TTF-MASTERCARD TOURISM INDUSTRY SENTIMENT SURVEY

2014 Q1 EDITION – MAY 2014

MasterCard

TTF AUSTRALIA Tourism & Transport Forum

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TOURISM & TRANSPORT FORUM

Tourism & Transport Forum (TTF) is a national, member-funded CEO forum, advocating the public policy interests of 200 leading organisations in the Australian tourism, transport and aviation sectors.

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ABOUT THE SURVEY

The *TTF-MasterCard Tourism Industry Sentiment Survey* is an independent measure of key industry themes and trends. The survey is distributed to senior staff within TTF's membership organisations and other leading tourism businesses around Australia.

Cover image: Destination NSW – Vivid Sydney

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INDUSTRY MODERATES EXPECTATIONS, BACKS MAJOR EVENTS AS DEMAND DRIVERS

HIGHLIGHTS: MARCH QUARTER 2014

DOLLAR CONCERNS EASE, LABOUR CONCERNS SURGE

While tourism executives' concerns over the Australian dollar have moderated further, there has been an upsurge in concern over the availability of skilled labour as top business impediment. With service levels critical to Australia's competitiveness, this is a worrying result.

INDUSTRY SENTIMENT POSITIVE BUT MODERATING

Industry sentiment has moderated across both international and domestic tourism but remains above the baseline of what could be reasonably expected, with more muted expectations for current quarter. While key sectors have performed well, there has been a decline in forward bookings and a general decline in the share of industry who view key performance and capacity indicators as being better than usual.

UNEQUIVOCAL SUPPORT FOR MAJOR EVENTS

96% of industry believes government has a role to play in backing major events, echoing similar sentiments from consumers uncovered as part of TTF's recent *Backing Major Events* study. In addition, 88% of surveyed executives believe major events are of moderate to high importance to the visitor economy, in particular sports and concerts/festivals.

However, only 64% believing Australia is currently performing well in securing and developing such events, with the quality and frequency of major events remains the top concern for leisure tourism.

Tourism Australia – Uluru Kata Tjuta National Park, NT

"Need to protect and invest in event precinct infrastructure."

- Government Agency or Department

BUSINESS IMPEDIMENTS

While the exchange rate remained the prime business impediment for the industry, it has declined in importance for the fourth consecutive quarter with 32% of senior executives counting it among their top three concerns, down from 63% a year ago.

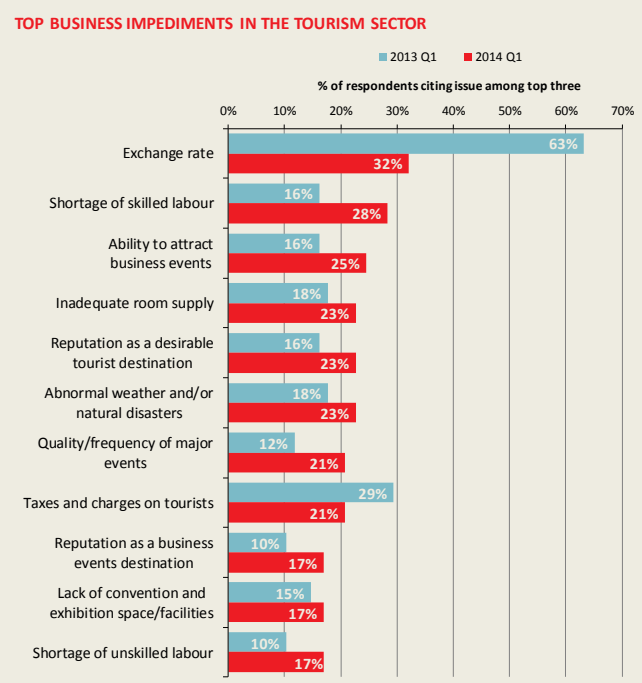
However, nine of the next ten top impediments have increased in importance since Q1 2013.

