UK officially leaves the EU; coronavirus to negatively impact the global economy and Travel & Tourism

ECONOMY UPDATE

UK officially leaves the EU: coronavirus to negatively impact the global economy and Travel & Tourism

CHINA / ASIA
As the coronavirus outbreak and responses by governments and firms intensify globally, Oxford Economics has revised down its GDP growth forecast for China. The GDP growth forecast for Q1 has been cut by more than 2 ppts and even with a rebound in Q2, growth of 5.4% is expected for 2020 overall, down from 6.0% previously. The inopportune timing of the outbreak around Chinese New Year, a time of increased transport and economic connectivity and reduced work weeks, as well as the lockdown of affected regions, all contribute to the economic impact. Oxford Economics expects the negative impact to be felt mainly in Q1, followed by a rebound in subsequent quarters. But a more significant and long-lasting impact cannot be ruled out. Travel bans will hit the tourism industry in Asia and globally, while the sharp decline in China’s Q1 growth will pose pressure on the global economy and spark fears in financial markets. Therefore, the rapid spread of coronavirus will weaken China's GDP growth in the short term, causing disruption for the rest of the world. Oxford Economics expect global GDP growth to slow to 1.9% y/y in Q1 as disruption to global supply chains will take a toll on the rest of the world, particularly in the Asia-Pacific region.

UNITED KINGDOM
2019 was another disappointing year for the UK economy, with growth expected to come in around 1.3%. This rate of growth is in line with the 2018 outturn which was the weakest since the financial crisis. Looking ahead, Oxford Economics forecasts GDP growth of 1.0% in 2020 and 1.9% in 2021. A looser fiscal stance and stronger household spending power should help to generate a gradual pick-up in quarterly growth rates through this year. The Bank of England base rate is expected to remain at 0.75% throughout 2020, with policy to be tightened only very gradually thereafter. On Brexit, the UK officially left the EU on January 31. The UK government’s twin aims of negotiating a broad free trade agreement covering goods and services with the EU in an extremely short timeframe look incompatible. Any deal completed in this timeframe would be rudimentary and raise substantial non-tariff barriers for UK firms exporting to the EU. 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.

UNITED STATES
Despite rising geopolitical tensions, recent economic data continue to point toward steady momentum entering 2020 as trade, fiscal, and monetary policy risks have been reduced. Oxford Economics foresees real GDP growth cooling from 2.3% in 2019 to 1.6% in 2020. Consumer spending will be the main engine of growth while business investment and trade will remain constrained. Downside risks to the baseline forecast persist, but the skew is less pronounced. Accordingly, Oxford Economics has lowered its recession odds for 2020 to 25%. On monetary policy, the Fed remains in a ‘wait-and-see’ stance after reducing the policy rate by a cumulative 75 basis points last year. Policy makers are cautiously confident that monetary policy and the economy are in a good place, also recognising that downside risks persist, and that inflation and inflation expectations remain muted. One additional rate cut is expected in mid-2020 to accommodate for slower-than-anticipated growth and inflation.

EUROZONE
The eurozone economy gained some momentum at end-2019 but continues to grow at a weak pace. Although geopolitical tensions are adding uncertainty, some forward-looking indicators are now trending upwards, supporting a moderately optimistic view for the start of the year. Specifically, although manufacturing activity remains depressed, there are some signs of stabilisation, and the composite PMI rose to its highest in four months in December amid stronger services sector activity. The main risk for the eurozone continues to be contagion from the weakness in the export-oriented manufacturing sector to the more resilient services sector. Overall, the Oxford Economics GDP forecast has been downgraded to 0.8% in 2020 from 1.0% last month, before a slight pick-up to 1.3% in 2021.

WTTC Economic Impact Research Results 2019 – launched February 2019

<table>
<thead>
<tr>
<th>2019 Global GDP growth (%)</th>
<th>2019 Direct T&amp;T GDP growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 annual update (Feb. 2019)</td>
<td>2.9%</td>
</tr>
<tr>
<td>January 2020</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Note: Growth rates in this table are stated in 2018 constant prices and exchange rates.

