The Impact of COVID-19 on the United States' Tourism Industry

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Economic Geography (GEOG2341)

Final Research Paper

11 December 2020

Introduction

The COVID-19 pandemic has caused an unprecedented shock across the globe over the last eleven months. As at December 1st 2020, the novel disease has infected approximately 64.1 million people and taken approximately 1.5 million lives around the world.[1] These statistics are expected to continue to rise until the three vaccines that are currently filing for U.S. FDA approval are widely distributed, which could take multiple years.

In the wake of the COVID-19 pandemic, few industries have felt as great of an impact as the global travel and tourism industry. The threat of the virus has closed international and domestic borders in attempt to limit the spread of the virus. These government restrictions have brought global travel to a near standstill, decimating the global hospitality and tourism industry in the process. From the time the pandemic broke out in January to August there has been a 70% decline in international tourism, and it is estimated that this will be the number for whole of 2020, compared to 2019. Put another way, this decline equates to 700 million fewer tourist arrivals and a drop in international tourism revenues of US$730 billion, more than eight times the loss experienced under the financial crisis in 2008/2009.[2]

Airlines, who have cut their itineraries by as much as 95% when the pandemic first took hold estimate that global travel will only return to pre-pandemic levels in 2024, whereas other sources suspect that a full recovery could take much longer.[3] The United States travel and tourism industry had revenues of about US$1.5 trillion in 2018, representing

[1] John Hopkins University, 2020
[2] UNWTO, *Impact Assessment of the COVID-19 Outbreak on International Tourism.* October 2020
[3] The Globe and Mail, *Global passenger air traffic will not recover until 2024, a year later than expected, IATA says*. 28 July 2020

approximately 7% of total U.S. GDP in that year. If the industry suffers a four-year drought it is for certain that the impact across the tourism value chain and the economy will be severe.[4]

The tourism value chain of suppliers and intermediaries is extremely fragmented. It includes small and medium-size businesses such as Mom-and-Pop shops or cafes, multi-billion-dollar companies like Air Canada, Carnival, or Marriot, as well as governments whose country's gross domestic product relies on tourist spend. Collectively, this value chain employs/supports approximately 313 million people globally, either directly or indirectly, which is equivalent to 1 in 10 jobs worldwide.[5] On November 3rd 2020, the World Travel & Tourism Council forecasted that a staggering 174 million jobs in the travel and tourism industry could be lost worldwide in 2020 due to the coronavirus. In the United States, government stimulus has supported travel related companies and protected them from bankruptcy. As an example, the U.S. Federal government provided airlines with US$50 billion directly; elsewhere, hotels and other travel providers had to compete for loans from a US$500 billion fund.[6] It is unlikely that fiscal stimulus can extend for four years, thus it is reasonable to assume that bankruptcies and loss of employment will continue to an extent.

A vaccine and increased consumer confidence are two catalysts for the industry to return to some form of ~~normal~~ normalcy; there is a third and more powerful force that stands in the way – governments. Governments around the world have exercised their territorial power by closing their borders and have mostly banned non-essential travel for their own citizens.

[4] MarketLine, *Travel & Tourism in the United States.* February 2020

[5] International Civil Aviation Organization, *Travel & Tourism a Force for Good in the World*. April 2018

[6] USA Today, *President Trump signs the $2 trillion stimulus package. What does it mean for travelers?*, 25 March 2020

Overall, the shock to the industry will undoubtedly reshape economies, patterns of wealth distribution, states' territorial power, globalization, consumption, among other things around the world.

Specifically, this report explores the initial impact of COVID-19 on the tourism industry in the United States, as well as its impact going forward on a quantitative and qualitative basis. The report will focus on fragments of the tourism value chain and regions that are highly reliant on tourism to prosper. Although it is impossible to know the future of the industry under the corona regime, the broad and important question that this paper will explore is: *what will the recovery of the tourism industry in the United States look like?*

The examination is important because travel is an industry that will likely suffer the most as a result of COVID-19 and the United States' tourism industry is a significant contributor to their GDP and employment, accounting for approximately 7% of GDP and above 4% of total employment, according to the OECD. This report will use a secondary research method where the information will be gathered from previously conducted studies and existing data. Additionally, this study will utilize case studies on the impacts of the September 11, 2001 Attacks and 2008/2009 Financial Crisis on the United States' tourism industry. These case studies will serve as informative precedents crises that caused downturns in the tourism industry. The initial reactions and the timeline to recovery of the industry after these crises will be useful comparisons in terms of getting an idea of what the future of the tourism industry could look like after COVID-19.

