

The economic outlook for Australia's tourism industry

ACCESS ECONOMICS

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Green shoots and ham

- **The global and Australian green shoots are real, and they are growing ever stronger:** In particular, credit markets show improving health, suggesting credit is now rather less constrained than it has been.
- Yet, while recovery is starting, the global ‘green shoots’ (outside of **China, which is growing very but perhaps unsustainably fast**), are perhaps best seen as an end to rapid falls in output rather than ‘happy days are here again’.

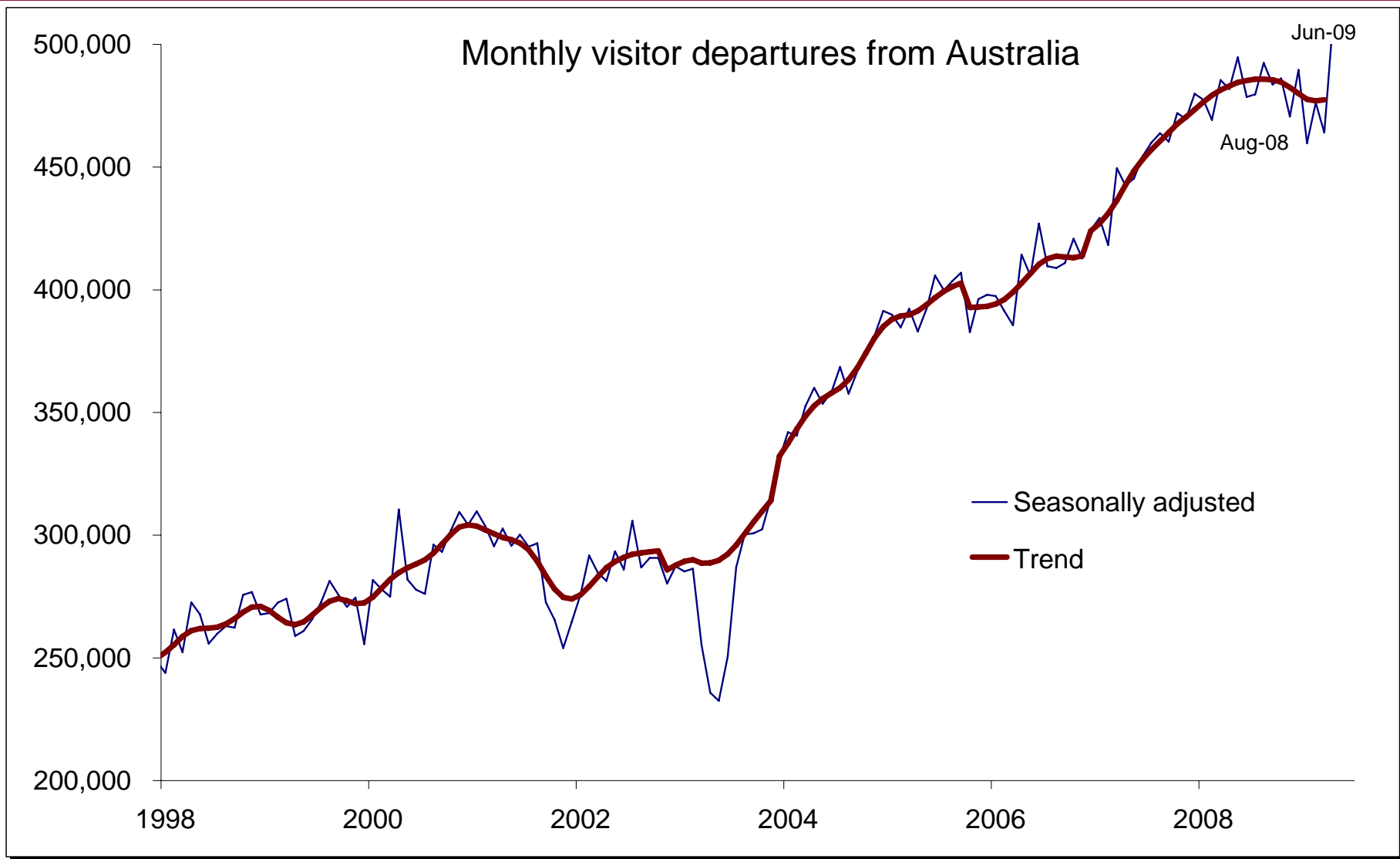
Not bad ... all things considered

- **The global policy reaction was better and faster than in the Great Depression of the 1930s, and its impact on the global economy is increasingly strong.** Central banks and governments threw money at the crisis, and the subsequent burst in global liquidity has been good news for the outlook.
- And although lots could still go wrong, it looks – touch wood – as though we’re through the worst. Yet headwinds remain very strong, in part as **the globe struck a Faustian bargain**, buying a milder-than-otherwise recession at the cost of a milder-than-otherwise recovery. Long term interest rates are already rising and short term interest rates will eventually need to lift sharply from today’s emergency lows to keep inflation in check.

