



**Tourism and hotel
market outlook**

Executive summary

Edition 1, 2019

About the tourism and hotel market outlook



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

The Deloitte Access Economics Tourism and Hotel Market Outlook provides in-depth analysis of recent trends and their underlying drivers, across the domestic and international tourism sectors and 11 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. Please contact us to discuss how this capability can be tailored to a bespoke market or market segment.



Executive summary

Notwithstanding the recent moderation in the economic outlook – both globally and here at home, Australia’s tourism industry is still expected to continue on a steady growth path in the years ahead.

The macroeconomic context

The global economy continues to grow solidly, but the major growth engines are starting to lose some steam and this is weighing on the forecast. Global growth is expected to remain above trend in 2019, but the outlook is less upbeat than it was in Edition 1 2018 of the Tourism and Hotel Market Outlook.

Looking ahead, employment growth is expected to soften as the pool of potential workers shrinks which will support stronger wage growth as employers offer higher wages to attract workers. Overall, consumers are expected to have more money in their pockets to spend on discretionary goods and services in the coming years. Expenditure on domestic holiday travel will likely benefit from improved household incomes given its growth has consistently been ahead of consumer spending.

The base of global growth is narrowing heading into 2019.

US growth is easing as higher interest rates and exchange rates take hold, and rising trade tensions weigh on business sentiment. Brexit has dominated the political and economic landscape in the UK, and created significant volatility in European financial markets. The slowdown in China’s economy has accelerated more recently, despite increased monetary and fiscal stimulus measures.

On the local front, Australia continues its long run of uninterrupted economic growth heading into 2019, underpinned by solid population growth and a strengthening labour market. However, the strength of the economy has softened somewhat more recently, with risks surrounding household finances and spending weighing on activity.

As with the global economy, Australia’s economy also faces challenges ahead. The strength of the labour market is supporting household budgets, but falling asset prices have eroded wealth gains from the previous year. The impact of declining wealth will likely create some further constraints to spending in the year ahead.

The Australian dollar has edged lower through 2018, both against the US dollar and a broader basket of currencies, and is forecast to remain low over the medium term. This will continue to support the growth of international travel to Australia and also encourage domestic travel. Oil prices are expected to increase in the medium term, albeit they will not reach the heights experienced earlier this decade. While this increases airlines’ input cost, yields in the less price sensitive premium cabin have trended upwards recently,

helping airlines to recover part of the pick-up in unit cost. These factors could assist to keep airfares stable for the consumers.

Overall, there is a greater level of uncertainty clouding the economic outlook. The pace of economic growth in Australia is expected to shift into a lower gear to grow at around 2.7 per cent per annum over the next three years.

International tourism

With increasing economic and political uncertainty in many of Australia's key inbound tourism markets, growth in international arrivals has moderated, increasing by 4.9 per cent in 2018, compared to the 7.5 per cent average growth over the past three years. Nonetheless, inbound arrivals now exceed 9.0 million for the first time, with Australia welcoming 9.2 million international visitors in 2018. This is up by 65 per cent, or 3.6 million additional visitors, over the past decade.

With the exception of India and Japan, the growth in arrivals from across Australia's top ten source markets has been slower over the past year compared to the average over the past five years. Growth in visitor arrivals from **China** has slowed significantly, recording 5.5 per cent growth last year relative to an average annual growth rate of 14.7 over the past five years.

