

Australia's Tourism Industry

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This article examines developments in Australia's tourism industry over the past decade. It focuses on the increased tendency for Australians to holiday overseas and the compositional changes in the inbound visitor market, which together have contributed to subdued growth in parts of the tourism industry in recent years.

Introduction

The tourism industry makes a significant contribution to the overall level of economic activity and employment in Australia. This article discusses this contribution and how it has changed over time, drawing on both publicly available data and insights from the Bank's liaison program. In particular, the article examines trends in two broad categories of tourism expenditure: spending by Australian residents within Australia (domestic tourism expenditure) and spending by overseas visitors to Australia (tourism exports).

Measuring Australia's Tourism Industry

Industries are normally classified according to their production. However, tourism is unique among industries. Its output is determined by consumption spending – in this case, the spending of tourists and other visitors. Measuring tourism spending requires identifying visitors and their expenditure patterns. This is a challenging task, and so measures of the economic significance of tourism have traditionally been limited. However, since 2000 the Australian Bureau of Statistics (ABS) has published Australia's Tourism Satellite Account (TSA) which provides considerable detail on the tourism

industry.¹ Specifically, the annual TSA measures the direct contribution of tourism to the economy by aggregating the output of each industry that is consumed by 'visitors'. In this way, tourism output is brought into the national accounts framework as a composite of the output of conventionally defined industries.

In order to measure the size of the tourism industry, spending by 'visitors' must be clearly distinguished from that of regular residents in a particular region. The definition of visitors adopted in the TSA, consistent with international standards, defines a visitor to include any person travelling to a region for a period of less than one year that is outside of their normal geographic environment. Notably, measures of tourism output are not just restricted to spending on leisure activity but also include spending on travel for business, education, visiting friends and relatives (VFR), training and other personal reasons.² (In addition to the TSA, higher frequency data on the characteristics and travel patterns of domestic

1 Publication of the TSA represents recognition of the economic importance of tourism, the demand for greater information on the industry and developments in establishing appropriate international statistical standards. The Australian TSA is based on international standards developed by an Inter-Secretariat Working Group on Tourism Statistics, which includes the Organisation for Economic Co-operation and Development (OECD).

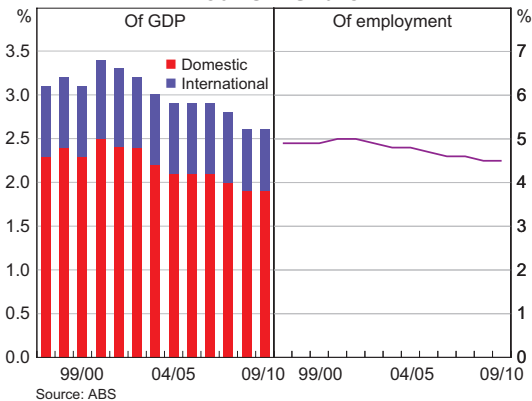
2 There are some exclusions. Students, including those from overseas, are counted only as visitors if their course is for less than one year; trips associated with employment and routine travel are excluded; day trips are only counted where they involve a round-trip distance of at least 50 kilometres from home; and overnight trips must involve a stay at least 40 kilometres from home. For further details, see ABS (2010).

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and international visitors are available from the *National Visitor Survey* and *International Visitor Survey*, which are published quarterly by Tourism Research Australia (TRA). The ABS also publishes monthly data on overseas arrivals and departures.)

The TSA data show that tourism output was around \$34 billion in 2009/10, or 2.6 per cent of Australia's GDP (Graph 1).³ This share has steadily declined since its peak of 3.4 per cent at the time of the Sydney Olympics in 2000/01, with the decline since then largely accounted for by a fall in the contribution of domestic tourism.

**Graph 1
Tourism Share**



In 2009/10, the tourism industry employed around half a million workers, representing 4.5 per cent of Australia's total employment (Graph 1). While the industry's contribution to employment has fallen somewhat over the past decade, the tourism industry remains a significant employer, particularly in regions that have a high dependency on tourism expenditure. The higher employment share of the tourism industry relative to its output share reflects the labour-intensive nature of parts of the industry. For instance, retail trade and food services comprise 45 per cent of tourism employment, but around one-quarter of tourism output (Table 1).

