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The Impact of COVID-19 on the Airline, Hotel and Cruise Line Sectors

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Abstract

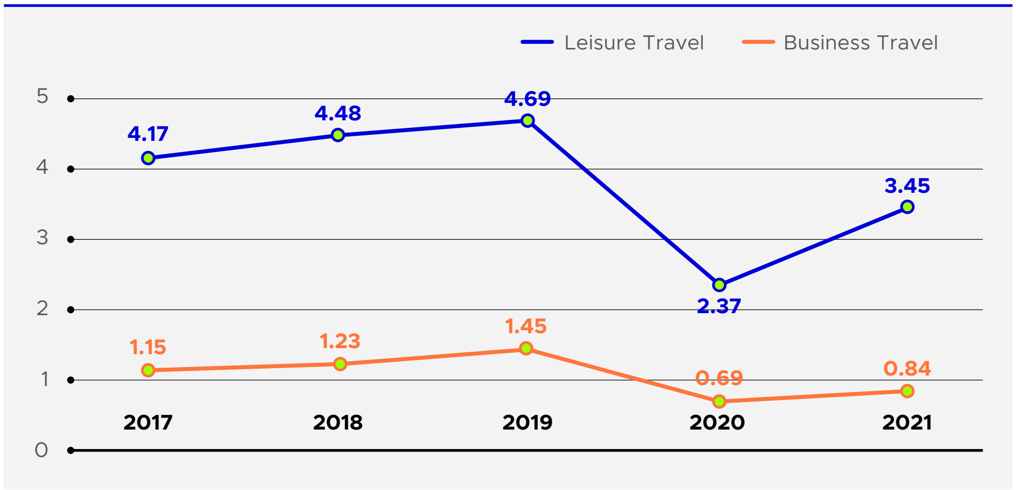
The travel and tourism industry generated 10.4% of global GDP in 2019. Three important travel sectors, airlines, hotels, and cruise lines, were hard-hit by the COVID-19 pandemic, losing nearly half of their combined annual revenues between 2019 and 2020. However, most major industry players survived this crisis, and a recovery appears firmly underway as of mid-2021, at least in the world's advanced economies. After a year on lockdown, there is an enormous pent-up demand for travel, fueled by an increase in disposable incomes and savings in the US and other major markets.

Introduction

At the beginning of 2020, global leisure and business travel had been increasing steadily for years, and the international travel industry was optimistic that these trends would continue before the World Health Organization (WHO) declared COVID-19 a Public Health Emergency of International Concern at the end of January 2020, and subsequently declared it a pandemic in March.

Trends in Leisure & Business Travel Spending 2017-2021

(Trillion USD)



Sources: Statista, Global Business Travel Association

COVID-19 triggered a global economic contraction of a scale not seen since the Great Depression, and whose impact on travel and tourism was magnified by severe government restrictions on movement, including closing international borders and limiting the public's ability to travel domestically. As a result, total global spending on leisure travel fell 50%, from $4.692 trillion in 2019 to $2.373 trillion in 2020. Expenditures on business travel fell by an even bigger percentage, falling 52% from $1.445 trillion in 2019 to $694 billion in 2020.[1]

With the rollout of COVID-19 vaccines and the gradual relaxation of restrictions on public movements, global spending on leisure travel is expected to increase by 45% in 2021, to $3.45 trillion. Business travel expenditures are projected to increase by 21%, to $842 billion in 2021. While welcome, these increases still leave leisure and business travel spending far below their 2019 peak. It is likely to take several more years to regain lost ground.[2]

Impact on Key Travel and Tourism Sectors

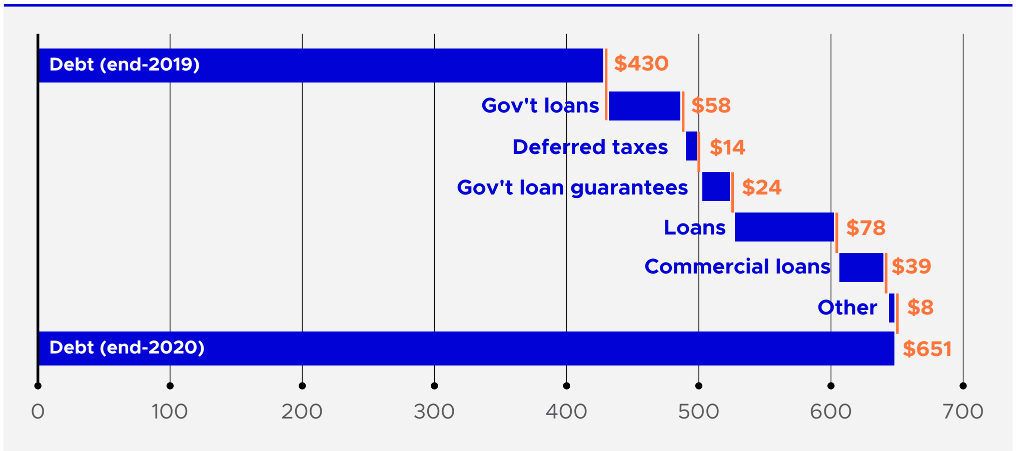
This report focuses on the COVID-19 pandemic's impact on three key sectors of the travel and tourism industry (i.e., airlines, hotels, and cruise lines) that have been particularly hard-hit by the pandemic. As the rest of this section shows, all three of these sectors have managed to weather the worst crisis in their histories, thanks to a combination of cost-cutting, borrowing and government financial assistance. Large cruise operators have also been able to draw on extraordinarily large cash cushions to sustain them after their businesses dried up almost overnight.

