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## The Virus and Cruise Ships

David R. Kotok

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Virus news continues to erupt worldwide and financial markets seem divided, with bonds saying lower interest rates for longer, slower global growth, and a downward inflation outlook. Stock markets, on the other hand, like the low interest rates more than they fear the virus.



The headline stock index changes masks the industry-specific impacts. The stock prices reflect idiosyncratic industry risk profiles. These change rapidly with headlines. Here's a chronology of virus-related developments in the cruise ship industry, through February 11 news flow and midday February 12 prices.

Let's do the stock prices first. We will use the Dow Jones ETF (DIA) as the market metaphor since there are no cruise ship companies in that index. Cruise ships are part of the broader index (Russell or S&P) but are a small part. For Cruise industry companies we will use Royal Caribbean Cruises (RCL) and Norwegian Cruise Lines (NCLH). At the peak and prior to the virus news flow eruption, using the date of January 17, the price of DIA was about \$293; RCL was about \$135; and NCLH was about \$59. On Feb 12, DIA was about \$295. RCL was about \$117; NCLH was about \$55. DIA had sold off and made an interim low of \$282 on January 31. The two cruise lines made interim lows of \$109 and \$51 respectively on Feb.10. Let's get to the news flow triggers.

### The Cruise Industry, Pre-2019-nCoV

Before the outbreak, the cruise industry was expected to continue to grow another 6.5% in 2020. See "Global Cruise Liner Markets to 2022: Expected to Grow at a CAGR of 6.53% –

[ResearchAndMarkets.com,](https://www.businesswire.com/news/home/20181009005637/en/Global-Cruise-Liner-Markets-2022-Expected-Grow) <https://www.businesswire.com/news/home/20181009005637/en/Global-Cruise-Liner-Markets-2022-Expected-Grow>.

In 2017 the cruise industry reported

- 26.7 million passengers
- 1,108,676 jobs (full-time equivalents)
- \$45.6 billion in wages and salaries

("2019 Cruise Trends and Industry Outlook," <https://cruising.org/news-and-research/-/media/CLIA/Research/CLIA-2019-State-of-the-Industry.pdf>).

Further, according to the CLIA, “the [cruise] industry makes a positive impact on global communities by ... creating a total output of \$134bn” (“Exploring Cruises: Key market trends and issues in the cruise industry,”

<https://www.researchandmarkets.com/reports/4760328/exploring-cruises-key-market-trends-and-issues#rela1-4650751>).

### January 30 – February 1

After a coronavirus scare played out aboard a Costa Cruises ship off the Italian coast, analysts began to take note of the impact the novel coronavirus might have on the cruise industry:

“According to research conducted by J.P. Morgan, cruise stocks have fallen an average of 16% in the immediate aftermath of similarly big events, including the 2015 Paris attacks; the 2013 Carnival Triumph incident, when a ship lost power for four days following a fire; and the near capsizing of the Concordia in 2012....

“Our downside case is the virus continues to spread, operators cancel cruises through March, China revenues are down 15% on an annualized basis, and global demand is impacted moderately,’ [the analyst] wrote.” (“How Coronavirus Could Play Out for Cruise Operators,” <https://www.barrons.com/articles/how-coronavirus-could-play-out-for-cruise-operators-51580561100>.)

Meanwhile, every voyage that doesn’t sail is estimated to cost the industry three to four million dollars. James Hardiman, the managing director of equity research for Wedbush Securities, points out that the travel industry, cruises included, has a significantly higher exposure to China than it did in 2002–2003, when the SARS outbreak cost the global economy more than \$40 billion. (“The Coronavirus Cruise Ship Problem: ‘Every Lost Voyage’ Could Cost 4 Million in Revenue,”

<https://finance.yahoo.com/news/coronavirus-hits-cruise-lines-151931325.html>)

### February 3

The Diamond Princess was quarantined off Japan after a passenger from a previous voyage was found to be infected with the novel coronavirus.

(“Japan to Quarantine Ship on Which Coronavirus Patient Sailed,”

<https://www.usnews.com/news/world/articles/2020-02-03/japan-to-quarantine-cruise-ship-on-which-virus-patient-sailed>)

### February 4

“Royal Caribbean and Norwegian cruises ban travelers holding Chinese passports,”

<https://www.axios.com/coronavirus-ship-quarantined-10-infected-japan-2ec35f8c-e340-4c25-8838-32293371da8c.html>

While Royal Caribbean expects that canceling eight cruises out of China through March 4 will cost the cruise line about \$50 million, US demand remains strong for now. (“Royal Caribbean Expects Coronavirus to Weigh on China Sales,”

<https://www.wsj.com/articles/royal-caribbean-expects-coronavirus-to-weigh-on-china-sales-11580830143>)

### February 7

The cruise industry broadens its precautions: “In response to the coronavirus emergency, cruise ships will deny boarding to passengers of any nationality who have visited, or traveled from or through, China, including Hong Kong and Macao, within 14 days of their sailing date, the world’s largest cruise industry association announced Friday.” (“Citing coronavirus, Royal Caribbean and Norwegian bar travelers with Chinese passports,” <https://www.latimes.com/business/story/2020-02-07/coronavirus-scare-royal-caribbean-bars-travelers-with-chinese-passports>)

The above article also notes the lengths the cruise industry has gone to in the past few years to encourage potential Chinese cruise-goers to book cruises. Those include menu changes and, for Princess Cruise Lines, an entire ship designed with Chinese passengers in mind.

