

TOURISM AUSTRALIA GLOBAL MARKET MONITOR

Interim Report

Background:

In light of the current financial crisis and its expected impacts, Tourism Australia is developing a monthly Global Market Monitor to provide industry and stakeholders with a detailed report on the conditions and performance of each of its key markets.

Input will be sourced from international and Australian industry via a confidential online questionnaire, together with the latest visitor and visa data, and feedback from industry associations, STOs, and RTAs.

It is expected that the first full report will be issued in December, in line with the release of finalised arrivals data for November. Tourism Australia will release the report via its e-newsletter *essentials* and will also seek the support of the industry associations and STOs to deliver to their databases as well.

In the meantime we have received feedback from our international offices, ATEC, and through discussions with suppliers in Australia, and matched this with the latest visitor data to produce the interim report below.

Overall State of Play:

There is no single position that can accurately state the impact of the current crisis in all global markets. Each market and each segment is performing differently depending on its local economic conditions, currency shifts, marketing activity and seat capacity.

Tourism to and in Australia is being impacted by both positive and negative forces. Five immediate factors provide some confidence:

- the 25-30 per cent drop in the value of the AUD
- the drop in world oil prices from \$140USD per barrel to \$55USD this week
- the drop in average interest rates around the world
- a significant increase in seat capacity to Australia in 2009
- the launch of *Australia* the movie in November and December

But these factors are counterbalanced by the expansion of the global financial crisis into a global economic crisis.

The dramatic drop in housing, equity and commodity values, the collapse of consumer and business confidence and the risk of recession in many of Australia's key leisure markets including New Zealand, the US, Japan and the UK, is of great concern.

While travel to Australia held up reasonably well in the September quarter, this was driven by bookings made and paid for over the prior 180 days, before the significant decline of equity and other markets.

The outlook for the December quarter is mildly negative, however, many leisure operators report a sharp downturn in forward intakes for the March and June quarters of 2009 as consumers sit tight and wait to see what unfolds over the next three to four months.

Across western markets consumer sentiment is lower, and all markets are reporting a decrease in enquiries. Continental Europe appears less affected initially with latest arrivals data indicating it is holding up reasonably well. The United Kingdom, however, is in decline with enquiries dropping over the last six weeks.

The USA and Canada report significantly lower forward bookings and declining latest arrivals from the USA. New Zealand reports mixed feedback on bookings. Eastern markets are reporting some optimism that recent exchange rate improvements will motivate price conscious travellers to choose Australia over rival destinations. Few cancellations are being reported. However enquiry levels are down and consumers have adopted a wait and see approach in these markets where late bookings are the norm.

Japan continues to record double digit percentage declines in arrivals and direct air capacity is being withdrawn this quarter, but operators report enquiries are up and forward bookings look reasonably stable. Given the AUD is now nearly 45 per cent lower than it was four months ago, operators believe that should there be no further capacity cuts and numbers may stabilise in 2009.

Northern Asia is also facing continuing declines in arrivals overall. Taiwan and Korea are still exhibiting lower consumer sentiment, significant enquiry declines and double digit arrivals declines. Arrivals from Hong Kong are down and forward bookings are flat. Arrivals from China are down in the aftermath of the Sichuan Earthquake and Beijing Olympics. We expect that arrivals data for October, November and December will show this trend continuing but operators say they have relatively solid business until Chinese New Year in January.

South and South East Asian source markets appear to be holding up well. Singapore enquiries and forward bookings are slightly improved at the expense of long haul

destinations, and recent arrivals are stable.

Malaysia is reporting increased enquiries, forward bookings and arrivals. India has seen a small reduction in enquiries but no change to forward bookings and strong visa issuance and arrivals growth.

The domestic Australian market sector appears soft, with consumer confidence levels low and expectations of a sluggish Christmas period. However, exchange rates, and lowering oil prices is expected to have a positive impact on Australians travelling at home, as long as consumer confidence remains high.

Travel Sectors:

The Working Holiday Maker sector appears to be performing strongly in western markets with rises in visa issuance and positive reports from international sellers. The Business Events sector appears to have been affected by the global financial crisis faster than leisure, with some Australian suppliers reporting event cancellations, reduced attendances, renegotiation of contracts, and fewer enquiries and quotes. However, some operators report that the significant shift in currency exchanges is resulting in increased numbers and spend for many events already locked in.

