

ECONOMIC EFFECTS OF THE RECENT TOURISM-RELATED EVENTS ON THE TOURISM SECTOR AND THE ECONOMY

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Department of Industry, Science and Resources

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Executive Summary

Key Findings

The terrorism in the United States on 11 September has increased the fear of flying, leading to reduced inbound tourism to Australia. At about the same time, the collapse of Ansett has reduced the capacity of the domestic aviation industry, leading to lower activity in that industry, as well as in allied tourism industries such as accommodation. These two events — terrorism in the United States and the collapse of Ansett — are combining to reduce activity in the Australian tourism industry and the economy more generally.

The peak effects of the two events are expected to be felt in the last three months (December quarter) of 2001. These effects are then expected to gradually fade over about a two-year period, taking the tourism industry to the same position it would have been had the two events not occurred. The peak effects for the December quarter 2001 are modelled to be as follows, where all figures are compared with the situation that would have prevailed had the events not occurred:

- loss of travel exports of about 15 per cent, or \$500 million;
- loss of accommodation, cafes and restaurants GDP of about 4 per cent or \$140 million;
- loss of transport GDP of about 3 per cent, or \$210 million;
- loss of overall GDP of about 0.6 per cent, or \$1.0 billion — this is due in equal measure to terrorism in the USA and the collapse of Ansett and is equivalent to the loss of about two months of normal economic growth; and
- loss of national jobs of about 0.3 per cent, or 28,000 jobs.

Two surveys covering about 5,000 tourism operators have found that:

- the loss of tourism revenue to date due to the two events is about 13 per cent;
- this is expected to moderate to a loss of 10 per cent for the next three months; and
- there has been a loss of 4½ per cent of tourism jobs (or 3½ per cent in tourism full-time equivalent employment).

Any policy response to the two events should aim to alleviate the short-term problems that are being experienced. It should not be ongoing or aim to encourage operators to exit the industry because the effects of the two events are expected to be temporary.

Tourism is an important industry in Australia. In 1997/98 it accounted for 4.3 per cent of gross value added and 6.0 per cent of employment. Inbound tourism has been a rapidly growing industry, with travel exports rising from 4.8 per cent of total exports of goods and services in 1984/85 to 10 per cent in 2000/01.

The terrorism attacks on 11 September in the USA have led to an increased fear of flying, especially for US residents. This has led to a fall in inbound tourism to Australia, which is having an adverse effect on the Australian tourism industry.

In the domestic aviation market, the recent collapse of Ansett has cut the supply of aviation services and reduced competition. This has reduced access to regional areas and has the potential to increase domestic airfares. As well as reducing activity in the domestic aviation industry, this has adversely affected allied tourism services including accommodation, restaurants, and tourist-oriented retailing.

The Tourism Industry Working Group (TIWG) commissioned Econtech to model the effects of these two events — terrorism in the USA and the collapse of Ansett — on the tourism industry and the Australian economy generally. The impacts on the tourism industry were considered first, and then the broader effects on the Australian economy were modelled. The impacts on the tourism industry can be assessed from three different sources of information.

Perhaps the best source of information is the two surveys of the industry that were commissioned by the TIWG and conducted last week. An online survey was undertaken by the Australian Tourism Commission. To reach those not known to have online access, an identical phone survey was conducted by Millward Brown. Over 2,000 tourism industry operators responded to each survey.

The combined surveys found that since 11 September to the first week in October, the two events together have resulted in a loss of about 13 per cent in tourism industry revenue. Within this, the loss was greater for the international market at 18 per cent, than for the domestic market at 9 per cent. It was also greater for leisure tourism at 15 per cent than for business tourism at 9 per cent.

Looking ahead to the next three months, tourism operators believe that these effects will abate slightly. The overall loss in tourism industry revenue is expected to be about 10 per cent, with little variation between market segments. For example, the loss is expected to be slightly greater for the international market at 10 per cent, than for the domestic market at 9 per cent. It is also expected to be slightly greater for leisure tourism at 10 per cent than for business tourism at 8 per cent.

For the international market, the loss in revenue is expected to be largest for tourists from North America, at 23 per cent. The expected revenue loss for tourists from the UK and Europe is 13 per cent, while it is lower at under 10 per cent for tourists from Japan, Asia, New Zealand and the rest of the world.

These survey results for the industry as a whole disguise major variations in experience within it. At one extreme, around one-half of tourism operators report no impact from the two events in their answers to most questions. At the other extreme, some operators, covering a few percentage points of industry revenue, are severely impacted with revenue losses of over 50 per cent. The experience of other operators is intermediate between these two extremes.

Tourism job losses to date are estimated at 4.5 per cent, with casual employees most affected and full-time employees least affected. The industry with the largest percentage jobs impact is transport.

Another source of information is the Tourism Forecasting Council (TFC). The TFC has estimated a loss of overseas visitors to Australia in the next three months of 15 per cent. Consistent with the results of the online survey and the industry consultation (see below), the TFC has identified North America as the most affected market.

The final source of information on tourism industry impacts was industry consultation by Econtech. QANTAS report an expected loss of inbound travel for the next three months of under 10 per cent, while the Tourism Task Force (TTF) put the expected loss in inbound revenue at 10 to 15 per cent. These estimates line up reasonably well with the findings from both surveys of an expected loss in inbound tourism revenue of 10 per cent. Both QANTAS and the TTF expect the biggest losses from North America.

Econtech weighed up information from all sources and reached an agreed position with the TFC on the likely impacts on the tourism industry. The agreed position was that the effect of the two events is projected to cause a loss in inbound tourism over the last three months of 2001 of 15 per cent. On the one hand this estimate is above the estimates from the two

surveys and QANTAS of about 10 per cent. On the other hand, it is under the estimate of industry players such as ATEC, and the initial estimate of the TFC technical sub-committee.

The agreed assessment of the likely impacts was fed into Econtech's economy-wide model, MM2, to estimate the flow-through effects on the Australian economy. The major results are as follows.

With lower inbound tourism, travel exports are expected to be reduced by about 15 per cent. This development will have an adverse effect on the Australian tourism industry.

In the domestic market, higher tourism costs and reduced access from the collapse of Ansett are reducing activity.

Putting these adverse international and domestic events together, the simulated effects on tourism-related industries are significant. A peak loss of about 4 per cent, or \$140 million, is expected in activity in the accommodation, cafes and restaurants industry, while the peak loss is simulated at about 3 per cent, or \$210 million, for the transport industry. Various sectors of both of these industries would be harder hit than the results for these broad industries would suggest. For the total of all other industries, the peak loss is simulated at about 0.4 per cent, or \$670 million.

The resulting loss in total GDP is estimated at a significant 0.6 per cent, or about \$1 billion, equivalent to two months of normal economic growth. This leads to a loss in total employment of about 0.3 per cent, or 28,000 jobs. These effects are due in about equal measure to the aftermath of the terrorism attacks in the USA and the collapse of Ansett.

On the positive side, these effects are forecast to be temporary, gradually fading away over the next two years. This assumes that terrorism is better contained and that there is a re-building of competition in the domestic aviation market.

Because these developments are expected to be temporary, any policy response should also be temporary. It should focus on alleviating the short-term difficulties. Policies to encourage exit from the industry would be inappropriate given the strong historical growth in the Australian tourism industry. This strong growth should re-establish itself as the effects of the two recent events fade.

Introduction

Two recent events, the terrorist attacks in the USA and the collapse of Ansett, are adversely affecting the tourism industry and the Australian economy more generally.

