Visa Business and Economic Insights

Global Economic Insights

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Tourism's road to recovery runs through cities

Tourism, by far, has borne the brunt of the economic impact of COVID-19. Based on current trends, cross-border tourism receipts are set to fall from $1.3 trillion in 2019 to $430 billion in 2020, a level last seen in 2002. If the expected $900 billion loss in cross-border spending occurred in a single country, it would be as if households in Russia, Spain, Mexico, South Korea or Australia stopped spending for a year.

Tourism's recovery from these historic losses depends on cities, especially those within the top decile of urban areas by population. Such cities (with at least 2.5 million residents) include San Francisco, Tokyo, Buenos Aires, Dubai, and Paris. They attract more visitors and are home to more globe trekkers than their less populous counterparts. Bringing large cities back up to speed is critical for the industry to move forward and regain the ground lost this year.

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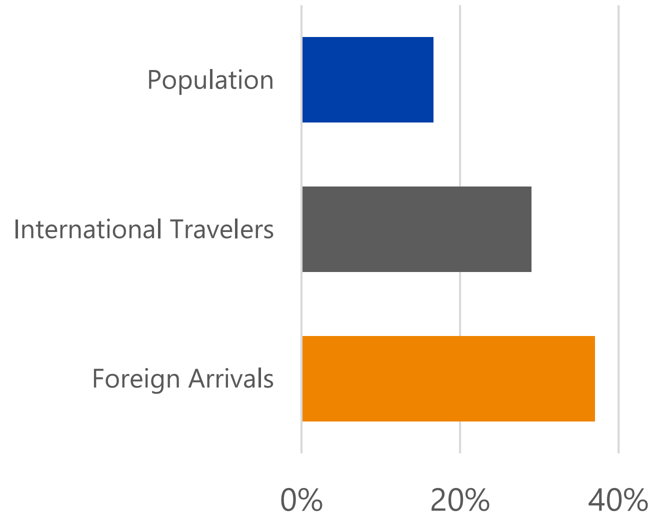
Large cities are key to re-starting travel and tourism

Although only 17 percent of the world's population currently lives in cities with at least 2.5 million residents, these cities are central to global tourism. The speed of their recovery will shape travel and tourism's total recovery.

Residents in these large cities account for a disproportionate share of cross-border travelers: 30 percent of the total in 2019. This estimate leverages anonymized and aggregated transaction data to calculate the share of cardholders who travelled cross border, and covers 29 countries of origin and the 372 cities within them.

Large cities also play a key role as destinations, representing 37 percent of visits over the past year. They play an even greater role in the Asia Pacific, accounting for 58 percent of all stay-over visits, according to proprietary estimates of city-level travel from the Visa International Travel (VISIT) database.

Large cities* attract more visitors and are home to more travelers than smaller ones (Share of total, 2019)

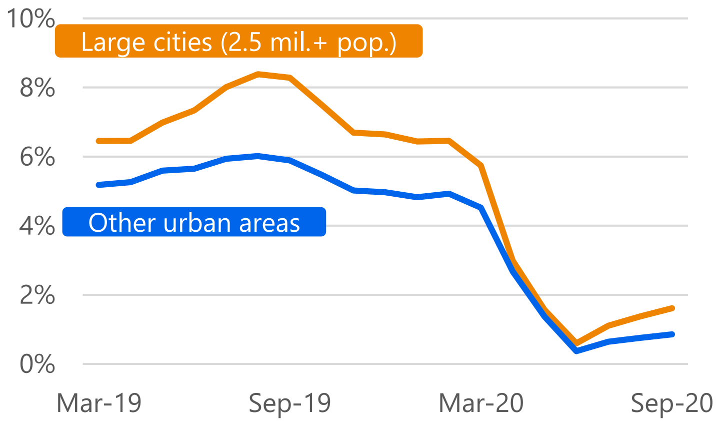


Sources: Visa Business and Economic Insights, Visa International Travel Database (VISIT), VisaNet, UN Population Division. *2.5 million+ residents

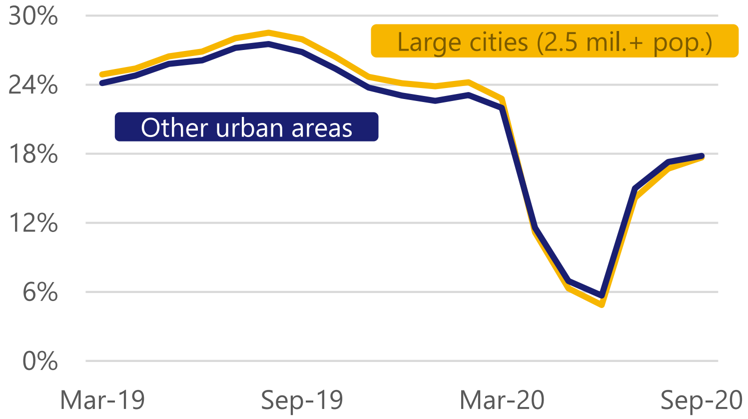
Steep recovery lies ahead for travel from large cities