Very good introduction

Development of the United States' Tourism Industry

Before the September 11, 2001 attacks, the U.S. tourism industry enjoyed a decade of growth, averaging an annual increase of about 6% per year within that period and stood at a total market value of about US$580 billion in the year 2000.[7] Within that US$580 billion were 51.2 million foreign visitors and 1.1 billion domestic-person trips who accounted for 14% and 86% of the total revenue, respectively. According to the U.S. Department of Commerce, favorite destinations for overseas travelers in 2000 were: New York City, Los Angeles, Orlando, Miami, San Fransisco, Las Vegas, Honolulu, Washington DC, Chicago, and Boston. The top activities for foreign travelers were shopping (87%), dining in restaurants (84%), sightseeing in cities (43%), theme parks (31%), historical sites (31%), small town/village visits (28%), among others.[8]

The article *'The Impact of 9/11 and Other Global Events on Tourism in the United States and Hawaii'* by Carl Bonham displays how the terrible events of 9/11 and SARS affected tourism flows. For example, foreign visitors of 51.2 million peaked in 2000 and declined the next three years to 46.9 million, 43.5 million, and 41.2 million in 2001, 2002, and 2003, respectively. Additionally, total domestic and foreign travel spend declined by 8% from 2000 to 2002, resulting in about 300 thousand direct tourism jobs lost over the same period.[9] Notably, it took five to six years for the international tourism figures to fully recover to the peak set in 2000, compared to domestic-person trips that grew consistently throughout 2000 to 2004. Domestic travel growth during the period can be explained by

[7] World Trade Organization, *Tourism Highlights 2000.* August 2000

[8] Journal of Travel Research, *The Impact of 9/11 and Other Terrible Global Events on Tourism in the U.S. and Hawaii.* August 2006

[9] Journal of Travel Research, *The Impact of 9/11 and Other Terrible Global Events on Tourism in the U.S. and Hawaii.* August 2006

the diversion of United States travel from foreign travel, since personal safety is key for people's propensity to travel. With international borders mainly closed for non-essential travel in the case of coronavirus pandemic for the foreseeable future, these historical figures serve as an informative precedent for what the recovery could look like.

By the time the industry fully recovered in 2006/2007 another global shock that would devastate the industry was on the doorstep – the global financial crisis of 2008/2009. This crisis was a different type of shock to the system, rather than instilling fear in consumers through terrorism / contagious diseases, this shock took discretionary income out of the hands of consumers, which also hurt the industry. As Carlos Molinar writes in the Journal of Travel Research, from the low point reached in 2001 U.S. real tourism demand grew at a rate of 3.7% per year until reaching a new peak in the third quarter of 2007. At that point, the financial crisis depressed travel output through the first quarter of 2009 to the lowest level since the outbreak of SARS. By the end of the period, travel demand fell by 6% over a year and a half, which was much less of a decline compared to 2001. Over the same period travel prices fell by 7.1% in response to the fall in demand, while 200 thousand direct jobs were lost.[10] What's notable here is that in case the of a financial crisis, the recovery can be much quicker. International tourist arrivals and receipts both rebounded to pre-financial crisis numbers by 2010.

