

*Five-Year Outlook for
Tourism and Freight to Lord
Howe Island (2025–2029):*

Structural Vulnerabilities in an Era of Economic Friction

June 2025



Acknowledgement of Country

The Social Policy Group acknowledges Aboriginal and Torres Strait Islander Peoples as the First Peoples and the Traditional Custodians and owners of the lands on which we live and work across Australia.

We acknowledge the Ngunnawal and Ngambri people, the Wurundjeri/Woiwurrong people of the Kulin Nation, and the Yagara and Yugambeh peoples as the Traditional Custodians and Owners of the land on which our offices are situated. We pay our respects to their elders, past and present, and recognise their continuing connection to the land, waters, and communities.

As an organisation committed to advocating for social cohesion and the well-being of disadvantaged populations nationwide, we acknowledge and celebrate the diverse cultures, histories, and contributions of Aboriginal and Torres Strait Islander peoples to our country.

We extend our respects to all Aboriginal and Torres Strait Islander peoples throughout Australia, past, present, and future. We recognise their ongoing resilience, strength, and stewardship of the land and commit ourselves to ongoing efforts of reconciliation, understanding, and collaboration.

About The Social Policy Group (SPG)



The Social Policy Group (SPG) is a national, non-government, not-for-profit body with specialist expertise in social policy and program design with a focus on population diversity, social and community cohesion, gender equality, community participation and inclusion, systems' responsiveness, and community outreach and engagement.

Executive Summary

This report provides a comprehensive economic forecast for the tourism and freight systems serving Lord Howe Island between 2025 and 2029. It situates the island's bounded visitor economy and logistical infrastructure within a broader context of macroeconomic uncertainty, global supply chain instability, and domestic structural labour market change. While Lord Howe Island's unique visitor cap of approximately 16,500 people annually provides volume stability, it does not shield the island from systemic economic disruptions that can manifest through rising costs, weakening domestic discretionary demand, and tightening logistics networks.

As of 2025, the international economic order continues to experience deterioration, marked most acutely by the re-election of Donald Trump to the presidency of the United States. This political realignment has precipitated a second wave of protectionism, supply chain nationalism, and trade bifurcation. Australia, as a mid-sized, trade-dependent economy, is already registering the consequences of this shift. Export growth has slowed, real wage growth has stalled, and international shipping lanes have become more fragmented and less reliable. Container throughput at key Australian ports, particularly in Brisbane and Melbourne, has fallen by an estimated 6.4 per cent in the first half of 2025 compared with the previous year, reflecting broader global supply imbalances.

Domestically, Australia is undergoing a profound transformation in labour and consumption. The growing integration of artificial intelligence into professional service sectors has resulted in widespread job displacement, not among clerical or casual workers, but in white-collar, mid-to-senior professional roles. The combined workforce reductions at Commonwealth Bank and Westpac, totalling over 8,000 positions since late 2024, have sent shockwaves through the financial and legal services ecosystems. These high-income earners, formerly the backbone of Australia's domestic consumption profile, have begun to retrench spending and reassess travel priorities. Consumer sentiment fell to 80.6 per cent in April 2025, down from a post-pandemic high of 108 per cent in 2023, a decline correlated closely with forward indicators of discretionary travel.

For Lord Howe Island, this convergence of macroeconomic, employment, and logistics pressures poses a distinct and growing risk. While its visitor cap ensures numerical stability, the island is deeply reliant on a functioning, cost-effective freight system, and on a domestic consumer base that can afford premium regional travel. Both pillars are now under stress. Freight costs have surged, with air cargo rates on regional routes rising by over 18 per cent since early 2024, driven by aviation fuel inflation, route rationalisation by major carriers, and labour shortages across distribution nodes. Sea freight, traditionally more cost-stable, has experienced increased insurance premiums and unreliable service frequency due to the reallocation of shipping capacity away from low-volume routes.

This report examines, in granular detail, the interactions between national freight disruption, domestic economic weakening, and tourism demand on Lord Howe Island. It builds an integrated picture of the island's likely operational landscape over the next five years, offering quantitative forecasts, sectoral analysis, and a structural understanding of vulnerability. The findings indicate that while visitor numbers may remain near capacity, the underlying economic model supporting the island's tourism economy is likely to become less robust, more internationally dependent, and increasingly exposed to cost volatility beyond local control.