After the lock-downs, large cities did not lead tourism demand as much as before, according to an analysis of travel-related purchases on cards issued in the U.S. and Canada. Some cross-border tourism demand is starting to return to large cities, as measured by the share of cards used in a foreign country. However, compared to pre-pandemic, the current demand remains less than a quarter of what it was and the premium once enjoyed by large cities is narrower. The faster rebound in the share of consumers who have made travel-related purchases (airlines, hotels or car rentals) compared to their cross-border travel, suggests that border restrictions may be partially responsible for holding back the recovery. Half of all countries still have complete or partial bans on cross-border travel, according to Oxford University. However, restrictions alone cannot explain the fact that large cities now lag other urban areas in travel purchases. Other factors also in play include less favorable income and job trends.

Cross-border travel (U.S. and Canadian cards used in cross-border travel as share of total active cards, 3 month moving average)



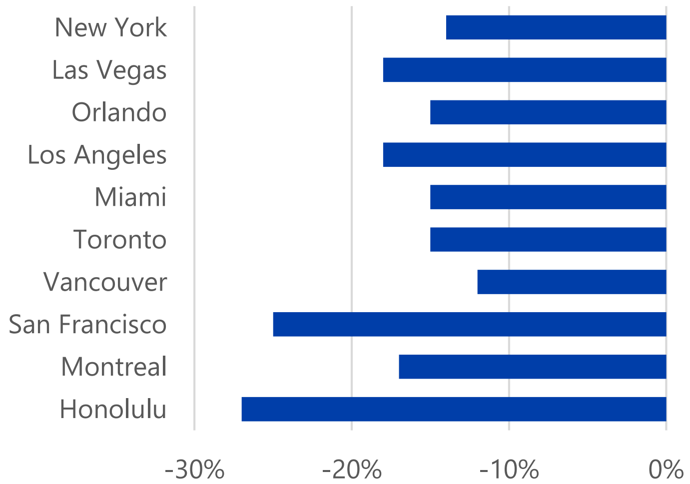
Travel purchases (U.S. and Canadian cards used for purchases at airlines, hotels or car rentals as share of total active cards, 3 month moving average)



Source: Visa Business and Economic Insights, VisaNet, U.S. Census/Haver Analytics

Small business closures detract from allure of destinations to visitors

Small and medium-sized business closures are high among the top 10 most-visited cities in North America (Change in share of open businesses in September vs. average of January-February)



Sources: Visa Business and Economic Insights, VisaNet, Visa International Travel database

Closures of small and medium-sized enterprises could also hamper the recovery of travel and tourism, especially among the top 10 most-visited North American cities, which accounted for 40 percent of all international arrivals to the region in 2019. Among these top 10, only three (Las Vegas, Toronto and Honolulu) have resident populations below 2.5 million people, underscoring the importance of large cities.

Currently, New York and Vancouver are doing the best among the 10, and are the only cities on the list with fewer business closures than the region. Due to a second lock-down that was imposed to curtail the spread of COVID-19, Honolulu lags its peers with more than a quarter of its small businesses closed in September. The closure of businesses, especially in prime tourism locations, makes it harder for these destinations to attract visitors.

Reordering underway of top cities for global tourism

Over the summer, uneven reopenings followed a generally synchronized lockdown during the spring. This has led to a reordering of the most visited cities in the world.