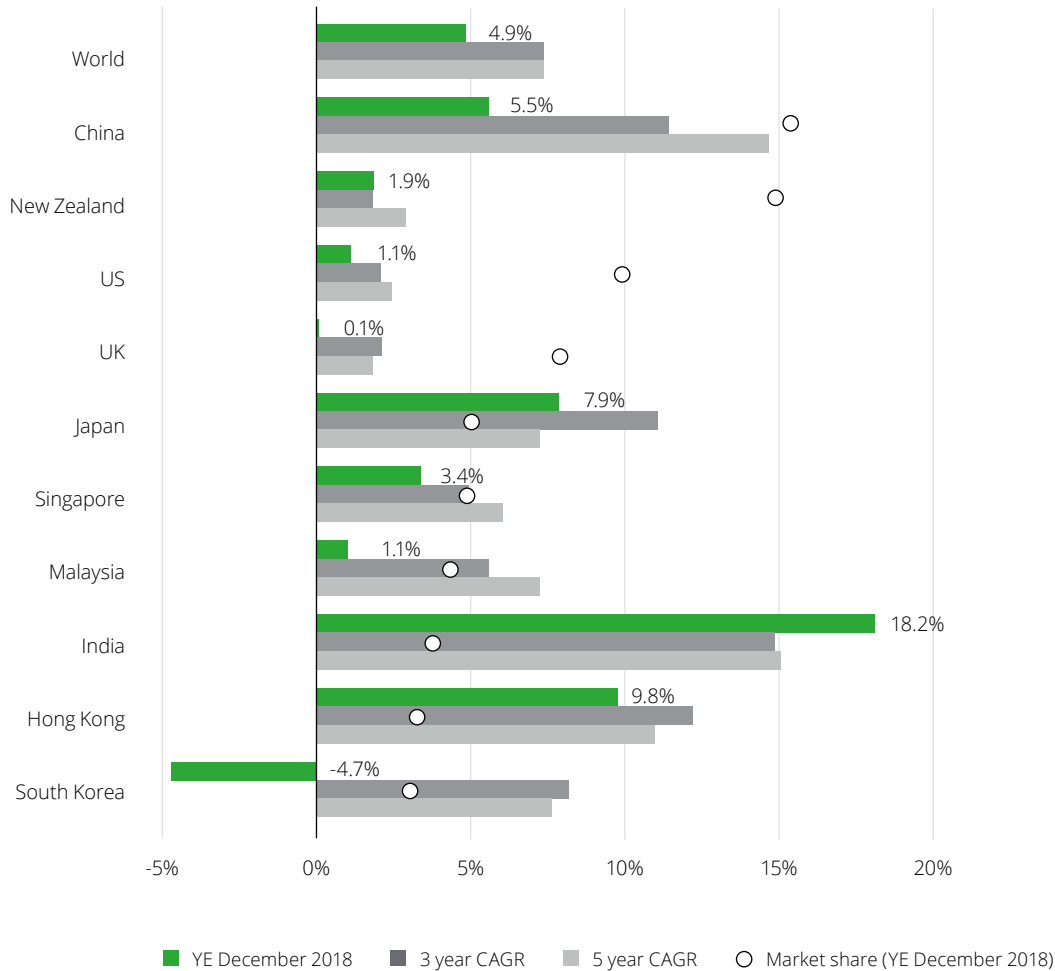
Arrivals from **India** however grew strongly again, up 18.2 per cent over 2018 adding further momentum to the growth seen over the last five years. India overtook Korea as our eighth largest visitor base in 2017.

In 2018, there were an additional 55,000 arrivals from India – the second highest increase in visitor numbers (behind China at 75,000).

2018 saw a 7.9 per cent increase in arrivals from **Japan**. While this is lower than the 11.1 per cent average growth in arrivals over the past three years, this continuing growth reflects that the Japanese market is still willing to spend on international travel despite sluggish economic growth at home, supported considerably by additions in aviation capacity between Australia and Japan over recent years.

Arrivals from both the **UK** and **US** were sluggish last year, up 0.1 per cent and 0.9 per cent respectively.

International visitor arrivals by country of origin



Source: Australian Bureau of Statistics and Deloitte Access Economics

Have you gone beyond the city limits?

Australia is a wide and beautiful country of contrasting landscape. For every well-known icon that is located in our cities, there are many more beyond the city limits. In the year ending September 2018, there were 67 million overnight trips to a regional destination in Australia, making up 60 per cent of all overnight trips. Visitors to regional Australia spent a total of \$40.5 billion, representing 41 per cent of total tourism expenditure.

Australians have a strong drive to visit regional Australia, with six in ten overnight trips (62 per cent) involving a visit to a regional destination. Fewer international visitors venture beyond the city lights, with only a third (34 per cent) of overnight trips involving a visit to a regional location, though visitors from traditional markets such as the UK or US and Japan were more likely to disperse outside the major centres. The propensity for visitors from Australia's key growing source markets China and India to visit a regional destination was much lower at 21 per cent and 27 per cent, respectively.

That said, the likelihood of visiting regional destinations increases among holiday travellers. Approximately half of holiday visitors from Hong Kong included a regional stopover during their trip, as did over 40 per cent of holiday visitors from China and India.

Domestic Tourism

Australians took a collective 102 million domestic *overnight trips* in the year to September 2018 – an average of five trips per Australian resident, growth of 7.0 per cent over the previous year.

