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China Domestic Tourism Market Sentiment Report



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Boat Fishing on Puyang River

Table of Contents

Foreword	01
Introduction	02
Market Sentiment Analysis	03
Conclusion	11
Appendix	12
Disclaimer	13



Xianghu National Tourist Resort AAAA

2019 H2 China Domestic Tourism Market Sentiment Report

The first half of 2019 was a remarkably successful period for domestic tourism. According to the Ministry of Culture and Tourism, the number of domestic tourism arrivals reached nearly 3.1 billion and the total tourism revenue generated nearly 2.8 trillion RMB in the first half of 2019, indicating a robust domestic consumption.

The World Tourism Alliance—an international nonprofit, non-governmental organization founded in China with the mission to promote “Better Tourism, Better Life, Better World”—is partnering with Horwath to conduct semi-annual sentiment surveys of China’s domestic, outbound and inbound tourism markets starting in 2019. This is the second of such reports this year.

Our special thanks go to Shanghai Municipal Bureau of Culture and Tourism, Fujian Provincial Department of Culture and Tourism, Gansu Provincial Department of Culture, Shanxi Provincial Department of Culture and Tourism, Guangzhou Municipal Culture, Radio, Television and Tourism Bureau; Guilin Tang Dynasty Tours Co., Ltd., Tunio.com, wowoyoo.com, Ctrip.com, China Association of Travel Services, China National Travel Service Group Corporation Limited and China CYTS Tours Holding Co. Ltd. As well, our sincere thanks go to WTA member Xiaoshan District people's Government for providing us with the images used in this report.

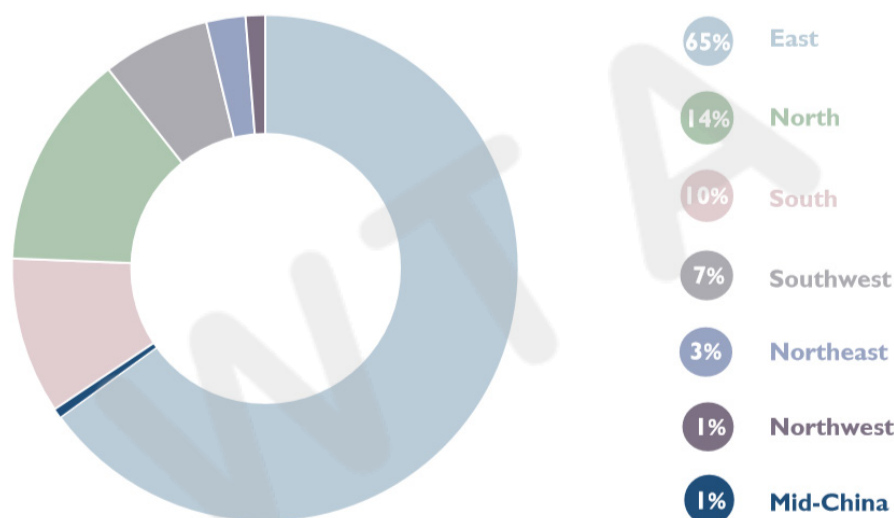
Introduction

The five-question survey focused on the outlook for Domestic Tourism Arrival, Per Capita Consumption and Total Revenue. Responses are quantified through a specific sentiment score model presented in the form of scores to reflect the respondents' expectations. They are measured and their values are compared across China's various 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 second half of 2019 to the actual performance in the first half of 2019. They were asked to identify the factors contributing to the variance and provide their insights into tourism source markets and destination markets.

This is the second survey conducted by Horwath and the World Tourism Alliance for the domestic travel market. It is a summary of the results of our research based on 542 questionnaires from 25 provinces, municipalities and autonomous regions in China, including 160 questionnaires specifically tailored for domestic tourism.

