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"The Northern Professionals"

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TRENDS IN TOURISM IN TROPICAL NORTH QUEENSLAND

Note 3 : Economic Influences

1. Introduction

This note looks at trends in tourism in the TNQ region over time and more recently and economic factors of:

a) Influence of exchange rates
b) Influence of economic conditions in source markets
c) Influence of local prices.

2. Significant Findings

- While the high Australian dollar period played havoc with TNQ's tourism especially in the sensitive Japanese market, the stimulus of the subsequent falls in the dollar is over. The Australian dollar is likely to remain relatively competitive and positive to continuing growth in domestic and international tourism.
- Europe visitation into Australia has been growing but TNQ not sharing in it. It seems likely to moderate because of economic factors and Brexit turmoil.
- US outbound tourism has been recovering strongly and with the US economy buoyant, this seems likely to continue but TNQ has not been sharing in it.
- After rising strongly to peak about 2000, outbound tourism from Japan plateaued, but from a low about 2016, has been on a rise. That rise is reflected in Australian figures but weaker in TNQ.
- China's outbound tourism, after a very rapid rise, has slowed dramatically down to about 4%. This slowing is not reflected in Australian figures but TNQ figures have plateaued over the past two years.
- Domestic tourism benefitted from a sharp rise in wages during the mining investment boom well above productivity increases but they have plateaued since about 2013. Households in Sydney and Melbourne were buoyed by a "wealth" effect of the property price bubble. Rising living costs with no real wage increases and retreat of the "wealth" effect is a negative for domestic tourism growth.
- TNQ is a relatively expensive destination and some markets (especially Japan) have in the past proved highly sensitive to price rises (including due to high exchange rates). Rises in room rates and local tour prices in recent years are a negative but not being compounded by a rising dollar.

3. Exchange Rates

Tourism in TNQ has proved to be very sensitive to the Australian dollar exchange rate in attracting international visitors and in competing with overseas destinations for domestic visitors.

Chart #1 gives the Australian Dollar Trade Weighted Index.

The trouble started before the 2008 Global Financial Crisis with the sharp rise in the Australian dollar under the dual influences of rising mineral and other commodity prices and the reaction of the Reserve Bank in raising interest rates. The impact (especially on Japanese tourism to the region), contributed to the large withdrawal of seat capacity from Japan in early 2008.

The high Australian dollar that re-emerged quickly after the initial shock of the GFC was again pumped up by high commodity prices and higher interest rates compared to the rest of the world.

Loss of visitor numbers and tourism income was about 25% at the height of the impacts about 2011-12.

Chart #2 gives chart of commodity prices and Chart #3 official interest rates.

As mineral supply caught up with demand from about 2013, commodity prices fell back and the Reserve Bank cut interest rates to levels more in line with overseas rates. The Australian dollar fell back to more competitive levels of US80 down to 70 cents.

This was a major factor in the upswing of tourism in the region from about 2014 to 2017.

More recently, commodity prices have improved but the RBA has kept interest rates down and as the US economy has recovered and US interest rates risen, Australia's interest rates are no longer comparatively high and this has helped keep the Australian dollar down and competitive.

However, it can be argued that with the Australian dollar not falling further, the plateauing of visitor numbers starting in 2017 but clearly evident in 2018 was to be expected.

