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TOURISM FORECASTS

2016

TOURISM FORECASTS

TOURISM FORECASTING REFERENCE PANEL

As part of the forecasting process, Tourism Research Australia (TRA) established the Tourism Forecasting Reference Panel (the Panel) comprising experts from industry and government. Its key purpose is to review and provide feedback on TRA's draft tourism forecasts before results are finalised. TRA acknowledge the contribution of the following Panel members:

Janice Wykes	(Chair) Assistant General Manager, Tourism Research Australia
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Cover image: Twelve Apostles, Great Ocean Road, Victoria. Image courtesy of Tourism Australia/Greg Snell.

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FOREWORD

Welcome to Tourism Research Australia's (TRA) Tourism Forecasts 2016.

The 2016 forecasts paint a bright picture for Australia's tourism industry against a backdrop of considerable global economic and political uncertainty.

Buoyed by improving economic growth, lower interest rates, lower fuel prices and the lower Australian dollar, domestic tourism is forecast to improve solidly in the next few years. Visitor nights are expected to increase 4.5 per cent in 2015–16 and to average 3.1 per cent over the ten years to 2024–25. Strong growth will occur in holiday travel, with many Australians choosing to holiday at home rather than travel abroad. Growth in domestic day trips is expected to be stronger again, with 9.7 per cent growth in 2015–16 and another 4.5 per cent in 2016–17. With the increasing trips comes increasing expenditure, with a forecast 5.0 per cent increase in domestic tourism expenditure to $78.4 billion in 2015–16 and a ten-year average growth rate of 2.9 per cent per annum.

While domestic tourism is the largest component of Australia's tourism industry, the inbound tourism market is forecast to continue leading growth (9.3 per cent in 2015–16 and an average 5.6 per cent over the ten years to 2024–25). This growth will be supported by lower fuel prices, a lower Australian dollar, increased aviation capacity and the improvement of economic conditions in overseas markets. This will see the inbound share of total tourism spend increasing from 31 per cent in 2014–15 to 41 per cent in 2024–25, firmly cementing tourism as one of Australia's largest export earners.

Asian markets are expected to continue driving growth in the next few years led by China (up 18.5 per cent in 2016–17 and 13.3 per cent in 2017–18) and India (up 9.4 per cent and 9.7 per cent, respectively). Despite a slowing of the transitioning Chinese economy, the strong visitor growth coming out of China is expected to see China become our largest inbound source market earlier than previously forecast (overtaking New Zealand in 2017–18). Indonesia, Malaysia, Hong Kong, Japan, and South Korea are also expected to experience solid growth, as are our traditional markets of New Zealand and the USA.

The rising middle class (the travelling class) in the Asia-Pacific, increasing connectivity and an aging demographic will see people travelling, for longer and spending more. This makes for a positive outlook for Australia's tourism industry, which augers well for the thousands of tourism businesses across Australia – leading to increasing employment levels and an increased contribution to GDP growth.

Janice Wykes
Assistant General Manager
Tourism Research Australia

1. KEY MESSAGES

KEY TOURISM INDUSTRY TARGETS ARE BEING MET

- By 2019–2020, total overnight expenditure will reach $127 billion in nominal terms (or $115.8 billion in real terms). This will place the industry in the middle range of the target industry potential set under *Tourism 2020*, Australia's national tourism strategy (overnight visitor expenditure to be between $115 and $140 billion by 2020, in nominal terms).

INTERNATIONAL VISITORS TO DRIVE GROWTH IN TOTAL SPEND

- While domestic tourism expenditure is on track for moderate growth, inbound visitor spend is forecast to grow more strongly and increase its share of total visitor spend from 31 per cent in 2014–15 to 41 per cent in 2024–25.

AUSTRALIAN RESIDENTS CONTINUE TO TRADE OVERSEAS TRAVEL FOR DOMESTIC TRAVEL

- Holiday travel is forecast to drive growth in domestic tourism in 2016–17 and 2017–18, largely due to the lower value of the Australian dollar.

CHINA TO OVERTAKE NEW ZEALAND AS OUR LARGEST INTERNATIONAL TOURISM MARKET

- By 2017–18, China is expected to be the largest source of both inbound arrivals and inbound expenditure, overtaking New Zealand as our largest international market – two years earlier than previously forecast.
- In terms of visitor numbers, China is expected to contribute 43 per cent of total growth from 2014–15 to 2024–25 and 60 per cent in terms of expenditure.
- The forecast double-digit growth in inbound arrivals from China will be sustained by its growing middle-income class. This class is geographically spread over different tiers of Chinese cities, which themselves are in various stages of economic and social development.

Image: Mindil Beach Market, Darwin, NT
Image courtesy of Adrian Brown and Tourism Australia

2. FORECASTS, 2015–16 TO 2024–25

2.1 INBOUND ARRIVALS FORECASTS, 2015–16 TO 2024–25

INTERNATIONAL ARRIVALS

2015-16	2016-17	2017-18	2024-25
7.8m	8.3m	8.8m	12.3m
▲ 9.3%	▲ 6.7%	▲ 5.9%	▲ 5.6% p.a.

TABLE 1: INBOUND ARRIVALS - FORECAST GROWTH AND REVISIONS, 2015-16 TO 2024-25

	GROWTH	REVISION ON PREVIOUS FORECASTS
2015–16	▲ 9.3%	▲ 3.4 ppts
2016–17	▲ 6.7%	▲ 1.1 ppts
2017–18	▲ 5.9%	▲ 1.0 ppts
10 YEARS TO 2024–25	▲ 5.6% PER ANNUM	▲ 1.5 ppts

*ppts = Percentage Points

Asian markets are expected to continue driving growth in 2016–17 and 2017–18, led by China (up 18.5 per cent and 13.3 per cent, respectively); India (9.4 per cent and 9.7 per cent); Indonesia (5.2 per cent and 5.3 per cent); Malaysia (5.2 per cent and 5.1 per cent); Hong Kong (4.9 per cent and 4.2 per cent); Japan (4.5 per cent and 3.9 per cent); and South Korea (4.2 per cent and 2.7 per cent).

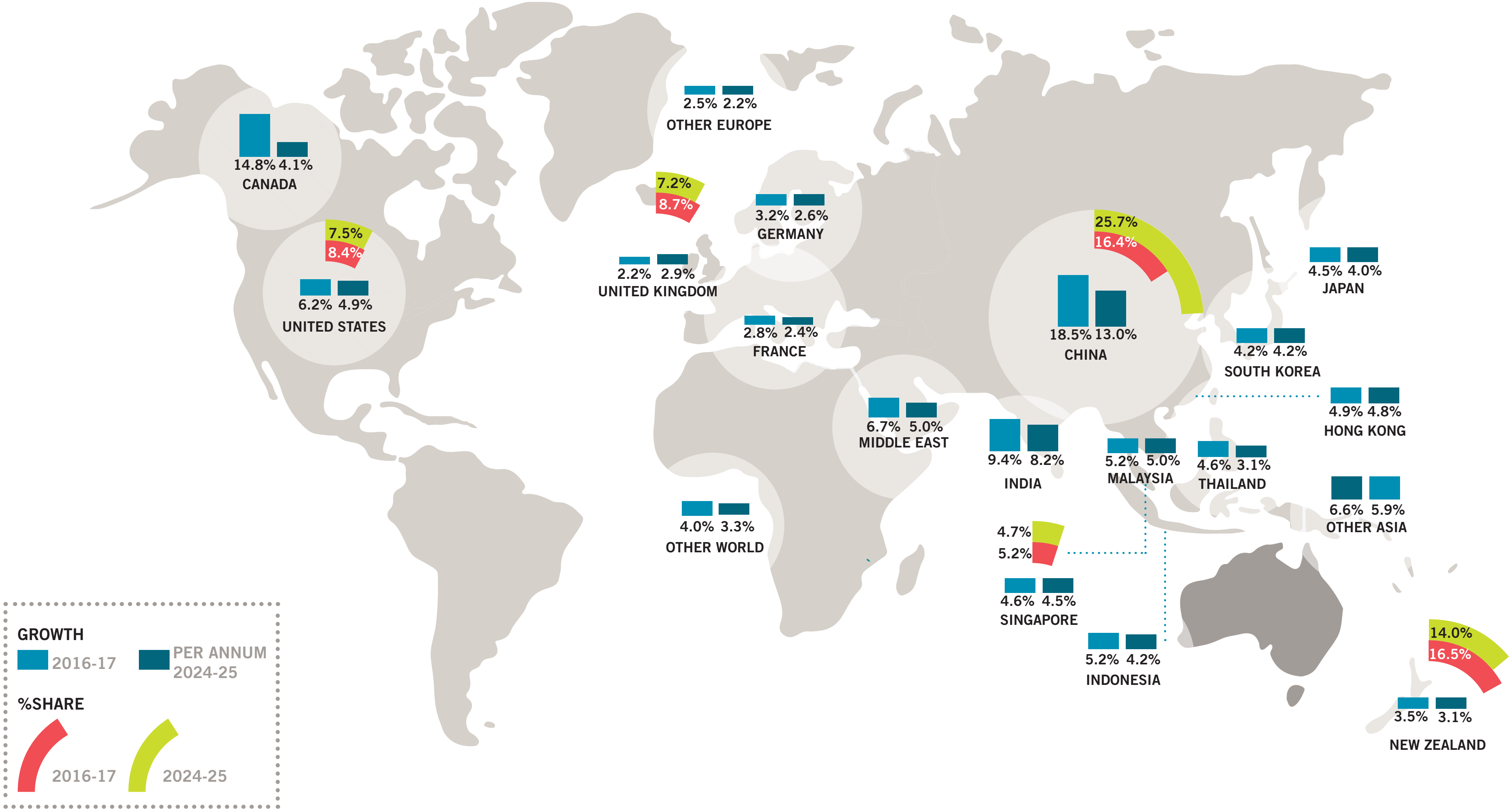
Australia's largest traditional markets are also forecast to grow in 2016–17 and 2017–18:

