COVID-19 recovery for the tourism sector

Restarting tourism... what shape might the recovery of tourism in Australia take?

June 2020
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Preparedness over prediction

Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today.

Scenarios are not predictions about what will happen. They are hypotheses about what could happen, designed to open our eyes to new opportunities or hidden risks.

This document is an extension to the global and Australian Economic Recovery Scenarios previously published by Deloitte and serves to provide an Australian perspective on the COVID-19 crisis' impact on tourism. Each of the scenarios in this document posits a potential future state — including trends in epidemiology, society, technology, economy, and policy — leading to corresponding implications for the tourism sector.
Three tourism recovery scenarios

In the face of uncertainty, the best approach is to consider a series of scenarios – of plausible and relevant futures – to understand the signposts and transmission mechanisms which can guide decision making.

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<th>Health response</th>
<th>Domestic economic recovery</th>
<th>Global economic recovery</th>
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<td><strong>The future we hope for</strong> (Mild scenario)</td>
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COVID-19 is affecting sectors differently

The pandemic has a severe impact on the tourism sector and tourism recovery will likely be longer and slower than many other parts of the economy.

Fundamental to any memorable travel experience are human interactions. This means that the tourism sector is at the front line and among the most vulnerable sector in the face of the COVID-19 pandemic.

The tourism sector has experienced a major setback in the first half of 2020 – and is expected to face continuing hardship in the short to medium term because of a series of physical distancing measures and travel regulations. International demand – with the exception of some travel in the first quarter of the year – came to a near complete halt while domestic demand went into hibernation along with large components of the economy over much of April and May.

As Australia flattened the curve and the most stringent restrictions started to lift, the tourism recovery journey began … but slowly. In the early stage of the recovery, travel closer to home for essential purposes such as for business or visiting friends and relatives will start again. The early recovery will be accelerated by pent-up demand from business and the need to visit friends and relatives following the lock down period. In addition, there is a potential for Australians to redirect some of their plans to travel overseas to domestic travel pursuits, offsetting some of the loss of international visitor expenditure in the medium term.

Yet, even with upside opportunities from pent-up demand and redirection of outbound travel, the tourism recovery will likely be longer and slower than many other parts of the economy. In the absence of a vaccine or effective treatment, physical distancing measures are the most effective to control the outbreak. Such measures, however, have direct implication on the free flow of travel and tourism. Even with restrictions lifting, demand for travel, like demand for other discretionary goods and services, is expected to mirror consumer confidence in the economy and health concerns.

In the Mild and Harsh scenarios put forward, the tourism sector will start to recover in mid to late 2020. In the Severe scenario, tourism recovery is likely to commence in 2021.
Key considerations when looking at recovery of the tourism sector
The path to tourism recovery is non-linear and will ultimately be defined by interactions of various interrelated determinants, where each contains both upside opportunities and downside risks to recovery.

Four groups of factors underlying tourism recovery

- **Regulations**: The lift of travel, physical distancing and gathering restrictions marks the start of tourism recovery.

- **Economy**: The rebound of economic activity, measured by GDP or GSP, unemployment rate, international trade, inflation, and exchange rates will underpin the recovery of the tourism sector.

- **Supply**: Integral to tourism recovery is the financial health and operation of tourism service providers.

- **Consumer sentiment**: While health and safety will be top of mind for consumers in the early period of recovery, consumer confidence relating to their personal finances and the state of the economy will impact travel demand.
Economy: the sheer speed of economic disruption is unprecedented
COVID-19 has had a massive impact on economic activity, but what could the economic recovery look like?

Future we hope for (mild scenario)
Economic activity rebounds from mid 2020 as the virus dissipates. The unemployment rate reaches 8.4% in the third quarter of 2020 before beginning a steady decline towards levels of unemployment seen pre-COVID. An easing of restrictions through 2021 sees population growth return to pre-COVID levels by 2023.

Future we prepare for (harsh scenario)
The recovery is slow as ongoing physical distancing restrictions remain in place until a vaccine arrives in mid-2021. Unemployment rate reaches 10% in mid-2020 before dropping relatively quickly. People remain reluctant to relocate internationally, dampening population growth due to lower migration.

Future we want to avoid (severe scenario)
Activity continues to weaken as a second outbreak occurs in late 2020. Even as the economy starts to recover after a vaccine or equivalent treatment is introduced in mid-2022, Australia struggles to lower unemployment as skills deteriorate and become obsolete for the long term unemployed.

Unemployment rate impact relative to pre-COVID expectations

Real GDP impact relative to pre-COVID expectations

Population growth relative to pre-COVID expectations
Supply: the impact of border closures on aviation capacity
What are the potential implications for providers of tourism products?

