How Melbourne's West visitor economy is expected to recover post virus

To: Western Melbourne Tourism
Attention: Richard Ponsford, Executive Officer

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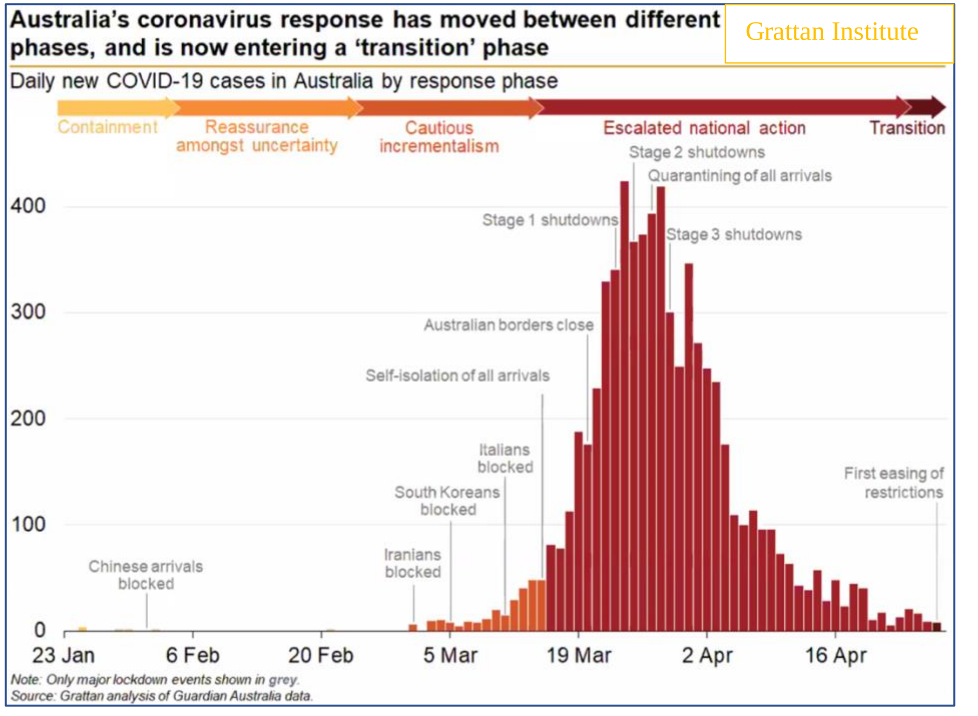

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This report describes:

1. The economic impact pre virus of the visitor economy in Melbourne's West.
2. How this visitor economy is expected to recover under two very different economic recovery scenarios. The first scenario is comparatively cheerful, but not when compared to the before virus situation. The second scenario describes a much deeper recession and slower recovery.

Executive Summary

This report challenges the notion that there will be a fast return to business as usual from virus impacts for the Melbourne's West visitor economy.

Melbourne's West visitor economy has long been underestimated. This reflects that it relies on visiting friends and relatives, domestic business and international student travel rather than traditional holiday visitation. It is a very different visitor economy to all other areas of Victoria.

Yet, this visitor economy is estimated to have more consumer spending than any tourism region of Victoria outside Melbourne. It also has an unusually high reliance on international visitors to Australia, rather than domestic visitors. Unfortunately, this exposes it heavily to the closure of borders and the escalating challenges now facing the international student market.

Melbourne's West's mix of visitation ensures its visitor economy will show a large fall in visitor spending in 2020/21 before bouncing back once international borders open.

Looking longer term, Australia's enhanced reputation for visitor safety and good governance sets us to win major market share against the US and Europe – this implies that international tourism and education could be much bigger employers in the West Melbourne region in five years time than they were in 2019.

Bill Gates wrote on 24 April 2020 for The Economist:

> *"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."*
>
> *"Even if governments lift shelter-in-place orders and businesses reopen their doors, humans have a natural aversion to exposing themselves to disease.*

Airports won't have large crowds. Sports will be played in basically empty stadiums. 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."

This report sets out two alternative scenarios for recovery of the global and Australian economy. Both involve a deep economic recession for Australia that extends at least into 2021 and magnified impacts for the Melbourne West visitor economy.

The forecasts for 2020/21 and 2022/23

The key predictions for the visitor economy in Melbourne's West are shown in Figure 1.

Figure 1. Predictions compared to 2019 for visitor economy direct spending and total jobs due to this spending for Melbourne's West region

Prediction Year	2020/21		2022/23	
Alternative scenario for recovery	Fast	Slow	Fast	Slow
Melbourne's West visitor economy direct tourism spending (after inflation) and visitor economy total jobs	-40%	-51%	6%	-4%

Source: Karl Flowers, Decisive Tourism Consulting Pty Ltd

Under the two scenarios in Melbourne's West 5,855 or 7,609 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 834 more or 565 jobs less compared to 2019 under the two scenarios.

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

- the predicted depth of the Australian and global economic downturn;
- fears of infection discouraging travel, and increased infection rates as the economy re-opens;
- 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 as expected in April 2021 or January 2022 under the two scenarios.

The expectations in late May 2020, are that the first scenario of a faster recovery is a 65 per cent probability and the second scenario of an even deeper recession and slower recovery a 35 per cent probability.

What factors drive the forecasts

Melbourne's West has a high reliance on international visitor nights, and this is the form of tourism expected to have the largest fall in 2020/21 as borders stay closed. These international visitor nights are largely due to very high levels of visiting friends and relatives travel, rather than holiday visitation.

Melbourne's West also has a high reliance on domestic overnight visiting friends and relatives travel. This form of domestic travel is expected to have a faster recovery than domestic holiday travel. This somewhat cushions the visitor economy in Melbourne's West from the more severe downturn facing the City of Melbourne which has an even higher reliance on international visitors and a higher share of holiday trips in total domestic visitor nights.

All forms of domestic tourism are reduced by an Australian economic recession which has greater impacts on reducing discretionary forms of spending such as leisure travel. As a result of the recession, more affordable visitor products are expected to recover better than up market tourism, as consumers look to economise.

In considering visitor economy forecasts it is also important to look at the domestic economy more generally. This will help frame prospects for discretionary spending on travel, business travel recovery and asset valuations including for housing. This report includes findings from Grattan Institute on the expected path of short-term job losses in the second quarter of 2020 and analysis of how the last economic recession in Australia in 1990/91 affected major industries.

While the visitor economy is expected to be the worst affected industry in the currently underway recession, other industry sectors and most obviously construction can expect to also be hard hit, due in part to falling immigration. This report also includes analysis of how the JobKeeper program imperfectly protects regional economies from the short-term falls in the visitor economy.

Executive Summary

Special factors affecting visitation to Melbourne's West

Appendices 8 to 11 in this report provide additional information that adds detail on key issues for Melbourne's West that influence the prospects for the recovery of visitation and visitor economy jobs. For more detail on the analysis behind the following conclusions of these reviews please go to Appendices 8 to 11:

<u>Opening a travel bubble with New Zealand</u>

This proposal promises to depress the visitor economy in Melbourne's West and Australia nationally more than if borders remain closed.

A travel bubble with countries with an expected surplus of visitors to Australia over Australians who visit them is a far better idea. Candidate countries in this proposed travel bubble are: Taiwan; South Korea and Japan; even if current diplomatic problems with China mean they are likely to be less interested.

<u>The non-return or major cuts in seat capacity on a Virgin mark II</u>

This is a major threat to Melbourne's West visitor economy. Across Australia routes where one airline group has a very large share of total seats have much higher average airfares than routes with effective price competition between airline groups.

Melbourne's West would lose significant interstate visitation and international visitation if average domestic airfares to Melbourne increased with less competition and fewer total seat capacity, as heavily discounted airfares become rarer. It is likely that the new owners of a Virgin mark II will seek to convince Qantas they have the financial strength to whether any potential price war but are not expected to compete aggressively on the price of airfares.

Until international borders re-open Melbourne's West is heavily at risk of this threat to achievement of even the forecasts in this report. In addition, the seat capacity and pricing strategies of a relaunched Virgin are of critical interest to the long-term health of Melbourne's West visitor economy.

<u>The shift to online communication will depress business travel</u>

This is expected to be a major issue confronting Melbourne's West visitor economy as declining visitation for meetings and to a lesser extent conferences will negatively affect the business travel market to Melbourne. As companies look to encourage working from home, to save on rent and ease social distancing, so they will discourage domestic business travel. The recession will further accelerate pressure for these cost savings as will any significant move upwards in domestic airfares.

Reductions in business travel due to greater acceptance of Internet meetings/conferences will fundamentally change the balance of the visitor economy in Melbourne's West – requiring a marketing shift by accommodation and other service providers to much greater attention to attracting domestic leisure visitors.

<u>Declines in international students are less of a now problem but a bigger threat going forward</u>

The decline in international student numbers is far less than is widely understood, with around 80 per cent of expected students now here. However, while this has supported international visitor nights in Melbourne's West in the first half of 2020, these students are spending less given declines in employment opportunities. There has also been a severe impact on university finances already.

The bigger worry is that while borders remain closed, the problem of declining international student visitor nights and worsening university finances is set to escalate dramatically in the next two months and again next February if students cannot arrive and as many students already here conclude their qualifications.

Implications of this report for strategies for Melbourne's West

1. Recognise that the region's visitor economy faces a historic crisis and loss of visitor spending that will remain in place until after borders re-open.
    a. Major job losses in the region and loss of otherwise strong visitor economy businesses is inevitable.

2. Also recognise that the region's core competitive advantage in hosting international friends and relatives is perversely expected to be significantly reinforced once international borders re-open. This is because Australia's reputation as a safe and well managed destination is likely to be enhanced.

3. 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.

4. There is an urgent need for the Commonwealth and State Governments to move from general business survival assistance to provide greater support to the sub-sectors most heavily reliant on the visitor economy.

5. The initial key challenge is to help good tourism 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.

6. 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.

7. There is an urgent need for Melbourne's West visitor economy to pivot marketing and their operational focus to encouraging local residents to invite their friends and relatives to visit the region, recognising that:

   a. International visitors won't arrive until borders re-open;
   b. Domestic business travellers are likely to be slower to return.
   c. This region is not strong in traditional holiday travel.

8. Encouraging driving day trip and short break overnight tourism will be key to fostering an earlier recovery. The strategy of fishing where the fish are suggests a marketing focus on growing VFRMelbourne's West has a strong interest in the return of a reborn Virgin Airlines as an effective competitor to Qantas Group – but expectations for this outcome need to recognise the likely weak financial position of the reborn Virgin Airlines.

9. Melbourne's West has a strong interest in seeking to attract further international airline services to Melbourne Airport. The region also has an interest in advocating for more radical domestic aviation regulatory reform, if a cosy duopoly arises. This could include pushing for cabotage rights for international carriers, so they have unrestricted rights to carry domestic passengers on selected domestic sectors of international services to and from Australia.

10. Melbourne's West should advocate for an expanded travel bubble with countries of South Korea, Taiwan, Japan and China as well as, and instead of just, with New Zealand.

11. Melbourne's West has a strong interest in lobbying for processes that allow long staying international students to come to Australia and be quarantined temporarily, even if borders otherwise remain closed.

12. Within the Melbourne's West region, Hobsons Bay City with its higher reliance on domestic day trips is expected to have a less severe fall in visitor spending than the regional average. Wyndham City with its higher reliance on international visitor nights is expected to have the deepest visitor economy downturn in this region. The other four LGAs have forecast changes in visitor spending very close to that for the region as a whole. More detail on the forecasts for the visitor economy for each of the six local government areas in Melbourne's West is provided in Section 9 of this report.

What is the longer-term prognosis for Melbourne West tourism

Looking longer term, Australia's visitor economy should have a strongly enhanced reputation for safety from our relative performance in combating the virus. This is especially the case against our major competitors in attracting international visitors, of the USA and European destinations. This should boost inbound tourism/domestic tourism (due to weaker outbound tourism) and international education in the period to 2030.

However, changes in the business world in favour of virtual meetings and conferences is also a longer-term threat to a key strength of the region's visitor economy.

How to use this report:

This report will prove most worthwhile if it stimulates discussions that change attitudes and behaviours in Melbourne's West beneficially.

It should be judged on this basis not the final accuracy of its predictions:

- One of the nation's top disease modellers, Professor Jodie McVernon of the Doherty Institute, found herself challenged on ABC TV's Q+A on 20 April about whether early and much more pessimistic modelling of the disease's progression in Australia had been wrong. "No", she shot back. "The models had not been wrong. They had helped avert the horrors of makeshift morgues in the back of refrigerated trucks because our government listened to these predictions at a time when many others didn't, and that is why Australia has not had go to through that".

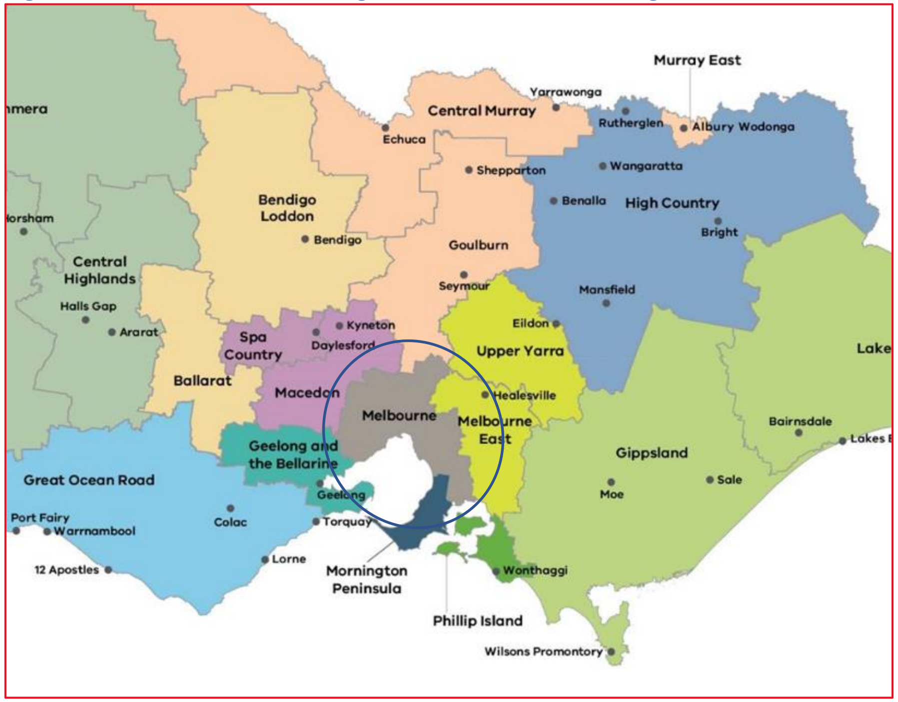
1. Significance pre-virus of Melbourne's West visitor economy

Melbourne's West is defined for this report using the regional boundaries of the six local government areas it contains. The map of the area of Melbourne's West is shown in Figure 2.

Figure 2. The location of Melbourne's West

Melbourne's West is the western third of the much larger Melbourne tourism region as shown in Figure 3.

Figure 3. The location of the larger Melbourne tourism region



Using Regional Tourism Satellite Accounts to create Melbourne's West tourism satellite account estimates

A key resource for estimating the pre-virus visitor economy in Melbourne's West is the regional tourism satellite account information for the Melbourne Tourism region from Tourism Research Australia (TRA). The most recent of this data is for 2017/18, as published in 2019.

Using the tourism satellite account estimates for the Melbourne tourism region, it is straight forward to develop estimates for Melbourne's West. This involves estimating the share of the key forms of visitor activity in the Melbourne region which TRA data estimates occurred in Melbourne's West area.

The regional Tourism Satellite Account provides information on both the direct and indirect (second round or multiplier) economic impacts of tourist spending on gross regional product and in creating jobs. In normal times, it is best to compare the direct economic impacts of tourist spending when comparing the economic contribution of tourism with that provided by other traditional industries which are only measured in direct impact terms. However, total impacts (direct + indirect impacts) of the visitor economy are the more relevant measure than just direct economic impacts when tourism comes to a near full stop, as it has in the current economic crisis.

Appendix 1 to this report provides a more technical description of how the Melbourne West's region visitor economy impact estimates were derived – that might be skipped by readers less interested in this background

Regional economic significance pre-virus of the visitor economy for the Melbourne tourism region

Around two thirds of the total economic value of the visitor economy in Victoria occurs in the Melbourne tourism region.

In 2017/18 visitors spent $20.1 billion directly on goods and services in the Melbourne tourism region. This created a total direct and indirect contribution to gross regional product of nearly $16.7 billion, as shown in Figure 4.

In 2017/18, there were 130,000 jobs reliant on the direct + indirect impacts of tourism spending in the Melbourne tourism region. This represented 5.6 per cent or one in 18 of the total jobs in the region. Two thirds of this job impact was due to the direct or first round impact of the visitor spending.

Comparing the share of total (direct + indirect) jobs due to tourism spending with total employment for the Melbourne tourism region with other tourism regions provides the chart in Figure 5.

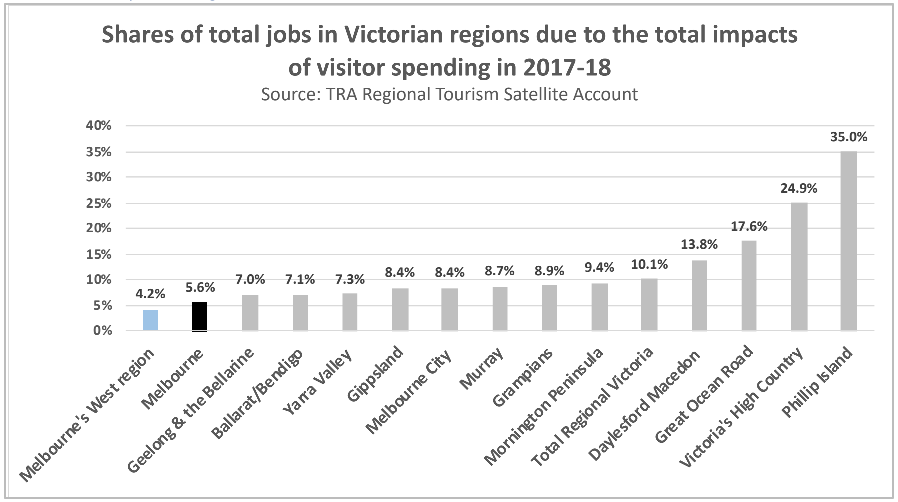
It is not surprising that the Melbourne region has a lower reliance on the visitor economy for employment given it has a much more diversified industry base compared to regional areas. Indeed, it is common that the more urbanised a region the lower its reliance on the visitor economy for employment.

Figure 4. Melbourne tourism region visitor economy in comparison to other Victorian tourism regions in 2017/18

	Direct visitor consumption spending on goods and services ($m)	Total (direct + indirect) contribution to regional GRP of tourism spending $m	Total (direct + indirect) jobs due to tourism spending
Murray	$ 1,779	$ 1,090	13,000
Great Ocean Road	$ 1,813	$ 1,059	11,800
Destination Gippsland	$ 1,486	$ 966	10,875
Mornington Peninsula	$ 1,545	$ 1,011	10,700
Victoria's High Country	$ 1,523	$ 905	10,400
Geelong & the Bellarine	$ 1,164	$ 819	8,500
Yarra Valley & Dandenong Ranges	$ 844	$ 610	7,200
Bendigo	$ 777	$ 500	5,293
Phillip Island	$ 670	$ 395	4,300
Daylesford & the Macedon Ranges	$ 576	$ 283	4,200
Grampians	$ 533	$ 267	3,700
Total Regional Victoria	**$ 12,710**	**$ 7,905**	**89,968**
Melbourne	**$ 20,068**	**$ 16,729**	**130,000**

Source: TRA (2019) Regional Tourism Satellite Account

Figure 5. Share of regional employment due to the total jobs due to visitor spending in 2017/18



Note: Estimates for Melbourne's West region from Decisive Consulting Pty Ltd

Figure 5 also includes the estimate of 4.2% of all jobs in Melbourne's West as due to visitor spending (as explained in the next section of this report). Given the industrial diversification of the Melbourne's West region's economy this smaller share of jobs reliant on the visitor economy was expected. Similarly, larger regional cities in Victoria have lower shares of total jobs reliant on visitor spending than the average across regional Victoria.

The largest visitor economy sub-sectors by jobs directly due to tourism spending in the Melbourne tourism region in 2017-18 were in: cafés/restaurants/take-away food; retail trade; education and training; and accommodation as shown in Figure 6.

Figure 6. Most of the jobs in the Melbourne region visitor economy in 2017-18 were in sub-sectors that are hit hard by social distancing

Employment	2017–18 NUMBERS
Tourism industries	
Cafes, restaurants and takeaway food services	18,834
Retail trade	13,825
Education and training	12,965
Accommodation	9,743
Air, water and other transport	6,284
Travel agency and tour operator services	5,943
Other sports and recreation services	4,440
Clubs, pubs, taverns and bars	4,047
Road transport and transport equipment rental	3,772
Cultural services	2,435
Casinos and other gambling services	790
Rail transport	326
All other industries	3,025
Total	**86,429**

Source: TRA Regional Tourism Satellite Account

Compared to the visitor economies in other regions of Victoria, the Melbourne tourism region has much greater reliance on education and training as a source of jobs, owing to the strong place of international education in the region.

