TOURISM EXECUTIVE BRIEF

October - 2009

CARIBBEAN TOURISM ORGANIZATION (www.onecaribbean.org)

OVERVIEW

Now that the summer of 2009 is fast receding in our memories, particularly for denizens of the Northeast US where winter appears to have come early to the likely benefit of Caribbean tourism from one of its largest markets, we take a look back at our last double-issue in late August to audit and update its conclusions. To say the least, it covered still another period of great uncertainty and mixed signals from governments and the marketplace, both good and bad.

Financial markets, led by Wall Street, seem to be running well ahead of consumer sentiment which is still lagging in the US and that makes the apparent end to the global recession and its immediate impact on the travel and tourism industry even harder to analyze and predict. However, we can safely say two months later that the ultimate conclusions of that report remain valid based on our latest surveys for a very slow recovery in our major markets stretching well into 2010 while our concerns expressed about the critical state of the airline industry are still focused on survival.

Proceeding here, we choose to compartmentalize various key issues into good news and bad news segments for comparison and easy evaluation.

1. THE US ECONOMY

THE GOOD NEWS

The DOW, up by 15% for the year at the end of September, had its best quarterly gain since 1998 and re-crossed the psychologically important threshold of 10,000 for the first time in mid-October since the same time last year. The strong rally comes as other indicators show the economy to be stabilizing on better corporate earnings including a return to healthy earnings among national leaders in the banking industry although many regional and local banks remain in trouble.

The US Index of Leading Economic Indicators has now risen for five consecutive months starting in April – its best performance in more than five years.

Retail sales, while still very weak compared to a year ago, rose in August and again in September after removing losses in the auto industry following the end of the government-funded cash for clunkers program. Housing sales of existing properties rose by 9.4% in September and total home purchases hit a two-year high.

THE BAD NEWS

The worst recession since the Great Depression has left a "scorched landscape" that will weigh heavily on the labor market for years to come. Since the start of the recession in December 2007, the number of unemployed has increased by 7.6 million to 15.1 million and the unemployment rate has doubled to 9.8%

which continued to trend up in September although at a slightly slower pace.
Job losses and consequential large debts are recreating more pessimism among many Americans in spite of a soaring stock market. According to the Reuters/University of Michigan Survey of Consumers, consumer confidence fell unexpectedly from 73.5 in September to 69.4 in October. This followed a larger than predicted drop in the much bigger Conference Board Consumer Confidence Index as reported at the end of September.

As a further indication of a more frugal consumer determined to live within his means, The Federal Reserve reported consumer borrowing contracted for a seventh straight month in August. If September figures show a further decrease in consumer credit applications, it would be the longest period of contraction since the Fed began tracking credit in 1943.

These reports caused the National Retail Federation to forecast that holiday sales for the coming season will fall by another one percent over last year's dismal performance. Nearly half of the nation's 25 retail chains expect to hire fewer holiday workers this season further adding to the woes of the unemployed and students looking for part-time jobs.

OUR GOOD NEWS/BAD NEWS SCORE

The bumps on the road to recovery and our "how's business" survey of leading agency chains and wholesalers (see below) cause us to rate this as a tied game with good news expected to prevail in overtime during 2010.

2. CANADA'S ECONOMY

THE GOOD NEWS

Strong gains in employment and a spurt in manufacturing sales in August and September anticipate that a modest increase in GDP will be forthcoming for the third quarter. Canada's economy created 30,600 jobs in September after a 27,100 increase in August.

Housing starts were stronger than expected in September at an annualized 150,100 and a continued upward trend in starts for single detached homes, particularly in key market Ontario, and rising sales activity indicate that this sector is recovering faster than the overall economy (source RBC.) The unexpectedly strong job gains and the fall in the unemployment rate in September all confirm that Canada is emerging from recession. Unlike the US, Canadians are more confident about their financial wellbeing as the Consumer Confidence Index reached 90.9 in September, up from 88.4 in August. The Index has now gained more than 23 points since the seven-year low reported by the Conference Board of Canada in December 2008.