Australia is better off than most

- There are key reasons to be optimistic, including:
- the good health of **our banks**,
- the big stomp on the accelerator from Australian policymakers (**large and fast stimulus packages and big cuts to interest rates**),
- **the sharp fall in the \$A** in the second half of 2008,
- **our rapid population growth**,
- **the lack of vacancies in housing markets and the large pipeline of engineering and commercial construction yet to be done.**

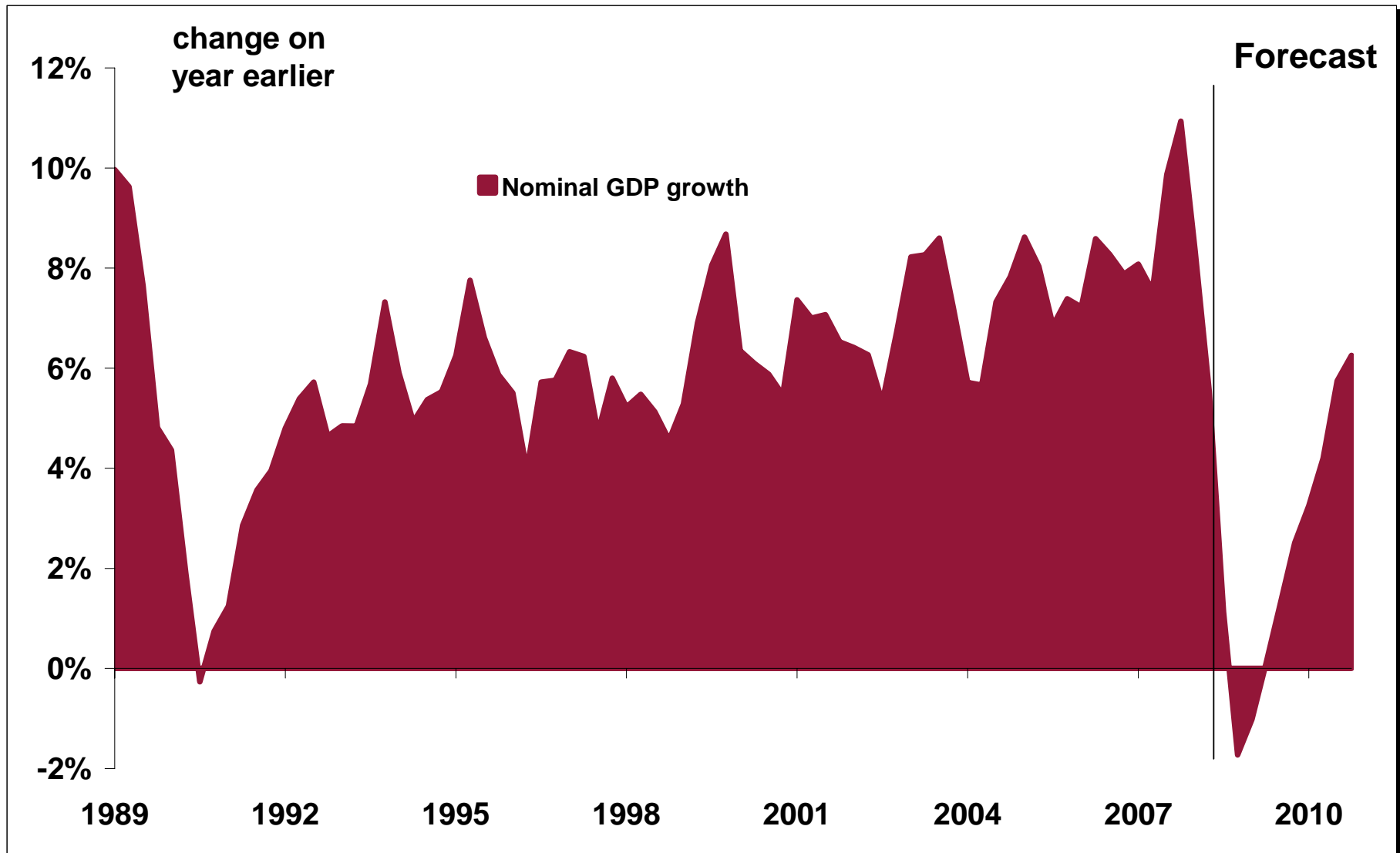
Thanks Mr Rudd – stimulus cheques take a trip



