



# The domestic tourism market

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**NTA Industry Forum**

**14 June 2006**





**This presentation provides some preliminary results of research being undertaken by TRA in conjunction with the Department of Industry, Tourism and Resources**





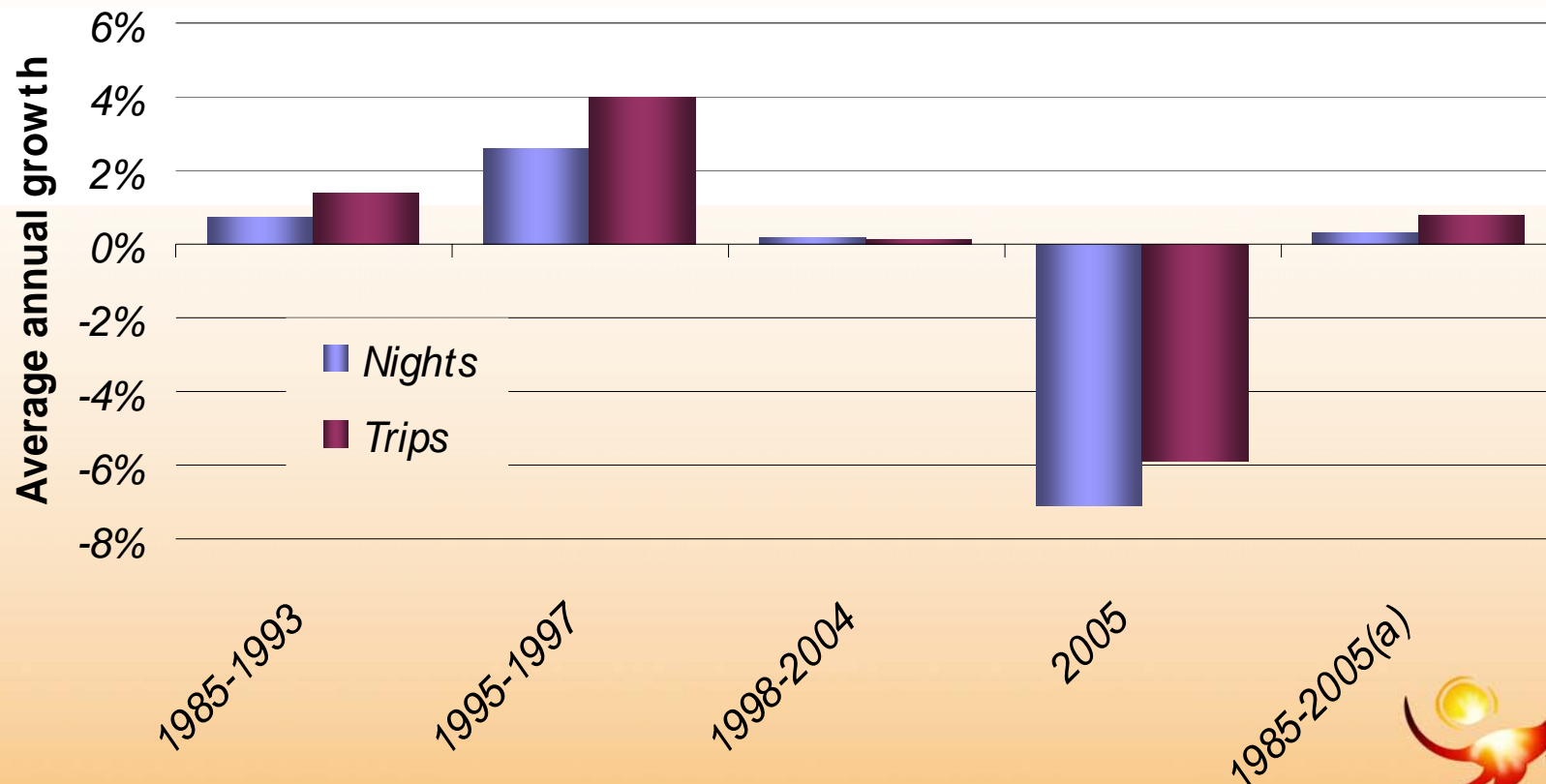
# Overview

- Tourism “state of play”
  - National picture
  - Rival sectors
  - Outbound performance
  - Regional analysis
  - International comparison
- Framework for analysis
- Identification of key economic drivers
- Questions/Discussion



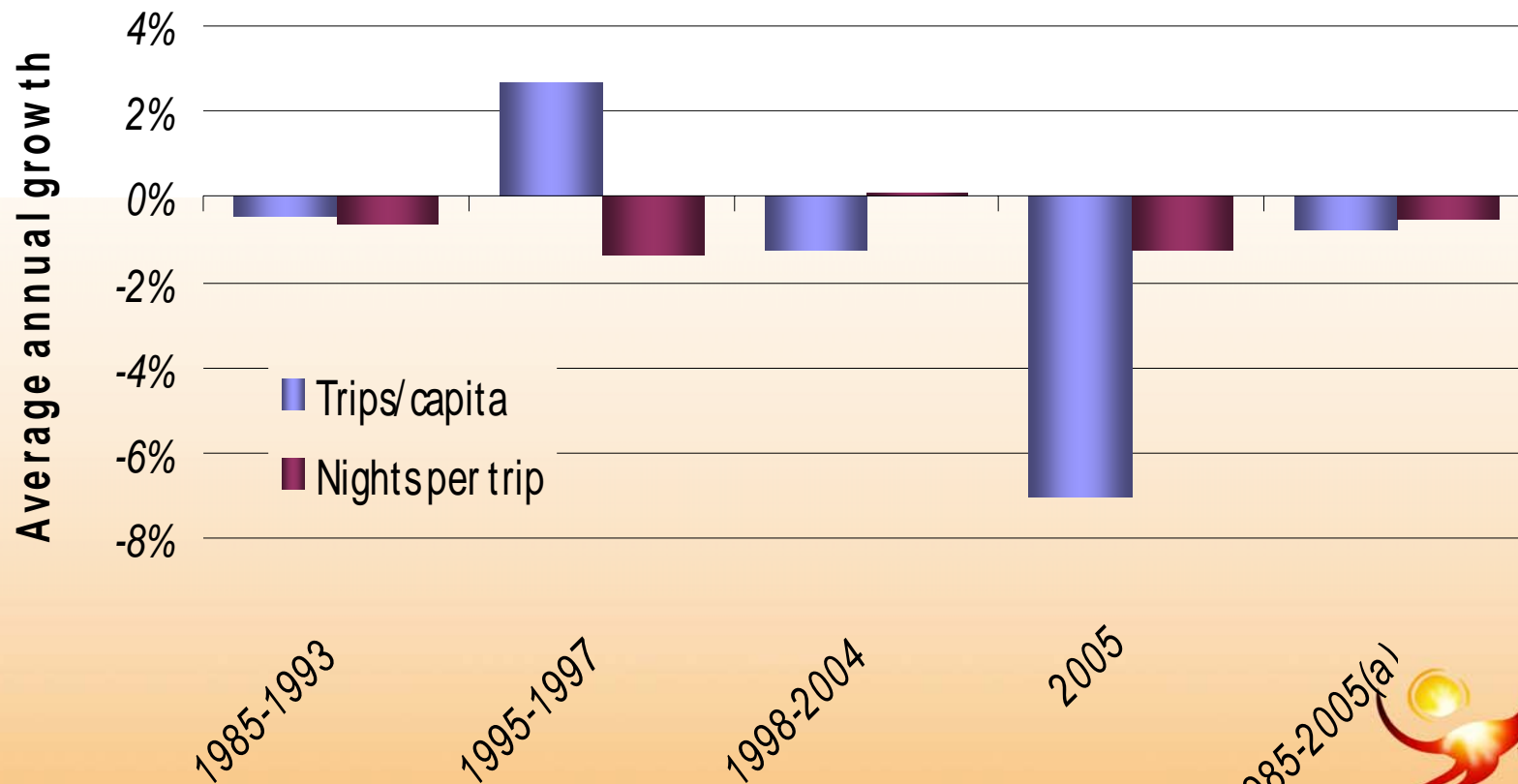
# The state of play

# Domestic overnight trips & nights, 1985-2005



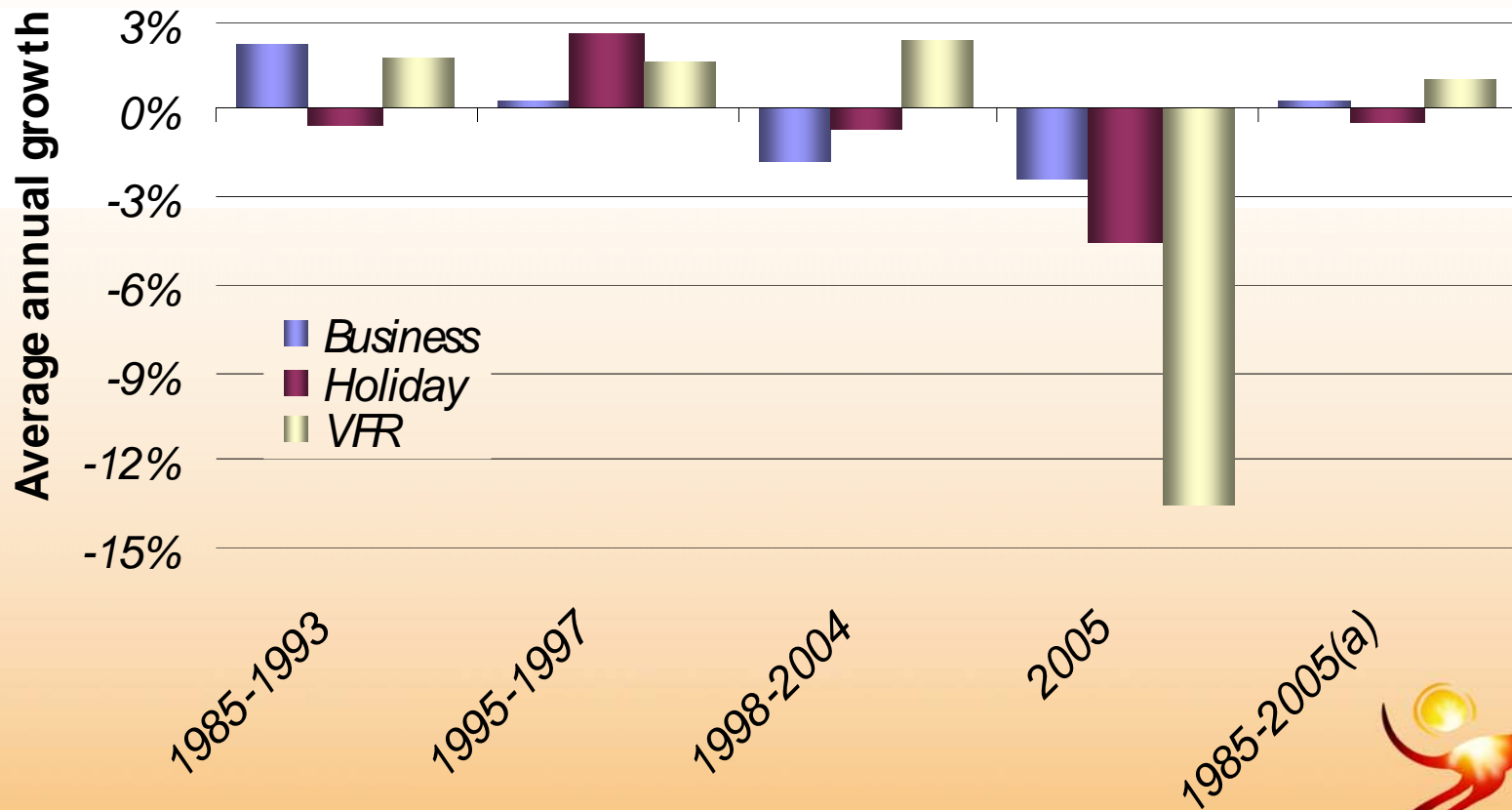
(a) Excludes 1994, 1995 and 1998 because of breaks in series

