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TOURISM
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AUSTRALIA

TOURISM FORECASTS

2019



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As part of the forecasting process, Tourism Research Australia (TRA) established the Tourism Forecasting Reference Panel (the Panel) comprising experts from industry and government. Its key purpose is to review and provide feedback on TRA's draft tourism forecasts before results are finalised. TRA acknowledges the contribution of the following Panel members:

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1. INTRODUCTION

Tourism is one of Australia's fastest growing industries. In 2017–18, tourism Gross Domestic Product grew at 5.0% in real terms, much faster than the 2.8% growth reported for the economy as a whole.

To ensure that the industry continues to grow in a sustainable way, clear strategies are required from government and industry to cater not just for the economic aspects of tourism, but for environmental and social impacts as well. With a more competitive international environment, changing traveller behaviours and new opportunities from emerging markets, it is more important than ever to have highly informed and targeted advice to inform future planning and investment decisions.

PURPOSE OF FORECASTS

Tourism Research Australia's (TRA) forecasts support these goals by providing policymakers, planners and investors with a ten-year view on changes in the following indicators:

- inbound arrivals, focusing on Australia's main international markets
- purpose of travel for inbound arrivals
- visitor nights and spend for international and domestic travellers
- international and domestic visitor nights in Australia's states and territories
- outbound travel by Australian residents, and the main country they visit.

KEY FINDINGS

SHORT-TERM OUTLOOK

Tourism spend is forecast to increase 4.6% from \$148.7 billion in 2018–19 to \$155.6 billion in 2019–20. Spend will then increase by a further \$7.5 billion to \$163.1 billion in 2020–21. The short-term outlook has been compiled based on the following assumptions:

- Chinese visitation will continue to rise but transition to a more sustainable trajectory as the country's economic growth slows and the impacts of trade tensions with the United States (US) continue to play out. China's large market share has a significant effect on forecasts of visitor numbers and spend.

- Growth from emerging Asian markets will gain momentum, with India, Malaysia and Indonesia collectively contributing 16.7% of growth over the next two years. India is on track to overtake Japan as one of Australia's top five source markets by 2023–24. Other top five markets will remain unchanged.
- Traditional source markets, such as the US, the United Kingdom (UK) and New Zealand (NZ) are expected to grow solidly over the next two years.
- The lower Australian dollar will make Australia more competitive with overseas destinations, and contributes to solid growth in domestic tourism and modest growth in outbound travel.

Based on this short-term outlook, total overnight spend at the end of 2020 is forecast to be around \$134 billion. This would place the industry towards the higher end of the \$115 billion to \$140 billion spend target set under government and industry's tourism strategy, Tourism 2020.

TABLE 1: SHORT-TERM GROWTH IN VISITOR SPEND

	2018–19	2019–20	2020–21
International	\$45.7b	\$49.3b ▲ 8%	\$53.1b ▲ 7.5%
Domestic overnight	\$78.4b	\$80.9b ▲ 3.2%	\$84.1b ▲ 3.9%
Domestic day	\$24.6b	\$25.3b ▲ 2.7%	\$26b ▲ 2.7%
Total	\$148.7b	\$155.6b ▲ 4.6%	\$163.1b ▲ 4.9%

LONG-TERM OUTLOOK

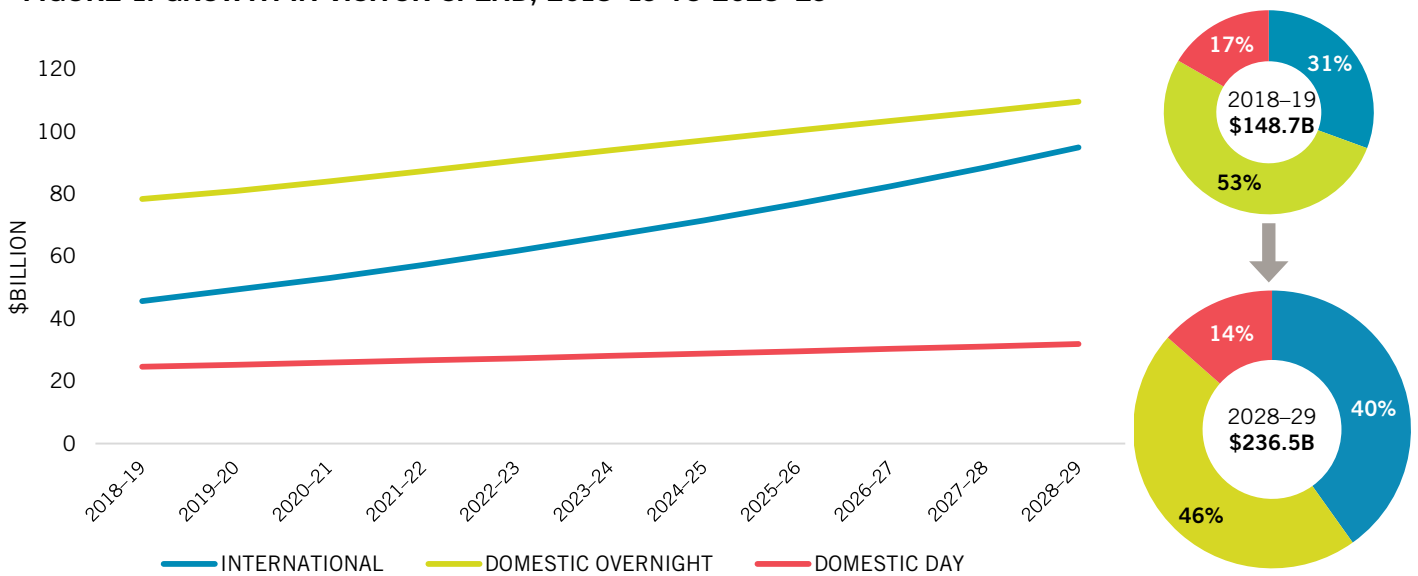
Total spend is forecast to grow 59% from \$148.7 billion to \$236.5 billion between 2018–19 and 2028–29, with an average annual growth rate of 4.7% (Figure 1).

Over this period, international tourism spend will more than double to \$94.9 billion in 2028–29, capturing a 40% share of the visitor dollar. This is nine percentage points higher than its 31% share in 2018–19. International tourism's strong growth is driven by a forecast 56.4% increase in annual visitation from 9.4 million visitors to 14.6 million between 2018–19 and 2028–29, and a 32.8% increase in average visitor spend from \$4,881 to \$6,484.

For domestic tourism, this same timeframe will see the following results:

- Average spend per overnight visitor will increase from \$702 to \$875, with total visitor nights growing 13.1% from 398.6 million to 450.7 million. This will result in total domestic overnight spend growing 39.8% to \$109.6 billion, accounting for 46.4% of all visitor spend. This represents a seven percentage point fall from the 52.7% share for 2018–19.
- Day trip spend will grow 29.7% to \$31.9 billion. This will come on the back of a 12.1% increase in day trips, from 224.4 million to 251.5 million and an increase in average visitor spend from \$110 to \$127. Day trips are forecast to account for 13.5% of total visitor spend in 2028–29, three percentage points lower than in 2018–19.

FIGURE 1: GROWTH IN VISITOR SPEND, 2018–19 TO 2028–29



HOW TRA DEVELOPS THE NATIONAL FORECASTS...

1. Estimates of tourist activity and spend are produced using a combination of econometric time series models and market intelligence based on:
 - global and domestic economic conditions
 - aviation capacity and airfares
 - domestic accommodation supply and room rates
 - significant events likely to affect source markets.
2. An industry sentiment survey is sent out to gain further insights on the most influential factors for the coming year.
3. Draft tourism forecasts are presented to the Tourism Forecasting Reference Panel for its consideration and feedback.

...AND THE STATE AND TERRITORY FORECASTS

1. Australia is divided into thirteen metropolitan and regional locations.¹
2. Adjustments are made for each location to compensate for extreme peaks and troughs in historical visitor nights data, and for structural breaks in this data. The most recent visitor nights data is used to produce forward trend estimates.
3. Seasonal projections are produced for each location based on long-term growth patterns.
4. The seasonal projections and forward trend estimates are combined to produce forecasts for each location, then converted to state and territory forecasts.
5. Final checks are made to ensure that the state and territory forecasts match the national forecasts when added together.

¹ 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.

