Oil Price and Holiday Mobility: Will We Still Be Able to Afford Vacation in the Future?

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This article is a postscript of an introductory speech of Prof. Dr. Norbert Walter to a panel discussion on ITB Berlin Convention 2009. It contains some remarkable references on the relationship between tourism trends and the financial crisis.

I will start by explaining the origins of the world wide recession and move on to its effects on energy prices. Afterwards, I will discuss the implications for tourism.

A long economic upswing lies behind us. There were excesses, especially in expenditures for certain kinds of assets – in particular in real estate. When you tell this tale in Germany, you have a hard time making people understand it, because Germany did not notice the exaggerations going on in other countries. To put it bluntly: between 1995 and 2005 housing prices doubled in the US; in France they went up 2.5 times, in Spain and England 3.5 times and in Ireland even 4.5 times while they did not change in Germany. Where these real estate prices increased, people felt richer and richer and banks judged them to be ever more creditworthy.

Cheap money was put at many people’s disposal even if they did not have a reasonable income. The countless types of mortgage loans made it possible for people in the countries mentioned above to even finance furniture, a vacation or a car on top of their house. The result was a widespread boom. This overlapped with an upward trend in many, in fact nearly all, newly industrialising countries (NICs), with the trend further reinforcing the global boom. The Central and Eastern European countries caught up further in the process of European integration. Asia became the world’s most dynamic economic area with hard-working and ambitious people who integrated into the world economy. Latin American countries – being rich in commodities – continued to improve their managerial training. All these economic areas grew significantly. During this process, the demand for commodities was growing ever more strongly – not only for energy but also for metals and agricultural commodities.

Worldwide, the rate of inflation increased and in 2007 the central banks raised their interest rates to combat inflation. This abruptly corrected the exaggerations taking place and the rising interest rates made the refinancing of car loans for example suddenly more expensive. Then the refinancing market dried up.
Participants in capital markets became uncertain; some people were not able to continue paying their installments and had to sell their houses which they had used as collateral: foreclosures started to mount. After that, housing prices began to trend downward. This process started in the US where it was called the subprime crisis. The subprime crisis did not remain a problem exclusively for American financial institutions. Since these institutions had bundled and securitised mortgage loans and sold them internationally, everyone who had bought these securitisations sustained losses – both to less-known institutions in Dresden and Duesseldorf as well as to better-known ones in Zurich. The write downs for these securities was eating into their equity and banks got into difficulties. During this phase of the financial crisis it became more and more difficult to finance large projects by leveraging – especially for big companies planning their restructuring, such as the Schaeffler Group.

The process continued without big eruptions due to ready capital injection from private institutions and sovereign wealth funds until summer 2008 when something happened that had been unthinkable before in the United States: the bankruptcy of Lehman Brothers. Since then, the world has not been the same. Letting a bank of such systemic importance as Lehman Brothers go bankrupt affected the world like a tsunami. Many contracts were and still are under threat and a large number of financial institutions were led to the point where their equity was used up and they could no longer obtain any capital in the private market. Even the world’s richest people, like Warren Buffet, and government funds of countries that had become very rich now refused to provide their support. At that point, governments started to help out while at the same time more systemically important banks were on the brink of collapse. The crisis widened and impacted upon the real economy. The first consequences were seen in the automotive sector – at least, this is where we first noticed them in the statistics. Automotive suppliers were affected and immediately afterwards producers of plastic components suffered. Less obviously, but by no means less significantly, demand for everything linked to logistics collapsed simultaneously. As early as in fall 2008, we saw a particularly dramatic downward trend in freight – especially sea but also air and railway freight. Later the crisis spread comparatively fast to the core of the manufacturing industry – the mechanical engineering sector.

In this situation, rescue programmes became necessary, not only for financial institutions, but also for businesses in other sectors and the economy as a whole, i.e. programmes to stimulate the economy. Many countries took the required steps, first and foremost the US even though the country was in the middle of presidential elections. Other countries and their governments, including Germany, were much more hesitant. In many cases, they believed that they were not affected. Obviously, they did not think about the fact that they are an integral part of the world economy and would be affected indirectly, even if they had not made any mistakes domestically.

The government programmes to stimulate the economy were made by people who did not believe in Keynes. Therefore, the programmes in Washington, Berlin,