

CUMMINGS ECONOMICS

38 Grafton St (PO Box 2148) CAIRNS Q 4870

ABN 99 734 489 175

Phone: 07 4031 2888 / Mobile: 0418871011

Email: cummings@cummings.net.au

Website: www.cummings.net.au



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Re:

TOURISM IN TROPICAL NORTH QUEENSLAND NOT AN EASY RIDE

1. INTRODUCTION

While the growth of tourism in the Cairns Tropical North Queensland region has been one of Australia's economic success stories, especially over the decades up to mid-2000s, it has been far from being an 'easy ride' for those who have invested in its development.

The following analysis looks right back to the 1970s to identify the, at times, heady surges in growth, but also devastating shocks that have epitomised the industry's progress. The analysis looks at the factors behind the, at times, extremely rapid changes in conditions.

The analysis finally looks at the current situation the industry is in as a result of the 'shock' caused by Covid-19, state and international border closures, and their implications for the sector's future progress.

2. CAIRNS & TROPICAL NORTH QUEENSLAND TOURISM IN PERSPECTIVE

The Cairns/ Tropical North Queensland (TNQ) region offers a world class combination and quality of tourism attractions that have played a substantial part in Australia's domestic tourism over a long period of time and subsequently a critical role in Australia's rise as an international tourism destination.

However, the area has been remote from major markets within Australia, let alone major world markets. The history of tourism in the region can be written in terms of transport developments – of coastal passenger ships coming up the coast from the earliest days, the linking of the railway from Brisbane in the 1920s, the post-war surge in family car ownership and the sealing of the last link in the Bruce Highway in the early 1970s. From the 1960s on, air travel started to become the major form of tourism transport to the region.

Against this background, markets spread progressively from locals, to Queensland-wide, to southern Australia and then overseas.

By the 1970s, Cairns had developed as an important element in the United States tourism “Great Boomerang Tour” of the Reef, the Rock and the Opera House with airlines pioneered between Alice Springs and Cairns.

In 1984, a landmark event in the tourism industry’s development occurred with the upgrading of Cairns Airport to take wide-bodied jets direct from overseas. With the Japanese market opening up in a big way in the early 1990s and a backpacker surge out of UK/ Europe by mid-1990s, international tourism had grown to account for about 35% of visitor numbers and over 40% of tourism expenditure.

3. MAJOR PRIVATE ENTERPRISE INVESTMENT BEHIND THE GROWTH

Local initiatives laid the foundations for tourism’s strong growth including:

- the formation of one of Australia’s leading regional tourism promotion organisations in the early 1970s funded by local governments and businesses;
- the transfer of the airport to ‘local ownership’ under the Cairns Port Authority in the early 1980s; and
- the major local investment in accommodation, tours and attractions, backed up over time with heavy national and international investments.

Although tourism is associated in many people’s minds with leisure and relaxation, the delivery of tourism is serious business. Tourism is different to most other industries in that it is defined by the customers and the customer comes to the product rather than the product being taken to the customer. Otherwise, its structures are similar to other industries. For those who have invested in it in capital, management and development of work skills, it has, “Not been an easy ride”, especially as markets have extended to global levels. While experiencing periods of very strong growth, the industry has experienced, over the past 40 years, four major ‘shocks’ (see **Chart_6: Passenger Movements Cairns Airport**) Exchange Rate e Rate as well as periods of negative conditions that have made progress difficult and hard won.

4. FOUR MAJOR SHOCKS

4.1 The 1970s & 1980s

Although there were domestic economic downturns in about 1974, 1978 and 1983, they were relatively mild. The tourism industry was mainly based on a growing domestic market (see **Chart_1: GDP Growth**). The industry was growing strongly from a small base and saw through these short negative periods without strong effects.

The upgrading of Cairns Airport in 1984 to take wide-bodied jets from overseas and the floating of the Australian dollar and its strong devaluation in 1986 (see **Chart_2: Exchange Rate**) set off a major surge in growth.

Banking deregulation released the funds for a major investment in additional hotel rooms to cater for a doubling of room nights in the region's hotels and motels in three years (see **Chart_3: Hotel/Motel Room Nights – FNQ Statistical Division**).

4.2 The First Major Shock

The 'Pilots' Dispute' in 1989 quickly followed by the 'Recession we had to have' in 1990-91 devastated the sector. Small businesses went broke. The supply of hotel/motel rooms overshot. Occupancy rates plummeted along with hotel/motel room rates and returns on investment.

However, growth was to resume fairly quickly. The 'Pilots' Dispute' was a prelude to airline deregulation that brought Compass Mark 1 and ultra-cheap airfares. Domestic visitor numbers recovered (see **Charts_4: Cairns Airport Passenger Movements - Domestic Services** and **Chart_7: International Overnight Visitors - Tropical North Queensland**).

Cairns broke into the Japanese market with direct flights, and with a low dollar and cheap room rates, international visitor numbers soared (see **Charts_5: Cairns Airport Passenger Movements International Services** and **Chart_7: International Overnight Visitors - Tropical North Queensland**).

The international backpacker market emerged as an important segment during the early to mid-1990s.

4.3 The Second Major Shock

However, by about 1996, occupancy rates and room rates had risen. With room rates and the dollar rising (see **Chart_2: Exchange Rate**), growth (especially of the Japanese market), was moderating.

The shock came in 1997/98 with the 'Asian Crisis'. Almost overnight Cairns Airport lost services it had built up to Korea, Taiwan and Indonesia and some Japanese cities as Asian currencies fell in value. The Australian dollar dropped (see **Chart_2: Exchange Rate**).

But, the recovery was to be delayed by three events, 9/11 in 2001, the Iraq war and Sars in 2003. The collapse of Ansett also affected domestic numbers for a short period (see **Charts_4: Cairns Airport Passenger Movements - Domestic Services**).

However, by the mid-2000s, numbers were continuing to grow but growth being slowed by a strongly rising dollar (see **Chart_2: Exchange Rate**).

4.4 The Third Major Shock

The third shock was a ‘double whammy’. Against a background of a rising dollar, Qantas moved away from offering a full-service airline format to Japan and moved to a budget airline format of Australian Airlines and then Jetstar International, in the pursuit of profitability.

The Japanese market started falling back. In June 2007, Qantas decided to more than halve its capacity between Japan and Cairns. Numbers fell from over 200,000 a year to less than 100,000. The ‘Global Financial Crisis’ (GFC) hit a few months later causing a drop in domestic travel (see **Charts_4: Cairns Airport Passenger Movements - Domestic Services** and **Charts_5: Cairns Airport Passenger Movements International Services**).

Once again, a drop in the Australian dollar helped provide the basis for recovery (see **Chart_2: Exchange Rate**). But this was not to last.

