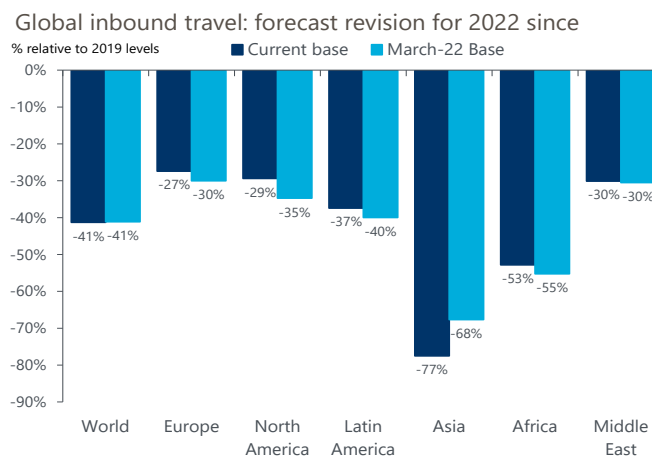


Global Travel Service

Global Highlights & Risks, June 2022

- The travel recovery is underway with robust growth in high frequency data for early 2022. Our global forecast for international travel in 2022 remains unchanged, with international arrivals 41% below 2019 levels on average, but with some apparent differences in trends across countries and regions.
- The momentum in travel demand from the first half of the year will continue into the peak summer period. However, disruption from staff shortages is set to remain a feature of the northern hemisphere summer months, including some continued high-profile impacts on aviation within Europe. Air travel capacity will remain constrained in the near-term.
- Overall, we remain optimistic about the recovery this year and next, but the sector will face further headwinds from slowing economic growth and rising inflation, including rising travel costs. Pent-up demand will support near-term activity and there are greater risks to the to the expected recovery from pricing and affordability in 2023.
- International travel to Europe has rebounded strongly in early 2022 as holidaymakers who have deferred travel for the past two years start to return. Short-haul travel remains a lead driver of the travel recovery and on average we expect travel to European destinations to regain pre-pandemic levels in 2024, albeit with some greater risks to Eastern European destinations.
- In North America, the international travel outlook has been upgraded this year following a strong start to the year. Intra-regional travel between US, Canada and Mexico will remain crucial for recovery while transatlantic travel continues to recovery slowly but steadily. The large domestic travel market will continue to support the sector in the short-term.
- Travel restrictions are now easing across Asia, and international travel growth is finally underway. However, China continues to pursue its zero covid policy and it is less likely that any notable change in policy will happen before the National Party Congress in November. Consequently, we have downgraded our forecast for international arrivals in 2022, now expected to be 77% below 2019 levels, compared to 68% previously.

Chart 1: Global inbound travel: forecast revision for 2022 since previous update



Source: Tourism Economics

MACROECONOMIC OUTLOOK

Global GDP growth in Q2 has been lacklustre for a second quarter running due to disruptions stemming from the Ukraine war, the squeeze on household incomes and covid-related activity restrictions in China. Disposable income will remain under strain with inflation set to peak in Q2 which will limit the consumer-led recovery and in turn the recovery in tourism. Nonetheless, we remain confident that the growth picture will improve in H2 as the number of lockdowns reduce and rate hikes by many central banks should start to moderate inflation growth. Global GDP is forecast to grow 3.1% this year, down 0.5pp from the last update.

In **Europe**, the service sector continues to outperform other areas in the economy, buoyed by tailwinds from the removal of covid restrictions. While consumers are now able to spend more in person, rising inflation is likely to result in greater caution over discretionary spending. Although recent data shows that businesses are coping relatively well with higher costs, other survey data are more pessimistic, suggesting possible downside risk to consumption. The outlook for Eastern Europe remains weak, for Russia itself, subject to extended sanctions since May, and countries with a reliance on Russian gas.

Incoming economic data suggests that the **United States** economy is set to rebound strongly in Q2, despite intensifying headwinds such as inflation as well as recession concerns, as consumers dip into savings ahead of a busy summer of travel and firms continue to hire. But economic momentum is poised to cool later this year as companies cope with higher costs, reduced consumer demand and lower profitability. The outlook in **Canada** mirrors that of the United States, in terms of more moderate growth in the second half of this year and into 2023. But higher household debt in Canada will see inflationary pressures hit disposable income and spending harder than their North American counterparts.

