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*ITB Berlin 2009
March 11 to 15*

*The Current Economic Crisis, Oil price
Volatility and the Likely Impact on
Recreational Mobility*

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Will we still be able to afford to take holidays in the future? This is one of the burning questions troubling not just the travel and tourism industry, but also individuals – from developed and emerging markets – who have become accustomed to travelling for business and/or leisure.

Although oil prices have dropped to less than half their peak in July 2008, the prognosis among industry analysts is that it cannot be long before they rise again – and we need to prepare for this because rising energy costs make mobility more expensive and will affect the travel and tourism industry's business, no doubt impacting on the bottom line. In the context of the ITB Berlin Convention's ITB Future Day, on Wednesday 11 March (from 14-15.15), a panel of experts will deliberate the likely impact of oil price volatility on recreational mobility.

Which mode of transport will be the most affected? Can we expect fundamental changes in tourists' choice of transport? Will they avoid travelling by plane, for example, or simply turn away from long-haul destinations? And will travelling by bus and train enjoy a return to popularity? What about car-based travel to nearby destinations – is this back in fashion for 2009? Or, to be really pessimistic, will mobility overall be sacrificed due to a decline in demand for travel and tourism?

The panel debate (cf list of panellists below), stimulated without doubt by questions from the floor, will follow an introductory presentation by the esteemed Professor Dr. Norbert Walter, Chief Economist of Deutsche Bank Group, and Managing Director of Deutsche Bank Research. In preparation for what is expected to be a lively and highly stimulating ITB Berlin Convention session, Prof Dr. Walter kindly agreed to be interviewed in the run-up to ITB Berlin to discuss his wider views on the current economic crisis and possible scenarios for the economy and travel and tourism over the short to medium term.

Sailing in uncharted waters

The world is in the deepest recession it has experienced in post-war history, according to Prof Dr. Walter and, since we are also sailing in uncharted waters, he is cautious in his forecasts for the year ahead. But he is convinced that the outlook for the global economy is very depressing, and that this scenario will continue well into 2010 – if not longer.

Just 36 hours in September 2008 changed the world. When investment bank Lehman Brothers collapsed, the credit crunch became a global financial crisis. And ever since the collapse, the world has been in unknown territory. „So nobody should claim to know the outcome,“ Walter says.

„We have been trying a lot of different therapies to get us out of the crisis,“ Walter points out, „but given today's dramatic circumstances, we realistically have no clear idea about their efficiency“. Of course, there is no doubt that taxpayers' money is being used to support some financial institutions whose business models do not seem to be



viable for the medium and long term. While action was needed to stem the systemic risks, the specifics of rescue packages left – and still leave – a lot to be desired.

„As an example, the USA’s Troubled Assets Relief Program (TARP) was not good enough,” Walter says. But UK Prime Minister Gordon Brown gave leadership to the USA and the EU on how to create and structure policies.

„Although the financial crisis began with the US real-estate bubble and the subsequent decline in the construction sector, this has now spilled over into other sectors, such as the automobile and electronics industries, and it is now also impacting their suppliers. The spill-over is something we can say is not a short-term blip,” Walter adds.

„It is something that will be long-lasting – ie the recession will [definitely] extend into 2010,” he adds. „The dramatic assessment of the economic trend is also reflected in the swift burial of the debate about the risk of inflation which raged only six months or so ago. This has already been replaced by deflationary concerns.”

With interest rates in many economies being close to zero, Walter says many people are arguing that monetary policy has lost its grip. But this is not the case, he maintains. The effect of reducing interest rates is never immediate. These policies will now probably feed through with an even longer time lag, due to the micro-economic implications of the financial crisis, ie distorted transmission mechanisms.

The deficiency of demand

As a result of the credit crisis, the world is now facing a deficiency of demand, Walter believes. In terms of the real-estate bubble, he says it will take a number of years before excess capacity is absorbed. For the USA, it will be three years at best. And that figure could be five years in the UK and even longer in places such as Portugal and Spain because of their stagnant populations.

Walter expects President Obama to implement a very strong Keynesian economic policy. While this should be praised, he says, the time lag involved means this may only support the US economy closer to the end of 2009 and may therefore not avoid another year of dramatic recession.

