

This report by Tourism Futures International for Destination New South Wales reviews the operating environment and aviation performance of Sydney and NSW over 2017 and into 2018.

Key Findings

International Traffic Performance:

- Sydney Airport is Australia's major gateway for international visitors, securing 41% of total international arrivals to Australia in 2017.
- There were 3.6 million international visitors to Australia via Sydney Airport during 2017, up 8% on the previous year.
- Sydney's top five source markets (China, USA, New Zealand, UK/Ireland and South Korea) accounted for 56% of all visitors; the next five (Japan, Hong Kong, India, Singapore and Germany) accounted for 16%. Within the top 10, the USA replaced New Zealand during 2017 as the second largest visitor market, while Hong Kong and India moved up into seventh and eighth positions, overtaking Singapore.
- China is the major growth market for Sydney Airport contributing 36% of the increase in visitor arrivals to Sydney during 2017 and recording a Compound Annual Growth Rate of 17.8% over the five-year period 2012 to 2017. The USA was the second largest contributor to growth during 2017, accounting for 16% of the increase in visitor arrivals, followed by Korea (7%) and India (6%). Vietnam, the Philippines and Hong Kong each contributed 5% to visitor growth. These seven markets combined contributed almost 80% of the growth in visitor arrivals to Sydney during 2017.
- Of the 51.7 million seats operated to/from Australia on scheduled international passenger services during 2017, Sydney Airport accounted for 40%. A total of 20.9 million seats were provided at Sydney with 80.2% of seats utilised (0.2 of a percentage point up on 2016).
- International seat capacity at Sydney grew by 5.7% during 2017. Of the additional 1.1 million seats made available, capacity to/from China accounted for half.

Domestic Traffic Performance:

- The fourteen major Sydney interstate competitive routes accounted for 41% of total Australian domestic passenger traffic in 2017. Overall passenger numbers on the 14 major routes increased by 1.4%.
- Of the fourteen major Sydney interstate routes, the top two routes combined, Sydney to/from Melbourne and Brisbane, accounted for 56% of the passengers carried in 2017, and the top five routes combined accounted for 82%.



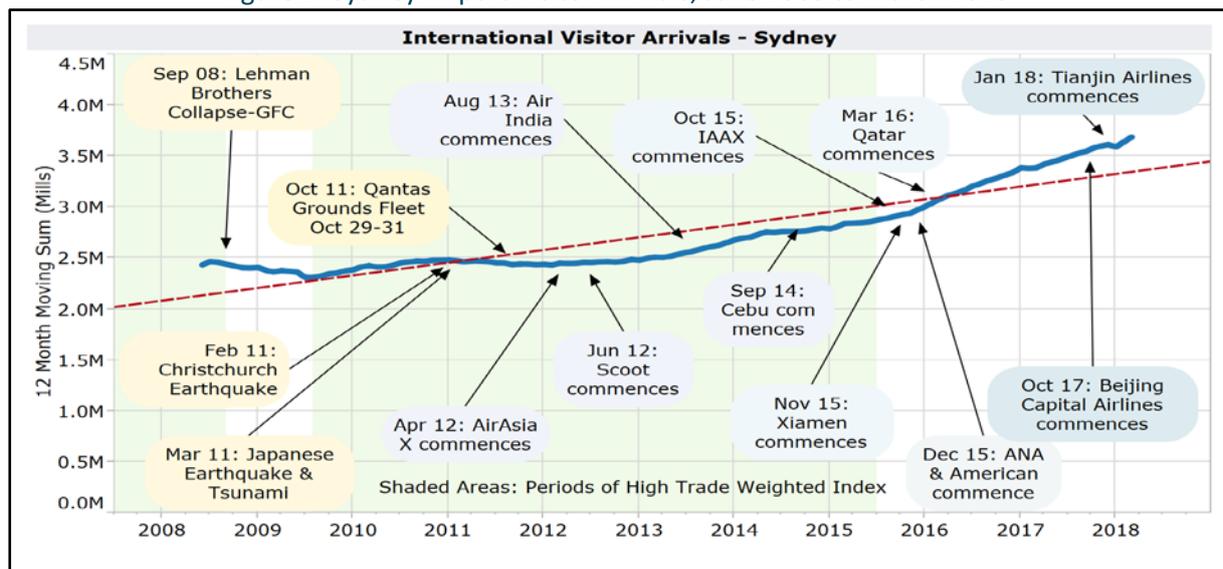
- The top eight Sydney intrastate routes (all deregulated and with competitive air services) accounted for 81% of the NSW air routes to and from Sydney Airport in the year end-March 2017; the average annual passenger growth over the past five years has been strongest to Ballina, Tamworth and Armidale.

