The effect of the depreciation of the pound on the travel and tourism industry

BY NATHAN TOZER, FINTAN MUNNERY, DOM HUTCHINSON, ADAM PLUCK AND BEN WARREN

Aims

- Trends relating to the downturn of the pound
- Compare different periods in depreciation of the pound
- Analyse the impact on GDP
- Explore the effect on wider industries and countries

Depreciation of the pound

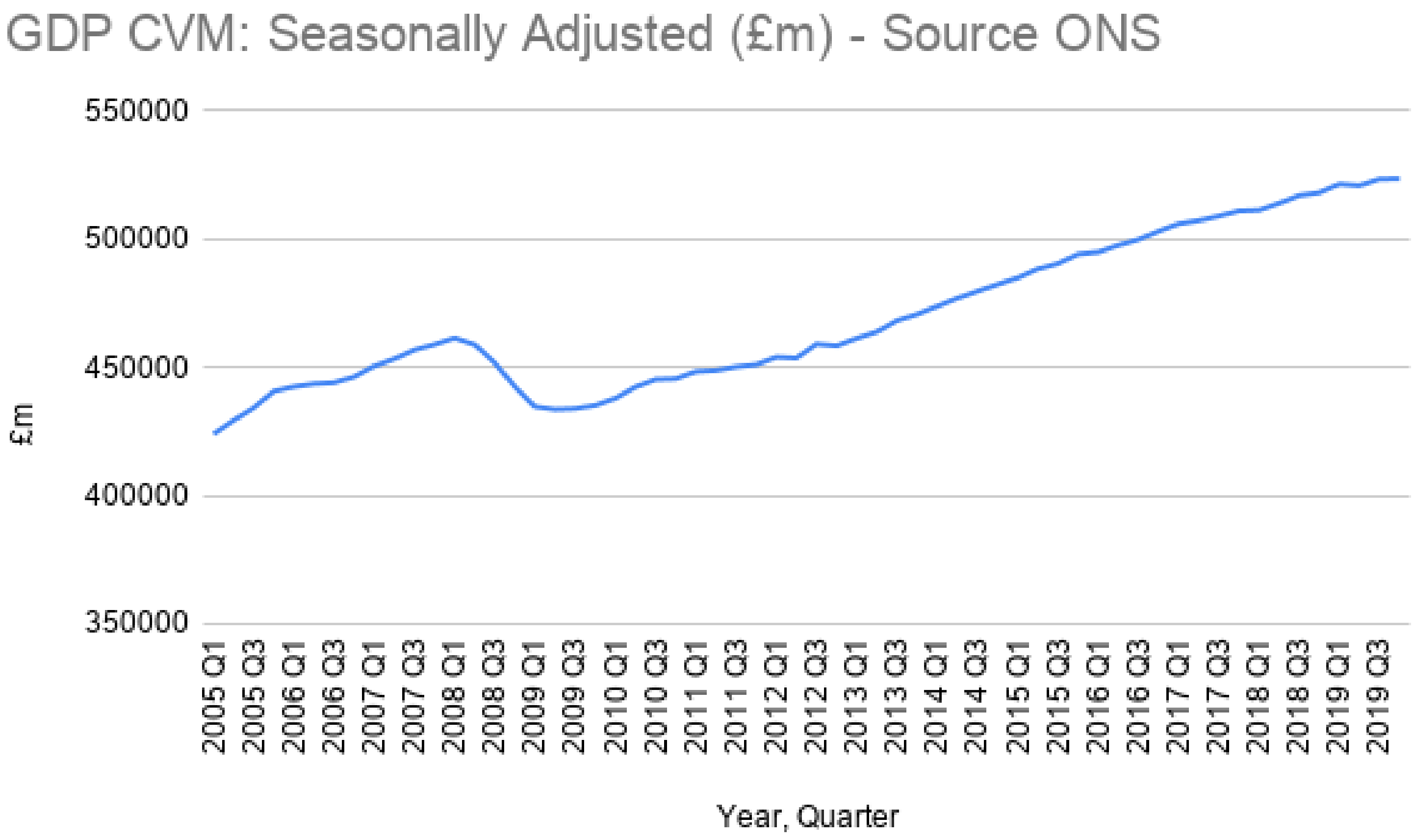
THE FINANCIAL RECESSION 2008

- April 2008 – July 2009
- 5 quarters of successive negative growth
- GDP fell by 5.8%
- £ fell by:
  - 16.5% against the €
  - 31.0% against the $

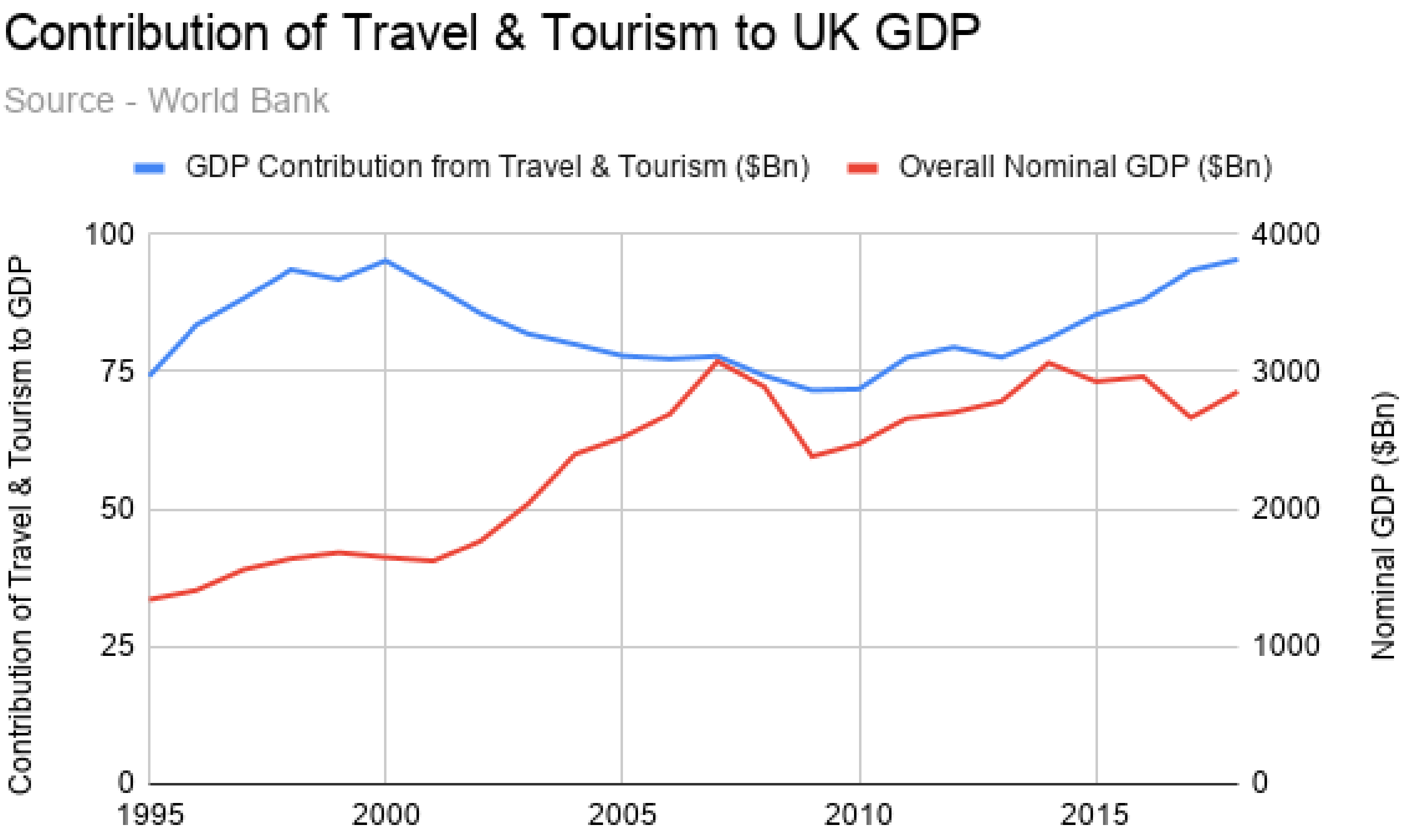
THE EU REFERENDUM 2016

- June 2016
- 51.9% voted leave
- GDP growth unaffected
- £ fell by:
  - 16% against the €
  - 16% against the $

How did the Economy Change?
2008 / 2016 Comparison



Travel & Tourism Contribution to GDP



Investigation Interests

- What is the travel industry?
  - Travel Agents / Tour Operators - Fintan
  - Travel – Nathan
  - Accommodation – Dom
  - General spending – Adam
- Other Trends & Wider Implications – Ben

Travel Agents & Tour Operators

FINTAN MUNNERY

Defining Travel Agents and Tour Operators

IoS 79 (SIC Classification): *Source: gov.uk*

79110	Travel agency activities
79120	Tour operator activities
79901	Activities of tourist guides
79909	Other reservation service activities n.e.c.

SIC Classification 2007: Source: ONS

79	**Travel agency, tour operator and other reservation service and related activities**
	This division includes the activity of agencies, primarily engaged in selling travel, tour, transportation and accommodation services to the general public and commercial clients and the activity of arranging and assembling tours that are sold through travel agencies or directly by agents such as tour operators; and other travel-related services including reservation services. The activities of tourist guides and tourism promotion activities are also included.

What is IoS 79?

Detailed Classification - *Source: ONS*

79.1 **Travel agency and tour operator activities**

This group includes the activities of agencies, primarily engaged in selling travel, tour, transportation and accommodation services to the general public and commercial clients and the activity of arranging and assembling tours that are sold through travel agencies or directly by agents such as tour operators.

79.11 Travel agency activities

This class includes:

the activities of agencies, primarily engaged in selling travel, tour, transportation and accommodation services on a wholesale or retail basis to the general public and commercial clients.

79.12 Tour operator activities

This class includes:

– arranging and assembling tours that are sold through travel agencies or directly by tour operators. The tours may include any or all of the following:
  - transportation
  - accommodation
  - food
  - visits to museums, historical or cultural sites, theatrical, musical or sporting events

Key Questions

Statistical Assumptions

- How do we measure activity in this sector?
- How do we separate out recession effects from changes in currency values?
- Could travel agents be a good measure of domestic demand for foreign travel?
- How do we deal with volatility in the data?

General Trends

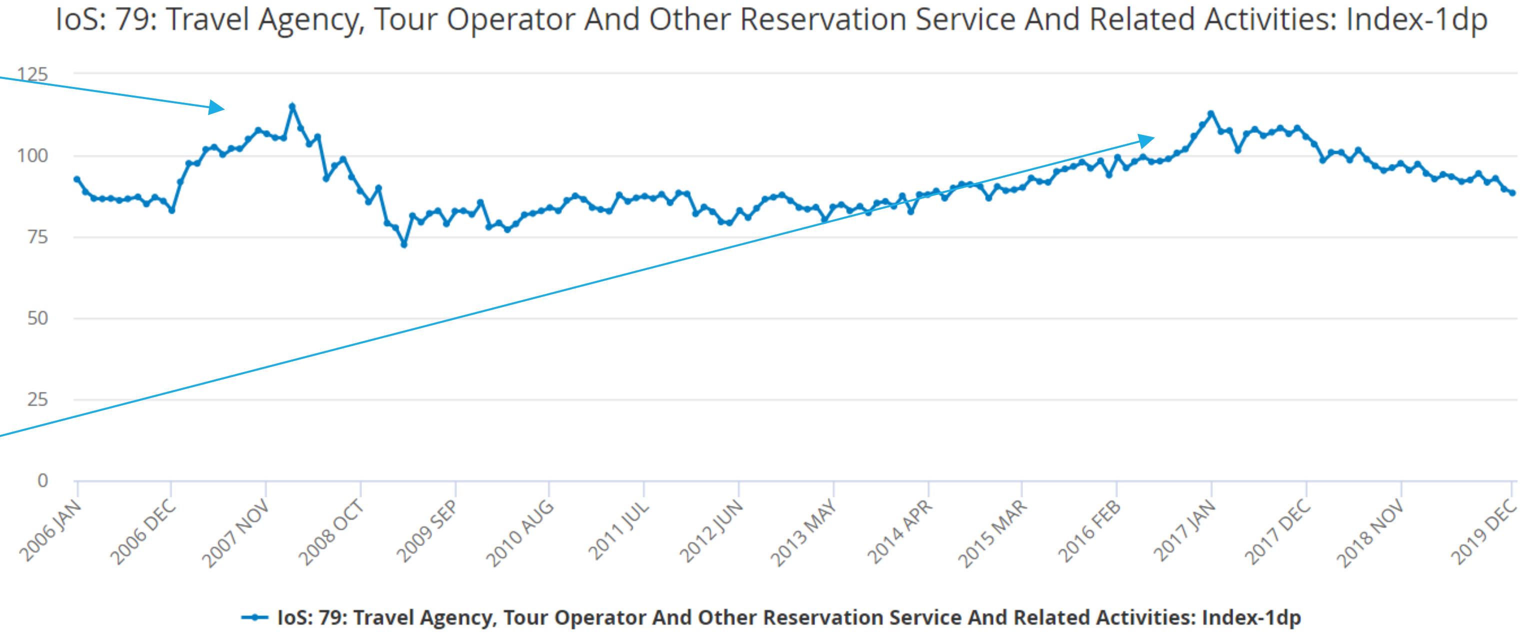
- How does our analysis fit within the broader picture of travel agency decline?
- How do we think about the rise of Airbnb and Booking.com?

