



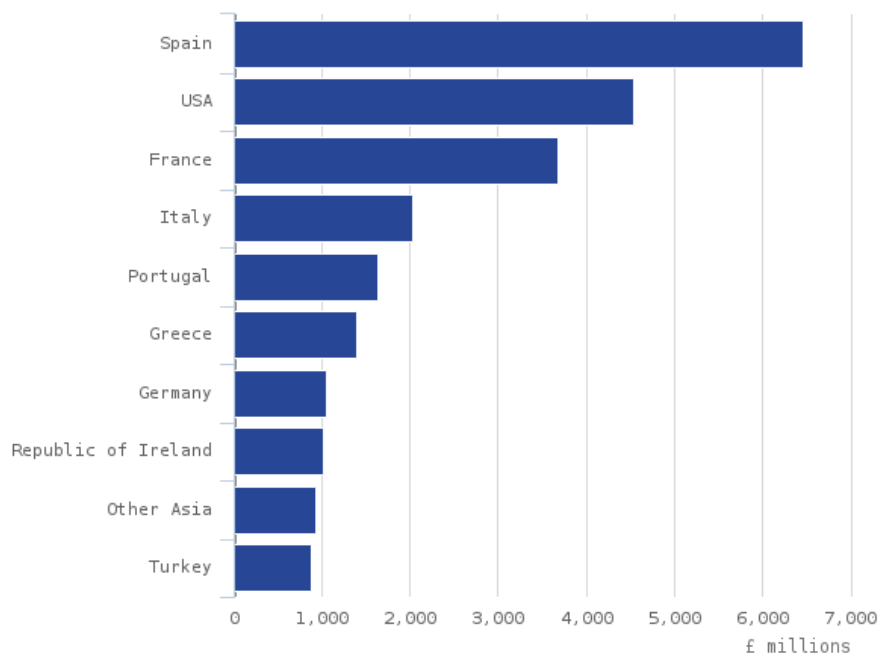
Our friend and business contact Bimal Melwani has written a very good article in respect of tourism in the Canaries and we think it makes interesting reading.

### **UK Tourism in the Canary Islands: Taking a Closer Look**

As the summer season approaches its end, Spain has proven once again that it is still a 'hot' commodity in the global tourist market, and has the UK as its largest consumer base. This article looks at the main factors that contribute to the continuity of UK tourism in the Canary Islands.

Spain is by far the number one holiday destination for UK tourists, with the Canary Islands occupying 3 of the top 10 Spanish destinations of 2015. The number of UK tourists has increased close to 20% in the last five years. Over 4.1 Million UK holiday goers visited the sunny archipelago last year alone, that's over 6% of the total population.

Top 10 countries by expenditure of UK residents visiting abroad for at least 1 night, 2015



(Data Source: International Passenger Survey (IPS) - Office for National Statistics 2015)

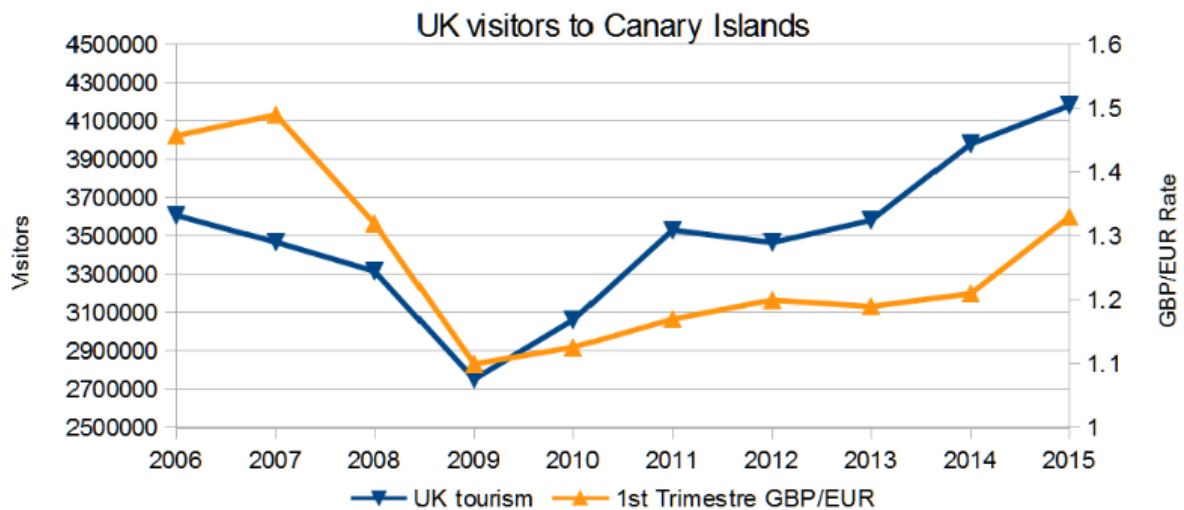
Tenerife currently ranks as the most visited island in the Canaries followed by Lanzarote and then Gran Canaria. The Island's have a significant dependence on tourism which makes up nearly 40% of their total economy. One out of every three tourists to visit the Canary Islands came from the UK, and in the case of the island of Lanzarote, one out of every two. This long-lasting love affair with UK residents seems to withstand the test of time, but what are the factors that influence their decision to visit the Canarian archipelago?

