



ANALYSIS OF COVID-19 POTENTIAL IMPACTS ON US INTERNATIONAL AND DOMESTIC TRAVEL

MARCH 2020

Economic Situation

The main risk to the global economy and risk to the travel industry from COVID-19 is not contagion, or mortality, but rather it stems from the actions that national and local authorities have taken to curb the outbreak – called the lockdown paradox.

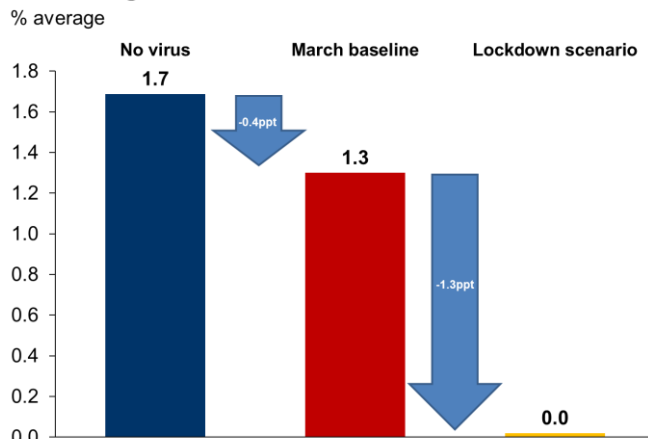
Indeed, as the coronavirus outbreak continues to spread, the damage on economic output is becoming increasingly visible. The “virus fear” has also generated a private confidence shock with anecdotal evidence of a pullback in discretionary spending, precautionary demand for staples ahead of a possible lockdown, businesses investigating contingency plans, and large events being cancelled. Supply chain disruptions from the China lockdown are now visible in global data with the official China manufacturing index plunging to a record low of 35.7 in February, and the US ISM manufacturing index pointing to domestic disruptions.

Two important points define the situation in a way that is different from SARS in 2003:

- **The importance of China:** China is now 16% of world GDP (it was 4% in 2003). In 2019, China supplied 7% of US overseas visits (it was 1% in 2002, implying a 700% increase). We are now seeing disruptions to both supply and demand. As such, anticipating a V-shaped recovery would be misguided. A U-shaped path for GDP growth now appears the most likely scenario. World GDP is expected to contract in Q1.
- **State of the global economy:** Importantly, we note that the virus shock comes against a backdrop of weakening economic activity. Prior to the outbreak, the manufacturing sector was experiencing its most severe slump since the global financial crisis, real GDP had posted its worst three quarters performance since 2016, and consumer spending was cooling.

We have shaved .4% off our latest US GDP forecast. While the Oxford Economics baseline economic forecast doesn't anticipate a recession with 1.3% GDP growth, if authorities decide to close schools, severely restrict travel and limit all nonessential movement, the US economy will fall into a recession – with zero GDP growth in 2020 – putting an end to the longest economic expansion ever. Fed easing is a positive factor. It won't help supply chains, but it can support confidence, ease financial conditions and lower cost of capital.

US GDP growth in 2020



Source : Oxford Economics

Travel Impacts

The most acute impacts are being felt in the travel sector due to three factors:

1. Official travel restrictions
2. Event cancellations
3. Risk aversion

Early indicators of Asian impacts are disastrous.

- Hong Kong overnight arrivals have fallen more than 90% and Thailand arrivals are down 70%.
- Five weeks ago, China was the third largest international aviation market in the world; today it ranks 25th, just behind Portugal according to OAG. Coronavirus has resulted in two-thirds of international capacity to and from China being cancelled.
- Global international travel expected to contract for the year, even if the world avoids a recession

Impacts in the US will be worse than SARS

We are currently modeling impacts based on an assumed five- to six-month crisis window but a longer impact on travel. The most affected market segments will be large events and overseas visits.

In 2003, overseas visits to the US contracted for 8 months with China falling 30% for the year and the rest of Asia falling 10%. Total international visits fell 5.4%. Canada and Mexico were less affected than overseas markets with declines of 2.5% and 1.9%, respectively.

The present declines appear likely to be worse than what the US experienced in 2003. China declines are exceeding the 56% decline experienced in second quarter of 2003. And Electronic Authorization for Travel Approval applications for visa waiver countries (primarily Europe, Japan, and South Korea) fell nearly 7% in February and are trending worse in the first week of March.

It's not implausible that international declines will be closer to what we experienced in 2001, when visits to the US fell 8.4%. Our current models expect an international visitor loss of 7.3%, concentrated in the second and third quarters of the year. In volume terms, this represents a decline of 4.6 million visitors and \$18 billion in spending this year.

Event cancellations will hurt larger cities with major international conventions. Groups represent about 24% of hotel room demand and we are receiving a steady flow of large event cancellation announcements. Certainly, a large share of events will continue as planned but attendance may falter.