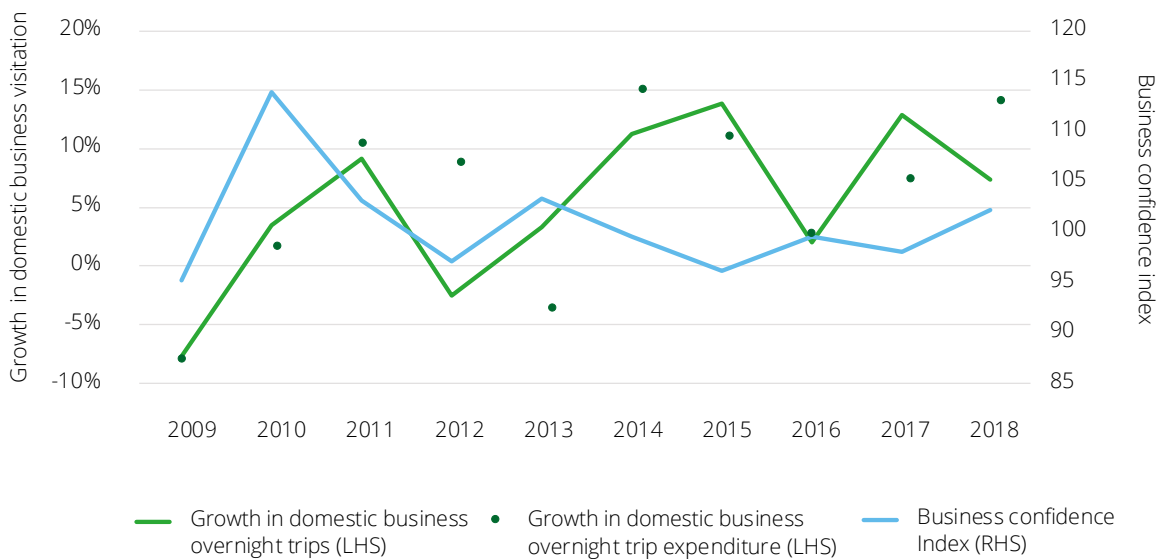
Domestic overnight visitor trips continue to outperform real GDP and after a decade of decline through to 2010, domestic visitation has now been growing consistently in annualised terms for the last eight years and is now growing faster than the pace of international arrivals into Australia.

Domestic visitor nights increased 6.0 per cent over the year to September 2018, with the slightly slower growth in visitor nights relative to trips a continuation of a trend

towards shorter trips seen in recent years. Trips by domestic **holidaymakers** have led growth in the domestic visitor market in the recent year, experiencing an 8.6 per cent increase, more than doubling the growth seen in the previous year and outpacing the growth in other segments.

Domestic **business** trips grew 7.7 per cent in the year to September 2018, moderating the impressive 13.6 per cent increase of the year before. While business travel has a degree of volatility, the continued increase in the pace of business travel was consistent with Australia's positive economic performance over the past year.

Growth in domestic business travel



Source: Tourism Research Australia and Deloitte Access Economics.

Note: Data is at year ending September.

With the exception of the Northern Territory, all other states and territories saw an increase in domestic trips over the year to September 2018. Domestic visitor trips to Northern Territory declined by 0.4 per cent over the period, which reflects the end of major infrastructure projects which brought fly-in fly-out workers to the region. Interestingly, more recent data indicates that this decline could have stabilised as domestic visits to the Northern Territory over September 2018 quarter grew a significant 24.9 per cent compared to the same quarter the previous year.

While the growth in domestic tourism has strengthened, the number of trips overseas taken by Australian residents continues to grow, up 5.0 per cent in 2018, similar to the growth seen over the past five years. There are now about 11.0 million overseas trips per year, or approximately one for every two Australian residents.

The top three destination countries for Australian travellers remain New Zealand, Indonesia and the United States each recording over one million trips.

Growth in travel by Australian residents to countries in the Asia Pacific region has increased over the past year as Australia continues to build family and business ties within the region. Growth in travel to China by Australians continued to build momentum, with an increase of 9.7 per cent in 2018. This continued strong growth is supported by the boost in air connectivity between China and Australia in recent years.

Australians travelling to India recorded growth of 8.8 per cent, or nearly double the overall rate of growth in overseas travel.