The terrorism attacks on 11 September in the USA have led to an increased fear of flying, especially for US residents. This has led to a fall in inbound tourism to Australia, which is having an adverse effect on the Australian tourism industry.

In the domestic aviation market, the recent collapse of Ansett has cut the supply of aviation services and reduced competition. This has led to higher domestic airfares and reduced access to regional areas. As well as reducing activity in the domestic aviation industry, this has adversely affected allied tourism services including accommodation.

In response, the Commonwealth Government, represented by the Department of Industry, Science and Resources (DISR), and on behalf of the Tourism Industry Working Group (TIWG), has commissioned Econtech to undertake a quantitative assessment of the economic effects of these two events on the tourism industry and the economy more generally.

The two events are without exact historic precedent and so their effects on the tourism industry cannot be modelled in a routine way. First, information on the current situation in the tourism industry needed to be gathered from a range of sources.

TIWG commissioned two large-scale surveys of the tourism industry that were conducted in the first week of October. The surveys have been used to estimate the effects to date on the tourism industry, as well as the views of tourism operators on the likely effects for the next three months.

The Tourism Forecasting Council (TFC) has undertaken a special update of its forecasts. The TFC drew on the views of industry specialists and players, and the results of the TIWG surveys, to estimate the likely impact on the tourism industry.

Econtech has also surveyed some members of TIWG to obtain a bird's-eye view of the impacts on the tourism industry. The survey covered organisations with key roles in tourism, aviation and the travel industry.

Econtech weighed up information from all sources and reached an agreed position with the TFC on the likely impacts on the tourism industry. This agreed assessment of the likely impacts was fed into Econtech's economy-wide model, MM2, to estimate the flow-through effects on the Australian economy.

The structure of this report is as follows. The dimensions of the tourism industry are outlined briefly in section 1. The estimated impacts of the two events on the industry are assessed in section 2. In section 3 these impacts are fed into MM2 to estimate the wider effects on the Australian economy. The policy implications of the results are considered briefly in the final section.

While all care, skill and consideration has been used in the preparation of this report, the findings are based upon the strict instructions of ISR and are designed to be used only for the specific purpose set out below. If you believe that your instructions are different from those

set out below, or you wish to use this work or information contained within it for another purpose, please contact us.

The specific purpose of this report is to provide ISR with an economic analysis of the impact of the two recent tourism related events on the tourism industry and the Australian economy.

The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be used whenever using this information. Should you require clarification of any material, please contact us.

1. Australian Tourism Industry

Tourism is an important industry in Australia. Reflecting this importance, the Australian Bureau of Statistics (ABS) developed a Tourism Satellite Account (ABS catalogue 5249.0) for the year 1997/98.

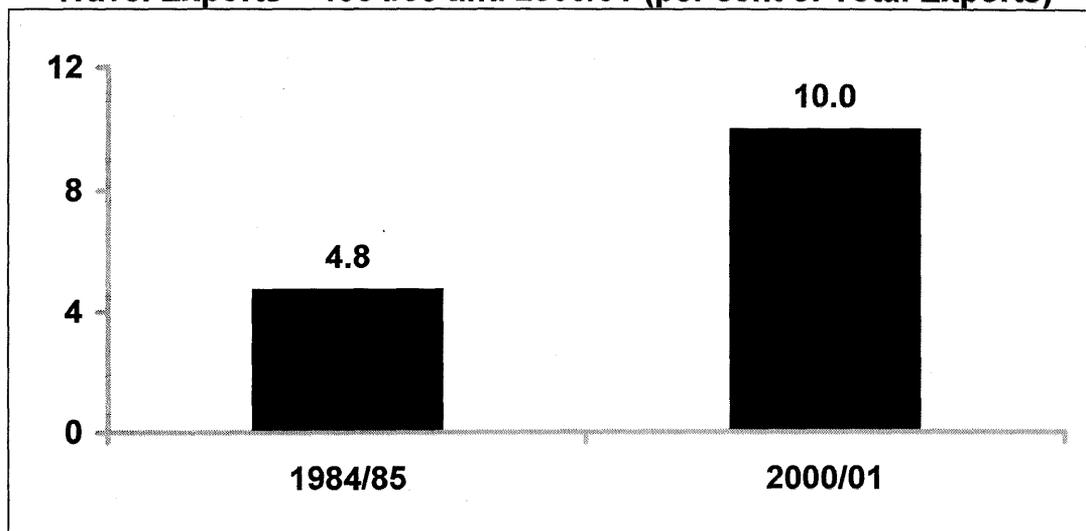
According to the Tourism Satellite Account, tourism accounted for \$25 billion, or 4.3 per cent, of Australia's gross value added in 1997/98. On this basis, tourism makes a larger contribution to gross value added than each of the following industries:

- agriculture, forestry and fishing;
- communication services;
- electricity, gas and water;
- personal and other services; and
- cultural and recreational services.

Tourism is also important in terms of exports. According to the ABS Tourism Satellite Account, international visitors consumed nearly \$13 billion in goods and services during 1997/98. Only the mining, manufacturing and agriculture industries made larger contributions to exports during 1997/98.

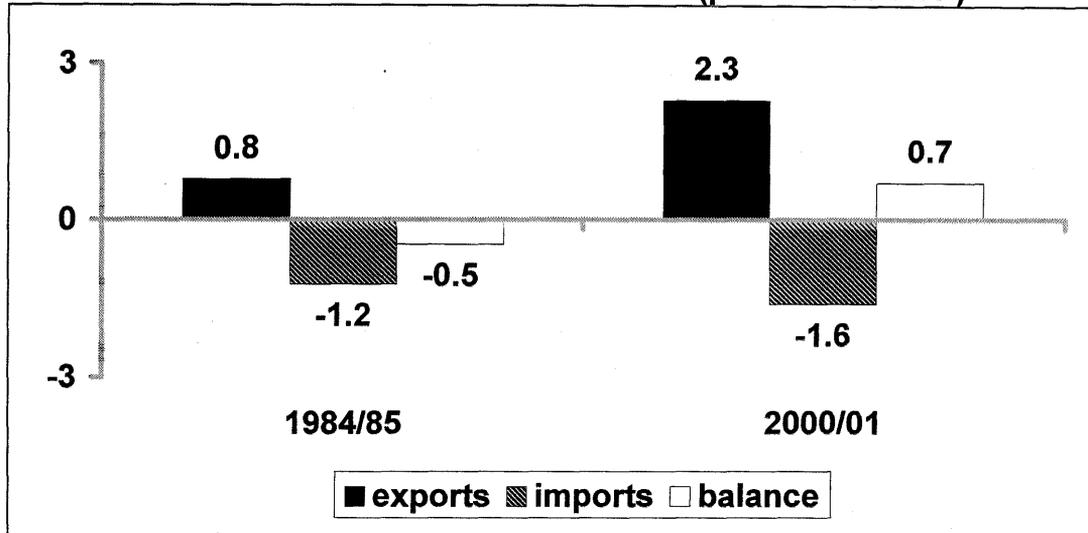
Travel exports have become increasingly important to Australia. Chart 1 shows the travel exports share of total exports in 1984/85 and 2000/01 according to the ABS trade data. In 2000/01, travel exports were more than twice as important in the total exports picture compared to 1984/85.

Chart 1
Travel Exports – 1984/85 and 2000/01 (per cent of Total Exports)



The rapid growth of travel exports has driven a shift in the balance of travel trade from deficit to surplus. Chart 2 shows that between 1984/85 and 2000/01 travel exports increased as a share of GDP to a greater extent than did travel imports. As a result, the balance of travel trade shifted from a deficit in 1984/85 to be in surplus by 2000/01.

