THE FINANCIAL CRISIS AND ITS IMPACT ON THE TRAVEL AND TOURISM SECTOR

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Abstract: *We have seen over the years that economic business cycles are almost perfectly correlated with tourism growth rates.When economies grow, personal incomes rise, allowing for discretionary income spending on Travel & Tourism. In recent years, according to the United Nations World Tourism Organization (UNWTO), while the world economy grew at approximately 4 percent annually, this was outpaced by growth in international tourist arrivals reaching about 6.5 percent per year. On the other hand, with nations facing a global credit crisis, fluctuating stock markets, erratic fuel prices, and a global recession, people and businesses are beginning to reduce travel and businesses are scaling back their travel budgets. In an interview with Global Insight, Doug Shifflet notes that, while the slowdown in air travel will vary by traveler type and purpose, businesses in particular are likely to continue to reduce travel budgets in 2009.*
Against this background, the Travel & Tourism industry will certainly navigate yet another perfect storm in 2009.

Key words: *Tourism sector, financial crisis, global recession*

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Tourism is a global-scale industry with growing impacts on the environment, as well as profound implications for regional and local development. In many developed and developing countries tourism increasingly provides new opportunities, employment and economic benefits to local communities, many countries seeing tourism promotion as an expedient and relatively inexpensive strategy to attract foreign direct investment by, for example, showcasing natural areas and local indigenous cultures. Growing tourism activity in many places in the world is increasingly tying them to the industry and related cultural, social, economic and political networks. At the same time tourism is deeply influenced by its changing physical and social environments and larger processes such as global climate change. The current global economic credit crisis has, in addition, underlined the impact of shifting economic fortunes on the global tourism system.

Effects of a global recession

A global recession will impact the entire Travel & Tourism sector, despite the robustness that it has shown in past years.There are many reasons to expect that demand for all kinds of travel will decline in the coming years.The financial crisis and economic recession are bringing about tighter credit conditions, high consumer debt, decreased housing wealth, stagnant wages, and rising unemployment, all of which are leading to a contraction in travel demand, particularly business travel. According to IATA, in the first quarter of 2008, airlines—which tend to be very sensitive to the business downturn—experienced the largest contraction in business travel since 2003, with growth in economyclass travel slowing to less than 1 percent, down from 6 percent in 2007, significantly reducing airline operations' revenues. IATA estimates that, by the end of 2008, the total loss to the global air transport industry will have been in the order of US$5.2 billion. By July 2008, passenger demand growth had fallen to 1.9 percent— the lowest in five years. In parallel, passenger capacity increased by twice that amount—3.8 percent—which indicates that cuts in service did not keep up with decreasing demand. In September 2008, the six largest US airlines experienced a 9.5 percent drop on average in the quantity of domestic miles traveled by passengers compared with September 2007.Compounding these difficulties, flight ticket fares are 15 to 25 percent higher on many routes than they were in 2007.

The lower price of crude oil, which fell by late 2008 to more than two-thirds of its peak price of over $147 a barrel in July 2008, has not significantly lessened the financial difficulties for many airlines in the industry, as many of them hedged against the possibility of fuel prices rising to even higher levels. Therefore, if the US and global economies remain in recession for most of 2009, as many expect will be the case, it is reasonable to assume that both global leisure and business travel, measured in trips per person, will decline over the period. Capacity contraction, industry consolidation, and possible bankruptcies It is safe to say that, within the Travel & Tourism industry, airlines have been the hardest hit by the crisis, with serious negative consequences for the bottom line.10 According to Felipe González Abad, Senior Advisor at Amadeus, airline bookings in October 2008 were down approximately 10 percent from the same month in 2007. As a result of the present contraction in consumer demand, the T&T industry will probably face an increase in the number of airline industry bankruptcies. Strategies to eliminate excess capacity (e.g., grounding planes, slowing down the purchase of new planes) and increased mergers and acquisitions (market consolidation) will likely be adopted as a means of achieving greater financial stability.

