



Australian Government  
Department of Resources,  
Energy and Tourism  
Tourism Research Australia

## STATE OF THE INDUSTRY 2010

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**TRA** TOURISM  
RESEARCH  
AUSTRALIA

# STATE OF THE INDUSTRY 2010

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# EXECUTIVE SUMMARY

Tourism is a significant industry for Australia. In 2008–09, tourism contributed 2.6% (\$33 billion) to Australia's Gross Domestic Product (GDP) and directly employed almost half a million people or 4.5% of the labour force. Tourism is also Australia's largest services export industry, generating around \$24 billion in exports. It is also important to regional Australia, with 46 cents in every dollar of tourism expenditure being spent in regional Australia.

Australians made 66 million domestic overnight trips, 151 million same day trips and spent \$58 billion on domestic tourism in 2009–10. At the same time, Australians made 6.8 million outbound trips. The latest available trade data shows that while Australian outbound travel was worth \$33 billion in 2008–2009, \$5.5 billion of this was consumed in Australia before or after the trip. In 2008–09, domestic tourism contributed \$23 billion to the Australian economy, or nearly 2% of Australia's GDP.

In 2009–10 there were a total of 5.7 million international visitor arrivals to Australia, up from 5.5 million in 2008–09. In 2008–09 (latest data) these visitors contributed \$9.5 billion to Australia's GDP.

Tourism can be a difficult industry to conceptualise. In many instances tourism is thought of as a leisure activity. However, this understates the role of tourism as an industry that generates income and jobs and disperses these through the economy.

On the demand side, tourism comprises travel and visitation by Australians and overseas visitors. As defined by the United Nations World Tourism Organization (UNWTO) a tourist is a short-term visitor travelling away from their usual place of residence for a period of less than one year and in the case of domestic overnight travel, travels more than 40 kilometres from home. This visitation can be for leisure, business, employment or education. On the supply side, tourism comprises all of the inter-related activities that are required to produce goods and services for consumption by tourists. This includes transport, accommodation, education, retailing, cultural and recreational services.

The past decade has seen tourism diminish in importance in the Australian economy and lose share in the global tourism market. From 2000–01 to 2008–09, tourism's share of GDP has fallen from 3.4% to 2.6%. Australian overnight visitor expenditure, the largest component of domestic tourism, has declined by around 5% in the past ten years and, internationally, Australia's share of global tourist arrivals has declined from 0.7% to 0.6%. Furthermore, the rate of employment growth in tourism has been less than half that of the total employment growth in the economy: 7.9% compared with 19%.

The performance of the tourism industry also needs to be considered in the context of the performance of the Australian economy as a whole. The past decade, from 2000–01 to 2008–09, has seen the Australian economy grow by 7.5% on average each year in nominal terms, compared with 3.9% a year growth in tourism. This has been driven by the strength of the mining and some other services sectors with relatively weaker performance in the agriculture and manufacturing industries.

There are some bright spots. In 2009, during the height of the Global Financial Crisis (GFC), the total number of international visitors to Australia remained unchanged compared with 2008. By comparison, the UNWTO estimates that global international tourism arrivals declined by more than 4% in 2009. Australia's performance is even more impressive given it is a medium to long-haul destination from many of our key markets, particularly markets hit hard by the GFC such as Europe, Japan and the United States. In addition, there are signs that growth in visitation, particularly from Asia, is picking up.

Australia has also shown significant resilience to a range of shocks over time and possesses a wealth of natural and cultural assets that continue to place Australia at the top of global traveller preferences. But this cannot mask the challenges facing the industry.

## WHAT HAPPENED?

The main drivers of the underperformance of Australian tourism are the weak performance of domestic tourism, particularly for leisure, and the declines in international holiday expenditure, especially the decline of the package travel market. While there has been growth in other international travel segments, such as education, this growth has not fully compensated for the poor performance of these two segments.

The tourism industry has been affected by the strength of the Australian dollar, coupled with a strong Australian economy, and increased international air capacity. This has increased opportunities for Australians to travel overseas, while at the same time reducing the competitiveness of Australia as a destination for international visitors.

The opening up of new tourism experiences in many destinations and the growth in aviation capacity globally (particularly low cost airlines in the intra-Asia market) have also increased the competitive pressures facing the industry. The GFC continues to dampen economic activity in a number of our key traditional markets (notably in Europe and the United States), although less so in Asia which is becoming increasingly important to the Australian tourism industry.

## **WHERE TO FROM HERE?**

The performance and long-term prospects of the tourism industry will be influenced by a number of internal and external factors. These factors include prevailing economic conditions, competition across the tourism market and across industry sectors for expenditure and resources, investment flows, changing consumer preferences and perceptions, the ease of travel and a range of mega-trends that will have a long-term impact on the industry and the Australian economy.

As with any industry, the tourism industry will need to adapt to changing economic conditions and business cycles. While the Australian industry can do little to influence the external factors it will confront, there are measures it can take to manage risks and capture emerging opportunities. Productivity growth to drive increased competitiveness and investment in Australia's tourism offering will be a key factor in responding to the current and future challenges facing the Australian tourism industry.

# 1 INTRODUCTION

The State of the Industry 2010 report is an outcome of the implementation of the National Long-Term Tourism Strategy (the Strategy). This report is the first of an annual series of State of the Industry publications which will assess the current performance of the tourism industry and highlight longer-term issues affecting its performance.

There are several overall objectives for this report:

- to provide a reference document linking the latest research and statistics on tourism demand and supply to assist industry and Governments to make better informed investment, policy and marketing decisions;
- to show how the tourism industry is positioned within the Australian economy; and
- to highlight current and potential future trends to assist industry to align demand with future long-term tourism investment.

Section 2 of the report outlines the historical performance of the tourism industry, noting that the industry has underperformed over the past decade in comparison to tourism globally and the Australian economy. Section 3 shows the composition of tourism demand by Australians and international visitors including the latest forecasts of tourism activity. Section 4 examines the supply side of the industry, focusing on the tourism value chain and the contribution of the various industry sectors that comprise the tourism industry and provides a measure of the productivity of the tourism industry.

Section 5 looks at the long-term factors which could impact on the performance of the tourism industry and outlines the '2020 Tourism Industry Potential' measure of the potential growth in the industry. Section 6 summarises the priorities for the industry from the analysis contained in this report.



## 2 AUSTRALIAN TOURISM IS UNDERPERFORMING

Tourism contributed \$32.8 billion to the Australian economy in 2008–09. This is more than agriculture, forestry and fishing (\$29.6 billion) and electricity, gas water and waste services (\$29.2 billion). Tourism also provides around half a million jobs for Australians and disperses income and expenditure around the country with 46 cents in every dollar of tourism expenditure being spent in regional Australia.

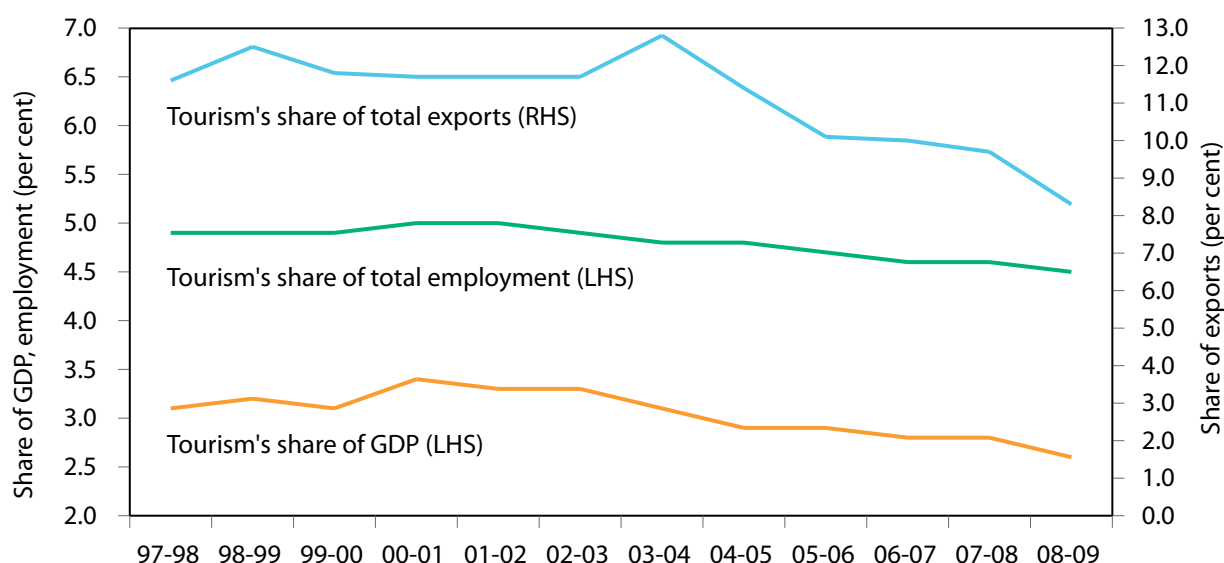
Australians made 66 million domestic overnight trips, 151 million same day trips and spent \$58 billion in 2009–10. At the same time, Australians made 6.8 million outbound trips overseas. The latest available trade data shows that while Australian outbound travel was worth \$33 billion in 2008–2009, \$5.5 billion of this was consumed in Australia before or after the trip. In 2008–09, domestic tourism contributed \$23 billion to the Australian economy, or nearly 2% of Australia's GDP.

In 2009–10 there were a total of 5.7 million international visitor arrivals to Australia, up from 5.5 million in 2008–09. In 2008–09 (latest data) these visitors contributed \$9.5 billion to Australia's GDP.

However, the tourism industry has underperformed against the broader Australian economy since the 2000 Olympics. Tourism's share of GDP has decreased from 3.4% in 2000–01 to 2.6% in 2008–09. Furthermore:

- over the period 2000–01 to 2008–09, tourism employment has grown by 7.9%, less than half the 19% increase in the total Australian work force; and
- tourism's share of total Australian exports has fallen, from a peak of nearly 13% in 2003–04 to 8.3% in 2008–09. However, this decline partially reflects the strong growth in mining exports over the same period (**Figure 1**).

**Figure 1: Tourism's declining role in the Australian economy, 1997–98 to 2008–09**



Source: ABS Cat. No. 5249.0, Australian National Accounts, Tourism Satellite Accounts, 2008–09

In addition, over the period 2000–08, real tourism spending (or tourism consumption) was flat (down 0.1%) at around \$94 billion.

While this period suggests a weak performance for tourism in Australia it is necessary to place this within the context of the overall performance of Australia's economy.

Over the period 2000–01 to 2008–09 the Australian economy has grown at an average annual rate of 7.5% in nominal terms<sup>1</sup> (**Table 1**). During this time the tourism industry grew by 3.9% a year. Looking across the structure of the Australian economy, the majority of the growth has occurred in the mining sector, which has grown by 12.5% a year, and the broad services sector which has grown by 7.6% a year. In comparison, manufacturing has grown by 4.1% a year and agriculture by 2.0% a year. Reflecting the relatively higher growth rates, the mining sector has increased its share of the Australian economy from 5.3% to 7.7% and the services sector has increased its share from 64.3% to 64.9%. In comparison, the share of agriculture in the economy has fallen from 3.9% to 2.6% and manufacturing from 12.2% to 9.4%.

<sup>1</sup> Nominal (or output in current prices) has been used as the Australian Tourism Satellite Account publishes data for the tourism industry in nominal terms.

**Table 1: Comparison of other Australian industries with tourism**

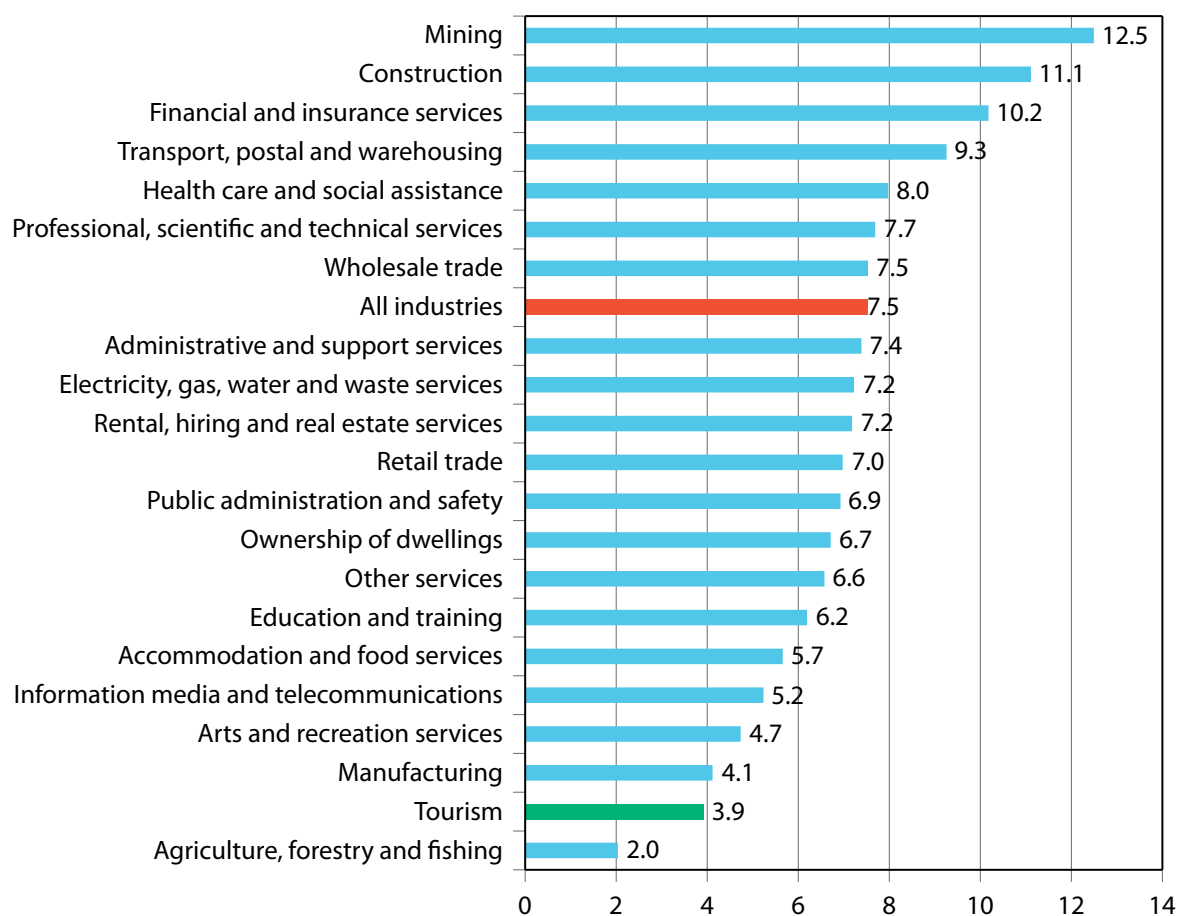
	2001–01 (\$ million)	2008–09 (\$ million)	Growth rate (%)
Agriculture, forestry and fishing	25 145	29 551	2.0
Mining	34 890	89 482	12.5
Manufacturing	79 059	109 173	4.1
Services	417 157	750 886	7.6
Tourism	22 072	30 012	3.9
Gross Value Added	647 899	1 156 900	7.5
Gross Domestic Product	708 889	1 253 121	7.4

Source: Australian Bureau of Statistics, *Tourism Satellite Account* (Cat no. 5249.0)

Note: Dollars are expressed in nominal terms

Drilling down further in the National Accounts data allows an examination of the performance of the tourism industry against all other industries (**Figure 2**). Comparing the rate of growth of Gross Value Added (GVA) across all industry sectors. While *Mining* and *Construction* lead the growth in GVA, there was broad based growth across much of the Australian economy. *Arts and Recreation*, *Manufacturing*, *Tourism*, and *Agriculture, Forestry & Fishing* have been the weakest performers.

