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Tourism in Iceland

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Summary

- Icelandic airlines account for 80% of seats on flights travelling through Keflavik Airport. Despite an increased number of foreign airlines, their combined share has been falling.
- Seasonal volatility in tourism is subsiding still further. The most rapid rise in tourist arrivals takes place during off-peak seasons, which spreads tourism companies' operational foundations more evenly across the year.
- American and British tourists are the largest groups visiting Iceland, even though the British have cut back on overseas travel as a result of the Brexit-related depreciation of the pound sterling.
- Tourists from the US are steadily becoming more influential, and concentration risk and lack of diversity in tourists' nationality are on the rise in the Icelandic tourism industry.
- American tourists are most numerous and spend the most, and they are probably the group that generates the most value for the Icelandic tourism sector.
- We forecast year-2018 foreign exchange revenues from tourism at just over ISK 570bn, a 10% increase year-on-year.
- Exchange rate effects have an impact on tourists' spending in ISK, and tourists base their spending primarily on their home currency.
- Each tourist now generates fewer krónur than before, and in ISK terms, spending per tourist was 16% less in 2016 than in 2009.
- We forecast a broadly unchanged exchange rate in the near future.
- The strain on infrastructure is greater in Iceland than in most of the world's most popular travel destinations, in part because of the high ratio of tourists to local population.
- Hotels and guesthouses in Iceland depend on foreign tourists, unlike in many large tourism-intensive countries that depend largely on domestic tourism.

- Accommodation services in the Suðurnes peninsula and South Iceland region are gaining ground, in part because there is greater scope for increased occupancy than in the capital area.
- Airbnb accounts for just over a fourth of the Icelandic accommodation market, and all other types of accommodation are losing market share to Airbnb, which has grown fastest by far.
- Airbnb is rapidly closing in on hotels in terms of scope and already accounts for three times the business of all of the country's guesthouses combined.
- If the accommodation market continues to develop as it has been, it is possible that Airbnb will sell as many bed-nights as all of Iceland's hotels combined, or even more, as soon as this year.
- Airbnb's year-2017 turnover in Iceland totalled ISK 20bn, an increase of 109% YoY.
- The ten largest Airbnb landlords recorded turnover of ISK 1.3bn in 2017.
- The financial incentive to rent flats out to tourists cuts into the supply of housing available to Icelanders in the market at a time when residential property is already in short supply.
- Airbnb absorbed more than a year's supply of new construction during the peak tourist season in 2017, and its contribution to house price inflation in the past three years is about 15%.
- Investment in hotels in the capital area is estimated at ISK 44bn through end-2021.
- Hotels in greater Reykjavík cannot satisfy the demand for hotel rooms and are building about 70% of the estimated number of rooms needed this year. Capital area hotels will therefore continue to lose market share, either to Airbnb or to other parts of the country.

- Hotels on the Suðurnes peninsula are gaining market share; the region appears to be the only one in Iceland that is not losing market share with Airbnb's entry into the market.
- Hotel accommodation in Reykjavík is now the most expensive in the Nordic region.
- Labour productivity growth in tourism ranks second among all sectors of the economy; therefore, every job in tourism is generating increased value.
- Labour demand in the tourism industry is met largely with foreign workers, and the rise in the number of foreign nationals in Iceland has never been greater.
- Iceland is one of the most expensive travel destinations in the world, with prices 28% above the Nordic average.
- Iceland ranks 25th among the most competitive tourism countries in the world, and its labour market and labour force qualifications are the most competitive in the world.
- In terms of prices, Iceland is one of the least competitive for tourists, along with countries that offer their inhabitants a good standard of living.
- 1% of companies accounted for half of total tourism-generated operating revenues, and 93% of tourism operators accounted for only 19% of total revenues in the sector in 2016.
- Icelandair and WOW Air accounted for just over one-third of total operating revenues in the sector in 2016.
- Debt levels in the tourism industry have fallen, and small companies are more heavily leveraged than their larger counterparts.
- Profitability in tourism declined in 2016, yet operations can handle their debt more successfully now than they could before.

- Recreation companies and car rentals had the highest margins in 2016.
- Operations of recreation companies, airlines, and car rentals were best able to service their debt in 2016.
- Margins were highest on the Suðurnes peninsula and in East Iceland, where operations were best able to service their debt in 2016.
- Tourism companies in Northwest Iceland and the West Fjords are having more difficulties covering their debt.
- Icelandic tourism companies' estimated investment totalled ISK 73bn in 2016, an increase of 19% year-on-year.

**For further information
please contact tourism@islandsbanki.is**