In currency matters, the Canadian loonie has risen nearly 25% versus the US dollar since the beginning of March when it traded at 77 US cents compared to the current rate of 96 cents – close to parity.

Lastly, the core inflation rate dipped in August to its lowest rate in nearly a year. Modest increases in energy-related prices were offset by lower costs for mortgages, passenger vehicles and some foods (fruit and vegetables.)

The Bad News

GDP output stalled this summer below forecasts due to a sharp drop in mining and oil and gas extraction. Downward pressure on exports due to the strong Canadian dollar caused a record trade deficit in August of C$2 billion.

The decline in the US dollar has been especially steep against the loonie and since Canada sells about three-quarters of its exports to the US, it has made life difficult for many Canadian producers who get paid in US currency.

In spite of the improvements in the labor market, the unemployment rate continues to rise well above levels recorded before the economic downturn and further job creation is expected to be very slow.

Our Good News/Bad News Score

No ambivalence here. Good news is the winner in Canada.

3. THE UK ECONOMY

The Good News

The UK economy should grow twice as fast as previously forecast in 2010 according to Ernst & Young's LLP Item Club. The chief economist at Item, Paul Spenser, is a former UK Treasury official and the firm uses the same model as his old employer for its predictions. Spenser says "The outlook for the next 12 months is certainly looking more positive but it is going to be a bumpy ride and there could still be substantial pain."

Mid-October figures released by the Department of Works and Pensions show that both unemployment figures and the general employment picture improved slightly during the summer months as many workers and unions displayed flexibility in accepting temporary pay freezes and reduced working hours.

At the same time, UK consumers are becoming increasingly optimistic about the future although the majority is still downbeat about their present circumstances. Consumer confidence as measured by the Nationwide Confidence Barometer rose by six points in September to 71 after increases in both July and August. While this level is still described as gloomy, the Expectations and Spending indices both topped 100 and overall confidence is now at its highest level since April 2008.

The positive sentiment has been boosted by good news about the housing market and the strong rally in equity markets in recent months.

The weak pound which has taken a beating this year against the Euro and a basket of other currencies with the exception of the US dollar is actually reviving its export industry. According to UK economists at

Goldman Sachs, the 20% slide in sterling could push the UK's currency account into a comfortable trade surplus. At the same time, its continued if puzzling strength against the dollar is good news for holidaymakers traveling to dollar zones like most of the Caribbean.

THE BAD NEWS

UK gross domestic product unexpectedly dropped in the third quarter by 0.4% defying market forecasts that the nation would emerge from recession for the first time since the first quarter of 2008.

The real unemployment rate in Britain's industrial heartland is not improving. Joblessness in parts of Scotland, Wales, West Midlands and the North Country still exceeds 15% and factory output has dropped by more that 13% since the recession began in regions that had never recovered from job cuts in the 1980s when most of the mining industry and many factories shut down.

Many analysts have expressed disappointment in the results of the Central Bank's program to kick-start economic recovery in the UK this year. The oddly named Quantitative Easing QE program has helped a revival in capital markets but the QE cash and low interest payments are seen by some as an opportunity to pay down debt rather than a stimulus to spend. With the mandatory election due in June 2010 and the government trailing in opinion polls, PM Gordon Brown says it's too early to withdraw economic stimulus programs that are set to expire next year.

The likelihood of a conservative party victory in early 2010 clouds the economic and political future of Britain's ongoing role in the European community as Tory leader, David Cameron, has pledged a referendum on the Lisbon Treaty if elected. He can legally do so without a constitutional change if all 27 member countries fail to ratify the treaty prior to the British election. So far, the Czech Republic's feisty President Klaus is the lone holdout and he is under enormous pressure from Brussels to cave in. However, in recent days, he has received some support from neighboring Slovakia which is seeking similar amendments. It is an interesting scenario since there is a strong current of euro skepticism in the UK continuously supported by some key media outlets on the right. The collapse of the Lisbon Treaty, though unlikely, would certainly throw the EU into chaos.

