THE IMPACT OF COVID-19 ON THE TOURISM SECTOR

EDC Economics

May 26, 2020

SUMMARY

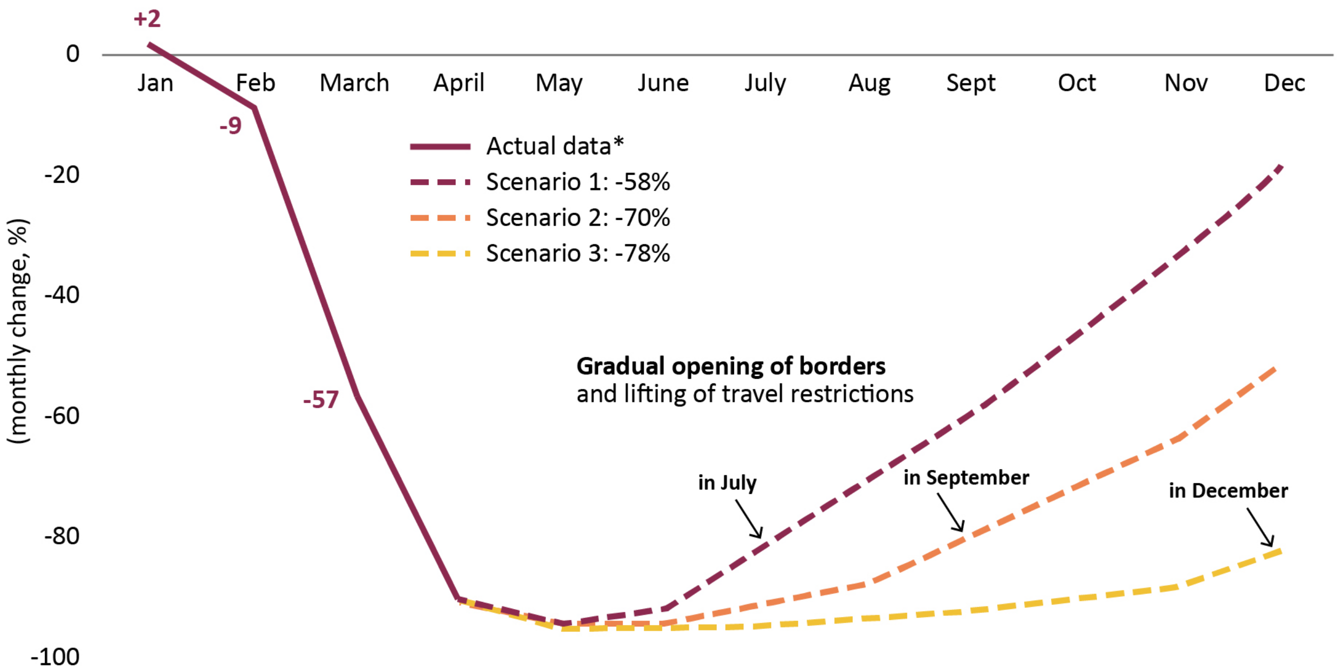
- The COVID-19 global pandemic poses an unprecedented threat to the services industries that rely heavily on face-to-face contact to conduct their economic activity.
- Tourism has been one of the hardest hit of the service sectors, as countries enforce lockdowns and people stay home. International travel has essentially ground to a halt as governments close their borders to visitors to prevent the spread of the virus.
- Domestic travel will recover well before international travel. Travel "bubbles" within select countries that have had more success in containing the spread of the virus are likely to be the first step toward economic recovery.
- Most experts expect signs of recovery starting by the end of 2020 and a full recovery unlikely until at least 2021.
- Smaller businesses are expected to reopen sooner, albeit with operational adjustments to meet social distancing requirements. Venues and service providers that tailor to larger, higher-density population areas will likely feel the impact of the pandemic for longer.

GLOBAL SECTORAL PERFORMANCE

COVID-19-related travel restrictions and lockdowns began in March and quickly spread throughout the world. According to the United Nation World Tourism Organization (UNWTO), as of May 13, all international destinations have some form of travel restriction. Eighty-three percent of European countries have closed their borders to international tourists. In the Americas, this proportion is around 80%, and in the Asia-Pacific region roughly 70%. UNWTO estimates that during the first quarter of 2020, international tourism fell 22%, while the decline could be as steep as 60-80% over the entire year. This translates to a loss of 67 million international tourist visits and US$80 billion in lost tourism export revenue during the first quarter of 2020. This is the worst crisis the international tourism industry has seen since comparable records begin in 1950—including the aftermath of the Sept. 11, 2001 terrorist attacks—and it abruptly ends a decade of sustained growth of international tourism since the Global Financial Crisis.

The easing of travel restrictions has begun in places that have better contained the spread of virus, but reopening plans are slow, deliberate and incremental. Some countries—such as China, Spain, Australia and New Zealand—have already hinted that the resumption of tourism may not happen in 2020. However, most experts think signs of recovery will only start to show by the last quarter of 2020 and a full recovery won't occur until at least 2021. UNWTO estimates that based on the current speed of containment and duration of travel restrictions and border closures, if gradual reopening starts in September, the world will endure a 60% decline in tourist arrivals.

