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Abnormal Returns on Tourism Shares in The Chinese Stock Exchanges Amid The COVID-19 Pandemic

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ABSTRACT

This study finds significant immediate adverse impact of the novel coronavirus (COVID-19) pandemic on tourism shares listed in the Shanghai and Shenzhen stock exchanges, in terms of breadth and depth. Overall, prices of these shares plunged by 20% in three consecutive days in response to pandemic fears, before technical rebound set in. Significant negative cumulative abnormal returns after the Wuhan lockdown are identified in 18 out of 21 tourism shares traded in the Chinese stock exchanges. These findings could serve as references for the China Security Regulatory Commission to monitor the market in future pandemic management. Investors are advised to avoid tourism shares the moment there is any suspicious development of virus outbreak in the future. Instead, they could look for opportunity to buy dip after massive market decline at the appropriate timing.

JEL Classification: G10, G14, G15

Keywords: Tourism; Coronavirus Pandemic; COVID-19; Chinese Stock Exchanges; Event Study; Abnormal Returns

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INTRODUCTION

Stock market studies are voluminous but studies on tourism shares and disease outbreak nexus are considerably limited, especially before the recent outbreak of the novel coronavirus pandemic. In this conjunction, three remarkable past studies worth noting are Chen et al. (2007), Chen et al. (2009) and Chong et al. (2010). All of them studied the impacts of the Severe Acute Respiratory Syndrome Coronavirus (SARS-CoV) epidemic on tourism related shares using event study approach[1]. Specifically, Chen et al. (2007) provide evidence of negative SARS-CoV impacts on seven hotel shares listed in Taiwan stock exchange, with sample period covering May 2, 2002 to April 22, 2003. In a separate attempt, Chen et al. (2009) analyze a total of 32 stocks of few sectors in Taiwan, over the sample period of September 25, 2002 to May 21, 2003. The authors reported negative impacts of SARS-CoV on the tourism, wholesales and retails sectors. In contrast, biotechnology shares had received positive impacts from the epidemic outbreak.

Similar impacts of SARS-CoV had been reported in Chong et al. (2010) from the Chinese stock market perspective. Chong et al. (2010) sample five stocks each from the pharmaceutical and tourism industries in the Chinese stock market for the April 19, 2002 to June 23, 2003 period. They revealed significant positive abnormal returns for pharmaceutical shares in China attributed to the same epidemic, while the opposite was found in the tourism shares. With a gap of nearly 17 years, the world today is shocked by the Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV2), or more commonly known as COVID-19, for the novel coronavirus disease discovered in 2019. The first cluster of this novel coronavirus affected cases was discovered at Wuhan at the end of December 2019. In less than four months, it had transmitted to 213 countries, areas or territories, with 2,787,196 confirmed cases and 198,668 deaths (World Health Organization, 2020)[2]. Although at the time of this writing, this global pandemic is not over yet, it is clearly far more contagious and deadly as compared to SARS coronavirus (SARS-CoV). According to World Health Organization (2003) SARS-CoV had affected 30 countries with 8,456 cases and 744 deaths in about four months (February to June 2003).

Remarkably, while this outbreak of SARS-CoV2 is unsolicited, it has no doubt made available the opportunity for researchers to study the impacts of virus on various aspects of our life. In particular, since the outbreak of the COVID-19 pandemic, there is a surge in the research pertaining to its impact on the stock market. Among others, these studies include Ashraf (2020), Baker et al. (2020), Chia et al. (2020), Gormsen and Koijen (2020), Kotishwar (2020), Liu et al. (2020), Ngwakwe (2020), Topcu and Gulal (2020, Yan et al. (2020), Zhang et al. (2020). Notably, all these studies analyze the stock market composite indices as a whole. In contrast, Al-Awadhi et al. (2020) and Huo and Qiu (2020) include industry level analysis for the China stock exchanges. Al-Awadhi et al. (2020) report that the hotel industry performed significantly worse during the COVID-19 outbreak than before the outbreak, based on panel data analysis. Huo and Qiu (2020) find that leisure service industry performed the worst out of 28 industries considered in the study, with a cumulative abnormal return of –1.60% for the event window [–1, 3]. On the other hand, Liew (2020) shows by regression analysis that individual tourism related share prices were significantly depressed by the Wuhan lockdown to contain the pandemic transmission[3].

As the COVID-19 pandemic spreads rapidly from human to human, many governments have implemented strict control order on its citizens' movements. The Wuhan lockdown was an unprecedented movement control first imposed in the Wuhan city, the densely-populated epicenter of this pandemic, on January 23, 2020. Soon, other cities of China and other countries followed suit. In this respect, tourism industry was instantaneously jeopardized with bans on domestic and international travels over and above the stay-safe-at-home and work-from-home principles, to break the chain of pandemic outbreak. Recently, Ali and Cobangoglu (2020) conduct a quick survey on over 2000 travelers around 28 countries on their behavior during the pandemic. From the feedbacks given by the respondents, they predicted that tourism will loss 50% revenues compared to the year before. This is due to immediate cancel of traveling and fear of traveling in the next 12 months. In addition, the World Travel and Tourism Council (WTTC) predicted that up 50 million jobs in the global travel and tourism industry will be lost due to the pandemic and it may take up to 10 months for the industry to recover after the outbreak is over (Faus, 2020).

[1] SARS-CoV was identified in February 2003.
[2] As of April 27, 2020, 0800 GMT+8.
[3] Trip.com Group which was incorporated in China, and two American companies (Booking Holdings Inc. and Expedia Group), in which their global business is generally reflective of various key components of tourism industry as a whole were considered in the study.