The Case for extending The JobKeeper Program for Tourism, Transport and Hospitality Sector

Executive Summary

This research paper assesses the impact of retaining the Commonwealth Government's JobKeeper Scheme post-September 2020 when the job payment subsidy is expected to be removed.

Industry research undertaken by Stafford Strategy (Stafford) on behalf of TTF members indicates the delicate state of the tourism, transport and hospitality sectors and the likelihood of significantly reduced re-employment occurring without the JobKeeper Scheme being retained until at least December 2020.

Key findings from the industry research indicate the following.

- International visitation will remain at zero with border closures in place until September when the Trans-Tasman travel bubble with New Zealand may come into effect as proposed.
- The Trans-Tasman travel bubble will likely only produce limited visitation due to airline capacity constraints and other factors restricting inbound visitation which is estimated to range from 41k-64k per month.
- It is anticipated that only major eastern seaboard inbound aviation hubs such as Melbourne, Sydney and Brisbane will be the primary beneficiaries of the Trans-Tasman Bubble and a high percentage of visitation will be VFR and business travellers rather than leisure or event travellers so the economic impact and benefits will struggle to be felt more widely.
- The retention of the JobKeeper Scheme is noted by the industry as essential to retain current staff engaged and to support the gradual introduction of more staff as visitation gradually increases.
- The estimated monthly loss in tourism, transport, and hospitality direct jobs without the JobKeeper Scheme (as opposed to with retaining the JobKeeper Scheme) are forecast ranging from 33k in August to 133k jobs in December.
- The value of lost wages attributed to the loss of the JobKeeper Scheme range from $1.3b in August to $5.3b in December.
- The estimated value of lost PAYG contributions ranges from $400m in August to $1.6b in December should the JobKeeper Scheme be removed.

Possibly the most negative impacts, however, from the loss of the JobKeeper Scheme are:

- the risk that many small-medium sized tourism, transport, and hospitality businesses will not look to reopen and may potentially close for good, as visitation numbers will often not support the ability to operate at a 30%-45% demand capacity level; and
- that larger businesses are less likely to open up/reactivate all their facilities so the risk of a far slower recovery period back to where businesses are fully operational may occur.

In summary, the recovery by the tourism, transport and hospitality sectors is noted as being particularly vulnerable, with potentially spasmodic and relatively modest growth in domestic visitation and even slower growth expected in international visitation.

The table below documents the impact:

Direct Jobs in Tourism, Transport and Hospitality

Quarterly assessment	June 2020	Sept 2020	Dec 2020	March 2021	June 2021
Estimated jobs with Job Keeper in place	233k	300k	366k	400k	366k
Lost jobs compared to 2019 job data	433k	366k	300k	266k	300k
% jobs still lost from 2019	65%	55%	45%	40%	45%
Estimated jobs without job keeper in place	233k	233k	233k	266k	266k
Lost jobs compared to 2019 job data	433k	433k	433k	266k	266k
%Lost jobs compared to 2019	65%	65%	65%	60%	60%
Difference in job numbers if jobkeeper scheme is removed in September	0	67k	133k	133k	100k
Estimated value of wages pa. on jobs lost through removing jobkeeper scheme	0	$2.7b	$5.3b	$5.3b	$4.0b

Note:

1) the above only reflects direct jobs in the sector and excludes the various indirect jobs which are generated through the provision of goods and services to support the sector.

2): the data assumes that all domestic borders will be open by August 2020 and remain open through to June 2021. The uplift shown in jobs over the 12 month period reflects domestic tourism gradual growth

3): the data also takes into account a Trans Tasman travel bubble with NZ but the job losses when compared to 2019 reflect the impact and importance of international visitation in supporting sector employment.

Introduction

The gradual recovery of the tourism, transport and hospitality sector is expected to move particularly slowly during 2020 as international border lockdowns neutralise any uplift which would normally be expected from the international visitor markets to Australia with respect to visitation and particularly via associated visitor spend which is noticeably higher than domestic visitor spend levels.

