Global travel is close to a full recovery, but economic stress is mounting

Visa Business & Economic Insights

Global travelers have quickly moved on from the pandemic. International arrivals in 2022 are well on their way to reaching 850-900 million by the end of the year, accounting for 75-80 percent of the 2019 levels.[1] Not only are tourists crossing borders in greater numbers, but their spending while abroad has also matched the recovery, even at shops and other retail outlets. Retail tourism spend has tracked—and in some cases surpassed—2019 levels.

While these are positive signs, international travel is once again at a crossroads. One path could lead the world to a full recovery in 2023: the full lifting of all remaining health-related border restrictions—especially in Asia Pacific—would provide a welcome boost and should help bring the market closer to a full recovery. The other path could drag on the recovery as demand from North America and Europe weakens due to higher energy prices and interest rates, leaving global travel slightly short of its 2019 levels. No matter which path is taken, trends established over the first nine months of 2022 set the stage for growth in the global travel and tourism industry to move more broadly forward.

In an unexpected twist, cross-border leisure travel's recovery may be preparing the way for a potential rebound in business travel. Although in general, business travel lags leisure's recovery, destinations that once mainly attracted business travelers have not been left far behind. In these destinations, leisure travelers have filled the gap left by their business counterparts, helping to even out the recovery in travel across cities and to bring back the infrastructure needed to support the eventual return of business travel.

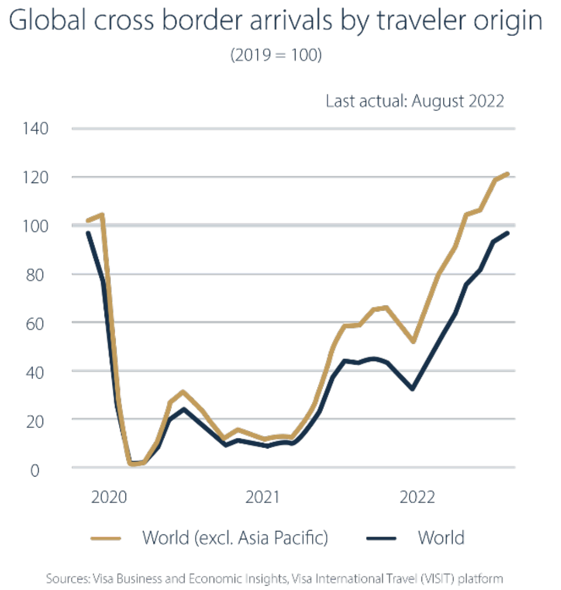
Global travel's full recovery within sight

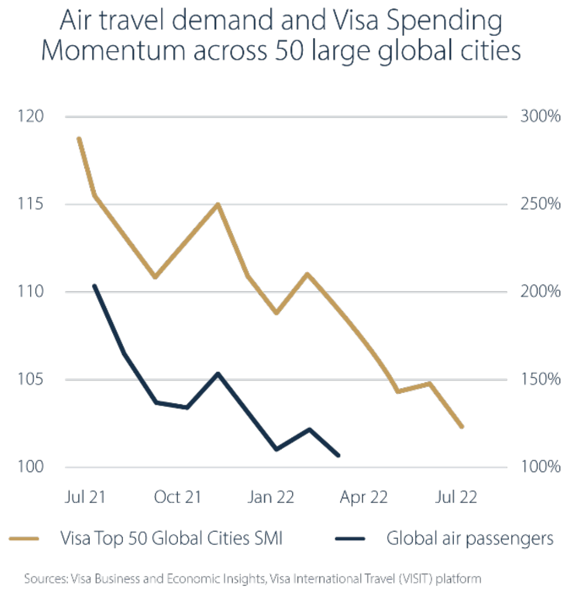
Prior to 2022, the recovery in global travel came in waves. Each push toward recovery hit roadblocks as new variants triggered new border restrictions or greater hesitancy to travel abroad. This year has been different: cross-border travel has staged a steady and swift comeback. Over the summer, visitor arrivals were down only 8 percent from 2019. Excluding travel to and from Asia Pacific, visitor arrivals now actually exceed 2019 levels by 18 percent. This recovery came despite COVID-19 outbreaks spreading wider and faster than in any prior year.

The release of pent-up demand by consumers, especially in Europe and North America, provided much of the impetus behind this year's rapid upturn in cross-border travel. That boost has waned as the year has progressed. Visa's Top 50 Global Cities Spending Momentum Index (SMI), a weighted average of major cities in eight markets, has gradually decelerated for most of this year. While the index remains above 100, indicating more consumers in these cities are still spending more than a year ago, the momentum behind these gains is ebbing. Historically, growth in air passengers in these cities has tracked change in this global SMI, and the slowing in spending momentum could mean travel's recovery could be

[1] The Visa International Travel (VISIT) platform is a proprietary model that combines Visa's cardholder data with publicly available cross-border arrival statistics. Visa uses this data to econometrically model official arrival statistics compiled by various government sources and to generate estimates that fill in the large gaps existing in the cross-border travel data

slowing from its initial heady gains.





