AUTHORS
Tourism Research Australia: Dr George Chen and Geoff Bailey

Other Contributors
Tourism Research Australia: Kathryn Gillies and Kristen Corrie

Industry Sources
Tourism Forecasting Reference Panel:
Dr Leo Jago (Chair) Tourism Research Australia
Daniel Gschwind Queensland Tourism Industry Council
Nell Anderson Tourism Australia
Adele Labine-Romain Tourism and Transport Forum Australia
Dr Tony Webber Webber Quantitative Consulting
Ivan Colhoun ANZ Bank

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Tourism Research Australia
Australian Trade Commission
25 National Circuit, Forrest ACT
GPO Box 2386, Canberra ACT 2601

Email: tourism.research@tra.gov.au
Web: www.tra.gov.au

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CONTENTS

FOREWORD ............................................................................................................................................. 5
SUMMARY .................................................................................................................................................. 6
1 THE ECONOMY ..................................................................................................................................... 8
1.1 THE GLOBAL ECONOMY – PATCHY POST-GFC RECOVERY CONTINUES .................. 8
1.2 AUSTRALIA’S ECONOMY – GROWTH BELOW TREND IN 2014–15 .......................... 9
1.3 THE AUSTRALIAN DOLLAR: REMAINING STUBBORNLY HIGH ............................... 11
2 TOURISM DRIVERS – ACCOMMODATION, AVIATION AND SENTIMENT ....................... 12
2.1 ACCOMMODATION .................................................................................................................. 12
2.2 AVIATION ..................................................................................................................................... 13
2.3 TOURISM INDUSTRY SENTIMENT ....................................................................................... 16
3 FORECASTS, 2013–14 TO 2022–23 .............................................................................................. 19
3.1 TOURISM’S PERFORMANCE SO FAR IN 2013–14 ....................................................... 19
3.2 INBOUND ARRIVALS FORECASTS, 2013–14 TO 2022–23 ........................................ 19
3.3 DOMESTIC VISITOR NIGHTS, 2013–14 TO 2022–23 ..................................................... 23
3.4 AUSTRALIAN RESIDENT DEPARTURES (OUTBOUND), 2013–14 TO 2022–23 ....... 25
3.5 TOTAL TOURISM EXPENDITURE 2013–14 TO 2022–23 .................................................. 26
4 KEY MESSAGES ................................................................................................................................. 28
TABLES

TABLE 1: REVISIONS TO PREVIOUS FORECASTS (SPRING 2013) ........................................7

FIGURES

FIGURE 1: ECONOMIC GROWTH IN KEY TOURISM ECONOMIES, 2014–15 AND 2015–16 ......8
FIGURE 2: AUSTRALIAN ECONOMIC GROWTH ...................................................................10
FIGURE 3: AUSTRALIAN DOLLAR MOVEMENTS AGAINST THE LEADING TOURISM
CURRENCIES, JULY 2013 TO MAY 2014 .................................................................11
FIGURE 4: HOTEL OUTLOOK, AUSTRALIA ........................................................................13
FIGURE 5: CHANGE OF INBOUND AIR CAPACITY AND PASSENGER LOAD FACTOR ..........13
FIGURE 6: FORECAST GROWTH IN DIRECT AVIATION SERVICES, BY KEY MARKETS,
2013–14 AND 2014–15 ..................................................................................................15
FIGURE 7: INDUSTRY SENTIMENT SURVEY—EXPECTATIONS FOR GROWTH, 2014–15 .....17
FIGURE 9: HISTORICAL AND FORECAST GROWTH IN HOLIDAY ARRIVALS ..................22
FIGURE 10: FORECAST CONTRIBUTION TO GROWTH IN ARRIVALS OVER THE NEXT 10
YEARS TO 2022–23 ......................................................................................................23
FIGURE 12: LONG-TERM GROWTH IN TOURISM SPEND ..................................................27
FOREWORD

Tourism Research Australia’s (TRA) tourism forecasts represent the most likely outcome for tourism given past trends, current information and the impact of policy and industry changes.

There have been some changes to the underlying data underpinning this round of tourism forecasts. The Australian Bureau of Statistics (ABS) back-cast its overseas arrivals and departures data from July 2004 to December 2013, resulting in some significant changes in the country of residence and travel purpose data.

As a result of these changes, TRA has back-cast the International Visitor Survey (IVS) data from the March quarter 2005. These changes have entailed TRA re-estimating both its inbound elasticity model and the quarterly based forecasting model. The data revision and the extra modelling have delayed the release of this publication.

The key economic assumption underpinning these forecasts is that the global economic outlook will continue to improve and this will result in more positive prospects for economic growth in Australia’s traditional inbound markets including New Zealand and the United Kingdom. This augers well for Australia’s inbound tourism market. Australia’s domestic tourism is forecast to increase at a rate just below the rate of population growth and outbound tourism is expected to grow at a lower rate than in recent years.

Dr Leo Jago

Chief Economist Tourism, TRA
SUMMARY

BACKDROP

Global economic outlook continuing to improve, underpinning tourism demand

The global economic recovery continues, with the United States’ economic recovery becoming more broadly based. There are positive signs that the Eurozone economies are rebounding, and the New Zealand economy is at full steam.

On the downside, Chinese economic growth is easing from high levels (to a more sustainable consumption-led growth path) with this driving lower—but still solid—growth in other parts of Asia.

The key driver for Australian economic growth is moving away from investment in resources projects to broader-based drivers of activity in the non-resources sectors including the tourism sector. The latest Treasury forecast (released in May 2014) suggests that the Australian economy will continue growing slightly below trend in 2014–15, with growth then improving to the 10-year average of 3.0 per cent in 2015–16.