The anticipated exception will be the September opening of a Trans- Tasman travel bubble with New Zealand, which will offer a positive but likely cautious start due to:

- an element of traveller nervousness about the risks which may still exist from COVID-19 and the desire to not have to self-isolate for 14 days should a new health problem arise;
- the expected reduced level of flight capacity and associated frequency of services across the Tasman by Qantas and Air New Zealand noting that both airlines have reduced international capacity currently; and
- likely stronger growth in VFR travellers from NZ which will limit the economic benefits generated in the visitor economy (due to staying with friends or relatives) and those on business which will likely mean limited visitor dispersal around Australia, initially at least.

Visitor Impact Assessment

Figure 1 illustrates the forecasted monthly loss of international visitation into Australia which only grows from September 2020 onward due to the Trans-Tasman travel bubble and New Zealand visitation per month. For the period from June-August there is effectively no international visitation into Australia. The Figure also shows likely visitor spend per month which is solely attributed to the New Zealand inbound market and based on 2019 spend levels.

Figure 1: Modest Growth of Monthly International Visitors to Australia

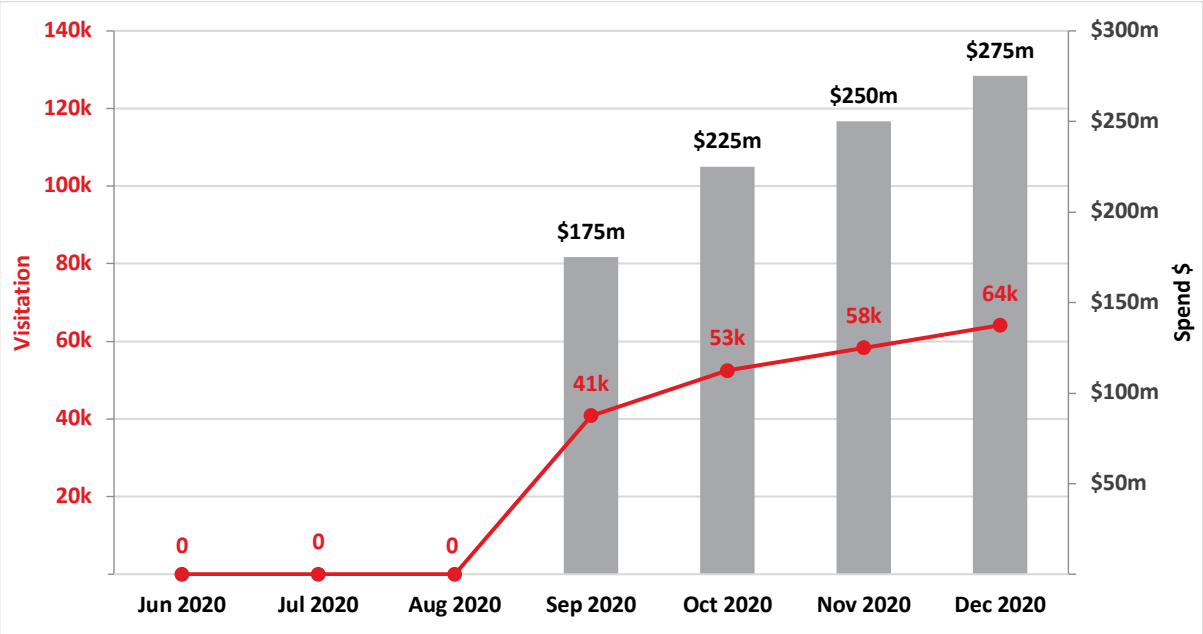

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Figure 2 demonstrates the forecasted growth in domestic overnight visitation and associated visitor spend throughout Australia, on a monthly basis. It assumes that from July onwards, domestic borders will open in time for school holidays and that there will be a period of constant (rather than rapid) growth predominantly driven by school holiday travellers, VFR and business travellers though the uplift in December is expected to be from leisure based travel primarily. These forecasts assume there will be no downturn in visitation from further lockdowns or other issues.

