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Tourism and hotel market outlook

Executive summary – for public release

Edition 1, 2017

Executive summary

International arrivals grew by 11% over the course of 2016, more than twice the 3.9% growth rate for global outbound travel and still well above the healthy 8.4% growth in international tourism across the Asia-Pacific region

Global economic uncertainty dominated the headlines in 2016. Events such as 'Brexit', the election of Donald Trump as President of the United States of America and continued political instability in Europe have made the global outlook increasingly uncertain.

Yet closer to home the tourism sector has continued to benefit from the growth of the Asian middle class.

- In the last publication, we reported that international visitation had grown by 10% over the year to June, the fastest growth since the mid-1990s.
- Growth in international visitors has since climbed to 11% over the course of 2016 with almost all of this growth occurring in the leisure segment.

The fact that this historic growth has occurred despite oil prices rising steadily over the course of 2016 and the Australian dollar ticking upwards (as a result of improved commodity prices), underscores the strength of demand for travel to Australia.

- In fact, international arrivals to Australia are growing at more than twice the 3.9% growth rate for global outbound travel and are still well above the healthy 8.4% growth in international tourism across the Asia-Pacific region, based on the most recent data from the World Tourism Organization's Tourism Barometer.

What is especially encouraging about this growth is its broad-based nature. Yes, emerging Asia is continuing to propel record visitation. But the numbers being chalked up by some of Australia's oldest legacy markets are truly remarkable.

- Not only did the last year see strong double digit growth in arrivals from fast growing economies such as China and India, but Japan defied a sluggish local economy to post growth of 23% and the US shook off economic and political uncertainty leading up to the US election to record arrivals growth of 18%.

While international visitation has continued to outshine broader economic performance, the pace of growth in domestic visitor numbers has softened since the record growth recorded six months ago.

- This largely reflects the slowing of the Australian economy in the September quarter. While growth in leisure travel has been largely sustained, a softening of domestic corporate travel saw domestic visitor growth slow to, a still very buoyant, 4.8% over the year to September.

Strong growth in both international and domestic visitor numbers has meant that tourism continues to be one of the fastest growing sectors in the Australian economy.

- Total tourism expenditure grew by 5.9% over the year to September – more than twice the 2.5% recorded for the economy as a whole.
- The only other major sectors of the economy that are growing faster than the tourism sector are the Rental and Real Estate Services sector, aided by the strength of the housing sector and the Information, Media and Telecommunications sector.

Travel by Australians

While the pace of growth has softened from the record-breaking results recorded over the year to March 2016, domestic visitor numbers have continued to outperform real GDP and their long term trend, posting growth of 4.8% for the year to September.

- After a decade of decline in visitor numbers, domestic visitation has now been growing consistently in annualised terms for the last six years.
- Growth in domestic visitor nights was more subdued at 3.7%, but remained above its long term trend of 3.2%.
- The average spend by a domestic traveller remained stable, although the increase in trips meant aggregate expenditure continued to grow.

After recording double digit growth over the year to March, growth in **domestic corporate travel** has moderated considerably to 2.3%. This rate of growth is back in step with that of the economy as a whole, which recorded relatively modest real GDP growth of 1.8% over the year to September, with output falling in the September quarter for the first time since 2011.

On the other hand, **holiday travel** remained remarkably strong, seeing growth of 8.2% over the year to September, marginally below the record of 9.2% for the year to March.

- Notably, domestic leisure travel continues to outpace outbound leisure travel. That is, the number of Australians holidaying at home is growing faster than the number holidaying abroad.

At the state level, growth was led by Western Australia and South Australia which both experienced double digit growth in visitor nights. Growth in travel to NSW was broadly in line with the national average and was relatively modest in Victoria.

Queensland experienced a small drop in domestic visitor nights, driven by a 9.4% decline in corporate visitor nights. The decline in corporate visitor nights in Queensland over the last year has coincided with a 7.1% decline in Queensland mining related travel.

With business travellers accounting for 35% of all nights spent in hotels nationally, the more modest growth in domestic corporate travel over the last year has seen growth in domestic visitor nights spent in hotels (and similar accommodation) slow sharply from 9.7% to 1.2%.

By comparison, nights in 'rented houses, apartments and other private accommodation', which captures private rental properties advertised through sharing platforms, grew by 8.7%. This was driven by an 11.5% increase in holidaymakers' use of this style of accommodation and a 9% increase in use by those visiting friends and relatives (VFR).

- These figures suggest that the leisure segment is increasingly opting for alternative accommodation options, such as Airbnb.
- Partnerships such as that between Qantas and Airbnb, which allow guests to earn frequent flyer points during Airbnb stays, are serving to consolidate Airbnb as a mainstream accommodation option.

