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Access Economics

Tourism and hotel market outlook

Executive summary

Edition 1, 2018

About the tourism and hotel market outlook

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

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.

To purchase the full report or individual hotel market reports, please email us at *daetourism@deloitte.com.au*

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

The picture remains remarkably friendly for economic growth – globally and here at home – which, together with a supportive Australian dollar, sets the scene for continuing growth of Australia's tourism industry.

The macroeconomic context

Global economic growth is the most geographically balanced it's been in a decade. China and India are both continuing remarkable growth stories, with other emerging economies seeing impressive growth as well. The United States economy has been slowly strengthening for some time and is expected to get an extra short term boost from tax cuts. And European markets – including the UK and continental Europe – are looking healthy as well.

Of course, as global interest rates and inflation eventually rise, the growth we are seeing globally may soften.

The rebound in the Australian dollar witnessed over the last year – which has seen it climb back toward 80 cents against the USD – is expected to be temporary as interest rate increases in the US push the USD higher.

As expected, oil prices are rising from their record lows. While further increases are anticipated over the next three years, the price of crude oil is not projected to return to the high prices at the beginning of the decade.

On the local front, Australian economic performance is also encouraging. Average buying power for consumers is likely to see improvements over the year, after recent pressure emanating from housing, wages and living costs. Strong jobs growth and an increase in the participation rate along with improving consumer sentiment are strong signals for tourism in Australia.

Over the next three years, Australia's economy is expected to grow at around 3.0% per annum, with the Northern Territory and Queensland achieving the fastest rates (3.4% per annum), followed by Victoria and New South Wales.

International tourism

Despite the Australian dollar trending higher for most of 2017 and amidst increased global economic and political uncertainty, international visitor arrivals continued to grow strongly, up 6.5% to over 8.8 million visitors in 2017 – an additional 540,000 visitors on the 2016 count.

While this represented a slight slowing from the rates posted over recent years, sustained strong growth in light of more moderate arrivals from China signals a continuing diversification of Australian tourism's international growth profile.

Growth in visitor arrivals from **China** eased in 2017, up 12.2% (see chart on next page) – outstanding relative to any standard benchmark but more modest than the remarkable growth figures posted over the last five years. In that period, annual Chinese arrivals have more than doubled and now represent 15% of all arrivals into Australia. In 2017, Australia welcomed 1.36 million visitors from China – which is now essentially on par with visitors from New Zealand.

India, which has been building momentum over a number of years, recorded the highest growth rate of any source market at 15.2%, on the back of a five-year average growth rate of 13.4%. Arrivals from India have doubled over the last six years and are now ranked eighth as a key source market – up from the number 10 position in 2011.

After outstanding growth over the past two years, growth in visitor numbers from **Japan** and **Korea** moderated to 4.0% and 7.7%, respectively.

The United States has continued its impressive growth in 2017, though slightly below its three-year average rates. Arrivals from the United States increased by 9.0% in 2017, with the United States now our third-largest inbound market.

Holiday travel, the largest segment of the market, experienced more moderate growth at just 1.9% for the year.

- Among visitors from China and India, holiday travel was up 7.3% and 12.3%, respectively. In both cases, the leisure segment was outperformed by **business** and **education travel**.
- In contrast, the growth in leisure travellers from the US, Japan and Hong Kong was at least as strong as or stronger than the overall performance of their markets.

