

TRADE AND INVESTMENT NOTE

OUR SECOND LARGEST EXPORT EARNER: INTRODUCING AUSTRALIA'S VISITOR ECONOMY

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Australian Government
Australian Trade Commission



Executive summary

- The services sector accounts for the vast majority of Australian output and employment. In export terms, however, services comprised almost 20 per cent (or \$63 billion) of gross exports in 2014-15 (of \$319 billion).
- Australia's two largest services export sectors, tourism and international education, have similar attributes and overlapping components, which can make precise measurement of their individual contribution to total exports difficult to quantify.
- According to the Australian Bureau of Statistics (ABS) *Balance of Payments and Investment Position* (BoP), international education exports grew 14.5 per cent to \$18.2 billion in 2014-15. The tourism-specific ABS measure, the *Tourism Satellite Account* (TSA), reported that tourism exports grew 9.0 per cent to \$30.7 billion in the same year.
- Strong growth in the value of exports for both sectors was underpinned by strong volumes growth. International arrivals grew by 6.6 per cent to 7.1 million visitors in 2014-15. For international education, there were almost half a million (498,200) international students studying in Australia on a student visa in 2015, up ten per cent.
- There is a strong case for analysing the economics of, and outlook for, a *tourism-international education* Visitor Economy. An Austrade-developed composite measure shows that Visitor Economy exports were worth \$41.1 billion in 2014-15. This means that the Visitor Economy is now Australia's second largest export earner ahead of coal, which was worth \$38.0 billion in 2014-15.
- At \$41.1 billion Australia's 'Visitor Economy' represents almost two thirds (65 per cent) of all services exports and 13 per cent of total Australian exports. With both the education and tourism sectors expected to grow at a rate of between four and five per cent over the next decade, the 'Visitor Economy' will continue to be a key driving force in Australia's economic agenda.

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Economics

Austrade has made reasonable efforts to confirm the accuracy of the information contained in this paper. However, it has relied on external sources and cannot guarantee the accuracy of that information. Readers should not rely on the information provided and should make their own inquiries when making trade and investment decisions.

Most of the data cited in the report refer to financial year 2014-15.

The 'Data Map' at **Attachment A** provides data for financial year 2014-15 and calendar year 2015.

Monetary values are presented in Australian dollars.

Further information: Other sources are cited in the footnotes accompanying the main text.

Our second largest export earner: Introducing Australia’s Visitor Economy

The services sector is an important part of the Australian economy, accounting for the vast majority of Australian output and employment. In terms of exports, however, services, at least when conventionally measured, comprise a more modest share – almost 20 per cent (or \$62.8 billion) of gross exports in 2014-15 (of \$318.7 billion).¹ Still, recent years have seen stronger growth in exports of services which has seen their share in total exports increase by more than three percentage points from a low of just 16.2 per cent in 2011-12.

Australian services exports are dominated by tourism and international education. While tourism and international education are commonly seen, and referred to, as ‘industries’ they are actually *aggregates* of formally defined industries engaged in the economic activity of supplying particular goods or services. As a result, tourism and international education are defined by the type of transaction involved. Here, a transaction may be easily identified but it must be with a particular type of consumer involved – the ‘visitor’ which is either a tourist or international student.²

Travel services and the Visitor Economy

Australia’s exports of services are dominated by exports of travel services, and especially by tourism and education services. Official Balance of Payments (BoP) statistics published by the Australian Bureau of Statistics (ABS) allocated \$39.7 billion to tourism-related exports for which \$18.2 billion is allocated to education exports in 2014-15.