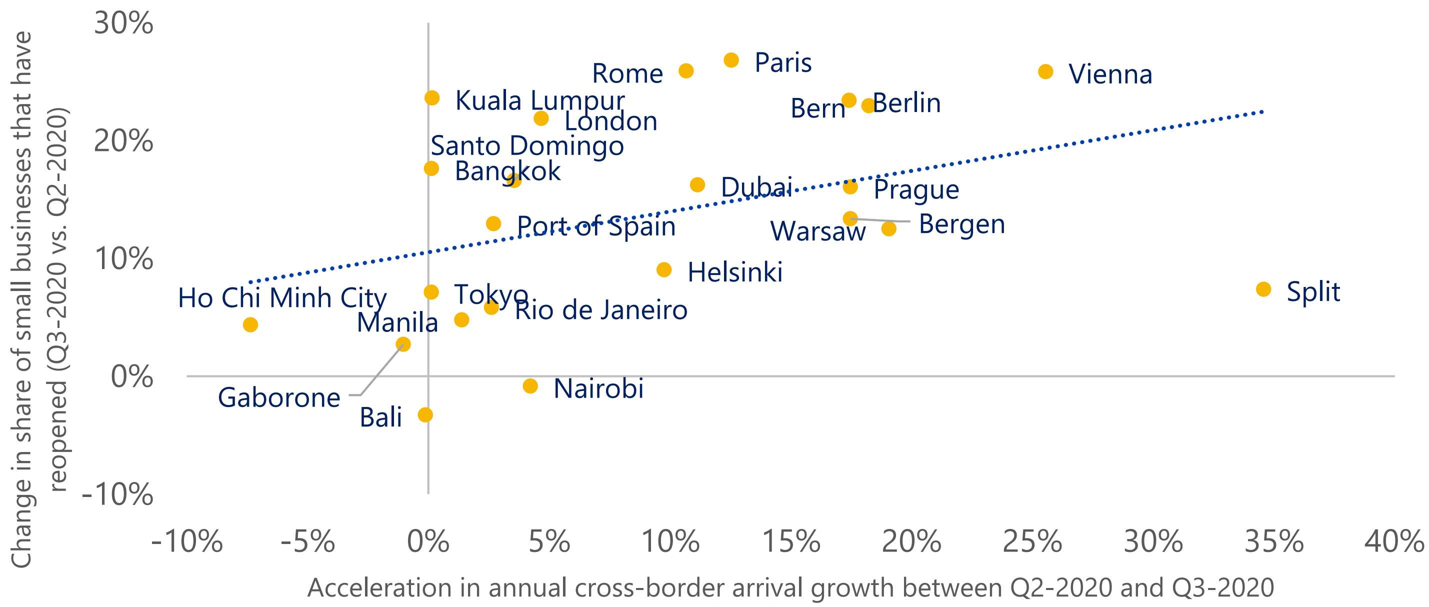
As Europe was one of the few regions open for international travel this past summer, European destinations dominated the world's top 100 most-visited places in the third quarter of 2020, with its share of arrivals rising from 69 percent last year to 97 percent this year. Only four of the top 10 destinations from the third quarter of 2019 made the list this year. While some of these gains may prove fleeting as subsequent waves of infections lead to renewed closures, some may prove to be more enduring.

Destination	Global rank by foreign arrivals		Share of arrivals to top 100 cities (%)	
	Q3-2020	Q3-2019	Q3-2020	Q3-2019
Antalya , Turkey	1	2	4.4%	3.2%
Istanbul , Turkey	2	4	3.8%	2.7%
Pula , Croatia	3	11	3.6%	1.9%
Mugla , Croatia	4	18	3.2%	1.5%
Paris, France	5	1	2.6%	4.6%
Kufstein, Austria	6	67	2.6%	0.6%
Bolzano, Italy	7	42	2.5%	0.9%
Amsterdam, Neth.	8	8	2.4%	2.2%
Marseilles, France	9	24	2.2%	1.3%
Zell am See, Austria	10	71	1.9%	0.5%