Chart 2: World GDP growth: Impact of Ukraine war



Source: Tourism Economics

The economic outlook in **Asia** is following a different path to that of the US and Europe, where covid has taken more of a backseat to inflation. China's zero covid policy and subsequent lockdowns will have a material impact on growth for the first half of this year, but with the worst of these over as of June and policy stimulus underway, this should boost growth across the region in H2 and into 2023. The region remains subject to spill over effects from the Ukraine war via higher commodity prices and interest rates.

In the **Middle East**, stronger prospects for the oil sector remains a key factor driving growth as the OPEC+ group step up production due to the disruption to Russian supply. However, not all parts of the economy are benefiting from this conflict, as commodity importers have been hit hard by the trade disruption, rising import bills and inflation. But the non-oil sector remains upbeat in many GCC countries with many seeing lower inflation than most advanced and emerging economies this year. Momentum in the **UAE** continues

following Expo 2020 as state spending rises and reforms to private-sector investment start to bear fruit whilst a tight labour market and pent-up consumer demand supports domestic activity in Saudi Arabia.

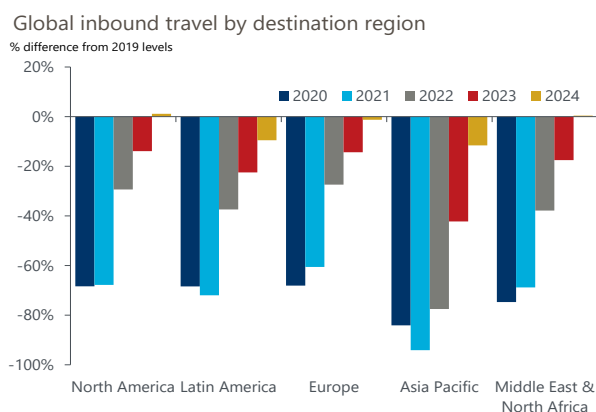
TRAVEL & TOURISM OUTLOOK

The international travel recovery is off to a strong start in 2022, with travel restrictions easing at a swift pace following the wave of Omicron infections earlier in the year. High frequency data point to a strong desire to return to travel across many destinations. Headwinds, including disruption linked to staff shortages and the escalating squeeze on incomes in advanced economies will limit aspects of recovery later in the year and more so in 2023. Overall, our forecast for global international arrivals for 2022 remains unchanged, at 41% below 2019 peak levels, as upgrades to the travel outlooks for Europe, North America, Middle East and Africa are offset by downgrades for the Asia-Pacific region.

A strong bounce back in international travel to **Europe** is evident early 2022 data, driven by short-haul markets. Momentum is set to continue into the summer, despite inflationary pressures as pent-up demand will be supported by savings built up earlier in the pandemic. Indeed, visitor numbers across many destinations are expected to get far closer to pre-pandemic levels than last year, thanks to successful widespread vaccination programmes and relaxation of restrictions. Staff shortages within the sector, particularly for air travel, could prove detrimental to the expected summer recovery if recent delays and flight cancellations persist. This could cause visitors that have not yet booked travel, or even those that already have booked decide that another staycation is a safer option this year. Overall, we expect that airlines will work to minimise these disruptions as far as possible and the momentum from H1 will carry through to the summer.

The ongoing Russia-Ukraine war remains a risk to the travel recovery, and notably for Europe. While Russia and Ukraine outbound travel remains muted, concerns about travel to neighbouring countries appear to have been unfounded, with the latest monthly arrivals data being on the upside of previous forecasts, including transatlantic travel.

Chart 3: Global inbound travel by destination region



Source: *Tourism Economics*

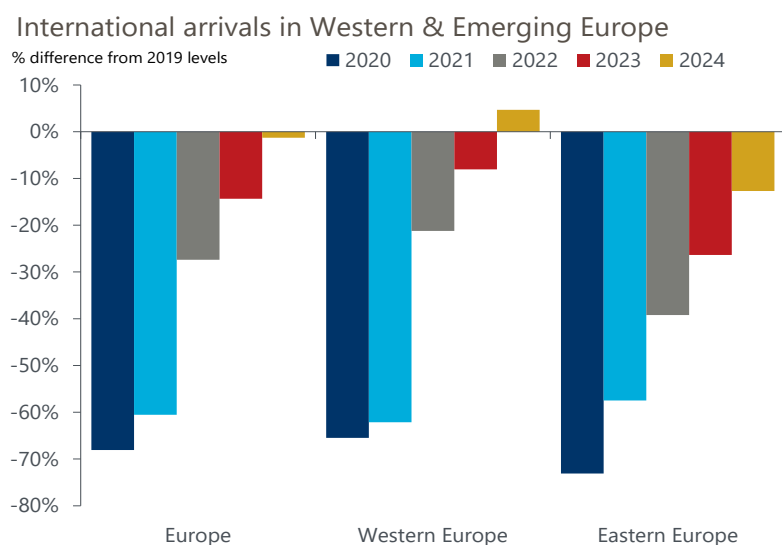
North America international travel appears similar to Europe, while the dominant domestic travel sector which has kept the sector buoyant up to now. Short-haul international travel has begun to supplement the well-recovered domestic travel from the beginning of 2022, with recovery expected in 2025.

