

State of the Tourism Industry 2006



Liz Fredline, Leo Jago and Sheena Day

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National Tourism Alliance
the united voice of the Australian Tourism Industry

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FOREWORD



The National Tourism Alliance (NTA) was established to ensure that the tourism industry has a united voice that can speak to governments and help protect the industry from events beyond its control.

Since its formation, the NTA has been successful in bringing together, under one banner, the major players in the tourism industry who recognise the value of speaking with a single voice on industry-wide issues. It can only do this through the goodwill and support of its members, and through access to objective and rigorous industry data and analysis.

Given this imperative, we were delighted to again support Sustainable Tourism CRC in producing this State of the Tourism Industry report. As the NTA brings together the many sectors of the tourism industry, it was able to arrange distribution of the operator survey instrument to its member organisations for distribution to their constituents. The NTA also played a key role in the identification of key industry experts in the various sectors of tourism.

This report provides an invaluable summary of the statistics that demonstrate how the tourism industry overall, plus its component sectors, performed over the last year. The commentary obtained from key industry experts provides useful insights that help interpret and explain the performance as well as provide an overview for the next year. Although the reader may not agree with all of the interpretations made by experts, it is great to have the chance to reflect upon the different views expressed. My thanks go to Sustainable Tourism CRC for producing this report, which I believe makes a very good reference document. I am also most appreciative of the time and insights provided by the industry experts. Without a cooperative effort, this report would not be possible.

We hope the report will continue to evolve in future years, and provide a solid core of industry performance data and expert opinion, which will assist the NTA and other industry players to identify and tackle the high priority issues. The NTA wants to ensure that tourism gets the recognition it deserves and is able to realise its potential. I believe that this report will assist in this endeavour.

A handwritten signature in black ink, appearing to read 'Col Hughes'.

Col Hughes
Chairman, National Tourism Alliance

1. INTRODUCTION

This is the second edition of the State of the Tourism Industry report and, like the first, the aim is to provide an overview of the tourism industry in Australia through the reporting of key indicators augmented by expert commentary provided by a range of representatives from the various sectors which contribute to tourism.

The report was produced in partnership with the National Tourism Alliance (NTA). This year, for the first time, a survey of operators was also undertaken with the assistance of the NTA who distributed the online questionnaire through their member organisations. The survey asked operators to rate the issues that had been identified in the previous year's report in terms of the impact each was having on their sector and region. The results of this survey are presented in Chapter 2.

The key indicators presented in the report relate to the 2005 calendar year, and commentators were provided with these data prior to being interviewed. However, as interviews commenced around the middle of the year, some of the commentary provided actually relates to tourism activity in 2006, for example the discussion of major events centred on the Commonwealth Games and the World Cup in Germany, as these events were top of mind to the commentators at the time and it would not have made sense to delay a discussion of the impacts of these events until next year's report.

It is hoped that the report will be a useful resource for operators, government agencies, market analysts, researchers and tourism educators. Sustainable Tourism CRC is keen to further develop the State of the Tourism Industry Report for future years, so feedback regarding potential development is encouraged.

2005: The Global Context

The year 2005 saw continued recovery from the slump of 2003 for tourism globally, despite world events remaining unsettled. The year began with the tragic aftermath of the Asian Tsunami which occurred on Boxing Day (26 December) 2004, and claimed in excess of 225,000 lives. However, by the middle of the year, tourism to these affected regions had largely recovered. The US was a victim of natural disaster in August 2005, when Hurricane Katrina hit the US Gulf Coast bringing devastation to many cities. In particular, New Orleans was flooded when its levees broke and 80% of the city was submerged. In October, mother nature struck again in Pakistan with an earthquake which killed in excess of 85,000 people.

It was not just natural disasters that affected tourism in 2005. On 7 July, four suicide bombers on London's public transport system brought the city to a halt and killed 52 people when they detonated their bombs in the underground and on a bus. There was a second Bali bombing in October in which three suicide bombers killed 22, and tourists in Jordan were targeted in a suicide bombing attack at three American hotels in Amman in November. The war in Iraq continued throughout 2005, and there was ongoing unrest in other parts of the Middle East which contributed to rapidly escalating oil prices. This had a substantial impact on the price of all types of transport.

Interestingly, another death, that of Pope John Paul II in September, actually promoted tourism to Italy with growth of an estimated 14.5% in international arrivals over the same period in the previous year (UNWTO 2006), although this was most likely primarily very short haul travel.

Despite the global turmoil, international tourism movements in 2005 exceeded 800 million, an increase of 5.5% from 2004, and an all-time record. This appears to indicate the growing resilience of tourism to the turbulence that has become the norm in modern society (UNWTO 2006).

The strongest growth was in visitation to Africa, which increased by 10%, while the slowest annual growth recorded was in visits to Western Europe (1.7% increase). The World Tourism Organization Barometer, a survey of more than 200 experts from all over the world, rated the performance of tourism in 2005 at 140 (on a scale ranging from zero to 200). This was only slightly below the evaluation of 2004 at 144 and substantially higher than the evaluation of 2003 at 119 (UNWTO 2006).

Closer to home, Australia experienced growth in short term international visitor arrivals of about 4%, and was fortunate to avoid many of the disasters which faced other countries in 2005. Of course, Cyclone Larry had a substantial impact in North Queensland in early 2006, but it remains to be seen what impact this has had on tourism. Nonetheless, global events have affected tourism in Australia, in particular, a high fuel price which is seen as one of the most substantial issues facing the local tourism industry. There are also a range of domestic issues facing local tourism operators such as flat domestic tourism market and labour shortages. These are just some of the issues that have been explored in the report via a survey of operators, secondary data sources, and through interviews with key industry experts representing the array of sectors which contribute to the Australian tourism industry.

2. OPERATOR SURVEY

In April 2006, a web-based survey of tourism operators was conducted. The objective of this survey was to identify operators' perceptions of the impacts of various issues affecting their businesses. The request to participate in the survey was distributed via email through the member associations of the NTA. A total of 613 responses were received from operators across a wide range of sectors which make up the tourism industry, although not all of these fully completed the survey.

Operators were asked to rate the impact that various issues were having on their business and their region using a scale ranging from very negative (-2) to very positive (+2). The overall ratings are shown in Table 2.1. The most concerning issue across the sample was the increase in fuel prices which was rated nearly twice as negatively as labour shortages (the second most highly ranked issue). Also of concern was the flat growth in domestic tourism. There was some concern about profit levels and also in relation to natural disasters, security threats and pandemics. Issues such as accreditation and changing demographic profiles of tourists were generally seen in a positive light.

Table 2.1: Ratings of issues

ISSUE	Average Rating n=456
Increased fuel prices	-1.07
Labour shortages	-0.58
Flat growth in domestic tourism	-0.56
Profit levels or yield	-0.42
Concern about security e.g. terrorist activity	-0.40
Concern about pandemics e.g. avian flu	-0.33
Concern about natural disasters	-0.25
Airline regulation / deregulation	-0.17
Growth of strata-title apartments in short term letting pool	-0.16
Low Cost Carriers	-0.16
Exchange Rates - the strength of the Australian dollar	-0.04
Industrial Relations Reform	0.04
Changing distribution systems e.g. growth of Internet	0.16
Tourism marketing	0.23
Changing demographic profiles e.g. retirement of baby boomer generation, maturing of generation Y	0.62
Accreditation and professionalism	0.74

Comparison of Ratings Across Sectors

- All sectors rated fuel prices as the most negative issue; however, the transport sector rated it more negatively than other sectors (-1.5 compared to -1.07 overall).
- Most sectors rated changing distribution systems positively (e.g. accommodation providers rated this issue as +1.4) but travel agents rated these changes as having a negative impact on their business (-0.75).
- Attraction operators were more concerned about flat growth in domestic tourism than other sectors (-1.5 compared to -0.56 overall).
- Sport event organisers were more concerned about security threats than other sectors (-0.71 compared to -0.4 overall).

Comparison of Ratings Across Regions

- It was found that organisations that operated primarily in regional areas rated the impact of 'changing demographics' more positively (+0.8) than did those who operate in capital cities (+0.5). Perhaps they anticipate benefiting from the retirement of the baby boomer generation.
- Regional operators were also far more positive about the impact of changing distribution systems (+0.5) than city operators (-0.3). This may be because the Internet allows small regional operators to compete more effectively with larger competitors, because websites allow these smaller regional operators to market directly to consumers.
- Operators in capital cities rated the impact of concern regarding security (-0.7) and pandemics (-0.56) more negatively than those in regional areas (-0.08 and -0.17 respectively). This is not surprising given that terrorist threats are far more likely to occur in cities with large populations where their actions will have a substantial impact. Similarly, a pandemic is far more likely to affect a larger population centre and it would be much more difficult to manage.

Operator Turnover

- Operators were asked about their turnover in recent years as well as for the current period. About 45% said that turnover in 2005 was slightly higher than in 2004, and another 17% said it was much higher, giving a total of 62% who felt that business had improved over the previous period. About one quarter said turnover was lower, and the remaining 13% felt there was no difference. In terms of outlook, 53% of operators felt that turnover would increase in 2006 over the figures for 2005, while 23% felt that there would be no change and 24% predicted a decline in turnover. Overall, therefore, the general mood of operators based on the results of the survey was that business in 2005 had improved over 2004 and was likely to improve further in the coming year.

3. KEY INDICATORS

The following statistics have been identified as key indicators of the performance of tourism in Australia in 2005. It can be seen from the figures that 2003 was a difficult year across the industry with declines in inbound, domestic overnight and outbound tourism. There was substantial recovery in 2004 in the inbound market and there was continued growth in 2005. However, the domestic overnight visits are at their lowest for many years.

Snapshot

KEY INDICATORS		2002		2003		2004		2005	
International tourists (a)	Total Visits	4.46 million		4.39 million		4.8 million		5.0 million	
	Total Visitor Nights	121.5 million		119.1 million		131.4 million		135.4 million	
	Largest Source Markets	New Zealand	16.1%	New Zealand	17.4%	New Zealand	19.4%	New Zealand	19.5%
		Japan	15.0%	UK	14.4%	Japan	13.8%	UK	13.1%
		UK	13.8%	Japan	13.4%	UK	13.2%	Japan	12.6%
		USA	9.1%	USA	9.0%	USA	8.4%	USA	8.2%
		Singapore	5.5%	Singapore	5.0%	China	5.0%	China	5.4%
	Main purpose of visit	Holiday	54.8%	Holiday	53.6%	Holiday	53.4%	Holiday	53.6%
		VFR	19.1%	VFR	20.6%	VFR	20.8%	VFR	20.5%
		Business#	13.6%	Business#	13.7%	Business#	13.8%	Business#	14.0%
		Education	5.8%	Education	6.1%	Education	5.8%	Education	5.7%
		Business Event	2.7%	Business Event	2.5%	Business Event	2.8%	Business Event	3.2%
	Avg length of stay	27.2 nights		27.2 nights		27.4 nights		26.8 nights	
	Avg trip spend (in Australia)	\$2586		\$2,548		\$2,458		\$2,411	
	Avg daily spend	\$95		\$94		\$90		\$90	
Total inbound spend(excl prepaid)	\$11,539 million		\$11,171 million		\$11,788 million		\$12,167 million		
Total inbound spend(incl prepaid)	\$21,277 million		\$19,546 million		\$20,653 million		\$21,579 million		
Domestic tourists with an overnight stay (b)	Total Visits	75.3 million		73.6 million		74.3 million		69.9 million	
	Total Visitor Nights	298.7 million		294.1 million		296.9 million		275.9 million	
	Main purpose of visit	Holiday	41.9%	Holiday	41.5%	Holiday	41.3%	Holiday	42.3%
		VFR	33.9%	VFR	35.8%	VFR	35.7%	VFR	34.1%
		Business#	18.1%	Business#	17.3%	Business#	17.3%	Business#	17.4%
		Business Event	1.5%	Business Event	1.7%	Business Event	1.6%	Business Event	1.6%
		Education	1.0%	Education	0.8%	Education	0.7%	Education	0.9%
	Avg length of stay	4.0 nights		4.0 nights		4.0 nights		3.9 nights	
	Avg trip spend	\$529		\$538		\$537		\$561	
	Avg daily spend	\$132		\$135		\$134		\$142	
Total domestic overnight spend	\$39,929 million		\$39,589 million		\$39,955 million		\$39,253 million		

Snapshot (continued)

KEY INDICATORS		2002		2003		2004		2005	
Australians travelling overseas (c)	Total trips	3.1 million		3.0 million		3.9 million		4.3 million	
	Total Visitor Nights	69.3 million		69.3 million		85.9 million		91.6 million	
	Main destination visited	New Zealand	16.9%	New Zealand	19.5%	New Zealand	18.6%	New Zealand	17.7%
		USA	9.2%	USA	9.5%	USA	9.1%	USA	8.9%
		UK	9.1%	UK	9.4%	UK	8.5%	UK	8.6%
		Indonesia	7.0%	Indonesia	5.5%	Indonesia	7.6%	Indonesia	6.7%
		Thailand	5.3%	Thailand	3.9%	Thailand	4.6%	China	4.9%
	Main purpose of visit	Holiday	43.6%	Holiday	40.7%	Holiday	45.6%	Holiday	47.3%
		VFR	23.7%	VFR	27.2%	VFR	26.1%	VFR	26.0%
		Business#	28.7%	Business#	27.9%	Business#	24.0%	Business#	22.4%
		Business Event	1.8%	Business Event	2.1%	Business Event	2.3%	Business Event	1.9%
		Education	1.0%	Education	0.9%	Education	1.0%	Education	0.9%
	Avg length of stay	22.5 nights		23.0 nights		22.2 nights		21.5 nights	
Avg trip spend	\$5,245		n/a		\$4,706		\$4,751		
Avg daily spend	\$233		n/a		\$212		\$221		
Total outbound spend	\$16,129 million		n/a		\$18,182 million		\$20,214 million		
Proportion of Australian's travelling (d)	Australians taking an overnight domestic trip	27.6%		26.9%		27.5%		26.0%	
	Average number of overnight domestic trips per person	1.36		1.33		1.31		1.28	
	Australians taking an outbound trip	5.4%		5.2%		6.3%		6.8%	
	Average number of outbound trips per person	1.15		1.16		1.11		1.11	
	Australians taking a holiday (either domestic overnight or outbound)	31.3%		30.6%		32.0%		30.9%	
Total Expenditure by Australian's on Tourism (Domestic overnight + Outbound Exp)	\$56,058 million		n/a		\$58,137 million		\$59,467 million		
Roy Morgan Consumer Confidence Index (e)	120.0		120.9		126.7		119.2		

(a) Tourism Research Australia, International Visitor Survey (CDMOTA)

(b) Tourism Research Australia, National Visitor Survey – Overnights (CDMOTA)

(c) Tourism Research Australia, National Visitor Survey – Outbound (CDMOTA)

(d) Tourism Research Australia, National Visitor Survey – Demographics (CDMOTA)

(e) Roy Morgan Consumer Confidence Index

Note: Because these figures are drawn from the IVS and NVS estimates, visitor numbers relate to visitors aged 15 years and over.

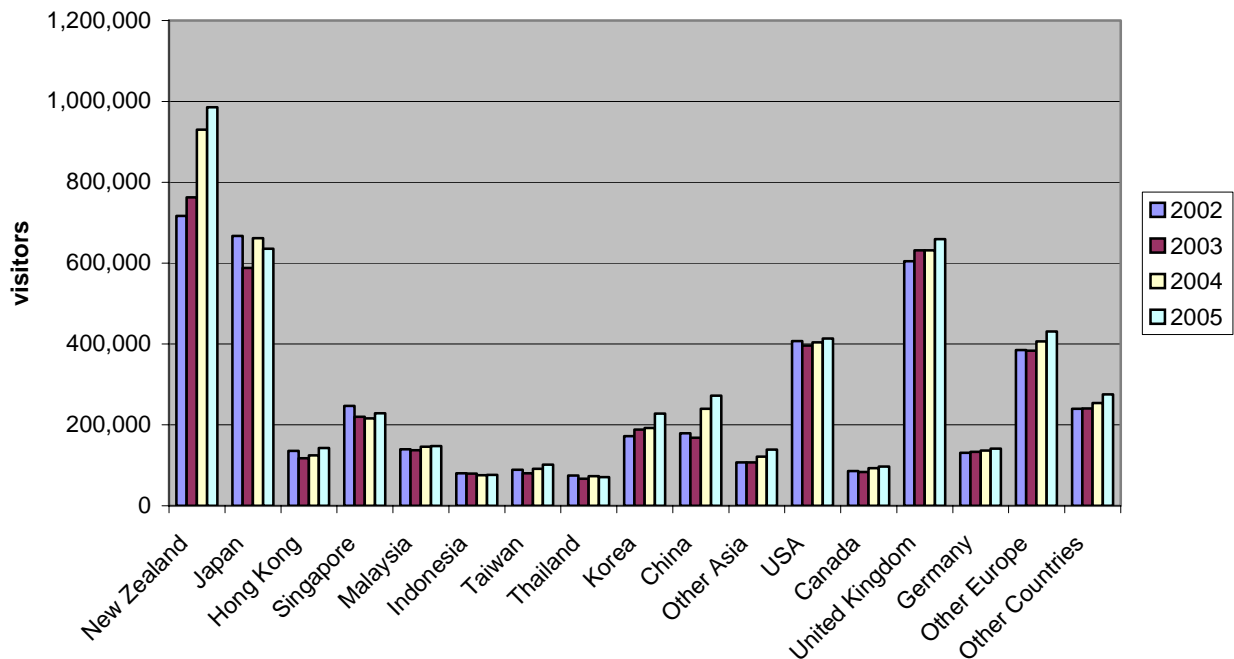
Business includes employment

International Tourism

Region of Origin of Short Term Inbound Tourists

In 2005 there were just over five million short term international visitor arrivals aged 15 years and over. This represents a steady increase from 4.4 million in 2003 and 4.8 million in 2004. As shown in Figure 3.1, there has been substantial growth over the four year period from 2002 from New Zealand, which is Australia's largest source market. China has also shown strong growth, as has Korea. There have been declines in visitation from Japan, Singapore and Thailand.

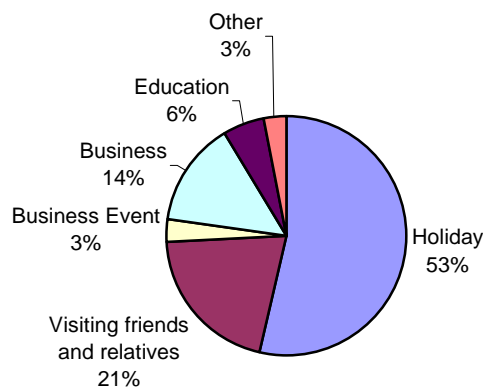
Figure 3.1: Region of origin of short term visitor arrivals



Main Purpose of Visit of Short Term Inbound Tourists

Figure 3.2 shows the main purpose of visit for these visitors. Holidays were the most commonly reported reason followed by visiting friends and relatives. These proportions are almost identical to those observed in previous years.

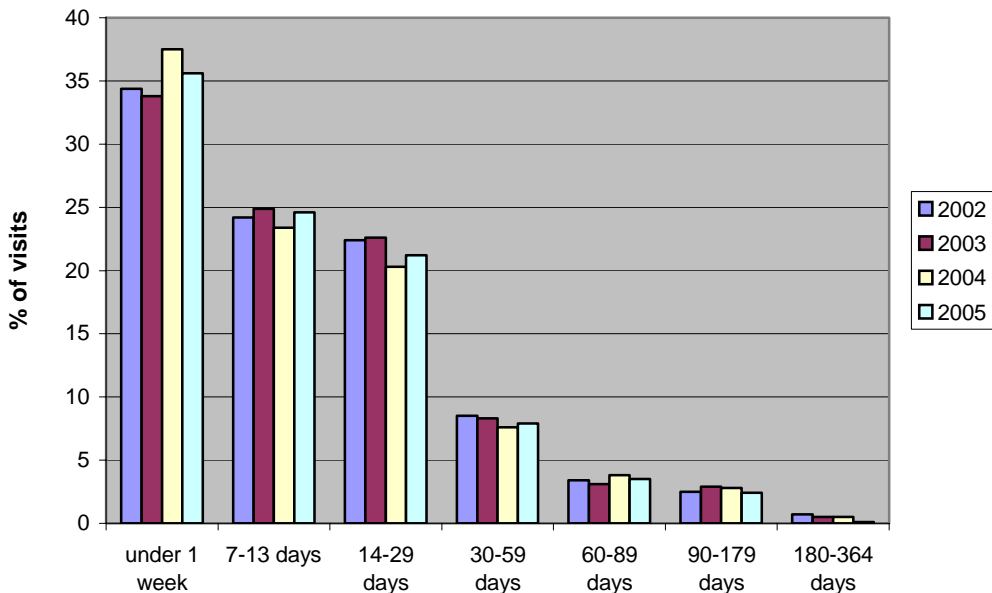
Figure 3.2 Main purpose of visit of short term inbound visitors



Duration of Stay of Short Term Inbound Tourists

Figure 3.3 shows the length of stay of international visitors over the four year period from 2002. The proportions are fairly consistent over the four years. Most visitors stayed less than 2 weeks, but substantial proportions stay for up to a month. The average length of stay in 2005 was 26.8 nights, down slightly from 2004 when the average was 27.4 nights.

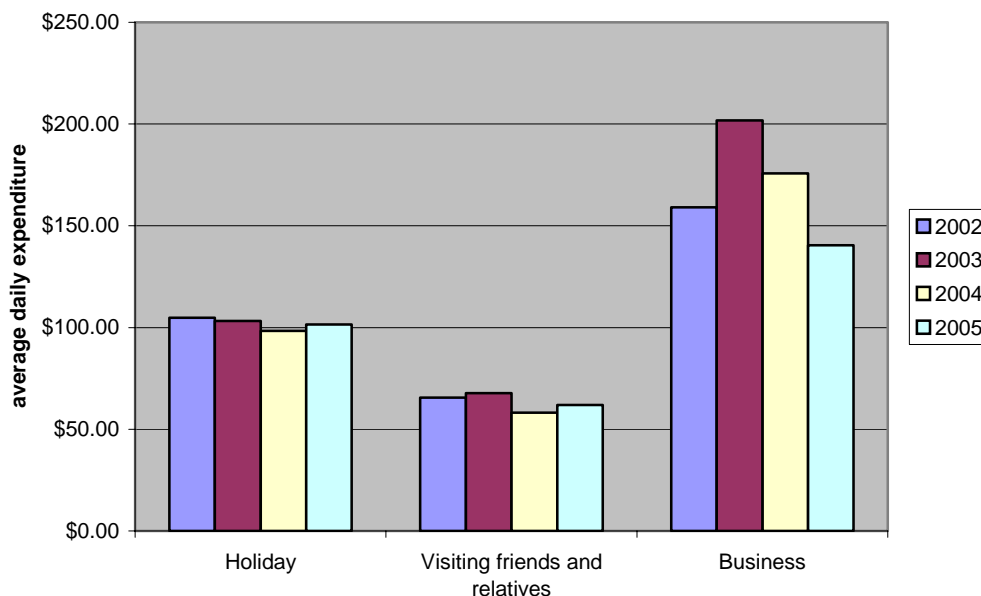
Figure 3.3: Short term international visitor arrivals by duration of stay



Expenditure of Inbound Tourists

Figure 3.4 shows the average daily expenditure by main purpose of visit for inbound visitors. While holiday and VFR tourist expenditure has remained fairly constant over this period, there has been a substantial decline in daily expenditures by business travellers from a high of over \$200 a day in 2003 to \$140 a day in 2005.

Figure 3.4: Average daily expenditure of international tourists by main purpose of visit

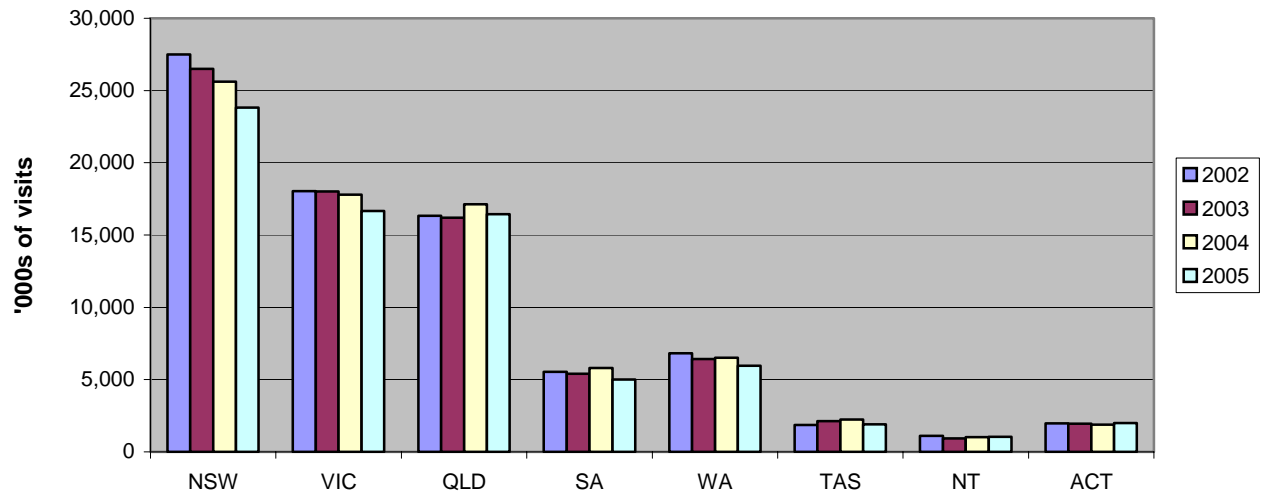


Domestic Overnight Tourism

Region of Visitation of Short Term Domestic Tourists

In 2005, overnight domestic tourist visits totalled 69.9 million, which represents a decline of nearly 6% from the 2004 total of 74.3 million. The decline in visitation is most evident in visits to New South Wales, as shown in Figure 3.5.

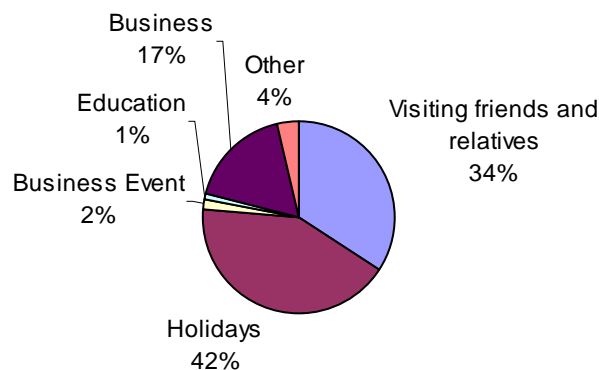
Figure 3.5: Region of visitation of short term domestic tourists



Main Purpose of Visit of Short Term Domestic Tourists

As shown in Figure 3.6, the most common purpose of visit in 2005 was for a holiday, followed by visiting friends and relatives. These proportions are very similar to previous years.