How do consumers respond?

- How far in advance do consumers book holidays?
- Are consumers likely to respond to currency changes?
- Who is likely to use a travel agent?

Travel Agency / Tour Operator Activities, 2006-2019, ONS

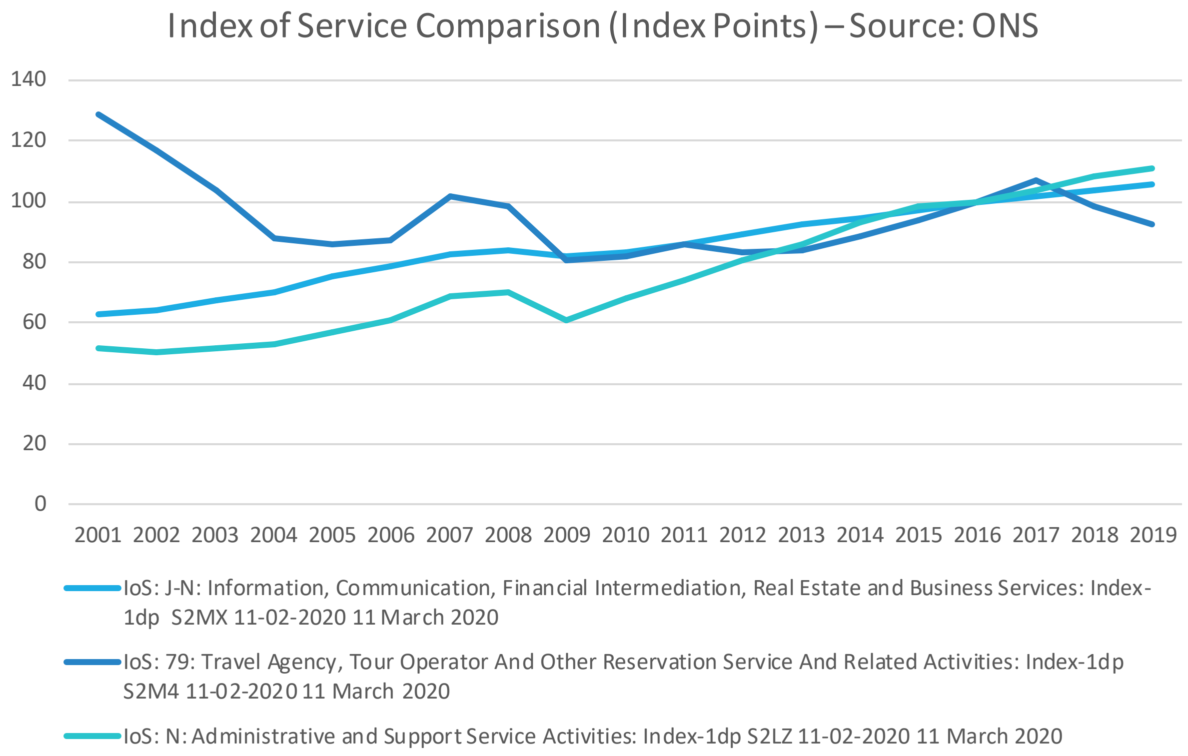
- A marked rise from early 2007 until mid-2008, followed by a similar fall.
- A less substantial although significant rise in these activities from 2016 onwards, followed by a gradual decline.



Source: ONS IoS 79.

Index of Services Comparison

- Comparing IoS 79 Index with the index for similar services (N and J-N)
- Travel Agency services appear to be declining over the last 20 years, whilst other service activity in similar sectors appears to be increasing.
- Travel agency services appear to be declining post-2016, whereas other services are rising.



Another Measure?

- Looking at total revenue by sector.

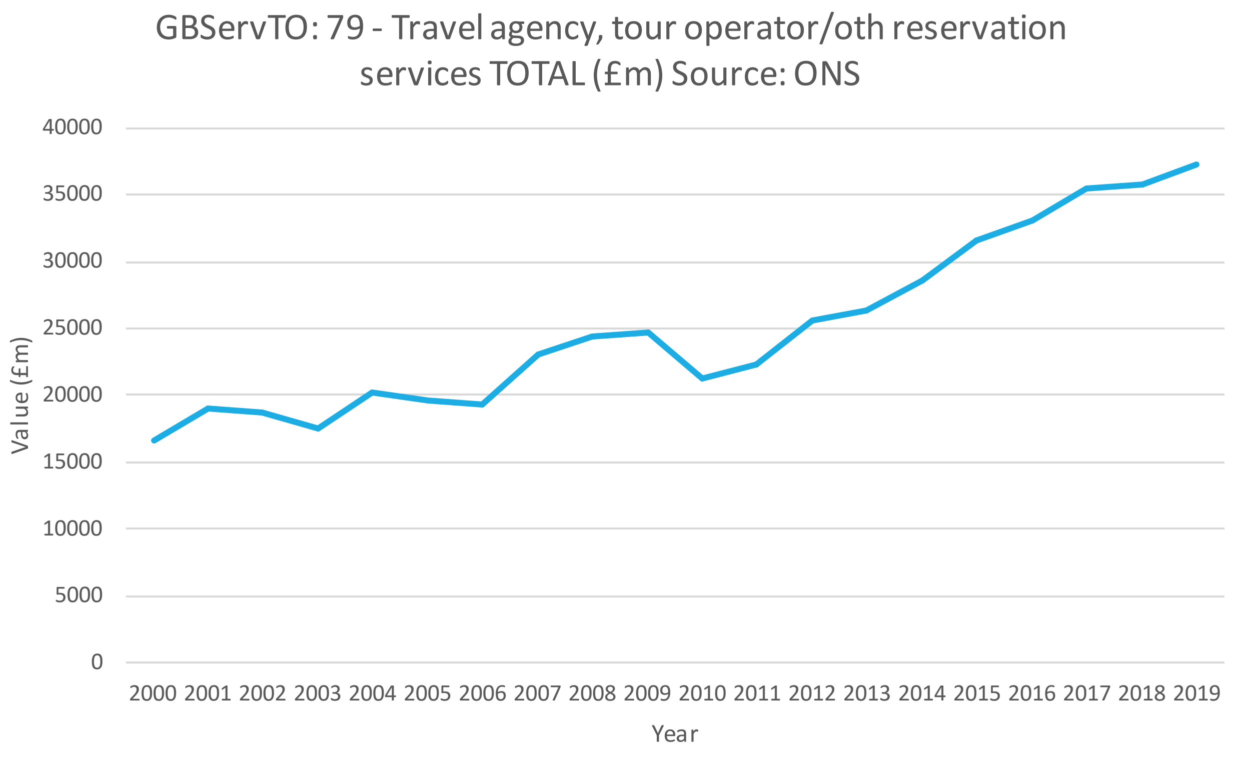
- May provide a better estimate of activities in relation to revenues.

- Turnover in UK production and Great Britain services industries (TOPSI) time series dataset (TOPSI).

- To create GBServTO measure.

Travel Agents / Tour Operator service value, 2000-2019

- A lower value for the years 2010 and 2011, compared with 2007-2009.
- However this may be a *recession effect* rather than the effect of pound sterling depreciation.
- No similar fall in peaks after 2016, which we may attribute to the lack of a recession immediately after Brexit.

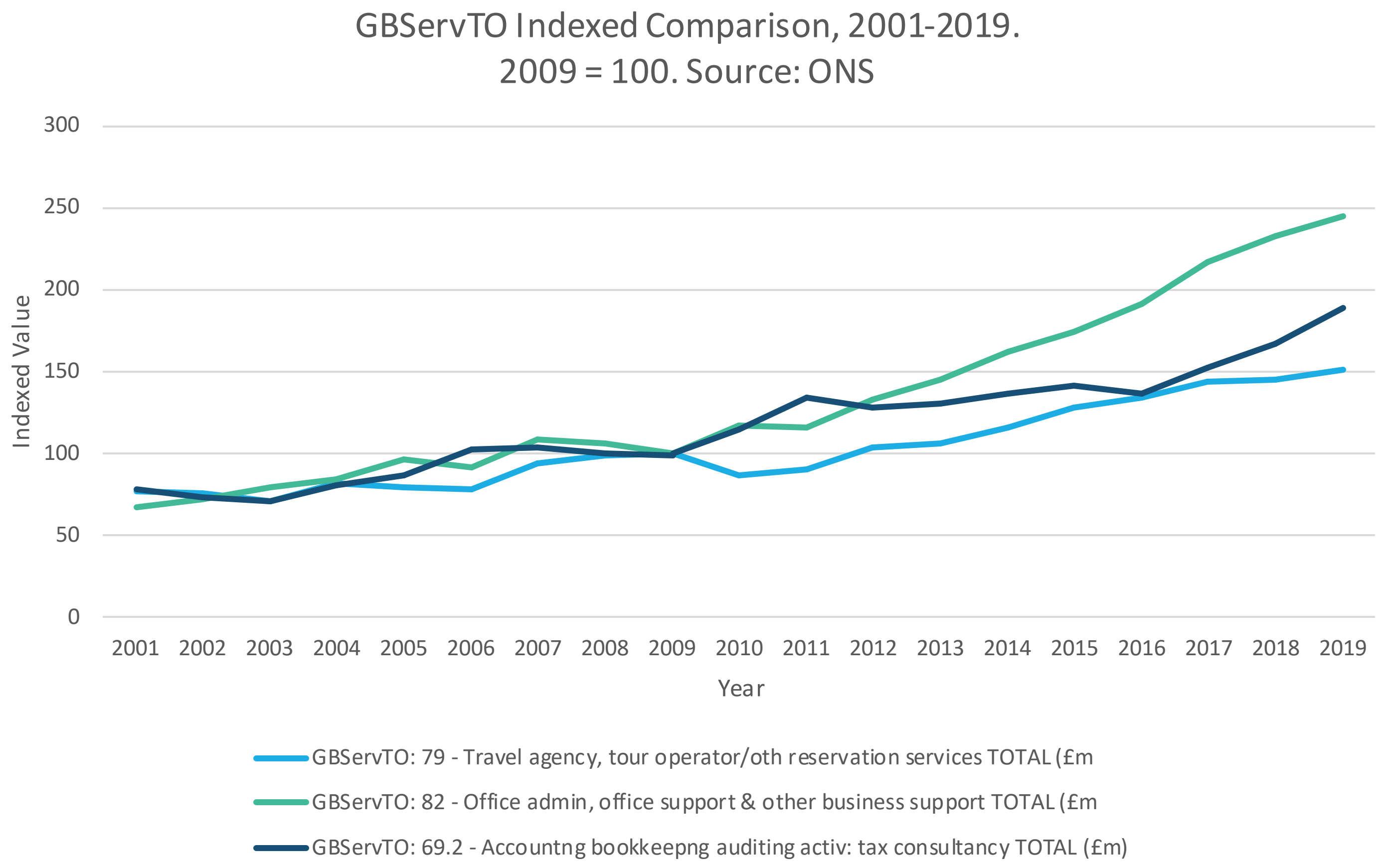


Indexed Revenue Comparison

Comparing an index of the total revenues for the Travel and Tourism sectors with sectors we assume would be less affected by the 2016 referendum.

Travel and tourism does appear to lag behind these other sectors, and there is a noticeable slowdown from 2017 onwards.

Making the comparison with other services is, however, extremely difficult.



Travel

NATHAN TOZER

Key Findings

- Serve, heavy decline **POST RECESSION,** industry in free-fall.
  - "fight for survival" and "bloodbath".

- Little to no impact **POST REFERENDUM.**

- Depreciation of the pound has little effect.
  - The event that caused depreciation **DOES** have an effect.

