

# AUSTRALIAN MARKETS WEEKLY



*Stay-at-home holidays won't offset the COVID-19 hit to inbound tourism*

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## Analysis – Stay-at-home holidays won't offset the COVID-19 hit to inbound tourism

- Domestic and international visitors spent \$152bn in Australia in 2018-19, \$39bn by international visitors. However, the pandemic has seen international and domestic visitor spending collapse amid borders closures and restrictions.
- International visitors are unlikely to return for some time, but increased stay-at-home holidays could offset some of the impact on tourism. However, while Australian tourists tend to spend more abroad, a full offset requires households to drastically increase their typical spend on domestic holidays. This will be difficult given widespread job losses and we do not think a full offset from stay-at-home holidays is likely.
- That said, we also show that regional Australia is more popular for domestic travellers than international travellers. As such, regional Australia may see more benefits from any increase to domestic holidaying by Australian households.

## Week ahead – AU Budget and RBA; Trump's COVID-19 fallout, Fed's Powell speaks; BOE's Bailey speaks; ECB's Lagarde speaks

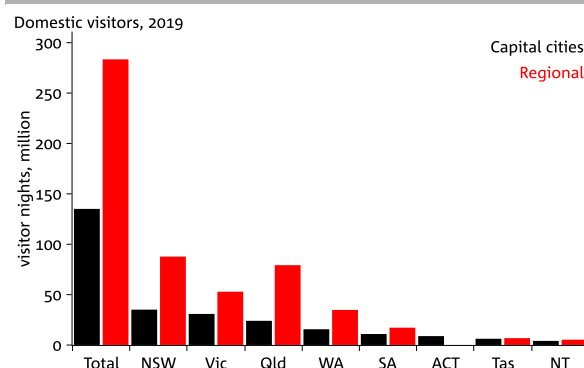
- **AU:** The 2020-21 federal budget is handed down tonight, detailing the government's economic plan for supporting the recovery, where media leaks point to bringing forward legislated income tax cuts, an investment tax allowance and more funding for infrastructure. Earlier in the day, the RBA Board will likely keep rates on hold in October; we expect the RBA to cut rates at the following November meeting and undertake QE in the 5-10yr part of the curve.
- **Global: US:** President Trump's COVID-19 diagnosis is dominating the news with the November 3 election looming. Relatedly, the Vice-Presidential debate between Pence and Harris this Wednesday will draw more interest given Presidential succession rules. Fed Chair Powell speaks tonight, where he is likely to highlight pandemic-related uncertainties ahead. **CH:** Golden week holidays run until Thursday 8 October. Caixin services PMI on Thursday should show another solid print of 54.2 points.

## Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7184	0.8	RBA cash	0.13	0.0
AUD/CNY	4.88	1.5	3y swap	0.14	0.0
AUD/JPY	76.0	0.8	ASX 200	5942	-0.2
AUD/EUR	0.610	0.5	Iron ore	116.3	4.8
AUD/NZD	1.081	-0.1	Brent oil	41.3	-3.7

Source: Bloomberg

## Chart of the week: Domestic travellers prefer regional Australia



Source: National Australia Bank, Tourism Research Australia

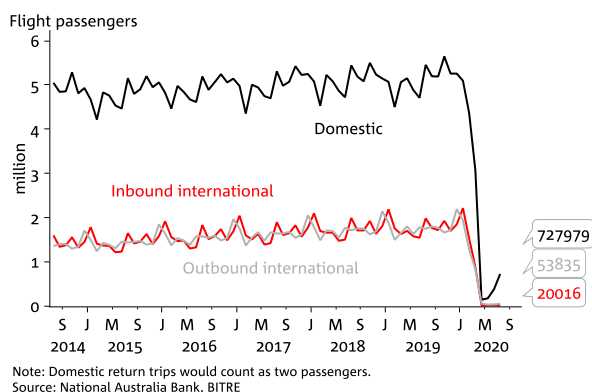
## Stay-at-home holidays won't offset the COVID-19 hit to inbound tourism

- Domestic and international visitors spent \$152bn in Australia in 2018-19, \$39bn by international visitors. However, the pandemic has seen international and domestic visitor spending collapse amid borders closures and restrictions.
- International visitors are unlikely to return for some time, but increased stay-at-home holidays could offset some of the impact on tourism. However, while Australian tourists tend to spend more abroad, a full offset requires households to drastically increase their typical spend on domestic holidays. This will be difficult given widespread job losses and we do not think a full offset from stay-at-home holidays is likely.
- That said, we also show that regional Australia is more popular for domestic travellers than international travellers. As such, regional Australia may see more benefits from any increase to domestic holidaying by Australian households.

