



Image Credit: Sydney Airport

July 2011

Aviation Performance in NSW 2010/11

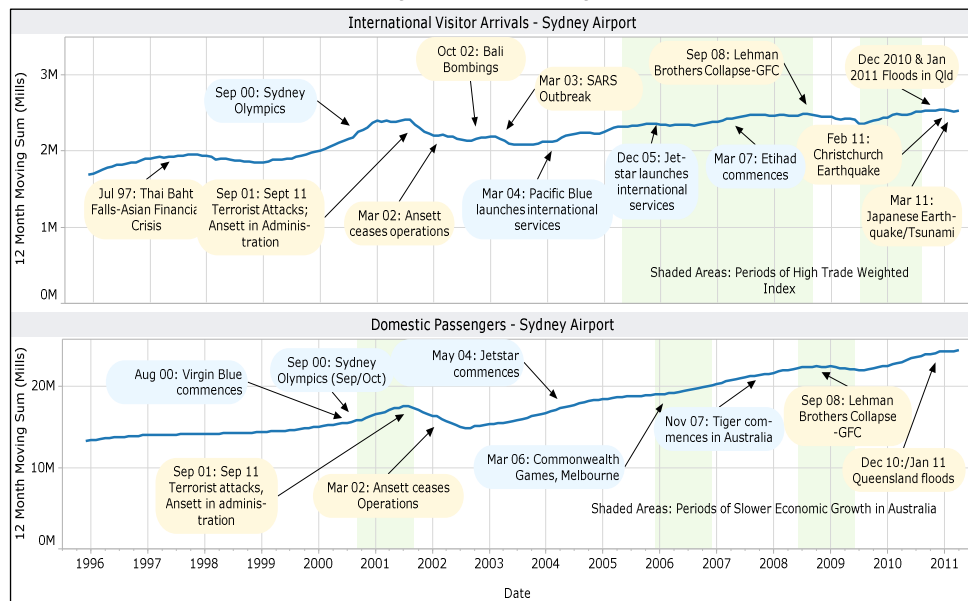
This report by Tourism Futures International (TFI) for Destination New South Wales reviews the Sydney and NSW aviation performance over 2010 and into 2011.

The Decade in Perspective

Figure 1 shows the international visitor arrivals and domestic passenger movements at Sydney Airport over the period from 1996 to early 2011. It also shows some of the key aviation and non-aviation events that have had an impact on worldwide and Australian air traffic.

The most significant impacts on international traffic have occurred as a result of the Asian Financial Crisis, September 11 terrorist attacks/Ansett collapse and the Global Financial Crisis (GFC). Recent events include the Christchurch earthquakes (from September 2010), Japan earthquake, tsunami and nuclear disasters (March 2011) and Australian floods (from December 2010).

Figure 1: Sydney Airport International Visitor Arrivals and Domestic Passengers January 1996 to February 2011



Source: TFI based on ABS, BITRE data.

The most significant impacts on domestic traffic have occurred as a result of the Ansett collapse in September 2001 and the period of slower economic growth in Australia associated with the GFC. The domestic passenger numbers at Sydney Airport recovered from the Ansett collapse benefiting from a strong Australian economy, the growth of Virgin Blue, and the entry and growth of Jetstar and Tiger Airlines. The negative impacts of the December 2010/January 2011 floods in Queensland are not yet fully reflected in the chart. Nor is the impact of the cessation of flying by Tiger Airways.

The Global Financial Crisis resulted in an unprecedented worldwide contraction of activity and trade, and the pace and uncertainty of recovery dominated the economic environment over 2008/09. By July 2009 the rate of decline in economic activity had moderated, with global production and trade seeing recovery in the second half of the year, driven largely by government policy stimulus. Recovery strengthened over 2010 with world economic growth reaching 5.0% during the full year, a stronger recovery than earlier projected. For the current year, 2012 global growth is projected to achieve 4.4%, but remains geographically uneven; just 2.4% growth is projected for the advanced economies compared with 6.5% growth in the emerging and developing economies, led by strong growth in China and India.

Latest Aviation Performance and Prospects

As a result of recent natural disasters the IMF has recently downgraded its 2011 forecasts for Japan, New Zealand and Australia. Australia is still expected to perform relatively strongly with economic growth forecast at 3.0% for 2011; flooding in key mining and agricultural regions is expected to subtract from growth in early 2011, but over the year this will be offset by stronger private investment in mining and stronger commodity exports.