As rising interest rates further cool demand in North America and the cost-of-living crisis worsens in Europe due to energy supply shortages, growth in cross-border travel from these countries is expected to likewise slow. If the slowdown repeats the fall in travel during previous recessions, outbound travel from these regions will likely hold onto its gains from 2019 but be slightly lower than it was in 2022. The reopening of travel in Asia (excluding China and Hong Kong) will provide a partial offset. As a result, global travel in 2023 could come in between 90-95 percent of its 2019 levels. One potential wildcard is China. If it relaxes its health controls, that will allow for a faster than expected re-opening of its travel market, increasing the odds that cross-border travel in 2023 could surpass 2019 levels.

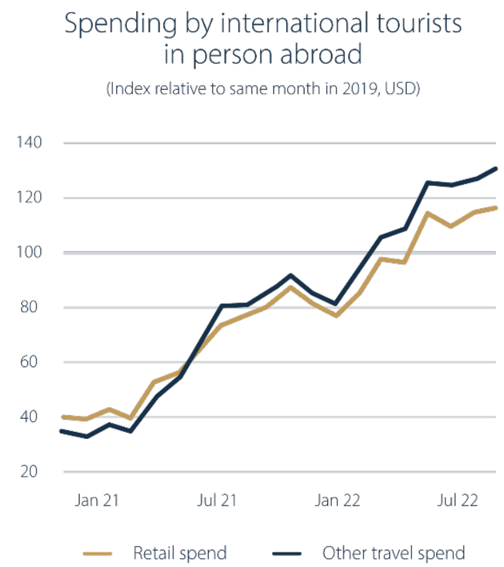
More people on the move aids the return of retail tourism

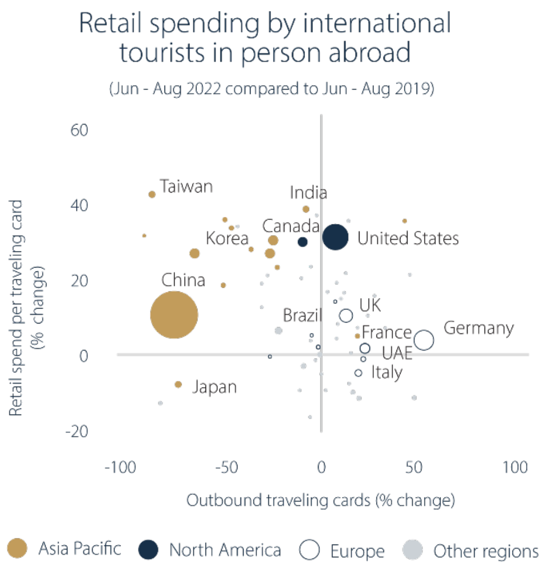
Despite the absence of shoppers from Asia Pacific, retail tourism has staged an impressive comeback that matches the return of cross-border visits. During the peak travel months (June-August) of 2022, cross-border retail spending—purchases at shops and stores—by consumers using Visa-branded credentials was 13 percent higher than during the same period in 2019.

Beyond the general increase in travel, a broad-based increase in the average amount spent per traveler while abroad has further energized retail spending. The average retail spending per card used abroad was higher in the three months ending August 2022 compared to the same period in 2019 for roughly two out of three source countries, including the U.S. and Canada. When combined with an increase in the number of cards used abroad, total outbound retail spending led to a strong increase.

Spending by international tourists in person on categories outside of retail (hotels, restaurants, entertainment, and other services) recovered faster than retail spending. From June-August 2022, spending in these categories rose 27 percent over the same period in 2019. This reflects higher prices for many goods and services, but also a willingness of travelers to splurge more on their trips abroad, with the average spend per card generally higher today than it was prior to the pandemic.

The data also shows that cross-border retail spending early in the recovery outpaced other travel spend. Two likely factors: Travelers skewed more towards the affluent, who were first to return to international travel, and the average duration of trips lengthened, which in turn boosted the average retail spend per trip. With the mix of travelers broadening over time and trip durations returning to normal, this has helped even out the growth between the two categories of spending.[2]



