The economic contribution of Victoria’s major airports

Executive Summary

Department of Economic Development, Jobs, Transport and Resources
September 2017
Deloitte Access Economics was commissioned by the Department of Economic Development, Jobs, Transport and Resources to analyse the economic contribution of Victoria’s major airports to the State and national economies.

This Executive Summary presents key findings of Deloitte Access Economics’ full report, which contains more detail on the background, methodology, assumptions and references.

Key findings at a glance
Financial year 2016

- **33.7 million domestic and international passenger movements** through Victoria’s major airports, representing 22% of total passenger movements through Australia.

- In aggregate, the total economic activity generated or facilitated by Melbourne Airport (including at the Airport Precinct, and facilitated tourism and airfreight) was equivalent to 6.6% of Gross State Product (GSP) and 7.0% of total State employment.

- The Melbourne Airport precinct at Tullamarine generated an estimated $4.6 billion in total value added for the Victorian economy, with associated employment of 27,100 Full Time Equivalent (FTE) jobs.

- Forward modelling indicates that the contribution of the Melbourne Airport precinct to the Victorian economy will increase to approximately $9.3 billion (in real 2015-16 dollars) and support 52,400 FTE jobs by 2026-27.

- Melbourne Airport facilitated 71.9 million visitor nights and $8.9 billion in tourism expenditure in Victoria. This tourism activity contributed $6.8 billion to State value added, and supported 75,100 FTE jobs in Victoria.

- 166,200 tonnes of airfreight, valued at $8.4 billion were exported through Melbourne Airport.

- Airfreight facilitated by Melbourne Airport contributed $3.7 billion in total to State value added, and is associated with 28,200 FTE jobs.

- A typical daily international service contributes $126.6 million in value added and 1,179 FTE jobs to the Australian economy. Of this, $109.1 million in value added and 1,026 FTE jobs will be attributed to the Victorian economy.

- A typical daily domestic (interstate) service that is fully used by inbound interstate visitors, contributes $16.2 million in value added per year to the Victorian economy and supports 174 FTE jobs.

- Upgauging an international daily flight from a B777 to an A380 aircraft would add approximately 141 additional seats per flight. This would lead to an increase in the contribution by $55.1 million in value added and 203 FTE jobs per annum to Victoria.
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Victoria’s major airports play a central role in driving the State’s economic and social prosperity. They act as a gateway for tourism, carrying 33.7 million domestic and international passenger movements annually, representing 22% of total passenger movements through Australia (BITRE, 2016). Melbourne Airport also supports large volumes of high value, time-sensitive freight, with over 166,200 tonnes of airfreight exported annually through the Airport. This represents 30% of total airfreight exported from Australia. As well as the economic activity they support, Victoria’s airports play a critical social role, connecting families, friends and communities and ensuring timely access to essential services across the State.

Contribution of on-airport activity at Melbourne Airport

Melbourne Airport is Victoria’s largest airport and the State’s only international gateway. In 2015-16 it carried 9.3 million international and 24.4 million domestic passenger movements, making it Australia’s second busiest airport\(^1\).

The Airport precinct at Tullamarine hosts an array of businesses, including those operating aviation-related enterprises as well as the wider retail, commercial and hospitality activity that modern capital city airports support. Combined, the economic activity of businesses operating on the Airport precinct generated an estimated $4.6 billion in direct and indirect value added for the Victorian economy, with associated employment of 27,100 Full Time Equivalent (FTE) jobs.

At a national level, accounting for additional upstream activities in other parts of Australia, Melbourne Airport contributed an estimated $5.3 billion. This is associated with approximately 32,700 FTE employment.

Contribution of tourism facilitated by Melbourne Airport

Melbourne Airport facilitated 71.9 million visitor nights and $8.9 billion in tourism expenditure in Victoria. This includes international visitors – who spent 56.8 million visitor nights and $6.5 billion in expenditure\(^2\) – as well as domestic visitors – which included 278,000 interstate daytrip visitors and 8.6 million interstate overnight visitors.

This tourism activity contributed $3.8 billion in direct value added and supported 52,300 FTE jobs in Victoria. Combined with the indirect contribution to upstream suppliers, it is estimated that tourism facilitated by Melbourne Airport contributed $6.8 billion to State value added, and supported 75,100 FTE jobs in Victoria.

