

Emerging Insight

China – Exploring new trends behind the tourism rebound

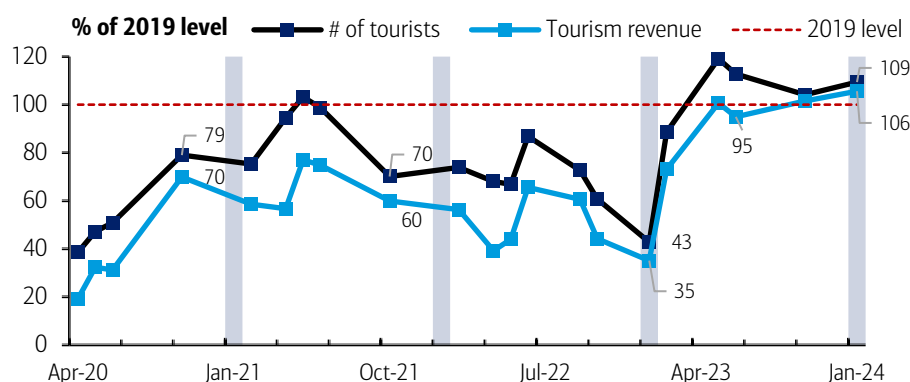
Key takeaways

- Travel sector remains a bright spot for the Chinese economy driven by younger generations. We highlight five emerging themes.
- On the list are preference of local experience, rise of social media, the fan economy, athleisure, and accessibility.
- Domestic cities like Zibo and Harbin were the winners in 2023 while the UAE was the top overseas destination. Who's next?

By Anna Zhou & Helen Qiao

Exhibit 1: The number of domestic tourists and total tourism revenue (index, 2019 average= 100 for each group)

Both traveler numbers and tourism revenue have increased to above pre pandemic levels



Source: BofA Global Research, Ministry of Culture and Tourism

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China in Focus: young people driving travel demand higher

While recent activity and growth data out of China still points to relatively weak domestic demand growth, we see pockets of strength within the services sector. One notable example is tourism.

During the New Year's day long weekend, domestic travelers totaled 135 million, up 9% compared with the same time in 2019, according to data from the Ministry of Culture and Tourism. Meanwhile tourism revenue surged to 80 billion yuan, up 6% compared with 2019 levels. This was the first time since the start of the pandemic that both figures came in higher than pre-Covid levels (Exhibit 1).

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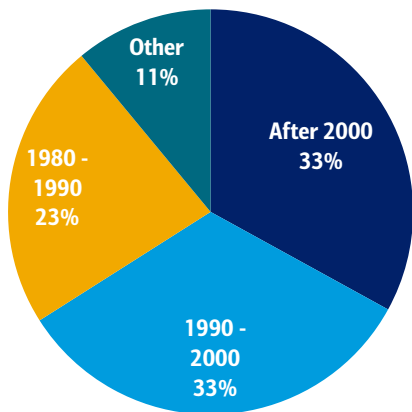
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Looking at the demographic breakdown, younger Millennials and Gen Z were the biggest driver for the tourism rebound. According to data from Ctrip, those born in the 90s and 00s accounted for two thirds of total travelers during the New Year's holiday (Exhibit 2).

Exhibit 2: Share of domestic travelers by birth year for the New Year's holiday

Younger generations accounted for the majority of travelers

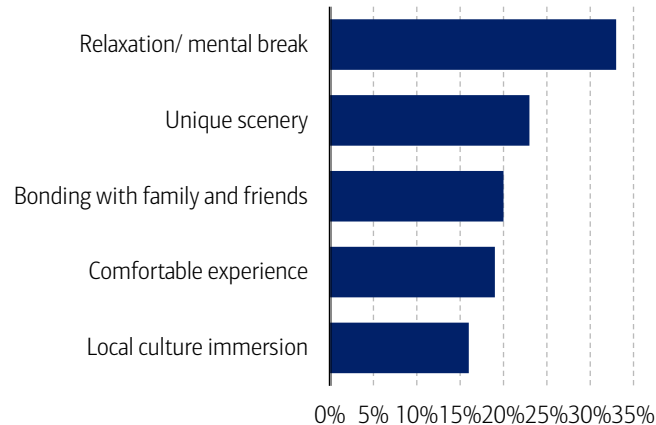


Source: Ctrip.com

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Exhibit 3: Compared with 2019, what do you care about more when traveling? (Top 5 answers)

