Tourism Tasmania
Strategic Scan 2012

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Tourism Tasmania

Table of Contents

Executive Summary 3

Context 4

The Bigger Picture 4

Economic Backdrop 5

Global Industry Trends 9

Australian Industry Trends 10

Tasmanian Industry Trends **13**

Changes in Booking Intensions Reflect Broader Trends 15

Key Markets – The Older Demographic (45+) 16

Key Markets – Victoria 17

Key Markets – NSW 18

Key Markets – Qld 19

Nature Of Demand 20

Access by Air **22**

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Executive Summary

This Strategic Scan of tourism over the last five years provides findings that have been used to identify key strengths, weaknesses, opportunities and threats for Tasmania going forward. Findings from the analysis of key markets, the nature of demand, capacity factors, and trends are presented throughout this report.

Growth in global travel has slowed considerably since the Global Financial Crisis. Within Australia, domestic tourism remains under pressure. A range of economic (e.g. the high AUD) and industry forces (emergence of new destinations and greater international airline competition) have resulted in a slowing of international visitor arrivals and increasing residential departures as more Australians choose to holiday overseas.

Future growth is not likely to come from traditional markets. From a domestic perspective, the current resource boom and structural change in the Australian economy implies that the two largest traditional markets, Victoria and NSW may show softening demand. NSW is potentially at greatest risk due to large historical demand for holiday travel. Compared to Victoria, which has higher levels of travel for 'visiting friends and relatives' (VFR) and proximity advantages, this discretionary holiday spend could fall.

Internationally, traditional markets such as Europe, the United States and Japan are declining both in arrivals and expenditure. This is a trend mirrored at the national level, with emerging Asian markets (Malaysia, China and Singapore) all growing rapidly in annual arrivals and expenditure. Within Tasmania, although growth is off a low base, the rate of this growth out-strips the national growth rates, implying Tasmania is capturing market share.

This shift in demand mirrors a much broader, longer term trend of Australia being pulled into the Asian sphere of influence, where strong political and economic ties into Asia are becoming increasingly important.

The way people use information and book travel to Tasmania is also changing rapidly. Supporting the Tourism Information Monitor (TIM) and Domesticate work undertaken by TNS, there has been a sharp shift away from traditional information and travel booking methods towards direct booking (via airlines or TT-Line), travelling without a prior booking, and sourcing information from word of mouth or online. This is a trend seen playing out nationally, internationally and across sectors and represents a key opportunity and potential threat if not responded to quickly and appropriately.

The findings and insights provided by the Strategic Scan are driving current recommendations and decisions within Tourism Tasmania, and provide Tourism Tasmania with valuable input into the development of marketing strategy and investment including the new brand development.

Context

The Bigger Picture

There are three trends shaping Australia's future. These are trends that policy makers and business will be responding to over the next quarter of a century. These trends will also have a profound impact upon the tourism industry.

Aging population

In 2002, there were more than five people of working age to support every person aged over 65. By 2042, there will only be 2.5 people of working age supporting each person aged over 65 (Commonwealth Treasury). This profound demographic shift will be a defining pillar of Australia's social and economic future, shaping the policy debate for many years to come.

This trend will also have a profound impact on the tourism market within Australia, influencing:

- the purpose, patterns and level of demand for tourism services by older socio-economic groups of society
- the purpose and patterns of younger socio-economic cohorts still participating in the labour market
- increased competition (and hence price paid) for labour, as there will be fewer people to step into the roles of retirees. This will therefore intensify a labour force trend already placing constraints on the domestic tourism industry.

The Asian Century

From an economic standpoint, Australia is increasingly shifting away from our traditional trading partners (Europe and the USA) and being drawn into the Chinese and Asian sphere of influence. From a social and political standpoint, the Australian population is growing more ethnically diverse and the importance of political events and strong political ties into Asia are increasingly important.

The rapid economic growth of China and the Asian region pose a unique opportunity for Australia, with the effects of this already being seen in the tourism industry, for example:

- the changing profile of visitor arrivals to Australia, with growth in numbers and expenditure now being driven by emerging Asian economies (refer to global industry trends on page 9)
- the changing travel purposes and preferences that accompany a change in the socio-economic profile of international arrivals to Australia
- increased competition in the aviation sector on selected routes resulting in an expanded, and cheaper, opportunity for Australians to travel abroad.

The Patchwork Economy

However, the emergence of this large aspirational middle class in Asia will be built upon the rapid urbanisation of these countries, which requires resources like steel, aluminium and coal. This resource demand, primarily from China, has led to the mining boom currently being witnessed in Australia. This boom is also a unique opportunity for Australia, but with it comes a very uneven, or patchwork, distribution of growth and wealth, both across sectors and regions. The tourism industry is already feeling the pressure of the mining boom through:

- increased competition for labour and capital
- a strong AUD, hindering inbound growth and stimulating outbound travel
- changing domestic travel patterns and shifting patterns of wealth.

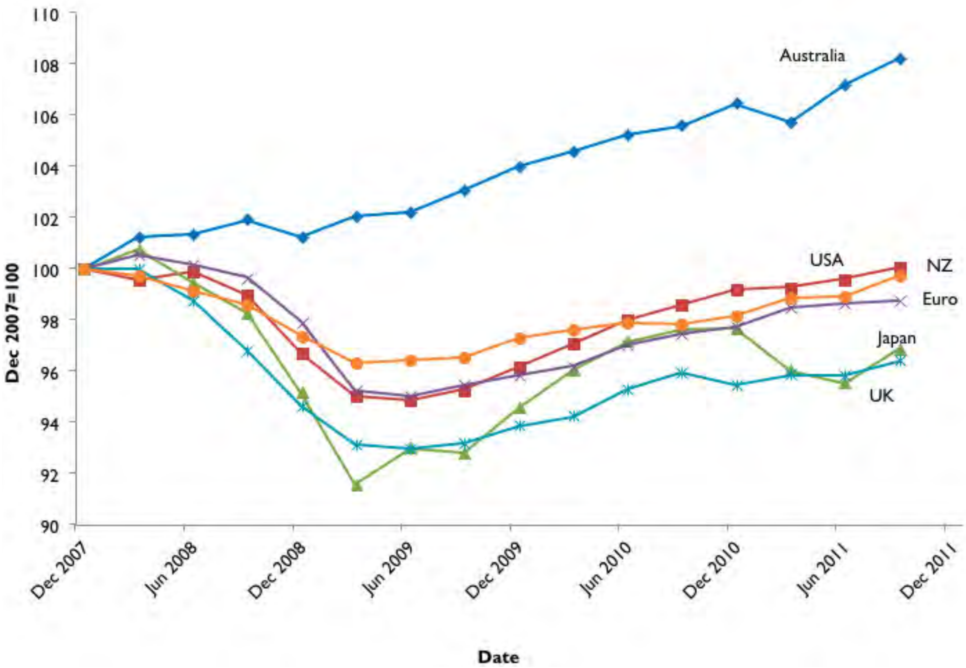
So, while the industry is in a unique long term position, the short to medium term prospects for the industry will be challenging.

Economic Backdrop

Australia's recent economic growth has been the envy of Organisation for Economic Co-operation and Development (OECD) counterparts. Not only did Australia's economy not fall into recession during the Global Financial Crisis (GFC), but it has shown strong growth since, primarily upon the back of strong resource demand from China.

As can be seen in Chart 1, other major developing economies and key inbound tourist markets are only starting to emerge from a prolonged period of declining or stagnant growth. New Zealand's and the USA's economies are at the same level as four years ago, while the economies of the UK, Euro Zone and Japan are all smaller than they were in 2007. Associated with this stagnant economic growth have been high levels of unemployment, resurgence in consumer caution and in some cases, social unrest.

Chart 1: Australian GDP Growth (2007 – 2011) compared to the rest of the world



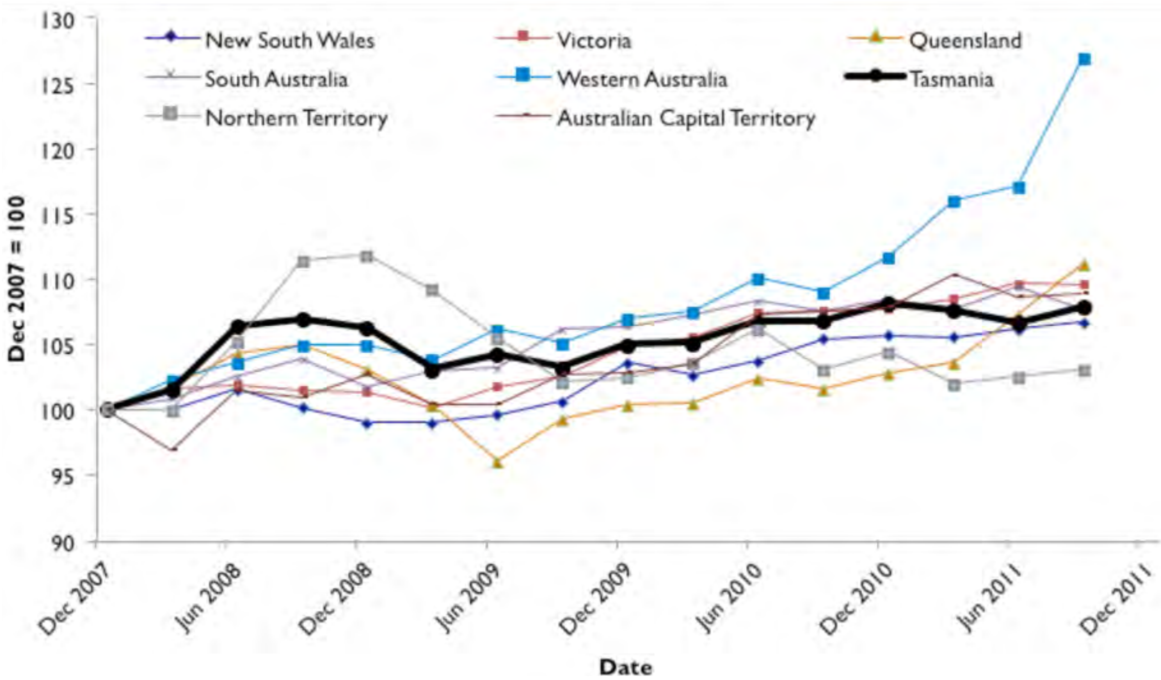
Source: Thomson Reuters 2011, Reserve Bank of Australia (RBA) (from Australian Bureau of Statistics (ABS)) 2011.

Despite Australia's recent relatively strong economic growth, there is a divergence in economic fortune and performance between states. This is a direct result of the mining boom and demand for Australian resources, resulting in very strong, localised, growth.

Chart 2 indicates that resource states like Western Australia and the Northern Territory are showing, on average, stronger growth. Considering Tasmania is not considered a mining state, it has performed reasonably well since 2008, when Tasmanian State Final Demand is compared with that of other states.

In terms of key markets for the Tasmanian tourism industry, Victoria has been performing strongly; NSW has been lagging the other major states; while Queensland's growth was subdued due to flooding, but has recently rebounded strongly.

Chart 2: State Final Demand (SFD) Growth



Source: ABS 2011.

The divergent growth rates between states can be traced back to structural changes currently underway in the Australian economy. These structural changes are being driven by the strong global demand for commodities and the rapid growth of the Australian resource sector required to meet this demand. However, this rapid growth and increased profitability of the resource sector can have an adverse effect upon the short and long run productivity and sustainability of other trade exposed sectors, like tourism.

How is the tourism industry affected?

