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# TOURISM EXECUTIVE BRIEF

June 2011

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2<sup>st</sup> Quarter Synopsis

**CARIBBEAN TOURISM ORGANIZATION** ([www.onecaribbean.org](http://www.onecaribbean.org))

## **ECONOMIC OVERVIEW – STILL ON THE BRINK**

As the first half of the year reached an unsettling conclusion, there was little cause for optimism that the global recovery picture was showing much improvement from the disasters that beset life in the first quarter. Internationally, stock prices fell sharply for most of June; factory production fell together with demand; consumer confidence fell sharply on both sides of the Atlantic and with it consumer spending.

Nations around the world continued to be roiled by crippling government and consumer debt of epic proportions including several key marketplaces for the Caribbean like the U.S. where yet another deadline is fast approaching to stave off a default with disastrous implications for the economy at home and abroad.

On August 2<sup>nd</sup> the U.S. Treasury may be forced to stop paying interest on its monumental debt that now stands at its highest level in over 60 years unless a last minute compromise can be reached between the democratic administration and a hostile republican majority in the House of Representatives that smells blood and a suddenly vulnerable president.

If this intransigence cannot be resolved, the result almost certainly would be a return to global recession since more than half of U.S. Treasury debt is held outside of America at a time when global growth is at its weakest since the recovery began two years ago.

On the consumer side, the news is equally grim with nearly a quarter of U.S. households defaulting or likely to default soon on their mortgage payments. Non-mortgage debt on items like credit card payments and auto loans has risen concurrently by 37%.

The first six months closed with the simultaneous end of the Federal Reserve's economic stimulus program known as quantitative easing or QE2. This program pumped an additional \$600 billion into financial markets by buying up bonds with newly minted money. The results have been disappointing as there has been little obvious impact on the frail job market or as a stimulus to renewed spending by businesses. In any event, QE2 is history now and there is no sign that the Fed plans any further intervention so the recovery process will have to proceed or fall on its own.

The closely watched Consumer Confidence Index from the Conference Board showed another 3 point drop in June after reaching a year-to-date low in May. Unemployment remains the big issue together with growing concerns about Treasury default possibility. The drop in consumer sentiment was also reflected in another poll of small business owners which fell for a third month in a row.

## **THE EURO ZONE**

In Europe, where some individual governments and central banks had initiated similar programs to QE2, the debt crisis is also at a boiling point with Greece in the middle of the fire for the moment but by no means

alone. Greece clearly cannot pay its debts in a timely fashion as their debt load is currently running around 160% of GDP. As we write, the government in Athens had apparently convinced the powerful opposition party to accept a highly unpopular austerity program that was the price for the latest EU brokered bailout. A general strike has already turned violent in the capital and it is by no means certain that the government can survive the vote for the onerous terms. If Greece were to default now or later and pull out of the common currency, repudiating its debts, it is likely that some other weaker members of the EU would follow, threatening the future of the Euro as some prominent European bankers are predicting. We have already seen Ireland and Portugal press for debt relief while Spain and Italy remain even bigger question marks and concerns.

### **HOW MAY THIS ALL SHAKE DOWN?**

Wall Street analysts and economic pundits on both sides of the Atlantic are sharply divided between the prospects for a continued slow recovery or a descent back to global recession within the next 12 months. We come down on the side of those who are more positive that common sense combined with a fear of retribution in the polling booths at coming elections will fend off disaster once again in Washington and European corridors of power. The recovery should continue at a snail pace into 2011 and probably beyond.

### **THE UNITED KINGDOM**

The UK banking industry has only a minor stake in Greece's debt obligations, unlike Germany and France, and it is, of course, outside the euro-zone. However, it is significant that sterling remains weak against the Euro even as talk of a breakup of the common currency persists. Britain's own private sector debt bubble that built up over several years of excessive spending has finally burst and with it a big slow down in discretionary purchases for practically everything including holiday travel.

