WORLD TOURISM ALLIANCE

Horwath HTL 浩華

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2022/H1

China Domestic Tourism Market Sentiment Report

Thanks To:

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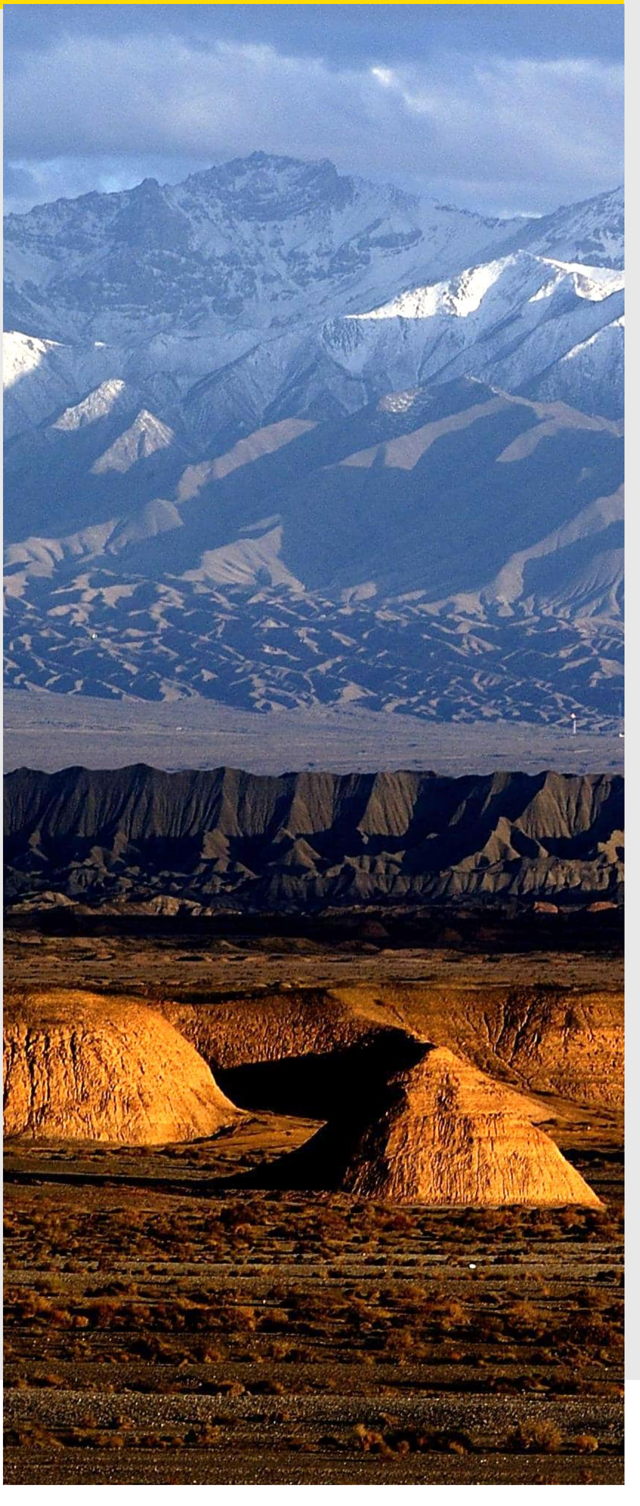
Content



Introduction

In 2020, the once rapid development of China's tourism industry came to an abrupt halt due to the severe impact of the epidemic. Both inbound and outbound tourism businesses have been halted and domestic travel has been hindered. Thanks to the robust prevention and control measures taken by the Chinese government, domestic travel has resumed, with the sizable demand for outbound tourism shifting to domestic tourism. The domestic tourism market has been active. In fact, some regions have experienced a tourism boom higher than the pre-epidemic level. However, Omicron, a new mutant strain emerged at the end of 2021, afflicting countries around the world with its high transmissibility. It has also led to small-scale positive cases in various regions in China and a small peak in the number of new local cases. Thus, under China’s strict epidemic control and "zero clearing" policy, the tourism industry, which had been on the rise, was again struggling in the shadow of the epidemic.

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, Hebei Provincial Department of Culture and Tourism, Shanxi Provincial Department of Culture and Tourism, Shanghai Municipal Administration of Culture and Tourism, Zhejiang Provincial Department of Culture and Tourism, Anhui Provincial Department of Culture and Tourism, Yunnan Provincial Department of Culture and Tourism, Shaanxi Provincial Department of Culture and Tourism, Gansu Provincial Department of Culture and Tourism, China Tourism Group, China Association of Travel Services, Airbinb inc, Saudi Tourism Authority, College of Tourism and Service Management of Nankai University, Guilin Tang Dynasty Tours Co., Ltd, Sunriver Holding Group Co., Ltd., Tourism College of Zhejiang, Guangzhou Li Zhi Network Technology Ltd., CYTS-Linkage Public Relations Consulting Co., Ltd. As well, our sincere thanks go to WTA member Meituan, for generously sponsoring the prize for this survey and the Gansu Provincial Department of Culture and Tourism 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.

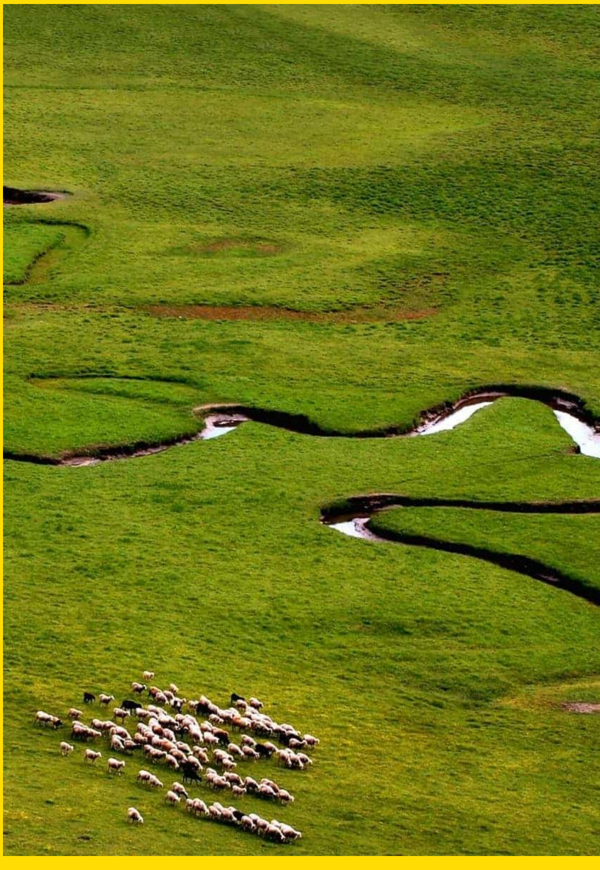
The sentiment score on each issue reflects market expectations of the overall performance. The index ranges from -150 to +150, where -150 means the market is very pessimistic about expected performance, 0 means neutral, and +150 implies the market is very optimistic. In this survey, the travel agencies surveyed compared their expected performance in the first half of 2022 based on the first 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.

