

TOURISM FORECASTING COMMITTEE

Minutes

Meeting #16

Monday 19th September 2011
Tourism Australia
Darling Park Tower 2
Level 18, 201 Sussex Street, Sydney

Present:

Mr Bernard Salt (Chair)	Partner, KPMG
Dr Tony Webber	Managing Director, Webber Quantitative Consulting
Ms Jane Madden	Head of Division, Department of Resources Energy and Tourism (by videoconference)
Ms Nell Anderson	General Manager, Strategy, Tourism Australia
Mr Andrew McEvoy (from 10.30am)	Managing Director, Tourism Australia
Ms Adele Labine-Romain (for John Lee)	National Manager, Research and Projects, Tourism & Transport Forum
Mr Gary O'Riordan (for Felicia Mariani)	Deputy Managing Director, Australian Tourism Export Council
Ms Derryn Belford (for Stephanie Buckland)	Director, Strategy and Policy, Tourism WA (by teleconference)
Mr Geoff Bailey	A/g General Manager, Tourism Research Australia (TRA) (and representing the A/g Chair, Tourism Forecasting Committee Technical Committee, Tim Quinn)

Invited guests

Mr Alexander Beams	Macroeconomic Group, Commonwealth Treasury
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Secretariat

Mr Justin Marshall	Manager, Forecast and Modelling Section, TRA
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Apologies:

Mr Daniel Gschwind	CEO, Queensland Tourism Industry Council
Mr Ivan Colhoun	Head of Australian Economics and Property Research, ANZ Bank
Ms Stephanie Buckland	CEO, Tourism WA
Ms Felicia Mariani	Managing Director, Australian Tourism Export Council
Mr John Lee	CEO, Tourism & Transport Forum
Mr Tim Quinn	A/g General Manager, Tourism Research Australia

Opening of Meeting

The Chair opened the meeting at 09:10 A.M.

1. Welcome and apologies

The Chair welcomed TFC members, and noted the apologies for the meeting.

2. Adoption of agenda

The Chair noted the agenda which was accepted without change by the Committee.

3. Approval of minutes from the April 2011 meeting

The minutes of the previous meeting were approved without change.

Mr Marshall noted that Mr Burt (from Mirvac) was invited to present at this meeting (as per actions from previous meeting) but could not attend due to a prior commitment. However, Mr Burt indicated that he is keen to attend the next Tourism Forecasting Committee meeting, and to talk on the challenges to hotel investment and implications for tourism demand,

ACTION ITEMS

The Committee requested the TRA Forecast and Modelling Section to invite Mr Steven Burt to present to the next TFC meeting on challenges to hotel investment and implications for tourism demand.

4. Overview – Tourism Forecast Issue 2 2011

The discussions started with the Chairman inviting Mr Marshall to provide an overview of the tourism forecasts. Mr Marshall briefly referred to the inputs that had been updated to produce the forecasts and that the forecasts had been endorsed by the TFC Technical Committee on 25 August 2011. Then Mr Marshall broadly noted:

- The pace of growth in the global economy has slowed considerably in recent months, on the back of renewed concerns over levels of public debt (and possible defaults) in Europe, while the economic recovery appears to have stalled in the United States.
- Underpinned by strength in the resources sector, Australian economic growth remains relatively strong compared with other leading developed economies.
- A number of Australia's industry sectors (including tourism) are being impacted by the continued global economic uncertainty, continued high exchange rate and high levels of saving by Australian households.
- Solid growth in international aviation capacity to Australia looks set to occur again in 2011 and in 2012.
- The 2011 forecasts for most key tourism measures have been revised downward since the forecast issue earlier in the year
 - Total tourism consumption is now forecast to decline by 0.8% (in real terms) to \$96 billion (previously forecast to grow 0.4%);
 - Domestic visitor nights is now forecast to fall by 0.9% to 257 million (previously was for a decline of 0.3%);
 - Resident outbound departures is now forecast to increase strongly by 9.2% to 7.8 million (previously forecast growth was 10.1%); and
 - International visitor arrivals is now forecast to increase 0.4% to 5.9 million (previously forecast was for growth of 3.1%).