The spending effect, resulting in a prolonged period of a strong AUD, will place the greatest pressure upon Australia's tourism industry. This pressure will be felt from:

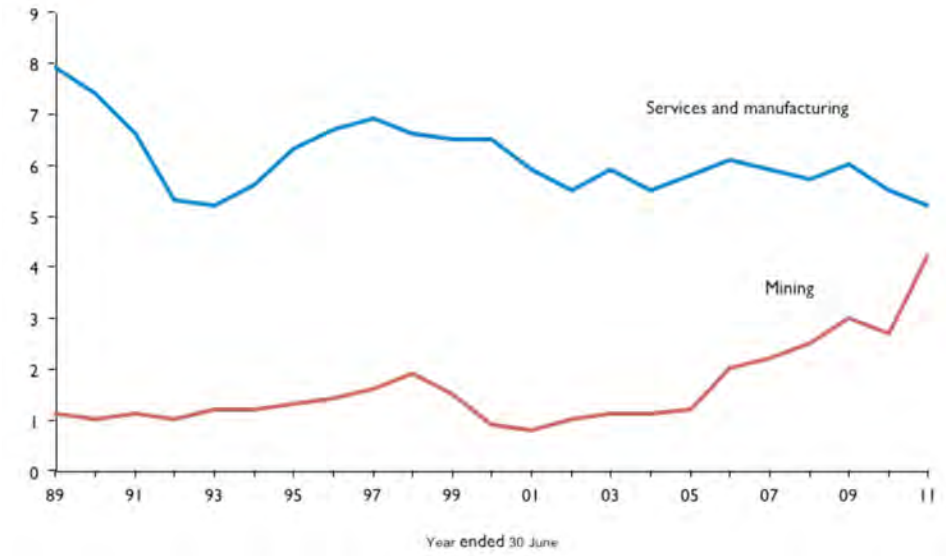
- reduced international competitiveness vis-à-vis emerging destinations in the Asia Pacific and established destinations in Europe and the Americas;
- increased competition for the share of domestic tourism, as international destinations become relatively less expensive. This trend is likely to be complemented by increased access to these international destinations through market liberalisation in the aviation industry.

The impact of the resource movement effect is expected to place less pressure on the tourism industry. While mining is capital intensive, a proportion of this capital can, and is likely to be, sourced off-shore. This will mitigate the levels of competition or crowding out for domestic funding. While competition for labour will be acute in certain locations, the overall impact will be dampened by:

- low levels of geographic flexibility / responsiveness of the Australian labour force to move to meet demand;
- low labour intensity of the mining industry.

The resource movement effect and the impact that required capital investment by the resource sector has upon other industries is shown in Chart 3.

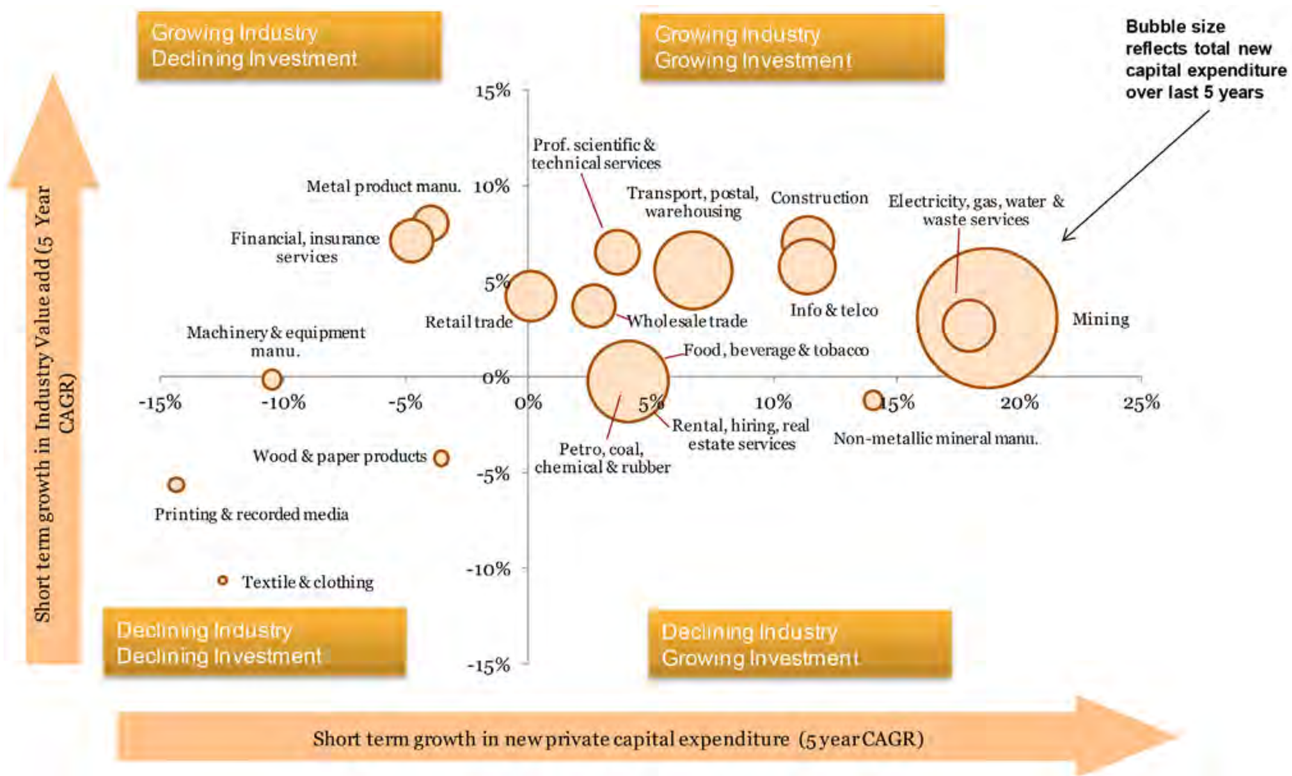
Chart 3: Industry investment as % of total GDP



Source: ABS 2012.

In the long-term, lower levels of capital investment will limit the relative technological and productivity growth within the tourism sector. This not only stunts growth during the commodity boom (as demonstrated in Chart 4), it makes it harder for these sectors to rebound once the commodity boom comes to an end or the prices of commodities start to fall. Chart 4 below illustrates the relative growth and level of investment in different industries across a five-year period.

Chart 4: Trends in industry growth: Growth in private new capital expenditure vs. Growth of industry (2007 – 2012)



Source: ABS 2012, PwC analysis

In 2011, the Commonwealth Treasury pointed out that when commodity prices normalise or when resources are depleted, tradeable sectors that have disappeared might simply not reappear.

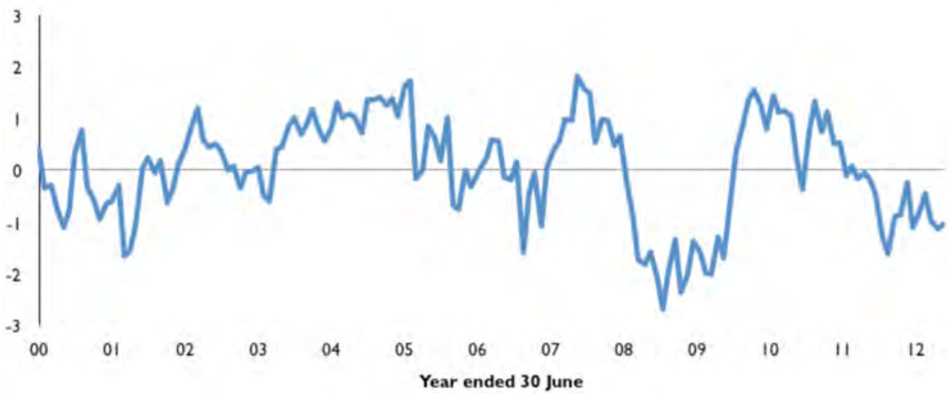
While the tourism industry is not going to disappear, this statement does emphasise that the ability, or speed, of an industry to rebound after a sustained commodities boom is stifled, sometimes beyond the point of recovery.

This also leaves the Australian economy vulnerable to short term volatility in commodity prices, as trade exposed sectors cannot respond rapidly enough to offset falls in the commodity revenues.

Despite the strong overall economic growth, Australian consumers have shown resurgence in caution driven by continued global economic uncertainty and the uneven distribution of domestic growth.

Chart 5 shows the short term fluctuations in consumer confidence. It demonstrates the sensitivity of short-term consumer sentiment to one-off events (such as the GFC in 2008 and recent concerns over European debt) and the longer term trend since mid-2008 of caution.

Chart 5: Australian consumer confidence: Standard deviations from long-run average (2001-2012)

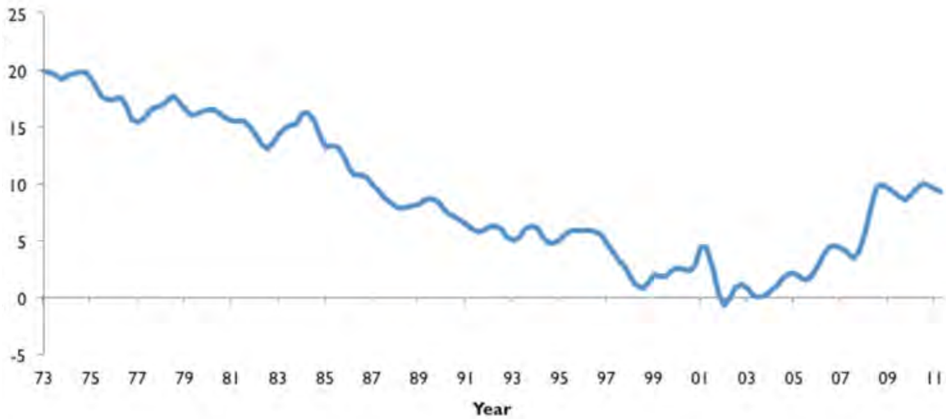


Source: RBA 2012.

While consumer confidence is an important factor influencing short-term demand for tourism, of more interest are household savings rates. Chart 6 demonstrates the recent return to frugality of Australian consumers, paying down debt and saving rather than consuming goods and services.

The key point to note about Chart 6 is that the recent resurgence in household savings is not, as often reported in the press, a new phenomenon. Rather, current savings rates are a return towards the longer-term Australian average. The incredibly low (by historical standards) savings rate witnessed during the 2000s began with the deregulation of financial markets in Australia in the 1980s and global availability of cheap credit during the 1990s and into the early 2000s.

Chart 6: Long term trends in household savings (1973-2012)



Source: ABS 2012.

This suggests that the high level of discretionary spending and complementary buoyant consumer confidence, witnessed during the early to mid-2000s, was an exception to the historical trend rather than the norm to which one would expect the current rates to return to.

Some argue that a marked improvement in the outlook of the global economy associated with a period of stability may entice consumers to dip back into these pent up savings for the purchase of discretionary items. However, this reversal does not currently appear to be forthcoming.

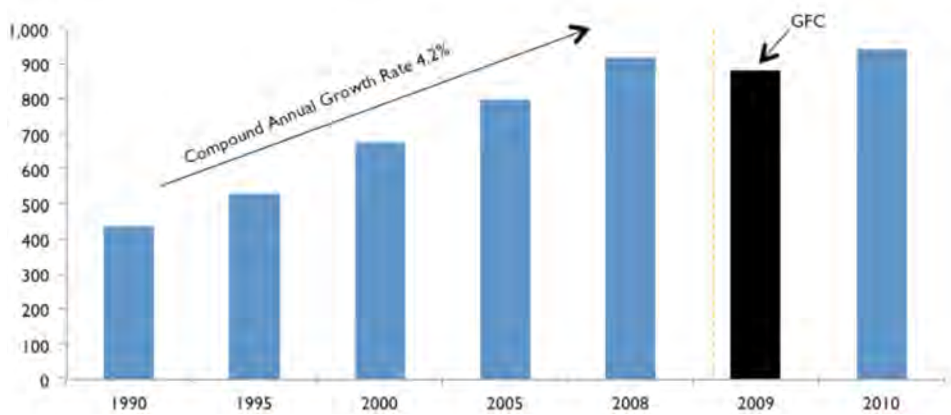
From a tourism industry perspective, this implies consumers will be seeking greater value for money when booking and need greater convincing to part with their savings.

The *TNS Domesticate Report 2012* reported on the 'trading up, trading down' phenomenon that is increasingly reflected in purchase decisions – including travel. Australians are also spending more cautiously, spending less on large scale indulgences in favour of smaller treats, and looking for deals and value for money.

Global Industry Trends

Between 1990 and 2008, global travel was growing at 4.2% per annum. Growth has slowed considerably since 2008. The impact of the GFC was a reduction in total income, resulting in less money for the tourism sector globally.

