

IMPLICATIONS OF THE FINANCIAL CRISIS ON THE EUROPEAN TOURISM

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Abstract: *The last 12-18 months have been one of the most challenging periods in the history of tourism. Both business and consumer confidence were bound to be affected. Similarly to previous crises, the consumer tended to travel closer to home during 2009. People have not only travelled less often and less far, but they have spent less, taking shorter trips and 'trading down'. Many have also reduced their frequency of travel, especially in terms of short breaks, in order to protect their main holidays.*

Key words: *financial crisis, consumer behaviour, tourism industry.*

1. Europe as a Tourism Destination

Europe is without doubt **the world's most important tourism market**, not only in its traditional role as a leading destination in terms of tourist arrivals, but also as a tourism generating region. According to the forecasts of the World Tourism Organisation [1], Europe will remain the world's most important tourist destination and tourism generating region.

As shown in Figure 1, **the European region will remain the most important destination for international tourism**. In 2020, Europe will maintain the highest share of international arrivals, even if it will decline from 60% in 1995 to 46% in 2020. In absolute numbers, this corresponds to an increase of almost 400 million arrivals, up to 717 million international tourist arrivals.



Fig. 1. *Estimated evolution in international tourist arrivals (in Mio), 1950-2020*
Source: UNWTO, *Tourism Highlights 2008*

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2. The Impact of the Financial Crisis on the EU Tourism Industry

The intensity of tourism activities is strongly linked to the overall performance of the total economy. In this part, we discuss the impact of the current economic and financial crisis on the European tourism industry as a whole. The start of this crisis can be pointed around September or October 2008.

2.1. The Current Crisis versus Previous Crises

Tourism as an activity is closely linked to the overall economic activity in a country or region. In the past, the tourism industry was affected by other economic crises. However, **this crisis shows some specific characteristics [2]** that make it different from other crises in the past:

- Opposite to previous economic crises, the current one is of a **more global nature**, affecting both emerging and mature destinations. The rapid slowdown since mid - 2008 reflects the impact of rising oil prices at the beginning of the last year and the deterioration of the economic situation, as well as of the consumer and business confidence during the second semester.
- The impact is also **expected to last longer**. Experts expect a fast downturn and only a slow recovery for the future. When looking back at the impact of the terrorism attacks of 9/11, the tourism industry needed approximately 4 years to recover.

2.2. The Impact on International Tourist Arrivals

In 2008, the growth in international tourist arrivals **significantly slowed down worldwide** under the influence of the

current financial and economic crisis. After a 5% increase in the first half of 2008, the growth in international tourist arrivals became negative in the second half of 2008 (-1%). The final result was an estimated 2% growth for the full year – down from 7% in 2007, which was the fourth year of consecutive strong growth in the world tourism. Worldwide, international tourist arrivals declined by 8% between January and April 2009. Prospects [3] by UNWTO for international tourism now report a decline by -6% to -4% during the year 2009. The World Tourism Organization estimates that Europe ended 2009 down 6% after a very complicated first half (-10%). Destinations in Central, Eastern and Northern Europe were particularly badly hit, while results in Western, Southern and Mediterranean Europe were relatively better.

2.3. The Impact of the Financial Crisis on the Accommodation Sector

In this part we specifically focus on the impact of the crisis on the accommodation industry. Since the second half of 2008, the industry's performance has suffered because of a slowing demand. The economic slowdown has especially influenced the accommodation segment focusing on business travel.

Whereas in the period from January to April 2008, the number of nights spent in the EU -27 still went up by 1.6% compared to the same period in 2007, a decline of -0.5% was reported for the period May-August. In the last four months of the year 2008, the total number of nights spent even contracted by 3.2%. Especially nights spent by non-residents went down significantly. Overall, **in 2008 and in contrast to 2007, the number of nights spent in the EU decreased by 0.5%**. This

is mainly due to the nights spent by non-residents, a number which decreased by -1.5% but was partly compensated by the slight increase of 0.3% in nights spent by residents.

Between 2008 and 2007, the negative change in number of nights spent was the most severe in Greece, the Netherlands, Luxembourg, and Cyprus as the only new Member State with a fall back of more than 4%. The highest increases are mainly observed in the new Member States such as Latvia, Slovakia and Poland. In the EU-15, Austria accounts for the highest growth. Most other countries are characterized by stagnation or a (strong) decline.