EXCHANGE RATES

TRA assumes that the Australian dollar will depreciate slightly against the US dollar in coming years, but recognises the risk of a larger depreciation than forecast.

TOURISM SUPPLY INDICATORS

Higher air capacity growth continuing to underpin inbound and outbound visitor numbers

International aviation capacity to and from Australia is on track for strong growth in 2014–15 and 2015–16, noting that there is some risk attached with a number of major global carriers currently facing falling yields.

Room tariffs likely to remain high in most capital cities

Although some growth in room supply is likely to occur in coming years, room tariffs are likely to remain high, underpinned by growing room occupancy rates.

REVISIONS TO PREVIOUS FORECASTS (2013–14 TO 2014–15)

TRA has revised the previous forecasts made in Tourism Forecasts Spring 2013 (Table 1), with the largest change being the downward revision of forecast domestic visitor nights in 2013–14. This revision reflects a poor performance in the last six months of 2013, but for forecasts of moderately stronger growth in the first half of 2014.

The upgrades to 2013–14 forecasts for inbound arrivals and outbound departures are primarily based on a stronger-than-expected performance so far in 2013–14, while minor changes to the forecasts for 2014–15 are driven by lower domestic travel forecasts.
### TABLE 1: REVISIONS TO PREVIOUS FORECASTS (SPRING 2013)

<table>
<thead>
<tr>
<th></th>
<th>2013–14</th>
<th>2014–15</th>
<th>10 years to 2022–23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International visitor arrivals</strong></td>
<td>Revised ▲ 1.0 ppts to grow at 6.8%</td>
<td>Revised ▲ 0.1 ppts to grow at 5.7%</td>
<td>Revised ▲ 0.5 ppts</td>
</tr>
<tr>
<td></td>
<td>(to 6.6 million)</td>
<td>(to 7.0 million)</td>
<td>to grow at 4.5%</td>
</tr>
<tr>
<td><strong>Domestic visitor nights</strong></td>
<td>Revised ▼ 1.3 ppts to grow at 0.7%</td>
<td>Revised ▼ 0.7 ppts to grow at 0.8%</td>
<td>Revised ▼ 0.2 ppts</td>
</tr>
<tr>
<td></td>
<td>(to 288 million)</td>
<td>(to 291 million)</td>
<td>to grow at 0.8%</td>
</tr>
<tr>
<td><strong>Outbound departures</strong></td>
<td>Revised ▲ 0.9 ppts to grow at 5.8%</td>
<td>Revised ▲ 1.4 ppts to grow at 4.3%</td>
<td>Revised ▲ 0.5 ppts</td>
</tr>
<tr>
<td></td>
<td>(8.9 million)</td>
<td>(9.3 million)</td>
<td>to grow at 3.8%</td>
</tr>
<tr>
<td><strong>Total visitor expenditure</strong></td>
<td>Revised ▼ 1.3 ppts to grow at 1.4%</td>
<td>Revised ▼ 0.4 ppts to grow at 2.2%</td>
<td>Revised ▼ 0.2 ppts</td>
</tr>
<tr>
<td>(in real terms)</td>
<td>(to $103 billion)</td>
<td>(to $105 billion)</td>
<td>to grow at 1.6%</td>
</tr>
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<td></td>
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Note: ppts = percentage points. For example, in Table 1, a revision of ‘1.0 ppts’ indicates that growth for inbound arrivals has been revised up from the previous forecasts of 5.8 per cent growth to 6.8 per cent growth for 2013–14.
1 THE ECONOMY

1.1 THE GLOBAL ECONOMY—PATCHY POST-GFC RECOVERY CONTINUES

The global economic outlook continues to improve as the post-GFC economic recovery is becoming more broadly based. Overall, there is a positive macroeconomic backdrop for the performance of Australian tourism over the next two financial years.

For this round of forecasts, changes to economic growth forecasts for 2014–15 have been minor. The most notable upward revisions occurred for New Zealand and the United Kingdom, while the largest downward revisions have been applied to China, Hong Kong and Thailand.

For 2015–16, upward revisions have been applied to New Zealand and the United Kingdom, while downward revisions have been applied to the United States, China, Hong Kong, India, Indonesia, Thailand and South Korea (Figure 1).

FIGURE 1: ECONOMIC GROWTH IN KEY TOURISM ECONOMIES, 2014–15 AND 2015–16

[Diagram showing economic growth in key tourism economies]

Source: Consensus Economics

NEW ZEALAND

The economy of Australia’s largest international visitor market by arrivals, New Zealand, is growing strongly, driven largely by a strong housing market and exports and partly by the Christchurch reconstruction following the earthquake in March 2011. Unlike most other western economies, the Reserve Bank of New Zealand is edging interest rates higher to contain inflation.

THE UNITED STATES

The economic recovery in the United States continues to gather momentum, with growth forecast at just below trend for the next two financial years. Despite this, the US GDP contracted by 1.0 per cent in the first quarter of 2014, but this was primarily due to the effects of severe winter weather. The economic recovery appears to be broadly based, with unemployment in the United States continuing to ease (at 6.2 per cent at April 2014—down from 10.2 per cent from the peak in October 2009).
There are also positive signs for the stalled housing sector in the United States, with recent increases in both resale of existing homes and supply of new properties. There is a high expectation of positive growth in consumer spending for the second quarter of 2014, while stock markets are at near-record highs. All these factors, along with continued low interest rates are underpinning the improvement in consumer sentiment and higher household spending.

CHINA

The slowdown in the Chinese economy appears to be more evident, with the economic growth targets being around 7.0 to 7.5 per cent; well below the double digit rates recorded a few years ago. After a long period of unprecedented levels of foreign and domestic investment, the Chinese economy is looking more to domestic consumption for future growth.

