

Box 8.4: Singapore's Tourism Sector: A Comparison with Previous Downturns and Its Future Prospects

Overview

Singapore's tourism sector was hit by several shocks in the last two decades, such as the 1997/98 Asian Financial Crisis, the 2001 recession coupled with 911 terrorist attacks, the SARS crisis in 2003 and the 2008/09 global financial crisis. This box article examines the trends in visitor arrivals and hotel industry during the recent financial crisis, and how they fared compared to previous tourism downturns.

The impact of the 2008/09 recession on visitor arrivals has been less severe and protracted compared to the 1997/98 recession...

Exhibit 1 shows the index of visitor arrivals during past recessionary episodes. On a peak-to-trough basis, the SARS crisis had the deepest, but also the most short-lived, impact on visitor arrivals. While the recessions of 1997/98, 2001 and 2008/09 resulted in less steep declines in visitor arrivals, the recovery to pre-crisis levels also took longer. Comparing the impact of the various economic shocks on visitor arrivals, the following observations can be made:

- The peak-to-trough contraction in visitor arrivals during the 2008/09 recession (-14 per cent) was comparable to the contraction during the 1997/98 recession (-15 per cent). In contrast, visitor arrivals were hardly affected by the 2001 recession until the terrorist attacks of September 11.
- The peak-to-trough contraction in visitor arrivals during the 2008/09 recession took place over a longer period of time (4 quarters) compared to the 1997/98 recession (2 quarters). However, the pace of recovery was faster. As of the fourth quarter of 2009, seven quarters from the pre-crisis peak in the first quarter of 2008, visitor arrivals were just 2.6 per cent lower than the peak. In contrast, visitor arrivals took nine quarters to return to the pre-crisis peak following the 1997/98 recession (Exhibit 2).

Exhibit 1: Visitor Arrivals During Past Crises

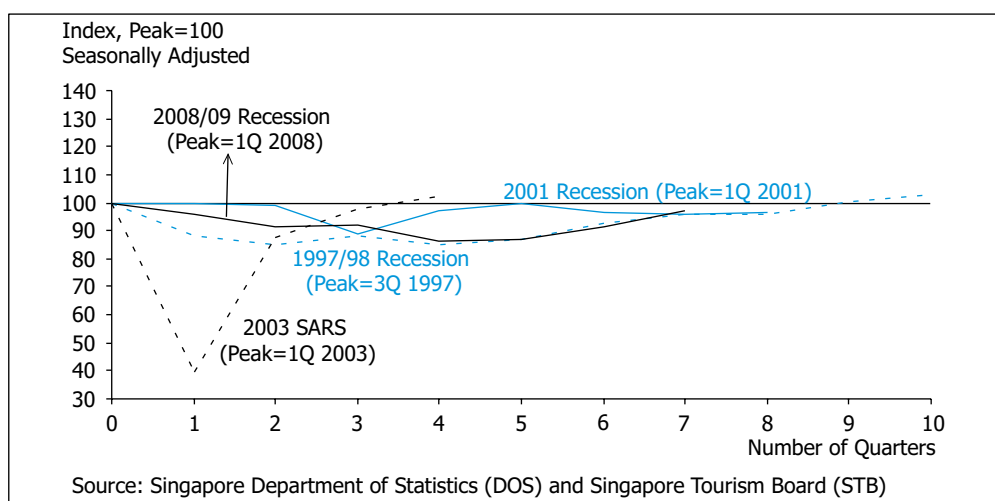


Exhibit 2: Magnitude and Duration of Previous Tourism Downturns

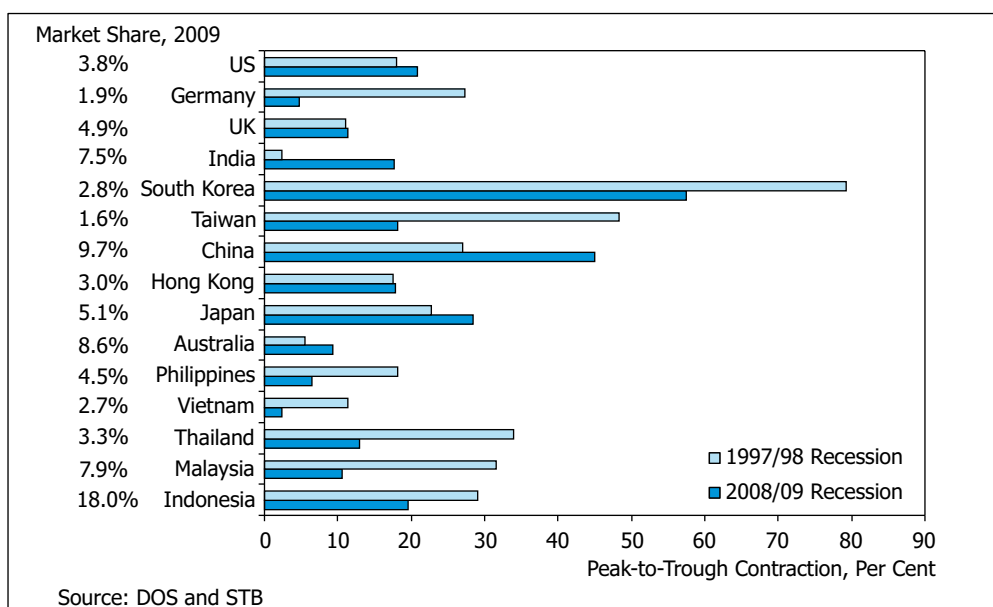
	1997/98 Recession	2001 Recession	2003 SARS	2008/09 Recession
Peak-to-Trough Contraction (Per Cent)	15	11	61	14
Peak-to-Trough Duration (Quarters)	2	3	1	4
Recovery Back to Pre-Crisis Levels (Quarters)	9	5	4	> 7*

