



Tourism and Hotel Market Outlook

Edition 1 2022

About the tourism and hotel market outlook

The Deloitte Access Economics **Tourism and Hotel Market Outlook** provides insights into the issues facing the Australian tourism and hotel sectors, including in-depth analysis of recent trends and their underlying drivers across the domestic and international tourism markets.

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 an assessment of the hotel pipeline in Australia, detailed three-year forecasts are provided for occupancy, room rates and RevPAR for 11 of the country's major hotel markets - including all capital cities, Gold Coast, Tropical North Queensland and Western Sydney.

While our forecasts are based on a forecasting methodology and a hotel market model developed over 15 years, due to the COVID-19 pandemic, we have overlayed our forecast with bespoke behavioural and operational adjustments including short and long-term consumer sentiment indicators.

The 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.

The hotel forecasts of the Tourism and Hotel Market Outlook are now delivered in an interactive Tableau dashboard format.

The Tourism and Hotel Market Outlook dashboard covers a series of topics, including a recovery tracker, the macroeconomic outlook, the market performance and the hotel market outlook for each of the eleven hotel markets.

Tourism and Hotel Market Outlook

After more than two years, Australia's border is now open to international visitors, and domestic travellers can move freely within the country. The path to recovery was never going to be easy and is now facing significant new challenges with the ongoing conflict between Russia and Ukraine, inflation and rising interest rates placing greater pressure on cost of living. The unknowns around the effectiveness of current vaccines or treatments to fight new Covid-19 variants will be a lingering problem. Tourism recovery is very much strongly underway, though will continue to remain highly uncertain.

The macroeconomic context

The Covid-19 recovery is gaining pace in Australia and around the world. Growing vaccination rates and the implementation of booster shots helped keep the health crisis under control, and importantly provide greater confidence to governments to lift restrictions for economic activity to resume.

Just as Covid-19 eased, the world faced another set of problems with inflation and rising fuel prices putting pressures on cost of living, the uncertainty around the extent of the Russia and Ukraine war, and the challenge to address the impacts of climate change.

This means tourism recovery will continue to face headwinds as consumers transition to cope with these emerging challenges, some of which will have a direct impact on the financial ability to spend on travel.

That said, the underlying macroeconomic drivers of demand remain a critical pillar for the recovery of tourism. The rebound of economic activity, measured by income, population, inflation, international trade and exchange rates underpin the expected recovery of the tourism sector.

The first section discusses the economic conditions in Australia and globally measured by GDP, unemployment rate, household savings, spending and, of particular importance to Australia, population growth which has historically been driven by international migration. How quickly these key economic drivers bounce back to pre-pandemic levels will underpin the recovery journey of the tourism.

Global economic conditions

The dominant driver of world growth remains its recovery from Covid-19, but Russia's invasion of Ukraine adds an unfortunate overlay. One with higher-than-expected economic uncertainty, reduced growth and increased inflation.

Chart i shows that following an estimated fall of 3.3 per cent in global economic growth in 2020 (measured by real GDP), the global economy rebounded by 5.9 per cent in 2021 – this was the fastest growth seen in the past three decades.

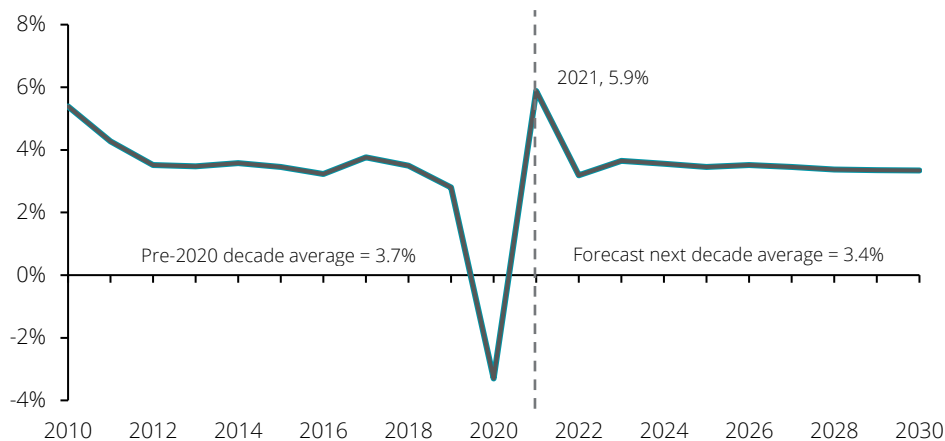
But this growth has been unbalanced, and differential vaccine access (and uptake) suggests that it will remain that way. Vaccination disparity will continue to pose a risk to the global economic outlook as it leaves open the possibility for new mutations to develop and spread across the globe.

The sharp slowdown in China's economy means the global economic backdrop is less supportive for the Australian economy than it was in 2021. A deterioration of conditions in China's property and utilities industries will have negative effects for the global economy, but particularly commodity exporting nations such as Australia.

More broadly, the global economic recovery is set to slow in 2022 amid the impact of supply chain disruptions, higher input costs, rising interest rates and ongoing pressure from new Covid-19 infections.

Deloitte Access Economics forecasts global economic growth to be 3.2 per cent in 2022, reducing the average annual rate of global economic growth forecast for the next decade to 2031 to 3.4 per cent.

Chart i: Annual global economic growth forecast, worldwide real GDP



Source: Deloitte Access Economics, Business Outlook March 2022

Domestic economic growth

2021 was an up and down (and then up again) year for Australia. When the Delta strain took hold, a lot of progress through the year became quickly undone (particularly for household spending). However, this time around we had vaccines, which eventually allowed the country to reopen.

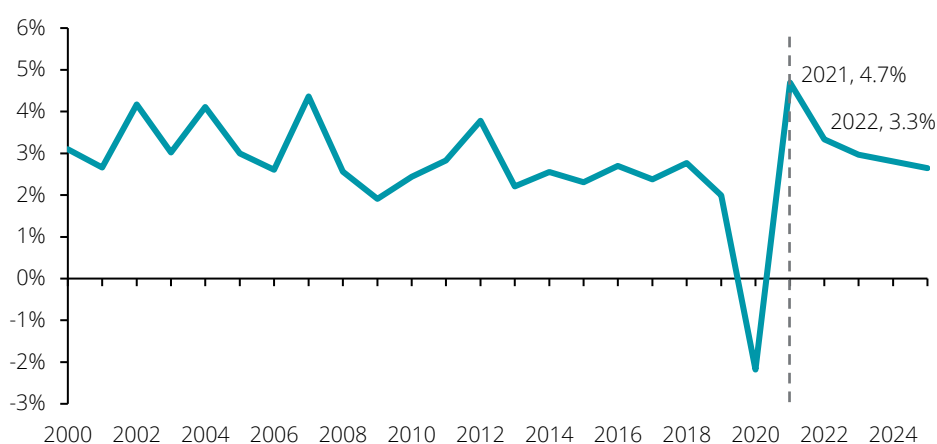
The rebound was strong as the Australian economy grew 3.4 per cent over the December 2021 quarter. Activity was strongest in the previously locked-down states (New South Wales, Victoria and ACT) growing the fastest. The rebound was facilitated by increased household spending, particularly on services.

Despite the Omicron variant and the floods in Queensland and NSW, the Australian economy grew by a further 0.8% over the March 2022 quarter. Supported by strong government and household consumption.

One of the main talking points now is inflationary pressures, which have well and truly set in. Deloitte Access Economics expects that we are nearing the inflation peak and after the middle of 2022, inflation in Australia should start to moderate as supply chain issues and global events begin to subside. Inflation is only self-sustaining when it is driven by wage growth which remains subdued, in part because most workers are on agreements that last multiple years.

Overall, Australia is set for another strong year of growth, as shown in Chart ii.

Chart ii: Annual Australian economic growth forecast, real GDP

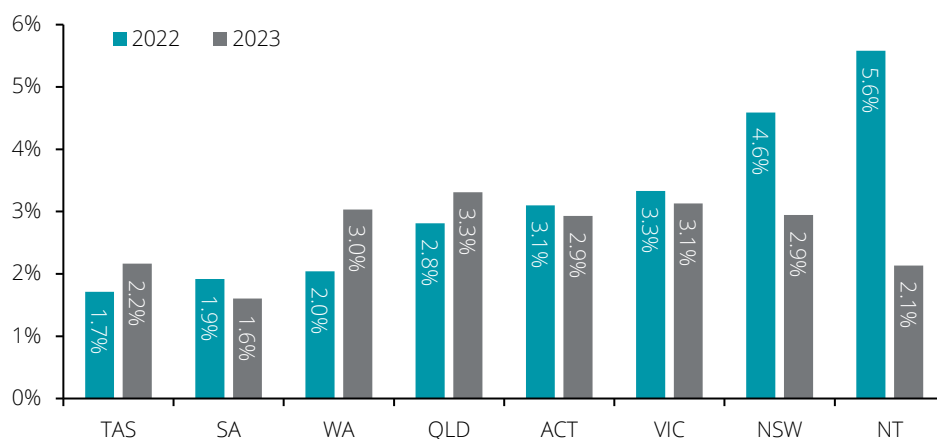


Source: Deloitte Access Economics, Business Outlook March 2022

Recent years saw Australia divide into states, those that contained the virus saw the strongest growth. Chart iii shows that now the nation has transitioned to living with the virus, 2022 will see the states hit hardest by Covid-19 (New South Wales and Victoria) closing the gap with those who

saw their economies prosper (Tasmania, South Australia and Western Australia). The Northern Territory is forecast to achieve strong growth in 2022, driven by the Territory's small size and the impact of changes in its commodity trade exports causing large fluctuations in total growth.

