

**Latest information on the impact of 11 September  
on the hotels and tourism sector**

**INTERNATIONAL LABOUR OFFICE**

**19 November 2001**

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#### **SUMMARY**

As at 19 November 2001, firm information about the impact on the hotels and tourism sector of the 11 September terrorist attacks in the USA remains scarce. However, partial data from a variety of sources is beginning to show more clearly the extent of the impact over the six weeks to the end of October in a number of key sectors and markets.

Also, there is some indication emerging that perhaps the hotels and tourism sector of the global economy may have begun to stabilise. Overall demand has fallen sharply in many markets but, although this cannot yet be proven, there is some suggestion that perhaps the fall has been arrested and that markets may be settling down - albeit at a lower than normal level.

The worst hit travel markets have been those connected with the USA - domestic travel, travel outbound from the USA and arrivals in the country from abroad. Beyond the USA, other long haul markets have been more severely affected than short haul markets and the latter seem likely to be the first to stabilise and recover. Leaving aside the impact of a weak global economy, the terrorist impact seems likely to diminish fastest within the European and Asian regional travel markets. North America will be affected for the longest period of time.

Some commentators believe that there are some signs of the global economy having reached its low point, bringing the prospect of an upturn in the coming months. This is far from certain but, if the military action in Afghanistan is not prolonged and there are no further terrorist attacks, the first expressions of optimism may begin to emerge before the end of this year.

#### **SOME GENERAL PREDICTIONS**

The World Travel and Tourism Council (WTTC) is maintaining its prediction that up to 8.8 million jobs may be lost in the industry worldwide in the aftermath of the terrorist attacks.

The World Tourism Organization (WTO) has revised its growth projections for international arrivals during 2001 from the 3-4% that was predicted prior to 11 September to 1% for the year as a whole. WTO points out that, since 1950, there has never been a year when international tourist arrivals fell.

The International Air Transport Association (IATA) is predicting that its members will lose \$7 bn this year on international operations, in addition to a predicted \$3-5 bn losses on US domestic services.

In the USA, the worst affected market, the Tourism Industry Association (TIA) is predicting that, in the 4<sup>th</sup> quarter of 2001, leisure travel will be 9% below the same quarter of 2001, business

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<sup>1</sup> Prepared for the International Labour Office by Travel Research International Ltd. in the United Kingdom, email: [enquiries@travelresearch.co.uk](mailto:enquiries@travelresearch.co.uk).

travel 12% down and air travel 25% down. The latest TIA forecasts predict that it will be 2004 before travel expenditures in the USA recover to the levels achieved in 2000, both for domestic travel (which accounts for about 85% of total expenditure) and for international visitors. In terms of trips, domestic trips were 998 million in 2000; they are forecast to be 962 million in 2001, 965 million in 2002 and 992 million in 2003. International arrivals were 51 million in 2000, are predicted to be 45 million in 2001, 46 million in 2002 and 50 million in 2003.

## **SOME SPECIFIC RECENT DATA**

### **US labour market**

Demand for labour in the USA had already been weakening due to recessionary tendencies in the US economy well before 11 September. Unfortunately, the terrorist assault hit the labour market on a downswing and has made a deteriorating situation much worse; the travel industry in its broadest sense has been in the frontline of redundancies and job losses.

- With the USA's travel industry clearly the worst affected, firm evidence of employment trends after 11 September is beginning to emerge, putting into context the labour market impact of layoffs and redundancy programmes already announced in the press. The US Department of Labour October 2001 data show a rise in US-wide unemployment of 732,000 to 7.7 million people out of work, 5.4% of the labour force and 2.2 million more people than in October 2000. While some of this increase is due to economic weaknesses, the 11 September attacks have clearly exacerbated the problems.
- Close analysis of the figures shows that the sharpest fall in employment levels in October took place in the services sector. Retail trade employment declined by 81,000 in October compared to September 2001; while employment in government services rose, employment in other services fell by 111,000. Travel-related industries suffered badly, with job losses of 46,000, plus 13,000 jobs lost in "auto services" which includes the car rental business. In air transport, there were 42,000 jobs lost plus 11,000 in other transportation industries. Of the 81,000 people who lost their jobs in the retail trade, eating and drinking places were singled out for comment; in this sub-sector, 115,000 jobs have gone since July 2001.

### **Air transport**

During 2001 the international airline industry was already under pressure from surplus capacity, exacerbated by industrial rigidities which militate against rationalisation and consolidation. 11 September was a frontal attack on the industry's standing with the public, using aircraft as a terrorist weapon for the first time. As a consequence, the impact on airline finances and employment has been devastating, both within the USA and among airlines for which the US market is vital to revenues and profits.