Australians also continued to flock to Japan, with trips increasing by 16.9 per cent in 2018, the strongest growth among the top destinations. Demand is likely to remain strong over the coming two years, as Japan welcomes visitors to the Rugby World Cup in 2019 and the Tokyo Summer Olympics in 2020.

With the moderation of both the domestic and global economic outlook and the Australian dollar remaining low, the pace of overseas travel might take a step back. The growth in Australians travelling overseas had softened for two consecutive years. Deloitte Access Economics' medium term forecasts for overseas trips by Australians remain at between 4.0% to 4.5% per annum, similar to the last edition of the Outlook.

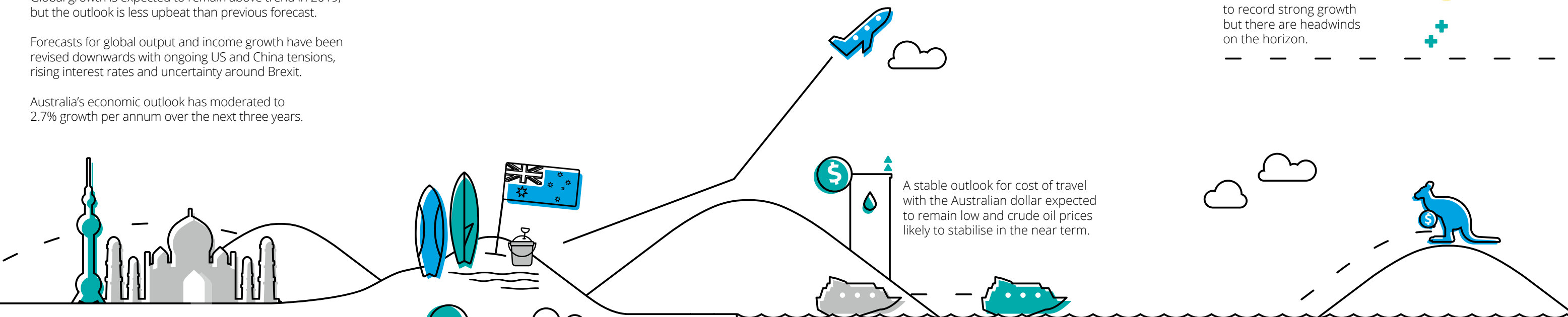
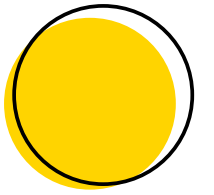
Executive summary

Global growth is expected to remain above trend in 2019, but the outlook is less upbeat than previous forecast.

Forecasts for global output and income growth have been revised downwards with ongoing US and China tensions, rising interest rates and uncertainty around Brexit.

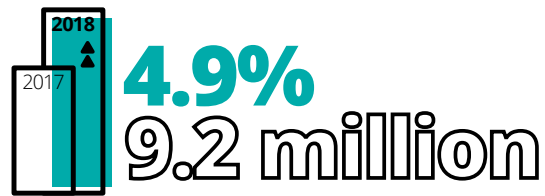
Australia's economic outlook has moderated to 2.7% growth per annum over the next three years.

Australia's tourism and hotel sectors will continue to record strong growth but there are headwinds on the horizon.



A stable outlook for cost of travel with the Australian dollar expected to remain low and crude oil prices likely to stabilise in the near term.

International tourism



International tourism numbers to Australia continued to grow, but growth has slowed to **4.9%** reaching **9.2 million** trips.

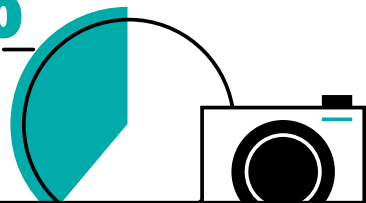
International visitor numbers are **forecast to grow 6.2%** per annum over next three years.



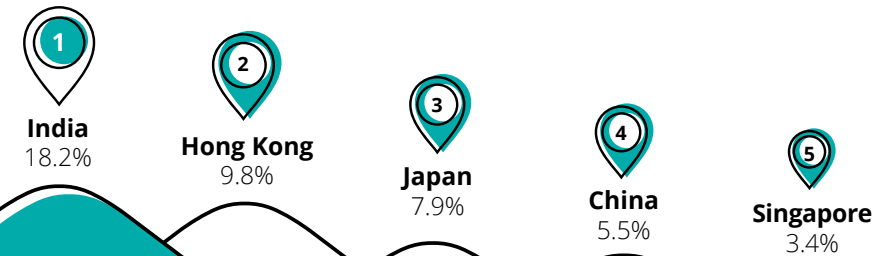
A third of international visitors **have visited a regional location** during their trip.

