The Economic Contribution of the Visitor Economy

Cumbria Tourism Summit

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28th June 2011

Agenda

THE VISIT BRITAIN REPORTS

SUMMARY FINDINGS

OPPORTUNITIES & THREATS

COMPETITIVE POSITION & TAXATION

CAPACITY & FUNDING

MACRO SITUATION

CONSUMER SPENDING

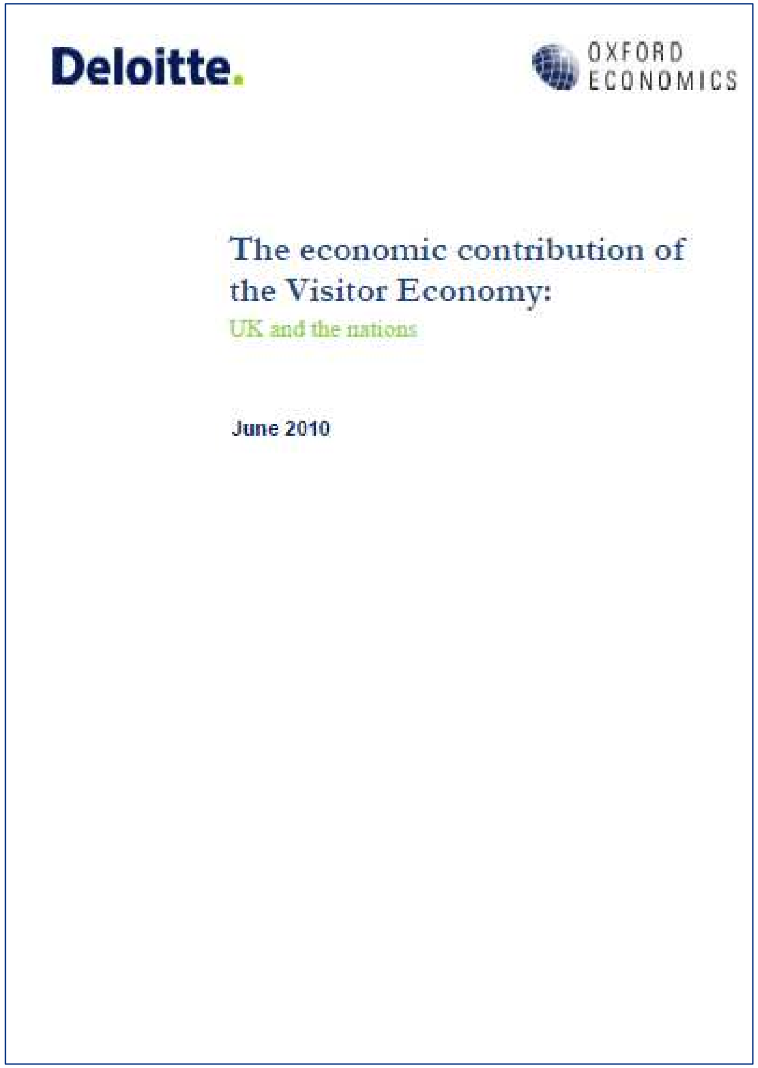
EXCHANGE RATES

THE WIDER PICTURE

CONCLUSIONS

QUESTIONS

The VisitBritain Reports



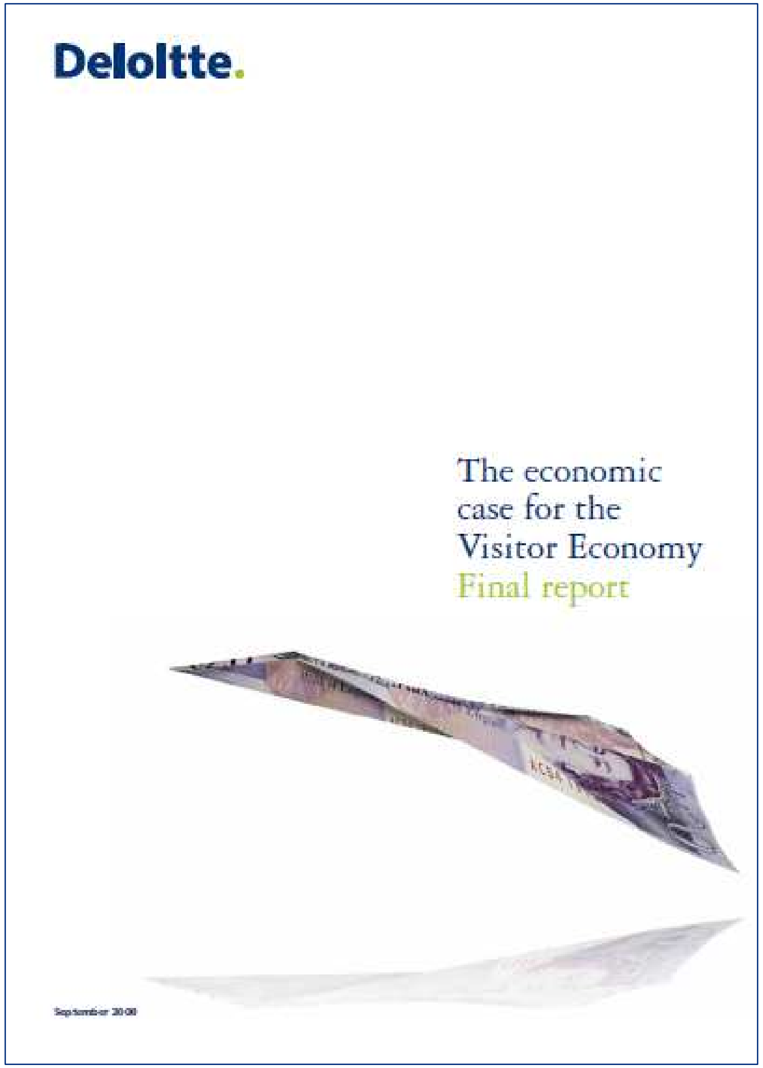
Deloitte.

OXFORD ECONOMICS

The economic contribution of the Visitor Economy:

UK and the nations

June 2010



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The economic case for the Visitor Economy

Final report

September

Summary Findings

£52BN DIRECT ECONOMIC IMPACT IN VALUE ADDED TERMS (EXTENSION OF TSA METHODOLOGY)

£115BN TOTAL ECONOMIC IMPACT IN VALUE ADDED TERMS (INCLUDING SUPPLY CHAIN)

IMPORTANCE OF THE SECTOR TO RURAL AREAS

LABOUR MARKET OPPORTUNITIES

ENCOURAGES ENTREPRENEURSHIP

LONGER TERM BASELINE FORECASTS - £87 BN BY 2020

3.5 PER CENT GROWTH 2010-2020, **IFF** CONDITIONS ARE FAVOURABLE

SCENARIO: A 10 PER CENT DEPRECIATION IN STERLING INCREASES OVERSEAS VISITORS BY c. 1 MILLION

SCENARIO: ZERO REAL GROWTH IN CONSUMER SPENDING REDUCES DOMESTIC SPEND BY £2.2 BILLION