Chart 2
Travel Trade – 1984/85 and 2000/01 (per cent of GDP)



Tourism is also important in terms of employment. According to the ABS Tourism Satellite Account, tourism accounted for around 6 per cent of total employment during 1997/98. This equated to about 513,000 employed persons, or 389,000 full-time equivalent employed persons. About 26 per cent of those employed in tourism-related activities were in retail trade. The next most important tourism-related activities in terms of employment were the accommodation (18 per cent) and cafes and restaurants (9 per cent) industries.

2. Tourism Industry Impacts

To better understand the impact of the two events on the tourism industry, a number of sources of information were used. These included:

- (a) the Tourism Industry Working Group (TIWG) surveys of tourism industry operators;
- (b) the Tourism Forecasting Council's (TFC) tourism forecasts; and
- (c) the outcomes of industry consultation.

Each of these three sources are examined below, while more details concerning the TIWG surveys and the industry consultation can be found in Attachments A and B respectively. As also outlined below, after considering the evidence available from all sources, Econtech reached an agreed position with the TFC on the tourism industry impacts.

2.1 TIWG Surveys

The TIWG has been tasked to advise the government on the impact of the two events on the Australian tourism industry. As part of that task, the TIWG commissioned two surveys covering about 5,000 tourism industry operators to collect information on the effect of the events in the industry.

Both of the surveys asked the same questions of tourism operators. Operators with known online access were included in an online survey, while other operators were included in a phone survey. The Australian Tourist Commission undertook the online survey and Millward Brown undertook the phone survey.

The survey results provide evidence of the actual impact of the two events to date, as well as the anticipated impact over the next three months. Econtech has focussed particularly on the actual and anticipated impacts on:

- revenue; and
- employment.

Assessment of the survey results

Econtech undertook its own assessment of the results of the two surveys after processing the unit record data from each. Combined results for the revenue effects from the two surveys are shown below in Tables 1 and 2. For employment, only results from the online survey are provided due to a complication with the employment data from the phone survey (see Table 3).

The results show that due to the two events:

- revenue to date was down 13.1 per cent;
- this effect is expected to moderate, with projected revenue for the next three months down 9.7 per cent from business-as-usual; and
- total employment to date is down 4.5 per cent.

These results should be treated with some caution because not all tourism operators who were approached to participate in the surveys responded. For the online survey, the response rate was about one for every five approaches, while for the phone survey it was about one for

every two approaches. According to Millward Brown, some of the tourism operators who did not respond to the phone survey were disinterested in it because the two events had not affected them. The under-representation of unaffected operators in the phone survey introduces a pessimistic bias to its results. This bias would be even more pronounced for the online survey because of its lower response rate associated with the lack of follow-up.

Table 1
Combined Surveys – Revenue to date, % change

	Domestic	International	Total
Leisure	-9.7%	-19.7%	-15.0%
Business	-7.9%	-12.6%	-9.5%
Total	-8.9%	-17.9%	-13.1%

As shown in Table 1, the percentage loss of revenue is larger in international tourism markets than in the domestic markets. This reflects the increased fear of flying due to the terrorism attacks in the USA.

Table 2
Combined Surveys – Projected revenue over the next 3 months, % change

	Domestic	International	Total
Leisure	-9.2%	-11.3%	-10.3%
Business	-9.1%	-7.1%	-8.4%
Total	-9.1%	-10.3%	-9.7%

Looking ahead to the next three months, tourism operators believe that these effects will abate slightly. The overall loss in tourism industry revenue is expected to be 10 per cent, with little variation between market segments (see Table 2). For example, the loss is expected to be slightly greater for the international market at 10 per cent, than for the domestic market at 9 per cent.

Chart 3
Online Survey – Projected Revenue Effects by International Market (per cent)

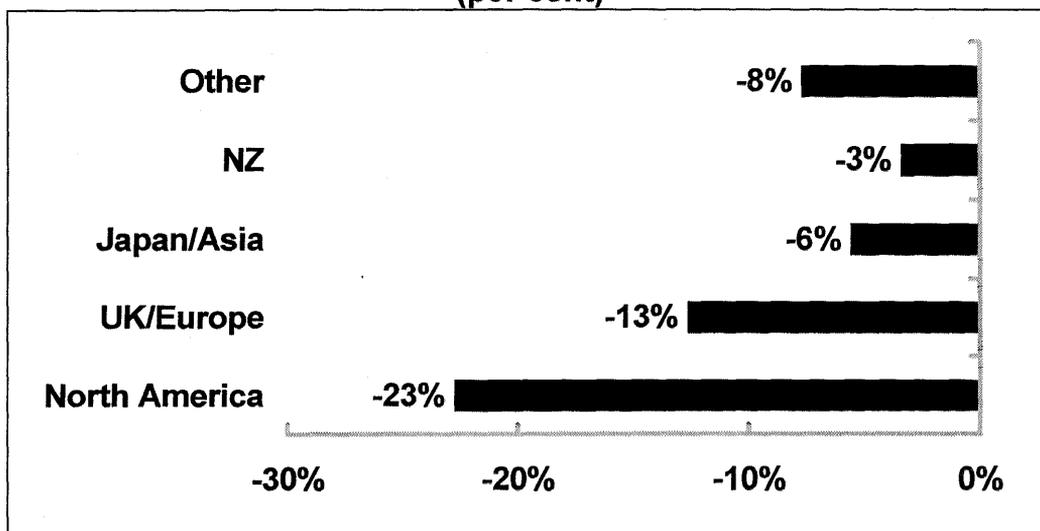


Chart 3 shows that, according to the results of the online survey, the effect on projected revenue is expected to be largest for tourists from North America, at 23 per cent. The expected revenue loss for tourists from the UK and Europe is 13 per cent, while it is lower at under 10 per cent for tourists from Japan, Asia, New Zealand and the rest of the world.

These survey results for the industry as a whole disguise major variations in experience within it. At one extreme, around one-half of tourism operators report no impact from the two events in their answers to most questions. At the other extreme, some operators, covering a few percentage points of industry revenue, are severely impacted with revenue losses of over 50 per cent. The experience of other operators is intermediate between these two extremes.

Table 3 shows that the effect of the two events has been to cause employment to fall. While the overall effect is a fall of 4.5 per cent, the effect is smaller for full-time employees than casual employees, reflecting their higher levels of attachment to their positions.

Table 3
Online Survey – Net employment to date, % change

Full-time	Part-time	Casual	Total	FTE (a)
-2.2%	-4.4%	-9.8%	-4.5%	-3.6%

a) FTE = full-time equivalent

Further detail regarding the results of the two surveys can be found in Attachment A.

2.2 TFC Forecasts

The Tourism Forecasting Council was set up to provide tourism forecasts for improved decision making concerning investment in tourism projects. The TFC comprises a reporting body, a technically oriented advisory committee and a forecasting unit, which is located in the Bureau of Tourism Research.

The TFC provides forecasts and analysis on:

- inbound tourism – international visitor arrivals and visitor nights by country of origin;
- domestic tourism – visitor nights, number of visits by destination state; and
- outbound – short-term departures of Australian residents by purpose of travel and main destination.

The TFC released updated forecasts in August 2001. As a result of the two events, a further update has been undertaken so as to incorporate the effects of the events on the Australian tourism industry.

For the most recent update of the forecasts (October 9), the TFC has assumed that in the three and a half month period from 11 September to the end of 2001, about 15 per cent of inbound arrivals will be lost as a result of the two events.

