Visa Business and Economic Insights

Travel Insight

Global travel out of the doldrums, but how far can it go?

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Key Points:

- Momentum should sustain travel trends through the summer
- Asia Pacific travel recovery gains strength
- China and the long-term future of global travel

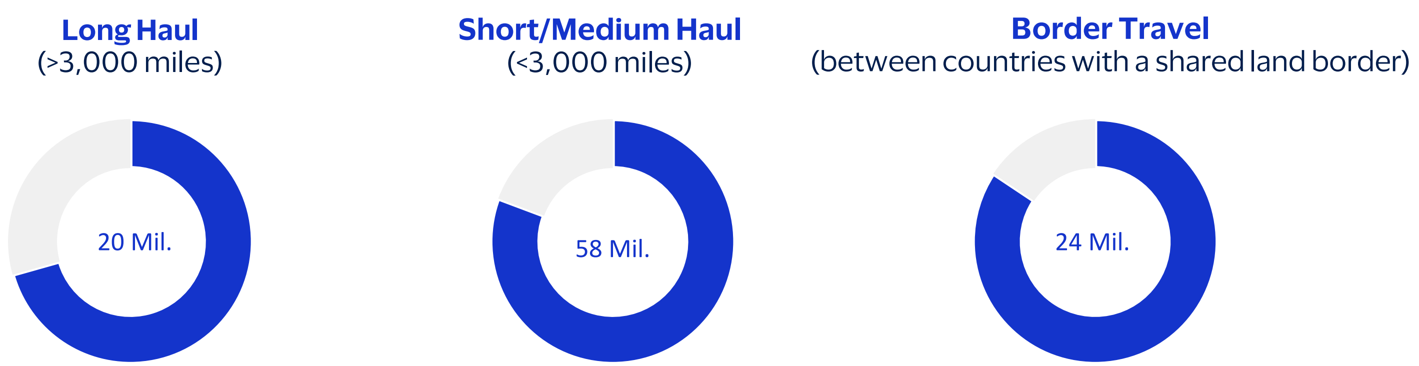
Global travel's recovery appears to be on an accelerated path forward, with the industry finally leaving the doldrums it was stuck in since early 2020. As of May 2022, cross-border trips globally reached 78 percent of their 2019 levels based on monthly official cross-border arrival data augmented by depersonalized and aggregated transaction data.[1] With long-haul travel (trips of longer than 3,000 miles) now also 71 percent recovered, getting to a full recovery is less about restoring the mix of destinations and more about the strength and openness of source markets.

Pent-up demand and momentum from the current recovery should be enough to sustain a solid summer travel season in the Northern Hemisphere this year. However, rising inflation and slowing economic growth could have an impact, especially on short- and medium-haul travel; less so for long-haul trips.

The recovery will not be complete until outbound travel demand in Asia Pacific returns. Recent arrivals data gives reason to be optimistic that the region should soon begin to close the gap with other regions, especially as more Asia Pacific countries re-open to travel.[2]

Whether global travel can get back to pre-pandemic trends over the long term depends on the strength and growth of outbound travel from China. Even after its zero-COVID policy ends, China's ability to return to its prior rates of growth and volumes will be increasingly uncertain, given its rapidly aging population and stressed household financial conditions.

Fig. 1: Outbound travel by distance traveled in May 2022 relative to May 2019
(Cross-border arrivals, ■ = share of 2019 arrivals)



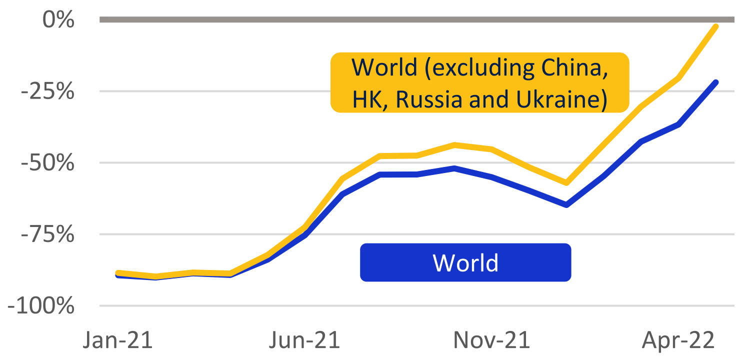
Source: Visa International Travel Platform

Recovery remains secure despite mounting challenges

Now well into its peak season (June-September), global travel faces a confluence of challenges: inflation, falling asset prices, war, quarantines and rising uncertainty. Any one of these challenges on its own would have tripped up an ordinary year. Thankfully, given remaining pent-up demand, the momentum behind global outbound travel growth this year has been far from average. Since January, total global outbound travel growth (relative to 2019) has accelerated by 38 percentage points. If not for Russia's invasion of Ukraine and China's zero-COVID policy, the recovery would have been even stronger, with a nearly 50 percentage point gain in global travel (excluding China, Russia and Ukraine), and the gap with 2019 essentially closed by May 2022. Except for Asia Pacific, outbound travel was well on its recovery as of May 2022.