**Figure 2: Gross value added, compound average annual growth, 2000–01 to 2008–09 (%)**



Source: ABS Cat No. 5204.0, *Australian National Accounts*

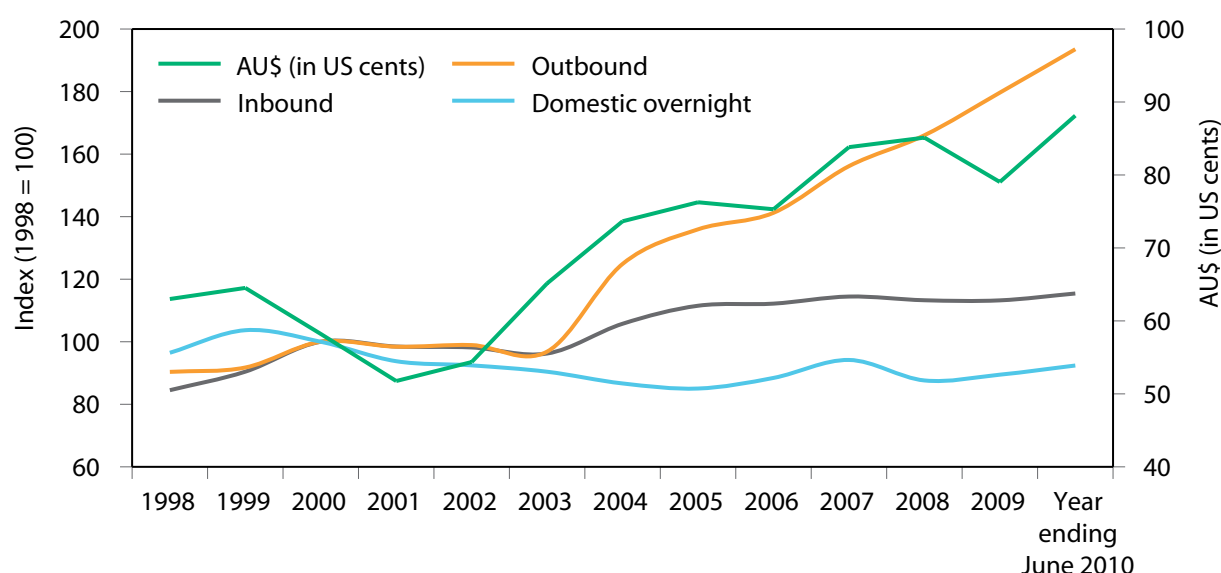
The overall performance of the tourism industry has been driven by the long-term poor performance of the domestic tourism segment, contrasting the strong growth in outbound travel by Australians, and the relatively slow growth of international arrivals during the past decade (**Figure 3** and **Table 2**).

**Table 2: Tourism's main indicators, 2000, 2008 and 2009**

		2000	2008	Average annual growth, %	2009	Change (2009 on 2008), %
International visitor arrivals	Million	4.9	5.6	1.6	5.6	0.0
Tourism exports	\$ Billion	23.0	24.1	0.6	23.7	-1.5
Domestic visitor nights	Million	293.4	271.8	-1.0	256.7	-5.6
Domestic visitor consumption	\$ Billion	73.1	74.2	0.2	70.8	-4.5
Total consumption	\$ Billion	96.1	98.3	0.3	94.6	-3.8

Source: ABS Cat. No 3401.0, Overseas Arrivals and Departures, Australia, and TRA surveys

**Figure 3: Tourism sectors: international, outbound and domestic trips, 1998 to year ending June 2010**

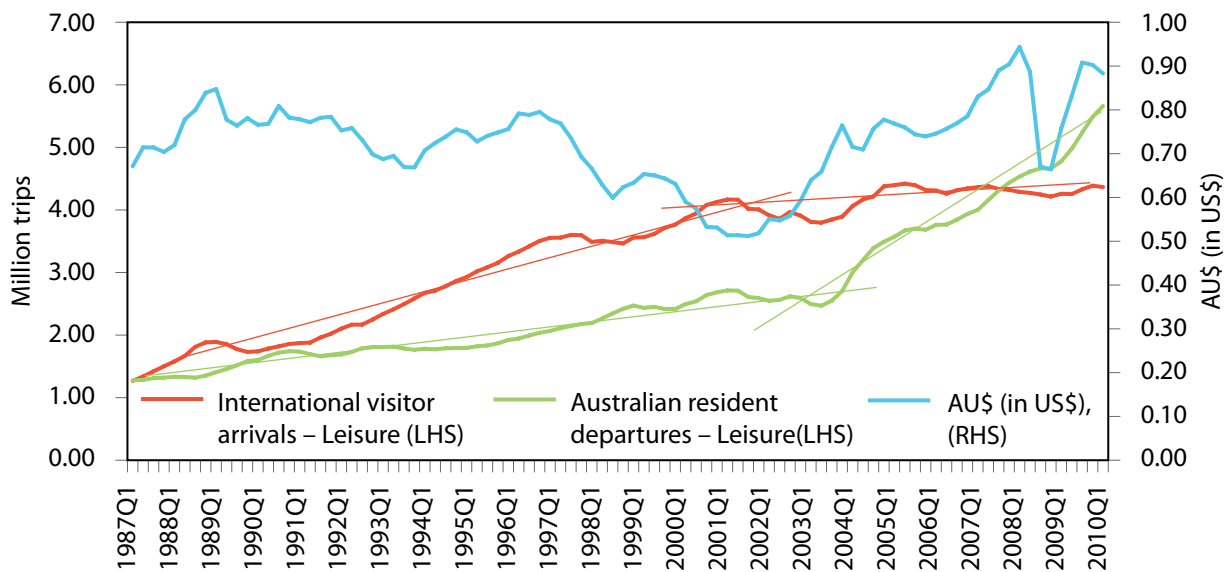


Source: ABS Cat. No 3401.0, Overseas Arrivals and Departures, Australia, and TRA surveys

Movement of the Australian dollar has been a leading influence driving inbound and Australian resident travel, particularly for leisure travel (holiday and visiting friends or relatives). As shown in **Figure 4**, a generally depreciating Australian dollar was associated with a stronger performance of Australia's inbound leisure segment from the late 1980s to around 2001, while growth was less pronounced for Australian overseas leisure travel.

However, the strengthening of the Australian dollar since 2001 has weakened the price competitiveness of Australia as an international destination, contributing to lower growth in international leisure travel to Australia. At the same time, the strengthening of the Australian dollar has made outbound leisure travel more price competitive, and along with strong growth in international aviation capacity, has contributed to strong growth in outbound travel particularly since 2003.

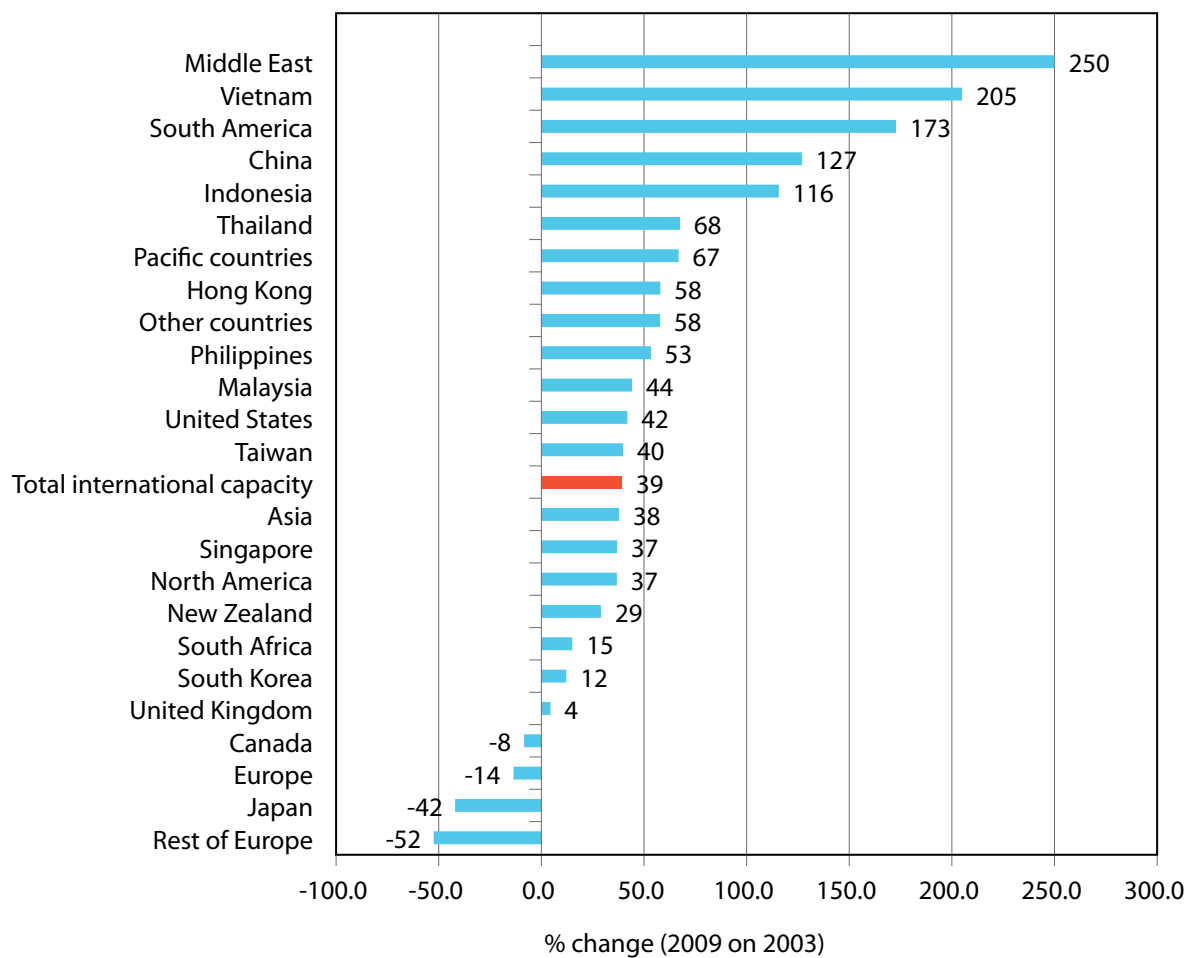
**Figure 4: The Australian dollar (in US\$), international visitor arrivals and Australian outbound leisure trips**



Source: ABS Cat. No 3401.0, Overseas Arrivals and Departures, Australia, and Reserve Bank of Australia

The 39% growth in a total international aviation capacity since 2003 has featured very strong growth in direct capacity to Australia from Asia and the Middle East (from a low base) (**Figure 5**). However, it is the strong growth in Asian carriers to Australia, particularly from China (127%), Indonesia (116%), Malaysia (44%) and the European hubs of Hong Kong (58%) and Singapore (37%) that is more supporting growth in inbound and outbound travel.

Figure 5: Direct international aviation capacity to Australia, total growth, from 2003 to 2009, %



Source: Bureau of Transport, Infrastructure and Regional Economics

## 3 TOURISM DEMAND

Tourism demand in Australia comprises:

- Australian resident travel;
  - in Australia (or domestic travel);
  - overseas (or outbound travel); and
- International inbound visitation.

Typically, international visitation to Australia comes first in discussion of the Australian tourism industry. This approach does not recognise that domestic tourism accounts for around three quarters of the Australian tourism industry's share of GDP.

Outbound travel by Australians, while being a net import of tourism, also generates domestic economic activity. The latest Tourism Satellite Account (TSA) shows consumption in Australia before or after an overseas trip was worth \$5.5 billion in 2008–09. Importantly, outbound travel is influenced by many of the same factors underpinning domestic travel, such as economic growth, and can be seen as a direct competitor in many instances to domestic travel.

International inbound visitation accounts for around one quarter of tourism's contribution to GDP and is a significant source of export earnings for Australia. It also projects Australia onto the international stage, showcasing who we are as a nation and what we have to offer. Australia's integration into the international economy has fostered significant growth in international interest, and travel to Australia.

In this report, given the importance of domestic travel by Australians in the tourism industry, and its interrelationship with outbound travel, these elements will be discussed first, followed by international visitation to Australia.

### 3.1 TRAVEL BY AUSTRALIANS

In the period 2000–09, Australians became increasingly focused on outbound travel. The number of Australians travelling overseas rose by 80% during this period. At the same time, domestic overnight trips by Australians decreased by around 10%.

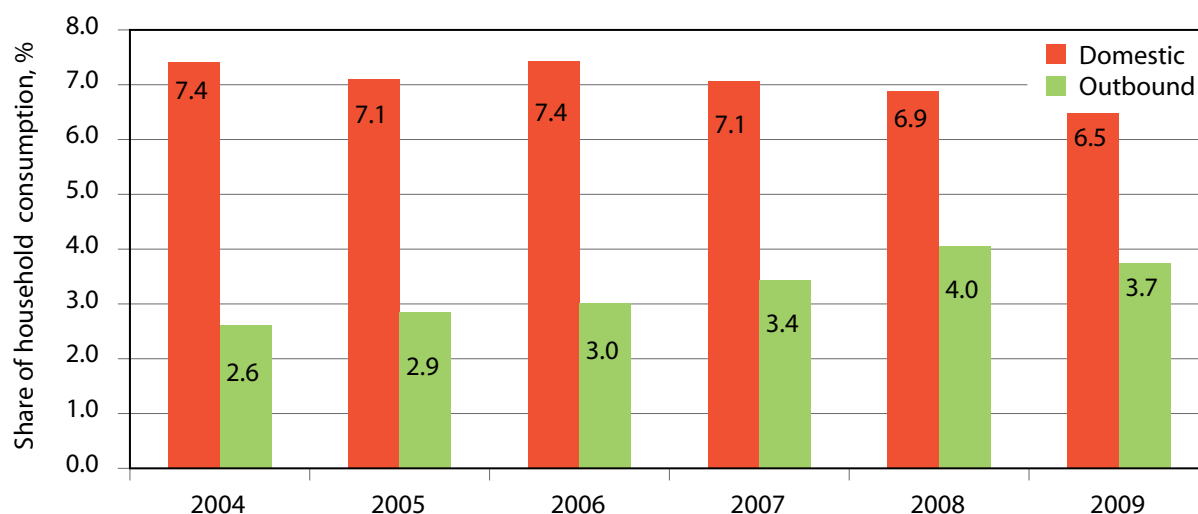
This is mirrored in expenditure by Australians on tourism. Total expenditure by Australian residents in Australia was worth \$59 billion in 2009, down 3% in real terms compared to spending in 2004. Meanwhile, total spending by Australians travelling abroad rose 50% to \$32 billion over the same period.

This difference can also be shown in terms of the share of the household budget being spent on tourism activities. Total leisure tourism expenditure by Australians, as a share of household consumption, has remained steady at around 10–11% over the period 2004–09 (**Figure 6**)<sup>2</sup>. However, the domestic leisure travel share of the household budget has fallen from 7.4% in 2004 to 6.5% in 2009, while leisure outbound travel's share has increased its share by around 1.0 percentage point over the same period.

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<sup>2</sup> Note the period 2004–2009 has been used as there is no consistent time series for tourism expenditure prior to 2004.

