GLAECONOMICS

London Tourism Projections

Technical note

December 2022

Purpose

This note provides an explanation of the methodology behind the quarterly and annual London visitor nights, visitor numbers and associated expenditure projection.

Changes since last projection

GLA Economics last published a tourism projection in January 2022. This assumed that there would be a gradual return to tourism over the next few years. Since then, the available data, while incomplete, suggest that there has been a faster return than expected, and if anything, this has been limited by constraints on airport capacity[1]. The effects of the war in Ukraine in stoking inflation and lowering growth have also been more powerful than expected[2]. To take account of the evolving situation this iteration of the projections thus adopts an updated methodology. The opportunity has also been taken to project visitor numbers as well as nights and expenditure.

More data has also become available. The Office for National Statistics (ONS) has published data on international visitors for 2021 up to 2022 Q2[3]. Numbers and spending after inflation at 2022 Q2 were around 90% of 2019 Q2 levels.

VisitBritain has published data on domestic visitors for the last three quarters of 2021[4]. The methodology for data collection has changed markedly, and at the present time there is no basis to compare these estimates with those for the pre-pandemic period. As a result, it is unclear to what extent the numbers reflect changes in methodology, or changes in patterns of going on holiday. Consequently, the forecast for domestic tourism has not been updated, and uses historic estimates based on the old data collection methodology. There is no forecast for 2032, as the last forecast was to 2031.

[1] Hope M et al (2022), London's Economy Today – Issue 238 – June 2022, GLA Economics
[2] GLA Economics (2022), London's Economic Outlook: Autumn 2022, GLA Economics
[3] ONS (2022), Estimates of overseas' residents visits and spending in the UK
[4] VisitBritain (2022), GB Domestic Overnight Tourism: latest results

Structure of the analysis

The projection for international tourism has four parts:

- The construction of an historic time series
- Methodology for the forecast – linear regression
- Methodology for the forecast – use of GLAE hotel accommodation projections
- Assessment of robustness of analysis

The steps of the process in more detail, highlighting the four parts, are shown below.

The construction of an historic time series

- ONS historic annual data for international visitor nights and associated expenditure for London 2002-2020 Q1[5] and 2021 Q1 - 2022 Q2[6]. The data includes overnight visits for holidays, business, seeing friends and family, study, and other reasons.
- Expenditure is put in 2019 prices using the ONS Consumer Price Index (CPI)[7] measure of inflation. It is a proxy measure as there is no measure of inflation for tourism expenditure. The GDP deflator was considered as an alternative, but this was not viable for 2020 as there have been large swings in GDP during the pandemic.
- Data for the last three quarters of 2020 has been imputed. For each of: visitor numbers, visitors, and spend it follows the trend for spend in the January 2022 forecast as this more accurately matched actual data than the figures for visitor numbers.
- ONS data indicates that international tourism to London in 2022 Q2 is around 90% of what it was in 2019 Q2 – it is implicitly assumed that the propensity to travel has returned to former levels, allowing that there will be some use of video technology in place of travel.
- An arbitrary 15% growth in 2022 Q3 to reflect that airport capacity limited the number of flights over the Summer period.
- Tourism in 2022 Q4 has been assumed to be 90% of what it was in 2019 Q4 in line with what happened in 2022 Q2.

Methodology for the forecasts

Two approaches have been considered for international tourism.

Linear regression

- Department for Transport (DfT) modelling of aviation demand highlights that the key drivers for long-term aviation demand have been the changes in incomes and associated economic activity, and changes in air fares. This conclusion is supported by independent academic research[8].
- The OECD, IMF and other organisations publish forecasts for GDP, a measure of income. There is no publicly available forecast on air fares, or components of prices such as fuel.
- Using linear regression there is a statistically significant relationship, for 5% confidence levels, for the level of real GDP of each of Europe, the USA, and the world and each of visitor numbers, visitors, and real spending. This uses OECD estimates of GDP for these regions.
- The growth rates for tourism estimates up to 2027 use the regressions for world GDP, and IMF forecasts for the world economy[9].

[5] VisitBritain, Inbound trends by UK nation, region & country, source of data is the ONS
[6] ONS (2022), Estimates of overseas' residents visits and spending in the UK
[7] ONS (2021), Consumer price inflation, UK: November 2021
[8] DfT (2017), UK Aviation Forecasts – moving Britain ahead
[9] IMF (2022), World Economic Outlook Database

- This uses imputed estimates for 2022 reflecting that it was a year of recovery. For visitor nights, visitors, and spend after inflation this is 90% of the full year 2019 estimates.
- The allocation of annual figures to quarters follows the historic average.

Projections of growth rates in line with the (latest) 2017 GLAE hotel accommodation projections[10].

- This is a slower rate of growth than that applied by the regression analysis.
- It gives effect to the assumption that visitor numbers will be constrained by airport capacity, and visitor nights will not rise far above the previous highest level of 130,000 in 2017.
- This modelling had assumed an expansion of Heathrow airport capacity, which is unlikely to happen over the time frame of this analysis.
- Expenditure estimates, although not derived in the hotel modelling, use the same growth rates.

Assessment of robustness of analysis

The regression analysis and 2017 GLAE hotel accommodation projections do not explicitly take account of more recent developments:

- Including the effects of Brexit or COVID-19. Specifically, as the hotel accommodation projections were long-term projections, they have not incorporated the effects of the 2016 exchange rate depreciation, which makes it cheaper to visit the UK – in reality, international visitor nights fell in 2018 and 2019, although the number of international visitors remained fairly steady over the three years 2017 to 2019.
- And the direct effects of rising fuel prices on aviation demand. Indirectly, there is some allowance as GDP estimates will be depressed by the rising cost of living.
- There is an assumption that the third runway at Heathrow will not be built over the time frame of this analysis.
- The future attractiveness of London will depend amongst other things on its offer, the exchange rate, and income levels domestically and overseas. There is considerable uncertainty around these factors, and the use of growth rates from earlier projections is an attempt to see through them, reflecting as it does that projected growth rates are less than what has happened.

With these assumptions by the end of the projection, 2032, total visitor nights and visitor numbers slightly exceed the previous peak in 2017. Spending after inflation is a little below the 2017 peak.

[10] van Lohuizen A and Smith B (2017), Projections of demand and supply for visitor accommodation in London to 2050, GLA Economics working paper 88

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