ECONOMY UPDATE
US and Europe become new coronavirus epicentres as ‘lockdowns’ curtail economic activity

SUMMARY
The current economic outlook is highly uncertain as the coronavirus pandemic continues to develop and as such, there is a higher degree of uncertainty attached to the Oxford Economics baseline forecast than under normal circumstances. The details provided below are a reflection of the current situation. However, at such an uncertain time, especially for the Travel & Tourism sector, it is important to recognise that forecast revisions are highly likely with further downgrades to be expected. In addition, major downside risks around and lower than normal probability of the baseline scenario means that downside scenarios are more likely than usual.

UNITED STATES
Economic data indicates the US economy is in recession as a result of the coronavirus pandemic, with a massive pullback in discretionary and social spending likely to lead to the sharpest quarterly contraction in consumer outlays on record in Q2. In addition, Oxford Economics expects business investment and trade to shrink by the most since the Great Financial Crisis, with an anticipated total GDP shortfall of $385bn in 2020. Early data on initial claims for unemployment point to a significant surge in the unemployment rate for next month, with a record 6.6mn new claims. The Fed decided to cut the federal funds rate to 0.125% and relaunched quantitative easing and revived emergency measures from the Great Financial Crisis to try and increase the supply of credit. Congress approved the passing of a record $2tn stimulus package for economy security, this will be the third piece of legislation passed in the form of as a fiscal stimulus, loans and loan guarantees amounting to 9% of GDP. Stimulus spending of this magnitude is not only warranted, but indispensable, though it may still be insufficient to address the widespread and large economic losses.

UNITED KINGDOM
The government has announced a strict lockdown across the country after introducing social distancing measures, including discouraging people from visiting restaurants, pubs and cinemas, and closing schools for the majority of pupils. These measures are likely to be in place for several months and there is a risk that more harsh measures could be adopted if the virus continues to spread rapidly. The MPC has reacted to the escalating crisis by cutting the Bank rate by 65bp to 0.1% and restarting quantitative easing with £200bn of asset purchases. It has also introduced a new Term Funding scheme, with additional incentives for SMES, which aims to ensure a pass-through of the rate cuts. Meanwhile, the Financial Policy Committee and Prudential Regulation Committee have instigated a number of measures aimed at sustaining the supply of credit. The Chancellor loosened fiscal policy by 2% of GDP and provided government backing of £330bn of loans to business as well as promising to pay 80% of employees’ wages to support employment levels and individuals’ incomes.

EUROZONE
With the number of coronavirus cases spreading across the continent and partial or full lockdown measures in place in most European countries, the economic impact from the health crisis is going to be massive. The eurozone is headed for a historically deep recession in H1. PMI figures for March showed the initial impact of the coronavirus outbreak, with the eurozone PMI collapsing to a new historic low of 31.4 from 51.6 in February as severe containment measures are put in place in many countries. However, the PMI figures for April are expected to be worse as they will reflect the implementation of even harsher lockdowns. The baseline assumes the brunt of the impact will be centred around March and April, with a gradual recovery afterwards, which should pick-up in H2 as lockdowns are lifted and monetary and fiscal stimulus feeds through. The ECB announced a massive new QE package worth €750bn. Combined with the liquidity for banks in place, this makes the ECB’s monetary policy stance very accommodative as its tries to protect the economy from the unprecedented crisis.

CHINA / ASIA
Data from January and February indicate China was affected more than anticipated from coronavirus and the lockdown measures put in place to contain the virus. Some restrictions on the movement of people remain in place and have led to a slower return to normality than expected. Oxford Economics expect GDP to plunge in Q1, with a sequential recovery from Q2 as economic life largely returns to normal, with Wuhan partially re-opening after more than two months of isolation. The recovery will be constrained by domestic demand weaknesses and falling external demand amid virus outbreaks and major restrictions elsewhere. China’s leadership may accept lower growth in 2020 and refrain from major stimulus, taking comfort from the fact that the plunge in activity has already happened, and that the economy should grow significantly again in H2 2020.
TRAVEL & TOURISM INDICATOR UPDATE

Early signs of coronavirus impact evident in available data, with further sharp declines inevitable

- **Global international air passenger traffic**: Growth of 2.5% y-o-y was recorded in January 2020, according to the latest IATA data, with growth recorded across all world regions in the first month of the year. However, with widespread travel bans and restrictions now in place as the global fight against the coronavirus pandemic intensifies, global international air passenger traffic plummeted in February and even more so in March and is expected to remain extremely weak by historical standards in the weeks and months ahead. Many carriers have decided to ground the majority and in some cases all of their fleets due to the virus. *It should be noted that airline traffic is allocated according to the region in which the carrier is registered and should not be considered to precisely measure regional air traffic.*

- **Regional hotel performance** data covering the first two months of 2020 show the early impacts from the coronavirus outbreak, particularly in the Asia Pacific region, where occupancy rates and revenue per available room were each down by more than 20 percentage points compared to the same time last year. Hotel performance across the rest of the regions will deteriorate significantly in the weeks and months ahead as the sharp reduction in travel across the world weighs heavily on the hotel sector.