Opportunities & Threats

Opportunities & Threats

		Issue
Political	Unknown	Geopolitics
	Threat	Capacity Considerations - including infrastructure
	Threat	Funding/public spending
Economic	Unknown	Macroeconomic conditions
	Opportunity	- Exchange rates
	Threat	- Consumer spending
	Opportunity	London 2012
	Opportunity	Ryder Cup
	Opportunity	Rugby World Cup 2015
	Opportunity	Glasgow Commonwealth Games
	Opportunity	Growth in emerging economies
	Threat	Investment in transport and other infrastructure
	Threat	Competition and the changing market place
Social	Opportunity	Delivering the 'experience'
	Opportunity	Culture and heritage reputation
	Unknown	Shifts in consumer behaviour and general perceptions
	Unknown	- Lower spend/perception of expenses
	Unknown	- Growth in food/health/wellbeing tourism
	Unknown	- Shift in consumer tastes to 'exotic' places
	Unknown	Demographics
	Unknown	Income distribution
Technological	Threat	Digital distribution
	Opportunity	Innovation e.g. social networking
	Unknown	Competition
Environmental	Unknown	Climate change
	Unknown	Potential health/travel scares
	Unknown	Commodities - e.g price of oil
	Unknown	Environment
Legislation	Threat	Taxation
	Unknown	Visa process
	Unknown	Minimum wage

