

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

**INTERNATIONAL LABOUR OFFICE**

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### SUMMARY

**Although the flow of hard information remains fragmentary, there is increasing evidence that two conclusions may be drawn about the effects of 11 September on the global hotel and tourism sector:**

- the month of October 2001 probably saw the low point in demand for travel and tourism following the terrorist attacks, but
- it is now becoming clearer that the impact of those events, exacerbated by recession and economic weakness, will be more profound and will last longer than many had initially hoped.

Data and industry intelligence from the **USA** and **Japan** now show that the damage done by 11 September to travel demand was profound, causing drastic cuts in travel volumes and severe hardship, coupled with major job losses, in the travel industry. These hit the world's two largest economies when both were in recession. Economic and industry predictions now suggest that full recovery will take a long time. Certainly, full recovery is not expected during 2002.

In Europe, the other major travel generating region, the major markets of **Germany** and the **UK** should recover more quickly. However, Germany is in recession and some economic indicators in the UK could be deteriorating (e.g. unemployment, which historically has had a direct influence on British consumers' confidence).

Other travel markets in Asia, Europe and North America are broadly likely to mirror the trends in these four countries, on which basis the best hope for recovery continues to rest with the European region.

The prospects for employment in the hotels and tourism sectors, and in other related sectors such as aerospace manufacture, will remain largely pessimistic for 2002. (It should be emphasised that labour demand could well continue to fall for some months after the apparent bottom in travel demand has been reached.) There is no firm sign of an upturn in either travel demand or national economies as yet. Until there is, global travel volumes will remain depressed. 2002 may well turn out to be the first year since the 1950s when global international arrivals fall below the previous year's totals. In summary, the industry consensus in mid-December seems to be that, even though the worst may have passed, there is considerable pessimism about the depth and duration of the slump in travel and about the likelihood of a rapid recovery.

### EMPLOYMENT TRENDS

The combined effect of a US economy in recession and the impact of the 11 September terrorist attacks has had a severe impact on labour demand in the USA. Newly-released data for

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

November 2001 show that unemployment had risen to 5.7%, the highest since 1995. The decline in non-farm payroll was 331,000 in November following a drop of 468,000 in October - the latter being the sharpest single monthly fall for 20 years.

While the economic recession obviously is a major cause of weak labour demand, a closer examination of the US figures also shows that the tourism industry has been especially hard hit, undoubtedly due in substantial measure to the terrorism threat. Sharp falls in employment have been seen in areas surrounding tourism destinations such as Miami, Las Vegas, and Denver for example. Some 70,000 jobs were lost in November in service industries, of which 10% were in the hotel industry. During November, 25,000 jobs were lost in "amusement and recreation services" and 54,000 in transport services. While the attacks of 11 September have unquestionably made matters worse, it should again be emphasised that recessionary trends in the economy were already having an influence (the transport sector, for example, has lost 124,000 jobs since November 2000).

In the UK, which is not in recession, unemployment is nonetheless rising faster than for many years. Revised figures for October 2001 show the biggest monthly rise since 1992, while in November there was a further increase, albeit rather smaller.

As with the USA, in the UK those sectors most directly affected by 11 September have been the hardest hit by falling labour demand - hotels, finance and transport are singled out for mention. Although the numbers out of work and claiming benefit rose by a seemingly modest 7,500 in October and by a further 4,500 in November, it is reported that larger job losses in vulnerable sectors have partly been masked by increased employment in other sectors - notably in the public sector and in retailing. UK unemployment is still 81,000 people fewer than one year ago, but the total has been rising since September after falling steadily for more than two years.

## **OUTBOUND MARKETS**

### **Japanese outbound travel**

No detailed data on Japanese outbound travel are yet available, but there is no doubt that the September 11 attacks have had a severe impact on a market that was in any event suffering from the country's economic recession. Japan is not only the world's 3rd largest outbound market, but for destinations such as Guam and Hawaii it is the dominant foreign one and for some smaller destinations it is the lifeblood of their tourism. The behaviour of this market thus has an immediate and major effect on the health of such countries' tourism industries.

Figures so far available up to the end of October show that there has been no let-up in the depressing impact that the terrorist war has had on travel from Japan, although there has been some suggestion that the results for November may have begun to ease slightly. While August figures for outbound travel grew by 2%, provisional data for September show that there was a sharp fall, of 21.5%. The results for October were worse, down by 39.9%, with an overall reduction of more than 607,000 travellers for the month. It is not only the leisure travel market that has been affected, since business travel has also suffered badly. Japan's companies have put the brakes on employee travel and business confidence, according to the Bank of Japan's regular

Tankan survey, has deteriorated sharply. Meanwhile, the country's unemployment rate has been pushed to a record high of 5.4%.

