Tourism Tasmania Strategic Scan 2014

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Tourism Tasmania

Executive Summary

The Strategic Scan 2014 traces the progress of the Tasmanian tourism industry over the past five years, with a particular focus on the last two years, against the back drop of broader industry and macro-economic trends. Findings have been used to identify key risks and opportunities for Tasmanian tourism going forward.

Economic backdrop

Over the last five years, the high Australian dollar and strong competition from emerging destinations has placed pressure on Australian tourism. Two-year and five-year trends show that Australian outbound travel has grown faster than both inbound travel to Australia and Australian domestic interstate travel.

However, the recent fall in the Australian dollar is helping to alleviate the pressure and close this gap. Between financial year 2012 and 2013 international arrivals to Australia grew 5.1%, and domestic travel grew 5.7%. Conversely the growth in outbound travel fell to 4.9%.

The falling Australian dollar along with consumers' place in the purchase cycle (most consumers have now taken the long overseas holidays they desired) and potentially a growing caution about future economic prospects, have helped the domestic tourism industry to rebound. Tasmania has been a beneficiary of this.

Key findings for Tasmanian Tourism

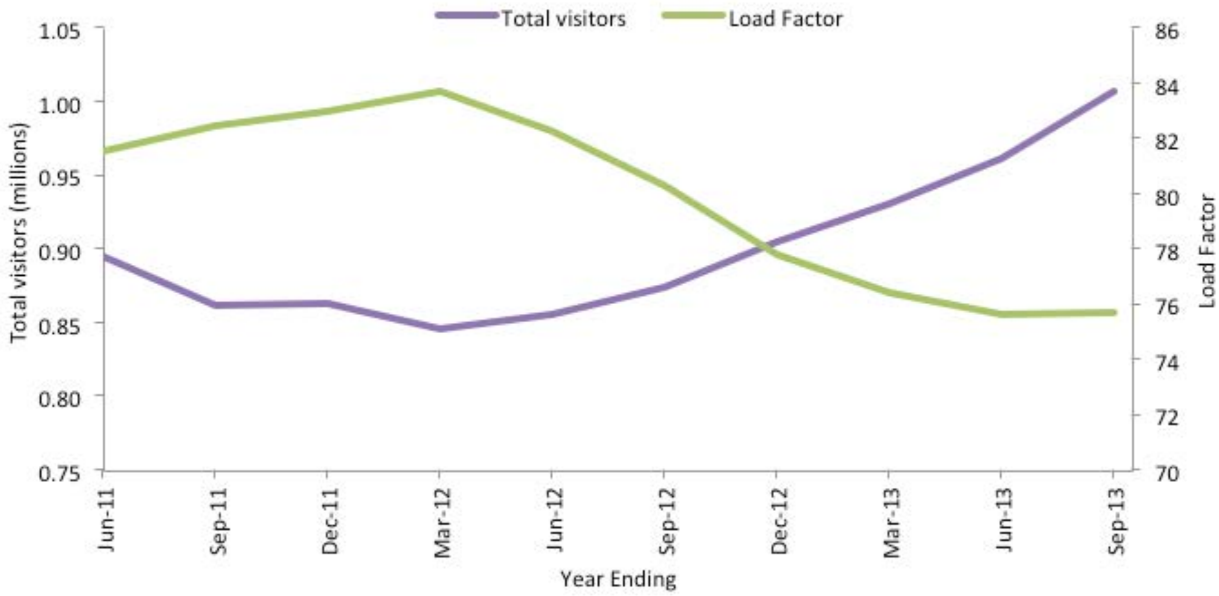
Over the last two years, the single largest driver of visitation to Tasmania has been improvement in air access. Seat capacity has increased on all air routes from Melbourne and Sydney, and load factors and prices have fallen correspondingly. Since 2011, airlines increased seat capacity as competition in the domestic airline industry intensified, and the major carriers fought for market share. The outcome for Tasmanian routes was lower prices. This has resulted in increased demand and hence strong growth in visitation.

Figure 1 shows that over the last two years there has been a clear inverse relationship between the average load factor on Tasmania's top routes (which has dropped due to increased capacity), and the total number of visitors to the state. It shows that there has been a very strong period of growth in visitation between March 2012 and September 2013. The overall growth in domestic visitors over this period was 21.1%.

Photographic acknowledgments: Tourism Tasmania. *Tourism Tasmania & Adrian Cook, Sarajayne Lada, Alastair Bett and Lap Fung Lam.*

Figure 1 Total visitors versus load factor (year ended June 2011 to year ended September 2013.

Source: BITRE, Tasmanian Visitor Survey (TVS) 2013, PwC analysis.

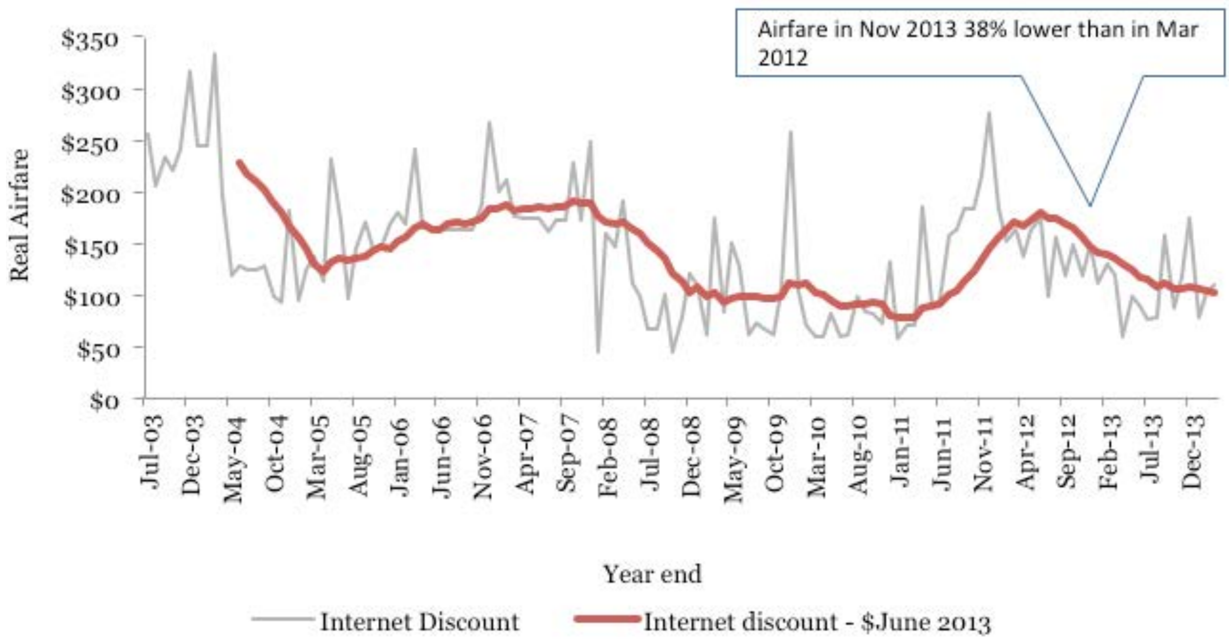


Between the year ending March 2012 and the year ending November 2013 (on a rolling annual data basis), seat numbers on Tasmanian routes from Sydney and Melbourne increased by 28%, which saw passengers increase by 16% (i.e. 59% of this additional capacity was absorbed by air visitors). This compares to a 46% take up rate of seats in 2005, during the last capacity spike.

The average airfares of routes from Melbourne and Sydney to Tasmania have fallen over the last two years. For example, on Tasmania's most popular route (Melbourne to Hobart), the additional air capacity over the period of March 2012 to November 2013 resulted in a 38% reduction in the internet discount air fare (on a 12 month rolling average basis) on the MEL-HBA route.

Figure 2 Internet discount air fare (MEL-HBA)

Source: BITRE 2013 (June 2013$), PwC analysis.
Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.



This improvement in air access has helped to shape three key trends observed over the last two years:

1. **Younger visitors have become a key growth market for Tasmania.**

   In 2011, visitors 45+ were Tasmania's largest, fastest growing, and most profitable market. Today, they are still the largest and most profitable market for Tasmania, but no longer are they the fastest growing. Their market share has stagnated. It is currently visitors under 35 who are showing strong growth in both arrivals and expenditure.

   More flights and cheaper airfares have improved Tasmania's relative accessibility as a destination for the younger demographic, and those in lower income brackets. New advertisements, media choices and the emergence of new attractions has also helped to increase Tasmania's appeal to this demographic. Visitors under 35 made up 27.1% of Tasmania's domestic market in financial year 2013, up from 25.7% in 2011.

2. **Visitor growth is not spread evenly across regions. However growth in visitation to regional areas is slowly catching up to the strong growth in Hobart.**

   There has been a clear concentration of tourism growth in the area surrounding Hobart over the last two years, with Hobart strongly outperforming all other geographical regions. Between 2011 and 2013 the number of overnight trips and visitor expenditure in every region of Tasmania fell, except for Hobart.

   More recent data shows that stronger performance is beginning to emerge from the other regions. For the year ending December 2012, only visitor arrivals from Hobart and Launceston showed positive growth. Three quarters on, visitation to all regions in Tasmania grew. Figure 3 shows that there has been a lag between Hobart's performance and that of the other regions. Over the last three quarters, visitors to Tasmania have become increasingly regionally dispersed, with growth spreading further and further from the main ports and population centres. This is likely to continue with more repeat visitors coming to Tasmania, looking to explore new regions.

Figure 3 Annual growth in visitation to Tasmania by region (last four quarters).

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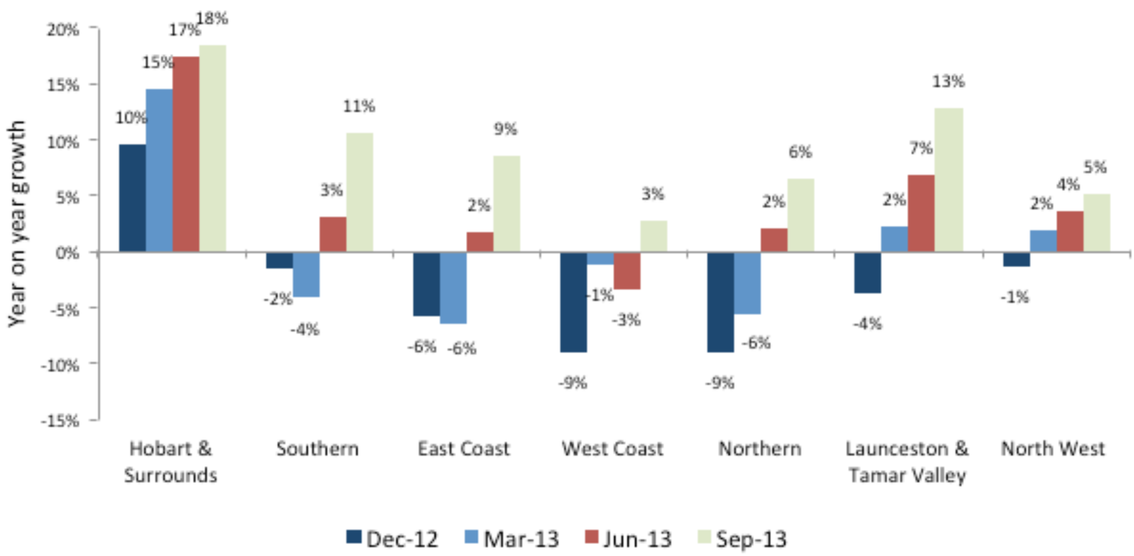


Tasmanian visitor expenditure has fallen by more than overall domestic travel expenditure

Recent growth in arrivals to Tasmania has resulted in the highest visitation on record. However, when measured over the last five years, or over the last two years, total visitor expenditure in Tasmania has fallen annually on average. Over the last two years it has fallen by 3.5% per annum, exhibiting the opposite trend to overall domestic travel expenditure which grew 2.1% per annum over the same period.

The increasing popularity of short breaks is undoubtedly a contributing factor: the average number of nights spent in Tasmania per domestic visitor dropped by 3.7% per annum between 2011 and 2013. However, other factors contributing to this trend include the stronger growth in younger visitors and fall in trip dispersion (as mentioned above), an increase in the market share of low and shoulder season travel (when prices are lower), and an increase in visitation from lower income earners from some states.

Many of these factors are caused by a broadening of the market driven by increased air capacity. An overall dilution in expenditure per visitor is therefore not unexpected.

Looking forward – key risks and opportunities

Changes in air capacity

As competition in the airline industry is driving the record capacity to Tasmania, it is pertinent to consider the impact of the next phase of this cycle - where airlines move from chasing market share to a greater focus on yield. This implies that seat numbers may fall in the future and airfares rise.

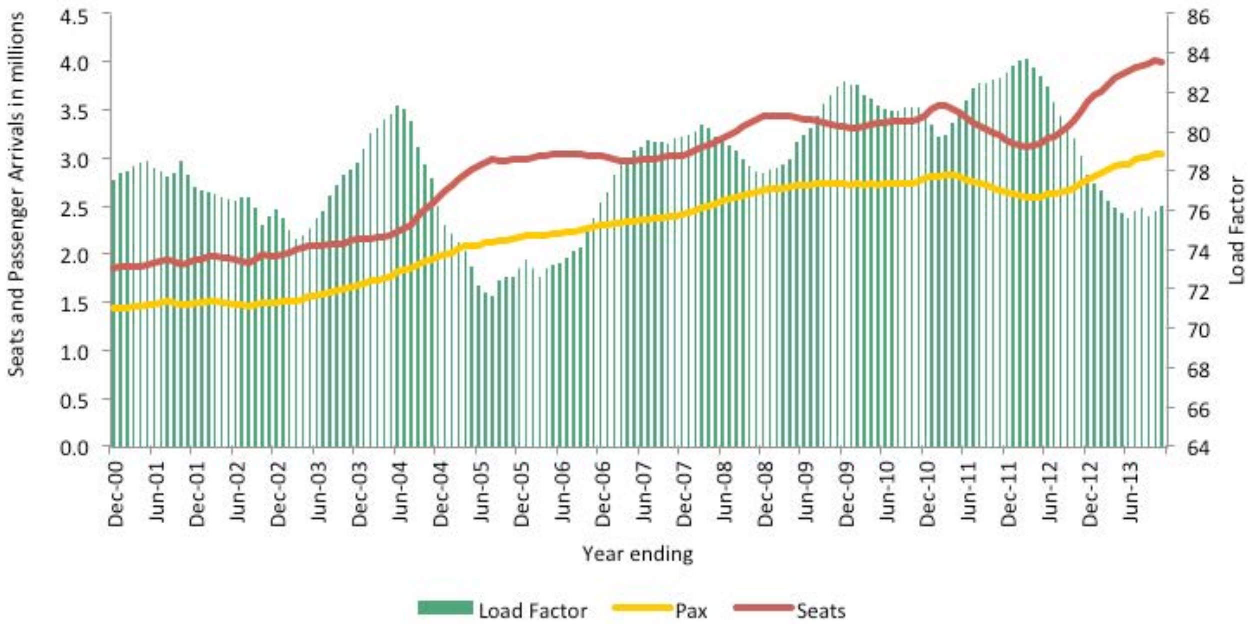
In the past, this has been a gradual transition, resulting in a flattening of growth in visitation. This can be seen by looking at the long term trends in capacity versus air passengers (overlaid by load factors) on BITRE's top routes to Tasmania in Figure 4. When there is a peak in the number of seats (around mid-2005, end of 2008 and end of 2010), the number of passengers also rises, but not as sharply, and capacity then falls back at least slightly.