2. NATIONAL FORECASTS

INTERNATIONAL VISITOR ARRIVALS

Over the next two years, international visitor arrivals to Australia are expected to increase 9.7%, from 9.4 million in 2018–19 to 9.8 million in 2019–20 and 10.3 million in 2020–21.

ASIAN MARKETS

These forecasts have resulted in a significant downward revision for the China market from the previous forecast, with visitor numbers only expected to increase 12% from 1.4 million visitors in 2018–19 to 1.6 million in 2020–21. This result is due to visitation transitioning to a more sustainable growth trajectory as the market matures. Further, over the short and medium term, the outlook is affected by the ongoing US-China trade tensions along with an economic slowdown and moderation of aviation capacity growth. Despite this, the China market will continue to be Australia's largest inbound source market, both economically and in terms of volume. Overall, Asian markets will tend to outperform other overseas markets over the forecast period on the back of increased prosperity and consumerism (Figure 2). Markets expected to experience the greatest growth over the next few years include:

- **India** – up 20.9%, from 0.37 million visitors in 2018–19 to 0.45 million in 2020–21
- **Indonesia** – up 13.5%, from 0.22 million visitors in 2018–19 to 0.25 million in 2020–21
- **Malaysia** – up 11.1%, from 0.40 million visitors in 2018–19 to 0.44 million in 2020–21.

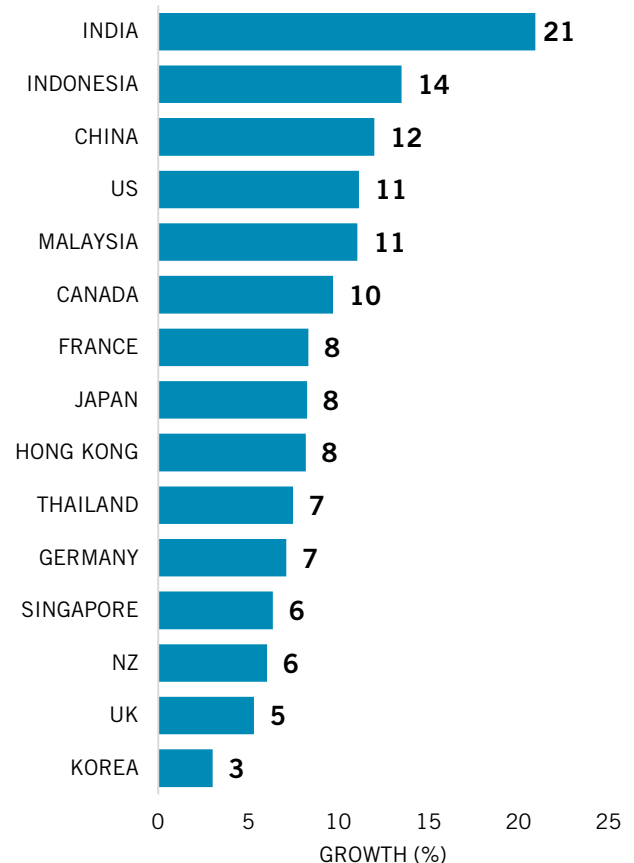
More traditional Asian markets such as Japan and Singapore are expected to follow a more modest growth trajectory:

- **Japan** – up 8.3%, from 0.48 million visitors in 2018–19 to 0.52 million in 2020–21
- **Singapore** – up 6.4%, from 0.45 million visitors in 2018–19 to 0.48 million in 2020–21.

Overall, the volume of Asian visitors is expected to grow 11.8% in the two years to 2020–21, from 4.7 million in 2018–19 to 5.0 million in 2019–20 and 5.3 million in 2020–21.

Because it is outpacing other markets, Asia will consolidate its market share, accounting for 51.2% of visitation to Australia in 2020–21, compared with a 50.2% share in 2018–19. Asia will also account for 61% of all visitor growth between 2018–19 and 2020–21, with China alone contributing almost one-fifth (19%), followed by India (8.6%) and Malaysia (4.9%).

FIGURE 2: VISITOR GROWTH BY MARKET, 2018–19 TO 2020–21



TRADITIONAL MARKETS – US, UK AND NZ

By comparison, growth prospects for Australia's largest traditional markets are mixed.

Visitor numbers from the US are expected to grow strongly – up 11.1% from 0.80 million in 2018–19 to 0.89 million in 2020–21. Expected improvements in the US domestic economy, very low unemployment rates and the strengthening US dollar relative to Australian currency will continue to drive this growth.

Due to ongoing uncertainty around a post-Brexit economy, visitation from the UK is expected to record modest growth during the forecast period, up 5.3% from 0.72 million visitors in 2018–19 to 0.76 million in 2020–21.

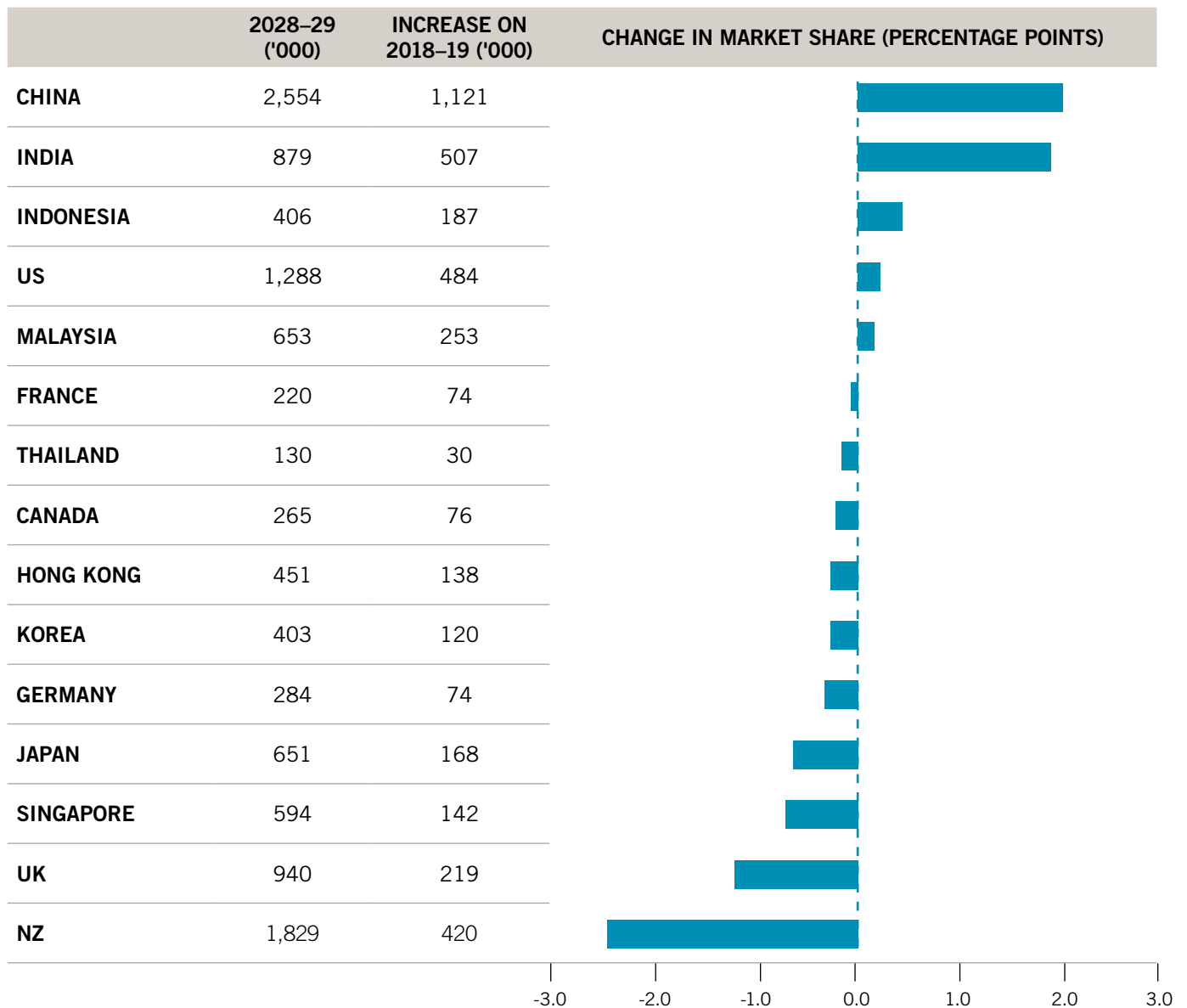
Meanwhile, NZ is expected to experience above-trend visitor growth, increasing from 1.40 million in 2018–19 to 1.49 million in 2020–21 – growth of 6% over the two years.

