The Impact of COVID-19 on the United States Travel Economy

2020 Analysis

April 15, 2020

OXFORD ECONOMICS

Key Findings

Overview

Oxford Economics, in coordination with its Tourism Economics subsidiary company, modeled the expected downturns in the US travel industry in 2020 as a result of Coronavirus. We then modeled the economic impacts of these travel industry losses in terms of GDP, unemployment, and taxes.

Travel Industry Losses

A decline of 45% for the entire year is expected. This includes an 81% drop in revenue over the next two months and continued losses over the rest of the year reaching $519 billion.

GDP Losses

Travel industry losses will result in a cumulative GDP impact of $651 billion in 2020.

We project the US economy to enter a protracted recession based on the expected downturn in travel alone.

The recession is likely to last at least two quarters with the lowest point in the second quarter of 2020.

Tax Losses

A decline of $80 billion in taxes will be realized as a result of travel declines in 2020.

Employment Losses

The US economy is projected to lose 8.0 million jobs by the end of April as a result of travel declines in 2020.

The unemployment rate of 4.4% in March will rise substantially in the coming months.

Travel-related employment losses alone will push the unemployment rate up to 8.4% by the end of April.

"FLATTENING THE CURVE" OF THE TRAVEL DOWNTURN

A scenario model was run to assess the potential gains of a more tempered downturn beginning in June.

The mitigated downturn scenario assumes a variety of efforts to lessen the severity of declines in travel beginning in June.

These include opening of travel businesses on a region-by-region basis, enhanced traveler safety measures, and a robust array of marketing campaigns to encourage travel among low risk US residents.

These mitigating efforts hold the potential to "flatten the curve" of losses, resulting in a cumulative decline of $401 billion instead of $519 billion and a net gain of $117 billion.

By mitigating travel losses in the second half of 2020, the US economy could gain close to $150 billion in GDP and 1.3 million jobs by the end of the year (relative to the baseline scenario).

Travel industry losses will far exceed that of any other sector. This is 9 times the impact of 9/11

A $519 billion decline in travel spending in the US this year will translate into a total economic loss of $1.2 trillion in economic output. This is more than nine times the impact of 9/11 on travel sector revenue.

In the second quarter, travel-related jobs will fall by 6.9 million and result in a total employment loss of 8.0 million jobs in the US (including indirect impacts).

A decline of $80 billion in taxes will be realized as a result of travel declines in 2020.

This equates to a 45% decline in travel economic impacts for the entire year.
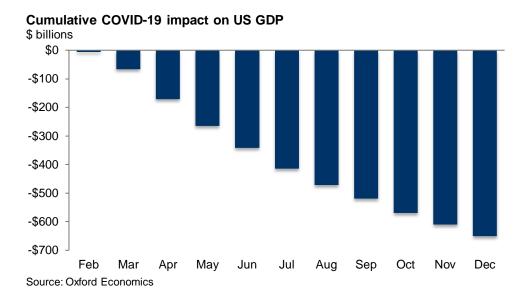
Expected Travel-Related Losses in 2020

	Direct travel industry	Total impact
Lost spending ($ billions)	**-$519**	**-$1,181**
Air transportation	-$97	
Other Transportation	-$78	
Lodging	-$112	
Recreation & Amusement	-$54	
Retail	-$49	
Food Services	-$128	
GDP Impact ($ billions)	**-$286**	**-$651**
Jobs (thousands, April)	**-6,852**	**-8,015**
Air transportation	-374	
Other Transportation	-448	
Lodging	-1,004	
Recreation & Amusement	-1,110	
Retail	-349	
Food Services	-2,752	
Travel Planning	-96	
Lost taxes ($ billions)	**-$35.3**	**-$80.3**
Federal	-$19.0	-$43.4
State	-$10.0	-$22.7
Local	-$6.3	-$14.3

Impact on US GDP

Travel industry losses will result in a cumulative GDP impact of $651 billion in 2020. This equates to 45% of the travel industry's economic value last year.
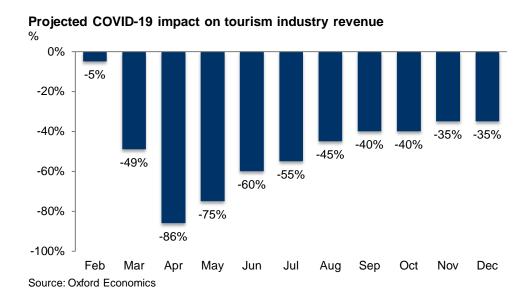
GDP impacts will continue to accrue through the end of the year as travel activity continues to lag.