35%

International visitors are **first time visitors**

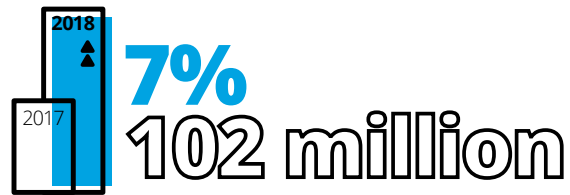


Fastest growing international markets (among top 10 markets)



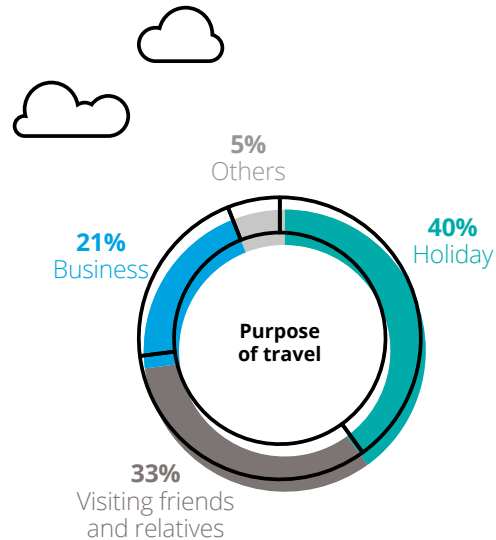
79% Average occupancy rate across 11 key markets

Domestic tourism



Domestic overnight trips **grew 7%** to reach **102 million**, supporting 6% growth in visitor nights in 2018.

Domestic overnight trips are **forecast to grow 4.2%** per annum over next three years.

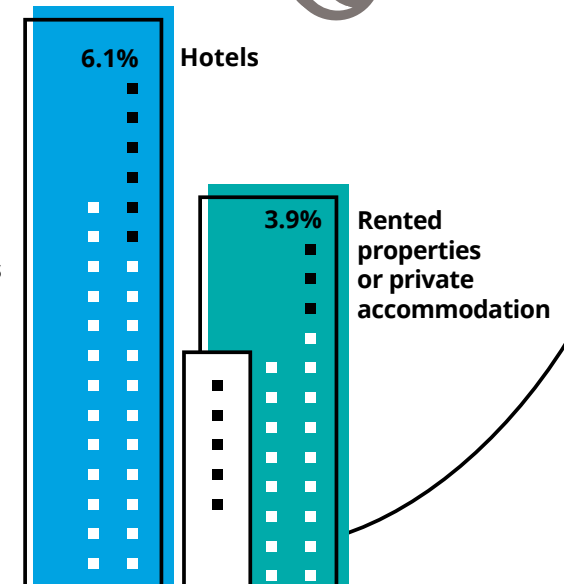


62% of domestic overnight visitors **have visited a regional location** during their trip.



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

Nights spent in hotels grew 6.1% while nights spent in rented properties or private accommodation (including those booked on platforms such as Airbnb) increased 3.9%.



5%+
11 mil +
Australians undertook **11 million** overseas trips in 2018, **5% more** than 2017.

The outlook for Australian tourism

The economic landscape while still positive, is facing headwinds, both globally and also in Australia. Weaker global economic conditions will likely lead to a moderation of growth for inbound tourism in the near term.

While oil prices have rebounded, the Australian dollar is expected to fall to 71 cents in 2019 and remain there in the medium term. Further, forecasts for global output and income growth have been revised downwards on the back of ongoing trade tensions between US and China, rising interest rates, and continued uncertainty over the UK's exit from the European Union.

Reflecting these fundamentals and in light of a slightly weaker economic growth outlook for some key inbound tourism markets, Deloitte Access Economics forecasts international visitor trips to grow by 6.2 per cent and visitor nights by 5.9 per cent on average each year over the next three years, lower than our outlook in Edition 1 2018.

The realisation of this growth would see annual international arrivals reach the 10 million milestone in 2020.

India continues to emerge as a key growth market with 13.5 per cent annual growth in visitor numbers forecast over the next three years and the total number of annual visitors from India exceeding half a million by 2021.

