Anatomy of Tourism in Mexico

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SIGNOS VITALES

EL PULSO DE MÉXICO

Image: Photo Notimex in Forbes.com at https://tinyurl.com/ppwmsjk

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Tourism context in the pandemic

Previous to the sanitary crisis, tourism contributed 8.7% of the Gross Domestic Product (PIB for its acronym in Spanish) in Mexico. It was the main source of currency in dollars in the Good and Services Account (24,573.2 million dollars in 2019, 2,163.9 million dollars higher than oil exports). At the same time, it employed 4.33 million people, and it created 5.8% of paid work nationally. Those job positions received the 9.74% of the total compensation bill. According to the Economic Census of 2019, 786,540 business units depend economically on tourism (16.4% of the whole business units in the country).

Despite the connoted importance of tourism in the economy, before the pandemic, the federal government minimized the problems this sector faced. Essentially, the insecurity and the gulfweed arriving on the Mexican Caribbean coasts. According to the Quintana Roo Government (2019), this last event significantly risked the tourism operation in the region since, in 2018, 522.2 gulfweed tons were removed from beaches and tideland. According to Banco de Mexico (2019), the insecurity perception cost the sector between 0.83% and 1.1% of international passengers by quarters between the third quarter of 2017 and the fourth quarter of 2018.

At the same time, the federal government has decided to invest in the most emblematic projects of the federal executive. Two of them are related to the tourism sector (Santa Lucia Airport and Maya train). Although there were founded doubts about these project's functionality, they have been idle capital in the pandemic context. Whether they economically and in terms of mobility work or not at this time, it is almost the same.

On its part, the public entity in charge of designing tourism policies in Mexico, The Secretariat of Tourism (SECTUR for its acronym in Spanish), will get, during 2021, a budget of 38,613.39 million pesos (mdp). However, from this millions, 37,842.66 mdp are destined to The National Fund for Tourism Development (FONATUR for its acronym in Spanish). From these resources mentioned above, 37,082.96 mdp will be destined for physical investment (focused mainly on the building of the Maya Train). Because of this, the SECTUR budgetis only 1,530.43 mdp. After substracting the expenses in personal services gives a total of 809 mdp to carry out the operation and other policies (2.1% of the total).

In other words, the federal public administration will only allocate 809 mdp during the 2021 fiscal year to deal with a sector whose value in the market is 1.99 billion Mexican pesos. Hence, the federal government will face the biggest crisis in modern tourism history with equivalent resources to 0.04% of tourist GDP.

Installed capacity in Mexico

Mexico counts with a formidable geographic position, but to exploit it, it has been necessary to create capital through the years, during different moments of Mexico's history. According to the Economic Census of 2019, 9.9% of the fixed assets are directed to tourist services. The aforementioned implies that from every 100 pesos invested in buildings, machinery, transportation, and computer equipment, ten are found in the tourist sector.

However, the differences are notable among the different regions in the country. Only six of the thirty-two federative entities in Mexico have more than 20% of capital structure pertaining to the total assets directed to tourism (more than double the national average). These are the cases of Quintana Roo (72.9%), Baja California Sur (48.3%), Nayarit (41.9%), Guerrero (39.3%), Oaxaca (23.5%), and Yucatan (22%).

We are particularly interested in the fixed assets since they are the means through the organization in the economic units (establishments), employees, and employers, that produce goods and tourist services. Quintana Roo is an exceptional case since from each 100 pesos invested in fixed assets, 73 are invested in tourist activities. Conversely, only 27 of each 100 are not destined for tourist production.

That way, five of the six entities previously mentioned are distinguished by having more considerable investments in building and fixed facilities – in proportion to the national average as a total of their assets-. It is also crucial to highlight the cases of Colima and Zacatecas. The cases of the State of Mexico and Mexico City that have large quantities of resources invested in the sector show a more uniform distribution of their fixed assets.

Of the total fixed assets directed to tourism, 76.5% is focused on only 27 economic activities, the rest 23.5% in another 91 activities. Just hotels[1] group a little more than the fifth part of the value of said assets (22.6%). Taking into account the total of accommodation services, they constitute (24.6%).