Chart iii: Economic growth forecasts by state and territory, real GDP



Source: Deloitte Access Economics, Business Outlook March 2022

Exports

Prior to Covid-19, Australian exports were a key driver of the nation's overall economic activity. In the decade preceding Covid-19, growth in exports accounted for about 40 per cent of Australia's total economic growth.

Since the start of the pandemic, export prices have risen, but volumes have fallen. The fall in volumes has been almost completely accounted for by the collapse in people movements across international borders, with fewer migrants, students or tourists moving in or out of the country. This saw the value of services exports almost halved and while there will be a bounce with the reopening of international borders, we don't expect service exports to return to pre-Covid-19 levels until 2023.

The value of goods exports (as measured by real export earnings) on the other hand is set to achieve pre-Covid-19 levels later this year. Exports earnings have been great for both rural exports (thanks to two years of great rainfall) and non-rural exports (thanks to booming commodity prices).

The initial impetus for this commodity price strength was stimulus, especially in China. But that switched over time to supply disruptions. Although demand is still strong, it is the absence of supply (now from Russia and Ukraine) that has led to the recent commodity price hikes.

The resurgence in international travel and subsequently Australia's service exports is expected to provide a handy boost to export volumes. But export prices are likely to moderate, leaving overall export earnings flatlining in the short-term.

Jobs and unemployment

In the absence of lockdowns, the national labour market recovery has been outstanding. Now that lockdowns are a thing of the past, jobs have come back across the country at unprecedented levels. Despite the introduction of the Omicron variant, employment now sits 400,000 (3.1 per cent) above pre-pandemic levels (February 2020).

In addition, there are now less people unemployed in Australia than there were in 2008 – this comes at a time when labour market participation is at a near all-time high.

Despite the strong headline figures, Covid-19 (and now the flu season) continues to create headwinds, particularly for absences from work due to sickness creating further headaches for businesses grappling with staffing issues.

Demand for workers (as measured by job vacancies) remains high. The ratio of job vacancies to people unemployed (those who are actively seeking work) now sits very close to 1:1 – the lowest it has ever been.

Deloitte Access Economics forecasts that the national unemployment rate will fall as low as 3.7 per cent during 2022 and will remain at roughly this rate through to the end of 2023, before gradually rising thereafter.

Income and savings

Amidst the height of the initial impacts of Covid-19 in Australia, the household savings ratio spiked at a record -high 22 per cent in June 2020. In fact, a similar story played out during the Delta lockdowns, just a little less heightened.

Governments supported the incomes of Australians who were unable to work during lockdowns. As a result, the chest of savings accumulated by consumers during the pandemic is roughly \$270 billion. That's about one fifth of the total dollars we spend on all consumer items in an ordinary year, and three-quarters of our total retail spend in an ordinary year.

In addition, overall wealth has grown as well with lower interest rates translating to higher house prices and stronger share markets. The distribution of accumulated wealth is not necessarily widespread, it is concentrated to the cohorts who already own property and financial assets.

However, current high inflation and a subsequent rise in interest rates is a risk to disposable incomes through higher mortgage repayments.

Deloitte Access Economics forecasts the household savings ratio could fall back to pre-pandemic levels (about 5 per cent) by 2023. For this to happen, consumers will need to become both able and willing to spend more of their current income once again. In addition, household disposable incomes are expected to fall through 2022 due to the reduction in temporary government support payments that existed through the pandemic.

Household spending

Household spending during Delta variant lockdowns fell by less than half of what it did in mid-2020, driven by a smaller drop in spending on services. This caused overall household spending to fall below pre-pandemic levels once again. However, once the states that were hardest hit by the lockdowns could reopen, households quickly drew down on these savings and late last year spending returned to above pre-pandemic levels.

The Omicron variant is a reminder that there's no certainty during a pandemic. Even in the absence of lockdowns, supply chains are still broken, and things aren't exactly 'normal'. Even if consumers want to spend, they may not always be able to (or they at least won't be able to spend on all the things they'd like to).

That skew in spending patterns is likely to remain real for some time. In 2022 consumers will be able to direct greater proportions of their disposable incomes toward travel, entertainment, recreation and eating out at restaurants and cafes. This will reduce the proportion of income spend on household goods or clothing.

Household spending grew by 1.5% over the March 2022 quarter, this follows growth of 6.4% over the December 2021 quarter. Deloitte Access Economics expects household spending growth to moderate during the year.

Population

After recording the first decline since World War I (in the September quarter of 2020), Australia's population has returned to growth. However, it's at a much lower rate of growth than had been seen historically.

Since the Covid-19 inflection point, the natural increase (births less deaths) has been the sole driver of population. In fact, net overseas migration continues to detract from Australia's total population – as previously international migration accounted for roughly 60 per cent of Australia's population growth.

Overall, the lack of flow of people from overseas continues to affect the domestic labour market, showing up as significant skill shortages across many sectors (including in the travel and tourism exposed sectors of hospitality and recreation). Given both the lack of migration and Australia's ageing population, the working age population fell by almost 84,000 through 2020-21.

Covid-19 disruptions to the tourism sector

The tourism sector has taken the brunt of the Covid-19 pandemic, with movement of people coming to a standstill as countries around the world took severe measures to stop the spread of the virus.

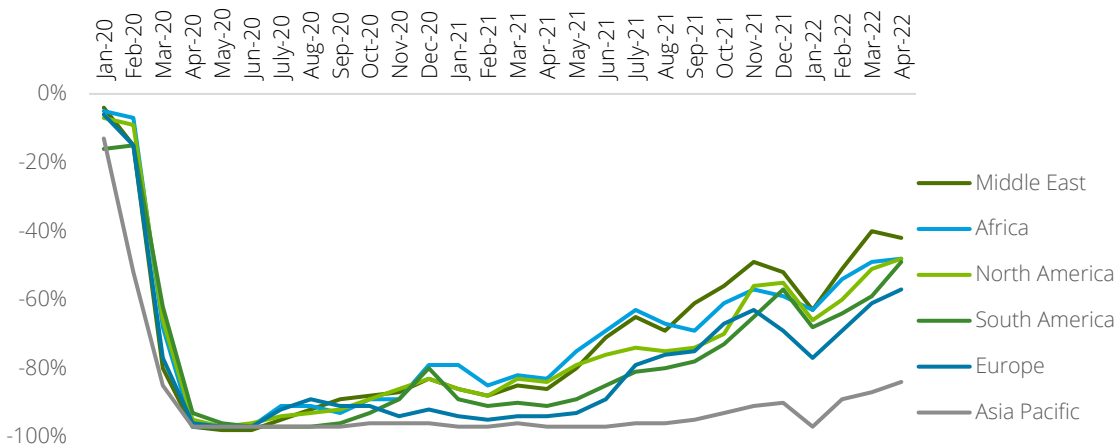
Global context

As Covid-19 vaccination rollout ramped up across the world in 2021, global tourism arrivals experienced a 4 per cent upturn in 2021 compared to 2020¹. The emergence of the Omicron variant, however, interrupted the recovery and saw the reintroduction of travel restrictions in some destinations. In 2021, international tourist arrivals were still 72 per cent below 2019 levels. The pace of recovery is uneven across the globe due to varying

degrees of vaccination rates and travel restrictions. As seen in Chart iv which looks at air reservations, the Middle East, Africa and North America have led the recovery, while Asia Pacific lagged considerably, as at end of 2021.

International tourism continued to show signs of recovery leading into 2022. In January, international tourist arrivals across the globe were 130 per cent higher than January 2021 levels². However, the Russian invasion of Ukraine in February 2022 brought additional uncertainties to tourism recovery, with airspace shut in the region, and a ban on Russian carriers by many countries – impacting both intra-Europe travel and long-haul flights between Europe and East Asia.

Chart iv: Change in air reservations, compared to 2019 levels



Source: United Nations World Tourism Organization Tourism Recovery Tracker (2021)

Australian tourism

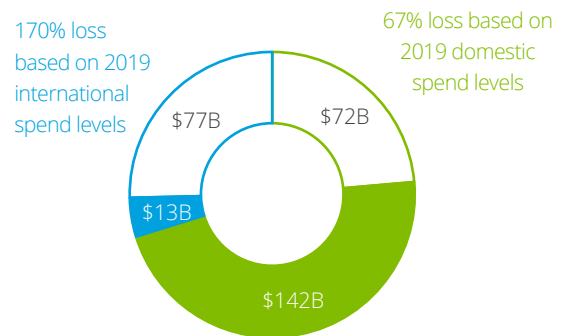
Throughout 2021, travel restrictions and border closures across states and territories continued to disrupt travel. After coming out from the Delta variant lockdowns, the recovery of domestic travel was again interrupted by the spread of the Omicron variant in late 2021 --- dampening consumer confidence and pausing further recovery of the sector.