Inbound tourist numbers are expected to fall from a number of markets, with the largest fall expected from the North American market. This pattern is consistent with the results of the

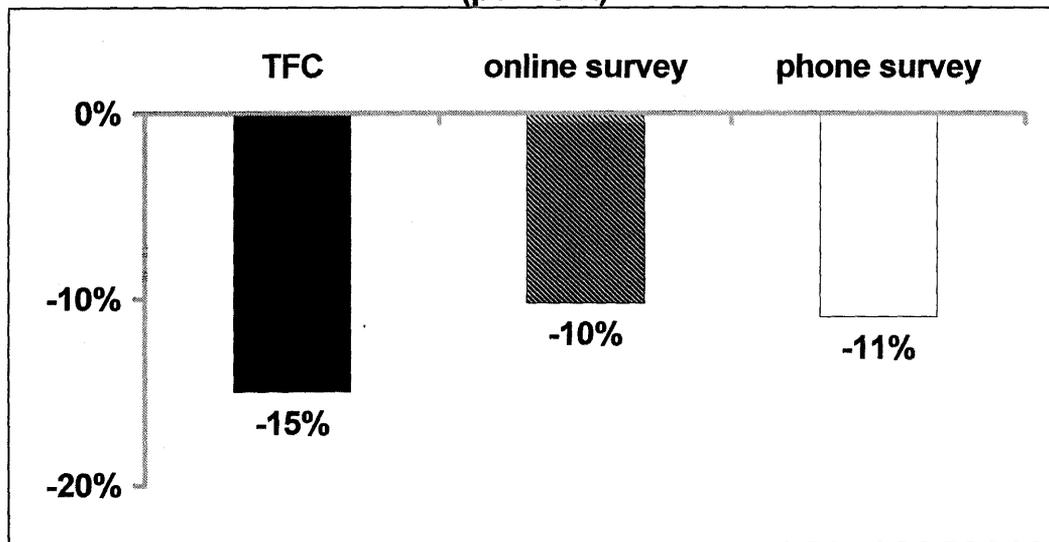
online survey, which also indicated that falls in inbound tourists would be the largest from North America.

As shown in Chart 4, the TFC's assessment is more pessimistic than the results of both the online and phone surveys. The two surveys project losses in revenue of 10 per cent and 11 per cent respectively in the international market, while the TFC projects a loss in inbound arrivals of 15 per cent.

In terms of domestic tourism, the assumptions of the TFC were as follows. Due to the two events, the assumed growth in domestic visitor nights for 2001 has been lowered from the August estimate of 1.0 per cent to a new estimate of -1.6 per cent. This is driven by possible increases in the overall price of domestic travel packages due to higher domestic airfares, as well as by reduced access to regional areas.

In terms of outbound tourism, the assumptions concerning short-term resident departures in 2001 have also changed. Due to the two events, the assumed growth in short-term resident departures in 2001 has been lowered from the August estimate of 4.0 per cent to a new estimate of only 1.0 per cent. This is driven by increased fear of flying due to the US terrorist attacks.

Chart 4
Comparison of Projected Revenue Effects from the International Market
(per cent)



2.3 Industry Consultation

Econtech itself surveyed members of TIWG with key roles in tourism, aviation and the travel industry.

The organisations consulted were:

- the Tourism Task Force (TTF);
- the Australian Hotels Association (AHA);
- the Australian Federation of Travel Agents (AFTA);
- QANTAS;
- Virgin Blue; and

- Ansett.

The TTF represents the top 200 tourism industry operators and covers businesses operating in every aspect of the tourism sector.

In brief, the main points obtained from consultation with the TTF were that across its membership the effect of the two events are that:

- bookings are down, especially in the international leisure market;
- revenue to date is down by about 10 per cent;
- forward bookings in the domestic leisure market are down 20 to 30 per cent;
- forward bookings in the domestic business market are down 5 to 10 per cent;
- revenue over the next three months from inbound tourism is likely to be down 10 to 15 per cent;
- forward bookings and revenue from international leisure operations are likely to be weakest from North America; and
- employment has fallen and is expected to continue to fall.

The AHA represents the Australian hotel industry. In brief, the main points obtained from consultation with the AHA were that across the hotel industry the effect of the two events are that:

- cancellations in the first week were estimated at 80,000 room-nights nationally;
- cancellations in Sydney in the first week were estimated at 60,000 room-nights based on an AHA survey;
- 1.2 million room nights would be lost by the end of the year worth some \$200 million; and
- hotels are owed over \$30 million by Ansett.

AFTA represents the majority of travel agents in Australia and has over 2,200 members, incorporating membership of around 1,800 retail outlets. In brief, the main points obtained from consultation with the AFTA were that across its membership the effect of the two events are that:

- bookings and revenue are down;
- retrenchments and standings-down were occurring but the extent was not fully known;
- employment was expected to continue to fall;
- some travel agencies had closed down and further closures were possible; and
- lower airline capacity in regional areas is negatively affecting travel agencies in those areas.

The specific responses of the three airlines, QANTAS, Virgin Blue, and Ansett, are commercial-in-confidence. In some cases very detailed information was provided, giving a good basis for assessing the effects of the two events. QANTAS estimate that the likely loss of inbound arrivals of QANTAS passengers for the remainder of 2001 will be about 10 per cent from North America and less from other markets.

Further details regarding the outcomes of the industry consultation are provided in Attachment B.

2.4 Econtech's Assessment

Econtech weighed up information from all sources and reached an agreed position with the TFC on the likely impacts on the tourism industry.

In the inbound market, the agreed position was that the effect of the two events is projected to cause a loss in inbound tourism over the last three months of 2001 of 15 per cent. On the one hand this estimate is above the estimates from the two surveys and QANTAS of about 10 per cent. On the other hand, it is under the estimate of industry players such as ATEC, and the initial estimate of the TFC technical sub-committee.

It is interesting to compare this assessment with that released on 9 October by the International Air Transport Association (IATA). The IATA report, which covers global aviation, states that "we can expect reductions in capacity on international scheduled services averaging 10-20 per cent during the next three months". IATA also expects that the global aviation industry will recover in about 12 months.

The IATA's mid-point estimate of a 15 per cent fall in international airline capacity refers to the international aviation industry as a whole. Given that the terrorist attacks occurred in the USA, the effect would be larger for international travel in and out of the USA. As such, the effect may be smaller to other destinations, such as Australia.

In the domestic market, Econtech's modelling allows for a significant loss of activity in domestic tourism due to the demise of Ansett and its adverse effect access and potentially costs in the domestic tourism market. More specific details on the modelling assumptions are contained in the next section.

3. Economy-wide Effects

This section outlines the modelling of the economic effects of the two events on the tourism industry and the Australian economy

The nature of the two events meant that this analysis could not be undertaken using economic models in a mechanical fashion. There is no economic model of Australia that specifically identifies Ansett. Similarly, the US terrorist attacks are an event without exact historical precedent and so cannot be simulated in a routine way.

Rather, to simulate the effects of these events, the first step was to muster information on their initial impacts on the tourism industry. As outlined above in section 2, a number of information sources were used to gauge the initial impact of the events, on which we reached an agreed position with the TFC. The model employed and the model simulations are discussed below.

3.1 Model Used

Econtech used its well-known economic model, MM2, in assessing the impact of the two events on the Australian economy and tourism sector.

MM2 has a number of important characteristics that make it suitable for this project:

- it provides quarterly forecasts over a nine year time horizon;
- it is also a policy model;
- it forecasts at the national and industry levels;
- it covers the 18 broad ANZSIC industries, which include tourism-oriented industries such as the accommodation, cafes and restaurants industry and the transport and storage industry; and
- it provides forecasts of the exports and imports of travel (tourism) services.