1. Australia's Economic Trajectory and Global Dislocation

Australia's economy in 2025 is positioned at the intersection of global realignment and domestic fragility. The re-election of Donald Trump has catalysed a new wave of American disengagement from multilateral institutions. Key trade relationships across the Asia-Pacific region have been destabilised by renewed tariffs, unpredictable visa and investment policies, and a reintroduction of regulatory divergence in digital services, logistics, and financial transactions. The result has been a marked slowdown in global trade flows. The World Bank projects global trade growth for 2025 at just 1.2 per cent, down from an average of 4.3 per cent in the pre-pandemic decade. For Australia, where trade accounts for 44 per cent of GDP, this represents a material external shock.

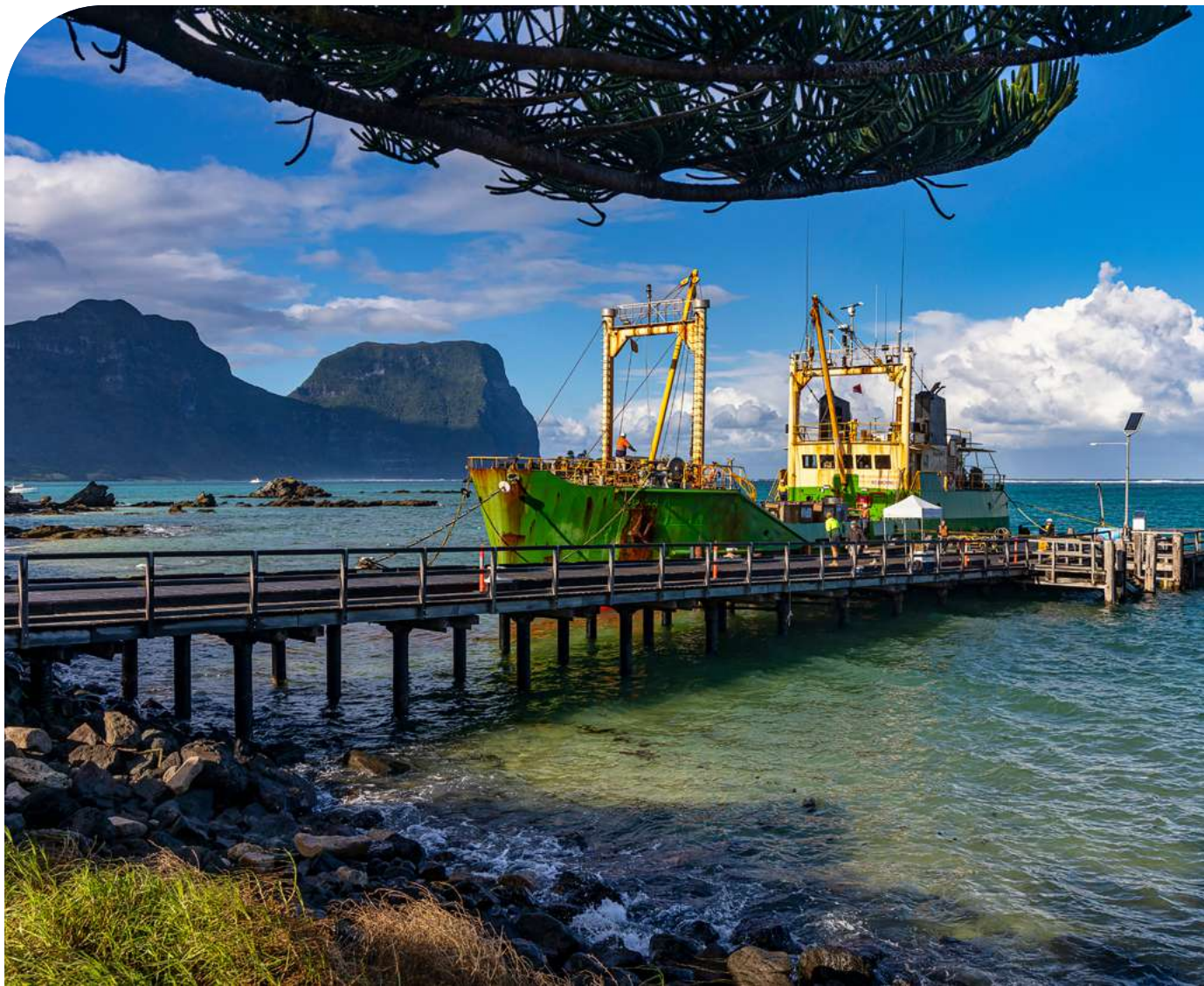
Export volumes in iron ore and LNG have declined by 5.1 and 3.4 per cent respectively in Q1 2025, while education exports are struggling to recover from new visa tightening in key source markets. Tourism receipts from inbound international visitors have increased marginally, but not enough to offset the broader trade slump. The Reserve Bank of Australia has kept the cash rate on hold at 3.85 per cent amid concerns that further tightening would risk a consumer-led downturn, especially given that household debt remains at a historically high 185 per cent of disposable income.