Box 1: The scope of international forecasts

These international forecasts are reliant on data from the International Visitor Survey (IVS). However, while the IVS is limited to people aged 15 years and over, these forecasts use Australian Bureau of Statistics' overseas arrival data which includes visitors aged under 15. These forecast adjustments are applied to holiday visitors, international education visitors and those visiting friends and relatives (VFR). Forecasts for the other reasons for travel – business, employment and other categories – remain based on IVS estimates.

TOP 5 – CHINA, NZ, US, UK AND JAPAN

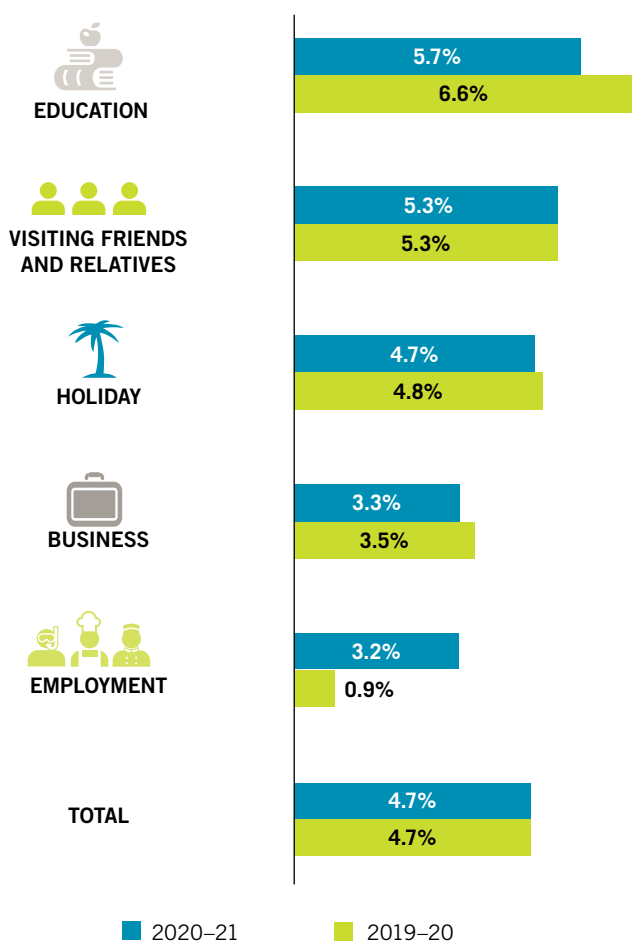
Over the longer term, Australia will continue to have a high proportion of visitors from the top five inbound markets – China, NZ, US, UK and Japan. Collectively, these five countries are forecast to provide nearly half (46%) of the additional 5.3 million arrivals expected in 2028–29. Around 1.1 million, or almost 21.2% of these additional arrivals, will be from China. This will see an increase in the importance of Chinese tourism, as their share of arrivals grows from 15.3% in 2018–19 to 17.4% in 2028–29. The growing significance of China will result in the relative importance of most other markets declining over this period (Figure 3).

FIGURE 3: CHANGE IN VISITOR MARKET SHARE, 2018–19 TO 2028–29

TRAVEL PURPOSE

International leisure travel – comprising holiday travel and travel to visit friends and relatives (VFR) – dominates Australian inbound tourism, making up more than three-quarters (77%) of total traveller volumes in 2018–19. This dominance is expected to continue over the next two years, with growth of 5% forecast for 2019–20 and 4.9% for 2020–21 (Figure 4).

FIGURE 4: GROWTH IN INTERNATIONAL TRAVEL BY CATEGORY



These forecast growth rates will see leisure travel volumes increase from 7.2 million arrivals in 2018–19 to 11.5 million in 2028–29.

Outside the leisure category, there is expected to be relatively slow growth in business travel and employment-related travel, extending a longer running trend. By contrast, education-related travel – a major export for Australia – will continue to grow strongly in 2019–20 (up 6.6%) and 2020–21 (up 5.7%).

DOMESTIC TRAVELLERS

In 2019–20, modest increases are forecast for domestic visitor nights, up 1.4% to 404 million nights, and day trips up 1.2% to 227 million trips. This reflects a situation where Australian economic growth is expected to remain at below its historical average, and where discretionary spend is limited by sluggish wage growth.

Domestic travel costs, particularly for accommodation in capital cities, are also likely to remain high, while low growth in domestic air capacity could result in higher airfares in the next two years. There is, however, the strong likelihood that petrol prices will remain at, or near, current levels, reflecting weakening global oil demand.

As economic growth picks up through 2019–20 due to record low interest rates and the impact of income tax cuts, there will be a slight increase in growth rates, with domestic overnight visitor trips up 1.1% and day trips up 1.2%.

Over the longer term, both overnight and day trips are forecast to increase for the 10 years to 2028–29 by an average annual rate of 1.2% and 1.1%, respectively.

Box 2: The impact of National Visitor Survey (NVS) changes on domestic tourism forecasts

With 97% of the Australian population aged 15 years or over owning a mobile phone, TRA has transitioned NVS sampling to 100% mobile phone interviewing and discontinued landline sampling. This new data series will improve the accuracy of national, state and territory estimates, but the transition from the original 50% mobile phone and 50% landline split creates an unavoidable break in series between 2018 and 2019 NVS data.

To address this issue, TRA has adopted a new methodology for forecasting domestic tourism. Under this approach, travel propensities of all age groups were calculated from the new NVS data series. This was combined with demographic growth projections for the Australian population to forecast growth rates of domestic overnight and day trips.

AUSTRALIANS TRAVELLING OVERSEAS

Domestically, subdued economic conditions combined with low wages growth and the lower value of the Australian dollar are having a negative impact on discretionary spend, including international travel.

The net effect is expected to be a slight slowdown in growth in outbound travel for the next two years, with departures expected to increase 4% to 11.7 million in 2019–20 and a further 4% to 12.2 million in 2020–21 (Figure 5).

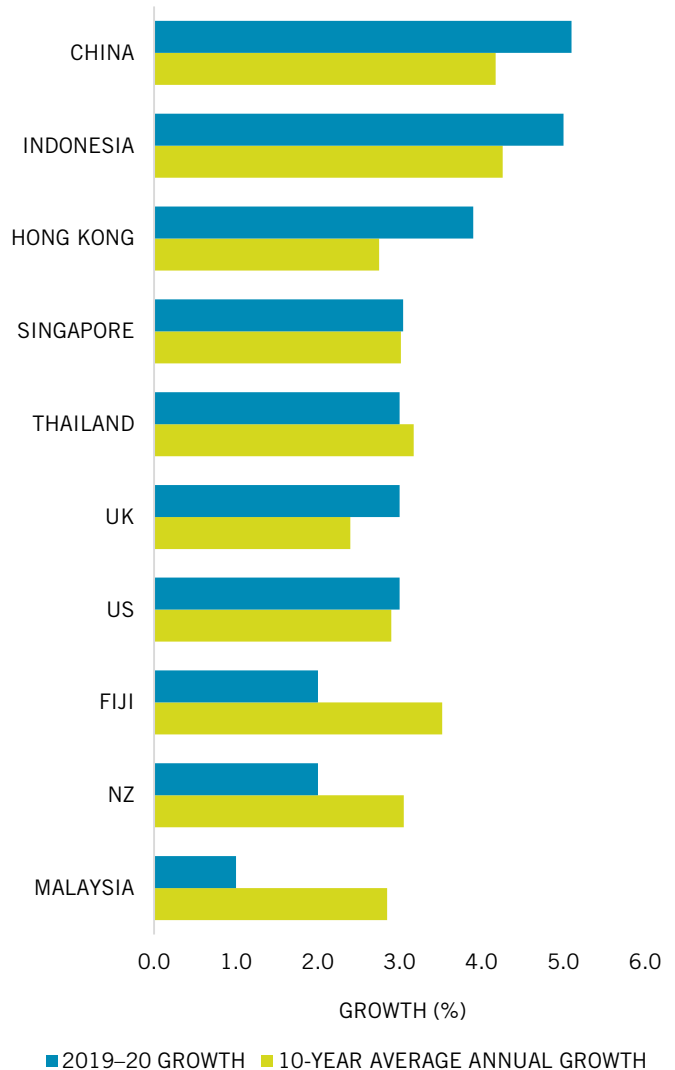
The fastest growing outbound destinations over this two-year period are expected to be:

- Other Europe² – up 10.5%, from 1.3 million departures in 2018–19, to 1.33 million in 2019–20, and 1.4 million in 2020–21
- China – up 10%, from 0.61 million in 2018–19, to 0.64 million in 2019–20, and 0.67 million in 2020–21
- Indonesia – up 9.8%, from 1.3 million in 2018–19, to 1.36 million in 2019–20, and 1.43 million in 2020–21
- Other Asia (including Japan and Vietnam) – up 9.3%, from 1.91 million in 2018–19, to 2.0 million in 2019–20, and 2.1 million in 2020–21
- Hong Kong – up 7.3%, from 0.25 million in 2018–19, to 0.26 million in 2019–20, and 0.27 million in 2020–21.