The first two months of 2009 showed a decrease by 9.1% in hotel nights in contrast to the same period of 2008. The number of nights spent by non-residents decreased more compared to the number of nights spent by residents (respectively -11.4% and -7.2%). Four new Member States - Latvia, Lithuania, Romania and Slovakia - faced the most severe declines (-20% or more). [4]

As a consequence of the decline in the number of nights spent, the hotel performance in Europe also deteriorated. In May 2009, based on data from STR Global, the occupancy rate declined in all Member States. Eastern and Southern Europe showed the greatest fall back. Both regions reported around 15% decrease in occupancy rate in May 2009 as compared to May 2007.

Not only did the occupancy rate decline: the revenue per available room (RevPAR) also decreased across Europe. In Eastern Europe, the decrease in revenue was the most pronounced with the largest decline seen in the following new Member States: Slovakia, Latvia and Lithuania (-30% in revPAR compared to 2008). Looking at the different accommodation

types, especially the 5 star luxury hotels have been hit hard. In October 2008, occupancy rates in this segment went down by 14% worldwide. RevPAR went down by 17%, compared to 10% for the 4 star segment.

2.4 The Impact of the Financial Crisis on Tour Operators, Travel Agents and Air Transport

The tour operators and travel agents industry show a number of effects of the financial and economic crisis specifically linked to this industry.

Following the general trend, tour operators and travel agents also feel the consequences of the financial and economic downturn. But based on the most recent information available, the industry seems to be less affected compared to other sectors.

- Leisure travel was also good during the Christmas Holidays 2008, Spring halfbreak 2009 and Easter 2009. Bookings for the holiday season (summer 2009) however clearly stayed below the numbers of previous years.
- Business travel has been more significantly affected by the crisis so far. Many corporate businesses have reduced their travel budgets for 2009 and travel management companies notice decreases in turnover up to 20-25% for the first quarter of 2009. This observation is also confirmed by figures from the airlines' industry, where strong decrease of premium passengers is observed.

The financial and economic crisis results in a sharp decline in the demand for air transport. Growth rates show a decline of 20% and more compared to same months one year ago. The decline in demand is attributable to a combination of higher fares, declining wealth/incomes,

declining business and reduced air service for certain routes. An important decision has been taken by the European Commission concerning the time slots, in order to support air carriers.

2.5 The Impact of the Financial Crisis on SMEs

In March 2009, the European Commission carried out a **survey among SMEs in the tourism sector**. [5] On the whole, 2.750 businesses in the accommodation (42%), gastronomy (22%), travel agencies & tour operators (20%) and transport (15%) sub-sectors replied to the survey. Questions related to demand and consumption trends, on recent evolutions in their business and on the future outlook. Although the results of the survey are not representative for the whole EU tourism sector, it is the most recent data source available to capture the impact of the economic crisis.

Over one third of the respondents in the SME panel indicated that they saw an increase in demand for their services, but almost the same number faces a decrease in demand. The **demand from resident countries (i.e. from their own country) increased** for 42% of the companies, whereas **demand from other countries mainly decreased**. This confirms the trend that many people choose a holiday in their resident country as opposed to a destination further away. Over 75% of the SMEs in the tourism sector have noticed **changes in the consumption pattern of clients**. One third of the respondents indicate that clients have become **more price conscious** and **spent less money** in the past six months. Almost a quarter indicates that clients have become **more quality conscious**. Only a minority of respondents (2 to 5%) indicates that clients have become less price conscious or spent

more money. 70% of the survey respondents notice an **impact of the current economic situation on their business** and another 19% indicate a possible impact.

Among the respondents who indicated a clear impact, an increase in overall costs appears to be quoted most frequently (60%), while 20% face an additional financial burden or reduced access to finance due to the economic crisis.

3. Changing Consumer Behaviour

Notwithstanding the fact that customers do not appear to travel less for leisure purposes, the **booking behaviour of consumers has clearly changed** since the beginning of the financial crisis. Changes do not only refer to a shift from long haul to short haul trips, shifts in mode of transport or between individual destinations. Consumers also tend to **wait as long as possible before booking** a holiday. The travel market has become a real 'last minute' market over the last few months. When comparing the number of bookings for the summer season 2009, the number in 2008 was significantly higher in March 2008 compared to March 2009. Optimists believe, however, that although consumers are **cutting in secondary trips** such as city breaks and other short trips, the main summer holiday will be kept and last-minute bookings will partly compensate the low figures of the first months, even though the **length of stay will be most probably shorter and spending lower**.