Why Melbourne's West tourism region is different to the other tourism regions in Victoria

Visitation to this region is uniquely dominated by visiting friends and relatives (VFR) travel. This in part reflects the Melbourne's West region has a population of nearly 1 million people, [1] but also reflects that this region has residents who often have family and friends visiting from overseas. This region has a high share of recent migrants to Australia and this promotes VFR travel.

In Melbourne's West 58 per cent of the resident population had both their parents born overseas in the 2016 Census. This compares to 41 per cent of Victorians who had both their parents born overseas.

International Visitor Nights

Over the four years to 2019, more than half (53 per cent) of the international visitor nights in Melbourne's West were by people with the purpose of their stopover of visiting friends or relatives. This was a much higher share than applied in Victoria as a whole of 32 per cent, as shown in Figure 7.

Of the LGAs in the Melbourne's West region, Melton and Wyndham Cities were the most focussed in welcoming friends or relatives as a share of their total international visitor nights. Mariybrnong City in contrast had a much greater reliance on international education as the main purpose of visit of their international visitor nights.

Figure 7. International visitor nights by purpose of visit in 2016-2019

	Holiday	Visiting friends and relatives	Business	Employment	Education	Total Visitor Nights (000s)
Victoria	24%	32%	4%	8%	32%	68,541
Melbourne's West Tourism Region	10%	53%	2%	8%	25%	6,432
Moonee Valley City	17%	40%	2%	6%	34%	881
Brimbank City	9%	43%	1%	12%	33%	980
Hobsons Bay City	25%	49%	2%	8%	15%	439
Mariybrnong City	11%	22%	0%	9%	47%	1,153
Melton City	5%	73%	4%	10%	7%	463
Wyndham City	6%	73%	2%	6%	13%	2,516

Source: TRA Online, using IVS data

[1] ABS data indicates a population in the six local government areas in 2018 of 936,000 people (Source: ABS Cat. No. 3218.0)

Domestic Visitor Nights

Visiting friends and relatives also dominated domestic visitor nights by purpose in Melbourne's West and its LGAs over 2016-19

Figure 8. Domestic visitor nights by purpose of visit to stopovers in 2016-2019

	Holiday	Visiting friends and relatives	Business	Other reason	Total Visitor Nights (000s)
Victoria	45%	34%	16%	5%	73,707
Melbourne's West Tourism Region	16%	63%	17%	4%	2,263
Moonee Valley City	17%	64%	14%	5%	406
Brimbank City	15%	60%	16%	8%	305
Hobsons Bay City	11%	57%	31%	1%	326
Mariybrnong City	15%	62%	21%	2%	326
Melton City	15%	71%	10%	4%	384
Wyndham City	20%	61%	13%	6%	517

Source: TRA Online, using IVS data

Economic significance pre-virus of the visitor economy for Melbourne's West

Estimates for the economic value of Melbourne's West region and for its six local government areas were derived by using averages of tourism visitation over four calendar years from 2016-19. This reduces the impact of sampling errors from TRA national visitor and international visitor surveys at a local government area level. The averaging over the four calendar years was then matched to TRA regional satellite account results for the 2017/18 financial year which falls half-way through the four calendar years.

Melbourne's West has a varying share of the Melbourne region's total visitor activity depending on the type of tourism involved. Figure 9 shows the shares of the major forms of tourism activity in the Melbourne region that occurred in Melbourne's West in the average over the four years 2016-19.

The share of domestic day trips in total visitor spending is higher than in the Melbourne region at 19 per cent (compared to 12 per cent) and the share of interstate visitor night spending is lower than the Melbourne region average (21 per cent compared to 32 per cent). Both of these differences help insulate the Melbourne's West region visitor economy from as sharp a downturn in response to virus impacts as that facing the Melbourne region as a whole.

Figure 9. Estimated total visitor activity and spending in Melbourne's West compared to Melbourne tourism region in 2017-18

	International Visitor Nights	Domestic day trips	Domestic interstate visitor nights	Domestic intrastate visitor nights
Melbourne Region (000s)	60,800	19,300	19,900	7,600
Melbourne's West (000s)	6,432	3,089	1,340	923
Melbourne's West Share of Melbourne Region visitor activity	11%	16%	7%	12%
Shares of total Melbourne Region visitor spending by form of tourism (%)	46%	12%	32%	10%
Value of visitor spending in Melbourne region $m	$ 9,200	$ 2,400	$ 6,400	$ 2,000
Value of visitor spending in Melbourne's West $m	$ 973	$ 384	$ 431	$ 243
Shares of total Melbourne's West visitor spending (%)	48%	19%	21%	12%

Source: TRA Regional Tourism Satellite Account and TRA Online for National and International Visitor Survey results

In comparison to the City of Melbourne, Melbourne's West is also far better positioned to weather virus impacts due to its different mix of visitor spending. The City of Melbourne in 2017/18 had a much higher reliance on international visitors and interstate visitor nights at 63 per cent and 30 per cent respectively. This promises that the City of Melbourne faces a sharper fall in visitor spending due to the virus than does Melbourne's West. When it is also considered that businesses in the City of Melbourne visitor economy are also hit heavily by work from home ules with its focus on large office employment this area faces very significant economic challenges. [2]

Melbourne's West has a radically different mix of visitor spending to that in regional areas of Victoria. Most regional areas of Victoria have their largest economic reliance on domestic intrastate visitor nights ahead of domestic day trips, with very small reliance on international and interstate domestic visitor nights. On this basis, regional areas of Victoria are better protected from virus impacts than is Melbourne's West.

That nearly half of estimated visitor spending in Melbourne's West in the four years 2016-19 was due to international visitor nights implies a large fall in economic value of the visitor economy for the region while borders stay closed.

Melbourne's West received an estimated 10.2 per cent of the visitor spending in the Melbourne tourism region in 2017/18.

In 2017/18 estimates of the visitor economy contribution to Melbourne's West 's Gross Regional Product and the number of jobs directly that are reliant on tourism spending are outlined in Figure 10. Also included is the estimated share of total Melbourne's West employment due to the total impacts of tourism spending.

Total jobs in Melbourne's West that are due to the visitor economy were estimated at just over 13,000 jobs and 4.2 per cent of total Melbourne West region jobs. This estimate was calculated using both TRA and ABS Census data sources.

Figure 10. Estimated shares of total LGA jobs due to tourism spending in Melbourne's West in 2017-18

	Total Visitor Spend $m	Direct GRP $m	Total GRP $m	Direct Jobs	Total Jobs	Share of Total region estimated jobs
Melbourne's West Tourism region	$ 2,031	$ 882	$ 1,699	8,774	13,202	4.2%
City of Melbourne	$ 6,768	$ 2,938	$ 5,661	29,238	43,992	8.4%
Balance of Melbourne Tourism Region outside Melbourne's West and the City of Melbourne	$ 11,201	$ 4,862	$ 9,369	48,388	72,807	4.9%
Melbourne Tourism Region	$ 20,000	$ 8,681	$ 16,729	86,400	130,000	5.6%

Source: Decisive Consulting Pty Ltd estimates using TRA Regional Satellite Account and TRA Online NVS and IVS data

[2] One author compared open plan offices with hot desking as the equivalent of land-based cruise ships for their effectiveness in spreading the virus (see Appendix 10).

The visitor economy as a source of jobs in the Melbourne West for the region's residents

As TRA data identifies where the visitor spending occurs, job estimates based on TRA data were compared with ABS place of work data on the total number of jobs in the region by industry from the Census.

Unfortunately, we don't get direct estimates of the share of residents of Melbourne's West who work in the visitor economy either in the region or elsewhere in Melbourne. The best guide to this estimate is to look at data from the ABS Census on employment by industry by place of work compared to employment by place of residency. On the basis of this partial data, it appears that the share of jobs in the visitor economy held by the residents of the Melbourne's West region is below the share of total jobs in Melbourne's West due to the visitor economy.

Whereas the 2016 ABS Census estimated the number of jobs in Melbourne's West at 261,000 it also estimated the resident population who live in the region who are in employment at 835,000 or over three times the level of local employment. This reflects that many residents of this region travel outside it, to go to work.
From Figure 6, one third of visitor economy jobs in the Melbourne tourism region were in the ABS industry category of Accommodation and Food Services (cafes/restaurants/takeaway services plus accommodation).
The share of jobs held by residents of Melbourne's West in Food Services and Accommodation was 3.0 per cent in 2016 with 25,000 jobs in this industry. This is a lower share than the 6.2 per cent of the workforce in the Melbourne's West region in this industry sector.

How Melbourne's West visitor economy changed between 2017/18 and 2019

In the 18 months from the four-year average of 2016-19 to 2019 there was healthy growth in visitation to Melbourne's West. This growth in estimated visitor spending was 12.1 per cent after inflation or just above the 10.4 per cent real spending growth for the Melbourne Tourism Region.

During this 18 month period there was only a small rise in international visitor nights in the region while domestic day trips and intrastate overnight tourism grew strongly. The shift in the estimated shares of visitor spending for Melbourne's West in the two periods is shown in Figure 11.

Reflecting the stronger growth in domestic visitor activity than in international tourism, this 18 month period was unusual compared to previous years, as there was stronger average growth across regional Victoria of 17 per cent in real visitor spending.

Figure 11. Estimated changes in Melbourne's West region visitor activity and shares of spending for the average of 2016 to 2019 and for 2019

	International Visitor Nights	Domestic day trips	Domestic interstate visitor nights	Domestic intrastate visitor nights
Visitor activity measures (000s)				
2017/18	6,432	3,089	1,340	923
2019	6,805	4,033	1,423	1,098
Change in 18 months	6%	31%	6%	19%
Estimated shares of visitor spending (%)				
2017/18	48%	19%	21%	12%
2019	45%	22%	20%	13%

Source: Decisive Consulting Pty Ltd estimates using TRA Regional Satellite Account and TRA Online NVS and IVS data

Economic significance pre-virus of the visitor economy for Melbourne's West region local government areas

Visitor spending is spread across the six local government areas that make up the Melbourne's West region. On the basis of the average of the four years from 2016 to 2019, the largest share of the visitor spending was in the Wyndham City area with the other five local government areas having similar total values of visitor spending.

Figure 12. Estimated annual visitor spending in the local government areas in the Melbourne's West region for the average of 2016 to 2019

Average of four years 2016 to 2019	International Visitor Nights	Domestic day trips	Domestic interstate visitor nights	Domestic intrastate visitor nights	Total visitor spending
Moonee Valley City	$ 133	$ 49	$ 70	$ 50	$ 302
Brimbank City	$ 148	$ 58	$ 49	$ 41	$ 295
Hobsons Bay City	$ 66	$ 66	$ 62	$ 35	$ 229
Marybyrnong City	$ 174	$ 38	$ 72	$ 27	$ 311
Melton City	$ 70	$ 53	$ 83	$ 33	$ 239
Wyndham City	$ 381	$ 121	$ 95	$ 58	$ 655
Melbourne's West tourism region	$ 973	$ 384	$ 431	$ 243	$ 2,031

Source: Decisive Consulting Pty Ltd estimates using TRA Regional Satellite Account and TRA Online NVS and IVS data

Within the six local government areas the most visitor economy reliant as a share of total LGA jobs is Wyndham City ahead of Melton City. This is not a surprising result, as these local government areas have much larger land areas and are less urbanised on average than the other local government areas (see Figure 2).

The estimates of reliance of these LGA economies on the visitor economy is shown in Figure 13.

Each of the six local government areas has at least 1,491 jobs in their areas as due to the total impacts of visitor spending.

The pre-virus importance of the visitor economy in Melbourne's West

Figure 13. Estimated shares of total LGA jobs due to tourism spending in the six LGAs in Melbourne's West in 2017-18

	Total Visitor Spend $m	Direct GRP $m	Total GRP $m	Direct Jobs	Total Jobs	Share of Total jobs due to visitor spending of total jobs in city or region
Moonee Valley City	$ 302	$ 131	$ 252	1,304	1,962	4.6%
Brimbank City	$ 295	$ 128	$ 247	1,275	1,918	2.4%
Hobsons Bay City	$ 229	$ 100	$ 192	991	1,491	3.6%
Marybyrnong City	$ 311	$ 135	$ 260	1,343	2,021	4.6%
Melton City	$ 239	$ 104	$ 200	1,031	1,551	5.3%
Wyndham City	$ 655	$ 284	$ 548	2,831	4,259	5.8%
Melbourne's West tourism region	$ 2,031	$ 882	$ 1,699	8,774	13,202	4.2%

Source: Decisive Consulting Pty Ltd estimates using TRA Regional Satellite Account and TRA Online NVS and IVS data

Comparison of the average of 2016-19 with the 2019 estimate of visitor spending for the six local government areas is shown in Figure 14.

The results in this table are influenced by the mix of visitation to the six local government areas, as provided in more detail later in this report.

Figure 14. Estimated growth in visitor spending of total LGA jobs due to tourism spending in the six LGAs in Melbourne's West in 2019 in comparison to the average of 2016 to 2019

Moonee Valley City	4%
Brimbank City	3%
Hobsons Bay City	14%
Marybyrnong City	-1%
Melton City	27%
Wyndham City	20%
Melbourne's West tourism region	12%

Source: Decisive Consulting Pty Ltd estimates using TRA Regional Satellite Account and TRA Online NVS and IVS data

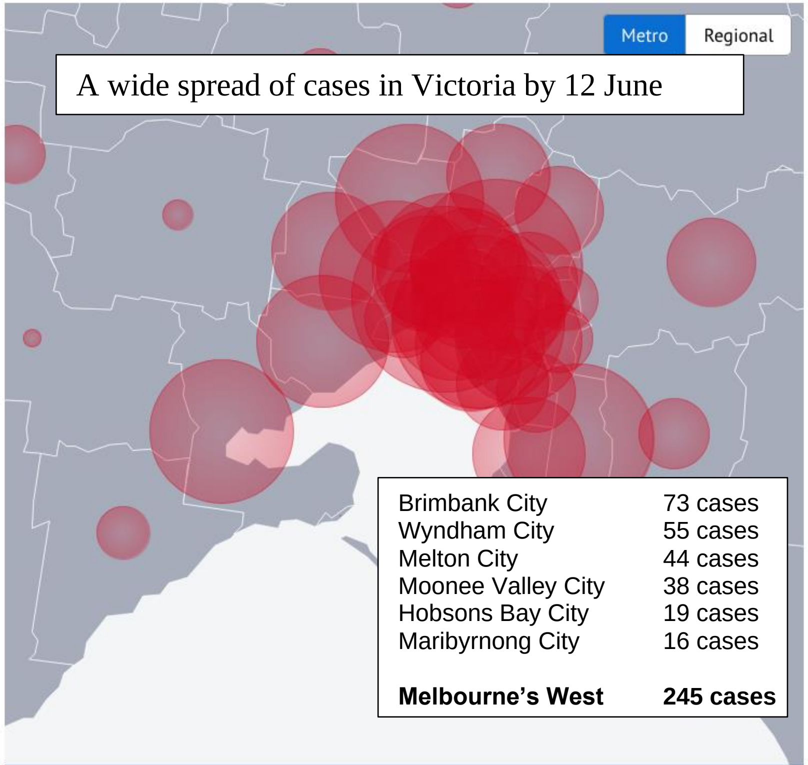
So, this first section of the report has summarised the before the virus valuation of the visitor economy in Melbourne's West and its six local government areas.

The remaining sections of this report describe the:

- The generally expected serious implications for the global and Australian economy;
- JobKeeper program as a cushion for regional economies from short term falls in the visitor economy;
- Assumptions for health and economic outcomes under two alternative possible paths for next financial year and two financial years later;
- Expected impacts and recovery paths for the visitor economy in Melbourne's West for next financial year and two financial years later.

2. The spread of the virus so far in Victoria (as at 12 June 2020)

1703 Confirmed (52 active) **19** Deaths (1.12%)



AREA	CONFIRMED	DEATHS	RECOVERED
Melbourne	110	NA	NA
Stonnington	95	NA	NA
Banyule	93	NA	NA
Boroondara	73	NA	NA
Brimbank	73	NA	NA
Casey	71	NA	NA
Hume	70	NA	NA
Greater Geelong	66	NA	NA

Recovered	1632
Tests conducted (% positive)	572,985 (0.3%)
Current cases admitted to hospital	5
Current cases in ICU / ICU capacity	1 / 476

Age breakdown

0-29	30-60	60+
29.7%	46.1%	24.2%

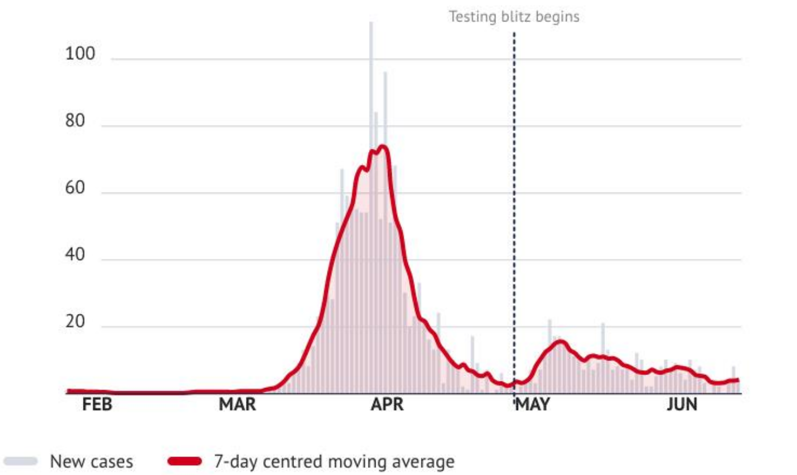
Source of infection

52.4% | 10.5% | 36.5%

Overseas acquired · Locally acquired (contact unknown) · Locally acquired (contact of confirmed case) · Under investigation

NEW CASES PER DAY IN VIC

New cases: 4 (-50%) New cases in past seven days: 22 (-53.2%)



Source: As updated daily by The Age: https://www.theage.com.au/national/covid-19-data-centre-coronavirus-by-the-numbers-20200401-p54g4w.html?permanent_redirect=true

3. Why "this time is different" for an economic recession

Some people think of the arrival of Covid19 as similar in impact to a SARS or the terrorism of 9/11 in 2001. But the latter events did not lead to global economic recession even if tourism stalled in particular countries.

In addition, the last global economic recession in 2008 due to the Global Financial Crisis (GFC) and the dot com crash of 2000 are different in being focussed on equity markets (Wall Street not Main Street) and being slower to arrive compared to the current emergency stop.

In Australia there has not been an economic recession for 30 years, despite these more recent global crises – so we don't have data on how a local recession impacts tourism. In addition, Australia's economic growth has been strongly supported by high levels of net immigration and construction activity which are now expected to slow for a number of years.

Not just a recession, but big changes in behaviour

Covid 19's arrival is a unique event. In economic and financial markets analysis it is usually an error to conclude that "this time is different" as economic history tends to rhyme, but with the virus this conclusion is blatantly obvious.

The global economy has shuttered in an unprecedented manner and in a very short period, affecting other sectors well beyond tourism, even as the visitor economy was most affected. Global supply chains have been shredded leaving production of many goods facing component unavailability. Global travel and immigration have ended in a remarkably short few weeks from early February.

But the impacts on domestic life with social distancing and home quarantining have been an even greater challenge to normality than brought by any previous economic recession. There will be behavioural changes with reduced confidence to travel and a shift to teleconferencing that will extend well beyond the economic recovery. Similarly, the extreme impacts on the supply side of the visitor economy will ensure long recovery periods for airlines and sectors like restaurants with fewer businesses and hence reduced competition and expected higher prices.

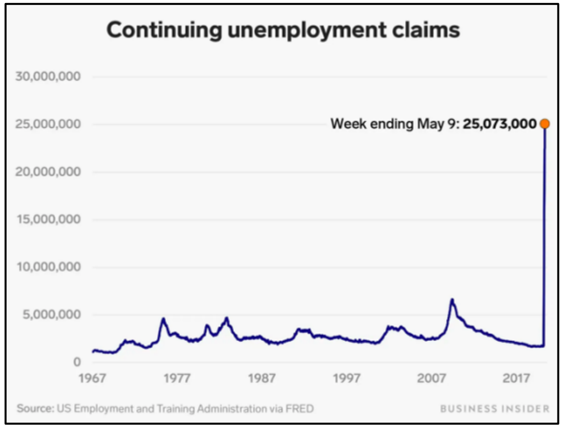
Biotechnology giant CSL Limited's chief scientific officer, Professor Andrew Cuthbertson, said on 9 April that social distancing is the best weapon Australia has to combat the virus, with a vaccine 12-18 months from being ready for the public.

We are not in Kansas anymore.

A big, bad global recession

When it comes to economic news, the world is a gloomy place, becoming gloomier by the day. The shock is yet to fully register in economic data or financial markets. It is as if an avalanche has started high on the mountain and we are watching it begin rush towards us as we wait for the inevitable looking up from far down the slope.

