20 Nov 2019

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Global Travel Service

Global Highlights & Risks, November 2019

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Global travel demand is forecast to moderate in 2019 to 3.6%, down from 5.9% in 2018.

Global Travel & Tourism Trends

- Global travel demand continues to mirror the slowdown in the global economy as the US-China trade war is restraining economic growth. International visitor arrivals are set to grow 3.6% in 2019 (down from 5.9% in 2018), with a further loss in momentum expected in 2020 with growth slowing further to 2.8%.
- The Asia-Pacific region faces major challenges for the remainder of 2019 and 2020, with a marked slowdown in China's outbound travel growth as the US-China trade war weighs on Chinese activity. Further, the protests in Hong Kong show no sign of dissipating and will remain a serious issue for the region moving forward. Inbound travel is expected to grow 3.6% in 2019 and 4.0% in 2020.
- European inbound travel is forecast to slow dramatically from 6.1% in 2018 to 3.6% in 2019, reflecting a struggling European economy and continued uncertainties around Brexit. Further slowdown, to just 2.2% arrivals growth is also expected in 2020, as both intra-regional and long-haul demand continue to soften.
- Travel demand to the Americas has also slowed in 2019, but not to the same extent experienced in other regions. Inbound travel is expected to grow 2.1% in 2019 across the region, down from 2.5% in 2018. Slowdown in North America, including a notable drop in US arrivals in 2019 is being partly offset by healthy recovery in the Caribbean.
- Africa and the Middle East will outpace global growth in arrivals in 2019 and 2020. Improvements in infrastructure and increased accessibility through greater air connectivity and easing visa policies have enabled this strong growth. Inbound travel to Africa is expected to grow 6.8% in 2019 and 3.7% in 2020; while inbound travel to the Middle East will remain healthy in 2019 at 4.4%, before slowing to 3.7% in 2020.

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Global GDP is forecast to slow to 2.5% in 2019 and 2020.

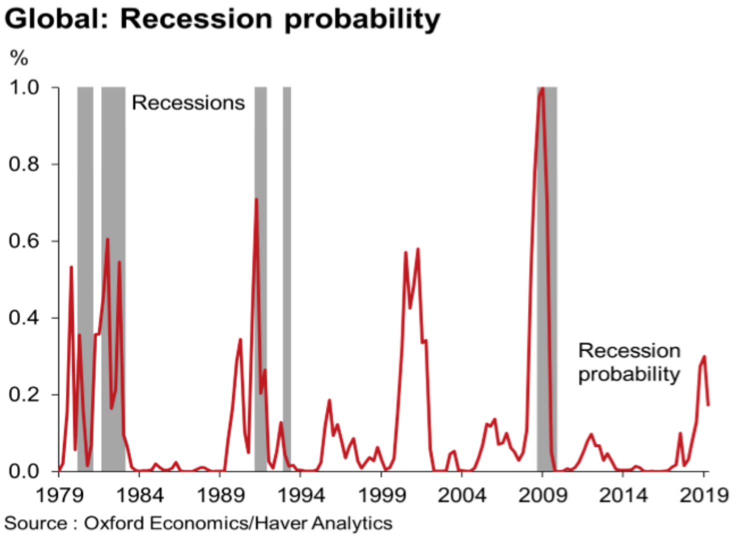
The US-China trade war continues to have negative repercussions upon the world economy.

Global Macroeconomic Outlook

The global economy is continuing to slow with world GDP growth forecast to moderate to 2.5% in 2019, just below 2016's post-crisis low of 2.6%. There is little indication that an imminent rebound is on the horizon, with global GDP to remain stable at 2.5% in 2020. Several factors are responsible for this slowdown, including enduring geopolitical uncertainties, a sluggish pace of recovery in the Eurozone, a peaking fiscal stimulus in the US and rising protectionism across the globe.

Protracted US-China trade hostilities and uncertainty within the global economy has impacted the decisions pursued by businesses, with many firms scaling back investment and employment. Political insurgence in major economies such as Hong Kong, Spain and Chile reflect the intensification of unrest, which is felt across the globe, dampening economic prospects and deterring trade.

