

BOX ARTICLE 2.1

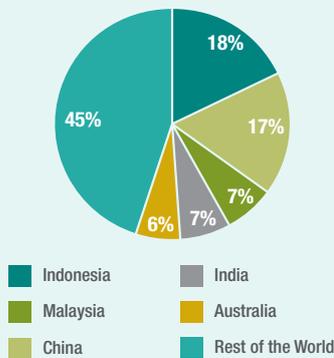
RECENT PERFORMANCE IN SINGAPORE'S TOURISM INDUSTRY AND TOURISM YIELD

INTRODUCTION

Singapore's tourism industry posted robust growth in 2016.

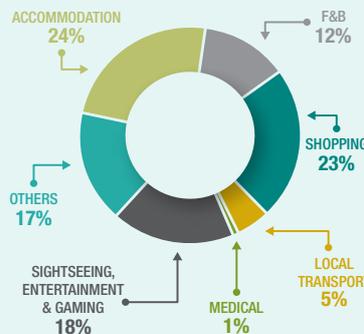
International visitor arrivals grew by 7.7% to reach 16 million in 2016.

VISITOR ARRIVALS BY MARKET, 2016



Tourism receipts increased by 13% in the first three quarters of 2016 and amounted to \$18 billion.

TOURISM RECEIPTS BY COMPONENTS, 1Q-3Q16



Tourism value-added rose by 9.1% in the first three quarters of 2016 and came in at \$11 billion.

TOURISM VALUE-ADDED, 1Q-3Q16

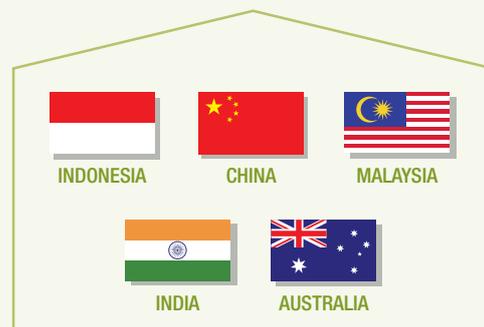


FINDINGS

Finding 1: The improvement in tourism value-added[^] in the first three quarters of 2016 was driven by the healthy growth in visitor arrivals and a recovery in tourism yield.



Finding 2: The better tourism yield performance was broad-based, with all top five tourist source markets registering improvements in yield.



[^]Excluding expenditure on sightseeing, entertainment & gaming

The medium-term outlook for the tourism industry remains positive and the Singapore Tourism Board remains committed to our Quality Tourism strategy.



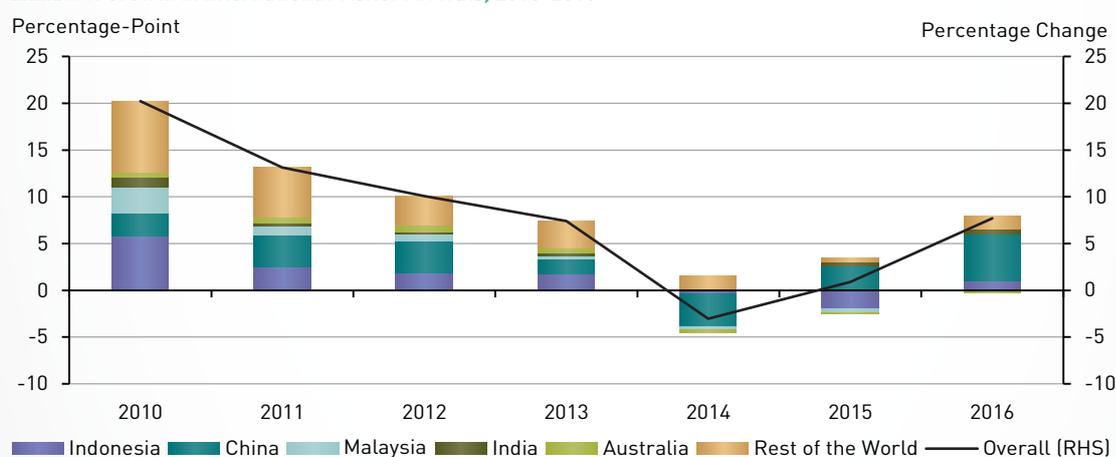
The tourism industry is an important pillar of the Singapore economy. Apart from adding diversity and vibrancy to our economy, tourism also directly contributes to Singapore's Gross Domestic Product (GDP) through spending by tourists. This article examines the recent performance of the tourism industry and its contribution to the Singapore economy. It also analyses the trends in tourism yield and that for Singapore's key tourism inbound markets.