Outbound travel grew at 5% over the 2016 calendar year – picking up slightly from 3.6% recorded over 2015 consistent with a moderate improvement in the Australian dollar over the course of the year. Nonetheless, outbound growth remains well below its historic peaks when the Australian dollar was at or above parity with the US dollar.

- The popularity of Japan as an outbound destination continues to grow with trips growing by 16% in 2016 while trips to Indonesia grew by 14%. Trips to Indonesia are at record levels and if current growth rates persist Indonesia will overtake New Zealand as Australia's most favoured travel destination by 2018.
- Combined, Japan and Indonesia accounted for 43% of the growth in outbound travel by Australians.

International tourism

International visitor trips have gone from strength to strength, growing at 11% over the course of 2016.

- As acknowledged above, at no time since the mid-1990s has growth been faster.
- Among the cache of good news stories is the fact that the strongest growth is occurring for the segment of travellers who had not previously visited Australia.

Over 90% of the growth in international visitor trips was due to **holiday travel**, with inbound holiday travel growing by 22% over the year – double the rate of growth of inbound visitation overall. Corporate travel remained relatively flat.

Visitor arrivals from **China** continued to dominate the inbound tourism profile, although the pace of growth softened from 22.2% in the year to June to 16.9% over the twelve months to December.

- At the current five year average growth rate, second place China (1.2 million arrivals) is set to overtake our largest visitor base, New Zealand (1.3 million arrivals), within the next year.
- Growth in arrivals from China will be aided going forward by the recent decision by the Australian and Chinese government to opt for an open aviation market, effectively removing capacity restrictions for airlines from both countries.

While the growth of visitors from China has been nothing short of remarkable in itself, the rate of growth in visitors from a host of other Asian nations actually outpaced China.

Arrivals from **Japan** grew at 23% in 2016, indicating that the Japanese are still willing to spend on international travel despite sluggish economic growth. Since the slow GDP growth in Japan has primarily been a result of older workers leaving the workforce, this does not necessarily affect visitor numbers.

- Japanese people over 50 years of age have been the most prolific travellers to Australia over the last decade, accounting for over a quarter of all Japanese travellers. Over the year to September 2016, the number of 50+ visitors from Japan increased by 30% relative to 22% growth in total Japanese visitors. Comparatively, the number of 20-29 year old visitors to Australia grew by 17%, and represent the second largest age group after the over 50s.
- The situation is similar for Australian visitors to Japan, where 20-29 year olds are the second largest group travelling to Japan (also after the over 50s). This could be an indication of younger generation travellers from both countries making connections with locals and spreading awareness of their home countries. Over the past three years, arrivals by 20-29 year olds have more than tripled, as young Japanese travellers seek to visit and explore Australia.

Nonetheless arrivals from **Japan** remain low in historical terms, current levels are only half as high as the 1997 peak.

Other Asian markets demonstrated equally strong growth, with arrivals from **Taiwan** growing at 26%, arrivals from **South Korea** growing at 24% and arrivals from **Vietnam** growing by 22%.

While Asian markets grew especially strongly, growth was also remarkably strong across a number of traditional markets.

- The **U.S.** defied economic and political uncertainty leading up to the presidential election to book 18% growth in visitation.

At around 4,900 new rooms, the nation-wide additional supply in 2016 was almost double the 15-year average

- Growth in arrivals from a number of **European** countries also reached double digits. This included Spain, the Netherlands, Austria, Greece, Austria, Denmark and Poland.
- Growth in arrivals from the **UK** slowed from 5.7% in 2015 to 3.7% in 2016 but were nevertheless sufficient to ensure the UK remained ahead of the US as Australia's third largest source market.

Solid growth in visitor arrivals was experienced in all states and territories, with growth being the strongest in Tasmania at 15%. Queensland and Victoria saw international arrivals grow by 13%, helping offset weaker growth in domestic arrivals to both states. International arrivals to NSW also grew by 12%.

While arrivals grew strongly, average expenditure fell by 0.9% over the year to September as an increase in expenditure per night was offset by a fall in average trip duration.

Capital city aviation trends

Domestic aviation statistics present a picture of the continued mixed fortunes across the capital cities.

- The top five aviation routes by volume growth are Melbourne-Sydney, Brisbane-Sydney, Gold Coast-Melbourne, Brisbane-Melbourne and Sydney -Tamworth. Collectively, the growth in these represent an additional 920,000 passenger movements for 2016, relative to 2015.
- On the other hand, the five aviation routes by greatest declines in volume are Karratha-Perth, Brisbane-Gladstone, Melbourne-Perth, and Perth-Port Hedland, Brisbane-Rockhampton. The decline in these represents 326,000 fewer passenger movements for 2016, relative to 2015.