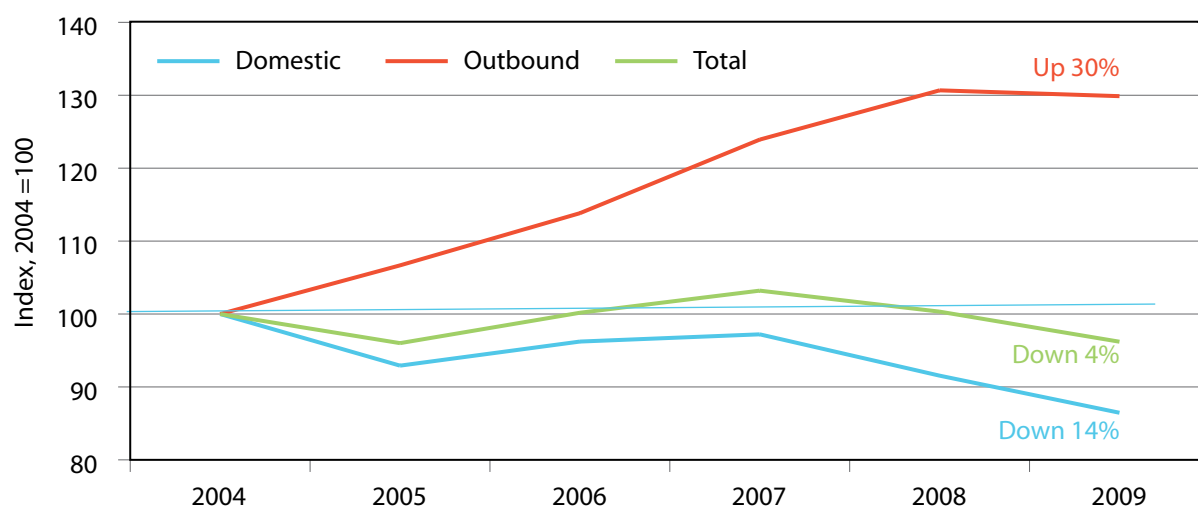
**Figure 6: Leisure tourism's share of the Australian household budget, 2004–09**



Source: ABS Cat. No. 5206.0, Australian National Accounts, quarterly, and TRA surveys

Total visitor nights by Australians fell by 4% (or 14 million nights) to around 368 million nights over the period 2004–09 (**Figure 7**). However, during this period, there has been a sharp 30% increase (or 26 million nights) in total outbound nights, while domestic visitor nights decreased by 14% (or 40 million nights) to 257 million nights.

**Figure 7: Total leisure nights by Australian residents, in Australia and overseas, 2004–09**



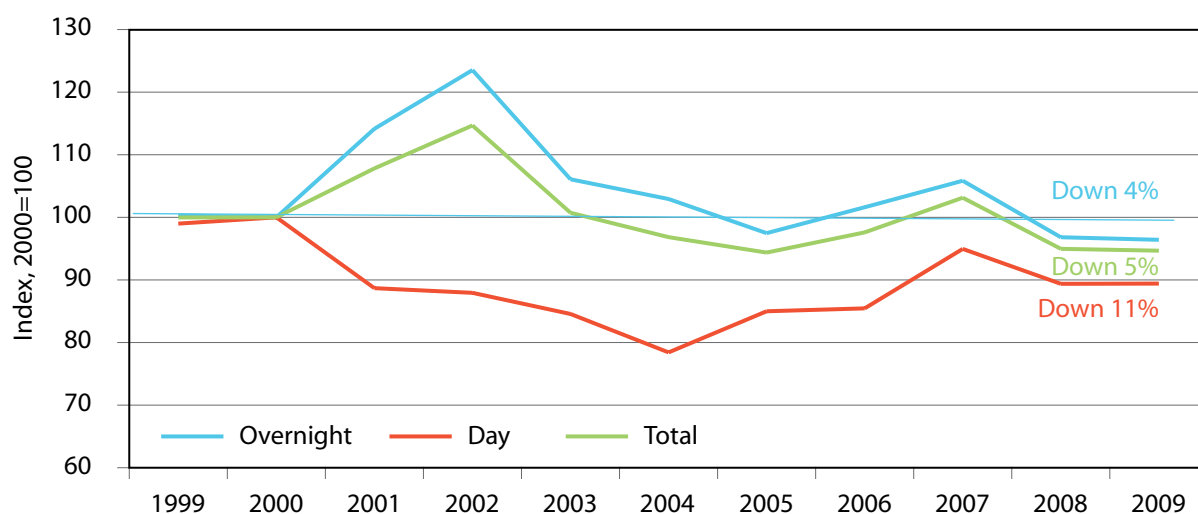
Source: TRA surveys

Overall, Australians are still travelling, however, they are devoting less of their travel time and budget to domestic travel and increasing their spending on international travel.

### Domestic travel

Domestic tourism has performed poorly over the past decade. In the period 2000–09, total domestic visitor nights fell by 12.5% and domestic visitor consumption fell by 5.3%, to \$63 billion below the level achieved in 2000. Over the same period, Australian outbound travel grew by 80% to 6.3 million in 2009. Domestic overnight visitor expenditure, the largest tourism segment by value, has fallen by 4% to \$63 billion in the 10 years to 2009. Similarly, expenditure on same day travel has fallen by around 11% to \$14 billion during this period (**Figure 8**).

**Figure 8: Change in real total domestic visitor expenditure, by purpose, 1999–09 (Index 2000=100)**



Source: TRA surveys

Although most indicators for domestic travel activity have fallen in the past decade, average yields for domestic travel are mixed. Average real expenditure on a domestic overnight trip (all purposes) was \$165 per night in 2009, which is 1% higher compared to 2000 estimates. However, as average spending per holiday night has increased by 14% in real terms between 2000 and 2009, yields per night for other travel purposes combined have fallen sharply by a similar amount.

As outlined in Tourism Research Australia's (TRA) *Through the Looking Glass* (2008) report, Australians do not regard domestic travel as 'compelling'. The report found that Australians are increasingly attracted to consumer durables which provide an immediate and tangible experience in comparison to the less immediate and less tangible experience of a domestic holiday.

Lower prices of these competing goods have also influenced changes in consumer preferences towards consumer durables relative to an Australian holiday experience. For example, as indicated in the Australian Bureau of Statistics (ABS) Consumer Price Index, the price of audio, visual and computing equipment has fallen by around 72% in ten years to 2009–10. Over this period the price of domestic and overseas holidays and accommodation have risen by around 32% and the price of automotive fuel — a major cost for domestic travellers — has risen 61%.

Comparing travel by age group shows that younger age groups are increasingly travelling overseas, while only older travellers have increased domestic travel. The *Through the Looking Glass* report also found that people in the middle age groups, especially those with children, are less likely to engage in domestic travel. A range of factors are contributing to this behaviour including:

- family responsibilities – annual leave is often used for child care during school holidays in dual income families;
- greater focus on paying down mortgages and other debt in times of economic uncertainty; and
- a lack of quality in the domestic tourism offering, reflecting a lack of investment in product and experiences, which has eroded the value equation for domestic tourism.

Furthermore, the strength of the Australian dollar, combined with increased package offerings, has made it more affordable for families to holiday in places such as Bali and Fiji. All of these factors mean that Australian children are not necessarily having the 'traditional' domestic family holiday, potentially undermining the longer-term growth of domestic tourism.

Whilst older age groups are currently increasing domestic travel they do not necessarily contribute significantly to total expenditure. The typical pattern for older 'grey nomads' is to travel for significant periods of time but spend relatively little money in destinations visited.



## Outbound travel

Australians are now travelling overseas in record numbers, as international airfares and package travel prices fall. In 2009, around 6.3 million outbound trips were made by Australian residents, around 700,000 more than the number of international visitor arrivals coming to Australia. The first half of 2010 has seen further growth in outbound travel with 6.8 million outbound trips in 2009–10, exceeding the number of inbound trips by 1 million.

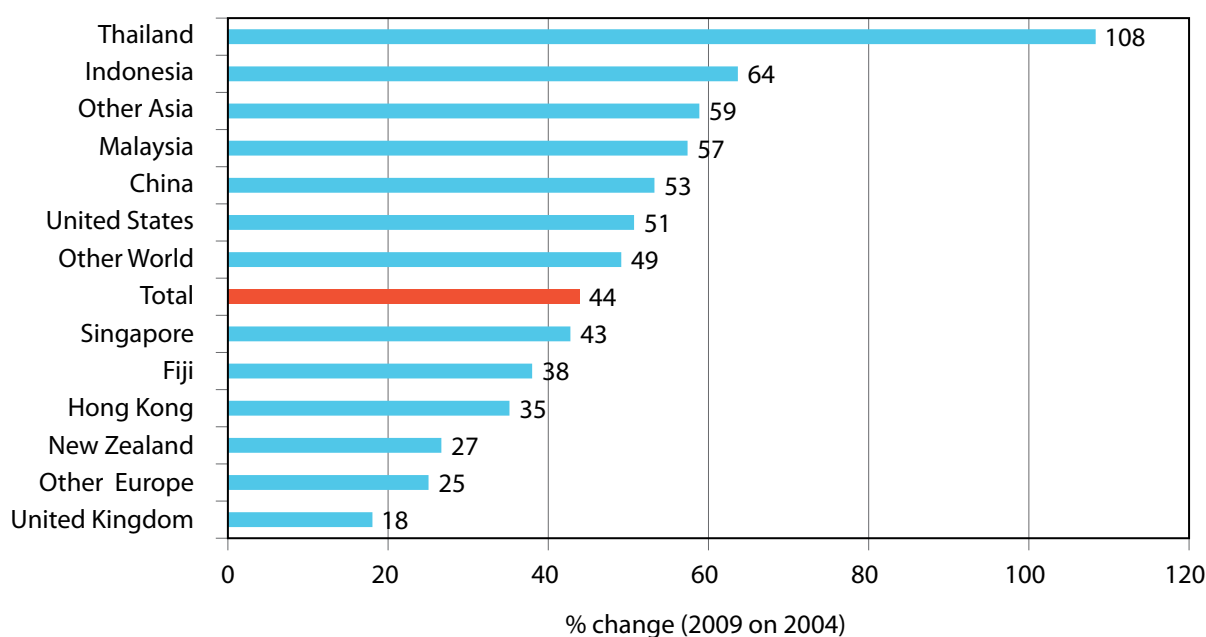
In the period from 2004 to 2009, Australian outbound trips rose 44% and nights abroad by nearly 30%. Total expenditure by Australians travelling overseas was \$31.6 billion in 2009, up 50% on five years before.

Much of the recent growth in international aviation capacity to Australia is targeting the more price sensitive component of the Australian market. With the greater penetration of international low cost carriers servicing Australia (including Air AsiaX and Jetstar), airfares are falling further, underpinning Australian travel abroad.

Around 60% of outbound trips are for a holiday. Outbound holiday nights have risen strongly, up 52% (or by 20 million nights) to nearly 59 million between 2004 and 2009. By comparison, its main tourism competitor — domestic holiday interstate visitor nights — has decreased 6% (or by 4 million nights) over the same period.

Data for Australian outbound travel only reflects the main destination visited on the trip (**Figure 9**). Over the period 2004 to 2009, Australian outbound leisure travel to closer-to-home Asian destinations rose strongly: Thailand (108%); Indonesia (64%); Malaysia (57%); Singapore (43%); Hong Kong (35%). The sharp increase in aviation capacity (driving airfares lower) has also resulted in solid 27% growth in Australia's main outbound destination, New Zealand. In addition, increased services on the US route, combined with the stronger Australian dollar against the US dollar have also seen strong growth in travel to the US (up 51%) over the same period.

**Figure 9: Growth in Australian travel to overseas destinations, 2004–09, %**



Source: ABS Cat. No. 3401.0, Overseas Arrivals and departures, Australia

### 3.2 INTERNATIONAL ARRIVALS

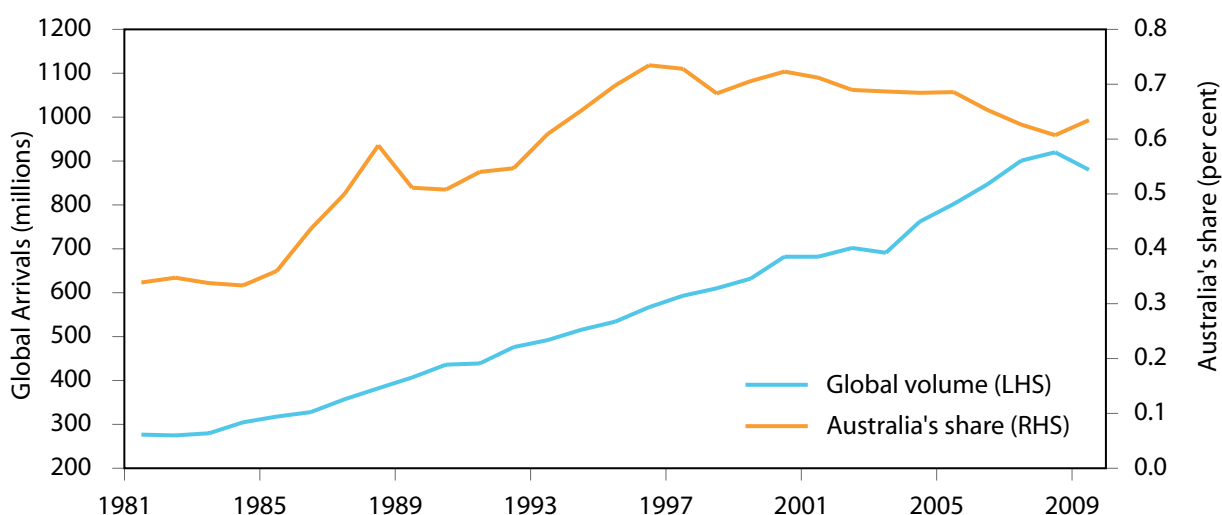
In 2009 total international arrivals to Australia reached 5.6 million contributing 0.8% to Australia's GDP and generating \$24 billion in exports in 2008–09. This was a strong result for the tourism industry given the impact of the GFC in late 2008 and through 2009. The UNWTO reported a 4.2% fall in global international arrivals in 2009. While international arrivals to Australia held steady, tourism exports increased by 2%.

After showing strong growth in the mid-1980s to the mid-1990s, Australia's share of total global international travel has gradually declined, from around 0.7% in 1996 to just over 0.6% in 2009 (**Figure 10**). Overall, international arrivals to Australia grew by 0.7% a year over the period 2000–2009. This is significantly slower than average annual growth rates of 9.4% and 9.1% respectively, recorded in the 1980s and 1990s.

Yields for international travel have fallen in real terms in the period between 2000 and 2009. Average spending per trip has fallen by around 9% to \$4,252 per trip. However, with the strong growth in the longer staying education market, average spending per night has fallen further by 30% to \$128 per night in 2009. Holiday travel expenditure per night has fallen by 32% to \$136 per night.

The most significant factors affecting international visitor arrivals are the sustained appreciation of the Australian dollar which has reduced the price competitiveness of Australia as a destination for international travel, and the cost competitiveness of airfares to Australia compared with other international destinations. These factors have, in particular, affected the international package travel market which is the most price sensitive segment of the Australian inbound market (see **Box 1**).