In **Asia**, travel recovery is beginning as a number of countries have started to ease restrictions - albeit at varying paces with Australia, New Zealand and Thailand opening up at a modest pace, while Japan has only reopened for guided tours and China continues to maintain its zero covid Policy. Given the dominance of China as a source market - in 2019, it accounted for 23% of total inbound travel across the Asia-Pacific region - the prolongation of the zero covid policy will continue to stilt recovery.

EUROPEAN OUTLOOK

Our latest forecast for **Europe** expects international arrivals to be 27% below 2019 levels for 2022, an upgrade from the previous update reflecting stronger than expected growth in early 2022 although economic pressures will pull back the pace of recovery later this year. The ongoing Russian-Ukraine war is causing disparity in arrivals across the region, with Western Europe expected to be 21% below 2019 levels this year, whereas Eastern Europe expected to be 39% below. Medium term recovery to 2019 levels remains unchanged, within international arrivals to Europe set to recover by 2025. Western Europe will recover one year earlier, while Emerging European destinations that are more reliant on Russian outbound travel will see recovery lag the West, recovering by 2025.

Chart 4: International arrivals in Western & Emerging Europe



Source: *Tourism Economics*

WESTERN EUROPE

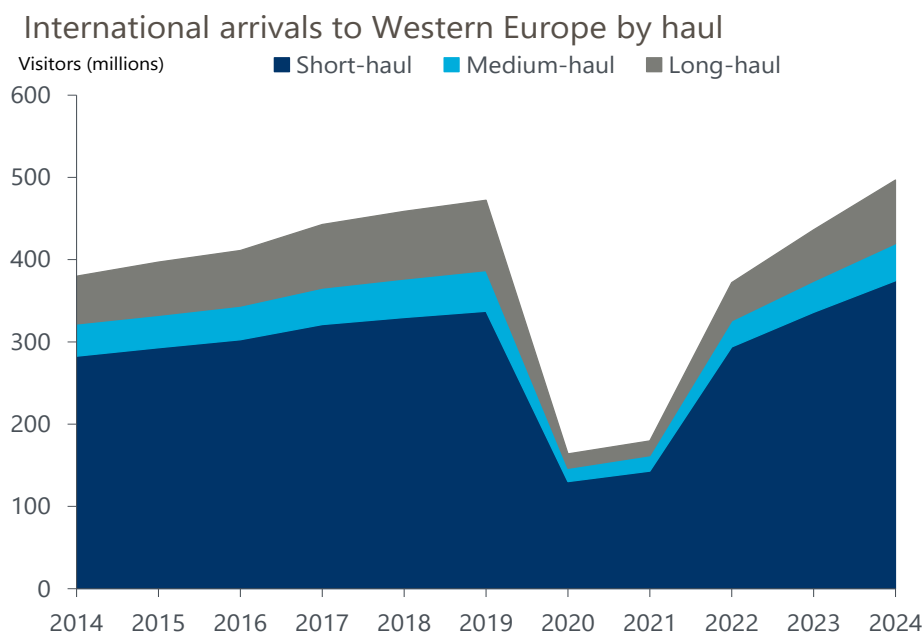
Western European remains the best performing region in 2022, with an upgrade for 2022 to 21% below 2019 levels (from -23% previously), following a strong bounce-back in early 2022. The rapid easing of travel restrictions following the Omicron variant is a key reason for the upgrade, with short-haul leading the way. US travel is also making a strong recovery, much in line with expectations owing to the strong transatlantic relationship between the US and Europe. Momentum is set to continue into the summer season, as visitors continue to travel despite tightening household budgets caused by inflation where savings built up during the pandemic will support the release of pent-up demand over the coming months.

Staff shortages pose a real challenge for recovery, especially for the upcoming summer season. Mass lay-offs across the travel sector, despite worker retention schemes now pose challenges for getting workers back into the sector as travel demand rapidly outstrips supply of workers. Headlines have been dominated with Europe-wide air travel issues, with around 190,000 aviation workers having been laid off during the pandemic. For the air transport sector in particular, long lead times on security checks and ground-staff being out-sourced by external companies add further complication. With European labour markets being exceptionally tight, even vigorous recruitment drives may struggle to fill vacancies in time for peak summer season which may encourage further domestic substitution, as travellers wish to avoid the complications of air travel.