Sample Analysis by Region, Mainland China



Sample Analysis by Organization Type



Market Sentiment Analysis

Sentiment Score

21

The average sentiment score of China’s domestic tourism market in the second half of 2019 is 21, representing a four-point drop compared to the first half of the year. Although there is a slight drop in the confidence level of respondents in the second half of 2019, they remain positive about domestic tourism.

China’s domestic tourism achieved an impressive growth rate of 8.8% and 13.5% in total revenue in the first half of 2019. Following are the factors influencing this growth:

Positive Domestic
Economic Growth
Trend

Structure Upgrade
of Residents'
Consumption

Traffic Network
Optimization

Rapid Development
of Holistic
Tourism

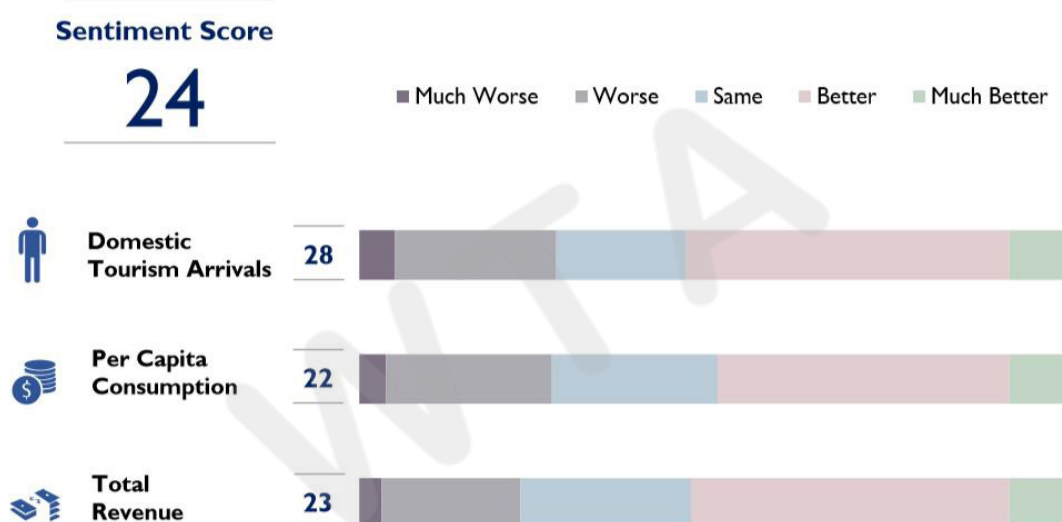
Vacation Policy
Improvement

Development opportunities abound for China’s tourism industry. Further optimization of the overall tourism development is expected owing to favorable policies from government bodies. As younger generations begin to dominate the market and more innovations and mass personalization are introduced, China’s domestic tourism will inevitably evolve into a quality-centric market.