Table 1: Balance of Payments sourced trade in goods and services, 2013-14 to 2014-15

Category	2013-14 (A\$bn)	2014-15 (A\$bn)	Annual change (per cent)
Total exports	331.2	318.7	-3.8
Goods exports	273.9	256.0	-6.5
Services exports	57.4	62.8	9.4
Travel-related services, comprising	36.3	39.7	9.7
- <i>Passenger transport</i>	2.4	2.4	2.3
- <i>Business travel</i>	4.1	4.4	6.6
- <i>Education-related personal travel</i>	15.9	18.2	14.5
- <i>Other personal travel</i>	13.9	14.8	6.4

Source: ABS International Trade in Goods and Services, Australia (ABS Cat No 5368.0)

Note: Sum may not add due to rounding

¹ It’s generally accepted that official trade statistics underestimate the actual amount of services produced and sold internationally by Australian businesses due to two main reasons: firstly, since many services are not traded directly, but instead are inputs into products that are subsequently exported, data based on gross trade flows tend to underestimate their real contribution compared to trade data that has been compiled on a value-added basis; second, the ABS’s balance of payments statistics do not capture services provided by Australian companies that have created a commercial presence abroad in the form of a foreign affiliate or subsidiary.

² Additional to tourism and international education, Australia’s Visitor Economy has the potential to include a range of services related industries such as health and professional services such as engineering, financial services, legal and accounting services, architecture, and management consulting.

The overall importance of tourism-related exports to the Australian economy go beyond the numbers captured in the BoP. An alternative and official estimate based on internationally recognised standards, the ABS Tourism Satellite Account (TSA), reported that in 2014-15 tourism exports increased by 9.0 per cent to \$30.7 billion. These include tourism-related education services worth about \$4.3 billion.³

Recent growth in the value of these exports has been underpinned by both volume and price growth with both tourism and international education numbers experiencing strong trajectory growth. In 2014-15, international tourism grew by 6.6 per cent to 7.1 million visitors while there were almost half a million (498,200) international students studying in Australia on a student visa in 2015, up ten per cent on 2014.⁴

Table 2: Tourism and international education volumes, year-end

Category	Number (millions)	Annual change (per cent)
Short-term visitor arrivals	7.1	6.6
International students (on a student visa)	0.5	10.0
International students (enrolments)	0.6	9.4
International students (commencements)	0.4	6.7

Source: Derived by Austrade using DET and ABS data

Notes: 1) Sum may not add due to rounding; 2) The period(s) for short-term visitor arrivals is 2014-15 and 2015 for international students.

In our view, there are significant similarities between the tourism and education components of exports of travel services, and between international tourism and international education more generally. Separate to the abovementioned strong growth, other similarities include sensitivities to demand drivers beyond just price and income with each facing strong competitive pressures globally with business models for supply rapidly transforming with technology playing a key role to attract the consumer. In this paper we therefore argue that these two sectors can usefully be brought together and analysed as the Visitor Economy.⁵

On this basis, the Visitor Economy is not only Australia's largest services export, but also our second largest export earner overall. As such, we judge that there is a strong case for analysing the economics of, and outlook for, the Visitor Economy. However, for such analysis to be useful, we first have to have an accurate measure of just how large the Visitor Economy is. And unfortunately, producing that measure is not as straightforward as simply adding the two sub-components together.

³ Tourism comprises a range of sectors with the main being business, leisure (holiday and visiting friends and relatives), and education.

⁴ Other volume measures of international education, enrolments and commencements, show growth of 9.4 per cent and 6.7 per cent, respectively. The following chapters, *Defining the Visitor Economy* and *Measuring the Visitor Economy* will provide further detail on the definition of the Visitor Economy and its various measures.

⁵ We will provide a more detailed analysis of the case for combining international tourism and international education in a forthcoming paper, *Australia's Visitor Economy 1.0*.

The overlap between measuring tourism and education exports

When it comes to valuing and ranking the individual components of Australia's international Visitor Economy, that is international tourism relative to international education, some confusion exists and requires clarification. Partially, the confusion is driven by both sectors being supported by significant data resources that are not currently fully utilised.

In addition, while a range of economic (output, employment) and non-economic (arrivals, students) data are easily identified, ranking the value of exports for these two sectors can be problematic. This is due to sectoral overlap with tourism being short-term and international education having both short- and long-term components.

