INTRODUCTION

In 2019, there were more than 1.4 billion international visitor movements globally, which generated a total spend of more than US$1.7 trillion. Then the COVID-19 pandemic took hold. Within months international borders closed, airlines grounded passenger fleets, businesses collapsed and hotels went into hibernation. Demand slumped in lockstep as travellers cut short trips to seek sanctuary in their home countries.

Today, the outlook remains uncertain. Expectations are for a prolonged period of severe disruption and slow recovery as operators grapple with the challenges of social distancing, border controls ramp up, and travellers become more concerned about personal health and safety. There is also the threat of a second or even third wave of infections.

In short, the impact of the COVID-19 pandemic is a one-in-one-hundred year event, with the International Air Transport Association reporting that air passenger numbers won’t return to 2019 levels until 2023–24.

What then does this mean for the 300,000 plus businesses that make up tourism in Australia?
**AUSTRALIAN TOURISM: DOMESTIC VERSUS INTERNATIONAL**

Part of the answer is understanding the role of international travel in (what was) Australia’s $152 billion visitor economy.

In 2019, more than nine million international visitors came to Australia, spending a total of $45 billion. With only $31 billion of this international spend reaching the Australia economy, this was overshadowed by the $107 billion Australians spent on domestic overnight travel and daytrips. It was also significantly less than the $65 billion spent by Australians on 11.6 million outbound trips – half of which was holiday travel.

So, when analysing who spends what and where in Australian tourism, two key facts stand out from the 2019 data. First, Australians travelling internationally spent $26 billion more overseas than overseas visitors spent in Australia. Second, domestic travellers already out-spend international visitors in Australia by a ratio of more than 2:1.

### FIGURE 1: VISITOR SPEND BY TRAVELLER, 2019

<table>
<thead>
<tr>
<th></th>
<th>Money Spent Overseas ($B)</th>
<th>Money Spent in Australia ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Day Trippers</strong></td>
<td>26</td>
<td></td>
</tr>
<tr>
<td><strong>Domestic Overnight Travellers</strong></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td><strong>International Visitors</strong></td>
<td>14</td>
<td>31</td>
</tr>
<tr>
<td><strong>Australians Travelling Overseas</strong></td>
<td>57</td>
<td>8</td>
</tr>
</tbody>
</table>

MONEY SPENT OVERSEAS ($B) | MONEY SPENT IN AUSTRALIA ($B)
While the official data isn’t yet in, 2020 figures will be far below these heady levels. However, with travel to and from Australia suspended for the foreseeable future, and travel within Australia slowly opening up, there is the potential for a domestic-led recovery. This would involve a gradual resumption of domestic travel once interstate borders fully reopen and restrictions on gatherings are lifted. A domestic-led recovery also includes the possibility of converting some people who had been considering overseas travel into domestic tourists.

Domestic tourists do however have different travel and spending patterns to those travelling overseas. Trips taken by Australians in Australia tend to be shorter, lower yield and involve fewer activities than those of our international visitors. Consumer behaviour patterns are also likely to be different as a result of COVID-19. People are likely to be more concerned about personal hygiene and safety. This will retard the resumption of all kinds of travel, and people may be more reluctant to undertake some of the activities they did before.

A RETURN TO DOMESTIC TRAVEL

Australians like to travel. In 2019, those aged 15 and over took 11 day-trips on average. In coming months a resurgent day-trip market is likely, with people already taking more short, spontaneous journeys as restrictions on gatherings gradually ease.

In the same year, Australians took 20 days of domestic overnight travel on average, compared with just 15 in 2008–09. In parallel with growing day trip demand, the first stage in the recovery for overnight travel should be intrastate trips to visit friends and relatives (VFR) as people seek to reconnect with those most important in their life. When interstate borders reopen and domestic flights resume there should be a similar boost in interstate VFR travel.

A resumption of domestic business travel will likely coincide with a mass return to office-based work and airline reopenings. However, the pandemic has significantly altered the way people interact with each other in a business setting. In a far more challenging financial environment, organisations may reassess the amount of physical travel they consider necessary.

The prospect of much higher unemployment and reduced incomes means the recovery for domestic holiday travel may be more subdued. This would see domestic trips becoming shorter and less frequent with a greater focus on lower cost options. Holiday travel will still remain highly seasonal, underpinned by strong school holiday demand. With Australia’s ski fields and tropical destinations entering their peak season in winter the timing of interstate border reopenings will be critical.

