



Australian Government

Australian Trade and Investment Commission
Tourism Research Australia

Tourism Forecasts for Australia

2022 to 2027



Acknowledgement of Country

The Australian Government acknowledges the Traditional Owners and Custodians of Country throughout Australia and acknowledges their continuing connection to land, water, and community. We pay our respects to them, their Elders past and present, and the continuation of cultural, spiritual, and educational practices of Aboriginal and Torres Strait Islander peoples.

Tourism Forecasting Expert Panel

As part of the forecasting process, Tourism Research Australia (TRA) established the Tourism Forecasting Expert Panel (the Panel) comprising experts from academia, industry, and government. TRA acknowledges the contribution of the Panel members in providing survey responses, views, and feedback.

Cover image: Gibson Steps,
Great Ocean Road, Victoria
Courtesy of Tourism Australia

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Overview

Following the devastating effects of the COVID-19 pandemic, this year has seen a recovery of momentum in Australia's visitor economy. The reopening of international borders early in 2022 has resulted in a steady increase in international visitor arrivals off an extremely low base. Meanwhile, Australians have quickly responded to the opportunity to again travel more freely in their own backyard.

The visitor economy, therefore, has a brighter outlook than at any time over the past two years, yet a full recovery remains distant. It is expected to take until 2025 for international visitor arrivals to return to pre-pandemic levels. The recovery for domestic travel is more advanced with overnight trip spend now higher than in 2019, the most recent pre-pandemic calendar year, and visitor nights nearing parity.

Overall, tourism expenditure losses in the pandemic-affected period from March 2020 to June 2022 totalled \$153.6 billion. This included losses of:

- \$84.8 billion for international travel
- \$50.5 billion for domestic overnight travel
- \$18.3 billion for domestic day trips.

Notwithstanding these losses, the Australian visitor economy has turned a corner and its recovery is now underway. During this rebound period, information on the expected rate and profile of recovery is particularly important to policy makers, product developers, planners, and investors. This report is intended to assist such decision makers by providing intelligence on the expected path forward for the sector over the next five years.

For the first time since the start of the pandemic, Tourism Research Australia (TRA) is, in this report, publishing forecasts on domestic and international travel. Domestic forecasts are presented at the national level and for each state and territory. International forecasts are delivered at the national level and for selected markets and purposes of travel.

Summary of findings

Total visitor expenditure is forecast to surpass pre-pandemic levels this year (in nominal terms) and total \$227.7 billion by 2027. This includes:

- Domestic overnight trip and day trip expenditure moving higher than their pre-pandemic peaks this year and reaching \$137.9 billion and \$41.1 billion respectively by 2027
- International visitor expenditure¹ exceeding pre-pandemic levels in 2024 before increasing to \$48.8 billion by 2027.

The recovery of international tourism is expected to take some time and be uneven across markets and purpose of travel. Overall, visitor arrivals are forecast to move higher than pre-pandemic levels in 2025 (a year later than for international spend) and total 11.0 million by 2027. The India and New Zealand markets are projected to achieve the fastest recovery, while leisure travel is forecast to return more quickly than education or business.

The turnaround for domestic travel is progressing more quickly. Overnight and day trip expenditure this year are already above pre-pandemic levels. The number of visitor nights are forecast to surpass pre-pandemic levels in 2023. By 2027, there are forecast to be:

- 465.8 million domestic visitor nights (up 11 per cent on 2019)
- 126.2 million domestic overnight trips (up 7 per cent on 2019)
- 244.4 million domestic day trips (down 2 per cent on 2019).

When it comes to the purpose of travel, the number of nights spent away from home on holiday held up strongly through the pandemic. Holiday nights are forecast to remain strong and return to pre-pandemic levels more quickly than nights spent away from home for the purpose of visiting friends and relatives (VFR) or for business.

Visitor nights to all states and territories are expected to move higher than pre-pandemic levels by 2024, with this mark forecast to be reached by some as soon as this year or in 2023.

1. Throughout this report international visitor expenditure refers to spend in Australia by international visitors. International visitors are all visitor types, including students, who travel to Australia for short-term visits (i.e. less than 12 months).

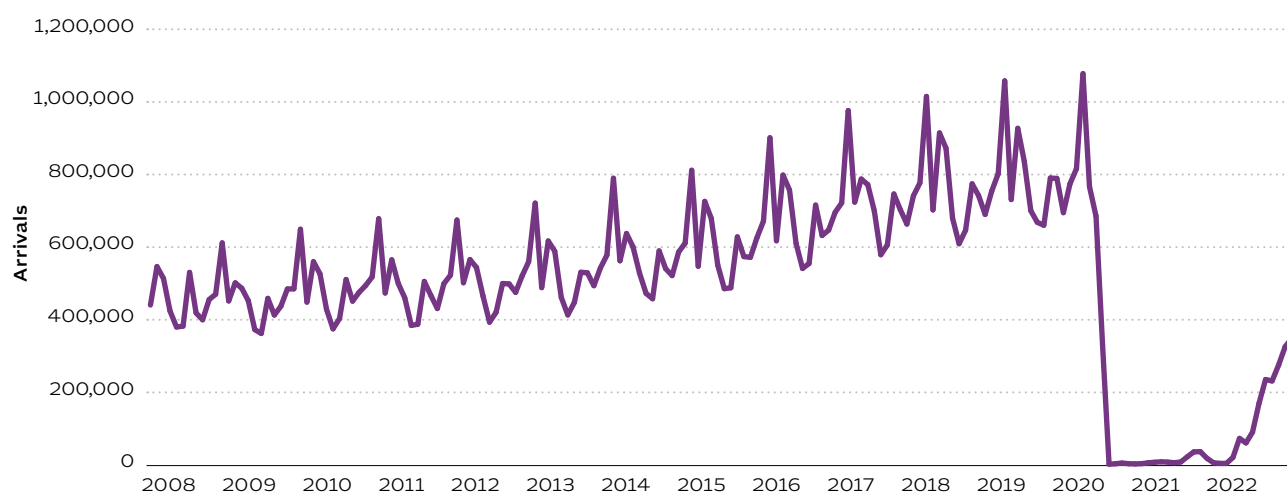
International tourism forecasts

International visitor arrivals

International visitor arrivals to Australia grew 70 per cent between 2009 and 2019, an average annual growth rate of 5.5 per cent. This saw arrivals peak at 9.5 million in 2019, at an average of 789,000 per month. In the months following the COVID-19 closure of international borders, arrivals reduced to a trickle. Up until November 2021, the most visitors to arrive in any month was 36,800 in June 2021 when the New Zealand travel bubble was operating.

The staged reopening of Australia's international borders from December 2021 has seen a promising restart of international visitation. International arrivals have steadily increased from 8 per cent of pre-pandemic levels in January to 54 per cent by September 2022. To September 2022, there were 2.1 million visitor arrivals, fourteen times the number for the same period in 2021 but only 31 per cent of the number seen in January to September 2019 (Figure 1).

Figure 1: International arrivals, January 2008 to September 2022



Source: Australian Bureau of Statistics Overseas Arrivals and Departures

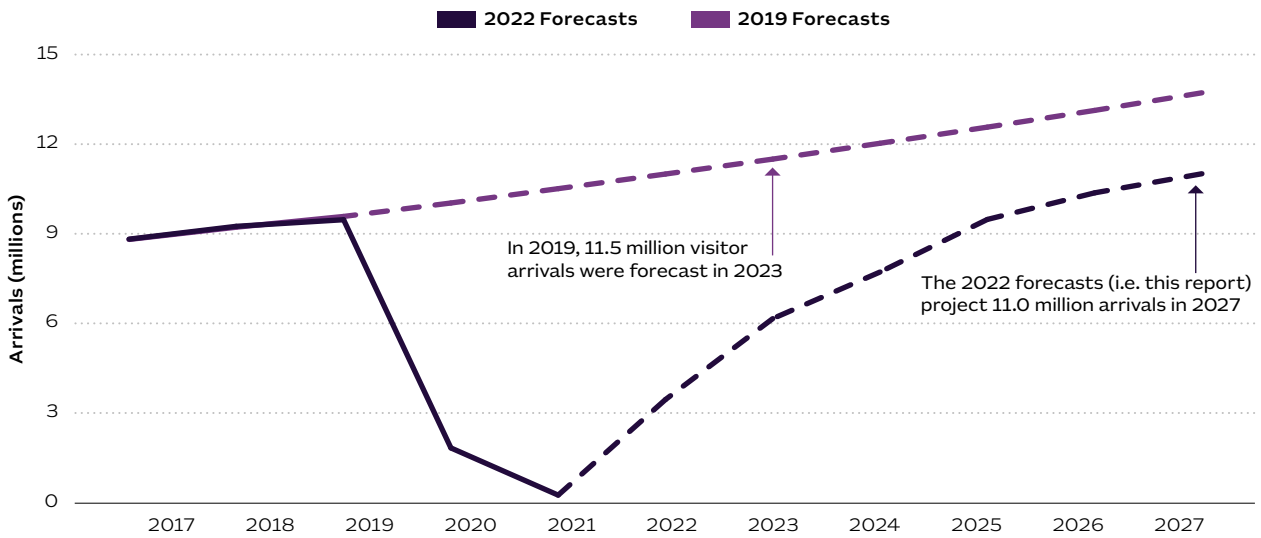
The removal of travel restrictions to Australia has coincided with strong pent-up demand to connect with family and loved ones; higher accumulated personal savings; and the renewed willingness of international travellers to again explore the globe. With our long-held status as an attractive, welcoming, and safe destination for international visitors and supported by world-class marketing, Australia is well positioned to benefit from the revival of international tourism.

These factors are forecast to provide a temporary buffer against deteriorating global economic conditions and thus support solid growth in

international tourism to Australia off a low base in 2022 and 2023. Thereafter, growth is expected to continue at a slower pace over the remainder of the forecast period.

Visitor arrivals are forecast to reach 9.5 million and thus exceed pre-pandemic levels in 2025. By 2027, 11.0 million international visitors are forecast to arrive in Australia, close to the number previously anticipated by 2022-23 in the absence of a global pandemic. Such an outcome (if realised) would represent a loss of nearly five years of growth from Australia's international tourism market (Figure 2).