# Overnight trips per capita & nights per trip, 1985-2005



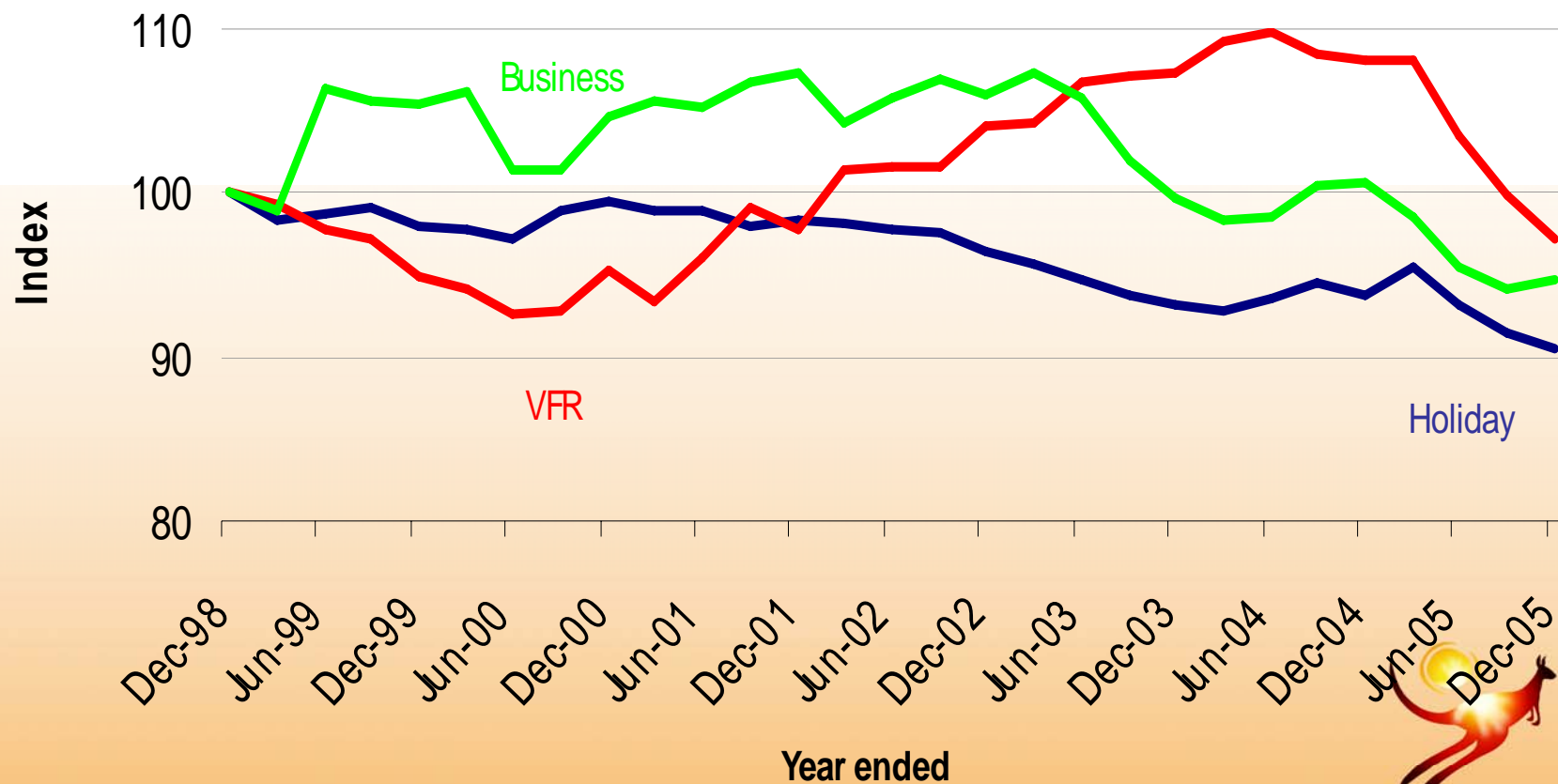
(a) Excludes 1994, 1995 and 1998 because of breaks in series

# Growth in nights by purpose of visit, 1985-2005

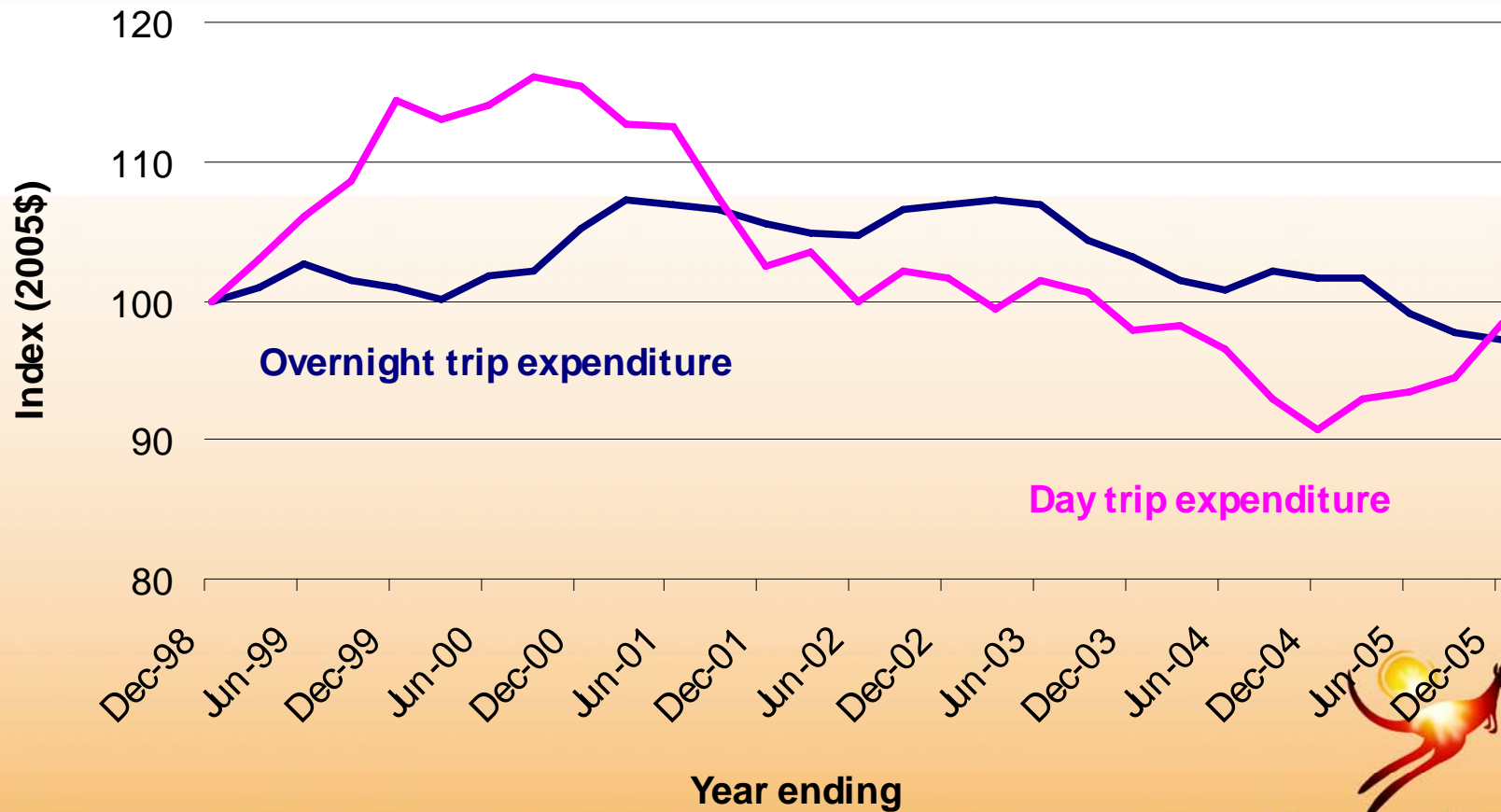


(a) Excludes 1994, 1995 and 1998 because of breaks in series

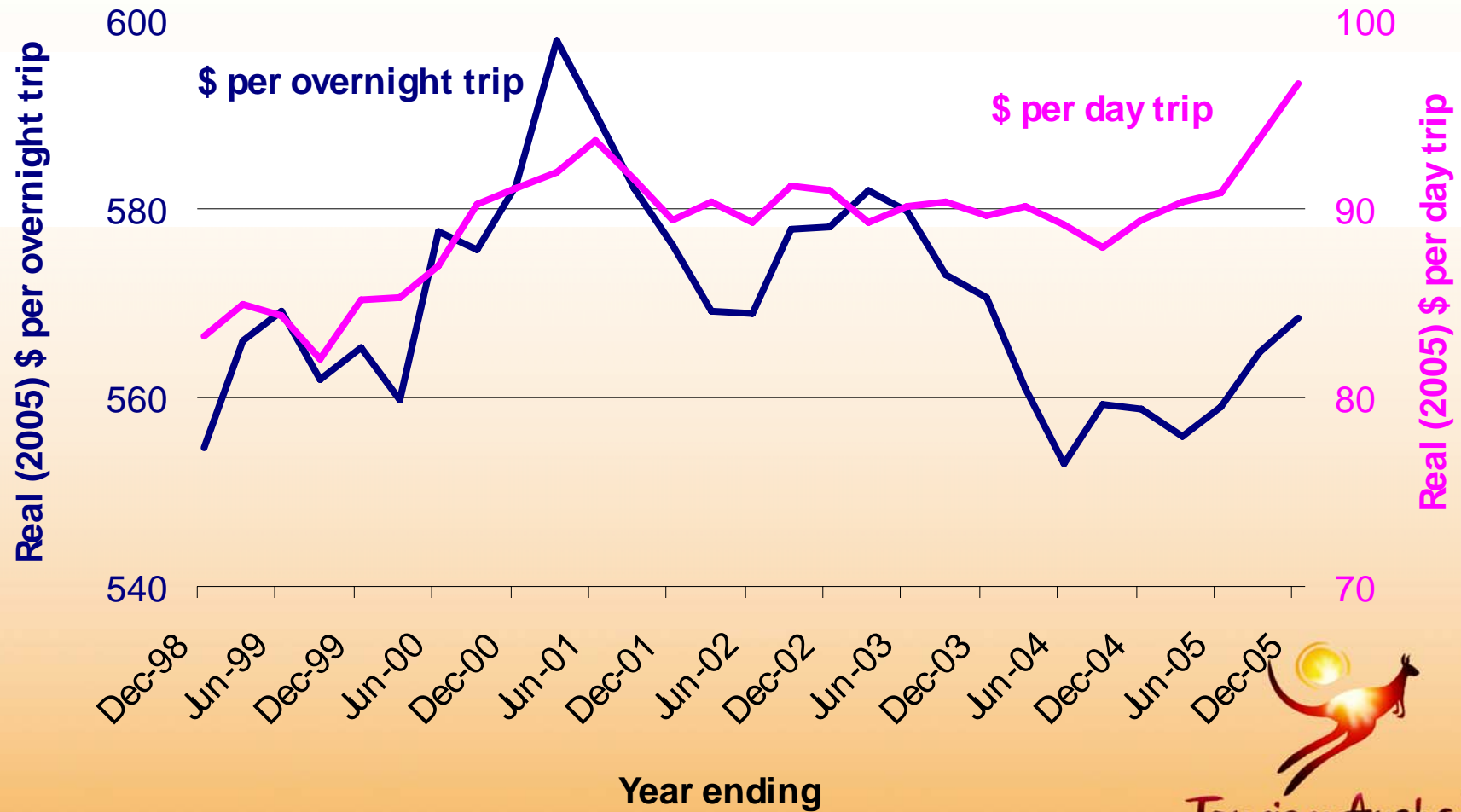
# Domestic visitor trips by purpose, 1998-2005