MM2 has the capability to perform simulations, where a range of inputs can be altered and the subsequent effect on the model outputs can be analysed. The impact of the two events has been simulated in this way.

3.2 Model Simulation

The Ansett collapse simulation involved:

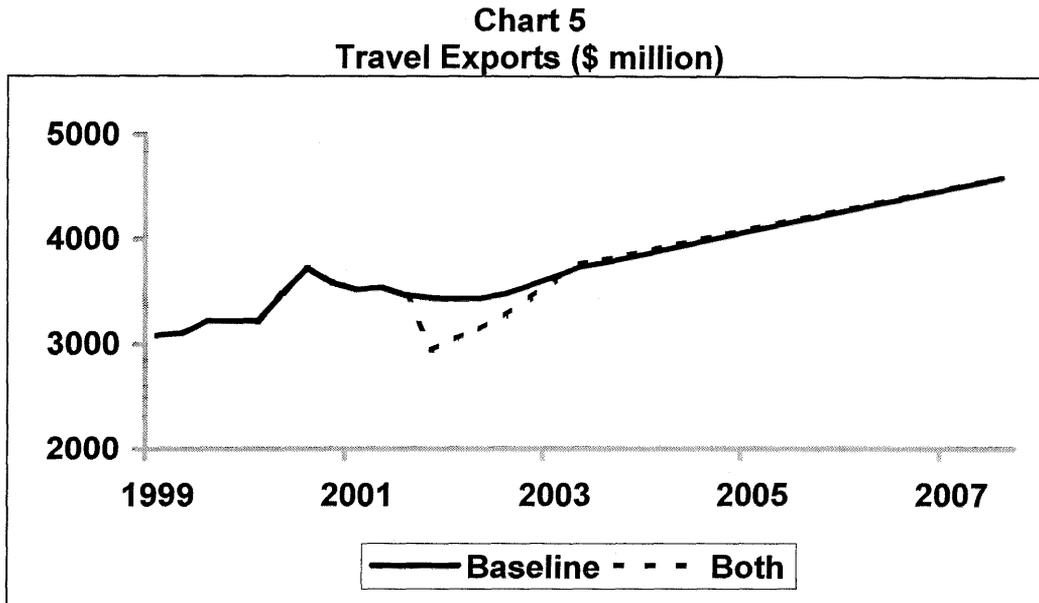
- a 4 per cent hike in the overall price of domestic travel packages due to higher domestic airfares. In reality, the collapse of Ansett may reduce domestic tourism by reducing access to regional areas as much as by pushing up domestic airfares. However, the modelling assumption of higher airfares is a convenient device for generating in the model the observed reduction in domestic tourism, irrespective of whether in reality that reduction is being caused by access or price factors.

The terrorism in US simulation involved:

- a 15 per cent cut in inbound arrivals due to increased fear of flying of potential inbound arrivals. As noted above, this is based on TFC forecasts.

A third simulation, described as “both”, combined both the Ansett collapse and terrorism in the US to assess the overall effects on the Australian economy of both events.

The main results of the three simulations are summarised in Charts 5 to 11. Chart 5 shows the effect of the two events on the level of travel exports. The baseline is the situation that would have prevailed had the two events not happened i.e. business-as-usual.



As shown in Chart 5, the fear of flying due to the terrorist attacks in the USA causes an initial loss in inbound arrivals (travel exports). However, this effect is expected to gradually fade over about a two-year period, with travel exports recovering to the same position that would have prevailed had the two events not occurred. In the recovery period, there is a faster rate of growth than would have occurred under the baseline situation.

Chart 6 shows the effect on travel exports in an alternative manner than is shown in Chart 5. While Chart 5 shows the path of travel exports in the “baseline” and “both” simulations, Chart 6 shows the percentage deviations of the “both” simulation from the “baseline” simulation. It also shows the effects attributable to each of the two events considered separately, again expressed as percentage deviations from the baseline simulation.

The fear of flying due to the terrorist attacks in the USA sees an initial loss in inbound arrivals (travel exports) of about 15 per cent, or \$500 million, with this loss eroding over two years. By comparison, the collapse of Ansett is simulated to have little effect on travel exports

Charts 7 to 11 show other effects, in all cases in terms of percentage deviations from the baseline.

Chart 7 compared with Chart 6 shows that the effects on outbound travel (travel imports) are relatively minor compared with the effects on inbound travel (travel exports).

The loss of travel exports adversely affects the Australian tourism industry. The loss of domestic tourism due to the collapse of Ansett adds to these adverse effects. Chart 8 shows

that these combined effects reduce transport GDP by about 3 per cent, or \$210 million. Similarly, Chart 9 shows a reduction in accommodation, cafes and restaurants GDP of about 4 per cent, or \$140 million. Various sectors of both of these industries would be harder hit than the results for these broad industries would suggest.

Other industries are indirectly affected by the weakening in the Australian tourism industry. There is a loss in GDP for all industries other than accommodation, cafes and restaurants and transport and storage of about 0.4 per cent, or \$670 million.

The total initial impact of the events will be to reduce GDP by about 0.6 per cent, or \$1 billion, below the level that would have prevailed had the events not occurred. These effects are due in about equal measure to the aftermath of the terrorism attacks in the USA and the collapse of Ansett. See Chart 10. The impact of the events is expected to last about two years, after which GDP returns to the level that would have prevailed had the events not occurred.

The impact on employment is smaller, as shown in Chart 11. Initially employment is about 0.3 per cent, or 28,000 jobs, below the level that would have prevailed had the events not occurred. This result takes into account those jobs lost as a result of the collapse of Ansett as well as job losses elsewhere in the economy. As with GDP, employment recovers within a few years to the level that would have prevailed had the events not occurred.

Thus, on the positive side, the effects of these events are forecast to be temporary, gradually fading away over two years. This assumes that terrorism is better contained and that there is a re-building of competition in the domestic aviation market.

Chart 6
Travel Exports (% deviation)

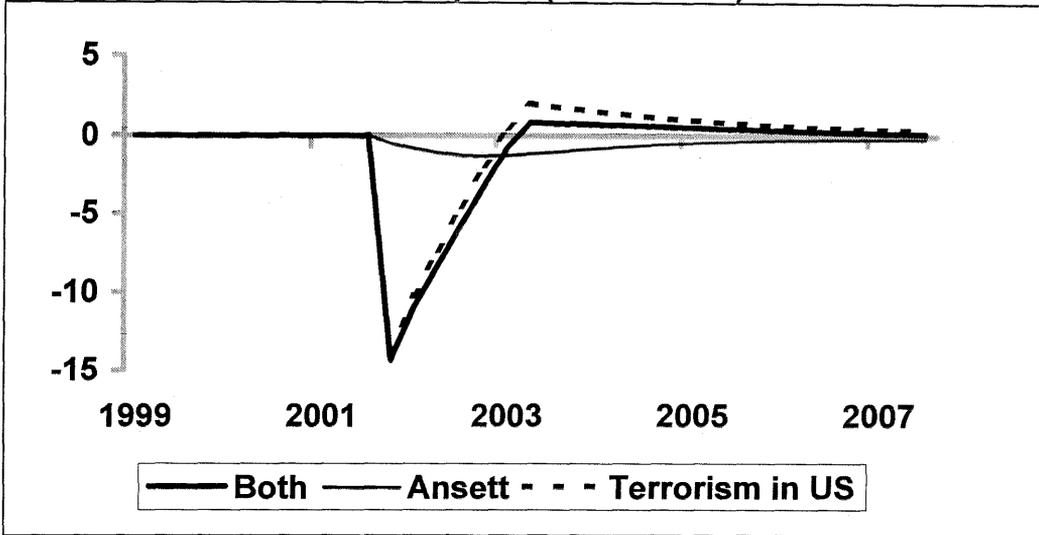


Chart 7
Travel Imports (% deviation)

