













March 2017

Tourism in Iceland

Summary

- We forecast that roughly 2.3 million tourists will visit Iceland in 2017, an increase of 30% year-on-year. If this forecast materialises, the increase between 2016 and 2017 will total 530,000, the largest single-year rise ever recorded. 
- This coming summer, one of every five people in the country will be a tourist.
- We forecast that foreign exchange revenues generated this year by foreign tourists will total ISK 560bn, or 45% of Iceland's total FX revenues. In comparison, FX revenues from foreign tourists were estimated at ISK 466bn in 2016, or 39% of the total.
- Each tourist who entered the country contributed ISK 202,000 to the domestic economy. Tourists' two largest spending categories are airfares and accommodation.
- More than 90% of foreign tourists arrive in Iceland by air, as opposed to the OECD average of 54%. 
- We estimate that Iceland's two domestic airlines will offer roughly 75% of available flights to Keflavik Airport (KEF) in 2017. Icelandair will be the largest provider at KEF, with just under half of all flights to and from the airport, followed by WOW, with just under a third.
- Even though foreign airlines have stepped up their Iceland flight offerings in recent years, the domestic airlines have generated most of the growth in passenger numbers.
- Easyjet, which has offered flights to Iceland since 2012 and now flies to the country year-round, accounted for about a fourth of foreign airlines' offerings in 2016. Second in line among foreign airlines was SAS.
- Accommodation accounts for 21% of foreign tourists' total spending while in Iceland.
- In comparison with 2010, a larger share of foreign tourists now choose to stay in apartments, vacation homes, or private homes, and a smaller share stay in hotels and guesthouses. 
- Since 2013, accommodation services have grown much more rapidly outside of the capital area than in greater Reykjavik and currently account for just over half of all [room] nights sold. Nevertheless, seasonal volatility is still a problem outside the capital area, although it has diminished somewhat in recent years.
- In 2016, Reykjavik hotel rooms were the most expensive in the Nordic region, with prices ranging from 10-32% above those in other Nordic capitals.
- Estimated growth in the number of hotel rooms in 2017 will cover about one-third of the estimated need. Other things being equal, this will contribute to higher hotel occupancy rates and will increase the scope of the sharing economy and other types of accommodation. 
- On average, there were 2,000 active Airbnb-listed accommodations in Reykjavik last year, an increase of 116% from the previous year. Airbnb-listed space was rented out both more often and for longer periods at a time, on average, in 2016 compared to 2015.
- An average of 809 Airbnb-listed flats were being rented out at any given time in 2016, up from 300 in 2015. The increase in the number of Airbnb-listed flats exceeded the number of new flats there were completed in 2016 and played an important role in the steep rise in housing prices in the capital area.
- Total revenues from Airbnb rentals amounted to ISK 6.76bn in 2016, up from ISK 2.51bn in 2015, an increase of ISK 4.25bn, or 169%, between years. 
- Revenues per guest space averaged ISK 271,000 per month in 2016, a YoY increase of 25%. This is equivalent to an annual average of ISK 3.25m per guest space (assuming year-round rental).
- Assuming full occupancy, approximately 586,000 tourists (one-third of the total) could have booked accommodation through Airbnb in 2016.
- In Reykjavik, a total of 2.35m bed-nights were available via Airbnb in 2016, or 69% of all hotel bed-nights available in the greater Reykjavik area during the year.
- During the peak summer season, the number of Airbnb bed-nights available in Reykjavik represented an even larger percentage of capital area hotel bed-nights, or 87% of the total.
- If Airbnb service in Reykjavik continues to grow at the pace seen in recent years, it will soon account for a share equal to that of all capital area hotels combined in 2016. 
- The rental car fleet grew to 20,847 vehicles in 2016, up from 15,400 in 2015. This means that nearly 1 of every 10 cars in the country is a rental vehicle.
- The number of large and medium-sized rental car operators in the rental market is still rising. Some 85% of the entire fleet is owned by the 20 largest rental agencies.
- Since 2008, some 43% of all sold vehicles have been purchased by rental companies. In 2016, rental agencies bought 9,250 new cars, or 42% of the total number sold.
- The average rental car costs roughly ISK 3m net of VAT, and rental agencies' direct investment in vehicle purchases totalled nearly ISK 30b in 2016, excluding other investments, such as in buildings and other facilities. 
- Turnover in the car rental industry is expected to total as much as ISK 60bn in 2017, compared to ISK 35bn in 2015.
- New passenger coach registrations rose in number from 184 in 2015 to 412 in 2016, or 124%.
- About half of the jobs created in the domestic economy since 2010 stem directly or indirectly from the tourism sector.
- Each job in tourism is generating increased value, and labour productivity in the sector has grown markedly in recent years. 
- Some 41% of transport, transit, and tourism firms considered themselves understaffed as of December 2016.
- Labour shortages have been addressed increasingly with imported workers, and the percentage of foreign workers in the tourism sector is estimated at approximately three times the percentage in the economy as a whole.
- 2016 was a record year for tourist arrivals, even though it was also a record year for the appreciation of the ISK. Growth in tourism has had a strong upward impact on the exchange rate; however, a strong ISK has a negative impact on the sector.
- The ISK exchange rate was 16% higher in December 2016 than it was a year earlier. The appreciation was greatest against the pound sterling (38%), as opposed to about 15% against the US dollar and 19% against the euro. About two-thirds of all tourists who visit Iceland come from these three currency areas.
- In spite of the depreciation of the pound sterling, the number of tourists from the UK rose by 31% in 2016, about the same as in the two previous years. However, British tourists tend to stay a shorter time in Iceland, and a larger number of them than before consider the trip not worth the money. 
- The Norwegian krone has depreciated by 42% since 2013, and the number of Norwegian tourists in Iceland has declined in the past two years.
- Restaurant and accommodation prices in Iceland were 44% above the EU average in 2015, and among comparison countries, Iceland is the fourth most costly.
- Passenger transport prices in Iceland were 52% above the EU average in 2015, making Iceland the most expensive of the comparison countries in this category.
- The cost of recreation and cultural activities in Iceland was 38% above the EU average in 2015, making Iceland the third most expensive country in this category. 
- Alcoholic beverage prices in Iceland were 126% above the EU average in 2015, putting Iceland in second place in the comparison.
- Clothing and footwear prices in Iceland were 53% above the EU average in 2015, making Iceland the most expensive country in this category.
- Prices falling under "other retail trade" were 33% above the EU average. Iceland ranked fifth in this category.

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