



COVID-19 recovery for the tourism sector How are we tracking?

January 2021

A framework for monitoring and assessing the recovery of the Australian tourism sector



COVID-19 recovery for the tourism sector

How are we tracking against the three tourism recovery scenarios?

Deloitte Access Economics previously published a set of potential recovery scenarios to provide an Australian perspective on the COVID-19 crisis' impact on tourism.

- **Mild scenario:** The future we hope for
- **Harsh scenario:** The future we prepare for
- **Severe scenario:** The future we want to avoid

These scenarios developed were underpinned by the interaction between four key determinants, including government regulations, economic conditions, tourism supply and consumer sentiment.

Australia is in an enviable position when it comes to managing both the health and general economic impacts of the pandemic. This has, however, come with a heavy toll on tourism businesses, which have witnessed international and – at times – interstate travel coming to a standstill and have needed to adjust to meet evolving domestic travellers' behaviours in the context of ever changing health regulations.

This document provides an update on how we have tracked against the recovery scenarios, articulating the impact on the tourism sector across 2020 and provides current data points to inform the pace and shape of the recovery.

The key determinants to tourism recovery

Consumer sentiment: Health and financial concerns will be a key driver of willingness to plan, undertake and spend on travel.

Regulations: The lift of travel restrictions, easing of physical distancing requirements will be key to facilitate the start of tourism recovery.

Economy: The rebound of economic activity, measured by GDP, unemployment rate, international trade, inflation, and exchange rates will underpin the recovery of the tourism sector.



Tourism capacity: Integral to tourism recovery is the return of capacity of the sector to attract and service tourism demand, including aviation capacity, tourism product and experiences and the required labour force.

Tourism recovery scenarios

While economic conditions will be a critical underlying driver of the tourism sector's recovery, the interaction of a further set of variables will set the actual pace and shape of the recovery. Below is a refresher on the scenarios across four key determinant categories, covering both the domestic and international markets.

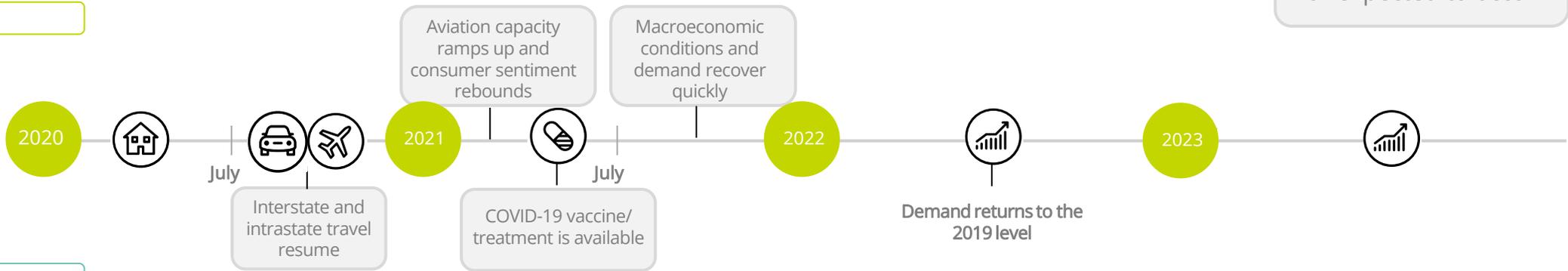
	The future we hope for (Mild scenario)	The future we prepare for (Harsh scenario)	The future we want to avoid (Severe scenario)
Travel restrictions 	<p>Interstate and intrastate travel resume in 2020</p> <p>Rapid and effective containment measures result in international travel bubbles in Q4 2020, with a return to open international travel around first quarter 2021</p> <p>A vaccine or effective treatment is available in July 2021.</p>	<p>Staggered lifting of domestic travel restrictions across late 2020 and early 2021</p> <p>International travel bans remain in place until second quarter in 2021</p> <p>Australia successfully flattens the curve but ongoing restrictions are required to manage new outbreaks.</p> <p>A vaccine or effective treatment is available in July 2021.</p>	<p>Travel bans remain in place throughout 2020. Limited domestic travel allowed in 2020, with staggered lifting of restrictions through to mid 2021. Some international travel bubbles begin to emerge in 2021. However, unrestricted international travel does not occur until 2022</p> <p>A vaccine or effective treatment is not available until July 2022, limiting the ability for unrestricted travel to return</p>
Air capacity 	<p>Air capacity quickly recovers in response to travel demand</p> <p>There are no medium to long term impacts on air capacity.</p>	<p>Air capacity adjusts according to consumer shifts to other forms of transport (e.g. self drive holidays)</p> <p>Slower reinstatement of air capacity.</p>	<p>Air capacity is severely affected by the prolonged lockdown and will shift accordingly just to meet limited restricted demand. The industry begins to shift to a higher-cost model, forcing a larger number of players to exit</p> <p>Less profitable routes are more severely impacted by lower competition leading to higher ticket prices.</p>
Consumer sentiment 	<p>Consumer sentiment quickly recovers</p> <p>Consumers feel safe due to containment of the virus across the country and around the globe.</p> <p>Demand returns relatively quickly, supported by a strong economic recovery.</p>	<p>Consumers are more cautious about travel until a vaccine or effective treatment is available in July 2021, even when travel restrictions are lifted (domestic)</p> <p>General reduction in tourism demand in the short to medium term (domestic).</p> <p>There is a medium-term shift towards short-haul and domestic tourism (international scenario).</p>	<p>Consumer sentiment is severely affected in the absence of an effective treatment and the subdued economic recovery</p> <p>Poor consumer sentiment dampens tourism demand until early 2022. The long-term impacts of COVID-19, high travel costs and safety concerns shift preferences toward short-haul travel and domestic tourism.</p>
Pent-up demand 	<p>Pent-up demand sees tourism recover fairly quickly, particularly the business travel, VFR and international student markets</p> <p>Australian destination marketing campaigns successfully encourage some Australians to substitute overseas trips with domestic trips.</p> <p>The loosening of travel restrictions sees an initial rebound in international demand.</p>	<p>Some pent-up demand when interstate travel resumes and return of international travel from visiting friends and relatives and international students</p> <p>However, pent-up demand for business and leisure tourism is subdued by economic conditions.</p>	<p>There is limited pent-up demand due to the subdued economic recovery and poor consumer sentiment</p> <p>Tourism demand recovers slowly.</p>