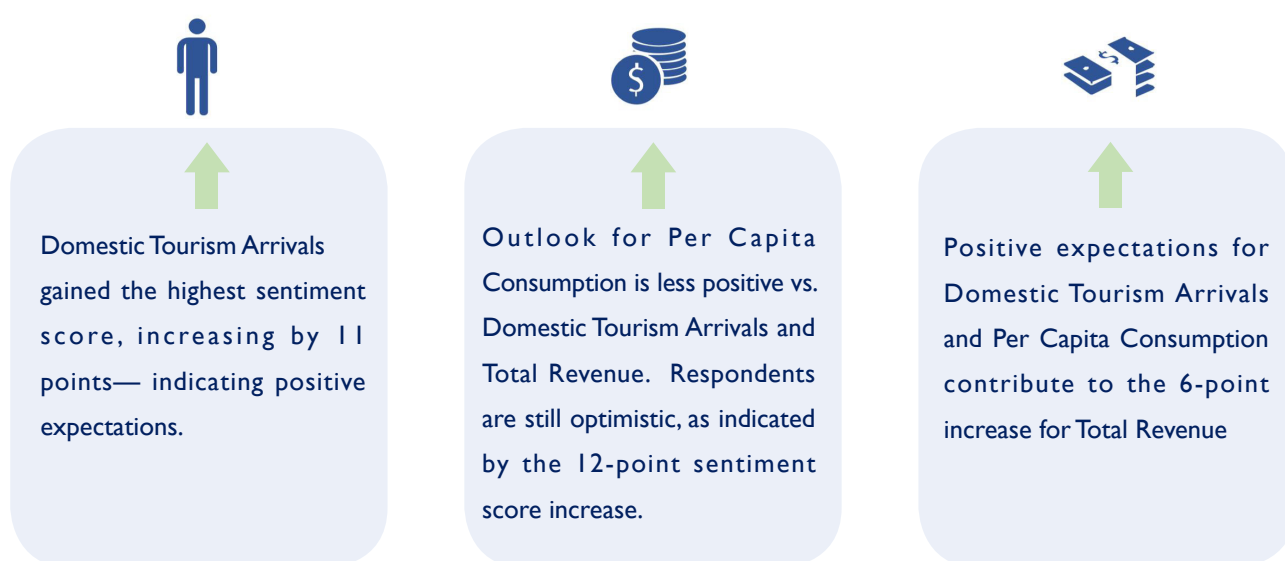


National Water Museum of China

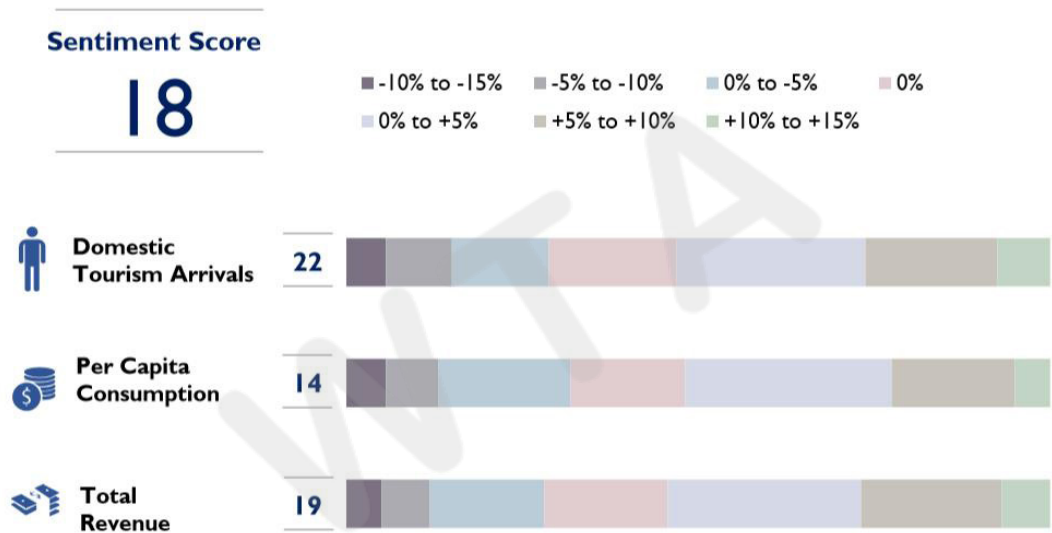
What is your assessment of China's domestic tourism for the second half of 2019?