CHANGES IN THE VISITOR MIX

The decline in household incomes will have significant impact not only on travel propensities but also on travel behaviours. Over the past five years households with incomes over $200,000 have been the drivers of growth in both domestic overnight and outbound travel (increasing an average of 13% and 9% per year, respectively). Compared to those earning below $150,000, these wealthier households:

- Are three times more likely to stay in luxury accommodation
- Are 50% more likely to travel interstate
- Typically spend 80% more per person per night on domestic overnight trips
- Spend 90% more per night on outbound trips.

Furthermore, spend among households with incomes of under $150,000 have been declining, with trips more likely to include free activities and more regional travel.

The older age profile of domestic travellers, including those who currently take outbound trips means there will be more retirees in Australia’s visitor mix in a domestic led recovery. These travellers are less time conscious, but will have additional needs.

However, what is yet unclear is the behaviour of those travellers who would have otherwise holidayed overseas. In the short-term there may be some available capacity as people cannot venture overseas, but this is expected to only prop up the domestic market rather than enlarge it.

Part of this comes down to the reason for travel. With more than 11 million outbound trips annually, Australians do like to travel overseas. This means that many will hold out for an overseas experience if they think the option will arise soon. Also, people who would travel overseas for business or to visit friends and relatives will have no additional reason to travel domestically.
There is also competition for the traveller dollar. People with funds at their disposal don’t have to travel. They can save the money, pay off debts or spend it on other goods and services. Also a domestic experience should represent value for money. People may consider experiencing major events and attractions in large cities, but if international artists, performers and sportspeople are unable to enter Australia these offerings will have less appeal.

Finally there is the level of spend. While a domestic trip can substitute for international travel it is not a financial equivalent. The average domestic overnight trip lasts less than four nights and costs under $700. A typical overseas trip spans 18 nights and costs $6,500.

There are also supply side issues to consider. A domestic-led recovery will see changes in the demographics, behaviours and geographic spread of travellers. These changes in demand alongside the uncertainty around how domestic travel will substitute for international travel will introduce numerous supply-side challenges.

AUSTRALIA’S TOURISM WORKFORCE

In 2018–19 there were 666,000 people directly employed in tourism in Australia, with another 370,000 working to provide goods and services to the industry.

With travel curtailed since March 2020, tourism has been among the sectors most affected. Between mid-March and early May 2020, ABS payroll data shows that 7% of jobs were shed nationally. For the arts and recreation sector, job losses stood at 19%, for accommodation and hospitality there were 27% fewer jobs.

However, government support in the form of Jobkeeper and Jobseeker packages has been important in moderating job losses and helping businesses get through this difficult period. As restrictions ease, ensuring continued demand for tourism businesses is likely to be difficult. In this environment, businesses will struggle and employees will seek more secure employment elsewhere. Over the longer term, businesses may be further challenged if international travel is restricted and growth in domestic demand is unable to compensate for this shortfall.
ACCOMMODATION: CATERING TO DIFFERENT VISITOR GROUPS

Hotels were among the first to respond to travel restrictions. As bookings diminished, hotels went into hibernation, standing down staff while retaining key personnel to maintain security and plant operations.

Coming out of shutdown, recovery prospects will depend on the sector’s ability to find domestic substitutes for international visitors.

While interstate borders remain closed and flights are limited, regional centres within driving distance of cities will recover first. As flights return and borders reopen, this recovery will extend to more far-flung regional destinations and interstate capitals. Over the longer term however, capital cities may feel the loss of international travel far more than other parts of the country, as shown in Figure 2.

Although holiday and VFR travel will make up some of this shortfall, domestic demand is strongly skewed towards weekends and holiday periods. Metropolitan operators will therefore rely on domestic business travel on weekdays to spur recovery and smooth demand fluctuations. Without this recovery, operators may potentially raise room rates to cover ongoing operating costs.

In the short-term, this may present challenges. Businesses that were heavily impacted by the pandemic will look to reduce their operating costs, with travel expenditure an obvious target for those that learned to operate remotely.

FIGURE 2: NIGHTS SPENT IN COMMERCIAL ACCOMMODATION AND INTERNATIONAL SHARE BY REGION, 2019

Note: International education and employment visitors have been removed as they are not comparable to domestic visitors and typically stay in a rental property, not traditional tourist accommodation.
The majority of domestic travel for Australians has traditionally been to regional destinations. An increase in domestic visitation from people foregoing international travel will likely lead to more demand for regional accommodation — and with it potentially increased profitability. Coastal businesses especially could see a surge in demand with Australian travellers selecting beach trips to replace similar international offerings, or to support their local regions after many months of being isolated at home.

While an increase in demand is welcome, it could be problematic for areas that already experience strong seasonal spikes. Ensuring adequate dispersal both geographically and over time will be key to reducing the risks of overtourism which can impact negatively on local communities and detract from the visitor experience.

