Aviation Performance in NSW 2009/10: Overview

June 2010

Introduction

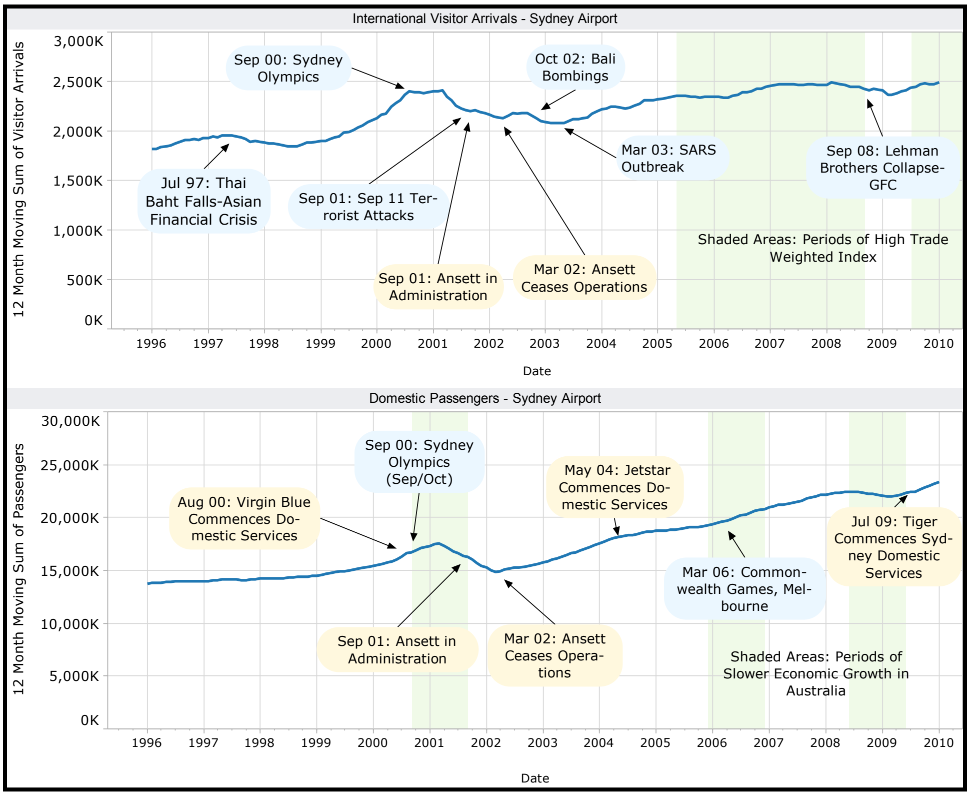
This report by Tourism Futures International (TFI) for Tourism New South Wales reviews the Sydney and NSW aviation performance over 2009 and into 2010.

Performance and Prospects

Figure 1 shows the international visitor arrivals and domestic passenger movements at Sydney Airport over the period from 1996 to early 2010. It also shows some of the events that have had an impact on worldwide and Australian air traffic. Note that the number of visitor arrivals to Sydney has recovered from the series of negative events from 2001 but has remained stagnant since 2005.

The domestic passenger numbers at Sydney Airport recovered quickly from the Ansett collapse benefiting from a strong Australian economy and the entry and growth of Virgin Blue, Jetstar and, most recently, Tiger Airlines.

Figure 1: Sydney Airport International Visitor Arrivals and Domestic Passengers



Source: TFI based on ABS, BITRE data.

The Global Financial Crisis (GFC) and the pace and uncertainty of recovery have dominated the economic environment for the past 18 months. During each of the first two quarters of 2009 world GDP recorded declines of over 2% associated with the financial turmoil which had commenced in September the previous year, and the following unprecedented worldwide contraction of activity and trade. By July 2009 the rate of decline in economic activity had moderated, with global production and trade seeing recovery in the second half of the year, driven largely by government policy stimulus. Over the full year, global economic activity contracted by 0.6%.