New South Wales, Queensland and Victoria (in that order) account for the largest shares of Australia's tourism industry, together representing around 80 per cent of the industry's output (Graph 2). However, the significance of tourism to the overall level of activity in each state and territory varies, with tourism accounting for the largest share of total output and employment in the Northern Territory, Tasmania and Queensland (Graph 3). Tourism is especially important to Australia's regional economy (areas outside the capital cities), with around 45 per cent of total tourism expenditure in 2010/11 undertaken in regional areas.

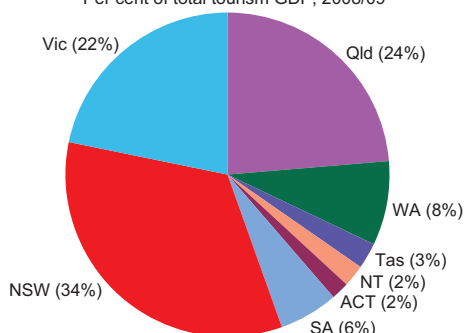
Table 1: Composition of Tourism Output and Employment
Selected industries, per cent, 2009/10

Industry	Share of tourism output ^(a)	Share of tourism employment
Accommodation	17	14
Air, water and other transport	15	7
Retail trade	13	19
Cafes, restaurants and takeaway food services	11	26
Education and training	8	7
Travel agency and tour operator services	5	6

(a) Measured by gross value added
Source: ABS

3 In 2009/10, tourism contributed 2.6 per cent of total industry gross value added (a measure of output which excludes taxes). For purposes of comparison, agriculture and mining recorded output shares of 2.3 per cent and 8.4 per cent.

Graph 2
Tourism GDP by State/Territory
 Per cent of total tourism GDP, 2008/09



Source: The Centre for Economics and Policy (2011)

Graph 3
Importance of Tourism by State/Territory
 Tourism share of employment and output, 2008/09



Domestic Tourism Expenditure by Australians

As is the case in most developed economies, Australia's tourism industry is heavily oriented towards domestic spending by Australian residents.⁴ Domestic tourism accounts for three-quarters of tourism expenditure in Australia, with the balance accounted for by the spending of international tourists. Households account for most of this spending, with the business travel market representing just 15 per cent of domestic tourism expenditure (Table 2). Nearly three-quarters of total expenditure incurred on domestic travel is associated with trips involving at least one night away, mostly taken for holiday purposes. The largest states are the most popular destinations for domestic visitors, accounting for nearly 80 per cent of all visitor nights in 2010/11 (Graph 4). The majority of domestic travel is to regional destinations (outside capital cities), with the Gold Coast ranking as Australia's leading regional destination in terms of both nights and expenditure. Despite the impact of recent natural disasters, Queensland received the highest share of interstate visitor nights in 2010/11.

Domestic tourism forms an important component of household consumption expenditure, with Australian households spending around 3¼ per cent of their total consumption spending on domestic

Table 2: Domestic Tourism Expenditure^(a)
 2010/11

Reason for travel	Day visitors	Overnight visitors	Total	Share of total expenditure Per cent
	\$ billion	\$ billion	\$ billion	
Holiday	8	24	33	57
Visiting friends and relatives	3	9	12	21
Business	1	7	9	15
Other ^(b)	2	2	4	7
Total	15	43	58	100

(a) Australian residents aged 15 years and over only

(b) Includes education and health-related travel

Source: TRA

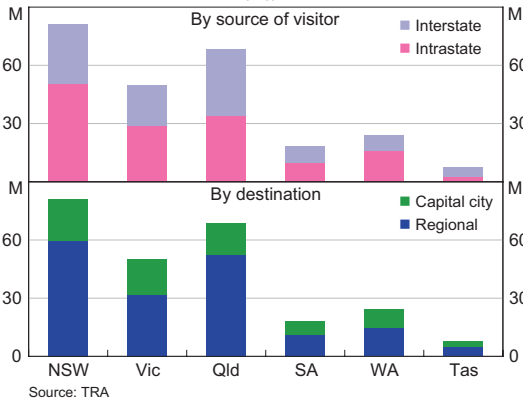
⁴ See OECD (2010) for international comparisons.

overnight holiday travel. Nonetheless, over the past decade there has been a notable decline in both the propensity for Australians to holiday domestically (as given by the number of overnight trips per person) and the proportion of total household spending on overnight domestic holiday travel (Graph 5).

