

TOURISM FORECASTING COMMITTEE

Minutes

Meeting #15

Thursday 21st April 2011
Tourism Australia
Darling Park Tower 2
Level 18, 201 Sussex Street
Sydney

Present:

Mr Bernard Salt (Chair)	Partner, KPMG
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 / Chair, TRC (by teleconference)
Mr John Lee	CEO, TTF Australia
Ms Nell Anderson (for Mr Andrew McEvoy)	General Manager Strategy and Research, Tourism Australia
Ms Felicia Mariani	Managing Director, Australian Tourism Export Council
Dr Tony Webber	Chief Economist, Qantas Airways Limited
Ms Jane Madden	Head of Division, Department of Resources Energy and Tourism
Mr Wayne Calder	General Manager, Tourism Research Australia (TRA)

Invited guests

Mr Dominic Regan	Macroeconomic Group, Commonwealth Treasury
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Secretariat

Mr Justin Marshall	Manager, Forecast and Modelling Section, TRA
Mr Claude Calero	Principal Analyst, TRA

Apologies:

Mr Andrew McEvoy	Tourism Australia
Mr Dominic Regan	Commonwealth Treasury

Opening of Meeting

The Chair opened the meeting at 10:00 A.M.

1. Welcome and apologies

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

2. Adoption of Agenda

Mr Calder noted that the format of the agenda had been changed from previous meetings and that a broader set of meeting materials had been prepared including a chart pack.

The agenda was accepted without change.

3. Approval of minutes from the September 2010 meeting

Mr Colhoun sought amendment to the previous minutes so that they reflect his current employment with ANZ (rather than Virgin Blue).

On the basis that this amendment would be applied, the minutes of the previous meeting were approved.

4. Overview – Tourism Forecast Issue 1 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 7 April 2011. Then Mr Marshall broadly noted:

- some of the underlying drivers of the forecasts; and
- the forecasts for key tourism measures in 2011 (for example, total tourism consumption was expected to grow by 0.5% to \$94.9 billion, domestic visitor nights were expected to increase 0.4% to 261 million, growth in outbound departures had been revised upward from 7.7% to 10.1% and growth in inbound arrivals had been revised downward from 5.6% to 3.9%).

The Committee sought more detail on the factors which had underpinned growth in forecasts for the key tourism measures. Mr Marshall indicated that this would be provided at agenda items to follow and that this item had been introduced to provide preparatory context to these discussions.

There was some discussion about the importance of tourism to the Australian economy. The Chair asked if there was a measure of tourism's contribution to GDP. Mr Calder noted the Tourism Satellite Accounts provide this measure, indicating that these estimated the value of tourism to be \$94b (2.6%) of GDP (\$1.3 trillion) in 2009-10. Mr Calder added that tourism's contribution to GDP had fallen in recent years but the economic significance of tourism varies across regions in Australia. He referred to the recently published TRA report *The Economic Importance of Tourism in Australia's Regions* which categorised the influence of tourism to regions based on economic importance (high or low) and size of industry (larger or smaller).

ACTION ITEM

The Committee requested the Forecast and Modelling Section to:

- Provide the TFC Chairman with a copy of the recently released Economic Importance of Tourism in Australia's Regions report.**

5. Input from TFC Technical Committee

The Chair invited TRA representatives to introduce this item. Mr Calder advised the Committee that the Technical Committee had met on 7 April 2011 and had endorsed the draft tourism forecasts subject to some revisions. Mr Calder noted that on the Technical Committee's advice, growth in inbound arrivals for 2012 had been reduced marginally.

Mr Calder then summarised other changes made in addressing the Technical Committee input including:

- Revising downward the Australian economic growth forecast for 2012–20 from 3.1% per year to 2.5% a year due to potential limitations to growth posed by the ageing of the population and labour utilisation.
- Revising upward Australian domestic aviation capacity forecasts from 3.6% to 7.0% for 2011 with flow on effects to subsequent years.
- For domestic visitor nights, 'business purposes' nights were revised upwards from 0.8% to 2.5% in 2011, with this increase offset by a change in domestic holiday nights adjusted from growth of 0.5% to a fall of 0.5%.
- A reduction in outbound departures growth for the United Kingdom from 3.7% to 3.1% in 2011 and an increase from 2.9% to 7.9% in 2012, after taking into consideration the potential increase due to London hosting the 2012 Olympic Games.
- A reduction in outbound departures growth to China from 18.2% to 15.0% in 2011 because the strong growth in air capacity between China and Australia is attracting greater inbound travel to Australia than outbound travel from Australia to China.