### The tourism industry has been hard-hit by the pandemic

Tourism has been one of the hardest-hit industries by the COVID-19 pandemic. Border closures, movement restrictions, uncertainty and heightened fear about long-distance travelling have seen travel collapse. Both international and domestic air travel have fallen to extreme lows.

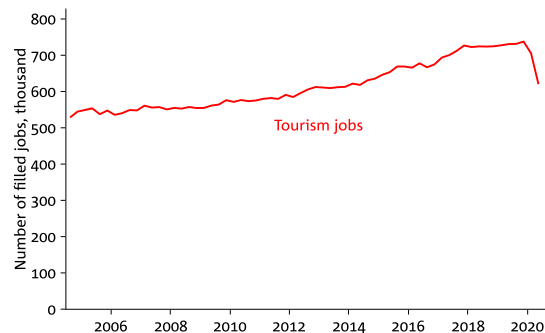
Chart 1: Flight passenger numbers have collapsed



Alongside the collapse in activity, jobs in the tourism industry have fallen sharply. Experimental estimates of tourism jobs from the ABS show a large fall of 18.2% (136.5k jobs) over the first half of 2020. In contrast, the whole economy lost 6.8% of jobs (992k) in the same period.

This brings home the huge hit on the tourism industry from the pandemic.

Chart 2: Tourism jobs have fallen by almost a fifth



Note: Seasonally adjusted by NAB  
Source: National Australia Bank, ABS

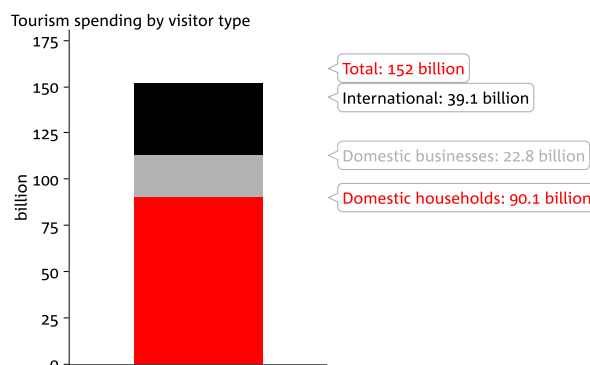
### Domestic and international visitors in Australia spent \$152bn in 2018-19, worth 7.8% of GDP

The hit to tourism is a major concern for economic policymakers. The tourism industry makes up 3.1% of the economy, at \$61bn in 2018-19. Further, data from the ABS tourism satellite accounts shows spending by domestic and international visitors is much higher, at \$152bn, or 7.8% of GDP.<sup>1</sup> This tourism spending includes spending by those visiting for holidays, business and to see family/friends.

Most tourism spending is by domestic travellers, who spent a collective \$113bn in 2018-19. This is largely spending by households, at \$90bn, although business travellers spent a considerable \$23bn in the same year.

In contrast, international visitors spent \$39bn in Australia in 2018-19, making up just over a quarter of all tourism spending. This spending has likely disappeared as the pandemic has prompted national border closures.

Chart 3: International visitors made up around a quarter of total tourist spending



Source: National Australia Bank, ABS

### Domestic holidaying by Australians will provide some offset to the loss of international tourists

The border closure has also impacted outbound travel where Australians are largely unable to leave the country. In 2018-19, Australian residents spent \$58bn on tourism abroad. That's \$19bn more than international visitors spent in Australia.

<sup>1</sup> GDP is much lower than tourism as it is the value add of the tourism industry and accounts for imports and taxes/subsidies.

As such, focus has turned to domestic travellers in the hope that Australian stay-at-home holidays can offset the loss of international visitors. If Australian households can domestically spend the same amount they normally would spend on an overseas holiday, they would more than offset the loss of international visitors. This is particular important given Australia’s national border is likely to remain closed and international visitors are unlikely to return for some time.