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

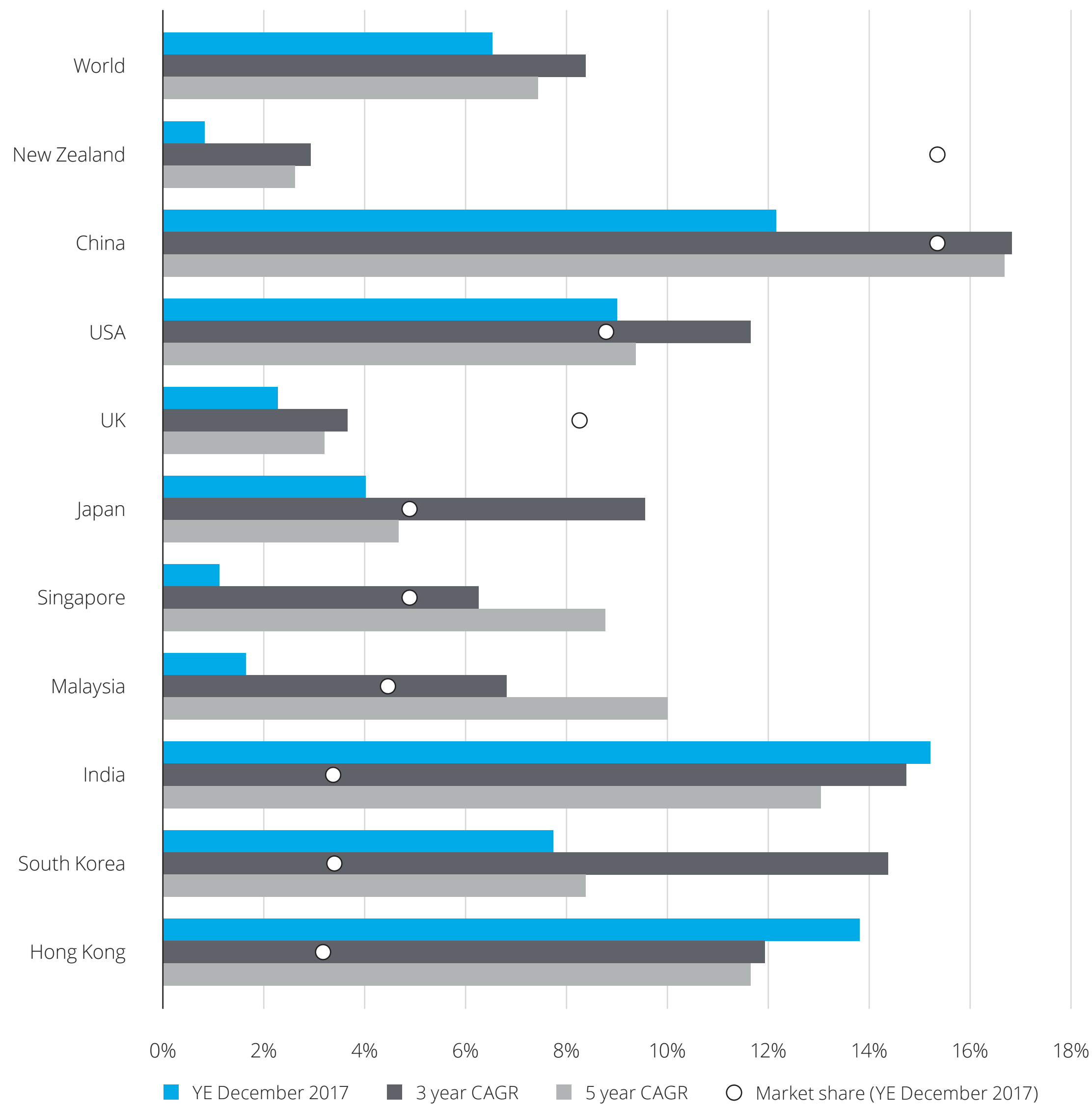
International visitor trips were up across most of the states and territories. **Tasmania** retained its position as Australia's fastest growing stopover destination for international travellers, growing at 16.6%, followed by the **ACT**, at 10.2% – making the most of its new international flight.

The other states posted single digit growth, led by **NSW** (8.9%) and **Victoria** (7.0%).

The **Northern Territory** was the only jurisdiction to experience a fall in visitors, with a 1.5% decrease in trips. International leisure arrivals grew fastest in the ACT and Tasmania. While leisure arrivals increased in NSW, Victoria, and Western Australia, they fell in Queensland, South Australia and the Northern Territory.

Despite the fall of leisure arrivals in Queensland and South Australia, their overall growth was positive due to strong growth in the VFR and education visitor segments.

Visitor arrivals by country of origin



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

Have you been here before?

First time visitors to Australia account for 39% of all international visitor arrivals, but this varies greatly depending on their purpose of trip and where they come from. Half of all holidaymakers are first time visitors, while those travelling for business are more likely to have been here before (71%).

It won't surprise anyone that almost all visitors from New Zealand have been here before, but it might be surprising to learn that 76% of Singaporean holidaymakers are repeat visitors to Australia and have visited on average six times before. Travellers from China and India are much more likely to be first time visitors (33% and 31%, respectively). Cultural and historic ties from the UK explain the strong repeat rate, with more than half of holidaymakers having been to Australia before.

Domestic tourism

There has been strong growth in the number of declining *domestic trips* (7.2%) over 2017, boosted by business travel and those visiting friends and relatives across the country.