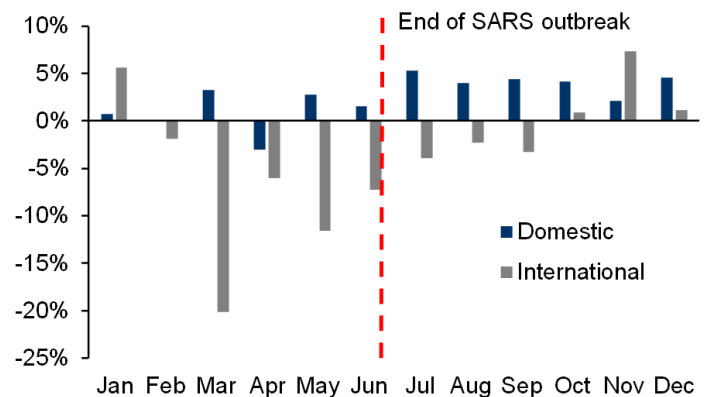
Industry Segments

Hotel sector – Interestingly, hotel room demand increased 1.3% in 2003, even with a 5.4% fall in international markets. Domestic demand only fell in one month in 2003.

- 12 million international hotel room nights will be lost in 2020 alone. Close to 1% of US hotel room demand will be forfeited. The STR/Tourism Economics US hotel room demand forecast from January (pre-crisis) called for 1.6% room demand.
- Short-distance domestic travel provided a “backstop” of travel activity, especially as travel abroad was curtailed. The period of lower air travel produced pent up demand and strong growth when the outbreak concluded.
- International markets recovered more slowly but began posting growth 3-4 months after the crisis was resolved.

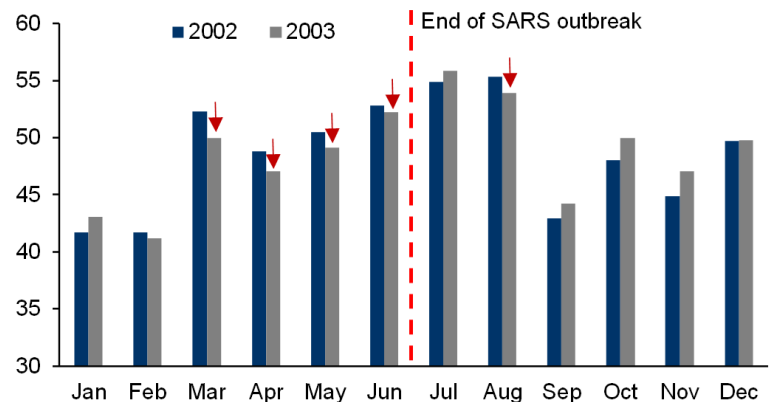
Aviation – Domestic air travel contracted for 4 months in 2003 as travelers shifted to other transport modes. Domestic air was flat for the year in 2003. The market appears to be softer right now as carriers have announced cutbacks on domestic routes.

Room demand
% change y/y, 2003



Source: STR, NTTO, Tourism Economics

Domestic air passengers
Millions

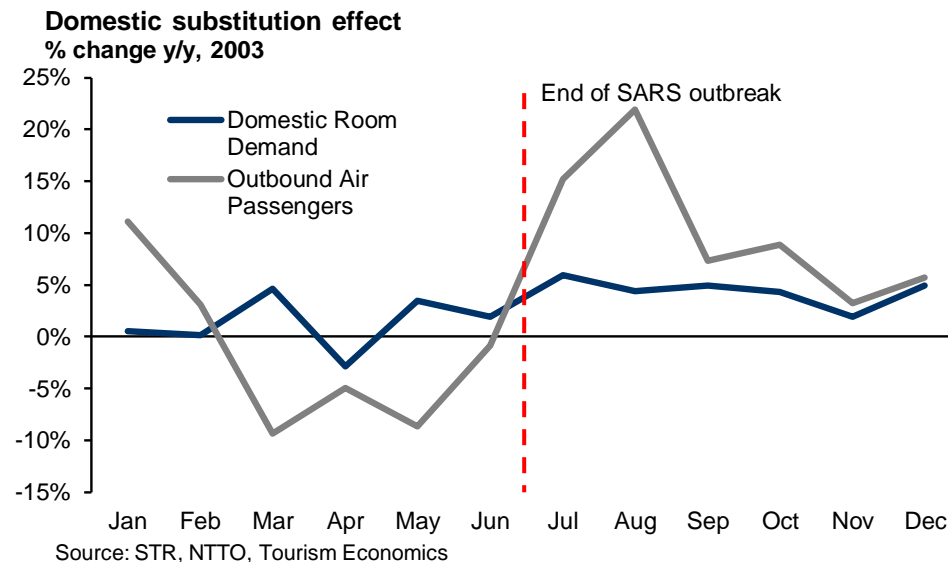


Source: BTS

Mitigating Factors

Domestic travel

US residents chose not to travel abroad in 2003 and outbound trips declined 5% in 2003. Meanwhile, domestic travel grew. This percentage decline in outbound travel in 2020 would be the equivalent of 5 million trips. This could compensate for a large share of international losses if a share of these trips is converted into domestic travel.



Non-Asia markets

Canada, and Mexico, Europe are likely to recover faster than Asia as the US may be viewed as a relatively safe destination.

Resilience of travel

Tourism Economics has analyzed over 50 external shocks to travel which has confirmed a typical strong recovery period after a crisis due to pent up demand.

For example, after SARS was resolved, travel surged in 2004:

- Hotel room demand surged 4% (acceleration started in 2003Q4, averaging 3.5%)
- International travel increased 12%
- Domestic Air increased 8% in 2004

However, we do see risks of deeper impacts than in 2003 and a longer economic effect. The 2004 recovery was accompanied by robust US economic growth over 3%. The current economic situation, both in the US and globally is more tepid and at risk due to the ongoing effect of COVID-19 on consumer confidence, corporate investment, and trade.

3/6/2020

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