

The Recovery in the Australian Tourism Industry

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Photo: Chris Williams Black Box – Getty Images

Abstract

The Australian tourism industry is gradually recovering from the COVID-19 pandemic that brought global travel to an unprecedented standstill. International tourism fell sharply in early 2020 and has only slowly recovered since restrictions were lifted in the first half of this year. By contrast, domestic tourism spending bounced back quickly as local restrictions eased and is now above pre-pandemic levels. This article outlines the recovery in the Australian tourism industry following the pandemic, the challenges the industry has faced in reopening, and the uncertainties around the outlook for the tourism industry over the next few years.

Introduction

Restrictions to contain the spread of COVID-19 and precautionary behaviour by consumers significantly disrupted the movement of people both domestically and internationally during the pandemic period. This had a devastating impact on many Australian businesses that provided services to domestic or international tourists. Nevertheless, many of these businesses have shown considerable resilience and flexibility, aided by a range of government support packages, and are now expanding to service the recovery.

This article presents a snapshot of the tourism industry through the pandemic, before focusing on

the recovery over the past year. While international tourism is recovering only slowly, domestic tourism spending has rebounded strongly – to above pre-pandemic levels – as many Australians have chosen to take domestic rather than overseas holidays. The article draws on information from the Bank's regional and industry liaison program to discuss the challenges the tourism industry has faced in meeting this sudden increase in demand, and the outlook for tourism activity over the next few years. Many tourism businesses have found it difficult to quickly scale up to meet demand, and these supply constraints have limited tourism activity and led to higher prices. Looking ahead, a continued recovery

in tourism activity is expected as supply-side issues are gradually resolved and international tourism picks up further. However, there are a number of uncertainties around the timing and extent of this recovery.

International tourism

The onset of the COVID-19 pandemic led to a sharp drop in international tourism, as governments around the world implemented travel and border restrictions (Graph 1). In April 2020, international tourism arrivals declined globally by around 90 per cent and Australia’s international tourist arrivals effectively came to a standstill for several months.

The timing and extent of the recovery in international tourism has been uneven across the world, as national governments removed restrictions at a different pace. Globally, international tourism arrivals picked up to be around three-quarters of their pre-pandemic levels by September 2022. In Australia, international tourist arrivals rose slightly in mid-2021 under the temporary operation of the Australia–New Zealand travel bubble, and also in November 2021 as border restrictions eased in some parts of the country. However, it wasn’t until February 2022 – when Australia removed border restrictions for vaccinated persons – that arrivals began to substantially pick up. Since July 2022, people have been able to travel to and from Australia without being required to declare their vaccination status.

Short-term overseas arrivals to Australia (which include tourists but also those visiting for less than 12 months for business, education and employment purposes) picked up to be around half of pre-pandemic levels by September 2022 (Graph 2). However, short-term departures of Australian residents have picked up more quickly than short-term arrivals of overseas visitors, and so the net outflow of travellers has been larger than pre-pandemic levels in recent months.

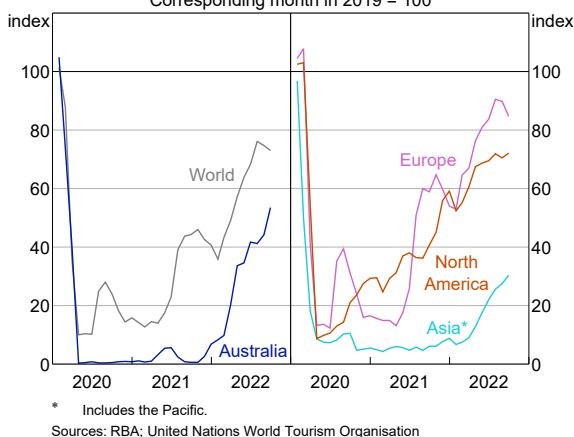
Reasons for travel

The recovery in short-term travel to and from Australia has been particularly pronounced among those visiting friends and relatives (VFR) (Graph 3). VFR accounted for just over half of all international visitors’ spending over the year to June 2022, whereas it accounted for just under one-fifth in 2019 (Table 1). Short-term travel for business and education purposes has also picked up. However, the recovery in outbound business travel (including conventions and conferences) has outpaced inbound business travel, with relatively few major business events held in Australia in 2022. Short-term travel for employment reasons has almost fully recovered to its 2019 levels. By contrast, the number of visitors arriving in Australia for holidays has picked up only slightly, to be around one-third of its pre-pandemic level (holiday visitors accounted for only 10 per cent of international visitor spending over the year to June 2022, compared to nearly 40 per cent in 2019).

