

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

* Prepared for the ILO by Travel Research International Ltd, enquiries@travelresearch.co.uk

INTERNATIONAL LABOUR OFFICE

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SUMMARY

Since the last monitoring report of 19 November, new data have remained scarce on which to base a firm assessment of trends in the hotel and tourism sector of the global economy. Early indications that the sector may have begun to stabilise, while not refuted by the most recent reports, remain very tentative nonetheless. From diverse international sources, industry and press reports, it is clear that the impact of terrorism and economic weakness remains very severe on this sector. There have been substantial job losses already, and more are to be expected.

The air transport sector remains the best documented indicator of international travel market trends. Data set out in this second monitoring report show how bad the damage to this industry has been, and how important the knock-on effects have been on suppliers within the aerospace industry.

On a regional basis, while North American travel markets remain the worst affected, the damage done in parts of Asia may turn out to be more severe than initially hoped. Within Europe's massive intra-regional market, air travel has also suffered severely, although it should be remembered (a) that data from airline associations normally exclude the low-cost "no-frills" airlines whose business is reportedly booming and (b) travellers within Europe have two realistic modal alternatives to air travel in rail and road connections; thus air travel volumes may not be a wholly accurate guide to travel market trends.

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 11 September events.

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 loss on US domestic services.

In the USA, the worst affected market, the Tourism Industry Association (TIA) has published more detailed forecasts of arrivals in the USA from its major origin markets. Roughly half of all arrivals from abroad in the USA come from America's two neighbours of Mexico and Canada. In the former case, the prediction is that Mexico's 10.3 million visitors to the USA in 2000 will not be seen again until 2003, with 2002 forecast to see a fall of 7.4% on 2001's predicted total of 9.6

million. Arrivals from Canada were 14.6 million in 2000; in 2002 these are forecast to be 14.0 million - a relatively small fall on 2000's total (although 2001's predicted total is 13.4 million).

From overseas the USA received 26.0 million visitors in 2000; this is forecast to be only 21.5 million this year and will not regain 2000's level until 2004. Approaching 40% of overseas arrivals come from two countries - Japan and the UK. Japan is not forecast to regain its 2000 level of 5.1 million travellers to the USA within the forecast period, which ends in 2005. In the case of the UK, it is predicted that visitor numbers will be back to 2000's level by 2003.

SOME SPECIFIC RECENT DATA

Air transport traffic trends

In summary, data are now beginning to emerge from the air transport industry, which show more precisely the severity of the damage done by a combination of recession and terrorism. Most air transport markets around the world have been adversely affected. The impact on employment has inevitably been adverse also, and has not been confined to the airlines themselves; aircraft manufacturers and suppliers to them have also suffered.

- In the USA, it is estimated that, as of end-November 2001, job losses had totalled 86,000 in airline companies;
- In Europe, airline employment is reported to have fallen already by 25,000 since 11 September and could fall further once the full effects of the crisis work through (especially if plans to replace the former national carriers of Belgium and Switzerland fail to materialise).

Employment in aerospace industries around the world has already fallen in response to cutbacks in demand for new aircraft.

- In the USA, about 100,000 jobs have been lost, of which 30,000 were in the Boeing Corporation.
- In Canada, Bombardier has announced 3,800 job losses in its aerospace division.
- In the UK, an estimated 11,000 jobs have already been lost in aerospace industries, including losses of 1,700 jobs in the regional aircraft production operation of BAE - the UK's main aircraft supplier. Ultimately, it has been predicted that job losses in the UK's aerospace industry could reach 40,000 - 10% of the workforce in this sector.

Reports that the first glimmers of hope were emerging in **the air travel sector in Europe** may have been premature. These related to air travel on member airlines of the Association of European Airlines (AEA), where traffic data for early November suggested that a mild recovery might have been underway.

Subsequent weekly data to the week ending Sunday November 18, however, show that the possible recovery proved to be a false dawn. Intra-European traffic in that week was 13.9% below the corresponding week in 2000, on the North Atlantic it was 30.5% down and on routes to the Far East and Australia, 19.3%. None of these figures can be taken as

showing any major improvement on the position, which has prevailed since 11 September, although prior to that date traffic was already down by 3-4% on 2000.

However, traffic for the three weeks 29 October - 18 November 2001 on AEA airlines was very marginally better (i.e., it was down on the same period of the previous year by slightly less than in the previous three weeks), as the following table shows.

Average change in weekly passenger kilometres travelled on Association of European Airlines member airlines, October-November 2001
(% change on same period of the previous year)

Routes	8-28 Oct 2001	29 Oct - 18 Nov 2001
Intra-European	-14.6	-10.9
North Atlantic	-33.0	-30.0
Far East and Pacific	-23.0	-18.8

While the very recent nature of these figures requires that no firm conclusions may yet be drawn from them, they may just indicate that the low point was reached in the first half of October. However, it should be born in mind that the low-cost airlines such as Ryanair, Easy Jet, Buzz and Go, which fly only on intra-European routes, are not included in these figures. If there has been a substantial move towards these airlines away from AEA members as some have suggested, demand levels within Europe may be better than indicated here.