**Figure 10: Comparison of international visitor arrivals to Australia and global international tourist travel**



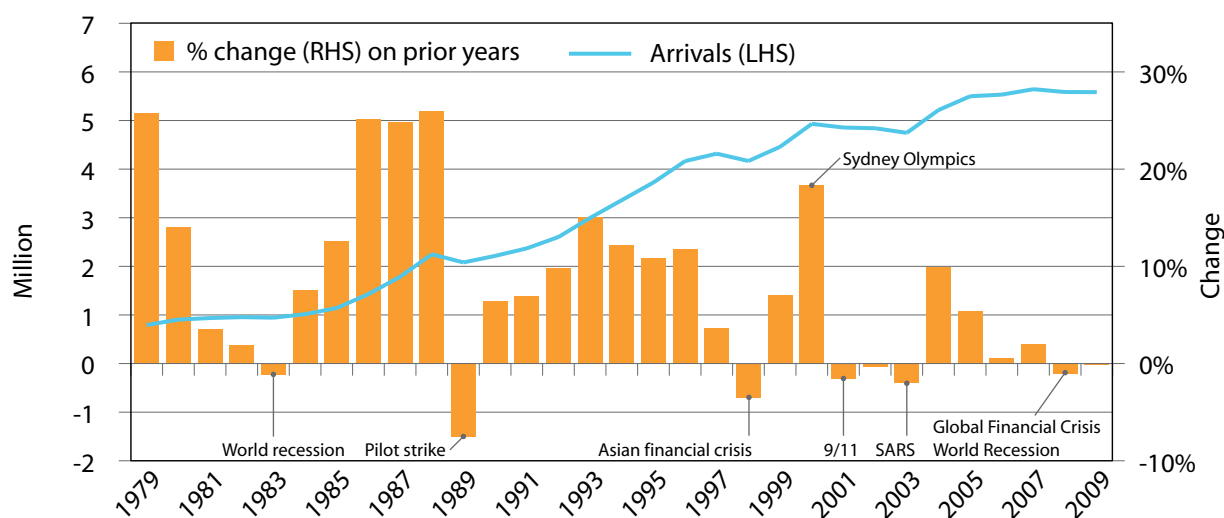
Source: World Tourism Organisation, and ABS Cat. No. 3401.0, Overseas Arrivals and Departures, Australia

Notwithstanding the slower growth in international arrivals in the 2000s, the Australian tourism industry has demonstrated resilience against significant international shocks. The largest negative shock on the Australian tourism industry in the past 25 years was the 1989 pilots' strike, where the sharp fall in aviation capacity during the strike was exacerbated by the early phase of recession. Overall, international visitor arrivals decreased by around 7.5% in 1989. In addition, the previous year (1988) featured strong economic drivers such as the bicentenary celebrations and World Expo in Brisbane. Overall, it took more than two years for tourism activity to return to 1988 levels.

While the 1990s featured several global economic shocks, these did not have a strong negative impact on Australian inbound tourism (**Figure 11**). The worst period was after the Asian Financial Crisis (starting in December 1997), which contributed to a 3.5% decline in international visitor arrivals in 1998. This was largely due to the sharp contraction in the fast-growing Asian 'Tigers' such as South Korea, where the economy contracted by 15% in 1998, and the associated sharp depreciation of Asian currencies.

This decade has also seen a number of shocks which have impacted on tourism. The September 11 2001 terrorist attacks, the start of the second Iraqi war, the SARS outbreak in the first half of 2003, and the GFC in late 2008 and 2009 all acted to reduce international travel flows. These negative shocks have far outweighed the positive shocks such as the Sydney Olympics which saw international visitor arrivals increase 18%.

**Figure 11: International visitor arrivals to Australia, 1979 to 2009**



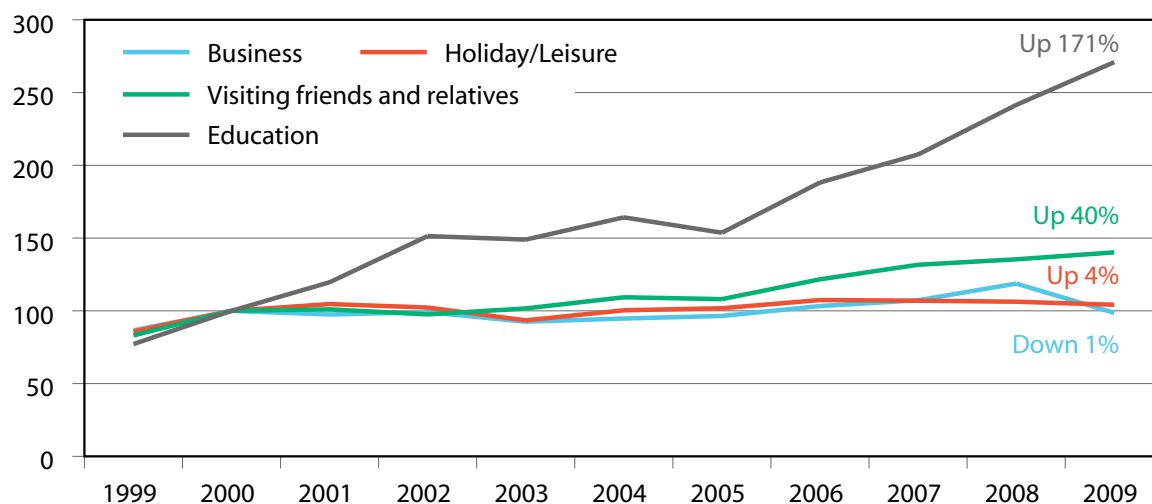
Source: ABS Cat No. 3401.0, Overseas Arrivals and Departures, Australia

## Education tourism

Education tourism forms an important part of international tourism flows and has, in part, compensated for the decline in holiday/leisure tourism. Education has been a strong point of the Australian tourism market, reflecting the globalisation of the education market and significant growth in the middle classes, particularly in developing Asian countries.

The education segment has largely held up Australian tourism export earnings, rising by over 170% (to \$6.1 billion) from 2000 to 2009 (**Figure 12**). During the period since 2000, 77% of the growth in tourism exports can be attributed to education. Tourism and education have further synergies through the visiting friends and relatives segment and business linkages which potentially translate into repeat visitation by former students.

**Figure 12: Real tourism export earnings, by purpose, 1999–09 (Index 2000=100)**



Source: TRA surveys

The tightening of eligibility for international visitor arrivals to Australia in 2009 is likely to see reduced numbers of student tourists in 2010 and more so in 2011. The potential decline in education visitors is likely to impact more on international visitor nights and spending as student tourists tend to stay longer on average than other visitors. On average, students stayed in Australia for 139 nights compared with 34 nights for all visitors in 2009, and spent \$16,500 compared with \$5,073 for all visitors in 2009–10.

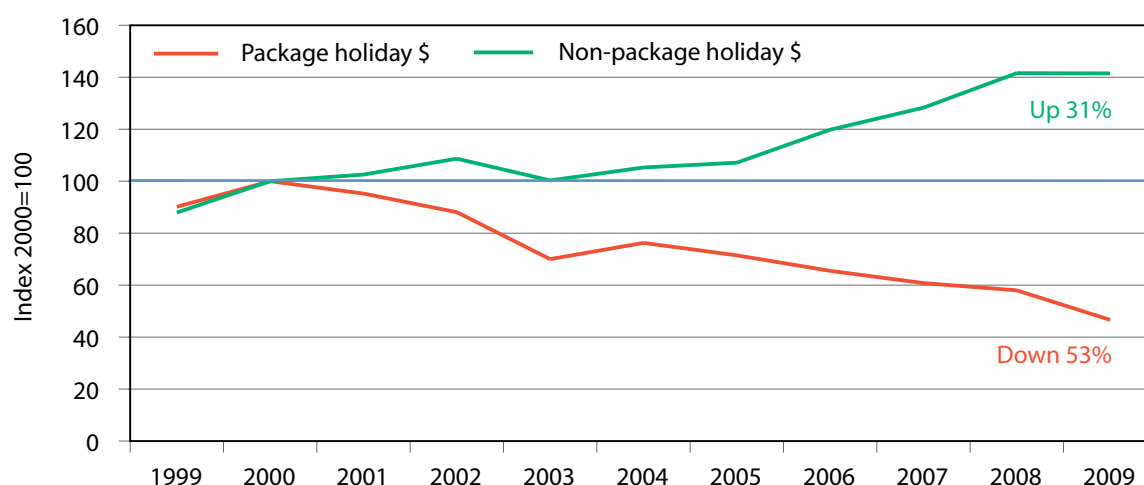
### Box 1: Tourism's unhappy snaps: package holiday travel in decline

The international holiday package travel market to Australia is one of the major contributors to the overall performance of Australian tourism.

In 2000, around 1.2 million international visitors (aged 15 years or more, or 40% of all international visitor arrivals) travelled to Australia on a holiday travel package. In 2009 around 687,000 holiday travel package tourists came to Australia, representing a fall of 44% on 2000 estimates. Equivalently, total trip spending by these tourists has fallen by over half (53%) to \$3.4 billion (**Figure 13**).

The Australian package market has struggled on price, particularly with the emergence of alternative international destinations (and large investments in tourism infrastructure). Stronger competition has placed downward pressure on the price of package travel and, combined with the strengthening of the Australian dollar and the rapid expansion of low cost international air services, has resulted in Australia losing price competitiveness as a preferred package holiday destination.

**Figure 13: International holiday travel expenditure, package and non-package**



Source: TRA surveys

The decline in package travel is one key factor behind the rapid decline in Australia's larger inbound markets such as Japan. In 2009, travel from Japan had declined by 53% from its peak of 814,000 visitors in 1999. The decline in Japanese holiday package travel represents around 90% of the decline in Japanese travel to Australia.

Overall, the Japanese market has demonstrated heightened price sensitivity over the past decade, due to:

- a strong increase in the Australian dollar, which appreciated 31% by 2009-10 (compared to 2000-01) against the Japanese yen;
- the prolonged poor performance of the Japanese economy and related increasing job insecurity, leading to an increased propensity for the Japanese to save rather than spend;
- increased sensitivity to external shocks (GFC, disease and terrorism); and
- an ageing population.

Combined, these factors have contributed to an overall decreased propensity by the Japanese to travel overseas<sup>3</sup>. In addition, Australia is capturing a smaller share of the Japanese market as other destinations offer a more attractive proposition.

<sup>3</sup> For more information, refer to TRA's 2009 report, Japan: Changing trends in travel to Australia, <http://www.ret.gov.au/tourism/tra/international/analysis/Pages/default.aspx>

### 3.3 TOURISM FORECASTS

The Tourism Forecasting Committee (TFC) is an independent body charged with providing present and potential tourism investors, industry and governments with consensus forecasts across the international, domestic and outbound tourism sectors. TRA publishes the *Forecast* publication on behalf of the TFC. This section reviews the latest long-term tourism forecasts released by the TFC.

The key forecasts for the period to 2020 are:

- domestic visitor nights to grow by 0.3% a year from 257 million to 267 million nights;
- Australian resident outbound departure to grow by 4.5% a year from 6.3 million to 10.2 million;
- international visitor arrivals to grow by 3.9% a year from 5.6 million to 8.5 million; and
- tourism consumption to grow by 1.4% a year from \$95 billion to \$110 billion (in real terms).

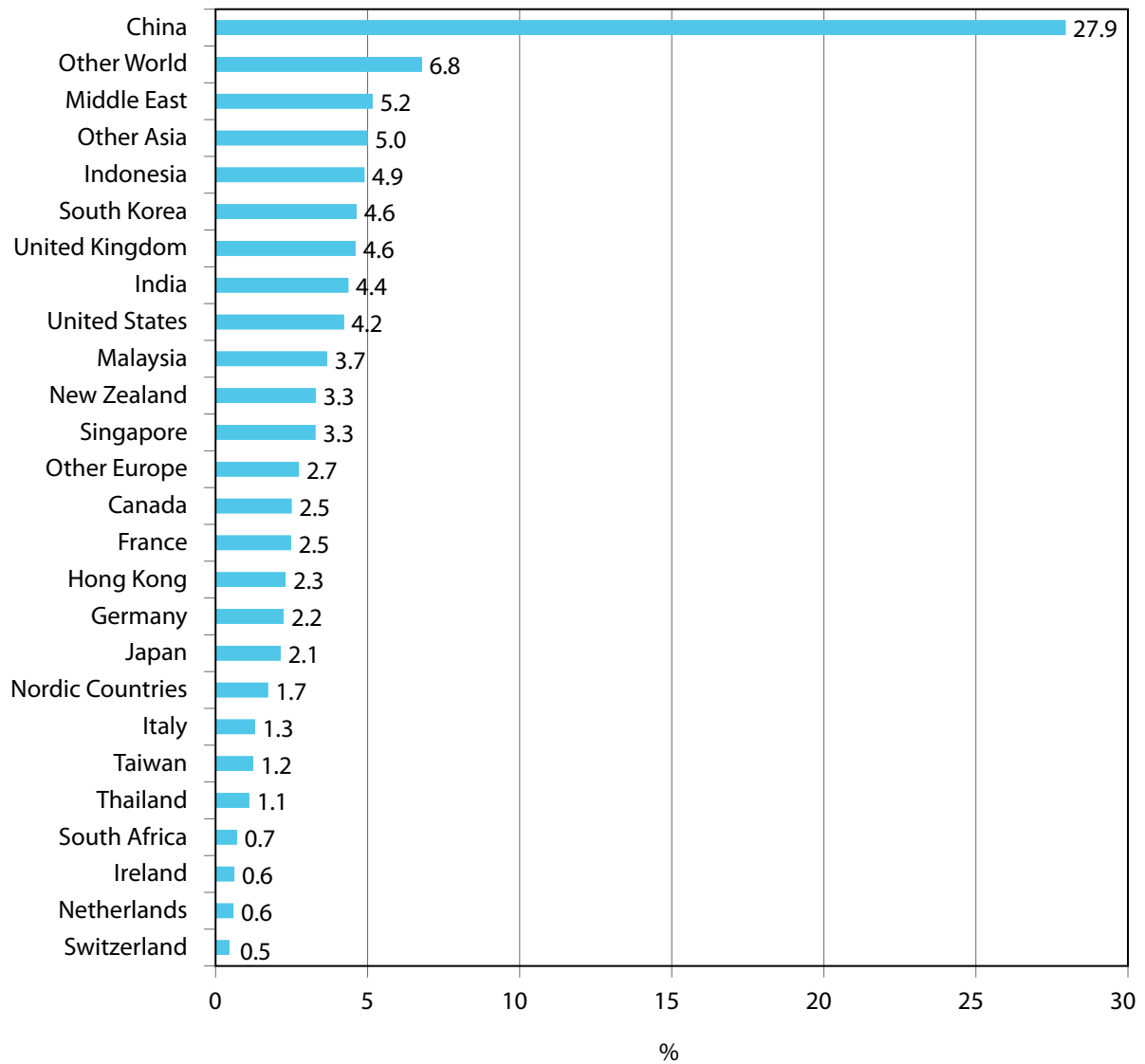
Underlying these forecasts are the expectations of stronger economic growth in 2011, particularly in Asia and Australia, but remaining patchy in Europe and the United States, a continuation of the strong Australian dollar and solid growth in international aviation capacity in 2011 and 2012 (particularly from China and South East Asia).

International visitor consumption is forecast to reach \$35 billion in 2020 (up \$11 billion on 2009 estimates), while domestic visitor consumption is forecast to reach \$76 billion (up \$5 billion on 2009). Based on these forecasts, domestic tourism's share of total tourism consumption will decline from 75% in 2009 to 68% in 2020.

Asia is expected to contribute the majority of the growth in inbound arrivals in the period to 2020. Visitor arrivals from Asia (excluding the Middle East) are forecast to account for nearly half (49%) of the total growth in visitor numbers and 61% in terms of expenditure. Notably the expected growth of China is forecast to contribute almost 28% of the total growth in tourism exports to 2020 (**Figure 14**).