Skilled labour shortages ranked second at 28% (+12pt), while a quarter of respondents expressed concern about the ability to attract business events (+8pt). Inadequate room supply, reputation as a desirable tourist destination and abnormal weather all gained 5-6 points, with 23% of respondents now citing each of these as a top-tier business impediment.

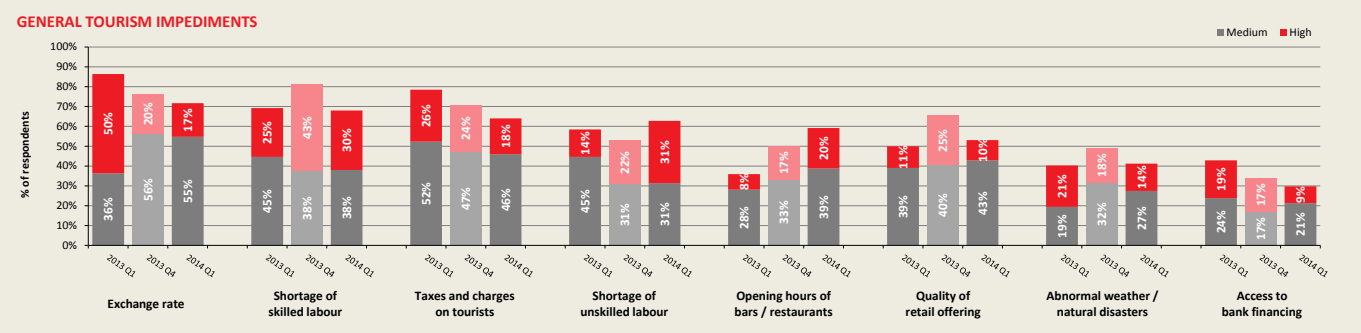
21% of surveyed executives also ranked the quality and frequency of major events (+9pt) and taxes and charges on tourists (-9pt) among their key issues, while 17% cited reputation as a business events destination (+7pt), lack of convention and exhibition facilities (+2pt), and unskilled labour shortages (+7pt).

Other common issues named by respondents included the adequacy of airport transport links, access to bank financing, labour costs, aviation capacity, impacts of the federal budget on consumer confidence and potential reputational damage from government policies.

Q: Which are the three most significant impediments for your business or organisation at this time?



Q: Are the activities of your business/organisation impeded by difficulties in any of the following areas? Please indicate the level of impact.



NB: Ranked by sum of 'medium' and 'high' impact for latest quarter.

GENERAL TOURISM IMPEDIMENTS

The exchange rate remains a major business impediment for industry, nominated by 72% of respondents as a high or medium-level concern. However, this is down 15 points from a year ago, with the share of respondents who see it as a high-level concern especially telling – down from 50% to 17%.

Labour supply issues, meanwhile, remained largely steady in second and fourth places, with 68% citing a shortage of skilled labour as a key concern (-1pt) and 63% expressing the same for unskilled labour (+4pt). However, the share of respondents who cited both as high-level concerns has increased, up 5 and 17 points.

64% of surveyed executives named taxes and charges on tourists as a key impediment (-14pt), while 59% named opening hours of bars and restaurants (+23pt), and 53% the quality of the retail offering (+3pt). Here, it is worth noting the 12-point surge in those who view opening hours as a high-level business impediment.

Concern regarding abnormal weather remained steady at 41% (+1pt), although the share of respondents who view this as a high-level impediment has fallen 7 points.

> **"Labour costs and labour market inflexibility have major impacts on the bottom line."**
>
> *- Accommodation & Resorts sector*

BUSINESS TOURISM IMPEDIMENTS

The majority of impediments in the business tourism segment have decreased in importance, though they remain significant issues for around two-thirds of industry.

67% nominated government support to attract business events as a high or medium-level issue (-8pt), with a 12-point decline in the share expressing high-level concern. 65% expressed the same for the ability to attract business meetings, conventions and exhibitions (-4pt), however the share citing high-level concern has increased 10 points.

64% of respondents highlighted as concerns the adequacy of airport transport links (unchanged) and reputation as a business events destination (+9pt). 61% said the same for a lack of convention and exhibition facilities (-4pt).

