Mexican Tourism in perspective: a slow recovery

JULY, 2021

SIGNOS VITALES
EL PULSO DE MÉXICO

Image: playasmexico.com at : https://tinyurl.com/3x8vybm8

Mexican Tourism in perspective:
a slow recovery

Direct and indirect consequences and impacts

As commented in previous Vital Signals alerts about tourism, this sector faces the most profound and most severe crisis in its modern history, characterized by the total or partial paralysis of its assets (supply shock). Also by the goods and touristic services demand contraction. All this, due to the mobility restrictions (internal and between countries), the social distancing conditions, and the work income reductions.

However, such impacts have been more or less severe depending on the touristic drive in each country's regions. It is mainly due to fixed assets on touristic production and the market they are directed to, national or overseas.

In addition to the severe impact in the companies' income and the employment reduction in different economic activities that constitute the sector; there are at least three dormant issues –as a consequence of those above– that threaten the touristic industry stability: companies' demise, sector leverage, and sub–national public finances weakening. Two risk aspects are observed: the permanence of seasonal touristic consumption and poor pandemic management; both conditions boost the sector's production capacity.

The other deaths

A significant number of companies have not survived the abrupt income drop. In the services specific case (without including financial services), the income reduction at an annual rate is –15.8% up to January 2021, but the tourism–related services have suffered more significant drops, that is the case of transportation (–22.6%), cultural, and sports leisure activities (–53%) and temporal accommodation and food and beverage preparation services (–37.3%)

Those above, among other things, have deterred companies from facing their operation costs. Up to March 2021 are registered the death of 1.01 million companies (regarding 2019), and 619.4 thousand establishments have opened (births), in a way that the net change (births minus deaths) is –391.4 thousand establishments.

Considering the net change, the federative states more affected are: Quintana Roo (–24.2%), Baja California Sur (–18.6%), Tamaulipas (–18.1%), Sinaloa

(–18.1%), and Nuevo Leon (–17.9%).The two first states excel for focusing the 72.9% and 48.3% of fixed assets of their economies in tourism, respectively. Nuevo Leon excels for being one of the leading destinations of international tourism.

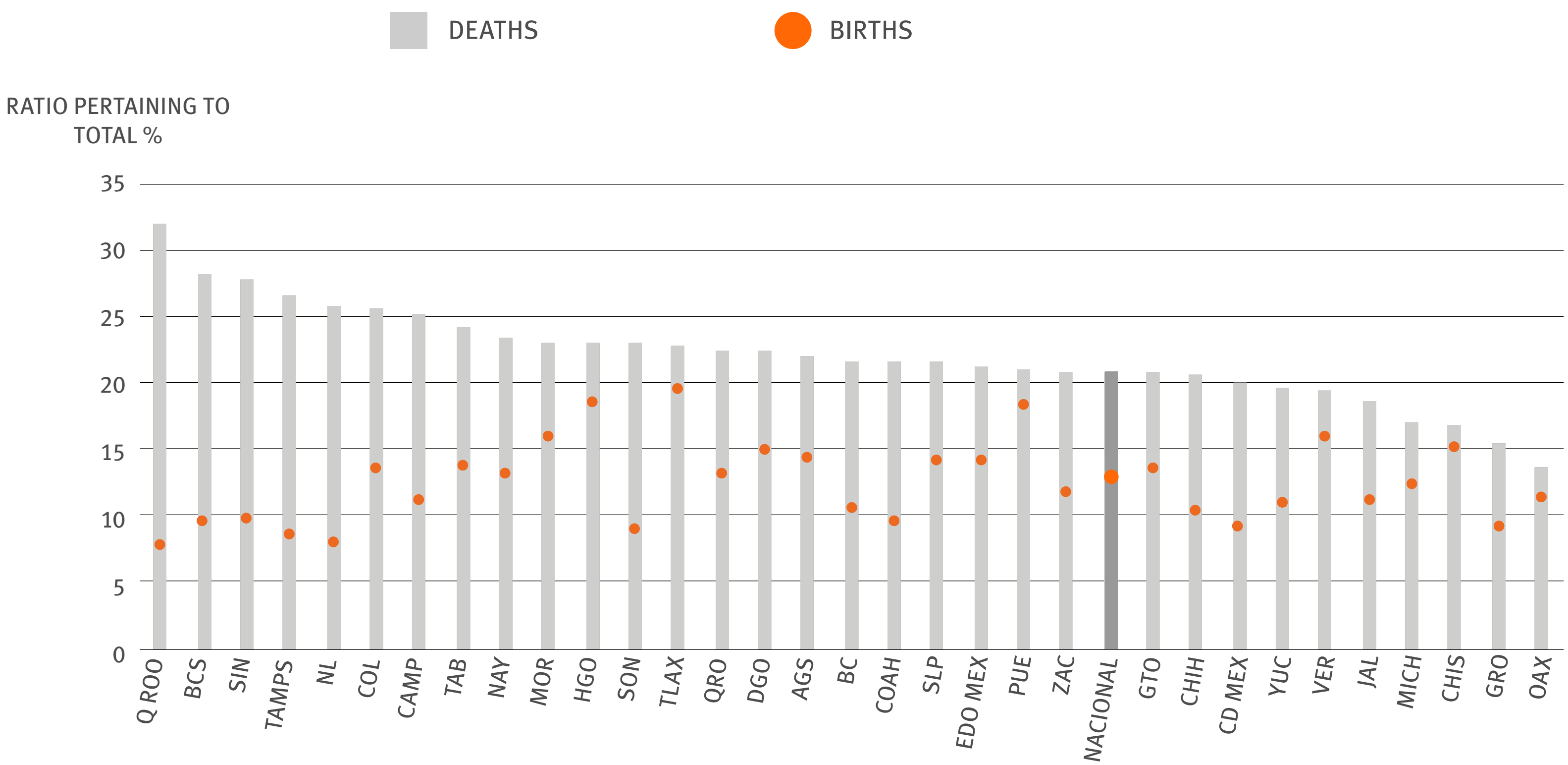
On the other side, less affected states are Chiapas (–1.8%), Oaxaca (–2.5%) and Puebla (–2.8%). Puebla excels not because it has a lower proportion of business deaths (–21%) but for showing the third biggest rate of new births in the country (18.3%), which has allowed it to stay afloat (just after Tlaxcala and Hidalgo). The net change nationally is –8.1% (see Graph 1).

