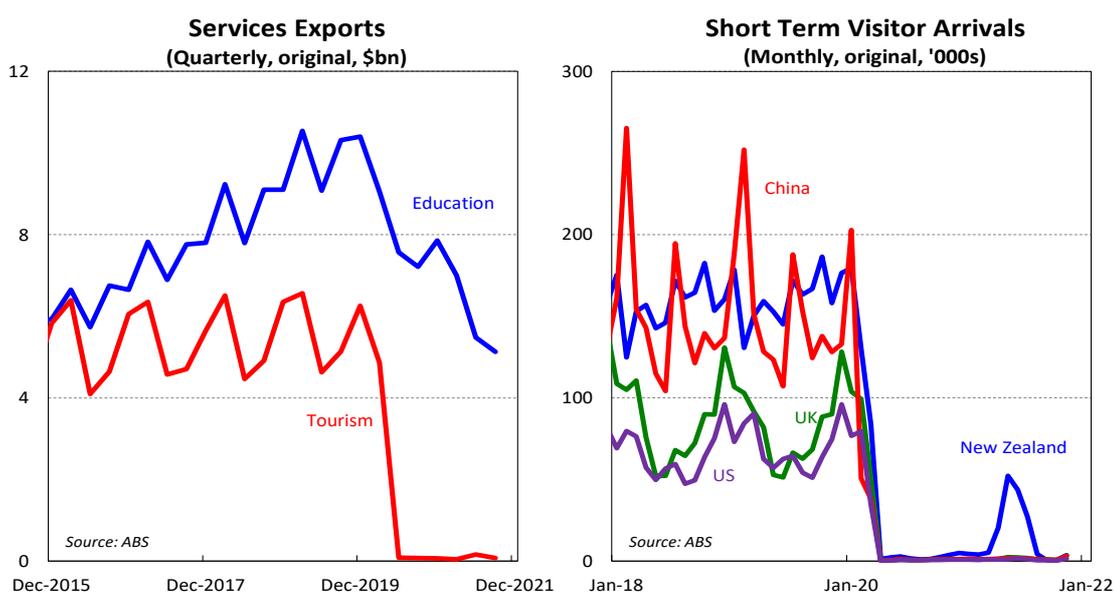


International Borders Reopening

Tourism, Education Eagerly Await Arrivals

- The international border closure had huge ramifications for sectors reliant on international visitors, in particular tourism and education. But at last, a gradual reopening is underway. So, what does this mean for these sectors?
- Prior to the pandemic, education and tourism were Australia's fourth and fifth largest exports, contributing around \$63 billion to the economy in 2019. Notably, Chinese tourism exports increased by over 300% in the decade to 2019.
- International short-term arrivals fell by over 99% in April 2020 when borders closed. Unsurprisingly, tourism exports collapsed to close to zero in the June quarter of 2020. The education sector also suffered because of the sharp fall in international student numbers.
- Fully vaccinated citizens and residents can now return without quarantining on arrival. From 15 December, the border opened for fully vaccinated visa holders, including skilled migrants, international students, humanitarian visa holders and working holiday makers.
- The Australian economy is set for a solid recovery in the year ahead, although the emergence of Omicron presents a downside risk. International travel in the COVID-world, at least in the near-term, will be more costly and complicated. And so, it is likely that tourism and education will continue to feel the lingering effects of the pandemic for some time yet.



Australia's international borders have reopened almost two years after they slammed shut. While some restrictions remain, they have been considerably relaxed.

As Australia's vaccination rates have increased, Australian residents have been able to return to the country without needing to quarantine. Now, international borders have opened further, with fully-vaccinated visa holders no longer required to secure an exemption to enter. This includes skilled migrants, international students, humanitarians and working holiday maker.

The border closures have had huge ramifications for sectors reliant on international visitors, in particular tourism and education. So, what does the gradual return of international travel mean for these sectors?

Before the pandemic

Let us take a step back and examine the state of affairs before the pandemic wreaked havoc.

In 2019, an average of 26,000 international visitors arrived in Australia every day for leisure, study or work. The majority went to NSW, Victoria or Queensland. Students and tourists account for most visitor spending. In fact, prior to the pandemic, education and tourism were Australia's fourth and fifth largest exports. The sectors grew rapidly over decade in the lead up to the pandemic supported by a range of factors. This included rising household incomes in Asia, and lower airfares which made Australia more accessible to tourists and students.