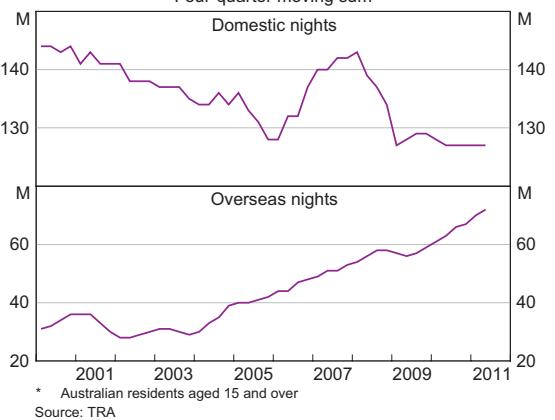
This decline in domestic holiday spending has been driven by a marked change in the travel behaviour of Australians, notably a shift away from domestic travel towards overseas travel. While the number of nights Australians spend holidaying domestically has declined, there has been a sharp rise in the number

of trips and nights Australians spend holidaying overseas (Graph 6). The propensity for Australians to travel overseas for a holiday has picked up markedly since late 2003, rising from around 8 per cent of the resident Australian population annually to be just under 20 per cent of the population in recent years (although some of these trips reflect multiple visits by individuals). Travelling overseas for the purpose of a holiday has been the fastest growing component of outbound travel, with more moderate growth in overseas trips for business, employment and education (Graph 7).

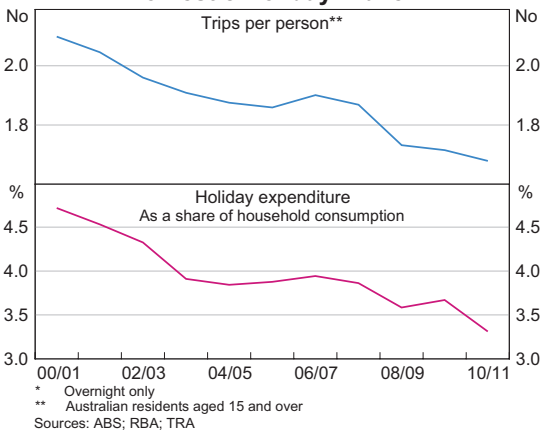
Graph 4
Visitor Nights by State
2010/11



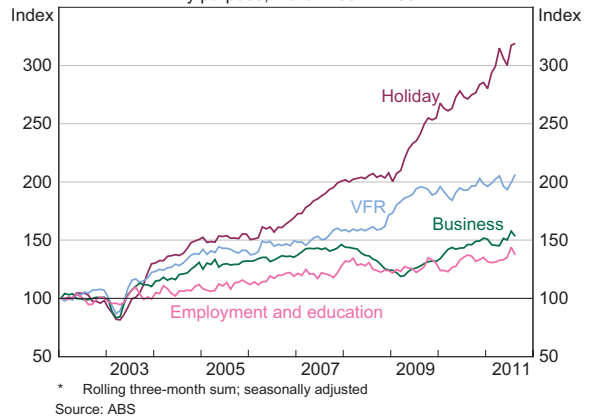
Graph 6
Holiday Travel Patterns of Australians*
Four-quarter moving sum