Cautious Optimism Prevails

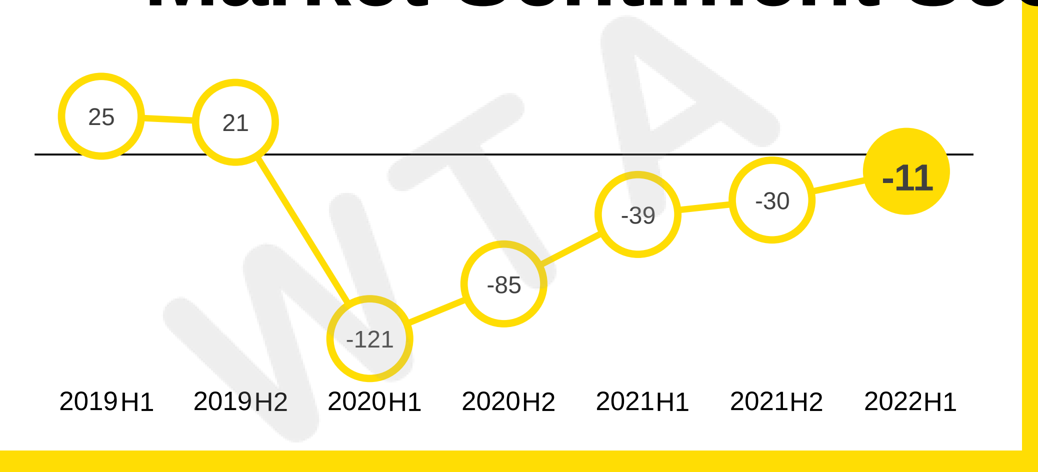
Although the rebound of the tourism economy was lower than expected, in 2021 the domestic tourism market recovered smoothly. In the second half of 2021 particularly, the number of national tourists was 1.275 billion, only 66% of the year on year total in 2020 H2 and 43% of the total in the same period before the epidemic (2019 H2). These figures are mainly caused by the repeated outbreaks in some regions and natural emergencies such as floods in Henan and Shanxi.

In addition, the marginal effect on economic recovery has been diminishing. Economic growth slowed down under the triple pressures of "supply shock, domestic demand contraction and weakening expectations." As an economic barometer, the tourism industry is inevitably impacted. Practitioners are not confident in the return of the domestic tourism market in the first half of 2022, with the market sentiment score still in negative territory.

However, the horizontal comparison showed a growth on market sentiment score during the past two years. With the normalization of the epidemic, practitioners tend to be more dynamic and flexible in dealing with local or regional sporadic outbreaks, effectively reducing the impact of the epidemic on domestic tourism. Confidence in the future development of the industry has been slowly ticking up.



Market Sentiment Scores



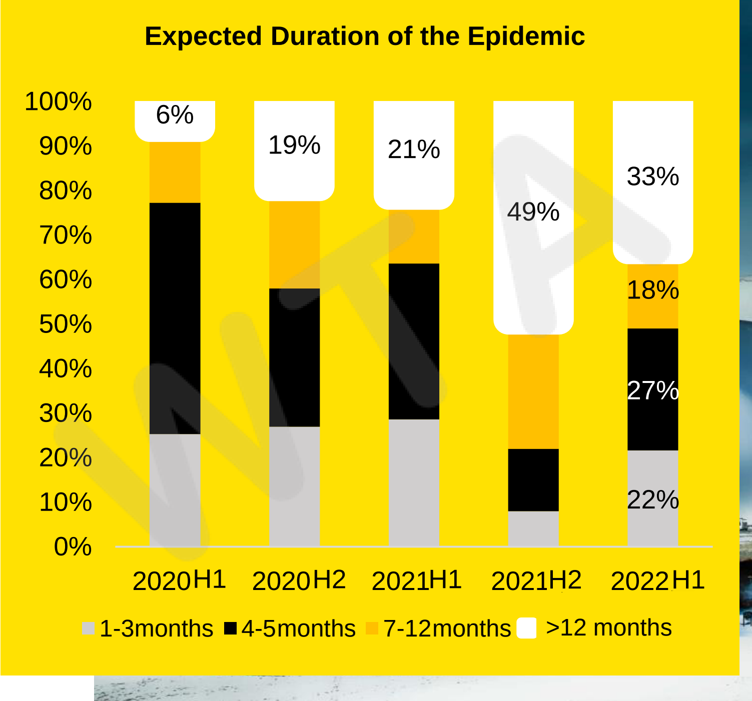
Epidemic Forecast Sentiment

Expecting impact to last more than one year still prevails

With the normalization of the epidemic, practitioners have estimated the duration of its impact to gradually expand. The proportion of respondents who believe the epidemic's effects will last for more than 12 months has increased from 6% in its early stage (2020 H1) to 33% currently. Compared to its early phase, respondents are more cautious and conservative about the current situation.

First, the ever-mutating strain of the virus and relaxed quarantine policies in most overseas regions have created a global uncertainty. Second, weak precise-and-differentiated strategies in the prevention and control in some areas have almost cut off travel businesses and have generated severe roadblocks for tourists when the epidemic breaks out again, a primary factor limiting the domestic tourism recovery.