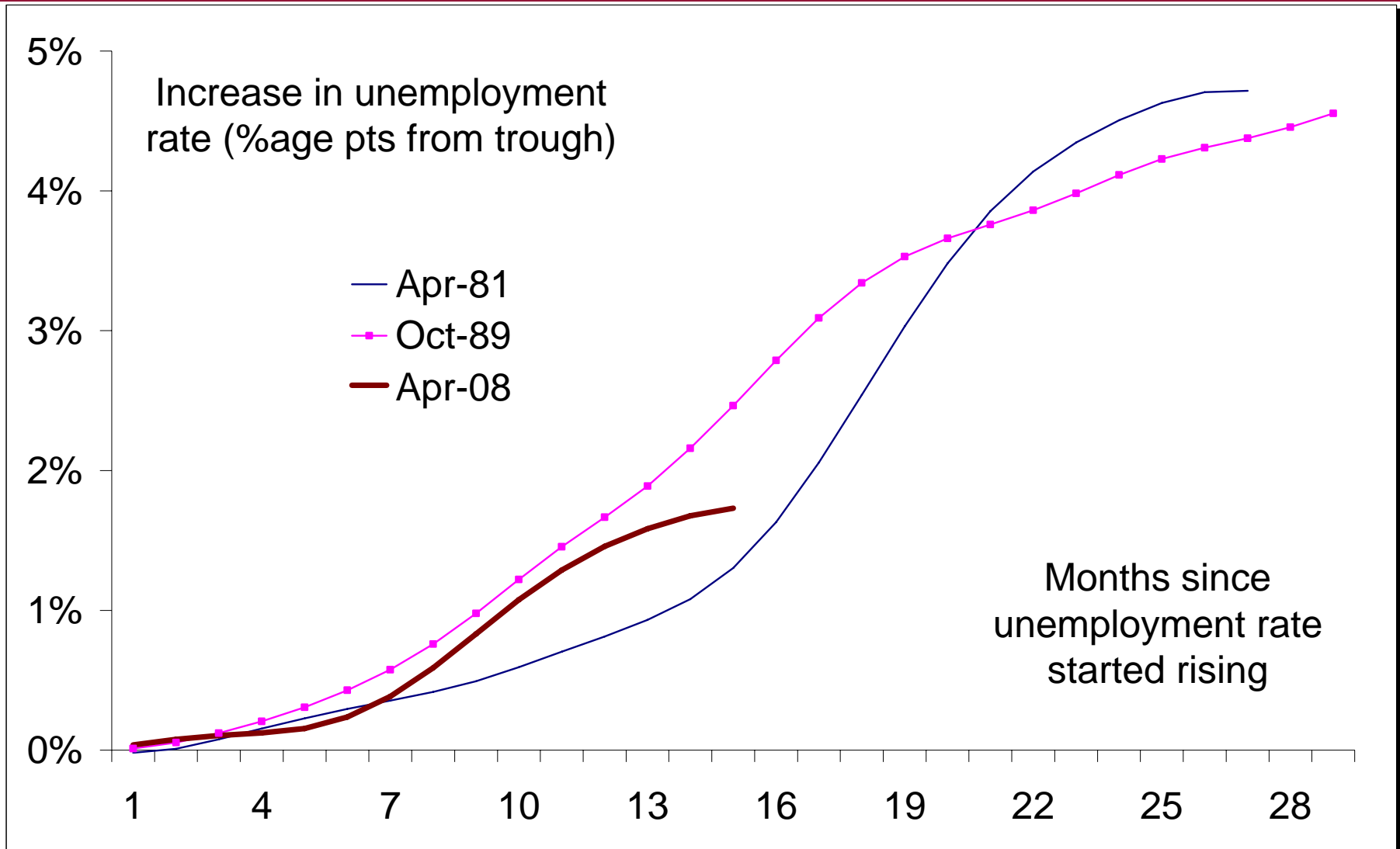
But the GFC means big trouble nonetheless

- **Australia had a bigger boom and a bigger bubble than much of the world:** the lift in profits here was rather bigger as a share of our economy than elsewhere.
- And industrial commodity prices have tanked: some \$50 billion a year is being stripped from national income.
- On balance, we face a 'small' recession relative to our peers, but it is still hurting lots.

