itic news

IRISH TOURIST INDUSTRY CONFEDERATION

Year-end Review 2010 & Outlook 2011

Chairman's Statement

The anticipated recovery in Irish tourism did not materialise in 2010, with extremely difficult trading conditions precipitating a further decline. One million fewer overseas visitors came to Ireland, an estimated 16% drop on the previous year. From the peak in 2007 the downturn over the past 3 years has seen a drop of over 2 million visitors to an estimated 5.5 million – a level last seen in 1998. Earnings from overseas visitors to Ireland contracted by a third over the past 3 years, with annual income now €1.7 billion less than in 2007.

The domestic market is reported to have held up very well, despite the economic recession, with only a marginal drop in the number of trips, although expenditure is down by an estimated 10% to €1.25 billion.

Despite the recent downturn, tourism is still big business, generating revenue of €4.5 billion and supporting close to 200,000 jobs.

"I am confident that we should soon see an upturn in demand"

It's a long road back and the commencement of that journey has been delayed. But I am confident that recovery will take hold next year. Any growth in 2011 is likely to be modest but it will provide the platform from which we can rebuild a strong and sustainable sector. Already there are indications that the decline in visitors to Ireland has almost bottomed out and I am confident that we should soon see an upturn in demand – this has already been seen in many competitor destinations.

Happily in a year where there has been so much to be gloomy about, tourism can point to some positive developments which better position our industry to take advantage of the global upturn in demand for travel.

The commitment given in the Government's 4 Year Recovery Plan to review as a matter of urgency all REA, ERO and JLC arrangements should help us further improve competitiveness.

"Welcome news has been a shift to more positive ratings of the value for money being offered to British and North American tourists in Ireland"

The reduction in the air travel departure tax from €10 to €3, coupled with the DAA growth incentive scheme, provide a real opportunity to recover some of the air services lost over the past two years. Indeed the Minister for Finance unambiguously stated that he expected a positive response from airlines attracting additional visitors, otherwise the tax would be again raised. In this context it is reassuring to record Aer Lingus' plan to open six new routes in the Spring.

The National Conference Centre, after many years in the planning, finally opened during the year in Dublin, and what a spectacular venue it is. Forward bookings are very strong and already the new business is having a tangible impact not only within the city but also throughout the country through pre and post convention travel.

Another spectacular building opened towards the end of the year, Terminal Two at Dublin Airport, and this long awaited development will serve the country well for decades to come.

More welcome news has been a shift to more positive ratings of the value for money being offered to British and North American tourists in Ireland, as tracked by Fáilte Ireland's Visitor Attitude Survey. As we are all aware, Ireland's competitiveness, including the tourism industry, was seriously damaged during the Celtic Tiger years and a terribly high price has and is being paid. This must never be allowed happen again.

"We must now move on to another chapter in our varied history"

Tourism Renewal Implementation Group gets work underway
Pictured at their inaugural meeting are: (Back row L-R) Shaun Quinn, Chief Executive of Fáilte Ireland; Ed Ronayne of Ronayne Catering Ltd; Tony Kelly, Director of Marketing in Irish Ferries; Paul Bates, Assistant Secretary Tourism Division of the Department of Tourism, Culture and Sport; Niall Gibbons, Chief Executive of Tourism Ireland; Con Haugh, Secretary General of the Department of Tourism, Culture and Sport. (Front row L-R) Ray O'Leary, Principal Officer of the Department of Tourism, Culture and Sport; John Raftery, proprietor of the Downhill House Hotel Ballina and Chairman of the Irish Hotels Federation Marketing Committee; Mary Hanafin TD, Minister for Tourism, Culture and Sport; Eamonn McKeon, Chief Executive of ITIC; and Fiona O'Sullivan, President of the Irish Tour Operators Association.

A major concern for the immediate future is the extremely negative coverage of Ireland in the international media over the past few months. While some of it has been misinformed, and more of it mischievous, great damage has been done to Ireland's reputation abroad. As a consequence a major national effort is urgently required to rebuild Brand Ireland, not just from a tourism standpoint, but also to drive FDI and Irish exports. This is at least a 3 year project and ITIC is urging the Government to get this mammoth but critical task underway immediately.