Figure 2: Modest Monthly Growth of Domestic Overnight Visitation in Australia

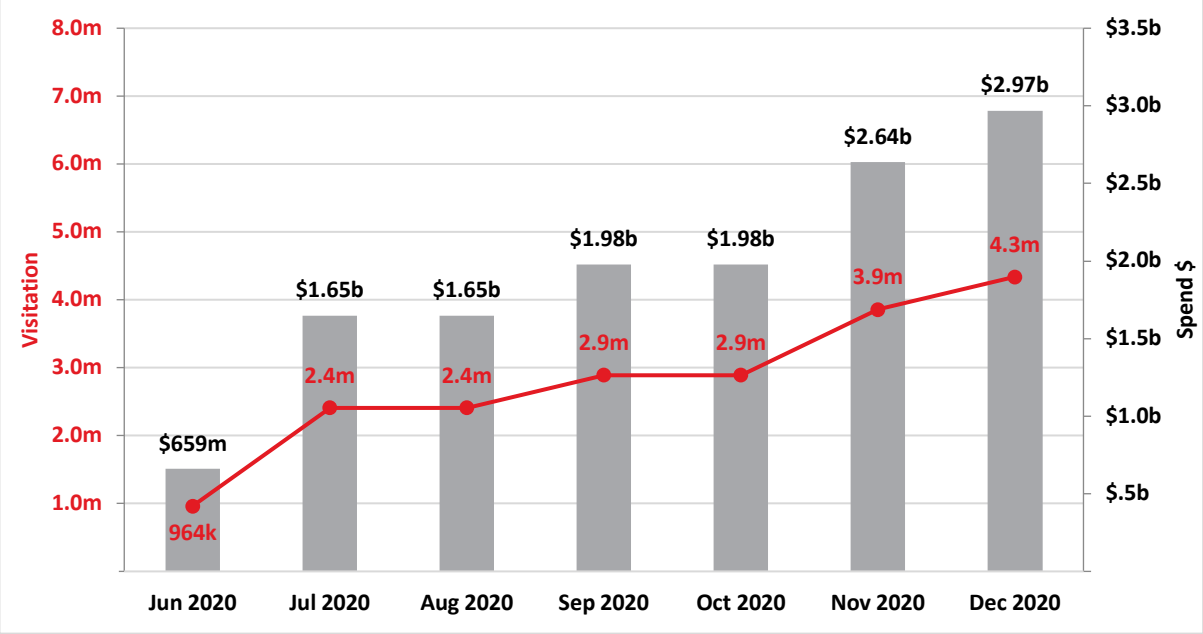


Figure 3 indicates the forecast uplift in tourism, transport and hospitality related direct employment from the retention of the JobKeeper Scheme which is due to be stopped in September. Without the Scheme, industry has indicated a lack of ability (due to very modest visitor growth, fixed operating costs, business risk and lack of profitability) to increase employment into the sector.