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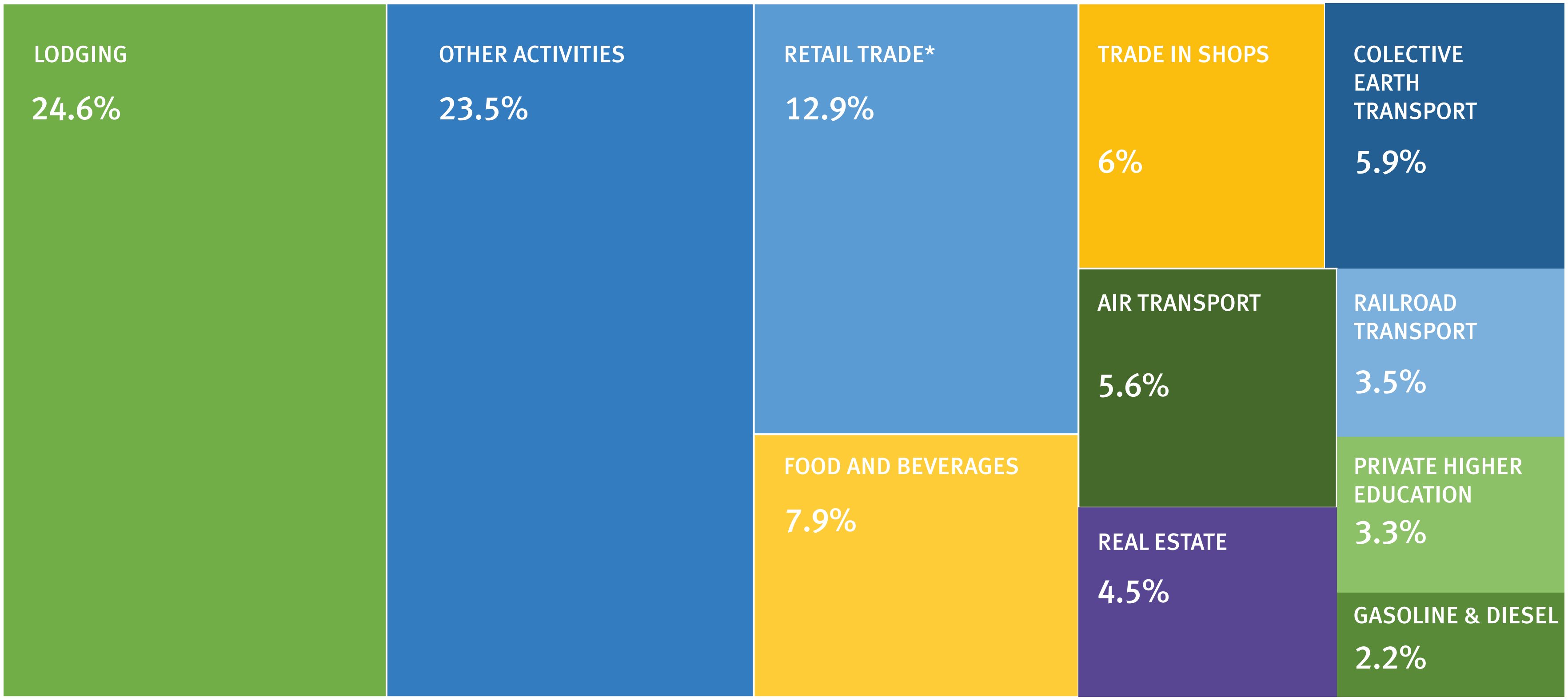
1 Hotels with other services integrated and hostals without other services integrated are considered.

GRAPH 1. COMPOSITION OF THE FIXED ASSETS BY ECONOMIC ACTIVITY IN MEXICO



Note: *The retailer in supermarkets and minimarket is considered.
Source: In-house elaboration with data from Economic Census 2019.

Only seven states outstand from the national average considering the universe of temporal accommodation services:[2] Quintana Roo (73%), Baja California Sur

2 The temporal accommodation services are: hotels with integrated services, hotels without integrated services, motels, pensions, bed and breakfast, cabins, villas, and similar accommodations.

(57.4%), Nayarit (56%), Guerrero (37%), Sinaloa (34.2%), Oaxaca (27.8%), and Jalisco (27.6%).

