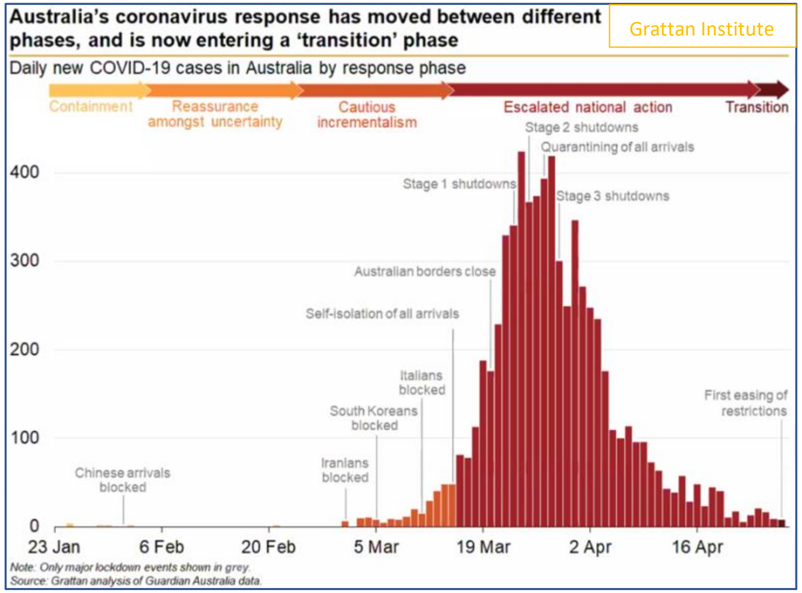
Insights summary report on how the Grampians Region visitor economy is expected to recover post virus

Insights Summary of a longer report for Marc Sleeman, CEO at Grampians Tourism

By Karl Flowers
of Decisive Consulting Pty Ltd

20 May 2020



The Grampians region's visitor economy faces a once in a generation challenge.

This summary report contests the notion that there will be a fast return to business as usual from virus impacts for the Grampians region's visitor economy.

Bill Gates wrote on 24 April 2020 for The Economist:

> *"In most of Europe, East Asia and North America the peak of the pandemic will probably have passed by the end of this month. In a few weeks' time, many hope, things will return to the way they were in December. Unfortunately, that won't happen."*
>
> *"I believe that humanity will beat this pandemic, but only when most of the population is vaccinated. Until then, life will not return to normal. And the world economy will be depressed because demand will stay low and people will spend more conservatively. My hope is that, by the second half of 2021, facilities around the world will be manufacturing a vaccine."*
>
> *To conclude his article, Gates quotes Churchill from 1942, "This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."*

Two alternative forecasting scenarios

The extended report sets out in much more detail two alternative scenarios for recovery of the global and Australian economy, as well as the Grampians visitor economy. Both involve a deep economic recession for Australia that extends at least into 2021 and magnified impacts for the Grampians region's visitor economy.

The difference between the faster/stronger and slower/weaker recovery scenarios relates to:

- likelihood of more, and a second major wave of, infections;
- the predicted depth of the Australian and global economic downturn;
- the timing of availability of a vaccine; and
- re-opening of international borders, except perhaps with New Zealand, which is unlikely until vaccinations are widely available and this is expected in April 2021 or January 2022 under the two scenarios.

On 8 May the Australian Prime Minister announced a three staged plan to re-open the economy. However, delivery of these stages depends on monitoring infection rates with potential for a reversion to stricter policies if infection rates rise again. This and the following announcement by the Premier, signal a much faster re-opening of the economy than expected a month ago. There is both good and bad news for regional visitor economies in these announcements, as they signal a switch from a virus elimination strategy to a more balanced weighting of economic and health costs. More infections are expected but there have also been major recent improvements in medical capacity.

