Travel and hospitality – sector report United Kingdom

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Tourism sector:

Following a strong rebound in 2023, international tourism is expected to fully recover to pre-pandemic levels in 2024

Strengths	Weaknesses
Strong pricing power in all the sub-industries during holiday/peak seasons	**Seasonality:** Demand for tourism-linked sectors fluctuates significantly between peak and off-peak seasons
Cities with local festivities or with cultural heritage are and will remain the main centers of attention for tourists, guaranteeing continuous demand	**Cyclicality:** In addition to seasonality, demand is usually significantly affected in periods of economic downturns due to the discretionary nature of the sector.
Wide variety of options for all type of budgets, from backpackers to luxury travelers	Strong competition in some sub-industries such as restaurants and accommodation as barriers to entry are very small.
Strong branding for lodging companies (including cruises) gives market power: client attraction and retention	The "flight shame" social movement is expected to intensify, encouraging local tourism instead of intercontinental travel.

Trends and external disruptions to watch:

1. **Global warming:** Climate change will negatively affect tourism from different angles, from the disappearance of destinations such as the small Pacific islands to the loss of attractiveness of some places because of extreme temperatures and the increasing risk of wildfires.
2. **Flight-shame:** The growing "flight shame" movement, which seeks to raise awareness about the enormous CO_2 footprint left by air transport, will continue to gain popularity among new generations, impacting long-haul tourism.
3. **Exchange rates:** The performance of different FX rates should continue to have an influence (in both ways) over the choice of international destinations.
4. **Post-pandemic lack of personnel:** The Covid-19 pandemic left many in this sector unemployed and some have since shifted to other sectors.
5. **Geopolitics:** Increasingly frequent geopolitical tensions around the world will surely continue to have a negative impact on the sector by (temporarily) hindering air traffic in some regions.
6. **Eco-tourism:** This trend of traveling to natural areas is increasingly popular among young adults and will continue to grow in popularity as well-being has become a top priority, with natural areas gaining becoming more attractive than crowded cities.
7. **New lodging trends:** Hotels could continue feeling pressure from new business models for accommodation, such as house-swapping, house renting, vanning etc.
8. **Language differences:** New technologies, including the incorporation of AI, should solve the language barrier issue, facilitating the travel experience of tourists and therefore boosting long-haul or cross-continent trips.

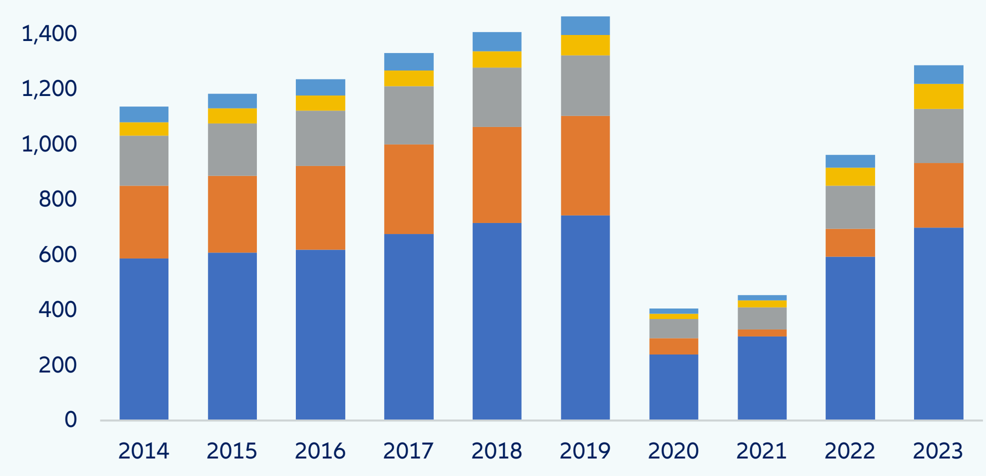
Global sector outlook:

The tourism sector is a composite of different sub-industries – with unique characteristics and offerings – that work together to provide a full range of services and a complete experience to travelers. The list comprises accommodation, restaurants, transportation, travel agencies, tourist guides, translators & photographers, leisure & relaxation and attractions & entertainment.

Although each of these sub-industries faces particular challenges, they all have one thing in common: the cyclicality and seasonality of the sector as a whole. By offering non-staple services, travel is categorized as a discretionary sector, meaning that companies usually have very little demand in periods of economic slowdown and greater activity during economic booms. Indeed, the tourism sector was one of the most affected by the Covid-19 pandemic since the closure of borders – which lasted more than a year in some regions – limited air, land and sea mobility, forcing restaurants, hotels and leisure sites to close for many quarters.