How are we tracking? Deloitte's COVID-19 domestic tourism scenarios

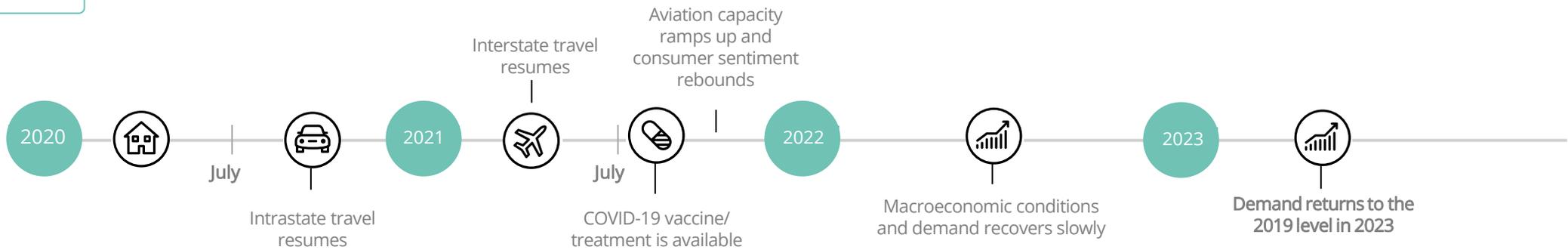
The recovery path for domestic tourism activity is tracking in line with the expectations of the mild scenario.

