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2022/H2

China Domestic Tourism Market Sentiment Report

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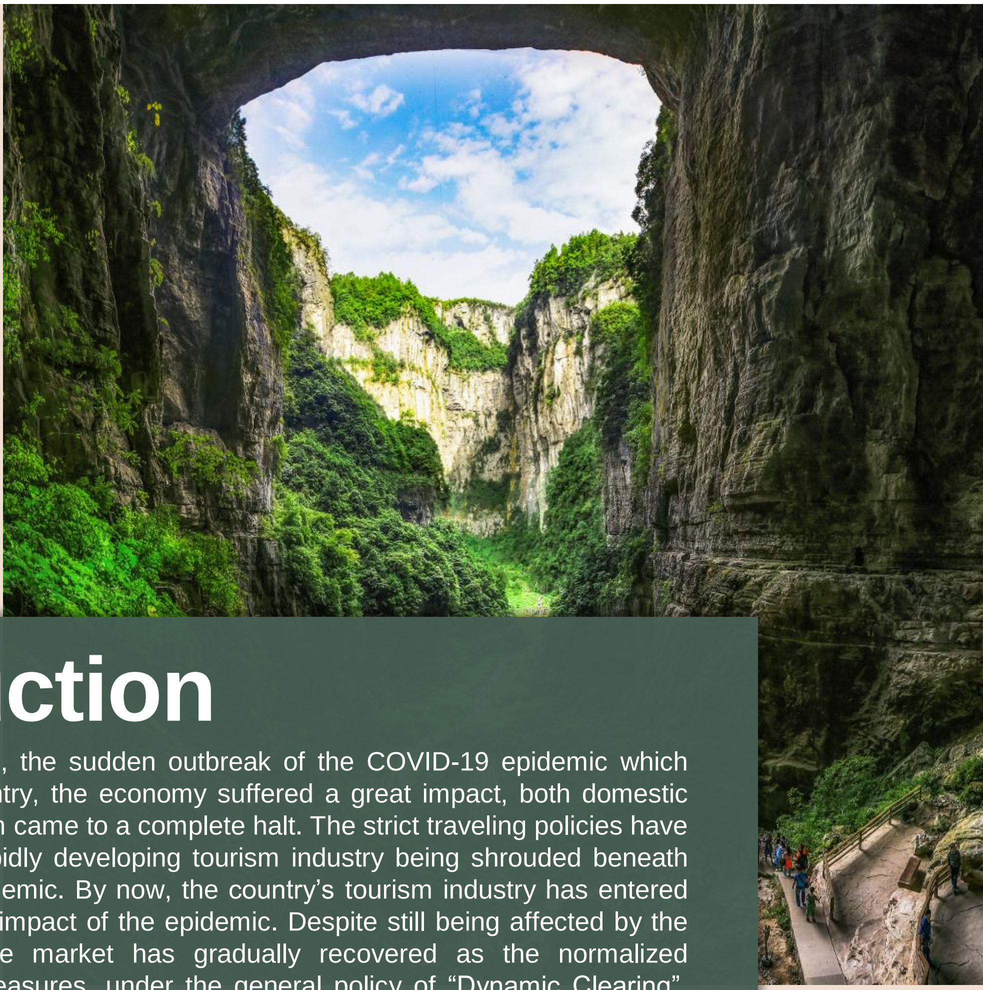
Content



Introduction

Since the start of 2020, the sudden outbreak of the COVID-19 epidemic which spread across the country, the economy suffered a great impact, both domestic and international tourism came to a complete halt. The strict traveling policies have led to China's once rapidly developing tourism industry being shrouded beneath the shadow of the pandemic. By now, the country's tourism industry has entered its third year under the impact of the epidemic. Despite still being affected by the constant outbreaks, the market has gradually recovered as the normalized epidemic prevention measures, under the general policy of "Dynamic Clearing", were carried out in an orderly manner. However, due to the continuous mutations of the COVID virus, the outbreak of the Russian-Ukraine Conflict and the increase of other international instability elements. The faith of the tourism industry towards the domestic market still requires greater periods of time to resume to the pre-pandemic stage.

To assess China's domestic tourism market and to enable members of the World Tourism Alliance (WTA) and its international stakeholders gain a better understanding of the market and its key trends, WTA has been partnering with Horwath HTL, a global-leading hotel & tourism consulting company to conduct semiannual sentiment surveys of the Chinese domestic tourism market for the seventh time.