Recovery is expected to remain sluggish in most advanced economies, but to be stronger in many of the emerging and developing economies, largely driven by internal demand.

The emerging and developing economies of Asia, which suffered less during the downturn, are leading the recovery with GDP growth forecast at 8.7% in 2010 and again in 2011, up from 6.6% growth in 2009.

Australia is also expected to perform strongly with growth forecast at 3.0% for 2010, following on from 1.3% growth the previous year.

On a cautionary note the IMF points to risks to the outlook remaining on the downside, largely relating to the growth of public debt in advanced economies – "the main concern is that room for policy manoeuvres in many advanced economies has either been largely exhausted or has become much more limited, leaving these fragile recoveries exposed to new shocks".

Sydney's Performance - International

Sydney is Australia's major gateway for international visitor arrivals. In 2009, Sydney secured a 43.5% share of total international arrivals to Australia (43.1% of all holiday visitors); Melbourne and Brisbane accounted for 19.2% and 17.9%, respectively. Perth followed with a 9.8% share of international visitor arrivals.

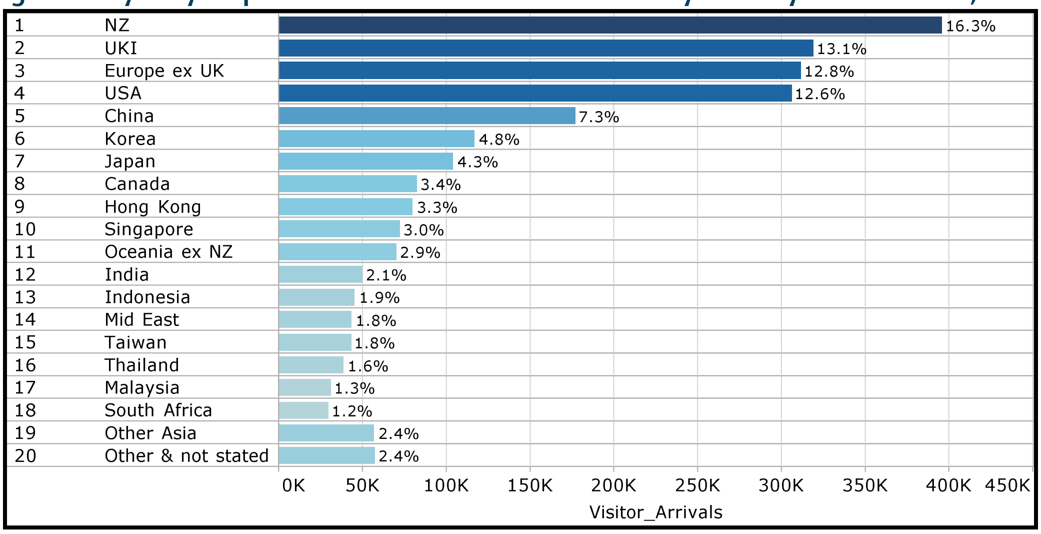
Over the 1999 to 2009 period overseas visitor arrivals to Sydney have increased at an average 2.0% per annum. This compares to an average annual 2.3% growth nationally, 5.5% growth to Melbourne, 0.7% to Brisbane and 2.6% to Perth.

China and India stand out as major growth markets for Sydney over the ten year period. Arrivals from China have grown by an average 10.3% per annum and arrivals from India have grown by an average annual 12.5% over the period.

While Sydney's 43.5% share of total international arrivals into Australia during 2009 is on par with recent years it is slightly below that achieved pre-2003.

Figure 2 shows the major country-contributors to visitor arrivals in Sydney during 2009. The top four market groups shown in Figure 2 account for an aggregate 55% of all visitors.

Figure 2: Sydney Airport International Visitor Arrivals by Country of Residence, 2009



Notes: UKI=United Kingdom/Ireland; ex=excluding. Source: TFI based on ABS data.

