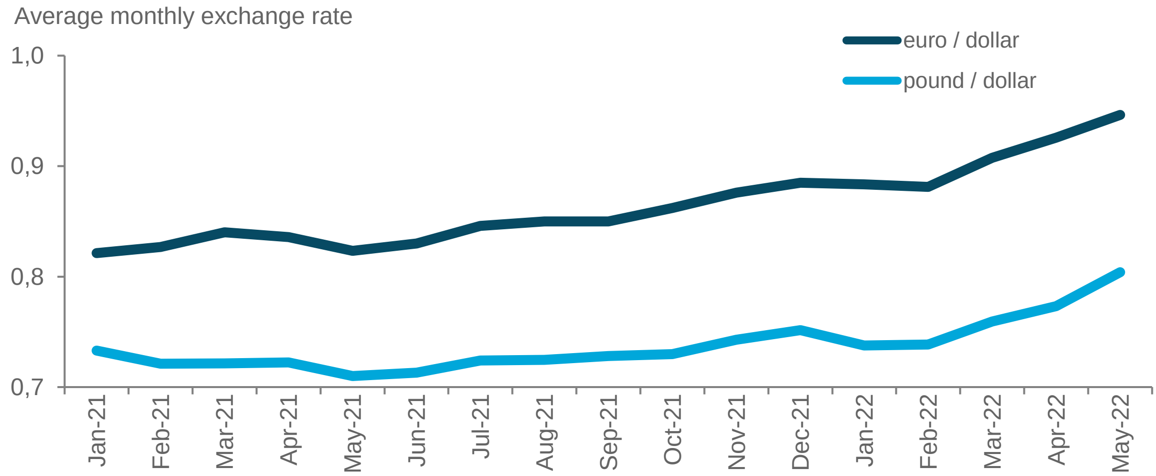
Source: TourMIS *date varies (Jan-May) by destination

One might have expected the United States to have secured its position as a 'top performer' over the quarter, among the long-haul key source markets. Overall, it is in a better place than it was three months ago, but recovery has still been relatively slow, and May has – in the destinations which have reported so far – seen a limited reversal.

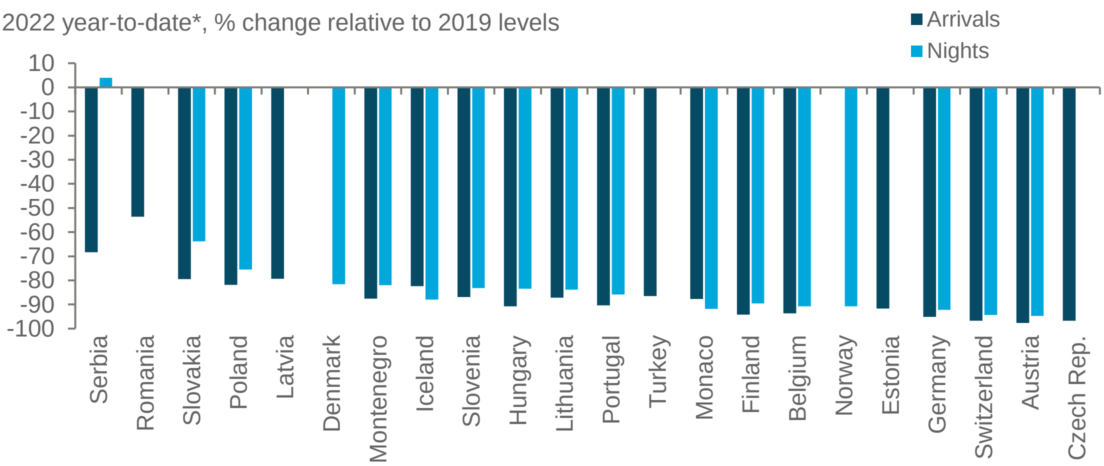
Some had feared that potential US visitors would see the Ukraine war as having some impact on the safety of all of Europe. There is little evidence that this is the case and some of the stronger performing destinations are those relatively near to Ukraine.

But it is surprising that more has not been made of the strength of the dollar. Over the course of the last months, the US dollar has appreciated around 14% against both the euro and the pound which will help American tourists counter rising prices in Europe. US citizens returning from Europe were required to take PCR tests prior to travel until the end May/beginning of June. This may have held back demand.

US dollar exchange rate vs. euro and pound



Chinese Visits and Overnights to Select Destinations



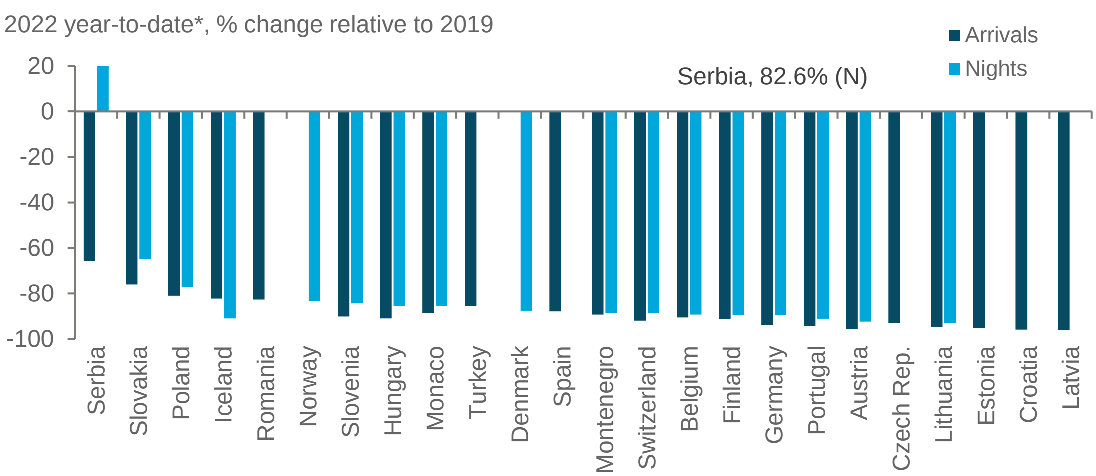
Source: TourMIS *date varies (Jan-May) by destination

No destination reported growth in arrivals from China, but Serbia has seen an increase in nights when compared to 2019. However, even this was significantly less than in the last quarterly report (+45.6%) at only 3.9% growth when compared with 2019 and arrivals were down 68.3%.

Recent stringent lockdowns in China and continued restrictions on almost all international travel have ensured that, besides Romania (-53.6%), all other reporting countries have seen falls in excess of 70% from the Chinese market. In the case of Germany, Austria, Switzerland, Croatia and the Czech Republic, these declines remain in excess of 95%.

Chinese policy towards outbound travel is subtly changing but it is not clear whether it is becoming more – rather than less – restrictive. 'Unnecessary' travel overseas will now be restricted with tighter controls on access to passports and other travel documentation. While this might only be a temporary measure, China has already cancelled sporting events scheduled for 2023 (the Asian Cup Final), nominally because of the Covid-19 situation in the country.

Japanese Visits and Overnights to Select Destinations



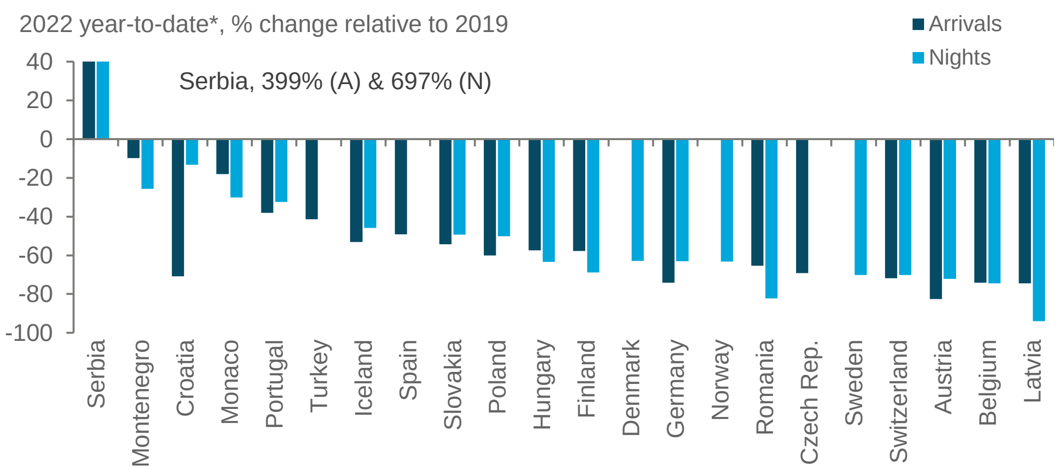
Source: TourMIS *date varies (Jan-May) by destination

Japan also seems to show no sign of improvement over the quarter. Only Serbia saw either metric increase on 2019 levels (nights up 82.6%) and this was on a strongly declining base of arrivals (-65.6%). Slovakia was the next best performing destination, with a 76.1% decline in arrivals and a 64.9% fall in nights. Most remaining reporting destinations saw declines in Japanese visitors of in excess of 80%.

There is little sign of a return to outbound travel from Japan. Furthermore, currency movements over the pandemic period will not have acted in Japanese tourists' favour. The yen has lost 15% of its value against the US dollar since the end of February, 11% against the euro, and 8% against the pound Japan has made moves to ease restrictions on inbound travellers, reopening its borders on 1 June – but with a quota system and the requirement to be accompanied by an escorted guide at all times.

Japan has reopened the Tokyo to London route but using the so-called 'polar route', reminiscent of the Cold War years, passing over Iceland, Greenland and Alaska.

Indian Visits and Overnights to Select Destinations

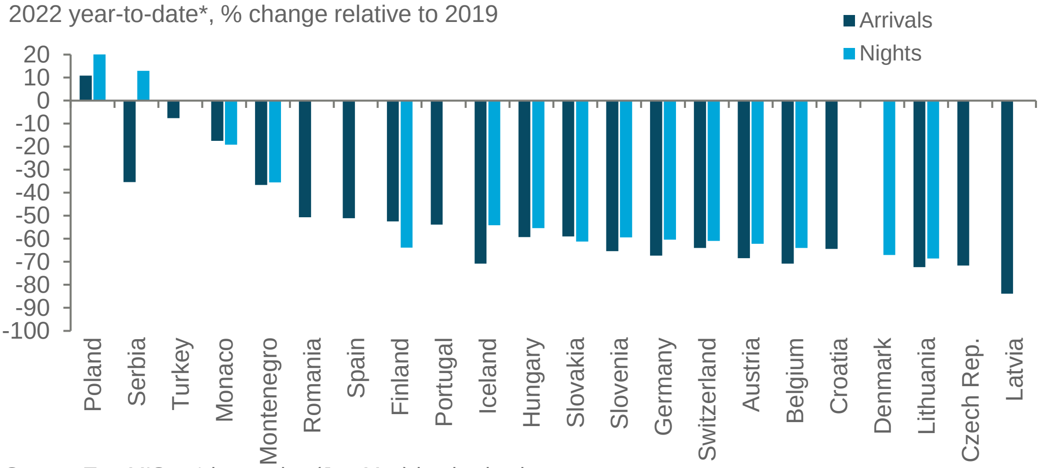


Source: TourMIS *date varies (Jan-May) by destination

As explained in previous quarterly reports, Serbia was the exception to the rule for Indian travellers thanks to its role as a loophole in the travel requirements of other countries. Vaccinated travellers presenting a negative Covid-19 test can stay in Serbia visa-free. Depending on the requirements of their final destination, they usually need to isolate for seven days. Indian arrivals to Serbia were up 399% and because of the compulsory isolation periods, nights were up even more, increasing by 697% on 2019's low base. There was continued volatility in the results for Montenegro, mainly on account of a very low base. The next smallest declines in Indian arrivals were in Monaco and Portugal.