One single GDS has lost 30 percent of it segments production in nine months. Since the beginning of 2008, more than 25 airlines have stopped or suspended operations.These include the bankruptcies of Russia's AiRUnion and Britain's XL Airways UK. Globally, many airlines have grounded aircraft to reduce supply in light of slumping domestic markets. For example, in late 2008, China Southern Airlines and China Eastern Airlines began to ground aircraft and cut flights because of concerns that the slumping domestic air travel market would not recover quickly.

Similarly, in October 2008, Singapore Airlines (SIA) addressed the problem of falling passenger numbers through an aggressive capacity-reduction program aimed at cutting back on some routes and entirely pulling out from others. According to the corporate travel agency Egencia, the contraction in both the supply and demand of air travel, together with the spillover effects of mergers and acquisitions, will result in lower average ticket prices for business travelers in most markets, despite higher fees for services such as meals and baggage. There is not all bad news, however. On the positive side, notwithstanding much skepticism within the industry,the current financial crisis could provide a positive effect by, for example, encouraging airlines to lobby governments for increased liberalization of the market through the adoption of global Open Skies agreements. It could also lobby for the removal of all current ownership and control estrictions, which currently hinder the airlines' ability to consolidate on a truly global scale.

Many agree that airline industry consolidation would be beneficial by allowing for economies of scale and increased functional synergies (e.g., shared sales services, frequent flyer programs, fuel hedging, fleet acquisition and maintenance, etc.). This is along the lines of the logic employed by the US Justice Department in approving the merger of Delta and Northwest in October 2008: it was agreed that the merger was likely to benefit consumers through improved service, made possible by the consolidation of the airlines' activities.Other mergers of present relevance are that of British Airways/Iberia/American Airlines, currently awaiting European Union (EU) antitrust approval; the Virgin-BMI acquisition; and the alliance between India's Jet Airways and Kingfisher, aimed at stabilizing the market in the greater public interest.

With respect to the hospitality industry, since mid- September—almost in parallel with the stock market turmoil—demand for high-end hotel rooms has sharply decreased because businesses, especially, are cutting back on travel expenses.The hospitality industry has been experiencing a drop-off in business from affluent international leisure and business travelers in particular, as economies around the globe slow and the value of the US dollar rises against many currencies. Patrick Ford, the president of the global authority for hotel real estate Lodging Econometrics, has said that in 2008 revenue rates on luxury hotel rooms "slowed in mid-September and really atcheted downward during October.… Revenue per available room, the standard measure of performance, dropped 14 percent at upscale and luxury hotels in the week ending Oct. 18 over the comparable week last year.… For hotels in general, the decline was about 8 percent." (Sharkey 2008).
A roundtable of two dozen hospitality industry professionals and Cornell faculty members that met on November 10, 2008, to discuss key trends facing the lodging industry in 2009 made the following prognosis:

- Lodging supply will continue to grow at between 2.5 and 3 percent per year through 2010, while demand for lodging will decline by approximately 0.5 percent in 2008 and 1 percent in 2009 before growing again in 2010.
-. Hotel prices will decline by over 25 percent in the short term as a result of the increased cost of debt capital and slower industry growth.
-. Most agree that future lending criteria will be more conservative, but, within these strictures, some deals will still be made.
-. When an economic turnaround occurs, it will occur quickly.
-. Owners and operators will likely increase their cooperation in order to get through what everyone
knows will be a very difficult period.
Ultimately, however, the lodging industry is also driven by trends in GDP growth (or contraction), the
availability of airline seats to take people to destinations, the cost of oil, the increase in hotel room supply, and the demand for hotel rooms.Therefore, according to a recent PKF Hospitality Research study, the expected decline in airline travel will alone bring about a decline in hotel room demand on the order of 1 to 1.5 percent.

Conclusions

The present economic crisis has highlighted the urgent need for industry, governments, and society to re-shape companies and institutions, to redefine values, and to collaborate in innovative ways. Only coming together to meet these urgent needs will ensure the effective and sustainable use of our planet's scarce resources. For the T&T industry, this translates into the need to fully embrace the concept of sustainability within day-to-day operations as well as in re-formulating new products and services. Success in this endeavor will ensure not only that the destinations will be able to reap the benefits
of Travel & Tourism in the long run, but in the short run it will also better prepare companies to ride out the present economic turmoil.

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