ACTION ITEMS

Nil

5. Input from TFC Technical Committee

The Chair invited TRA representatives to introduce this item. Mr Marshall advised the Committee that the Technical Committee had met on 25 August 2011 and had endorsed the draft tourism forecasts subject to some revisions. Mr Marshall noted that the key revisions applied to the forecasts were:

- A moderating of the forecast growth in international visitor arrivals to Australia in 2011 (from 1.9% to 0.4%), 2012 (from 4.5% to 4.1%) and 2013 (4.8% to 4.6%) with particular focus on softening the forecasts for European and North American markets.
- A cautious strengthening in the forecast growth profile for inbound visitor arrivals for China (from 2012) and Indonesia.

Mr Marshall also indicated that the Technical Committee had requested TRA to investigate the potential impacts of the Rugby World Cup on inbound and outbound Trans-Tasman travel and re-examine the forecast growth in domestic visitor nights and overnight trips for 2011. Mr Marshall noted these matters had been followed up, with only a minor upward increase in capacity anticipated on the Australian-New Zealand route over the September-October period (and subject to the relative performance of Australia and New Zealand teams in the event). No change was deemed necessary to the forecasts as a result of the analysis undertaken.

ACTION ITEMS

Nil

6. Drivers of tourism forecasts

The Chair invited Mr Marshall to introduce the underlying drivers of the proposed TFC forecasts. In relation to the world picture Mr Marshall noted:

- Assumptions for economic growth have moderated since the May 2011 forecast round;
- Unevenness in world economic performance continues with growth in Asian economies remaining much stronger than for European and North American economies;
- The short-term outlook for United States and European economies has deteriorated in recent times with renewed concern over levels of public debt and stubbornly high unemployment;
- Global inflation, particularly in the faster growing Asian economies (excluding Japan) is increasing but now at a faster rate than previously anticipated; and
- Prices for commodities – including oil – remain above the long term average although they have fallen marginally from its highs of earlier in the year, on the back of the weaker global economic outlook.

The Committee agreed that these were important drivers of the tourism forecasts and noted the challenge they pose to tourism performance.

Turning to the domestic economy, Mr Marshall noted the following:

- Australia's economic prospects remain solid compared with those of many developed economies;
- The commodities boom and trade links to Asia are continuing to provide a sustained boost to our terms of trade;

- Economic performance is relatively uneven with the resources sector growing very strongly but others struggling;
- Consumer sentiment and business confidence have moderated and employment growth has flattened;
- Households are preferring to save more and spend less on discretionary items such as domestic travel; and
- The value of the Australian dollar continues at near post December 1983 highs against the US dollar and other currencies of many of Australia's major tourism partners.

The Committee agreed that these were currently significant features of the domestic economy and acknowledged that combined these factors are providing a difficult business environment for local tourism operators.

There was also discussion of the direct aviation forecasts that are an input to the forecasts. Mr Marshall noted that as a result of stronger growth than previously anticipated for the China and Indonesia routes, growth in international air capacity to Australia had been revised upward from 5.0% to 7.7% in 2011. On the other hand, Mr Marshall noted a downgrading in growth for domestic aviation capacity (from 4.7% to 3.8%) in response to soft leisure demand, high fuel prices and recent disruptions to domestic services caused by the grounding of Tiger Airlines.

The Committee accepted that the revisions to growth in aviation capacity for 2011 were reasonable but noted that the outlook for 2012 onwards was difficult to gauge particularly for long haul routes such as the United States. Dr Webber pointed to the cyclical nature of growth in international aviation capacity noting that periods of strong growth (like that experienced in 2010 and 2011) typically falter after two or three years. Furthermore, Dr Webber noted that high fuel prices might be expected to put pressure on aviation growth in the near term if they persist. On the other hand, the Committee noted that demand for seats from Australians travelling overseas and continued expansion into China and Indonesia could sustain stronger growth than would otherwise be the case.

