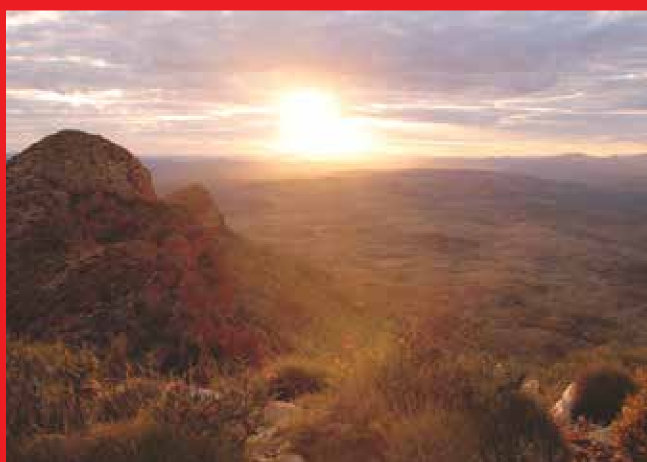
TOURISM TRACKER

JUNE QUARTER 2017

Released October 2017





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TTF AUSTRALIA
Tourism & Transport Forum

TOURISM TRACKER

ABOUT THE TOURISM TRACKER

Cost is a major factor in both the decision to take a holiday and the decision on where that holiday will be. TTF's Tourism Tracker report brings together a range of indicators that impact on the cost of holidays – both the absolute cost of going on holiday and the relative cost of holidaying in Australia compared to holidaying in another country. Analysing these indicators provides insights into some of the macroeconomic factors that are influencing the tourism sector.

The Tourism Tracker also features a review of recent activity – the TTF Tourism 2020 Index – which provides a quarterly checkpoint on how Australia is performing against the Tourism 2020 targets of $115 billion to $140 billion in annual overnight spending.

Data Sources

ABS (6401.0), Consumer Price Index, Australia

ABS (5206.0), Australian National Accounts: National Income, Expenditure and Product

ABS (6345.0), Wage Price Index, Australia

TRA National Visitor Survey (June quarter 2017)

TRA International Visitor Survey (June quarter 2017)

TOURISM & TRANSPORT FORUM

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

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Taronga Zoo, Sydney, NSW © Karen Gallagher

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WELCOME TO OUR NEW TOURISM TRACKER

The Tourism Tracker is a new quarterly publication looking at the broader macro-economic indicators that are impacting on the holiday decisions of Australians.

Each quarterly report will feature the latest reading of the TTF Tourism 2020 index. When the index is above 100, this means that the tourism sector is on track to meet the low-range of the Tourism 2020 target. When the index slips below 100, this indicates that the tourism sector is not on track to achieve the Tourism 2020 target.

The remainder of the Tourism Tracker report looks at the future to see what is happening in the broader economy that may be influencing the average Australian family's decision to take a holiday.

Domestic tourism accounts for over 60% of tourism spending in Australia, so is a critical part of the health of the visitor economy. In addition, around 90% of the trips taken by Australians are done within Australia, rather than overseas.

As a discretionary spend, how much is spent on a holiday is heavily dependent on the amount of 'leftover' income people have. Generally, households will pay the mortgage, pay the utility bills and buy all the essentials, such as food, education and clothing. Then anything that is leftover is available to spend on the non-essentials like a holiday.

Consequently, indicators that show a household's capacity to spend, such as wages and interest rates, play a major role in influencing how much Australians have to spend on holidays.

The other key factor in determining tourism-related spending is the cost of the holiday itself. If holiday prices are rising quickly, especially faster than general prices, then this will make it harder for people to take a break.

TTF will be releasing a new Tourism Tracker each quarter to provide an overview of the recent movements in the key macroeconomic indicators and insights into the future possible direction of Australians travel plans.

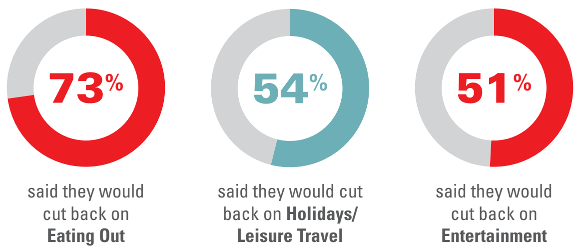
HIGHLIGHTS

TTF's Tourism 2020 Index had a reading of 101.7 in the June quarter. This solid result indicates **the sector is tracking just above the lower band of the Tourism 2020 plan**. This is the fourth consecutive quarter that the tracker has been above 100.