With the exception of countries where governments offered financial support during the lockdowns, this sector recorded high levels of bankruptcies in all of its sub-industries. International tourism fell by -72.2% y/y in 2020 to only 407mn people traveling abroad that year, with the largest drops recorded in Asia-Pacific (-83.6% y/y). Since then, the number of international travelers has been gradually improving, reaching 1,286mn international tourists, an increase of +33.5% vs 2022 and +216% vs 2020 (Figure 1).

Figure 1: Total number of international tourist arrivals (mn)

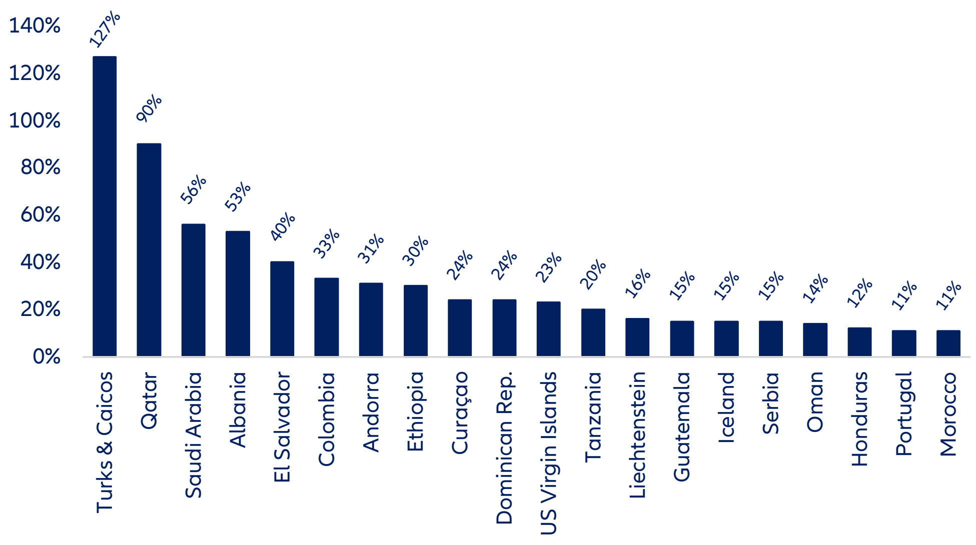


Sources: Bloomberg, UN World Tourism Organization, Allianz Research

Europe is the world's leading tourist destination. In terms of attractiveness, Europe is by far the region that receives the highest number of tourists worldwide with a market share of 54% in 2023, followed by APAC (18%) and the Americas (15%). Because of this, tourism represents a major economic activity for the EU, accounting for 10% of its GDP. However, when comparing 2023 to 2019 levels, Europe is still lagging: As of today, the Old Continent has reached 94% of pre-pandemic levels, while other regions such as the Middle East (123%) and Africa (97%) are closer to normal levels. Conversely, APAC is the most delayed in the recovery since it has only managed to attract 65% of the tourists received in 2019.

The best performing destinations were located in the Americas and the Middle East. Last year, the Turks & Caicos islands saw the highest growth rate (+127%) for international visitors when comparing to 2019 figures, with the lion's share of tourists coming from the US, Canada and the UK to a lesser extent. Growth at this top beach destination was followed by Qatar (+90%), whose tourism sector was boosted by the FIFA World Cup of 2022 (Figure 2), and Saudi Arabia (+56%).