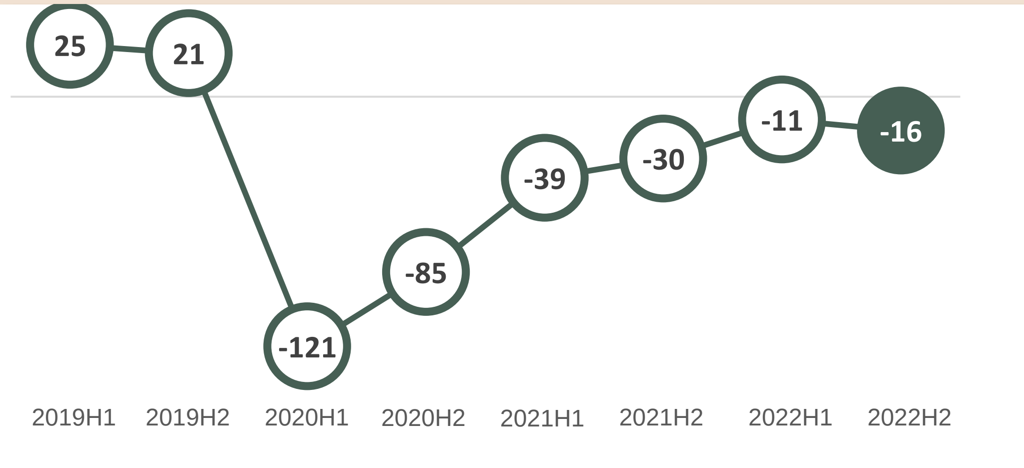
This questionnaire survey has received wholehearted support from the Ministry of Culture and Tourism, Shanxi Provincial Department of Culture and Tourism, Shandong Provincial Department of Culture and Tourism, Guangdong Provincial Department of Culture and Tourism, Gansu Provincial Department of Culture and Tourism, China Tourism Group, China Association of Travel Services, Airbinb inc, Guilin Tang Dynasty Tours Co., Ltd, TUI China, Xiangyuan Holding Group Co., Ltd., Guangdong Chimelong Group Co., Ltd., qyer.com, Beijing International Studies University, Nankai University College of Tourism and Service Management, Tourism College of Zhejiang, Tourism Research Institute of Zhejiang University, School of Tourism Management - Sun Yat-Sen University. As well, our sincere thanks go to the Chongqing Culture and Tourism Development Committee for providing us with images used in this report.

Background

Starting in 2020, questions on the impact of the epidemic have been added to this survey and their corresponding responses have been reported. It has been our goal to provide Chinese tourism professionals a better understanding of the impact of the epidemic and empower them to make a well-reasoned decision and information-based forecast on the market's performance.

As well, to better analyze and compare the domestic tourism markets of various regions and cities in China, we have quantified the respondents' feedback with a specific sentiment score model and have presented it in the form of a numerical rating to reflect the respondents' expectations for the domestic tourism market more intuitively.

The sentiment score on each issue reflects market expectations of the overall performance. The index ranges from -150 to +150, where -150 means the market is very pessimistic about expected performance, 0 means neutral, and +150 implies the market is very optimistic. In this survey, the travel agencies surveyed compared their expected performance in the second half of 2022 based on the second half of 2021. They have also identified the main factors leading to the change in expectations and have projected the prospects of major source and destination markets.