While cooling-down of the overheated Chinese property and construction markets has led to lower prices for Australia’s resource commodities, the transition to a consumption-driven growth path will stimulate China’s service industries and demand for travel. According to the United Nations World Tourism Organization, China’s outbound tourism was valued at $US129 billion in 2013; worth around 11 per cent of global international travel. With its rapidly expanding travel sector and increasing middle classes, strong growth in Chinese demand for travel is likely to continue for some time.

OTHER ASIA

Against this backdrop of slower growth (and increased risks) from China, the economic growth in Northeast Asia is forecast to ease from the strong recovery after the global financial crisis (GFC). The Japanese government’s efforts to boost asset prices and economic growth have shown some early positive signs of stronger economic growth over the past few quarters.

EUROPE

The very patchy post-GFC recovery path continues in Europe, with the United Kingdom leading the charge. Risks of potential defaults on government bonds in economies hardest hit in the GFC appear to have subsided, and if this issue re-emerges, the global economy is better placed to absorb the shock. The recent decision by the European Central Bank to charge for money held with them (effectively a negative interest rate) should also boost EU economic activity.

1.2 AUSTRALIA’S ECONOMY—GROWTH BELOW TREND IN 2014–15

Australian economic growth is forecast to remain below trend in the next few years, as the 2000’s investment-fuelled mining boom enters the production phase. According to the Treasury, the Australian economy is ‘moving away from growth led by investment in resources projects to broader-based drivers of activity in the non-resources sectors’. Investment in resources is expected to fall and detract significantly from growth through to at least 2015–16.

Rising resources exports are expected to offset the lower investment impact on growth. This was particularly evident in the March quarter 2014, when net exports contributed to all (and then some) of the strong 1.1 per cent growth in the March quarter 2014.

During this transitional phase, the Treasury forecast the unemployment rate to rise slightly to 6.25 per cent in the June quarter 2015 and remain at this rate until the end of 2015–16.

Against this backdrop, wage and consumer inflation pressures are contained, and low interest rates are having a small but positive impact on key consumer and investment activity. However, other indicators for consumer sentiment remain very mixed, particularly in the short term (Box 1).
Box 1: Mixed Signs for Consumer Sentiment and Other Indicators

Key indicators for discretionary consumer spending are mixed for the short term. While household consumption and retail trade has improved slightly and household wealth has also gained from more positive stock markets and moderately higher house prices, consumer sentiment remains volatile.

The latest Westpac-Melbourne Sentiment Survey indicated a sharp decline in May 2014—down by 6.8 points to 92.9 index points compared to April 2014—to its lowest level since August 2011. The survey points to deteriorating confidence in family finances and economic conditions—particularly ‘Family finances over the next 12 months’ (down 23.2 points) and ‘Economic conditions over the next 12 months’ (down 14.2 points). However, confidence in medium-term economic conditions remains positive, with expectations for ‘Economic conditions over the next 5 years’ up 11 points compared to April 2014.

Under these circumstances, Treasury has made some downward revisions for Australian economic growth in the next two years. The latest Treasury forecast (released in May 2014) suggests that the Australian economy will continue growing slightly below trend in 2014–15 at a rate of 2.5 per cent (half a percentage point lower than previously forecast). Growth is then forecast to improve to the 10-year average of 3.0 per cent in 2015–16 (Figure 2).

Figure 2: Australian Economic Growth

Prospects for real household consumption are also muted, with growth forecast at 3.0 per cent in 2014–15 and by 3.3 per cent in 2015–16 (below the long-term trend rate of 3.4 per cent).

Even so, this forecast represents some improvement on the still moderately weak growth of household consumption in the March quarter 2014 of 2.8 per cent (compared to that of a year ago). However, the main contributors to quarterly household consumption growth were hotels and cafes, which indicates some positive support for Australian expenditure on tourism in that quarter.
1.3 THE AUSTRALIAN DOLLAR—REMAINING STUBBORNLY HIGH

The Australian dollar (AUD) is an important factor underpinning price competitiveness for both inbound and domestic travel in an increasingly price competitive global tourism market. This is particularly the case at present as the Australian dollar remains at near-historical highs.

Weaker Australian growth is normally associated with downward pressure on the Australian dollar, particularly with international commodity prices continuing to weaken. As Australian interest rates still remain high against most other western economies (some of which have remained at near zero following the initial GFC shock in 2008–09), the Australian dollar may well remain at historically high levels for some time to come.

Even so, the Australian dollar has fluctuated considerably over the course of 2013–14. After falling against the leading currencies in the July 2013 to December 2013 period, it has strengthened against most currencies (except the New Zealand dollar and the UK pound) so far in 2014. While the Australian dollar has remained strong against the Yen, the strongest recovery so far this year has been against the Renminbi and the US dollar (Figure 3).

FIGURE 3: AUSTRALIAN DOLLAR MOVEMENTS AGAINST THE LEADING TOURISM CURRENCIES, JULY 2013 TO MAY 2014

Source: Reserve Bank of Australia

Overall, assumptions for the Australian dollar are largely unchanged from the October round of forecasts. As the Australian dollar has strengthened to around US$0.93 in May 2014, TRA estimates that the Australian dollar will average US$0.92 in 2013–14. TRA’s AUD assumptions for future years remain for a gradual depreciation to average US$0.91 in 2014–15 and to US$0.88 in 2015–16.