This same overlap also means that estimates of the overall size of the Visitor Economy need to be constructed in such a way that they avoid any double-counting.

For example using current definitions sourced from the internationally-recognised ABS national accounts framework, international tourism could be defined as Australia's largest export services sector (generating exports of \$30.7 billion in 2014-15). Here the TSA measures the direct contribution of tourism to the economy via demand-orientated statistics (visitor arrivals and expenditure) and the supply of tourism products to those visitors by domestic producers. A recent revision in [TSA methodology](#) resulted in international education exports increasing (to \$4.3 billion).⁶

On the other hand, according to the BoP, onshore international education generated \$18.2 billion in 2014-15 in exports with living costs of \$9.5 billion and fees of \$8.5 billion.⁷ The ABS also reports that other personal travel and business travel generated \$14.8 billion and \$4.4 billion in exports, respectively. So according to the BoP, it is exports of education-related travel services that are our largest services export.

Which value should we use, when, and why? While both the BoP and TSA are 'correct', the main difference lies with a visitors' time spent in Australia: the TSA reports tourism exports by products consumed by international *visitors* (that is, by those whose stay is for 12 months or less). While the TSA is an official ABS collection, it is not a foundation whole-of-economy collection that allows like-with-like comparisons with other exports (such as iron ore, coal, and agriculture).

When evaluating education exports in the BoP, education is considered to be a product rather than an industry. In 2014–15, Education-related travel services were worth \$18.2 billion or 97 per cent of the total value of education exports. The balance of education exports comprised services through educational institutions (\$341 million), Consultancy services (\$137 million), Other educational services (\$77 million), Royalties on education services (\$37 million), and Correspondence courses (\$13 million).

In order to address some of the differences occurring in data reporting, Austrade has developed a 'Data Map'.⁸ The Data Map allows quick reference of core sectoral and industry statistics for also indicating collection uses and limitations, release frequency, and agency ownership.

Refer Attachment A.

⁶ The upward revision to international education services exports of 36 per cent (from \$2.8 billion to \$3.9 billion, an increase of \$1.1 billion) was driven by changes in the ratio of short-term to long-term students in all education visa classes with the ABS reviewing this item and incorporating updated detailed net overseas migration data. Additionally, the ABS undertook detailed work to update visa fees paid by international student visitors with working/holiday, visitor or New Zealand citizen visas.

⁷ The ABS also attribute \$233 million to Ausaid/Defence. Refer ABS Cat No. 5368.0.55.003

⁸ Developed in conjunction with the Department of Foreign Affairs and Trade and the Department of Education and Training.

An alternative approach to valuing Australia's Visitor Economy

In order to measure Australia's Visitor Economy in a more accurate and consistent manner, Austrade has developed an indicator that combines TSA and BoP-reported Visitor Economy exports. The estimate provides a more accurate estimate of tourism and education exports by:

1. itemising individual TSA and BoP items;
2. removing any double counting generated in various statistical collections for either tourism or education; and
3. aggregating non-overlapping line items derived from both collections.

Table 3: Breakdown of contribution of tourism exports in education and other components

Expenditure/ export Items	VE Composite Indicator (A\$mil), 2014-15	Annual growth (%)	Source (refer source notes)
Education short duration (<12 mths)	7,547	16	IVS
- Fees	4,258	11	TSA
- Other expenses	3,289	23	(Derived: IVS, TSA)
Tourism exports	30,714	9	TSA
Education long duration (>12 mths)	10,392	14	(Derived)
- Fees	4,230	16	(Derived: BoP, TSA)
- Other expenses	6,162	12	(Derived: BoP, TSA)
Education total	17,939	15	BoP
- Fees	8,488	13	BoP
- Other expenses	9,451	16	BoP
Passenger travel	2,442	2	BoP
Business travel	4,361	7	BoP
Other personal travel	14,760	6	BoP
Gross total	48,653	11.1	Derived: TSA + BoP
Visitor Economy total	41,106	10.2	Derived: long-term education + TSA)
Education (tourism component)	7,547	16	Derived using IVS
Education (non-tourism component)	10,392	14	Derived
Tourism (non-education)	23,167	7	Derived: TSA – short-term education

