

MAY 12, 2023

# Global Tourism: An Incomplete Recovery

**Macroeconomic and geopolitical hurdles are slowing the full recovery of tourism.**



“The world is a book, and those who do not travel read only one page”, were the words used by Saint Augustine to describe the value of travelling. I have been stuck on one page for a while. First, restrictions and risks related to COVID-19 forced us to avoid international travel for over two years. Now, while the desire to go on a trip has returned, high costs amid surging demand are keeping popular destinations out of reach for us and many other potential travelers. Few industries were spared from the impact of the pandemic in the past three years, and even fewer were hit as hard as the tourism sector. But optimism has finally returned to this vital area of the economy. International travel is well on its way to recovering to pre-pandemic levels. Twice as many people voyaged during the first quarter of 2023 than in the same period of 2022. International arrivals reached 80% of pre-pandemic levels in the first three months of 2023. Tourism receipts in countries like France, Germany, Italy and the U.S. have climbed up to 85% of 2019 levels. Measuring its contribution to gross domestic product (GDP), the leisure

industry in 34 countries has already exceeded 2019 levels. The World Travel & Tourism Council (WTTC) predicts at least 50 more nations to meet or be within 5% of full recovery by the end of this year.

After a slow end to 2022, the outlook for business travel is also turning positive. Businesses have adapted to virtual meetings and conferences, which explains the relatively slow recovery in demand for work-related trips. However, businesses are reporting strong demand for face-to-face consultations, amid increased focus on reshoring and rising geopolitical realignment. This should aid the recovery of the segment, which will be vital for airlines. Leisure tourism accounts for the lion's share of airlines' passenger volumes, compared to just 12% for business travel. However, the latter is twice as profitable, accounting for up to 75% of airline profits. The \$9.5 trillion sector is one of the major driving forces of growth and jobs. For nine straight years before COVID, the travel and tourism sector outpaced the growth in global GDP. Among G20 nations, the sector accounted for about 10% of employment and gross domestic product on average. In some countries, the dependency is substantial. Smaller island nations in the Caribbean and southeast Asia are almost entirely reliant on tourism. It is also economically significant for some European economies like Italy, Spain, France and Greece. Higher travel demand is helping recoup the loss of over 70 million jobs in the first year of the pandemic, but there is still some way to go. It is also helping tourist-dependent economies replenish their foreign exchange reserves and improve external balances.

### **Will tourists from China venture out in their former volumes?**

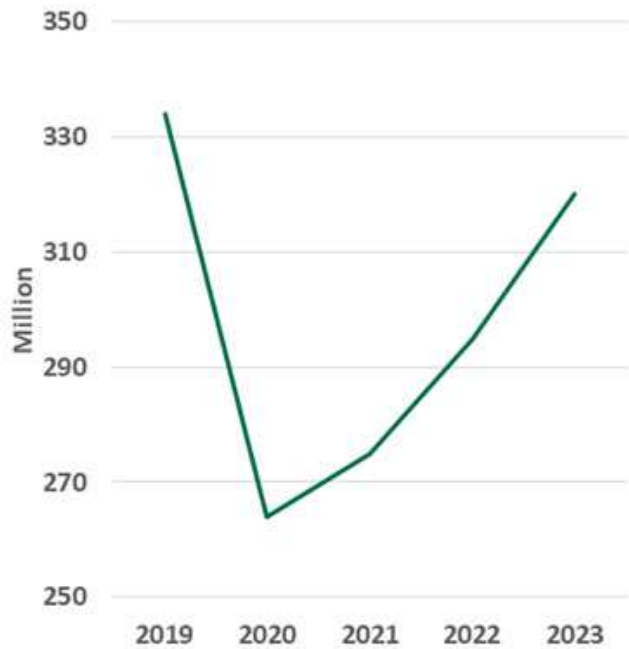
Tourism is on track for full recovery, but still has some distance to cover. The European leisure industry is still operating below 2019 levels. According to the European Travel Commission, a full recovery of tourism in Europe could take another two years. A global recovery to 2019 norms will require all nations to return to their former travel patterns.