The good news for the regional visitor economy with earlier re-opening is that forecasts for 2020/21 are lifted particularly under the rosier Scenario 1. However, there are also two aspects of bad news. The first, is that regions which have not had infections to date are now far more likely to be affected by visitors or returning locals. The second is that a major second wave of infections or at least regional closedowns as per Scenario 2 is significantly more likely. Any second wave of infections will impact the visitor economy more than the economy as a whole.

If Australia had stayed closed for another month or two under an elimination strategy, the odds of scenario 1 were in my view around 85 per cent and scenario 2 around 15 per cent. However, with staged re-opening the odds have shifted to more like 65 per cent for Scenario 1 and 35 per cent for scenario 2.

In combating the health impacts of the virus Australia has done well, most obviously compared to the USA and UK. Our standing as a safe destination and for having effective government is on track to be enhanced.

"*Walk down our hospital wards and walk down the hospital wards of other countries and see the difference*," said the president of the Australian Medical Association Tony Bartone on 11 April. "*We have enormous idle capacity, overcapacity of ICU and ventilator beds, ready for a potential tide of COVID patients. That's a sign that we are ready. We aren't out of the woods yet, but we are ready, and compare that to the unfortunate situation elsewhere in the world*."

With other countries having far less success in reducing virus spread there is a high chance of a second round spread in many of these countries given how contagious the virus is. During the 1918 influenza pandemic, it was the second wave that was the largest and most deadly. During 10 previous flu pandemics, regardless of what season they started, a leading science body in the USA noted, all had a peak second wave about six months after the virus first emerged. If other countries get a second wave of infections even if we don't, many domestic travellers will become more cautious.

The Economist wrote on 24 April when describing recently falling infection rates: *"Developments testify to the success of social distancing. Abandoning it now risks being like throwing away an umbrella in a rainstorm because it has stopped its bearer from getting soaked."*

A deep economic recession and deeper visitor economy recession

As visitor spending is discretionary expenditure it is highly susceptible to the depth and duration of the economic recession under the two alternative scenarios. Under either scenario the visitor economy is expected to be the worst affected industry in Australia's recession. However, other sectors and most obviously construction can expect to also be hard hit and face an extended loss of jobs.

A short comparative history of recessions ...

"This recession will be so big and bad that not even the official always-look-on-the-bright-side brigade is trying to gild the lily. Reserve Bank governor Dr Philip Lowe said last week the recession would be a "once in a lifetime event. "Over the first half of 2020, we are likely to experience the biggest contraction in national output and income we have witnessed since [the Great Depression of] the 1930s. "*There is, however, one important respect in which this recession will resemble all others: unemployment shoots up a lot faster than it comes back down. I'd be sceptical of any happy talk about the economy bouncing back. Crawling back, more likely,"* Ross Gittins in The Age of 2 May.

Most Australians were not alive or have forgotten just how harsh our most recent recession in 1990-91 recession was. However, reduced Australian total employment levels extended from May 1990 to August 1994. It also took nearly eight years to return to its pre-recession level.

Half of Australia's consumers expect to keep reducing spending over the next year according to survey results from Boston Consulting Group. About 70% of respondents expect to reduce their travel expenditure when the coronavirus restrictions are eased and 45% expect to spend less on luxury brands. A separate survey by Ernst & Young also found that 58% of respondents expect a second COVID-19 outbreak in the next six months. (Source: Macrobusiness, 7 May)

The extended report features detailed analysis of the impacts so far of the virus and the economic importance of and challenges with the JobKeeper program.

Predictions for the Grampians region visitor economy in 2020/21 and 2022/23 for jobs and real visitor spending

The predictions in the long report imply that the Grampians region is set to have a similar downturn in the visitor economy and return to previous levels of the visitor economy as the average of all areas of regional Victoria.

Under the two scenarios visitor spending (after inflation) and total jobs due to visitor spending in the Grampians region falls in 2020/21 by 29 or 41 per cent compared to the estimates for 2019, as shown in Figure 1.

Two years later in 2022/23 and the Grampians region visitor economy is expected to have regained job levels of five years earlier and added 2 per cent under the first scenario or have 8 per cent fewer jobs under the second scenario.