Compared with 2019, travelers are increasing looking for relaxation, unique scenery and local cultural immersion



Source: Tongcheng Research Institute

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New generations, new preferences

With the younger generation representing the biggest driver for the travel industry, travel trends have also shifted to reflect their preferences. Below we highlight five important themes that have emerged over the last few years.

#1 A full local experience, not just sightseeing

Compared with older generations, whose primary goal during traveling was to visit the most famous metropolitans or nationally known tourist attractions, a typical traveler today is more interested in getting the full local experience that is different from their own.

According to survey data from Tongcheng Research Institute, travelers are increasingly looking for relaxation, unique scenery, and local cultural immersion during a trip compared with 2019 (Exhibit 3). This, therefore, has made less commercialized cities better candidates for traveling.

#2 Social media: the power of scrolling

It is without surprise that younger generations engage with social media the most, which has also shaped consumers' travel decisions these days. Specifically, the rise of various content sharing platforms has made it easier for the general public to discover lesser-known destinations.

In fact, data from iiMedia Research suggests social media platforms are the first choice of research channel for consumers in 2023 when they are making travel plans, much higher than travel agency websites or search engines websites (Exhibit 4).

Case in point: Zibo and Harbin

The above two themes provide a good reasoning for why Zibo and Harbin have gone viral as travel destinations over the last year. Both cities offered unique experiences: the former with its famous barbecue skewers and the latter with its snow and ice sceneries.

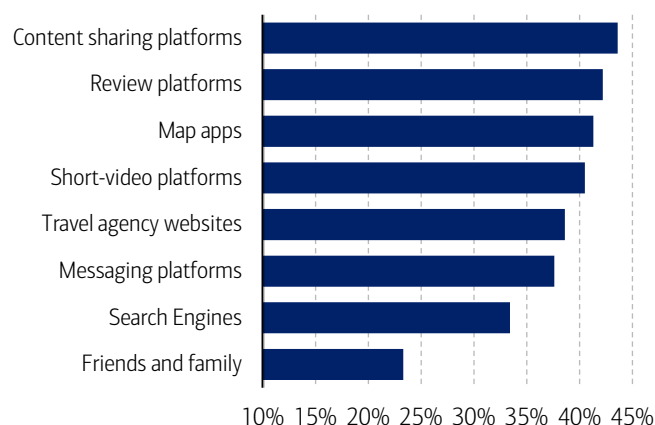
In addition, both cities went viral across multiple social media apps. But it not a complete coincidence: two months before Zibo rose to fame, local government had

already invited influencers with millions of followers to live-stream their travel experience. Later on, when their posts and videos gained momentum on social media, trend-seeking consumers quickly followed suit.

The result is that tourist numbers boomed in both cities. During the Labor Day holiday (Apr 29- May3), Shandon province, where Zibo is part of, recorded a 132% yoy increase in tourists and 320% yoy in tourism revenue, 61 and 191 percentage points higher than the national average, respectively. Meanwhile for the recent New Year's holiday, Harbin and its Ice and Snow World attracted over 3 million visitors. High frequency mobility data also suggests that subway ridership in Harbin peaked around New Year's Day at a level that is roughly 370% of that in December 2019 (Exhibit 5).

