Dollar denominated tourism and sterling

The Business of Tourism
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As November begins, many, if not most Caribbean tourism ministers, hoteliers and others in the industry, will be heading to World Travel Market (WTM) in London. This is the very large annual international trade fair at which traditionally, buyers and sellers meet to strike deals for the year ahead.

The 2016 event and its collateral industry discussions will be of particular significance as the event comes in the wake of the UK electorate's June 23 decision to leave the European Union (EU), and – more importantly from the perspective of the Caribbean – the recent and likely continuing collapse in the value of sterling.

By way of background, it has become clear in the last few weeks that the UK government may be heading for what has become known as a "hard Brexit". This means that the UK next March may decide to withdraw from both the EU and its customs union, ending its free trade relationship with Europe while introducing controls on the free movement of EU nationals into and out of the UK.

Recognising the likely impact on UK economic growth and the short to medium term implications for the British economy, the markets have responded by effectively devaluing sterling by around 17 per cent since the vote.

The consequence has been, taking the average UK bank rate for international payments, that the pound has slid from US$1.54 in mid-October 2015 to an average now on the same date in 2016 of US$1.18

This is clearly not good news as far as Caribbean tourism is concerned; particularly for those nations that not only have a high dependence on UK visitors but have been seeing, after a period of slow or no growth up to 2014, significant increases in UK visitor arrivals.

According to the Caribbean Tourism Organisation (CTO) statistics, the countries benefitting the most from the 1.2m British visitors who travelled to the region in 2015 were Barbados, Jamaica, the Dominican Republic, Antigua, Cuba, St Lucia, Trinidad (presumably meaning Tobago), Grenada, St Vincent and the Cayman Islands in that order.

What CTO's figures also suggest is that countries like Barbados, St Lucia and others in the OECS which have not significantly diversified their markets or airlift and still have a very high overall proportion of UK visitors, may suffer more than others.

Although the industry suggests that forward UK bookings remain strong across this coming winter season – when, typically, high-end British visitors who are less likely to be affected by currency fluctuations travel – there is a sense that from the spring of next year onwards, middle and lower end UK visitor numbers may begin to decline if, as is likely, the value of sterling continues to remain weak.

Although at present anecdotal, there is growing parallel evidence in the UK media and from the UK travel trade that there has been a surge in middle-market staycations and in weekend breaks in English cities and the countryside.

Equally unscientific, but another probably reliable indication of a likely decline in UK arrivals is the reaction of the price-sensitive Caribbean diaspora in Britain. At a recent conference unrelated to tourism, it became clear to me that not only was the collapse in sterling causing concern about how frequently this important group of visitors travelled home, but if they did, how long in future they could afford to stay, and what may happen to air fares as the input costs for UK aviation increase.

Recent commentaries from the IMF and other international financial institutions suggest that in the short to medium term the outlook for the UK economy will worsen and that sterling may remain weak for some years.

For all these reasons, this year's WTM will be a litmus test of sorts.

It will provide a first medium term indication, when deals are being struck between hoteliers and the airlines and tour operators for 2017, and promotional incentives agreed with governments and tourist boards, how those involved in UK outbound tourism are thinking about the future demand for dollar related markets like the Caribbean.