

Editor's comment from *Travel Markets* No. 12 – July 2003

Supply-based versus demand-based forecasts?

The market has recently been swamped with new sets of tourism forecasts for 2003 and beyond, and more are expected to be launched within the next few months. Although most have their own interesting characteristics, the forecasts overall make for confusing reading since most are contradictory. This is primarily due to the fact that they use different base assumptions for their calculations, but this is rarely obvious from their notes on methodologies.

The World Tourism Organization's (WTO's) *World Tourism Barometer*, designed as a leading indicator of short-term tourism trends, bases its forecasts on international visitor arrivals, global economic growth trends and the opinions of a large (100+) panel of experts around the world. The first barometer, produced in June (it is due to be compiled three times a year), projected likely trends in different destination regions over the four months from May through August, but WTO has since updated some trends to cover the whole of 2003.

The forecasts of the World Travel & Tourism Council (WTTC), which were reported in issue 10 of *Travel Markets*, are unique in that they are the only ones encompassing total travel and tourism demand – assessing the industry's contribution to such things as GDP, employment, capital investment, government expenditures and exports. Clearly, the WTTC forecasts cannot be compared with WTO's or any of the other forecasts cited here.

Like WTO, on the other hand, Global Insight – the Philadelphia-based economic consulting group that started out as Wharton Econometric Forecast Associates (WEFA) – bases its three annual forecasts in its *Global Tourism Report* on visitor arrivals. However, it converts these to 'outbound visits', so that projections for each destination are linked to detailed forecasts of outbound travel from its origin markets. What makes Global Insight's forecasts particularly pertinent is that they are based not only on the group's renowned macroeconomic models for consumer demand, but also on real income growth, exchange rates and relative prices. Its database includes the fundamental economic drivers behind the tourism forecasts for all key markets – providing an important reality check – but the inclusion of other variables allows for much more meaningful (and usually more accurate) results.

Surveys of demand tend to be more reliable and allow for better benchmarking

The only real weakness of Global Insight's forecasts is that their reliability depends on how accurate and up to date their visitor numbers are. If a destination does not separate out arrivals from a particular source, visits from that source will be underestimated. Similarly, if a business traveller to a particular country decides it is easier to get a tourist rather than a business visa, he/she will be recorded in the database under the wrong purpose of trip. Clearly, actual trends and forecasts have a greater chance of being reliable if travel is measured from the demand side.

The lack of comparability of destination data continues to confound industry analysts. Some countries count arrivals at frontiers, others at hotels. Some count bednights at hotels; others measure nights in all types of accommodation. Until a few years ago Spain estimated numbers of land-

based arrivals by the number of wheels on the vehicles crossing the border – so a car equated to four tourists, and a motorbike to two!

Among the many problems encountered when using destination data as a main measure of trends is the fact that there is no count of actual travellers/visitors – only visits. And arrivals do not indicate where else these visitors went on the same trip, or on different trips. So it is unclear whether a 10% drop in arrivals from China in your destination, say, has benefited another destination or whether it represents an across-the-board decline in outbound travel from that market.

Similarly, even if you can measure the average length of stay in your destination by visitors from a specific market, you probably do not know what percentage of these visitors are on short breaks, or visiting your destination as part of a multi-destination tour. How did they book the trip – through a travel agency, or direct with an airline – and what kind of accommodation are they staying in? These and many other such questions are simply not answered by standard immigration forms.

IPK International's new long-term forecasts for key outbound travel markets (due to be released later this year) could be a useful innovation. The forecasts, marketed under the brandname *The Generation Project*, are reportedly based on actual demand over the past 15 years (the results of IPK's World Travel Monitor) and take into account demographic changes over the next 15-20 years.

One possible shortcoming of the results, however – and this assumption will need to be checked later – is that the forecasts do not take account of changes in household incomes or relative exchange rates, which could be just as important in determining future travel demand as age factors.

The Pacific Asia Travel Association (PATA), which until recently published forecasts only on an irregular basis, has now linked with MasterCard International to produce a twice-yearly *MasterIndex of Travel*. It is built on three pillars: MasterCard's *MasterIndex of Consumer Confidence*, its twice-yearly Asian Lifestyles survey, and PATA's outbound travel database. It should be noted that this is a real outbound database, detailing departures or trips from different Asia Pacific source countries, rather than cumulative arrivals at destinations.

"Lies, damned lies and statistics"

In addition to the above, there are a number of (regular) published forecasts for specific markets and sectors, such as airline travel (from the International Air Transport Association) and online booking trends (from global distribution systems like Amadeus and Abacus), and new one-off reports, including the Travel Industry Association of America's (TIA's) recently published *Asia Pacific Travel Demand: Trends and Insights* and the UK-based Mintel's *The World's Leading Outbound Markets*. The one-off reports tend to use the WTO-compiled statistics as their forecast base and are therefore prone to mixing trends in arrivals with departure and outbound trip data.

Such forecasts need to be interpreted with caution, as the result is often a comparison of apples and oranges – and sometimes even potatoes. Mintel's latest report is a good example. Its projections of the leading outbound travel sources are (according to a Mintel senior analyst) updates of forecasts commissioned two years ago, but they still use 1999 as their base year, which means that there are inaccuracies in the growth estimates (forecasts) for 2001 and 2002. In addition, among the more obvious anomalies in terms of data

used, the figure used for outbound trips from France refers only to 'personal' trips (ie they exclude business travel), while the UK outbound data includes same-day travel.

Details of forecasts tend to be forgotten by the time the respective forecast periods have ended, which is one of the reasons why more and more 'analysts' are encouraged to try their hand at producing their own versions. But we intend to look closely at different forecasts over the coming months, and will try to assess their value for the benefit of our subscribers. This month, we cover WTO's and Global Insight's latest predictions. Next month, we will be analysing the PATA/MasterCard International MasterIndex of Travel. Let us know what you think of them, too.