Looking at the major ports of entry into Australia, over the past ten years visitor arrival growth in Sydney's top five countries has been strongest:

- From NZ to Melbourne (5.7% average annual growth).
- From UK/Ireland to Brisbane (5.0%).
- From USA to Brisbane (11.6%).
- From China to Melbourne (21.4%).
- From Korea to Melbourne (17.3%).

Over the ten year period since 1999 Sydney's share of visitor arrivals from eight of its top twelve countries has decreased. Most significantly there has been:

- A 19.5 percentage point drop in share of visitor arrivals from China.
- A 7.0 percentage point drop in share of visitor arrivals from the USA.
- A 6.2 percentage point drop in share of visitor arrivals from NZ.

On the other hand Sydney has gained share in visitor arrivals from Germany, Canada, Singapore and France.

Sydney is still the main gateway for arrivals from all the major international visitor markets to Australia with the exception of:

- Singapore: Perth 28.9% share, Sydney 25.2%, Melbourne 23.3%.
- Malaysia: Melbourne 34.9% share, Perth 29.0%, Sydney 14.6%.

The majority of Australian residents travelling overseas during 2009 departed from Sydney (41.6%), followed by Melbourne (22.7%), Brisbane (15.3%) and Perth (12.8%). Over the 1999 to 2009 period the number of Australian residents departing Sydney has increased at an average 5.2% per annum. This compares to an average annual 7.0% growth in resident departures nationally, 7.0% growth from Melbourne, 10.3% from Brisbane and 8.3% from Perth.

For departures out of Sydney over the 1999 to 2009 period, strongest growth has been in travel to China and India. These destinations recorded double digit average annual growth over this period.

- Domestic

The 11 major Sydney interstate routes accounted for nearly 40% of total Australian interstate domestic passenger traffic in 2009. The top two routes, Sydney-Melbourne and Sydney-Brisbane, accounted for around 23% of all Australian interstate passengers and for 58% of passengers on the 11 major Sydney interstate routes. Overall passenger numbers collectively on these two routes increased by 0.6% in 2009.

The fastest growing interstate routes in Sydney for 2009 were Sydney to/from Hobart (6.9%) and Canberra (6.5%).

Sydney interstate passenger traffic in 2009 is a marginal 0.2% above 2008. Australia-wide interstate passenger traffic was stable over this period.

Issues

Traffic Outlook

Views of international bodies suggest that while traffic growth in early 2010 was strong, there are large variations by geographical areas, that risks to ongoing growth remain, and that full recovery may not occur until into 2011:

- The World Tourism Organisation (WTO) is forecasting Asia and the Pacific to continue to show a strong rebound, with an annual growth forecast of 5% to 7%. At these forecast rates, international tourist arrivals to the Asia and Pacific region will reach a record high in 2010, whilst worldwide arrivals will remain below 2008 levels.

- The Airports Council International (ACI) noted that traffic volumes in the first quarter 2010 were still below pre-crisis levels; down by 3% compared with first quarter 2008 and up by just 1.5% compared to first quarter 2007.
- International Air Transport Association (IATA) forecasts that airlines will post a global profit of US$2.5 billion in 2010, up from its previous forecast released in March of a US$2.8 billion loss, but still only putting the industry about 75% on the way to pre-crisis levels. At the same time system-wide passenger traffic is forecast to grow by 7.1%, with passenger numbers reaching a record high on the back of strong growth in the 'emerging' economies.