Graph 1

International Tourism Arrivals

Corresponding month in 2019 = 100



Graph 2

Short-term Overseas Arrivals and Departures*

Monthly

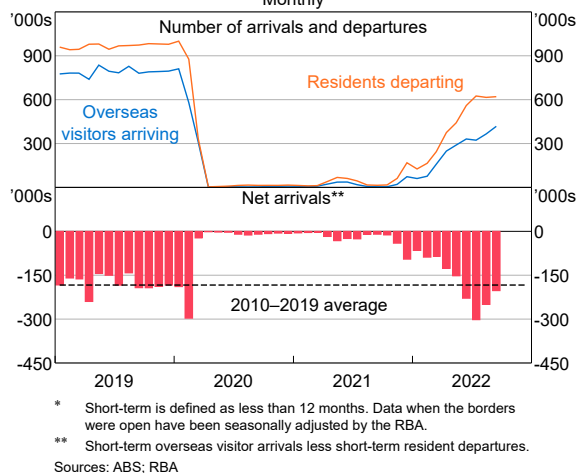


Table 1: International Visitor Spending by Main Reason of TravelShare of total spending^(a)

	Year ending December 2019 Per cent	Year ending June 2022 Per cent
Visiting friends and relatives	17	52
Education	29	19
Holiday	38	10
Employment	5	9
Business	9	6
Other	2	5

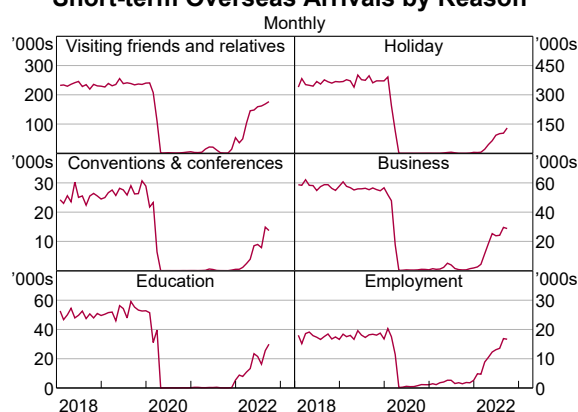
(a) Column totals may not add up to 100 per cent due to rounding.

Sources: RBA; Tourism Research Australia

Working holiday makers and international students who are in Australia for more than a year are not included in the short-term arrivals data, but they make a significant contribution to tourism spending. According to Hall and Godfrey (2019), visitors who state the main purpose of their trip as education stay longer and spend more than leisure and business tourists. International students and individuals on working holiday visas have a high propensity to travel within Australia, and often their friends and relatives come to visit. The number of international students and working holiday visa holders in Australia has risen to be around two-thirds and one-half of their pre-pandemic levels in the September quarter of 2022, respectively.

The recovery in international visitors to Australia has been uneven across source countries, reflecting both travel restrictions and the quicker recovery in

VFR relative to other types of travel (Graph 4). The recovery in the number of visitors from India, New Zealand and the United Kingdom has been faster than for other countries, possibly due to the close relationships residents from those countries have with Australian residents (in the 2021 Census, England and India were the top two countries of birth for Australian residents, other than Australia). While there has been a notable pick-up in people from India visiting friends and relatives, there has also been a pronounced recovery in the number of Indian students coming to Australia. By contrast, the number of Chinese visitors remains more than 90 per cent below pre-pandemic levels, due to ongoing travel restrictions to control the spread of COVID-19 in China. This is significant for the Australian tourism sector as, prior to the pandemic, Chinese visitors were the largest source of tourist spending and contributed around 20 per cent of total leisure travel exports in 2019 (or nearly 30 per cent if education-related travel is included).

Graph 3**Short-term Overseas Arrivals by Reason***

Sources: ABS, RBA

Domestic tourism

Domestic tourism activity was severely disrupted by the COVID-19 pandemic, due to the introduction of strict restrictions on household mobility ('lockdowns') across the country in March 2020 (Graph 5). At the same time, a number of states and territories implemented interstate border restrictions and quarantine arrangements. As a result, domestic tourist visitor numbers declined sharply. By April 2020, domestic tourist numbers were less than 20 per cent of pre-pandemic levels.