Figure 2: Comparison of latest and previous international arrival forecasts



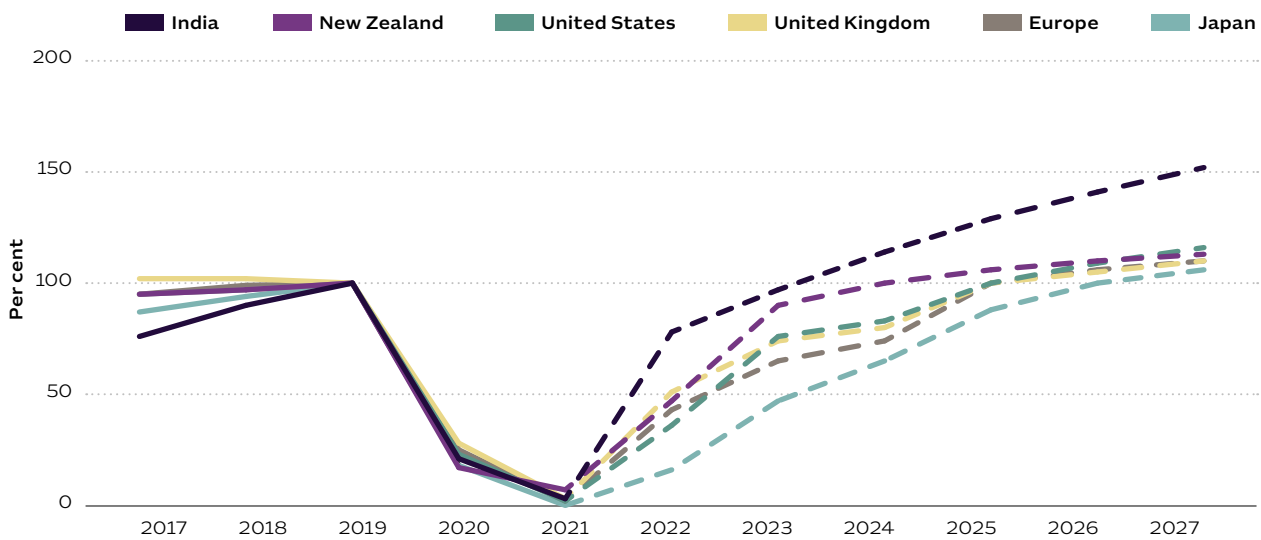
Source: Tourism Research Australia

Markets

The forecasts point to different rates of recovery for some of our leading international source markets over the forecast period. India and New Zealand are expected to recover most quickly. The turnaround is forecast to take longer for the United States, United Kingdom, Europe, and Japan (Figure 3).

Figure 3: International arrivals by source market with forecasts

Per cent relative to 2019 level



Source: Tourism Research Australia

India

Pre-pandemic, India was Australia's fastest growing visitor market and was dominated by VFR and education travel. The start-up of new direct flight services between India and Australia, coupled with the visitor mix, has been influential in seeing Indian arrivals return at a faster rate than any market thus far in 2022.

The 204,400 visitor arrivals to September this year is 71 per cent of the number over the same period in 2019. With this rate steadily increasing as the year progresses, 310,000 visitor arrivals are forecast in 2022.

Strong growth is expected to continue over the forecast period. As soon as 2023, the forecast 386,000 arrivals would be nearing parity with 2019 (97 per cent). By 2027, 608,000 visitors are forecast to arrive. This would see India jump to Australia's fifth largest visitor market.

New Zealand

The flexibility of trans-Tasman travel, short travel distances to Australia's eastern seaboard, and the rate at which aviation supply has already returned are all important contributors to the quick turnaround forecast. New Zealand visitors also traditionally have a high rate of VFR travel which has recovered quickly.

To September this year, there have been 410,200 arrivals or 40 per cent of the number over the same period in 2019. Through the year, however, arrivals have increased from just 3 per cent and 5 per cent of pre-pandemic levels respectively in January and February to 65 per cent by September. With this rate expected to climb further, 681,000 arrivals are forecast in 2022.

By 2024, 1.4 million visitors are forecast which is on par with 2019. As a large and mature visitor market, growth is forecast to slow later in the forecast period to a rate consistent with the pre-pandemic trend. This would see arrivals reach 1.6 million in 2027.

United States

Pre-pandemic, the United States was a large and growing visitor market for Australia led by holiday travel. Through 2022, visitor arrivals have steadily returned in increasing numbers. In the month of September, arrivals had reached 59 per cent of their pre-pandemic level but the rate remained a much lower 29 per cent for the year to September. Overall, 297,000 visitors are forecast to arrive in 2022.

With aviation capacity gradually increasing, the strong ties between our nations and the tourism marketing resources directed into the United States, arrivals are expected to grow over the forecast period. However, full recovery is expected to take some time.

The 821,000 arrivals forecast for 2025 would see visitor numbers exceed their pre-pandemic mark for the first time. By 2027, 950,000 visitors from the United States are forecast to arrive in Australia.

United Kingdom

Leading into the pandemic, visitor growth from the United Kingdom had stagnated for many years. However, with new direct flights to London, increasing aviation supply through the Singapore and Middle East gateways and renewed VFR travel, the United Kingdom has had a faster rate of return for visitor arrivals in 2022 than most markets.

To September this year there have been 199,300 arrivals, 43 per cent of the number over the same period in 2019. Through the year, however, arrivals have increased strongly from just 13 per cent of pre-pandemic levels in January to 81 per cent by September. With a similar rate expected for the remainder of the year, 365,000 arrivals are forecast in 2022.

Despite the encouraging start, a full recovery is expected to take time. The United Kingdom is dealing with tough economic conditions, exacerbated by conflict in Ukraine. Growth in VFR travel is also anticipated to moderate as immediate pent-up demand eases. Given this, it is expected to take until 2025 for arrivals to reach 718,000 and surpass pre-pandemic levels. By 2027, 786,000 visitors from the United Kingdom are forecast to arrive in Australia.

Europe (excluding the United Kingdom)

Pre-pandemic visitor growth from Europe had been solid, averaging 3.7 per cent from 2015 to 2019. Similarly, this year European travellers have started to return in increasing numbers. In the month of September 2022, arrivals were at 67 per cent of their pre-pandemic level while for the year to September the rate was 36 per cent. Overall, 398,000 visitors are forecast to arrive in 2022.

Like the United States and United Kingdom, Europe has a relatively weak near-term economic outlook which is expected to influence the pace of recovery for this market. Visitor arrivals are forecast to reach 940,000 and exceed their

pre-pandemic mark in 2025. By 2027, 1.0 million visitors from Europe are forecast to arrive in Australia.

Japan

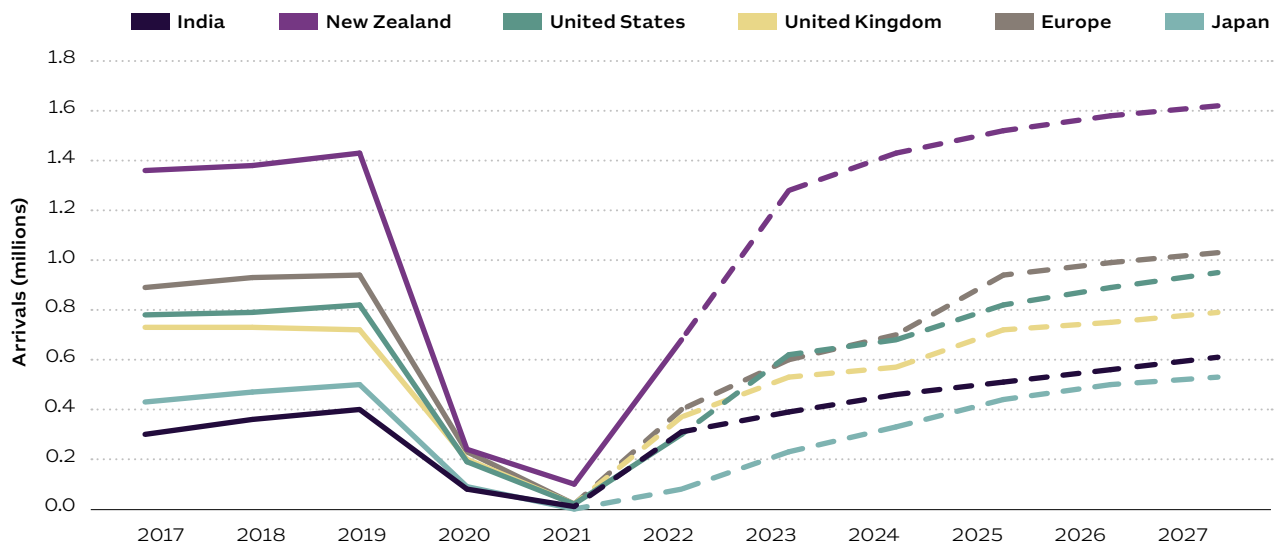
Japan is regarded as one of Australia’s leading holiday markets. Following an extended period of decline, the Japanese visitor market experienced a return to growth in the years leading into the pandemic.

With Japan maintaining strict control measures to prevent the spread of COVID-19, the return of travellers to Australia has been slow in 2022. To September this year, arrivals were only 12 percent

of the number over the same period in 2019. Overall, just 78,000 visitors are forecast to arrive in 2022.

There are promising signs for a sharp upturn in visitor arrivals once travel restrictions in Japan ease. The economic outlook is better for Japan than for many of our leading source markets and Australia is a shorter haul destination than many other markets. Nonetheless, it is expected to take time to turn around the slow start to recovery. It is not until 2026 that 500,000 visitors are forecast to arrive from Japan, which would be the first year the pre-pandemic mark is surpassed.

Figure 4: International arrivals by source market with forecasts



Source: Tourism Research Australia

China

Pre-pandemic, China was Australia's leading visitor market contributing 15 per cent of arrivals and 33 per cent of spend in Australia in 2019. Given this, the recovery path of the China market over the next five years is particularly important to Australia's visitor economy.