And now, before the pandemic broke out the United States travel and tourism industry was valued at about US$1.5 trillion (almost three times as much compared to the year 2000), accounting for 20% of the global industry. Prospects were high for the industry:[11] (1) the industry was coming off a compound annual growth rate of 4.4% through 2014

[10] Journal of Travel Research, *Impacts of the World Recession and Economic Crisis on Tourism: North America*. February 2010

[11] MarketLine, *Travel & Tourism in the United States.* February 2020

and 2018, (2) the consumer confidence index was above the OECD average, (3) strong government support (the 'U.S.-India Travel and Tourism Partnership Year'), and (4) consensus estimates pointed to increased international visits in the coming years. The most lucrative industry segments included: foodservice (46%), hotel and motels (15%), airlines (14%), and travel intermediaries (13%). Furthermore, tourism in the U.S. was mainly clustered in the following areas: California, Nevada, New York, Washington, Montana, Florida, and Hawaii.[12] The industry segments and the states all listed above are heavily dependent on the tourism sector, which has obviously dismantled by the outbreak of COVID-19 and as a result, they are expected to face credit pressure, loss of revenue, spikes in unemployment and reduced economic activity going forward – factors that will reshape the economic geography.

point clearly and vividly discussed.

The Initial Impact of COVID-19 on the United States Tourism Industry

To explore the impact of the disease on the sector it is powerful to view it on a more micro economic level, that is, hearing the direct impact on individual tourism/hospitality related businesses from their owners. Small businesses are the most vulnerable in this downturn, since they do not have the resources or operating leverage to cover costs when the top-line diminishes. About 58% of small business owners said that they are worried about permanently closing, according to a July U.S Chamber of Commerce survey. Unfortunately, a small tour business owner in New Orleans, Christine Miller's (founder and CEO of Two Chicks Walking Tours business) business has been a victim of a coronavirus induced closing, citing that - "COVID devastated my business and my industry. Walking tours were not in the same league as, let's say, pharmacies or groceries.

[12] http://www.clustermapping.us/cluster/hospitality_and_tourism

I initially grappled with canceling tours, refunded all sales for future activities plus communicated with my employees on the various operational concerns. At this time, I'm the only person left and with the inconsistent business environment, I haven't resumed leading tours. I plan to return when public safety concerns are managed. I'm currently focusing some energy on developing my social media presence and researching new content for future tours".[13] Yelp, the business reviewer, has data that shows more than 163,000 small businesses permanently closed their doors from March 1st to August 31st [14], with the important thing being that the majority of these closures occurred in tourism reliant states such as the ones mentioned previously, indicating that a lot of these businesses were dependent upon tourism. Principal to the American economy are small businesses, accounting for 44% of American economic activity and almost half of all American jobs.[15]

well explined with regards to its effects at the micro level,

On a larger scale, consider the impact on Disney world, and the local businesses / travel intermediaries around the amusement park. The California parks has been closed since the beginning of the outbreak and will remain closed for the remainder of 2020. Disney said that COVID-related costs cut US$2.4 billion from its operating income in the fourth quarter and while its park segment revenue fell by 61% the company was forced to layoff 28,000 employees. Although there was no data found, it is compelling to imagine all of the surrounding businesses around Disney world that rely on the amusement park customers for their respective business, such as car rentals, restaurants / coffee shops, hotels / Airbnb operators, among others. Once Disney world shuts down it creates a negative chain reaction in its region for economic activity.

[13] https://www.uschamber.com/co/good-company/growth-studio/impact-of-coronavirus-small-business-owner-interview
[14] CNBC, *Yelp data shows 60% of business closures due to the coronavirus pandemic are now permanent*. 16 September 2020
[15] Bloomberg, *Small Businesses Are Dying by the Thousands — And No One Is Tracking the Carnage.* 11 August 2020

The travel losses experienced across the United States will be particularly devastating for Montana, a state who is dependent on out-of-state tourist spending. The estimated total out-of-state spend in 2019 was US$5 billion. According to S&P Global Market Intelligence, almost 14% of total employment in Montana is from leisure and hospitality and 5% of their GDP is from tourism. The University of Montana conducted a survey with 919 tourism-related business owners around the state at the very beginning of COVID, finding that 84% of these owners had already experienced cancellations. One owner surveyed said in an interview "Currently all of my May bookings have been canceled! If we don't have a 2020 season, I'm not sure our business and ranch will survive! I don't know how we will pay our bank payments. I'm concerned for our future after my family has worked so hard to keep this ranch in our family for so long!". The article lists more testimonies from tourist-related business operators to show how devastating the impact of coronavirus has been on a region that is very sector dependent.