However, whereas in the last quarter there were relatively few signs of improvement in Indian outbound travel to Europe, this time, with the exception of the limited range of countries reporting to May, there have been month on month average reporting destination improvements. Those countries reporting to March saw an average decline in arrivals of 69.6%, those to April 43.8% and the limited number of countries reporting to May, 50.5%.

Canadian Visits and Overnights to Select Destinations



Source: TourMIS *date varies (Jan-May) by destination

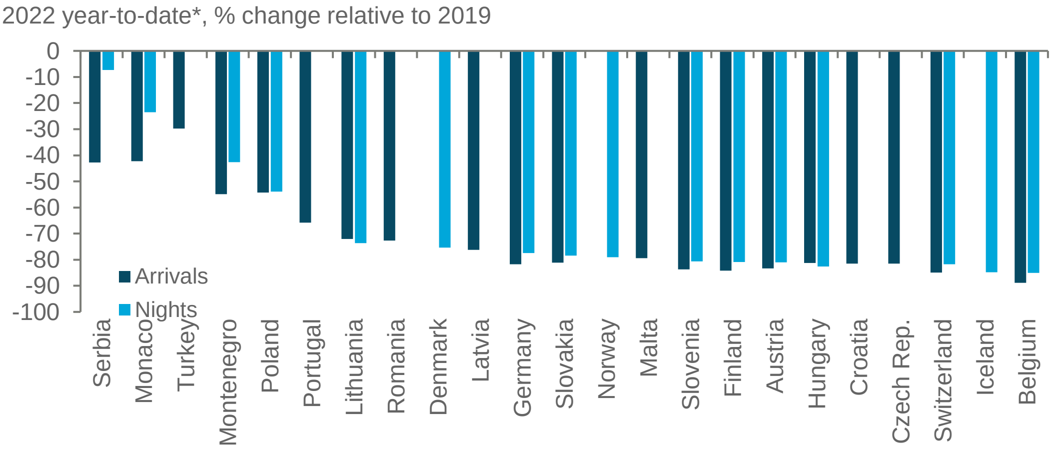
For Canadian tourism, only one country has shown growth relative to 2019: Poland, which saw a 10.8% increase in visitors and a 21.4% growth in nights. There may be a strong element of Visiting Friends and Relatives within this.

Serbia has experienced a relative decline when compared to the last quarterly report (-7.6% - although nights increased by 13%). Turkey and Monaco (-17.4%) continue to record relatively moderate declines. The Baltic States (especially Latvia) are the worst performers for the Canadian market.

While there are tentative signs of improvement in outbound travel to Europe, there is not currently a consistent trend. Those countries reporting to March saw an average decline in Canadian arrivals of 62.4%, those reporting to April a more moderate decline of 51.2% but those reporting to May a steeper decline of 58.2%.

The Canadian government has dropped the requirement that domestic and outbound travellers be fully vaccinated against Covid-19, effective from June 20. However, all re-entry requirements will remain in effect, and all passengers will continue to have to wear face masks. Foreign nationals coming to Canada will still be required to be vaccinated.

Australian Visits and Overnights to Select Destinations



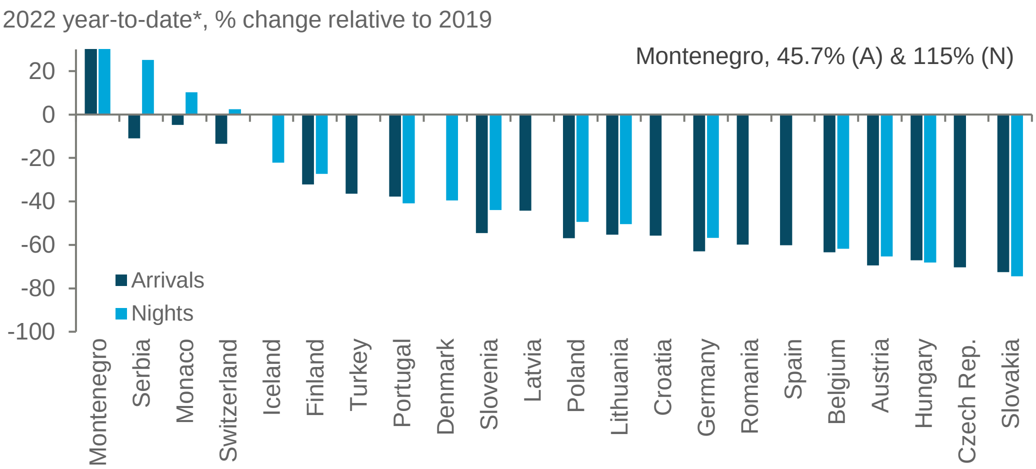
Source: TourMIS *date varies (Jan-May) by destination

As yet, no destination in Europe has reported growth on 2019 levels from Australia and many destinations have continued to report very low activity from the country. Turkey, Serbia, Montenegro and Monaco reported the least steep declines on average over the two metrics.

The averages for the latest reporting months suggest that any progress towards recovery from Australia to European destinations is agonisingly slow. Those countries reporting to March saw an average decline of Australian visitors of 75.1%, those to April 74.3% and those to May, 72.7%.

More than half of all reporting countries recorded declines in excess of 70%. Despite this, Qantas will fly its first non-stop flights from Sydney to London and New York in 2025 with new ultra-long-haul jets. The flag-carrier has purchased a new fleet of Airbus A350-1000 jets capable of direct flights to any city in the world. This suggests that airlines have full confidence in a return of Australian outbound travel to Europe.

Brazilian Visits and Overnights to Select Destinations



Source: TourMIS *date varies (Jan-May) by destination

Montenegro was the strongest performing country for Brazilian travellers with nights up 115% on 2019 levels – bearing in mind that that will have been from a low base. Montenegro was the only reporting destination country for which both arrivals and nights have exceeded 2019 levels. Serbia, Monaco and Switzerland saw a more mixed picture with arrivals down but nights higher than in 2019.

There are some tentative signs of overall outbound travel to Europe improving. Those countries reporting to March registered a 58.6% average decline in arrivals. Those reporting to April recorded a less steep 47.8% decline and those to May a 42.7% decline. However, many destinations continue to see little indication of improved activity from Brazil.

6. ORIGIN MARKET SHARE ANALYSIS

Based on Tourism Economics' Global Travel Service (GTS) model, the following charts and analysis show Europe's evolving market position – in absolute and percentage terms – for selected source markets.

Data in these charts and tables relate to reported arrivals in all destinations as a comparable measure of outbound travel for the calculation of market share.

For example, US outbound figures featured in the analysis are larger than reported departures in national statistics as long-haul trips often involve travel to multiple destinations. In 2014, US data reporting shows 11.9 million departures to Europe while the sum of European arrivals from the US was 23.4 million. Thus, each US trip to Europe involved a visit to two destinations on average.

The geographies of Europe are defined as follows:

> Northern Europe *is Denmark, Finland, Iceland, Ireland, Norway, Sweden, and the UK;*
>
> Western Europe *is Austria, Belgium, France, Germany, Luxembourg, Netherlands, and Switzerland;*
>
> Southern/Mediterranean Europe *is Albania, Bosnia-Herzegovina, Croatia, Cyprus, North Macedonia, Greece, Italy, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain, and Turkey;*
>
> Central/Eastern Europe *is Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russian Federation, Slovakia, and Ukraine.*

United States Market Share Summary

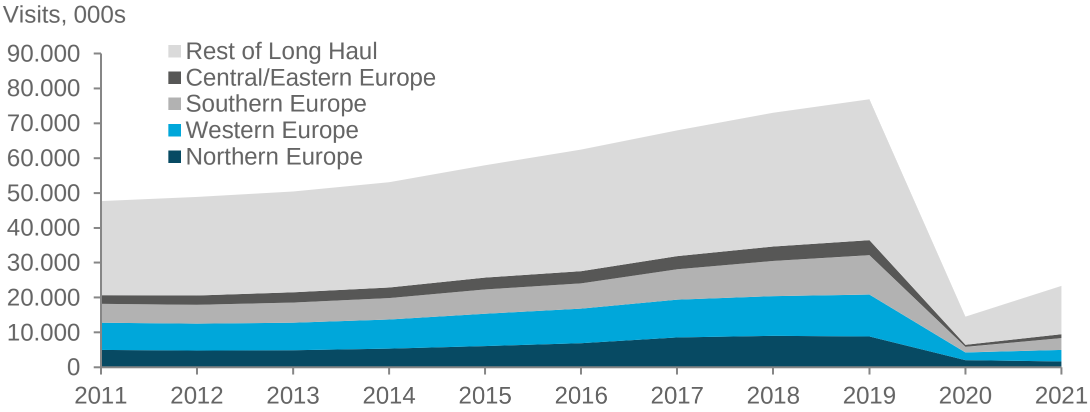
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	44,139	-	27.4%	235.0%	-	-57.6%	-
Long haul	23,382	53.0%	29.3%	262.0%	57.2%	-62.6%	60.0%
Short haul	20,756	47.0%	25.0%	204.6%	42.8%	-50.2%	40.0%
Travel to Europe	9,446	21.4%	33.6%	325.1%	27.2%	-65.8%	26.5%
European Union	5,873	13.3%	42.2%	481.2%	23.1%	-74.7%	22.3%
Northern Europe	1,688	3.8%	41.5%	467.3%	6.5%	-75.7%	6.7%
Western Europe	3,263	7.4%	32.3%	304.6%	8.9%	-67.1%	9.5%
Southern Europe	3,386	7.7%	29.9%	269.9%	8.5%	-53.4%	7.0%
Central/Eastern Europe	1,108	2.5%	34.3%	337.1%	3.3%	-68.2%	3.3%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

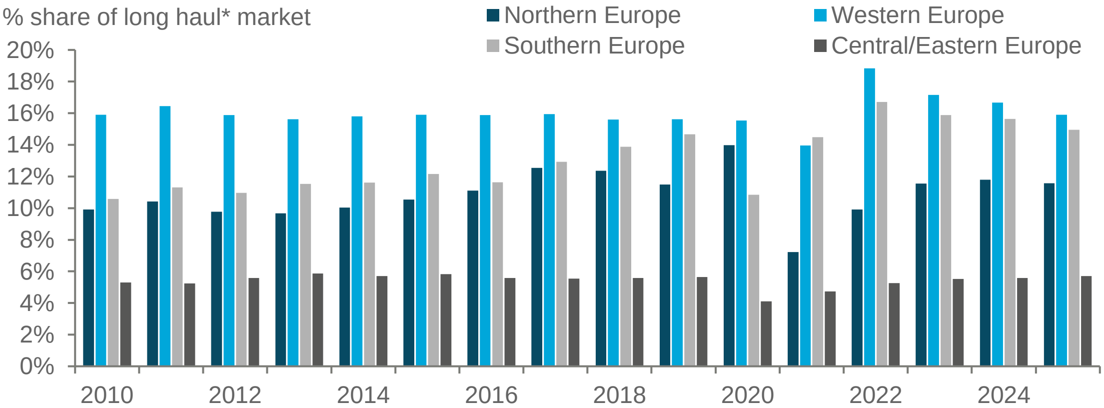
United States Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of American Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Canada Market Share Summary