The risk of a global recession is currently estimated at 30% for 2020, however there are positive signs that the global economy will slow rather than enter recession in 2020. One of which is the tentative agreement of the 'phase one' deal between the US and China which involves a postponement of additional US tariffs while China agreed to increase purchases of US agricultural products. However, this deal does not resolve fundamental disagreements between the world's major economies, and a cautious outlook remains.



The economic outlook for the US remains subdued due to the trade uncertainty and the effects of fiscal stimulus that has supported recent growth have eased. However, household activity continues to support growth. Consumers have retained a high level of confidence, and the US labour market has continued to expand to date, although there are some early signs of slowing employment growth. We forecast that real GDP growth in the US will ease from 2.3% in 2019 to 1.6% in 2020.

China's economic growth continues to suffer at the hands of a weak external environment and the enduring US-China trade war, with GDP forecast to grow 6.1% in 2019. Policy measures including greater tax cuts have been pursued domestically to counteract this slowdown, while internationally, the 'phase one' agreement with the US has provided a slight relief for the Chinese economy. However, credit growth has remained soft and the PMI index continues to point to weakness. We forecast GDP growth to slow further in 2020 to 5.7%.

The Eurozone economy continues to be adversely affected by the waning global external environment as trade uncertainties have triggered a slump in export demand and business sentiment. Germany presents a major challenge to the Eurozone economy as it remains

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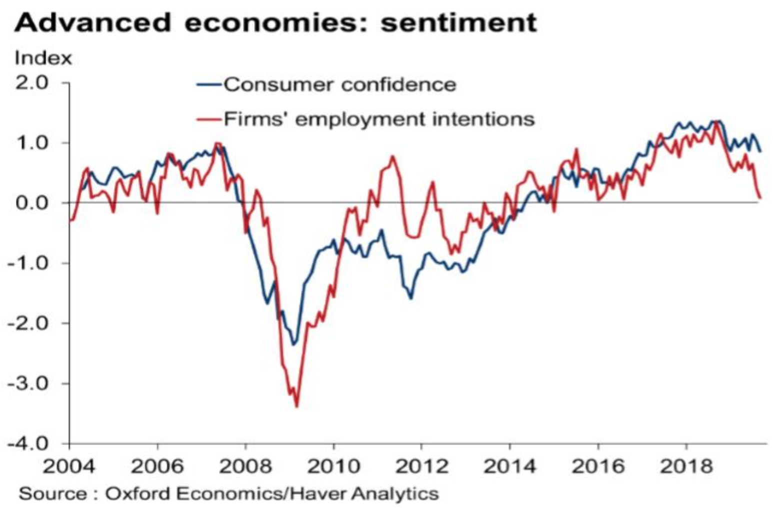
on the brink of a recession and while Q3 GDP figures were better than expected the German economy remains in a vulnerable position. Despite the trade related drag on growth, the Eurozone economy is bolstered by a healthy labour market and resilient domestic demand although these gains are diminishing. A broad stimulus package announced by the ECB in September should help to counteract the weakening economic backdrop and mitigate knock-on effects from falling export demand from feeding through to domestic demand. We forecast modest GDP growth in 2019 and 2020 for the Eurozone at 1.2% and 1.0%.



Brexit-related uncertainty continues to weigh on the UK economy, with modest GDP growth forecast for 2019 and 2020 at 1.3% and 1.1%. The EU has agreed to another extension of the deadline for Brexit until the end of January 2020 (or earlier) once the UK parliament approves the latest negotiated Brexit deal. In the meantime, the UK is set to go to the polls on 12th December as the government has called another general election in an attempt to raise the necessary support to pass the deal through Parliament. This adds a further layer of uncertainty as the outcome of the election could alter the form and timing of the final Brexit outcome. Despite the high levels of uncertainty surrounding Brexit, we maintain that an ‘orderly’ Brexit is the most likely outcome but acknowledge that a ‘no-deal’ Brexit remains a possibility, while no Brexit still cannot be ruled out.

Emerging markets remain vulnerable to domestic and external headwinds.