Slower growth is expected for the following traditional destination markets:

- UK – up 5.7%, from 0.68 million departures in 2018–19, to 0.7 million in 2019–20, and 0.7 million in 2020–21
- US – up 6.6%, from 1.1 million in 2018–19, to 1.13 million in 2019–20, and 1.16 million in 2020–21
- Thailand – up 6.6%, from 0.56 million in 2018–19, to 0.58 million in 2019–20, and 0.6 million in 2020–21
- NZ – up 5.8%, from 1.44 million in 2018–19, to 1.47 million in 2019–20, and 1.52 million in 2020–21.

FIGURE 5: AUSTRALIAN RESIDENT DEPARTURES, GROWTH BY MAIN DESTINATION, 2019–20 AND 10-YEAR AVERAGE TO 2028–29



These differing rates of growth will see some changes in the top five outbound destinations, with China expected to overtake the UK as our 4th largest single outbound market in 2024–25.

Over a longer 10-year horizon, the average growth rate for outbound travel is forecast to be 3.6%. This will result in outbound departures reaching 16 million by 2028–29. Under this future growth scenario, Australia's top five destinations (in order) will be Indonesia, NZ, US, China and UK.

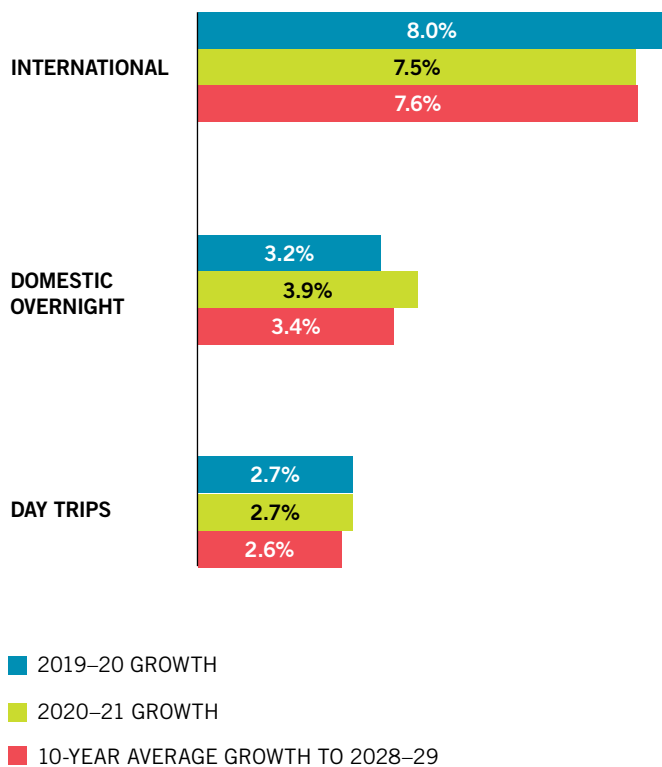
SPEND BY INTERNATIONAL VISITORS AND DOMESTIC TRAVELLERS

Total tourism spend (including spend by international visitors, plus overnight and day trip spend by Australian residents) is forecast to increase 4.6% to \$155.6 billion in 2019–20. Total spend will then increase a further 4.9% to \$163.1 billion in 2020–21. Over this period, the most rapidly growing spend segment will be international travel (Figure 6).

These trends are expected to persist over the longer term, with the 10-year average growth rate of 4.7% being the net effect of:

- 7.6% average annual growth in international spend, from \$45.7 billion in 2018–19 to \$94.9 billion in 2028–29
- 3.4% average annual growth in domestic overnight spend, from \$78.4 billion in 2018–19 to \$109.6 billion in 2028–29
- 2.6% average annual growth in day trip spend, from \$24.6 billion in 2018–19 to \$31.9 billion in 2028–29.

FIGURE 6: SPEND GROWTH BY TRAVEL CATEGORY

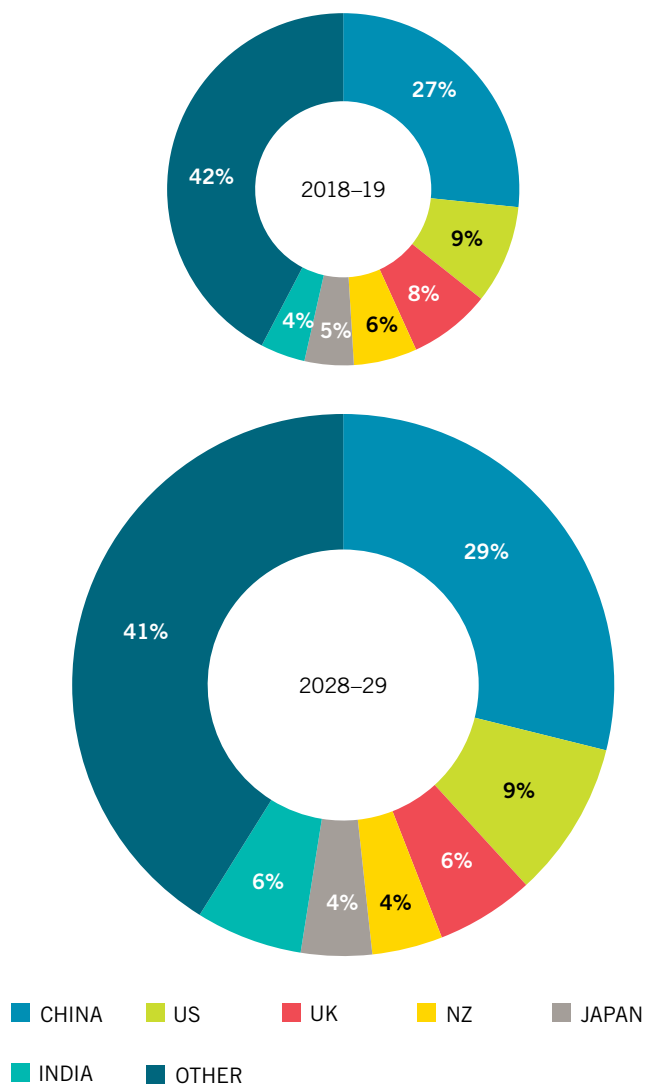


Due to these differing growth rates, there will be substantial changes in shares for each type of travel. Therefore, by 2028–29, the forecast total visitor spend of \$236.5 billion is expected to comprise a:

- 40.1% share of spend from international visitors, up from 30.7% in 2018–19
- 46.4% share of spend from domestic overnight travel, down from 52.7% in 2018–19
- 13.5% share of spend from day trips, down from 16.6% in 2018–19.

By 2028–29, the five largest inbound markets in terms of visitor spend will be China, US, India, UK and Japan, which collectively will contribute over 55% of inbound visitor spend (Figure 7). China's importance as a key tourism market is expected to continue over the next decade, accounting for 31% of the increase in spend between 2018–19 and 2028–29.

FIGURE 7: SHARE OF SPEND BY MARKET, 2018–19 AND 2028–29



3. STATE AND TERRITORY FORECASTS

Nationally, total visitor nights in Australia are forecast to increase by 2.8% to 708.5 million in 2019–20 and increase by a further 3.3% to 731.5 million in 2020–21. At 2020–21, around 44% of nights will be from international visitors, with the remaining 56% from domestic overnight travel by Australian residents.

