H1 **2019**

China Domestic Tourism Market Sentiment Report

Hubei Enshi Grand Canyon Ground Sew, China

Acknowledgements

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Hubei Enshi Grand Canyon, China

Table of Contents

Foreword

Tourism has become one of the most important driving forces of China's economic development. In 2018, the country's domestic tourism market experienced rapid growth with more than 5.5 billion tourism arrivals and tourism-generated revenue totaling nearly 6 trillion RMB. Inbound tourism maintained a steady growth of 5%, indicating a sustained development pace.

The World Tourism Alliance (WTA), a China-founded international nonprofit, non-governmental organization dedicated to uphold its mission and vision of a "Better Tourism, Better Life, Better World," is partnering with Horwath, a leading global hotel and tourism consulting company, to conduct quarterly sentiment surveys of China's domestic, outbound and inbound tourism markets starting in 2019.

One of several professional services WTA provides is high level local, regional and global tourism research and analysis for dissemination to its members, relevant organizations and institutions of learning across the world. These sentiment reports are valuable resources for tourism practitioners to gain better understanding of market trends, allowing them to make data driven decisions and forecasts.

These surveys received altogether 348 qualified questionnaires. The China Domestic Tourism Market Sentiment Report is focused on established tour operators, travel agencies and OTAs (online travel agencies) that are actively involved in this industry segment. For the H1 2019 report, we created and collected responses to a total of 103 questionnaires, covering 19 provinces and municipalities. We formulated a sentiment score model, assigning scores to each question in the survey. Based on this model, we calculated the score to each question by adding the average score and comparing it with the basic value 150.

Additionally, we conducted interviews with top level executives in the domestic tourism space to gain deeper insights and broader perspectives. This sentiment primarily targets travel and tourism industry enterprises. Other travel behaviors generated through other channels are not within the scope of our duty.

Our special thanks go to China National Travel Service Group Corporation Limited, Ctrip.com, China CYTS Tours Holding Co. Ltd; China Association of Travel Services, Guilin Tang Dynasty Tours Co. Ltd; Guangzhou Li Zhi Network Technology Ltd; Meituan Dianping, Tuniu.com and Beijing Utour International Travel Service Co. Ltd. for their support of this study. As well, our sincere thanks go to WTA member Hubei Culture & Tourism Investment Group Go., Ltd for providing us with images for use in this report.

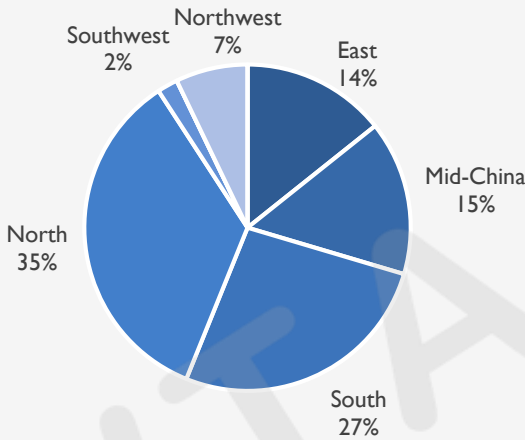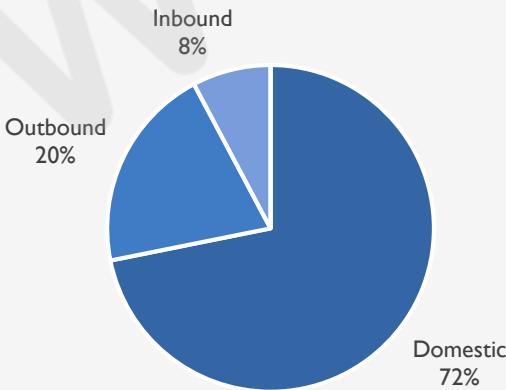*Hubei Enshi Grand Canyon Dragon Boat, China*

Introduction

The China Domestic Tourism Market Sentiment Report aims at providing global tourism practitioners with a reliable reference and resource for the accurate assessment of current market situations, trends and forecasts. This is the first report of its kind conducted by the World Tourism Alliance and Horwath HTL. One of the three-series reports on China's tourism sentiments, this is a comprehensive summary of our survey results in the first half of 2019.

By Region, Mainland China

- Southwest 2%
- Northwest 7%
- East 14%
- Mid-China 15%
- South 27%
- North 35%

By Primary Business

- Inbound 8%
- Outbound 20%
- Domestic 72%

The five-question survey is focused on the outlook for domestic tourism arrivals, per capita consumption and total revenue. Responses are quantified through a specific sentiment score model and presented in the form of scores to reflect the respondents' expectations for inbound tourism, measure and compare values across China's regions and cities.