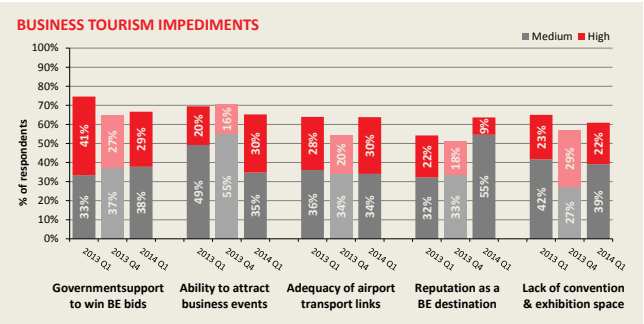
LEISURE TOURISM IMPEDIMENTS

The quality and frequency of major events remained the top issue for the leisure tourism segment, with nearly two-thirds of respondents nominating this as a high or medium-level concern (-1pt). However, the share who viewed this as a high-level issue has declined 9 points.

60% of respondents viewed inadequate room supply as an issue (+5pt), while 30% said the same for excess room supply in their destination (-8pt).

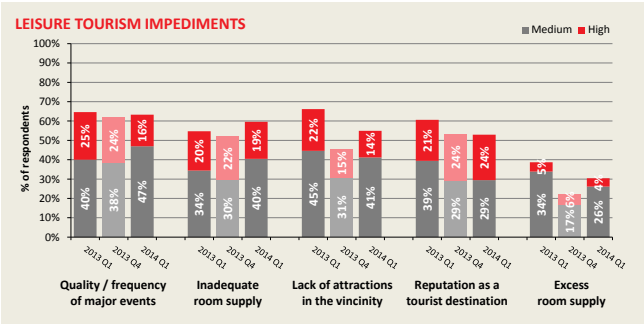
Meanwhile, more than half of respondents expressed concern about a lack of local attractions (-11pt) and reputation as a desirable tourist destination (-8pt).

*Q: Specifically relating to the **business tourism sector**, are the activities of your business/organisation impeded by difficulties in any of the following areas? Please indicate the level of impact.*



NB: Ranked by sum of 'medium' and 'high' impact for latest quarter.

*Q: Specifically relating to the **leisure tourism sector**, are the activities of your business/organisation impeded by difficulties in any of the following areas? Please indicate the level of impact.*



NB: Ranked by sum of 'medium' and 'high' impact for latest quarter.

TOURISM SENTIMENT INDEX

INTERNATIONAL TOURISM

The international tourism performance index recorded a performance of 126 points in the March quarter – 26 points above the baseline of what could be reasonably expected for this time of year.

This was largely on par with expectations at the beginning of the quarter (124 points), returning to trend after a strong December quarter (139 points).

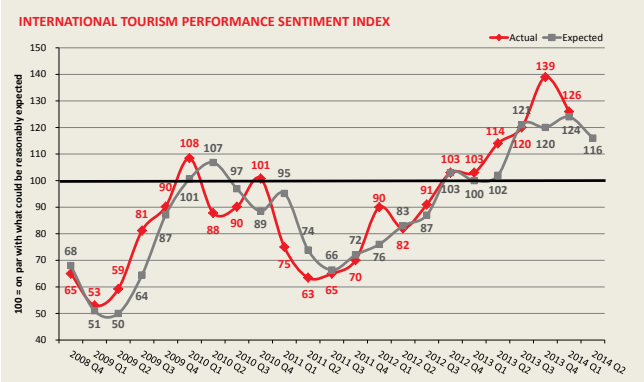
This should come as no surprise, as the March quarter capped off a year of 6.3% growth in international arrivals, with the majority of Australia's top inbound markets registering positive growth. Economic recovery and increased aviation capacity have seen the return of traditional markets, while emerging markets steamroll ahead, led by double-digit growth from Malaysia, China, Singapore and India.

Expectations for the current June quarter place the international sentiment index at 116 points – the most muted forecast in a year but still above the baseline.