Reopening of borders and small businesses go hand-in-hand

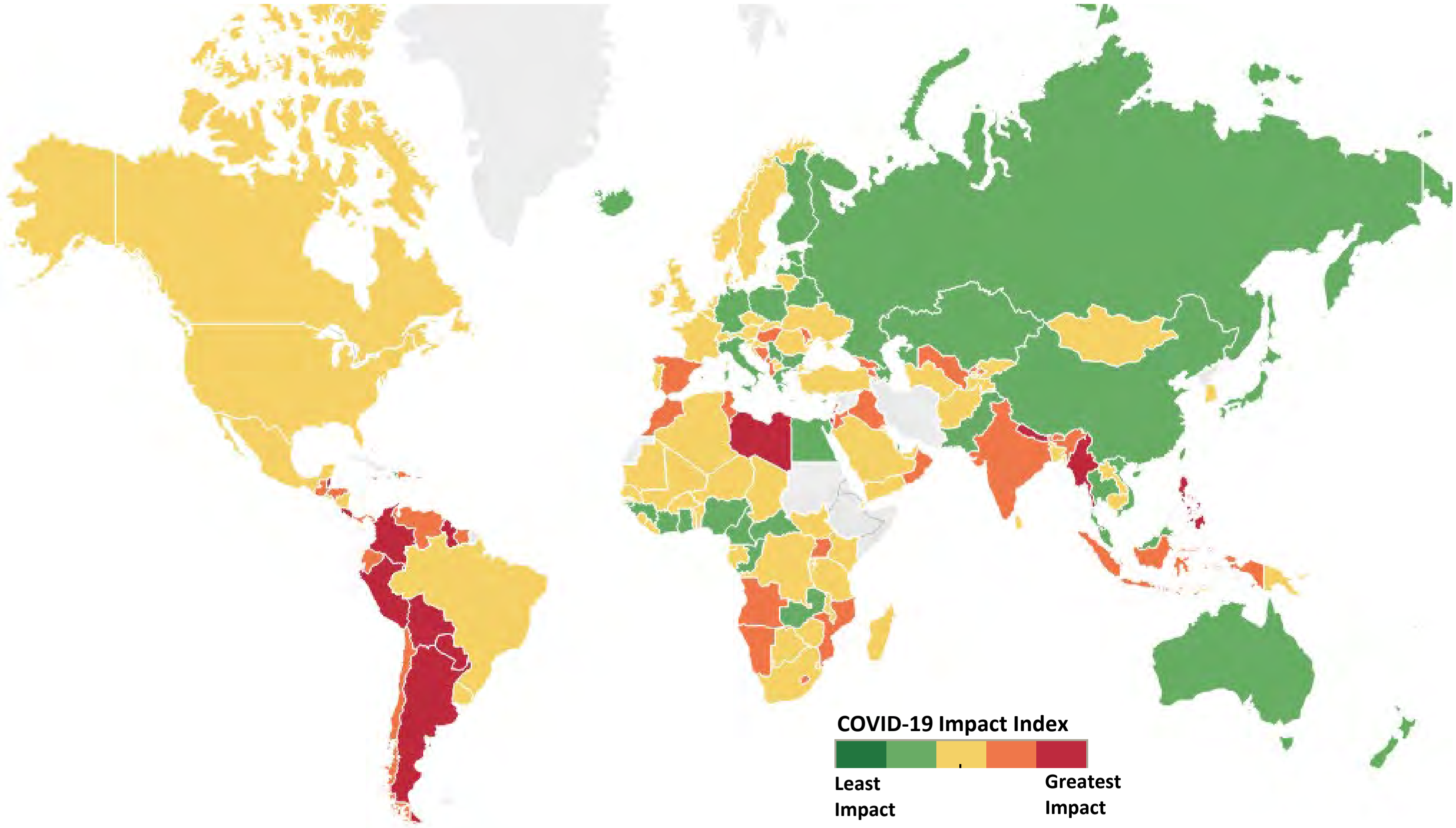
Where borders have been reopened, both arrivals and small businesses have recovered. Cities that reopened to global travel and accelerated more in international arrivals growth between the second and third quarters of this year, also increased in their share of small businesses that reopened over that same period (chart below). The more visitors a city welcomed over this period, the greater the reopening of its small businesses. To sustain these gains over time, though, will require keeping the disease in check.

Small business reopenings and cross-border tourism (Q3-2020)



Sources: Visa Business and Economic Insights, VisaNet, Visa International Travel (VISIT) Database, Haver Analytics

Economic impact of COVID-19 (by country)



- For the first time since the pandemic began, nearly half of all countries are squarely in the middle of our economic impact index during September. However, given current epidemiological trends, the index for October will most likely take a turn for the worse.
- Globally, COVID-19 cases have cumulatively already reached 40 million on 19 October, rising by 10 million new cases within a month. Hot spots for coronavirus have begun to shift, with fresh outbreaks in several countries in Europe and North America, while the spread of contagion is slowing in Latin America.
- While the impact on individual country scores is mainly through the disease metrics, the intensification of the current outbreaks could see economic and spending metrics deteriorate.
- With these second and in some cases third waves of infection forming, governments in Europe and North America are once again imposing restrictions to slow the disease's spread. While these measures are not as strict as those used in the spring, they do threaten the fragile gains made so far in re-opening economies.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

Asia Pacific

Weiwen Ng

- **China's domestic tourism during the October Golden Week holiday fell short,** with visits at 79 percent and revenue at 70 percent of 2019 levels. Since domestic destinations enjoyed a semi-captive market due to continuing restrictions on overseas travel, the year-over-year (YoY) comparisons suggest a stronger rebound than may be the case. Tourism revenues could be constrained by discounts as well as consumers' cautious spending.
- **Asian countries continue to open travel corridors**, with Thailand welcoming its first group of Chinese tourists from Guangzhou on 8 October while Singapore permitted short-term visitors from Vietnam and Australia (excluding the state of Victoria) to apply for the Air Travel Pass program from 8 October.
- **Indian economic activity revives as new infections slow.** India's purchasing managers' index (PMI) rose 8.6 points to 54.6 in September—its highest level since February. While manufacturing activity continues to expand robustly, services activity continued to contract, albeit at a slower pace.
- **Indonesia's new omnibus labor bill marks a major milestone**. The new law seeks to improve Indonesia's investment climate and overall competitiveness by streamlining regulations, easing foreign investment restrictions and tackling labor market rigidities. Separately, the flattening of Jakarta's COVID-19 new cases has allowed the city to begin to relax its health restrictions and allow more commerce to return.