Although the Russia-Ukraine conflict has had little direct impact on Western Europe, wider economic effects will be felt, especially into the closing months of this year. With inflation in Western Europe sitting around the 8% mark for June 2022, the rising cost of living will erode disposable income that would enable travel,

as well as increasing the cost of travel. This will likely be seen more as we move into the winter season where seasonal price increases could further depress the recovery of international travel.

Chart 5: International arrivals to Western Europe by haul



Source: *Tourism Economics*

EASTERN EUROPE

Prospects for **Eastern European** destinations have improved and the forecast for the region in 2022 has been upgraded to reflect the recent positive trends. However, performance is still expected to lag Western European destinations, at least partly due to sentiment effects of the ongoing war in Ukraine. Inbound arrivals are expected to be 39% below 2019 levels in 2022, and recovery is still expected in 2025, albeit more earnest than in the previous release. It seems that sentiment effects due the war are not as widespread as previously expected, with it seeming to have only had severe impacts on the countries in question. Early data suggests immediate neighbours may not be as adversely impacted as previously expected, with most recent visitor numbers consistent with previous upside scenarios.

The ongoing sanctions against Russia will begin to more severely impact countries that rely on Russian and Ukrainian visitors into the summer months. **Cyprus** has a large reliance on Russian visitors, accounting for 19% of arrivals in 2019, resulting in more stilted recovery in 2022. However, other destinations that are typically reliant on Russian outbound travel and have remained open to Russian travel. Serbia and Montenegro, examples of such destinations, will see some upside, especially with the choice of destinations more limited for Russians this year as a result of sanctions elsewhere. International visits to Serbia and Montenegro are forecast at 9% and 12% below 2019 levels.

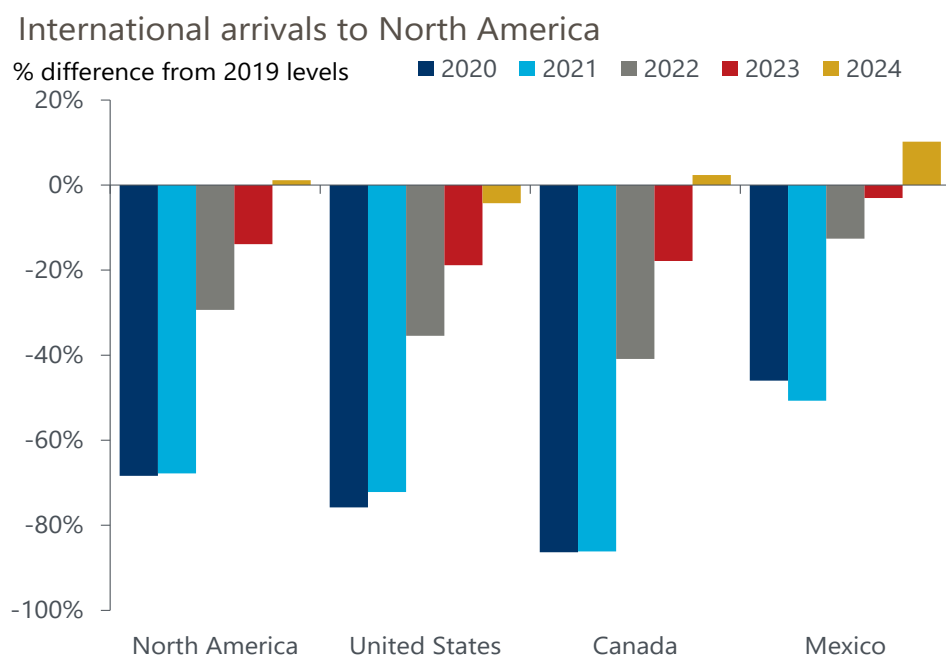
Eastern Europe's greater reliance on Russian gas exports will exacerbate the Europe-wide inflationary pressures. Expected lower travel demand from, and between, these markets are due to rising inflationary pressures constricting disposable incomes. Global outbound travel from Eastern Europe is not expected to recover until 2026, with particularly slow recovery in near-term.

NORTH AMERICAN OUTLOOK

International travel to **North America** will be down 29% on 2019 levels on average this year, an upgrade from our previous forecast which expected international arrivals to be 35% below 2019 levels in 2022. The upgrade follows a strong recovery in early 2022, but also reflects further easing in travel restrictions in the US which will lead to a more earnest pick-up in recovery compared to last year. Similar to Europe, inflationary pressures are mounting leading to the pace of recovery easing later this year and into 2023. Arrivals should continue to rise in the medium term, returning to 2019 levels by 2024.