Australian incomes are falling ...



Nasty ... but it could well have been worse



Global tourism and the GFC

- Australia is escaping the worst of this recession, but the world isn't. It is no wonder travel was in the doldrums well before swine flu added yet another reason for travellers to stay at home. **Tourism sells luxuries rather more than necessities**, and so suffered notably as fears and uncertainty rose in late 2008 and early 2009.
- **Global travel shrunk by 7% in the opening months of 2009**, with the likes of the US, UK, Europe and Singapore sending fewer holidaymakers to the rest of the world, while domestic spending on recreation by families and by businesses eased back.

Global tourism and the GFC – 2

- Yet the most dangerous days of the current crisis are past. 2009 will be a rotten year for tourism globally, but 2010 will see recovery. **As crisis-related fears recede**, that recovery will become increasingly evident. That said, both Australians and tourists visiting here will be looking to save more out of their incomes in coming years, providing a headwind.
- **Moreover, short term forecasting is becoming ever more fraught** for the sector as lead times in bookings for flights and accommodation are now just a fraction of where they were even a handful of years ago.

Australian tourism

- However, whereas Australia dodged the worst of the global downturn, **our tourism sector remains among the most heavily affected industries.** The rebound in the \$A and oil prices (and hence long haul travel costs) through 2009 is sending travellers to other destinations, while that same rebound in the \$A means outbound traveller numbers from Australia are holding up.
- That has left the local sector carrying a big burden for now. As is true globally, 2010 will bring recovery, but much depends on the path of the \$A from here.