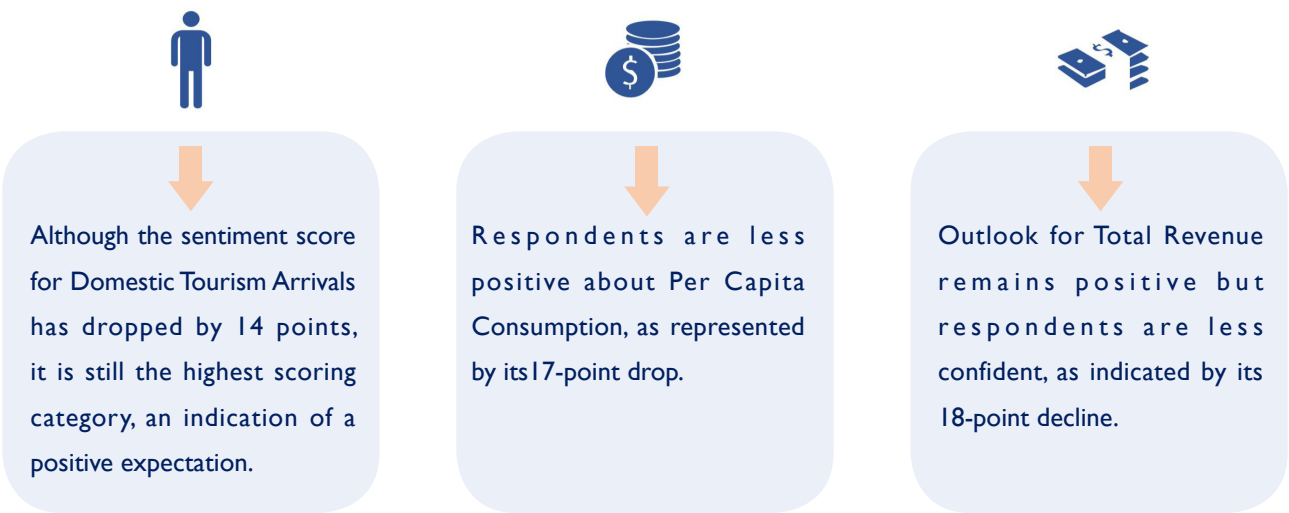
Overall expectation for domestic tourism is positive, with a significant increase compared with the first half of 2019. Respondents are optimistic about this market.



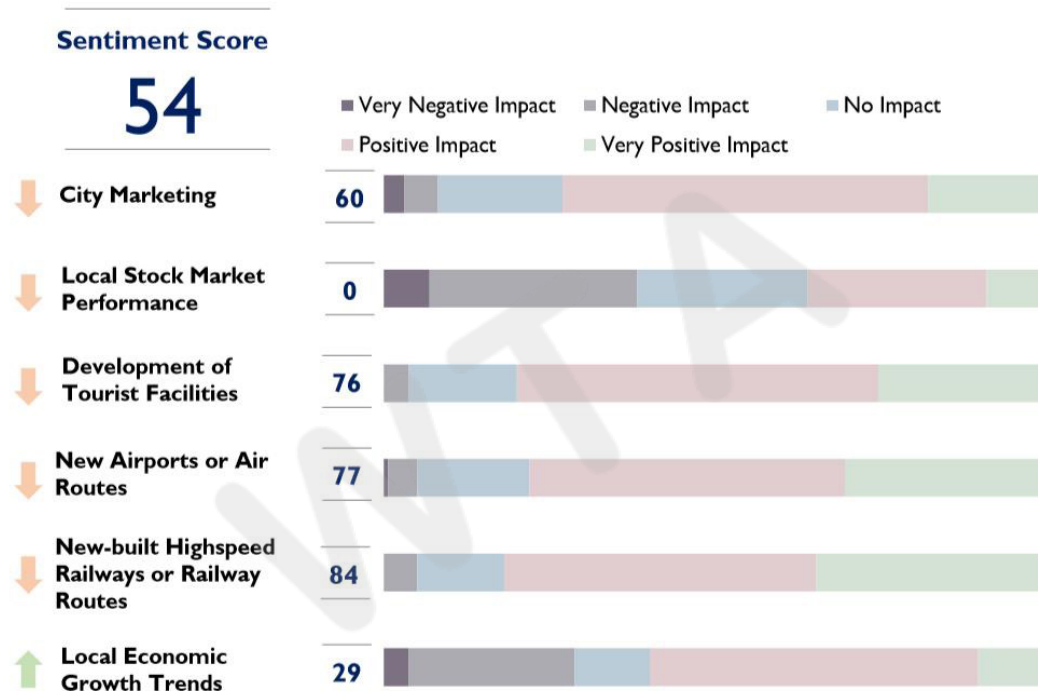
What is your expectation for growth/decline of domestic tourism in the second half of 2019?



