



**Tourism and hotel  
market outlook**

Executive summary

Edition 2, 2017

# About the Tourism and Hotel Market Outlook

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This executive summary presents a snapshot of the Deloitte Access Economics' Tourism and Hotel Market Outlook.

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The Deloitte Access Economics' 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.

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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. Please contact us to discuss how this capability can be tailored to a bespoke market or market segment.

# Executive summary

Australia's tourism sector has posted yet another year of remarkable growth, despite a moderation of global economic conditions.

The last 12 months have seen a moderation of global economic conditions as far as their posture toward international travel to Australia is concerned, as both oil prices and the Australian dollar have edged upwards. However, continued strength in the outlook for economic growth across Australia's key tourism source markets underpins another buoyant outlook for the nation's visitor economy.

## The macroeconomic context

Global economic growth continues to be driven by emerging Asia. However despite the region's sustained economic strength, the next three years will generally see slower growth than that witnessed over the last decade. Economic growth in China continues to moderate – though certainly not at the rate many observers thought it might. At 6% p.a., the outlook for economic growth over the next three years remains conducive to strong growth in outbound international travel.

A notable feature of the economic backdrop to international travel is the ongoing strength of the Indian economy. While India's economic growth has trailed China over the last decade, the next three years are projected to see India's GDP growth outpace China by around a full percentage point. As we know, as GDP per capita grows, so too does travel propensity – and with a population base as large as India's this means huge potential for destinations like Australia.

The world's developed economies continue to chart a solid growth path, with all tracking well above their ten year average growth. Among Australia's major legacy source markets, economic conditions will be strongest in New Zealand, where GDP is forecast to average 2.6% over the next three years, and the United States, which is projected to grow at an average pace a touch above 2% p.a.

The rebound in the Australian dollar witnessed over the last 6 months – which has seen it climb back toward 80 cents against the USD – is expected to be temporary as slower growth in commodity demand sees the AUD ease back to a medium-term range of 70 cents.

As expected, oil prices are rising from their record lows, with further increases anticipated over the next three years. Despite this growth, the price of crude oil is projected to stay well below its 2015 highs.

On the local front, the Australian economy continues to shrug off the mining construction downturn. Indeed, the three year outlook is a remarkably encouraging one. While the Australian economy grew by 1.8% over 2016-17, growth is expected to accelerate to 2.8% in annual average terms over the three years to 2019-20.

**As economic conditions strengthen, so will corporate travel and, to the extent that household incomes swell, so too will leisure tourism.**

The domestic economic outlook remains characterised by a re-balancing of growth from the North and West to the South-East. However, outpacing New South Wales and Victoria on the economic growth league tables over the next three years will in fact be Queensland, where a successful transition from mining construction to production and growth in retail and service sectors is supporting a healthy economic outlook.

**International tourism**

After slowing over 2016, growth in visitor arrivals from China has eased further over the first half of 2017. In fact, the year to June saw growth of 9.9% - outstanding relative to any standard benchmark, but considerably more modest than the remarkable growth figures posted by China over the last few years.

- That said, Chinese arrivals have more than doubled over the last five years and now represent 15% of all arrivals into Australia.

Despite this, international tourism recorded another strong year of growth, with visitor numbers climbing 8.9% on the back of 10.7% growth in inbound leisure travel.

Growth of this magnitude in the face of slowing arrivals from China signals a healthy diversification of Australia's international growth profile.

Among the many good news stories is India, which continues to gain market share on the back of exceptional economic performance, recording growth of 14.6% and the United States, which for the second year running recorded arrivals growth of around 14% (growth that saw it overtake the UK as Australia's third largest international market).