A sentiment score is applied to each question, with scores ranging from negative 150 to positive 150. A negative 150 score indicates a state of absolute pessimism, while a score of zero indicates unchanged expectations. Conversely, a score of positive 150 indicates a highly optimistic sentiment.

Respondents were asked to compare the market performance in the first half of 2019 to the actual performance in 2018. They were asked to identify the factors contributing to the variance and provide their insights into tourism sources and destination markets.

Market Sentiment Analysis

⚜ Market Sentiment Score：25

With an average sentiment score of 25 in the first half of 2019, the outlook for China's domestic tourism is highly favorable. Of the three market sentiments surveyed, domestic tourism has received the highest mark.

Majority of respondents recognize the changes shaping the travel and tourism industry. Preferences have shifted from traditional sightseeing to experiential travel. The demand for engaging, immersive, activity-based experiences is steadily rising and is expected to continue its upward trajectory in the short and long term.

With its mesmerizing mosaic of tourism resources and experiences--spectacular natural attractions, stunning architecture, wellness destinations, centuries-old culture, palate-pleasing cuisine, adventure activities for thrill seekers, awe-inspiring UNESCO World Heritage Sites vibrant art scene, blend of technology and tradition — China is poised to benefit from the shift to authenticity. Outlook for growth is positive.

Hubei Enshi Grand Canyon Dragon Boat Tuning Theater, China

Question 1 :

What is your assessment of China's domestic tourism for the first half of 2019 vs. 2018?

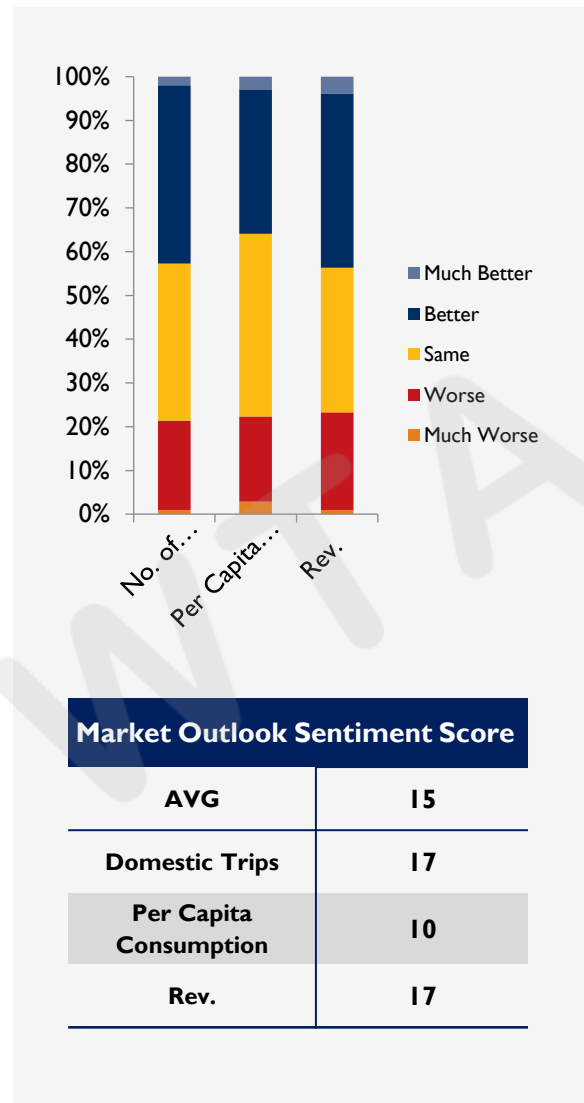### Domestic Tourism Arrivals

Outlook for domestic tourism arrivals in the first half of 2019 is generally positive, with 36% expecting the number to remain stable. About 43 percent think the number will increase or increase significantly. Only 20 percent predict the number of tourism arrivals to decrease, with one percent anticipating a substantial drop.

Per Capita Consumption

The overall expectation for Per Capita Consumption is positive, with almost 35 percent predicting an increase. About 42 percent think it will remain stable. Only 23 percent believe it will decrease or drop significantly compared to the same period last year.

