Outlook for International Inbound Travel to North America - The International Marketplace: What's Happening?

Mark Brown
US Department of Commerce

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Thank you for the opportunity to represent your National Travel and Tourism Office and to present once again an update of global travel trends, the U.S. international travel industry trends, and the forecast for travel to the USA.
I want to start off with a graphical representation of why more conference attendees should be in this room...at least from our perspective.

This graph shows the proportion of all travel and tourism-related DEMAND—or spending—represented by international travelers. While international travelers account for 4% or so of all travelers in the USA, they account for nearly 19% of travel demand—a level that is both a record and growing.

Let’s take a quick look at what’s happened since 1998, the start of BEA’s data on this series.

**10K Dow** period. The Dow topped the psychological brain-whacker 10k level for the first time. Many traditional key international visitor origin markets set volume records that still hold today.

**9-11** period. Declines or at least softness started BEFORE 9-11. VFR travel increased and business and vacation leisure softened...if I correctly recall the DKSA data and special study on 9-11 changes.

**SARS** period. Domestic travel picked up as the economy picked up. SARS concerns and perhaps other factors created a drag on international travel globally.

**Bubblicious** period, aka, “Hey Sweetie, Did you check ZILLOW today on the value of our house?” Everyone was high-fiving complete strangers. This MOF event annually expressed optimism for travel and tourism looking ahead. I was skeptical due to the changing demographics of America, high credit card debt levels, higher prices for gasoline, energy, healthcare, and food, and flat or NEGATIVE household income growth. And that was BEFORE boomers and seniors were making ZERO POINT TWO-FIVE PERCENT on their CD’s and money-market accounts.

**Recession** period. Gravity is stronger than helium...when the balloon or bubble burst, it crashed hard. Begin the period when travelers who counted on six percent returns on their liquid investments and savings as the travel fund cookie jar began earning nothing.

**Eco-Funk** period. Eco stands for economy, not ecology or whatever ECO often represents. Continued low returns on liquid investment and savings accounts for older Americans. Immigration accounts for 80% of population growth. Are they travelers? US TRAVEL forecasts domestic annual growth of less than two percent, while they...AND WE...forecast higher international travel growth.

**2008-2017 Total Traveler Growth:**
- +12% Domestic
- +40% International

THUS, international travel’s share of total US travel and tourism demand, that is money, will continue to rise to record levels. 22% is very likely, and a 24% wouldn’t surprise me...depending on how each of the four components of demand changes over the next few years.
...and here’s their importance to total travel and tourism demand and how they HAVE changed over the past several years.

Here’s what I see:

1) **GREEN**: Government demand has increased every year except 2008, but has been flat since then, coinciding with the restricted travel policies at government at all levels. In fact, within government travel demand, lodging’s share has dropped from 20% of total to 15%.

2) **BLUE**: Business demand has turned flat.

3) **RED**: Resident demand is more than double that of combined business + government +international. It is in growth mode for 3 years.

4) **Indigo**: International demand will likely surpass business travel demand in this year...2014 to become the second-largest component of overall travel demand.
And the increasing importance of international in a country’s tourism demand structure doesn’t seem to be limited to the USA. This recent data from the UNWTO show that domestic travel is flat around the world compared to international, whether international is measured in terms of inbound travel or outbound travel.
So, What Does It Mean?
Without the growth in international...

- Magic Kingdom ticket price wouldn’t be $100.
- Hotel room demand wouldn’t be up 22% since 2003. RevPAR wouldn’t be up 40%, and revenue wouldn’t be up 58%. RevPAR wouldn’t be up more than 13% over the past two years alone.
- Funk in NPS recreation visits would have been...funkier.
- Your organization’s revenues or budget would have been much less.
- The decline in your inflation-adjusted household income would have been even worse!

It’s a complicated, inter-connected U.S. economy and travel industry. Changes in travel exports impacts everyone.
Let’s start by re-visiting the outlook for global travel provided by the United Nations World Tourism Organization in Madrid.

This organization represents public-sector entities.

Their forecast was in 2012 won’t be done again for another decade. So it’s THE global big-picture outlook with detail for all world regions we will have for awhile.
Here’s a chart showing the actual annual percent change in world ARRIVALS up through 2010, and the long-term forecast through 2030. Annual increases are around 4% through 2020, and then decelerate through 2030.
Growth in arrivals over the forecast period is dominated by Europe and Asia Pacific.
I’m a bit baffled by the growth in travelers FROM Europe. Based on UNWTO feedback, this mostly reflects growth off of a huge base in Western Europe and population/economic growth in Eastern Europe.
So what does this all mean in the grand scheme of things.