OUR GOOD NEWS/BAD NEWS SCORE

We tend towards optimism when evaluating this market, particularly for its resilience in bad times and the public's conviction that vacations abroad are a British birthright. We think 2010 will be a good year for outbound travel and so we give the UK a cautious vote of confidence.

4. THE EURO ZONE ECONOMY

THE GOOD NEWS

The collective economy of the 16-nation euro zone stopped contracting in the third quarter as all but three of its member countries – Ireland, Italy and Spain – appear to have emerged from recession.

European stock markets rose in September to new highs for 2009 on modestly upbeat forecasts from the

European Commission and better-than-expected corporate earnings particularly in Germany.

HSBC global strategists have their biggest overweight positions firmly placed in the euro zone with their largest single position in Germany recommended over a global basket of stocks.

Consumer confidence in the euro zone grew to its highest level in a year in September supporting the belief that the economy would show growth for the quarter. A monthly survey by the European Commission showed that overall economic sentiment, business and consumer, for the euro zone in September climbed to 82.8, a two point increase over August which also exceeded forecast.

THE BAD NEWS

The fragile recovery in the euro zone is endangered by the continued slide in the value of the US dollar against the common currency. The euro has risen nearly 19% in the past seven months and the dollar is now at a 14-month low. Euro zone exports slid 23% in August from a year ago mainly due to the weakness of the dollar and sterling which has also declined against the euro by a similar 21% this year. Given that the US and the European Union remain each others' main trading partners with the UK in number one or two position in importance for some members like Ireland, the scope of the problem is obvious.

Finance ministers from the 16 nations were meeting in Luxembourg on October 19 to discuss the crisis but remedial action in the short term appears difficult. The impact on Europe's inbound travel industry, including the UK, is equally obvious with Americans already on tighter budgets and out of their free-spending mode of the past decade. Those that are still traveling are spending less on hotels, restaurants, shopping and services, many others are just staying home for now and buying local products.

In our view, the bad news wins for now in evaluating outbound tourism prospects in the euro zone in the short to mid-term. A close watch needs to be maintained for any further swings in currency trading.

5. ASIA AND BRIC

It used to be said as a virtual truism that when America sneezes, the rest of the world catches cold. No longer! Amid growing signs of a new world order and an irreversible global power shift, it was instructive that Ben Bernanke, Chairman of the Federal Reserve, told a conference in California this month that Asian nations are leading the world out of crisis. The region as a whole was already expanding at an annual rate of nine percent by the end of the second quarter with China and India in front with double digit increases. On the other side of the world, Brazil is quickly becoming an economic powerhouse to be reckoned with.

In another sign of its new-found political and economic power, the BRIC countries issued a strongly-worded scolding to the developed countries in the G2O group at a September meeting of finance ministers in London. The BRIC representatives told their colleagues that they must fix their "Lax financial regulation and deficient oversight." The BRIC communiqué went on to say "we cannot miss the opportunity to change international practices, rules and governance structures to make the global economy more resilient to future crises."

We are not entirely sure that this shift is good news or bad, but it seems certain that without the rapid recovery in Asia and Brazil, the global economic downturn would have plunged further into recession.

There are lessons here for the travel and tourism industry in the Caribbean and elsewhere – not only in the growing significance of these countries as markets for our products and services, but in the need to get more accountability and transparency in fixing internal causes that have magnified the financial crisis.

6. TRAVEL INDUSTRY SPECIFIC INDICATORS

THE GOOD NEWS

Tour operators in the US are cautiously optimistic that the worst may be over as most firms reported a strong uptick in bookings starting in July and strengthening in August. In some cases advance bookings for the past summer were double over the same period in 2008 and early bookings for 2010 are positive. A cooler than average summer in the Northeast and Midwest coupled with an early taste of winter in October with snow and freezing temperatures are causing the biggest increases to warm weather destinations. Demand for the coming winter season is strong among three of our bellwether wholesalers for the Caribbean that we have contacted in recent weeks.

Bookings from Canada to the region are sharply up with the big three destinations in the Northern tier, Cuba, the Dominican Republic and Jamaica, again expected to benefit the most out of this market.