Chart 7: Trends in global travel (number of trips)



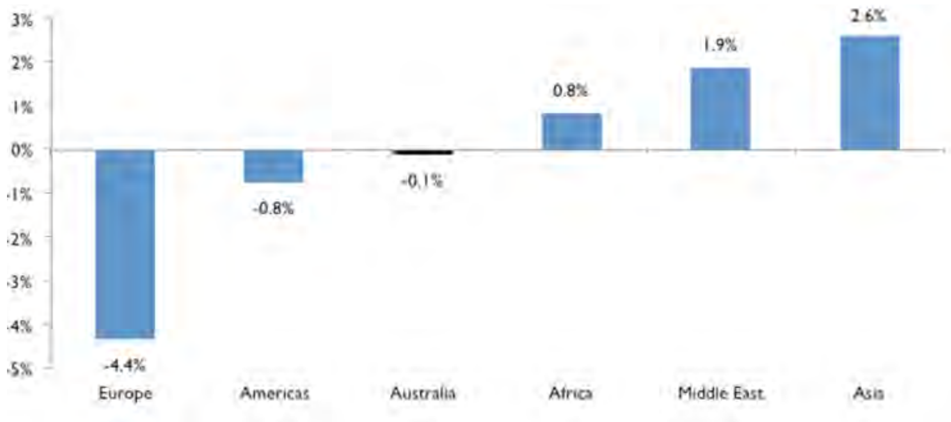
Source: United Nations World Tourism Organisation (UNWTO) 2011.

Compounding this reduction in total income was a diminished 'share of wallet' for tourism. Those who were considering travelling reassessed their need and the timeframe for this. Money allocated to travel was in many cases reallocated to areas of less discretionary spending, paying down debt or saving.

Economic uncertainty on a global scale limits the outlook for travel. Overlaying the economic uncertainty has been rising fuel costs and carbon pricing, both of which are mostly being passed on directly to consumers. This further restrains growth in the sector and makes a destination's proposition value and competitiveness even more relevant.

Travel is also moving towards a brave new world; traditional destinations are being replaced with more exotic locations (refer Chart 8). The market share of traditional destinations such as Europe and America declined significantly between 2005 and 2010 (4.4% and 0.8% decline respectively). Greater access and tourism infrastructure in emerging markets are opening the door to new destinations (The Middle East's market share of global tourism has grown by 1.9% from 2005 to 2010 and Asia's by 2.6%).

Chart 8: Change in global market share for major tourism destinations (2005-2010)



Source: UNWTO 2011.

Rising demand for tourism in Asia has sparked the development of tourist infrastructure and brands. Supported by the governments of the region that have used the emergence of a tourist and visitor economy as a tool for economic development, these destinations are now capturing a growing share of the international tourist market, while providing viable competition to Australia's domestic tourist market.

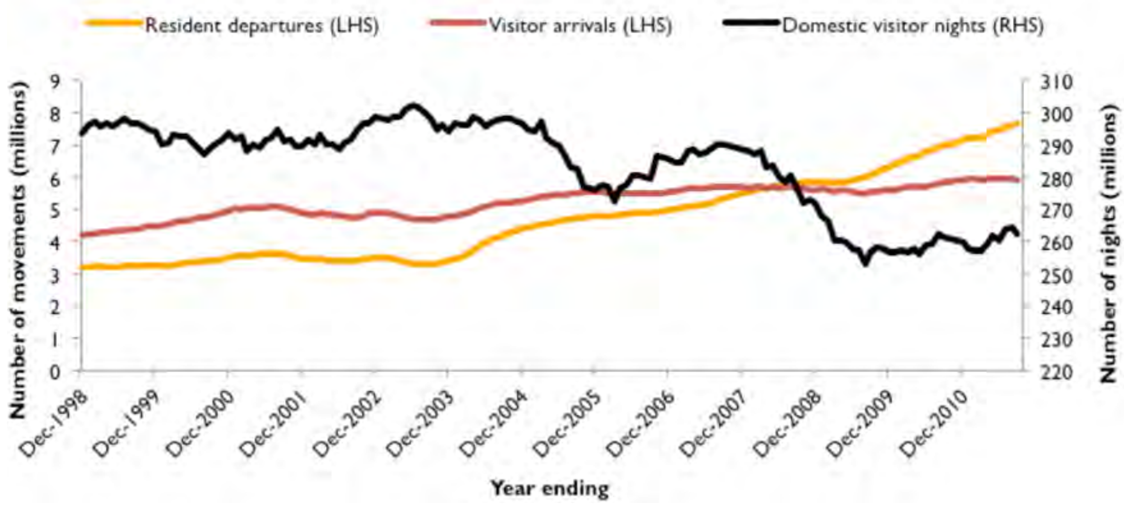
Australian Industry Trends

Since 2008, Australian resident departures have increased at a greater rate than visitor arrivals to Australia and domestic visitor nights spent in Australia have declined.

International travellers have turned to short breaks, limiting travel to long haul destinations such as Australia.

It is generally accepted that Australian consumers are switching from domestic holidays to international destinations. International short breaks to destinations such as South East Asia, Pacific Islands, West Coast USA and New Zealand are a relatively new phenomenon. These destinations have become direct competitors to domestic travel offerings.

Chart 9: Australian resident departures vs. international visitor arrivals to Australia vs. domestic visitor nights spent in Australia



Source: ABS 2012.

Note: Rolling annual data by quarter has been used for resident departures and visitor arrivals in order to reduce the effects of seasonality on the data.

The appreciation of the AUD has reduced the real cost of international travel for Australian consumers, while making domestic trips relatively more expensive.

Despite the fact that it has also made Australia a relatively less competitive destination internationally, it is promising that visitor arrivals to Australia have continued growing from 2008, albeit slower than the longer term average. From September 2008 to September 2011, the average annual growth in arrivals was 1.4%. This is less than half of the average growth rate from the preceding 10 years (3.0% per annum on average between 1998 and 2008).

In the medium term, and setting aside volatility and cycles, it is not predicted that the AUD will fall significantly against the major currencies. With resources demand from China continuing, the dollar is likely to remain strong and continue to place pressure on Australia's tourism industry, an outcome of the spending effect discussed on page 7.

Chart 10: Recent movement of Australian dollar against US dollar, Euro and Yen

Source: RBA 2012.

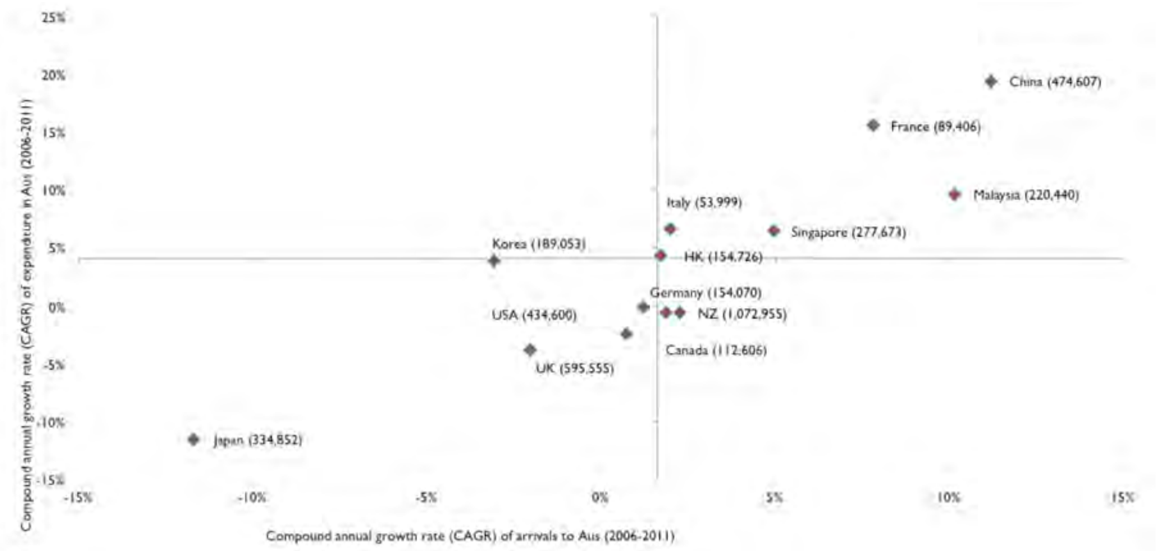
Asian markets are growing strongly for Australia in terms of arrivals and expenditure, while traditional markets are stagnating.

The top right quadrant of Chart 11 indicates an increasing number of arrivals and an increasing spend (essentially a growing number of people spending more money). This quadrant is dominated by travellers from strong growth markets for Australia – particularly Asian nations, as well as France, which has been a strong growth market out of Europe in the last 3-5 years.

This aligns with Australia's movement into the Asian sphere of influence and provides an opportunity to capture the growing number of wealthy, aspirational, middle class residents in these countries seeking 'pristine' open spaces and Western travel experiences.

Chart 11 also shows that traditional markets have stagnated, both in terms of arrivals to, and spend in Australia. This is demonstrated most predominantly by Japan, the UK and the USA, each exhibiting below average, and in some cases negative growth in both aspects. This trend is being replicated globally; however the strong AUD is accentuating the effect in Australia.

Chart 11: Change in international visitor arrivals to Australia and inbound expenditure by country of origin (2006-2011)



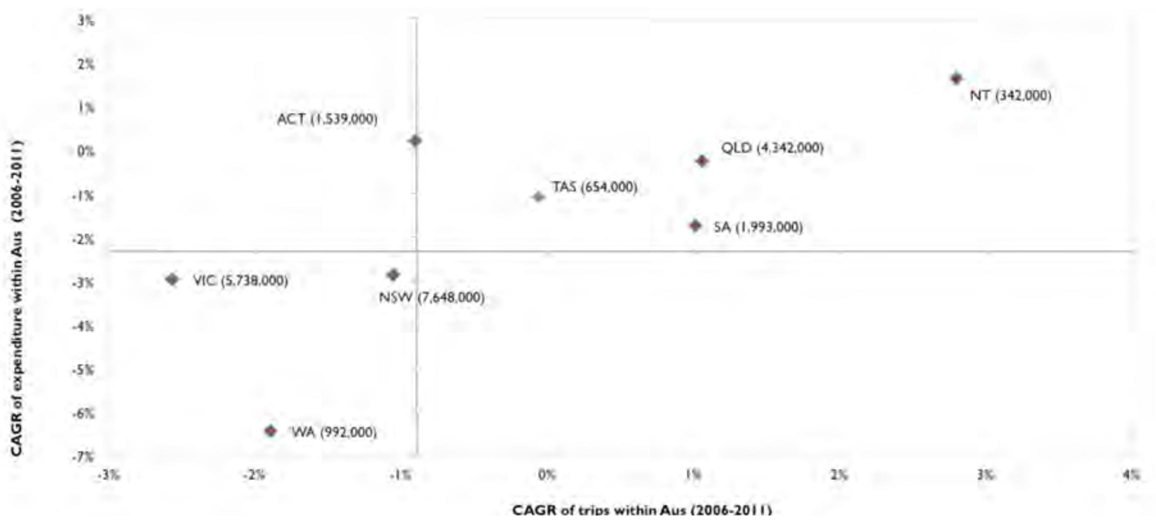
Source: National Visitor Survey (NVS) 2011. (June 2011$)

Note: Origin is set at -0.9%, -2.3%, the average 5 year CAGR for each axis. This demonstrates the change for specific visitor origin states relative to overall domestic visitor growth.

Note: Number of trips undertaken by travellers from each state in 2011 are displayed in brackets.

Tasmania's major domestic markets are exhibiting negative growth in domestic trips and domestic travel expenditure nationally. NSW and Victoria represent more than 50% of Tasmania's domestic travel market. However, these markets are contracting in terms of number of trips (throughout Australia) and domestic travel expenditure over time. This is a potential risk for Tasmania.