Forecasting the trajectory for the return of Chinese visitors to Australia is difficult in the current environment. Despite recent relaxations of China's zero-COVID policy, it is unclear how soon restrictions will ease for international tourism travel. Under the current arrangements, just 59,200 Chinese visitors, mainly for education (51 per cent) and VFR (31 per cent) have arrived in Australia this year to September. This is 5 per cent of the number over the same period in 2019.

Due to these ongoing uncertainties, the report does not publish forecasts for the China market. At the same time, it is imperative for our international forecasts to consider the recovery prospects of China. There are many factors that support a strong turnaround in visitation once travel restrictions ease, for example:

- China's outlook for economic growth relative to most developed countries
- China's growing middle-class with aspirations to restart their travel activity
- Australia's status as a relatively short-haul destination for Chinese travellers
- Chinese residents' desire to visit family and friends living and/or studying in Australia
- Australia's reputation as a destination of choice for international students.

In view of these factors, alongside the slow start to recovery, the aggregate international forecasts project visitor arrivals from China returning to pre-pandemic levels by 2026. The potential impact on the forecasts from a slower or quicker recovery in the China market is discussed in the assumptions and risks section of the report.

Other markets

Australia attracts visitors from all corners of the world. Pre-pandemic, 34 per cent or 3.2 million visitors arrived from countries outside the leading markets already discussed. Most were from Asia – including a mix of more established markets such as Singapore, Hong Kong, Malaysia, Indonesia and Korea and fast-growing emerging markets like the Philippines, Thailand, and Vietnam.

The prominence of Asian countries in the 'other markets' category is forecast to result in a strong recovery for this category. Many of these markets are geographically close to Australia, have a growing population with rising incomes per capita and a reasonable economic outlook. Overall, visitor arrivals for the grouping are forecast to exceed pre-pandemic levels by 2025.



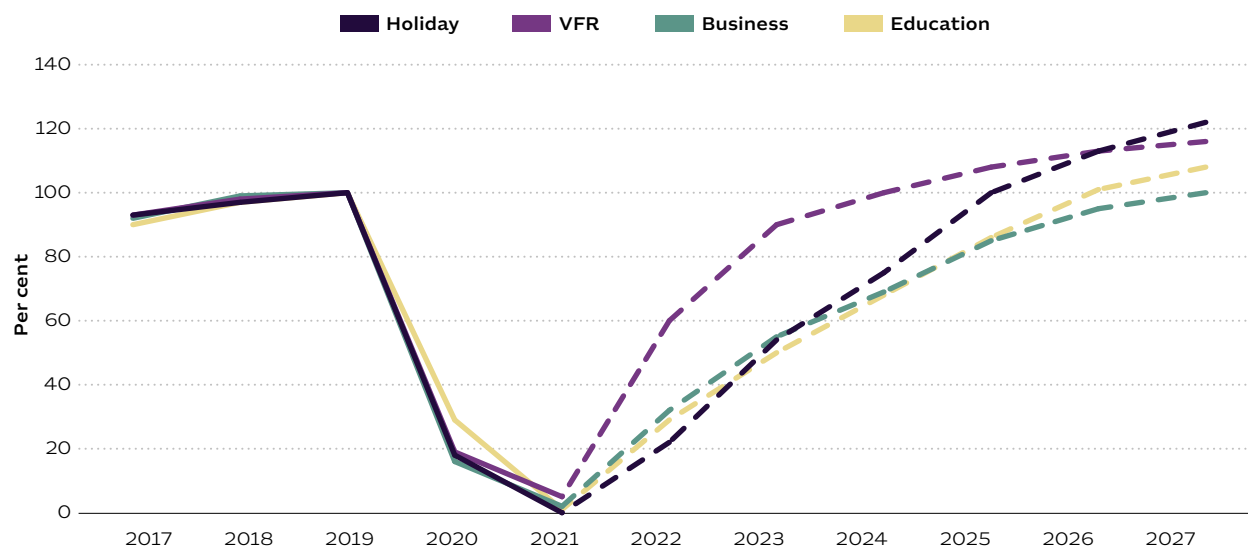
Image courtesy of Tourism Australia

Purpose of travel

The path to recovery is also forecast to differ by purpose of travel. The turnaround is expected to be faster for leisure travel (holiday and VFR) and slower for education and business.

Figure 5: International arrivals by purpose of travel with forecasts

Per cent relative to 2019 level



Source: Tourism Research Australia

Holiday

Holiday arrivals have been slow to increase in 2022 but are expected to have the strongest growth prospects over the forecast period. Recovery is forecast to gather speed in 2023 and 2024 as aviation access increases. The 4.5 million holiday visitors expected in 2025 would surpass pre-pandemic levels while, by 2027, 5.5 million are forecast to arrive in Australia.

VFR

With pent-up demand to reunite with family and friends high, travel for this purpose has been the quickest to recover in 2022. This surge of activity is forecast to continue into 2023, although growth is expected to slow thereafter. Boosted by the initial pace of recovery, arrivals for this purpose are anticipated to exceed pre-pandemic levels as early as 2024. By 2027, 3.3 million VFR visitors are forecast to arrive in Australia.

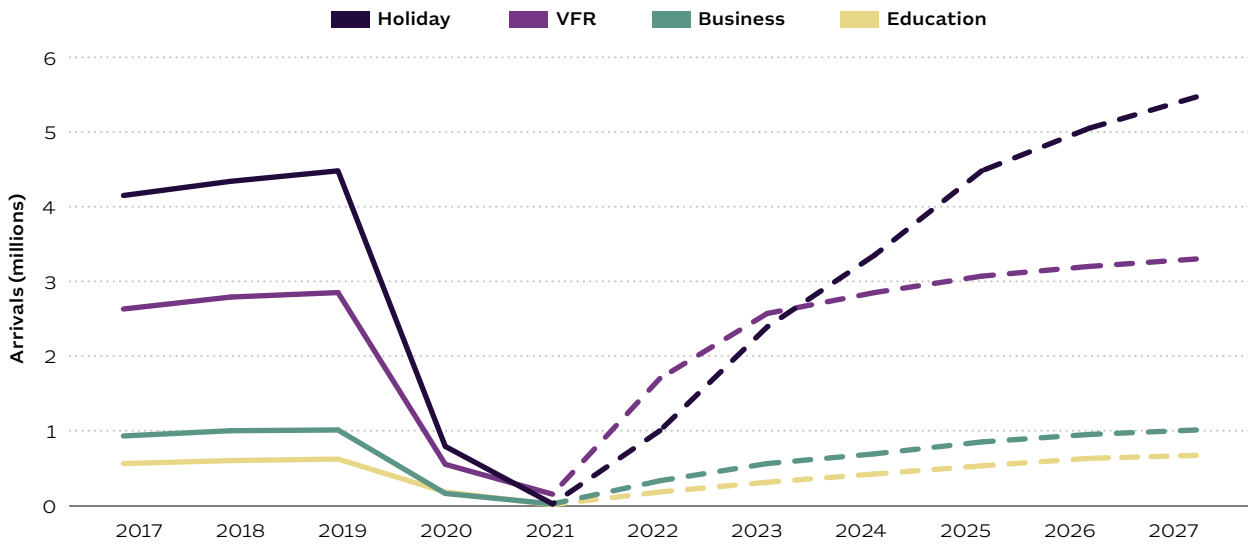
Education

Pre-pandemic travel for the purpose of education was dominated by visitors from China (44 per cent). Although arrivals from India, our second largest education market, have recovered quickly in 2022, travel restrictions in China have severely limited the return of Chinese education visitors and subdued overall growth. While recovery is expected to build momentum, a return to pre-pandemic levels is not forecast until 2026. By 2027, 671,000 education visitors are forecast to arrive in Australia.

Business

The rate at which business travel has returned thus far in 2022 closely tracks the path for all arrivals. Some of this travel is likely to have been prioritised to re-establish in-person business connections forfeited during the pandemic. However, with a challenging economic outlook for many of our leading business markets and the demonstrated effectiveness of virtual business practices through the pandemic, a full recovery is expected to be slow. It is not until the end of the forecast period in 2027 that business arrivals are once again forecast to reach 1.0 million and top pre-pandemic levels.

Figure 6: International arrivals by purpose of travel with forecasts



Source: Tourism Research Australia

International spend

International spend is expected to recover at a slightly faster rate than arrivals in the near term, then more strongly over the forecast period. This forecast sees spend surpass pre-pandemic levels in 2024 and reach \$48.8 billion by 2027.

The stronger recovery for international spend over the next five years recognises:

- The high inflation outlook for Australia and many of our leading source markets which is expected to drive up destination travel costs
- The longer period over which recovery of the education market is forecast to occur and the high spend attributable to travel for this purpose
- A return to the pre-pandemic trend characterised by slightly faster growth in spend than arrivals.

Figure 7: International arrivals and spend with forecasts

Per cent relative to 2019 level



Source: Tourism Research Australia



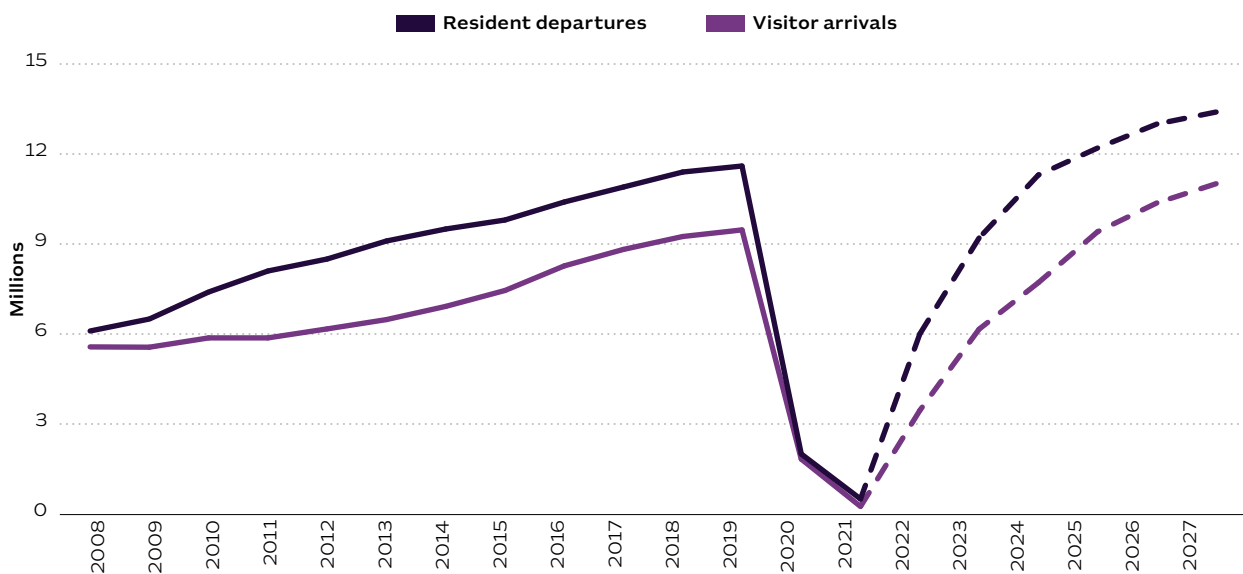
Image courtesy of Tourism Australia

Australian resident outbound tourism forecasts

For an extended period leading into the pandemic, Australians enjoyed an increasing number of outbound trips each year. This saw short-term outbound departures nearly double from 6.1 million to 11.6 million between 2008 and 2019. COVID-19 brought this trend to an abrupt end with just 529,000 outbound departures in 2021.

