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Travel & Tourism | Global

Resilience & Opportunity – Factors Behind the Recovery Potential for Travel Destinations

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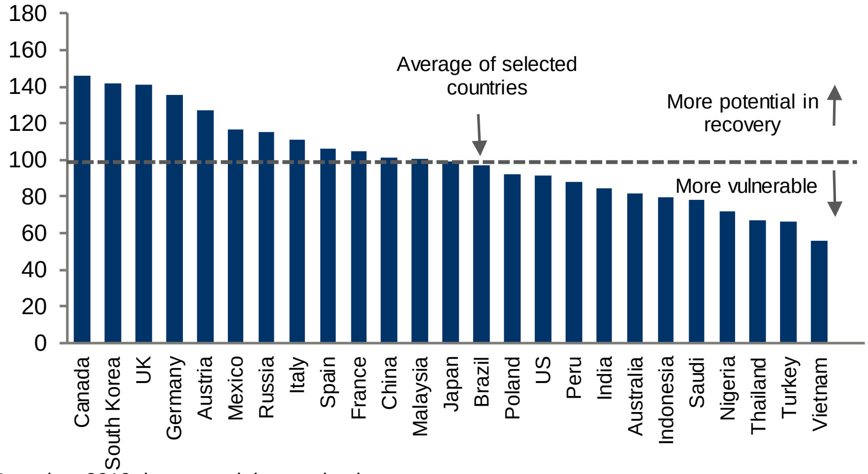
The Travel Potential Index illustrates the relative expected pace of recovery for the world's largest 25 tourism destinations, along with associated risks and opportunities.

Executive Summary

- The recovery of the Travel & Tourism sector in coming years will vary across destinations. This variation in part will be affected by reliance on travellers from more resilient source markets and the opportunity for gaining more of these travellers due to changing preferences. A range of indices are produced for the 25 largest country destinations to illustrate their recovery potential.
- **Resilience** of travel demand is greater for destinations that rely more heavily on domestic travellers and those from short-haul markets. This is due to the lower cost of travel for these tourists, the earlier lifting of travel restrictions, and greater certainty and availability of transport options. We calculate three resilience indices – domestic, short-haul and combined.
- The disruption to the Travel & Tourism sector will also lead to changing travel patterns and provide the opportunity for destinations to target new sources of travel demand. **Domestic Opportunity** – the size of a country's outbound market relative to domestic – is one example. This illustrates the potential for a destination to benefit from their residents switching to domestic travel from international.
- These metrics are combined in a **Travel Potential Index** to illustrate the relative performance of a country in recovery as well as associated risks and opportunities. But this must also be interpreted with care. Canada, South Korea and the UK all have large opportunity components, but actual recovery will rely heavily on the substitution rate of international to domestic travel. Others such as Germany and China have lower overall potential, but higher resilience – so the likelihood of a smooth recovery may be greater because it is based on current source market composition rather than an unrealised opportunity. By contrast, countries such as Vietnam are exposed to risks from longer-haul demand and sentiment, and more vulnerable in recovery.

Travel Potential Index*



*Based on 2019 data; overnight travel only
Source: Tourism Economics

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The pace of travel recovery for a destination will depend partly on the composition of their source markets.

Outlook for Travel & Tourism

The Travel & Tourism sector is in the midst of the largest downturn since World War II. International arrivals are forecast to decline 52% in 2020 and not recover to 2019 volumes until 2023. Domestic travel is also projected to decline (though by less than international), with domestic hotel guests in 2020 estimated to be 33% lower than last year. (See Global Highlights & Risks, June 2020 for more details)

Demand for travel recovered quickly following previous downturns, and despite the severity of the current trough, can be expected to rebound in coming years. However, there is considerable uncertainty surrounding the pace of recovery (as discussed in our research briefing, The Drivers of Uncertainty). Globally, we can expect the recovery of travel demand to depend on economic factors, the speed with which travel restrictions are lifted, the health of the aviation industry, and the risk aversion of potential travellers. For individual countries and regions, the pace of recovery will vary depending on the above, as well as on their source market composition. Detailed projections are available in Tourism Economics' Global Travel Service, but there are some broad concepts that can be discussed when considering the outlook for various destinations, the expected stability of their recovery paths, and the risks surrounding our central forecasts.