On an overall cautionary note the IMF notes that downside risks continue to outweigh upside risks. Weak sovereign balance sheets, high commodity prices (notably for oil), and geopolitical uncertainty, as well as overheating and booming asset markets in emerging market economies are contributing downside risk factors.

Jet fuel prices have had a critical influence on airline and route decisions over the past five years. Prices, which fell from a peak of US\$166.48 per barrel in July 2008 to a low of US\$52.78 by February 2009, have been again increasing rapidly. Unrest across Egypt, Yemen, Bahrain, Jordan, Syria and Libya has been a contributing factor to this increase. The price of crude oil at US\$123.26 per barrel in April 2011 was just 7% below its previous high of US\$132.72 reached in July 2008. Airlines responded with increased fuel surcharges and fares, and with capacity adjustments. Oil price increases moderated in May and June 2011.

Sydney's Performance

International

Sydney is Australia's major gateway for international visitor arrivals. In 2010, Sydney secured a 43.0% share of total international arrivals to Australia; Melbourne and Brisbane accounted for 20.4% and 16.9%, respectively. Perth followed with a 9.6% share of international visitor arrivals.

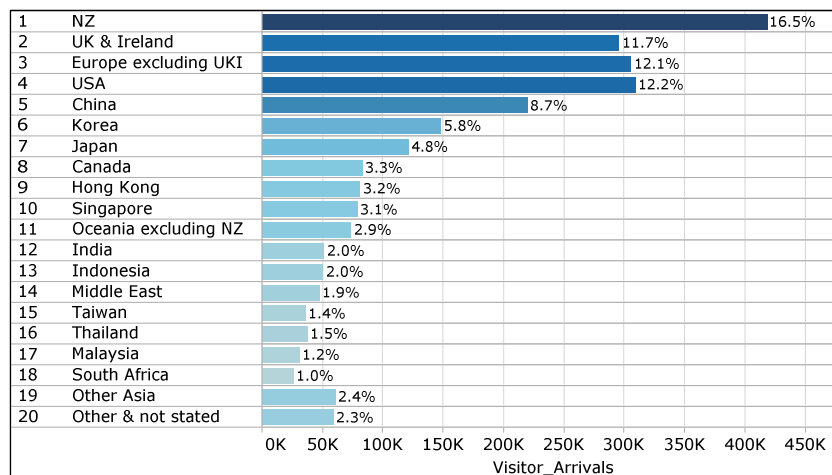
Over the 2000 to 2010 period overseas visitor arrivals to Sydney have increased at an average 0.7% per annum. This compares to an average annual 1.8% growth nationally, 5.3% growth to Melbourne, 0.7% to Brisbane and 2.5% to Perth.

China and India stand out as major growth markets for Sydney over the ten year period. Arrivals from China have grown by an average 10.7% per annum and arrivals from India have grown by an average annual 9.3% over this period. Arrivals from Vietnam have also been growing strongly, up more than three-fold since 2000, but with the increase over a low base, Vietnam still accounts for less than 1% of total visitor arrivals into Sydney.

In 2010 Sydney secured 42.6% of all holiday visitors to Australia, 40.4% of the visiting friends and relatives market and almost half of all business travellers. Sydney's 43.0% share of total international arrivals into Australia during 2010 is on par with recent years but is slightly below that achieved pre-2003.

Figure 2 shows the major country-contributors to visitor arrivals in Sydney during 2010. The top five market groups account for an aggregate 61% of all visitors.

Figure 2: Sydney Airport International Visitor Arrivals by Country of Residence, 2010 Arrival Numbers and Share of Sydney Total



Source: TFI based on ABS data.

Looking at the major ports of entry by market into Australia, over the past ten years visitor arrival growth from Sydney's top five country markets has been strongest:

- From NZ to Melbourne (4.2% average annual growth, compared with 3.6% nationally and 2.0% to Sydney).
- From UK and Ireland to Brisbane (4.8% cf 1.1% nationally and -0.3% to Sydney).
- From USA to Brisbane (9.3% cf -0.3% nationally and -1.2% to Sydney).
- From China to Melbourne (20.9% cf 14.2% nationally and 10.7% to Sydney).
- From Korea to Melbourne (16.3% cf 3.1% nationally and 2.1% to Sydney).

Note that for the USA and UK/Ireland the Brisbane increases are over relatively low bases. In addition, the Sydney decline for the USA partially reflects the high Olympic base year; over the eleven year period Sydney has seen a small 0.4% average annual growth from this market, but has not regained the high levels of the Olympic year. Visitor arrivals from the USA have been adversely affected by a series of events post-Olympics: the September 11 terrorist attacks of 2001; the relatively high value of the Australian dollar from the mid-2000s; and the GFC in 2008/09.