**International Tourist Arrivals** (% change over 2019)



Sources: UNWTO, WTTC

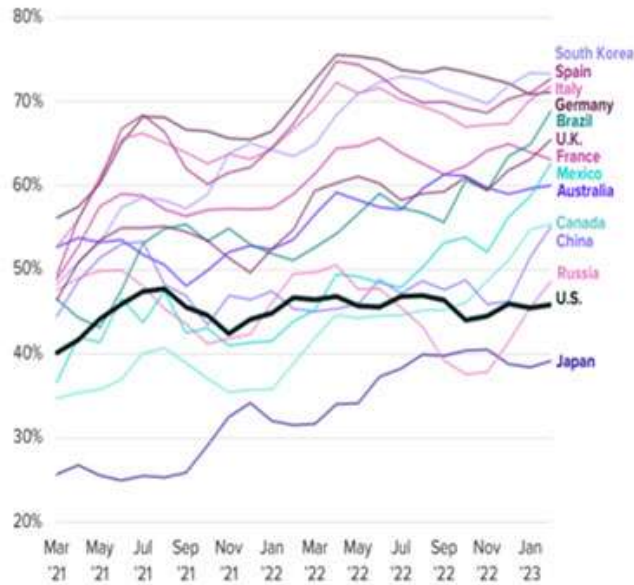
**Global Tourism Jobs**



While withdrawal of COVID restrictions by most economies supported the recovery of travel in 2022, China was a holdout. China’s recent departure from its zero-COVID policy is set to provide a much-needed impetus to the leisure industry this year. The comeback of Chinese travelers will be crucial for many tourism-dependent economies. They accounted for up to 35% of arrivals into countries like Thailand, Vietnam, Japan and South Korea during the peak summer season of 2019. China was also Australia's top source of tourists before COVID. The share of Chinese tourists as a proportion of total arrivals is rising again for many economies, especially in neighboring Asian markets. The first long holiday after the reopening and Lunar New Year showed a positive attitude towards travel among Chinese nationals. But arrivals from mainland China to popular hotspots of Europe and other destinations like Japan and Australia are still low. International departures from China last month were just over one third of April 2019 flights. According to the China Outbound Tourism Research Institute, about 18 million Chinese are expected to travel abroad in the first six months of 2023, followed by 40 million in the second half. Though growth is welcome, that forecast represents only 40% of the volume of travelers in 2019.

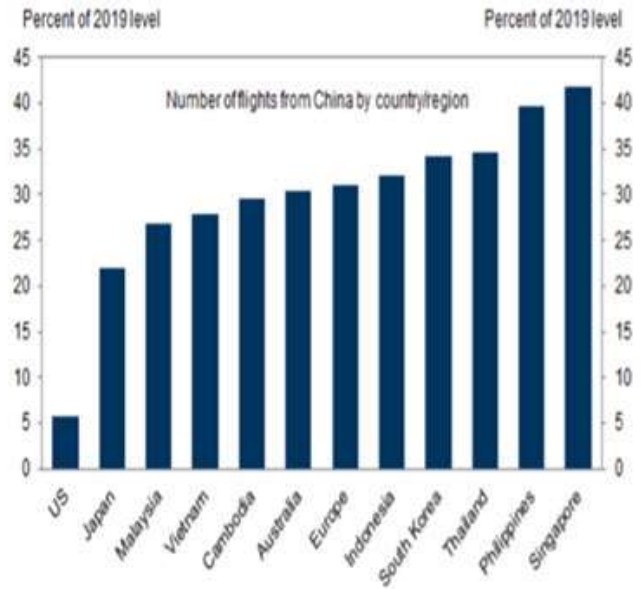
The recovery of the tourism industry is vulnerable to the deteriorating macroeconomic environment and geopolitical risks. Household savings accrued during the pandemic, contributing to so-called “revenge travel,” have depleted rapidly. Weaker growth prospects, waning purchasing power and

## Share Of Adults Who Plan To Travel In The Next 12 Months



Sources: Morning Consult, GS, Flight Master

## International Flight Recovery From China



Lower confidence from three years of stringent COVID policy in the case of China are forcing travelers to dial back their leisure spending or take a vacation closer to home.

### Some aspects of the global economy are permanently altered.

Higher input costs such as wages and commodity prices have helped push prices up across the travel chain, from airfares to hotel tariffs, which could further limit tourist activity this summer. According to a [March survey](#), high inflation weighed on the travel plans of 31% of surveyed Americans. Flights to Europe from China are up to 80% more expensive than before the pandemic, according to data firm ForwardKeys. Wage pressures are the strongest in labor-intensive sectors such as hospitality in major economies.

Shortages of long-haul flights, delays in passport renewals and processing of visa applications have also restrained cross-border travel. This is particularly true in China's case. The waiting time to get a visa to Europe for Chinese applicants has increased to two months from two days before the pandemic, with similar delays for other major markets. Despite loosened visa rules, the number of flights into China is still a small fraction of what it was before the pandemic, likely reflecting the worsening geopolitical landscape.

Increased tourism will be crucial to boosting economies in the coming year, offering some protection from the impact of economic slowdown. As for me, I'll just have to wait a bit longer to flip a page of the book.



## Vaibhav Tandon

Vice President, Economist

Vaibhav Tandon is an Economist within the Global Risk Management division of Northern Trust. In this role, Vaibhav briefs clients and colleagues on the economy and business conditions, supports internal stress testing and capital allocation processes, and publishes the bank's formal economic viewpoint. He publishes weekly economic commentaries and monthly global outlooks.

## Subscribe to Economic Trends & Insights

Discover our latest insights on all economic news, from breaking headlines to long-term trends.

## Follow Carl Tannenbaum

Discover the latest economic insights from our chief economist on social media.