For instance, the pace and stability of a destination's recovery (and, conversely, the risk of a more volatile recovery) can be affected by the extent to which they rely on travellers from more **resilient** markets, such as domestic and short-haul markets. It is also worthwhile to consider the **opportunity** for travel demand to increase due to changing travel patterns and preferences, such as residents choosing to take a domestic trip instead of an international holiday. Combining these factors, we can consider the overall **potential** for a destination to recovery quickly and smoothly.

This research briefing constructs indices for these metrics – resilience, opportunity and overall potential – within a sample of the 25 largest country destinations (based on total international and domestic overnight visitors in 2019). Initial draft indices are subject to revisions, including potential inclusion of value and volume measures, and refinement of weights. All metrics in this report should be interpreted with caution and considered as illustrative for discussion and broad trends, rather than as exact forecasting tools.

Travel demand is likely to be more resilient from the domestic and short-haul markets, due to lowest travel costs, the earlier lifting of restrictions and better transport options.

Resilience of Travel Demand

The resilience – likelihood of a stable and quick recovery – of travel demand is likely to be greater for destinations that rely more heavily on domestic and short-haul travellers, due to the following:

- **Lower cost of travel** for domestic and short-haul visitors, given shorter distances and more transportation options. This is especially relevant during a period when household incomes are being squeezed alongside large job losses.
- **Travel restrictions** are almost universally being eased first for domestic trips, and next for short-haul cross-border travel, while restrictions on longer-haul visitors will remain in place for longer.
- **Uncertainty around transport** availability and costs is much greater for longer-haul travel, which relies almost exclusively on air travel, while modal switch is an option for short-haul trips. This is particularly relevant given concerns about the financial viability of many airlines.
- **Other factors** may also contribute, such as the availability of travel insurance for longer-haul travellers and a preference for travelling closer to home (as part of heightened risk aversion among travellers).

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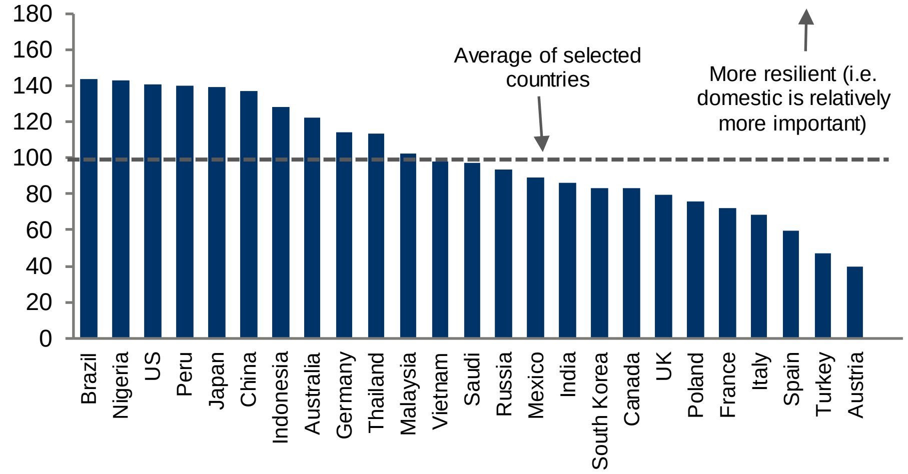
The Domestic Resilience Index looks at the share of destination tourism activity sourced from the domestic market. On this metric, Brazil, the US, Japan and China rank highly. Austria, Turkey and Spain rank lowest.

This resilience can be illustrated via a couple of different metrics. The first is the share of overnight trips taken within a country by its residents. Within the largest 25 country destinations, the share of domestic travellers ranges from 90% or more – such as for Brazil, the US, Japan and China – to only 25% for Austria. This is reflected in the **Domestic Resilience Index**, where a score of 100 is the average for the sample of countries (equivalent to around 65% of travel being domestic). The highest ranked countries are typically those with large populations and therefore large internal domestic markets (especially relative to the size of outbound demand). Those ranked lower are very popular destinations for international tourists, including many European countries, such as France, Italy, Spain and Turkey.