With taxation being hotly debated in the UK, he feels – unlike some other industry analysts – that Prime Minister Gordon Brown’s reduction of Value Added Tax (VAT) was a correct move and that, in the current climate of consumer caution, the taxman should only be handing back money if it is going to be used for spending. Due to the „Keynesian situation”, ie a pronounced deficit in overall demand, he says that similar measures should be/have been adopted by other EU countries.

Japan’s economy appears to be one of the most difficult to address, and „is in depression”, according to Walter. Since Japanese consumers are saturated and their infrastructure is highly developed, the only anti-cyclical measure that Japan could



introduce would be to provide government money to neighbouring developing and emerging countries so that they can buy Japanese capital goods.

As to the future economic order, Walter says he is worried that the days of globalisation and of the market-based economy might be limited. The worst-case scenario, which he terms the 'tsunami', would be a return to protectionism – „Each one to his own“ – which would crush the structure of existing economies.

More likely, Walter thinks, is the possibility of a return to more state-controlled economies with heavy-handed regulation. But this would also be really bad for the medium to longer term because state capitalism just does not work. So it would mean depressed growth for a much longer period – well into 2011 at least.

Nevertheless, this gloomy scenario can be avoided, Walter believes. The 'Obama effect', for example, could be instrumental in shaping a more co-operative future in terms of the world economy. But this is only a realistic option if others, especially Europe, offer him a helping hand – ie if all governments work together. To truly re-invigorate globalisation, Walter maintains, trust and peace must be re-established between nations and religions.

The impact of the deepening recession

Prof Dr. Walter acknowledges that consumers are already feeling the impact of the global crisis, and this in turn is resulting in low consumer confidence, since people are afraid of losing their jobs, seeing their savings shrink, etc. But he maintains that the trend has so far really only hit the upper and middle socio-economic groups.

„I would certainly not like to be a supplier of goods and services to the higher socio-economic groups, including investment bankers, at the present time,“ he comments. „I am talking about suppliers such as art galleries, luxury hotels, real estate developers, yacht brokers, etc.“

Lower-income earners are quite well protected by the state in many countries, Walter says. „Indeed, in some countries they receive a disproportionate level of state support. So these people will only suffer badly, and start to question the justification for taking a holiday, when unemployment really rises sharply,“ he adds.

As to how long the impact will last, Walter is reluctant to commit himself. „It is impossible to determine at the current time, and I do not believe that anyone can claim to know otherwise.“

When will we return to normal times again? „What are 'normal' times?“ Walter retorts. „The degree of arrogance and luxury that were celebrated in the first few years of this new decade will be very difficult to regain any time soon. But I do not believe that man will give up his dreams for the future – and travel and tourism is of course part of those dreams.“



The current outlook is too foggy to be able to make clear forecasts, says Walter, but different European markets will of course also behave differently. Look at how they differ in terms of savings' habits. While the cautious Germans save around 10% of their incomes, the average British hardly saves anything at all, preferring to live on credit. And the average for other Europeans is about 5%.

Who will be the winner in terms of transport modes?

Hasn't the economic crisis already had an impact on transport trends? The latest estimates suggest that air travel recorded a marked slowdown in 2008, and even a decline in some markets.

„Just because some people switched from air travel to car or rail travel last year does not mean that it is the beginning of a modal shift,” says Walter. „Of course, it might be, but it's more likely to reflect just a temporary decline in travel activity. One has to be careful of interpreting temporary shifts like this as real trends.”

It is the same for trends in different travel segments, Walter says. Although the winter ski season 2008/09 was good due to the abundance of snow in many European winter sports' resorts, it does not mean that the ski business will remain robust in the longer term.

Oil prices are a key factor

As to the prospects for the travel and tourism industry in 2009, and even in the longer term, much will depend on the price of oil going forward, Walter says. „I think that low oil prices can only be a short-lived phenomenon,” says Walter. „Demand has dropped so prices are also dropping. But suppliers will quickly realise that it is no longer sustainable to sell oil at these prices, so they will reduce supply. And that will push prices up again.”