Fig. 2: Outbound cross-border travel

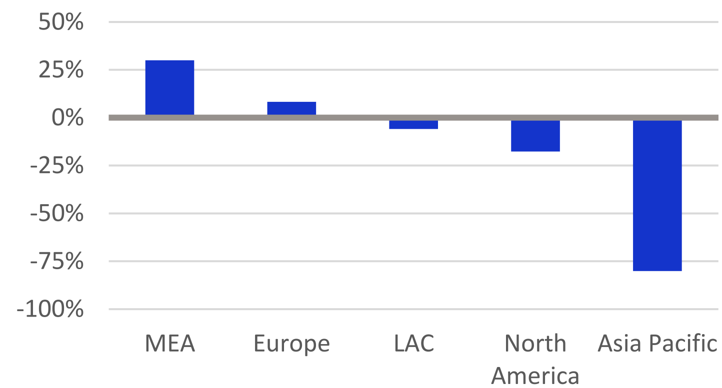
(Percent change from 2019)



Source: Visa International Travel platform

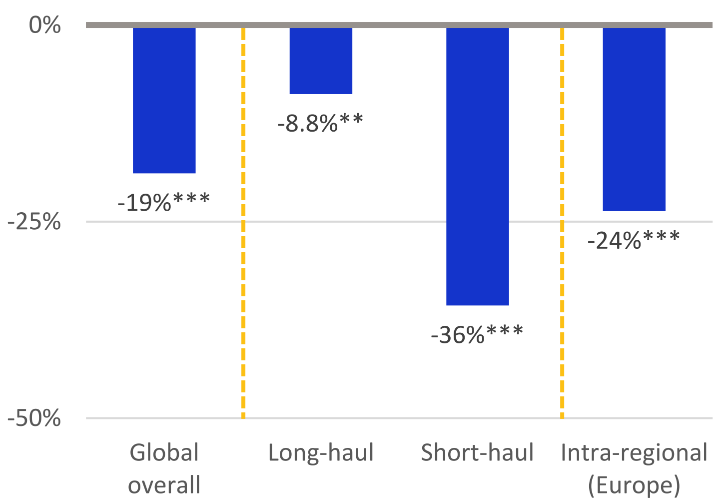
Fig. 3: Outbound cross-border travel by region

(May 2022 vs. May 2019 percent change)



Inflation could present the greatest risk to the recovery. Based on our analysis, a 10 percent increase in oil prices was correlated with a statistically significant 19 percent decline in international visitor arrivals. With the increase in fuel prices this year, airfares have risen sharply, putting greater pressure on travel budgets. Surprisingly, this effect was much weaker for long-haul travel, where visitor arrivals fell by 8.8 percent with a 10 percent rise in oil prices. This suggests that either people could find substitutes to short-haul travels such as road trips or that demand for long-haul flights was more price inelastic. By region, the effect was stronger for Europe intra-regional travel, where visitor arrivals within Europe declined by a steeper 24 percent with a 10 percent increase in oil prices. Given that Europe has many low-cost carriers with thin margins, the high oil prices could result in fewer routes and higher airfares, similar to what happened in 2008.

Fig. 4: Impact on cross-border arrivals of a 10 percent increase in oil prices

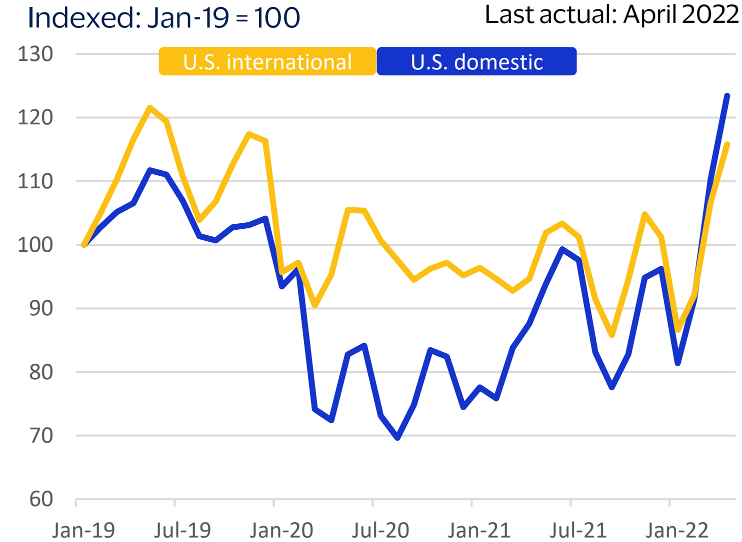


** Represents statistical significance at the 5 percent level while *** represents statistical significance at the 1 percent level.