Graph 5
Domestic Holiday Travel*



Graph 7
Short-term Overseas Departures*
By purpose, March 2002 = 100



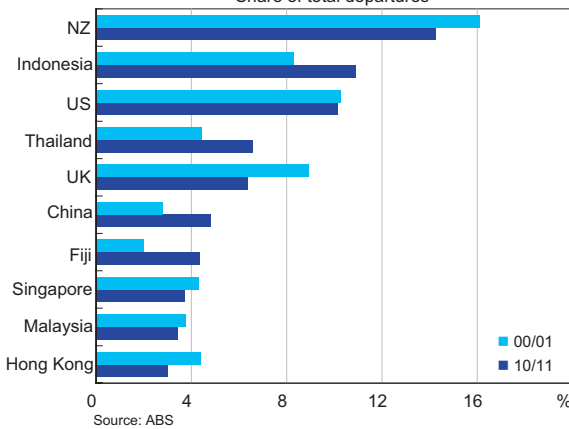
New Zealand continues to attract the largest share of Australian residents travelling offshore, although increased air capacity and lower airfares have facilitated strong growth in outbound travel to short-haul holiday destinations in the region, such as Indonesia (especially Bali), Thailand and Fiji (Graph 8). Liaison confirms that these destinations – which represent a growing proportion of Australia's outbound travel – compete directly with many of Australia's beach holiday destinations, particularly those in Queensland.

in domestic tourism expenditure of 3.2 per cent. This divergence in growth is expected to persist.⁶

The decline in spending on domestic relative to overseas travel by Australian residents is being driven by a range of factors, including changes in the relative price of domestic and overseas travel, and the rise in household income. With regard to the former, the higher exchange rate – combined with increasing and cheaper air access to overseas destinations – has encouraged more Australians to holiday offshore rather than domestically. Consumer price data indicate that prices of overseas holidays relative to domestic holidays are lower in 2011 than they were in the early 2000s (Graph 9). In addition, the development of new internet and media technology has made it easier for Australians to research and compare the cost and quality of competing destinations.

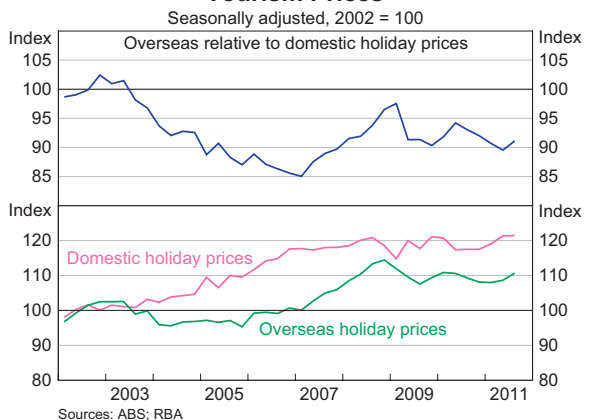
Leisure tourism demand is also affected by rises in household incomes. A recent study by TRA showed that demand for overseas travel is income elastic and that households increase the share of their total tourism spending on overseas holiday travel as their incomes increase.⁷ Consistent with

Graph 8
Top 10 Destinations for Australian Residents
 Share of total departures



While overseas trips are undertaken less frequently, they tend to be more expensive than domestic trips, reflecting both the cost of airfares and a longer average length of stay. While some of this spending on goods and services occurs domestically – on items such as airfares,⁵ luggage, clothing and travel agency services – the majority of expenditure by Australian residents on outbound trips is spent outside Australia. The increase in demand for overseas holidays has seen spending by Australians on overseas travel increase at an average annual rate of 7.5 per cent (in nominal terms) over the 10 years to 2009/10, much higher than the average annual rise

Graph 9
Tourism Prices
 Seasonally adjusted, 2002 = 100



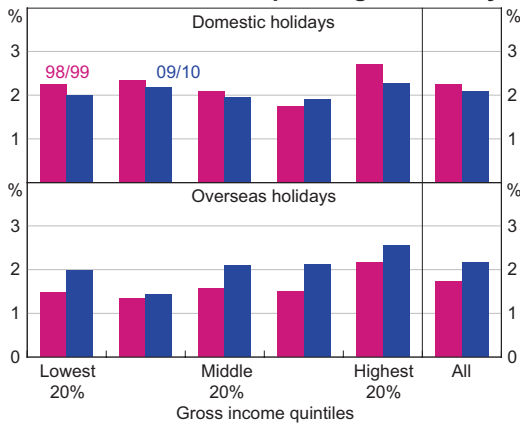
5 International airfares purchased by Australian residents from domestic carriers, such as Qantas, are measured as domestic tourism consumption by the ABS.