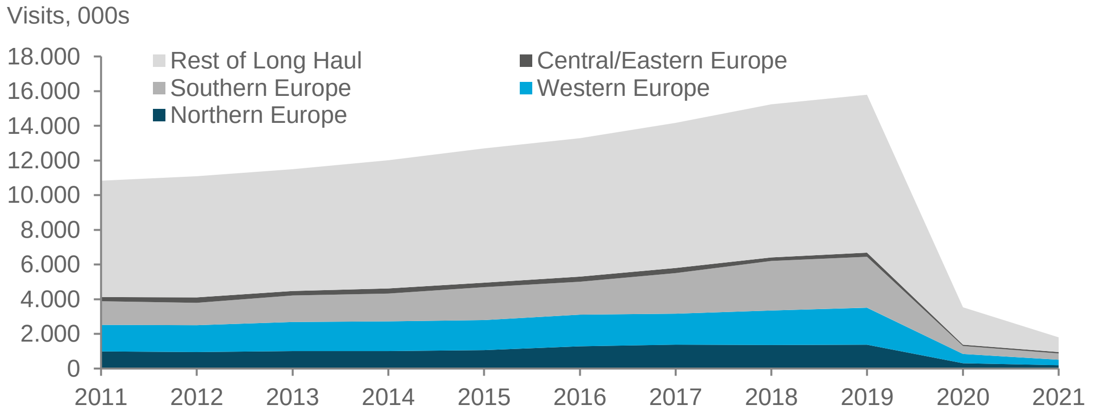
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	4,794	-	57.9%	881.7%	-	-86.0%	-
Long haul	1,804	37.6%	58.9%	913.7%	38.9%	-86.4%	38.7%
Short haul	2,990	62.4%	57.3%	862.4%	61.1%	-85.8%	61.3%
Travel to Europe	954	19.9%	48.9%	631.5%	14.8%	-82.0%	15.5%
European Union	1,321	27.6%	36.7%	377.3%	13.4%	-72.1%	13.8%
Northern Europe	190	4.0%	49.9%	656.8%	3.0%	-85.2%	3.7%
Western Europe	322	6.7%	47.6%	601.6%	4.8%	-82.3%	5.3%
Southern Europe	361	7.5%	52.7%	730.1%	6.4%	-81.0%	5.5%
Central/Eastern Europe	81	1.7%	28.7%	253.2%	0.6%	-72.9%	0.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

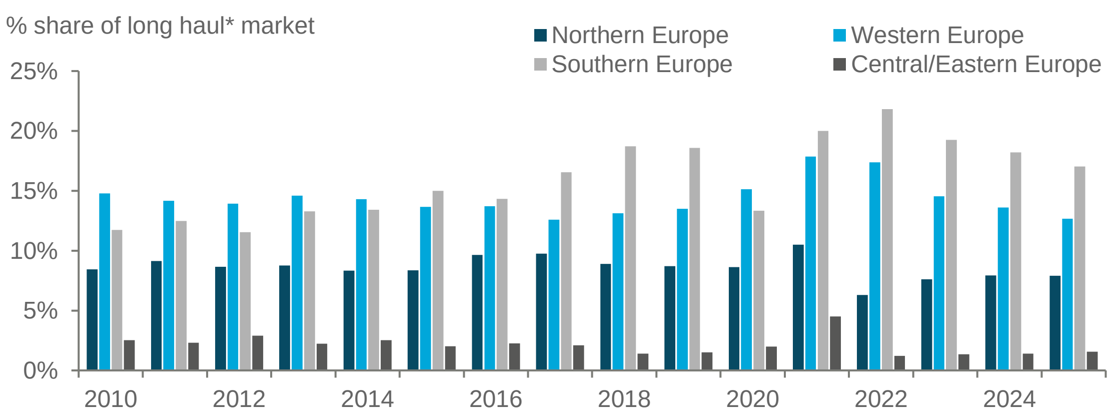
Canada Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of Canadian Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Mexico Market Share Summary

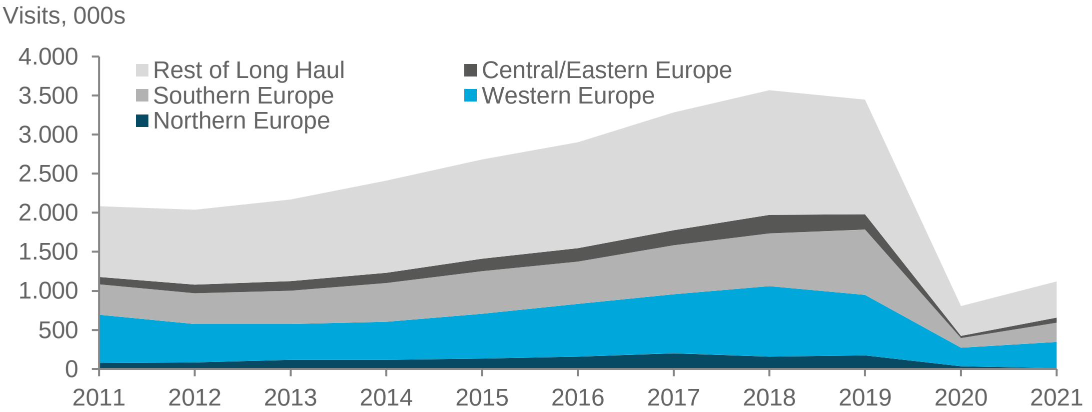
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	11,598	-	15.3%	104.2%	-	-47.6%	-
Long haul	1,120	9.7%	24.7%	201.4%	14.3%	-61.4%	13.1%
Short haul	10,478	90.3%	14.1%	93.8%	85.7%	-45.5%	86.9%
Travel to Europe	657	5.7%	22.5%	175.9%	7.7%	-57.6%	7.0%
European Union	394	3.4%	31.5%	293.1%	6.5%	-69.6%	5.9%
Northern Europe	10	0.1%	78.6%	1717.4%	0.7%	-94.0%	0.7%
Western Europe	337	2.9%	15.9%	109.6%	3.0%	-50.1%	3.1%
Southern Europe	247	2.1%	24.6%	200.6%	3.1%	-54.3%	2.4%
Central/Eastern Europe	63	0.5%	24.8%	202.2%	0.8%	-63.9%	0.8%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

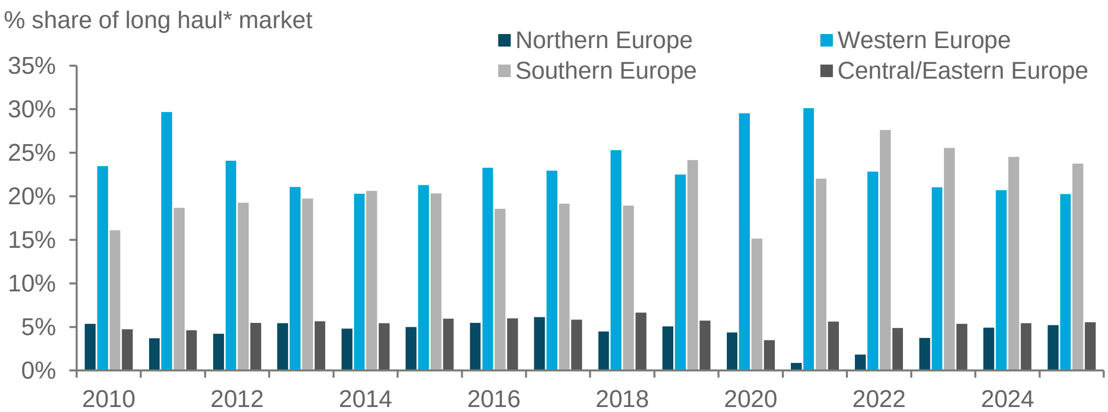
Mexico Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Europe's Share of Mexican Market



*Long haul defined as tourist arrivals to destinations outside North America

Source: Tourism Economics

Argentina Market Share Summary

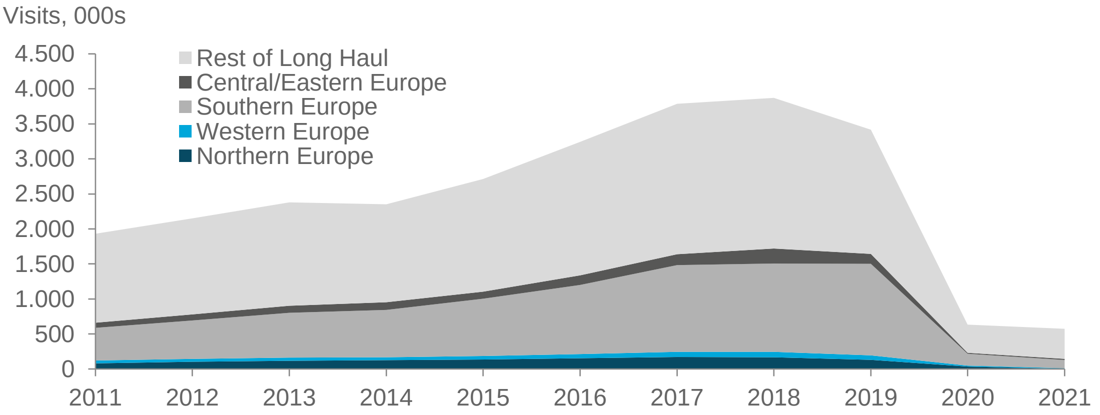
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	1,995	-	36.4%	372.9%	-	-83.2%	-
Long haul	574	28.8%	41.5%	466.8%	34.5%	-82.3%	27.4%
Short haul	1,421	71.2%	34.2%	335.0%	65.5%	-83.5%	72.6%
Travel to Europe	146	7.3%	55.6%	811.5%	14.1%	-89.1%	11.3%
European Union	215	10.8%	39.6%	429.7%	12.1%	-77.1%	7.9%
Northern Europe	2	0.1%	124.2%	5561.4%	1.4%	-98.5%	1.3%
Western Europe	8	0.4%	50.5%	671.0%	0.6%	-87.5%	0.5%
Southern Europe	119	6.0%	53.5%	751.1%	10.7%	-88.0%	8.3%
Central/Eastern Europe	17	0.9%	50.0%	658.3%	1.4%	-87.2%	1.1%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