By its size, tourism reflects what happens in the Mexican economy since 99.9% of the companies that participate in the tourism sector employ less than 251 people. 93% of the sector establishments employ up to ten people. However, only 1.2% of the total economic units (9,237 large and medium-size enterprises) generate 50.9% of the Mexican tourism total gross production. This means there is a wide gap in productivity between microenterprises and large enterprises in the tourism sector. Differences in productivity are also expressed in salaries by people in large enterprises, which are 3.1 times higher than in micro-businesses.

99.9% tourism enterprises employ less than 251 people

0.1% of tourism enterprises employ more than 251 people

Images:

Small hotels with less than 20 rooms at https://tinyurl.com/6nxmt3hk

Big hotels with more than 100 rooms at https://tinyurl.com/2s2a9vh5

Supply induced shock

Production factor paralysis

As opposed to other economic crises, the crisis triggered by the COVID-19 presence has induced an intense paralysis of economic activities without (or a very little) opportunity to re-assign the subnational economy resources to other activities immediately, as in times of war.

The tourism sector case greatly exemplifies the economic consequences of the previously mentioned shock. It is such that 10% of the invested capital the economy was compromised in spring 2020. Depending on the federative entity, the extent of the impact shows different results. Quintana Roo, with 72.9% of the fixed assets directed to tourism and 72.4% accumulated in the hotels, implies that only 47.2% of these economic actives were available (as long as the current legislation allows it).

In sum, the current supply crisis leads to a production factor underuse, especially of capital, because the fixed capital is hardly transferable to other activities (it is more rigid than the financial capital). It is technically unfeasible that a hotel turns into a different type of venue as it can happen from a bar or nightclub into a restaurant.

Consequently, it is not surprising that the most affected federative entities by the supply-induced shutdown are those with significant investment in the tourism sector. Quintana Roo and Baja California Sur stand out with drops in economic activity with an annual rate of –41.7% and –41.2% during the second quarter of 2020.

Demand analysis:

Main destinations and their markets

The demand for goods and tourist services in Mexico comes from foreigners (receptive tourism) and people who reside in the country and travel internally (domestic tourism). According to the National Accounts System (SCNM for its acronym In Spanish), receptive tourism consumes 17.9% of the tourist goods and services total, and 82.1% corresponds to domestic tourism.[3]

Both types of tourists show a well-defined preferences structure which has different implications for public policies and business effects. The international travelers that get into the country can be of two different types: international tourists and international excursionists.[4]

In the case of foreign tourists, they travel to Mexico by air or land. On average, a foreign tourist who travels by plane spends 2.9 times more than one who travels

3 Considering internal consumption.

4 The difference bewteen them reside in the fact that the second ones do not stay overnight. International travellers that arrive in cruisers to the country are considered international excursionist.

by land route and 14.7 times more than an excursionist who travels by cruiser[5]. Thus, in addition to more tourists arriving in the country by air, they also contribute more –per person and in the aggregate– to the Mexican economy.

Only five countries accumulated 82.5% of the international visitors by nationality, by air during 2020: The United States of America (64.9%), Canada (12.3%), Colombia (2.1%), Brasil (1.7%), and France (1.5%). By January 2021, the first four countries maintain the same position where the 5% increase of The United States visitors' participation is notable.

