

Improving Caribbean Tourism Bolsters Consumer Spending Potential

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The Caribbean tourism industry is slowly beginning to pick up, although visitor arrivals growth remains lower than before the global economic downturn of 2008-2009, when annual visitor growth levels averaged between 8.0% and 10.0% across the region.

Click to tweet! As tourism is the main source of revenue across most of the region, this is likely to lead to some improvement in incomes as employment levels begin to pick up again. Click to tweet!

- With most arrivals data now reported for 2011, seven countries experienced year-on-year declines in tourist arrivals in 2011. These were St Lucia (-6.2%), St Maarten (-6.1%), the US Virgin Islands (-4.2%), Dominica (-4.1%), the Bahamas (-3.7%) and Montserrat (-0.6%). Click to tweet!

- However, some countries experienced strong year-on-year growth in 2011, such as Curaçao (13.9%), Anguilla (12.0%) and Cuba (7.6%).

- This has a major knock-on effect on the countries' economies and therefore income levels. In Curaçao incoming tourist receipts totaled 48.7% of total GDP in 2011, compared to 31.5% in Anguilla and 3.5% in Cuba (which has a more diversified economy). Click to tweet!

- Incoming tourist receipts also increased on a year-on-year US\$ basis in 2011. Tourism receipts grew annually in all but three Caribbean countries and achieved particularly high growth rates in Bermuda (27.0%), the Cayman Islands (19.6%) and Anguilla and Antigua (both 12.0%). With tourism receipts growing at a higher rate than actual tourist arrival figures, this means that incomes for Caribbean locals involved in the tourism industry are set to increase accordingly.

Implications

An increase in tourist arrivals will help bolster economic growth in the region, with positive implications for consumer income and expenditure growth, which have suffered since 2007: Click to tweet!

- All countries in the Caribbean experienced positive economic growth in 2011, with growth led by Anguilla (6.9% real annual GDP growth), Aruba (7.0%) and the Dominican Republic (4.5%). This is in contrast to 2010, when more than half of the countries recorded economic contractions.

- Remittances to the Caribbean are also picking up gradually, reflecting higher global economic growth in 2011 than 2010. Remittance inflows increased to every country except the Dominican Republic in 2011, growing particularly strongly in the Cayman Islands (10.2% year-on-year), Grenada (7.3%) and St Vincent and the Grenadines (8.7%).

- However, unemployment rates appear to be lagging this economic uptick and unemployment as a percentage of the economically active population in fact increased in all Caribbean countries except Guadeloupe and Trinidad and Tobago in 2011. Unemployment remains particularly high in countries such as the Bahamas (17.2% of the economically active population), Martinique (25.7%), and Puerto Rico (17.8%). These countries may be suffering because their economies are so heavily dependent on tourism whereas Trinidad and Tobago, for example, has a large hydrocarbons sector. Trinidad's unemployment rate stood at 5.4% in 2011, down from 5.5% in 2010.

- High unemployment has weighed on income growth during the global economic slowdown and therefore impacted negatively on consumer spending potential. For example, in the Dominican Republic, one of the region's major tourism markets, annual disposable income fell year-on-year in 2009, to US\$16,148 per household from US\$16,673 in 2008, before beginning to rise again in 2010 and reaching US\$19,367 in 2011.

- This lag between improving tourist arrivals and economic growth, and employment rates is weighing on consumer incomes and reducing spending power. Consumer expenditure fell in seven Caribbean countries on an annual average basis between 2007 and 2011, with 2007 marking the beginning of the global economic slowdown. The falls were particularly marked in Anguilla (falling 7.7% on average per year in this period in real terms), Antigua (-11.5%) and the British Virgin Islands (-5.7%).

Prospects

Economic recovery is set to continue in 2012, albeit at a slow pace, boding well for a slight improvement in incomes and expenditure:

- GDP in the USA, a major source market for tourism to the Caribbean, is forecast to grow by 0.5% annually in real terms in 2012. Click to tweet! Although down from 1.7% real GDP growth in 2011, this should help to encourage a gradual improvement in growth rates across the region.

Source: Euromonitor International from national statistics/Eurostat/OECD/UN/International Monetary Fund (IMF), World Economic Outlook (WEO)

Note: 2012 figures are forecasts.

- Most Caribbean countries are forecast to experience rising real GDP growth rates in 2012, with the highest being Aruba (6.6% year-on-year), the Dominican Republic (5.5%), and the British Virgin Islands (3.6%). Although below the 8-10% growth rates enjoyed before the 2007 downturn, this will help to bolster consumer income prospects for 2012.

- Consumer expenditure is therefore forecast to grow in real terms in 2012. Particularly high annual growth in real terms will be in Antigua (10.1%), Aruba (4.5%) and St Lucia (4.1%).

- Key downside risks to this scenario remain a worsening economic outlook in the USA in 2012, which would impact negatively on tourist arrivals to the Caribbean, and a severe hurricane season between June and November.

Analyst Insight by An Hodgson, Income and Expenditure Manager

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