Small businesses in the UK are being hit hard by the highest level of inflation in three years, up by 3.6% in the first quarter and predicted to rise to 5% by year's end by the Bank of England. Core costs have been driven up by huge increases in the cost of fuel, utilities, labor and materials.

It is uncertain whether the Bank of England will pump more money into the economy with a second tranche of quantitative easing but it certainly can't be ruled out as "consumers condemn Britain to the slow lane" in the words of economic correspondent David Smith of the London Sunday Times. If there is any good news to alleviate the consequences of inflation in the UK, as in the US and elsewhere, it has been the drop in oil prices following the controversial opening of strategic crude stockpiles by the International Energy Agency of which half are to come from the US Strategic Petroleum Reserve. Prices dropped by 2.4% on the US exchange and Brent crude plunged by more than 7% on the news. How long this action will keep prices down is a matter for conjecture but it is already having an impact on summer driving vacations. In the longer term, we believe that the price of oil will soon creep back up above the \$100 a barrel mark in the US and hold there as long as Saudi Arabia continues to move away from current OPEC policies governing price and production.

### **CANADA – A BRIGHT SPOT IN NORTH AMERICA**

Canada certainly has economic problems of its own but it is in much better shape than its larger neighbor to the South and that is born out by the increasing numbers of Canadian tourists recorded by several CTO member nations.

Canada's economy is the furthest along of all developed nations in a return to pre-recession conditions. As of January this year all jobs lost to recession were recovered and Canada added an additional 111,000 jobs by

April. Canada's unemployment rate is still higher than desirable at 7.6% but compares well to the 9.1% currently prevailing in the US. The IMF's latest forecast expects Canada to continue to outperform most economically advanced countries over the next two years.

In another critical comparison with the US that drives consumer spending and thus travel potential, the latest Consumer Confidence Indices for the two countries posted in May show Canada with nearly a 30 point lead. Finally, we were happy to see a threatened strike that could have shut down Air Canada's operations at the start of the summer season called off at the eleventh hour and a settlement reached.

## **SOME NOTEWORTHY TRENDS IN THE US MARKETPLACE**

### **1. AMERICANS ARE BECOMING INCREASINGLY WAR-WEARY**

When President Obama recently announced the staged withdrawal of the additional 30,000 troops sent to Afghanistan during the "surge", he attracted the expected grumbling from senior military commanders but also a surprising amount of bi-partisan criticism from both the left and right that the pull-down was too small and the timeframe too slow.

It is becoming increasingly obvious to non-biased observers from all walks of life that a majority of the American public is growing tired and frustrated by the daily toll of young lives lost and the staggering costs of maintaining troops, support personnel and material to fight wars with dubious objectives in distant lands. The cost of the war in Afghanistan, now America's longest has already surpassed the costs of Iraq and revelations of misuse of funds and corruption on a grand scale has turned frustration into anger.

We are hearing the voices of senators, congressman and America's mayors plus leaders of the religious community of all persuasions and at least one of the Republican hopefuls for the presidency. All are speaking out vigorously with the same message, that the social needs and infrastructural demands of cost-strapped cities from Baltimore to Kansas City demand a higher priority than fighting wars in Baghdad or Kabul. To put it in perspective, the cost of maintaining our current 300,000 troops in Afghanistan for a single month could cover the entire budget of New York City for two months.

No one expects a sea change to occur quickly to the political concept of non-defensive military interventions that has prevailed throughout various administrations since the 1950s and few want a return to isolationism or "Fortress America" but the voices for change are growing louder and the long term implications could be far reaching.

### **2. EVEN THE WEALTHY ARE CHANGING**

The recession may be over but it was deeper and longer than most expected and the slow pace of recovery is apparently affecting virtually all segments of the economy including the wealthy that didn't lose their homes, jobs, or retirement savings. According to several recent surveys of upper income Americans, the fate of others in their communities appears to have changed the thinking of those unscathed when it comes to discretionary purchases on their own. A survey of the affluent shopper by Connecticut based Harrison Group shows that consumers with household incomes above \$275,000 are more likely to wait for items to go on sale than a year ago. Costco and Target are now the favored stores for the wealthiest Americans according to Harrison Group. What is the significance to our own purveyors of luxury brands such as top-of-the line hotels and cruise lines?