The cumulative losses experienced by the Australian tourism industry as a result of the pandemic have been significant – Australia lost \$147 billion in domestic and international tourism expenditure relative to prior expenditure levels (see Chart v).

Since the onset of the pandemic, from March 2020 to the end of 2021, there has been a loss of \$77 billion in international visitor expenditure, with these accumulated losses equivalent to 170 per cent of 2019 international visitor expenditure levels.

While many Australians travelled in their state or interstate when travel restrictions permitted, the domestic segment of the tourism sector also suffered, with a total loss of \$72 billion over the period, the equivalent of a 67 per cent loss based on 2019 domestic tourism expenditure levels.

Chart v: Loss in total international and domestic visitor spend



Source: Tourism Research Australia

¹ UNWTO Barometer Mar 2022.

² Ibid.

While some states and territories were less severely impacted, depending on their reliance on international and interstate travel, no one came out ahead. As shown in Chart vi, in 2020, states and territories experienced declines of 35 to 60 per cent in domestic visitor expenditure, and while things improved in 2021, there remained declines of 20 to 55 per cent relative to 2019.

Jurisdictions such as Western Australia and South Australia whose usual visitor mix includes a higher a proportion of intrastate visitors experienced less significant losses by tapping into local residents' pent-up demand for travel. (Chart vi)

Chart vi: Declines in total visitor spend across state and territories



Source: Tourism Research Australia

Domestic tourism

While the domestic travel segment has always accounted for the majority of the demand – and spending – it took on a much-heightened focus as tourism operators and destinations looked to stay afloat over 2020 and 2021. The steady signs of recovery in domestic travel from the September 2020 quarter to June 2021 quarter were interrupted by the spread of the Delta variant which resulted in widespread lockdowns in New South Wales, Victoria and a wave of snap lockdowns in other jurisdictions.

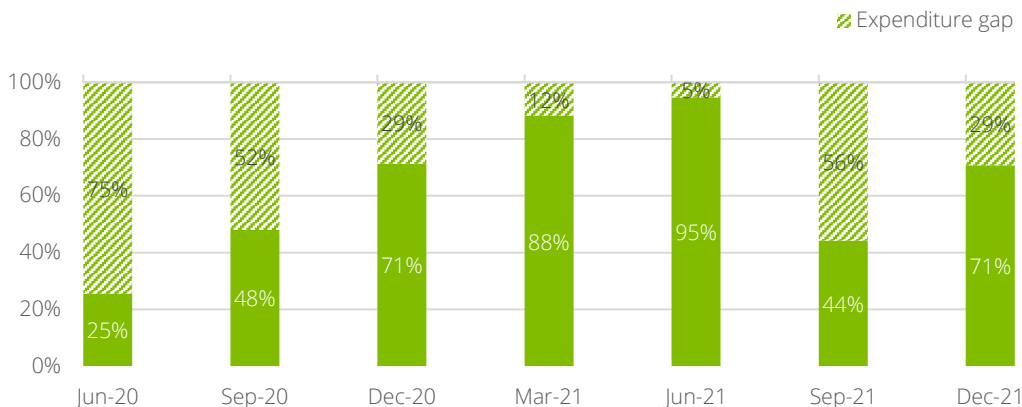
Nationwide and more localised lockdowns had led to significantly lower levels of domestic visitor spending across 2020 and 2021. As reflected in Chart vii, the largest losses were registered in the June and September

quarter of 2020 as well as in the September quarter of 2021 during the height of the Delta crisis.

As each jurisdiction achieved its targeted vaccination rates during the December quarter of 2021, restrictions were gradually lifted, including the re-opening of state borders to interstate travel. Despite this, there remained a 29% gap from the 'usual' levels of domestic travel expenditure across Australia. Later in the December 2021 quarter, the Omicron variant again interrupted the recovery despite high vaccination rates and easing restrictions.

Despite the bounce in demand witnessed whenever travel restrictions were lifted, across Australia, in 2021, overnight trips, nights and spend were down between 29 per cent and 35 per cent compared to 2019 levels.

Chart vii: Gap in domestic travel expenditure, relative to same quarter in 2019



Source: Tourism Research Australia

Note: Domestic travel expenditure includes expenditure from domestic overnight trips and daytrips.

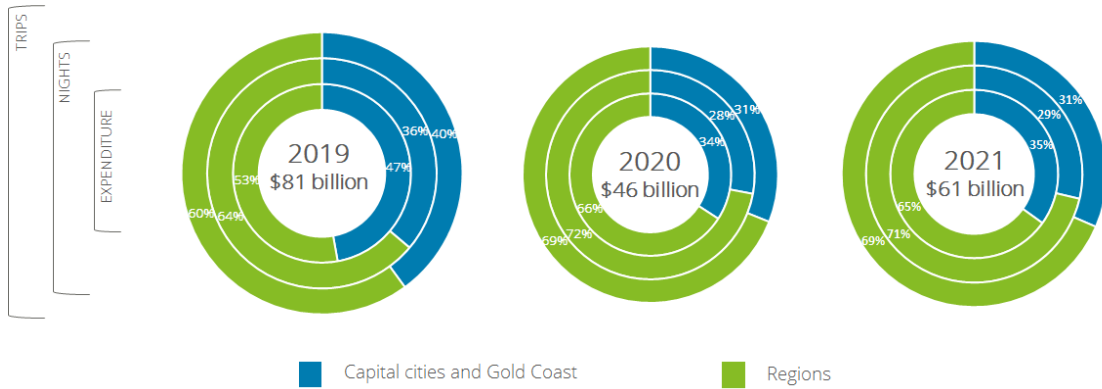
In addition to a significant scaling back of the domestic tourism sector over 2020 and 2021, there was also a significant redistribution of the remaining demand to regional destinations and away from cities.

As residents of city centres looked to escape to the regions for holidays, again – when they could – the share

of visitor spend accruing to regions increased from 53 per cent to 65 per cent (Chart viii).

Regional destinations fared better than capital cities during the pandemic, with total domestic overnight trip spending 8 per cent lower at the end of 2021 than pre-pandemic levels.

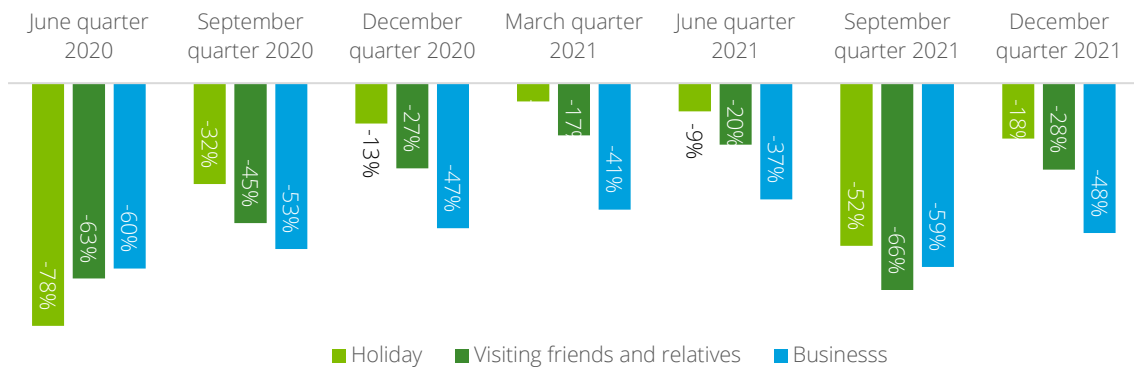
Chart viii: Domestic overnight trips and spend in capital cities and regions, 2019-2021



Source: Tourism Research Australia.

Note: Data breakdown for capital and regional is not available for Tasmania and the NT.

Chart ix: Change in domestic overnight trips by purpose of travel, compared to same period in 2019



Source: Tourism Research Australia

International tourism

For most of 2020 and 2021, international arrivals into Australia were largely non-existent other than for returning Australian citizens, residents and essential travellers.

Australia reopened its borders to fully vaccinated visitors from New Zealand and Singapore in late November 2021. Eligible visa holders such as skilled workers, students and working holidaymakers were also allowed to enter, in part to help address the country's skill shortage as large number of temporary migrants left the country in the last two years. While Australia welcomed almost 90,000 international visitors in the December 2021 quarter, who contributed around \$760 million in visitor spending to the economy, this represented only a tenth of pre-pandemic levels.

The international travel ban has also had severe consequences for the international education sector, with flow on impacts to the tourism sector. The number of international students on shore in Australia in 2021 had halved from 2019. While education is the primary reason for their stay in Australia, students are also likely to be motivated by the travel opportunities available to them during their studies. Besides contributing to domestic tourism, international students also motivate visits from their friends and relatives back home, an important segment of Australia's international leisure tourism market.

Since borders reopened in late November 2021, more than 56,000 international students have arrived in

Australia.³ While borders are now open for all international students, a full recovery in international student numbers – especially those studying onshore – will likely take some time. As of May 2022, 24% of student visa holders are outside of Australia.⁴

There are concerns over the slow return of students from China – Australian education's largest source market – due to mobility restrictions imposed by the Chinese government as many regions in the country battle outbreaks of the Omicron variant.

