Tourism and Hotel Market Outlook 2016
Executive summary – for public release
February 2016
Executive summary

2015 was another year of remarkable growth for the Australian tourism sector, with both international and domestic visitation growing multiple times faster than their medium term averages.

International visitation surged 8.2% over calendar 2015, growing nearly three times faster than the pace observed over the last 15 years. At the same time, domestic visitation posted growth of 7% – a figure almost unrecognisable alongside the 1% p.a. witnessed, on average, since 2000.

- This outcome reflects a global economic landscape conducive to growth in international travel and Australia’s increasing attractiveness in this market. Incomes across Asia continue to grow; oil prices remain suppressed, and the currency differentials facing the majority of our major inbound markets are positioned for growth. These are good conditions for Australian tourism.
- The domestic economic growth outlook is no longer resources investment led, and parts of the country, including certain tourism and hotel markets, are feeling this adjustment. At the same time, there are some stellar success stories across the nation’s leisure favourites – headlined by the feats of Tasmania and the Queensland beaches. Sydney’s appeal to both corporate and leisure travellers continued to fill out properties in Australia’s largest hotel market.
- While concern toward financial and economic conditions in China has been on the rise, inbound visitation growth has continued unfettered. In fact, growth in the number of Chinese travellers to Australia accelerated over 2015, with both visitor numbers and their nights spent in Australia growing faster than the rates observed over the last five years.
- As is well established, this is partly a story about growing average incomes in China. However, analysis presented in this edition of the Outlook shows that the remarkable growth in Chinese visitation also reflects the fact that incomes among those with the purchasing power to visit Australia – the absolute top end of the income spectrum – are growing faster than incomes on average.

**Domestic tourism**

Domestic visitor trips grew 7.0% and visitor nights 5.2% over the year to September 2015, continuing the record-setting levels of the past 18 months. After struggling for the first half of the year, the commercial accommodation segment of the market shared in this growth, lifting 4.7% on latest figures. This indicates that the propensity to use commercial accommodation has stabilised among domestic visitors, albeit inclusive of unserviced options.

Non-disccretionary travel led the way in 2015, with trips for business up 18%, and trips for employment and education purposes grew 14%. This underscored the fact that digital technology is an opportunity, rather than a threat, for Australian corporate travel. Though relative growth was more modest, Leisure travel made up 59% of all additional trips, reflecting its higher base.

Growth in domestic visitor trips was relatively evenly spread across the states, with the eastern states and South Australia each hosting at least 5% more visitors than the year prior. WA, Tasmania, and the Northern Territory were closer to 15% growth, though the latter was not reflected in extra aviation volumes through Darwin Airport.
The last few months’ observations of outbound travel data once again proved the substitution story from international to domestic is not clear cut: gains in outbound travel in October and December have obscured the early indications that outbound travel growth was tapering. Average durations, and appreciations in certain bilateral currencies such as the Japanese Yen, again provided the buffer for the volume of outbound trips to continue to rise.

**International tourism**

The latest data shows the second half of 2015 found another gear for international arrivals. July to December visitation was up 9% on the same time in 2014, the largest growth in the second half of the year since the Sydney Olympics. As foreshadowed in the August outlook, China joined the million visitors per annum club – however their inclusion was a year earlier than forecast.

South-East Asia, including Malaysia, Philippines, Singapore, Thailand and Vietnam, is in the million trip club also, though its 5% growth on latest data was more modest relative to its neighbours. The traditional markets finished the year well, with United States (8.8%) continuing its stellar run and New Zealand (5.2%) out-pacing historic trends. At 19.4% for the year, India posted impressive rates of relative growth, but the additional 36,000 visitors was around half the extra volume from New Zealand.

The impact of the depreciation of the Australian dollar was particularly apparent in visitor expenditure: travellers were able to spend 13% more over the year to September, though this spending was equivalent to a 5% discount, when the 18% decline in the Australian dollar from September 2014 to September 2015 is taken into account.

**Hotel performance**

The second half of 2015 saw little in the way of turnaround stories for Australian hotel markets. For better or worse, the trends that were present to June have continued, and in many cases amplified. Occupancies added a percentage point overall, hitting 68.4% for the 2015 calendar year (based on STR Global data). Room rates growth was about two-thirds faster in the second half of the year, up 2.1% overall to reach $161 per night, excluding GST. RevPAR grew around 3.4%, not quite its 10-year average of 4.1% per year in CAGR terms (STR Global data).

Sydney continued to display its dominance at the premier destination for all forms of visitors – domestic or international; leisure or business – with the most drastic growth coming, unsurprisingly, from China. The perceived constraint on room rate growth gave way in the second half of the year, surging 8.8% in annualised terms (based on STR Global data). Queensland beach destinations continued to enjoy the decline in the Australian dollar with Gold coast and Tropical North Queensland adding 3 – 4% to occupancies, based on STR Global data. However, news stories of the substitution from Bali to Gold Coast and TNQ during the volcanic ash cloud in November did not convert to discernible upticks in performance. Hobart posted the fastest RevPAR growth of any market, good news for the nine individual new developments on the cards for the city over the next few years.