- The severity of the current crisis is illustrated by IATA's estimates of airline losses. To date, the worst ever annual loss by IATA members was after the Gulf War in 1992 when net airline losses were some US\$ 7.9 bn. IATA is now predicting losses of US\$7 bn on international services for 2001, plus US\$3-5 bn on US domestic travel, or US\$10-12 bn in total. In the period 1985-1989, IATA airlines made a net profit of \$14.6 bn. Between 1990 and 1994, the accumulated loss was \$20.5 bn. Between 1995 and 2000 the sector came back strongly into

profit, with an accumulated profit of \$39.8 bn. Nominally therefore, the industry should be able to sustain heavy losses, but history suggests that these may continue for a number of years.

- Results for the period to end-October 2001 for BAA plc - the owner of London's main airports - illustrate the broad impact on air traffic (London's Heathrow airport is arguably the world's most important for long haul international travel). Unsurprisingly, trans-Atlantic traffic has been the worst hit. At Heathrow traffic for the month of October showed a decline of 900,000 passengers on the same month of 2000, of which 550,000 were on trans-Atlantic routes, a fall of almost one third. (However, due to factors such as economic weakness and the UK's foot and mouth problems, trans-Atlantic traffic in August 2001 - before the terrorist attack - was already 3.6% down on the previous year). Worrying though this is, however, of more concern has been the effects on other routes. Non-trans-Atlantic long haul demand was down by 16% at all BAA's airports combined (including non-London airports), while short haul traffic within Europe was 11% down on the previous year. The one bright spot is that the airport company feels that the market may have "bottomed out" and that there is a hint of stabilisation now taking place. It will not be until mid-December, however, that data for November may prove or disprove such suppositions.

### **The hotel industry**

The hotel industry has enjoyed a period of booming business in recent years, and the feeling among analysts is that it is in far better shape to cope with a period of sharply depressed business than has been the case during past crises. While the industry will undoubtedly shed labour, it should be remembered that there are seasonal factors at work each year which cause a fall in employment during the September- March period anyway. Given this annual cycle, it may be that the industry will be able to sustain short-term difficulties in the hope of an upturn again in the second quarter of 2002.

- Consultants Arthur Andersen's ongoing survey of hotel industry performance showed the following results for September and October
  - Hotel performance in Europe remained relatively resilient thanks to provincial hotel markets, but the Middle East fared badly; hotel performance in Asia was variable.
  - European gateway cities experienced double digit declines in hotel occupancy rates; the impact on revenue was mixed, with London and Paris the worst hit.
  - In London, hotels which rely on high-end US business were most exposed; revenue declined by 25% in September. Based on preliminary data, occupancy rates for the year are forecast to be 71-74%, compared with 81% in 2000.
  - German hotels had already been struggling prior to September 11, although revenue growth was still positive; in September occupancy rates and revenue both declined by around 9%.
  - In October 2001, hotels in major European cities saw occupancy and room rates in sharp decline. In London, occupancy rates were 22.5% below the same period of 2000, room rates down 13% and consequently the key measure of RevPar (revenue per available room) down by 32.6%. Worst hit was Paris, however, with RevPar down by 38.4%; in Rome it fell by 21.9%. Other European cities fared better, but all saw falls in RevPar nonetheless.

- During October, again Parisian hotels had the lowest occupancy rate, at 63.5%; Frankfurt had 64.0%, Brussels 66.3% and London 66.5%.
  - European airport hotels suffered badly as air travel declined. All the major airports saw occupancy rates fall, with Frankfurt faring worst.
- Six Continents, the world's second largest hotel operator, estimates that the effect of the terrorist attacks was to reduce profit in its hotel division during the period September 11 to September 30 by some \$25 mn. The major cause of the reduction was the performance of the group's owned and leased hotels in the USA and Europe and, in particular, hotels in the major gateway cities of New York, Chicago, San Francisco, London, Paris and Hong Kong. These tend to be the group's more upmarket hotels, catering particularly to an international corporate market. By contrast, the impact on the group's franchised hotels (frequently the economy brands) was much smaller. (It is interesting to note that the company's retail division, which includes bars and restaurants - and catering primarily to a domestic market - performed better during the three week period, with an increase in sales of 1%.)
  - International hotel company Hilton Group has halved its 2002 budget for capital expenditure on hotels from £150 mn to £75 mn in response to a decline in hotel revenues. In September and October there was a fall of 10.7% across the entire hotels chain. Hotels in main gateway cities suffered from the lack of American business, with London's 5-star hotels down 32% and 4-star 15%. Provincial hotels and those not dependent on international business fared best.
  - In September and October, demand for hotel room-nights in Canada fell by 12.5% in September and by a further 8% in October. Rooms revenue fell more, since average daily room rates were down by C\$2.00.

## Suppliers

Travel services suppliers, operating in any event on very thin margins, are vulnerable to any downturn in demand. Travel agents and tour operators are already under growing pressure from direct-sell methods between service supplier and customer. The impact of 11 September, as with an already weak airline sector, had just made matters worse. The difference is that this sector has fewer rigidities than the air transport business, and thus closures and contractions in size are likely to be more permanent.