Domestic Resilience Index*

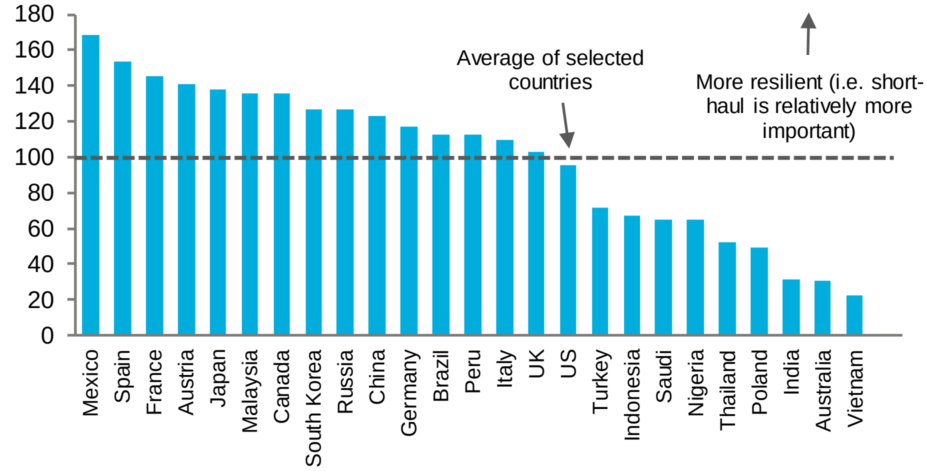


*Domestic travel as a share of domestic and arrivals combined; 2019 data; overnight travel only
Source: Tourism Economics

Short-haul Resilience is based on the share of international arrivals sourced from short-haul markets. Mexico ranks highest, followed by Spain and France; Vietnam and Australia are lowest ranked.

The second metric – **Short-haul Resilience** – illustrates the share of international arrivals that are sourced from short-haul markets (generally countries within the same sub-region including immediate neighbours). Mexico ranks highest, in large part due to its reliance on US travellers, with short-haul accounting for 85% of arrivals. Conversely, Vietnam sources only 12% of arrivals from short-haul markets. To some extent, this index also reflects simple geographic proximity – for instance, Australia is relatively isolated and therefore heavily reliant on longer-haul travel by necessity. At the other end of the spectrum, many European countries rank above-average, reflecting the inter-connectedness of the continent. Though within Europe there are also differences, with Italy and the UK being more reliant on long-haul source markets than Spain and France.

Short-haul Resilience Index*



*Arrivals from short-haul markets as a share of all overnight international arrivals; 2019 data
Source: Tourism Economics

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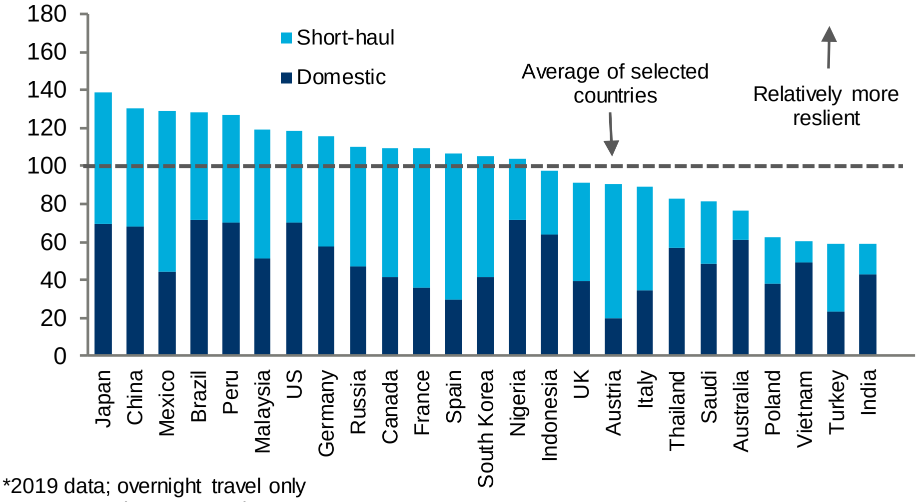
A combined Travel Resilience Index – which applies equal weight to short-haul and domestic – sees Japan ranked first, followed by China and Mexico.

These two metrics can also be combined into an aggregate **Travel Resilience Index**, by applying equal weight each to the Short-haul and Domestic Resilience Indices. On this metric, Japan ranks first, followed by China, Mexico (driven mostly by short-haul travellers) and Brazil. India ranks lowest, despite having higher domestic resilience than many other countries (as is also the case with Vietnam and Australia), marginally behind Turkey.