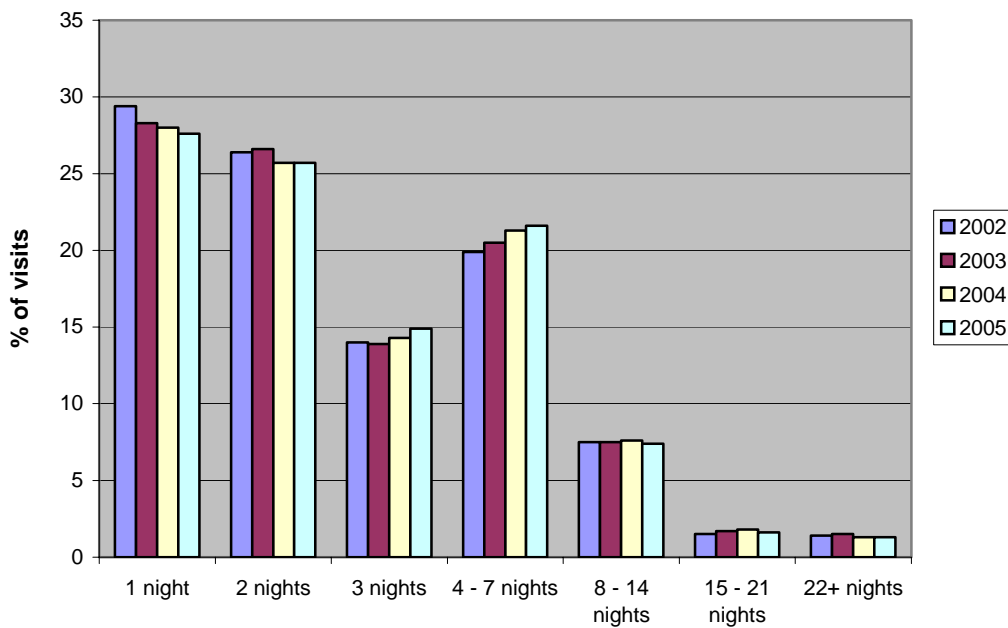
Figure 3.6: Main purpose of visit of short term domestic tourists



Duration of Stay of Domestic Overnight

Australian's domestic trips tend to be short in duration, with the majority being two nights or less. However, over the last few years there have been slight increases in the proportions of people staying between three and seven days, as seen in Figure 3.7.

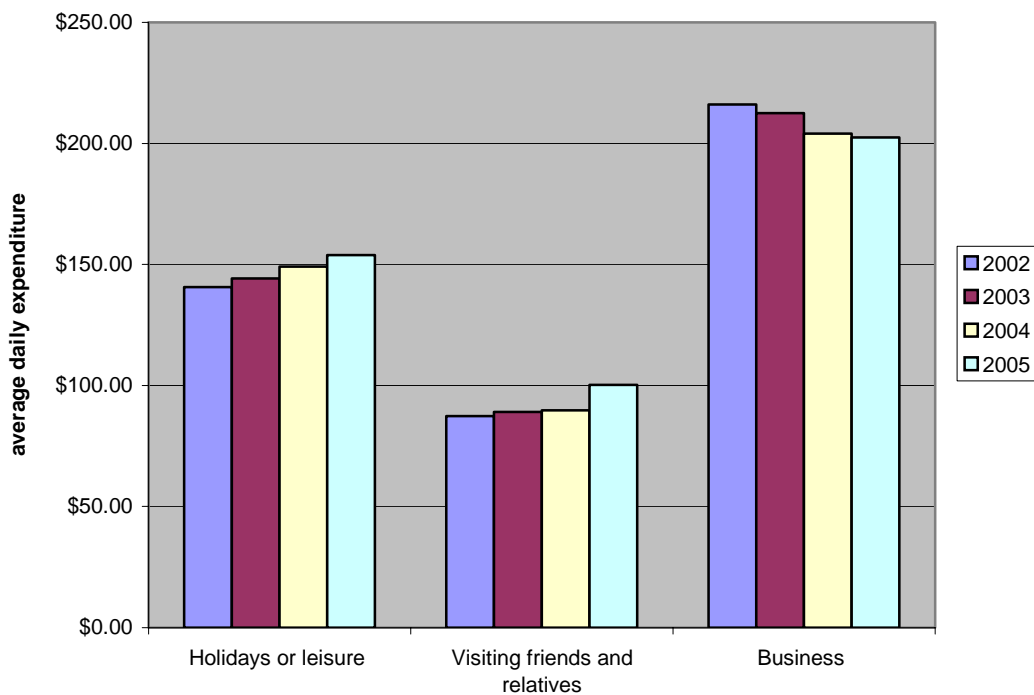
Figure 3.7: Domestic overnight visits by duration of stay



Expenditure of Domestic Overnight Tourists

Overall average daily expenditures have risen slightly from \$132 per day in 2002 to \$142 per day in 2005. However, as Figure 3.8 shows, the average daily expenditure of business travellers has actually declined over this period, while holidaymakers and people visiting friends and relatives have tended to spend slightly more.

Figure 3.8: Average daily expenditure of international tourists by main purpose of visit

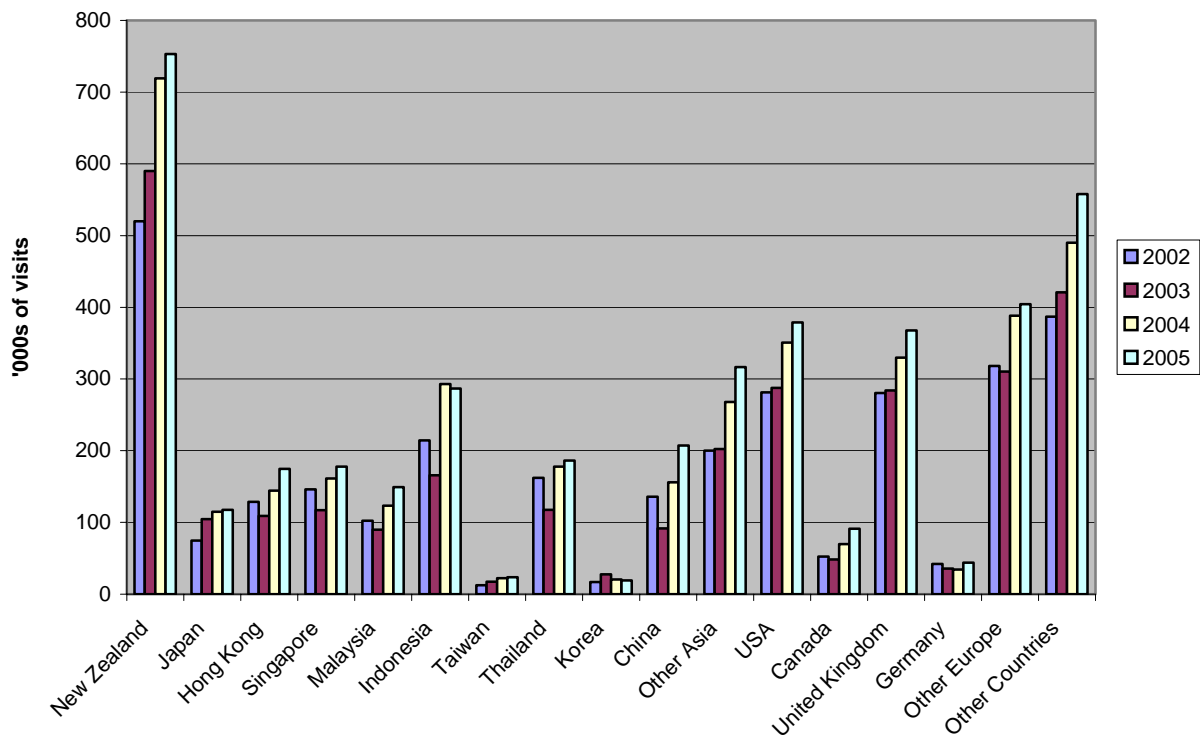


Outbound Tourism

Region of Visitation of Short Term Outbound Tourists

The most popular destination for outbound travellers in 2005 was New Zealand, followed by 'other' countries, which was comprised largely of Pacific Islands such as Fiji, New Caledonia, and Vanuatu. USA, UK and Other Europe were also popular outbound destinations. In Figure 3.9, the decline in visitation levels to Asian destinations in 2003 is clearly evident. This is likely the results of SARS. The only country for which the visitation level declined in 2005 was Indonesia, which was most likely due to the second Bali Bombing in October 2005.

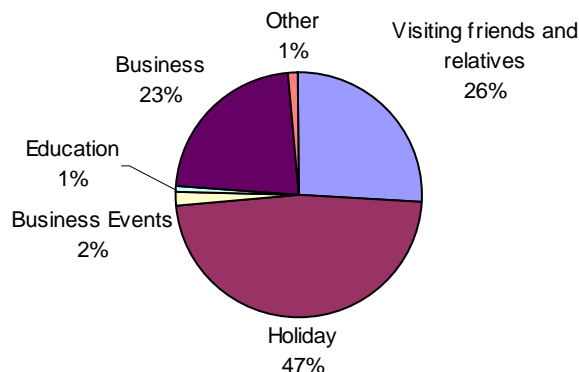
Figure 3.9: Region of visitation of short term outbound tourists



Main Purpose of Visit of Short Term Outbound Tourists

As seen in Figure 3.10, most overseas travel for Australians was for a holiday or to visit friends and relatives. Over the four year period summarised in the snapshot, there has been a noticeable increase in holiday travel and a relative decline in business travel. This would appear to indicate that the increase in outbound travel is primarily in the leisure market and likely at the expense of domestic leisure tourism which has clearly declined.

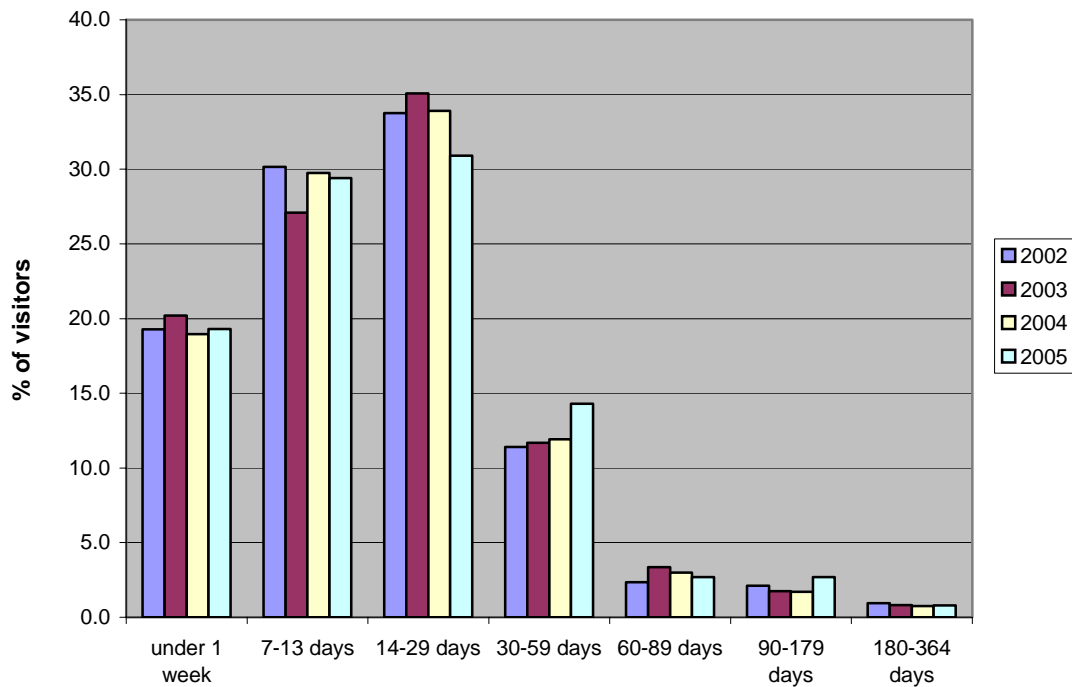
Figure 3.10: Main purpose of visit of short term outbound tourists



Duration of stay of Short Term Outbound Tourists

Most Australian outbound tourists stayed for between 2 and 4 weeks, although this depended on the destination with 36.5% of trips to New Zealand being less than a week, and 51.6% of trips to Other Europe being 30 days or more. As seen in Figure 3.11, there was a noticeable increase in 30-59 day trips in 2005. Perhaps this indicates the growing number of baby boomers travelling overseas for extended holidays. Tourists under 30 and those 50 plus were more likely to stay longer than a month (28.2% and 23.1% respectively) compared with those aged 30-49 (13.6%).

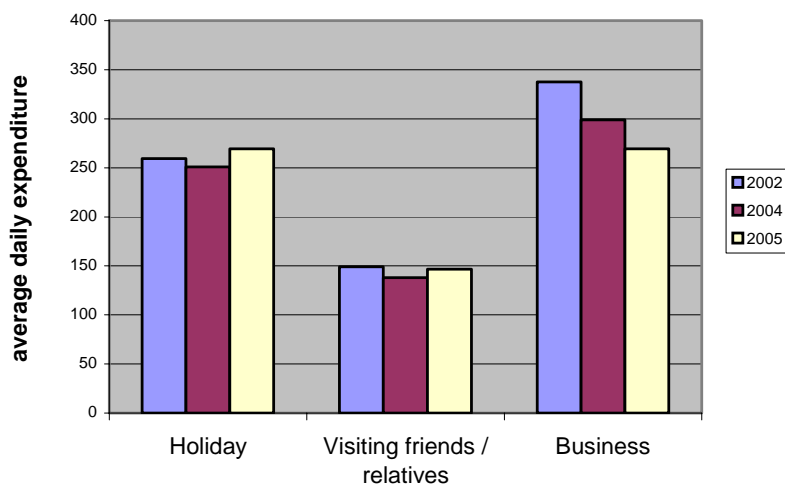
Figure 3.11: Duration of stay of short term outbound tourists



Average Daily Expenditure of Short Term Outbound Tourists

As shown in Figure 3.12, the average daily expenditure of short term tourists has been fairly constant amongst holiday makers and those visiting friends and relatives over the last three years, but has declined steadily over this period for business travellers. This is the same trend as was seen for in inbound and domestic business travel. Expenditure data for 2003 were unavailable.

Figure 3.12: Average daily expenditure of short term outbound tourists

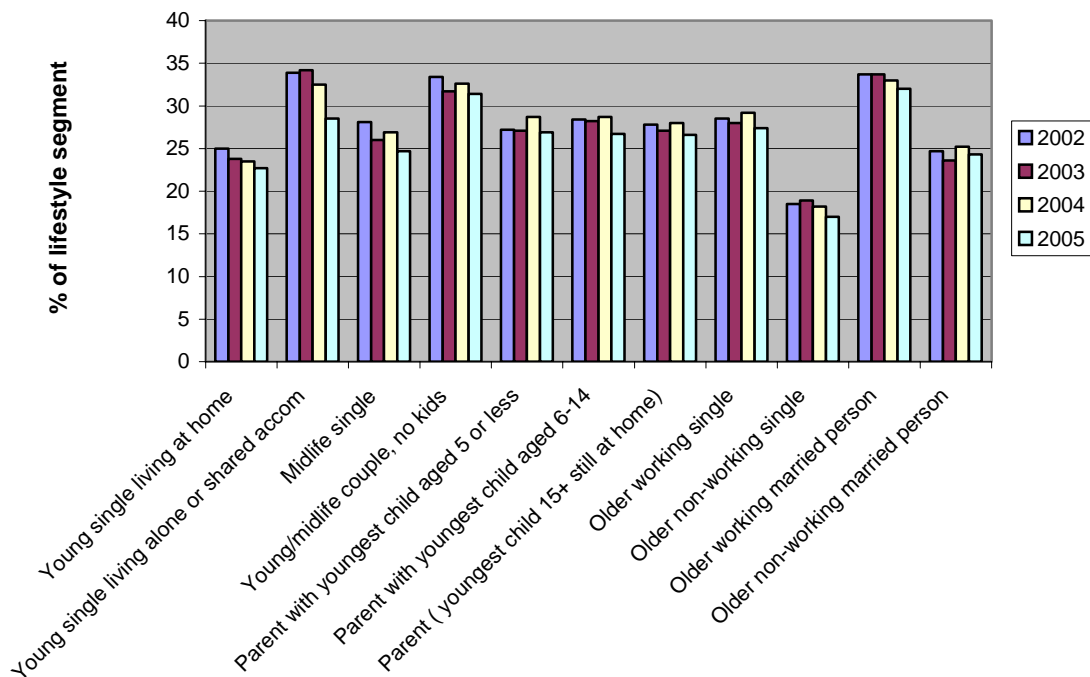


Proportions of Australians Travelling

Domestic Overnight Travel

The data presented in the two previous sections, relating to domestic overnight and outbound travel by Australians, counts the number of trips taken rather than the number of unique individuals who are choosing to travel instead of spending their discretionary funds on alternative goods and services. While it has been noted that fewer domestic overnight trips and more outbound trips have been taken in recent years, and this is what is affecting the bottom line of tourism, it is interesting to identify whether this is because the number of people travelling is changing or whether the frequency of trips per person is changing. As shown in the snapshot on page 7, with regard to domestic overnight trips, both of these propositions are true. A slightly smaller proportion of Australian's took a domestic overnight trip in 2005 compared to 2004, and the average number of trips per person has declined over time. This decline is slow, but consistent. Figure 3.13 shows the propensity of specific lifecycle segments to take a domestic overnight trip. The trend toward fewer trips is evident in all lifestyle segments although it is strongest amongst 'young singles living alone or in shared accommodation'. This segment had the highest propensity in 2002 (33.9%) but by 2005 they are only the third most likely group to undertake a domestic overnight trip (28.5%).

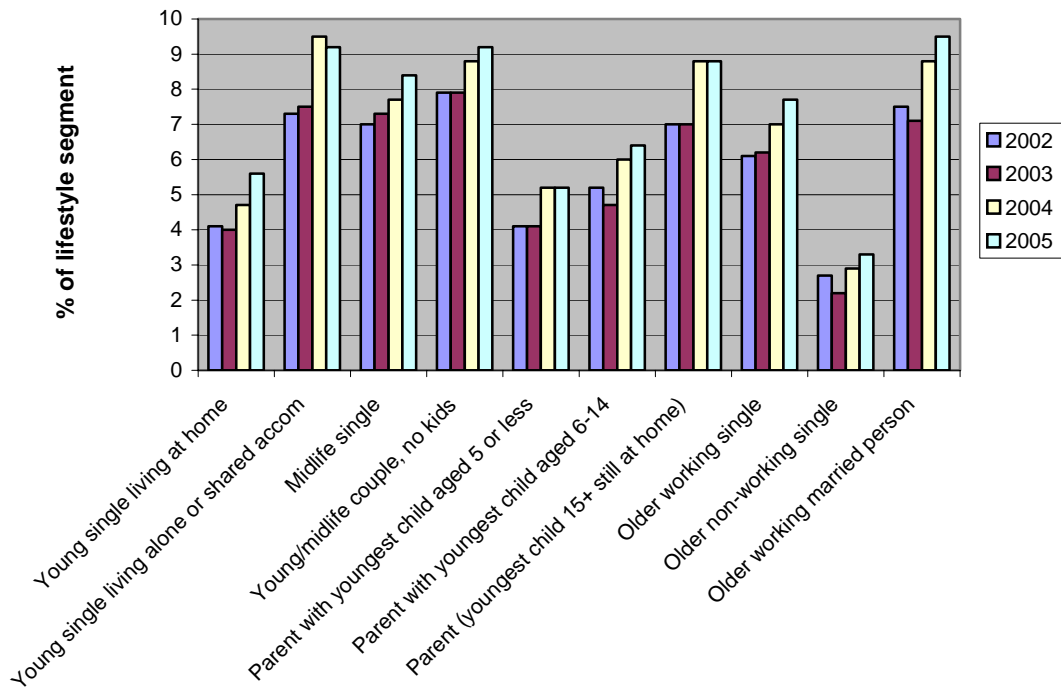
Figure 3.13: Proportions of lifecycle segments who took a domestic overnight trip



Outbound Travel

With regard to outbound trips, the increase in trips observed over the past few years appears to be more related to an increasing number of unique individuals travelling rather than a smaller number of people travelling more often. Figure 3.14 shows the proportion of various lifecycles groups taking an outbound trip over the past four years. Certain groups, for example 'young singles living away from home', 'young midlife couples, no kids' and 'older working married persons' are more likely to take a trip than other segments. However, most segments have shown an increasing trend toward outbound travel over this time period.

Figure 3.14: Proportions of lifecycle segments who took an outbound trip

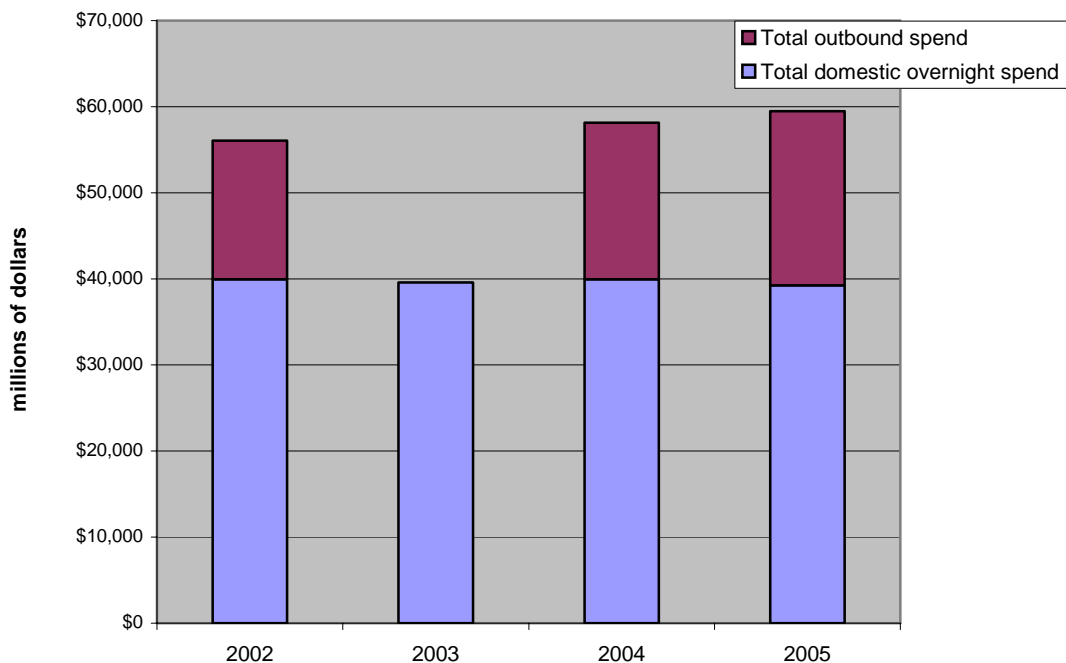


Total Expenditure on Travel by Australians

Although there has been a slight reduction in expenditure on domestic overnight tourism in 2005, it is not fair to say that Australians are spending less on tourism activity than in the past, as outbound expenditure has increased fairly steadily as shown in Figure 3.15. However, tourism expenditure (domestic overnight and outbound) is declining relatively as a proportion of total household consumption, from 15.1% in 2002 to 13.4% in 2005 (Maurer et al. 2006).

Figure 3.15: Expenditure by Australians on domestic overnight and outbound travel

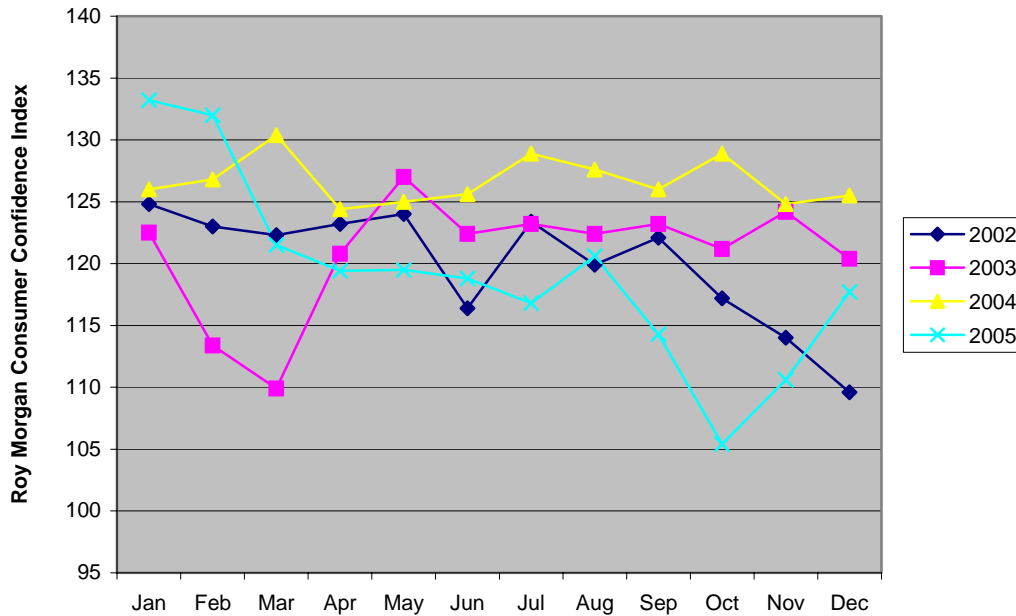
Note: Outbound expenditure for 2003 is unavailable



Australian Consumer Confidence

As shown in Figure 3.16, consumer confidence declined on average in 2005 to 119.2 compared with the annual average of 126.7 in 2004. In particular, confidence started to decline in September 2005 in the wake of Hurricane Katrina in the US and increasing oil prices. This trend continued in October, but reversed in November and December.

Figure 3.16: Roy Morgan's Consumer Confidence Index



Commentary on Industry Performance

A wide range of key sectoral experts were consulted to provide commentary on the issues affecting industry performance during 2005 and the likely outlook for the period 2006-07. The discussion in this section is based upon the comments made by these industry experts in order to help interpret the performance of the industry based upon the reported statistics. The issues are listed in alphabetical order except for the first one on 'flat domestic tourism', which was seen to be the most prominent issue by almost all experts.

Key Themes

Flat Domestic Tourism

Flat Australian domestic tourism continues to be a major issue confronting the tourism industry. Amongst the expert commentators, it was generally described as the issue of greatest concern, although it was only rated as the third most negative issue in the survey of tourism operators discussed in the previous section. Perhaps this highlights the more strategic focus of the industry leaders targeted in the interview phase, and the more operational focus of those who took part in the survey.

Unfortunately for the industry, this is not a short term problem with an easy solution. Tourism Research Australia has just released a report entitled 'An Assessment of the Australian Domestic Tourism Market' (Maurer et al. 2006) that provides a comprehensive assessment of the state of domestic tourism in Australia as well as identifying the research needed to better identify the factors underpinning the problems that can then be addressed by industry and government. This report states:

there are significant changes occurring in domestic tourism that are most obviously manifested in declines in nights, expenditure, and trips per head. Indications are that the changes will continue to affect the nature and level of demand into the future. (p1)

The information contained in this report will help:

... cooperation between governments (federal and state) and industry in a considered approach to identify long term solutions rather than the proposed quick fixes that have been attempted in the past. (Wayne Kayler-Thomson, ARTN)

We are not going to see huge shifts or increases in domestic tourism in the short term; we've got to get in there for the long haul and grow the base. (Jeff Floyd, AAA Tourism)

Domestic tourism needs to be made more desirable, 'it needs to be put on the radar, make it more appealing and give it some brag-ability' (Joyce DiMascio, TTF) so as to grow the numbers travelling domestically.

According to a number of industry experts interviewed for this report, there are a multitude of factors and influences involved in the down turn of domestic tourism.

There have been a series of whammies that have hit domestic tourism. Firstly, you've got fuel price increases, secondly, you have the situation where interest rates have gone up again, so people who have mortgages are battening down the hatches and not spending that money in a discretionary way; and thirdly you've got the effect of LCCs creating a whole new market segment which is not feeding yield (apart from air yield) through into the domestic economy. (Mike Hatton, AFTA)

Further to these influences on domestic tourism, there is growing competition for the household dollar, with people spending more on mortgages, home renovations, home entertainment, broadband, pay TV and the like. The effect of this is that there is not much left over to go on a three to seven day holiday.