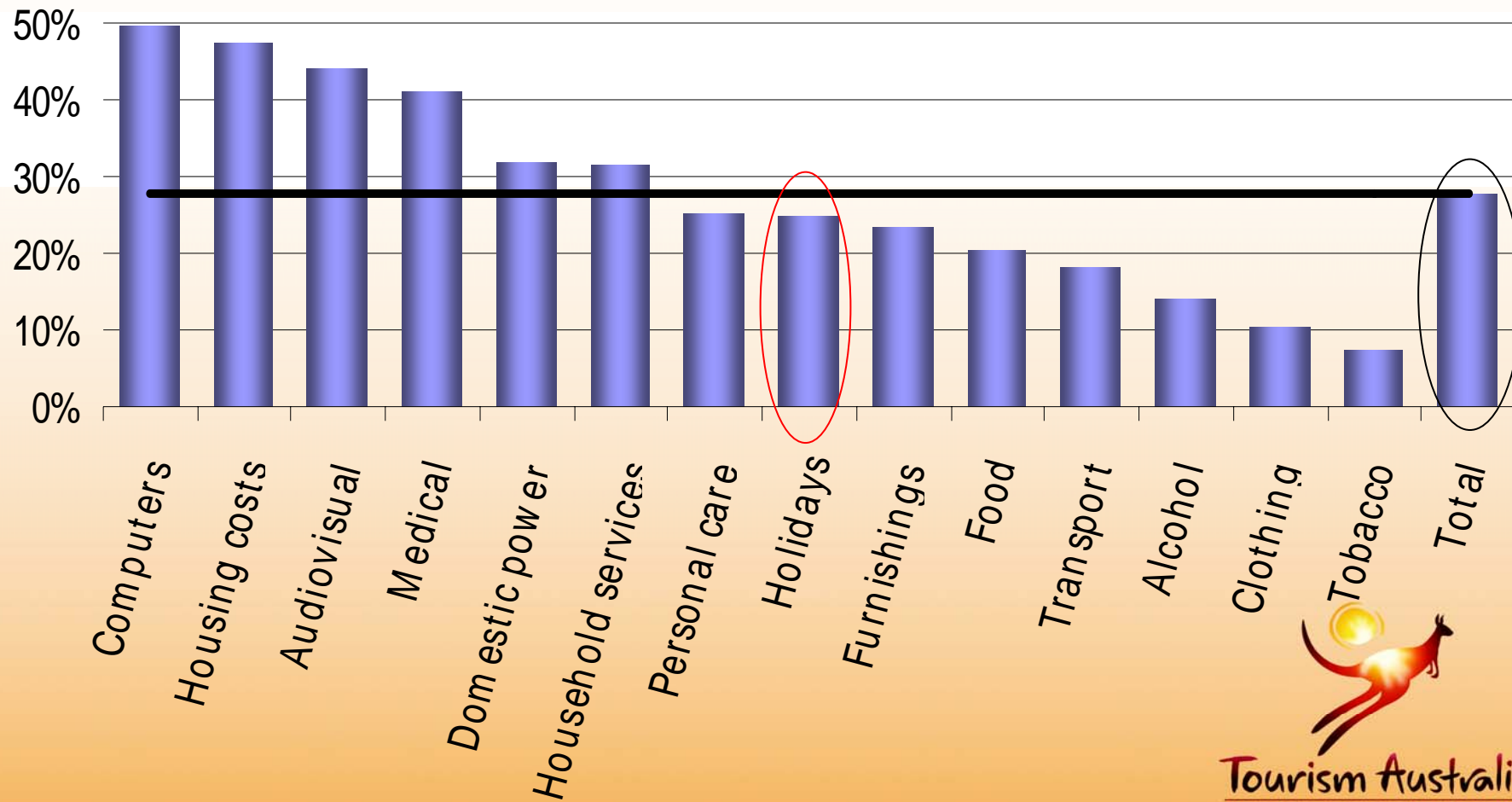
# What's happening with expenditure? (1998-2005)