"*The global economy will take much longer to recover fully from the shock caused by coronavirus than initially expected*", the head of the International Monetary Fund said on 18 May. "*The Fund was likely to revise downward its forecast for a 3 per cent contraction in GDP in 2020, with only a partial recovery expected next year instead of the 5.8 per cent rebound initially expected*."



Whereas initial USA unemployment claims took 27 weeks to reach 10 million in the GFC and the average of seven previous recessions since WWII, this level was achieved in two weeks due to the virus. Seven weeks later on 21 May and initial unemployment benefit claims in seven weeks had reached 38 million, "literally off the chart" of the previous 50 years and representing 21% of the US workforce. The previous record for a six-week stretch was just under 4 million in 1982. As shown in the adjacent chart continuing unemployment claims in the USA exceeded 25 million on 9 May.

The USA economy shrank at a 4.8 per cent annual rate in the March quarter. The Congressional Budget Office estimated on 29 April that economic activity will plunge in the June quarter at a 40 per cent annual rate. In contrast, the sharpest quarterly drop in the 2008 Global Financial crisis was 8.4%.

Recognising the uniqueness of the threat fiscal and monetary authorities have responded with unprecedented vigour to inject stimulus to support economies and credit markets – hoping to reduce the damage.

Why this time is different for an economic recession and Job Keeper

The Economist Intelligence Unit (EIU) updated global economic forecasts for 2020 on 6 April. The EIU now sees a deeper global recession than occurred with the GFC and is not expecting a rapid bounce back in the second half of 2020. *"The impact on confidence and demand will be long lasting. A rise in uncertainty will lead to increased precautionary savings among households and delayed business investment. Some consumers may also continue to self-quarantine after governments lift lockdowns for fear of contracting the coronavirus, which will constrict the recovery in private consumption. A potential debt crisis could also quickly spread, sending the global economy into another—possibly much deeper—downturn*." (EIU Global Forecasts, 6 April)

Similarly, former US Treasury Secretary Larry Summers noted on 9 April: *"I think it will take a year to a year and a half after we're basically pretty free and clear of disease issues for the unemployment rate to get back into a normal kind of range of 5 per cent."* This comment echoes those of Kenneth S. Rogoff, a Harvard economist and co-author of a history of financial crises of 9 April:
"I feel like the 2008 financial crisis was just a dry run for this. This is already shaping up as the deepest dive on record for the global economy for over 100 years. Everything depends on how long it lasts, but if this goes on for a long time, it's certainly going to be the mother of all financial crises."

The shock is yet to fully hit financial markets. More muted and mundane previous global economic recessions have seen a halving in global equity prices. That the last six weeks has seen far faster falls of only around 10-15 per cent (as shown in the diagram) is surprisingly small given the at least short-term economic carnage we now expect.

"It is almost impossible to reconcile the disconnect between the devastation the coronavirus is wreaking in real economies and the renewed bullishness in sharemarkets." Stephen Bartholomeusz, The Age 12 May.

A big recession in Australia

Looking locally, ABS business survey data released on 8 April showed on an industry basis, tourism businesses were the most severely affected along with arts and recreation services and accommodation and food *services* – all of which are discretionary spend and highly labour intensive. **Discretionary spending will take longer to recover than more essential spending with an economic slowdown.**

The visitor economy fell heavily in the March quarter of 2020, with very little of this period impacted by social distancing. The accommodation and food services sector contracted by 7.5 per while total spending on discretionary goods and services fell 3.9 per cent and total spending on essential goods and services lifted by 0.6 per cent.

"*The profit the NAB bank announced on Monday was about 20 per cent lower than consensus forecasts, the equity raising (although prudent) is highly dilutive and the economy's prospects outlined by NAB are frightening*," wrote Elizabeth Knight financial commentator in the Age on April 28. "*NAB has become the first bank to rip-off the dividend bandaid - slashing payments by 64 per cent*." Ms Knight wrote. A day later and the ANew Zealand deferred its half yearly dividend as did Westpac a week later. The big four Australian banks last year paid out $24 billion in dividends.

Dividend payments in Australia totalled $80 billion last financial year, research from UBS recently found. Dividends and franking credits accounted for 87 per cent of returns from the ASX 200 index over the past decade. The typical balanced super fund was down 7 per cent in the nine months to March.

The NAB and Commonwealth Bank have given two very similar prediction scenarios for house prices. The NAB's "base case", or V-shaped scenario, assumed house prices would fall 10 per cent this year along with a sharp increase in unemployment, before recovering slightly with a 3 per cent increase in 2021. Under a slower U-shaped recovery scenario, the NAB assumed house prices would plunge 21 per cent this year and a further 12 per cent in 2021, before a 2 per cent increase in 2022. The Commonwealth on 14 May predicted house price falls of between 11 and 32 per cent by the end of 2022.

Westpac on 11 May introduced a loan to valuation cap of 70 per cent for new loans in postcodes in tourism-heavy areas, previously the bank had allowed owner-occupiers who are self-employed to borrow up to 95 per cent of a property's value, or 90 per cent for property investors.

Federal Treasury has forecast a 10 per cent Australian unemployment rate by mid-2020 while noting it would have been much higher without the Job Keeper package (The Age 14 April). The Victorian Government, more recently, predicted a State unemployment rate peaking at 11 per cent in the September quarter this year, more than double the pre-crisis rate. This modelling shows that Victorian Gross State Product is predicted to decline by an unprecedented 14 per cent in the June quarter. Victoria is especially vulnerable to economic damage from the pandemic because it is geared to construction and international education, which have boomed from high immigration and population growth. “Victoria will inevitably be hit the hardest by this crisis,” said Abul Rizvi, who was immigration department deputy secretary in the Howard government. “Negative net immigration all of a sudden pulls the rug out from under Victoria,” he said.

A business survey by the Australian Bureau of Statistics released on 4 May showed 69 per cent of firms expect sales to fall over the next two months. Seventy-two per cent expect reduced cashflow over the same period. The worst-hit sectors include accommodation and food services (an 84 per cent drop in demand), arts and recreation (83 per cent) and manufacturing (82 per cent). Almost 40 per cent of restaurants, hotels and cafes are reporting trouble accessing credit while 70 per cent said they were having difficulty paying ordinary bills.

Two of Australia’s leading economists Bob Gregory and Saul Eslake see little chance of a V-shaped recovery. Both noted in an Age article on 8 April that they expect higher unemployment to persist and key industries like international tourism and education — accounting for 5 per cent of GDP — taking time to return to previous levels, if they ever do.

Prime Minister Scott Morrison on 1 May revealed the government expects net overseas migration to fall by 30 per cent in the current financial year before crashing by 85 per cent in 2020-21. Last May’s budget had assumed a net 270,000

A short comparative history of recessions ...

increase in migration for 2019-20 and just a small drop off the following year. "This will make the Australian economy look more like a European economy," Chris Richardson of Deloitte Access Economics noted in response. “One of the reasons Australia had avoided recession for almost 30 years was large immigration over the past three decades.” (The Age 2 May)

“*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,” he warned”* - argued Ross Gittins and the following cartoon in The Age of 2 May. Ross Gittins also observed that “*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.”*

Half of Australia’s consumers expect to keep reduce spending over the next year according to survey results from Boston Consulting Group. More specifically, 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 found 58% of respondents expect a second COVID-19 outbreak in the next six months. (Source: Macrobusiness, 7 May)

Implications for the visitor economy of the planned three phase re-opening of the economy from 8 May 2020

With the three-stage opening proposed, Australia has shifted to a strategy that puts a greater weighting on reducing economic costs recognising more infections will result but that the health system is now better placed to respond.

While this strategy makes better sense for the economy as a whole it also carries both benefits and greater risk for the regional visitor economy. Many tourism business owners will be delighted with the re-opening strategy. However, some regions so far virus free will get infections form visitors or locals return from infected areas. There is a much greater risk of regional close downs, while competing regions stay open. The odds of Scenario 2 is significantly increased. If Australia had stayed closed for another month or two with an elimination strategy, the odds of scenario 1 were in my view around 85 per cent and scenario 2 around 15%. However, with staged re-opening the odds have shifted to more like 65:35.

Why this time is different for an economic recession and Job Keeper

Grattan Institute had previously noted that they favoured the, now rejected, elimination strategy as the best available outcome (as published April 13)

> *Six weeks into the COVID-19 crisis, Australian governments are still hedging about which endgame they're playing for. That's understandable – uncertainties abound, and the stakes couldn't be higher. <u>The least-bad endgame is to eliminate the virus from Australia</u>, continue to control our borders until there is a vaccine, and restore domestic economic and social activity to "normal", albeit keeping a close watch for new cases. The outcomes of this endgame would be much better than the alternatives. Obviously, fewer Australians would be infected. And the economic costs would be much lower because much more economic and social activity could go back to normal within a few months, whereas under the alternatives many activities would remain curtailed until there is a vaccine or a cure – or we lose patience and accept a lot more deaths.*
>
> *The current level of restrictions might well be sufficient – they are probably resulting in fewer new cases each day – but they would have to remain in place a month or two longer – because getting from 10 new cases a day to 0 is vital to the strategy. But we could then look forward to a lengthy period of relatively normal social life, business activity, domestic education, retail activity, domestic tourism, sport, and entertainment. One doesn't need a complex model of Australia's economy to see that an extra month or two of tighter restrictions would be worth the wait. (This) elimination strategy implies very tight controls over international passenger traffic until there is a cure or a vaccine. Best case: we can shake hands on a job well-done in four months' time.*

Writing in early June 2020, the strength and timing of the economic recovery from the virus is highly uncertain. For this reason, this report outlines two scenarios for economic recovery of a fast and slow road to recovery for the global and Australian economy and the Melbourne's West region's visitor economy.

What is more predictable, is that whenever the economic recovery comes it will produce a similar pattern of some forms of tourism and industry sub-sectors within these regions' visitor economies being harder hit and slower to recover than others which respond more quickly and strongly.

More detail on the expected economic impacts of the virus in the next quarter and for other industries than the visitor economy, but with relevance for the visitor economy, is provided in the following Appendices to this report:

- Appendix 2 - ABS data up to 4 April on impacts of the virus on the Australian labour market
- Appendix 3 - Using Grattan Institute Research to understand expected job losses by industry for Australia in the second quarter of 2020
- Appendix 4 – Recalling the 1990/91 Australian recession

4. Analysis of Job Keeper – a critical program for the visitor economy

In evaluating how much of the fall in the regional visitor economy impacts the regional economy it is also necessary to consider the effectiveness of short-term Government economic support packages.

For most regions the key Government support measure is the JobKeeper Program from the Commonwealth Government. This is designed to provide continuing funding for many households over the close down period. However, this program's effectiveness relies on employers complying with its requirements. The evidence on the final level of take up of the program is not yet available – but there are obvious compliance challenges for businesses.

The JobKeeper program is particularly critical to the survival of regional visitor economy businesses.

The following box provides one critic's evaluation of this program and is included to help RTO and local government area stakeholders understand the challenges their businesses face in accessing the program.

These challenges may suggest a larger role for RTOs or local governments in providing assistance to SME's in the visitor economy which is the sector of the economy expected to dominate applications for JobKeeper.

Beyond the challenges identified in the box, a further challenge for employers is that some employees are refusing to work or refusing hours because in many cases it won't impact how much they are paid under the JobKeeper program. In some cases, this refusal to work is justified by the employee as essential to cutting their risks of catching the virus. As ATO rules ensure that all qualifying employees must be included in the employer's JobKeeper application and forwarded the required payments this can put employers in a frustrating position.

Only on 5 May, the Victorian Treasurer, Tim Pallas MP, announced the State Government will provide a further $491 million in tax relief with an exemption from payroll tax and WorkCover premiums on the $1500 fortnightly JobKeeper payments – meaning businesses are not paying more State Government taxes as a result of keeping staff on under the scheme.

"Government comments indicate there are so far around ~3mn people on JobKeeper (which is additional to JobSeeker); albeit far less than the ~6.6mn people initially projected." UBS 6 May 2020

A critic of the Job Keeper program – suggests a problem for tourism stakeholders including RTOs to watch out for

Daniel Anstay on MichaelWest.com.au concluded on 26 April that the Morrison Government's JobKeeper scheme is in trouble. He argues that by privatising the administration to businesses and privatising its funding to the banks, millions of workers will be left out.

JobKeeper targets reducing formal unemployment numbers, while saving business owners from having to pay redundancy entitlements, long service leave, sick leave and so on. However, it is unclear how many of the potentially eligible workers will be funded through the program given compliance burdens on employers.

This critic argues the scheme is based on a weird logic. In order to qualify for the scheme, an employer must have lost at least 30 per cent of their revenue, but still somehow still pay $3,000 a month to each eligible employee out of their own pocket before the backdated JobKeeper payments are made sometime in May.

For a small business with no revenue and 20 employees, finding $60,000 a month on top of rent and all other costs is a big ask, an ask which could leave many thousands of Australian employees' ineligible for JobKeeper through no fault of their own. This is where the banks were meant to come in. The Government has "privatised" the administration of its JobKeeper scheme to business. Businesses fill out the forms, ask for the money, are supposedly given the money, and they give it to their employees. On top, they are required to go to the banks to get their bridging finance. The Government has effectively privatised the funding of the scheme to the banks via its small business lending package.

The Coalition's advice to struggling businesses is to borrow the funds to make the required payments before the entitlement to be reimbursed arises. Bear in mind that jobs were shed when the pandemic hit in March but payments are not due until sometime in May, a roughly six-week hiatus. Ongoing loans may be needed to cover the next month's payments to employees, meaning interest accruing for crippled businesses. Many business owners may be forced to give extra security over their homes and other assets to satisfy banks' risk requirements.

Even so, JobKeeper seems to be less of a boon for the banks than a white elephant. So far, 400,000 businesses have submitted formal applications for Jobseeker and close to 1 million have expressed interest. To expect the banking system to process potentially hundreds of thousands of new business loans within two weeks defies logic. Prime Minister Scott Morrison's public rebuke of the banks for failing to lend to businesses would appear to be blame-shifting. They did not invent JobKeeper; and even Commonwealth Bank chief Matt Comyn has expressed public reservations about it.

Treasurer Josh Frydenberg, without admitting the flaws, foreshadowed changes to the scheme.

Source: https://www.michaelwest.com.au/jobreaper-flaws-in-jobkeeper-scheme-leave-businesses-and-workers-high-and-dry/

Why this time is different for an economic recession and Job Keeper

For many qualifying visitor economy employers a large share of their workforce is ineligible for JobKeeper. A Grattan Institute report suggested perhaps 40 per cent of their workers are casuals including working holiday makers and international students (who are also more generally ineligible) with less than 12 months' time in the job. Perversely, this would seem to make JobKeeper more attractive to visitor economy employers, as less money needs to be borrowed.

On the other hand, one issue not identified by the critic is that accountants are seeing unprecedented demand for their services. Accountants charging SMEs for the required monthly data compilation and reporting to the ATO – further increases compliance costs for SMEs accessing this program that much more directly benefits their employees than themselves (though one director or partner in each business is also eligible for the JobKeeper payment).

Advice from Westpac on 23 April invited their customers who are registered for JobKeeper to apply for an overdraft up to three times the value of their weekly wages bill at 7.99 per cent per annum interest rate.

The Australian Small Business and Family Enterprise Ombudsman, Kate Carnell, addressed reports that many small businesses are not applying for the JobKeeper payment because they can't afford to pay staff by 30 April.

"There have been reports that some small businesses, particularly in the tourism and hospitality sectors, have not applied for JobKeeper because they cannot pay $1,500 for each eligible staff member per fortnight. "The big four banks have established JobKeeper helplines that are dedicated to this issue alone".

She advised businesses to explore lines of credit being offered to JobKeeper applicants in the lead-up to the initial payment from the ATO. "The banks are promising to fast-track these applications, so you can get the necessary funds you need to pay your staff."

Ms Carnell explained that it's especially critical that small businesses that are struggling to pay their rent apply for the JobKeeper payment because they are only covered by the Mandatory Commercial Tenancy Code of Conduct if they are eligible for JobKeeper.

"This may be essential to your business' survival," she said.

By early June 2020, and the debate about tapering Job Keeper after September and focussing it on sectors like tourism is set to intensify.

5. Scenario 1 - A faster/stronger road to economic recovery

Why a faster economic recovery is likely!

In combating the health impacts of the virus Australia has done well, most obviously in comparison to the countries we normally follow of 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 and GP Tony Bartone on 11 April. "*We have enormous idle capacity, overcapacity of ICU beds, ventilator beds, waiting and 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*."

At the outset of the crisis, Australia had 2200 ventilator ICU beds. By 9 April that had doubled, according to Health Minister Greg Hunt, and the Morrison government announced a $31 million contract for the local manufacture of another 2000 ventilators by July.

Has the Australian outbreak peaked? "*It could be that it has*," says the Nobel prize-winning immunologist Professor Peter Doherty on 11 April. "*At the moment we are right in the front rank, with New Zealand. It's pretty impressive. In some ways, that makes it even more difficult – how the hell do we ever get out of it? That's the bigger question. This is a problem, but it is a problem of success. It could be worse. Look around the world.*"

The Age reported on 18 April, "*in deaths-per-infection, the US (5 per cent) is slightly higher than China (4 per cent). Italy and the UK show a whopping 13 per cent while in Australia and New Zealand it's below 1 per cent*."

By early April, a total of 332 Covid-19 clinical trials into treatments and vaccines had been launched in China, South Korea, Europe and North America, according to the medical journal The Lancet. The Economist on 17 April reported that "*86 vaccines are reportedly being developed around the world, taking a wide array of approaches. Three have already started "phase I" (early safety) trials. One, made by a Chinese biotechnology company, has been approved for phase II trials, which are designed to find out if it provokes an immune response that might fight off the virus. It seems quite likely that one or more of these efforts will lead to a working vaccine. Making it available around the world will be just as taxing.*"

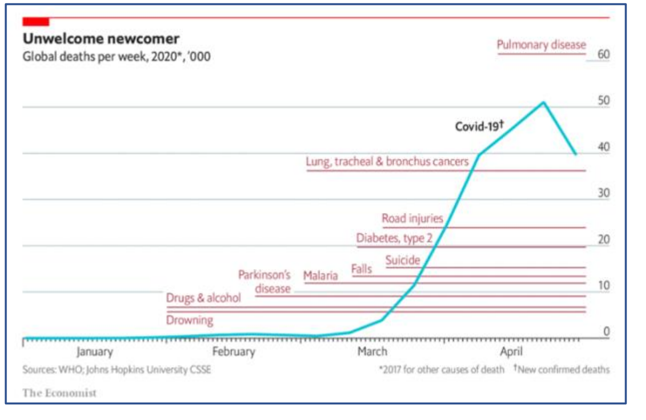
Key assumptions of this scenario are:

Health and return to work and travel under scenario 1

1. This scenario is aligned to a successful phased re-opening of the economy as announced by the Prime Minister on 8 May. The Prime Minister indicated a three-step, two-month timetable to reopen the country, with three-week intervals to track any potential second waves. Progression through stages will be based on implications of each step with success measured by three health foundation criteria; population-based testing, enhanced ability to detect contact with confirmed cases, and local health system response. All going well according to the Commonwealth Government guidelines:
   a) Intrastate travel for recreation opens from 11 May
   b) Interstate travel opens from early June, depending on State restrictions
   c) Cafes/restaurants can open for up to 10 people from 11 May, for 20 people from early June and 100 people end June but with 4m^2 space per person – reducing viability of reopening for many
   d) Hotels and hostels open in stage 1, camping/caravan parks open stage 2
   e) Pubs and bars not to open till at least Stage 3 at end June.

2. Over time we can expect that the news flow on virus infections and deaths will be increasingly benchmarked against other sources of premature death as done in Figure 15 below from The Economist of 5 May. This has not been a concern so far of policy makers more concerned to encourage social distancing – but can be expected to become more common as we move into a focus on reducing the economic impacts of the virus.

Figure 15. Global deaths per week from Covid-19 against other major reasons



Scenario 1 – a faster/stronger economic and visitor economy recovery

3. Australia's current curve flattening under this scenario continues and our hospital system is not overrun, leaving far lower death rates than nearly all other countries. This enhances Australia's reputation as a safe destination, even as reputations of key competitors in America and Western Europe are undermined – setting up longer term faster export growth for inbound tourism and education later in the coming decade.

4. While winter hits Australia and the combination of seasonal flu and the virus put more pressure on infection control, a return to working normally is implemented from mid-May to June, even as wearing face masks when in public and community virus testing become commonplace. From mid-May, testing alongside contact monitoring through phone apps allows a shift to more localised restrictions being imposed as outbreaks occur.

5. Once you have the virus, it does not recur as you have immunity. Also assumed is that that there are few long-term health effects.

6. By the beginning of winter in the Northern Hemisphere (November) fears of the expected seasonal return of the virus have been reduced by treatments that reduce severity of symptoms in many people (potentially Gilead's Remdesivir from May), even as the wait for vaccination continues.