I think that the retail furniture and communications industry has really got its act together because, unlike travel, they are offering goods for consumers to buy and take home and yet do not need to pay for them for 3 or 4 years. (Bill Spurr, SATC)

'This is a key issue with people spending more on other things; it is really taking away the push for travel generally' (Bill Spurr, SATC). 'That's why the domestic tourism figures can't grow; there are just so many peripheral things which are pushing it down' (Jeremy Johnson, Sovereign Hill).

The current strength of the Australian economy and the further introduction of low cost carriers (LCCs) departing from Australia to international destinations have made overseas travel for Australians an attractive option.

There are many factors that underpin the growth of outbound travel from Australia at the expense of domestic travel. These factors include the higher costs of domestic travel in comparison to overseas travel, the relative strength of the Australian dollar in some countries, and the higher esteem that many Australians hold for international versus Australian travel versus overseas travel. (Geoff Buckley, TA)

These factors are contributing to Australia's 'insatiable appetite for outbound travel' (Ian Mitchell, TQ). Many more people are now travelling overseas with the introduction of LCCs opening up the market to Australians and making the overseas holiday much more accessible and affordable.

One of my concerns about Jetstar International is that phase one is all about outbound travel, making it easier for Australians to take a trip to Ho Chi Min City, Honolulu or Bangkok rather than staying here for a domestic holiday. We need to be flying into markets where we can get tourists to travel to Australia as well. (Peter Doggett, Warner Village Theme Parks)

Over the last few years there has been a considerable shift in the working and family environment. Firstly, the advancement of communications and IT has allowed people to take their work with them anywhere they go, so people are not always taking the traditional weekend to forget about work and go away or go for a Sunday drive. Instead they are able to catch up on emails and continue to do business over the weekend. The work culture has changed significantly and this is impacting upon people's decisions to take leave. People are finding it challenging to be able to leave work and the technology behind when it is so easy for them to take it with them and therefore not fall behind in the workplace (Geoff Buckley, TA). Secondly, there is the impact of the demographic change in families. There are so many broken families now, and with access visits being a part of that, people are time poor, with the traditional Sunday drive with the family and short breaks perhaps suffering as a result (Jeremy Johnson, Sovereign Hill).

A related issue affecting the downturn in domestic tourism is the astounding number of annual leave days that Australians have stockpiled. In 2005, Tourism Australia commissioned a study on annual leave accrual, finding that Australians had a staggering 70 million days of annual leave (Tourism Australia 2006). From this study, Tourism Australia has launched a new campaign 'No Leave No Life' to try to convert some of these leave days into Australian holidays.

The holiday leave campaign that Tourism Australia is undertaking is a good step to see if it can trigger a change in consumer patterns, but the challenge then is, if we convince them to take more holidays, the way that their appetite is for offshore holidays, how many of them are going to stay within Australia and how many are going to holiday offshore? (Ian Mitchell, TQ)

As can be seen, the flat growth in Australian domestic tourism is a complex multidimensional issue, with no easy or short-term solution. A better understanding of the domestic market is needed, 'as we're going to start seeing quite a different take up of leisure travel as we move forward' (Geoff Buckley, TA).

Accreditation

It is fundamental to the sustainability of the Australian tourism industry that it delivers high quality tourism experiences to consumers. The Australian Government committed \$2 million of Tourism White Paper funding to the development of tourism accreditation, which indicated its support for this area.

The issue of accreditation is an important one. The industry certainly believes there should be a voluntary scheme if there is to be one, and we are addressing that now with government in terms of using Decipher as the accreditation portal. (Col Hughes, NTA)

The tourism business and accreditation portal was launched by the Federal Minister for Small Business and Tourism in August 2006.

Accreditation and professionalism are an important component of achieving high quality tourism products and services. However, there is some ambiguity as to how important an issue accreditation is for the tourism industry.

I think that accreditation is still an issue, but I don't know that it's a major one. The travelling public is becoming more discerning and wants better value and quality; it is a challenge for the industry to ensure that it delivers the service that the consumer wants as prices continue to escalate. (Ian Mitchell, TQ)

Although the underlying objective of accreditation is to enhance the prospect of tourism operators offering high quality service to consumers, there is increasing concern that accreditation has become a focus in its own right that has diverted attention away from the real objective (Wayne Kayler-Thomson, ARTN; and Matt Hingerty, ATEC).

The big end of town already offer high quality experiences and have no need to be accredited by a third party. Whilst accreditation may help smaller operators, we need to be careful that the impacts on the industry justify the attention given to accreditation. (Chris Brown, TTF)

Accreditation is an issue the tourism industry has been dealing with for many years now and 'while leaders in the tourism industry think it's very important, the uptake by tourism operators is negligible' (Geoffrey Conaghan, Melbourne Airport). At the other end of the scale, the issue of acceptance of the various accreditation schemes by consumers is low, as there has been little marketing to consumers and thus consumers don't know enough about what the accreditation schemes mean for them and their travel decisions (Bill Spurr, SATC).

With the recent launch of the accreditation portal, the industry is waiting to see how well it is accepted by operators and the affect this will have on tourism accreditation in the future. Accreditation and professionalism was rated as the most positive issue in the operator survey, indicating the importance that operators place on the need to deliver high quality service.

Changing Demographics

The changing demographics of the tourist, with the commencement of retirement of the baby boomer generation and the increasing prominence of generation Y, have considerable implications for the Australian domestic tourism industry.

The so-called baby boomer generation has a greater propensity to travel than previous generations and its constituents have more time. This means 'they are more able to research the destinations and travel more widely throughout Australia, which is a benefit for regional destinations' (Wayne Kayler-Thomson, ARTN). However, this generation is used to high quality and if regional areas are to attract this generation, the standard of product on offer must be of an acceptable level. This generation 'wants to learn more, they want knowledge rather than just trying to see everything' (Wayne Walker, APT). We have seen that those who have recently retired and those about to retire demonstrate an enthusiastic desire to explore Australia in general and regional Australia in particular (Daniel Gschwind, QTIC).

There has probably never been a generation that has retired with as much disposable income and that's going to be a real driver for travel, both domestically and from countries such as the US or Japan. I believe that the baby boomers are going to be the real drivers of travel for the foreseeable future. (John King, ATEC)

This sentiment was shared by the respondents of the operator survey who rated this issue as the second most positive with a mean of +0.62.

However, a negative is that the baby boomer generation is 'pretty well cashed up so they tend to do a lot of the overseas travel which is taking the travel dollar offshore' (Wayne Kayler-Thomson, ARTN).

Whilst there is a propensity to do the big Australian tour by car, the baby boomer generation also finds the idea of the trip to Tuscany very appealing. They are faced with the dilemma as to which trip to take and the price of outbound travel plays a big part in the final decision. (Joyce DiMascio, TTF)

We will always have the grey nomads travelling Australia, but to me the difference is that baby boomers don't see themselves as grey nomads as yet and with a higher disposable income and an attitude of spending the kid's inheritance, they want to do the overseas thing now. (Greg Holmes, HMAA)

There is much speculation as to the travel behaviour of baby boomers in retirement and it is clear that their travel behaviour will be quite different to previous generations.

Baby boomers are going to have time on their hands and substantial superannuation benefits so whether they continue to spend long periods travelling around Australia or decide that they'll spend more of their time in an offshore environment, is something that we need to better understand if Australia is to capitalise on this important market segment. (Ian Mitchell, TQ)

It is also clear that the generations following the baby boomers have quite different travel behaviour. 'Generation Y will do things very differently and have vastly different expectations of what they want in a holiday' (Peter Doggett, Warner Village Theme Parks). Much research will be needed to understand the behaviour of subsequent generations.

Generation Y gives me the impression of being more likely to travel offshore for long periods of time which I think will have an impact on the domestic market. They are also likely to be making quick weekend trips or taking short term breaks. (Ian Mitchell, TQ)

Already it appears that generation Y is travelling overseas more regularly than its predecessor generation and delaying commitments such as marriage. This generation appears to be 'living for today' (Greg Holmes, HMAA). If the industry does not develop a detailed understanding of the desires of these new generations, 'it will experience very low rates of growth' (Col Hughes, NTA).

Interestingly, TRA suggests that the retirement of the baby boomer generation may not be the windfall to tourism (either domestic or outbound) that many are predicating. TRA feels that 'the realities of self-funded retirement and longer life expectancies' may mean that many retired baby boomers will be living on a budget that precludes extensive travel (Maurer et al. 2006).

Changing Distribution Systems

Another issue that appears to be having a differential impact on the various sectors of tourism is the changing distribution systems with a tendency toward disintermediation. For suppliers of tourism product, this is seen in a positive light, while it poses a threat to traditional intermediaries such as travel agents. The very large suppliers, such as the airlines, have made things very difficult for travel intermediaries by cutting commissions and encouraging disintermediation. Even small operators such as individual hotels and motels are able to sell

direct through the Internet which is clearly a far less expensive way of communicating with a worldwide market than was previously possible (Chris Brown). 'The Internet is particularly good for regional and niche products, which wouldn't have been known about before, so it is an excellent tool for enhancing regional dispersal' (Col Hughes, NTA). There is some concern, however, that 'some of the industry is not ready to realise the potential of the Internet' (Bill Spurr, SATC).

The extent to which the very small operators can take advantage of online distribution may depend on the extent to which they band together and work as a group. For example, the Bed & Breakfast and Farmstay association of Queensland (BBFQ) has recently signed an agreement with Wotif.com to use their online booking system. The BBFQ site will directly link to Wotif, so that customers can make bookings at properties that do not have the resources to operate their own online booking sites (Peter Cook, BBFA).

Many industry experts interviewed as part of this study indicated that whilst the changing distribution systems had very large impacts on the manner in which the industry operates, there was not going to be a complete disintermediation.

I am convinced that travel agents, as part of the distribution system, will survive because as the market becomes more crowded with product and the consumers become more confused, they will seek out the services of travel agents. Travel agencies may not actually supply the tourism commodities such as airline tickets and hotel rooms, but they will provide specific and individually relevant advice. (Daniel Gschwind, QTIC)

Matt Hingerty (ATEC) agrees:

Some years ago we were predicting the death of travel agents and inbound tour operators, but it hasn't happened. They seem to have taken it in their stride. A lot of people use the Internet to collect information but, particularly for complicated and expensive itineraries, they still need a professional to put their holidays together.

Similarly, Wayne Walker and Dino Magris (APT) suggest that 'if someone is spending up to \$10,000 on a tour, they want to talk to somebody. There is a lot of research done online but for large tours there is very little online booking.'

The advent of the Internet has put travel agencies under great pressure and prompted them to think about how best to operate including the introduction of service fees (Julian Ledger, BTAP).

The corporate market has paid service fees to travel agents for about five years and it makes sense that such fees are applied to the leisure market. This will need to be communicated to leisure clients in an effective manner. (Mike Hatton, AFTA)

It's a bit of a double-edged sword for suppliers because they have encouraged consumers to delay booking and expect low prices, which makes it harder to manage yield. (Dennis Chant, QAL). This was a challenge in the early days, and an issue of concern reported in last year's State of the Tourism Industry Report; however, there is reason to believe that smart operators have started to reverse that trend and are;

... breaking the nexus between the view that online booking means last minute booking and low yield. They may still distribute through Wotif, but they are being smarter about it. (Jeff Floyd, AAA Tourism)

China

The economic growth in China in recent years, coupled with the scale of the Chinese economy, make it inevitable that this country will have a major impact on many aspects of life including tourism. A number of commentators mentioned China in a range of different tourism contexts including as a competitor destination and a source market for inbound tourists. Concern was also raised about the practices of Chinese inbound tour operators.

Many commentators suggested that China is an important emerging inbound market, but that it needs to be carefully nurtured because as more countries are granted approved destination status (ADS), Chinese tourists have a wider range of choices (John King, ATEC). Similarly, Jeremy Johnson (Sovereign Hill) believes that the Chinese market may be more sensitive to exchange rate fluctuations than others, because they expect value for money in US dollar terms, so the strong Australian dollar in recent years is of concern, and destinations such as the Czech Republic (which recently acquired ADS) appear competitive because the US dollar goes further there. Geoff Buckley (TA) agrees that there is very strong competition amongst many destinations for the burgeoning Chinese market. Australia anticipates strong

growth from this market but realising its potential will require substantial effort for a range of reasons, for example, it is more difficult to market in China because of the highly controlled media environment. There is still some concern, however, as reported in last year's State of the Tourism Industry Report, about the value of the Chinese market in terms of its yield (Wayne Walker, APT). Also, it is acknowledged that the Chinese tend to stay in the capital cities and do not deliver the benefits of tourism to regional Australia.

Another concern about the Chinese inbound market revolves around the practices of some rogue Chinese operators who are exploiting their clientele and leaving them dissatisfied with their Australian experience. Matt Hingerty (ATEC) says:

I can't emphasize strongly enough the need for regulation to crack down on rogue operators in New South Wales. Queensland, with limited resources, is doing a good job, but we are concerned that this will just transfer the problem to New South Wales.

This concern is supported by a comment from Peter Doggett (Warner Village Theme Parks) who had heard that raids by the Office of Fair Trading in Queensland had led some Chinese operators to threaten to pull out of Queensland. He said:

It may just be a small blip or it may become a bigger issue, but accreditation of tour guides and the impact of duty free shopping on package tours is something we need to pay attention to.

Finally, China was also discussed in the context of it being a competitor destination for Australia in terms of leisure travel and also with respect to business events. A number of large convention centres have been built in China, and many more are proposed. In the leisure market, the opening up of China as a destination has provided seasoned western travellers with an exotic new destination to explore. In 2005, nearly 5% of Australian outbound tourists visited China, making it the fifth most popular destination. More locally, China has become a popular short haul destination for its Asian neighbours and the growth of LCCs within Asia has strongly promoted inter-regional traffic, possibly at the expense of Australia (Dennis Chant, QAL; Peter Doggett, Warner Brother Theme Parks).

Concern About Disasters: Natural Disasters, Pandemics & Security Threats

Since the turn of the twenty first century, there has been an increasing number of shocking incidents which have shaken the confidence of travellers. Despite the fact that in 2005 there were more issues of concern in major destinations (the Asian Tsunami in late 2004, Hurricane Katrina, London Bombings, second Bali Bombings) than occurred in 2004, the general consensus from industry experts is that concern about disasters had less impact on tourist confidence in 2005 than in 2004. Both tourists and the tourism industry itself seem to have learnt to live with the fact that the world is not as safe as it used to be. It is important, however, that this not be seen as complacency. Of the three potential threats, the fear of a pandemic, particularly avian flu, appears paramount in the Australian context. This is no doubt because of the substantial impact that SARS had in 2003. Even if avian flu never got as far as our shores it would still have a substantial effect if people are afraid to travel through Asia to reach Australia.

There is a far greater awareness of the potential for major negative incidents affecting tourism operators, but not necessarily a higher level of preparedness to cope if something did happen (Joyce DiMascio, TTF). 'The Commonwealth is working on the issue, and they are involving tourism, which is good to see' (Daniel Gschwind).

Although some of the larger tourism companies such as Qantas have developed strategies to cope with such disasters, most operators are not prepared and are just hoping it won't happen. (Chris Brown, TTF)

In order to underpin tourism growth, particularly the international market, it is important that the industry can 'demonstrate that it is prepared to deal with disasters quickly and effectively' (Col Hughes, NTA).

In the major events sector there is more concern about security risks and the potential for terrorist activities. This is no doubt because of the profile of major events and the political potential of staging an incident at a high profile event. 'Running an event post 9/11 is completely different to running one before that time' (Clive Dwyer, 2006 Commonwealth Games). However, Australia is seen as a relatively safe place, and it is best to keep security

arrangements low key. You need to make sure people know the security protocols are in place, but not dwell of the possibility of something going wrong.

Fuel Prices

In last year's State of the Tourism Industry Report, although high fuel prices were identified as an important issue by all of the industry experts who were interviewed, virtually all agreed that increased fuel prices had not really had a significant negative impact on tourist demand. Twelve months later, however, and with further substantial increases in fuel prices, there has been a shift in opinion, especially for regional areas.

When we did this last time I think we were just starting to see the potential impact of high fuel prices but it was more a perception. We are now seeing the true consequences of prices that are consistently above the \$1.30 per litre. (Wayne Kayler-Thomson, ARTN)

Operators expressed a similar sentiment, rating fuel prices as the most negative issue facing their businesses, almost twice as strong as the next most negative issue (labour shortages).

This opinion is supported by a STCRC study on the impact of fuel prices on domestic travel (O'Mahony, Whitelaw & Ritchie 2006). The study was conducted in September 2005, and involved a survey of 597 people randomly selected from across Australia and interviewed via telephone. Respondents were asked about recent and future intended holidays and the impact that rising fuel prices had on their decision making. Amongst recent holiday makers (who comprised about half of all respondents) most of these (72%) indicated that rising fuel prices had had no influence on their travel behaviour. Where changes in travel behaviour were reported, the most common were 'reduced spending on other items' (6.8%), and 'used other modes of transport' (5.4%). However, with regard to future holiday intentions, amongst those who were planning a future holiday, only 57.5% said that rising fuel prices would have no impact on their travel behaviour. Approximately 9.5% said they would 'shorten the distance we travel / change the place we visit', and another 4% said they would 'change their mode of transport'.

According to Jeremy Johnson (Sovereign Hill), the latest figures from Tourism Victoria for the five year period from 1999 to 2005 show:

... domestic travel into the regions is disastrous for every region. With fuel rising from 65-70 cents a litre to twice that figure, it's no coincidence that travel to the regions has been so badly affected. The Federal and State Governments blame each other for not doing anything about it, which does not help matters. We need to be far more aware of the dampening affect it is having on regional areas. (Jeremy Johnson, Sovereign Hill)

Research into the effects of increasing fuel prices is showing that it is a significant issue for the tourism industry. The surveys that have been done by the different sectors are coming back consistently saying that fuel prices are an issue (Wayne Kayler-Thomson, ARTN). Increased fuel prices are adding to the cost of doing business, and compete for the consumer's discretionary dollar.

When fuel prices first started rising there wasn't a significant concern, but I think in the last 6-8 months we have seen the negative impact on travel and it will take another full calendar year of data to really tell us how great an impact it has been. (Matt Hingerty, ATEC)

According to Greg Holmes (HMAA):

We recently carried out our national member's survey and in terms of issues identified by our members as impacting on their business, fuel pricing was easily the number one issue with about 50% of our members indicating that its had a negative impact in the last 12 months.

There are some industry experts, however, who believe the impacts of rising fuel prices are more a consumer perception than a reality.

It does baffle me to see people who have a fairly substantial travel budget being concerned about the price at the bowser which really only has a minor impact on the overall cost of the holiday. This seems to impact on their holiday and travel choices in a disproportionate way. If someone spends \$5000 on a holiday and an extra \$50 on fuel, it's hardly worth changing their travel plans. (Daniel Gschwind, QTIC)

'Petrol is rarely the principal cost of a holiday' (Geoffrey Conaghan, Melbourne Airport). Although the increased cost of fuel is generally only a small percentage of the total cost of a holiday,

... it seems to play on the mind of the consumer because they are seeing the prices go up weekly. This tends to set fuel price increases as a psychological barrier if not a real barrier. (Wayne Kayler-Thomson, ARTN)

A contributing factor to the psychological impact of increased fuel prices is the constant media attention given to the issue; it may not be the fuel price increases per se that are inhibiting people from travelling, but rather the continual media attention that plays on people's minds (Bill Spurr, SATC).

As this discussion indicates, there are mixed views on the impact of rising fuel prices.

In terms of the industry perceptions, there's no doubt there is a strong perception that fuel prices are causing major damage to visitation levels because it's a tangible thing we can see, however, I am not yet convinced it should be a major concern particularly when one considers the strong growth in the sale of camper vans and caravans. (Jeff Floyd, AAA Tourism)

Conversely, John King (ATEC) believes that it is one of the major factors in the accelerating downturn in domestic tourism, 'impacting on the discretionary soft drive market'. According to Joyce DiMascio (TTF), some destinations have experienced a significant impact, whilst others maintain that there has been no impact at all and that visitors simply accommodate the increasing fuel price by maybe not having one meal out.

We cannot view fuel prices in isolation; we need to also view it in the context of what's also happened with the LCCs and recognise that the two influences combined are fairly powerful. (Joyce DiMascio, TTF)

The availability of low cost airlines will likely have prompted people to fly instead of taking short weekend trips by car and some of this change in behaviour will likely have been incorrectly attributed to higher fuel prices (Col Hughes, NTA). However, at the end of the day, our petrol is still a fraction of the cost of fuel in many other countries (Julian Ledger, BTAP). 'Earlier this year, I paid \$2.05 per litre in Europe, which indicates that by comparison, we've had it cheap. It is just about getting used to it' (Geoffrey Conaghan, Melbourne Airport).

Labour Shortages

For many of the industry experts interviewed in preparing this report, labour shortages was seen to be one of the most pressing problems facing the tourism industry and 'one of the key issues that has been identified in the Queensland Tourism Strategy that is soon to be launched' (Ian Mitchell, TQ). This is consistent with the results of the operator survey where labour shortages was ranked as the second most negative issue, after fuel prices. 'Under one forecast, in 2008 for the first time in Australian history other than during wartime, more Australians will leave the workforce than join it' (Peter Olah, HMAA). Labour shortages are already decreasing the range and quality of tourism product on offer, particularly in regional areas and this issue is likely to get worse. 'If we want to focus on high yield tourism, then the quality of the service offered is directly related to the quality of staff that can be attracted' (Wayne Kayler Thomson, ARTN). The only sectors of tourism for which labour shortages was not listed as a key problem were the backpacker and bed and breakfast style accommodation businesses (frequently run as family businesses with little need for employees), major events and built visitor attractions. However, Jeremy Johnson (Sovereign Hill) reported that it is increasingly difficult to find staff with traditional trade-based skill sets that are required for an historic attraction such as Sovereign Hill.

Although the shortage problem relates to both labour and skills, most industry experts indicated that the most pressing issue was in finding anyone to fill positions, let alone the skills that they may have. Jeff Floyd (AAA Tourism), however, felt that his organisation is able to 'find people but getting people with the right skill sets is the major difficulty'. He felt that the problem is partly about wages, but it's also a structural issue.

Unlike their parents who maybe had one or two jobs their whole life, today's young workers are highly mobile and feel the need to manage their careers by moving around and gaining a range of experience. The labour force is now so mobile. (Jeff Floyd, AAA Tourism)

Chris Brown (TTF) believes that 'tourism needs to be made more sexy after five years where its image was allowed to slip'.

Labour shortages will be seen as a major problem for at least the next five years particularly in regional areas and especially those located near mining areas in South

Australia, Western Australia, Northern Territory and Queensland (Bill Spurr, SATC). The resource boom has meant that the mining sector is able to offer very attractive wages that the tourism industry is not able to match that is resulting in 'staff being diverted from the tourism industry into the mining and resources areas' (John King, ATEC). Even the parks area is suffering in not being able to recruit staff into remote areas where most parks are located. 'Younger people want to work in and around metropolitan areas' (Col Ingram, Department of Environment and Conservation, WA).

For those sectors that are struggling to find labour, the consequences of the shortages are very serious and will detract substantially from the performance of the tourism industry overall. According to Greg Holmes and Peter Olah (HMAA), the labour shortage is a critical issue for hotels and motels, particularly in trying to fill room attendant positions:

At present these jobs are filled by large numbers of relatively lowly educated but very hard working women, often migrants. Many of them are now in their forties and fifties and there is no one to replace them. Generation X and Y don't want those jobs and they have many other options.

As this problem is one over which the industry can exert some influence, many industry associations are now making this a priority task (Daniel Gschwind, QTIC). A number of potential solutions are being proposed by industry associations in particular, and most of these relate to immigration and relaxation of visa conditions. 'In the boom period after the Second World War, over 3.5 million people were attracted to Australia to fill the jobs created by the boom' (Peter Olah, HMAA). Although labour shortage is one of the most pressing problems facing the tourism industry, we need to find long term sustainable solutions, not just short term fixes (Matt Hingerty, ATEC). Guest worker programs that would give people five or ten years of citizenship rights in Australia could be a partial solution for some sectors according to Greg Holmes (HMAA). Under these programs, workers could work here, pay taxes, get Medicare benefits and the like, have all the rights of citizenship except the right to vote, and then when the time period is over, they can repatriate their wealth and their skills back to their own local economy. Australia would need to act quickly to take advantage of this opportunity because, 'if we don't, Canada or the US, or Europe will' (Greg Holmes).

A partial solution to the labour shortage problem would be to change the working holiday maker scheme which is particularly popular amongst backpackers (Julian Ledger, BTAP). As of 1 November 2005, working holiday makers who spend three months employed undertaking regional harvest work are entitled to a second year on their visa, which has had positive results in terms of the number of people working in these regions. Recently, the length of time you are allowed to work for a single employer has increased from three months to six months. This makes it a lot more viable for employers to go through the training and the like that is needed for new employees.

This extension will hopefully make it a lot easier for working holiday makers to get work. The holiday makers will earn more money, but experience has shown that they'll spend it all here, particularly in the regional areas. (Julian Ledger, BTAP)

Low Cost Carriers

There was a general consensus amongst the industry experts interviewed for this report that LCCs have had a substantial impact on the tourism industry but that the impact has varied considerably across different destinations. It appears that destinations within a relatively short drive of airports are able to capitalise on the advent of LCCs, however, those destinations further away are finding it more of a challenge to attract the growing numbers of tourists travelling on the LCCs. 'The biggest negative impact is on those destinations beyond two hours from an airport' (Joyce DiMascio, TTF). Queensland has done well from LCCs 'because Queensland has more holiday destinations with sizeable airports than other states' (Daniel Gschwind, QTIC). The LCC issue is 'very much a double-edged sword, with some regions benefiting greatly and others experiencing substantial declines in tourist numbers because they are not a LCC destination' (Geoff Donaghy). The Gold Coast has been a major beneficiary of LCCs, indeed 'they were really instrumental in the strong growth that the airport has enjoyed over the last few years' (Dennis Chant, QAL).

LCCs have made it easier for people to fly to certain regional destinations that were previously considered difficult to access or too expensive to access. They can really open up and make regional destinations more accessible. (Geoff Donaghy)

LCCs that fly from major cities to regional areas are benefiting the regional areas by enabling more people to visit those areas, however, the cities that provide the travellers are not receiving the same return because the regional areas do not have as many people.

If connecting Melbourne with Maroochydhore, for example, Maroochydhore is going to be the winner because Melbourne's got 3.8 million people. Even if you convinced every second person in Maroochydhore to go to Melbourne in a 12 month period, which would be highly unlikely, there is still going to be a major imbalance in the numbers. Maroochydhore's population is dwarfed by that of Melbourne. This means that a city like Melbourne does not benefit greatly from LCCs as many of the LCC destinations are so much smaller than Melbourne and don't have the capacity to match the return business (Geoffrey Conaghan, Melbourne Airport)

An extension of this particular problem for major cities is that people from these cities are tending to travel on LCCs rather than take a drive around their own regions. For example, 'the Hunter Valley in New South Wales, which is a three to four hour drive from Sydney, is being replaced by a one hour flight to the Gold Coast' (Chris Brown, TTF)

The fact that LCCs are commencing international flights from Australia is likely to have a further downward impact on Australia's already sluggish domestic tourism market. LCCs are changing the way people travel and the travelling demographic. They are also changing international visitors' perceptions of Australia.

If much of your time in Australia is spent flying from one airport to another rather than driving between destinations, you obtain a very different understanding of the place. (Julian Ledger, BTAP)

The LCC phenomenon is set to stay and continue to have an impact on Australian tourism. Some destinations will benefit from them while others will be distinctly disadvantaged, as 'it tends to concentrate the tourism patterns' (John King, ATEC).

TRA's report on domestic tourism suggests that the LCC phenomenon has been instrumental in stimulating VFR and interstate travel, however, one of TRA's hypotheses is that this additional demand is now exhausted (Maurer et al. 2006).