Chart 12: Change in the number of interstate trips undertaken and domestic travel expenditure (by Australian state of origin (2006-2011)



Source: National Visitor Survey (NVS) 2011. (June 2011$)

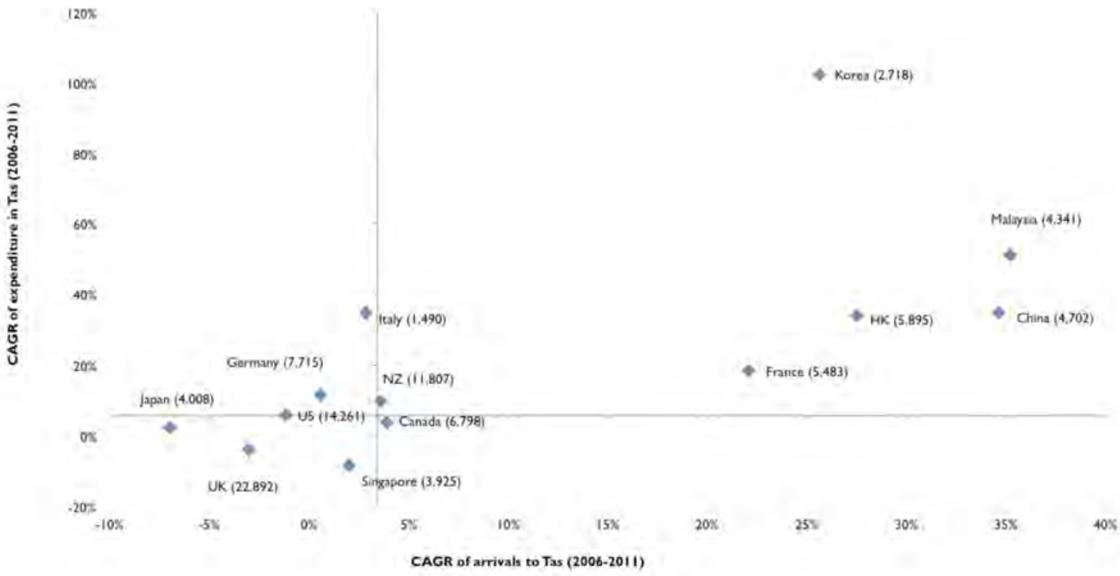
Note: Origin is set at - 0.9%, -2.3%, the average 5 year CAGR for each axis. This demonstrates the change for specific visitor origin states relative to overall domestic visitor growth.

Note: Number of trips undertaken by travellers from each state in 2011 are displayed in brackets.

Tasmanian industry trends

Both arrivals and expenditure from international markets are growing faster for Tasmania than for Australia. Chart 13 shows that Tasmania is capitalising on the international growth markets for Australia. Arrivals to Tasmania from Australia's three fastest growing international markets (China, Malaysia and France) are increasing approximately three times faster than arrivals growth from these markets to Australia (albeit off a low base). Similarly, expenditure from these markets in Tasmania is growing significantly faster than it is in Australia as a whole.

Chart 13: Change in international visitor arrivals to Tasmania and inbound expenditure by country of origin (2006-2011)



Source: Tasmania Visitor Survey (TVS) 2012. (June 2011$)

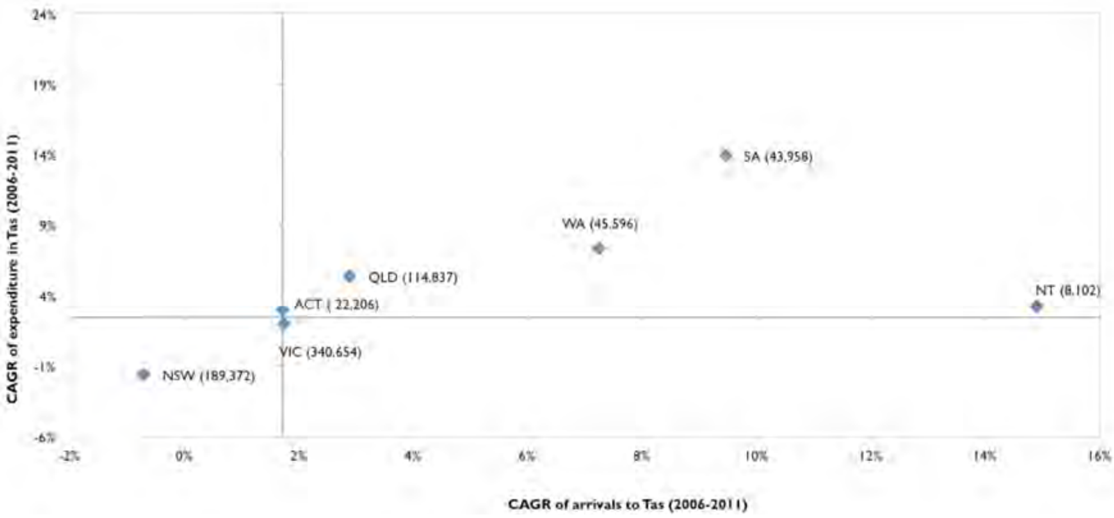
Note: Origin is set at 3.4%, 5.9%, the average 5 year CAGR for each axis. This demonstrates the change for specific international markets relative to average growth.

Note: Number of arrivals to Tasmania from each market in 2011 are displayed in brackets.

Growth in domestic markets for Tasmania also outstrips the national average growth. Overall, from 2006 to 2011, domestic arrivals to Tasmania grew annually on average by 1.7%, while domestic trips within Australia fell by 0.9% – chart 12). Similarly, expenditure by domestic travellers in Tasmania grew by 2.5% over the same period, while domestic travel expenditure within Australia fell by 2.3% (Chart 12). Growth of this magnitude year on year can be considered encouraging for Tasmania, as in the current economic environment international travel is becoming more affordable and accessible.

Growth in domestic travel is uneven across Australian states. Travel by NT, SA and Qld residents is growing the fastest and travel from these states to Tasmania is growing even faster than domestic travel growth in general. Growth from core Tasmanian markets such as Victoria and NSW is slower, although it is still stronger than overall domestic travel out of these states. WA is another growth market for Tasmania, with significantly high growth in arrivals and expenditure from WA visitors, while nationally, arrivals and expenditure by WA visitors has fallen.

Chart 14: Change in the number of domestic trips to Tasmania and domestic travel expenditure in Tasmania by Australian state of origin (2006-2011)



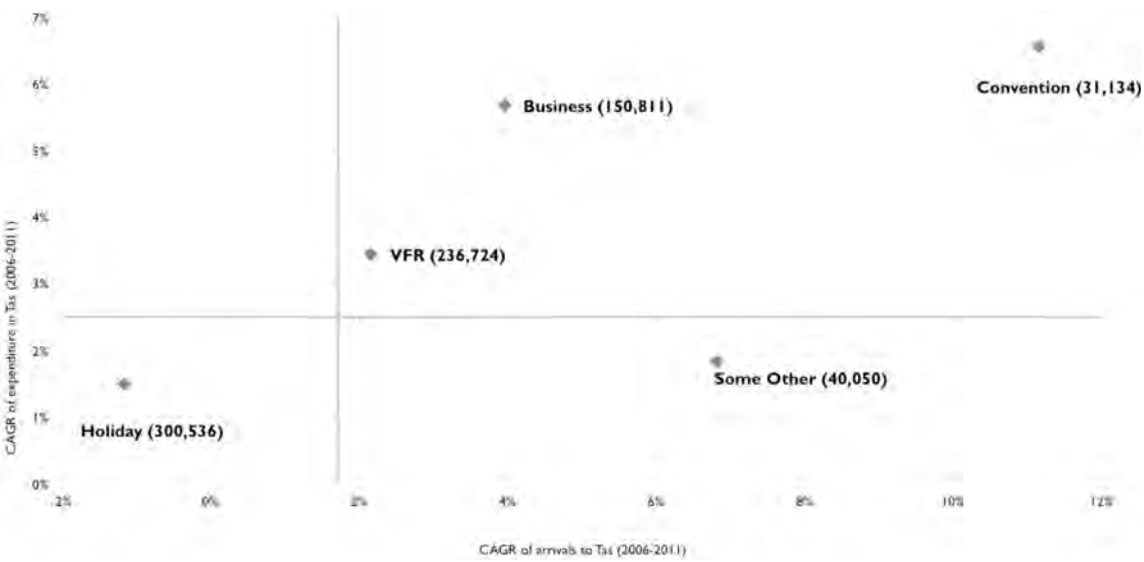
Source: TVS 2012. (June 2011$).

Note: Origin is set at 1.7%, 2.5%, the average 5 year CAGR for each axis. This demonstrates the change for specific visitor origin states relative to overall domestic visitor growth.

Note: Number of trips undertaken by travellers from each state in 2011 are displayed in brackets.

Growth is evident in business purpose and visiting friends and relatives (VFR), while holiday purpose trips are stagnating. Despite a contraction in holiday arrivals, expenditure for holiday visitors is marginally increasing, and both expenditure and arrivals for those visiting friends and relatives in Tasmania are growing at above average rates. Tasmania is seeing strongest growth in the lucrative Meetings, Incentives, Conferences, Exhibitions (MICE) market, although this is only a small proportion of total domestic trips (3.5% in 2011). The challenge for Tasmania is to therefore hold market share in the domestic holiday market, while attempting to capitalise on growth in the business and convention markets (representing 16% of total domestic visitors to Tasmania in 2011).

Chart 15: Change in the number of domestic trips to Tasmania and domestic travel expenditure in Tasmania by purpose of domestic travel (2006-2011)



Source: TVS 2012. (June 2011$).

Note: Origin is set at 1.7%, 2.5%, the average 5 year CAGR for each axis. This demonstrates the change relative to overall domestic visitor growth.

Note: Number of arrivals to Tasmania from each market in 2011 are displayed in brackets.

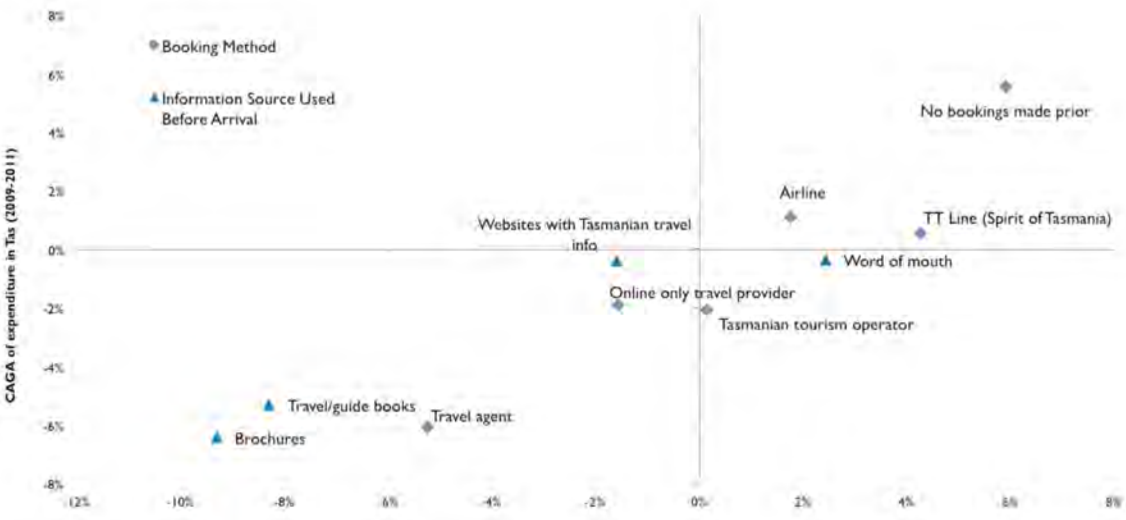
Changes in Booking Intentions Reflect Broader Trends

Trends in booking methods and information sources used prior to arrival in Tasmania are broadly similar to those at the national level. Growth in direct bookings (airline, TT Line) is positive, as is the influence of word of mouth on arrivals growth (highly linked with the growth in social media). With the rise of mobile internet usage, the 'no bookings made prior' category has also exhibited strong growth.

A shift away from traditional mediums including print and travel agents is seeing online booking and research methods replace the traditional mediums of newspapers, brochures and guidebooks. The speed of this shift is also important, with a sharp decline in reliance of traditional mediums occurring over the past three years.

These trends are also reflective of global tourism with the emergence of online means of booking and research (including consumer driven sites such as Tripadvisor) and applications for smart devices. These applications are quickly becoming a necessity in a changing market mix that is heavily weighted towards online and social media.