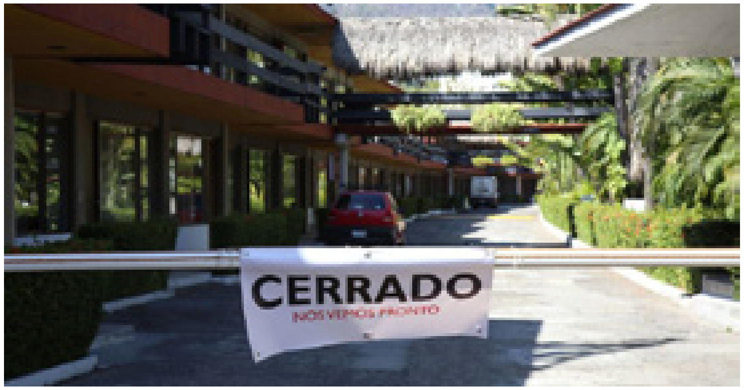
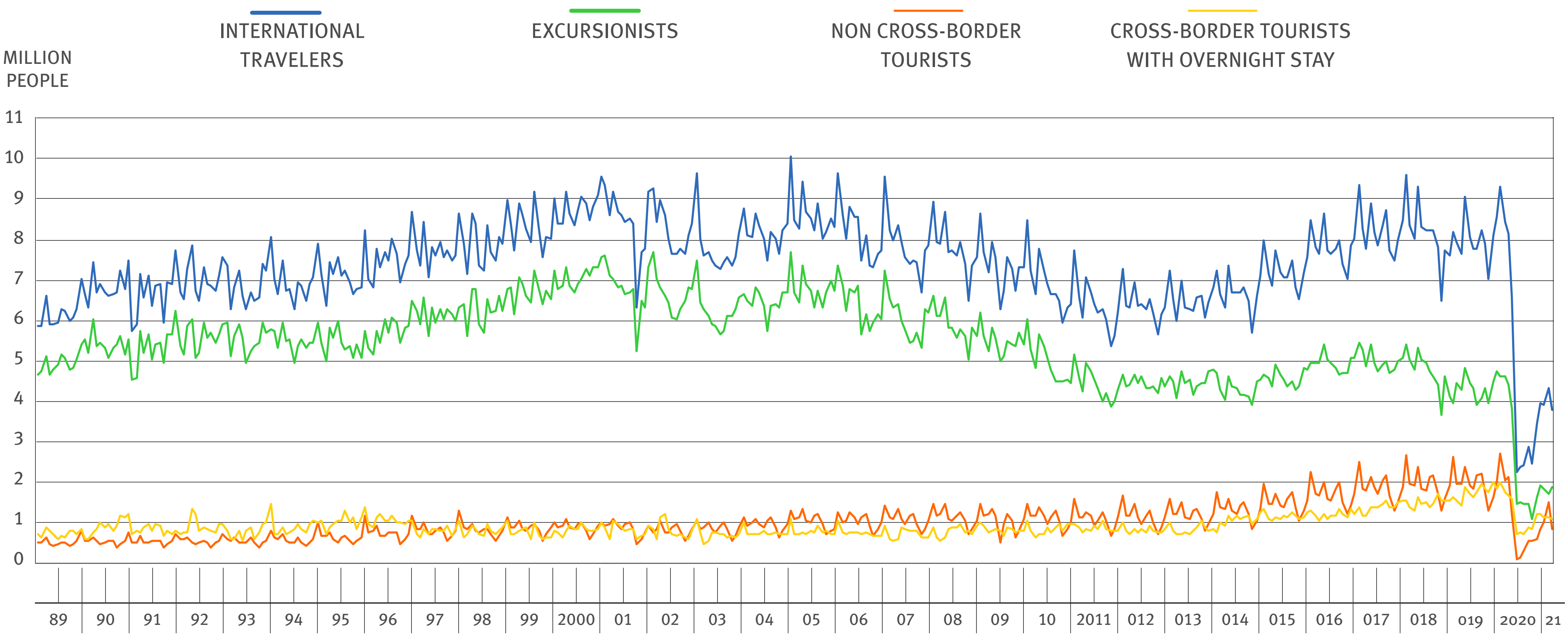


Image: closed hotels during pandemic. Photo: Cuartoscuro at https://tinyurl.com/bkz5sppy

Image: "Soldiers guarding closed beaches in Acapulco" at dw en https://tinyurl.com/3x8e5xb3

5 With January 2020 figures.

GRAPH 2. INTERNATIONAL TRAVELLERS ENTRY TO MEXICO



Source: In-house elaboration with information from Banco de México (2021).

Between May 2013 and March 2018, the international tourist visits grew uninterruptedly to favorable annual rates. The average annual growth was 9.5% between December 2012 and November 2018. In the same period, the international tourist increased from 2.58 million to 3.46 million, 34.2% cumulative growth, with a maximum of 4.22 million in December 2017. However, between

December 2018 and February 2020, the average international tourist growth has been 2.3%, and showed a negative annual growth rate in four months between December 2018 and September 2019.