Singapore's tourism industry has generally performed well over the years

Between 2010 and 2016, international visitor arrivals (IVA)¹ to Singapore increased by 5.9 per cent on a compounded annual growth rate (CAGR) basis. The increase in IVA came on the back of improvements in Singapore's tourism infrastructure and offerings, including the opening of the two Integrated Resorts, the introduction of a wide range of events such as the Women's Tennis Association (WTA) Finals and the Ultra Music Festival, as well as the development of the cruise industry, among others. Even though IVA declined in 2014 due to a sharp drop in Chinese arrivals² and remained weak in 2015 due to challenging economic conditions in the region, it has since rebounded strongly, with the total number of visitors increasing by a robust 7.7 per cent to reach 16 million in 2016 (Exhibit 1).

The healthy IVA performance in 2016 was driven by improvements in arrivals across key tourism inbound markets, especially China and Indonesia.³ Notably, the number of Chinese arrivals surged by 36 per cent in 2016 on the back of robust demand for outbound travel in China along with a renewed interest in Singapore-Malaysia travel itineraries. The expansion of flight routes and capacity between Singapore and China also bolstered the growth in Chinese arrivals, especially from Tier 2 cities. For the Indonesian market, the number of arrivals rose by 5.9 per cent in 2016, a turnaround from the 9.7 per cent decline in 2015. The improvement was likely due to the stabilisation of the Rupiah against the Singapore dollar and an uptick in consumer sentiments, which in turn supported Indonesians' demand for outbound travel.

Exhibit 1: Growth in International Visitor Arrivals, 2010-2016



Source: Singapore Tourism Board

Driven in part by the growth in visitor arrivals, overall tourism receipts⁴ (TR) also rose in most years over the period of 2010 to 2016⁵ (Exhibit 2). Specifically, overall TR increased from \$19 billion in 2010 to \$24 billion in 2014, before falling by 7.5 per cent in 2015 to \$22 billion as spending by tourists from the region weakened amidst subdued economic conditions in their home countries and the strong Singapore dollar. However, TR rebounded strongly in the first three quarters of 2016, increasing by 13 per cent compared to the same period in 2015 to reach \$18 billion.

¹ This excludes Malaysian land arrivals.

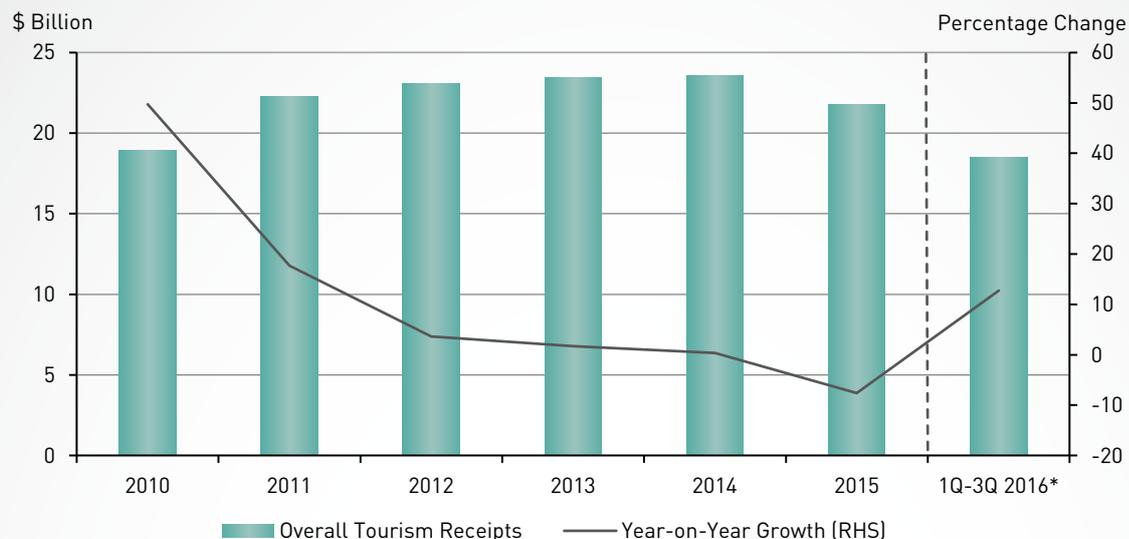
² The sharp drop in Chinese visitors in 2014 was largely attributable to the air incidents involving the Malaysian national carrier which had in turn adversely affected the demand for Singapore-Malaysia-Thailand travel itineraries, as well as the banning of zero fare tours by the Chinese authorities since October 2013.

