SUMMARY
The current economic outlook is highly uncertain as the coronavirus situation continues to develop and as such, the Oxford Economics baseline forecast is subject to change. The details provided below are an accurate reflection of the current situation as at 5 March 2020. Indeed, at such an uncertain time, especially for the Travel & Tourism sector, Oxford Economics has explored a downside scenario where coronavirus would spread even more widely than assumed in the baseline scenario and become a global pandemic, with high infection rates becoming a worldwide phenomenon. The global pandemic scenario results in world GDP growth for 2020 as a whole growing by just 1.1% (1.2 pp below the baseline).

CHINA / ASIA
The coronavirus outbreak has overshadowed the near-term economic outlook, with the impact set to be more severe than the SARS outbreak in 2003. Oxford Economics expect a sharp fall in consumption and heavy disruption to production, primarily falling in Q1, with GDP growth for 2020 as a whole revised down to 4.8% (1.2pp below the pre-Coronavirus forecast). With the speed of infection slowing, China’s senior leadership have called for a shift in the balance of policymaking towards the resumption of economic activity, and provincial and local governments have already started to respond accordingly. The PBoC has also rolled out policy support including special lending funds to businesses related to epidemic prevention and control and a medium-term lending facility rate cut. But the return to economic normalcy has been slow, and downside risks remain as logistical constraints and fear over the potential for a new flare-up of the virus continuing to weigh on activity. China’s dominant role in global supply chains provides a further risk to global growth.

UNITED STATES
Economic data have been largely neutral over the past month with business investment weak, consumer spending cooling, housing activity firming and trade flows tentatively rebounding. Employment data confirmed solid labour market fundamentals with 225,000 jobs added in January, and the unemployment rate stable at 3.6%, with wage growth firming to 3.1% y/y. However, just as the weakness in business activity appeared to be bottoming out, the coronavirus has brought back a high level of uncertainty, with significant disruption expected to tourism activity, supply chain constraints for the manufacturing sector, plus significant financial tightening from the decline in equity markets and heightened uncertainty restraining business and consumer outlays. Therefore, the Fed declared an emergency 50bps rate cut but it will have little impact on financial markets. Oxford Economics expect a total of 100bps of easing for the US in 2020, with additional rate cuts at 25bps in its March and April meetings. Oxford Economics expects GDP growth to be dampened by 0.4 pp in 2020 as a result of the virus, with real GDP growth slowing from 2.3% in 2019 to 1.3% in 2020. However, given the increased interconnectedness of the global economy, there is potential for the virus to spread more rapidly, or for larger effects from travel restrictions and firm closures than assumed in Oxford Economics’ baseline forecast.

UNITED KINGDOM
After a soft end to 2019, survey data suggests that sentiment has improved since the Conservatives’ decisive election win in December. However, the pick-up in growth in early-2020 will be capped by the coronavirus outbreak, which is expected to slow global growth temporarily and disrupt supply chains. Overall, GDP growth of just 1.0% is expected for 2020. However, activity should strengthen steadily through this year as the benefits of looser fiscal stance and firmer growth in household spending power feed through, with GDP growth seen rising to 1.9% in 2021. The government is also expected to announce further measures to support growth in the March budget given the coronavirus outbreak. On Brexit, the UK left the EU on 31 January, moving into a transition period. The government’s aims of negotiating a broad free trade agreement covering goods and services with the EU but in a very short timeframe look incompatible. Ultimately, Oxford Economics expects the UK to seek a deeper deal to try to protect vulnerable sectors and the baseline forecast assumes negotiations extend beyond 2020. Oxford Economics sees a 30% chance that talks break down, leaving the UK and EU to trade under WTO rules from 2021.