Quintana Roo is not only the federative state with the most significant proportion of deads but the one with the minor birth proportion. The PyMEs death (small and medium size companies, for its acronym in Spanish) is the highest in the country with a net change of –35.9%, and in the case of non–financial private services, that net change is –39%. This means that four of each ten PyMEs dedicated to these services have disappeared in Quintana Roo concerning 2019.

The most affected companies by the largest sectors have been services companies (where the 90% of the touristic GDP is produced). The net change is –12.1%, while the companies related to commerce and manufacture show a net change less abrupt, –5.2% and –6.2%, respectively.

By the company's size, the most affected have been PyMEs, which have been reduced by –18.4% and the micro–enterprises just –7.7%. However, this phenomenon is explained by the birth of a large number of micro–business (614.8 thousand), which allow mitigating the effect on the latest. On top of that, the most significant net variation is given by the services related to PyMEs (–21.1%).

GRAPH 1. DEATHS AND BIRTHS OF BUSINESSES PROPORTION REGARDING THE TOTAL BY FEDERATIVE STATE



Source: In–house elaboration with data from Business emographics Study (EDN for its acronym in Spanish), 2020.

Tourism and subnational public finances

The induced coma in the touristic sector will also impact the subnational tax collection. The federative states tax the touristic production through the lodging tax (ISH for its acronym in Spanish), which is part of the federal governments' unrestricted income.[1]

The evidence supports the fact that federative states with tourism–oriented economies obtain higher incomes from ISH. The states with more ISH tax collection concerning their total taxes collected in 2019 were: Quintana Roo (36.9%), Baja California Sur (35.2%), Nayarit (22.3%), Guerrero (11.1%), Sinaloa (5.2%), Jalisco (5.2%), Oaxaca (5.1%) and Morelos (4.5%). The other twenty–four states' ISH contribution in tax collection was lesser than the national average (3.6%).