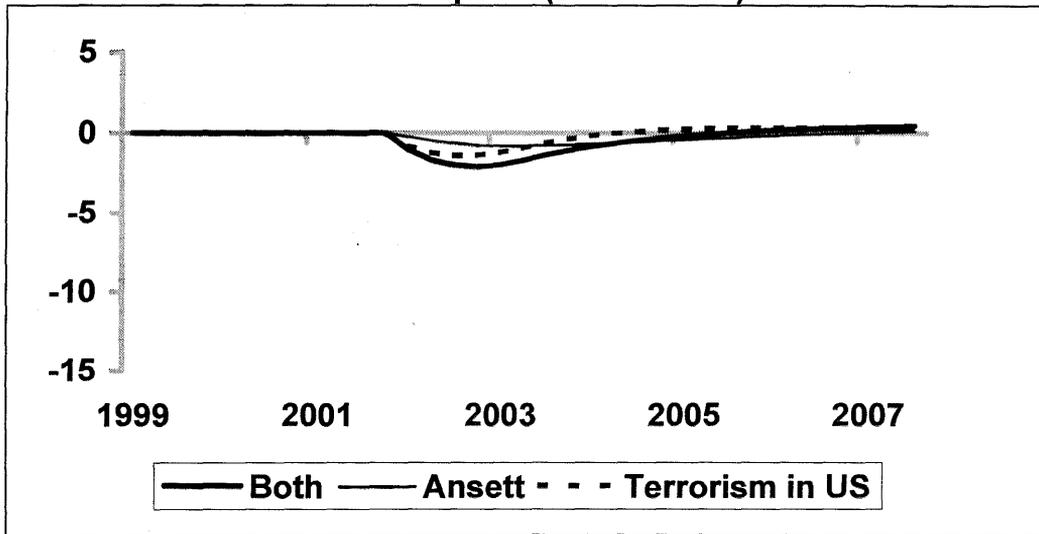


Chart 8
Transport & Storage – Gross Product (% deviation)

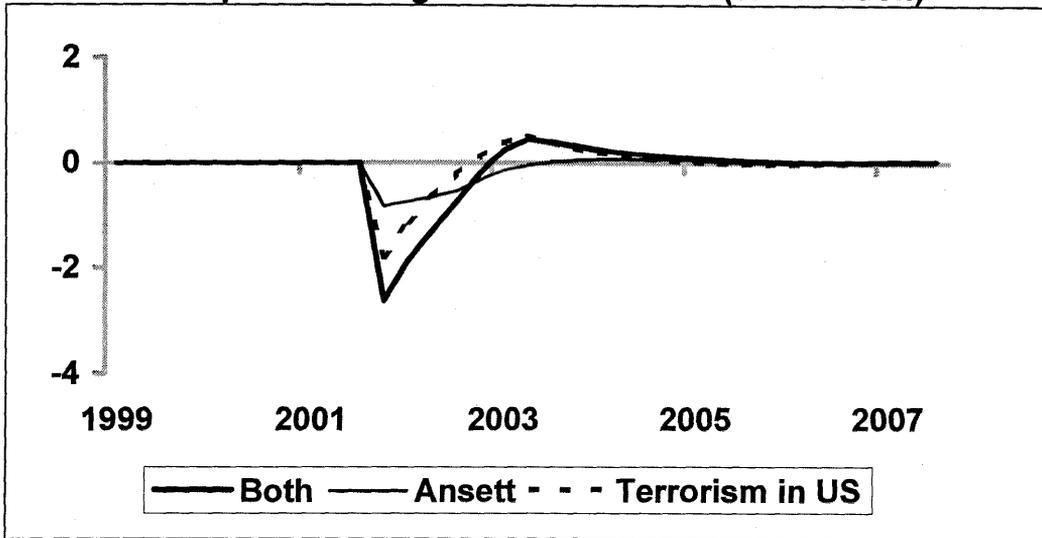


Chart 9
Accommodation Cafes, & Restaurants – Gross Product (% deviation)

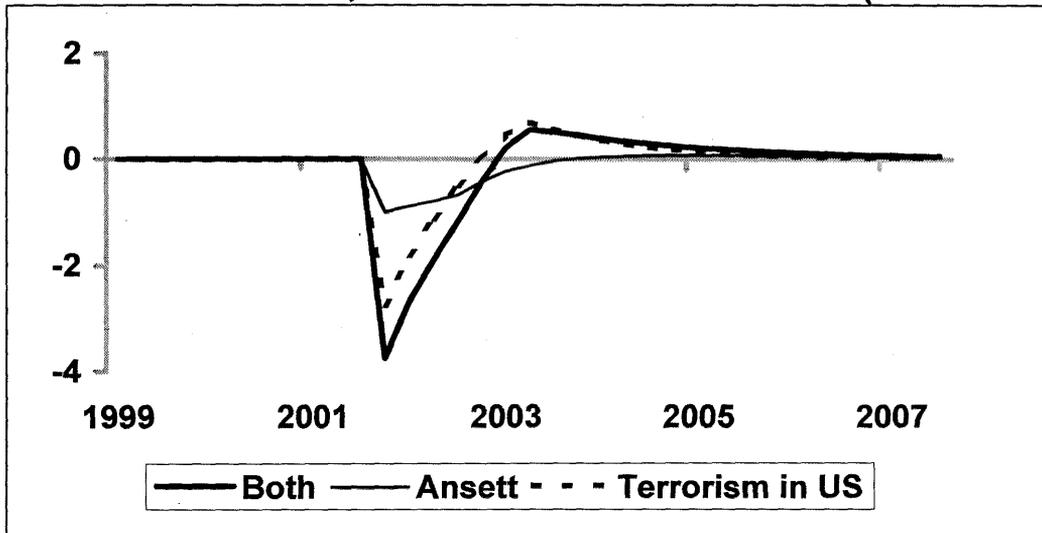


Chart 10
GDP (% deviation)