³ The Indonesian and Chinese inbound markets were Singapore's largest and second largest tourist source markets in 2016 respectively, with 2.89 million and 2.86 million arrivals for the full year respectively.

⁴ Data for overall TR includes expenditure by Malaysian land arrivals.

⁵ Data for TR in 2016 is only available up to the third quarter of the year.

Exhibit 2: Overall Tourism Receipts, 2010 – 2016



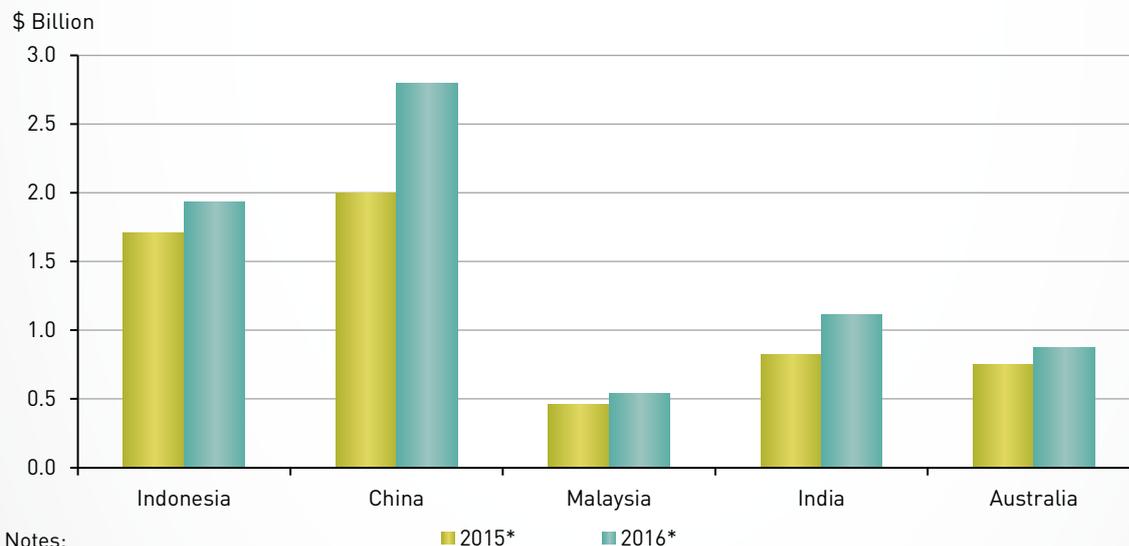
Notes:

* As TR data for the fourth quarter of 2016 is unavailable at the time of publication, the 2016 figures are based on TR for the first three quarters of 2016, with the growth rate computed on a year-on-year basis (i.e., compared to the same period in 2015).

Source: Singapore Tourism Board

In terms of markets, the pickup in TR, excluding expenditure on sightseeing, entertainment & gaming (SEG)⁶, was seen across all key inbound markets in the first three quarters of 2016 (Exhibit 3). In terms of the expenditure components, the recovery in TR was due to increased spending on shopping, dining and accommodation.

Exhibit 3: Tourism Receipts (excluding SEG) by Key Inbound Markets, 2015-2016



Notes:

* As TR data for the fourth quarter of 2016 is unavailable at the time of publication, the 2016 figures are based on TR for the first three quarters of 2016. For comparison, the 2015 figures are similarly based on TR for the first three quarters of 2015.