Sydney International Inbound and Outbound Performance

Figure 1 shows the international visitor arrivals at Sydney Airport over the period from June 2008 to March 2018. It also shows some of the key aviation and non-aviation events that have had an impact on worldwide and Australian air traffic.

Two new international airlines commenced services to Sydney during 2017, Samoa Airways and the Low Cost Carrier Beijing Capital Airlines. The Full Service Carrier Tianjin Airlines commenced in 2018.

Figure 1: Sydney Airport Visitor Arrivals, June 2008 to March 2018



Source: TFI based on ABS data

Significant international aviation developments at Sydney over 2017 and into 2018 include:

- A new direct service to Sydney from Wuhan commenced in January 2017. The A330-200 China Eastern service operates three times weekly.
- Vietnam Airlines commenced three times weekly B787-9 flights from Hanoi in March 2017.
- Jetstar commenced four times weekly B787-8 services to Ho Chi Minh City from May 2017.
- HNA Group subsidiary Beijing Capital Airlines launched services from Qingdao to Sydney in October 2017. The A330-200 services operate three to four times weekly.
- Samoa Airways launched flights from Apia to Sydney in November 2017, with twice weekly B737-800 services.
- Qantas commenced year-round direct flights between Sydney and Osaka from December 2017. The A330-300 services operate three to four times weekly.
- Hainan Airlines commenced services from Haikou to Sydney from January 2018. The A330-300 services operate twice weekly.
- Tianjin Airlines launched its first route to Australia from Zhengzhou in January 2018 with twice-weekly A330-200 services to Sydney.

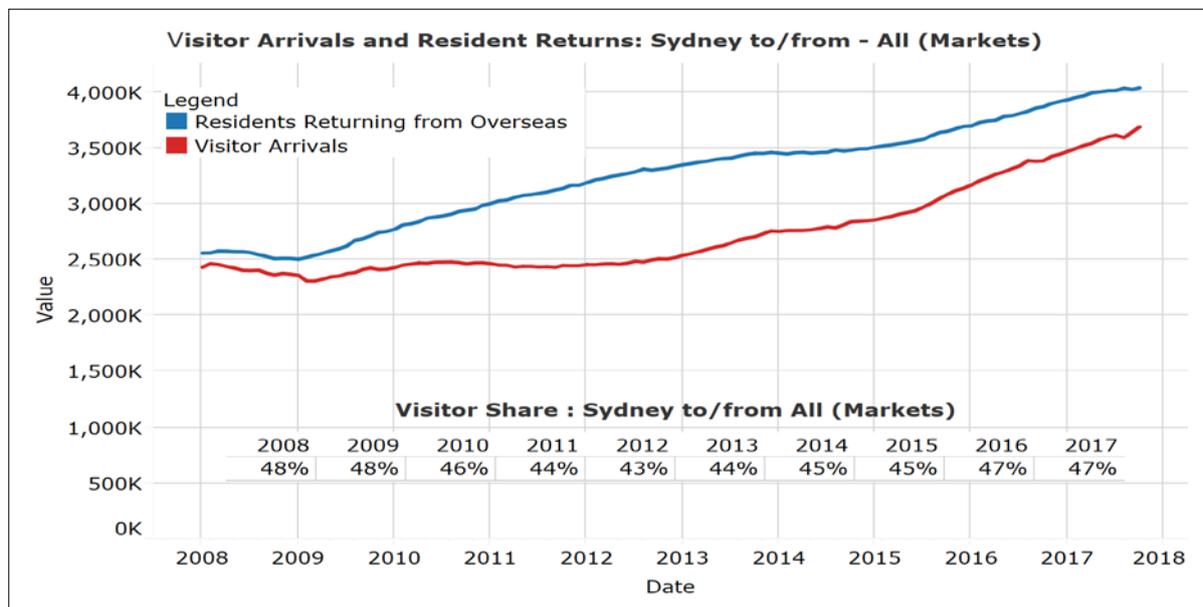
- United Airlines commenced a Sydney-Houston service in January 2018, adding a sixth US city destination to Sydney’s network. The B787-9 service operates daily and reduces to 4-6 times weekly during off-peak season.
- Virgin Australia launched daily flights between Sydney and Hong Kong from July 2018 using A330-200 aircraft.

