

# Global Economic Insights

January 2021

## After Brexit: New realities for European travel

Last year's agreement completing Brexit brought with it a new, complex patchwork of rules governing cross-border travel between the United Kingdom and the European Union. In the near-term, COVID-related border closures overshadow the dampening effect that heightened friction at the border may have on travel. Once governments lift these containment measures, the new untested procedures could impede travel, and even cut short a potential strong re-bounce in tourism.

Intra-European travel staged a slight recovery last summer as border re-opening released strong pent-up demand. As we look ahead to summer 2021, a similar response could happen and hopefully be more lasting with more effective disease controls. While the new rules work against a strong rebound for British, European and international travel across the English Channel, time still remains to adjust processes and procedures to minimize the roadblocks to a robust recovery.

## Life in the United Kingdom just got more complicated

On Christmas Eve, the United Kingdom and the European Union agreed on a trade deal that provides a new framework for their future commercial relations; thus, concluding the process started by the June 2016 Brexit referendum. By leaving the European Union and opting out of some of the other European multilateral agreements, such as the European Economic Area, the United Kingdom fully reverted to the status of "third party." This is creating several challenges for British households.

Some of these are already apparent: trade in goods, especially fruit, vegetables, and fish, is undergoing a painful adjustment to the new red tape, resulting in shortages at grocery stores, particularly in Northern Ireland. Some of the impact on U.K. households has yet to fully emerge, such as the effect on prices and incomes. In a few months, we will offer a comprehensive analysis of the new consumer landscape as it is emerging from the trade deal. In the area of travel and tourism, nonetheless, the change of status may have important repercussions: more friction at the border could serve as a deterrent both to travel across the two banks of the English Channel, as well as with the rest of the world.

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# Brexit brings new rules and restrictions on cross-border travel

One of the goals of Brexit was to end freedom of movement between the U.K. and the European Union so that the U.K. could regain control of its border. In practical terms, this is resulting in new regulations that will have different consequences on three different groups of travellers: E.U. travellers to the U.K., U.K. travellers to the E.U., and rest-of-the-world travellers to the region.

E.U. citizens heading to the U.K. will face somewhat fewer obstacles than their U.K. counterparts moving into the E.U., as European visitors are allowed up to six months of visa-free travel to the U.K. For U.K. citizens traveling to Europe, though, life will get more complicated.

U.K. nationals are now restricted to 90-days visa-free travel in the E.U. over a rolling 180 days.<sup>1</sup> This includes U.K. citizens with second homes in the E.U. Upon entry, they are no longer eligible to use E.U. fast track passport controls, must have a return ticket, and need at least six months left on their passport.<sup>2</sup>

## Top destinations for U.K. travellers

| 2019 top 10 U.K. international destination | U.K. Arrivals | Share of destination arrivals |
|--|---------------|-------------------------------|
| Spain                                      | 18.1M         | 23%                           |
| France                                     | 12.2M         | 14%                           |
| Ireland                                    | 5.0M          | 45%                           |
| United States                              | 4.8M          | 6%                            |
| Italy                                      | 3.8M          | 6%                            |
| Greece                                     | 3.5M          | 12%                           |
| Turkey                                     | 2.6M          | 7%                            |
| Germany                                    | 2.6M          | 7%                            |
| Portugal                                   | 2.4M          | 14%                           |
| Netherlands                                | 2.4M          | 11%                           |

Source: Visa Business and Economic Insights analysis of VisaNet data.

U.K. travellers will have the added inconvenience of joining the queue of non-E.U. passports upon entry. Longer term, U.K. citizens will be treated as third-country citizens, so by the end of 2022 they will be required to apply for a European Travel Information and Authorization System (ETIAS) travel scheme<sup>3</sup> in order to travel visa-free to the Schengen Area.\*

## U.K. travellers' preferences

Which of the following best describes why you made your travel/vacation package reservation or purchase?



Source: Forrester Analytics, Consumer Technographics Retail & Travel Consumer Buyer Journey, 2019. U.K. base: 164 online adults who made reservations as part of travel/vacation package. \*Comprises 26 European countries that have abolished passport and other border controls at their mutual borders.



# Friction at the border could lead to lower travel within Europe

Whether U.K. visitors are entering the E.U. for a short vacation, a quick business trip, or for longer-term relocation, such as starting a new job, additional changes in certain services such as mobile phone roaming, health benefits, and others will affect the way they travel, spend, and do business across the Channel.

