



COVID-19: GALVANIZING THE TRAVEL INDUSTRY FOR HIGH TIDE

HOW A GLOBAL CRISIS IS TOPPLING A BOOMING INDUSTRY

DECISIONPOINT™
— by **WNS**

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Overview

As COVID-19 continues to slam the brakes on several industries, the travel and tourism industry is looking at unprecedented levels of disruption. Restrictions on international travel and cancellations of major events have put airlines, hotels and cruise operations in a state of quandary.

A complete shutdown of operations across most parts of the globe is compelling the travel sector to seek interim relief from governments. In line with this, the U.S. government has earmarked USD 60 Billion from the USD 2 Trillion aid package for the airline industry. It remains to be seen if other players in the travel ecosystem will get the benefits they ask for from their governments.

WNS DecisionPoint™ analyzed the current scenario in airline, hotel and cruise industries across the globe. Job losses will continue to climb, if the situation does not ease quickly. In this report, we forecast the scope and period of impact for these three segments.

INTRODUCTION

The spread of the Covid-19 disease globally, caused by the coronavirus, has halted travel industry operations across the globe. Demand for the three major segments of the global travel industry — airlines, hotels and cruises — has slumped to its lowest point in several years. As the virus continues to spread unabated

leading to widespread sealing of international borders and closure of flight routes, organizations across airline, hotel and cruise segments face some of the toughest challenges — grappling with low customer demand, grounded fleet, employment cuts and declining revenues.

We analyze the impact of the virus outbreak across the airline, hotel and cruise segments, and forecast the extent and duration of the impact and essential steps that companies in these sectors can take to limit, if not stop, the damage incurred.

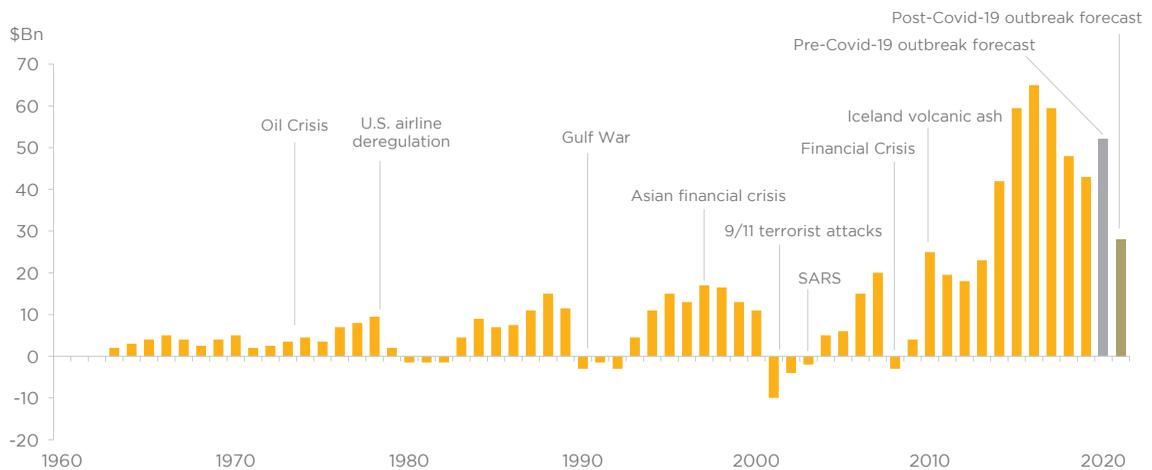
Airlines – hardest hit sector

Passenger demand dropped drastically in the first week of March 2020, forcing carriers to freeze hiring and reduce the

number of flights, including on profitable transatlantic routes. According to Ascend – an aviation data consultancy – data for the

first half of March 2020 show a 2.8 percent fall in global aircraft capacity.¹

Figure 1: Global Airline Earnings, Operating Profits (USD Bn)