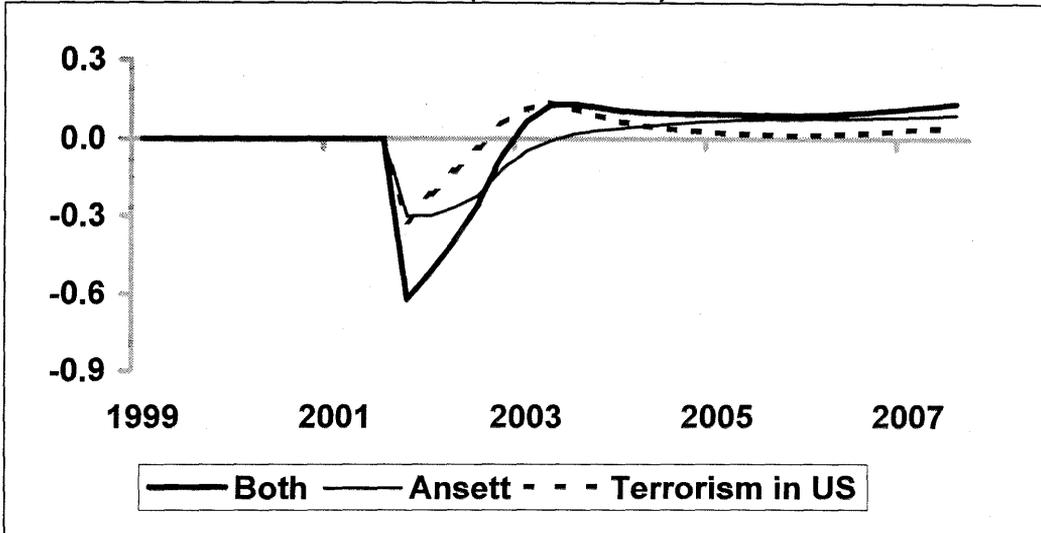
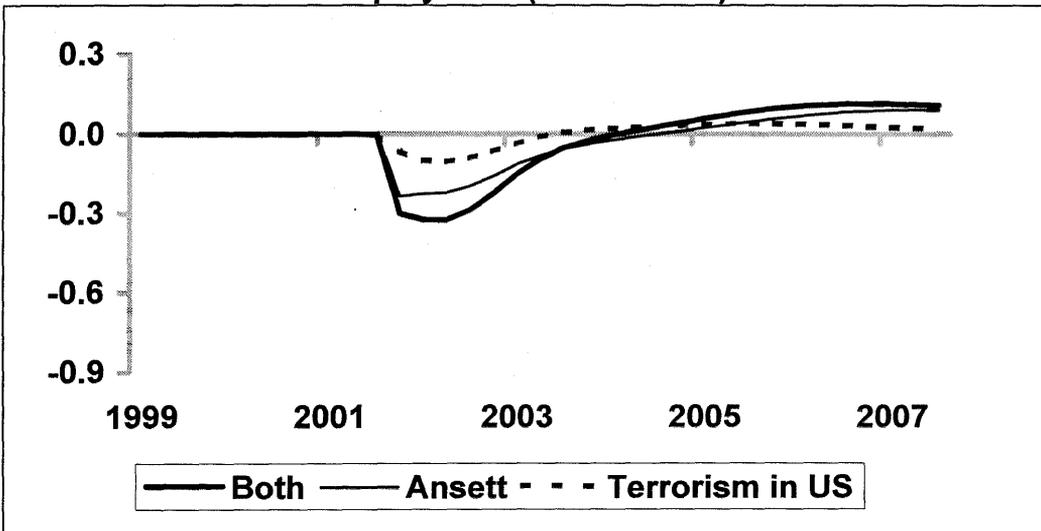


Chart 11
Employment (% deviation)



4. Policy Implications

The two events are clearly having a negative impact on tourism and the Australian economy. However, the nature of these two events means that the effects are likely to be short-term.

This assessment assumes that there is a re-building of competition in the domestic airline industry. Competition in the domestic airline industry will ensure that domestic airline ticket prices are moderate, supporting the Australian tourism industry.

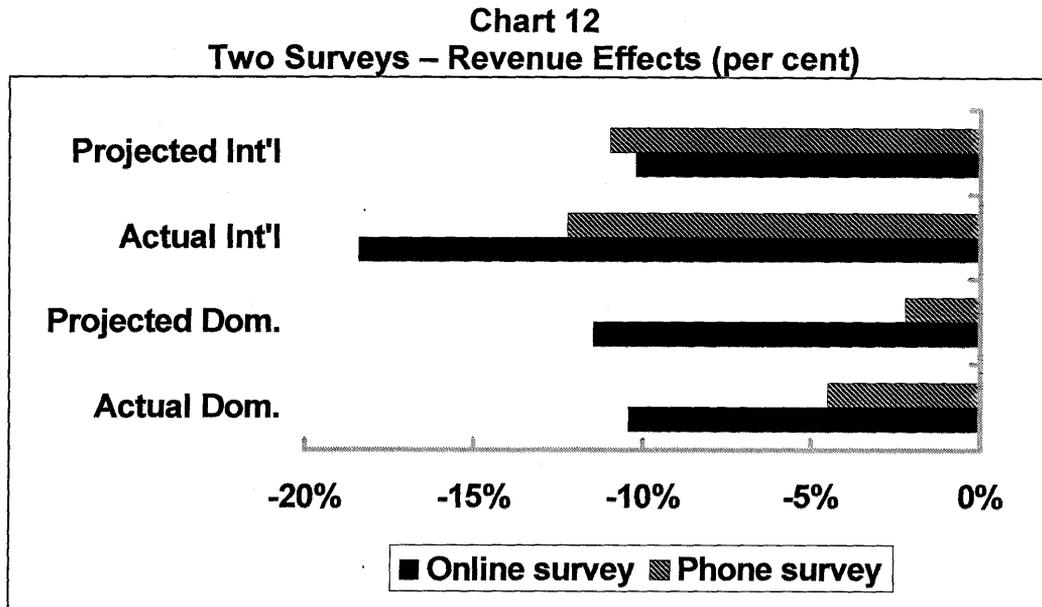
This assessment also assumes that terrorism is better contained, so that the increased fear of flying abates. As that occurs, inbound arrivals should recover.

Any policy response to the two events should alleviate the short-term problems that are being experienced. It should not be ongoing or aim to assist operators to exit the industry because the effects of the two events are expected to be temporary. Furthermore, the tourism industry's strong long-term growth should re-establish itself as the effects of the two recent events fade.

Attachment A – TIWG Surveys

As outlined in section 2.1 above, Econtech assessed the results of the two surveys commissioned by TIWG. The main findings of this assessment were also outlined in that section. This attachment provides further detail on the results of the two surveys.

Chart 12 shows that in general the online survey shows larger average effects than the phone survey. This may reflect a bias in the online survey. The response rate for the online survey was quite low at 21 per cent (2,837 of 13,377 tourism operators that were approached by e-mail), which may have introduced a pessimistic bias as explained in section 2.1.



Tables 4 and 5 show the results regarding revenue to date from the online and phone surveys respectively. As noted above, the results from the online survey are on average more negative than the results from the phone survey.

Table 4
Online Survey – Revenue to date, % change

	Domestic	International	Total
Leisure	-12.2%	-20.3%	-17.2%
Business	-8.5%	-12.7%	-10.0%
Total	-10.4%	-18.4%	-14.5%

Table 5
Phone Survey – Revenue to date, % change

	Domestic	International	Total
Leisure	-4.6%	-12.7%	-6.4%
Business	-4.1%	-11.0%	-5.7%
Total	-4.5%	-12.2%	-6.2%

Tables 6 and 7 show the results regarding projected revenue over the next three months from the online and phone surveys respectively. Again, the results from the online survey are on

average more negative than the results from the phone survey. The one exception is in the case of the international leisure market where the results from the phone survey are more negative.

Table 6
Online Survey – Projected revenue over the next 3 months, % change

	Domestic	International	Total
Leisure	-13.2%	-11.2%	-12.0%
Business	-9.6%	-7.4%	-8.8%
Total	-11.5%	-10.2%	-10.8%

Table 7
Phone Survey – Projected revenue over the next 3 months, % change

	Domestic	International	Total
Leisure	-1.0%	-13.4%	-3.7%
Business	-6.0%	-4.4%	-5.6%
Total	-2.2%	-11.0%	-4.2%

Notwithstanding the differences between the precise results from the two surveys, they show similar patterns. Leisure tourism is more affected than business tourism. Also, projected effects are less than actual effects to date.