Chart #1: Australian Dollar Trade Weighted Index

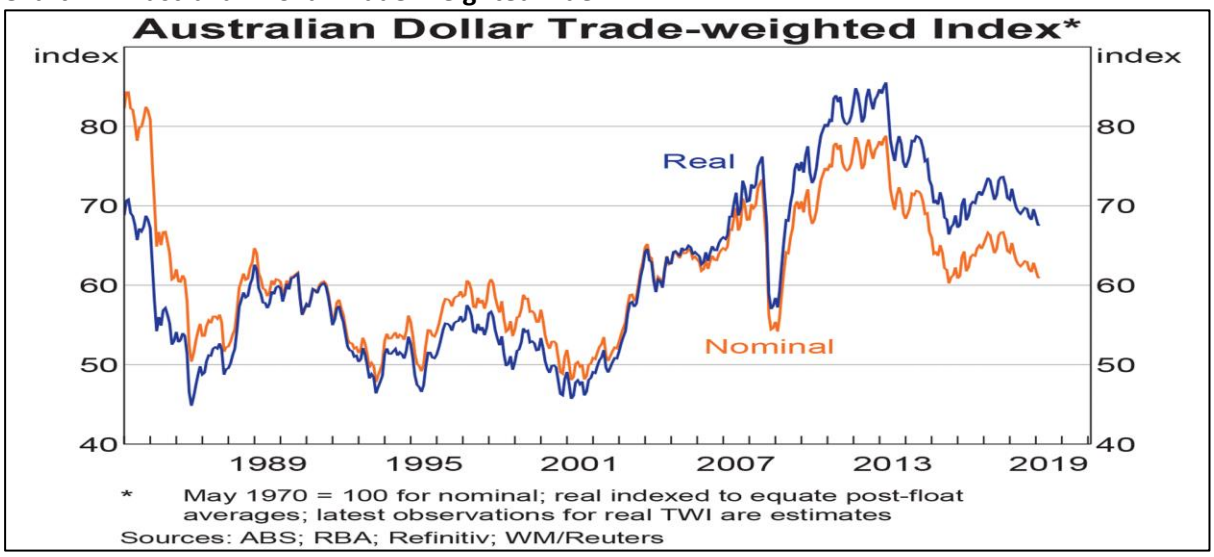