The first lockdown ended for most parts of the country by the end of May 2020, although some restrictions on household activity and state border closures remained in place for an extended period of time. Melbourne re-entered lockdown for much of the second half of 2020. By the end of that year, however, a number of states and territories had eased restrictions and reopened domestic borders, allowing domestic visitor numbers to recover to around 80 per cent of pre-pandemic levels over the 2020/21 summer and the 2021 Easter holidays (Graph 6).

A third major disruption emerged in mid-2021, as a sharp rise in the number of Delta-variant cases led to the reintroduction of lockdowns in New South Wales, Victoria and the ACT. Around half of the Australian population were under significant

restrictions for most of the September quarter of 2021 and domestic visitor numbers declined to around 40 per cent of pre-pandemic levels.

Domestic tourism numbers rebounded again during the 2021/22 summer holidays as health restrictions eased once more, but not to the levels of the previous year; the Omicron outbreak in early 2022 tempered activity somewhat. As concerns about Omicron abated, domestic visitor numbers again recovered, and have been around 85 per cent of pre-pandemic levels since Easter 2022.

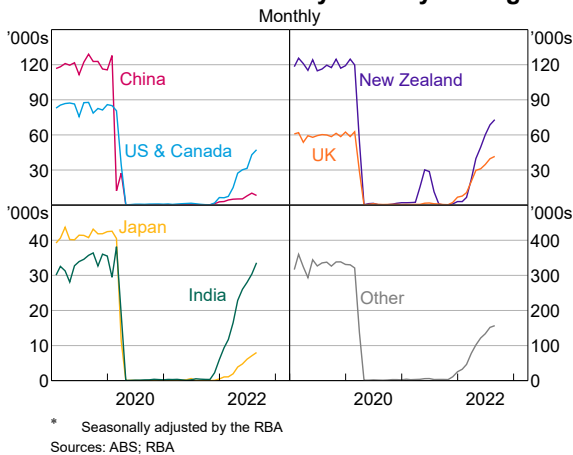
While domestic visitor numbers remain below pre-pandemic levels, total domestic tourism spending and the average spend per visitor have been above pre-pandemic levels since March 2022. Some liaison contacts report that domestic travellers are staying longer than they did before the pandemic and spending patterns have become more like those on overseas holidays, with domestic tourists spending more on tours and experiences to explore Australia. This higher spending also reflects an increase in domestic travel prices (see below).

By region

The recovery in domestic tourism spending in 2022, to around or above pre-pandemic levels, is evident in all states and territories (Graph 7). Naturally, states that experienced longer and stricter COVID-19 restrictions had much more significant declines in tourism activity over 2020 and 2021. Western Australia experienced the least disruption to the

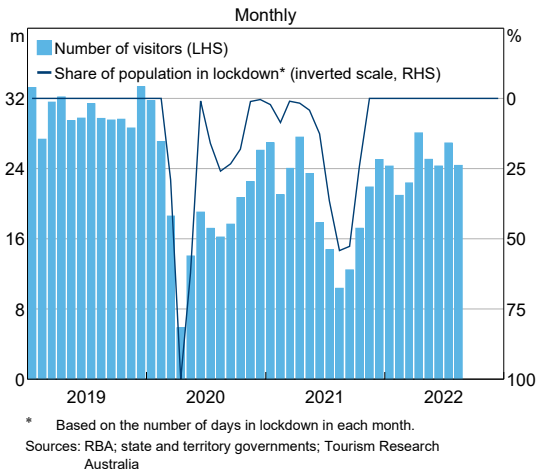
Graph 4

International Visitors – By Country of Origin*



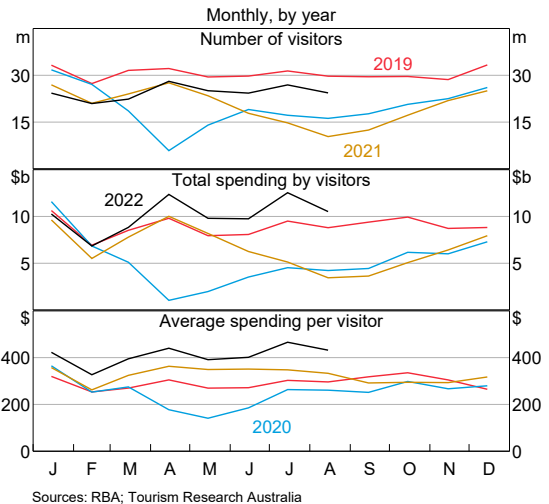
Graph 5

Lockdowns and Domestic Tourism Visitors



Graph 6

Domestic Tourism Indicators



tourism industry, partly due to having fewer restrictions on movement, but also because the closed state border meant that more Western Australians were holidaying in their own state. In recent months, the Northern Territory and Queensland have been the recipients of domestic tourism spending well above 2019 levels, perhaps because these travel destinations are regarded as closer substitutes for overseas holidays.