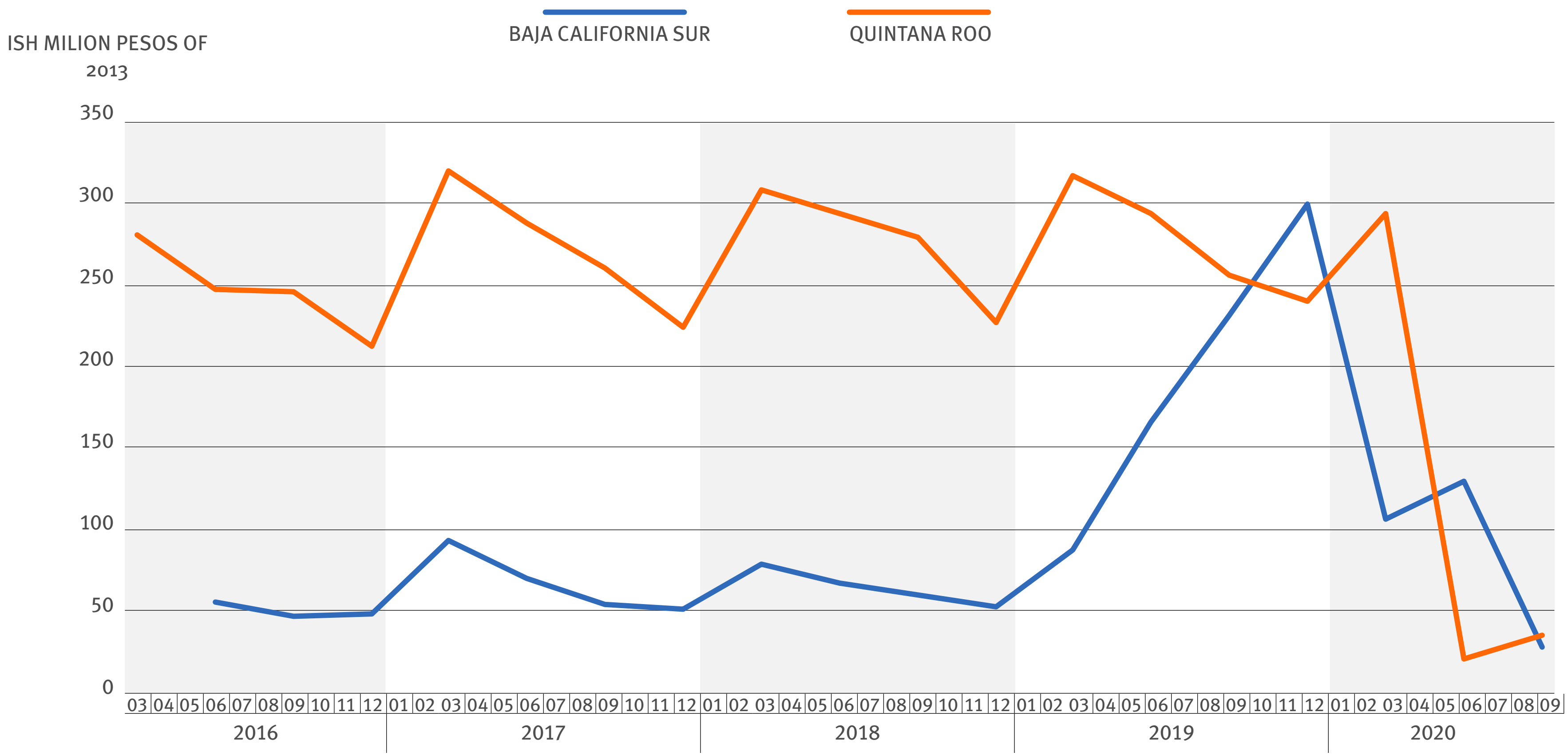
During 2019 4,252.7 million pesos of ISH were collected in the country, from which 55.3% were received in three states: Quintana Roo (34.1%), Mexico City (12%), and Baja California Sur (9.2%), but only in Quintana Roo 1,452.2 million pesos were collected, 34 of each 1000 pesos of the tax collection via ISH in Mexico.

The drop in tax collection will be considerable, but it will burden more on those states with a higher dependency on those incomes. Mexico City, Jalisco, Nuevo Leon, for instance, are three of the ten primary international tourism receptors

1 The unrestricted income is the state and federal income that federative states collect and do not have an object of expenditure previously determined. In addition, since the ISH is statal, governments are in freedom of choice to decide the tax burden (that could be zero).

in Mexico. However, their economies are more diversified in a way that the impact on their public finances will be less severe than Quintana Roo, Baja California Sur, and Nayarit.

GRAPH 2. ISH SELECTED STATES
2016–2020. 2013=100



Source: In–house elaboration with data from Finances Secretariats in the federative states, (2016–2020).