Airlines For Analysis

LOW COST CARRIERS	TRADITIONAL "LEGACY" CARRIERS
easyJet	BRITISH AIRWAYS
RYANAIR	TUI

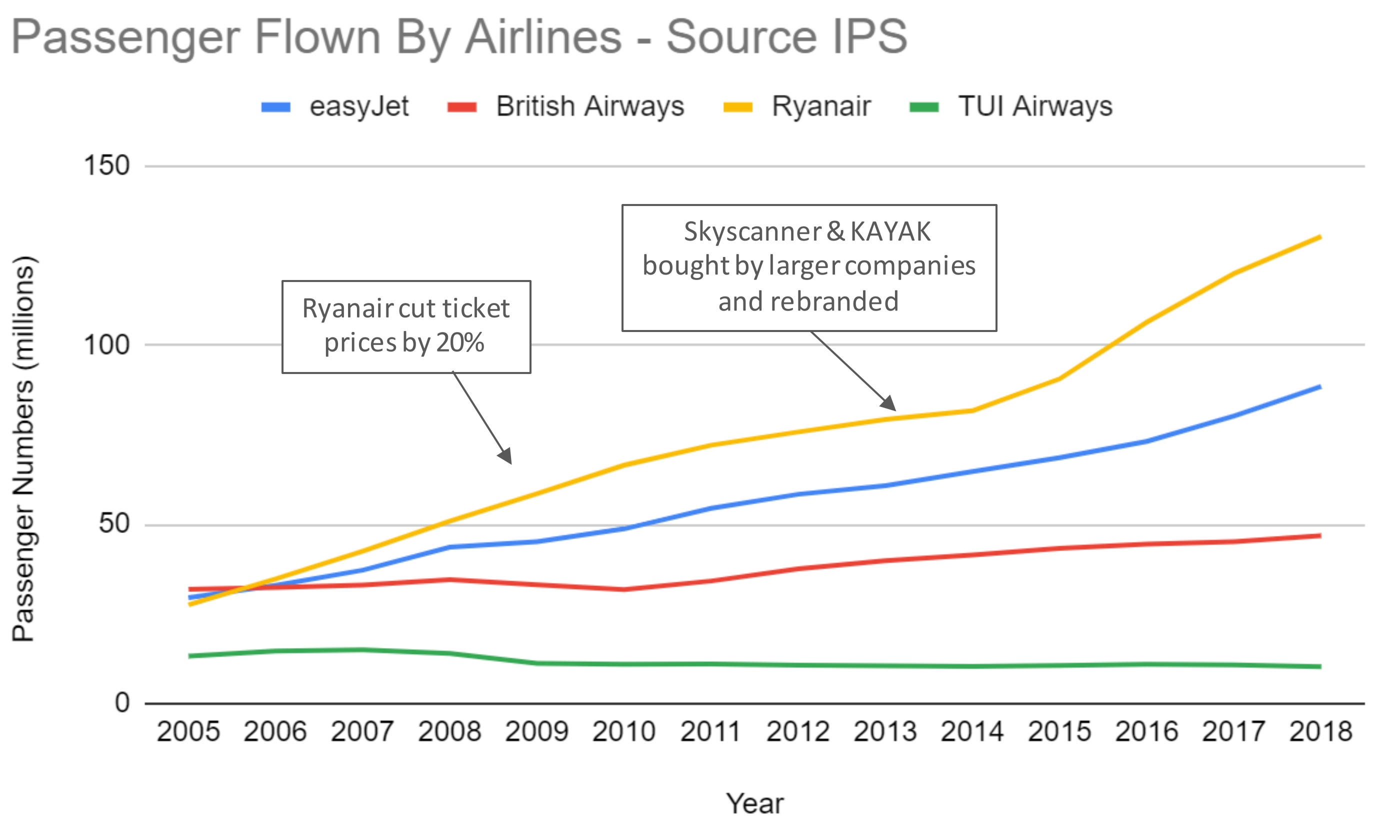
Passenger Numbers (Airlines)

Post 2008 Recession

- easyJet +5.7%
- Ryanair +14.3%
- British Airways -4.1%
- TUI Airways -11.1%

Post 2016 Referendum

- easyJet +10.0%
- Ryanair +10.7%
- British Airways +2.6%
- TUI Airways -2.8%



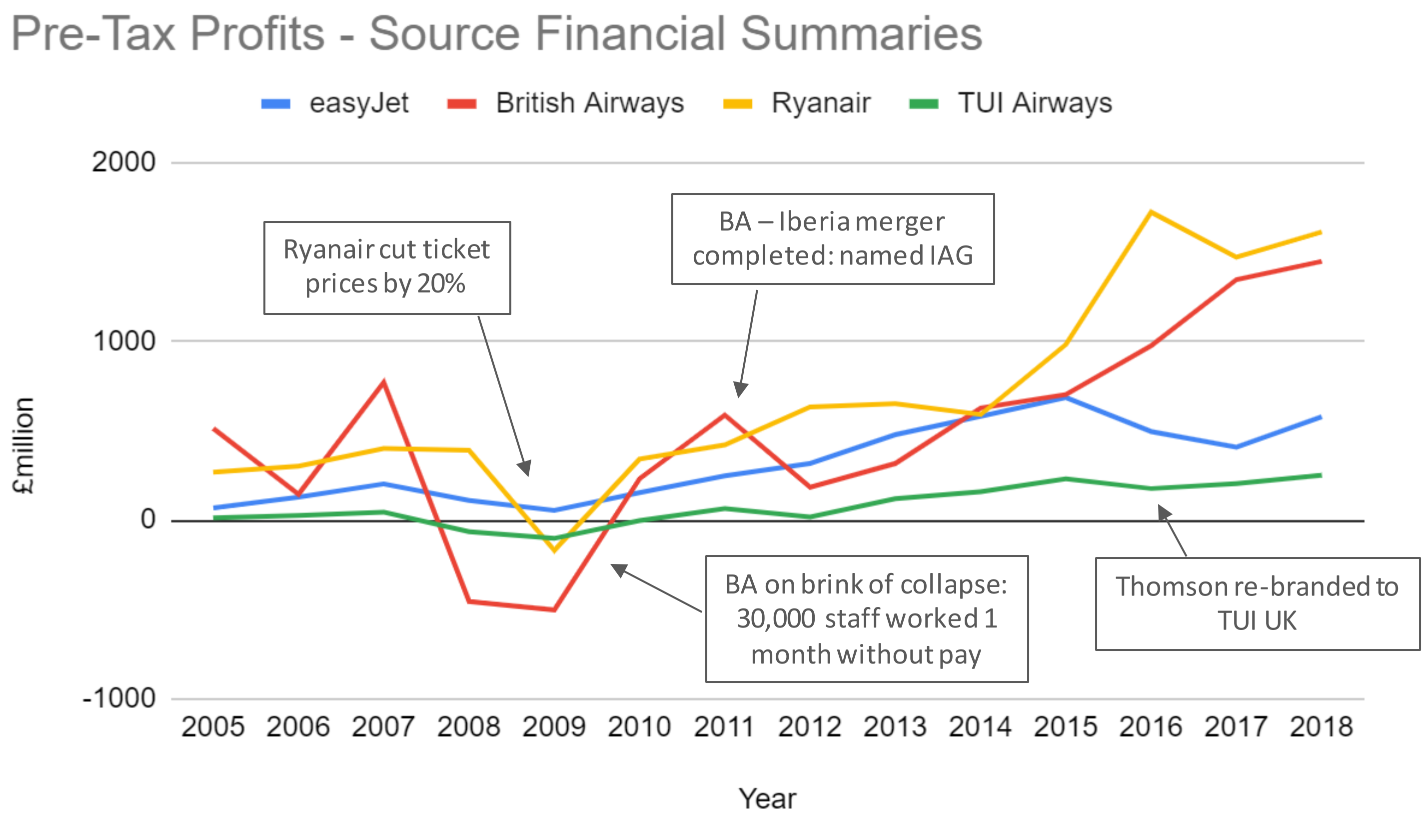
Pre-Tax Profits (Airlines)

Post 2008 Recession

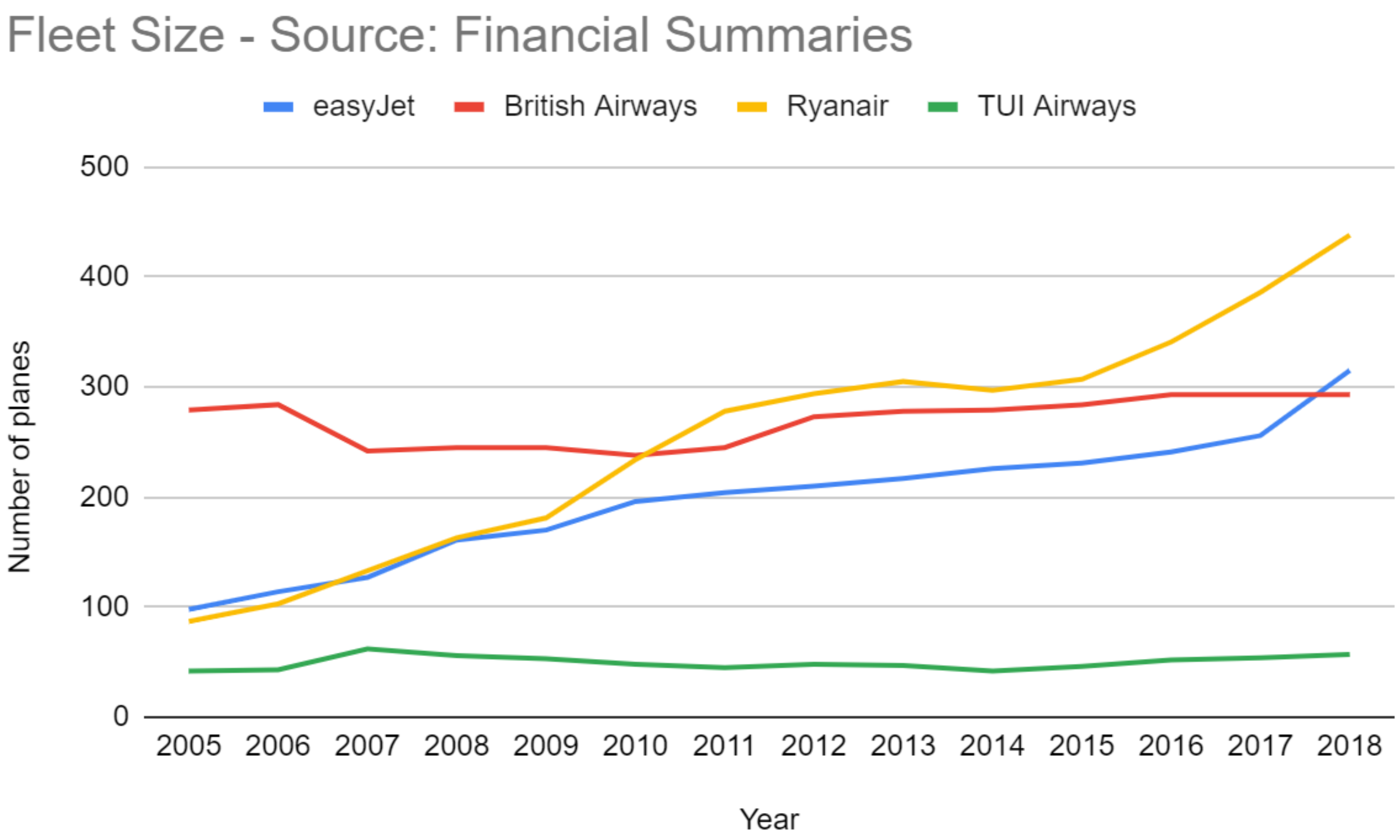
- easyJet – Profits Halved
- Ryanair - £500m downturn
- British Airways – near £1bn loss
- TUI Airways - £160m losses

Post 2016 Referendum

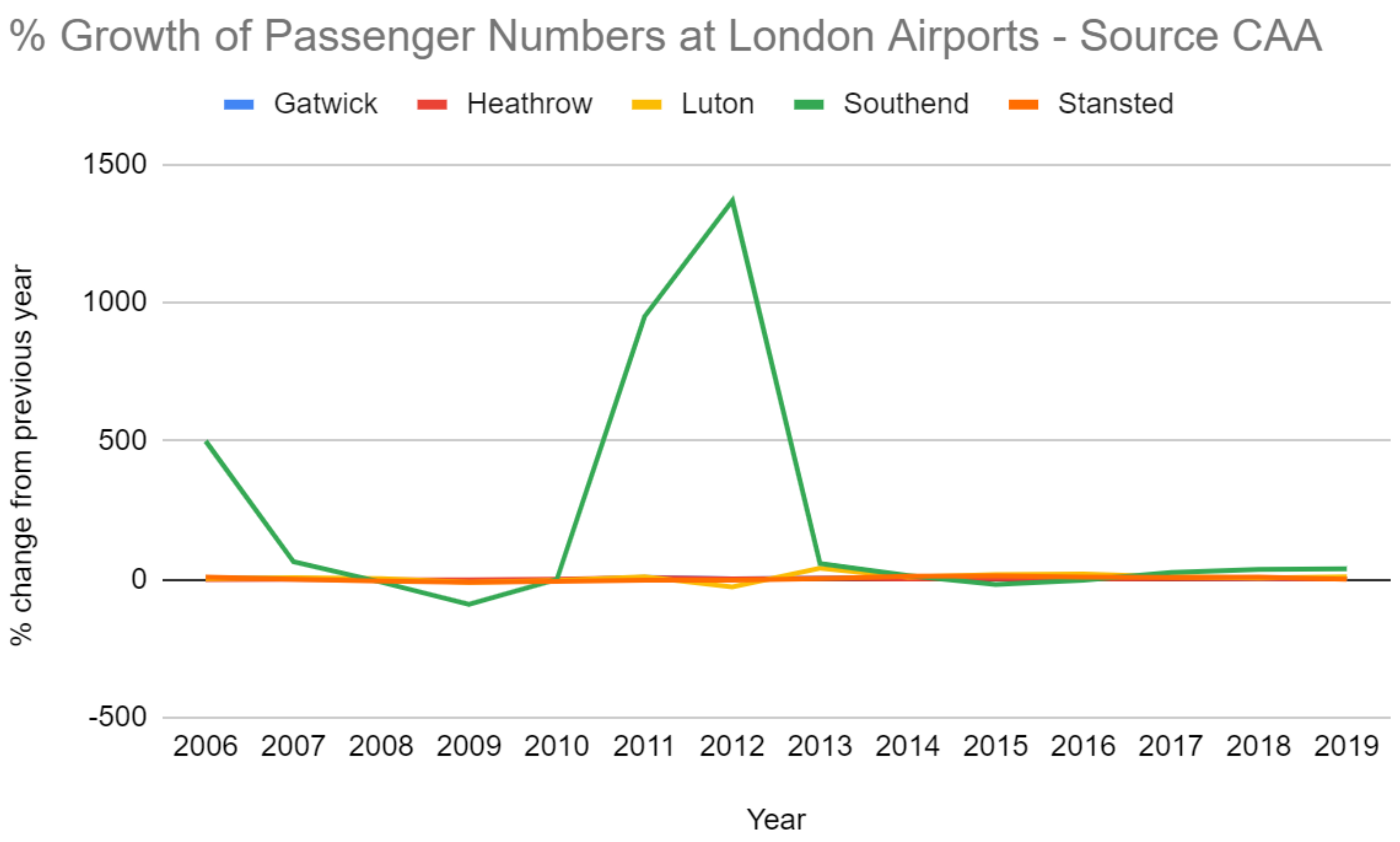
- easyJet -22.7%
- Ryanair - £300m downturn
- British Airways +38.4%
- TUI Airways +19.4%