6 See TFC (2011) for the latest forecasts of domestic, inbound and outbound tourism.

7 TRA (2011b); see also Eugenio-Martin and Campos-Soria (2011).

this, the ABS Household Expenditure Survey shows that the share of household expenditure on overseas holidays increases with income levels (Graph 10). Moreover, while the share of household expenditure on overseas holidays has risen over the past 10 years or so across all income groups, spending on domestic holidays has declined for the majority of households. While there has been strong growth in household incomes over the past decade, the appreciation of the exchange rate is likely to have been the primary driver of the stronger growth in outbound travel by Australians over the past few years. In this regard, liaison also identifies the level of the exchange rate as a primary concern of businesses within the tourism industry.

Graph 10
Share of Household Spending on Holidays



Source: ABS

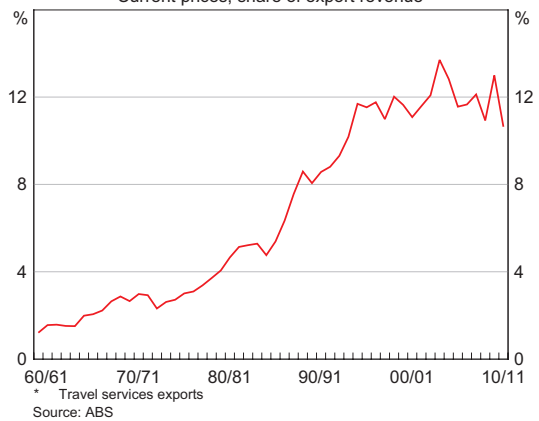
Tourism Expenditure by Overseas Visitors

Spending by overseas visitors to Australia represents around 25 per cent of total tourism spending. In 2010/11, expenditure by overseas visitors was \$32 billion,⁸ representing around 11 per cent of Australia's total export revenue. The share of tourism in Australia's total exports has grown markedly since the late 1970s, but is broadly unchanged over the past decade (Graph 11). While the number of

⁸ Defined as travel services exports in the ABS Balance of Payments statistics.

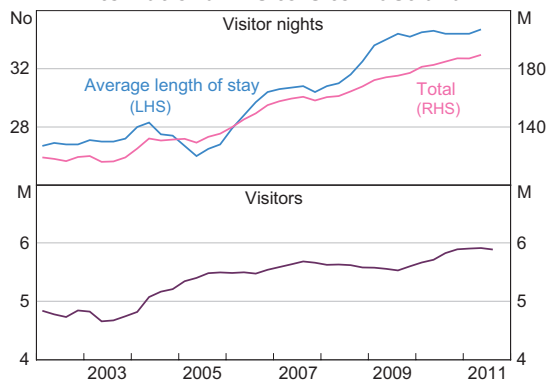
overseas visitor arrivals to Australia has increased fairly modestly – rising by 1½ per cent per annum over the past decade – there has been stronger growth in international visitor nights in Australia reflecting an increase in the average length of stay by overseas visitors (Graph 12). Reflecting these trends, Australia ranked as the world's eighth largest tourism exporter in 2010, attracting 3.3 per cent of global spending on travel by international visitors.⁹

Graph 11
Australia's Tourism Exports*
Current prices, share of export revenue



* Travel services exports
Source: ABS

Graph 12
International Visitors to Australia*



* Four-quarter moving sum
Sources: ABS; RBA; TRA

⁹ See TRA (2011a). Nonetheless, Australia's share of the global tourism market has declined since its peak in 1996, with overseas arrivals to Australia increasing by 2.5 per cent per annum on average compared with estimated annual growth in global tourist arrivals of 3.8 per cent.