Airlines

The average number of commercial airline flights per day fell from more than 100,000 in January and February 2000 to around 78,500 in March and 29,400 in April, according to data by Flightradar24, a website that tracks flights globally. By early May 2021, the daily number of flights was still only 78,100, or 22% below pre-pandemic levels.[3]

According to the International Air Transport Association (IATA), the global air transport sector's total revenues fell 50%, from $838 billion in 2019 to $419 billion in 2020. The revenue decline would have been even greater had air cargo revenues not held up better than passenger revenues. According to IATA, cargo accounted for 36% of airlines' total revenues in 2020, up from 12% the year before. IATA expects total airline revenues to increase by 23% in 2021, i.e., to $515 billion or still only 61% of pre-pandemic levels.[4]

Increase in Global Airline Debt, 2019-2020
(Billion USD)



Sources: IATA, Outlook for the Global Airline Industry, April 2021[5]

The bottom-line impacts have been similarly dismal. Airlines lost $126.4 billion after taxes in 2020, compared with a profit of $26.4 billion in 2019.[6] Losses are still projected to be $47.4 billion in 2021.In normal times these results would have caused widespread airline bankruptcies. In this financial environment, the cost of survival for most airlines has been a huge increase in debt. Governments have provided almost $227 billion in aid, about half of which has been in the form of loans that must be repaid.[7] Airlines have also been raising cash through the issuance of debt and equity in the capital markets, raising airline debt to $221 billion by the end of 2020.[8]

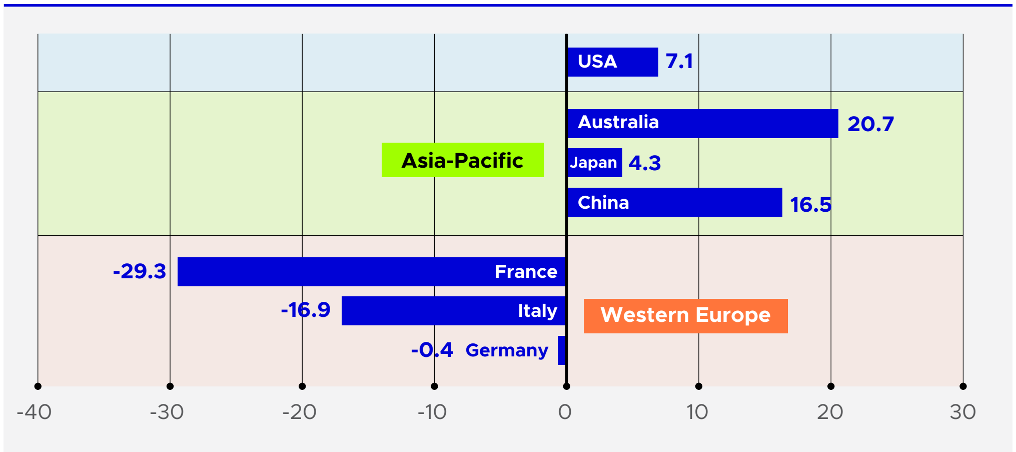
The next challenge will be preventing airlines from sinking under the burden of all this debt. This raises the question, will passenger bookings recover quickly enough to help airlines service their current debt load?[9]

Hotels

Hotel occupancy rates around the globe also plummeted with the onset of the pandemic. In March 2020, occupancy rates were down by 96% from the same period a year earlier in Italy, 68% in China, 67% in the United Kingdom, 59% the United States and 48% in Singapore, according to research firm STR.[10] Occupancy rates have improved modestly in the last year, led by Asia Pacific, but hotels in most regions are expected to take 3-4 years to regain their pre-pandemic levels.