Looking at **air travel trends in the USA**, domestic air traffic for the month of October, as measured by the number of passengers boarding flights, was 22.3% below that for October 2000, with international traffic down by 30.7%. US airlines have taken some 16% of capacity out of the system, despite which the load factor across the industry was 62.7% in October compared with 70.6% a year ago. Data show that, on international services, traffic for October on member airlines was 39.2% down on trans-Atlantic routes, 21.3% on Latin American routes, and 29.5% down on Pacific routes.

In Asia, Cathay Pacific reported a 17% fall in passenger traffic for the month of October and confirmed, in common with carriers the world over, that cargo traffic has also fallen sharply, adding further to the pressures on profitability. While Asia is thought to be potentially more resilient to the current crisis than North America, Cathay Pacific's traffic data show a 14% decline in traffic to south-east Asia and to the Middle East as well as more drastic declines (of 21%) in revenue passenger kilometres to North America. The airline's October load factor was 64.5% compared with 68.4% in September.

Changes of airline ownership

One effect of the post 11 September fallout has been that many airline employees may find themselves employed by their governments again rather than by private sector airline owners. Several airlines, seeking financial help from their governments, have experienced a trend to what amounts to re-nationalisation, for example: -

- South African Airlines is being re-nationalised as a consequence of the South African government having to buy back Swissair's 20% stake in the airline.
- In New Zealand, the government is making further sums available to Air New Zealand - the total sum from the public purse which has been used to prop the airline up now exceeds NZ\$1 bn - effectively giving the government 82% of the once-privatised airline's shares and reducing massively the shareholdings of Brierley Investments and Singapore Airlines which used to control 55% between them.
- The Italian government, already holders of 53% of the stock of Alitalia, is preparing a case for injecting fresh funds into the airline which it will have to get past the competition authorities of the European Commission in Brussels.
- Air France, already majority-owned by the French state, is anticipating massive losses this year in common with much of the industry but which, in Air France's case, could raise further difficult questions about additional injections of state capital should this become necessary.
- The Belgian, Swiss and Irish governments are all facing crises within their airline sectors; Belgium is seeking a private sector successor to Sabena, Swissair a mixed solution to the insolvency of its national airline, and Ireland a solution from the European Commission which will enable Aer Lingus to be saved.

The effects of 11 September on Europe's airlines in particular can only sharpen the existing controversy about whether wholly private airlines are facing unreasonable competition from those owned by the state. Outside Europe, the 11 September events have undoubtedly set back the cause of privatisation in the airline industry; whether this increases or decreases job security in the industry remains to be seen.

Was October 2001 the low point?

There is only the flimsiest of evidence to date on which to suggest that the low point in air travel was reached in October. Even if it proves to have been so, there would be little cause for rejoicing. The quantum of the business is down by perhaps as much as 20% worldwide. The airlines are facing their biggest ever loss. Many thousands more jobs are at risk, and will remain so, perhaps throughout 2002. There is open talk in the USA of the risk of bankruptcy of one or more of the country's giant airlines during the coming months, threatening job losses on a scale unprecedented even in this crisis. The industry will continue to hold its breath well into the coming year before it is clear just how serious the downturn will be, and how long it will last.

Suppliers

- **Preussag**, Europe's largest travel group, has indicated that it is no longer confident that it will meet its forecasts for 2001. The German travel company, whose brands include TUI and the charter Airline Hapag-Lloyd in Germany, as well as Thomson Travel and Lunn Poly in the UK, had originally targeted raising profits by 20% this year. Although the company notes that the market has recovered to some extent since September 11, bookings remain 10% below those of last year. In addition there is a

switch towards short-term booking decisions. As a result, Preussag has launched a cost-cutting programme across all divisions, with the exception of marketing, and is aiming to save €40 mn (US\$35.5 mn) in 2001. The group is to cut capacity in both aircraft seats and hotel beds by 10% in the UK and 20% in Scandinavia. Depending on the development of summer bookings, the company notes that it may consider job cuts.

- The UK's largest tour operator, **Airtours** (to be re-named MyTravel Group), which has spent the last 12 months fighting to eliminate losses, has cut 1,600 jobs since September 11, despite a 57% rise in annual operating profits in the year to September 30. The job cuts are spread across all its divisions in all its markets and for all seasons. More than half the job cuts have come in the USA, about 200 have been in the UK and the remaining cuts have hit its Scandinavian and German operations. Following these reductions, the group's global workforce is about 27,000 workers. The current trend for late bookings has meant that charter bookings for this winter are down by about 15%, the company reported, although the 15% reduction in capacity has meant that selling prices are 1% higher. Bookings for next summer are down by 17%. Airtours is also freezing its capital expenditure programme.

Accommodation

Hotel occupancy rates in the USA are around 10% below 2000 levels, while average daily room rates are down by almost 8%, according to the US hotel monitoring organisation, Smith Travel Research. At the end of November hotels were achieving occupancy rates of around 59%. For the full year, Smith Travel is forecasting occupancy rates of 60.7%, down 4.7% on the rates achieved in 2000, and an average daily room rate of US\$86.41, an increase of 0.5% on the previous year. Revenue per available room for the year is forecast to be down by 4.3% on 2000.