While great damage has been done to Ireland and to its tourism industry over the last 3 years, we must now move on to another chapter in our varied history. A new more sustainable future of prosperity and growth can be won, but only if we banish the dystopian culture which appears to have consumed so many parts of our society.

Tourism is a resilient sector, and damaged through our industry is, we are confident that we can rebuild quickly and play a significant role as a driver of Ireland's economic recovery, providing tens of thousands of jobs in the process.

I would like to conclude by recording the Industry's appreciation for the support and courtesy we receive from Minister Hanafin and her officials at the Department of Tourism, Culture and Sport. Also to Fáilte Ireland, Tourism Ireland and the Northern Ireland Tourist Board for the pivotal roles they play in supporting our industry. Specifically I wish to especially compliment Minister Hanafin for so ably and enthusiastically representing the industry in Government. Her achievements were clearly evident in Budget 2011 which secured adequate resources for tourism to recover and grow from 2011 onwards.

Happy Christmas to all and a New Year of renewed confidence and success.

Thomas P Haughey

2010 A most challenging year for Ireland's tourism

Overseas tourism to Ireland continued to slump in 2010, while expenditure on domestic leisure trips further contracted.

Best estimates would suggest that 1 million fewer overseas visitors arrived throughout the year, a 16% drop on the previous year to finish at an estimated 5.5m visits. This follows a 12% drop in arrivals in 2009 and brings overseas visitor volumes back to a level last seen in 1998.

Within the overall total, the number of visitors coming solely for a holiday in 2010 is estimated at close to 2.4m, a drop of 17% over the previous year and a contraction of 40% from the peak level of 2007.

At the beginning of the year no-one doubted the challenges which the global recession posed, with Tourism Ireland targeting a modest 3% growth in 2010. In the event, it is apparent that while international travel saw a recovery to growth, that recovery has so far eluded Ireland. Economic conditions in source markets, the perception that Ireland is expensive and the volcanic ash cloud combined to see Ireland's tourism slump by 20% in the early part of the year, before a slowing down of the rate of decline as the year progressed.

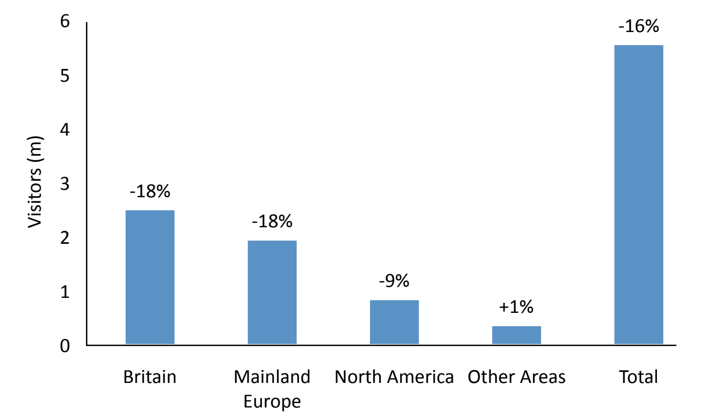
Britain and mainland Europe, Ireland's top source markets, saw double digit declines, while the drop in North American visitors was less marked.

Regrettably the continued downturn resulted in many business failures within the sector, while most enterprises struggled to survive in very difficult trading conditions. Thankfully the fall-out in terms of job losses has been contained by judicious balancing of pricing mechanisms and other cost cutting initiatives.

The performance of the past year prompts several questions when viewed in the context of the recovery being experienced in other destinations. Britain, our nearest neighbour and competitor, welcomed almost the same number of visitors (-1%) as in 2009, while the majority of destinations across Europe have seen a growth, however modest, in arrivals. The virtual collapse of the British market for Ireland is especially worrying as Ireland's largest source market has declined by a third since 2007, almost 1.3 million fewer visitors. The number of British people coming to Ireland for a holiday or short leisure trip has declined from 1.8 million in 2007 to less than 1 million in 2010. In recent times Ireland has been losing share in the British market, as outbound holidays from Britain in 2010 fell by 7%, while those coming to Ireland dropped by over 16%.

The dampening of consumer confidence and the drop in disposable incomes in the domestic market did not deter the Irish from taking trips within the country. Thanks to the aggressive price-led promotion of tourism businesses, and some substitution of overseas trips, there has been almost no change in the number of home holiday trips, including short leisure breaks. However, anecdotal reports from the industry suggest that spending by Irish tourists is down by approximately 10% on 2009.