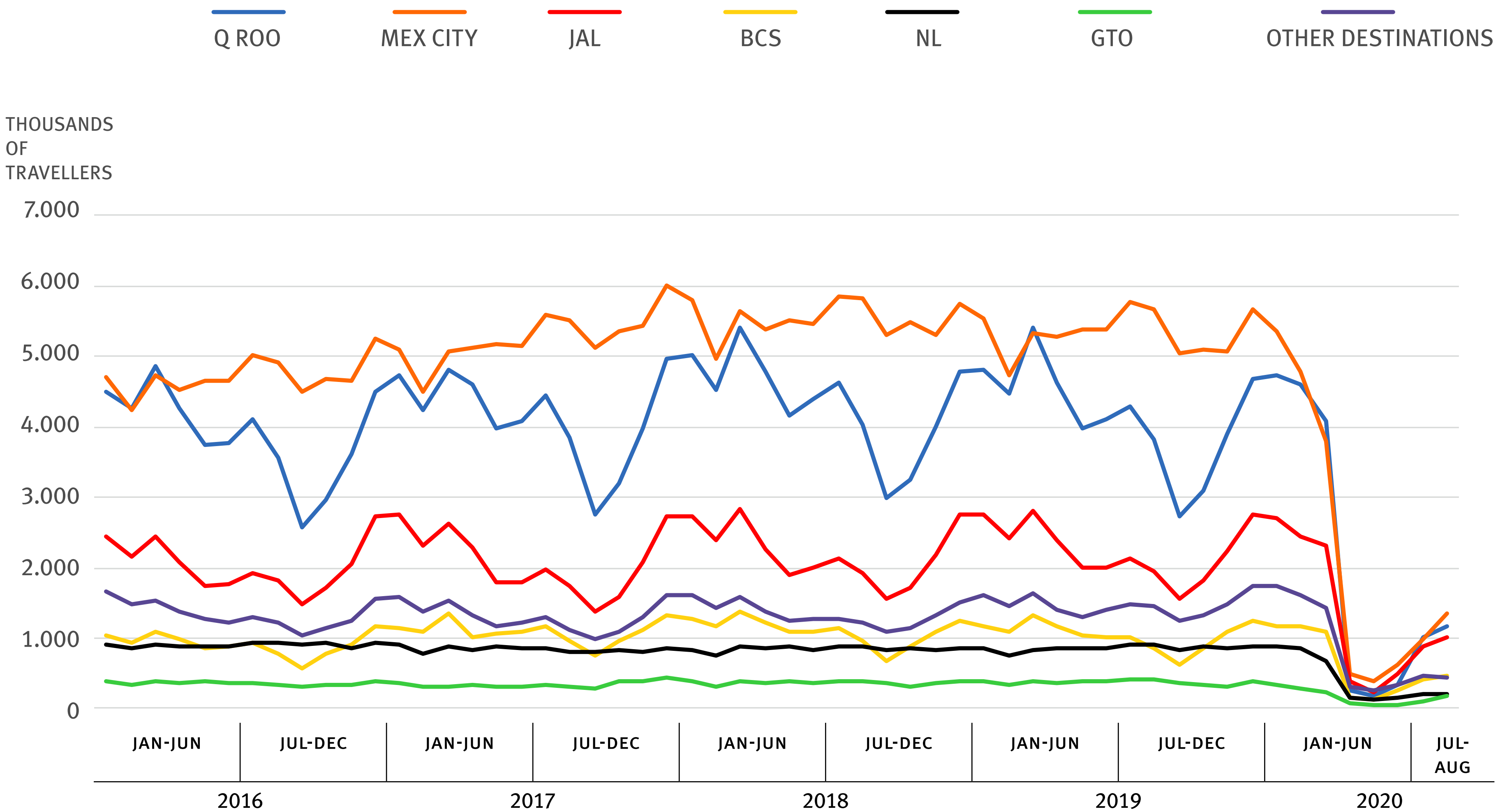
The sanitary crisis led to a reduction of international tourists (non cross-border tourists) of –95.5% annual rate in April 2020. It is foretold that the upturn towards 2021 will be notable since the comparison base will be against the all-time lows as it happened in May 2021 (after the 2009 crisis). Thus, the information for the second 2021 semester should be carefully analyzed. The same happens with the international excursionists arriving in cruisers due to the collapse of 100% from April 2020 to January this year.

The downfall of cruisers' arrival to Mexico points out Cozumel's economic collapse. This is an example that the goods and tourist services demand contraction is also different in scope. The demand shock is the same as the supply shock; distinguishable by tourist destination, and it is even local. Thus, the opening does not involve economic recovery, implying more extensive efforts to make it.