However, we note major caveats: (1) a considerable portion of tourism spending is related to business travel, which is unlikely to be substituted, (2) Australians are likely to cut back discretionary holiday spend amid a pandemic driven recession, and; (3) domestic holidays tend to be shorter and cheaper.

Given these issues, we think it is unlikely domestic tourists can fully offset the impact from the loss of international visitors. However, some regions are much more popular with domestic holidaymakers and may benefit more from stay-at-home holidays.

**One third of Australian spending abroad is due to non-holiday trips**

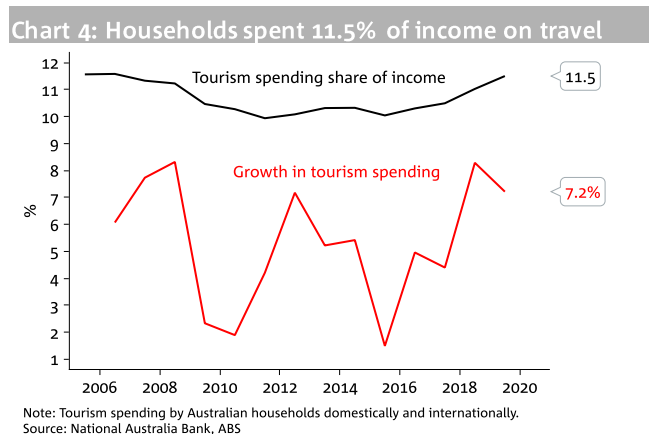
Quarterly data from Tourism Research Australia (TRA) shows that in 2019, one third (33%) of Australian tourism spending was due to non-holiday trips. This includes visits to family and friends (16% of spending), business trips (15%) and other non-holiday purposes (2%).

It’s likely that much of this non-holiday expenditure will not be substituted domestically, even if reduced household incomes are not a constraint. At best, households could use all money earmarked for international holidays and family/friend visits domestically, which makes up 83% of overseas tourism spending. Applying this share to the \$58bn spent overseas by Australians in 2018-19 points to a potential \$48bn in spending that could be used domestically.

**Australian spending on travel is likely to be constrained by weak household income**

Tourism spending is discretionary and likely to fall amid a pandemic-driven recession. We use data from the ABS tourism accounts, to look at the growth in total tourism spending – both domestic and international – by Australian households. This excludes business travel. While the data only shows spending since 2006, it’s clear that spending growth slowed dramatically during the global financial crisis (GFC) and after the mining boom.

Further, we show tourism spending as a share of household disposable income over the past 14 years. This share has been between 10 and 11.5% of income, where it fell to 10% in 2010-11, after the GFC. This suggests that a fall in income would likely see a larger hit to spending on tourism.



As such, how household income evolves in the period ahead will be crucial for the tourism industry. So far, disposable income has risen, not fallen, amid the pandemic; boosted by government support, notably the JobKeeper wage subsidies and boost to JobSeeker unemployment benefits. However, as support tapers income may fall amid widespread job losses, which presents a downside risk to tourism. Therefore, government support for job and income growth in the years ahead will be important.

**Domestic holidays tend to be shorter and cheaper per night than overseas holidays**

TRA data also shows domestic holidays tend to be shorter and cheaper. In 2019, Australian domestic holidays were 4 nights long on average. Per night, the average spend was \$224. In contrast, international holidays were an average of 18 nights long, with an average spend of \$435 per night – almost double the domestic average spend (91% higher).

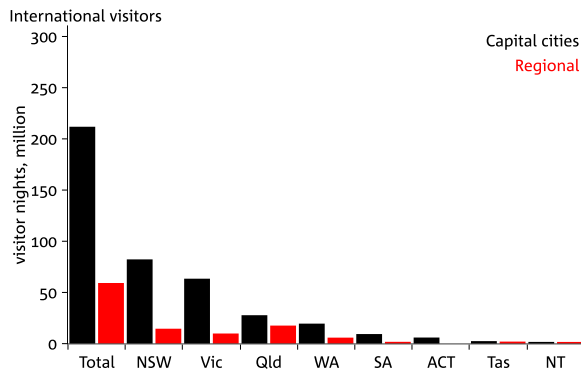
These figures suggest that even if Australians took much longer domestic holidays, if the average spend per night stayed the same, stay-at-home holidays would not be able to offset the loss of international visitors.