> Compared to half a year ago, confidence among respondents has shown some recovery. Notably, the general public has been influenced by the international public opinion that Omicron may signal the end of the global epidemic. New Coronavirus-targeted drugs have been approved, providing a shot in the arm to the struggling travel & tourism industry and hasten the end of the pandemic.



Faced with the current dire situation, respondents‘ expectations of various performance indicators of the tourism industry are still low, with all the sentiment scores still in the negative territory.

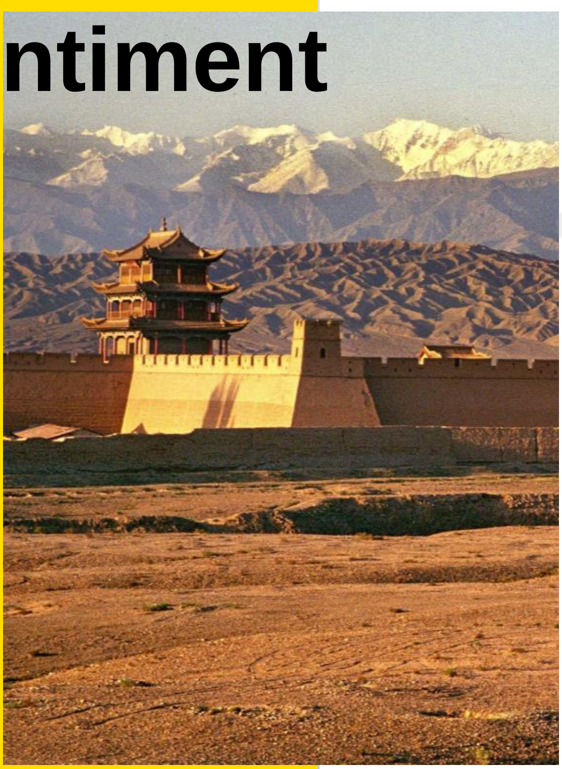
All indicators, however, have ticked up. The performance score by respondents of their own institutions/regions has increased more than the national level, signifying a more optimistic prospect of the tourism recovery in their respective regions. This may relate to the survey samples. More than half of the respondents come from East, South, and North China, which have relatively high economic development and enormous tourism market base. During the epidemic, the suburban market has been hot, instilling more confidence among local practitioners.

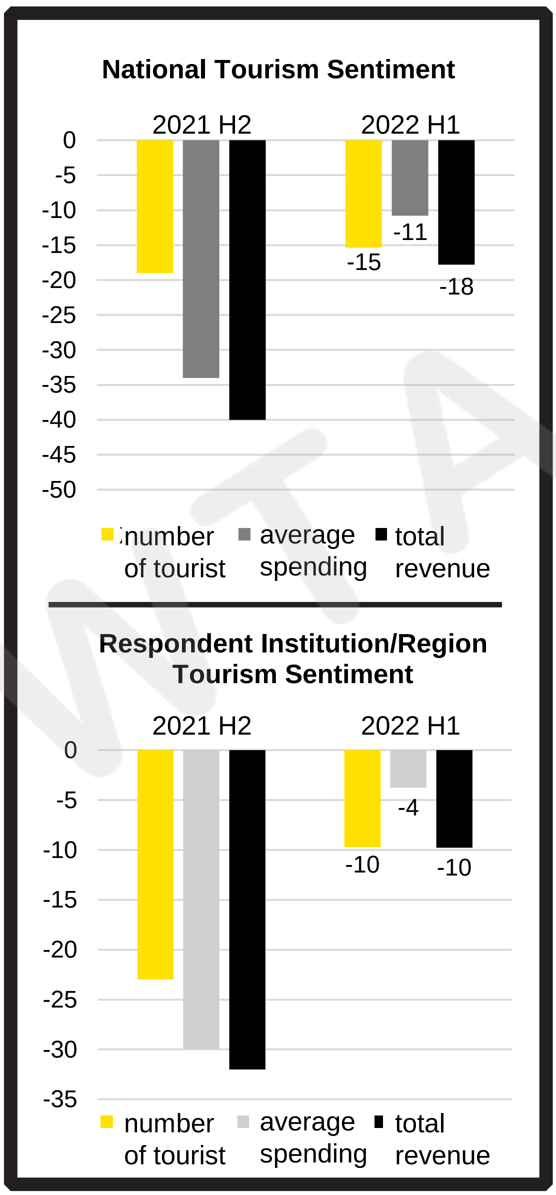
Regarding the national tourism performance sentiment scores, respondents are more optimistic about the recovery of per capita spending power, compared with a more optimistic forecast of trips in the previous survey. We believe that middle-income consumers are most affected by the epidemic. In the past six months, under the wave of layoffs in IT, education & training and real estate enterprises, the travel willingness of the middle class has been reduced. Travel demand and the buying power of current high income travelers are not affected. Respondents are consequently more worried about the recovery of the number of trips and have expressed more confidence in the comeback of per capita consumption.