No actions were set for this item.

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 were similar to those used in the November 2010 forecast round;
- The unevenness in world economic growth with Asian economies continuing to grow much stronger than European and North American economies;
- The slow pace of recovery for many European economies facing large sovereign debt and persistently high levels of unemployment;
- New developments that had occurred since the last forecast round, including:
 - The emergence of inflation;
 - Social unrest in the Middle East;
 - Increasing oil prices; and
 - The natural disasters in Japan and New Zealand.

In addition to these factors, the Committee noted the significance of recent severe weather events in Queensland. It was generally agreed that the influence of these events would be more pronounced for domestic than inbound travel. From an inbound perspective some re-routing of services to other Australian destinations was noted rather than cancellations.

The Committee were interested to know more about the oil price assumptions that had been built into the forecasts. Mr Calero noted that reflecting the latest Consensus Forecasts a much higher average oil price and higher inflation had been assumed than in the previous forecasts and that these were expected to taper downwards from 2012 onwards.

Discussion then followed on the implications of high oil prices on tourism. Members commented that if oil price levels continue to increase or remain at current high levels for a prolonged period then many airlines might have to reduce capacity and/or increase airfares to offset increasing jet fuel costs.

In relation to world economic growth, the Committee agreed with the assumptions adopted. However, they noted that the publication commentary could be strengthened to reinforce the message that Asian growth prospects are solid and that the US and European are stronger but downside risks remain due to uncertainty in how the combination of stimulus and austerity measures being applied around the world will play out

In continuing with the macroeconomic setting, Mr Marshall turned to key aspects of the domestic economic outlook noting:

- An expected slowing in growth in the first half of 2011 because of recent severe weather in Queensland and elsewhere in Australia;
- A likely rebound in the second half of the year as recovery from these events gained pace;
- Australia's strong terms of trade position; and
- The high value of the Australian dollar, and upward adjustments that had been made to assumptions of its value relative to other currencies in the forecasts.

Mr Calder added that in the longer term the projected slowing in population growth and consequent fall in labour force participation could slow GDP growth from 2015 onwards.

The Committee noted the current value of the Australian dollar remained well above the average value assumed in the forecasts for 2011 (US\$0.99). This led to discussion that it might be valuable to incorporate sensitivity analysis into the forecasts to illustrate the impact of scenarios such as higher oil prices and/or exchange rates over a longer period than assumed.

The Committee acknowledged that a high Australian dollar is likely to adversely affect inbound travel and continue to see substitution of outbound for domestic travel. However, it also noted that many studies have found that exchange rate impacts are not as important as income and consumer confidence (as affected by job security, savings, and employment prospects) to people's decision making on whether to travel.

There was also consideration of the direct aviation forecasts that are an input to the forecasts. Mr Marshall introduced this discussion by noting that growth of 7.7% in international and 7.0% in domestic capacity had been forecast for 2011 following input from the Technical Committee.

The Committee considered these growth rates to be too optimistic given the earlier discussion around high oil prices. In the case of international capacity it was suggested that the forecasts should be reviewed on a market by market basis as some routes will be more exposed to the

commercial pressures associated with higher oil prices than others. For domestic aviation capacity, the Committee observed that with local carriers focused on profits, they will have considerable exposure to high jet fuel costs in the short-term.

Members also discussed the concept of nesting — people's preference to stay home and reduce their travel as a psychological response to shocks such as severe economic downturn or national disasters. There was acceptance that such behaviour probably does occur but that it cannot be quantified through the forecast process. The Committee thought the publication commentary offered an opportunity to canvas issues of this kind.