Under the influence of the mining boom and the Reserve Bank raising interest rates well above those overseas in an attempt to dampen an economy spurred on by post GFC government deficits, the Australian dollar rose to almost 110 US cents. The competitive position of Australian and Cairns tourism was badly affected (see **Chart_2: Exchange Rate** and **Chart_8: International Overnight Visitors - Tropical North Queensland**).

With a drop back in the Australian dollar aided by Reserve Bank policies, Chinese visitor numbers rose to levels equivalent to earlier Japanese peaks. By 2018, international numbers had just recovered to 2005-06 levels (see **Chart_8: International Overnight Visitors - Tropical North Queensland**).

4.5 The Fourth Major Shock

When the fourth (Covid-19 pandemic), shock happened in early 2020, the industry was in a weakened position. Although domestic tourism had continued to grow (see **Chart_7: Domestic Overnight Visitors - TNQ**), it was slow and international visitor numbers had plateaued (see **Chart_9: Visitor Numbers - Great Barrier Reef**).

With its high proportion of tourism income dependent on international tourism, Cairns was particularly vulnerable. While there was some compensating increase in road visitors, especially on the Tablelands, Gulf and Peninsula areas, the impact on air traffic has been devastating (see **Chart 10: Cairns Airport - Passenger Movements 2020 & 2021**).

While in April, May and June 2021, there was evidence that, (if account is taken of the impact of loss of international traffic through the domestic terminal), domestic flight traffic was starting to rise back above pre-Covid levels compensating in part for loss through the international terminal. The lockdowns in New South Wales, Victoria and southeast Queensland in July and August had a major negative impact (see **Chart 10: Cairns Airport - Passenger Movements 2020 & 2021**).

4.4 The Current Situation

The tourism sector in the Cairns/TNQ region has been heavily affected by the Covid-19 pandemic, especially those businesses heavily involved in servicing international visitors but also interstate 'fly-in' visitors.

These businesses were just recovering from the damaging impact of the GFC and a very high Australian dollar in 2017-18 when international tourism numbers, especially from China, plateaued and tended to fall.

While heavy JobKeeper support in 2020 helped keep those firms operating, since end March 2021, they have been heavily exposed to the effects of loss of international business.

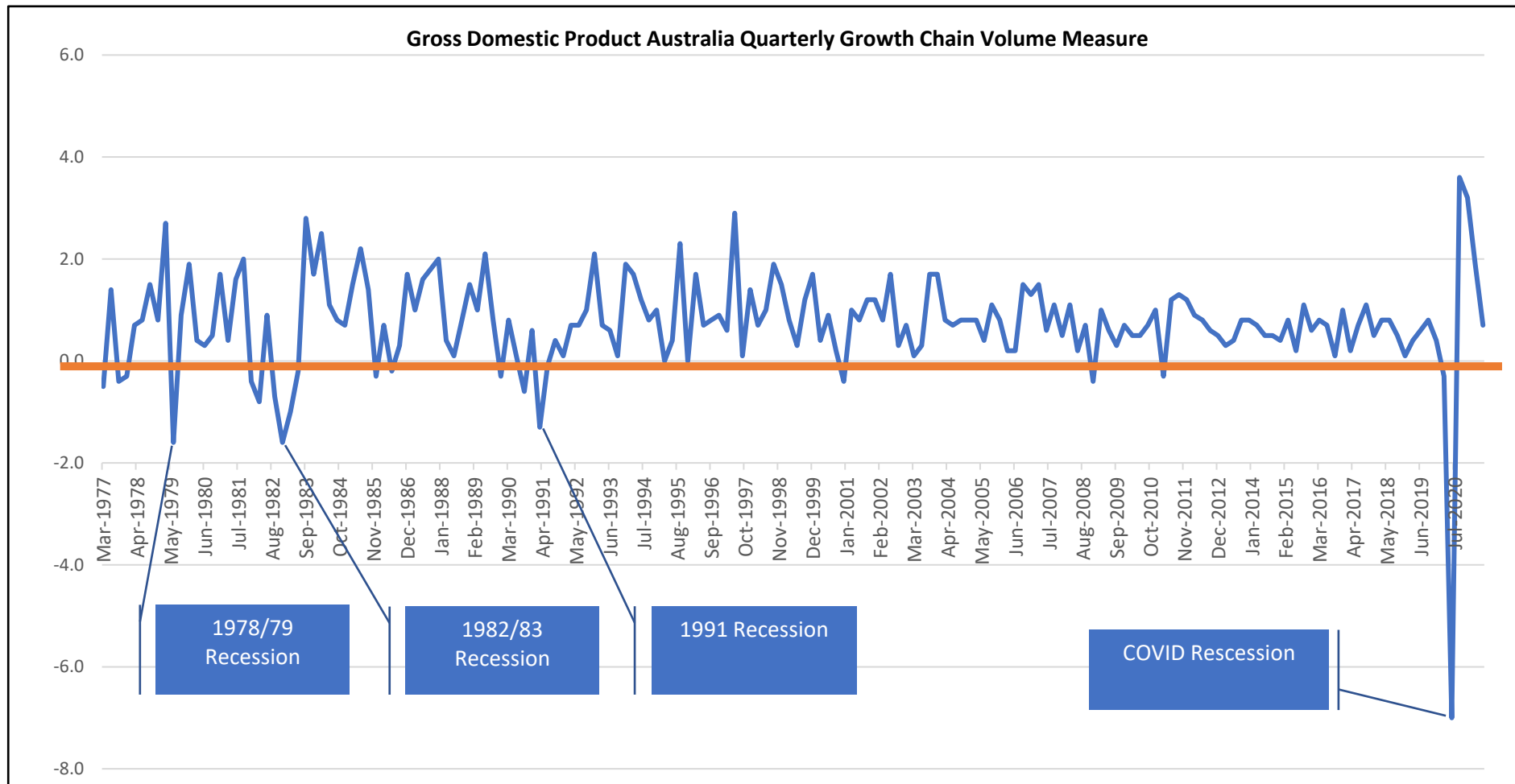
The sector now faces a need for what at this stage is looking like a 'herculean' effort to recover against a background of:

- a need to restore the damaged image of the Great Barrier Reef;
- a traditional disadvantage of little high yield 'front-of-aircraft' business in restoring air routes;
- uncertainties about the long-term effect of Covid-19 on people's propensity to travel, especially internationally;
- uncertainties brought about by security tensions in relation to China and Eastern Asia generally.

In going forward, a number of things are clear in relation to the role of government.

- That the region has a proud record of self-help in marketing and encouraging investment in the sector. Queensland is a big state with wide geographical variations in the product it offers. It is very much in the region's interests for State and Federal governments to recognise this and adopt a policy of supporting promotion at a broad regional level rather than on state and territory boundaries and allow local communities that have an interest in pursuing growth of tourism, to invest in promotion at local level through use of levies;
- That aviation policy and policy of bodies like the Competition Commission recognise the special difficulties of building domestic and international air routes based on tourism low yield 'back-of-aircraft' traffic;
- That government fiscal policy and monetary policy of the Reserve Bank recognise the prime importance to the tourism sector (along with other export oriented regional industry sectors), of keeping the Australian dollar competitive.