INTERNATIONAL TOURIST ARRIVALS IN 2020: THREE SCENARIOS (Y/Y MONTHLY % CHANGE)



*Actual data through March includes estimates for countries, which have not yet reported data.
Note: The scenarios presented in this graph are not forecasts. They represent alternative monthly change in arrivals based on the gradual opening of national borders and lifting of travel restrictions on different dates, still subject to high uncertainty.

Source: UNWTO

DOMESTIC PERFORMANCE

In Canada, tourism industries[1] generate almost $10 billion in output, and account for up to 5% of total exports. This segment has been growing faster than the overall Canadian economy. The tourism-related sectors are almost entirely comprised of small businesses with fewer than 100 employees. The industry is an important employer, accounting for an average of 743,000 jobs. About one-third of these jobs are in food and beverage services. Being particularly dependent upon in-person contact, tourism-related service industries are the hardest hit. More than 40% of businesses in these industries are expecting to see a 50% decline in revenues, the highest proportion amongst all industries.[2]

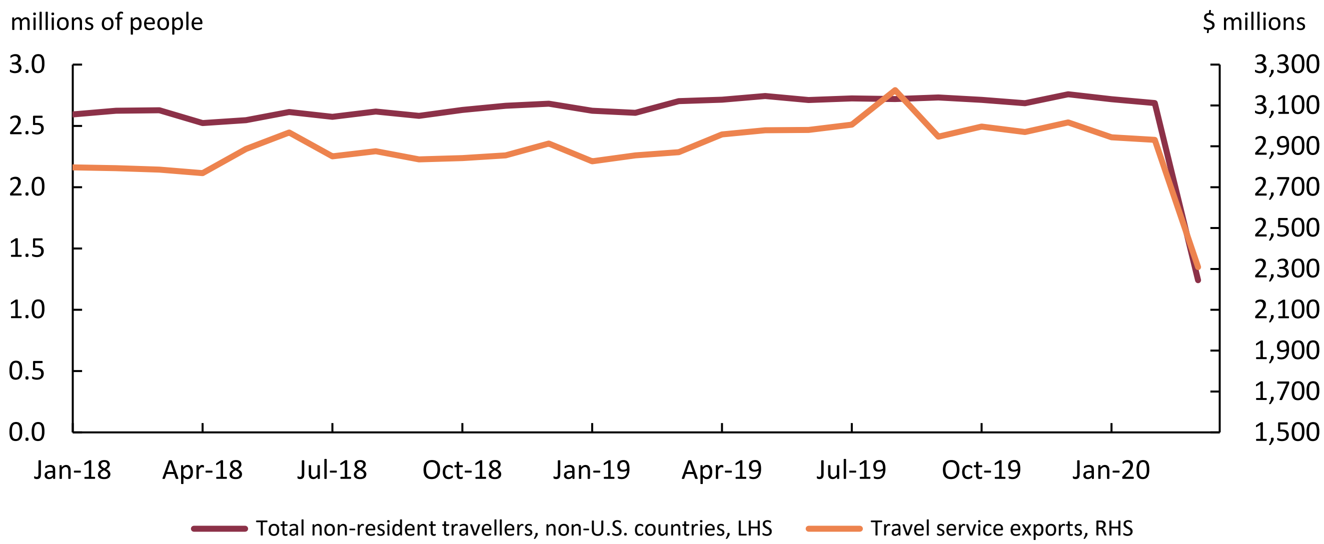
Although Canada is internationally known as a long-haul destination, tourism demand comes predominantly from Canadians. Seventy-nine percent of economic growth is generated by domestic demand. Travel bans hit Canada just as hard as other countries in the world. Starting in late March, as most provinces entered lockdown mode, business were forced to close or adjust their operations. Almost 90% of the employees in the tourism-related industries are paid hourly wages rather than a fixed salary—a much higher percentage than other

[1] The tourism-related industries include: Arts, entertainment and recreation, and accommodation and food services.
[2] Source Statistics Canada: https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3310023401

industries. Between the month of March and April a staggering 50% of employees in the accommodation and food service were laid off, well above the job loss rate of 16% across all industries as a whole.

Canadian borders began to gradually close to international travel, including our biggest sources of international tourist visits: the United States and China. Arrivals from China fell by 53% in February following the federal government's advisory on Jan. 29 to avoid non-essential travel to China and as Air Canada suspended flights between Canada and Beijing and Shanghai. A travel ban with the U.S. started by the end of March. Exports of travel service plunged 21% in March while transportation services were also down 16% as result of the border closing.