Sources: Derived by Austrade using:

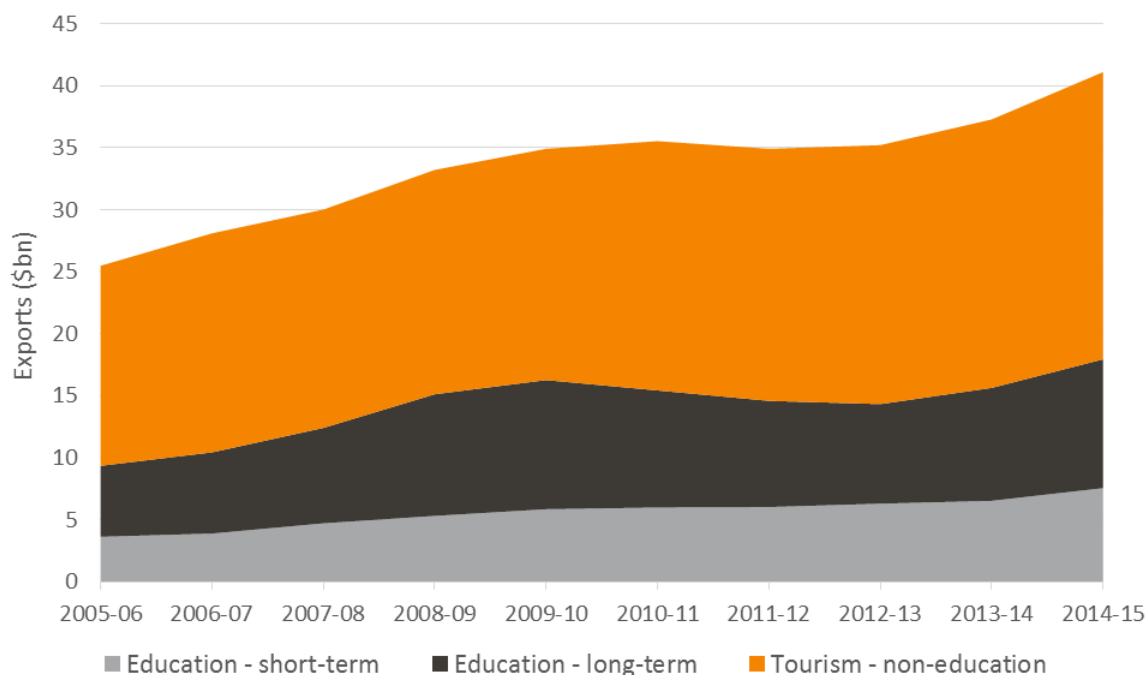
- i) International Visitors in Australia – June 2015 Quarterly Results of the International Visitor Survey, Tourism Research Australia, Canberra
- ii) Australian Tourism Satellite Account, 2014-15 (ABS Cat No. 5249.0)
- iii) Balance of Payments and International Investment Position, 2014-15 (ABS Cat. No. 5302.0)

Note: Sum may not add due to rounding

Note: The ABS has broadly endorsed Austrade's Visitor Economy methodology

Using this methodology Austrade estimates combined (net) exports from what we call the 'Visitor Economy' that is, exports associated with international tourism and international education were worth about \$41.1 billion in 2014-15. This compares to a gross aggregate of \$48.7 billion if sectoral overlaps were not properly accounted for. Importantly, the Visitor Economy represents almost two-thirds (65 per cent) of all services exports and 13 per cent of total Australian exports. As such, Australia's Visitor Economy is Australia's second largest export earner ahead of coal (\$38.0 billion in 2014-15). This makes the 'Visitor Economy' a key force in Australia's economic diplomacy and in our overall economic performance.