Overall performance sentiment score rose

Confidence in the recovery of spending outweighs that of trips

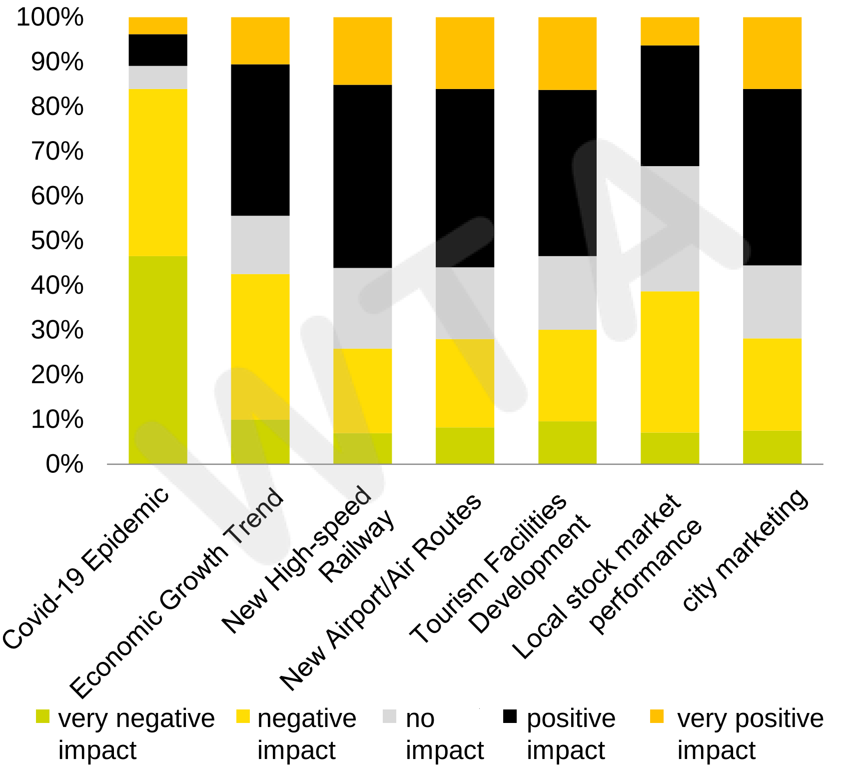
Tourism Performance Sentiment





How might the following factors affect the domestic tourism market in the first half of 2022?

The development of transportation infrastructure and tourism facilities and proactive city marketing, are expected to have a positive impact on domestic tourism.



Covid-19 Epidemic -87

The sentiment score of this factor remains unchanged from six months ago, with most respondents believing a sizeable negative impact from the epidemic on domestic tourism. But nearly 11% of respondents believe COVID-19 will have a positive effect on the travel market. The pent-up travel demand during the epidemic has increased the demand for suburban vacation market. Long-distance vacation tourists restricted from going abroad have returned to excellent domestic tourist destinations. Thanks to duty-free shopping, most hotels and tourism products in Sanya, the only tropical tourist destination, have achieved higher performance than before the epidemic.

Although the tourism industry has suffered, in the long run, the epidemic has magnified the advantages and disadvantages of both the product and operation side, accelerating the survival of the fittest of tourism products. The epidemic is not without value in the long-term development of the industry and the market.

Economic Growth Trend 2

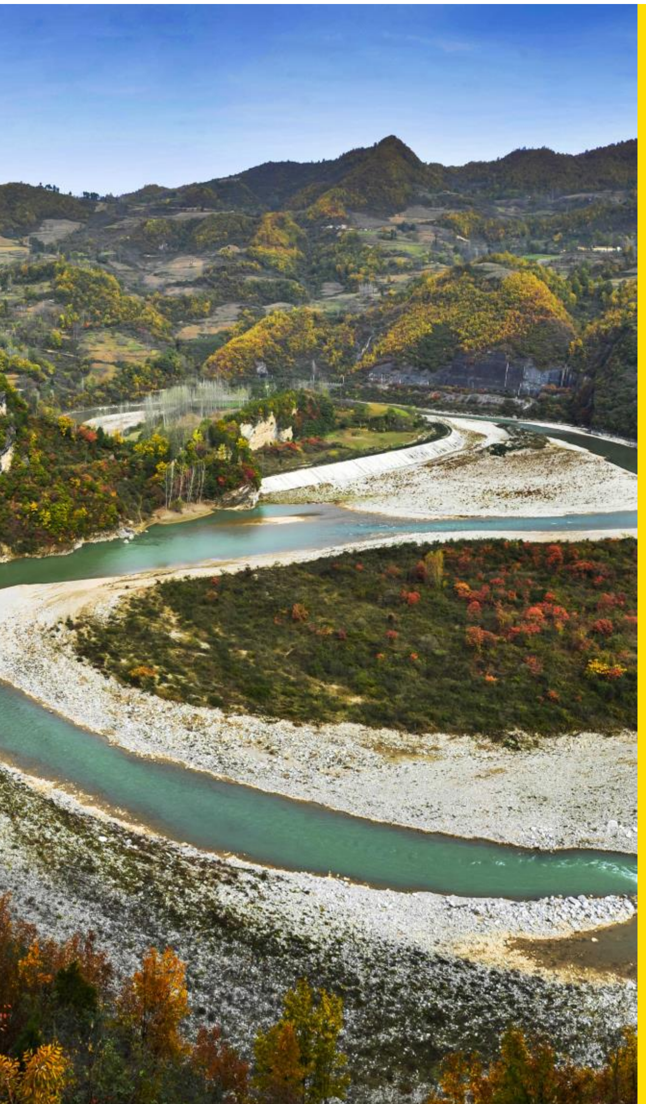
For the first time since the epidemic emerged, the sentiment score of this factor has turned positive. Respondents' expectations about the impact of economic development were mixed. The unchanged economic theme of rising national fortunes and epidemic recovery and an 8.1% economic development increase in 2021 have demonstrated vitality and resilience. Recently, the central government has undertaken a series of measures--cutting interest rates and required reserve ratios, expanding infrastructure investment and releasing special bonds in advance—that are expected to effectively promote healthy economic growth.

The downward pressure on the economy is considerable. Corporate investment has been reduced as a result of the impact of the epidemic and control policies. Export trade has declined due to the gradual resumption of overseas production and household consumption has been depressed because of the impact of high inflation and layoffs. These factors have led some respondents into not being confident about the future.

New High-speed Railway 29

New Airport/Air Routes 27

Compared to other factors, respondents believe that the high-speed rail and airport construction have the most beneficial effect on domestic tourism development. These two have also recorded the highest sentiment scores. While convenient transportation is generally good for deliveries to tourist destinations, nearly 30% of the respondents still believe such construction hurts tourism. For medium- and short-distance tourist destinations, convenient transportation reduces the psychological expectation of tourists, shortens their length of stay and reduces tourism spend and consumption which altogether impede the local economic tourism development.



Tourism Facilities Development 23

56% of the respondents believe the development of tourism facilities has a highly positive impact on domestic tourism, indicating that more than half of the respondents have confidence in tourism facilities development, including the iteration and innovation of tourism products in their respective regions. For example, the opening of Universal Studios Resort in Beijing, the successful development of RED Tourism, the combination of traditional scenic spots and “VR+cloud” technology to achieve the new tourism mode, etc. In areas such as Henan and Hainan, the tourism industry here has actually experienced a boom. In contrast, in places where the development of tourism facilities lags behind, respondents' expectations are rather pessimistic.