The rapid increase in services from mainland China has continued with two new Chinese carriers and three new Chinese gateways added to the network over the twelve months to January 2018:

- In January 2017, six mainland Chinese airlines (plus Qantas) were operating regular scheduled services to Sydney from fourteen Chinese cities, up from three airlines and three gateways in 2010.
- Twelve months later, there were eight mainland Chinese airlines operating services to Sydney from seventeen Chinese cities, including from Qingdao in October 2017, from Zhengzhou in January 2018 (with the service originating in an eighteenth city, Tianjin) and Haikou in January 2018. All these cities with the exception of Haikou are amongst the largest 31 urban agglomerations in China.

Figure 2 shows the rolling 12-month sum of international short-term visitor arrivals and residents returning from overseas at Sydney Airport over the period from June 2008 to March 2018. With Australian resident growth outpacing visitor growth, the visitor share of total residents plus visitors fell from 58% in 2000 to a low of 43% by 2012. Stronger visitor growth over the last five years has seen the visitor share slowly increase, to 47% during 2016 and 2017. Tourism Future International expects continued strong growth in the international visitor market with slower growth for Australian residents travelling outbound.

Figure 2: International Short-Term Visitor Arrivals and Resident Returning from Overseas, Sydney Airport Rolling Sum June 2008 to March 2018



Source: TFI based on ABS.

Figure 3 shows the major country-contributors to visitor arrivals in Sydney during 2017 and residents returning from overseas to Sydney for each of the same overseas markets. Markets are ranked by the number of visitor arrivals at Sydney by Country of Residence for 2017 (shown on the right-hand