If Australians took all of the 99 million visitor nights they spent internationally on holiday in 2019 and spent those domestically, that would be worth \$22.3bn. This assumes the average daily holiday spend remains the same. Further, adding in the 54.6 million visitor nights Australians spent overseas seeing family/friends and assuming these nights are now spent on domestic holidays suggests another \$12.2bn, taking the total spend to \$34.5bn. This is short of the \$39bn hit from the loss of international visitors.

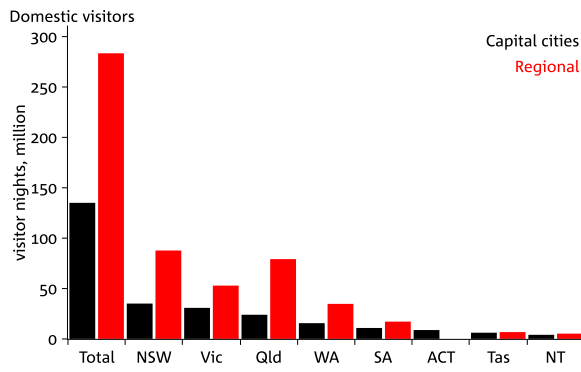
**Australians spend more time in regional Australia than international visitors**

While Australian domestic holiday travel is unlikely to offset the overall hit to tourism, some regions may still benefit greatly. TRA data shows domestic overnight travellers are much more likely to spend time in regional Victoria. Over two-thirds (68%) of Australian visitor nights are spent in regional Australia, in contrast to just one fifth (22%) of international visitor nights.

**Chart 5: Australian visitors are much more likely to spend time in regional Australia**



Source: National Australia Bank, Tourism Research Australia



Source: National Australia Bank, Tourism Research Australia

Detailed data show some areas are more popular with domestic travellers than international tourists. Popular holiday destinations include the North Coast (NSW), Sunshine Coast (Qld), South Coast (NSW), Hunter region (NSW) and South West WA. As such, these regions are more likely to benefit from any domestic holiday substitution.

**Domestic tourism can't fully offset the collapse in international visitors but government support can help**

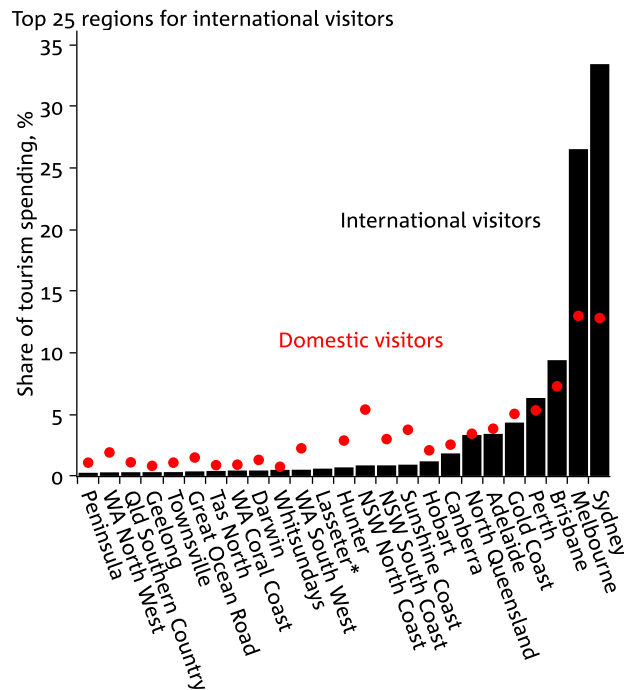
The pandemic has been a huge blow to the tourism industry. With the national border likely to remain closed for some time, policy makers have encouraged stay-at-home holidays to offset the loss of international visitors.

However, our analysis casts doubt on whether Australian households substituting overseas travel for domestic holidays will fully offset the loss of international visitors. Widespread job losses due to the pandemic are likely to see incomes fall and holiday spending cut. Many households will not take as large a holiday at home, as they would overseas.

Government support to date has been helpful in boosting income, but continued focus on job and income growth is needed. Further, given the extent of job losses in tourism, this suggests targeted support for the tourism industry and tourism spending would help.