Although respondents are generally positive about their own domestic tourism business, they are less confident compared to the first half of 2019. Although respondents are more positive about the performance of the general domestic tourism market, they are conservative about their own domestic tourism business.



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

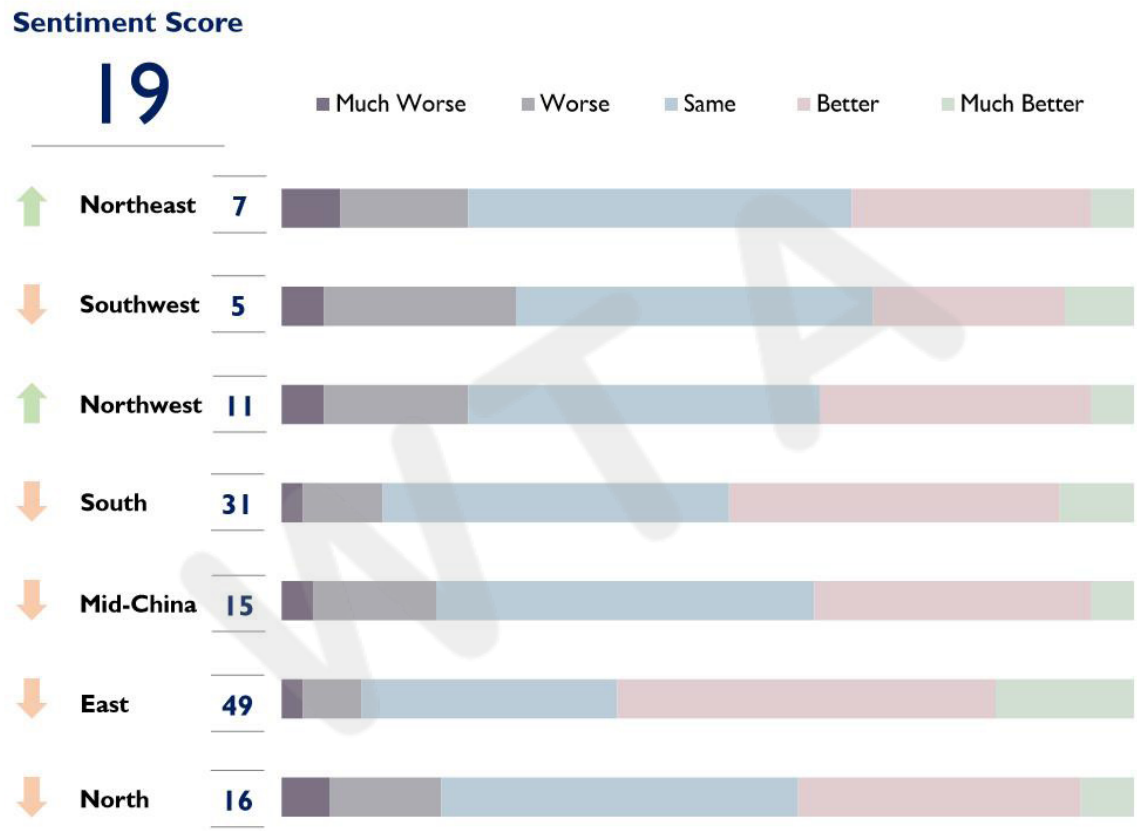


Despite the nine-point decline of the overall sentiment score, all of the six factors above indicate positive impacts on the domestic tourism market. Majority of the respondents believe regular traffic network optimization and tourism facilities are the top positive factors in promoting domestic tourism. However, they are conservative about the impact of the domestic stock market fluctuations.



