Country Watch: Swine Flu Affecting the Mexican Tourism Market

The swine flu epidemic, announced by the Mexican health secretary on April 23rd, has had a swift and disastrous impact on tourism within Mexico. Mexico City, the epicenter of the outbreak with almost 3,000 suspected cases, became a ghost town as the government closed public schools, movie theatres, restaurants, bars and museums to prevent the spread of the illness while people barricaded themselves in their homes. On April 29th, President Calderon urged everyone to remain in their homes from May 1st to May 5th, curbing non-essential work in the public and private sectors. Furthermore, the government shut down all archeological zones on that day. With the overwhelming majority of the swine flu cases in Mexico City, the entire country is experiencing a significant decline in tourism.

A turbulent 2008 weakens players for a dramatic drop-off

The tourism industry in Mexico has been facing challenges since fuel prices climbed in the spring and summer of 2008, dampening demand for air travel. While fuel peaked in July, an escalation of violence related to the drug trade caused many European countries to raise travel alerts in August 2008. The US government followed in October 2008. In November, the Mexican peso lost 40% of its value against the dollar, which fuelled overnight trips in the border areas by Americans in the fourth quarter of 2008. These trips compensated for declines in overnight trips to non-border areas compared to the same months in 2007. As tourists to non-border areas spend almost twice as much as the overall average tourist, these tourist declines restrained growth in incoming tourist receipts to 5% growth in 2008.

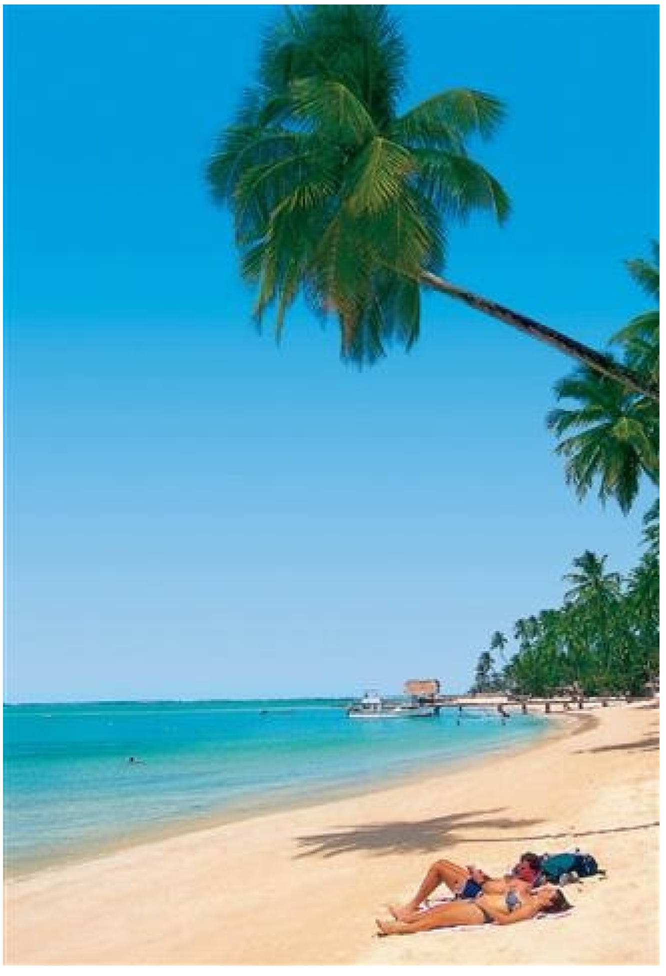
While international tourism is important due to its higher spend per traveller, domestic tourism receipts account for 87% of all tourism expenditure. The uncertain economic environment dampened consumer confidence and Mexicans cut back on their domestic trips, causing a decline of 2.4% in domestic trips in 2008. However, higher airfares and hotel rooms pushed domestic spending up by 4%.

The slowdown in international and domestic tourism late in 2008 forced industry players to start discounting to lure travellers, putting some in financially precarious positions without the ability to withstand a complete travel and tourism standstill.