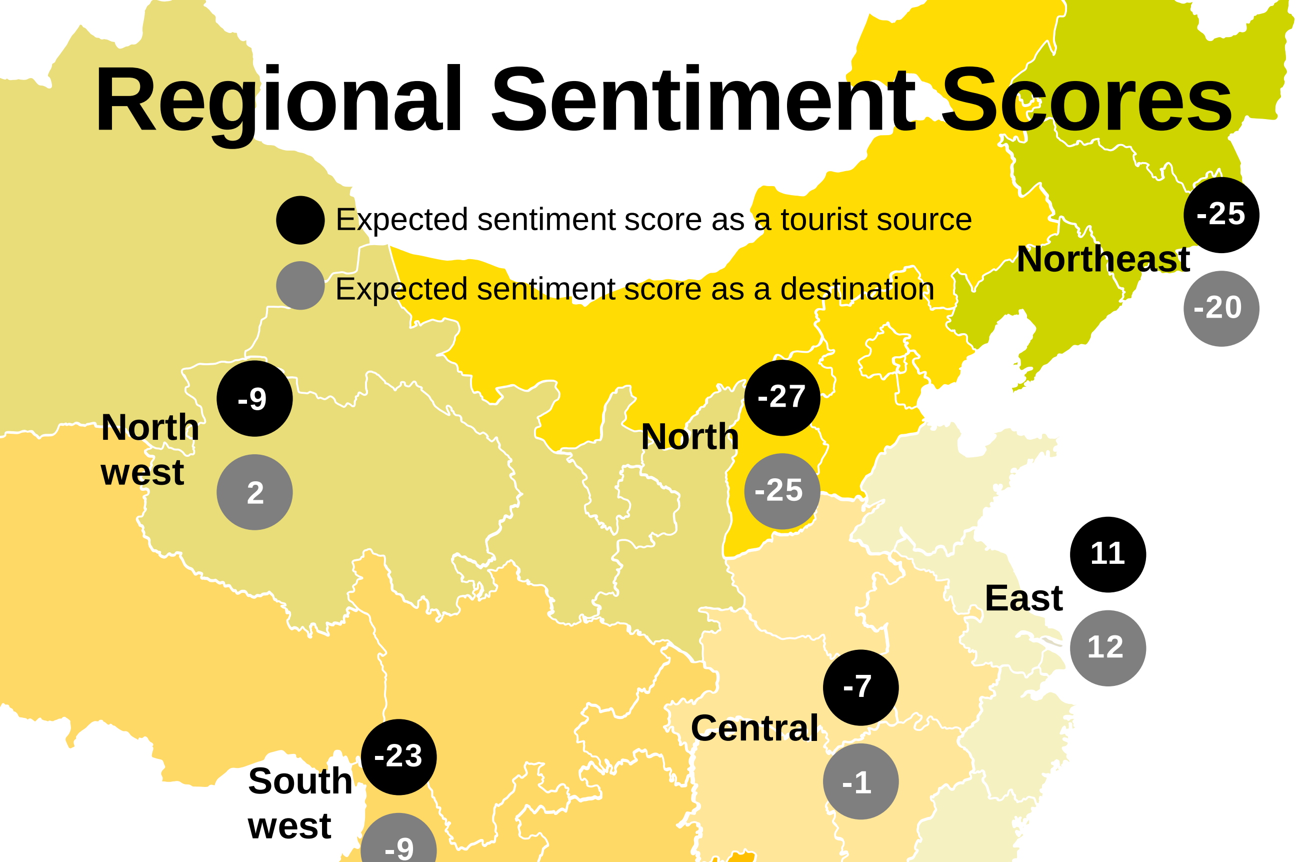
Local Stock Market Performance -5

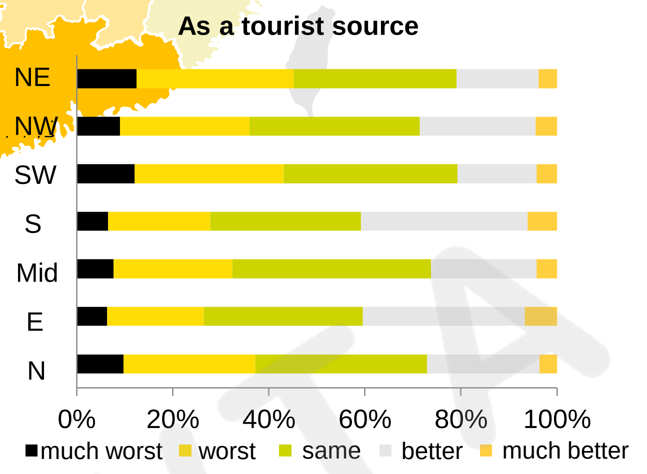
As a tourism industry development reference, the stock market and economy are inseparable. The 2021 A-share market’s overall stock contraction, especially in the second half of the year, was the result of the strengthening by national regulators of the policy governing the pharmaceutical, education, real estate and the Internet. The ensuing market correction was prominent, with the financial and consumer sectors dropping in value. The performance of the Chinese stock market has not instilled confidence among our respondents. Thus, the sentiment score for this factor, including its influence on the development of the tourism boom, is negative.

City Marketing 27

In the mobile Internet era, there were short video marketing precedents in Chongqing and Xi‘an. This was followed by the phenomenon of Litang Ding Zhen which made a city popular with only one person. Online marketing plays a vital role in developing the local tourism economy, so respondents have elevated expectations for this factor. However, while online exposure amplifies the beauty of attritions, it also raises expectations. “Little Red Book-isation" and "filter photo fraud" are common in promoting tourism products, leading some respondents to believe that excessive city marketing has adverse effects.