Chart_1: GDP Growth

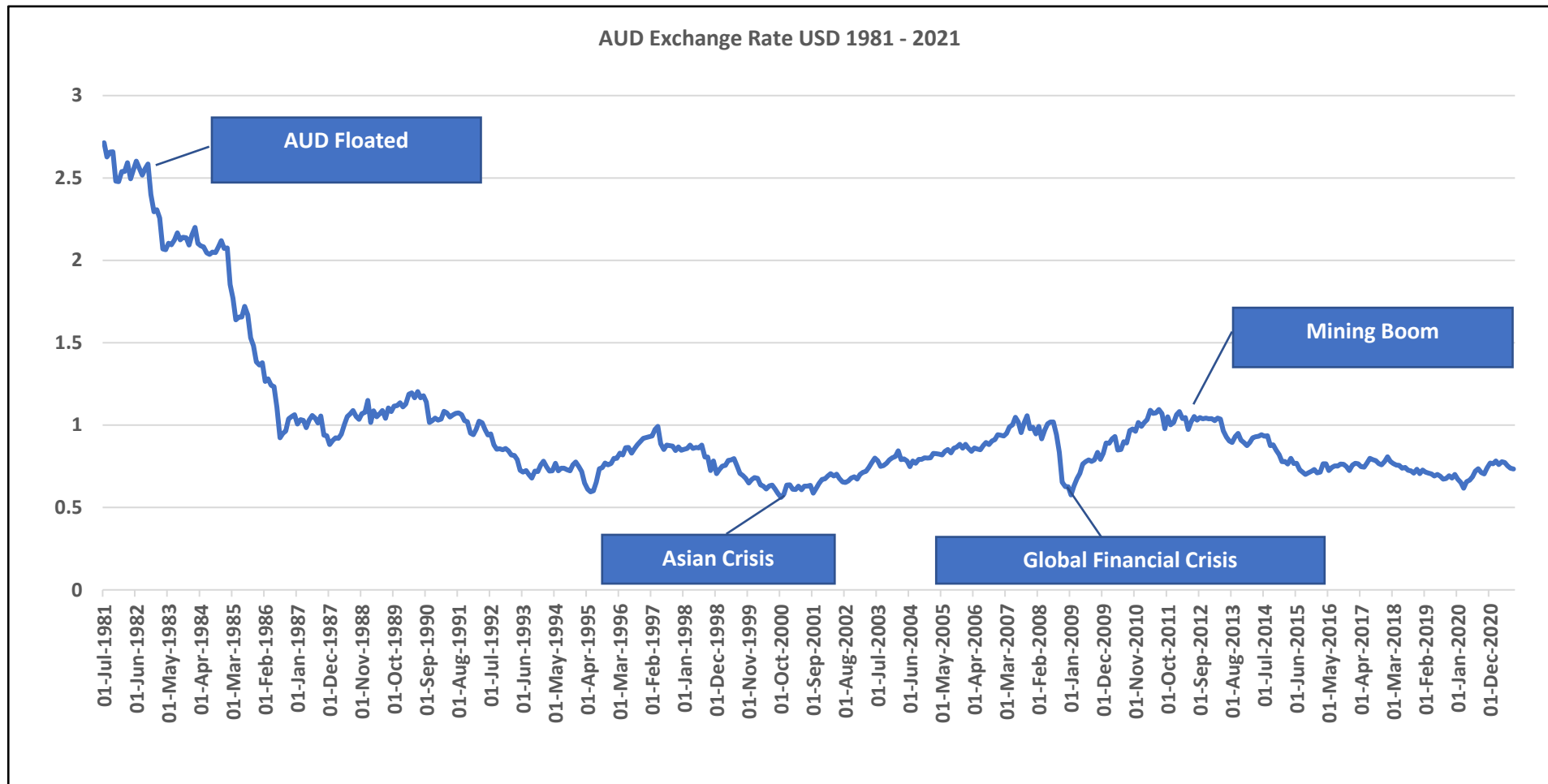


Source: Cummings Economics from ABS National Accounts.



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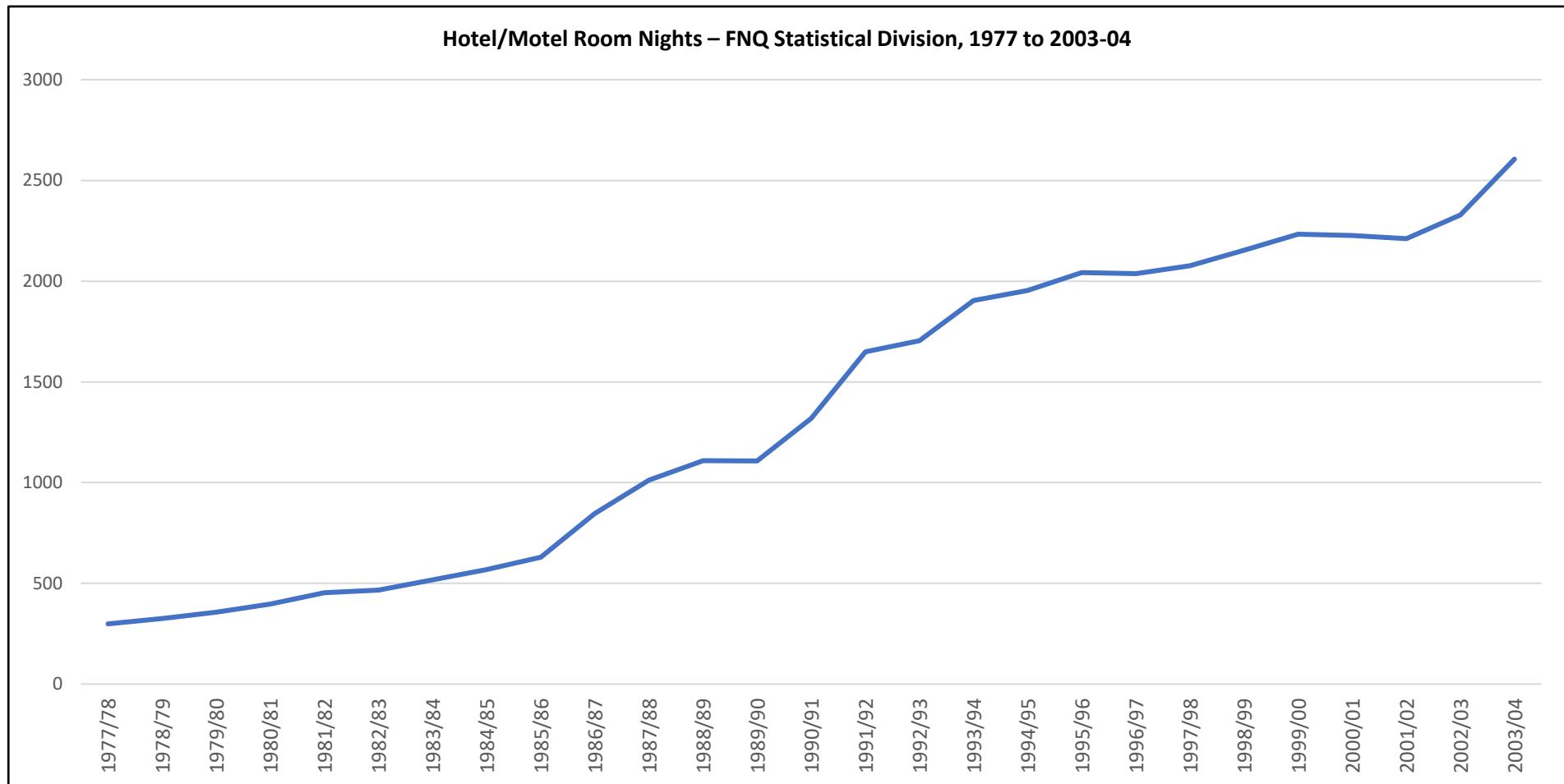
Chart_2: Exchange Rate



