

IWSR: the threat of coronavirus on the travel retail liquor market

The growing threat of a new coronavirus in China is sparking concerns over the disease's potential impact on the travel retail liquor market. China is fighting to contain the virus; a travel ban has been placed on Wuhan, the city where the first cases of the disease were detected. Public transport within the city itself has been shut down.

The virus has so far infected more than 500 people, with cases also detected in countries including Thailand, South Korea, Taiwan, Australia and the US. Airports around the region, as well as further afield, have implemented advanced passenger screening procedures in a bid to avoid further spread outside of China's borders.

However, the first cases of human-to-human transmission of the virus were announced this week, fueling fresh fears of the possible economic impact, particularly to the travel retail sector.

The coronavirus recalls memories of the 2003 SARS epidemic that primarily affected Southeast Asia and killed approximately 800 people. Although these are relatively few deaths in a global context, the SARS virus failed to have a negative impact on international travel. Figures from International Air Transport Association show a 2.4% drop in international passenger traffic for 2003, with a 9% decline in Asia Pacific.

Translating this to travel retail sales, IWSR figures show spirits volumes in the travel retail channel in Asia Pacific decreased by 1.6% in 2003, picking up again by 5.9% in 2004 and 5.2% in 2005. Cognac and Scotch, key categories for the Asia Pacific travel retail market suffered similar fates. Cognac volumes fell by 7.3% and Scotch fell by 1.5% in 2003. Both categories picked up considerably in 2004, with volumes increasing by 7.0% and 6.1%, respectively.

Although the ban on travelers leaving Wuhan comes in the week leading up to the Chinese New Year, when millions of individuals are expected to travel, the holiday mostly sees mass transit within China itself, with only minor international travel.

Alastair Smith, Director, IWSR, remarks: "Restrictions on travel during this Chinese New Year won't have a big impact on the travel retail liquor sector. The real threat will be felt by international travel.

Fear was a key motivator in decreased international travel during the SARS epidemic. What is difficult to judge right now is whether the coronavirus will be contained, in which case, the impact will likely be minimum. However, if consumer fear and uncertainty around the spread of the virus rises, we may be poised to see a repeat of something closer to the scale of 2003."

It will be crucial to keep an eye on the situation, as health experts understand more about the scale of the coronavirus. To date, most patients have shown relatively mild symptoms when compared to those of SARS. But the key question now is how easy the virus will be to contain and how consumer sentiment will respond as the news unfolds.