The reopening of our borders has once again provided the opportunity for Australians to travel overseas. This year to September, there have already been 3.9 million Australian resident departures compared with 2.1 million international arrivals to our shores. Over the forecast period, this divergence is expected to widen, re-establishing the pre-pandemic state (Figure 8).

Figure 8: Resident departures and international arrivals with forecasts



Overall, there are forecast to be 6.0 million outbound departures this year, 52 per cent of the number pre-pandemic. The pre-pandemic mark is expected to be surpassed in 2025 and by 2027 there are forecast to be 13.4 million outbound departures.

Domestic tourism forecasts

Key metrics

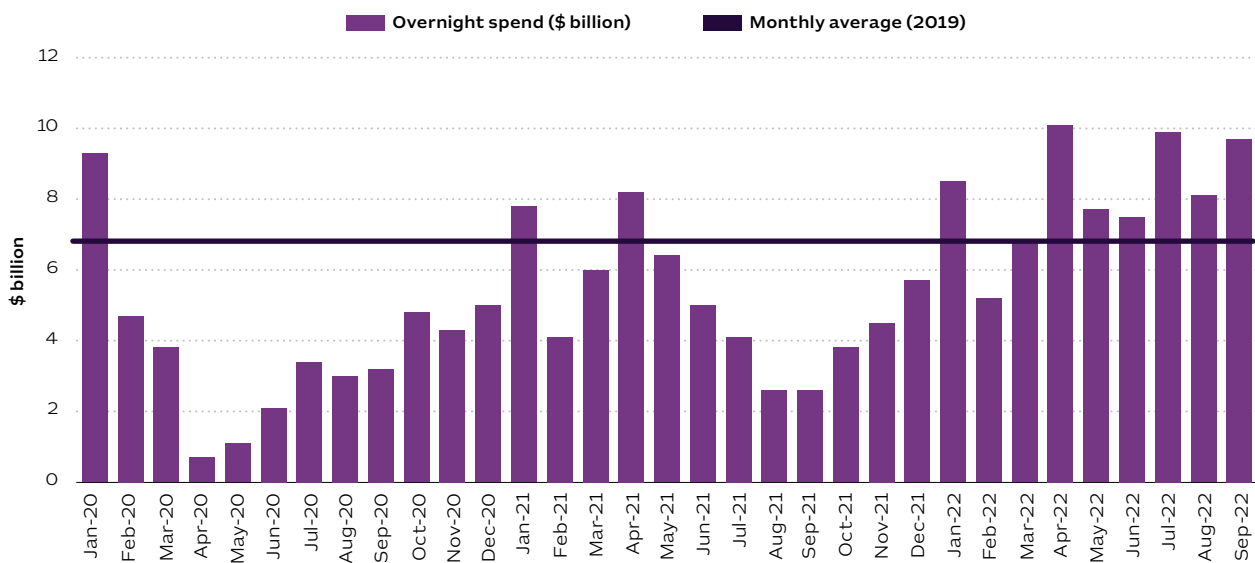
Domestic tourism, which accounts for a large majority of the total visitor economy, has also been severely affected by the pandemic. However, TRA data shows that, through the worst of the pandemic, Australians were quick to embrace domestic travel whenever lockdowns and travel restrictions were eased.

With travel restrictions now largely behind us, the recovery in domestic travel is progressing quickly. This year to September, there were:

- 144.0 million domestic day trips (77 per cent of the number over the same period in 2019)
- 80.6 million domestic overnight trips (92 per cent of the number over the same period in 2019)
- 302.0 million domestic visitor nights (96 per cent of the number over the same period in 2019).

Meanwhile, through to September this year, domestic overnight trip spend was up 22 per cent to \$73.5 billion and domestic day trip spend up 2 per cent to \$19.7 billion on the same period in 2019. While rising travel costs have played a part in these positive results, longer average trips and increased holiday travel are also boosting overnight spend.

Figure 9: Domestic overnight spend through the pandemic



Source: Tourism Research Australia

Overall, domestic overnight trip spend is forecast to reach \$99.9 billion and domestic day trip spend \$27.1 billion in 2022, with both exceeding pre-pandemic levels. The following year (2023), visitor nights are expected to surpass their 2019 peak. Overnight trips are forecast to take a little longer, moving above pre-pandemic levels by 2025.

Growth in domestic travel is expected to continue but vary through the forecast period. Solid growth is forecast to persist for overnight trips, day trips, and visitor nights into 2023 as Australians draw on savings and recreational leave accumulated

during the pandemic. However, a dip in growth is expected in 2024. By then it is expected that savings will have been reduced considerably by increasing cost-of-living pressures. The substitution effect of having international trips as a travel option will also have fully re-emerged. Later in the forecast period, growth is expected to return closer to the long-term trend as economic conditions improve.

Rising costs of travel are expected to keep growth rates much higher for overnight and day trip spend in 2023 and 2024.

However, with inflation forecast to have returned to the Reserve Bank of Australia (RBA) target range of 2 per cent to 3 per cent by 2025, growth in domestic trips, nights and spend are expected to be more closely aligned later in the forecast period. By 2027, there is forecast to be:

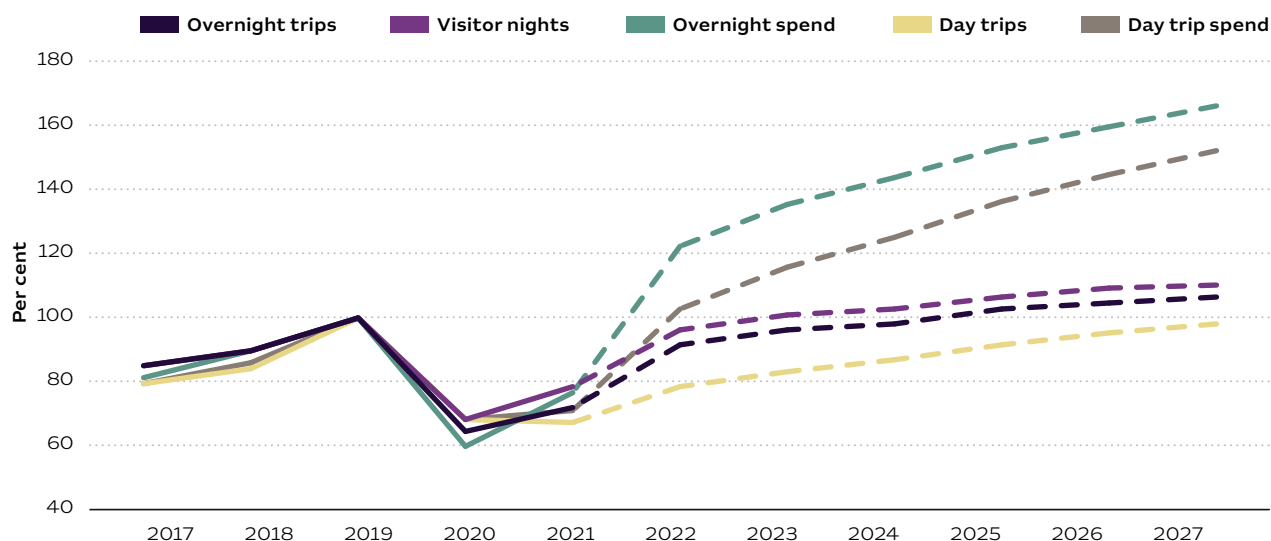
- \$179.0 billion in total domestic spend (67 per cent higher than pre-pandemic) including \$137.9 billion in domestic overnight trip spend (up 71 per cent on 2019) and \$41.1 billion in domestic day trip spend (up 56 per cent on 2019)
- 465.8 million domestic visitor nights (up 11 per cent on 2019)
- 126.2 million domestic overnight trips (up 7 per cent on 2019)
- 244.4 million domestic day trips (down 2 per cent on 2019) (Figure 10).

Through the pandemic, and in the absence of opportunities to travel abroad, the average length of stay for domestic overnight trips increased. While this remains the case in 2022, the rate of growth for domestic overnight trips is expected to slightly outpace visitor nights as the forecast period progresses. Renewed competition from outbound travel and domestic economic conditions are expected to favour Australians taking shorter domestic overnight trips on average from 2023 onwards. If realised, this would mark a return to the long-term trend which saw average length of stay fall from 3.9 nights to 3.5 nights between 2008 and 2018.

Day trips surged 21 per cent to a record 248.3 million in 2019, led by growth in business travel. They remained down 35 per cent on this pre-pandemic mark in 2021 and have continued to recover more slowly than overnight trips this year. Through to September 2022 day trips were 23 per cent lower than for the same period in 2019.

Figure 10: Key domestic tourism metrics with forecasts

Per cent relative to 2019 level



Source: Tourism Research Australia

From this lower base a much slower return to pre-pandemic levels is forecast for domestic day trips than overnight trips. This applies particularly to same-day business travel where this year to September trips were just 58 per cent of pre-

pandemic levels over this period. This may indicate that the virtual meeting arrangements ramped up during the pandemic continue to be used widely and there could be an extended lag in the recovery of business day trips.