Travel will remain a global growth industry, even under the worst forecast assumption scenarios. The block of 15 or so top Asian destination countries will continue to gobble up market share of global arrivals at the expense of most everyone else.

- International travel has a bright future, even under the darkest assumptions.
- Nearly all non-Asian countries will continue to lose share of global arrivals...
Here are the most recent trends reported by the World Travel & Tourism Council in London. They reflect the private sector interests and concerns.

WTTC is like the U.S. Travel Association at a global level.

The graphs shown and points made here emphasize—similar to that of the UNWTO forecast—that the industry’s future is sound. Share of world GDP goes up and down because it reflects changes in TWO components: 1) travel and 2) everything else.
Here are the most recent trends reported by the Pacific Asia Travel Association, or PATA in Bangkok.

PATA changed their forecasting source, methodology, and time horizon in their 2013 forecast release. Hong Kong Polytechnic University, School of Hospitality and Tourism Management now prepares the forecast.

Here are some of the key findings, many of which are quite different than those found in the 2013 release. For example, the CAGR for total visitation from 2014-2018 is now 3.3%, versus only 1.4% in the 2013 report. The sizable upgrade to the CAGR from Canada accounts for the bulk of this overall upgrade.
Global arrivals performance in 2013 and start to 2014 are above forecast trend.
- Including growth to Europe. (are things so bad they’re good?)

Timing of emerging economies’ share of global arrivals surpassing 50% is delayed...holding steady at 47%.

Market share shifts among top 50 country destinations.
1995 (start of data set)—to 2013:
- ONLY developed countries to NOT LOSE market share of arrivals are Germany, Sweden, Japan, and Denmark.
- USA’s 21% decline is dwarfed by MX’s -41% and CAN -52%. Not to mention IT(-25%), FR (-27%), U.K. (-29%). Plenty more nasty examples.
- Top 10 in any year has steadily declined from 53% to 44% of total.
- THE top 10 in 1995 has dropped from 53% to 41% of total. USA only 1.7 pts. of drop.
- Share of the 12 Asian countries in top 50 increased from 12.7% to 19.7%.

Regarding growth to Europe…a high share of travel is INTRAregional. How much of this growth is FROM Europe due to downgrades in travel budgets due to the various economies? A flower blooms under two conditions…when it’s very healthy, and when it’s about to pass on.
So, perhaps you’re wondering…how are we doing?

Well, let me know if you have a suggestion on a metric or metrics on how to measure this. So for example, by the time 2018 actual comes around, we will have estimated 2018 volume a dozen times. Which one or ones do we use? Which metric or metrics do we use?

As Travel Forecast program manager, part of my job is to at least track what we know…in this case, what’s shown is actual visitation performance versus the forecast for that year from each of the semi-annual forecasts. I do know that…

1) We brought the program IN HOUSE starting with the spring 2010 forecast.

2) We were initially too bearish…the 2010 recovery to trend happened quicker than we assumed.

3) But now, for any year and out of 20 countries, we tend to be about equally split between those we overestimate—that is, too bullish, and those we underestimate—that is, too bearish. That’s EXACTLY where I want us to be in terms of being correct on **directional** change. Now we just have to keep trying to get better on **magnitude** of change.

4) Has anyone “nailed” a France forecast? I want to meet them and bow to them. We’d do better by throwing darts on a wall or using that Mattel Magic-8 Ball™.
Computing the accuracy of a semi-annual country-level forecast is difficult. By the time a specific year’s actual volume is available, NTTO will have forecast a country’s volume 12 times. So which year or years do you use? Which metric or metrics?

This graph shows the approach I’m using currently…

Shown in black in descending order of percentage change from 2012 to 2013 from left to right are NTTO’s forecast for 2013 released in the fall of 2012.

In orange are the actual changes from 2012 to 2013 of all countries, all overseas, and each of the 20 countries on which we spend effort forecasting.

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We were “close” for many of these countries, depending on what you mean by close. For me its… “were our estimates USEFUL?”—useful for allocating marketing resources, useful to other USG agencies in estimating visa processing and border processing resources, useful for NYC or Miami retailers estimating international traveler demand for their products, and other similar uses.

Obviously, we underestimated growth from Venezuela, Taiwan, Colombia, and India. But looking ahead to 2014, each one of these countries are much softer in performance, so maybe we’ll be accurate and useful using a longer time horizon.
And here’s one other available international forecast...from the U.S. Travel Association.

I’ve marked the two lines of interest here...the forecast for international travel TO the U.S., and the forecast for domestic travel within the U.S.