Visitor arrivals from the UK and Ireland have also been adversely affected by the increasing value of the Australian dollar. Arrivals from this market peaked in 2006 and have since recorded year-on-year declines.

Over the ten year period since 2000 Sydney's share of visitor arrivals from eleven of its top twelve countries has decreased. Most significantly there has been:

- A 17.8 percentage point drop in share of visitor arrivals from China.
- A 7.4 percentage point drop in share of visitor arrivals from Korea.
- A 6.5 percentage point drop in share of visitor arrivals from the UK and Ireland.
- A 6.2 percentage point drop in share of visitor arrivals from NZ.
- A 5.9 percentage point drop in share of visitor arrivals from the USA.

Sydney has gained share in visitor arrivals from Germany.

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

- Singapore: Perth 26.7% share, Sydney 25.6%, Melbourne 24.3%.
- Malaysia: Melbourne 39.0% share, Perth 25.7%, Sydney 13.1%.

The majority of Australian residents travelling overseas during 2010 departed from Sydney (40.5%), followed by Melbourne (23.2%), Brisbane (14.6%) and Perth (13.7%). Over the 2000 to 2010 period the number of Australian residents departing Sydney has increased at an average 5.4% per annum. This compares to an average annual 7.4% growth in resident departures nationally, 7.6% growth from Melbourne, 9.9% from Brisbane and 9.5% from Perth.

For departures out of Sydney over the 2000 to 2010 period, strongest growth has been in travel to Fiji, China and India. These destinations all recorded double digit average annual growth over this period, up 14.1%, 11.4% and 10.2% respectively. The destinations of Thailand and Vietnam have also recorded relatively strong average annual growth over this period, up 7.7% and 7.4% respectively.

Domestic

The 12 major Sydney interstate routes accounted for nearly 40% of total Australian interstate domestic passenger traffic in 2010. The top two routes, Sydney-Melbourne and Sydney-Brisbane, accounted for around 23% of all Australian domestic passengers.

The fastest growing Sydney interstate routes for 2010 were to/from Gold Coast (12.0%), Adelaide (11.6%), Melbourne (11.5%) and Perth (10.8%). Overall growth on the 11 major routes amounted to 8.4%.

Of the total seats available on the 12 major Sydney interstate routes the top two routes, Sydney-Melbourne and Sydney-Brisbane, accounted for 57%.

Issues

Traffic Outlook

Worldwide, international tourism recovered from the GFC more strongly during 2010 than had been initially expected, to end the year 2.4% up on the previous peak recorded in 2008. This growth confirmed a strong capacity for recovery from unexpected shocks such as was seen following the 1997/98 Asian financial and economic crisis, the 11 September 2001 attacks, and the 2003/04 SARS outbreak.

Views of international bodies indicate an ongoing recovery in international tourism for 2011, with emerging economies continuing to grow at a faster pace than advanced economies:

- The World Tourism Organisation is forecasting tourism growth for the full year 2011 at 4% to 5%, a slowing from the 6.6% recovery rate recorded during 2010, but still up on the long-term annual average of 4%. The WTO expects that while recent developments in North Africa and the Middle East and the events in Japan will affect the results of their respective regions, worldwide we are likely to see a temporary redistribution of traffic, together with an increase in intra-regional travel as opposed to interregional. By region, Asia and the Pacific is expected to continue to lead the growth.
- The Airports Council International (ACI) notes that the impact of natural disasters and political events slowed results for the first quarter of 2011; preliminary ACI figures show global international passenger traffic up by 4.6% compared to the same period 2010. The ACI reported extensive declines in passenger numbers in Tokyo (following the March earthquake and tsunami), in Egypt, Tunisia and Bahrain (following several months of political uncertainty) and in Greece (as a result of the ongoing economic crisis). In the Asia Pacific region preliminary international passenger growth of 6.1% was recorded during the March 2011 quarter.

- The International Air Transport Association (IATA) is forecasting a 4.2% increase in scheduled passenger numbers during 2011. At the same time IATA has downgraded its global air transport industry profit forecast for 2011 following a number of adverse demand and cost shocks to the airline industry, including: the earthquake and tsunami in Japan; turmoil in a number of Middle East/North African countries; and, higher fuel prices. Asia Pacific airlines, supported by strong regional growth, are expected to remain the most profitable.