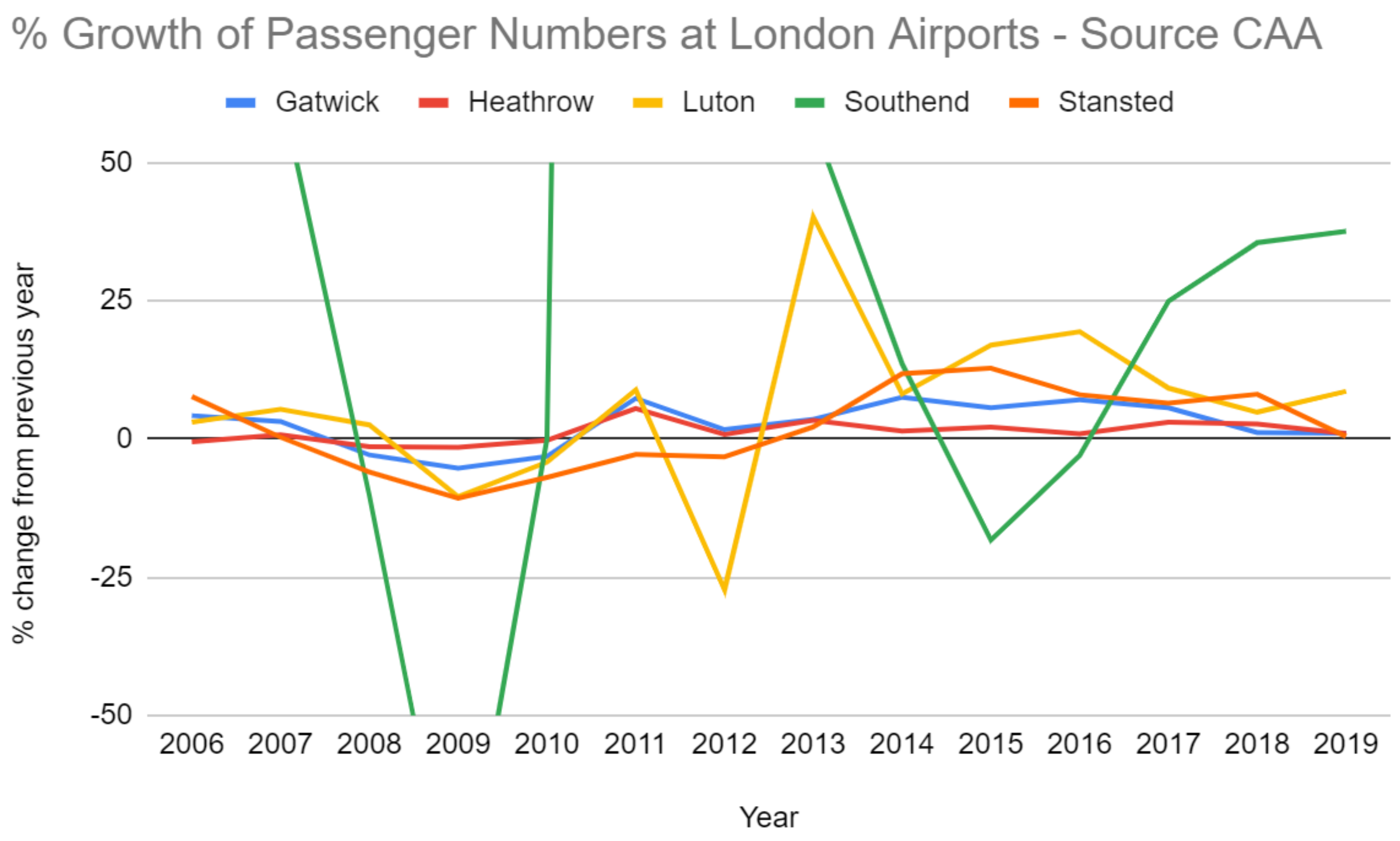
Fleet Size


Fleet Size - Source: Financial Summaries
easyJet
British Airways
Ryanair
TUI Airways
500
400
300
200
100
0
Number of planes
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Year

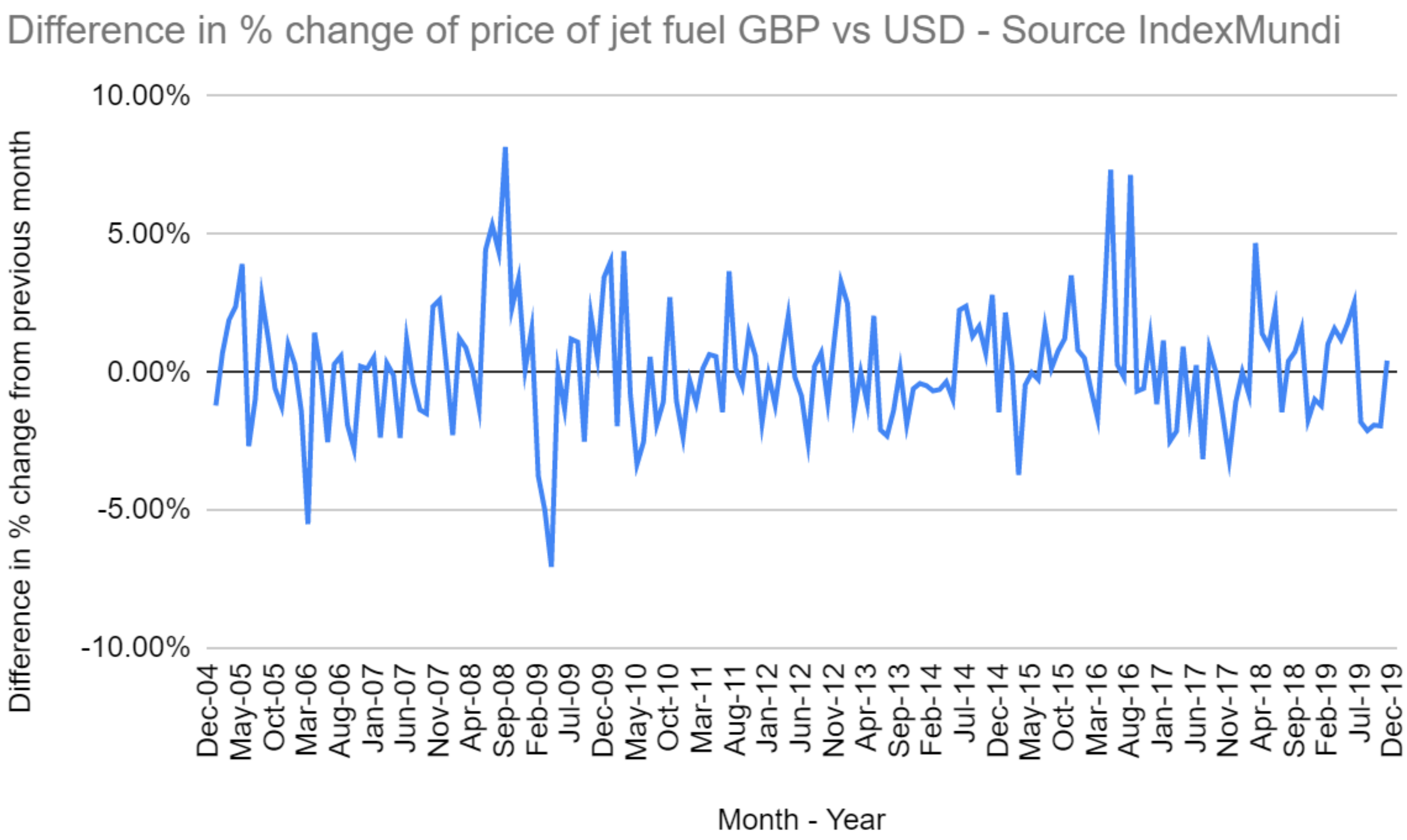
Passenger Numbers (London Airports)



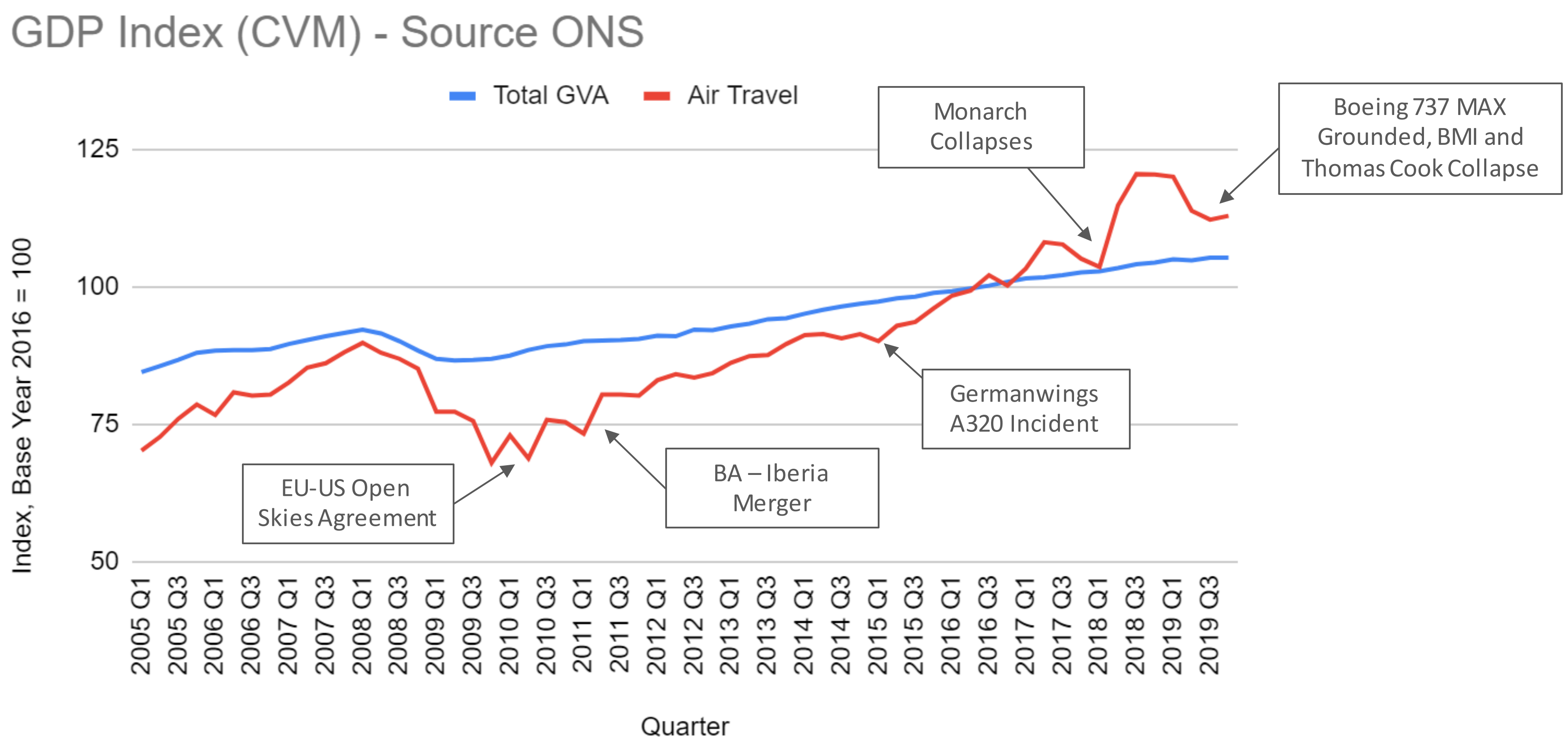
Passenger Numbers (London Airports)