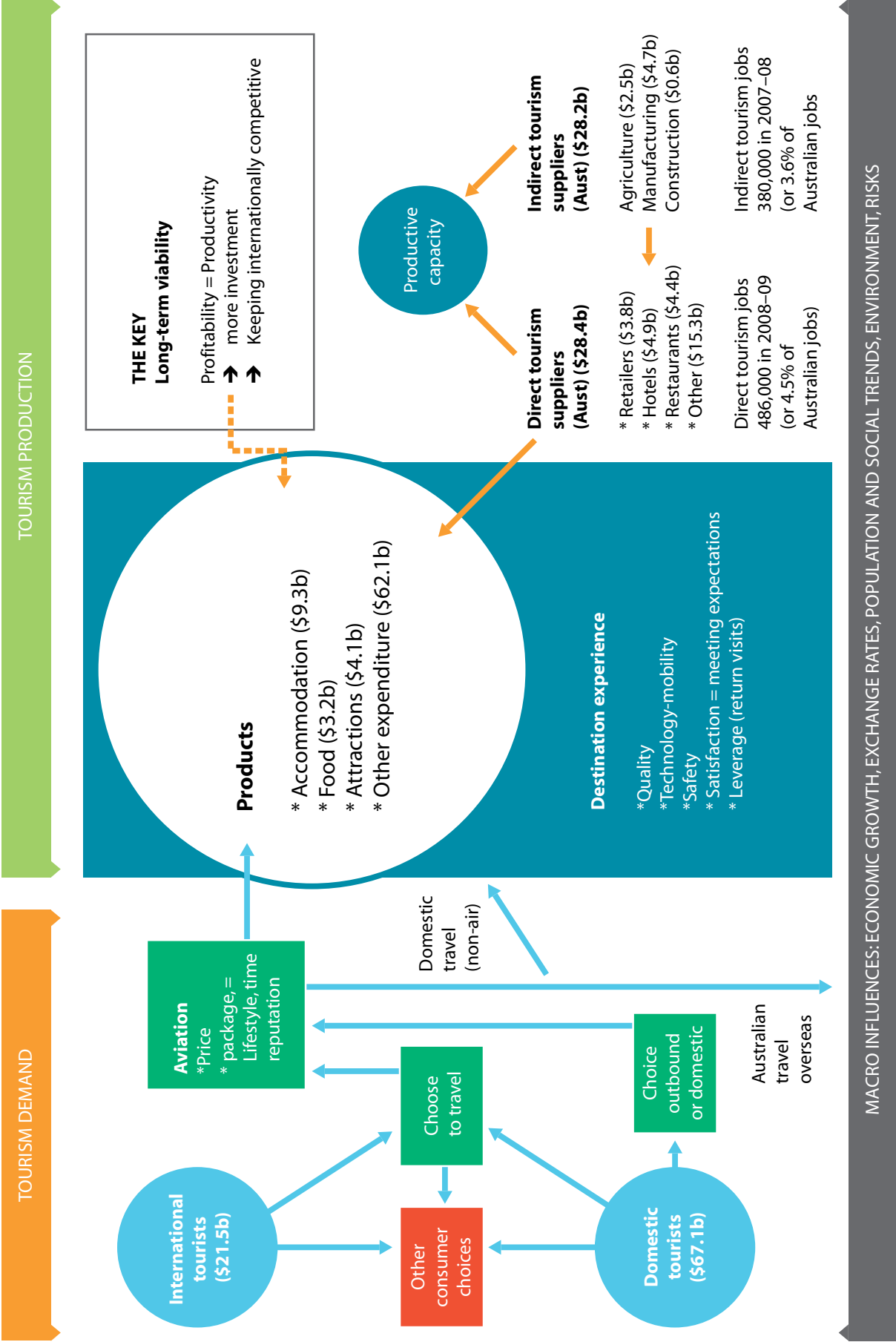
Overall, long-term real average annual growth for total tourism consumption in Australia is forecast at 1.4% in the period 2009 to 2020. If the Australian economy grows at its thirty year average of 3.2% a year, these forecasts suggest that tourism's share in the economy will continue to decline in the period to 2020.

Figure 14: Contribution to growth in tourism export dollars, from 2009 to 2020, %



Source: Tourism Forecasting Committee, 2010 Issue #2, Forecast, TRA, Canberra

Figure 15: The Tourism Value Chain (2008–09)



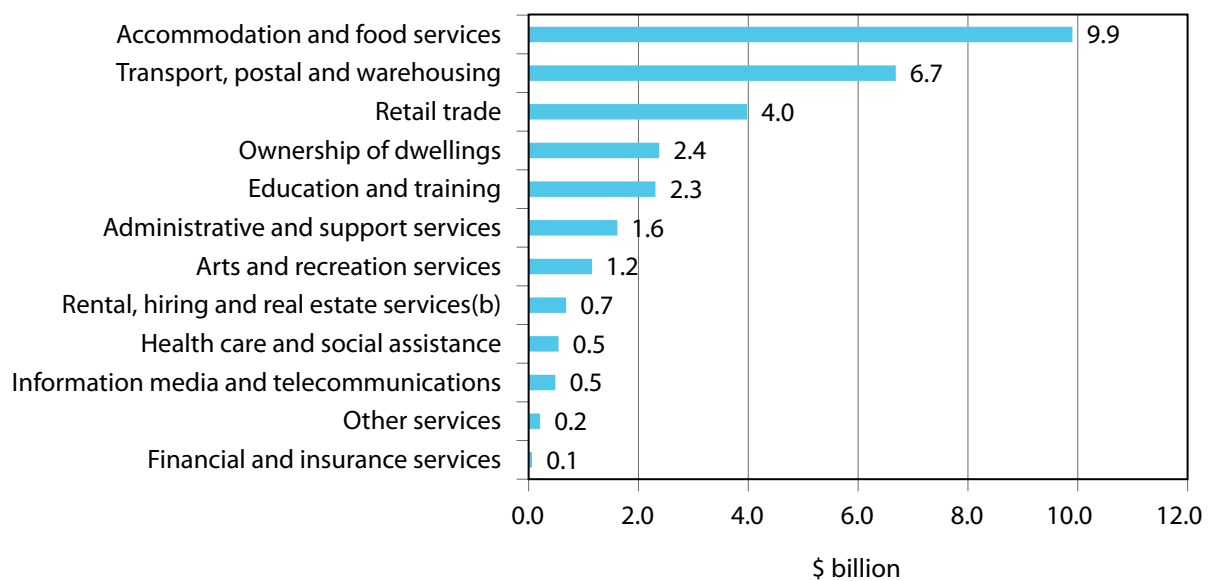
## 4 TOURISM SUPPLY

Tourism supply is difficult to define, as tourism output comprises the output of a range of industries but depends on the characteristics of the person consuming that output. For example, a restaurant meal consumed by a person engaged in tourism will be counted as tourism industry output, although the same meal consumed by a local resident will not.

**Figure 15** provides a diagrammatic representation of the tourism supply chain linking travel and visitation to production and employment.

The TSA shows each industry's contribution to tourism GVA. GVA is broadly defined as the industry's income, minus the costs of purchasing inputs. In 2008–09, tourism GVA was worth just over \$30 billion. Around 35% of tourism GVA is sourced from the *Accommodation and Food Services* (\$9.9 billion) sector, while substantial shares are sourced from *Transport, Postal and Warehousing* (\$6.7 billion) and *Retail Trade* (\$4.0 billion) (**Figure 16**).

**Figure 16: Tourism Gross Value added, by top-line industry, 2008–09 = \$30 billion**



Source: ABS Cat. No. 5249.0, *Tourism Satellite Account, 2008–09*, Table 6

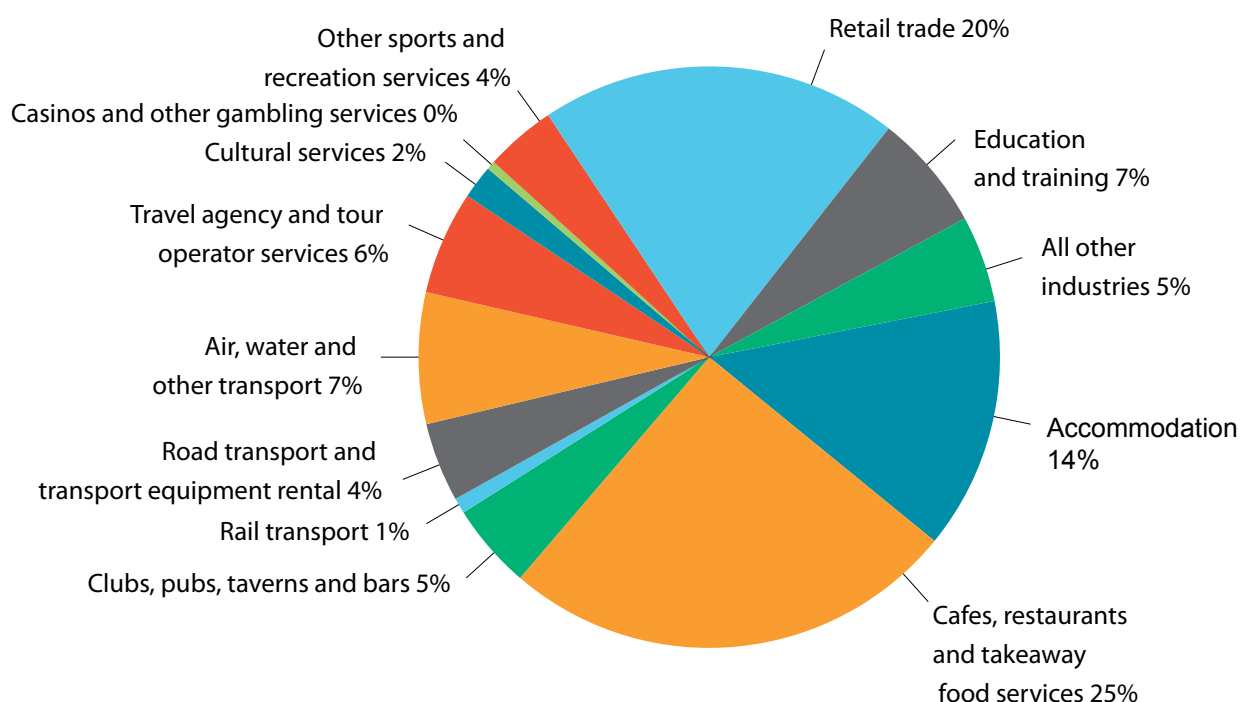
The TSA also shows the level of dependence industries have on tourism. The industries that are most dependent on tourism are: travel agencies and tour operator services (98% of GVA), accommodation (76%); air, water and other transport (59%); motor vehicle hiring (42%); and cafes, restaurants and takeaway food (27%).



## Tourism employment

Tourism's share of total employment in Australia is around 4.5%. This share is much higher than its share of GDP (2.6%) which suggests that tourism is a labour-intensive industry. Since 2000–01 tourism employment has increased by 35,700 jobs (to 486,000 jobs), representing an average annual growth of 1.0%, significantly less than for the labour market overall (2.2% a year). Around 25% (or 123,000 jobs) of total tourism jobs are in the cafes, restaurants, takeaway food services industries, while another 68,000 jobs are in the accommodation industry (**Figure 17**).

**Figure 17: Industry share of tourism jobs, 2008–09**



Source: ABS Cat. No. 5249.0, *Tourism Satellite Account, 2008–09*, Table 17

## Tourism businesses in Australia

Overall, Australian tourism businesses are mainly small. In its latest *Tourism Businesses in Australia* report, TRA estimated that in June 2007, around 29% (or 586,000) of the two million actively trading businesses in Australia were tourism-related. Of these, around 20% of these businesses depend on tourism for their survival (tourism characteristic).

Overall, around half of all tourism businesses (characteristic and connected) were non-employing, with a further 43% of these businesses employing fewer than 19 persons. Medium sized businesses (that is those firms employing 20–199 persons) accounted for 6.5% of tourism businesses, while only 0.5% of firms employ 200 persons or more.

### 4.1 ASSESSING THE TOURISM SUPPLY SIDE

The TSA shows that the non-tourism component of the Australian economy has grown by 7.5% a year, compared with 3.9% a year for tourism (**Figure 18**).

The TSA also shows that for industries most related to tourism, the non tourism component of their output increased at a faster rate than the tourism component over the period 2000–01 to 2008–09. Only *Education and Training* recorded faster growth for the tourism component over this period.

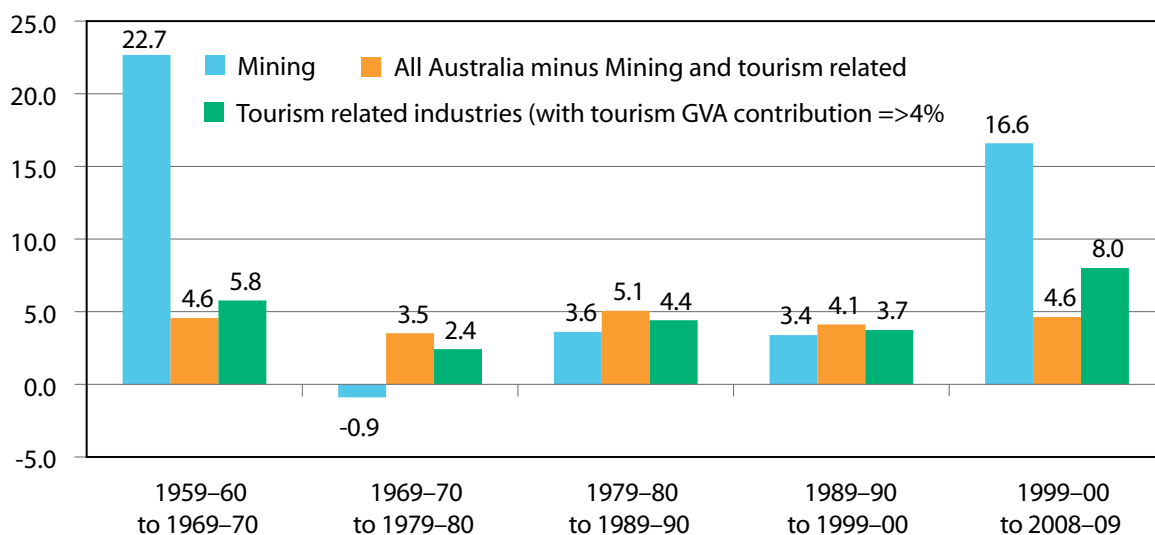
**Figure 18: Average annual growth rates of tourism and non-tourism components of selected industries, 2000–01 to 2008–09**



Source: ABS Cat. No. 5249, Australian National Accounts, Tourism Satellite Accounts, and ABS Cat No. 5204.0, Australian National Accounts

Data on tourism-specific investment is not available, as it is not possible to distinguish between tourism-specific and non-tourism specific investment within an industry offering tourism products and services. However, data is available for investment in industries that are part of the tourism value chain. Evidence here suggests that the combined investment in tourism related industries<sup>4</sup> has generally been slightly less compared to that in all other industries (except *Mining*) for most decades since the 1960s (**Figure 19**). Interestingly, so far this decade, total investment made by tourism-related industries has been strong, at about half the growth rate of *Mining*. On available evidence, the tourism component is unlikely to be the primary driver of this investment growth

**Figure 19: Tourism related investment, average annual growth comparison with mining and all other Australian industries**

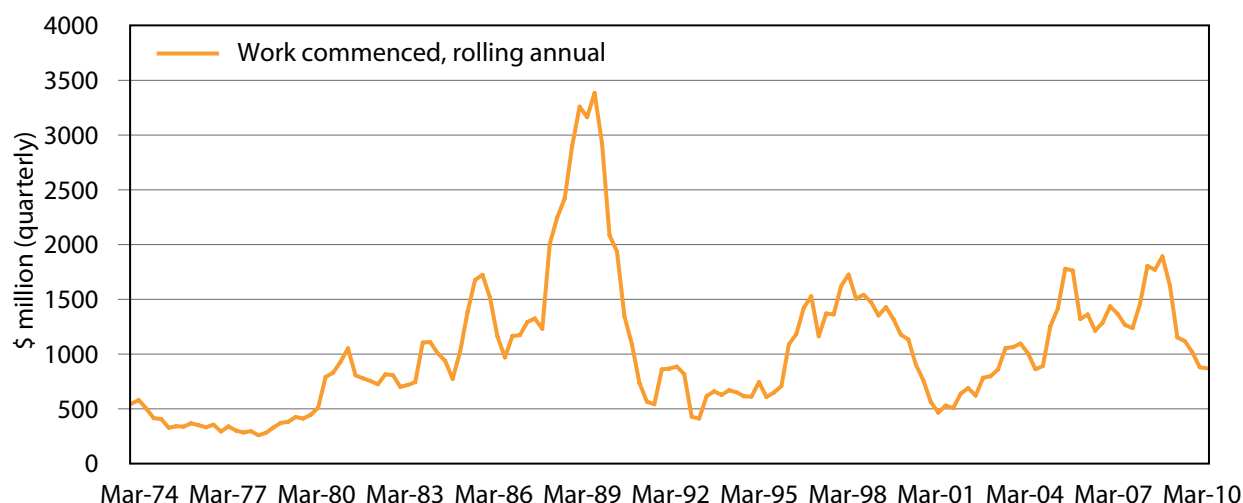


<sup>4</sup> Accommodation and Food Services (38% share), Transport Postal and Warehousing (12%), Arts and Recreation (12%), Retail Trade (7%), and Education and Training (4%)

Another partial indicator for tourism investment is accommodation investment. **Figure 20** provides a guide to non-dwelling investment. It shows the investment in accommodation (with expenditure adjusted for inflation), was particularly strong in the late 1980s, in the period around the Australian bicentenary celebrations and Australia hosting the World Expo. More recently, accommodation investment has remained cyclical.