Economic developments combined with the strength of the Australian dollar suggest that many of Australia's traditional visitor markets from Europe and North America will remain weak for some time. The stronger Asian economies are expected to continue to be major growth markets for Australia.

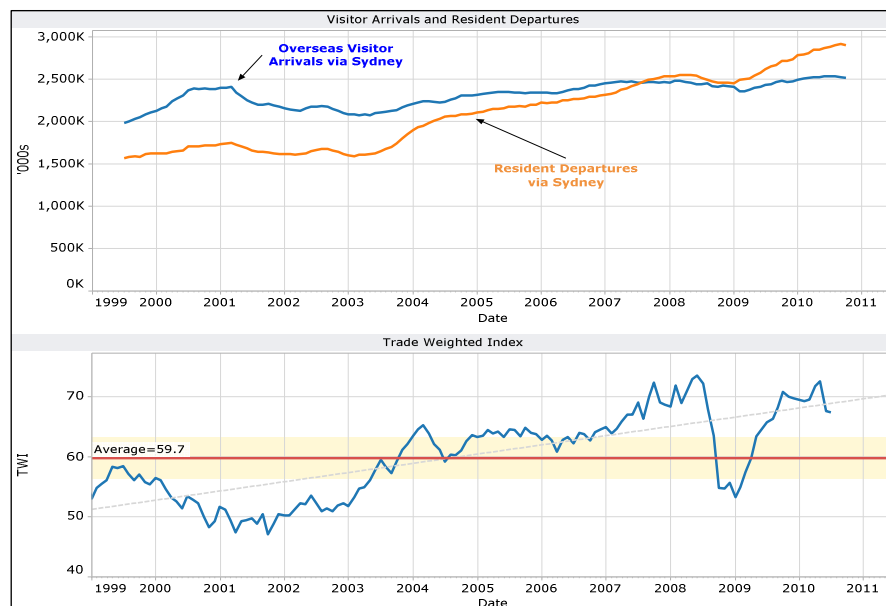
Figure 3 shows the number of Australian resident departures from, and visitor arrivals to, Sydney over the period 2000 to 2011. Also shown are the movements in Australia's Trade Weighted Index (TWI), a mix of currencies reflecting Australia's trade relationships. The impact of the growth in the Australian TWI has been to stimulate travel by Australian residents and, by making Australia less price-competitive, to discourage inbound travel.

Recent analysis on exchange rates indicates that the impact of exchange rates on international visitor demand varies by market; overall having more bearing on tourism expenditure than visitation. The greatest impact of the high Australian dollar on the Australian industry is the increasing number of Australians able to afford, and choosing, to travel overseas. Given domestic tourism accounts for around three quarters of the Australian tourism market, this represents a significant challenge for the industry.

In TFI's assessment the strongest period in terms of positive impact on Australians travelling abroad is when the index is above 60 which it has been for much of the period from 2004.

Recently released Tourism Forecasting Committee (May 2011) forecasts show a growth of 3.1% for visitor arrivals to Australia in 2011; a downward revision from the previous forecast due to rapidly escalating oil prices linked to political unrest in the Middle East, the continued slow pace of recovery in developed economies, and effects from the natural disaster in Japan. Forecast average growth through to 2015 amounts to 4.1% per year.

Figure 2: Sydney Airport International Visitor Arrivals by Country of Residence, 2010 Arrival Numbers and Share of Sydney Total



Source: TFI based on ABS, RBA data.

In contrast the TFC's 2011 forecast for Australian resident outbound departures has been upwardly revised, to 10.1%, driven by the continued high value of the Australian dollar and strong growth in aviation capacity to many key outbound markets including China, Indonesia and the USA. Forecast average growth through to 2015 amounts to 5.0% per year.

Trans Tasman – Route to New Zealand

New airlines have emerged on the Trans Tasman routes since 2003 and have captured 37.6% of passengers in 2010. One of them, Jetstar, is part of the Qantas Group and therefore represents a transfer within the Group. However the other two, Emirates and Pacific Blue have, between them, attracted 27% of passengers.

The impact of developments such as these has been to continue to drive down yields and promote continued alliance developments, the latest being between Air New Zealand and Virgin Australia.

Sydney has the largest share relative to the other airports of Trans Tasman seats offered by the Full Service Airlines (FSAs). As at February 2011 Sydney held 60% of Qantas' Trans Tasman seats and 44% of Air New Zealand's seats. Sydney holds smaller shares relative to other airports of seats offered by Jetstar and Pacific Blue.

