New analysis on exchange rates by Tourism Australia and Tourism Research Australia indicates that, while important, exchange rates are not as influential in determining travel behaviour as some commentators believe.

Research findings show the fundamental driver of tourism demand for Australia is the economic growth of source countries and the subsequent income, wealth and consumer confidence of their people.

Exchange rates have some influence on destination choice and travel purchases, but that influence is modest and only one part of the consumer's decision-making process.

Exchange rates have more bearing on tourism expenditure than visitation. People are still travelling to Australia in significant numbers, with 5.9 million visitors in 2010.

The greatest impact of the high Australian dollar on the Australian industry is the increasing number of Australians able to afford, and choosing, to travel overseas. Given domestic tourism accounts for around three quarters of the Australian tourism market, this represents a significant challenge for the industry.

BACKGROUND

Over the past decade, growth in international visitor arrivals has slowed and Australians are increasingly opting to travel overseas rather than in Australia.

Much conjecture surrounds the factors underlying these trends and, in particular, the role of exchange rate movements which have seen the Australian dollar rise more than 50 per cent in trade-weighted terms over this period.

In March 2011, Tourism Australia commissioned Deloitte Access Economics to undertake research on the impacts and implications of exchange rates on Australian tourism. Tourism Research Australia also undertook independent research, in parallel to this work. An Expert Panel then reviewed the findings. Members of the Expert Panel included John Lee of Tourism and Transport Forum, Felicia Mariani of Australian Tourism Export Council, Juliana Payne of National Tourism Alliance, Ivan Colhoun of ANZ Bank, and Tony Webber of Qantas Airways.

SUMMARY OF FINDINGS

- Travel decisions are impacted by a complex and interrelated set of variables, which differ by market, travel type and age.
- While exchange rates are one factor in explaining the travel choices of both Australian and international travellers, their impacts are relatively modest and short-term. Over the long term, income growth has the greatest influence on demand for international travel.
- Other influences include airfares and costs associated with the trip purchase such as accommodation and visitor attractions.
- Exchange rates have some impact on international visitor demand, varying by market. For example, travellers from Singapore, Korea and Hong Kong are more responsive to movements in exchange rates, while travellers from Canada are less responsive.
- A high Australian dollar has more impact on visitors’ spending once they arrive in Australia and less impact on international visitor numbers and nights. People are still travelling to Australia in significant numbers, with 5.9 million visitors in 2010, up 5.4 per cent compared to 2009.
- Different travel segments respond in different ways to exchange rates when it comes to their travel decision-making. International holiday travellers are more influenced than business travellers and those visiting friends and relatives. ‘Boomers’ (50+ years) are the most responsive age group, though income still has a larger impact on their travel decision making. Youth travellers (15 to 29 years) are least affected by exchange rates when considering a visit to Australia. Exchange rates influence Middle Aged travellers (30-49 years) least in terms of tourism expenditure once they visit.
In choosing Australia as a tourism destination, the bilateral exchange rate (the exchange rate between the source country and Australia) was found to play a greater role in the purchasing decision than the country’s overall exchange rate performance.

Current exchange rates in the US, UK and Euro-zone partly reflect the current weakness in their respective economies. When these economies recover – even if the Australian dollar stays at current levels against these currencies – inbound tourism from these markets is expected to grow.

The impact of exchange rates is greater on domestic tourism than international tourism, although income is still the biggest driver. Increasing incomes, exchange rate movements and aviation capacity growth are contributing to a greater propensity among Australians to travel, however this is translating into more outbound trips than trips at home.

Australians travelling for holiday purposes are the most responsive to exchange rates, while those visiting friends and relatives are the least. Australian Youth travellers are more influenced by exchange rates, while Australian ‘Boomers’ are more impacted by income.

**opportunities and challenges**

The outcomes of the analyses by Deloitte Access Economics and Tourism Research Australia present both challenges and opportunities for the Australian tourism industry.

As part of the work on the Tourism Industry Potential to increase overnight visitor expenditure from $115 to $140 billion by 2020, key markets have been identified where the greatest tourism growth opportunities exist. The latest international arrivals figures continue to highlight the growing importance of Asia as the key driver of Australia’s future international tourism growth. Strong growth in economies such as China and India will present significant opportunities, as residents respond to increasing income with more international travel.

Australian tourism’s opportunity is to capture this tourism demand by enhancing its competitiveness both internationally and domestically.

**Based on this new research, strategies to consider in high exchange rate environments could include:**

- Recognising the markets that have strong economic growth and high consumer confidence. These markets will most likely provide the strongest outbound demand opportunities, for example the strong economic growth in many countries in Asia;
- Looking for markets where positive aviation changes are occurring – either in terms of pricing or additional capacity;
- Appreciating that exchange rates are different for each market and are subject to change, as not all markets are equally affected. Over the last decade the Australian dollar has appreciated most strongly against the US dollar (and tied currencies), the Euro and the UK Pound, and less so against the Japanese Yen, New Zealand, Singapore and Canadian dollar, and has depreciated against the Indian Rupee. Remember though that the impact of exchange rates is only modest and is mainly felt in expenditure;
- Considering segments that may be less impacted by exchange rates e.g. international youth travellers;
- Recognising that economic growth is cyclical. Work done to foster those markets which may currently be experiencing poor economic growth and high exchange rates (e.g. product or experience improvements), may be rewarded when those markets return to economic growth;
- Considering diversification. For businesses heavily reliant upon domestic tourism, seeking out international tourism opportunities could build greater resilience.

The good news is that Australia continues to have high appeal and is a desirable place to visit (ranking second overall in the FutureBrand study of country brands in 2010, and ninth overall in the Anholt Nations Brand Index).

Irrespective of exchange rates and the high Australian dollar, the challenge for the Australian tourism industry is to convert this desire into more visits.

This means ensuring Australia’s tourism products and services keep pace with global competition through continued investment in quality experiences and better infrastructure.

Through the National Long-term Tourism Strategy, the Australian Government is already focusing on the supply side of the industry, seeking to remove obstacles to investment and helping to build greater investor confidence.

For its part, Tourism Australia is focused on marketing Australia’s unique tourism attributes where the greatest tourism growth opportunities exist – to the right consumers, in the right markets and in the right way.

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1 For further information on the 2020 Tourism Industry Potential go to: www.tourism.australia.com
2 For further information on the National Long-Term Tourism Strategy go to: www.ret.gov.au/tourism