TRAVEL SERVICE EXPORTS PLUMMETED AS INTERNATIONAL TRAVEL GRINDS TO A HALT



Source: Statistics Canada

Tourism, both domestic and international, tends to peak during the April to June period, and again between September to October. As the nationwide lockdown continues, the first half of the year is expected to be largely a writeoff for the industry. Estimates from Destination Canada show that compared with 2019, 65% of tourism- and business travel-related events are cancelled, resulting in a loss of 54% of revenue for the industry. Events planned for later in the year are still at risk of being cancelled or postponed. Additionally, the impact will be on future demand due to lost opportunities of bids in the sector's pipeline. In the baseline scenario where the spread of virus is contained effectively, the losses to tourism revenue are projected to hit $29 billion for 2020 and 2021.

Looking to the future, the recovery of tourism depends on several factors, including the risk of a second wave of infections. Leisure travel is discretionary spending, especially during difficult times where consumers face greater financial challenges. Export Development Canada's (EDC) Economics team expects that demand for travel will remain low during the second half of 2020, without a meaningful recovery for the sector before 2021.

In a worse case, where the containment of virus isn't effectively achieved, the recovery may take as long as 2024 to get back to the level of spending seen in 2019. [3]

Consumer confidence will be clouded by elevated uncertainty due to health concerns, lost jobs and financial constraints due to the pandemic. With the depreciation of the Canadian dollar due to lower global oil prices and as investors seek safety in U.S. dollar assets, EDC expects most people to opt for domestic travel, rather than international. Domestic travel will recover first as interprovincial borders reopen before international borders. Intra-provincial and local trips will be the preferred choice for most holidaymakers. Evidence of containment in British Columbia, Ontario and Quebec have led to a gradual, phased approach for reopening the economy and allowing mobility of general population.

Social distancing requirements could remain in place until a vaccine is developed, which seems unlikely to occur this year. Venues and service providers that cater to larger, higher densities are likely to feel the impact of pandemic for longer. In contrast, smaller operators are likely to reopen for business sooner albeit with adjustment to operation.

The return of international travel will require reciprocation from other countries and will largely depend on the lifting of containment measures around the world. Considerable challenges remain due to the uncertainty surrounding the duration of the pandemic. International air travel is forecasted to be very slow to return to pre-COVID levels. The recovery of Canada's travel service exports will depend most heavily on the U.S. market, which largely travels by car, and to a lesser extent, Asian and European source markets, which have driven growth in the recent years. Reciprocal travel "bubbles" with select countries that have more success in containing its domestic spread of the virus are likely to arrive first. This includes South Korea, Australia, New Zealand and some European countries. With a strained bilateral relationship between China and Canada, travel between these two countries will be lacklustre, especially since the Chinese government is no longer promoting Canada to its citizens.

[3] Destination Canada: COVID-19 impact on Canada's Tourism Industry
https://www.destinationcanada.com/sites/default/files/archive/1021-Impacts%20of%20COVID-19%20on%20Domestic%20and%20International%20Travel%20-%20April%2013%2C%202020/COVID-19%27s%20Impact%20on%20Canada%27s%20Tourism%20Industry__April%2013_EN.pdf

CHALLENGES AND OPPORTUNITIES

There are several challenges facing Canada's tourism sector:

- Given the unprecedented nature of this pandemic, there's a lack of historical reference points in dealing with a downturn of such magnitude.
- The perception of travel as a risky activity may linger for years, unless an effective treatment or vaccine is developed.
- Lower incomes, weaker consumer confidence and continuous social distancing may lead to persistently low demand. Some businesses, especially those who struggled financially before the shutdown, may decide the reopening isn't profitable.

In terms of opportunities, the pandemic can also offer some silver linings:

- Businesses that are agile and can pivot by rethinking their models of delivery with innovation and digital delivery may come out as the strongest survivors.
- While international travel has been hit hard, consumers seeking relief from the anxiety surrounding the pandemic, may turn to domestic travel, which could create opportunities for those working in the industry. And heavily-discounted airline fares, may encourage some bargain-hunters to fly again sooner than others might expect.

TOURISM-RELATED SECTORS: KEY ECONOMIC STATISTICS

SECTOR	GROSS DOMESTIC PRODUCT (DECEMBER 2019)	EMPLOYMENT (2019)	NUMBER OF COMPANIES
ARTS, ENTERTAINMENT AND RECREATION	$15.8B	312,300	Total: 19,206 SME: 19,112 Large: 94
ACCOMMODATION AND FOOD SERVICES	$45.0B	1,342,150	Total: 84,287 SME: 84, 231 Large: 56

*These sectors encompass tourism activities in the North American Industry Classification System (NAICS).

ABOUT THIS REPORT

This report is part of a publication series of concise reports written by EDC Economics staff on the impact of COVID-19 on Canadian international trade and investment. The views expressed in this report are those of the author and should not be attributed to Export Development Canada or its Board of Directors.

This report was written by Lili Mei, reviewed by Stephen Tapp, copy-edited by Janet Wilson, with research support from Andrew DiCapua and Mohammed Rajpar. May 2020

LEGAL DISCLAIMER