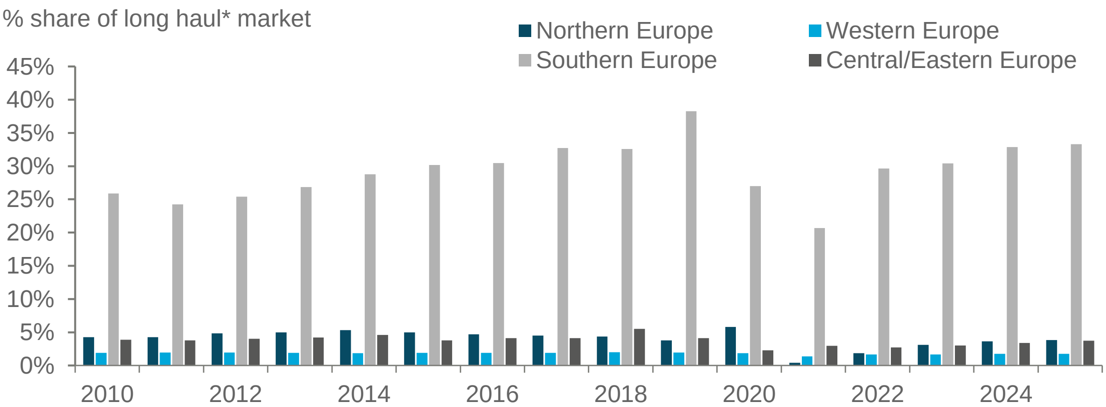
Argentina Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

Europe's Share of Argentine Market



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

Brazil Market Share Summary

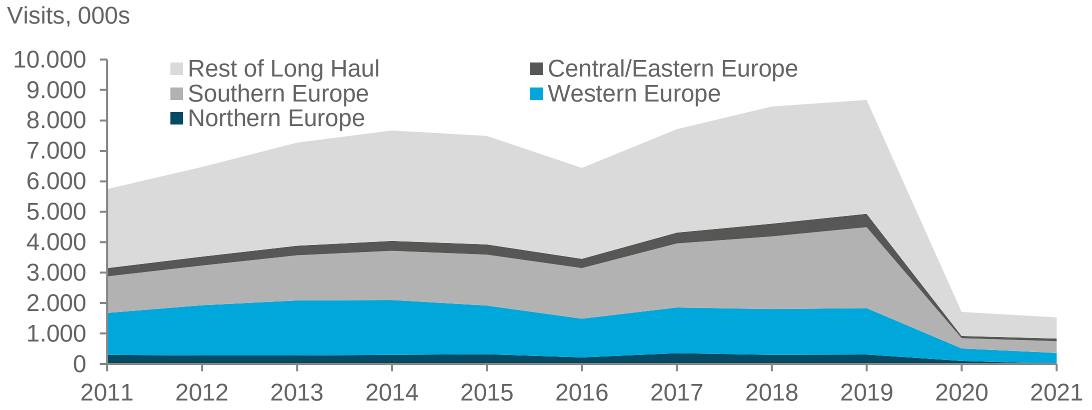
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	1,963	-	44.7%	533.3%	-	-78.2%	-
Long haul	1,534	78.1%	41.9%	476.1%	71.1%	-76.2%	71.6%
Short haul	429	21.9%	53.0%	737.8%	28.9%	-83.2%	28.4%
Travel to Europe	835	42.5%	42.7%	491.8%	39.7%	-75.8%	38.4%
European Union	839	42.7%	39.0%	418.1%	34.9%	-76.7%	40.0%
Northern Europe	6	0.3%	121.0%	5166.2%	2.6%	-97.2%	2.4%
Western Europe	360	18.4%	32.7%	312.1%	11.9%	-71.7%	14.2%
Southern Europe	384	19.5%	47.6%	599.4%	21.6%	-76.8%	18.4%
Central/Eastern Europe	85	4.3%	39.7%	431.5%	3.6%	-72.4%	3.4%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

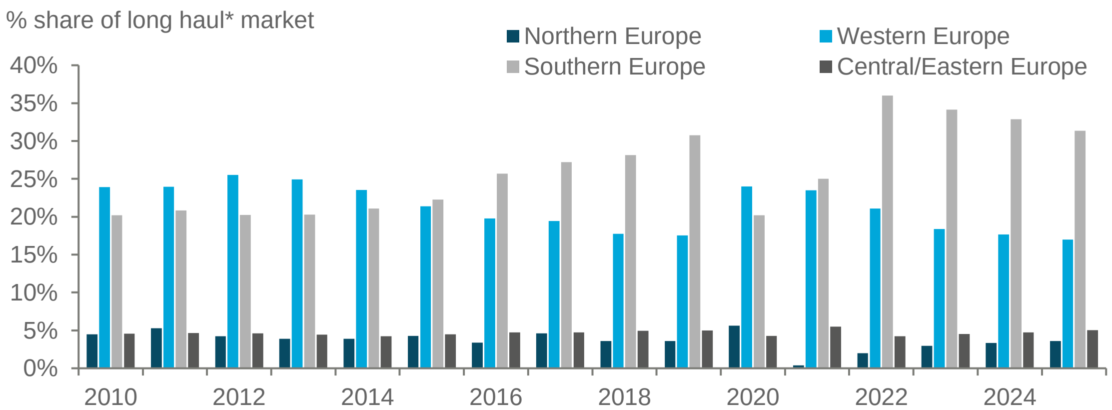
Brazil Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

Europe's Share of Brazilian Market



*Long haul defined as tourist arrivals to destinations outside South America

Source: Tourism Economics

India Market Share Summary

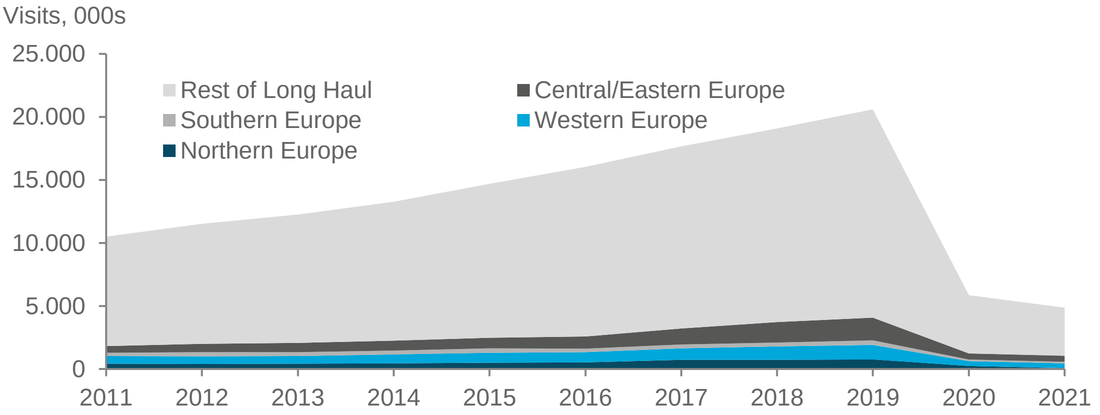
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	5,165	-	36.4%	371.7%	-	-69.8%	-
Long haul	4,870	94.3%	36.4%	371.9%	94.3%	-69.6%	93.6%
Short haul	295	5.7%	36.2%	369.4%	5.7%	-72.9%	6.4%
Travel to Europe	1,046	20.3%	33.5%	324.6%	18.2%	-59.6%	15.1%
European Union	726	14.0%	21.3%	162.4%	7.8%	-45.5%	7.8%
Northern Europe	69	1.3%	63.9%	1081.3%	3.4%	-86.7%	3.0%
Western Europe	372	7.2%	27.5%	236.4%	5.1%	-54.6%	4.8%
Southern Europe	129	2.5%	26.5%	224.3%	1.7%	-51.8%	1.6%
Central/Eastern Europe	476	9.2%	32.7%	310.7%	8.0%	-51.5%	5.7%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

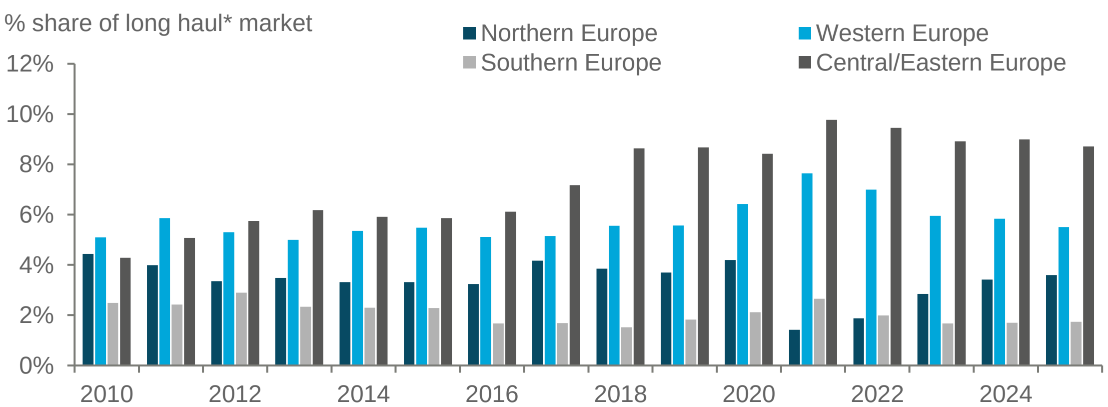
India Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

Europe's Share of Indian Market



*Long haul defined as tourist arrivals to destinations outside South Asia

Source: Tourism Economics

China Market Share Summary

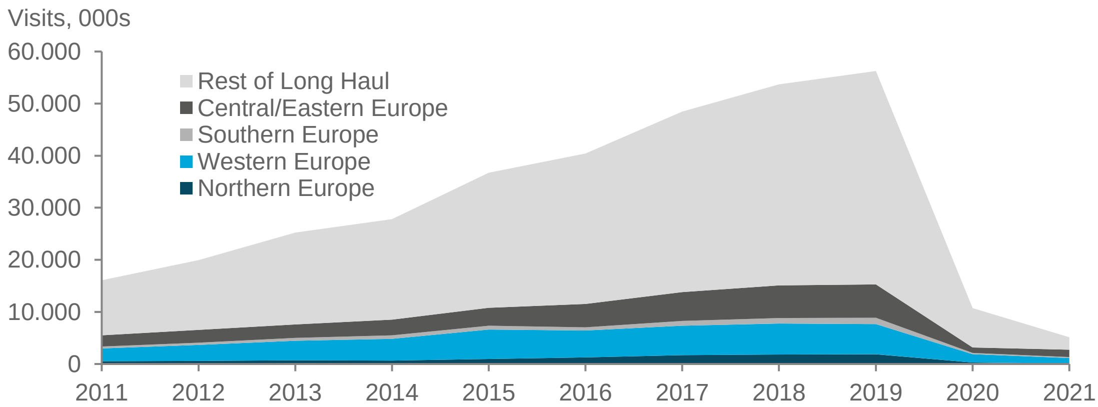
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	12,429	-	63.0%	1051.1%	-	-87.1%	-
Long haul	5,108	41.1%	66.5%	1178.5%	45.6%	-87.4%	42.0%
Short haul	7,321	58.9%	60.4%	962.2%	54.4%	-86.9%	58.0%
Travel to Europe	**2,744**	**22.1%**	**42.1%**	**479.6%**	**11.1%**	**-76.1%**	**11.9%**
European Union	2,182	17.6%	31.2%	289.2%	5.9%	-67.4%	6.9%
Northern Europe	114	0.9%	77.9%	1683.1%	1.4%	-91.0%	1.3%
Western Europe	1,031	8.3%	43.1%	500.3%	4.3%	-79.9%	5.3%
Southern Europe	188	1.5%	44.3%	524.7%	0.8%	-71.6%	0.7%
Central/Eastern Europe	1,411	11.3%	35.7%	360.8%	4.5%	-68.2%	4.6%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