Chart #2: Commodity Prices

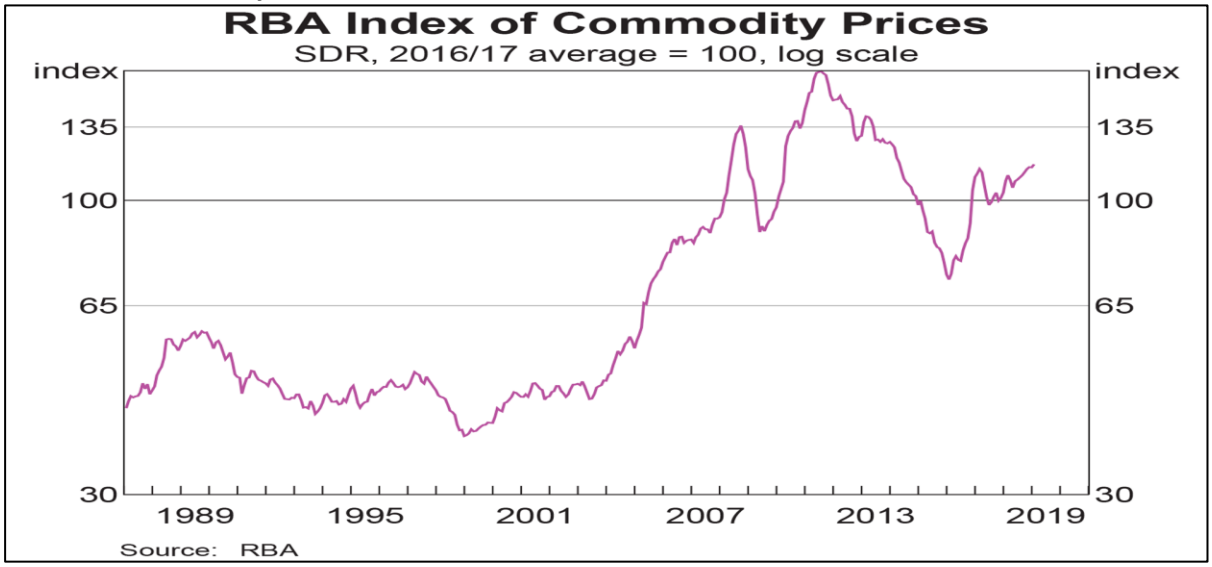
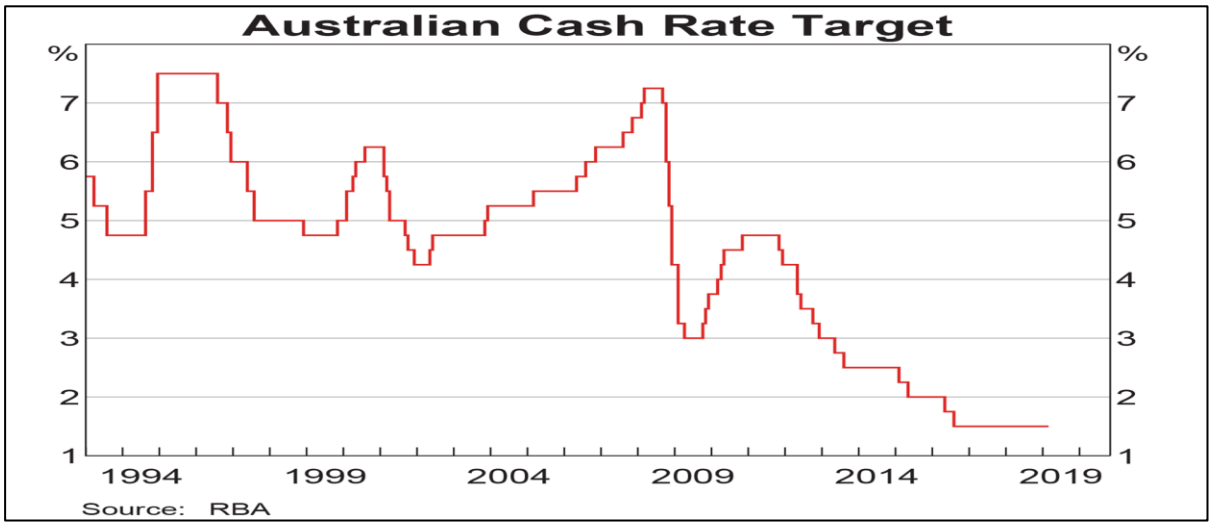