Regional Sentiment Scores



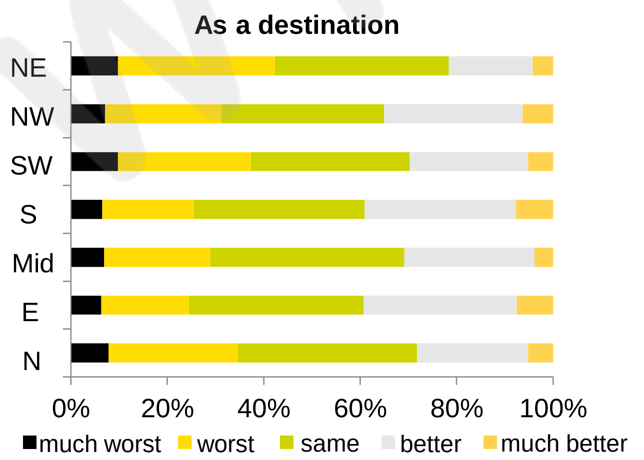


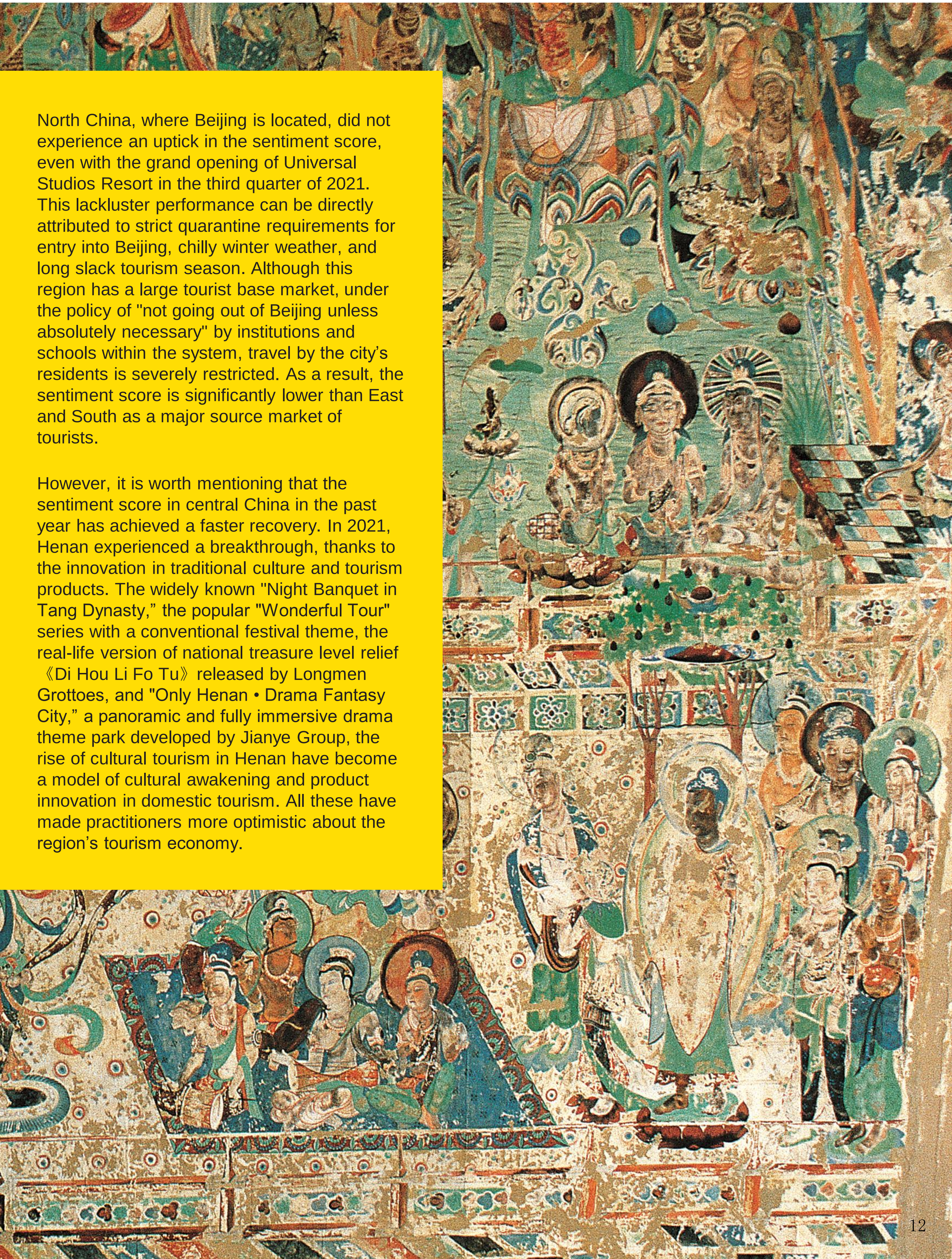
Sentiment scores of all regions rose

The regional pattern of strong south and weak north remains unchanged

Compared with the second half of 2021, people's tourism expectations for all regions generally increased, except for east China and northeast China, which have remained unchanged. All regional sentiment indicators have increased as tourist sources and destinations, mainly due to the underlying economic market recovery and robust travel demand.

