



# TRAVEL & TOURISM ECONOMIC IMPACT – POST BREXIT UPDATE

## AUGUST 2016

The World Travel & Tourism Council (WTTC)'s annual Travel & Tourism Economic Research reports are prepared in the first few weeks of every year for their publication in early spring. As the year progresses, each month brings new challenges, events which affect the core macroeconomic assumptions that underpin the WTTC Economic Impact model. This summary updates the data and outlooks based on the current economic developments together with available year to date Travel & Tourism arrivals and spending data to provide a current outlook for the global Travel & Tourism sector. It has a particular focus on the outcome of the UK's referendum vote decision to leave the European Union (Brexit).

### GLOBAL MACROECONOMIC OUTLOOK

- The latest Oxford Economics baseline forecast envisages 2.3% global GDP growth in 2016, a downgrade from 2.8% earlier in the year. While this will be the slowest rate of growth since 2009, it is only marginally below the rates of growth observed in recent years. Growth is expected to pick up in 2017 to 2.6% and beyond as growth edges higher across advanced economies, at the same time as recent weakness in Brazil and Russia abates.
- The fastest growing world region in 2016, 2017, and 2016-20 will be South Asia, led by strong growth in India, whose economy is expected to outperform China.
- Against this backdrop, commodity prices remain relatively subdued, with the price of oil edging up to only around US\$70 per barrel by 2020, which is broadly in line with the assumptions used in the annual update. Monetary policy is assumed to remain supportive in this environment with the US Fed's policy rate reaching just 1.6% by the end of 2018. The US dollar is expected to continue to appreciate during 2016 and 2017, before slowly depreciating from 2018.
- The impact of Brexit on 2016 world GDP growth is expected to be relatively negligible, although for the UK, not surprisingly, it is much more evident. For 2017, the Brexit result has meant that UK GDP growth has been downgraded to 1.1% from a forecast of 2.3% before the referendum. The vote is also likely to have some smaller spill over effects on 2017 GDP growth in other European economies including Germany, Spain, France, and Italy due to negative sentiment and future trade prospects with the UK.
- Outside of GDP, Brexit has had a noticeable and immediate impact on global currencies. The pound fell in the aftermath of the vote and continues to trade at a very weak level by historical standards, while the yen appreciated due to its position as a global 'safe haven' currency.
- Over the longer term to 2020, world GDP growth is forecast to average 2.6% and not dip below 2% in any year. Brexit is highly unlikely to lead to a major global recession or slowdown in the coming years.

### TRAVEL & TOURISM OUTLOOK

- Global direct Travel & Tourism GDP growth will remain resilient in 2016 and continue to grow faster than the wider global economy. Global growth is expected to be 3.1% for 2016 (down from 3.3% forecast at the start of this year). Slight downgrades averaging 0.3pp for each of the years 2017 to 2020 are largely due to lower-than-forecast business Travel & Tourism spending due to slower investment across the global economy as a whole.
- At a regional level in 2016, the most noteworthy downgrade to direct Travel & Tourism GDP is in Europe due to consequences of non-Brexit related macroeconomic downgrades to large economies such as Germany and Italy.
  - In the UK, direct Travel & Tourism GDP growth is expected to hold up well in 2016 and 2017, as weaker domestic spending growth (despite weaker outbound spending leakages) is offset by stronger international leisure spending as a weaker pound makes the UK a more affordable destination. However, in the 2018-2020 period, after the UK is expected to have left the EU, the boost from a weaker sterling wears off and general economic growth is weaker than forecast earlier in the year.
  - By 2020 we now expect that the UK Travel & Tourism sector will support 1.88m direct jobs, which is approximately 75,000 jobs less than forecast in the annual update at the start of the year.

- Prospects in the Northeast Asia region have also been downgraded in 2016 owing to a weaker outlook in Japan. While the strengthening yen is eroding Japan's price competitiveness as a tourism destination, the downgrade is driven more by weaker domestic economic growth. Inbound arrivals to Japan are still up in the first half of the year, however, the stronger yen is resulting in a fall in average spend.
- Despite fears about its prospects in the early part of 2016 with financial market turmoil, China's GDP growth forecast remains broadly unchanged and the country on track to achieve its government's target.
- For the 2016-2020 period, North America and Latin America's direct Travel & Tourism GDP growth outlooks have been downgraded on account of weaker macroeconomic forecasts for the USA and Brazil respectively. The medium-term forecasts for other regions have not changed significantly.

## SELECT COUNTRIES - 2016-2020 FORECAST GROWTH IN TRAVEL & TOURISM DIRECT CONTRIBUTION TO GDP

Full details are available here: [www.wttc.org/research/economic-research/economic-impact-analysis](http://www.wttc.org/research/economic-research/economic-impact-analysis)

	2016	2017	2016-20
Argentina	1.8%	-0.8%	3.5%
Australia	4.5%	5.2%	4.0%
Brazil	-1.6%	-0.5%	2.4%
Canada	2.9%	3.6%	3.8%
China	6.3%	7.7%	7.3%
Egypt	5.8%	5.6%	4.7%
France	1.1%	2.9%	2.7%
India	6.6%	8.8%	8.6%
Indonesia	4.7%	7.3%	7.2%
Italy	1.4%	3.2%	2.7%
Jamaica	3.5%	4.3%	5.0%
Japan	1.4%	1.0%	1.7%
Kenya	4.6%	7.3%	6.8%
South Korea	5.2%	4.2%	4.0%
Malaysia	3.3%	3.5%	3.6%
Mexico	4.4%	4.2%	3.7%
Netherlands	5.3%	4.1%	4.0%
Peru	3.8%	5.7%	5.4%
Russia	-1.0%	-1.5%	1.8%
South Africa	1.5%	3.0%	3.0%
Saudi Arabia	2.8%	3.6%	2.2%
Singapore	4.2%	6.0%	4.6%
Spain	3.0%	2.9%	2.7%
Thailand	4.3%	6.8%	6.6%
Turkey	-3.2%	2.0%	3.8%
UK	3.6%	3.0%	2.4%
US	2.9%	2.8%	3.0%
Vietnam	4.0%	7.9%	7.6%

Source: Oxford Economics