As of May 2022, while Chinese student enrolments were at 75 per cent of pre-pandemic level,⁵ over 50 per cent of these students were undertaking their studies offshore, representing a lost opportunity to engage face to face with their cohort and also to live and experience life in Australia.⁶ This directly impacts the tourism sector from the loss of domestic travel from Chinese students when they are studying onshore, and the visiting friends and relatives travellers they could potentially attract from home.

³ Department of Home Affairs February 2022.

⁴ Department of Education, Skills and Employment, 6 May 2022.

⁵ Ibid.

⁶ <https://www.afr.com/work-and-careers/education/foreign-students-back-to-pre-pandemic-numbers-20220310-p5a3ni>

Tourism recovery scenarios

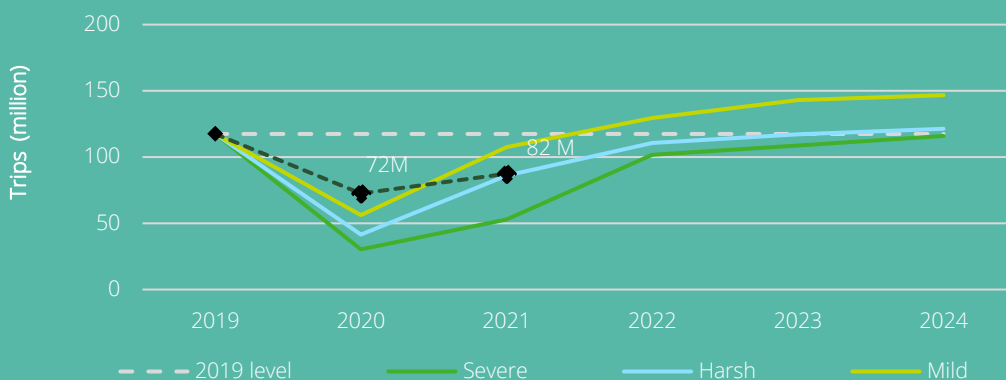
In mid-2020, Deloitte Access Economics developed and released a set of three Covid-19 tourism recovery pathway scenarios for Australia (Chart x), which included mild, harsh and severe scenarios about the sector's recovery.¹

Domestic tourism recovery was expected to return to 2019 level as early as 2021 in the mild scenario or as late as 2024 in the severe scenario. All the international tourism scenarios anticipated a longer recovery, with the timeline extending from 2022 in the mild scenario to 2024 in the severe scenario.

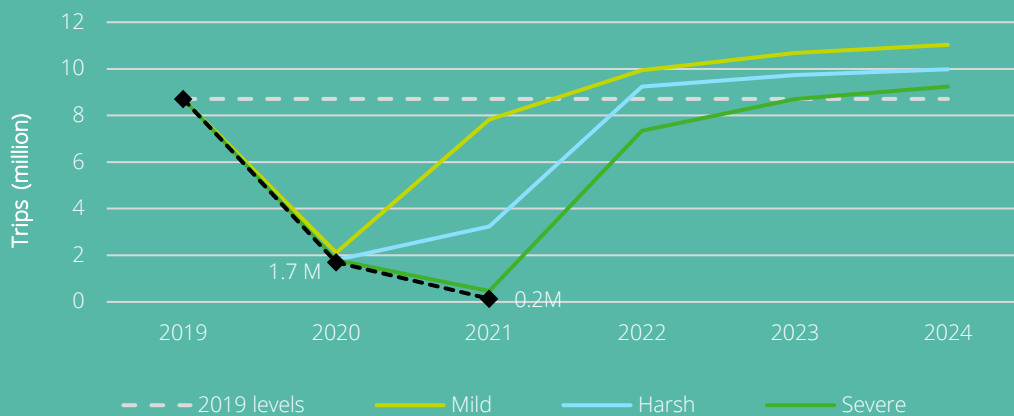
Based on recent trends and current travel circumstances, domestic tourism recovery for Australia is expected to track between the mild and harsh scenarios. With travel restrictions continuing to be in place for a number of Australia's key international source markets and the time it will take for aviation supply to return, the pathway for international tourism recovery is heading towards the severe scenario.

Chart x: Scenarios of domestic and international tourism recoveries

Domestic tourism recovery (overnight trips), millions



International tourism recovery, millions



Source: Deloitte Access Economics, COVID-19 recovery for the tourism sector: How are we tracking? January 2021

Tourism sector outlook

The recovery of the tourism sector in Australia will depend on a range of factors, including economic conditions here and overseas, and importantly, consumer confidence to resume travel again and capacity and willingness to spend on travel.

At the time of developing this publication, governments in Australia, North America and Europe appeared committed to keeping their borders open, enabling the continuing resumption of international travel.

The pace of recovery has varied considerably across the world's travel destinations. While a number of European destinations and the U.S. have seen a marked increase in visitation, the recovery in Asia Pacific is more divided and fragile. Asia Pacific destinations did not experience the same level of recovery in 2021, and the outbreak of the Omicron variant in early 2022 brought further disruption for the region.

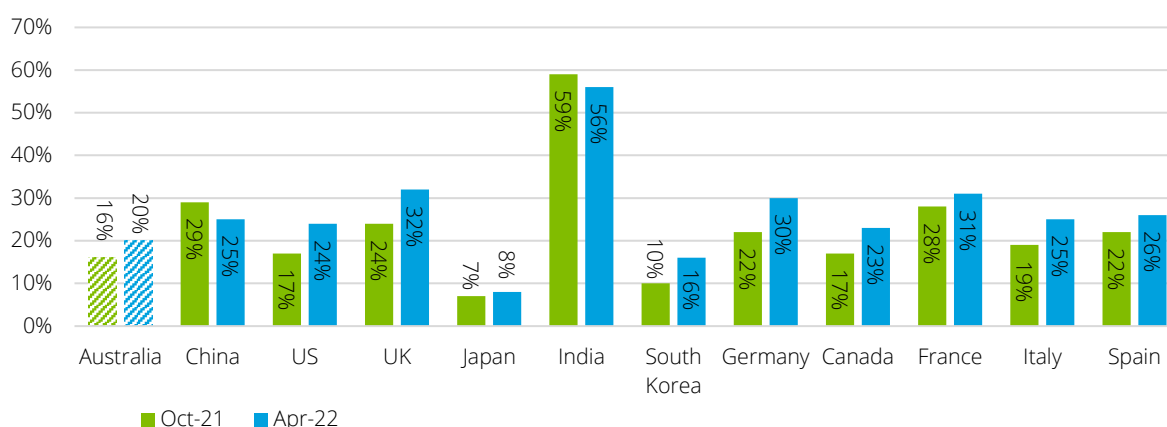
Despite this, nations who are more advanced in their vaccination plans are moving to live with the virus and gradually re-opening their borders to international tourists. Since March 2022, several popular destinations (e.g. Singapore, Thailand and Indonesia) have reopened borders to fully vaccinated travellers while others remain closed to international tourists (e.g., Japan and China).

Australia's key international source markets

Across some of Australia's key source markets, there is strong evidence of pent-up demand with travel intentions increasing over the past six months in most markets (Chart xi). China is an exception given restrictions in recent months in pursuit of a zero Covid-19 strategy, with outbound travel intentions in Japan also muted given the slower reopening plans.

The war in Ukraine poses a new significant challenge to the global tourism recovery, with air space in the region restricted, a ban of Russian carriers by many nations, and intentions around travel to the region impacted.

Chart xi: Likelihood to take an international flight, selected source markets



Source: Deloitte Global State of the Consumer Tracker October 2021, April 2022

Question: How likely are you to do the following for leisure travel in the next three months? (% Very likely/Somewhat likely)

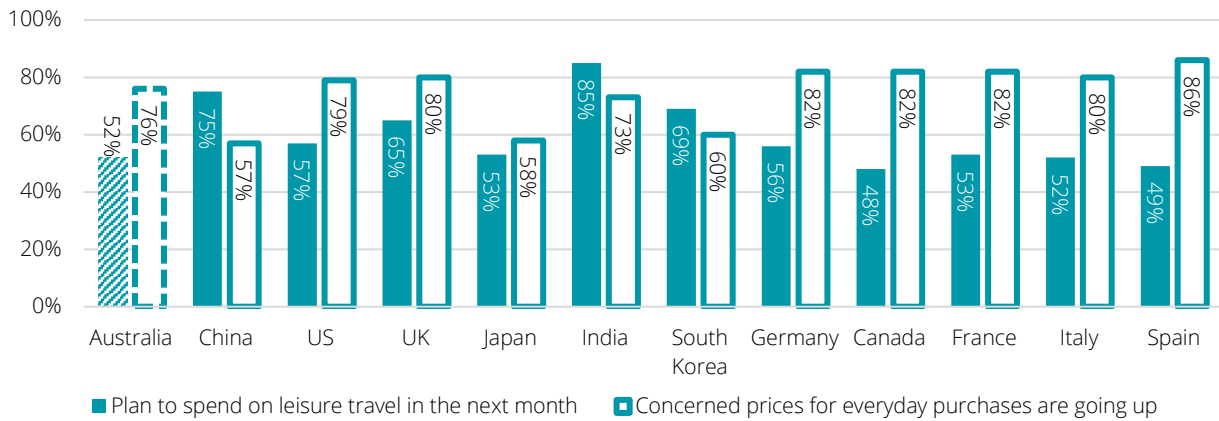
An additional important consideration around travel intentions is the rapid increase in inflation and resultant cost of living pressures. Concerns relating to the costs of everyday purchases is evident in Australia and across our key international source markets. Will this concern impact plans to travel?