However, TRA notes that there are a wide range of forecasts for the Australian dollar, with some forecasting the Australian dollar to fall to below US$0.80 in 12 to 18 months. If this occurs, it should lift forecast growth for domestic and international sectors, but detract from growth for Australian outbound travel. On the upside, there is the possibility that the recent European Central Bank decision to charge a negative interest rate could see increased demand for Australian bonds and the Australian dollar.
TOURISM DRIVERS – ACCOMMODATION, AVIATION AND SENTIMENT

2.1 ACCOMMODATION

ROOM TARIFFS STAY HIGH IN CAPITAL CITIES AS DEMAND GROWTH REMAINS STRONG

Australia’s accommodation sector appears to be performing strongly of late. Latest information for calendar year 2013 shows demand growth for hotel accommodation is continuing to outstrip supply. As a result, the key performance indicator—occupancy rates—averaged at near record highs at 66.8 per cent and room tariffs rose 2.3 per cent in 2013, compared to 2012.

Growth in capital cities’ occupancies and room rates were the drivers behind strong national growth. Occupancy growth was strong in 2013 across most capital cities, particularly Melbourne, Hobart, Sydney and Canberra. On the downside, occupancy rates in Brisbane fell—largely from a softening conference and corporate sector—while moderating resources-sector demand contributed to a decrease in occupancy rates in Perth.

Rooms rates achieved double digit growth in 2013 in Adelaide, Melbourne, Brisbane and Sydney, while Perth (despite falling demand) and Hobart also saw strong growth.

ROOM STOCK AND TARIFFS TIPPED TO RISE

Deloitte Access Economics’ Tourism and Hotel Market Outlook is very positive about returns for the accommodation sector in the next few years. It expects demand to grow nationally at nearly twice the pace of supply over the next three years to December 2016. Room nights sold are expected to grow by 2.2 per cent per annum, and room nights available are expected to increase at a much slower rate of 1.2 per cent per annum (Figure 4).

Occupancies are expected to continue their record rates as a result of faster demand growth, to reach 68.8 per cent by December 2016. This is in turn expected to further buoy room rates and RevPAR\(^1\) to grow at above trend rates to 3.4 per cent per annum and 4.5 per cent per annum (respectively, to December 2016).

On the back of strong growth in revenues, accommodation stock is forecast to also slowly increase. According to TRA’s Tourism Investment Monitor 2014, investment in the accommodation sector in 2013 amounted to $7.4 billion, with a number of accommodation investment announcements in both metropolitan and regional areas. If both ‘pre-planning’ and ‘planning’ phases translate to ‘actual’ investment, an additional 12,020 rooms (or 20,625 rooms if mixed-use development is considered) may be added to supply over coming years.

\(^1\) Revenue per available room
2.2 AVIATION

INTERNATIONAL AVIATION

International aviation seat capacity to Australia is on track for above-trend growth in 2013–14. In the eight months to February 2014, inbound seat capacity increased 8.6 per cent, buoyed by strong growth in direct services from the Southeast Asian markets including Indonesia, Malaysia and Singapore. This rapid growth was slightly faster than the still strong growth in passengers, resulting in a slight fall in the passenger load factor in the first eight months of 2013–14 (Figure 5).

FIGURE 5: INBOUND SEAT CAPACITY AND PASSENGER LOAD FACTORS

Source: Bureau of Infrastructure, Transport and Regional Economics
As a result, international air capacity is expected to grow 7.6 per cent in 2013–14, stronger than the previous forecast of 5.9 per cent.

Capacity growth is also forecast to slow slightly to 5.4 per cent in 2014–15, but still represents an upward revision to the previous forecast of 3.6 per cent. In the longer term, trend growth of 3.8 per cent on average is forecast for the period between 2015–16 and 2023–24. This long-run growth is broadly in line with the previous forecasts.

Underpinning the upward revision of the short-term international capacity forecasts is the stronger-than-expected passenger demand, as the global economic recovery continues. At the same time, new intelligence points to strong growth continuing in the number of airlines negotiating for air access into Australia in the March to October 2014 period. However, there are some downside risks to these forecasts (Box 2).

BOX 2: POTENTIAL DOWNSIDE RISKS ON GROWTH IN INTERNATIONAL SEAT CAPACITY

According to the International Air Transport Association (IATA), the financial performance of the global airline industry (in terms of net post tax profit and earnings before interests and taxes) is improving despite the divergent performance of airlines in different regions. IATA note that the financial performance of airlines in North America remain strong, but the European region remains weak due to ‘high competition and regulatory costs’. IATA also report the average return on invested capital (ROIC) for global carriers is improving (at 5.4 per cent) in 2013. Some global carriers that also provide direct services to Australia have rapidly expanded services, but in doing so, yields have fallen (in some cases quite sharply). It is likely that some carriers will be rationalising global services over 2014–15 in an effort to boost profitability, particularly if passenger demand does not lift.

If this occurs, it is unclear what impact a realignment of global air services will have on direct services to Australia. However, it should be noted that the solid performance of Australian international air capacity during the GFC period in 2008–09 may not occur this time around.

During the period, many global carriers reduced services in response to sharply falling demand. However, capacity into Australia was largely unchanged, underpinned by the mix of a strong performing Australian economy, growing propensity for Australians to travel overseas and declining airfares.

This time around, the macroeconomic mix is different in that the global economic recovery gains momentum while Australia’s economic growth remains comparatively subdued. However, at this stage, the signs are global carriers will continue to support the Australian route as growth in passenger traffic from both inbound and outbound travel remains strong.

For this forecasting round, it is assumed that the negative impact on falling global carrier yields will be relatively small on air services growth into Australia.
Asian markets

Strongest growth in aviation capacity in 2014–15 is forecast to be sourced from the Middle East and South East Asian markets (particularly on those routes servicing Australian outbound travel, Figure 6). Air capacity from the large Middle East carriers to Australia, including Qatar Airways, Emirates and Etihad, is forecast to grow at double digit rates in 2014–15.