Market Sentiment Scores

Market Sentiment Score recovers, obvious ascent comparing to the previous year

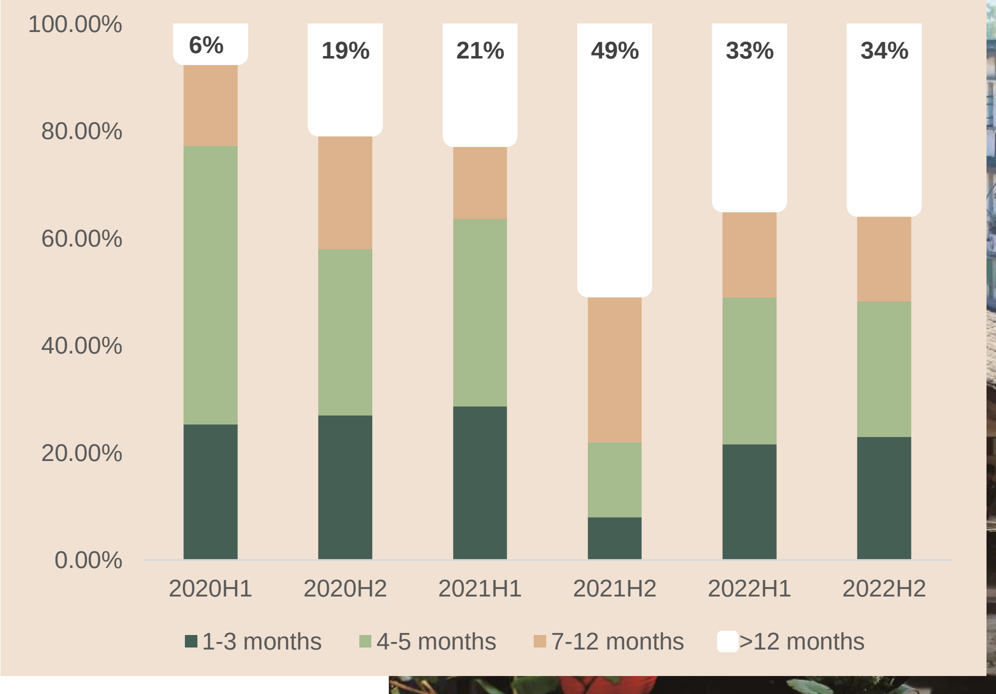
The H1 of 2022 consists of heavy magical realism when looking back upon. Under the pressure of international opinions, the Beijing Winter Olympics was held satisfactorily on time. On the other hand, the worldwide pandemic had continuously mutated, causing a new round of infections with the latest Omicron variance. The Russian-Ukraine conflict brings challenges to the world structure, impacting the multilateral trading system. The downturn of the global economy, the outbreak of military conflict and the increase of other international turmoil elements have led to ambiguous market confidence towards the industry, resulting in a still negative market sentiment score.

Comparing with the previous year, the market sentiment score has shown a stable progressive pace throughout the past two years. The market's faith in the industry's future development received a lasting reclimb and reaches its climax in the H1 of 2022 since the start of the pandemic. However, the mutation of the COVID virus, the outbreak of the Shanghai pandemic, international war conflicts and other negative events have not yet occurred at the time when the 2022 H1 market sentiment score is published. As a result, compared to the actual market performance, the sentiment score was relatively optimistic. Entering 2022 H2, as the National Health Commission further loosens immigration quarantine policies, the cancellation of the "star" symbol on travel history cards, the rebound of market demand for tourism destinations like Sanya due to the reopening of Shanghai, the incoming summer holiday and other beneficial news for the domestic tourism industry, the industry holds a more positive faith towards the market. The market sentiment score receives a noticeable ascending posture when compared to 2021 H1.

Epidemic Forecast Sentiment

Mainstream expects the pandemic cast continuous effect over the industry for more than a year

As the pandemic move towards a normalizes development, the respondent expectation towards the pandemic's aftermath duration shows a stretching attitude. Respondents that believe the impact of the pandemic are going to last more than 12 months increased from 6% at the beginning of the plague (2020 H1), to current (2022 H2) 34%. Comparing to the early pandemic period, the respondents holds a more cautious and conservative approach towards the current development of the pandemic. As the continuous mutating virus sets of rounds after rounds of infection worldwide, most areas around the world has embraced a "co-existing" path with the virus. Yet, despite 91% of the country's population has received vaccination against COVID-19, domestic medications have also been put into clinical treatments, and the adherence of the "dynamic clearing" general guideline that reassured the normalized and precise epidemic control policies, local regional pandemic outbreaks still constantly rise and falls. The future situation of the pandemic is still unclear, road of epidemic prevention is still a long way to go.



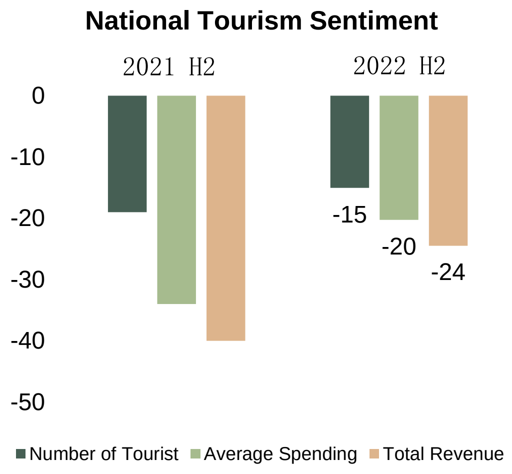
Under the complicated macro-environment of economic downturn, international turmoil and the constant outbreak of pandemics, respondents hold a pessimistic expectation on the different performance indicators of the tourism industry, resulting in a negative market sentiment score. However, compared to 2021 H2, an obvious improvement is observed. Compared to the overall recovery of the nation's tourism performance, the respondents hold more confidence in the performance improvement of their institution/region, indicating respondents are more attention to their own regions' tourism restoration. Our analysis indicates that is related to the research sample, considering nearly 80% of the respondents are from eastern, southern and northern China. Their regions' well-developed economy level, robust residence consumption willingness, also the rise of the suburban tourism trend during the post-pandemic era has endorsed the morale of the local respondents towards the markets' recovery.