Here at home, three quarters of Australians (76 per cent) are concerned about cost-of-living increases with the level of concern near the current level for the last six months.

High levels of concern around the prices of everyday purchases can be seen across Australia's key international source markets as shown in Chart xii.

That said, the intention to spend on travel remains relatively high despite inflation concerns, likely fuelled by pent up demand for travel given two years of restrictions, higher levels of household savings among some cohorts and perhaps a shift away from travel's positioning as a discretionary expenditure.

Chart xii: Plan to spend on leisure travel and concerns around inflation



Source: Deloitte Global State of the Consumer Tracker, April 2022.

Australia’s domestic tourism segment

There is increasing optimism for the tourism recovery to pick up pace in Australia given the high vaccination rates which have seen most restrictions ease and now finally full mobility across the country. In the near term, domestic travel will remain critical to bolstering the tourism sector while the international market rebuilds.

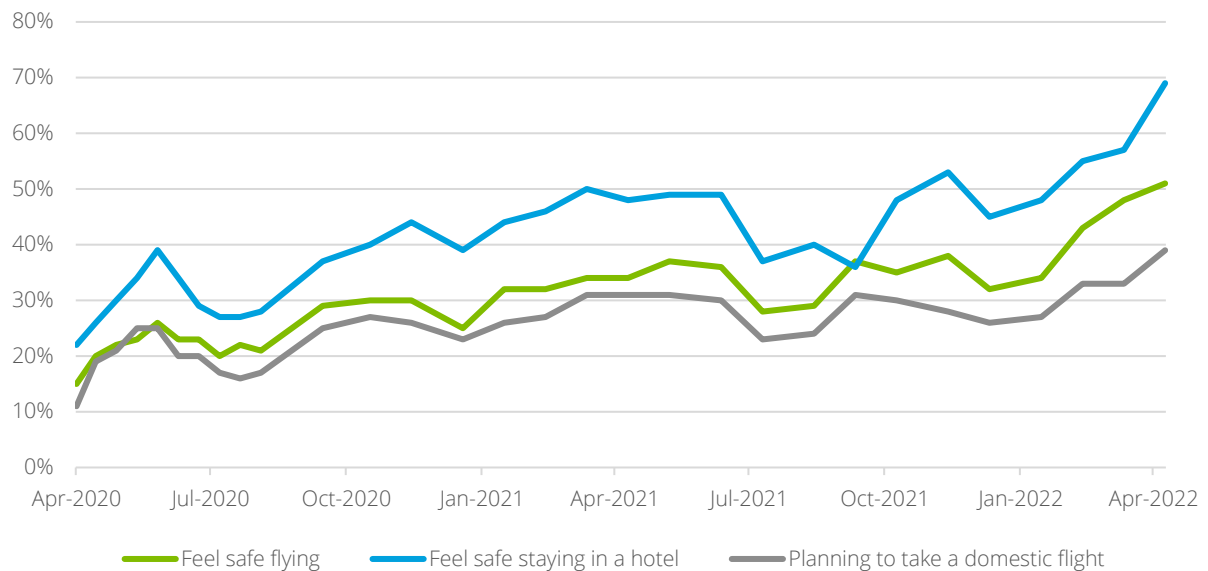
Omicron outbreak, there are an increasing proportion of people feeling safe taking a flight and staying in a hotel along with a greater share planning a leisure trip in the next three months.

Leisure travel

Confidence to travel is growing. While dips can be seen relating to the Delta outbreak in mid-2021 and later the

However, a glance at the axis in the chart below reveals that there remains a sizable cohort that are not yet ready to resume travel (Chart xiii) which will constrain the overall recovery of the sector.

Chart xiii: Consumer sentiment around travel related activities, Australia

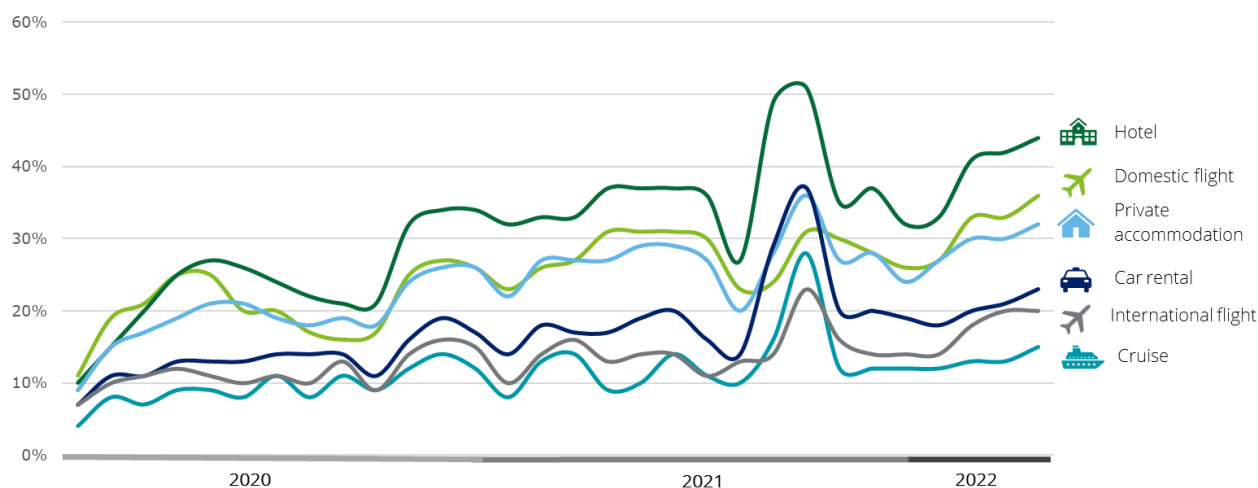


Source: Deloitte Global State of the Consumer Tracker, April 2020 to April 2022

Question: To what extent do you agree or disagree with the following statement (% Strongly agree/agree): “I would feel safe flying right now” and “I would feel safe staying in a hotel right now”.

Among those who plan to travel, around a third are planning to fly domestically for leisure. Interest to stay at hotels is also rising, with over 40 per cent planning to stay at hotels during their trip. Cruising is one of the last industries to reopen in Australia. While interest is still low, there is evidence of sustained recovery growth as seen in Chart xiv for the cruise segment.

Chart xiv: Consumer sentiment around travel related activities, Australia



Source: Deloitte Global State of the Consumer Tracker, April 2020 to April 2022

Question: How likely are you to do the following for leisure travel in the next three months? (% Very likely/Somewhat likely)

Business travel

While business travel is resuming, the recovery of this segment is expected to take longer. In the December 2021 quarter, while leisure travel returned to over 70 per cent of pre-pandemic levels as restrictions eased, businesses travel was still at half of 2019 levels.

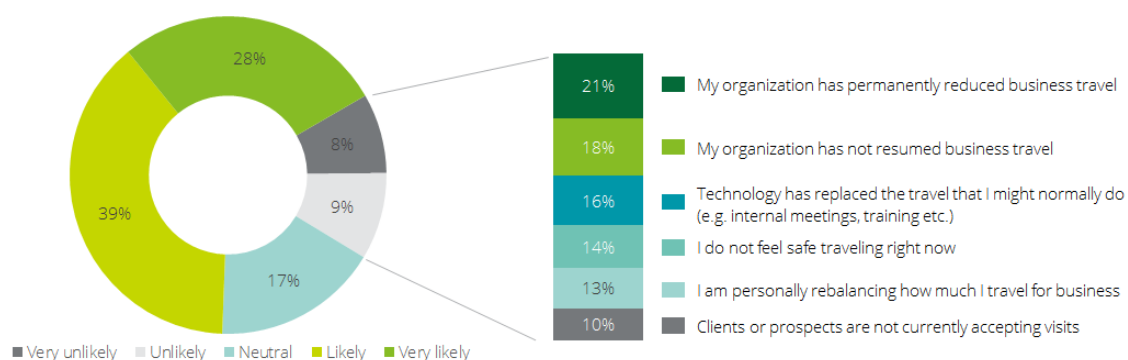
The pause in business travel during the pandemic has resulted in a reconsideration of the need, purpose and approach to business related travel for many organisations. While the significant benefits of in-person interactions are acknowledged and will drive a steady increase in business travel, the specific shape and drivers for business travel are expected to look different than they did prior to the pandemic.

Despite diminishing concerns about the safety of air travel in recent months, personal and organisational shifts around the level of travel are more prominent in underpinning the return of corporates. In Australia, over a third of business travellers are unlikely to take a

business trip in the short term. A fifth cent of business travellers indicated their organisations have permanently reduced business travels. Further, there is a wider acceptance of conducting business meetings virtually, with 16 per cent of business travellers indicating technology has replaced the need to travel. (Chart xv).

