



2014

Tourism and hotel market outlook

Executive summary edition, July 2014

Overview

A strong start to 2014

Improved economic conditions in the US and UK have contributed to the strongest growth in international visitor arrivals in nine years, although domestic and international visitor nights both grew modestly as trip duration shortened.

Domestic tourism

- Growth in domestic overnight travel remained considerably above its post-2000 average over the year to March, with trips growing by a healthy 4.0%. However, domestic visitor nights grew by just 1.2% as travellers continued to favour shorter trips
- Unlike previous quarters, where leisure travel did the heavy lifting, the primary driver of this growth was corporate travel. Business trips grew 6.3% on the back of a strengthening in general levels of economic activity and the lingering effects of the mining construction boom
- While domestic holiday travel failed to maintain the momentum that carried through mid-2013, it nevertheless out-performed its decade average, growing 2.2% for the year to March
- That said, Australians continued their love of holiday travel, with the resilience of the Australian dollar contributing to outbound holiday travel growing nearly 8% for the year
- Across the country, growth patterns were typically mixed, with the stabilisation of corporate travel in Western Australia banding with buoyant leisure travel to grow visitor nights 12.6%, while overall growth in visitor nights in the eastern states was modest
- Domestic day trips fell by 3.6% over the year to March 2014, but were stable in the March quarter relative to the previous year.

International tourism

- International visitor arrivals grew 8.2% over the year to May, driven by a 9.4% increase in leisure travel. For both leisure and overall travel, the recent pace of growth have been the fastest recorded in nearly a decade
- Growth continued to be driven by arrivals from Asia. Arrivals from China grew by 11.9%, while the expansion of low-cost carrier capacity saw arrivals from Malaysia and Singapore grow by 20.4% and 16.0% respectively, as holiday numbers surged.

- But it wasn't all about Asia, with improving economic conditions in the US and UK contributing to a further acceleration in arrivals from these important source markets
 - Arrivals from the UK grew 11.9% over the year to May, a major turnaround after having fallen by almost 20% over the previous six years
 - Arrivals from the US grew by 9.1%, their fastest annualised pace since March 2010.
- Growth in visitors, however, has not translated into growth in nights, with international visitor nights growing by just 0.5% over the year to March
 - While trip duration shortened across the board, the primary driver was in fact compositional change, with leisure travellers – who accounted for the lion's share of growth – visiting, on average, for nearly ten days less than other travellers.

Hotel performance

- With some exceptions, 2013–14 – and January to June 2014 especially – saw stellar performance across Australia's hotel accommodation market, as room rates and Revenue Per Available Room (RevPAR) accelerated, outpacing their respective decade averages
- Strengthening demand and a steady national supply pipeline continue to see hotel occupancies push further into record territory nationally, and across many individual markets
- Sydney and Melbourne continued to break new ground, in terms of both occupancy levels and room rate growth, with both closing in on 90% occupancy
- In Perth and Brisbane, demand momentum from resources investment activity has tapered, with room rates softening, despite resilience in occupancies
 - Against RevPAR, the cities rank third and fourth respectively, some way ahead of the remaining markets.
- The smaller markets were led by expectation-defying growth in Adelaide and continued momentum in Hobart – against both the occupancy and room rate dimensions.

This document provides a summary of the Deloitte Access Economics' Tourism and hotel market outlook. To access the complete edition or to discuss how our capability can be tailored to your market or sector, contact Bryon Merzeo at bmerzeo@deloitte.com.au

Macroeconomic developments

- Growth in Australia's major trading partners is likely to remain close to trend in 2014 and 2015, but the balance of global growth is slowly changing
- The economic recovery in the US and the UK continues to gather steam, leading to strong growth in visitor arrivals from both markets. However, China faces increasing challenges in rebalancing its growth away from infrastructure spending, which is likely to see economic growth moderate marginally over the next three years
- Locally, the Australian dollar strengthened in the first half of 2014 as Australia maintained its status as a global safe haven for investors. However, Deloitte Access Economics continues to forecast the Australian dollar depreciating to around US \$0.80 by 2017, in turn supporting growth in domestic and inbound leisure expenditure
- While growing export volumes boosted Australia's GDP in recent quarters, domestic economic growth is expected to remain slightly below trend over the next three years.

Domestic and international tourism

- Growth of low-cost carrier capacity and the solid economic growth outlook for our major tourism partners has led to an upward revision of Deloitte Access Economics' international visitor forecasts
 - Arrivals are projected to grow by 5.1% and international visitor nights by 5.2% over the next three years
 - Increased low-cost carrier capacity is projected to contribute to strong growth in visitors from Malaysia and Singapore, while the outlook for Chinese visitor arrivals has improved, with the impact of the Chinese Tourism Law appearing short lived
 - A stronger economic outlook for the US and UK is forecast to result in growth in visitor arrivals of close to 4% p.a. over the next three years – a brighter outlook than that witnessed as recently as 12 months ago.

- With the three-year domestic economic outlook remaining broadly stable, Deloitte Access Economics' forecast for domestic visitor activity remains relatively unchanged, with domestic visitor trips expected to grow by an average of 2% p.a. over the next three years
 - Despite recent trends, we continue to project domestic leisure travel assuming a greater share of the growth task – especially toward the end of the forecast period.
- While outbound travel has remained robust, partly as a result of the sustained strength Australian dollar, Deloitte Access Economics continues to forecast outbound travel easing to 3%–4% p.a. over the next three years as the Australian dollar abates from its lofty heights.

Hotel performance

- The outlook for hotel market performance overall is one of demand growing at nearly twice the pace of supply over the next three years and occupancy rates being propelled further into record territory as a result
- The national average occupancy is set to add almost two points, approaching 70% by December 2016. This assessment represents an upward revision from our February Outlook and, if realised, would mean a five percentage point growth in Australian hotel occupancies in as many years
 - The hotel investment pipeline is steady relative to what was reported at the start of the year, with 70 medium-term projects identified, and a marginal pull back of expected room additions to 9,900 over the three years to the end of 2016
 - Nationally, room rates are forecast to grow 3.5% p.a. and RevPAR 4.5% p.a. to December 2016 – an acceleration that will see increased out-performance of the market's 10-year average
 - RevPAR performance is forecast to be led by Melbourne and Sydney, while yields in Perth are expected to be steady, and slip back marginally for Darwin, as new supply is realised over the medium term.

About the Tourism hotel market outlook

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The 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. Besides the national perspective, the hotel market outlook is divided into separate sections for each of the major hotel markets:

- Sydney
- Canberra
- Melbourne
- Darwin
- Brisbane
- Gold Coast
- Perth
- Tropical North Queensland
- Adelaide
- Hobart

While the figures presented in this publication are the product of a forecasting methodology developed over 15 years, and drawing on a wide range of forecasts, the Outlook is designed for a general audience.

To discuss how the capability used here can be tailored to suit your needs, please contact us (contact details overleaf).

Contact us

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Deloitte Access Economics specialises in providing economic modelling and public policy advice to the tourism industry, with extensive experience in forecasting and projections, econometric analysis, economic impact studies across both government and the private sector.

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