The Spanish hotel chain, Sol Melia, whose portfolio rests on three main tenets - the Mediterranean (particularly Spain), Latin America and European cities, has announced that it expects profits to fall in 2001. However, thanks to higher tour operator prices and a strong domestic market, it is also anticipating a return to growth in 2002. The company is cutting investment targets for 2001-2002 from €318 mn to €223 mn as it postpones building new hotels in Spain following the travel sector downturn. It is also raising prices on British and German tour operators by between 4% and 6% for the 2002 season, a move which the operators, who account for 30% of sales, have castigated. Since September 11 the company notes that its domestic market has not been severely affected but that its operations in Latin America have suffered badly - particularly its hotels in the Dominican Republic and Mexico, which depend heavily on custom from the USA.

USA outbound travel intentions

Some mildly encouraging news for destinations for which the US market is a vital one has come from the Travel Industry Association of America (TIA). The TIA conducts a quarterly survey known as the Traveller Sentiment Index which measures among a

representative group of US consumers their perceptions of five key determinants of travel demand - interest, time, finances, affordability and service quality.

Thanks largely to heavy promotional discounting, leading to sharp gains in the "affordability" category, the index (based on 2000 = 100), reached a level of 101.1 for the 4th quarter of the year, compared with 97.1 in the third quarter and 98.5 in the 2nd. On a regional basis, only the north east of the USA showed no improvement on the 3rd quarter results; the index for the west of the USA showed a gain to 103.3 - an improvement of almost 10%, with the Mid-West up by 7% and the South by 4%. These results may prove useful to those targeting their destination on specific segments or regions of the US market.

DESTINATIONS

New Zealand

- New Zealand, both by location and image, might be regarded as among those destinations least likely to be affected by the events of 11 September. However, while there was no drop-off in arrivals for September, results for October showed a small decline overall of some 3.1% on the same period of 2000.

Nevertheless, markets performed in very different ways, with the sharpest declines coming, unsurprisingly, from the country's Northern Hemisphere sources. The worst affected were the **USA** and **Japan**, both of which showed decreases of 19.5%.

Europe recorded a mixed performance, with New Zealand's main European origin, the UK, declining by almost 5% after having been one of the star performers for 2001. Arrival numbers from Germany, the Netherlands and Spain all declined (down by 4.5%, 3.9% and 21.9% respectively), while, by contrast, there were increases from France, Ireland, Sweden and Switzerland (up by 15.3%, 14.6%, 8.2% and 4.7% respectively).

New Zealand's major origin, neighbouring **Australia** was not as buoyant as had been anticipated, although its performance was also affected by the changes in the airline industry, and as a result growth of less than 1% was recorded.

Although overall **Asian** visitors were down by 1%, some Asian markets did well: in particular visitors from Korea and China continued to increase rapidly, with growth of 61.5% and 33.6% respectively, and, although from a small base, there was growth of 64.4% from India. ASEAN countries were particularly weak, however, with some double digit decreases. In view of the mixed results among its major origins, the New Zealand tourism authorities are predicting a decrease of 5% in visitor arrivals to the end of February next year.

Cyprus

- The tourism industry in Cyprus is suffering as visitors choose Western Mediterranean sun and sea destinations such as Spain and Portugal in preference to the Eastern Mediterranean. Before September 11, the country was projecting a record performance, with arrivals for the year set to increase by 5.3%. Those already booked on package tours went ahead with their travel plans but conference and incentive tours were cancelled immediately. Almost 50% of the island's arrivals come from the UK, estimated this year at 2.6 million (although there has been increasingly strong growth from Germany, Scandinavia and Russia). However, tour operators have been reducing their bookings there for next summer and, as a destination that relies heavily on the package tour market, it seems inevitable that the island will suffer a fairly heavy decline in arrivals in 2002. The tourism authorities are now looking at a decline in arrivals next year of between 10% and 20%, and discussing losses of C£500 mn.

RECOVERY STRATEGIES

The British Tourist Authority (BTA) estimates that the UK's inbound tourism industry stands to lose around £2.5 bn in 2001. As the prime destination within the UK, accounting for 50% of overseas expenditure, London could lose between £1 bn - £1.5 bn from international visitors. (Tourism is worth £8 bn to the London economy and employs 275,000 people.)

In order to plan a medium and longer term recovery plan, the London Tourist Board and Convention Bureau (LTB) is spearheading a partnership - the London Tourism Recovery Group (LTRG) - to research the effects of the US terrorism attacks on the tourism industry in London. Partners include the Association of London Government, the central London regeneration agency, the Cross River Partnership, and Cultural Partners for London. The research will include the variety of sectors that make up the tourism industry and will include attractions, accommodation, arts and entertainment, transport providers, retailers, restaurants, conference and meetings organisers and tour operators. Initial LTRG research shows that 88% of tourism businesses in the capital have seen a downturn in visitors or bookings, but that 60% were optimistic or keeping an open mind about the medium term prospects.