Lastly, the Committee discussed the ongoing fragility of the European market, noting the impact this is having on long-haul travel. As part of this discussion, the Committee noted many countries are considering or have implemented higher travel taxes and others are considering such taxes.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

a) Build on publication commentary by:

- Including sensitivity analysis which highlights the likely impact on the tourism forecasts if there is a prolonged elevation in oil prices and/or exchange rates remain higher than assumed for an extended period
- Emphasising the importance of GDP growth to not only national wealth but household incomes and thus people's capacity to afford and take travel.
- Clearly, identifying downside risks and upside possibilities in respect of the forecasts including more use of examples to reinforce key points and provide greater insight.

b) Revise downwards the forecast for international aviation capacity growth in 2011 on a market by market basis.

c) Revise downward the forecast for domestic aviation capacity growth to around 5%.

7. Comparison of 2010 Forecasts with actual visitation

The Chair invited a TRA representative to introduce the item. Mr Marshall indicated that this was a new agenda item that had been introduced in response to consultation feedback that sought more information on how the forecasts matched actual visitation.

Mr Marshall noted that on the whole the 2010 forecasts released in the last issue of the forecast publication were largely in line with the visitation recorded. The Chair noted he would expect this to be the case given the Committee had access to actual data for nine months of the year to factor into these forecasts.

The Committee suggested that in future it may be more useful to compare performance against the forecasts from the first (rather than the second) publication issue in a given year.

There was a morning tea break taken at 11:20 A.M. The meeting resumed at 11:30 am.

8. Domestic and outbound tourism forecasts

Domestic tourism

Mr Marshall presented an overview of forecasts for domestic visitation, noting the moderate performance (particularly the leisure segment) is forecast to continue in 2011. He also noted that business travel was the only segment that is expecting solid growth this year. Mr Gschwind mentioned that domestic tourism is highly price elastic because it is less attractive than outbound tourism. Mr Gschwind further noted that the internet is a key driver of change.

The Committee discussed the state of the domestic industry noting it has been uncompetitive for a long time. Healthy debate followed on factors which have contributed and various actions and ideas were canvassed to alleviate this situation. It was also noted that domestic travel has been more resilient in cities than regional areas of Australia.

Mr Calder noted that there is not a clear circuit breaker on the horizon that is likely to bring about a change in the profile for domestic travel presented in the forecasts. The Committee agreed and endorsed the domestic tourism forecasts.

Outbound travel

The Committee discussed Australian's increasing propensity for outbound travel. Mr Calder pointed out that Australians now have a greater opportunity to travel abroad at a young age and that there appears to be an emerging cultural preference towards outbound travel and away from domestic travel.

The Committee endorsed the outbound departures forecasts.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

- Consider the merits of including in TRA's forward work program a project researching the top 30 global hot spots to find common denominators among them and what Australia has to offer in terms of these attributes to improve our competitiveness.**

9. Inbound visitor arrivals

Mr Marshall reported on revisions to the previous inbound arrival forecasts for 2011 (revised down from 5.3% to 3.9% overall) and the main drivers which underpinned the revisions. These included:

- The sustained high value of the Australian dollar;
- The subdued economic growth in Europe and North America and its income effect;
- The recent natural disaster in Japan; and
- Social unrest in the Middle East.

The members discussed at length the possible implications on tourism of the nuclear crisis in Japan. It was acknowledged that Japan is a complex market and there were varying views on how this market might recover in the longer term after the nuclear crisis abated. However, in the short-term, there was consensus from the Committee that although arrivals in 2011 had been forecast to fall substantially, there should be a further downgrading.

The Committee queried whether the rebound in growth forecast for European markets in 2012 was too optimistic. Mr Marshall noted that this issue had been identified by the Technical Committee previously and that the forecasts had already been revised downward based on their input. The Committee agreed to leave the 2012 forecasts for European markets unchanged on the basis that the down side risks to these forecasts be highlighted in the text of the Forecast publication.