7. Even after September, with infection rates low many more vulnerable Australians remain in self-imposed near isolation, being slow to return to normal life. In contrast, the lifting of restrictions sees younger Australians seeking to catch up on lost fun and travelling widely from May.

8. A vaccine is first available in January 2021, after a speeding up and public funding of required testing. This vaccine only becomes widely available in April 2021, and many countries insist on vaccination or documented immunity from previous infections before they allow entry to their country.

9. Without the same spread of infection as in most countries and lower herd immunity, Australia remains more highly exposed to a second wave of imported infection. Imperial College in London has said the percentage of the US population exposed to the virus as of May 17 was 4.1 per cent, and just 1 per cent in California. The best evidence in Britain is that exposure is not much above 15 per cent in London and 5 per cent in the rest of the country.

10. For this reason, the Government delays opening borders till later than many other countries – with borders only beginning to reopen in April 2021 for vaccinated visitors.

Economic, financial and political impacts under scenario 1

11. This more upbeat scenario takes a slightly more positive view of prospects for Australian economic recovery than did Westpac on 2 April. Westpac expected:
    The intensity of the policies to address the virus will peak near the end of the June quarter, most policies will be maintained through the September quarter and the Australian economic recovery will be delayed until the December quarter. Conditions in the global economy will remain very weak until well into the December quarter. (Westpac, chief economist 2 April 2020)

12. Australian and global companies commonly announce large drops in current year earnings, dividend cuts become the norm, globally share prices fall 20 per cent from February 2020 peaks but a major credit crisis does not arise.

13. Much lower dividend, interest and rent payments mean that self-funded retirees often face a 60 per cent fall in weekly incomes as well as a 20 per cent fall in asset values compared to pre-virus.

14. Australian unemployment without the Job Keeper payment would have been 17 per cent in the June quarter (this section draws on Westpac forecasts of 2 April). However, with the Job Keeper payment, unemployment only peaks at 11 per cent. Westpac predicts that 80 per cent of businesses in three sectors – accommodation and food services; retail and wholesale trade; and arts and recreation Services – will be eligible for the payment. For other sectors that will be adversely affected by the shut down and social distancing policies, Westpac assess that 40 per cent of businesses will qualify for the payments. https://www.macrobusiness.com.au/2020/04/westpac-17-unemployment-hidden-by-job-keeper/

15. Virgin Airlines is restructured with existing equity and debt holders suffering but a return to service as a smaller carrier.

16. Many Australian employees are forced to reduce their leave entitlements to only two weeks before accessing Job Keeper payments passed on by their employers. Grattan Institute suggests about two-thirds of hospitality workers could be off work and nearly 40 per cent of workers in this industry are short-term casual workers or overseas visa holders who will be ineligible for the JobKeeper program.

17. Few Australian companies take advantage of increased depreciation concessions – reducing stimulus cost and economic benefits.

Scenario 1 – a faster/stronger economic and visitor economy recovery

18. Australian SMEs rely on Job Keeper payments, subsidies tied to personal income tax withheld for their employees, extended borrowings from the banks with deferred repayments and rental concessions to mostly survive. But a 10 per cent share of SMEs walk away from their businesses with around 20 per cent of smaller tourism dependent businesses doing so.

19. According to Danielle Wood of Grattan Institute (The Age 10 April), Government concessions announced so far for commercial leases means that many retailers, cafes and restaurants won't survive to see the recovery phase.
    a. In this cashflow winter, rent is the biggest barrier to survival. The government's wage subsidy scheme allows business to continue to provide an income for workers during the shutdown. Other costs such as stock/purchasing can be stopped quite quickly. But unavoidable costs – of which rent is the largest – can't be turned off. She estimates that the average retailer pays almost $12,000 in rent a month; Cafes are losing $3000 to $4000 each month in rent. For most exposed businesses, rent is less than 20 per cent of their operating costs under normal conditions. But while they hibernate through coronavirus, that will reach between 80 and 95 per cent. The government has rightly recognised that rent was the missing piece of its "hibernation package".
    b. Ms Wood notes that the commercial rental code announced on 7 April sets out mandatory principles for landlords and tenants to negotiate an adjusted lease. It requires landlords to negotiate rent waivers and deferrals proportionate to the reduction in turnover for eligible businesses. The mandatory code will be overseen by a binding mediation process in each state and territory for the duration of the JobKeeper program (currently six months). But Ms Wood concludes the code ultimately falls short on scale, scope, and speed. The first big limitation is that relief is negotiated as a combination of waivers and deferrals. Up to half the relief can be via rent deferral. So, if a business's turnover falls by 50 per cent, only 25 per cent of rent needs to be waived – the other 25 per cent can be deferred, with a minimum 24-month payback period. Deferrals can help ease the short-term cashflow crunch. But most retail and food service businesses run on low margins, so many will not be able to absorb the deferred cost of the rent while trying to rebuild their business. Another big hole in the package is the exclusion of tenants with a turnover above $50 million.

20. Westpac on 16 April reported survey results showing confidence in Australian housing suffered its biggest monthly fall in 47 years. The housing market faces a flood of sales and much lower prices as people battle unemployment, reduced incomes and seek to avoid bankruptcy. Banks are expected to reduce debt funding multiples of income and increase deposit requirements.

21. This report expects house price falls averaging 10 per cent for Victoria by mid 2021 and closer to 15 per cent for areas which have many holiday homes as many of these owners have lost faith in Airbnb income reliability. Holiday homes as second or third homes are more likely to be put on the market than principal places of residence when people are under financial stress.

22. With the ending in September of repayment moratoriums and increased borrowing in the previous months many Australians will realise they have negative equity in their homes – further depressing consumption.

23. Australia's economic recovery is quite slow with unemployment jumping further to 13 per cent with the end of Job Keeper subsidies at the end of September. At this point the falls in the housing market also impact consumption and construction spending, so 2021 features an economy still in the sick ward with GDP growth of only around 1 per cent assumed after a fall of around 4 per cent in 2020.

24. Falling commodity prices due to global economic recession result in an Australian dollar valued at 60 cents by the end of 2020 – setting up Australian inbound tourism for a faster return when borders reopen. The lower A$ and upgraded fears of international travel, reduce outbound travel helping to support domestic travel through the recession.

25. The United States' death toll from the novel coronavirus exceeded the 58,220 American lives lost during the Vietnam War on 28 April. By May 7 and the US death toll had reached 75,000 and represented more US deaths than during the first 10 years of the AIDS epidemic, from 1981 to 1991.The US has six times as many cases as the next hardest-hit countries of Italy, UK and Spain. By 21 May the US death toll had reached 96,000.

26. The underwhelming performance of the USA in combating the virus compared even to Western Europe shifts a range of policy debates towards increased public sector provision as does a drubbing for Trump and the Republicans at the November 2020 election – leaving the Democrats with both houses. US Stock markets fall again at the end of 2020 with the prospect of increased corporate taxes and regulation with the US Legislature and Executive under full Democratic Party control.

6. Scenario 1 - A faster road to recovery in Melbourne's West visitor economy

Introducing the forecasts

In brief, this comparatively good news scenario predicts a still very severe:

- 40 per cent fall in 2020/21 compared to 2019 estimates for regional visitor spending, gross regional product and jobs due to visitor spending; before a

- 6 per cent lift in 2022/23 compared to 2019 estimates for regional visitor spending, gross regional product and jobs due to visitor spending.

This scenario is estimated to have around a 65 per cent probability of occurring with the more pessimistic scenario 2 an estimated 35 per cent probability. More detail on the forecasts for the two financial years under the two scenarios are outlined in the final section of this report.

In forecasting that jobs and gross regional product will grow at the same rate as visitor spending, analysis was undertaken of twelve years of annual regional tourism satellite account data across 20 regions of Victoria. Appendix 5 provides the evidence supporting this approach.

More explanation of the key factors that drive the variation in forecast changes in the 13 analysed regions' visitor economies spending for 2020/21 and 2022/23 is outlined in Appendix 7.

Introducing key terms used

This report uses definitions applied by Tourism Research Australia as well as its own classification of short and long break holiday travellers when analysing the key visitor markets affected by virus impacts.

Tourism definitions are based on those provided by the United Nations World Tourism Organization (UNWTO). Interviews are conducted with people who have travelled for purposes including holiday, visiting friends and relatives (VFR), business, education and employment. To be included, travellers must not have been away from home continuously for more than 364 days, or 365 days in a leap year.

Overnight trips must include at least one night away from home and be a minimum of 40 kilometres from the respondent's usual place of residence. Day trips must have a round trip distance of at least 50 kilometres from the respondent's usual place of residence and a minimum duration of four hours. Day trips taken as part of an overnight trip, or those that are routine (for example, from home to work/school, or an intrinsic part of a person's job), are not collected.

This report also separately analyses travel by holiday overnight visitors who spend two nights or less away from home on their trip, and classes these as short break travellers.

Different virus impacts on different visitor economy sub-sectors

When nearly all tourism stopped during March 2020 businesses like visitor accommodation, pubs/bars/taverns, travel agencies and tour operations came to a near full stop.

Other businesses like retail trade and restaurants (for take away) were often less affected. The businesses in these sectors that relied on a combination of resident and visitor demand endured larger falls in business on average in regions that previously had lower ratios of residents to visitors and hence were most reliant on visitors.

Melbourne's West on average has a much higher ratio of residents to visitors (domestic day trip, domestic overnight intrastate and intrastate and international visitors) compared to other Victorian tourism regions. On the average day in 2017/18 Melbourne's West had around 26 residents for every visitor. The number of residents per visitor for Victoria's regions on an average day in 2017/18 is shown in Figure 16.

This calculation was made by summing estimates for domestic and international visitor nights plus domestic day trips for 2017/18 and dividing by resident population from the 2016 Census. As overnight visitors have one more day in the region than visitor nights this calculation slightly overstates the ratio of residents to visitors on the average day. This calculation also ignores the rapid population growth in Melbourne's West between August 2016 and the 2017/18 financial year average. In this period of less than eighteen months, ABS data indicates resident population grew across the six local government areas from 835,000 to 922,000 (Source: ABS Cat. No. 3218.0).

The importance of how regions vary in their mix of visitors

Two factors influence the extent of economic significance of the visitor economy. The first is the number of tourists and the second is the mix by type of tourists.

The varying reliance on different types of visitors by region and local government area is an important determinant of how quickly the various regions will recover from virus impacts. This reflects that different types of tourism are expected to have quite different timing of their recovery and have different sensitivity to economic recession.

Figure 16. Estimated number of residents per visit Melbourne's West tourism region compared to other TRA tourism regions in Victoria

	Visitors per day	Resident population	Residents per visitor
City of Melbourne	125,239	154,000	1.2
Phillip Island	11,103	35,200	3.2
Spa Country	5,018	17,300	3.4
Upper Yarra	3,733	14,700	3.9
High Country	19,946	88,200	4.4
Great Ocean Road	28,533	140,800	4.9
Lakes	8,895	46,900	5.3
Central Highlands	4,283	23,100	5.4
Central Murray	11,095	67,600	6.1
Wimmera	2,478	19,600	7.9
Western Grampians	4,630	38,900	8.4
Mallee	9,887	86,800	8.8
Peninsula	32,170	307,700	9.6
Bendigo Loddon	15,674	156,300	10.0
Ballarat	11,294	122,000	10.8
Goulburn	10,759	120,800	11.2
Gippsland	17,216	200,900	11.7
Macedon	7,054	83,600	11.9
Geelong and the Bellarine	22,439	269,900	12.0
Melbourne Tourism Region	294,837	4,200,000	14.2
Melbourne East	17,321	329,600	19.0
Murray East	1,910	41,400	21.7
Melbourne's West Region	**32,285**	**835,000**	**25.9**

Source: TRA Online for 2017/18 and ABS Census 2016.

In marked contrast to Melbourne's West, domestic intrastate overnight visitors typically provide the largest economic impact in most Australian regional destinations while international overnight visitors provide a much smaller economic impact.

Melbourne's West has, on average, a disadvantageous mix of tourists in the outlook for recovery for the visitor economy from virus impacts. The regional visitor economies looking at the fastest recovery from the virus have a high share of domestic day trips and low share of international visitor nights. The green and red/orange colour coding in Figure 17. is aimed at helping identify the areas with well above or below Victorian regional tourism average reliance on the four forms of visitation with green indicating that this variation from the regional Victorian average will promote a faster recovery from virus impacts. So, an above regional Victorian average share of reliance on international and interstate visitor nights and below average share of reliance in total visitor spending on domestic day trips and intrastate visitor nights gets a red shading.

Figure 17. Melbourne's West region visitor economy has above average reliance on domestic day trip visitors, but LGAs and regions vary significantly in their market mix in 2017/18

	International visitor nights	Domestic day trips	Domestic Interstate visitor nights	Domestic Intrastate visitor nights
Moonee Valley City	44%	16%	23%	16%
Brimbank City	50%	20%	16%	14%
Hobsons Bay City	29%	29%	27%	15%
Marybyrnong City	56%	12%	23%	9%
Melton City	29%	22%	35%	14%
Wyndham City	58%	19%	15%	9%
Melbourne's West tourism region	48%	19%	21%	12%
City of Melbourne	63%	3%	30%	4%
Melbourne tourism region	46%	12%	32%	10%
Regional Victoria average	**5%**	**27%**	**14%**	**53%**
Bendigo Region	4%	39%	12%	45%
Murray	4%	24%	21%	51%
Great Ocean Road	8%	20%	11%	61%
Peninsula	11%	35%	10%	43%
Victoria's High Country	2%	15%	20%	63%
Ballarat	6%	39%	13%	42%
Geelong	14%	33%	10%	42%
Gippsland	4%	23%	15%	58%
Yarra Valley & Dandenong Ranges	8%	45%	15%	32%
Phillip Island	3%	19%	9%	68%
Grampians	3%	24%	17%	56%
Victoria	**30%**	**18%**	**25%**	**27%**

Source: TRA website, Decisive Consulting estimates for LGAs using TRA activity data and regional tourism satellite account data

Note: Proportions of direct tourism consumption which only includes first round tourist goods and services spending and no multiplier effects

Note: Shares for LGAs and Melbourne West region based on averages of 2016-19 calendar years.

Those areas most reliant on international overnight visitors or long duration as against short break domestic overnight holiday visitors are likely to be slower to recover. International borders are expected to be slow to re-open while domestic recession, erosion of leave balances and a desire to re-establish work patterns will favour short break domestic overnight travel over longer haul extended domestic trips. For example, in Figure 17. Melbourne's West as a region gets two red boxes for its above average share of international and interstate domestic visitor nights.

However, a more positive story exists once we look at domestic visitor nights to Melbourne's West in more detail. As shown in Figure 18, Melbourne's West has a very high comparative share of non-holiday travel in its domestic visitor nights at 88 per cent, which should aid the regional visitor economy recovery. The expected recovery in the visitor economy in Melbourne's West also benefits from a low reliance on holiday long break trips for its domestic visitor nights.

Across all the LGAs in the Melbourne West region there is a consistently very high share of the sum of non-holiday purposes in total domestic visitor nights as well, as a low reliance on long break holiday travel.

The regional visitor economies looking at the fastest recovery from the virus impacts have a high share of domestic day trips and to a lesser extent domestic overnight spending from non-holiday travel. Holiday travel is normally far more of a discretionary form of spending compared to business travel or visiting friends and relatives. As such, holiday travel is more likely to be cut back in a recession.

First recovery in domestic day trips and non-holiday domestic overnight travel

First green shoots of recovery in the visitor economy to Melbourne's West are expected under this recovery scenario from early June with domestic day trips, led particularly by younger people. With a return to normal low season rates from this sub-market quite quickly.

A second lift in Melbourne's West tourism is expected from early June, with visiting friends and relatives (VFR) travelling on overnight trips to catch up after months of separation. Associated with the rebound of VFR travel there will also be a comparative rush of deferred larger events people such as weddings, anniversaries and birthday parties. Similarly, there will be a rush of less programmed gatherings as the number of people allowed to meet is progressively increased. As well there will be a progressive return of business travel and travel for other reasons such as non-virus-related medical appointments.

The strongly varying reliance for visitor spending on non-holiday travel and short break versus long break holiday trips in total domestic visitor nights to Victorian regions in 2019 is shown in Figure 16. Green highlighting is used in this table to indicate that the area has an average share of domestic visitor nights in forms of this tourism that are expected to recover more quickly from virus impacts. So, a high share of non-holiday and to a lesser extent holiday short breaks is advantageous, as is a low share of total domestic visitor nights on long break holiday visitor nights.

Melbourne's West is favoured in domestic tourism recovering from virus impacts because it has the highest share of Victorian regional average share of non-holiday (or VFR/Business/Other) travel in its domestic visitor nights and a well below regional average share of holiday long breaks in total domestic visitor nights. This positions this region for a better than Victorian regional average recovery from virus impacts on domestic overnight travel.

The contrast between Melbourne's West and regions like High Country or Phillip Island regions which have strong reliance on long break holidays as shown in Figure 18 is stark.

Figure 18. Shares of domestic visitor nights due to VFR/Business/Other travel and short or long break holiday trips in 2019

	Share of non-holiday (VFR/Business/Other) in total domestic visitor nights	Holiday 1 or 2 night domestic trips in total domestic visitor nights	Holiday Long Breaks (more than 2 night) in total domestic visitor nights
Moonee Valley City	84%	8%	7%
Brimbank City	80%	5%	15%
Hobsons Bay City	97%	3%	0%
Marybyrnong City	87%	3%	11%
Melton City	95%	1%	4%
Wyndham City	82%	5%	12%
Melbourne's West tourism region	88%	4%	8%
City of Melbourne	65%	10%	25%
Regional Victoria	**47%**	**16%**	**37%**
Victoria	57%	13%	30%
Melbourne Tourism Region	73%	7%	19%
Ballarat	64%	15%	20%
Bendigo Loddon	68%	14%	17%
Daylesford and Macedon Ranges Re	45%	32%	23%
Grampians	53%	14%	33%
Murray	62%	7%	30%
Geelong and the Bellarine	55%	13%	32%
Great Ocean Road	39%	18%	43%
Gippsland (Lakes + Gippsland sub-re	44%	13%	43%
High Country	30%	19%	51%
Peninsula	38%	21%	41%
Phillip Island	25%	21%	54%
Yarra Ranges	65%	17%	18%
Murray MRT	56%	8%	36%

Source: TRA, NVS extracted using TRA Online

The recovery of intrastate VFR travel is expected to cause above average seasonal domestic VFR travel from May for a few months – though accommodation providers miss out on most of this benefit as friends and relatives reconnect. Surviving restaurants are hampered in their return to normal business levels after re-opening for sit down dining (helped by reduced competition due to business closures and locals wanting to dine out) by social distancing and by worries of an enduring recession.

Only slow recovery in holiday travel

Many workers by July will have much reduced recreation leave balances and with a return to normal working arrangements and much higher unemployment can be expected to be keen to restore their profile with their employer. This is one factor that reduces family travel and encourages more short break rather than extended holiday stays than usual to Melbourne's West over the following 18 months.

After months in isolation with their kids, many parents may also be very reluctant to undertake traditional extended family summer holidays and a much quieter January and Easter is expected than usual in 2021 for destinations like Phillip Island that are reliant on holiday travel by families.

The expected ban on outbound overseas travel until April 2021 and continued heightened fears about overseas travel will boost what would otherwise have been much worse domestic travel from the last six months of 2020 and through the first few months of 2021. However, from around April 2021 strong outbound travel is expected to significantly reduce time and budgets available for domestic travel.

Upmarket and larger venues/events along with visitor accommodation to be slower into the recovery phase

A domestic economic recession and falling incomes for self-funded retirees is expected to lead to a slower recovery in upmarket than budget targeted visitor economy businesses. This is expected to be true of restaurants, shops targeting tourists, tours and visitor accommodation.

After getting familiar with virtual conferences and meetings it can be expected that even when these events are allowed, they will attract far fewer attendees. Over the 2020/21 year this is expected to be a larger negative influence than the positive influence of a rush of these events which had been postponed from the social isolation period. Similarly, attendance at major events is expected to fall for a few years as people are more nervous about attending large gatherings such as the Australian Open or Grand Prix.

Accommodation operators are expected to find that Airbnb operators have cut rates to restore cash flow and that they need to also reduce rates.

Big falls in and delayed recovery in seniors travel

Travel by seniors is expected to be more significantly reduced than for other age groups, due to continued infection fears and because self-funded retirees have reduced weekly incomes and have seen their asset balances eroded by around 10 per cent. This particularly impacts regions like Daylesford and Geelong. Tourism businesses more reliant on senior travel such as museums and art galleries might be more affected.