TA Response:

Tourism, like all global industries, is being adversely affected by local and international events.

Tourism Australia's belief that it is critical to keep the industry informed of the very latest market trends, is reflected in this new Global Market Monitor.

This Monitor will allow both TA and tourism operators to identify and leverage all positive opportunities for tourism growth. It is too early to tell whether or not these opportunities will be able to outweigh or even neutralise the negatives, but TA will maintain a diligent watch on developments and will endeavour to keep you informed.

We will continue to implement all planned activities in the existing Tourism Australia Annual Operating Plan, including leveraging the marketing of the film *Australia*, and developing and rolling out the next phase of our global marketing campaigns. However, we believe that the full impact of the global financial crisis on Australian tourism will not be felt until February 2009 onwards. As the situation becomes clearer over the next two months, any larger trending declines may well result in changes to our allocation of marketing resources to focus on better opportunities. These may include short-haul markets with late booking patterns, the domestic market, the business events segment and working holiday makers.

Individual Market Scans:

UK / IRELAND

Consumer sentiment is well down and this is beginning to flow through to enquiries and bookings. Agents have to work harder to convert the business. Latest arrivals show increasing declines, but are stronger than current economic news from the UK would lead us to expect. Not looking good in the first half of 2009.

FRANCE

While the French economy is not strong generally, current and forward business to three months out is holding. The picture after that is very uncertain with a decrease in business to Australia from a number of partners expected in 2009. Latest arrivals figures remain positive as Australia has continued to gain market share from a low base in this large market.

GERMANY

With the German economy is in a healthier place than many other countries, reports indicate that there has only been isolated impact on Australian business. Arrival trends are upward.

CANADA

Canadian enquiries and bookings are well down on 2007 which was an exceptionally strong year thanks to improvements in air access from Air Canada. The expectation from the trade is that business may improve in the New Year. Latest arrivals are trending upwards.

USA

Enquiries and bookings are both down with certain segments more impacted than others. There is a degree of optimism due to the drop in the AUD but the true impact of the economic crisis will be better understood in another month or two. Latest arrivals suggest continued declines from this large market.

NEW ZEALAND

Consumer sentiment is well down and impact of this is being felt by airline and trade partners in Trans-Tasman business. The general trade sentiment, however, is short-haul markets, like Australia, will be the beneficiaries of a decline in long-haul outbound. Increasing airline competition thanks to more seat capacity should help support arrivals from this market. Latest arrivals are flat.

JAPAN

Some positive views of future bookings due to the combination of a stronger Yen, a reduction in the fuel surcharge, the movie release and freed-up seat capacity out of Australia. Latest arrivals remain very significantly down.

CHINA

The market is holding for November to January but real challenges will come in March and April after Chinese New Year. If it receives approval for screening in China, the movie should help. Latest arrivals show declines in the last two months but small growth over the last year.

HONG KONG

As November to March is the peak travel period to Australia and there has been a significant devaluation of the AUD, forward bookings for Australia are looking OK. Latest arrivals data however shows slight declines.

KOREA

There is no clear indication that the economic downturn will further impact Australian business, but the overall forecast is not very positive due to consumer sentiment. Korean travel is traditionally very aligned to consumer confidence. Latest arrival trend remains significantly downward.

TAIWAN

Thanks to the reduction in the AUD and more air capacity to fill, airlines and trade are promoting Australia as a 'must do' destination for honeymooners and Chinese New Year holiday makers. However, latest arrivals remain significantly down.

MALAYSIA

Lower fuel surcharges and the AUD have generated increased consumer interest and bookings to Australia. Latest arrival trends remain upward.

INDIA

As Australia is a quality rather than mass market destination for Indians, performance remains strong particularly from key segments such as honeymoon and family travel. Latest arrival trend remains strongly upward.

SINGAPORE

The weakened AUD has stimulated interest and bookings for November and December. Australia seems to be 'back in fashion'. Latest arrivals show a slight decline but should trend toward growth in the March quarter.