Perspectives on European Tourism Recovery

June 2021

FRANCE

In France, domestic market has been the most resilient during the COVID-19 pandemic

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Impacted by the COVID-19 pandemic, the French tourism market has dropped by nearly 60% between 2019 and 2020, and it is not expected to return to its pre-crisis level until 2024 (close to European average).

In terms of value, the market has lost more than half of its value in one year and more than 700 000 direct jobs have been affected.

Domestic expenditures have been the most resilient, even though this has declined by nearly 50%: it is the business segment that has been most affected, and at this stage do not expect it return to its pre-crisis level until 2027 (2024 for the leisure segment).

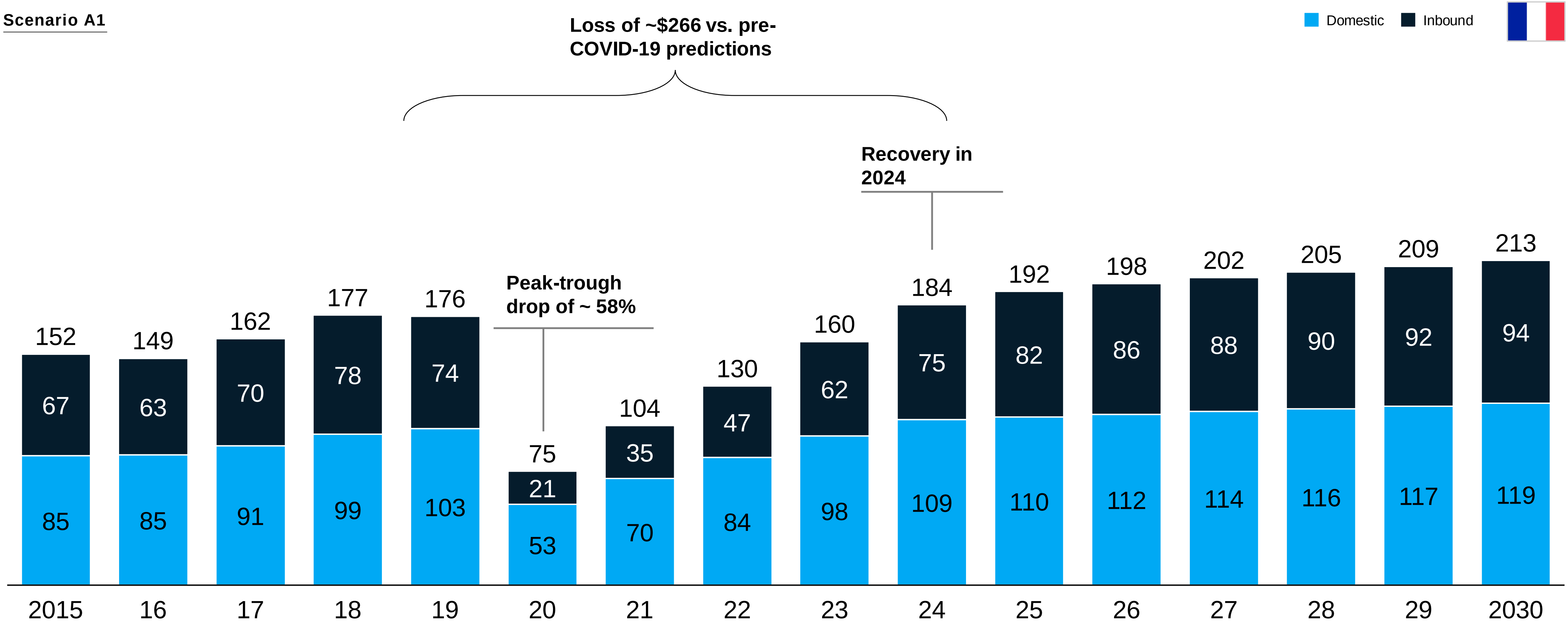
Outbound expenditures (i.e. French traveling abroad) dropped by approximately 70% between 2019 and 2020 (the business segment suffered the most with a drop in expenditures of about 80%).