New Zealand is Australia's largest inbound market in terms of visitor numbers, followed by the United Kingdom and China (Table 3). While Japan remains an important tourism export market for Australia, arrivals from Japan have fallen on average by almost 7 per cent per annum over the past decade. The decline in Japanese visitors to Australia reflects both a reduction in the size of the Japanese outbound travel market – as a result of demographic and economic factors – and a loss in market share, with Australia's share of the Japanese market falling from 4 per cent in 2000 to 2.4 per cent in 2010.¹⁰

In contrast, China and India represent a strongly rising share of overseas arrivals to Australia (Graph 13). The number of visitors from China and India has increased at an average annual rate of more than 12 per cent over the past 10 years, compared with growth in arrivals from New Zealand of 3½ per cent per annum. Australia's tourism industry has benefited from increased access to the Chinese visitor market since 1999, when Australia was one of

the first western countries to be granted Approved Destination Status, which permitted Chinese citizens to travel in groups to Australia. In 2010, China became Australia's largest inbound market in terms of tourism revenue, reflecting higher average visitor expenditure (and a longer duration of stay) by Chinese visitors compared with visitors from other countries.

Graph 13
Overseas Arrivals*

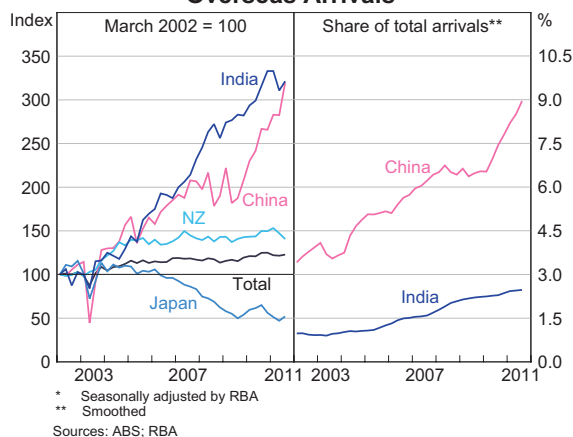


Table 3: International Visitors to Australia by Country of Residence
2010/11

Rank	Country of residence	Share of arrivals	Average annual growth in arrivals ^(a)	Contribution to growth in total arrivals ^(a)	Share of tourism export revenue
		Per cent	Per cent	Percentage points	Per cent
1	New Zealand	20	3.6	7.0	6.8
2	United Kingdom	11	0.2	0.3	8.0
3	China	9	13.4	7.1	16.4
4	United States	8	-0.9	-0.9	4.6
5	Japan	6	-6.7	-7.2	3.5
<i>Memo item:</i>					
11	India	2	12.3	2.0	7.7

(a) Growth rates calculated over the period 2000/01 to 2010/11
Source: ABS

¹⁰ For further details on the Japanese market see Tourism Australia (2011).