Travel trends in 2009

Although the past holidays (Christmas, Spring half-break and Easter) did not show significant declines in business, the most recent Eurobarometer Survey [6] found that about two-thirds (65%) of EU citizens said they had travelled – for private

reasons – at least once in 2009: 27% had made at least one holiday trip and at least one “short private” trip, the same proportion had made at least one holiday trip but no “short private” trips and 11% had made at least one “short private” trip but no holiday trips. One-third of EU citizens had not travelled for leisure purposes in 2009.

Countries where respondents were less likely to have travelled for leisure purposes included some Eastern European countries – Hungary (57%), Latvia (54%) and Romania (51%) – and a few Southern European countries – Malta (58%), Portugal (48%) and Italy (44%).

Comparing travel for leisure purposes in 2008 and 2009, it could be seen that, although similar proportions of EU citizens travelled at least once, there was a decrease in those who made at least one “short private” trip and at least one holiday trip (from 39% in 2008 to 27% in 2009). Conversely, the proportion of EU citizens who made at least one holiday trip but no “short private” ones increased in that timeframe.

As to how many EU citizens would actually take a vacation in 2010, no clear picture emerged. At the time of the survey (February 2010), 28% of EU citizens were undecided about the type of vacation they wanted to take.

At the time of the survey, the proportion of EU citizens who were certain that they would *not* travel in 2010 (21%) was below the proportion of those who had not travelled in 2009 (33%). It remains to be seen what proportion of the currently undecided ones (28%) would eventually take a holiday.

Turkish respondents were the most likely not to be planning a holiday in 2010 (44%); they were followed by respondents in Hungary (40%), Slovakia (36%), Italy and Malta (both 35%). The proportions of

those still undecided about their vacation plans in 2010 were the highest in Italy and Portugal (both 35%).

EU citizens who were already planning a 2010 holiday (49% in total) were most likely to be considering one of 4-13 consecutive nights (19%). Fifteen percent of EU citizens said they were planning one of at least two weeks or more. One or more short-stay trips (one to three nights away from home) was the option chosen by 7% of EU citizens and 8% were thinking of a combination of longer holidays and shorter trips.

About their 2010 holiday destination, roughly a third (32%) of EU citizens said they were planning to stay in their home country. Comparing 2009 and 2010 results showed that EU citizens were now less likely to be planning a holiday outside the EU (15% vs. 20% in 2009).

Travel budgets in 2009 and 2010

Across almost all countries included in this study, the largest proportion of respondents – who had not taken a holiday in 2009 – said this out of financial reasons. Such reasons were cited by more than 6 out of 10 respondents in Bulgaria (65%), Romania (62%), Hungary and the former Yugoslav Republic of Macedonia (both 61%).

EU citizens’ perceptions about their holiday budgets have slightly improved compared to 2009: almost half (46%) of those who were planning to spend a holiday away from home in 2010 said they had sufficient funds to do this – by comparison, in 2009, this proportion was 41% (five percentage points lower).

Nonetheless, about 4 in 10 (39%) EU citizens said they would need to make extra savings in order to take their planned holidays and 1 in 10 said they had serious financial problems that could impact holiday plans.

In Hungary, Latvia, Lithuania, Bulgaria and Romania, a quarter or less of those respondents who were planning a vacation in 2010 felt they could afford this without any problems.

When asked which holiday leisure activities EU citizens would give up first if savings were needed when they were actually on vacation, the largest proportions of interviewees “beauty or wellness treatments” (24%) and shopping (21%).

Holiday focus and attractions

The largest proportion of holidaymakers across the EU (37%) said that the major motivation for their main holiday in 2009 had been “rest and recreation”. About a fifth (19%) wanted a sun/beach holiday and 17% said the main objective had been to visit friends or relatives.

In almost all countries surveyed, respondents who preferred to spend their holidays in “traditional” tourist destinations outnumbered those who favoured visiting “alternative or emerging” tourist locations. Countries with a high proportion of respondents who preferred “emerging” tourist destinations were Latvia, Denmark, Norway, Slovenia, Iceland, Sweden and Croatia (37%-39%).

Those respondents attracted to non-conventional destinations were most likely to expect that this would allow them to explore local cultures and lifestyles (45%) compared to 12% who thought there would be lower prices.

When deciding on a holiday destination, the largest proportions (32%) of EU citizens named a location’s overall attractiveness as the key consideration. Cultural heritage (25%) and options for entertainment (16%) were the second and third most mentioned factors that influenced the choice of destination.

Arranging a holiday

Almost half (48%) of the holidaymakers from the EU had travelled to their main destination by car or motorbike, and approximately one-third (35%) had taken a flight.