Fig. 5: Average weighted roundtrip prices for U.S. flights

Indexed: Jan-19 = 100

Last actual: April 2022



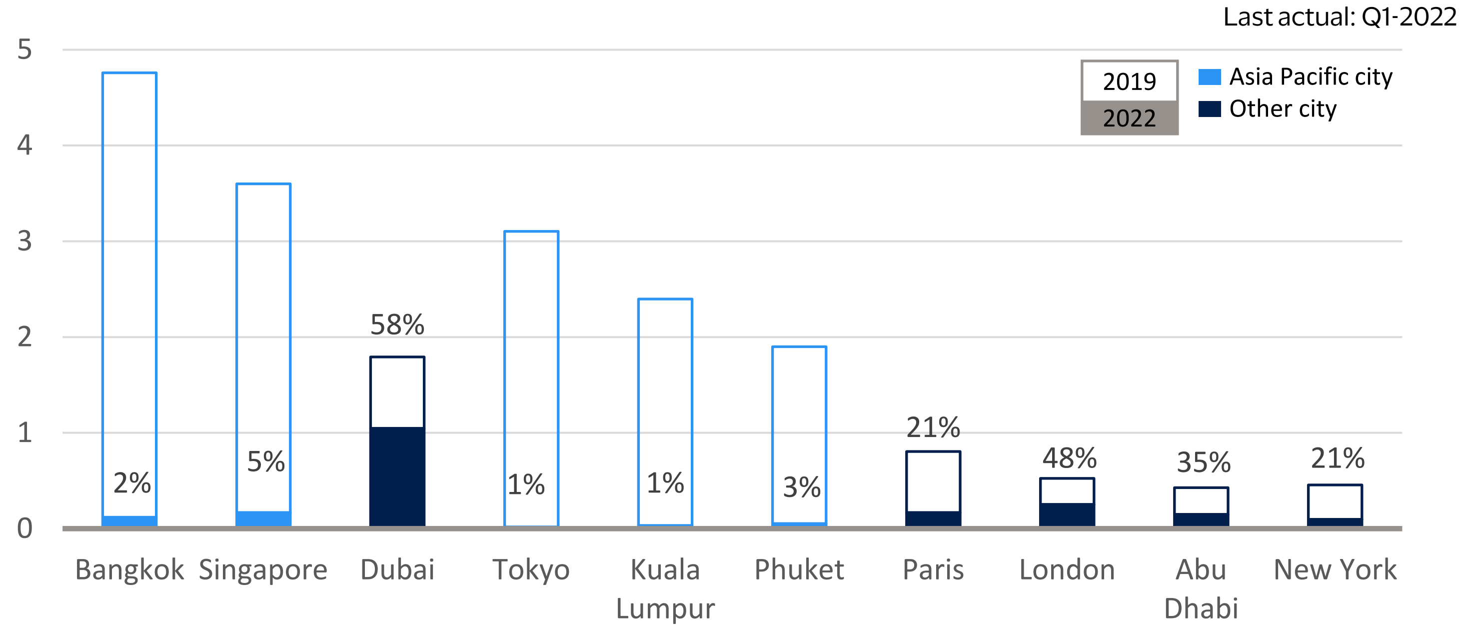
Source: Hopper

Asia Pacific travel's recovery – delayed but not lost

Although the volume of international arrivals from Asia Pacific has lagged, that appears to be related more to conservative COVID-19 inbound travel restrictions rather than a lack of demand by travelers in the region. While cross-border travel within the region is still stuck well below 2019 levels, outbound travel from Asia Pacific to other regions has recovered at rates similar to other markets. Asia Pacific travel arrivals in global cities such as Dubai, Paris and London have fared much better than their regional peers such as Bangkok, Singapore or Tokyo.