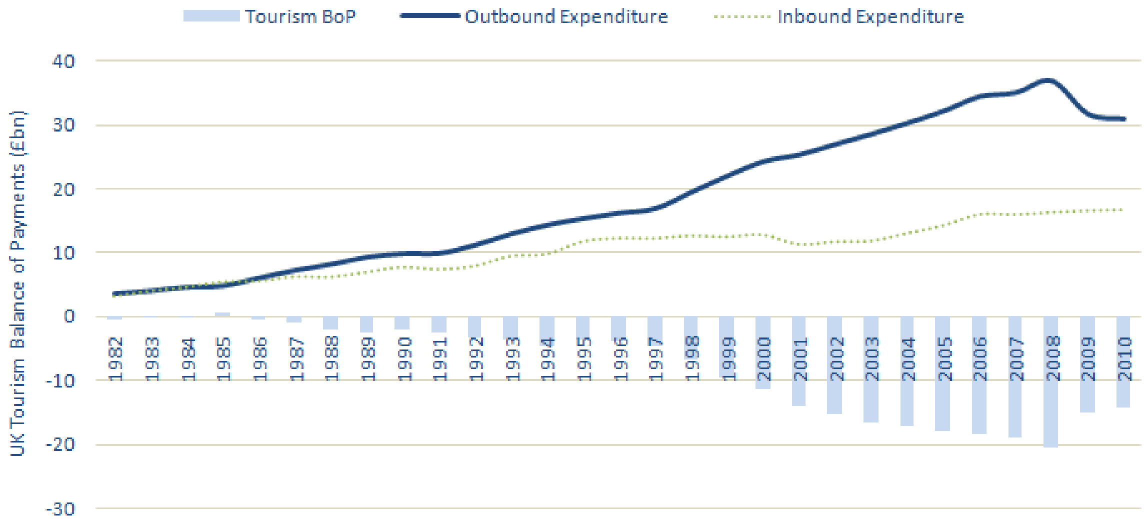
Key
Opportunity
Unknown
Threat
✓ Nation most relevent to

Source: Deloitte analysis

Competitive Position & Taxation

TOURISM IS A SIGNIFICANT CONTRIBUTOR TO THE UK ECONOMY:	HOWEVER, UK TOURISM BOP HAS DETERIORATED SIGNIFICANTLY SINCE 1980, DUE TO:
10 PER CENT OF UK GDP	INCOMES
2.5 MILLION JOBS	TASTES
GROWTH POTENTIAL	COSTS

UK Tourism Balance of Payments, 1982-2010



Source: ONS, Deloitte analysis.

UK COMPETITIVE POSITION IS RELATIVELY POOR – HOW CAN IT BE IMPROVED?

CUMBRIAS STRATEGY IS TO GET VISITORS TO SPEND MORE ....