Figure 4 Capacity (number of seats to Tasmania) vs air passengers (pax) vs load factors on top routes to Tasmania*

Source: BITRE 2013, PwC analysis.

**The gap between seats (red line) and pax (yellow line) represents unsold seats.*

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



Given the intensity of the current competition in the market and the sharp increase in visitors to Tasmania in the last year, a sudden shift to yield chasing by airlines presents a risk to Tasmania of slowing visitor growth, albeit off a record high base. This should be monitored closely by Tasmania going forward.

The Queensland Market

The Victorian and NSW markets have outperformed Queensland over the last two years, with increased air capacity from these states largely driving visitation. Over the next few years, Queensland has the potential to be a strong growth market for Tasmania.

The Queensland Treasury's forecasts for state economic growth are strong, and there has been a recent increase in capacity on the Brisbane to Hobart route. This has been the result of increased competition to Virgin Australia, with Jetstar commencing direct services on the route from October 2013.

Economic Backdrop

Australian economic backdrop

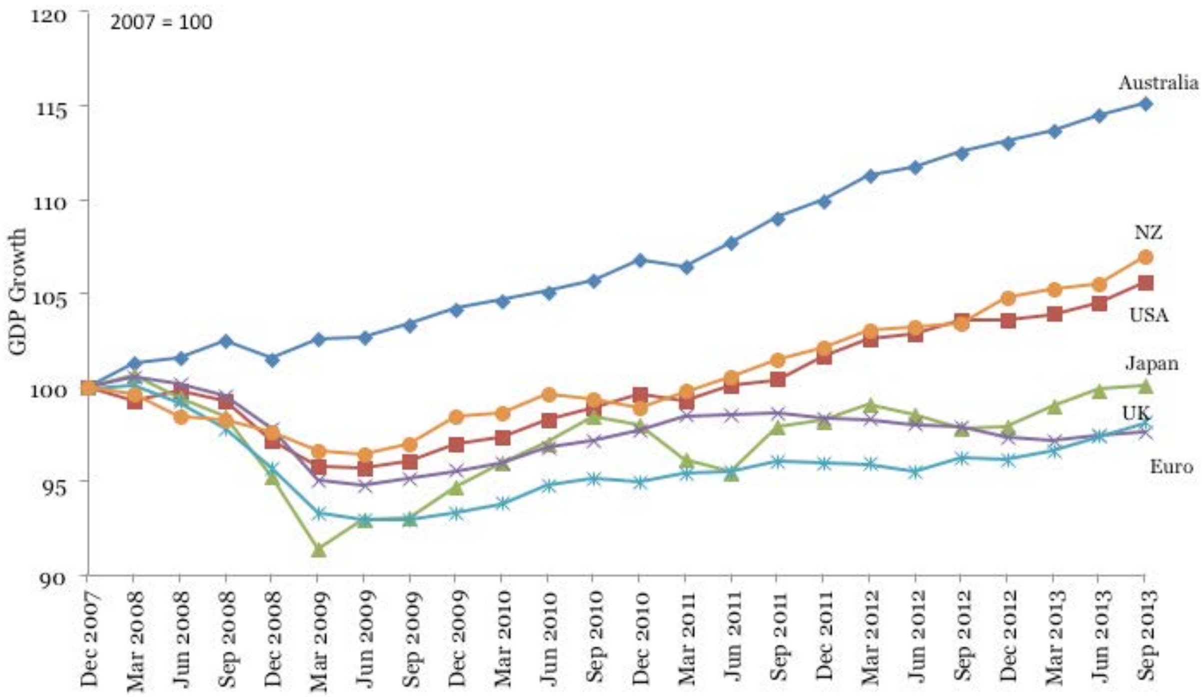
Australia's recent economic growth remains strong compared to Organisation for Economic Co-operation and Development (OECD) counterparts. Australia's economy did not fall into recession during the GFC, and it has shown strong growth since, primarily on the back of strong resource demand from China. This strong growth is expected to ease over the next few years with the slowing of the mining boom.

Figure 5 shows Australia's Gross Domestic Product (GDP) growth since December 2007 compared to our key inbound tourist markets. New Zealand and the USA have grown relatively consistently since June 2009, surpassing 2007 levels in June 2011. However, GDP in Japan, Europe, and the UK still remains below December 2007 levels.

There are emerging signs that Europe is beginning to recover, led by growth from the UK. The UK's economy grew 1.9% between September 2012 and September 2013, compared to an overall fall in GDP of 0.3% for Europe. Continuing high levels of unemployment, consumer caution, and in some cases social unrest have contributed to the slow recovery of these economies.

Figure 5 Australian GDP Growth (December 2007 – September 2013) compared to the rest of the world

Source: Thomson Reuters 2013, Reserve Bank of Australia (RBA) (from Australian Bureau of Statistics (ABS)) 2013, PwC analysis.



Despite Australia's consistent strong economic growth relative to other economies, there is a divergence in economic fortune and performance between states. The strong, localised economic growth particularly in Western Australia and Queensland is a direct result of the mining boom and demand for Australian resources.

Figure 6 shows that the resource states of Western Australia and Queensland have grown faster than other states. Tasmanian economic performance has been the weakest of all states, with the lowest annual growth in Gross State Product (GSP) (0.6% per annum) between 2008 and 2013. In the last financial year, Tasmanian GSP has in fact fallen by 0.6%. This corresponds to a sharp rise in unemployment in Tasmania to 8.0% in June 2013.

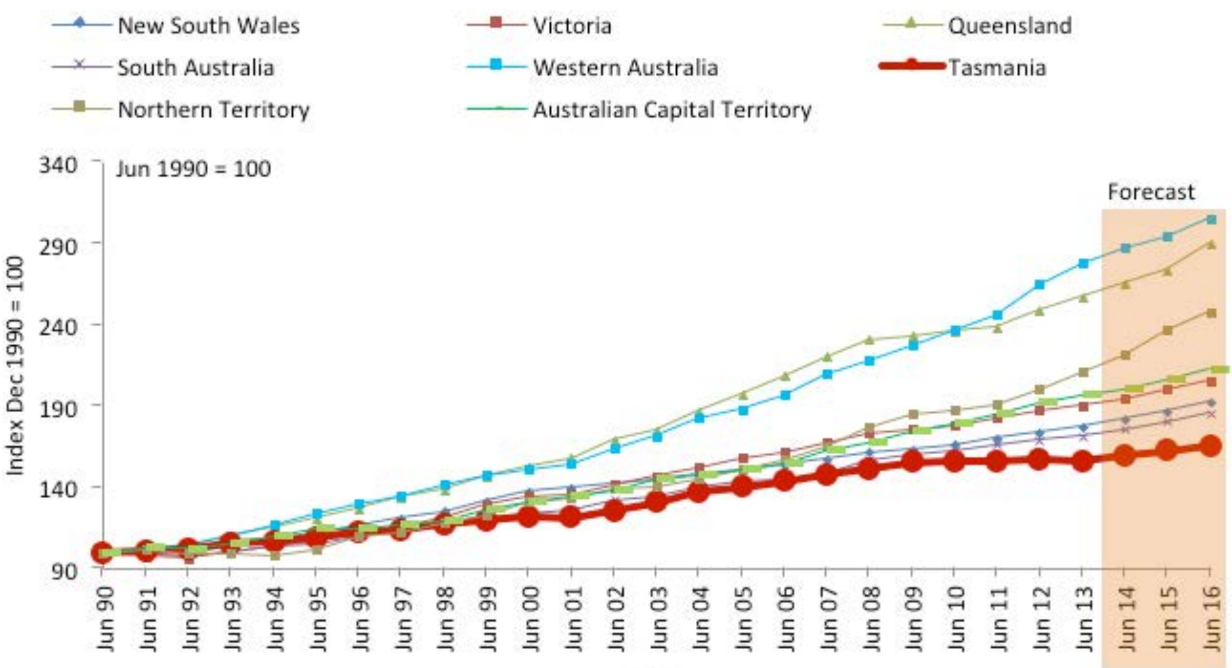
In terms of the key domestic source markets for the Tasmanian tourism industry, over the last five years:

- Queensland has grown by an average of 2.2% per annum.
- Victoria and NSW have each growth by an average of 1.9% per annum.

State treasury forecasts show that Victoria and NSW are expected to grow between 2.25% and 2.75% per annum over the next three years. Queensland's forecast growth is higher with 3.0% per annum growth expected for the next two years and 6.0% growth for the 2016 financial year.

Figure 6 Gross State Product (GSP): growth by state (June 2009 to June 2016)

Source: ABS 2013, State Treasury forecasts, PwC analysis.



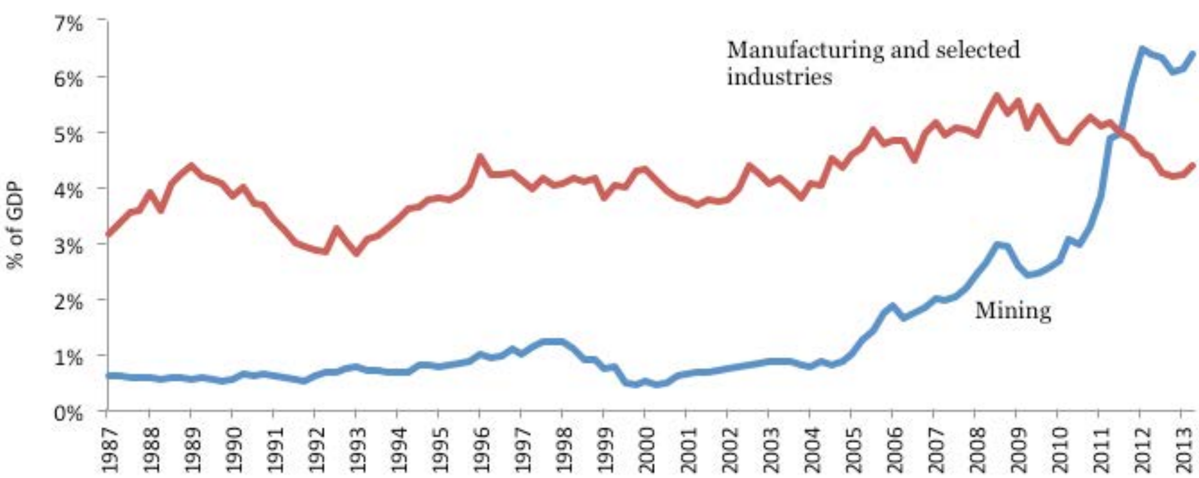
The divergent growth rates between states can be traced back to structural changes in the Australian economy. These structural changes are a result of the strong global demand for commodities and the rapid growth of the Australian resources sector to meet this demand.

Figure 7 shows that in 2012, investment in mining exceeded investment in manufacturing and service industries for the first time. Despite a recent fall in resources investment of 5.0% between June 2012 and March 2013, the investment gap between mining and manufacturing and selected industries currently remains approximately 2.0% of Australian GDP.

This investment gap is a product of the 'resource movement effect' – the effect of the growing mining industry attracting capital and labour away from other sectors of the economy.

Figure 7 Industry investment (private capital expenditure) as a % of total GDP

Source: ABS 2013, PwC analysis.



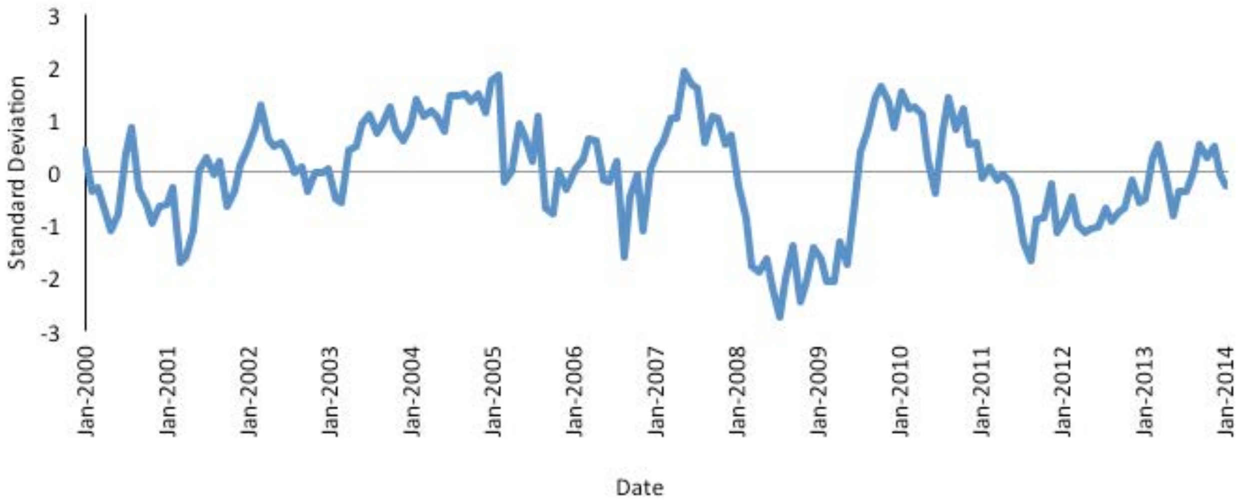
Despite strong long term growth in the mining industry, ABS statistics indicate a recent fall in resources investment (as shown in Figure 7). This fall is expected to sharpen even further due to China's slowing economy, and the transition of the mining industry from a phase of investment (in constructing new mines), to a phase of mass production. The Australian economy is therefore forecast to transit from resource-investment led growth to broader sources of growth, while the recovery in non-resources sectors is likely to be gradual in an environment of relatively subdued demand and profit growth.

Despite strong overall economic growth, Australian consumers are still relatively cautious. Continuing global economic uncertainty and uneven domestic growth across states and sectors have contributed to this.

Figure 8 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). Since late 2011, there has been an overall upward trend in consumer confidence, and over the last year it has fluctuated around the neutral mark.

Figure 8 Australian consumer confidence: Standard deviations from long-run average (2000-2014)

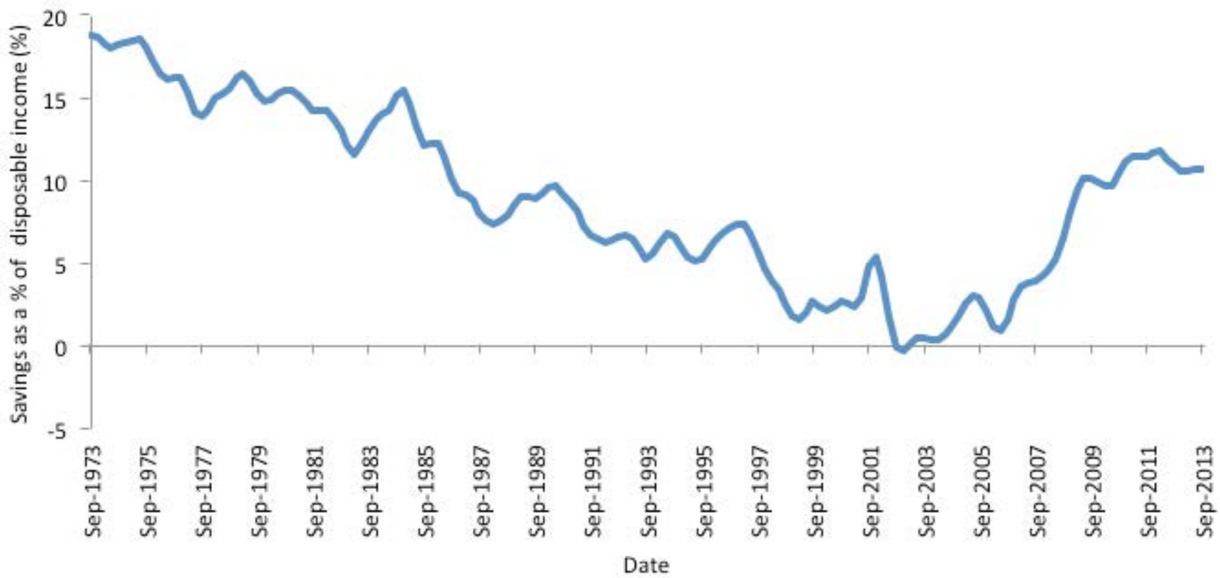
Source: RBA 2014, PwC analysis.