- New Zealand – up 3.5 per cent and 3.2 per cent, respectively, mainly due to improved economic performance, and increases in aviation capacity
- US – up 6.2 per cent and 4.7 per cent, mainly due to improved economic conditions, solid growth in inbound aviation capacity, and the lower value of the AUD against the USD
- UK – up 2.2 per cent in 2016–17 – this modest growth is due to the negative impact of Brexit, while strong growth of 6.8 per cent is forecast for 2017–18, which will be largely driven by sporting events scheduled for the year.

Overall, Australia's top five inbound markets at 2015–16 (New Zealand, China, the UK, the US and Singapore) are expected to provide 67 per cent of the additional 5.2 million arrivals over the ten years to 2024–25. China alone is expected to contribute 43 per cent of the growth in arrivals over the forecast period.

China's share of total visitors was 13.0 per cent in 2014–15 and this is forecast to increase to 16.4 per cent in 2017–18 and to 25.7 per cent by 2024–25 (Figure 1). Given this stronger-than-expected growth, China is forecast to overtake New Zealand as Australia's largest international arrivals market in 2017–18, two years earlier than previously forecast.

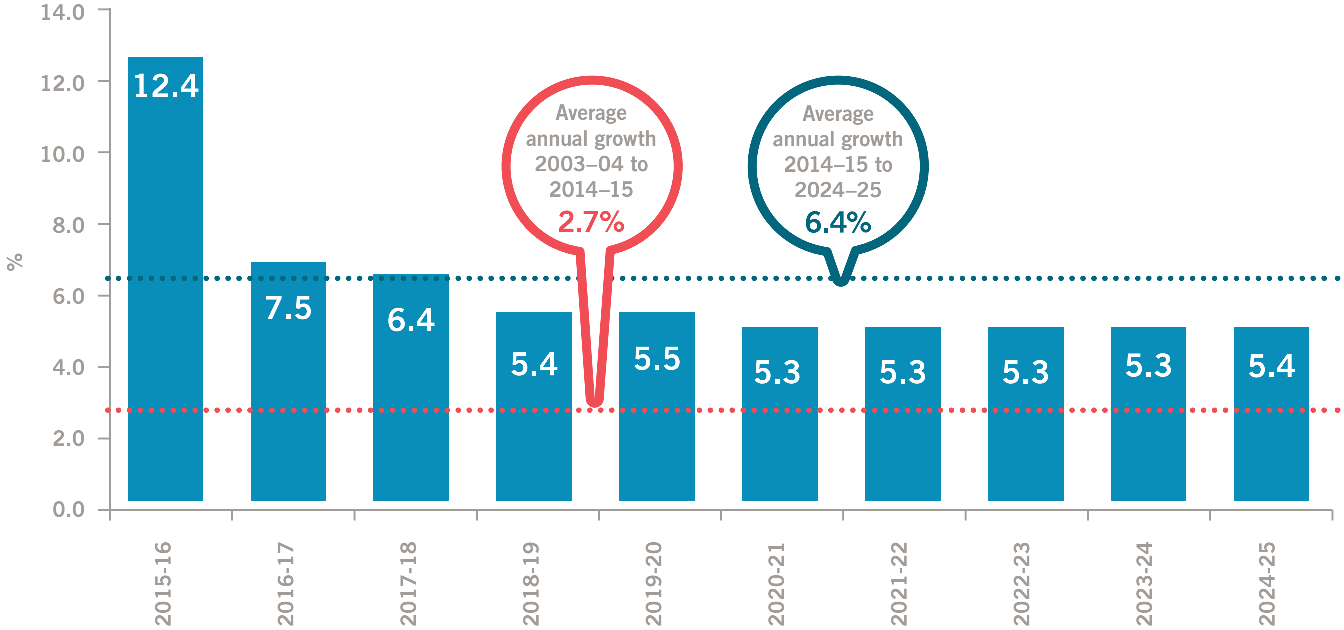
FIGURE 1: ARRIVALS GROWTH AND MARKET SHARE BY MAIN MARKETS, 2016-17 AND 2024-25



The momentum of international leisure[1] travel to Australia is expected to continue over the next two years, with growth of 7.5 per cent and 6.4 per cent forecast for 2016–17 and 2017–18 (Figure 2), respectively. Holiday travel is forecast to increase by 8.4 per cent in 2016–17, and 6.7 per cent in 2017–18.

Travel to visit friends and relatives (VFR) is also expected to experience solid growth, up 5.8 per cent in 2016–17, and 5.9 per cent in 2017–18. Modest growth in business travel is forecast for 2016–17 and 2017–18 (up 3.3 per cent and 3.0 per cent) after an expected decrease of 4.8 per cent in 2015–16.

FIGURE 2: HISTORICAL AND FORECAST ANNUAL GROWTH IN LEISURE ARRIVALS



Source: Department of Immigration and Border Protection, and Tourism Research Australia

1 Leisure travel includes both holiday travel and travel to visit friends and relatives (VFR).

2.2 DOMESTIC VISITORS, 2015–16 TO 2024–25

The forecasts for 2016–17 have been revised up, mainly due to stronger-than-historical data in the first three quarters of 2015–16. The headline forecasts for 2016–17 and 2017–18 are much the same as the previous forecasts, as fundamentals underlying the forecasts remain unchanged. However, historical data show that the holiday travel segment grew faster than VFR. The underlying dynamics show that the lower AUD has influenced domestic residents' travel choices away from overseas travel towards domestic travel, and the substitution came mainly in the form of domestic holiday travel rather than VFR or other categories of travel.

This changing pattern of domestic travel is expected to persist during the forecast period as long as the value of the Australian dollar stays low.

DOMESTIC VISITOR NIGHTS

2015-16	2016-17	2017-18	2024-25
328m	340m	351m	423m
▲ 4.5%	▲ 3.8%	▲ 3.2%	▲ 3.1% p.a.

Domestic visitor nights are forecast to increase 4.5 per cent to 328 million in 2015–16; 3.8 per cent to 340 million nights in 2016–17; and 3.2 per cent to 351 million in 2017–18. The 10-year average growth rate is forecast at 3.1 per cent, with visitor nights expected to reach 423 million by 2024–25 (Table 2).

TABLE 2: DOMESTIC VISITOR NIGHTS - FORECAST GROWTH AND REVISIONS, 2015-16 TO 2024-25

	GROWTH	REVISION ON PREVIOUS FORECASTS
2015–16	▲ 4.5%	▲ 1.0 ppts
2016–17	▲ 3.8%	▲ 0.1 ppts
2017–18	▲ 3.2%	No change
10 YEARS TO 2024–25	▲ 3.1% PER ANNUM	▲ 0.3 ppts

*ppts = Percentage Points

Image: Indigenous experiences, Queensland
Image courtesy of James Fisher and Tourism Australia

DOMESTIC DAY TRIPS

2015-16	2016-17	2017-18	2024-25
186m	194m	202m	257m
▲ 9.7%	▲ 4.5%	▲ 4.2%	▲ 4.3% p.a.

Image: NSW South Coast
Image courtesy of Mike Newling and Tourism Australia

Growth of domestic day trips is expected to be stronger than that of domestic overnight trips over the next three years and in the longer term (Table 3).

TABLE 3: DOMESTIC DAY TRIPS - FORECAST GROWTH AND REVISIONS, 2015-16 TO 2024-25

	GROWTH	REVISION ON PREVIOUS FORECASTS
2015–16	▲ 9.7%	▲ 6.1 ppts
2016–17	▲ 4.5%	▲ 0.7 ppts
2017–18	▲ 4.2%	▲ 0.9 ppts
10 YEARS TO 2024–25	▲ 4.3% PER ANNUM	▲ 2.2 ppts

*ppts = Percentage Points

2.3 AUSTRALIAN RESIDENT DEPARTURES (OUTBOUND), 2015–16 TO 2024–25

RESIDENT DEPARTURES (OUTBOUND)

2015-16	2016-17	2017-18	2024-25
9.6m	10.0m	10.4m	13.2m
▲ 4.4%	▲ 4.0%	▲ 3.9%	▲ 3.6% p.a.