Chart 16: Change in the number of domestic trips to Tasmania and domestic travel expenditure in Tasmania by method of booking / information source used before arrival in Tasmania (2009-2011)

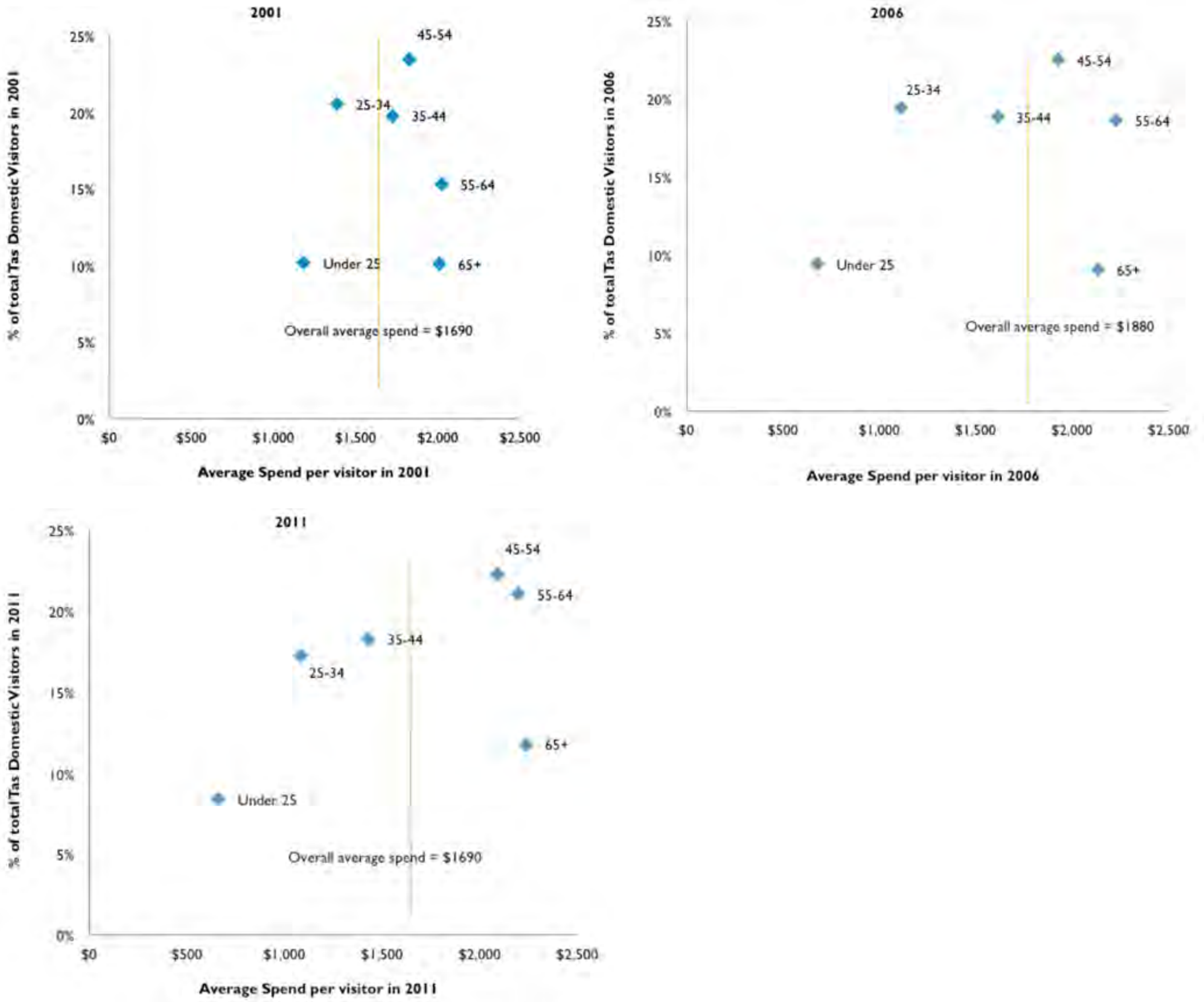


Source: TVS 2012. (June 2011)

Key Markets – The Older Demographic (45+)

Visitors 45+ represent Tasmania's most profitable market and their market share is growing. Visitors to Tasmania in the older demographic are increasing in total numbers and in proportion to other age brackets. Older visitors are also Tasmania's most profitable market. Chart 17 shows that the share of visitors in the older demographics are growing in terms of arrivals and spend. While visitors 45+ have always spent the most on average in Tasmania, the relative gap in expenditure per person between young and old is widening. With Australia's aging population, this pattern of arrivals growth is likely to continue, and visitors 45+ will remain a lucrative market for Tasmania.

Chart 17: Average spend per visitor vs proportion of total domestic visitors to Tasmania by age bracket in 2001, 2006, and 2011. (June 2011$)



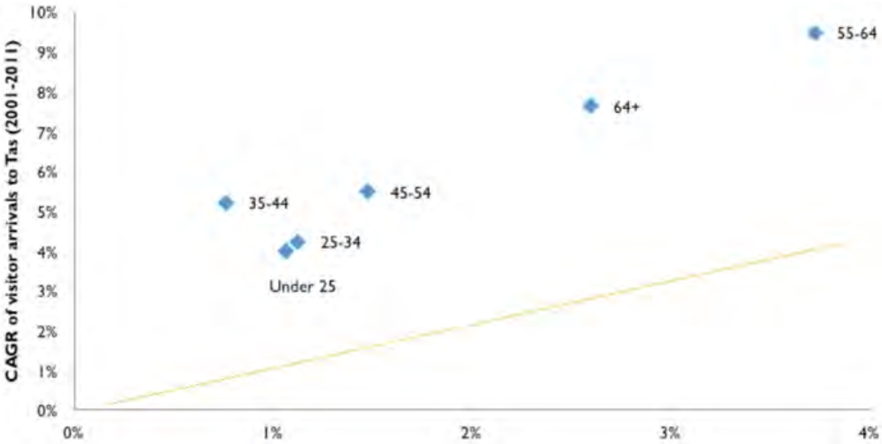
Source: TVS 2012. (June 2011$).

- In 2001 domestic visitors 45 and over represented 49% of all domestic visitors and 56% of total expenditure by domestic arrivals.
- In 2006 domestic visitors 45 and over represented 50% of all domestic visitors and 64% of total expenditure by domestic arrivals.
- In 2011 domestic visitors 45 and over represented 55% of all domestic visitors and 70% of total expenditure by domestic arrivals.

Chart 18 shows that while domestic arrivals to Tasmania are increasing at a greater rate than Australian population growth for all age brackets, the proportion of the population in the 45+ group are growing the fastest. These are also the fastest growing market segments for Tasmania.

This older market segment represents Tasmania's largest market; it has the greatest value; and has the highest growth in arrivals. With the aging of the Australian population, it also looks to be one of the most sustainable market segments over the next 20 to 30 years.

Chart 18: Australian population growth vs growth in domestic visitors to Tasmania by age bracket (FY01 to FY11)



Source: TVS 2012, ABS 2012.

Key Markets – Victoria

Older visitors with high incomes represent the high growth visitor groups out of Victoria.

Victoria is Tasmania's largest geographical market, accounting for 44% of domestic visitor arrivals to Tasmania and 38% of all visitor arrivals (international and domestic) in FY11.

Mature visitors and those with high household incomes are the sub-groups in Victoria that have exhibited the highest growth in visiting Tasmania. These groups represent the growth markets seen at a national level. They also represent high growth segments of the Australian overall demographic (due to the aging population), and income segments that have a high propensity for travel.

Given the nature of interstate travel to Tasmania (necessarily requiring either sea or air travel rather than land travel only), the costs associated with a trip are higher than other eastern state destinations from Victoria. This may be one reason behind the contraction of the market among lower income earners.

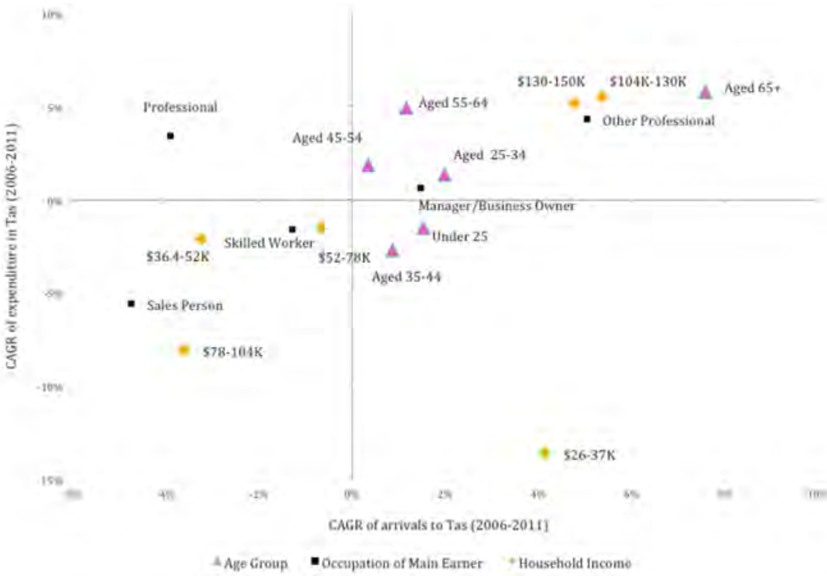
Despite the growth in those visiting friends and relatives, the holiday market has fallen by around 1% per annum between 2006 and 2011.

Business and convention visitors from Victoria have grown in numbers but fallen in overall expenditure between 2006 and 2011.

Chart 20 also shows growth in the nature products that Tasmania is famous for, including bush walking and other outdoor activities.

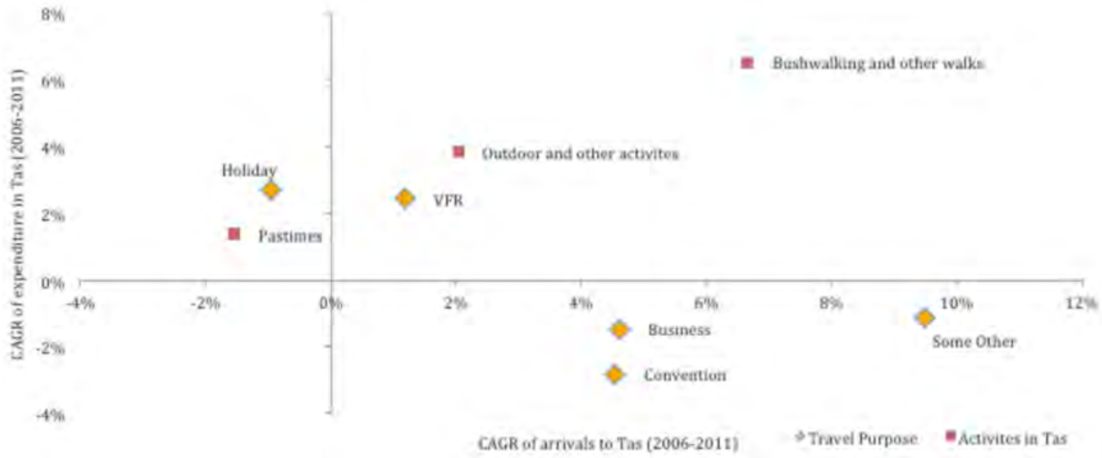
This is also illustrated in the most recent Tourism Tasmania Tourism Info Monitor (TIM) results which finds that visiting National Parks, hiking and bushwalking, along with visiting nature attractions are among the top preferred activities undertaken by those respondents considering Tasmania as a holiday destination.

Chart 19: Victorian Visitors: Change in the number of trips to and expenditure in Tasmania by age group, occupation of main earner, and household income group (2006-2011)



Source: TVS 2012, ABS 2012.

Chart 20: Victorian Visitors: Change in the number of trips to and expenditure in Tasmania by purpose of visit and activities undertaken on the trip (2006-2011)



Source: TVS 2012, (June 2011 $)

Key Markets – NSW

While overall growth in visitors and expenditure from NSW is falling, older visitors have exhibited positive growth, demonstrating the strength of this demographic.