*Wing Travel Daily* has reported that the number of international passengers on Japan Airlines' flights fell by 19% in September. The carrier's Guam/Saipan (-44%) and Pacific (-39%) routes were the hardest hit. However, traffic on the carrier's China (7%) and Oceania (1%) routes experienced growth. In October, traffic continued to show falls, with arrivals declining in many destinations - Hawaii (-54%), Guam (-56%), Marianas (-44%), New Zealand (-20%), Australia (-25%), South Korea (-22%), China (-9%), Taiwan (-26%) and Macau (-22%).

Even on the two months' results since September 11, there is a decrease of almost 1 million outbound travellers and it seems unlikely that the results for the final two months of the year will show a major rebound (see section on Hawaii, the Maldives and Australia above/below, for example). The respected *Japan Travel Journal* is estimating that the decline in Japanese travel in 2001 is likely to be in the region of 8-10%, almost three times worse than the market's performance following the Gulf War.

### **Germany outbound**

The reaction to the terrorist attacks by the massive German travel market will be vital for employment in many tourism destinations in the coming year. Germany's huge outbound leisure and business travel market, in common with most national markets, reacted badly to the 11 September attack and generated a high volume of postponements and cancellations. Nonetheless, the feeling within Germany was that such reactions would only be relatively short-lived, and that the prospects of the market bouncing back were quite good.

By early December the position remains very mixed. Certain types of travel and certain destinations are continuing to see substantial weaknesses in demand, while others appear to have turned the corner.

On the weak side, tourism to Egypt and other Middle Eastern destinations, mainly for leisure purposes, remains depressed, as does demand for some Caribbean destinations such as the Dominican Republic for the winter season. There are still tight restrictions on international business travel operating in many companies. Non-essential trips have been cut to a minimum, there has been a high level of substitution of economy class seats instead of premium seats and, within Europe, companies have also been promoting a move to rail and hired car modes of transport from air travel.

On the positive side, demand for the best value destinations in the Caribbean - notably Cuba - is reported to be strong, as is the up-market segment for islands such as Barbados, some of the lesser Antilles and Jamaica.

The German travel industry is reluctant to make forecasts of how next year will go. There remains, as a direct result of 11 September, a strong element of late booking within the market. Next summer's tour operator brochures are just being issued now. Until a few weeks have passed, it will not be possible to say how the market is likely to react. Overall, there is an expectation within Germany that demand in 2002 will be flat, or will grow only nominally.

## DESTINATIONS

Firm data on tourist arrivals are now beginning to emerge from different tourism destinations on how their markets have been affected.

**Hawaii's** tourism industry has suffered particularly badly as a result of the September 11 attacks. At the beginning of November, total arrivals represented just 74% of the numbers a year earlier, with this figure boosted to a large degree by domestic passengers from the USA. The latter were holding up reasonably, at 90% of their 2000 volumes, but the Japanese market was hard hit and represented only 35% of what it had been in the same period 12 months earlier. By the end of the month, there had been a gradual improvement, with total arrivals representing 79% of the numbers of the same period in 2000, with US arrivals at 95% and those from Japan at 45%. By the end of the first week of December, Japan had reached 57%.

The **Maldives**, as a prime holiday destination, provides a good barometer for leisure travel trends, particularly for long haul travel from Europe (which accounts for over three-quarters of travel to the country and which up until the end of August had been showing 7% growth). While total arrivals to the end of October 2001 are still marginally above those of the previous year (up by 1.7%), the Maldives has suffered since September 11 with a 14% decline in total arrivals in September and a 20% drop in October. From Europe, there was a fall of 14.3% in September, with, among larger markets, particularly sharp falls from Germany (down 29%) and the UK (down 8.5%). By contrast, the country's largest market, Italy, fell by only 2% and Switzerland actually increased by 1%. In October, the picture for Germany was similar, with a decline of 20%, while Italy also declined (-23%), but the UK bounced back with an increase of 4%. Switzerland continued to behave strongly with an increase of 22%.

The market from Asia, which accounts for under a fifth of all arrivals in the Maldives, declined by 12% in September and by 23% in October. The Japanese market is the only one of any size and prior to September had grown by 4.3% in the eight months to August 2001. However, there was a sharp reversal in September (down by 11%) and again in October (down 39%). Other regional markets for the Maldives are too small to be of any significance.

In **Singapore**, arrivals in October fell by 10.6%. While South East Asia and Oceania generated growth (up by 6% and 3% respectively), the Americas was the worst hit with a decline of 38%. Among the top twelve generating markets, there was an increase in travel from Indonesia (9%), Australia (5%), China (21%), Thailand (16%) and the Philippines (under 1%). Those registering poor performances included the UK which was down by 10% and Japan which declined a sharp 51% (this included a fall of 58% for holiday traffic and 37% business traffic). Also registering a sharp fall was the USA (-41%), as well as declines from India, South Korea and Hong Kong.