Modest growth is forecast to continue in the coming two years, with outbound departures expected to grow by 4.0 per cent to 10 million in 2016–17, and 3.9 per cent to 10.4 million in 2017–18. The 10-year average growth rate is forecast at 3.6 per cent, which will result in outbound departures reaching 13.2 million by 2024–25 (Table 4).

The forecasts for 2015–16 and 2016–17 and over the 10-year forecast period represent a slight upward revision from those previously forecast. This can be attributed to stronger-than-expected outcomes for the first nine months of 2015–16, and better-than-expected consumer sentiment due to cuts in the cash rate.

TABLE 4: RESIDENT DEPARTURES (OUTBOUND) - FORECAST GROWTH AND REVISIONS, 2015-16 TO 2024-25

	GROWTH	REVISION ON PREVIOUS FORECASTS
2015–16	▲ 4.4%	▲ 1.2 ppts
2016–17	▲ 4.0%	▲ 0.6 ppts
2017–18	▲ 3.9%	No change
10 YEARS TO 2024–25	▲ 3.6% PER ANNUM	▲ 0.3 ppts

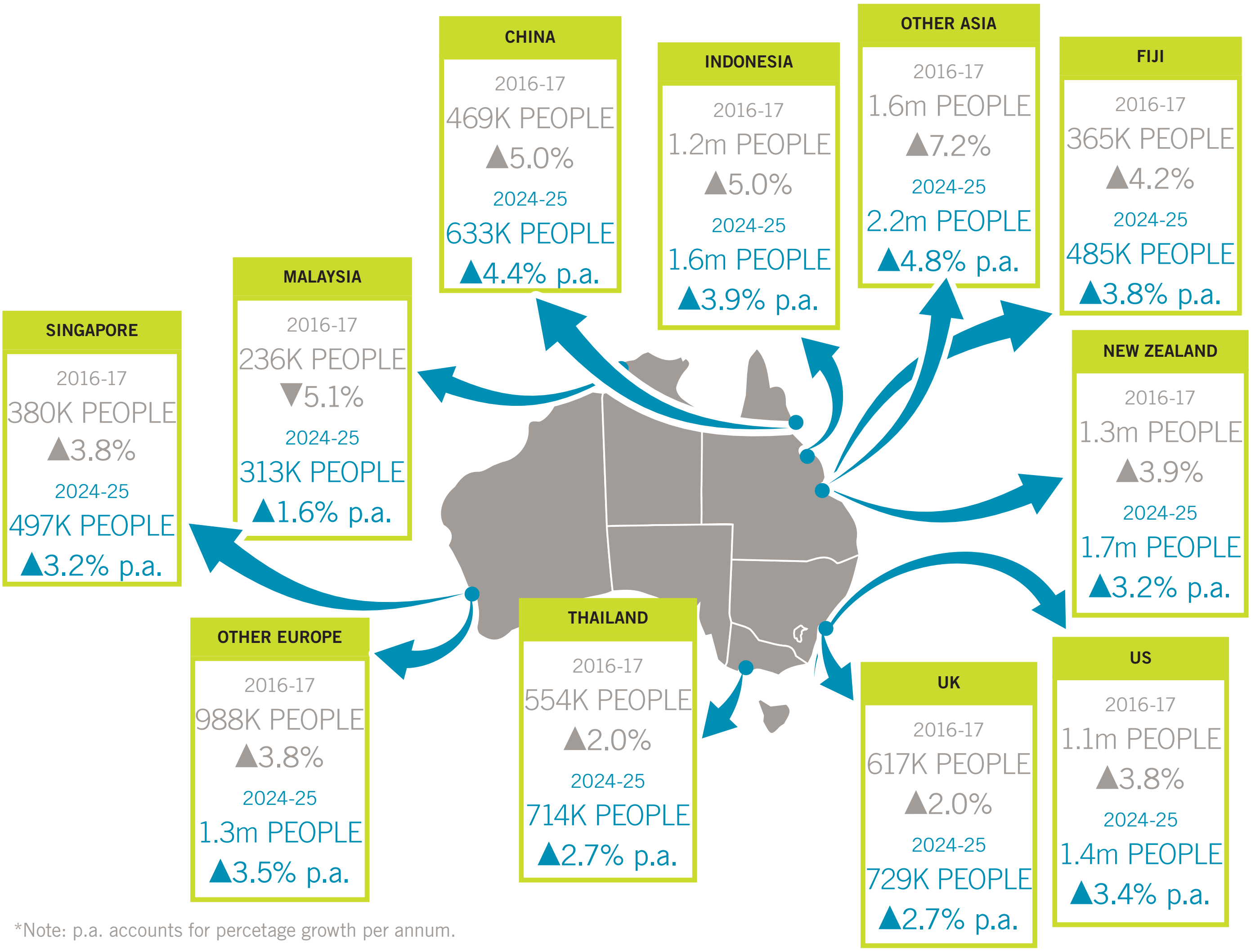
*ppts = Percentage Points

*ppts = Percentage Points

Image: Departure gate lounges
Image courtesy of Melbourne Airport

Other Asia[2], Indonesia, China, Fiji and New Zealand are forecast to be the top five fastest growing destinations visited by Australian residents in the next two years (Figure 3).

FIGURE 3: RESIDENT DEPARTURES (OUTBOUND) GROWTH BY MAIN DESTINATION, 2016-17 AND 2024-25



*Note: p.a. accounts for percetage growth per annum.

Source: Tourism Research Australia

2 Includes Japan

2.4 TOTAL TOURISM EXPENDITURE, 2015–16 TO 2024–25

TOTAL VISITOR EXPENDITURE (REAL TERMS)

2015-16	2016-17	2017-18	2024-25
$117b	$123b	$129b	$167b
▲ 8.2%	▲ 4.9%	▲ 4.4%	▲ 4.4% p.a.

In real terms, total tourism spend is forecast to increase 8.2 per cent to $117.5 billion in 2015–16; 4.9 per cent to $123.2 billion in 2016–17; and a further 4.4 per cent to $128.6 billion in 2017–18. The 10-year average growth rate is forecast at 4.4 per cent, with total visitor spend expected to reach $166.7 billion by 2024–25 (Table 5).

TABLE 5: TOTAL VISITOR EXPENDITURE (REAL TERMS) - FORECAST GROWTH AND REVISIONS, 2015-16 TO 2024-25

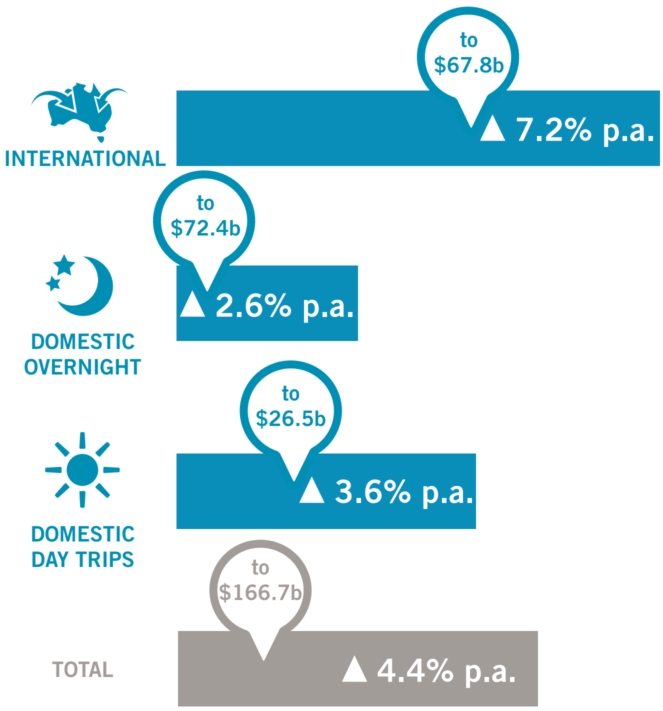
	GROWTH	REVISION ON PREVIOUS FORECASTS
2015–16	▲ 8.2%	▲ 3.7 ppts
2016–17	▲ 4.9%	▲ 0.6 ppts
2017–18	▲ 4.4%	▲ 0.8 ppts
10 YEARS TO 2024–25	▲ 4.4% PER ANNUM	▲ 1.4 ppts

*ppts = Percentage Points

Total inbound expenditure is forecast to grow 15.4 per cent to $39.1 billion in 2015–16; 7.4 per cent to $42 billion in 2016–17; and 7.1 per cent to $44.9 billion in 2017–18. The 10-year long-run forecast is for the average growth rate for total inbound expenditure to be at 7.2 per cent per annum, and for total inbound expenditure to reach $67.8 billion in real terms by 2024–25 (Figure 4). The inbound share of total tourism spend is forecast to increase from 31 per cent in 2014–15 to 41 per cent in 2024–25.

Domestic tourism expenditure is forecast to increase 5.0 per cent to $78.4 billion in 2015–16; 3.7 per cent to $81.3 billion in 2016–17; and 3.0 per cent to $83.7 billion in 2017–18 in real terms. The 10-year long-run average growth rate for domestic expenditure is forecast at 2.9 per cent per annum, which would lead to $98.9 billion in domestic tourism expenditure in real terms by 2024–25.

