

COVID-19 recovery for the tourism sector
Restarting tourism... what shape might the
recovery of tourism in Australia take?

June 2020

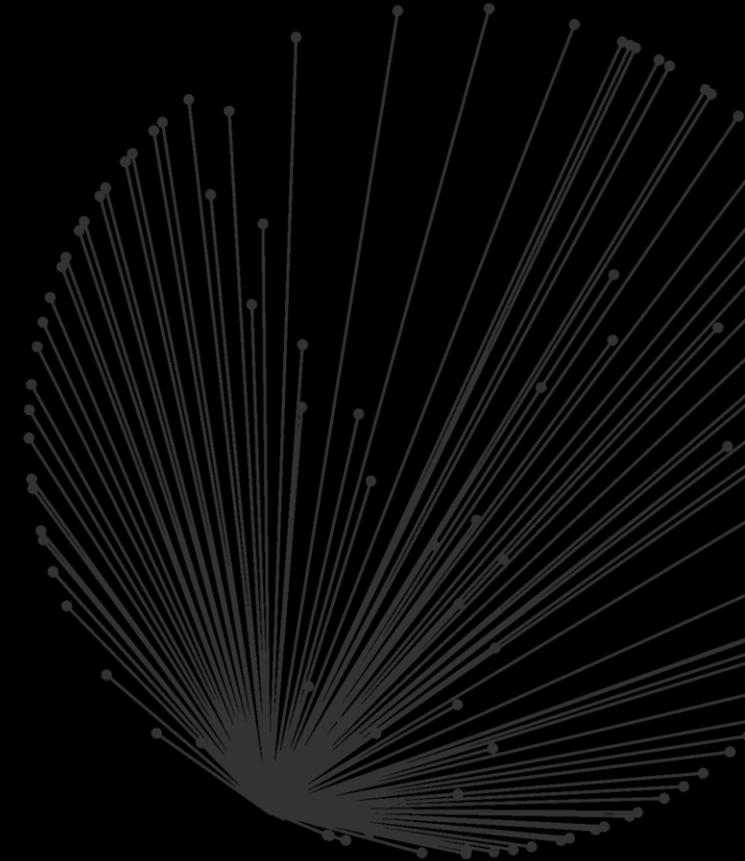
Restarting tourism... what shape might the recovery of tourism in Australia take?

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.

	The future we hope for (Mild scenario)	The future we prepare for (Harsh scenario)	The future we want to avoid (Severe scenario)
Health response 	<p>Rapid and effective containment measures result in a short sharp peak in new infected cases in April 2020.</p> <p>Physical distancing restrictions are replaced by effective testing, tracking and containment measures.</p>	<p>Australia successfully flattens the curve but without enhanced detection and tracking technology, ongoing physical distancing restrictions are required to manage new outbreaks.</p> <p>A vaccine (or effective treatment) is made available in July 2021.</p>	<p>Without effective detection and tracing and a lack of compliance with remaining physical distancing rules, a major second wave of infections occur.</p> <p>A vaccine (or effective treatment) isn't available until July 2022</p>
Domestic economic recovery 	<p>Economy recovery begins from mid 2020.</p> <p>Economic activity reaches pre-COVID levels as productivity enhancing ways of working and a series of economic reforms are effectively implemented.</p>	<p>Economic activity starts to recover in late 2020.</p> <p>Activity remains below pre-COVID expectations in the long run as business investment falters.</p>	<p>Economic activity continues to weaken in 2020 as a result of the second outbreak.</p> <p>The recovery starts in late 2021, with the economy remaining lacklustre, hampered by financial distress and weak business and consumer confidence.</p>
Global economic recovery 	<p>The world economy recovers quicker than expected.</p> <p>Global supply chains begin to mend as the outbreak recedes in China and North Asia.</p>	<p>The world economy faces a lengthy recession with persistently weak supply and demand.</p> <p>Global containment remains a problem, limiting the movement of goods, people and capital.</p>	<p>Many other countries across the world, including Australia, see a resurgence of the pandemic, while others continue to struggle to contain the virus.</p> <p>The global economy faces an even more severe and prolonged downturn, hampered by de-globalization and geopolitical posturing.</p>

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.

