

Global Travel and Tourism Sector – From Survival to Revival



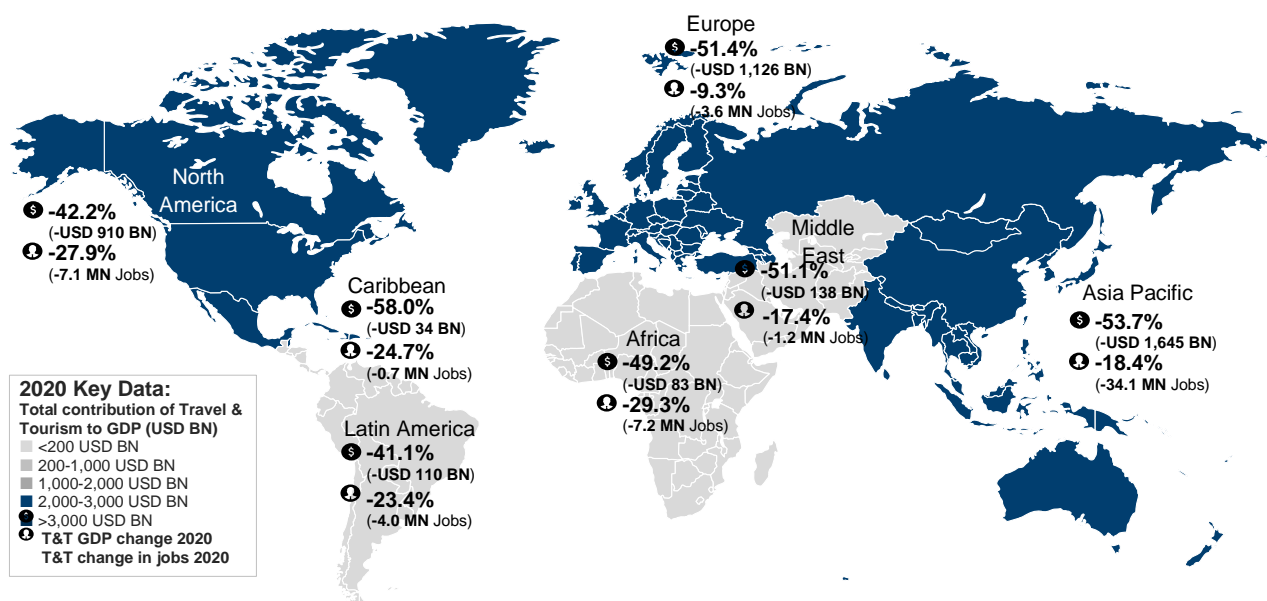
Global Travel and Tourism Sector – From Survival to Revival

Among sectors affected by COVID-19, travel and tourism has been the worst hit. The sector bore the brunt of the pandemic as governments across the globe imposed strict lockdowns and travel bans. More than one and a half years after the pandemic outbreak, the sector is gradually recovering, supported by vaccination drives as well as decline in COVID-19 infections in several parts of the world. Although new cases have been emerging in some parts of the world and fear of a new wave of coronavirus looms large, significant pent-up demand is expected to drive growth in this sector.

Travel and tourism industry significantly impacted by COVID-19

COVID-19-induced lockdowns and travel restrictions have had a disruptive impact on the global travel and tourism sector. As per the World Travel and Tourism Council, the sector suffered a loss of almost USD4.5 trillion in 2020. The sector’s GDP plummeted 49.1% in 2020 year-on-year, compared to a 3.7% decline in global GDP in 2020. This resulted in a sharp drop in the sector’s contribution to global economy, from 10.4% in 2019 to 5.5% in 2020. Domestic visitor spending decreased 45% during 2020, while international visitor spending declined 69.4%. Additionally, the travel and tourism sector, which is labor-intensive, has accounted for majority of job losses during the pandemic. Employment in the sector slumped 18.5% in 2020 (job losses totaled 62 million).

Region-wise impact of COVID-19 on travel and tourism (T&T) GDP, jobs



All values are in constant 2020 prices & exchange rates (as reported in March 2021)

Source: World Travel and Tourism Council

Government support helped travel and tourism absorb losses

Given the sector’s substantial contribution to the global economy and the large number of people it employs, governments across the world launched various initiatives to support the sector. As an immediate response to the crisis, most governments provided general economic stimulus packages. Most of the countries, particularly those severely impacted by the decline in tourism, introduced measures to provide financial relief to tourism SMEs, such as tax payment deferral and tax rate reduction.

The UK provided job security and rescue package for the sector affected by COVID-19:

- The country introduced the Coronavirus Job Retention Scheme under which small and large employers could apply for a government grant of 80% of workers' salaries, up to GBP2,500 a month.
- It announced a GBP330 billion financial rescue package to support and protect businesses affected by COVID-19, including those in the retail, hospitality, and leisure sectors.

The US provided a stimulus package with specific provisions for aviation and hospitality businesses:

- The country launched a USD2 trillion stimulus package, including USD50 billion for US passenger airlines (half in grants and half in loans) and USD10 billion for airports. In addition, hotels were provided access to loans, capped at 250% of their monthly payroll, under the condition that they re-hired employees in the stipulated time. The stimulus package was launched with the aim to support travel advisors as well.