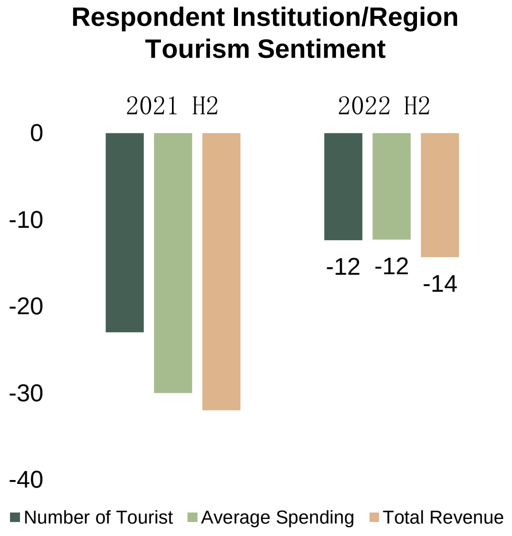
From the sub-indices point of view, the results are similar to that of 2021 H2, the respondents are more optimistic on the recovery of the tourism population but more conservative on the expected total revenue. As the outbound tourism market continuously reflows, consumers' acceptance of suburban tourism has increased due to the normalization of pandemics. Relying on the empowerment of rural revitalization, cultural tourism and city renovations, the domestic tourism destinations received their own transformation and upgrade, generating greater attraction and increasing the consumers' willingness to travel. During the past half a year, the depressed labor market and multiple rounds of layoffs have shrunk the population's consumption willingness and power, causing the respondents' concern about the recovery of the consumption per capita and tourism total revenue income.

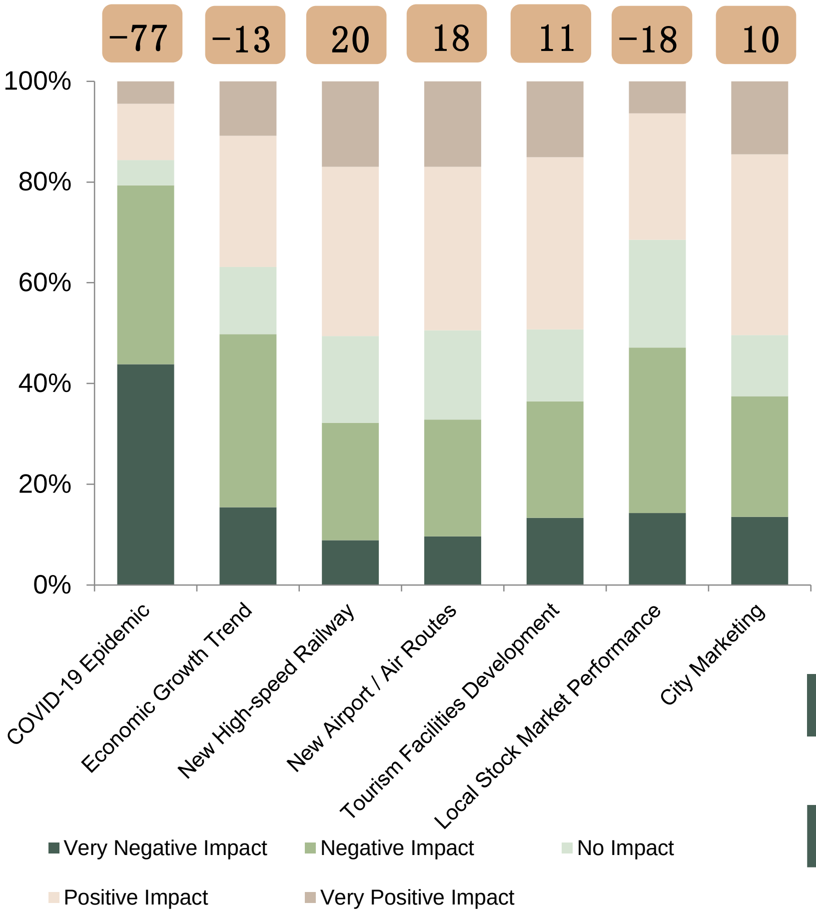
Market Sentimental Score Rises

Institution/Regions held greater confidence in self-performance recovery

Tourism Performance Sentiment







The development of transportation and tourism facility along with effective city marketing generates positive development for domestic tourism

Influencing Factors

COVID-19 Epidemic

Despite the overall sentimental score for this factor showing a trend of continuous improvement, it is still the lowest among each factor at -77, making it undoubtedly the main obstacle to the tourism market recovery in respondents' minds. Worth noting, that nearly 16% of respondents believe the COVID pandemic has had a positive and conspicuous positive impact on the tourism market.