Figure 19 Melbourne's West region has well above average reliance on over 55 nights in total domestic visitor nights in 2019

	Share of over 55+ visitor nights in total domestic visitor nights
Moonee Valley City	51%
Brimbank City	17%
Hobsons Bay City	52%
Marybyrnong City	18%
Melton City	74%
Wyndham City	36%
Melbourne's West tourism region	43%
City of Melbourne	32%
Melbourne Tourism Region	35%
Regional Victoria	39%
Victoria	38%
Ballarat	34%
Bendigo Loddon	42%
Daylesford and Macedon Ranges Re	44%
Grampians	39%
Murray	39%
Geelong and the Bellarine	44%
Great Ocean Road	38%
Gippsland	37%
High Country	34%
Peninsula	43%
Phillip Island	39%
Yarra Valley	35%
Murray MRT	41%

Source: TRA Online, 2019

As shown in Figure 19. most regions are heavily reliant on the 55+ age group in overall domestic visitor nights. Melbourne's West as shown in Figure 19. has an above average reliance on over 55-year-old travellers and can expect a slower recovery compared to other regions less reliant on seniors for overnight travel. Areas with shares shaded in green have less reliance on seniors travel and can expect that the recovery in domestic visitor nights in 2020/21 will be stronger in their region as a result.

There are strong differences across the LGAs in Melbourne's West in terms of their reliance in domestic visitor nights on over 55 year olds. Melton City, Hobsons Bay and Moonee Valley City all have higher reliance on over 55 year olds, while Marybyrnong City and Brimbank City have unusually low reliance on over 55 year old domestic travel. These differences were allowed for in forecasting visitor spending to the local government areas as explained in Appendix 8.

Even with high unemployment challenges in getting staff in 2020/21

There is expected to be increased attention to getting young local unemployed people trained for a recovering visitor economy, especially as traditional sources of labour of working holiday makers and international students are slower to return.

Increased profitability in the later stages of the recovery period and more community support for visitor economy investment

With much less competition in some sectors of the visitor economy such as restaurants and cafes there is expected to be higher prices and profitability in the later phases of the recovery period from mid 2021.

The impacts of the virus are expected to positively shift community valuation of the visitor economy. This should lead to increased community support for investment in new attractions that promise visitor economy employment generation.

The costs to the region of a non-return of Virgin Australia

Melbourne's West visitor economy would suffer significant economic damage if Virgin Australia was to remain grounded and no second major domestic airline emerged.

Scenario 1 – a faster/stronger economic and visitor economy recovery

This would allow the Qantas group to practice much closer to monopoly pricing on the key routes that take Victorians interstate and away from the region. While I don't expect regular $400 one-way airfares from Melbourne to Gold Coast, I do see a step jump in average domestic airfares paid of around 30 per cent with fewer heavily discounted tickets available which will encourage many more Australians, and particularly families, to return to drive tourism or not travel at all.

The bottom line under this scenario for recovery in Melbourne's West and its local government area visitor economies

It is expected that Melbourne's West will only return to 2019 visitor economy activity levels in 2023, though average business profitability in 2022 is higher, reflecting that many previously competing businesses did not survive the virus and recession impacts. Particular sectors including accommodation are expected to continue to trade at below 2019 levels until 2024.

Of the four key drivers of an early return to strength of the visitor economy, Melbourne's West is favoured by:

- Well above regional average levels of non-holiday travel in domestic visitor nights; and
- Low reliance on domestic holiday long break travel.

However, this region's visitor economy recovery is disadvantaged by:

- Very high reliance on international visitor spending; and
- Above average reliance of Victoria's regions on over 55-year-old travel in domestic visitor nights, which is forecast to affect 2020/21 but not 2022/2

Longer term positives for Melbourne's West visitor economy

Looking longer term beyond the next three financial years and there are strong reasons for much greater optimism for Melbourne's West visitor economy. Australia's standing as a safe and well governed destination has been enhanced by the virus, and we stand to gain market share from traditional rivals of the USA and Europe. This should foster both higher growth in inbound tourism and education and help long term growth by 2030 be closer to pre-virus expectations despite the lost growth due to the recovery from the virus.

7. Scenario 2 - A slower/weaker road to economic recovery

Why a slower recovery is also likely!

Evidence is mounting that there will be a second round spread of the disease in many countries. During the 1918 influeNew Zealanda 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,

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."*

So far restricted testing of the population, rather than just focussed testing of the sick, has disguised how exposed the world is to a second wave of infections once social distancing regulations are removed. In New York a survey of 3,000 people well enough to be intercepted at grocery stores found that 21 per cent of New York City residents and 14 per cent of State residents had been infected. The Economist also wrote on 24 April:

> *"America may have 15 to 20 times more actual infected people than confirmed cases."* (suggesting 15 million infected people, given near 1 million cases then)

Between its first case on Jan. 23 and March 23, Singapore reported fewer than 510 known cases of COVID-19. On May 22, it had more than 31,000 cases. Singapore avoided mass closures at first, but in response to rising infections a partial lockdown is now in place that has shuttered most workplaces and staggered the days individuals can go to supermarkets, until at least June 1. Japan is facing a second wave of infections with a doubling from around 5000 in the 10 days to 19 April and on 3 May extended a national state of emergency until at least 31 May. Hong Kong had to adopt more stringent social distancing at the end of March, including strengthening travel rules and closing bars.

China continues to have major restrictions in place. Production is only running at 80-90 per cent of normal levels according to analysis of a range of indicators. A serious COVID-19 outbreak in China's north-east was reported on 24 April with new daily infections suddenly soaring close to the 1000 mark, jolting the country's government into action. The new COVID-19 hotspot is around the city of Harbin, capital of Heilongjiang province, which is home to 38 million people. The rise in cases has been attributed to locals returning across the border from Russia.

According to a new study published in The Lancet by academics at Hong Kong University's School of Public Health, China has undercooked its COVID numbers by 75 per cent with the new estimate of more than 232,000 people infected.

This scenario also follows from the Irish party theory of economic recessions – the longer the party (in Australia's case 30 years without a recession) the worse the hangover. Australia having a much longer party than the USA and Europe (8-10 years without a recession) faces the unwinding of more deeply entrenched structural problems in the economy. These structural problems include entrenched youth underemployment, the over-reliance on rapid immigration and excessive house prices against incomes, high cost utilities and inadequate infrastructure.

A new strain of the coronavirus responsible for the pandemic has been discovered, spreading faster and wider than the original one. This new strain could not only undermine immunity developed from recovering from the original virus but also impact vaccine development efforts. (Source: ABC News, 7 May)

On 24 April, Macrobusiness.com reported the following commentary from leading international banks:

J.P. Morgan:

- "The global economy is collapsing at a pace not seen since World War Two"
- "Staggered re-openings of economies until a vaccine is widely available imply more of a U- rather than V-shaped recovery for the global economy."

HSBC:

- "What is already clear is that this is not just a short-term issue: the medium to long-term implications for global growth, debt levels, public policy and globalization are going to be vast."

RBA governor Phil Lowe on 28 May, in evidence to the Senate, noted that beyond the September expiry of Job Keeper the economy is going to need more support and that support is going to have to come from government.
"It would be a mistake to withdraw the fiscal stimulus too quickly," Tapering the wind-down of JobKeeper, closing it off to those parts of the economy that don't need it, targeting at those parts that do need it (such as firms reliant on foreign tourism) - all were put on the agenda by Lowe.

Scenario 2 – a slower/weaker economic and visitor economy recovery

Key assumptions of this less positive scenario are:

Health and return to work and travel under scenario 2

1. Australia's current curve flattening continues in May, but when winter hits in June the combination of seasonal flu and the virus put more pressure on infection control.

2. This scenario involves some localised restrictions and travel bans outside this region for a month later in 2020 as pockets of local infections spring up, re-raising anxiety levels. It also involves anxiety about travel within Australia increasing in response to media reporting of second waves of infection overseas.

3. Australia may face a similar situation to South Korea. After strong success in controlling the spread of the virus in April and May, on 29 May the South Korean Government announced public institutions including museums, theatres and multifunctional halls in the greater Seoul area would again be shut down immediately until June 14.

4. In the UK, the Telegraph on 30 May noted: "*The scientists are warning again. They fear that Europe and the US are dialling down containment measures before the tracking apparatus is fully in place and before the stock of infections has been cut to manageable levels. A new paper by Imperial College, London, says the reproduction rate is above 1 in 24 US states, including Texas, Florida, and Ohio. "Very few have conclusively controlled their epidemics," it said. Most are opening up anyway. We are not close to herd immunity."*

5. The Australian Rapid Research Information Forum warned on 29 April that the virus that causes COVID-19 is likely to spread faster in cold weather and says Australia and the world could face annual winter coronavirus seasons. Viruses spread in tiny droplets released when an infected person coughs or sneezes. Cold, dry weather makes those droplets smaller so when another person breathes them in they go deeper into the lungs where they are more likely to cause an infection. If this warning is correct it promises a greater risk from the virus in Australia and a slower global economic recovery.

6. In a report on 21 May, Chinese doctors are seeing the coronavirus manifest differently among patients in its new cluster of cases in the north-east region compared to the original outbreak in Wuhan, suggesting that the pathogen may be changing in unknown ways. Patients found in the northern provinces of Jilin and Heilongjiang appear to carry the virus for a longer period of time and take longer to recover. These cases also appear to be taking longer than the one to two weeks observed in Wuhan to develop symptoms after infection, and this delayed onset is making it harder for authorities to catch cases before they spread. About 108 million people are under renewed lockdowns in China's three north-eastern provinces.

7. By the beginning of the colder months in the Northern Hemisphere (November) the fears of the expected seasonal return of the virus have increased with failures of new treatments to reduce the severity of symptoms in many people, even as the wait for a vaccine continues.

8. There is a shift to more localised restrictions being imposed as outbreaks occur post the end of comprehensive social isolation policies in June 2020. Social distancing continues to be recommended until January 2022.

9. Once you have the virus, it can recur in a small share of cases reducing protection from herd immunity. The coronavirus may be "reactivating" in people who have been cured, according to Korea's Centre for Disease Control and Prevention. About 51 patients classed as having been cured in South Korea have tested positive again, the CDC said in a briefing on 6 April.

10. Even after September, with new infection rates low a large proportion of more vulnerable Australians remain in self-imposed isolation until they receive vaccination at the end of 2021.

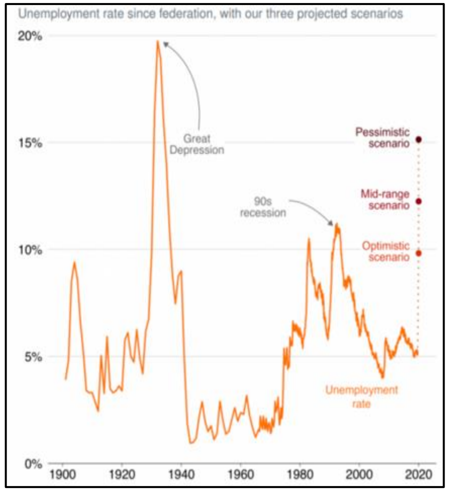
11. A vaccine becomes first available in November 2021, but not widely available until January 2022 and many countries insist on vaccination before they allow entry to their country. Without the same spread of infection as in most countries, Australia remains more highly exposed to a second wave of imported infection. Given much lower herd immunity, the Government delays opening borders till later than many other countries – with borders only beginning to reopen to vaccinated leisure travellers after January 2022.

12. The Washington Post on 13 May concluded: "Doctors keep discovering new ways the coronavirus attacks the body. It attacks the heart, weakening its muscles and disrupting its critical rhythm. It savages kidneys so badly some hospitals have run short of dialysis equipment. It crawls along the nervous system, destroying taste and smell and occasionally reaching the brain. It creates blood clots that can kill with sudden efficiency and inflames blood vessels throughout the body." "No one was expecting a disease that would not fit the pattern of pneumonia and respiratory illness," said Dr David Reich, president of Mount Sinai Hospital in New York City.

Scenario 2 – a slower/weaker economic and visitor economy recovery

Economic and financial impacts under scenario 2

11. As reported on 20 April, the Grattan Institute (see adjacent chart) is less optimistic than the federal Treasury forecast of unemployment to peak at 10 per cent in the June quarter or 1.4 million people, an increase of 700,000 in the next three months. Grattan has warned social distancing and closures are having much broader impacts on the economy. In hospitality, as the most affected industry by social distancing rules, up to two-thirds of jobs could be lost. But even in construction and manufacturing, they estimate almost 20 per cent of jobs could disappear so that the unemployment rate is a chance of reaching 15 per cent.



11. The easing of lockdown restrictions has improved confidence in the Australian economy, according to the 28 May update of the Melbourne Institute Survey of the Impact of COVID-19 in Australia, which contains responses from 1200 persons aged 18 years and over. However, 50% of survey respondents expect to be impacted for at least another year and 28% are financially stressed – a figure that has worsened over the past three weeks

11. Australian and global companies announce much greater drops in current year and forward earnings, and dividend removal rather than just reduction becomes the norm. Globally share prices fall a further 30 per cent as a major credit crisis spreads to other markets. “You cannot count on liquidity alone to keep pumping up stock prices in the face of a massive economic shock, tumbling earnings, and a tide of bankruptcies.” Ambrose Evans-Pritchard, The Telegraph (London) on 29 May 2020

12. Collapsing dividend, interest and rent incomes mean self-funded retirees often face an 80 per cent fall in weekly income over 2020/21, as well as a near 40 per cent fall in asset values compared to pre-virus levels.

14. A smaller Virgin or other second carrier does replace it, avoiding an otherwise expected average increase in domestic airfares paid on interstate flights of around 30 per cent (in part due to far fewer discount seats being available on Qantas group flights).

15. As predicted by Danielle Wood of Grattan Institute (The Age 9 April), Government concessions announced so far for commercial leases fail to stop wholesale bankruptcies among SMEs as they return the keys to landlords declaring Force Majeure. Bankruptcies and business closures are most concentrated in low margin tourism dependent service businesses. Landlords face a high vacancy rate, and commercial rents fall dramatically for new leases and renewals from October 2020.

16. Many Australian SMEs rely on JobKeeper payments, subsidies tied to personal income tax paid for their employees, extended borrowings from the banks with deferred repayments and rental concessions to mostly survive. Many Australian employees are forced to reduce their leave entitlements to two weeks before accessing Job Keeper passed on by their employers. But a 15 per cent share of SMEs walk away from their businesses with around 25 per cent of smaller tourism dependent businesses doing so.

18. The Australian housing market faces a flood of sales and lower prices as people battle unemployment and reduced incomes. Price falls averaging 25 per cent are expected across Victoria with much lower immigration by end 2021 and closer to 35 per cent falls for areas which have many holiday homes and after a loss of faith in Airbnb income reliability. With the ending in September of repayment moratoriums and increased borrowing in the previous months many Australians realise they have negative equity in their homes – further depressing consumption and leading to widespread mortgagee in possession sales.

19. Australia’s economic recovery is very slow with unemployment jumping further to 15 per cent with the end of JobKeeper subsidies at the end of September. At this point the falls in the housing market further negatively impact consumption and construction growth, so 2021 features an economy still in the emergency ward.

20. “The coronavirus is here to stay for the short term, the next 12 to 24 months at least, and we’re going to have outbreaks," Graham Turner, CEO of Flight Centre says. "If you don’t accept that, everyone is kidding themselves." “I think it’s (Australia’s recession) is going to be much deeper in the October, November, December period than anyone is anticipating," he says. "And that’s going to have an impact on travel." Travel to or from North America and Europe will not return this year, he says, and recovery to pre-pandemic levels will be two to three years away. (Source: The Age 8 June)

21. The quality of global leadership continues to erode faith in corrective policies by Governments. As satirically noted by the Nine News Political Editor: *"Anyone who muses about injecting disinfectant should not be leading a boy band let alone a superpower."* (Chris Uhlmann, The Age, 29 April)

22. Despite the disastrous performance of the USA in combating the virus, President Trump is returned for a second term and the Republicans retain control of the US Senate at the November election. A contested election result due in part to extended voter suppression policies in swing states (such as closing most polling booths in inner city areas with higher infection rates that favour Democrats), leads to fracturing on party lines, resulting in US stock markets having a third wave of selling at the end of 2020.

23. Goldman Sachs, a bank, estimated the relationship between the severity of lockdowns and their effect on output. It finds that an Italian-style lockdown is associated with a GDP decline of 25%. Measures to control the virus while either keeping the economy running reasonably smoothly, as in South Korea, or reopening it, as now in China, are associated with a GDP reduction in the region of 10%. Discretionary spending by Chinese consumers—the sort that goes on things economists do not see as essentials — is 40% off its level a year ago. (Source: The Economist 1 May)

24. Two-thirds of Americans say they plan to stay close to home for at least the next one to six months. Not only are they not planning to travel, the latest Harris Poll shows 42% of people say it will take about six months before they want to get on a plane. The outlook is even bleaker for the hospitality industry, as 52% want to see a flat infection curve for six months before they think of staying in a hotel. From economy rooms to luxury suites, some 80% of America's hotel rooms are standing vacant these days. With no demand for lodging, hotel share prices are down 50% this year.

25. The Economist on 21 May concluded by looking at US data: "The chances of survival for small, independent eateries are looking increasingly dicey." Now that restrictions have eased, restaurant bookings are still far below normal. This is true even in states with low infection rates. In Georgia, where restaurants have been open for three weeks, bookings are still down by 84%. In Florida reservations are down by 80%, in Texas by 75%, and in South Carolina by 67%, even two weeks after stay-at-home orders were lifted. American restaurateurs might have hoped that customers would immediately return to their pre-pandemic habits once government restrictions were lifted. But, as these data make painfully clear, the pandemic's effect on people's behaviour may be more damaging and longer lasting than many had thought.

8. Scenario 2 - A slower road to recovery in Melbourne's West Visitor Economy

Introducing the forecasts

In brief, this comparatively less optimistic scenario predicts a:

- 51 per cent fall in 2020/21 compared to 2019 estimates for regional visitor spending, gross regional product and jobs due to visitor spending; and

- 4 per cent fall in 2022/23 compared to 2019 estimates for regional visitor spending, gross regional product and jobs due to visitor spending.

This scenario is estimated to have around a 35 per cent probability of occurring with the more optimistic scenario 1 an estimated 65 per cent probability.

The same factors influence the forecasts as for Scenario 1

The factors important in understanding which regions will face the deepest visitor economy recession and slowest recovery in visitation identified for the first scenario are also true under this scenario. Those regions with the deepest visitor economy recession and slowest recovery will be those with:

1. A high share of international and longer break domestic overnight holiday tourism rather than domestic day trips and domestic holiday short break overnight tourism as contributors to visitor spending;

2. A low share of non-holiday travel in domestic visitor nights;

3. A high reliance in domestic visitor nights on over 55-year-old travel, as affecting 2020/21 forecasts though not 2022/23. Indeed, this scenario increases the negative weighting to regions with an above regional average share of older visitors due to increased health concerns and a deeper decline in investment returns.

In this scenario it is likely that a second domestic airline re-emerges but with less seat capacity than the pre-virus Virgin Australia. Any fall in total domestic airline seat capacity or increase in average fares paid will disadvantage Melbourne's West visitor economy.

Scenario 2 – a slower/weaker economic and visitor economy recovery

First green shoots of recovery in the visitor economy to Melbourne's West are expected from late May 2020 with domestic day trips from younger people returning to normal low season rates quite quickly.

The more obvious lift in Melbourne's West visitation is expected from late May with visiting friends and relatives travel to catch up after months of separation. This briefly causes a short-term boost to average seasonal domestic travel levels – though accommodation providers miss out on much of the benefit from the increased visitation as friends and relatives reconnect. Surviving restaurants see a return to sub-normal business levels due to more spacing between tables (though helped by reduced competition and locals wanting to resume dining out).

However, as the depth and duration of the Australian economic recession extends, the early positive rebound of domestic overnight tourism led by VFR travel to Melbourne's West falls away as holiday tourism is particularly weak. Many workers by June have much reduced recreation leave balances and with a return to normal working arrangements in late May and with much higher unemployment they are keen to restore their profile with their employer and rebuild their available leave balances. This reduces family travel and encourages a better recovery in short break than extended stays than usual to Melbourne's West over the following three years.

Travel by seniors is dramatically reduced in 2020/21, due to continued infection fears, worries about a second wave of infection and because self-funded retirees have seen their incomes collapse and asset balances eroded by around 50 per cent. Many have to move to part pensions. This particularly attractions more dependent on older visitors.

The return of international tourism and education visitors with a re-opening border is the key event signalling the recovery of Melbourne's West visitor economy.

The widespread ban on overseas travel until January 2022 and continued heightened fears about overseas travel boosts what would otherwise have been even worse domestic travel from the last six months of 2020 and through 2021 and the first month of 2022.

The reopening of outbound travel in January 2022 also sees lower domestic tourism in 2022/2023. After nearly two years with outbound travel not allowed, 2022/23 is expected to see a notable slow-down in the recovery of domestic overnight tourism to Melbourne's West region.

Upmarket tourism products commonly do far worse than budget tourism product under this scenario but also in comparison to expectations under the first scenario. This outcome is due to the deeper economic recession encouraging substitution of cheaper options and greater loss of disposable incomes by higher income seniors not reliant on the pension.

Melbourne's West tourism returns to 2019 visitor economy activity levels only in late 2024, though business profitability from 2023 is higher, reflecting that many businesses did not survive the virus and there is less competition. Particular sectors attractions more reliant on older visitors and accommodation continue to trade at below 2019 activity levels until 2025.