Future we hope for (mild scenario)
With most physical distancing restrictions lifted after the initial containment, the economy rebounds and businesses start regaining confidence. As credit recovers and the government implements a series of well-designed fiscal packages, business investment eventually recovers close to pre-COVID levels.

Future we prepare for (harsh scenario)
Business investment is the most affected part of the economy as it is hurt both by expected future sales and by the unwillingness of businesses to take risk. Aviation recovery will be slower than the recovery of the wider economy.

Future we want to avoid (severe scenario)
Many businesses are lost as a result of two consecutive outbreaks. Businesses are reluctant to make investments in the face of ongoing uncertainties, dampening the long-term trajectory of the tourism industry.

Global aviation traffic estimates

- **2021**: Global RPKs forecast to be 32%-41% below expected levels in 2021.
- **2023**: Under IATA’s baseline scenario, traffic will stage a recovery to 2019 levels in 2023.
- **2024**: Under IATA’s setback scenario, 2019 levels of demand would not be regained until 2024.

Source: International Air Transport Association (IATA), 13 May 2020 forecast
### Future we hope for (mild scenario)
Australians quickly re-gain confidence to travel once restrictions are lifted thanks to successful containment measures and the availability of effective tracking mechanisms. While national borders remain largely closed in 2020, Australians redirect to domestic travel some of their intended international travel.

### Future we prepare for (harsh scenario)
As ongoing restrictions are required to manage new outbreaks, consumer confidence remains low until a vaccine (or effective treatment) becomes available in July 2021. Consumer confidence recovers relatively quickly following this.

### Future we want to avoid (severe scenario)
The two consecutive outbreaks of the virus results in business and consumer confidence hitting an all time low. Consumer behaviour changes to permanently reduced levels.

#### Consumer concerns

<table>
<thead>
<tr>
<th>Concern</th>
<th>Proportion</th>
</tr>
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<tbody>
<tr>
<td>Concern about losing their jobs</td>
<td>39%</td>
</tr>
<tr>
<td>Delay large purchases</td>
<td>43%</td>
</tr>
<tr>
<td>International students thinking about postponing their study abroad for 12 months</td>
<td>65%</td>
</tr>
</tbody>
</table>

Australian consumers are gradually feeling safer and more confident to travel again, more so in Australia than overseas, with one quarter feeling safe to fly and planning a leisure flight in the next three months.

![Australian consumer sentiment relating to travel](chart)

Source: Deloitte State of the Consumer Tracker, fortnightly waves from 19 April to 13 June 2020 and QS survey on the Impact of the Coronavirus on Global Higher Education.

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Source: Deloitte State of the Consumer Tracker, fortnightly waves from 19 April to 13 June 2020.
Domestic tourism forecast scenarios
Deloitte’s COVID-19 domestic tourism scenarios
Economic conditions are key underlying drivers of the recovery, though the tourism sector’s recovery will be based on a combination of critical sectoral specific uncertainties.

| The future we hope for  
(Mild scenario) | The future we prepare for  
(Harsh scenario) | The future we want to avoid  
(Severe scenario) |
|-------------------|------------------|------------------|
| **Travel restrictions** | Interstate and intrastate travel resume in 2020  
Effective testing, tracking and containment measures allow travel to resume. | Staggered lifting of domestic travel restrictions across late 2020 and early 2021  
Australia successfully flattens the curve but ongoing restrictions are required to manage new outbreaks. | Limited travel are allowed in 2020 and stagger lifting of restrictions through to mid 2021  
A major second wave of infections occurs in 2020, requiring a strict lock down to be implemented for the rest of the year. |
| **Air capacity** | Air capacity quickly recovers in response to travel demand  
There are no medium-long term impacts on air capacity. | Air capacity adjusts accordingly as consumer shifts to other forms of transport (e.g. self drive holidays)  
Slower reinstatement of air capacity. | Air capacity is severely affected by the prolonged lockdown  
Medium-term capacity constraints limit demand recovery. |
| **Consumer sentiment** | Consumer sentiment quickly recovers  
Consumers feel safe due to containment of the virus across the country. Demand returns relatively quickly, supported by a strong economic recovery. | Consumers are more cautious to travel until a vaccine or effective treatment is found in July 2021  
Increased caution to travel without a vaccine or effective treatment is likely to reduce tourism demand in the short to medium term. | Consumer sentiment is severely affected in the absence of an effective treatment and the subdued economic recovery  
Poor consumer sentiment dampens tourism demand until early 2022. |
| **Pent-up demand** | Tourism recovery is boosted by pent-up demand  
As travel resumes in the second half of 2020, demand is boosted by those visiting friends and relatives who could not travel during the lock down. Additionally, Australian destination marketing campaigns successfully encourage some Australians to substitute overseas trips with domestic trips. | Some pent-up demand occurs when interstate travel resumes  
As interstate travel resumes in early 2021, demand is boosted by those visiting friends and relatives who could not travel during the lock down. | There is limited pent-up demand due to the subdued economic recovery and poor consumer sentiment  
Tourism demand recovers slowly. |
Deloitte’s COVID-19 domestic tourism scenarios
Domestic demand scenario assumptions