The household savings rate is another factor that influences demand for tourism. The saving rate has fallen on average by 3.5% per annum over the last two years. However, as shown in Figure 9, this is relatively a small change. In the long term context, Australians are continuing to pay down debt and save rather than consuming goods and services. Current savings rates are actually returning towards the longer term Australian average.

Figure 9 Long term trends in household savings (September 1973-September 2013)

Source: ABS 2013, PwC analysis.



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, while spending has increased over the last two years (aka savings have decreased), a complete reversal does not appear to be forthcoming in the near future. Compounded with a historically low interest rate, consumers are likely to invest more in housing and equity than spend on services and consumables.

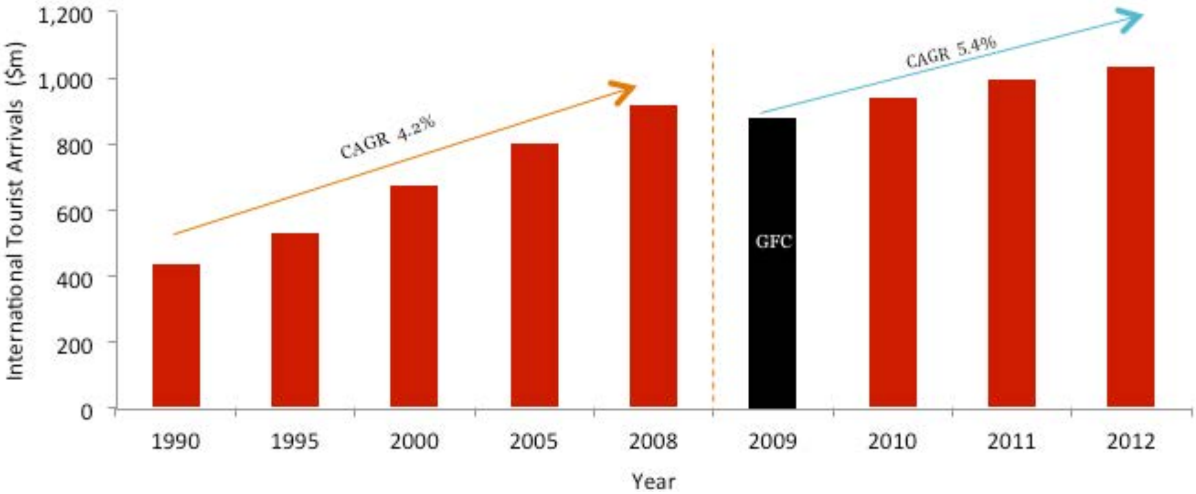
Global industry trends

Between 1990 and 2008, global travel grew at 4.2% per annum. It then fell by 3.7% from 2008 to 2009 when the Global Financial Crisis (GFC) hit. Without the impact of the GFC, there would have been 47 million additional international tourists in 2012 if growth had continued at 1990-2008 rates.

Despite this setback, growth in international tourist numbers between 2009 and 2012 has been on average 5.4% per annum. This is higher than pre-GFC growth and indicates that the global tourism market is recovering. Strong competition in the global aviation industry and huge growth in Asian (particularly Chinese) outbound international travel, have aided this recovery.

Figure 10 Trends in global travel (International Tourist Arrivals): 1990-2012

Source: United Nations World Tourism Organisation (UNWTO) 2013, PwC analysis.

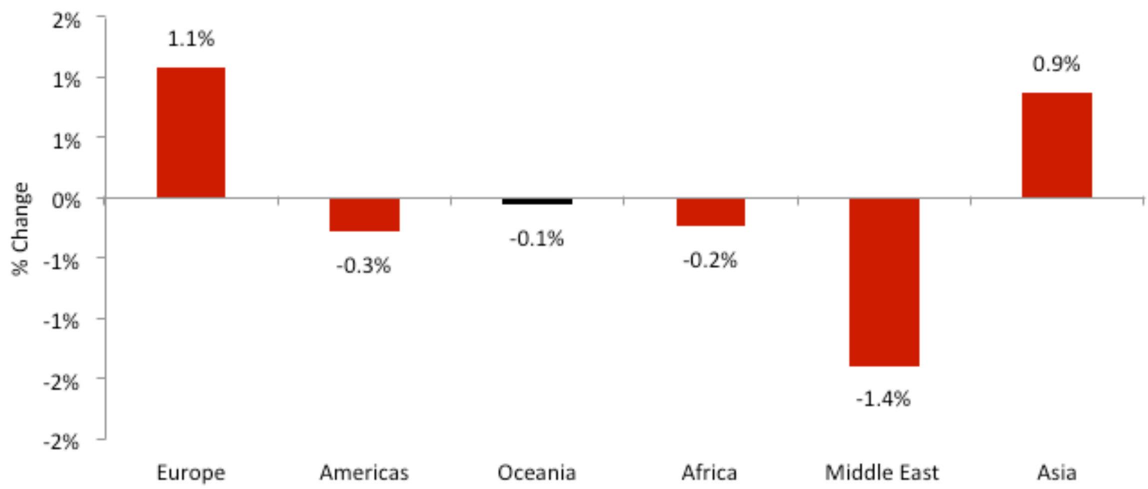


As shown in Figure 11, between 2010 and 2012 there were some interesting changes in the global market share of major tourist destinations.

- Europe increased its market share by 1.1% to a total of 51.6%, as lower relative prices caused by the economic downtown made it a more competitive destination. This was in contrast to a 4.4% drop in its global market share between 2005 and 2010. Current market share is still significantly lower than its level in 2000 (57.2%).
- Asia continued to increase its market share (increase of 0.9%) to a total of 21.4%. Rising demand for tourism in Asia has sparked the development of tourist infrastructure and destination brands. This has been supported by the governments of the region, who 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.
- Despite growing interest in the Middle East, political unrest in the region caused a loss of 1.4% global tourism market share. This is in contrast to a 1.9% growth in market share between 2005 and 2010.

Figure 11 Change in global market share for major tourism destinations (2010-2012)

Source: UNWTO 2013, PwC analysis.



Australian industry trends

Australians are travelling more frequently than they were in 2009, both internationally and domestically; while growth in international travel to Australia has been more subdued as shown in Figure 12. Australian short term resident departures (Australians travelling overseas) grew by an average of 7.3% per annum between 2008 and 2013 (blue line). This is significantly faster than the growth in international visitor arrivals (red line) to Australia over the same period (averaging 1.9% per annum).

The number of domestic visitor nights spent interstate/intrastate by Australian travellers annually is currently 286.1 million. The number of nights grew on average by 2.0% per annum between 2009 (when they were at their lowest), and 2013. Despite this steady growth, nights have not returned to the highs experienced in the early 2000s (in 2003 there were 302.3 million domestic visitor nights).

This decline in the propensity of Australians to holiday domestically corresponds to the decline in the relative price of international travel. International short breaks to destinations such as South East Asia, the Pacific Islands, West Coast USA and New Zealand are a relatively new phenomenon for Australians.

A number of other factors encourage the recovery of domestic tourism. These include:

- Strong competition in the airline industry (see Chapter 3)
- Lower petrol prices (record prices were observed in 2008)
- Lower interest rates: mortgage repayments become less burdensome, and saving becomes less attractive. This encourages more discretionary spending.

Figure 12 Australian resident departures vs international visitor arrivals to Australia vs domestic visitor nights spent in Australia

Source: ABS 2013, PwC analysis.

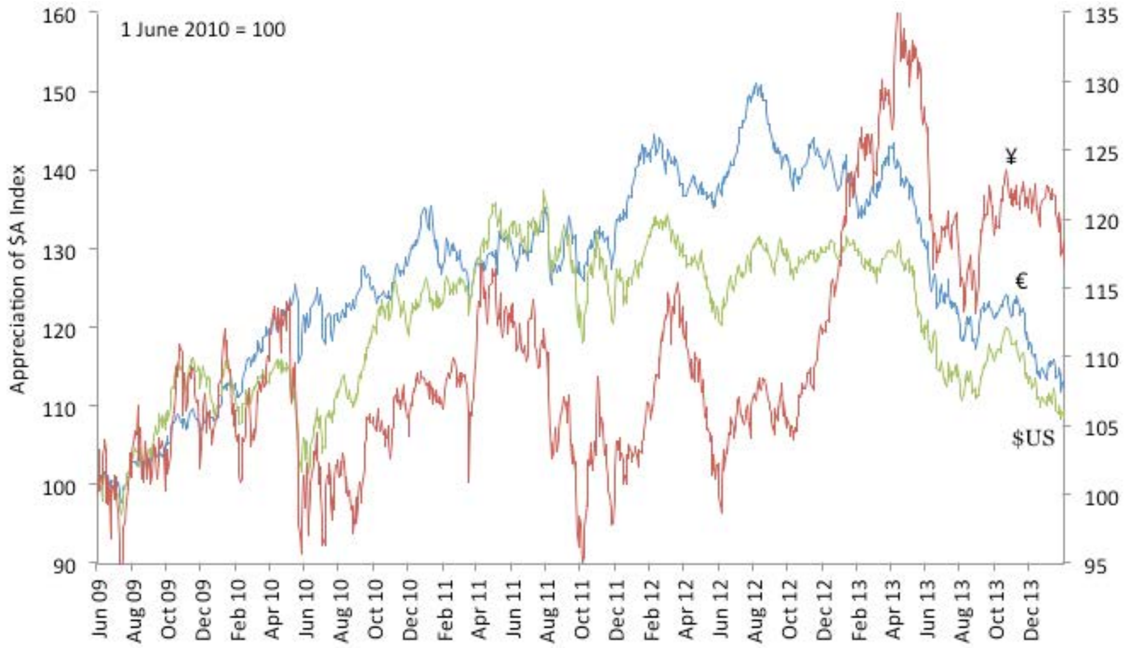
Note: Rolling annual data by quarter has been used for resident departures and visitor arrivals, in order to reduce the effects of seasonality on the data.

The strong Australian dollar is a key driver of these trends in domestic and international travel. 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 made Australia a relatively less competitive destination internationally, it is promising that visitor arrivals to Australia have continued growing, albeit at a lower rate. From June 2008 to June 2013, the average annual growth in international visitor arrivals was 1.9%, compared to 3.9% per annum for the period between 2003 and 2008.

The recent fall of the AUD against the major currencies (shown in Figure 13), may help to relieve the pressure on Australia's tourism industry and encourage growth in international arrivals and domestic tourism in the near future.

Figure 13 Recent movement of Australian dollar against US dollar, Euro and Yen

Source: RBA 2013, PwC analysis.



International market trends

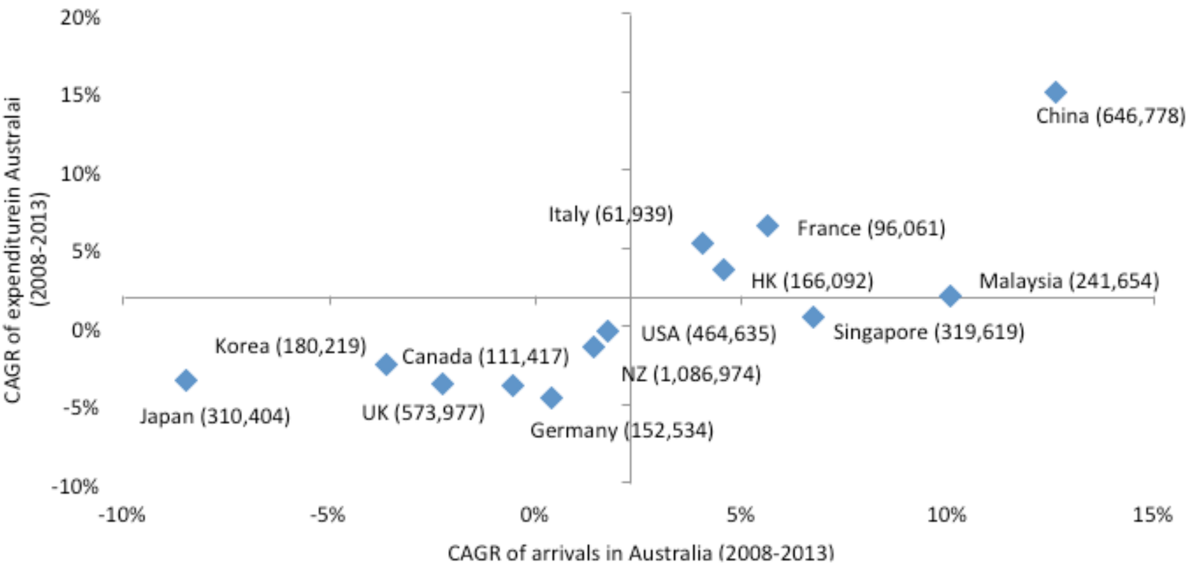
Asian markets, in particular China, are continuing to grow strongly for Australia in the number of arrivals and in expenditure, while traditional markets continue to stagnate.

The top right quadrant of Figure 14 shows those markets that have grown faster than the average, in the number of arrivals to Australia and in spend (essentially a growing number of people spending more money). These are the strong growth markets for Australia – they consist particularly of Asian nations (China, Hong Kong and Malaysia), as well as France (which has been a strong growth market for general travel out of Europe in the last 5 years).

This Asian growth story and the stagnation of traditional growth markets such as Japan, the UK and the USA, is the same as reported two years ago. This is in line with the overarching theme of 'the Asian century' and has been accentuated by the strong Australian dollar.

Figure 14 Change in international visitor arrivals to Australia and inbound expenditure by country of origin (2008-2013)

Source: International Visitor Survey (IVS) 2013. (June 2013$), PwC analysis.
Note: Origin is set at 2.3%, 1.9%, 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 Australia from each market in 2013 is displayed in brackets.