"There is reputational damage to Australia in the minds of progressive young travellers."

- Accommodation & Resorts sector

Q: What is your assessment of international tourism performance in your destination/business for the current quarter and your expectation for future performance for the next quarter compared with what you would reasonably expect for this time of year?



The Tourism Sentiment Index is derived by assigning a value of 0 to 'much worse' responses, 50 to 'worse', 100 to 'equal', 150 to 'better' and 200 to 'much better'. A value of 100 therefore means that the performance across businesses is 'equal to what could reasonably be expected for this time of year'.

"Visa conditions are complicated and there is a view internationally that visas are restrictive and hard to obtain."

- Major Events, Sports & Stadia sector

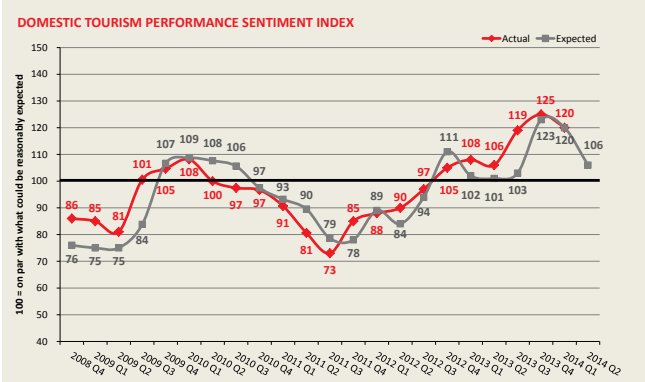
Tourism Australia – Gold Coast, Queensland

DOMESTIC TOURISM

Likewise, industry sentiment around domestic tourism performance remains above the baseline at 120 points, matching expectations at the beginning of the quarter. The forecast places the index at 106 points, less optimistic but still above average.

These results correspond with those from the most recent National Visitor Survey, showing a slight quarter-on-quarter decline in overnight trips following several quarters of strong growth.

Q: What is your assessment of domestic tourism performance in your destination/business for the current quarter and your expectation for future performance for the next quarter compared with what you would reasonably expect for this time of year?



"Corporate and government business is flat."

- Accommodation & Resorts sector

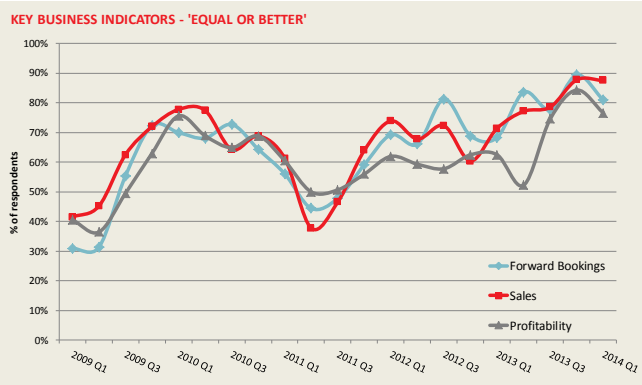
"Numbers seem to be growing but in certain markets, so operators need to shift from market to market to remain viable."

- Tour Operators and Travel Sales sector

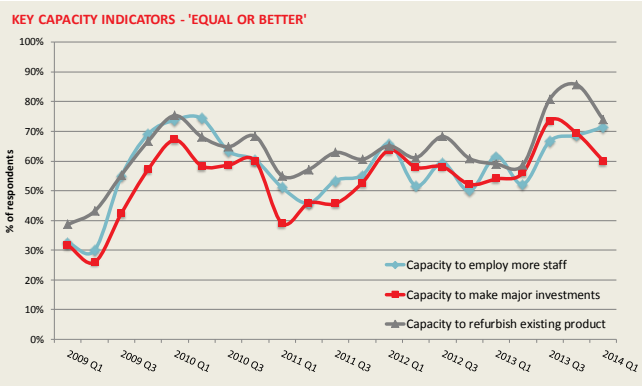
KEY BUSINESS INDICATORS

Key business and capacity indicators have moderated in the March quarter, following several strong quarters of record improvements.