The orange arrow indicates that given global macroeconomic developments and year-to-date Travel & Tourism performance, Oxford Economics expects global growth in direct Travel & Tourism GDP in 2019 to be weaker than forecast in the 2019 annual economic impact research update (February 2019)
Positive growth for Travel & Tourism in 2019, but a slowdown on 2018

- **Global international tourist arrivals** grew by 3.8% in 2019, according to the latest UNWTO data. As expected, while still robust, this represents a slowdown from the stronger growth of 5.6% recorded in 2018. Each world region followed this trend with a slowdown in growth in 2019, aside from the Middle East where growth accelerated. The fastest growing region in 2019 was North Africa, with growth of 9.1%, followed by the Middle East where growth came in at 7.6%. The other world regions experienced growth in the 2-4% range, aside from Sub-Saharan Africa which was the slowest growing region at 1.3%.

- **Global international air passenger traffic** growth of 4.0% was recorded for the year to November 2019, according to the latest IATA data. Consistent with the trend seen on arrivals, this is a slowdown on 2018 and reinforces the message of continued albeit slower growth in international travel in 2019. Africa was the fastest growing region, with a 4.9% increase to November 2019, closely followed by Asia Pacific (4.5%), Europe (4.4%) and North America (3.7%). Meanwhile, growth in the Middle East remains relatively modest in comparison to other regions at just 2.2%. It should however 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** was very mixed in 2019 according to the latest data from STR. In Asia Pacific, declines were recorded across all key performance indicators, while in the Middle East declines were recorded in average daily rates and revenue per available room. Meanwhile, in the Americas and Sub-Saharan Africa, marginal declines were recorded in occupancy rates. More positively, in Europe, modest growth was recorded across all of the key performance indicators, despite weaker economic growth amongst major European economies.

<table>
<thead>
<tr>
<th>Year-to-date (YTD) performance of airline traffic, international tourist arrivals and hotels (% growth unless stated)</th>
</tr>
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<tbody>
<tr>
<td><strong>International air passenger traffic (RPK)</strong></td>
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<tr>
<td>November 2019 (YTD)</td>
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<tr>
<td>Europe</td>
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<tr>
<td>Americas</td>
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<tr>
<td>North America</td>
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<td>Asia Pacific</td>
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<td>Middle East</td>
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<td>Africa</td>
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<tr>
<td>North Africa</td>
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<tr>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>World</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 data confirm slowing growth in 2019

- **International Inbound:** According to ForwardKeys air travel bookings data, global international bookings grew by 4.5% in 2019. While these data relate exclusively to air travel bookings, they are a useful barometer for global international travel performance more generally and point to a stable yet slowing pace of growth in 2019. From a regional perspective, Asia Pacific was the fastest growing region, with bookings growth of 5.9%, closely followed by Africa at 5.7%. Growth in Europe was recorded at 4.3%, with growth in the Americas and Middle East recorded at 3.6% and 2.8% respectively.

- **International Outbound:** All regions apart from the Middle East (-2.4%) recorded growth in outbound international travel bookings in 2019, with the fastest growth recorded in Asia Pacific (7.7%) and Africa (7.5%). Meanwhile, growth in the Americas and Europe was more modest at 4.8% and 3.7% respectively.

- **Domestic:** While international air travel bookings grew robustly in 2019, domestic bookings growth was considerably weaker, recording a contraction of 1.1% at a global level. Contributing to this was a strong contraction in the Asia Pacific region (-12.5%) and smaller declines in the Middle East (-4.2%) and Europe (-1.3%). The only world regions to record growth in domestic air travel bookings were Africa (2.6%) and the Americas (3.1%).