# Expenditure per trip (day and overnight), 1998-2005

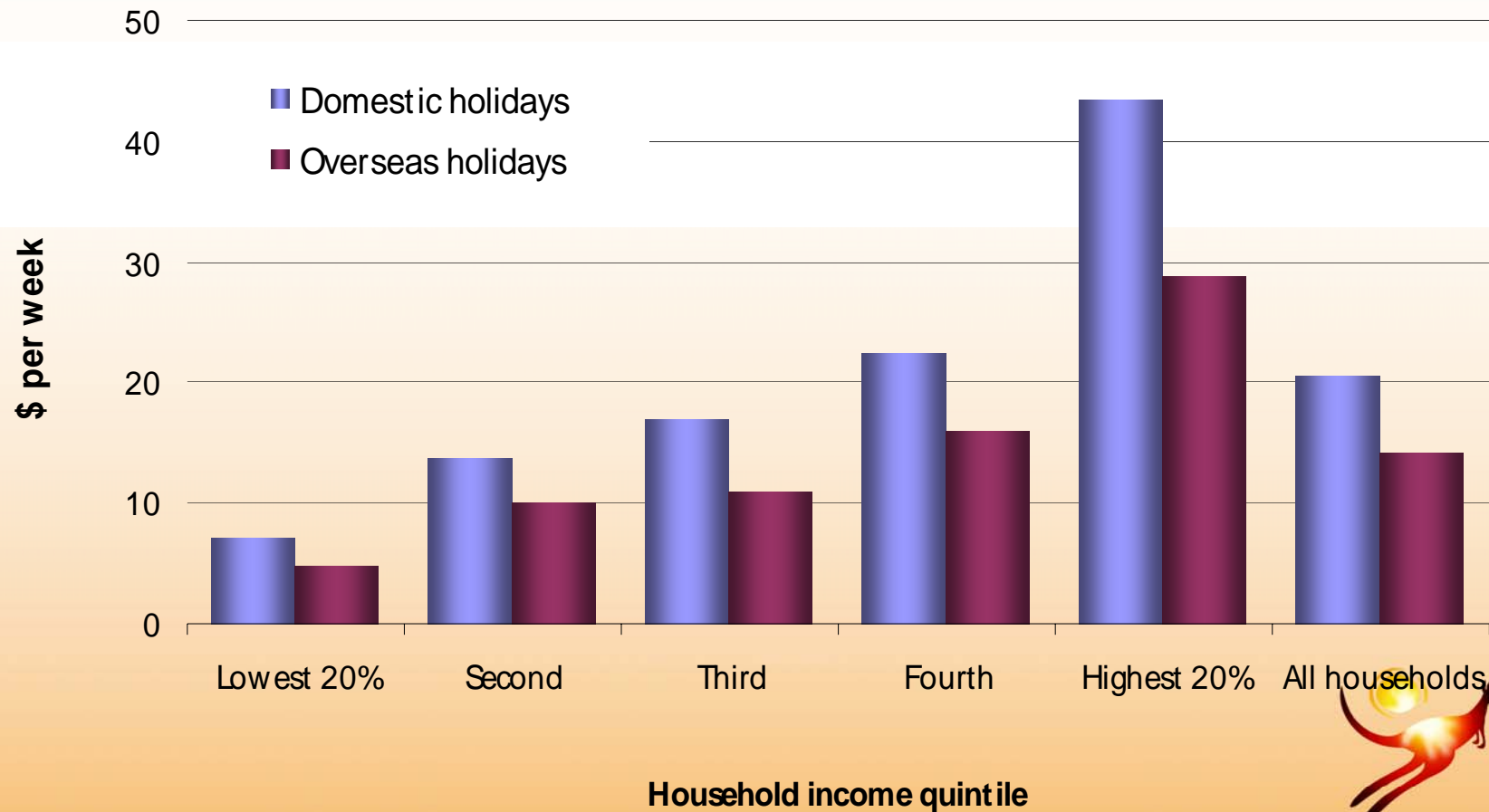


# Change in household expenditure patterns

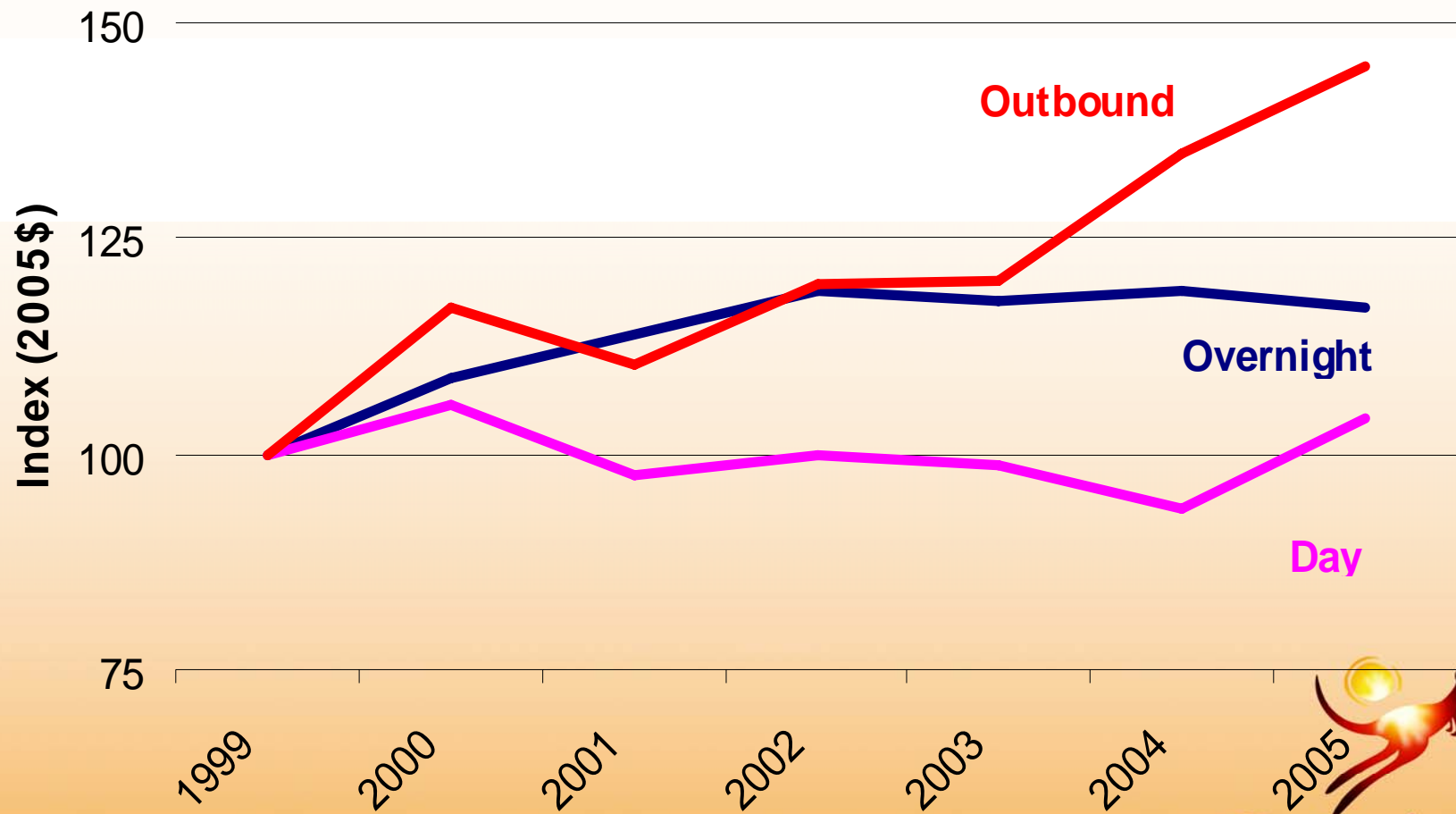


Source: ABS Household expenditure survey

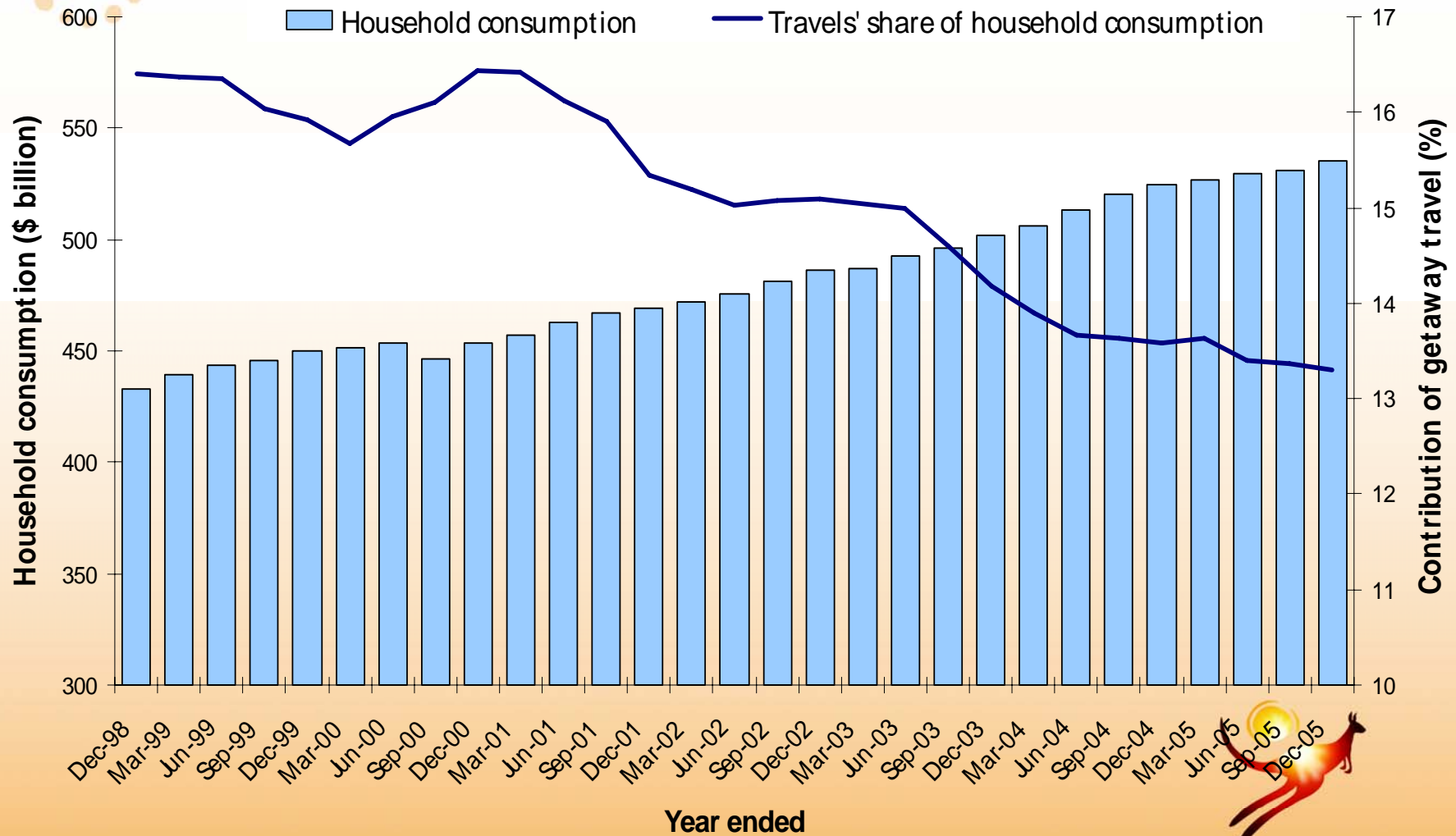
# Average weekly household expenditure by income group



# Domestic vs outbound expenditure



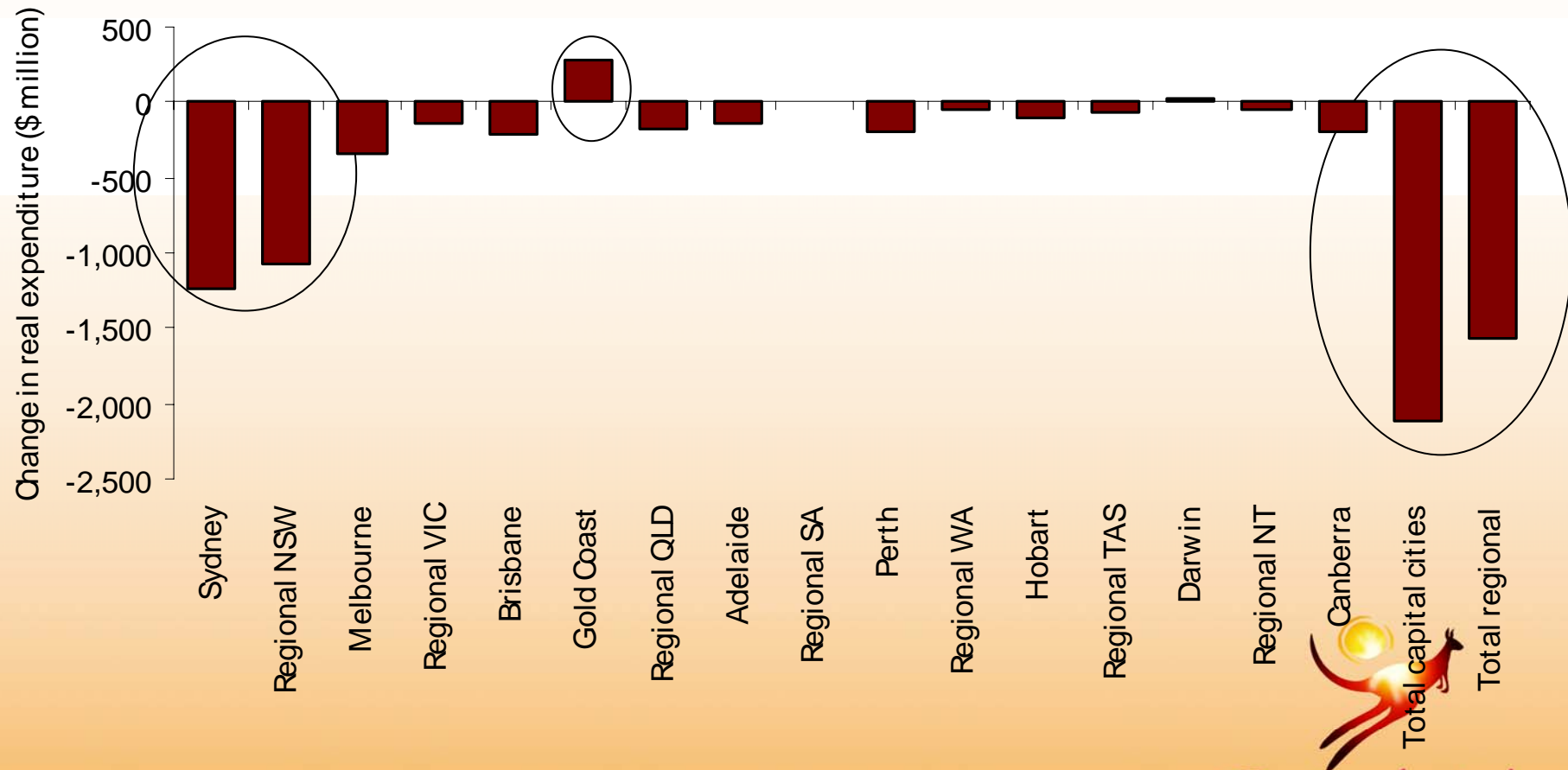
# Tourisms' declining "share of wallet"