Travel warnings heeded

The epidemic has caused governments, such as the US, UK, France, and Germany, to warn against non-essential travel to Mexico. Large corporations such as 3M, General Electric Co, Sony and Nokia are restricting business travel to Mexico.

While airlines, hotels, travel agencies and tour operators are waiving cancellation fees and allowing clients to rebook, some industry players are making aggressive moves and ending flights and packages to Mexico entirely. Despite a lack of confirmed swine flu cases in the beach resort areas, Air Canada cancelled flights to Cancun, Cozumel and Puerto Vallarta until June 1st while maintaining service to Mexico City. WestJet, the second largest airline in Canada, stopped flights to Cabo San Lucas, Puerto Vallarta, Mazatlan and Cancun until June 20th except for the route to Cancun, which will return in the autumn. European tour operators, Thomas Cook Group and TUI AG cancelled flights until May 5th and May 8th, respectively.



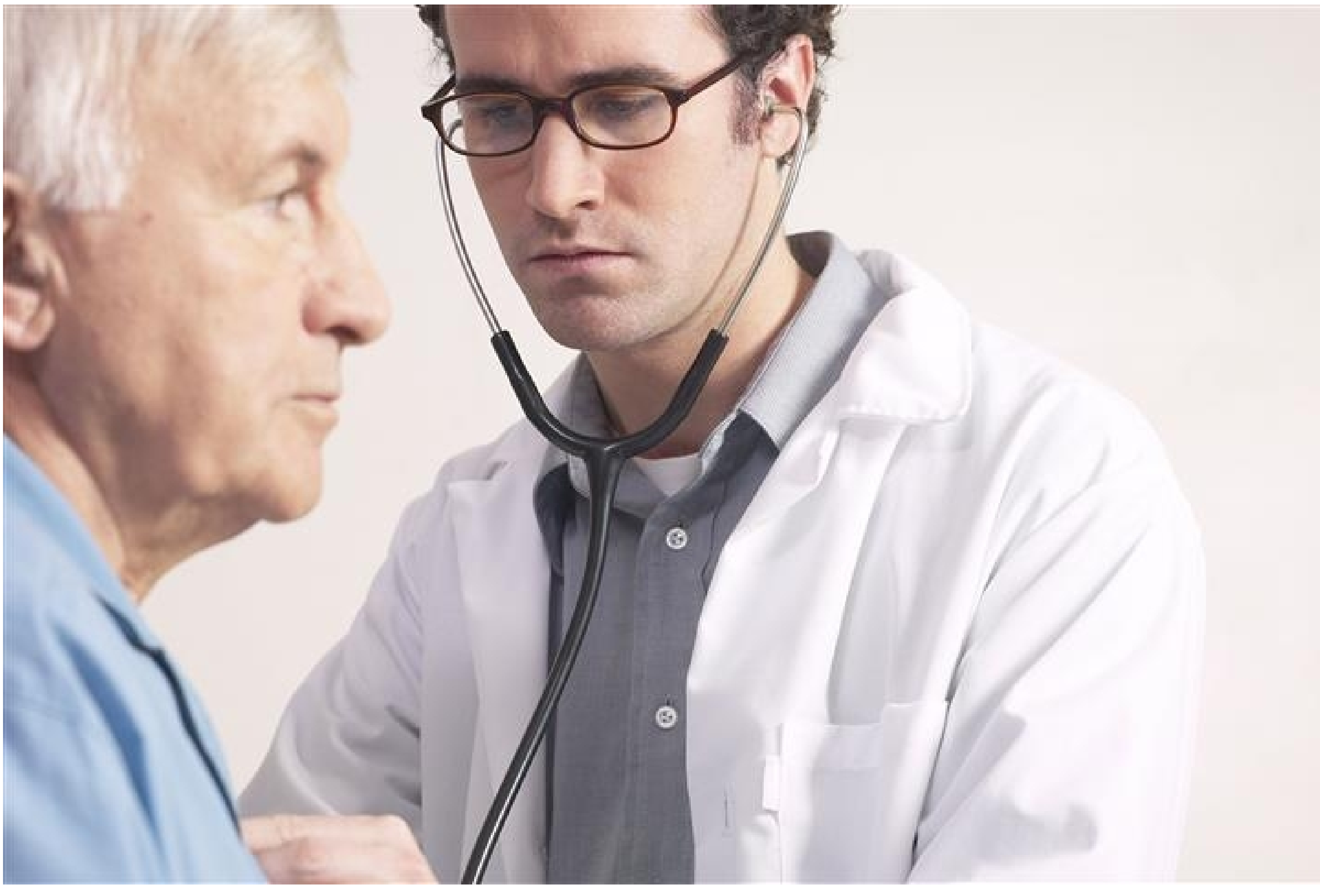
All major cruise companies were also cancelling ports of call in Mexico. For example, Carnival