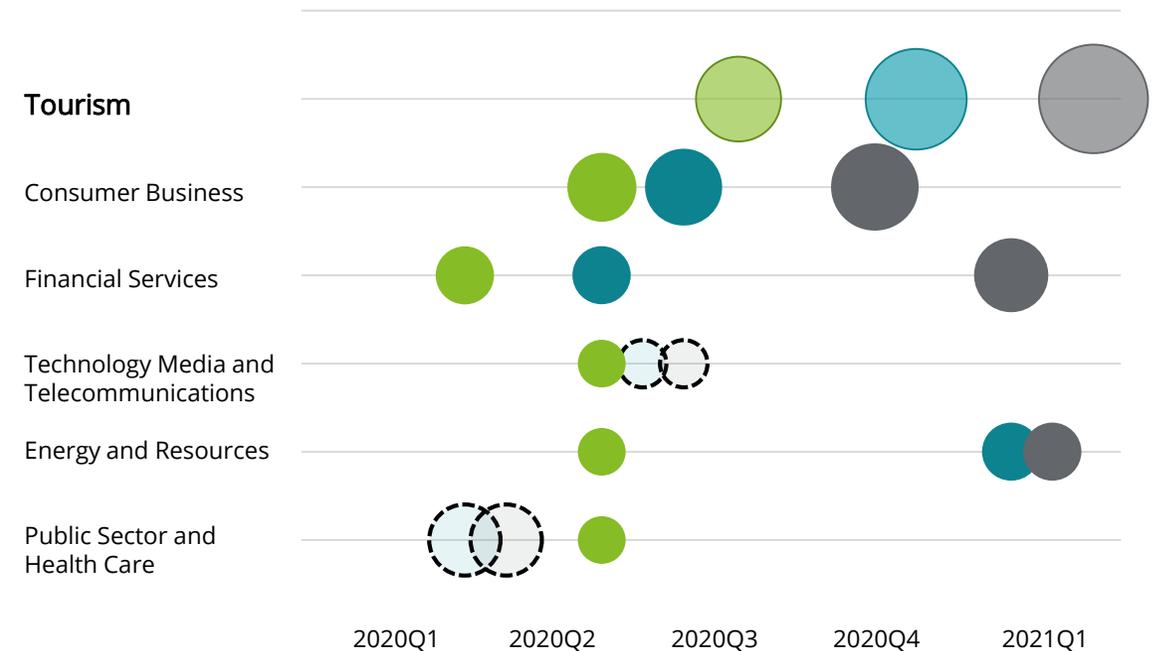
The tourism sector has experienced a major setback in the first half of 2020 – and is expected to face continuing hardship in the short to medium term - because of a series of physical distancing measures and travel regulations. International demand – with the exception of some travel in the first quarter 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 visitors 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.

COVID-19 industry impact and timing of recovery

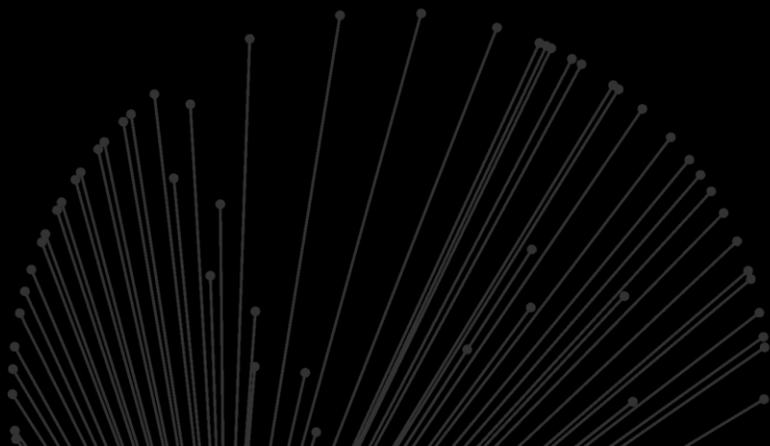


Source: Deloitte Access Economics

Notes

- The position of the circle represents the starting time of the sector's recovery. The size of the circle indicates the magnitude of the COVID-19 disruption on the sector.
- Dotted lines surrounding the scenario circles represent increased sector demand.

Key considerations when looking at recovery of the tourism sector



Recovery scenarios for tourism are shaped by interactions of complex underlying fundamentals

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)