Chart #3: Official Interest Rates



4. Economic Conditions in International Markets

Table #4 gives change in international visitors into Australia, Queensland and TNQ from major source areas of Japan, China, US/Canada and UK/Europe. Charts #5, 6. 7 & 8 illustrate.

Table #4: International Visitors Source Markets – Australia, Queensland, TNQ

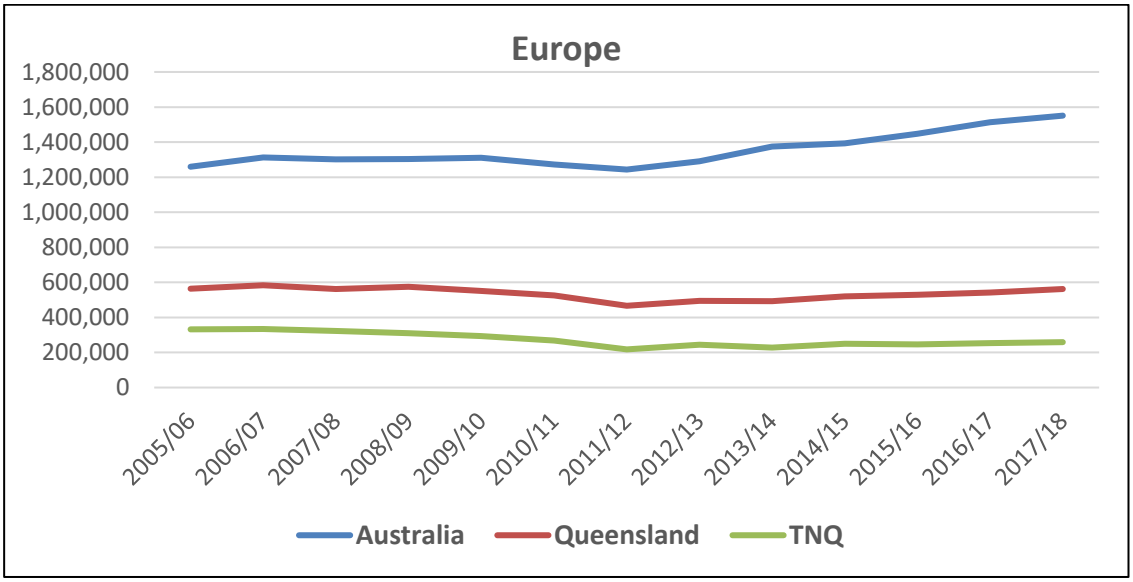
Australia	Japan	China	China/Japan	USA/Canada	Europe
2005/06	619796	277151	896,947	522,054	1,260,054
2006/07	560311	320112	880,423	533,221	1,312,062
2007/08	477150	351630	828,781	543,746	1,300,619
2008/09	367273	331848	699,122	541,822	1,304,183
2009/10	333764	367032	700,796	577,224	1,310,789
2010/11	328425	467087	795,512	544,578	1,272,217
2011/12	311106	544283	855,390	549,826	1,243,389
2012/13	305132	641035	946,167	576,244	1,290,483
2013/14	297954	710180	1,008,133	627,593	1,374,236
2014/15	297211	864215	1,161,426	678,219	1,392,816
2015/16	347178	1059685	1,406,863	753,640	1,446,953
2016/17	391163	1160588	1,551,751	858,685	1,513,301
2017/18	408072	1312226	1,720,298	904,979	1,550,808
Queensland	**Japan**	**China**	**China/Japan**	**USA/Canada**	**Europe**
2005/06	416362	125134	541,497	211,334	563,612
2006/07	368458	152674	521,132	227,903	583,367
2007/08	310231	165567	475,798	224,110	561,305
2008/09	233823	144507	378,330	209,525	574,946
2009/10	206185	154093	360,279	203,771	550,278
2010/11	187443	193762	381,205	201,282	525,499
2011/12	162835	234286	397,122	198,596	466,369
2012/13	164999	288984	453,983	209,934	494,621
2013/14	156882	302661	459,543	210,457	493,038
2014/15	153578	358740	512,318	235,707	520,392
2015/16	186051	468238	654,289	267,181	528,821
2016/17	203103	470640	673,743	288,303	542,342
2017/18	204269	514414	718,683	291,832	562,741
TNQ	**Japan**	**China**	**China/Japan**	**USA/Canada**	**Europe**
2005/06	241838	39529	281,367	121,096	332,384
2006/07	210930	43533	254,464	131,032	333,960
2007/08	185431	53783	239,215	123,817	322,692
2008/09	122599	35763	158,362	112,221	310,217
2009/10	94495	53932	148,427	101,207	294,443
2010/11	94468	72600	167,069	98,746	267,300
2011/12	86096	92274	178,370	99,587	217,640
2012/13	94387	133937	228,324	103,502	244,674
2013/14	85684	142218	227,902	105,330	228,525
2014/15	88437	165103	253,540	117,810	250,489
2015/16	103884	216726	320,610	132,023	245,927
2016/17	109725	214082	323,807	136,847	252,724
2017/18	109478	205240	314,718	128,683	259,780

Source: Cummings Economics from Tourism Research Australia – IVS.

Europe

Growth into Australia dipped following the GFC and high Australian dollar period. Current conditions including Brexit could see some moderation of growth over the next few years. However, TNQ has lost market share and in total is still not back to pre GFC levels (see Chart #5).