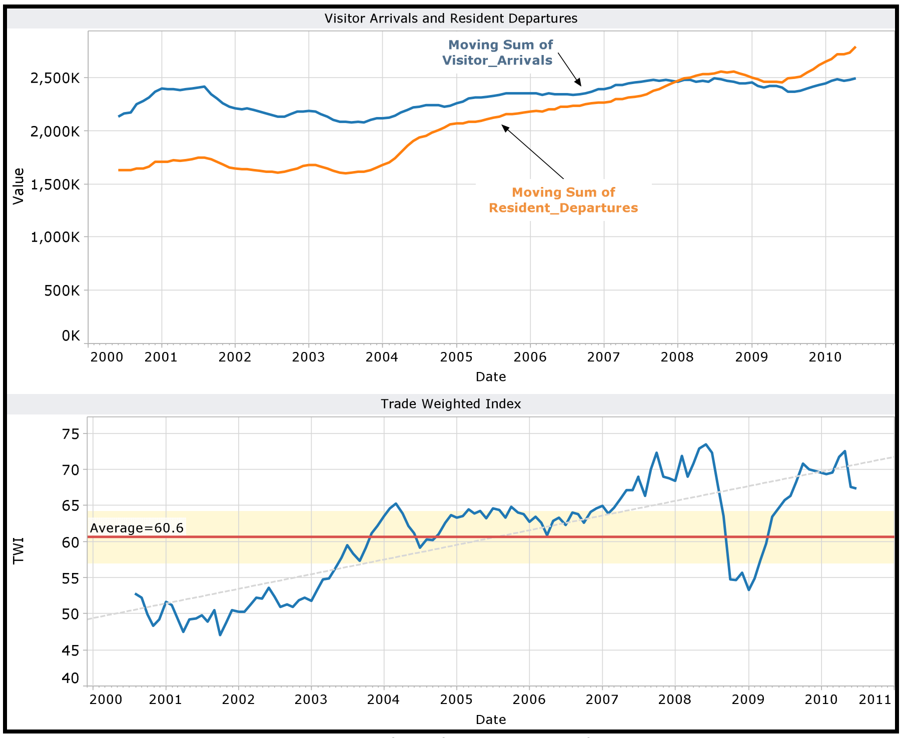
Economic developments suggest that many of Australia's traditional visitor markets will remain weak for some time. The strength of the mining sector in Australia is likely to keep the value of the Australian dollar high against currencies of long haul and Asian markets. This means Australia is less price-competitive in attracting visitors.

Figure 3 shows the number of Australian resident departures from, and visitor arrivals to, Sydney over the period 2000 to 2010. Also shown are the movements in Australia's Trade Weighted Index (TWI), a mix of currencies reflecting Australia's trade relationships). The impact of the growth in the Australian TWI has been to stimulate travel by Australian residents and to discourage inbound travel.

The challenge, to grow visitors in the face of the high Australian dollar, is set to continue into the medium term.

In Australia, recently released Tourism Forecasting Committee (TFC)[1] forecasts show a growth of 5.5% for visitor arrivals to Australia in 2010. No 'rebound' growth is forecast given the decline of 1.0% in 2008 and 0.0% growth in 2009. In fact forecast average growth from 2010 through to 2015 amounts to just 4.1% per year.

Figure 3: Sydney Airport Visitor Arrivals, Resident Departures and Australia's Trade Weighted Index 2000 to 2010



Source: TFI based on ABS, RBA data.

1 Tourism Forecasting Committee, Forecast 2010 Issue 1, Tourism Research Australia, Canberra

Trans Tasman

Trans Tasman passengers represent around one-fifth of all international passengers at Sydney Airport. In 2009 Qantas and Air New Zealand each accounted for around 32% to 33% of Trans Tasman seat capacity to/from Sydney with Emirates at 18%, Pacific Blue at 9.5% and Jetstar at 8.2%.

The latest Trans Tasman alliance proposal between Virgin Blue and Air New Zealand follows a number of failed attempts by Qantas and Air New Zealand to do so in the past. The reason for these attempts to form alliances is the challenge the Trans Tasman presents to profitable airline operations. Business traffic and yields are low on most routes and the Fifth Freedom Carriers (FFC)[2] generally depress overall yields further.