NSW is Tasmania's second largest geographical market, accounting for 24% of domestic visitor arrivals to Tasmania and 21% of all visitor arrivals (international and domestic) in FY11.

Similar to Victoria, NSW visitors in the mature age brackets and higher income brackets have grown more than younger visitors and those in lower income brackets. The greatest potential again exists among mature, high income earners. This is the socio-economic group with the highest likelihood and propensity to travel to Tasmania (based on overall domestic trends).

Notably, holiday travellers are falling in NSW. This market contraction is partially being offset by the growth in the business market and a stronger VFR market (in terms of expenditure). However, this decline is driving overall negative growth. NSW is Tasmania's second largest source market by destination, and holidaymakers made up only 41% of arrivals from NSW in 2011 (this figure was 50% in 2006).

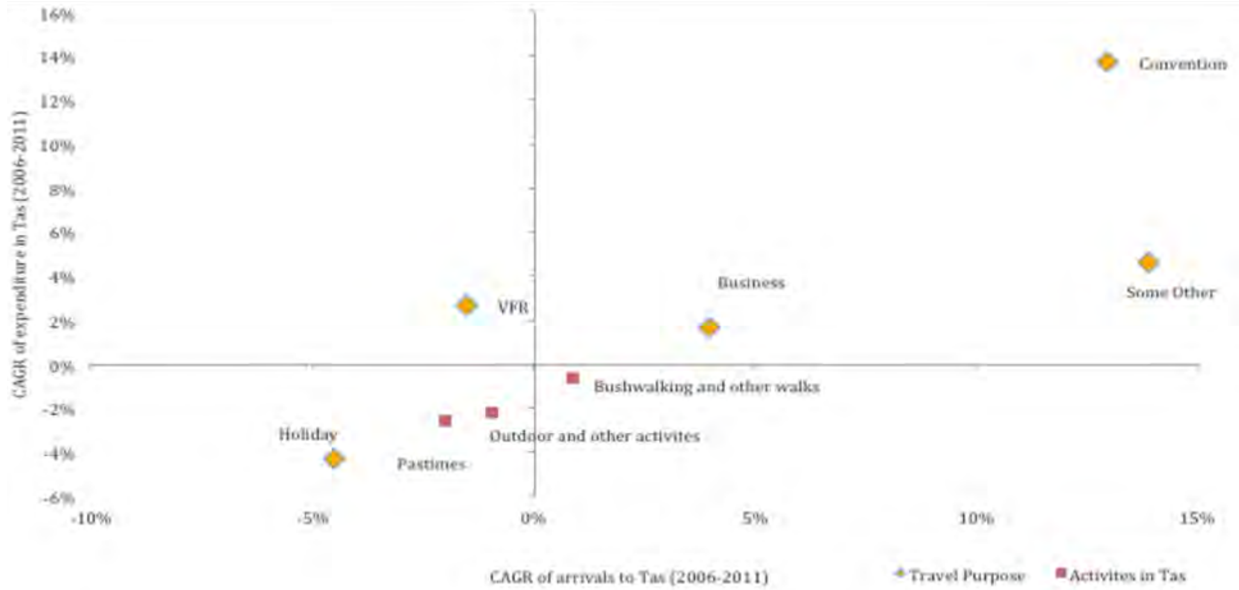
Growth in the 'other professional' category is the strongest across Tasmania's three largest geographical markets, including NSW. This category consists of professions such as nurses, teachers and police officers. This indicates that Tasmania is increasing its appeal to moderate income earners.

Chart 21: Visitors from NSW: Change in the number of trips to and expenditure in Tasmania by age group, occupation of main earner, and household income group (2006-2011)

Source: TVS 2012, (June 2011 $)

Note: 4 years CAGR for household income group (2007-2011) due to data limitation

Chart 22: Visitors from NSW: Change in the number of trips to and expenditure in Tasmania by purpose of visit and activities undertaken on the trip (2006-2011



Source: TVS 2012, (June 2011 $)

Key Markets – QLD

Overall growth in visitors and expenditure from Queensland is driven by growth from a range of age brackets and income levels.

Queensland is Tasmania's third largest geographical market, accounting for 15% of domestic visitor arrivals to Tasmania and 13% of all visitor arrivals (international and domestic) in FY11.

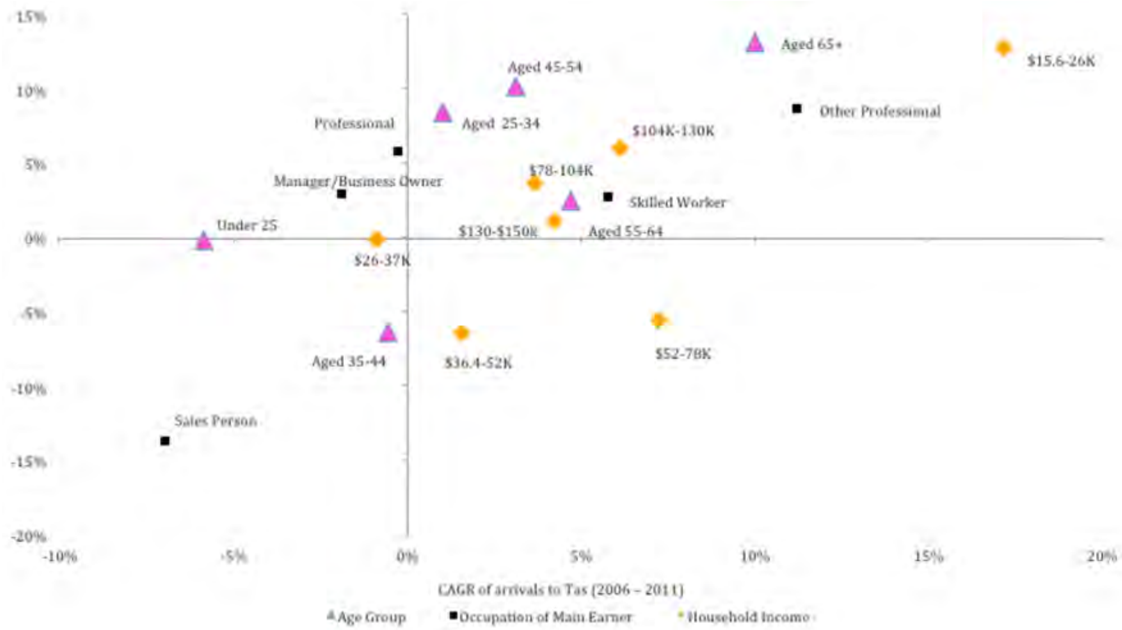
Arrivals growth is coming not only from higher socio-economic groups in Queensland who demand a premium travel product, but from lower income earners as well. Growth among those earning between $15K and $26K has averaged at 17% over the past five years. Despite being from a small base, this is a significant shift in a short period of time. It is likely that this has been aided by improved air access to Tasmania, with flights direct from Brisbane.

Queensland is also a major contributor to the growth of the mature market in Tasmania with arrivals growing in the over 65 demographic at over 10% per year. Together with their disposable income, this makes this group profitable for Tasmania. The aging population of Queensland, as retirees from other states move to a warmer climate to live, means that Queensland is a key contributor to growth in Tasmania's 65+ visitor demographic.

Unlike NSW and Victoria, there has been positive growth in holiday visitors to Tasmania from Queensland between 2006 and 2011, with expenditure from this group growing at 3.4% each year. The business market and convention travel are also growing very strongly from Queensland. However these two groups represent only 6 per cent of total visitors of Queensland origin.

Each of these factors have contributed to making Queensland a strong growth market for Tasmania over the past five years. While arrivals from SA, NT and WA are growing faster than arrivals from Queensland to Tasmania, the size of the Queensland market in 2011 was larger than all of these states combined.

Chart 23: Visitors from Qld: Change in the number of trips to and expenditure in Tasmania by age group, occupation of main earner, and household income group (2006-2011)



Source: TVS 2012, (June 2011 $)

Note: 4 years CAGR for household income group (2007-2011) due to data limitation

Nature of Demand

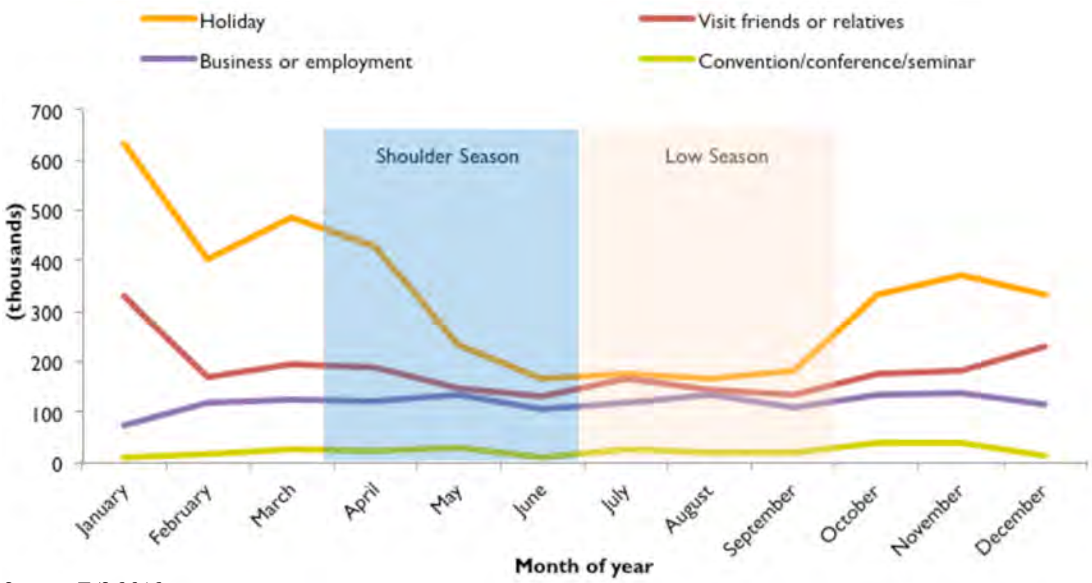
Tasmania, like most tourism destinations, experiences seasonality in visitor arrivals, particularly for holiday purpose visitors.

Holiday arrivals are seasonal for Tasmania with the peak season defined as October to March each year. Arrivals pick up sharply after the winter and reach their highest point in January.

While holiday figures fall during shoulder and low seasons, the VFR, business and convention markets remain relatively stable throughout the year, although expectedly, business and convention numbers drop over the Christmas period while VFR rise.

The cyclical nature of arrivals is difficult to mitigate and is seen for destinations throughout the world. In Europe for example, many destinations do not offer direct flights from London and other major cities during the winter months.

*Chart 24: Total visitor arrivals each month by purpose of travel (2000-2011)**



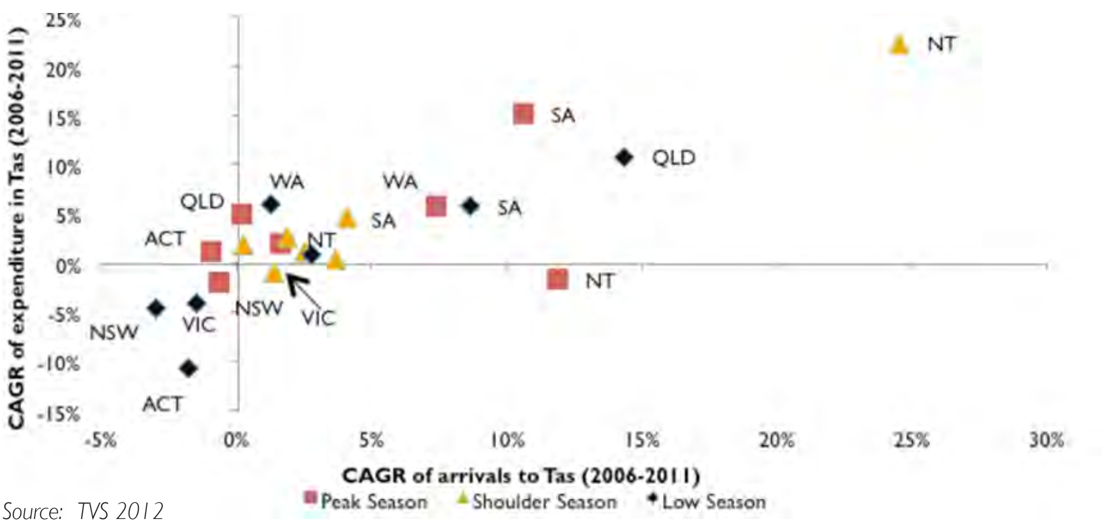
Source: TVS 2012

**Note: Shoulder, low and peak seasons are as defined by Tourism Tasmania.*

Shoulder season growth is positive but not strong, while low season growth varies by state. Chart 25 shows that visitor growth during the low season varies significantly by state. Visitor arrivals from QLD, SA, NT and WA are all growing during this period (2006 – 2011), while visitors from NSW, Vic and the ACT are falling. Shoulder season growth is positive but relatively low for all states.