### The Exchange Rate

The Canary Islands is, by and large, a price sensitive market that has encountered a massive increase in all-inclusive package holidays over the years. In fact, last year over one-third of all UK tourists booking a holiday to the Canary Islands did so via an all-inclusive agency. However, the demand for these package holidays tends to be more susceptible to price fluctuations and the strength of the British Pound against the Euro is the main influencer.

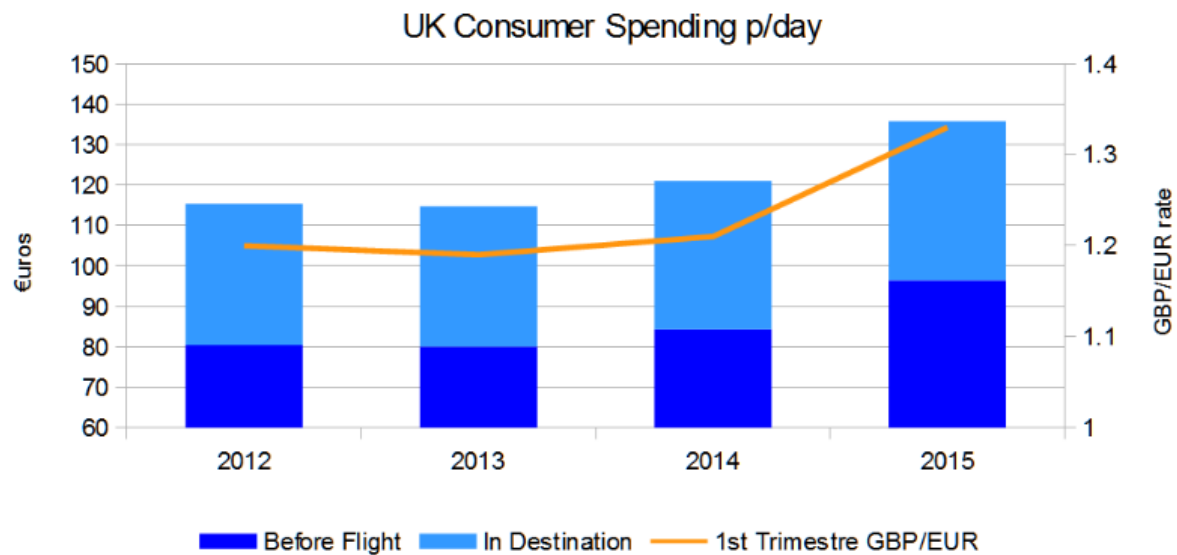
What month tourists choose to book their holidays is also relevant. According to Promotur (the Canarian Tourism Department) over 40% of UK tourists book their trips with more than 90 days in advance, with another 32% booking between 30 to 90 days prior to their holidays. As most families start to book their summer vacation after the new year celebrations, the exchange rate at that time helps determine where they go and how much it will cost them.

The following graph presents the correlation between the amount of UK tourism received in the Canary Islands and the average exchange rate in the first trimester of the year.



(Data Source: Gobierno de Canarias, Oanda.com)

It is also worth exploring the total cost of the holiday as it provides an insight into how the exchange rate affects the overall holiday expenditure. Unfortunately, Promotur only provides data as of 2012 with this information. The graph below represents average consumer spending per day by UK tourists compared with the strength of the Pound against the Euro. As can be appreciated, although we know that overall volumes increased from 2012-2014, consumer spending was practically flat. The increase in total expenditure only experiences significant growth as of 2015 when the GBP saw a pronounced increase against the Euro.