Fig. 6: Asia Pacific arrivals in top regional and global destinations in Q1-2022

(Million arrivals, 2022 relative to 2019 in percent)



Source: Visa International Travel platform

This bifurcation in travel is linked in part to the relatively higher level of restrictions still in place within Asia Pacific as compared to the other regions. Cross-border travel barriers remain more elevated in the Asia Pacific region as compared to the rest of the world.[3]

Lifting these restrictions can make a difference. Our analysis indicates that for the top 250 global travel destinations by arrivals in the first quarter of 2019, those that had a ban on travel from all source regions only recovered 27 percent of their 2019 volumes. In contrast, destinations where only a medical screening was applied were able to regain 82 percent of their 2019 volumes over that same time period.

The good news is that with the exception of China, most countries in the region have begun to reduce and even remove their COVID-19 related travel restrictions, which should help to bring back intra-regional travel within Asia Pacific. This should help to accelerate the region's rebound, as most travel occurs within the region.

The boom in travel to key beach destinations within Asia Pacific underscores what follows when COVID-19 related restrictions are lifted. In the first three months of 2022, Phuket and Bali had already recorded as many intra-regional visitors as half of their recorded visitor numbers in all of 2021.[4]

China presents the biggest wild card for the long term

Prior to the pandemic, Visa had forecast global travel to rise over 10 years by 66 million new households traveling internationally to 282 million by 2025, with one in three of those new households coming from China.[5] Given China's zero-COVID policy today and associated frequent lockdowns, that prediction now appears unlikely.

Even when China lifts its COVID policies, whether it remains one of the main drivers of long-term growth in global travel and tourism is increasingly uncertain. A rapidly aging population combined with a downshift in economic growth and downward pressure on asset prices could cause the next decade in outbound travel from China to be less robust than many now expect. If the experience of Japan in the 1990s is any indication, China's outbound travel may possibly have peaked in 2019.

China and Japan have both experienced rapid population aging, with a key difference being that Japan faced this challenge earlier. In 1985, the median age in Japan rose above 35 years, while China crossed a similar threshold in 2010. Aging alone will not necessarily derail rapid growth in outbound travel as both countries in the decade passing this threshold saw similar rates of growth in international departures.

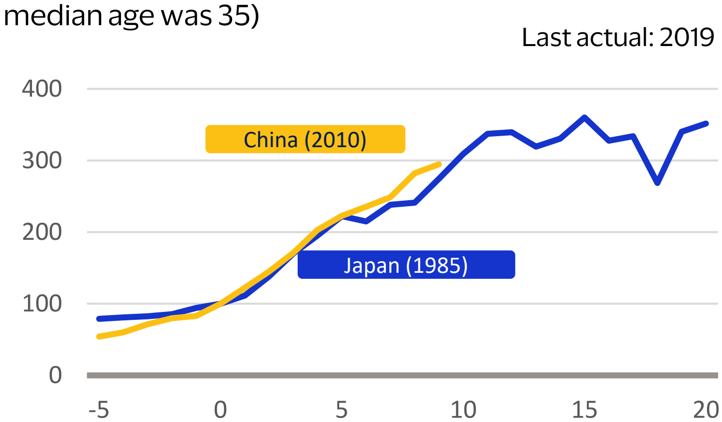
Aging combined with slower economic growth can lead to stagnation in the growth of outbound tourism, as Japan experienced soon after in the 1990s. This was its lost decade when, after decades of rapid industrialization, growth slowed and real estate prices corrected. The old age dependency ratio steadily rose to the point that there are now only two people of working age per person over the age of 65, based on statistics from the World Bank.

In terms of old age dependency, China is converging with Japan at a faster pace, with five workers per potentially retired person in China today, due in large part to the legacy of the one child policy. Many economists now believe that China's best years in terms of growth are behind it. The current fall in real estate prices—a significant store of household wealth in China—places additional stress on household finances and tightens Chinese travelers' budgets for overseas trips.

As Japan's leisure surveys show, aging plays a role in reducing outbound travel as older households on fixed incomes do not travel as much as those in their prime earning years. The downward shift in international travel participation between 1996 and 2011 also shows that a structural downshift in growth can also lead to much weaker outbound travel demand. Whether China can escape this challenge depends greatly on the country's long-term growth trajectory.

