Tourism and Hotel Market Outlook

Executive summary
– for public release

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Executive summary

Huge growth in leisure travel to Australia saw international visitor numbers surge 10% over the year to June – the fastest rate of growth since the mid-1990s. At the same time, domestic travel posted its strongest growth since records began nearly two decades ago.

The global economic outlook is losing some of its lustre as far as tourism growth is concerned. Yes, the Australian dollar is at a considerably more favourable level than it was a few years ago. But the near-term scope for further depreciation is modest, global economic growth is slowing and oil prices look likely to recover. Yet, despite the economic fundamentals softening, both the trend performance and the future outlook for tourism continue to strengthen.

Australian tourism is increasingly bucking the global economic fundamentals. Whereas long term trends indicate travel growing only modestly faster than growth in GDP per capita, the last 12 months have seen travel growth at multiples of income growth. This pattern has been observed across both developed and developing economies. Inbound visitation from China is growing more than three times the growth of income per capita; while for markets like the US and Japan, this figure is ten or more. As a result, tourism continues to be one of the shining lights for the Australian economy.

In fact, international visitation has moved up another gear, with huge growth in leisure travel to Australia seeing international visitor numbers surge 10% over the year to June – their fastest rate of growth since the mid-1990s.

But, like the feats witnessed recently at the 2016 Olympics in Rio, the record books are being re-written across multiple fronts, with domestic visitor numbers growing at their fastest pace since formal records began in 1998 (7.6%). Strong growth in visitation is translating into strong growth in economic activity across tourism and its related sectors. In the past year, international visitor expenditure has grown by 17.6% – more than double the 7.9% average of the past five years. Combining domestic activity indicates that total tourism expenditure grew by 7.6% over the past year – more than three times faster than the overall economy.

Tourism growth and the economic backdrop

What is remarkable about the tourism growth currently being observed is that it is being achieved against a backdrop of relatively subdued economic growth both domestically and internationally. The continued growth of the middle class in Asia continues to buoy international travel. But as income growth in China moderates, travel to Australia is accelerating.

At the same time, arrivals growth from Australia's traditional markets – from the US to the UK to Japan – is defying the relatively subdued economic conditions in these markets. Low global oil prices and favourable currency differentials with respect to major source countries have continued to support growth in inbound international tourism to Australia.

But the recent gains on these fronts – that is, falls in the dollar and crude oil prices – are considerably more modest than over periods prior. In fact, the AUD has been relatively flat and oil prices are rebounding.

While we know that often travel activity lags the economic fundamentals, there are nevertheless clear indications that it is more than just the economic drivers that are spurring the records that Australian tourism is chalking up: destination Australia is in demand.

Travel by Australians

Domestic visitor numbers have grown for the 20th successive quarter (in annualised terms) and are growing at their fastest pace in nearly two decades. In all likelihood, domestic visitation is growing at its fastest pace in a considerably longer period – but the record books only stretch back so far.

Growth in domestic visitor nights didn't quite re-write record books, but it was nevertheless well elevated relative to historical levels. The average spend by a domestic traveller fell modestly, but the huge growth in volume meant total expenditure grew sharply. Growth was led by corporate travel – which is growing at a trend rate of around 11% – but the standout story for domestic tourism was leisure travel.

Australians love of holidaying at home remains firmly rekindled, with the trend growth of around 9% being the fastest on record and adding an additional 3 million trips to the domestic holiday market annually. Not for the first time, growth in Australians holidaying domestically surpassed growth in Australians holidaying abroad – the tide remains turned. The big beneficiary of buoyant leisure travel is of course holiday destinations. Visitation to regional holiday hot spots grew faster than capital cities (9.1% versus 5.9%), in an acceleration of a trend evident since the GFC.

As Australians pack their bags to holiday across Australia in record numbers, it isn't the big cities they are heading for – it is regional hotspots from Northern Queensland and the Tropical Coast of NSW (which are both seeing more than half a million additional visitors annually), to the south west of Western Australia and Victoria's High Country (which are both growing at double digit pace).

As a further indication of this strength, air traffic to regional and leisure areas grew at 9% and 10% respectively, over the last three years, compared to only 5% on inter-capital routes.

Meanwhile, mining-related corporate travel, which has been on a steep downward slide since 2012, has stabilised over the last 12 months – at around 2010 levels (and hence healthy territory relative to long term history).

At a state level, solid growth in visitor trips was recorded in all states, with especially strong growth in WA and the Northern Territory, (growth of 13% and 37%, respectively). While visitor numbers to the Northern Territory are typically volatile, WA has benefitted from significant increases in holiday travel, with holiday-makers contributing approximately half of the increase in additional visitors. Stabilisation of economic conditions in the state in turn supported stronger performance on the corporate travel front as well.

Also of note was the fact that growth in domestic overnight travel utilising commercial accommodation grew on par with overall growth. That is, there were no signs from the data that travellers were switching between traditional accommodation and alternatives (such as the sharing economy).