Source: International Civil Aviation Organization; WNS DecisionPoint™ Forecast

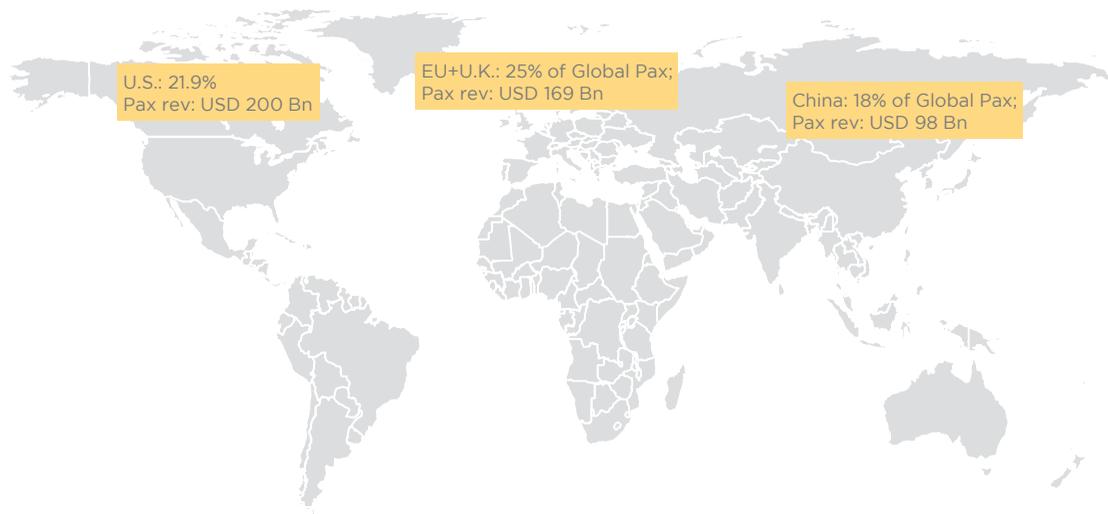
The graph illustrates global airline operating profits in the last six decades, with upheavals seen during major global macro events, from the oil crisis of the 1970s to the SARS epidemic of 2002-03. Global airlines suffered operating losses worth USD 5 Billion during

the SARS epidemic. Analysis and forecasts from the International Civil Aviation Organization (ICAO) before the COVID-19 outbreak suggest that global airline operating profits for 2020 would have hit USD 57 Billion. As of

March 2020, wherein the outbreak has spread beyond 100 countries, WNS DecisionPoint™ forecasts operating profits to reduce by 50 percent of the ICAO forecast, to approximately USD 28 Billion.

1. Article by Financial Times, Coronavirus pushes aviation sector into 'crisis zone', March 2020

Figure 2: Markets With >10 Confirmed Cases Account for 94% of Global Passenger Revenues



Source: IATA Economics; WNS DecisionPoint™ analysis

Market	Impact on Passenger Numbers	Impact on Passenger Revenue (USD Billion)*
Australia, Japan, China, Malaysia, Singapore, South Korea, Thailand, Vietnam	-23%	-49.7
APAC <i>excluding the above set of countries</i>	-9%	-7.6
Austria, France, Italy, Germany, Netherlands, Norway, Spain, Switzerland, Sweden, U.K.	-24%	-37.3
Europe <i>excluding the above set of countries</i>	-9%	-6.6
Bahrain, Iraq, Iran, Kuwait, Lebanon, UAE	-23%	-4.9
Middle East <i>excluding the above set of countries</i>	-9%	-2.3
Canada, U.S.	-10%	-21.1