Exhibit 4: Chinese consumers' choice of channel for travel research

Content sharing social media platforms have become the most common research channel for travel



Source: iiMedia Research. Survey sample size= 1996, survey period= April 2023

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Exhibit 5: Subway ridership in Harbin (index, Dec 2019=100, 7-day moving average)

Subway ridership in Harbin peaked around New Year's Day at a level that is roughly 370% of that in December 2019



Source: BofA Global Research, Wind

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#3 Pop culture and the "fan economy"

Pop culture followers and economic watchers are no strangers to the economic impact of concerts around the world, driven by artists like Taylor Swift and Beyonce. In addition to ticket revenue, tens of thousands of fans traveling from out-of-city also contributed to local hotel and dining revenue.

We see echoing trends in China where restrictions on live performances during the pandemic years have led to a surge in pent-up demand. According to China Association of Performing Arts, during the first three quarters of 2023, a total of 342.3k performances took place, attracting over 110 million audiences with 60 million people attending concerts alone (Exhibit 6).

Notably, many of these audiences were traveling from other cities and extending their stay beyond the show date for tourism. For example, according to the Hainan government, Jay Chou's four concerts in Haikou in June-July 2023, the capital city of Hainan province, attracted roughly 155k audiences, out of which over 60% were out-of-province visitors. They also generated RMB 976 million in tourism revenue, exceeding the city's tourism revenue during the Labor Day holiday by RMB 100 million. Similarly, a single concert by TFBoys, a popular Chinese boy group especially among teenagers, generated around RMB 416 million in August 2023 for the city of Xi'an.

#4 Athleisure gaining popularity

Another theme that emerged during the pandemic years is the rise of athleisure. The initial rise of outdoor sports took place during the pandemic years due to the social-distancing nature of these activities. Now, even as the pandemic is largely behind us, the trend of sports-related leisure activities has continued to grow.

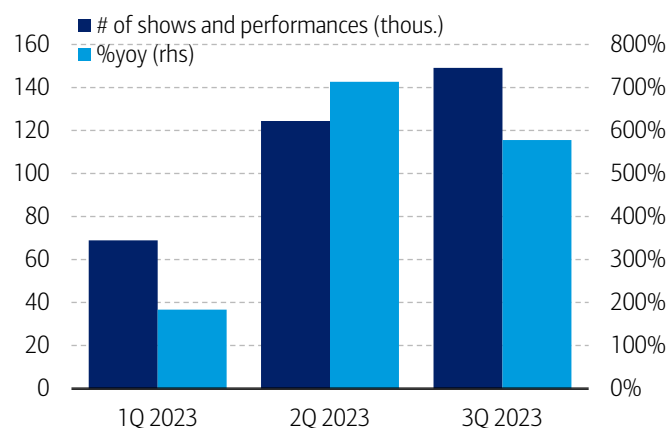
Data from General Administration of Sports of China showed that just during the first half of 2023, consumer orders related to outdoor sports increased by more than 200% compared with the same time in 2019.

Similarly, data from Xiaohongshu, a popular content sharing social media platform, suggests that between January and October, posts around “biking” and “hiking” surged four-fold and three-fold, respectively. The economic impact of these activities is also notable, given the average annual consumption ranges between RMB 2k to 5k for a typical consumer (Exhibit 7).

Given the increased enthusiasm for outdoor activities, cities that offer these experiences have seen a meaningful boost to tourism. For example, between January and November 2023, skii towns such as Zhangjiakou and Chongli both saw their tourist numbers above 2019 levels (+2% and 153%, respectively).