Total Revenue

Overall expectation for Total Revenue is positive, thanks to the favorable outlook for Domestic Tourism Arrivals and Per Capita Consumption. More than 40 percent of travel agencies surveyed believe the Total Revenue of domestic tourism will increase or increase significantly, with about 4 percent projecting the Total Revenue to increase substantially. About 33 percent of those surveyed expect the Total Revenue to remain stable. Around 23 percent believe the Total Revenue will decrease.

Chart legend:
- Much Better
- Better
- Same
- Worse
- Much Worse

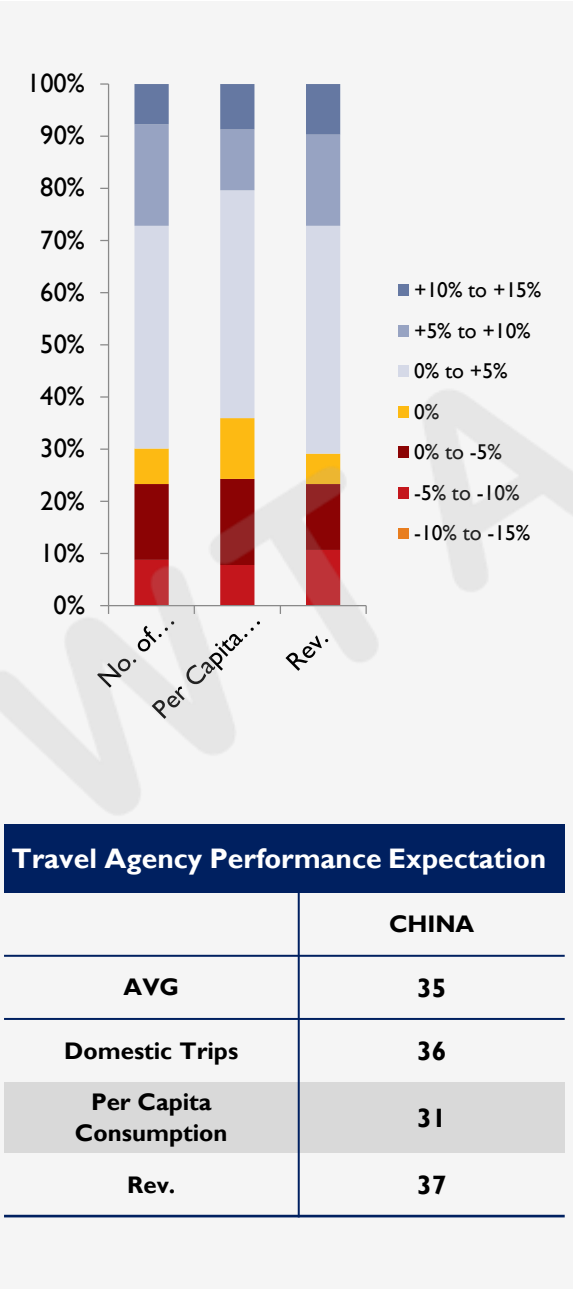| Market Outlook Sentiment Score	
AVG	15
Domestic Trips	17
Per Capita Consumption	10
Rev.	17

Majority perceive the development of Domestic Tourism Arrivals, Per Capita Consumption and Total Revenue positively. However, in spite of the economic slowdown in China, optimism is higher for the number of Domestic Tourism Arrivals compared to Per Capita Consumption.

Question 2：

What is your expectation for growth/decline of domestic tourism in the first half of 2019 versus 2018 for your business?

Over 60 percent of travel agencies believe their 2019 Domestic Tourism Arrivals, Per Capita Consumption and Total Revenue will be better than 2018.

Travel Agency Performance Expectation	
	CHINA
AVG	35
Domestic Trips	36
Per Capita Consumption	31
Rev.	37

Legend for chart:
- +10% to +15%
- +5% to +10%
- 0% to +5%
- 0%
- 0% to -5%
- -5% to -10%
- -10% to -15%

Domestic Tourist Arrivals

Majority predict an uptrend in the number of Domestic Tourism Arrivals in the first half of 2019, with the numbers remaining stable or exceeding the 2018 performance. About 70 percent expect the Domestic Tourism Arrivals from their agency to increase, with 27 percent anticipating the growth to exceed 5 percent and 43 percent predicting it to be less than 5 percent. Around 7 percent believe the Domestic Tourism Arrivals will remain at the same level as 2018. 23 percent are negatively perceiving the number of Domestic Tourism Arrivals, with majority of the respondents estimating a decline of less than 5 percent. Compared to the Domestic Tourism Arrivals performance of the overall market, respondents are more optimistic about the growth prospect of their own business.