FIGURE 4: TOTAL VISITOR EXPENDITURE (REAL TERMS) - ANNUAL GROWTH BY VISITOR TYPE, 2015-16 TO 2024-25



By 2024–25, the top five largest inbound markets in terms of visitor expenditure will be China, New Zealand, the US, the UK, and India, which will contribute over three-quarters of growth in inbound visitor expenditure. China alone is forecast to account for 60 per cent of total growth in expenditure.

3. THE ECONOMIC FACTORS INFLUENCING THE FORECASTS

3.1 THE GLOBAL ECONOMY

The global economy is forecast to grow by 3.2 per cent in 2016 before strengthening to 3.5 per cent in 2017, slightly weaker than previously forecast (IMF 2016)[3]. The overall picture of the world economy remains mixed.

The outlook for advanced economies is modest with growth forecast at 1.9 per cent for 2016 and 2.0 per cent for 2017. Growth in the advanced economies continues to be supported by lower fuel prices and lower interest rates.

Emerging economies are expected to grow faster than advanced economies over the next two years, albeit unevenly. While resource and energy-exporting economies like Russia and Brazil are expected to be in low-growth territory or in recession, Asian economies are performing relatively well. In net terms, emerging economies are expected to grow 4.1 per cent in 2016 and 4.6 per cent in 2017.

However, the recent Brexit vote has significantly increased uncertainty in global markets, making it difficult to predict the likely impact on tourism. Should there be a smooth transition, overall, global economic conditions over the two years should remain favourable for Australia's inbound tourism market.

CHINA

After decades of high economic growth, China's economy is rebalancing from a heavy reliance on investment and exports as sources of growth towards a more sustainable growth path. Within this changing economy, household consumption is taking an increasingly important role.

While this transition has caused growth to moderate in recent years, China continues to contribute to global growth on a much larger scale than it had been ten years ago. Under the new growth model, future consumption growth is supposed to be driven by an increasing share of labour income relative to capital returns in its national balance sheet. On the expenditure side of the ledger, however, more money will be spent on services including international tourism and education.

Against this backdrop, China's economy is expected to grow 6.3 per cent and 6.1 per cent in 2016–17 and 2017–18, respectively. This rate of growth will contribute to more of its population moving into the middle-income class with greater capacity to travel (see Section 3.4).

NEW ZEALAND

The economic growth of New Zealand appears to have been accelerating recently with various data pointing to better-than-expected economic outcomes. The stronger growth of services sectors more than offset declines in the manufacturing and agriculture industries. Encouragingly, the economic performance is driven by robust domestic private consumption growth and an improving job market. These factors should support growth in consumer discretionary expenditure on domestic and outbound travel.

Looking forward, the growth momentum is expected to continue over the next two years, with the economy forecast to grow by 2.6 per cent for both 2016–17 and 2017–18.

INDIA

In contrast to China, India's economy appears to be transitioning to a fast track, assisted by lower oil prices, low interest rates and the faster pace of economic reform. As Indian government policy may stimulate and channel more investment into infrastructure to facilitate growth, its high economic growth could be driven more by investment and exports, which is a growth model that China had maintained for decades. The higher economic growth will give rise to more middle-income groups with greater capacity to undertake international travel.

The Consensus Economics' forecast is for India's economy to grow 7.6 per cent in 2016–17 and 7.7 per cent in 2017–18, the highest rate of growth among Australia's top ten tourism source markets.

JAPAN AND OTHER ASIA

Over the next few years, growth in the Northeast Asian economies including Japan, South Korea and Hong Kong is expected to ease further, in part due to the ramifications of China's economic slowdown as these economies are heavily exposed to the Chinese market.

For the Japanese economy, immediate risks to growth have eased with the delay of the increase in the consumption tax to October 2019. On the positive side, lower energy prices and higher employment participation rates provide impetus to economic growth, but the extreme expansionary monetary policy of negative cash rates adds to economic uncertainty. Under these circumstances, the Japanese economy is forecast to stay on a low-growth track with 0.8 per cent forecast for 2016–17, and 0.9 per cent for 2017–18.

3 "World Economic Outlook: Too Slow for Too Long", International Monetary Fund, April 2016

THE US

Despite a slow start in the first quarter in 2016, the US economy remains on track for modest growth over the next two years. It should be noted, however, that its recovery is mainly driven by consumer consumption, which is strengthened by rising wages and cheap energy and food prices. The continuing improvement in the job market also buoys consumer confidence. These positive factors more than offset the weakening manufacturing and energy sectors and moderated external demand, which is in part due to the strengthening US dollar. Overall, the US economy is expected to increase 1.9 per cent in 2016–17 and 2.3 per cent in 2017–18.

THE UK AND EUROZONE

The UK economy is forecast to grow 0.8 per cent in 2016–17 and 1.2 per cent in 2017–18. The modest growth forecast is driven by domestic private consumption, which in turn is supported by lower energy prices and a buoyant property market. However, uncertainty in the wake of Brexit could result in further downside risks to economic growth.

In the Eurozone, conditions continue to improve in Germany and France. However, the outcome of Britain's referendum on Brexit will likely have a long-term negative impact on the economy of the Eurozone. Adding to the uncertainty are concerns about the health of the European banking sector and the European Central Bank's extreme monetary policy, though the risks are equally split on both upside and downside. Notwithstanding that negative cash rates could stimulate consumer consumption in the short term, any depreciation of the Euro relative to the Australian dollar could deter travellers from visiting long-haul destinations like Australia.

TABLE 6: FORECAST GROWTH IN KEY TOURISM ECONOMIES, BY MARKET

	2016	2017	2015 global GDP (ppp) % share[b]
New Zealand[a]	2.3	2.8	0.1
China[a]	6.4	6.2	17.1
United Kingdom[a]	1.4	0.4	2.4
United States of America[a]	1.8	2.1	15.8
Singapore[a]	1.8	2.3	0.4%
Japan[a]	0.5	0.9	4.3
Malaysia[a]	4.2	4.5	0.7
South Korea[a]	2.7	3.0	1.6
India[a]	7.5	7.5	7.0
Indonesia[a]	4.9	5.3	0.5
Advanced economies[b]	**1.9**	**2.0**	**42.4**
Emerging economies[b]	**4.1**	**4.6**	**57.6**
World[b]	**3.2**	**3.5**	**100.0**

Note: GDP forecasts in constant dollars.
ppp - purchasing power parity.
[a]Consensus Economics
[b]International Monetary Fund (IMF)

3.2 AUSTRALIA'S ECONOMY

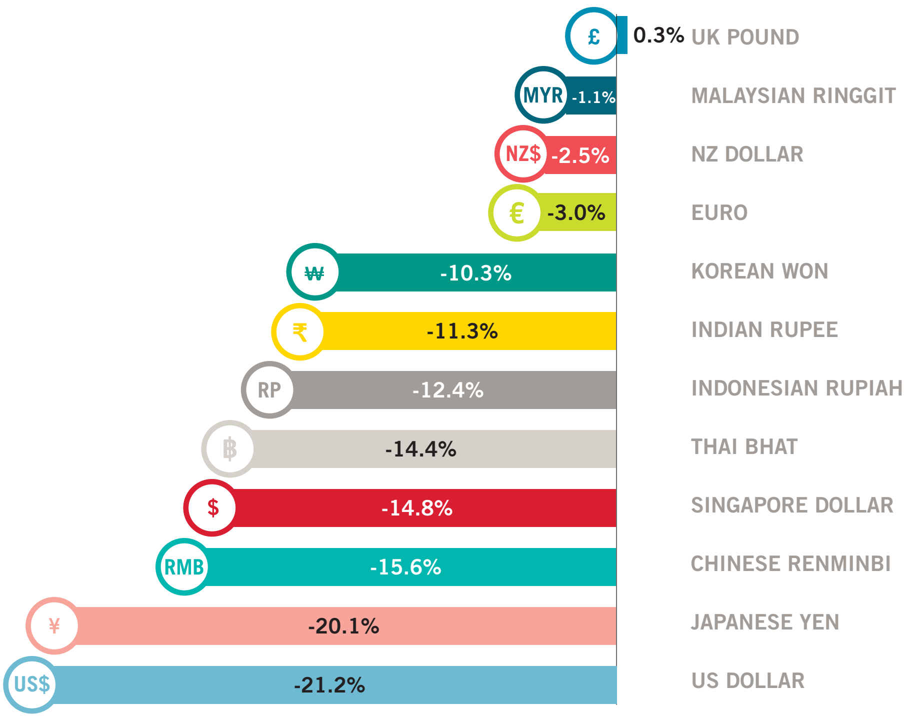
AUSTRALIAN GDP GROWTH

2014-15	2015-16	2016-17	2017-18
▲ 2.2%	▲ 2.5%	▲ 2.5%	▲ 3.0%

Australia continues its transition to a broader-based economy, with most indicators showing that the economic rebalancing is on a firm footing. The latest Australian Bureau of Statistics' (ABS) data suggests that the economy may have gained more momentum over the first two quarters of 2015–16, and is likely to deliver annualised growth of 3.1 per cent through the year. The services industry, including tourism-related sectors, may have grown at a faster rate than other sectors. For example, in 2014–15, real direct tourism GDP increased 2.8 per cent, compared with real GDP growth of 2.3 per cent.