Capacity & Funding

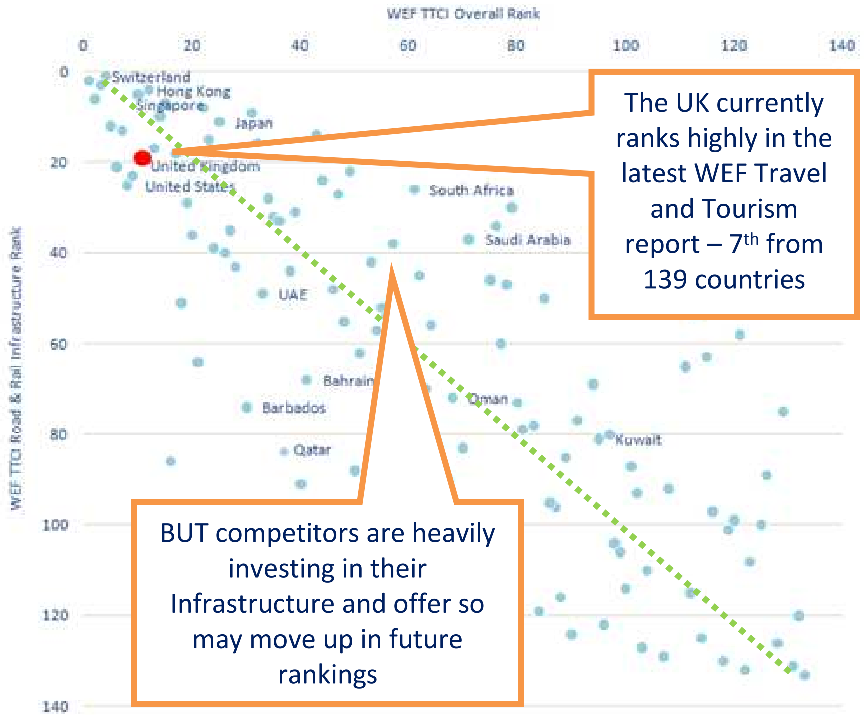
FUNDING REDUCED SIGNIFICANTLY

“MR CAMERON CERTAINLY HAS BIG AMBITIONS. GREAT STUFF, SAYS THE INDUSTRY. BUT THEN IT POINTS OUT THAT FEW CHIEF EXECUTIVES WOULD ASK THEIR STAFF TO DELIVER SUCH AMBITIOUS TARGETS WHEN THEY HAVE JUST PUSHED THROUGH A BIG PRICE INCREASE AND SLASHED THE MARKETING BUDGET”

THE TIMES, 10/01/2011

.... HOW DO YOU DO MORE WITH LESS?

UK’s Tourism Performance and Infrastructure, 2009



Source: WEF, Deloitte Analysis.

Macro Situation

“NEW NORMAL”

- CONSENSUS
- WEAK CONSUMER & GOVERNMENT SPENDING LEAD TO SLOW GDP GROWTH
- INFLATION EASES BUT EXTERNAL FACTORS KEEP RATE ABOVE BOE TARGET