Figure 1: Visitor Economy exports by sector, 2005-06 to 2014-15



Source: Derived by Austrade

The impact of external forces on Australia’s Visitor Economy

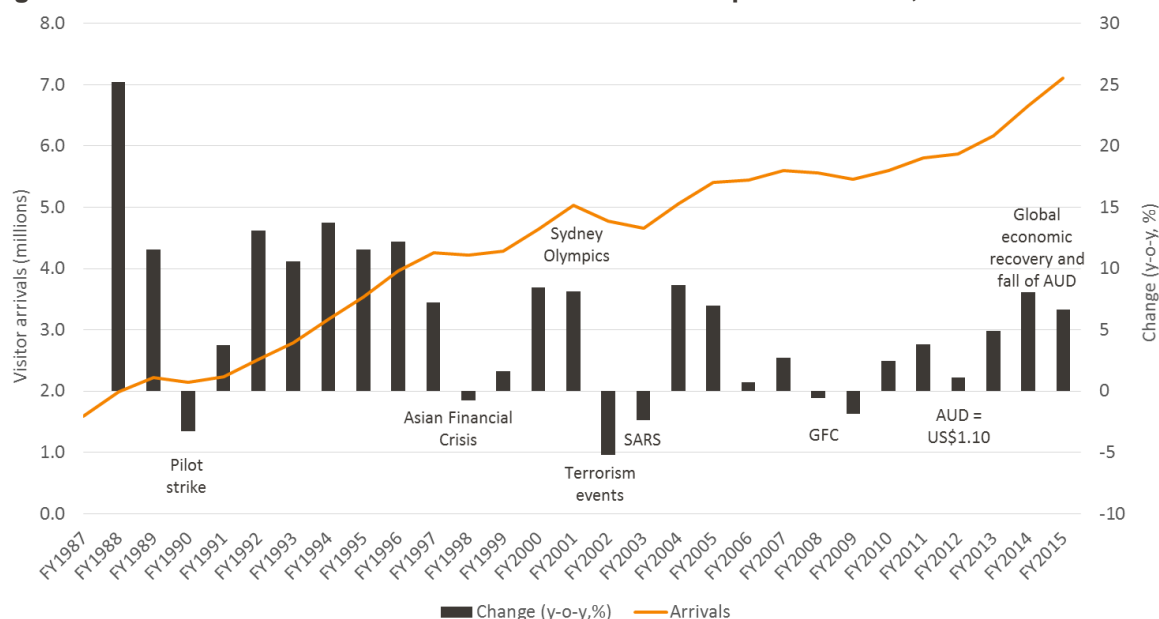
We expect that services will play an even greater role in Australian exports in coming years with key drivers already in place.⁹ Driving factors include a [readjustment of the Australian dollar](#), our proximity to Asia and the growing Asian middle class, the quality of our services sectors, and strong economic and cultural relationships. Moreover, with the Australian economy having to evolve after the mining investment boom, new drivers for economic growth are required if the economy is going to grow at a rate consistent with trend and support employment.

While it is expected that Australia will continue to benefit from resources in coming years through high-quality mineral deposits it is also anticipated that that these benefits will not accrue at the same rate relative to previous decades.¹⁰ That shift increases the relative importance of a successful Visitor Economy export story. Granted, growth in Visitor Economy exports can be volatile and highly affected by exogenous factors such as income, price, terrorism, or medical health and we do not expect sensitivities to such events will moderate. But despite this volatility, we judge that the Visitor Economy will remain a critical driver of Australia’s export performance.