CEMEA

Mohamed Bardastani

- **Business conditions improved in MENA.** The PMIs in Saudi Arabia, the United Arab Emirates and Egypt rose in September above 50, indicating output grew month-over-month (MoM) compared to August. The gains were welcome news for a region hard hit by the pandemic. Recently released Q2-2020 GDP reports underscored the full economic toll of the lockdowns. The Saudi economy declined by 7 percent YoY, while the UAE and Bahrain contracted by 7.8 and 8.9 percent, respectively.
- **Second waves emerge in key economies.** Russia and the UAE had alarmingly strong spikes in the number of new cases, with record numbers surpassing the earlier peaks in mid-May. The number of new cases surged to a new high of more than 13,000 cases in Russia on 12 October, while similarly, the UAE's steepest spike yet happened earlier this month, with 1,231 new cases on 4 October.
- **South African GDP shrank 17.1 percent YoY in Q2-2020.** One of CEMEA's steepest declines in economic activity occurred in South Africa in the second quarter due to stringent lockdown policies and restrictions. GDP is expected to decline by 8.9 percent for the year as a whole, before returning to an estimated 4.9 percent growth next year.

Europe

Adolfo Laurenti

- **Public health conditions in Europe deteriorate,** with several governments in the region adopting new containment measures limiting mobility. The United Kingdom is enforcing local lockdowns, France is considering new lockdowns, and Italy is expected to ban private parties and social gatherings.
- **Eurozone PMIs slowed** for the second consecutive month. The services industry shows signs of strain. While a historic rebound is expected in Q3, with quarter-over-quarter (QoQ) GDP growth anticipated to near 10 percent, the latest indicators point to a slowing recovery in Q4.
- **UK monthly GDP disappoints in August,** rising less than expected at 2.1 percent for the month. The government has introduced a new furlough scheme, which critics consider less comprehensive than the previous plan.
- **Travel to Europe took a huge hit this year,** with an expected decrease of 61 percent YoY in 2020. A partial rebound during the summer came to a halt as improved cross-border travel contributed to a new wave of COVID-19 cases. Domestic tourism is expected to fully recover by 2022, but international arrivals are not expected to return to their pre-crisis levels before 2024.

United States

Jeffrey Roach

- **Nominal personal spending continues to recover** even in the face of waning stimulus, but the recovery is expected to slow in Q4. As of August, spending is now only 3.4 percent below February levels. Risks to the consumer spending outlook include a possible surge in COVID cases during the upcoming flu season and the headwinds from slowing employment and income growth. These concerns led us to downwardly revise our spending forecasts in Q4.
- **Momentum is slowing in the U.S. labor market, with the economy adding just 661,000 jobs in September,** the slowest pace since the recovery began in May. The share of permanent job losses continues to rise and will likely grow in the coming months as major industries such as airlines announce cutbacks.
- **The Conference Board reported that consumer confidence bounced sharply higher to 101.8 in September** from 84.8 in the previous month. Most regions reported significant improvements in September. The Pacific region, with the largest state economy in the country, reported strong improvements. Purchasing plans remain solid as respondents increase buying plans for big ticket items such as major appliances.

Canada

Mariamawit Tadesse

- **Jobs return post-lockdown.** In September, employment rose by 378,000, with full-time jobs accounting for most of the increase. Jobs rose in all provinces except New Brunswick and Prince Edward Island, with the largest gains in Ontario and Quebec. The unemployment rate declined for the fourth consecutive month.
- **Rising insurance premiums challenge Canada's hospitality industry.** Due to the pandemic, insurance companies are either increasing their premiums or exiting the sector altogether. Even pre-pandemic, insuring the hospitality industry was considered high risk and the pandemic has further exacerbated that risk.
- **Central banks and BIS publish first central bank digital currency report.** The Bank of Canada, along with six other central banks, is collaborating on a report with the Bank for International Settlements (BIS) and laying out key principles to follow.