(Data Source: Promotur)

On a side note, it is interesting to point out that in 2014 (most recent release by the Canarian Government) tourists from Northern Ireland spent the most whilst on holiday in the Canary Islands, followed by Wales.

### **Geo-Political Risks & the Concern for Safety**

The uncertain political situation and increasing terrorist activity in other holiday destinations such as Egypt and Turkey have increased the attractiveness for the Spanish Islands. In fact, the rise of tourism in the Canaries can be partly attributed to an influx of 'borrowed' tourists, as package holiday providers have redirected their clients to European destinations that are perceived to be safer. A study released by Exceltur (an independent research firm) estimated that Spain benefitted from an additional 4 to 6 Million 'borrowed' tourists just in 2015.

According to a study by TravelZoo, 30% of British holidaymakers now value safety and security as their top priority. Fifty percent of those surveyed say they are prepared to pay at least 5% more for a 'safer' break, with one in five stating they would pay as much as 10% to 15% more. The Canary Islands, and Spain in general, will see itself benefitted as long as risks prevail in other holiday destinations.

### **Consumer Confidence**

The Consumer Confidence Index (CCI) is a frequently overlooked indicator when it comes to international tourism. GfK (a German-based market research institute) releases a monthly UK consumer confidence index that measures the level of optimism that consumers have about the performance of their economy over the next 12 months (see graph below). The greater the level of confidence the more likely a consumer is to spend on goods and services. As the Brexit process will still take a few years to conclude, the CCI provides useful insight into the UK mindset and their future holiday budget.

For example, in July 2016, shortly after the Brexit vote, the UK experienced the biggest fall in consumer confidence since 1990. However, consumer confidence actually rebounded slightly in August, surprising the consensus, and adding strength to the argument that the UK is recovering fairly well from the initial shock of Brexit.



### Local Culture and Services

Although over 90% of UK residents surveyed by Promotur consistently state that the sunshine, relaxing atmosphere and high-quality beaches are the main reasons they visit the Canaries, local governments have put increasing emphasis on promoting the Island's Mediterranean lifestyle and local food. Efforts have been made in improving the local infrastructure enticing tourists to venture outside of their accommodations to explore the local culture and activities on offer. Indeed this is a differentiating aspect compared to some African tourist destinations and one that will continue to benefit local businesses along the way.

### Experience & Competitiveness in Tourism

The Butler Theory of Tourism Development details seven stages by which a typical tourist resort grows. At the end of a resort's development, it typically either declines in holiday appeal or goes through a period of 'rejuvenation' to adjust to changing trends in demand. Over time, the Canary Islands have proven capable of adjusting to consumer preferences in an increasingly competitive marketplace.

The World Economic Forum in its most recent biennial 'Travel and Tourism Competitiveness Report' placed Spain in first place as the most competitive tourist destination in the world. It will come as no surprise that some of the world's leading holiday destination hotel chains were founded over fifty years ago in Spain. The long sandy beaches of the Canary Islands are filled with hotel chains that abide by a business model based upon decades of research and experience.

However, the report also expresses concerns as to the notable increase in all-inclusive package holidays. This high volume/low margin model that many areas of the Canary Islands operate in, leaves the local economy dependent upon external conditions, and overly exposed to market forces. If the Canaries are to successfully transition out of this business model they will have to prove they are more than just a 'cheap sunshine' destination.

### Brexit; The Black Swan

There is always a chance of encountering an unpredictable event. The legal and economic repercussions of Brexit will be a crucial factor in determining the continuity of UK tourism to the Canary Islands. The question of whether UK residents will have to apply for a travel visa and incur additional airport taxes will be decided by the negotiations held next year. However, in all likelihood, these potential legislative changes will not take place until 2019 which gives the Canarian tourism economy time to plan ahead.

To conclude, the Canary Islands needs to remain competitive in the global tourism market whilst keeping a close eye on their largest consumer base, the UK economy. Changes in holiday preferences have so far favoured the southern islands of Spain but they need to be capitalised upon. The growth in all-inclusive holidays may be a product of market conditions but it limits the flexibility to adapt and increase value. Promoting local culture and other outdoor activities will attract a wider range of UK tourists, adding value to the holiday experience, and helping the local economy along the way.

The Canary Islands is already a top choice amongst UK travellers, I believe these six factors will help determine whether the southern archipelago of Spain continues to be among the UK's favourite holiday destinations for next year, and beyond.