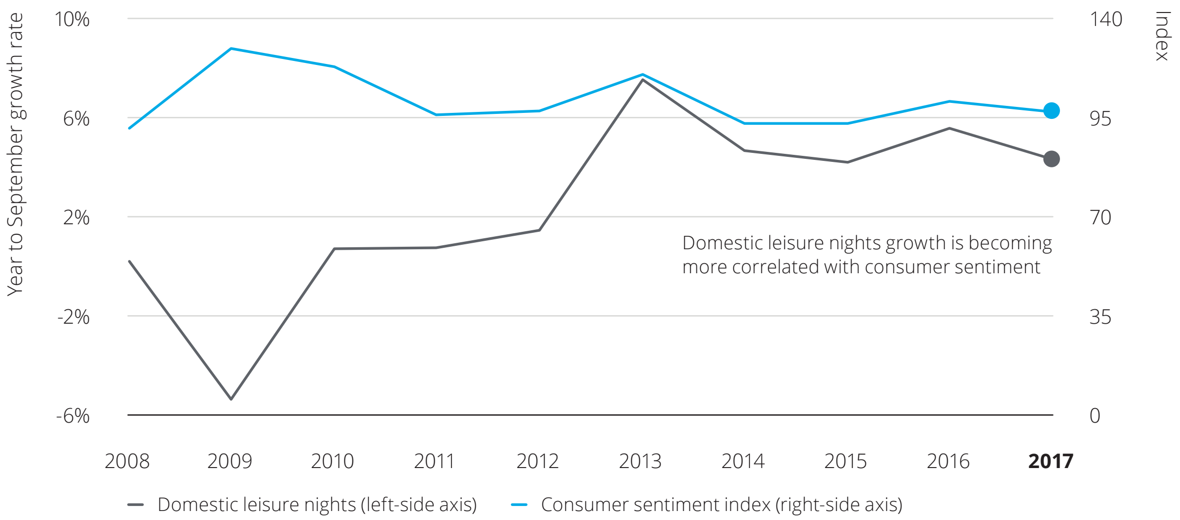
Growth in domestic trips continues to outperform real GDP and after a decade of decline in visitor numbers until 2010, there has been consistent growth over the last seven years.

Leisure travel has seen more modest growth (3.4%) with performance improving in the second half of the year (year to March saw just a 0.5% increase).

Growth in domestic leisure travel has become increasing correlated with consumer sentiment movements over time (see chart below), underpinning expectations that spending on domestic travel could rise along with consumer confidence in 2018.

Business trips were up an impressive 14% for the year, and while business travel does have a degree of volatility, the increase was reflective of improved economic performance in recent quarters and stronger business confidence.

Domestic leisure travel



Source: Tourism Research Australia, Deloitte Access Economics

Along with visitor trips, *visitor nights* have also increased more strongly in the last year (5.9%) than the 12 months prior. That said, nights grew more slowly than trips, indicating a shortening in the average length of stay. However, an increase in average spend per night saw average spend per trip remain stable at around $665.

Strong growth in domestic trips was recorded across **Victoria**, **Queensland**, and **New South Wales**, but the standouts, as with international tourism arrivals, were the **ACT** and, similar to the previous edition of the Outlook, **Tasmania**.

There was a decline in domestic trips to **South Australia**, **Western Australia** and the **Northern Territory**. The weaker visitation in South Australia and Western Australia coincides with a decline in business travel to those states.

At the same time that domestic tourism has strengthened (despite a weakening of leisure travel), the number of trips Australians have taken overseas have increased. Outbound travel by Australians grew at 5.2% in 2017, with almost 10.5 million trips. This growth is down from the double-digit growth that was seen in the earlier part of the decade, but up on that witnessed over the 12 months prior.

Domestic leisure tourism expenditure in Australia is growing faster than consumer spending over time, indicating that Australians are spending more of their discretionary income on holidays – including overseas trips.

- The top three international destinations for Australians remain New Zealand, Indonesia and the United States – with visits to New Zealand up strongly at 6.0%, visits to Indonesia down 5.0% and visits to the US declining by 0.5%, failing to maintain 2016 growth levels of 5.1%.

Growth in outbound travel has been particularly strong to countries with which Australia has growing family and business ties.