Visitor growth rates for 2019–20 (Figure 8) will be largest for:

- Australian Capital Territory (ACT) – total visitor nights will increase 3.6% over the year to 14.3 million nights. This will be the result of a 3.5% increase in domestic nights and a 3.8% increase in international nights

- Victoria – up 3.5% to 164 million nights due to a 2.8% increase in domestic nights and a 4.2% increase in international nights
- Western Australia (WA) – up 3.3% to 74.2 million nights due to a 9.8% increase in international nights
- Queensland – up 3.2% to 163.3 million nights due to a 2.3% increase in domestic nights and a 4.7% increase in international nights.

For other states and territories, forecast growth in visitor nights for 2019–20 is between 0.5% for Tasmania and 2.6% for South Australia (SA).

For 2020–21, the best performing states are expected to be Tasmania, ACT, Victoria, NSW and Queensland, with growth rates between 3.2% and 5.8% (Figure 9).

FIGURE 8: GROWTH OF VISITOR NIGHTS, BY STATE AND TERRITORY, 2019–20

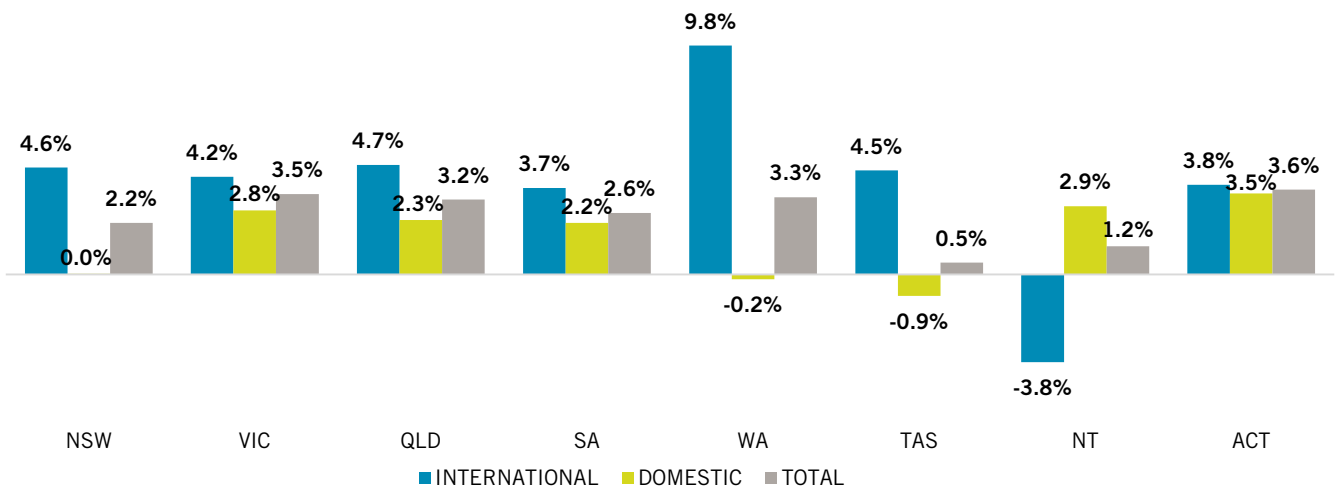
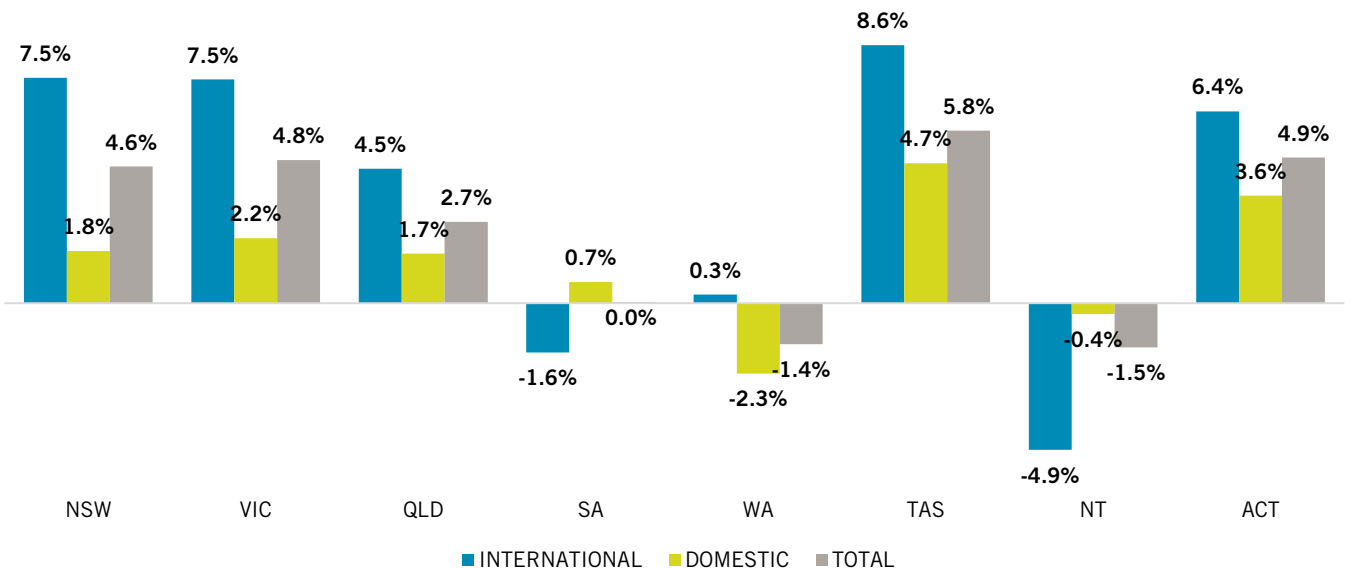


FIGURE 9: GROWTH OF VISITOR NIGHTS, BY STATE AND TERRITORY, 2020–21



Over a ten-year time frame, a 34.8% increase is forecast in total visitor nights from 689 million in 2018–19 to 928.5 million nights in 2028–29. Over the same period, domestic nights are expected to increase 13% from 398.6 million to 450.7 million nights – an average annual growth rate of 1.2%.

In comparison, international nights will increase at an average 5.1% annually from 290.4 million to 477.8 million nights. Due to this more rapid growth, international visitation will account for a 51.5% share of all visitation in 2028–29; up 9.3 percentage points from its 42.1% share in 2018–19.

Among the states and territories, there will be above average growth in visitor nights between 2018–19 and 2028–29 (Figure 10) for:

- Victoria – growing 3.5% annually to 224.8 million nights, increasing its share of total nights from 23% to 24.2%
- ACT – growing 3.5% annually to 19.5 million nights, increasing from a 2.0% to 2.1% share of total nights
- NSW – growing 3.3% annually to 304.9 million nights, increasing its share of total nights from 31.9% to 32.8%.