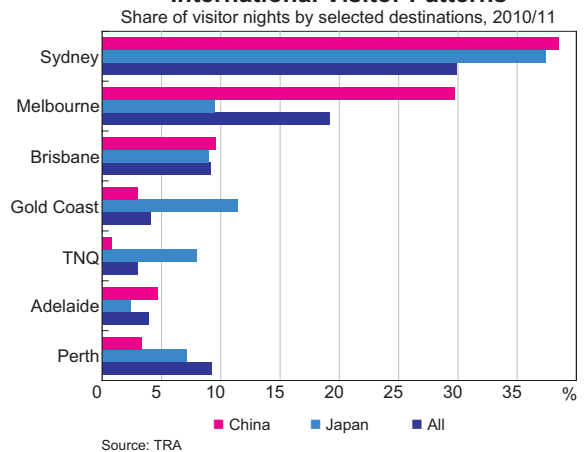
AUSTRALIA'S TOURISM INDUSTRY

Unlike domestic tourists, overseas visitors generally spend the bulk of their travel expenditure in capital cities and on average they have a longer length of stay (Graph 14). Liaison suggests that this is partly related to the importance of capital cities as major international gateways to Australia. Capital cities have benefited from a rising share of overseas visitor expenditure as spending by international visitors in regional areas has declined somewhat in recent years in real terms. This trend is consistent with the strong growth in Chinese visitors – who demonstrate a strong propensity for travel to capital cities – and the decline in Japanese tourists that has had a more pronounced effect on overall tourism demand in some regional destinations. For instance, in 2010/11, Sydney and Melbourne were the most popular destinations for Chinese visitors (as measured by visitor nights), whereas Japanese visitors have demonstrated a relatively stronger preference for travel to Queensland’s beach destinations, notably the Gold Coast and Tropical North Queensland (TNQ) (Graph 15).

Looking forward, ongoing strong income growth in emerging economies, such as China and India, is expected to continue to underpin demand for Australia’s tourism exports. Growth in Chinese visitors

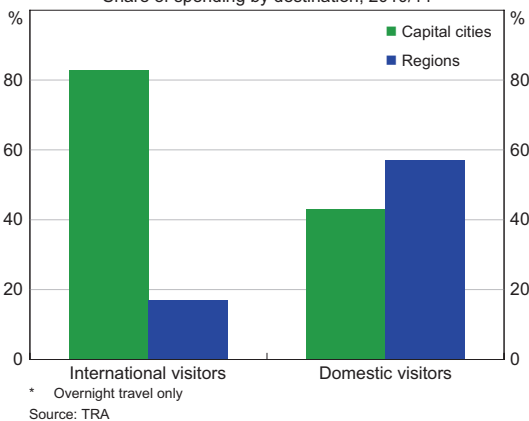
alone is expected to contribute around one-third of the growth in Australia’s tourism export earnings out to 2020. As a consequence, the share of spending by international visitors in total tourism expenditure in Australia is forecast by the Tourism Forecasting Committee (TFC) to continue to rise over the next decade, driven principally by strong arrivals from Asia (Graph 16). This poses a challenge for the tourism industry in leisure and regional areas, which have at least to date had limited exposure to the growing segments of the inbound tourism market compared with Australia’s capital cities.

Graph 15
International Visitor Patterns



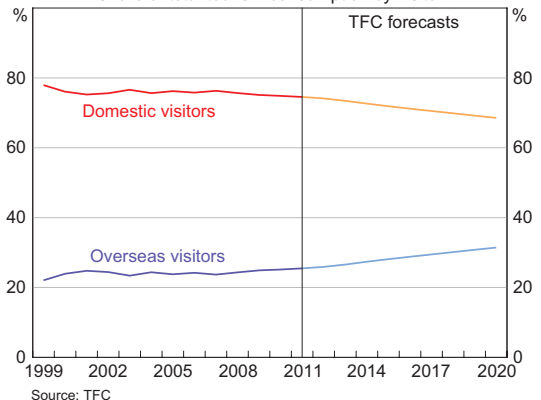
Graph 14

Visitor Expenditure in Australia*
Share of spending by destination, 2010/11



Graph 16

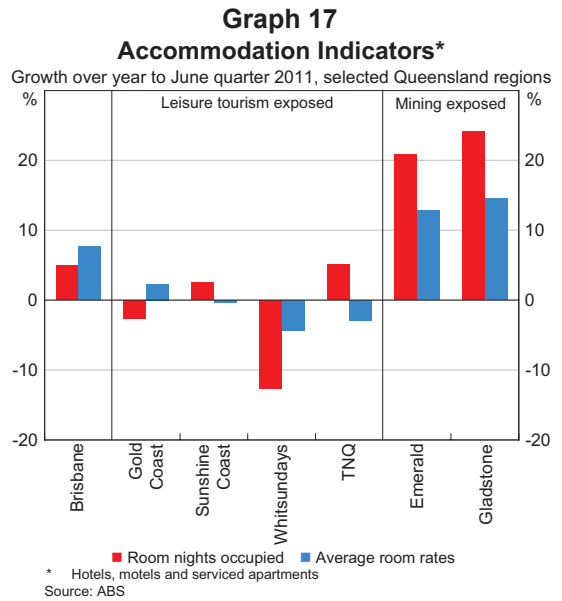
Tourism Consumption in Australia
Share of total tourism consumption by visitor