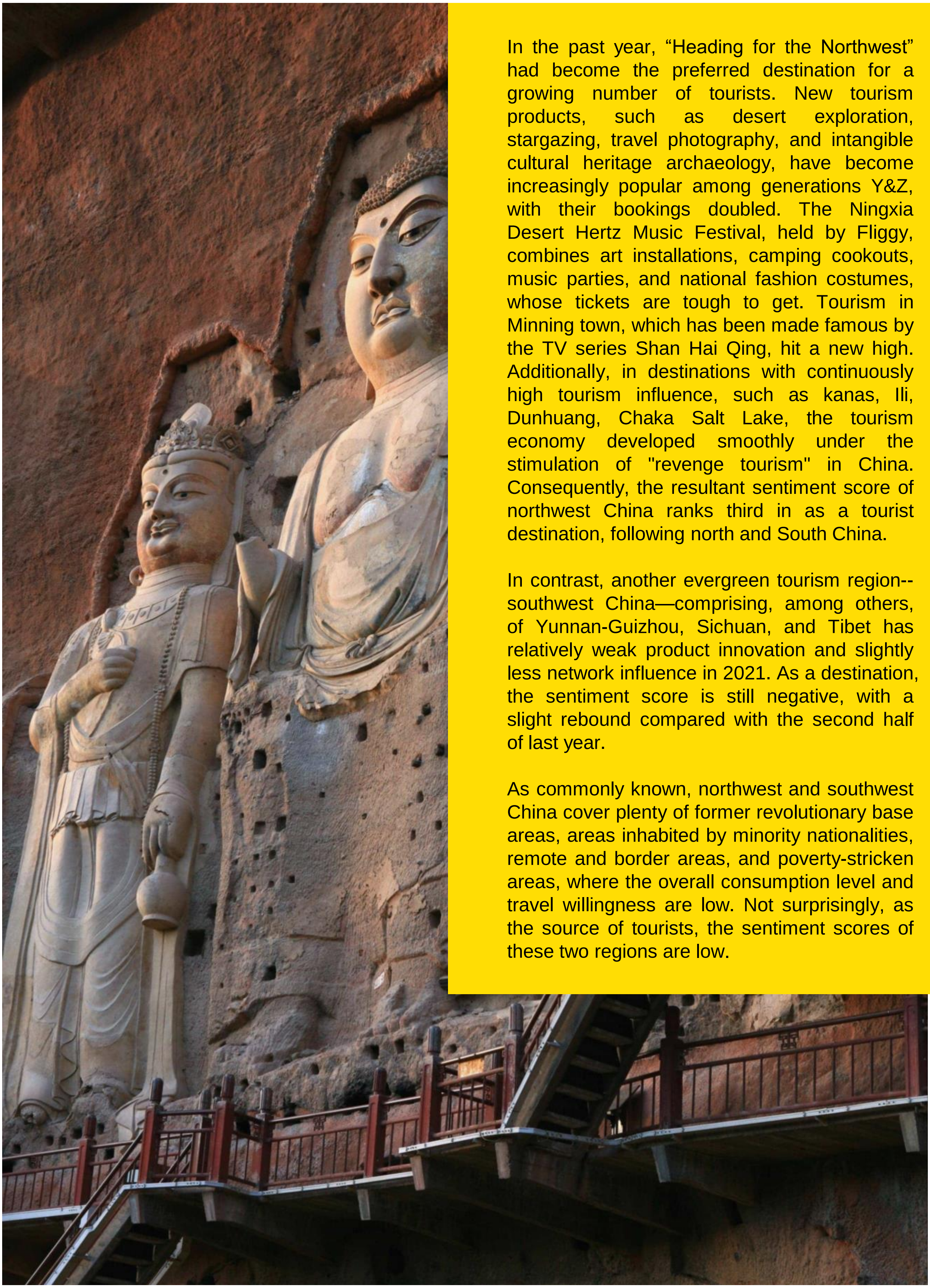
The domestic and regional tourism industry has created a strong South and weak North scenario as it relates to the local economic development level. Despite frequent outbreaks, the Pearl River Delta and Yangtze River Delta, as the most developed and densely-populated areas, are still a value highland of the national tourism industry. In fact, they have the best sentiment score performance.





North China, where Beijing is located, did not experience an uptick in the sentiment score, even with the grand opening of Universal Studios Resort in the third quarter of 2021. This lackluster performance can be directly attributed to strict quarantine requirements for entry into Beijing, chilly winter weather, and long slack tourism season. Although this region has a large tourist base market, under the policy of "not going out of Beijing unless absolutely necessary" by institutions and schools within the system, travel by the city’s residents is severely restricted. As a result, the sentiment score is significantly lower than East and South as a major source market of tourists.

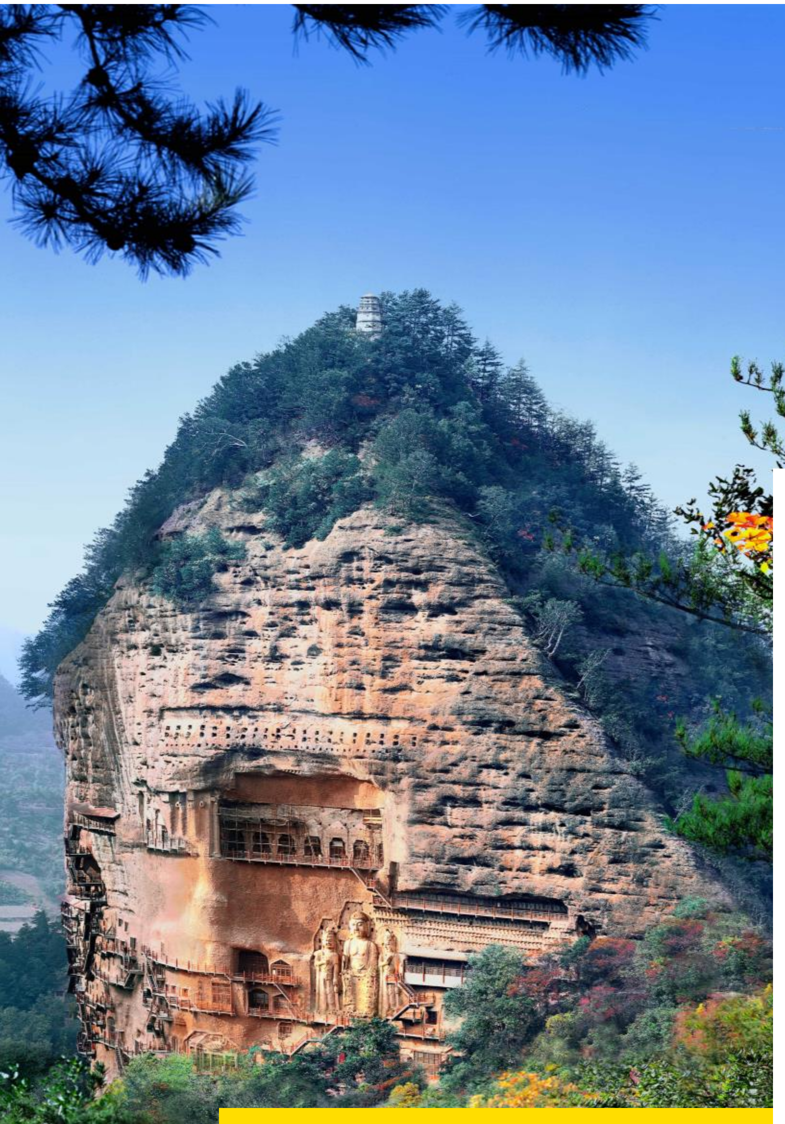
However, it is worth mentioning that the sentiment score in central China in the past year has achieved a faster recovery. In 2021, Henan experienced a breakthrough, thanks to the innovation in traditional culture and tourism products. The widely known "Night Banquet in Tang Dynasty,” the popular "Wonderful Tour" series with a conventional festival theme, the real-life version of national treasure level relief 《Di Hou Li Fo Tu》released by Longmen Grottoes, and "Only Henan • Drama Fantasy City,” a panoramic and fully immersive drama theme park developed by Jianye Group, the rise of cultural tourism in Henan have become a model of cultural awakening and product innovation in domestic tourism. All these have made practitioners more optimistic about the region’s tourism economy.