**Mild**

- **2020**
  - July
  - Interstate and intrastate travel resume

- **2021**
  - July
  - COVID-19 vaccine/treatment is available
  - Aviation capacity ramps up and consumer sentiment rebounds

- **2022**
  - Macroeconomic conditions and demand recover quickly

- **2023**
  - Demand returns to the 2019 level

**Harsh**

- **2020**
  - July
  - Intrastate travel resumes

- **2021**
  - July
  - COVID-19 vaccine/treatment is available
  - Interstate travel resumes

- **2022**
  - Macroeconomic conditions and demand recover slowly
  - Aviation capacity ramps up and consumer sentiment rebounds

- **2023**
  - Demand returns to the 2019 level in 2023

**Severe**

- **2020**
  - July
  - Only travel within home regions occurs

- **2021**
  - July
  - Intrastate travel resumes in early 2021
  - Interstate travel resumes in the June quarter

- **2022**
  - COVID-19 vaccine/treatment is available
  - Aviation capacity ramps up and consumer sentiment slowly rebounds

- **2023**
  - Demand returns to the 2019 level in 2024
Deloitte’s COVID-19 domestic tourism scenarios

Domestic demand could return to 2019 levels as early as 2022, with growing confidence to undertake domestic travel as restrictions are lifted, and Australians pivoting some overseas travel to travel at home.

**Future we hope for (mild scenario)**
Effective testing, tracking and containment measures allow both intrastate and interstate travel to resume broadly in September 2020. Domestic demand in 2020 drops to just over 211 million trips, a 42% decline compared to 2019. **Demand will return to the 2019 level in 2022.**

**Future we prepare for (harsh scenario)**
As ongoing physical distancing restrictions are required to manage the spread of the virus, domestic travel will not fully open until early 2021. Domestic demand in 2020 drops to just over 165 million trips, a 55% decline compared to 2019. **Domestic day demand will return to the 2019 level in 2022 and domestic overnight will return to the 2019 level in early 2024.**

**Future we want to avoid (severe scenario)**
A second outbreak severely impacts demand recovery in the second half of 2020. Domestic demand in 2020 drops to just over 116 million trips, a 68% decline compared to 2019. **Domestic day demand returns to 2019 level in 2023 and domestic overnight returns in early 2025.**

Source: Deloitte Access Economics, estimate as of June 2020
International tourism forecast scenarios
## Deloitte’s COVID-19 international tourism scenarios

Economic conditions are key underlying drivers of recovery, though tourism recovery would be based on a combination of critical sectoral specific uncertainties.

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<td>Rapid and effective containment measures result in travel bubbles to emerge in Q4 2020, with a return to open international travel around first quarter 2021. A vaccine or effective treatment is made available in July 2021. International travel is no longer restricted.</td>
<td>As ongoing physical distancing restrictions are required to manage the spread of the virus, travel bans remain in place until second quarter in 2021. A vaccine or effective treatment is made available in July 2021.</td>
<td>Travel bans remain in place throughout 2020. Some travel bubbles begin to emerge in 2021. However, unrestricted international travel does not occur until 2022. A vaccine or effective treatment is not available until July 2022, limiting the ability for unrestricted travel to return.</td>
</tr>
<tr>
<td>Air capacity</td>
<td>Air capacity responds sufficiently to demand once travel restrictions are lifted. There are no medium to long-term impacts on air capacity as airlines respond to favourable market conditions and resurging demand.</td>
<td>Air capacity responds quickly to demand once an effective treatment is found. Short to medium-term capacity constraints limit demand recovery until a vaccine or effective treatment is found. There are no long-term impacts on air capacity.</td>
<td>Air capacity is sufficient to meet restricted demand until an effective treatment is found. However, the industry begins to shift to a higher-cost model, forcing a larger number of player to exit. Long-term air capacity and competition within the sector is reduced. Less profitable routes are more severely impacted by lower competition leading to higher airline prices.</td>
</tr>
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<td>Consumer sentiment</td>
<td>Travel demand is not impaired by the health crisis and resultant economic impact once travel restrictions are lifted. Consumers feel safe due to containment of the virus across the globe. Demand returns quickly, supported by a strong economic recovery.</td>
<td>Consumers are more cautious to travel, even when restrictions are lifted. There is a medium-term shift in preferences towards short-haul and domestic tourism. Slower economic recovery reduces total tourism demand over the short to medium term.</td>
<td>Consumer preferences remain altered, due to ongoing health and safety concerns, in the medium to long term. The long-term impacts of COVID-19, high travel costs and safety concerns shift preferences toward short-haul travel and domestic tourism.</td>
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<td>Pent-up Demand</td>
<td>Pent-up demand causes tourism to recover fairly quickly particularly for business travel, visiting friends and relatives and international students. The loosening of travel restrictions sees an initial rebound in international demand supporting the recovery.</td>
<td>Some pent-up demand from visiting friends and relatives and international students boosts an otherwise slower recovery. However, pent-up demand for business and tourism is subdued by economic conditions.</td>
<td>There is no substantial pent-up demand. Some pent-up demand exists for visiting friends and relatives travel. However, this is expected to be smoothed out over time as high prices and slow economic growth reduce consumers’ capacity to travel.</td>
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**Deloitte’s COVID-19 international tourism scenarios**