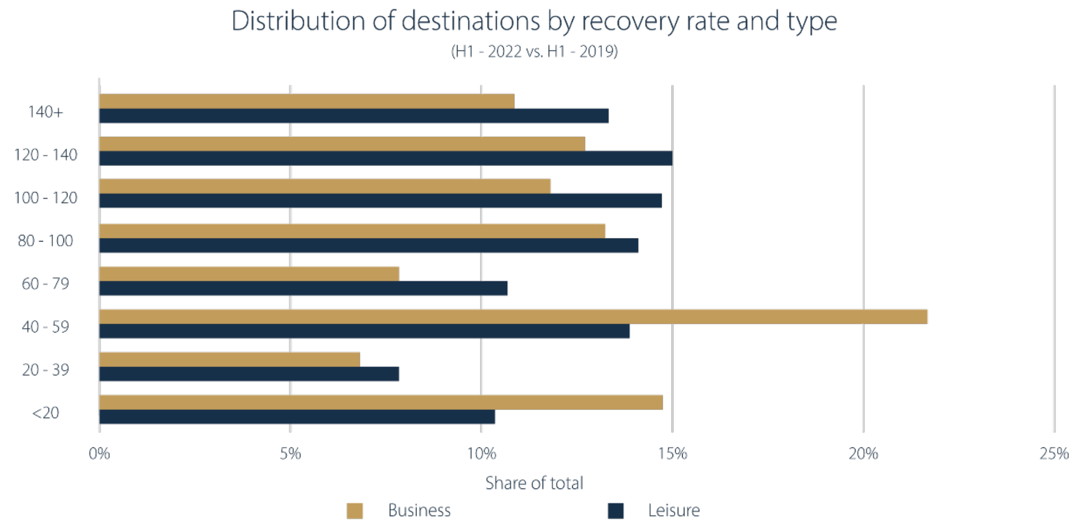


As of summer 2022, cross-border tourism's return has helped to boost local retailers in destinations around the world, with shopping by foreign tourists fully recovered in 63 percent of the top 500 most-visited destinations prior to the pandemic. Among the top 10 most-visited destinations, travel spending has surged in places like Dubai which opened earlier than most to international travel and continues to remain sluggish in areas still impacted by health restrictions.

A curious case of business destinations brimming with tourists

While leisure travel is often seen as a bright spot in the recovery, business travel, on the other hand, is often viewed as lagging and many years away from recovery. One potential consequence of a delayed recovery is that the infrastructure needed to support the return of business travel could atrophy in some destinations before the recovery takes hold.

[2] Cross-border travel spending is defined as card-present purchase volume on Visa consumer credit and debit credentials outside the markets where they were issued. Cross-border visits are proxied by the use of Visa consumer cards cross-border in country. Bubbles are sized proportional to travel services imports (outbound travel spend) in 2019, according to IMF. Aggregates exclude Russia, Ukraine and Belarus. Sources: Visa Business and Economic Insights, VisaNet, International Monetary Fund



Sources: Visa Business and Economic Insights analysis of Visa (VISIT) platform, VisaNet

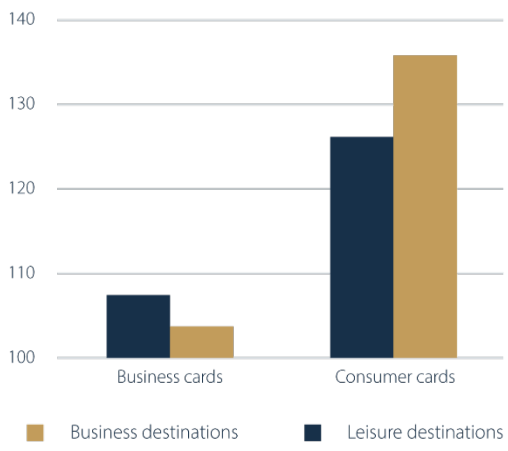
The good news is that this will not be the case. Areas that prior to the pandemic predominantly attracted business travelers have not lagged too far behind more leisure-oriented locations. Among business destinations, 12 percent in the first half of 2022 had fully recovered to the same volume of visitor arrivals as in the first half of 2019. Leisure destinations were slightly ahead, with 14 percent of the total having fully recovered.

Slower business recovery creates opportunity for leisure travel

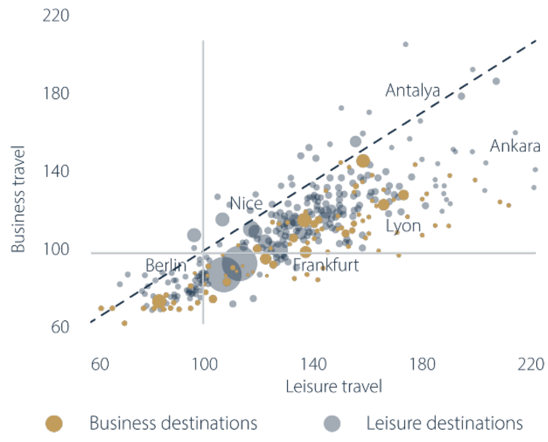
With less-than-usual hustle and bustle from laptop-toting road warriors crowding their hotels, off-the-beaten-path business destinations appear to have presented a bargain alternative to leisure travelers. In seven out of every 10 business destination cities globally, tourists were paying less per hotel stay compared to 2019, compared to only 60 percent in other destinations. Correspondingly, business destinations appear to have attracted more price-sensitive tourists, boosting leisure travel recovery relative to 2019 almost one-to-one for each percentage point discount on hotel rates. By contrast, road warriors visiting the same business destinations showed no price-sensitivity at all, with no variation in travel recovery relative to lodging costs. This has perhaps allowed local hotels to maintain higher prices for business travelers while offering discounts to fill up available rooms with leisure travelers. This pattern of relatively greater inflows of leisure tourists to business destinations appears to repeat across the world with summer tourism in business destinations recovering an average of 12 percentage points faster than leisure destinations, despite a slower return of business travelers.

Cross-border summer travel to top 700 cities

(2019 = 100, excluding Asia Pacific)



Sources: Visa Business and Economic Insights, VisaNet



Sources: Visa Business and Economic Insights, VisaNet