- Visits to China and India grew at 15.5% and 14.2%, respectively. Growth in travel to China represents a significant acceleration compared to the five year average, facilitated in part by the growing number of flights between the two counties. Growth in travel to India, at more than double the overall rate of outbound growth, is climbing up the rankings and is now the ninth largest outbound destination for Australians.

This is to be expected given that over the last five years, the Australian resident population of Chinese and Indian descent has increased considerably, and now represents 2.2% and 1.9% of the population or combined almost a million residents – who will sometimes be returning home to visit friends and family or who have continuing business connections.

Deloitte Access Economics' medium term forecast for outbound trips by Australians is growth between 4.0% and 4.5% per annum, an upward revision from our last edition of the Outlook in line with the recent strong performance of outbound travel and positive conditions in the short to medium term.

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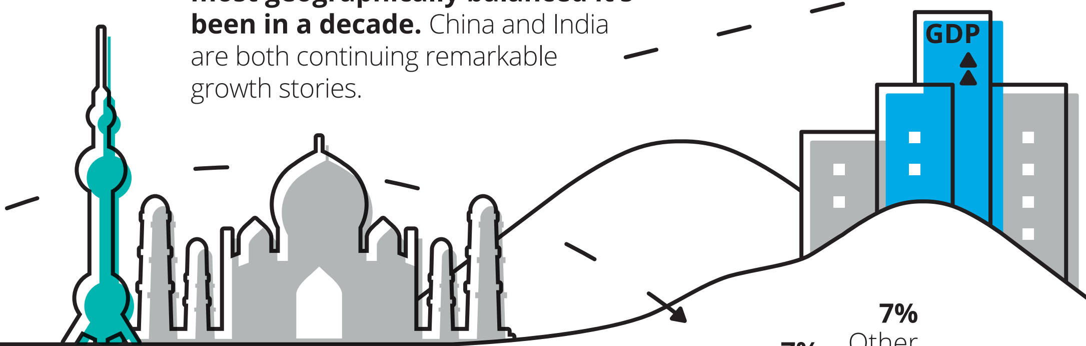
As GDP per capita grows, so too does travel propensity.

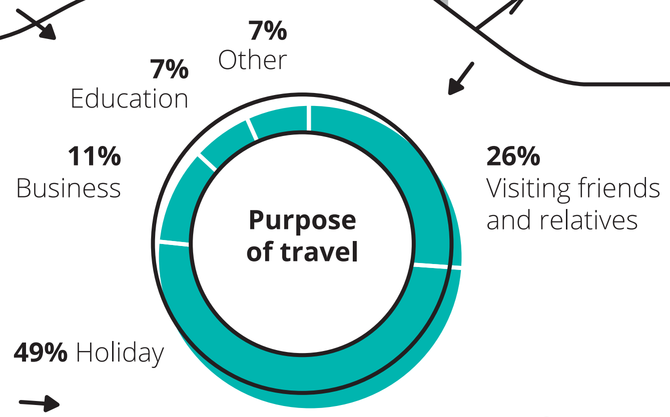
Global economic growth is the most geographically balanced it's been in a decade. China and India are both continuing remarkable growth stories.

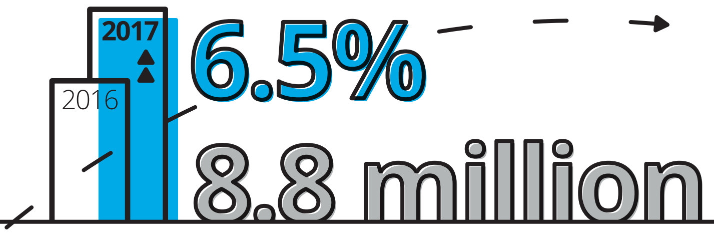
Global output and income growth are expected to maintain their momentum over the next three years, with only a slight tempering of growth expectations.