Of the South East Asian markets, strongest growth is forecast from Singapore and Malaysia due to their increasing importance as hubs servicing global traffic. Strong growth is expected for Indonesia as well.

FIGURE 6: FORECAST GROWTH IN DIRECT AVIATION SERVICES, BY KEY MARKETS, 2013–14 AND 2014–15

![Chart showing forecast growth in direct aviation services by key markets, 2013–14 and 2014–15.]

Source: Bureau of Infrastructure, Transport and Regional Economics, TRA and Airport Coordination Australia

The picture is mixed for the Northeast Asian markets. After years of very strong growth of air capacity from China, the major airlines operating direct services on these routes are expected to consolidate existing services from major cities, combined with new services operating out of other larger Chinese cities.

Capacity to Australia from Japan expected to increase in late 2014 following the introduction of newer products (such as B787s) and potential new routes. Jetstar, the major carrier on the route, has continued to adjust its Japanese schedules, resulting in more services from Japan to both Melbourne and Cairns.

While air capacity from Korea is expected to decrease substantially at 8.3 per cent in 2013–14, there is an opportunity for South Korean carriers to expand their code sharing and interline partnerships to include Australian carriers. In addition, some Low Cost Carriers are rapidly expanding their services between South Korea and the Asian hubs, offering additional connections to Australia from South Korea. This would further facilitate travel around Australia and improve sustainability of existing services.

New Zealand and the United States

Solid growth is also forecast for Australia’s traditional inbound tourism source markets including New Zealand and the United States. On the trans-Tasman routes, increased price competition and new services launched to competitor destinations have resulted in cheaper fares. Meanwhile, carriers continue to trial and develop new services, with Qantas, Air New Zealand and Virgin Australia operating seasonal services. The Qantas group strengthened its services through the alliance with Emirates. On the United States to Australia routes, capacity via New Zealand, North Asia and Middle
Eastern hubs also continued to grow. Air New Zealand increased capacity from Auckland to Los Angeles and San Francisco services. These flights connect to numerous services to Australia.

United Kingdom

On the downside, growth in direct capacity from the United Kingdom is forecast to be low over the next two years largely due to the ongoing rationalisation of the direct European routes by major airlines including Qantas Airways and British Airways. Further downside risk remains with potential additional cuts to air seats operated by Qantas being aired in the media.

For the medium term, incremental policy changes could help lift capacity growth on routes to Australia. The main boost is the British Government announcement that it would reduce the rate of the Airport Passenger Duty (APD) for long-haul travel substantially over the period (from £194 per head in March 2014 to £71 per head in April 2015). The reduction in APD is expected to increase passenger demand to key long-haul destinations such as Australia.

DOMESTIC AVIATION

Although domestic aviation is an important variable for business travel, it is not an important driver for forecasting domestic travel overall, as it reflects only a small share of total transport used for domestic travel.

Fierce competition for market share between the major domestic airline players, Qantas Group and Virgin, has resulted in substantial growth in domestic air services over the past few years, and this has been supportive for business and leisure travel. However, in the last quarter of 2013, growth slowed to 1.2 per cent compared with the same period the previous year.

Both major carriers announced large financial losses earlier this year, reflecting falling passenger demand (this is consistent with a slowing business travel), but also mining-related demand for regional services.

Since that time, with both airlines announcing a ‘truce’ in their cutthroat competition for market share, it now appears that domestic seat supply growth will slow (with an increased chance of a contraction) in 2014–15, combined with a likely rise in domestic air fares. As a result, TRA has downgraded growth for domestic air capacity from the previously forecast 3.0 per cent to 1.6 per cent for 2013–14, with low growth continuing in 2015–16.

2.3 TOURISM INDUSTRY SENTIMENT

TTF-MASTERCARD TOURISM INDUSTRY SENTIMENT SURVEY

Investment

Results from the TTF-Mastercard Tourism Industry Sentiment Survey found that forward sentiment towards investment in the Australian tourism industry remains positive. The December 2013 TTF-MasterCard Tourism Industry Sentiment Survey shows that sentiment for capacity to refurbish existing product, to make major investments and to employ more staff were the most positive since 2010.

International arrivals

Sentiment towards the inbound sector continued to break records, driven by strong arrivals growth, favourable economic conditions in Asian source markets, improving economic conditions in traditional markets, an easing Australian dollar and growing inbound aviation capacity. The industry continues to be highly optimistic about the outlook for the inbound sector, and expects further growth.
Domestic tourism
Sentiment towards domestic tourism was similarly positive, backed by marginal growth in domestic overnight trips, and moderate growth in visitor expenditure. The survey also shows industry expects further growth in the domestic market.

Business indicators
In terms of business indicators, the share of positive sentiment for forward bookings, sales and profitability all improved by around 10 points, and each achieved record shares of respondents who believed their performance was equal to, or better than, what could be reasonably expected.

Concerns
Industry remains concerned about the adequacy of airport transport links, a lack of attractions, and inadequate room supply impeding development.

TRA’S INDUSTRY SENTIMENT SURVEY, 2014–15
Quantitative approaches to forecasting can have their limitations, especially for some markets and some sectors. TRA supplements its modelling with an extensive qualitative process involving an industry survey for stakeholder expectations, desktop research, detailed analysis of other agencies’ sentiment surveys, and business liaison meetings held with key industry stakeholders.

TRA’s Industry Sentiment Survey is an important tool used to cross check model-based forecasts against industry expectations for 2014–15, as well as categorising and prioritising key factors.

Around 44 per cent of respondents expect the inbound and outbound sectors to both grow by between 5 to 6 per cent in 2014–15 (Figure 7). A large share of respondents also suggested that domestic travel would also be stronger than the population benchmark growth rate of around 1.0 per cent in 2014–15.