Emerging markets (beyond China) continue to face both domestic and external challenges. The sustained strength of the dollar has negatively impacted emerging markets by intensifying the burden of dollar-denominated debt, limiting capital inflows and forcing up interest rates. However, inflation performances have largely surprised to the downside in the past few months, amid weak demand and relatively stable currencies. This has enabled many emerging markets, including Brazil, Russia, India and South Africa to ease monetary policy to help soften the repercussions of the global slowdown while Chile, India and Russia have announced fiscal stimuli to boost activity in late 2019 and into 2020.

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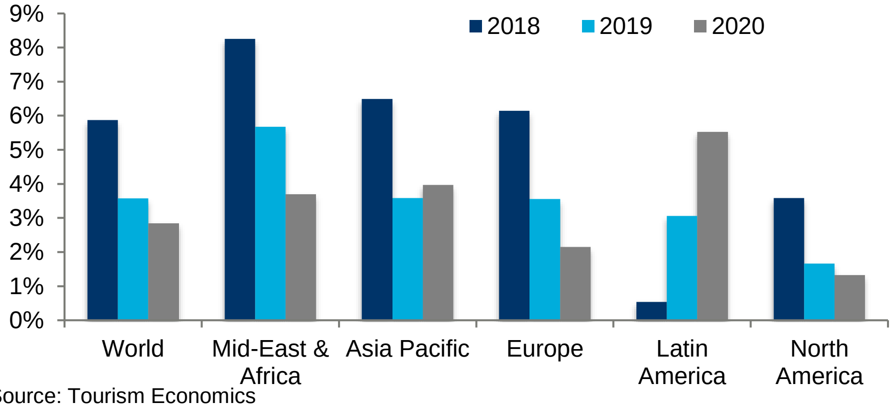
Global Travel & Tourism Outlook

Global travel demand is forecast to moderate to 3.6% in 2019 from 5.9% in 2018.

The softening global economic backdrop has unsurprisingly impacted travel and tourism trends with a simultaneous moderation in growth forecast for 2019. Inbound travel is expected to ease from 5.9% in 2018 to 3.6% in 2019. All regions are expected to endure a loss in momentum in 2019, except for the Middle East which is forecast to uphold its 2018 growth rate of 4.4% in 2019. A further weakening in global travel demand is forecast for 2020 with inbound travel forecast to grow 2.8% - significantly lower than the previous peak of 7% in 2017.

Global Tourist Arrivals by Destination Region
Annual growth, %



Source: Tourism Economics

Despite a gloomy global outlook for 2020, there are some positive growth expectations to highlight. Inbound travel to the Americas is forecast to pick-up from 2.1% in 2019 to 2.8% in 2020, largely driven by a pick-up in growth in inbound travel in Central & South America. Asia is also forecast to enjoy an acceleration in arrivals growth from 3.6% in 2019 to 4.0% in 2020. However, both regions will remain slower than in recent years and carry some degree of downside risk if protests in Hong Kong and Chile continue into 2020.

International arrivals to Europe are forecast to grow 3.6% in 2019.

European travel demand is set to grow just 3.6% in 2019, a considerable slowdown from the growth achieved in 2018 at 6.1%. This loss in momentum is expected to continue into 2020, with visitor arrivals growth forecast to moderate further to 2.2% driven in large part by softening economic growth – with risks tilted to the downside

On top of the weakening economic backdrop and Brexit uncertainty, 2019 has seen some high-profile troubles in the airline industry, which has affected flows in the short-run. The UK's oldest tour operator, Thomas Cook, collapsed while Slovenia's national airline, Adria Airlines also ceased operation and there are persistent reports of falling profits from Germany's largest airline, Lufthansa. However, load factors and profitability levels remain relatively high and these failing businesses are not fully reflective of the industry, which is continuing to provide sufficient capacity and low enough prices to sustain demand growth.

Intra-regional growth is softening but becoming more important amid a larger slowdown in long-haul demand. Travel from the US to European destinations continues to rise at strong rates, supported by the high value of the US dollar against European currencies. Demand from other long-haul source markets, including China, has been much more subdued in 2019. Weaker outbound trends from these markets means further slowdown is expected to persist into 2020.