However, France is in the top 3 in terms of total outbound spend (22 value in USD bn) only behind Germany and UK.

France tourism market dropped by almost 60% in 2020, market recovery is expected for 2024

Tourism expenditure[1],USD bn

Scenario A1



1. Inbound and domestic trips, including expenditure for transport, accommodation, entertainment, food and beverages, activities, retail & others

Source: McKinsey tourism recovery model, McKinsey Global institute; Globaldata for historical values

GERMANY

German tourism market to recover in 2023, faster than most other European markets

The German tourism market dropped by nearly 38% between 2019 and 2020, and it is not expected to return to its pre-crisis level until 2023 (earlier than other European countries such as UK, Italy, France or Spain, than will do so around 2024). Around 1 million direct jobs have been affected.

Domestic expenditures have been the most resilient compared to other European countries, even though they has declined by 33% due to the less rigid COVID-19 travel restrictions. Both the business and leisure segment should recover fast comparing to the European average of recovery and return to its pre-crisis level in 2022 (faster than Spain, France, Italy or UK).

Outbound expenditures dropped significantly by 71% between 2019 and 2020. We do no anticipate both business and leisure outbound travel from Germany to recover to pre-crisis levels until 2024.

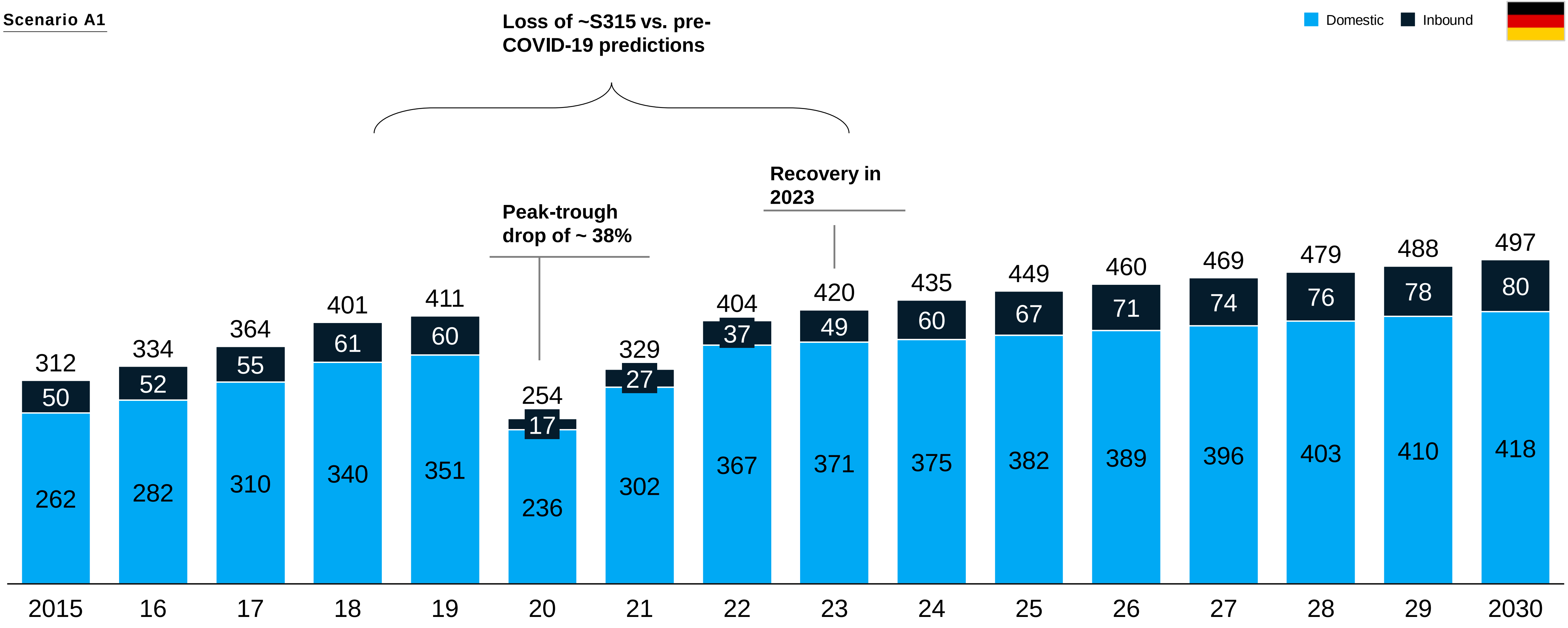
For Germany, the inbound business segment looks to be the slowest to recover and won’t do so until 2026.