Tourism Marketing

There has been substantial support for the 2006 'Where the bloody hell are you?' branding campaign and according to Geoff Buckley (TA), there has been a positive response from all the key markets in terms of trade responses. Unfortunately though, the humorous sentiment in the campaign, doesn't translate into every culture, so we are strongly focussed on alternative ways of meeting the brand challenge in markets like Japan and China. Daniel Gschwind says that the early signs suggest that the campaign is the:

... best we've had in a while. It will take some time to see of course; it's only just been rolled out in all the key markets, but certainly early signs are very positive. What it will do for the dispersal of the tourists across regional Australia is the next question I guess.

Jeff Floyd (AAA Tourism) highlighted the controversy stirred up in some markets by the campaign, and the added bonus that this brought to Australia:

As Australia has only a relatively small international marketing budget, it needs to find ways to leverage this investment. The controversy that was created by this advertisement, which I am sure was partly planned and partly fortuitous, obtained a huge amount of free ink about Australia, which is a very good result.

Although most commentators thought the campaign was good for the purposes it was designed for, some sectors, particularly business events, did not see that it had impact in their sector. They would like to see a marketing campaign more directly aimed at positioning Australia as a business and business events destination (Michael Cannon, AACB).

'Where the bloody hell are you?' may be appropriate for the leisure market, but is not seen by the industry as appropriate when targeting international corporate and association business event organisers. (Elizabeth Rich, BECA)

I think Australia is a very capable destination, capable of hosting large business events, it has excellent infrastructure and very good service levels. We just need to get that message out there in a more coordinated, aggressive and targeted manner. (Geoff Donaghy, Ogden IFC)

According to Ian Macfarlane (TA), the campaign has been tested in the business events sector with corporate decision makers, influencers and intermediaries. This research shows

that the structural framework of an Australian invitation is sound and appreciated. It was furthermore established that the brand insight was not only relevant but compelling. Since the (researched) leisure consumer insight is different from the business consumer insight, the campaign has an altered tonality and structure. This will be evidenced in the business events campaign to be launched in February 2007.

Other commentators, while supportive of the campaign, suggest that a critical issue is conversion.

I think the campaign is fine and it has been generally positively received around the world, but I think the conversion of people to actually come to Australia is still our big issue. We've got to find some mechanism where people get excited by seeing the brand and images actually convert to travel and as we all know that's a difficult one. (Bill Spurr, SATC)

The campaign has been developed to address the key marketing challenge of Australia, which is to increase the demand pool for the destination. Analysis of potential visitor decision making shows that:

Australia has the steepest attrition rate of all its competitors leaving us with a shallow demand and a relatively small number of potential visitors from which the industry can convert. Until this is solved, any incremental investment in conversion activity will have little effect. (Ian Macfarlane, TA)

Future Outlook

There was general agreement that most of the issues identified as impacting the tourism industry were likely to continue in the near future, and some potentially for the longer term. Some of the changes, such as declining domestic tourism, fuel prices, and labour shortages, have been described as 'structural', implying a level of permanence.

Fuel Prices

There seems little hope of any serious reduction in fuel prices in the future, and although some of the recent increases were driven by short term difficulties, such as Hurricane Katrina and more recently the war in Lebanon, the overall trend of increasing demand and declining oil reserves means that consumers are going to have to adapt to paying more for fuel. The question that remains, however, is whether that adaptation process will result in substantial reductions in transport usage or whether consumers are prepared to pay what is required to maintain their mobility. At present the increases represent only a tiny proportion of the overall cost of tourism, but in the longer term, with substantial global competition for scarce oil supplies, the implications could be far more serious. Associated issues such as global warming may also have to be factored in to any assessment of the long term directions for tourism.

In the shorter term, however, the impact of fuel prices may depend on other factors as well. If higher fuel prices are the only impact on discretionary spend, then they may not have much effect, but if drought drives up the price of food, and then interest rates also increase because of inflationary pressures, the amount people will have to spend on holidays reduces. Ongoing political instability in the Middle East can also only have a negative effect (Dennis Chant, QAL).

Industrial Relations Reform

Industrial relations reform was identified as a future issue in last year's State of the Tourism Industry Report, and although the legislation has now taken effect, it is still seen as a future issue because there has not yet been sufficient time to be sure about its impact. The fact that these changes have been introduced at a time of high employment also potentially limits the impacts for the time being.

Matt Hingerty (ATEC) believes there is a lot of confusion in the industry about what will happen if the labour party gets into power and abolishes AWAs as they have promised to do. There is a three year plan to phase out awards but the industry doesn't seem to be rushing to take up that option. It has the potential to be beneficial for the hospitality sector, because of the option to abolish penalty rates, but it shouldn't be used to pay people less.

In the short term labour market, we need to be paying for quality, but what it hopefully does give is more flexibility in a sector that is 24 hours a day, 7 days a week. (Greg Holmes, HMAA)

End of the White Paper Funding in 2008 – Where To From Here?

A number of commentators raised the question of what would happen to tourism funding after the end of the White Paper funding period in 2008. According to Daniel Gschwind (QTIC), the industry will have to further engage the Commonwealth to ensure that Australia is sufficiently resourced to be a key tourism player in the future and to be effective in marketing the country in leisure, business and events.

We have to recognise that it has become tougher, and that some of our international competitors are investing significant amounts of money to take market share away from us. (Daniel Gschwind QTIC)

Similarly, John King (ATEC) is aware of the importance of the next 12 months. The Federal Government will start to analyse the results from the White Paper and the financial commitment it's made.

I hope that they don't just view the, perhaps disappointing domestic and international tourism figures and have a knee jerk reaction. It really needs to be conscious of all the other pressures that have occurred such as increased fuel prices, since the White Paper was released. And it should look beyond just the raw figures to see what might have occurred if there hadn't been this increased commitment by government towards the development of tourism. (John King ATEC)

Matt Hingerty stresses the need to engage both sides of politics in the discussion about continuation of tourism funding, because you never know when there could be a change of government.

Similarly, the States need to be encouraged to maintain, and in some cases, substantially increase their commitment to funding tourism marketing and research (Wayne Kayler-Thomson, ARTN). In particular, New South Wales, South Australia and ACT stand out as deficient in this area (Chris Brown, TTF).

Joyce DiMascio (TTF) sees the end of the White Paper funding as an opportunity:

The past few years have seen many changes. Some significant results have been delivered across the board but as we go forward, we really need to have another look at our strategy for tourism for the next five years.

The international tourism market has changed quite substantially in the past three to four years; new emerging markets have appeared, the economic performance of some of our major inbound markets have changed substantially, the local political and economic climates have changed. Conditions are quite different to the period when the White Paper was framed. Rather than just undertake a review of the success of individual programs within the White Paper framework, we need to take a holistic view in order to craft a new agenda that is endorsed by all of industry and government. The Tourism White Paper was largely about the government agenda for tourism influenced by industry. The funding and the delivery was pretty much a government program. 'We now need a strategy for the tourism industry' (Joyce DiMascio, TTF).

Trying to Resolve the Flat Domestic Tourism Market

According to Bill Spurr (SATC), as long as the economy remains strong, the pressure on domestic tourism will remain and people will be tempted to travel overseas rather than holiday in Australia. He feels there is an underlying competitiveness problem, and that when the dollar is high, overseas trips represent better value for money. 'Unfortunately, these trends appear to be becoming long term.'

TRA's report, 'An assessment of the Australian domestic tourism market', identifies the fact that a similar trend can be observed in many western countries, including Canada, New Zealand, and the UK. This implies that there are broad social trends underpinning the problem that are unlikely to be resolved in the short term. The Maurer et al. (2006) report outlines a program of research to better understand the problem and inform future decision making. They point out, however, that the slow and even slightly negative growth in domestic tourism

in recent years does not detract from the fact that domestic tourism still accounted for \$52.2 billion in 2005 and is therefore a very important component of the Australian tourism industry.

Need for Innovation and Quality

A number of commentators noted the need for proactive industry development in order to promote both domestic and international tourism. For example, Chris Brown (TTF) said 'in some places Australia has become a very boring place to holiday. Where's the new product? Where has the entrepreneurship disappeared to in the industry?' Consumers are becoming more and more demanding of quality experiences and quality accommodation stays, and the industry is starting to drive a quality agenda (Jeff Floyd, AAA Tourism).

New Aircraft

Another future issue that is eagerly awaited is the availability of new aircraft such as the A380 and the 787. The A380 will provide a significant injection in terms of volume of passengers, and improved airline economics (Ian Mitchell, TQ). Geoff Buckley agrees, saying air capacity has been squeezed in recent times, but in 2007 and 2008 the A380 purchases will boost capacity substantially. The 787 on the other hand will provide new route opportunities, particularly in Asia (Ian Mitchell, TQ).

Global Warming

Global Warming is becoming a focal issue for Australia and the rest of the world. On 31 October 2006, a report that was commissioned by the British Government on the 'Economics of Climate Change' was released. The report said:

Climate change could push world temperatures up by five degrees Celsius over the next century and will affect the basic elements of life for people around the world – access to water, food production, health, and the environment. Hundreds of millions of people could suffer hunger, water shortages and coastal flooding as the world warms. (Stern et al. 2006)

The report, even though it is British, mentioned the effect global warming could have on Australia's Great Barrier Reef:

At higher temperatures, the risks become severe for all regions of the developed world... Australia's \$32 billion tourism industry will suffer from almost complete bleaching of the Great Barrier Reef. (Stern et al. 2006)

At last year's Tourism Futures Conference Tony Charters gave a presentation on research conducted by Roy Morgan on the 'Tourism Futures Survey'. Part of the survey looked at the top five challenges facing the Australian tourism industry over the next 10 years. 25% of respondents said global warming was a concern for the tourism industry. Interestingly in the interviews conducted for this report, global warming was not mentioned as a future issue affecting the Australian tourism industry. One explanation for this discrepancy could be that people were encouraged to focus on the short to medium term outlook. The recent focus on climate change and the contribution that tourism makes to global warming will be further explored in the next State of the Tourism Industry report.

Tourism Sustainability

According to Joyce DiMascio (TTF), one area we need to deal with very soon and in a substantial way is this whole issue of sustainability, including and beyond environment. 'I'm talking about community sustainability in places where we've got significant tourism impact.' We need to get to a point where the local spirit, personality and heritage of a region is retained through tourism rather than diminished by it. The whole issue of economic, environmental and social sustainability is an area that the industry has teetered around for too long. If the community is going to prosper from tourism, there needs to be a better understanding of what sustainability really means.

4. INBOUND TOUR OPERATORS

Snapshot

INBOUND TOUR OPERATOR INDICATORS		2002	2003	2004	2005
Lead times on bookings by inbound visitors	Percentage that planned trip within one month of travel	n/a	30.5%	31.8%	34.0%
	Percentage that booked flights within one month of travel	n/a	47.9%	46.7%	47.7%
Travel behaviours	Percentage on a group tour (a)	11.9%	11.2%	10.6%	9.3%
	Percentage on a travel package (a)	31.2%	29.8%	29.5%	25.6%
	Percentage of inbound visitors using the Internet for booking (a)	8.3%	10.1%	15.2%	41.2%
Exchange rate trends	Trade weighted index(b)	51.7	57.8	62.3	63.9
	Average increase in rates from previous year (b)	11.9%		8.2%	2.2%
ITO business confidence	Percentage of ITOs confident that business will improve over next 12 months (c)	n/a	n/a	76%#	79%#

(a) Tourism Research Australia, International Visitor Survey (CDMOTA)

(b) Reserve Bank of Australia

(c) ATEC International Tourism Index

Average over two quarters of available data

Lead Times for Planning and Booking Trips to Australia

Figure 4.1 shows the lead times reported by international tourists in planning their trips to Australia. It can be seen that the proportion of visitors planning their trip less than one month prior to arrival has been slowly increasing over the time period.

Figure 4.1: Planning lead time

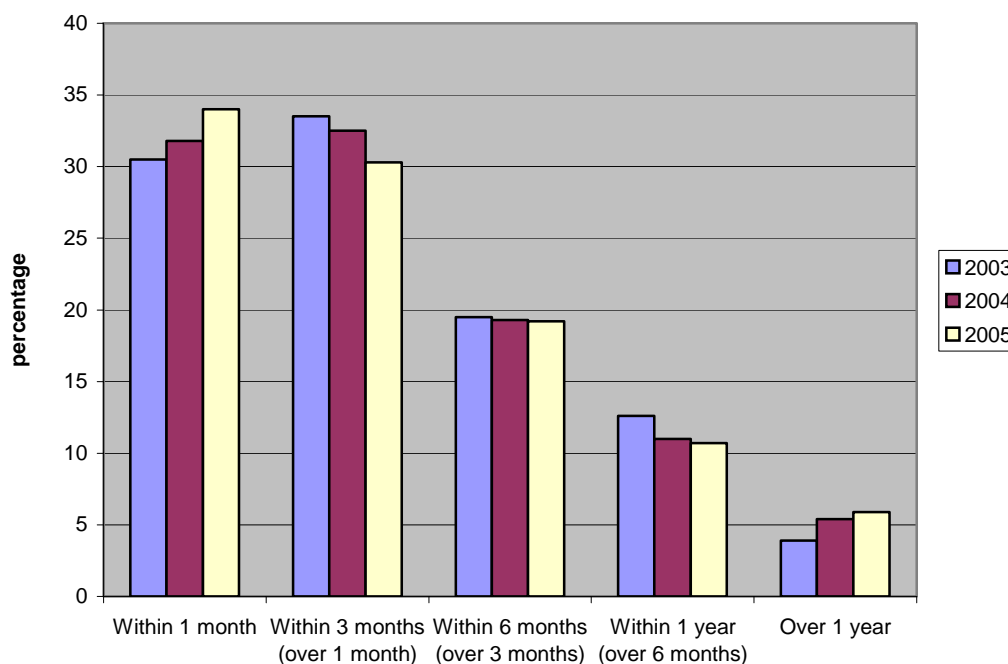
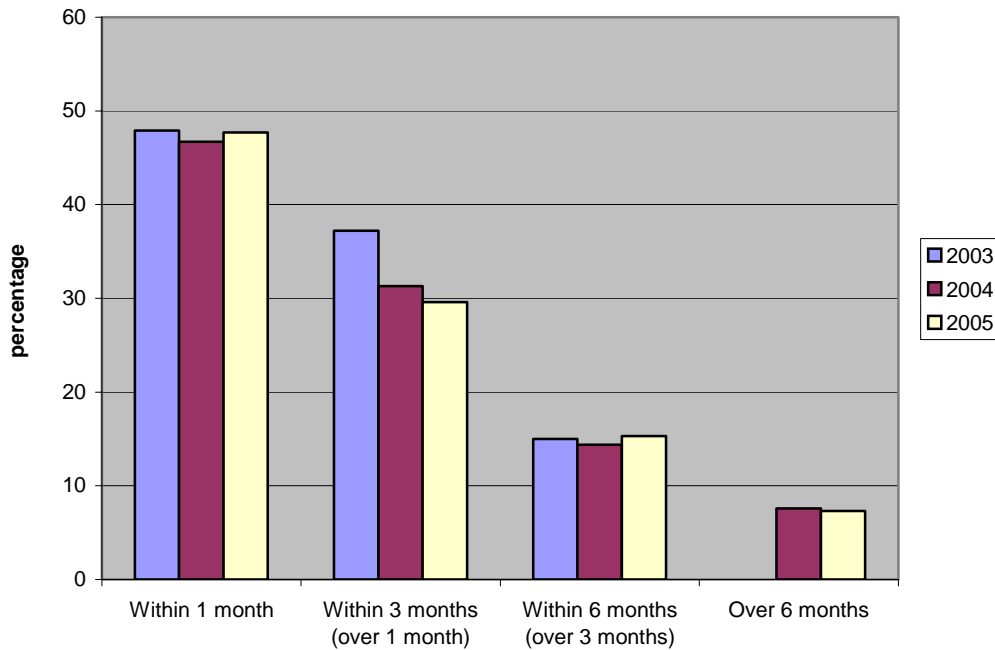


Figure 4.2 shows the lead times for booking a trip. These have not changed to the same extent but still indicate that nearly half of all inbound travellers book less than a month before travelling. Those booking between one and three months in advance have declined most over the last three years.

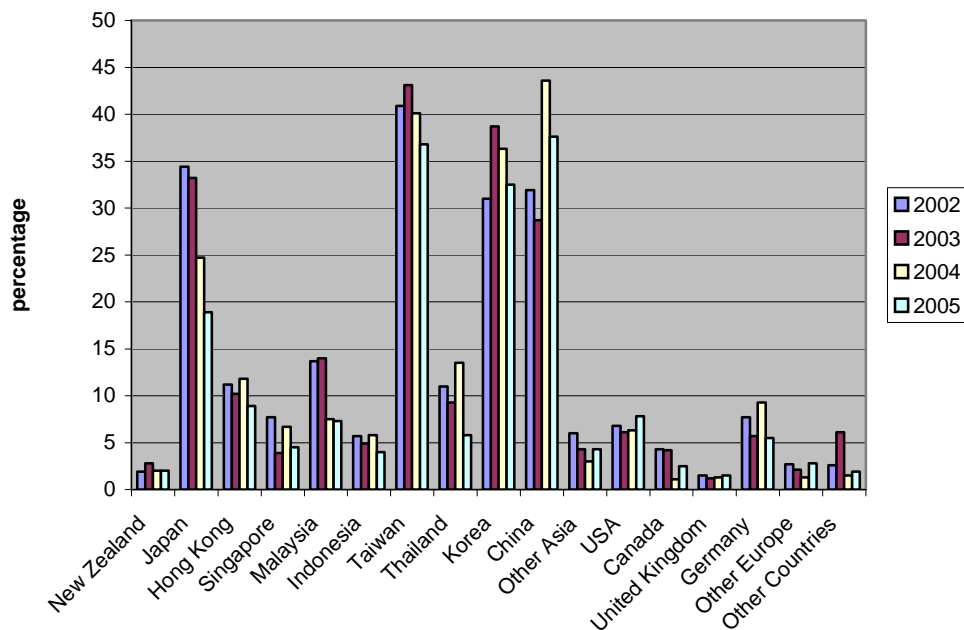
Figure 4.2: Booking lead time



Travel Behaviours

Figure 4.3 shows there have been substantial changes over the time period with regard to the propensity to undertake group tours by country of origin. There has been a substantial decline in the proportion of Japanese visitors undertaking group tours and although tourists from North East Asian countries are far more likely to undertake group tours than people from other parts of the world, this propensity has generally been declining over the time period.

Figure 4.3: Group tour travel by country of origin



Similarly, as shown in Figure 4.4, North East Asian visitors are most likely to arrange their travel by purchasing an inclusive travel package, rather than arranging the various components of their trip separately. Japanese visitors are most likely to do this, perhaps reflecting their declining rates of group tour style travel. This may be an indication of their growing confidence, and the fact that many of them are repeat visitors. In most other markets, the propensity to buy an inclusive package is slowly declining.

Figure 4.4: Package travel by country of origin

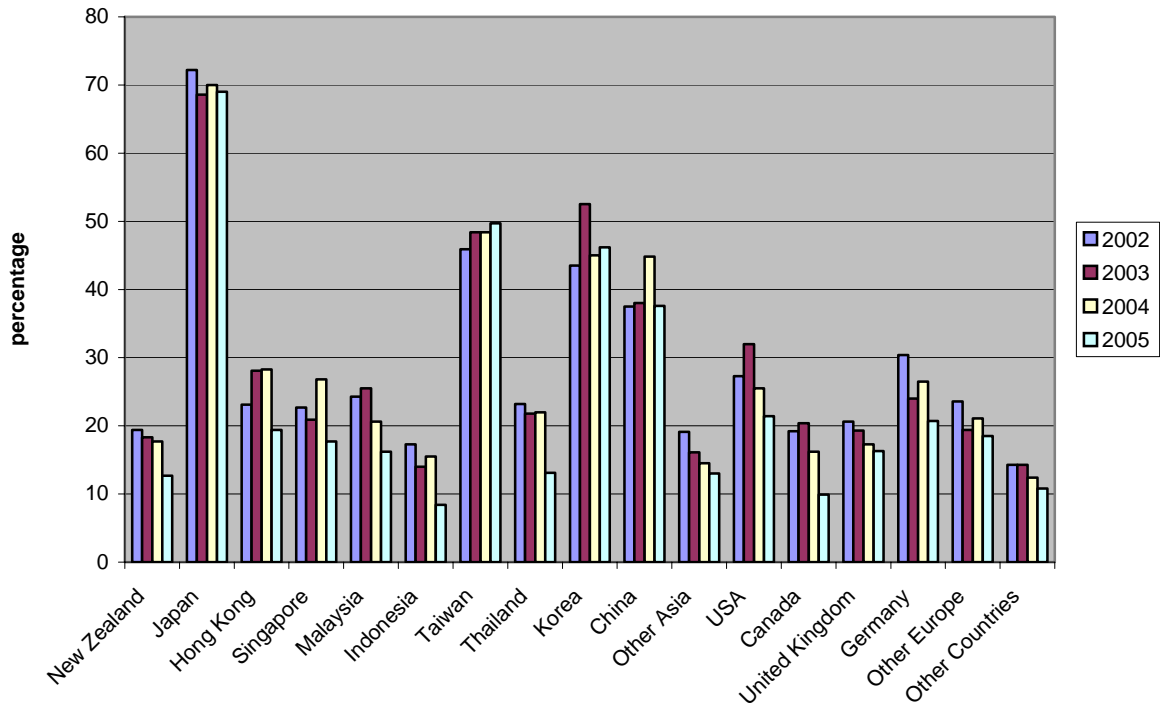
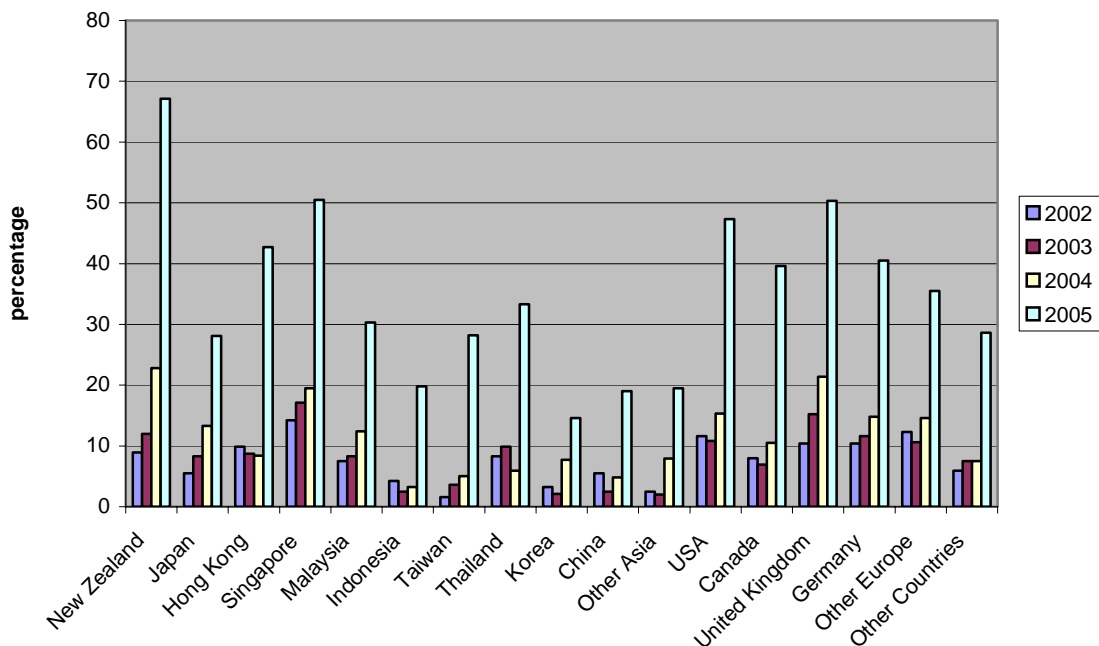


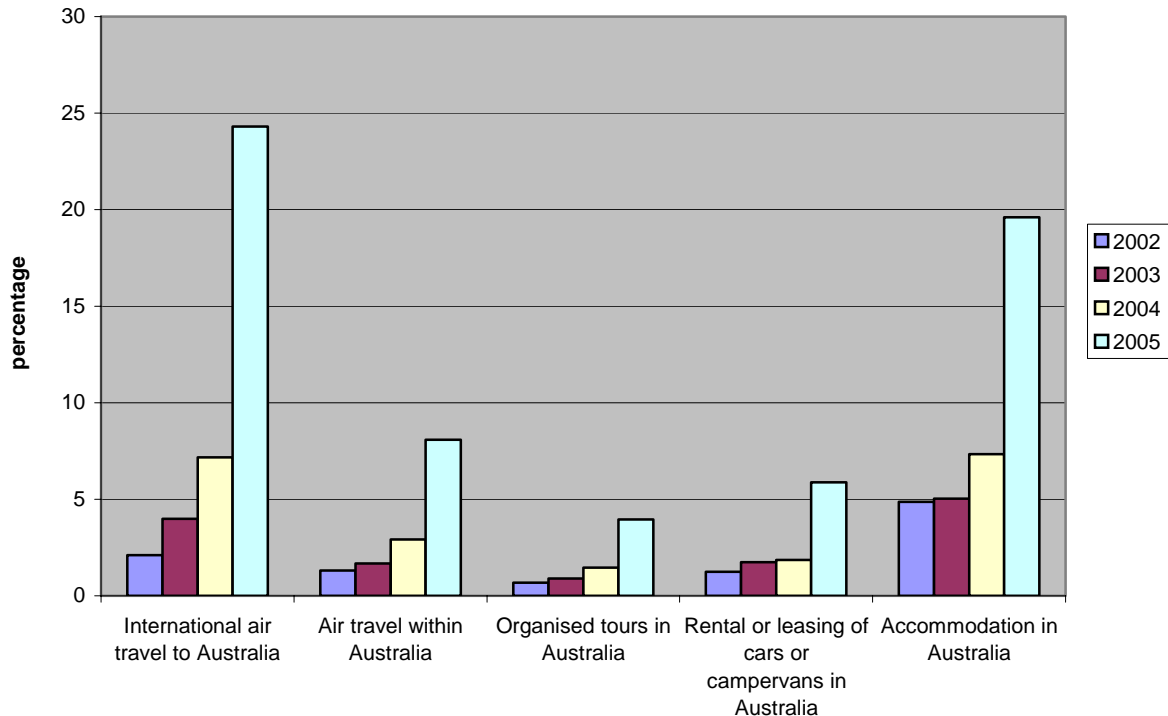
Figure 4.5 shows the rates of Internet booking by country of origin. It is clear that in all markets this has increased substantially, especially from 2004 to 2005.

Figure 4.5: Internet booking by country of origin



There has been a substantial increase in Internet booking by inbound visitors, from 15.2% in 2004 to 41.2% in 2005. Figure 4.6 shows the products most likely to be booked on the Internet are international air travel and accommodation, but all product categories show increases.

Figure 4.6: Products booked on the Internet by international visitors



Exchange Rate Trends

In 2005, the Australian dollar remained high on average against 14 major currencies, and although growth slowed from the previous two years, the dollar maintained or slightly strengthened its position against most other currencies (see Table 4.1).