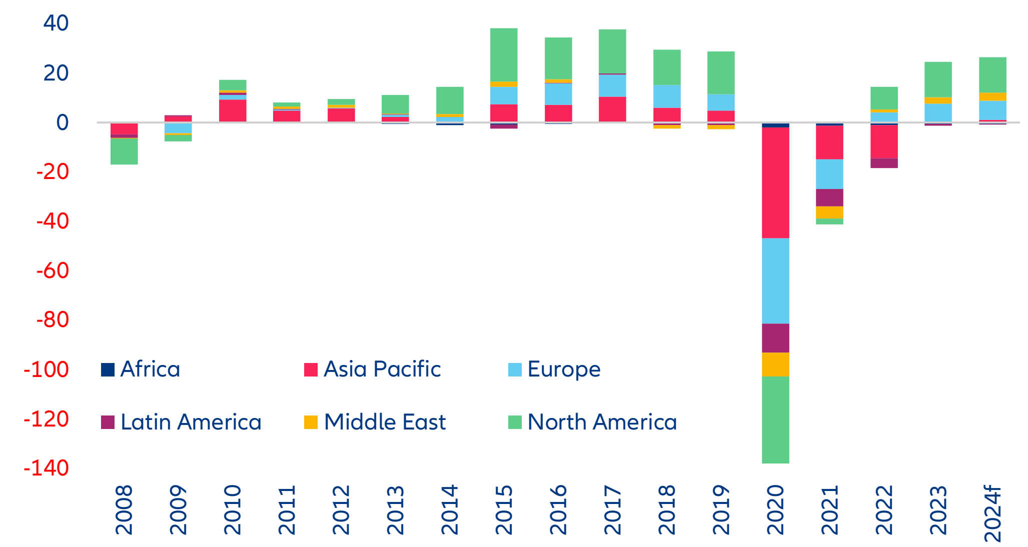
Figure 2: Best performing destinations in 2023 (international tourist arrivals, % change vs 2019)



Sources: UN World Tourism Organization (January 2024 Barometer), Allianz Research

The global outlook for airlines has dramatically improved. Industry-wide traffic, measured in revenue passenger kilometers (RPKs), grew by an impressive +37% in 2023 compared to 2022, already reaching 94% of 2019 levels. Asia-Pacific airlines were the industry leader last year in terms of volume growth, nearly doubling their passenger traffic, thanks to the lifting of travel restrictions in China. Although there is still more volume needed to return to "normal" levels, airlines are on track to do so this year. Financially speaking, after three consecutive years of global net losses, 2023 was finally the year the industry as a whole reported a net profit. For 2024, we can expect a further net profit growth of around +10% y/y, reaching USD25.7bn globally, with the majority of these profits coming from North America and Europe (Figure 3).

Figure 3: Airlines net profit across regions (USD bn)

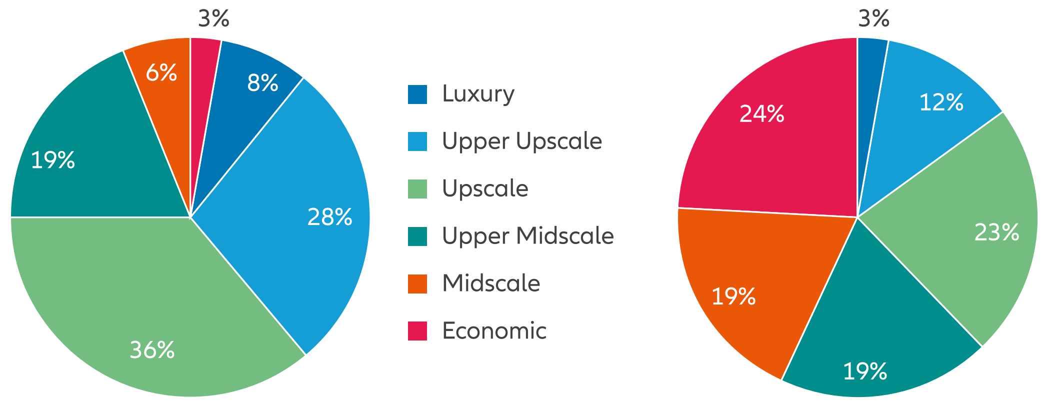


Sources: IATA, Allianz Research

Activity for cruise lines has also been recovering energetically. For this sub-industry, the pandemic made the available lower berth day (ALBD) fall to the lowest level seen in history and the occupancy rate reach 0% during several quarters. Today, the picture is different. Thanks to marketing and pricing strategies, booking levels have been lifting revenues throughout 2023 and 2024, even despite the current global economic slowdown. Indeed, the largest cruise companies have announced that they expect summer 2024 to beat summer 2019 in terms of bookings, while they expand their capacity with new cruise ships being delivered this year.

Hotels saw their revenues fall on average by -55% y/y in 2020. Since then, the recovery has been gradual and steady, reaching and surpassing the revenue levels recorded in 2019 last year. Although occupancy rates improved in almost all geographies, the +18% y/y revenue growth observed in 2023 was vastly explained by higher average daily rates (ADR). In terms of the existing offering (Figure 4), the majority of hotels in the world are considered "economic hotels" (24%), while luxury hotels represent only 3% of the market. When looking at the number of hotel rooms in the world, the largest proportion of the offering comes from the "upscale" segment (36%).