The increase in investment in the late 1990s, partially reflects the substantial boost to the accommodation sector related to the Sydney Olympics. It would appear that investment in the sector is now declining (from 2007) after a moderate upswing earlier this decade, indicating that investment in this critical part of tourism's value chain is slowing.

**Figure 20: Accommodation investment, value of work commenced, March 1974 to March 2010**



Source: ABS Cat. No. 8752.0. Building Approvals, Australia, ABS, Canberra

## 4.2 TOURISM PRODUCTIVITY

Productivity growth offers the best long-term indicator of sustained profitability of an industry or an economy. Its importance is based around the increasing efficiency in the production of goods and services from a given level of inputs (technical efficiency) and in allocating inputs to their most productive use (allocative efficiency).

Many influences which affect the technical and allocative efficiency of tourism lie outside government or the tourism industry's immediate control such as international aviation developments or currency movements. A key role for governments is to assist industries by setting the institutional framework, through microeconomic reforms, to facilitate industry's rapid and rational response to these changes.

It is important to note that governments provide a substantial level of assistance to the tourism industry. In its 2005 report, *Assistance to Tourism: Exploratory Estimates*, the Productivity Commission (Commission) notes that the industry received government assistance totalling around \$1.0 billion on average for each year from 2000–01 to 2002–03 (or around 1.1% to 1.4% of the industry's GVA). The Commission also indicates that, for this level of Australian Government assistance, 'tourism receives relatively less assistance...compared to manufacturing and primary production, but relatively more assistance than many other service industries where estimates are available, such as construction, wholesale and retail trade and personal services'.

The main interventions taken by governments for the tourism industry are direct support provided for marketing. This occurs through:

- Tourism Australia – responsible for marketing Australia as a destination for international and domestic leisure and business travel; and
- State and Territory Tourism Offices – responsible for marketing each of the jurisdictions.

Indirect interventions occur through the funding of infrastructure and support for tourism activity and in attracting major events such as the Olympics, APEC and Commonwealth Heads of Government meetings. Government can also intervene through policy measures, such as the National Long-Term Tourism Strategy, which form the basis of a micro-economic reform agenda for the tourism industry.

Tourism in Australia has faced substantial competition over the past 12 to 15 years, leading moderate growth in revenues, and correspondingly moderate growth in tourism-specific investment. The industry is also characterised by low wages associated with a high share of part-time employment, compared to other industries. As unemployment has gradually decreased over this decade, low returns make it difficult for the tourism industry to attract and retain well-trained staff. Also, international capital markets remain uncertain following the GFC, making funding for current and future investment more difficult and more costly to obtain. The recent shocks facing Australian and international tourism serve to raise the risk profile associated with investing in the industry.

Furthermore, overseas competition in attracting the international leisure tourist dollar is only going to intensify, as developing economies with low labour costs (particularly in Asia and the Pacific) use tourism as a key component for further economic growth. Increasing productivity within the tourism industry could enhance the rate of return on tourism investment and lift the profitability and competitiveness of the industry.

Little research has been undertaken on tourism productivity<sup>5</sup>, mainly due to the lack of tourism specific supply side data (particularly on investment and capital stock), which would underpin such estimates. TRA has derived estimates of the productivity of tourism related industries.

This analysis provides estimates for the productivity components: capital, labour and multi-factor productivity. Independent productivity estimates have been established for each tourism-related industry: *Accommodation and Food Services*, *Retail Trade*, *Transport Services* and *Arts and Recreation Services* industries for the period from 1997–98 to 2008–09. These industries together constitute around three quarters of the total tourism GVA.

When measuring productivity, it is important to note that it is generally cyclical. For example, if rising productivity leads to increased investment, the response to increasing capital and/or labour inputs on future productivity is more likely to be lagged. For this reason it is important to view productivity in terms of a complete business cycle, and not for single years. This research covers the period from 1997–98 to 2008–09, which, according to the ABS, captures two business cycles: 1997–98 to 2003–04 and 2003–04 to 2008–09.

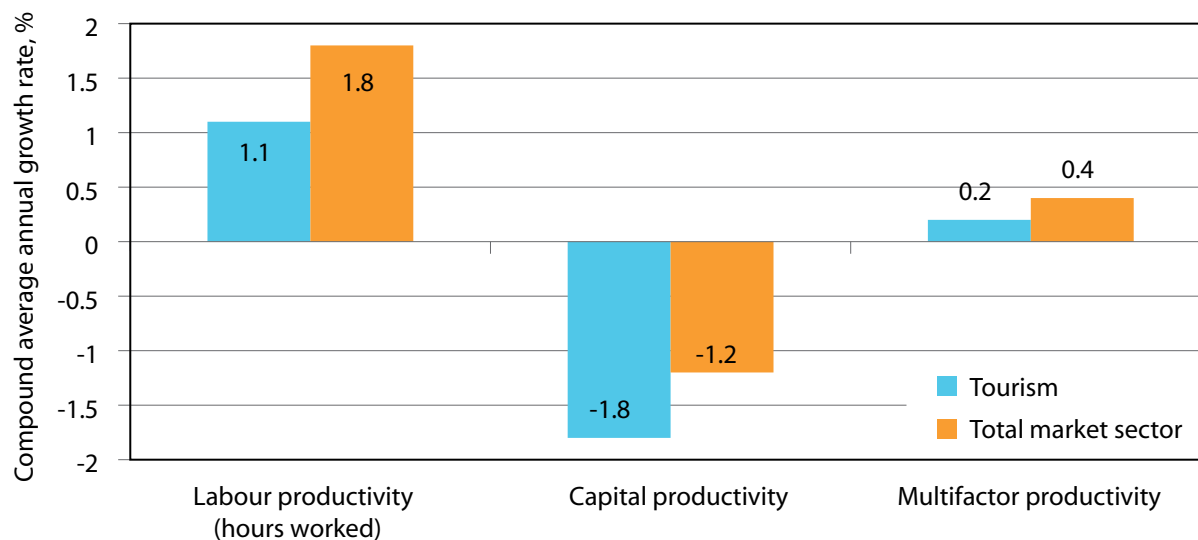
TRA research suggests that productivity in key tourism related industries is slightly lower than the all (in-scope) industry average for nearly all critical measures. Overall, in the period from 1997–98 to 2008–09, covering two business cycles (see **Figure 21**):

- tourism multifactor productivity (MFP), the most widely accepted measure for productivity, rose by 0.2% a year, compared with 0.4% a year for the Australian total market sector;
- tourism labour productivity, the most widely used sub-measure for productivity, rose by 1.1% a year compared with 1.8% a year for the market sector; and
- capital productivity, which is the most difficult sub-measure to estimate productivity, due to difficulty in obtaining tourism-specific investment, decreased 1.8% a year compared with a decline of 1.2% a year for the Australian total market sector.

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<sup>5</sup> Note, considerable care is needed when viewing and assessing industry or economy-wide productivity estimates. First, it should be viewed in terms of average annual growth within cycles, reflecting the cyclic patterns of investment and other resources. Where possible, productivity estimates should not be viewed in terms of intra-year or intra cycle periods, cycles determined by the length of peaks in multi-factor productivity estimates, with growth rates expressed in average annual growth rates between peaks. The Productivity Commission website, (<http://pc.gov.au/research/productivity/estimates-trends/issues>) highlights several other areas of caution, including productivity, is better measured in some industries than in others, such as larger goods industry, relative to a small services-based industry.

Figure 21: Comparing Australian tourism industry productivity with the Australian total market sector, two cycles, 1997–98 to 2008–09



Source: TRA estimates for tourism productivity, Total market sector growth rates were derived using data from ABS Cat. no. 5260.0.55.002 "Experimental Estimates of Industry Multifactor Productivity", Australia.

## 5 POSITIONING FOR THE FUTURE

As identified in the previous sections, the performance of the tourism industry over the past decade has been subdued in comparison to the previous two decades due to a range of factors. However, the potential opportunities for the tourism industry globally, and for the Australian tourism industry remain positive.

The International Monetary Fund's (IMF) World Economic Outlook (October 2010) forecasts world economic output to grow by 4.8% in 2010 and 4.2% in 2011. However, developing and emerging economies are forecast to grow by 7.1% and 6.4% and developing Asia even more quickly at 9.4% and 8.4% in 2010 and 2011 respectively. The Australian economy continues to perform well with the Treasury expecting the economy to grow by 3.0% in 2010–2011 and 3.75% in 2011–2012.

While there remain risks to the global economic recovery, stronger economic growth will also lift global tourism. The UNWTO forecasts that global travel arrivals will increase by around 4% a year in the period to 2020, mirroring its growth in the past 15 years with long-haul travel expected to grow more quickly than short-haul.

The growth in global travel will be supported by strong increases in international aviation capacity. For Australia, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) forecasts aircraft movement through Australian capital city airports to increase by 2.2% a year and passenger movements by 4.2% a year in the period 2008–09 to 2029–30.

All of these indicators point to positive growth opportunities for the Australian tourism industry. However, the composition of world economic growth may also present some challenges for the Australian tourism industry.

The IMF forecast that emerging economies are likely to continue to lead economic growth in the years ahead. Furthermore, the IMF note that as their growth is more commodity-intensive than that of advanced economies, the rapid increase in demand for commodities over the past decade is set to continue. This is likely to support a continuation of the minerals boom with the Australian economy likely to benefit. However, this will likely see a continuation of the strength of the Australian dollar and the high demand for capital and labour from the *Mining* sector. As such, the tourism industry will continue to face challenges in attracting investment capital and labour. This will place pressure on the industry to increase productivity to maximise the yield from the assets that it employs and generate sufficient returns to allow increased investment and labour force development.

In addition to the underlying economic factors that will affect the tourism industry, there are also likely to be a number of long-term trends, or mega-trends, that will not only impact on the tourism industry but the economy more broadly.

Some of these mega-trends could include:

- increased world wealth (especially Asia);
- increased integration of the world economy;
- increased role of the entrepreneur/greater innovation;
- demographic changes – ageing populations;
- increased urbanisation;
- increased female participation in the workplace;
- climate change and changes in consumer behaviour; and
- increased technology intensity and sophistication (including information and technology transfers).

This list of mega-trends, whilst extensive, is not necessarily exhaustive of all the factors affecting tourism. This document does not rank the importance of the mega-trends listed, rather they have been included to highlight some of the influences affecting the industry and stimulate further consideration of these and other important trends. It must be noted that some of the mega-trends identified are already having an impact on global tourism through changing consumer behaviour and choice. It is also likely that a range of additional influences will emerge over time that will impact on the tourism industry.

The difficulty for stakeholders in the Australian tourism industry is how to respond to these trends. It is likely that these trends will impact differentially across the tourism industry (and the wider economy). Furthermore, some of these trends also represent potential future drivers for income and productivity growth which, if ignored, could adversely impact on the competitiveness of the industry.

While the industry cannot influence the external factors it faces, it can address the limitations and capacity constraints it faces internally. Investment in new and renewed tourism product catering for the changes in consumer preferences and the ageing of many populations can create new opportunities and further leverage Australia's competitive strengths. The strength of the Australian economy will support incomes and spending by Australians, meaning that people will have the capacity to engage in travel. To capitalise on these opportunities there will be a need to invest in tourism product and supporting infrastructure and enhance the productivity of the industry.

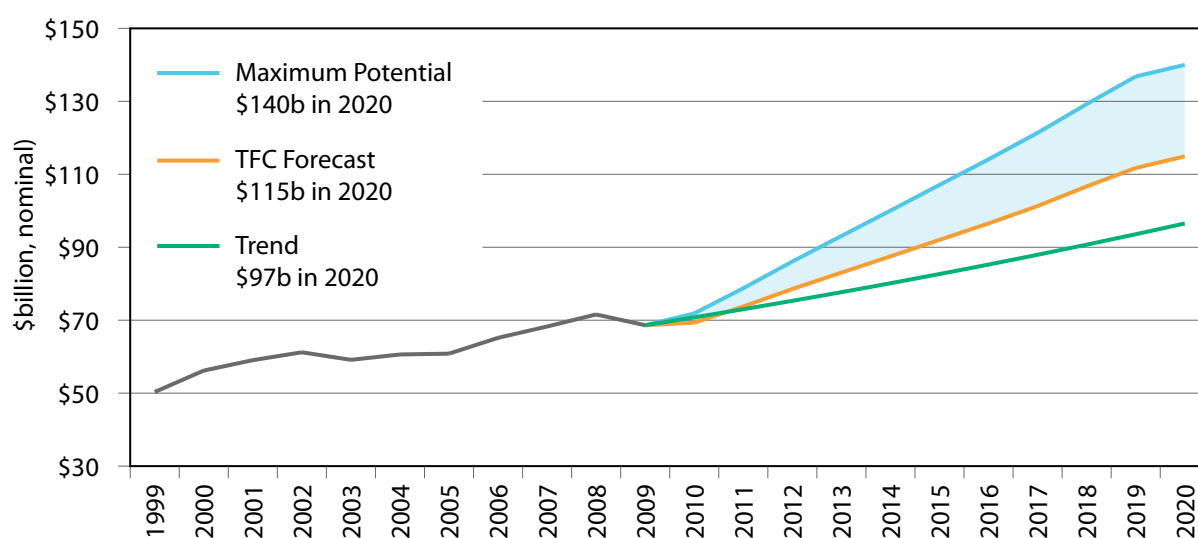
However, it is difficult to quantify the opportunities for the tourism industry and how these opportunities will impact on its performance in the future. The '2020 Tourism Industry Potential' has been developed by Tourism Australia and the Department of Resources, Energy and Tourism as a way of quantifying what the tourism industry could achieve based on market opportunities and improved competitiveness.