Chart #5: European Visitors to Australia, Queensland & TNQ

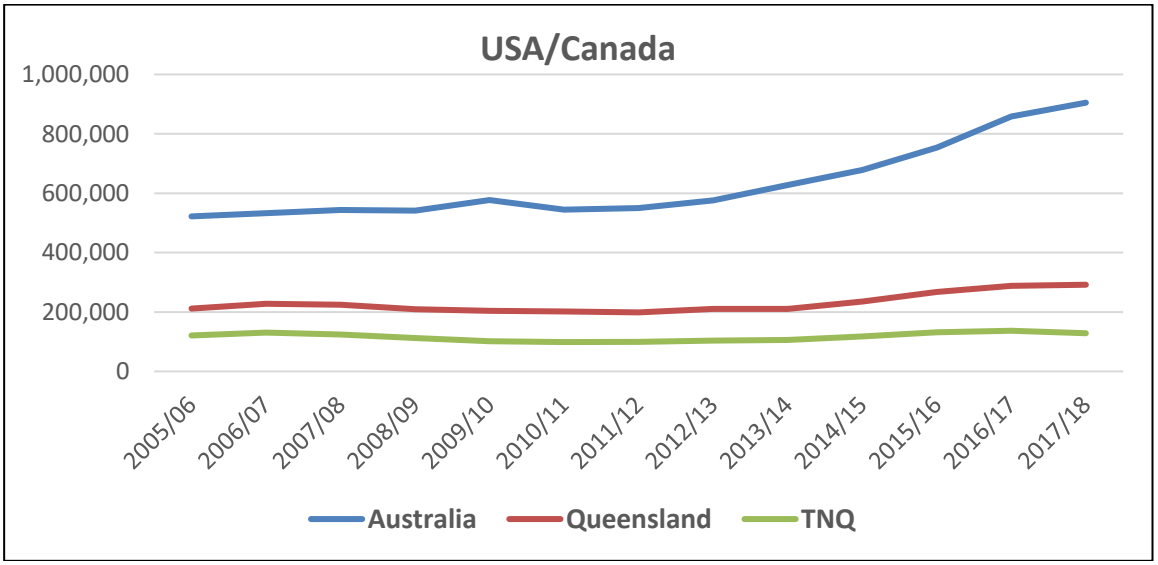


Source: Cummings Economics from Tourism Research Australia – IVS.

US/Canada

Outbound traffic from USA was heavily affected by the GFC but has been climbing steadily in recent years. Chart #6 indicates that the high dollar period affected numbers into Australia but since then, has climbed steeply. Queensland and TNQ have not shared in that growth and indeed, TNQ has gone backwards recently to be hardly above 2005-06 levels.

Chart #6: Visitors from US/Canada to Australia, Queensland & TNQ

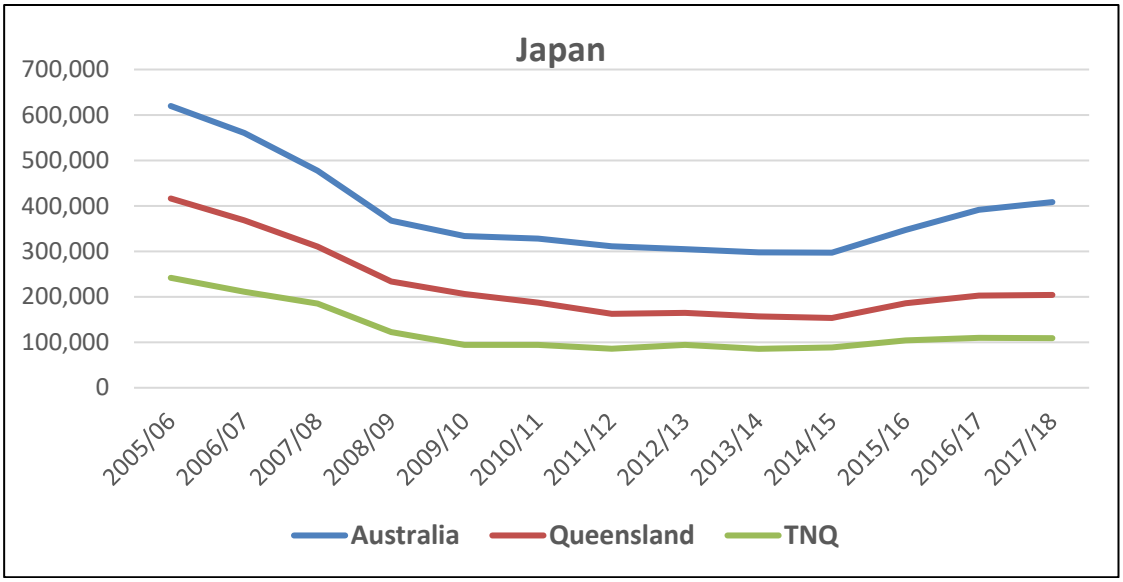


Source: Cummings Economics from Tourism Research Australia – IVS.