As a result, there has been strong growth in passenger movements at Sydney and Melbourne airport, while Perth airport saw a small decline in passenger movements as mining related travel fell, and growth at Brisbane airport remained modest.

Whether cause or effect, part of the success of Melbourne and Sydney is their dominance in international connectivity. Their airports account for two-thirds of international passenger volumes into and out of Australia. Of the top 20 international routes, 15 link through these two major gateways.

At the other end of the journey, the foreign ports that handle the most Australian traffic are: Singapore, Auckland, Denpasar, Hong Kong, Kuala Lumpur, and Dubai.

- Collectively these five ports account for over half the international passenger volume to and from Australian airports.
- The airport on the Chinese mainland that handles the most direct aviation volume from Australia is Guangzhou, with a million passenger movements – yet this is only 3% of the total international aviation to and from Australia.
- Despite the importance of Chinese visitors to Australian tourism, Australia's international aviation network is not extensively connected directly to mainland China. This is a result of outbound resident flows along with inbound visitor flows.

Hotel market performance

Historical hotel market performance data was provided by STR.

The demand for holiday travel flowed through to the hotel market with Australia's main leisure destinations experiencing the greatest growth in hotel occupancies.

The leisure-orientated destinations of Hobart and Tropical North Queensland continued to enjoy relatively strong hotel performance over the second half of 2016:

- Both Cairns and Hobart airport experienced a greater than 6% increase in domestic visitor arrivals (significantly higher than all other markets) while international passengers to Cairns grew by 19%.
- Hotel occupancies reflect this increase in demand, rising 3.7% in Tropical North Queensland, and by 2.1% in Hobart.

- Across Australia's major hotel markets, a total of 20 hotels opened in 2016, representing an addition of 3,500 rooms. Moreover, at around 4,900 new rooms, the nation-wide additional supply in 2016 was almost double the 15-year average.

The pipeline of new hotels in Perth and Brisbane is now coming online in earnest, with the markets adding six and five new properties respectively over the last calendar year.

- Demand was not able to keep pace with this additional supply - indeed the total room-nights that were sold in Perth edged backward slightly over 2016. In Brisbane, room nights available grew at more than twice the rate of room nights sold.
- These dynamics were borne out in occupancy rates, with both markets shedding multiple percentage points last year.

Hobart has now taken third place in the hotel market occupancy rankings, overtaking Perth at the end of last year. This follows a now well-publicised run of strong visitation growth to the island state.

Sydney and Melbourne continued to hold the highest occupancies at 89% and 88%, respectively. However, while room rates continued their growth of 5.5% in Sydney, rates were relatively stable in Melbourne. Sydney hotels now take in $1.4 billion each year in room revenues.

Tourism and hotel market outlook

Despite increased global political uncertainty, the prospects for the Australian tourism sector continue to strengthen. Growth prospects in a number of key source markets have improved and the Australian dollar is expected to depreciate further over the next two years.

While demand for traditional short stay accommodation is set to remain strong, the hotel development pipeline has substantially increased since the August publication, resulting in a more modest outlook for hotel occupancy growth as growth in supply more closely tracks forecast growth in demand.

Macroeconomic developments

The growth outlook for many of Australia's key trading partners remains solid. The US and the Eurozone appear to be on a stable growth path and the impact of Brexit is expected to be limited over the medium term. India has grown strongly thanks to lower oil prices and global deflationary pressures.

While the election of Donald Trump in the United States of America has created a degree of political uncertainty, if the US government introduces its proposed tax cuts, or increases infrastructure spending, the outlook for US growth is positive in the absence of a trade war with China.

The Chinese government enacted a range of stimulus measures in 2016. While this pushed up growth, the broader outlook is for Chinese growth to moderate to 6.2% by 2018-19.

Although the Australian dollar tracked upwards in 2016 it is expected to depreciate modestly over the next two years before stabilising. This will continue to support the growth of domestic leisure travel, although oil prices in Australian dollar terms are expected to grow moderately over the next three years.

The downturn in the Australian economy in the September quarter largely reflected temporary factors, with growth expected to improve in 2017-18 and 2018-19 and with it the outlook for corporate travel.

Domestic tourism

While growth in corporate travel was more muted over the last year reflecting weaker domestic economic growth, conditions are expected to strengthen over the next two years. Moreover, the Australian dollar is expected to continue to depreciate, further supporting the already buoyant domestic leisure sector.