In terms of outbound spend, Germany occupies the first position in Europe (40 value in USD bn) and the second position in terms of average trip expenditure for international trips (1481 value in USD bn) only behind Finland.

German domestic tourism market is likely to recover in 2022, while inbound tourism will recover later in 2024

Tourism expenditure[1],USD bn

Scenario A1



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SPAIN

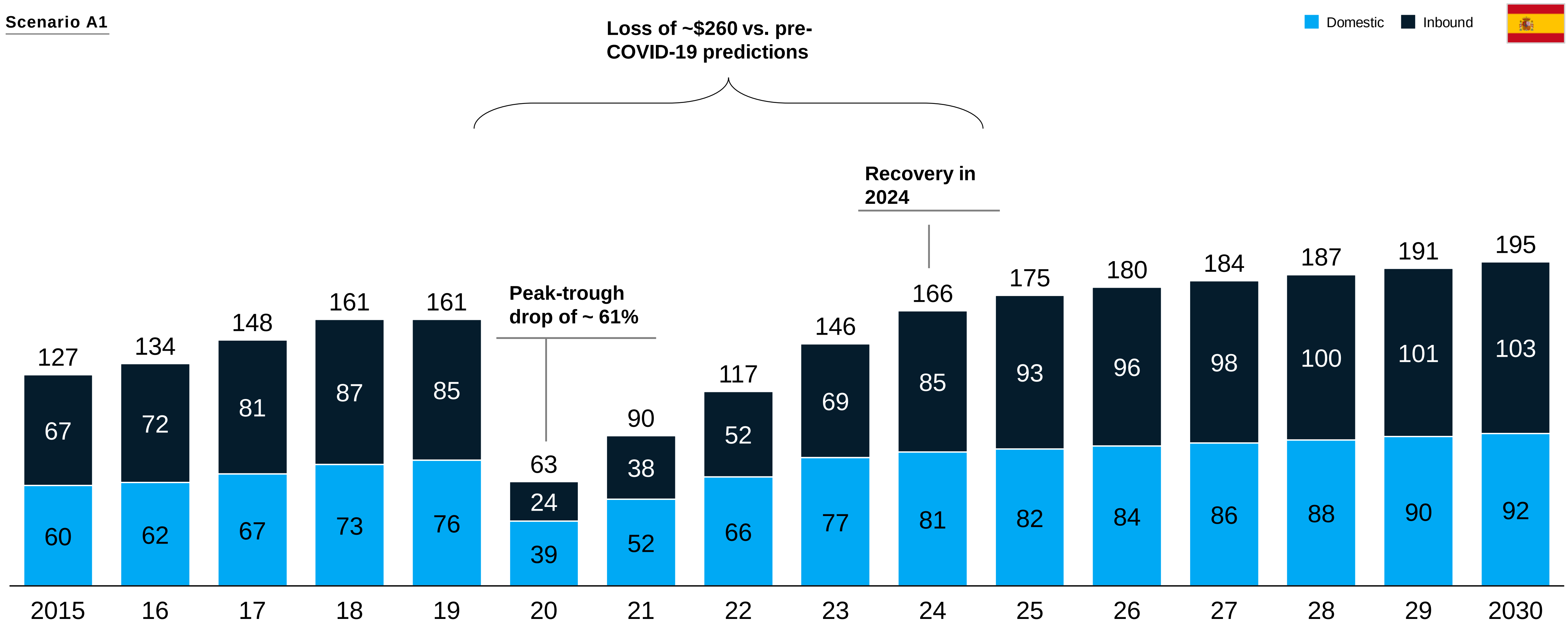
COVID-19 puts 4.4 million jobs at risk and 250,000 million euros in the Spanish tourism sector