FIGURE 10: 10-YEAR AVERAGE ANNUAL GROWTH FOR VISITOR NIGHTS, BY STATE AND TERRITORY, 2018–19 TO 2028–29

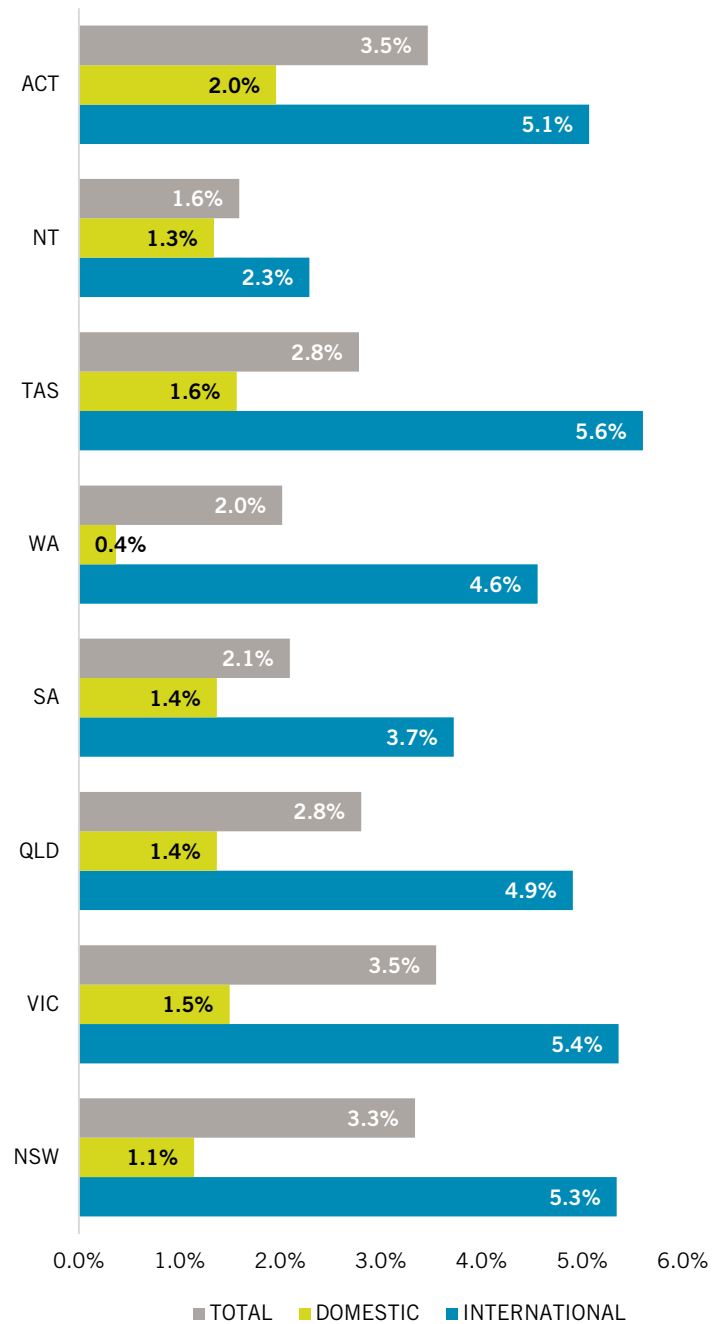


Image courtesy of Destination NSW

Below average growth over this period will be experienced for:

- Tasmania – 2.8% annual growth to 22.8 million nights, maintaining its share of total nights at 2.5%
- Queensland – 2.8% annual growth to 208.6 million nights, decreasing its share of total nights from 23% to 22.5%
- SA – 2.1% annual growth to 44.5 million nights, decreasing its share of total nights from 5.2% to 4.8%
- WA – 2.0% annual growth to 87.7 million nights, decreasing its share of total nights from 10.4% to 9.4%
- NT – 1.6% annual growth to 15.8 million nights, decreasing its share of total nights from 2.0% to 1.7%.

Between 2018–19 and 2028–29, 'Other travel' is forecast to account for a substantially greater share of total visitor nights – growing from an 18.7% share in 2018–19 to a 21.5% share in 2028–29. The growth will be driven by an increase in employment-related travel and education travel, and will make a substantial contribution to forecast spend. The share of VFR travel will remain approximately the same (moving from 29.5% to 29.8% of visitor nights); holiday travel will fall from 37.5% to a 35.4% share; and business travel will drop from a 14.3% to a 13.3% share. The shares attributable to these types of travel vary among different states and territories (Figure 11).

FIGURE 11: CHANGES IN TYPES OF TRAVEL, 2028–29 COMPARED TO 2018–19

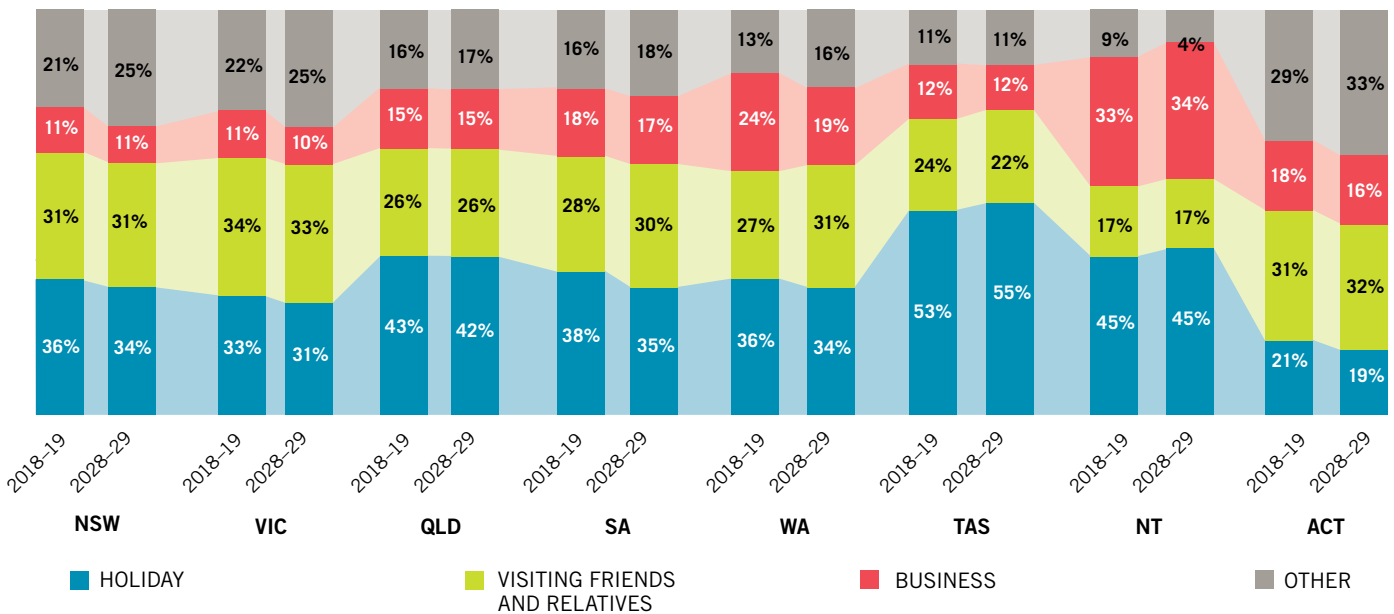


Image courtesy of Tourism and Events Queensland/Virginia Williams

4. THE ECONOMIC FACTORS INFLUENCING THE FORECASTS

GLOBAL ECONOMIC OUTLOOK WEAKENING

The global economic outlook has weakened since TRA released its last issue of tourism forecasts in August 2017, with conditions softening across both advanced and emerging economies. US-China trade tensions, the Brexit deal uncertainty and political and economic challenges in the Eurozone have triggered some prominent economic agencies to downgrade their outlook for global economic growth. For instance, in its latest World Economic Outlook update, the International Monetary Fund (IMF) projects the global economy to grow at 3.3% in 2019 and 3.6% in 2020, 0.4 and 0.1 percentage points, respectively, below its previous projections.³

The downward revisions of the economic growth forecasts have weighed down these tourism forecasts significantly.

CHINA

China's economy is moving towards a slower growth trajectory as it pivots from investment and export-led growth to one more driven by consumption and services. This presents both opportunities and challenges for the Australian tourism industry. On one hand it will encourage increased consumerism, which will translate into greater demand for outbound tourism. However, cyclical fluctuations in the Chinese economy and ongoing trade tensions will affect consumer confidence in the near term.

Against this backdrop, China's economy is forecast to grow 6.2% in 2019–20, and 5.8% in 2020–21; substantially lower than during recent periods.

NZ

Economic growth has been subdued largely due to a cooling housing market and lower business confidence. This has reduced household consumption, including discretionary spend on tourism.

However, there are some positive economic signs with net exports at record highs and falling unemployment – due in part to changes in monetary policy. These should support growth in consumer spending, with flow-on effects to outbound travel in the medium term. The NZ economy is forecast to grow by 2.5 % in 2019–20 and 2.4% in 2020–21.

THE US

This economy has demonstrated remarkable resilience in the face of global and domestic disturbances, with the most recent data showing better-than-expected economic growth and unemployment at near-record lows. Wealth effects generated by record highs in the US stock market are also buoying consumer confidence.

However, long-term economic prospects will be dampened by challenging trade relationships. Increased tariffs will reduce consumer confidence and discretionary spend.

Under these circumstances the US economy is expected to follow a modest growth path over the next two years, increasing by 2.1% in 2019–20 and 1.8% in 2020–21.