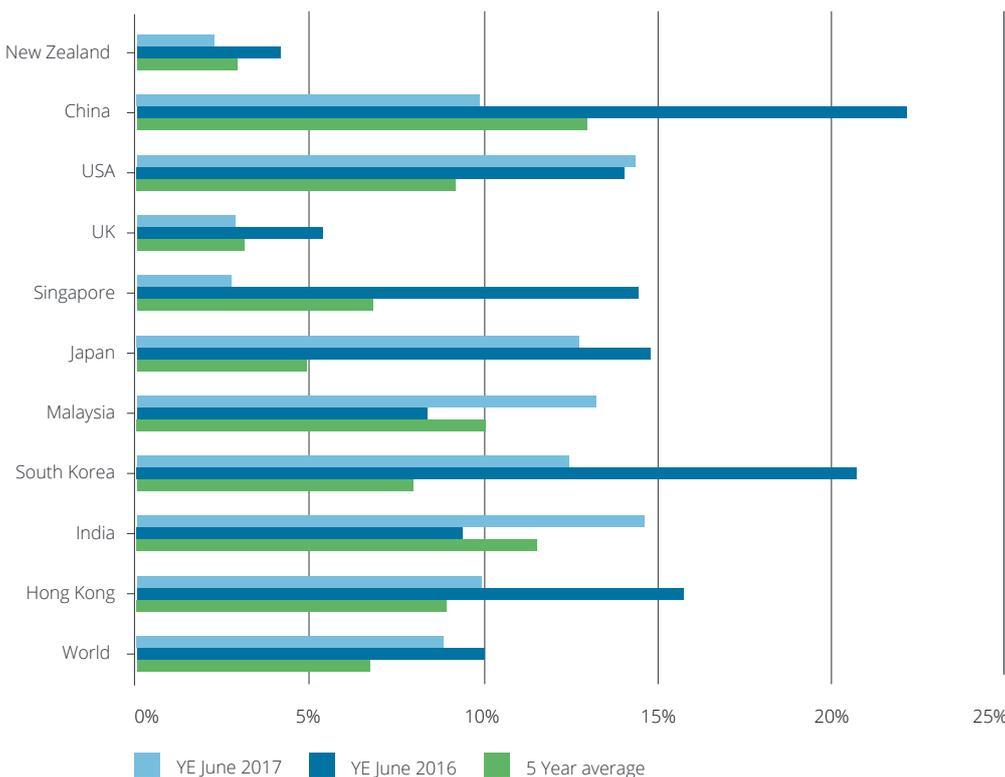
Japan, Malaysia, South Korea and Hong Kong also chalked up double digit growth in arrivals in a further indication of the broad-based underpinnings of this current wave of international tourism.

On the weaker side of the growth profile was New Zealand and the UK which were at or below their five year averages and well below benchmark set by Australia's other major source markets.

International visitor trips continue grow across all states and territories – in fact all outperformed their three and five-year averages. Tasmania retained its position as Australia's fastest growing stopover destination for international travellers, growing at 15.8% and being the only state to post double digit growth over the year (with NSW the second fastest, at 9.9%).

International leisure arrivals – which, as noted above, are the major force behind Australia's international tourism growth – grew fastest in Tasmania and Western Australia, though all states except Queensland and the Northern Territory grew at or above 10%.

**Growth in visitor arrivals by country of origin**



Source: Australian Bureau of Statistics Overseas Arrivals and Departures, Deloitte Access Economics.

## Growth in domestic leisure travel



Source: Tourism Research Australia, Australian Bureau of Statistics

### Domestic tourism

Growth in domestic trips has slowed sharply since our February release, with an uptick in corporate travel insufficient to counter the stalling of growth in domestic leisure travel.

- In part, this reflects a pattern of generally weaker spending by Australian households. As growth in household incomes has slowed, so too has consumer spending
- Given that growth in outbound leisure travel has also slowed (from 4.5% to 3.7% over the year to June), it's not the case that Australians are substituting international holiday destinations for Australian ones. Rather, Australians are travelling less overall
- In fact, of the four outbound destinations where leisure travels accounts for 80% or more of travel by Australians, all four saw a slowing of growth over the last 12 months. Two of these destinations – Thailand and Fiji – saw negative growth.

However, while growth in the number of trips has slowed, an uptick in average length of trip has seen growth in visitor *nights* hold steady at 3.8%.

Strong growth in visitor nights was recorded across Queensland, New South Wales and Victoria but the standout, as with international travel, was Tasmania.

- The Island State – which is more reliant on leisure travellers than any other state or territory – bucked the trend of weak growth in the domestic holidaymaker segment to record double digit growth in visitor nights.

Growth was weakest across the central west, with flat or negative growth across South Australia, Northern Territory and Western Australia – all three of which recorded a fall in domestic corporate travel as weaker economic conditions weighed on activity levels.

Encouragingly, however, the aviation passenger volume index shows a stabilisation in passenger volumes on the major Western Australia and Queensland mining routes after a sustained decline that, in WA's case, saw a 35% fall in volumes over three years.

Domestic visitor survey data continues to signal visitors substituting traditional accommodation – hotels and the like – for sharing economy options.

- In fact growth in private rentals more than doubled growth in stays in traditional short term accommodation (noting the differences in the size of the base across the two markets)
- Holiday travellers, in particular, continue to look favourably upon private rentals with use of private rentals by Australian holidaymakers growing at nearly double its five year average.