The Newly-Built Highspeed Railways or Railway Routes, the New Airports or Air Routes, the Development of Tourism Facilities and Destination Marketing remain the top factors in promoting domestic tourism. Despite the slowdown in China's economy, respondents remain positive about the impact of Local Economic Growth Trends. The respondents' conservative expectation is the result of the US-China trade war that has affected stock markets across the world, including China.

How do you expect each domestic tourism generating region below to perform in the second half of 2019?



Respondents are more optimistic about the performance of domestic tourism source markets compared to the first half of the year. Sentiment scores of Northeast and Northwest China have experienced significant increases.

Although the sentiment score of **East China** has declined slightly, it has maintained its top position among seven regional source markets. The region has a lot going for it—advanced economic development, high travel intention of its residents due to strong purchasing power. East China is expected to continue to lead the tourism market in the future.

Although the sentiment score of **South China** has decreased dramatically by 18 points, it has retained its position as the country’s second largest tourism generating region. Represented by the Pearl River Delta, South China is an important economic engine for China’s development. Respondents remain optimistic about the region’s performance.

How do you expect each domestic tourism generating region below to perform in the second half of 2019?

With Beijing in the driver's seat, the outlook for **North China** as a domestic tourism market remains positive, notwithstanding its 3-point sentiment drop. Respondents maintain their confidence in North China as a domestic tourism source market.

The sentiment score for **Mid-China** has declined by 8 points, dropping below the market average. However, it still maintains a positive level of 15. Although the region's overall economic performance cannot compare to first tier city clusters, Mid-China has its own share of core cities—Wuhan, Changsha, and Zhengzhou--that enjoy robust economic development.

Northwest China's sentiment score has rebounded strongly, from negative to positive, as shown by its 25-point increase. As one of the national central cities, Xi'an has enhanced its position as a key transportation hub by upgrading its railways and expanding the airline routes serving the destination.

Improved regional accessibility in Northwest China is facilitating its residents' travel across the country. Led by Xi'an, the expectation for this region is positive.

With a sentiment score of 23 points, respondents are increasingly confident of **Northeast China** as a domestic tourism source market. However, in spite of the increase, its score continues to be at the bottom among the seven regional markets. The poor outlook for this region is attributed to its lack of economic vitality.

Southwest China's 3-point sentiment score decline puts it last among the seven regional markets. Notwithstanding the decline, the sentiment score remains positive, indicating the respondents' optimism of the region's prospect as a domestic tourism source market.



Mountain Biking at Daicun

How do you expect each domestic tourism destination below to perform in the second half of 2019?

Sentiment Score

28

■ Much Worse ■ Worse ■ Same ■ Better ■ Much Better



Respondents are positive about the overall domestic tourism destination market compared to the first half of the year. Expectations for North and Northeast China have increased significantly.

East China has retained its first place position in spite of the seven-point decrease in its sentiment score. As China's largest economic zone, the Yangtze River Delta enjoys rapid economic development, easy accessibility, abundant tourism resources and favorable climate—all contributing to the development of the region as the leading tourism destination market.

The 10-point decline of **South China's** sentiment score is still above average, indicating the respondents' full confidence in its future development. Powered primarily by Sanya and Guilin, tourism development

in this region is steadily growing. It is expected to maintain its leading position as a domestic tourism destination in the future.

Northwest China's sentiment score of 29 represents a sharp increase that exceeds the market average. Improvements on the regional transportation network has enhanced its accessibility. Although tourism development, infrastructure construction and destination marketing in the region are still in their early stage, recent improvements have revitalized the region, contributing to its favorable outlook as a domestic tourism destination.

How do you expect each domestic tourism destination below to perform in the second half of 2019?

Respondents are confident in the development of **North China** as domestic tourism destination as evidenced by the eight-point increase of its sentiment score. The World Horticultural Exposition has increased the number of tourism arrivals in Beijing. Contributing to the positive expectation for this region include the development of various ski destinations and other winter sports in preparation for the Winter Olympics in Beijing in 2022.