Source: Cummings Economics from Reserve Bank of Australia.



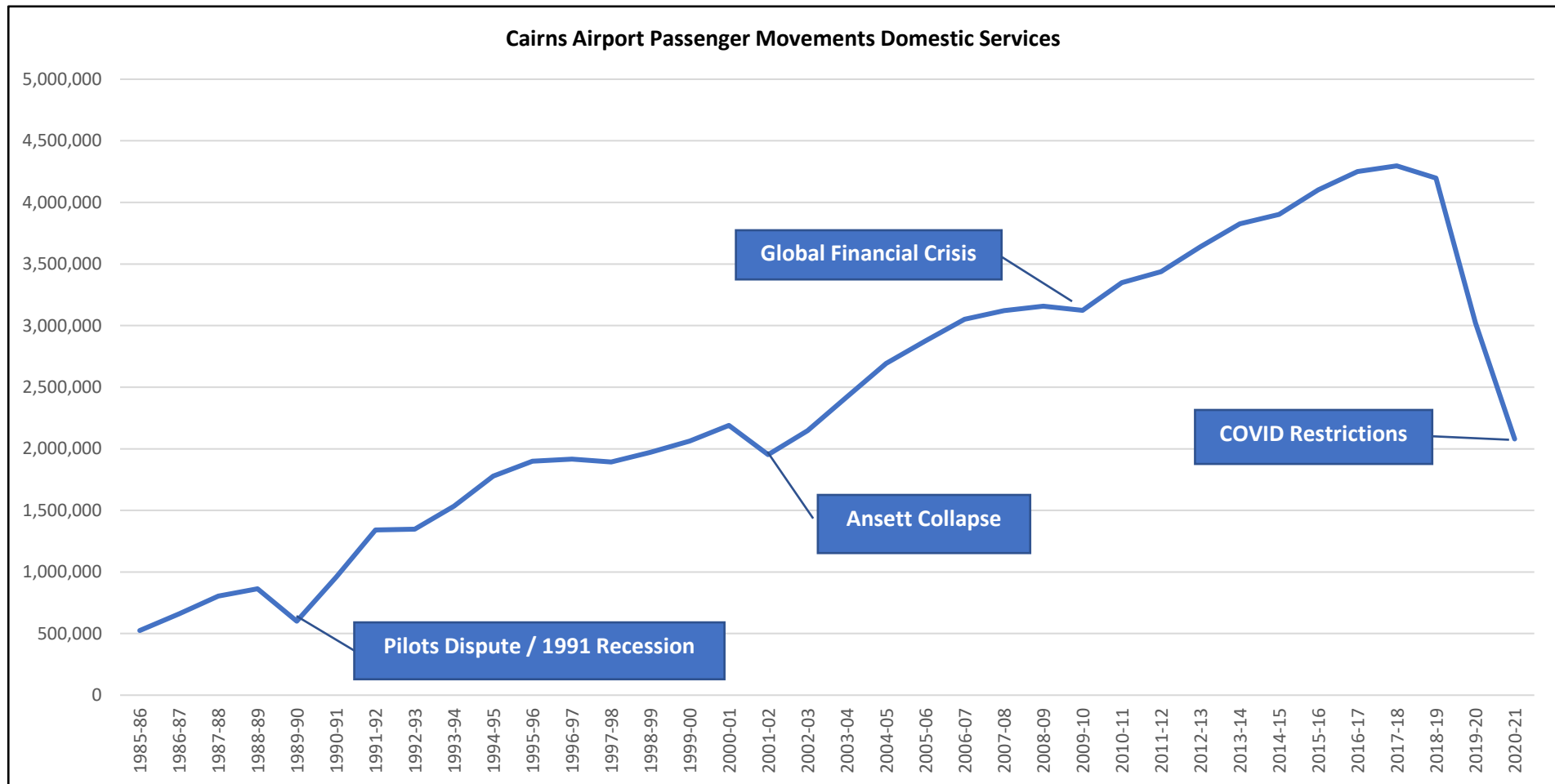
Chart_3: Hotel/Motel Room Nights – FNQ Statistical Division, 1977 to 2003-04



Source: Cummings Economics from Tourism Research Australia.