Holiday travel to Singapore in October from the country's top twelve markets fell by 15.3%, with significant declines from Japan (58%), the USA (46%), India (28%), South Korea (24%) and the UK (10%). China was the only market that registered double-digit growth in holiday arrivals. Business-related traffic from the top twelve declined by 13%. The USA (-46%) registered the sharpest decline, followed by Japan (36%), and the UK (21%).

In **Australia**, arrivals from Europe declined by 10.7% in October. From North East and South East Asia there was a decline of 7.9% and from the Americas 25%. Among major markets, the worst affected were New Zealand (-22%), the USA (-25%) and Japan (-25%). The country's

major long haul market, the UK, fell by only 5%. Arrivals from Germany, China and Korea all increased.

In **Spain**, recent data have tended to support the view that this key tourism destination has been relatively insulated from the effects of international insecurity. In the month of October, the volume of tourists staying in hotels in Spain was just 1.2% lower than in the same month of 2000. However, there was some drop in foreign hotel guests, of 4.7%, which was only partly offset by a rise in domestic travellers of 1.9%. For the ten months to end-October, the number of guests in Spain's hotels was 1.4% greater than in 2000, with total overnights just 0.8% ahead. Foreign guests and guestnights were almost exactly the same as in 2000, indicating that growth came from the domestic market.

The Spanish tourism authorities have no hesitation in laying the blame for the October (and September) declines from abroad at the door of the international security situation. While they are uncertain about prospects for 2002, it seems almost certain that the effect on Spain will be relatively minor compared to the worst-affected countries. There seems no reason why Spain's core European markets should be badly affected, except by broader economic factors.

## **AIR TRANSPORT**

### **Airlines**

As more data are published, it is becoming easier to understand the impact of the terrorist attacks and of economic weakness on the crucial airline sector, which is facing its worst downturn in demand and possibly its greatest operating loss ever.

At the global level, the latest data from the International Air Transport Association (IATA) show that worldwide load factors among its member airlines fell to 63% in October (from last year's 70%), despite a radical 9% capacity cut by the airlines. There was a decline of 23% in traffic in October compared with the same month a year ago, pushing the total for the first ten months of 2001 below the same period of 2000 for the first time. The worst traffic decline took place among IATA's North American members, of 33% for the month of October, while member airlines in regions such as Europe, the Far East and South America all saw declines of between 20% and 25%.

### **Airport traffic**

Further confirmation of the airlines' weaknesses appeared in the latest traffic data to be published by BAA plc - the owner-operator of seven UK airports including London's Heathrow, Gatwick and Stansted. Traffic handled across all of BAA's airports in November was 10.6% down on November 2000 (in October the shortfall was 12%).

Traffic at the two London airports of Heathrow and Gatwick was worst affected, being down in November by 13.5% and 19.8% respectively. By main route, the North Atlantic was 26.1% down on November 2000, other long haul traffic by 12.7% and European scheduled traffic by 8.2%. However, BAA points out that the November shortfall was a little less than in October, suggesting that perhaps the nadir had passed.

### **Other data**

Some of the more specific data from the airlines issued in the past two weeks include:

- November traffic levels on **British Airways** saw the tenth consecutive monthly fall in volumes, with passenger numbers down by 12.5% on the previous year and premium fare traffic down by 24.8%. Coupled with this news, credit ratings agencies have designated the airline's unsecured debt at "junk" status, which will raise financial pressures on the airline by pushing up interest rates.
- **Canadian** sources indicate that air traffic across the border with the USA was 30% down on the previous year during the first half of October, with domestic traffic down 17% and international traffic down by 15%.
- In both North America and Europe there are clear indications that the "**no-frills**" airlines are seeing sharp increases in demand at the expense of the larger carriers which have been targeting the premium fare segments of their markets. WestJet airlines of Canada saw a September load factor only slightly down at 73% compared with the same month of last year, while in Europe EasyJet saw November traffic levels 39% higher than in November 2000 (the airline is increasing capacity at around 30% a year at present) and Go, formerly the low-cost carrier of British Airways now bought by its management saw November traffic 63% higher than in the previous year on the back of a 25% increase in capacity.

There is little doubt that the major airlines of the world, which depend on long-haul traffic and premium fares for their profitability, have been hit hardest. British Airways - especially vulnerable because of its dependence on North Atlantic traffic, is undertaking a root and branch re-appraisal of its services which is likely to see the airline make major cuts in its operations at London's Gatwick airport. No official statement has yet been issued, but it seems that a further round of job losses in 2002 is now inevitable.

### **Aircraft manufacturers**

The airline crisis has rapidly spilled over into the aircraft manufacturing sector, with adverse implications for the wide network of sub-contractors and suppliers which serve the two major manufacturers of Boeing and Airbus.