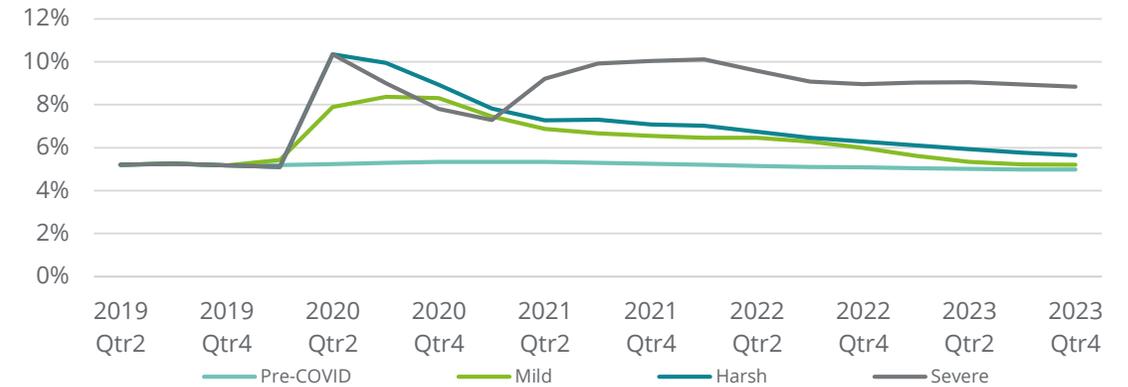
The recovery is slow as ongoing physical distancing restrictions remain in place until a vaccine arrives in mid-2021. Unemployment rate reaches 10% in mid-2020 before dropping relatively quickly. People remain reluctant to relocate internationally, dampening population growth due to lower migration.



Future we want to avoid (severe scenario)

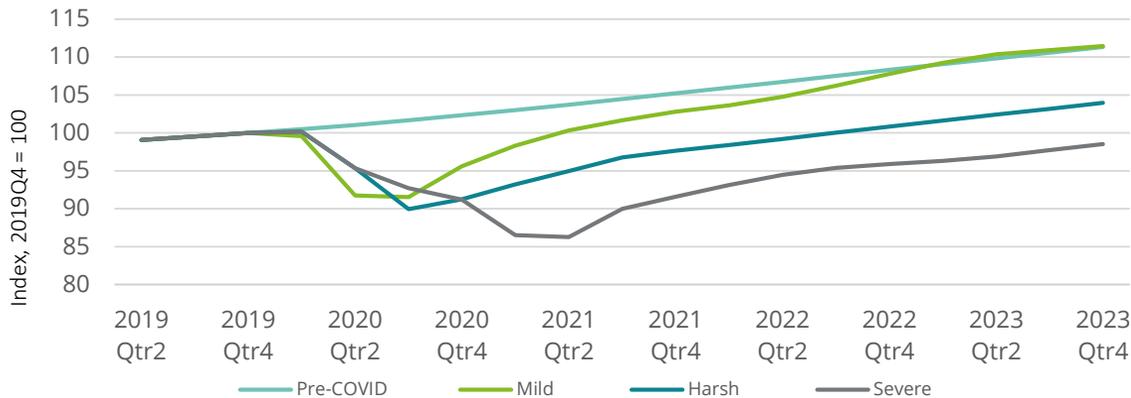
Activity continues to weaken as a second outbreak occurs in late 2020. Even as the economy starts to recover after a vaccine or equivalent treatment is introduced in mid-2022, Australia struggles to lower unemployment as skills deteriorate and become obsolete for the long term unemployed.

Unemployment rate impact relative to pre-COVID expectations



Source: Deloitte Access Economics, estimate as of May 2020

Real GDP impact relative to pre-COVID expectations



Source: Deloitte Access Economics, estimate as of May 2020

Population growth relative to pre-COVID expectations



Source: Deloitte Access Economics, estimate as of May 2020

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)

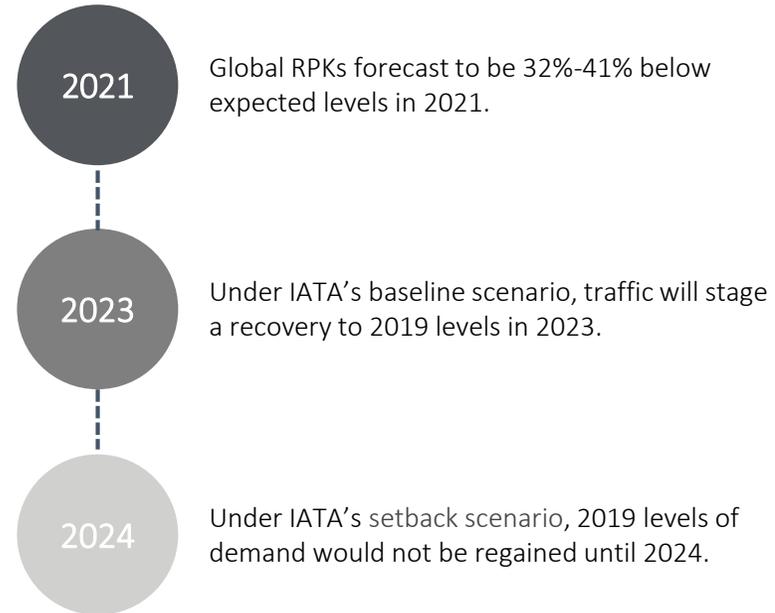
Business investment is the most affected part of the economy as it is hurt both by expected future sales and by the unwillingness of businesses to take risk. Aviation recovery will be slower than the recovery of the wider economy.