Exhibit 6: Number of shows and performances in China during (thousands and %yoy)

During the first three quarters of 2023, a total of 342.3k performances took place

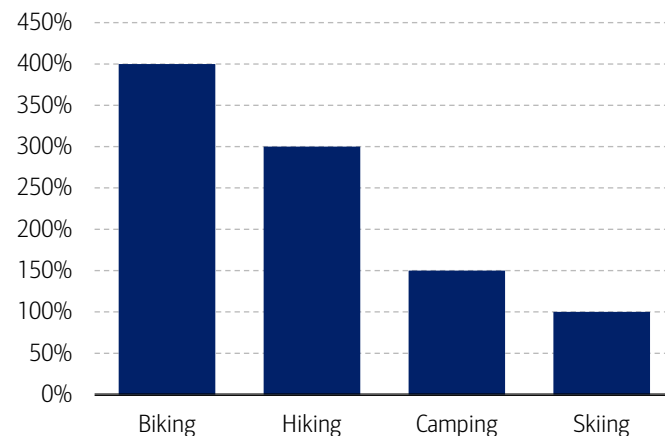


Source: China Association of Performing Arts

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Exhibit 7: Social media posts about outdoor activities by type (%increase since Jan 2023, data as of October 2023)

Between January and October, posts around “biking” and “hiking” surged four-fold and three-fold, respectively



Source: Xiaohongshu

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#5 Accessibility is key

Last but not the least, accessibility is an important determining factor when it comes to travel decisions. This partially explains why international travel has lagged for Chinese travelers.

First, limited flights and elevated fares have been a hurdle. On the aggregate level, the number of operating international flights have recovered to just around 60% of 2019 levels. Second, visa requirement also added another layer of difficulties. As a result, Chinese tourists are choosing overseas destinations that are the easiest to get to.

Case in point: UAE becoming a hot spot

While overall international travel remains muted, we have seen some clear beneficiaries. A good example is the UAE. Data from Dubai's Department of Economy and Tourism suggested China ranked as the 7th largest source of visitors, with 392,000 tourists arriving in the first eight months of 2023. Over the Golden Week holiday, yoy growth of visits to Dubai climbed three digits, according to trip.com.

Why has the UAE emerged as a winner for international travel? In our view, it satisfies four out of five travel trends mentioned earlier. First, the Middle East offers a unique scenic and cultural experience for Chinese tourists. Second, being part of the “One Belt, One Road” initiatives, the region has gained many positive social media promotions. Third, a popular Chinese reality TV show “Divas Hit the Road” also filmed its latest

season among the Silk Road, adding another layer of appeal through the influence of pop stars and celebrities. Last but not the least, the UAE does not require travel visas for Chinese tourists, providing an easy access into the country.

This popularity can also be reflected through flight numbers: flights between China and the UAE has also already recovered to pre-pandemic levels, whereas flights to the US, which was one of the top overseas destinations for Chinese tourists prior to 2020, have only recovered to around 20% of historical levels (Exhibit 9).

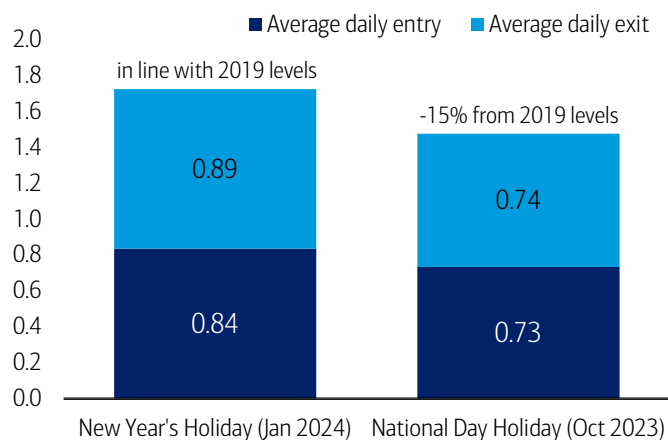
What's next?

In our view, both domestic and international travel will continue to rebound further this year and will remain a bright spot for the economy. In fact, according to the China Tourism Academy, domestic travel is expected to reach 6 billion visits in 2024 with travel related revenue surging to over RMB 6 trillion.

The question is where could become the next viral destination? We think the above mentioned five themes will continue to hold and they could shed some light on the conditions needed to become the next travel hot spot. For local governments, domestic or international, potential tactics could include promotion of unique local culture via social media, organization of concerts and festivals, and improving accessibility for travelers, which could all be effective.

