

Thailand tourism

Who's back and who's next?

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Economics - Thailand

- ◆ The growth in tourist arrivals unexpectedly stalled in August; thus we revise our 2022 forecast downwards to 10.4 million
- ◆ Tourists from India and ASEAN are back, while tourists from Japan, Russia, and greater China are still below normal
- ◆ Current account data suggests that tourists are spending much more now compared to pre-pandemic levels

Aris Dacanay

Economist, ASEAN

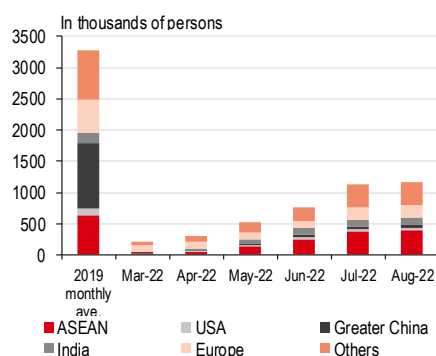
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Hitting a threshold

There was much flurry about the Thai economy with tourism recovering at an exponential rate from April to July. But to everyone's surprise, the flow of international tourists in August only slightly increased by 51k (Chart 1). Before we argued that the marginal increases should be diminishing as tourism increasingly normalizes back to its pre-pandemic levels. And September preliminary figures support this, perhaps by too much. Passenger arrivals from planes abroad only increased by 1k (Chart 2). This suggests that tourism's recovery may now be in a diminishing trend. Thus, we anticipate September tourist arrivals to come in at 1.19 million, which is only slightly higher than the 1.17 million posted in August.

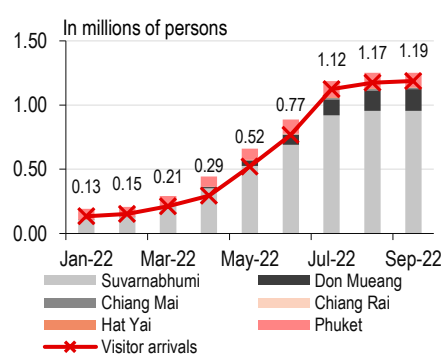
Given the current trend, we revise our tourist arrival forecast for 2022 downward from 11.7 million to 10.4 million. Nonetheless, we remain upbeat that the flow of inbound tourists in the remaining three months of the year will be enough to bring the total number of arrivals past the government's 10 million forecast. Year-to-date (January to August) arrivals currently stand at 4.4 million so 6.6 million more are needed. We think this is still achievable given that flows are still marginally increasing and even more so come the holiday season in November and December.

Chart 1: Tourist arrivals by month



Source: CEIC, HSBC

Chart 2: Int. passenger airport arrivals



Source: CEIC, HSBC. Note: September tourist arrivals is our forecast

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And further re-opening around the globe, such as the further easing of travel restrictions in Hong Kong and Taiwan, will definitely help push the numbers up. Hong Kong and Taiwan, two regions that represented 4.6% of tourists in 2019, recently removed their hotel quarantine requirements for inbound travellers, which means it is less costly now for residents to fly back home after a week's vacation abroad.

Demand will surely increase but one shouldn't be too excited. Pent-up demand may be coming in hot but it's hard to click the switch on supply (i.e. flights). This may perhaps be the reason why August and September numbers were less than expected.

But there's good news ahead for the month of October. Civil authorities have increased airline seat capacity to 573 thousand seats per week (74% increase relative to the summer season) from October to March, in the hopes of increasing the supply of flights and, thus, lower prices (Bangkok Post, 12 October 2022). Prospects for travel may also be bolstered given the fact that Thai authorities have officially classified COVID-19 as an endemic disease beginning October 1, while extending visa-free travel in the region from 30 to 45 days. The number of tourists may not be as optimistic as earlier data suggests, but the Thai economy may be as well off if per-tourist spending significantly increases.

Table 1: Summary of tourist arrival forecasts (in millions of persons)

In millions	2019	2022	Sep-22	Q1 2022	Q2 2022	Q3 2022f	Q4 2022f	Q1 2023f	Q2 2023f
Updated	39.9	10.4	1.19	0.50	1.58	3.58	4.76	5.59	6.19
Previous	39.9	11.7	n/a	0.50	1.58	3.96	5.61	6.88	7.89

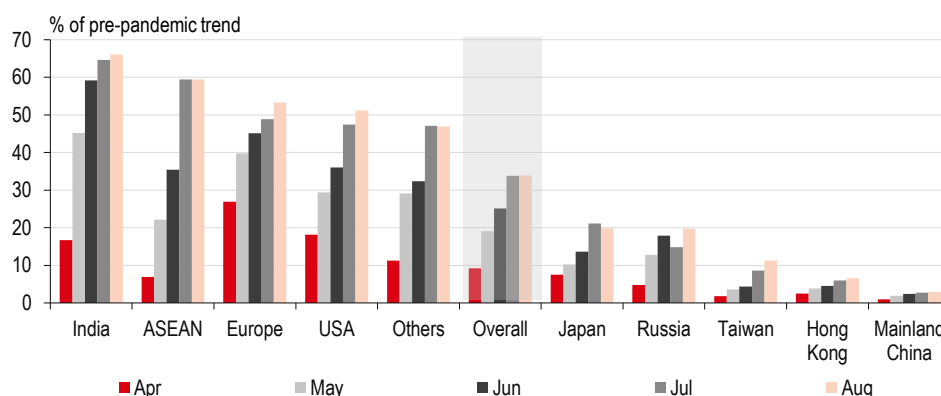
Source: CEIC, HSBC forecasts

Who's back and who's next?