Table 4.1: Annual average exchange rates

CURRENCIES		2002	2003	2004	2005
UK Pound Sterling	GBP	0.3621	0.3988	0.4017	0.4191
United States Dollar	USD	0.5440	0.6524	0.7362	0.7622
Euro	EUR	0.5760	0.5760	0.5921	0.6131
Swiss Franc	CHF	0.8450	0.8767	0.9141	0.9492
Canada Dollar	CAD	0.8537	0.9103	0.9571	0.9240
Singapore Dollar	SGD	0.9734	1.1363	1.2440	1.2689
New Zealand Dollar	NZD	1.1733	1.1193	1.1093	1.0820
Malaysian Ringgit	MYR	2.0672	2.4793	2.7977	2.8865
Hong Kong Dollar	HKD	4.2428	5.0803	5.7340	5.9286
Chinese Renminbi	CNY	4.5025	5.4002	6.0937	6.2458
New Taiwan Dollar	TWD	18.7978	22.4348	24.6000	24.5136
Japanese Yen	JPY	68.0161	75.4425	79.5700	83.9269
South Korean Won	KRW	679.3025	776.9078	842.7500	780.3587
Indonesian Rupiah	IDR	5058.5180	5586.0398	6579.0000	7406.6440

As shown in Figures 4.7 and 4.8, the Australian dollar improved its average position in 2005 over 2004 against most other currencies, with the exceptions being the New Zealand Dollar, the Canadian Dollar and the South Korean Wan.

Figure 4.7: Annual average exchange rate with selected currencies

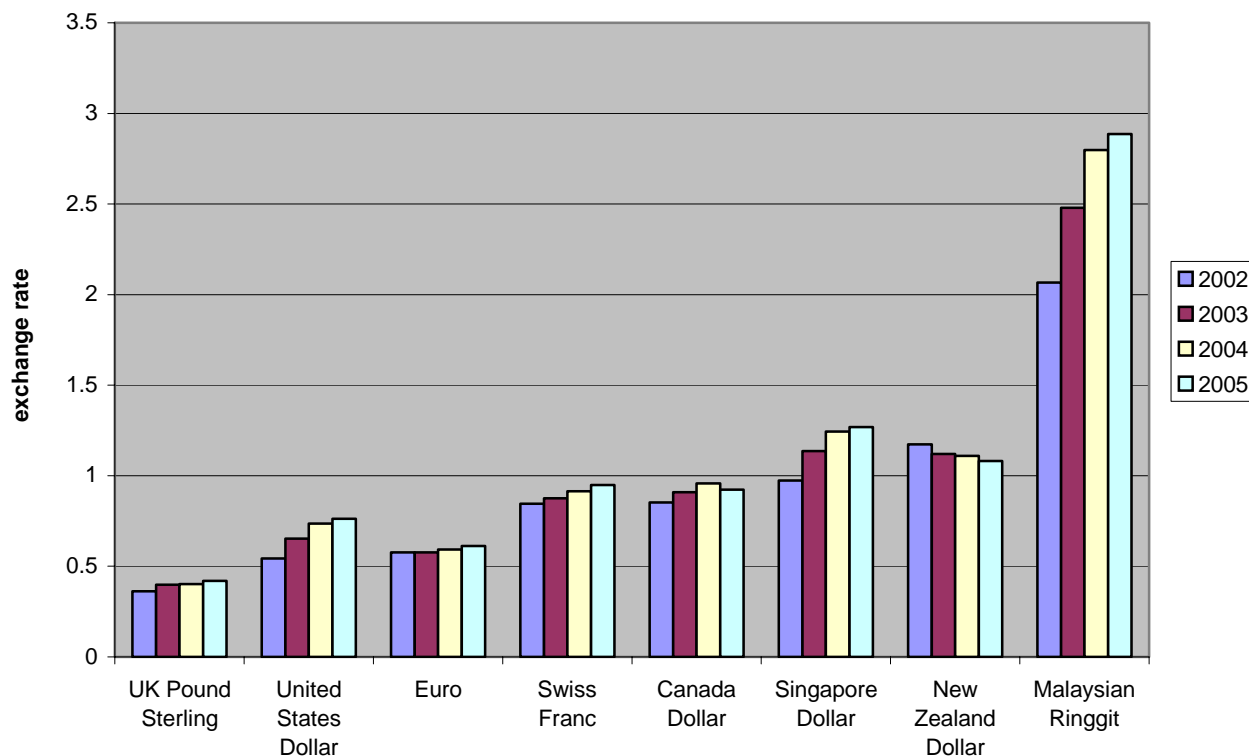
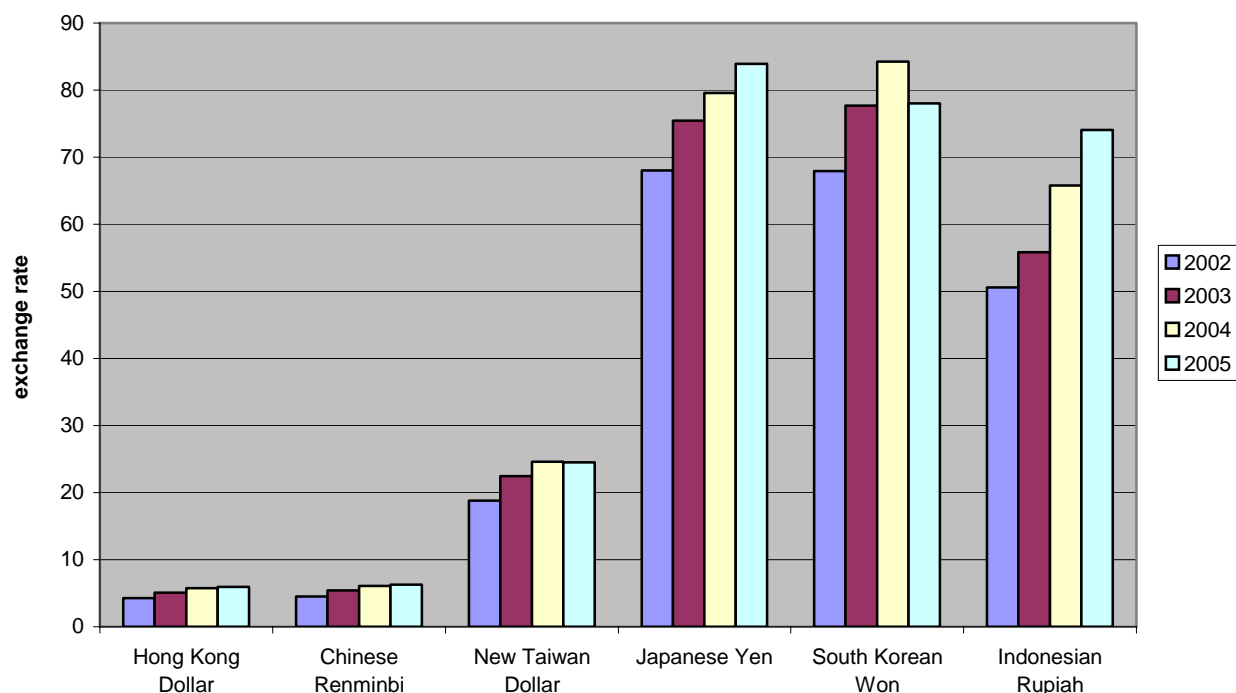


Figure 4.8: Annual average exchange rate with selected currencies (2)



Note: The exchange rate for the South Korean Wan has been divided by 10 and the Indonesian Rupiah has been divided by 100 to facilitate presentation on the same graph

Commentary

Interviews were conducted with Matt Hingerty, the Managing Director of ATEC, and John King, the Chairman of ATEC, in an effort to identify the issues facing the inbound travel sector. The general feeling in the sector seems to be one of mild apprehension. Although no major disasters occurred during the past year, there have been a number of issues which have been cause for continuing concern. One of the biggest issues is the labour shortage, which has been a growing concern in recent years. According to a survey of ATEC members, 75% have had difficulty filling positions and nearly two-thirds felt that this was affecting service quality. There was also substantial concern about the impact on business growth. 'You can't invest in expanding the business if you haven't got the people to run it. It's a labour intensive industry' (Matt Hingerty, ATEC).

Although inbound operators are obviously less affected by flat domestic tourism than many other sectors of the tourism industry, there is nonetheless an impact. As many inbound operators also have some domestic operations, they are also suffering from the poor performance of domestic tourism. A growing number of operators who had been concentrating on the domestic market are now rushing into the inbound sector in an effort to ensure survival and the concern is that inadequately developed product is being put on the market. More operators moving into the inbound market means more competition for a share of the pie.

Concern about security, natural disasters and pandemics appears to be less of an issue than last year, particularly in terms of consumer confidence. 'It's less of a deterrent than it was in previous years; it's almost as if there is a segment of the travelling public that is increasingly immune to it' (John King, ATEC). Matt Hingerty suggests that one of the best measures of Australia's recovery from any disaster would be the way in which we treat tourists who are visiting at the time. The appalling treatment of tourists in the aftermath of cyclone Katrina highlighted how unprepared the US was and this has affected its reputation as a tourist destination.

Exchange rates appear to be a contributing factor to the growth in outbound tourism and the continuing weak domestic market.

Future Outlook

A big concern for inbound tourism relates to the future of the Federal Government's funding for tourism. With global competition increasing, more funding is required to market Australia as a destination. These commentators were cautiously optimistic about the new campaign, 'Where the bloody hell are you?', but are very concerned about what will happen after the Government's White Paper funding concludes in 2008.

Obviously fuel prices are already of concern, as they add to the cost of doing business and compete for the consumer's discretionary dollar. It will probably take another 12 months before it is clear whether the fuel price increases have had a substantial impact on demand or whether consumers simply adapt to higher prices.

Another issue for the coming year is the impact of industrial relations reform. At the moment it's still too early to tell what the flow-on impacts will be and there is a lot of confusion about what would happen if the Labor party gets into power and dumps the Australian Workplace Agreements.

5. OUTBOUND AND DOMESTIC TRAVEL INTERMEDIARIES

Snapshot

TRAVEL INTERMEDIARY INDICATORS		2002	2003	2004	2005
Internet booking	By domestic overnight travellers(a)	7.3%	10.5%	n/a	n/a
	By outbound travellers (b)	15.2%	21.1%	n/a	n/a
Transactions through billing settlement plan #	Total settlement amount(c)	\$4,610 million	\$4,442 million	\$5,690 million	\$6,020 million
	No. transactions(c)	4.2 million	4.0 million	5.3 million	5.9 million
	Average transaction(c)	\$1108	\$1097	\$1077	\$1025

(a) Tourism Research Australia, National Visitor Survey – Overnight (CDMOTA)

(b) Tourism Research Australia, National Visitor Survey – Outbound (CDMOTA)

(c) International Air Transport Association (IATA), Billing Settlement Plan – Australia

#The BSP figures reported in 2006 differ from those in the 2005 report because earlier figures included both international and domestic. A decision has now been made to report only the international figures.

Internet Booking

Unfortunately, in 2004 and 2005 the National Visitor Survey did not include collection of data relating to Internet booking by domestic overnight and outbound travellers. This is disappointing given the apparent changes to the tourism industry that are being prompted by more extensive utilisation of the Internet. However, according to Roy Morgan's Holiday Tracking Survey, the proportion of domestic travellers (14 years and over on domestic trips of three nights or more) whose preferred method of booking was the Internet was 20.4% in the twelve months ending May 2005. This shows a substantial increase over the 2003 figure from the NVS of 10.5% (although the data are not directly comparable).

Billing and Settlement Plan

The billing and settlement plan (BSP) is the system through which payments for international flights are reconciled. The Australian BSP documents the outbound and return flights from Australia. Figure 5.1 shows that the number of transactions has grown steadily over the time period, but Figure 5.2 shows that the average spend per transaction has declined, indicating the trend toward cheaper overseas holidays.

Figure 5.1: Number of transactions

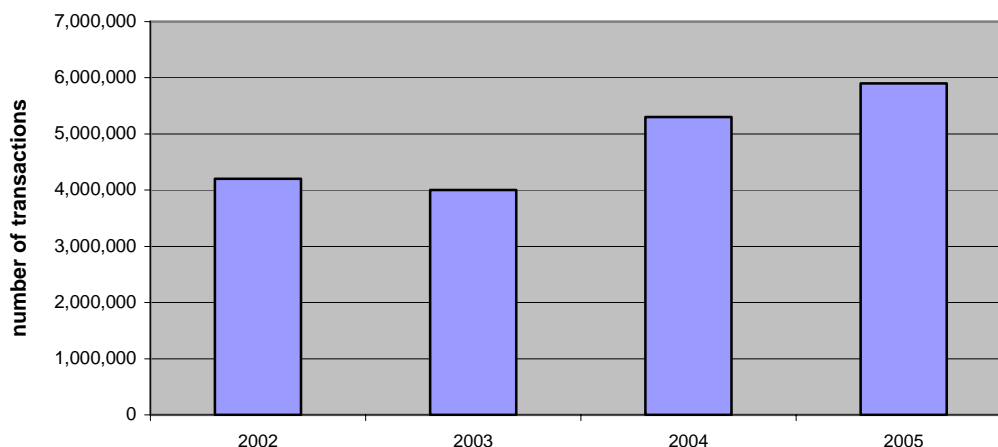
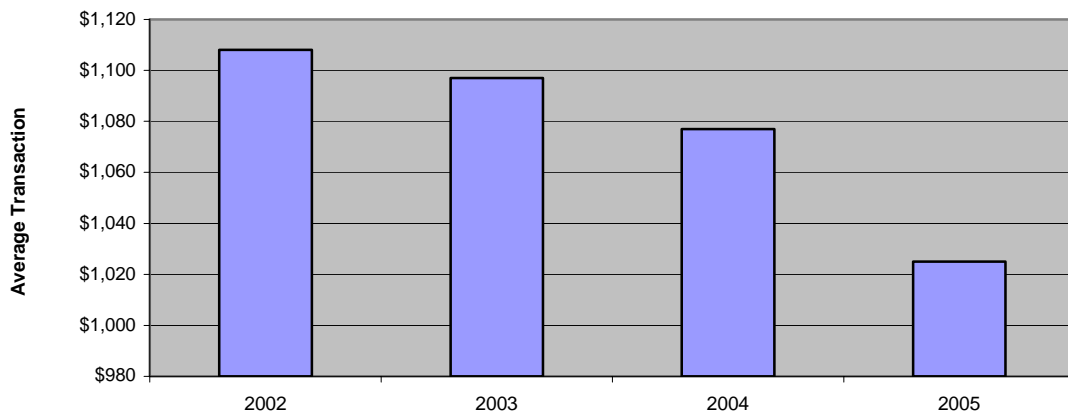


Figure 5.2: Average expenditure per transaction



Commentary

According to Mike Hatton, the CEO of Australian Federation of Travel Agents (AFTA), although the disintermediation issue is still creating some difficulties for Australian travel intermediaries, they are finding ways to remain relevant and provide value-added services in the era of online booking. A lot of agents are taking advantage of the Internet by having a web presence to facilitate online bookings, but the customer has the security of knowing there is someone they can call if anything goes wrong.

With no domestic airline commissions, it is becoming imperative for travel agents to charge a service fee. This has been happening for four to five years in the corporate travel market and it works well because companies are happy to pay a fee to have someone else do all the hard work. The overseas trend in this area is that leisure customers are also now being asked to pay an upfront fee that may then become a credit towards the cost of the trip if they actually make the booking.

Low Cost Carriers (LCCs) have had a huge impact on the intermediary sector in recent years, as they played a pivotal role in the promotion of online booking which undermined the position of travel agents in the domestic market. Hatton believes they are also impacting on certain destinations by changing the visitor profile. Some regional destinations which used to attract high yield visitors, such as Noosa and Hamilton Island, are now attracting a different market segment which entails a much lower yield for the local economy, for example the retail sector.

LCCs are now pushing into the international market, with Jetstar International and Pacific Blue. Whilst most international airlines still pay commissions, Hatton believes that, in the long term, it is inevitable that these will also disappear. Travel agents are being further squeezed by the fact that many of the airlines are trying to sell accommodation and car rentals on their websites in direct competition with travel agents. A consolation, however, is that airlines charge a substantial fee for these services, which means that travel agents still provide a competitive option.

Future Outlook

One of the concerns for the future is the fact that non-traditional intermediaries are trying to get into the distribution chain. For example, there was a recent move by Australia Post to sell airline tickets through post office shops. As part of this proposal, an exemption from membership to the Travel Compensation Fund was sought and this was not granted, which meant that the whole deal did not proceed. However, it raises concerns about what other organisations will try in the future.

Travel agents need to raise awareness of the benefits of using an agent and the potential pitfalls that travellers can face if they arrange their travel independently without the advice of an expert.

We had a woman on the phone here this morning who was trying to get to Europe to visit her mother who is ill. She had made her own booking with an Asian airline, and she didn't realise there was a domestic component of the trip within the airline's home country. She didn't have the necessary visa, so they wouldn't let her on the plane. People are not aware of these difficulties until it's too late. (Mike Hatton, AFTA)

Ideally, travel agents need a marketing campaign to communicate this information, but such a campaign would be very expensive and it's difficult to raise those funds at a time when the sector is being squeezed to such an extent.

6. ATTRACTIONS SECTOR

Snapshot

ATTRactions INDICATORS		2002	2003	2004	2005
Type of attractions visited by international visitors (a)	National or state parks	45.1%	43.2%	43.1%	44.3%
	Museums or art galleries	28.4%	28.0%	27.8%	28.3%
	History and heritage buildings or monuments	29.4%	29.3%	29.7%	29.9%
	Amusement and theme parks	14.4%	12.6%	12.8%	13.9%
	Wildlife parks, zoos and aquariums	44.6%	41.4%	40.0%	40.1%
Type of attractions visited by domestic overnight visitors (b)	National or state parks	5.6%	6.7%	7.5%	7.6%
	Museums or art galleries	4.1%	4.7%	5.1%	5.3%
	History and heritage buildings or monuments	3.2%	4.4%	4.5%	4.0%
	Amusement and theme parks	2.4%	2.5%	2.4%	2.4%
	Wildlife parks, zoos and aquariums	2.3%	2.5%	2.6%	2.7%

(a) Tourism Research Australia, International Visitor Survey (CDMOTA)

(b) Tourism Research Australia, National Visitor Survey – Overnights (CDMOTA)

Types of Attractions Visited by International Visitors

The proportions of international visitors to various types of attractions have not varied substantially over the time period. Figure 6.1 shows the breakdown of this visitation by country of origin. It shows that Germans, Koreans and Other Europeans were most likely to visit national parks during their trip, while Germans, Canadians and visitors from the UK and Other Europeans were most likely to visit museums and art galleries, and historical or heritage sites. Chinese and Taiwanese were most likely to visit theme parks, and Koreans and Japanese are most likely to visit wildlife parks, zoos and aquariums.

Figure 6.1: International tourist attendances at attractions by country of origin (2005)

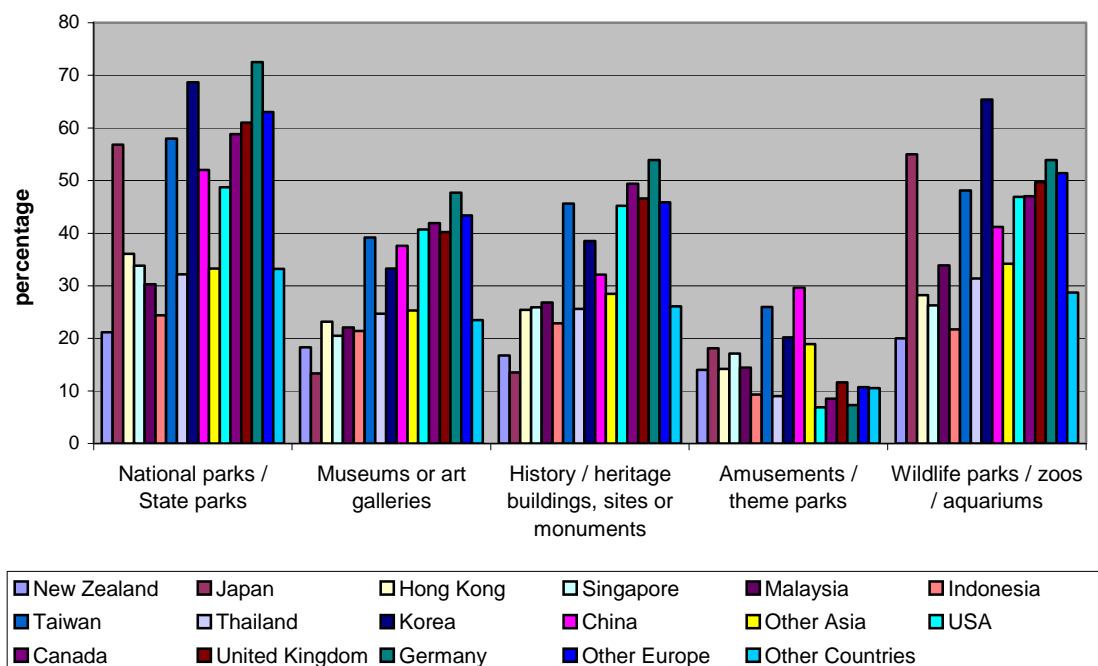
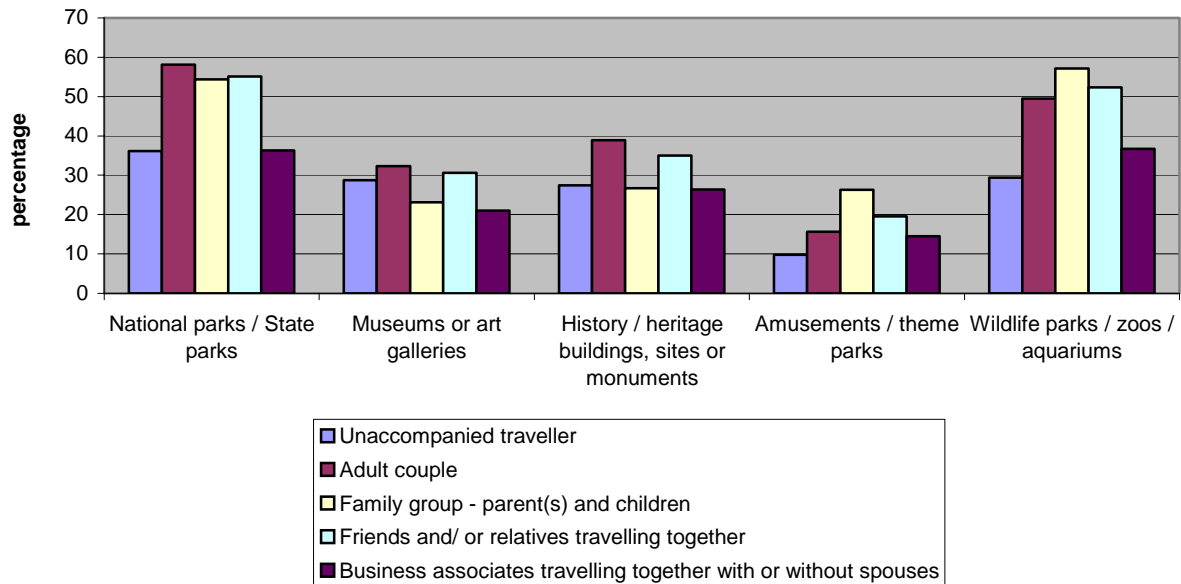


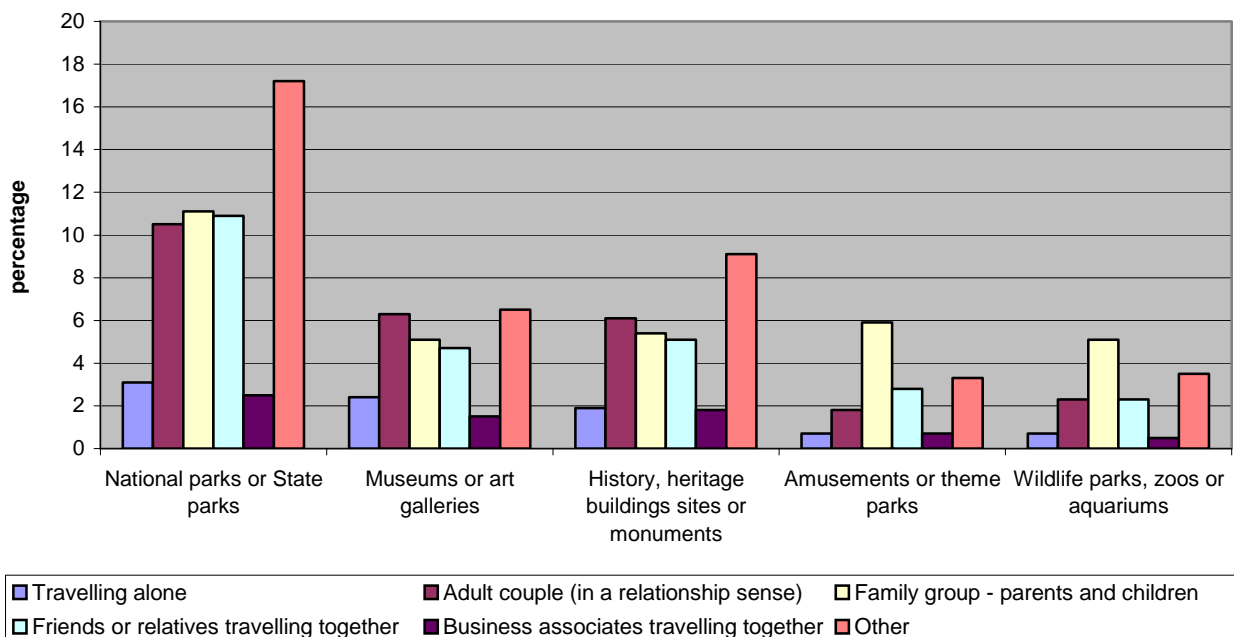
Figure 6.2 shows the visitation to attractions by travel party. As might be expected, couples and friends travelling together are most likely to visit national parks, museums, art galleries and historical sites, while family groups with children are more likely to visit theme parks, wildlife parks, zoos and aquariums.

Figure 6.2: International tourist attendances at attractions by travel party (2005)



Similar patterns can be observed amongst domestic overnight travel groups, as shown in Figure 6.3. The other category which has very high visitation levels at most attractions is comprised largely of school and community groups travelling together and the attendance levels are indicative of the educational nature of many of these group holidays. As would be expected, business associates have low visitation levels to most attractions.

Figure 6.3: Domestic overnight tourist attendances at attractions by travel party



Commentary

Attractions play a very important role in the tourism industry, but because of their diversity they do not really form a cohesive sector and are not represented by a single national association. As shown in the snapshot, one of the most popular forms of attraction in Australia are national and state parks, and for this reason one of the commentators selected for this section was Col Ingram from Western Australia's Department of Environment and Conservation. Other commentators were Jeremy Johnson, the CEO of Sovereign Hill (an interactive museum with a gold rush theme in Ballarat, Victoria) and Peter Doggett, Chairman of Gold Coast Tourism and International Relationship Manager for Warner Village Theme Parks (owner of five of the premier attractions on the Gold Coast, namely Sea World, Warner Bros. Movie World, Wet'n'Wild Water World, Paradise Country, and Australian Outback Spectacular).

All of these commentators referred to rising fuel prices as being one of the most negative issues facing the attractions sector in the past 12 months. Ingram and Johnson were concerned because their attractions are a substantial distance from major population centres, while Doggett was more concerned about the fuel surcharge on flights and the impact this is having on inbound tourism.

Another issue of concern is competition from events. Johnson reported that the Commonwealth Games substantially disrupted business over almost a three month period. Visitation in January and February was down because people had to pay for their Games tickets in December so they had fewer discretionary dollars to spend, and they postponed their annual leave to attend the Games. Then the school terms were disrupted, reducing the number of educational groups, and during the event itself international groups, particularly those from China, avoided Victoria because they couldn't get flights and accommodation. In summary, it was a difficult period. In a similar vein, Doggett expressed concern about the impact of the World Cup Football in Germany, both in terms of reduced international visitation to Australia during the period, and reduced domestic travel by Australians who invested in wide screen televisions in order to watch the event rather than travelling. These issues only contribute further to the already worrying domestic tourism trend.