Per Capita Consumption

Respondents are more conservative about the growth of Per Capita Consumption than Domestic Tourism Arrivals and Total revenue in the first half of 2019. About 24 percent believe the Per Capita Consumption will decrease, with 16 percent predicting the drop to be less than 5 percent. About 12 percent estimate the Per Capita Consumption in 2019 to be the same as that of 2018. 64 percent expect the Per Capita Consumption to increase, with the majority anticipating the growth to be less than 5 percent. Although they are optimistic about the growth of Per Capita Consumption, majority expect a limited increase.

Total Revenue

As a result of the positive expectations for the number of Domestic Tourism Arrivals and Per Capita Consumption, respondents are similarly optimistic about the Total Revenue. The national average sentiment score of Total Revenue is 37. About 71 percent predict an increase of the Total Revenue, with nearly 30 percent expecting the growth to exceed 5 percent. 29 percent estimate the Total Revenue in 2019 to remain stable or decline slightly compared to 2018. On the whole, tourism practitioners are confident about the 2019 growth of Total Revenue for domestic tourism.

Question 3：

How do you expect each factor below to influence China's domestic tourism in the first half of 2019?

Broadly, all of the 6 factors below show positive impacts on the domestic tourism market.

"New Highspeed Railways and Railway Routes" (93), "Development of Tourism Facilities" (88), "New Airport and Air Routes" (87) and "Destination Marketing" (74) are much higher than other factors. More than 80 percent believe they result in a positive or substantially positive impact on the overall domestic tourism market, with more than 30 percent estimating a positive effect. "Local Stock Market Performance" (25) and "Local Economic Growth Trends" (13) are also perceived as having positive influence, with more than half of respondents believing in the favorable impact of the recovery of the local stock market. Of the six factors, "Local Economic Growth Trends" (13) has the lowest sentiment score. Nearly 39 percent anticipate the negative effects of the Chinese economy this year. Still, 53 percent believe the Chinese economic growth will drive the growth of domestic tourism.

Influence Factors	
FACTORS	**SCORES**
F1. Local Economic Growth Trends	13
F2. New-built Highspeed Railways or Railway Routes	93
F3. New Airport or Air Routes	87
F4. Development of Tourist Facilities	88
F5. Local Stock Market Performance	25
F6. City Marketing	74

Most respondents think the opening of new highspeed railways, construction of new airports, development of tourism facilities and destination marketing have the most impact in promoting domestic tourism in 2019.
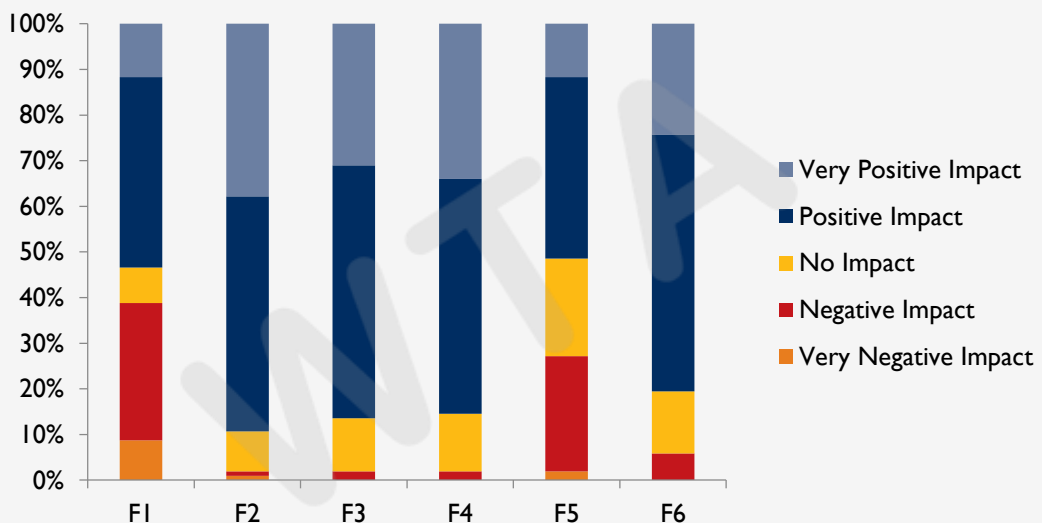
Question 4

How do you expect each domestic tourism generating region below to perform in the first half of 2019 vs. 2018?