Following consultation with industry, the '2020 Tourism Industry Potential' has been framed with reference to overnight tourist expenditure in nominal terms. The '2020 Tourism Industry Potential' indicates that overnight visitor expenditure could reach between \$115 billion (which is equivalent to the TFC forecasts) to \$140 billion (nominal) by 2020 (**Figure 22**). This represents an average annual nominal growth rate of between 4.8% and 6.7%. This compares to the recent historic trend growth of 3.1% which would result in overnight tourism expenditure of around \$97 billion in 2020.

Compared to the TFC forecasts, the '2020 Tourism Industry Potential' implies significant additional economy-wide benefits in 2020, of up to:

- 0.6% in additional Australian GDP;
- 0.2% additional full time equivalent workers; and
- 2.6% in additional net exports.

**Figure 22: Aligning the '2020 Tourism Industry Potential' with the TFC forecasts**



Source: TRA, and Tourism Australia (internal document)

However, achieving the maximum suggested by the '2020 Tourism Industry Potential' will require increases in the productivity of the industry, particularly labour productivity, greater investment in tourism capital stock, and demand attraction that builds on current visitation patterns and improves the yield associated with domestic and international visitation.

## 6 CONCLUSION

The Australian tourism industry is a significant part of the Australian economy. It is not just a leisure-based activity, rather an industry which generates substantial income and employment, and disperses this activity and associated benefits widely throughout Australia.

However, tourism is an industry that has faced significant challenges. During this past decade, domestic travel by Australians has declined, contrasting the rapid growth of outbound travel. Growth in international arrivals to Australia slowed considerably since 2000 compared to the previous two decades.

This report has identified some clear drivers of these outcomes. The strength of the Australian dollar and the rapid expansion of international aviation capacity have underpinned much of the industry's performance over the past decade. However, for Australia's largest market, domestic travel by Australians, it is also clear that the Australian tourism experience is no longer as compelling as it once was. Nor is domestic tourism competing as effectively as it could against other forms of consumption expenditure.

The competitive environment facing the tourism industry will continue to be intense. The industry is likely to face significant new challenges. However, with these challenges there will also be new opportunities for growth.

To capitalise on these opportunities and manage the potential challenges and risks will require the industry to invest in new and renewed product and focus on generating greater returns on the resources it employs. This means tourism businesses will have to be more innovative in raising revenue; lowering unit costs; and increasing productivity and investment. It is also vital that the industry build on the current demand attraction strategies.

The *State of the Industry 2011* report will capture progress on these challenges, including advances made in the micro-economic reform agenda and areas where the Australian tourism industry is capturing new opportunities.



# APPENDICES

## APPENDIX A: EXTRA DETAILS ON KEY TOURISM DATA SOURCES

### ABS Cat No. 5249.0, Tourism Satellite Account (TSA)

The Tourism Satellite Account (TSA) reinforces the fact that tourism is a diverse industry and very difficult to measure. Issues concerning the accurate measurement of tourism spending and economic contribution are now being partly overcome by the UNWTO having standardised a framework for collecting data. The Australian TSA is published by the ABS giving the industry economic credibility.

Overall, it provides a great benchmark for the industry, but has the following issues:

- (a) the TSA is normally released with a significant time lag after the reference period. For example, the next Australian TSA (or ATSA) for 2009–10 is planned for release in December 2010, or near to 6 months after the reference period;
- (b) it is published only in financial year terms, similar to the annual national accounts;
- (c) it is only published in current prices (i.e. all historic dollars are not adjusted for price movements over time), unlike other National Account publications; and
- (d) it does not provide an estimate for investment.

Apart from providing estimates for persons employed in tourism, the TSA also aligns products purchased by tourists to the industries that produce them (the direct link), but does not provide other aggregate supply side performance indicators such as investment or productivity.

Other countries such as New Zealand also estimate tourism's linkage to other industries which are part of the tourism product supply chain, but do not retail directly with the tourist (the indirect link). TRA also provide estimates of the indirect relationships in its annual research publication, *Tourism's Contribution to the Australian Economy, 1997–98 to 2007–08*.

### ABS Cat. No. 3401.0, Overseas Arrivals and Departures, Australia

The Overseas Arrivals and Departures (OAD) data provides information on all recorded movements across Australia's borders, both inbound and outbound, by category of movement (permanent, long-term and short-term). The OAD statistics are released monthly.

### Tourism Research Australia (TRA) Surveys

TRA produces survey statistics for domestic and international visitation.

- a) The International Visitor Survey (IVS) represents the most comprehensive source of information on international visitors to Australia.

The IVS samples 40,000 departing, short-term international travellers over the age of 15 years who have been visiting Australia.

The survey is conducted by Computer Assisted Personal Interviewing (CAPI) in the departure lounges of the Australia's eight major international airports; Sydney, Melbourne, Brisbane, Cairns, Perth, Adelaide, Darwin and the Gold Coast.

The results of this survey are published four times a year for the September, December, March and June quarters.

- b) The National Visitor Survey (NVS) is Australia's primary measure of domestic tourism activity, being the major source of information on the characteristics and travel patterns of domestic tourists.

Respondents are interviewed in their homes using random digit dialling and a Computer Assisted Telephone Interviewing system. The survey contains over 70 questions regarding: destination; purpose; transportation; travel package; sources used to obtain information about the trip; activities; expenditure; accommodation; travel party and demographics. Interviews are conducted with approximately 120,000 Australian residents aged 15 years and over on an annual basis.

The results of this survey are published four times a year for the September, December, March and June quarters.

## APPENDIX B: THE DIFFERENT MEASURES OF TOURISM DOLLARS

There are many measures to show visitor expenditure. Tourism Research Australia provide two baseline measures:

**Spending in Australia:** all items purchased in Australia

**Total Trip Expenditure:** equals spending in Australia plus total package expenditure plus total expenditure on international airfares

Neither measure is adequate to measure the value accrued to Australian tourism businesses as a portion of international airfares on travel to/from Australia and on international packages 'owned' by Australian companies, or which have an Australian component in the costs of providing this service. Total Inbound Economic Value (TIEV) was developed by TRA to provide a better measure for Australian tourism returns.

To align this measure with the National Accounts reporting requirements, an additional adjustment is made to the TIEV measure reflecting the unpaid international visitor nights (reflecting an opportunity cost). The rolling annual quarterly measures for TIEV are also aligned with the reported nominal values for international visitor consumption estimates in the TSA (which also equates to tourism exports).

Data on domestic visitor expenditure is a simpler affair. TRA publishes statistics on (same) day and overnight visitor expenditure. For both segments, there are two measures: including motor vehicles and excluding motor vehicles. TRA notes that the 'excluding motor vehicles' is the less volatile series, and is the preferred measure.

As with international travel, TRA also publishes a series on domestic visitor consumption — Total Domestic Economic Value (TDEV) — which is again benchmarked to the Tourism Satellite Account estimates). This series also includes expenditure by Australian residents travelling overseas, mainly for expenditure before/after the outbound trip.

The TFC also publishes a combined series for (real) Total Visitor Consumption in its *Forecast* publication. This series is the sum of real TIEV and real TDEV.

## APPENDIX C: MEGA-TRENDS CHANGING TOURISM

Influences	Impact on tourism globally (and on Australian tourism)	The risks
<b>The world will become wealthier</b>		
<p>Asia is likely to continue its recent strong economic growth lead by China and India.</p> <p>Growing middle class in rapidly developing economies. This will increase disposable incomes.</p>	<p>Higher levels of wealth and disposable income will flow into increased discretionary consumption. Tourism is likely to be positively influenced by this trend as it is a discretionary consumption item.</p> <p>Australia's close proximity to Asia provides strong opportunity to tap into the potential growth of travel and tourism from Asia. Australia is well positioned to meet increased demand for education.</p> <p>Higher levels of wealth and income will also impact positively on the demand for education services in Asia.</p> <p>Growth in Asia is also likely to support demand for commodity exports which will in turn provide opportunities for greater business travel to Australia.</p>	<p>Increased reliance on these economies heightens risk to Australia of a slowdown in these economies, for example, the weakness of the Japanese economy and the East Asian Economic Crisis.</p> <p>Australia does not meet the market, in providing tourism products and services in demand by new and emerging markets, particularly those from the Asian Tiger economies.</p> <p>The choice of destination will be determined by 'economic factors, the availability of time and perceived desirability' (Dwyer, 2008).</p> <p>Increases in income levels offer greater opportunities to travel but will also stimulate greater competition for travel and tourism. New destinations and products will become available that will compete with the Australian tourism offer.</p>
<b>Increased integration of the world economy</b>		
<p>Economic integration of the global economy will increase further, featuring expanding international trade flows.</p>	<p>Underpin further increases in wealth.</p> <p>Greater international trade flows will promote greater international access, including international aviation. This will, in turn, promote travel and tourism.</p>	<p>Tourism (or international aviation) like other services, may not have high priority in international trade negotiations. However, further opening of international aviation will potentially offer greater choice for tourists to access emerging tourism markets, the 'new kids on the block', thereby increasing global competition in tourism.</p>
<b>Increased role of the entrepreneur/increased innovation</b>		
<p>Smaller business entities mean increased flexibility, faster resource allocation and volatile capital mobility</p> <ul style="list-style-type: none"> <li>Linked to international trade and adoption of new production and consumer innovations.</li> </ul>	<p>Potentially limited direct impact on the tourism industry, relative to other industries. May offer opportunities for the development of niche tourism product offerings and to target high value consumers.</p>	<p>Tourism will potentially need to move away from generic products to niche products with shorter market cycles.</p> <p>Need for tourism operators to become more innovative (adapt to the pace of changing consumer demand). Smaller business units have capacity to change and adapt to changing business conditions, but can be costly and riskier for the smaller firm.</p>

Influences	Impact on tourism globally (and on Australian tourism)	The risks
<b>Ageing populations</b>		
<p>World's share of older people is increasing, as improved health and higher incomes enhance life expectancy.</p> <p>This trend is more evident in some regions such as in Japan and parts of Europe (eg Italy) which are forecast to have a declining population within the next decade. The number of older persons (aged 60 years or more) in China is also expected to double in the next twenty years.</p> <p>Australia is expected to see an increase in the number of people in older age groups. By 2051, it is expected that 27% of the Australian population will be aged over 65 years (CSIRO, 2010).</p>	<p>Potentially means changing demands for tourism experiences and implications for the 'types of products and services that tourism businesses will need to develop' (Dwyer, 2008).</p> <p>Potentially more travellers (increased time, but depends on retirement savings).</p>	<p>Older travellers will demand different tourism experiences and be likely to seek greater comfort and indulgence in travel and destination choice. Tourism products will need to adapt to this demand or risk losing out on a potential growth market. Older populations will need additional (special) infrastructure needs which may increase costs to tourism operators.</p> <p>There may be divergence in expenditure patterns across older age groups with some groups seeking higher end (and priced) experiences, while others travel for greater lengths of time with lower per night spend. This could cause difficulties for the tourism market to meet the broad spectrum of consumer preferences.</p> <p>Governments will need to manage growing demand from older age groups with a lower proportion of working age population to support them. This may place pressure on government finances and impact on business costs and disposable incomes of working population.</p>
<b>Increased urbanisation</b>		
<p>Half of the global population currently live in urban areas and by 2050 this is expected to increase to over two thirds (69%, or 6.3 billion people) (UN, 2010).</p>	<p>Increased urbanisation will support growth in disposable incomes and lead to overall increased consumption expenditure and different consumer patterns (good for tourism).</p>	<p>For many, travel may be viewed as a regular commute, so travel experience may become more focused on seeking different experiences. This means domestic travel may be viewed as less exotic (more like commuting), so overseas travel viewed more as a different experience.</p>
<b>Increased female participation in the workplace</b>		
<p>International Labour Organization (ILO) indicates between 1980 and 2008, female participation rates in the labour market increased from 50% to almost 52% (ILO, 2010). Overall, 40 percent of people working in the world are women (ILO, 2010).</p>	<p>Traditional gender roles are blurring, giving women more life choices and an increased say in key purchasing decisions (Dwyer, 2008).</p> <p>Women are household decision makers – opportunities for tourism marketers.</p>	<p>Move to increasingly time-poor families (parents juggling work/life balance) – area for product innovation (factor driving rapid growth in short-haul outbound travel).</p> <p>Increased focus on female specific leisure options (other industry examples include female-only gyms).</p>

Influences	Impact on tourism globally (and on Australian tourism)	The risks
<b>Climate change</b>		
<p>The International Panel on Climate Change (IPCC) confirms climate change is occurring, leading to increased pressure on food, fresh water resources, energy resources, fish stocks, oil, mineral ores and agricultural land.</p> <p>Potential to further exacerbate food security (and political) threats, particularly as world food demand will be 75% greater in 2050 than now (CSIRO, 2010).</p>	<p>Potentially a significant factor in changing travel patterns as consumers aim to reduce their environmental footprint.</p> <p>Opportunities for tourism to be more innovative in moving to a lower carbon economy.</p> <p>Likely increased use of taxes on travel (such as UK Air Passenger Duty) and other policies to reduce carbon emissions. This will increase the price of travel reducing its competitiveness (with incidence borne more by longer haul destinations).</p> <p>Increased cost of food, fuel and other necessities may lead to less disposable income on discretionary spending.</p>	<p>Climate change poses three broad risks to tourism:</p> <ul style="list-style-type: none"> <li>• Policy responses increasing the relative price of travel and tourism;</li> <li>• Degradation of physical tourism assets reducing the appeal of tourism to some destinations, particularly those reliant on natural attractions; and</li> <li>• Consumer behavioural change in response to perceptions of the impact of travel on climate change, physical assets threats and/or policy changes that affect the relative price of travel.</li> </ul>
<b>Increased technology intensity and sophistication (including information and technology transfers)</b>		
<p>Rapid growth in information technology (including Internet) usage. Strong take-up by all levels of society: households and business. Move to 'cloud computing', where virtualised resources are provided online to assist in supplying integrated services to customers (CSIRO, 2010).</p>	<p>Innovation key for industry to absorb, assess and if required respond to change.</p> <p>Need for industries to know what technologies provide the edge in boosting tourism productivity, but research and other information transfers are also critical.</p> <p>Smarter tourists combined with increasing education levels will promote increased take-up and turnover of technologies.</p> <p>Tourism firms will need to be aware of, and target, customer preferences in relation to communication tools.</p>	<p>Need for tourism operators to align with changing consumer wants.</p> <p>Individual companies can't do this alone – the need for an integrated system to align information and future trends and a continued role for research.</p>