Although Quintana Roo could cope with the pandemic initially, in the second quarter, the drop in the tax collection is evident (–92.9% at an annual rate). Baja California Sur had its highest decline in the third year quarter (–88.1% concerning 2019).

In addition, the states which collect more ISH will suffer a double shock in their finances since the federal contributions calculation algorithm rewards those with a tax collection increase in relation to the remaining states. On the contrary, it punishes those who reduce their tax collection, consequently decreasing their participation in Cluster 28 resources. The federation income reduction –in the states concerned– will be evident at least during 2021.

In sum, the shocks mentioned above (economic and fiscal) can provoke a deep financial crisis if the sanitary situation gets longer. On the other side, the debt acquisition can be limited in the short term since the credits' collateral is typically the income itself. Consequently, we will see more limited states with less budgetary flexibility and less participation in their economies in 2021, mainly those with a high dependency on tourism.

The federal contributions rewards those with a tax collection increase in relation to the remaining states. On the contrary, it punishes those who reduce their tax collection.

Private banking credit to tourism

According to the National Banking and Securities Commission (CNBV for its acronym in Spanish), Mexico's tourism sector leverage level is approximately 2.1 times the energy sector has with banking institutions in the country. In addition, 86.2% of the assets portfolio is in more prominent companies, representing 14.3% of the sector's authorized. That is to say, just 13.8% of the portfolio is found in 85.7% of the companies (small and medium companies).

TABLE 1. TOURISM SECTOR CREDIT WITH BANKING INSTITUTIONS (MILLION PESOS)
NOVEMBER 2020

ENTERPRISE SIZE	ECONOMIC ACTIVITY	TOTAL PORTFOLIO	CURRENT PORTFOLIO	DUE PORTFOLIO	IMOR (%)	AUTHORIZED	CREDITS
PyME	Hotels and restaurants	12,159.17	11,472.50	686.68	5.65	13,668	14,787
	Entertainment and other recreation services	1,152.99	1,044.30	108.69	9.43	1,130	1,168
	Transport	16,474.34	15,769.35	704.98	4.28	19,957	20,562
Big size	Hotels and restaurants	108,072.42	107,865.06	207.36	0.19	2,482	8,973
	Entertainment and other recreation services	11,332.27	11,153.15	179.12	1.58	385	1,765
	Transport	67,244.48	65,146.56	2,097.92	3.12	2,916	4,132
TOTAL		216,435.68	212,450.93	3,984.75	1.8%	40,538	51,387

Source: In–house elaboration with data from the National Banking and Securities Commission (CNBV), (2020). *Note*: Trusts are not considered.

On average, for each authorized PyME (small and medium sized enterprises), there are 1.1 bank credits. Big companies have 2.6 credits for activity type; the hotels and restaurants own 55.6% of the total sector's assets portfolio. Based on the above, it is known that approximately 11 of each 100 companies of the tourism sector in Mexico count with bank credits.[2]

With the activities shutdown in Mexico, the private banking implemented the credits' payment deferral as part of private sector actions (not public) to palliate –to a certain degree– the crisis havoc over the companies finances. Albeit, with the end of the deferrals, the results will be visible through the bank capitalization levels, the increase in the default, or the debt restructuring.

Image: "With orange light some businesses could oper". Photo: Isaac Esquivel / Notimex in forbes.com at https://tinyurl.com/xdez6hww