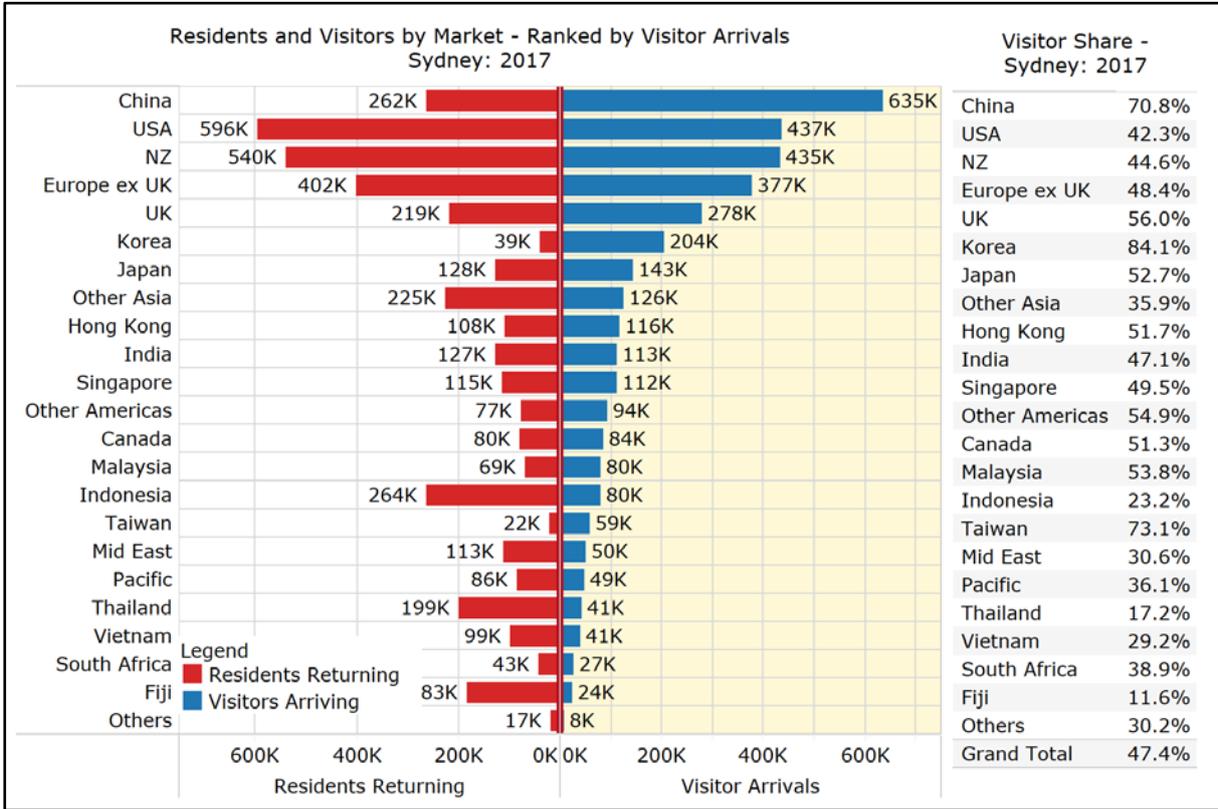
side of the chart). Australian residents returning from overseas (by Main Destination) to Sydney for each of the same overseas markets are shown on the left-hand side of the chart.

The top five source markets for visitors to Sydney (China, NZ, USA, UK/Ireland and Korea) accounted for an aggregate 56% of all visitors during 2017 with the Top 10 accounting for 71%. Of the Top 10 markets, growth over the past five years has been strongest from China, India and the USA (Table 1).

The significance of resident traffic for many of the major markets is evident in Figure 3. For the USA, while the visitor share has increased over the past year (from 38% in 2015 to just over 42% in 2017), Australian residents still account for more than half of the traffic. This trend is even more evident for the holiday destinations of Indonesia (a resident to visitor ratio of over 3:1) and Thailand (almost 5:1). In comparison, the Chinese market is dominated by visitor arrivals with five arrivals for each two Australian residents returning from China. The visitor arrival share is also high for Korea at 5:1.

The top five destinations for residents returning to Sydney - USA, NZ, Indonesia, China, and UK/Ireland - accounted for 48% of resident departures in 2017, with the Top 10 accounting for 66%.

Figure 3: Inverted Pyramid Showing Overseas Visitor Arrivals (by Country of Residence) at Sydney and Australian Resident Returning from Overseas (by Main Destination) for Sydney, 2017



Source: TFI based on data from ABS.

Table 1 summarises Sydney’s performance in its major visitor source markets over the past five years, 2012 to 2017. Over this period, overseas visitor arrivals to Sydney have increased at a Compound Annual Growth Rate of 7.8%; this compares to 7.4% nationally.

Sydney Airport continues to be Australia’s main gateway for international arrivals to Australia, with a 41.0% share in 2017, up slightly on five years earlier. Over this period, Sydney gained a 23.4 percentage point increase in share of arrivals to Australia from the Philippines and a 6.9 percentage point increase in share of arrivals from the USA. Smaller increases in market shares have also been achieved in arrivals from India, Korea, China, the Middle East and Indonesia.