Outlook for domestic tourism source markets is positive. Travel agencies are optimistic about the demand growth in East China, South China, North China, and Mid-China. However, expectation for Northwest China and Northeast China is negative.
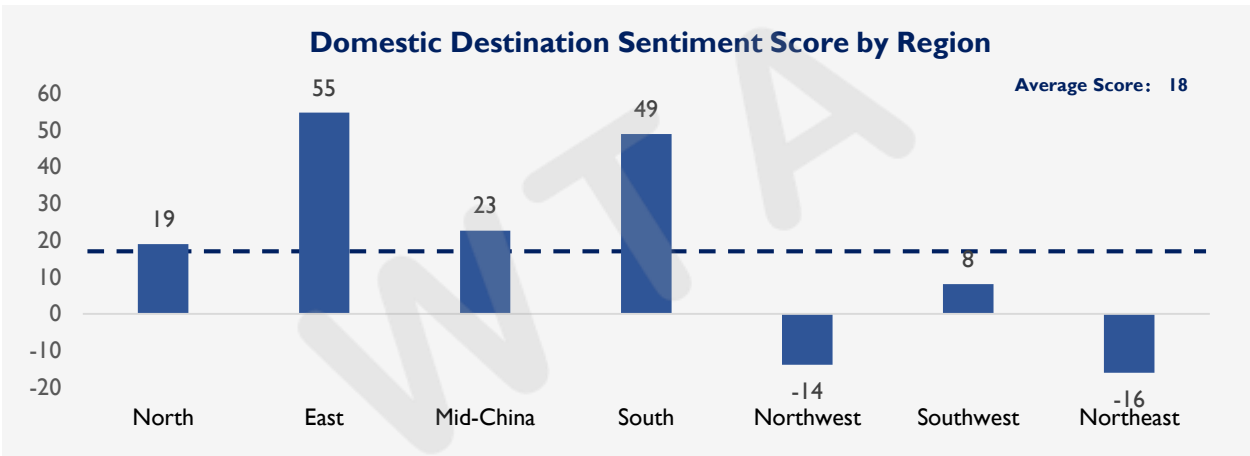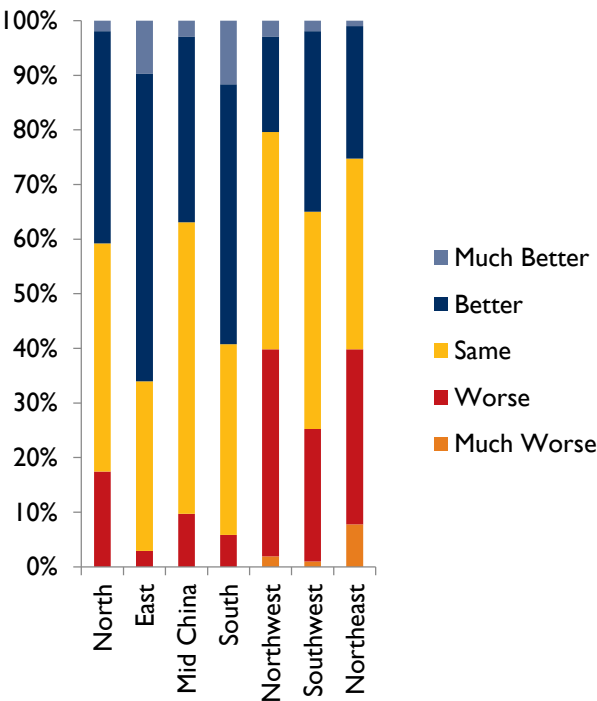
The fourth question is focused on the respondent's expectation for different source markets, including East China, South China, North China, Mid-China, Southwest China, Northwest China and Southeast China

The national average score of domestic tourism source markets is 18, indicating respondents are confident about its growth.

Our interviews reveal Chinese travelers prefer to spend their leisure trips within their own province. Thus, tourism resources and infrastructure development are expected to influence and impact domestic tourism. Local economy and consumption power also influence the growth/decline of the total numbers.

⚜ **East China (55) and South China (49)**

Economic development of East China and South China, represented by the Yangtze River Delta and Pearl River Delta, is the most advanced in China. Tourism demand is high from there two regions. Respondents are optimistic about their prospect as a tourism source. Over 60 percent believe the market performance will be better than last year, with 10 percent expecting the growth to be significant. Only less than 3 percent are concerned the performance of East China will be worse than last year.

Legend:
- Much Better
- Better
- Same
- Worse
- Much Worse

Domestic Destination Sentiment Score by Region

Average Score: 18

Region	Score
North	19
East	55
Mid-China	23
South	49
Northwest	-14
Southwest	8
Northeast	-16

Question 4

How do you expect each domestic tourism generating region below to perform in the first half of 2019 vs. 2018?