As demonstrated in Chart 31 on page 23, load factors and prices on air routes to Tasmania are low during most of the shoulder and low seasons. In order for Tasmania to take advantage of this excess capacity and these lower prices, demand for travel during the colder months would need to increase.

Chart 25: Change in the number of trips to and expenditure in Tasmania during peak season, shoulder season and low season (2006-2011) for visitors from each Australian state.



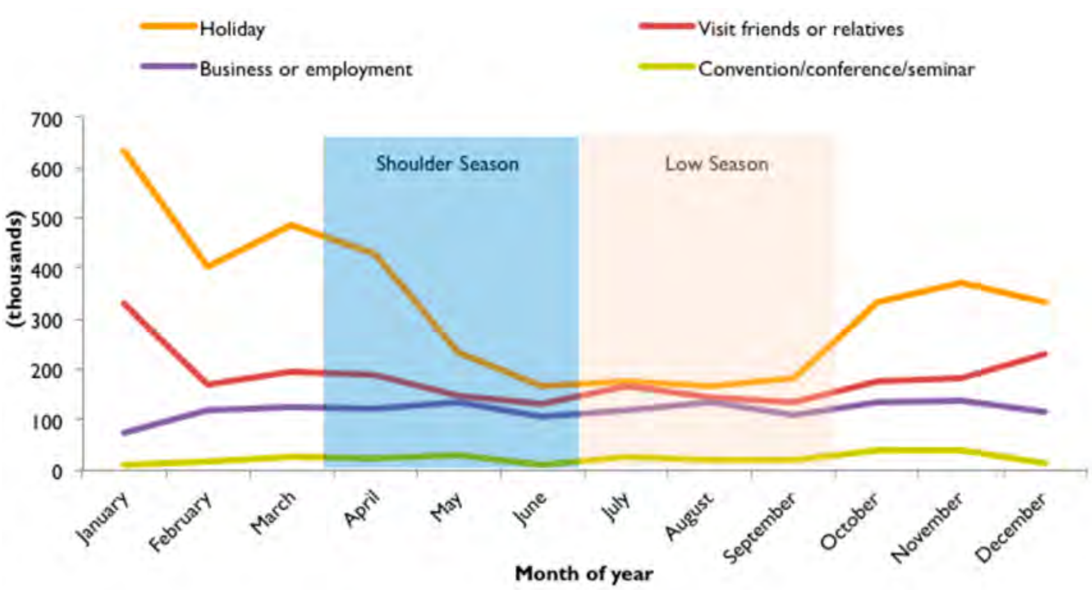
Source: TVS 2012

Repeat Visitation

Visitors returning to Tasmania for a subsequent visit continue to remain significant for Tasmania. Repeat visitors made up 43% of total visitors to Tasmania in 2006, and 38% of total visitor expenditure. In 2011 repeat visitor market share was relatively unchanged (43% of visitors and 37% of visitor expenditure).

Chart 26 shows that for each age bracket, growth in arrivals and growth in expenditure for first time and repeat visitors exhibit generally the same trends.

Chart 26: Change in domestic visitor arrivals versus change in domestic visitor expenditure by age (first time visitors versus repeat visitors) (2006-2011)



Source: TVS 2012

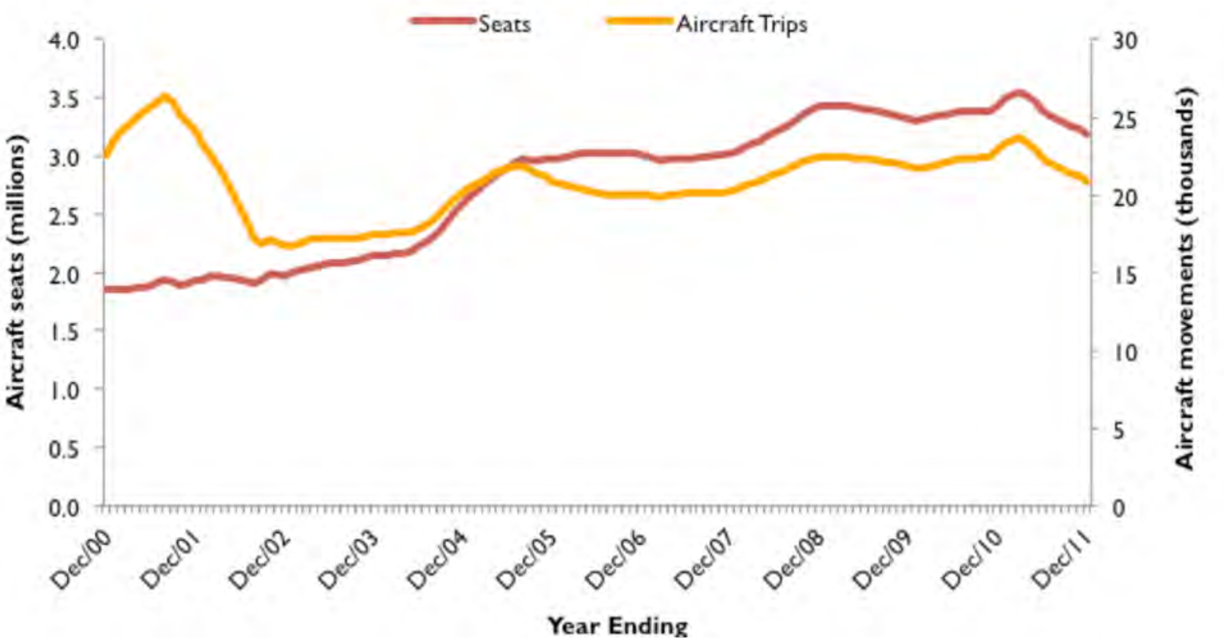
Note: Origin is set at 1.7%, 2.5%, the average 5 year CAGR for each axis in the case of total domestic visitor arrivals.

Access by Air

Over the last five years, aircraft movements on top routes to Tasmania have broadly moved in line with the number of seats available. BITRE publishes time series data from 2000 on aircraft movements, seat capacity and passenger numbers for four of the top air routes to Tasmania. These routes are Sydney-Hobart (SYD-HBA), Sydney-Launceston (SYD-LST), Melbourne-Hobart (MEL-HBA) and Melbourne-Launceston (MEL-LST). Data is also available for the routes: Brisbane-Hobart (BNE-HBA) and Melbourne-Devonport (MEL-DPO) but for limited time periods only.

In the last five years, the number of seats on top routes to Tasmania and the number of aircraft movements have broadly tracked each other. Chart 27 shows a spike in air capacity on Tasmanian routes (both in aircraft movements and in aircraft seats) in 2005. This broadly coincides with the launch of Tasmanian services by Jetstar.

Chart 27: Number of aircraft trips to air capacity (seats) 2000-2011 on top routes to Tasmania.*



Source: BITRE 2012.

Note: Top routes include SYD-HBA, SYD-LST, MEL-HBA, and MEL-LST for which BITRE time series data is available from 2000 to 2011.

Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.

Load factors on Tasmanian routes were at their lowest in 2005 and have grown since then to reach their highest point in April 2011.

A significant number of additional seats were added on Tasmanian routes in 2005. Between year ending May 2004 and year ending July 2005 (on a rolling annual data basis), seat numbers increased by 35%, which saw arrivals increase by 20%, that is, 46% of this additional capacity was absorbed by air visitors. At this time, the average load factor (the ratio of passengers to seats) on these routes hit its lowest point and has been increasing since that time.

In the past three years, the load factor has been consistently high, reaching its highest point since 2000 in April 2011, of 89.4%. Chart 28 displays the average load factors on all of BITRE's top routes on a rolling average basis.

*Chart 28: Capacity (number of seats to Tasmania) vs air passengers (pax) vs load factors on top routes to Tasmania**

Source: BITRE 2012.

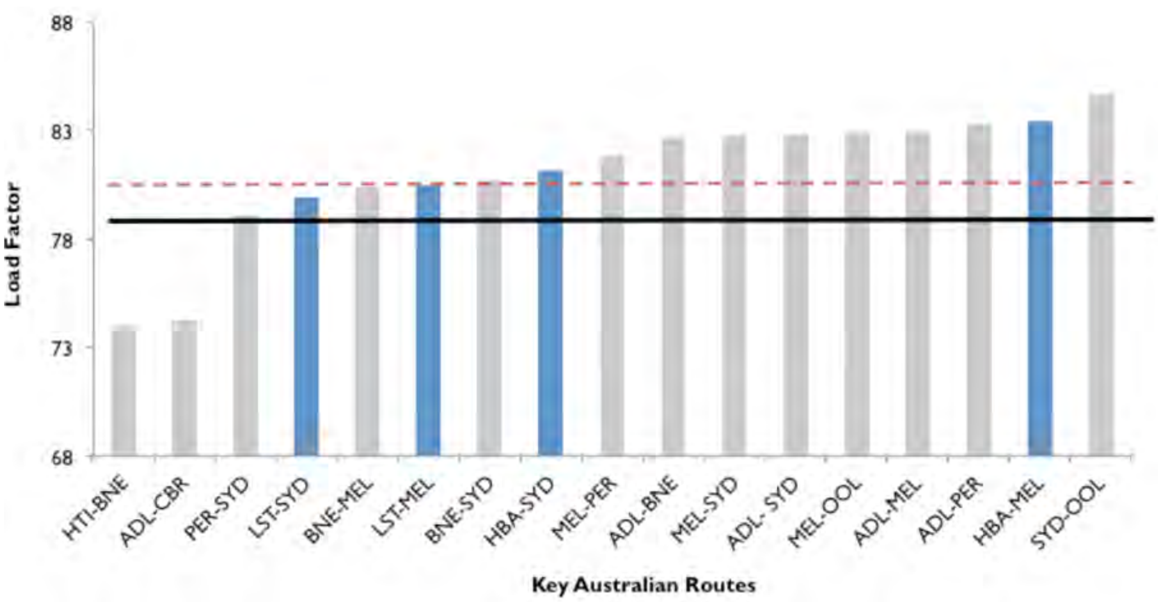
**The gap between seats (pink line) and pax (orange line) represents unsold seats*

Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.

Compared to the Australian industry average, Tasmanian routes currently have high load factors, especially the HBA-MEL route. All key Tasmanian services monitored by BITRE have higher load factors than the Australian industry average. In Chart 29, 13 popular routes have been selected to benchmark against Tasmanian services. The load factor of HBA-MEL ranks the second highest out of all of these services, and the other Tasmanian services are all equal to or higher than the average. This is for average load factors over a full year period (2011). When load factors are examined at a seasonal level, there is significant variability throughout the year, with peak periods pushing up average load factors (refer to Charts 31 and 32 on the following pages).

Load factors are one measurement of airline performance, as well as an important indicator for market demand, and so influence decisions regarding airfares. High load factors are likely to result in rising air fares. Depending on the market elasticity, growth in demand (especially in the leisure market) may be impacted.

Chart 29: Benchmarking of load factors 2011 – key Australian routes



Source: BITRE 2012.