Table 1: International Visitor Arrivals to Sydney, 2017
Market Share of Sydney, Sydney Share of Australia and Five-year Growth

Sydney Rank 2016	Visitor Market	Market Share of Sydney 2017	Sydney Share of Australia 2017	Five-year Comparison 2012-2017		
				CAGR 5Yr	Share of Aust. 2012	Chg in Share of Aust. (ppt)
1	China	17.6%	46.8%	17.8%	44.7%	2.1
2	USA	12.1%	56.0%	12.2%	49.0%	6.9
3	New Zealand	12.0%	32.0%	1.3%	34.2%	-2.2
4	UKI	8.3%	38.1%	2.6%	38.5%	-0.4
5	Korea	5.7%	67.6%	9.3%	63.9%	3.7
6	Japan	4.0%	33.0%	3.0%	35.1%	-2.1
7	Hong Kong	3.2%	41.2%	8.5%	47.3%	-6.1
8	India	3.1%	37.2%	16.0%	32.6%	4.6
9	Singapore	3.1%	25.9%	5.8%	29.4%	-3.5
10	Germany	2.4%	41.7%	2.9%	46.8%	-5.2
11	Canada	2.3%	50.2%	1.6%	57.0%	-6.7
12	Malaysia	2.2%	20.3%	8.5%	21.6%	-1.3
13	Indonesia	2.2%	41.5%	6.5%	41.2%	0.3
14	Philippines	2.0%	58.1%	23.5%	34.7%	23.4
15	France	1.7%	46.2%	2.6%	47.4%	-1.2
16	Taiwan	1.6%	32.8%	10.0%	37.3%	-4.4
17	Middle East	1.4%	39.7%	7.9%	37.5%	2.2
18	Thailand	1.1%	42.3%	6.0%	43.0%	-0.7
	Other	15.0%	43.6%	6.1%	43.7%	-0.1
	Total	100.0%	41.0%	7.8%	40.3%	0.7

Notes: CAGR (Compound Annual Growth Rate); ppt (Percentage Points Change). Totals may not sum due to rounding. Source: ABS and TFI.

In terms of aviation capacity, of the 51.7 million seats operated to/from Australia on scheduled international passenger services during 2017, Sydney accounted for a total of 20.9 million seats (40% share) with 80.0% of seats utilised (0.2 of a percentage point up on 2016).

During 2017, an additional 1.1 million international seats (in/out) were provided at Sydney Airport, representing a 5.7% increase over 2016.

The Low Cost Carrier (LCC) share of total Australian international seats had increased over time, from 4% in 2006 to 18% during 2016, before declining to 17% last year and 15% to March for 2018. Over the same period, the LCC share of international seats at Sydney increased from 3% to a stable 10% over 2014 to 2018. LCC shares for Australia have declined in the March quarter 2018 following the redeployment of some AirAsia X capacity away from the Australian market (to new markets and existing North Asia routes).

Five international LCCs currently operate services to Sydney – Jetstar (from 2005), AirAsia X and Scoot (from 2012), Cebu Pacific (from 2014) and Beijing Capital Airlines (from October 2017). Indonesia AirAsia X had operated to Sydney from October 2015 to end-August 2016.