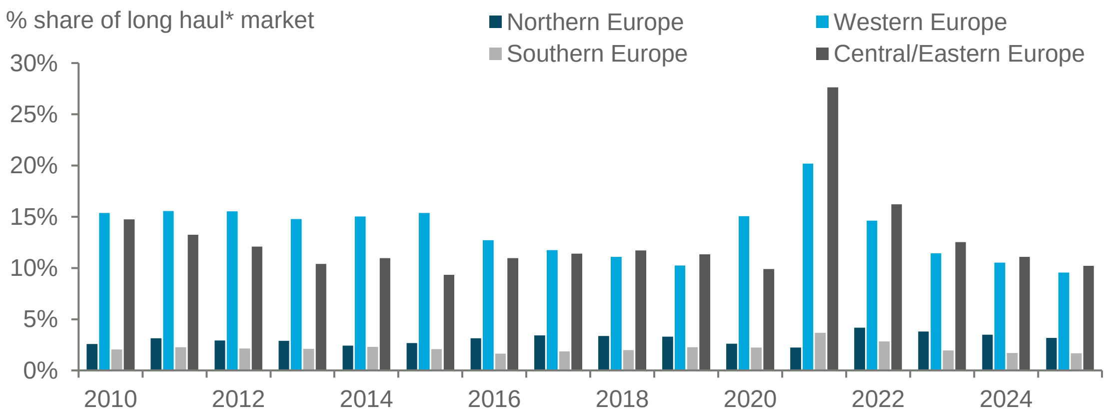
China Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Europe's Share of Chinese Market



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Japan Market Share Summary

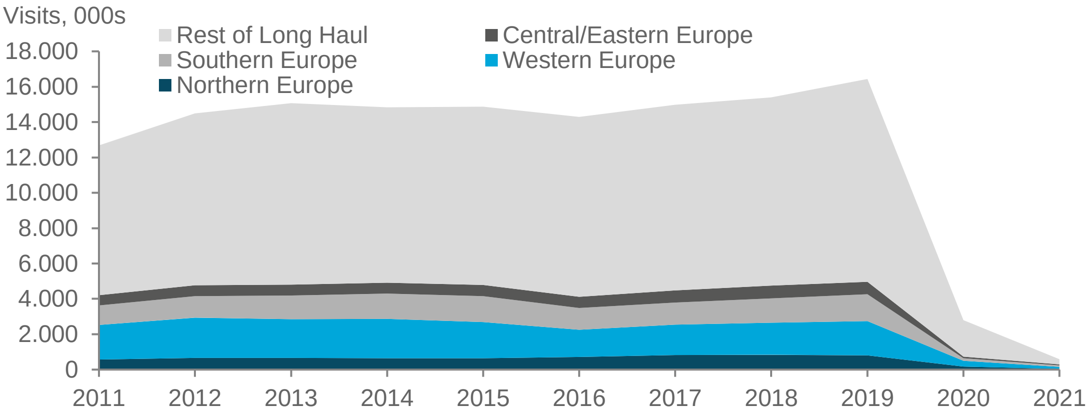
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	711	-	118.7%	4899.3%	-	-96.8%	-
Long haul	593	83.4%	104.9%	3515.3%	60.3%	-95.8%	64.7%
Short haul	118	16.6%	160.4%	11864.8%	39.7%	-98.5%	35.3%
Travel to Europe	293	41.1%	81.4%	1866.6%	16.2%	-92.9%	18.6%
European Union	680	95.7%	47.3%	592.9%	13.3%	-84.1%	19.4%
Northern Europe	38	5.3%	86.3%	2143.0%	2.4%	-94.7%	3.2%
Western Europe	114	16.1%	81.1%	1847.1%	6.3%	-92.6%	7.0%
Southern Europe	82	11.6%	85.6%	2104.8%	5.1%	-93.3%	5.5%
Central/Eastern Europe	58	8.2%	71.7%	1392.5%	2.5%	-90.8%	2.9%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

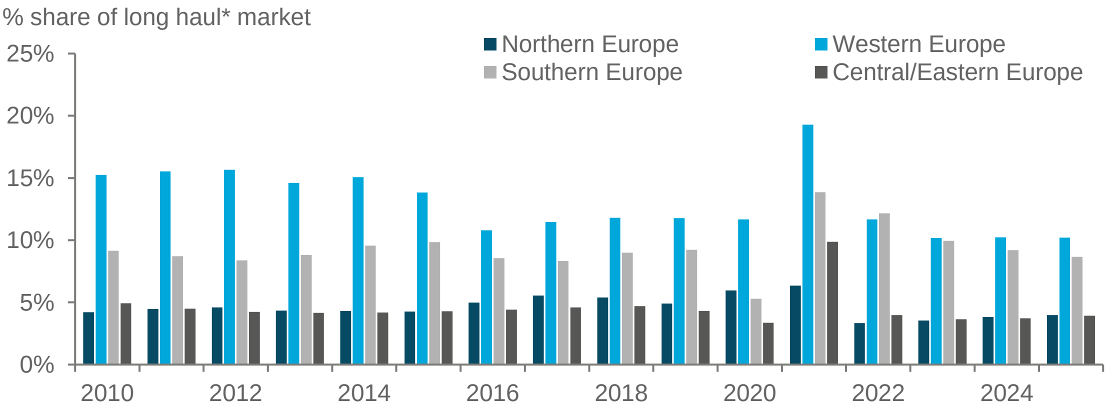
Japan Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Europe's Share of Japanese Market



*Long haul defined as tourist arrivals to destinations outside Northeast Asia

Source: Tourism Economics

Australia Market Share Summary

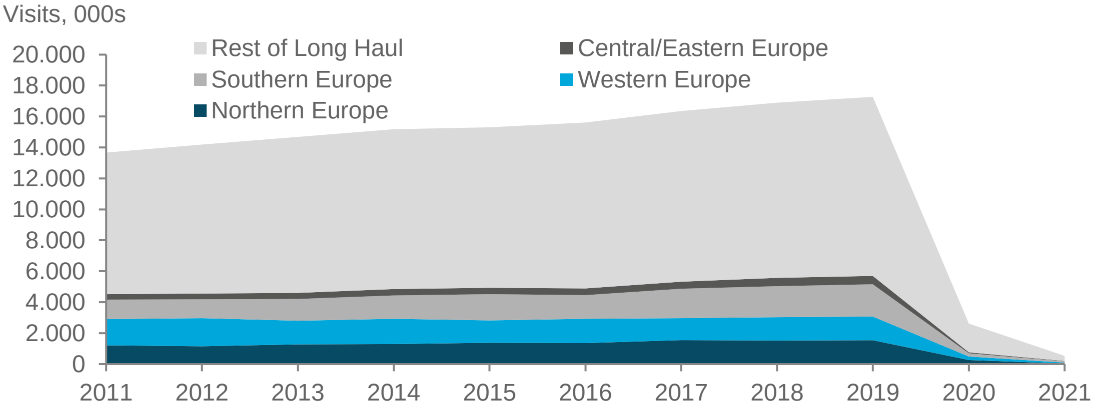
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	559	-	112.7%	4250.6%	-	-96.6%	-
Long haul	536	95.9%	112.9%	4269.9%	96.3%	-96.6%	95.6%
Short haul	23	4.1%	108.1%	3802.4%	3.7%	-96.8%	4.4%
Travel to Europe	207	37.1%	102.8%	3331.9%	29.3%	-95.8%	30.0%
European Union	705	126.2%	53.6%	756.1%	24.8%	-84.5%	27.8%
Northern Europe	31	5.5%	122.3%	5324.0%	6.9%	-97.7%	8.3%
Western Europe	63	11.2%	93.6%	2618.6%	7.0%	-96.0%	9.5%
Southern Europe	86	15.4%	105.5%	3564.3%	12.9%	-94.4%	9.4%
Central/Eastern Europe	28	5.0%	84.0%	2007.8%	2.4%	-93.7%	2.7%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

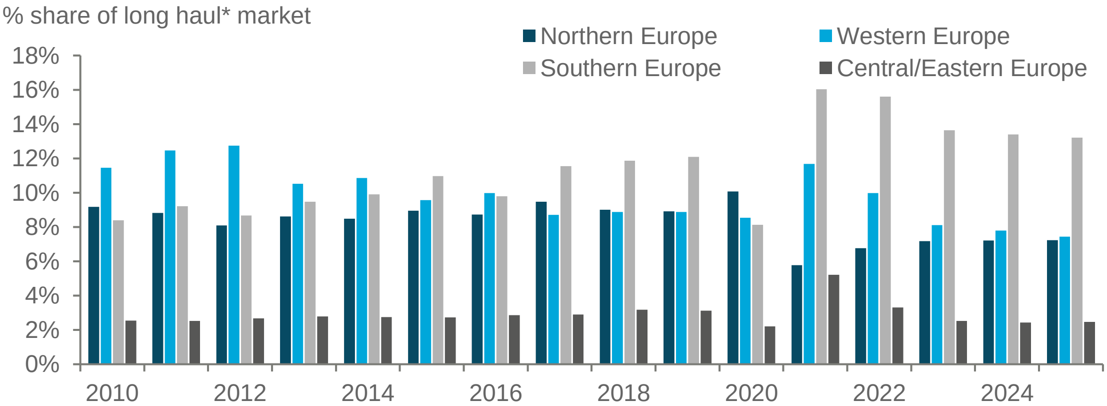
Australia Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

Europe's Share of Australian Market



*Long haul defined as tourist arrivals to destinations outside Oceania

Source: Tourism Economics

Russia Market Share Summary

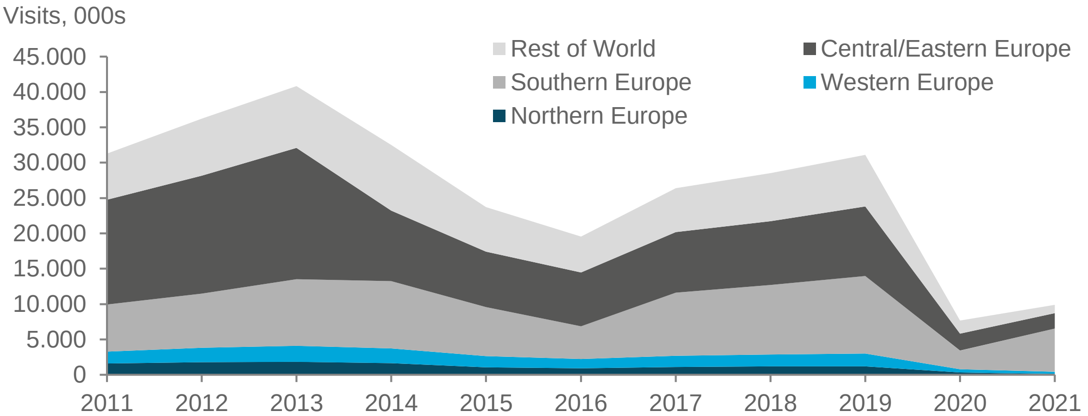
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**9,888**	**-**	**24.0%**	**193.5%**	**-**	**-49.4%**	**-**
Long haul	1,196	12.1%	37.0%	383.3%	19.9%	-76.5%	26.0%
Short haul	8,692	87.9%	21.7%	167.4%	80.1%	-39.9%	74.0%
Travel to Europe	**8,692**	**87.9%**	**21.7%**	**167.4%**	**80.1%**	**-39.9%**	**74.0%**
European Union	2,222	22.5%	25.4%	210.6%	23.8%	-72.9%	41.9%
Northern Europe	105	1.1%	58.4%	898.6%	3.6%	-88.4%	4.6%
Western Europe	328	3.3%	36.2%	368.7%	5.3%	-75.5%	6.8%
Southern Europe	6,126	62.0%	11.8%	74.9%	36.9%	33.4%	23.5%
Central/Eastern Europe	2,133	21.6%	36.0%	366.1%	34.3%	-72.0%	39.0%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