Purpose of travel

Domestic holiday travel was the engine room for the visitor economy through the worst of the pandemic. From March 2020 to December 2021, holiday travel contributed 45 per cent or 351.0 million of all visitor nights and 52 per cent or \$81.2 billion of total overnight trip spend. This compares with rates of 41 per cent and 44 per cent respectively in 2019.

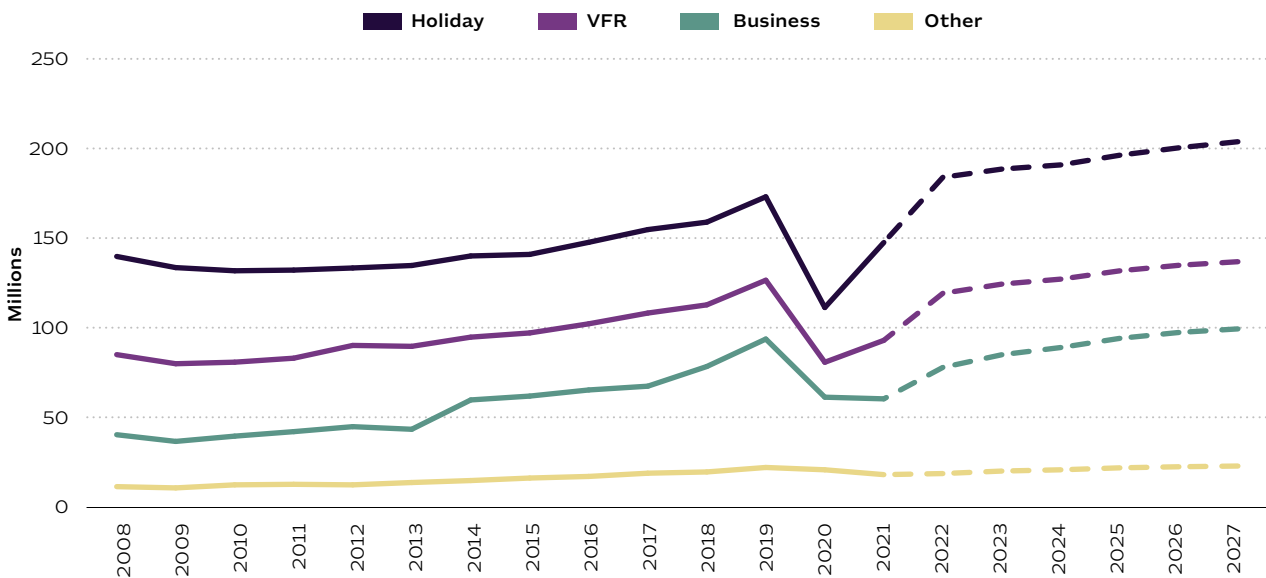
Holiday travel is continuing to perform strongly. This year to September, holiday nights were up 7 per cent and spending on overnight holiday trips up 46 per cent on the same period in 2019. Overall, it is forecast there will be 183.9 million visitor nights for the purpose of holiday in 2022, well above the pre-pandemic mark. The growth

profile is expected to remain solid for holiday travel over the forecast period. By 2027, there are forecast to be 203.8 million domestic holiday nights (18 per cent higher than in 2019).

Travel for VFR and business were harder hit as the pandemic progressed and are now recovering more slowly than holiday travel. This year to September, visitor nights were down 7 per cent for VFR and 18 per cent for business on the same period in 2019.

Visitor nights for VFR are forecast to be near their pre-pandemic mark in 2023 (98 per cent) before reaching 136.8 million by 2027. Held back by tough trading conditions, business nights are not expected to move higher than their 2019 peak until 2025 then climb to 99.3 million by 2027.

Figure 11: Domestic visitor nights by purpose of travel with forecasts



Source: Tourism Research Australia

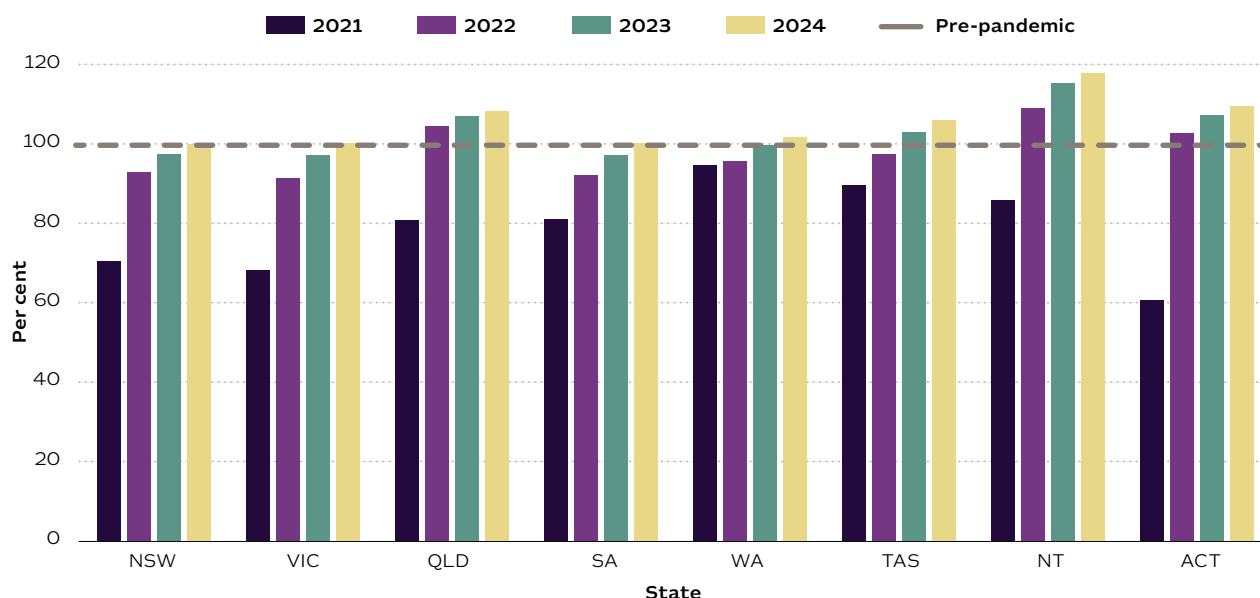
States and territories

While the pandemic has had a severe impact on domestic tourism across Australia, the states and territories have endured varied experiences. This remains the case as domestic travel bounces back. Some states and territories have more ground to make up to return to pre-pandemic levels. There have also been different approaches taken on the lifting of pandemic restrictions and timing and rules for reopening of borders which enabled some to start their recovery sooner.

Reflecting this, the timing for visitor nights to move higher than pre-pandemic levels is expected to differ across states and territories. For Queensland, the Northern Territory, and the Australian Capital Territory, this is forecast to occur this year (2022) due to strong growth in leisure travel. Visitor nights for all remaining states are expected to surpass 2019 levels in 2023 or 2024 (Figure 12). By 2027, visitor nights are forecast to be a minimum of 9 per cent higher than pre-pandemic in all states and territories.

Figure 12: Visitor nights for states and territories with forecasts

Per cent relative to 2019 level



Source: Tourism Research Australia

The forecasts see Queensland starting with a higher market share, New South Wales and Victoria lower market shares and other states with similar market shares of domestic visitor nights in 2022 as their averages across the years immediately preceding the pandemic (2017 to 2019). Over the forecast period New South Wales and Victoria are expected to gradually regain market share to return closer to their pre-pandemic levels by 2027. Business travel and travel within the capital cities are the main impediments to growth. In contrast, the Queensland share is forecast to slowly reduce but remain higher than their pre-pandemic level in 2027.

There are many factors that have contributed to the market shares expected in 2022 and which may influence shifts over the forecast period. These include:

- The severity of pandemic impacts – Victoria and New South Wales were hard hit during the pandemic and have a longer road to recovery than most
- The later reopening of state borders for Western Australia and the particularly strong growth for Queensland and the Northern Territory since the easing of restrictions
- Abnormally wet weather and floods which are likely to have reduced domestic travel in New South Wales and Victoria in 2022
- The composition of the domestic overnight travel market in each state and territory including their differing levels of:
 - Leisure travel (expected to recover more strongly) and business travel (forecast to recover more slowly over the forecast period)
 - Visitors travelling by air where recovery may be slowed early in 2023 and 2024 by aviation supply constraints and the price of airfares
 - Travel activity within and between capital cities and regional areas, noting that the major shift to regional travel during the pandemic is likely to ease over the forecast period
 - Drive, touring (caravan and camping) and nature-based travel which proved resilient through the pandemic
- Potential differences in rates of substitution between domestic and outbound travel across states and territories:
 - International aviation supply is returning much faster to Sydney (Kingsford Smith) Airport than elsewhere. In the short term, this is likely to provide New South Wales residents with greater opportunity to travel abroad
 - Travel to South-East Asia and Pacific Island destinations once again offering attractive like-for-like alternative options to interstate travel.

Assumptions and risks

There are numerous risk factors for the tourism forecasts. They represent a combination of demand and supply-side risks, some of which are specific to international or domestic travel and others which apply to both.

Although the worst of the pandemic appears to be over, COVID-19 is not yet eliminated. Some nations still have tight health and travel restrictions while others are experiencing the latest wave of infection. Here in Australia, at the time of releasing this report, a new wave is emerging, which is increasing infections in the lead up to the peak Christmas holiday season.

The forecasts assume Australia will continue to live with COVID-19 without a need for a return to widespread lockdowns and/or border closures. Similarly, they assume that, for nations where restrictions on travel remain tight, such restrictions will start to ease at some point in 2023.

With a tight labour market and reduced access to international students and working holiday makers through the pandemic, skills shortages have increased across the visitor economy. A recent survey of tourism businesses by the Australian Tourism Industry Council (ATIC) indicates that this is impacting their service delivery. Some businesses have had to reduce operating hours, room availability, tours, patrons served and/or investment in marketing.