EUROZONE
GDP growth slowed to just 0.1% q/q in Q4, the slowest growth in six years, amid an unexpected contraction in both France and Italy. Although available sentiment indicators improved at the start of this year, they are not yet reflecting the impact that the coronavirus will have on the Chinese and global economies. Both the PMI and the Economic Sentiment Indicators rose in January, suggesting that the manufacturing sector continues to bottom out, but the impact of this crisis may derail the fragile recovery. The coronavirus shock comes at a time of already-high uncertainty, with the global environment to remain adverse this year. Domestically, employment growth has slowed substantially, a trend expected to continue over the next few quarters given subdued forward-looking employment intentions. Combined with the impact of the coronavirus on supply chains across the world in Q1, this means 2020 will see weaker growth than previously expected. Oxford Economics has therefore cut its eurozone growth forecast to 0.6% for 2020 (from 1.0% last month) before a pick-up to 1.4% in 2021.
The impact of coronavirus on Oxford Economics baseline – launched February 2020

Pre-Coronavirus GDP growth (%) | Current GDP growth (%)
---|---
China | 6.0% | 4.8%
United States | 1.7% | 1.3%
United Kingdom | 1.0% | 0.7%
Eurozone | 1.0% | 0.6%
World | 2.5% | 2.0%

TRAVEL & TOURISM INDICATOR UPDATE

Hotel performance data confirm international slowdown in early 2020

- Regional hotel performance was mixed in 2019 and data for January 2020 shows the early impacts from the coronavirus outbreak, with occupancy rates in Asia Pacific down by more than 11 percentage points in January. January performance across the rest of the regions was largely positive, but it is too early to draw any conclusions from this data, particularly in light of the global escalation of coronavirus in February.

| Year-to-date (YTD) performance of airline traffic, international tourist arrivals and hotels (% growth unless stated) |
|---|---|---|---|
| | International air passenger traffic (RPK) | International tourist arrivals | Regional hotel performance |
| Europe | 4.4 | 6.7 | 3.7 | 6.1 | 1.4 | 0.5 | 1.8 |
| Americas | - | - | 2.0 | 3.1 | 0.7 | 1.2 | 1.9 |
| North America | 3.9 | 5.1 | 2.8 | 4.9 | 0.8 | 1.2 | 2.0 |
| Asia Pacific | 4.5 | 7.2 | 4.6 | 6.5 | -11.3 | 4.3 | -7.5 |
| Middle East | 2.6 | 4.2 | 7.6 | 3.8 | 8.1 | -2.6 | 5.3 |
| Africa | 5.0 | 6.4 | 4.1 | 7.0 | - | - | - |
| North Africa | - | - | 9.1 | 10.1 | 0.2 | 2.9 | 3.0 |
| Sub-Saharan Africa | - | - | 13 | 5.3 | 4.2 | 2.5 | 6.7 |
| World | 4.1 | 6.3 | 3.8 | 5.6 | - | - | - |

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 as coronavirus hits tourist sentiment

- **International inbound**: According to ForwardKeys air travel bookings data, year to date 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 has been more resilient in Africa and Europe so far. However, looking ahead over the next three months, sharp declines are expected across all regions but especially in Asia Pacific (42.4% YTD), with global bookings down by 16%.

- **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, but particularly within Asia Pacific (41.6% YTD) and the Middle East (21.0% YTD).

- **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. The same is true in terms of the outlook over the next three months. The decline in YTD domestic bookings is expected to worsen to 4.5%, albeit less severe than that expected on international travel.

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### ForwardKeys air travel bookings (% annual growth vs. same period last year)

<table>
<thead>
<tr>
<th></th>
<th>International inbound</th>
<th>International outbound</th>
<th>Domestic travel</th>
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<tbody>
<tr>
<td></td>
<td>February 2020 (YTD)</td>
<td>Next 3m (Mar-May 2020)</td>
<td>February 2020 (YTD)</td>
</tr>
<tr>
<td>Europe</td>
<td>2.8</td>
<td>-7.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Americas</td>
<td>-2.3</td>
<td>-9.3</td>
<td>-3.2</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>-18.0</td>
<td>-42.4</td>
<td>-18.0</td>
</tr>
<tr>
<td>Middle East</td>
<td>-2.0</td>
<td>-13.9</td>
<td>-6.0</td>
</tr>
<tr>
<td>Africa</td>
<td>2.5</td>
<td>-6.1</td>
<td>1.0</td>
</tr>
<tr>
<td>World</td>
<td>-1.7</td>
<td>-26.4</td>
<td>-1.7</td>
</tr>
</tbody>
</table>

Source: ForwardKeys.