Travel Resilience Combined Index - Equal Weighting of Components*



*2019 data; overnight travel only
Source: Tourism Economics

The combined index provides a clearer indicator of resilience, especially for European destinations.

The combined index provides a clearer indicator of overall resilience, especially for many European destinations where short-haul cross-border travel is comparable to domestic travel in other larger countries. For instance, in terms of distance and ease of travel (with a lack of border controls), travel within the EU Schengen zone is comparable to domestic travel within the US or China. Some of the large European destinations, and notably France and Spain, have a higher than average resilience on this measure as the bulk of international demand is sourced from short-haul markets. Markets with a score significantly below 100 are more vulnerable in recovery with a greater reliance on some more volatile longer-haul markets.

An alternative to this metric is to measure the sum of short-haul and domestic travel as a share of all travel (international and domestic). This would improve the ranking of countries with large discrepancies between the individual components of domestic and short-haul resilience (such as India and Australia).

Opportunity for Growth in Domestic Travel

There is a growth opportunity for domestic tourism, if residents can be convinced to travel locally instead of internationally.

The significant disruption to the Travel & Tourism sector will lead to some changes in travel patterns. This may involve substitution of destinations due to income effects, travel restrictions or changing preferences. This can present an opportunity for destinations to target new markets and types of travellers to minimise losses in visitors and therefore speed up the recovery of their tourism industries.

This opportunity may be greatest for potential substitution from outbound to domestic travel. This metric – which we call a **Domestic Opportunity Index** – can be calculated as departures as a share of all travel by residents (departures plus domestic trips). This can also be thought of as 'Staycation' opportunity, in terms of residents choosing to travel within their home country instead of abroad.

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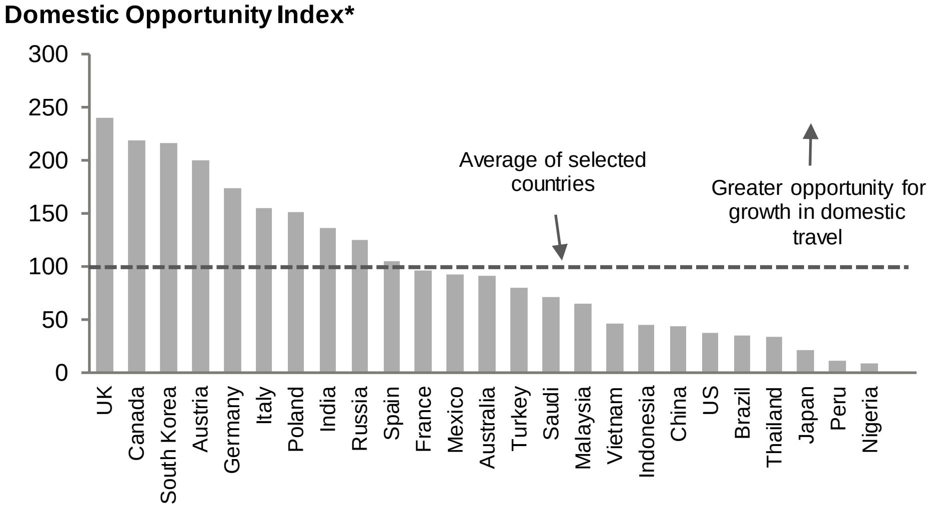
The Domestic Opportunity Index ranks countries based on the ratio of outbound travelers to domestic. The UK and Canada rank highly.

China and the US rank relatively lowly, reflecting the large relative size of their current domestic markets.

The actual rate of substitution from outbound to domestic travel will be crucial in realizing the domestic growth opportunity – hence this metric must be interpreted with some caution.

The Travel Potential Index combines resilience and opportunity metrics, and points to the relative potential for recovery for Travel & Tourism.



*Departures as a share of domestic travel and departures combined; 2019 data; overnight travel only
Source: Tourism Economics

On this metric, countries that rank highly are those where residents are relatively more likely to travel internationally rather than domestically and – as such – the opportunity exists for their preferences to shift to the domestic tourism industry. Travellers from the UK, for instance, are 1.7 times as likely to travel internationally as they are domestically (based on number of trips). Canada, South Korea, Austria, Germany and Italy also have relatively large outbound markets, and as such large 'staycation' opportunities.