International arrivals to the **United States** received a recent boost with the end of pre-departure testing requirements in June, but total arrivals in 2022 are still expected to remain 35% below 2019. This is due to a slow start to the year, including the impacts of the Omicron variant, as well as typical lags in the recovery of international travel, the ongoing overhang of elevated inflation, rising travel costs, slowing global economic growth, labour shortages, cautious international travellers from key Asian markets, and a strong dollar. Domestic leisure travel has driven the travel recovery thus far and both spending and trips this year are expected to recover and exceed 2019 levels. International inbound is anticipated to experience rapid growth as headwinds dissipate, but still take until 2025 to full recover pre-pandemic levels.

Chart 6: International arrivals to North America



Source: *Tourism Economics*

Canada's relaxing of restrictions in April 2022 has been reflected in a pickup of domestic and international visitor numbers in the second quarter of this year. Travel agents have reported a divergence from 2019 trends. With business travel still lagging leisure travel, destinations like British Columbia are surpassing 2019 arrivals for peak season, where more business-dependant Toronto and Vancouver are lagging. Inbound arrivals to Canada in 2022 are forecast to be 41% below 2019 levels, with short-haul travel being the key driver of the recovery. Indeed, visitors from the US will contribute 65% to the overall growth this year.

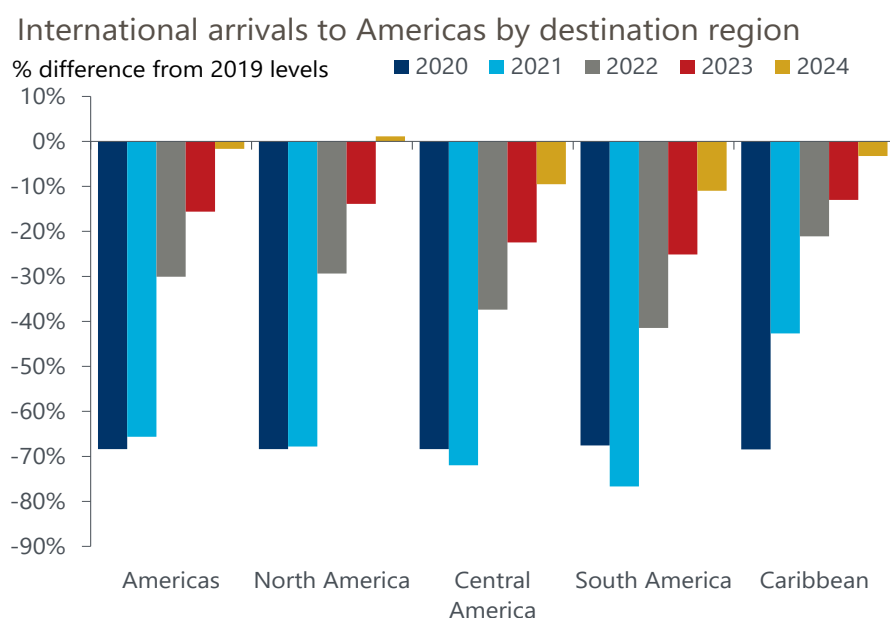
Mexico, which is much more reliant on US inbound will enjoy a swifter rebound, with total inbound arrivals forecast to be 13% below 2019 levels in 2022. Both Canada and Mexico are forecast to recovery 2019 levels by 2024.

LATIN AMERICAN OUTLOOK

The **Caribbean** remains the strongest performing region in 2022, with international arrivals forecast to be 21% below 2019 levels, up from -26% in the previous update and supported by the continued resurgence in travel from the US. Our medium-term outlook remains unchanged, with recovery to 2019 levels not expected until 2019 as inflationary pressures and rising travel costs will dampen the pace of recovery later this year and more so in 2023.

South America has fared quite poorly compared to other sub-regions in the Americas, with varying rates of vaccination and being particularly hard-hit by subsequent waves of covid. However, recovery prospects are beginning to tilt towards the upside. **Ecuador** has lifted its state of national emergency declared after civil unrest in the capital last month. **Brazil** reported more visitors in the first 4 months of 2022 than the entirety of 2021, with the return of US visitors again kick-starting recovery of international arrivals. In general, though recovery is slow, 2022 seems to show promise for South America, and certainly more positive than the preceding couple of years. International arrivals to South America are forecast to be 41% below 2019 levels in 2022.