### Year-to-date (YTD) performance of airline traffic, international tourist arrivals and hotels (% growth unless stated)

<table>
<thead>
<tr>
<th>Region</th>
<th>International air passenger traffic (RPK)</th>
<th>International tourist arrivals</th>
<th>Regional hotel performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1.6</td>
<td>4.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Americas</td>
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<td>-</td>
<td>2.0</td>
</tr>
<tr>
<td>North America</td>
<td>2.9</td>
<td>3.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Asia Pacific</td>
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<td>4.5</td>
<td>4.6</td>
</tr>
<tr>
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<td>5.4</td>
<td>2.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Africa</td>
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<td>5.0</td>
<td>4.1</td>
</tr>
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<td>-</td>
<td>-</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>World</td>
<td>2.5</td>
<td>4.1</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Sources: IATA, UNWTO, STR Global

Note: Across the three metrics, the country composition of the different regions does not match exactly.

FORWARDKEYS AIR TRAVEL BOOKING TRENDS

Air travel bookings down sharply in February, with even more severe contractions expected in months ahead

- **International inbound**: According to ForwardKeys air travel bookings data, year-to-date (YTD) global international bookings fell by 4.7% in the first two months of 2020, compared to the same period last year. While these data relate exclusively to air travel bookings, they are a useful barometer for global international travel performance more generally and provide an early indication of the potential impact of the coronavirus outbreak. As expected, the decline has been most severe in the Asia Pacific region (-18% YTD), with smaller declines also recorded in the Middle East and the Americas. Bookings growth was in the positive territory in Africa and Europe to February. However, looking ahead over the next three months, sharp declines are expected across all regions as the spread of coronavirus and widespread travel bans greatly restrict international travel.

- **International outbound**: The pattern on outbound travel bookings largely mirrors the trends observed on inbound bookings, with bookings down sharply in the Asia Pacific region (-18% YTD), and down more moderately in the Americas (-3.2% YTD) and the Middle East (-6.0% YTD). Meanwhile, modest growth was recorded in Africa (1.0% YTD) and Europe (1.8% YTD) for the year to February 2020. However, the outlook over the next three months is bleak, with sharp declines expected across all regions as the impact of coronavirus travel restrictions becomes evident in recorded data.

- **Domestic**: Domestic air travel bookings have been more resilient than international air travel bookings in the early part of 2020, with global YTD growth down by -1.2%, compared to a YTD decline of 4.7% on international bookings. However, the available data does not yet cover March when many countries from across the world began to implement complete ‘lockdowns’ on domestic travel, meaning that domestic air travel bookings will also contract sharply in the weeks and months ahead.
### MAJOR ECONOMY AND TRAVEL & TOURISM HEADLINES LAST MONTH

- The number of coronavirus cases being reported around the world is now rising exponentially. While it took 67 days from the first reported case to reach the first 100,000 cases, towards the end of March around 70,000 new cases were being reported per day, with the virus now present in more than 200 countries around the world.

- Nearly 3.5 billion people around the world are now living under ‘lockdown’, with many borders closed and strict travel restrictions in place across many countries amid the Covid-19 pandemic.

- The US now has more confirmed cases of coronavirus than any other country, with more than 100,000 positive tests by the end of March. A further surge in confirmed cases of coronavirus is expected as the US increases the scale of its testing around the country.

- Following almost a week of no new reported cases, the lockdown in Wuhan, where the global coronavirus outbreak began, has been partially lifted.

- IATA is appealing to governments in Europe, Africa and the Middle East for emergency government intervention as airlines fight for survival due to the collapse in air travel as a result of the coronavirus crisis. Owing to the severity of travel restrictions and the expected global recession, IATA now estimates that industry passenger revenues could plummet by $252 billion or 44% below 2019’s figure.

- The Tokyo Olympics have been delayed and will now commence on the 23 July 2021 in order to give organizers the time needed to prepare after the disruption caused by the coronavirus. The games were originally due to take place this summer.

- The Dubai Expo 2020 was due to begin on 20 October 2020; however, organizers are set to discuss a delay of the event to possibly spring 2021 or even proposing to delay the event until the same time next year.

- EasyJet has grounded its entire fleet of planes due to the unprecedented travel restrictions imposed by governments globally due to the coronavirus pandemic. It has cancelled most services but has been running rescue flights to repatriate Britons stranded abroad.

- The number of American’s filing initial applications for unemployment benefits increased significantly to a weekly record of 6.6 million for week ending March 28th, offering evidence that coronavirus is causing widespread damage to the economy.

- The pound fell to its lowest level on record against the currencies of the UK’s major trading partners, as the effects of the coronavirus pandemic continue to rip through markets.

- The oil industry faces its most difficult challenge of the past 100 years. Prices have roughly halved from the beginning of March as airlines have been grounded and millions of commuters are in lockdown throughout the world, with the scale of the demand collapse overshadowing the price war earlier in the month between Saudi Arabia and Russia. Oxford Economics has cut its world oil price forecast to US$33.76 per barrel for 2020 (from US$62.37 per barrel last month).