On one hand, under the shadow of the global epidemic, trendy suburban tourism, camping and other "lipstick effect" style traveling methods are increasingly becoming a spiritual product. Allowing consumers to release their depressed emotions and receive spiritual amusement.

On the other hand, as the pandemic enters the third year, normalized epidemic prevention has become the general trend. The domestic tourism industry must seek innovation for survival in this "protracted-war" against the epidemic. On a larger scale, after the baptism of the pandemic, the domestic tourism market is using tourism recovery as an opportunity to promote industrial transformation and upgrade, thus achieving high-quality development of the industry.

Economic Growth Trend

Compared to the previous year, the respondents' attitudes towards the country's economic development are more pessimistic. The sentimental score once again fell to negative. Half of the respondents believe that the significant deceleration of China's economic development will result in an obvious negative impact on the tourism industry.

In 2022 H1, the three-driving force of the economy, investment, consumption and exportation all revealed a downward trend. The real economy suffered a compelling setback. The 2022 H1 indicators published by NBS indicate that according to preliminary calculations, 2022 H1's GDP increased by 2.5% compared to 2021 H1, 2022 Q2 increased by 0.4% compared to 2021 Q2, showing a dramatic drop compared to the national economy's strong recovery in 2021.

Despite in 2022 H1, the domestic economy achieved a growth withstanding the pressure. But it is undeniable that 2022's turmoil international environment, deepening Ukraine conflict, constant outbreaking pandemics throughout the country and the violent impacts on China's economic recovery due to unexpected factors have shaped a more pessimistic expectation among the respondents.

High-speed Rail Development | ↑

New Airports / Air Routes | ↑

Development of Tourism Facility | ↑

The respondents widely consider the launch and operation of high-speed rail, construction of airports, offset of airlines and the development of tourism facilities will generate a positive driving factor for the domestic tourism market recovery. The three influencing factors' sentimental scores are thus ranked top on the list.

However, more than 30% of the respondents in the survey believe that the improvement in transportation and tourism facilities will generate a negative effect on the domestic tourism market. Among them, travel agencies and hotels hold a more pessimistic outlook.

Convenient transportation can be a "double-edged sword" for the tourism market's development. While enjoying increased traffic, tourist destinations also faced the crisis of loss of overnight stays and reduction in touristry consumption. After solving the problem of "getting in", how to make the tourists "stay" becomes the crucial challenge touristry destinations must face.