**Kaixin Owyong**

**Chart 6: International vs domestic preferences**



\* No data for domestic overnight trips in Lasseter  
Source: National Australia Bank, Tourism Research Australia

## CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Tuesday 06 October 2020</b>								
AU	Federal Budget 2020-21							
AU	AiG Perf of Construction Index	Sep		--		37.9	21.30	8.30
AU	ANZ Job Advertisements MoM	Sep		--		1.6	0.30	11.30
AU	Trade Balance	Aug		--		4607	0.30	11.30
AU	RBA Cash Rate Target	Oct 6	0.25	0.25		0.25	3.30	14.30
GE	Factory Orders MoM	Aug		2		2.8	6.00	17.00
US	Trade Balance	Aug		-66.1		-63.6	12.30	23.30
<b>Wednesday 07 October 2020</b>								
AU	AiG Perf of Services Index	Sep		--		42.5	21.30	8.30
GE	Industrial Production WDA YoY	Aug		-8.7		-10	6.00	17.00
US	FOMC Meeting Minutes	Sep 16		--		--	18.00	5.00
JN	BoP Current Account Balance	Aug		2039.5		1468.3	23.50	10.50
<b>Thursday 08 October 2020</b>								
NZ	ANZ Business Confidence	Oct P		--		-28.5	0.00	11.00
CH	Caixin China PMI Services	Sep		54.2		54	1.45	12.45
CA	Housing Starts	Sep		--		262.396	12.15	23.15
US	Initial Jobless Claims	Sep 26		850		837	12.30	23.30
<b>Friday 09 October 2020</b>								
NZ	ANZ Truckometer Heavy MoM	Sep		--		-6.5	21.00	8.00
AU	Home loan approvals	Sep		1		8.9	21.00	8.00
UK	Monthly GDP (MoM)	Aug		--		6.6	6.00	17.00
UK	Industrial Production YoY	Aug		--		-7.8	6.00	17.00
CA	Unemployment Rate	Sep		--		10.2	12.30	23.30
CA	Net Change in Employment	Sep		--		245.8	12.30	23.30
US	Wholesale Inventories MoM	Aug F		--		0.5	14.00	1.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		Oct 6	0.25	0.25		0.25		
Japan, BoJ		Oct 29	-0.10	-0.10		-0.10		
Canada, BoC		Oct 28	0.25	0.25		0.25		
Europe, ECB		Oct 29	-0.50	-0.50		-0.50		
UK, BOE		Nov 5	0.10	0.10		0.10		
US, Federal Reserve		Nov 5	0/0.25	0/0.25		0/0.25		
New Zealand, RBNZ		Nov 11	0.25	0.25		0.25		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

# FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
					2019				2020				2021				2022			
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Australia Forecasts</b>																				
Household Consumption	1.4	-5.0	1.7	2.9	0.4	0.3	0.1	0.5	-1.1	-7.0	1.5	0.9	0.8	1.0	1.1	0.4	0.7	0.8	0.7	0.7
Underlying Business Investment	-1.7	-23.6	-26.5	3.2	0.8	-0.2	-1.7	-1.5	-1.0	-17.6	-15.5	-8.7	-7.7	-1.8	0.6	0.1	1.4	1.1	1.4	1.2
Residential Construction	-6.9	-16.0	-7.9	14.5	-1.7	-3.5	-0.7	-4.1	-1.7	-10.5	-4.5	-3.8	-2.8	0.9	2.6	3.5	4.0	3.5	4.3	3.1
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	1.7	-0.5	-0.8	0.2	0.6	0.1	-0.1	0.5	1.6	-0.2	-0.1	0.0	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.2	-0.5	0.8	0.1	0.0	-0.4	0.1	0.2	-0.2	-1.5	1.4	0.3	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.2	-0.5	-6.0	-0.5	-0.1	0.1	0.8	1.0	0.7	0.9	1.0	0.9	0.9
Dom Demand (y/y %)	1.3	-4.8	-0.5	3.6	1.2	1.3	1.2	1.3	0.5	-5.9	-6.8	-7.0	-6.4	0.4	1.9	2.6	3.4	3.6	3.5	3.7
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.3	-6.1	0.5	0.3	0.6	1.0	0.9	0.5	0.7	0.7	0.7	0.6
Real GDP (y/y %)	1.8	-3.8	0.8	2.9	1.7	1.6	1.8	2.2	1.4	-5.4	-5.5	-5.7	-4.8	2.4	2.9	3.1	3.2	2.9	2.7	2.8
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	1.6	0.7	0.4	0.3	0.3	0.4	0.2	0.3	0.5	0.7
CPI headline (y/y %)	1.6	0.8	1.6	1.4	1.3	1.6	1.7	1.8	2.2	-0.3	0.7	0.5	0.6	2.9	1.5	1.4	1.2	1.2	1.5	1.7
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.0	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.5
CPI underlying (y/y %)	1.4	1.3	1.1	1.0	1.4	1.4	1.5	1.4	1.7	1.3	1.2	1.1	1.0	1.3	1.2	1.1	0.8	0.8	1.1	1.4
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.5	8.6	7.0	5.1	5.1	5.2	5.2	5.2	7.1	8.4	9.2	9.6	8.9	8.2	7.6	7.3	7.1	6.8	6.6
Terms of trade	5.1	0.1	2.2	1.3	3.3	1.4	0.2	-5.2	2.9	0.1	1.1	1.0	0.1	0.9	0.2	0.2	0.2	0.5	0.5	-0.1
Current Account (% GDP)	0.6	2.8	2.9	2.2	-0.6	1.0	1.4	0.3	1.7	3.4	3.2	3.2	3.1	3.1	2.8	2.7	2.5	2.3	2.2	2.0