### Hotel market performance

Australia's hotel sector performed modestly in the first half of 2017, with trend room occupancies averaging 68.0% on the back of 0.3% growth. Average daily room rates (ADR) saw stronger growth, increasing by 1.3% in first half of 2017 to reach \$159. Consequently, trend RevPAR increased 1.5% during the same time period to reach \$108.

Highest year to date growth in trend ADR and RevPAR was seen in Tropical North Queensland (TNQ), Sydney and Canberra.

- Especially notable was the room rate growth in TNQ, where ADR grew 4.2% over the first half of 2017. At the same time, RevPAR in TNQ jumped 8.5%.

Canberra was another standout region with 3.7% room rate growth and 6.6% RevPAR growth year to June. Perth continued to decline with a 3.1% decrease in room rates and a 6.5% decrease in RevPAR.

- National performance was weighed down by weaker growth in Melbourne, Perth, Darwin and Brisbane – these markets represent 45% of capital city markets and 17% of aggregate hotel revenue nationally. Hence their lacklustre performance was reflected in the national figures, and ultimately weighed on performance relative to expectations.

*Historical market performance data provided by STR.*

### The outlook for Australian tourism

Global economic conditions remain favourably orientated for Australian tourism. Yes, travel costs are expected to increase as oil prices continue to rebound. But as commodity demand softens, the Australian dollar will track back to 70 cents against the USD.

More significantly, however, global output and income growth is expected to maintain its momentum over the next three years, with only a slight tempering of growth expectations.

### Asia's large and fast-growing economies are forecast to largely continue the growth that has underwritten the tourism boom experienced by Australia over recent years.

Accordingly, Deloitte Access Economics forecasts international visitor trips to grow by 6.9% p.a. and visitor nights by 6.4% p.a. on average over the next three years in a further strengthening of our growth expectations.

- The realisation of this growth would see visitor arrivals reach the 10 million milestone in 2020 and would see international visitor nights overtake domestic visitor nights in 2023
- Visitor nights from India are expected to continue to grow at or around 12% p.a., as it continues to be the fastest growing global economy. Visitor nights from China and Indonesia are both expected to grow by 10%, while arrivals from the US are forecast to grow at 4% over the next three years.

The news is even more encouraging on the domestic front, where economic growth is expected to add a full percentage point to its 2016-17 performance, growing at 2.8% p.a. over the next three years. With this strength will come further strength in domestic corporate travel.

The recent slowdown in holiday travel by Australians owes to a broader slowing of discretionary income and consumer spending. As income growth picks up, so too will discretionary expenditure and hence leisure travel. The stalling that has been witnessed over the last 12 months is not expected to persist.

Accordingly, domestic trips are forecast to grow by 3.4% p.a. and visitor nights to grow by 3.3% p.a. on average over the next three years.

### Hotel market outlook

While demand for hotel accommodation is projected to grow at 3.2% p.a., supply is also forecast to expand solidly, growing by 2.8% p.a. nationally. This represents a further narrowing in the supply-demand differential and hence a further easing of our occupancy growth expectations.

The spread of individual market performance outlooks continues to widen: TNQ and Gold Coast are forecast to lead the key markets in terms of RevPAR growth over the medium term.

- Perth and Brisbane are still working through booms in their respective supply pipeline, and so will struggle to realise improvements in performance over the next three years
- Relative to previous editions of the Outlook, the largest movers in expected performance are Melbourne and Hobart, which have softened considerably on the back of greater expected supply.

The national trend occupancy rate is forecast to grow by 0.3% p.a. over the next three years, to reach 68.5% in 2019. This represents a softening compared to previous forecasts, clearly impacted by the significant strengthening in national supply pipeline.

- Room rates are forecast to steadily grow over the next three years, increasing by 2.8% p.a. to reach \$171 in 2019, while RevPAR will show healthy growth of 3.1% p.a. to reach \$117 in 2019.

# Contact us

For further information on how we can support your business needs, please contact one of our Tourism, Hospitality and Leisure specialists:



**Adele Labine-Romain**

Leader,  
Tourism, Hospitality and Leisure  
Deloitte Access Economics  
+61 2 9322 3978  
alabine-romain@deloitte.com.au



**Lachlan Smirl**

Partner  
Deloitte Access Economics  
+61 3 9671 7567  
lsmirl@deloitte.com.au



**Bryon Merzeo**

Consultant,  
Tourism and Hotels  
+61 415 229200  
bmerzeo@deloitte.com.au



**Damian Winterburn**

Partner  
Deloitte Real Estate Advisory  
+61 7 3308 1200  
dwinterburn@deloitte.com.au



**David Boyd**

National Leader,  
Consumer Business  
+61 3 9671 7077  
davidjboyd@deloitte.com.au

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