While seemingly small changes and minor nuisances, U.K. travellers represent an important segment for European destinations. In 2016, U.K. tourism contributed 37.38 billion euros to EU-27 gross value added.<sup>4</sup> Nine out of 10 top destinations for U.K. travellers are in Europe. In Spain—the top destination for U.K. travellers—British visitors account for 23 percent of overall international arrivals into the country, according to the Visa International Travel (VISIT) database. Surveys suggest that price and convenience are large motivators for U.K. travellers when making travel related purchases; adding additional costs, time, and administrative friction may detour some travellers from the destinations favoured in the past.<sup>5</sup>

## Will multi-country visits to Europe become less appealing?

International travellers to Europe will experience some spill over effects from the changes to the U.K.-E.U. relationship. These will include longer lines at the passport controls, custom checks, and delays during transit transfers.

Another potential additional cost and inconvenience for travellers will be the need of a Direct Airside Transit visa (DATV), which may be needed for travellers who connect in a U.K. airport/port on their way to the E.U., but do not go through U.K. border control.<sup>6</sup>

On top of this, at least in the short term, there is the patchwork of rules governing travel during the COVID-19 pandemic, as countries follow different guidelines in regards to testing, quarantine rules, bans to arrival, and track-and-trace solutions. Without better coordination, international travel is likely to remain muted.

Since the U.K. is a large connecting hub, this is a significant vulnerability. London Heathrow (LHR) was ranked the most internationally connected airport in the world for the last three years. In 2019, on the busiest day of travel, LHR saw upwards of 65,000 international connections within a six-hour window.<sup>7</sup> Many tourists choose to spend time on their trip in both the U.K. and E.U.

On average, about 14 percent of Visa cardholders visiting Europe in 2019 stayed in more than one country on the same trip, of which a large portion included overnight stays in the U.K. With potential added cost and friction, the new rules could change the behaviour of international tourists and dent their appetite to visit multiple countries during their European visit.

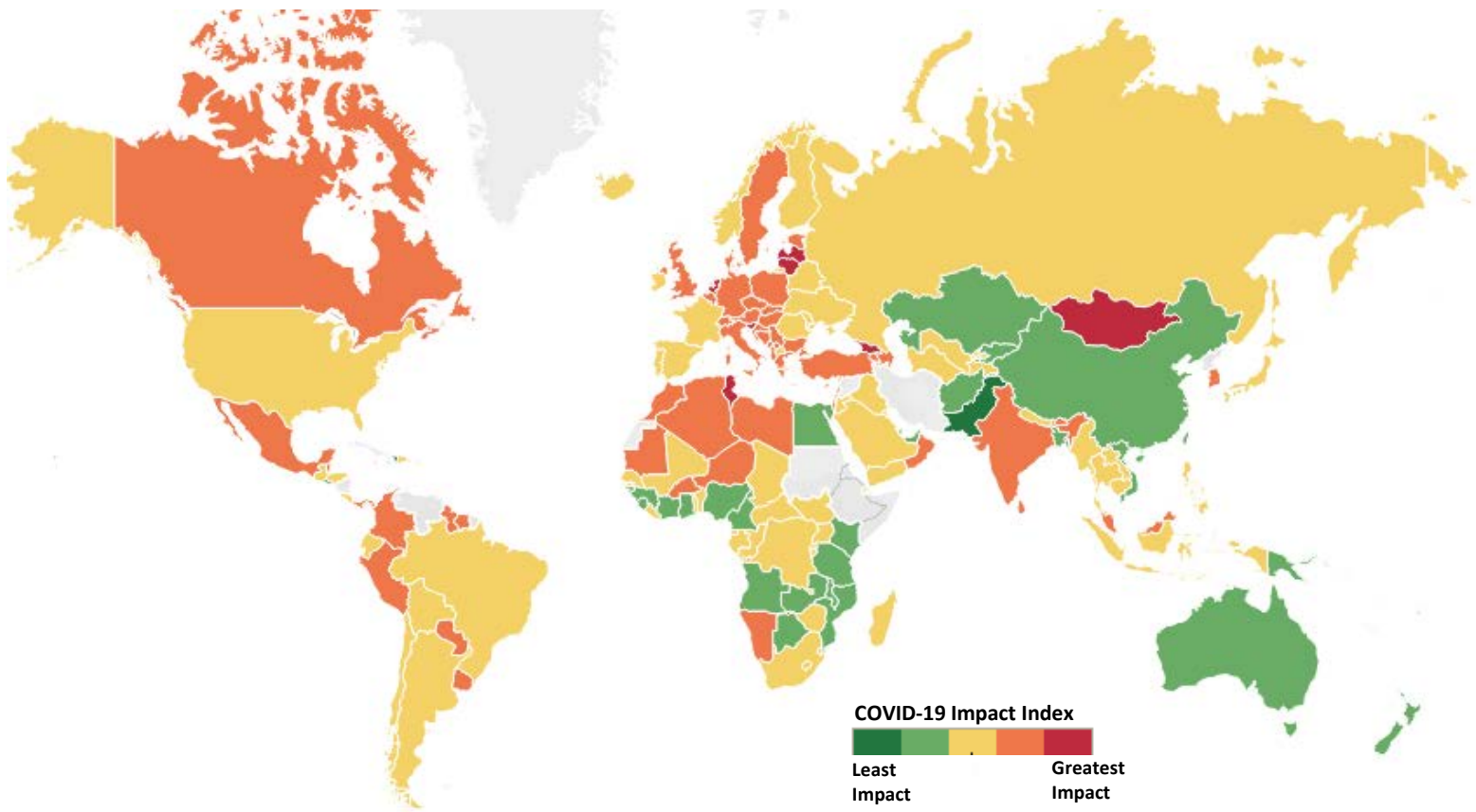
### Top 10 countries of origin of travellers to European cities, by country

