

Research Briefing | UK

'No-deal' Brexit to knock 2% off travel and tourism GDP

Economists

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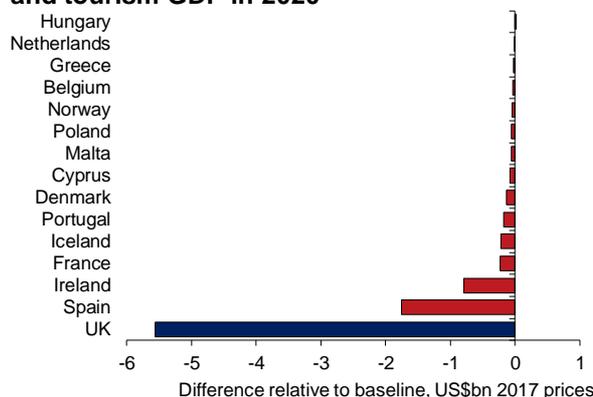
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- A “no-deal” Brexit would cause a 5% drop in UK outbound travel and tourism trips in 2020, because of the stifled economic backdrop and impact of a weaker pound. Ireland and Spain would be the hardest hit from fewer UK visitors. In contrast, the weaker pound could mean that UK tourism inflows are 4% higher in a “no-deal” scenario, provided there is no travel disruption. But lower levels of domestic tourism mean that we would expect UK travel and tourism GDP to be 2% lower than our baseline forecast in 2020.
- This *Research Briefing*, which continues our series looking at the impact of a “no-deal” Brexit on the economy, focuses on the travel and tourism sector.
- A “no-deal” Brexit would affect tourism flows through a series of macroeconomic channels, including lower GDP growth, a weaker sterling and higher prices. The net impact of these economic factors is likely to be positive for inbound visits (up by 4%), largely due to the impact of a weaker pound. However, domestic UK travel will be hit hard as household incomes are squeezed by higher inflation. And with domestic spending making up five-sixths of total spending, this means that UK travel and tourism GDP would be \$5.6 billion (or 2%) lower than our baseline forecast in 2020.
- The impact will be strongly negative (down by 5% in 2020) for UK outbound trips, reflecting the damage to UK consumer spending power and a weaker pound’s effect on the affordability of foreign destinations. The impact on travel and tourism GDP from lower visits by UK travellers would be greatest for Spain and Ireland. Spain, a key destination for UK outbound tourists, would lose 1 million visitors a year by 2020. But for the majority of European countries, the impact on inbound tourism will be far smaller.
- Our analysis focuses on the direct economic effects of a “no-deal” Brexit. The negative impact could be greater if there is disruption to market access and “open skies” aviation agreements or issues around passport and visa validity.

Chart 1: Total UK travel and tourism GDP will take the hardest hit, declining by \$5.6 billion

Europe: Impact of a "no-deal" Brexit on travel and tourism GDP in 2020



A “no-deal” Brexit would result in UK travel and tourism GDP being \$5.6bn lower than our baseline forecast (which assumes that the withdrawal agreement is implemented and that there will be a transition period) in 2020. The damage to domestic tourism would more than offset by the impact of higher numbers of foreign visitors. Spain and Ireland would also see significant hits to travel and tourism GDP, but most other European countries would be far less affected.

We look at the impact of a ‘no-deal’ Brexit on travel and tourism demand

Travel and tourism demand is closely related to GDP growth

A weaker pound will encourage inbound travel

Higher inflation will weigh on household spending power and discourage discretionary spending

Although the UK and EU have [agreed](#) a Brexit withdrawal agreement, it is [far from certain](#) that Parliament will approve the deal. This means that a “no-deal” Brexit, whereby the UK leaves the EU in a disorderly fashion in March 2019, remains a real risk. Our recent research has looked at the [macroeconomic](#) and [sectoral](#) effects of a “no-deal” scenario. In this *Research Briefing*, we consider the potential impact on the travel and tourism sector.¹ We find that a “no-deal” scenario would result in a large decline in UK outbound trips, with Spain and Ireland being the two destinations affected the most. And even though inbound tourism would increase, the boost to travel and tourism GDP would be more than offset by lower domestic tourism spending.