Estimated Overseas Visitors 2010 v 2009



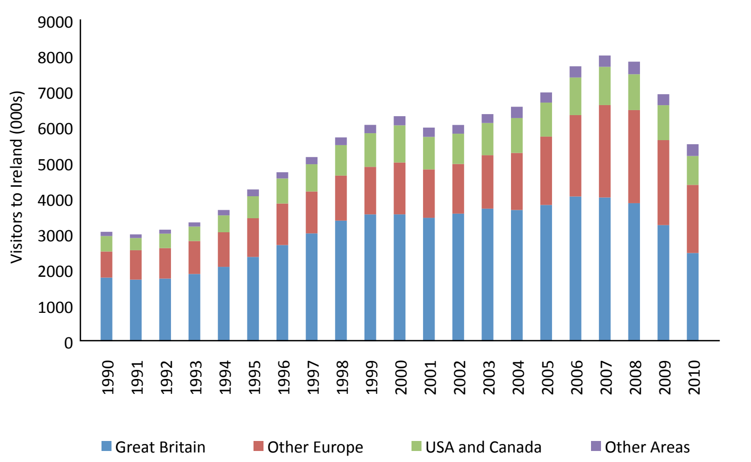
Source: TTC estimates

Global tourism % change

	2009 vs. 2008	est. 2010 vs. 2009
World	-4%	+7%
Europe	-6%	+3%
UK	-6%	-1%
Ireland VISITORS	-12%	-16%
Ireland HOLIDAYS	-18%	-17%

Sources: WTO & TTC estimates

Visitors to Ireland by market



Market Outlook for 2011

Despite the better than expected rebound of demand for international travel in 2010, most commentators are cautious in predicting any significant increase in demand through 2011. Forecasts based on the fragile economic recovery in most source markets suggest that growth in world travel will remain modest, averaging +4% per annum over the next 3 years. However, forecasts for European tourism are even more modest at up to +3% growth.

Arrivals to Ireland in the last few months would suggest that the rate of decline has ameliorated and hopefully bottomed out with a year on year return to growth expected from early 2011. The challenge facing Ireland is to win market share to recover from the steep downturn in 2009 & 2010. While economic recovery is still fragile in many source markets there are positive signs and opportunities for Ireland with clever marketing to regain lost market share in each of the principal source markets of Britain, USA, Germany and France.

UK

Modest economic growth in the region of 2% is forecast for the UK in 2011 as fiscal austerity measures impact. Consumer spending is expected to remain subdued as consumer confidence wanes in the face of rising unemployment, VAT increase and falling home prices. Competition for shorthaul leisure travel remains very intense as consumers continue to cut back on discretionary spending.

2 Speed Eurozone

2011 will see major fiscal, structural and institutional adjustment within the eurozone.

Germany is driving the economic recovery with GDP growth of 3.6% in 2010 and forecast 2.1% in 2011. Both exports and, more recently, domestic businesses have contributed significantly to the recovery in Germany. The outlook for Germany's traditionally weak private consumption is good in light of highly favourable labour market conditions, rising wages, still-moderate inflationary pressures and buoyant consumer confidence. Countries closely linked to the German economy are also predicted to grow steadily in 2011, with more modest growth forecast in France and the Netherlands.

The French economic recovery is expected to broaden in 2011. Private consumption remains the main driver behind the recovery, but its contribution to economic growth will be below the pre-crisis level in light of fiscal austerity measures, high unemployment, restricted access to finance and declining purchasing power.

GDP growth forecast for the peripheral countries in 2011 range from -3.3% in Greece to -0.7% in Portugal, with Spain and Italy facing continued economic slowdown.

USA

The outlook is for strengthening economic growth from 2.1% on average in 2010 to 2.4% in 2011, with real GDP rising at an above-potential 3.5% pace in late 2011. While the jobless rate is expected to hover around 9%, consumer confidence will most likely be boosted by extremely low inflation and a continuation of the Fed's (near) zero interest rate policy

throughout 2011. The prospects for international travel have improved, with an expected growth in transatlantic travel in 2011, despite higher airfares.

