THE U.K. TRAVEL MARKET

A/ INTRODUCTION

Any discussion of the U.K. travel market in 1990 and in the next decade will have to take into account the current economic situation in the U.K., whether due to the fiscal policies of the government in power, or international events. The current economic climate is casting a shadow over the travel industry. Demand for the traditional package holiday fell by 20% in 1989, primarily due to high interest rates. With higher travel costs predicted because of increased aviation fuel costs, the competition will be fierce to attract the fewer number of Britons for whom travel is an essential luxury.

B/ THE ECONOMICS OF TRAVEL

The crisis in the Gulf has economists and politicians in a turmoil over the implications for the already fragile U.K. economy. In 1989-1990, the Thatcher government imposed high interest rates to counter inflation, and this appeared to be working. Consumers were spending less (retail sales declined to .9%), the housing market fell steeply and there has been a steep decline in imports due largely to a slowdown in domestic demand brought by continuing high interest rates (currently at 14.5%). The implementation of the poll tax or community charge, and pressure to keep wages within the inflation level are two further stresses on the economy. The government insisted that inflation would peak during the summer of 1990, and they were not wrong, with inflation topping 10.7% in August 1990. (Before the Gulf crisis, economist expected the inflation rate to peak in 1990, and then fall to 5% by the end of 1991).

But, the Gulf crisis has added a new dimension with a dramatic increase in oil prices and fears that inflation will remain high or perhaps rise further. The situation in the Gulf is predicted to send the economy into further turmoil as prices rise and wage pressure is intensified.