Facilitating the structural transition is Australia's competitive exchange rate (the lower value of the Australian dollar) against the currencies of major trading partners (Figure 5). TRA estimates that the Australian dollar will average US$0.72 in 2016–17 and 2017–18. The lower value of the Australian dollar is also expected to continue driving the growth of international visitor expenditure in Australia in the coming years.

FIGURE 5: AUSTRALIAN DOLLAR MOVEMENTS AGAINST LEADING TOURISM CURRENCIES, JUNE 2014 TO JUNE 2016 (% CHANGE)



Data source: Reserve Bank of Australia

A number of favourable factors, including lower fuel prices and historically low interest rates, will enhance domestic consumer discretionary expenditure. While lower real wage growth may restrict domestic private consumption, an improving job market, however, could ameliorate any resulting income effects. According to Treasury's estimates, the unemployment rate will drop to around 5.5 per cent by the June quarter 2017.

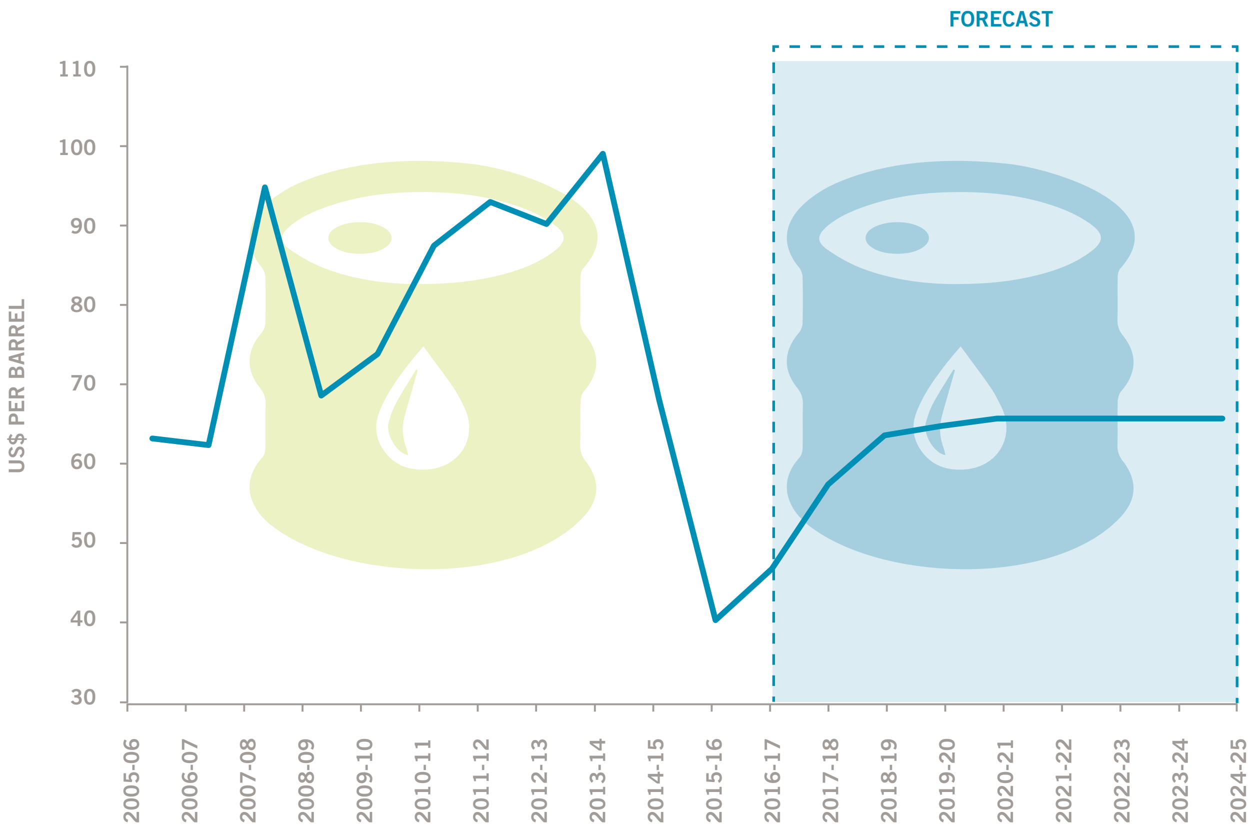
The outlook for domestic economic growth in the next two years is positive. The Treasury forecast real GDP to grow 2.5 per cent in 2016–17, before accelerating to above-trend growth of 3.0 per cent in 2017–18.

3.3 WORLD OIL PRICES

As a result of the interplay of oversupply in the world oil markets and weakening demand due to economic slowdown in China, world oil prices have dropped dramatically since the 4th quarter 2014 – hitting around US$40 per barrel. However, oil prices have since recovered to around US$50 per barrel.

Lower oil prices have wide-ranging positive impacts on global tourism, through either income effects or reducing travel costs. As most of Australia's major inbound source markets – like the Northeast Asian markets and New Zealand – are net oil importing economies, persistently low oil prices will boost private consumption and strengthen demand for outbound tourism. The world oil price is projected to stay low over the forecast period (Figure 6).

FIGURE 6: GLOBAL OIL PRICES (WEST TEXAS INTERMEDIATE), 2005-06 TO 2024-25



Source: Thomson Reuters, 2016

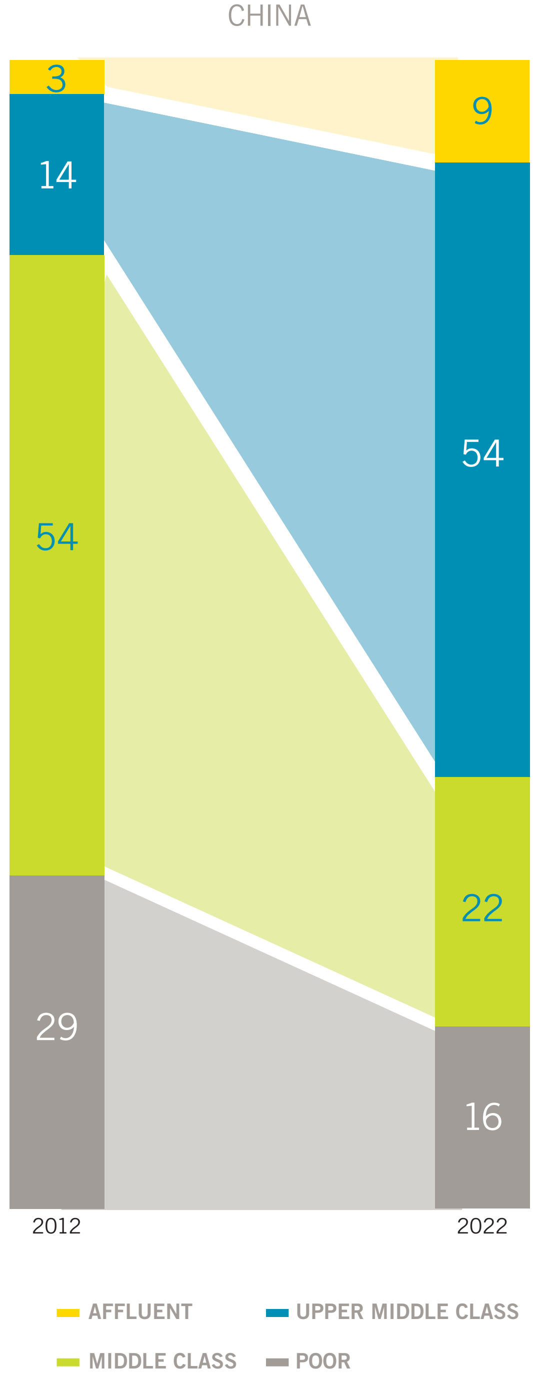
3.4 CHINA'S MIDDLE-INCOME CLASS

A major outcome of China's high economic growth over the last decade has been the emergence of the growing middle-income class (Figure 7). As per capita income increases, consumer spending choices tend to move away from basic subsistence towards consumer durables and services, including education, tourism, health care, finance, and insurance.

Often in emerging markets, different analysts will apply their own varying definitions and measures of the income range for the 'middle-income class'. For China, a widely cited measure suggested by McKinsey & Company defined the mass middle-class income in the range of US$9,000 to US$16,000 and the upper middle-class income in the range of US$16,000 to US$34,000[4]. In 2012, the mass middle-income class represented more than half (54 per cent) of all urban households in China, significantly higher than that of the upper middle-income class (14 per cent). However, the upper middle-income class is projected to grow and dominate total urban households in 2022 at 54 per cent, while the mass middle-income class will dwindle down to 22 per cent. By 2022, China's middle-income class consumers are expected to reach 630 million (three-quarters of urban Chinese households, or 45 per cent of the entire population), consuming goods and services valued at US$3.4 trillion (24 per cent of GDP).

McKinsey & Company (2013) highlighted that the upper middle-income class is the group of consumers who are more willing to pay a premium for quality products and can afford to spend more of their income on discretionary products and services. They are also much more internationally focused. These consumers are also better educated and more likely to speak a foreign language (34 per cent have a bachelor degree, and 26 per cent can speak or understand English).