This consumer group is becoming less and less influenced by brand marketing as snob value and more by the offer of real value.

A staple belief of marketing to the affluent that discounting lowers prestige and discourages the wealthy buyer may no longer be true.

### **3. MORE MARKETING TO THE WEALTHY**

The recession and its aftermath saw a massive decline in online and direct mail marketing by the credit card industry after banks pushed plastic onto many unqualified consumers who ran up huge bills and defaulted.

2011 has seen a new push by companies like Citigroup, J P Morgan Chase and Capital One to issue new credit cards as the first quarter saw an increase of 69% over a year ago.

However, there is a huge difference this time around as the financial institutions are taking dead aim at affluent consumers who are already holders of competitive company plastic by offering increasingly lucrative offers to cause a switch. These offers are generally co-branded with major airlines including American, British Airways and Delta and provide up to 100,000 unearned frequent flyer miles and no fees for the first year on sign up.

An additional incentive is likely to be a lower interest rate on unpaid balances for this consumer niche than is generally available to run-of-the mill credit card holders.

Needless to say customers with good or excellent credit care are highly desirable and there may be opportunities for some Caribbean tourism marketers to get involved through participating carriers with additional offers for discount rooms or other bonuses to sweeten the pot.

## **TRAVEL INDUSTRY ROUND UP**

### **1. UNITED STATES**

In April, we found a generally upbeat mood among our bellwether wholesalers for travel prospects in the summer ahead with particularly good news for the Caribbean as a regional destination that is politically stable and free of major security concerns. Now that the summer season is with us little has changed from that forecast although the pace of demand has softened somewhat and results vary among wholesalers, often in line with their airline partnerships or lack thereof.

The problems in Mexico still persist due to the much publicized incidents of drug-related violence usually far from the traditional tourism centers except Acapulco.

Leading US tour operators and wholesalers have seen a sharp decline in bookings and the recent decision of Princess cruise line to pull out of Puerto Vallarta has further damaged Mexico's image, unfair though that may be, as it followed suspension of service to Acapulco by three other lines earlier in the year.

Beneficiaries of Mexico's problems have included Jamaica and the Dominican Republic in the Caribbean and Hawaii, which is having its best year since 2007 despite the big drop in visitors from Japan.

Summing up the results of our latest survey we can say that the findings support previously released statements in the trade press that the Caribbean is shaping up to have a decent summer – good news in view of the dire economic conditions in our major marketplaces with the exception of Canada.

All the wholesalers we interviewed are up for the first half of 2011 by amounts varying from low single digits to 60% in one large company's advance bookings.

The biggest increases come from arrivals to the Dominican Republic and Jamaica. Strong competitive destinations include Europe with Italy leading the way, Orlando and Hawaii.

Cruise business is strong but profits are down and incredible discounts up to 71% are available on most sailings from European and Mediterranean ports, particularly in the luxury category (see our story on this market above.)

## **2. THE UNITED KINGDOM**

The austerity program of Cameron's Coalition government has clearly put a zip on many UK consumer wallets and the big drop in outbound departures that began in 2009 has continued in 2011. Tour operators have been badly affected and many small companies have gone out of business.

Among the largest operators, giant TUI Travel's CEO, Peter Long, recently told British MPs that the UK market is now the weakest among the company's 25 markets that it currently serves. Long added his voice to the pleas of a Caribbean delegation led by CTO for relief from the onerous and unfair APD tax burden.

## **3. GERMANY**

Germany's outbound travel prospects are rising together with a stronger economy. The last available figures show that German retailers had a 10.3% rise in holiday bookings in May, most of them for the summer ahead.