Q: How would you rate the current status of your business in the following categories compared with what you would reasonably expect for this time of year?



While perceptions of sales remained steady, with 88% of respondents viewing this as being equal to or better than what could be reasonably expected, ratings for forward bookings and profitability both declined 8 points to 81% and 77%, respectively.



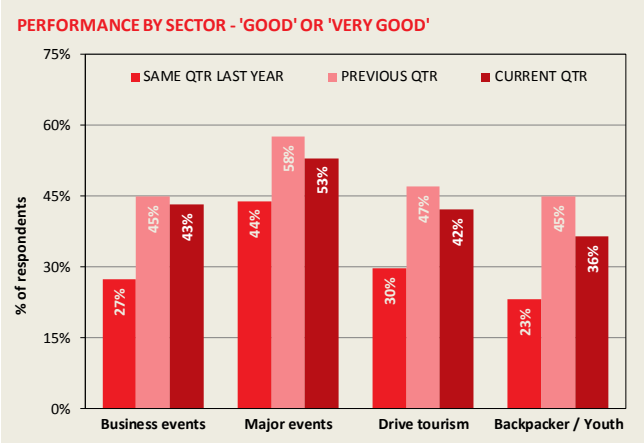
Capacity to refurbish existing product was equal or better than usual for 74% of respondents, down 12 points, while the same was true of capacity to make major investments for 60% of respondents, down 9 points. The indicator for capacity to employ more staff increased 3 points to 71%.

It is worth noting that the majority of all indicators experienced declines in the share of respondents who viewed their performance as being better or much better, particularly in sales and forward bookings.

> **"Operator margins are being pinched from every direction. It would be hard to turn a profit even when consumer confidence returns."**
>
> *- Restaurants & Catering sector*

SECTORAL PERFORMANCE

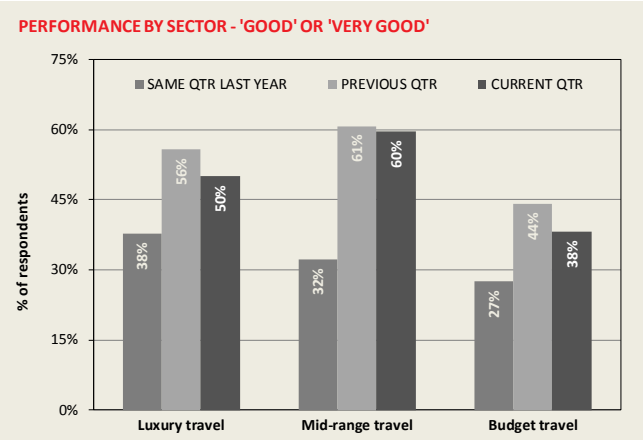
Q: How would you rate the performance of the following sectors?



Sentiment regarding major events remained strong, up 9 points from a year ago, with 53% of respondents rating the sector's performance as good or very good.

All other sectors recorded double-digit improvements in performance, with business events up 16 points to 43%, drive tourism up 13 points to 42% and the backpacker/youth sector also up 13 points to 36%.

This marked four consecutive quarters of positive growth for the business and major events sectors, and nine straight positive quarters for drive tourism.



The luxury and budget ends of the market have performed well, up 11-12pt to 50% and 38%.

However, it is the mid-range sector that has shone, with a 27pt improvement in the share of industry who rate its performance as being good or very good in the March quarter, reaching 60%.

All three sectors have all capped off a year of solid consecutive growth, reinforcing the strength of performance recorded in the sentiment indices.