Modelling the impact of a ‘no-deal’ scenario on travel and tourism

We identify three channels through which the economic effects of a “no-deal” scenario would directly impact travel and tourism demand:

GDP: Travel and tourism demand growth is usually closely related to growth in the economy overall, and our [previous research](#) found that a “no-deal” scenario would see the level of GDP 2.1% lower than our baseline forecast by the end of 2020. The impact would come via both the tourism and business travel channels:

- Weaker economic growth is associated with softer trends in household income, which would weigh on demand for both domestic tourism and holidays abroad. The impact would be greatest on the UK, reflecting the results of our macro-level scenario, but most EU countries would be negatively affected to some extent.
- Business travel has historically been closely tied to trade volumes and investment growth. Both trade volumes and investment are expected to be significantly lower in a “no-deal” Brexit scenario, with business travel therefore likely to be reduced.

Exchange rates: UK tourism has benefited from the post-referendum sterling depreciation. Our modelling suggests that a “no-deal” Brexit would trigger a further depreciation of around 10% on a trade-weighted basis. This should encourage more inbound travel to the UK, as long as other things such as visa frameworks remain unchanged. And UK residents would be encouraged to substitute domestic for foreign holidays. However, for EU tourists, the improvement in the relative attractiveness of the UK will be limited by the euro also depreciating. UK outbound travel will be more affected by the reduction in spending power from a weaker sterling.

Prices: The combination of the imposition of tariffs and the impact of a weaker exchange rate on the prices of imported goods would raise consumer prices. UK inflation would likely rise to 4% in 2019, squeezing household spending power. This would reduce discretionary consumer spending and therefore negatively affect UK tourist spending. Food prices are particularly important for domestic tourism spending, and these are likely to rise by more than the average, given the high import content and its vulnerability to greater trade frictions.

UK tourists would also likely be exposed to higher airfares, as UK-based airlines would face a rise in their input costs from a weaker pound and would be expected to pass on a portion of this in the form of higher prices. To a lesser extent, this would also be the case for eurozone consumers. There would also be upward pressure on prices over the longer

¹ This is an abridged version of our [in-depth report](#) on the effects of a “no-deal” Brexit on the travel and tourism sector.

run from structural changes, such as the likely end to surcharge-free mobile phone roaming and the likelihood of higher travel insurance premiums as UK travellers will no longer be covered by European Health Insurance Cards.

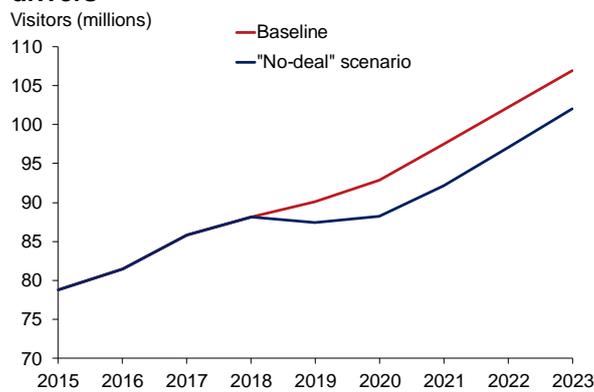
Estimated economic impacts

Combining these factors, we find that a “no-deal” Brexit would result in UK outbound tourism being 5%, or 4.7 million visitors, lower than our baseline forecast in 2020 (which assumes that the withdrawal agreement is implemented, meaning that there is a transitional phase during which trading arrangements remain unchanged until the end of 2020). And we do not expect the initial drop in outbound travel to be recouped in future years, so visitor numbers remain below our baseline forecast throughout (Chart 2).

UK outbound travel and tourism is likely to fall sharply under a ‘no-deal’ scenario

Chart 2: The impact through purely economic mechanisms would have a permanent negative impact on UK outbound tourism

UK: Outbound travel - impact of economic drivers



Source : Oxford Economics

Lower GDP growth, a weaker sterling and increased inflation would have a permanent negative impact on UK outbound travel.

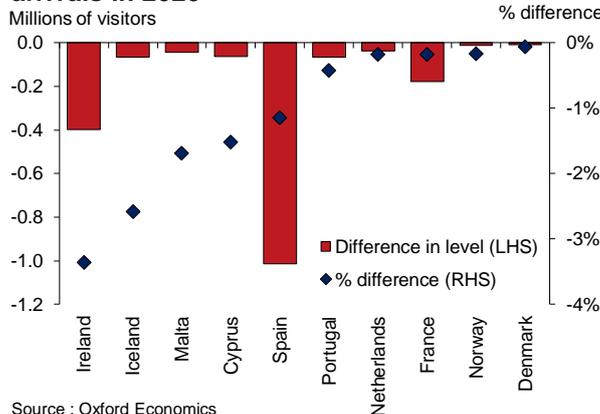
The direct economic effects would be greatest in the short term, with the largest difference from our current baseline forecast in 2020, when outbound visitors would be 4.7 million (or 5%) lower.