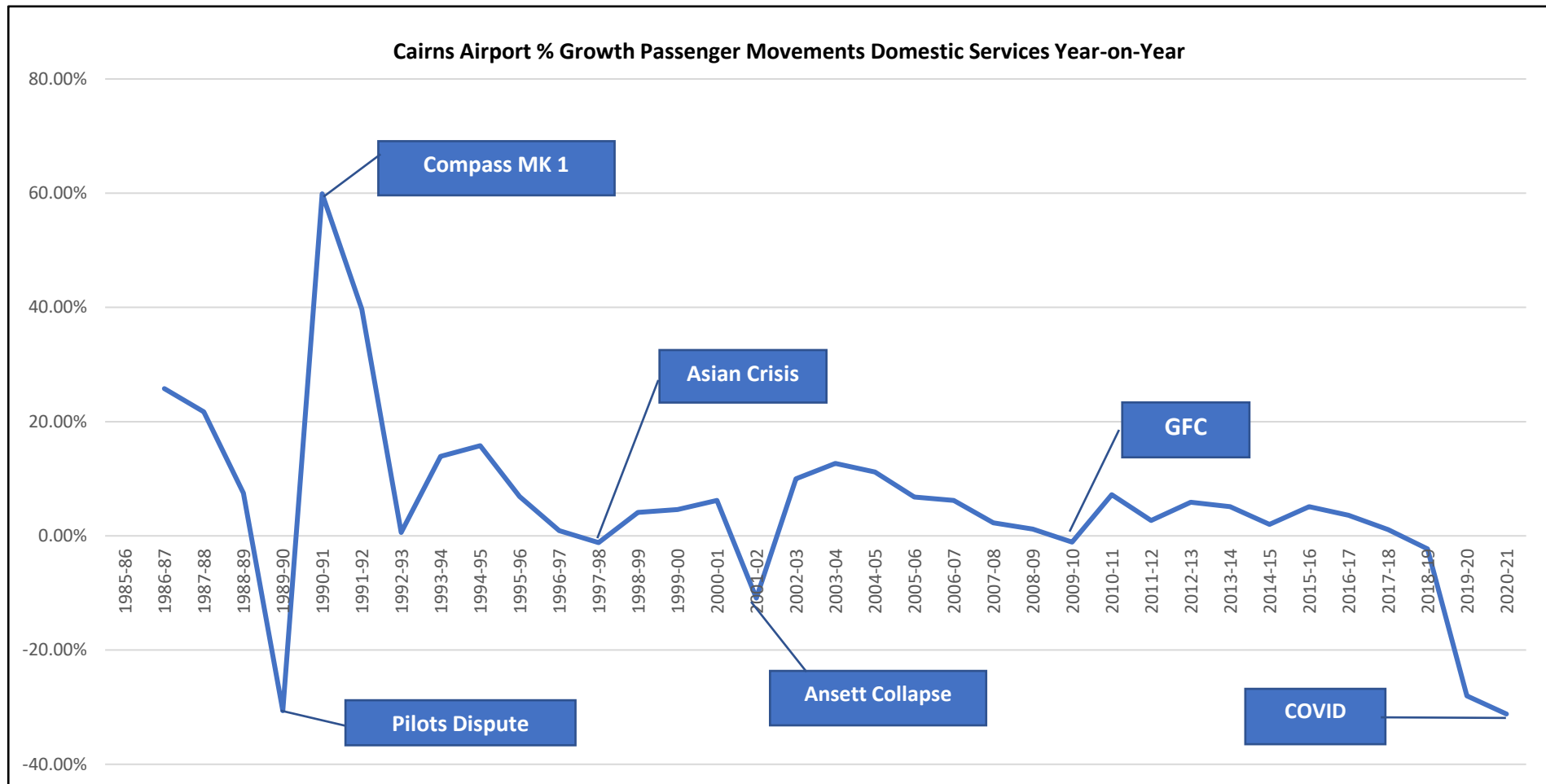
Chart_4a: Cairns Airport Passenger Movements - Domestic Services



Source: Cummings Economics from DITRE Aviation Statistics.



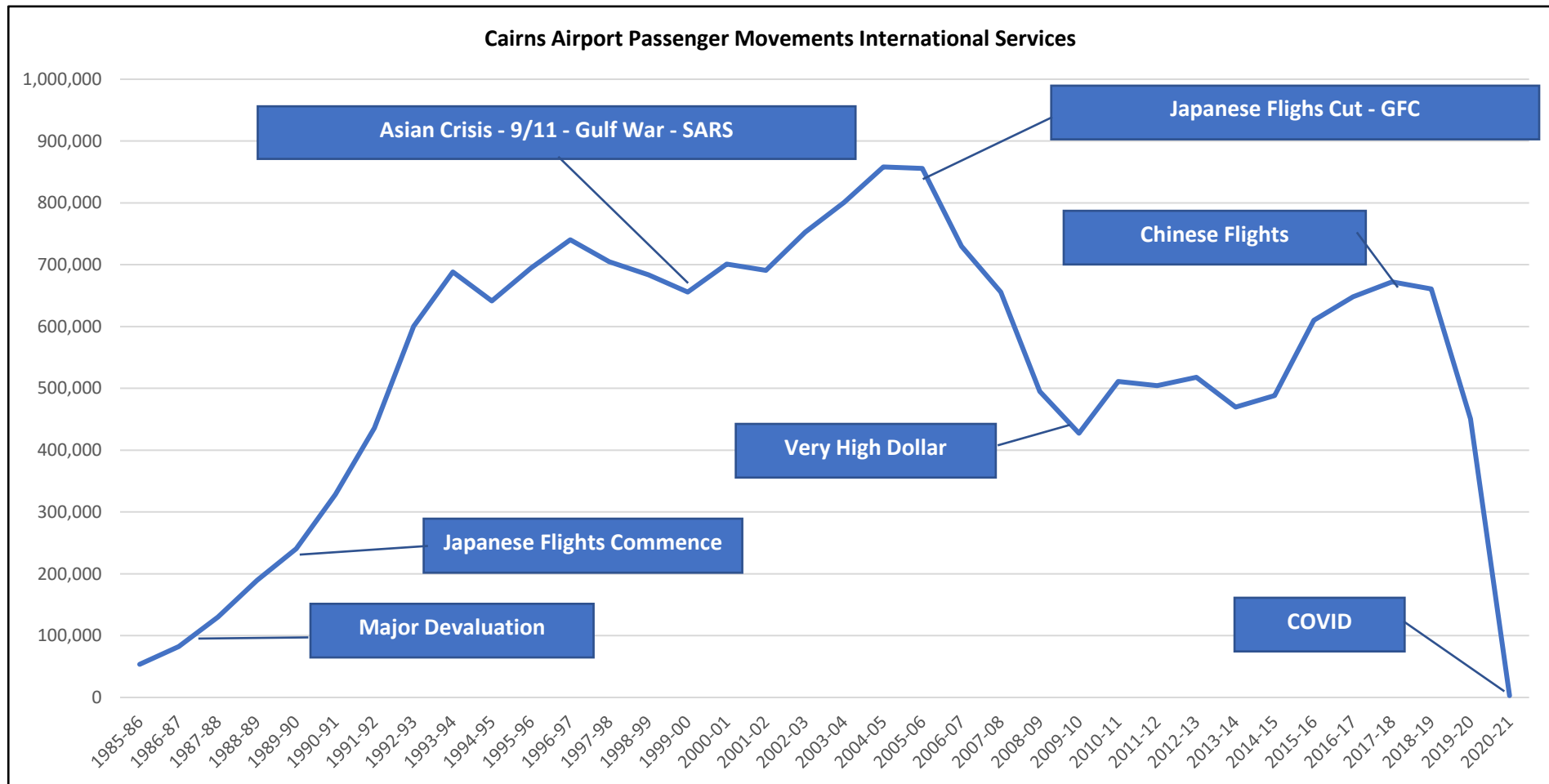
Chart_4b: Cairns Airport % Growth Passenger Movements - Domestic Services Year-on-Year



Source: Cummings Economics from DITRE Aviation Statistics.