Labour shortages seem to be less of a problem to attractions than to other sectors, although Ingram reports that it is becoming more difficult to recruit staff in remote areas:

Younger people want to work in and around metropolitan areas. There are major problems in sourcing housing in regional areas at reasonable costs due to the mining boom. Access to education and health services and lifestyle issues are also a factor for some staff. We are getting fewer applications for entry into our graduate recruit program and some field positions are proving very difficult to fill.

A key issue for the parks has been increased consultation with local communities, especially indigenous communities, and also with operators, to promote sustainable tourism.

Future Outlook

Peter Doggett is concerned about the ever-increasing tax burden on the tourism industry. It can't all be passed onto the consumer; they are not prepared to pay that much, so the supplier has to absorb some of it.

There is also the concern that, with high fuel prices and increasing interest rates, people will reduce their consumption more and more, and tend to cocoon and stay at home. Attractions are likely to suffer if this is the case.

7. ACCOMMODATION

Snapshot

ACCOMMODATION INDICATORS			2002	2003	2004	2005
International tourists	Top five accommodation options based on percentage of visitor nights (a)	Rented property	30.3%	28.9%	28.4%	27.8%
		Home of friend or relative	28.3%	27.8%	28.8%	27.7%
		Hotel, resort, motel, motor inn	16.5%	16.4%	15.9%	17.9%
		Backpackers / hostel	9.1%	9.8%	9.7%	8.8%
		Homestay	5.2%	6.2%	6.4%	6.6%
Domestic tourists	Top five accommodation options based on percentage of visitor nights (b)	Home of friend or relative	41.6%	41.3%	42.6%	40.4%
		Hotel, resort, motel, motor inn	23.8%	25.4%	26.2%	27.3%
		Rented property	10.4%	10.0%	8.6%	8.5%
		Caravan park / camp ground	10.2%	10.7%	9.7%	9.5%
		Caravan / camp elsewhere	4.1%	4.5%	4.4%	4.8%
Occupancy rates	Average annual occupancy rate for all hotels, motels and serviced apartments (15 rooms or more) (c)	58.7%	60.1%	62.0%	63.1%	
Takings	Takings from accommodation (15 rooms or more) (c)	\$4,865 billion	\$5,277 billion#	\$5,675 billion	\$6,189 billion	
	Takings per occupied room (15 rooms or more) (c)	\$115.35	\$119.05	\$122.43	\$128.13	
Investment, building approvals and activity by sector	Building work done – accommodation(d)	\$605.3 million	\$804.6 million	\$944.4 million	\$1113.1 million	

(a) Tourism Research Australia, International Visitor Survey (CDMOTA)

(b) Tourism Research Australia, National Visitor Survey – Overnights (CDMOTA)

(c) ABS, Tourist Accommodation (8635)

(d) ABS, Building Activity (8752)

The ABS Tourist Accommodation Survey had a break in series in June 2003 when 132 additional properties were added

Accommodation Types Used

Figure 7.1 shows the percentage of nights spent in various accommodation types by international visitors. The largest proportion of nights is spent in rented accommodation and in the homes of friends and relatives. There has been some growth in recent years in the percentage of international accommodation provided in hotels, resorts and motels and homestays, whilst other forms of accommodation have declined.

Figure 7.2 shows that amongst domestic tourists, the largest proportion of nights are spent with friends or relatives, followed by hotels, resorts and motels. This latter category has grown over the last three years in terms of the percentage of domestic tourists who use this form of accommodation.

Figure 7.1: Accommodation used by international tourists

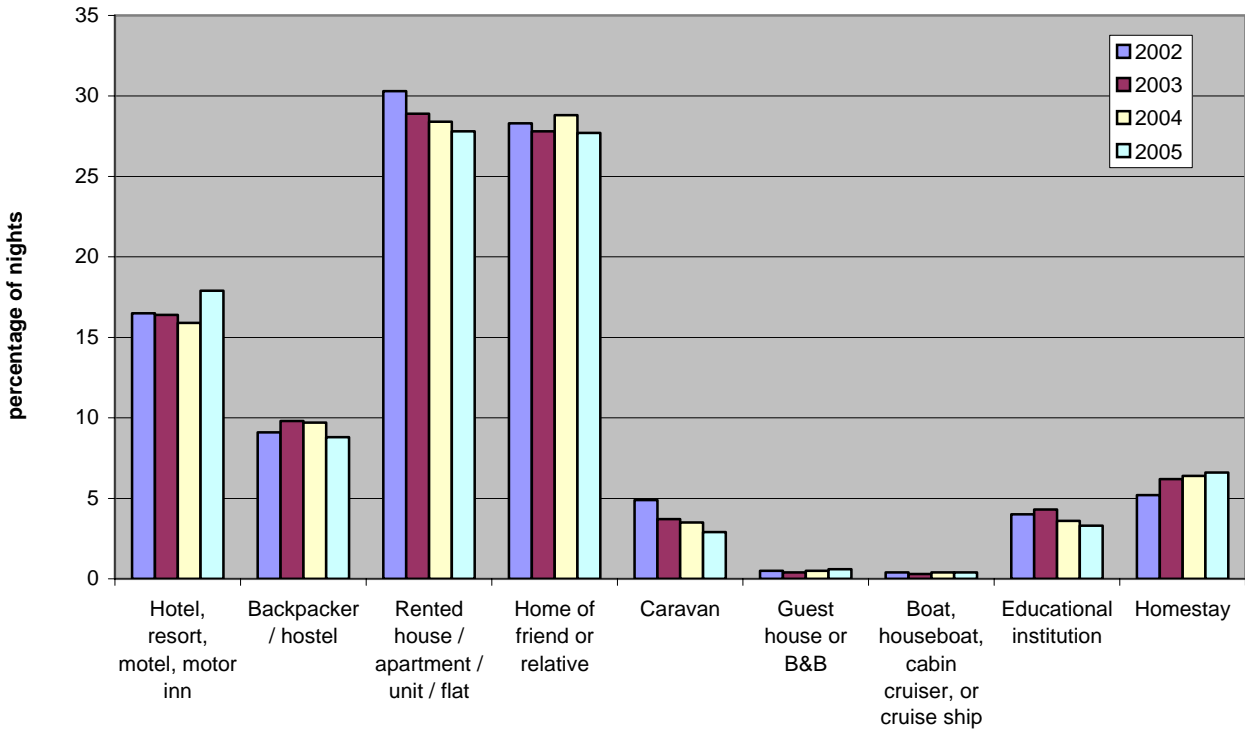
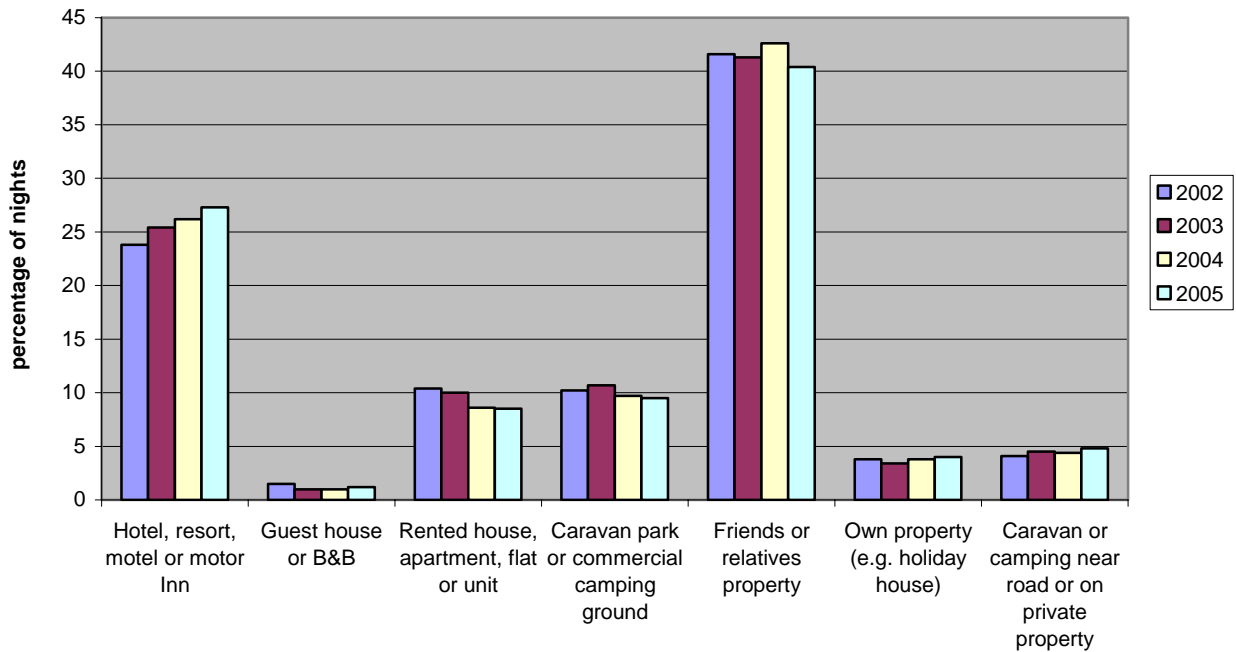


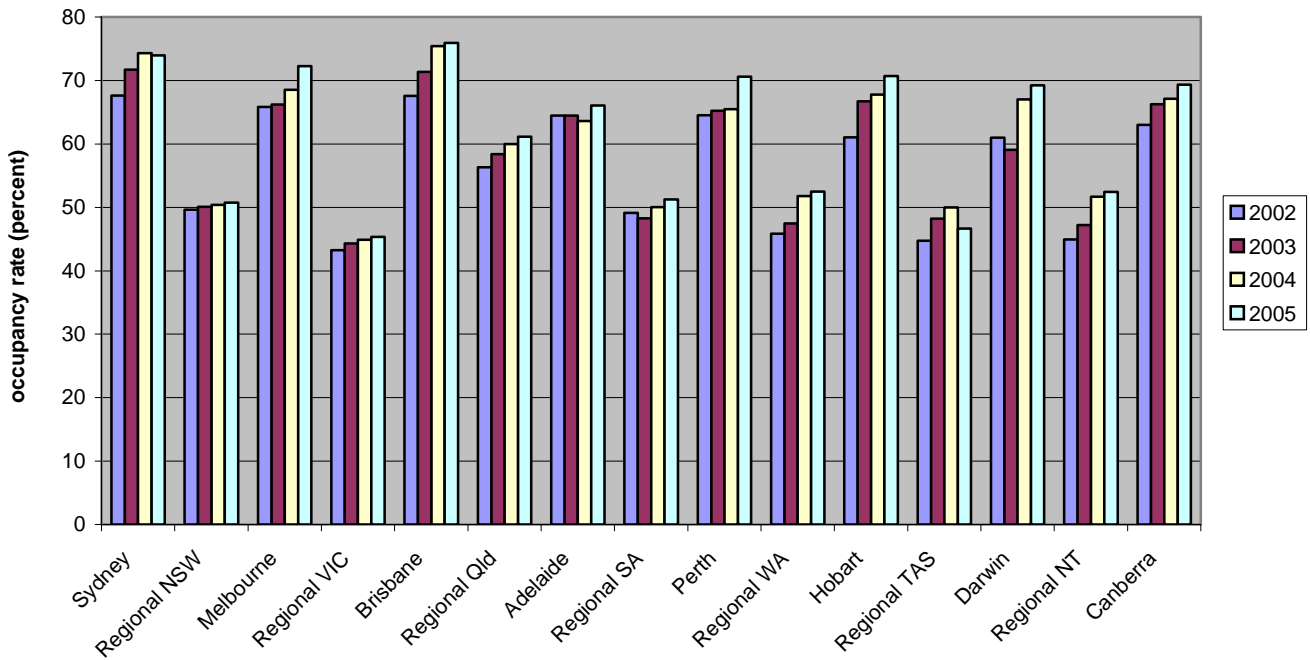
Figure 7.2: Accommodation used by domestic overnight tourists



Occupancy Rates and Takings from Accommodation

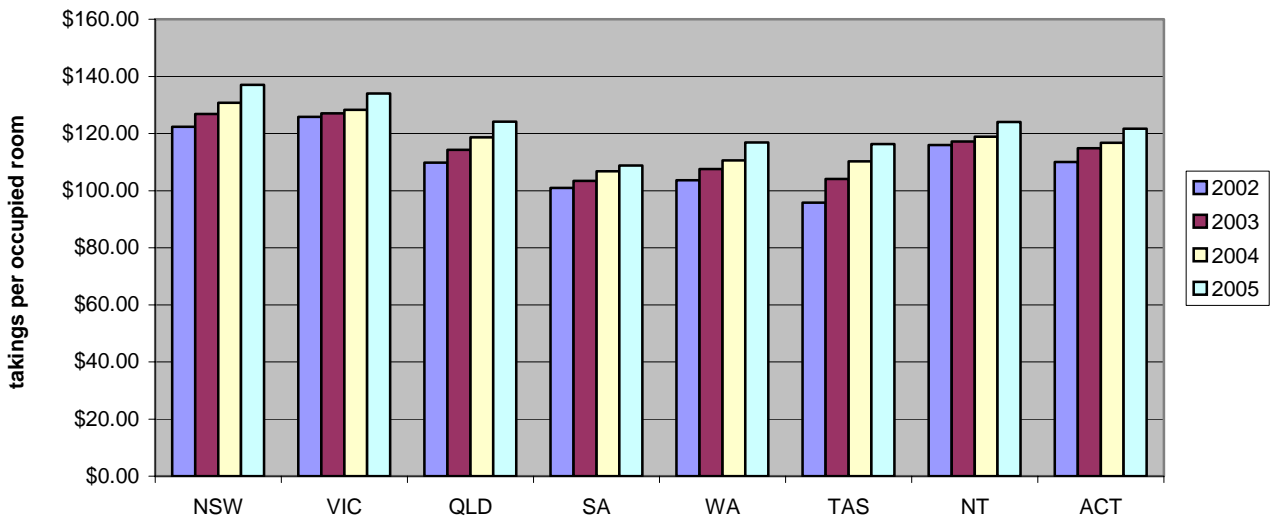
The average occupancy rates across Australia have shown a slight increase over the last four years, increasing from 58.7% in 2002 to 63.1% in 2005. However, as shown in Figure 7.3, regional areas generally have lower occupancy levels than capital cities. The only area not to have experienced an increase in occupancies from 2004 was regional Tasmania.

Figure 7.3: Occupancy rates by region



The overall takings from accommodation (in hotels, motels and serviced apartments with 15 rooms or more) were in excess of \$6.1 billion in 2005 with an average per occupied room of \$128.13. Figure 7.4 shows the takings per occupied room by State, which indicates there has been a steady increase in all states over the time period.

Figure 7.4: Takings per occupied room by State



Building Work Completed

The value of accommodation building work increased by 17.8% between 2004 (\$944.4 million) and 2005 (\$1113.1 million) and this increase is substantially higher than the overall increase in non-residential building work of 17.8% for the same period. This is slightly lower than the increase for non-residential building work, generally of 18.3%.

Commentary

The accommodation sector includes a range of different sub-segments and in choosing commentators for this area, an effort was made to represent the various sub-segments. Therefore, interviews were conducted with Greg Holmes, the CEO of HMAA as well as their National Affairs Manager, Peter Olah. Also interviewed were Julian Ledger, Chairperson of Backpacker Tourism Advisory Panel (BTAP) and CEO of Youth Hostels Australia; and Peter Cook, the President of Bed & Breakfast and Farmstay Australia (BBFA).

One of the biggest problems facing some parts of the accommodation sector, particularly in Sydney and Melbourne, is the inappropriate use of residential strata-title apartments as short term tourist accommodation. The problem is that the owner of a residential apartment is usually paying lower rates, less insurance and there are fewer regulations that they have to comply with in terms of size of lifts, garbage chutes and fire safety. If they are letting illegally, they are probably not paying GST and so they are able to offer a very similar product for a much lower price. They can distribute through the Internet, meet the guest at the door and give them the key. There is no check-in desk, so again, the overheads are lower. 'It's most obvious when there are large groups' (Julian Ledger, BTAP). Greg Holmes (HMAA) agrees this is a major problem and it's possible that a significant number of bed nights are being spent in unapproved hotel rooms, which means they are not being counted in the accommodation statistics. Of course, not all strata-title accommodation is being operated inappropriately. Many strata-title buildings had approval from the outset to operate as tourism accommodation and many others have been retrospectively approved for this purpose. There are a number of operators, however, who have not obtained the necessary approvals and permits. This erodes returns to the legitimate industry and is a substantial deterrent to future investment in room stock. Combating the problem will require a concerted effort because while there is demand for cheap accommodation there will be people willing to provide it. The industry has to work together, State government has to provide planning authority to local councils, local councils have to resource that action, and there needs to be direct pressure on the illegal operators from insurance companies, body corporates, and name and shame websites. TTF has been advocating an accommodation certification scheme which should operate nationally. Such a scheme would require that in order to provide short stay accommodation (short stay being less than 3 months) a provider should be in possession of a certificate which testifies to having appropriate development approval, insurance and building compliance, together with meeting required OH&S and access standards (Peter Staveley, TTF).

Increased fuel prices are also an issue of particular concern for accommodation providers in regional areas. The HMAA recently carried out a member survey and about 50% of respondents indicated that their businesses are being negatively affected. Peter Cook suggests that people are still prepared to drive up to about two and a half hours, but perhaps not as often as they once would have.

Future Outlook

One of the future issues facing the B&B sector is burnout of operators. According to Peter Cook (BBFA), a number of people have come into the sector for lifestyle reasons, investing their superannuation in a property, and believe that the tourism industry will provide them with a comfortable semi-retirement. However, the work often turns out to be harder than they thought, and the concern is that they start to burn out and standards slip. Maintaining standards and ensuring that customers are given a special experience is going to be a major challenge.

8. TRANSPORT

Snapshot

TRANSPORT INDICATORS	2002		2003		2004		2005	
Passengers travelling on international flights (inbound and outbound)(a)	16.5 million		16.1 million		19.4 million		20.9 million	
Average seat utilisation on international flights (a)	73.8%		71.8%		71.5%		76.7%	
Passengers travelling on domestic flights (b)	31 million		34 million		38.7 million		41.5 million	
Load factor on domestic flights (b)	77.2%		78.3%		77.4%		77.6%	
Domestic airfare index (average over all categories)(c)	103.4		100.9		98.8		98.9	
Transport used within Australia by international tourists (d)	Aircraft	45.5%	Aircraft	42.2%	Aircraft	38.7%	Aircraft	37.3%
	Private Car	30.0%	Private Car	31.9%	Private Car	33.5%	Private Car	32.9%
	Taxi	17.1%	Taxi	18.4%	Tour Bus	18.8%	Taxi	20.0%
	Tour Bus	16.7%	Tour Bus	15.7%	Taxi	18.6%	Tour Bus	16.6%
	Rental Car	11.7%	Rental Car	12.5%	Rental Car	11.2%	Rental Car	12.3%
Transport used within Australia by domestic tourists (e)	Private Car	77.4%	Private Car	76.2%	Private Car	75.3%	Private Car	74.0%
	Aircraft	16.2%	Aircraft	17.8%	Aircraft	19.4%	Aircraft	21.1%
	Railway	3.6%	Railway	3.1%	Railway	2.8%	Railway	2.8%
	Coach	3.1%	Coach	2.9%	Coach	2.8%	Coach	2.6%
	Rental Car	1.0%	Rental Car	1.3%	Rental Car	1.3%	Rental Car	1.3%
Average petrol prices (f)	87.8 cents per litre		91.7 cents per litre		100.1 cents per litre		112.3 cents per litre	

a) Bureau of Transport and Regional Economics, International Scheduled Air Transport, BTRE: Canberra.

b) Bureau of Transport and Regional Economics, Australian Domestic Airline Activity, BTRE: Canberra.

c) Bureau of Transport and Regional Economics, Australian Domestic Air Fare Indexes, BTRE: Canberra.

d) Tourism Research Australia, International Visitor Survey(CDMOTA)

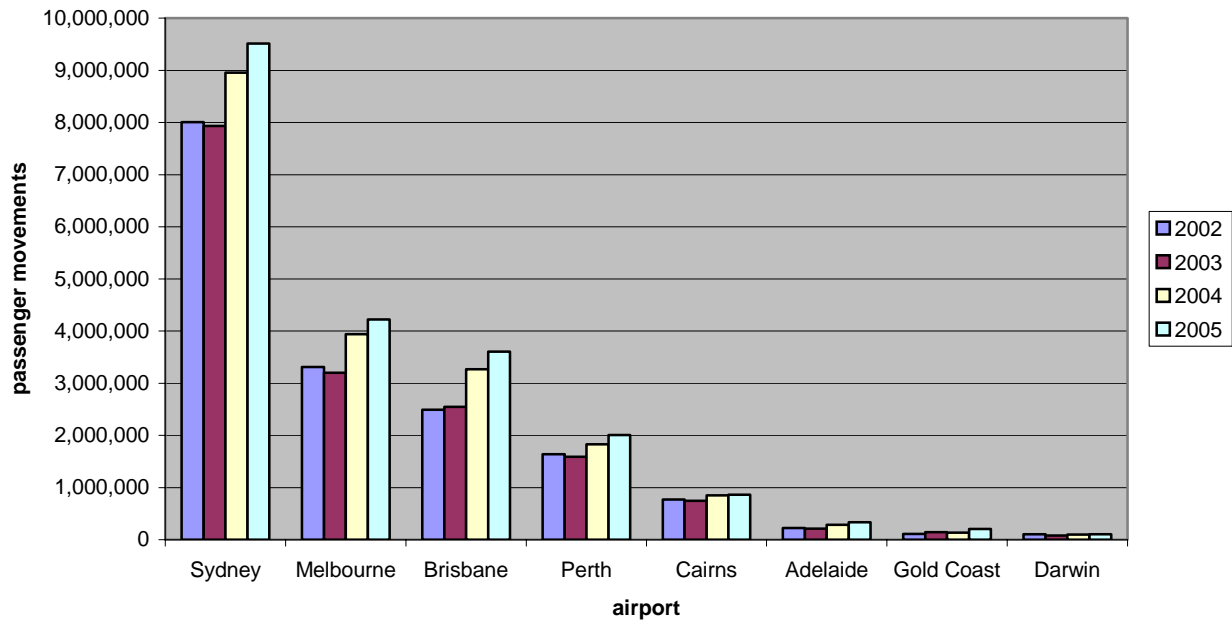
e) Tourism Research Australia, National Visitor Survey(CDMOTA)

f) ABS, Average Retail Prices of Selected Items (6403)

International Air Transport Capacity and Traffic

There were 49 international passenger airlines operating services to Australia in 2005, and these airlines operated a total of 118,682 flights in and out of the country. A total of 20.9 million passengers were on these flights, including inbound tourists arriving and departing, and Australians departing and then returning. This represents a growth of 7.8% over the same figure in 2004. Qantas have the largest market share with 28% of passengers, followed by Singapore Airlines (10.6%), Air New Zealand (8.7%) and newcomer Emirates (6%). As shown in Figure 8.1, the majority of these passengers arrive via Sydney (45.6%) but the highest growth rate was for the Gold Coast airport which almost doubled its international passenger numbers from 2004 but from a low base number. Brisbane also experienced strong growth of more than 10%.

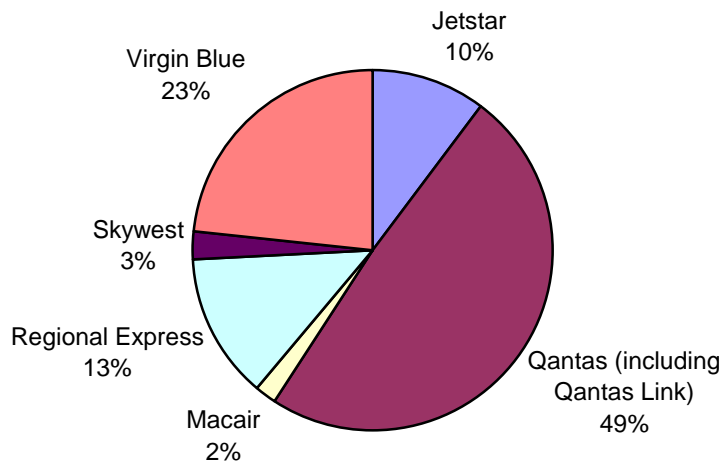
Figure 8.1: International passenger movements by port



Domestic Air Transport Capacity and Traffic

In 2005 there were 41.5 million passenger movements on domestic airlines, which represents a 7% growth on 2004. Travel between Sydney and Melbourne accounts for nearly 15% of all passenger movements, followed by Sydney and Brisbane (9%) and Brisbane and Melbourne (6%). As shown in Figure 8.2, Qantas (including Qantas Link) accounted for nearly half of these flights, but this represents a decline from 2004 when it had a 56% market share. However, the loss of share was to Jetstar which is wholly owned by Qantas, and newcomer MacAir, which is a commercial partner of Qantas operating in Northern Queensland. Jetstar increased its share from 6% to 10% in 2005.

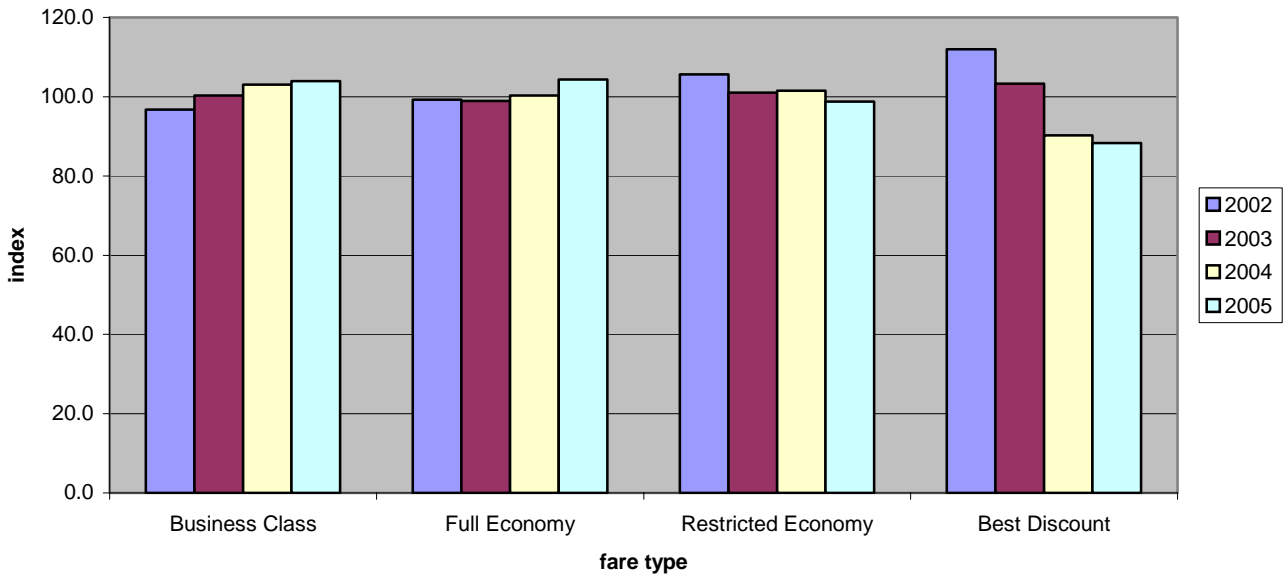
Figure 8.2: Domestic flights by airline



Airline Prices

The Bureau of Transport and Regional Economics produces a Domestic Air Fare Index. The index is a relative indicator comparing prices to a reference point in July 2003 which is represented by 100 on the scale. Therefore, it can be seen in Figure 8.3, that business class and full fare economy tickets were slightly more expensive in 2005, while restricted economy tickets are slightly less expensive than in July 2003. The best discount ticket price was substantially lower in 2005 with an average index score of 88.4.