Ireland

A very strong export performance in 2010 is likely to continue next year and this should drive modest economic growth in 2011. Domestic demand however is forecast to fall over the next two years as consumers cope with increased taxes, and reduced benefits. The lowering of disposable income is likely to see a further contraction of demand for leisure trips in Ireland.

Poll of forecasters – December averages

	Real GDP % change			
	Low/high range		Average	
	2010	2011	2010	2011
Britain	1.4/5.6	2.6/4.9	3.3	3.5
France	1.5/1.8	1.0/2.1	1.6	1.5
Germany	3.2/3.6	1.4/2.7	3.4	2.2
Italy	0.8/1.2	0.5/1.6	1.0	1.1
United States	2.5/2.9	1.5/3.2	2.8	2.6
Euro area	1.5/1.9	0.9/2.1	1.7	1.4

Source: The Economist

Good news for Irish tourism

Improving competitiveness

In recent years visitors have been highly critical of the costs of the holiday experience in Ireland, due to a higher cost of living here compared to their place of residence. During the noughties prices in Ireland rose more sharply than in countries from which we draw our tourists. However, over the past two years prices in Ireland have been falling, while the cost of many of the components of the holiday, most notably hotel rates, have been sharply reduced. Fiscal and other measures announced by the Government in its Recovery Programme 2011-2014 will further improve the competitiveness of the Irish tourism product. The reduction of the minimum wage, the review of employment agreements, and the restructuring of local authority charges will improve the industry's cost base.

Currency benefit

For the first time in several years, it looks as if the currency exchange rates between the pound sterling and the US dollar will work in favour of Irish tourism. The economic pressures within the eurozone are expected to keep the value of the euro at a level softer than it has been in recent years.

Maintaining investment in tourism

The Government's National Recovery Plan and Budget 2011 clearly recognise that the tourism industry is an important indigenous sector capable of maintaining and creating jobs and increasing export earnings which will be key to Ireland's economic recovery. The competitiveness of Ireland's tourism is beginning to recover while the Government is committed to continue to invest in marketing, product development, training and industry supports.

The provision of funds for the tourism sector has suffered only marginal cuts. Fáilte Ireland's budget will be €62.5m to promote home holidays, provide enterprise supports, support festivals and events and assist marketing activity for the industry, plus a further €26m for capital expenditure on the development and upgrading of tourism attractions.

€41.4m, a 6% cutback, will be available for tourism marketing. Of this total, €30m is earmarked for Tourism Ireland's core international marketing budget, with a further €11m marketing fund provided for regional, product and niche marketing activities such as attracting business, golf and activity visitors.

Access services to Ireland

Capacity on air services to/from Ireland has been contracting over the past 3 years reflecting decreasing demand from both inbound and outbound markets. However, the reduction of the travel tax to €3 together with the challenge to carriers to respond to the Government initiative and the incentive scheme for increased traffic at Dublin, Cork and Shannon airports will help ensure adequate, competitively priced air services to meet growth in demand as travel recovers.

Ferry operators provide frequent services with capacity more than adequate to cater for growth in tourism throughout the year.

Global tourism recovers to pre-recession levels

Demand for international travel exceeded expectations in 2010, recovering faster than forecast despite sluggish economic performance.

World tourism grew by 7% in the first eight months of 2010 according to the UN World Tourism Organisation. While the picture across Europe is less rosy, the region has returned to positive territory with a modest 3% year on year growth in international arrivals. The market had contracted by 11% in 2009. Most European countries are reporting growth with only a few notable exceptions including Spain, Denmark and Ireland. A discernable trend over the past year has been one of accelerated growth as the year progressed, in marked contrast to soft demand over the early months of the year. Several destinations have enjoyed increased hotel occupancy and achieved higher room rates compared to 2009.

The sluggish growth in the overall European travel market reflects the macroeconomic situation, consumer confidence, together with the volcanic ash from Iceland denting recovery in April.