Note: Data relate to air travel bookings for visitors staying at least one night, expressed as % change compared to the same period last year. Domestic data relate to air travel within the same country.
MAJOR ECONOMY AND TRAVEL & TOURISM
HEADLINES LAST MONTH

- As of 5 March 2020, there were 95,270 confirmed cases of the novel coronavirus (COVID-19) that originated from China in late 2019. So far there have been 3,280 reported deaths from the virus among the 79 countries with cases.

- Over 200,000 flights have now been cancelled or proactively removed from schedules to, from and within China due to coronavirus, according to Cirium. The figure—which accounts for over two thirds of China’s originally scheduled flights—dates from when the authorities restricted travel in and out of Wuhan Tianhe International Airport on January 23rd to February 18th.

- Global airlines could lose almost $30 billion in revenue due to a rapid decrease in travel demand triggered by the coronavirus. According to IATA, if the outbreak remains mostly in China, Asian airlines will be hit the hardest and could lose nearly $28 billion in revenue this year. Carriers outside the region are likely to suffer a lesser sales hit of $1.5 billion. IATA stated that the outbreak will likely reduce global traffic by almost 5%, marking the first overall decline in demand since the global financial crisis.

- EasyJet and British Airways are cancelling flights as a result of coronavirus. EasyJet is also imposing a series of measures, including recruitment and pay freezes, to counteract the impact from the virus. The airline revealed a “significant softening of demand and load factors” to and from airports in northern Italy, where a number of towns are in lockdown.

- Micronesia, Tonga, Samoa, Israel, Kiribati, Solomon Islands, the Republic of Korea, Thailand and Bhutan, have called for restrictions on travel to countries with confirmed cases of coronavirus infection, including Japan.

- Authorities in Iraq have extended a ban on arrivals from Iran, apart from Iraqi citizens. The extension was announced after Iran announced its sixth death from coronavirus. But there has been no confirmation on how long the ban will be in place.

- Saudi Arabia temporarily suspended entry for individuals seeking to perform Umrah pilgrimage in Mecca or visiting the Prophet’s Mosque in Madina, as well as tourists traveling from countries where the coronavirus poses a risk as determined by the Kingdom’s health authorities.

- Authorities in Qatar have temporarily banned all arrivals from Egypt, except Qatari citizens, over fears of the spread of coronavirus.

- The Italian government has ordered the closure of all schools and universities nationwide until 15 March as it battles to contain Europe’s worst outbreak of coronavirus, which has claimed 107 lives.

- Amid the global economic uncertainty surrounding the coronavirus outbreak, global stock markets fell sharply in late February, sending US stocks to their worst week since the financial crisis more than a decade ago.

- Oil prices fell sharply in late February, by as much as US$10 per barrel, as concerns around global demand weighed on the market. However, prices have since started to recover on expectations of OPEC supply cuts.

- UK Prime Minister, Boris Johnson, has laid down a tough red line ahead of Britain’s trade negotiations with the EU, warning that he is prepared to walk away and impose new costs on UK business, rather than accept a deal that impinges on British sovereignty.

- The Trump administration said it would raise tariffs on European aircraft in an effort to pressure Europe in a long-running trade dispute over airplane subsidies. The tariffs are part of a 15-year-old complaint over subsidies European governments gave plane maker Airbus, which put its American competitor, Boeing, at a disadvantage.