Further, with sustainability increasingly becoming a focus for corporations due to changing perspectives among consumers and investors, it is becoming critical for organisations to embrace sustainable business practices. Organisations can be expected to place greater emphasis on the social and environmental impact of their business travel programmes. The strategies and actions taken to redesign business travel policies to support overall corporate sustainability goals will have a direct impact to the future demand of business travel

Chart xvi: Likelihood to take business trips in the next three months, Australia



Source: Deloitte Global State of the Consumer Tracker, April 2022
 Question: How likely are you to take a business trip in the next three months?

Forecasts for travel to and within Australia

Overall, the return of travel will be patchy with some market segments and regions expected to recover more quickly than others. Holiday and visiting friends and relatives (VFR) segments are expected to lead the recovery of tourism, in particularly, from short haul source markets. The outlook for business travel is weaker, with long haul most likely to take longer to recover compared to short haul business travel.⁷

Domestic travel forecast

With the reopening of Western Australia in early 2022, domestic travel in Australia is now unrestricted. Expected stability in borders, strong vaccination rates and the reduced severity of Covid-19 infections, have strengthened domestic travel confidence, which will underpin a strong recovery of Australia's domestic travel sector in 2022 and 2023.

International arrival forecast

With Australia's borders now open to vaccinated travellers, international tourism has started to resume – albeit slowly. While most other countries have also opened their borders, several of Australia's key markets, most notably China and Japan, have remained closed (or, with limited travel) and are signalling their commitment to remain so until at least the second half of 2022. For most of Australia's key international source markets, outbound travel is now largely permitted, though some countries still require a negative Covid-19 test result to re-enter. While travel is permitted, other determinants like consumer

Domestic overnight trips in Australia are forecast to grow to 109 million trips in 2022 (94 per cent of 2019 levels).

This is a drop from the forecast in the previous edition, reflecting a slower than expected recovery in 2022 due to lockdowns, and prolonged impacts of the pandemic on travel confidence. Domestic overnight trips are expected to rebound strongly towards the end of 2022, driven by pent-up demand and increasing domestic travel confidence.

Domestic overnight trips are forecast to surpass 2019 levels in 2023, reaching 127 million trips (108 per cent of 2019 levels) before growing further to 139 million trips in 2024 (120 per cent of 2019 levels). (Chart xvii)

confidence and financial capacity to travel will restrict the pace of the recovery.

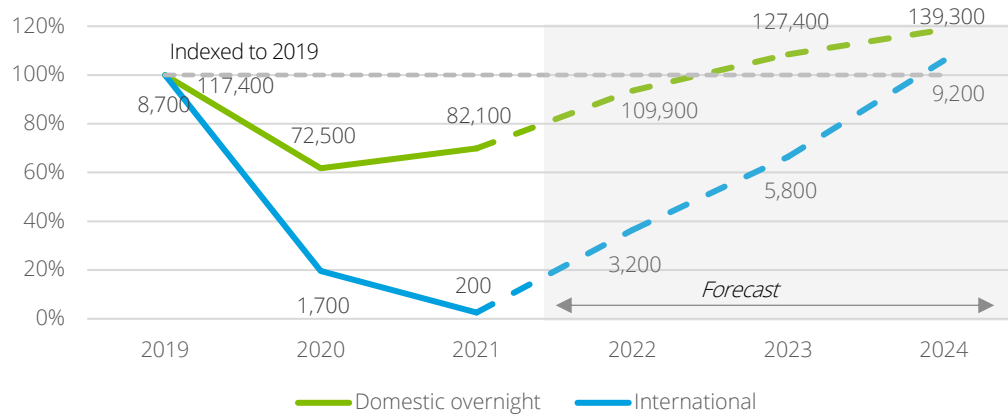
International tourism to Australia is forecast to recover more slowly than previously expected, with arrivals reaching around 3.2 million by the end of 2022 (36 per cent of 2019 levels), and 5.8 million in 2023 (66 per cent of 2019 levels).

Spurred by strong pent-up demand from China once travel resumes, international arrivals to Australia are estimated to return to 2019 levels by the end of 2024.

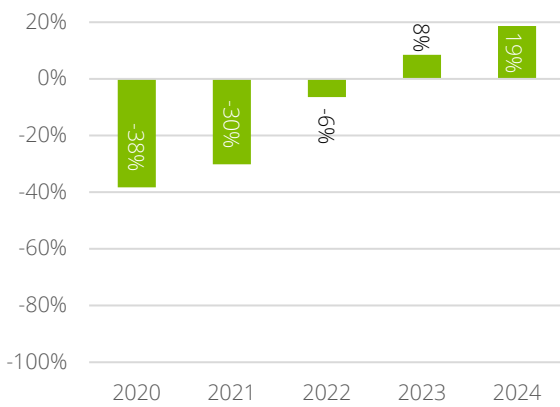
⁷ CAPA, Asia Pacific Travel Recovery Report, April 2022

Chart xvii: Outlook for domestic overnight and international trips (000)

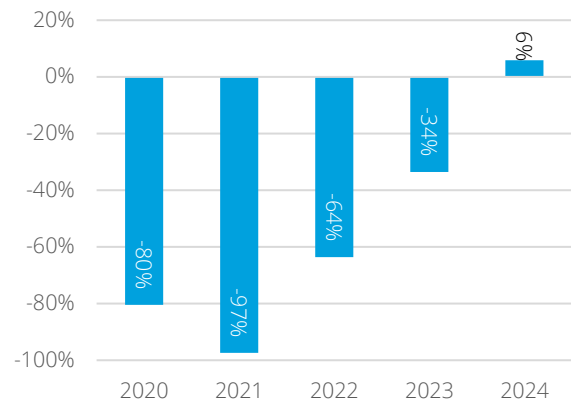
Indexed to 2019



Domestic overnight trips (% change from 2019)



International trips (% change from 2019)



Source: Deloitte Access Economics forecasts.

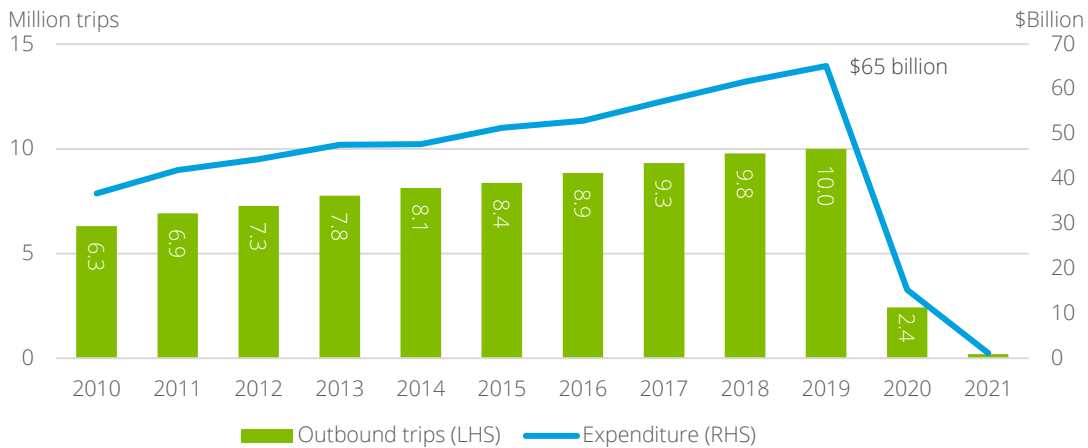
Note: Numbers shown are in thousand trips.

Overseas travel by Australians

Australians are avid international travellers. The number of outbound trips taken by Australians grew 5 per cent per annum in the 10 years prior to the pandemic, more than double the average annual population growth rate (2 per cent) over the same period.

In 2019, Australians took a record 10 million overseas trips – equivalent to around two trips for every five Australians – spending a total of \$65 billion on international travel, which represented close to 40 per cent of tourism spend by Australians.

Chart xviii: Number of outbound trips and trip expenditure, 2010-2021



Source: Tourism Research Australia

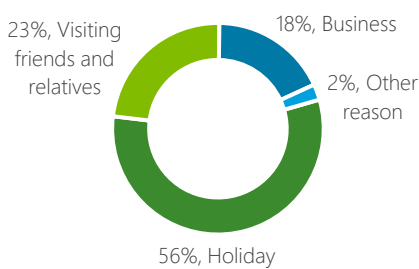
In 2019, holiday trips represented more than half of Australians’ overseas trips (56 per cent). A further quarter of trips were to visit friends and family (26 per cent), while business trips accounted for 18 per cent of outbound trips (Chart xix), a mix that has remained relatively stable over the last decade.

With international travel restrictions lifted in Australia, and more countries ease entry requirements, Australians are returning to overseas travel, with trips to visit family and friends high on travellers’ agenda.

With the international travel ban in place during most of 2020 and 2021, overseas travel other than for essential reasons came to a halt. In 2021, there were only around 200,000 overseas trips made by Australians.

Despite this, there is a segment of the population who are maintaining a ‘watch and wait’ approach and likely to hold back plans on international travel. Further, it will take some time to rebuild international aviation capacity. As at March 2022 quarter, international aviation capacity was only a fifth of capacity available for the same quarter in 2019. The slower return of aviation supply will have a direct impact on how quickly outbound travel will resume.

Chart xix: Reason for overseas trips, 2019



Source: Tourism Research Australia

The top five destinations for Australian travellers’ overseas trips in 2019 were New Zealand (13 per cent of total trips), Indonesia (12 per cent), the United States (9 per cent), the United Kingdom (6 per cent) and China (5 per cent).