In 2019, international education contributed around \$40 billion to the education sector, or 2% of GDP. This largely captures international students' tuition fees and living expenses while studying in Australia. International students are an important source of funding for the Australian education sector. China is the largest source of education exports, followed by India and several other Asian countries. Reserve Bank liaison suggests that tertiary study in Australia is attractive to Chinese students, as they have a desire to obtain qualifications in English from reputable institutions.

In 2019, tourism contributed around \$23 billion to the economy. Notably, Chinese tourism exports grew by over 300% in the decade to end 2019. In the past decade, China has overtaken New Zealand and the United Kingdom to become the largest source of international tourism spending.

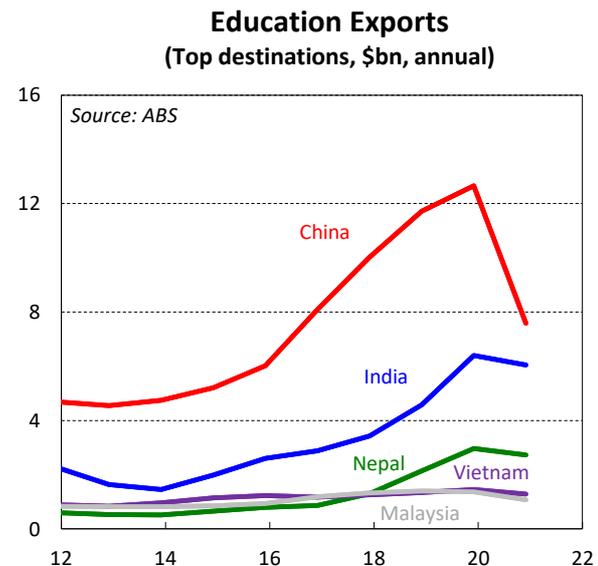
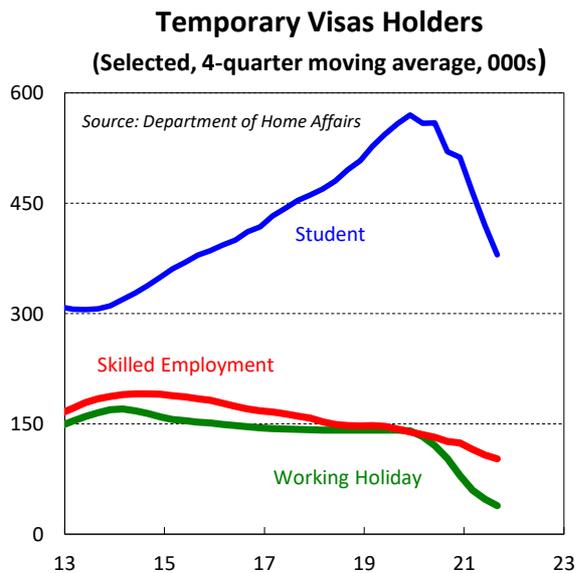
In the lead up to the pandemic, the tourism sector was already facing challenges as a result of the worst bushfire season on record. The bushfires in late 2019 and early 2020 devastated many regional communities, and disrupted tourism during the usually busy summer holiday period.

Major disruptions

As the virus took hold, Australia's international borders slammed shut in March 2020. Short-term arrivals effectively fell to zero.

The education sector has suffered as international student numbers have fallen steadily. Some students returned home and were unable to re-enter the country, and student visa applications dropped sharply. In September this year, international student visa numbers were more than 30% below pre-pandemic levels.

As a result, education exports have declined considerably, and in the September quarter were still around 50% below their pre-pandemic level. Education exports have not collapsed to zero, unlike tourism exports, because many international students chose to remain in Australia. The education sector has also offered some services remotely.



It has been a particularly challenging period for the tourism sector. With leisure travel off the cards, tourism exports have been basically zero since international borders shut. This had a large and immediate impact on many Australian businesses and their workers. There was a collapse in demand for businesses reliant on international travellers, such as airlines, hotels and experience providers. Many of these businesses stood down staff and postponed non-essential spending.