Figure 8.3: Domestic Air Fare Index



Transport Used Within Australia

Figure 8.4 shows the transport used by international visitors to Australia between overnight stopovers as a percentage of all stopovers. The most common form of transport used was aircraft, but this is declining in relative importance. Private and company cars were also commonly used, followed by taxis and tour buses. There is a noticeable decline in the relative usage rates of long distance coaches and in water-based transport.

Figure 8.4: Transport used by international tourists within Australia

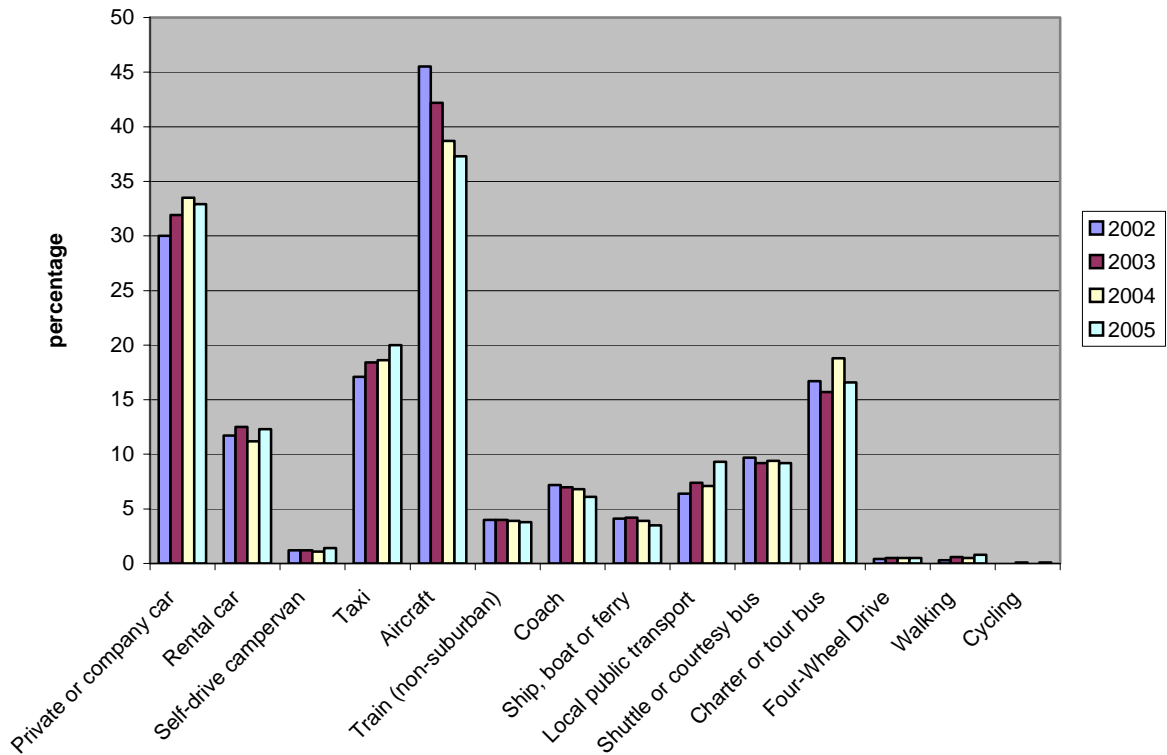
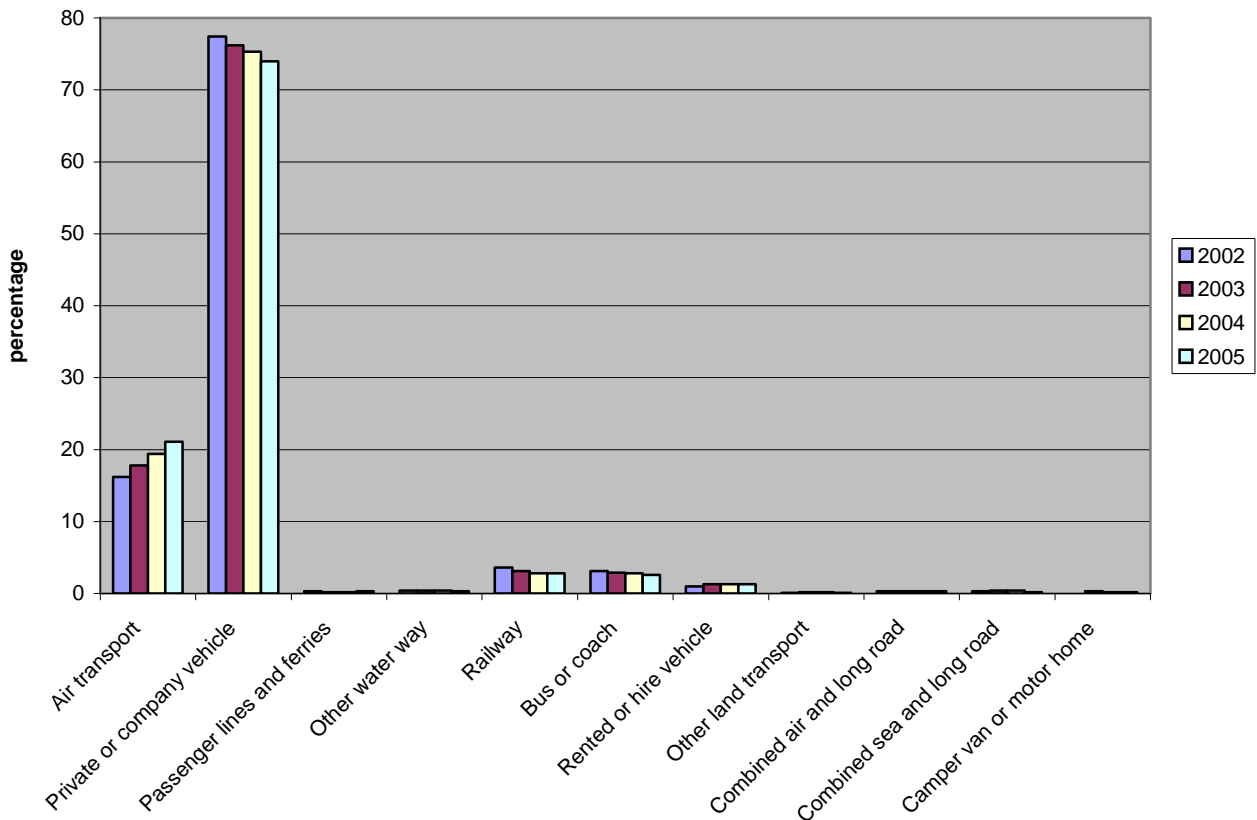


Figure 8.5 shows the transport used by domestic overnight visitors and it is clear that the vast majority of these trips are made in private cars or company cars. However, there has been a gradual relative decline in their proportions over the time period and this has been accompanied by an increase in the percentage of air travel.

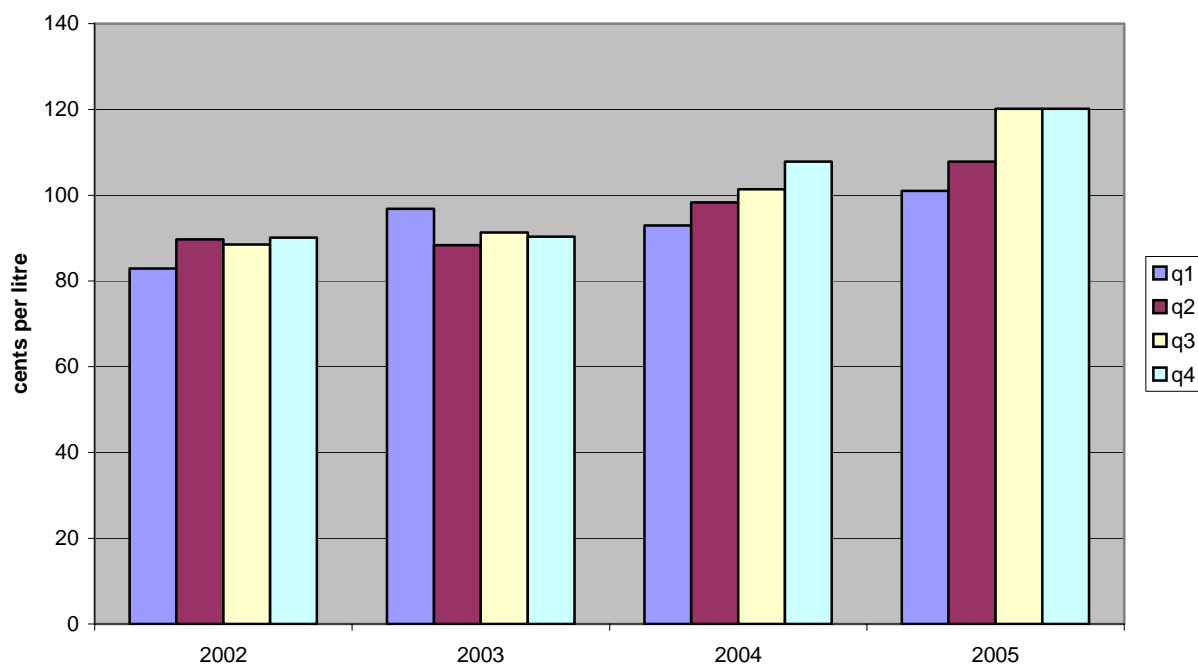
Figure 8.5: Transport used by domestic tourists within Australia



Petrol Prices

Oil prices have risen sharply in recent years, and this has affected all forms of transport. Figure 8.6 shows quarterly average prices for unleaded petrol across Australia. By Quarter 4 2005, the national average had risen to 120.2 cents per litre and by June 2006 they had again risen to 134.6 cents a litre.

Figure 8.6: Quarterly average petrol prices



Commentary

Transport is another diverse sector comprising a number of sub-segments, including airlines, airports, coaches, trains, ships, hire cars, taxi and private cars, and many of these sectors are only partially involved in tourism. Aircraft is the most common form of travel for international tourists, even within Australia, and it is the most common form of commercial transport for domestic tourists. For this reason, interviews were conducted with Geoffrey Conaghan, General Manager, Corporate Affairs for Melbourne Airport, and Dennis Chant, Managing Director of Queensland Airports Limited, which manages the Gold Coast, Townsville and Mt Isa airports. Commentary provided by experts in other sectors which is relevant to transport is also included in this section.

The most obvious issue which affects most forms of transport is increasing oil and fuel prices. This was rated as the most negative issue facing operators and particularly amongst operators in the transport sector. Airlines have introduced fuel levies on top of ticket prices in order to cope with the increased operating expenses due to fuel price hikes, but there is mixed evidence as to whether this is affecting demand. According to Geoff Conaghan, there has been no effect on passenger numbers through Melbourne Airport, but Dennis Chant reports that the substantial growth that was being experienced by the Gold Coast airport has flattened.

One of the biggest influences on the transport sector in recent years has been the growth in market share of the LCCs, initially in the domestic market and more recently internationally. It appears to have promoted a substantial modal shift in the domestic market, with increased use of flights and substantially reduced use of cars, trains and coaches. This may have been further exacerbated by the high price of fuel because even with fuel levies, LCC airfares

remain relatively low with best discount prices cheaper in 2005 than in any of the previous three years (see Figure 8.3). However, there is concern about the lower yield associated with the tourism that is stimulated by LCCs.

With regard to the impact of fuel price increases on drive tourism, many commentators agree that there is a substantial psychological effect which is dissuading driving to an extent that doesn't seem justified. Daniel Gschwind said:

It baffles me when an increase of a few cents at the bowser which has a relatively minor impact on the overall cost of a holiday but it is influencing holiday or travel choice in a disproportionate way.

Bill Spurr suggests that it is not the fuel prices themselves which are affecting demand, but the constant media attention on the issue that is putting people off.

Future Outlook

One of the issues set to shake up the transport sector in the near future is the growth of international LCCs. Jetstar now flies to a range of international destinations in New Zealand, Asia and the US. They also offer holiday packages and online booking is encouraged, which will likely promote disintermediation in the international market similar to that already experienced in the domestic market.

9. TOURISM EVENTS

Snapshot

TOURISM EVENT INDICATORS		2002	2003	2004	2005
Attendees at sport events	International(a)	7.4%	10.9%	8.4%	6.6%
	Domestic overnight (b)	3.6%	4.7%	4.3%	4.1%
Largest international source markets (a)	UK	26.2%	29.1%	23.0%	24.0%
	New Zealand	19.6%	20.4%	28.3%	22.4%
	USA	14.7%	10.4%	11.9%	12.2%
	Ireland	3.1%	3.7%	4.0%	4.7%
	Japan	6.5%	5.4%	4.5%	3.3%
Attendees at cultural events	International(a)	8.0%	8.0%	7.6%	8.7%
	Domestic overnight (b)	1.9%	2.1%	2.1%	2.1%
Largest international source markets (a)	UK	25.0%	22.7%	21.3%	21.0%
	USA	12.6%	11.8%	11.7%	12.1%
	New Zealand	9.0%	10.8%	14.1%	12.1%
	Germany	5.8%	6.4%	6.0%	5.0%
	South Korea	3.3%	4.1%	3.8%	4.6%
Pre and post touring – percentage of event attendees with multiple stopovers (c)	International(a)	62.8%	62.4%	59.1%	60.3%
	Domestic overnight (b)	16.2%	16.9%	17.3%	16.6%

(a) *Tourism Research Australia. International Visitor Survey (CDMOTA)*

(b) *Tourism Research Australia. National Visitor Survey - Overnights (CDMOTA)*

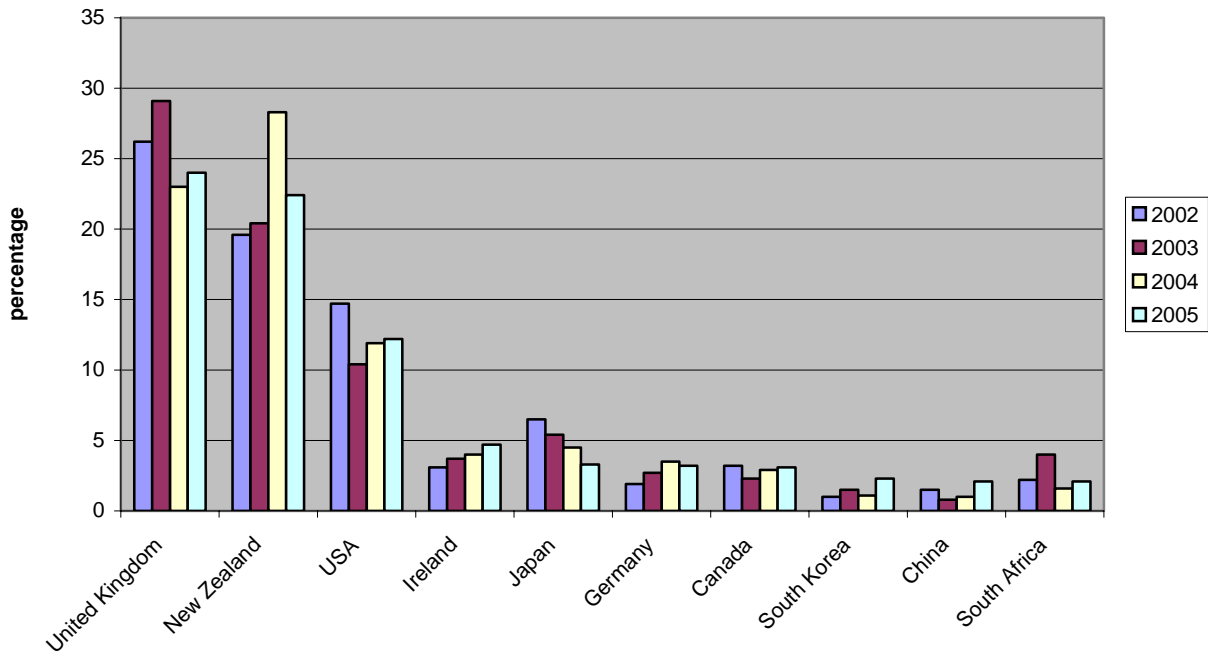
(c) *Percentage expressed as a proportion of those who attended an event either sporting or cultural*

Attendance at Sport Events

On average, 6.6% of international visitors to Australia in 2005 attended an organised sporting event during their stay, which represents a relative (and absolute) decline from the previous two years. On average, 4.1% of domestic visitors on overnight trips attended a sporting event in 2005.

There was a peak in international visitors attending sport events in 2003 due to the Rugby World Cup hosted in Australia that year. Figure 9.1 shows the major source markets for sporting events, with 24% of visitors attending sport events in 2005 coming from the UK, closely followed by 22% coming from New Zealand. In 2004, there was a large number of sport visitors from New Zealand, but there is not a single large event that this visitation can be attributed to.

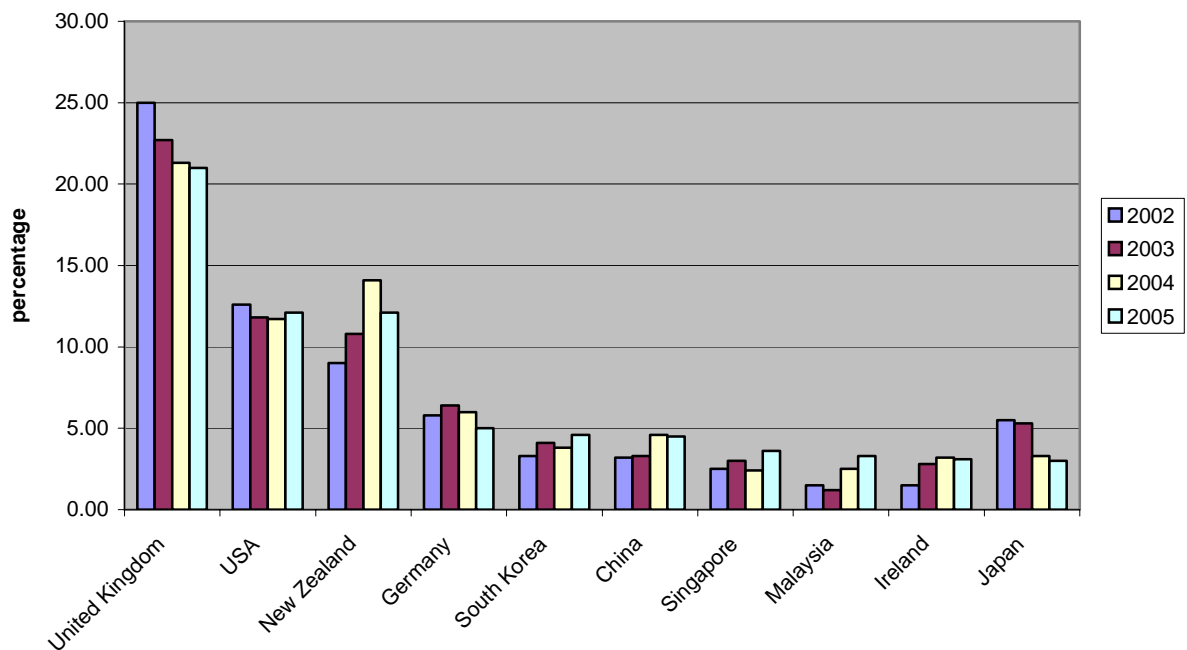
Figure 9.1: International source markets for sport events



Attendance at Cultural Events

Attendance at cultural events (including festivals and fairs) averaged out at 8.7% for international visitors and only 2.1% for domestic overnight travellers in 2005. Figure 9.2 shows the major international source markets with again the majority coming from the UK, followed by the USA and New Zealand.

Figure 9.2: International source markets for cultural events



Commentary

Tourism events is another sector which is not well-represented with a national association. Therefore, the commentators consulted in this area included Joyce DiMascio from the TTF, Peter Abraam, the CEO of Victoria Major Events, and Clive Dwyer, the tourism manager for the 2006 Commonwealth Games.

Peter Abraam (Victoria Major Events) thinks Australia has some pluses and minuses when it comes to bidding for and winning major international events in an era when security is top of mind. On the plus side, it is seen as a safe destination, but on the minus side it is a long haul trip for most markets and some markets seem reluctant to travel that far in times of uncertainty.

Events have to compete with everything else on offer for people's time and their discretionary dollars, so, like destination marketing, event marketing needs to be well-researched to understand what people expect. Tourism Australia has conducted some research on the impact of changing demographics on travel behaviour / leisure pursuits generally, but we don't really have the same insights into events.

With the generational change, we don't really understand how getting older, and being more cashed up, affects the predisposition to attend a football festival, an arts festival, a wine festival etc. There are definite demographic implications for event designers. (Joyce DiMascio, TTF)

On the perennial question of cultural versus sport events, Joyce DiMascio (TTF) says it's not surprising that a larger percentage of internationals attend our cultural events than do domestic tourists (although the absolute number of domestic visitors is far greater). 'Attending a cultural event while you are overseas gives you an opportunity to look through a window at the lifestyle of local people. But a big sport event is more likely to be front page news rather than a cultural event – except perhaps for New Years Eve'. Peter Abraam (Victoria Major Events) agrees, 'Australian's have a very sizeable passion for sport'.

Although technically outside the period covered by this report, the Commonwealth Games in Melbourne in March 2006 was the biggest event in the country for some years and it therefore dominated the discussion with commentators in this sector. From all reports it was very successful, in particular, Clive Dwyer (2006 Commonwealth Games) suggests, the integration between event delivery and the tourism agenda was very effective. A lot of planning went into this, and the industry demonstrated unprecedented coordination. This has been an area where there has been some criticism in the past, although both Clive Dwyer (2006 Commonwealth Games) and Peter Abraam (Victoria Major Events) believe that Victoria is doing a good job because of its vast experience in hosting major events.

Some commentators expressed concern about the impact that the World Cup of football, in Germany, would have on international arrivals to Australia (trend estimates show small declines in visitor arrivals each month since May 2006). It is interesting to note that the original (unadjusted) estimate for outbound travel to Germany by Australians in June 2006 was 17,300 compared to 7,100 in June 2005 (ABS, 2006). However, other commentators had a different perspective. Joyce DiMascio (TTF) suggests that it's not a negative for Australia at all. 'I think our participation in these global events is one dimension of the story, having Australia qualify for these mega events has made it real and will fuel our aspirations to host a World Cup here in 2018.'

One of the interesting outcomes is the live sites that have been installed in some cities. They are essentially leveraging opportunities to celebrate even though they are not hosting the event. A similar thing has happened with the Australian Open having a live site right outside the Tennis Centre. It really promotes the celebratory impact of major events and boosts the impact on community pride. It's particularly popular with the younger demographic as it becomes more about the social aspect than the event itself (Clive Dwyer, 2006 Commonwealth Games).

Future Outlook

Ticket scalping has been a concern at major events for some time, but online distribution channels such as eBay have enabled the phenomenon to develop into a more systematic and widespread practice. Cricket Australia has tried to take a hard line for the 2006/2007 Ashes series by cancelling tickets resold via online auction websites. It remains to be seen what the repercussions of this will be, and whether it is effective in dissuading scalping at future events.

10. BUSINESS EVENTS

Snapshot

BUSINESS EVENT INDICATORS		2002	2003	2004	2005
Number of international tourists attending business events (a)		6.1%	5.8%	6.4%	7.7%
Largest International source markets (a)	New Zealand	23.2%	24.7%	30.3%	28.0%
	China	7.9%	5.6%	9.8%	13.1%
	USA	10.6%	10.5%	8.3%	8.9%
	UK	8.7%	10.5%	7.6%	5.9%
	Japan	6.1%	4.5%	7.5%	4.9%
Pre and post touring – percentage of international business event attendees with multiple stopovers (a)		47.6%	50.6%	50.6%	45.4%
International delegates who brought accompanying people (a)		22.1%	22.6%	20.9%	22.3%
Domestic overnight attendees at business events (b)		1.5%	1.7%	1.6%	1.6%
Pre and post touring – percentage of domestic overnight business event attendees with multiple stopovers (b)		13.6%	14.0%	12.8%	14.1%

(a) Tourism Research Australia. International Visitor Survey (CDMOTA)

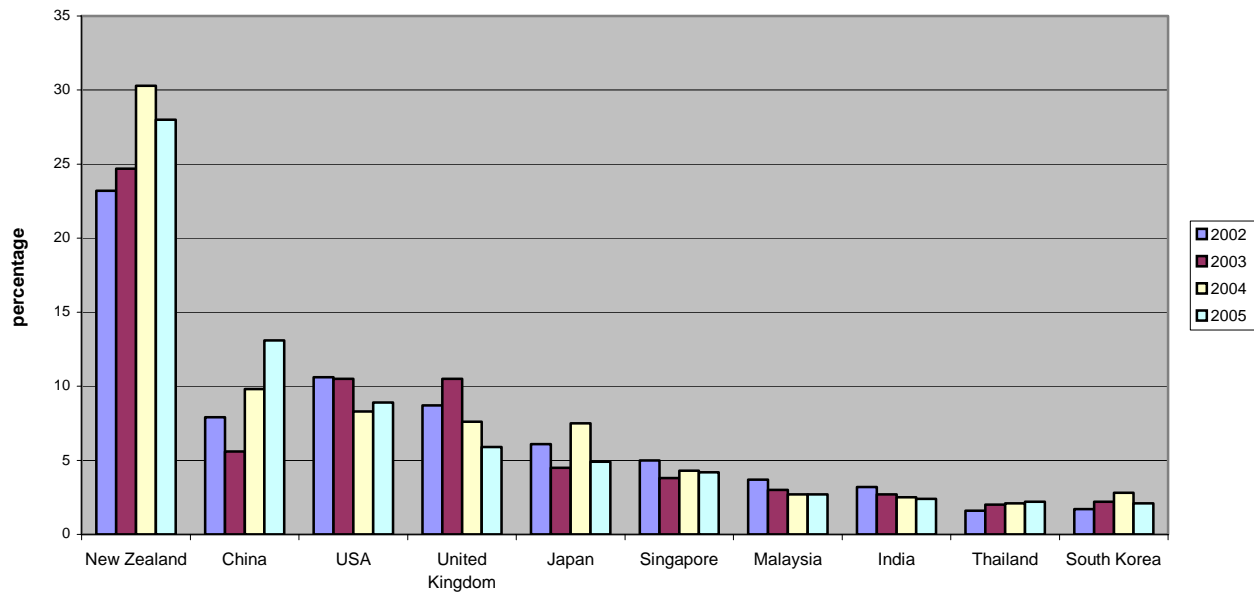
(b) Tourism Research Australia. National Visitor Survey - Overnights (CDMOTA)

* Percentage expressed as a proportion of those who attended a business event

Attendance at Business Events

There appears to have been some growth over the time period in the proportion of international visitors attending business events in Australia, particularly from some source markets, as shown in Figure 10.1. The New Zealand market has grown substantially over the time period, as has the Chinese market which has overtaken the USA and UK to become the second biggest market segment. Around half of all international visitors who attend business events also engage in some form of pre- or post-event touring at other destinations within Australia, and just over 20% bring accompanying people. It is clear, therefore, that business event tourism has a substantial impact on general tourism activity. Domestic attendance has been fairly constant over the time period.

Figure 10.1: International source markets for business events



Commentary

Unlike tourism events, the business events sector is well-represented with peak industry associations representing the various components which contribute to the sector, including AACB (The Association of Australian Convention Bureaux), BECA (Business Events Council of Australia) and MEA (Meetings and Events Australia). Commentators for this section included Michael Cannon (AACB), Elizabeth Rich (BECA) and Geoff Donaghy (Ogden IFC). Ian Macfarlane (Director of Marketing, Tourism Australia) also provided some commentary relevant to this sector.