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



Source: International Air Transport Association (IATA), 13 May 2020 forecast

Consumer sentiment: understanding the recovery pathway for tourism demand

How will consumer behavior adapt and evolve?



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

39%

Concern about losing their jobs

43%

Delay large purchases

65%

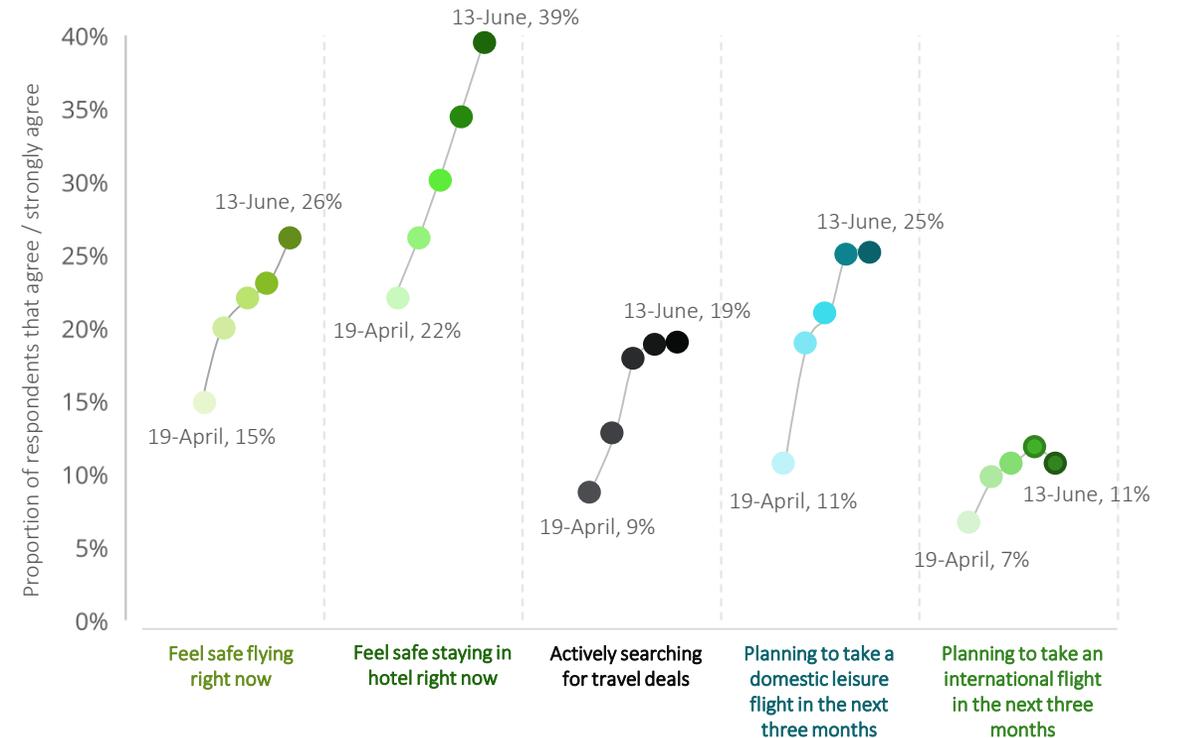
International students thinking about postponing their study abroad for 12 months

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

©2020 Deloitte Access Economics. Deloitte Touche Tohmatsu

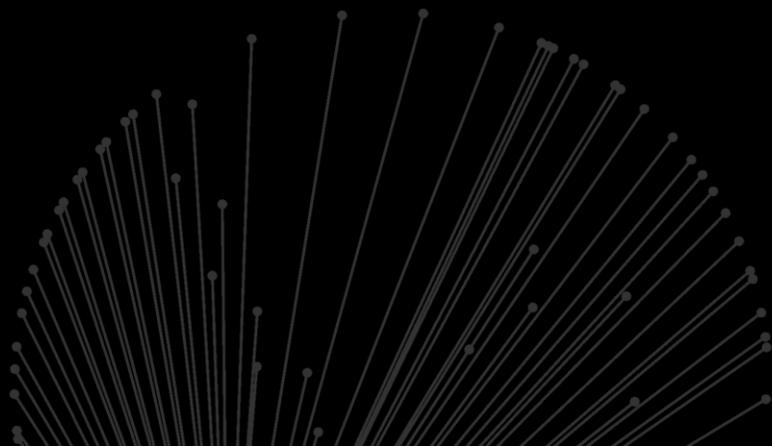
Australian consumers are gradually feeling safer and more confident to travel again, more so in Australia than overseas, with one quarter feeling safe to fly and planning a leisure flight in the next three months.