Arrivals from **China** have slowed recently but are expected to grow at a still very healthy 8.5 per cent each year over the next three years, though forecast visitor nights are lower at 6.7 per cent as the market's segments continue to evolve. This will confirm China's standing as the single largest tourism market with almost 2 million visitors by 2023.

International tourist arrivals to Australia over the last three years have largely been driven by strong momentum in key Asian markets. With some recent and expected weakness in these markets, growth in markets further afield will be important in determining future performance.

On the domestic front, despite challenges around falling property prices and the commensurate fall in household wealth Australia's economy is still expected to continue its run of uninterrupted growth heading into 2019. Interest rates are expected to stay low, keeping inflation in check.

This backdrop provides stable conditions for continued strong domestic travel demand in the coming years, with domestic trips forecast to grow by 4.2 per cent and visitor nights to grow by 3.8 per cent on average over the next three years. Our forecast is marginally higher than in our previous Outlook reflecting strong recent performance.

Domestic visitor nights are forecast to continue growing at a slower rate compared to total trips, consistent with the declining length of stay trend.

Hotel market performance

With record levels of international visitors and domestic overnight travel in Australia last year, the accommodation sector continued to perform strongly.

There was a considerable addition to overall hotel stock in 2018, which despite strong demand saw the overall occupancy rate down slightly compared to the year prior, at a still healthy 76 per cent.

Room rate growth was able to withstand the new supply, with the national average daily room rate increasing 1.8 per cent to reach \$190, on par with growth over the last five years.

The primarily leisure-focused markets of Gold Coast, Tropical North Queensland and Hobart recorded strong gains in average room rate with the Gold Coast a stand out with an increase of 8.5 per cent in the last year.

2018 saw hotel occupancy rates dip slightly as the growth in international arrivals moderated in the face of a stronger pipeline of new hotel projects across the country.

While some of the capital cities witnessed a decline in occupancy rates for the year, Adelaide, Canberra, Hobart, Gold Coast and Western Sydney were successful in increasing occupancy rates underpinned by a limited number of new rooms added to their respective markets.

Sydney's average room rate is closing in on the \$300 mark, with Melbourne and Gold Coast the next two most expensive hotel markets. The global appeal of Sydney and the ability of hotels to increase room rates without decreasing patronage may be reaching a peak, as other capital cities become more competitive in their destination and hotel product offering, for both the leisure and business travellers.

(Historical market performance data provided by STR.)

Hotel market outlook

Over 7,100 new hotel rooms were added to the market in 2018 with new supply now exceeding the strong growth in demand we have seen over recent years. Seven out of the 11 markets examined in this publication recorded net growth in rooms last year.

The main contributors of new rooms were Sydney and Brisbane with about 700 additional rooms each, followed by Perth and Melbourne with 540 and 620 rooms,

respectively. Perth recorded the largest increase on a share basis, with 7.2 per cent more rooms added to its stock last year.

Looking ahead, there are a considerable number of new hotel properties at various phases in the pipeline, which will have a strong impact on the market.

In the next three years, there is potential that 33,000 new rooms in likelihood -adjusted terms will be added to the national room stock, with half of these anticipated to be in operation by the end of 2020.

The majority of this new stock will be concentrated in Perth, Sydney and Melbourne in particular. In Melbourne alone, approximately 6,500 new rooms are expected to come online in 2019 and 2020, with 12 and 20 new properties scheduled to open.

Occupancy levels at a national level are expected to retreat slightly in 2020 as this wave of new supply enters the market, before returning to the current level of 76 per cent by the end of the forecast horizon.

Given some key markets have seen ongoing additions in room stock over the last number of years, the capacity to absorb the anticipated pipeline of new rooms is varied across markets. Occupancy levels are expected to soften in the coming years, with Sydney the least affected given a strong base of latent demand. Melbourne and Perth are likely to see occupancy rates edged below 80 per cent and 70 per cent in 2020 before some relief from 2021 onwards as the markets adjust to the new level of hotel stock.

Average room rates are also expected to be impacted in Melbourne and Perth, before recovering towards the end of the forecast horizon.

The strong underlying demand from both domestic and international visitors will enable average room rates to increase slightly on a national level even in the face of new supply entering the market. Average room rates across the nation are expected to increase 2.4 per cent per annum over the next three years, surpassing the \$200 mark by 2021.

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