Cumulative COVID-19 impact on US GDP
$ billions

Source: Oxford Economics

Travel sector revenue will average 81% below normal in April and May

Gradually lessening declines are expected in the summer as travel restrictions are loosened regionally. However, losses will continue through the rest of the year.

- The steepest losses are expected to be experienced in April, including:
  - Travel industry revenue: $83 billion loss
  - Total economic output: $189 billion loss
  - Direct travel industry jobs lost: 6.9 million
  - Total travel-supported jobs lost: 8.0 million

Projected COVID-19 impact on tourism industry revenue
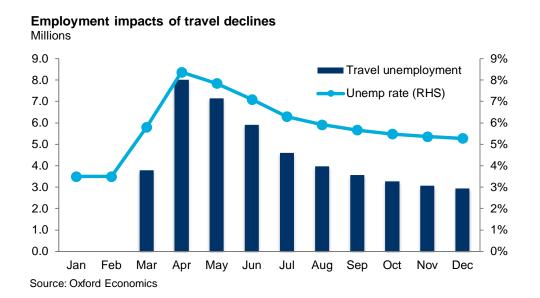
%

Source: Oxford Economics

Employment losses

The US economy is projected to lose 8.0 million jobs by the end of April as a result of travel declines in 2020. This alone will increase the unemployment rate to 8.4% in the second quarter.

The unemployment rate rose to 4.4% in March from of 3.5% in February and will rise substantially in the coming months.

Travel-related employment losses alone will push the unemployment rate up to 8.4% over the next few months. Oxford Economics models predict the actual unemployment rate could reach 15% including job losses in all sectors.

This follows historical precedent of the job losses experienced in severe travel downturns.

Employment impacts of travel declines
Millions

Source: Oxford Economics

Employment losses

At the lowest point, 8.0 million people will lose their jobs this year as a result of travel declines, including 6.9 million jobs directly in the travel industry.

Oxford Economics expects a 24 million job loss in April, implying that travel-related jobs will comprise one-third of this decline.

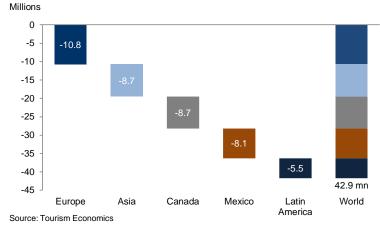**Tourism industry job loss**
Thousands

Source: Oxford Economics

International markets will be hard hit

International visits to the US will decline 54% this year assuming partial opening of borders in the second half of 2020.
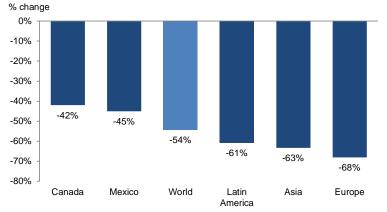
43 million fewer travelers will visit the US in 2020 than in 2019.

These losses span all markets with the largest declines from Asia and Europe.

Decline in International Visitors to the US in 2020
Millions

Source: Tourism Economics

Decline in International Visitors to the US in 2020
% change
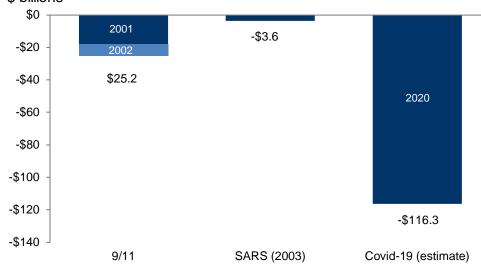

Source: Tourism Economics

International visitor spending impacts

International market impacts of COVID-19 in 2020 alone will exceed four times the impact of 9/11 which was experienced over two years.

A loss of $116 billion in international spending is anticipated this year.

This will be an unprecedented decline of 60% in one year.

Decline in International Visitor Spending in the US
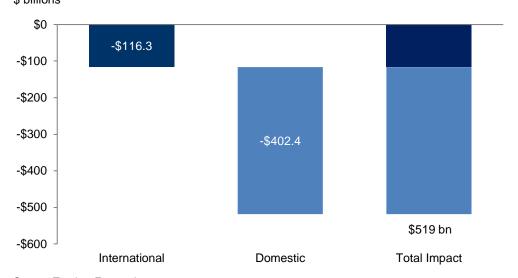$ billions

Source: Tourism Economics

Total US travel industry impacts

Including international and domestic travel, $519 billion in travel spending will be lost in 2020.

Because of its relative size, most of the losses will be connected to declines in domestic travel.