The conflict between Ukraine and Russia has also dented international travel intentions of Australians to some extent. As at April 2022⁸, around half of Australians indicated their international travel plans would likely be impacted by the conflict.

The outbound travel segment is an integral part of Australia’s visitor economy, A healthy outbound travel segment is an important enabler to attract international services to Australia, and overall contribute to a balanced travel and tourism ecosystem. Deloitte Access Economics expects outbound travel by Australians will recover to 2019 levels sometime in 2024.

⁸ Deloitte Global State of the Consumer Tracker, April 2022

Hotel sector outlook

Global hotel sector

The partial opening of borders with the European Union (EU) countries and the United States in mid-2021, tourism recovery picked up pace in the second half of 2021 saw hotel occupancy in the region reaching pre-pandemic levels during the summer holiday peak season ().

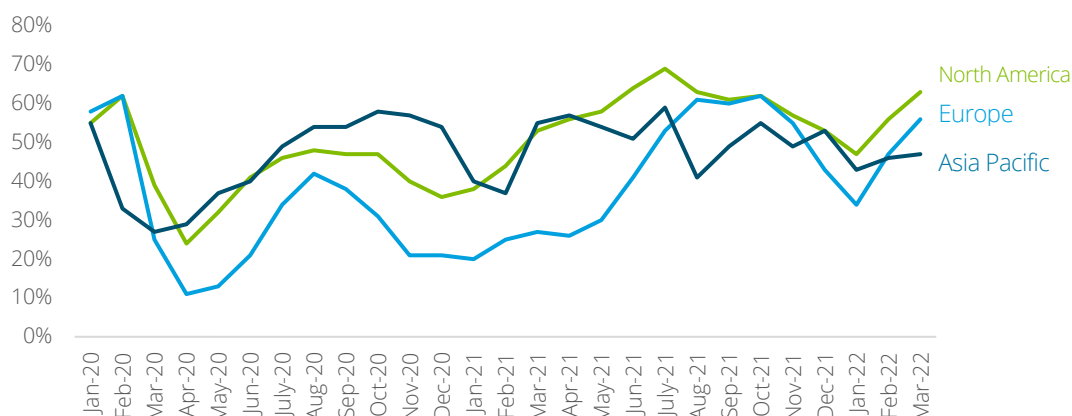
Since the beginning of 2022, despite concerns around the Omicron variant, most European countries started to lift travel restrictions on tourists from outside the EU, and where testing requirements have continued, these have been streamlined. This has led to a significant rebound in activity, however international arrivals to Europe remain around half of pre-pandemic levels.⁹

The U.S. tourism sector recovered strongly in 2021 driven by domestic tourism given limited travel restrictions. Hotel occupancy rates reached 70 per cent in July 2021, the highest level since the start of pandemic. The Delta variant

put the brakes on recovery temporarily for the rest of 2021. The pandemic milestone for the U.S. was when the country opened its border to fully vaccinated foreign travellers from 8 November 2021. Hotel occupancy rates have been steadily improving since, reaching around 63 per cent in March 2022.

Hotel performance across Asia Pacific has trended the lowest compared to Europe and North America, hovering between 40 to 60 per cent for most of 2021. The region is the slowest to open to tourism, with travel restrictions remaining in place for a number of major tourism source markets such as China, Hong Kong and Japan. The easing of restrictions for markets such as Singapore, Thailand and Indonesia have attracted the return of some level of tourism to support the hotel market, though average occupancy levels remain below 50 per cent.

Chart xx: Hotel occupancy rates, January 2020 to March 2022



Source: United Nations World Tourism Organisation Tourism Recovery Tracker (2021)

Hotel market in Australia

Prior to the pandemic, a third of visitors in Australia would stay in hotels for a part of their trip. Collectively, this group of hotel-staying travellers (international and domestic) contributed \$40 billion in tourism spending, around a third of visitor expenditure in Australia in 2019.

The Covid-19 pandemic has had a profound impact on Australia's hotel sector. Travel restrictions imposed to manage the Covid-19 health crisis resulted in record low hotel occupancy rates across most Australian capital cities.

Hotels in Australia's biggest cities, Sydney and Melbourne, have been disproportionately impacted. In fact, the lockdowns in Sydney and Melbourne pulled down hotel

occupancy rates to as low as 20 per cent in August 2021.¹⁰ Sydney and Melbourne, as Australia's most populous cities, contribute a large portion of travel and hotel demand for other cities especially with the international border closed. The lockdowns in both cities stopped nearly half of Australia's population from travelling, which resulted in average hotel occupancy rates of 32 per cent nationally in August, lowest point in 2021.

⁹ UNWTO Barometer March 2022

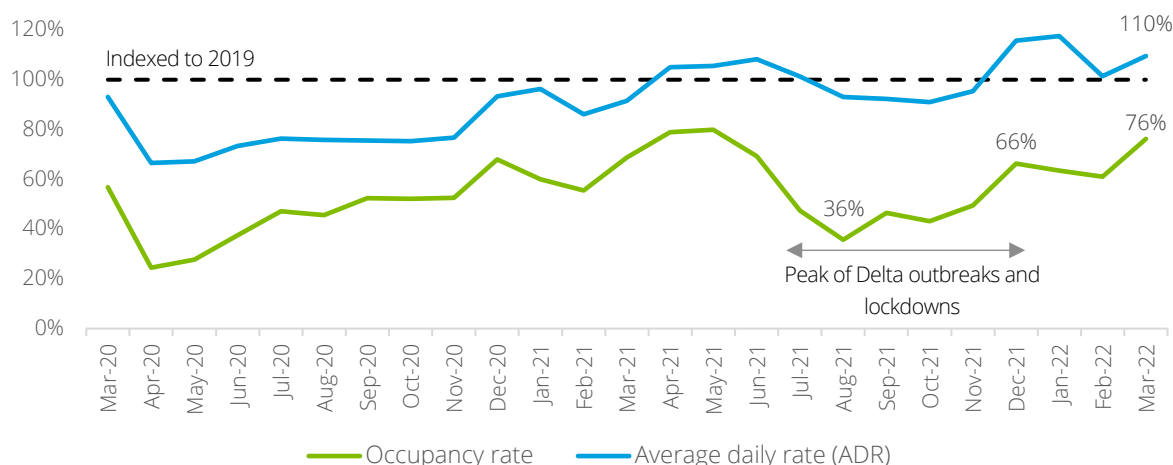
¹⁰ Data from STR Global

Hotels in other major cities fared somewhat better, while regional destinations have experienced more modest declines, and some have even seen stronger than usual demand as travel patterns shifted away from cities and towards regional destinations during the pandemic.

As lockdowns lifted and travel restrictions started to ease in late 2021, hotel demand started to return albeit

unevenly and, in some markets, quite slowly. In December 2021, before the Omicron related slowdown, occupancy across Australia's major hotel markets occupancy had climbed to 66 per cent of December 2019, while in March 2022, occupancy had recovered to 76 per cent of March 2019 (Chart xxi) levels.

Chart xxi: Hotel occupancy rates and average daily room rates across major markets – relative to same month in 2019



Source: Deloitte Access Economics' analysis with STR Global data. Markets are Sydney, Melbourne, Canberra, Darwin, Tropical North Queensland, Perth, Brisbane, Adelaide, Hobart, Western Sydney and Gold Coast.

Average room rates across Australia were much less impacted than occupancy rates. By 2021, average room rates had recovered to 2019 levels and average room rates for the first quarter of 2022 had surpassed levels recorded during the same period in 2019.

Across the 11 key city markets included in this publication, occupancy levels struggled throughout the pandemic, with

average occupancy rates at 42 per cent and 45 per cent in 2020 and 2021.

With the easing of domestic travel restrictions and opening of international borders, occupancy levels are showing signs of improvement, tipping over 50 per cent in the first quarter of 2022 (Table i).