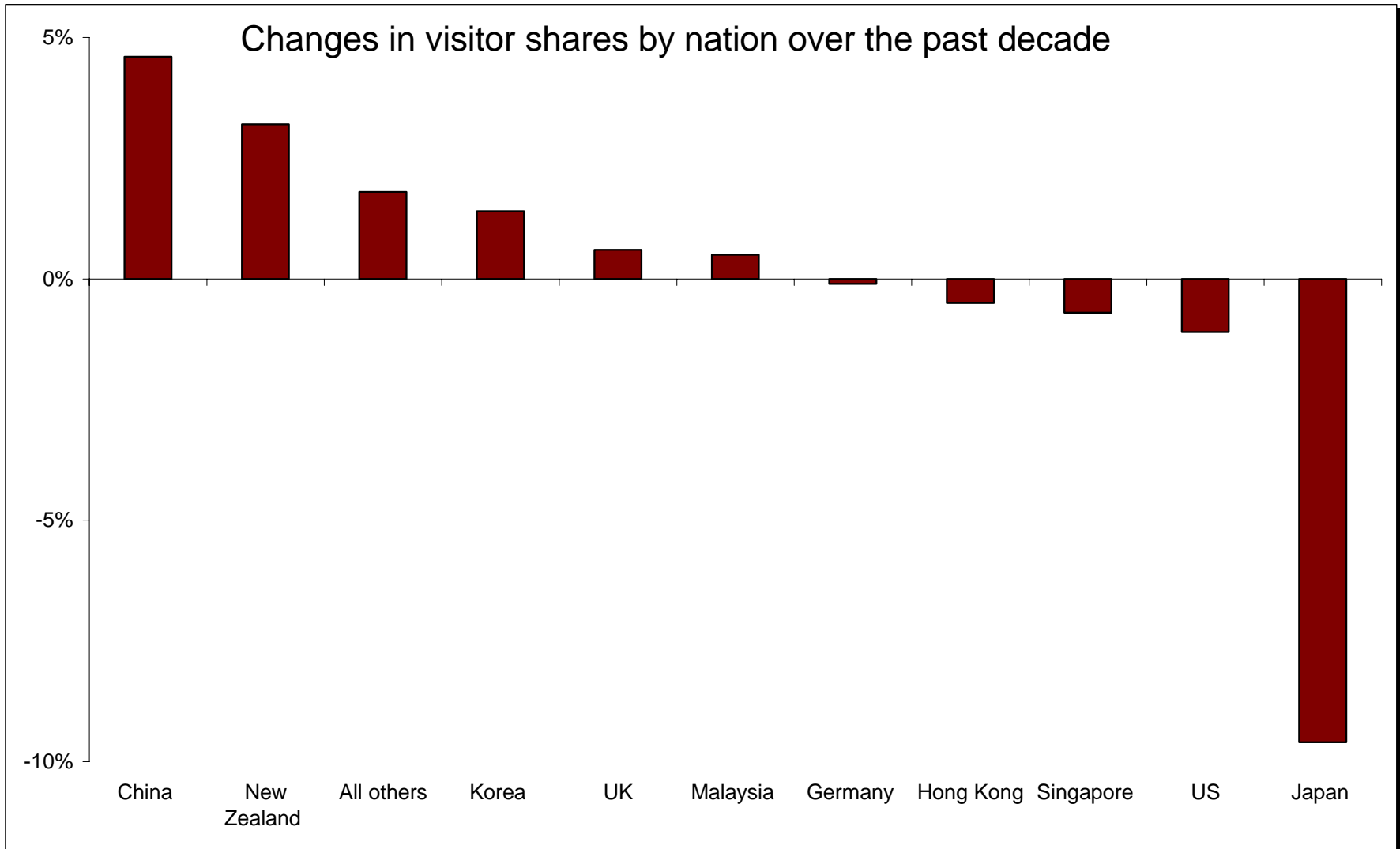
The Jackson Report

- Australia's share of global tourism fell 14% between 1995 and 2008. Tourism peaked as a share of our national GDP in 2001 and has contracted since then.
- Between 1981 and 2000, international arrivals increased at 9.1% a year. Since the Olympic boom the growth rate of international arrivals to Australia has been 1.6%.