Of equal significance is the internal restructuring of Australia's labour market. Artificial intelligence systems are now being deployed across banking, legal, human resources, and professional services. Redundancies in these sectors have occurred not at the margins, but in core functions. The major Australian banks have eliminated between

35 to 50 per cent of middle-management and back-office roles, often replacing them with AI-led decision systems and automated compliance tools. The multiplier effect of these losses, affecting contractors, support firms, and dependent households, is not yet fully understood but is expected to reduce domestic consumption by at least 1.2 per cent annually through 2027, according to modelling by the Grattan Institute.

Travel is among the first expenditures to be deferred in such an environment. The impact is particularly acute in high-cost domestic destinations. While some may assume that premium markets are unaffected by middle-income contraction, this overlooks the role of aspiration-driven discretionary travel among dual-income households with \$150,000–\$250,000 annual earnings. These travellers, historically important to regional tourism, are pulling back. This is evidenced by a 9.7 per cent drop in forward bookings for regional destinations within 600 kilometres of Sydney, as recorded by Tourism Research Australia in Q1 2025.

Lord Howe Island, long seen as an aspirational domestic destination, is likely to experience not a collapse, but a soft attrition of its domestic customer base. This will make the island increasingly reliant on high-net-worth retirees and inbound visitors, both of whom are more sensitive to freight and service quality disruptions. As the middle of the market disappears, operational flexibility will narrow, and the risks of economic dislocation will increase.





2. Tourism Demand: Stability in Numbers, Erosion in Composition

Tourism demand for Lord Howe Island over the next five years is likely to remain strong in absolute terms, with annual visitation continuing to hover close to the capped level. However, a deeper analysis reveals that numerical stability will mask important shifts in demand composition, trip characteristics, and expenditure patterns. These trends are rooted in structural shifts in Australian household income distribution, real wage stagnation, and declining travel confidence among formerly reliable demographic segments.