Japan

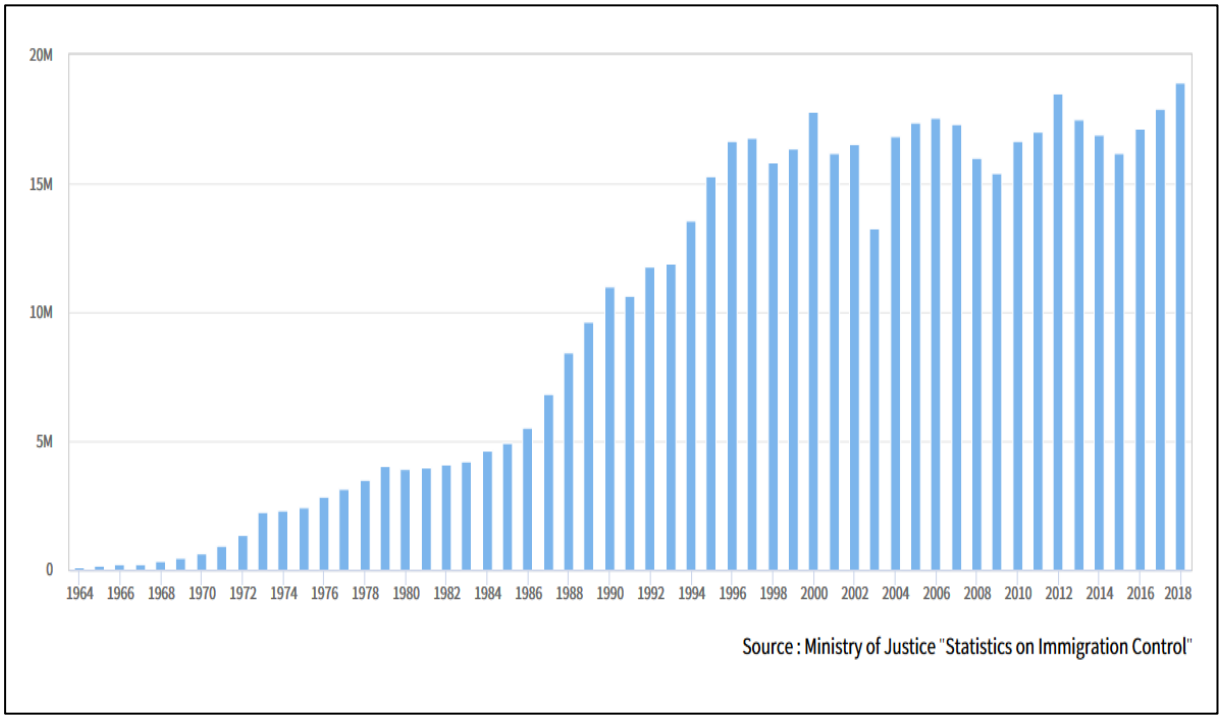
The rising dollar in the mid-2000s, loss of air services and GFC and the very high Australian dollar led to a major collapse of Japanese visitation into Australia with the collapse into TNQ being the major contributing factor (see Chart #7). Chart #8 indicates that this coincided with a major slowing in growth of outbound tourism from Japan. However, this has recently turned around and with the Australian dollar lower, Chart #7 indicates Australia is benefitting. Although Queensland and TNQ are up, it is by less and is not being sustained.

Chart #7: Visitors from US/Canada to Australia, Queensland & TNQ



Source: Cummings Economics from Tourism Research Australia – IVS.

Chart #8: Outbound Travel, Japan



China

The following Table #9 shows outbound tourism numbers from China.