Chart_5a: Cairns Airport Passenger Movements - International Services



Source: Cummings Economics from DITRE Aviation Statistics.



Chart_5b: Cairns Airport % Growth Passenger Movements – International Services Year-on-Year

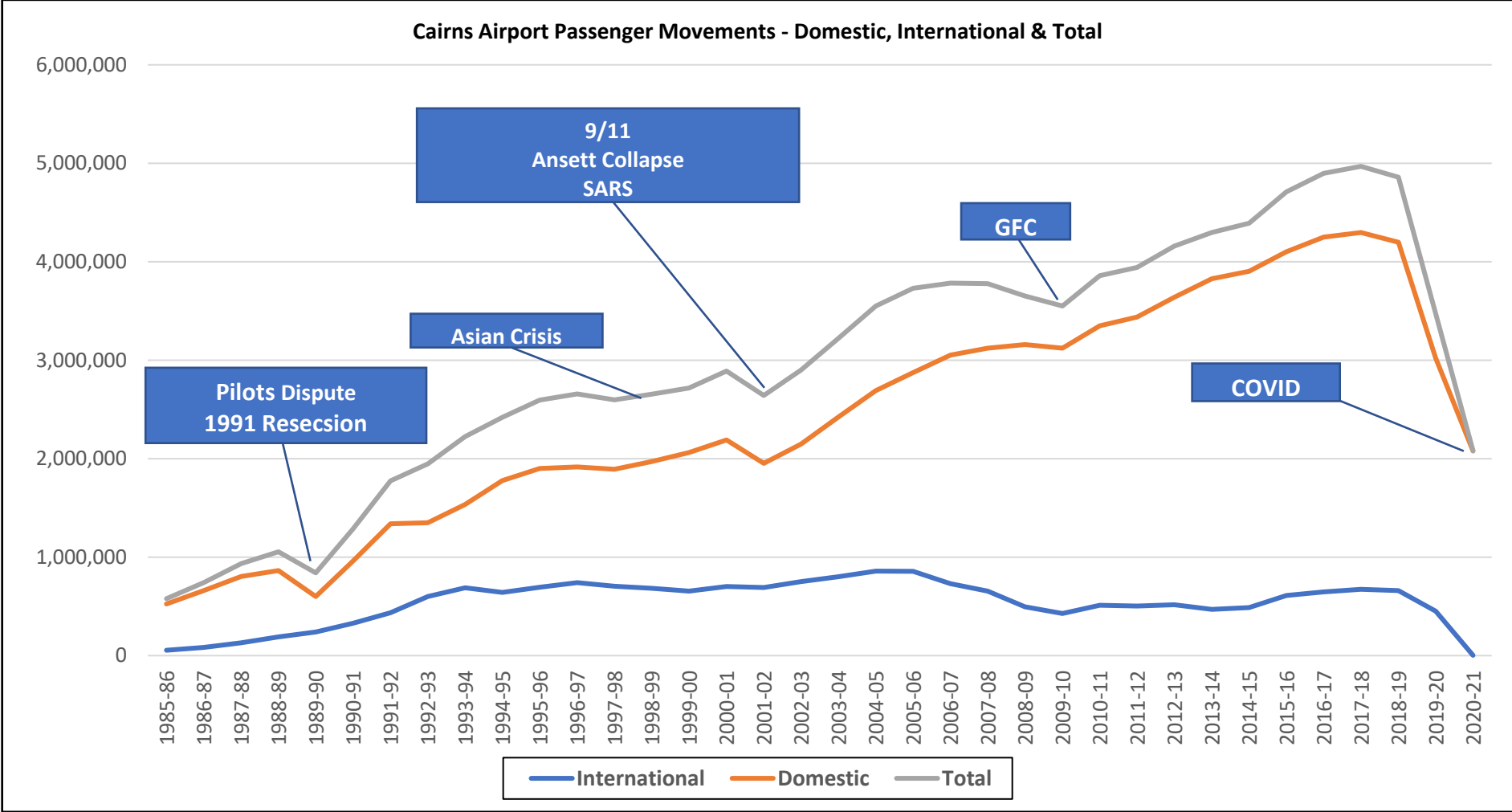


Source: Cummings Economics from DITRE Aviation Statistics.



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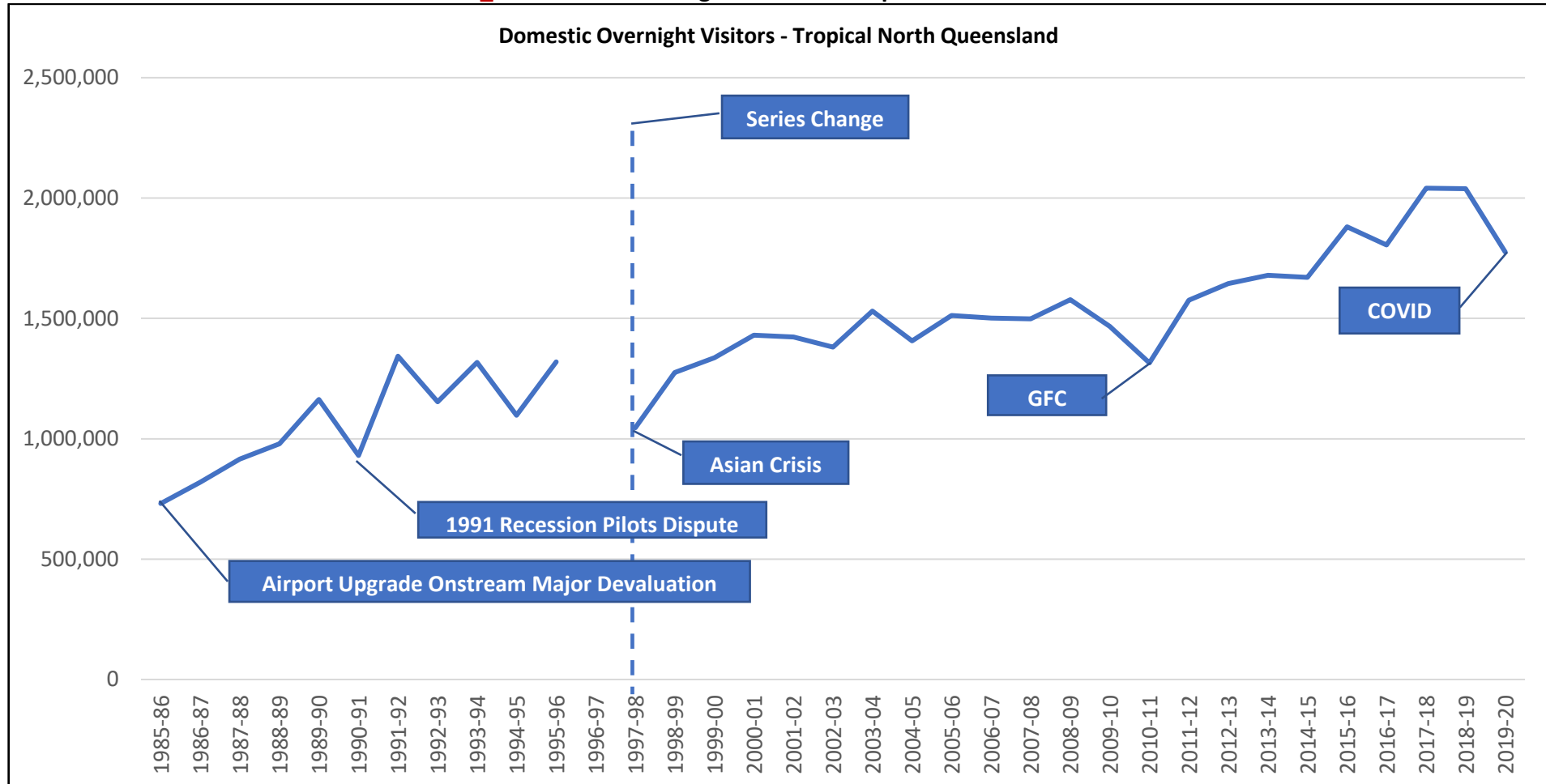
Chart_6: Passenger Movements Cairns Airport – Domestic, International & Total