- Travel agents have been hit particularly hard by problems associated with reduced cash flow. In the UK, according to the Association of British Travel Agents (ABTA), the number of agents closing since September 11 has increased sixfold compared with the same period last year, notably those selling holidays to the USA. Travel agents are cutting costs primarily by shedding staff. Thomas Cook, for example, has announced that it would cut 1,500 staff, 12% of its workforce.
- Tour operators in the UK report that bookings, although still down, are improving. City breaks and skiing holidays in Europe are doing well, but travel to the USA, the Middle East and Eastern Mediterranean is being avoided. However, holidays are being discounted and people are booking at short notice. Tour operators are reported to be reducing capacity for next summer by up to 20%, although research commissioned by ABTA forecasts that bookings for next summer will fall by only 5%.

- News from Canada's tourism sector is gloomy. The Association of Canadian Travel Agents estimates that as many as 6,000 jobs could be lost by the end of the year out of a total of 30,000 country-wide - a loss of 20%. Air travel volumes in the Canadian market in 2002 are forecast to be 10% below 2001's figure, which itself will be 1.2% below that of 2000. In both September and October, air travel was 17% down on the same months of 2000.
- The decline in travel since September 11 has had a sharp impact on the global luxury goods market. Manufacturer LVMH, (for which the US accounts for a quarter of sales), saw a sales decline of 5% in October, following an 8% drop in September. The company has said that it saw some recovery in European countries and Asia, including Japan, at the local client level, but the reduction in travel is continuing to have a serious impact on sales to tourists in most countries. LVMH's DFS duty-free stores and sales to Japanese and US business and leisure travellers in Europe have been particularly hard hit.

## **DESTINATIONS**

### **Australia**

- In Australia, arrivals from abroad during September were 12% down on September 2000 results - the equivalent of 50,000 fewer visitors. However, September 2000 was an exceptional month due to the Olympic Games and, year-on-year, a considerable drop in 2001 was to be expected anyway. At the same time, arrivals in Australia during September were up from markets such as the UK, Japan and some other Asian origins. Bookings for the next few months into the first quarter of 2002 are reported to be down by 20-40% by some tourism industry representatives.

### **Hong Kong**

- In Hong Kong, the driving force of the tourism industry is now arrivals from the Chinese mainland, and this market has been relatively unaffected by the crisis. Overall, Hong Kong saw a drop of 2.1% in arrivals in September compared with the previous year, with the Americas most severely affected (-15%), Australia, New Zealand and the South Pacific down 11.1%, but Europe, Africa and the Middle East down only 2.7%. Short-haul regional origins were around 8% down, but others, such as India and South Korea, were strongly up. For the year, forecasts of a 7.8% growth in arrivals on 2000 have now been reduced to zero growth. The worst affected segment of the hotel market has been the top grade - those which rely primarily on long-haul origins.

## **RECOVERY STRATEGIES**

National tourism authorities have reacted rapidly to the crisis. In essence, marketing campaigns have been re-focused on domestic travel markets, origin markets closer to home and on the key international origins on which destinations depend for their business. New money has been found for advertising campaigns, which have been put quickly into place. The public and private sectors in several countries have come together to tackle the immediate issues.

- The British Tourist Authority (BTA) is to invest £5 mn into an international marketing campaign this winter in an attempt to entice visitors back to Britain. Key tourism companies, including airlines and hotels, have pledged to work in partnership with the BTA. The campaign will have a strong reassurance message, going back to core values and promoting

the country's heritage, countryside, city life and sport. Initially seven international markets, the country's leading origin sources, are to be targeted: five countries in Europe (Germany, France, Belgium Ireland and the Netherlands), and the USA and Canada in North America.

- A S\$13 mn assistance package by the Singapore Tourism Board has been announced. The measures range from marketing initiatives to direct assistance and increased support for industry players. Measures include an increased level of support for companies developing new products and services, rebates on participation fees at travel marts and trade shows and additional sponsorship and marketing funds to encourage the meetings and incentives market to choose Singapore. The government has also prepared a "Celebration Singapore Value Pack", providing complimentary admissions to attractions, for free distribution to selected regional markets by local tour operators. Discount vouchers will also be made available to Singapore residents to encourage them to experience local tourism products such as hotel stays, tours and attractions.
- In the USA, a major new travel advertising campaign featuring President George W. Bush is underway. The projected \$20 mn campaign, part of a broad Travel Industry Recovery Campaign, will feature advertising on television in the UK, Europe, Asia and Canada. It will be funded by voluntary contributions from every segment of the US travel and tourism industry. The advertisements will feature President Bush together with employees from various segments of the industry, including airlines, car rental, hotels, cruise and theme park industries. The ads are also to run in the USA encouraging Americans to see their own country. Within the USA a three-part marketing programme has also been developed. The first part delivers a message of responsibility for protecting freedom to travel and assisting the government in security; the second part centres on the theme "It's Your Country. See It. See America", with advertisement adjustments available for individual destinations; the third part is a partnership with the US postal service, with stamps highlighting attractions in each state.