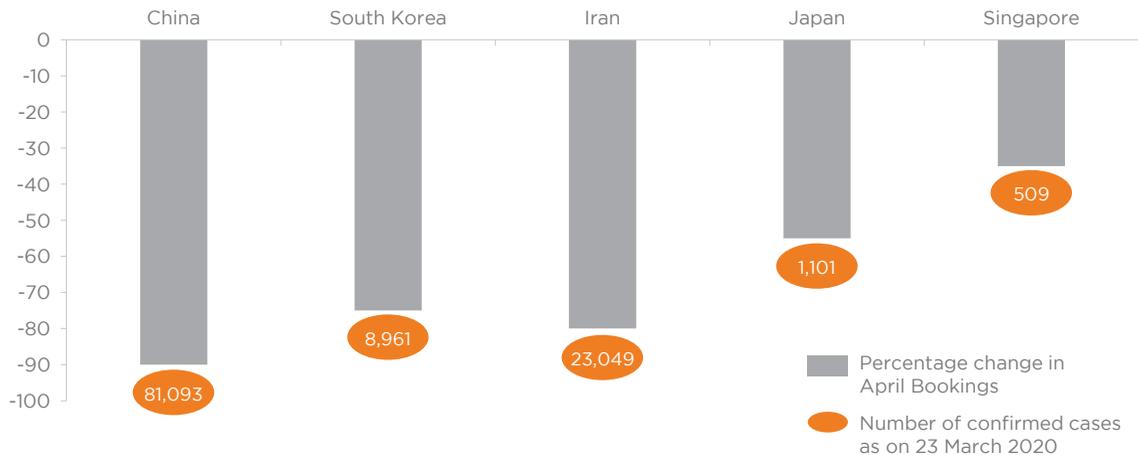
Source: IATA Economics. *China and Japan include revenues on the China-Japan market

As per the International Air Travel Association (IATA) estimates, the

'extensive spread' of the virus (spread beyond 100 countries) will

reduce global passenger revenues by USD 113 Billion.

Figure 3: Year-on-Year Change in April Bookings



Source: WNS DecisionPoint™ calculations based on data from Financial Times; IATA

WNS DecisionPoint™ calculations indicate that countries with more than 100 confirmed cases will see a steep year-on-year plunge in flight booking rates in April 2020, signaling flight booking cancellations on a global scale in the coming months.

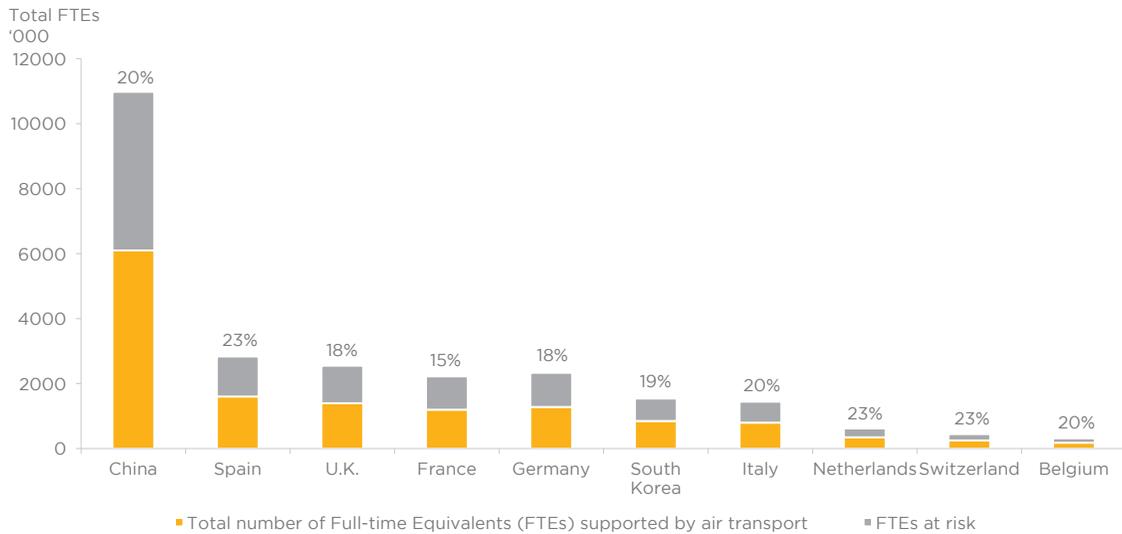
According to analyst estimates, the short-term and long-term consequences of COVID-19 would mean reduced travel, and many airlines currently struggling will face challenges in surviving. Those that continue to operate will reduce fleet size to maintain

profitability.² Fleet sizes determine the number of seats in the market, and reducing the number of seats will increase the price per seat in the market.³ However, the extent of fleet cuts will depend on the length and depth of the crisis.