In 2019, the global hotel sector had $550 billion in room revenues, which was a record and up 2.5% on the prior year.[11] This figure does not include food and beverages and other hotel services revenues, which account for 32% of average hotel revenues. On a proportional basis, total global hotel revenues were an estimated $810 million in 2019.[12] According to a Statista survey, the global hotel sector's revenues plunged 46% in 2020, which would have placed total revenues at some $437 million.[13] Revenues are projected to increase to $504 million in 2021, which is still 38% below 2019 levels.[14]

Average GOPPAR for Hotels in Selected Countries, 2020
(USD)



Source: Hotstats, Profit Matters: Global Hotel Performance Review 2020 [15]

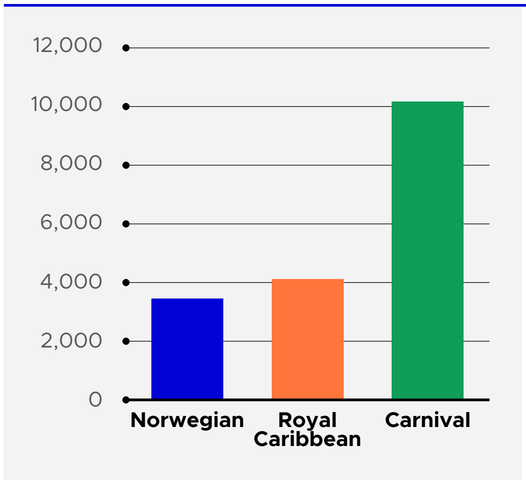
The shortfall in revenues in 2020 was too large to overcome through cost-cutting, but operating expense reductions cushioned many hotels' bottom line. Government assistance programs such as the U.S. CARES Act Payroll Protection Plan also helped to lower the occupancy rate at which the average hotel can break even. As a result, hotels in the U.S. and major Asia-Pacific markets managed to maintain a positive GOPPAR (gross operating profit per available room) for all of 2020, while their counterparts in most Western European countries lost money. Looking forward, the new, leaner operating models that many hotels have implemented during the pandemic could pave the way to greater profitability in 2021 and subsequent years.

Cruise Lines

The cruise line sector fared even worse than the airlines. In March 2020, members of the Cruise Lines International Association (CLIA) voluntarily suspended passenger cruise sailings worldwide. Cruise sailings resumed in parts of Europe, Asia and the South Pacific beginning in July 2020. Nearly a year later, most cruises remain on hold, with the U.S. and several other countries still totally shut to cruises.

The global cruise line sector's revenues hit $27.4 billion in 2019, a 15% jump in three years.[16] However, COVID-19 triggered the worst market contraction in history, with cruise line revenues plummeting by almost $20 billion in a single year. In 2021, cruise line revenues are projected to increase to $16.8 billion.[17]

Major Cruise Ship Operators' Cash Reserves, mid-2020
(Million USD)



Source: Company press reports

Major cruise ship operators such as Royal Caribbean, Carnival Cruise Line, and Norwegian Cruise Line entered the pandemic-induced shutdown with enough cash reserves to sustain them at least into the second half of 2021, even under a zero-revenue scenario. All of these companies have continued to augment their cash reserves through capital markets transactions or asset sales.

However, some smaller cruise ship operators, such as the UK's Cruise and Maritime Voyages, have filed for bankruptcy or shut down completely.

Factors Driving the Recovery

In the short run, the demand for travel services will be driven by:

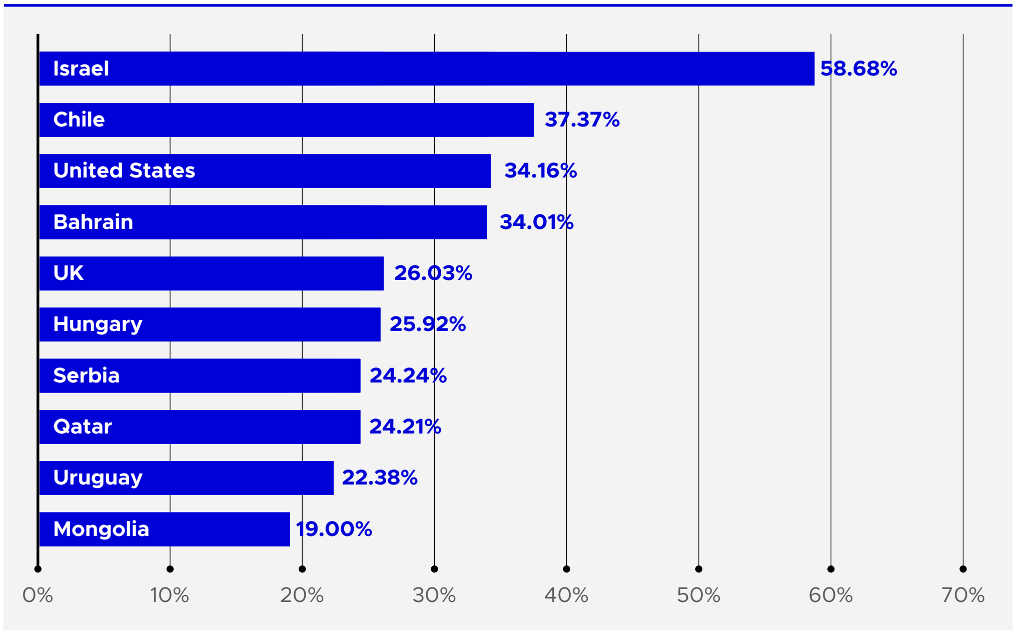
- The speed and extent of the COVID-19 vaccine rollout
- The resulting relaxation of government-imposed travel restrictions
- "Overhang" of pent-up demand for trips not taken during the pandemic
- Growth of disposable income and savings
- Size and pace of the economic recovery

Vaccine Rollout

The ongoing rollout of several COVID-19 vaccines has been welcome news for would be travelers and the industries that serve them. The vaccine rollout has coincided with a significant decline in infection rates, which has led to governments relaxing some travel restrictions, as well as a growing public belief that it is safe to travel again.