Source: Cummings Economics from Tourism Research Australia NVS.



Chart_7: Domestic Overnight Visitors – Tropical North Queensland



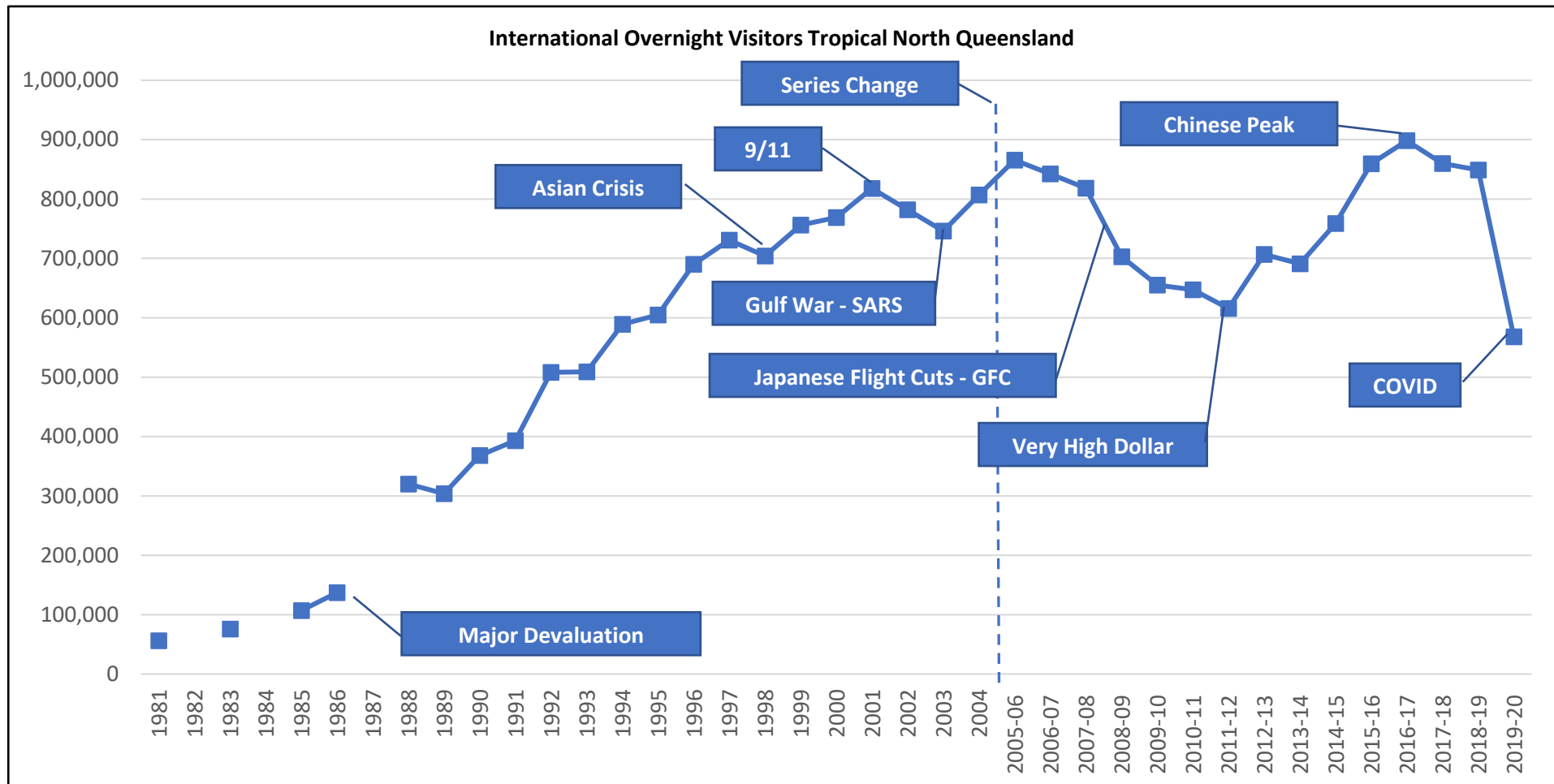
Source: Cummings Economics from Tourism Research Australia NVS.

Note: Data for this series is collected on a sample basis and year to year changes can be affected by statistical sample variances.



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Chart_8: International Overnight Visitors - Tropical North Queensland