Figure 4: Global hotel room count (left) and global hotel count (right)

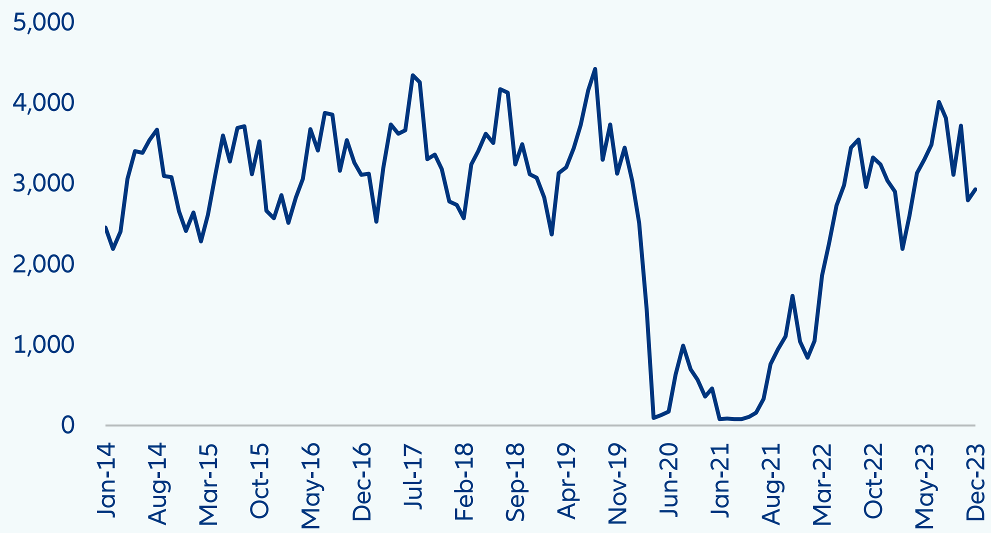


Sources: Bloomberg, Allianz Research

Tourism in the UK:

The UK economy experienced a clear slowdown last year, with GDP growing only by +0.1% in 2023 versus growth of +4.4% in 2022. This deterioration was mostly explained by inflationary issues – increasing the cost of living for households and therefore consumption – and by the tighter financial environment. Despite this economic weakening, tourism activity in the country continued its post-pandemic recovery trend. In 2023 the UK received nearly 38mn international visitors, an increase of 6.7mn visits compared with 2022 or +21% y/y. Yet, this figure represented 92% of the pre-pandemic level, suggesting there is still more work to do in order to reach a full-recovery stage (Figure 5).

Figure 5: Overseas visits to UK (monthly, in thousands)



Source: Office for National Statistics (ONS), Allianz Research

When comparing the evolution of international tourist arrivals to the UK versus other highly visited countries (Table 1), we observe that overall the UK's tourism activity has recovered faster than the global average and other countries such as Germany or the US, but slower than Turkiye and Spain, which have already returned to 2019 levels. Breaking down the data, the top five origin countries for visitors to the UK were the US (22% of overseas visitors), France (14%), Ireland (12%), Germany (11%) and Spain (10%). Most of the visitors came for holidays (42%), while 34% came to visit friends or family (34%) and business travel only represented 17%.

Table 1: International tourist arrivals (world top destinations), 2023 vs 2019 change (%)