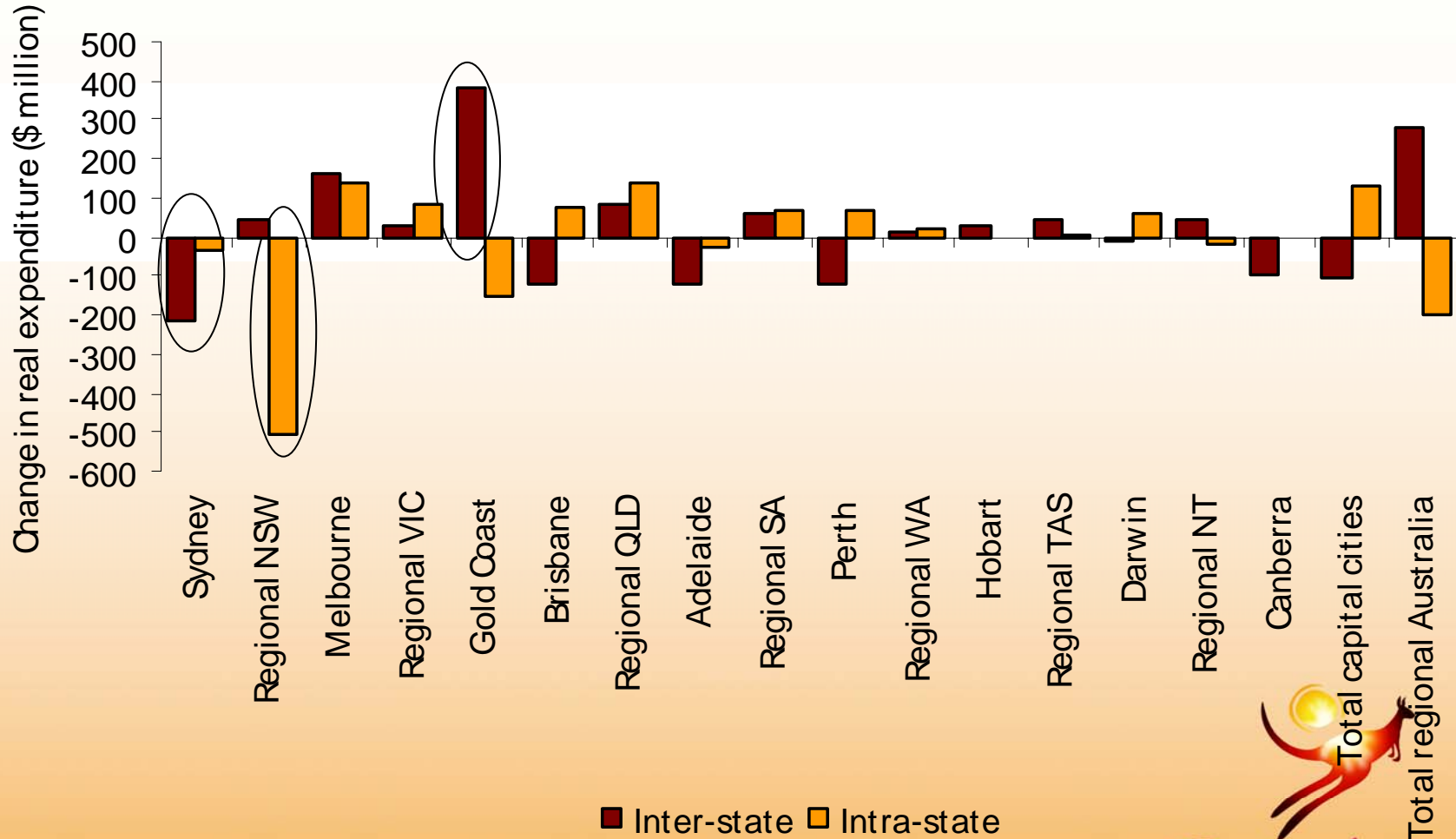


# Regional Analysis

# Change in total domestic real expenditure, 1999 – 2005

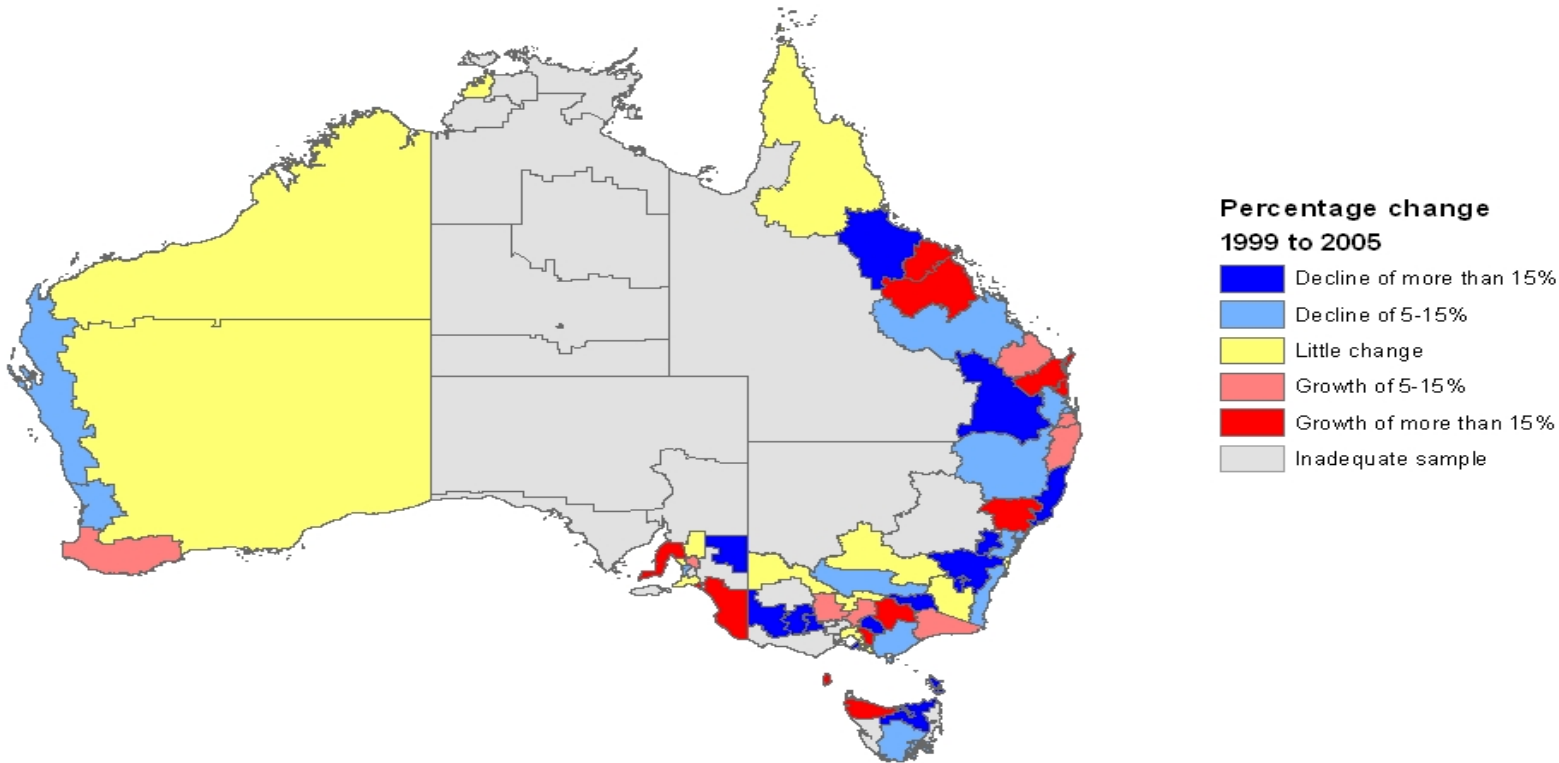


# Change in intra and inter-state real overnight expenditure, 1999-2005



# Change in overnight expenditure by region, 1999-2005

No clear pattern:





# Regional winners and losers

## Change in overnight travel expenditure 1999-2005

- **Winners**

**NSW:** Hunter

**VIC:** Melbourne, Melbourne East, Goulburn, High Country

**QLD:** Harvey Bay/Maryborough, Sunshine Coast, Bundaberg, Gold Coast

**SA:** Yorke Peninsula, Limestone Coast

**TAS:** North West

**NT:** Darwin

- **Losers**

**NSW:** Blue Mountains, Capital Country, Sydney

**VIC:** Western Grampians, Central Highlands, Murray East, Ballarat, Peninsula

**QLD:** Brisbane, Northern

**SA:** Adelaide, Riverland

**WA:** Experience Perth

**TAS:** Hobart & surrounds, Northern



# Winning vs losing regions

- Purpose of visit

- *Losers*: holiday/leisure has *decreased* for all the losing regions except Hobart and Surrounds
- no consistent trends for the winning regions



# Winning vs losing regions

- Transport use
  - *Winners: increases* in visitors who used air transport to all regions with airports except North West (TAS) and Bundaberg
  - *Losing: there have been decreases* in visitors who used air transport to all regions with airports except Hobart and Surrounds.



# Winning vs losing regions

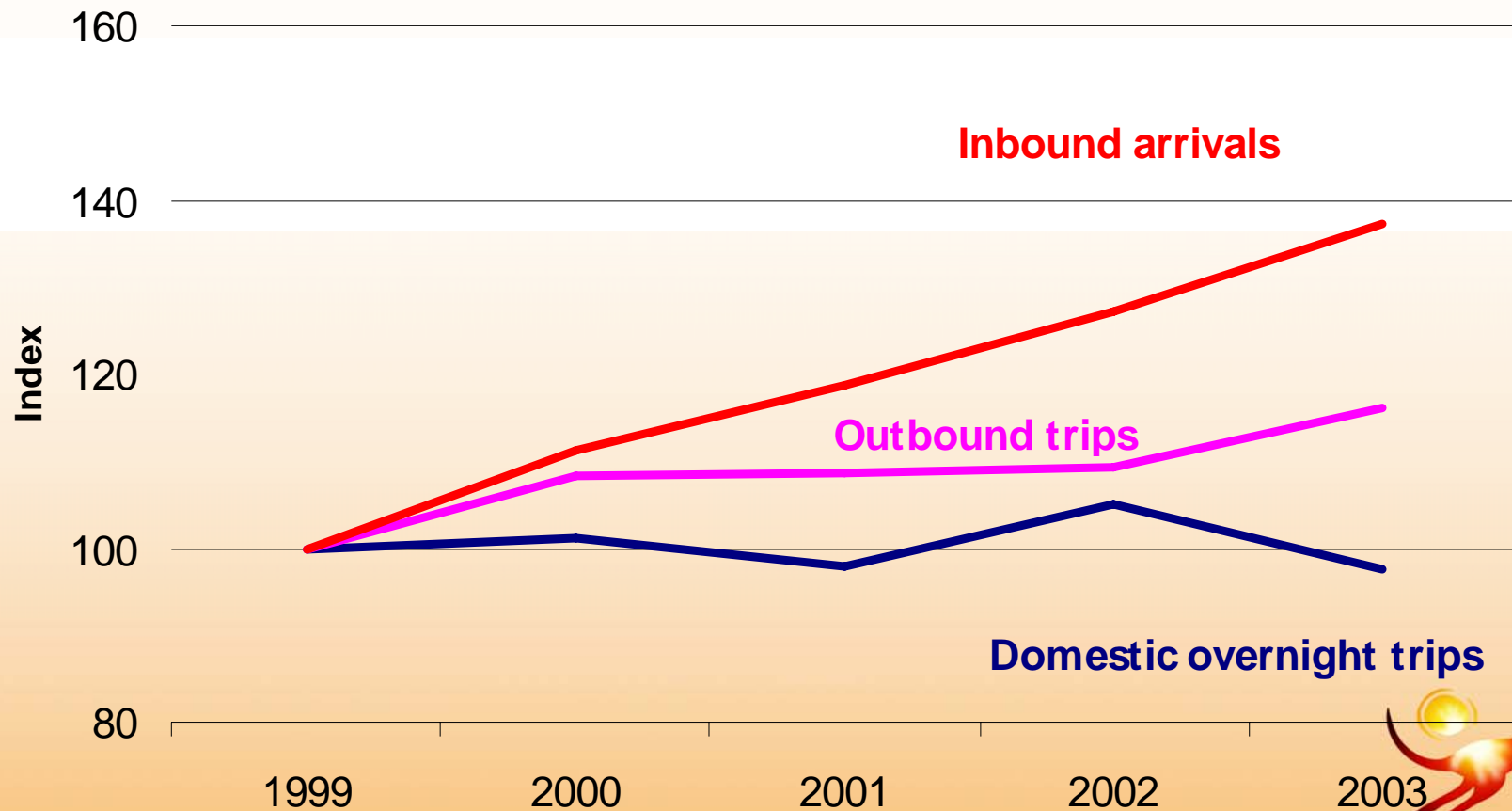
- Accommodation
  - *Winners: increases* in nights spent in caravan and camping accommodation (generally)
  - *Losers: decreases* in nights spent in caravan and camping accommodation in a number of losing regions