- Domestic tourism may not recover pre-COVID levels until 2024 and international tourism until 2025.
- Domestic tourism in Spain may not return to pre-crisis levels until 2024, and inbound would need one more year (2025).
- The sector must reinvent itself, redesigning its business model and implementing measures with a view to return on investment (ROI), taking into account the direct economic return, induced and indirect effects, and the sustainability of the jobs created.
- More creative recovery levers will be needed to identify new segments of tourism demand and create products that serve them. For this, it will be essential to increase the competitiveness of the sector, innovative for collaboration ideas both between companies in the sector and from other sectors, as well as greater public-private collaboration for a more active management of tourism.

Current as of June, 2021

Domestic recovery in Spain is likely in 2023, while inbound recovery will be in 2024

Tourism expenditure[1],USD bn



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ITALY

Italy domestic market to recover faster than most other European markets

Impacted by the COVID-19 pandemic, the Italian tourism market has dropped by nearly 55% between 2019 and 2020, and it is not expected to return to its pre-crisis level until 2024 (close to European average).

In terms of value, the market has lost more than half of its value in one year.

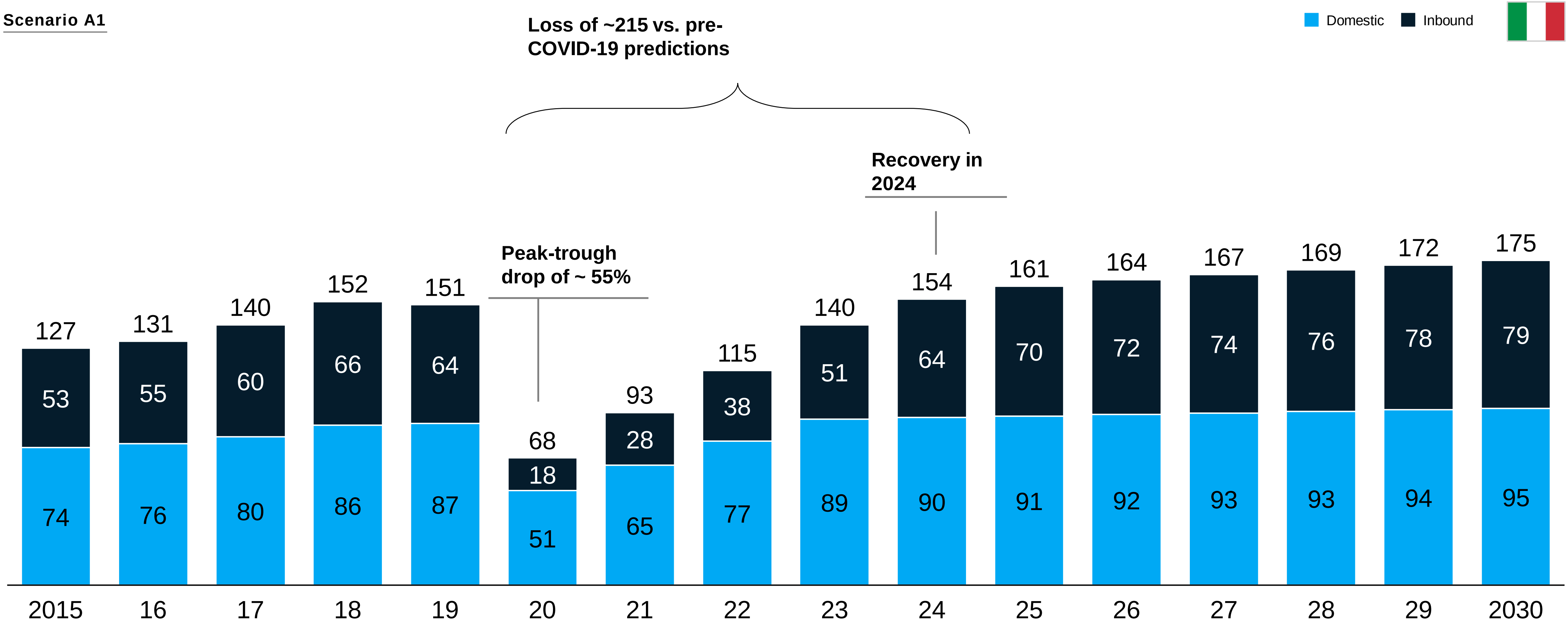
In detail, domestic expenditures has been the most resilient, even though it has declined by 42%: however both business and leisure segment should return to its pre-crisis level in 2023 (faster than other countries such as Spain, France or UK).