Respondents are positive about **Mid-China** as a domestic tourism destination, in spite of the six-point decrease of its sentiment score. The region's historic importance in the Chinese revolution is prompting the development of patriotic destinations that include the former residence of Chairman Mao, Orange Island and Mount Jingang.

The below average 17-point decline in **Southwest China**'s sentiment score has not dampened the respondents outlook as they remain positive about the region's market performance. Thanks to its compelling cybermarketing, Southwestern cities are hugely popular

owing to their spicy cuisine, the giant pandas in Chengdu and the exotic Bashu culture. However, natural disasters that have struck the region are making it less attractive to domestic tourists who are concerned about their personal safety. Respondents have conservative expectations for Southwest China in the second half of 2019.

Northeast China's sentiment score as a tourism destination has rebounded strongly, benefiting from its large trove of winter tourism resources. The Winter Olympics in Beijing in 2022 presents a unique opportunity for this region to showcase its winter sports destinations and attractions. The significant increase, however, has not moved Northeast China from its bottom position among the seven regional markets. Lack of traffic network development and adequate tourism infrastructure are factors restricting the region's advancement.



The City of Xiaoshan

Conclusion

Although the sentiment score of China's domestic tourism market has declined slightly compared to the first half of the year, the outlook remains positive. Respondents are more positive about the overall market vs. the first half of 2019. Expectations for Northeast China have substantially increased. Overall sentiment score for tourism source markets has increased slightly, with all seven regions gaining a positive value. Respondents are more confident about the future development of domestic source markets, with expectations for Northwest and Northeast China experiencing significant increases.

Surveyed respondents are most confident about the growth of Domestic Tourism Arrivals. Although there is more optimism for the general domestic market performance, they are relatively conservative about the performance of their own organization. The sentiment of Local Economic Growth Trends as an influencing factor has increased while others have declined. Overall sentiment score is still positive, revealing the respondents optimistic expectation for domestic tourism.

China's domestic tourism is expected to continue its robust growth pattern as disposable income increases and improvements in vacation policy are implemented. Its rich cultural history that seamlessly blends old and new, breathtaking must-visit UNESCO World Heritage Sites, international events such as the Winter Olympics ensure China's position as the world's leading inbound, outbound and domestic tourism destination.



Dragon Lantern Festival in Heshang (National intangible cultural heritage)

Appendix

About World Tourism Alliance

The World Tourism Alliance--the first global, non-governmental nonprofit tourism organization established in China--held its inaugural ceremony to commemorate its founding in Chengdu, Sichuan province on Sept. 12, 2017. Premier Li Keqiang of the State Council of the People's Republic of China sent a letter of congratulations.

In addition to upholding its mission of "Better Tourism, Better World, Better Life," WTA is committed to promoting peace, development and poverty alleviation through tourism by driving global tourism exchanges and cooperation at non-governmental level.

To date, WTA has 182 members from 38 countries and regions. Its membership roster comprises mainly of national or regional tourism associations, influential tourism or tourism-related enterprises, tourism cities, academia, media and individuals. Service to its members through platforms for cooperation, dialogue and networking, information and resource sharing and communication is at the core of WTA's operations.

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 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 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. Horwath HTL is also supported by the Horwath database, the largest and most complete hotel and tourism related database in the world.

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 individually held businesses to the world's most prominent operators, developers, lenders, investors and industrial corporations.

No other firm is better positioned to meet today's and tomorrow's industry challenges than Horwath HTL - experts in the hotel, tourism and leisure industries.

Disclaimer

This report is prepared for general information purpose only. Information contained here is based on sources we believe to be reliable but have not independently verified. We do not guarantee their accuracy or completeness. All opinions and estimates included in this report constitute our judgement as of publication date. They are subject to change without notice. Transactions should not be entered into based on the information, opinions and estimates in this report. We are not responsible for any action taken or any failure to act based on the information presented here.

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Qianjiang Tide