Brexit continues to dampen travel flows to and from the UK, with just 0.4% growth in outbound travel likely for 2019. The uncertainty surrounding Brexit provides a clear risk to this weak growth outlook. A recent update of our brief on the impact of a 'no deal Brexit' on the UK's travel and tourism industry indicates that UK outbound travel would be

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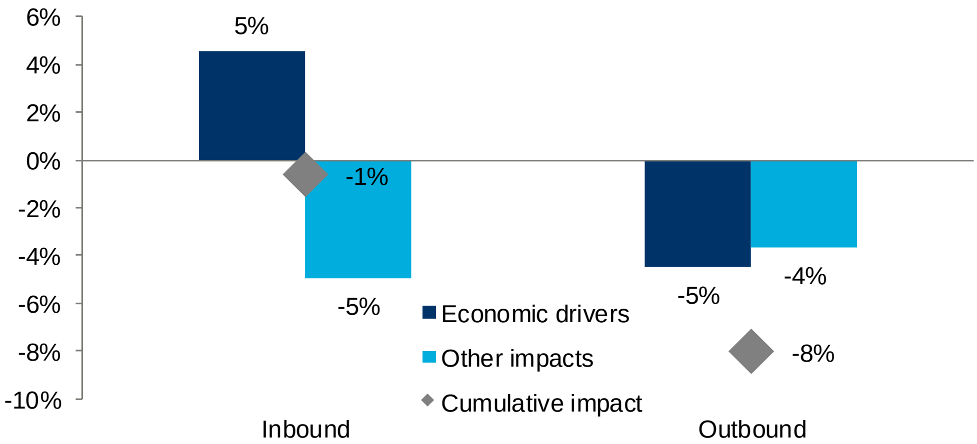
impacted to a greater extent than inbound travel. Under a 'no-deal' Brexit, UK outbound travel would be 7% lower in 2020 than under baseline projections. However, this effect would be mitigated by unilateral proposals to facilitate travel from the UK to key destinations, such as Spain and Portugal.

UK inbound travel is also affected by sentiment effects relating to Brexit and lacklustre growth in international arrivals of 0.8% is expected for 2019. Under a no deal Brexit, UK inbound travel would be less affected due to the benefit weaker pound; however, sentiment factors will be important in determining the direction of impact. In the longer run there is the risk that the UK's hospitality sector could face a labour shortage as EU nationals represent a disproportionate part of the workforce.

Impact on UK Inbound & Outbound of 'No Deal' Brexit, 2021

% difference relative to baseline



Source: Oxford Economics

Travel demand to the Americas is forecast to grow 2.1% in 2019, with North America facing the greatest slowdown in arrivals.

Travel to the **Americas** is expected to grow 2.1% in 2019, a modest slowdown from 2018 growth of 2.5%. While inbound travel to North America slowed considerably in 2019, it was largely offset by a robust recovery in inbound travel to the Caribbean. Travel demand growth is forecast to accelerate in 2020 to 2.8%, with Central and South America largely responsible for this expansion in visitor arrivals.

Inbound travel to North America is forecast to slow from 3.6% in 2018 to 1.7% in 2019, with the US largely responsible for the slower growth. International travel to the US is set to decline 1.6% in 2019, with arrivals having fallen in 8 out of the past 10 months. Travel from the US's largest two source markets – Canada and Mexico – is estimated to have contracted 4% in 2019, with large drops in travel from a number of other important source markets including Brazil, China, Korea and Argentina. The persistently strong dollar and enduring trade and political tensions have contributed to the US loss in market share.

Central and South America inbound travel is expected to grow 1.2% in 2019, with lacklustre Brazil travel demand and social unrest in Chile weighing on regional performance. The outbreak of protests in Chile has had a large impact causing flight cancellations while major events have also been affected; for example, the UN climate conference has been moved to Madrid. We estimate Chile inbound arrivals will fall 10.5% in 2019 before social policy plans announced by the President help to tackle the social unease. A return to growth is anticipated in 2020, helped by a weakening Chilean peso. Inbound travel to Brazil should also pick up, as negative currency effects are expected to ease. Inbound travel to Central and South America is forecast to accelerate to 5.4% in 2020 in our baseline view, although risks are firmly on the downside.