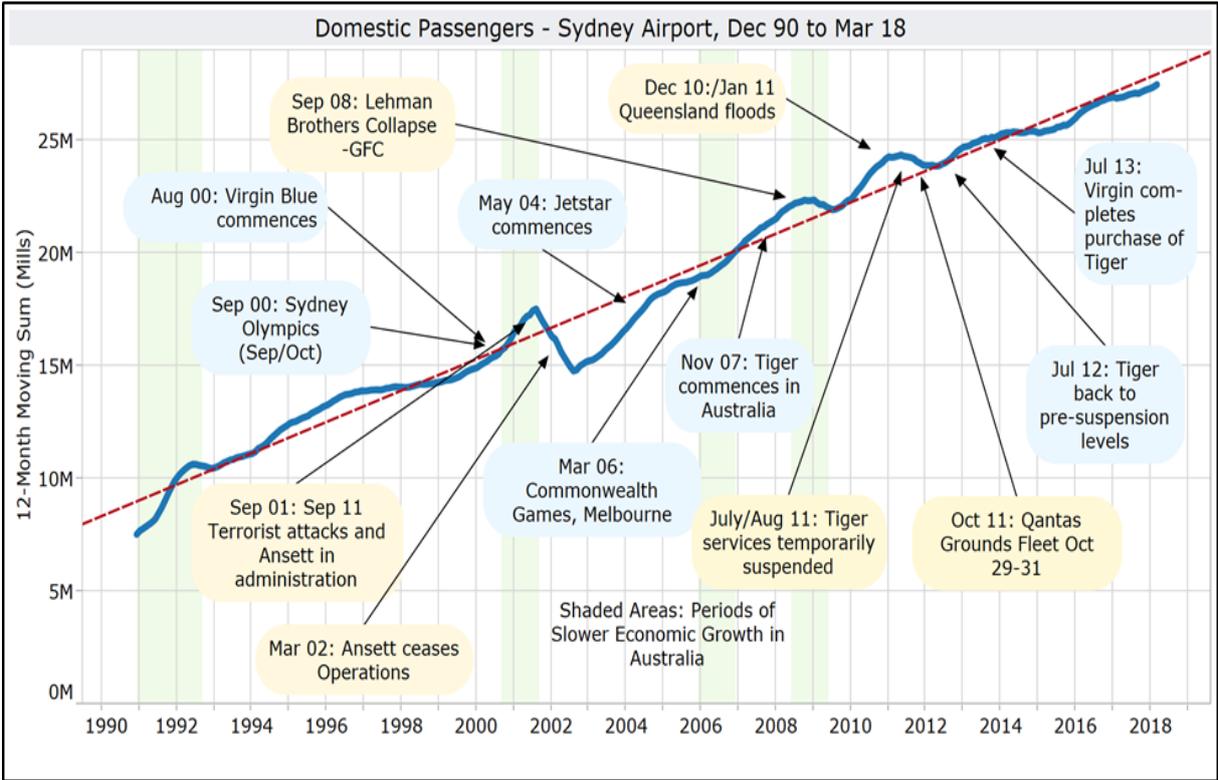
The relatively low LCC share of total seats at Sydney reflects the significance of Sydney as a port for the Full Service Carriers. In terms of the total number of international seats carried on LCCs into and from Australia during 2017, Sydney Airport accounted for around 25% (the second largest share of the Australian airports). Tourism Future International expects the aggregate LCC shares for Sydney and Australia to continue to increase as new Asian LCCs add longer aircraft types and add longer-haul services.

Sydney Domestic and Regional Performance

Figure 4 shows the domestic passenger movements at Sydney Airport over the period from December 1990 to March 2018 along with some of the key events impacting on Australian domestic passenger demand.

The positive impacts on growth from the introduction of the domestic LCCs, Virgin Blue (now Virgin Australia) in 2000, Jetstar in 2004 and Tiger (now Tigerair) in 2007 are shown on the chart. The significant negative impacts of the collapse of Ansett in October 2002, the 2008/09 Global Financial Crisis, the July 2011 suspension of Tiger services and the October 2011 grounding of the Qantas fleet are also shown. The chart also suggests a fall away from the trend line over recent years.