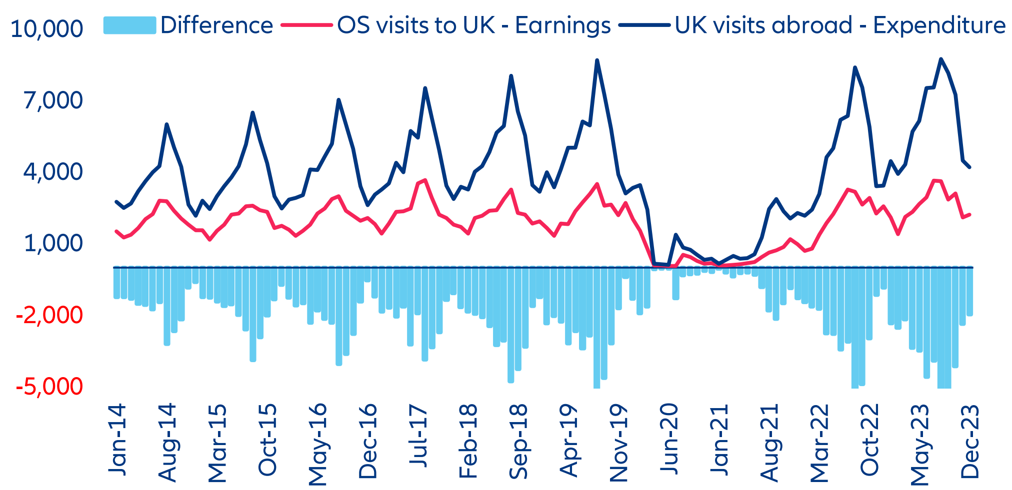
Country	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Turkiye	30	12	4	-1	9	3	6	3	4	11	12	16	7
Spain	-1	-1	-7	1	5	-6	2	1	-1	8	10	21	2
France	5	-2	-10	-3	7	0	4	2	-11	2	-27	11	-2
Mexico	1	-4	-11	-8	-6	-7	-5	-9	-3	-11	-9	-3	-6
United Kingdom	**2**	**-8**	**-17**	**-2**	**-4**	**-7**	**-3**	**-14**	**-6**	**0**	**-10**	**-15**	**-7**
Italy	-10	-7	-16	-8	-18	-11	-12	-13	-10	-7	-13	-5	-11
World	-20	-18	-19	-15	-12	-11	-7	-9	-7	-7	-10	-5	-11
Germany	-24	-17	-19	-15	-11	-10	-7	-11	-7	-13	-13	-5	-12
United States	-18	-19	-16	-21	-20	-21	-16	-14	-14	-11	-13	-14	-16
Thailand	-42	-41	-35	-32	-26	-27	-25	-29	-27	-29	-22	-17	-29

Source: UN Tourism (UNWTO), Allianz Research

In terms of outbound tourism, there has also been a significant recovery. Although inflation has hit the pockets of British households, the appetite for international travel has grown enormously in the last two years. In 2023, 86.2mn UK residents traveled abroad, +22% higher than in 2022, and equivalent to 93% of the pre-pandemic high. According to the Office for National Statistics (ONS), Southern Europe is without a doubt the favorite destination of the British. As per last year, the most visited countries by UK residents (for at least one night) were Spain (33%), France (16%), Italy (8%), Greece (8%) and Portugal (8%).

Clearly, the evolution of both inbound and outbound travel has an economic impact for all the sub-industries linked to tourism, notably for companies within the lodging industry, food/restaurants and transportation. Overall, Figure 6 shows that both the earnings from overseas visitors and the expenditures of UK citizens travelling abroad already surpassed 2019 levels. Yet, it should be noted that inflation had a role on this, since the UK's CPI stood at 9.1% and 7.3% in 2022 and 2023, respectively. On average, the daily spending of a foreigner visiting the UK was GBP106 in 2023 (vs GBP98 in 2019), which led to a total spending of around GBP814 per visit last year (vs GBP693 in 2019). For the full year 2023, the total spending of international visitors amounted to GBP31mn (+17% more than in 2022 and +9% more when compared with 2019). Regarding British travel spending abroad, the total amount for 2023 reached GBP72.5mn, a y/y increase of +24% and of +16% vs the 2019 spending level.

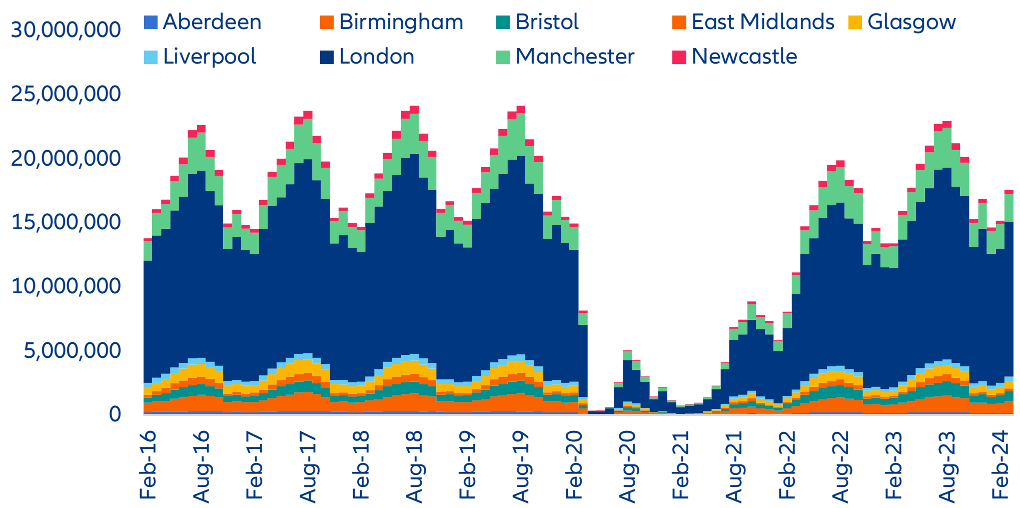
Figure 6: Monthly earnings from overseas visits to the UK vs expenditures of UK visits abroad (mn GBP)