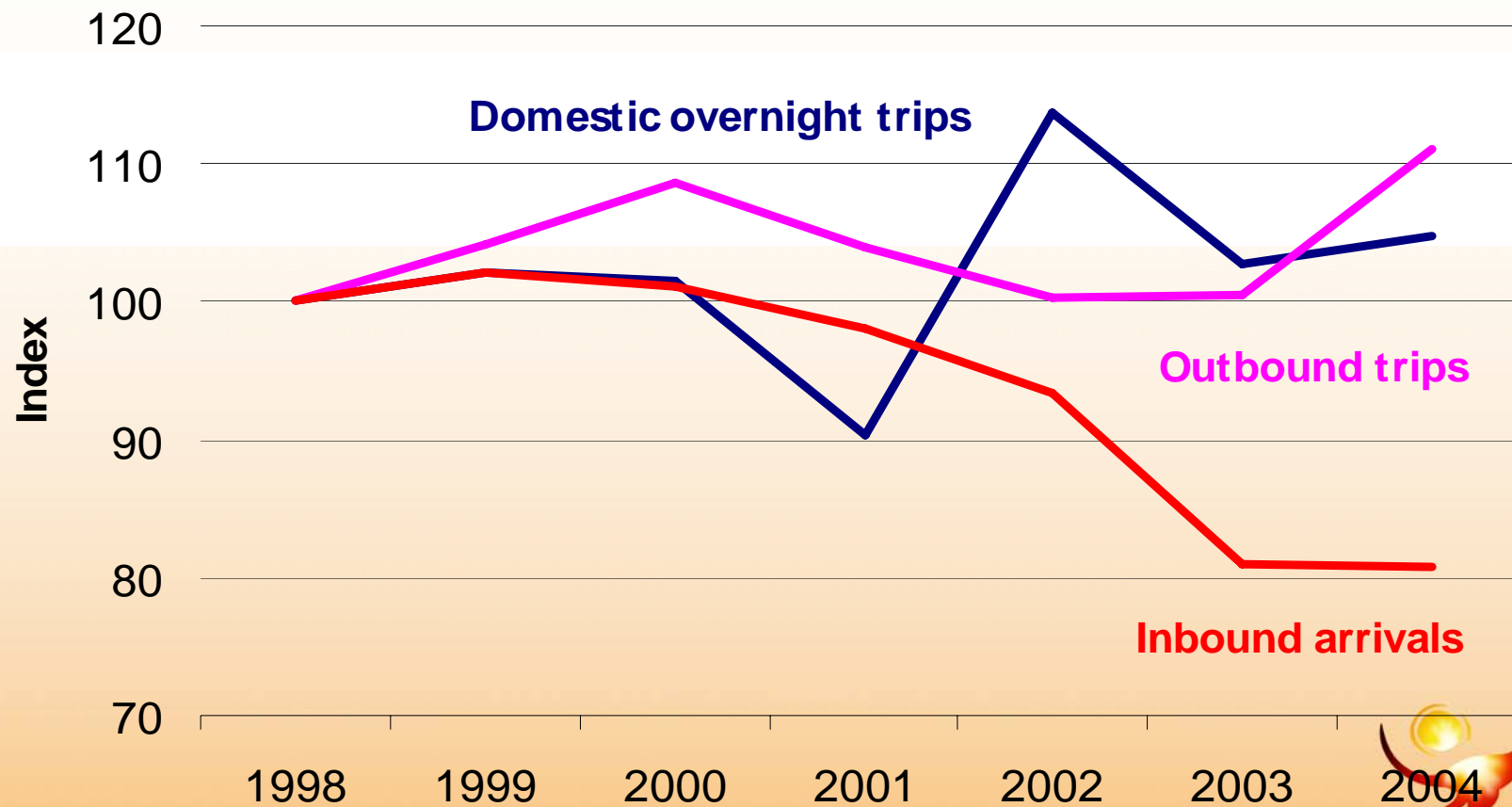
# Winning vs losing regions

- Lifecycle/age group
  - All *winning* regions have shown *increases* in the number of older working visitors (empty nesters 45 years and over)
  - There was a general *decline* in the number of visitors to the *losing* regions from every lifecycle group