The number of vaccine doses administered daily has increased steadily. At least 191 countries and territories have administered about 1.2 billion doses of a Covid-19 vaccine as of early May 2021.[18]

People Fully Vaccinated



Source: May 2021; official data collated by Our World in Data[19]

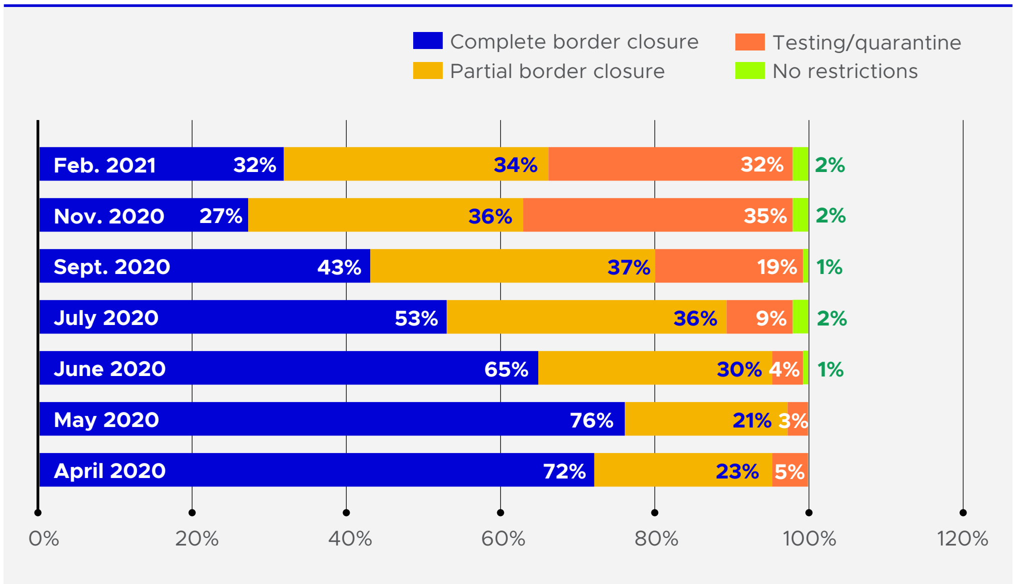
Progress towards vaccinating enough of an individual country's population to significantly limit the spread of COVID-19 has been uneven, as the figure above illustrates. The figure shows the top 10 countries in terms of their vaccination rates.

Israel is the global leader, with nearly 60% of the population fully vaccinated. The United States ranks third, with 34.2% of the population fully vaccinated.[20] Outside of the top 10 countries, progress has been very uneven, down to as low as 9.1% in some advanced countries such as Germany, 2.5% in India, and 0.1% in Trinidad and Tobago.[21]

Relaxation of Travel Restrictions

It is also becoming easier to cross some international and domestic borders. Some countries have relaxed their restrictions on international travel over the last year. In April 2020, 95% of 215 destination countries worldwide had completely or partially closed their border to international travel.[22] By February 2021, the percentage had shrunk to 66%, with most other countries relying on a combination of testing and mandatory quarantines to control the spread of COVID-19.[23] A scant 2% of all countries had lifted all travel restrictions by February 2021.[24]

Evolution of Global Travel Restrictions
April 2020 to Feb. 2021



Source: UN World Tourism Organization

While international travel remains severely restricted at the writing of this report was written, there has been a clear trend towards relaxing restrictions, and it is expected that this trend will continue as the vaccine rollout continues and the COVID-19 infection rate decreases in more countries.

In addition to closing their international borders, many larger countries responded to the pandemic by imposing restrictions on domestic movements. For example, as of March 2020, an estimated 17 U.S. states had restrictions on visitors entering from other states.[25] By April 2021, the list had shrunk to only five states.

Pent-Up Demand

In 2020, the American Society of Travel Advisors (ASTA) conducted a survey which asked respondents, "If the pandemic suddenly ended tomorrow, what one large discretionary purchase would you make?" Of those who said they would make a large purchase, 46% said they would take a trip, with the next-highest responses being to remodel their home (20%) and purchase a new vehicle (19%).[26] The desire to travel, to visit with family and friends, to experience other environments, is obviously deeply-rooted.

The risk of COVID-19 infection appears to be declining in many countries, due to a combination of public-health measures and vaccines. Now that quarantine requirements and travel bans are gradually being relaxed, people and businesses are looking forward to being able to travel again.