Table i: Key hotel performance metrics across major markets

Metrics	2019	2020	2021	Jan - Mar 2022
Room occupancy	77%	42%	45%	51%
Share of 2019 level		55%	58%	67%
Room rate	\$164	\$162	\$183	\$201
Share of 2019 level		88%	111%	109%
RevPAR	\$141	\$68	\$86	\$109
Share of 2019 level		48%	61%	77%

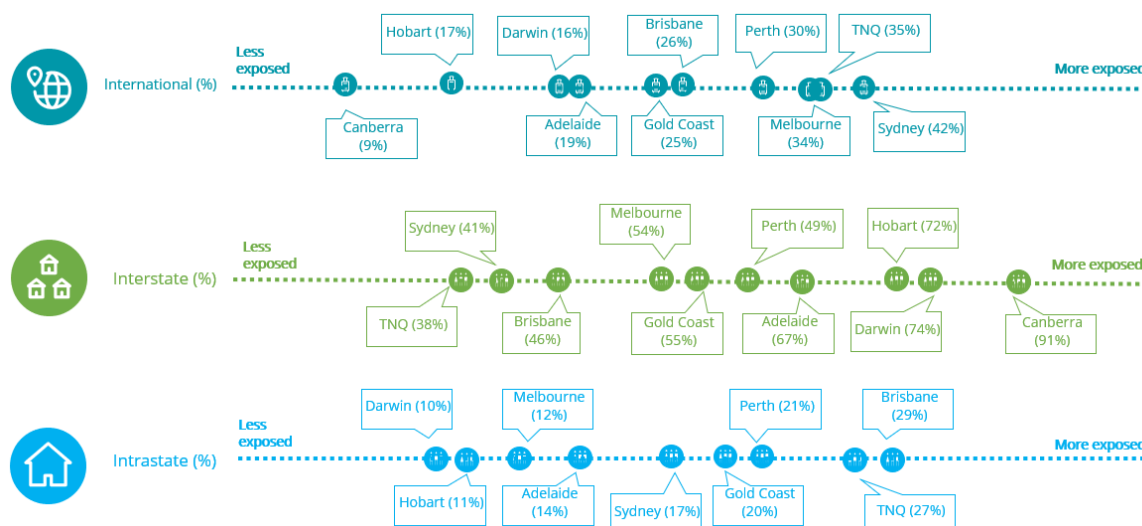
Source: Deloitte Access Economics and STR Global data. Share of 2019 level for Jan-March 2022 is based on Jan-March 2019. Markets included are Sydney, Melbourne, Canberra, Darwin, Tropical North Queensland, Perth, Brisbane, Adelaide, Hobart, Western Sydney and Gold Coast

Outlook for the Australian hotel market

The outlook for individual hotel markets will depend on each market's exposure to respective sources of demand – across source markets and purpose of travel. Markets which are more dependent on international travel and corporate travel segments are likely to take longer to return to pre-pandemic levels (Figure i).

Sydney, Tropical North Queensland and Melbourne are the most dependent on international tourism demand. Markets with a small population base such as Hobart, Darwin and Canberra are more reliant on interstate tourism demand. With the expected slower return of corporate travel, major capital cities like Sydney, Canberra, Melbourne and Perth where the business travel market is a key demand source will likely face greater uncertainties during the recovery pathways.

Figure i Exposure of market by demand market source



Source: Deloitte Access Economics and Tourism Research Australia
 Note: Figures in chart is based on 2019 visitor nights data.

The opening of several hotels in late 2021 and early 2022 has added interest and depth to Australia's hotel offering, including several high-end properties, such as the Hyatt Centric and Oakwood Premier in Melbourne, which opened in early 2022. The Tasman, a luxury collection from the Marriott group, added 150 new rooms to Hobart, and in Sydney, the 264-room boutique Ace Hotel opened in May, the first location in the southern hemisphere.

Pipeline of hotel projects

Looking ahead, there is the potential for 14,000 new rooms in likelihood adjusted terms¹¹ to be added to the room stock across the 11 markets in the coming years, with almost 40 per cent of these (6,000 rooms) expected to open in 2022.

Melbourne will welcome the 500-room Shangri-La scheduled to open in early 2024. In Sydney, the market will see the additions of several notable hotel brands, such as the 120-room MGallery by Sofitel and the 586-room W Hotel. Brisbane will also welcome several luxury properties,

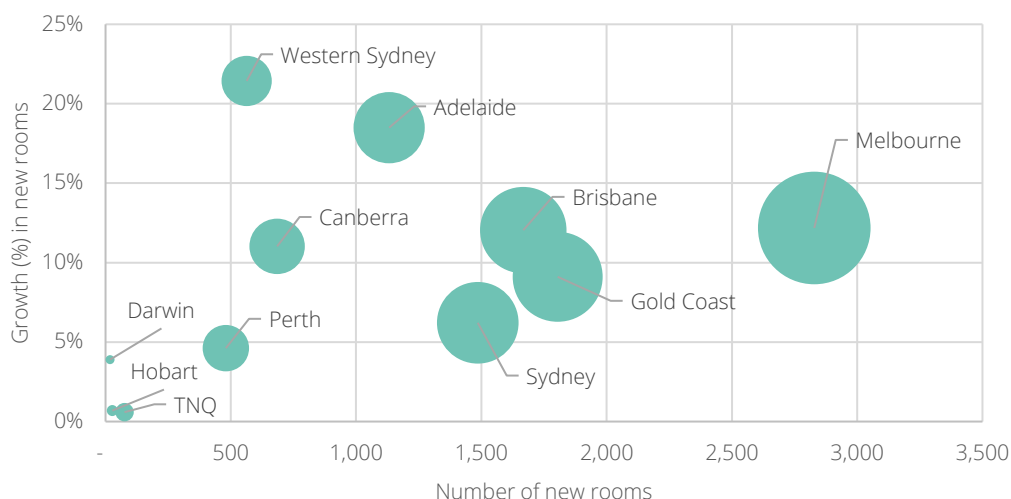
such as the 200-room Ritz-Carlton and 387-room Dorsett Hotel in the Queens Wharf precinct.

Overall, the pipeline of hotel developments has moderated and pushed further out due to shifts of several projects from hotel to residential and delays in commitment from investors. Further, the collapse of major construction firms in the last year has led to uncertainty around the opening schedules of some hotel projects.

The majority of the new stock remains concentrated in Melbourne, Gold Coast and Sydney, which combined accounts for almost 60 per cent of the anticipated new inventory across the 11 markets. However, relative to existing stock, Adelaide, Western Sydney, Brisbane and Canberra are expected to experience the most significant relative increase with double-digit growth in new stock over the next three years which will place further pressure on occupancy rates in these markets.

¹¹ This refers to Deloitte Access Economics' assigned probability of new hotels opening, depending on the state of the development at the time of undertaking the forecast.

Chart xxii: Anticipated new hotel stock in next three years across key markets



Source: Deloitte Access Economics and STR Global

Note: Pipeline growth is based on new rooms to be added in each market (likelihood adjusted)

Drivers of hotel forecast

Fundamentally, the hotel market outlook is underpinned by economic conditions here in Australia and in respective international source markets, and the historical hotel performance of each market. The strength of the hotel pipeline will also have a significant impact on the outlook of hotel performance. While it is important to have a healthy pipeline, new openings in a saturated market or when demand is slower to return may pressure occupancy and room prices.

The historical mix of demand sources for each market will influence the hotel market outlook. Markets which are traditionally more reliant on business travel will most likely take a longer time to recover than markets which have a higher proportion of their demand from the holiday segment.

There is greater uncertainty in the hotel market outlook than in prior forecast periods, as the pandemic and the challenging economic environment continue to impact and reshape consumer behaviour.

Australians' travel appetite led to a surge in interest in regional destinations during the international travel ban. With fewer travel restrictions, there is considerable debate about whether these new behaviours will persist or whether Australian travel patterns will revert to their historical norms.

Hoteliers in major centres will be reviewing approaches and strategies as they work to recapture demand from the domestic market and returning international travellers. Hotels will also be encouraging the reactivation efforts of city and local governments to attract visitation back to the cities.

City hotels used to enjoy a steady source of demand, especially on weekdays, from the corporate travel market. The slower anticipated return of this segment will affect how hoteliers make pricing decisions. The arrangements between organisations and hotels will evolve as businesses look to negotiate new accommodation contracts which can deliver savings and flexibility.

Forecast for key hotel markets

The pace of recovery for hotels will vary across the city markets. Hotels in major city centres will continue to face pressure on occupancy levels in 2022 and 2023.

Darwin, Gold Coast and the Tropical North Queensland can expect to see average hotel occupancy rates returning to or near to 2019 levels by 2023. Sydney, Melbourne, Brisbane, Perth and Hobart are expected to see average occupancy rates return to 2019 levels by 2024, with Adelaide, Canberra and Western Sydney returning to around 90 to 95 per cent of occupancy levels in 2019.

Room rates have held up remarkably well during the pandemic. The volume and type of new stock expected will shift hotel market dynamics and influence the outlook for prices. The injection of new, high quality room inventory has raised the quality of accommodation in a number of capital cities, enabling hoteliers in general to command higher room rates. Average room rates in 2022 across the 11 markets are expected to be around 10 per cent higher than 2019 levels, with continuing strength across the three-year forecast horizon.

Contact us



Adele Labine-Romain
Partner, Deloitte Access Economics
National Travel Hospitality and Leisure Leader
Tel: +61 2 9322 3978
Email: alabine-romain@deloitte.com.au



Cameron Chatwood
Partner, Deloitte Real Estate
National Real Estate Leader
Tel: +61 7 3308 1203
Email: cchatwood@deloitte.com.au



Jason Tracy
Partner, Deloitte Turnaround & Restructuring
Tel: +61 2 9322 3858
Email: jtracy@deloitte.com.au



Alex Collinson
Partner, Real Estate & Construction
Tel: +61 2 9322 7921
Email: acollinson@deloitte.com.au

Contributing team

Emily Mahler
Director
emahler@deloitte.com.au

Sharon Foo
Associate Director
sfoo@deloitte.com.au

Emma Grey
Manager
egrey@deloitte.com.au

Alex Scaife
Senior Economist
ascaife@deloitte.com.au

Laura Bills
Senior Economist
lbills@deloitte.com.au

Hamish Burrell
Economist
hburrell@deloitte.com.au

Lorena Xie
Economist
lorxie@deloitte.com.au

Dom Behrens
Graduate Economist
dohrens@deloitte.com.au

Peter Limerick
Graduate Economist
plimerick@deloitte.com.au



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