In almost all countries surveyed (27 out of 32), at least half of the holidaymakers had organised their holiday on their own. The proportions of holidaymakers who had done this were the highest in Croatia (83%), Turkey (82%) and Hungary (80%).

Thirteen percent of EU citizens had booked travel tickets or accommodation through a travel agency. About a fifth of EU citizens who took a holiday in 2009 opted for a package tour or all-inclusive holiday, either booked via the Internet (11%) or through a travel agency (10%).

Fifty-eight percent of EU citizens said that the views of friends and colleagues were the (first or second) most important sources of information when making decisions about travel and holiday plans. The Internet was considered to be the main source by 42% of respondents, and a lower proportion (31%) mentioned personal experience.

Holidaymakers who had taken a vacation with a cultural focus were less likely than their counterparts to rely on personal experience (25% compared to, for example, 32% of those who had wanted rest and recreation) and more likely to rely on guidebooks and magazines (17% compared to, for example, 10% of holidaymakers who had wanted a sun/beach holiday).

As in 2009, the largest difference in terms of information sources when comparing respondents with a preference for “off the beaten track” holidays and those who preferred more “traditional” destinations was seen when looking at the importance of **the Internet**: 51% of the former respondents felt that it was an

important source of information when planning a holiday compared to 39% of the latter.

4. Expected Impact of the Financial and Economic Crisis on the EU Tourism Industry

Based on the different interviews and the existing literature on this topic, we evaluate in this part the potential impact of the economic and financial crisis on the tourism industry as a whole. We start with an overview of the general forecasts on the economic recovery, as the intensity of tourism activity is strongly linked to the performance of the total economy.

Making forecasts in unstable economic situations is very difficult, but based on the face-to-face interviews with different stakeholders of the EU tourism industry some general expectations can be distinguished on the future outlook for the sector.

Overall, the different stakeholders are **rather confident about the long term future outlook for the sector**. The survival on short and mid long term will become however essential. As **access to finance** is in general a point of attention for the tourism industry as a whole, this becomes vital in times of financial and economic crisis. Access to finance is crucial, for instance, for innovation in industry. In turn, **innovation** is essential to improve the quality of Europe as a tourist destination. The lack of innovation might in that sense influence the attractiveness of the EU tourism industry.

- At this very moment, tourism enterprises are facing the consequences of the financial and economic crisis. The crisis will accelerate processes and initiatives, which have been slumbering for many years. When things get tougher, only the 'fittest' do well. Different elements such

as sustainability, professionalism, branding or diversification strategies definitely receive more attention nowadays than before the crisis. Many expect that the current crisis will **increase professionalism in industry**.

- Even if going on holiday has become an acquired right, the crisis has brought the **balance between price and quality more central** in the picture again. Important shifts are to be expected towards cheaper accommodation, shorter holidays, domestic holidays instead of holidays abroad, cheaper modes of transport, less holidays etc. What we can expect is a growth in demand for closer destinations. For European citizens, this might be other European countries. These shifts are being confirmed in the latest Flash Eurobarometer.
- The financial and economic crisis is also **changing consumer behaviour**. Because of the crisis, certain groups will decide not to take any holidays this year. The sector is facing a trend towards last minute bookings leading to some uncertainty at the level of demand for tour operators for example.

5. Conclusion

UNWTO expects that the years 2009-2010 will remain difficult for the tourism industry. **Travel demand is elastic**: it tends to exceed the growth of the overall economy in good times, and to contract more severely when the economy falters. This might mean that the tourism industry shall probably experience resilience sooner than other industries, once the economic situation improves. Only the future will tell us with certainty how long and to what extent the current crisis has affected the tourism industry.

Against this backdrop and given the upturn in international tourism figures and in other economic indicators in recent months, UNWTO forecasts a growth in international tourist arrivals of between 3% and 4% in 2010. The International Monetary Fund has called 2010 the Year of Transformation which applies equally well to the travel and tourism industry as to the global economy. The key to renewed growth will be the destinations' and companies' ability to understand and to adopt their products and services to the post-crisis marketplace, characterised notably by a search for greater value for money and authenticity.

Other information may be obtained from the address: ispasana@unitbv.ro.

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Notes

1. As the UNWTO's Tourism 2020 Vision is a long term forecast that was conducted in 2007, it does not reflect the actual financial and economic crisis. At present, the UNWTO is updating the mentioned Tourism 2020 Vision. The study will forecast international tourism growth through the year 2030 and identify key actual and future trends and their impact on tourism development.
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