There is no quick fix to the current skills shortages and their impact on the operations of tourism businesses. However, they are expected to ease over the forecast period as competition for labour within the Australian economy gradually reduces and international students and working holiday makers return in growing numbers.

For international tourism, risks include:

- The rate at which the China market recovers
- The duration and severity of the economic headwinds facing many of our leading visitor markets and their impact on travel to Australia
- Potential implications on travel behaviour from the continuing global conflict in Ukraine
- Possible hesitancy in international travellers returning to long-haul destinations such as Australia in the wake of the pandemic
- The speed with which aviation supply returns to pre-pandemic levels.

Most are downside risks which, if realised, could see lower international arrivals and spending over the forecast period.

China

Given the size and value of the China market in 2019, any substantive deviation in Chinese arrivals is likely to impact the aggregate forecasts. By 2027, visitor arrivals could range between:

- 10.7 million (300,000 less than forecast) under a scenario where arrivals from China only return to 80% of their pre-pandemic level by 2027
- 11.5 million (500,000 more than forecast) under a scenario where total arrivals reach their pre-pandemic level sooner (2025) than forecast (2026).

Such scenarios would have an even greater impact on international spend and Australia's international education market where China's contribution pre-pandemic was most significant.

Global economic outlook

More broadly, the global economic outlook is deteriorating. This year Oxford Economics have three times downgraded their forecast for global economic growth in 2023, halving their expectation from 3.3 per cent in March to 1.7 per cent by September. Over the same period their forecast for inflation has increased from 3.0 per cent to 4.8 per cent for 2023.

Uncharacteristically, all major global economies are slowing quickly although the challenges appear most acute for Western Europe and North America. In these regions, risk of recession is considerable in the near-term with Consensus Forecasts predicting growth of just 0.1 per cent and 0.2 per cent for these regions respectively in 2023.

Strong pent-up demand and the availability of savings accumulated through the pandemic have seen global travel recover strongly in 2022. They are again forecast to provide travel with a buffer against the worsening global slowdown in 2023. By 2024, however, travel as a discretionary form of expenditure, is expected to be fully exposed to global economic conditions.

Reflecting this, year-on-year growth in international arrivals to Australia off a still low base is forecast to be substantially lower in 2024 (25 per cent) than 2023 (79 per cent) and continue to slow up to 2027. There is also a risk that the current global economic slowdown may have a greater detrimental impact on international travel to Australia than predicted over the forecast period.

International aviation supply

Through 2022, international aviation supply to Australia, as measured by inbound passenger seats available, steadily increased from 19 per cent in January to 56 per cent in September. This was a faster rate of return than for international visitor arrivals over this period. To September 2022, incoming passenger seats were 39 per cent of the number for the same period in 2019 compared with 31 per cent for international visitor arrivals. This disparity between incoming seats and incoming visitor arrivals can largely be attributed to the fact that the volume of Australian residents returning from overseas travel has been larger than the volume of visitors arriving in Australia.

A continued increase in aviation supply is critically important to recovery in international travel to Australia. This is highlighted by the faster rebound for visitor markets where direct and/or gateway hub aviation supply has progressed more quickly in 2022.

- Recovery in visitor arrivals from India has outpaced all other markets, coinciding with a more than doubling of direct aviation access on pre-pandemic levels
- The solid turnaround in United Kingdom and European visitor arrivals has been supported by new London-Australia and Rome-Australia services and Singapore and Middle East connecting routes running at 69 per cent and 58 per cent respectively of pre-pandemic capacity rates for the year to September.

The forecasts have assumed that international airlines will continue to steadily increase capacity on Australian routes in 2023 and 2024. However, one factor expected to constrain the pace at which supply rebounds is the global shortage in aviation labour. During the pandemic there was a mass layoff of pilots, flight crew, ground staff, engineers, and maintenance workers. Replenishing this workforce can be expected to take time and slow the pace at which grounded aircraft are returned to the skies.

Domestic conditions

Two prominent risks for domestic tourism activity are:

- Increasing cost-of-living pressures within a fragile domestic economic setting
- Renewed competition from outbound travel.

Australia has not escaped the economic challenges faced globally. The recently announced Federal Budget forecasts economic growth to fall from 3.3 per cent this year to 1.5 per cent in 2023. Meanwhile, the latest RBA forecasts are predicting inflation to now peak at 8.0 per cent in December quarter 2022 and remain at elevated levels through 2023 and 2024. This is increasing cost-of-living pressures on Australian households:

- Wages are not currently keeping pace with inflation. The next “real” increase in wages across the economy is not forecast to occur until 2024 (Budget October 2022-23)

- Official interest rates have increased from 0.1 per cent in March 2022 to 3.10 per cent in December. This has seen the average loan repayment on a \$500,000 mortgage increase nearly 25 per cent from around \$2,000 to \$2,500 per month with further rate rises anticipated.

In response, consumer confidence has fallen, with the latest sentiment levels below those during the 2008-09 global financial crisis and nearing their 2020 pandemic low. In addition, many Australian home-owners' asset wealth is diminishing due to falling house prices.

Over the pandemic period, Australian households were able to build a large stock of savings. For now, these savings are providing a temporary buffer to the rising costs of living and helping drive recovery in domestic tourism. This is expected to continue into 2023 but, by 2024, accumulated savings are likely to have been exhausted leaving discretionary spending items such as travel more exposed.

The domestic tourism forecasts reflect this shift, predicting a slowing of growth in 2024. However, there is a downside risk that the growing cost of living pressures may have a more immediate, larger and/or longer impact on Australians' domestic travel behaviour than forecast.

The rate at which Australians return to overseas travel is another risk to domestic tourism activity over the forecast period. Outbound departures are rebounding quickly and are expected to move above pre-pandemic levels in 2025. By 2024, the dampening effect on domestic tourism demand from the time and money Australians spend on travel abroad is expected to increase considerably, exacerbating cost-of-living pressures.

In addition, there is a long way to go before Australians spend as many nights away from home per person on travel as they did pre-pandemic. In 2019, the average number of nights each Australian spent travelling overseas and/or in Australia was 29 nights. Given economic conditions and the recovery path of domestic and outbound travel, it is expected to take until 2025 for this mark to be reached again.

Image courtesy of Sean Scott Photography



Methodology

TRA forecasts are produced using a hybrid, evidence-based approach which combines quantitative data-based modelling and expert judgement. This method utilises market intelligence, the best available data and relevant research, including confrontation against other travel forecasts, including those produced by Oxford Economics.

Insights from the Tourism Forecasting Expert Panel are a critical component of TRA's tourism forecasts. The Tourism Forecasting Expert Panel is a particularly important source of broad-based, respected, and constructive intelligence drawn on by TRA to inform the tourism forecasts. TRA has been supported by a forecasting panel over many years: this year it comprised academic, industry and government experts.

Given the uncertainty around how recovery from COVID-19 will progress within a challenging global and domestic economic environment, this year's forecast approach has relied more heavily on input from the Tourism Forecasting Expert Panel, market intelligence and recent data trends for short- and medium-term results. Model-based and structural parameters are given a larger weight in the longer-term forecasts.

The judgement overlay permits weighting of the various forecast component inputs. Factors such as aviation capacity, availability of labour within the visitor economy, the accommodation outlook, national savings and disposable income growth, and behavioural considerations related to pent-up demand are also accounted for in this way.

The steps to incorporate expert judgement and market intelligence into TRA's forecasts are as follows:

1. Data-driven analysis and modelling by TRA to produce initial forecasts
2. Survey of panel members to collect views and forecasts
3. Statistical analysis of the survey results to encompass all views and determine the average expectation for each tourism indicator at various time periods
4. Adjusting the model-based forecasts to incorporate survey results and confrontation with other data sources

5. Expert panel review of draft, high-level initial forecast outputs
6. Incorporation of feedback by TRA into forecasts prior to finalisation of data.

From 2025, domestic tourism is expected to have recovered from the pandemic-related downturn. Future growth then reflects more normal, conventional factors. Forecasts for domestic tourism at the national level over these years are modelled from two parameters: Australian population growth and travel propensities of age cohorts. Travel propensities are estimated using recent and pre-pandemic TRA data. Population growth projections are sourced from the [Economic Intelligence Unit](#).

The near-term domestic forecasts rely more on structural parameters this year than cyclical factors because, as recovery from the extraordinary pandemic situation continues, historical data may be less reliable indicator of domestic travellers' future behaviour. However, over the longer term the forecasts assume some historical trends will likely re-emerge. These include:

- A return on average to slightly shorter domestic overnight trips
- Closer alignment with pre-pandemic market shares of domestic visitor nights for each state and territory than applies currently.

Overall, the state forecasts are produced using the following steps:

1. Australia is divided into thirteen metropolitan and regional locations.² Historical visitor nights data for each location are adjusted for extreme peaks and troughs, and for structural breaks in the series.
2. The most recent visitor nights data are used to produce forward trend estimates. Seasonal projections are then produced for each location based on long-term growth patterns and these seasonal projections are combined with the forward trend estimates to produce forecasts for each location. These are then converted to state and territory forecasts.
3. Adjustments are made where projected series do not adequately incorporate policy changes and judgement-based factors. Final checks are made to ensure that the state and territory forecasts aggregate to the national forecasts.

2. These locations comprise Sydney, regional New South Wales, Melbourne, regional Victoria, Brisbane/Gold Coast, regional Queensland, Perth, regional Western Australia, Adelaide, regional South Australia, Northern Territory, Tasmania, and the Australian Capital Territory.