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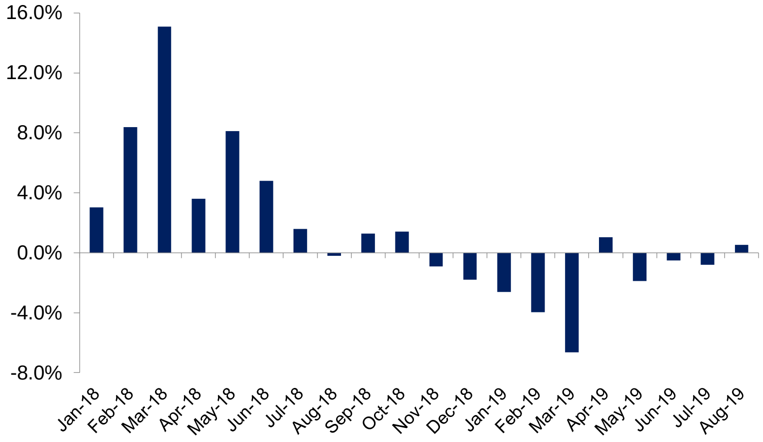
US international inbound arrivals

% change y/y



Source: NTTO, StatCan, Banco de Mexico

The outlook for the Caribbean is more optimistic with a marked up-tick in travel demand in 2019 of 6.5%. This reflects the rebound from the damage inflicted by hurricanes. Puerto Rico epitomises this recovery as international arrivals are expected to grow 25.8% in 2019, reflecting the country's conscientious efforts to rebuild its tourism industry in a bid to bolster the wider economy.

Elsewhere, Cuba has been dealt another blow by the Trump administration through the announcement to suspend flights to Cuba after already banning the docking of cruise ships in Cuba earlier in the year. A modest fall in arrivals is expected for 2019 and follows the doubling of arrivals over the past ten years. While visits remain historically high, there will be a more modest growth in vital foreign revenue for Cuba.

A slowdown is forecast for Asia inbound travel, with international arrivals slowing from 6.5% in 2018 to 3.6% in 2019.

Asia inbound travel is forecast to grow 3.6% in 2019, down from 6.5% in 2018, with all sub-regions easing. Sluggish world GDP growth alongside tempestuous US-China trade relations have contributed to this weakening travel and tourism outlook.

The anti-government protests in Hong Kong continue to deter visitors and the tourism industry is suffering its worst slump since the 2003 SARS outbreak. The protests have brought the city to a standstill, with large knock-on impacts on the hotel and retail sectors. The protests have also prompted the closure of the airport at times, affecting arrivals and departures for Hong Kong. The enduring nature of the protests and international media attention has affected traveller confidence, with visitors from a wide range of origin markets opting to steer clear of Hong Kong. This in itself is very different to the impacts of the 2014 protests, which primarily deterred travel from China. With no end to the protests in sight, this presents a large downside risk for Hong Kong as a travel destination.

China's outbound travel is forecast to experience a considerable slowdown from 8.4% in 2018 to 2.5% in 2019 as the US-China trade war continues to have negative repercussions on demand, as detailed in a new report. However, it is Asia that is feeling this slowdown most intensely as around 80% of Chinese trips remain within the region.

Middle East travel demand is forecast to remain stable in 2019 at 4.4%.

Travel demand to the **Middle East** kept pace in 2019, with a stable rate of growth at 4.4%. Despite the ongoing blockade imposed by the GCC countries, Qatar is on track to achieve arrivals growth of almost 16% in 2019, helped in part by continued momentum from looser visa policies introduced in 2017. However, this does not fully offset the falls in prior years and arrivals will remain almost 30% lower than the 2015 peak. Tourism-friendly initiatives alongside an increased effort to improve the openness of the country are enabling the sector to recover and grow demand from non-blockading countries.

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Saudi Arabia is making a dedicated effort to drive tourism to the country in an attempt to relieve the economy's reliance on oil. The government's decision to relax previously restrictive laws and to launch a new visa regime has seemingly positively impacted the tourism sector with forecast foreign arrivals growing almost 10% in 2019. However, the full benefits are likely to be realised in the longer run along with other developments in tourism infrastructure within the country.