FIGURE 7: THE CHANGE IN CHINA'S MIDDLE CLASS, 2012 TO 2022



Source: McKinsey & Company, 2013

4 "Mapping China's Middle Class", McKinsey Quarterly, June 2013

International travel has increasingly become an essential item on the shopping list of the middle-income class consumers in China. A joint survey by TripAdvisor and Boston Consulting Group (2013) found that most potential outbound travellers will be sourced from the middle-income class (defined as having an average annual household income of over US$13,000) in small and medium-sized cities[5]. The report also suggested that over 80 per cent of the middle-income class in China live in small and medium-sized cities. By 2025, China will have 221 cities with one million-plus inhabitants – compared with 35 cities of this size in Europe today – and 23 cities with more than five million[6].

MIDDLE-CLASS CONSUMPTION AND OUTBOUND TOURISM

Chinese travellers' spend on overseas trips reached US$164.9 billion in 2014 (UNWTO), up by $28 billion from the previous year. In 2015, Chinese outbound tourism had already hit the yearly goal of 120 million trips that the Chinese government had set as a lifestyle benchmark for its residents between 2015 and 2020. This goal will likely double to 200 million yearly in 2020.

Despite some concerns that outbound tourism may be detracting from domestic economic growth, government support for residents' international travel appears to be gaining ground. The average annual growth rate of Chinese outbound visitors (14.7 per cent)[7] increased strongly above the average annual growth of Chinese GDP (8.4 per cent) over the period 2009 to 2015.

5 "Winning the Next Billion Asian Travellers – Starting with China", TripAdvisor and The Boston Consulting Group (BCG), December 2013

6 http://www.mckinsey.com/global-themes/urbanization/preparing-for-chinas-urban-billion

7 "Report on China's Tourism Development", National Tourism Administration of P.R. China, May 2016

Image: Twelve Apostles Lodge Walk, Great Ocean Road, VIC
Image courtesy of Adrian Brown and Tourism Australia

4. THE TOURISM DRIVERS INFLUENCING THE FORECASTS

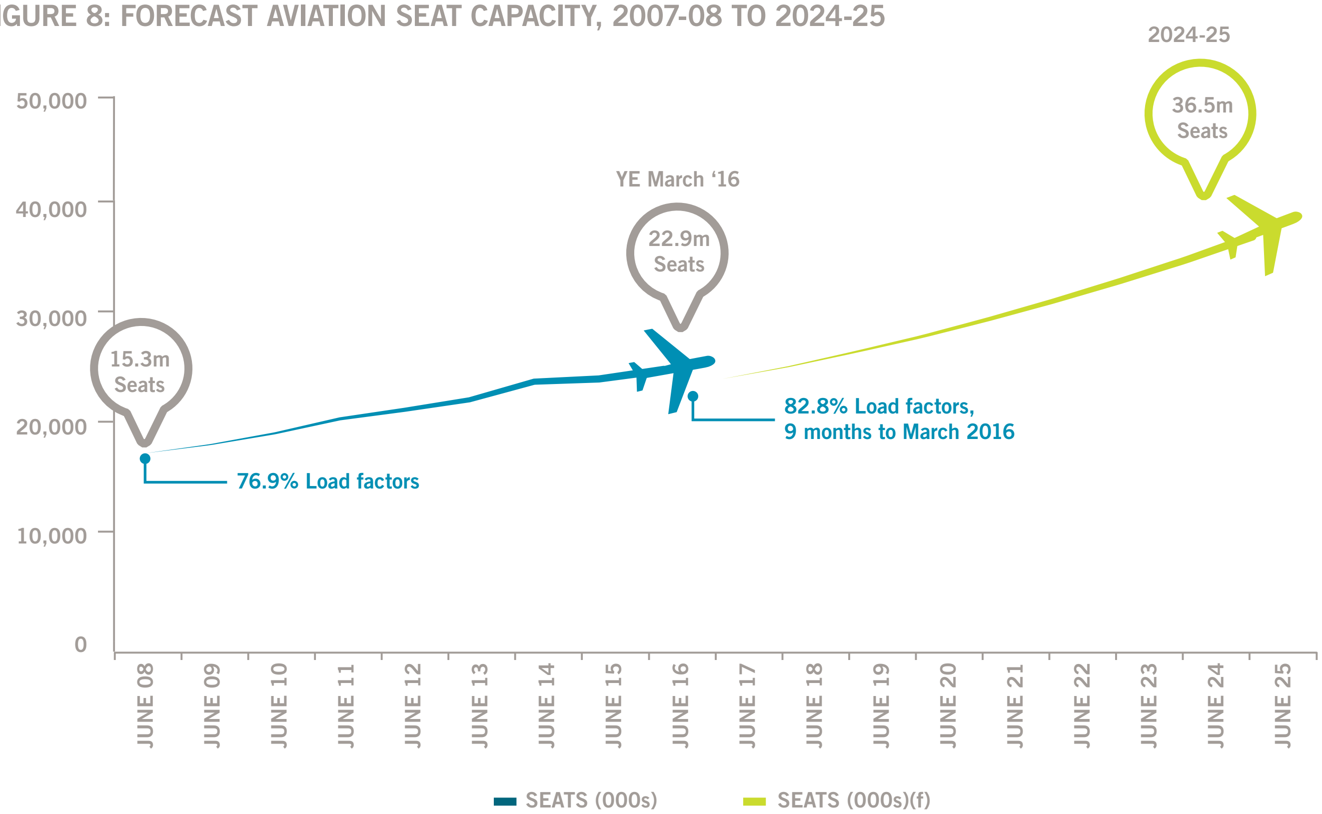
4.1 AVIATION

INTERNATIONAL AVIATION

International aviation capacity to Australia grew 5.1 per cent over the first three quarters of 2015–16. Noticeably, there has been larger growth in passengers than seat capacity, resulting in a higher passenger load factor (a key profitability indicator) of about 83 per cent in the first nine months of 2015–16. Based on the Northern Summer Timeline (2016)[8] and other market intelligence, TRA expects growth momentum to pick up slightly in the last quarter of the financial year, with total inbound aviation capacity forecast to grow 6.0 per cent in 2015–16.

Looking forward, TRA expects inbound air capacity to grow 6.2 per cent in 2016–17 and 6.3 per cent in 2017–18, due to the improved financial performance of major international airlines, buoyant passenger demand, and lower oil prices. In the longer term, average annual growth of 4.6 per cent is projected for the period between 2018–19 and 2024–25 (Figure 8). The long-term growth forecast represents an upward revision to TRA's previous forecasts, largely due to lower world oil prices over the forecast period.

FIGURE 8: FORECAST AVIATION SEAT CAPACITY, 2007-08 TO 2024-25



Source: Bureau of Infrastructure, Transport and Regional Economics, Tourism Research Australia and Airport Coordination Australia

8 http://www.austrade.gov.au/images/UserUploadedImages/1798/2015-austrade-logo-v2.png

CHINA AND ASIAN MARKETS

The surge in inbound air capacity from China in the first nine months of 2015–16 has been largely attributable to entry into the Australian market of two additional Chinese carriers, Xiamen Airlines and Hainan Airlines. Some residual momentum from the two new starters is expected to flow into 2016–17. Additional capacity for 2016–17 will include the following new routes:

- from Qingdao to Melbourne in September 2016 (Beijing Capital Airlines)
- Shenzhen to Melbourne in October 2016 (Air China)
- Shanghai to Brisbane in December 2016 (China Eastern Airlines).

The new schedules are expected to bump up growth for 2016–17 to around 21 per cent. Without new information, a trend growth of about 10 per cent is forecast for 2017–18.

The first nine months of 2015–16 also saw inbound capacity from Japan increase more than 24 per cent as a result of All Nippon Airways (ANA) re-entering the Australian market. Flat growth is expected for 2016–17; however, market intelligence points to the possibility of ANA expanding its Australian presence by starting services to Melbourne and Perth in the near future, which has resulted in an upward revision of air capacity to 6.0 per cent for 2017–18.

Inbound air capacity from Korea is expected to increase 6.0 per cent in 2015–16, due to Korean Air replacing its Boeing 777s with the much larger A380s from late 2015. As Korean Air continues to roll out the use of A380s, 3.8 per cent growth in total inbound air capacity is forecast for 2016–17 (Figure 9).

Other new capacity in Asia will be sourced from Singapore Airlines scheduling a four-weekly Singapore-Canberra-Wellington return service starting 20 September 2016. The new routes will add an additional 1.5 percentage points in growth to inbound aviation capacity between Singapore and Australia for 2016–17, with some residual growth momentum continuing into 2017–18. From late May 2016, Singapore Airlines started a fourth Singapore-Brisbane service, operating three days a week.

NEW ZEALAND

Over the last nine months of 2015–16, direct air capacity from New Zealand increased 6.6 per cent, with growth momentum expected to continue for the remainder of 2015–16. While the strong growth has been a result of a surge in the capacity of Jetstar, growth has been sourced from all major carriers including Qantas, Virgin and Air New Zealand.