Has occurred / is likely or expected to occur

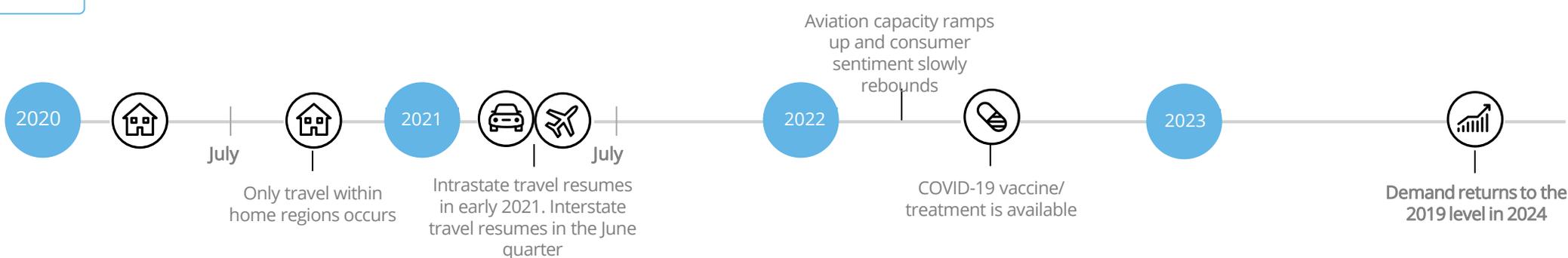
Mild



Harsh



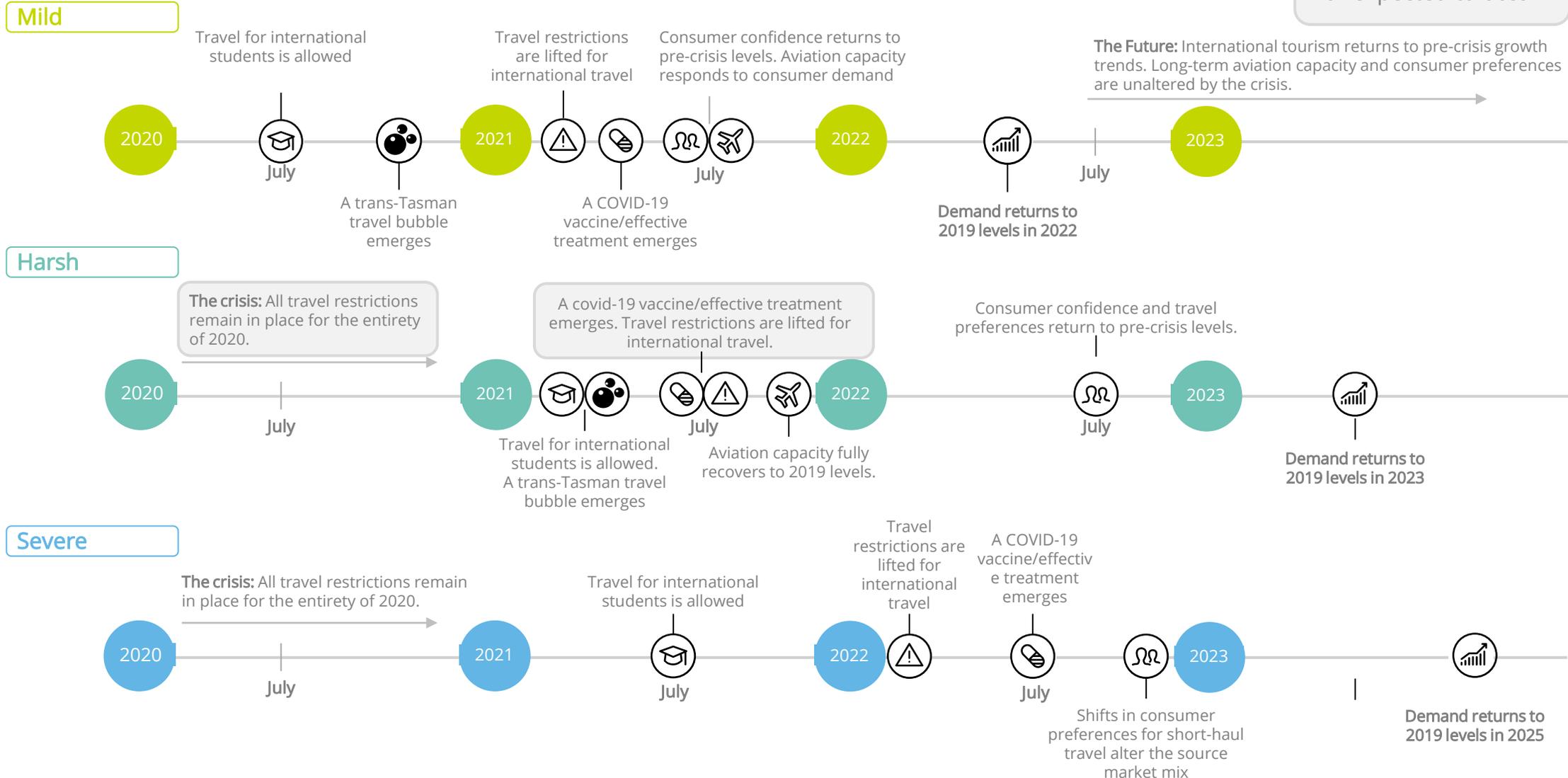
Severe



How are we tracking? Deloitte's COVID-19 international tourism scenarios

The restart of international travel to and from Australia remains highly uncertain. While the vaccine roll-out both in Australia and globally brings hope of a recovery, a return of international travel in 2021 remains uncertain.

Has occurred / is likely or expected to occur



Assessing the impact of COVID-19 on the Australian tourism sector in 2020



2020 – the year when everything changed

Australia's success in containing COVID-19 has led to devastating impacts on many segments of the tourism sector. The ways consumers travel have changed forever, shaped by the measures put in place around health, the economy and social systems to manage the pandemic.

IMPACT TO TOURISM GLOBALLY



International tourism back to 1990 levels

- Arrivals expected to fall 75% in 2020
- Loss of US\$ 1.1 trillion in tourism receipts
- Loss of US\$ 2 trillion in world GDP

Source: UNWTO



Worst year in aviation history

- Half a trillion revenue loss (\$838 B to \$328 B)
- 43 global airlines bankrupt by October 2020
- Half a million job losses so far
- At least 2024 before air traffic is forecast to reach pre-pandemic levels

Source: International Air Transport Association

Australia's tourism industry is not immune to these global impacts

- International borders are effectively shut other than to returning Australian residents and to eligible travellers from New Zealand.
- Domestic overnight trips have declined 41%, accompanied by a 47% drop in visitor spending over the period January to October 2020.
- Almost 95,000 job losses in the tourism sector (year ending September 2020).

"Around the world, in countries at all development levels, many millions of jobs and businesses are dependent on a strong and thriving tourism sector. Tourism has also been a driving force in protecting natural and cultural heritage, preserving them for future generations to enjoy." – **Mr. Zurab Pololikashvili, Secretary General of UNWTO**

IMPACT ON TRAVEL INTENT AND CONFIDENCE

Travellers looking to travel closer to home, though with some hesitancy with uncertainty around borders

Travel in next six months



Source: Tourism Australia, Greenlight Sentiment Tracker August 2020

Travellers are more concerned with health safety and hygiene practices

Big impact on travellers' touch points

Very + somewhat concerned



Source: IATA, COVID-19 Passenger Confidence Survey – August 2020

ACCELERATION OF TRAVEL INNOVATION

In 2020, travel businesses needed to quickly adapt to new hygiene protocols and social distancing measures, while ensuring the implementation remained customer centric.

New source markets, consumer segments, business models and alternative revenue streams are just some of the strategies that have been (and are being) explored to help survive and kickstart recovery.

Source: Euromonitor, Accelerating travel innovation after coronavirus, November 2020

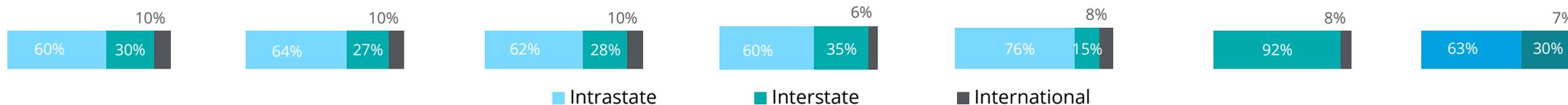
"Over the last couple of years, the travel industry has been going through an abundance of change and digital transformation. This has not been a revolution, but rather a gradual evolution to meet the needs of savvy travellers and to leverage the latest technology and innovations that are transforming society as a whole. COVID-19 has just accelerated this. And it's time to double-down and focus on what's important for travellers and for business to get through this crisis and come out stronger." – **Angel Gallego, Executive Vice President, Travel Channels, Amadeus**

The most challenging year for Australia tourism

Following a disastrous start to the year with the summer bushfires, the onset of the pandemic led to partial and then full closure of international borders with interstate border restrictions following. In the first ten months of 2020 alone, the Australia tourism sector experienced a loss of approx. \$70 billion relative to 2019. **Extended to the end of 2020, a loss of approx. \$90 billion is estimated.**

- With international borders closed since March, there have been **5.8 million fewer international visitors** (in the Jan to Oct period), an **estimated loss of around \$30 billion in expenditure**.
- The **domestic market is down about \$40 billion** over the period, with **overnight trip spending down \$32 billion (-47%)** and **daytrip spending down \$8 billion (-37%)**.
- **Interstate travel is down two thirds**, with **intrastate travel also down about 30%** relative to last year.