THE UK AND EUROZONE

The UK economy gained momentum during the first quarter of 2019 despite concerns around Brexit and a general global slowdown. However, the UK's medium-term economic outlook continues to be overshadowed by Brexit uncertainty. On this basis, the UK economy is forecast to grow by 1.6% in 2019–20 and 1.7% in 2020–21.

In the Eurozone, economic recovery is continuing with signs of improved employment and consumer confidence. That said, growth among key European economies remains uneven, ranging from 1.6% for Germany to 0.6% for Italy in 2019–20. Over the longer term, UK's exit from the European Union will have a negative impact on the region's economy.

JAPAN

Slow economic growth is expected to continue, with forecasts of 0.6% both for 2019–20 and 2020–21 – well below that of other advanced economies. The main factors slowing growth are a persistently low inflation rate, high government debt and a shrinking labor force brought about by an aging population. Economic prospects are further clouded with the country's consumption tax scheduled to increase from 8% to 10% in October 2019.

INDIA

Spectacular growth has been reported in recent years, with the Indian economy growing 7.4% in 2018. In coming years, India is expected to be the fastest growing economy among Australia's top 10 tourism source markets, largely due to its young and rapidly urbanising workforce. The higher economic growth will flow on to wider society, increasing the size of middle-income groups, and adding to travel propensities. India's economy is projected to increase by 7.3% in 2019–20 and in 2020–21.

³ World Economic Outlook, April 2019: Growth Slowdown, Precarious Recovery, International Monetary Fund
<https://www.imf.org/en/Publications/WEO>

AUSTRALIA IS ON A SLOWER GROWTH TRACK

Despite sluggish wage growth and falling house prices in large cities, the Australian economy continues to grow. Treasury is expecting the domestic economy to pick up from estimated growth of 2.3% in 2018–19, to 2.8% in 2019–20 and 2020–21.

Supporting the economic recovery will be historically low interest rates and the effects of personal income tax offsets. The forecasts assume an unemployment rate of 5.0% throughout 2019–20 and 2020–21, with wage growth expected to improve over the same period. As a result, real household consumption is expected to grow from 2.3% in 2018–19, to 2.8% in 2019–20 and 2020–21.

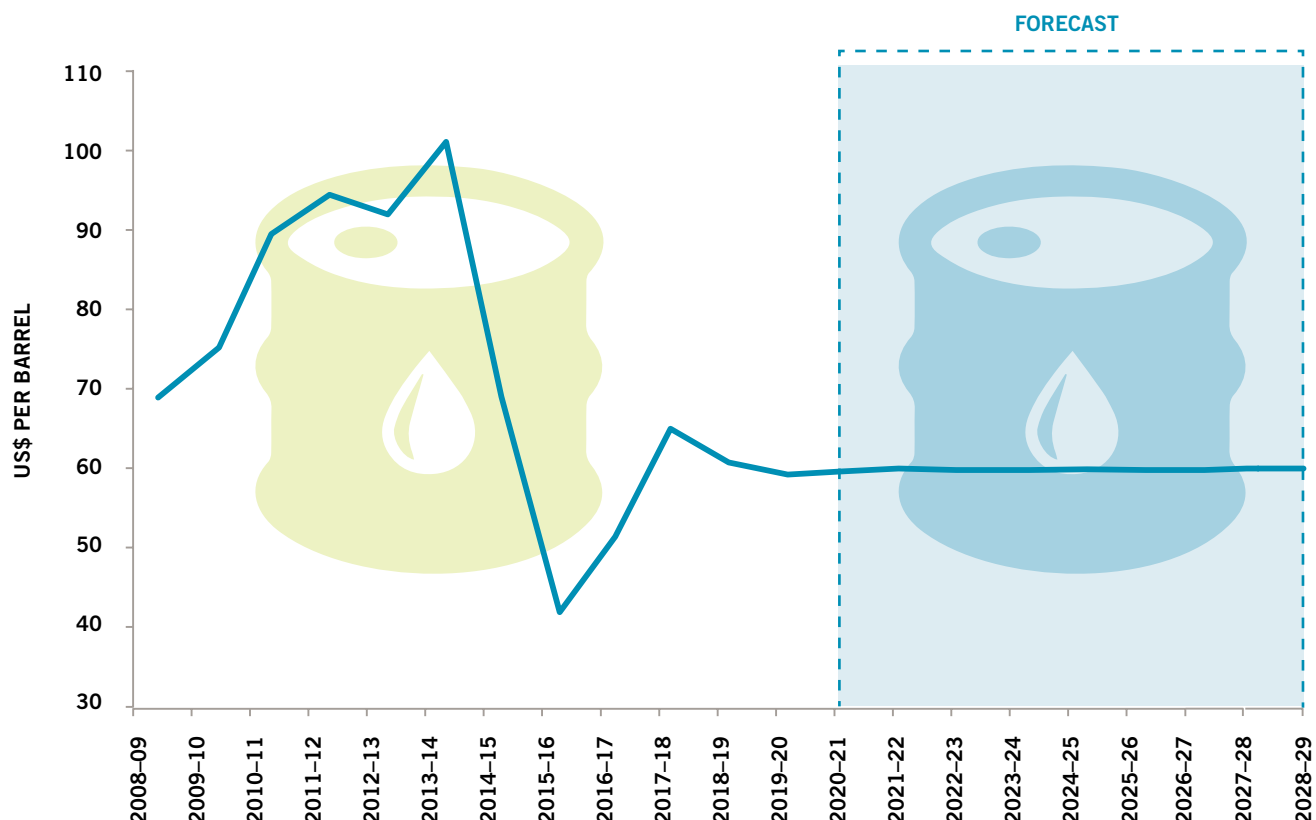
TRA adopts the consensus forecast of the Australian dollar at US\$0.71 in 2019–20 and US\$0.74 in 2020–21. This is well below the annual average rate of US\$0.79 over the past five years, making travel to Australia more attractive to international markets. This will also drive growth of international visitor spend in Australia in coming years.

WORLD OIL PRICES

World oil prices have dipped from late 2018 highs of over US\$70 per barrel to range between US\$50 and US\$60 per barrel through most of 2019 (Figure 12).

Trade tensions, a slowdown in China's industrial production and greater energy efficiency in major developed markets have restrained demand and forced prices down. On the supply side, US oil production will reach another record high in 2019. However global oil supply is capped by OPEC members and disruptions in oil producing countries such as Iran, Venezuela and Libya. On balance, world oil prices are expected to be around US\$60 in the short and medium term.

FIGURE 12: WORLD OIL PRICES: HISTORICAL AND FORECASTS



OTHER INFLUENCES ON THE FORECASTS

AVIATION

INTERNATIONAL AVIATION

Due to weakening demand for international air travel, growth in inbound aviation capacity to Australia has slowed. The first three-quarters of 2018–19 saw a 3.2% increase in inbound aviation capacity; the slowest growth rate since 2008.

Looking forward, TRA expects inbound air capacity to grow 4.7% in 2019–20 and 2020–21, while a longer term average annual growth of 4.7% is projected for the period between 2018–19 and 2028–29.