Australian consumer sentiment relating to travel



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

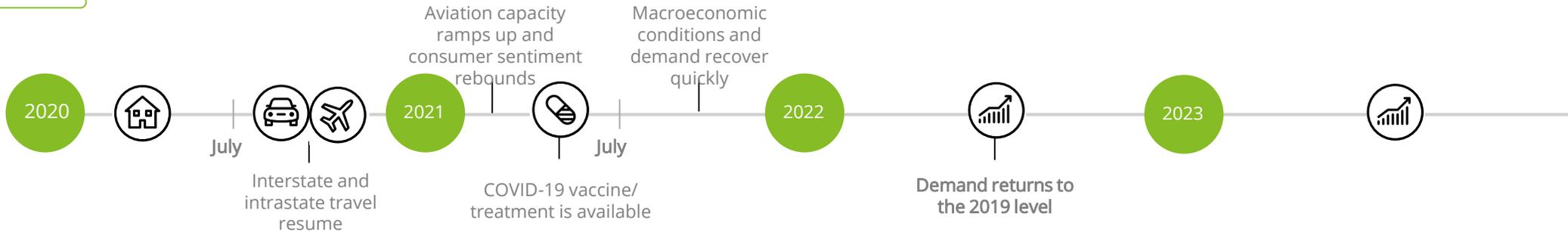
Economic conditions are key underlying drivers of the recovery, though the tourism sector's recovery will be based on a combination of critical sectoral specific uncertainties.

	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.

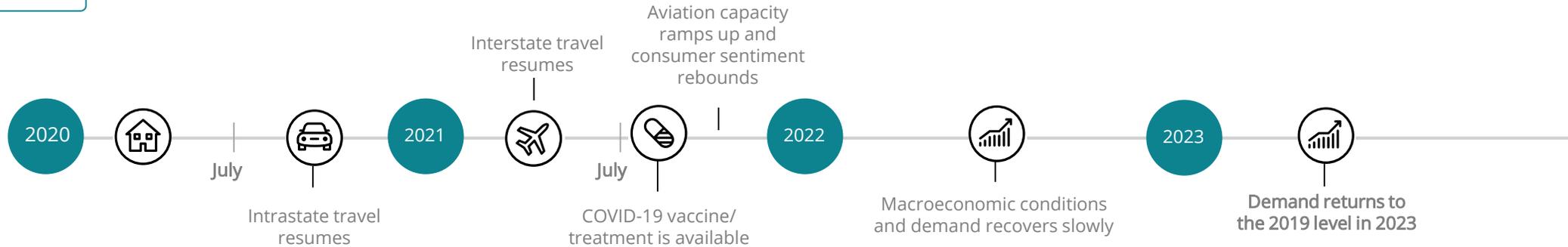
Deloitte's COVID-19 domestic tourism scenarios