In the UK, leading operators, including Europe's biggest holiday firm TUI, are predicting a tough winter season but strong advance bookings for next summer look more positive as the British are already planning to take their postponed holidays from 2009.

THE BAD NEWS

Consumers are spending less on vacations including taking shorter trips. Price is still the principal driver of business in all markets including the luxury segment for both land-based and cruise packages where extraordinary bargains abound.

Although advance bookings are up percentage-wise, there is little margin for profit and the bottom line harder to achieve according to Steve Gorga, head of Travel Impressions an important player for the Caribbean. With the arrival of new ships for sailings out of the US and the UK, advance bookings for 2010 are solidly up but the same problem prevails where most first-time and long-term cruisers are increasingly driven by price.

Business reported by German operators was weaker in August than in the UK and North America. All in all, the travel and tourism industry in our major markets sees some small reason for optimism but anticipates several years of slow going before consumer spending returns to normal.

7. THE AIRLINE INDUSTRY

THE GOOD NEWS

It has been hard to find much good news in the all-important airline industry of late where more predictions of gloom and doom have issued forth from IATA's Director General Bisagni and some airline chiefs like BA's Willie Walsh. However, in spite of huge shrinkage in the number of flights and available seats in most domestic and international markets to levels not seen since the post 9/11 period in 2001, the Caribbean as a region seems to be holding its own and may actually enjoy increased capacity for the coming winter season – unless, of course, the latest spike in fuel costs takes its toll again.

Expanded services starting this December from legacy and low cost carriers alike have been confirmed from traditional and new gateways in the US to the Caribbean. American, still the leader after a period of declining interest suddenly seems ready and willing to take on new challenges from upstart carriers (in their view) like JetBlue and is investing in new flights and improved ground facilities at regional airports. Delta continues to shift emphasis and capacity to international routes including the Caribbean and their in-house wholesale operator MLT Vacations has geared up to become a major player for the region along with Apple, Libgo and Travel Impressions.

The LCCs, including AirTran, Spirit and JetBlue, have generally fared better than the legacy carriers in the recession and are increasing service and becoming price-point leaders on a number of routes. JetBlue, in particular, has cut its US transcontinental routes in favor of expansion to the Caribbean.

We are seeing a similar situation in the UK where British Airways and Virgin Atlantic are offering expanded midAtlantic services on some routes. Lufthansa's 100% takeover of BMI is now complete and provides for interesting speculation about the German carrier's plans for BMI's Caribbean routes.

Lufthansa's renewed interest in the Caribbean was heightened by last month's announcement of a new code share agreement with JetBlue which offers seamless connections from Europe via JetBlue US gateways to Puerto Rico and several American interior cities under the LH flight designator. JetBlue has the largest number of spots at JFK of any domestic carrier and offers extensive service to other Caribbean points. We confidently expect Lufthansa to expand this program further into the region. Seats go on sale by Lufthansa in mid-November. LH has an equity stake in JetBlue.

In an another pending alliance agreement of interest to the Caribbean, British Airways CEO, Willie Walsh, told investors this month that he fully expects US regulators to soon remove restrictions on North Atlantic flights between the US and The UK for the existing BA/American Airline alliance without surrendering slots to rival carriers at London's Heathrow. In 2002, the US DOT demanded the two carriers give up 224 weekly slots at LHR which killed the deal. However, the number of carriers serving LHR-US routes has risen since then from four to nine and the competitive landscape has completely changed.

We are also encouraged by the rapid expansion of new low-cost Brazilian airlines like Azul, which is headed up by former CEO and founder of JetBlue, David Neeleman. Azul and others are mainly interested in vacation travel and are seeking new markets while forcing the dominant carriers TAM and GOL to expand internationally including routes to the Caribbean. In spite of the recession, Brazil's total air travel grew by 7% in 2008 and is continuing to expand. We see tremendous potential in Brazil with its growing population of 190 million and an expanding middle class with new horizons.