Chart 7: International arrivals to Americas by destination region



Source: *Tourism Economics*

All of the Americas is expected to see full international arrivals recovery in 2025, partially in part due to a strong dollar and rising inflationary pressure from supply chain issues and oil price hikes.

ASIA-PACIFIC OUTLOOK

The **Asia-Pacific** region continues to have the most pessimistic forecast of any global region. The region is forecast to be 77% below 2019 levels in 2022, a downgrade from our March forecast update which expected inbound arrivals to be 68% lower than 2019. The deferral in reopening timing for China is the key reason for the downgrade. Over the medium term, international arrivals are forecast to return to 2019 peak levels by 2025. The dominant domestic sector will return to 2019 levels this year and will remain a vital lifeline to overall sector.

While most of the region is opening up, **China** continues to pursue its zero covid policy which will continue to constrain international travel recovery within the region. Covid cases in China have decreased in recent weeks and local lockdowns have been lifted which has allowed much of the country to open up to domestic

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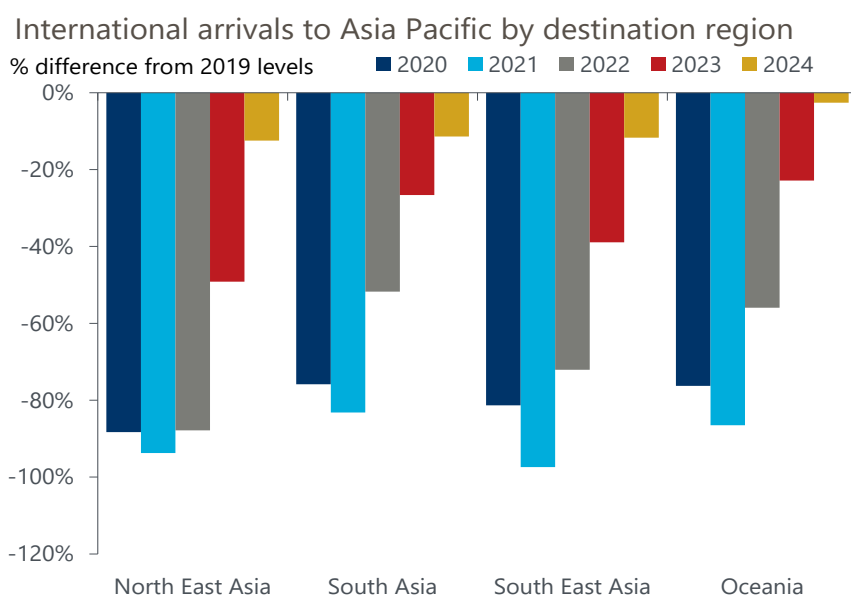
visitors including key tourist resorts such as Universal Beijing and Disneyland Park in Shanghai. However, only a small number of cases are required to trigger a mass lockdown and despite the economic cost of lockdowns, China looks less likely to fully move away from its zero covid policy this year. We now expect this policy to remain in place until at least November as the government seeks to keep covid cases low ahead of the National Party Congress in November.

Elsewhere in the region, **New Zealand** has reopened its borders to Australians and vaccinated travellers from 60 countries on a visa-waiver list which includes the UK-US. This follows **Australia's** successful reopening earlier this year. **Japan** is currently trialling a soft reopening, allowing international tourists but only those booked on private tour groups approved by the government. The trip itinerary is closely managed, and tourists are accompanied by a tour conductor for the duration of the trip. **India** has also opened its borders to international visitors, 66 airlines from 41 countries (including US, UK, and Australia) are allowed to fly a limited number of weekly flights to the country.

Thailand has started to steadily reopen, allowing tourists in without restrictions, regardless of vaccination status, from July 1st. The government mask mandate has been lifted and clubs/bars opening hours are back to normal. However, the lack of Chinese visitors, which accounted for 26% of total arrivals in 2019, will continue to weigh on recovery prospects.

Among the sub-regions of Asia, the best performing in 2022 is expected to be South Asia (down 52% of 2019 levels) followed by Oceania (down 56%), helped by the policy developments in India, Australia and New Zealand. Geopolitical tensions in Sri Lanka will also have a significant impact on travel recovery.

Chart 8: International arrivals to Asia Pacific by destination region



Source: *Tourism Economics*

MIDDLE EAST & AFRICA OUTLOOK

International arrivals in 2021 to the **Middle East** were 69% lower than 2019 levels. Significant recovery is expected in 2022 assisted by further easing of restrictions and major events. The region is still expected to recover to 2019 levels by 2024 (+7%).