Domestic demand scenario assumptions

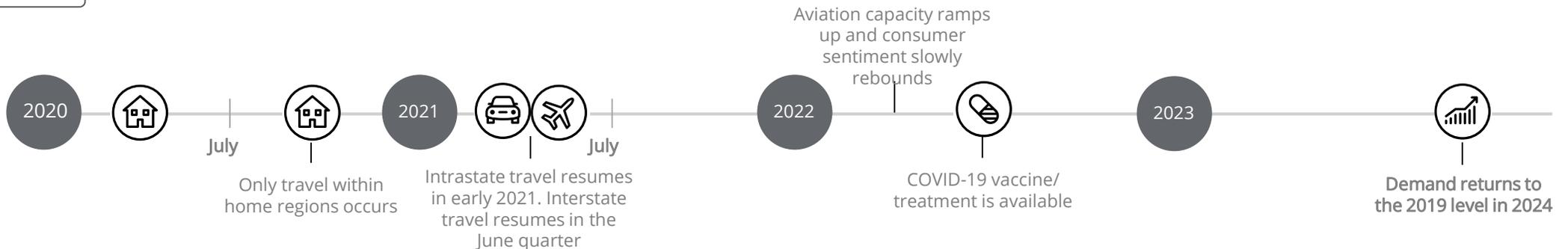
Mild



Harsh

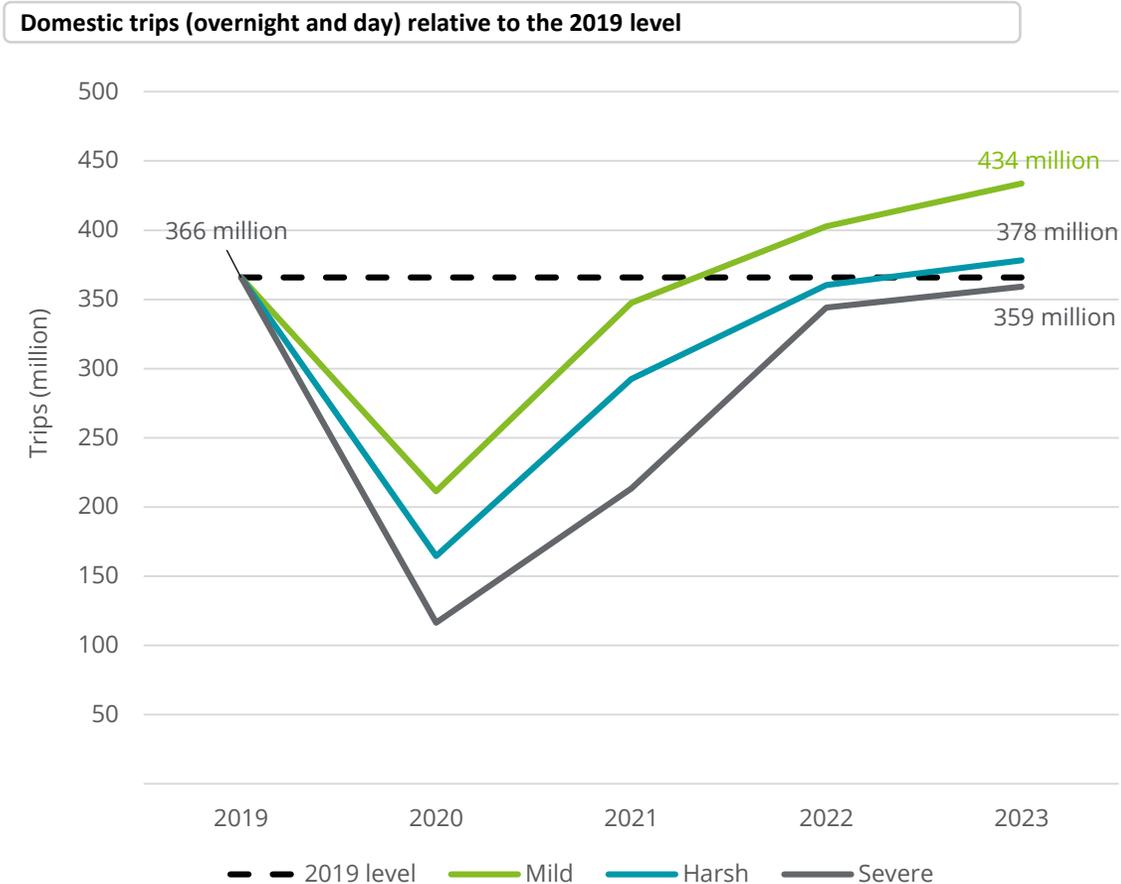


Severe



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.



Source: Deloitte Access Economics, estimate as of June 2020



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.**

International tourism forecast scenarios



Deloitte's COVID-19 international tourism scenarios

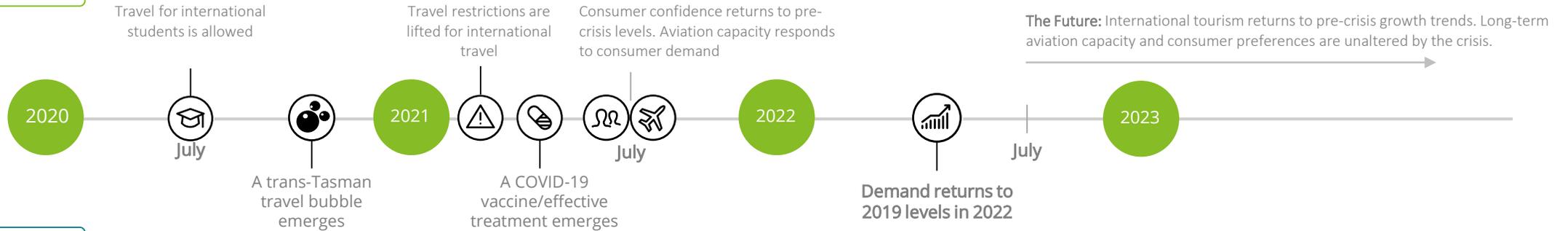
Economic conditions are key underlying drivers of recovery, though tourism recovery would be based on a combination of critical sectoral specific uncertainties.