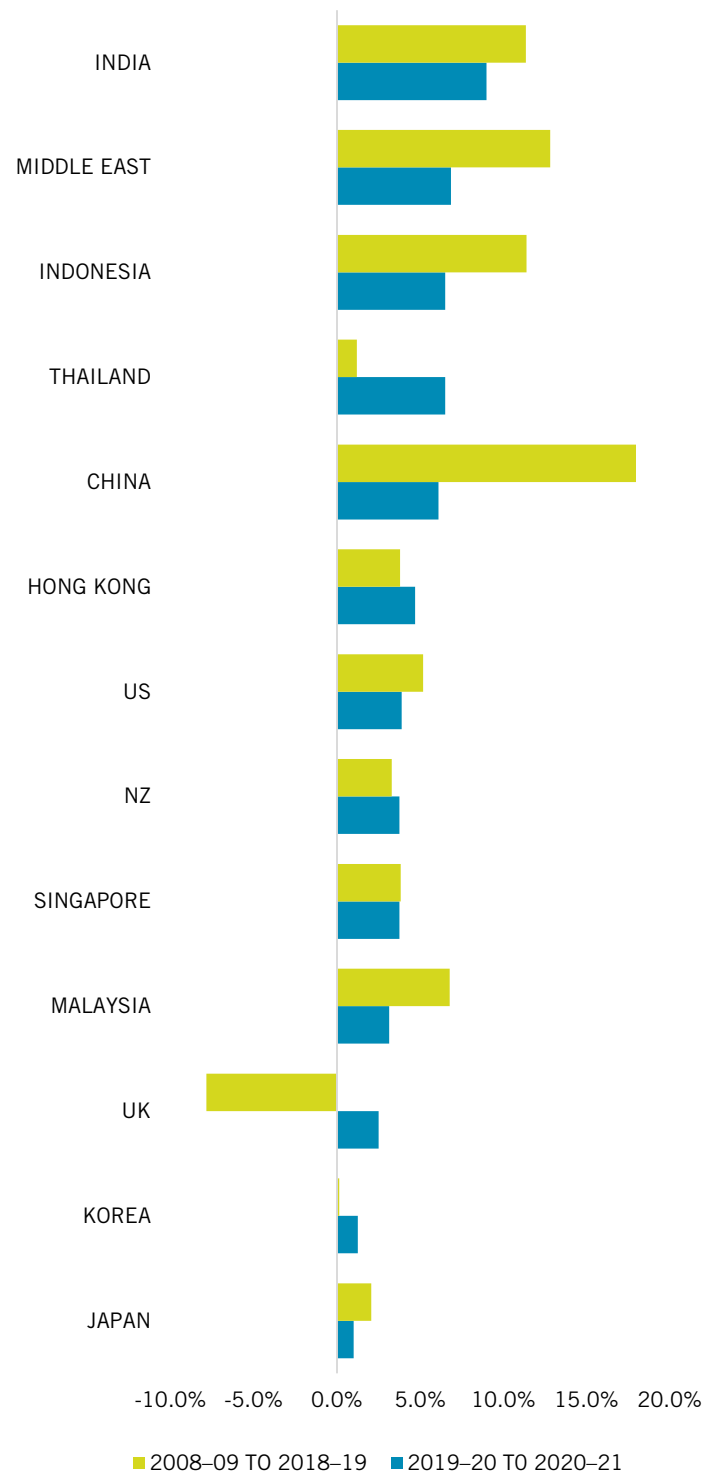
SHORT-TERM OUTLOOK FOR AIR CAPACITY

The growth of inbound air capacity to Australia in 2019–20 and 2020–21 is expected to be below the long-run average for a number of key markets, mainly due to higher oil and jet fuel prices (Figure 13). Despite crude oil prices falling recently, world prices remain at an elevated level compared to those that prevailed between 2015–16 and 2016–17. During this earlier period, inbound air capacity to Australia grew 14.4%, while inbound air capacity from China increased 66.2%.

World oil prices are expected to stay at around US\$60 over the next few years. These higher prices will squeeze international airlines' profit margins, leading to slowing capacity growth. In this environment, some airlines will reduce seat capacity to generate higher yields and restore profit margins. Capacity growth from key markets over the next two years is forecast as follows (Figure 13):

- China to grow 6.1% per year on average, compared to long-run average growth of 18%
- Singapore to grow 3.8% per year versus long-run growth of 3.8%
- Middle East to grow 6.9% versus long-run growth of 12.8%
- NZ to grow 3.8% versus long-run growth of 3.3%
- UK to grow 2.5% per year versus long-run growth of -7.8%.

FIGURE 13: INBOUND AIR CAPACITY: HISTORICAL AND FORECAST, AVERAGE ANNUAL GROWTH



LONG-TERM OUTLOOK FOR AIR CAPACITY GROWTH

There are a number of markets in which the average annual forecast growth rate between 2018–19 and 2028–29 differs from the long-run historical compound annual growth rate over the previous 10 years.

The most significant change lies in the China market, which sees the forecast growth rate slow to 6.6% on average between 2018–19 and 2028–29 from average annual growth of 18% over the previous 10 years. Aside from the economic slowdown in China, the change reflects a large, maturing market, where double-digit growth cannot be sustained indefinitely, particularly given the very high increases in demand over the last 10 years.

The Middle Eastern market will experience a similar pattern of change, but causes will differ. Seat capacity for Middle Eastern airlines, notably Emirates, Etihad and Qatar, have grown substantially in the Australian market over many years. However, the weakened profitability of these airlines over the past two years may inhibit their abilities to expand capacity in the short term.

By comparison, the India market is expected to grow at a stronger pace, simply because of a much greater take-up of air travel by the country's middle class, starting with more travel to domestic destinations and then shifting to more overseas destinations over time.

Many of the South East Asia markets – including Thailand, Singapore and Indonesia – will see long-run growth rates reduce as their growth is occurring off a much higher base. The Malaysian market will take some time to recover from the major air incidents involving two Malaysian Airlines and Air Asia.

Prospects for the Japanese market are more buoyant, largely due to the strong and growing interest from Australian residents travelling to Japan.

DOMESTIC AVIATION

In 2019, about one-quarter of Australian domestic overnight trips involved air transport. Domestic air capacity influences the business travel segment more than any other travel segment.

The growth of domestic air capacity has been low since 2013–14, following strong growth during the peak of the mining boom. In more recent years, major domestic carriers have reduced seat capacities in order to increase passenger loads and maintain yields. In this context, TRA expects flat growth for 2019–20 and 2020–21, before picking up to 3.5% in 2022–23.

ACCOMMODATION

ACCOMMODATION PERFORMANCE

The accommodation sector remains a key driver for the tourism industry, with a total revenue of \$8.6 billion in 2017–18. At the same time:

- national room supply increased 2.5% to 284,680 rooms
- occupancy rates increased to 76.0%, driven by strong rates across capital cities (79.8%)
- the average daily room rate increased to \$188, up \$3.40.

Outside of the traditional accommodation sector, the sharing economy continues to grow across Australia, with almost 90,000 properties listed on Airbnb in December 2017. The effect of this on the accommodation sector is mixed. While it does compete with traditional accommodation providers, it helps address gaps in supply during periods of high demand and the competitive pricing and diversity of options opens up travel to more Australians and overseas visitors.

ACCOMMODATION OUTLOOK

The accommodation sector is expected to maintain strength over the next three years on the back of strong investment and demand prospects.

- Growth in new capacity is forecast to continue, with more than 50,000 rooms in the pipeline. Almost 33,000 of these are expected to be added over the next three years – half of these are expected to be hosting guests by the end of 2020.
- New stock will be concentrated in the capital cities, especially Perth, Sydney and Melbourne. Almost 6,500 new rooms are expected to come online in Melbourne by 2020 via 32 new properties.
- The influx of new supply should see national occupancy rates fall slightly in 2020 as this wave of new supply enters the market, before returning to current rates.
- Even with increased supply, average room rates are expected to increase approximately 2.4% per year over the next three years, surpassing the \$200 mark by 2021.

5. RISKS

TRA's tourism forecasts represent the most likely outcomes given past trends, current information and the impact of policy changes. The current information includes macroeconomic and industrial (mainly aviation and accommodation) forecasts and sentiment indices, plus external specialist agencies and market intelligence. As with all forecasts, any variations in the assumptions or any disruptive events could produce risks that may drive tourism forecasts either upward or downward.

A range of uncertainties centre around the global economic outlook, which have the potential to pose downside risks to TRA's inbound tourism forecasts:

1. There is considerable uncertainty surrounding China's smooth transition to the consumption and services-driven growth model. A scenario of much-lower-than expected growth for China's economy will not only put risks to consumers' income, but will also exacerbate capital outflows.
2. The uncertainty about the US-China trading relationship. Any inward shift in policies towards protectionism through high tariffs would lower global economic growth by restraining trade and investment flows.
3. In Europe, any unexpected outcome surrounding the post Brexit UK-EU negotiation would cast a shadow over the outlook for European economic growth.
4. While TRA adopts Consensus Economics' forecasts of exchange rates and advice from its Tourism Forecasting Reference Panel, there is diversity of opinion on the subject, reflecting varying views on the significance of future policy change. Any further interest rate cuts in Australia could drive the value of the Australian dollar lower than what has been assumed, boosting tourism beyond what has been forecast.
5. Major geopolitical events, which are both difficult to predict and to quantify, will also disrupt underlying assumptions.

6. DATA SOURCES

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