Travel to regional areas recovered more quickly and fully than travel to capital cities (Graph 8). Regional areas were less affected by lockdowns and liaison suggests that travellers preferred to avoid more densely populated areas. There was also a shift towards driving holidays, which has greatly benefited regions within two to three hours' drive from capital cities.

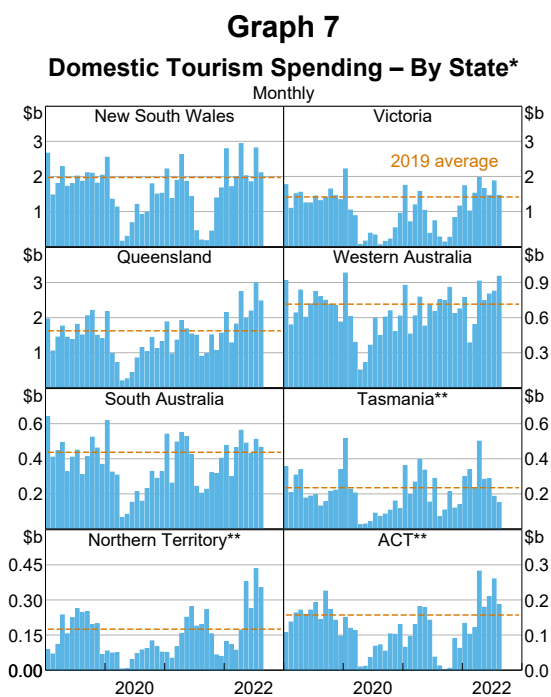
Challenges in reopening the Australian tourism industry

While pandemic-related declines in domestic and international tourism weighed heavily on the Australian tourism industry, many businesses have proved resilient and have experienced a strong rebound in demand from domestic tourists in recent months. Nevertheless, many businesses have

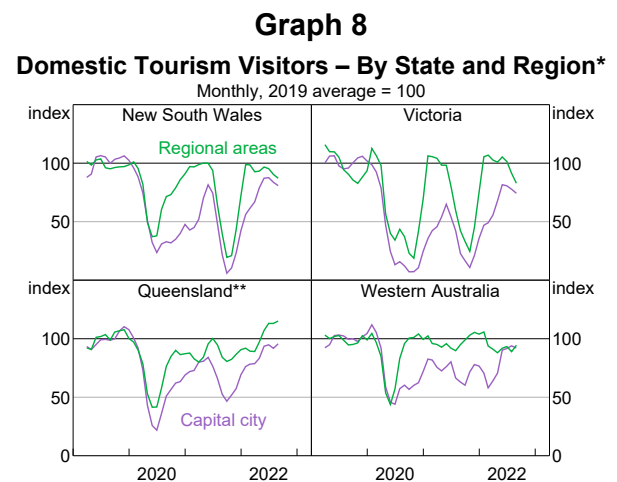
found it difficult to scale up to meet this demand, and supply constraints have acted to limit tourism activity and led to higher prices.

In 2022, the biggest constraint on the recovery in tourism activity has been difficulty finding sufficient labour to service tourism demand. The tourism industry lost a large number of experienced staff during the pandemic – and so when domestic tourism recovered, the sector had to rapidly hire workers in a tight labour market. Online advertisements for tourism jobs rose to record highs by mid-2022 (Graph 9). These jobs have been difficult to fill. Liaison contacts have suggested that many of the Australians who had worked in the tourism industry prior to the pandemic have since found jobs in other industries. Moreover, many tourism-related jobs had previously been filled by international students and, particularly in regional locations, working holiday makers – many of whom left Australia during the pandemic and have been slow to return. On top of the difficulties in attracting and retaining staff, illness-related absenteeism has been elevated more broadly through 2022.

Tourism businesses in many regional areas have had additional difficulties attracting staff, partly due to a shortage of housing. An increase in net migration to these areas has contributed to very low rental vacancy rates in many popular tourist areas. In response, some holiday accommodation providers have resorted to housing their own staff.