Figure 3: Estimated Tourism Employment with/without JobKeeper

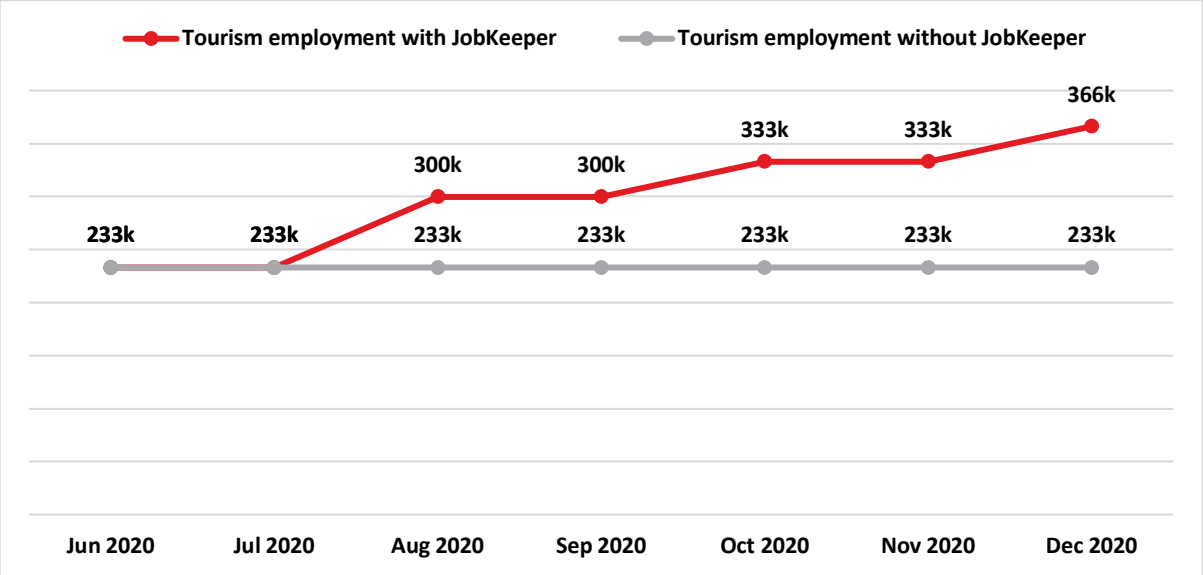
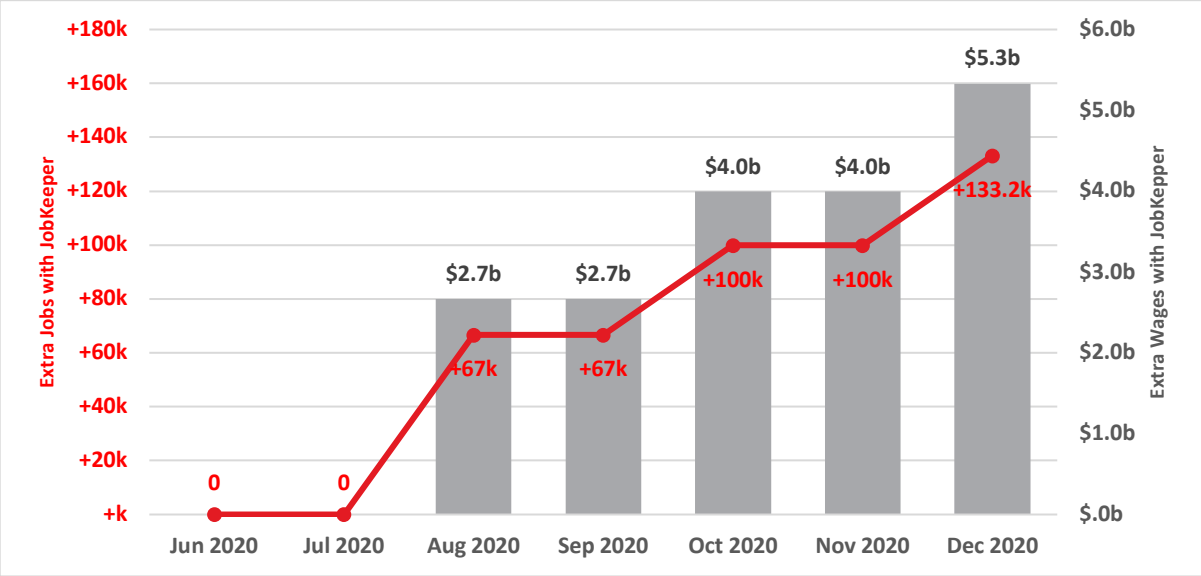


Figure 4 illustrates forecasted employment growth due to the retention of the JobKeeper Scheme, which is noted by industry as essential, in moving from the current transition phase post lockdown, to a period where domestic visitor growth is expected to gradually strengthen.

The Figure also provides detail of estimated average monthly wages to illustrate the contribution from industry operators back into the economy. Importantly, the jobs and wage estimates are only for direct employment into tourism, transport and hospitality and do not include provision for the indirect employment uplift which could be expected from the supply of goods and services into the sector.

Figure 4: Estimated Tourism Jobs Retained because of JobKeeper



Industry Research Findings

A confidential survey was conducted of larger tourism, travel and hospitality operators to gauge insight into how quickly and sustainably reactivating of businesses may be able to occur. The findings indicate the following.

1. Moving out of business lockdown through a well-managed process might require some tourism businesses to reactivate faster than others. What should be the rationale for determining this?

Responses indicate the following.

- Hygiene factors and the ability to safely operate sustainably.
- Longer support on JobKeeper to offset losses noting that many businesses have stood down employees and introduced minimum payments.
- The timing will almost entirely depend on government border restrictions (state or national) and the availability of airline capacity to meet demand.
- We have remained open and fully operational, but we are losing large amounts of money as we remain open and incur costs which are not being covered by payments.
- Provide underlying access (provide capacity and deliver demand to the regions) – e.g. airlines.
- Deliver essential tourism infrastructure & amenity (hotels, experiences, dining), to ensure a coordinated travel experience is available and delivered.
- Consider the interdependencies between demand drivers i.e. attractions, cafes and restaurants and demand enablers i.e. public transport, car (day trip and short stay) and aviation.
- If demand drivers do not return, demand will likely be softer and/or focused on VFR and destination accommodation.