China and the US have a relatively low domestic opportunity, despite the large size of their outbound markets in volumes (indeed, many destinations worldwide have become increasingly reliant on demand from these markets). This is because the domestic market for these countries is already significant, and in fact dwarfs usual outbound flows – as such, the growth potential from substitution is low (or, in other words, has already been realised).

However, it is important to note that this metric is somewhat speculative. While residents may choose to substitute domestic travel for international, the rate of this substitution is difficult to predict, and it is this rate that is crucial in converting opportunity into reality. Analysis to date shows that some degree of substitution was evident in recovery from previous downturns and is also implicit in current forecasts. But continued analysis will explore the extent of any greater growth potential.

Combined Travel Potential Index

The combined **Travel Potential Index** points to destinations which may be in the best position to see a quick and stable recovery for their Travel & Tourism sectors. The index applies equal weighting each to the short-haul resilience, domestic resilience and domestic opportunity components.

This index is indicative of relative performance by country in recovery as well as associated risks and opportunities, but it must also be interpreted with care. The three most highly ranked countries – Canada, South Korea and the UK – all have large domestic opportunity components. This suggests the potential for travel recovery is high, but the reality will depend heavily on the substitution rate (mentioned in the previous section). On the other hand, others such as Germany, Mexico, China and Japan have relatively smaller opportunity components but higher resilience. While this suggests their overall potential for travel growth is lower, the likelihood of a smooth and stable recovery may be greater, because it is more reliant on current market composition rather than the opportunity for 'staycationing'. By contrast, Turkey, Thailand and Vietnam are all low

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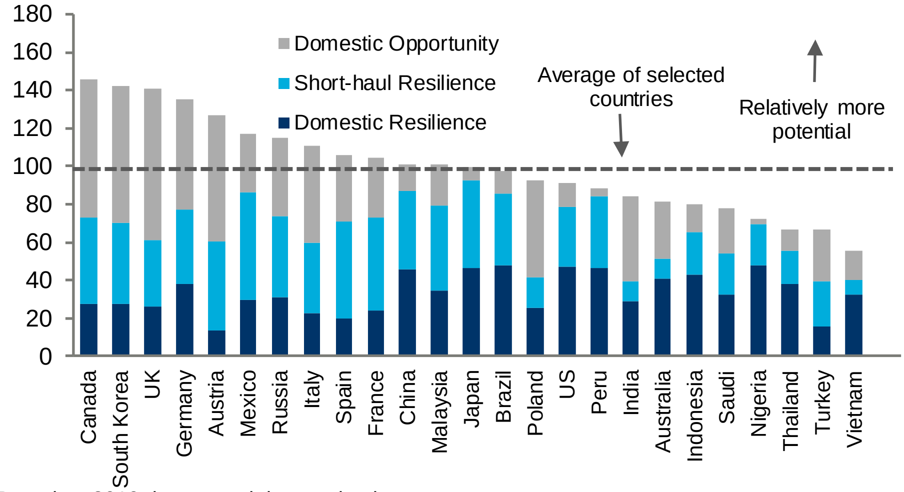
scoring on the index and are exposed to risks from longer-haul demand and sentiment in this recovery period.

Travel Potential Index*



*Based on 2019 data; overnight travel only
Source: Tourism Economics

Outside of this measure, other factors that may affect recovery include demographics, access to health care and reliance on group travel.

Moreover, other factors may impact on a destination's ultimate growth path in travel recovery and the extent to which potential is realized. The demographic profile of visitors is important and destinations which have traditionally been more reliant on older travellers may face greater disruption if those travellers are more risk averse (due to health concerns). The quality and access to health care for potential travellers of all ages may affect their choice of destinations, but these risks may also be skewed towards older travellers. Relatedly, the willingness of travel insurers to provide coverage may affect decisions. Markets more reliant on group tourism (including cruises or organised coach trips) may also take longer to recover, due to the financial vulnerability of many travel companies and lingering restrictions on large group travel. These concerns will affect both domestic and international travel and there will also be some differences within as well as between countries. Some heightened worries about visiting busier, and even overcrowded, destinations will also likely affect destination performance.

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