More generally, the closure of international borders has contributed to labour shortages, particularly for industries which rely on international workers. The number of temporary visa holders with working rights fell by more than 300,000 between March 2020 and September this year. Employers in hospitality, agriculture, construction and IT have faced particular difficulties. The shortages have contributed to wage pressures in pockets of the economy, although more broadly wages growth remains modest with 2.2% annual growth in the September quarter.

There's no place like home

The flip side of the international border closure is that some Australians have substituted international holidays with domestic ones. However, we tend to spend less in Australia than foreign travellers do, and total domestic travel spending is still down since the pandemic hit. This is due to domestic travel also being hampered by interstate border restrictions and snap lockdowns.

In addition, the pandemic has funnelled some demand towards regional and rural areas, which have been less impacted by restrictions than capital cities, and where it is generally easier to practise social distancing.

In other words, some pockets of the tourism industry have fared better than others during the pandemic. However, in aggregate, the sector is not expected to make a material recovery until domestic restrictions lift and international tourists return.

Reopening...albeit gradually

As of 1 November, Australian citizens and permanent residents aged 12 and over who are fully vaccinated have been able to leave Australia without a travel exemption and have not had to quarantine upon return, subject to the state or territory of re-entry. However, quarantine measures were reintroduced in late November for arrivals from some high-risk countries, following the emergence of the Omicron variant.

From 15 December, fully vaccinated skilled migrants, international students, humanitarians and working holiday makers are allowed to enter Australia without the need for an exemption.

Travel as we learn to live with COVID-19

With borders reopening, the future is brighter for the education and tourism sectors. However, it is still highly uncertain how quickly the sectors will recover. It will depend critically on the international travel policies implemented by the Australian government and other countries, and more generally how the world adapts to learning to live with COVID-19.

On the plus side, Australia is expected to remain a desirable location for international students. Reserve Bank liaison suggests that education industry professionals have not reported a change in the perceived quality of Australian qualifications. Some liaison contacts suggest students are eager to return for face-to-face learning and the experience of living in Australia. International student numbers have rebounded strongly in other English-speaking countries that have relaxed border restrictions, including the US, UK and Canada. As border restrictions ease in Australia, a rebound in international student numbers is likely.

With our borders still shut to tourists, it will likely be some time before tourism exports return to pre-pandemic levels. Plus, travel across international borders is more complex than before the pandemic, with added administrative burden, and a raft of health regulations to consider. Measures such as testing, mask-wearing and in some cases quarantining have become the new norm.

Health precautions will also be an important consideration for prospective travellers in selecting a destination. On one hand, this could benefit Australia, as a country with high vaccination rates. Holidaymakers may also be interested in travelling to Australia because of our outdoor experiences and natural landmarks, where it is easier to practise social distancing.

However, health concerns also could mean less demand for long-distance travel. And this may deter tourists from major markets like the United States and Europe from travelling to Australia. Some people are likely to opt for local holidays, because they are cheaper and logistically simpler.

Another factor to consider is that, regardless of demand, fewer flights will likely be available initially, which could push up airfares. Long-haul aircraft fleets are likely to be smaller for some time as a result of the pandemic. Airlines have cut costs by scrapping the use of some types of aircraft, ordering fewer new aircraft and not renewing aircraft leases.

The emergence of the Omicron variant poses new risks to the outlook for tourism and education. Authorities and scientists are still gathering information on the strain and more should be known in coming weeks. A key uncertainty is whether existing vaccines provide the same level of protection and whether the strain is more contagious than others.

Conclusion

The reopening of borders will provide respite to the Australian education and tourism sectors after a challenging two years. However, with a number of ongoing challenges and uncertainties associated with the pandemic, it is likely to be some time before tourism and education exports return to their pre-pandemic levels.

Allowing the return of some visa holders will provide relief to some businesses that have struggled with labour shortages, and in turn could ease wage pressures in these pockets of the economy. However, the ongoing economic recovery will see demand for labour increase, and we expect the unemployment rate to head lower, and aggregate wages growth to rise further in the year ahead.

International travel in the COVID-world, at least in the near-term, will be more costly and complicated. While broadly, the Australian economy looks set for a solid recovery in the year ahead, it is likely tourism and education will continue to feel the lingering effects of the pandemic for some time yet.

Matthew Bunny, Jarek Kowcza and Claudia Mezrani

Ph: 0481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@stgeorge.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@stgeorge.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@stgeorge.com.au
0401 102 789

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George's agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