2. Article by Financial Times, EasyJet founder Stelios says fleet must drop by quarter, March 2020

3. Ibid

Figure 4: Impact of COVID-19 on Employment Supported by Air Transport



Source: IATA Economics based on 2016 data

Air transport is a major constituent of global economic prosperity, accounting for 65.5 million jobs and USD 2.7 Trillion in economic activity.⁴ With increasing number of airlines facing cash flow pressures and fragile financial conditions, they are confronted

with the prospect of cutting back air services and laying off employees by offering them unpaid leaves or reducing the number of hours worked.⁵

IATA estimates employment risk at 15-23 percent of the total number of jobs supported by air transport

in the countries depicted in the graph. The medium-term employment scenario will depend on the future course of the spread, and curtailment efforts of governments and communities across the globe.

4. IATA Economics, March 2020
 5. Ibid

Hotel Industry

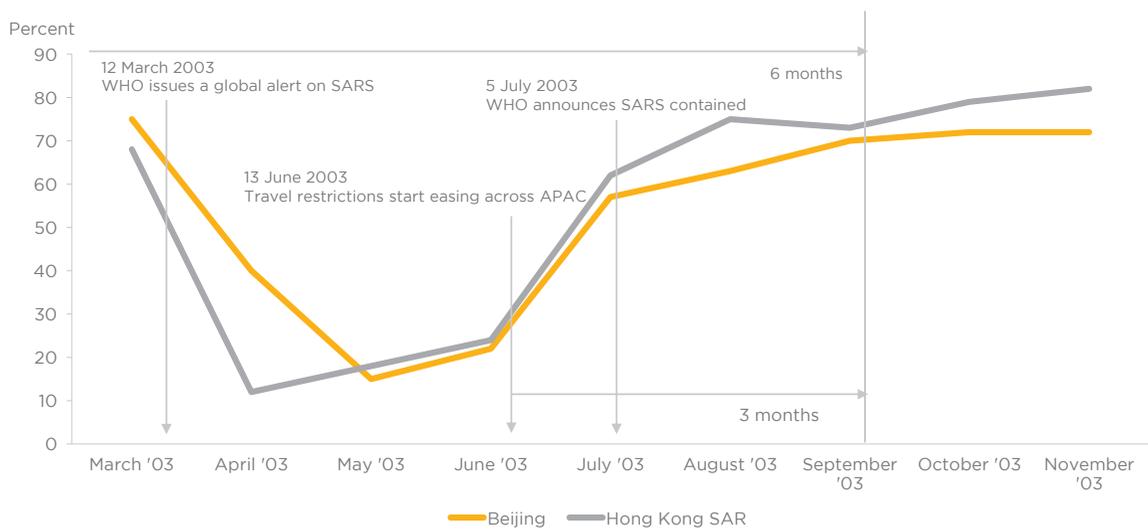
Hotels and tour operators around the globe are facing complete meltdown after the disease was declared a pandemic by the World Health Organization (WHO). Several countries imposed

lock-downs and the U.S. banned the entry of citizens from 26 countries. The World Travel and Tourism Council (WTTC) has estimated that up to 50 million jobs were at risk in the hotel and

leisure industry and that the sector could shrink by 25 percent - equivalent to three months' travel loss in financial terms.⁶