Source: Singapore Department of Statistics and Singapore Tourism Board

* Visitor arrivals have not returned to pre-crisis levels yet as of the fourth quarter of 2009, but are just 2.6 per cent off the peak.

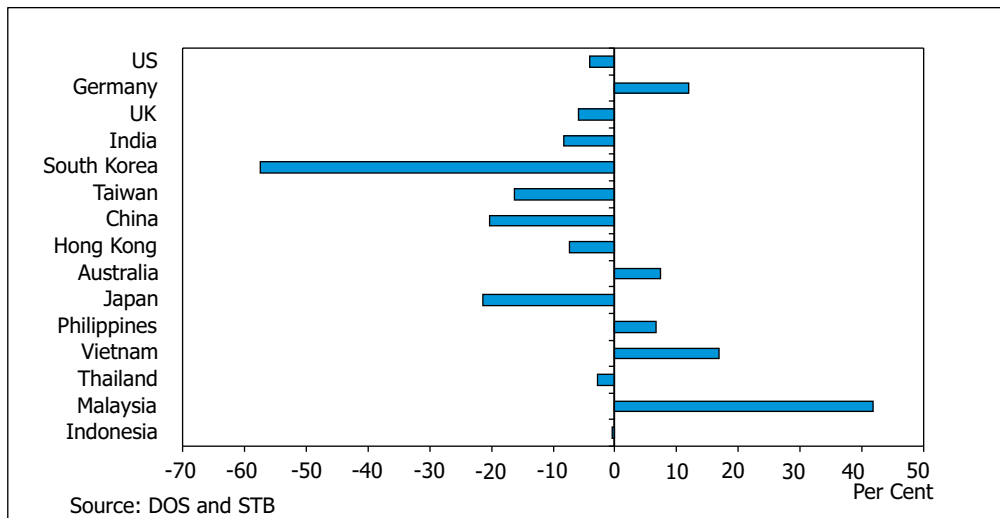
... due to a cushioning impact from neighbouring countries

There are two possible reasons why the 2008/09 recession had a smaller impact on visitor arrivals compared to the 1997/98 recession. First, the 2008/09 recession affected the US and Europe much more severely than ASEAN countries. But the Americas and Europe markets contribute to just 18 per cent of visitor arrivals to Singapore. Visitor arrivals from ASEAN, particularly Indonesia, Malaysia, Vietnam, Philippines and Thailand, did not fall by as much as they did in 1997/98 recession (Exhibit 3). Since almost half of our top source markets are ASEAN countries, it is not surprising that the recent recession had a less severe impact on overall visitor arrivals to Singapore compared to the 1997/98 recession.

Exhibit 3: Peak-trough Contraction in Visitor Arrivals from Various Economies to Singapore

Second, the emergence of low cost carriers and increased air links with other ASEAN destinations such as Indonesia, Thailand and Vietnam in recent years helped to support visitor arrivals to Singapore during the recent recession. In particular, the strong pick-up in visitor arrivals from Malaysia since May 2009 was mainly due to the liberalisation of air routes between Singapore and Malaysia which resulted in more flights between the two countries. As of the fourth quarter of 2009, visitor arrivals from ASEAN countries had already recovered to levels close to or above pre-crisis levels (Exhibit 4).

Exhibit 4: Changes in Visitor Arrivals from Peak Levels as of 4Q 2009



In contrast, the 2008/09 recession has had a larger impact on hotel revenue compared to the 1997/98 recession, due to the decline in room rates from high levels in recent years...

The fall in visitor arrivals during the recent recession also affected the hotels sector, which saw a decline in its revenue per available room¹ (RevPar) on the back of falling average occupancy rates (AOR) and average room rates (ARR). Compared to the 1997/98 recession, the decline in RevPar during the 2008/09 recession was slightly more severe. On a peak-to-trough basis, RevPar fell by 35 per cent during the 2008/09 recession compared to 30 per cent during the 1997/98 recession (Exhibit 5). The sharp contraction in RevPar was mainly due to a steep decline of 26 per cent in ARR. However, the decline in ARR in 2009 should be seen in the context of the sharp increase in room rates in recent years, particularly in the run-up to the inaugural F1 night race held in Singapore in September 2008. With the onset of the 2008/09 recession, ARR started to fall from the record highs in 3Q2008. Nevertheless, by the fourth quarter of 2009, ARR had reached early 2007 levels on a seasonally adjusted basis (Exhibit 6).