Cumulative sales for the first five months in leisure travel were the strongest and online travel agencies like Deutsche Bahn and Unister were the biggest winners. Expedia is now in third place among online retailers in the German market and recorded sales around 745 million euros for the last full calendar year.

The lack of direct scheduled carrier access remains a problem for the Caribbean to take full advantage of this important market.

## **AIRLINE NEWS**

### **1. AMERICAN AIRLINES**

- A lot of news this month revolves around AA, still a very important carrier for the Caribbean, despite losing much of its dominance to Low Cost Carriers (LCCs) like JetBlue. In a recent article in its major home town newspaper, the Dallas Morning News, the writer pointed out that AA remains deep in red ink and has lost money in eight of the past ten years and is projected to lose money again in 2011 and 2012. However, its alliances with British Airways, Iberia and others are now secure; it is still managing to finance and update its fleet, and so far it continues to avoid bankruptcy alone among its

legacy carrier competitors, although that is a questionable advantage in a business environment where bankruptcy has little downside or stigma.

- On another front AA continues its struggle with SABRE and the two companies are suing each other in federal court. It still remains to be seen whether AA can win its distribution battle with the GDS and if other legacy carriers will follow this, thus far, lonely path that was pioneered by the LCCs.
- In the meantime, the US Department of Justice Antitrust Division is conducting an investigation of the leading GDS companies including Amadeus and Travelport who claim they have nothing to hide.
- Those strange new bedfellows AA and JetBlue are said to be in talks to expand their currently limited program of joint booking and frequent flyer benefits. The main interest for AA would appear to be JetBlue's growing strength at JFK, which is AA's principal hub for its trans-Atlantic flights. A broader agreement should benefit both carriers.
- Lastly, AA appears ready to separate American Eagle from the parent company through some sort of spinoff or sale with a public offering of stocks from Eagle as a stand-alone company.

## **2. JETBLUE**

JetBlue continues its remarkable expansion into the Caribbean with the addition to St. Thomas and St. Croix via the San Juan hub and nonstop service from Boston to St. Thomas for the coming winter season. It also plans new nonstop service from Hartford to San Juan, a route pioneered by American and dropped.

## **3. SOUTHWEST AIRLINES**

A couple of seasons ago, we commented in this space on the growing strength of the LCCs to the Caribbean and pointed out that destinations could not depend on these carriers to offer the lowest fares as JetBlue was then charging more for holiday seats to Aruba and The Bahamas than American or Delta.

Now the Wall Street Journal has confirmed this trend in a story that says Southwest has lost its crown as the king of discount airlines. It has jacked up its fares dramatically and in some markets dominated by Southwest is actually charging more than its competition.

We bring this up as Southwest's acquisition of AirTran will soon make it an important player in Caribbean skies, so don't expect a new era of low fares as a result.

## **4. VIRGIN ATLANTIC**

No sooner had British Airways announced its long awaited and welcome settlement with its cabin crews than Virgin Atlantic pilots voted overwhelmingly to strike for the first time in the airline's history. No strike date had been set as of writing but peak summer traffic in long haul markets could be seriously affected. The union must give two weeks notice of strike actions, thus mid July would appear to be the earliest possibility for job action.

## **5. AIR CANADA/TRANSAT**

A similar situation prevails in Canada where the resolution of a possible strike against Air Canada was clouded by a decision authorizing strike action by cabin crews at Air Transat. Stay tuned on these developments in both Canada and the UK.

Staying with Air Canada, a big deal for an expanded alliance with United/Continental has been stalled on antitrust grounds by Canada's Competition Bureau which claims the agreement would lead to higher fares and reduced consumer choice given the giant size of the carriers involved.

Remarkably, this is the first time that a national regulatory body in the Americas has challenged an airline alliance already granted immunity by the US Justice Department.

## **6. LAN/TAM MERGER UPDATE**

We are still watching and hoping that the Chilean regulators will approve this merger that has already received approval from Brazil. However, any decision has apparently been postponed until 2012 and we will have to wait longer for this deal to go through that we are convinced will be of great significance to further growth from South American markets to the Caribbean.