Figure 1. Predictions compared to 2019 for visitor economy direct spending and total jobs due to this spending for Grampians region

Prediction Year	2020/21		2022/23	
Alternative scenario for recovery	Fast	Slow	Fast	Slow
Grampians visitor economy direct tourism spending (after inflation) and visitor economy total jobs	-29%	-41%	+2%	-12%

Source: Karl Flowers, Decisive Tourism Consulting Pty Ltd

Under the two scenarios in the Grampians region 1,134 or 1,594 total jobs are predicted to be lost due to falls in visitor economy spending in 2020/21 compared to 2019. Even a further two years later in 2022/23 total jobs due to visitor economy spending in the region is expected to be only 81 more jobs or a loss of 458 jobs compared to 2019 under the two scenarios.

In contrast, in the five years from 2012/13 to 2017/18 total jobs from visitor spending increased in the Grampians region by 30 per cent or 857 jobs.

It is normally appropriate to only look at direct impacts of visitor spending (around 75% of the total job impacts in this region) to compare the visitor economy with other sectors such as manufacturing or agriculture. However, with the very large falls in the second quarter of 2020 and expected in the visitor economy in the next three years it is more appropriate to look at total impacts of visitor spending including the indirect (second round or multiplier) impacts.

What influences how the Grampians region visitor economy is affected by virus impacts

Despite the large falls predicted for the Grampians region visitor economy, it is expected to face percentage changes very similar to the average across all regional areas of Victoria in recovering from virus impacts.

The major impacts on visitor spending of declining interest in travel for fear of infection and a weaker economy putting pressure on discretionary expenditure are shared across regional Victoria.

The appendix to this report provides more detail on the forecasts for the Grampian region and how forecasts in visitor spending and jobs were derived.

Regions with comparatively higher shares of total visitor spend in domestic day trips, short break holiday and VFR domestic visitor nights are expected to have a shallower and shorter visitor economy recession. International and longer break holiday domestic visitor nights are expected to be the slowest sectors to recover. Melbourne and other capitals are expected to show an even deeper fall in 2020/21 before recovering with returning internationals once borders re-open. Regions more heavily dependent on holiday visitors on longer duration trips such as Phillip Island and Great Ocean Road also face a deeper and longer fall in the visitor economy.

Holiday overnight travel is expected to fall heavily in 2020/21 and continue to be slow to recover. This is due to:

- this being the most discretionary of all travel;
- reduced consumption spending with increased ongoing unemployment and expectations of large falls in housing prices, resulting in negative equity;
- reduced leave balances, following forced leave taking in the close down;
- reduced appetites for family travel after the long stay at home period;
- many people wanting to rebuild their work profile when work fully resumes;
- when international borders open there will be a rush of outbound travel.

Insights on how sub-sectors in the visitor economy are expected to vary in their recovery

1. Retailers and cafes/restaurants in towns with a higher ratio of local residents to visitors such as regional cities are expected to lose less business, be more likely to survive and recover faster than those in more tourism focussed areas.

2. More affordable visitor products are expected to recover better than up market tourism, as consumers look to economise.

3. Destinations dependent on older visitors, such as towns with a strong bias to golf and fishing, are expected to be slower to recover. This may also switch Grampians region marketing attention to attracting younger visitors.

4. Conferences, meetings and major events are expected to be very slow to recover and have much reduced attendances when they do. Virtual meetings are expected to take a greater share of the market.

5. Airbnb properties are expected to price discount to rebuild lost incomes. Accommodation properties in towns with many Airbnb properties will face greater price pressure to discount.

6. If a second major domestic airline does not re-emerge, the Grampians region is expected to be a net beneficiary as long-haul drive tourism particularly by families gains market share.

7. Profitability of surviving businesses might increase after re-opening owing to competitors having gone out of business. Increasing prices will confront reduced capacity to pay among many consumers, so the major revenue boost may come from higher occupancy rates.

