

i/ The Economy's effect on Tourism

With 2/3 of the U.K. households as owner occupiers with mortgages, further rises in interest rates will result in persons choosing between perceived necessary leisure expenditures (such as the family holiday) and non-luxury items. Industry leaders maintain that the concept of a "holiday" is ingrained in the British psyche. Expectations may have to be altered, but holidays will still be taken.

While the basic level of personal disposable income has increased over time, retail prices, since 1982 have remained fairly stable thereby contributing towards a healthy climate for leisure expenditure. As well, because U.K. Tourism figures have traditionally been closely associated with exchange rates, the current strength of the U.K. pound may provide added impetus for consumers deciding to holiday abroad. Traditionally a strong national currency has resulted in increased demand for foreign holidays, even in times of slow economic growth. 1990-91 could be the exception as fuel costs dictate tour package cost increases which may offset any advantages offered by a strong Pound.

Before the Gulf crisis, when inflation was at the December 1988 level of 4.9%, the total value of U.K. consumer spending was 287.6 Billion Pounds. Of this amount leisure spending was estimated at 76.7 Billion Pounds accounting for 27% of the total. Spending on holidays abroad was worth 9.4 Billion Pounds or 13% of the total.

ii Britain's Entry into the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS)

On Friday 5 October, Britain joined the Exchange Rate Mechanism of the European Monetary System. Immediately after the announcement, the value of the Pound soared, interest rates fell one percentage point to 14% and a new feeling of "guarded" optimism was felt in the City. This could have positive implications for the travel sector.

The main benefit of the ERM is to stabilise the member countries' currencies against inflation. Each currency is assigned a central rate against the others from which it is allowed to diverge within pre-set limits (in most cases 2.25%) of the central value. However, the Spanish Peseta and now Sterling are allowed a 6% fluctuation although they are expected to move into the narrower band eventually. If currencies start to fall to the bottom or rise to the top of this range, the central banks are mobilized to intervene in the currency markets. If that fails, the economic policy of that country's currency has to be changed, normally through a move in interest rates. British entry set