The Bad News

We gave most of the bad news in detail by carrier in the summer edition of the Brief and we do not need to repeat it here. However, international traffic fell again in August and while fares stabilized, it was at generally unprofitable levels while premium seat demand dropped by another 22% in that month alone. Recent surveys showed that recent attempts to push up fares around holidays and add even more ancillary charges may have backfired as bookings have declined in direct proportion to the fare increases in some key markets.

The principal culprit now in stalling the airlines' recovery is the rising cost of oil again in spite of plentiful supplies and greatly reduced demand. OPEC nations are still producing above their collective five-year average and have large reserves on hand according to their Secretary General, El-Badri, who blames current price levels above $80 per barrel on international speculators outside of OPEC's control.

There were also some serious labor problems of concern to the Caribbean unresolved at time of writing. The potentially most drastic had British Airways cabin crews' union Unite failing to settle a potential walkout at a meeting with management on October 19. Such an action could ground BA's fleet and cause massive disruption in advance of the holiday season. We are keeping our fingers crossed for a speedy settlement.

TOURIST (STOP-OVER) ARRIVALS AND CRUISE PASSENGER VISITS IN 2009

	Tourist Arrivals			Cruise Passenger Visits		
Destination	Period	Tourists	% Change 2009/08	Period	Cruise Passengers	% Change 2009/08
Anguilla	Jan-Feb	10,447	-21.4	-	-	-
Antigua & Barbuda *	Jan-Sep	177,318	-13.1	Jan-Aug	482,887	18.7
Aruba P	Jan-Jul	475,236	-3.2	Jan-Jul	378,682	5.3
Bahamas	Jan-Jul	875,108	-13.7	Jan-Jul	1,913,250	15.1
Barbados P	Jan-Sep	379,821	-11.4	Jan-Sep	443,257	2.9
Belize	Jan-Jul	152,958	-7.7	Jan-Aug	445,734	10.5
Bermuda	Jan-Jun	107,214	-17.0	Jan-Jun	124,553	-5.7
Bonaire	Jan-May	28,829	-15.2	Jan-May	148,058	54.8
British Virgin Is.	Jan-Mar	85,964	-25.0	Jan-Mar	265,370	-10.3
Cancun (Mexico) **	Jan-Jul	1,177,943	-17.0	-	-	-
Cayman Islands	Jan-Sep	208,761	-13.1	Jan-Sep	1,144,948	-1.9
Cozumel (Mexico)	-	-	-	Jan-Jul	1,269,121	-21.0
Cuba	Jan-Sep	1,856,774	3.3	-	-	-
Curacao P	Jan-Sep	267,542	0.5	Jan-Sep	280,123	23.5
Dominica	Jan-Jul	41,891	-3.5	Jan-Jul	317,117	38.8
Dominican Republic *	Jan-Sep	3,069,794	-1.8	Jan-Aug	374,284	7.3
Grenada P	Jan-Sep	87,580	-14.4	Jan-Sep	229,415	26.6
Guyana P	Jan-Sep	104,907	5.7	-	-	-
Jamaica	Jan-Aug	1,319,704	4.1	Jan-Aug	658,485	-14.5
Martinique P	Jan-Aug	336,059	-5.2	Jan-Aug	35,141	-32.1
Montserrat	Jan-Aug	3,786	-17.5	-	-	-
Puerto Rico**	Jan-Jul	805,145	-5.4	Jan-May	618,857	-18.1
Saba	Jan-Aug	8,707	-3.4	-	-	-
St. Eustatius	Jan-Apr	4,025	-2.6	-	-	-
St. Lucia	Jan-Sep	210,348	-8.9	Jan-Sep	478,346	12.3
St. Maarten	Jan-Jun	235,677	-12.5	Jan-Jun	781,063	1.1
St. Vincent & the G'dines	Jan-Aug	52,199	-13.2	Jan-Aug	101,615	50.7
Trinidad & Tobago	Jan-Apr	143,351	-10.5	-	-	-
US Virgin Islands	Jan-Sep	507,296	-6.3	Jan-Sep	1,118,701	-14.1

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

P Preliminary figures *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 January 15, 2010*