FIGURE 7: INDUSTRY SENTIMENT SURVEY - EXPECTATIONS FOR GROWTH, 2014–15

Source: TRA Industry Sentiment Survey (conducted in May 2014)
Across markets, respondents expect arrivals from all markets except New Zealand to increase moderately in 2014–15. No change is expected in arrivals from New Zealand.

The performance of the Australian tourism industry can easily be influenced by many different factors. Respondents were asked to rate the importance of 12 factors in influencing the Australian tourism industry's performance in 2014–15.

The five factors considered essential or very important to the performance of the Australian tourism industry in 2014−15 were:

- Australians’ consumer confidence: 94 per cent of respondents
- Domestic discretionary expenditure: 89 per cent
- Seat capacity (inbound): 72 per cent
- Airfares (inbound): 67 per cent
- Airfares (domestic): 67 per cent

Further, domestic factors such as accommodation availability and prices, and domestic aviation capacity were considered more important than the exchange rate and inbound/outbound capacity.

Discretionary spend and consumer confidence drive domestic tourism; the Aussie dollar and airfares influence inbound and outbound sectors

Respondents also identified the factors they felt would be most influential for each sector in 2014−15:

- Inbound tourism: Exchange rate
- Domestic tourism: Domestic discretionary expenditure
- Outbound tourism: Australians’ consumer confidence/Airfares.
FORECASTS, 2013–14 TO 2022–23

3.1 TOURISM’S PERFORMANCE SO FAR IN 2013–14

In the ten months to April 2014, growth was strong for both international arrivals (up 7.0 per cent) and outbound departures (up 7.3 per cent). This growth was stronger than previously forecast by TRA.

It should be noted that the revision of historical data by the Australian Bureau of Statistics (ABS) has led to substantial changes to the historical data series for some markets.

In contrast, the latest data from the National Visitor Survey (NVS) shows that domestic visitor nights decreased 2.4 per cent in the six months to December 2013 compared to the same period in the previous year. This decline was not forecast by TRA in Tourism Forecasts, Spring 2013, as modelling predicted moderate growth over this period, in part influenced by strong growth in domestic visitor nights in the past couple of years.

As a result, total visitor expenditure (domestic and international) remained flat in real terms at $51 billion in the six months to December 2013, with solid growth in inbound expenditure (up 3.6 per cent) more than offset by a decrease in domestic expenditure (down 1.7 per cent).

3.2 INBOUND ARRIVALS FORECASTS, 2013–14 TO 2022–23

Inbound arrivals to increase at above-trend rates in the next two years

Inbound visitor arrivals are forecast to increase 6.8 per cent to 6.6 million in 2013–14, and 5.7 per cent to 7.0 million in 2014–15 (Figure 8).

Forecast growth for inbound visitor arrivals has been revised up by 1.0 percentage point in 2013–14 (Table 2). This upward revision reflects the stronger-than-expected performance for both sectors in the first ten months of this financial year.

<table>
<thead>
<tr>
<th>TABLE 2: AT A GLANCE—FORECASTS, 2013–14 TO 2022–23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inbound arrivals</strong></td>
</tr>
<tr>
<td>Inbound arrivals</td>
</tr>
</tbody>
</table>

Note: ppts = percentage points
The upward revisions are also due to improved economic outlook in some of the key inbound visitor source markets including New Zealand, the United Kingdom, as well as the more positive outlook for inbound aviation capacity to Australia.

Asian markets are expected to drive growth in 2013–14 and 2014–15, including China (up 12.7 per cent and 10.5 per cent respectively); Malaysia (up 21 per cent and 5.6 per cent); Singapore (up 12.9 per cent and 5.8 per cent); Hong Kong (up 9.1 per cent and 5.6 per cent); and India (up 10.8 per cent and 6.6 per cent). Higher 2014–15 forecasts for Singapore and Malaysia visitor arrivals are due largely to higher expectations of inbound aviation capacities from these markets.

FIGURE 8: ARRIVALS GROWTH BY MAIN MARKETS, 2013–14 AND 2014–15

Source: Tourism Research Australia
China’s strong growth in international visitor arrivals now appears to be continuing after a short period of contraction following the introduction of the China Tourism Law in October 2014 (Box 3).

**BOX 3: IMPACT OF CHINA TOURISM LAW**

China’s new tourism law came into effect in October 2013. Article 35 of the law prohibits travel agents from organising tourism activities with unreasonably low prices, or receiving illegitimate gains such as rebates by arranging shopping or providing services that require additional payment.

This law could have potentially lowered Chinese demand for travel to Australia in the months immediately following implementation of the law as the industry adjusted. Under the Approved Destination Status (ADS) scheme between Australia and China, commission-linked shopping is regulated, but permissible under certain conditions. In practice, commission shopping activities have cross-subsidised the cost of some (package) travel to Australia.

Nevertheless, the impact of the Chinese tourism law appears to have been short lived. While there was a drop in visitor arrivals in October/November 2013 (compared to the same period in 2012), arrivals from China were nearly 13 per cent higher (or up by 68,200 visitors) in the two quarters to March 2014. Nearly all of this increase was sourced from holiday and VFR visitors.

Solid growth in 2013–14 and 2014–15 is also forecast for other large Western markets, including the United Kingdom (up 7.4 per cent and 6.3 per cent respectively), the United States (up 7.7 per cent and 5.9 per cent), and New Zealand (up 2.6 per cent and 3.5 per cent).