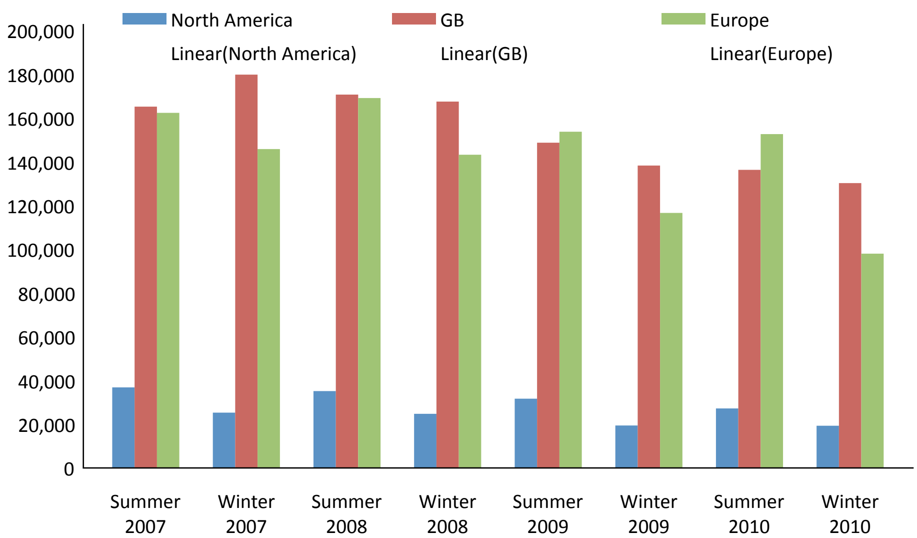
Intra-European travel is up in 2010, with the outbound French market especially buoyant although taking shorter trips. German demand for longhaul destinations is on the rise, with a slower growth to close-in destinations. Foreign holiday travel from the UK for the 10 months January-October was running at 6% below the same period 2009.

Americans travelled to Europe in greater numbers this past summer following a lacklustre start to the year. Recent reports suggest a strong off-season demand for transatlantic travel in October and November on increased air services.

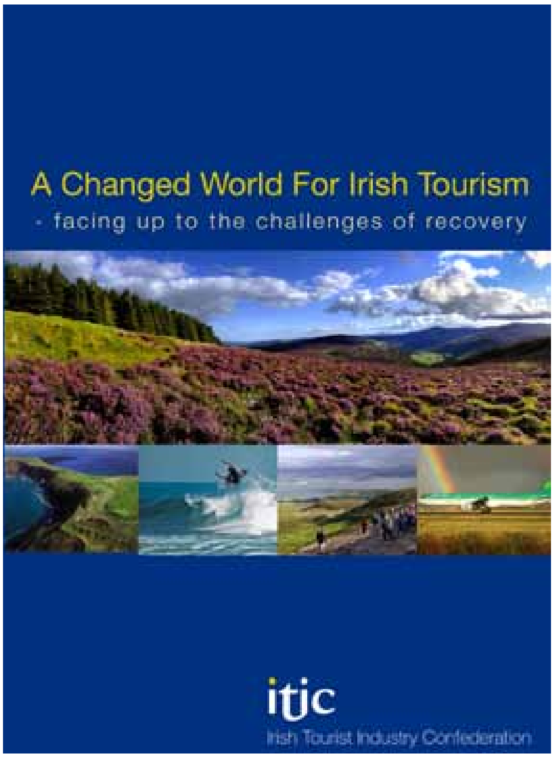
Most reports suggest that business travel is on the rebound, with airlines and hotels experiencing a healthy level of demand although still somewhat off pre-recession levels.

The European online travel market is expected to show up to 10% growth over the past 12 months. The buoyancy of the online market has been helped by the recession as consumers search for best value, with the online travel agency channel winning from supplier websites.

Access capacity – one way seats per week, with linear trend



A Changed World for Irish Tourism



This ITIC report from earlier in the year looks at Irish tourism as it faces its greatest challenge in several decades as a result of the recent global recession and changing patterns of demand for holidays.

The key findings of the report include:

- Recovery for Irish tourism will depend on restored growth from the top 4 overseas markets: Britain, the US, Germany and France. There has been no growth in holidaymakers to Ireland from Britain for most of the past decade, and failure to reverse this situation will stunt overall recovery.
- The domestic market, while more resilient in the current downturn, cannot deliver the volume or value to compensate for a continued downturn in demand from our overseas markets.
- The quintessential appeals of Ireland – its people and scenery – continue to rank highly and deliver a satisfactory experience for overseas holiday visitors. However, improved competitiveness, continued availability of adequate and affordable air services, and smart marketing, are identified as most likely to shape Ireland's ability to win back tourists.
- The market landscape is changing as the post recession consumer seeks better value, the travel industry adopts new business models, and technology continues to revolutionise how consumers plan, book and experience travel.
- The opportunity exists for a return to growth, provided Ireland can effectively compete with timely strategic and tactical responses to evolving customer demand patterns in a changed market environment.