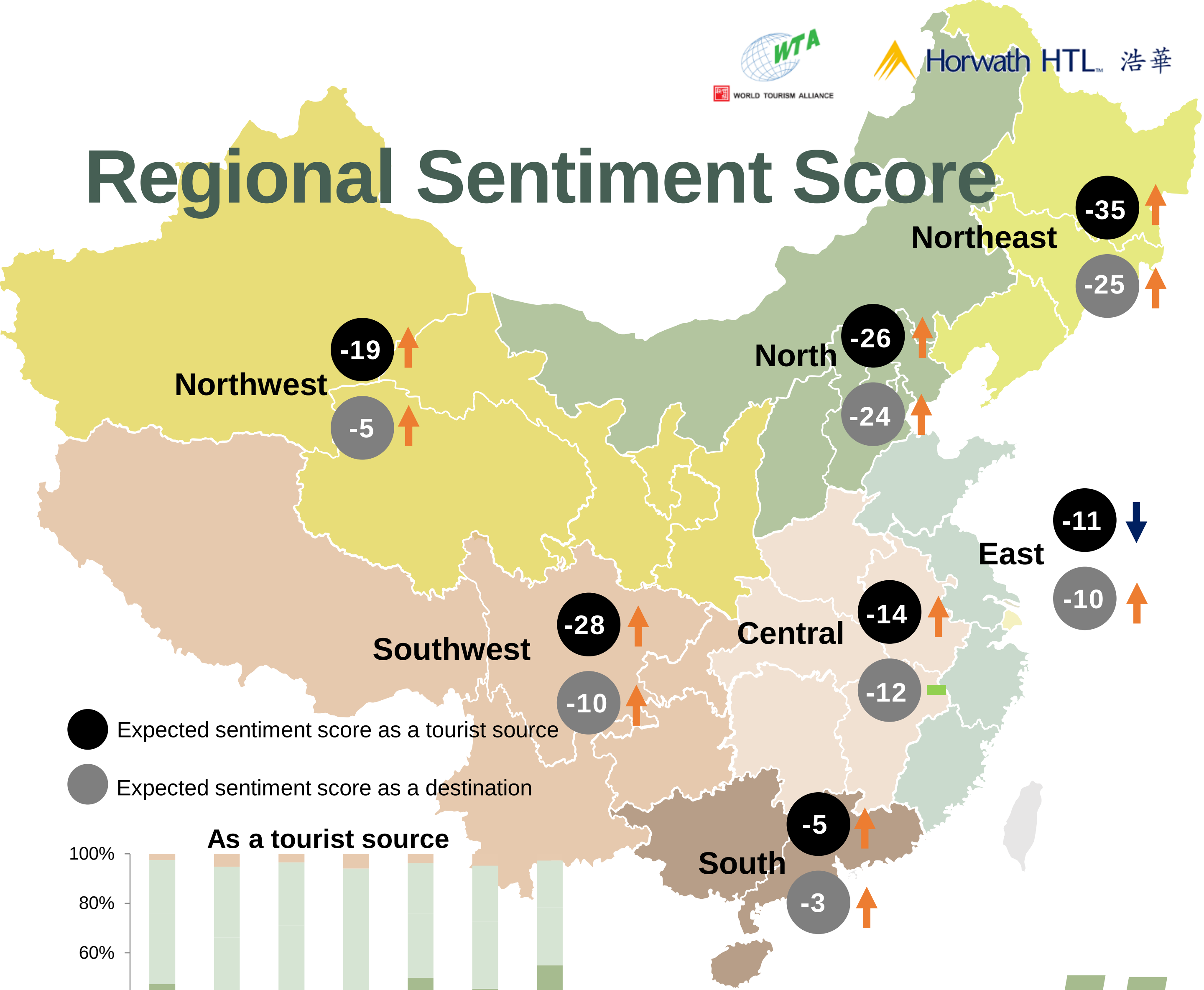
Local Stock Market Performance | ↓

The stock market is heavily related to the economy, politics and investment environment. The performance of the A-share market in 2022 H1 consists a bumping up going trend. Due to the Ukraine conflict, FED's increase of interest rate and shrink of the balance sheet, the decline of the CDR stocks, the outbreak of pandemic in major cities, FSDC conference on boosting market confidence and combining effect of other aspects, the stock market have experienced a general up and down journey, including the irrational decline, bottoming and recover. This resulted in the respondents' discretion attitude toward the stock market's future performance. The sentimental score drops to -18.

City Marketing | ↑

The sentimental score of this factor remained positive and increased compared to 2021 H2. This indicates that the respondents consider that city marketing generates a beneficial effect on the tourism market. However, there is still nearly 40% of the respondents consider that city marketing generates a limited effect on the tourism market. Riding the tide of social media, while using the online celebrity city labels to drive the local cultural tourism economy, city marketing should also return to the essence of urban development, laying a solid base for systematization and specialization.

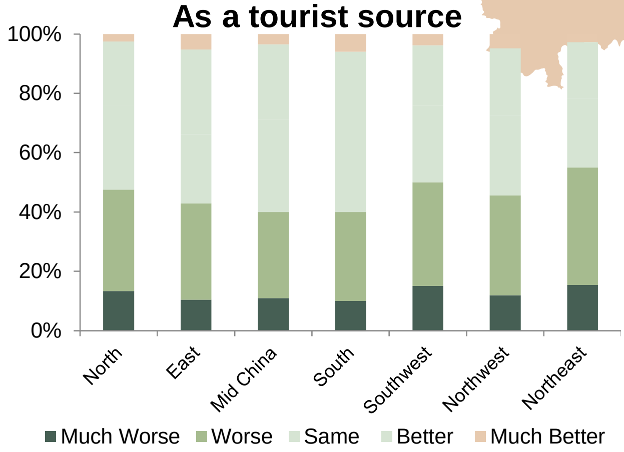
Regional Sentiment Score



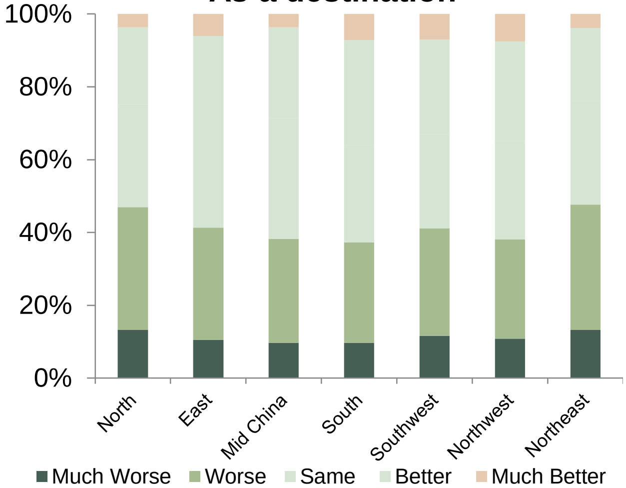
Expected sentiment score as a tourist source