As shown in Figure 9, international leisure² travel to Australia is forecast to remain strong in the next two years with travel for holiday purposes forecast to increase by 8.8 per cent in 2013–14 and 6.4 per cent in 2014–15, after years of low growth. Travel to visit friends and relatives (VFR) is also forecast to grow strongly, up 11.8 per cent in 2013–14, and 4.9 per cent in 2014–15. After contracting in 2012–13, international business travel is forecast to increase moderately by 0.8 per cent in 2013–14, but to strengthen to 3.9 per cent in 2014–15.

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² Leisure travel includes both holiday travel and travel to visit friends and relatives (VFR)
Average annual growth for inbound arrivals is forecast at 4.5 per cent over the next ten years, and to reach 9.6 million in 2022–23. Australia’s top five inbound markets (New Zealand, China, the United Kingdom, the United States and Singapore) are expected to provide 56 per cent of the additional 3.4 million arrivals over this period.

China, Australia’s top earner in terms of tourism exports, is expected to contribute nearly one-quarter (24 per cent) of the increase in inbound arrivals over the forecast period to 2022–23 (Figure 10).
3.3 DOMESTIC VISITOR NIGHTS, 2013–14 TO 2022–23

Domestic visitor nights forecast to increase 0.7 per cent to 288 million in 2013–14

Domestic visitor nights are forecast to increase slightly (up 0.7 per cent) to 288 million in 2013–14, with muted growth of 0.8 per cent to 291 million nights in 2014–15. The revised forecasts represent a downward revision from TRA’s Tourism Forecasts, Spring 2013 (of 1.3 percentage points in 2013–14 and 0.7 percentage points in 2014–15; Table 3).

The downward revision to the 2013–14 forecast for domestic visitor nights reflects the poor performance of the sector in the last six months of 2013 (down 2.4 per cent), including sharp falls in holiday and business domestic visitor nights (down 5.5 per cent and 8.7 per cent respectively).
TABLE 3: AT A GLANCE—FORECASTS, 2013–14 TO 2022–23

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<tbody>
<tr>
<td>Domestic visitor nights</td>
<td>▲ 0.7% to 288m</td>
<td>▲ 0.8% to 291m</td>
<td>▲ 0.9% to 293m</td>
<td>▲ 0.8% to 308m</td>
</tr>
<tr>
<td>Revised down 1.3 ppt</td>
<td></td>
<td>Revised down 0.7 ppt</td>
<td>No change to growth</td>
<td>Revised down 0.2 ppt</td>
</tr>
<tr>
<td>Domestic day trips</td>
<td>▼ 1.6% to 165 m</td>
<td>▲ 1.8% to 168m</td>
<td>▲ 1.7% to 171m</td>
<td>▲ 1.1% to 187m</td>
</tr>
<tr>
<td>Revised down 3.1 ppt</td>
<td></td>
<td>Revised up 0.3 ppt</td>
<td>Revised up 0.4 ppt</td>
<td>Revised down 0.2 ppt</td>
</tr>
</tbody>
</table>

Note: ppt = percentage points

However, a stronger performance in domestic visitor nights is forecast for the first six months of 2014, led by a solid return to growth of 3.5 per cent for holiday domestic visitor nights.

This forecast—supported by anecdotal feedback from industry—suggests that domestic tourism may well be tracking better than the latest NVS results suggest, and that domestic tourism in parts of Australia is performing well so far in 2014. On this basis, TRA suggests that growth in domestic overnight will likely return in the first six months of 2014 (refer Box 4 for changes to the domestic visitor data).

BOX 4: FUTURE CHANGES TO DOMESTIC VISITOR DATA AND ITS IMPACT ON THE FORECASTS

It should be noted that as TRA will be adopting a new methodology for its National Visitor Survey, there will be a structural break in domestic visitor data series. From 2014, TRA surveys will be based on a dual frame (mobile and landline-based) survey approach, where 120,000 households will be interviewed with sampling evenly split between mobiles and landlines.

It is likely that this approach will lead to higher estimates for domestic overnight travel, as it will be able to sample the rapidly increasing number of mobile-only households in Australia (and provide a better representation of the younger population). First results of the NVS under the new approach will be released on 9 July 2014.

All these changes will make comparison of the forecasting performance of the domestic visitor sector technically impossible at the initial stage. However, for this round of the TRA forecasts, the key message from the domestic forecasts is for continued low growth, and lower when compared to the nation’s population growth (of just over 1.0 per cent).

As a result, total domestic visitor nights are forecast to increase slightly in 2013–14, and experience moderate growth in 2014–15. Even so, this revised forecast remains lower, compared to last October’s forecasts for the sector (Table 3). Other factors contributing to the weaker forecast outlook for domestic overnight travel is the below-trend growth in the non-mining sectors for the Australian economy so far this year and forecast for 2014–15, while forward looking indicators such as consumer sentiment for the next 12 months remain weak.
Average annual growth for domestic visitor nights over the 10-year period to 2012–23 is forecast to increase by 0.8 per cent, and to reach 308 million by 2022–23; slightly lower than previous forecasts.

Australian day trips are forecast to decrease 1.6 per cent in 2013–14, before returning to 1.8 per cent growth in 2014–15. The downward revision for 2013–14 is due largely to the lower-than-expected results in the last six months of 2013 (down 4.1 per cent compared to the same period a year earlier, largely due to a sharp fall in holiday day trips).

3.4 AUSTRALIAN RESIDENT DEPARTURES (OUTBOUND), 2013–14 TO 2022–23

After growing strongly in most years since the mid-2000s, Australian resident outbound departures are forecast to remain strong in 2013–14, up 5.8 per cent to 8.9 million. However, growth is forecast to ease by 4.3 per cent to 9.3 million in 2014–15; higher than the previous forecasts (Table 11).