Table #9: China Outbound Tourism, Year-on-Year Growth

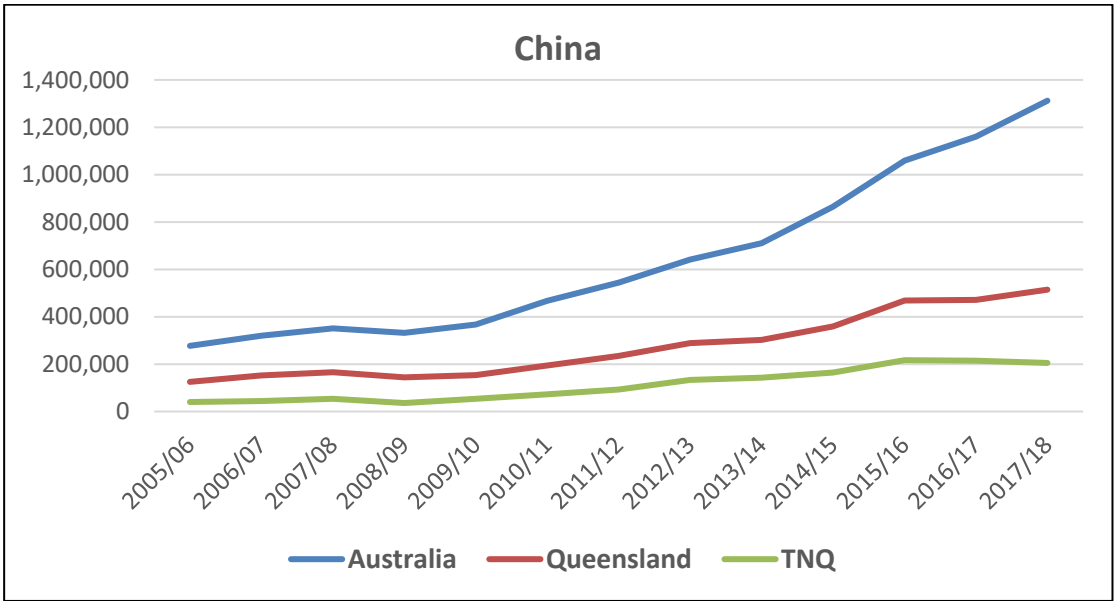
2009		
2010	20.4%	
2011	22.4%	
2012	18.4%	
2013	18.0%	
2014	19.1%	
2015	9.0%	
2016	4.3%	
2017	7.0%	
2018	4.5%	(predicted

Source: Travel China Guide.

The table indicates the very strong growth slowing strongly in more recent years. Chart #10 indicates that Australia has shared in this growth including maintaining strong growth in more recent years. In Queensland, the slowing has been more pronounced in recent years.

Clearly this slowing has been due to TNQ that has actually seen a fall in recent years. It seems highly likely that economic conditions in China will see a continuation and possibly a further reduction in outbound travel from China.

Chart #10: Visitors from China to Australia, Queensland & TNQ



Source: Cummings Economics from Tourism Research Australia – IVS.

5. Economic Conditions - Domestic Markets

Prior to the Global Financial Crisis, households were spending freely as indicated by a low savings rate (see Chart #11).

The Global Financial Crisis led to a contraction of spending and rise in the savings rate. This is reflected (see Note 2 – Aviation Chart #6) in a dip in domestic passenger numbers 2008-09 to 2010-11.

However, with the mining investment boom underway and government post GFC continuing to "pump prime" the economy, the savings rate plateaued and from 2013 fell.