Due to a health situation that prevented travellers from moving from one country to another for many months, the inbound and outbound segments were more affected. Outbound expenditures dropped significantly between 2019 and 2020 and we will have to wait until 2024 to see the leisure segment recover pre-crisis levels. The business segment won’t recover until 2027. Inbound market trends are about the same than outbound.

Current as of June, 2021

Inbound tourism in Italy will not recover until 2025, while domestic tourism is like to reach pre-COVID levels in 2023

Tourism expenditure[1],USD bn



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PORTUGAL

COVID-19 puts 600.000 jobs at risk and €52 billion in the tourism sector in Portugal

- McKinsey estimates that between 2020 and 2023 Portugal could lose €52 billion of GDP (equivalent to 26% of GDP levels in 2019), considering both direct and indirect and induced effects. Additionally, up to 600,000 jobs could be affected, some of which may not be recovered in the future.

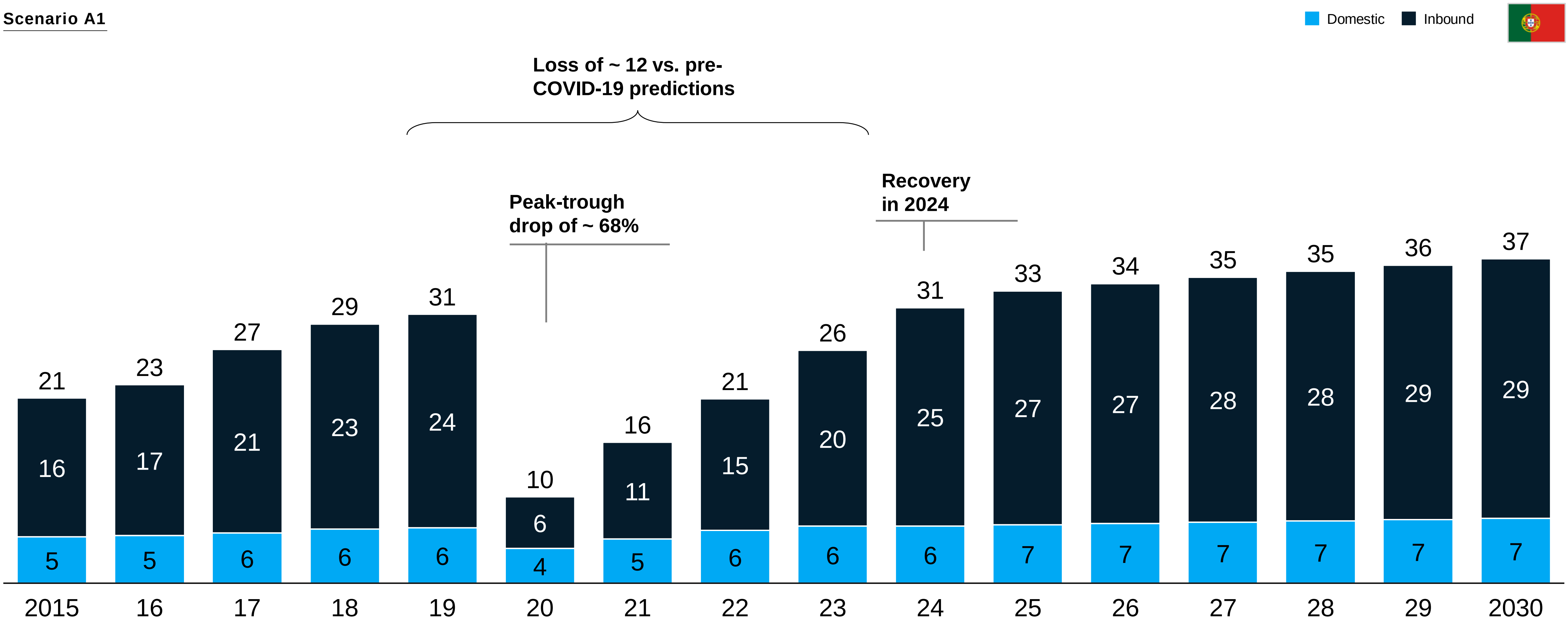
- Domestic tourism may not recover pre-COVID levels until 2023, and international tourism (which is about four times larger than domestic tourism) until 2024.