ACTION ITEMS

Nil

7. Domestic and outbound tourism forecasts

Domestic tourism

Mr Marshall presented an overview of the forecasts for domestic visitation, noting that they had been downgraded marginally with nights now forecast to fall by 0.9% (rather than the 0.3% previously forecast) in 2011. Mr Marshall pointed to the high exchange rate, restrained consumer spending, recent deterioration in consumer sentiment and business confidence, moderation in labour market growth and the prolonged weakness in domestic tourism as factors contributing to this downward revision.

However, Mr Marshall also noted that following the flood and cyclone affected March quarter, there had been a strong June quarter for domestic tourism. As a result, Mr Marshall indicated that visitor nights were up marginally year to date (0.3%). The Committee discussed whether the strong June quarter might be sustained through the second half of the year or was more likely to reflect the timing of school holidays, Easter and Anzac Day and the carry over of some travel planned but not taken in the March quarter.

On balance, the Committee considered it more likely that current economic conditions, consumer sentiment and business confidence were likely to result in a weaker second half for domestic tourism. However, acknowledging the strong June quarter, the Committee requested that TRA approximately halve the previously expected July to December 2011 decline in domestic visitor nights (2.2%).

Outbound travel

In relation to the outbound forecasts, Mr Marshall indicated that growth had been moderated slightly (from 10.2% to 9.3%) for 2011. While the high exchange rate and growing aviation capacity continued to provide favourable conditions for overseas travel, Mr Marshall pointed to renewed global economic uncertainty and potential for consumer restraint to extend to this travel segment as factors in the revision. Ms Anderson noted that Overseas Arrivals and Departures data had indicated some softening in outbound travel which supported the modest downgrading.

Ms Labine-Romain suggested that the longer term growth profile for outbound departures could be understated noting the differential between outbound departures and inbound arrivals in recent years is not sustained over the forecast period. Ms Anderson agreed that longer term growth in outbound departures could be a little soft.

On balance, the Committee accepted the outbound forecasts as presented but did request TRA to undertake further investigation into the longer term outlook for outbound travel prior to the next forecast round.

ACTION ITEMS

The Committee requested the TRA Forecast and Modelling Section to:

- **Reduce the decline in domestic visitor nights proposed for 2011 by around half and apply similar adjustments to the overnight trip, nights in hotels, motels and guest houses and total domestic economic value forecasts as necessary.**
- **Undertake a closer investigation of the longer term outlook for outbound travel prior to the next forecast round.**

8. Inbound Tourism Forecasts

Mr Marshall reported the growth forecast for inbound arrivals had been downgraded from 3.1% to 0.4% for 2011 and from 5.2% to 4.1% in 2012 due to renewed concerns over the prospects for economic recovery in Europe and North America. Reflecting this, Mr Marshall noted that downward revisions had focused predominantly on arrivals from European and North American markets whereas forecasts for a majority of Asian markets remained similar to previously expected.

The Committee accepted the downward revision to growth in inbound arrivals for 2011. However, they questioned whether the adjustment factored in for 2012 was significant enough and the growth expected for 2013 (4.6%) remained too high given economic recovery in Europe and North America was likely to be protracted. Reinforcing this point, Mr O'Riordan noted that the near-term outlook for Europe and North America was particularly challenging with forward bookings soft.

Following some discussion the Committee concluded that the 2012 and 2013 forecasts were too optimistic and should be moderated. The Committee requested that TRA reduce growth in inbound arrivals to around 2.5% for 2012 and approximately 4.0% for 2013. European and

North American markets and selected Asian markets namely Japan and South Korea were identified as those requiring adjustment.

In light of these revisions, Mr McEvoy emphasised that the importance of Asia and particularly China in driving the forecast growth in inbound arrivals to 2020 should be highlighted in the report. Mr Marshall noted that this was a key theme in the draft commentary which would be retained and if possible strengthened in the final report.