Expected sentiment score as a destination

As a tourist source



As a destination



Sentiment scores of all region rises

The regional pattern of strong south and weak north remains unchanged

Compared to 2021 H2, different regions' sentiment scores are still winding at negative figures but show overall signs of improvement. The respondents' travel expectations for each region are generally rising. Other than the sentiment score of east China as a source of tourists dropped and the score of central China as a destination remained unchanged, the sentiment score of all other regions, no matter as a destination or tourist source, has overall improved.

Tourism is closely related to economic development. The domestic economy's south strong north weak situation to a certain extent shaped the country's tourism industry with a similar development trend. The respondents are generally more optimistic about the southern region's tourism industry recovery due to its developed economy, abundant talents and rich capital.

It is worth mentioning that compared to 2021 H2, the sentiment score of **South China** as a tourist source and destination has improved greatly, making it ranked first in this survey round and becoming the most important tourist source region and preliminary destination. Compared to the Yangtze River delta and the Beijing-Tianjin-Hebei region, the impact of the epidemic in the Pearl River Delta has been relatively controllable over the past half a year. In addition, as the only domestic tropical holiday destination, Sanya has achieved a dazzling tourism performance recovery. The sharp rise in hotel occupancy rates and the rapid increase in flight ticket bookings have laid a boosting shot for the recovery of the domestic tourism industry in the post-pandemic era. Such also ensures the practitioners' a more optimistic expectation for the region's future tourism economy.

In contrast, the sentiment score of **East China**, where Shanghai is located, has declined as a source of tourists, making it the only region in which the sentimental score has declined. In 2022 H1, Shanghai has gone through several months of pandemic control. Under the severe pandemic situations, the lockdown status has made its tourism and related activities come to a complete stop. The development of the tourism economy, which was originally recovering has once again ceased. While the economic data crumbles, the impression of the city was also affected by the negative social news, generating more challenges for the coming post-pandemic recovery.

The sentiment score of **North China**, where Beijing is located, has improved as a source and destination of tourists compared to 2022 H2 but is still significantly lower than that of South China and East China. Although North China holds an enormous tourist base, it is difficult to compare with the east and southern coastal areas in terms of comprehensive economic development level, resident consumption power and willingness. Since 2022, due to the hosting of the Winter Olympics, the already tight pandemic traveling policy of Beijing has become even more stringent. Furthermore, the severe pandemic outbreak in May which caused the closure of the Forbidden City, Universal Studios and other tourist sites gave the region's tourism economy recovery a head-on blow. Once again eroded the practitioners' faith in future expectations.

Continuing the previous trend, the sentiment score of **Northeast China** as a source and destination of tourists is still not ideal, ranking it at the bottom. Although the holding of the Winter Olympics at the beginning of the year sets off the national enthusiasm for winter sports and promoted the leaping development of related industries. However, the weak economic foundation, poor transportation development and coarse tourist site management have generated a significant gap between the improvement of regional service quality against the development speed of winter tourism, causing great difficulties to the local tourism economy's transformation. Meanwhile, under the national strategy of "South expand, West extend, East advance", nearly 700 ice rinks and more than 800 ski resorts have been built across the country. Different regions are hence capable to develop the winter sports industry based on their scenario. This will eventually weaken the Northeast region's scarcity as a winter sports destination, making the regional competition for future tourism development more and more intense.

Since 2022, under the domestic situation of frequent pandemic outbreaks and several cities put under lockdown, the overall performance of **Central China** is still relatively stable despite having few cities impacted by the pandemic. The respondents' expectation of the region as a source of tourists has increased significantly, while the sentiment score of the region as a destination remains the same with 2021 H2.

In contrast, the sentiment score of **Southwest China** as a destination has picked up significantly. The respondents' expectations of the Southwest region as a source of tourists have also increased. Relying on the rich landforms, diverse ethnic customs, unique cultural practices and delicious local cuisines, the Southwest region has long been the country's popular tourist destination. Stimulated by the "Internal Circulation" tourism, arduous and highly challenging touristry products such as the Yunnan-Guizhou-Sichuan Road trip, Tibet-Ali Grand Circle in-depth tour and Mount Everest base camp visit are gradually becoming preferred by the market. This encouraged the practitioners on the enhancement of universal tourism based upon natural resources.