Chart 3 shows the percent of tourist arrivals per region relative to their pre-pandemic trends. Those who are mostly back are tourists from India and ASEAN, who are already at 59% to 66% of their pre-COVID-19 trend. This is followed by tourist arrivals from Europe and the US, flows that are already 50% of their pre-pandemic averages. On the other hand, travellers from Japan, Russia, Hong Kong, Taiwan, and mainland China are still far below pre-pandemic levels (Chart 3).

With inbound restrictions loosened in Hong Kong and Taiwan beginning in October, we feel confident that numbers will rise. It's likely that visitors from the two regions will follow the same exponential trend other regions like ASEAN and the US had. Even if tourists from Hong Kong and Taiwan return at just 33% of their pre-pandemic numbers in the last three months of the year, there will be 100k more visitors flying in compared to current trends due to reopening alone.

Chart 3: 2022 monthly tourist arrivals as a percentage of pre-pandemic trend



Source: CEIC, HSBC

Competition ahead but still upbeat

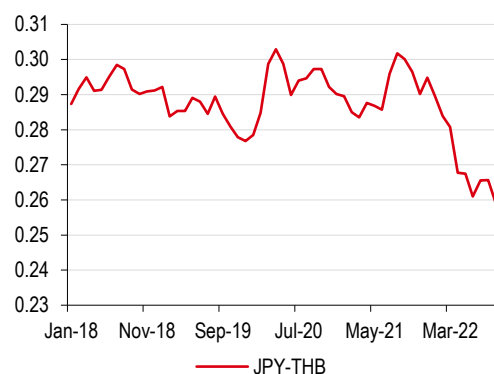
It's a curious case why travellers from Japan aren't returning as fast as those from the US or Europe. To begin with, there are only minimal restrictions for locals to fly in and out of the country so there's not much of a compelling reason for locals not to travel. As of August, tourists from Japan are only 20% of 2019 levels (Chart 3). We surmise that Japanese locals are not travelling to Thailand due to the yen's depreciation relative to the Baht, making a week's vacation in Thailand more expensive (Chart 4). Year-to-date, the Baht has already appreciated against the Yen by more than 10%. Another reason may be limited flight capacity. Japan only reopened its borders to inward tourists in October, so two-way flights (to and from Japan) may be less profitable than before, which in turn, tightens supply. If the latter is true, then it is possible that some good fortune will arrive as tourist arrivals from Japan may begin to increase by October after Japan authorities scrapped the 50k daily cap on inbound tourists.

Another implication of a reopened Japan, however, is competition. Given that Japan is also considered a hot tourist destination, competition between the two regions will likely stem the momentum of tourism's recovery in Thailand, but we think it will only do so very slightly.

This is because there is still a lot to unclog when it comes to the international pipeline of travel. In other words, there's still a lot to compete for, and both Thailand and Japan are still far from achieving their pre-pandemic numbers. Case in point, Hong Kong and Taiwan have just reopened their borders. Another case is tourists coming from Russia, which used to be 6% of Thailand's total tourists in December 2019.

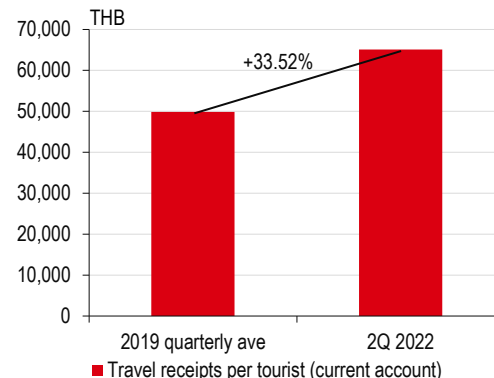
This is not to say that Thai authorities aren't swinging into action. The Tourism Authority of Thailand (TAT) is scaling up its marketing campaigns in a bid to lure in more tourists. For instance, TAT is targeting European tourists by marketing the region's hot tropical weather to help escape Europe's expensive winter ahead.

Chart 4: The THB has appreciated against the JPY by as much as 10%



Source: CEIC, HSBC

Chart 5: Tourism-related inflows (current account) per tourist



Source: CEIC, HSBC

More spending

If each traveller spends much more now than before COVID-19 spread around the globe, then the Thai economy may be as well-off with fewer tourists coming in. And with pent-up travel demand still high, the thought of higher per-capita spending is very conceivable.

Unfortunately, data on tourism receipts or average per-capita spending by tourists has not been published since 2019. But one alternative to look at is tourism-related receipts from the current account data. Of course, the data here won't be one-to-one to tourist expenditure; the current account records cross-border transactions and not what a tourist spends while on vacation. Nonetheless, this measure may gauge whether there's more economic activity occurring for a given number of tourists.

Chart 5 shows the tourism-related receipts per tourist and we can see here that per-capita flows are 34% more than the average in 2019, suggesting that pent-up demand is in the works and tourists do spend more during their stay in the Land of Smiles.

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