Share of overnight domestic and international trips by source market, 2019



Loss in overnight domestic and international trips, 2019 and 2020, January to October



Source: Tourism Research Australia, Australian Bureau of Statistics
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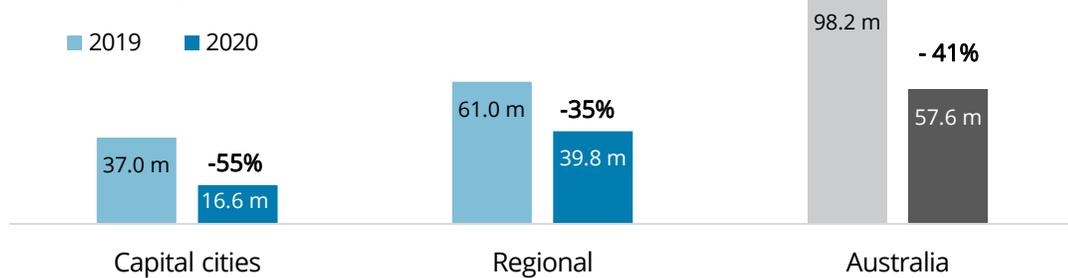
Note: Components may not add to total as visitors may visit more than one state/territory on a trip. Estimates for the NT and Tasmania are unpublishable due to small sample sizes.

For now, everything depends on our domestic market

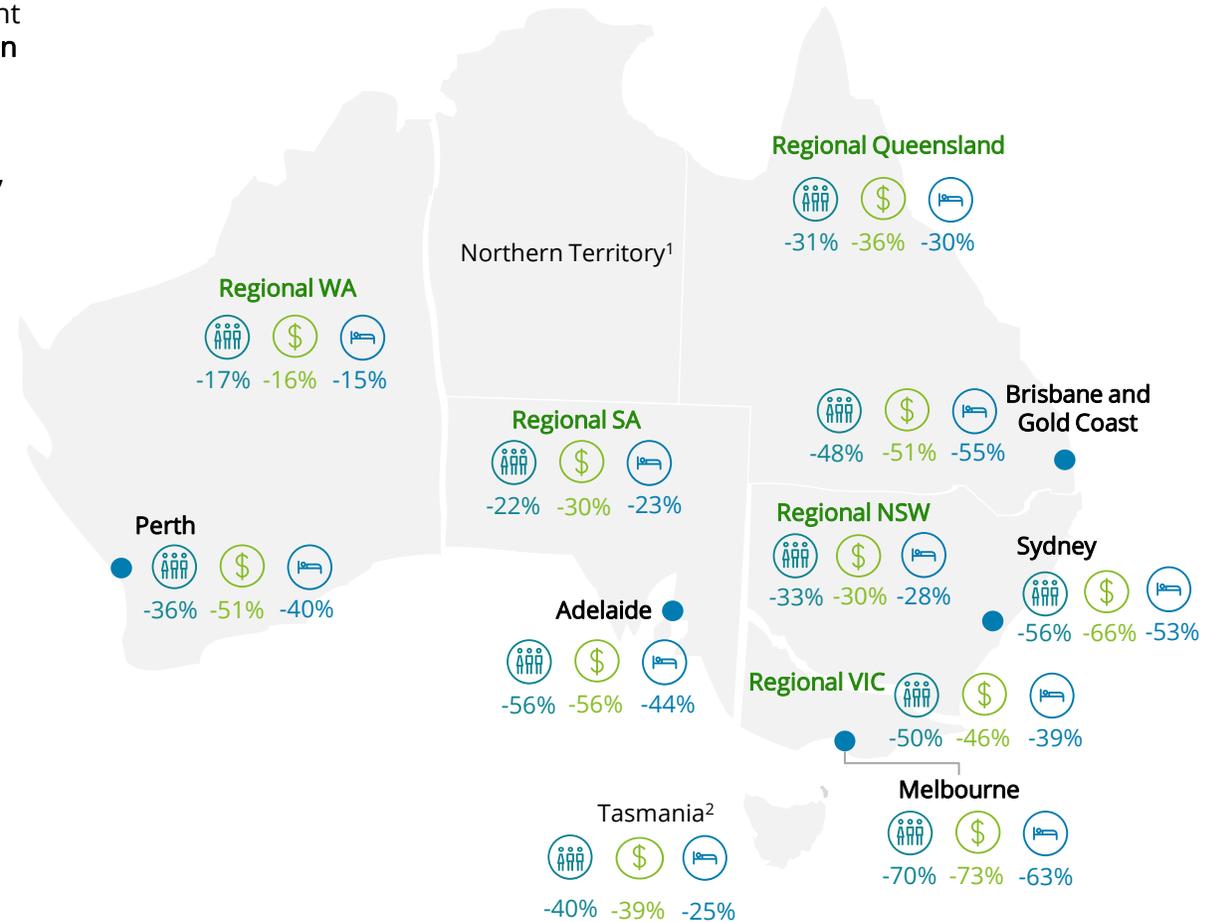
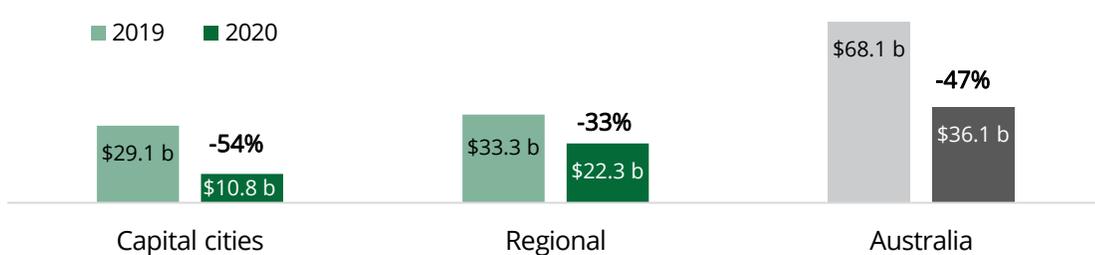
- From January to October 2020, there were **58 million domestic overnight trips** in Australia compared to 98 million trips made in the same period in 2019, a **decline of 41%**. Across the same period, total domestic **daytrips are down by 37%** to 130 million trips.
- The decline in travel has impacted cities disproportionately – with the number of overnight trips and spending down by more than half in cities. The **decline is somewhat less severe in the regions**, where overnight trips and related spending are down by about a third.
- The road to recovery is expected to be challenging, with the return of domestic business travel expected to lag holidays and visits with family and friends. In the Jul to Sep quarter, **spending on leisure trips¹ was down 50%** on 2019 levels **while spending on business travel was down by two thirds**.