The upward revision for 2013–14 is mainly due to the higher-than-expected growth in overseas departures (Table 4). For 2014–15, the upward revision is largely due to upward revision of inbound air capacity forecasts and a still-strong Australian dollar forecast for the next year.

Malaysia, China, Indonesia, Fiji and Singapore are forecast to be the top five fastest growing (main) destinations to be visited by Australian residents next year.

BOX 5: THE IMPACT OF POLITICAL TURMOIL IN THAILAND

The current situation in Thailand could affect inbound and outbound travel in the short term. As at April 2014, the number of Thai visitor arrivals to Australia is still increasing strongly, and there has been a slight contraction in Australians travelling to Thailand. At this stage, TRA views this situation as having more of a short-term negative impact, and has lowered slightly its 2014–15 forecasts for growth in each sector.


![Chart showing departure growth by main destinations](Source: Tourism Research Australia)
The 10-year long-run average growth forecast is for outbound departures to grow 3.8 per cent per annum on average to reach 12.3 million by 2022–23 (Table 4).

### TABLE 4: AT A GLANCE – FORECASTS, 2013–14 TO 2022–23

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<tr>
<td><strong>Outbound departures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▲ 5.8% to 8.9m</td>
<td>▲ 4.3% to 9.3m</td>
<td>▲ 3.4% to 9.6m</td>
<td>▲ 3.8% to 12.3m</td>
<td></td>
</tr>
<tr>
<td>Revised up 0.9 ppt</td>
<td>Revised up 1.4 ppt</td>
<td>Revised down 0.2 ppt</td>
<td>Revised up 0.5 ppt</td>
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Note: ppt = percentage points

### 3.5 TOTAL TOURISM EXPENDITURE, 2013–14 TO 2022–23

Total domestic spend to increase 0.4 per cent to $71.9 billion in 2013–14

As a consequence of the worse-than-expected performance for domestic overnight travel in the first six months of 2013–14, total visitor expenditure has been revised down by 1.3 percentage points for 2013–14 (Table 5). Total domestic tourism expenditure is forecast to increase 0.4 per cent to $71.9 billion in 2013–14, with moderate growth in 2014–15 (up 0.5 per cent) to $72.3 billion in real terms.

The 10-year long-run average growth is for domestic expenditure to grow 0.6 per cent per annum on average to $75.8 billion in real terms by 2022–23.

### TABLE 5: AT A GLANCE—FORECASTS, 2013–14 TO 2022–23

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<tr>
<td><strong>Total visitor expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▲ 1.4% to $102.6bn</td>
<td>▲ 2.2% to $104.9bn</td>
<td>▲ 1.9% to $106.9bn</td>
<td>▲ 1.6% to $119.1bn</td>
<td></td>
</tr>
<tr>
<td>Revised down 1.3 ppt</td>
<td>Revised down 0.4 ppt</td>
<td>No change</td>
<td>Revised down 0.2 ppt</td>
<td></td>
</tr>
</tbody>
</table>

Note: ppt = percentage points

Total inbound expenditure is forecast to grow 3.8 per cent to $31 billion in 2013–14 and 6.0 per cent to $33 billion in 2014–15. The 10-year long-run average growth is for total inbound expenditure to grow 3.9 per cent per annum on average to $43 billion in 2022–23.

By 2022–23, about 55 per cent of growth in inbound visitor expenditure will be driven by international visitors from China, Singapore, United Kingdom, the United States and New Zealand. China alone will account for about 40 per cent of the total growth.

Total tourism spend is forecast to increase 1.4 per cent to $103 billion in 2013–14 and 2.2 per cent to $105 billion in 2014–15.

The 10-year long-run average growth forecast is for total visitor expenditure to grow at 1.7 per cent per annum to $119 billion by 2022–23 (Figure 12). Over this period, the share of inbound visitor expenditure is forecast to increase from 29 per cent in 2012–13 to 36 per cent in 2022–23.
FIGURE 12: LONG-TERM GROWTH IN TOURISM SPEND

Source: Tourism Research Australia
KEY MESSAGES

TOTAL SPEND ON TRACK FOR MODERATE GROWTH, BUT GROWTH IN INTERNATIONAL VISITOR SPEND TO OUTPACE GROWTH IN DOMESTIC TOURISM SPEND

By 2022–23, total tourism expenditure will reach $119 billion in real terms. As domestic tourism enters a low-growth period, the growth of total visitor expenditure is forecast to be primarily sourced from inbound expenditure. From 2012–13 to 2022–23, the share of inbound visitor expenditure is forecast to increase from 29 per cent in 2012–13 to 36 per cent in 2022–23.

A MORE POSITIVE OUTLOOK FOR GROWTH IN INTERNATIONAL VISITOR ARRIVALS

The improved global economic outlook, especially the sustained economic recovery in Australia’s traditional inbound source markets—including the United Kingdom and United States—and for leisure travel has led to an upward revision of forecast growth for Australia’s international visitor arrivals for this year and 2014–15.

CHINA TO BE THE MAIN SOURCE FOR GROWTH

China is the largest contributor to both the growth of inbound arrivals and inbound expenditure. In terms of visitor numbers, from 2012–13 to 2022–23, China will contribute about 24 per cent to the total growth. Further, about 40 per cent of inbound tourism expenditure will be sourced from China over the forecast period.

MORE AUSTRALIANS ARE FORECAST TO TRAVEL OVERSEAS

The forecast growth for Australians travelling overseas has been upgraded marginally in 2014–15. This is on the back of a slightly higher-than-expected Australian dollar and cheaper airfares due to strong growth of international air capacity to Australia.

MODERATE GROWTH PROSPECTS FOR DOMESTIC TOURISM

Forecast growth of domestic overnight travel remains low in the next two years, after a period of solid growth.