good example in the case of Montana

The Future of the United States Tourism Industry

Considering the above, it is clear the tourism sector of the economy has been heavily hit not only through the fear of travelers, but more by government restrictions. As at December 10, 2020: 51 countries were completely closed (only citizens, residents returning home may enter country), 91 countries were partially open (depending on citizenship, point of origin), 5 countries were opening "soon", and 73 countries had no restrictions.[16] Moreover, in a lot of cases governments have implemented 14-day quarantine policies upon entry into their country. Governments around the world have exercised their territorial power and the future of tourism will undoubtedly rest upon the

[16] https://www.ca.kayak.com/travel-restrictions

policy responses such as these. The extent and length of these policies will also depend on distribution and efficacy of vaccines, which in turn will restore confidence in the traveler, as well as policy makers.

As seen with the case studies on the impacts of 9/11, SARS, and the 2008/2009 financial crises, the length to full recovery can vary greatly (5 to 6 years with 9/11 and SARS, and about 2 years under the financial crises). One of those events instilled fear in the consumer whereas the other crushed individual's discretionary income. Coronavirus, however, is a crisis that brought on both fear and lower discretionary income. Domestic travel is one segment that will likely recover a lot faster than international travel, precedented by robust growth during the 2000 to 2001 crises, due to increased confidence consumer confidence domestically. In a survey conducted by Barclays Equity Research on May 28th: 11% of participants plan to reduced packaged bookings after COVID-19, 14% do not expect to make up for missed leisure trips, and in regard to what catalyst will drive people's decision to book new trips - 34% of people said "when restrictions lift", 56% said "when I feel safe", 24% said "when no new cases are being reported", and 27% "vaccine dependent". Barclays summarized with there being a clear risk of lower travel volumes on a permanent basis after COVID-19. Forecasts on the industry's timeline to recovery currently range from 4 years to never the same.

Closures, consolidation, diversification, and re-strategizing are a few themes that will be apparent in the industry forward looking. A lot of small tourism businesses that have already closed will simply not have the resources to open back up and in other cases businesses that are struggling financially will be acquired or merged with bigger companies to consolidate the industry. One consulting executive has cited that 20% of

U.S. travel agencies will close and 20% will be acquired / merged in order to cut down on expenses.[17] Tourism clusters such as California, New York, and Hawaii may have no choice but to diversify away from the industry. As a result, citizens must adapt and develop new skills or they will have to move away, which in turn will reshape that region's demographics, education systems, wealth distribution, and economy.

Conclusion

The impact of coronavirus on a previously thriving U.S. tourism industry is clear – unprecedented, devasting, and not finished yet. Impacts of 9/11, SARS, or the financial crises on the sector were also devastating, but not to the extent of what coronavirus will be. For that reason, the future of the industry is unclear and difficult to predict. After 9/11 and SARS in 2001 it took 5 to 6 years for the industry to return to pre-crisis levels, thus we can only assume it will take longer under COVID-19. Not only does the recovery lie in the hands of scientists and pharma companies to deliver an effective vaccine, but also is dependent on governments easing never seen before restrictions. New government policies are likely to emerge after this crisis, which could cause a retreat to globalization. Regions dependent on tourism will be reshaped, whereby small businesses will suffer the most, industry segments will be consolidated into new ownership, tourism dependent regions will have to diversify, demographics will change, and overall the economic geography of tourism clusters in the U.S will not look the same. With the United States economy 7% dependent on tourism it will undoubtedly be a shock to the system, but for how long is uncertain.

Excellent Conclusion

[17] Travel Weekly, *Travel agency consolidation might be a COVID consequence.* 1 June 2020

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***Very Good Effort to incorporate sources into the discussion.**

*** Paper is written with a good structure and clarity.**

*** The case studies discussed were very much in line with the topic of the essay.**

*** You could have incorporated more academic sources in the paper though.**

Well done! 18/20