WORLD TRAVEL & TOURISM COUNCIL

EXCHANGE RATE TRENDS AND TRAVEL & TOURISM PERFORMANCE

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BACKGROUND

With significant strengthening in the US$ exchange rate over the past few years, WTTC commissioned Oxford Economics to provide analysis on the impact that these (and other) currency changes have on Travel & Tourism flows and the extent to which they influence visitor arrivals to a destination.

Uniquely, Oxford Economics' analysis also looks at a visitor-weighted exchange rate. Focusing just on the US dollar exchange rate is not enough to understand the effect of currency changes on Travel & Tourism. This research therefore measures the relative strength of a given country's currency in relation to those of their tourism source markets, thereby creating a more relevant measure of the impact of exchange rates on Travel & Tourism.

While most major economies' currencies depreciated against the US dollar in recent years, several of them strengthened in terms of the visitor weighted exchange rates (the currencies became stronger in relation to those of their source markets, overall).

KEY FINDINGS

RECENT EXCHANGE RATE DEVELOPMENTS

The strength of US dollar has been an enormous factor in cross-border flows and in international visitor spending in the past few years.

- Apart from China, where the exchange rate is carefully managed and has been allowed to appreciate gradually, all major economies' currencies weakened against the US dollar between 2012 and 2015. This underscores the truly remarkable strength of the US dollar over this period.
- Three of the five BRICS (Russia, Brazil, and South Africa) were amongst the WTTC priority economies whose currencies weakened most against the US dollar between 2012 and 2015.
- Many other emerging economies experienced large depreciations, including Turkey and Indonesia.

IMPACT OF EXCHANGE RATES

- Countries where a large proportion of tourists come from one specific country are relatively susceptible to changes in the exchange rate between these two countries. For example, visitors to Mexico from the USA or from countries whose currencies are pegged to the US dollar represent over 84% of international arrivals.
- Countries with a broadly diversified range of source markets tend to be less impacted by changes in any specific exchange rates. In Thailand for example, the biggest source market – China – only makes up just over 18% of arrivals and there are at least 10 countries which each contribute 3% or more of arrivals.
- Research from Tourism Australia and Tourism Research Australia (referenced in the report) show that exchange rates were shown to have some influence on destination choice and travel purchases, but that influence is modest and only one part of the consumer's decision-making process. However, exchange rates were found to have more bearing on tourism expenditure once in the destination.

CASE STUDIES

NORTH AMERICA

- Given the strength of the US dollar in recent years, the visitor-weighted weighted exchange rates of Canada and Mexico have depreciated significantly, while the opposite is true for the USA.
- Inbound travel to the USA from Canada and Mexico has become relatively more expensive, while US outbound travel in the opposite direction has become relatively cheaper.
- This appears to have had a direct impact on performance of the Travel & Tourism sectors in Canada, Mexico and the USA.

CHINA AND JAPAN

- Between 2012 and 2015, Japan and China's visitor-weighted exchange rates diverged significantly.
- The impact of these exchange rate developments is most starkly evident from an analysis of bilateral flows between the two countries. Chinese visitors to Japan have surged since 2013, while Japanese visitors to China have fallen each year since 2012 (a period of anti-Japanese sentiment in China may also have been a factor deterring Japanese visitors).
- Of course there are other factors at work here, such as specific policies to attract Chinese visitors to Japan (e.g. duty-free shopping) which have proven to be very successful. But it is hard to argue against the important role that exchange rate movements have played in Asia's two largest Travel & Tourism markets.

EUROZONE

- Despite being part of a single currency bloc, Travel & Tourism destinations within the Eurozone have experienced significantly different real effective exchange rate dynamics in recent years due to differing visitor origin profiles and differing rates of inflation.
- Ireland experienced the most significant competitiveness gain, thanks to low inflation and depreciation of its visitor-weighted exchange rate between 2012 and 2015. The latter is a result of the relatively large share of its visitors originating from the UK and USA - the euro depreciated significantly against £ and US Dollar. This is likely to be one factor behind Ireland's strong inbound arrivals performance between 2012 and 2015.
- Travel & Tourism destinations that are largely dependent on other Eurozone origin markets have seen little change in competitiveness because these origin markets share the same currency.
- In contrast to Ireland, Finland's Travel & Tourism competitiveness and inbound performance has been seriously affected by its dependence on the Russian market. The rouble has depreciated significantly leading to Finland having the most appreciated visitor-weighted exchange rate performance across the Eurozone. This has been exacerbated by the Russian economy falling into a deep recession and facing sanctions after the Ukraine crisis.

IMPLICATIONS

It is important for the Travel & Tourism sector to monitor, track, and predict exchange rate movements, and respond accordingly. A more nuanced, visitor-weighted analysis of exchange rates helps to provide a much more effective understanding of actual impact.

Please see accompanying slides for further information