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COVID19 and the 2020 travel industry

— Jeffrey L Minch 4 weeks ago

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There's a lot of speculation about how serious the coronavirus pandemic will be. But it's already clear that the risk of infection as portrayed in the media is eviscerating the travel industry.

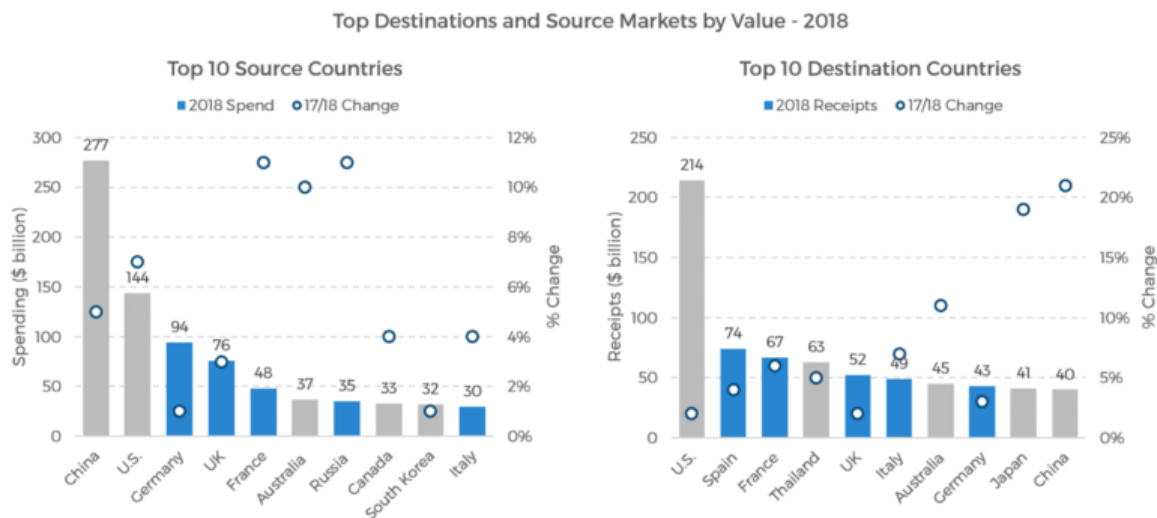
Travel is by most measures the largest market globally, a testament to human curiosity and thirst for adventure and experiences. In 2019 Skift estimates there were 1.3 billion departures with an estimated \$2.9 trillion total spend - the largest travel and tourism year on record.

Travel is super-correlated with the business cycle. It's what consumers spend money on when there's discretionary income to spare, but it's also the first big ticket item that gets cut in a downturn. Travel is also highly susceptible to external shocks: war, political instability, trade disputes, terrorism, and disease.

The industry was generally projecting around 3% growth this year. That doesn't sound huge, but it's about 40 million additional departures, or about \$60 billion in spend. The ongoing spread of COVID19 - as small as it currently is relative to influenza - means not only will there not be growth, but we're likely facing a year unlike any other that the industry has faced before.

About 2/3 of the industry is consumer, and 1/3 is corporate. Corporate is already projected to be down as much as 40% in a recent poll conducted by GBTA ([slide deck in PDF form is here](#), [Skift coverage is here](#)). I haven't seen any consumer numbers, but my guess would be that overseas and air travel will be significantly down.

Of course it all depends on which regions will be most affected. In that view, we have been very unlucky. China is the largest source market, and Italy is one of the largest destination markets in the world. Just taking those out of the market means travel will be down >15% this year (chart again courtesy of [Skift](#) in their [Global Travel Economy Outlook 2020](#) - subscribe [here](#)):



Source: Skift Research from UNWTO International Tourism Highlights 2019

There are too many headlines to list, but Saudi Arabia is closing the hajj, Booking Holdings put out guidance about "significant and negative" impact, Marriott put out a warning, and pretty much every airline is revising its forecasts. Depending on how long the pandemic lasts, we could see travel overall down by a third or more this year.

In an industry that is largely predicated on managing capacity well, and with many of the largest players in air and accommodation operating with a significant fixed cost base, it will be interesting to see what happens. I expect some government intervention to prop up weaker airlines in an attempt to retain infrastructure post recovery. Hotel chains will surely put a damper on the incredibly aggressive expansion plans for new rooms.

OTAs operate without the large fixed cost block, so while they will suffer because overall volume is down, their profitability may not suffer as much. And they will be the intermediary that is able to direct travelers to the best prices. Desperate operators will start pricing on margin, so we may see some amazing deals later this year (if any of us still feel up for traveling at that point).

It will also be fascinating to see whether the alternative accommodation players like Sonder, Lyric et al. can survive this. In their fundraising decks, they've always made the point that they can price below hotels in a downturn because their required RevPAR is so much lower. This is likely to be tested hard this year.

I have no idea what happens to Airbnb. It may be disproportionately affected because hotels are perceived as "cleaner." It may suffer drops in supply as hosts don't want strangers to stay with them. Or it may be the smart alternative for people who want to avoid crowds. I wouldn't be surprised if the Airbnb IPO is put on hold.

That's all I've got for now. Remember that for startups, these crises are always opportunities. Opportunities to hunker down and learn, opportunities to improve operating quality and efficiencies, opportunities to quickly iterate towards what travelers want in this brave new world of COVID19. I just hope they don't need to raise money in the next six months.