Looking longer term beyond the next four financial years under this scenario there is a greater benefit for Australia's reputation as a safe and well governed destination. This should foster both higher growth in inbound and domestic overnight tourism (lower outbound tourism) and help long term visitor economy growth by 2030 be closer to pre-virus expectations despite the very significant lost growth due to the extended recovery period from the virus.

With such an extended recession having reduced revenues to Governments and blow outs in debts owed by Governments it can be expected that once recovery is underway, there will be range of new or extended Government taxes which may include limits on negative gearing, increased income and land taxes etc. This austerity in the medium term at both the Federal and State Government level is likely to slow longer term domestic economic growth rates.

9. Summary of what we might expect for Melbourne's West visitor economies under the two scenarios

As noted previously, scenario 1 of a less deep but still severe visitor economy recession is more likely, assessed at 65 per cent probability.

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, deeper downturn and 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 forecasts under the two scenarios for 2020/21 and 2022/23. These assumptions arose after detailed review of the health and economic/financial impacts evaluated under the two scenarios in this report. The assumptions shown in Figure 18. were applied consistently across all 13 tourism regions in Victoria and the Murray region to develop a consistent base for all Victorian regional visitor economy forecasts.

Figure 18. Key assumptions that drove 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 smaller adjustment applied to domestic visitor nights. The Melbourne's West regions domestic visitor nights in 2020/21 were reduced by adjustments of 4.5 and 9 per cent under Scenarios 1 and 2.

Predictions using these assumptions were then developed for key Melbourne's West visitor economy activity measures under the two alternative scenarios, as shown in Figure.19.

In the 18 months between 2017/18 and 2019 estimated visitor spending in the region increased by 12 per cent or just below the strong growth that occurred across the average of regional Victorian tourism regions (17 per cent). This estimate of 2019 regional visitor spending provided the pre virus benchmark.

Figure 19 Forecast change in each of visitor spending, gross regional product and jobs in Melbourne's West under the two scenarios for the two forecast years compared to 2019 results

	Moonee Valley City	Brimbank City	Hobsons Bay City	Marybyrnong City	Melton City	Wyndham City	**Melbourne's West region**	Melbourne Tourism Region	City of Melbourne
Scenario 1									
2020/21	-39%	-39%	-29%	-40%	-35%	-45%	**-40%**	-41%	-45%
2022/23	5%	5%	7%	5%	6%	6%	**6%**	4%	3%
Scenario 2									
2020/21	-52%	-50%	-42%	-51%	-49%	-56%	**-51%**	-53%	-56%
2022/23	-5%	-4%	-4%	-5%	-6%	-2%	**-4%**	-6%	-6%

Source: Decisive Consulting

In considering the forecast heavy falls in the regional visitor economy it is relevant to note that in the eighteen months prior to 2020 the visitor economy had been a 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 primary regional industry restructuring 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.

Figures 20 and 21 show forecasts for visitation and associated economic impacts for Melbourne's West and its six local government areas.

As noted in closing the Executive Summary, this report will be most useful if its analysis is debated by key stakeholders, who then identify challenges and opportunities that end up positively influencing their decisions.

Summary of forecasts for 2020/21 and 2022/23 for the visitor economy in Melbourne’s West region and its LGAs

In practice, a share of the expected falls in visitor spending in each form of tourism will arise from declines in average visitor spending per trip or night rather than purely a fall in visitor activity. Some of the spend per night reductions will be due to supplier discounting but more will be due to visitors economising and responding to the recession by taking cheaper options. Figure 20., therefore overstates the expected changes in visitor activity measures as it assumes a constant average spend after inflation for each trip or night.

Figure 20. Predictions for tourism in Melbourne’s West and LGAs by type of tourism in the forecast years under the two Scenarios

Scenario 1		Moonee Valley City	Brimbank City	Hobsons Bay City	Maribyrnong City	Melton City	Wyndham City	Melbourne's West
International Visitor Nights (000s)	2019	790	922	360	925	568	3,240	6,805
	2020/21	316	369	144	370	227	1,296	2,722
	2022/23	830	968	378	971	596	3,402	7,145
Domestic Day Trips (000s)	2019	433	598	933	324	481	1,264	4,033
	2020/21	368	508	793	275	409	1,074	3,428
	2022/23	476	658	1,026	356	529	1,390	4,436
Total domestic VNs (000s)	2019	492	314	309	415	509	482	2,521
	2020/21	347	228	224	306	366	347	1,784
	2022/23	509	322	324	429	531	496	2,611
Visitor Spending $m	2019	$ 315	$ 303	$ 262	$ 306	$ 304	$ 787	$ 2,278
	2020/21	$ 194	$ 184	$ 187	$ 183	$ 199	$ 430	$ 1,377
	2022/23	$ 332	$ 319	$ 281	$ 321	$ 321	$ 831	$ 2,406
Scenario 2		**Moonee Valley City**	**Brimbank City**	**Hobsons Bay City**	**Maribyrnong City**	**Melton City**	**Wyndham City**	**Melbourne's West**
International Visitor Nights (000s)	2019	790	922	360	925	568	3,240	6,805
	2020/21	237	277	108	278	170	972	2,042
	2022/23	790	922	360	925	568	3,240	6,805
Domestic Day Trips (000s)	2019	433	598	933	324	481	1,264	4,033
	2020/21	325	449	700	243	361	948	3,025
	2022/23	433	598	933	324	481	1,264	4,033
Total domestic VNs (000s)	2019	492	314	309	415	509	482	2,521
	2020/21	262	189	168	253	275	279	1,344
	2022/23	433	274	277	366	454	422	2,227
Visitor Spending $m	2019	$ 315	$ 303	$ 262	$ 306	$ 304	$ 787	$ 2,278
	2020/21	$ 152	$ 151	$ 153	$ 149	$ 156	$ 346	$ 1,107
	2022/23	$ 298	$ 291	$ 253	$ 291	$ 287	$ 770	$ 2,191

Source: Decisive Consulting Pty Ltd for forecasts and 2019 visitor spending estimates, 2019 activity measures from TRA Online and IVS and NVS data

Under the two scenarios in Melbourne’s West 5,855 or 7,609 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 834 more or 565 jobs less compared to 2019 under the two scenarios.

Figure 21. Predictions for economic impacts of this visitation in Melbourne’s West and LGAs by type of tourism in the forecast years under the two Scenarios

Scenario 1		Moonee Valley City	Brimbank City	Hobsons Bay City	Maribyrnong City	Melton City	Wyndham City	Melbourne's West tourism region
Visitor Spending	2017/18	$ 302	$ 295	$ 229	$ 311	$ 239	$ 655	$ 2,031
	2019 (est)	$ 315	$ 303	$ 262	$ 306	$ 304	$ 787	$ 2,278
	2020/21	$ 194	$ 184	$ 187	$ 183	$ 199	$ 430	$ 1,377
	2022/23	$ 332	$ 319	$ 281	$ 321	$ 321	$ 831	$ 2,406
Direct Gross Regional Product	2017/18	$ 131	$ 128	$ 100	$ 135	$ 104	$ 284	$ 882
	2019 (est)	$ 137	$ 131	$ 114	$ 133	$ 132	$ 342	$ 989
	2020/21	$ 84	$ 80	$ 81	$ 79	$ 86	$ 187	$ 598
	2022/23	$ 144	$ 139	$ 122	$ 140	$ 139	$ 361	$ 1,044
Total Gross Regional Product	2017/18	$ 252	$ 247	$ 192	$ 260	$ 200	$ 548	$ 1,699
	2019 (est)	$ 264	$ 253	$ 219	$ 256	$ 254	$ 658	$ 1,905
	2020/21	$ 162	$ 154	$ 156	$ 153	$ 166	$ 360	$ 1,152
	2022/23	$ 277	$ 267	$ 235	$ 269	$ 269	$ 695	$ 2,012
Direct Jobs	2017/18	1,304	1,275	991	1,343	1,031	2,831	8,774
	2019 (est)	1,361	1,308	1,133	1,323	1,313	3,400	9,839
	2020/21	836	793	807	791	859	1,857	5,948
	2022/23	1,432	1,380	1,214	1,389	1,388	3,592	10,393
Total Jobs	2017/18	1,962	1,918	1,491	2,021	1,551	4,259	13,202
	2019 (est)	2,049	1,968	1,705	1,991	1,976	5,116	14,804
	2020/21	1,259	1,193	1,215	1,190	1,293	2,795	8,949
	2022/23	2,155	2,076	1,827	2,089	2,088	5,404	15,638
Scenario 2		Moonee Valley City	Brimbank City	Hobsons Bay City	Maribyrnong City	Melton City	Wyndham City	Melbourne's West tourism region
Visitor Spending	2017/18	$ 302	$ 295	$ 229	$ 311	$ 239	$ 655	$ 2,031
	2019 (est)	$ 315	$ 303	$ 262	$ 306	$ 304	$ 787	$ 2,278
	2020/21	$ 152	$ 151	$ 153	$ 149	$ 156	$ 346	$ 1,107
	2022/23	$ 298	$ 291	$ 253	$ 291	$ 287	$ 770	$ 2,191
Direct Gross Regional Product	2017/18	$ 131	$ 128	$ 100	$ 135	$ 104	$ 284	$ 882
	2019 (est)	$ 137	$ 131	$ 114	$ 133	$ 132	$ 342	$ 989
	2020/21	$ 66	$ 66	$ 67	$ 65	$ 68	$ 150	$ 480
	2022/23	$ 129	$ 126	$ 110	$ 126	$ 125	$ 334	$ 951
Total Gross Regional Product	2017/18	$ 252	$ 247	$ 192	$ 260	$ 200	$ 548	$ 1,699
	2019 (est)	$ 264	$ 253	$ 219	$ 256	$ 254	$ 658	$ 1,905
	2020/21	$ 127	$ 126	$ 128	$ 125	$ 131	$ 289	$ 926
	2022/23	$ 249	$ 244	$ 211	$ 244	$ 240	$ 644	$ 1,832
Direct Jobs	2017/18	1,304	1,275	991	1,343	1,031	2,831	8,774
	2019 (est)	1,361	1,308	1,133	1,323	1,313	3,400	9,839
	2020/21	656	652	662	644	674	1,494	4,782
	2022/23	1,289	1,259	1,092	1,259	1,240	3,326	9,463
Total Jobs	2017/18	1,962	1,918	1,491	2,021	1,551	4,259	13,202
	2019 (est)	2,049	1,968	1,705	1,991	1,976	5,116	14,804
	2020/21	986	982	997	968	1,015	2,248	7,195
	2022/23	1,939	1,894	1,643	1,894	1,866	5,004	14,239

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

Appendix 1–How LGA estimates of visitation and economic impact pre-virus of the visitor economy were calculated

The regional tourism satellite accounts rely on TRA National Visitor Survey and International Visitor Survey data on visitation and visitor spending. These are then modelled using an input-output model to derive regional estimates of gross regional product and jobs due to the direct and indirect impacts of visitor spending. This methodology provides consistently derived estimates across all regions in Australia and can show estimates different to other economic modelling approaches that are typically only applied in single regions.

Regional tourism satellite account results are used in this report to generate estimates of tourism satellite account results for Melbourne's West region. This requires a tedious process of allocating the shares of tourist spending on goods and services (visitor consumption) at a regional level by the four types of tourist of domestic day trips/domestic overnight inter and intrastate and international overnight tourism across all the statistical area 2s within the region. This data from SA2s is then compiled into the local government areas according to which SA2s fall in (or share of SA2s in) their boundaries.

In this report data on tourist visitation over the four years from 2016 to 2019 is averaged to reduce sampling errors at a local government area and regional level. This improves the precision of resulting estimates, but for less visited local government areas these estimates should be treated as indicative rather than precise.

These estimates also allow analysis of which forms of tourism spending are the largest contributors to local government area visitor economies and this is critical to understanding which local government visitor economies are expected to recover most quickly or with the longest lags from virus impacts.

Unfortunately, this data slightly underestimates the true value of the visitor economy in Melbourne's West region. The value to Melbourne's West of international day trips and domestic day trips by domestic overnight visitors staying outside the region but visiting attractions like Werribee Zoo is not included in the regional tourism satellite account. In other areas of Victoria such as the Great Ocean Road region it is common that even large numbers of international day trip visitors provide very limited local region economic benefits as they spend little in the region on their visit.

The estimates derived are also often quite different to REMPLAN derived estimates which are commonly used in local governments but tend to understate the importance of the visitor economy.

Finally, these estimates of the visitor economy's importance are far more reliable than those from REMPLAN, which rely on Census data on industry of employment from a Tuesday night in early August. The Census estimates consistently underestimate the number of jobs dependent on the visitor economy averaged through the year, because the Census measures are taken at a low point in the low season.

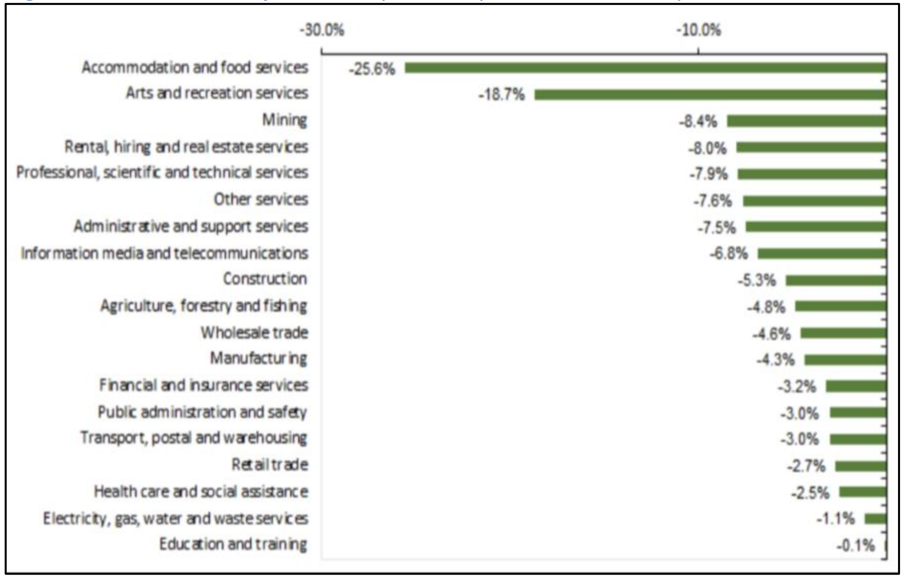
Appendix 2-ABS data up to 4 April on impacts of the virus on the Australian labour market

The ABS on 21 April released special survey data on the impacts of the COVID-19 shutdown on the Australian labour market, specifically jobs and wages based on Single Touch Payroll data from the Australian Taxation Office.

As many of the smaller enterprises who are presumed most likely to have laid off staff are not on the Single Touch Payroll, this data presumably underestimates job losses. In addition, these figures may understate the proportion of businesses facing difficulty, as businesses that have closed down may have been less likely to respond to the survey.

The new data, shown in Figure A2.1, showed that between 14 March and 4 April (the three weeks after Australia recorded its 100th confirmed COVID-19 case) jobs decreased by 6 per cent", Head of Labour Statistics at the ABS, Bjorn Jarvis, said.

Figure A2.1 Australian jobs lost by industry 14 March to 4 April



"Tasmania and Victoria had the largest decreases in jobs, down by 7.3 per cent and 6.8 per cent.

The Accommodation and food services industry saw the largest reduction in jobs (decreasing by 26 per cent), followed by the Arts and recreation services industry (decreasing by 19 per cent). Total wages paid by businesses decreased by 6.7 per cent over the period.

"Looking at the week-to-week changes, the decrease in jobs in the week ending 4 April 2020 was 5.5 per cent, significantly larger than the 0.5 per cent decrease in the week ending 28 March 2020," Mr Jarvis said.

As shown in Figure A2.2. "The largest impact of net job losses, in percentage terms, was for people aged under 20, for whom jobs decreased by 10 per cent," Mr Jarvis said.

Figure A2.2 Australian jobs lost by employee age 14 March to 4 April

	Change in employee jobs between 14 March and 4 April
Aged under 20	-9.9%
20-29 years olds	-8.8%
30-39 years olds	-5.5%
40-49 years olds	-4.3%
50-59 years olds	-3.8%
60-69 years olds	-4.0%
70 years and over	-9.7%
All persons	**-6.0%**

Basically, the younger you are, the worse you are impacted. This is the direct opposite of the health impacts of the virus.

Related data came from Westpac. Westpac's consumer sentiment survey released on 15 April asked people about their employment prospects. They found that 7 per cent of those surveyed lost their jobs in the last month, while an additional 14 per cent were stood down without pay.

Appendix 3-Using Grattan Institute Research to understand expected job losses by industry for Australia in the second quarter of 2020

On 20 April Grattan Institute issued a detailed report looking at industry by industry impacts in "Shutdown: estimating the COVID-19 employment shock". This report looked closely at employment effects of social/spatial distancing. In considering the following analysis, it is common to forget just how recently the shutdown happened. The restrictions on pubs, cafes, restaurants, gyms, and other businesses did not take effect until midday on 23 March.

The Grattan Institute Report as a key resource for this report

This working paper estimates the potential hit to employment from the COVID-19 crisis. They estimate between 14 and 26 per cent of Australian workers – 1.9-to-3.4 million people – could be out of work in the coming weeks and months as a result of the spatial distancing measures now in place, if they aren't already.

Although the full effect on unemployment will be obscured by the new JobKeeper wage subsidy, it's clear that the initial hit to employment is as large, if not larger, than any recorded in Australia's history, including during the Great Depression.

The second round impacts of COVID-19 on employment and economic activity will also be significant. Firms and households not initially affected by public health measures will scale back their spending to preserve cash flow in the face of an extended downturn. Meanwhile Australia faces a synchronised slowdown among our major trading partners, which will add to the economic hit from COVID-19.

The prospects for a rapid 'V-shaped' economic recovery are remote. *The duration of the COVID-19 crisis is uncertain, but the direct economic effects on employment are likely to persist for some time. Even if we manage to eradicate the virus in Australia, most other countries won't be so lucky. And the weakening of the balance sheet so many firms and households as they take on debt to ride out the COVID-19 crisis could constrain business investment and consume spending on the public health crisis passes.*

History tells us that recovery from periods of high unemployment is rarely fast. This time may be different: the recession has been deliberately engineered as a matter of public health, and substantial economic support is in place. But the longer and more severe the downturn, the less likely the labour market can spring back.

https://grattan.edu.au/wp-content/uploads/2020/04/Shutdown-estimating-the-COVID-19-employment-shock-Grattan-Institute.pdf

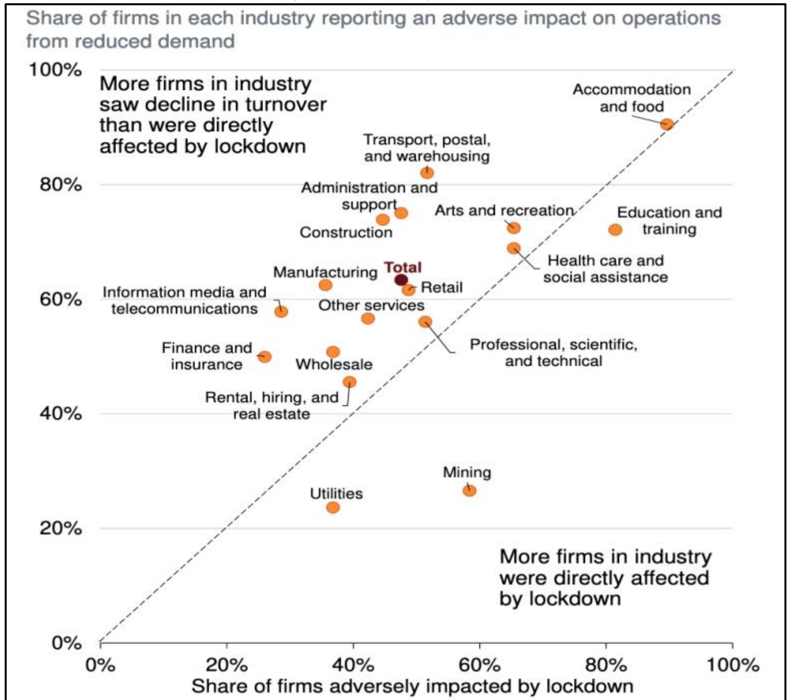
The Grattan Institute is less optimistic than the federal Treasury forecast of unemployment to peak at 10 per cent in the June quarter or 1.4 million people, an increase of 700,000 in the next two months. The optimistic scenario in Figure A3.1. equates to the Treasury forecast, with the mid-range and pessimistic Grattan Institute scenarios significantly worse.

Figure A3.1 Three scenarios for June quarter 2020 national unemployment

Grattan's analysis included detailed industry by industry estimates. This process began by looking at ABS data on the share of businesses affected by the virus in terms of both lost turnover and by the lockdown in response to the virus in the rather clever chart shown at Figure A3.2.

Grattan assume that the level of restrictions in place in early April remain in place through the second quarter of 2020. The Grattan preferred method uses both the occupation-level proximity scores to understand how social distancing effects employment and Grattan researchers' manually estimated probabilities of job loss in each of 88 industries that are aggregated into the 19 ABS industries.