Other International Issues

The Low Cost Carriers (LCCs) continue to grow their share of the Australian international market; in 2006 the Low Cost Carriers accounted for just 6.7% of international seats at Australian airports, by 2010 this share had grown to 18.7%. The Low Cost Carriers have less than 10% of seats at Sydney compared to 15% at Melbourne, 29% at Perth and 20% at Brisbane. A significant part of the explanation for the low share at Sydney is the number of Full Service Airlines operating to Sydney. AirAsia X continues to seek access to Sydney.

The Middle Eastern airlines also continue to grow their share of the market and have huge aircraft orders. Almost half of total A380 orders to date are for the Middle Eastern carriers. These airlines offer significant hub alternatives to Asia for Australian/European travel. The strength of Qantas and the Full Service Airlines from Asia provide strong competition for the Middle Eastern airlines in Sydney.

New air services agreements increased available seats on routes between Australia and China from 8,500 seats weekly at the beginning of 2010 to 18,500 by March 2011 and will further increase to 22,500 seats from February 2012. Increases in air capacity helped drive the 24% increase in arrivals from China to Sydney during 2010. In January 2011 a fourth Chinese carrier, Hainan Airlines, entered the China/Sydney route.

The development of the new Boeing B787 aircraft has suffered a number of significant delays. Originally Boeing planned the new aircraft to enter service in May 2008, but Boeing's latest announcement (January 2011) is that it expects first delivery in the third quarter of this year. Qantas originally anticipated its first delivery in July 2009, but this has now been pushed back to late-2012. The delays have slowed capacity increases and required the airlines to keep older less fuel efficient aircraft or to lease an alternative aircraft such as the A330. However while airlines could have benefited from the projected fuel efficiency of the B787s during the periods of high oil prices and during the GFC, having fewer aircraft was a benefit, and with fuel prices high again airlines may again be reducing capacity.

Domestic Routes

There are significant airline developments occurring domestically:

- The Virgin Group's short-haul market has been re-focused onto key higher yielding markets, such as transcontinental routes. The domestic product is being pitched towards corporate travellers. The A330s now operating between Sydney and Perth are the first aircraft to offer Business Class on the Virgin domestic network.
- Qantas has also made a number of key changes to services between the eastern states and Perth, increasing capacity and deploying internationally configured wide-body aircraft on the routes, including B747-400s and A330-200s.

- The Qantas Group continues to grow its Low cost Carrier brand. Jetstar, having commenced operations in May 2004 has grown to represent 29% of the Qantas Group's national domestic seat capacity. While growing its leisure-oriented routes Jetstar now also provides services on some of the major business routes such as Sydney to Melbourne/Tullamarine, Brisbane and Perth. Qantas and Jetstar jointly operate on over 20 routes across Australia.
- Qantas Group domestic growth capacity plans have been downgraded twice into 2011 in response to high jet fuel prices and a series of natural disasters; down from 14% to 8% for the second half of 2010/11, and from 8% to 5.5% for 2011/12.
- Tiger Airways Australia is also keeping its capacity tight. The airline recently announced that it would be focusing on becoming profitable in Australia rather than on growth. Route suspensions from August 2011 include services from Sydney to Brisbane, to the Sunshine Coast and to Adelaide. Note that at the time of writing all Tiger domestic flights have been suspended until 31st July 2011 while the Civil Aviation Safety Authority of Australia (CASA) conducts investigations into two recent operational incidents.

In 2010, passenger numbers on the regional routes to/from Sydney Airport were 5.5% above the level achieved in 2009; the average annual growth over the past five years has been 4.5%.

Of the 25 NSW intrastate routes to/from Sydney Airport for which data is provided by the NSW Department of Transport just six have more than one airline serving the route. Over the past five years growth has been strongest on the Port Macquarie and Albury routes, recording compound annual growth rates (CAGR) of 16.3% and 11.3% respectively. The CAGR for the other four routes has been a lower 5.9% for Wagga Wagga, 3.7% for Dubbo, 3.2% for Ballina and just 0.6% for Coffs Harbour.

Western Australia and Queensland have been the recipients of recent regional airline capacity increases, meeting demand from regional communities and industries including the fly-in fly-out resource sector market. The Qantas Group has recently purchased the Western Australian resources charter airline Network Aviation. The Virgin Group and Perth-based SkyWest Airlines have signed a 10-year strategic alliance to service regional Australia.

This report is a summary of a more detailed performance report produced for Destination NSW by Tourism Future International: www.tourismfutures.net