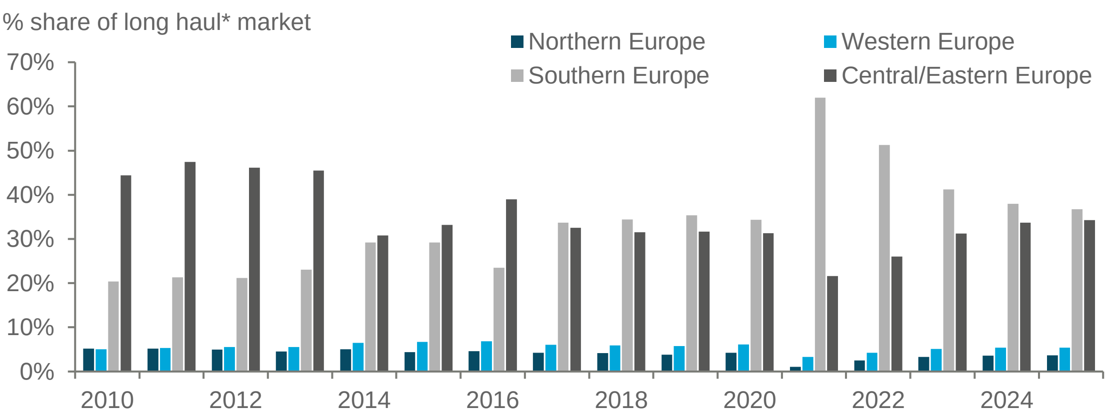
Russia Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

Europe's Share of Russian Market



*Long haul defined as tourist arrivals to all destinations

Source: Tourism Economics

United Arab Emirates Market Share Summary

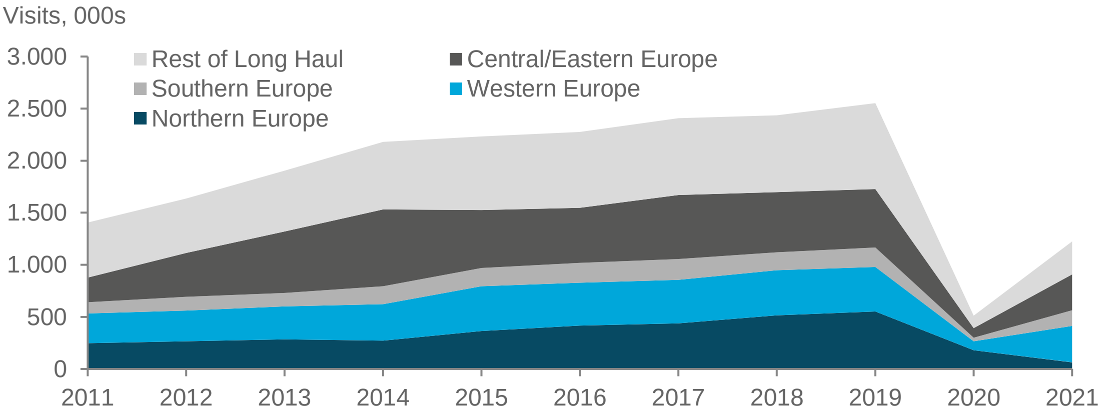
	2021		Growth (2021-26)			Growth (2016-21)	
	000s	Share**	Annual average	Cumulative growth*	Share 2026**	Cumulative growth*	Share 2016**
Total outbound travel	**1,861**	-	**24.9%**	**203.7%**	-	**-51.3%**	-
Long haul	1,223	65.7%	16.3%	113.1%	46.1%	-46.2%	59.6%
Short haul	638	34.3%	36.7%	377.5%	53.9%	-58.7%	40.4%
Travel to Europe	**908**	**48.8%**	**13.8%**	**90.5%**	**30.6%**	**-41.4%**	**40.6%**
European Union	280	15.1%	29.5%	264.0%	18.1%	-65.9%	21.5%
Northern Europe	65	3.5%	54.3%	774.0%	10.0%	-84.5%	10.9%
Western Europe	348	18.7%	5.1%	28.4%	7.9%	-15.6%	10.8%
Southern Europe	151	8.1%	0.8%	3.9%	2.8%	-21.4%	5.0%
Central/Eastern Europe	344	18.5%	10.3%	63.1%	9.9%	-34.8%	13.8%

*Shows cumulative change over the relevant time period indicated. 2016-21 includes COVID-19 pandemic related declines.

**Shares are expressed as % of total outbound travel

Source: Tourism Economics

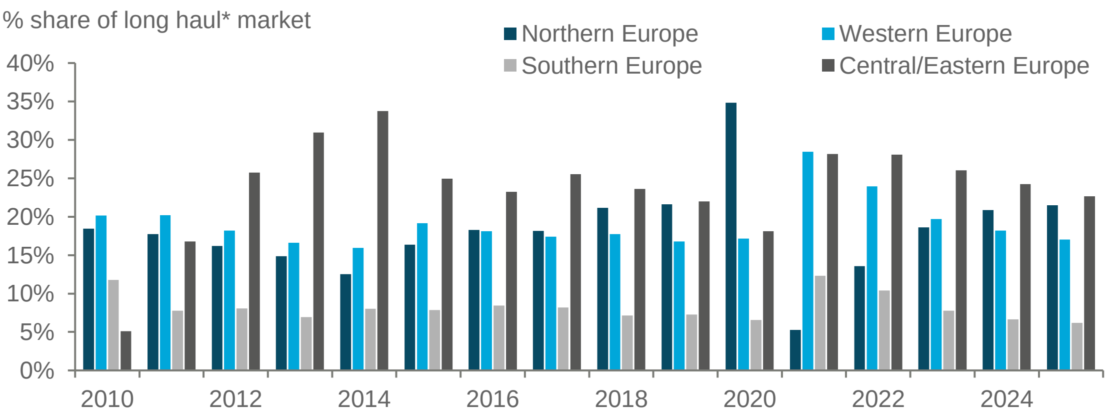
United Arab Emirates Long Haul* Outbound Travel



*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

Europe's Share of Emirati Market



*Long haul defined as tourist arrivals to destinations outside Middle East

Source: Tourism Economics

7. ECONOMIC OUTLOOK

Assessing recent tourism data and industry performance is a useful way of directly monitoring the key trends for travel demand across Europe. This can be complemented by looking at key trends and relationships in macroeconomic performance in Europe's key source markets, which can provide further insight into likely tourism developments throughout the year.

The linkages between macroeconomics and tourism performance can be very informative. For example, strong GDP or consumer spending growth is an indication of rising prosperity with people more likely to travel abroad. It is also an indication of rising business activity and therefore stronger business travel. Movements in exchange rates against the euro can be equally important as it can influence choice of destination. For example, if the euro appreciated (gained value) against the US dollar, the Eurozone would become a more expensive destination and therefore potentially less attractive for US visitors. Conversely, depreciation (lost value) of the euro against the US dollar would make the Eurozone a relatively cheaper destination and therefore more attractive to US travellers.

Disclaimer: the opinions expressed in the forthcoming section [Economic Outlook] are those of Oxford Economics ("we, us, our"). They do not purport to reflect the opinions or views of ETC or its members.

OVERVIEW

We have nudged up our global GDP growth forecast for 2022 very slightly from 3.0% to 3.1%, but this only reverses a fraction of the downgrades in recent months. By contrast, we have downgraded next year's forecast by 0.1pp to 3.0%.

Global GDP growth in Q2 is likely to have been lacklustre for a second quarter running as a result of disruptions due to the Ukraine war, the real income squeeze on households and Covid-related activity restrictions in China.

Nonetheless, we remain confident that the growth picture will improve in the second half of the year. The recent end to lockdowns in a number of Chinese cities, including Shanghai, points to some 'catch up' growth in Q3 and Q4. While this is good news, the reopening is in line with our previous assumptions, so we haven't adjusted our Chinese GDP growth forecast of 4% for 2022. Even so, the failure of a key near-term downside risk to the global economy is positive.

Due to an upward revision to our year-end Brent oil price forecast from $93/pb to $113/pb, we have increased our global CPI inflation forecast again, from 7.2% to 7.6%. We still see inflation peaking in Q2, but we now think inflation will slow more gradually over the second half of the year.

Hawkish noises from central banks, solid growth and higher-than-anticipated CPI inflation increase the risk of more front-loaded policy rate tightening. We now expect the Fed to increase the policy rate by 250bps in total this year, 50bps more than a month ago, and have also increased year-end forecasts for a number of other economies.

That said, we continue to think that inflation will be weaker than the consensus expectation next year. The more monetary policy tightening that occurs this year, the greater the likelihood that policy rates will remain on hold or even fall next year.

Summary of economic outlook, % change*

	2021					2022				
Country	GDP	Consum-ption	Unemploy-ment**	Exchange rate***	Inflation	GDP	Consum-ption	Unemploy-ment**	Exchange rate***	Inflation
UK	7.4%	6.2%	0.2%	2.7%	2.6%	3.6%	3.8%	-1.8%	1.7%	8.5%
France	6.8%	5.3%	-0.2%	0.0%	1.6%	2.6%	2.4%	-0.4%	0.0%	5.1%
Germany	2.9%	0.3%	-0.2%	0.0%	3.1%	1.7%	4.8%	-0.6%	0.0%	6.6%
Netherlands	5.0%	3.5%	-0.5%	0.0%	2.7%	3.1%	4.0%	-0.6%	0.0%	8.9%
Italy	6.6%	5.2%	0.2%	0.0%	1.9%	3.2%	3.3%	-0.6%	0.0%	6.2%
Spain	5.1%	4.6%	-0.7%	0.0%	3.1%	4.5%	2.2%	-1.6%	0.0%	7.1%
Russia	4.7%	9.5%	-1.0%	-5.4%	6.7%	-8.0%	-3.9%	0.2%	3.9%	15.6%
US	5.7%	7.9%	-2.7%	-3.4%	4.7%	2.6%	3.5%	-1.8%	8.3%	7.6%
Canada	4.5%	4.9%	-2.2%	3.4%	3.4%	3.6%	5.3%	-1.8%	6.5%	6.7%
Brazil	4.9%	3.9%	-0.5%	-7.7%	8.3%	1.8%	2.1%	-2.6%	16.6%	10.7%
China	8.1%	12.6%	0.0%	3.1%	0.9%	4.0%	1.3%	0.0%	4.1%	2.3%
Japan	1.7%	1.3%	0.0%	-6.2%	-0.2%	2.0%	2.5%	-0.2%	-3.6%	2.0%
India	8.3%	9.3%	-1.2%	-3.2%	5.1%	6.8%	5.4%	-1.8%	4.7%	7.0%
Australia	4.8%	4.9%	-1.4%	-4.8%	2.8%	4.0%	6.1%	-1.2%	-4.4%	5.8%

Source: Tourism Economics based on GEM as of 16.6.2022

* Unless otherwise specified

** Percentage point change

*** Exchange rates measured against the euro. A positive change indicates stronger local currency against the euro and therefore a positive impact on outbound tourism demand. A negative change indicates weaker local currency against the euro and therefore a negative impact on outbound tourism demand.