Looking ahead, however, **the industry cannot afford to be complacent** and there are worrying signs that household budgets are being squeezed, limiting the capacity of Australians to take a holiday.

As a discretionary spending item, **taking a holiday is one of the earliest items cut**, or at least cut back on, as families tighten their belts. The research conducted by TTF/Nielsen is illustrated in Figure 1 below.

Figure 1
Target areas for spending cut-backs



The TTF/Nielsen research also showed that across the economy **household budgets are tight and have little capacity to deal with rising bills or to put aside something extra for an end of year holiday**. In a survey of over 800 respondents, almost three-quarters (72%) said that a $50 increase in weekly costs would mean they will have to make adjustments in some areas of non-necessary spending.

These tight household budgets are largely as a result of low wages growth, which rose only 1.9% in the year to June, the same result as in the year to March and the slowest pace since the index began in September 1997. In addition, many households are also facing pressure from rising mortgage repayments and energy bills.

On a more positive note, **price inflation for both domestic and international holidays is modest**. The June quarter CPI showed Australian's are not facing escalating prices for holidays, whether at home or abroad.

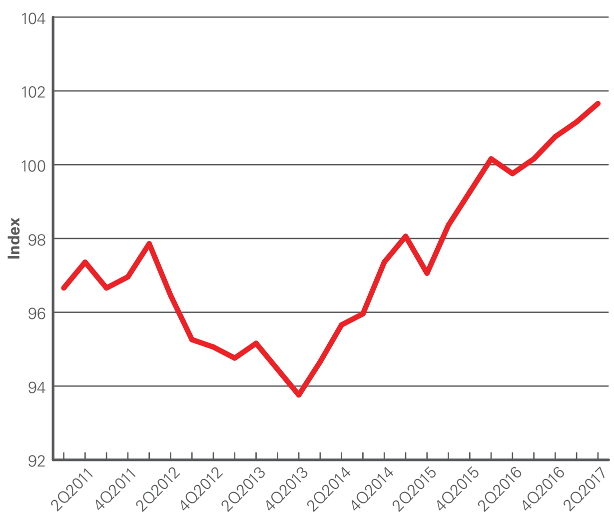
In short, price pressures in the visitor sector are currently modest but budgetary pressures are rising for many Australians. This could **crimp their travel spending and/or planning in the coming months and the important summer season**.

The test for the industry going forward is to ensure that **prices and offerings for travel remain attractive** so that Australians still find capacity in their squeezed budgets to take a holiday of some kind, rather than forgoing one completely.

ON TRACK FOR 2020 BUT SIGNS OF COOLING GROWTH

Overnight visitor spending in Australia was $103.2 billion in the year to June 2017, comprising of $40.6 billion in spending by international visitors and $62.6 billion in spending by overnight domestic visitors. This result means overnight spending is just ahead (1.7%) of where it needs to be to meet the lower band of the Tourism 2020 target.

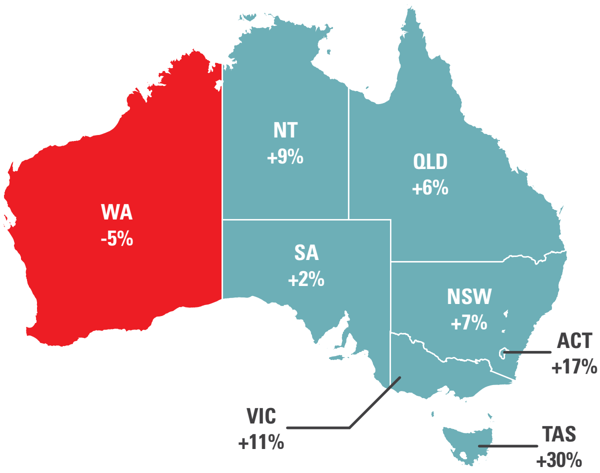
Figure 2
TTF Tourism 2020 Index – current expenditure versus Tourism 2020 lowest band



This 'better than target' result is reflected in TTF's Tourism 2020 index which rose to 101.7 in the June quarter, from 101.2 in March. A reading above 100 indicates that the sector is on track to meet the lower Tourism 2020 target. The index has now recorded three consecutive quarters above 100 and is at its highest level since the targets were set.