Figure 4: Sydney Airport Domestic Passengers, December 1990 to March 2018

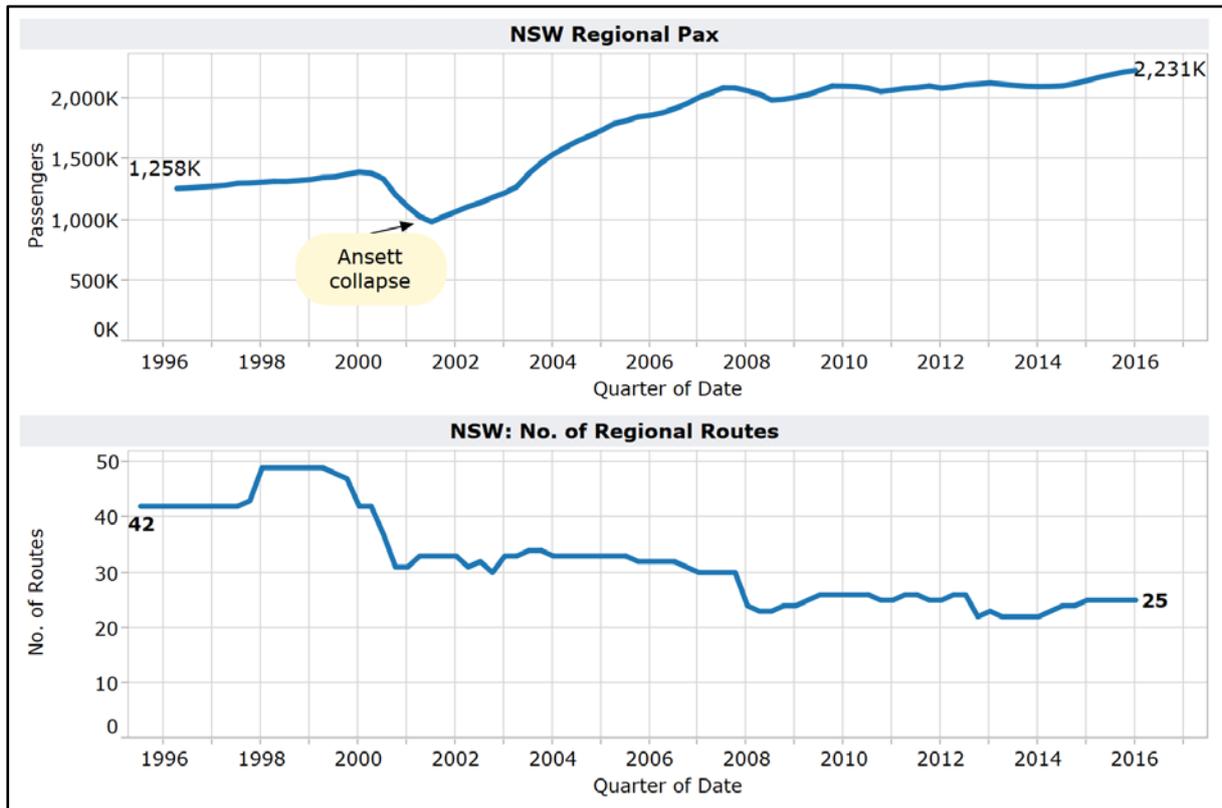


Source: TFI based on BITRE data.

Figure 5 shows the rolling annual sum of passenger numbers on intrastate domestic routes to/from Sydney for the period from 1997 to the March quarter of 2017 (latest data available). The figure also shows the number of ports connected to Sydney via regular air services.

The trend has been for modest growth and a lower number of routes. In 1997, there were 42 routes connecting regional NSW to Sydney. Following the collapse of Ansett, this number had fallen to around 32 routes. By the March quarter 2017 the number of NSW regional routes to Sydney had fallen to 25; only eight of these routes are competitive.

Figure 5: Passengers on Intrastate Domestic Routes to/From Sydney and Number of Operating Routes Rolling Annual Quarters 1997 to March Quarter 2017



Source: TFI based on Transport for NSW data

Table 2 shows seats and passengers on the major Sydney competitive interstate and intrastate routes during 2017.

The 14 major Sydney interstate competitive routes accounted for 41% of total Australian domestic passenger traffic in 2017 and for 39% of seats provided across Australia. The top two routes, Sydney-Melbourne and Sydney-Brisbane, accounted for 56% of the passengers carried on the competitive Sydney interstate routes and the top five routes for 82%. The fastest growing Sydney interstate routes for 2017 were to/from the Sunshine Coast and Hobart. Of the larger routes, growth was strongest to/from Melbourne and Brisbane, up 2%. Overall passenger numbers on the 14 major Sydney interstate routes increased by 1.4%.

Eight of the largest Sydney regional routes are competitive with at least two airlines operating during 2017. During 2017 Sydney-Ballina was again the fastest growing of the major regional routes.