The EU provided financing support to SMEs:

- The EU unlocked EUR1 billion as a guarantee for the European Investment Fund; this enabled the Fund to issue special guarantees for available financing of up to EUR8 billion, incentivizing banks and other lenders to provide liquidity to SMEs and small mid-cap companies.

Although the various measures implemented by governments around the world have provided some relief to the travel and tourism sector, it still feels the impact of the pandemic. Hence, most of the countries are now focusing on finding a balance between taking precautionary measures and reopening tourism activities. This will allow the sector to recover, supported by an increase in consumer confidence.

Changes in travel industry amid pandemic reflected in recent shifts in trends, consumer preferences

While the travel industry is gradually getting back on its feet, the pandemic has changed how and where people travel and influenced consumers' preferences.



Domestic vacation and staycation are preferred options: Domestic tourism is resuming at a faster pace compared to international tourism, mainly due to varied quarantine norms for people travelling from different countries, obligatory COVID-19 tests before and after arrival, and concerns related to contracting the virus from a foreign country. As per a study conducted by Booking.com, 53% of travelers prefer shorter holidays now (compared to 2019).



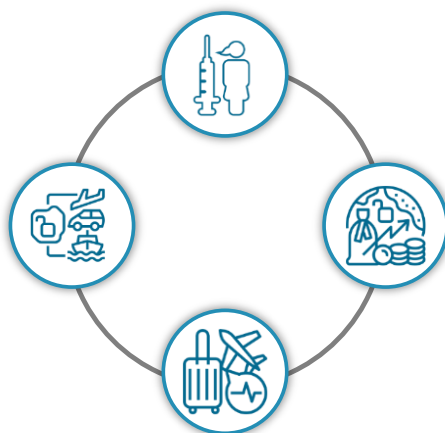
Social distancing, hygiene given priority: Amid the COVID-19 pandemic, people have been focusing on hygiene and social distancing while choosing destinations and tourist activities – travelers prefer to stay at hotels and resorts which give paramount importance to sanitation and cleanliness.



Flexible cancellation policies encouraging travelers to make reservations: Prior to COVID-19, the probability of cancelling a planned trip was minimal. The outbreak has forced several travelers to change their travel plans, either due to travel restrictions at the preferred destination or due to the travelers falling ill before the travel. Hence, travelers prefer booking hotels or flights which allow cancellation or rebooking.

The travel and tourism industry has changed significantly after the outbreak of the pandemic and may never be the same again. Key subsectors such as resorts and airlines and the overall hospitality industry have digested the shift and accordingly amended their offerings to encourage people to undertake travel fearlessly once again.

Reopening by countries, vaccination drives played key role in revival of travel and tourism



Reopening of tourism activities by several countries encouraging travel: Nations across the world are slowly resuming activities, including travel and tourism, depending on the COVID-19 situation in a particular region. Several countries are also relaxing restrictions on international travel. However, risks posed by the spread of the delta variant and resurgence of infections in certain countries such as Japan and China are hindering the reopening efforts. Nevertheless, increasing the vaccination rate has helped in mitigating the concerns.

Vaccination crucial for sector's revival: According to the data collected by Bloomberg, more than 6.4 billion doses have been administered across 184 countries – 34.7% of people have been fully vaccinated and 11.7% have been partially vaccinated. However, the rate of vaccination in low-income countries stands well below that in high-income countries, posing a major challenge. Globally, more than 50 countries have achieved more than 60% coverage (number of doses administered sufficient to cover full vaccination of 60% of the population). The latest vaccination rate stands at approximately 28.7 million doses a day. At this rate, it would take at least six months to vaccinate 75% of the global population, a coverage rate which experts believe is required to achieve herd immunity.

Case study: Thailand's approach for tourism sector revival

Thailand, like other countries, imposed travel restrictions on foreign visitors to contain the spread of the coronavirus. With the number of new infections declining and the vaccination program being rolled out countrywide, Thailand is reopening tourist destinations phase-wise. The timeline for reopening is given below.

June 07, 2021: Launched mass vaccination program

July 01: Launched Sandbox program to reopen tourist destination in a phased manner; reopened Phuket to vaccinated foreign visitors, without any quarantine requirement

July 15: Reopened Koh Samui, Koh Pha Ngan, and Koh Tao islands to vaccinated foreign tourists

September 22: Postponed the next phase of reopening from October 01 to November 01 as the vaccination rate in the targeted cities was less than 70%

October 01: Restarted the visa-on-arrival facility for visitors from 18 countries

November 01: Reopened 10 more destinations, including Bangkok and authorized areas in Chiang Mai, Chon Buri, and Ranong; quarantine-free travel permitted for fully vaccinated tourists from 46 countries

December 01: Would extend reopening to 20 more provinces

January 01: Would reopen 13 border provinces

The reopening plan is expected to attract 3 million international tourists to the country this year. Around 20 million foreign tourists are expected to visit Thailand in 2022. Although the number is still way below 40 million visitors in 2019, it is indicative of expected gradual recovery in the tourism sector.