- More of tomorrow's tourists will be over 60.
- Australia's domestic tourism performance has flat-lined over the past ten years, while outbound travel has soared. A generation of young Australians is growing up without a tradition of an annual local holiday.

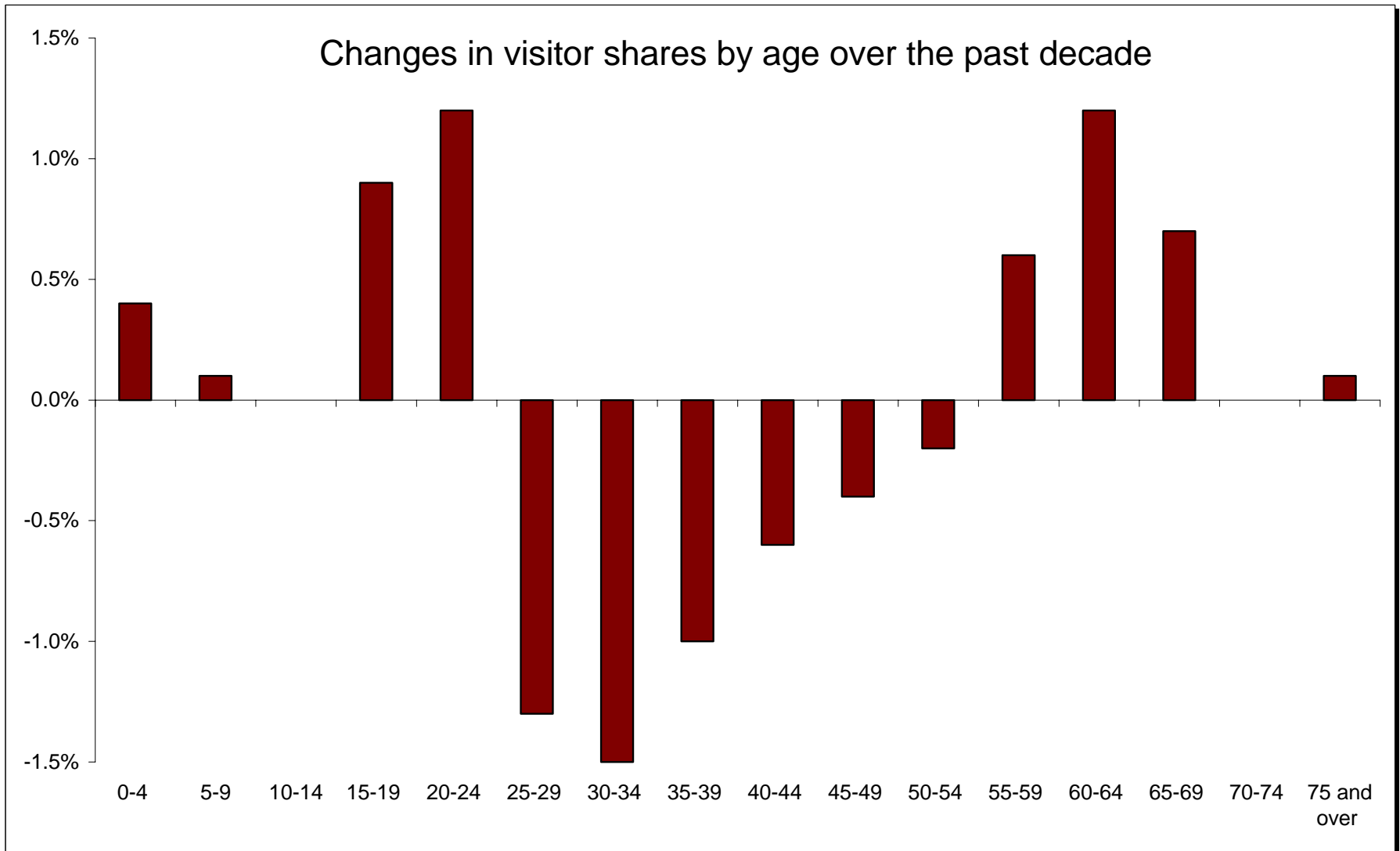
The recession bites – but it is the lost decade which hurts