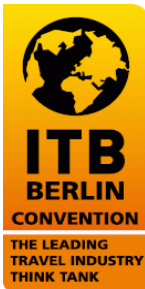
For the time being, though, low-cost carriers (LCCs) have gained some breathing space since oil prices fell from their peak, and if they do remain low, LCCs should certainly benefit – at least in the short term. If not, Walter believes that we will see a further cut in weekend breaks, and maybe a longer-term shift away from air travel.

„But I think there is too much government bureaucracy and national protectionism involved in developing rail networks,” says Walter, „so it's unrealistic to expect train travel to become really big. But car travel may gain long term at the expense of air travel – especially as other regulatory factors, such as the requirement for environmental emission certificates, will hinder air transport growth.”

In the short to medium term Walter thinks that Europeans in general will take cheaper vacations, closer to home. „Camping could become more popular again, or apartments and youth hostels... And why not travel by bicycle?”



„ This recession will be a very deep one, as I said,“ Walter concludes. „ And it will continue well into 2010 – if not longer... But I am not pessimistic for the industry’s longer-term future.“



ITB Berlin Convention 2009 takes place from March 11 to 14, 2009 in halls 7.3, 7.1 a and 7.1 b. *The ITB Future Day on March 11* portrays the future in the fields of economy, society and travel patterns. Visionaries, lateral thinkers and futurologists identify global mega trends:

- March 11
Hosted by: Prof. Dr. Roland Conrady, Scientific Director of the ITB Berlin Convention, University of Applied Sciences Worms
- 11.00 – 11.15: *Inauguration of the ITB Berlin Convention*
Speaker: Prof. Dr. Roland Conrady
- 11.10 – 11.15: *Welcome Speech by Co-host Turkey*
Speaker: Cumhuriyet Güven Tasbasi, Director General, Ministry of Culture and Tourism, Turkey
- 11.15 – 11.30: *The Future of Travel*
Speaker: Rohit Talwar, Futurologist & CEO, Fast Future Research
- 12.15 – 12.45: *The Global Online Picture*
Interviewer: Prof. Dr. Roland Conrady
Interview guest: Philip C. Wolf, President & CEO, PhoCusWright Inc.
- 12.45 – 13.45: *Digital Lifestyle and Online Travel*,
Introductory presentation: Prof. Dr. Urs Gasser, Buchautor Generation Internet, Director, Research Center for Information Law, University of St. Gallen, Executive Director, Berkman Center for Internet & Society, Harvard University
- Moderated by: Harald R. Fortmann, Vice President, BVDW (German Association for the Digital Economy)
- Panel guests: Prof. Dr. Urs Gasser
Ignacio Martos, CEO, Opodo Ltd.
Sebastian Moleski, Managing Director, Wikimedia Deutschland e.V. (Wikipedia)
Dr. Marcel Reichart, Managing Director, Hubert Burda Media Marketing & Communications GmbH



- 14.00 – 15.15: *The Impact of the Oil Price on Recreational Mobility:
Can we still Afford to Vacation?*
Introductory presentation: Prof. Dr. Norbert Walter, Chief Economist Deutsche Bank Group, Managing Director Deutsche Bank Research
Moderated by: Anna-Renate Budde, Director Marketing, Siemens AG
Panel guests: Jürgen Büchy, CEO, DB Vertrieb GmbH (German Rail)
Dr. Michael Engel, Managing Director, Bundesverband der Deutschen Fluggesellschaften (BDF)
Dieter Gauf, CEO, RDA International Coach Tourism Federation e.V.
Michael Ramstetter, Editor-in-chief, ADAC Motorwelt
Dr. Thomas Schlick, Managing Director, German Association Of the Automotive Industry (VDA)
- 15.30 – 16.30: *ITB World Travel Trends Report:
An update on Global and European Tourism Forecast*
Speaker: Rolf Freitag, CEO, IPK International
- 16.45 – 17.30: *Tourism in Times of the Global Financial Crisis*
Introductory Presentation: Prof. Dr. Max Otte, Bestselling author „Der Crash kommt“ , IFVE Institut für Vermögensentwicklung
Interviewer: Prof. Dr. Max Otte
Interview guest: Prof. Geoffrey Lipman, Assistant Secretary-General, World Tourism Organization (UNWTO)

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