The new routes between Wellington and Canberra will add about one percentage point to trans-Tasman growth, which is forecast at 3.2 per cent for 2016–17 (Figure 9).

US AND CANADA

For the first nine months of 2015–16, direct air capacity between Australia and the USA increased 9.9 per cent, while seat capacity between Australia and Canada increased 3.0 per cent over the same period. The strong growth follows the addition of services by almost every carrier on the route in 2015–16. Market intelligence suggests that Qantas and American Airlines plan to add at least two new trans-Pacific routes over the next five years, which bodes well for solid capacity growth in the market.

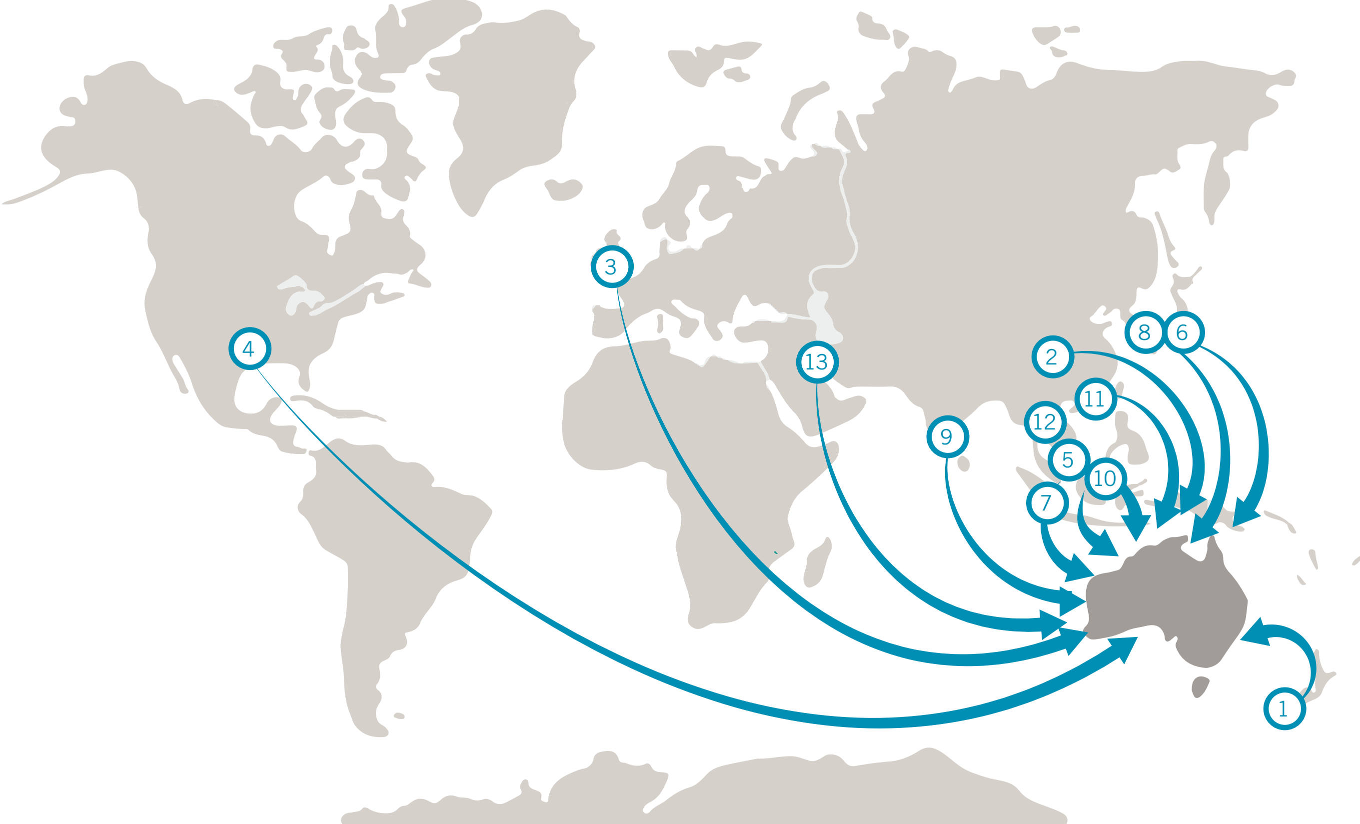
Air Canada commenced daily flights on the Vancouver-Brisbane routes in June 2016 using new 787-9 aircraft.

UK AND THE MIDDLE EAST

In the absence of non-stop direct flights between the UK and Australia, British tourists come to Australia via a number of hubs in the Middle East and Asia. In 2015–16, over half of UK visitors to Australia travelled on Emirates, Qantas and Singapore Airlines.

It is expected that strong growth from Emirates and Etihad will continue, with a long-run average of around 10 per cent. However, Emirates has indicated that it is experiencing some weakness in demand, which may lead to more moderate growth in capacity.

FIGURE 9: FORECAST GROWTH IN DIRECT AVIATION CAPACITY BY MARKETS, 2015-16 TO 2017-18



		2015-16	2016-17	2017-18
1	NZ	▲6.5%	▲2.5%	▲3.8%
2	CHINA	▲31%	▲20.6%	▲10.0%
3	UK	▲0.0%	▲1.0%	▲1.0%
4	US	▲9.8%	▲3.5%	▲4.9%
5	SINGAPORE	▲2.7%	▲4.5%	▲5.5%
6	JAPAN	▲24.5%	▲0.1%	▲6.0%
7	MALAYSIA	▼20.0%	▲3.0%	▲5.0%
8	SOUTH KOREA	▲6.0%	▲3.8%	▲1.2%
9	INDIA	▲3.0%	▲3.0%	▲14.3%
10	INDONESIA	▲6.2%	▲5.0%	▲5.6%
11	HONG KONG	▲7.1%	▲4.8%	▲3.8%
12	THAILAND	▲1.4%	▼3.0%	▲5.0%
13	MIDDLE EAST	▲7.0%	▲15.0%	▲15.0%

Source: Bureau of Infrastructure, Transport and Regional Economics, Tourism Research Australia, and Airport Coordination Australia

DOMESTIC AVIATION

In 2014–15, about one-quarter (24 per cent) of Australian domestic overnight trips used air transport. Domestic air capacity influences the business travel segment more than any other travel segment.

Domestic air capacity has entered a period of market consolidation since 2013–14 after a wave of substantial expansion of capacity. This resulted from fierce competition between the two major airlines (Qantas and Virgin) for market share. The current moderation in growth partly reflects weakening demand due to the waning resource boom, and is also partly due to concerns of major service carriers around yields in the second half of 2015–16.

In this context, TRA expects flat growth for 2015–16 and a modest 2.1 per cent for 2016–17, before reverting to trend growth of 6.3 per cent in 2017–18.

4.2 ACCOMMODATION

ACCOMMODATION PERFORMANCE

In 2014–15, the Australian accommodation sector performed moderately, according to the ABS' Survey of Tourist Accommodation:

- National accommodation room supply increased 0.4 per cent (or 1,035 rooms) to 248,573 rooms
- Accommodation demand (room nights occupied) increased 0.9 per cent (or 500,382 nights) to 58.4 million nights
- Room occupancy increased 0.5 percentage points to 64.9 per cent
- Yield (revenue per room night available / RevPAR) increased 3.1 per cent (or $4.70 per night) to $111 per night.