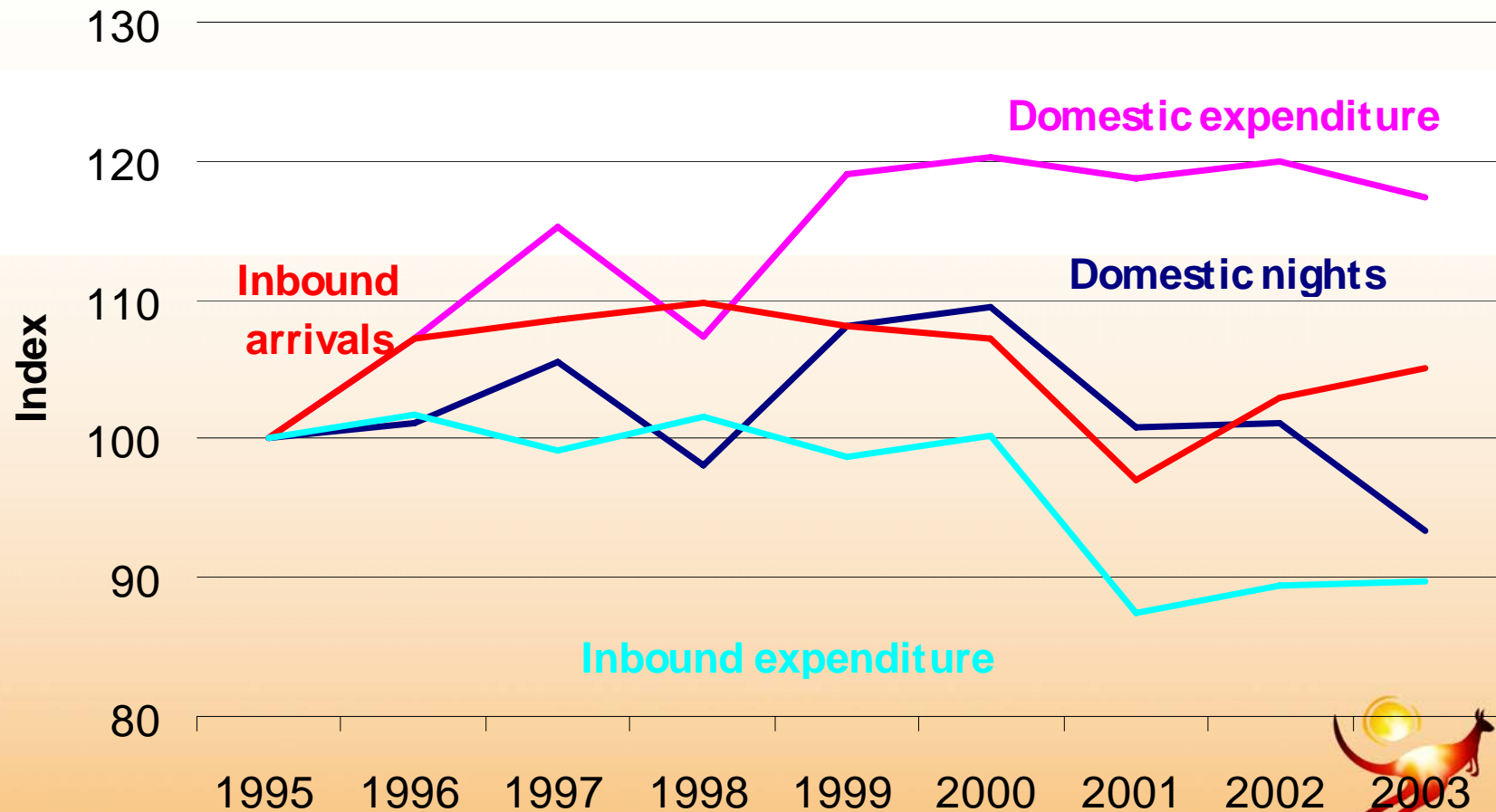
# Overseas comparison - NZ



# Overseas comparison - Canada



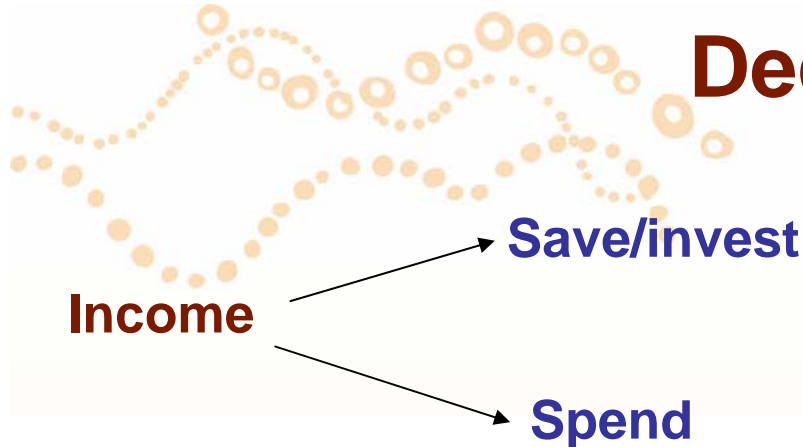
# Overseas comparison - UK



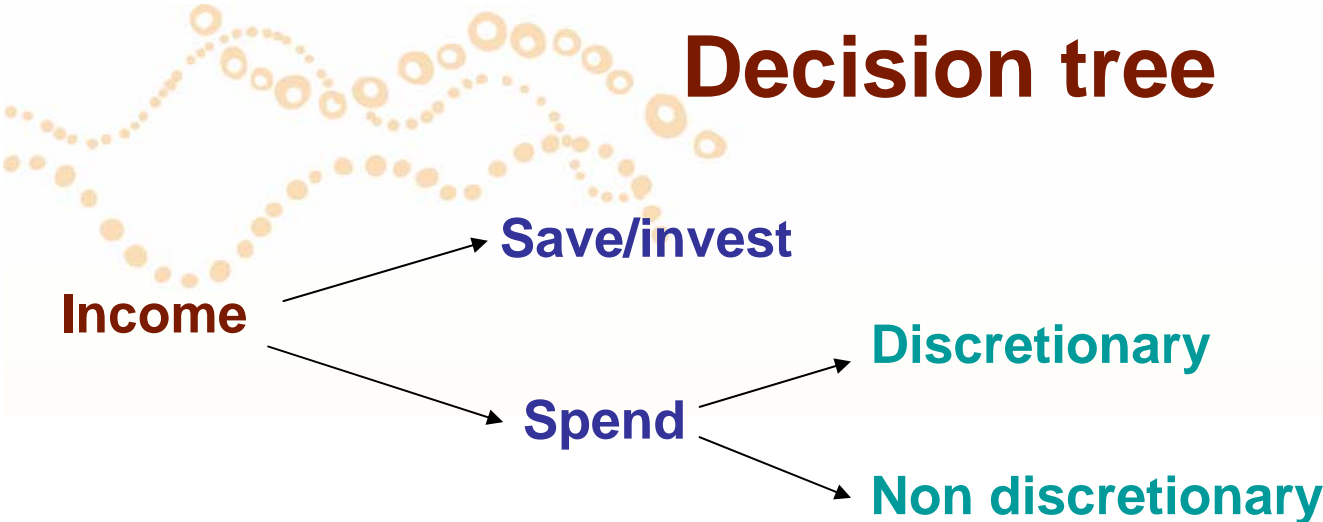


# An analysis framework for domestic tourism

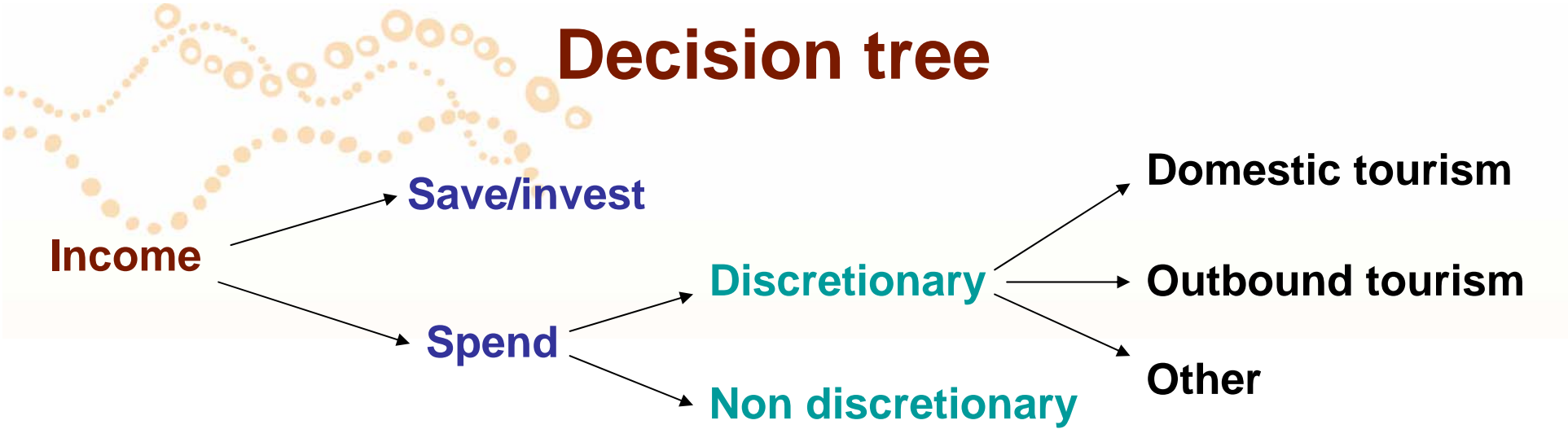
# Decision tree



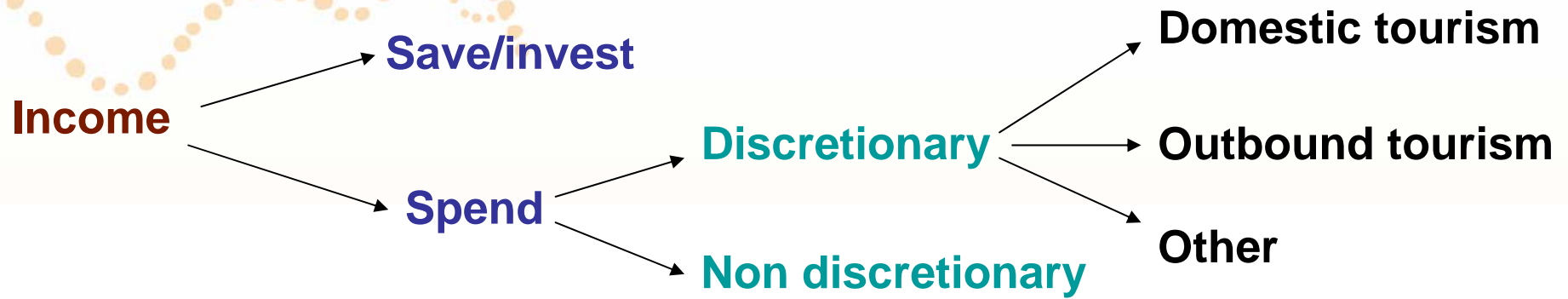
# Decision tree



# Decision tree



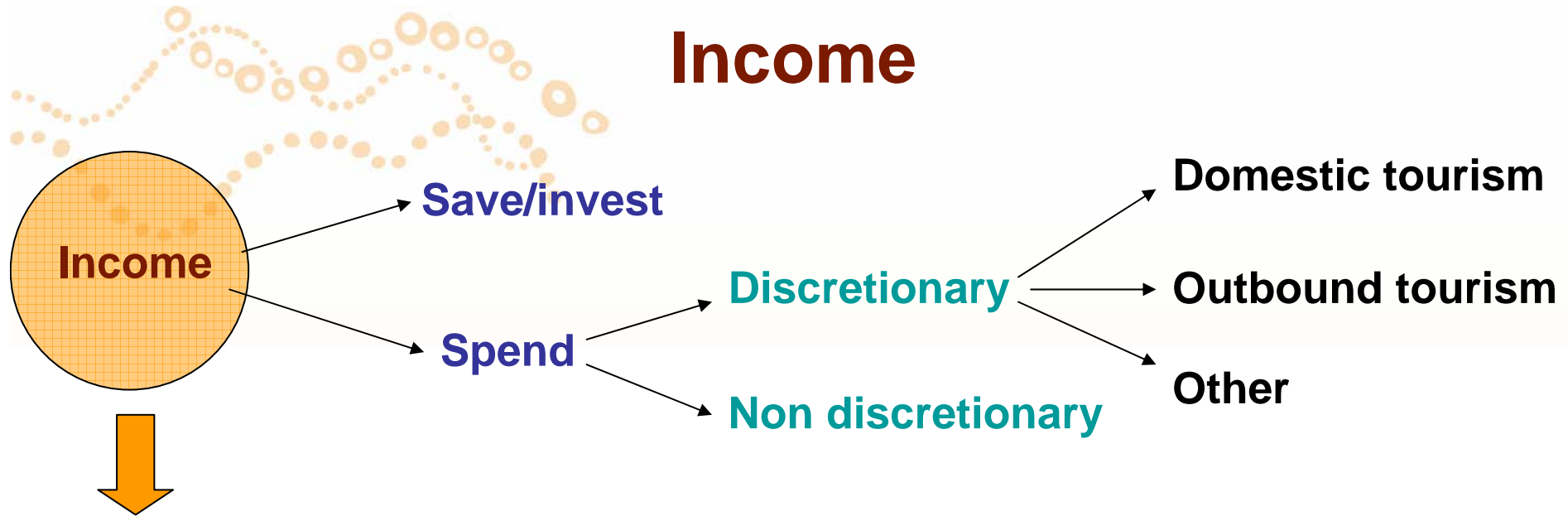
# Decision tree



At each 'decision node':

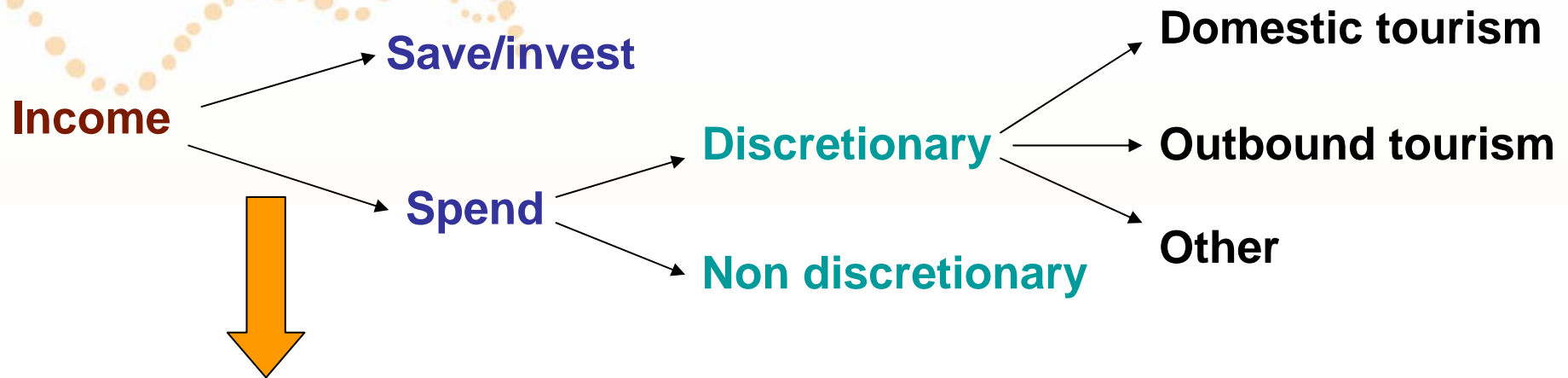
- consumers weigh up the costs and benefits of each alternative, and
- the pool of funds available for tourism shrinks.

# Income



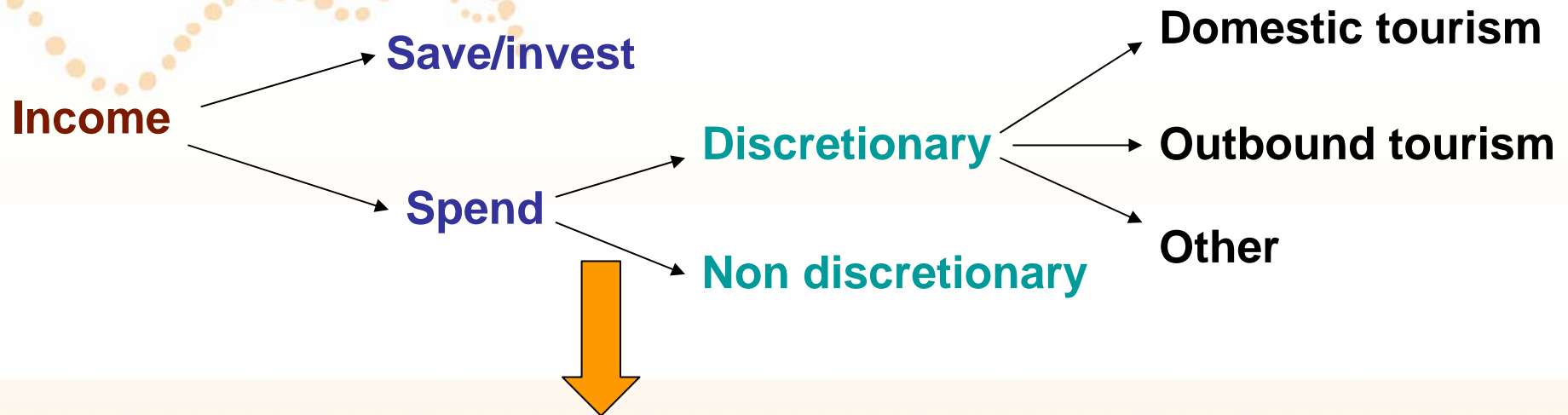
- **Income determines the total potential funds available**
- **Population income is determined by wage levels, employment, share market performance, interest rates etc.**
- **Theoretically, all of these variables could be included in a model of tourism, however, using only GDP has worked best.**
- **Less blunt measure of income could look at:**
  - **changes in Incomes of higher income households only**
  - **incomes by socio-demographic or age group**

# “To save or not to save”



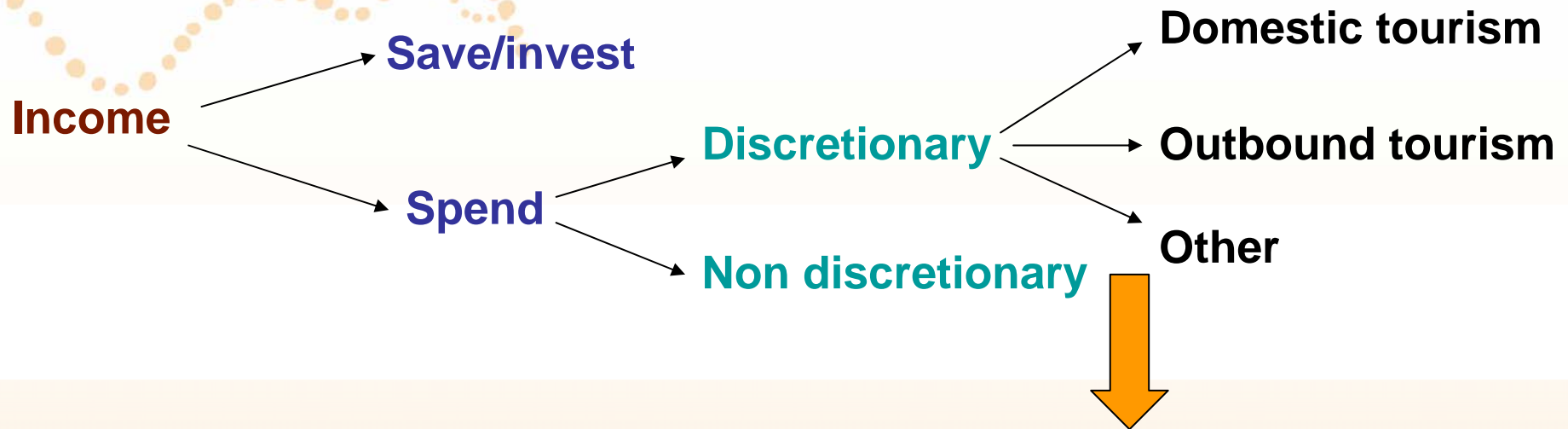
- The level of spending vs savings = the “savings rate”.
- The savings rate is determined largely by consumer confidence.
- Consumer confidence is governed by a range of factors, including:
  - employment security
  - debt levels
  - inflation expectations
  - interest rate expectations
  - net wealth.
- Savings and investment reduce the amount of funds available for spending