The Committee also briefly discussed the issues affecting tourism demand in the Middle East: greater liberalisation, increasing global integration and social unrest. The Committee accepted that the proposed forecasts had adequately taken into account these issues.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

- **Revise downward forecast arrivals from Japan for 2011 from a fall of 15% to a decline of around 25% to 30% but retain the existing growth outlook thereafter to 2020.**
- **Retain the proposed forecasts for Europe and the Middle East but ensure the down side risks to these forecasts are highlighted in the Forecast publication.**

10. Other Business

(a) Possible expansion to TFC membership

The Chair noted that Mr Steven Burt (Mirvac) and Mr Robert Boyd (Virgin Blue) had canvassed interest with Mr Colhoun in being invited to join the membership of the Committee. Mr Calder asked Mr Colhoun to provide some background on Mr Burt and Mr Boyd.

Mr Colhoun noted that Mr Burt was head of the hotel division at Mirvac (a hotel investment and construction company) and that this may mean he could provide some useful insights into the accommodation industry for the Committee. Mr Colhoun further noted that although Mr Burt had been a critic of the TFC in the past he would now like to be part of the Committee.

The Chairman suggested that Mr Burt be invited to make a presentation at the start of the next TFC meeting on a topic such as challenges to hotel investment as a precursor to any decision on whether to invite him to the membership of the Committee. The Committee endorsed this decision and further canvassed the idea of having a guest speaker present on a tourism related topic at each meeting.

In respect of Mr Boyd, Mr Colhoun noted that he was an economist with Virgin Blue. The Committee was of the view that he may provide more value as a member of the Technical Committee. It was agreed that he be invited to join this Committee.

Dr Webber announced he had left Qantas Airlines and was going to set up a private consultancy in economics. The Committee agreed unanimously that Dr Webber should remain a member of the TFC noting the additional benefit of having an independent aviation analyst on the Committee.

ACTION ITEMS

The Committee requested the 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.**
- **Invite Mr Robert Boyd to join the TFC Technical Committee.**

(b) Consultation update

Mr Marshall gave an update on outcomes from the Forecast publication consultation undertaken last year and next steps as outlined in the meeting package. Mr Marshall noted that there were very few responses and that among the small number received there was no clear preference for either publication option (two full publications or one full publication complimented by an update report) presented.

However, Mr Marshall indicated that there were useful ideas canvassed and that some of these had been adopted in the preparation of the May 2011 publication (for example including more charts and identifying the important revisions made and the reasons for these changes).

Mr Marshall advised that an industry forum is being planned for 16 June 2011 to build on the feedback received from the first phase of consultation on the forecast publication. The Committee agreed that given the small number of responses to the initial phase of consultation this was a good idea.

As a way of expanding the Forecast publication consultation further, Mr Colhoun suggested the use of an online short survey for those accessing the May 2011 issue of the forecasts via the TRA web link. Further, the Chair asked whether there was a subscriber list to the publication that could be approached.

Mr Calder indicated that web hits for the forecast publication are recorded but there is not a subscription list specifically for the publication. However, he noted that TRA has a publication advisory service which is a listing of organisations who have registered with TRA to be advised whenever TRA releases a publication.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

- **Investigate the practicality of an online survey linked to the next publication release to compliment the planned industry forum on 16 June.**

11. Release date for forecast publication & next meeting

Mr Marshall noted that the forecast publication was due for release on Thursday 12 May 2011. Following some discussion, the Committee agreed that the release date should be put back to Tuesday 17 May to avoid the final review of the publication by members conflicting with the timing of the Federal Budget.

Mr Calder noted that the next issue of the forecast publication was planned to coincide with the 2011 National Tourism Directions Conference to be held in October 2011. On this basis, the Committee agreed that the next TFC meeting should be held in September 2011. The Chair requested that the meeting be held between 9:30am and 1:00pm.

The Committee also briefly discussed planning for the first forecast round in 2012. It tentatively agreed that a TFC meeting in late February 2012 would be likely for a publication release in March or April 2012.

ACTION ITEMS

The Committee requested the Forecast and Modelling Section to:

- **Arrange a TFC meeting date that allows for the next publication release in October 2011 (scheduled from 9:30 am to 1:00 pm).**
- **Arrange next years' meeting dates in time to allow for two 2012 Forecast publication releases: the first in April and the second in October.**

The meeting closed at 1:15 pm.