Decline in domestic overnight trips, nights and spend, capital cities and regional areas from January to October 2020 relative to 2019

Domestic overnight trips from January to October, 2019 and 2020



Domestic overnight spend from January to October, 2019 and 2020



Source: Tourism Research Australia

Note: (1) Leisure trips include holiday and visits to friends and relatives

(2) Regional and capital breakdown unavailable for Tasmania, the NT and the ACT.

Note: (1) Unpublishable data for NT due to small sample sizes.

(2) Best estimated available subjected to small sample sizes

How are we tracking now, and what comes next?



How are we tracking? The key determinants to resume travel



Regulations: Australia has one of the strictest border closure restrictions globally.

International borders are fully shut other than for returning citizens and residents and travellers from New Zealand, to selected states, of which weekly arrivals are also capped to control the number of imported virus cases. Domestically, while intrastate travel is largely permitted, interstate travel has been impacted by multiple and short notice border closures and quarantine requirements, leading to increasing difficulties and hesitancy in advanced planning.



Economy: The sheer speed of economic disruption in Australia and the rest of the world from the onset of the pandemic was unprecedented. There are, however, strong signals of recovery in the Australian economy, as **GDP per capita in the third quarter of 2020 increased by more than 3%.**

Moreover, **unemployment improved to 6.6%** in December 2020 (from a high of 7.5% in July) with hours worked monthly increasing by 4.4% in December 2020.

Heading into 2021, the economic **outlook is looking positive** with expected **4.4% growth in GDP.**



GDP per capita

3.2% in September 2020 Qtr versus June 2020 Qtr



Unemployment

6.6% in December 2020



Hours worked monthly

4.4% in December 2020 compared to July 2020



Household savings to income ratio

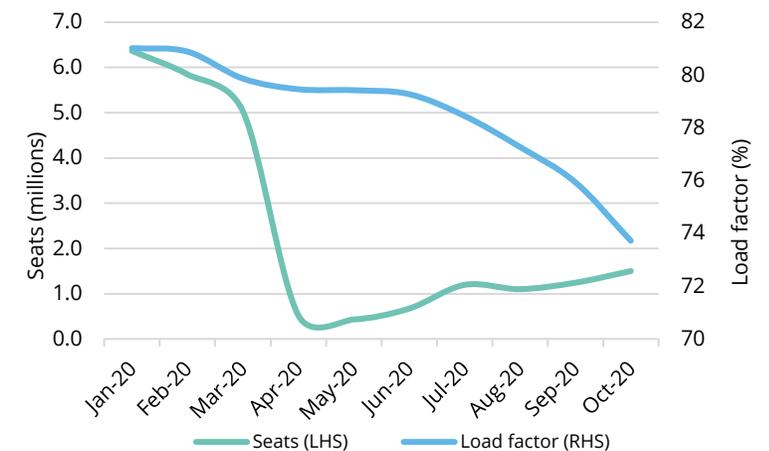
18.9% in September 2020 Qtr
6.2% in September 2019 Qtr

Source: ; Deloitte Access Economics, Business Outlook, January 2020 Australian Bureau of Statistics, Australian National Accounts, Labour Force



Supply: Border closures and health measures have resulted in devastating impacts on aviation capacity and jobs in the tourism sector.

Actual domestic airline passenger and load factors, 2020



Source: Bureau of Infrastructure, Transport and Regional Economics



Jobs in the tourism sector

Increased by 4.0% or 24,000 jobs in September qtr 2020. However, this is still **13% lower (around 95k jobs) than September 2019, and the lowest since 2013.** The decline in tourism jobs is **three times more severe** than the whole economy (-4%).

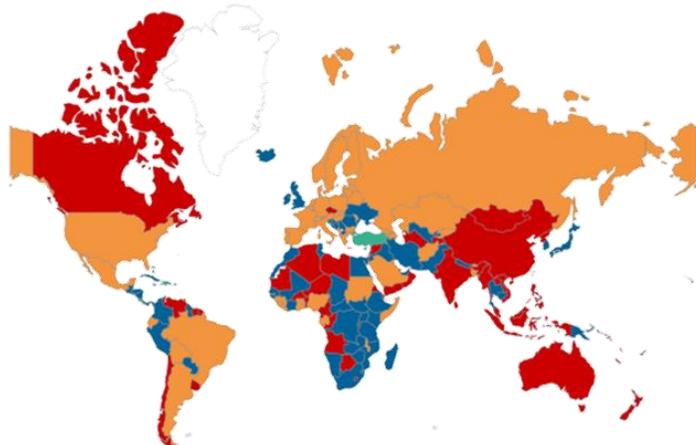


Different impacts in the tourism sector

September 2020 is the first quarter where part-time tourism jobs (318,00) exceed full-time jobs (315,700).