**APPENDIX D: SUMMARY-TOURISM FORECASTING COMMITTEE FORECASTS,  
RELEASED NOVEMBER 2010**

TFC Forecast summary												
	Inbound visitor arrivals	Change on previous year	Domestic visitor nights	Change on previous year	Outbound depart.	Change on previous year	TIEV <sup>a</sup> (real)	Change on previous year	TDEV <sup>b</sup> (real)	Change on previous year	Consumption <sup>c</sup> (real)	Change on previous year
	'000	%	million	%	'000	%	\$billion	%	\$billion	%	\$billion	%
1999	4 459	n.a.	294.3	n.a.	3 210	n.a.	20.1	n.a.	70.8	n.a.	90.9	n.a.
2000	4 931	10.6	293.4	-0.3	3 498	9.0	23.0	14.7	73.1	3.2	96.1	5.7
2001	4 856	-1.5	289.6	-1.3	3 443	-1.6	23.4	1.7	71.1	-2.8	94.5	-1.7
2002	4 841	-0.3	298.7	3.1	3 461	0.5	23.2	-0.8	71.9	1.1	95.1	0.6
2003	4 746	-2.0	294.1	-1.5	3 388	-2.1	21.4	-7.7	70.1	-2.4	91.6	-3.7
2004	5 215	9.9	296.9	0.9	4 369	28.9	22.4	4.8	69.7	-0.6	92.2	0.6
2005	5 499	5.4	275.9	-7.1	4 756	8.9	21.8	-2.9	69.8	0.1	91.6	-0.6
2006	5 532	0.6	285.7	3.6	4 941	3.9	23.2	6.6	71.7	2.8	95.0	3.7
2007	5 644	2.0	288.6	1.0	5 462	10.6	23.7	1.9	75.3	4.9	98.9	4.2
2008	5 586	-1.0	271.8	-5.8	5 808	6.3	24.1	1.9	74.2	-1.4	98.3	-0.6
2009	5 584	0.0	256.7	-5.6	6 285	8.2	23.7	-1.5	70.8	-4.5	94.6	-3.8
2010	5 879	5.3	259.3	1.0	7 225	15.0	24.2	1.9	71.0	0.2	95.2	0.6
2011	6 208	5.6	260.7	0.6	7 784	7.7	25.5	5.4	71.7	1.1	97.3	2.2
2012	6 486	4.5	261.8	0.4	8 149	4.7	26.6	4.2	72.3	0.8	98.9	1.7
2013	6 747	4.0	262.6	0.3	8 408	3.2	27.6	3.9	72.8	0.7	100.4	1.6
2014	6 998	3.7	263.4	0.3	8 650	2.9	28.7	3.7	73.3	0.7	101.9	1.5
2015	7 244	3.5	264.1	0.3	8 894	2.8	29.7	3.5	73.7	0.6	103.4	1.4
2016	7 487	3.4	264.7	0.2	9 146	2.8	30.7	3.3	74.2	0.6	104.9	1.4
2017	7 728	3.2	265.3	0.2	9 406	2.8	31.6	3.1	74.6	0.6	106.3	1.3
2018	7 973	3.2	265.8	0.2	9 660	2.7	32.6	3.1	75.1	0.6	107.7	1.3
2019	8 221	3.1	266.3	0.2	9 923	2.7	33.6	3.0	75.5	0.6	109.1	1.3
2020	8 469	3.0	266.7	0.2	10 183	2.6	34.6	2.9	75.9	0.6	110.5	1.3
Compound annual growth rate (%)												
1999–2004	3.2	–	0.2	–	6.4	–	2.3	–	-0.3	–	0.3	–
2004–2009	1.4	–	-2.9	–	7.5	–	1.1	–	0.3	–	0.5	–
2009–2014	4.6	–	0.5	–	6.6	–	3.8	–	0.7	–	1.5	–
2014–2020	3.2	–	0.2	–	2.8	–	3.2	–	0.6	–	1.4	–
1999–2009	2.3	–	-1.4	–	6.9	–	1.7	–	0.0	–	0.4	–
2009–2020	3.9	–	0.3	–	4.5	–	3.5	–	0.6	–	1.4	–

Numbers shaded are forecasts.

<sup>a</sup> Total Inbound Economic Value (TIEV): estimates and forecasts based on Australian National Accounts: Tourism Satellite Account, 2007–08, ABS Cat No 5249.0

<sup>b</sup> Total Domestic Economic Value (TDEV): estimates and forecasts based on Australian National Accounts: Tourism Satellite Account, 2007–08, ABS Cat No 5249.0

<sup>c</sup> Consumption refers to total consumption made in Australia by international short term visitor arrivals and Australian resident tourists. It is the sum of real TIEV and real TDEV (Q2 2010=100)

# GLOSSARY OF TERMS

<b>Accommodation used</b>	<p>This indicates the type of accommodation used by an overnight visitor when visiting a particular location. The main categories of accommodation include:</p> <ul style="list-style-type: none"> <li>• Hotel, resort, motor inn</li> <li>• Backpacker hotel or hostel</li> <li>• Rented house, apartment, flat or unit</li> <li>• Friend's or relative's property</li> <li>• Caravan park or commercial camping ground</li> <li>• Caravan or camping near a road or on private property</li> <li>• Guest house or bed and breakfast</li> <li>• Boat, houseboat, cabin cruiser or cruise ship</li> <li>• Educational institution</li> <li>• Home stay</li> </ul>
<b>Australian and New Zealand Standard Industrial Classification system (ANZSIC)</b>	<p>A classification developed by the Australian Bureau of Statistics and the New Zealand Department of Statistics which groups businesses that carry out similar economic activities. A business is assigned an appropriate industry category on the basis of its predominant activities. ANZSIC has a structure comprising of categories at four levels: Division; Subdivision; Group; and Class.</p>
<b>Average nights</b>	<p>The sum of all nights divided by the sum of all visitors for a particular category. This is commonly referred to as average length of stay.</p>
<b>Business travel</b>	<p>Includes business, work travel for transport crews, attendance at conferences, conventions, exhibitions and trade fairs, training and research related to employment.</p>
<b>Capital Productivity (KP)</b>	<p>KP shows the time profile of how productive capital is used to generate output. Mathimatically, it is the Quantity Index of Value Added divided by the Quantity Index of capital input.</p>
<b>Day visitors</b>	<p>Day visitors (or same day visitors) are those who travel for a round trip distance of at least 50 kilometres, are away from home for at least four hours and who do not spend a night away from home as part of their travel. Same day travel as part of overnight travel is excluded, as is routine travel such as commuting between work/school and home.</p>
<b>Domestic tourist</b>	<p>A domestic tourist is defined by:</p> <ul style="list-style-type: none"> <li>• the length of time away from the usual place of residence for travel (less than one year);</li> <li>• the distance travelled from home (40 kilometre round trip from home for overnight travel, and 50 kilometre trip from home for same day travel); and</li> <li>• Travel is not part of normal travel for employment (or non-commuter travel).</li> </ul> <p>This broader definition has evolved. Australia's Productivity Commission previously had considered a narrower definition of leisure (holiday and travel to visit friends and relatives) is more appropriate. However, this definition does not recognise the common use of infrastructure (hotels etc), which business and education tourists also use.</p>

<b>Indirect effects</b>	Flow-on effects created by direct tourism consumption. They are the effects on businesses that supply to the direct providers of tourism goods and services. Examples include businesses that provide inputs required in the preparation of meals a restaurant sells to tourists, for example food manufacturers, electricity companies and delivery services.
<b>International visitors</b>	International visitors are those who visit another country. As for overnight travel, only international travel where the respondent is away from home for less than 12 months is included.
<b>Intrastate tourism</b>	A person is an intrastate visitor when they visit a location in the State or Territory in which they reside.
<b>Interstate tourism</b>	A person is an interstate visitor when they visit a State or Territory other than that in which they reside.
<b>Duration of visit</b>	The total amount of time that a visitor spends in a State, Territory or region while on an overnight trip.
<b>Expenditure</b>	Money spent by, and on behalf of, travellers during a trip. Expenditure items include airfares and other transport costs such as bus and train fares and amounts spent on trip-related items before and after the trip.
<b>Expenditure on capital goods</b>	The purchase of motor vehicles is not included in the estimates, as this is not regarded as tourism expenditure.
<b>Expenditure – other</b>	This includes miscellaneous trip expenditure such as phone calls, postage, film processing, medical expenses, repairs and dry cleaning.
<b>Holiday travel</b>	Holiday travel – includes holidays, travel for leisure, entertainment, sport as a participant and spectator, shopping, relaxation and just ‘getting away’.
<b>Inbound tourism</b>	Tourism within Australia by international visitors.
<b>Indigenous tourism</b>	Tourism activity that involves the life and culture of the Aboriginal people including an opportunity to experience Aboriginal art, craft, cultural display and visit Aboriginal sites/communities.
<b>Interstate visitor night</b>	Any night spent in a State or Territory other than that in which the visitor resides.
<b>International Visitor Survey (IVS)</b>	Profiles the characteristics, travel behaviour and expenditure of international visitors to Australia. Summary information from the IVS is published quarterly. Unpublished data are available on request from Tourism Research Australia via the Statistical Enquiry Service.
<b>Labour Productivity (LP)</b>	LP shows the time profile of how productively labour is used to generate output. Mathematically, it is defined by the Quantity index of Value Added divided by the Quantity index of labour input.
<b>Leisure visitors</b>	Visitors whose main purpose of visit is for a holiday or to visit friends and relatives (VFR).
<b>Median nights</b>	Represents the midpoint length of stay for which 50% of visitors stay less time and 50% stay longer.



<b>Mega trend</b>	A mega trend is a 'consistent pattern in statistical outcomes and the adaptation of new behaviour by large numbers of people'. Included in these trends are: 'global economy and globalisation; political; social trends and demographics; natural resources and the environment; and science and technology'.
<b>Multifactor Productivity (MFP)</b>	MFP measures the amount of output obtained from combined units of capital and labour. It reflects the combined effects of disembodied technical change, economies of scale, efficiency change, variation in capacity utilisation and measurement errors.
<b>National Long-Term Tourism Strategy (NLTS)</b>	The National Long-Term Tourism Strategy (launched in December 2009) is the Government's primary policy initiative in this area. The Strategy provides a policy framework to enable the tourism industry to grow and be flexible and resilient, capable of withstanding the challenges and capitalising on the opportunities that will arise over the longer term. It focuses on development of the tourism industry's productive capacity, and seeks to address the long term structural and regulatory reform requirements of the industry in areas such as infrastructure, investment, skills and labour, product development and quality.
<b>National Tourism Accreditation Framework (NTAF)</b>	<p>The NTAF aims to ensure a quality customer experience by providing an accreditation and promotional framework that recognises sustainable and capable businesses.</p> <ul style="list-style-type: none"> <li>To achieve this, the NTAF will offer eligible quality and accreditation program providers the opportunity to apply for a licence to co-brand with the NTAF and benefit from being associated with what will become a nationally and internationally recognised TQUAL mark.</li> </ul>
<b>Overnight trips</b>	Overnight trips are defined as trips involving a stay away from home for at least one night, at a place at least 40 kilometres from home. Only those trips where the respondent is away from home for less than 12 months are in scope. The trip is the basic collection unit used to obtain information about overnight travel undertaken by Australians.
<b>Overnight visitors</b>	Australians who undertake an overnight trip are referred to as overnight visitors or simply visitors. Occasionally, they are referred to as overnight travellers. A person is a visitor to a location if they stay one or more nights in the location while travelling and they are said to have made a visit to the location. Therefore, a traveller may be a visitor to several different locations and consequently a trip may include multiple visits. Within each geographic region, net visitor numbers are reported. That is, a traveller is reported as only one visitor to a geographic region, irrespective of the number of places visited within the area.
<b>Package tour</b>	Visitors who arrived in Australia on an inclusive, pre-paid package tour.
<b>Purpose of visit</b>	The purpose of visit is the main purpose, or the major reason for visiting a particular location.
<b>Total Domestic Economic Value (TDEV)</b>	TDEV is calculated from quarterly expenditure data collected in the NVS and benchmarked to annual 'Domestic tourism consumption' data in the ABS Tourism Satellite Account (ABS Cat. no. 5249.0). TDEV exceeds total domestic visitor expenditure (excluding major items) as this expenditure measure does not capture the full economic value of goods and services consumed by domestic visitors. For example, TDEV includes the value of subsidised services consumed by domestic visitors, such as entrance fees to museums and art galleries. TDEV does not include expenditure on major items bought during a trip, such as motor vehicles and white goods.

<b>Total Inbound Economic Value (TIEV)</b>	Represents the total amount of money that flows to the Australian tourism industry from international visitor spending.
<b>Total spend in Australia</b>	Excludes expenditure on goods pre-paid through inclusive package tours and services in Australia and pre-paid international airfares.
<b>Total trip expenditure</b>	Including expenditure in Australia, pre-paid expenditure on goods and services in Australia and pre-paid inclusive package travel and pre-paid international airfares.
<b>Tourism Ministers' Council (TMC)</b>	<p>A committee formed by the Australian governments known as the Tourism Ministers' Council (TMC), to oversee the actions to be undertaken to implement the National Long-Term Tourism Strategy through a detailed Work Plan. The TMC has established nine Working Groups to engage with the key issues identified in the Strategy;</p> <ul style="list-style-type: none"> <li>• Labour and Skills Working Group (Chaired by the Northern Territory)</li> <li>• Investment and Regulatory Reform Working Group (Chaired by Victoria)</li> <li>• Destination Management Planning Working Group (Chaired by Tasmania)</li> <li>• Tourism Access Working Group (Chaired by the Commonwealth)</li> <li>• Industry Resilience Working Group (Chaired by Queensland)</li> <li>• Tourism Quality Council of Australia (Chaired by Mr Simon Currant, Independent Chair)</li> <li>• Indigenous Tourism Working Group (Chaired by the Northern Territory)</li> <li>• Digital Distribution Working Group (Chaired by New South Wales)</li> <li>• Research and Development Advisory Board (Chaired by the Commonwealth).</li> </ul>
<b>Tourist</b>	A tourist is a short-term visitor travelling away from home for less than one year, not just for a leisure-based reason (that is for a holiday or travel to visit friends and relatives (or VFR)), but also for business, employment, education or even for medical reasons. This definition is based on international standards agreed by members of the United Nations World Tourism Organization (UNWTO), of which Australia is a member.
<b>TQUAL Grants</b>	<i>TQUAL Grants</i> is a highly competitive tourism funding program that was formerly known as the Australian Tourism Development Program. <i>TQUAL Grants</i> was launched by Minister Ferguson on 15 April 2009.

<b>Tourism Research Australia (TRA)</b>	<p>Tourism Research Australia is a branch of Department of Resources, Energy and Tourism.</p> <p>Tourism Research Australia provides targeted, reliable, user-friendly information about international and domestic travellers to help develop and promote Australia's products and experiences.</p> <p>TRA is responsible for providing the industry with valuable understanding of the travelling population. This is done by producing and distributing research and insights that supports informed decision making.</p> <p>TRA's regular contributions include:</p> <ul style="list-style-type: none"> <li>• Research and intelligence from the National Visitor Survey (NVS) and International Visitor Survey (IVS).</li> <li>• Key information about travellers, who they are and what they do.</li> <li>• Biannual forecasts of tourism activity for the next ten years</li> <li>• Regional expenditure, tourism business and employment data</li> <li>• Economic impact and contribution of tourism</li> <li>• Destination Visitor Surveys providing customised research at a regional level</li> <li>• Statistical Enquiry Service</li> </ul>
<b>Tourism Satellite Account (TSA)</b>	<p>An extension from the core national accounts to focus on the tourism sector. It identifies tourism activities within the national accounting framework and compiles a comprehensive set of economic data on tourism. The first Australian TSA was released by the ABS in October 2000 (ABS catalogue no. 5249.0).</p>
<b>Visiting friends and relatives (VFR)</b>	<p>Visitors who nominate visiting friends or relatives as their main reason for travelling. Visiting friends and relatives includes travel to a friend's or relative's wedding or travel to attend a funeral.</p>
<b>Visitors (IVS)</b>	<p>The weighted number of international visitor arrivals to Australia. To fall within the scope of the IVS, the respondent must be an international visitor aged 15 years and over and be departing one of the eight major Australian airports (Sydney, Melbourne, Brisbane, Cairns, Gold Coast, Darwin, Perth and Adelaide) following a visit that was not more than one year in duration.</p>
<b>Visitor nights (IVS)</b>	<p>Visitor nights refer to the number of nights spent away from home in association with individual visits. In the following example, there is a total of 12 visitor nights, with two of these being spent in NSW, two in the ACT and the remaining eight visitor nights being spent in Victoria. At a regional level, there were two visitor nights spent in the Sydney region, two visitor nights spent in the Canberra region, four visitor nights in the Melbourne region and four visitor nights spent in the High Country region.</p>

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