

Travel & Tourism Sector: Turbulence amid the Pandemic

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Coronavirus Disease (COVID-19) pandemic has severely hit travel and tourism sector since early 2020 in a global scale, including Indonesia. We view that the prospect of travel and tourism sector for the upcoming years will rely heavily on the recovery from this unprecedented event, supported by the containment of the pandemic such that social distancing and partial lockdowns will no longer be imposed, particularly in the areas considered as major tourist destination.

Travel and tourism in the past few months

As one of the most impacted sectors, number of tourist arrivals in Indonesia decreased since February 2020, when most countries imposed lockdown policy. In February 2020, monthly tourist arrivals dropped 32.1% to 0.8 million from 1.4 million in December 2019. Compared to February 2019, tourist arrivals dropped 30.5% year on year (YoY). In line with the rapid spread of the pandemic, tourist arrivals fell persistently, with the deepest drop of 88.3% in April 2020 to 160 thousand compared to December 2019. Tourist arrivals by air virtually came to a halt when it plunged by 99.9% to only 755 arrivals in April 2020 from 840 thousand in December 2019.

Figure 1: Tourist arrival by air, land, and sea

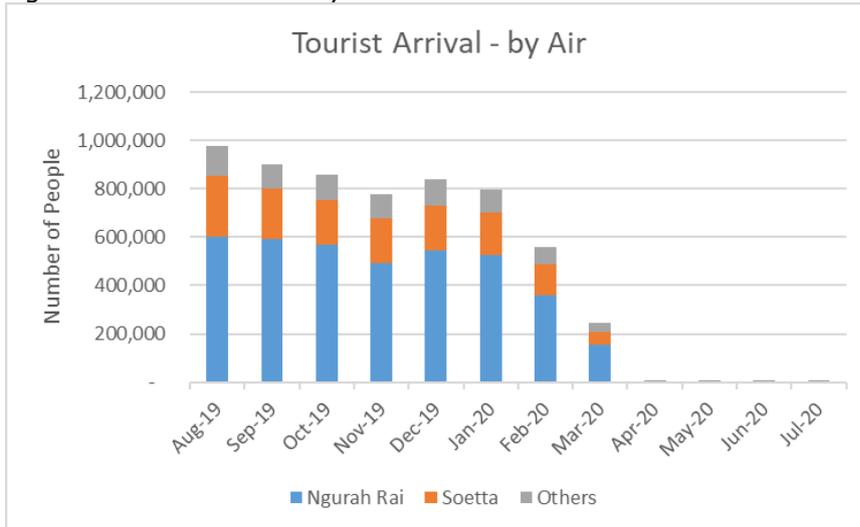


Source: Badan Pusat Statistik (BPS)

The severe disruption in the travel and tourism sector has also gravely impacted other related sectors and regions. Some provinces highly relying on the travel and tourism sector, such as Bali and Bangka Belitung have also been severely affected. Ngurah Rai airport in Bali recorded a contraction of tourist arrivals by 50% per month from January to July 2020, with the sharpest drop of 99% to just 34 arrivals being in May 2020, compared to December 2019.

In our view, some tourism related industries are significantly affected by this pandemic include: (1) transportation and accommodation services, such as airline, shipping, land transportation, and hotel; (2) restaurant and bar; (3) retail and commerce including apparel, gift, and souvenir; and (4) recreation and cultural services. The significant adverse impact to a specific province, particularly Bali, was reflected in a contraction of its Regional Gross Domestic Product (RGDP) by 10.98% in the second quarter of 2020 (2Q2020), the highest contraction in the past five years.

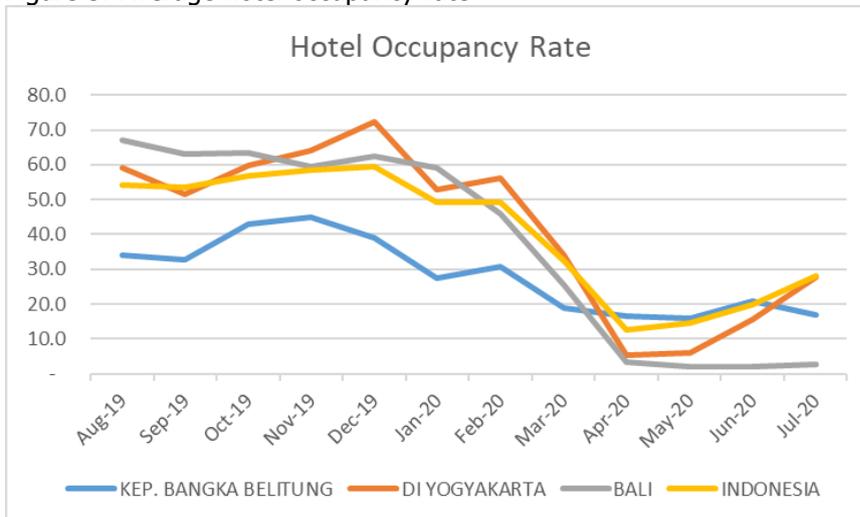
Figure 2: Tourist arrival – by air



Source: Badan Pusat Statistik (BPS)