ACTION ITEMS

The Committee requested the TRA Forecast and Modelling Section to:

- **Revise downward forecast growth in international arrivals to around 2.5% for 2012 and 4.0% for 2013. Focus the downgrading on European, North American and selected Asian (Japan and South Korea) markets.**
- **Apply similar adjustments to the leisure arrival, visitor night, nights in hotels, motels and guest houses and total inbound economic value forecasts as necessary.**

9. Tourism Forecasts Recommendation Paper

The Chair invited Mr Marshall to provide some background to the paper and outline the recommendations being made to the Committee. Mr Marshall noted that the paper had taken into account feedback from two phases of consultation with industry and a review of the Tourism Forecast Model undertaken by Dr Webber (papers provided). Further Mr Marshall indicated that the key recommendations were:

- To move to a new forecast reporting model involving one full forecast round (October / November) each year supplemented by a shorter update round (March / April) from 2012 onwards;
- To rationalise the forecasting materials published in each full forecast round by presenting calendar year forecasts only from this issue and by folding Italy, The Netherlands, Switzerland and Nordic Countries into Other Europe and Taiwan into "Other Asia" in the next full forecast issue.
- For TRA to pursue a proposed work program to enhance the integrity of the TFC Tourism Forecast Model.

The Committee agreed that transition to one full forecast round supplemented by a shorter update each year was likely to service industry needs more effectively than the current approach. Members noted that the flexibility of the shorter update report should offer greater opportunity to explore emerging issues and markets and thus add value to industry decision making.

However, given the importance of the forecasts to the business planning activities of government agencies and the tourism industry, the Committee judged that the full forecast round should be concluded in March / April and the shorter update in October / November. To better link to the business planning needs of industry and the agreed March / April timing for the full forecast round, the Committee also decided that the forecasts should be produced on a financial (rather than calendar) year basis from 2012 onwards.

In relation to the rationalisation of inbound markets for which forecasts are produced, the Committee endorsed the recommended changes from 2012 onwards. Given the workload involved in preparing the forecasts and the number of series produced, the idea of folding other countries into broader regional categories was also considered. However, the Committee agreed the reduction in markets proposed by TRA was sufficient at this time.

With respect to a work program to enhance the integrity of the tourism forecast model, the Committee agreed that TRA should take steps in a number of areas including:

- Investigating the merits of estimating relevant regressions for constructing inbound arrival forecasts using annual (rather than quarterly) data and/or growth rates (rather than visitor numbers);
- Evaluating the suitability of alternate economic activity drivers to GDP such as equity market indices; employment and retail trade volume; and
- Examining the level of detail to which leisure travel; commercial accommodation and regional forecasts are produced.

In relation to the last of these items, the Committee requested that TRA provide an update on its thinking at the next meeting.

Lastly, the Committee agreed that the changes to be made to the forecast publication from 2012 onwards should be outlined in an appendix to this issue to be released on 6 October.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

- **Move to a new forecast reporting model in 2012 involving a full forecast round in March / April and a shorter update in October / November to coincide with the Tourism Directions Conference.**
- **Present financial year forecasts only from 2012 onwards.**
- **Fold Italy, The Netherlands, Switzerland and Nordic Countries into Other Europe and Taiwan into Other Asia from 2012 onwards.**
- **Communicate these changes to industry through inclusion of an appendix to this issue of the forecast publication.**
- **Proceed with its proposed work program to enhance the integrity of the Tourism Forecast Model.**
- **Report to the next meeting on outcomes from its examination into the level of detail considered supportable for future leisure travel, commercial accommodation and regional forecasts.**

10. Next meeting

The Committee agreed that the next meeting should occur some time in February or early March 2012 to enable a March / April release.

ACTION ITEMS

- **The Committee requested the TRA Forecast and Modelling Section to arrange the next TFC meeting for late February or early March 2012**

The meeting closed at 12.30pm.