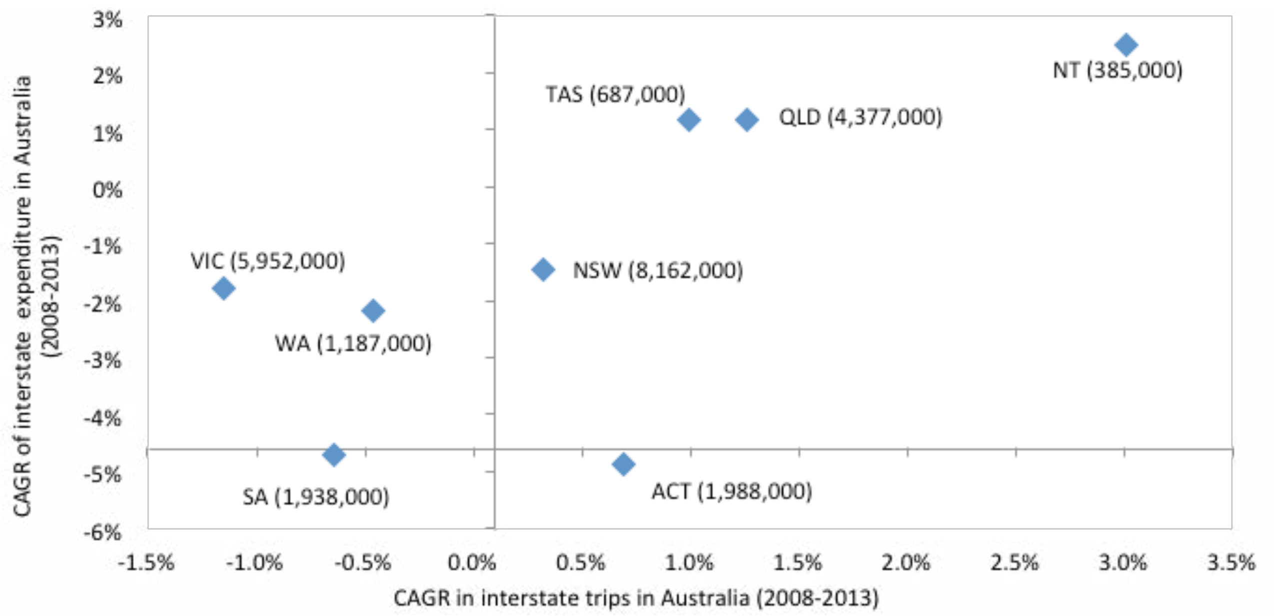
Domestic market trends

Over the last five years, domestic travel has grown at an average of 0.1% per annum while domestic travel expenditure has fallen by an average of 1.4% per annum in real terms. Visitors from NSW and Victoria represent more than 50% of Tasmania's domestic market. The general performance of NSW over the last five years has been slightly better than the national average while Victorian visitation has performed worse than average, declining at 1.2% per annum.

Figure 15 Change in the number of interstate trips undertaken and domestic travel expenditure by Australian state of origin (2008-2013)

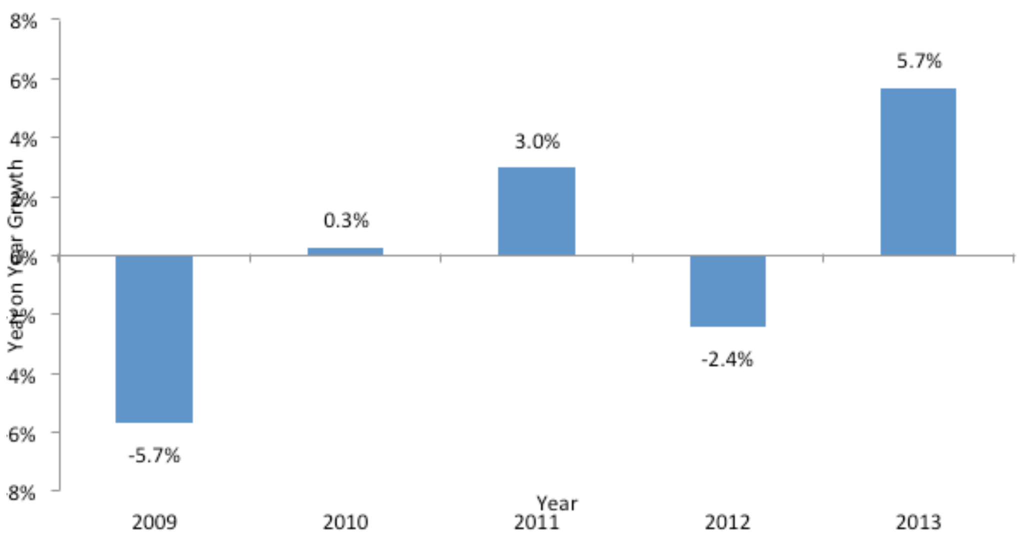
Source: National Visitor Survey (NVS) 2013 (June 2013$), PwC analysis.
Note: Origin is set at 0.1%, -1.4%, the average 5 year CAGR for each axis. This demonstrates the change for specific visitor origin states relative to overall domestic visitor growth.

Note: Number of trips undertaken by travellers from each state in 2013 is displayed in brackets.



This overall trend masks the variation in year on year growth that has occurred. There has been a recent resurgence in domestic travel that cannot be seen by examining average compound annual growth rates over either a five year or a two year period. Figure 16 shows the year on year growth of interstate travel for the last five years. The fall in the Australian dollar has helped to drive the strong growth between 2012 and 2013.

Figure 16 Year on year growth of interstate overnight trips, 2009 to 2013.



Tasmanian industry trends

1.1 Trends by market

1.1.1 International markets

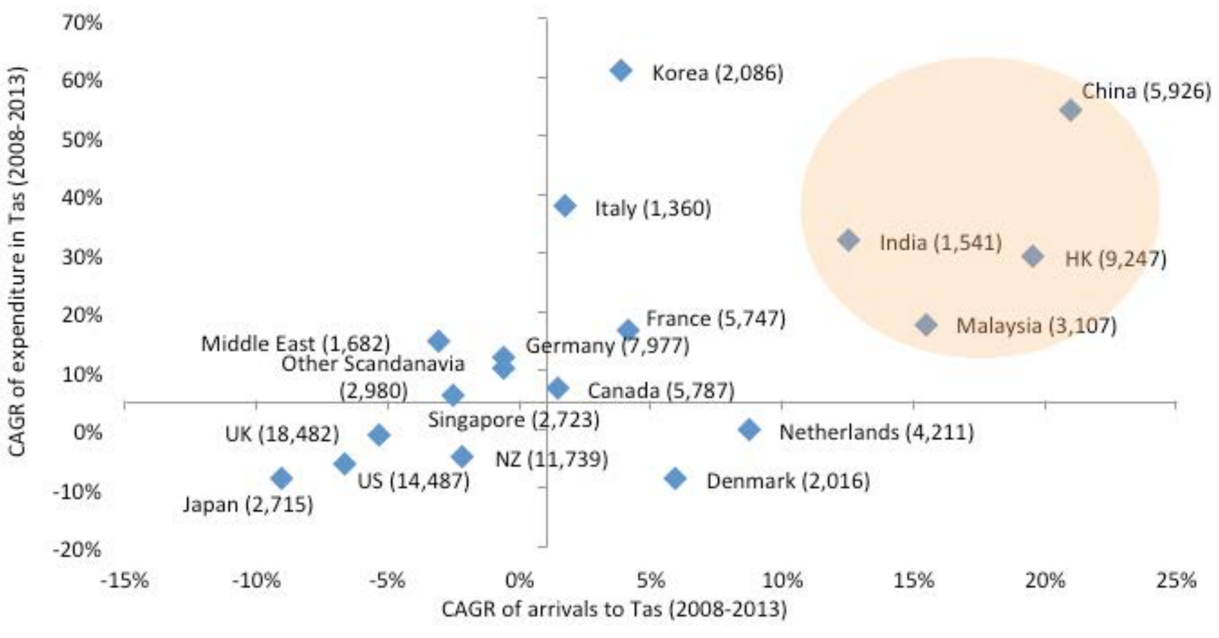
In 2013, international visitors represented 12.7% of all visitors to Tasmania. In the past five years, average growth in international visitor arrivals to Tasmania has been 1.0% per annum (compared to 2.3% for Australia as a whole). However, average international visitor expenditure in Tasmania has grown at 4.6% per annum over the same period (compared to only 1.9% for Australia).

Figure 17 shows that Tasmania's international growth markets align with those of Australia. The countries of source in the top right quadrant are consistent with those for Australia (Figure 14). China has been the strongest growing international market for Tasmania with 20.9% per annum average increase in visitor arrivals over the last five years (compared to only 2.3% for Australia as a whole), and 54.7% per annum average increase in visitor expenditure (compared to only 1.9% for Australia as a whole). This has been driven by strong demand from China's aspirational middle class and indicates that Tasmania is becoming more accessible as a destination for Chinese visitors.

Visitor arrivals and expenditure from most emerging Asian countries have grown more than the Australian average (including Malaysia, India, Korea and Hong Kong) while Tasmania's traditional tourism sources (USA, UK, NZ and Japan) are continuing to decline in arrivals and expenditure. The UK, USA and NZ still remain the largest international markets for Tasmania, with Hong Kong coming in fourth.

Figure 17 Change in international visitor arrivals to Tasmania and inbound expenditure by country of origin (2008-2013)

Source: TVS 2013. (June 2013$), PwC analysis.
Note: Origin is set at (1.0%, 4.6%), 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 2013 is displayed in brackets.



The most recent TVS data (annualised) shows that arrivals from China and India decreased between March 2013 and September 2013, while arrivals from Hong Kong continued to grow. Malaysian arrivals also grew over this period but had been in decline between March 2012 and December 2012.

1.1.2 Domestic markets

Growth in domestic markets for Tasmania has outstripped the national average growth in interstate travel over the last five years but is uneven across states. Table 1 shows Tasmania's performance versus overall domestic performance of interstate travel in Australia over the last five years for key markets. The only markets where Tasmania does not perform as well as the national average are for South Australian visitors and Queensland visitor expenditure.

Table 1 Five year CAGR of visitor arrivals and expenditure by market: Tasmanian performance versus Australia (2008-2013)

Market	Growth in Visitors			Growth in visitor expenditure		
	Tasmania	Australia		Tasmania	Australia	
Total domestic travellers	2.5%	0.1%	+2.4%	-1.3%	-1.4%	+0.1%
Victoria	4.1%	-1.2%	+5.3%	-1.1%	-1.8%	+0.7%
NSW	2.1%	0.3%	+1.8%	1.6%	-1.4%	+3.0%
Queensland	2.2%	1.3%	+0.9%	-4.9%	1.2%	-6.1%
South Australia	-3.0%	-0.6%	-2.4%	2.8%	-4.7%	+7.1%

*Note: Figures highlighted in **RED** indicate Tasmania's performance below the national average.*
*Figures highlighted in **GREEN** indicate Tasmania's performance above the national average.*
Note: The table presents results for Tasmania's four largest state markets.
Source: TVS 2013, NVS 2013, (June 2013$), PwC analysis.

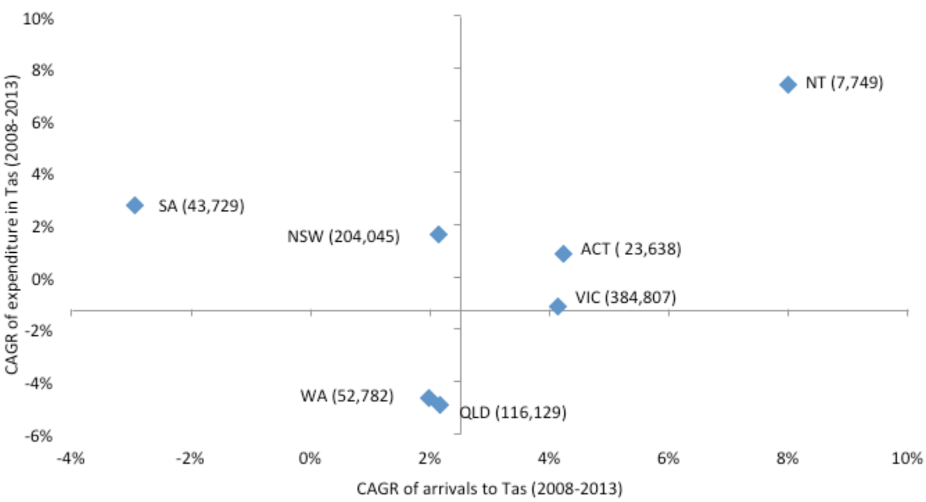
Growth in domestic visitor arrivals of this magnitude year on year can be considered encouraging for Tasmania, as in the current economic environment international travel is becoming more affordable and accessible to Australians. Nevertheless, the corresponding decline in travel expenditure indicates that domestic travellers are more conscious of value for money, taking shorter trips, and are spending less per trip.

Growth in domestic travel to Tasmania is uneven across Australian states:

- Visitation from Victoria has grown the strongest, outperforming general Victorian interstate travel significantly.
- Growth in visitation and expenditure from NSW visitors also outperformed general NSW interstate performance.
- While Queensland visitation to Tasmania grew at a higher rate than Queensland's interstate trip growth overall; expenditure in Tasmania by Queensland visitors fell significantly, by 6.1% more than interstate expenditure from Queensland travellers generally.
- Visitation from South Australia fell, exhibiting the opposite trend to South Australian interstate travel in general. Trips from South Australia fell 3.0% per annum on average over the last five years compared to a 9.4% per annum increase between 2006 and 2011. This is being driven by the last three years of data (2011-2013), in which the average number of trips was 16% lower than the preceding three years (2008-2010).

Figure 18 Change in number of domestic trips to Tasmania and domestic travel expenditure in Tasmania by Australian state of origin (2008-2013)

Source: TVS 2013. (June 2013$). PwC analysis
Note: Origin is set at 2.5%, -1.3%, 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 2013 is displayed in brackets.

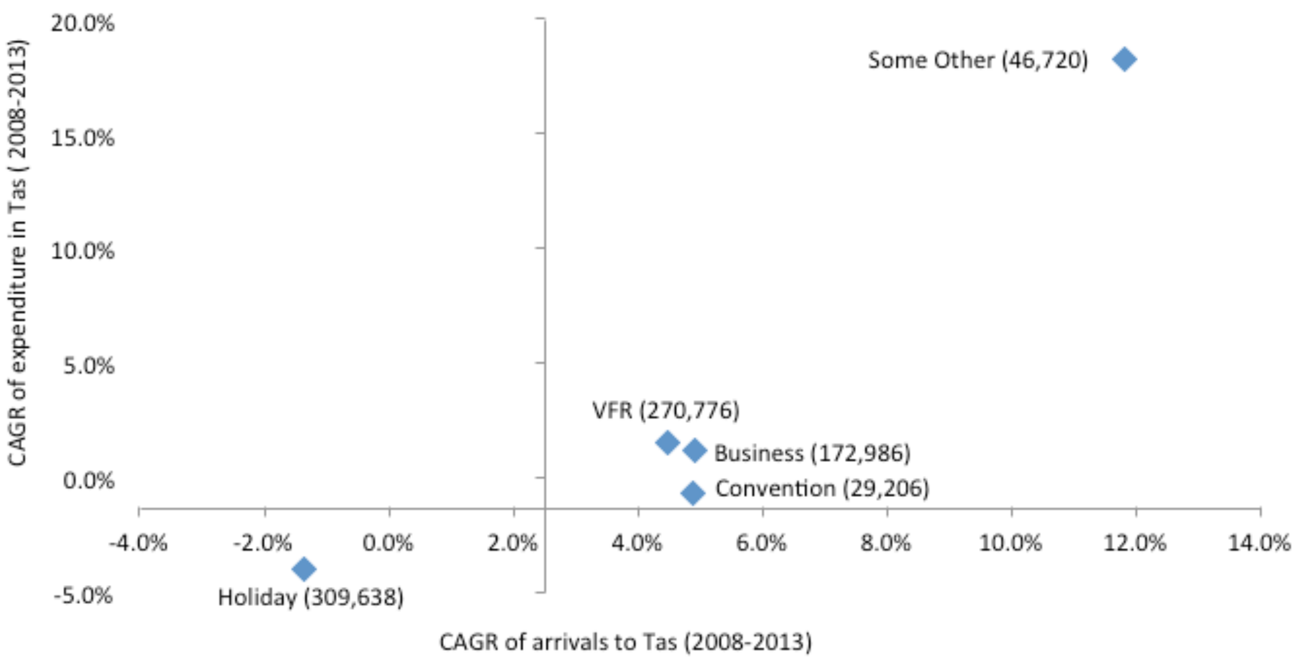


Growth in domestic travel to Tasmania is also uneven across trip purposes. The number of business purpose visitors and those visiting friends and relatives (VFR) has grown over the last five years, while holiday purpose trips have fallen. Holiday visitor expenditure fell faster than average (-1.3% per annum) over the 2008-2013 period.