Outbound travel grew at 4.3% over the year to March 2016 – a slight uptick from the preceeding period, but nevertheless well back from its historical peaks and, as noted above, growth in the leisure component of this was trumped by growth in domestic holiday travel. Favourable currency cross-rates contributed to the popularity of Japan as an outbound destination, while outbound travel to both Turkey and France fell as security concerns mounted.

The demand for holiday travel has flowed through to the hotel market with Australia's main leisure destinations continuing to perform well over the first half of the year.

International tourism

International visitor trips continued to accelerate, growing at 10% over the year to June and notching a seventh consecutive year of growth. As acknowledged previously, at no time since the mid-1990s has growth been faster.

Visitor arrivals from China continued to dominate the inbound tourism profile thanks to a further acceleration in the rate of arrivals growth to 22.2% in year on year terms. Growth in visitation from China represented an additional 200,000 trips. To put this into perspective, in 2004, 200,000 visitors represented total visitation from China. China's growth was also more than the growth contributed by the US, New Zealand and the UK combined. Total visitation from China – which hit 1.1 million trips – is now well clear of the peak of the Japanese tourism boom which saw 800,000 visitors a year come to Australia's shores. And only 4% of Chinese nationals have passports.

Other Asian markets continued to show strong growth, with arrivals from South Korea and Taiwan growing at more than 20% and Malaysia and Singapore growing at 8.9% and 10.7%, respectively.

The remarkable growth feats were not limited to the emerging markets, with Australia's traditional source countries also posting growth that belied local economic conditions. Arrivals from the US grew at over 14%, while increases in air capacity contributed to an unprecedented 17% growth from Japan. The February 2016 edition of the Outlook noted that Japan had recorded its first two consecutive years of growth in over a decade, albeit growing at sluggish rate of approximately 1%. Headlines are clearly being re-written.

Holiday travel was again the major driver of the growth in international trips, with leisure arrivals up by 21% and accounting for 95% of total growth in international trips. In contrast, business travel declined by 4%. Reflecting their gateway role, Victoria and NSW received 73% of the growth in international visitor travel, although growth in international visitors was experienced in all states except the Northern Territory.

Hotel market performance[1]

Nationally, occupancies grew half a percentage point to reach 68.7% in June, in trend terms. Room rates continued to grow at a similar pace to the second half of 2015, increasing by 2% over the year to June, reaching $162 per night excluding GST. RevPAR growth remained relatively stable, growing by 1.5% over the last six months and at annualised rate of 3.0%.

An influx of holiday-makers saw strong occupancy growth in the Hobart, Tropical North Queensland and the Gold Coast markets. Hobart saw occupancy rates grow by 2.1% over the last six months, while Tropical North Queensland saw a 3.3% increase in visitor arrivals, with the introduction of flights from Singapore and increased traffic from Shanghai and Hong Kong supporting strong growth in Asian arrivals.

Strong increases in aviation arrivals were also experienced on the Gold Coast with occupancies picking up by 1.6% over the last six months, although room rates remained flat. Brisbane, Darwin and Perth were all weaker as softer demand and increasing inventories weighed on performance.

Sydney continued to be the standout performer among the major hotel markets, with trend occupancies hitting record levels of 89% for the year to June. Room rates also continued to grow strongly with room rates growing by 3% over the last six months and 7.2% over the year to June.

1. Historical market performance data provided by STR.

Tourism and hotel market outlook

Despite a modest outlook for the global economic drivers most critical to travel, the forward-looking prospects for the Australian tourism sector have in fact strengthened. The momentum that has now built across both emerging and traditional international source markets is pushing growth expectations higher.

As the trend towards Australians holidaying locally strengthens, the demand for overnight accommodation is pushed higher still. While the hotel development pipeline has expanded, it remains well shy of national demand growth projections.

Macroeconomic developments

The growth outlook for many of Australia's key trading partners remains solid, albeit not outstanding. 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.

However, the Japanese economy continues to grow sluggishly and Chinese growth is expected to further subside from 7% in 2015-16 to 6.1% this financial year, which in turn moderates the broader outlook.

The outlook for the exchange rate is for the Australian dollar to depreciate relatively modestly over the next two years before stabilising. Oil prices have increased since February 2016 and are expected to continue to do so – albeit at a gradual pace.

While the Australian economy has weathered the winding down of the mining boom relatively well, real GDP growing at 3.1% and nominal GDP growing at 2.1% over the last year, the medium term outlook is for domestic growth to moderate, with implications for domestic corporate travel accordingly.

Domestic and international tourism

While both the global and domestic economic outlooks are softening, economic conditions remain relatively favourably orientated for Australia's tourism sector. Moreover, trend growth continues to exceed what wider economic conditions would suggest. Accordingly, Deloitte Access Economics' tourism outlook has been upgraded for both international and domestic visitation.

Domestic trips are forecast to grow at 3.3% p.a. and visitor nights at 3.2% p.a. on average over the next three years, as buoyant holiday travel offsets a softer domestic corporate outlook.

International visitor trips and visitor nights are forecast to grow at 6.2% p.a. on average over the next three years, with emerging Asia – and China especially – continuing to be the driving force.