### February 8

The plight of passengers aboard the Diamond Princess, now quarantined off Japan, poses a cruise industry nightmare: 70 are infected (the largest outbreak to date outside of China), including 14 Americans. (“Coronavirus updates: 14 Americans aboard quarantined cruise ship now confirmed to have coronavirus,” <https://www.nbcnews.com/news/world/new-coronavirus-updates-number-confirmed-cases-drops-disease-s-epicenter-n1133141>)

Officials now say that the quarantine period of 14 days will begin all over again every time another case is found. Six new cases were reported on February 8. (“On Cruise Ship Quarantined in Japan, New Cases Could Reset the Isolation

Clock <https://www.npr.org/2020/02/07/803843303/on-cruise-ship-quarantined-in-japan-any-new-cases-would-reset-the-isolation-cloc>)

In Bayonne, NJ, four passengers from Royal Caribbean’s cruise ship *Anthem of the Seas* tested negative for 2019-nCoV. Three of them who were staying in the same cabin have the flu. The ship’s departure has been deferred until Monday. (“Coronavirus Latest: Cruise Ship Delayed Again in Bayonne, Passengers Test Negative for Virus,” <https://newyork.cbslocal.com/2020/02/08/coronavirus-latest-bayonne-nyc/>)

### February 9

Some passengers aboard the Diamond Princess wonder whether measures being taken are enough to prevent spread of the virus aboard the ship. See “As Virus Cases Rise on Quarantined Cruise Ship, Passengers Are on Edge,” <https://www.nytimes.com/2020/02/09/world/asia/japan-ship-coronavirus.html> and “Coronavirus Cruise Passengers Face Infection Worries, Blown Travel Plans, and Boredom,” <https://www.wsj.com/articles/coronavirus-cruise-passengers-face-infection-worries-blown-travel-plans-and-boredom-11580905458>.

Passengers aboard a third cruise ship, the *World Dream*, which had been quarantined off Hong Kong, now have the all-clear to disembark after all 3600 tested negative for the virus. (<https://www.nbcnews.com/news/world/new-coronavirus-updates-number-confirmed-cases-drops-disease-s-epicenter-n1133141>)

## February 10

As the number of infected aboard the Diamond Princess almost doubled in a day, crew members, passengers, and experts alike feared that the shipboard quarantine was only enabling the virus to spread. (“Cruise ship coronavirus infections double, exceeding the total for any country but China,” [https://www.washingtonpost.com/health/cruise-ship-coronavirus-infections-double-exceeding-the-total-for-any-country-but-china/2020/02/10/20d298ca-4c3a-11ea-b721-9f4cdc90bc1c\\_story.html](https://www.washingtonpost.com/health/cruise-ship-coronavirus-infections-double-exceeding-the-total-for-any-country-but-china/2020/02/10/20d298ca-4c3a-11ea-b721-9f4cdc90bc1c_story.html))

## February 11

Despite offerings for future cruises at bargain basement rates, “Carnival and rivals [Royal Caribbean Cruises Ltd.](#) and Norwegian Cruise Lines Holdings Ltd. have sold off by 17%, 17% and 12%, respectively, between mid-January and Tuesday morning.” (“Cruise Lines Will Get Decked by Virus Fears,” <https://www.wsj.com/articles/cruise-lines-will-get-decked-by-virus-fears-11581442558>)

**On Feb. 11 it was reported that “A coronavirus-free cruise ship rejected by four nations has nowhere to go.** The 2,257 passengers and crew onboard the Westerdam luxury liner are in limbo once again after Thailand became the latest country to turn the ship away from its ports, leaving guests desperate to disembark after almost two weeks at sea.” (“**Cruise Ship Rejected by Five Ports Runs Out of Options**,” <https://www.bloomberg.com/news/articles/2020-02-11/cruise-ship-rejected-by-four-nations-runs-out-of-options>). Finally, on Wed., Feb. 12, Holland America Line was able to announce that the Westerdam would be permitted to dock at Sihanoukville, Cambodia, where the passengers would be allowed to disembark “over the next few days” (when they will presumably be tested for coronavirus). Holland America “will arrange and pay for all flights home, in addition to the full cruise refund and 100% future cruise credit already communicated.” (<https://www.hollandamerica.com/blog/ships/ms-westerdam/statement-regarding-westerdam-in-japan/>)

While passengers aboard the Diamond Princess wait out their quarantine period in their cabins, crew members live and dine together in close quarters. Ten have already been infected, and those ten were dining buffet-style with the rest until they were identified. (“Cruise Ship’s Coronavirus Outbreak Leaves Crew Nowhere to Hide,” <https://www.nytimes.com/2020/02/10/business/coronavirus-japan-cruise-ship.html>)

Another 39 Diamond Princess passengers were found to be infected on Feb. 11, bringing the ship’s total to 174. (<https://www.smh.com.au/national/melbourne-woman-on-cruise-latest-to-get-coronavirus-family-20200212-p53zz6.html>)

## In Closing

As the number of countries seeing community spread of 2019-nCoV (now dubbed COVID-19 by the WHO) grows, it seems predictable that passengers from more countries may be barred from boarding cruise ships. And with the world’s pandemic future uncertain, the number of people willing to take a chance on booking a cruise may dwindle, given headlines about quarantined ships.

Please Note that I do not hold any cruise line stocks and that Cumberland holds no cruise line stocks and has only minimal exposure to the industry through the broad ETFs.

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