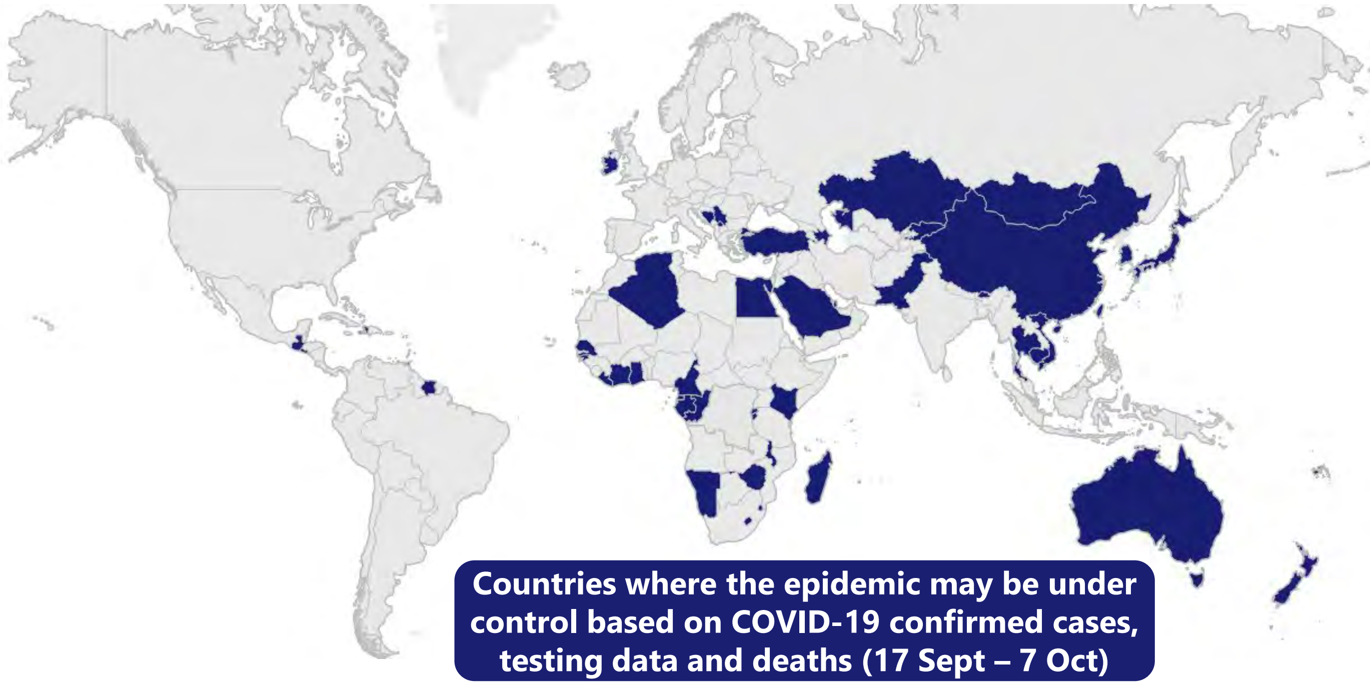
Latin America & Caribbean

Mariamawit Tadesse

- **Brazil's retail sales grew by 3.4 percent in August and 6.1 percent YoY,** reaching a record unseen in the past two decades. The monthly stimulus checks are scheduled to end in December. Brazil is proposing a new minimum income program, "Renda Cidada" which is set to start on 1 January, replacing Bolsa Familia.
- **Colombia cut interest rates.** For the seventh time since the pandemic started, the central bank lowered its key interest rate to a record low of 1.75 percent. The bank expects the economy to contract 8.5 percent this year due to the extended lockdowns. Colombia has only recently reopened its airports for domestic and international flights, and lifted mobility restrictions on travel between its major cities.
- **Argentina moves towards a managed float of the peso.** The central bank announced it will replace its current approach of uniform daily devaluation in favor of a quicker pace of devaluation. The gap between the official exchange rate and the black market has grown to over 90 percent, and the faster depreciation will allow it to close that gap. The bank is also raising its overnight repo rates from 19 percent to 24 percent, which will encourage saving and investing in pesos. Lastly, the bank is facilitating the purchase of Chinese yuan against its peso for foreign trade operations.