Data sources

Australian Bureau of Statistics

- Consumer Price Index, Australia September Quarter 2022
- Overseas Arrivals and Departures, Australia, September 2022

Australian Tourism Industry Council (ATIC)

- Survey of member tourism sector business, August 2022

Australian Trade and Investment Commission (Austrade)

- [THRIVE 2030 strategy](#) – Austrade, March 2022

Budget October 2022-23

- [Budget.gov.au](#)

Bureau of Infrastructure, Transport and Regional Economics (BITRE)

- International Airlines Operated Flights and Seats

Consensus Economics

- Consensus Forecasts Global Outlook – 2022 to 2050

Economist Intelligence Unit

- Australian population forecasts (via subscription)

Oxford Economics

- Travel and Tourism Databank (via subscription)

Reserve Bank of Australia

- Statement on Monetary Policy, November 2022

Tourism Research Australia (TRA)

- International Visitor Survey (IVS), various editions
- National Visitor Survey (NVS) various editions
- National Visitor Survey monthly, various editions

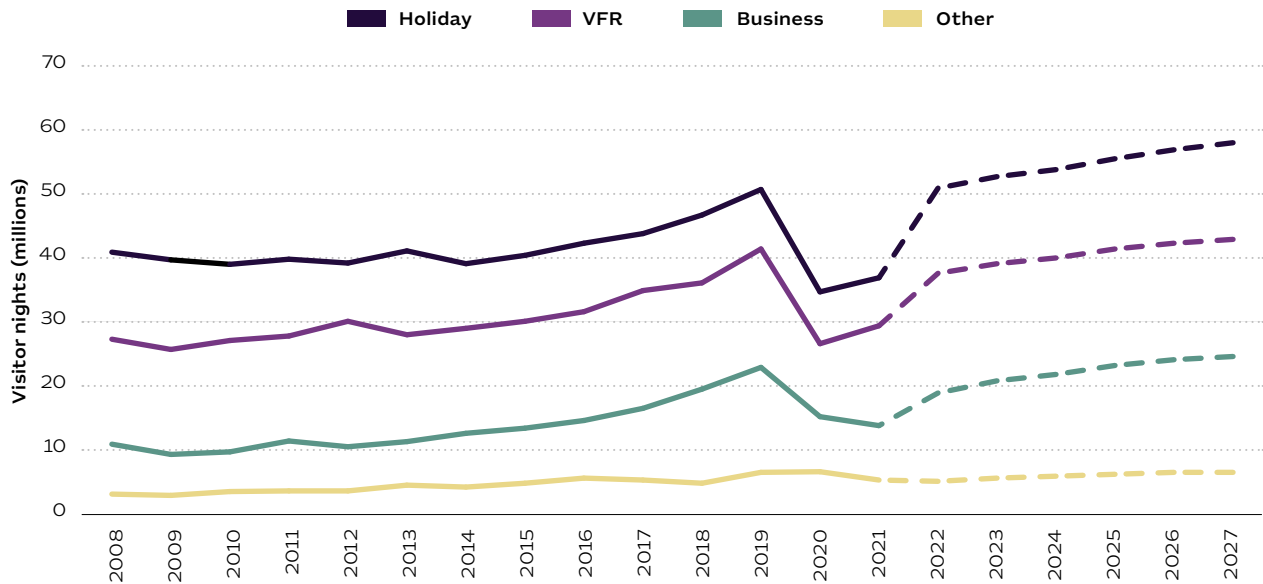


Image courtesy of Tourism Australia

Appendix A – State and Territory graphs

New South Wales

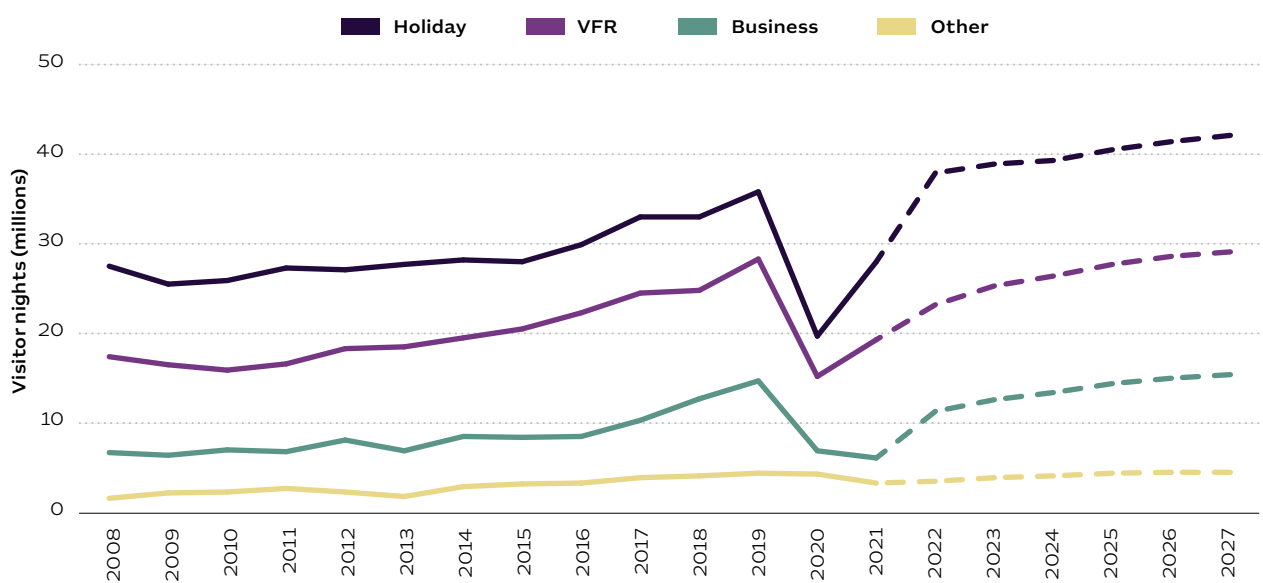
Figure 13 – Forecast for domestic visitor nights in New South Wales by purpose of travel



Source: Tourism Research Australia

Victoria

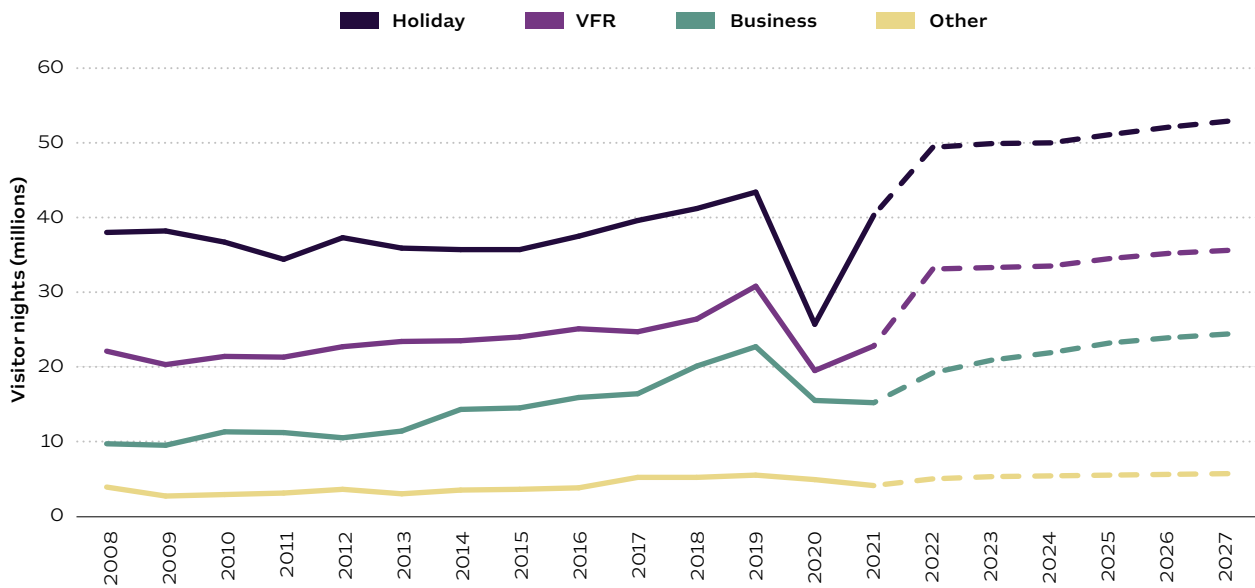
Figure 14 – Forecast for domestic visitor nights in Victoria by purpose of travel



Source: Tourism Research Australia

Queensland

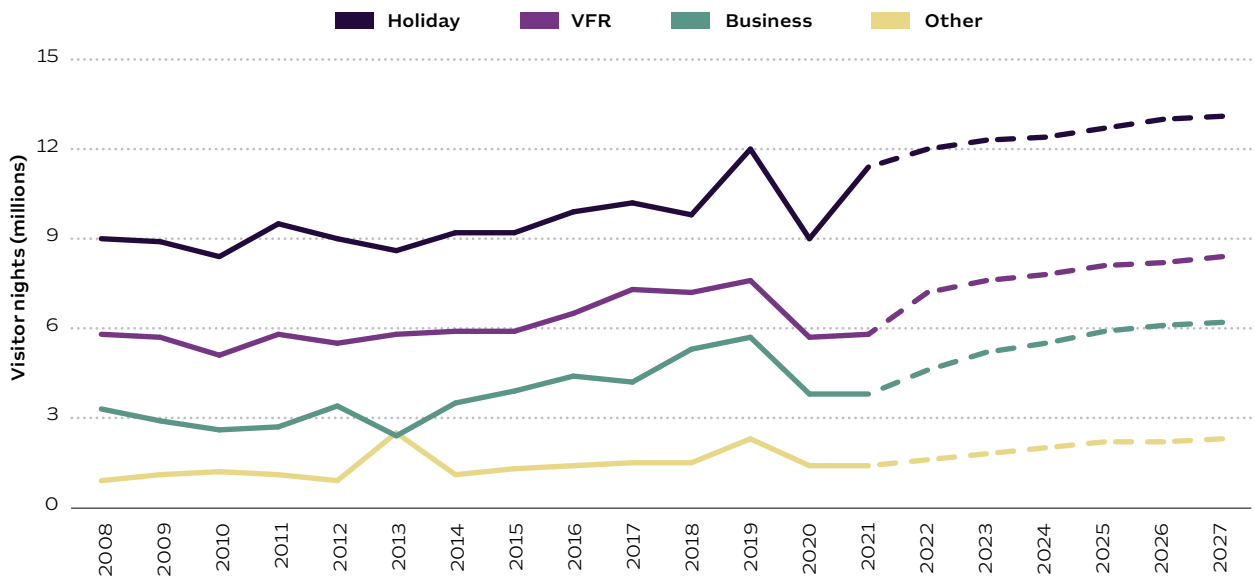
Figure 15 – Forecast for domestic visitor nights in Queensland by purpose of travel