Less than six percent believe South China's performance will be worse than 2018. On the whole, the rapid economic growth, high disposable income, well-developed transportation and robust travel propensity all contribute to the positive expectation for East and South China.

⚑ Mid-China (23) and North China (19)

Sentiment scores of these two regions are above the national average.

Minus the first tier cities of Beijing, Shanghai, Guangzhou and Shenzhen, Mid-China is experiencing slower growth compared to East and South China. Low disposable income and travel propensity have resulted in low expectation for this region. About 37 percent of travel agencies surveyed predict the tourism demand from Mid-China will be better or much better than last year. More than 53 percent believe the performance will remain the same as 2018. Less than 10 percent are expecting a decline.

Fueled by Beijing's vigorous development, North China's economic growth is relatively strong. However, respondents think it is constrained by a limited number of tourism resources that are suitable to short term holidays. Core tourism resources in Beijing, notably the Forbidden City and the Great Wall, attract more long-haul foreign and outside-province visitors. Due to the close proximity of developed cities in North China (e.g. Beijing and Tianjin) to popular outbound tourism destinations (e.g. Japan and Korea), travelers in these cities prefer to spend their holidays in long haul destinations. This explains the region's score which is higher than the national average. 17 percent of respondents anticipate a small drop.

⚑ Southwest China (8)

Lagging behind East, South Mid- and North China in economic development and transportation network, Southwest China's score is below the national average. Although its sentiment score leans toward the positive, respondents are conservative about its performance as a domestic tourism source market. Over 25 percent of respondents believe the tourism demand from Southwest China will decline in 2019. Nearly 40 percent of travel agencies surveyed expect the performance to remain the same as last year. 35 percent predict it to be better, with less than 2 percent expecting a more remarkable growth.

⚑ Northwest China (-14) and Southeast China (-16)

With a less developed transportation network and an economic index below the national average, respondents are pessimistic about the market performance of Northwest China (-14) and Northeast China (-16). Without the dynamic driving force of first-tier cities, the outlook for these two regions is not encouraging. Nearly 40 percent of respondents believe the tourism demand from Northwest China and Northeast China will decrease compared to the same period last year. Two-thirds predict the tourism demand will be stable. Overall, respondents are cautious and negative about the development of Northwest China and Northeast China as domestic tourism source markets.
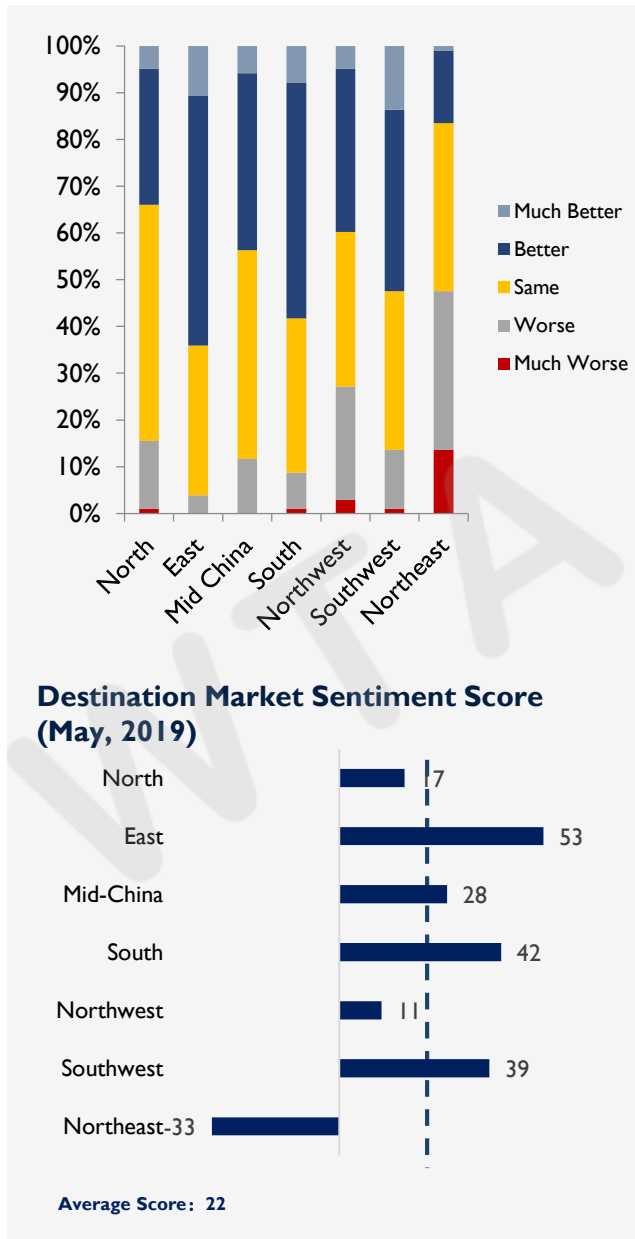

Hubei Enshi Grand Canyon, China

Question 5:

How do you expect each domestic tourism destination below to perform in the first half of 2019 vs. 2018?