Domestic expenditure growth is being led by Tasmania, which recorded a 30% increase in spending in the year to June.

Figure 3
Overnight domestic spending growth by state, year ended June 2017



The international visitor arrival figures continue to be underpinned by the incredible interest from across Asia, with double digit growth for visitor arrivals across all of the major Asian markets. The record $40.6 billion spend was underpinned by Chinese visitors who part, on average, with $8,427 per trip to Australia.

However, we must not be complacent about the latest international visitor survey results. There are signs spending growth is cooling, with the June quarter figures showing the slowest pace of growth since 2012/13, and a drop in the average spend per trip from $5,264 in year to June 2016 to $5,159 in year to June 2017.

INTERNATIONAL TRAVEL BY AUSTRALIANS SHOWS SIGNS OF SLOWING

Looking at international travel by Australians, there are also signs the pace of growth has slowed in recent months. In the year to June 2017, 10.0 million Australians travelled overseas, up 3.7% on the year to June 2016. While the number of Australian's taking an overseas holiday is still growing, the pace of annual growth is down from a recent peak of 5.2% in November 2016. New Zealand (1.4 million), closely followed by Indonesia (1.2 million), remain the favourite destinations for Australians.

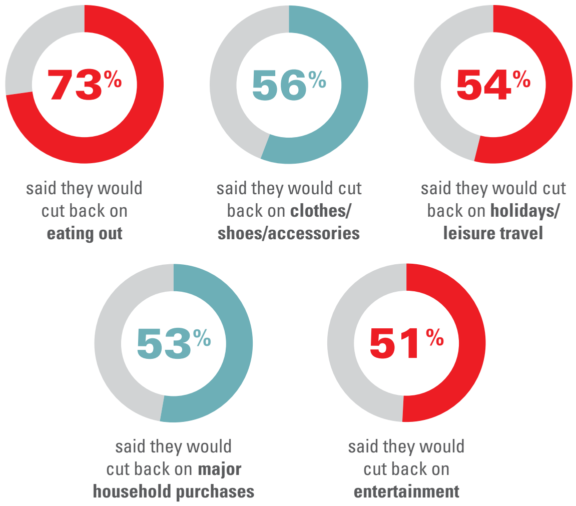
TOURISM SPENDING AN EARLY CASUALTY OF TIGHTENING BUDGETS

Looking ahead to the upcoming peak summer season, there are some worrying signs for those tourism businesses dependent on domestic holiday-makers.

Research conducted by TTF and Nielsen[1] explored what areas of spending were most likely to be cut back on if households needed to do some belt tightening.

The top five areas people said they would cut back on, if they had to, are illustrated in Figure 4 below.

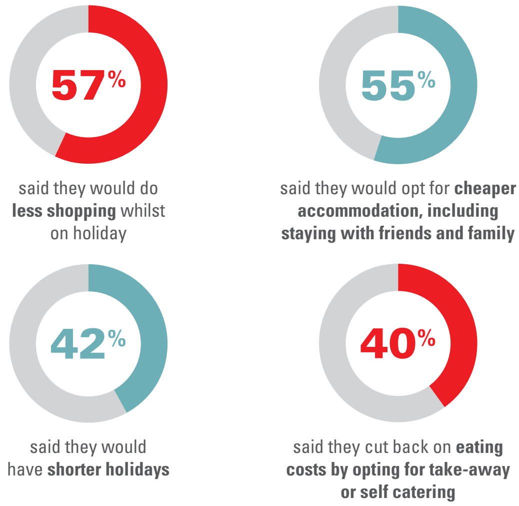
Figure 4
If you had to cut back any areas of spending name the top 5 areas you would be willing cut back in?



That is, three of the top five areas relate to the hospitality and tourism sectors. This is concerning news for operators who are dependent on domestic visitors, as they are likely to bear the brunt of any cut backs in household spending to cover rising budget pressures.

TTF also asked survey respondents how they would go about cutting back on their holiday spending if they had to. Results are illustrated in Figure 5 below.

Figure 5
What are the top 3 areas of holiday costs you would be most likely to cut back in?