Note: The data covering the next 3 months in the table below were recorded prior to the escalation of the coronavirus outbreak.

<table>
<thead>
<tr>
<th>Geographical Region</th>
<th>International Inbound 2019</th>
<th>International Outbound Next 3m (Jan-Mar 2020)</th>
<th>Domestic Travel Next 3m (Jan-Mar 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>4.3</td>
<td>9.4</td>
<td>-1.3</td>
</tr>
<tr>
<td>Americas</td>
<td>3.6</td>
<td>4.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>5.9</td>
<td>8.7</td>
<td>-12.5</td>
</tr>
<tr>
<td>Middle East</td>
<td>2.8</td>
<td>12.3</td>
<td>-4.2</td>
</tr>
<tr>
<td>Africa</td>
<td>5.7</td>
<td>12.9</td>
<td>2.6</td>
</tr>
<tr>
<td>World</td>
<td>4.5</td>
<td>8.3</td>
<td>3.4</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 travel of at least 1 night.
MAJOR ECONOMY AND TRAVEL & TOURISM HEADLINES LAST MONTH

- The death toll from coronavirus in China is now over 900 but the number of newly-infected people per day has stabilised. Across China, over 40,000 people are infected, while over 187,000 are under medical observation. Millions of people have returned to work after the Lunar New Year break, which was extended from 31 January to curb the spread of the virus. Precautionary measures remain in place, including the staggering of working hours, and the selective reopening of workplaces.

- A huge dependence on Chinese tourists sees many Asian countries reeling from China’s move to cancel outbound group trips indefinitely. Among them are Thailand and Japan. China is Thailand’s number one market, generating nearly 30% of all arrivals. The Tourism Council of Thailand has estimated losses of at least $1.6 billion as a result of the lockdown.

- Hong Kong’s economy contracted for the first time in a decade in 2019 following violent anti-government protests and trade tariffs hampering growth in the final quarter of 2019, while the outbreak of the coronavirus has added to concerns with the city’s retail and tourism sector heavily reliant on expenditure from China.

- After more than two years of rising tension, the US and China have signed a deal aimed at calming trade frictions. However, the deal has been met with a lukewarm reaction by some analysts who believe it unlikely that the deal will produce gains sufficient to outweigh the losses that have already occurred because of the trade war.

- Record number of visits from the US to the UK were recorded during the first nine months of 2019. There were a record 3.5 million visits from the US from January to September 2019, up 13% on the same period in 2018.

- The US plans to limit visa access for visitors from Belarus, Eritrea, Kyrgyzstan, Myanmar, Nigeria, Sudan, and Tanzania. While the draft of restrictions has not been finalised, it is likely limitations will be placed on the types of visas individual travelers can receive.

- As of April 2020, stayover visitors to Saint Lucia will be required to pay between $3 and $6 per night at accommodation as a result of the new levy, while guests at Airbnbs will be required to pay 7% on the full cost of their stay.

- Lebanon’s unprecedented economic and financial crisis has taken a huge toll on the hospitality sector, with more than 150,000 hotel owners, partners, and employees face imminent threat of hotels’ closure due to the economic crisis.

- From 1 January 2020, the City of Amsterdam will ask for a larger contribution of visitors staying the night in hotels or camping sites to pay the new tourist tax which is an addition to the current tax. Therefore, on top of the current 7% tourist tax a fixed amount will be charged for hotel rooms at €3 per person per night and for camping sites at €1 per person per night.

- The immediate future of Flybe has been secured after the UK government agreed a rescue deal with shareholders to keep Europe’s largest regional carrier flying.

- The Australian government has pledged £40 million (AUS$76 million) to help the country’s tourism sector recover following months of devastating bushfires.