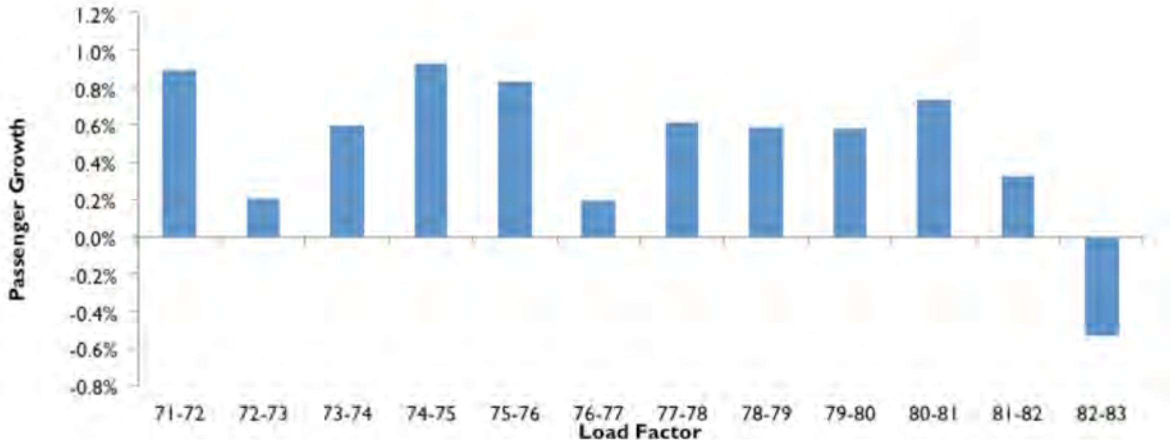
Data for Tasmanian routes indicate that once the load factor moves past 80%, passenger growth slows and then begins to fall.

Chart 29 shows the average growth in air passenger arrivals corresponding to certain load factor levels. It shows that the growth in air passengers is only negative for load factors greater than 82%.

On air routes where it is difficult or risky for airlines to increase capacity (i.e. put on more services), this potentially indicates capacity is constrained to the point where prices rise to a level where prospective travellers find it a barrier to travel i.e. this load factor may imply an airfare that exceeds prospective tourists' price thresholds.

However, on routes where it is easier for airlines to respond to marginal changes in an efficient manner (e.g. MEL-HBA), this load factor level could represent a tipping point where it becomes viable for airlines to increase the number of services, causing load factors to fall due to a dilution of seats.

Chart 30: Load factors and corresponding average growth rates in air passenger arrivals for Tasmanian top routes



Source: BITRE 2012.

Load factors and prices vary significantly by time of the year.

Both load factors and airfares are at their lowest in the low season (during winter) and at their highest during peak season (October to March). This demonstrates that, while on average load factors on Tasmanian routes are high, it is the peak season that is pushing up this average. This is the case for both Hobart to Sydney and Hobart to Melbourne, and for the average of all top routes reported by BITRE (HBA-MEL, HBA-SYD, LST-MEL, LST-SYD).

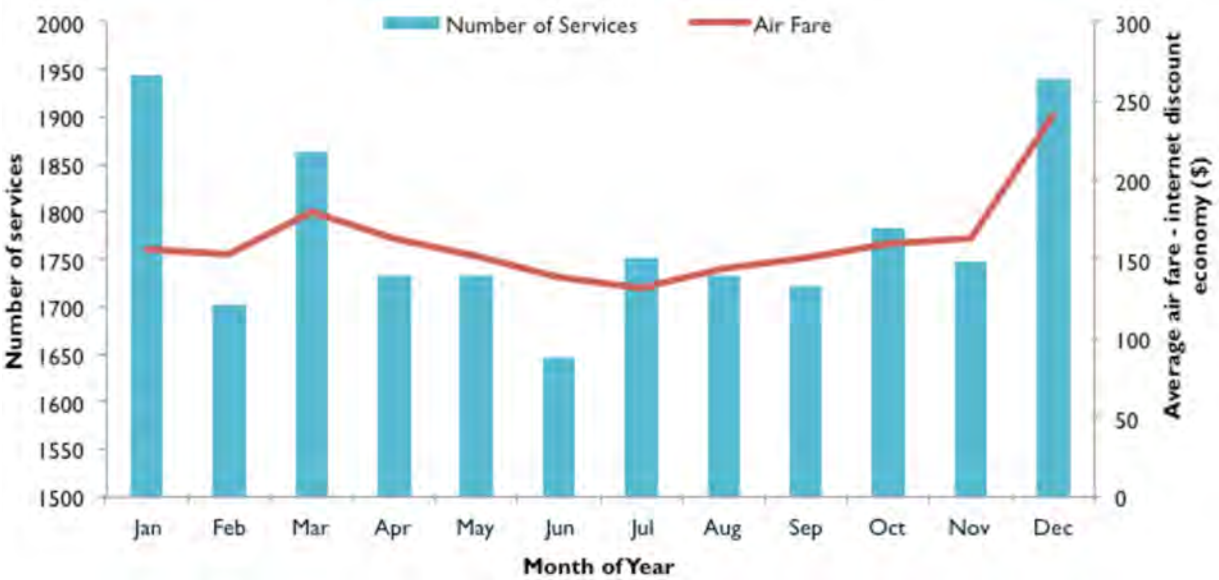
The number of aircraft movements also varies by time of year, with additional services during January, March and December. March and December appear to have corresponding price increases, while fares are lower during January.

Load factors decrease during December, as the number of services on top routes is increased. Despite this increase in flights, prices in December are higher than any other time of the year.

Chart 31: All Top Routes: monthly average airfare (internet discount economy) vs. monthly average load factor (2006-2011)

Source: BITRE 2012.

Chart 32: All Top Routes: Monthly average airfare (internet discount economy) vs. monthly average number of services (aircraft movements) (2006-2011)



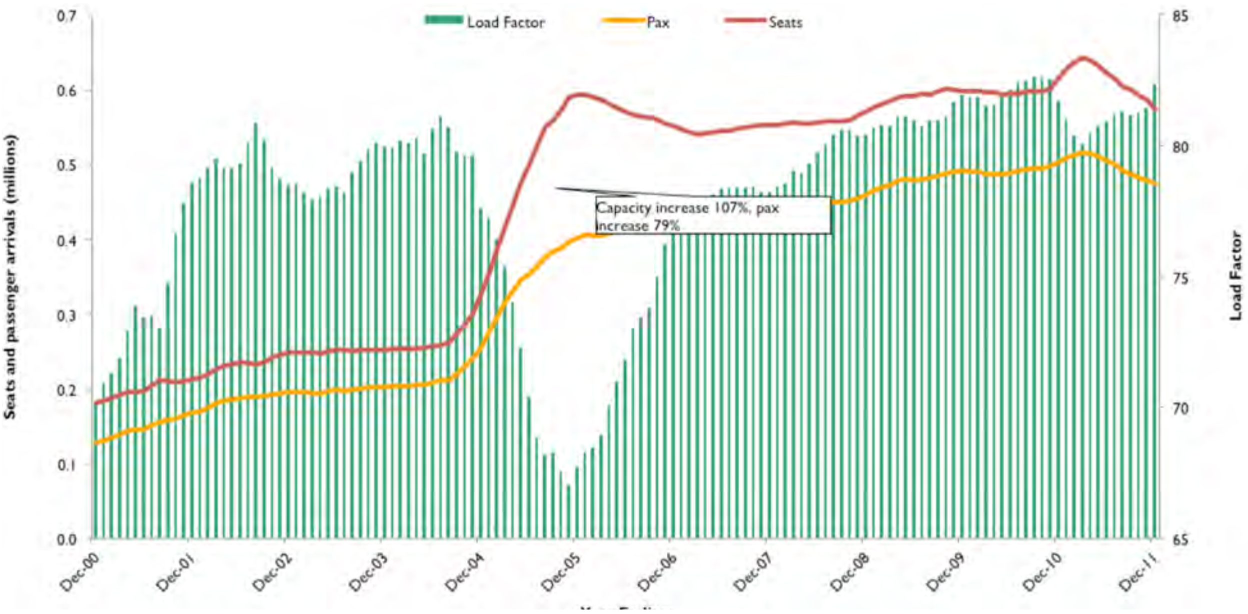
Source: BITRE 2012.

HBA-SYD is a route in high demand with consistently high load factors over the past decade.

The number of air passengers generally moves in line with the seat capacity offered on each route (by airline) over time. Air capacity on the Hobart to Sydney route dramatically increased between year ending May 2004 and year ending July 2005 (on a rolling annual data basis). Seat numbers increased by 107%, which saw arrivals increase by 79%, that is, 43% of this additional capacity was absorbed by air visitors.

The number of seats fell in late 2011, reflecting the issues Tiger Airways experienced and their halt on this route. This had an impact on not only load but also on passengers. Rather than switching to other airlines, less people travelled. This may be due to prices rising on other airlines to take advantage of less competition or the loss of access to a certain segment of travel market that Tiger serves. The decrease in passengers during this time meant that load factors stayed relatively stable.

Chart 33: Capacity (number of seats to Tasmania) vs air passengers (pax) vs load factors (HBA to SYD)

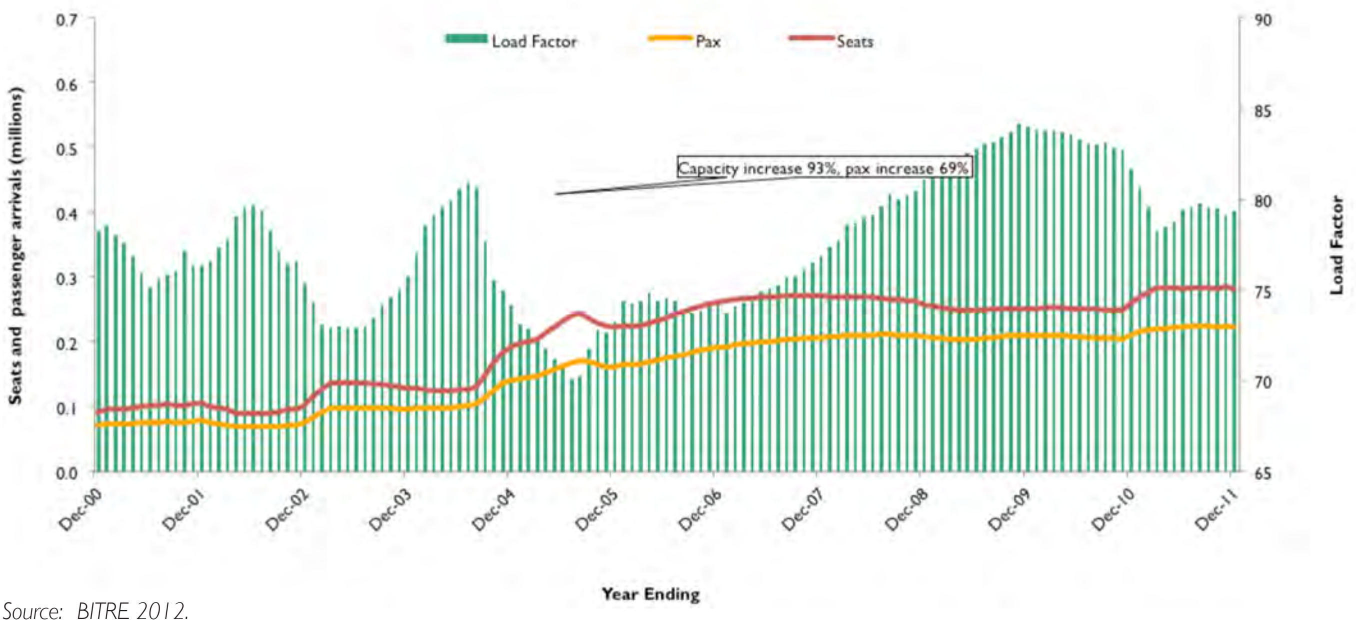


Source: BITRE 2012.

Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.

There was fewer air passengers from Sydney enter Tasmania via LST compared to HBA. The market response to additional seat capacity on the LST to SYD route between year ending May 2004 and year ending July 2005 (on a rolling annual data basis) was similar to the HBA to SYD route, with seat numbers increasing by 93%, and arrivals increasing by 69% i.e. 69% of this additional capacity was absorbed by air visitors.

Chart 34: Capacity (number of seats to Tasmania) vs air passengers (pax) vs load factors (LST to SYD)



Source: BITRE 2012.

Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.

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