Figure A3.2. Data on share of firms by industry with a decline in turnover and were directly affected by lockdown



Notes: Firms could select more than one option. There may be selection bias, because the ABS only surveyed firms still trading.

Source: ABS (2020b).

Grattan also notes that shutting down large parts of the Australian economy is putting enormous strain on the livelihoods of many Australians. Many Australians are poorly placed to support themselves through a substantial period of little or no income. Half of working households had less than $7,000 in the bank before this crisis. And a quarter of all working households have less than one weeks' income in the bank.

Grattan's analysis included comparison of three alternative methods for forecasting share of former employees not working by industry as shown in Figure A3.3. This is different to the share of workers by industry becoming unemployed for a number of reasons.

Grattan also estimates jobs likely to be lost as a result of shutdowns and spatial distancing – not incorporating any further negative effects from lower aggregate demand, nor any offsetting boost to employment from fiscal or monetary stimulus.

Figure A3.3. Forecast jobs loss share by industry for June quarter 2020

Using the Grattan preferred method of estimating the job shock, they estimate that about 3.43 million Australians could be out of work as a result of the response to

COVID-19. If all of these people were classified as ‘unemployed’, the national unemployment rate would rise to 30.2 per cent.

But not all the people who lose work as a result of COVID-19 will be classed as unemployed. Some who lose work will continue to be regarded as ‘employed’, because they will carry on receiving pay from their employer via the JobKeeper program even if they’re not at work. JobKeeper will mean that the impact of COVID-19 on the labour market is not as apparent in the unemployment rate. The JobKeeper wage subsidy, is expected go to about six million Australians, though many of these people will continue to be working but have their wages subsidised by the Government.

A sizeable, but unknown, number of Australians who lose their jobs are likely to drop out of the labour force. In the US, about half of the ‘extra’ people who lost their job in March dropped out of the labour force, with half being classified as unemployed. Grattan expect the figure in Australia will be similar.

There are also restrictions on the ABS definition of being unemployed that will reduce the official unemployment numbers. If a person is away from work – for example, if they’ve been ‘stood down’ – then they’re considered to be employed if they’ve been away from work for less than four weeks. If they’ve been away for work for more than four weeks, but they have received some pay from their employer for the past four weeks, they will also be considered ‘employed’ in the ABS unemployment statistics.

Accommodation and food services and arts and recreation services industries are expected by Grattan Institute to be the industries with the largest share of employment losses in the next three months across Australia’s 19 industries. Grattan’s pessimistic scenario suggests around three quarters of jobs in hospitality and the arts and recreation services will be lost despite the job keeper scheme. Industries with a higher proportion of more recently employed casual workers find the Job Keeper less useful in hiding short term unemployment. For example, around 40 per cent of workers in the hospitality industry are short-term casual workers who will be ineligible for the JobKeeper program.

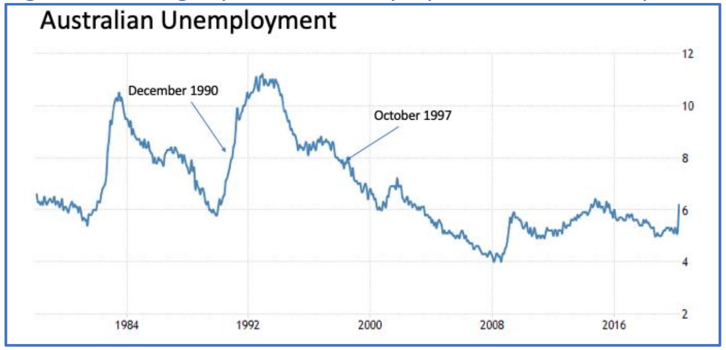
Grattan also concludes that lower-income workers are twice as likely to be no longer working as high-income earners. Younger Australians and women are likely to be hit hardest, because they are more likely to be employed in occupations and industries most affected by the response to COVID-19.

Appendix 4-Recalling the 1990-91 recession

"The dead outnumber the living fourteen to one, and we ignore the accumulated experience of such a huge majority of mankind at our peril."
-- Niall Ferguson on the lessons of history.

Most Australians were not alive or have forgotten just how harsh our most recent recession in 1990-91 recession was. The last recession in Australia began in September quarter 1990 and finished in the September quarter 1991. However, reduced Australian total employment levels extended from May 1990 to August 1994. It also took three years for the unemployment rate to peak, but nearly eight years to return to its pre-recession level (Figure A4.1).

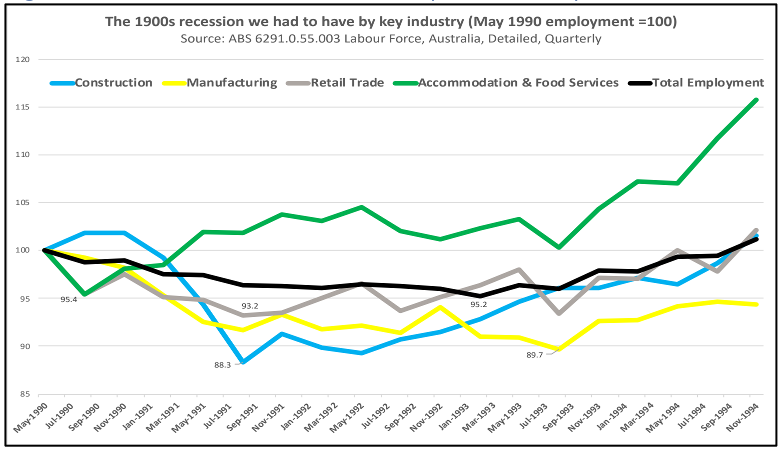
Figure A3.1. Eight years for unemployment to return to pre-recession level



In this recession, industries which are traditionally sensitive to the business cycle had a much larger decline in national employment than the fall in total employment which peaked at 4.8 per cent in February 1993.

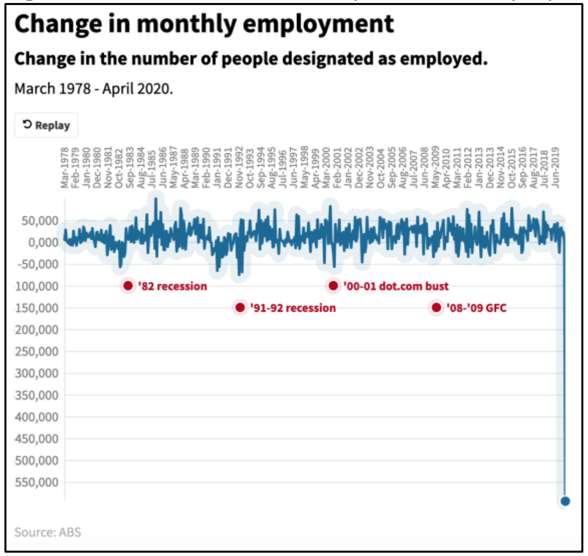
Construction industry employment fell by nearly 12 per cent reaching its lowest level in August 1991. Retail trade also reached its trough level in August 1991 but with a smaller 6.8 per cent fall. Manufacturing industry employment fell by just over 10 per cent reaching its lowest level significantly later in August 1993. Unlike the current recession, the Accommodation and Food Services industry did better at maintaining employment. Employment in this industry after falling early in the recession by 4.6 per cent by August 1990 recovered strongly to be over 15 per cent above its recession level by August 1994 when overall employment had at last started to grow above pre-recession levels (see Figure A4.2).

Figure A3.2. The 1990 recession as a possible template for this recession



However, ABS data released on 14 May highlights the unprecedented fall in employment with the virus recession, as shown in Figure A4.3.

Figure A3.3. Even with JobKeeper loss of employment far worse now



Appendix 5–Understanding the long-term relationship between changes in regional visitor spending and direct and total regional visitor economy jobs

From 2006/07 to 2017/18 a total of 12 annual estimates are available of total regional visitor spending and direct and total (direct+indirect) regional jobs due to this spending (source: regional tourism satellite account data from Tourism Research Australia).

Using this data source, statistics were applied to test the relationship between regional visitor spending and the two measures of regional visitor economy jobs.

The tested relationships were in the form of two simple linear equations of:

1. Direct Visitor Economy Jobs = constant + b*(visitor spending)
2. Total Visitor Economy Jobs = constant + b*(visitor spending)

- where the "constant" and "b" the slope coefficient is to be estimated from the data.

A very close positive relationship was found with a high correlation coefficient across the 20 TRA Victorian regions that averaged 0.93 for the first equation and 0.92 for the second equation.

As background, a correlation coefficient of 0 would have indicated no relationship between changes in visitor spending and jobs – while a correlation coefficient of 1.0 would indicate changes in consumption multiplied by the coefficient "b" fully or perfectly explained the movement in jobs.

Beyond having strong correlation (explanatory power) a second set of equations were estimated to determine how much a percentage change in jobs would lead to a percentage change in visitor spending. For mathematical reasons, this involved a second set of estimations which involved taking natural logarithms of both regional visitor spending and the number of jobs and again putting them in a simple linear equation like 1. and 2. above.

It was found that a 10 per cent increase in visitor spending after inflation causes between 8 and 12 per cent increases in direct jobs due to the visitor economy in 17 of the 20 regions in regional Victoria. The average across the twenty regions was that a 10 per cent increase in visitor spending after inflation increased direct visitor economy jobs by 10.1 per cent.

Similarly, it was found that a 10 per cent increase in visitor spending after inflation causes between 8 and 12 per cent increase in total (direct + indirect) jobs due to the visitor economy in 14 of the 20 regions in regional Victoria. The average across the twenty regions was that a 10 per cent increase in visitor spending after inflation increased total jobs by 10.7 per cent.

Therefore, it is reasonable on the basis of the historical data to use the simplifying assumption that a near one to one relationship exists for expected percentage changes in regional visitor spending and regional jobs (direct or total) due to this spending.

Of course, measures like JobKeeper are designed to get businesses with large falls in revenue to keep more staff on. However, as I am forecasting for the whole of 2020/21 the JobKeeper measure is only expected to affect the relationship of revenues and jobs for the first three months of this year. As well, most tourism businesses have a high share of casual staff of less than a year, working holiday makers or international students among their staff. These staff would be let go first, as under the JobKeeper rules they are ineligible for support. So, there would be a closer link between falling revenues and employment in the visitor economy sector than in most others where a higher proportion of staff are eligible for JobKeeper for a quarter of the 2020/21 year.

Over 2020/21 as a whole I expect to see many mostly smaller visitor economy businesses fail. The typically very thin profit margins of smaller visitor economy businesses mean that many will fail as the economic recession continues. As smaller businesses commonly are more labour intensive this would tend to mean that a 10 per cent point fall in regional visitor spending would lead to a larger than 10 per cent fall in regional visitor economy employment.

On the basis of this appendix this report assumes a one-to-one relationship between falls or rises in visitor spending and visitor economy direct and total jobs.

Appendix 6–How much growth was expected in visitor spending from 2017/18 to 2019

In many regions of Victoria there was strong measured growth in tourism activity from 2017/18 financial year to 2019 calendar year data, increasing the regional economic importance of the visitor economy prior to the virus.

Where this growth occurred, it implies that the pre-virus economy was larger than it was in 2017/18, as measured by the Tourism Satellite Account (TSA).

I used 2017/18 estimates of the contribution to direct visitor spending from the four types of tourism (international, interstate, intrastate visitor nights and domestic day trips) in each of the 21 TRA regions, along with TRA NVS and IVS estimates of these four visitor activity levels in each region to generate TRA activity-based estimates for visitor spending for the 2006/07 to 2016/17 period. These were then compared to the TSA published data to estimate correlation coefficients by region, as shown in Figure A6.1.

In 9 of the 13 Visit Victoria regions there was an above 70% correlation. This is not a surprising result, given that over 11 years it was likely that the share of visitor activity by type of tourism will have changed from the fixed ratios from 2017/18 I assumed applied to the whole period excluding the 2017/18 year.

Figure A6.1 Correlation between TRA based estimate of visitor spending and Tourism Satellite Account published estimate

Melbourne	99%
Grampians	96%
Geelong	91%
Daylesford/Macedon Ranges	81%
Yarra Valley	80%
Peninsula	79%
Bendigo-Loddon	77%
Phillip Island	77%
High Country	74%
Ballarat	58%
Gippsland	57%
GOR	52%
Murray	29%

Source: Decisive Consulting Pty Ltd estimates, using TRA data

In reviewing these correlation statistics, it is important to recall that correlation of 100% is a perfect alignment and 0% no alignment. All regions, barring the Murray MRT region (perhaps due to periodic drought impacts) have a strong alignment of TRA based estimates of visitor spending using visitation data and the published regional tourism satellite account estimates of visitor spending.

The estimates for 2019 on this basis are for changes in visitor spending over 2017/18 TSA estimates as shown in Figure A6.2. For example, the regions of Geelong and Yarra Valley showed strong growth in visitor activity between 2017/18 and 2019 calendar year data.

There are good reasons for expecting estimates of 2019 visitor spending based on 2017/18 shares by the four types of tourism to be more accurate than estimates using these 2017/18 shares for much earlier in the 2006/07 to 2016/17 period. This is because earlier years would be expected to show a bigger shift in the share of total visitor spending compared to the 2017/18 calculation.

Figure A6.2 Estimated growth in regional visitor spending over 18 months from 2017/18 to 2019

	Growth in estimated after inflation visitor spending 2017/18 to 2019 (or over 18 months)
Melbourne	10%
Grampians	6%
Geelong	28%
Daylesford/Macedon Ranges	22%
Yarra Valley	29%
Peninsula	12%
Bendigo-Loddon	14%
Phillip Island	15%
High Country	14%
Ballarat	23%
Gippsland	16%
GOR	20%
Murray	17%

Source: Decisive Consulting Pty Ltd estimates, using TRA data
Notes: Growth over this period was affected by the extended drought, most obviously to the Grampians

Appendix 7–What drives the variation in forecast changes for regions' visitor economies spending for 2020/21 and 2022/23

The major drivers of the forecasts are:

- increased rejection of travel due to continued perceived health risks in 2020/21; and

- impacts of extended Australian and global economic recession and economic uncertainty up to 2022/23.

These general factors explain most of the falls in visitor spending predicted across all regions.

To simply the analysis and calculations a simplifying assumption is made that per trip or per night visitor expenditure is constant after inflation with all the adjustment in measures of trips or visitor nights. But in reality, the falls that are forecast in total visitor spending by type of tourism will be due to falls in both number of trips or visitor nights and falls in the average spending per trip or night after inflation as visitors economise in line with a recessed economy.

Why doesn't the ban on outbound travel boost domestic tourism avoid the downturn in the Australian visitor economy?

Australians have become very attached to outbound tourism. It has grown far faster than domestic long break travel, in part because of much lower international airfares and frequently lower costs per day to stay in places such as Bali and Thailand, as well as often higher standard facilities. Australia's high labour costs ensure that the costs of many labour-intensive tourism services can be cheaper in overseas destinations.

There is uncertainty over the extent frustrated outbound international travel will translate to domestic overnight trips. Indeed, this is one of the key uncertainties with forecasting the visitor economy in the next year or two.

Domestic tourism is a much larger form of tourism spending than either inbound or outbound tourism, even without considering domestic day trips.

Outbound visitor nights were around 180 million and 100 million were for the holiday purpose in 2018. This compares to 371 million domestic visitor nights of which around 160 million were for holiday purpose and 113 million for VFR travel. There were also 271 million inbound visitor nights with around 80 million for holiday purpose. In total holiday + VFR visitor nights by outbound and inbound visitors is very similar at around 150-160 million per annum.

Most of the reason total inbound is larger than outbound visitor nights is the 73 million inbound education visitor nights in 2018.

So, we lose most of inbound (some visitors and surprisingly many students are here already) but should gain some visitor economy jobs back as some of the normal outbound switches to domestic. But how much will outbound tourist spending switch to domestic tourist spending?

- Around a 13 per cent share of outbound tourist spending accrues to Australian travel suppliers such as travel agents and airlines and this will be lost while borders stay closed.

- Will wealthier Australians who take 4 to 6 week trips to Europe or North America substitute a similar length holiday domestically?

- Some outbound travel like gap years won't translate to domestic travel, even were economic situations more favourable. Around 27 per cent of total outbound visitor nights are by Australians from 15-29 years old.

- Three times the number of Australians per year normally visit South East Asia than visit North West Europe including the UK. I am fairly sceptical about how commonly the fly and flop outbound traveller will become a domestic traveller, as once the Bali crowd see the normally higher prices in Australia they are likely to be hesitant to book for longer stays domestically. When we add in a deep domestic recession, this reluctance toward long haul domestic holiday travel is likely to be the norm.

- Any lift in domestic airfares due to reduced competitive pressure on Qantas group pricing is also expected to reduce the translation of outbound holiday travel to domestic holiday travel.

- Around one third of outbound visitor nights are by the over 55 year olds and this group provide around 40% of domestic visitor nights in a normal year. I am expecting that this age group will be more reluctant to travel than other age groups for fear of the virus and because self-funded retiree incomes are down heavily this year (lower dividends, interest rates and rent).

If say 40 per cent of total Australian outbound holiday visitor nights switch to potential domestic travel, this adds around 40 million to the 371 domestic visitor nights. But if this combined potential market of 410 million is down heavily by say 35% in 2020/21 due to virus fears and the recession then total domestic travel goes from 371 million to 275 million or a decline of 28%. This coupled to an expected fall in international visitor spend of between 60 and 80 per cent and a fall in domestic day trips implies a depression in the Australian visitor economy.

And if Australian domestic tourism falls 28 per cent, there are good reasons for thinking domestic visitation to Victoria will fall more than the national average.

Many of the outbound visitor nights that do switch to domestic visitor nights will be to long haul domestic destinations that are warmer, substituting trips to Bali or Thailand with escapes such as to tropical North Queensland rather than to places like Melbourne's West.

Melbourne's West has traditionally relied on built attractions such as theatres, conferences, major events and art galleries and museums rather than natural attractions which are more important to cities like Sydney. Visitation to man made attractions is expected to be more negatively affected than to natural attractions by continuing pressure for social distancing as well as recession pressures on spending.

Why regional forecasts show different growth rates

However, there are also factors that vary at a regional level that either reduce or increase impacts. As explained in the main body of the report there are six factors used to predict varying depth of the downturn and speed of recovery for different regions in forecasting visitor spending under the two scenarios for the two years:

1. Share of international visitor spending in total visitor spending (a key negative influence on declines in 2020/21)
2. Share of domestic day trip spending (a positive influence improving recovery)
3. Share of non-holiday travel (particularly VFR) in overnight domestic visitor night spending (a positive influence improving recovery)
4. Share of 55+ age group in overnight visitor nights spending (a negative influence on recovery in 2020/21)
5. Share of short breaks (2 night or less trips from home) in domestic holiday visitor night spending (a positive influence on recovery)
6. Share of long break overnight domestic holiday visitor spending in total visitor spending (a negative influence on recovery)

Factor 5 has a much larger influence on forecasts for 2020/21 than on 2022/23, as borders are assumed to re-open well before 2022/23.

Key Assumptions driving the regional forecasts

The key assumptions driving the calculation of regional forecasts are shown in Figure A7.1. While the assumptions have varying impacts on regional visitation growth, the Victorian regions have more in common in terms of the depth and timing of recovery from virus implications than they have differences.

Figure A7.1 Key assumptions driving regional forecasts for visitor spending in 2020/21 and 2022/23

Forms of visitor spending	2020/21 Vs 2019		2022/23 Vs 2019	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
International Visitor Nights	-60%	-70%	5%	0%
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%

Source: Karl Flowers, Decisive Consulting Pty Ltd

The distinction often drawn between intrastate and interstate overnight domestic tourism is less helpful, because at a regional level it is frequently a reflection of the proximity to a State border and does not indicate an extended duration trip. Two more powerful distinctions were drawn in Figure A7.1 to reflect what is expected to be the varying impacts of the virus on forms of the primary source of visitor spending of domestic overnight visitation.

The first is between holiday and non-holiday overnight tourism. Holiday tourism is forecast to be more affected. Non-holiday visitor nights as dominated by VFR travel (alongside travel for business and other reasons such as for medical treatment) is forecast to be less affected.

The second distinction is between holiday visitor nights on trips of two nights (short breaks) or less and holiday trips of three nights or more (long breaks).

Some readers might be surprised to see that international visitor nights in 2020/21 are not shown to be a near 100% fall. This reflects that many visitors arrived before March, including many continuing international students especially from outside China, who will stay for much of 2020/21.

A smaller adjustment to forecasts for 2020/21

There are good reasons to believe that many older Australians will be more reluctant to travel in 2020/21 than the average Australian.

There is a further variation for the 2020/21 year forecasts for four regions of the twelve regions with well above and four regions with well below regional averages for their reliance on over 55 year old domestic visitor nights.