Source: Office for National Statistics (ONS), Allianz Research

London is without a doubt the most visited city of the country, receiving on average around 21.5mn tourists during the 2017-2019 period, and 19mn in 2023. At the same time, London was the third most visited city in the world last year, after Hong Kong and Bangkok, surpassing other coveted cities such as Singapore, Dubai or Paris. As seen in Figure 7, London represents the main hub for airlines, with the vast majority of air travelers landing in the English capital before and after the pandemic. Last year, the number of air passengers (both locals and foreign) landing in London totaled 148mn, a y/y increase of +26% that represents 95% of the pre-pandemic level. As a matter of fact, London Heathrow and London Gatwick are the busiest airports of the country, together accounting for 50% of the total flights in the UK. After these two giants, the third and fourth place is held by London Stansted (12% market share) and Manchester Airport (11%).

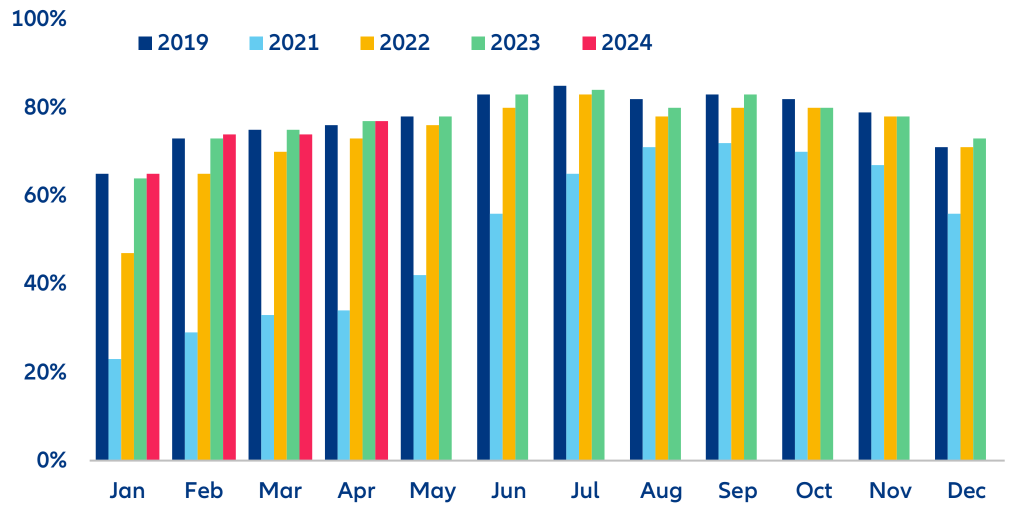
Figure 7: Air passenger count by city, monthly



Sources: Bloomberg, Allianz Research

July has historically been the month in which people travel the most to the UK, recording the highest hotel room occupancy rate every year (84% vs an all-year-long average of 77%). Figure 8 suggests that 2024 looks like it will be a good year for the lodging industry since in the first four months of the year the room occupancy rate is already equal to or higher than that observed in this same period in 2019. However, when doing the breakdown by type of destination, room bookings in the countryside actually fell in Q1 2024, while seaside and large cities destinations were resilient. Regarding the revenue per available room (RevPAR) in the UK, April data suggest there was a y/y decline, in line with the recent weakening of services inflation in the country. RevPAR is as of today at around GBP88.7 versus GBP90.7 in 2023 and GBP70.5 in 2019. Yet, latest data changes markedly from one region to another, with RevPAR ranging from GBP141 in London to GBP55 in the north-east side of the country.

Figure 8: England room occupancy rate by month (2023)



Source: Visit England Org, Allianz Research

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