The general perception amongst the business events commentators was that the sector had been steady across 2005. The economy has remained relatively strong and this means domestic business is generally good, although the domestic market has limited growth potential because of Australia's relatively small population. There appears to have been growth in corporate and incentive markets coming out of Asia, but Australia is losing market share in the international association conference market and seeing a drop in the overall number of participants attending association events (12% decline over 10 years, according to data from the International Congress and Convention Association). This is in contrast to an overall global growth in delegate numbers (Elizabeth Rich, BECA).

Increased supply in terms of new facilities both domestically and internationally is of some concern. The Darwin Convention Centre will come online in 2008 and the Melbourne Centre is planning a major expansion. There is also increased competition from major hotels such as the second Crown in Melbourne and the Hilton in Sydney. Internationally, Asia and the Middle East are becoming more competitive. Singapore recently announced \$170 million dollars will be invested in promoting the destination for business events (Elizabeth Rich, BECA).

There is some concern that Australia doesn't promote itself well enough as a business events destination. While commentators acknowledge the value of the recent Tourism Australia campaign in attracting leisure tourists, they don't believe it helps to promote Australia as a business events destination.

There still needs to be a specific marketing campaign which presents Australia as a business events destination. Tourism Australia is working on this and what we have seen is great, but it will need to be backed up by funding and to have longevity. (Michael Cannon)

However, according to Ian Macfarlane (TA), it is not obvious that Australia has a positioning or branding challenge in the business events sector. For example, declining delegate numbers or conferences could just as soon be a function of the proposition definition or quality. It could also relate to cost, distribution, prospecting deficiencies, or sales

activity. As an example, research shows that in the corporate meetings and incentives sector, Australia does not have an awareness or image problem but rather a knowledge problem. To meet that challenge, TA will launch a focussed campaign in February 2007. Just as for corporate meetings and incentives, the association sector needs thorough analysis. In this regard, TA has commissioned a study to determine the key factors affecting the reported declines. If this study suggests that a campaign is required to address marketing failure then a programme will be developed to supplement current activity.

Increasing competition means there is an ongoing need for research in this sector in order to inform marketing. The National Business Events Study is already three years old and there is also a need for market intelligence on the dynamics of business events (Michael Cannon, AACB).

Future Outlook

Although it will take a few years to build, the emergence of large scale business event infrastructure in China, India and Eastern Europe will likely have a substantial impact on Australia's business events in future years. Those countries, as well as the major existing competitors, such as Singapore, Hong Kong, and Malaysia, seem to be adopting an approach to marketing that demonstrates a more comprehensive whole of government approach than occurs in Australia. They have a lot of government resources with which to target business, which aren't available in Australia (Geoff Donaghy, Ogden IFC).

Elizabeth Rich (BECA) says that people will be watching for spiralling airfares caused by fuel price increases, and security hassles that put people off travel. There is already a trend toward people preferring single stop trips rather than multi-leg journeys. There is a perception that they want to be able to get home quickly if something goes wrong. If there are more security issues such as the recent Heathrow scare, then people might avoid the potential hassle of travelling all the way to Australia. This adds to the tyranny of distance problem for Australia and its long haul markets, and highlights the need to target business events from the closer Asian region, ensuring Australia is considered in the regional loop, especially for the growing regional association market.

Ian Macfarlane (TA) contends that there is need to achieve a balanced source market portfolio. This reduces risk and is prudent to ensure long term sustainability.

11. REGIONAL TOURISM

Snapshot

	2002		2003		2004		2005	
Visits to capital cities by international visitors	Sydney	55.0%	Sydney	53.1%	Sydney	52.8%	Sydney	52.2%
	Melbourne	26.1%	Melbourne	26.3%	Melbourne	25.9%	Melbourne	25.2%
	Brisbane	16.4%	Brisbane	17.3%	Brisbane	17.5%	Brisbane	17.3%
	Perth	12.5%	Perth	12.7%	Perth	12.0%	Perth	12.2%
	Adelaide	6.3%	Adelaide	6.5%	Adelaide	6.3%	Adelaide	6.1%
	Canberra	4.0%	Canberra	3.9%	Canberra	3.3%	Canberra	3.1%
	Darwin	3.6%	Darwin	3.2%	Darwin	3.0%	Darwin	2.8%
	Hobart	2.0%	Hobart	1.9%	Hobart	1.9%	Hobart	2.1%
Top 10 regional destinations for international visitors	Tropical North (QLD)	18.0%	Tropical North (QLD)	17.2%	Gold Coast (QLD)	17.0%	Tropical North (QLD)	17.1%
	Gold Coast (QLD)	17.3%	Gold Coast (QLD)	15.6%	Tropical North (QLD)	16.9%	Gold Coast (QLD)	16.3%
	Petermann (NT)	5.4%	Petermann (NT)	5.1%	Sunshine Coast	5.0%	Sunshine Coast	4.6%
	Whitsundays (QLD)	4.8%	Sunshine Coast(QLD)	5.1%	Whitsundays (QLD)	4.7%	Petermann (NT)	4.3%
	Sunshine Coast(QLD)	4.6%	Whitsundays (QLD)	4.6%	Petermann (NT)	4.4%	Whitsundays	4.1%
	Northern Rivers(NSW)	4.3%	Northern Rivers(NSW)	4.4%	Northern Rivers(NSW)	4.4%	Northern Rivers(NSW)	3.9%
	Hervey Bay /Maryborough (QLD)	4.3%	Hervey Bay /Maryborough (QLD)	4.3%	Hervey Bay /Maryborough (QLD)	4.4%	Hervey Bay /Maryborough (QLD)	3.9%
	Alice Springs (NT)	4.3%	Alice Springs (NT)	4.0%	Alice Springs (NT)	3.7%	Alice Springs (NT)	3.6%
	Western (VIC)	3.4%	North Coast (NSW)	3.8%	Western (VIC)	3.5%	North Coast (NSW)	2.8%
	North Coast (NSW)	3.3%	Western (VIC)	3.1%	North Coast (NSW)	3.1%	Northern (TAS)	2.8%
Visits to capital cities by domestic overnight visitors	Sydney	10.9%	Sydney	10.8%	Sydney	10.5%	Sydney	10.5%
	Melbourne	8.1%	Melbourne	8.4%	Melbourne	8.2%	Melbourne	8.7%
	Brisbane	5.8%	Brisbane	6.3%	Brisbane	6.5%	Brisbane	6.6%
	Perth	4.4%	Perth	4.0%	Perth	4.3%	Perth	4.0%
	Adelaide	3.0%	Adelaide	3.0%	Adelaide	3.3%	Canberra	2.9%
	Canberra	2.6%	Canberra	2.7%	Canberra	2.5%	Adelaide	2.9%
	Hobart	0.9%	Hobart	1.2%	Hobart	1.4%	Hobart	1.2%
	Darwin	0.7%	Darwin	0.6%	Darwin	0.7%	Darwin	0.8%

Top 10 regional destinations for domestic overnight visitors	North Coast (NSW)	4.8%	Gold Coast (QLD)	4.9%	Gold Coast (QLD)	4.8%	Gold Coast (QLD)	5.0%
	Gold Coast (QLD)	4.7%	North Coast (NSW)	4.8%	North Coast (NSW)	4.4%	North Coast (NSW)	4.3%
	Sunshine Coast(QLD)	3.5%	South Coast (NSW)	3.6%	Sunshine Coast (QLD)	3.6%	Sunshine Coast (QLD)	3.9%
	South Coast (NSW)	3.4%	Sunshine Coast	3.4%	South Coast (NSW)	3.3%	South Coast (NSW)	3.2%
	Hunter(NSW)	3.0%	Explorer Country(NSW)	3.1%	Hunter(NSW)	2.9%	Hunter(NSW)	2.8%
	Explorer Country(NSW)	3.0%	Hunter (NSW)	2.8%	Explorer Country(NSW)	2.7%	Explorer Country(NSW)	2.7%
	Northern Rivers(NSW)	2.8%	South West (WA)	2.8%	South West (WA)	2.7%	South West (WA)	2.7%
	South West (WA)	2.6%	Northern Rivers(NSW)	2.6%	Northern Rivers(NSW)	2.6%	Northern Rivers(NSW)	2.5%
	Western (VIC)	2.5%	Western (VIC)	2.5%	Western (VIC)	2.4%	Western (VIC)	2.2%
	New England (NSW)	2.1%	New England (NSW)	2.1%	New England (NSW)	2.2%	New England (NSW)	1.9%

(a) Tourism Research Australia. International Visitor Survey (CDMOTA)

(b) Tourism Research Australia. National Visitor Survey - Overnights (CDMOTA)

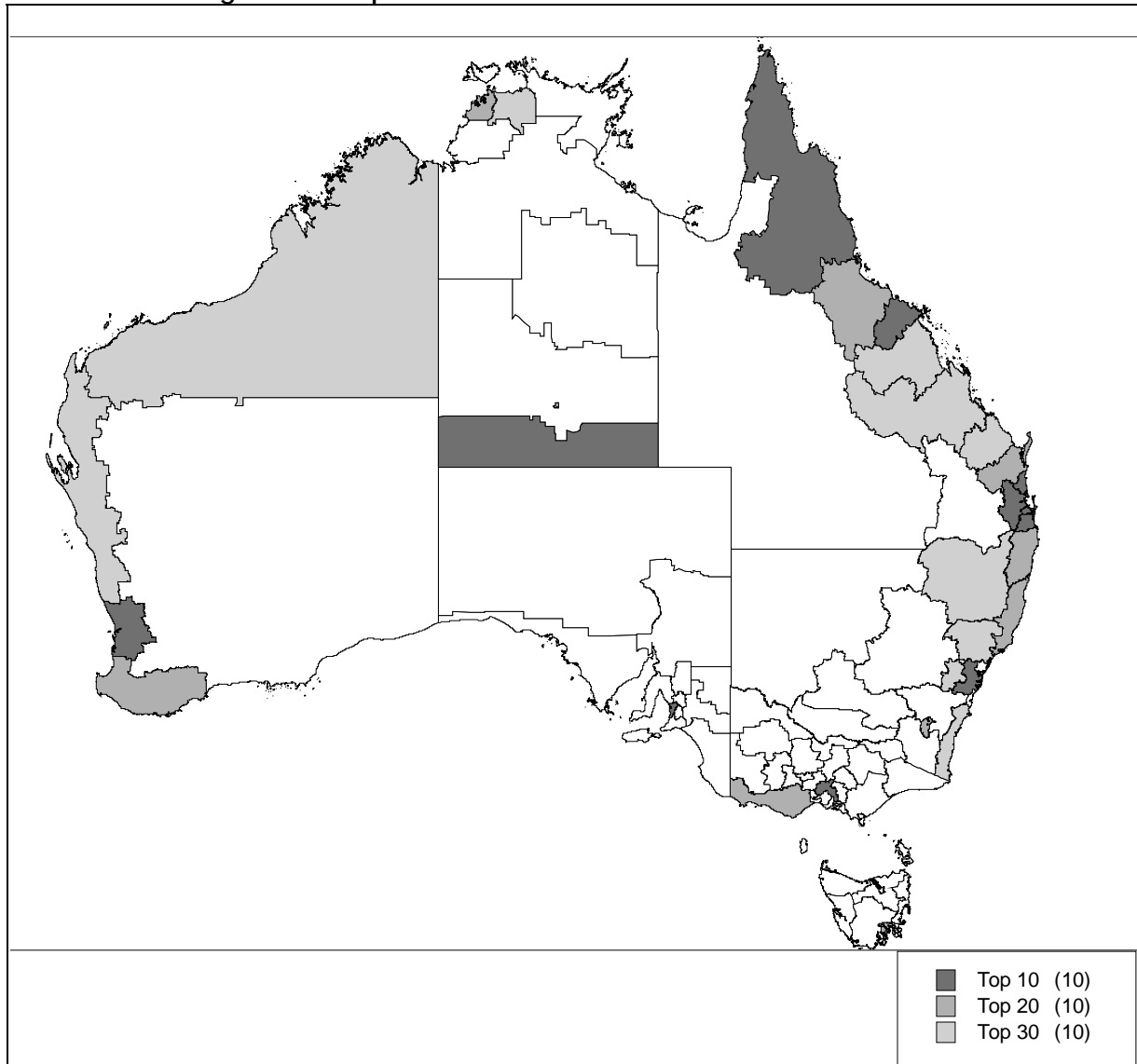
Most Popular Destinations for International Tourists

By far the most popular destination in 2005 for inbound tourists was Sydney, with more than half of all international visitors staying there during their trip. These percentages are calculated as a percentage of total visitors rather than the percentage of stopovers. Therefore, percentages add to more than 100 because many inbound visitors have multiple stopovers. Sydney is followed by Melbourne which receives a quarter of all international visitors, and Brisbane which is visited by 17.3%. The most popular non-capital city destinations are Tropical North Queensland and the Gold Coast. Five of the top ten regions visited are in Queensland. Figure 11.1 shows the top 30 destinations visited by international tourists. Both the east and west coast are popular regions, as well as four regions within the Northern Territory.

Most Popular Destinations for Domestic Overnight Tourists

Many of the same destinations are popular with domestic overnight visitors. However, although Sydney is still the most frequently visited region, its dominance over other destinations is far less obvious with only 10.5% of domestic overnight visitors staying there in 2005. Figure 11.2 shows that regions on the east coast of Australia tend to be more popular, reflecting the higher population in the eastern states and the fact that people are likely to holiday close to home.

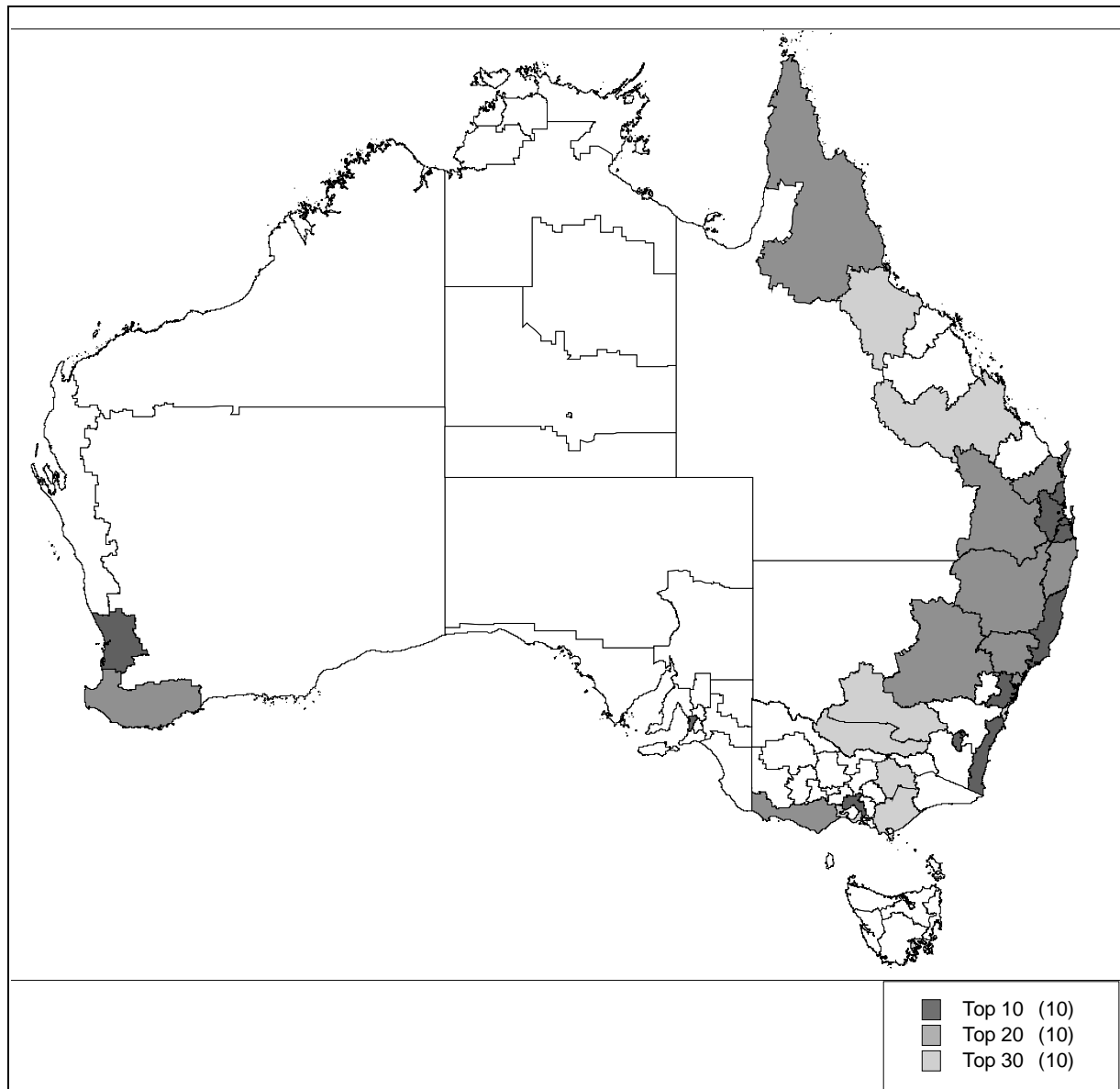
Figure 11.1: Top 30 destinations for international visitors in 2005



1	Sydney (NSW)	52.2%
2	Melbourne (VIC)	25.2%
3	Brisbane (QLD)	17.3%
4	Tropical North Queensland	17.1%
5	Gold Coast (QLD)	16.3%
6	Experience Perth (WA)	12.2%
7	Adelaide (South Australia)	6.1%
8	Sunshine Coast (QLD)	4.6%
9	Petermann (NT)	4.3%
10	Whitsundays (QLD)	4.1%
11	Northern Rivers - Tropical NSW	3.9%
12	Hervey Bay / Maryborough (QLD)	3.9%
13	Alice Springs (NT)	3.6%
14	Canberra (ACT)	3.1%
15	Darwin (NT)	2.8%

16	North Coast (NSW)	2.8%
17	Northern (QLD)	2.8%
18	Western (VI)	2.6%
19	Australia's South West (WA)	2.1%
20	Hobart and surrounds (TAS)	2.1%
21	Hunter (NSW)	1.9%
22	Fitzroy (QLD)	1.9%
23	Blue Mountains (NSW)	1.4%
24	Australia's Coral Coast (WA)	1.2%
25	Kakadu (NT)	1.1%
26	South Coast (NSW)	1.1%
27	Australia's North West (WA)	1.1%
28	New England North West (NSW)	1.1%
29	Bundaberg (QLD)	1.0%
30	Mackay (QLD)	1.0%

Figure 11.2: Top 30 destinations for domestic overnight visitors in 2005



1	Sydney (NSW)	10.5%
2	Melbourne (VIC)	8.7%
3	Brisbane (QLD)	6.6%
4	Gold Coast (QLD)	5.0%
5	North Coast (NSW)	4.3%
6	Experience Perth (WA)	4.0%
7	Sunshine Coast (QLD)	3.9%
8	South Coast (NSW)	3.2%
9	Adelaide (South Australia)	2.9%
10	Canberra (ACT)	2.9%
11	Hunter (NSW)	2.8%
12	Explorer Country (NSW)	2.7%
13	Australia's South West (WA)	2.7%
14	Northern Rivers - Tropical NSW	2.5%
15	Western (VIC)	2.2%

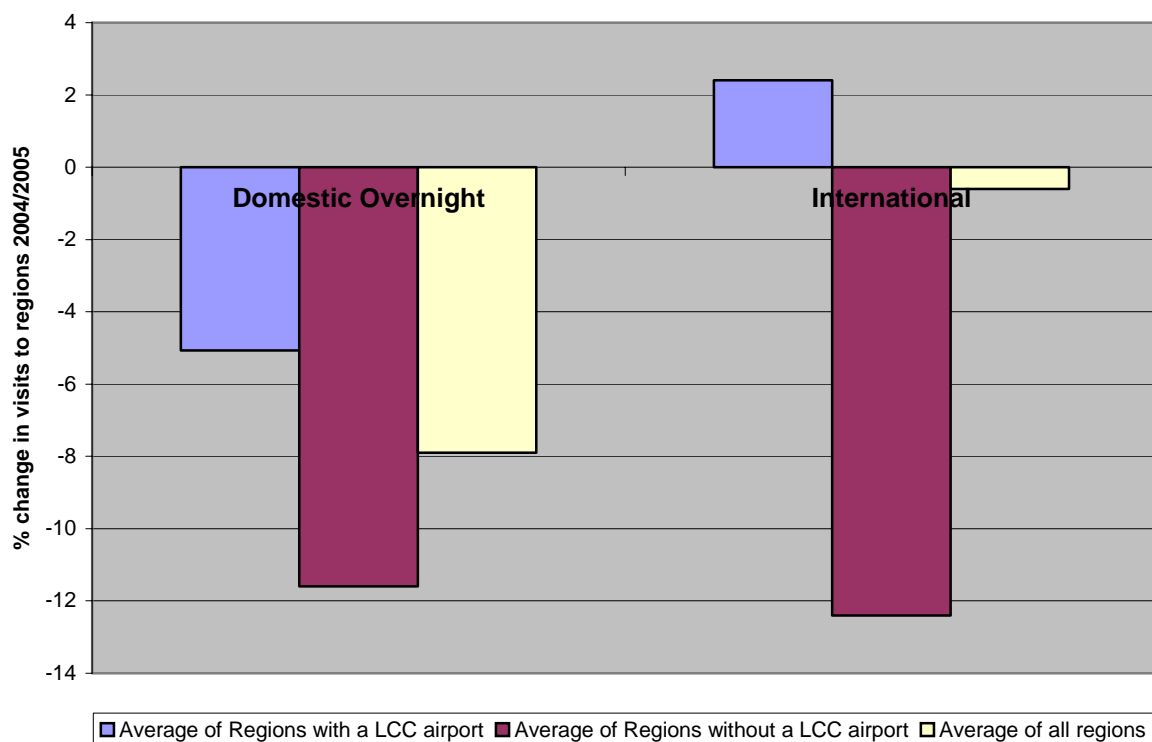
16	New England North West (NSW)	1.9%
17	Tropical North Queensland	1.8%
18	Hervey Bay / Maryborough (QLD)	1.7%
19	Central Coast (NSW)	1.7%
20	Darling Downs (QLD)	1.5%
21	High Country (VIC)	1.5%
22	Fitzroy (QLD)	1.5%
23	The Murray (NSW)	1.4%
24	Gippsland (VIC)	1.4%
25	Peninsula (VIC)	1.3%
26	Geelong (VIC)	1.2%
27	Greater Hobart (TAS)	1.2%
28	Riverina (NSW)	1.2%
29	Northern (QLD)	1.2%
30	Illawarra (NSW)	1.2%

The Impact of LCCs on Regions

In State of the Tourism Industry 2005, several commentators suggested that LCCs were having an impact on regional tourism to the extent that regions which were serviced by a LCC were gaining visitation at the expense of regions without a LCC service. To investigate this, the average percentage change (from 2004 to 2005) in stopovers to regions serviced either by Jetstar or Virgin Blue was compared with those not serviced by either of these airlines.

As shown in Figure 11.3, domestic visitation to regions declined overall by nearly -8%. However, the decline was lower in regions with a LCC service (-5%) and higher in regions without (-11.6%). Similarly, amongst international visitation to regions there was a noticeable difference between regions depending on whether or not they had a LCC service. LCC regions experience average growth of 2.4%, while non-LCC regions experienced a decline of -12.4%. The average across all regions for international regional visitation was -0.6%. Note that the comparison is based on number of stopovers to the various regions, so multi-destination visitors are counted more than once. Overall average visitation by international visitors appears to have dropped; however, this is because visitors in 2005 had fewer stopovers, not because there were fewer visitors. International visitor numbers increased from 2004 to 2005 by 5%.

Figure 11.3: Comparison of growth/decline in visitation to regions with and without LCC access



Commentary

Regional tourism in Australia is facing the same sorts of issues as tourism is generally, although some impacts appear to be more intense outside of capital cities. For example, many commentators suggest that the critical issue of flat growth in domestic tourism is even more of a problem in regional destinations. This is in part because regions experience less business and VFR tourism, but also because of the modal shift away from drive tourism toward air travel which has been driven by LCCs. Air capacity appears to have had a big impact on regional tourism. Figure 11.3 demonstrates that LCCs have indeed benefited some regions at the expense of others. Commentators lend additional support for this view.

It becomes a chicken and egg situation. If there is no air capacity into the area, then investors are not likely to put in additional accommodation, and without the accommodation, there is no potential for growth, so there is no point running flights. (Dino Magris, APT)

Related to this is rising fuel prices and commentators are reporting that these now appear to be having an impact. 'Some of our members, who rely on the drive market, have noticed a real decline' (Greg Holmes, HMAA).

Another issue which is concentrated in the regions is the problem of labour shortages, because obviously regions have a smaller population base from which to draw skilled and unskilled workers. The problem is it has a direct impact on service quality. The problem is exacerbated in regions which are close to mining operations and are currently experiencing the resource boom.

In the case of Western Australia it's even worse where the mining sector basically grabs anybody it can and it's created a real problem for the service industry/hospitality industry. (Dino Magris, APT)

According to Col Ingram (Department of Environment and Conservation, WA) the problem is not just in staffing the service industries associated with tourism. The building industry is also affected by the resource boom, making it a lot more expensive to build new tourism infrastructure. There is even competition for the existing infrastructure, for example, there is one major hotel in Tom Price (a town in the Pilbara region of North Western Australia) which is now saying it is not available for tourism because it is housing workers for the mining industry, and it's such a lucrative option that they are turning tourists away.

On the positive side, there is a suggestion that regional destinations may benefit more from the change in distribution systems brought about by the proliferation of Internet distribution. Regional suppliers are now able to reach a global audience for a fraction of the cost of traditional marketing techniques.

We know that consumers increasingly demand varied experiences and they are generally well informed so they seek out what meets their expectations precisely. There is simply no other tool like the Internet to give small niche and regional operators a fantastic opportunity to speak to very targeted potential consumers. (Daniel Gschwind, QTIC)

Future Outlook

On the positive side, there is an expectation that regions may benefit from the retirement of the baby boomer generation. Certainly there will be a lot of people with more time on their hands, who have their superannuation benefits, so it's likely they will spend some time exploring regional parts of Australia that they have not seen before. However, there is some concern that we don't understand the baby boomers well enough and this will need to be addressed if we are to capitalise on the potential of the baby boomer market.

Wayne Kayler-Thomson (ARTN) is also concerned about the longer term implications of the labour shortages on the quality of experiences that tourists experience in regional destinations. Visitors have increasingly high expectations and poor quality service is unlikely to be tolerated.

The issue will require both short term and medium to long term approaches to raise the level of importance and recognition of tourism, and to give more priority to education and training. Perhaps we also need initiatives to attract quality staff to regional destinations. (Wayne Kayler-Thomson, ARTN)

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the united voice of the Australian Tourism Industry

State of the Tourism Industry 2006

The State of the Tourism Industry is an annual report which presents a top line summary of the current issues facing the various sectors of the Australian tourism industry. Key performance indicators have been identified for the industry as a whole, as well as for the various sectors that can be used to track performance over time. Sectors discussed in the report include travel intermediaries, accommodation, transport, attractions and events.

The report combines quantitative data on how the industry has performed over the past year combined with a qualitative data obtained through in-depth interviews with key industry experts who seek to interpret the statistics and provide reasons for the manner in which the industry has performed.

It also seeks to highlight the most important issues affecting the performance of the tourism industry,

and to identify emerging issues which may be of relevance in the near future. This report was produced for the first time in 2005.

Feedback from the first version of the report indicates that it is a useful reference for tourism operators, government agencies, market analysts, researchers and educational institutions.

The State of the Tourism Industry 2006 is available to purchase from the STCRC's online bookshop (www.crctourism.com.au/bookshop).

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