⁹ The sectors that make up the Visitor Economy are often seen as an important source of future growth. For example, in its *Positioning for Prosperity* report, Deloitte’s analysts identify the Fantastic Five –agribusiness, gas, tourism, international education, and wealth management – as sectors that will provide the necessary support for future Australian growth. Globally, these five sectors, for which Australia has a comparative advantage of at least 50 per cent greater than the national average, are each expected to grow by more than 10 per cent that of global gross domestic product. Furthermore, the growth from these sectors is expected to collectively contribute an additional \$25 billion in GDP – or 1 per cent – for an economy worth \$2.6 trillion (in 2013 dollars). Refer the Deloitte report [Positioning for prosperity](#)

¹⁰ For example, in its latest *Business Outlook*, Deloitte Access Economics expects that growth in mining output will be one percentage point lower than the previous decade (5.1 per cent compared to 6.1 per cent). Additionally, growth recognising significant capital investment in recent year’s growth in employment will mirror population growth (of around 1 per cent). Refer [Deloitte Access Economics](#)

Figure 2: Growth in international visitor arrivals and the impact of events, 1986-87 to 2014-15



Source: ABS Overseas Arrivals and Departures 2015 (ABS Cat No 3401.0)

Still, over the next decade, volumes are expected to increase at a solid rate: international education is forecast to increase annually by 4.3 per cent while tourism is projected to enjoy a marginally lower growth rate at 4.1 per cent.¹¹ And such growth will have important spillover effects into the broader economy. For example, tourism and international education are relatively mature sectors and have significant linkages to other areas of the economy (as demonstrated by multipliers of approximately 1.90 for both international education and international tourism).

Defining the Visitor Economy in detail

In our view, the current and prospective importance of Australia’s Visitor Economy warrants a broader examination of the concept. It is timely to assess and provide options for constructing a Visitor Economy strategy that underpins future services sector growth and one that is broader than just tourism, and one that ensures the potential of both tourism and international education are maximised.¹²

¹¹ Forecasts for international education are derived from Austrade-internal sources.

Tourism forecasts are derived from Tourism Research Australia’s [Tourism Forecasts 2015](#)

¹² Tourism and international education have both complimentary economic attributes (such as income, price, quality, aspiration) and complimentary ‘blocker and enabler’ risks and opportunities (stakeholder management and policy control and investment). Additionally, Austrade’s Tourism Division and International Education Division are responsible for active long-term policies – *Tourism 2020* and *Australian International Education 2025*.

Gaining a better understanding of the scale, drivers and economic impact of Australia's Visitor Economy is consistent with national objectives and relates to increasing current and future trade opportunities. It builds on work undertaken by the Austrade Economics Team, notably the [Australia's exports of services](#) primer, and develops knowledge relating to the services sector. Further analysis will consist of a series of papers focusing on the following areas:

1. *Australia's Visitor Economy 1.0* (comprising two sections) – in detail, these define the composition of Australia's broader Visitor Economy.
2. *Visitor Economy Economics* discusses linkages within the visitor economy and other parts of the economy as well as drawing on detailed economic modelling.
3. *An Overview of Visitor Economy Strategies* drawn from a selection of tourism and international education strategies.
4. *The Outlook for Australia's Visitor Economy* drawing on official forecasts (tourism) and internal projections (international education).

Data Map: Core data for assessing Australia's Visitor Economy

Main sector	Measure	Indicator	Value	Annual change (%)	Contribution to the economy	Reference period / Frequency	Source(s)
Tourism	International visitors (all ages)	Visitor arrivals	7.6 million	Up 9.0%	N/a	Year ending February-2016 Monthly	ABS Overseas Arrivals and Departures
Tourism	Tourism output (GDP)	Tourism GDP	\$47.5 billion	Up 5.3%	3.0% to the Australian economy	Financial year 2014-15 Annual	ABS Tourism Satellite Account
Tourism	Tourism output (GVA)	Tourism gross value added	\$43.4 billion	Up 5.2%	2.9% to the Australian economy	Financial year 2014-15 Annual	ABS Tourism Satellite Account
Tourism	Tourism employment	Tourism employment	580,800 jobs	Up 6.3%	5.0% to Australia's labour force	Financial year 2014-15 Annual	ABS Tourism Satellite Account
Tourism	Tourism-specific exports	Tourism exports	\$30.7 billion	Up 9.0%	9.6% of Australia's exports	Financial year 2014-15 Annual	ABS Tourism Satellite Account