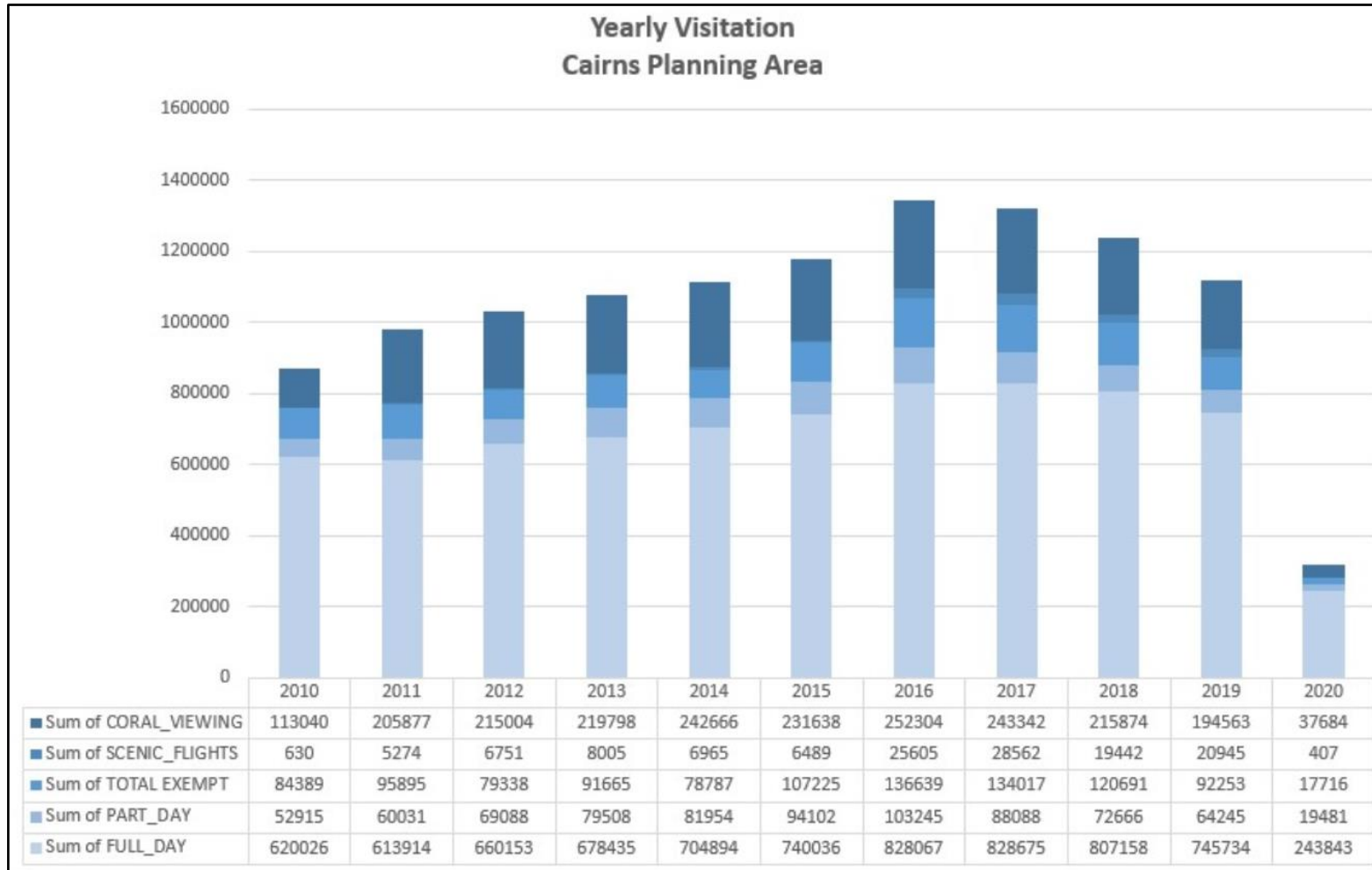


Source: Cummings Economics from Tourism Research Australia IVS.

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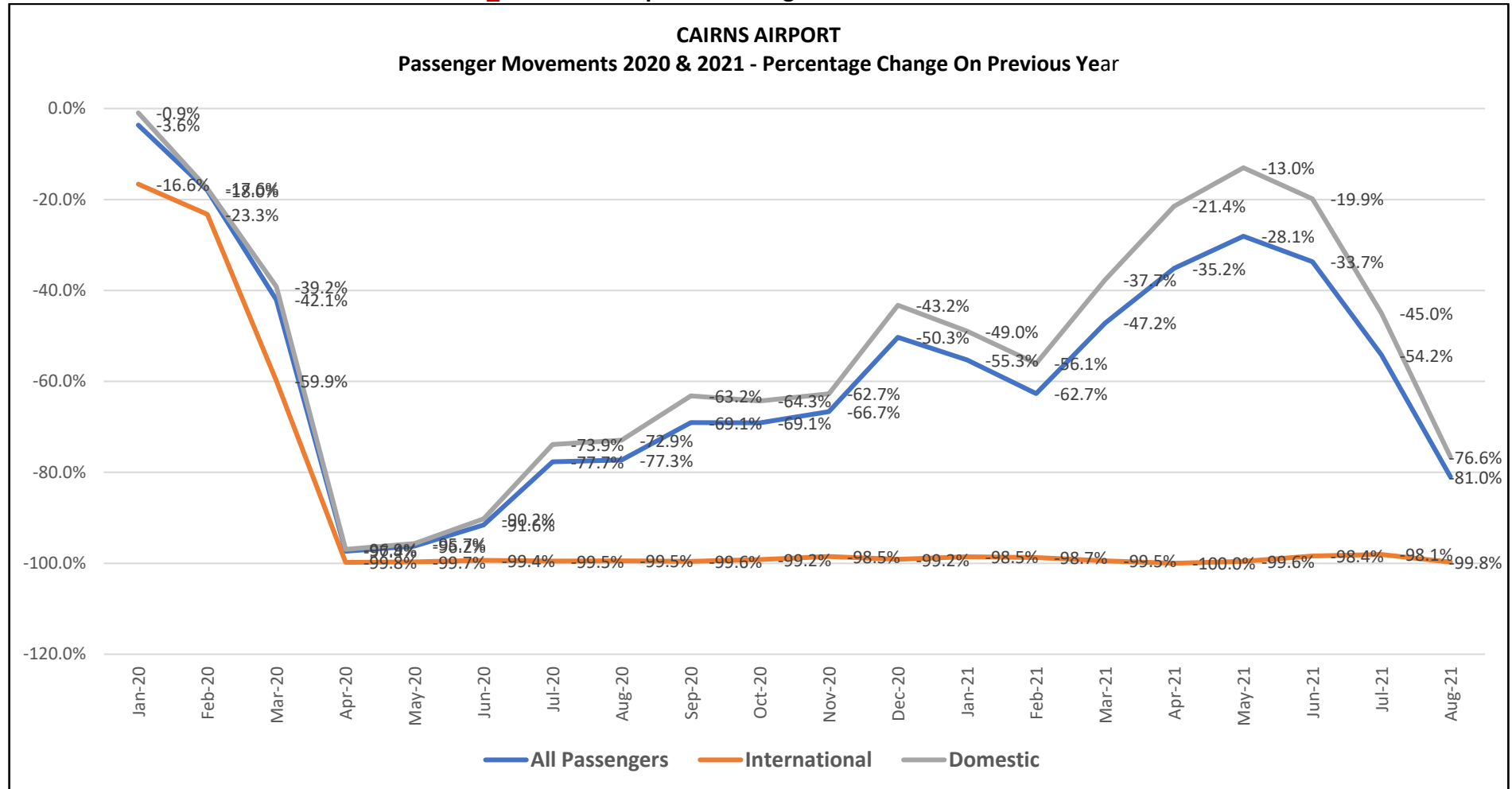


Chart_9: Visitor Numbers – Great Barrier Reef



Source: GBRMPA.

Chart_10: Cairns Airport - Passenger Movements 2020 & 2021



Source: Cairns Airport Pty Ltd.

