



MALTA HOTELS
& RESTAURANTS
ASSOCIATION

PRESS STATEMENT

President's Speech

After a positive period of sustained growth, guest-night generation in Q3 of this year fell marginally below the levels registered in 2010. Whilst it is particularly encouraging to note that key markets such as UK, Germany and France all continued to register sustained growth it is disappointing to see Italy, which had become our 'star performer', decline by 15% and virtually wipe out the gains registered from the other markets.

Against a backdrop of flat growth and the mounting uncertainties associated with the critical economic climate prevailing in most European countries and the serious challenges being faced by our national carrier, the MHRA believes that we are once again at a point where stakeholders need to navigate carefully to avoid making any rash decisions, which could undermine all the gains registered over the past couple of years.

Here are some of the positives and not so positives registered since the devastation caused by the global economic crisis :

- A. Average achieved room rates have continued to improve at an encouraging pace but total accommodation revenue in 2011 remains below the levels registered in 2007/8;
- B. Non-accommodation income has continued to decline across all hotel sectors as hotels continue to lose out in food and beverage sales to other operators. We are here probably witnessing a shift in consumer patterns;
- C. Hoteliers would appear to have ably contained payroll and other 'manageable' costs, however we have had to sustain substantial increases in energy and other induced costs over which we have no control. As a result of subdued revenue and higher operating costs, the results for the first nine months of 2011 show that gross operating profits in 2011 remain below the levels reached in 2007 and 2008 in each of the 3 main hotel categories.



MALTA HOTELS
& RESTAURANTS
ASSOCIATION

The significance of this statement is even more relevant when one considers that the profitability levels registered at that time were already a far cry from what one could call a fair and sustainable return on investment for hoteliers. All of us wish that this was different but wishing is not going to change the facts,

EUROSTAT 2011 stats covering period to Q2, show that notwithstanding the improvement in the gross operating profit indicator of hoteliers, the Maltese hotel and restaurant industry gross operating profit expressed in terms of output is considered to be still amongst the lowest when compared to that of competing EU Member States.

The industry has now been starved of sufficient profits for a number of years, and the situation needs to improve for the industry to remain sustainable in the long term. Only profits can give us access to the necessary capital for re-investment. Without new investment or re-investment we shall lose our competitiveness, and this will have a knock on effect on economic activity which the tourism industry is traditionally known for and associated with.

Much as the number of tourist arrivals is an important success indicator, however a look at other indicators, and profitability and value added are crucially important, show that these have been on the decline.

The MHRA believes that the situation remains very delicate and that with future prospects becoming more uncertain, it is critical that stakeholders continue to work avoid any unsustainable shocks to an already highly volatile industry.

In the back drop of economic uncertainties in Europe and particularly in countries that represent our core, markets winter ahead of us in of concern. The 11% drop in seat capacity and an increasingly sluggish market and a late booking position do not help matters and this may translate to a drop of around 54,000 tourist arrivals or just over 400,000 bed nights over the winter, which will compound the substantial losses hotels and restaurants incur during the difficult winter months.

These are the challenges we are facing

The UK the market is down, with consumer spending falling and unemployment rising to a 15-year high. UK travellers are resorting to one holiday a year because of economic pressures. The outbound market is down by 9%. Malta is so far performing better, but seat capacity is also down.



MALTA HOTELS
& RESTAURANTS
ASSOCIATION

- The austerity measures recently announced by the new Italian government have left Italians increasingly concerned about their employment and future prospects. Meanwhile seat capacity to Malta has seen a sharp drop in with cuts by Ryanair, Easy jet and Air Malta.

The French media is talking of a comeback of the recession following the new austerity measures being introduced in France. Overall demand is weak and Air Malta has also reduced its capacity from Paris from this winter. The announcement of Air France is encouraging, and will help make good for the seats dropped by air Malta over the coming months from France. We however can do more to increase seat capacity to Malta.

- The unemployment in Spain has hit an all time 22 % high and we have seen a drop in charter operations to Malta and a drop of 40% in seat capacity with Ryan air dropping 4 weekly flights.
- In Germany the situation is a little more more positive, but the strong demand we saw at the start of this winter has slowed down and there are no signs that the situaion will improve in the immediate.
- Meanwhile large tour operators and online travel agents are reporting late booking trends and a fiercely price sensitive market.

This makes it even more important that we resolve the restructuring of our national airline and put it on a sound footing, sooner not later. We cannot stress enough the importance of sustaining seat capacity that gives us numbers which is the main factor that is keeping us moving forward.

As things stand profitability can only be improved by increases in occupied bed nights, as we cannot expect any significant improvement in rates. We are under no illusion that competition from other destinations will be stepped up and more pressure will be put on room rates. Airlines will also under pressure because of a potential drop in demand so all players in the industry are up against some pretty tough challenges and we cannot afford to miss out on any opportunity.

MHRA once again calls for a plan of action that sets clear targets for next year tourist arrivals.