The three common responses provided highlighted the need for health and safety concerns to be met, for access across states and territories to occur and for visitor experiences, attractions and hospitality facilities (cafes, bars, restaurants, clubs etc.) to be operational as these elements drive demand.

2. Not all visitor markets and customers are going to want to immediately re-engage and rebook flights, accommodation, dining options, tours etc. At what stage of occupancy, booking levels etc do you consider your own business can profitably reactivate? Can you, for example, reopen with 30% customer demand, seat bookings etc and operate profitably?

Responses indicate the following.

- Without significant restructures and redundancies – JobKeeper allows us to some extent to open with less than 50% demand but we would need to be at circa 50% demand to operate profitably.
- Current operating status risks further major job losses without JobKeeper support post-September.
- We have remained open for various services, albeit operating at a considerable loss.
- This will vary significantly by asset/experience type – those with higher levels of flexible/variable costs and lower complexity can possibly operate profitably at closer to 30%.
- More complex businesses like Rail (with high underlying fixed costs for each service – irrespective of volume) struggle to operate at lower demand levels.
- Attraction and accommodation packages will rely more on the delivery of adequate levels of reasonably priced air access to arrival or departure points and will have longer lead times to enable guests to confirm all other elements of their overall travel experience.
- Ensuring consistency of demand will be important, as opening for a 2-week school holiday burst and then halving of that demand is unlikely to be sustainable.
- JobKeeper will help with this initial ramp-up and provide greater support across one of the larger cost areas through the initial unprofitable lower demand days/services which are forecast for 2020.
- Lower load factors mean adjusting break-even levels and that may well see price increases. We intend to operate on reduced margins until the markets are more stable as the need to drive revenue is critical.
- To re-establish full guest service teams for higher quality products will require i.e. 75%-85 % demand levels
- Various operators can scale operations as market demand builds, but JobKeeper support is particularly important to support this.
- Having to focus on a domestic market is likely to drive down product prices and profitability.

The key take-outs reflect the need for JobKeeper salary support noting that for many businesses, operating below a 50% demand level is unprofitable. The JobKeeper Scheme, therefore, offers a critical component to support the transition phase from lockdown to full businesses reactivation. The potential timeframe before market demand is sufficiently strong (60% +) to support business profitability and to allow for reinvestment into marketing campaigns etc. is expected to be post-September 2020. The delay expected in reactivating inbound visitation and the far greater reliance required on stimulating a more price-sensitive domestic market will also require business models and product packaging to be adjusted during this transition phase.

Generally, most businesses cannot operate profitably at less than 50% demand capacity and for higher quality product with a greater level of staffing demand especially, the figure is noted as much higher.

3. What percentage of your workforce can you reengage to allow you to start to operate profitably?

Responses indicate the following.

- If demand rose to levels above circa 50%, we could bring back around 70% of our workforce (based on FTE equivalent).
- We have retained all our permanent workforce and they are continuing to work throughout this time though we are not operating profitably.
- Around 30% initially but it varies by location.
- Several accommodation products need to have over 45% of staffing at least to operate with marginal profitability

- Holiday parks, caravan parks etc. can be down to 30% occupancy in off-season periods but this has to be balanced out by high occupancy levels in peak and shoulder periods. A longer-term sustained period of low occupancy levels (30%+) would not be viable. This still requires a reasonable level of staffing.

Most respondents indicated the need to reengage approximately 45%-70% of their workforce to be able to start operating profitably. This is why the retention of the JobKeeper Scheme post-September is seen by the industry as critical with tourism and transport businesses needing their staffing resource to reactivate even if market demand levels are still below 50% during this transition phase.

4. Assuming that Government may help activate different visitor markets in different timeframes, which markets should be reactivated when (assuming the broad market categories are a local 80km radius of your business market, intrastate visitation for all purposes throughout the state or territory beyond 80km, interstate travel, Trans-Tasman travel (the TTF defined Australia – NZ bubble economy) and then longer haul visitor markets?

Responses indicate the following.