Source: Singapore Tourism Board

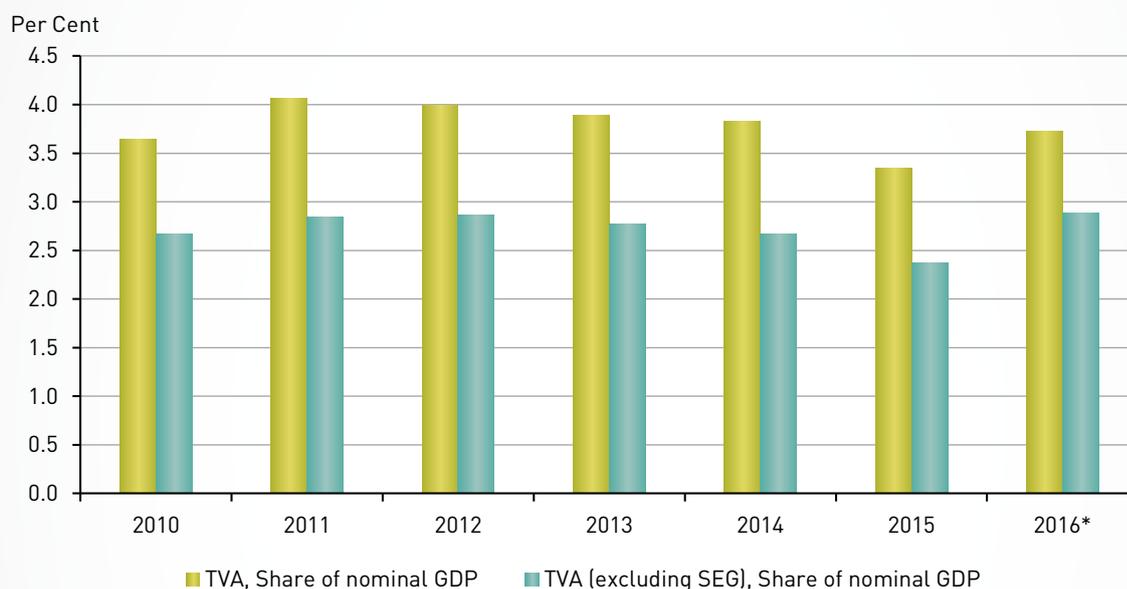
⁶ A breakdown of tourist expenditure on sightseeing, entertainment & gaming by markets is not available.

As a share of nominal GDP, overall tourism value-added increased from 3.3 per cent in 2015 to 3.7 per cent in 2016, boosted by the recovery in TR

In order to better understand the economic contribution of the tourism industry, we estimate the value-added (VA) that accrues to the economy from tourist spending. Reflecting the trends in overall TR, tourism value-added (TVA)⁷ increased from \$11 billion (3.6 per cent of nominal GDP) in 2010 to \$14 billion (3.8 per cent of nominal GDP) in 2014.⁸ While TVA fell in 2015 to \$13 billion (3.3 per cent of nominal GDP) due to the drop in TR in the same year, it rebounded strongly in the first three quarters of 2016 on the back of the recovery in TR. Specifically, TVA expanded by 9.1 per cent in the first three quarters of 2016 as compared to the same period a year ago (Exhibit 4), to reach \$11 billion (3.7 per cent of nominal GDP).

Excluding SEG, TVA (excluding SEG) exhibited similar trends, and rose to account for 2.9 per cent of nominal GDP in the first three quarters of 2016.

Exhibit 4: Tourism Value-Added as a Share of Nominal GDP, 2010-2016



Notes:

* As TR data for the fourth quarter of 2016 is unavailable at the time of publication, the 2016 figures are estimated based on TR for the first three quarters of 2016.

Source: Singapore Tourism Board and MTI Staff Estimates

The improvement in TVA (excluding SEG) in 2016 was partly due to a rise in tourism yield...

To gain deeper insights into the drivers of TVA including by markets, we decompose TVA (excluding SEG) into three components, namely visitor arrivals, average length of stay (ALOS) and tourism yield, where tourism yield is defined as the VA generated from each tourist's spending (excluding SEG) on a per day basis:¹⁰

⁷ TVA measures the direct VA generated from tourist spending on goods and services (e.g., accommodation, food & beverage, shopping, medical and local transportation), as well as the indirect VA generated in the rest of the economy when tourism-related industries purchase goods and services from other industries. Mathematically, TVA is computed by applying component-specific VA multipliers on each expenditure component of TR:

$$TVA = \sum_i TR \text{ Component}_i \times VA \text{ Multiplier}_i$$

where, i denotes expenditure components such as accommodation, food & beverage, shopping, local transport, medical, and others. The VA multipliers are from various issues of the Department of Statistics' Input-Output Tables.

⁸ Estimates for TVA are based on overall TR, which includes expenditure by Malaysian land arrivals.

⁹ This includes both IVA and Malaysian land arrivals.

¹⁰ As mentioned previously, tourist expenditure on SEG is not available at the market level. As such, the decomposition is done on TVA (excluding SEG) in order to draw insights on the trends in tourism yield by markets.

$$TVA (\text{ex SEG}) = \sum_i \text{Visitor Arrivals}_i \times \text{ALOS}_i \times \text{Tourism Yield}_i \quad [\text{Equation 1}]$$

where i refers to tourism inbound markets.