Despite the international tourists' slow recovery, the average expenditure has recovered considerably, mainly propelled by the increment in the average expenditure of the tourists arriving by land route who show positive growth rates since July 2020. For their part, tourists coming by air are 2.3% higher than in January 2020. In other words, the average expenditure by an international tourist has been recovered.

In addition, there is a clear preference for foreign tourists in specific destinations. The visit pattern shows seasonality in four months of the year: March, July, September, and December; from these, only September shows a downward behavior.

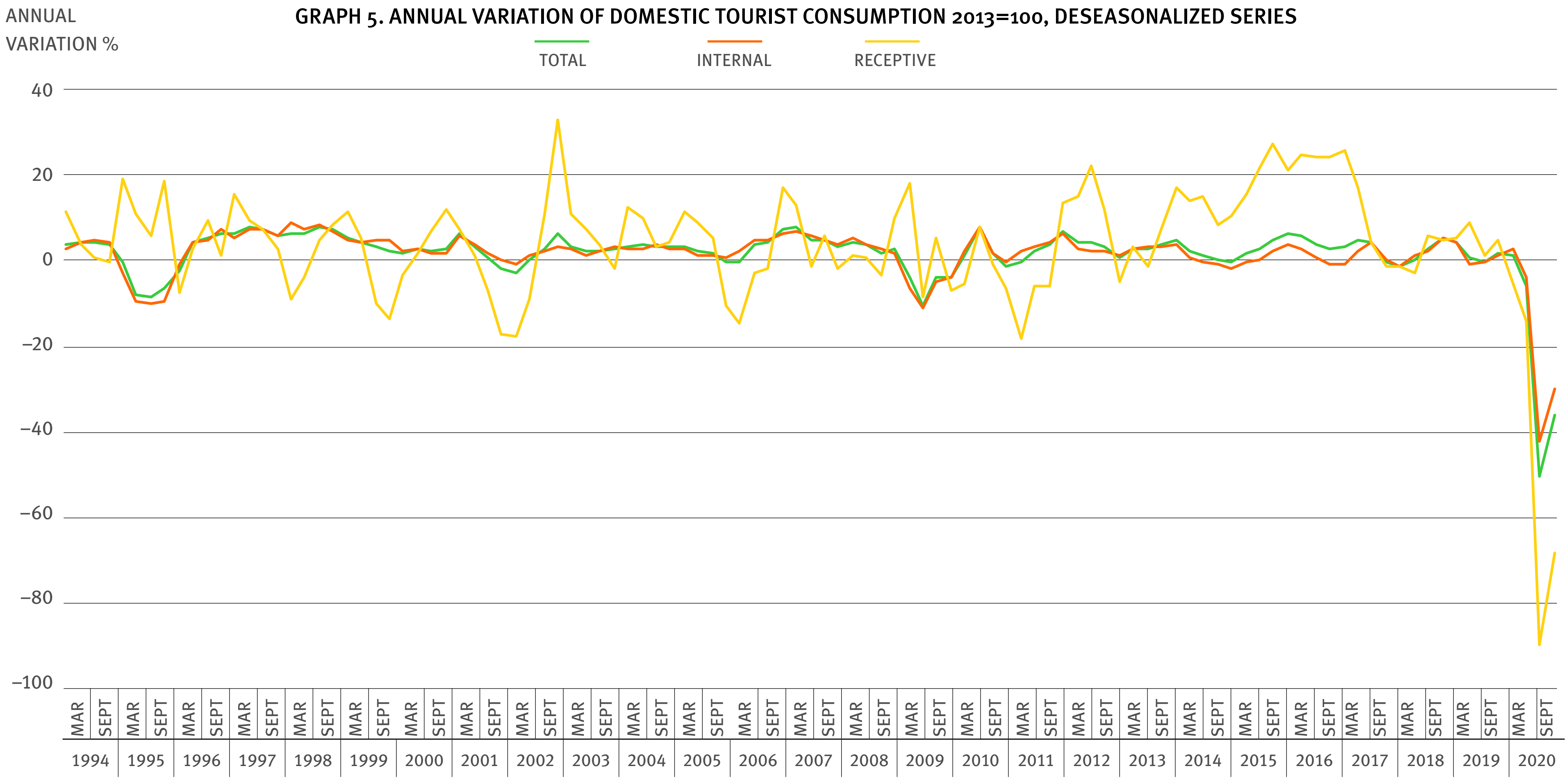
GRAPH 3. REGULAR INTERNATIONAL TRAVELS BY DESTINATION



Note: For the specific case of Quintana Roo, the airports from Cancun and Cozumel were considered, and the Puerto Vallarta and Guadalajara airports in Jalisco's case.
Source: In-house elaboration with data from Secretariat of Communications and Transportation (SCT for its acronym in Spanish), 2020.