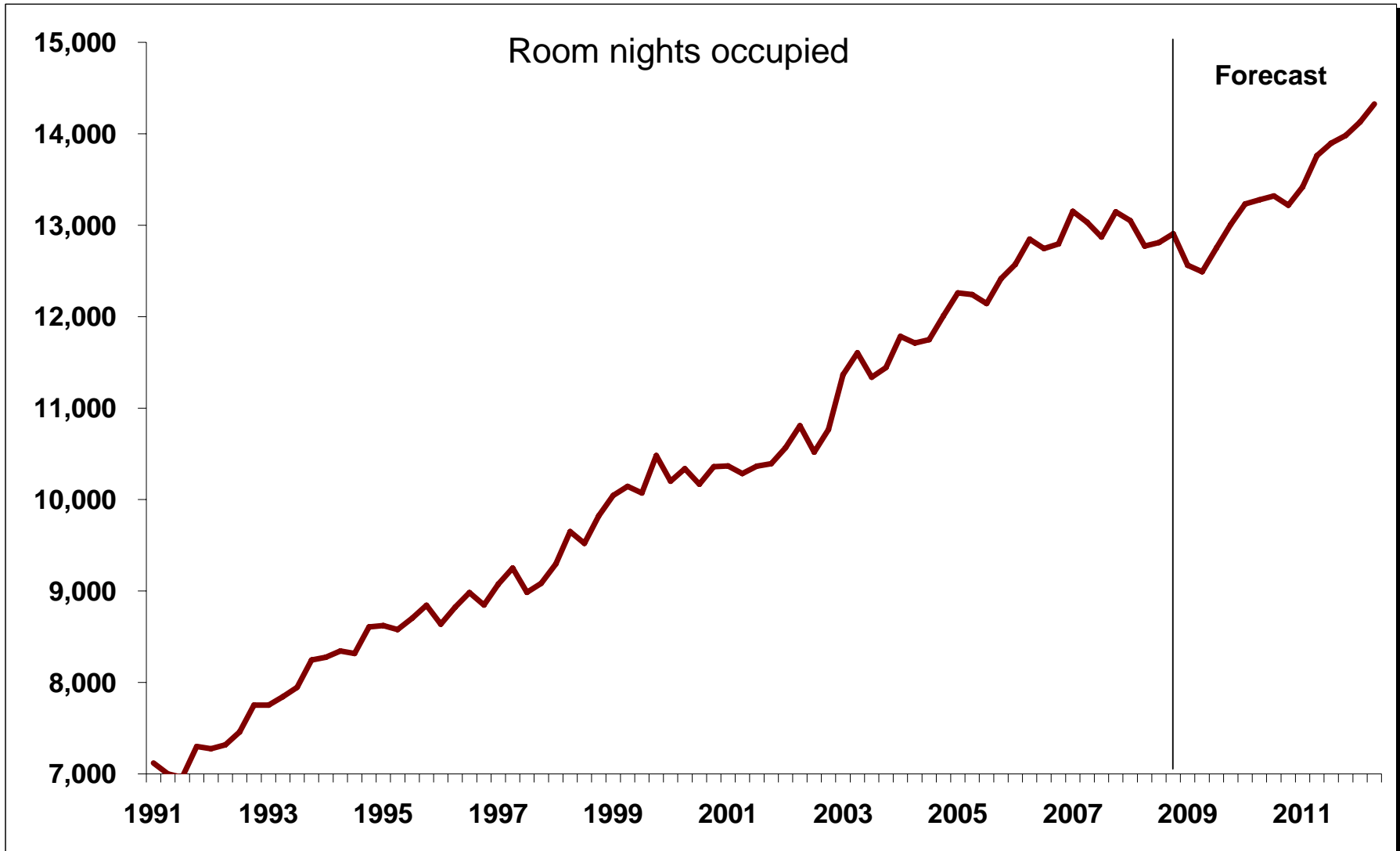
China up, Japan down



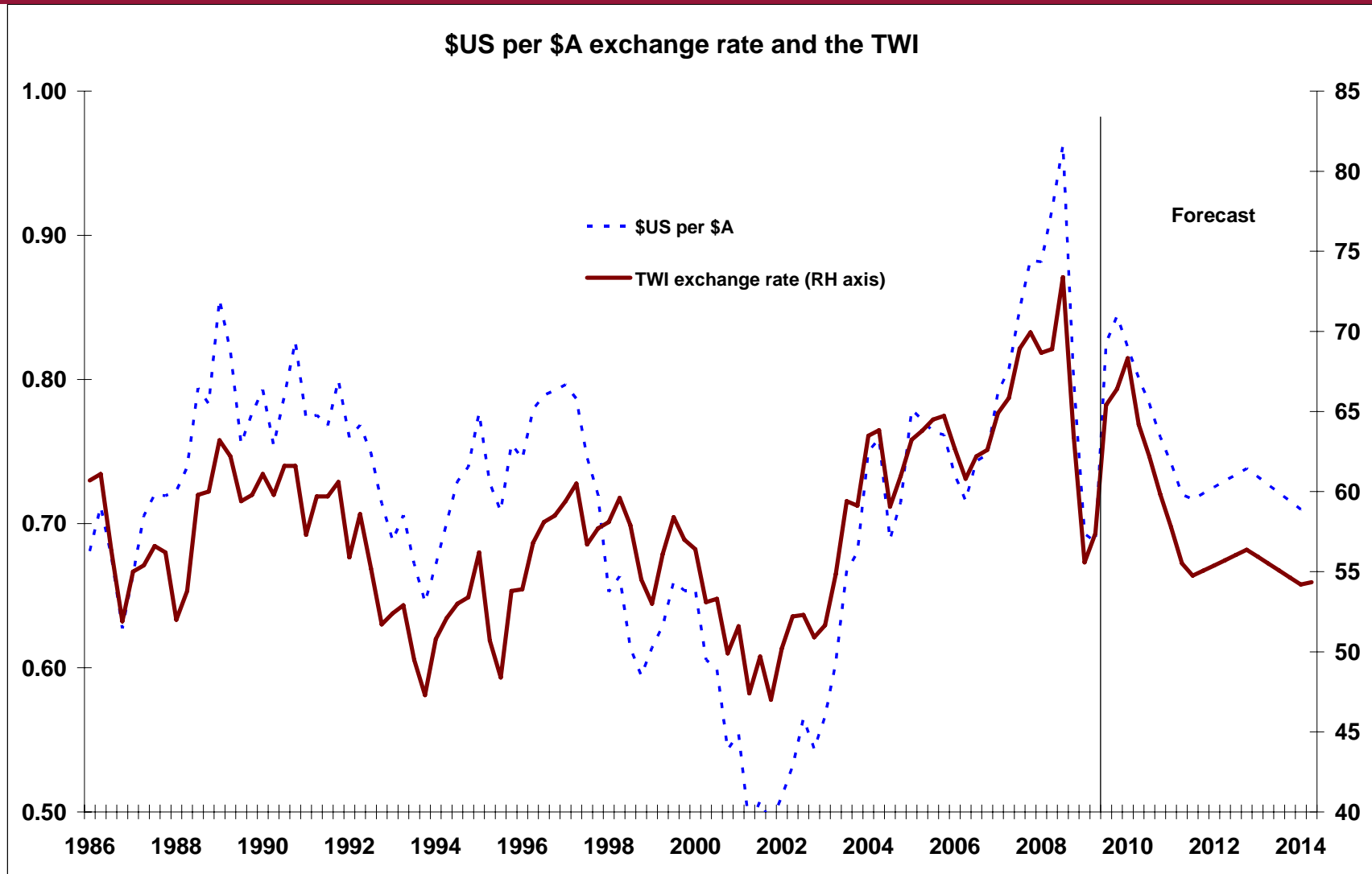
It's on for young and old – but not for workers