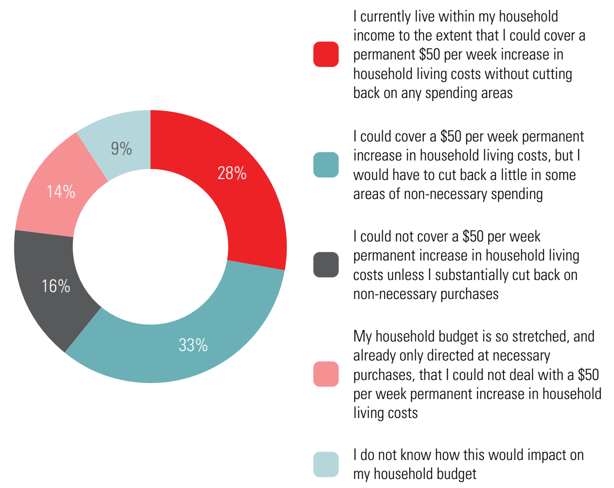
There are already early signs of this switch to cheaper accommodation options in the June quarter National Visitor Survey, which recorded a 6.2% annual rise in the year to June in trips involving visits to see family and relatives and only a 2.4% rise in holiday-related trips.

1. Online survey conducted by Nielsen in August of 829 Australia households

BUDGETS COMING UNDER PRESSURE

The TTF/Nielsen research also showed that households may well be already, or need to be starting this belt tightening soon, and that there is little room in Australian budgets currently.

Figure 6
Household costs survey



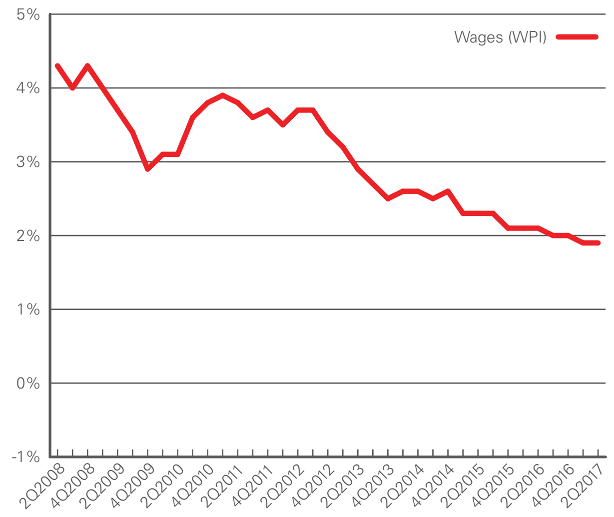
We asked survey respondents how they would react if they faced an increase in regular ongoing household costs of $50 a week. Only just over a quarter (28%) said they could cover such an increase without cutting back on any spending areas. Indeed, 16% said they would have to substantially cut back on non-necessary purchases and a further 14% said their budgets are already so stretched that they could not absorb such a cost increase.

AMID LOW WAGES GROWTH

The official data also reinforced these concerning signs around household budgets and the capacity of Australians to plan or take a holiday over the coming months.

Persistent low wages growth is likely to be crimping Australians capacity to travel. Wages, as measured by the Wage Price Index, rose just 1.9% in the year to June. This is the slowest pace of growth since this index began and follows a similar result in the year to March.

Figure 7
Wage Price Index (y/y % change)



These quarterly wage results are consistent with other longer-term national surveys, such as HILDA,[2] which showed household incomes have stopped growing and that since 2012 there has been a slight decline in average household income.

The June quarter national accounts also showed that household spending is being supported by savings rather than by wages growth. In the June quarter, the Household Savings Rate fell to 4.6% - the fifth consecutive fall and almost half the rates that were being set in 2013 & 2014. This decline indicates that households are increasingly finding themselves with less savings to put aside at the end of each pay period which is not a positive sign for discretionary spending sectors such as tourism.

RISING HOUSING COSTS

The housing market is also putting pressure on many household budgets, and this is only likely to increase in the next 12 to 18 months as mortgage interest rates start to rise.