Occupancy Rates Rebounded Quickly after SARS

Figure 5: Occupancy Rates After SARS



Source: STR Analysis; WNS DecisionPoint™

Occupancy rates in the Asian markets of Beijing and the Hong Kong Special Administrative Region recovered within three to six months after the SARS outbreak. However, the coronavirus outbreak has had a

more serious and long-lasting impact on hotels in Mainland China. In February 2020, 2,600 temporarily closed properties constitute 40 percent of the total hotel revenues in Mainland China, and 56 percent of those properties

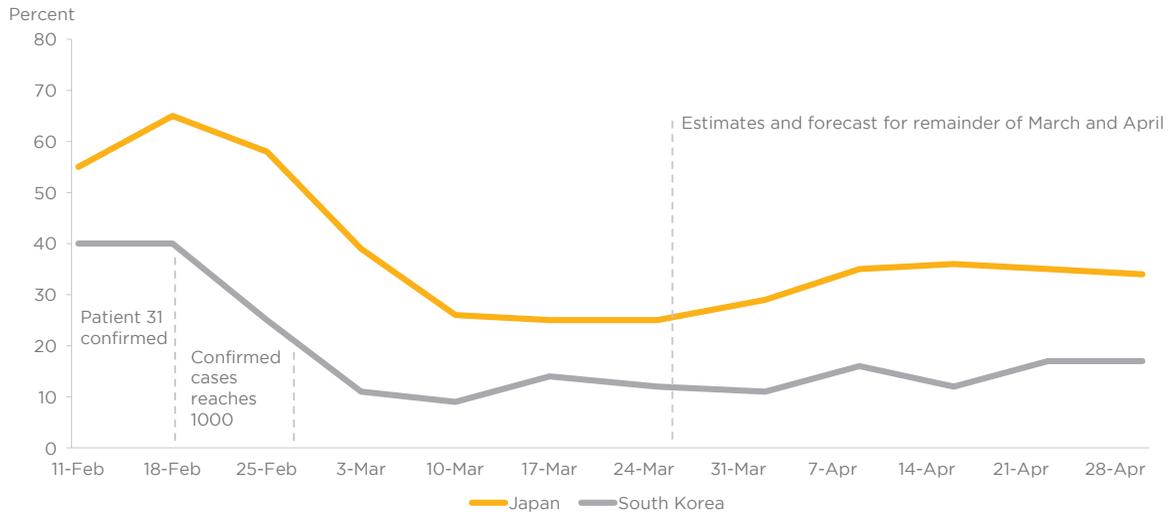
are in the economy and midscale categories.⁷ More than 80 percent of hotels in Mainland China have closed their online bookings. Many hotel groups launched free cancellation policies and extended a one-year membership for guests.⁸

6. Article by Financial Times, Hotels and tour operators face 'total meltdown', March 2020

7. STR, March 2020

8. Ibid

Figure 6: Forecast for Occupancy Rates in Japan & South Korea



Source: WNS DecisionPoint™ forecast based on data from STR

Occupancy rates reached an all-time low in South Korea after confirmation of 31 coronavirus cases in February and over a thousand confirmed cases towards the end of February. As the number of infected cases continue to rise in South Korea during March, WNS DecisionPoint™ forecasts a steep decline in occupancy rates for the remainder of March and April. Hotels are facing cancellations and are forced