Despite increased global political uncertainty, the prospects for the Australian tourism sector continue to strengthen

Both these factors point to a solid outlook for domestic travel going forward with domestic trips forecast to grow by 3.3% p.a. and visitor nights to grow by 3.2% p.a. on average over the next three years.

The forward outlook for economic growth - and therefore corporate travel - continues to be strongest in the Northern Territory and the larger eastern states, with Queensland and Victoria expected to grow most strongly.

While our forecasts remain unchanged from our August outlook, if the Australian economy recovers more quickly than expected then domestic travel may well grow more strongly.

International tourism

As a result of the marginally improved economic growth outlook for some key inbound tourism markets , Deloitte Access Economics forecasts international visitor trips to grow by 6.3% p.a. and visitor nights by 6.2% p.a. on average over the next three years – a marginally stronger outlook following our August edition upgrade.

- This places the aggregate number of international visitors to Australia in 2019 at 9 million, and the total number of nights at 310 million with international visitor nights expected to overtake domestic visitor nights by 2024.
- On current forecasts, by 2020 the value of inbound tourism from China is expected to exceed the entire inbound international tourism market in 2000.

Over the next three years visitor nights from **India** are expected to continue to grow by 13% as it continues to be the fastest growing global economy while visitor nights from **China** and **Indonesia** are both expected to grow by 10%, while arrivals from the **US** are forecast to grow at 7% over the next three years.

International tourist arrivals to Australia over the last three years have consistently outpaced global economic growth. There is a strong possibility that these trends will continue, with growth potentially exceeding our current forecasts.

- However, given the macroeconomic uncertainties, including the potential for China to experience a hard landing as fiscal stimulus is unwound, the outlook is accompanied by a modest level of caution.

Hotel performance

The hotel performance outlook across the nation's major markets will be driven by the level of exposure to the domestic leisure segment and the strength of the supply pipeline across cities.

On this basis, the markets that have led the way over the last six months will remain atop the performance league table over the outlook period.

- Occupancy growth is expected to be strongest in the leisure markets of the Gold Coast and Tropical North Queensland, along with Canberra.
- Occupancies in Sydney are expected to remain at 89% by the end of 2019, although revenue per available room (RevPAR) growth is expected to be just shy of 5%.

In aggregate, Australian room stocks are expected to expand by 15,800 rooms over the period to December 2019, with 122 properties within the supply pipeline over this period. This represents an 11% expansion of the three-year supply outlook from the previous edition.

The total pipeline of tourism-related investment stands at $29 billion, up a huge 70% from $17 billion three years ago. Two-thirds of the investment pipeline is accommodation, and the remaining third is split between airport runways and terminal facilities (including the new Badgerys Creek Airport), and casino developments. A further $7 billion is scheduled in aircraft investment, though this activity predominantly occurs offshore.

This stronger pipeline has worked to narrow the gap between supply and demand, with room nights sold expected to grow at 2.7% p.a. and room nights available forecast to rise by 2.1% p.a. over the next three years.

- National occupancies are forecast to grow more moderately over the next three years, rising by 1.1 percentage points to 70.8% by 2019.

Room rates are expected to grow at an average of 2.5% p.a. for the next three years to $170 per night, chasing the 10 year historical average growth rate of 2.6%, while RevPAR is expected to grow by 3.1% to a national average of $123 by 2019. This trend growth outlook at the national level masks a chequered picture across the markets.

- Some markets have enjoyed degrees of buoyant performance recently, such as Hobart, Melbourne and to some extent Adelaide, and have now established a considerable pipeline of hotel developments, which will alter the demand/supply dynamics over the medium term.
- Perth and Brisbane hoteliers will continue to feel the double-pinch of increased competition from new entrants and relatively moderate demand growth.
- Tropical North Queensland and Gold Coast hotel markets are expected to continue to enjoy renewed international and domestic interest in the leisure tourism offering. The 2018 Commonwealth Games at the Gold Coast will further generate demand, and showcase these destinations to would-be visitors further afield.
- Darwin will begin to stabilise in terms of market performance, after mining resources projects moving into operation phase have served to hollow FIFO-related hotel demand.

National hotel room revenue reached $27 million a night, raking in $9.8 billion over 2016. Guests are expected to spend a total of $10.2 billion on hotel rooms this year, with that forecast to grow 5.3% p.a. over the next three years.

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 us

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

Bryon Merzeo
Consultant, Tourism and Hotels
+61 415 229 200
bmerzeo@deloitte.com.au

Damian Winterburn
Deloitte Real Estate
+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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