Adjustments Within the Tourism Industry

In response to these trends in spending by Australian and overseas visitors, conditions within the tourism industry vary significantly. In particular, demand for hotels in capital cities has been strong in response to growing demand from overseas visitors and from business travel by Australian residents. Overall demand in regional areas has been mixed: while conditions in Australia's traditional domestic leisure markets have been soft as Australians have increasingly preferred to holiday abroad, demand for accommodation and other services in some regional towns and cities – especially those located close to mining activity – has been strong.

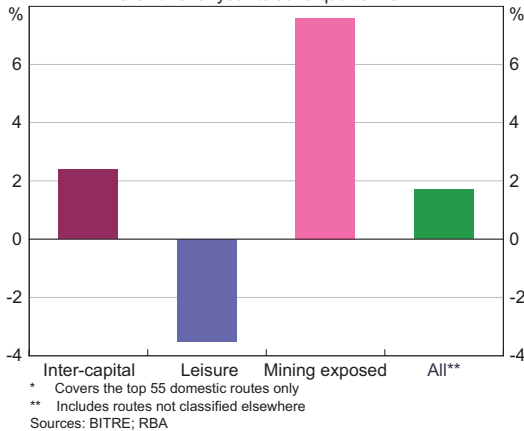
In response to this dichotomy in the relative strength of demand, tourism providers have, where possible, adjusted the price and mix of their operations. This adjustment is most apparent in the transport and accommodation sectors. For instance, strong growth in accommodation demand in Brisbane as well as in some mining-exposed regions – supported in part by the business travel market – has seen a sharp increase in room rates in the face of a tight supply of rooms (Graph 17). To date there has been little growth in hotel room supply, with liaison suggesting new supply has been constrained by a range of factors including lack of available development finance. Nonetheless, there has reportedly been an increase in hotel refurbishments over the past year or so in capital city markets, targeting the upper-end of the visitor market. In contrast to the strength of the CBD and some regional markets, accommodation providers in leisure tourism destinations in Queensland have held prices flat or reduced room rates in response to the weaker demand conditions that have prevailed. Liaison indicates that some providers in holiday destinations are investing in refurbishments and/or an expanded range of services, such as providing Chinese and Hindi-language television and menus, to attract the inbound visitor market, while others have begun to shift their rooms into the housing rental market.



A similar pattern of adjustment is evident in the domestic aviation market, where strong inter-capital transport services demand – as well as demand for air services into regional and remote areas of Australia in response to mining-related activity – is seeing a shift in capacity to service these growing markets. Data on the top 55 domestic aviation routes in Australia published by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) confirm this adjustment. By classifying these routes as inter-capital, leisure based and mining exposed, a clear pattern of demand emerges. Passenger traffic on inter-capital and mining-exposed routes has increased, while the number of passengers carried on routes focused towards leisure travel has declined over the year to the June quarter 2011 (Graph 18).

Nonetheless, the ability of firms to reposition themselves and take advantage of opportunities for growth outside of the domestic leisure market depends on their flexibility and capacity to adapt. This adjustment appears to be easier for firms capable of shifting capacity, such as transport providers, but more difficult for bricks-and-mortar operators, such as accommodation providers, unless they can tailor their services to meet the requirements of the business and inbound visitor markets.

Graph 18
Australian Domestic Airline Passengers*
 Growth over year to June quarter 2011



Conclusion

The increasing propensity for Australians to holiday overseas has brought about important changes in the pattern of tourism demand in Australia over the past decade. As a result of this change in travel behaviour and the rising globalisation of travel, Australia’s tourism industry is expected to become more focused on tourism exports, especially growing markets such as China. Reorienting activity in response to the shifting spending patterns of Australian residents and overseas visitors is possible for some tourism providers, in particular those in the capital cities. However, conditions in other parts of the tourism industry, such as in the traditional leisure market destinations, are likely to remain more difficult in the period ahead. ❖

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