Chart 13
Online Survey – Employment Effects by Status (per cent)

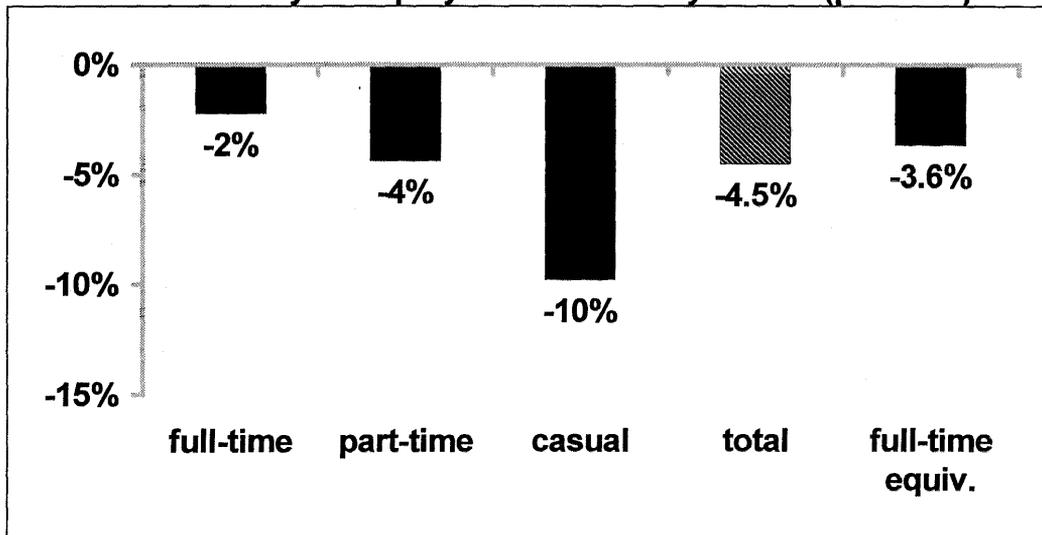
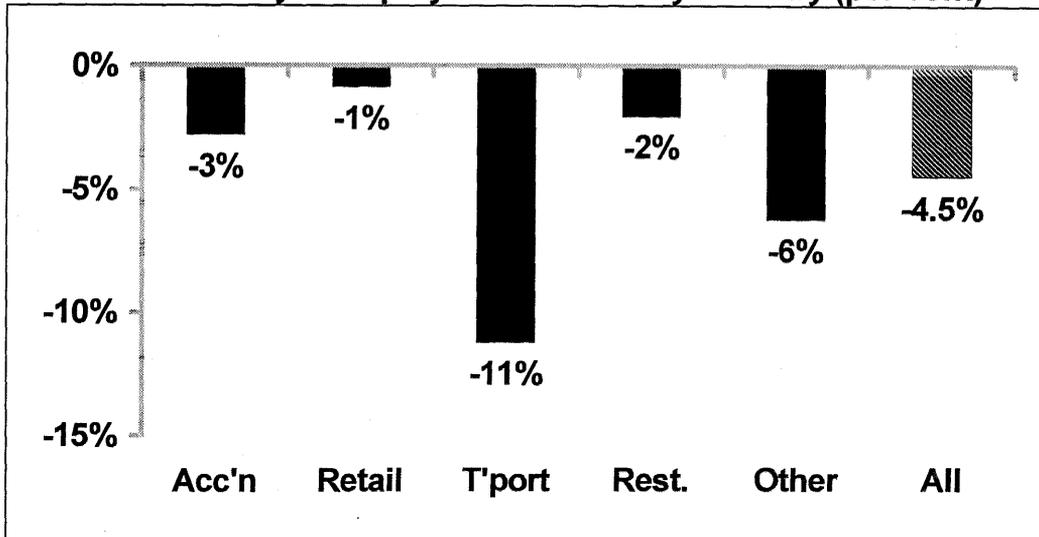


Chart 13 shows the effects on employment by status while Chart 14 shows the effect on employment by industry. As noted in section 2.1, casual and part-time workers have been most affected, reflecting the fact that employers can temporarily adjust labour costs more easily by cutting casual employment. While the overall effect on employment has been a fall of 4.5 per cent, the effect on full-time equivalent employment has been less due to employment shedding being more pronounced for casual and part-time employees.

In terms of employment by industry, the transport industry has seen the largest fall. This reflects falling employment in tourism-related transport businesses, such as coach services and vehicle hire, and in travel agencies.

Chart 14
Online Survey – Employment Effects by Industry (per cent)



As mentioned in section 2.1, employment effects from the phone survey could not be properly assessed due to problems with the early edition of the results obtained by Econtech.

Attachment B – Industry Consultation

As outlined in section 2.3 above, Econtech surveyed members of TIWG with key roles in tourism, aviation and the travel industry. The main points obtained from this consultation were also outlined in that section.

This attachment provides further detail regarding the responses of the two industry organisations surveyed. Further detail concerning the responses by the airlines surveyed has not been included due to its commercial-in-confidence nature.

Tourism Task Force

The TTF represents the top 200 tourism industry operators and covers businesses operating in every aspect of the tourism sector.

According to the TTF, the effects to date on bookings have been:

- fall of 5 to 10 per cent in the domestic leisure market;
- fall of less than 5 per cent in the domestic business market;
- fall of 11 to 20 per cent in the international leisure market; and
- fall of 5 to 10 per cent in the international business market.

The effects to date on revenue have been:

- fall of about 10 per cent in the domestic leisure market;
- fall of 5 to 10 per cent in the domestic business market;
- fall of about 10 per cent in the international leisure market; and
- fall of 5 to 10 per cent in the international business market.

The expected effects on forward bookings during the next three months are:

- fall of 20 to 30 per cent in the domestic leisure market;
- fall of 5 to 10 per cent in the domestic business market; and
- fall of 15 to 20 per cent in the international leisure market.

An estimate of the expected effect on forward bookings for the international business market could not be made at the time of consultation.

The expected effects on revenue during the next three months are:

- fall of about 20 per cent in the domestic leisure market;
- fall of 5 to 10 per cent in the domestic business market; and
- fall of 10 to 15 per cent in the international leisure market.

An estimate of the expected effect on revenue for the international business market could not be made at the time of consultation.

Over the next three months, forward bookings and revenue from international leisure operations are likely to be weakest from North America. Revenue is likely to be up slightly from the UK and Europe and stable from Asia and New Zealand.

In terms of employment, members of the TTF have retrenched or stood-down about 25,000 employees. It is possible that up to a further 50,000 employees could be affected.

According to the TTF, in the short term, the substitution of travel by car rather than by plane is only partly offsetting the impact on some tourism operators. In the longer term, the outlook is for further deterioration in the industry due to the drop in airline capacity. The concern is that any increase in airline capacity will focus on major trunk routes at the detriment of regional capacity. Capacity issues in regional areas are already causing problems for tourism operators in those regions.

Australian Federation of Travel Agents

AFTA represents the majority of travel agents in Australia and has over 2,200 members, incorporating membership of around 1,800 retail outlets.

AFTA was not able to supply quantitative responses, however the organisation actively encouraged its members to participate in the TIWG survey.

According to AFTA, the effect of the two events to date is that bookings, revenue and employment have fallen.

In terms on employment, retrenchments and standings-down were occurring but the extent was not fully known. The outlook for employment is negative, with further falls expected.

According to AFTA some travel agencies had closed down already as a result of the two events and further closures were possible. Regional travel agencies are suffering due to the fall in airline capacity to regional areas. This is exacerbating problems in south-east Queensland and northern NSW where travel agents were already suffering due to the emergence of Impulse and its policies of not selling tickets through agents.

AFTA expects further decline in the industry due to:

- poor economic confidence;
- travellers who have already lost money with Ansett are unlikely to spend as much again in the near future; and
- mid-December usually being a relatively quiet period anyway.