The preference of Australians to travel with family and friends could also see people favour holiday homes over commercial accommodation. Visitors will feel they have more control over hygiene-related safety if they can preserve greater physical distances between themselves and other travellers.

**AVIATION**

Australians travelling overnight accounted for 84% of trips on domestic flights in 2019. Almost half of this was for business travel and typically on the main capital city routes. If there is a shift by businesses towards less travel and a hesitation among holidaymakers and VFR travellers to fly, this demand may be slow to return.

<table>
<thead>
<tr>
<th>DESTINATION</th>
<th>INTERNATIONAL</th>
<th>DOMESTIC OVERNIGHT</th>
<th>DOMESTIC DAY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL DESTINATIONS</td>
<td>2,623</td>
<td>28,399</td>
<td>2,642</td>
<td>33,664</td>
</tr>
<tr>
<td>SYDNEY</td>
<td>1,115</td>
<td>5,169</td>
<td>596</td>
<td>6,881</td>
</tr>
<tr>
<td>MELBOURNE</td>
<td>906</td>
<td>5,426</td>
<td>513</td>
<td>6,845</td>
</tr>
<tr>
<td>BRISBANE</td>
<td>419</td>
<td>2,967</td>
<td>277</td>
<td>3,663</td>
</tr>
<tr>
<td>PERTH</td>
<td>227</td>
<td>1,615</td>
<td>83</td>
<td>1,924</td>
</tr>
<tr>
<td>ADELAIDE</td>
<td>193</td>
<td>1,541</td>
<td>180</td>
<td>1,913</td>
</tr>
<tr>
<td>GOLD COAST</td>
<td>361</td>
<td>1,402</td>
<td>44</td>
<td>1,807</td>
</tr>
<tr>
<td>TROPICAL NORTH QUEENSLAND</td>
<td>487</td>
<td>1,066</td>
<td>29</td>
<td>1,582</td>
</tr>
<tr>
<td>AUSTRALIA’S NORTH WEST</td>
<td>31</td>
<td>1,080</td>
<td>69</td>
<td>1,180</td>
</tr>
</tbody>
</table>
Among international visitors, destinations were also skewed towards the major cities. Outside the cities, holiday destinations such as Tropical North Queensland, Lasseter (Uluru) and the Whitsundays have a very high reliance on overseas travellers. The tourism recovery for these areas will be dependent on a strong regional aviation network and high domestic demand.

### TABLE 2: THE INTERNATIONAL SHARE OF DOMESTIC AVIATION TRIPS BY REGIONAL DESTINATION, 2019

<table>
<thead>
<tr>
<th>DESTINATION</th>
<th>INTERNATIONAL TRIPS ON DOMESTIC AVIATION</th>
<th>TOTAL TRIPS ON DOMESTIC AVIATION</th>
<th>INTERNATIONAL SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LASSETER</td>
<td>111,000</td>
<td>228,000</td>
<td>49%</td>
</tr>
<tr>
<td>TROPICAL NORTH QUEENSLAND</td>
<td>487,000</td>
<td>1,582,000</td>
<td>31%</td>
</tr>
<tr>
<td>WHITSUNDAYS</td>
<td>81,000</td>
<td>364,000</td>
<td>22%</td>
</tr>
<tr>
<td>ALICE SPRINGS</td>
<td>55,000</td>
<td>248,000</td>
<td>22%</td>
</tr>
<tr>
<td>GOLD COAST</td>
<td>361,000</td>
<td>1,807,000</td>
<td>20%</td>
</tr>
</tbody>
</table>
**ARTS AND RECREATION**

Consistent with their longer trip length and higher spend, international visitors take part in a wider range of cultural and recreation activities than domestic travellers. This higher participation is fundamental to the viability of many tourism businesses: it provides additional revenue and complements school holiday and weekend demand from domestic visitors.

**FIGURE 3: THE SHARE OF PARTICIPATION IN ACTIVITIES ON AN OVERNIGHT TRIP BY TRAVELLER TYPE, 2019**

- **Eat out or dining out**: 90% international, 64% domestic
- **Shopping**: 18% international, 77% domestic
- **Visit zoos and aquariums**: 34% international, 2% domestic
- **Pubs, clubs, and discos**: 33% international, 24% domestic
- **Visit heritage sites**: 30% international, 5% domestic
- **Visit museums or art galleries**: 30% international, 7% domestic
- **Australian produce activities**: 17% international, 5% domestic
- **Indigenous activities**: 11% international, 1% domestic
- **Visit theme parks**: 10% international, 1% domestic

- Businesses with an indoor focus such as museums and galleries will seek to spread demand away from traditional peak times of day and peak periods to optimise revenues while still meeting social distancing requirements.
- For operators of nature-based and outdoor activities, weekend/school holiday peaks have the potential to create overcrowding. This will lead to negative visitor experiences if domestic demand increases and the dispersal of visitors is not properly managed.
- Zoos provide educational and family-based opportunities. The substantial shortfall in international demand could be picked up by marketing to domestic day-trippers, the local community and school groups.
- Domestic visitation already accounts for the majority of travellers to sporting events and festivals. This sector should continue to grow once these activities resume and the economy recovers.
- Indigenous cultural practices and sites are a major drawcard for international travellers, so indigenous tourism is vulnerable. In 2019, 11% of international visitor took part in indigenous activities, compared to just 1% of domestic overnight visitors.