The growth prospect of the majority of the regions as domestic tourism destinations is viewed positively by the travel agencies we interviewed. Optimism is highest for East China, while Northeast China is on the opposite end of the spectrum with respondents viewing the latter with strong pessimism.

Legend:
- Much Better
- Better
- Same
- Worse
- Much Worse

Destination Market Sentiment Score (May, 2019)

Region	Score
North	7
East	53
Mid-China	28
South	42
Northwest	11
Southwest	39
Northeast	-33

Average Score：22

The 5th question is focused on the respondent's expectations for domestic tourism destinations -- East China, South China, Southwest China, Mid-China, North China, Northwest and Northeast China--in the first half of 2019.

With a national average score of 22, the outlook for domestic tourism is positive. Abundance and accessibility of spectacular tourism products, advancements in tourism infrastructure, and marketing promotions that resonate with travelers all contribute to the success of a destination. Intra-province tourism is closely tied to the local economy and disposable income. Social media sharing has also made it possible for the brand appeal of a destination to reach a vast audience in real time. The viral effect of social sharing heightens the profile of a destination and increases its popularity fairly quickly.

⚐ East China (53) and South China (42)

East China (52) and South China (42) are the most promising tourism destinations, attracting millions of tourists. Advanced economic development and a generally pleasant sub-tropical climate throughout the year give these two regions competitive edge over other places in China.

Over 64 percent are forecasting better performance for East China, with 11 percent predicting a significant growth. Less than 11 percent are pessimistic about its prospect as a domestic tourism destination. More than 58 percent of respondents view South China's potential in 2019 positively. Only 8 percent anticipate a negative performance.

⚐ Southwest China (39)

Outlook for Southwest China as a domestic tourism destination is positive. The relatively high sentiment score of 39 is attributed to its diverse tourism resources--ranging from natural attractions, mouth-watering cuisine, blend of centuries old culture and modern amenities--that have made this region a must-visit for local and foreign visitors alike. Social media marketing has also enhanced its profile, with instafamous Chongqing and Chengdu driving its popularity.

Question 5:

How do you expect each domestic tourism destination below to perform in the first half of 2019 vs. 2018?

Destination marketing has a direct, measurable impact on tourism arrivals. Chongqing's 8D promotion and the completion of the light rail in the city last year are credited for the increase of over 20% of the city's Domestic Tourism Arrivals and Total Revenue growth. Outlook for Southwest China's tourism development in 2019 is positive. Over 52 percent of respondents are optimistic about its performance growth. Only 13 percent are pessimistic about its future performance as a domestic tourism destination.

Mid-China (28) and North China (17)

Respondents are positive about the number of Domestic Tourism Arrivals to North China (17) and Mid-China (28). However, North China and Mid-China's tourism products are viewed less favorably than those of East China and South China. As a result, expectations show a slight decline. Although Beijing has an abundance of world-famous iconic tourism resources, other areas in the region, particularly Tianjin and Hebei, have limited appeal. North China's strong seasonality has also constrained the development of its domestic tourism market.

Over 40 percent of respondents anticipate more tourism arrivals to Mid-China, with market performance expected to be better or remarkably better. Less than 12 percent is pessimistic about its performance growth.

More than half expect North China's market performance to be in line with that of last year. 34 percent predict a better performance compared to 2018. About 15 percent are pessimistic about the region's tourism development.

Northwest (11)

With a sentiment score below the national average, respondents are cautiously positive about the number of Domestic Tourism Arrivals to the Northwest. With the exception of Shanxi province, majority in the region are not mass domestic tourism destinations. Domestic Tourism Arrivals to Northwest China have been underperforming for the past few years. Cities in Shanxi Province, specifically Xi'an, have successfully boosted the region's performance index through social media marketing. Shanxi's advanced tourism development is credited for the positive forecast for Northwest China.

Over 70 percent of respondents think Northwest China's performance as a domestic destination will be in line with 2018, with 5 percent anticipating it to be substantially better than last year.