EUROZONE

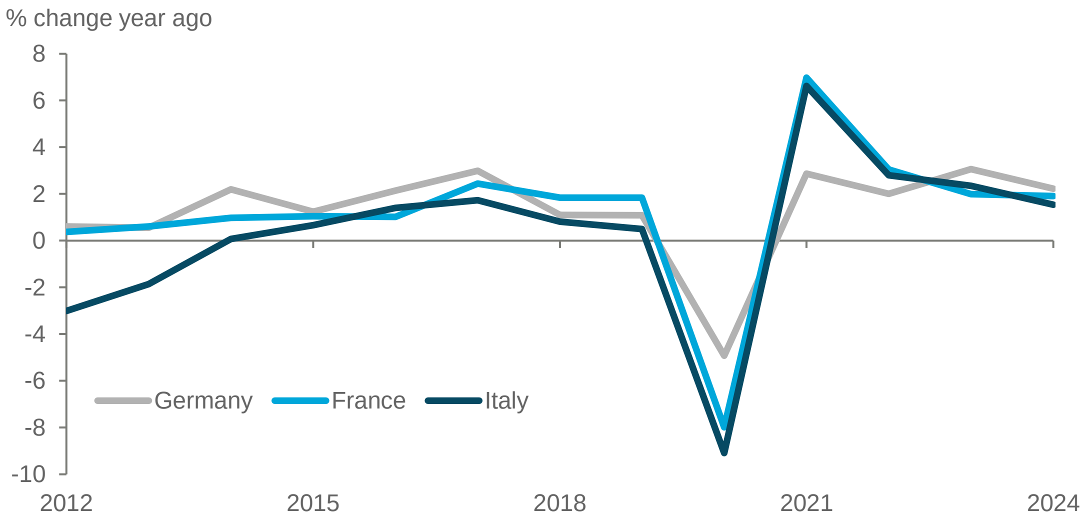
We expect the eurozone economy to grow by 2.8% this year. However, the bloc is experiencing a strong divergence between a weak industrial sector plagued by headwinds such as supply bottlenecks, higher input costs, and weakening sentiment, and a solid services sector, which is experiencing a post-Covid rebound. The decision to ban Russian oil has prompted an upward revision to our energy price forecast. This, coupled with the upward adjustment in food prices, has led to another upward revision to our inflation call for 2022, which we now see averaging close to 7% this year, up from 6% in our May release.

The 8.1% headline inflation number for May was driven mainly by food and energy inflation, which climbed 7.5% and 39%, respectively, year-on-year; but core inflation also rose by 0.3ppts to 3.8%. Despite the upward revision to the 2022 inflation outlook, our forecasts foresee a sharp slowdown in inflation next year on the back of a drop in energy and goods inflation, which will bring headline inflation down to below 2% by mid-2023.

The upcoming June ECB meeting will mark the end of an era. Few doubt that the council will decide to conclude net asset purchases by the end of June and announce its intent to exit negative policy rates by Q3. We expect three 25bps rate hikes by year-end – in July, September, and December. We also think the council's commitment to gradualism and downside risks to the near-term growth outlook make a 25bps move in June or a 50bps hike in July unlikely.

Risks to our baseline scenario continue to be skewed to the downside. A more protracted military conflict in Ukraine is possible, in which case energy prices would remain high, squeezing disposable incomes and activity. This downside scenario, which we recently updated to include more Western sanctions and Russia restricting gas supplies further during the second half of this year, would result in the eurozone economy being more than 4% smaller by the end of 2023.

Economic performance in key eurozone economies, real GDP



Source: Oxford Economics

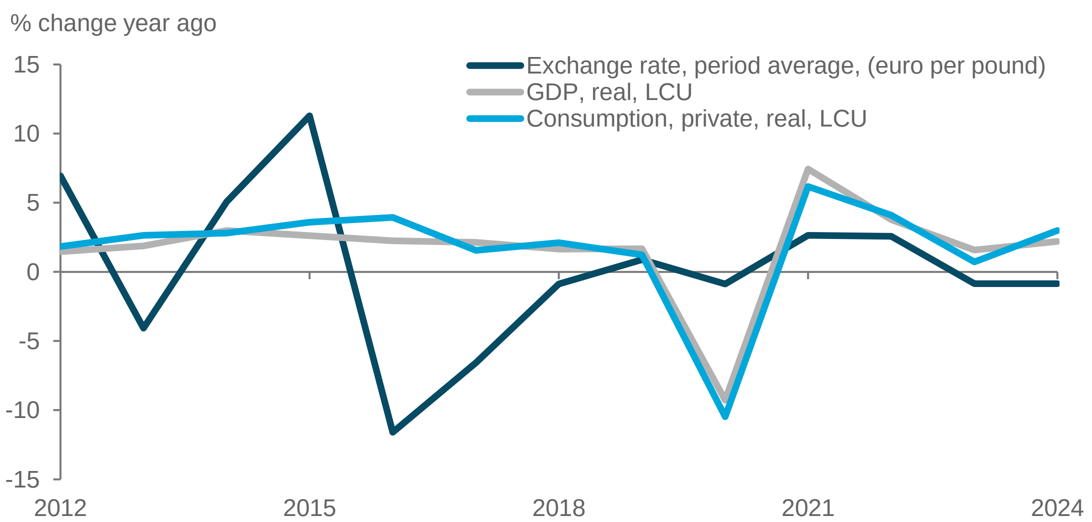
UNITED KINGDOM

We have raised our UK CPI inflation forecasts by 1.1ppts to 8.5% this year and by 1.5ppts to 4.3% in 2023 after Ofgem revealed the energy price cap was likely to rise by more than 40% in October. The impact of higher inflation on activity should be largely offset by the new fiscal package, but we have cut our forecast for GDP growth in 2022 by 0.2ppts to 3.6% due to a disappointing Q1. Ofgem has said that the energy price cap is on track to rise by more than £800 (42%) to £2,800 in October, a much larger increase than we had previously pencilled in based on movements in wholesale prices. As a result, we now forecast that CPI inflation will exceed 10% in October, although there's significant uncertainty about whether the Office for National Statistics will incorporate the impact of the Energy Bills Rebate into the CPI calculation. If it does not, inflation could peak at a lower rate.

The preliminary estimate reported q/q GDP growth of 0.8% in Q1 2022, as activity rebounded from the Omicron-related dip at the end of 2021. But that growth came early on in the quarter, as GDP was flat in February and fell 0.1% m/m in March. The economy is unlikely to regain momentum in the short term. The recovery in social consumption appears to be largely complete, and the cost-of-living squeeze is increasingly weighing on consumer demand. Two idiosyncratic factors – the extra bank holiday for the Queen's Platinum Jubilee and the end of free Covid testing – mean we expect GDP to fall modestly in Q2. But Q3 has a full quota of working days, meaning activity should rebound, and the chances of a second successive quarterly decline in GDP – the traditional definition of a technical recession – look low.

The government has responded to the cost-of-living crisis with a £15bn (0.6% of GDP) fiscal package that offers a mix of universal and targeted support. This raised the UK government's support to a level that is comparable to other countries. But households still face a significant squeeze on their finances, and we continue to forecast a consumer spending recession this year.

United Kingdom economic outlook



Source: Oxford Economics

UNITED STATES

The US economy is on solid ground, with reassuringly strong consumer spending and labour market data confirming we are not on the precipice of recession. But economic momentum is poised to cool later this year as the more aggressive tightening campaign by the Federal Reserve takes its toll. We have raised our 2022 GDP growth forecast by 0.1ppts to 2.6% on stronger Q2 growth expectations, but we have marked down our 2023 forecast by 0.2ppts to 1.8%.

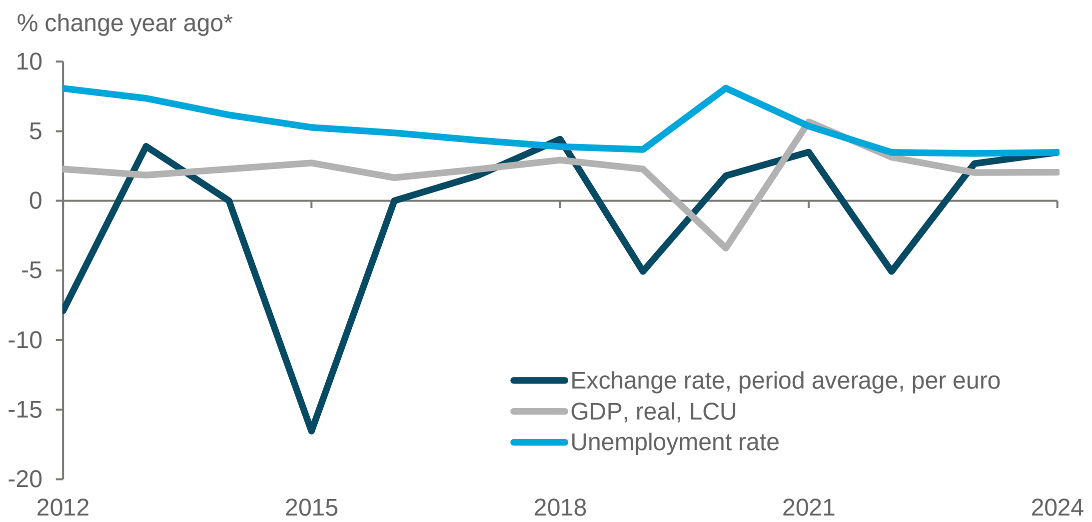
US consumers are feeling sour about inflation, but they are still spending at a healthy rate. Nominal personal outlays grew 0.9% in April as consumers continued to dip into their savings to finance spending. Amid high inflation and a constrained supply of goods, consumers' continued pivot towards services is primed to fuel economic growth this summer.

The labour market remained strong in May as employment advanced by 390,000. Importantly, the supply of available workers rebounded, while wage growth continued to moderate, two reassuring developments for the inflation outlook. We continue to expect the economy to add over 4 million jobs this year, with the unemployment rate likely to stabilise around 3.5% in H2.

Inflation data showed more signs of moderation in April as PCE headline inflation cooled 0.3ppt to 6.3% y/y – the first step down since November 2020 – while core inflation also cooled by 0.3ppt to 4.9% y/y. However, we still expect inflation to descend slowly, especially as higher gasoline prices will likely drive headline inflation higher in May and through the summer.

Given persistent upside risks to inflation and Fed officials' decidedly hawkish posture, we now expect a total of 250bps of rate tightening this year. We see the Fed raising the Fed funds rate by 50bps at each of the June and July meetings before scaling back the pace of tightening to 25bps rate increases at the remaining meetings of the year.