	The future we hope for (Mild scenario)	The future we prepare for (Harsh scenario)	The future we want to avoid (Severe scenario)
Travel restrictions 	<p>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</p> <p>A vaccine or effective treatment is made available in July 2021. International travel is no longer restricted.</p>	<p>As ongoing physical distancing restrictions are required to manage the spread of the virus, travel bans remain in place until second quarter in 2021</p> <p>A vaccine or effective treatment is made available in July 2021.</p>	<p>Travel bans remain in place throughout 2020. Some travel bubbles begin to emerge in 2021. However, unrestricted international travel does not occur until 2022</p> <p>A vaccine or effective treatment is not available until July 2022, limiting the ability for unrestricted travel to return.</p>
Air capacity 	<p>Air capacity responds sufficiently to demand once travel restrictions are lifted</p> <p>There are no medium to long-term impacts on air capacity as airlines respond to favourable market conditions and resurging demand.</p>	<p>Air capacity responds quickly to demand once an effective treatment is found</p> <p>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.</p>	<p>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</p> <p>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.</p>
Consumer sentiment 	<p>Travel demand is not impaired by the health crisis and resultant economic impact once travel restrictions are lifted</p> <p>Consumers feel safe due to containment of the virus across the globe. Demand returns quickly, supported by a strong economic recovery.</p>	<p>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</p> <p>Slower economic recovery reduces total tourism demand over the short to medium term.</p>	<p>Consumer preferences remain altered, due to ongoing health and safety concerns, in the medium to long term</p> <p>The long-term impacts of COVID-19, high travel costs and safety concerns shift preferences toward short-haul travel and domestic tourism.</p>
Pent-up Demand 	<p>Pent-up demand causes tourism to recover fairly quickly particularly for business travel, visiting friends and relatives and international students</p> <p>The loosening of travel restrictions sees an initial rebound in international demand supporting the recovery.</p>	<p>Some pent-up demand from visiting friends and relatives and international students boosts an otherwise slower recovery</p> <p>However, pent-up demand for business and tourism is subdued by economic conditions.</p>	<p>There is no substantial pent-up demand</p> <p>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.</p>

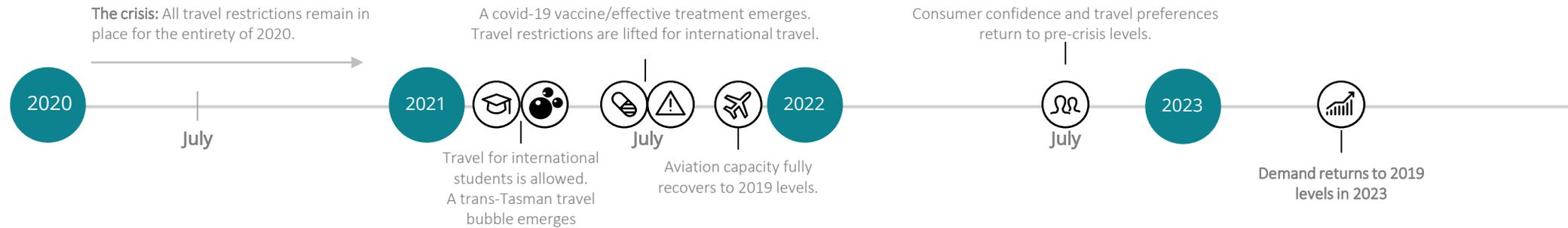
Deloitte's COVID-19 international tourism scenarios