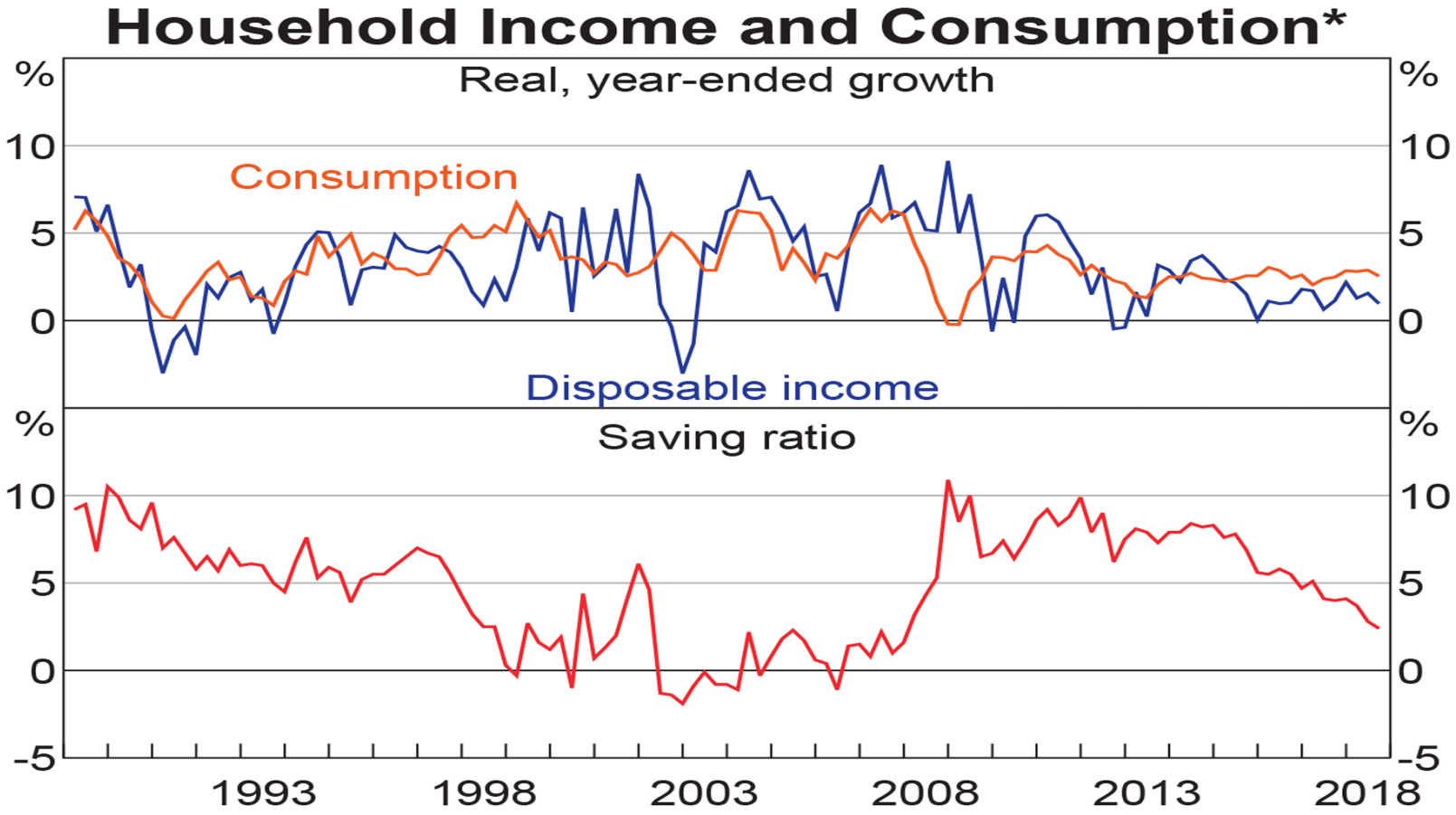
Part of the reason was the impact of the mining investment boom in abnormally rising wages above productivity increases (see Chart #12). This household income situation along with reduced interest rates after 2013 helped fuel the property price bubbles in Sydney and Melbourne that caused a "wealth" effect on household attitudes to spending, driving the savings rate lower.

However, the sharp rises in wages above productivity was unsustainable and wages have plateaued. The retreat of the property bubble in Sydney and Melbourne has reduced the "wealth" effect and inflation of costs, electricity and a large overhang of household debt has meant that the low savings rate is now more reflective of a squeeze on household disposable income, than a tendency to exuberant spending.

This situation seems likely to continue until productivity increases justify higher wages.

This situation is consistent with the lacklustre underlying growth situation exhibited in the domestic passenger numbers to Cairns Analysis in Note 2 even when the seat capacity factor is taken into account.

Chart #11: Household Income & Consumption



* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA

Chart #12: Real Wages & Labour Productivity during the Mining Investment Boom

6. Local Prices

Experience with the Japanese market in the mid-1990s and mid-2000s indicates it is very price sensitive. Rises in room rates during the 1990s combined with a rising dollar led to a sharp check to Japanese visitor numbers before the 1997 Asian Financial Crisis. The same thing happened in the mid-2000s before the GFC.

Room rates have been rising in recent years. Fortunately, it is not being accompanied by a rise in the Australian dollar. However, TNQ is not a cheap destination to start with and price rises will be having some depressing effect.