The performance of domestic holiday travel has improved slightly over the most recent two year period with holiday visitation growing by 0.6% per annum. Although this is still below the average, the increase corresponds to the falling Australian dollar and may be expected to continue going forward.

Figure 19 Change in the number of domestic trips to Tasmania and domestic travel expenditure in Tasmania by purpose of domestic travel (2008-2013)

Source: TVS 2013. (June 2013$). PwC analysis.
Note: Origin is set at 2.5%,-1.3%, 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 2013 is displayed in brackets.
Note: 'Some other' refers to visitors who travelled for a major event or festival, the AFL, education, and medical reasons. This group had a very small base in 2008, which contributes its high growth rate over the last five years.



1.2 Booking intentions

Booking methods and information sources used prior to arrival continue to become more online and 'online word of mouth' focussed. Travel review websites have exhibited the strongest growth over the last two years with 13.4% per annum growth in the number of visitors using this method to plan their trip. This category was previously unreported in the Tasmanian Visitor Survey, with data collection beginning only in the September quarter of 2009. The use of word of mouth and websites has grown at a slower pace, and traditional mediums (television, brochures, and guide books) all have less influence than they did two years ago.

Traditional means for booking travel to Tasmania have also declined in the last two years, with direct bookings through operators, TT Line, and even airlines declining in popularity. The use of travel agents also fell. The trend for no bookings to be made prior to travel continued to gain popularity, and the use of online travel providers also grew slightly.

Figure 20 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 (2011-2013)

Source: TVS 2013 (June 2013$), PwC analysis.

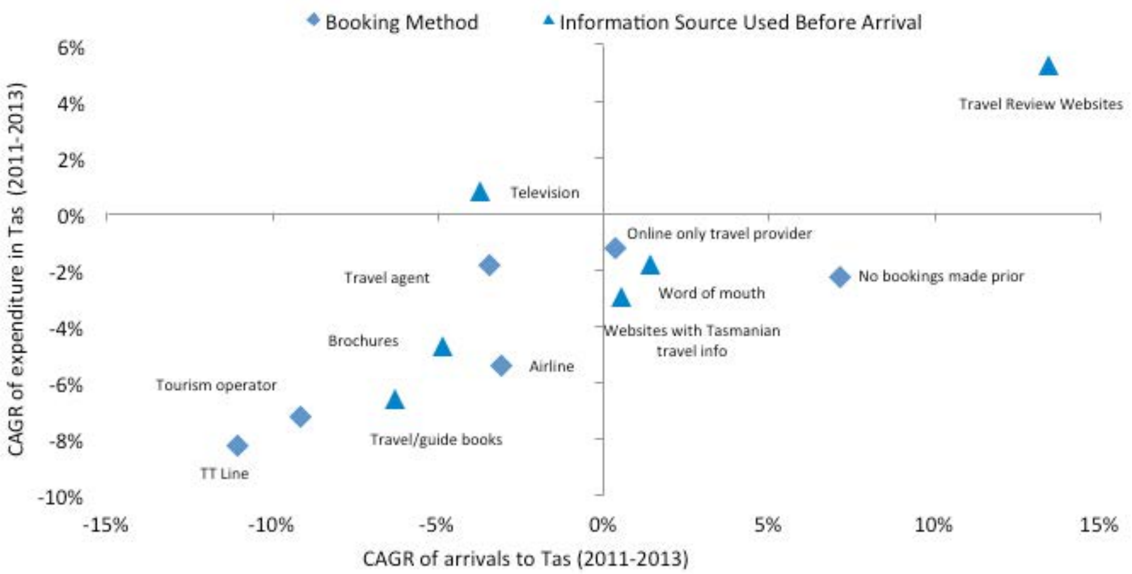


Figure 20 also shows that the use of television as an information source used before arrival has been declining. Conversely, TV advertising has shown up in the TIM survey as the number one media channel for Tasmania over the last three quarters, with most recent year on year growth of 34.3%. These divergent trends are likely explained by the role of television advertising in the travel purchase cycle: it assists consumers in the 'dreaming' phase of their holiday purchase. When consumers move on to 'planning' their trip they move on to using travel review websites and word of mouth.

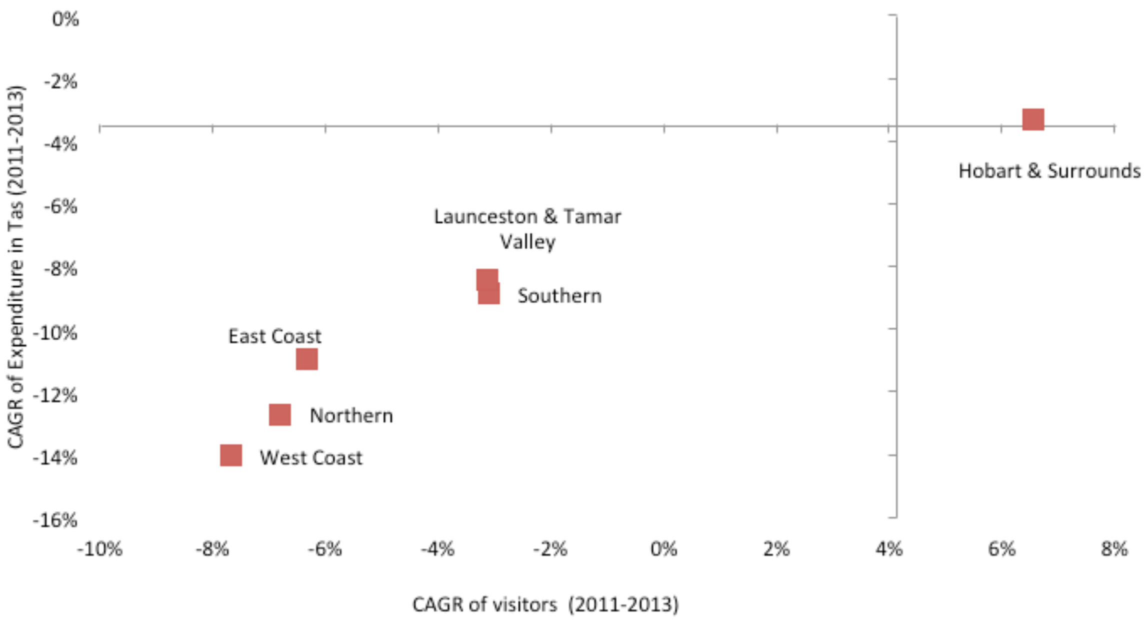
1.3 Regional growth

Growth in travel to Tasmania is not evenly spread across regions. There is a clear concentration of growth in Hobart and its surrounding regions. Figure 21 shows the growth rates in visitor numbers and expenditure for each region over the last 2 years. It shows a sharp contrast between the strong visitation growth to Hobart and surrounds, and the slower performance of the other regions. The increasing prevalence of short breaks and the relative accessibility of Hobart as a destination are contributing to this trend.

Figure 21 Change in the number of overnight trips taken in Tasmania and travel expenditure in Tasmania by region visited (2011-2013)

Source: TVS 2013. (June 2013$), PwC analysis

Note: Origin is set at 4.1%, -3.5%, the average 2 year CAGR for each axis. This demonstrates the change relative to Tasmanian overall growth.



The two year compound annual growth figures mask the difference in growth that occurred between 2011 and 2012; and 2012 and 2013. Figure 22 shows this year on year growth by region. The divergent trend between regions holds on a year by year basis. The recent increase in visitation to Launceston is also evident, which corresponds to the increase in capacity and passenger numbers at Launceston airport from March 2012.

Figure 22 Year on year growth rate of domestic visitors to Tasmania by region visited during the trip

Source: TVS 2013, PwC analysis.

Note: The total domestic visitors declined by 5.0% in 2012 and grew by 14.0% in 2013.

The most recent TVS figures show that visitation growth has increased for all of Tasmania's regions. For the year ending March 2014, annual visitation growth to Hobart was 12%, Southern region 20%, East Coast 20%, West Coast 9% Launceston and the Tamar Valley 13%, and North West 10%. These results indicate that regional areas are beginning to catch up to Hobart as they increase their share of the benefits from Tasmania's record visitation.

1.4 Key markets by age bracket

1.4.1 Growth trends move towards younger visitors

In 2011, visitors 45+ were Tasmania's largest, fastest growing, and most profitable market. Today, they are still the largest and most profitable market for Tasmania, but no longer are they the fastest growing. Their market share has stagnated. It is currently visitors under 35 who are showing strong growth in both arrivals and expenditure. This age bracket make up a total of 27.1% of domestic trips to Tasmania, a substantial market share.

This is a new trend for Tasmania. Two years ago, the average five year change in arrivals and expenditure for visitors under 35 was negative and / or below average. This was not a growing market for Tasmania. It was the older 45-64 age brackets that were the market growing in arrivals and expenditure at that time. While the older portion of this age bracket (particularly 64+) is still growing strongly, the younger half (45-54) has declined based on the last five years of data.

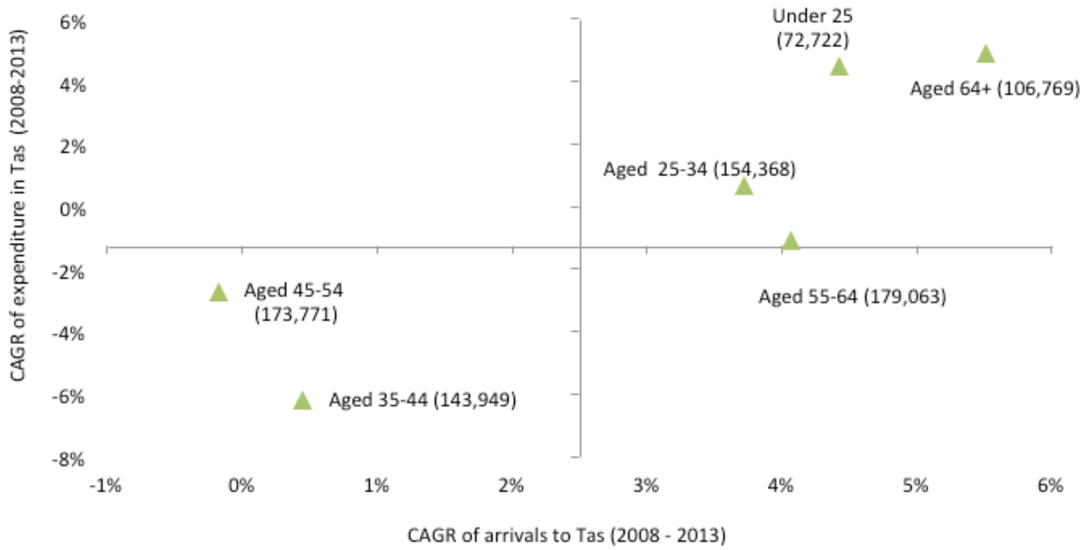
This is a notable shift in the growth market. The relatively poor performance of the age bracket in the middle of young and old (35-44 year olds) is also an interesting finding. This result is relatively consistent with two years ago.

Figure 23 Change in the number of domestic trips to Tasmania and travel expenditure in Tasmania by age group (2008-2013)

Source: TVS 2013 (June 2013$), PwC analysis.

Note: Origin is set at 2.5%, -1.3%, the average5 year CAGR for each axis. This demonstrates the change relative to Tasmanian overall growth.

Note: Number of trips undertaken by travellers of each age group in 2013 is displayed in brackets.



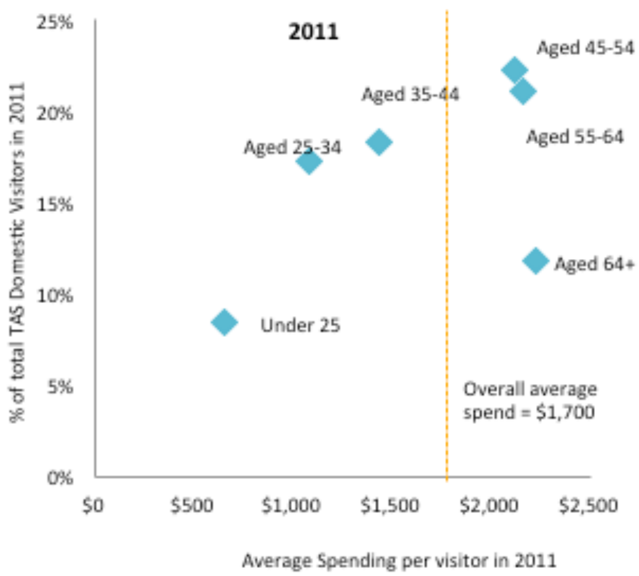
1.4.2 Visitors 45+

The market share of visitors 45+ grew from 50% to 55% between 2006 and 2011 and remains at this level in 2013. This market segment continues to represent Tasmania's most profitable market.

Figure 24 shows that visitors 45+ spend the most on average in Tasmania and the gap in expenditure per person between young and old is noticeable. With Australia's aging population and wealth distribution, this pattern of spending is likely to continue, and visitors 45+ will remain a lucrative market for Tasmania

Figure 24 Average spend per visitor vs proportion of total domestic visitors to Tasmania by age bracket in 2011 and 2013. (June 2013$)

Source: TVS 2013 (June 2013$), PwC analysis.