Global cross-border travel and COVID-19 trends (17 Sept – 7 Oct)

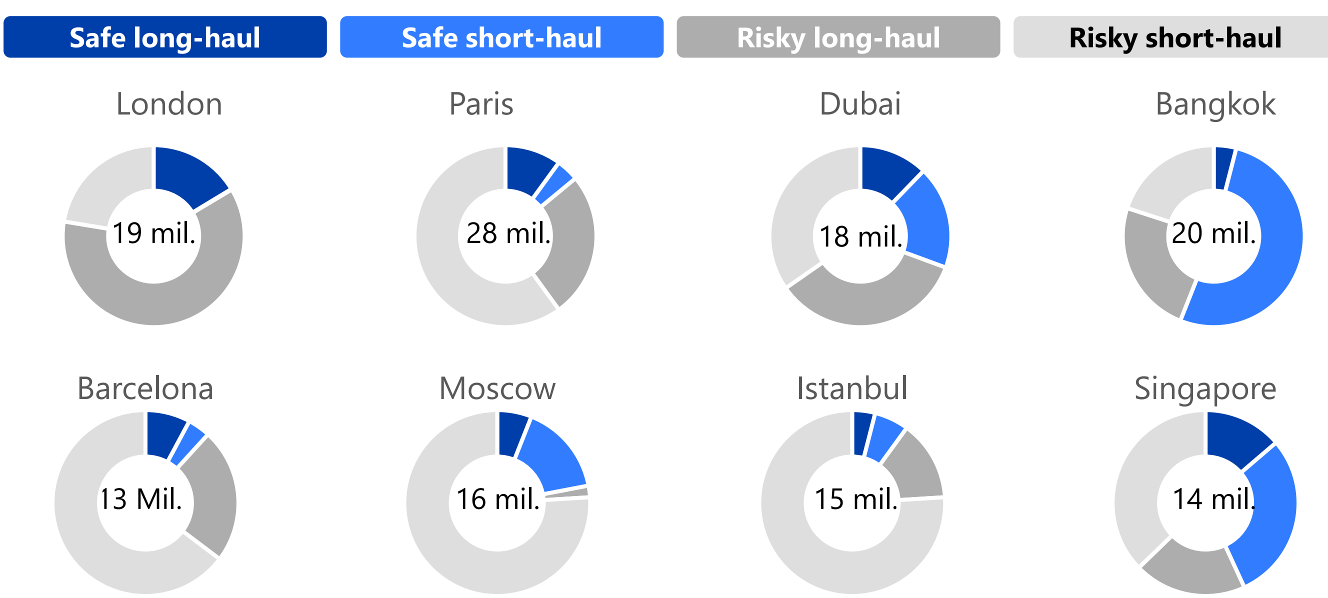
- As Europe faces a second surge of COVID-19 cases, the number of safe countries declined from 79 to 68 since our last insight. The rise in unsafe countries is mostly attributed to rising cases than to a surge in deaths or lack of testing. Canada has also joined the unsafe list.



Source: Johns Hopkins University/Haver Analytics, ourworldindata.org/coronavirus-testing;

Key travel destinations (2019-20 winter arrivals, by degree of virus control in origin countries)

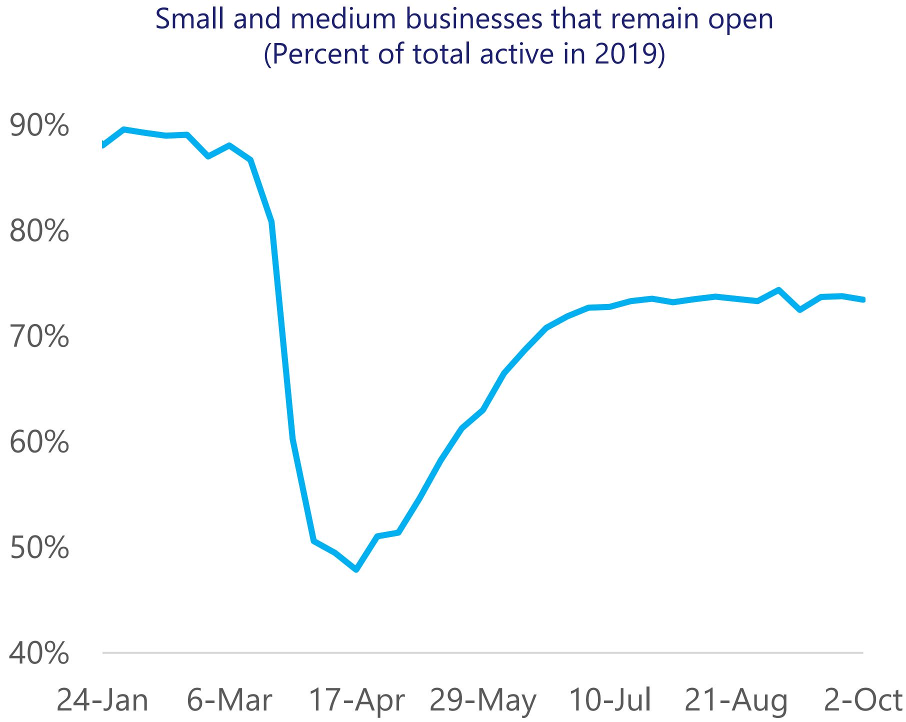
- The recent surge in COVID-19 cases is expected to impact winter travel. The International Air Transport Association (IATA), which represents 290 airlines, is collaborating with the World Health Organization (WHO) to replace compulsory quarantine with affordable and fast testing systems.
- The share of safe short-haul and long-haul source markets has shrunk significantly. Bangkok and Singapore maintained a share of safer source markets above 40 percent.