Melbourne had a respectable second half of the year, posting record occupancies in November, but not matching the room rate strength of Sydney. Perth maintained occupancies throughout the year, while Brisbane eased two percentage points after a material supply injection (STR global data). The Darwin hotel market languished over the second half of 2015, with three new properties being introduced into a market characterised by softer demand.
Outlook

Macroeconomic developments
The US economy now looks a lot more like an economy with “business as usual” levels of economic growth, which is good for household incomes and outbound travel, as well as growth for US trading partners. The strength of the UK economy, and the strong UK pound in particular, is a positive for British visitor levels to Australia. The likelihood that the UK will stay in the European Union, retaining the special status of its own currency, will mean Britons can keep buying Australian holidays for pence to the dollar. Closer to home, the New Zealand growth outlook is moderate, with some cause for optimism on the back of higher dairy prices and lower interest rates.

In the face of ongoing uncertainty, China’s policymakers have introduced stimulus measures to combat the slowdown, lowering interest rates and reserve requirements. Further, the process of internationalisation of the yuan is now well underway, with the authorities recently managing a deliberate devaluation of the currency towards a more market-determined value. The outlook for the two most relevant macro prices, the AUD and Crude oil, remains broadly unchanged from six months ago, with the dollar settling at its current level, and oil prices expected to partly recover in the medium term.

Domestic and international tourism
The growth outlook is up for tourism in all forms – inbound, domestic and outbound. Domestic visitation, while less likely to maintain 15 year growth highs, will track above trend, with trips expected to increase 3.3% per annum over the next three years. This outlook balances weaker resources-related business travel demand, discussed on multiple occasions in previous editions, and the broader household income growth which is spurring other forms of travel.

Acknowledging sustained growth in outbound visitation, and the ability for travellers to find shorter, cheaper overseas holidays, the outlook for outbound travel has been revised upward to 3.5 – 4% p.a. This represents a moderation from current growth levels.

Looking forward, Deloitte Access Economics forecasts international visitor trips to grow by 5.4% and visitor nights by 5.3% p.a. on average over the next three years. This places the aggregate number of visitors in 2018 at 7.6 million, and visitor nights at 265 million. These forecast rates of growth are slightly higher than those published in the August edition of the Outlook. This added strength to the forecasts is, for the most part, underpinned by favourable trends in the global macroeconomic outlook. In terms of specific markets, the outlook for Chinese visitation is up to 9.0% per annum, equivalent to another three inbound A380s every two days by 2018.
Hotel performance
A strengthening tourism outlook will underwrite strengthening demand growth in Australian hotel markets. Room nights sold are projected to add 3.0% p.a. over the next three years, outpacing supply growth by 1.4 percentage points. This demand/supply gap has widened since the August edition of the outlook, despite a larger pipeline of new properties over the next three years. A total of 64 properties are due online before the end of 2018 across the nine major hotel markets analysed in the Outlook.
Consequently, occupancies will reach 71.3% for the 2018 calendar year. This will underpin annual room rate growth of 2.9%, ending at $175 per room (excl. GST). The resultant forecast growth in RevPAR is 4.3%, in line with the previous edition. Given the national expansion in expected supply since August, the 6.1% growth in total takings is an upward revision since the previous edition of our Outlook. By 2018, $31 million in room rate revenue will change hands each night across the country. In terms of individuals markets, the polarisation currently being observed is set to continue. Sydney occupancies will be in the 90s more often than not, with Melbourne tracking about three years behind in terms of its growth profile. Gold coast is set to continue its positive run through to the 2018 commonwealth games, and Hobart is set for a much-needed room stock expansion phase. Perth and Brisbane are now closing in on large injections of supply within the next 12 – 24 months, which will dictate occupancy and rate growth over the forecast period.

Chart 1.1: Airport traffic between China and Australia

While the majority – some 82% – of air traffic from China to Australia comes from either Shanghai or Guangzhou airport, Australia is serviced by a total of seven ports – an increase from only three in 2009.
About the Tourism Hotel Market Outlook

This document presents a snapshot of the Deloitte Access Economics’ Tourism and Hotel Market Outlook, which is available via subscription by contacting Bryon Merzeo at bmerzeo@deloitte.com.au

Tourism and Hotel Market Outlook provides in-depth analysis of recent trends and their underlying drivers, across the domestic and international tourism sectors and ten of the country’s major hotel markets (including all capital cities).

Against the backdrop of Deloitte Access Economics’ latest economic forecasts, projections are provided for domestic and international tourism over the next three years. Building on projected travel demand and utilising our in-house registry of short stay accommodation projects, detailed three-year forecasts are provided for hotel market performance against room rates, RevPAR and occupancy. Data and forecasts are accompanied by detailed commentary of market drivers and performance determinants.

While our forecasts are based on a forecasting methodology and a hotel market model developed over 15 years, Tourism and Hotel Market Outlook is designed for a general audience. To discuss how this capability can be tailored to a bespoke market or market segment, please contact us (contact details overleaf).
Contact us

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