Northeast China (-33)

Of all the seven tourism destination regions, Northeast China (-33) is the only one receiving a negative sentiment score, indicating a pessimistic outlook for its domestic tourism development in 2019. Over 10 percent of respondents expect the region's performance to decline significantly compared to the same period last year. 16 percent estimate an increase. Known as a 'Snow and Ice Tourism Destination,' Northeast China's strong seasonality has constrained its development and the implementation of non-winter marketing programs. Scams in Heilongjiang have also adversely affected the region's image. Sluggish economy, under-developed tourism facilities and deficient transportation system have all contributed to the negative outlook for Northeast China in the short term.

Hubei Enshi Grand Canyon Daughter Village Style Town, China

Conclusion

As shown by its sentiment score of 25, outlook for the domestic tourism market in the first half of 2019 is positive. Except for Northwest and Northeast China, the sentiment scores of the other 5 regions are positive, with the most optimistic forecast for East China and South China.

Respondents have positive expectation for majority of China's domestic tourism destinations, with the exception of Northeast China.

Travel agencies surveyed are most confident about the growth of the number of Domestic Tourism Arrivals. Influenced by the positive outlook for Domestic Tourism Arrivals and Per Capita Consumption, the sentiment score for Total Revenue is likewise optimistic.

Majority are confident about the impact of new tourism infrastructure, transportation network development and destination marketing on the success of a destination. China's rich, diverse tourism resources; a rising number of middle class with high disposable income, increased accessibility of remote locations, technological advancements that makes traveling easy and affordable, authentic experiences that have broad appeal — all these strengthen our belief in the indubitable success of China's tourism industry.

Hubei Enshi Qingjiang Butterfly Cliff, China

Appendix

About World Tourism Alliance

On Sept. 12, 2017, the World Tourism Alliance (WTA) — the world's only global, comprehensive, non-government, nonprofit tourism organization founded in China — was inaugurated in Chengdu, Sichuan Province, China. Premier Li Keqiang of the State Council of the People's Republic of China sent a congratulatory letter to celebrate the official establishment of WTA.

Upholding the vision of "Better Tourism, Better World, Better Life" as its ultimate mission, WTA is committed to promoting peace, development and poverty alleviation through tourism. It aims at driving global tourism exchanges and cooperation at non-governmental level.

To date, WTA has 182 members from 38 countries and regions. The WTA membership covers national and regional tourism associations, influential tourism and tourism-related enterprises, government tourism boards, academia, media and individuals. As a service-orientated international organization which caters to its members across the world, WTA is a vital platform for dialogue, networking, practical and authoritative information and resource sharing for integrative development.

The WTA headquarters and Secretariat are located in China.

About Horwath HTL

Founded in 1915, Crowe Horwath International is an integrated professional organization of accounting and management consulting firms. Horwath also boasts the world's largest and oldest professional hotel and tourism consultancy practice. From its inception, Horwath paved the way by creating the "Uniform Systems of Accounts for Hotels", a system so successful it has become the standard in hospitality accounting around the world. Today, Horwath is a name recognized as the pre-eminent expert in the hotel and tourism sectors.

Established in Asia in 1987, Horwath HTL is the management consulting division of Crowe Horwath International that specializes in hotel, leisure and tourism industries. Our core business cover hotel investment, tourism destination investment, asset management, and strategic research. Horwath HTL now operates offices in several key cities throughout the Asia Pacific region. Our offices work closely together to ensure that our clients receive a multi-skilled international perspective for their projects.

Throughout the Asia Pacific region, Horwath HTL has consulted on over 4,000 hotel and tourism related projects throughout the region (including more than 1,600 projects in China) for clients ranging from the world's most prominent theme park operators, hotel management companies to real estate developers, lenders and investors. Horwath HTL has always been internationally recognized for its impartial and independent professional perspective in providing services.

After a long-term development, Horwath HTL has become a leading consulting company specializing in the hotel, tourism and leisure industries. Integrating local insights and global perspectives in every single project, Horwath HTL offers reliable, innovative, and efficient industry solutions and services to clients around the globe. By continuously innovating itself based on the current and future trends of the related fields, Horwath HTL strives to maintain its unique strength in the industry and keep providing quality service to the customers.

Disclaimer

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Any data presented from this publication should source the information as coming from the "China Domestic Tourism Market Sentiment Report, Horwath HTL and World Tourism Alliance (WTA)".

Hubei Enshi Grand Canyon Guest-Greeting Pine