# The cost of living



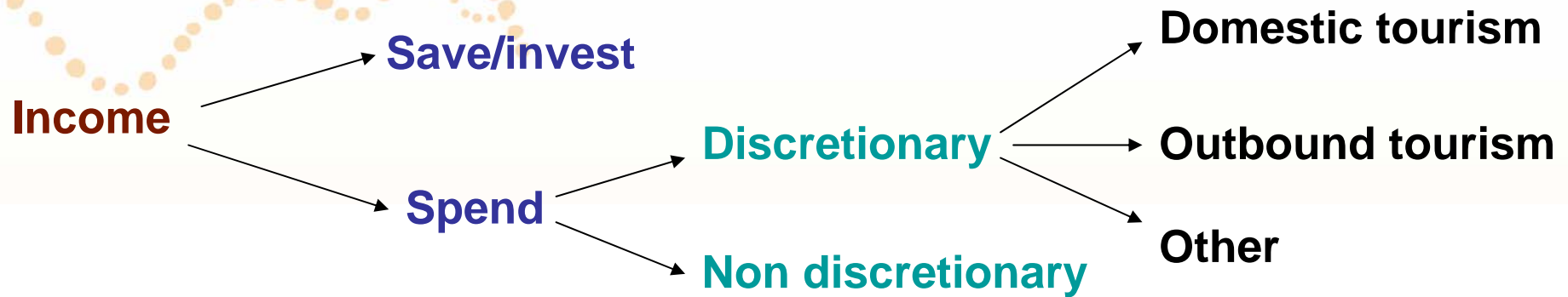
- A proportion of income is absorbed by “non discretionary” items: the basic costs of living.
- The levels of these costs differ markedly between households.
- Discretionary spending varies with changes in living costs, eg from changes in:
  - interest rates
  - food prices
  - rents
  - utility prices
  - petrol prices

# Plethora of choice



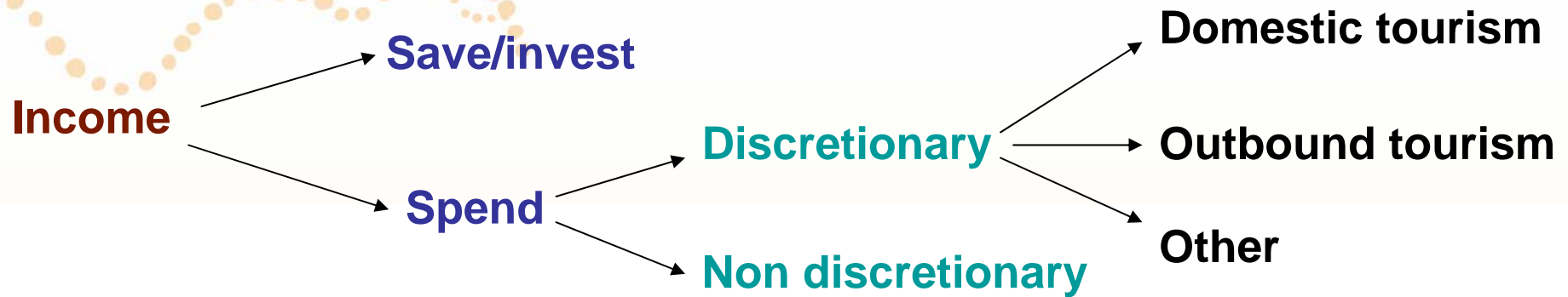
- Consumers then decide how to allocate their remaining discretionary expenditure by weighing up the relative costs and benefits of consuming various items.
- Comparing some of the costs of items is straight forward, eg prices such as airfares, accommodation, cars, exchange rates and petrol.
- The comparison of other costs is more problematic, eg the time costs associated with purchase and consumption (eg new TV vs holiday).
- Comparing the benefits of consumption is also subjective
  - what utility is derived from a large screen TV vs a domestic beach holiday vs a trip to Paris?

# What do we understand?



- We can measure and model variables at different nodes of the decision tree. TRA's current econometric model of the domestic tourism market captures the impact of changes in:
  - income (measured by GDP)
  - petrol prices
  - prices of rival goods
    - .. new cars
    - .. telecommunications
    - .. exchange rates (which affect the cost of overseas travel)
  - the impact of external shocks.

# What don't we understand?



- However, these models cannot explicitly predict changes in how people **VALUE** the consumption of different items. This is only revealed in historical data.
- The models are based on historical data, eg the revealed relationship between changes in incomes or costs and changes in travel behaviour ...  
... but will these relationships change over time?
- If so, the model relationships will always be playing ‘catch-up’ as the importance of some relationships that are not captured increases.
- “Propensity to travel” assumptions are adjusted over the forecast horizon.
- Modelling demographic/groups separately may better capture changes in spending patterns.



# Forecasting



# Key Economic Drivers

Most important: **Income**

## Significant variables:

- Household income
- Per capita gross domestic product.

## Other variables investigated:

- The cash rate: the official interest rate target set by the Reserve Bank of Australia
- Taxes: the introduction of the GST (Quarter 3 2000)
- Household interest paid
- Unemployment rate: The official national unemployment rate.
- The ratio of household income to household interest paid
- The ratio of household income to household expenditure.



# Key Economic Drivers

## 2<sup>nd</sup> most important: **Sentiment**

### Significant variables:

- Expectations of family finances over the coming 12 months
- Expectations of economic conditions in Australia over next five years
- Unemployment rate.

### Other variables investigated:

- The Westpac Melbourne Institute Index of Consumer Confidence
- Current family finances compared to a year ago
- Expectations of economic conditions in Australia over the coming 12 months
- View on whether it is a good or bad time to buy major household items (from Westpac's consumer confidence survey)
- The household savings ratio.



# Key Economic Drivers

## 3rd most important: **Own price** (Tourism costs)

### Significant variables:

- Average rooms rates, ABS STA
- Best discount domestic airfares index, BTRE
- Automotive fuel, ABS CPI.

### Other variables investigated:

- 13 month moving average of best discount domestic airfares index, BTRE
- Domestic holiday travel and accommodation prices, ABS CPI.



# Key Economic Drivers

4th most important: **Cross price**  
(Cost of competing products)

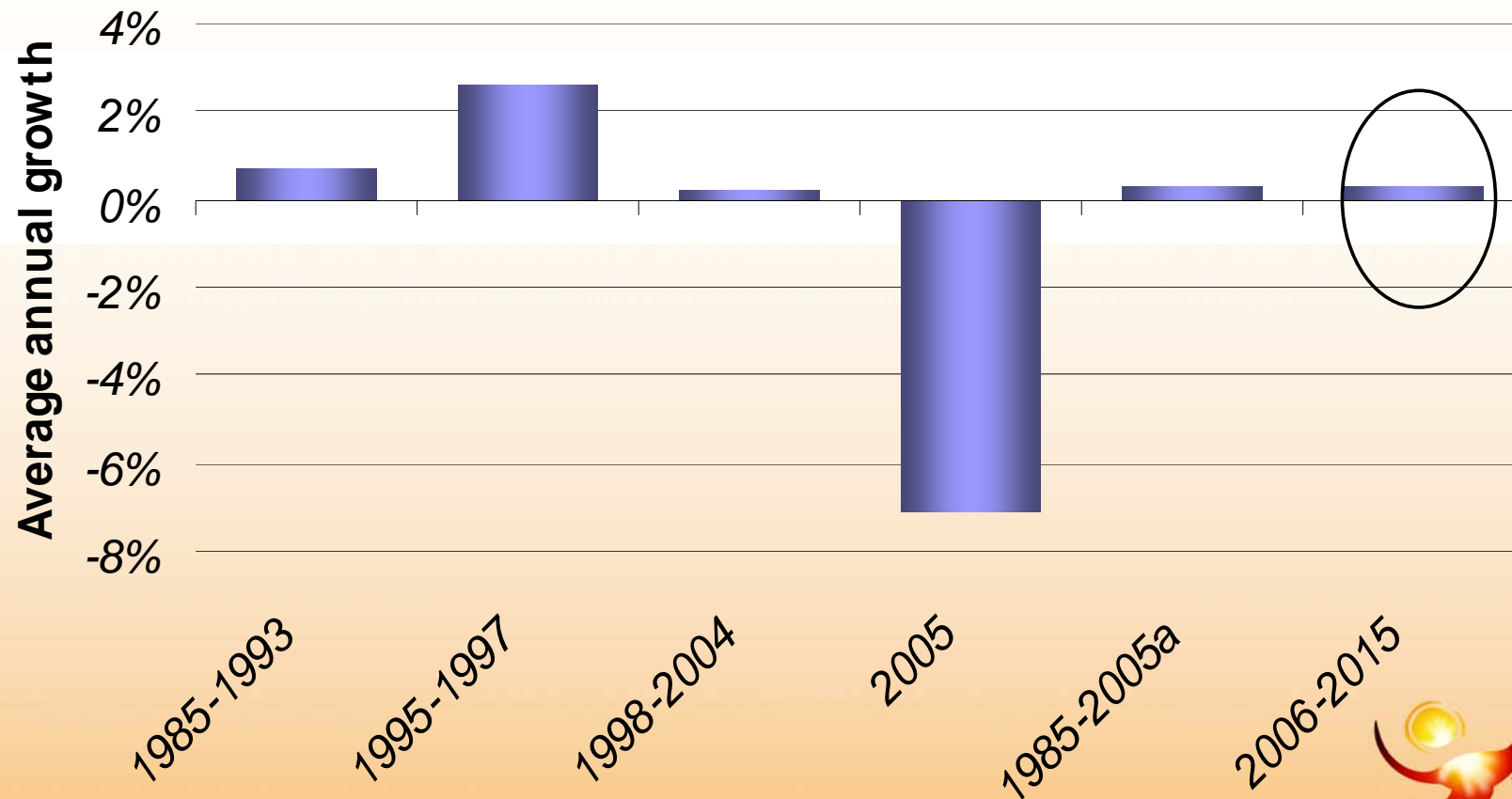
## Significant variables:

- Audio, visual and computing prices, ABS CPI
- A\$ /NZ\$ exchange rate
- Telecommunication prices, ABS CPI.

## Other variables investigated:

- Weighted average CPI of eight capital cities, ABS
- Overseas holiday travel and accommodation prices, ABS CPI
- A\$ / US\$ exchange rate
- Tourism-trade weighted index.

# Forecast visitor nights, 2006-2015



TFC April 2006