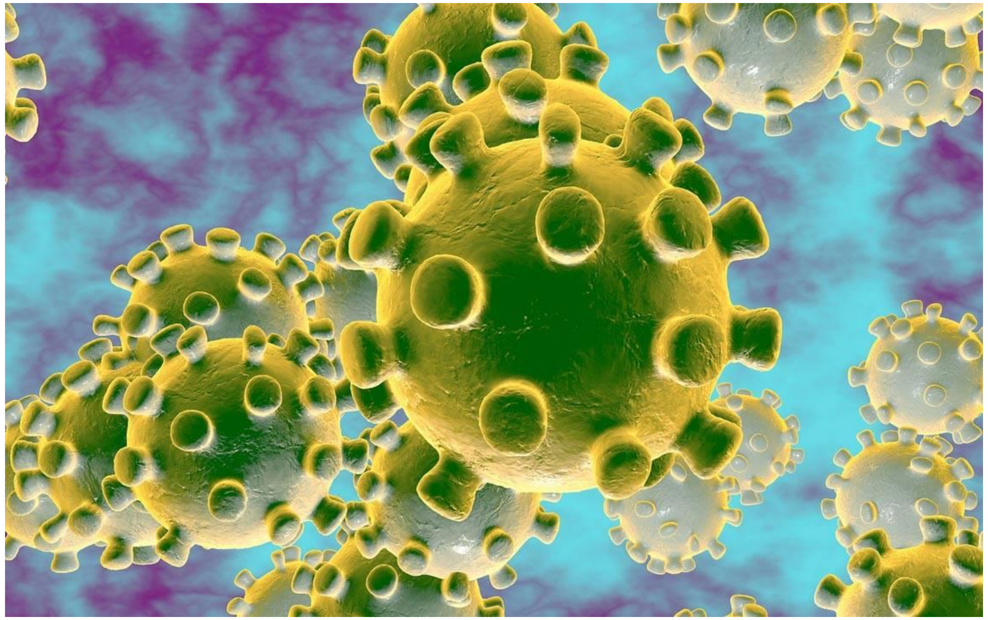
Cost of Jet Fuel



Direct Contribution Towards GDP



Looking Forwards…



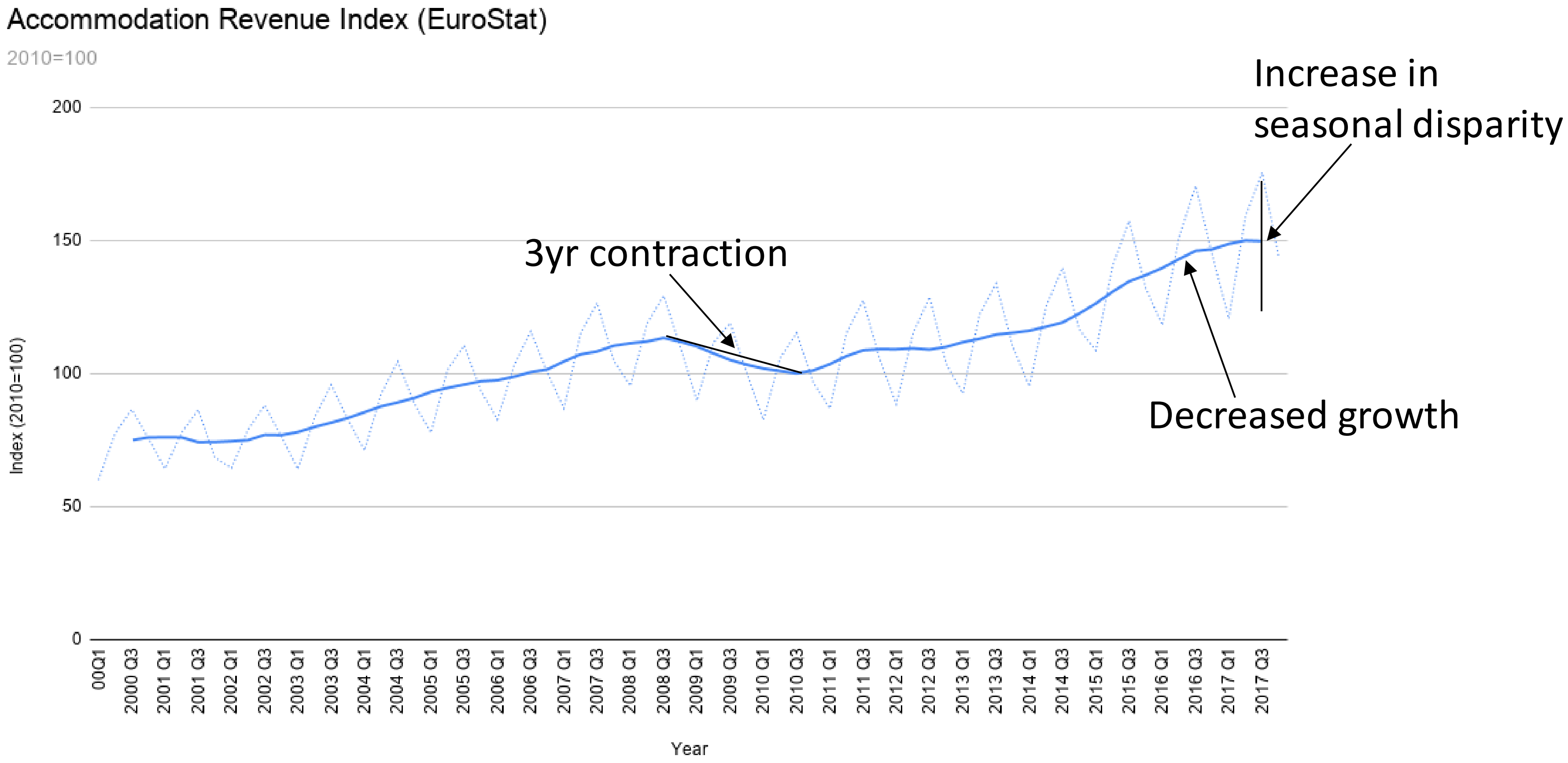
COVID – 19 Fears

Rise of environmentalism

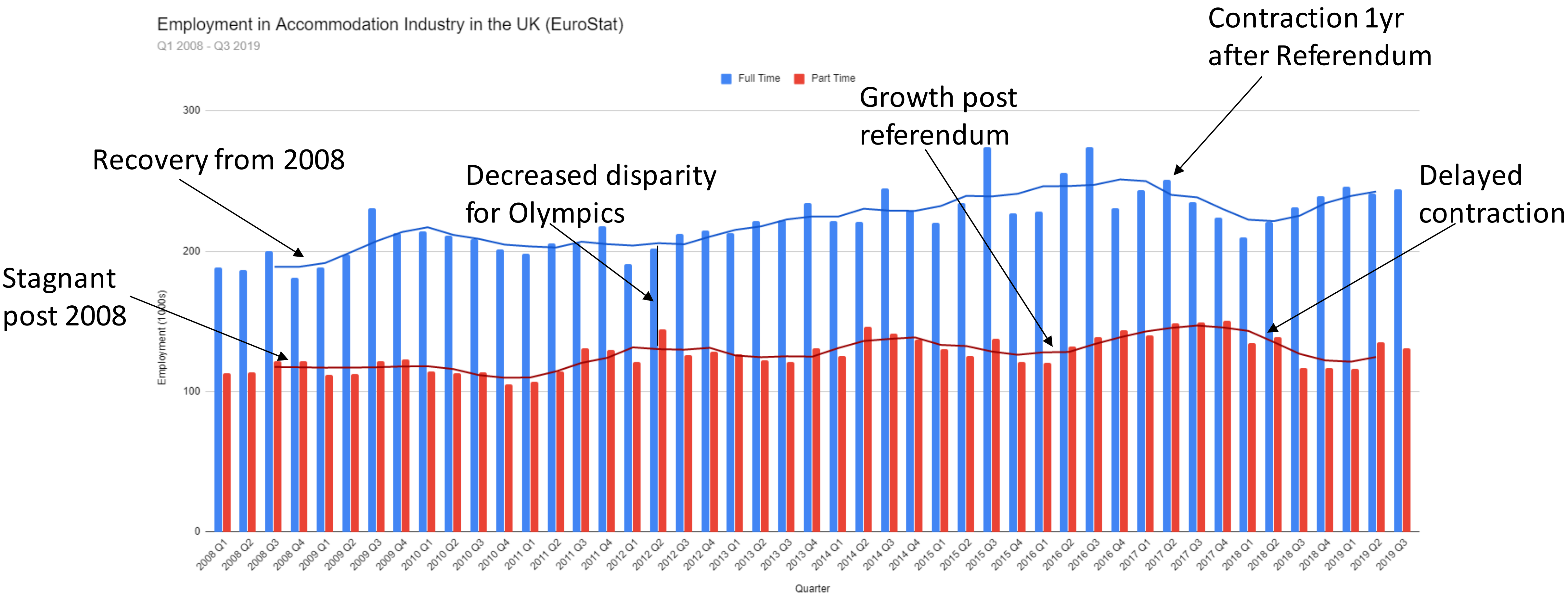
Accommodation

DOM HUTCHINSON