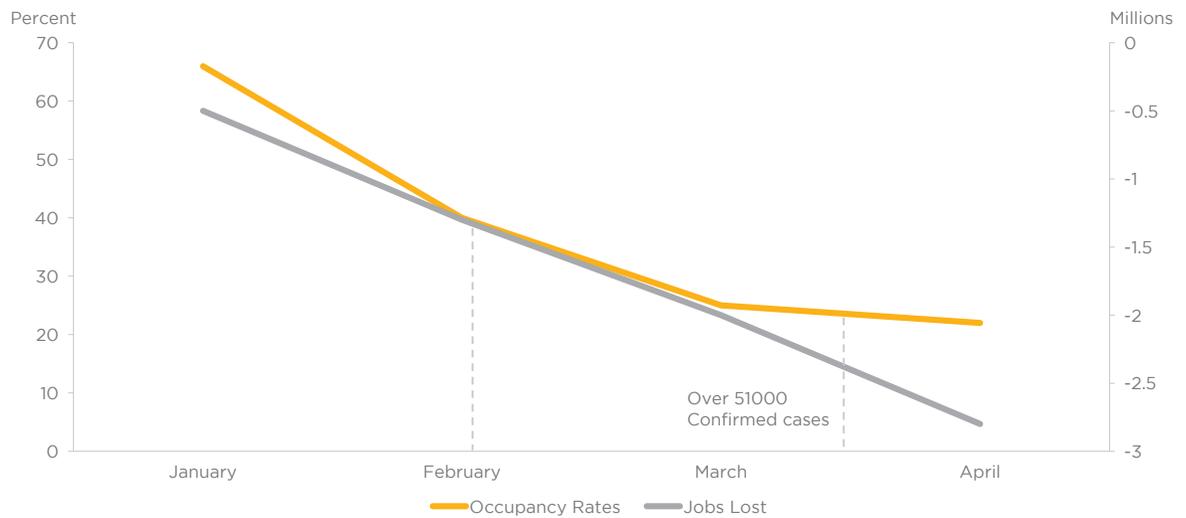
to temporarily shut down properties across the country. Those that continue to stay afloat have had to reduce their workforce by more than half. The pace of recovery of the hotel industry in Mainland China and South Korea will be contingent upon how quickly the spread of infection is contained in these countries and steps taken by companies and institutions to provide stimulus to the ailing sector.

The U.S. is not very far behind either. According to data from the American Hotel and Lodging Association (AHLA), the hotel industry supports one in 25 American jobs, which denotes 2.3 million direct jobs and 8.3 million total jobs annually. The industry contributes USD 97 Billion in wages and salary and contributes nearly USD 660 Billion to the U.S. GDP.

	Percentage drop in Occupancy Rates from Average of 66%			
IMPACT	-20%	-30%	-40%	-50%
Total business sales	USD -370 Billion	USD -558 Billion	USD -740 Billion	USD -925 Billion
Direct hotel jobs	-690,000	-1.04 million	-1.38 million	-1.73 billion

Source: AHLA

Figure 7: Forecast for Occupancy Rates & Jobs Lost



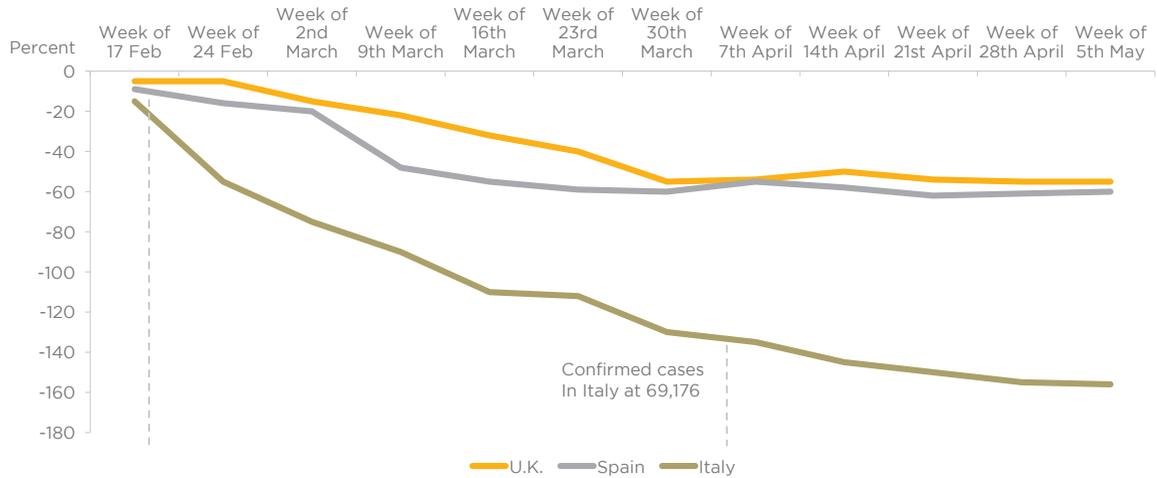
Source: WNS DecisionPoint™ forecast based on AHLA data