At the national level, tourism activity facilitated by Melbourne Airport contributed a total of $8.0 billion in value added, and supported 85,180 FTE jobs. This captures tourism and freight activity facilitated in other states and territories, as well as reliance on interstate inputs.

Contribution of airfreight facilitated by Melbourne Airport

In addition, approximately 166,200 tonnes of airfreight was exported from Melbourne Airport in 2015-16. The exports were valued at $8.4 billion in total, including $4.9 billion of merchandise goods. Top exports include medicinal and pharmaceutical products, food products, and professional and scientific equipment.

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\(^1\) Passenger movements refer to the total number of passengers who arrive or depart from an Airport. This includes Australian residents travelling abroad and international visitors, with each passenger who arrives and departs through Melbourne Airport, counted as two passenger movements.

\(^2\) This represents 94% of international visitors and 97% of international visitor nights in Victoria. The remaining 148,600 visitors and 2.0 million visitor nights used alternative transport, such as ground transport or cruise ship, to visit Victoria.
Airfreight facilitated by Melbourne Airport contributed $3.7 billion in direct and indirect value added, and is associated with 28,200 FTE jobs. This increases to $4.3 billion in value added and 31,250 FTE jobs at the national level.

The aggregate contribution of Melbourne Airport

In aggregate, the total economic activity generated or facilitated by Melbourne Airport in 2015-16 contributed $17.6 billion in value added to Victoria, with associated employment of 148,600 FTE jobs. This is equivalent to 6.6% of Gross State Product (GSP) and 7.0% of total employment. In terms of the national economy, the total economic activity generated or facilitated by Melbourne Airport in 2015-16 was $20.7 billion.

Table i: Economic contribution of Melbourne Airport to the Victorian Economy, FY 2016

<table>
<thead>
<tr>
<th>Metric</th>
<th>Victorian economy</th>
<th>Australian economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td>Generated contribution (direct precinct activity)</td>
<td>$3.7</td>
<td>$3.2</td>
</tr>
<tr>
<td>Employment (FTE)</td>
<td>23,119</td>
<td>22,129</td>
</tr>
<tr>
<td>Facilitated contribution (resulting from tourism)</td>
<td>$3.8</td>
<td>$3.0</td>
</tr>
<tr>
<td>Employment (FTE)</td>
<td>52,281</td>
<td>22,807</td>
</tr>
<tr>
<td>Facilitated contribution (resulting from airfreight)</td>
<td>$2.0</td>
<td>$1.7</td>
</tr>
<tr>
<td>Employment (FTE)</td>
<td>15,216</td>
<td>13,017</td>
</tr>
</tbody>
</table>

Disaggregating the facilitated contribution, 65% of total value added (equivalent to $6.8 billion), and 73% of total employment (equivalent to 75,090 FTE jobs) supported in the Victorian economy can be attributed to tourism (Chart i). The remaining 35% of value added and 27% of employment is attributable to airfreight. At the national level, the shares remain constant.

Chart i: Economic contribution of facilitated tourism and airfreight, FY 2016

The direct contribution of facilitated tourism is equivalent to 1.4% of GSP and 2.5% of State employment. In comparison to other key priority industries, the direct value added is similar to that generated by the residential building construction sector, but supporting nearly three times as many jobs.
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Chart ii: Economic contribution of Melbourne Airport compared to other key industries


**Typical contribution of different market segments**
The economic contribution of Melbourne Airport varies across passenger and service types:

- A typical daily domestic (interstate) service that is fully used by inbound interstate visitors, contributes $16.2 million in value added per year to the Victorian economy and supports 174 FTE jobs.
- A typical daily international service contributes $109.1 million in value added to Victoria, with associated employment of 1,026 FTE jobs. Nationally the contribution is $126.6 million in value added and 1,179 FTE jobs. It is assumed that on international services, 48% of passengers are returning residents, and their contribution has been excluded.
  - Visitors who stay more nights in Victoria have higher average contributions per trip. For instance, international students spend the most, at $22,200 per visitor, followed by those visiting for employment ($8,360 per visitor).
  - Upgauging an international daily flight from a B777 to an A380 aircraft would add approximately 141 additional seats per flight leading to an increase in contribution by $55.1 million and 203 FTE jobs per annum to Victoria. The additional contribution equals to $64.0 million and 271 FTE jobs at the national level.