Exhibit 5: Decline in RevPar Levels from Peak

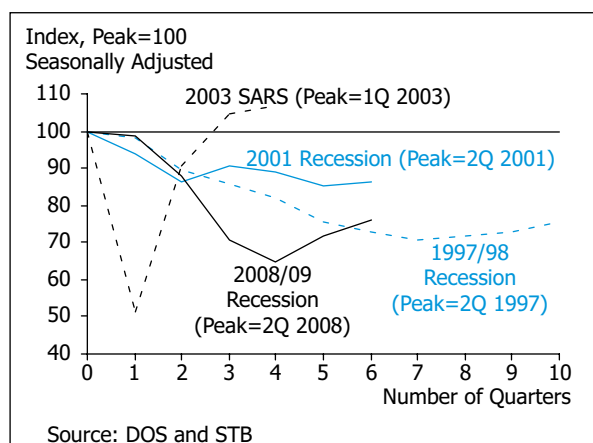
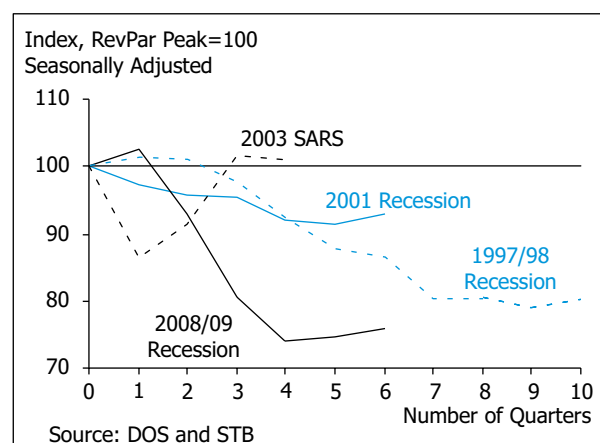


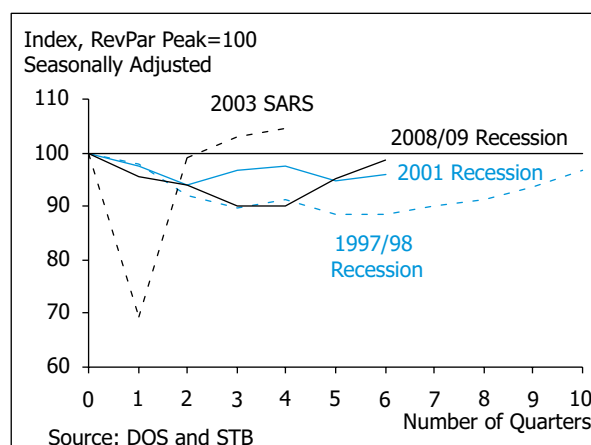
Exhibit 6: Decline in ARR Levels from Peak



¹ RevPar = AOR x ARR.

The duration of the peak-to-trough decline in RevPar during the 2008/09 recession (4 quarters) was shorter compared to that for the 1997/98 recession (7 quarters). This was due to both the ARR and AOR bottoming out faster in recent months, in tandem with the recovery in visitor arrivals in the second half of 2009 (Exhibits 6 and 7).

Exhibit 7: Decline in AOR Levels from Peak



Conclusion

Singapore's tourism sector has shown a certain degree of resilience during the recent recession. Visitor arrivals recovered strongly in the second half of 2009 on the back of the global economic recovery and various initiatives implemented by the Singapore Tourism Board to promote Singapore as a tourist destination. In fact, monthly visitors to Singapore hit an all-time high of 971,452 pax in December 2009. Compared to the 1997/98 recession, the decline in visitor arrivals during the recent crisis was less severe and the recovery was faster. This can largely be attributed to the resilience seen in visitor arrivals from ASEAN source markets which helped to cushion the slowdown in other markets.

The fall in visitor arrivals also affected the hotel sector, which saw a sharp peak-to-trough contraction in RevPar on the back of a steep decline in ARR as well as a fall in AOR. However, in line with the recovery in visitor arrivals, RevPar bottomed out in the second quarter of 2009 along with improvements seen in ARR and AOR. Nevertheless, RevPar could remain below 2008 peaks. Upward adjustment may be sluggish this year because of double-digit percentage growth in the number of hotel rooms coming on stream this year.

Looking forward, the prospects for the tourism sector are positive. The global tourism outlook has improved, with the United Nations World Tourism Organisation (UNWTO) recently upgrading its growth forecast of global tourist arrivals to 3 – 4 per cent in 2010. In fact, the UNWTO expects arrivals into Asia to show the strongest rebound.

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