The U.S. registered over 51,000 confirmed cases of the virus towards the last week of March. Based on the fast spread of the

infection, WNS DecisionPoint™ forecasts a steep drop of over 50 percent for occupancy rates in

the U.S. for March and April, accounting for over two million lost jobs.

Figure 8: Percentage Change in Occupancy Rates vs. Last Year for U.K., Spain & Italy



Source: WNS DecisionPoint™ forecast based on STR data

Europe is set for the biggest drop in a decade in occupancy rates for March and April 2020, with Italy taking the biggest hit as the epicenter of the virus outbreak in Europe. With confirmed cases

rising to over 69,000 towards the end of March, WNS DecisionPoint™ forecasts a steep negative change of up to 150 percent for occupancy rates in Italy. As no definite period has

been stipulated for the lock-down across Italy, the drop in occupancy rates could be even more severe three to six months after April.

Cruise Industry

The USD 45 Billion cruise industry has been in the eye of the storm ever since the infections were first detected in February 2020 on board one of the largest cruise liners in the world. More than 50 cruises were cancelled and

seven ports closed.

The cruise industry is particularly vulnerable to the virus as the disease spread through the winter 'wave season' – the industry's key quarter when ship owners vie for early bookings so that they can

break even for the year's forecasted sailings. Demand and capacity are often difficult to match, as ships are usually delivered up to five years after ordering and are priced at nine figures.⁹

Region	Customers in 2019	Customers in 2020*
Asia Pacific	5.7 million	4 million (-25%)
North America	14.2 million	7 million (-50%)
Europe	7.17 million	5 million (-30%)

Source: Cruise Lines International Association (CLIA); * WNS DecisionPoint™ estimates based on CLIA data

The cruise industry attracted the largest number of customers from North America in 2019, while Asia-Pacific customers, more than half of whom were Chinese, accounted for the biggest year-on-year increase from 2018. Based on the current crisis levels, WNS DecisionPoint™ estimates

a 25 percent drop in customers from Asia-Pacific and a 50 percent drop in travelers from North America in 2020.

Customers are compensated for cancelled trips on cruises, but most major cruise lines do not have

commercial insurance to cover pandemics, such as the coronavirus outbreak, because premiums are unreasonably high. Costs will have to be absorbed or compensated from a mutual liability insurance available through private shipowners' clubs.¹⁰

9. Article by Financial Times, Will Cruise ships survive and what will be left of them?, March 2020

10. Article by Financial Times, Coronavirus: cruise industry caught in the eye of the storm, Feb 2020

CONCLUSION

The burgeoning spread of the coronavirus infection across the globe has brought the travel and leisure industry to its knees. To stop the spread of the virus, the travel industry has had to come to a complete standstill. Based on the state of the outbreak in March 2020, WNS DecisionPoint™

estimates global airline profits to reduce by 50 percent from previous year and forecasts massive decline in booking cancellations across key destinations. Hotel occupancy rates and jobs in the employment sector will experience a worse fall than the SARS epidemic of

2002-03 and the 2008-09 financial crisis, with Italy suffering the biggest drop in occupancy rates from March to April 2020. The cruise industry is set to witness a decline in the number of customers in 2020 as potential customers tackle the long-term challenges brought on by the virus.



About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation, WNS aims to arm you with decision support frameworks based on 'points of fact.' Drawing on our experience from working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners including Knowledge@Wharton, each research asset comes up with actionable insights with the goal of bringing the future forward.

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