Table 2: Seats and Passengers on Major Sydney Competitive Interstate and Intrastate Routes, Year-end December 2017

Sydney to/from:	Passengers			Seats			Pax Load Factor
	Number '000	Change on 2016	Share of Total	Number '000	Change on 2016	Share of Total	
Top 5 Interstate Routes -							
Melbourne	9,097	2.2%	36.9%	10,773	1.1%	36.2%	84.5%
Brisbane	4,746	1.9%	19.2%	5,750	0.8%	19.3%	82.5%
Gold Coast	2,741	1.3%	11.1%	3,170	0.9%	10.7%	86.4%
Adelaide	1,898	1.4%	7.7%	2,316	-0.1%	7.8%	82.0%
Perth	1,716	-2.1%	7.0%	2,094	-3.1%	7.0%	82.0%
Sum of Sydney Competitive Interstate Routes	24,672	1.4%	100.0%	29,759	0.4%	100.0%	82.5%
Major Intrastate Routes -							
Ballina	403	4.5%	21.8%	496	5.3%	19.1%	80.8%
Coffs Harbour	347	2.4%	18.8%	474	5.1%	18.2%	73.2%
Albury	224	-0.5%	12.1%	333	-3.4%	12.8%	67.2%
Port Macquarie	192	-0.5%	10.4%	256	-4.3%	9.9%	75.1%
Dubbo	191	1.4%	10.3%	281	-4.0%	10.8%	67.9%
Wagga Wagga	183	-3.0%	9.9%	287	-2.4%	11.1%	63.6%
Tamworth	181	3.2%	9.8%	286	2.4%	11.0%	63.2%
Armidale	126	-1.2%	6.8%	184	-5.9%	7.1%	68.5%
Sum of Sydney Competitive Intrastate Routes	1,847	1.4%	100.0%	2,599	0.0%	100.0%	72.2%

Note: Individual routes shown are restricted to those with an average exceeding 8,000 passengers per month where two or more airlines operate in competition and includes carriage by Australian international airlines operating between Australian airports as part of an international flight. Intrastate Route data may vary to Transport for NSW Intrastate Regional Aviation Statistics. ^(a) Tamworth-Sydney route included from June 2015, prior data not shown. Totals may not sum to 100% due to rounding. Source: TFI based on data from BITRE.

Factors Impacting on Performance

Following global economic growth during 2017 of 3.8% (the strongest growth since 2011), the International Monetary Fund expects a further pick up to 3.9% over this year and next. Over the medium term, once the cyclical upswing and US fiscal stimulus have run their course, prospects for the advanced economies are expected to remain subdued. Growth in the emerging market and developing economies is however expected to benefit from the gradual recovery in commodity exporters and from the projected increase in India's economic growth - both providing some offset to China's gradual economic slowdown.

Although oil prices remain below the high levels of FY08 and FY11 to FY14, they are climbing - the average Brent crude oil price increased during 2017 to US\$54 a barrel, up from the 2016 12-year low of US\$44 a barrel, with further increase during the first half of 2018 to average US\$71 a barrel. Airlines are beginning to respond to the increasing prices in two ways:

- Increasing airfares and/or adding surcharges.
- Accelerating the retirement of older aircraft and replacement with the newer fuel-efficient and longer range aircraft types.

The low value of the Australian dollar continues to stimulate inbound growth and should also encourage domestic travel growth across Australia.

Aviation Outlook

The global economic environment for aviation remains positive with some risks:

- Whilst medium term economic growth for developed economies is expected to be subdued, growth in developing economies should promote growth in aviation and tourism.
- Growth in the middle class across Asia along with the growing penetration of new efficient aircraft types and the growing number of LCCs should stimulate aviation growth in the Asia Pacific region.
- The Australian dollar is likely to remain at current levels into the medium term stimulating inbound growth and slowing the growth in overseas travel by Australians.
- There are risks to growth however with China's economic growth rates likely to slow, oil prices likely to increase and the worldwide pilot shortages likely to impact growth rates for the next few years at least.

Australia's domestic aviation position is little changed from recent years. Australia has emerged from the fall-out of the end of the mining investment boom and there are positive signs in Western Australia and Queensland for new mining developments based around modest increases in commodity prices. However the outlook for Australian domestic aviation performance remains sluggish for the next couple of years with limited growth in real wages across Australia and the shortage of pilots.