THE IMPACT OF EXCHANGE RATES ON TRAVEL & TOURISM
Outline

• Key exchange rate trends
• What exchange rate matters for Travel & Tourism (T&T)
• Case studies: Impact of exchange rates on T&T performance
• Brexit impact
• Exchange rate outlooks to 2020
• Summary
Key exchange rate trends

Significant movements in major global currencies over last 15 years

Major currencies vs US$

2000 = 100

Appreciation

Sources: Haver Analytics
Key exchange rate trends

US Dollar strength since 2011

Composite weighted exchange rates vs US$

Sources: Haver Analytics, Oxford Economics
Key exchange rate trends

Reasons for US Dollar strength

• Catch up from a period of relative weakness/depreciation pre-global recession
• Strong economic recovery post-global recession
• Boom in US shale oil production
• Divergence of monetary policy with other major economies
• Ending of quantitative easing and expectation of interest rate hikes led to more inflows in the short-term and greater outflows from other economies

Reasons for commodity currency weakness

• Initial driver was capital flight as US ended quantitative easing
• Plummeting commodity prices resulted in further depreciation
• By 2015 the Brazilian Real and Russian Rouble could only buy half as many US Dollars as in 2011
Key exchange rate trends

Some reversal of US Dollar strength in last six months

Exchange rate vs US$ (June 2016 versus December 2015)

Sources: Haver Analytics
What exchange rate matters for T&T

Macro-economy: Real effective exchange rate

- Analysis often simply focuses on bilateral nominal US dollar exchange rates
- But far more meaningful to analyse a country’s real effective exchange rate
- Trade-weighted average value of a currency relative to all other currencies adjusted for inflation differentials
- Combines a country’s many different bilateral exchange rates into one competitiveness measure, weighted by the importance of different trading partners, and adjusting for differences in inflation which proxies for cost competitiveness

Travel & Tourism: Visitor-weighted exchange rate

- Oxford Economics uniquely estimates and forecasts T&T visitor-weighted exchange rates for the 184 WTTC annual economic impact research countries
- A T&T customised real effective exchange rate
- Measures changes in a destination’s bilateral exchange rate trends relative to all origin markets
- Each origin market bilateral exchange rate is weighted by its share of total inbound tourist arrivals
What exchange rate matters for T&T

Visitor-weighted exchange rate captures differences in visitor origin profiles

**Mexico: Inbound visitors by origin (2013)**
- US$ countries: 84.3%
- Eurozone: 4.7%
- Other: 11.0%
Source: Tourism Economics

**Thailand: Inbound visitors by origin (2013)**
- China: 18.1%
- Malaysia: 11.9%
- Eurozone: 9.0%
- Indian Republic: 5.1%
- Japan: 6.0%
Source: Tourism Economics

**UAE: Inbound visitors by origin (2013)**
- US$ countries: 29.1%
- Eurozone: 11.8%
- India: 10.2%
- Egypt: 2.9%
- Australia: 3.0%
- Pakistan: 3.0%
Source: Tourism Economics

**UK: Inbound visitors by origin (2013)**
- Eurozone: 53.1%
- India: 1.2%
- Denmark: 2.2%
- Canada: 2.4%
- Sweden: 2.5%
- Switzerland: 2.5%
- Norway: 2.6%
- Australia: 3.4%
Source: Tourism Economics
What exchange rate matters for T&T

WTTC 30 focus countries, 2012-2015

Bilateral exchange rates versus US Dollar

• Average depreciation = 20%
• No. currencies appreciated against US Dollar = 1
• No. currencies depreciated against US Dollar = 28

Visitor-weighted exchange rate

• Average depreciation = 5%
• No. currencies appreciated = 13
• No. currencies depreciated = 18
What exchange rate matters for T&T

Diversity in visitor-weighted exchange rate performance, 2012-2015

Visitor-weighted exchange rate performance (2012-15)

Sources: Oxford Economics
What exchange rate matters for T&T

Visitor-weighted exchange rate and inflation performance, T&T dependent economies, 2012-2015

- Relatively strong currency
  - Antigua and Barbuda
  - Dominica
  - Lebanon
  - Montenegro
  - Netherlands Antilles
  - Thailand

- Relatively weak currency
  - Cape Verde
  - Kiribati
  - Malta

- Relatively low inflation

- Relatively high inflation

Tourism weighted exchange rate and inflation performance

• Many T&T dependent economies have experienced an appreciation in their visitor-weighted exchange rate
• The exchange rate-T&T performance relationship can work both ways, e.g. The Seychelles
Case studies

Impact of exchange rates on T&T performance

• Examined a number of case studies including: North America, China and Japan, Eurozone, US Dollar peg economies and Australia

• Choice of case studies based on the divergent exchange rate pathways and integrated nature of tourism markets

• Tracked exchange rate developments against actual T&T performance to assess the relationship and causality

• While there is strong evidence of exchange rates impacting T&T performance, there are clearly multiple other economic and non-economic factors driving T&T performance

• Difficult to isolate the impact of exchange rates from these other factors
Case studies: North America