8. Many visitor economy businesses will face fresh challenges in finding staff until borders reopen allowing a return of working holiday makers and students.

Insights to guide Grampians region tourism strategies

Support for the recovery of the visitor economy will receive far greater attention from policy makers than previously, owing to it being widely recognised as the industry worst hit in this recession. This includes those in local government.

The initial key challenge is to help good tourism businesses survive. Challenges from lost revenue, with accessing the JobKeeper package and paying rent are forcing many businesses to consider permanently closing. Given the extent of the downturn expected the first priority for regional tourism organisations has switched from marketing to helping good businesses survive. This could, for example, involve coaching businesses through the labyrinth of Government business survival programs or providing temporary regulatory support such as with increased outside dining spaces or helping businesses implement social distancing when re-opening.

Now that domestic tourism has resumed, potential consumers face an avalanche of marketing from destinations and operators. Getting consumer attention for the region will be very difficult, meaning a more strategic and co-ordinated, aggregated campaign will be essential to get more cut-through with consumers.

Encouraging driving day trip tourism will be key to fostering the earliest stages of recovery. The strategy of fishing where the fish are suggests a marketing focus on growing VFR including around weddings and family events, short break holiday and younger visitation as a priority in 2020/21. This might translate to running campaigns with local residents to invite friends and relatives to visit. For similar reasons, the decline expected for long break holiday visitation in the recession implies less focus on traditional marketing to holiday visitors.

Such an unprecedented downturn also begs the question of whether there are reforms in service delivery that might bring the regional visitor economy back stronger than before. For the Grampians region, a reform that helps attract more of the potentially growing overnight visitor market to stay overnight in the region when travelling on longer drive travel trips might be a high priority. For example, this might include enhancing evening or early morning family activities.

Looking longer term

Looking longer term, Australia should have an enhanced reputation for safety from our strong relative performance in combating the virus. With a potentially lower A$/US$, this should boost inbound tourism/domestic tourism (with weaker outbound tourism) and international education in the period to 2030.

After the rush of stimulus required to support business and counter a deep recession, as well as lost tax and rate revenue, it can be expected that funding from all levels of government will face increased scrutiny for a number of years, even as the visitor economy has an advanced place in the queue.

The extended report with this project provides much more extensive background and evidence for the insights listed in this summary.

Appendix - Summary of predictions for the Grampians visitor economies under the two scenarios

The most likely scenario is for a less deep but still severe visitor economy recession – Scenario 1. This would still mean that the visitor economy is the worst affected industry sector across Australia in 2020/21.

Any significant increase in infections or potential second wave of infections in 2020/21 would push us toward a deeper visitor economy recession and the second, slower recovery, scenario.

The other key drivers of one scenario rather than the other is the date of widespread vaccinations and associated return of international travel along with the depth and duration of the Australian and global economic recession.

Under the first scenario widespread vaccinations become available in April 2021 while under the second scenario widespread vaccinations are delayed a further nine months to January 2022.

A number of assumptions drove the preparation of predictions under the two scenarios for 2020/21 and 2022/23. The assumptions shown in Figure A.1. were applied consistently across all 13 tourism regions in Victoria and the Murray MRT region to develop a consistent base for all Victorian (and Murray) regional visitor economy forecasts.

Figure A.1. Key assumptions driving regional forecasts for visitation and hence visitor spending in 2020/21 and 2022/23

	2020/21 Vs 2019		2022/23 Vs 2019	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
Domestic Day trips	-15%	-25%	10%	0%
Domestic VFR/Business/Other Visitor Nights	-25%	-40%	5%	-10%
Domestic holiday short break Visitor Nights	-35%	-45%	0%	-20%
Domestic holiday long break Visitor Nights	-45%	-55%	-10%	-25%
International Visitor Nights	-60%	-70%	5%	0%

Source: Karl Flowers, Decisive Consulting Pty Ltd

For some regions with unusually high or low levels of visitation by over-55-year-old visitors there was a further small adjustment applied to domestic visitor nights, but this was not necessary for or applied to preparation of Grampians region forecasts.