Source: Australian Bureau of Statistics, Tourism Satellite Account (experimental estimates)

COVID-19 related travel restrictions



● Fully closed ● Partially closed ● Lifted for tourism ● Other measures

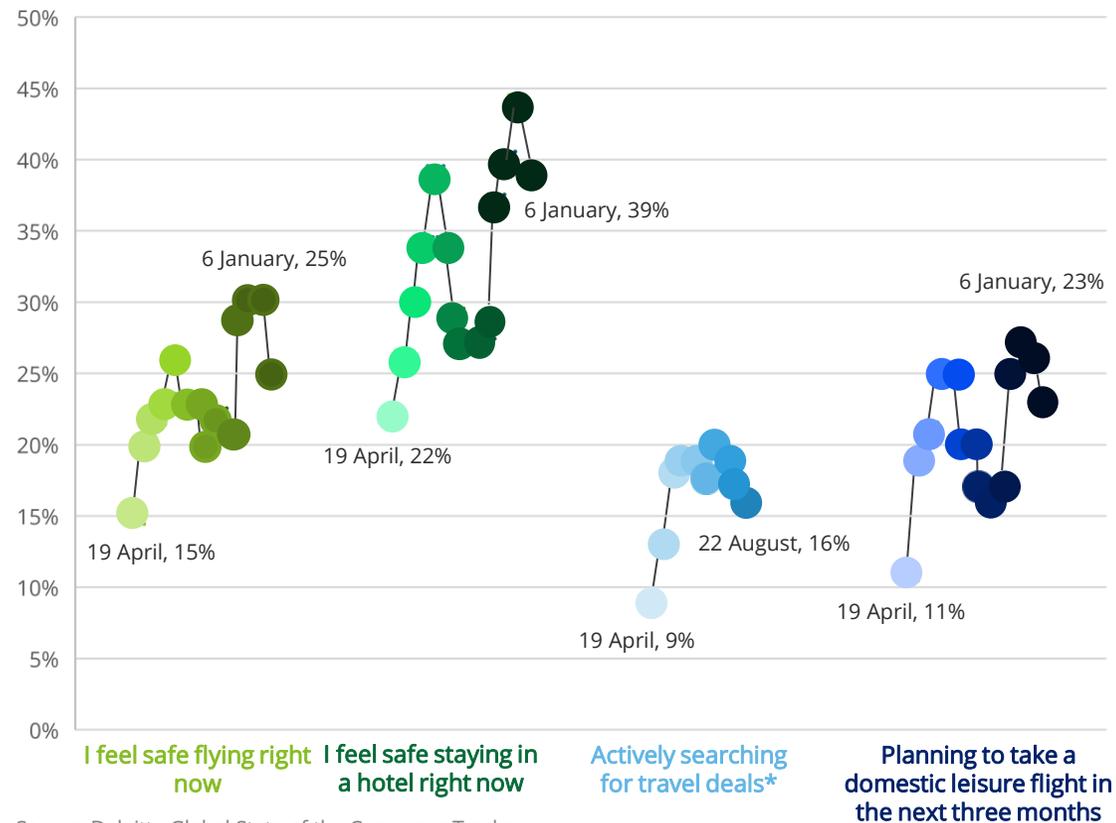
Source: UNWTO, Tourism Recovery Dashboard, November 2020

How are we tracking? What is driving consumer behaviour?

Consumer behaviour towards planning and undertaking travel is influenced by consumer sentiment and confidence around border regulations, health measures, and ultimately current (and future) financial capacity.

Consumer sentiment: Consumer and business confidence have plummeted since January 2020. There are signs of recovery, as Australians report feeling safer travelling (though still at a relatively low base), and more willing to spend on discretionary items. Uncertainty around border closures, including the various closures over the holiday period, is the main stumbling block when it comes to planning ahead for travel, especially so for interstate travel.

Consumer sentiment around travel related activities

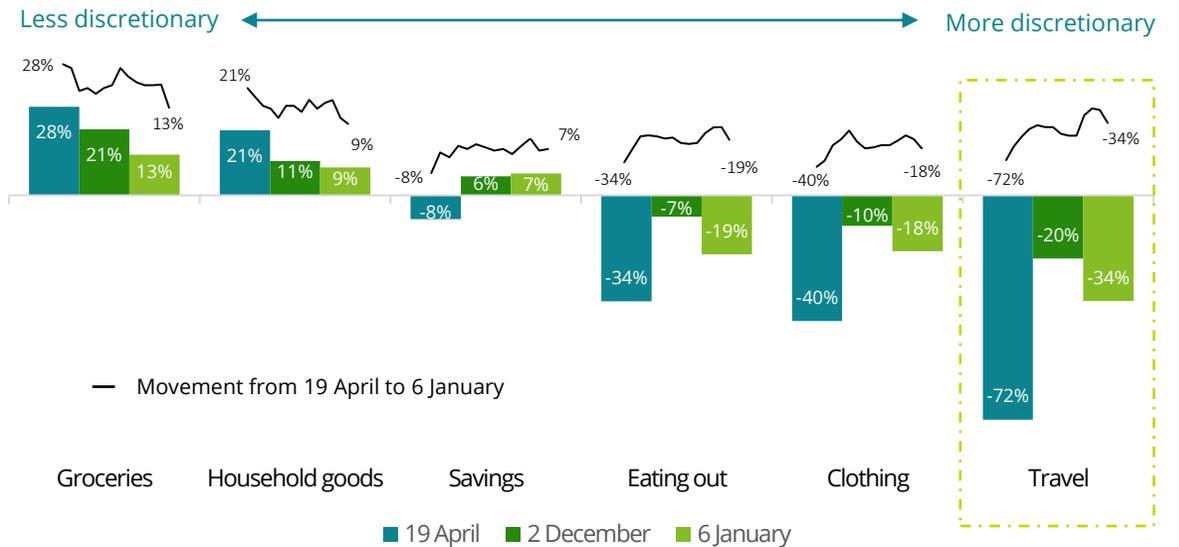


Source: Deloitte Global State of the Consumer Tracker

*Question discontinued beyond August

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Discretionary spending behaviour