Cruise Lines cancelled Mexican ports for its sailings through May 4th including stops in Cozumel and Ensenada.

Mexico City is a hub for tourism, but entire country suffers

To make matters worse, Mexico City is the most popular destination for tourists, both international and domestic. In 2008, 2.6 million international visitors stopped in Mexico City and the capital accounts for 24% of domestic trips. Not only is the city a magnet for tourists, its international airport, Benito Juarez, is the main gateway to Mexico and a large hub, handling 26 million passengers in 2008. In fact, 60% of domestic passengers have an origination or a destination at either Benito Juarez or Toluca airport, an airport 40 miles from Mexico City popular with low cost airlines. 36% of international passengers arrive or depart from Mexico City. These statistics do not include passengers that have stopovers in these airports, which are quite common for international flights to reach coastal cities.

As evidenced by the actions by the Canadian airlines, European tour operators and American cruise lines, the beach resort areas are not immune to cancellations despite the lack of swine flu cases. American and Mexican airlines are quiet on the amount of cancellations and bookings they are experiencing, insisting that the overall effect has been negligible as people postpone or choose different destinations. The hotel industry, on the other hand, has vocalized the dramatic decline in demand throughout the country. According to Asociación Mexicana de Hoteles y Moteles, the average hotel occupancy in the cities of Aguascalientes, Mexico City, San Luis Potosí, and Zacatecas has fallen to less than 10% when they typically run between 40-50% full. Hotel occupancy rates in Cancun continue to fall as tourists return home early and many cancel trips. Industry sources have seen the occupancy rate drop from 64% as of April 25th to 55% of April 29th and that some accommodation establishments were operating at 15% occupancy in the city centre.



The impact will be severe

In light of President Calderon's advisory, the long weekend scheduled for May 1st resulted in more cancellations by domestic tourists as people remained in their homes, worsening the situation. While summer months are considered the low travel season, June and July account for about 16% of air traffic and international visits.

This summer will then be followed by the hurricane season in the autumn, another low travel season. While the epidemic may be curbed by then (SARS lasted for four months in China), demand may remain sluggish due to residual health fears and hurricane season. If the epidemic is curbed in a timely manner, it still may take months for stabilization in tourism demand in Mexico with November as an ideal starting point. Industry players and the government will need to invest in promotion to assure travellers of their safety once the epidemic is contained and look to domestic and intra-regional tourism to lead a recovery in the crucial winter season of 2009-2010. It will also take discounts to lure price conscious and fearful tourists back to Mexico City and resort areas. Given the devastation of Hurricane Wilma in 2005, the government and industry players are well versed in how to bring travellers back to the region, but they face a greater challenge in convincing travellers that their health is not at risk.

Tourism Numbers Dropped

Mexico welcomed 700,000 fewer tourists in the first six months of 2009 than last year. Due to the influenza, fewer Americans visited Mexico. Last year, 3.35 million Americans traveled to the country between January and June. This year, however, **the number of arrivals dropped to 2.85 million** during the same period. During the first six months of this year a total of 4.61 million foreign tourists visited the country but in 2008 there were 5.24 million foreigners coming to Mexico during the same period. During the first half of 2009, tourism industry generated only $6 billion, which is a 17 per cent decline when compared with the same period the year before. Officials expect this year’s income from tourism to be down 30 per cent when compared to 2008 numbers. Tourism-review.com

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