* Only includes overnight trips.
** Where missing, data are interpolated for Tasmania, Northern Territory and the ACT.
Sources: RBA; Tourism Research Australia



* Only includes overnight trips. Data smoothed using a three-month rolling average.
** Capital city includes Brisbane and Gold Coast.
Sources: RBA; Tourism Research Australia

There have also been some changes in consumer behaviour resulting from the pandemic that have made it harder for tourism businesses to plan and have sufficient staff available to meet demand. Trends such as increased working from home and a reduction in business-related day trips have created a larger gap between peak and off-peak periods for many tourism businesses. There are also sharper peaks and troughs in demand because there are fewer international tourists, who often travel at different times to domestic travellers (e.g. filling accommodation mid-week and outside school holidays). Booking lead times substantially shortened during the pandemic, though there is some evidence that perhaps these are lengthening out again. Nevertheless, booking lead times have always been shorter for domestic travel than international travel, so the change in the composition of travellers has made it more difficult for tourism businesses to plan ahead.

While labour has been a constraint across most of the tourism industry, a lack of capital equipment has been an additional constraint for some businesses. Many tourism-related businesses sold off or retired vehicles, boats, aircraft and other equipment during the pandemic when they could not operate and were in need of cash (Grozinger and Parsons 2020). The sudden and stronger-than-anticipated recovery in domestic tourism in 2022, combined with supply chain issues delaying the manufacture and delivery of new equipment and vehicles, has meant that many businesses did not

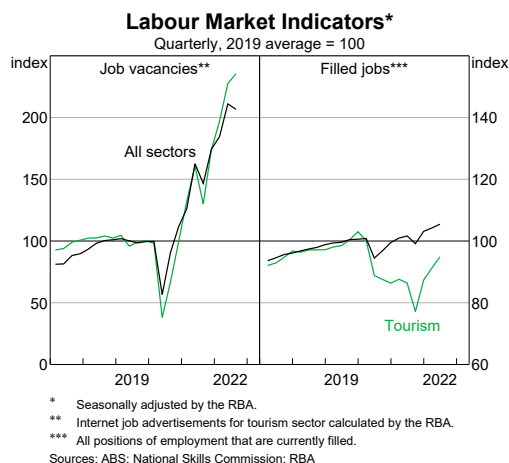
have the capital equipment they need to service the increase in demand.

These supply-side constraints (in both labour and capital) have limited the tourism industry’s ability to ramp up to meet demand. Liaison suggests many tourism operators are operating below their previous capacity – for example, many have had to limit their operating hours because of lack of staff, and some accommodation providers have not been able to offer all their rooms for booking as they do not have enough staff to service them. Labour shortages and supply chain delays have also weighed on aviation capacity and contributed to a decline in domestic airlines ‘on-time performance’ over 2022 (Graph 10).

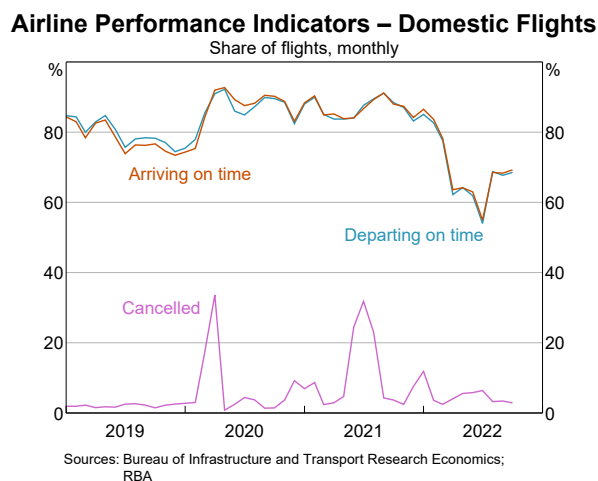
Similar constraints are also weighing on the recovery in international tourism. Contacts suggest that the recovery has been held back by limited flight availability, the higher cost of travel insurance and, in many cases, the higher cost of flights. Liaison contacts have indicated that delays in visa issuance in 2022 have also been a barrier for those seeking to travel to Australia. Over the past few months, however, visa processing times have shortened somewhat, and visa processing for applicants located overseas – including applicants for visitor, student and temporary skilled visas – have been given higher priority to allow more people to travel to Australia (Department of Home Affairs 2022).