Source: Deloitte Global State of the Consumer Tracker

Question: How much do you plan to spend on each of the following items over the next four weeks compared to the last four weeks? % A lot more/Somewhat more minus % A lot less/Somewhat less

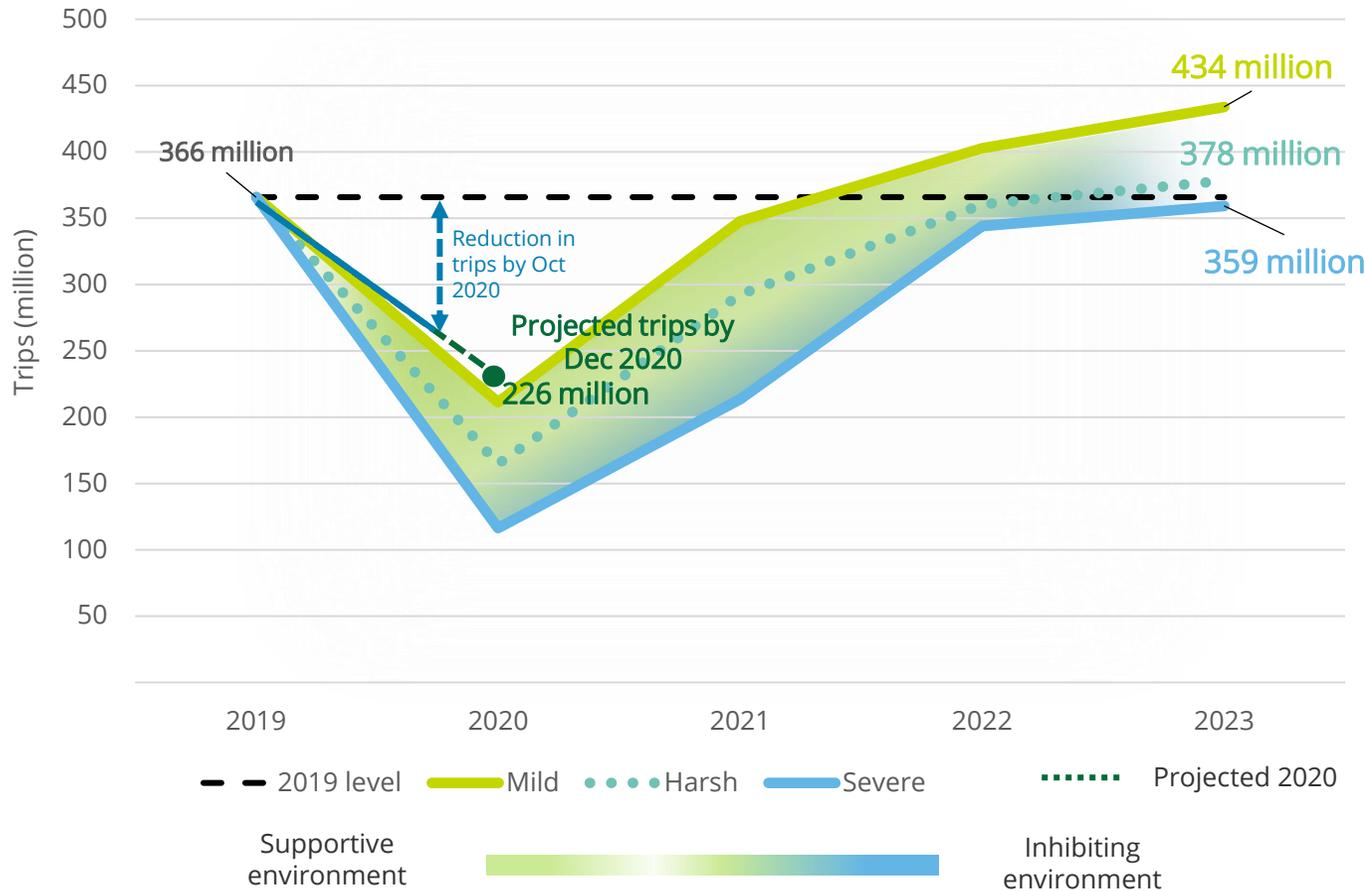
Great deal of uncertainty to travel planning: Travel restrictions have been cited as the primary reason that Australians (55%) are not willing to travel in the next six months. This obstacle is further exacerbated in air travel, with the risk of border closure cited as the largest hinderance to interstate air travel.

Source: Tourism Australia; Australian Airport Association

How are we tracking? Deloitte's COVID-19 domestic tourism scenarios

The current trajectory suggests that the domestic visitor economy is tracking ahead of the mild scenario by the end of 2020.

Domestic trips (overnight and day) relative to the 2019 level



Current visitor numbers are slightly higher than the projected numbers for the mild scenario. Between January and October 2020, there have been 115 million fewer domestic trips taken (40 million fewer overnight trips and 75 million fewer daytrips), with overall domestic travel down 38% compared to 2019.

A look at the March to October period specifically shows domestic travel activity almost halved relative to 2019 levels.

At the current pace, there will be a total of **140 million fewer domestic trips** in Australia over 2020, representing a **loss of around \$48 billion in expenditure.**

On the current trajectory, supported by pent up demand and possible redirection of international travel, domestic tourism activity *could* return to 2019 levels in 2021 – though the recovery is expected to be uneven across segments and destinations depending on their proximity to population centres, and exposure to varying sources of demand.