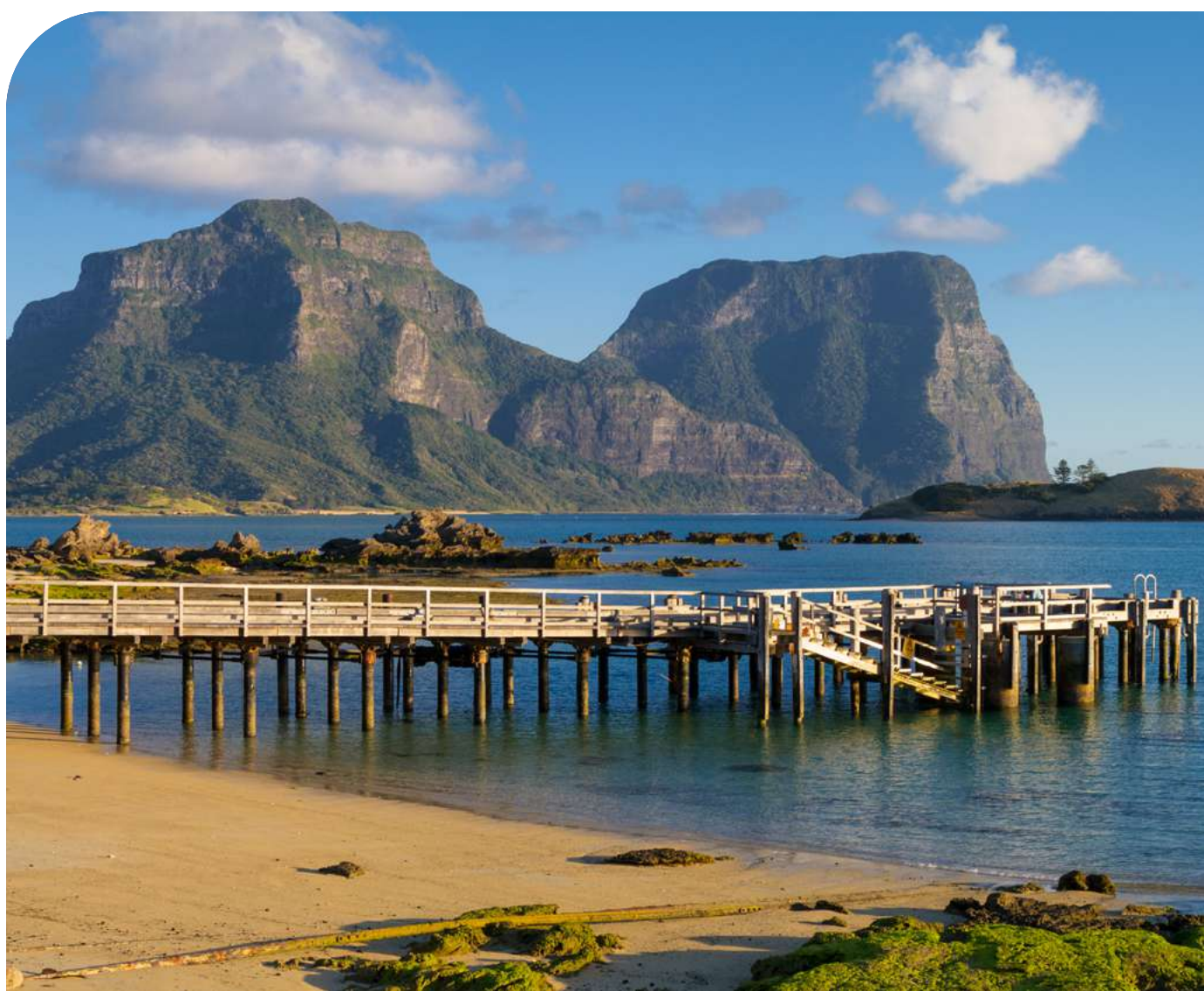
As of 2025, the island is benefiting from residual interest among affluent domestic travellers who continue to prioritise remote and environmentally protected destinations. However, accommodation operators report an increase in price sensitivity, with more visitors opting for shorter stays and lower service inclusions. The average length of stay, previously 5.2 nights, has dropped to 4.7 nights in the past twelve months. Average spend per visitor has similarly declined by 6.3 per cent year-on-year, adjusting for inflation. These are early but significant indicators of weakening domestic elasticity in the premium travel market.

By 2026 and 2027, this trend is expected to intensify. The contraction in upper-middle-income travel will not be fully offset by high-income households, whose numbers remain relatively stable. Nor will international visitors necessarily fill the gap at scale. Inbound tourism has recovered to 87 per cent of 2019 levels, but growth is slowing,

and Lord Howe's capacity constraints limit volume-based substitution. Furthermore, increasing logistical complexity, both in reaching the island and in securing travel packages, may deter foreign travellers unfamiliar with regional air schedules and transport contingencies.

As a result, tourism operators may face growing pressure to extract more value per visitor. However, rising input costs—especially from freight, which now accounts for an estimated 19 to 24 per cent of total operating expenses for accommodation and food services on the island—will limit the effectiveness of this strategy. Attempts to pass on costs to visitors will eventually collide with affordability ceilings, especially for domestic tourists already contending with rising mortgage repayments, energy prices, and job insecurity.