Pent-up demand-induced revenge tourism to support sector get back on track

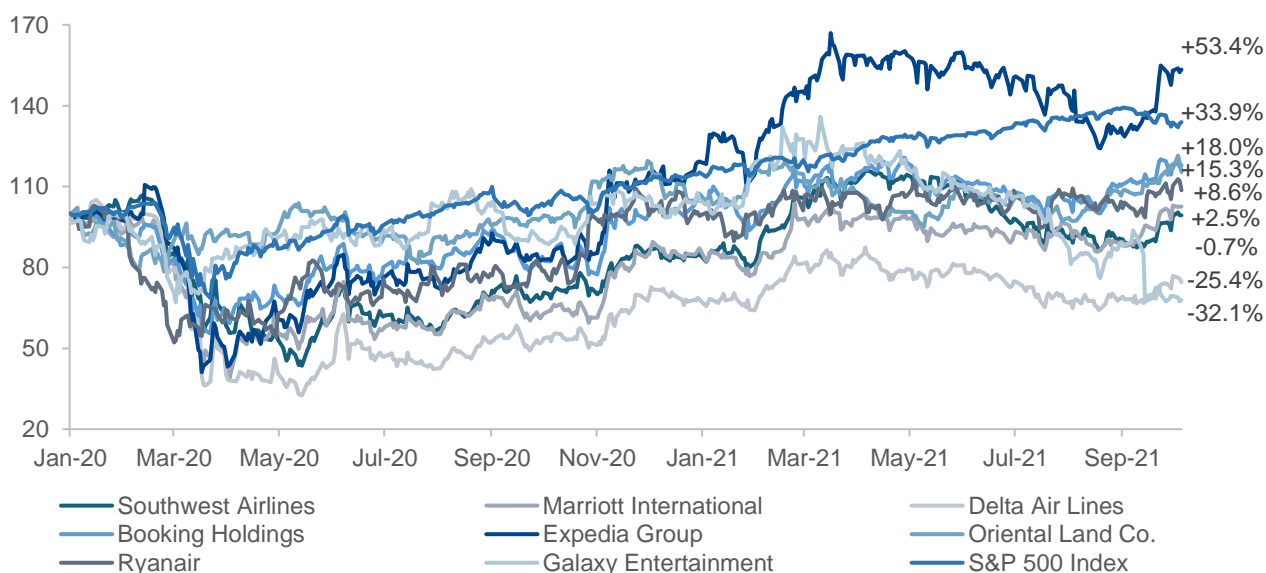
Since March 2020, countries across the globe have been imposing complete or partial travel bans. Moreover, in various parts of the world, complete lockdown had been imposed, depending on the rate of infections and spread of second and third waves in those regions. Hence, as restrictions ease, people are looking to resume travel which has caused a sudden surge in demand for tourism. This trend, which has been observed in several parts of the world after the easing of travel restrictions, bodes well for the travel and tourism sector; in addition, it provides an opportunity for the sector to regain lost ground. However, the industry must be aware of the post-pandemic changes in consumer preferences and embrace the new-normal business environment to provide best experience to consumers, while keeping up with social responsibility.

With most countries accelerating their vaccination drives, increasing awareness among people, rise in vaccine production capacities, and approvals for new vaccines, the immunization rate is likely to improve in the coming months. As travel relaxations are mainly offered to fully vaccinated people, increasing the vaccination coverage would boost the number of travelers. Hence, vaccination is expected to play a vital role in the recovery of the global travel and tourism sector.

Travel and tourism stocks likely to catch-up with other sectors after missing broader market rally

Stock markets globally witnessed a strong rally, after recovering from the pandemic-induced slump last year. Most sectors participated in this rally, supported by the improved economic outlook and receding pandemic-related uncertainties. However, majority of travel and tourism companies underperformed the broader market. The performance of the stocks of some of the largest firms in the travel and tourism business, alongside that of the S&P 500 index, since the beginning of FY20, is illustrated below. With the reopening of travel, these sectors are expected to not just participate in the rally but also regain lost ground rapidly.

Travel and tourism stock performance



Source: Bloomberg

A comparison of the returns of major companies in the sector with those of S&P 500 during this period shows that only Expedia Group outperformed the market (all other companies underperformed). Airline companies' stock returns were subdued; the Dow Jones US Airlines index was down 21% over the same period. Thus, with the resumption of domestic and international travel in several countries and increase in demand as expected, the sectors to watch out for, going forward, include aviation and those related to travel.

The world is returning to normalcy gradually. Due to the pandemic, majority of the population was confined to their homes and localities. As travel restrictions around the world ease, people are eager to resume travel, indicated by the increase in the number of enquiries for stay and higher occupancy levels at hotels. The travel sector is poised for not only revival but a stellar comeback, circumventing the recovery stage, unlike most of the other sectors. This presents an excellent opportunity to invest in quality stocks in the travel industry which are expected to reach new highs at an accelerating pace.



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