Domestic travel has replaced foreign travel as quarantine requirements and travel bans have kept most people from traveling outside their own countries. In China, an estimated 230 million Chinese travelled during the May 1-5 of 2021 and spent three times as much on flights, hotels, and other travel as they did during the same period a year before and 30% more than they spent in 2019.[27] In the United States, jet fuel consumption is expected to increase by 30% in summer 2021 compared to the previous quarter as a growing number of Americans start to take the trips they were forced to postpone.[28] Other countries are also experiencing upticks in domestic leisure travel.

International and business travel are recovering more slowly than domestic leisure travel. International tourist arrivals dropped by 900 million or 72% in the first nine months of 2020 compared to the same period of 2019, and have stayed there ever since.[29] But now there is guarded optimism that international leisure travel will start to grow significantly in the second half of 2021, as more governments feel their countries' progress in combatting COVID-19 justifies relaxing restrictions.

Meanwhile, business travel remains severely depressed, as fiscal austerity, health concerns and the availability of virtual meeting platforms like Zoom have combined to keep most employees at home. While domestic leisure traffic is nearly back to 2019 levels for many airlines, U.S. business traffic remains nearly 80% below pre-pandemic levels, holding back a broader rebound. Unfortunately for the airlines, it is not yet clear when, or even whether, business travel will return to pre-pandemic levels.

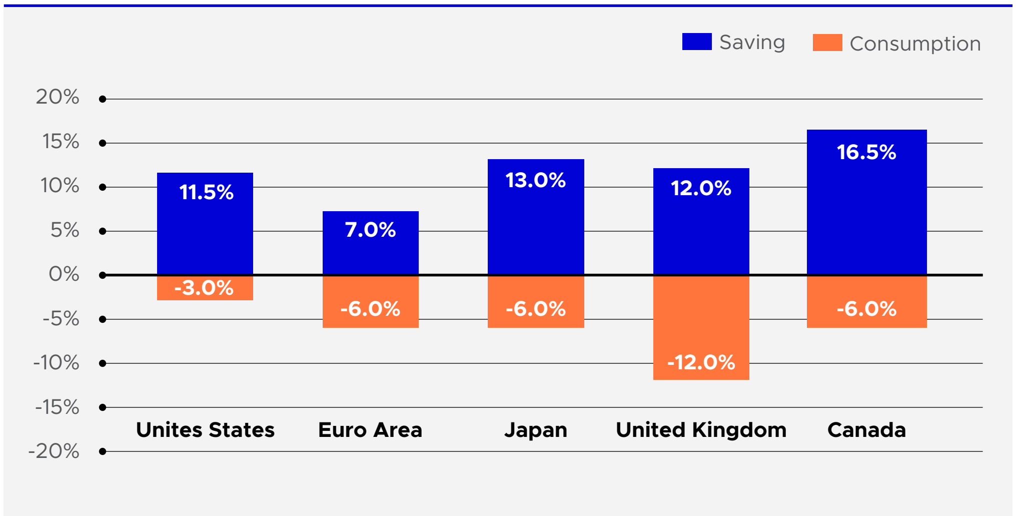
To get the travel industry truly moving again, the recent surge in domestic leisure trips will have to turn into a recovery for international and business travel, developments which seem further away.

Growth of Disposable Income and Savings

During the pandemic, millions of people lost their jobs and income. Somewhat paradoxically, total personal income in the United States and other countries actually increased during the same period, due to government stimulus payments, enhanced unemployment compensation and publicly provided benefits.

The U.S. government sent out three rounds of stimulus checks totaling over $3,000 in 2020 and 2021 and chipped in to enable states to offer much higher-than-normal unemployment benefits. Other countries that sent money to their citizens included Hong Kong ($1,280 equivalent per adult), Japan ($930 per adult) and Singapore ($422 per adult).[30] European nations largely avoided the one-time payments, instead boosting funding for social services, but many countries enhanced unemployment offerings.

Percent Change in Disposable Income Q1-Q3 2020 and Breakdown of Use



Source: Federal Reserve Bank of New York, "What is behind the Global Jump in Personal Saving during the Pandemic?", Liberty Street Economics, April 14, 2021.