The proposed alliance will connect regional centres in Australia and New Zealand but only as part of a Tasman journey and does not include domestic-only travel in either Australia or New Zealand.

Jetstar and Pacific Blue, the two Low Cost Carries (LCCs) on the Trans Tasman account for a combined 18% of Trans Tasman capacity. Given the limited number of business travellers on most Trans Tasman routes, and the relatively low yields, the LCC penetration can be expected to increase over the next few years regardless of the outcome of the regulatory deliberations.

Other International Issues

Over the period since 2006 the main contributors to international seat growth at Sydney Airport have been Jetstar, Etihad, the Virgin Group (Pacific Blue and V Australia) and Singapore Airlines. Apart from the significance of the Qantas Group and Virgin Groups to Sydney, two groups of airlines have been highlighted as being particularly important in the future development of tourism to Sydney. These include the LCCs and the Middle Eastern Airlines.

Although the entry of LCCs into the Australian international market is relatively recent, by 2009 they had captured 17% of the passenger market. The LCCs have a relatively low share of seats at Sydney (8%) compared to 12% at Melbourne and 25% at Perth. A significant part of the explanation for the low share for Sydney is the number of Full Service Airlines (FSAs) operating to Sydney. Sydney's strength lies in the size of its population, intensity of its traffic and business market relative to other cities. However Sydney can expect to see a growth in LCC penetration including the likely addition in the medium term of airlines such as AirAsia X.

The Middle Eastern airlines have opened up significant hub alternatives to Asia for Australian/European travel. These airlines have grown at well above average rates and account for 47% of the unfilled orders for A380 aircraft and for 17% of the unfilled orders for all wide-body aircraft. The Middle Eastern airlines have higher shares of seat capacity at both Melbourne and Brisbane than at Sydney (15% and 13% respectively in 2009 compared to 10% for Sydney). The strength of Qantas and the FSAs from Asia provides strong competition for the Middle Eastern airlines in Sydney.

Domestic Routes

There are significant airline developments occurring domestically:

- The Virgin Group has instigated a major strategic review. A key objective is to increase the Group's share of higher yielding business passengers. This may lead to increased frequencies on business routes and use of larger aircraft on domestic routes.
- The dominant domestic feature of the Qantas Group over recent years has been the growth of the LCC brand, Jetstar. Jetstar commenced operations in May 2004 and has grown to represent 28% of Qantas' national domestic seat capacity. In its early years Jetstar focussed on providing capacity on largely leisure-oriented routes where Qantas, with its higher costs,

[2] Carriers of non-Australasian origin operating on the Trans Tasman

found it difficult to operate profitably. Now Jetstar is providing services on some of the major business routes such as Sydney to Melbourne/Tullamarine, Brisbane and Perth.

- Tiger Airways continues to expand with services having commenced in 2009 from Sydney to Melbourne, Adelaide and to the Gold Coast. Currently Tiger has nine A320s in Australia with six based at Melbourne's Tullamarine Airport and three based in Adelaide and Tiger is committed to increasing its Australian and Singapore fleet size from its current 19 to 68 by December 2015.

The growth in Tiger/Jetstar services on the main business and other routes to/from Sydney represents a significant increase in low cost capacity for Sydney and provides a major opportunity for tourism development.

Of the 25 NSW intrastate routes for which data is provided by NSW Department of Transport just six have more than one airline serving the route. These routes account for two thirds of all intrastate passengers and experienced a compound annual growth rate (CAGR) of 8.8% over the past five years compared to just 2.4% for the remaining 19 routes.

TFI's assessment is that the six routes, Sydney to/from: Coffs Harbour, Ballina, Albury, Port Macquarie, Wagga Wagga and Dubbo represent the major intrastate tourist growth opportunities via air (along with NSW tourist destinations served by Canberra and the Gold Coast airports). It is difficult with the smaller of the six routes to achieve airfares that encourage tourism and the challenge increases on the remaining 19 routes.