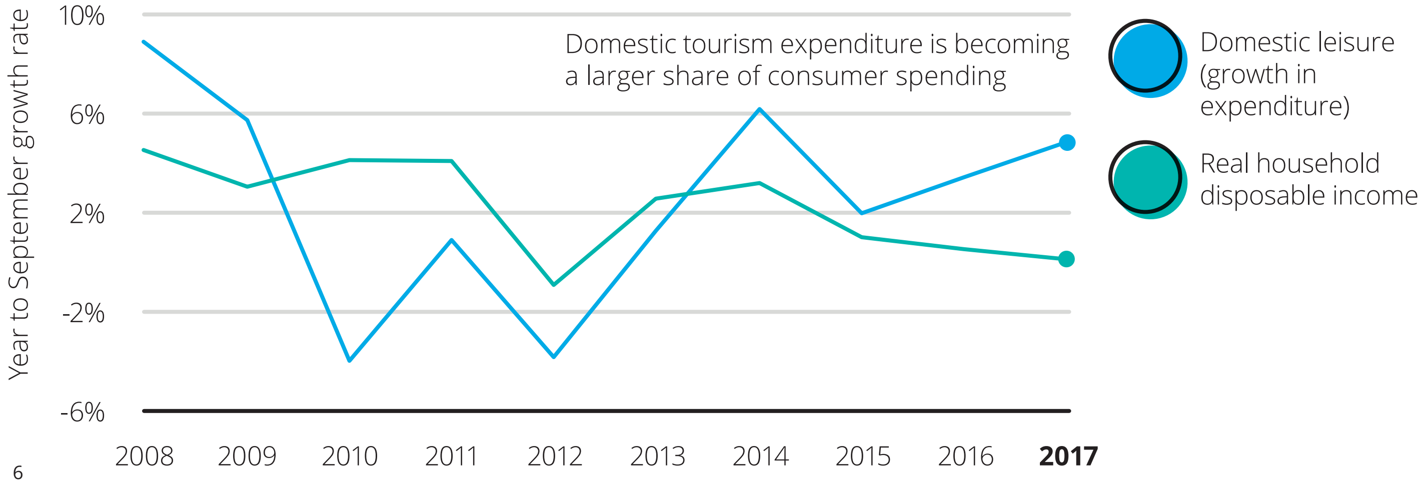
International tourism

International tourism recorded another strong year of growth visitor numbers climbing **6.5%** to **8.8 million trips**.





Domestic tourism



The picture remains remarkably friendly for economic growth – globally and here at home – which, together with a supportive Australian dollar, sets the scene for continuing growth of Australia's tourism industry.

While travel costs are expected to increase as oil prices rise slightly over the next few years, the Australia dollar is expected to moderate and drift downward towards 70 cents in the medium term.

Over the next three years, Australia's economy is expected to grow at around **3.0%** per annum.

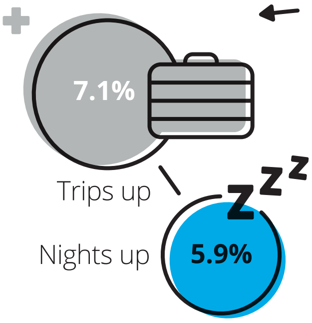
The continuing softness in holiday travel by Australians owes to a broader slowing of discretionary expenditure and consumer spending. As income growth picks up, so too will discretionary expenditure and leisure travel.

3.0%

Fastest growing international markets (among top 10 markets)

1. **India** 15.2%
2. **Hong Kong** 13.8%
3. **China** 12.2%
4. **USA** 9.0%
5. **South Korea** 7.7%

There has been strong growth in the number of domestic trips, by **7.2%** over 2017, with domestic visitor nights up **5.9%**.



Outbound travel by Australians grew by **5.2%** in 2017, with almost **10.5 million trips**.

2016

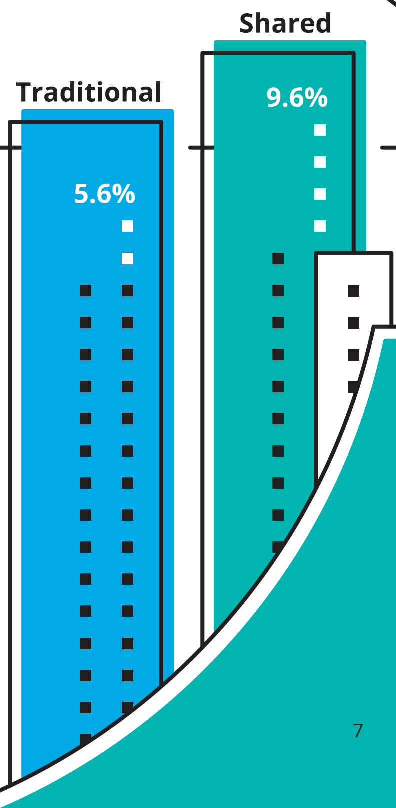
2017

5.2%

10.5 mil

The growth in nights spent in commercial accommodation was in line with the growth in total visitor nights.