This trajectory places the aggregate number of visitors to Australia in 2019 at 9.1 million, and the total number of nights at 320 million. Outbound travel is forecast to grow broadly in line with its current pace, with the growth of Australians heading overseas in the range of 3.5% to 4% over the medium term.

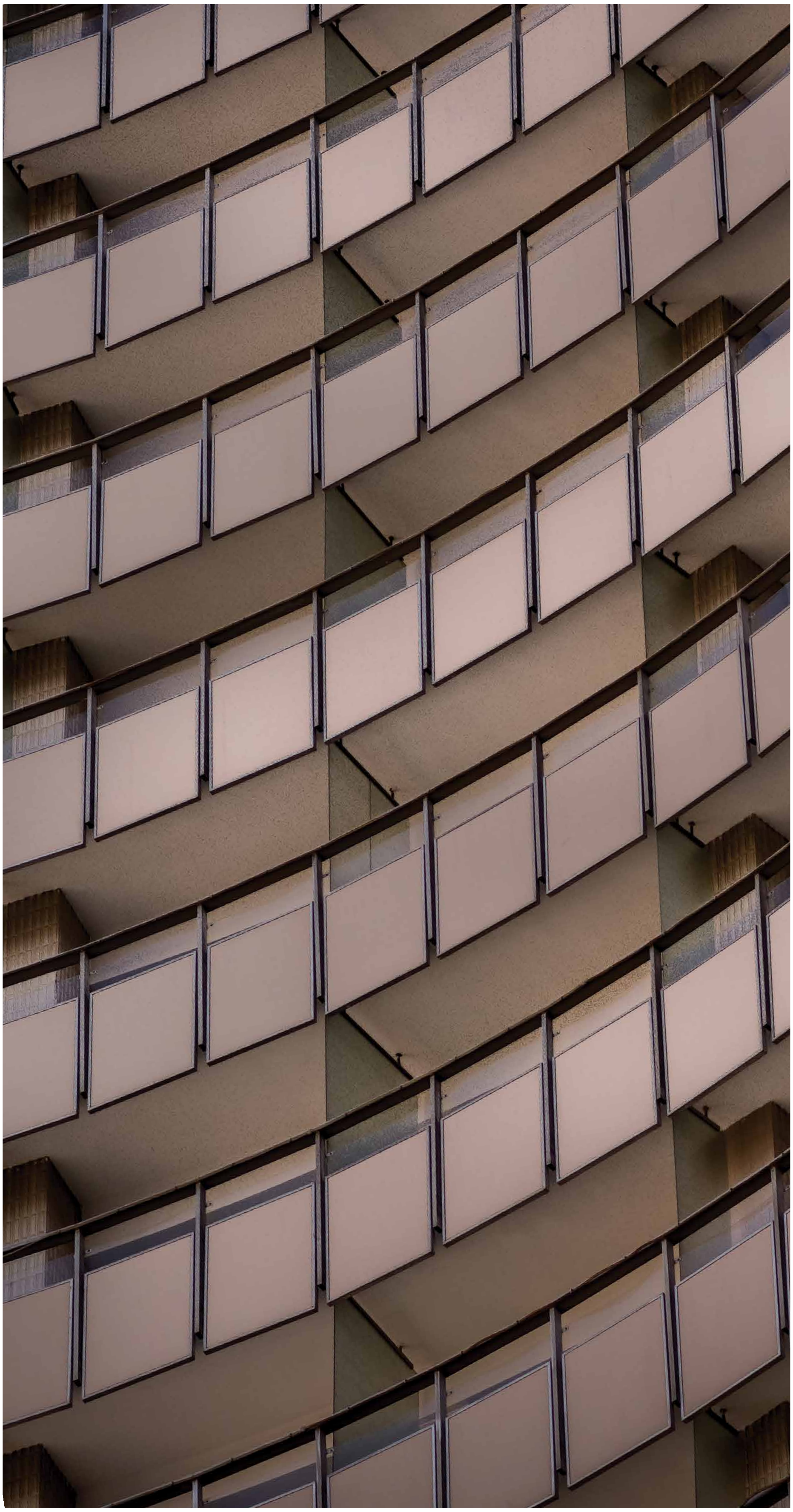
Hotel performance

The hotel performance outlook across the nation's major markets is a function of exposure to international visitation generally and fast-growing Asia specifically; exposure to the domestic leisure segment; and the strength of the local supply pipeline.

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. Sydney's average occupancy will edge into the 90s and only the leisure hot spots of the Gold Coas and Tropical North Queensland will contend with it for the nation's fastest growing RevPAR. Hobart will continue to benefit from the state's ever-growing tourism appeal while Melbourne room rates will start to make headway as occupancies climb higher still.

In aggregate, Australian room stocks are expected to expand by 14,000 rooms over the period to December 2018, representing a 10% increase on our February publication. Despite this, the gap between supply and demand projections remains unbridged.

An improved demand outlook sees demand set to grow at twice the pace of supply over the period to end-2018. National occupancies are accordingly projected to climb two percentage points to 72% by 2018. Demand pressure will sustain average room rate growth of 2.8% p.a. and RevPAR growth.



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 recen 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 marketor market segment, please contact us (contact details overleaf).

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