**International demand scenario assumptions**

### Mild

- **2020**
  - Travel for international students is allowed.
  - July

- **2021**
  - Travel restrictions are lifted for international travel.
  - A COVID-19 vaccine/effective treatment emerges.
  - July

- **2022**
  - Consumer confidence returns to pre-crisis levels. Aviation capacity responds to consumer demand.
  - July

- **2023**
  - Demand returns to 2019 levels in 2022.
  - July

**The Future:** International tourism returns to pre-crisis growth trends. Long-term aviation capacity and consumer preferences are unaltered by the crisis.

### Harsh

- **2020**
  - The crisis: All travel restrictions remain in place for the entirety of 2020.
  - July

- **2021**
  - Travel for international students is allowed. A trans-Tasman travel bubble emerges.
  - July

- **2022**
  - A COVID-19 vaccine/effective treatment emerges. Travel restrictions are lifted for international travel.
  - July

- **2023**
  - Demand returns to 2019 levels in 2023.
  - July

### Severe

- **2020**
  - The crisis: All travel restrictions remain in place for the entirety of 2020.
  - July

- **2021**
  - Travel for international students is allowed.
  - A trans-Tasman travel bubble emerges.
  - July

- **2022**
  - Travel restrictions are lifted for international travel.
  - A COVID-19 vaccine/effective treatment emerges.
  - Shifts in consumer preferences for short-haul travel alter the source market mix.
  - July

- **2023**
  - Demand returns to 2019 levels in 2023.
  - July

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Deloitte’s COVID-19 international tourism scenarios

International demand could return to 2019 levels by as early as 2022, with strong economic growth and management of COVID-19 outbreaks supporting the recovery.

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<td>Effective testing, tracking and containment measures allow international students to start to return from June 2020, and a trans-Tasman bubble in September 2020. International arrivals in 2020 drop by 75% compared to 2019. However, the strong economic rebound sees international arrivals return to 2019 level by 2022.</td>
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<tr>
<td>As ongoing travel restrictions are required to manage the spread of the virus, travel will not fully open until early 2021. International arrivals in 2020 drop by 80% compared to 2019. Demand recovers once international travel restrictions are removed, supported by pent-up demand. However, air capacity and consumer caution reduce the speed of recovery. <strong>International tourist arrivals return to 2019 level by 2022.</strong></td>
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<td>A second outbreak results in a severe impact on demand recovery in the second half of 2020. International arrivals in 2020 are down 80% on 2019, while 2021 arrivals are 95% below 2019 level. International arrivals begin to recover in 2022, though recovery is slow due to increased consumer caution, changing consumer preferences for short-haul vacations, and slow economic growth. <strong>International arrivals return to 2019 level by 2025.</strong></td>
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**International tourism arrivals to Australia relative to the 2019 level**

- **Mild scenario:** International arrivals in 2020 drop by 75% compared to 2019. However, the strong economic rebound sees international arrivals return to 2019 level by 2022.
- **Harsh scenario:** As ongoing travel restrictions are required to manage the spread of the virus, travel will not fully open until early 2021. International arrivals in 2020 drop by 80% compared to 2019. Demand recovers once international travel restrictions are removed, supported by pent-up demand. However, air capacity and consumer caution reduce the speed of recovery. **International tourist arrivals return to 2019 level by 2022.**
- **Severe scenario:** A second outbreak results in a severe impact on demand recovery in the second half of 2020. International arrivals in 2020 are down 80% on 2019, while 2021 arrivals are 95% below 2019 level. International arrivals begin to recover in 2022, though recovery is slow due to increased consumer caution, changing consumer preferences for short-haul vacations, and slow economic growth. **International arrivals return to 2019 level by 2025.**

Source: Deloitte Access Economics, estimate as of June 2020
These economic scenarios represent a range of possible economic circumstances as the COVID-19 crisis evolves. It is too soon to tell which of these or other scenarios will emerge, but resilient leaders are preparing now for what the future may hold. For more information, or to explore the implications of these economic cases on the future of your organisation, please contact us:

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