The supply-side constraints in the tourism industry, combined with a strong pick-up in domestic demand and the higher cost of inputs such as fuel,

Graph 9



Graph 10

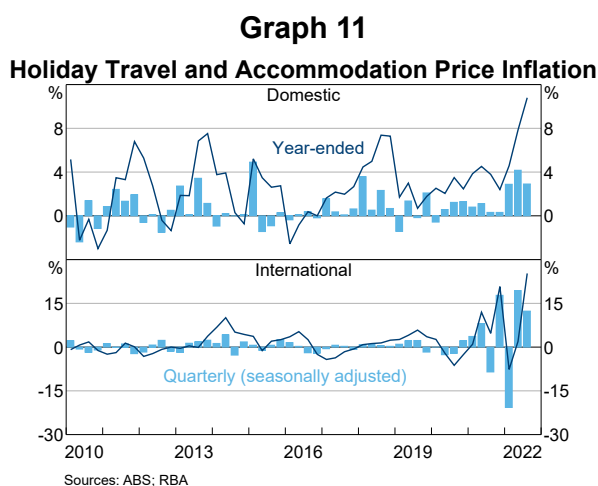


have led to a sharp increase in domestic travel prices (Graph 11). Liaison contacts suggest that consumers have been relatively accepting of price rises for services essential to travel, such as accommodation. However, smaller operators – particularly in highly discretionary services, such as tours – have had less scope to increase their prices, and their margins have been squeezed by the higher costs of inputs such as food, fuel, energy and insurance costs. Prices for overseas travel have also increased significantly in recent quarters, as demand for flights has outstripped capacity, alongside rising jet fuel costs and increases in prices for international tours (ABS 2022).

The outlook

Looking ahead, tourism activity is expected to continue to recover as supply-side issues are slowly resolved and international tourism picks up further. Most liaison contacts suggest a full recovery will not occur until at least mid-2023; many expect it to take a few more years. There are a number of factors that will affect the timing and extent of the ongoing recovery in tourism, including:

- **The easing of supply-side constraints:** It is unclear how long it may take for some of the supply-side constraints in the industry to ease, including whether planned changes in flight availability will be sufficient to meet changes in demand, and whether the sector will be able to fill more job vacancies over time and as migration returns.



- **The return of international students and working holiday visas:** Many people have recently had working holiday visas approved and are expected to arrive over the coming year. Liaison contacts also expect international student numbers to increase over the next few years. The return of working holiday and student visa holders will increase demand for tourism services, and will likely alleviate labour shortages as they take jobs in the sector.
- **Australians' preferences for domestic and international travel:** Demand for Australia's tourism services may decline if Australians' preference for overseas rather than domestic holidays picks up before international inbound tourism demand increases further. It is possible that cost-of-living pressures, combined with the higher cost of international travel, could lead Australian households to continue to prefer domestic holidays for a time. Nevertheless, many households have significant savings and pent-up demand for international travel after planned trips have been deferred over the past few years.
- **The global economic outlook:** Global economic conditions and the exchange rate affect decisions about whether to travel the long distance to Australia (as they have in the past) (Dobson and Hooper 2015). Financial concerns and the rising cost of living could make expensive, long-haul travel less attractive.
- **The timing and extent of recovery in Chinese tourism:** As noted above, China accounted for a large share of tourism spending prior to the pandemic. The outlook for Chinese tourism (and international students from China) remains highly uncertain and will depend on a number of factors, including China's policies to restrict the spread of COVID-19, the outlook for the Chinese economy and the travel preferences of Chinese tourists more generally.

Conclusion

Restrictions to contain the spread of COVID-19 and precautionary behaviour significantly disrupted the movement of people both domestically and

internationally throughout the pandemic. Since restrictions have eased, international travel has been slow to recover, but domestic tourism spending has rebounded to be above pre-pandemic levels and many tourism service providers are currently operating at capacity. Looking ahead, tourism activity is expected to continue to recover, as supply-side issues are slowly

resolved and international tourism picks up further. Australia remains an attractive destination for both domestic and international tourists, and the resilience and flexibility demonstrated by Australian tourism businesses in recent years bode well for the opportunities and challenges that lie ahead. ✎

Endnotes

[*] The authors are from the Regional and Industry Analysis section of Economic Analysis Department. The authors are grateful for the assistance provided by others in the department, in particular Aaron Walker and James Holloway.

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