ACCOMMODATION OUTLOOK

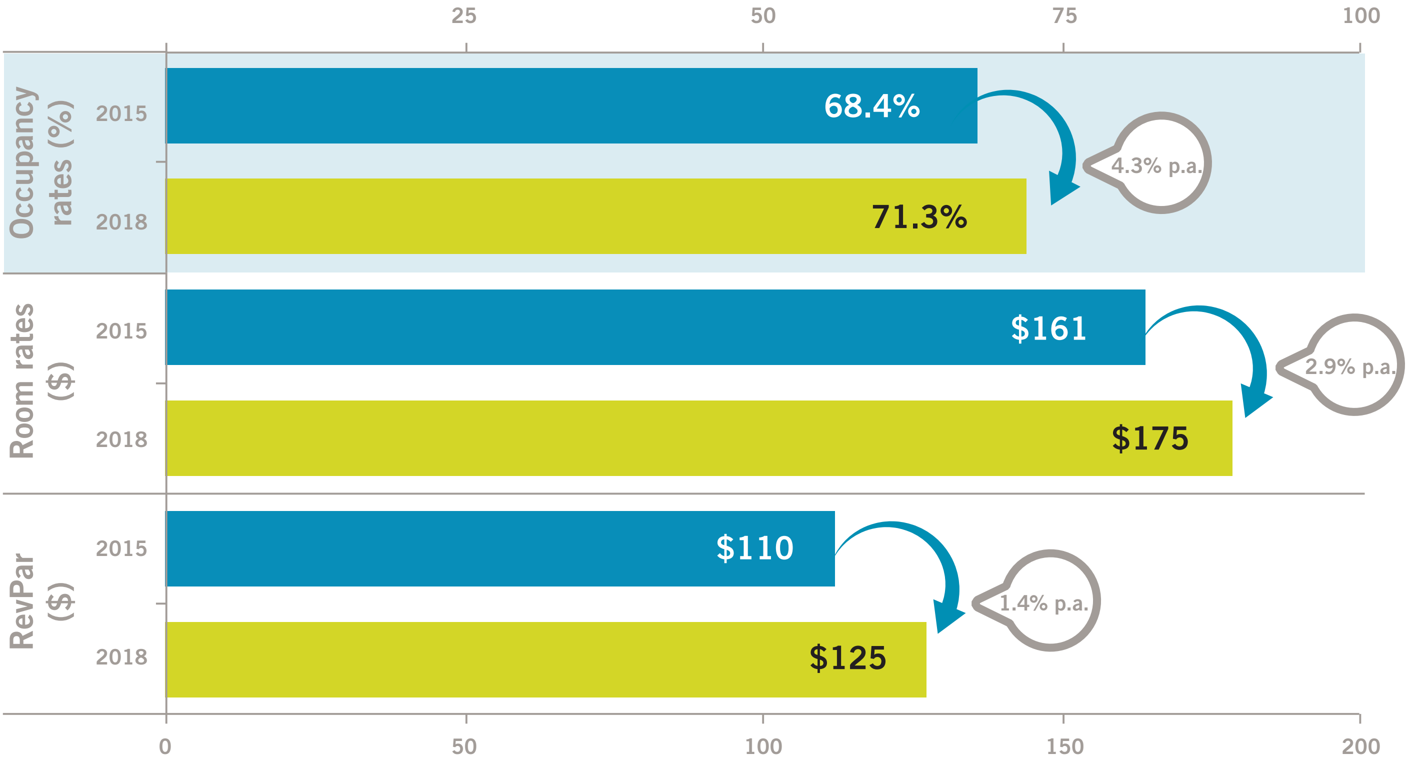
The outlook for hotel performance remains positive, driven by strong growth in tourism demand, according to Deloitte Access Economics' (DAE) *Tourism and Hotel Market Outlook 2016* (Figure 10) – released in February 2016. Over the next three years, the accommodation industry can expect:

- Room nights sold to increase 3.0 per cent per annum, 1.4 percentage points higher than room supply, despite 64 new properties added to the stock before year end 2018
- Occupancy rates to increase to 71.3 per cent
- Average room rates to increase 2.9 per cent per annum to $175, driving RevPAR up 4.3 per cent
- Total room revenue per night to increase to $31 million per night, nationally.

The majority of growth is to occur in capital cities, with a particular focus on Sydney and Melbourne. However, the Gold Coast is expected to see continued performance through to the 2018 Commonwealth Games.

Image: Silky Oaks Lodge, The Daintree, QLD
Image courtesy of James Fisher and Tourism Australia

FIGURE 10: HOTEL PERFORMANCE OUTLOOK, 2015 TO 2018



Source: DAE, *Tourism and Hotel Market Outlook 2016*

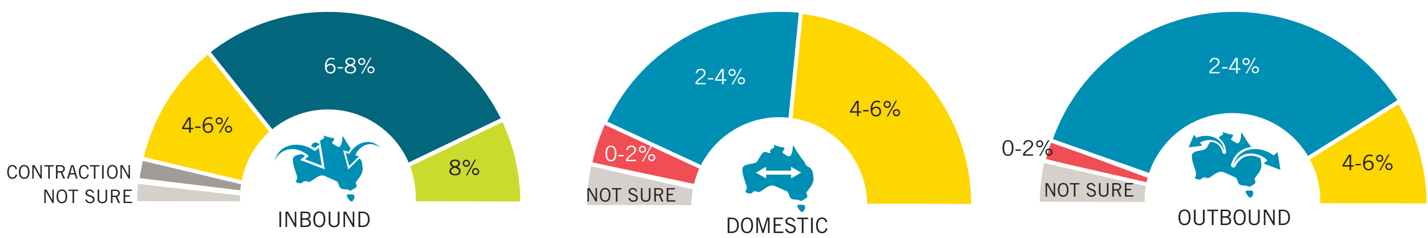
4.3 TOURISM INDUSTRY SENTIMENT

TRA's *Industry Sentiment Survey* is an important tool used to cross check model-based forecasts against industry expectations, as well as categorising and prioritising key factors (Figure 11).

For 2016–17, respondents expect to see strong growth in inbound tourism and moderate growth in outbound tourism:

- The majority of respondents expect inbound tourism to grow between 6.0 per cent to 7.0 per cent or more in 2016–17
- A large share of respondents also expect moderate growth (4.0 per cent to 5.0 per cent) for domestic tourism in 2016–17
- Most respondents expect outbound departures to be weaker than the previous year, around 3.0 per cent in 2016–17.

FIGURE 11: INDUSTRY SENTIMENT SURVEY – EXPECTATIONS FOR GROWTH, 2016–17



Source: TRA's *Industry Sentiment Survey* (conducted in May 2015)

Across markets, respondents expect arrivals from China and India to continue to grow strongly, and the rest of the visitor markets to increase moderately in 2016–17. No change is expected in arrivals from European markets, excluding the UK.

The performance of Australia's tourism industry is influenced by many factors. Respondents were asked to rate the importance of 12 factors that may influence the industry's performance in 2016–17. These are mainly economic factors that could affect results of the forecasting model. While marketing is another factor that could influence tourism demand, the forecasting model does not have capacity for this to be measured.

Five factors are considered 'essential' or 'very important' to the performance of the Australian tourism industry in 2016–17:

- Domestic discretionary expenditure: 63 per cent (domestic), 48 per cent (outbound), and 33 per cent (inbound)
- Consumer confidence: 56 per cent (domestic), 41 per cent (outbound), and 22 per cent (inbound)
- Exchange rate: 56 per cent (inbound), 41 per cent (outbound), and 11 per cent (domestic)
- Airfares: 48 per cent (outbound), 41 per cent (inbound), and 26 per cent (domestic)
- Air capacity: 37 per cent (inbound), and 7.4 per cent (outbound)
- Accommodation costs: 30 per cent (domestic), and 3.7 per cent (inbound and outbound).

TABLE 7: INDUSTRY SENTIMENT SURVEY – FACTORS 'ESSENTIAL' OR 'VERY IMPORTANT' TO THE AUSTRALIAN TOURISM INDUSTRY, 2016-17

Rank	Domestic visitor nights	Outbound departures	Inbound arrivals
1	Discretionary income 63%	Discretionary income 48%	Exchange rate 56%
2	Australian consumer confidence 56%	Airfares (outbound) 48%	Airfares (inbound) 41%
3	Accommodation prices 30%	Exchange rate 41%	Air capacity (inbound) 37%
4	Airfares (domestic) 26%	Consumer confidence 41%	Discretionary income 33%
5	Exchange rate 11%		Consumer confidence 22%

Source: TRA's *Industry Sentiment Survey* (conducted in May 2016)

5. RISKS AND UNCERTAINTIES

TRA's tourism forecasts represent the most likely outcomes given past trends, current information and the impact of policy changes. The current information includes macroeconomic and industrial (mainly aviation and accommodation) forecasts and sentiment indices, and TRA relies on external specialist agencies and market intelligence for the information. As with all industrial forecasts, any variations in the assumptions or any disruptive events could produce risks that may drive tourism forecasts either upward or downward.

One of the risks is the current global economic outlook. The global economy remains fragile, with risks tilting more towards downside. There is considerable uncertainty surrounding China's smooth transition to the consumption and services-driven growth model. A scenario of 'L-shaped growth' and a consequent 'hard landing' for China's economy will not only pose risks to consumers' income, but will also cause capital outflows. Should this eventuate, capital controls, foreign exchange restriction or currency devaluation could be policy options. Any of these options, if realised, could drive TRA's inbound tourism forecasts downside.

The recent results of the Brexit referendum escalates downside risks to the outlook for the world economy in general, and Britain's economic prospects in particular. In the wake of the Brexit vote, the outlook for Britain's economy is becoming more uncertain, as both investment and consumption could be stalled until uncertainty about the exit is overcome. This transition is likely to be a lengthy process. The uncertainty during this period would likely have grave repercussions for the Eurozone, and for the economies of the rest of the world, including Australia.

In Japan and the Eurozone, the monetary policy authorities have adopted negative cash rates in order to spur sluggish economic growth and combat deflation. While this type of extremely accommodative monetary policy may have the potential of lifting the economy out of low growth or recession, it could also expose economic growth to high risks and uncertainties.

Another real risk lies with the assumption of the value of the Australian dollar. While TRA adopts Consensus Economics' forecasts of exchange rates, there has been a wide range of expectations about the value of the Australian dollar (ranging from a low of US$0.5 to a high of US$0.8). Any significant deviations from the Consensus Forecasts would drive TRA's tourism forecasts either upside or downside.

On the domestic side, however, the risks centre around cautious consumer sentiment in the year of a federal election, and subsequent cash hoarding due to the economic uncertainty. Any drop in consumers' discretionary income will expose forecast domestic tourism to downside risks.

Furthermore, any geopolitical events could cause disruptions to the underlying assumptions. These events include terrorists' attacks, infectious disease outbreaks, and military tensions between Australia's major trading partners.

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