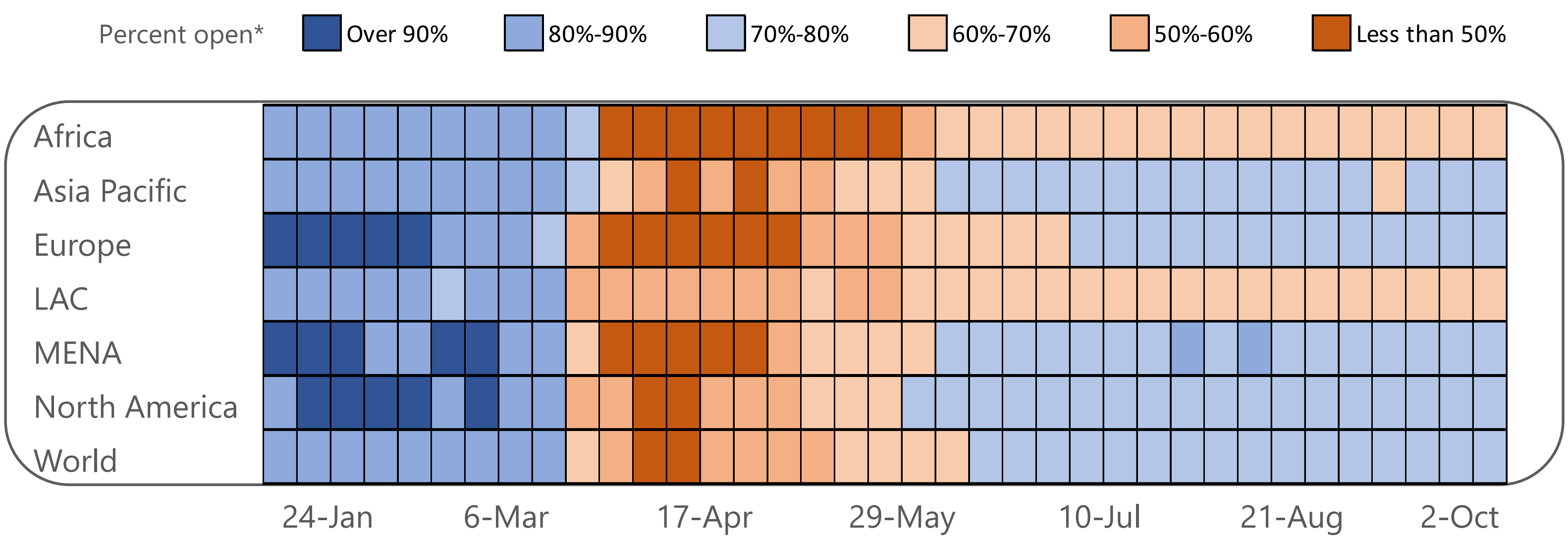


Sources: Visa Business and Economic Insights, Visa International Travel (VISIT) database.

Stalled progress on small and medium-sized business reopenings raises risk of more permanent closures

- The resurgence of COVID-19 cases has blurred the line separating countries that were once ahead in flatting their epidemic curve from their peers. In both groups, the pace of recovery among small businesses has stalled.
- Globally, the share of small businesses that continued to show minimal sales activity in September has stabilized at roughly 16 percentage points below its pre-COVID baseline.
- The persistent lack of activity indicates that as many as one out of every six small and medium-sized establishments could potentially face a permanent closure.
- Regionally, recovery in small businesses remains weakest in Latin America and strongest in Europe, but the picture could reverse with colder weather shifting from the Southern to Northern hemispheres.





Sources: Visa Business and Economic Insights, VisaNet. *Merchant closures and reopenings are estimated based on activity at point-of-sale terminals in 2019. Merchants are classified as small and medium if their total domestic purchase volume in 2019 was not in the top quartile of all merchants within the same industry and city.

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