Yet better news ahead – if you can handle the (still rotten) rest of 2009



And if the \$A follows the script ...



Don't forget the long term positives

There are short term negatives, as well as a bunch of short term risks.

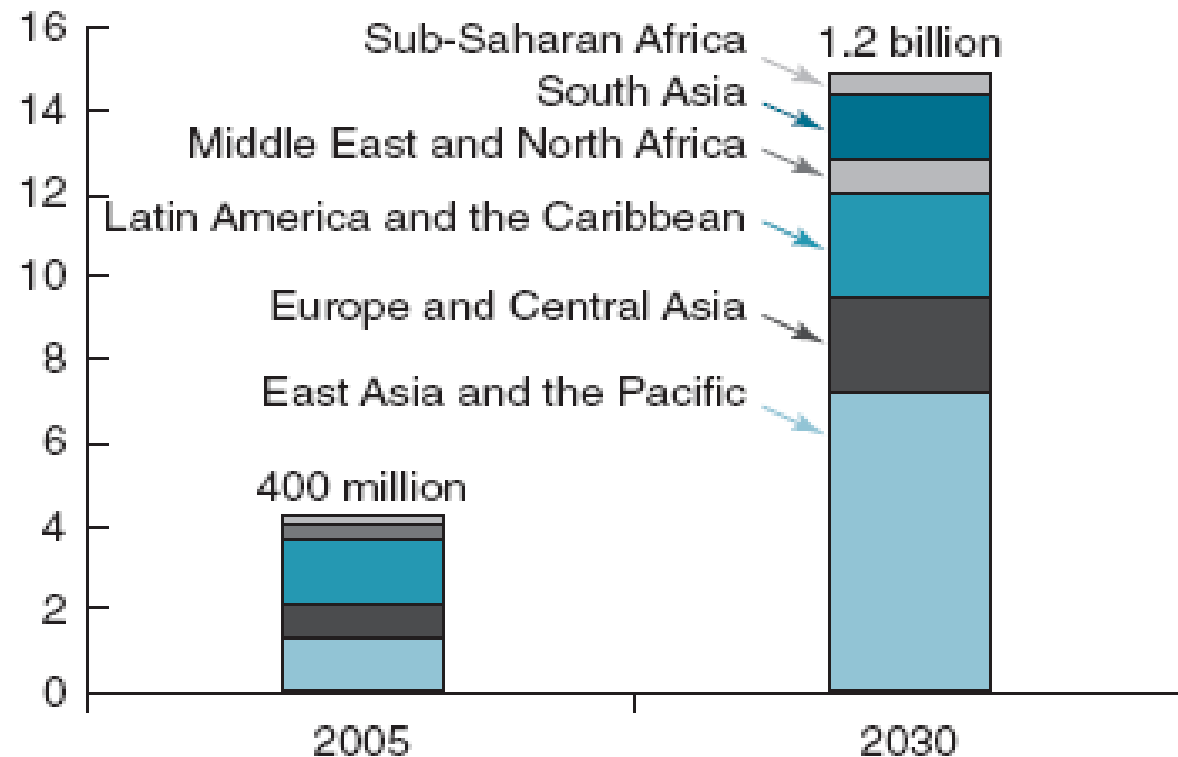
Yet, then again, there always are. It is worth remembering the positives:

- Incomes will go back to climbing fast in half the world.
- And tourism is a 'luxury good', meaning demand for what you do will grow faster than most other markets ...

As the global middle class will expand fast

Population in low- and middle-income countries earning \$4,000–\$17,000 per capita (PPP)

Percent



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