- Given that business travel will take longer to recover, Portuguese cities and destinations that are more dependent on these travels would be more seriously affected in the medium term. However, Portugal scores well in this dimension, as business travel represents only 7% of domestic travel expenses, which is much lower than in many other countries like the neighbor Spain, for example, where this segment represents a 17% of domestic travel expenditure.

Portugal was strongly hit by COVID-19; market recovery is likely in 2024 for inbound and in 2023 for domestic tourism

Tourism expenditure[1],USD bn

Scenario A1



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UNITED KINGDOM

UK – Domestic and International Tourism expected to recover to pre-crisis levels in 2024 and 2025 respectively.

As one of the sectors acutely impacted by the COVID-19 pandemic, UK tourism dropped by 52% between 2019 and 2020 (or by a value of 66.5 GBP bn) and it is not expected to return to its pre-crisis level until 2024 (for domestic tourism) and 2025 (inbound).

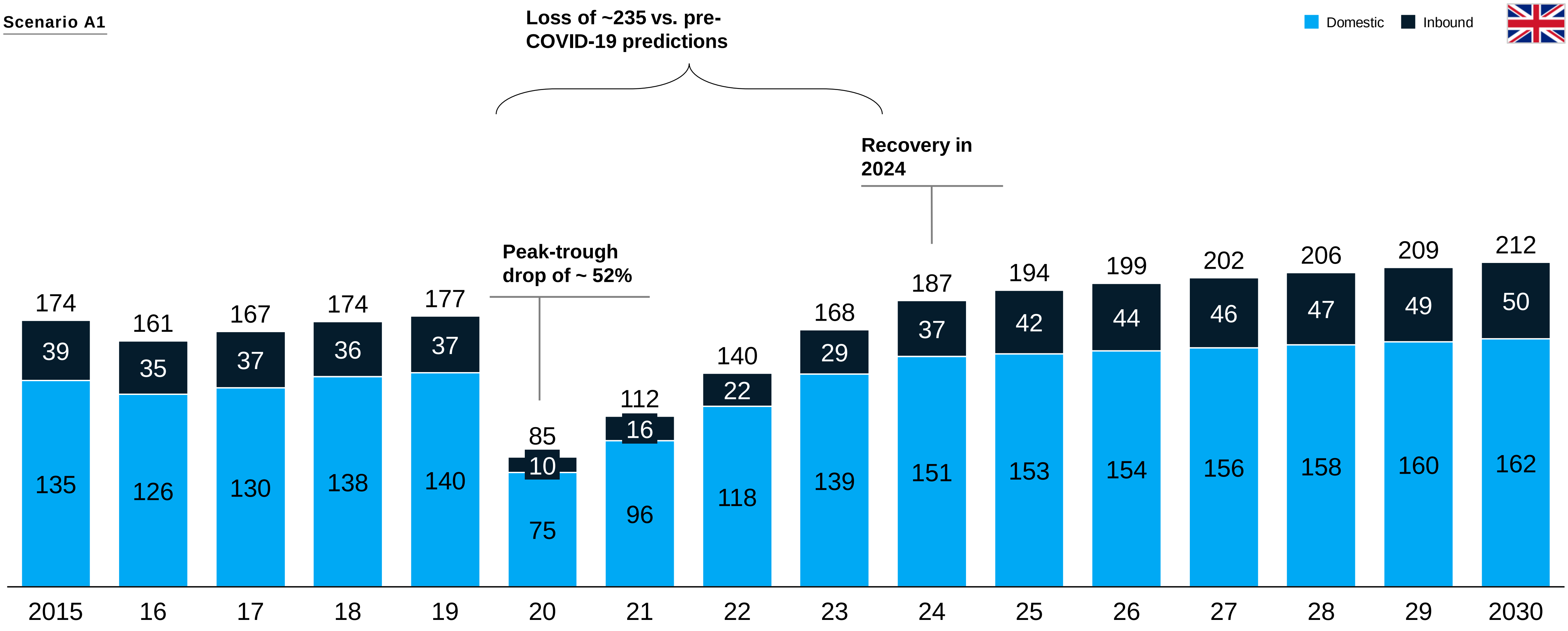
At a general level, UK has been less affected than countries like France (drop of 60%) or Italy (55%) but more than others like Germany (38%).