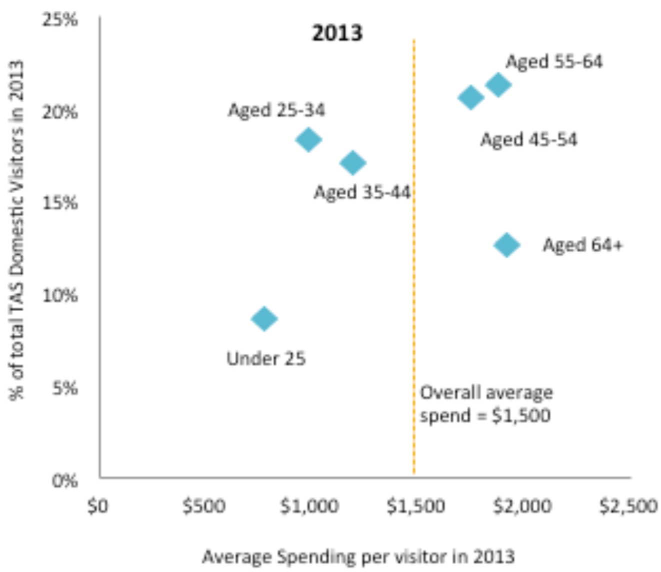


Figure 24 shows that:

- In 2011, domestic visitors 45 and over represented 55% of all domestic visitors. The average spend for this group was $2,100 per visitor compared to the overall average domestic visitor spend of $1,700.
- In 2013, domestic visitors 45 and over represented 55% of all domestic visitors and the average spend for this group was $1,800 per visitor, compared to the overall average domestic visitor spend of $1,500.

The same trends in spending and market share are observed for holiday visitors to Tasmania in the 45+ demographic. The market share of 45+ holiday visitors increased from 56% in 2006 to 61% in 2011 and remains at 61% in 2013. In general, the average spend per visitor travelling for holiday purposes is approximately $800 higher than the overall visitor average spend. This makes older holiday visitors an even more profitable market for Tasmania with an average spending of $2,600.

Figure 25 shows that the share of visitors and spending for the older holiday demographic has grown over the past 2 years. In contrast, holiday visitors in the 35-44 age bracket have reduced their average spend since 2011, and their market share has fallen.

Figure 25 Average spend per domestic holiday visitor vs proportion of total domestic holiday visitors to Tasmania by age bracket in 2011 and 2013. (June 2013$)

Source: TVS 2013 (June 2013$). PwC analysis.

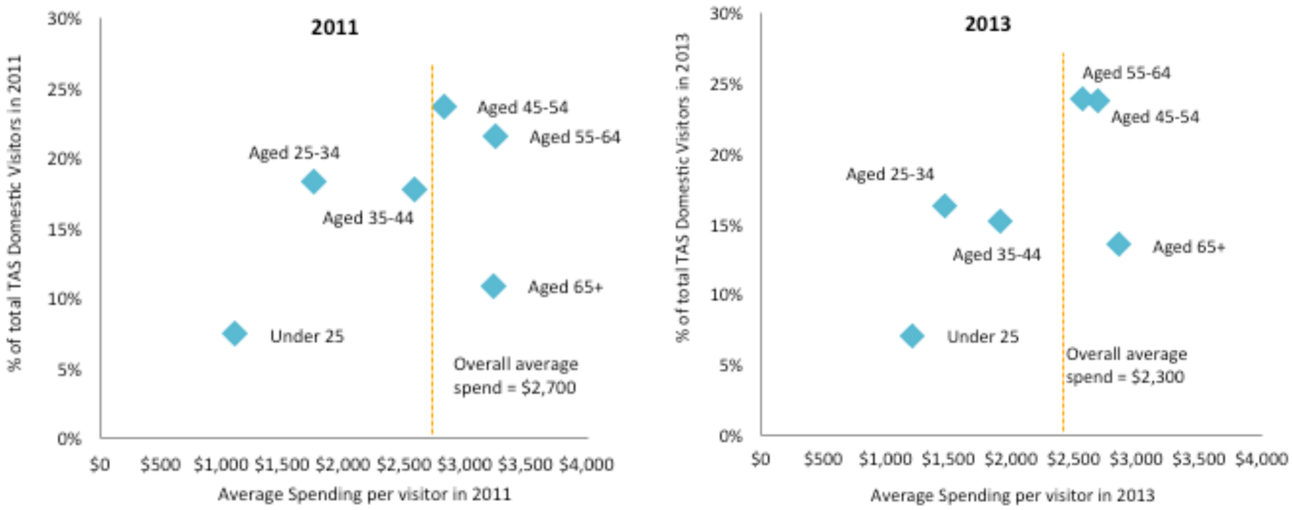


Figure 25 shows that:

- In 2011, domestic holiday visitors 45 and over represented 61% of all domestic holiday visitors and 71% of total expenditure by domestic holiday visitors. The average spend for this group was $3,000 per visitor compared to the overall average domestic visitor spend of $2,700.
- In 2013, domestic holiday visitors 45 and over represented 61% of all domestic holiday visitors and 72% of total expenditure by domestic holiday visitors. The average spend for this group was $2,600 per visitor compared to the overall average domestic holiday visitor spend of $2,300.

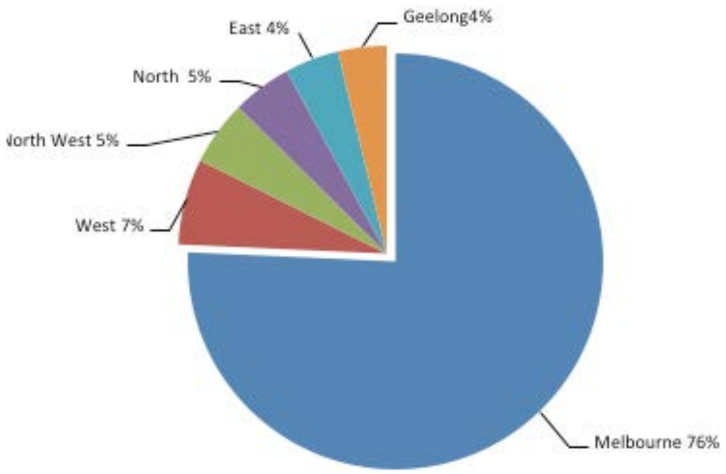
1.5 Visitors to Tasmania by State

1.5.1 Key markets – Victoria

Victoria is Tasmania's largest geographical market, accounting for 46% of domestic visitor arrivals to Tasmania, and 42% of all visitor arrivals (international and domestic) in FY13. Figure 26 shows that Melbourne residents consisted of over three quarters of Victorian visitors to Tasmania in 2013.

Figure 26 Visitors from VIC: Share of total VIC visitors by region (2013)

Source: TVS 2013, PwC analysis.



The strongest growing demographic markets from Victoria are both young (under 34) and older (55+) visitors, with the middle age and income brackets exhibiting weaker growth.

Figure 27 Victorian Visitors: Change in the number of trips to and expenditure in Tasmania by age group and household income group (2008-2013)

Source: TVS 2013, (June 2013 $). PwC analysis.

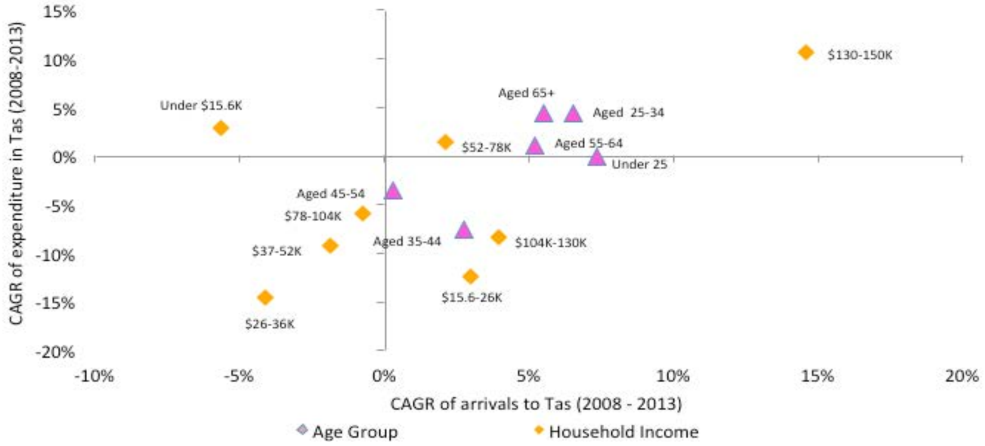
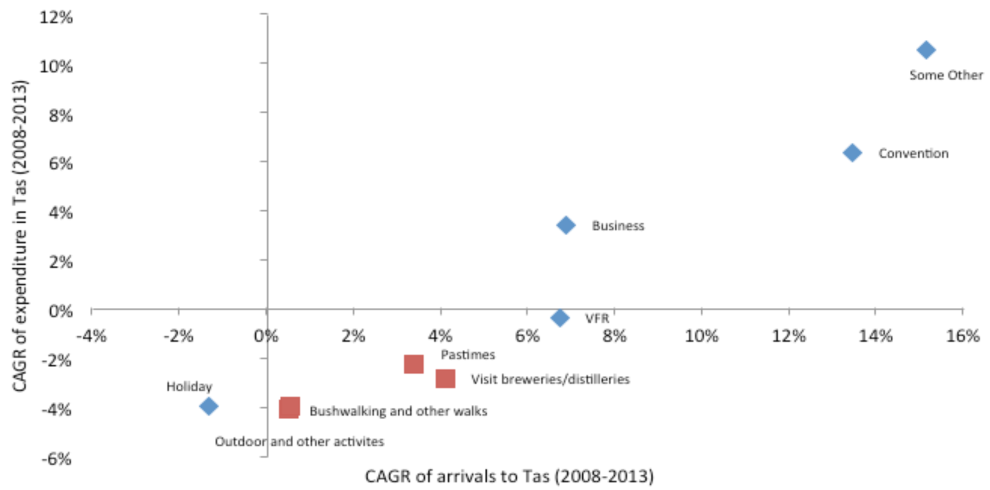


Figure 28 shows changes in Victorian visitor arrivals and spending by trip purpose and activity participation. Despite the growth in business and convention visitors, the holiday market has fallen by around 1.3% in arrivals and 4.0% in spending per annum between 2008 and 2013. Similar to the national trend, holiday visitation growth has picked up in the last two years with growth of 1.7% per annum, although expenditure from this group fell by 9.6% per annum during that time. One driver of this trend is the popularity of short breaks.

Figure 28 Victorian Visitors: Change in the number of trips to and expenditure in Tasmania by purpose of visit and activities undertaken on the trip (2008-2013)

Source: TVS 2013 (June 2013 $), PwC analysis.

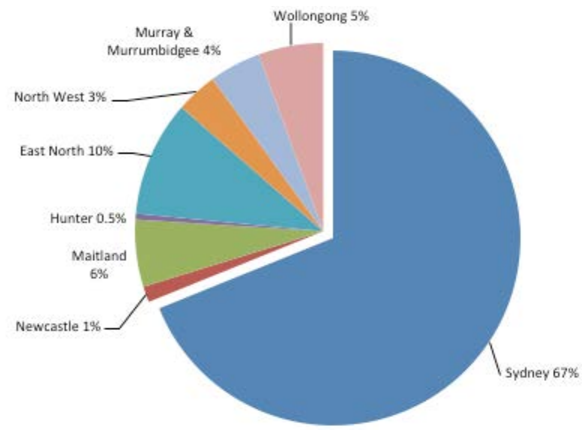


1.5.2 Key markets – NSW

NSW is Tasmania's second largest geographical market, accounting for 26% of domestic visitor arrivals to Tasmania, and 24% of all visitor arrivals (international and domestic) in FY13. While Sydney residents made up two thirds of NSW visitors to Tasmania in 2013 (as shown in Figure 29), growth over the last five years has come mainly from regional NSW (North West, East North, and the Hunter).

Figure 29 Visitors from NSW: Share of total NSW visitors by region (2013)

Source: TVS 2013, PwC analysis.



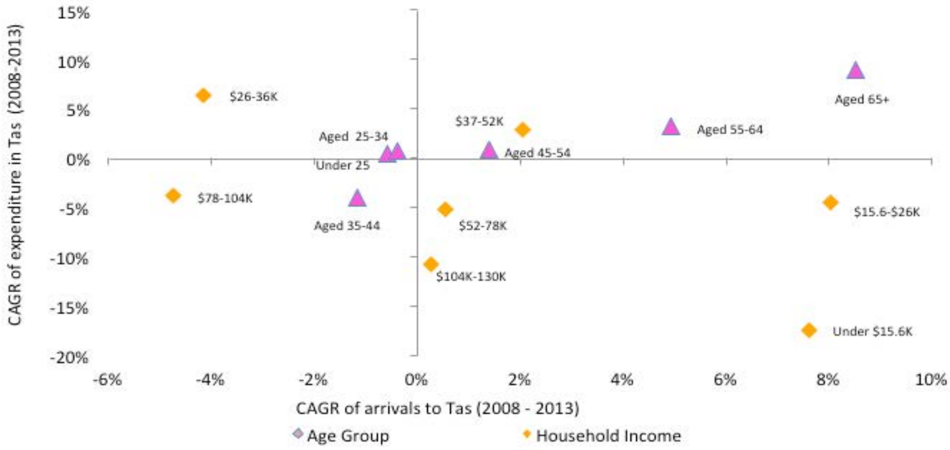
While overall growth in visitors and expenditure from NSW is below the state-wide average, older visitors have continued to exhibit positive growth, demonstrating the strength of this demographic from the NSW market.

Unlike Victoria, there has not been an increase in the number of younger visitors aged 25-34 from NSW. The greatest potential still exists among mature visitors from this market, which are growing strongly in both arrivals and expenditure.

Similar to Victoria, visitation from the $78k-$104k income bracket fell from NSW. Interestingly, low income brackets (up to $26k) have exhibited strong growth in visitation. This indicates that Tasmania has become a relatively more affordable destination for visitors from NSW, possibly driven by lower airfares and more flights available for weekend breaks.

Figure 30 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 (2008-2013)

Source: TVS 2013. (June 2013 $), PwC analysis.

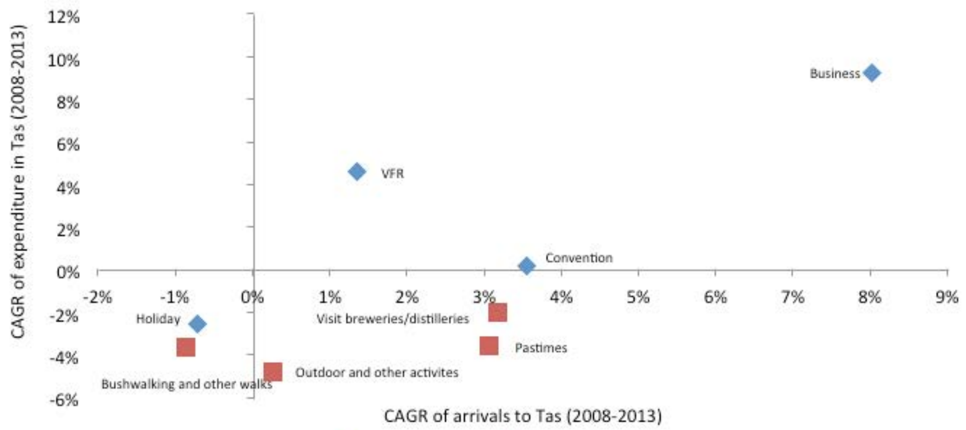


Holidaymakers made up only 42% of arrivals from NSW in 2013 (this figure was 49% in 2008). Figure 31 shows that holiday travel from NSW has fallen over the last five years. However, over the most recent two years holiday visitation has grown by 4.6% per annum. This is a stronger rebound than seen for Victoria and the national average.

The VFR market and business travel markets from NSW have also grown strongly. NSW VFR visitation has grown by 1.3% per annum over the last five years (6.4% per annum over the most recent two years).