International demand scenario assumptions

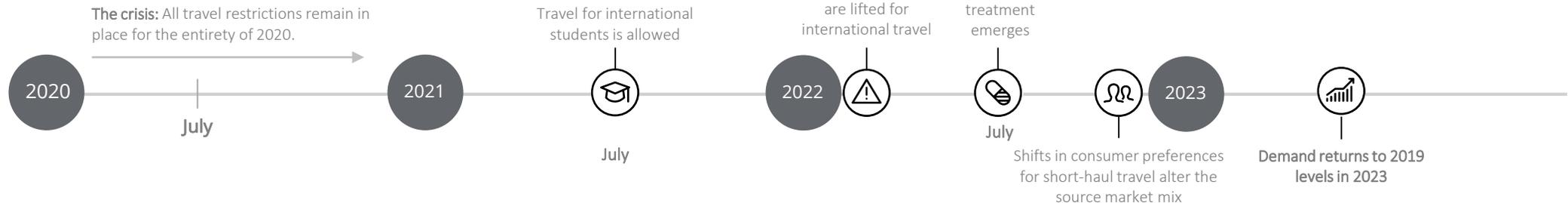
Mild



Harsh

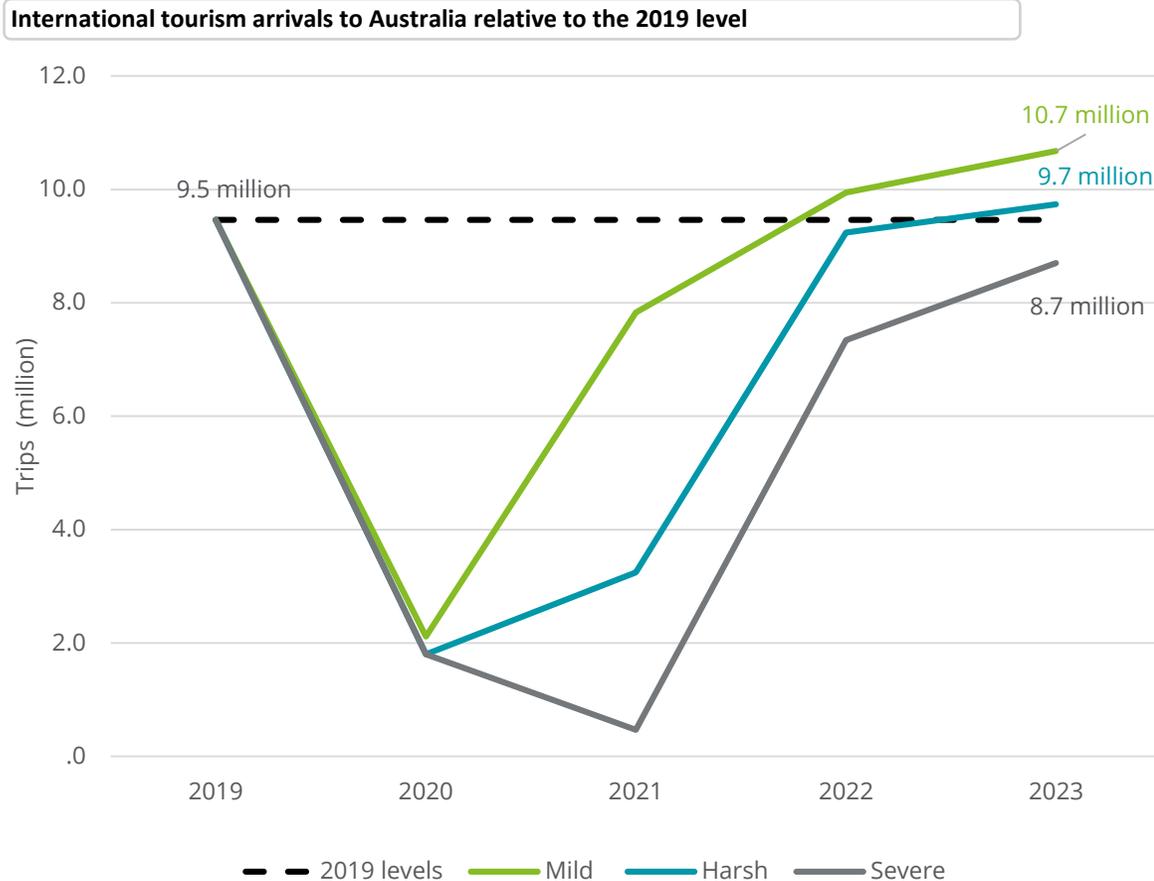


Severe



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.



Future we hope for (mild scenario)

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.**



Future we prepare for (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 2023.**



Future we want to avoid (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

Contact

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:

Adele Labine-Romain

National Transport, Hospitality and Leisure Sector Leader

Contact: alabine-romain@deloitte.com.au





Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website: www.deloitte.com/au/deloitte-access-economics

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities provide services in Australia, Brunei Darussalam, Cambodia, East Timor, Federated States of Micronesia, Guam, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Palau, Papua New Guinea, Singapore, Thailand, The Marshall Islands, The Northern Mariana Islands, The People's Republic of China (incl. Hong Kong SAR and Macau SAR), The Philippines and Vietnam, in each of which operations are conducted by separate and independent legal entities.

Deloitte Australia

In Australia, the Deloitte Network member is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms. Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte Network.