## **POSTSCRIPT**

We were somewhat surprised by positive comments made by some leading US tour operators in our latest poll as to how they are gearing up to enter the Cuba market if the travel ban is finally lifted although with an estimate of between one million and three million tourists annually as the potential from the US, their interest is understandable. However, the relaxing of rules in January making it easier for schools, churches and cultural groups to visit Cuba may be as far as it will go for now with an election year looming and Florida a critical swing state that the administration cannot ignore.

Ironically, it may well happen that the discovery of a massive oil field in Cuba's territorial waters may hasten the end of the economic embargo altogether in the opinion of some Latin American experts as they believe that the powerful oil lobby in America will not ignore such a bonanza on the US threshold.

In the meantime, the relaxed new rules are producing an increase in the numbers of US visitors and a significant number of charter flights from Miami and other South Florida cities to Havana are now approved and operating.

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### TOURIST (STOP-OVER) ARRIVALS AND CRUISE PASSENGER VISITS IN 2011

Destination	Tourist Arrivals			Cruise Passenger Visits		
	Period	Tourists	% Change 2011/10	Period	Cruise Passengers	% Change 2011/10
Anguilla	Jan-Feb	12,170	9.6	-	-	-
Antigua & Barbuda *	Jan-Feb	47,639	7.1	Jan-May	373,766	15.3
Aruba	Jan-May	366,151	4.6	Jan-Apr	353,445	13.0
Bahamas	Jan-Apr	467,603	-3.5	Jan-Apr	1,567,724	16.3
Barbados <sup>P</sup>	Jan-May	250,385	5.8	Jan-May	364,260	4.0
Belize	Jan-Apr	98,948	3.8	Jan-Apr	291,671	-18.5
Bermuda *	Jan-Mar	30,824	6.8	Jan-Mar	675	-31.5
British Virgin Islands	Jan-May	175,131	3.5	Jan-May	343,687	-2.1
Cayman Islands	Jan-May	148,086	8.1	Jan-May	749,386	0.3
Cozumel (Mexico)	-	-	-	Jan-May	1,373,587	8.4
Cuba	Jan-May	1,363,760	11.3	-	-	-
Curacao	Jan-Apr	128,791	16.3	Jan-Apr	219,781	9.4
Dominica <sup>P</sup>	Jan-Apr	24,934	-1.4	Jan-Jun	235,636	-27.4
Dominican Republic *	Jan-May	1,932,564	4.4	Jan-Mar	185,939	-8.3
Grenada * <sup>n</sup>	Jan-Mar	31,240	-	Jan-May	227,772	12.5
Guyana	Jan-May	55,466	-1.7	-	-	-
Jamaica	Jan-Mar	553,304	4.4	Jan-May	470,477	12.6
Martinique	Jan-May	223,947	3.8	Jan-May	18,303	-68.4
Puerto Rico **	Jan-Feb	266,124	3.4	Jan-Apr	534,642	-0.9
Saint Lucia	Jan-Apr	111,850	2.1	Jan-Apr	334,066	-11.4
St. Maarten *	Jan-Mar	134,025	-2.9	Jan-Mar	659,288	21.5
St. Vincent & the G'dines	Jan-Mar	18,959	-5.0	Jan-Mar	47,492	-26.5
Suriname	Jan-Mar	47,599	0.4	-	-	-
US Virgin Islands	Jan-Apr	269,163	-3.9	Jan-May	1,048,410	14.4

\* Non-Resident Air Arrivals      \*\*Non-Resident Hotel registrations only      - No Cruise Figures are Reported

<sup>P</sup> Preliminary figures

<sup>n</sup> New Series

*n.a.* Figures not available

*N.B:* Figures are subject to revision by reporting countries

**SOURCE** - Data supplied by member countries and available as at July 11, 2011

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