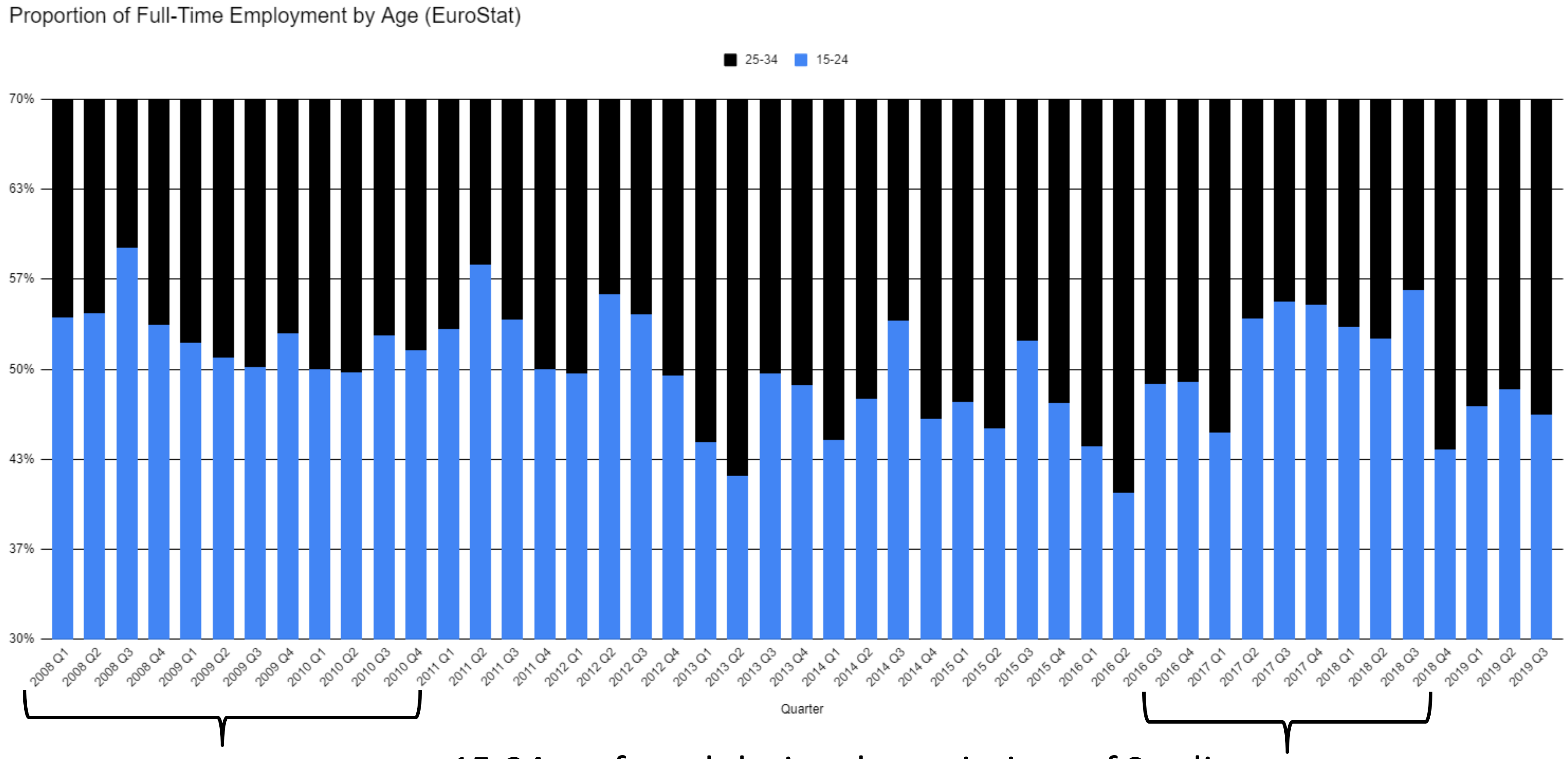
Accommodation Revenue



Full Time vs Part Time Employment

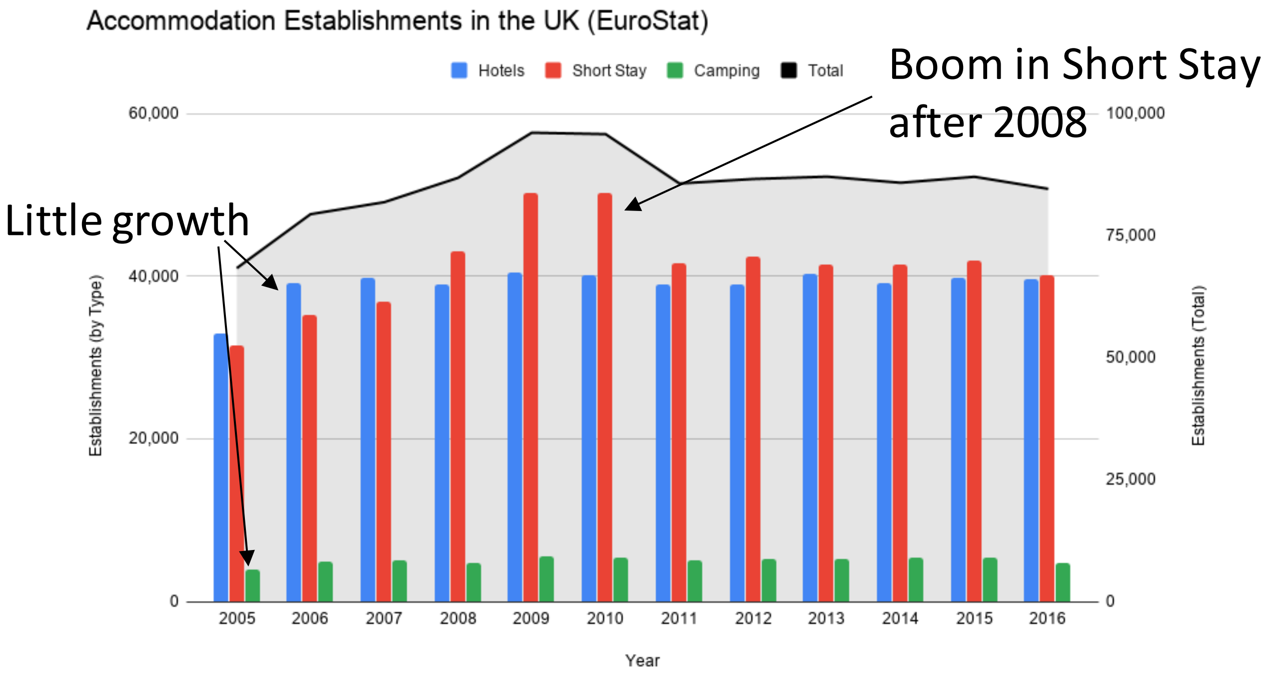


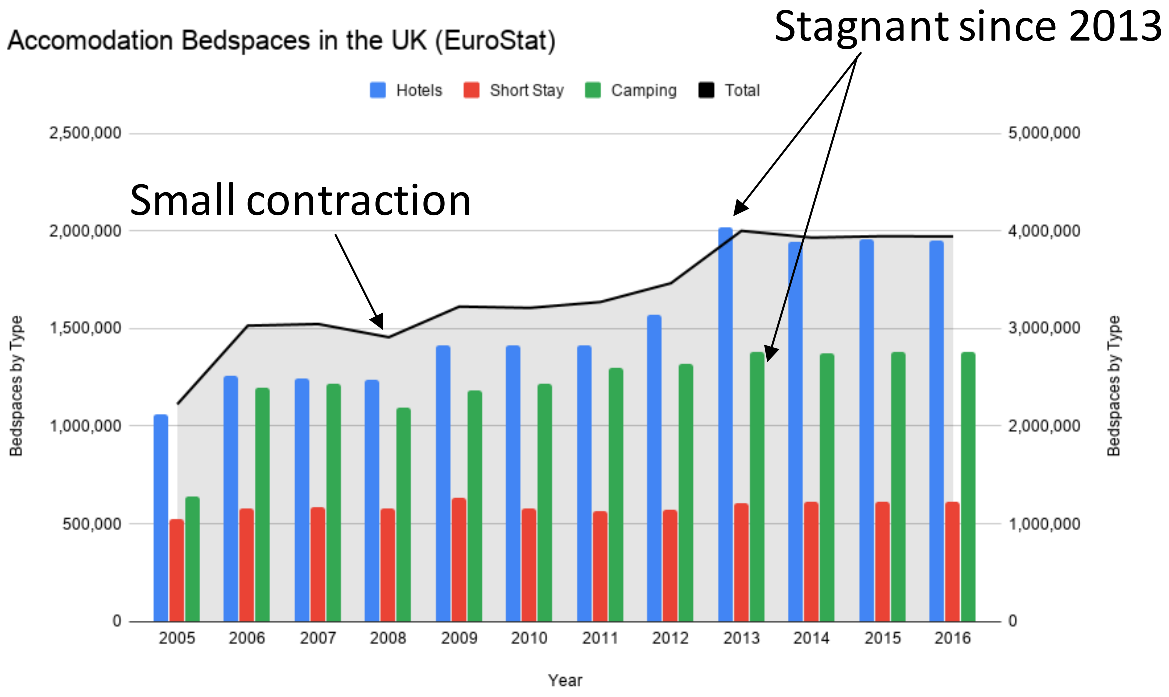
Employment by Age



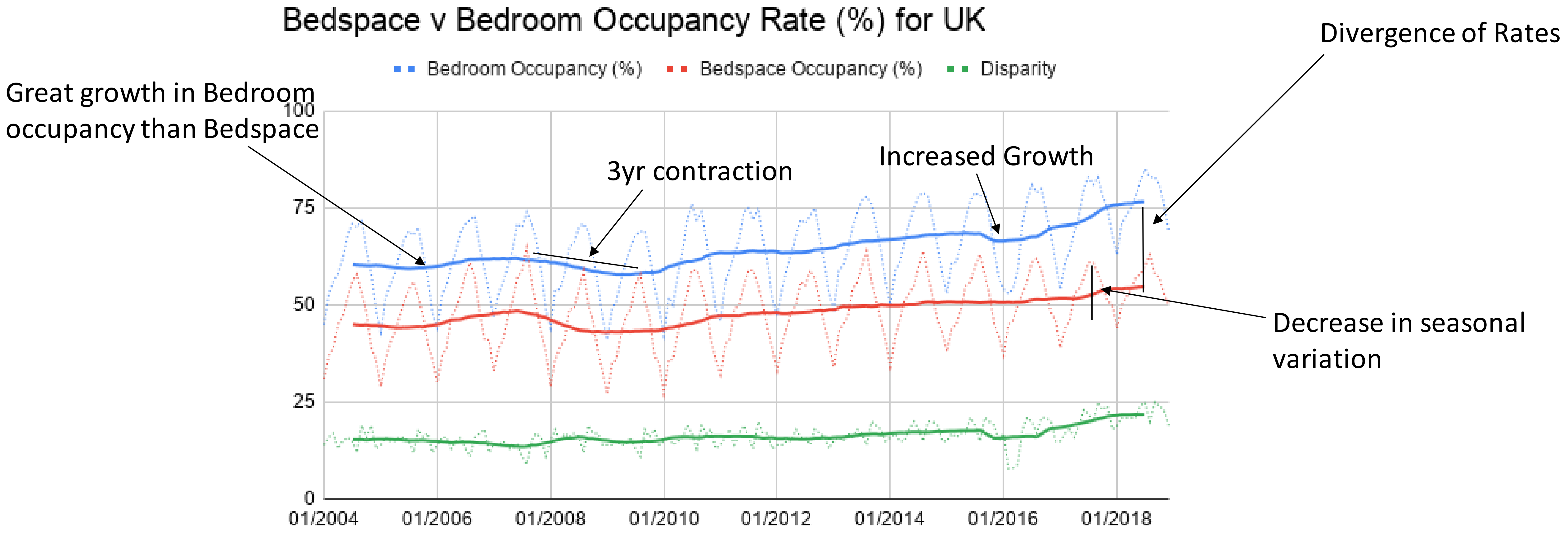
15-24 preferred during depreciations of Sterling