The TTF/Nielsen survey asked about the potential impact of interest rate rises for those respondents who either already have housing-related debt or are saving for a deposit and looking to get a mortgage soon.[3] Of these respondents, 38% said that they could absorb an initial 0.25% point rate increase into their current household budgets without having

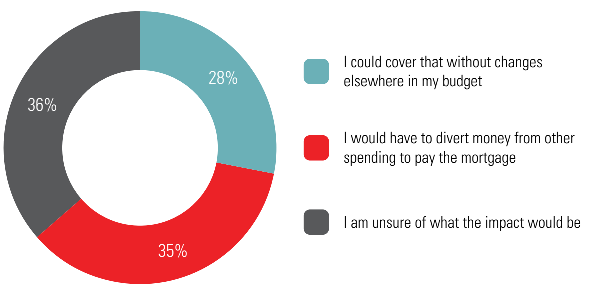
2. The Household, Income and Labour Dynamics in Australia (HILDA) Survey is a household-based panel study that collects valuable information about economic and personal well-being, labour market dynamics and family life. It aims to tell the stories of the same group of Australians over the course of their lives.
3. 500 people in the survey

to change too much. But 27% said even a rate rise this small would mean some spending cut backs elsewhere. Disturbingly 35% of respondents were not sure what impact this would have on their budget. The Reserve Bank is unlikely to raise interest rates in the next 12 months, but it has clearly indicated that the next move will be up, suggesting households are likely to be preparing for future rate hikes in the coming months.

Interest rates are currently well below what would be considered normal levels. In economic terms, the 'neutral' rate is where monetary policy is neither expanding or contracting the economy. In recent comments, the RBA Governor has indicated that the cash rate is around 2 percentage points below the RBA's current estimate of the neutral rate. This means that over time – which could be several years – interest rates will move higher and eventually get back to at least 2% points above where they currently are. Again, mortgage holders do not need to make panicked adjustments yet, but they need to be aware that this will likely happen during the time in which they hold their mortgage.

We asked survey respondents with a mortgage, or trying to save for one, what a series of rate rises totally 1% would do for their budgets (illustrated in Figure 8 below).

Figure 8
Impact of a series of interest rate rises



UP TO 20% SPIKE IN ENERGY BILLS

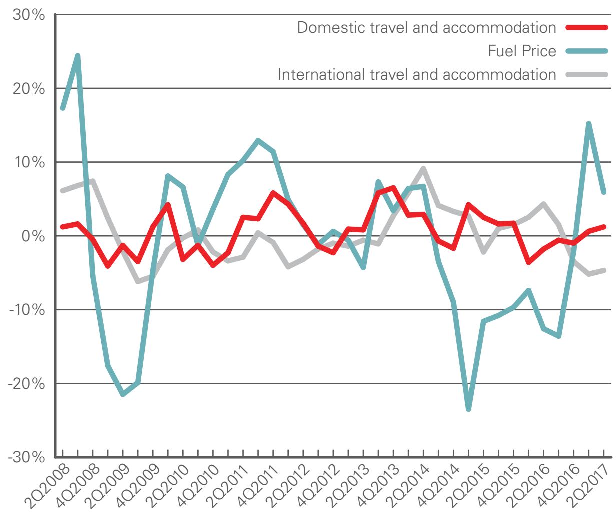
Finally, another source of pressure on household budgets is utility bills. Australians have been warned to expect energy bill price rises of up to 20% when they get their next bill, something that will have a major impact on household budgets. As with rising housing costs, the more money spent on energy bills then the less income will be available to spend on holidays.

THANKFULLY, THERE ARE STILL PLENTY OF GREAT DEALS

The good news is that if households are able to save some of their pay packets for a break, then they should be able to easily find an affordable holiday.

Over the year to June the price of domestic travel and accommodation, as measured by the CPI, rose a modest 2.2%. This was the largest annual price rise since the year to December 2015 but is still only just above the overall CPI of 1.9% y/y.

Figure 9
Travel-related CPI measures (y/y % change)



Domestic travel and accommodation price increases have been subdued for over 12 months, with prices actually falling the first half of 2016. Such a modest price increase, while just above the overall CPI, suggests that the cost of a domestic holiday is unlikely to be crimping travel decisions in Australia currently.

Similarly, the price of international travel is also not likely to be deterring Australians from taking an overseas holiday. The price of international travel and accommodation fell 3.7% in the year to June – the third consecutive annual fall in prices.

The main source of pricing pressure for holiday-related spending is fuel prices, which rose 6.9% in the year to June after a large 16.2% rise in the year to March. However, like domestic travel and accommodation costs, fuel prices have been subdued for a long period of time – falling in annual terms for the 10 quarters to December 2016. Consequently, the March and June quarter results are unlikely to be sufficiently large to be having a negative impact on travel decisions at this point.

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