2 The estimate is done considering the three economic activities at issue

Prospective

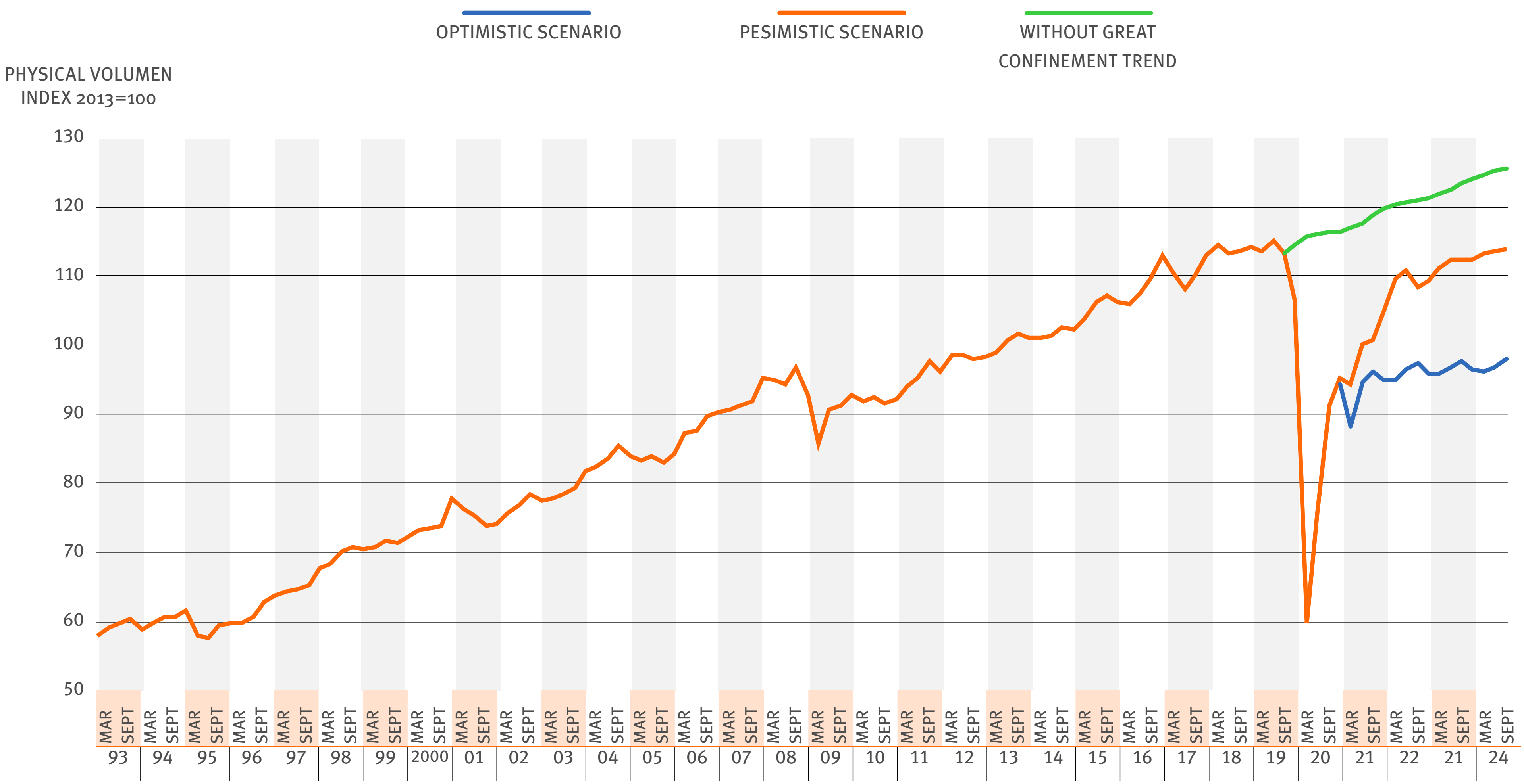
Through econometric calculations,[3] in Vital Signals, we estimate that the tourism GDP grew –19.4% at an annual rate in the last quarter of 2020, all this after the drastic drop of –47% in the second quarter of the same year. The accumulated loss during the year will rise to 27%. This means the tourism sector will have a contraction of three more times than the national economy.

The recovery will not arrive entirely in the short term if the structural factors affecting the national economy such as: Mexicans' health conditions deterioration, the limited application of the COVID–19 testing in Mexico (just 0.1 tests for every thousand inhabitants), the increase in the international travel restrictions, and the suspension of flights to Mexico.

If the economic environment and public health continue like this, it is very likely that tourism in Mexico will never be the same after 2021. In the most optimistic scenario, 2019 touristic GDP will be reached again in June 2024, but then it will be 9.1% below the inertial tourism growth (long–term tendency). But we need to warn of this situation, and it could even be modified in the light of the slow progress of the vaccination process in Mexico, the relentless fear of Mexicans to stay in hotels (55%) (Cota *et al.*,2021), or the deterioration in the international tourists' perception (see Graph 3).

3 A general dynamic model explained by the air route passenger commute behavior (national and abroad) and the services consumptions in Mexico has been used.

GRAPH 3. TOURISTIC GDP FORECAST AND LONG–TERM TENDENCY



Source: In–house elaboration with data from Indicators of the Touristic Activity, (1990–2020).