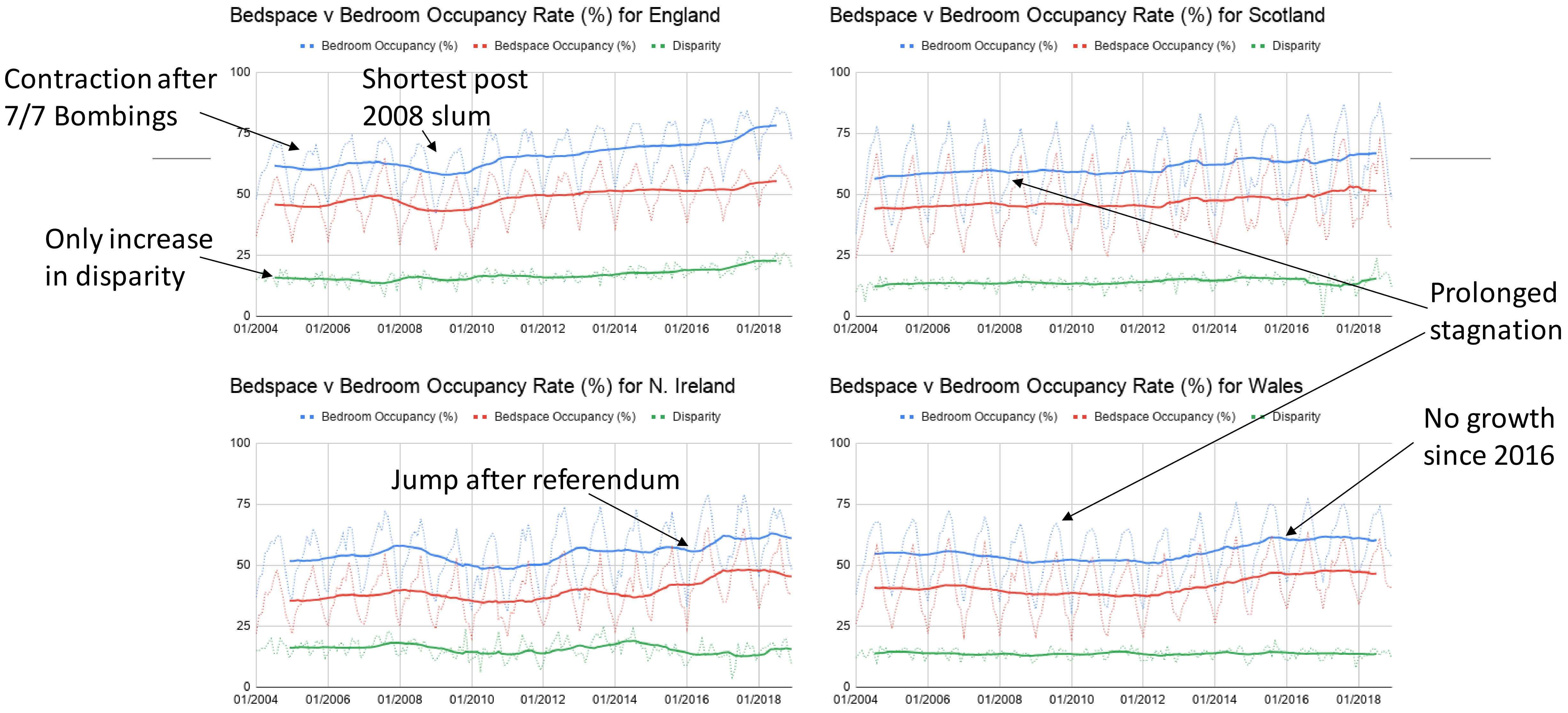
Accommodation Space





Hotel Occupancy Rates

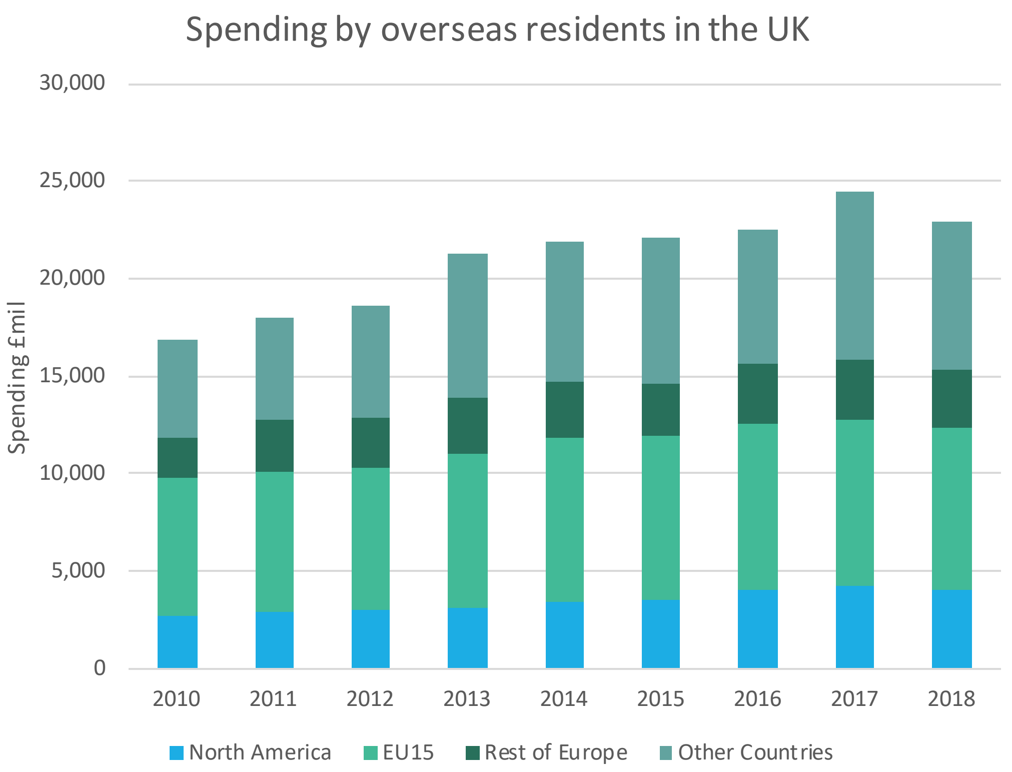



Bedspace v Bedroom Occupancy Rate (%) for England
Bedroom Occupancy (%)
Bedspace Occupancy (%)
Disparity
100
75
50
25
0
01/2004
01/2006
01/2008
01/2010
01/2012
01/2014
01/2016
01/2018
Bedspace v Bedroom Occupancy Rate (%) for Scotland
Bedroom Occupancy (%)
Bedspace Occupancy (%)
Disparity
Bedspace v Bedroom Occupancy Rate (%) for N. Ireland
Bedroom Occupancy (%)
Bedspace Occupancy (%)
Disparity
Bedspace v Bedroom Occupancy Rate (%) for Wales
Bedroom Occupancy (%)
Bedspace Occupancy (%)
Disparity
Contraction after 7/7 Bombings
Shortest post 2008 slum
Only increase in disparity
Prolonged stagnation
Jump after referendum
No growth since 2016

Consumer Spending

ADAM PLUCK

Spending Within the UK by Overseas Residents (Inbound)

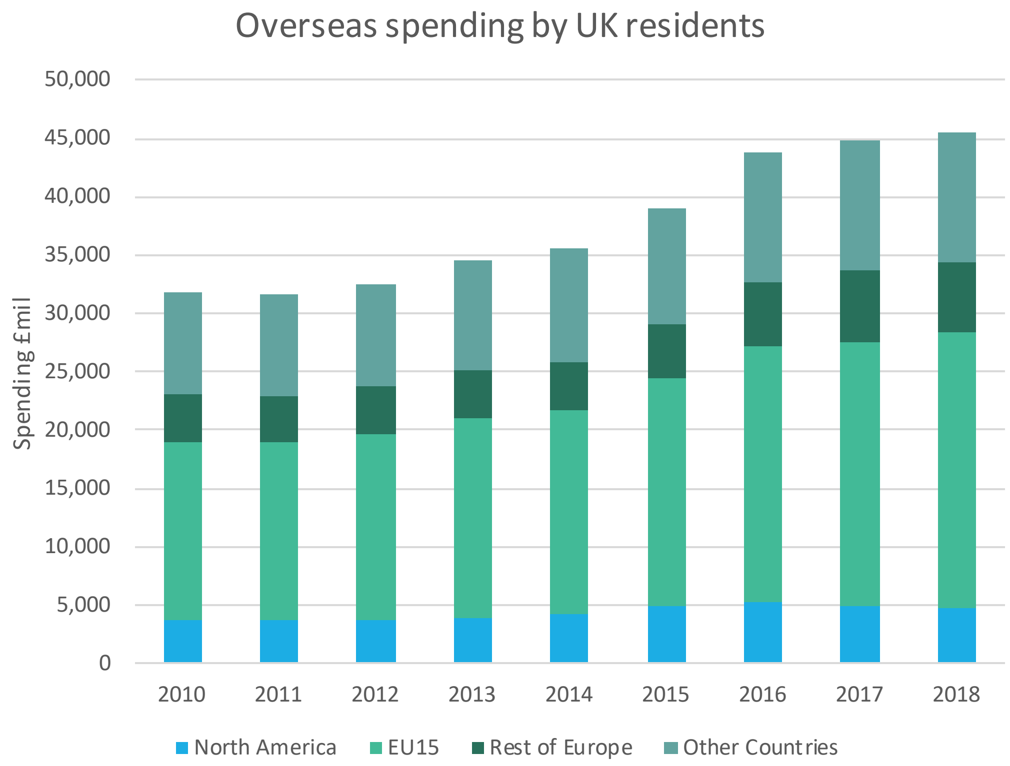


Takeaways:

- 14% increase in 2017
- Increased expenditure largely driven by strong performance from non-EU countries
  - Could be down to a weaker pound allowing foreign citizens to spend the same in their currency which is more in GBP

- First decrease in spending in 10 years after that
- This could suggest some time-lagged relationship between expenditure and strength of the pound

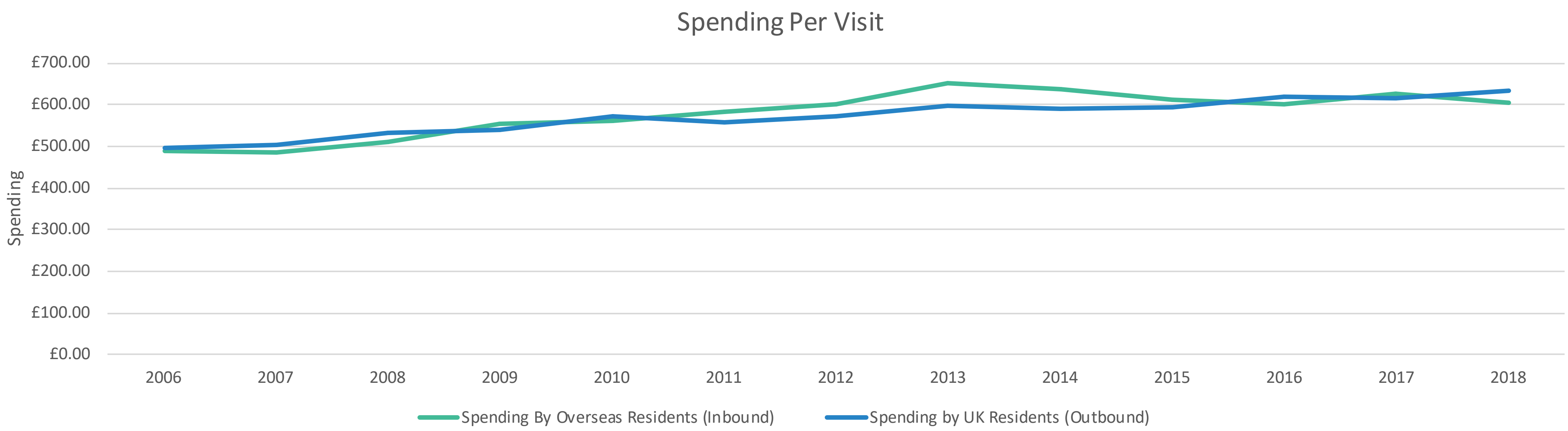
Spending In Overseas Countries by UK Residents (Outbound)



Takeaways:

- Positive trend accelerates as we approach 2016 with a £4.7 billion jump in expenditure
- Growth does however considerably slow, with almost a period of stagnation in 2018
- Growth is largely driven by EU15 countries
  - Potentially due to decreasing costs for inter-EU flights

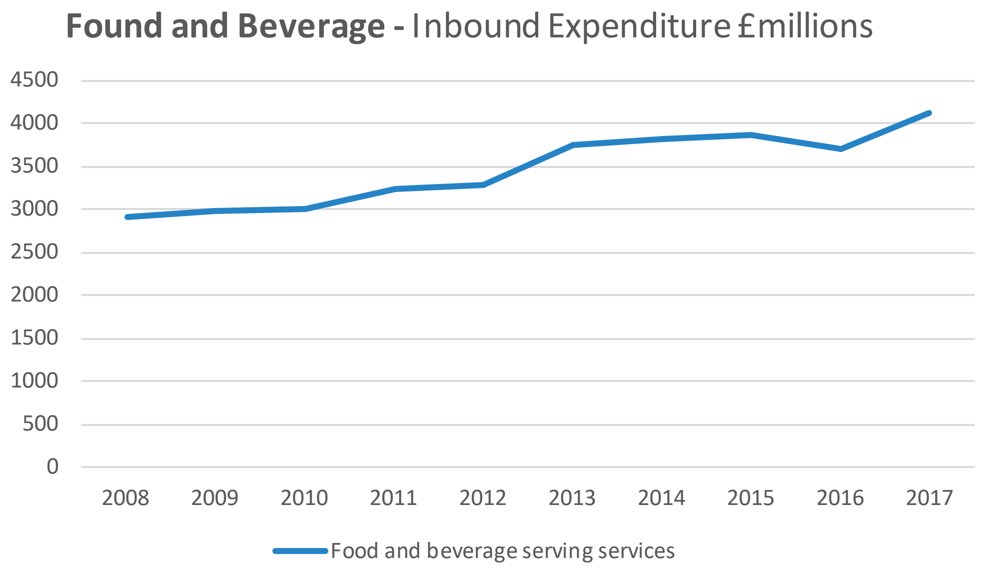
More general spending per visit

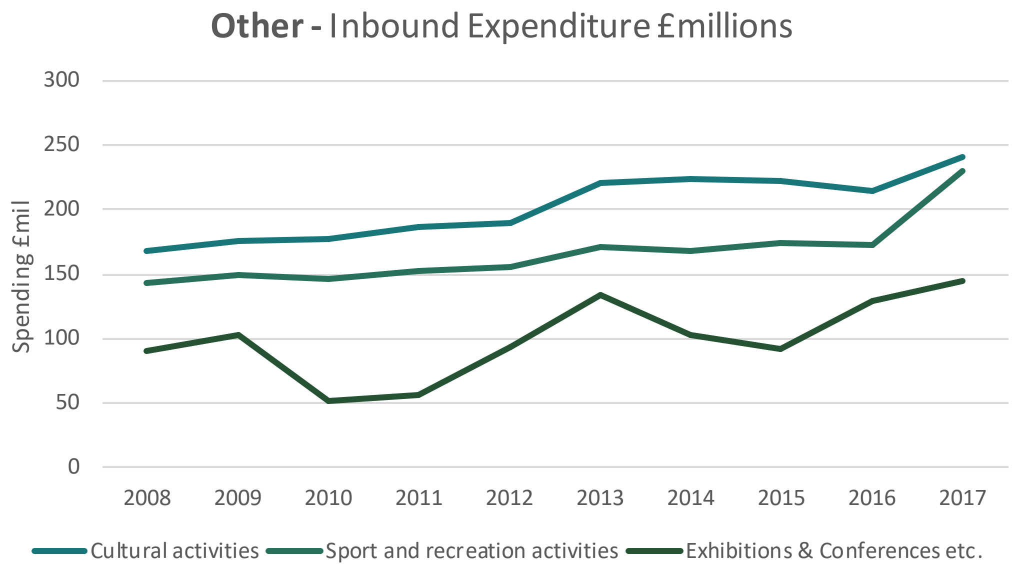


Takeaways:

- Very little to remark upon
- General upward trend but no real difference in spending as a result of the 2008 crash or post the Brexit vote

Industry Specific Spending - Inbound





ıkeaways:

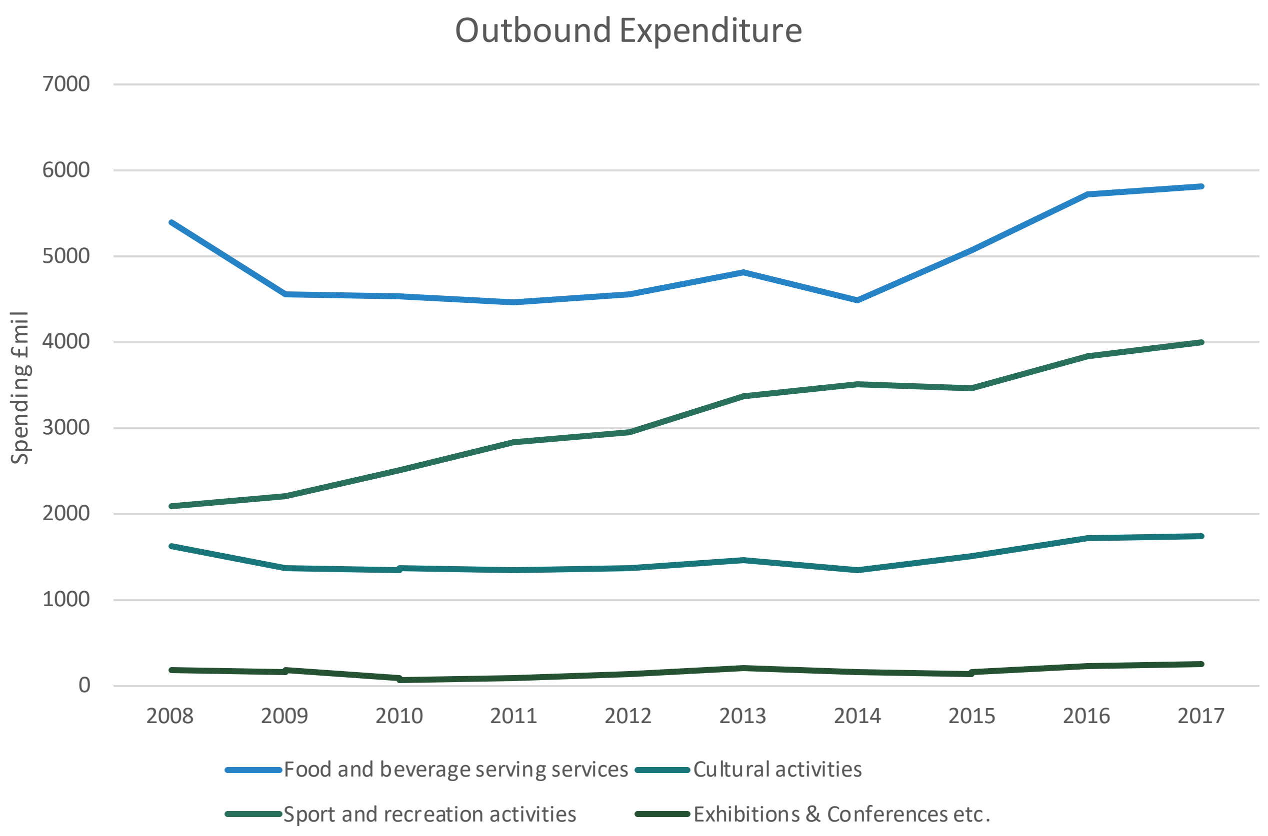
Relatively large jump from 2016 to 2017 in every single industry

Food and Beverage - 10.8%,

Cultural Activities - 11.9%,

- **Sport and Recreation** - 34.2%,
- **Exhibitions and Conferences** - 12.0%

Industry Specific Spending - Outbound



Takeaways:

- Minor increases in Food and Beverage, and Sports and Recreation
- Very little, if any, change in expenditure for Cultural Activities and Exhibitions
- Can likely be attributed to general growth rather than any effect of the depreciation
- Likely invariance to the pound

Key Takeaways

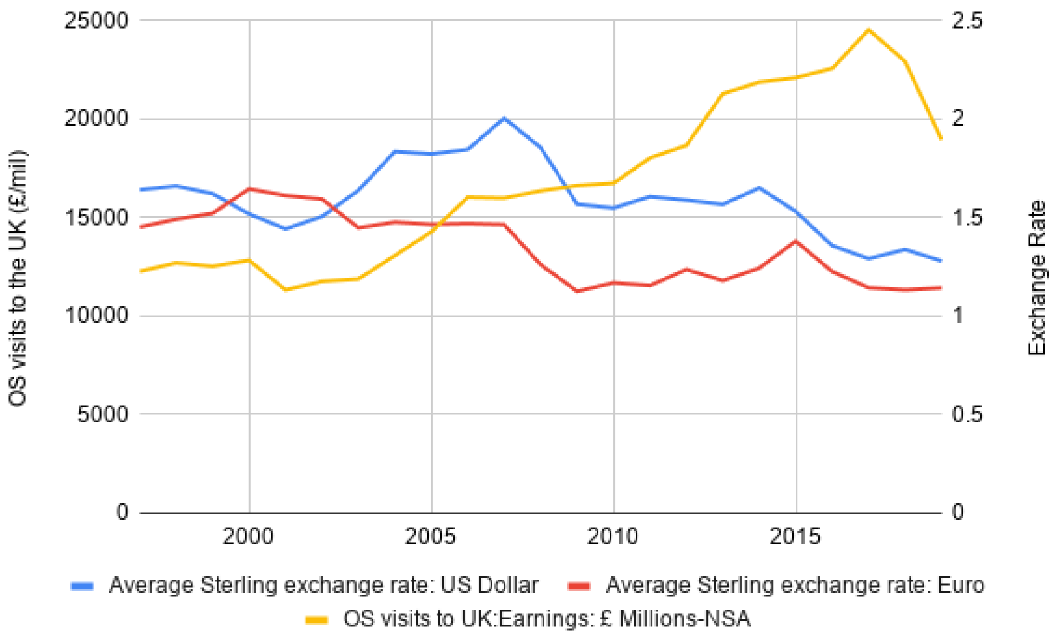
- Nothing incredible to remark upon

- Post 2016 spending in all covered industries and overall expenditure increased
  - Potentially due to foreign currency going a lot further in the UK
    - Overseas visitor can spend the same in their currency which equates to more in the UK. Especially apparent from very far afield

Other Trends & Wider Implications

BEN WARREN

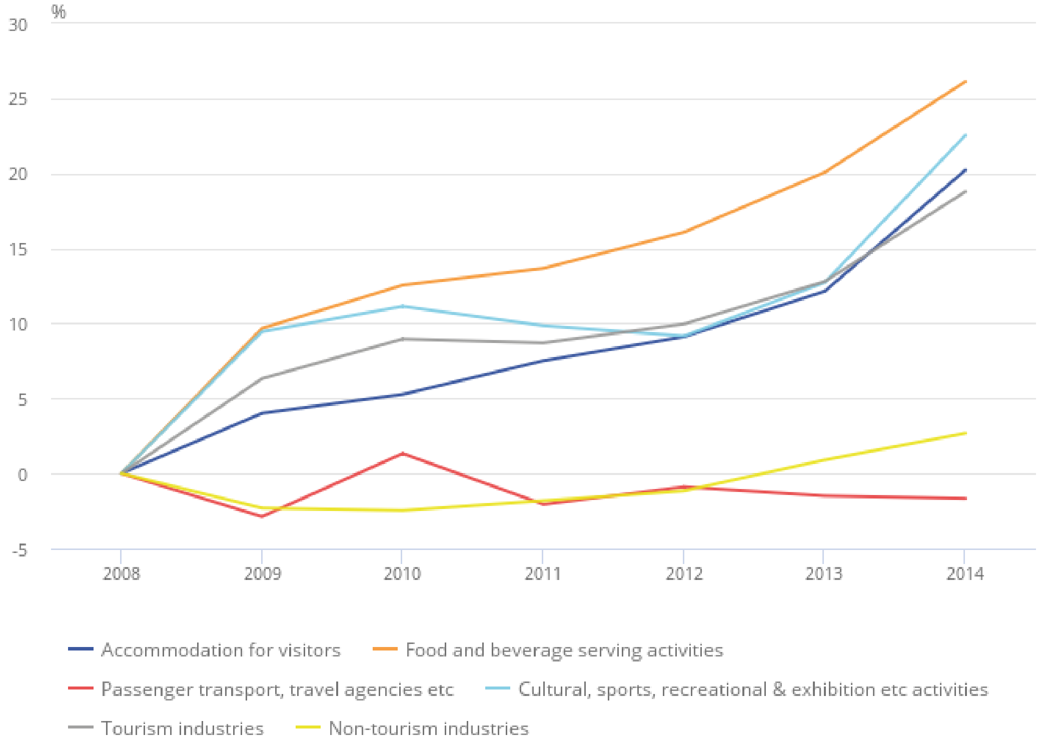
Financial Crisis – Tourism & Employment in the UK



[Chinese tourists to spend £1bn in UK by 2017 - Telegraph]

UK increase in tourism employment in most sectors between 2008 - 2014

- Decline in passenger transport
- 5 of the 6 sectors negatively affected 2009 – 2010
- Overall, the employment sector experienced strong growth despite the financial crisis, recovering quickly.
- BREXIT



Source: Annual Population Survey (APS) - Office for National Statistics

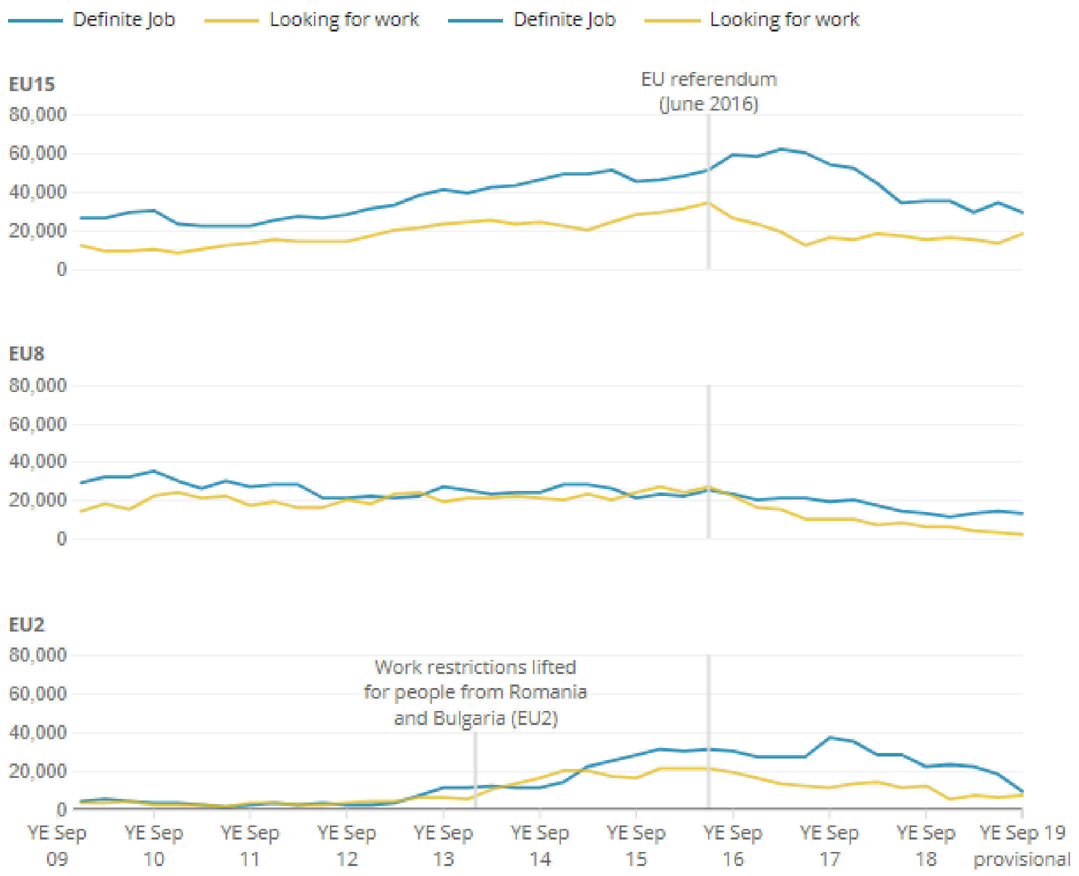
New salary assessed system for workers will make it harder for the tourism industry to recruit staff

- Proposed skills- and salary-assessed system
- 3.3m workers in the UK tourism industry affected
- £17,000 to £30,000
- 65% of businesses nationally believe they will be unable to operate should the cap come into play according to surveys by UKinbound
- UK Inbound report found 77% of tourism businesses have found recruitment more difficult since the EU referendum.

EU Immigration to the UK falls even before new legislation is put into place

- Fall in all sectors

- Those with a **definite jobs** from the EU15 nations fell from a peak of 60,000+ before the EU Referendum to below 30,000 in 2019



Despite a net reduction, VISA applications are still on the rise

193,517 work-related visas granted in 2019 (including dependents)

Increases in grants of Skilled work visas, which increased by 11% to 113,958, the highest level on record.

Immigration & Study

- 19% Increase from 2018 to 2019
- Chinese nationals were the most common nationality granted study VISA's visas in 2019
- Indian nationals almost doubling up 93% to 37,540 compared with 2018, continuing an increase seen since 2016.

UK will lose funding from the EU

€57million lost in funding per year in the tourism industry

Climate change

Brexit has diminished investment in London by 11%

28% of our food comes from the EU,

Rise in food prices 'may impact vulnerable groups'

Credit and debit card changes may be higher, and payments may take longer

Key Takeaways from Wider Implications

Depreciation of the GBP lead to a surge in spending

Consumers have outside options

Salary assessed system could lead to a rise in wages

EU immigration already falling

Funding from the EU will be cut

Conclusion

1. Unsurprising effect – a fall in sterling will end up having foreign tourist spending more

2. Null effect – when comparing to 2008, where there was a recession, a fall in the value of the pound after Brexit, which was not accompanied with a recession has had little effect on domestic tourism.

Thank you for listening

WE ARE HAPPY TO ANSWER ANY QUESTIONS