- The UAE has announced a five-year multiple-entry tourist visa, representing a further attempt by the country to boost its presence as a global tourist destination.
<table>
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<tr>
<th>Year to:</th>
<th>%</th>
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<tr>
<td><strong>EUROPE</strong></td>
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<td>Austria</td>
<td>Dec 2019</td>
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<td>Belgium</td>
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<td>Bulgaria</td>
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<td>Croatia</td>
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<td>Cyprus</td>
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<td>Estonia</td>
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<td>Finland</td>
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<td>France</td>
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<td>Greece</td>
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<td>Norway</td>
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<td>Portugal</td>
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<td>Russia</td>
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<td>Slovakia</td>
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<td>Switzerland</td>
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<td>Turkey</td>
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<td>UK</td>
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<td><strong>AMERICAS</strong></td>
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<td>Antigua &amp; Barbuda</td>
<td>Sep 2019</td>
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<td>Argentina</td>
<td>Oct 2019</td>
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<td>Aruba</td>
<td>Jun 2019</td>
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<td>Canada</td>
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<td>Tunisia</td>
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<td>Cambodia</td>
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<td>China</td>
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<td>Fiji</td>
<td>Nov 2019</td>
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<td>Kiribati</td>
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<td>Laos</td>
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<td><strong>REGIONAL ESTIMATES</strong></td>
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<tr>
<td>Europe</td>
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<td>Asia Pacific</td>
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<tr>
<td>WORLD</td>
<td>Dec 2019</td>
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</tbody>
</table>

Sources: UNWTO, TourMIS, JNTO, ONS, NTTO.

- Global international tourist arrivals grew by 3.8% in 2019, according to the latest UNWTO data. As expected, while still robust, this represents a slowdown from the strong growth of 5.6% recorded in 2018. Each world region followed this trend with a slowdown in growth in 2019, aside from the Middle East where growth accelerated. The fastest growing region in 2019 was North Africa, with growth of 9.1%. Followed by the Middle East where growth came in at 7.6%. The other world regions experienced experienced growth in the 2-4% range, aside from Sub-Saharan Africa which was the slowest growing region at 1.3%.

- In Europe, each of the major Travel & Tourism economies posted positive international arrivals growth in 2019, albeit growth has been weak in France (0.9%). Spain (1.2%) and the UK (1.2%) compared to stronger growth in Italy (5.0%) and Portugal (6.8%). The fastest growing countries in Europe in 2019 were Turkey (14.0%) and Montenegro (21.4%). Modest growth was broad-based across the continent, with Sweden (-0.5%) and Russia (-0.9%) amongst the very few countries in Europe to post contractions in 2019.

- In the Americas, robust arrivals growth for 2019 was recorded in Canada (5.0%) and Mexico (8.7%). In the US, the region’s largest Travel & Tourism economy, latest data points to weakness in 2019, with a contraction in international arrivals of 1.3% recorded for the year to October. Meanwhile in Chile, arrivals were down by 20.9% in the year to November in the aftermath of widespread civil unrest and protests.

- In Asia Pacific, 2019 growth was particularly strong in South Korea (14.4%), Maldives (14.9%), the Philippines (15.1%) and Myanmar (40.2%). Meanwhile, the region’s larger Travel and Tourism economies experienced more moderate growth, including New Zealand (2.4%), Australia (2.5%) and Japan (2.8%). Sri Lanka recorded a strong contraction (-18.0%) to December, following several years of strong growth, with the terror attack in April weighing on tourist sentiment. In Hong Kong, protests and civil unrest have led to a large contraction in arrivals (-18.8%).

- In Africa, arrivals growth of 4.1% was recorded for 2019, with growth particularly strong in Tunisia (13.6%) and Madagascar (34.3%). By contrast in South Africa, the region’s largest Travel & Tourism economy, a contraction of -2.2% was recorded.

- In the Middle East, strong growth of 7.6% was recorded for 2019. Contributing to this has been particularly strong international arrivals growth in Egypt (21.1%) and Israel (10.5%), with solid growth also recorded in the Jordan (8.1%), UAE (4.9%) and Lebanon (1.6%).