Image courtesy of Tourism Australia
TOUR OPERATORS & CRUISE TRAVEL

In 2019 almost two-thirds of spend on group and package travel came from international visitors. Therefore, along with the tour operators themselves, the bus companies, accommodation establishments and food providers servicing this sector may face a lower level of demand.

Domestic travellers are far more familiar with what Australia has to offer. Even if domestic demand does increase, domestic travellers may be less interested in touring some of the more well-known and accessible attractions that target the international package sector.

One of the largest components of the package sector is cruise travel with almost 1.35 million Australians taking a cruise in 2018.

Cruise companies are now looking to restore their reputation and abate consumer concerns by quickly adapting to changing health and safety requirements, and social distancing measures. This may result in a decline in passenger capacity and an increase in prices, with higher prices especially notable on the larger lines commonly found in the Australasia region. In this more costly environment, families in particular will find cruise travel is no longer an affordable option.

Recovery of the cruise industry over the short term will therefore rely on persuading some of the two million older Australians who would otherwise be holidaying overseas to consider this type of travel. Given the greater risk of illness among this cohort, this will require even more stringent health and safety protocols.

In 2018, the majority of Australian cruisers did so in the Australasian region. Almost one-third of cruises by Australians were to domestic ports, the same went to the South Pacific and nearly 10% to New Zealand. This opens the doors for current tour operators to provide an ‘affordable premium package’ within the region to fill this gap. A focus on new experiences and relaxation for an all-inclusive price could be the key to tapping into this market as the economy begins to recover.

FIGURE 4: WHERE AUSTRALIANS CRUISE, 2018

Source: CLIA, 2018 Australia ocean source market report
RETAIL AND TRAVEL AGENTS

Tourism retailers will be dramatically affected by what is happening more broadly in the retail sector. Almost 77% of international tourists shop for pleasure while in Australia, compared with only 18% of domestic overnight travellers. Therefore, the travel-related slowdown will be most pronounced among those catering to international clientele. This includes souvenir shops and specialist gift shops across Australia, with a far broader range of retailers affected in tourism hotspots.

In addition to retail businesses, travel agents play an important role in booking flights, accommodation and tours for Australians travelling overseas. In contrast, domestic travellers are experienced in sourcing products online, and have generally been to their destination before. While bookings for domestic travel can offset a loss in outbound bookings, they will constitute a smaller revenue stream.

BRINGING BACK INTERNATIONAL TRAVEL

It is anticipated that international travel will face a slow and gradual recovery. As countries prepare to reopen, important issues will emerge.

- **Australia will have a comparative advantage in safety.** Before the pandemic, health and safety were already the main consideration in selecting a destination. Post-pandemic they will be even stronger demand drivers. Destinations like Australia that have responded well to the pandemic and continue to have stringent border controls – plus strategies to address subsequent outbreaks – will regain demand more quickly.

- **Timing will be critical.** Countries around the world will be keen to accelerate marketing as soon as possible to secure market share. With long lead times in travel planning and high competition for international travel, this is a valid strategy. However, there is a risk of reputational damage if countries resume opening up too quickly and a new wave of infections occurs.

- **Distance and price will be a disadvantage.** Australia is a remote destination that is comparatively expensive. At the same time many of our source markets are experiencing severe economic effects from the pandemic. Therefore, while many people will aspire to travel here, visitation to Australia may take longer to recover compared to other destinations.

- **Outbound travel will recover comparatively quickly.** With higher travel propensities, a large migrant diaspora and a remote location, it is expected that Australians will return to outbound travel faster than other nationalities. Therefore international aviation routes and agreements for Australia will need to cater for a mix of destinations more skewed towards Australians’ overseas travel preferences (Figure 5).

- **A global recovery will be essential.** Australia depends on an international aviation network and in particular on hub aviation services based in UAE and Singapore. Gearing up the massive infrastructure at these air travel hubs to service our international travel needs requires much more than a surge in demand for travel to and from Australia. Consequently, a sustainable return to high volume inbound international tourism is dependent on a durable and widespread recovery in international travel.
For more information, go to www.tra.gov.au