Visitor contributions also vary based on source countries, with the expenditure of passengers from the top 10 source countries (by total visitor expenditure in Victoria) shown below.

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3 This includes the value added and employment supported by the facilitated tourism and the activity at the Airport and precinct.
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Table ii: Facilitated tourism of Melbourne Airport to the Victorian economy, by source country, FY 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>Typical daily service ($m)</th>
<th>Per visitor ($)</th>
<th>Per seat ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>$103</td>
<td>$2,731</td>
<td>1,003</td>
</tr>
<tr>
<td>China</td>
<td>$177</td>
<td>$4,456</td>
<td>$1,936</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$137</td>
<td>$3,097</td>
<td>$1,132</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$39</td>
<td>$1,289</td>
<td>$521</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$47</td>
<td>$1,692</td>
<td>$266</td>
</tr>
<tr>
<td>Singapore</td>
<td>$130</td>
<td>$2,747</td>
<td>$1,141</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$207</td>
<td>$5,245</td>
<td>$2,057</td>
</tr>
<tr>
<td>India</td>
<td>$110</td>
<td>$2,494</td>
<td>$1,173</td>
</tr>
<tr>
<td>United States</td>
<td>$74</td>
<td>$1,306</td>
<td>$573</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$118</td>
<td>$2,612</td>
<td>$1,228</td>
</tr>
<tr>
<td>Japan</td>
<td>$97</td>
<td>$2,395</td>
<td>$797</td>
</tr>
<tr>
<td>Korea*</td>
<td>$95</td>
<td>$2,456</td>
<td>$947</td>
</tr>
</tbody>
</table>


* Source market results are only available for typical daily service expenditure. These results are not comparable to the value added contribution of typical daily services given elsewhere in the report.

^ Per seat expenditure is the tourism expenditure generated by an average seat on a typical daily service from the source market country.

*As there are no direct flights from Korea to Melbourne, the figures have been estimated by assuming 276 seats per flight (based on Sydney), and the same seat utilisation and inbound-outbound passenger ratio as the average international flight into Melbourne Airport.

Melbourne Airport’s contributions in 2027
The future contribution of Melbourne Airport will be influenced by realised growth in passenger numbers, technological advancements and productivity improvements, as well as broader economic activity.

Forward looking modelling, reflecting a range of assumptions set out in detail in the body of this report, indicates that the contribution of the Airport precinct to the Victorian economy will increase to approximately $9.3 billion by 2026-27 (in real 2015-16 dollars), supporting 52,400 FTE jobs. Over the projection period, this represents a Compound Annual Growth Rate (CAGR) of 2.6% for value added and 1.3% for employment.

In addition, the value added from tourism facilitated by the Airport is projected to increase by 5.6% per annum to $12.5 billion. FTE jobs supported by this tourism are projected to grow by 3.8% per annum and reach 116,700 by 2026-27. Employment is expected to grow at a slower rate compared to value added due to growth in real labour productivity over time, i.e. because of technological enhancements. These growth rates are faster than forecast for overall GSP and employment growth in the State, which are expected to average 2.6% and 1.5% per annum, respectively.

Broader contribution of Victoria’s Airports
In addition to the economic contribution of Melbourne Airport and Victoria’s other major airport, Avalon Airport, Victoria’s broader network of airports make an array of wider social and economic contributions to their local communities and the State as a whole.

Victoria’s airports connect people and businesses with each other. Internationally, air travel allows Victorians to maintain physical contact with their family and friends overseas. Within Victoria, regional airports help bridge the gap between Melbourne and other areas for the State, strengthening the economic and social foundations of Victoria’s regional communities.

An efficient and reliable airport network also supports businesses by providing fast transport connections between regional communities and domestic and global markets. This can reduce input costs, facilitate access to specialised skills, and increase economies of scale – ultimately enhancing the viability and productivity of Victorian businesses.
Airports also help narrow the gap in services between rural and urban areas, delivering essential and emergency services to regional areas and fostering greater inclusion. In this sense, airports support the economic and social vibrancy of Victoria’s communities, enhancing their liveability, social connectedness and prosperity.

Deloitte Access Economics
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