Fig. 7: International departures

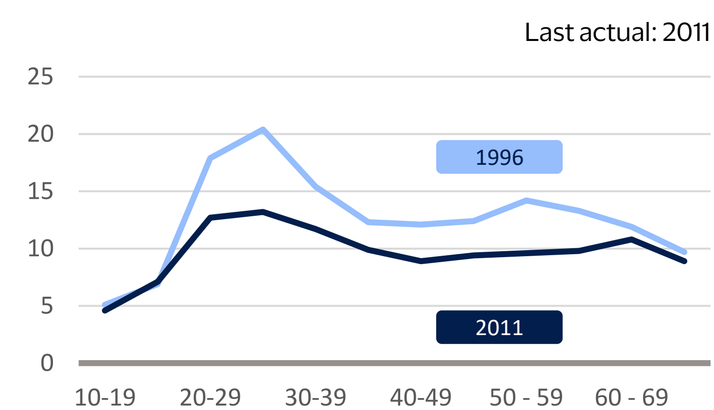
(Index: 100 = departures when each country's median age was 35)



Source: Japan National Tourist Organization, Haver Analytics, UN World Population Division

Fig. 8: Japanese foreign travel participation rate by age bands

(% of population who took at least one overseas trip)



Source: Statistics Bureau of Japan, Survey on Time Use and Leisure Activities (1996 and 2011)

Footnotes

1. The Visa International Travel (VISIT) platform is a proprietary model that combines Visa's cardholder data with publicly-available cross-border arrival statistics. Visa uses this data to econometrically model official arrival statistics compiled by various government sources and to generate estimates that fill in the large gaps existing in the cross-border travel data.
2. Ibid.
3. Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford.
4. Visa International Travel Platform
5. "Mapping the Future of Global Travel and Tourism," Visa Inc., 2016.

Accessibility Notes

Fig 1. Three pie charts showing the cross-border arrivals by distance travelled in May 2022 relative to May 2019. For long-haul trips (>3,000 miles), it has recovered by 71 percent (to 20 million cross-border arrivals). For short haul (<3,000 miles) and travel between countries with a shared border, they have recovered by 81 percent (58 million) and 84 percent (24 million) respectively.

Fig 2. Line chart showing the percentage change in outbound travel from 2019 for the world and the world (excluding China, Hong Kong, Russia and Ukraine). The former improved from -89 percent in Jan 2021 to -22 percent in May 2022 while the latter improved from -89 percent in Jan 2021 to -2 percent in May 2022.

Fig 3. Bar chart showing the percentage change in outbound travel by region in May 2022 relative to May 2019. Middle East and Africa was at 30 percent. This was followed by Europe at 8 percent. Latin America and the Caribbean was at -6 percent. North America was at -18 percent while Asia Pacific was at -80 percent.

Fig 4. Bar chart showing the impact on cross-border arrivals of a 10 percent increase in oil prices. At the overall level, this resulted in a 19 percent decline in visitor arrivals. By comparing the distance travelled, visitor arrivals from long-haul travel fell by 8.8 percent while that of short-haul travel dropped by a larger 36 percent. For intra-regional travel within Europe, a 10 percent increase in oil prices was linked to a 24 percent fall in visitor arrivals.

Fig 5. Line chart showing the indices of average weighted roundtrip prices for United States domestic and international flights. Indexed to 100 in Jan-2019, domestic flights reached a low of 69 in Aug-2020 and shot up to 123 in Apr 2022 from 81 in Jan 2022. The index of international flights reached a high of 122 in May-2019, a low of 86 in Sept-2021, and increased to 116 in Apr-2022 from 87 in Jan 2022.

Fig 6. Bar chart showing the Asia Pacific arrivals in top regional and global cities in Q1-2022 compared to 2019 levels. Visitor arrivals from Asia Pacific to other Asia Pacific destinations remained low compared to 2019, including Bangkok at 2%, Singapore at 5%, Tokyo at 1%, Kuala Lumpur at 1% and Phuket at 3%. In comparison, visitor arrivals from Asia Pacific to global destinations saw a stronger recovery, including Dubai at 58%, Paris at 21%, London at 48%, Abu Dhabi at 35% and New York at 21% .

Fig 7. Line chart showing the indices of international departures from China and Japan starting from the year 2010 and 1985 respectively, when the median age of each country was 35. For Japan, the index reached a high of 364 in 2000 and dropping to 352 at the end of the series in 2005. started to plateau at around 340 from 1995 onwards, with some fluctuations. For China, the index started to show signs of a slowdown from 2018. Prior to 2018, it grew to around 280.

Fig 8. Line chart showing the Japanese foreign travel participation rate (percent of population who took at least one overseas trip) by age bands in 1996 and 2011. The share of those aged 20 to 29, and 50 to 59 who took at least one overseas trip in 1996 stood at 18 percent and 14 percent respectively. However, the share of those aged 20 to 29, and 50 to 59 who took at least one overseas trip in 2011 dropped to 13 percent and 10 percent respectively. The fall in shares was experienced generally by the other age bands in 2011.

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