Spain and Ireland would be most vulnerable to lower UK outbound travel

The reduction in UK outbound trips would not affect inbound tourism in other countries equally, with the relative impact depending on the extent to which the destination relies on UK demand and the scope for it to benefit from increased demand from longer-haul markets. Our modelling suggests that Spain would be the most heavily affected destination in volume terms because of its reliance on UK outbound tourism, losing 1 million arrivals by 2020 (Chart 3). In percentage terms, Ireland would take the greatest hit, with arrivals more than 3% lower. Other countries that are heavily reliant on UK outbound travel, such as Malta and Cyprus, would also experience a significant impact.

Chart 3: By 2020, inbound arrivals to Ireland would be more than 3% lower than in our baseline scenario, while Spain would lose 1 million visitors

Europe: Impact of "no-deal" Brexit on inbound arrivals in 2020



Source : Oxford Economics

The reduction in visitor numbers from the UK would hit Spain the hardest in level terms, with 1 million fewer visits in 2020. Ireland would be hardest hit in percentage terms, with arrivals down by 3% in 2020. Other countries that are heavily reliant on UK tourists would also be affected, with Malta and Cyprus both seeing visitor numbers almost 2% lower in 2020.

By contrast, our modelling suggests that the level of UK inbound tourism in 2020 would be 4%, or 1.6 million visitors, higher than our baseline forecast in 2020, largely reflecting the improvement in price attractiveness resulting from sterling's depreciation.

UK travel and tourism GDP would be 2% lower in a 'no-deal' scenario

The increase in the number of inbound tourists will boost UK travel and tourism GDP. But around 83% of the sector's spending comes from domestic visitors, and our modelling suggests that domestic spending will be lower in a "no-deal" scenario because of the squeeze on consumer spending power. As a result, we find that UK travel and tourism GDP will be around 2%, or \$6.5 billion, lower (in 2017 prices) in 2020 under a "no-deal" scenario compared with our baseline. Lower visitor numbers from the UK will also mean that travel and tourism GDP is lower in several other European economies (Chart 1). In level terms, the biggest effects will be on Spain (-\$1.8 billion) and Ireland (-\$0.8 billion), while the largest proportionate decreases will be for Ireland (-3%) and Iceland (-2%).

Potential for additional travel disruption

Our quantitative analysis has focused on the direct economic effects of a "no-deal" Brexit. But there is much uncertainty around the degree to which travel could be disrupted by regulatory barriers in such a scenario, particularly given the limited time available to establish agreements with the EU and other countries. The potential issues in this area include:

The EU has committed to a contingency plan for aviation until the end of 2019

Aviation agreements: The UK is part of the European Common Aviation Area (ECAA), which allows UK-based airlines to fly freely within a zone covering the EU and some neighbouring countries. When the UK leaves the EU, it will cease to be part of the ECAA. However, the European Commission has committed to a contingency agreement for aviation until the end of December 2019, regardless of whether a deal is reached with the UK. In isolation, such air access issues could be permanently resolved in a matter of days, but they could have to be balanced by other compromises.

The UK will also need to strike aviation deals with non-EU countries

The EU has negotiated "open skies" agreements with third-party countries, particularly with the US, on behalf of its member states. These deals would have to be revisited in the near future to ensure flights could continue between the UK and US. Again, these disruptions could potentially be resolved quickly.

Passport rules are likely to be slightly more restrictive

Passports and immigration: In the event of a "no-deal" scenario, UK travellers will need to have a [minimum](#) of six months' validity remaining on their passports for travel to the EU – at the moment, the passport merely has to be valid. Immigration formalities could take longer under a "no-deal" scenario unless the UK and EU come to an agreement that confers preferential treatment. The UK could, for example, extend its Registered Traveller Scheme to include EU countries. If there is no agreement, then the additional time taken to clear immigration could discourage business travel and short breaks.