In the past year, “Heading for the Northwest” had become the preferred destination for a growing number of tourists. New tourism products, such as desert exploration, stargazing, travel photography, and intangible cultural heritage archaeology, have become increasingly popular among generations Y&Z, with their bookings doubled. The Ningxia Desert Hertz Music Festival, held by Fliggy, combines art installations, camping cookouts, music parties, and national fashion costumes, whose tickets are tough to get. Tourism in Minning town, which has been made famous by the TV series Shan Hai Qing, hit a new high. Additionally, in destinations with continuously high tourism influence, such as kanas, Ili, Dunhuang, Chaka Salt Lake, the tourism economy developed smoothly under the stimulation of "revenge tourism" in China. Consequently, the resultant sentiment score of northwest China ranks third in as a tourist destination, following north and South China.

In contrast, another evergreen tourism region--southwest China—comprising, among others, of Yunnan-Guizhou, Sichuan, and Tibet has relatively weak product innovation and slightly less network influence in 2021. As a destination, the sentiment score is still negative, with a slight rebound compared with the second half of last year.

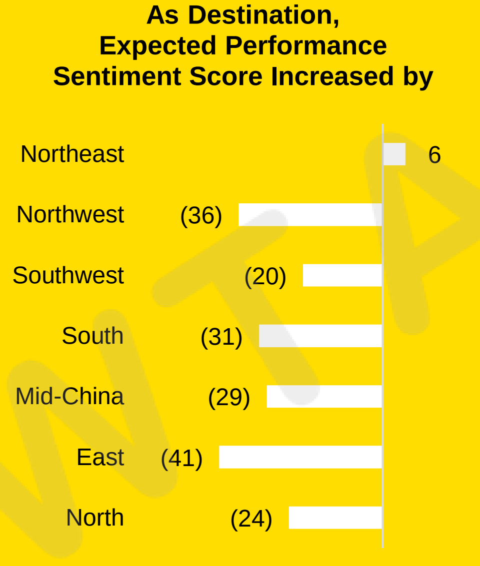
As commonly known, northwest and southwest China cover plenty of former revolutionary base areas, areas inhabited by minority nationalities, remote and border areas, and poverty-stricken areas, where the overall consumption level and travel willingness are low. Not surprisingly, as the source of tourists, the sentiment scores of these two regions are low.



Due to years of weak economic growth, negative reputation of the tourism industry, and severe population loss, the development of the tourism industry in northeast China has been relatively backward. Its sentiment scores as a destination and source of tourists have always been at the bottom. However, since 2021, ice and snow tourism has brought new hope to this area.

Our survey compared the sentiment score in 2022 and 2019. As visiting destinations, northeast China, among all the regions, is the only one with a higher sentiment score than before the epidemic, indicating the positive impact from ice and snow tourism. In the snow season of 2021, the number of tourists received by Changbai Mountain Wanda Resort increased by 351% year on year. During the Spring Festival of 2022, air ticket bookings to destinations in the three northeastern provinces increased by 68% year on year. The goal of "300 million people on ice and snow" has achieved its initial results.

With the successful hosting of the Winter Olympic Games, the construction of domestic snowfields and the vigorous development of the snow and ice industry stimulated by relevant policies, we expect the enthusiasm of all nationals for snow and ice tourism to remain high, bringing great opportunities for the revitalization of the tourism industry in northeast China.



（Note：Values above = 2022 H1 Sentiment Score – 2019 H1 Sentiment Score）

Conclusion

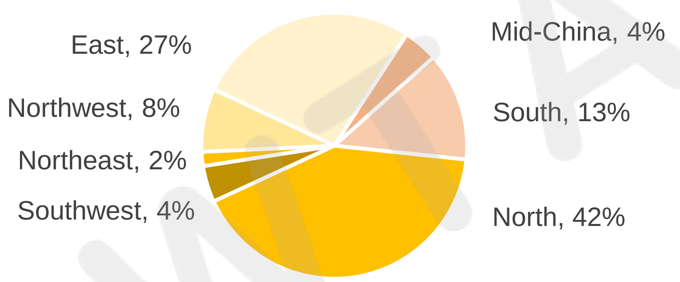
At the time of writing, the world has been fighting the epidemic for two years. We have witnessed how the epidemic has forced the supply-side to reform and tap the industry's structural potential. Hit hard by the epidemic, the travel and tourism industry has undergone reshuffling, self-help and innovation, accelerating its transformation as it moves forward with unprecedented challenges. The epidemic has also changed people's mindsets and opened new ways of travel. The growing new generation of consumers' strong pent-up travel demand within the country has also created a vast market foundation for a sustainable domestic tourism development.

Most indicators in this sentiment survey have been significantly better compared to the same period last year. The overall recovery trend is significant. Looking ahead, in the short term, the industry will still coexist with the epidemic and be subject to local epidemic prevention requirements. The recovery speed of the domestic tourism economy will be limited. In the long run, we firmly believe that the epidemic's impact will eventually wane, and the tourism industry will have a rebirth as it welcomes global tourists with more savvy and spot-on marketing methods, more vigorous product supply, and better operational skills and abilities. The domestic tourism industry will embrace a new round of leap-forward developmental opportunities.

Sample Specification

This report is a summary of the sentiment survey results in the first half of 2022 and received 521 valid domestic tourism market questionnaires from 28 provinces, municipalities, and autonomous regions. The questionnaire survey ended on January 25, 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

39% Destination Management

26% Travel Agency

4% Hotel **1%** Airline

29% 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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