Exhibit 8: Average daily entries and exits through Chinese immigration customs during holiday periods (millions of people)

Daily customs departures and entries averaged 1.73 million during the New Year holiday, in line with 2019 levels

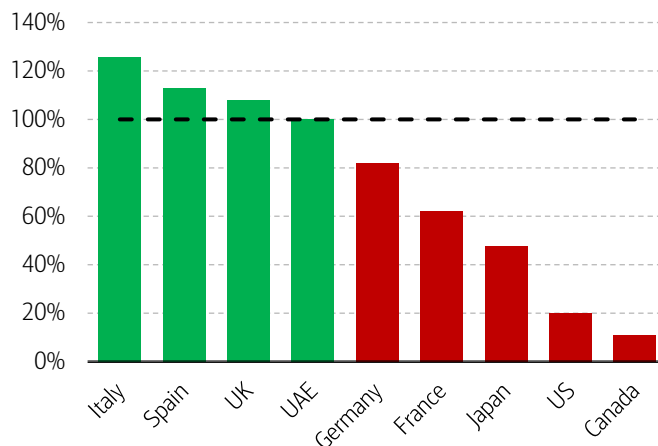


Source: National Immigration Administration

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Exhibit 9: Number of flights between China and select countries in Dec 2023 as a share of Dec 2019 levels (%)

Flights to Europe have recovered quickly while that to North America remained depressed



Source: Flight Master

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News and Views

Mexico: Monthly GDP (IGAE) surprised to the downside at -0.45% mom sa in November

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Monthly GDP (IGAE) surprised to the downside in November at -0.45% mom sa in real terms (E. -0.10%, BofA 0.50%), down from -0.08% mom sa in October (revised slightly to the upside from -0.09%). By components, the main driver to the downside was agriculture at -6.15% mom sa (vs 1.82% in October). Industry fell -0.96% mom sa (vs 0.56% in October). Though broad-based, Construction at -2.93% mom sa and Mining at -1.37% mom sa were the leading forces behind the fall. On the other hand, services increased 0.23% mom sa (vs -0.42% in October), where most of the subsectors grew. Financial services at 2.93% mom sa and Entertainment services at 1.82% mom sa were the ones with the largest growth. In annual terms, IGAE is now at 2.27% yoy nsa, down from 4.40% a month ago (revised to the upside from 4.24%). Year-to-date, IGAE has increased 3.38%.

- **To follow:** The deceleration in economic activity at the margin supports Banxico's view that starting to cut in 1H 2024 is a possibility.

Mexico: Biweekly inflation maintains its upward trend at 4.90% yoy in 1H Jan

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Biweekly headline inflation surprised to the upside in 1H January at 0.49% (E. 0.38%, BofA 0.38%). However, core inflation was in line with expectations at 0.25% (E. 0.25%, BofA 0.19%). The upside surprise in the non-core component was driven by fruits and vegetables (tomato, onion) at 4.05% and government tariffs (water utilities) at 0.49%. This is the third biweekly print in a row with tomato and onion being the top contributors to inflation. Core inflation was mainly driven to the upside by food merchandise (sodas, cigarettes) at 0.35%. This is likely a consequence of the increase in the IEPS excise tax, which affects sugary drinks, tobacco and gasoline. In annual terms, headline inflation increased again and is now at 4.90% yoy from 4.86% yoy, while core inflation is now at 4.78% yoy from 4.98% yoy a fortnight ago. Services inflation is now at 5.19% yoy from 5.26% a fortnight ago.

- **To follow:** Banxico will not like this headline Inflation print, and the risk is that it delays the first cut towards the middle of the year. However, we still have March as our baseline for the first cut given the fall in core and in services inflation and the deceleration in economic activity at the margin (negative monthly GDP mom in November).

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