Source: Tourism Research Australia

South Australia

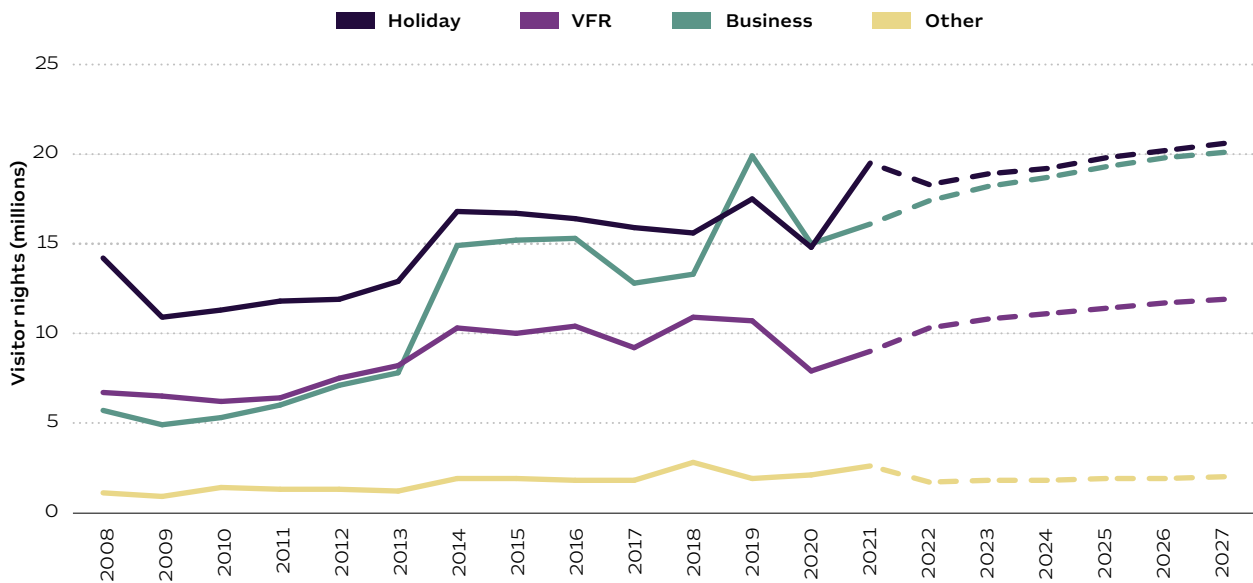
Figure 16 – Forecast for domestic visitor nights in South Australia by purpose of travel



Source: Tourism Research Australia

Western Australia

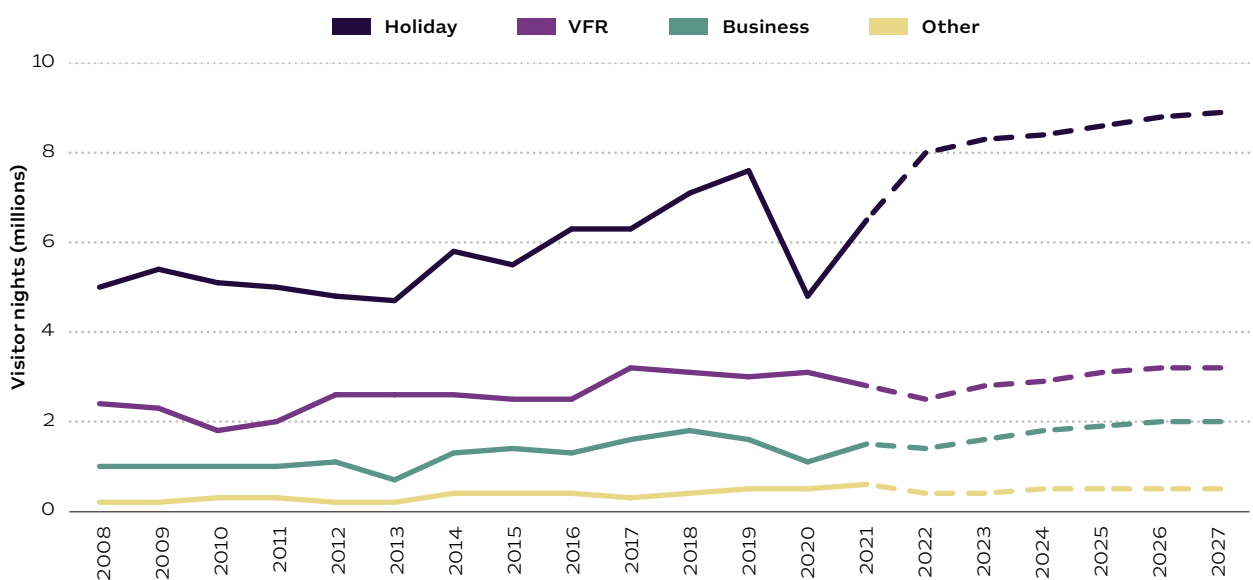
Figure 17 – Forecast for domestic visitor nights in Western Australia by purpose of travel



Source: Tourism Research Australia

Tasmania

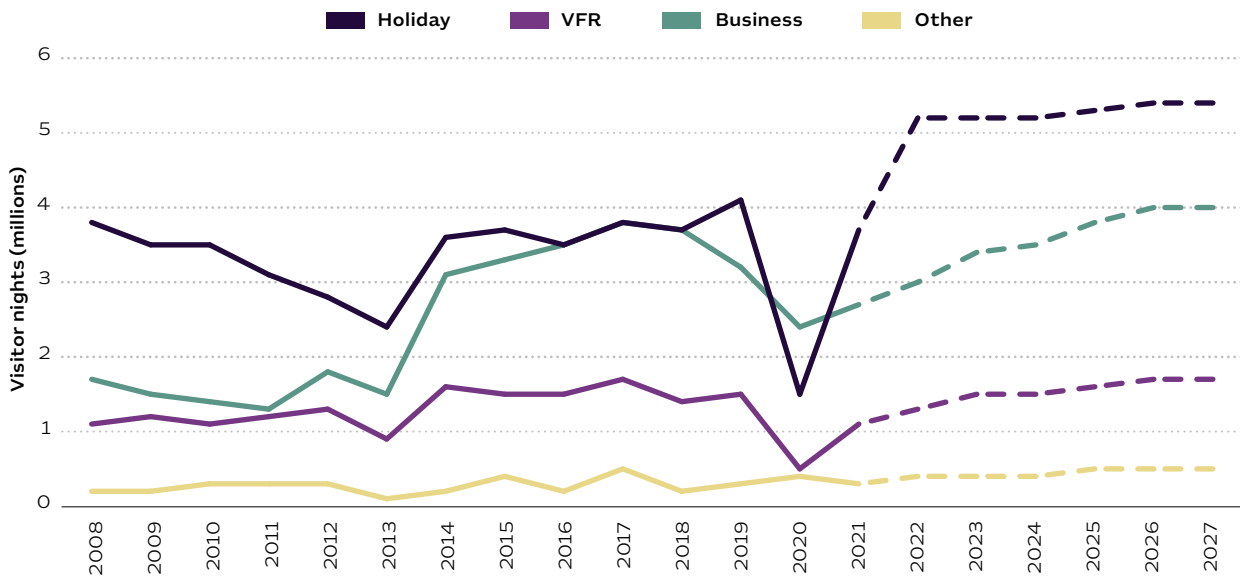
Figure 18 – Forecast for domestic visitor nights in Tasmania by purpose of travel



Source: Tourism Research Australia

Northern Territory

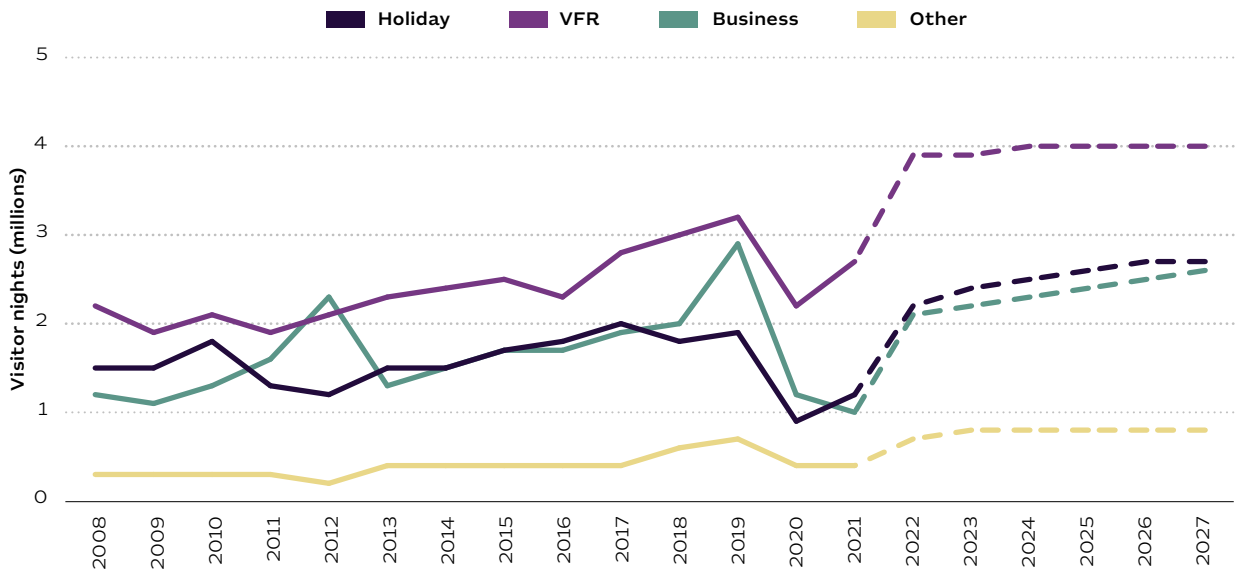
Figure 19 – Forecast for domestic visitor nights in the Northern Territory by purpose of travel



Source: Tourism Research Australia

Australian Capital Territory

Figure 20 – Forecast for domestic visitor nights in the Australian Capital Territory by purpose of travel



Source: Tourism Research Australia



Australian Government

Australian Trade and Investment Commission
Tourism Research Australia

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