Figure 31 Visitors from NSW: Change in the number of trips to and expenditure in Tasmania by purpose of visit and activities undertaken on the trip (2008-2013)

Source: TVS 2013. (June 2013 $), PwC analysis.



1.5.3 Key markets – Queensland

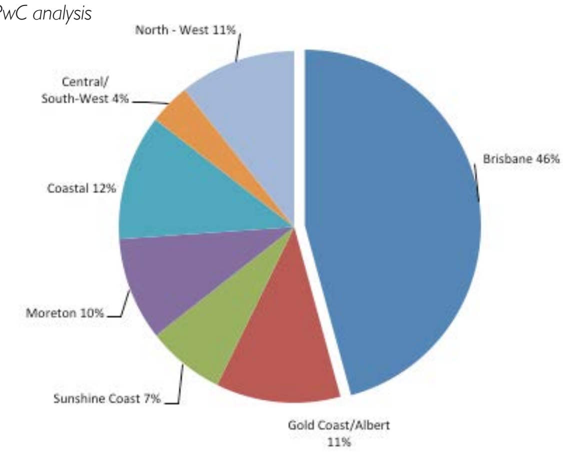
Queensland is Tasmania's third largest geographical market, accounting for 13% of domestic visitor arrivals to Tasmania, and 12% of all visitor arrivals (international and domestic) in FY13. The size of the Queensland market in 2013 was equivalent to the combination of NT, SA, WA and ACT. Overall visitation and expenditure from Queensland has changed by 2.2% and -4.9% per annum respectively over the last five years.

Over the last two years, the performance of the Queensland market has been weaker with visitation growing by only 0.6% per annum and expenditure falling by 8.6% per annum. Direct air routes between Queensland and Tasmania did not experience the same levels of capacity growth as those from Victoria and NSW over this period, which may be one factor contributing to this. With the recent increase in capacity on the Brisbane to Hobart route, and positive forecast economic conditions for Queensland; the future performance of this market is likely to improve.

Unlike Victoria and NSW, the share of Queensland visitors from the capital city Brisbane was less than 50% in 2013. North West, Gold Coast/Albert and Moreton are the Queensland regions that have exhibited the strongest growth over the last five years.

Figure 32 Share of total QLD visitors by region (2013)

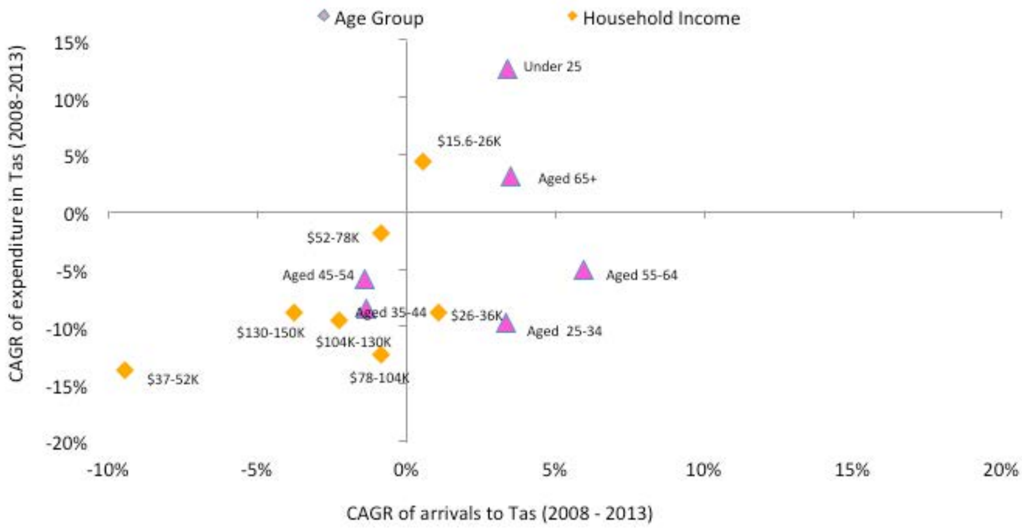
Source: TVS 2013, PwC analysis



The age bracket growth patterns in Queensland are similar to Victoria (strong growth in under 34 and 55+ visitors, middle age brackets weaker).

Figure 33 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 (2008-2013)

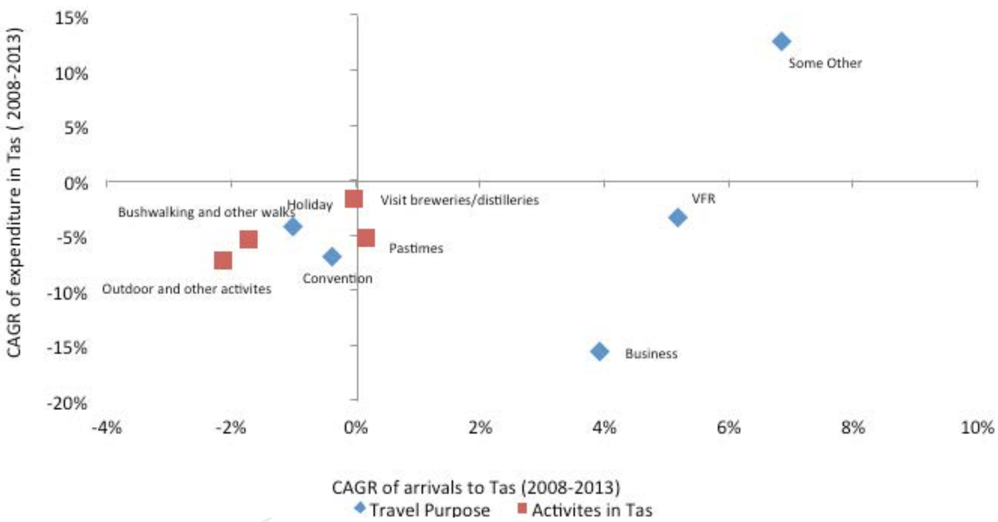
Source: TVS 2013. (June 2013 $), PwC analysis.



VFR and business purpose visitors from Queensland have grown over the last five years, while holiday and convention visitors have fallen. This is in contrast to two years ago where holiday visitors had grown on average over the preceding five year period.

Figure 34 Visitors from QLD: Change in the number of trips to and expenditure in Tasmania by purpose of visit and activities undertaken on the trip (2008-2013)

Source: TVS 2013. (June 2013 $). PwC analysis.



1.6 Nature of demand - Shoulder and off-peak

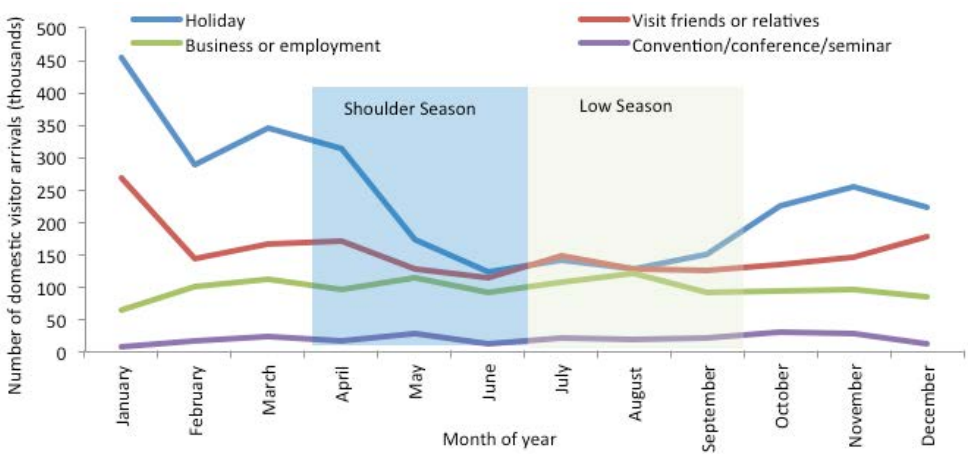
Tasmania, like most tourism destinations, experiences seasonality in visitor arrivals, particularly for holiday purpose visitors. Holiday arrivals are seasonal for Tasmania with the peak season defined by Tourism Tasmania as October to March each year. Arrivals pick up sharply after the winter and reach 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). Figure 35 shows the seasonality by visitor trip purpose for 2008-2013 data. There has been no change in this pattern to that seen two years ago.

The cyclical nature of arrivals is difficult to mitigate and is seen for destinations throughout the world.

Figure 35 Total visitor arrivals each month by purpose of travel (2008-2013)*

Source: TVS 2013, PwC analysis.
**Note: Shoulder, low and peak seasons are as defined by Tourism Tasmania.*



The share of visitors to Tasmania in peak season was 61% in 2008. This dropped to 58% in 2013, indicating a spreading of this peak. Although absolute visitation in the shoulder and low seasons will never be at high season levels, growth in visitation over the last five years has been the strongest in the low season as shown in Figure 36. Shoulder season growth (April to June) has also been above average. Four out of six months of the high season are located in the bottom left quadrant, which indicates below average growth in both visitors and expenditure.

Data from the Tasmanian Tourism Info Monitor (TIM) survey supports this hypothesis, with 6.3% year on year growth in total respondents stating that Tasmania was 'a year round destination'.

Figure 36 Change in the number of trips to and expenditure in Tasmania by month (2008-2013) for domestic visitors to Tasmania.

Source: TVS 2013 (June 2013$), PwC analysis.
Note: Origin is set at 2.5%, -1.3%, the average 5-year CAGR for each axis. This demonstrates the change for a specific month relative to overall domestic visitor growth.

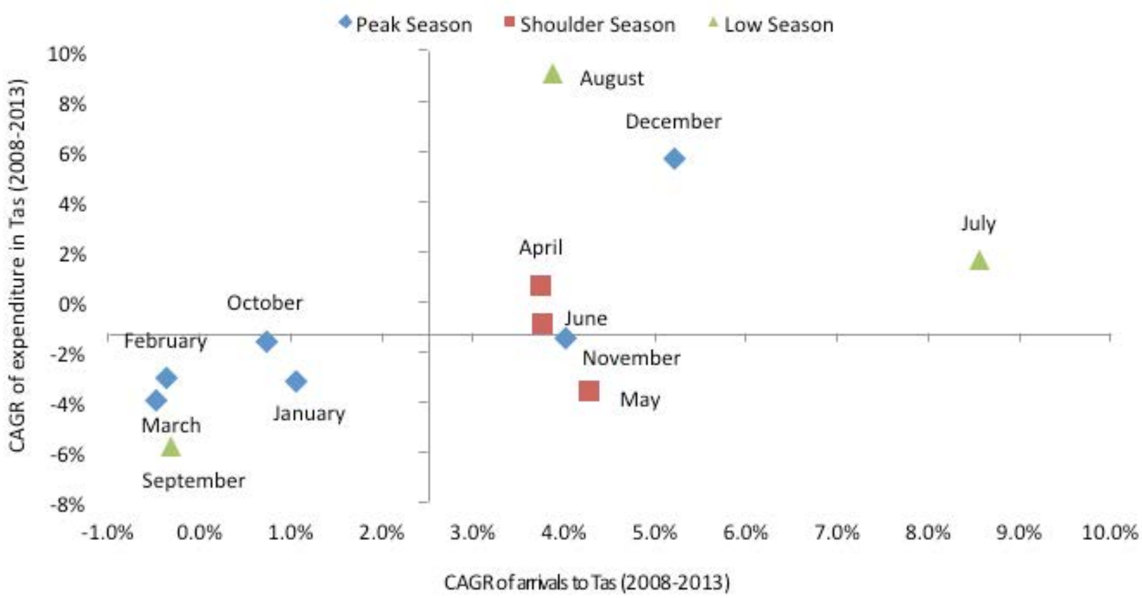


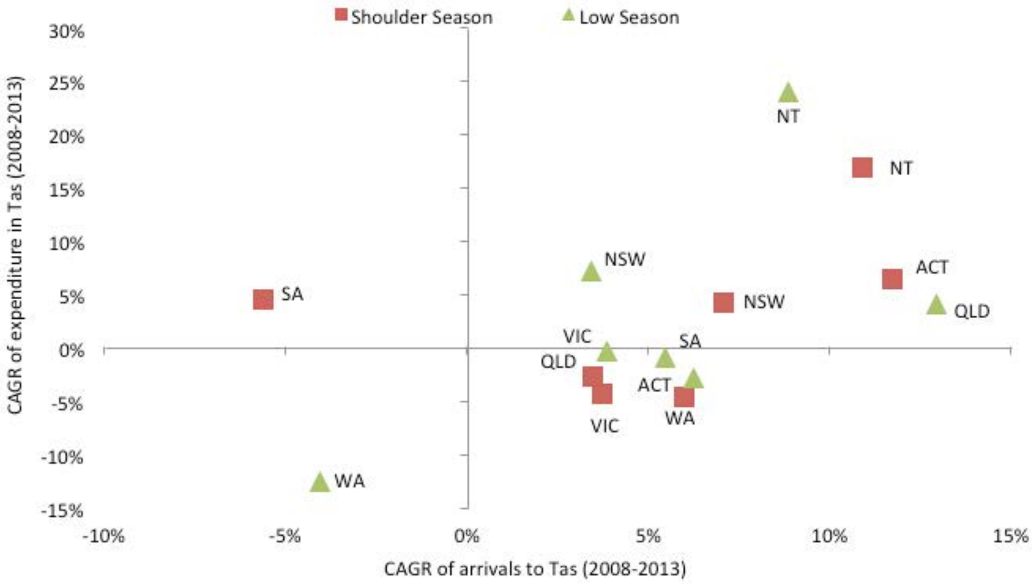
Figure 37 shows that all the states except WA have exhibited positive visitation growth during the low season. Low season visitation and expenditure from NSW has grown strongly, with shoulder season growth close behind. The number of visitors from Queensland in low season exhibited the highest growth among all states (12.9%), and strong growth in expenditure (4.1%).

A contributing factor may be cheaper flights and accommodation during this period, and the introduction of attractions such as MONA, which can be visited all year round.

Load factors and prices on air routes to Tasmania are low during most of the shoulder and low seasons (see Figure 40 and Figure 41). The evidence presented indicates that travellers to Tasmania are beginning to take advantage of this excess capacity and these lower prices, with demand increasing during the colder months.

Figure 37 Change in the number of trips to and expenditure in Tasmania during peak season, shoulder season and low season (2008-2013) for visitors from each Australian state.

Source: TVS 2013 (June 2013$), PwC analysis.



1.6.1 Nature of demand – Repeat visitation

Visitors returning to Tasmania for a second or subsequent visit continue to remain a significant market for Tasmania. Repeat visitors made up 46% of total visitors to Tasmania in 2013, and 65% of total visitor expenditure. In 2013, repeat visitor market share was relatively unchanged (46% of visitors) but their share of visitor expenditure increased to 71%.