First, international travel growth is in the plus 3.5% to plus 4.1% range. We’ll see in just a minute that this is similar to NTTO’s forecast, perhaps just a bit more bullish in the OUT years.

Second, the annual growth rate for international is MUCH higher than that for domestic for each of the forecast years.
OTTI’s methodology is based on a 4-person consensus-building team approach and based on quantitative and qualitative information such as actual volume trends, International Monetary Fund country-level economic indicator forecasts, numerous economic sources such as *The Economist* magazine and online sources, United States Foreign Commercial Service staff in-country, having travel as part of their industry portfolio, and many other sources.
During last year’s presentation at this event, we played an exhilarating game of guessing the biggest gainers and losers in terms of traveler volumes to the USA. Here’s a summary of the list for 2012 travel year...and the list for 2013.

What I notice is...

1) Most of the top gainers from 2012 are still on the list...
2) There’s a completely new list of losers...
3) The volume level of gains and losses were much lower in 2013...in general, everything was more stable...is this the future moving forward?
Here’s the trend in total international arrivals to the US from 2000 to 2013, and projected forward through 2019.
Here’s our fall forecast for the top 20 countries.
The top twenty origin countries are sorted in descending order by 2013 actual volume shaded in blue.
In purple are the forecast volumes for this year, next, and the end of the forecast period in 2019.
In green are the corresponding percent changes fo actual 2013, this year, and next.
In orange are the summary overall metrics.
First is the total change in visitor volume from 2013 actual to 2019 if the forecast holds up.
Then, the TOTAL percentage change over this period.
Then, the compound average growth rate for this period.
The key points from this are the following:
* The origin country rankings continue to shift.
  China could be #3 by 2019...actually neck and neck with UK in 2018.
  Outside the top 20, The Russian Federation and Saudi Arabia are rising fast.
* 2013 performance exceeded expectations (Can/Mex/O-S); 2014 cannot be compared directly with the past
due to methodology changes for 2014.
* Fastest growers are China, Colombia, India, Brazil, Mexico
* But, largest contributors to growth in travelers are Mexico, Canada, China, Brazil, and U.K. These five are
72% of volume growth.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Visitor Origin</th>
<th>Actual 2013</th>
<th>Forecast 2014</th>
<th>Forecast 2015</th>
<th>Forecast 2019</th>
<th>% Change 13/12</th>
<th>% Change 14/13</th>
<th>% Change 15/14</th>
<th>Total Change 19/13</th>
<th>% Change 19/13</th>
<th>% Change 19/13</th>
<th>CAGR 19/13</th>
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<tr>
<td>1</td>
<td>Canada</td>
<td>23,387</td>
<td>23,621</td>
<td>24,094</td>
<td>26,594</td>
<td>3.0%</td>
<td>1%</td>
<td>2%</td>
<td>3,206</td>
<td>14%</td>
<td>2.2%</td>
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<tr>
<td>2</td>
<td>Mexico</td>
<td>14,343</td>
<td>16,638</td>
<td>17,469</td>
<td>19,853</td>
<td>1.0%</td>
<td>16%</td>
<td>5%</td>
<td>5,510</td>
<td>38%</td>
<td>5.6%</td>
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<td>3</td>
<td>United Kingdom</td>
<td>3,835</td>
<td>3,950</td>
<td>4,029</td>
<td>4,404</td>
<td>1.9%</td>
<td>3%</td>
<td>2%</td>
<td>569</td>
<td>15%</td>
<td>2.3%</td>
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<td>4</td>
<td>Japan</td>
<td>3,730</td>
<td>3,618</td>
<td>3,582</td>
<td>3,691</td>
<td>-0.9%</td>
<td>-3%</td>
<td>-1%</td>
<td>-40</td>
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<td>-0.2%</td>
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<tr>
<td>5</td>
<td>Brazil</td>
<td>2,060</td>
<td>2,205</td>
<td>2,359</td>
<td>2,950</td>
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<td>7%</td>
<td>7%</td>
<td>890</td>
<td>43%</td>
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<td>Germany</td>
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<td>7</td>
<td>China</td>
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<td>2,240</td>
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<td>24%</td>
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<td>3,103</td>
<td>172%</td>
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<td>1,505</td>
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<td>1,847</td>
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<td>8%</td>
<td>4%</td>
<td>343</td>
<td>23%</td>
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<td>Korea</td>
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<td>1,442</td>
<td>1,514</td>
<td>1,788</td>
<td>8.7%</td>
<td>6%</td>
<td>5%</td>
<td>428</td>
<td>31%</td>
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<td>Australia</td>
<td>1,205</td>
<td>1,277</td>
<td>1,303</td>
<td>1,510</td>
<td>7.4%</td>
<td>6%</td>
<td>2%</td>
<td>305</td>
<td>25%</td>
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<tr>
<td>11</td>
<td>India</td>
<td>859</td>
<td>936</td>
<td>1,011</td>
<td>1,265</td>
<td>18.6%</td>
<td>9%</td>
<td>8%</td>
<td>406</td>
<td>47%</td>
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<td>839</td>
<td>948</td>
<td>1,005</td>
<td>1,109</td>
<td>0.9%</td>
<td>13%</td>
<td>6%</td>
<td>270</td>
<td>32%</td>
<td>4.8%</td>
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<td>Venezuela</td>
<td>788</td>
<td>670</td>
<td>469</td>
<td>535</td>
<td>16.8%</td>
<td>-15%</td>
<td>-30%</td>
<td>-253</td>
<td>-32%</td>
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<td>Colombia</td>
<td>748</td>
<td>875</td>
<td>980</td>
<td>1,285</td>
<td>24.2%</td>
<td>17%</td>
<td>12%</td>
<td>537</td>
<td>72%</td>
<td>9.4%</td>
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<td>Argentina</td>
<td>686</td>
<td>720</td>
<td>728</td>
<td>835</td>
<td>11.7%</td>
<td>5%</td>
<td>1%</td>
<td>149</td>
<td>22%</td>
<td>3.3%</td>
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<td>16</td>
<td>Spain</td>
<td>620</td>
<td>682</td>
<td>709</td>
<td>760</td>
<td>2.1%</td>
<td>10%</td>
<td>4%</td>
<td>140</td>
<td>23%</td>
<td>3.5%</td>
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<td>Netherlands</td>
<td>589</td>
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<td>631</td>
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<td>-0.4%</td>
<td>5%</td>
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<td>81</td>
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<td>Sweden</td>
<td>477</td>
<td>534</td>
<td>566</td>
<td>637</td>
<td>7.8%</td>
<td>12%</td>
<td>6%</td>
<td>160</td>
<td>34%</td>
<td>4.9%</td>
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<td>19</td>
<td>Switzerland</td>
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<td>506</td>
<td>516</td>
<td>559</td>
<td>-0.7%</td>
<td>7%</td>
<td>2%</td>
<td>86</td>
<td>18%</td>
<td>2.8%</td>
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<tr>
<td>20</td>
<td>Taiwan</td>
<td>385</td>
<td>404</td>
<td>420</td>
<td>487</td>
<td>32.5%</td>
<td>5%</td>
<td>4%</td>
<td>102</td>
<td>27%</td>
<td>4.0%</td>
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</tbody>
</table>
Here are some of the key metrics we monitor.