Predictions using these assumptions were then developed for the region's visitor economy activity measures under the two alternative scenarios, as shown in Figure.A.2. This also allowed predictions for changes in total regional visitor spending for 2019 and the forecast years using the TRA estimates of the contribution by type of tourism in the most recent regional tourism satellite account from 2017/18.

Figure A.2. Predictions for visitation and total visitor spending in the Grampians region by type of tourism in the forecast years under the two scenarios

		Scenario 1	Scenario 2
2019	Intternational VNs	276	276
	Domestic VNs	2,677	2,677
	Domestic Day Trips	1,378	1,378
	Visitor Spending - estimate	$ 548	$ 548
2020/21	Intternational VNs	110	83
	Domestic VNs	1,795	1,456
	Domestic Day Trips	1,171	1,034
	Visitor Spending - estimate	$ 387	$ 321
	Change over 2019 Visitor Spending	**-29%**	**-41%**
2022/23	Intternational VNs	290	276
	Domestic VNs	2,660	2,240
	Domestic Day Trips	1,516	1,378
	Visitor Spending - estimate	$ 560	$ 483
	Change over 2019 Visitor Spending	**2%**	**-12%**

Source: TRA Online for base year estimates of visitation with Decisive Consulting predictions for 2019 visitor spending and visitation and spending for 2020/21 and 2022/23

Between 2017/18 and 2019 estimated visitor spending in the Grampians region only increased by 3 per cent. This was well below the average growth across Victorian tourism regions of 17 per cent, partly reflecting the impacts of the extended drought in 2019.

As part of this study a close to one-to-one relationship was established between historical percentage changes in real regional visitor spending from the regional tourism satellite account with percentage changes in the visitor economy total contribution to real gross regional product and jobs. This led to the predictions shown in Figure A.3.

Figure A.3. Predictions for recovery in the Grampians Region Visitor Economy

	Year	Scenario 1	Scenario 2
Visitor Spending	2017/18	$ 533	$ 533
	2019 (e)	$ 548	$ 548
	2020/21 (f)	$ 387	$ 321
	2022/23 (f)	$ 560	$ 483
Gross Regional Product (direct + indirect)	2017/18	$ 267	$ 267
	2019 (e)	$ 275	$ 275
	2020/21 (f)	$ 194	$ 161
	2022/23 (f)	$ 280	$ 242
Total jobs (direct + indirect) due to visitor economy spend	2017/18	3,743	3,743
	2019 (e)	3,851	3,851
	2020/21 (f)	2,717	2,256
	2022/23 (f)	3,931	3,392

Source: TRA Online and TRA TSA data for 2017/18 estimates and Decisive Consulting for predictions for 2019 visitor spending, 2020/21 and 2022/23 gross regional product and jobs due to the visitor economy

Notes: (e) Estimate - derived as explained in Appendix 6.
(f) Forecast – as explained in Appendices 5, 6 and 7.

In 2020/21 Grampians region jobs and gross regional product due to the visitor economy are predicted to fall by 29 or 41 per cent respectively under the two scenarios compared to 2019. In 2022/23 jobs and gross regional product are predicted to either rise by 2 or fall by 12 per cent respectively under the two scenarios compared to 2019.

To put these expected adjustments into a better context, it is interesting that in the five years to 2017/18, total jobs due to the visitor economy in the Grampians region grew by 30 per cent, providing an extra nearly 900 jobs.

In considering the forecast heavy falls in the regional visitor economy it is relevant to note that prior to 2020 the visitor economy had been a major driver of regional economic development. From early 2020, this regional growth engine did not just stall it went into a very large reversal. This contrast between previously strong regional growth due to the visitor economy to this sector becoming the number 1 industry restructuring regional problem, accentuates the urgency of regional visitor economy support policies.

Over time it should become obvious whether Scenario 1 or Scenario 2 is the more relevant description of the operating environment for the visitor economy recovery from virus impacts.