United States economic outlook



Source: Oxford Economics *Unemployment rate is absolute

JAPAN

We have lowered our 2022 GDP growth forecast for Japan to 2.0% from 2.2%, reflecting weak Q1 growth and downgrades to China's near-term growth outlook. Lockdowns in China will weigh on Japan's rebound from the Q1 dip via weak export demand and resurging supply-chain disruption.

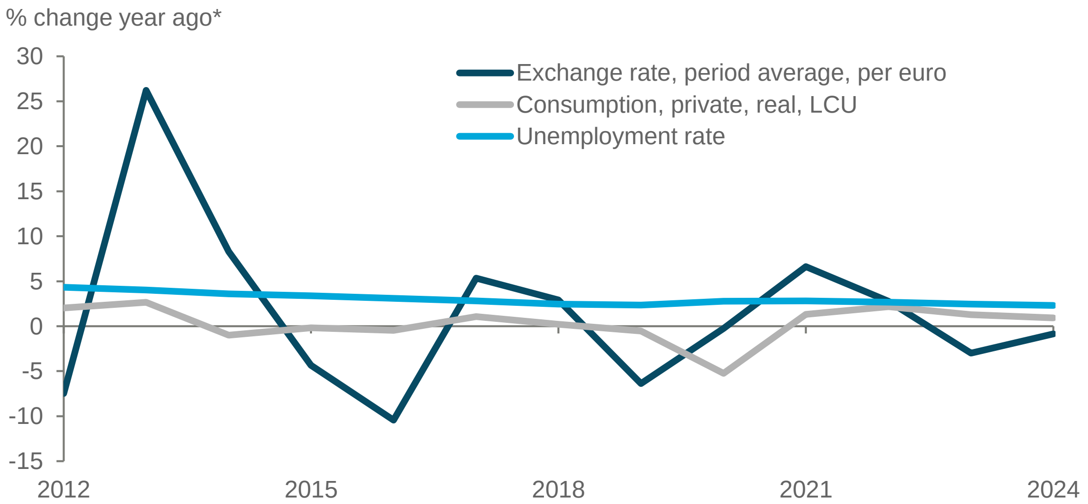
We now project Japan's goods exports to contract temporarily in Q2 amid anaemic Chinese import momentum. Meanwhile, investment will improve, supported by robust corporate earnings and demand for intangible asset investments as the digitalisation process continues.

With Omicron fears fading and restrictions having been largely removed in mid-March, an improvement in consumption was seen in March and April, which we believe will sustain the recovery. However, we expect the pace of the upturn to slow after the initial rebound, with cost-push inflation squeezing households' real income.

The yen has been trading around ¥130/$1, swinging in tandem with differences in US-Japan interest rates. We expect yen weakness to persist in 2022, but the room for further depreciation is limited, given that markets have already priced in aggressive rate hiking by the Federal Reserve.

Japan's CPI hit 2.5% y/y in April – the highest level since 2014. We expect the CPI to remain relatively high at 2.0% y/y over 2022, but elevated inflation will likely prove temporary and should settle in 2023 in the absence of a wage-price spiral. Without major concern over sustained inflation, we think the Bank of Japan will maintain the current policy rates for some years.

Japan economic outlook



Source: Oxford Economics *Unemployment rate is absolute

EMERGING MARKETS

Upside growth surprises in several economies in Q1 have triggered a small upward revision to our 2022 GDP growth forecast for the emerging markets (EMs), following a string of downgrades. We now see overall EM GDP expanding by 3.5% this year (versus 3.4% previously). However, with many economies facing more protracted recoveries amid persistent price shocks, we have kept our 2023 GDP forecast at 4.2%.

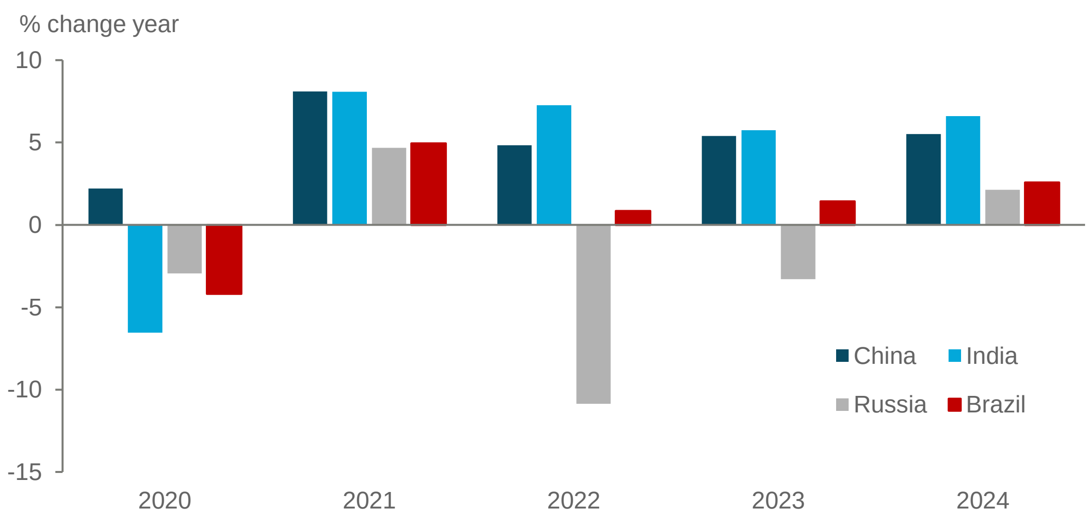
Our 2022 GDP growth forecast for China remains at 4%, which assumes a quarterly contraction in Q2. But with Shanghai emerging out of lockdown, a recovery is likely underway, bolstered by policy stimulus, though we expect the impact of Covid restrictions on consumption to linger.

High-frequency indicators point to uneven performance elsewhere. In Emerging Asia, industrial activity may benefit from an end to China's lockdowns, though weakening global demand and supply-chain bottlenecks will act as headwinds. We see more scope for a services-led catch-up, as reopening, and stronger tourism lift consumer spending.

In Latin America, positive Q1 surprises in Brazil and Colombia have lifted the annual outlook for the region, however recession risks remain high, given tight monetary and fiscal policies. In Central Europe and Turkey, growth momentum has visibly slowed in Q2 after a stronger-than expected Q1. Stagflation risks have grown in Egypt, where inflationary pressures have intensified fuelled by soaring commodity prices and a weaker currency, and in South Africa, where inflation is now on track to breach the ceiling of the target range.

Inflation has persistently surpassed consensus and our own expectations. Despite efforts in some countries to tame inflationary pressures via subsidies, we now foresee peak inflation straddling Q2 and Q3. We also envisage a slower disinflationary process, in part to reflect the upward revision to our global oil price forecast. The speed of policy responses has differed across EMs, with some central banks only recently stepping up the pace of tightening. In Brazil, which acted early, we see interest rates staying at elevated levels for longer, while we see them rising faster and to a higher level than before in Egypt, India, Poland, and South Africa.

Economic growth in select Emerging Markets, GDP real



Source: Oxford Economics

APPENDIX 1

GLOSSARY OF COMMONLY USED TERMS AND ABBREVIATIONS

AIRLINE INDUSTRY INDICATORS

ASK – Available Seat Kilometres. Indicator of airline supply, available seats * kilometres flown;
RPK – Revenue Passenger Kilometres. Indicator of airline demand, paying passenger * kilometres flown;
PLF – Passenger Load Factor. Indicator of airline capacity. Equal to revenue passenger kilometres (RPK) / available seat kilometres (ASK);
Xmth mav – X month moving average.

HOTEL INDUSTRY INDICATORS

ADR – Average Daily Rate. Indicator of hotel room pricing, equal to hotel room revenue / rooms sold in a given period;
Occ – Occupancy Rate. Indicator of hotel performance, equal to the number of hotel rooms sold / room supply;
RevPAR – Revenue per Available Room. Indicator of hotel performance, equal to hotel room revenue / rooms available in a given period.

CENTRAL BANKS

BoE – Bank of England;
MPC – Monetary Policy Committee of BoE;
BoJ – Bank of Japan;
ECB – European Central Bank;
Fed – Federal Reserve (US);
RBI – Reserve Bank of India;
OBR – Office for Budget Responsibility;
PBoC – People's Bank of China.

ECONOMIC INDICATORS AND TERMS

BP – Basis Point. A unit equal to one-hundredth of a percentage point;
Broad money – Key indicator of money supply and liquidity including currency holdings as well as bank deposits that can easily be converted to cash;
CPI – Consumer Price Index. Measure of price inflation for consumer goods;
FDI – Foreign Direct Investment. Investment from one country into another, usually by companies rather than governments;
GDP – Gross Domestic Product. The value of goods and services produced in a given economy;
LCU – Local Currency Unit. The national unit of currency of a given country, e.g., pound, euro, etc.;
PMI – Purchasing Managers' Index. Indicator of producers' sentiment and the direction of the economy;
PPI – Purchase Price Index. Measure of inflation of input prices to producers of goods and services;
PPP – Purchasing Power Parity. An implicit exchange rate which equalises the price of identical goods and services in different countries, so they can be expressed with a common price;
QE – Quantitative Easing. Expansionary monetary policy pursued by central banks involving asset purchases to reduce bond yields and increase liquidity in capital markets;
G7 – Group of seven industrialised countries comprising the United States, the United Kingdom, France, Germany, Italy, Canada, and Japan.

APPENDIX 2

ETC MEMBER ORGANISATIONS

Austria – Austrian National Tourist Office (ANTO)
Belgium: Flanders - Visit Flanders, Wallonia - Wallonie-Belgique Tourisme
Bulgaria – Bulgarian Ministry of Tourism
Croatia – Croatian National Tourist Board (CNTB)
Cyprus – Deputy Ministry of Tourism, Republic of Cyprus
Czech Republic – CzechTourism
Denmark – VisitDenmark
Estonia – Estonian Tourist Board – Enterprise Estonia
Finland – Business Finland Oy, Visit Finland
France – Atout France
Germany – German National Tourist Board (GNTB)
Greece – Greek National Tourism Organisation (GNTO)
Hungary – Hungarian Tourism Agency Ltd.
Iceland – Icelandic Tourist Board
Ireland – Fáilte Ireland and Tourism Ireland Ltd.
Italy – Agenzia Nazionale del Turismo (ENIT)
Latvia – Investment and Development Agency of Latvia (LIAA)
Lithuania – Ministry of the Economy and Innovation, Tourism Policy Division
Luxembourg – Luxembourg for Tourism (LFT)
Malta – Malta Tourism Authority (MTA)
Monaco – Monaco Government Tourist and Convention Office
Montenegro – National Tourism Organisation of Montenegro
Netherlands – NBTC Holland Marketing
Norway – Innovation Norway
Poland – Polish Tourism Organisation (PTO)
Portugal – Turismo de Portugal, I.P.
Romania – Romanian Ministry of Economy, Entrepreneurship and Tourism
San Marino – State Office for Tourism
Serbia – National Tourism Organisation of Serbia (NTOS)
Slovakia – Slovakia Travel
Slovenia – Slovenian Tourist Board
Spain – Turespaña – Instituto de Turismo de España
Switzerland – Switzerland Tourism