By 2029, the most likely scenario is that Lord Howe Island will remain fully booked in the peak months but will experience softer shoulder season demand, a more risk-averse visitor profile, and lower per-trip economic yield. Booking lead times will extend, cancellation rates may rise, and the capacity of operators to maintain service quality while containing costs will be significantly tested. In this environment, tourism resilience will not be determined by raw demand, but by the capacity to manage cost volatility, logistical constraints, and a more fragmented customer base.





3. Freight Costs and Disruptions: Systemic Strain and the Limits of Adaptability

Freight to Lord Howe Island is no longer a logistical inconvenience; it is emerging as a strategic risk. Rising transport costs, declining route reliability, and upstream bottlenecks across Australia's freight infrastructure are converging to create a materially more expensive and unstable supply chain for the island's tourism-dependent economy.

Between 2024 and 2025, average regional air freight costs in New South Wales rose by an estimated 18.4 per cent, driven primarily by a 23 per cent increase in aviation fuel prices, aircraft maintenance delays due to parts shortages, and a reduction in scheduled services to non-core regional destinations. Lord Howe Island is among those most affected, with QantasLink now operating at reduced seasonal frequency, and minimum cargo tonnage guarantees required to secure service continuity. Sea freight has also become less reliable. The ageing of coastal vessel fleets, insurance hikes following two near-miss incidents in the Tasman Sea, and port congestion on the east coast have caused shipment delays averaging 11 days in Q2 2025.

For businesses on Lord Howe Island, these disruptions translate into higher costs and narrower operating margins. Fresh food supply chains, building materials for seasonal maintenance, tourism equipment, and retail goods are all affected. Surveys conducted among island operators suggest that freight and logistics now account

for approximately 30 per cent of total operating costs in the hospitality and tour sectors, up from 22 per cent in 2021. Importantly, these costs are unevenly distributed, falling heaviest on small and mid-sized operators without forward contracts or buffer inventory.

The pass-through of freight costs to end-consumers is not straightforward. Price elasticity in a fixed-capacity tourism market is limited. Operators cannot expand scale to absorb costs, nor can they easily shift to alternative suppliers. In some instances, service reduction has already begun. Menus have been simplified, daily housekeeping has been cut to bi-daily, and some package offerings have been withdrawn due to unpredictable input delivery. These operational compromises, while rational, risk undermining the premium positioning of Lord Howe Island in the long term.

There is no immediate technological fix. AI-enabled logistics planning may improve internal routing, but it does not address the root causes: constrained airlift, ageing infrastructure, and cost layering across fragmented freight corridors. Absent significant investment in dedicated regional logistics solutions, such as subsidised freight lanes, intermodal consolidation hubs, or contractual freight assurance frameworks, these pressures are likely to continue or worsen through 2029.



Conclusion

Lord Howe Island stands at a delicate inflection point. Its inherent ecological and institutional constraints have long conferred resilience against the volatility of mass tourism markets. Yet these same constraints now amplify its exposure to systemic economic and logistical pressures. While visitor numbers will likely remain stable due to regulatory caps, the financial and operational underpinnings of the tourism economy are set to become increasingly strained.

Freight disruptions represent the clearest and most immediate threat. Rising costs, service unreliability, and infrastructure bottlenecks across the Australian logistics network are imposing sustained burdens on operators. These burdens are not evenly distributed and will disproportionately impact smaller providers, those with narrow seasonal windows, and those without the liquidity to hedge against future price movements.

In parallel, domestic tourism demand is shifting. Not in collapse, but in contraction at the margins. This marginal contraction matters. The weakening of the upper-middle-income segment, long the engine of regional travel expenditure, signals a potential shift toward a narrower and more volatile visitor base. International visitors may help to fill some of this gap, but their expectations, planning behaviours, and responsiveness to logistical friction differ markedly from domestic travellers.

The next five years will test the strategic capacity of both public and private actors on Lord Howe Island. Success will not be measured in visitor numbers, but in the maintenance of service quality, freight reliability, and economic sustainability in the face of mounting external pressures. The island must prepare not for sudden disruption, but for a steady erosion of assumptions upon which its economy has quietly depended.

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