With limited opportunities for consumers to spend money in their locked-down coronavirus economies, the government transfer payments boosted personal savings. As a result, many consumers are coming out of the pandemic with more money to spend on big-ticket items like travel. Historically, one would expect leisure travel spending to be fairly concentrated in an older and wealthier demographic. However, surveys have shown that younger generations, particularly millennials, prefer "experiences" over tangible goods. That generation alone spent $200 billion on travel during 2018.[31] Other surveys have also supported the belief that younger people will drive a travel rebound.[32]

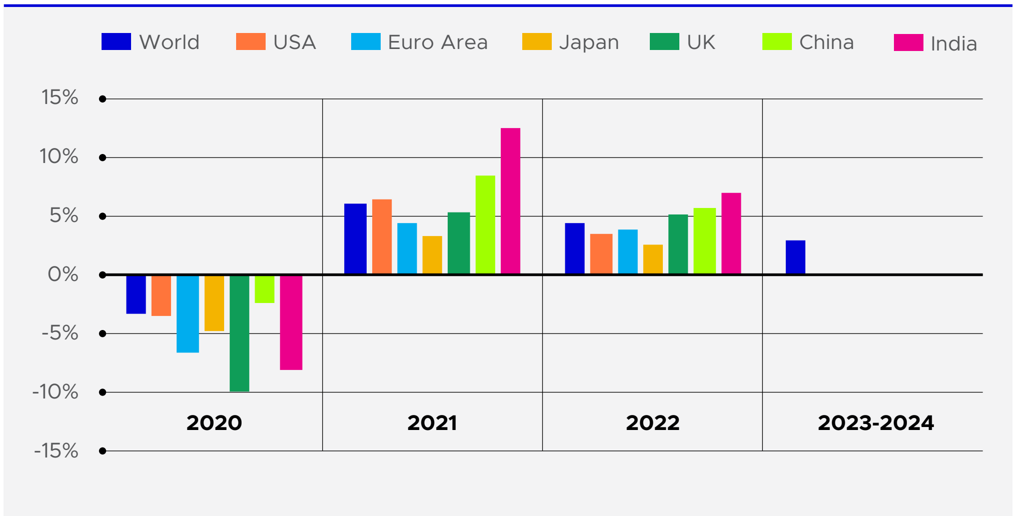
Size and Pace of the Economic Recovery

2020 was a turbulent year for the global economy, with lockdowns, sharp trade contraction, accelerated job losses, and supply-chain disruptions. The first, tentative signs of a recovery began to appear in the second half of the year with the easing of COVID-19 restrictions, but the global economy nevertheless contracted by an estimated -3.3% in 2020.[33]

The recovery should accelerate in 2021 with the vaccine rollout, the relaxation of social and economic restrictions, and reviving demand. The International Monetary Fund (IMF) is projecting an economic growth of rate 6.0% in 2021, moderating to 4.4% in 2022 and 3.3% in 2023 and 2024, raising incomes and boosting the demand for travel services.[34]

The pace of the recovery will be uneven among countries and regions. Among the advanced economies, the United States is expected to surpass its pre-COVID GDP in 2021, while many others in the group will only return to their pre-COVID levels in 2022. Among emerging market and developing economies, China had already returned to pre-COVID GDP in 2020, whereas many others are not expected to do so until well into 2023.[35]

Projected Annual GDP Growth, 2020-2024 (%)

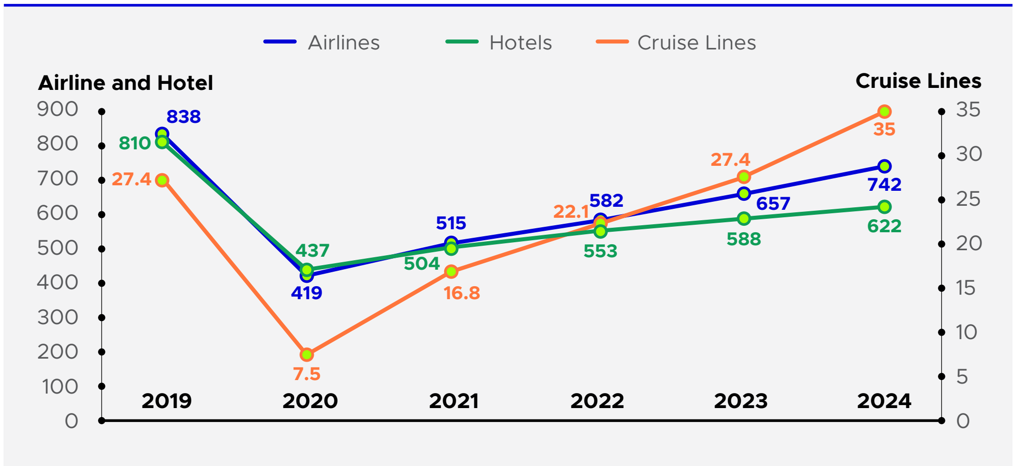


Source: IMF, World economic Outlook, April 2021 [36]

Growth Forecast

The post-pandemic recovery of the airline, hotel, and cruise line sectors will be gradual, with only the cruise line sector regaining and surpassing its 2019 level by 2024.

Projected Growth of the Airline, Hotel and Cruise Line Sectors, 2019-2024
(Billion USD)



*Source: see below**

Airlines

Total airline sector revenues are not expected to regain their pre-pandemic levels until 2024 at the earliest or more likely 2025.[37] However, in May 2021 Moody's Investors Service upgraded its outlook for the global airline sector to positive from negative, in anticipation that its fundamentals will significantly improve over the next 12 to 18 months.[38]

Airlines: Airline revenues are not expected to recover pre-pandemic levels until 2024 or 2025. If 2025 is conservatively assumed to be the year that revenues fully recover, the implied 2021-2025 CAGR is about 12.9%. A similar growth rate was applied to the 2021 value of $515 billion used to calculate the 2022, 2023, and 2024 values.