The UAE is forecast to enjoy an acceleration in visitor arrivals growth in 2020, with Expo 2020 providing the bulk of the impetus. Dubai is set to host the largest event to ever be held in the Middle East which will attract visitors from across the globe.

Africa is forecast to attain the fastest rate of growth by region in 2019 at 6.8%. However, this marks a significant drop from the growth rate achieved in 2018 (12%) mirroring the slowdown in travel demand globally. Inbound travel to Africa is also forecast to outpace global international arrivals in 2020, albeit at a lower rate of 5.3%.

Tunisia is outperforming Africa as a whole in 2019, with international arrivals set to increase 15% as part of the continued revival from the terror attacks in 2015. The collapse of Thomas Cook raised fresh concerns for the country's travel sector as the travel operator was a major supplier of tourists to the country. However, the decision made by Hays Travel to buy Thomas Cook may ease anxieties while the government also stepped in to offer additional assistance to the hotel industry by providing soft loans.

TDM Visitor Growth Forecasts, % change

	Inbound*						Outbound**					
	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022
data/estimate/forecast	d	d	e	f	f	f	d	d	e	f	f	f
World	**7.0%**	**5.9%**	**3.6%**	**2.8%**	**4.0%**	**3.8%**	**6.4%**	**5.6%**	**3.3%**	**2.8%**	**4.0%**	**3.9%**
Americas	**4.9%**	**2.5%**	**2.1%**	**2.8%**	**4.0%**	**3.6%**	**6.6%**	**4.3%**	**2.4%**	**2.2%**	**3.4%**	**3.0%**
North America	4.5%	3.6%	1.7%	1.3%	3.2%	3.0%	6.1%	5.5%	3.1%	2.1%	3.1%	2.8%
Caribbean	3.3%	-0.3%	6.5%	5.7%	5.0%	4.4%	15.4%	1.3%	4.6%	1.9%	2.4%	3.0%
Central & South America	7.1%	1.0%	1.2%	5.4%	6.0%	4.8%	7.5%	0.1%	-0.5%	2.8%	4.5%	3.6%
Europe	**8.4%**	**6.1%**	**3.6%**	**2.2%**	**3.2%**	**2.9%**	**6.3%**	**5.6%**	**3.4%**	**2.4%**	**3.7%**	**3.3%**
Western Europe	7.7%	4.5%	2.5%	1.6%	2.7%	2.5%	3.9%	4.1%	2.9%	1.9%	3.3%	3.1%
Eastern Europe	10.0%	9.5%	5.6%	3.3%	4.2%	3.7%	13.6%	9.7%	4.5%	3.5%	4.7%	3.9%
Asia & the Pacific	**5.8%**	**6.5%**	**3.6%**	**4.0%**	**4.8%**	**5.0%**	**7.6%**	**6.9%**	**3.5%**	**3.7%**	**4.9%**	**5.2%**
North East	3.4%	6.1%	2.9%	4.3%	4.8%	5.0%	5.8%	6.8%	2.7%	4.1%	5.1%	5.5%
South East	8.8%	7.4%	5.0%	3.0%	4.2%	4.8%	12.1%	8.4%	4.6%	1.9%	4.0%	4.2%
South	8.0%	6.3%	1.8%	7.3%	7.4%	6.0%	11.7%	5.5%	6.6%	5.5%	6.4%	6.2%
Oceania	5.8%	3.9%	2.7%	3.5%	4.9%	5.3%	6.0%	4.7%	3.4%	4.2%	3.9%	5.6%
Africa	**12.3%**	**12.0%**	**6.8%**	**3.7%**	**5.3%**	**5.1%**	**1.0%**	**6.0%**	**4.8%**	**3.3%**	**5.0%**	**3.9%**
Mid East	**0.1%**	**4.4%**	**4.4%**	**3.7%**	**5.6%**	**5.8%**	**2.9%**	**3.8%**	**4.4%**	**3.7%**	**4.8%**	**5.6%**

* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flows
** Outbound is based on the sum of visits to all destinations
Source: Tourism Economics

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