The domestic travel and tourism also showed a significant disruption, as reflected in the average hotel occupancy rate of only 12.7% in April 2020, well below that of 59.4% in December 2019. Bali contributed to the largest decline in average occupancy rate to only 3.2% in April 2020, compared to 62.6% in December 2019. In contrast to the significantly low tourist arrival in May to June 2020, hotel occupancy rate in Indonesia increased to 28.1% in May to June 2020. This growth reflects domestic growth towards the easing of social distancing restriction in the country and the utilization of hotels for the facility of isolation of COVID-19 patients with mild symptoms.

Figure 3: Average hotel occupancy rate



Source: Badan Pusat Statistik (BPS)

Industry recovery

To estimate how long it will take for travel and tourism industry to recover from the impact of the pandemic, we need to take a look into some episodes of the past disruption, particularly in Bali. The latest event was Mount Agung eruption in 2017, started by some seismic activities in September to November 2017 that led to decreasing activities in Ngurah Rai International Airport due to a drop of tourist arrivals of 60.6% in December 2017. Then it gradually increased since January 2018 reaching its previous level of 600,000 visitors in July 2018. Based on this particular event, the tourism sector in Bali needs around one year to return to its normal condition.

Bali Bombing in 2002 and 2005 also impacted this sector markedly. On October 1, 2005, some bomb explosions took place at Jimbaran beach resort and Kuta prompting the decrease of tourist arrivals via

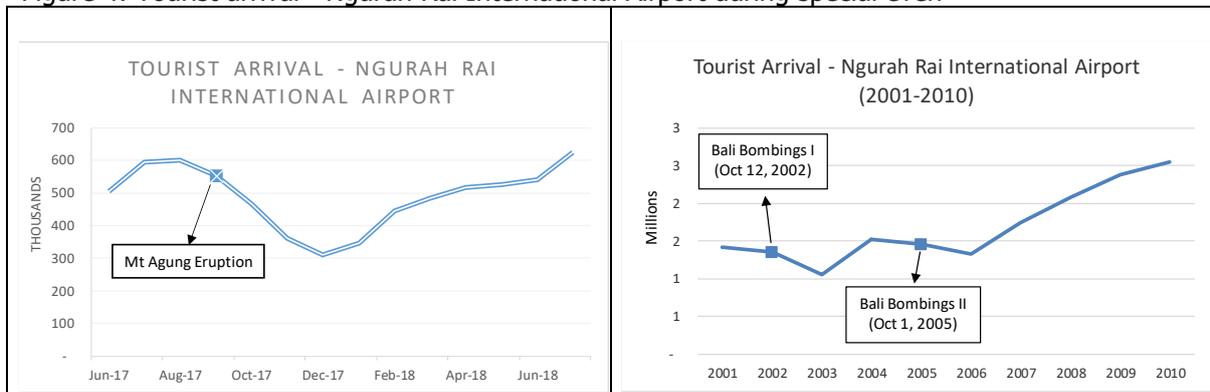
Ngurah Rai airport by 4.7% in 2005 and 8.7% in 2006, respectively. Tourist arrivals via Ngurah Rai airport recovered to 1.7 million in 2007, exceeding 1.5 million arrivals in 2004. Going back further, Bali Bombing I on October 12, 2002 took around 200 casualties resulting in the contraction of tourist arrivals by 5.0% in 2002 and 21.9% in 2003, before recovering to its previous figure of 1.5 million arrivals in 2004. These events took within approximately 1.5 years for Bali tourism sector to recover.

Based on these extraordinary events, we view that the travel and tourism sector, particularly in Bali, recovered within approximately 1 to 1.5 years to reach to its previous level, which is relatively a brief period in our view. However, the disruption brought about by the pandemic entails more serious impact to the industry, therefore it will take longer time for the travel and tourism sector to recover, probably 2-3 years, in our view.

Challenges ahead

We view that the travel and tourism sector will not entirely get rid of the impact of the pandemic within the next 1-2 years, which may be aggravated by the uncertainty in the availability of vaccine and its deployment in the country. Poor containment of the pandemic in the country as shown in the increasing number of new cases every day (around 10,000 per day), as of January 2021, compared to the neighboring countries with only around 0-2,000 new cases with a downturn trend, will certainly hamper the speed of the economic recovery.

Figure 4: Tourist arrival - Ngurah Rai International Airport during special even



Source: Badan Pusat Statistik (BPS)

Amid this pandemic, we view that the travel and tourism sector should focus more on the efficiency strategy, particularly on the operational expenses, such as bonus and allowance, consultation fee, and business trip. Moreover, the players should maintain adequate liquidity to finance their operational expenses for the next few months or even for 1 to 2 years ahead.

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