**ESTA fee collections.** Still strong. 12-mo moving average WELL above the $100M BUSA funding match target.

**Air capacity.** Mixed. Continued strong growth for CH and SK; down for BR, JP, GE. U.K. iffy.

**Currency exchange rate.** Key currencies were down recently, but many off of high levels. IMF expects rise for euro. IN, MX, Latin America countries continued slide.

**UNWTO Travel Barometer.** International arrivals up 4.6% first half 2014. Above 3.8% long-term growth for 2010-2020 period.

**TMII Travel Barometer.** U.S. 2015 1st Qtr. projected bookings: China up 4-9%; Canada up 1-3%; Prelim: Mexico, UK, Germany flat; Japan down 1-3%.
Key Points from the 2014 Fall Forecast

- International exports is an increasing proportion of the USA travel economy, as it is in many other countries.

- 2013 performance exceeded NTTO expectations. 2014 performance YTD cannot be compared to past forecasts due to methodology changes.

- Judging the forecast accuracy is challenging. Which one(s)? How?

- The origin country rankings continue to shift.
  - China could be #3 by 2019...actually neck and neck with U.K. in 2018.

- Fastest growers are China, Colombia, India, Brazil, Mexico.

- But, largest contributors to growth in travelers will be Mexico, Canada, China, Brazil, and U.K. These five are 72% of volume growth.
Our office is within the International Trade Administration, so we are ALL about EXports. Travel from the USA to the world is an IMport, so we don’t spend much time and energy on this travel segment.

Here are a few key points on outbound travel.
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MARK BROWN
National Travel and Tourism Office
International Trade Administration
U.S. Department of Commerce
Phone: 202-482-4754
mark.brown@trade.gov
travel.trade.gov