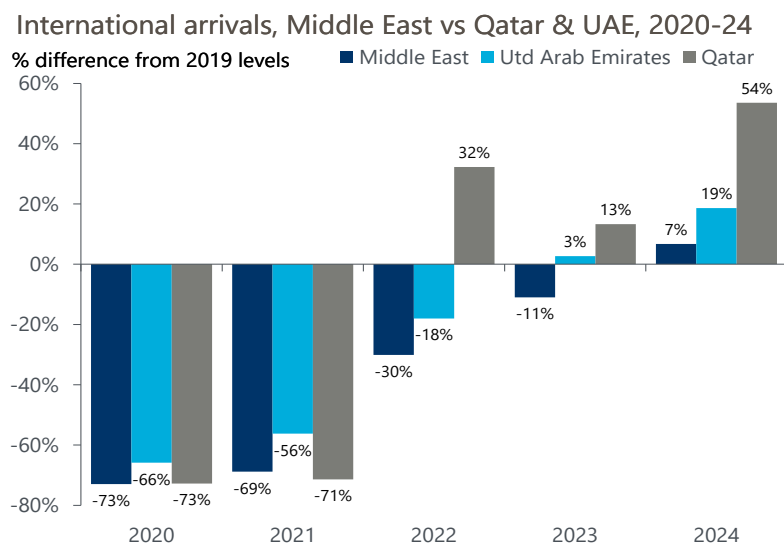
Relatively rapid recovery will be, at least partly, driven by travel to **United Arab Emirates** and **Qatar**. Expo 2020 (held in late 2021 and early 2022) has helped accelerate the recovery of UAE's tourism sector but has

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also been supported by the early easing of restrictions following widespread vaccination. A softer policy stance towards Russia following the Ukraine war has also helped, with the UAE remaining one of a smaller basket of destination options for Russian outbound travellers.

Qatar is also set to recovery strongly this year, with the return of visitors following the ending of the blockade - especially from Saudi Arabia. The FIFA World Cup which takes place in November and December 2022 will also provide a welcome boost in the wider travel recovery. Qatar expects to attract more than one million visitors during the event.

Chart 9: International arrivals, Middle East vs Qatar & UAE, 2020-24



Source: Oxford Economics

Saudi Arabia has announced a return of religious pilgrimage tourism, allowing one million pilgrims to perform the Hajj. Saudi is continuing to invest in mass tourism development opportunities which will support growth in coming years but will also provide some competitive challenges for other destinations in the region.

The outlook for **Africa** has improved slightly since the previous outlook, with international visitors forecast to be 53% below 2019 levels (previously -55%). The upgrade remains modest due to low vaccination rates in many countries and some associated negative perceptions. There is of course a large upside risk for many destinations, including from intra-regional travel if there is further infrastructure investment and adoption of more favourable travel policies. However, strongest medium-term growth driver is the strong vaccination rates elsewhere in the world and a shift in mentality towards 'living with covid' which should support recovery. International travel to Africa will be expected to return to 2019 levels by 2025.

Global Highlights & Risks, June 2022

Table 1: GTS visitor growth forecasts, annual % change

data/estimate/forecast	Inbound*						Outbound**					
	2020 d	2021 d	2022 e	2023 f	2024 f	2025 f	2019 d	2020 d	2021 e	2022 f	2023 f	2024 f
World	-72.5%	8.7%	96.8%	33.0%	23.0%	14.0%	3.9%	-72.3%	5.9%	100.3%	33.5%	22.9%
Americas	-68.4%	8.7%	103.6%	20.7%	16.5%	11.7%	1.6%	-71.0%	10.0%	110.6%	23.6%	16.4%
North America	-68.4%	1.8%	119.4%	21.9%	17.4%	10.5%	3.2%	-71.0%	11.2%	113.7%	24.1%	16.4%
Caribbean	-68.5%	81.7%	37.7%	10.2%	11.2%	10.0%	6.5%	-68.8%	44.2%	57.5%	9.5%	14.8%
Central & South America	-68.4%	-11.4%	123.5%	23.9%	16.7%	16.9%	-4.9%	-71.1%	1.3%	104.9%	22.9%	16.7%
Europe	-68.1%	23.6%	84.0%	18.0%	15.2%	8.9%	4.1%	-67.1%	18.8%	88.2%	19.4%	15.2%
Western Europe	-65.5%	9.6%	108.1%	16.7%	13.8%	5.9%	3.9%	-66.2%	12.7%	110.0%	18.7%	13.4%
Eastern Europe	-73.1%	58.1%	42.9%	21.1%	18.6%	15.8%	4.8%	-69.8%	38.1%	31.8%	22.3%	22.4%
Asia & the Pacific	-84.1%	-62.8%	280.1%	156.6%	53.0%	26.6%	5.5%	-83.8%	-55.6%	223.3%	140.2%	53.3%
North East	-88.3%	-46.5%	94.2%	318.1%	72.2%	29.3%	3.8%	-85.3%	-53.8%	140.4%	205.5%	67.3%
South East	-81.4%	-86.1%	974.6%	118.6%	44.6%	26.4%	10.4%	-83.6%	-74.0%	607.0%	117.6%	37.5%
South	-75.8%	-30.4%	187.3%	52.1%	20.7%	21.2%	6.8%	-73.6%	-19.5%	132.5%	41.4%	24.8%
Oceania	-76.3%	-43.3%	227.0%	75.1%	26.3%	11.0%	2.8%	-82.2%	-67.3%	519.8%	65.4%	41.1%
Africa	-74.4%	22.3%	50.8%	48.9%	27.6%	19.9%	1.7%	-70.0%	-2.9%	64.6%	46.5%	27.4%
Middle East	-73.0%	15.3%	124.3%	27.3%	19.9%	13.5%	5.1%	-72.0%	37.1%	87.3%	27.6%	21.1%

* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flows

** Outbound is based on the sum of visits to all destinations

Source: Tourism Economics

Table 2: GTS visitor growth forecasts, % difference from 2019 levels

data/estimate/forecast	Inbound*						Outbound**					
	2020 d	2021 d	2022 e	2023 f	2024 f	2025 f	2020 d	2021 d	2022 f	2023 f	2024 f	2025 f
World	-72.5%	-70.1%	-41.3%	-21.8%	-3.9%	9.6%	-72.3%	-70.7%	-41.3%	-21.6%	-3.7%	9.7%
Americas	-68.4%	-65.7%	-30.1%	-15.6%	-1.7%	9.8%	-71.0%	-68.1%	-32.8%	-16.9%	-3.3%	8.0%
North America	-68.4%	-67.8%	-29.4%	-13.9%	1.1%	11.8%	-71.0%	-67.8%	-31.1%	-14.5%	-0.4%	10.6%
Caribbean	-68.5%	-42.7%	-21.1%	-13.0%	-3.3%	6.4%	-68.8%	-54.9%	-29.0%	-22.3%	-10.7%	-1.7%
Central & South America	-68.4%	-72.0%	-37.4%	-22.5%	-9.5%	5.7%	-71.1%	-70.7%	-40.0%	-26.2%	-13.9%	-1.5%
Europe	-68.1%	-60.5%	-27.4%	-14.3%	-1.3%	7.5%	-67.1%	-60.9%	-26.5%	-12.2%	1.1%	10.5%
Western Europe	-65.5%	-62.1%	-21.2%	-8.1%	4.7%	10.8%	-66.2%	-61.9%	-19.9%	-4.9%	7.8%	15.4%
Eastern Europe	-73.1%	-57.5%	-39.2%	-26.4%	-12.7%	1.1%	-69.8%	-58.3%	-45.1%	-32.8%	-17.8%	-3.4%
Asia & the Pacific	-84.1%	-94.1%	-77.5%	-42.2%	-11.6%	11.9%	-83.8%	-92.8%	-76.8%	-44.2%	-14.4%	8.1%
North East	-88.3%	-93.7%	-87.8%	-49.2%	-12.5%	13.1%	-85.3%	-93.2%	-83.6%	-49.9%	-16.2%	8.6%
South East	-81.4%	-97.4%	-72.1%	-38.9%	-11.7%	11.6%	-83.6%	-95.7%	-69.8%	-34.3%	-9.8%	9.6%
South	-75.8%	-83.2%	-51.7%	-26.6%	-11.4%	7.3%	-73.6%	-78.8%	-50.7%	-30.2%	-12.9%	3.1%
Oceania	-76.3%	-86.5%	-55.9%	-22.9%	-2.6%	8.1%	-82.2%	-94.2%	-64.1%	-40.6%	-16.1%	1.7%
Africa	-74.4%	-68.7%	-52.8%	-29.7%	-10.3%	7.5%	-70.0%	-70.8%	-52.0%	-29.6%	-10.4%	5.2%
Middle East	-73.0%	-68.8%	-30.1%	-11.0%	6.7%	21.1%	-72.0%	-61.6%	-28.0%	-8.1%	11.3%	25.0%

* Inbound is based on the sum of the country overnight tourist arrivals and includes intra-regional flows

** Outbound is based on the sum of visits to all destinations

Source: Tourism Economics