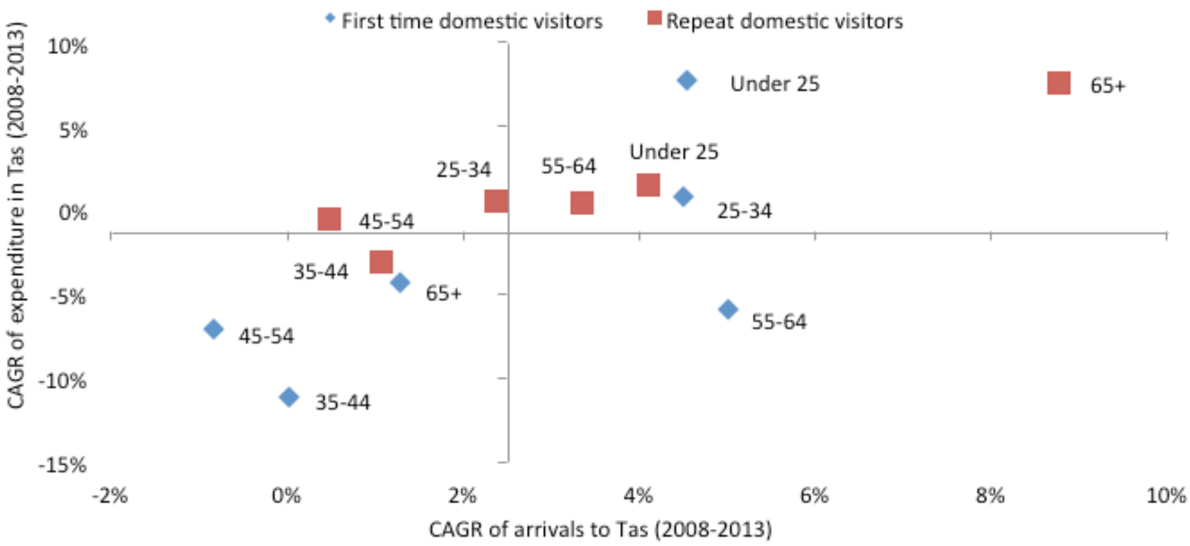
Figure 38 shows that for each age bracket, growth in arrivals and growth in expenditure for first time and repeat visitors exhibit generally similar trends. The group with the highest growth in visitation and expenditure are repeat visitors aged 65+. While visitation and expenditure fell for first time visitors in the 65+ category, this is likely because this is a declining market (as more and more people in this age group become repeat visitors).

Figure 38 also shows an increase in the younger age brackets for visitation and expenditure. First time visitors under 35 have increased over the last five years as well as repeat visitors under 25. This indicates that Tasmania is increasing its appeal to younger visitors.

Figure 38 Change in domestic visitor arrivals versus change in domestic visitor expenditure by age (first time visitors versus repeat visitors) (2008-2013)

Source: TVS 2013 (June 2013$), PwC analysis.

Note: Origin is set at 2.5%, -1.3%, the average 5 year CAGR for each axis in the case of total domestic visitor arrivals.

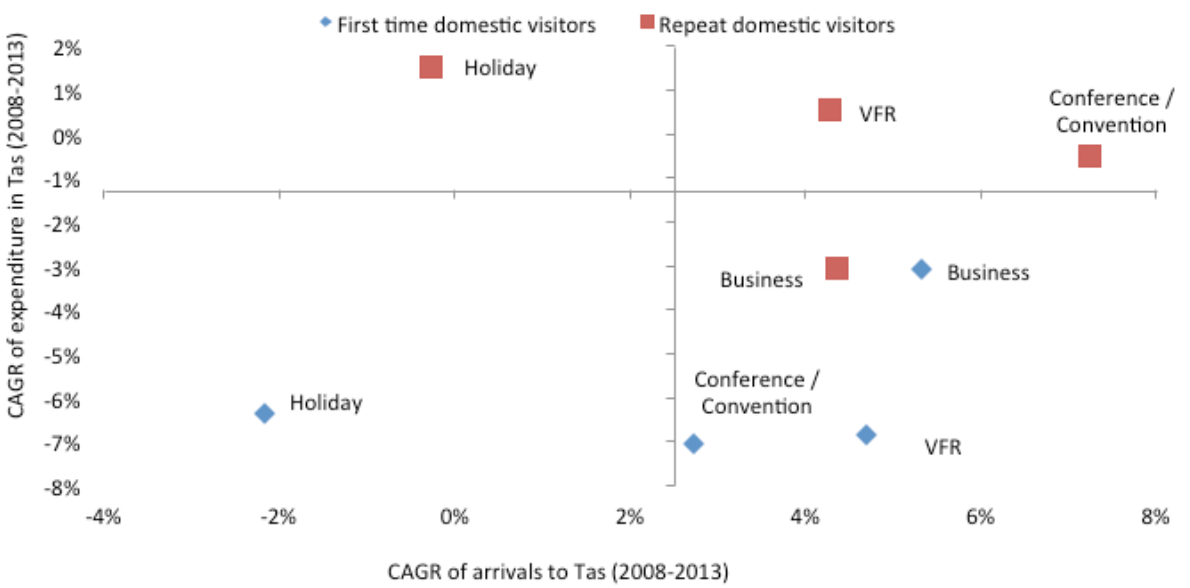


Across trip purposes, repeat visitor growth differs somewhat to first time visitor growth. While expenditure for all first time visitors by trip purpose has fallen, and is below the five year average change, repeat domestic visitors are the ones spending above average (with the exception of business travellers).

Figure 39 Change in domestic visitor arrivals versus change in domestic visitor expenditure by purpose of travel (first time visitors versus repeat visitors) (2008-2013)

Source: TVS 2013 (June 2013$), PwC analysis.

Note: Origin is set at 2.5 %, -1.3%, the average 5 year CAGR for each axis in the case of total domestic visitor arrivals.



Access

Air Capacity

The Australian airline industry is undergoing an intense period of competition as the major carriers compete for market share and strategic positioning. The outcome of this natural phase in the airline industry business cycle is an expansion in route coverage and capacity and lower pricing, which benefit consumers and destinations like Tasmania.

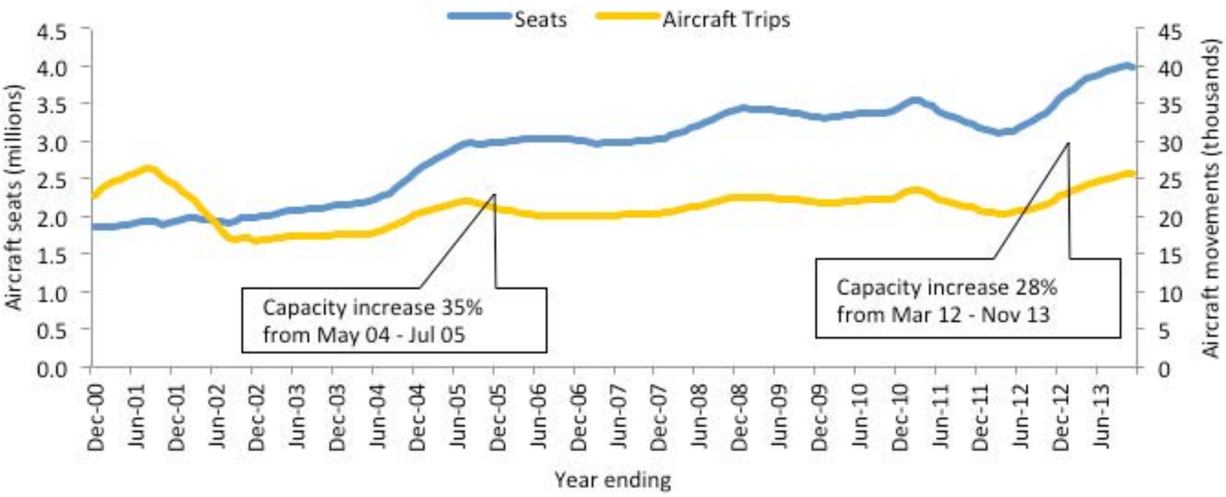
Recent profit results, company announcements, moves in pricing and reported load factors suggest a shift by airlines from chasing market share to a greater focus in yield is beginning to occur. This implies that growth in seat numbers is likely to slow and airfares are likely to rise. In the past, this has been a gradual transition, resulting in a flattening of growth in visitation. Given the intensity of the current competition in the market and the sharp increase in visitors to Tasmania in the last year, a sudden shift to yield chasing by airlines presents a risk to Tasmania of lower visitor growth.

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).

The number of seats on top routes to Tasmania and the number of aircraft movements have broadly exhibited the same growth trend in recent years. Figure 40 shows a spike in air capacity on Tasmanian routes (both in aircraft movements and in aircraft seats) in 2005 and a further spike in 2012. This broadly coincides to the launch and competition of Tasmanian services between Low Cost Carriers (LCCs), Jetstar and Tiger. This recent capacity increase reflects the period of intense competition recently experienced by the Australian airline industry.

Figure 40 Number of aircraft trips to air capacity (seats) 2000-2011 on top routes* to Tasmania.

Source: BITRE 2013, PwC analysis.
Note: Top routes include SYD-HBA, SYD-LST, MEL-HBA, and MEL-LST for which BITRE time series data is available from 2000 to 2013.
Note: Rolling annual data by month has been used in order to reduce the effects of seasonality on the data.



Load factors (the ratio of passengers to seats) on Tasmanian routes were at their lowest in 2005 (corresponding to the increase in capacity during this period). They grew since then to reach their highest point in March 2012 (83.7% on a rolling annual basis), and have since fallen with the recent sharp increase in capacity.

High load factors (aka limited supply of available seats) drive increases in air fares. This is likely to hurt local tourism visitation as those with a lower budget will not be able to travel. For example, the number of air passengers on Tasmanian routes started to decline in March 2011 when the load factor reached 80%. Passenger numbers responded to the launch of services by Tiger Airways on the MEL-HBA route in November 2011, and resultant competitor responses.

A significant number of additional seats have been added on Tasmanian routes recently. Between the year ending March 2012 and the year ending November 2013 (on a rolling annual data basis), seat numbers increased by 28%, which saw passengers increase by 16% (i.e. 59% of this additional capacity was absorbed by air visitors) This compares to a 46% take up rate in 2005, corresponding to the launch of Jetstar services.

Sea Capacity

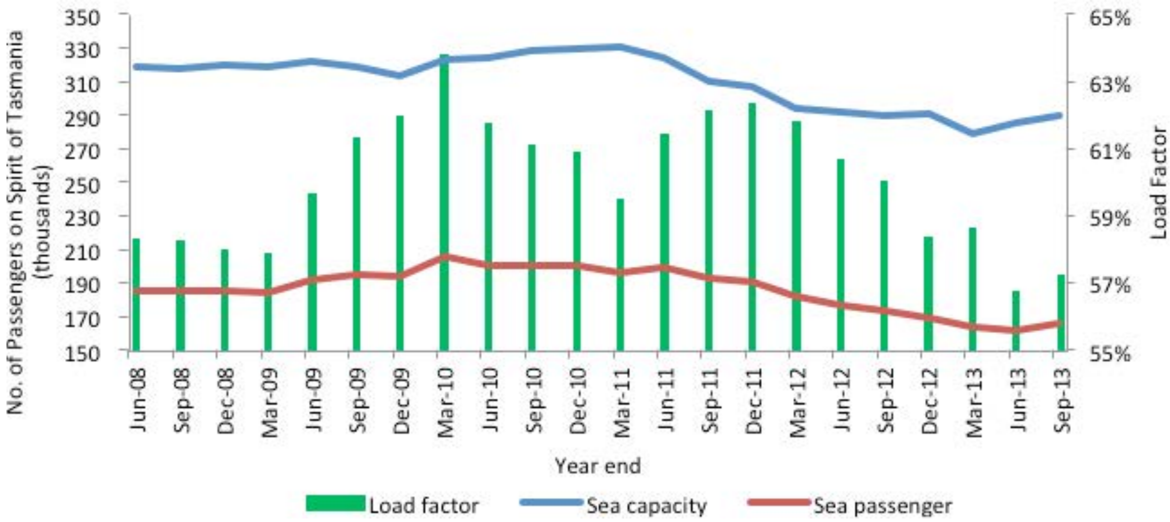
There has been an overall decline in passenger capacity on the Spirit of Tasmania in the last five years (2.1% per annum on average between 2008 and 2013). Figure 41 shows that seat capacity was relatively steady between 2008 and 2010, and started to decline from March 2011.

There has been a corresponding decline in passengers over the same period (a 2.7% per annum drop between 2008 and 2013). The load factor on the Spirit of Tasmania route between Devonport and Melbourne declined from 62% in March 2012, to 57% in September 2013. This aligns with the period of intense competition in the airline industry and resultant increase in air capacity and reduction in airfares.

The non-seasonally adjusted load factor data displayed on Figure 41 shows that capacity and passenger numbers on the Spirit route between Devonport and Melbourne varies by season. The data shows that the March quarter (January to March) is the most popular for sea travel to and from Tasmania while the September quarter (July to September) has the least passengers and seats.

Figure 41 Capacity (number of seats to Tasmania) vs sea passengers (pax) vs load factors (DPO to MEL)

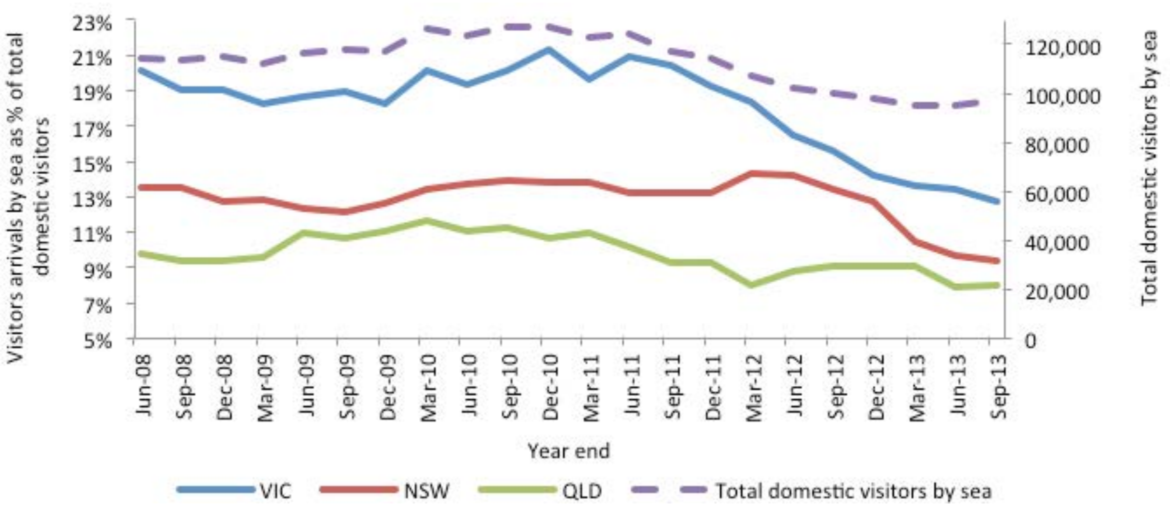
Source: TVS 2013, capacity data provided by TT-Line, PwC Analysis.
Note: Rolling annual data by month has been used, in order to reduce the effects of seasonality on the data.



This decline in sea passengers has caused a loss of domestic visitor market share for Spirit of Tasmania. Market share was relatively constant between 2008 and 2011. Competing with low cost airlines, increasing air capacity and more affordable airfares, Spirit of Tasmania's market share declined by 4% over the last two years from 15% in 2011 to 11% in 2013. This is shown in Figure 42 broken down by key domestic market.

Figure 42 The proportion of visitor arrivals to Tasmania by sea by states (2008-2013)

Source: TVS 2013, PwC analysis.
Note: Rolling annual data by quarter has been used, in order to reduce the effects of seasonality on the data.



Tourism
Tasmania