The simple fact of having a negative perception of Mexico[4] in sanitary matters can bring high costs in the recovery process. Due to the negative perception, during February 2021, 71.4 thousand tourists stop arriving in relation to December 2019. That is to say, February would have been a less harmful month if the Mexican people's health were improved. According to the evidence, the increase in a unit in the negative perception has an an effect on the arrival decrease of 7.9 thousand international tourists.

Beyond the mobility restrictions, it should be warned about the persistent seasonal presence in the consumption behavior, which can deteriorate the economy even more over the medium term and be translated into human life loss.

If the seasonal cycles are respected, the sector will have to endure frequent income drops every other period.

Image: border at Ciudad Juárez in jacobinlat.com at https://tinyurl.com/47m2cbns

4 To determine the level of perception of search patterns in Google about COVID–19 in Mexico at an international level has been used.

The crisis as a resistance test:

marathons and half marathons

The direct economic loss in the tourism sector in Mexico will be higher to half a billion pesos during 2020. However, the financial cost can be higher due to the companies' sector high mortality rate, leading to a major market concentration and competition loss. And also because of the employments, the touristic sector stops absorbing (not just the ones lost) through the mentioned companies.

On the other side, we observe the mentioned phenomenon as one that can create more income differences after the sanitary crisis is resolved due to the recomposition of the economic structure (particularly for the company size), giving more weight to microenterprises concerning the total. That is to say, Mexico will continue to be a microenterprises country. There are necessary substantive changes in economic and sanitary policies (including even mobility policies) to avoid the long stagnation the sector can live in, a product of wrecking the capital in great importance activities. The trust establishment internationally will be decisive.

It is equally probable that tourism potential in Mexico is severely affected by the loss or detriment of the installed capacity, so that in the long term (four years), the touristic GDP will move away from its potential power. Tourism as a value generator in Mexico will not be the same again if the current condition remains. At least two conditions together can be the trigger to drop the product: seasonality in consumption and slow vaccination process in Mexico.

Although the overview is not optimistic, finishing the resistance race faced by economies like Quintana Roo and Baja California Sur, it is estimated they will meet better conditions that can allow them to retake the growing path. Such economies can be more strengthened than those with a more extensive international tourists affluence from the second half of 2022.

There are necessary substantive changes in economic and sanitary policies (including even mobility policies) to avoid the long stagnation the sector can live in. The trust establishment internationally will be decisive.

References

Comisión Nacional Bancaria y de Valores (30 de diciembre, 2020). *Información del sector de Banca Múltiple al cierre de noviembre de 2020*. Comunicado de prensa No. 092/2020. Secretaría de Hacienda y Crédito Público (SHCP). [Information on the Multiple Banking sector at the end of November 2020. Press Release Nº 02/2020. Ministry of Finance and Public Credit (SHCP for its acronym in Spanish)] (Available at: Comunicado de Prensa 092 (cnbv.gob.mx)

Cota, R., Gutiérrez, A., Huerta, K. y Malpica, E. (2021). *Survey: Mexican consumer sentiment during the coronavirus crisis*. McKinsey & Company. Available at: https://www.mckinsey.com/business–functions/marketing–and–sales/our–insights/survey–mexican–consumer–sentiment–during–the–coronavirus–crisis#

Gobierno de Baja California Sur (2020). *Fracción XLII*. [Baja California Sur Government. Fraction XLII] Available at: http://transparencia.bcs.gob.mx/finanzas/informacion–publica/articulo–75/fraccion–xlii/

Gobierno de Quintana Roo (2020). *Información financiera gubernamental*. [Governmental financial information] Available at: http://www.sefiplan.qroo.gob.mx/sistemas/FGob/#slider

Instituto Nacional de Estadística y Geografía (INEGI) (2020). *Indicadores de la Actividad Turística*. INEGI. [Tourism Activity Indicators. INEGI.] Available at: Indicadores de la Actividad Turística (inegi.org.mx)

Instituto Nacional de Estadística y Geografía (INEGI) (2020). *Estudio sobre la Demografía de los Negocios* (EDN). INEGI. [Estudio sobre la Demografía de los Negocios (EDN). INEGI] Available at: Estudio sobre la Demografía de los Negocios (EDN) 2020 (inegi.org.mx)

Upwork.(2020). *Future Workforce Pulse Report: Trends & Statistics on the Growth of Remote Teams*. Available at: Trends & Statistics on the Growth of Remote Teams | Upwork

SIGNOS VITALES

EL PULSO DE MÉXICO

JULY 2021