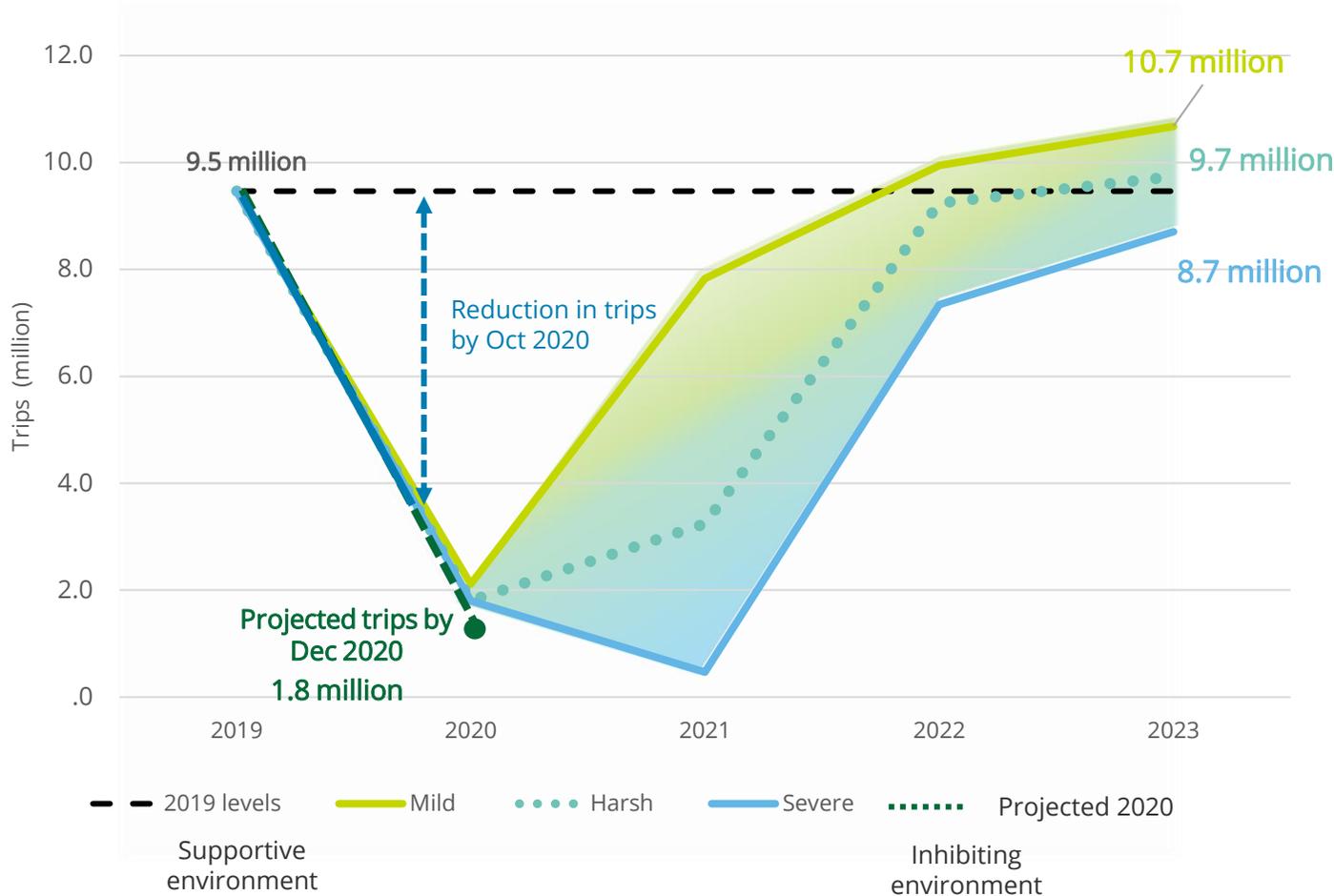
Source: Deloitte Access Economics COVID-19 recovery for the tourism sector

Note: Total international visitors and spend in 2020 is estimated based on trips share and spend in Q4 2019.

How are we tracking? Deloitte's COVID-19 international tourism scenarios

The path to recovery for international markets will be longer and is more uncertain. While we hope that international tourism demand could get back to the 2019 level in late 2022 (under the mild scenario), the more likely outcome – given what we know now – is that the international market will take more than three years to return to 2019 levels.

International tourism arrivals to Australia relative to the 2019 level



Between January and October 2020, there have been only 1.8 million international arrivals to Australia, a reduction of 76% compared to the same period in 2019 – 80% of which related to arrivals in January and February prior to the onset of the pandemic and subsequent international travel restrictions.

Over the year, there will have been a loss of around 7.6 million international visitors, a devastating 80% drop on 2019 visitors, representing a loss of around \$40 billion in expenditure.

The pathway forward depends on many factors, with the initial gate determined by the lifting of international travel restrictions.

As nations around the world roll out their respective vaccine programs, and the understanding of health experts and the public about the effectiveness of the vaccines increases, these could inform future international border regulations.

Source: Deloitte Access Economics COVID-19 recovery for the tourism sector

Note: Total visitors number in 2020 estimated by assuming the share of trips in Q4 2020 is the same as Q4 2019.

Contact

Australia enters 2021 in a much-envied position, with low manageable virus cases, and a stronger than expected rebound in the economy in the last quarter of 2020 which looks to continue. The vaccine roll out will positively influence consumer and business confidence as the tourism sector embarks on the recovery journey – though plenty of new hurdles are expected.

For more information, or to explore the implications of these economic cases on the future of your organisation, please contact us:

Adele Labine-Romain

National Transport, Hospitality and Leisure Sector Leader

Contact: alabine-romain@deloitte.com.au





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