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts						
	6-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Majors</b>						
AUD/USD	0.718	0.74	0.76	0.77	0.77	0.78
NZD/USD	0.66	0.68	0.69	0.70	0.71	0.72
USD/JPY	105.7	103	103	100	100	100
EUR/USD	1.18	1.22	1.23	1.25	1.26	1.27
GBP/USD	1.30	1.36	1.40	1.40	1.43	1.44
USD/CNY	6.79	6.90	6.85	6.70	6.70	6.60
USD/CAD	1.33	1.34	1.33	1.30	1.23	1.24
USD/CHF	0.92	0.91	0.91	0.91	0.91	0.91

Australian Cross Rates						
	6-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
AUD/NZD	1.08	1.09	1.10	1.10	1.08	1.08
AUD/JPY	76.0	76	78	77	77	78
AUD/EUR	0.61	0.61	0.62	0.62	0.61	0.61
AUD/GBP	0.55	0.54	0.54	0.55	0.54	0.54
AUD/CNY	4.88	5.11	5.21	5.16	5.16	5.15
AUD/CAD	0.95	0.99	1.01	1.00	0.95	0.97
AUD/CHF	0.66	0.67	0.69	0.70	0.70	0.71

Interest Rate Forecasts						
	6-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Australian Rates</b>						
RBA cash rate	0.25	0.10	0.10	0.10	0.10	0.10
3 month bill rate	0.09	0.08	0.08	0.10	0.10	0.10
3 Year Swap Rate	0.14	0.08	0.08	0.08	0.08	0.08
10 Year Swap Rate	0.81	0.68	0.75	0.90	1.00	1.15
<b>Offshore Policy Rates</b>						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.10	0.10	0.10	0.10	0.10	0.10
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	0.25	0.25	0.25	-0.25	-0.50	-0.50
<b>10-year Bond Yields</b>						
Australia	0.83	0.75	0.85	1.00	1.10	1.20
United States	0.78	0.70	0.80	0.90	1.00	1.10
New Zealand	0.54	1.03	1.28	1.38	1.63	1.73

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP			
	2019	2020	2021
Australia	1.8	-3.8	0.8
United States	2.2	-4.1	3.4
Eurozone	1.3	-6.4	5.7
United Kingdom	1.4	-9.2	7.4
Japan	0.7	-5.4	2.8
China	6.1	1.5	9.5
India	4.9	-8.8	13.3
New Zealand	2.3	-5.6	1.8
World	3.0	-4.0	6.3

Commodity prices (\$US)					
	6-Oct	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	41.5	49	53	55	55
Gold	1912	2030	2050	2100	2200
Iron ore	na	87	85	90	80
Hard coking coal*	140	120	125	140	135
Thermal coal	58	59	59	61	62
Copper	6547	6000	6250	6500	6750
Aus LNG**	8	7	7	8	8

\* FOB quarterly contract prices (thermal coal is JFY contract)

\*\* Implied Australian LNG export prices

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