The recovery of the demand, measured by hotel occupancy, shows similar behavior for national and foreign tourists. The decrease of the annual rate is –49.9% for national tourists and –61.8% for foreign tourists to January 2021. On average, the hotel occupancy annual rate has shrunk to –54.8% by January 2021.

GRAPH 5. ANNUAL VARIATION OF DOMESTIC TOURIST CONSUMPTION 2013=100, DESEASONALIZED SERIES



Source: In-house elaboration with information from Quarterly Indicator of Tourist Activity (ITAT for its acronym in Spanish).

Although the national consumers' trust index was severely affected by the lockdown (–19.2% annual rate), the fast recovery expectations towards the end of 2020 exceeded the economic and public health reality the country goes through. But for January and February 2021, the trust in Mexican consumers had on travelling has stagnated. It should be noted that it took thirteen months for the 2009 crisis case to recover the consumers' trust (between March 2009 and April 2010).

None of the most recent crises (1994-1995 and 2008-2009) had been so severe with the tourist sector as the one from the great lockdown has been. At its most critical point, the tourist consumption shrunk 10.7% in the financial crisis.

During the recent crisis, the same consumption shrunk 50.6% during the second quarter of 2020 (almost five times more). The internal consumption has been affected to a lesser extent than the receptive tourism; however, up to 2020 is 29.8% below the same quarter of 2019. It is estimated that the loss of consumption is approximately 1.22 billion pesos.

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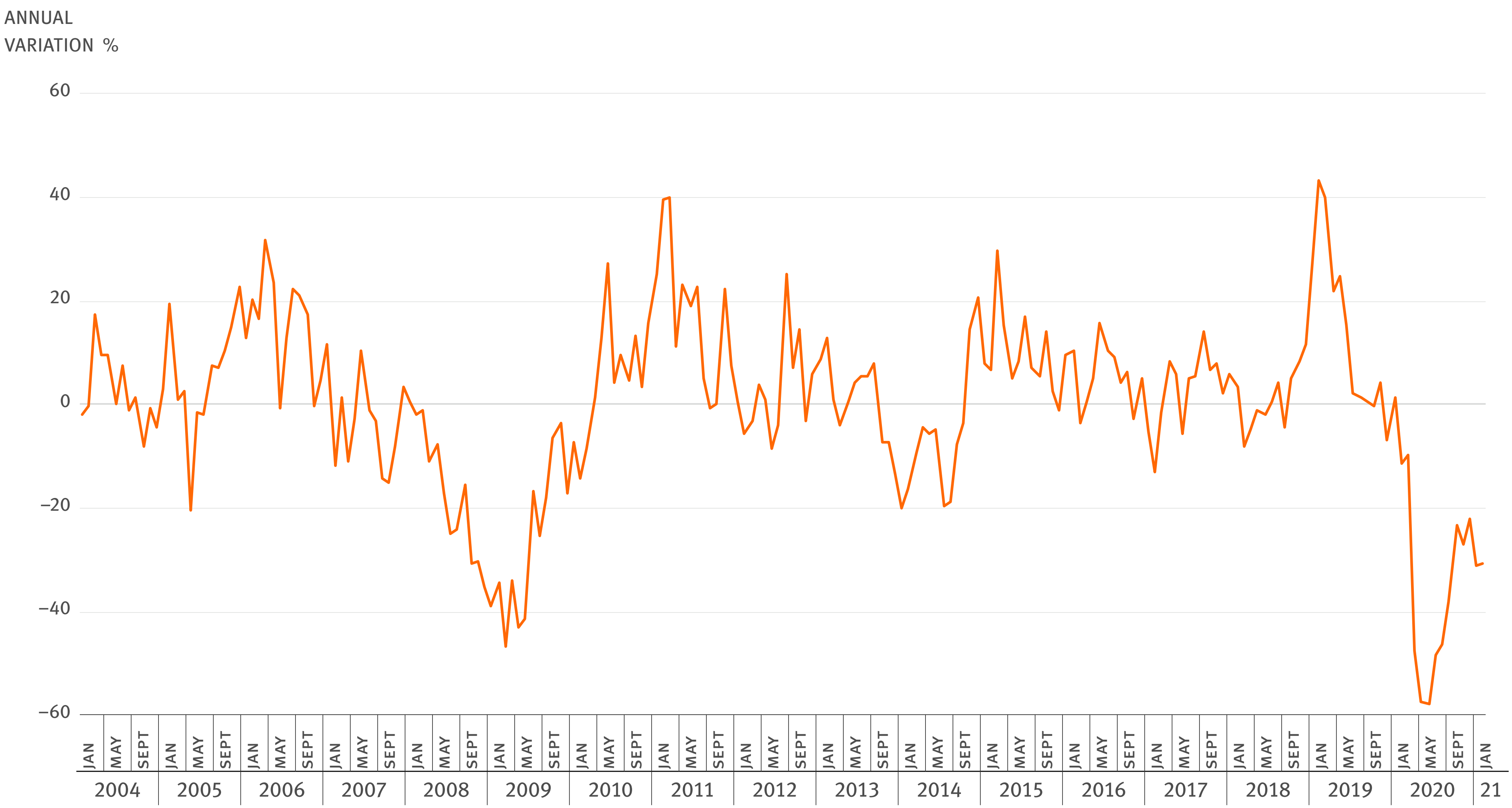
GRAPH 4. ECONOMIC POSSIBILITIES TO GO ON VACATIONS IN THE NEXT 12 MONTHS ANNUAL VARIATION (%)