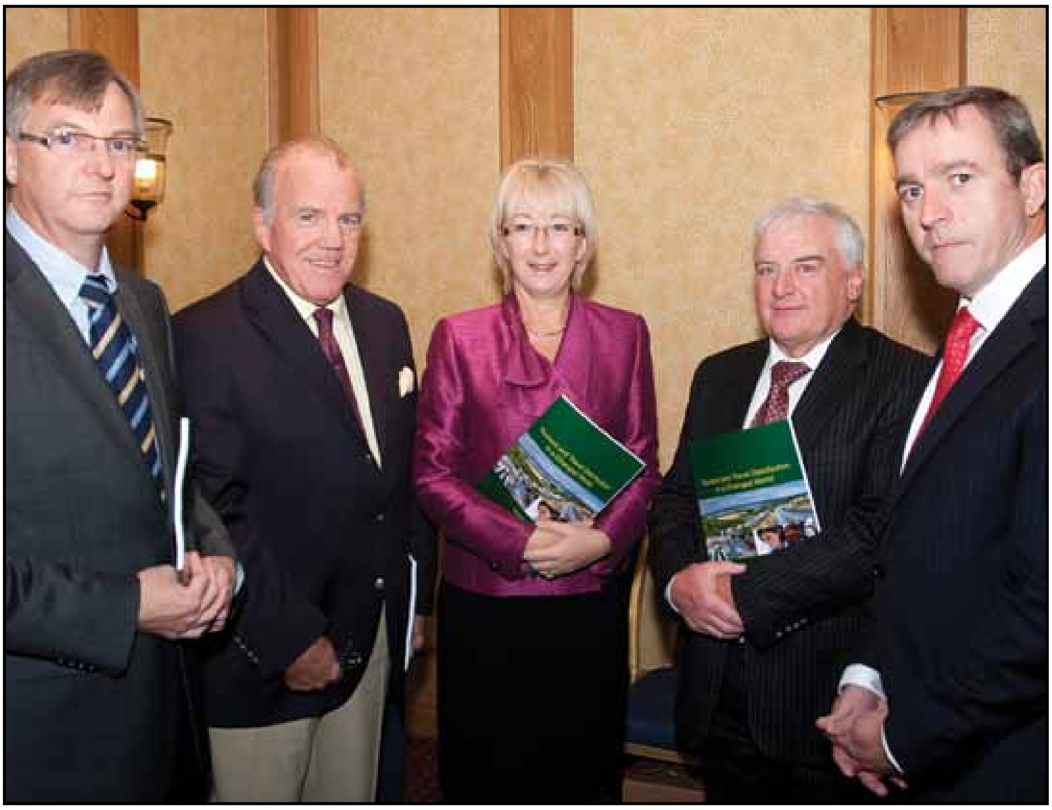
The report recommends:

- A concentration of effort on the top producing markets
- An increase in the marketing of Dublin as a distinct destination
- Securing adequate access by air to Ireland
- Focusing on developing and communicating better value for money offerings
- Adopting a more granular approach to marketing.

Pictured at the launch of the ITIC report A Changed World for Irish Tourism are from left to right: Paul Keely, Director of Enterprise Development in Fáilte Ireland; Noel Sweeney of Tourism & Transport Consult; Margaret O'Reilly, Head of Corporate & Industry Communications in Tourism Ireland; and John Healy, Director of Abbey Tours.

Tourism and Travel Distribution in a Changed World

During the past decade, there has been a pronounced shift in how people purchase travel and tourism products. This change has been driven by the rapid growth in the spread and use of the internet. The development of huge numbers of websites and applications including reservation systems, online travel agents and tour operators, and interactive product review sites, has resulted in a constantly changing environment which has presented many challenges to the Irish tourism industry.