From equation 1, the growth in TVA (excluding SEG) in time t can be decomposed into the growth in visitor arrivals, ALOS and tourism yield for each market i :

$$\% \Delta TVA (\text{ex SEG})_t \approx \sum_i (\% \Delta \text{Visitor Arrivals}_{i,t} + \% \Delta \text{ALOS}_{i,t} + \% \Delta \text{Tourism Yield}_{i,t}) \times \frac{TVA (\text{ex SEG})_{t-1}}{TVA (\text{ex SEG})_t}$$

A key feature of this decomposition framework is that it allows for an analysis into the extent to which the growth in TVA (excluding SEG) was driven by increases in tourist volume (i.e., visitor arrivals) or improvements in yield. An improvement in tourism yield along with healthy increases in tourist volume is important for the sustainable growth of Singapore's tourism industry over the longer term, particularly since Singapore is a small economy with resource constraints.

Using this decomposition approach, we find that tourism yield (excluding SEG) improved over the 2010 to 2014 period, and averaged at around \$153 per tourist per day (Exhibit 5). As a result, the growth in TVA (excluding SEG) over this period was driven by both visitor arrivals and tourism yield (Exhibit 6). In 2015, however, TVA (excluding SEG) growth dipped into negative territory, primarily because of a fall in tourism yield as a strong Singapore dollar coupled with economic uncertainty in the region negatively affected tourist spending.

The subsequent sharp rebound in TVA (excluding SEG) in the first three quarters of 2016 was driven by a strong recovery in tourism yield, alongside an improvement in visitor arrivals. Specifically, tourism yield rose from \$142 in 2015 to an average of \$153 in the first three quarters of 2016, an increase of 7.5 per cent. Correspondingly, approximately 47 per cent¹¹ of the growth in TVA (excluding SEG) in 2016 can be attributed to the increase in tourism yield.

Exhibit 5: Overall Tourism Yield (excluding SEG), 2010-2016

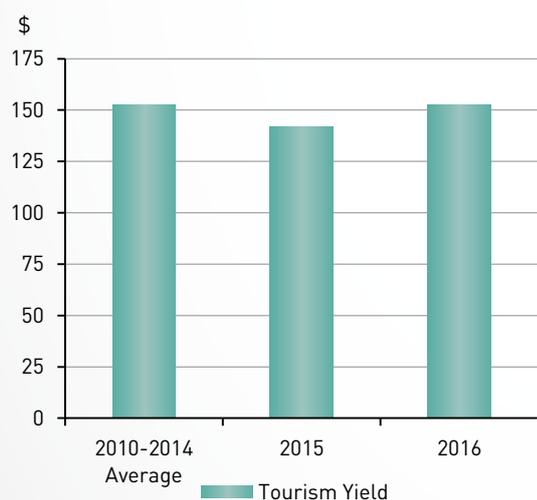
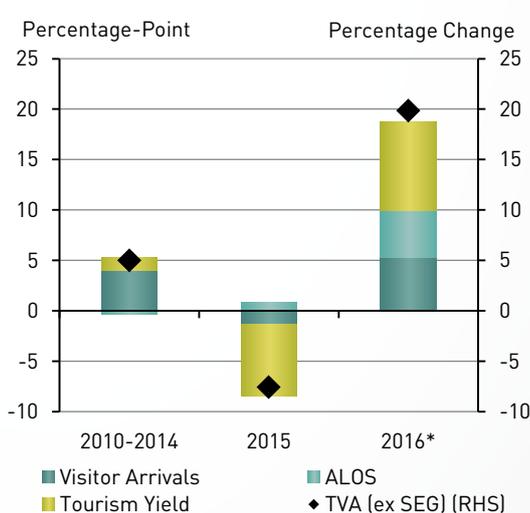


Exhibit 6: Decomposition of Tourism Value-Added (excluding SEG) Growth, 2010-2016



Notes:

* As TR data for the fourth quarter of 2016 is unavailable at the time of publication, the 2016 figures are based on the growth in TVA for the first three quarters of 2016 as compared to the same period a year ago.