Total Travel Revenue Loss in 2020
$ billions

International: -$116.3
Domestic: -$402.4
Total Impact: $519 bn

Source: Tourism Economics

"Flattening the curve" of the travel downturn

A scenario model was run to assess the potential gains of a more tempered downturn beginning in June, resulting in a net gain of $117 billion in visitor spending relative to the baseline scenario.
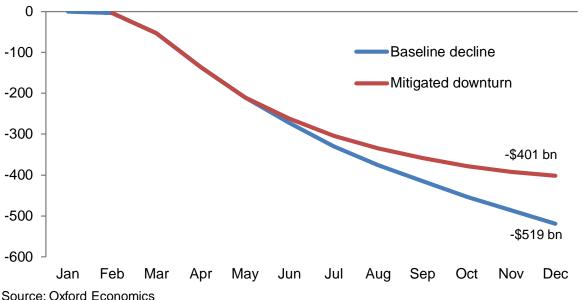
The mitigated downturn scenario assumes a variety of efforts to lessen the severity of declines in travel beginning in June.

These include opening of travel businesses on a region-by-region basis, enhanced traveler safety measures, and a robust array of marketing campaigns to encourage travel among low risk US residents.

These mitigating efforts hold the potential to "flatten the curve" of losses, resulting in a cumulative decline of $401 billion instead of $519 billion and a net gain of $117 billion.

Projected COVID-19 impact on tourism industry revenue
2020 cumulative impact, $ billions

Source: Oxford Economics

Economic benefits of "flattening the curve" of the travel downturn

By mitigating travel losses in the second half of 2020, the US economy could gain close to $150 billion in GDP and 1.3 million jobs by the end of the year (relative to the baseline scenario).
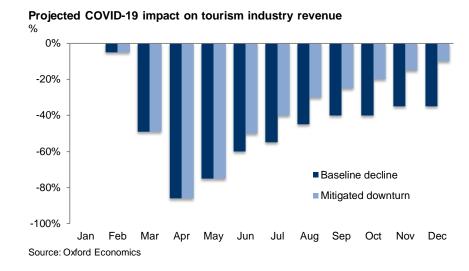
Total economic benefits of mitigating the expected losses in travel would tally $147 billion in GDP, $18 billion in taxes, and 1.3 million jobs restored by the end of the year.

Potential Gains from a Mitigated Downturn

	Kick-start recovery*	Share of projected loss	Average gain/month
Spending gains ($ billions)	**$117.2**	**23%**	**$16.7**
Air transportation	$21.9		$3.1
Other Transportation	$17.7		$2.5
Lodging	$25.2		$3.6
Recreation & Amusement	$12.3		$1.8
Retail	$11.2		$1.6
Food Services	$29.0		$4.1
GDP Impact ($ billions)	**$147.0**	**23%**	**$21.0**
Jobs recovered (thousands)	**1,320**	**16%**	
Taxes gained ($ billions)	**$18.1**	**23%**	**$2.6**
Federal	$9.8		
State	$5.1		
Local	$3.2		

Economic benefits of "flattening the curve" of the travel downturn

Comparison of monthly results for baseline and mitigated downturn scenarios

Projected COVID-19 impact on tourism industry revenue
%

- Baseline decline
- Mitigated downturn

Source: Oxford Economics

2020 Impact Scenarios

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net Impact											
Baseline decline	-$4.4	-$48.4	-$83.2	-$74.9	-$61.4	-$57.6	-$46.0	-$38.1	-$39.6	-$32.3	-$32.7
Mitigated downturn	-$4.4	-$48.4	-$83.2	-$74.9	-$51.2	-$41.9	-$30.7	-$23.8	-$19.8	-$13.8	-$9.3
Difference (improvement)	$0.0	$0.0	$0.0	$0.0	$10.2	$15.7	$15.3	$14.3	$19.8	$18.5	$23.4
Percentage Impact											
Baseline decline	-5%	-49%	-86%	-75%	-60%	-55%	-45%	-40%	-40%	-35%	-35%
Mitigated downturn	-5%	-49%	-86%	-75%	-50%	-40%	-30%	-25%	-20%	-15%	-10%
Difference (improvement)	0%	0%	0%	0%	10%	15%	15%	15%	20%	20%	25%
Cumulative Impact											
Baseline decline	-$4.4	-$52.8	-$136.0	-$210.9	-$272.3	-$329.9	-$375.9	-$414.0	-$453.6	-$485.9	-$518.7
Mitigated downturn	-$4.4	-$52.8	-$136.0	-$210.9	-$262.1	-$303.9	-$334.6	-$358.4	-$378.2	-$392.1	-$401.4
Difference (improvement)	$0.0	$0.0	$0.0	$0.0	$10.2	$25.9	$41.3	$55.6	$75.4	$93.8	$117.2

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