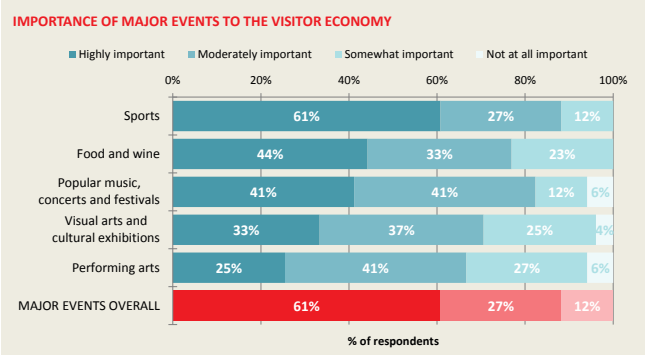
THE IMPORTANCE OF MAJOR EVENTS

TTF has long championed major events as a significant driver of demand in the visitor economy. Indeed, 15% of all international visitors to Australian attend a sporting or cultural event during their trip, with almost 100,000 travelling specifically for an event each year and 5.4 million domestic overnight trips taken to attend events.

TTF recently launched *Backing Major Events*, a paper which includes research conducted by Repucom which shows broad support among the general public for government-backed major events.

Turning to industry, we sought to canvass some of the same issues. 88% of surveyed senior tourism executives believe major events are of moderate to high importance to the performance of the visitor economy, including nearly two-thirds who view major events as a critical part of the destination mix (see red band in chart below).

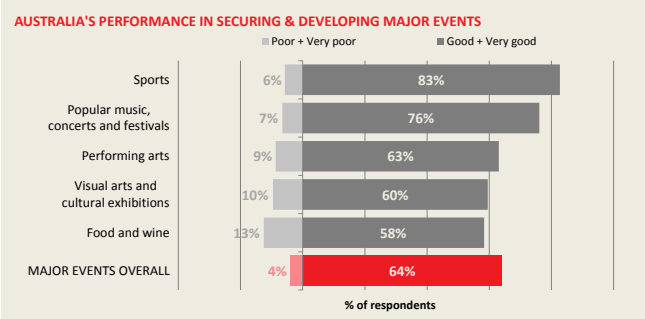
Q. How important are the following types of major events to the performance of the visitor economy?



Industry respondents viewed a broad events calendar as key to the performance of the visitor economy, with at least two-thirds rating each event category as moderately or highly important. Sporting events and concerts and festivals were seen as particularly important.

When asked to assess Australia's current performance in securing and developing major events, 64% said we were doing a "good" or "very good" job overall, with an opportunity to do more to support performing arts, visual arts and cultural exhibitions, and food and wine events.

Q. How would you rate Australia's current performance in securing and developing the following types of major events?



"Major events provide a reason for people who have been thinking about coming to Australia to actually come."

- Major Events, Sports & Stadia sector

"A lot of work to be done with infrastructure."

- Cultural, Amusement & Wildlife Attractions sector

BACKING MAJOR EVENTS

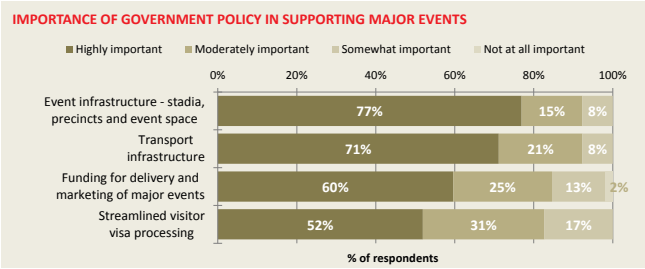
Industry was unequivocal in its belief that government has a role to play in securing and developing major events, with 96% of respondents supporting the statement.

When asked to assess the importance of specific government policy areas in supporting major events, 92% believed it was moderately or highly important to support event infrastructure – including stadia, precincts and event spaces – and transport infrastructure.

85% cited the importance of government funding for the delivery and marketing of major events, while 83% wanted to see streamlined visa processing to encourage international attendance at major events.

At least half of all respondents viewed all four policy areas as highly important to the vitality of the major events sector.

Q. How important are the following government policy areas in supporting major events?



"Government is not responsible for securing major events, but they need to be supportive of the businesses that are driving them – through easy approvals, destination marketing funding and investment that support visitation."

- Accommodation & Resorts sector

"A more personal and less bureaucratic engagement is required at the top end of the game to maximise outcomes and ROI."

- Restaurants & Catering sector

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