Hotels: According to the source document, https://www.travelweek.ca/news/the-latest-statista-data-shows-covid-19s-impact-on-the-hotel-industry/, "It is expected it will take more than five years for the hotel sector to recover from the effects of the pandemic. In 2022, revenues are projected to reach $553 billion, or $257 billion less than in 2019. In 2024, hotels around the world are forecast to generate $622 billion in revenue." The 2023 value of $588 million is an interpolation.

Cruise Lines: Carnival Corporation CEO Arnold Donald has said that the cruise industry, which he said will most likely not return to pre-pandemic levels until at least 2023. (https://thehill.com/homenews/news/543162-carnival-ceo-cruise-industry-wont-be-back-to-normal-until-2023). In this scenario, total cruise industry revenues would reach $27.4 billion in 2023, i.e., a CAGR of 27.7% from 2021 levels. At this rate, the industry's revenues would approach $35 billion by 2024.

Domestic leisure travel is expected to drive increased passenger traffic in the near term, led by the Chinese, U.S. and Australian markets. Increased business and long-haul international travel should emerge as major growth drivers in the middle term.

Moody's expects the airline sector to sustain operating losses and negative operating margins for all of 2021, although to a lesser degree than in 2020. Meanwhile, steps the airlines took in 2020 to reduce costs, especially labor costs, have paved the way for improved operating margins going forward.

On the negative side, airlines will have to start whittling away at the more than $220 billion of debt they have amassed since the start of the pandemic. Absent a major equity injection, airlines' debt burden could significantly weaken their ability to finance crucial investments, particularly in more fuel-efficient aircraft.

Hotels

It is expected it will take more than five years for the hotel sector to recover from the effects of the pandemic. In 2022, revenues are projected to reach $553 billion, or $257 billion less than in 2019. In 2024, hotels around the world are forecast to generate $622 billion in revenue.[39]

Like airlines and cruise lines, the pandemic has forced many hotels to adopt a leaner business model, lowering the occupancy rate at which they can still make money. Earlier we saw how hotel operators in the U.S. and major Asia-Pacific markets managed to maintain a positive gross operating profit per room for all of 2020, although unfortunately their European counterparts did not do as well.

Of course, hotels' greater levels of operating efficiency do not tell the entire story; the ability to generate an "operating profit" is of limited benefit to hotel owners, lenders, and investors that depend on EBITDA profits. Although the average break-even occupancy dropped from 47% to 30% in 2020 for the full-service hotels and from 43% to 36% for limited-service hotels, it is difficult to generate an EBITDA profit at an occupancy rate much less than 43%, according to the hotel research firm CBRE.[40]

Average occupancy rates have been improving in 2021. Although worldwide occupancy data are unavailable, the U.S. weekly room occupancy rate reached 57% in the first week of May 2021. Other recent occupancy figures according to STR include 58% in Beijing, 57% in Sydney, Australia, 60% in Dubai and 29% in London.[41] London's low occupancy rate underscores the challenge faced by European hotels as they seek to return to profitability.

Hotel occupancy rates are expected to continue to improve, presaging a return to pre-pandemic profitability levels. For example, STR predicts U.S. hotel demand will fully recover by 2023.[42]

Cruise Lines

Although cruise lines took the biggest hit from COVID-19, they appear on track to erase their pandemic-related losses by 2023, or somewhat sooner than airlines or hotels. Following the global pause in cruise operations in March 2020, cruises resumed sailing in parts of Europe, Asia and the South Pacific in July 2020. From early July through mid-December 2020, there were more than 200 sailings.[43]

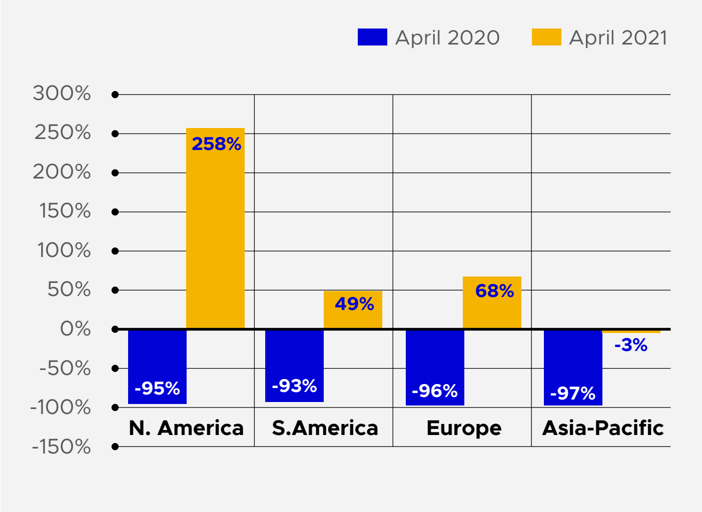
The success of these initial sailings put the sector on a path toward resumption of cruises in the United States, Canada, Mexico, the Caribbean and elsewhere by the end of 2021. Several cruise lines have reported they are seeing strong bookings for 2021 and 2022. A Cruise Lines International Association (CLIA) study survey found that 74% of past cruise passengers and 58% of international travelers who have never cruised are likely to cruise again in the next few years.[44] By 2024, total cruise line revenues are expected to exceed $35 billion, or 27.7% above the 2019 level.[45]