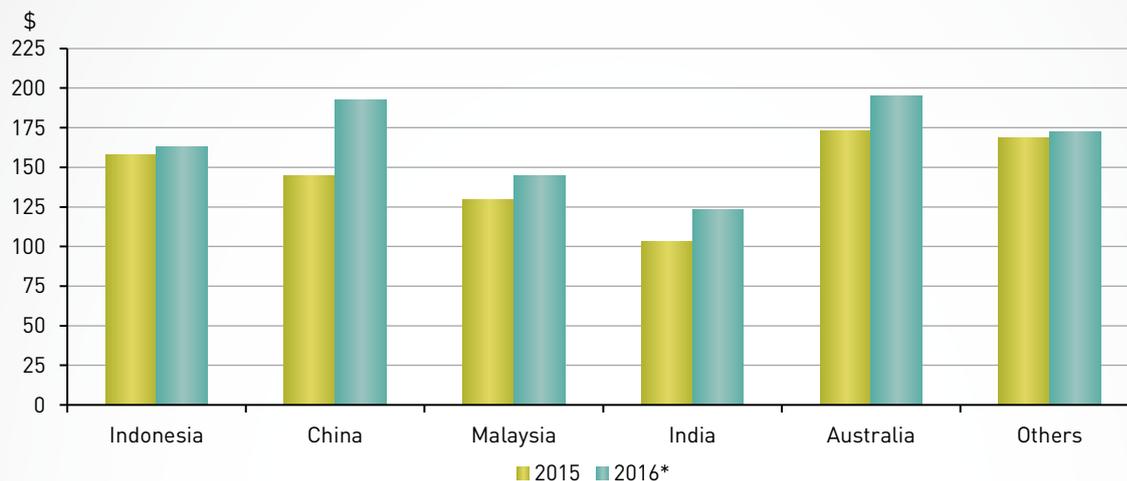
Source: Singapore Tourism Board and MTI Staff Estimates

¹¹ Computed as $|c| / (|a| + |b| + |c|)$, where a , b and c refer to the growth contributions of (i) visitor arrivals, (ii) ALOS and (iii) tourism yield respectively.

... which was observed across the key tourism inbound markets

In terms of markets, we find that the pickup in tourism yield in the first three quarters of 2016 was broad-based, with all top five tourist source markets registering improvements in yield (Exhibit 7). In particular, tourism yield for the Chinese, Australian and Indian markets registered the largest increases between 2015 and 2016.

Exhibit 7: Tourism Yield (excluding SEG) Performance of Key Tourism Markets, 2015 – 2016



Notes:

* As TR data for the fourth quarter of 2016 is unavailable at the time of publication, the 2016 figures are based on tourism yield in the first three quarters of 2016.

Source: Singapore Tourism Board and MTI Staff Estimates

Some key observations by inbound markets are as follows:

- The Chinese market showed a marked improvement in tourism yield in 2016. Specifically, yield surged by 33 per cent on the back of a higher per day expenditure on accommodation, shopping and dining as compared to the year before. The higher yield of Chinese visitors to Singapore was consistent with the trend observed globally. Based on data from the United Nations World Tourism Organisation (UNWTO), the rise in Chinese tourists' travel expenditure (12 per cent) outpaced the increase in Chinese international outbound travellers (6 per cent) in 2016.¹²
- For the Indonesian market, tourism yield improved by 3.3 per cent in 2016. The better performance was partly due to the stabilisation of the Rupiah against the Singapore dollar as well as an uptick in consumer sentiments, which likely bolstered the travel spending of Indonesian visitors.
- For the Malaysian, Indian and Australian markets, the improvements in their respective tourism yields in 2016 could be due to an increase in the share of visitors that came from major cities. For instance, in the case of India, a higher proportion of visitors came from cities such as Mumbai and Delhi. As visitors from major cities are likely to have a higher propensity to spend, the change in the composition of visitors from these markets could have bolstered the growth in tourist expenditure, and hence tourism yield, for these markets in 2016.

¹² Source: "Chinese tourists spent 12% more in travelling abroad in 2016", UNWTO World Tourism Barometer, 12 April 2017

Looking forward, the outlook for the tourism industry in Singapore remains bright

The outlook for the tourism industry in Singapore remains positive over the medium term as demand for outbound travel in the region is expected to be robust, supported by rising incomes and a growing middle class. For instance, the Pacific Asia Travel Association (PATA) has projected that international tourism traffic into the Asia-Pacific region will grow by an average annual growth rate of 5 per cent between 2016 and 2021.¹³ Amidst strong growth opportunities in the region, STB remains committed to its Quality Tourism strategy and will work with key industry partners to ensure that Singapore continues to be an attractive destination for travellers in the years ahead.

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¹³ Source: "Asia Pacific Visitor Forecasts 2017-2021", Pacific Asia Travel Association, May 2017