Nights spent in traditional accommodation increased by 5.6% while nights spent in rented houses/apartments and private accommodation (which would include platforms such as Airbnb and Stayz) increased by 9.6%.



The outlook for Australian tourism

Global economic conditions remain favourably orientated for Australian tourism. While travel costs are expected to increase as oil prices rise slightly over the next few years, the Australian dollar is expected to moderate and fall to 75 cents in 2019 and to drift downward towards 70 cents in the medium term.

More significantly, however, global output and income growth are expected to maintain their 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 in Australia over recent years.

Reflecting these fundamentals and in light of a slightly improved economic growth outlook for some key inbound tourism markets, Deloitte Access Economics forecasts international visitor trips to grow by 6.9% per annum and visitor nights by 6.4% per annum on average over the next three years, consistent with our previous edition of the Outlook.

- 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.
- On current forecasts, by 2019 the value of inbound tourism from China is expected to exceed the value of the entire inbound international tourism market as it stood in 2000.
- Visitor nights from India are expected to continue to grow at or around 12% per annum, as it continues to be the fastest growing global economy and Australia's fastest growing inbound source market.
- Visitor nights from China and Indonesia are expected to grow by 10% and 11% per annum respectively, while arrivals from the US are forecast to grow at 4% per annum over the next three years.

International tourist arrivals to Australia over the last three years have consistently outpaced global economic growth. All indications are that this trend is set to continue. There is also a non-negligible possibility that growth may outperform relative to our expectations.

On the domestic tourism front, growth conditions are expected to strengthen over the next three years, with growth in wages and national income increasing real household disposable income, adding to demand for domestic tourism.

These factors for the domestic economy point to a solid outlook for domestic travel going forward, with domestic trips forecast to grow by 3.7% per annum and visitor nights by 3.3% per annum over the next three years. Our forecast are marginally higher than in our previous Outlook, reflecting strong recent performance and improving domestic economic conditions.

Visitor nights are forecasts to continue growing at a slower rate compared to total trips, consistent with the declining length of stay trends, resulting from a combination of factors including an increase in business travellers who have shorter trip durations.

The continuing softness 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.

Hotel market performance

Hotels across the country performed well during 2017, recording positive gains across key indicators.

Trend room occupancies showed a smaller gain than both average daily room rates (ADR) and revenue per available room (RevPAR), adding one percentage point over the year to reach 68.5%. This figure represents the circa 7000 commercial accommodation properties from Hobart to the top end.

Occupancy rates in Sydney and Melbourne are 20 percentage points greater than this national score, highlighting the different trading conditions in regional areas.

Melbourne, Hobart and the Gold Coast experienced softer occupancy rates over the year, losing at least a percentage point each, Perth saw a decline of 4.6%, while Darwin's occupancy grew the fastest of any capital city by 8.8%. Darwin's future prospects are expected to be more subdued as the market adjusts to demand changes later this year.

In the years since the global financial crisis, average room rates have been climbing, with the trend continuing in 2017. Room rates across the country increased by 2.4% to reach $161, paving the way for a solid RevPAR growth rate of 3.3% over the year.

Trend room rates were the highest in Sydney at $251, a full $50 over Melbourne at $200. Average room rates grew the most in the predominantly leisure-focused Cairns and Tropical North Queensland market (8.7%) to reach $155.80 over 2017.

A number of new hotels and serviced apartments opened their doors last year, with 5,500 new rooms coming onto the market – an addition of 2.3% to the national room stock.

(Historical market performance data provided by STR.)

Hotel market outlook

Looking ahead, the nation will see a significant number of new properties being completed which will have a strong impact on the market.

The majority of this supply is concentrated in capital cities, with Melbourne having over 50 active projects alone. 2019 and 2020 are expected to see the largest number of new rooms becoming available, with an increase of 3.4% to total supply each year.

As a result of the strong pipeline of new properties, minimal change in occupancy will be realised, with an increase of only 0.3% added to occupancy rates each year until 2020.

Several of the new hotels are positioned at the high end of the market, with brands such as the Ritz Carlton, W and Mandarin Oriental making their debut appearances in Australia. These luxury class properties will help push average rates upward over the three-year forecast period, growing at 2.8% per annum.

Revenue per available room will benefit from the combined growth of both rates and occupancy, adding $10 over three years to reach $121 in 2020. This represents a growth rate of 3.1% per annum.

Contact us

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

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