Outbound expenditures dropped by approximately 75% between 2019 and 2020 (the business segment suffered more than the leisure segment with a drop in expenditures of about 78% and a 73% respectively). However, UK occupies the second position regarding total outbound spend only behind Germany. In terms of average trip expenditure for international trips, UK is not among the 'big spenders' and countries such as Finland, Germany and Switzerland are above UK.

Inbound market trends are quite similar and don't differ significantly from outbound market ones, with a 73% of drop in expenditures in total (combining business and leisure) and a recovery horizon of 2027 for business segment and 2024 for leisure.

UK inbound and domestic market are likely to recover from COVID-19 impacts in 2025 and 2024 respectively

Tourism expenditure[1],USD bn



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METHODOLOGY

A potential method for forecasting COVID-19 recovery combines economic and tourism specific outlooks

A. Macroeconomic forecasts

GDP and disposable income forecasts, based on projections from the McKinsey Global Institute (MGI), help assess the impact of an economic slowdown on tourism

B. Country-specific pandemic recovery scores

As COVID-19 creates travel specific challenges, we also assessed non-economic factors

5 key levers, backed by series of quantitative **KPIs score countries** on their expected ability to weather and recover from the crisis

Levers are tailored to differentiate between domestic and outbound travel, and business and leisure trips

B: 5 drivers are used to develop a perspective on tourist behavior in-light of the COVID-19 pandemic

Drivers hindering travel spend growth	Rationale	Impact	Segment				
			Business	Leisure	Domestic	Outbound	
1 **Attractiveness of domestic destinations**	Intrinsic attractiveness of domestic destinations is a core driver for sustaining domestic travel, and substituting outbound trips			✓	✓		Nr. of tier A cities Rank on international arrivals Biodiversity UNESCO cultural heritage
2 **Materiality of air transport**	Tourisms' dependence on air travel is expected to have a strong effect due to health concerns and potential supply reductions		✓	✓	✓	✓	Air share of domestic trips Share of long haul outbound travel Availability of land based transportation options and infrastructure
3 **Health and hygiene factors**	Health standards in destination countries (domestic or international), and insurance policies will increasingly impact traveler decision making		✓	✓	✓	✓	Physician Density & hospital beds Oxford Lockdown Government Stringency Index COVID-19 cases and fatality ratio
4 **Importance of business travel**	Impact on business travel is typically more pronounced than leisure segments, and is dependent on local dynamics		✓		✓	✓	Share of MICE outbound trips Regional disparity (difference region highest/lowest GDP per capita) Ability to implement remote working at scale
5 **Environmentalism**	High awareness of environmental impact is likely to impact travel decisions in the next normal		✓	✓	✓	✓	Environmental Performance Index

Source: McKinsey