Tourism	Visitor expenditure	Tourism-specific expenditure	\$113.5 billion total	Total up 10%	N/a – volumes estimate	Year ending Dec 2015	TRA International Visitor Survey	
			Spend by international visitors \$36.6 billion	International up 18%	N/a – volumes estimate	Quarterly	TRA International Visitor Survey	
			Spend by Domestic visitors \$76.9 billion	Domestic up 6.2%	N/a – volumes estimate	Quarterly	TRA National Visitor Survey	
Tourism	Visitor nights	Nights stayed by international tourists	248 million	Up 11%	N/a – volumes estimate	Year ending Dec 2015	TRA International Visitor Survey	
		Nights stayed by domestic tourists	322 million	Up 4.2%			Quarterly	TRA National Visitor Survey TRA National Visitor Survey
Tourism	Visitors	International visitors	6.9 million	Up 8%	N/a- volumes estimate	Year ending Dec 2015 Quarterly	TRA International Visitor Survey	
		Domestic overnight visitors	87.1 million	Up 6.9%			Quarterly	TRA National Visitor Survey
		Domestic Day trips	180 million	Up 9.3%			Quarterly	TRA National Visitor Survey
Tourism.	Tourist Accommodation	Supply of, and demand for, short-term tourist accommodation (incl. no. of establishments, room supply, rooms demanded, occupancy, takings, yield).	1) 4,464 hotels;2) 248,5730 rooms; 3) 64.9% occupancy; 4) 58.4 million rooms nights occupied; 5) \$10 billion takings; 6) \$111 yield per room	1) Down 0.4%; 2) Up 0.4%; 3) Up 0.5ppts 4) Up 0.9%; 5) Up 3.2%; 6) Up 3.1%.	N/a – volumes estimate	2014-15 Release TBC	ABS Survey of Tourist Accommodation	

International education	Student activity	International students	498,155	Up 10.0%	N/a – volumes estimate	Year ending 2015 Annual	Department of Education / Austrade
		Enrolments	645,185	Up 9.4%		Year ending 2015 Monthly	
		Commencements	377,973	Up 6.7%		Year ending 2015 Monthly	
International education	Education exports	Total Education services exports	\$19.4 billion	Up 9.8%	6.1% of Australia's exports	Year ending Dec 2015 Quarterly	ABS Balance of Payments Quarterly International Trade in Goods and Services
Travel related exports (1)	Personal travel exports	Other personal travel exports	\$15.9 billion	Up 12.4%	5.0% of Australia's exports	Year ending Dec 2015 Quarterly	ABS Balance of Payments ABS International Trade in Goods and Services
	Business exports	Business travel-specific exports	\$4.4 billion	Up 5.2%	1.4% of Australia's exports	Year ending Dec 2015 Quarterly	
	Education-related travel exports	Education travel - specific exports	\$18.8 billion	Up 10.4%	5.9% of total exports	Year ending Dec 2015 Quarterly	
Visitor Economy exports	Tourism and Education exports	N/a	\$41.1 billion	Up 10.2%	12.9% of Australia's exports	Financial year 2014-15 Annual	Derived by Austrade (methodology broadly endorsed by ABS)

Visas	Work and holiday maker visa	Working Holiday (subclass 417)	214,830	Down 6.3%	N/a – volumes estimate	Financial year 2014-15	DIBP WHM Visa Programme Report
		First Working Holiday (subclass 417)	173,491	Down 5.4%			
		Second Working Holiday (subclass 417)	41,339	Down 10.0%			
		Work and Holiday (subclass 462)	11,982	Up 17.3%			
		WHM Total	226,812	Down 5.3%			
		Student Visa Grants	297,478	Down -2%			
		Student Visa Lodgements	337,550	Up 2%			

(1) Travel is a broad concept which encompasses the activity of travellers and includes commuting to a place of work, migration and travel for business or leisure. A traveller is defined as: '...someone who moves between different geographic locations, for any purpose and any duration.'