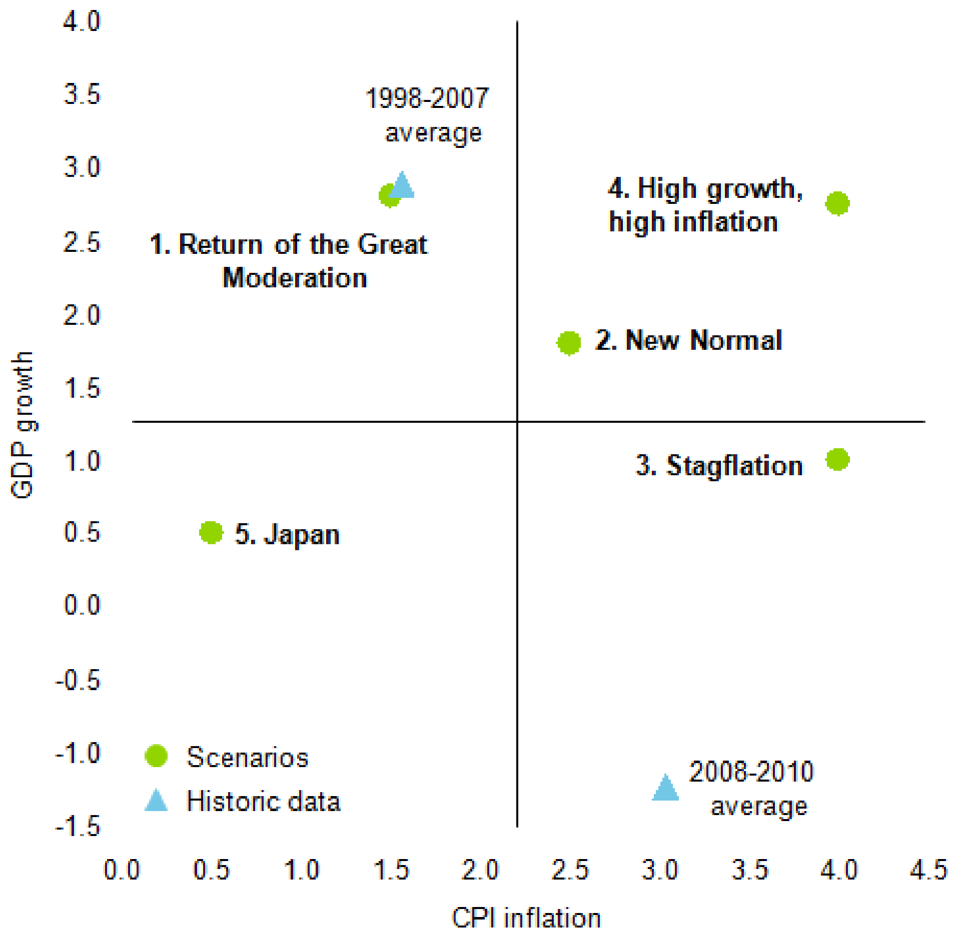
“RETURN OF THE GREAT MODERATION”

- INFLATION FALLS BACK
- UK ECONOMY GROWS AS PRE-RECESSION DRIVEN BY STRONG EXTERNAL DEMAND
- CONSUMER SPENDING RECOVERS THROUGH HIGHER WAGES AND HIGHER EMPLOYMENT.

“STAGFLATION”

- FURTHER RISES IN ENERGY PRICES & LIMITED SPARE CAPACITY KEEP INFLATION HIGH
- UNCERTAINTY HOLDS BACK CORPORATE SPENDING.
- UNEMPLOYMENT REMAINS HIGH
- CONSUMER SPENDING STAGNATES AS REAL INCOMES ARE SQUEEZED FURTHER

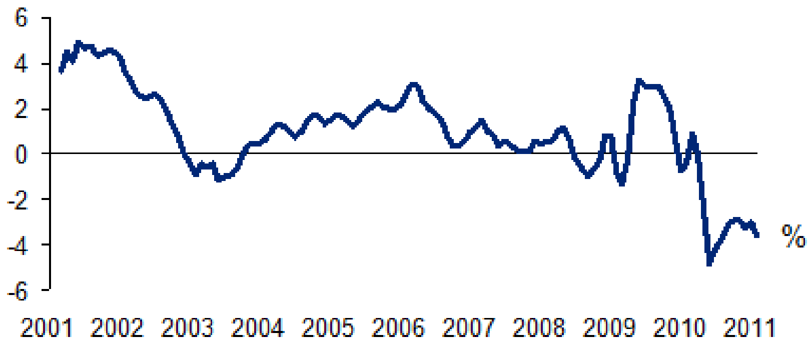
Hypothetical Scenarios for GDP & Inflation 2010 - 2012

