



Travel and tourism

How will COVID-19 reshape key Australian industries?



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Travel and tourism prepares to enter a holding pattern

It's been said that covid-19 is the most significant crisis in the history of global travel and tourism, and beyond those dealing directly with the health emergency it's hard to find a sector more profoundly affected. Airlines, hotels and tourism businesses have all been hard hit and many smaller operators are struggling to survive.

In the latest instalment of Westpac Institutional Bank's series in partnership with The Economist Intelligence Unit examining the fallout of covid-19 by sector, we explore the prospects for travel and tourism industry-wide with Adam Campbell, group chief financial officer of Flight Centre Travel Group Limited.

The impact will run to billions of dollars, Mr Campbell says, and managing the now and the next amid ongoing uncertainty is proving particularly challenging.

As lockdowns and travel restrictions lift, domestic travel holds immediate hope for industry players—but the impact of the pandemic will be felt long after travel enthusiasts and business commuters hit the roads or take to the skies again.

Perhaps the harshest reality of the economic crisis for the sector has been the need to stand down thousands of employees. The federal government's JobSeeker or JobKeeper payments have been a welcome reprieve, but the long term employment prospects for many remain uncertain.

As Mr Campbell explains, international travel is unlikely to fully open up until 2022. For that to happen, airlines and others will need to quickly adapt to new travel and safety requirements, he predicts. Let's hope domestic travel can provide the industry with a much-needed boost in the two years between.

Our sincere thanks to Mr Campbell for sharing his expertise.



Where to now for Australia's travel and tourism sector?

Across the globe businesses in the travel and tourism sector have been left reeling from covid-19, and Australia is no exception. Tourism comprised 3.1% of the nation's GDP—and 8.2% of export earnings—in 2018/2019, with an annual economic value of A\$60.8b (US\$40.2b).¹ With planes grounded, tourist venues shuttered, cruise ships quarantined and all non-essential domestic and international travel banned since the end of March, it is difficult to identify an Australian economic sector more severely impacted by the pandemic. Some are calling covid-19 the most significant crisis in the history of global travel.²




Travel and tourism businesses nationwide have been forced into hibernation and thousands of airline, hotel and small business staff have lost jobs or been furloughed as a result. The Australian federal government's JobSeeker or JobKeeper payments have been a lifeline for many, but with no end in sight to the travel bans and the JobKeeper programme scheduled to end on September 27th 2020, industry employees are justifiably concerned about their future. As a vital source of employment and revenue in regional

Australia, centres outside of the capital cities have also been particularly hard hit.

Pent-up demand for travel and tourism is high, although those still dreaming of travel are now looking for less distant destinations according to data compiled by Sojern, an ad-tech firm. Analysis of this data by *The Economist* shows that the bigger a country's covid-19 outbreak, the bigger its shift is away from foreign travel.³ At the time of publication, travel restrictions within individual states and territories have been lifted and Australians will now be able to enjoy a holiday—as long as it's within their own borders. Domestic travel may hold out hope for Australia's sector as a result, but with interstate travel access still being negotiated the economic fallout and high rates of unemployment are expected to take a toll on the sector long after lockdown measures are eased.

In this interview with The Economist Intelligence Unit, the group chief financial officer of Flight Centre Travel Group Limited, Adam Campbell, answers questions about the unprecedented difficulties caused by covid-19 and whether there is hope on the horizon.

Estimated decrease in Inbound Tourism Receipts

	Estimated % decrease	Avg. spend	Estimated loss Jan – mid Feb 2020	Estimated loss mid Feb – March 2020	Estimated loss April – May 2020
China 	90% – 100%	\$9,235	\$1.60b	\$1.73b	\$2.31b
Other Asian inbound 	20% – 50%	\$4,286	\$0.36b	\$0.726b	\$0.967b
Other inbound markets 	15% – 20%	\$4,286	\$0.46b	\$0.552b	\$0.736b
Total estimated drop in inbound tourism receipts			\$2.42b	\$3.01b	\$4.01b

Source: Estimated impact of coronavirus on the Australian visitor economy, Australia Tourism and Transport Forum

¹ *National Tourism Satellite Account*, Australian Government Austrade and Tourism Research Australia, 2020.

² 'Most significant crisis in the history of travel': where to now for tourism?, Sydney Morning Herald, April 4th 2020.

³ *The travel industry is going local*, The Economist, April 29th 2020.



Adam Campbell,
group chief financial
officer of Flight
Centre Travel
Group Limited

**The Economist Intelligence Unit:
What impact has covid-19 had on
Australia's travel and tourism industry?**

Mr Campbell: “The sheer enormity and speed of change was incredible. In February, Flight Centre had record sales. By March that had gone down to less than 25% of what we would expect for that time of year, and by April it was under 10%. Big players like ourselves had to go to market and raise capital, and we've also had to talk to our banks. We've cut costs considerably in order to be able to get through this—for however long it lasts. We have a cost base in hibernation of around A\$65m (US\$45.2m) a month with no revenue coming in. Airlines are spending tens of millions of dollars every week. It doesn't take long for those numbers to really add up: the impact on the industry as we tread water will be in the billions. A lot of smaller operators are not going to make it. That is obviously going to be a terrible thing for them personally and for the industry as a whole.”