It is worth noting that **Northwest China**, which has long been popular, has once again achieved a symbolic improvement in its sentiment score. Its sentiment score as a destination ranked second in the country, only subsequently to the South China region. Its glaciers, snow mountains, Gobi deserts and other world-class nature wonders allow tourists to easily acquire astonishing tourism experiences. Furthermore, ever since the region's pandemic prevention policies have been loosened, Xinjiang's tourism popularity has been soaring remarkably. Since July, the average daily number of tourists has exceeded 110,000, the flight tickets and accommodations reservations and prices have skyrocketed. The Duku highway which is normally unimpeded is now stacked with traffic. In the current hot summer, the accomplishment of Xinjiang tourism has made the practitioners more optimistic about the expectations of the Northwest tourism economy.

Conclusion

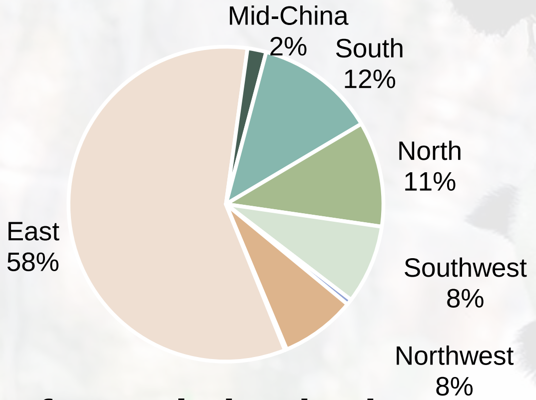
Looking back at 2022 H1, the domestic tourism industry has entered its third year under the haze of the epidemic. We can see that despite the recovery of the industry is still restrained by the continuous regional pandemics, but normalized pandemic prevention measures are carried out in an orderly manner and gradually become the general trend. At the same time, driven by the nation’s revitalization and supportive economic policies, the overall tourism economy has received a steady growth. The touristry sentiment has also been significantly improved compared to 2021 H1, all scores have received a general recovery.

Looking forward to the future, the pandemic may continue to accompany the development of the industry. To seek for survival while searching for innovation will be a must for the domestic tourism industry. We believe that the domestic tourism industry, which has been long quenched by the epidemic, will continue to strengthen its endogenous power while accelerating its development and transformation. Eventually, when the haze of the epidemic dissipates, the industry will break through its obstacles and achieve the sustainable high-quality development.

Sample Specification

This report is a summary of the sentiment survey results in the second half of 2022 and received 535 valid domestic tourism market questionnaires from 28 provinces, municipalities, and autonomous regions. The questionnaire survey ended on July 4, 2022, and the report’s conclusions are based only on respondents' judgments of the COVID-19 epidemic at that time.

Sample Analysis by Region



Type of sample institutions

32% Destination Management

26% Travel Agency

9% Hotel **1%** Airline

32% Others（colleges/organizations/government）

World Tourism Alliance

On Sept. 12, 2017, the World Tourism Alliance (WTA)—the world's global, comprehensive, non-government, nonprofit tourism organization founded in China—was inaugurated in Chengdu, Sichuan Province, China.

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 a non-governmental level.

To date, WTA has 222 members from 40 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 that caters to its members worldwide, WTA is a robust platform for dialogue, networking, practical and authoritative information, and resource sharing for integrative development.

The WTA headquarters and Secretariat are located in China.

Horwath HTL

Founded in 1915, Crowe Horwath International is an integrated professional organization of accounting and management consulting firm. 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 successful system that has become the standard in hospitality accounting worldwide. Today, Horwath is 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 to ensure that our clients receive a multi-skilled international perspective for their projects. Horwath HTL is also supported by the Horwath database, the world's largest and most complete hotel, and tourism-related database.
Throughout the Asia Pacific region, Horwath HTL has consulted on over 4,000 hotel and tourism-related projects (including more than 1,600 projects in China) for clients ranging from individually held businesses to the world's most prominent operators, developers, lenders, investors, and industrial corporations. Horwath HTL has gained international recognition and reputation for its impartial and independent professional views in providing its services.

Horwath HTL has become an outstanding consultant in the hotel and tourism industry. Horwath's projects are a perfect combination of local experience and an international perspective, providing clients worldwide with unmatched knowledge and expertise in the field. Horwath is always focused on the current and future trends in the industry and enjoys unique professional advantages in hotel and tourism consulting services.

For more information, please access www.horwathhtl-cn.com and www.chatchina.com.cn and follow the official WeChat account of CHAT by Horwath HTL.

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2022/ H2

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