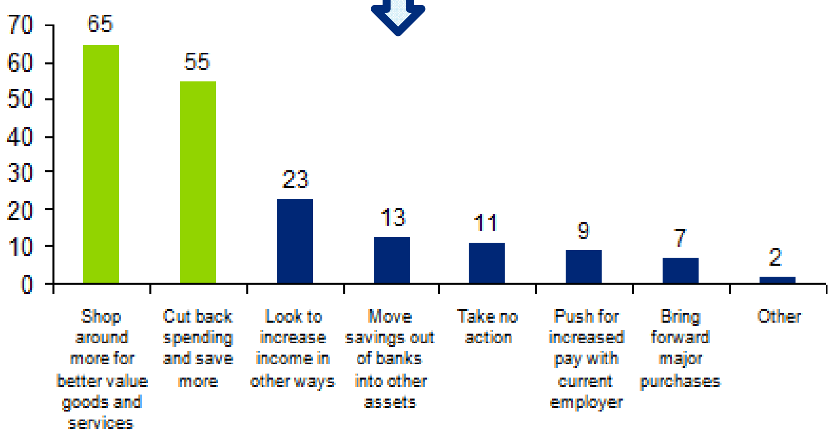


Source: Deloitte Analysis

Consumer Spending

UK Real Wages (%Δ Y-o-Y), Reactions to Falling Disposable Income (% Respondents), & Discretionary Spending Most Likely to be Cut (% Respondents)





Source: ONS, BoE, OFCOM & Deloitte Analysis

IS CUMBRIA DISPROPORTIONATELY EXPOSED TO CONSUMER SPENDING?

STAYCATION EFFECTS?

Exchange Rates

CUMBRIA LESS SENSITIVE TO EXCHANGE RATE FLUCTUATIONS THAN RoUK DUE TO INBOUND VISITOR MIX

HOWEVER AMERICAN VISITORS ARE LARGEST OVERSEAS GROUP

STERLING REMAINS 25 PER CENT WEAKER AGAINST THE DOLLAR AND EURO THAN IN MID-2007

MPC THINKS THAT THIS WILL CONTINUE AND BOOST EXPORTS AND TOURISM BUT RISKS A REVERSAL COULD REDUCE VISITORS & SPEND

Sterling Exchange Rates (Jan 2007 = 100)

Source: HM Treasury Quarterly Inflation Report, May 2011

The Wider Picture

Times/Deloitte CEO Summit – 21-22 June 2011

Talking heads

'We've got to get rid of the fear of failure in this country. In America, people start things, fail and shake themselves down and start things again. The animal spirit of capitalism is stronger there'
Rupert Murdoch, chairman and chief executive of News Corporation

'We should have time-limited the 50p rate to say three or four years but we didn't and it has now become a difficult political issue'
Lord Mandelson, chairman of Global Counsel

'We're on the verge of making an historic mistake over provision of aviation capacity'
Boris Johnson, Mayor of London, urging ministers to consider a new airport in the Thames Estuary

'We need to have a searing focus on export performance, for in that way we maintain our influence in the world'
Dick Olver, chairman of BAE Systems

'The UK ranks 97th in the world for incentives in investment in employment and innovation. Britain's infrastructure network is ranked below Estonia and Namibia'
David Sproul, chief executive of Deloitte

Source: Times Print Edition, 22/06/2011

TAX

ENTREPRENEURIAL SPIRIT

EXPORTS

INFRASTRUCTURE CAPACITY

EMPLOYMENT AND INNOVATION

Conclusions

ECONOMIC GROWTH PATH REMAINS UNCERTAIN

CUMBRIA BENEFITTING FROM WEAKER STERLING

CUMBRIA IS RELATIVELY UNCOMPETITIVE ON PRICE INTERNATIONALLY BUT FAIRLY COMPETITIVE IN UK TERMS

CUMBRIA NEEDS TO DO MORE WITH LESS INPUT

CUMBRIA EXPOSED TO ANTICIPATED (REAL) FALLS IN CONSUMER SPENDING

BUT CUMBRIA HAS THE ASSETS TO WORK WITH .....

LOBBY FOR SUPPORT FROM CENTRAL GOVERNMENT FOR BUSINESS AND EMPLOYMENT

TARGET CONSUMERS EFFECTIVELY: ADAPT TO CHANGING TRENDS – e.g. EMERGING MARKET CONSUMER

INNOVATE AND INVEST WHILST PRESERVING BRANDS AND MARKETING ACTIVITY

Deloitte.

Questions?