Although a number of smaller cruise operators have been forced out of business by the pandemic, big publicly-traded operators like Carnival, Royal Caribbean and Norwegian have so far withstood the impact of the pandemic as a result of cash conservation efforts and liquidity measures. On May 11, 2012, Carnival shares were trading at $26 per share, compared with $12 a year earlier.[46] Royal Caribbean and Norwegian Cruise Lines share prices have likewise trended upwards, i.e., from $35 to $81 and $10 to $28 respectively.[47]

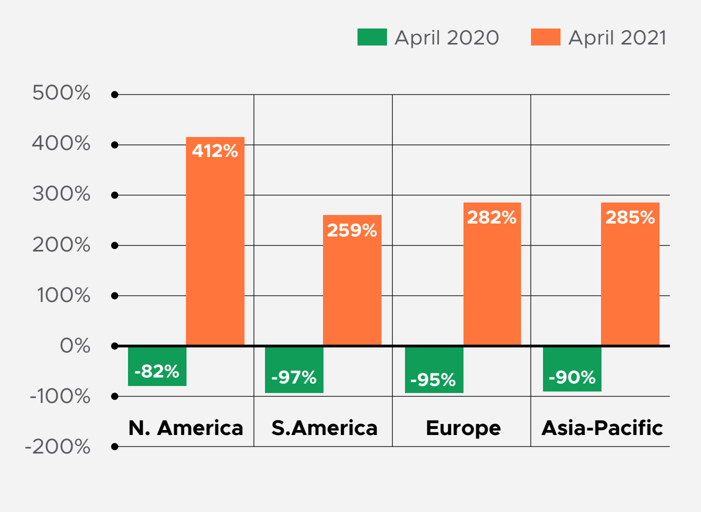
Conclusion

Travel is reaching a turning point in the spring of 2021, as illustrated by the following two charts. The charts also emphasize that the recovery has been uneven among different sectors and regions.

Trends in Airline Reservations, April 2020 - April 2021
(% Change Year-on-Year)



Trends in Hotel Bookings, April 2020 - April 2021
(% Change Year-on-Year)



Source: UNWTO [48]

These lessons have not been lost on investors. Increased investor confidence in the outlook for airlines, hotels, and cruise lines is reflected in stock prices. The Solactive Airlines, Hotels, Cruise Lines Index has risen from $56.66 on May 12, 2020 to $102.64 one year later.[49] There is an abundance of attractive investment opportunities in these industries, in which companies that have achieved impressive operating efficiencies in order to survive the pandemic and now can anticipate rapid growth in their markets.

The post-COVID economy will differ from the economy that existed up to early 2020, in ways that are only gradually becoming clear. Significant risks also remain, such as the possibility of a vaccine-resistant variant emerging to plunge the world back into lockdown. Nevertheless, the opportunities are there for investors who carefully consider business fundamentals as well as the new market realities,

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the SonicShares™ Airlines, Hotels, Cruise Lines ETF (Ticker: TRYP) (the "Fund"), click here. Read the prospectus or summary prospectus carefully before investing.

Fund Risks: An investment in the Fund is subject to numerous risks including the possible loss of principal. There can be no assurance that the Fund will achieve its investment objective. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. As with all ETFs, Fund shares may be bought and sold in the secondary market at market prices. The market price normally should approximate the Fund's net asset value per share (NAV), but the market price sometimes may be higher or lower than the NAV. The Fund is new with a limited operating history. There are a limited number of financial institutions authorized to buy and sell shares directly with the Fund, and there may be a limited number of other liquidity providers in the marketplace. There is no assurance that Fund shares will trade at any volume, or at all, on any stock exchange. Low trading activity may result in shares trading at a material discount to NAV. Please see the ***prospectus*** and ***summary prospectus*** for a complete description of principal risks.

The Fund's investments will be concentrated in an industry or group of industries to the extent the Index is so concentrated. In such event, the value of Shares may rise and fall more than the value of shares that invest in securities of companies in a broader range of industries. Investments in securities or other instruments of foreign securities involve certain risks not involved in domestic investments and may experience more rapid and extreme changes in value than investments in securities of U.S. companies.

The Fund is distributed by ***Foreside Fund Services, LLC***.

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