| Top 10 non-Europe origin markets | 2019 international arrivals to Europe |
|----------------------------------|---------------------------------------|
| United States                    | 38.3M                                 |
| Russia                           | 18.9M                                 |
| China                            | 15.6M                                 |
| Ukraine                          | 6.9M                                  |
| Canada                           | 6.6M                                  |
| Australia                        | 6.3M                                  |
| Israel                           | 6.2M                                  |
| Japan                            | 5.3M                                  |
| Brazil                           | 5.3M                                  |
| South Korea                      | 5.1M                                  |

Source: Source: Visa Business and Economic Insights analysis of VisaNet data.



## Economic impact of COVID-19 (by country as of December 2020)



- Despite the resurgence of COVID-19 cases and the discovery of new strains of the coronavirus, the number of countries facing the greatest economic impact of COVID-19 declined in December. This was due to consumers' holiday spending.
- The start of the vaccine rollout has been slow. The number of COVID-19 cases has approached 101 million, with 55.8 million recoveries and 2.1 million deaths as of 28 January 2021.
- Restaurant spending in December improved for 64 countries. On the other hand, discretionary spend only improved for 20 countries.
- Airline and lodging transactions also improved during the holiday season, with airline transactions showing slight improvement in 25 countries and lodging in 28 countries.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.

## Asia Pacific

Weiwen Ng

- **China's strong manufacturing growth momentum might be peaking.** Both the NBS and Caixin/Markit manufacturing PMI eased off recent highs, indicating that the manufacturing sector continued to expand, albeit at a more modest pace. Monetary and fiscal policy are unlikely to provide large-scale stimulus as focus shifts towards deleveraging and the containing of financial risks.
- **India's headline CPI eased to a 15-month low in December as** food prices declined. It was also the first time in nine months that inflation moved into the RBI's target band of 2-6 percent.
- **Recent infection resurgence in China has prompted local authorities to discourage travel.** Residents are cautioned to re-consider trips back to their hometowns ahead of the Chinese Lunar New Year holiday, which is typically a peak travel season. Employees are encouraged to spend the vacation in the area where they work while China State Railway has announced refunds of booked train tickets.
- **Australia's national carrier Qantas re-opens booking for international flights,** effective from 1 July, 2021, expecting international travel to restart following the recent vaccination roll-out. New Zealand is the only overseas destination to which Qantas is currently flying. Flights to London have been brought forward from October, while ticket sales for Japan, Hong Kong and Singapore will be pushed back from March.

## CEMEA

Mohamed Bardastani

- **Intra-Gulf dispute finally resolved.** The intra-GCC (Gulf Cooperation Council) diplomatic crisis has been finally resolved as the GCC countries signed a declaration to restore full diplomatic ties with Qatar and end their blockade. The resolution of the crisis and the restoration of ties will allow for the return of travel and trade between the GCC member states following more than three years of trade, travel and diplomatic embargos.
- **UAE and Bahrain at the forefront of vaccination roll-out.** Vaccination roll-out programs started in a number of key economies within CEMEA, including Russia, Saudi Arabia, the UAE, Kuwait and Oman. The UAE plans to vaccinate 50 percent of the population in Q1-2021 and currently ranks second globally in terms of the number of cumulative vaccination doses administered per 100 people, followed by Bahrain and the United Kingdom.
- **Russian economy ends 2020 on a softer note.** The Russian economy ended last year on a softer note, weighed down by a strong second wave and renewed targeted public restrictions to contain the spread of the virus. The composite Russian PMI remained below the 50-mark in December for the third month in a row, suggesting declining economic activity month-over-month. Soaring infection rates largely drove the deterioration in business and economic conditions in Q4.