Pictured at the launch of the ITIC report Tourism & Travel Distribution in a Changed World are from left to right: Tim Fenn, Chief Executive of the Irish Hotels Federation; Dick Bourke, Director of Fáilte Ireland; Mary Hanafin TD, Minister for Tourism, Culture and Sport; Tom Haughey, Chairman of ITIC; and Paul Gallagher, President of the Irish Hotels Federation.

The report concludes that Irish tourism product providers need to recognise the fundamental changes in distribution channels and to respond to the internet's increasing role in researching, planning and booking all components of a holiday. While offline channels still account for a significant share of overall demand – and probably about 50% in Ireland – there is ample evidence that online channels are taking a rapidly increasing share of the market.

Recommendations in the report focus on:

- Setting strategy appropriate and responsive to the business and its target market; managing and resourcing websites and online channels; while monitoring consumer behaviour
- Balancing traditional and online channels as appropriate to the business and optimising the use of each; ensuring reservations capability plus judicious use of online intermediaries, partners and trusted third party distributors
- Adopting online marketing tactics including a series of tips on identifying best online marketing channels; search engine optimisation; measurement tools and how to track conversions
- Reputation management including a recommendation that Tourism Ireland develop and implement a strategy for managing and monitoring the online reputation of the Irish tourism product, with product providers encouraging online feedback
- How technology can assist in enhancing the industry skills base through online databases and networking
- Investment and vendor selection based on unbiased sources, while product providers develop in-house skills and continuously invest in technology
- The role industry bodies can play in assisting members to develop distribution strategies and manage their online reputations

Measuring Performance - Tourism Statistics

Regrettably the Central Statistics Office (CSO) has taken the decision to limit publication of tourism arrival data to quarterly releases, which had been published monthly. While recognising the reduction in public sector resources, this a retrograde step for the industry as it deprives the decision-makers of key monthly performance data in a timely and useful format. Without the monthly monitoring of performance, tourism agencies and businesses have no basis on which to adjust strategic and tactical marketing programmes as a result of changing market conditions. The provision of monthly performance data is a basic metric available in competitor destinations and without it Ireland is seriously disadvantaged.

A View From the Industry

Mixed Outlook for 2011

The industry's perspective on the prospects for 2011 is mixed, with about half more optimistic than at this time last year, while one in three see no change with the balance being more negative in their outlook.

The main reason for a more positive outlook on the year ahead is the improvement in value of Ireland's offering in the marketplace, followed by the buoyancy of the US market and economic recovery in the principal mainland European markets.

The factors which colour a negative outlook are the weakness of demand in the domestic market and constraints in getting to Ireland. Other factors of note include lack of competitiveness and poor marketing.

Did Budget 2011 boost confidence?

Based on responses before and after the publication of the Government's Recovery Plan and Budget 2011, it would appear that expectations for 2011 became more positive, although not significantly so.

About two thirds of respondents considered the reductions in travel tax and minimum wage together with the review of employment agreements as positive, with the balance viewing the changes as 'neutral'. The increase in the carbon tax was negatively received, while the level of funding for the tourism agencies got mixed reviews.

Recent business patterns

More than half reported that business had picked up over the past 6 months, citing a more buoyant corporate demand and a pickup in US visitors, with Dublin particularly benefiting.

Within the Irish market, the cut back on average expenditure is reported to be much steeper than the fall off in volume.

How the downturn has affected businesses?

The majority of businesses have seen a fall in average achieved rates on a declining level of demand, resulting in severely squeezed margins. Businesses have responded by cutting operating costs, reducing staffing levels, spending less on training and maintenance, while postponing capital expenditure projects.

The lack of availability of credit for cash flow and other operating expenses is further hurting tourism businesses.

Ireland's reputation damaged by crisis

Almost 3 out of every 4 businesses are of the view that Ireland's image has been damaged by the current banking and economic crisis. This is undermining confidence of overseas suppliers of business to Ireland as well as damaging consumer perceptions.

When will Irish tourism recover?

Few operators expect to see recovery in tourism demand for Ireland before 2012, with views almost equally divided as to whether it will happen in 2012, 2013 or 2014.

Views moved marginally towards an earlier recovery following the publication of the National Recovery Plan and Budget 2011.

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The Irish Tourist Industry Confederation
Unit 5 Sandyford Office Park, Dublin 18
T: 293 4950 F: 293 4991 E: itic@eircom.net www.itic.ie