North America: Tourism weighted exchange rates index

North America: Net T&T exports % GDP

US bilateral tourist flows to Canada and Mexico

US bilateral tourist flows from Canada and Mexico

Sources: Haver Analytics, Oxford Economics

Source: Tourism Economics
Case studies: China and Japan

China vs. Japan: Tourism weighted exchange rate index

China vs. Japan: US$ exchange rate index

China vs. Japan: Net T&T exports % GDP

China & Japan bilateral tourist flows
Index (2000=100)

Sources: Haver Analytics, Oxford Economics

Source: Tourism Economics
Case studies: Japan

Impact of exchange rates on domestic T&T demand

Japan: Domestic hotel nights vs. tourism weighted exchange rate

Sources: UNWTO, Oxford Economics
Case studies: Eurozone

Eurozone: Tourism weighted exchange rate performance (% change, 2012-15)

- Ireland
- France
- Netherlands
- Malta
- Belgium
- Spain
- Luxembourg
- Austria
- Portugal
- Italy
- Germany
- Slovenia
- Slovakia
- Greece
- Lithuania
- Estonia
- Cyprus
- Latvia
- Finland

Sources: Haver Analytics, Oxford Economics

Eurozone: Inbound tourism expenditure (% growth, 2012-15)

- Ireland
- France
- Netherlands
- Malta
- Belgium
- Spain
- Luxembourg
- Austria
- Portugal
- Italy
- Germany
- Slovenia
- Slovakia
- Greece
- Lithuania
- Estonia
- Cyprus
- Latvia
- Finland

Sources: Haver Analytics, Oxford Economics
Case studies: US Dollar pegs

Sources: Haver Analytics, Oxford Economics
Case studies: Australia

Tourism Australia and Tourism Research Australia research

- 2000-2010: Australian Dollar appreciated > 50 per cent in trade-weighted terms → international visitor arrivals growth ↓ and ↑ Australians opting to travel overseas

- Fundamental drivers of T&T demand were economic growth in source countries and the income and wealth of visitors from these markets

- Exchange rates had some influence but the influence was modest, more short-term and only one part of the consumer’s decision-making process

- Exchange rates were found to have more impact on tourism expenditure levels than the choice to visit
OE modelling assumptions based on empirical analysis

• Lag time between T&T price changes (for example brought about by exchange rate changes) and travel decisions is around six months for the maximum impact.

• Lag time varies by time of year and is affected by booking windows, knowledge of the currency movement and whether the movement is just volatility or a longer-run shift.

• If exchange rate shifts are permanent and persist beyond six months, cumulative T&T effects can be seen for some time.

• International T&T demand has a higher price response elasticity than domestic T&T demand, with the elasticity of substitution between international and domestic around 0.4.

• Overall combined domestic and outbound T&T spending still largely determined by income.

• But exchange rate changes can affect the balance between domestic and outbound and where outbound visitors choose to visit.
Brexit impact

Widespread Sterling sell-off

Global: Currencies Brexit vs Lehman Collapse

Source: Oxford Economics/Bloomberg

Note: for Lehman we calculate peak to trough dates based on daily data from 14th-16th September 2008. The Brexit data are from 23rd June to 12.50pm UK time, 24th June.
Brexit impact

Sterling and Yen have moved in opposite direction

Major currencies vs. US$ index

17 June=100

Source: Haver Analytics
Brexit impact

Very different Sterling outlook from six months ago

UK: £ exchange rate vs US$

Source: Oxford Economics
Brexit impact

Sterling impact on UK T&T

- UK has become a more price-attractive destination
- Inbound leisure T&T spending growth should be higher
- But inbound business spending growth likely to be lower
- Domestic T&T spending should also benefit as outbound visits fall
- 2016 impact expected to be modest due to pre-booked travel and the timing of the referendum vote mid-way through the year
- Impact will be larger in 2017 as the exchange rate impact will be lagged
Brexit impact

Sterling weakness will also impact on T&T outside the UK

UK outbound visits, previous baseline vs new baseline

Source: Tourism Economics

Destination exposure to UK outbound travel, 2015
% share of total arrivals that come from the UK

Source: Tourism Economics
Brexit impact

UK five-year+ competitiveness window of opportunity

Major currencies vs. US$ index

Sources: Haver Analytics, Oxford Economics
Visitor-weighted exchange rate outlook, 2015-2020

Sources: Oxford Economics
Summary

• Values of major global currencies have shifted significantly over the long-term

• Changes in key global interest rates and commodity prices, divergent economic growth and macroeconomic balances will continue to impact heavily on exchange rates in future

• Critical for the T&T industry to monitor and track exchange rate developments and be aware of forecasts in order to respond/plan accordingly, especially where exchange rate movements are large and/or permanent

• Exchange rates do impact on T&T performance but are not the only/main drivers

• Brexit impact on UK T&T potentially large and impact not confined to UK

Further useful research:

• T&T price trends and pricing strategies - how in practice exchange rate, broad inflation and other price drivers like the world oil price actually influence final prices charged to consumers and affect relative destination competitiveness

• Consultations with industry and governments on exchange rate impact experiences and appropriate/feasible mitigating policy/business responses