Source: In-house elaboration with information from Consumer Confidence National Survey (ENCO for its acronym in Spanish).

We are missing the train,

BUT IT IS LOADED WITH GOOD INTENTIONS

The capital invested in the tourist sector is 9.9% of the total country's fixed assets, the equivalent of 1.14 billion pesos. This is enough for Mexico to avoid the inertial growth, which was already poor (rate zero previous to the crisis) in case the tourist sector stays still.

Similarly, the total cost of the current crisis is much greater than the product loss because the companies bear the cost of decapitalization since the actives wear down in time or by using them (depreciation), which on average was 8.87% during 2019. In other words, the underuse today represents future expenditures to be made by the companies.

On top of that, the federal executive has recently informed that the income resulting from the Tren Maya will be directed to the National Defense Secretariat (SEDENA for its acronym in Spanish). Likewise, it was allowed to use Marias Islands (former prison) to make it a tourist destination for excursionists. It is understood that temporal accommodation will not be built; however, the uncertainty around public life is a constant in the current administration. In addition, the army is also in charge of building the International Airport Felipe Angeles (previously Santa Lucia). With this, the entrepreneur army comes back as part of the market, making the army participant of the national income.

Also, one of the most significant risks of the market in the short term is the seasonal persistence in the seasonality of tourist consumption, in a moment when crowds are not adequate. If tested, seasonality in the presence of SARS-Cov-2 (during winter), the 2021 closing would not be so far from 2020 since it matches with the most extensive tourist consumption period.[6]

Minor damage of the consumption made by nationals has allowed keep buoy the internal consumption, cushioning the initial downfall of demand. Nevertheless, national tourism can be seriously affected by the working income downfall, which nurtures the stagnation of Mexican traveling expectancy in the next twelve months. It can also explain the mild recovery of 23.3% in September 2020 concerning the previous quarter.

On the other hand, the United States' solid economic recovery will generate upward pressures on tourist services exports. Albeit, for this situation to be consolidated, sanitary measures will be necessary, more than financial measures that guarantee the international tourists' health. The international tourist consumption increased 223.6% in September 2020 regarding the previous quarter.

So long as the internal Mexican demand is weak, there is nothing more than to capitalize on the substantial injection of the United States government resources. Nevertheless, the efforts of (especially) local and federal governments, business people, as well as the most economically affected populations will be needed. In other words, a state policy is required. Alas, the federal government's unarticulated attempts do not aim in this direction. Mexico is facing a great opportunity and is losing it so far.

6 Assuming the vaccination process in Mexico is as slow as it has been so far.

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