In early December, **Boeing** announced a halving of its monthly aircraft output until mid-2002 in the face of the collapse in demand, with production volumes moving towards just 24 aircraft against the planned 48. The company plans to produce between 350 and 400 aircraft next year, compared with 522 in 2001; in 2003, an even lower production rate has been announced of 288.

**Airbus Industrie**, the European joint venture and Boeing's main competitor, has announced a reduction in its workforce of just over 4% - from 47,000 to 45,000, in the face of poor market conditions. It is hoped that the majority of these jobs will be shed through natural wastage. The UK partner of Airbus, BAE Systems, which has already announced job losses of almost 1,700 people, will shed a further 400 under the Airbus scheme. However, Airbus has reacted much more modestly than Boeing (where there has been 25,000 jobs cut from a total workforce of 97,000), and also hopes to avoid any cut in its output capacity.

### **THE HOTEL INDUSTRY**

The French consultancy, MKG Consulting, which monitors a range of performance indicators across the hotel sector in **Europe**, has revealed the following results from its September and October surveys:

- **Geographically**, the southern countries of Europe have fared far better than those in the north. Germany, Austria and the UK have been worst affected; in Germany, there was a 9.5 percentage point decline in average occupancy rate in September, followed by a 5.4 percentage point drop in October; in Austria, the decrease in both months was over 10 percentage points. By contrast, in Spain the drop was limited, and Portugal saw an increase in both months.
- **By grade**, 4-star hotels were the worst affected. Across the European Union area, there was a decrease of 11.9 points in the average occupancy rate in September, followed by a decline of 12.1 points in October. In France, the occupancy rate in October declined by 19.8 percentage points, in Germany it declined by 7.8 points, and in the UK there was a 15 point fall.
- **Economy and budget hotels** appear to have been the least affected by the terrorist attacks, partly as a result of trading-down and partly resulting from the fact that the domestic market is proportionately more important for this category of hotel. The revenue per available room (RevPAR) for Europe as a whole increased by more than 5% in October. Occupancy rates that did decline, tended to be more as a result of new or oversupply. In the provinces in France, for example, the drop in the average occupancy rate was only 1.2 percentage points.
- As has been well recorded, **capital city hotels** have been the worst affected, with London, Paris and Berlin experiencing the worst performances.
- **Average daily rates** across Europe's hotels held up much better than occupancy rates. Countries fell into two categories: those which either maintained or showed a slight decrease in rates, and those where they dropped sharply. In Germany, Austria and the UK, rates fell significantly while in the rest of Europe they remained relatively stable (and in Portugal they increased by 7.4 points in September and 9.2 in October).
- Generally, instead of dropping rates, hotel groups have introduced new advertising campaigns, direct marketing and other techniques to develop customer loyalty.

Performance results from consultants Andersen for the **Middle East** hotel market for October show the following:

- All markets, with the exception of one, recorded a decline in **RevPAR** (in US dollar terms). In 21 of the 28 markets surveyed, there were double digit declines in occupancy rates.
- **Manama** (Bahrain) was the only market to record growth in both occupancy rates and average room rates. This was partly the result of additional military business, although the corporate and Saudi weekend leisure market remained stable.
- Alexandria, Muscat, Makkah, Medina and provincial Saudi Arabia rallied during October and saw increases in occupancy figures compared with October 2000.

- In **Muscat** the leisure market has been badly affected, but this has been partly substituted for by an increase in military business.
- **Makkah** hotels have suffered from a decrease in international pilgrims, although this has been counterbalanced by Umrah pilgrims from the Saudi and GCC market during the month of Rajab
- The prospects for this market remain poor with, in addition to the terrorist attacks of September 11, the continuing conflict in Israel and the war in Afghanistan deterring travel to the region. International convention and leisure business continue to be the hardest hit, although corporate business and domestic and intra-regional travel seem to be less adversely affected.

One of the world's largest hotel groups, **Six Continents**, has predicted that it could be at least another six months before confidence in international travel returns to pre-September 11 levels. The group, which had earlier reported losses of US\$25 mn, reported additional losses of US\$30 mn in October. Although there has been some improvement in the **USA**, trading remains depressed. November RevPAR for the group's mid-market Holiday Inn brand is down by 16%, while that for the economy Express brand is down by 5%. (November is the first month where all segments have shown a rate decline).

In **Europe**, the group notes that there has been no recovery in long haul travel and business at the group's upscale Inter-Continental and Crowne Plaza hotels has seen no improvement at all. There has been a 30-40% decline in RevPAR for these brands in the UK and France, as well as in the USA. In the mid-scale hotels in Europe, there has been occupancy rather than rate declines, but overall RevPAR declines are now at double-digit levels.