## Europe

Adolfo Laurenti

- **Several European countries are still in lockdown** with a third wave of the virus—this time, a more transmissible variant. Schools remain closed. The latest forecast suggests that the Eurozone economy will rebound at a more modest 4.2 percent year-over-year (YoY) growth for 2021, compared to 4.7 percent previously projected.
- **The E.U. vaccination rollout is ambitious but relatively slow.** Most of the region's countries are falling behind schedule. Germany became the first European country to require medical grade masks while indoors.
- **As the pandemic continues, banks are tightening their lending standards.** Demand for consumer and business loans declined, except for mortgages.
- **U.K. GDP growth contracted in November after a small improvement in October.** Considering the restrictions adopted in December and the mandated lockdown in January and February, it is now likely that the country will suffer a recession in Q4-2020/Q1-2021, despite the rebound in the December composite PMI to 50.4. While the U.K. is leading Europe in the vaccine rollout, Health Secretary Matt Hancock cautioned against booking international travel for the summer.

## United States

Jeffrey Roach

- **Holiday sales rose 8.5 percent from a year ago**, with strong demand for sporting goods, which rose 14.9 percent YoY. The pandemic shifted buying activity to e-commerce, which rose 21.3 percent from last year.
- **The Consumer Confidence Index rose to 89.3 in January**, with a precipitous decline of 15.6 points in the present situation component leading the drop in the index. However, consumers are slightly more optimistic about the future relative to last month—the expectations component rose 3.2 points to 87.5, with more consumers saying business conditions will improve in the next six months.
- **Initial jobless claims spiked in the week ended January 9, reverting to summertime levels** last reached during the height of the pandemic. Health related restrictions, particularly on restaurants have dampened job prospects and highlight the role of fiscal stimulus for struggling workers. As of 26 December, 7.4 million workers filed for pandemic unemployment assistance and 4.2 million filed pandemic emergency compensation claims.
- **The labor market contracted in December for the first time since May.** The economy lost 140,000 jobs in December and the losses were concentrated in leisure and hospitality (-498,000) and government (-45,000). Jobs gained in professional and business services (+161,000) and retail (+121,000). The unemployment rate in December remained unchanged at 6.7 percent.

## Canada

Mariamawit Tadesse

- **Canada has re-introduced lockdown measures due to a surge in COVID-19 cases** along with concerns of new strains of the virus. The vaccine rollout has been very slow, with only 1 percent of the population vaccinated as of 10 January. The rollout is expected to reach 3.1 percent of the population by the end of February.
- **According to the Bank of Canada, economic growth in Q1-2021 will decline an estimated 2.9 percent YoY.** However, a strong rebound is expected in the medium depending on the effective rollout of vaccines combined with fiscal and monetary policy. The Bank expects 4 percent growth in 2021 and 4.8 percent in 2022.
- **Employment declined in December for the first time since April.** The renewed restrictions in December affected 1.1 million workers, in the form of lost employment or reduced hours compared to 5.5 million workers in April. On the other hand, since October the percentage of Canadians working from home continues to rise.
- **CPI inflation was at 0.7 percent in Q4-2020 and is projected to reach 0.9 percent in Q1-2021 YoY**, possibly pushing it near the low end of the Bank of Canada's 1-3 percent target range. The Bank's forecast puts inflation close to 2 percent by mid-2021.

## Latin America & Caribbean

Mariamawit Tadesse

- **In Latin America, real GDP is expected to decline by 8 percent in 2020**, according to the IMF. The region, which accounts for 8 percent of the world population makes up about 20 percent of daily confirmed deaths due to COVID-19. Job losses in Brazil, Chile, Colombia and Mexico reached 30 million.
- **Panama issued bonds worth \$2.45 billion after it received a \$2.7 billion line of credit from the IMF** to combat the economic impact of the pandemic. Ship traffic through the Panama Canal declined by 10 percent in 2020.
- **Chile issued the biggest ESG bond in Latin America** with \$1.5 billion dollar-denominated and \$2 billion euro-denominated sustainable bonds. The dollar and euro offerings were warmly welcomed by investors.
- **Brazil's Central Bank has kept interest rates low** and plans to do so for a long time as the bank dropped its forward guidance. Brazil has approved the distribution of both the Oxford/AstraZeneca and Chinese-made Sinovac vaccines to fight COVID-19.

## Footnotes

- 1 European Parliament: <https://www.europarl.europa.eu/news/en/headlines/eu-affairs/20201203STO93023/brexit-deal-how-new-eu-uk-relations-will-affect-you>
- 2 U.K. Government: <https://www.gov.uk/visit-europe-1-january-2021>
- 3 European Union ETIAS: <https://www.etiasvisa.com/>
- 4 <https://www.statista.com/topics/4895/brexit-and-the-eu-uk-travel-industry/>
- 5 Forrester
- 6 U.K. Government: <https://www.gov.uk/transit-visa/direct-airside-transit-visa>
- 7 <https://www.oag.com/oag-megahubs-2019?submissionGuid=dcc4c608-0073-42c9-be42-4cb1d79e49d8>

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