A review of the share of domestic visitor nights in 2019 by visitors over 55 years old showed that three regions of Melbourne, Ballarat, Yarra Valley and High Country (North East) and had a lower reliance on this market (around 34 per cent of total domestic visitor nights. In contrast, four regions of Bendigo, Geelong and the Bellarine, Peninsula, and Daylesford Macedon had higher reliance on the over 55 market, at around 44 per cent of all visitor nights. Other regions had very close to the regional average of reliance on older visitors.

The adjustment made was to increase domestic visitor nights in 2020/21 by only 1.5 per cent for the regions with younger average visitation and with a balancing 4.5% downwards adjustment for the regions with significantly older domestic overnight visitors.

Within Melbourne's West region, the adjustment down in domestic visitor nights was made for all but the Brimbank City and Mariybrnong City areas, which were given the adjustment up and for Wyndham City which was left unchanged. This reflects these areas varying reliance on over 55 year old domestic visitor nights.

Appendix 8 - The New Zealand market opportunity if Australia-New Zealand establish a travel bubble before opening to the rest of the world

It is clear that if a travel bubble is extended to include New Zealand and Australia, New Zealand will gain far more economic advantage than will Australia. This reflects that our outbound tourism is over three times that of New Zealand.

Around 3.2 million New Zealanders take a short term (less than one year) trip from New Zealand each year. In the year ended February 2020 there were 11.7 million Australian short-term visits overseas or over three times the number of New Zealand outbound visits.

Of these total outbound New Zealand travellers, 1.4 million visited Australia in the year ended February 2020. In contrast, 1.5 million Australians returned from New Zealand.

Of Melbourne residents 273,000 travelled to New Zealand in the year ending September 2019. In contrast, New Zealand visitors to Melbourne were slightly more common at 320,000. This data tells a different story when presented as visitor nights rather than trips, reflecting that many of the New Zealand visitors to Melbourne spent less time in Melbourne, than Melbourne residents spent in the whole of New Zealand. In the year ending September 2019, Melbourne residents spent 2.2 million visitor nights in New Zealand, whereas New Zealanders spent only 1.9 million visitor nights in Melbourne tourism region.

If I had to forecast a year of arrivals and departures where New Zealand and Australia were the only countries that could be visited, I expect we would get very different tourist numbers. I would imagine that departures by Australians to New Zealand might increase to more like 3 million, whereas New Zealand departures to Australia might increase to more like 2.2 million.

So, a travel bubble with New Zealand would on average makes the challenges facing the Australian visitor economy worse, not better.

However, some areas of Australia would benefit as other areas lose heavily. Particular sectors like the Australian ski industry would be major losers if Australians could fly to New Zealand to ski rather than being limited to only Australian resorts. This has major implications for areas like the Victorian High Country. In contrast, areas like Cairns and the Gold Coast which have many more New Zealand visitors than residents who travel to New Zealand. These areas would be winners from opening up of travel with New Zealand. This reflects that their tourism does not compete for Australians travel much with New Zealand destination options.

As New Zealand has a more Melbourne like climate, Australians view New Zealand outbound as a more direct competitor for a trip to Melbourne than they view a trip to Queensland. Areas like WA and SA would also lose out if competition from New Zealand opened up, as they receive comparatively few New Zealand visitors compared to the domestic tourists they are likely to lose to New Zealand competition.

From a selfish perspective, Melbourne's West like the Australian visitor economy as a whole should not favour a travel bubble only with New Zealand.

This conclusion is obvious for Melbourne's West as it is for Victoria as a whole with only around 5 per cent of international visitor nights in the four years pre virus from New Zealand. Melbourne's West region has a different mix of nationalities in international visitor nights than Victoria as a whole as shown in Figure A8.1.

Melbourne's West and Australia as a whole should prefer a travel bubble to open with other nations that have very low infection rates, but where we run a major tourism surplus such as: China, Singapore, Taiwan, Japan and South Korea. This would also assist the faster recovery in the numbers of international education visitors, which is an important issue for Melbourne's West.

Figure A8.1. Sources of international visitor nights to Melbourne's West and Victoria over the average of the four years 2016-19

	New Zealand	China	India	Other Major Asian Source Markets	Other Asian smaller markets	America's and Europe	Other Countries
Melbourne's West	5%	12%	29%	13%	19%	15%	8%
Victoria	4%	26%	10%	22%	9%	23%	6%

Source: TRA Online using IVS data

Notes: Other Major Asian Source markets is the sum of: Japan, Korea, Singapore, Malaysia, Thailand, Taiwan and Hong Kong.

Appendix 9 - A return of only a weak second major airline to Australian domestic service

Virgin is not alone to have problems, but is getting less help from its Government than many airlines

Problems for airlines currently are far from unique to Australia. The International Air Transport Association (IATA) has estimated global airlines will lose US$314 billion in 2020 revenues. That's a 55% dive compared to 2019 and air traffic will not bounce back to where it stood before the virus until 2023, the IATA says.

The following summary comes from an article on May 28 in the Asia Times.

Air Canada plans to lay off more than half of its workforce, or at least 19,000 employees. British Airways will shed 12,000 jobs or 30% of its workforce, US Delta Air Lines will carry out 10,000 redundancies (11%), while Scandinavia's SAS will lay off 5,000 jobs (40%) and Britain's EasyJet will axe up to 4,500 jobs (30%). Other job losses will come at United Airlines in the US (3,450), Britain's Virgin Atlantic (3,150), Ireland's Ryanair (3,000) and Aer Lingus (900), Icelandair (2,000), Brussels Airlines (1,000), Hungary's Wizz Air (1,000) and Fiji Airways (758).

German airline group Lufthansa on May 25 announced it had struck a nine-billion-euro ($9.9 billion) rescue deal with the government, under which Berlin would become its main shareholder. Also in Germany, charter firm Condor, a subsidiary of bankrupt travel agency Thomas Cook, secured 550 million euros in loans, underwritten by the state. France and the Netherlands have rushed to the rescue of Air France-KLM with a plan of between nine and 11 billion euros.
Most of the big American air companies have asked for support from a massive US stimulus package intended to help impacted industries, of which $50 billion is earmarked for the civil aviation sector. Italy has decided to nationalize Alitalia. Britain has pledged a 600-million-pound ($740-million) public loan to EasyJet. Switzerland has guaranteed 1.2 billion euros in loans to Swiss and Edelweiss, two subsidiaries of Lufthansa. New Zealand has loaned some New Zealand$900 million ($551 million) to Air New Zealand. Dubai and Turkey have also announced that they will come to the aid of Emirates and Turkish Airlines but have not yet provided figures.

Virgin is in a smaller group of airlines to have gone into bankruptcy protection. Latin America's largest airline LATAM, which has more than 42,000 employees, became the latest carrier to file for bankruptcy on May 26.

This comes only two weeks after Colombia's Avianca, which has 20,000 staff, also filed for bankruptcy in the US to reorganize its debt. Cash-strapped giant Virgin Australia also collapsed on April 21, going into administration. The airline had appealed for a A$1.4 billion ($930 million) loan to stay afloat, but the government refused to bail out the majority foreign-owned company. The pandemic has also led to the collapse of South Africa's Comair and South African Airways (SAA), Britain's Flybe and four subsidiaries of Norwegian Air Shuttle in Sweden and Denmark.

The threat to the Melbourne West visitor economy from a weak Virgin

A fear in the Australian tourism industry is that the venture capitalists looking to buy Virgin will recapitalise it as a far smaller airline and operate it to avoid price competition with the dominant Qantas group.

This could lead to significantly higher average airfares, as heavily discounted airfares become rarer. It is not unusual in Australia where routes are heavily dominated by one carrier that airfares are up to 30 per cent higher than similar length competitive routes.

A cozy duopoly could see healthy financial returns for the airlines, but far fewer domestic travellers by air. Leisure, and particularly VFR travel, rather than business travel would be more affected by this situation, as these visitors have higher price sensitivity. Many leisure travellers would return to drive tourism which could benefit regional centres but at a cost to capital city tourism and particularly long-haul domestic destinations reliant on air travel.

Without international borders being open, Qantas Group faces hard decisions on how much of their fleet to use on domestic only services. If they set pricing too high, they will choke off demand for domestic travel and encourage more public and tourism industry support for rescue funding for Virgin.

When international borders re-open it is expected that the contrast between high domestic airfares and competitive international airfares will become more obvious. This might lead to the effective competition for Qantas domestic airfares, being outbound travel by Australians on carriers from other countries at a cost to the Australian economy.

In this situation, Melbourne West support for Melbourne Airport winning new international airline services will become more important to maintaining visitor spending in the longer term. [3]

What is the short-term outlook for domestic airfares?

It is expected that average domestic airfares paid in coming months will be very sensitive to how quickly Qantas group restore seat capacity on key routes.

There appears to be a larger than usual difference currently between the prices for lowest available airfares and fully flexible economy airfares. This reflects still very limited seat capacity being offered – which in turn is expected to reduce the share of seats that are heavily discounted.

As one example, a return flight from Sydney to Melbourne on the morning of Monday 15 July returning to Sydney on the morning of Friday 19 July has airfares of:

- Best available for the one Monday morning Qantas one-way flight of $338 and $539 economy flexible
- Best available for the one late Monday morning Jetstar one-way flight of $241 and $452 for flexible
- Best available for the one available Friday morning one-way Qantas flight of $338 and $539 economy flexible
- Best available for one of two Friday morning one-way Jetstar flights of $167 and $452 for flexible

So, the best price for a flexible economy return ticket on these dates from Sydney to Melbourne is $904 on Jetstar and $1,078 on Qantas.

Removal of cabotage restrictions

The removal of cabotage restrictions would give the ability to foreign carriers to operate domestically in Australia using foreign registered aircraft with foreign crews, both of which operate under the primary oversight of their home country safety regulators.

This policy in a restricted sense is what has brought much lower airfares to countries in the European Union, as airlines of all member countries have the opportunity to compete within the Union. This of course has not completely eroded the scale and marketing advantages of most home country carriers.

The Harper Competition Policy Review recommended a restricted lifting of cabotage prohibitions. This review noted that:

> *The current air cabotage restrictions should be removed for all air cargo as well as passenger services to specific geographic areas, such as island territories and on poorly served routes, unless it can be demonstrated that the benefits of the restrictions to the community as a whole outweigh the costs, and the objectives of the restrictions can only be achieved by restricting competition. Introducing an air cabotage permit system would be one way of regulating air cabotage services more effectively where necessary.*

Removing cabotage prohibitions is one of the few big sticks which could lead to much increased domestic airfare competition on major routes to Melbourne if only a weak Virgin returns to the skies. Removing these restrictions is most likely to lead to increased domestic air arrivals mostly on longer haul routes such as Darwin, Perth, Cairns and Brisbane to Melbourne – as customers will need to go through the inconvenience of international passenger processing.

Not surprisingly, Qantas Group are not supporters of this reform. In a submission to Treasury following the Harper Review of Competition Policy's recommendation to allow restricted cabotage Qantas noted that:

- regulatory and safety risks would be increased with the Civil Aviation Safety Authority (CASA) required to rely on supervision by foreign government regulators. Australian airlines which are regulated by CASA would compete with airlines operating under lower cost safety regimes with different standards;
- cabotage would undermine and disadvantage Australia's position in future air service negotiations. These rights, which are one of the most valuable assets for airlines in aviation, would be gifted to other countries with no request in return; and
- airlines require a clear measure of certainty around which they can base long-term investment planning. The proposal would cause uncertainty and unpredictability putting any future investment decisions by Australian and strategically important international hub airlines at risk.

On the other hand, if average domestic airfares increase significantly, then the trade-off for the Australian community between improved airline profitability and a smaller visitor economy including from inbound visitors will become more obvious.

[3] The author spent over six years as Tourism and Aviation Economist at Tourism Australia, working to encourage increased international airline services to Australia.

Appendix 10 - A changed environment for business tourism to Melbourne

An argument is underway between the proponents of working from home and those concerned it has hidden costs for businesses and employees and also damages our city centres.

This argument will have a bigger influence on Melbourne's West than just influencing the recovery of domestic business travel which is a key plank of the region's visitor economy. In the four years ending 2019, business travel to Melbourne's West provided 17 per cent of domestic visitor nights. This was slightly above the 16 per cent of domestic visitor nights due to holiday travellers, but only half the domestic visitor nights for travellers visiting friends or relatives.

Working from home is currently promoted in line with social distancing policies. To indicate the dangers, in March, 94 workers on one floor of an office building in Seoul tested positive for COVID-19, a sign of just how quickly the virus can spread in a tight space. **A workplace strategist compared offices in their current form including with hot desking, in open plan offices to "land-based cruise ships"** (Source:https://www.afr.com/property/commercial/offices-are-the-new-cruise-ships-for-covid-19-20200506-p54q5j). "The arrival of our first office cluster is probably a question of if, not when." From Crikey.com 1 June 2020

Robert Gottliebsen, writing in The Australian, has warned that the shift to working from home (WFH) could suck the life out of Australia's CBDs. Gottliebsen claims the nation's CBDs and their valuable infrastructure will stagnate if some semblance of normal working activity does not resume. He also argues that WFH leads to much less personal interaction, makes it harder for companies to identify the best people to promote, and that large companies that rely too much on remote working face the risk of losing talented younger employees to smaller rivals that can offer hands-on training. Perhaps our greatest danger to realising this new potential that the "working from home" boom will go too far and cause decay in the central business districts.

The opposite view comes from Leith Van Onselen, writing on 27 May in Macrobusiness. He argues that WFH will be possibly the greatest positive externality from the COVID-19 shock. WFH has eliminated the need for hundreds of thousands of workers to waste money, fuel and time travelling into a central location to work. WFH frees up transport infrastructure, eliminating the need for massive investments to expand capacity. It also reduces the need for companies to waste huge sums on expensive office space. WFH is better for the environment too, given it reduces traffic, congestion and emissions on our roads. And WFH gives parents incidental interaction with their children. Finally, WFH offers housing affordability benefits, since it enables workers to live further away from work, including in regional areas. With so many Australians now working behind computers in so-called 'knowledge jobs', there is little justification in requiring employees to travel to a central location every day on crowded roads and sardine-packed trains. This is both inefficient and archaic.

Therefore, diversifying economic activity away from CBDs should be viewed as being unambiguously positive in Leith's view. The only point where he agrees with Gottliebsen is that new entrants to the labour market could lose out on face-to-face mentoring. But these costs are far outweighed in his view by the benefits of WFH.

If WFH continues for many months, this will change attitudes towards travelling for meetings and conferences as well. It might be expected that many interstate or intrastate trips for a meeting will instead be handled by Zoom or other similar online meeting tools. Conferences by offering extended sessions and additional informal networking might be less prone to moving to online than are meetings.

The current Australian recession will in any case, cause cut-backs in domestic business travel, as company's seek to economise. This focus on cost savings will also be influenced by airfare costs which will be a function of if, and if so how, a reborn Virgin airline returns to the skies. It is likely that the financial backers of a reborn Virgin will cut seat capacity and seek to avoid damaging price competition with their key competitor. This may lead to fewer heavily discounted seats and increases in average airfares at a time corporates are looking to reduce costs.

Appendix 11 - How many international students are here now and what is the outlook for international student arrivals

A much larger share of international students expected this year did make it to Australia to start studying than is widely understood. This is a key reason why even with closed borders, earnings from international visitor nights is forecast in this report to only fall by between 60 and 70 per cent in 2020/21 compared to 2019.

The public perception of a near complete collapse in international student numbers reflects widespread reporting of the financial problems facing universities, and disputes between the universities and the Commonwealth Government regarding access to Job Keeper and other funding support. Macrobusiness on 29 May concluded that: the education lobby has been caught out exaggerating the collapse in international students, which according to Department of Education data, is actually not that large. The Prime Minister subsequently announced the same conclusion.

About 80 per cent of expected international students managed to reach Australia and are studying, though many students have lost work, are not eligible for welfare and are relying on charities for support. Universities are facing major financial blows, estimated at $3 billion to $4.6 billion in the next six months as revenue losses deepen in the second semester. (Source: The Age 22 May).

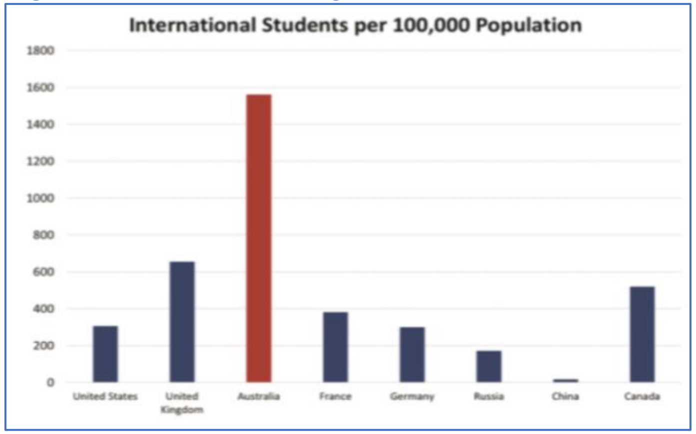
Some 39 per cent of students from China – easily the most lucrative source country for universities – were stranded offshore. So, total international student enrolments are only down 20%, which comes after total enrolments (including institutions beyond universities) soared by 82% in the six years to December 2019. So basically, international student enrolments have merely fallen back to around 2017 levels, which were historically high and had Australia's international student concentration dwarfing other developed nations, according to Associate Professor Salvatore Babones. Compared to other overseas countries, Australia has a very high reliance on international students, as shown in Figure A11.1.

The seriousness of the revenue crisis, not just for the Group of Eight top universities, but for all universities relying on overseas student revenue will deepen over the year 2020-21. This is because normally about half of those taking up higher education student visas do so in the second half of the calendar year. It is likely that few will do so this year. The numbers are also likely to drop in the first half of 2021. (Source: Dr Bob Birrell and Dr Katharine Betts from the Australian Population Research Institute (APRI) "*The Crisis in the Overseas Student Industry: How should Government respond?")*

In 2018-19 the Australian government issued 142,098 higher education visas off shore. Only a fraction of this number are likely to be issued in 2020-21. This, plus attrition from students completing courses, means that the number of overseas students enrolled in higher education Australia could fall by up to a half by mid-2021.

The Group of 8 leading universities will take the biggest hit. In addition, these universities will lose substantial fee revenue from their normal sales of accommodation, parking and other services (including remedial English training) to overseas students. Losses of revenue of $300-$400 million over 2020-21, compared to budget expectations for the largest Go8 universities, are in store.

Figure A.11.1 – Australia's high reliance on international education



Source: Macrobusiness

The government's road to recovery, released on 8 May, includes the possible return of international students as part of stage three. Later in May, Health Minister Greg Hunt said universities were welcome to put forward proposals for international student arrivals to restart. "We have indicated we are welcoming of proposals for universities, subject to it being at the same time as their general student populations, to look at a means of bringing back – through supervised, stringent quarantine – international students," Mr Hunt said.

Appendices

NSW Premier Gladys Berejiklian said on Thursday the quarantine process for returning Australians had been effective and could be used to get international students arriving again. "There's no reason why, in the future, we shouldn't consider allowing students to go through that process, to make sure they're 100 per cent safe before they go to university," she said. (Source: The Age 22 May).

The Age reported on 24 May that the exodus of international students from Melbourne amid the COVID-19 pandemic has left thousands of vacant apartments, units and houses in the city's centre and a big financial headache for their landlords. The rental vacancy rate in the CBD and surrounding areas has nearly tripled since last April from 1.9 per cent to 5.4 per cent, according to figures from Melbourne City Council, reaching its highest point in more than a decade. However, presumably, this vacancy rate also involves declines in Airbnb and other sharing economy rentals in recent months, leading many landlords to seek long term tenants instead.

The Mitchell Institute's report, *International Students Vital to Coronavirus Recovery*, calculated they spent $11 billion last year in Australia on property, retail and hospitality, and contributed $25 billion to the general economy, not including tuition fees. But the flow of students into the country came to an almost complete stop in April. Just 30 international students arrived or returned to Australia in April, down from 43,380 in April 2019. We're talking about thousands of people who are no longer living in certain suburbs simply because of the coronavirus.

The report, which uses data from the census and the Department of Home Affairs to calculate population numbers and spending by suburb, found students contributed $1.18 billion to the economy of Melbourne's CBD, $586 million in Carlton and $578 million in Clayton.

Peter Hurley, the report's author and policy fellow at the Mitchell Institute, said the steep drop in student numbers this year would deliver a heavy blow to local businesses, even after lockdown restrictions are lifted. "It's going to cause a huge shock," Mr Hurley said. "There is clearly economic activity associated with large numbers of people and if you remove them, that is going to have an effect on all the local businesses … we're talking about thousands of people who are no longer living in certain suburbs simply because of the coronavirus."

The report found student populations were clustered around Melbourne's major universities, but also scattered across the suburbs, with significant pockets in affordable areas such as **Braybrook, Laverton, Sunshine** and Springvale.

In summary, a much higher proportion of expected international students are here than is widely understood at 80 per cent. However, while this has supported international visitor nights in Melbourne's West, these students are spending much less given declines in employment opportunities. There has also been a severe impact on university finances already.

The bigger worry is that while borders remain closed, the problem of declining international student visitor nights and worsening university finances is set to escalate dramatically in the next two months and again next February.