- An immediate priority is the domestic day-trip market, domestic overnight through regional intrastate and interstate travel, trans-Tasman, bi-lateral agreements with low-risk markets (HK, South Korea, Singapore) and eventually long haul priority markets (China, US, UK and Europe).
- Genuine recovery for the aviation sector will only occur once state border restrictions are lifted.
- Many expect all domestic travel within Australia to be in place by September 2020 though with interstate travel being staggered and carefully managed.
- There is a finite and in places a limited intrastate travel market to leverage off, so interstate travel for all purposes is seen by many as the most critical immediate factor to support recovery.
- Many respondents indicate only limited international market growth should be expected before the September quarter 2021 and would need to be strictly aligned to Australia's low case levels and practices. This is also seen to be aligned with when a vaccine or other treatment might be freely available.
- Self-drive markets are thought by most respondents to activate from July – September aligned to school holiday periods, and which are expected to be heavily marketed.
- November 2020 onward is expected to start to see growth back into longer stay regional intrastate and interstate domestic travel particularly by FIT drive markets.
- Interstate leisure air travel is anticipated from December 2020 onwards coupled with growth in Trans-Tasman travel though the impact of social distancing requirements may limit overall numbers.

Generally, the industry is expecting modest growth at best in intrastate and interstate travel pre-December 2020. There is expected to be the occasional spike in travel which correlates with school holiday periods. For many major tourism and transport operators, some form of "domestic demand normality" is not anticipated then till December 2020.

In this transitional period, therefore, and to actively encourage businesses to reengage staff even with marginal, low or no profitability being seen, the extension of the JobKeeper Scheme is highly important.

5. Once the lockdown on business activity starts to be lifted, what do you see as the three major challenges for the tourism sector to get reactivated profitably?

Responses indicate the following.

- Maximising capacity use of facilities is the immediate priority as, within current guidelines, there is limited opportunity to maximise demand and achieve even marginal profitability without it.
- Driving demand and conversion within the scale of the Australian domestic market which is often seen as more price sensitive than international markets.
- The longer-term international market decline is expected, which will create a sustained impact on tourism for the next 18 months as a minimum and potentially out 36 months.

- Confidence of the public to travel again, and how industry/government can work to build this through cost-effective measures.
- Consistency of approach to reopening travel. The whole supply chain needs to have a consistent approach – from ground transport, airlines and airports – in terms of how they deal with challenges from COVID-19. For example, requiring social distancing in airport terminals is not meaningful if there is no requirement for airlines. A consistent and scalable approach is required.
- While we will have the advantage of being an appealing country which managed the pandemic well, we run the risk that other countries will have a first-mover advantage if they open before we do.
- We risk having a number of tourism and transport businesses closing and having a far weaker product offering if not careful when international tourism resumes.
- Operating at longer-term sustainable levels under reduced capacity models (with required distancing rules will necessitate etc).
- The coordination of a critical mass of tourism product in regions is required, to ensure the delivery of the whole experience (transport, accommodation, experiences, dining, amenity, services, etc). Regional areas which are unable to do this will struggle to retain their viability as destinations.
- Retaining staff through a longer than desired transition phase – need to get quality people back quickly to historical hours to retain them or pre COVID industry employment challenges will compound. Many staff have already been stood down and have likely moved on to other sectors of the economy.
- Reinvesting in marketing and sales with an empty pipeline of customers, bigger cash flow issues than being shut at first.
- Replacing the international portion of demand and restructuring the business to be profitable without international markets.
- The expectation that unemployment will remain high and will get worse without support from the JobKeeper Scheme.
- Nervous host communities and recessionary concerns are going to impact on discretionary spend levels.
- Consumers reluctance to travel without safety and hygiene concerns being fully met.
- Price led marketing strategies will erode margins, further delaying a return to profitability and potentially resulting in more business closures.

In summary, industry responses reflect the need to further support the sector through various programs such as JobKeeper with the real challenge being seen by many as post-September.

Domestic tourism is not expected by many operators to be enough to rebuild the tourism and aviation industries back to pre-COVID times, with the risk of potential business consolidation and closures. While the sector transitions and rebuilds, government support will be required to ensure short term fundamental underlying challenges such as industry profitability and sustainability are managed. International tourism is expected to gradually return from late 2021 but in the interim, it is essential that operators can remain viable and ongoing government support to achieve this is essential.