The Economist Intelligence Unit: How difficult is it to navigate the ongoing uncertainty about when global and domestic travel will resume?

Mr Campbell: “It's a huge issue. If you know that something is coming, you can prepare for it and work around it. With the covid-19 pandemic, no one could have expected it, and we don't know when domestic borders will open, let alone international ones. We've had to significantly reduce our cost base to work our way through this difficult time, but we also need to be ready for when things do kick off again.

“One of the most difficult aspects to manage is our people. We've had to stand down a considerable portion of our workforce in Australia as well as overseas. It's been one of the worst things our company has ever experienced. But we've had to do it because we simply cannot afford to operate with the same number of people. We are grateful for the federal government's JobKeeper programme which has helped those who have been stood down.

“The question is: when should we start bringing those people back again? If we bring them back too soon we will have the cost without a benefit in terms of customer revenue. There's a similar tension when it comes to marketing and advertising. We want to get the Australian public excited and thinking about the options they will have, but that comes with a cost. Getting the right lead time for advertising is challenging.”

The Economist Intelligence Unit: What do you foresee as the path to recovery?

Mr Campbell: “We're looking at recovery occurring in three phases, as many others are. Our best estimate says that in the next couple of months domestic travel will start to open up again. With people now starting to return to their offices, and cafes and restaurants re-opening, the sense of normality will help people feel comfortable getting on a plane again. Australia is a big country and the pent-up demand will be satiated somewhat through domestic travel. In the short term, domestic travel is going to be a key area. People may do things that they've never done before, like staying at eco-resorts, hiking or self-drive trips.

“The second phase will involve Australia creating a travel bubble with New Zealand and possibly some regional neighbours, such as Pacific Island nations and even places like Vietnam, which have also done a great job of containing the virus. The third phase is resuming global travel in the 'new normal'.

“However, there may be restrictions in place even once international travel resumes. The UK, for example, is considering a mandatory 14-day isolation period after arriving—and there would likely be another one upon returning home. Under those circumstances, it is unlikely that many people would travel for work or leisure. I believe it won't be until well into 2022 that international travel starts to open up in a meaningful way.”

The Economist Intelligence Unit: Do you think that companies will fundamentally rethink the need for business travel in the post-pandemic era?

Mr Campbell: “That’s a question we’ve been asked for a long time now, and it was especially common after the September 11 attacks in the US. Back then it was because of the security impacts on air travel, whereas now it’s about public health. Airlines and airports had to adapt after 2001, and nowadays we consider those changes a normal part of travelling. I believe that something similar will happen as we come out of the covid-19 pandemic. So while there is no doubt a place for collaborative tools like Zoom or Microsoft Teams going forward, we’re hearing from our business clients around the world that they are ready to travel again.

“Of course, it isn’t a matter of simply flicking a switch. It will take time for travel to resume, and travel patterns may change. In Australia, for example, around 50% of our clients’ business travel needs are for day trips. If measures are put in place that make travelling more time-consuming, people may do a longer trip every few weeks.”

The Economist Intelligence Unit: Do you think that covid-19 spells the end of budget travel?

Mr Campbell: “I don’t think it does, because I believe airlines will adapt and innovate in the same way they did after September 11. They will find new ways of doing things that are highly efficient. I also expect that as we start to fly again there will be a lot of very cheap fares available to help stimulate demand.”

The Economist Intelligence Unit: What are some of the most interesting innovations that airlines have introduced to maintain social distancing and allay public health concerns on flights?

Mr Campbell: “Historically, airlines have been one of the world’s most innovative sectors. Over the years they have often reinvented themselves. Most notably now, perhaps, is Emirates carrying out covid-19 tests on passengers before boarding with the results available almost immediately. I’ve also heard of temperature checks before boarding, as well as obvious things like airline staff wearing facemasks. There is talk of removing the middle seat on planes and putting barriers between aisle and window seats. I understand that this could make travellers feel more comfortable, but I think we need to find other ways around it. The evidence suggests that it doesn’t really make sense from a health perspective. Planes have hospital-grade filtration systems with the air re-circulated at least every three minutes. There are many things that offset the need for the middle seat to be removed, which at any rate isn’t commercially viable.”

The Economist Intelligence Unit: Can we expect to see a surge in domestic tourism and are there any estimates of how big a boost it may provide in the short term?

Mr Campbell: “People are a bit gun shy of trying to put estimates out there just yet. However, we’ve done some surveys ourselves and we know that the vast majority of people are looking to travel within Australia for leisure as soon as the borders are lifted and 50% of our corporate customers are ready to do so. The biggest thing is that Australians in particular love to travel. The last few months have been an extraordinary time in Australia’s travel and tourism industry, but we will overcome some of these obstacles. As soon as we feel safe, we’ll all be travelling again.”